baudroie inc.

Financial Results Briefing Material
for the First Quarter
of Fiscal Year Ending February 2024

July 2023

Company Overview

Company Overview

Company name baudroie inc.

Directors

President and Chief Executive Officer
Shigehiro Tominaga
Representative Director
Kazuya Fujii
Director
Yoshiaki Hodoshima
Director (Audit and Supervisory Committee Member)
Toshio Okamoto
Kiyoko Yagami
Anna Seo

Subsidiaries ZOSTEC Inc.
ALJOY Inc.

Head office Midtown Tower 37F, 9-7-1 Akasaka, Minato-ku, Tokyo

Second office BPR Place Kamiyacho 5F, 1-11-9 Azabudai, Minato-ku, Tokyo

Third office Kajikawa Seishido Building 6F, 3-10-9 Roppongi, Minato-ku, Tokyo

Established April 2007

Fiscal year-end February

No. of employees 865
(including full-time and contract employees)
*As of May 2023

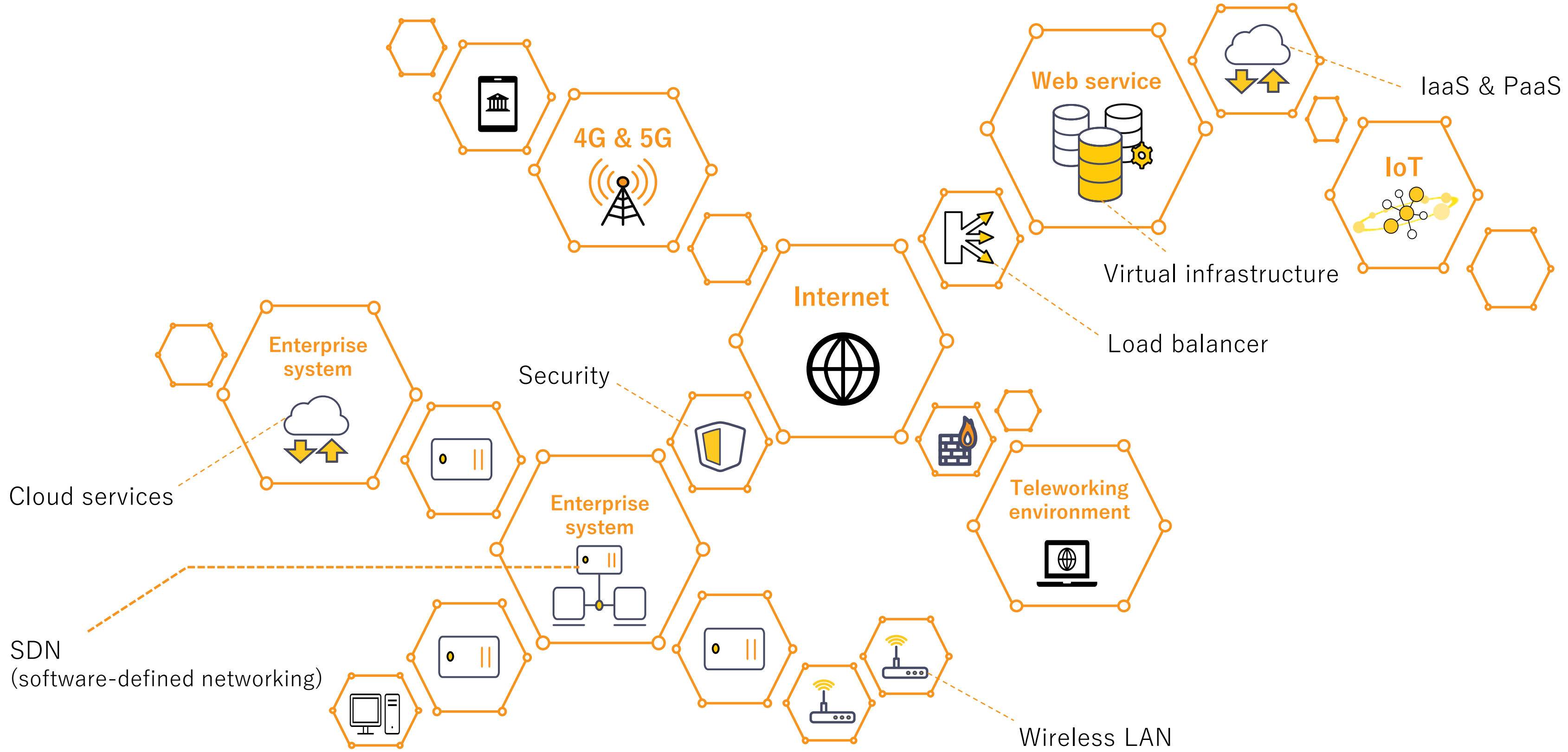
Line of business IT infrastructure business

Major clients
SoftBank Corp.
KDDI CORPORATION
NTT Communications Corporation
Internet Initiative Japan Inc.
Nomura Research Institute, Ltd.
SBI Sumishin Net Bank, Ltd.

No. of staff with qualifications
Cisco Certified Network Associates (CCNAs): 800
Cisco Certified Network Professionals (CCNPs): 503
*As of May 2023

What Are IT Infrastructure Services?

IT infrastructure services refer to designing and constructing complex IT infrastructure, including servers that operate systems, networks that connect devices to systems, and security solutions that protect secure communications and information, as well as conducting their operation and maintenance so that a variety of applications and systems can be utilized. These components constitute the IT infrastructure, which has become part of the infrastructure for living.



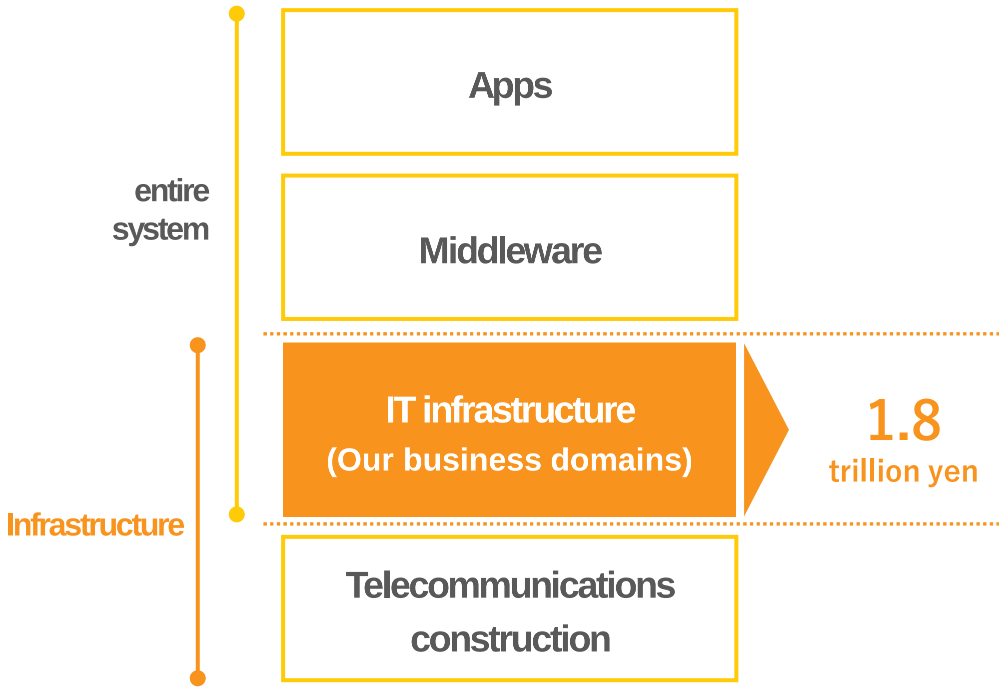
*Cloud services (IaaS/PaaS): mainly refers to cloud computing services.
*SDN: a technology for creating a virtual network environment using software, allowing flexible setting of network configuration free from physical restrictions.
*Virtual infrastructure: a mechanism for operating multiple hosts and operating systems on a single physical device.
*Load balancer: a mechanism for appropriately distributing communication from terminals for each resource (such as CPUs and memories) when a group of servers are used.
*Security solutions: refers to firewall, IPS (intrusion prevention system) / IDS (intrusion detection system), sandbox, web filtering, etc.

