baudroie inc.

Financial Results Briefing for the Second Quarter of Fiscal Year Ending February 2026

October 15, 2025

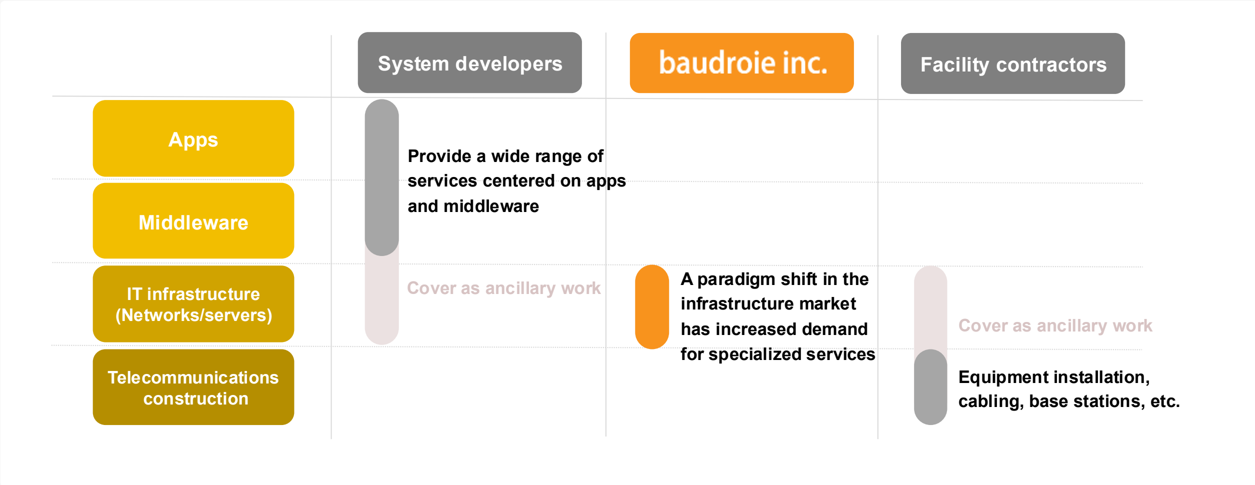
[Speaker]

President and CEO, Shigehiro Tominaga

MC : Thank you for your continued support. We would now like to begin the financial results briefing for the second quarter of fiscal year ending February 2026. We sincerely appreciate your participation in this briefing despite your busy schedule.
Now, I would like to invite our President and CEO, Shigehiro Tominaga, to report on the financial results.

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 b y 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, WebLogi c, and Apache HTTP Server.
*Telecommunications construction: LAN wiring, construction of base station facilities, equipment installation, etc.

Tominaga : Thank you very much for taking the time to join us today. I am Shigehiro Tominaga, President and CEO of baudroie inc.
To begin with, I will briefly explain the overview of our company's business.