Business Domains

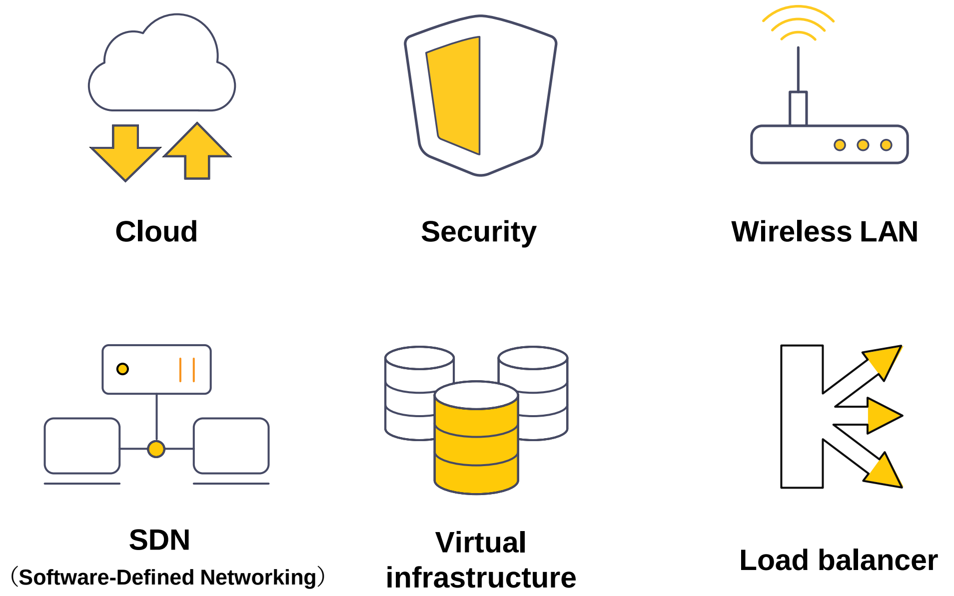
We are a professional operator specializing in IT infrastructure services, especially in advanced technology areas.

Where the IT infrastructure services market is positioned

The entire Japanese IT market amounted to 19 trillion yen in 2021,
of which the IT infrastructure services market occupied 1.8 trillion yen.



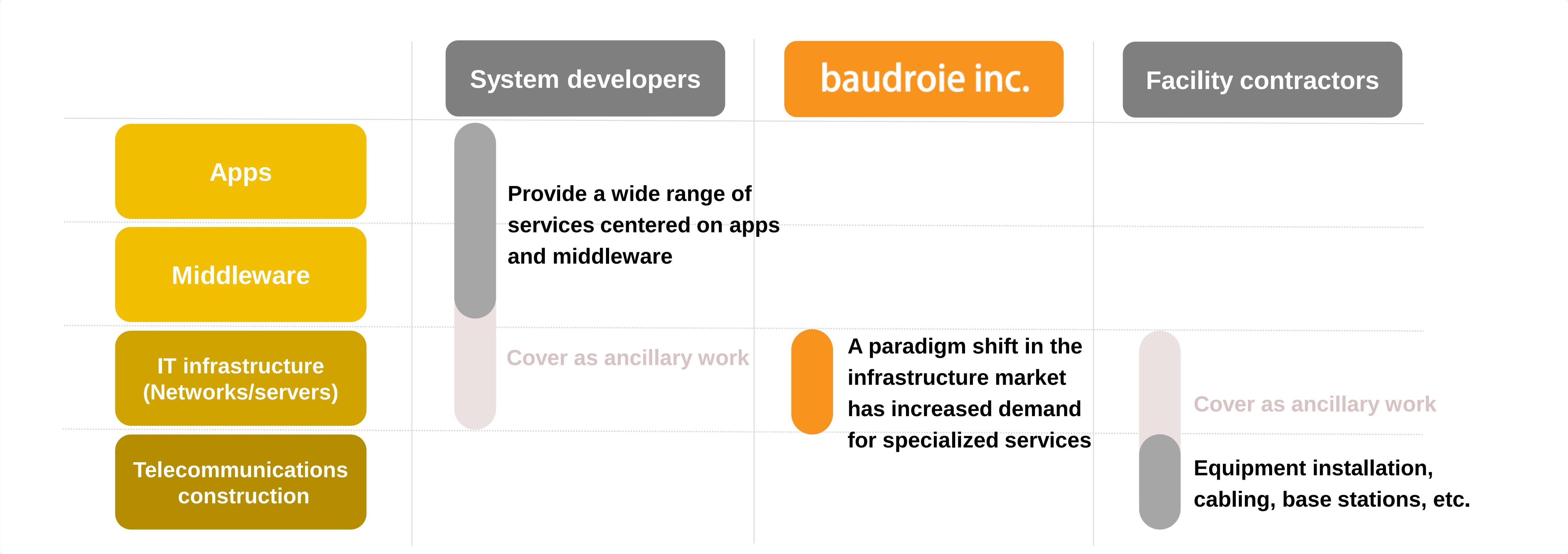
Technology domains that are growing prominently in the IT infrastructure area



*Source: Press release by IDC Japan, “Announcement of Domestic IT Market Forecasts Reflecting the Impact of COVID-19 and Russo-Ukrainian War at End of March 2022” (May 18, 2022)
*Source: Press release by IDC Japan, “Announcement of Domestic IT Infrastructure Services Market Forecasts” (June 13, 2022)

What Differentiates Us from System Developers and Facilities Contractors

Due to diversifying social needs, IT systems command advanced knowledge and technologies in broader and deeper areas. As the era evolves in this way, attention is being paid to IT system companies with distinctive features, not covering the entire system. Given this trend, we differentiate ourselves as a company specializing in IT infrastructure.



*Apps (applications): refer to such programs as mission-critical systems (for enterprise resource planning), programs operated by users such as web and smartphone applications, groupware (like Microsoft Office 365), and AI and machine learning. These programs are developed using programming languages like Java, C, and Python.
*Middleware: refers to software that runs between applications and the operating system and includes Oracle Database, WebLogic, and Apache HTTP Server.
*Telecommunications construction: LAN wiring, construction of base station facilities, equipment installation, etc.

Highlights of Consolidated Financial Results

Executive Summary

Net sales

1.67 billion yen (up **52.8**% YoY)

Operating profit

260 million yen (up **139.8**% YoY)

✓ The progress rate of operating profit against the full-year forecast is 21.0% (in contrast to 11.4% in Q1 a year earlier), amid an increasingly larger value of the profit anticipated in the remaining quarters of FY2024.

✓ Starting in FY2024, ALJOY has been consolidated in the settlement of accounts. Although its contribution to earnings is currently limited, we will concentrate the post-merger integration (PMI) process to achieve high growth in the latter half of the medium-term business plan period.

✓ The increase in consolidated operating profit represents growth achieved by heightened competitive advantage of the parent company,as the combined operating profit of ZOSTEC and ALJOY was rather small at 9,710 thousand yen(before amortization of goodwill).