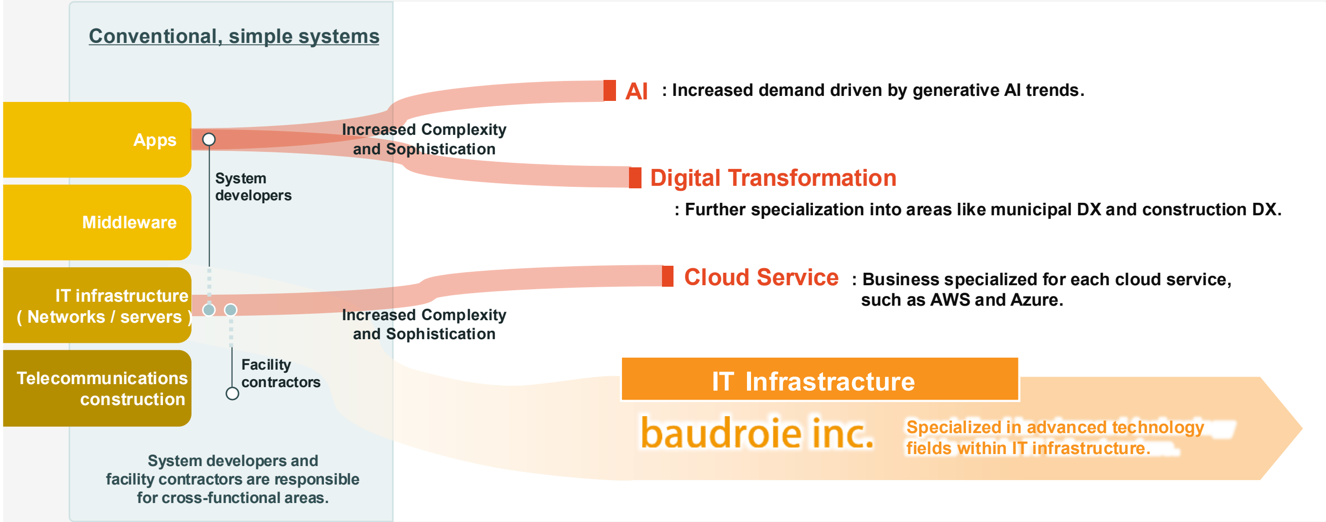
Overseas, it is common for user companies to directly employ systems engineers and build their own systems. However, in Japan, it has traditionally been common to outsource system building.

In Japan, outsourcing has been handled by companies called system integrators (system developers). Many of these system integrators are still active today, but recently, systems have become partially more complex. This has given rise to specialized boutique-style system companies.

In terms of an image, system integrators are responsible for the entire system, much like the image of a general hospital. In the past, there were many simple illnesses, such as colds or fractures, and systems were also simple. There was no need to write a referral to a specialist; any general hospital could handle it.
Later, some complex systems emerged. It was like new, difficult illnesses appearing while colds and fractures remained. Consequently, specialized boutique-style system companies have emerged, like specialized doctors.

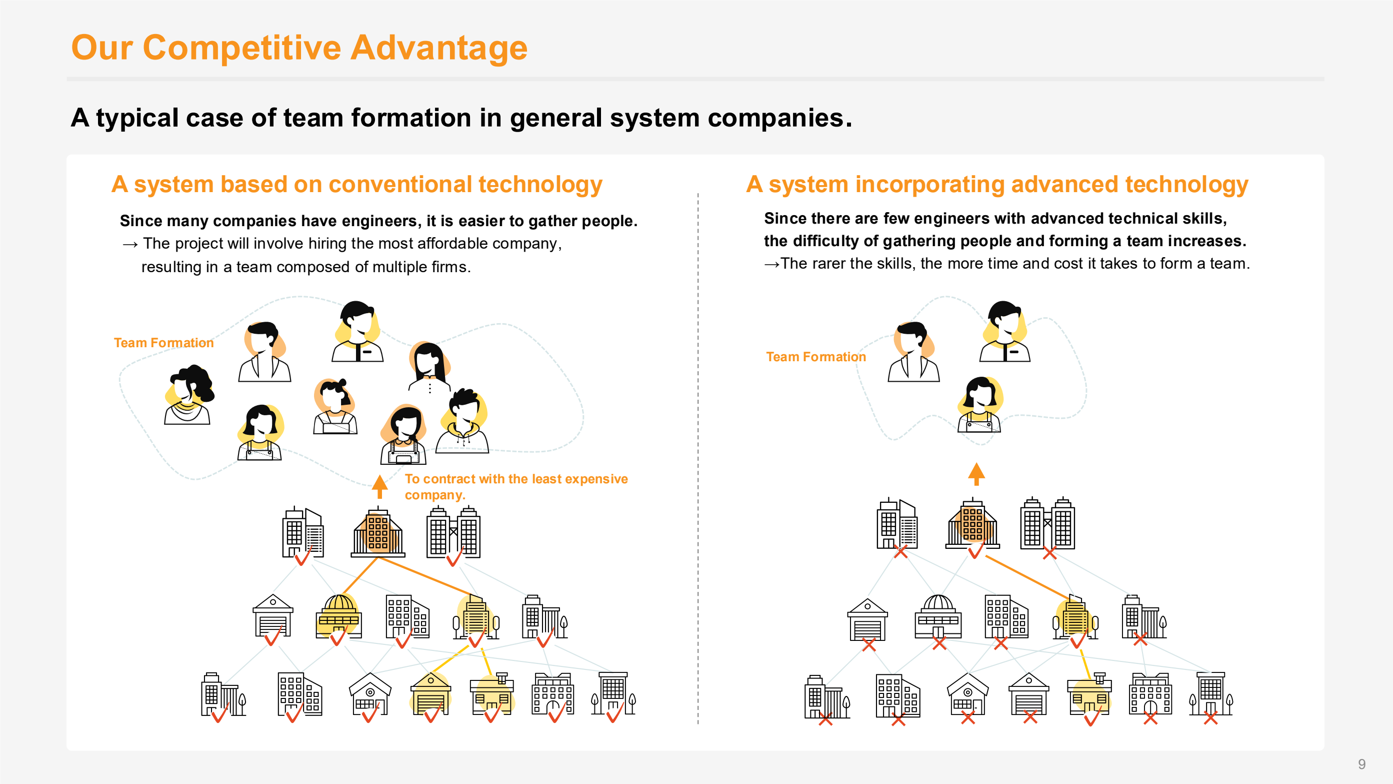
Specialized Systems Companies

Due to the diversification of societal demands for IT, technologies in various IT fields have become more complex and advanced. System companies specialized in each field have been gaining increasing attention.



In the stock market, companies specializing in particular fields have appeared. For example, companies dedicated to AI, DX, or more narrowly focused areas like municipal DX or construction-specific DX.