Summary of Consolidated Financial Results

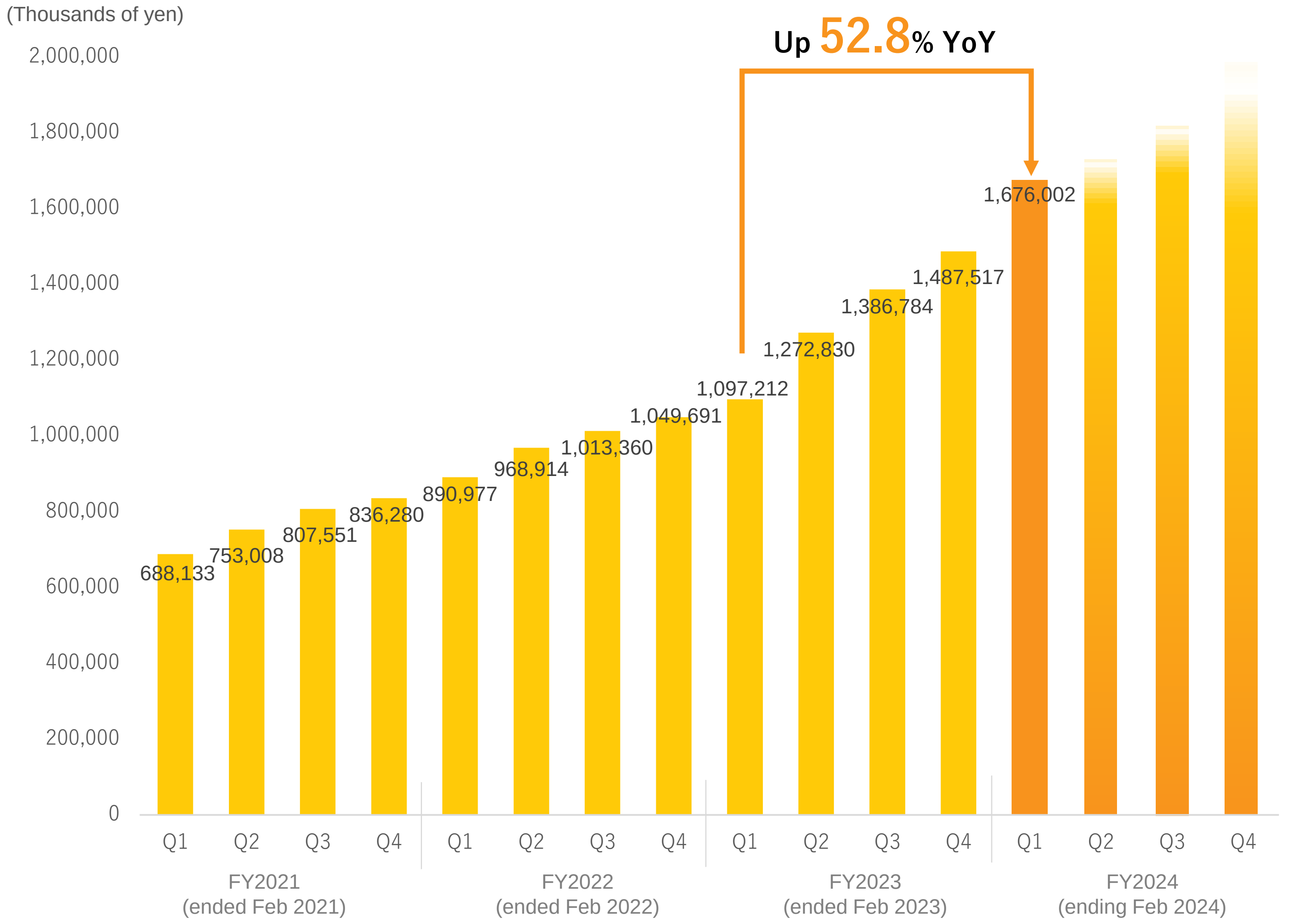
√ **Starting in Q1 FY2024, ALJOY has been consolidated in the settlement of accounts.**

√ **Achieved solid growth, even if we consider the fact that the year-on-year growth rate appears fairly large as the year-earlier Q1 operating profit was rather small at about 110 million yen.**

(Thousands of yen)	Q1 (Mar - May) FY2023 (ended Feb 2023)	Q1 (Mar - May) FY2024 (ending Feb 2024)	YoY
Net sales	1,097,212	1,676,002	＋52.8%
Operating profit	110,950	266,077	＋139.8%
Profit before tax	161,775	298,507	＋84.5%
Profit*	108,190	198,178	＋83.2%

*Profit attributable to owners of parent

Trends in Quarterly Consolidated Net Sales

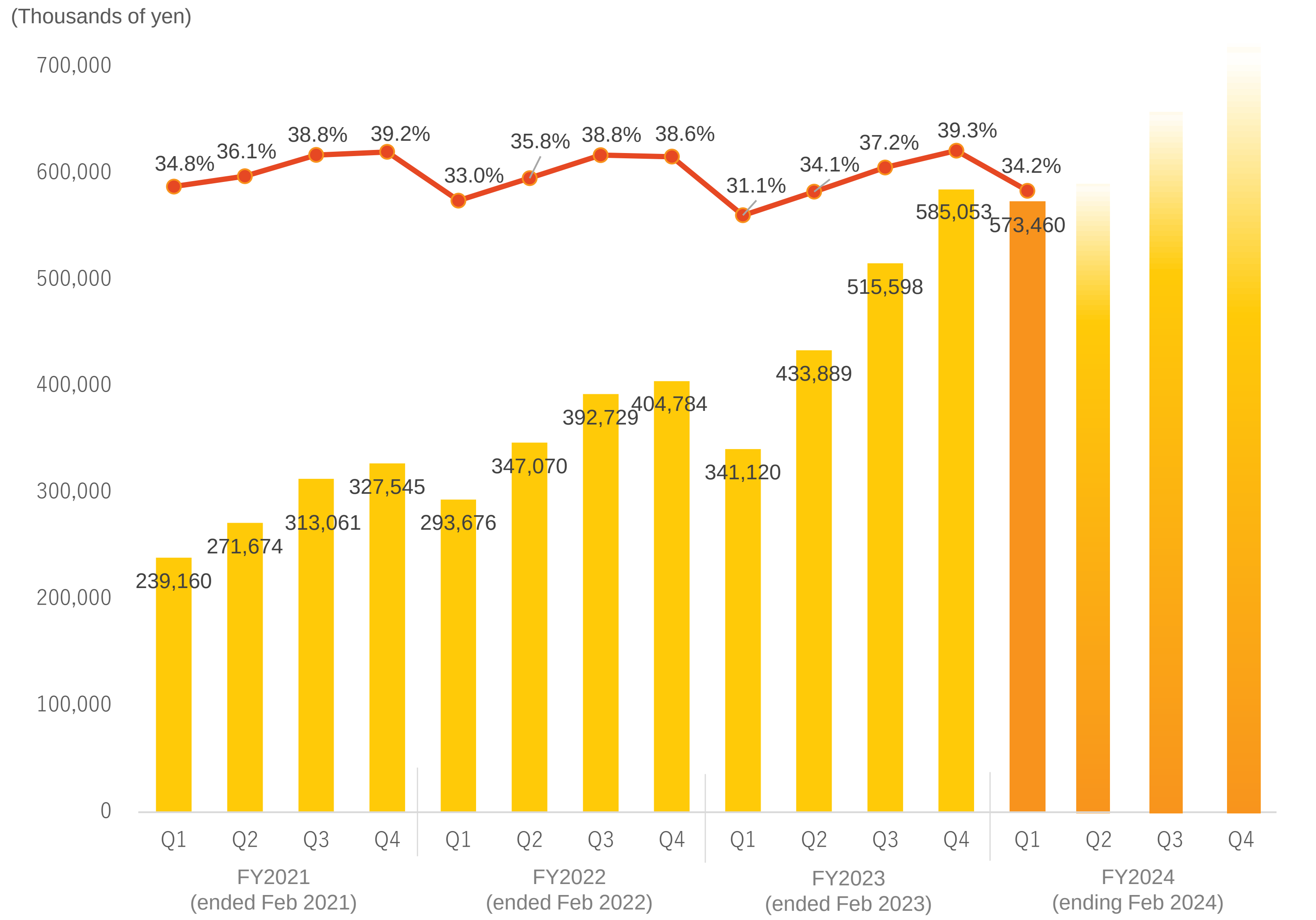


✓ **Net sales for Q1 FY2024 amounted to 1.67 billion yen (up 52.8% YoY).**

✓ **As before, an increasingly larger proportion of sales is projected in the remaining quarters of FY2024 for the following reasons:**

- **The number of acceptance inspections will rise in Q2 through the end of the fiscal year.**
- **With engineers (new graduate employees in the second or more year of employment) becoming capable of conducting actual work, reassignment of specialized talents (new graduate employees in the third or more year of employment) and highly specialized talents will be conducted in Q2 through the end of the fiscal year.**

Trends in Quarterly Consolidated Gross Profit



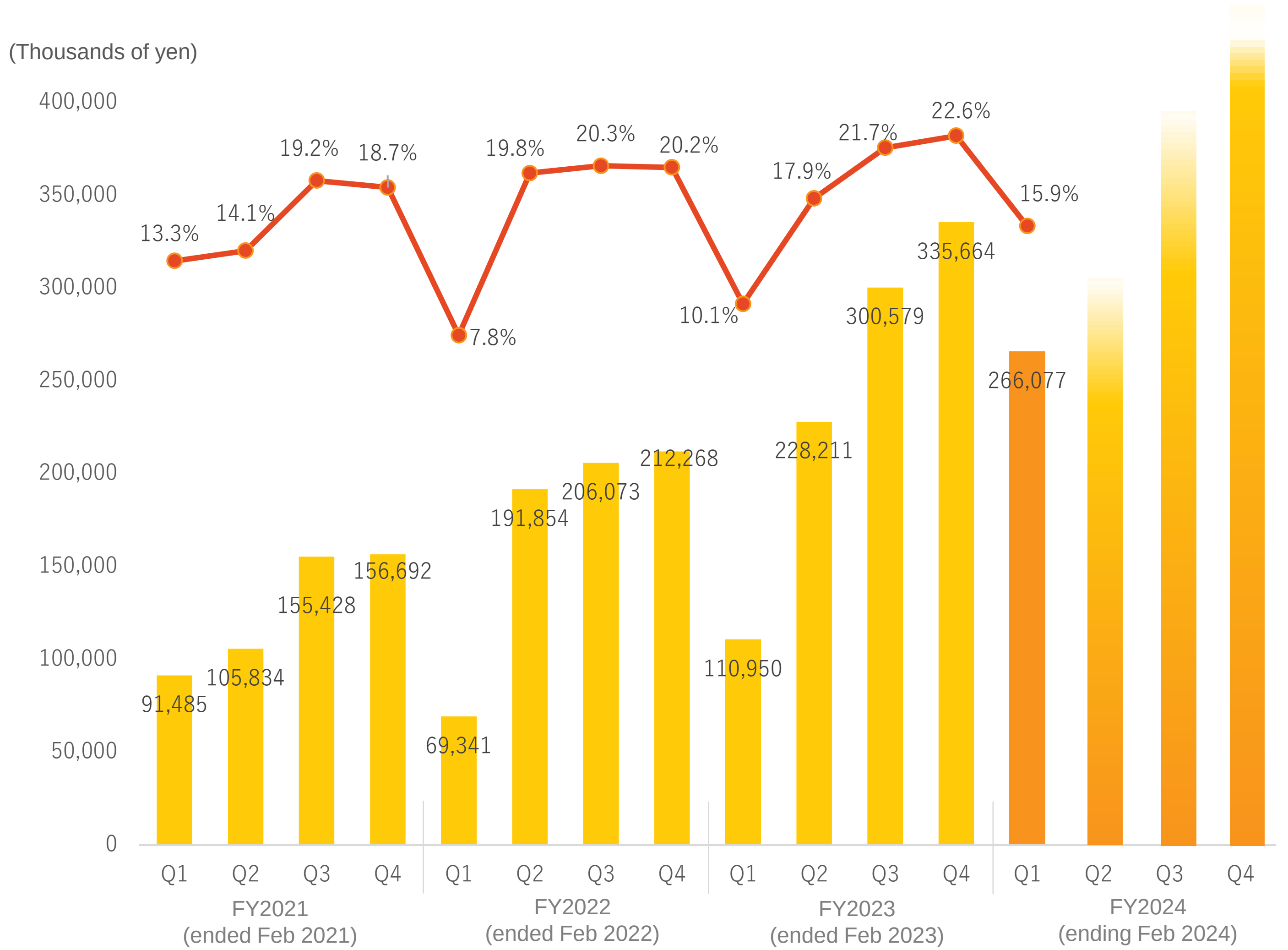
✓ **Gross profit for Q1 FY2024 amounted to 570 million yen (up 68.1% YoY).**

✓ **Gross profit margin on a non-consolidated basis shows a rising trend due to heightened competitive advantage.**

✓ **Gross profit margin temporarily declined due to the additional consolidation of a company.**
➡Plan to conduct PMI measures to improve the figure in Q2 through the end of the fiscal year.

✓ **Gross profit temporarily declined due to an increase in the number of new graduate employees in Q1.**
➡Plan to conduct reallocation of personnel to improve the figure in Q2 through the end of the fiscal year.

Trends in Quarterly Consolidated Operating Profit



- ✓ **An increasingly larger value of operating profit is anticipated in the remaining quarters of FY2024, as in the previous fiscal year.**
- ✓ **Although the Company recorded approx. 78,000 thousand yen in job opening and hiring expenses for new employees in Q1, the expenditure was absorbed by the increase in net sales, resulting in an increase in operating profit.**

Status of Progress Against the Full-Year Consolidated Earnings Forecast

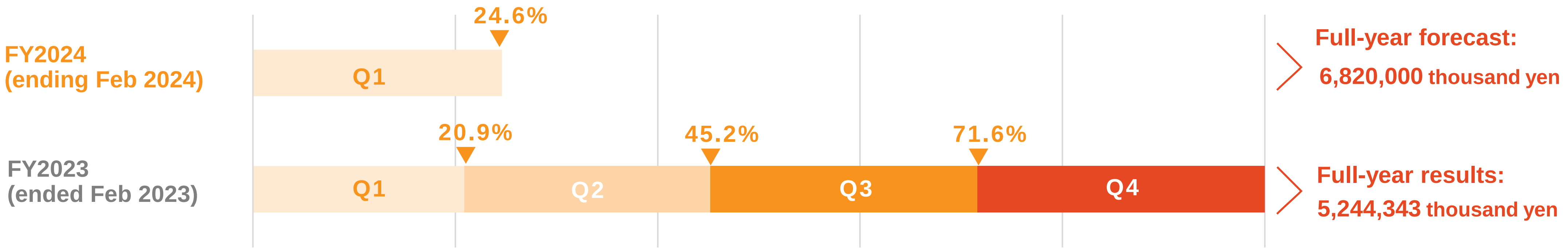
√ **The progress rate has surpassed the year-earlier results both in net sales and profits.**

(Thousands of yen)	Q1 FY2023 results	FY2023 full-year results	Progress rate	Q1 FY2024	FY2024 full-year forecast	Progress rate
Net sales	1,097,212	5,244,343	20.9%	1,676,002	6,820,000	24.6%
Operating profit	110,950	975,404	11.4%	266,077	1,270,000	21.0%
Profit before tax	161,775	1,089,123	14.9%	298,507	1,363,000	21.9%
Profit*	108,190	793,970	13.6%	198,178	993,000	20.0%

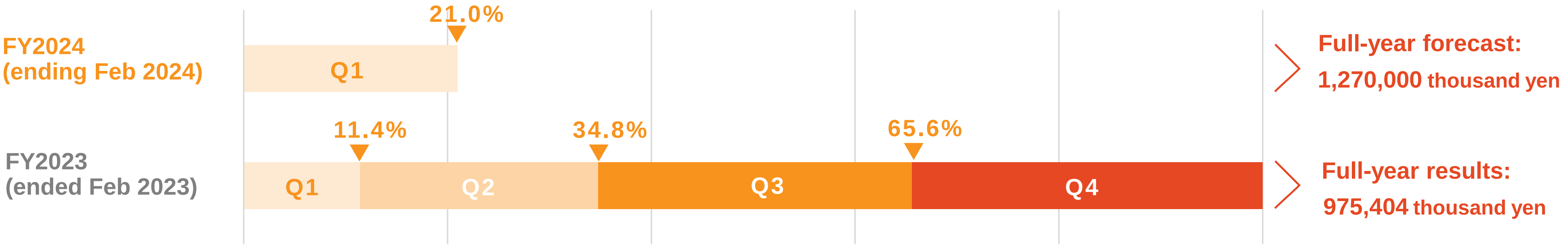
*Profit attributable to owners of parent