Our company has long been engaged in the IT infrastructure business. Over the last eight years or thereabouts, although it may be difficult to see from the outside, this field has also been becoming more complex, showing our specialized advantages.



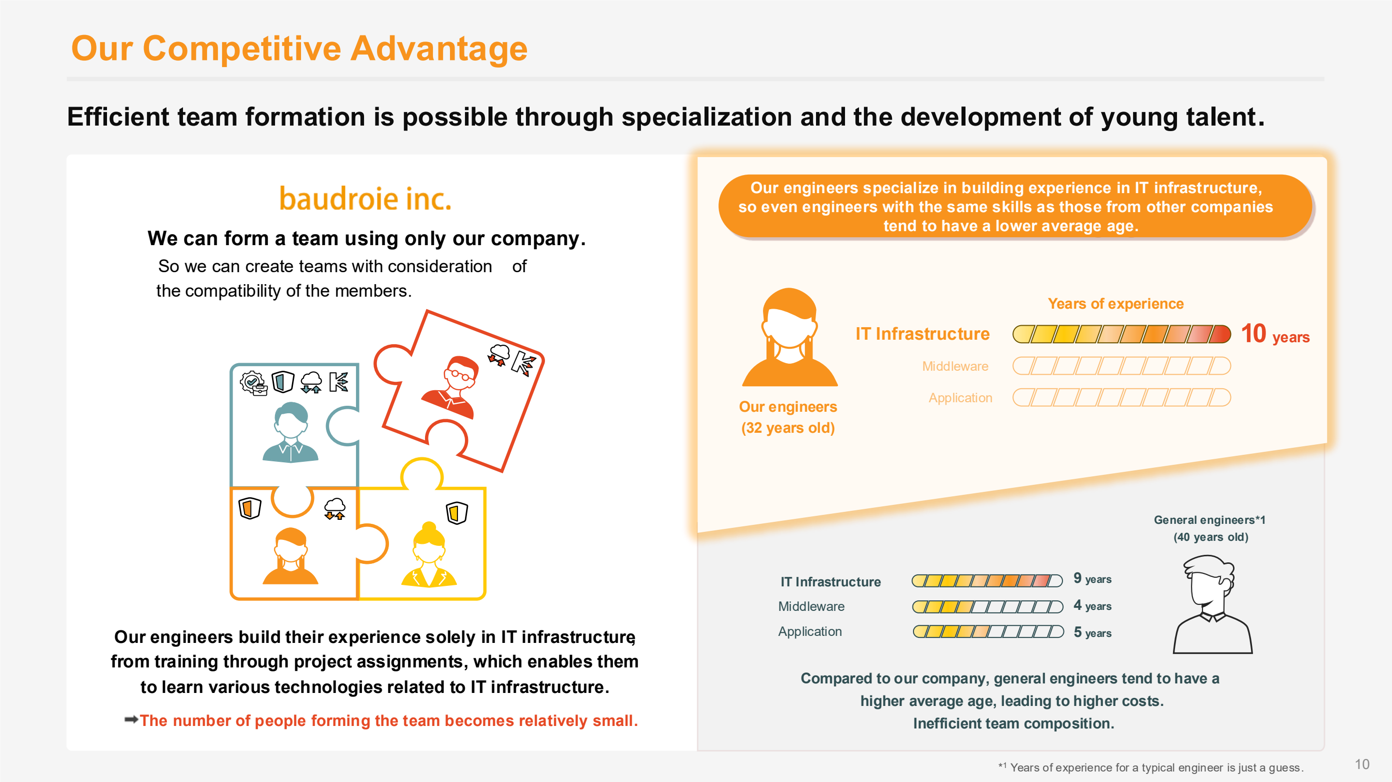
However, it's not that our company is the only one capable in this domain. Like the municipal DX or AI-focused companies, we are not unique in this. For standard system projects on the left side of the deiagram, there are abundant engineers and many companies capable of handling them. Each company raises its hand, and the request goes to the cheapest company.