Status of Progress Against the Full-Year Consolidated Earnings Forecast

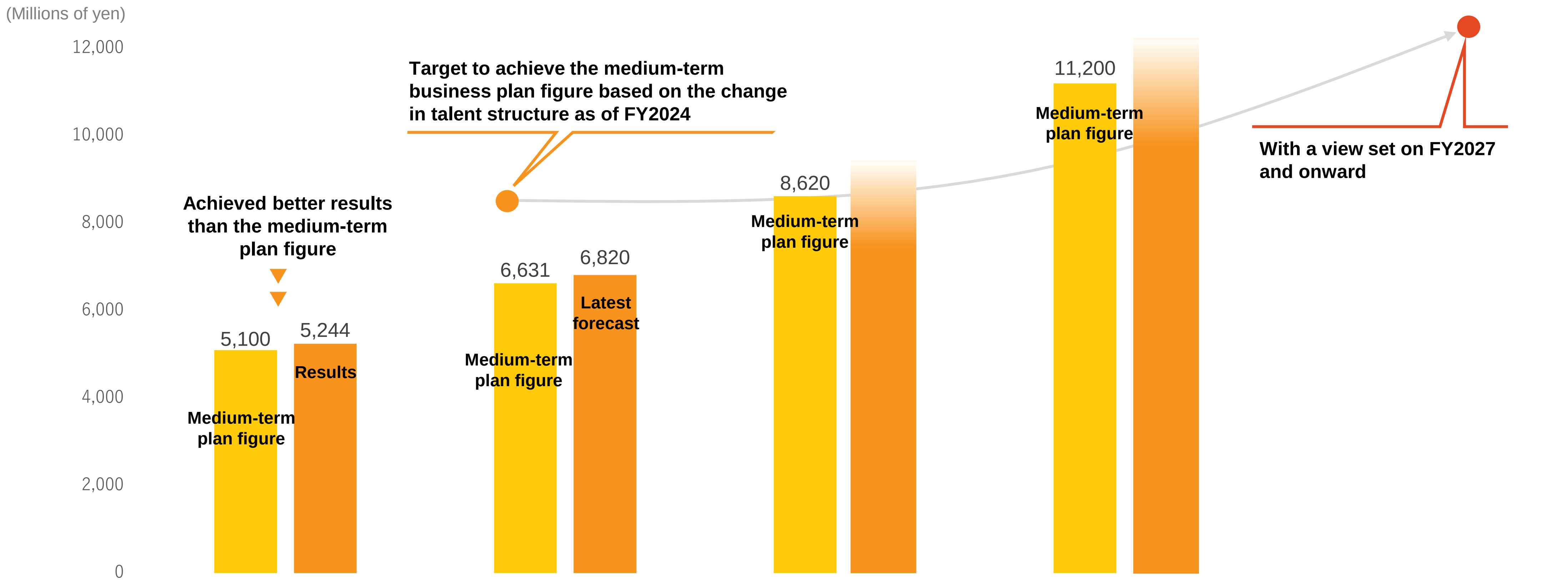
Net sales



Operating profit



“Beyond 100” Medium-Term Business Plan: Net Sales

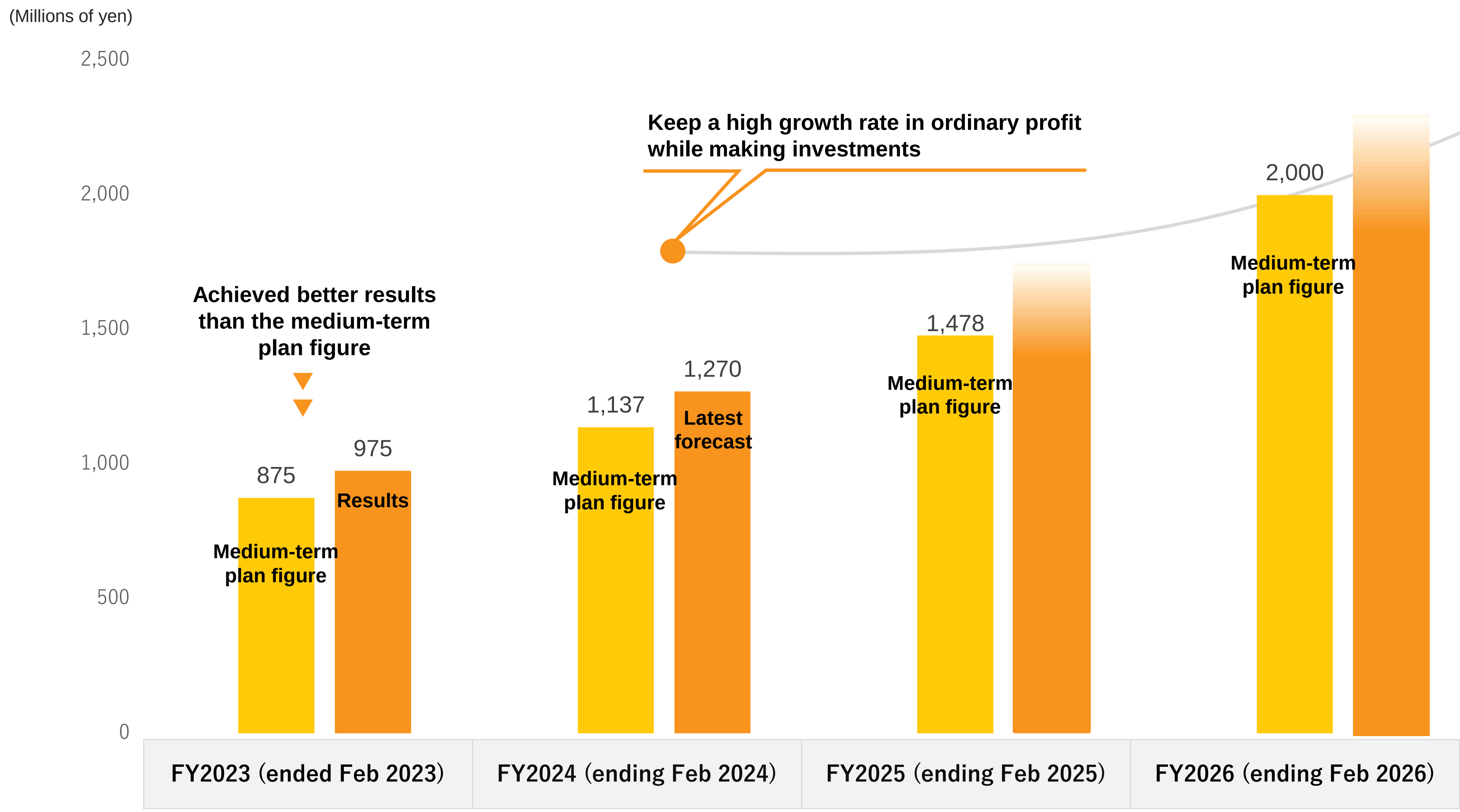


	FY2023 (ended Feb 2023)	FY2024 (ending Feb 2024)	FY2025 (ending Feb 2025)	FY2026 (ending Feb 2026)	FY2027 (ending Feb 2027) and onward
Highly specialized talents	135	164	220	295	To achieve high growth for FY2027 and onward, the number of hires will increase in line with the increase in the total number of employees.
Specialized talents	247	335	405	450	

*Number of people on a non-consolidated basis

"Beyond 100" Medium-Term Business Plan: Ordinary Profit

With the target of achieving an annual growth rate of 30% for both net sales and ordinary profit in the medium-term business plan and aiming even higher, we aim to make an upward revision to the plan.



M&As

Although the contribution of M&As to earnings during the medium-term business plan period is limited, we will conduct M&As so that operating profit in the plan will be achieved even after adding amortization of goodwill to achieve high growth rates in profit for FY2027 and onward.

IFRS

While planning to adopt IFRS,we intend to achieve operating profit under the medium-term business plan based on Japanese GAAP.

Office relocation

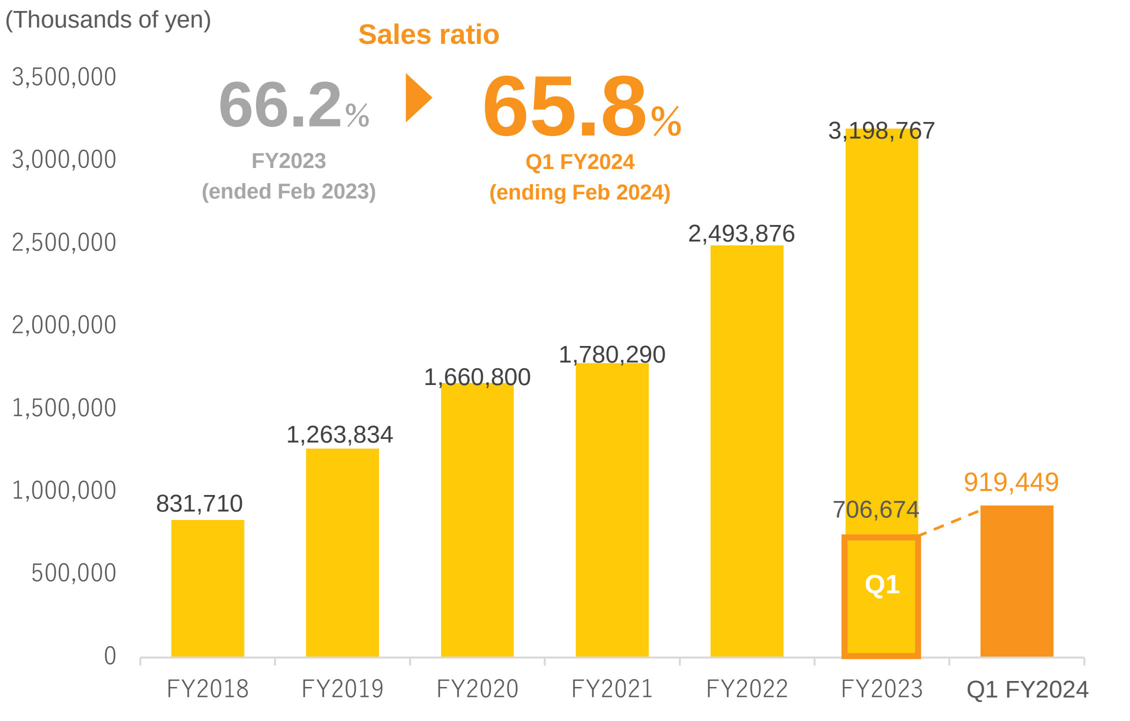
The impact on expenses after the completion of office relocation is small, at around 30,000 thousand yen annually.

Highlights of Non-Consolidated Financial Results

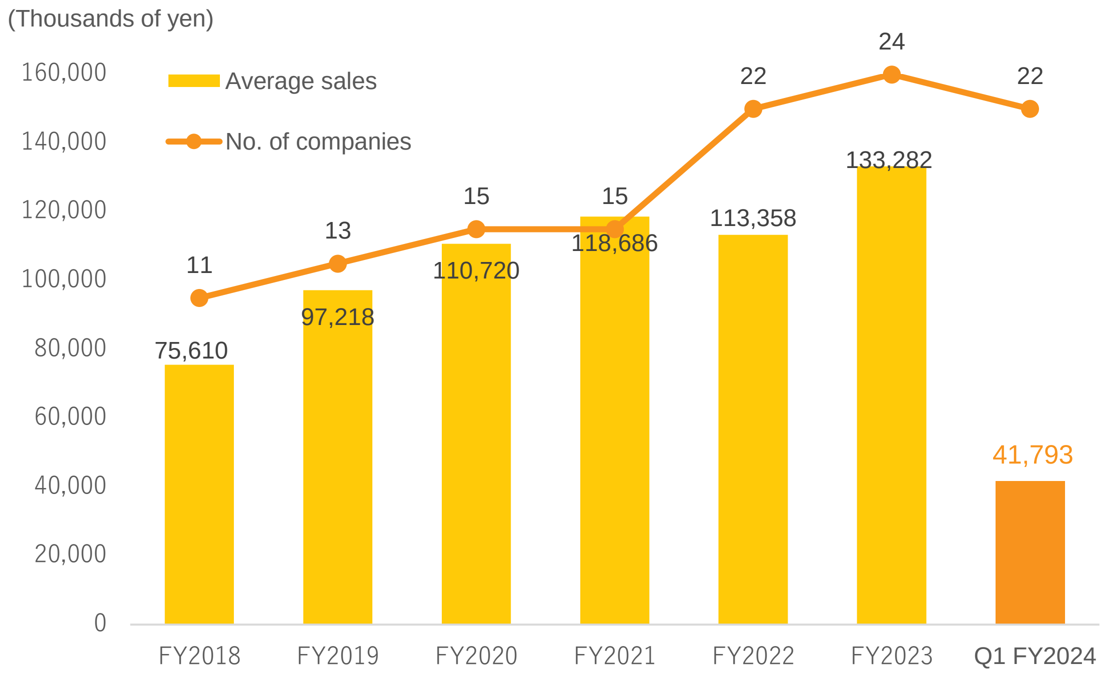
Sales to Enterprise Clients

✓ Average sales per company increased significantly.
✓ Smoothly conducted selective order receptions to prioritize projects for more promising enterprise clients, resulting in a temporary decrease in the overall sales ratio of enterprise clients.
✓ Continue to focus on expanding and deepening projects to increase the sales ratio of enterprise clients over the medium to long term.

Total sales to enterprise clients



Average sales per company and the number of enterprise clients

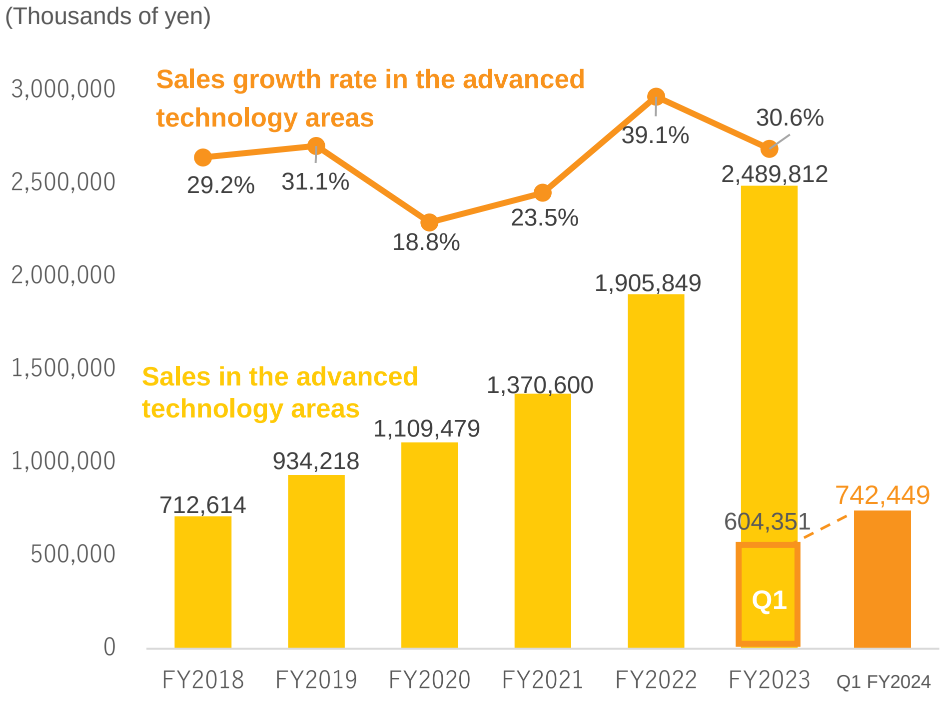


*Enterprise clients are defined as companies selected for either the Nikkei 225, Nikkei 400, or Nikkei 500, or companies with sales of 50 billion yen or more.

Sales in Advanced Technology Areas

✓ **Sales in the advanced technology areas have remained strong, and we will increase the sales ratio in these areas over the medium to long term.**

Sales trends in the advanced technology areas



Advanced technology areas expected to have high growth potential

Forecasted market size		CAGR of the market	Our sales ratio ※6	
Wireless (global market)	US$**130.6** billion (2026)*1	**15**%	**17**%	0p
Load balancer (global market)	US$**8.9** billion (2027)*2	**13**%	**22**%	0p
Network virtualization (domestic market)	Approx. ¥**50** billion (2026) *3	**3**%	**11**%	0p
Cloud (domestic market)	¥**4.3** trillion (2026)※4	**21**%	**28**%	0p
Security (Domestic market: software, appliances)	¥**531.7** billion (2026) *5	**4**%	**14**%	1p

*Advanced technology areas: technology areas where we are deemed to have high specialty and that are related to any of the wireless, load balancer, SDN, cloud, security, or server virtualization technologies.

*1 Source: "Global Wireless Connectivity Market" by BCC Research (provided by Global Information, Inc. as agent)
*2 Source: "Load Balancer Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast" by IMARC Services Private Limited (provided by Global Information, Inc. as agent)
*3 Source: Press release by IDC Japan, "Announcement of Domestic Network Virtualization/Automation Market and NFV Market Forecasts" (May 11, 2022)
*4 Source: Press release by IDC Japan, "Announcement of Domestic Public Cloud Service Market Forecast" (September 15, 2022)
*5 Source: Press release by IDC Japan, "Announcement of Latest Domestic Information Security Market Forecasts" (May 26, 2022)
*6 The changes in "our sales ratio" (indicated by arrows) show comparison with FY2022 results and include overlapping sales in two or more areas.

Development of Specialized and Highly Specialized Talent

✓ **Develop highly specialized talents based on our education and training systems dedicated to IT infrastructure.**

	Specialized talent	Highly specialized talent
FY2021 (ended Feb 2021)	122	97
FY2022 (ended Feb 2022)	174	109
FY2023 (ended Feb 2023)	247	135
Q1 FY2024 (ending Feb 2024)	**310**	**157**

*For the definition of specialized and highly specialized talents, refer to the Appendix.