However, it is somewhat confusing because Japan faces a shortage of labor, so the system industry, like the construction industry, has a multi-layered structure. It's not about whether the project is difficult or easy; it's more about gathering people from various companies due to labor shortages.

To use a Pokémon analogy, it's like gathering ordinary Pokémon from various places.
For projects in advanced technology areas on the right side, it's like gathering rare Pokémon.

For example, in the financial industry, you would gather individuals based on their unique, specialized skills—someone who excels at IFRS (International Financial Reporting Standards), or someone specialized in preferred stock because those are needed. Projects involving advanced technology fields are similar in this regard.

It's not that only we can do it or that rare Pokémon only exist at our company, but it becomes a challenging genre to collect for other companies.



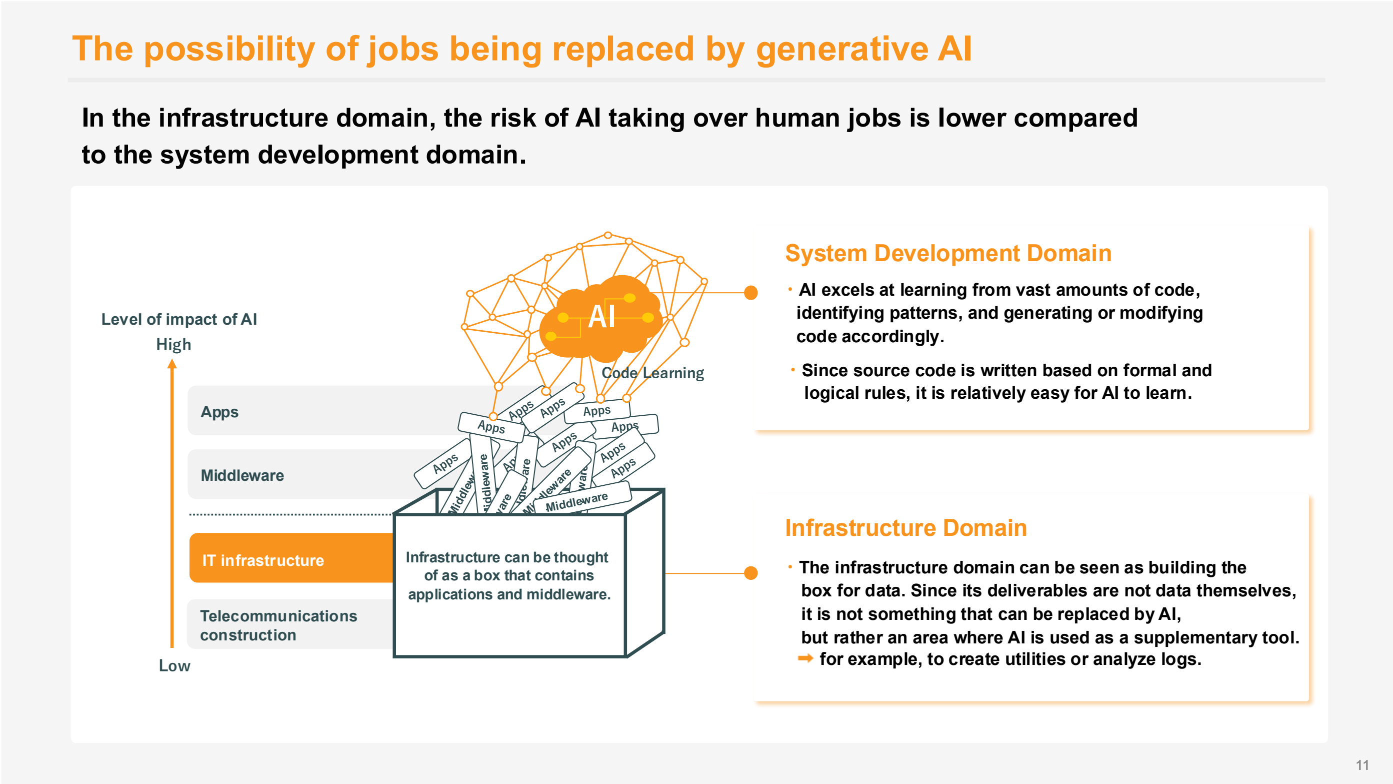
Let me tell you a little more about the characteristics of our company.
As stated on the left side, our company operates in the narrow field of IT infrastructure, which means that, essentially, we can form teams with just one company.

There is another characteristic of our company. For engineers from other companies, there might be a dispersion of experience years outside of IT infrastructure. For instance, in the financial industry, when trying to gather experts on IFRS, it is not easy to collect people who have solely worked on IFRS. They might have spent five years on something else and five years on IFRS, making it difficult to measure the concentration. If the scope that a company operates in is slightly broader, it tends to broaden the experience range of the engineers belonging to that company.

In our company, from the training at the time of joining, members continue to accumulate experience in IT infrastructure. After joining, baudroie College and other curriculums follow this approach, and with around 400 projects, all focused on this narrow domain, the knowledge within this compact field accumulates rapidly for each engineer over their career span.

This tendency results in a lower average age when forming teams. Where general companies may form project teams with an average age of about 40, in our case, it may happen around 30, leading to such differences.

In fact, our company currently has an average age of 28, making it considerably young within the listed companies in this industry.



Since there has been a lot of discussion recently about Generative AI, we would like to explain our perspective on how we believe AI will transform our industry.

First, the deliverables in the field of infrastructure are not data themselves. We are not creating those packets or bytes referred to as data. In application development, there is often a lot of code writing involved. In some sense, AI itself might indeed write the source code, potentially advancing replacements. How far this will progress is still unknown, but it is conceivable that AI may substitute in writing source code to some extent.

Meanwhile, in the realm of IT infrastructure, the deliverables are not the source code or the data; rather, it is the creation of the box itself that holds them.
As shown in this diagram, you can see apps, middleware, and IT infrastructure written. Metaphorically speaking, the IT infrastructure represents the box portion, with everything above it constituting the contents.
In other words, in terms of the degree of AI's impact, it forms an inverted triangle: the influence becomes stronger as you move up the layers. Conversely, when it comes to work like communications construction, this degree of influence is relatively small. That is our current perspective.