Illustrative Drawing of our Strategy

Prepare for high growth to be achieved in FY2027 and onward.

Transform sales composition

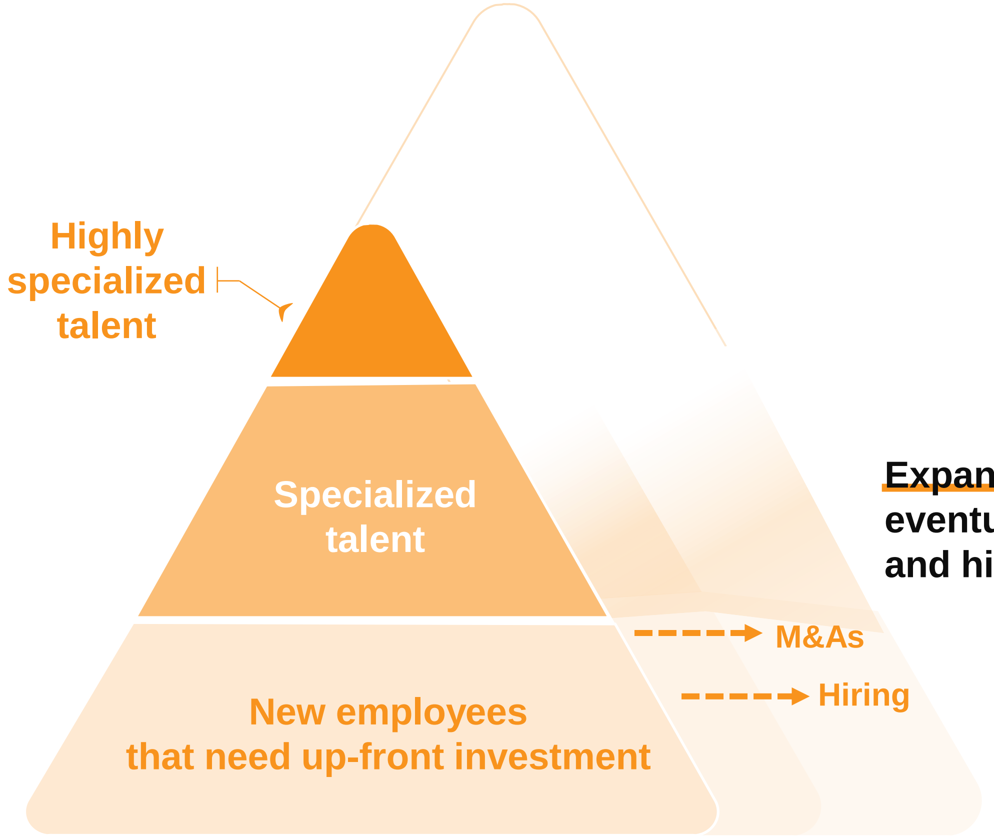
Raise the sales ratio

of advanced technology areas and enterprise clients

Transform talent structure

Raise the ratio of specialized

and highly specialized talents



Expand the talent base that will eventually grow into specialized and highly specialized talent

Summary of Highlights

Expand business in preparation for the planned transfer to the TSE Prime market.

01

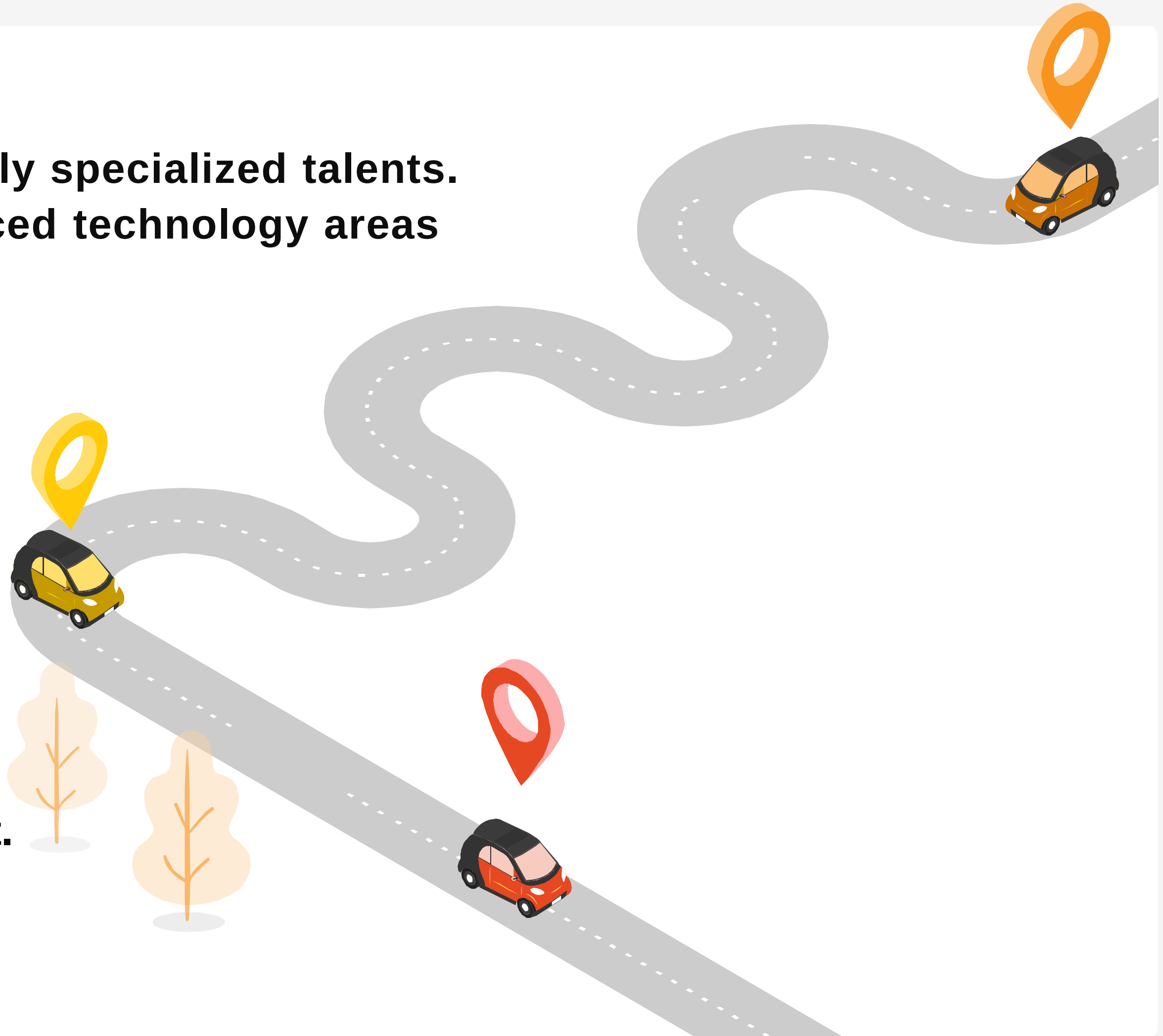
- ✓ Raise the ratio of specialized and highly specialized talents.
- ✓ Expand and deepen projects in advanced technology areas and for enterprise clients.
- ✓ Conduct M&As.

02

- ✓ Maintain high growth rates.
- ✓ Implement the medium-term business plan.

03

- ✓ Plan to transfer to the TSE Prime market.
- ✓ Investigate implementation of the dividend policy.



Appendix

Trends in Financial Results

(Thousands of yen)	FY2017 10th period	FY2018 11th period	FY2019 12th period	FY2020 13th period	FY2021 14th period	FY2022 15th period	FY2023 16th period
Net sales	**1,626,968**	**2,087,013**	**2,261,561**	**2,648,008**	**3,084,973**	**3,922,944**	**5,244,343**
Operating profit	131,471	230,012	274,696	409,339	509,439	679,536	975,404
Ordinary profit	116,255	217,992	237,982	395,841	542,494	688,011	1,033,662
Profit*	79,757	135,544	162,557	278,824	415,711	542,774	793,970
Operating profit margin	**8.1%**	**11.0%**	**12.1%**	**15.5%**	**16.5%**	**17.3%**	**18.6%**
Ordinary profit margin(%)	7.1%	10.4%	10.5%	14.9%	17.6%	17.5%	19.7%
Net sales growth rate (%)	-	28.3%	8.4%	17.1%	16.5%	27.2%	33.7%
Operating profit growth rate (%)	-	75.0%	19.4%	49.0%	24.5%	33.4%	43.5%

*Profit attributable to owners of parent

Trends in financial results

Net sales have grown strongly.

Operating profit margin has risen remarkably as a result of specialization in networks.

Factors/changes

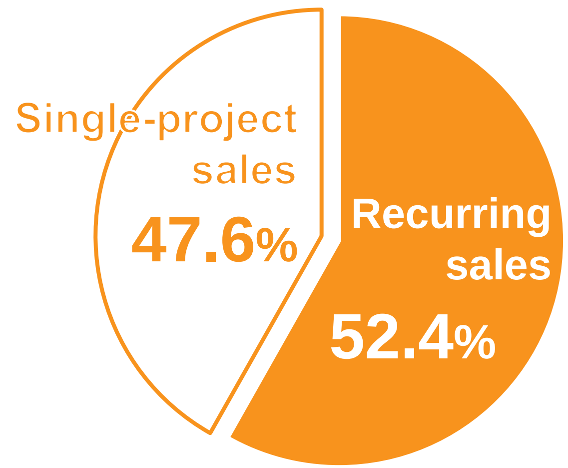
Clients' IT systems have become increasingly complex in line with the evolution of their services.

There is a need for highly specialized companies like us.

Recurring Sales through Continuous Services with Retained Clients

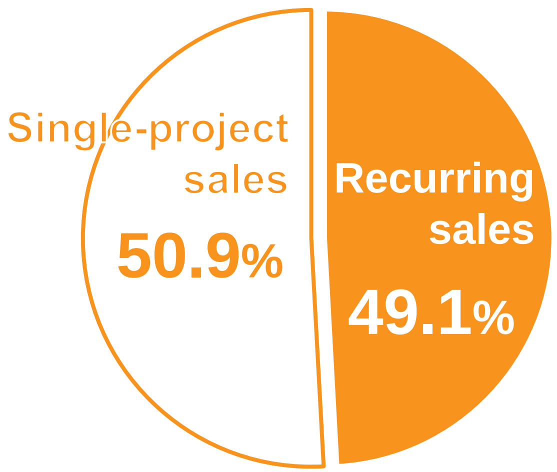
✓ Due to an increase in upstream projects as the ratio of specialized and highly specialized talents rose, higher growth was achieved in single-project sales than in recurring sales that earn revenue through continuous services with retained clients.

FY2023 (ended Feb 2023)



Recurring sales: **2,535,323 thousand yen**

Q1 FY2024 (ending Feb 2024)



Recurring sales: **686,467 thousand yen**

Definitions of Specialized and Highly Specialized Talents

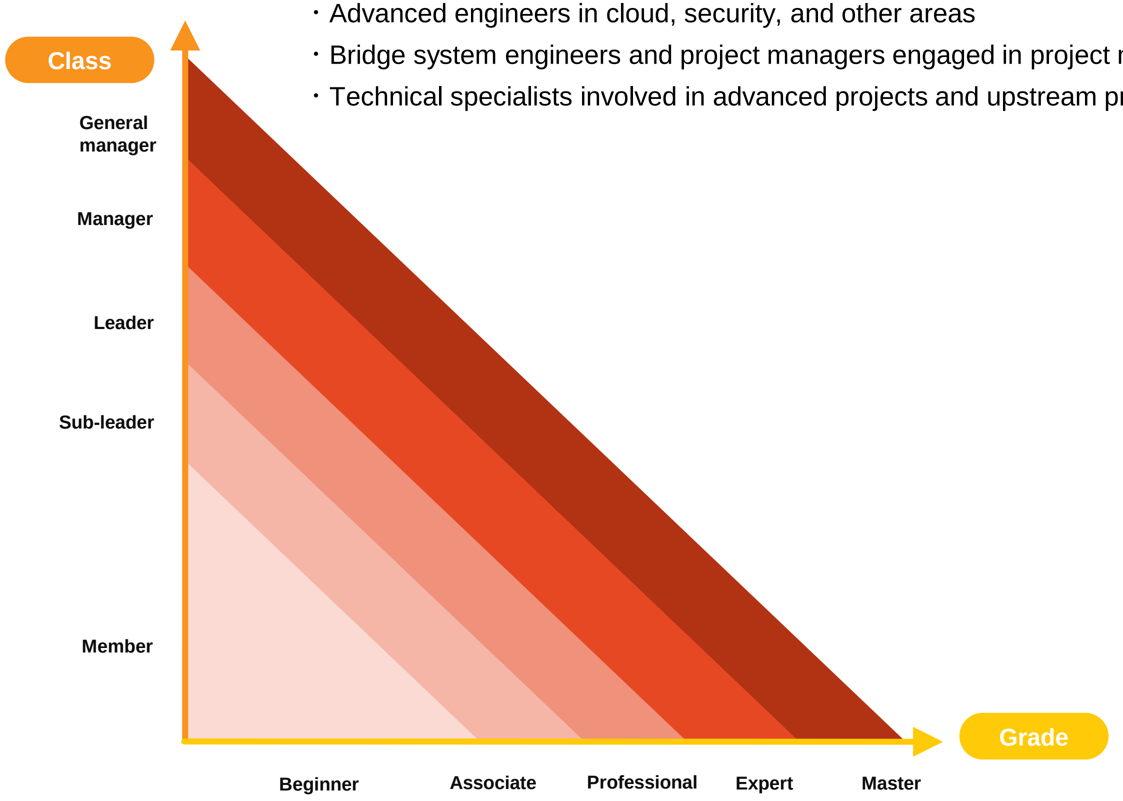
Specialized talents

Employees at sub-leader or higher levels in comprehensive capabilities, which are rated by class, or associate or higher levels in technical capabilities, which are rated by grade, in our personnel assessment and who are certified as CCNP (professional level) (excluding highly specialized talents)

Highly specialized talents

Employees in our personnel assessment at leader or higher levels in comprehensive capabilities, which are rated by class, or professional or higher levels in technical capabilities, which are rated by grade, and who fall under any of the following categories:

・IT consultants, system architects
・Advanced engineers in cloud, security, and other areas
・Bridge system engineers and project managers engaged in project management
・Technical specialists involved in advanced projects and upstream processes



Class

Comprehensive capabilities as a generalist, including such aspects as business improvement, client coordination, guidance, and development of talents.
(classified into 5 levels of member, sub-leader, leader, manager, and general manager)
Leader: can understand the plan for the project in which he or she is engaged, execute it, produce results, and give accurate guidance to juniors.

Grade

Technical capabilities as a player, including knowledge, experience and skills
(classified into 5 levels of beginner, associate, professional, expert and master)
Professional: has basic knowledge and experience in his or her job domain and can handle routine work by himself or herself.

Corporate Social Responsibility

SUSTAINABLE DEVELOPMENT GOALS

4 QUALITY EDUCATION

We believe that developing young people who are capable of creating new IT industry areas and down-to-earth young people with advanced IT skills should lead to the development of a sustainable society.
The Company not only conducts education and training for its employees but also provides training for general university students, who will play an active role in society, to acquire IT qualifications.
(More than 150 such university students acquire the qualification annually.)

7 AFFORDABLE AND CLEAN ENERGY

We propose to our clients that they adopt virtualization of servers and storage devices, etc., and promote the use of such services. Enhancing the use efficiency of IT infrastructure equipment should lead to consolidation of servers and storage devices in terms of their unit numbers, and fewer such units will reduce the amount of heat generated from them and the power required for the equipment to cool them.
We will contribute to energy savings in IT infrastructure equipment with such virtualization technologies.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

IT, which has brought convenience to people, is now beginning to play a more important role in protecting people, securing people’s lives, and other aspects.
With new IT services being created on a daily basis and gradually becoming a reality all around the world, we want to make the most of the power of IT to create a better future.

Disclaimer

This material contains forward-looking statements.These statements are based only on information available to the Company at the time they were prepared.

Moreover, such statements do not guarantee the future outcomes, and involve risks and uncertainties.

Please note that actual results may differ materially from future projections due to changes in the business environment and other factors.

Such factors that may affect the actual results include, but are not limited to, domestic and overseas economic conditions and trends in industries that are related to the Company.

We assume no obligation to update or revise any forward-looking statements contained in this material if new information arises or any event occurs in the future.

In addition, the information contained in this material with respect to anything other than the Company has been cited from public information, and we have not verified or guaranteed the accuracy or appropriateness of such information.

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