Thus, our business is not of the nature that can be directly replaced. Instead, like general professions, we believe it belongs to a genre where productivity can be enhanced by using AI as an auxiliary tool.

Executive Summary

Revenue (Q1-Q2 [cumulative])

7.69 billion yen (up **45.5**% YoY)

Operating profit (Q1-Q2 [cumulative])

1.41 billion yen (up **34.7**% YoY)

✓ **Three new subsidiaries were added to the consolidated accounts beginning in the second quarter.** (SPIN TECHNOLOGY, GOKU TECHNOLOGIES and ONE-TECH)

- As of the second quarter, progress is on track with the revised full-year forecast that reflects the figures of the three new subsidiaries.
  ➡ An overview of the progress in operating profit for the current fiscal year is provided on page 20.
- While keeping the profit plan in mind, we are preparing and implementing initiatives aimed at maximizing the overall profit of the group.

✓ **The expected timeline for inclusion in TOPIX**

- Regular review(October 2025) : It is expected that an amount roughly equivalent to the initial inclusion in TOPIX will be included.
- Removal of adjustment factor(April 2026) : The 0.75 adjustment factor will be removed, and the remaining 0.25 is expected to be included.

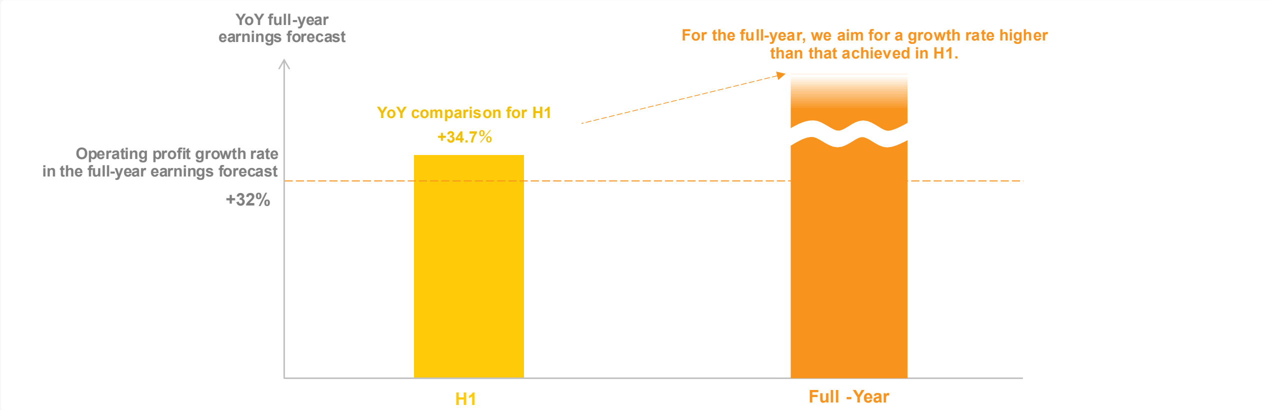
That concludes our company overview, though we've covered it quickly. Now, I will move on to the executive summary.
Sales increased by 45.5% year-on-year, and operating profit rose by 34.7%. We will first convey the operating profit outlook for the first half and second half of the year.

YoY Comparison Image of Operating Profit for the First and Second Halves of the FY2026

✓ **The full-year forecast for operating profit is ¥3.25 billion, representing a 32% increase over the previous year. However, first-half actual results came in 34.7% higher year on year, slightly exceeding the forecast.**

✓ **On the other hand, to maximize the overall group profit, we secured SMB projects for the newly acquired subsidiaries in the first half. In the second half, these projects are expected to be handled directly by the subsidiaries, so the effects of PMI should start to materialize.**

✓ **We will manage full-year performance to achieve a growth rate higher than the 34.7% year-on-year increase recorded in the first half. However, if the results significantly exceed expectations, the surplus will be allocated to investments for the next fiscal year.**



This term’s guidance indicates a 32% increase over the previous year for operating profit, with the first half slightly exceeding guidance at a 34.7% increase.

Instead of approximating the guidance's 32% for the second half relative to the first half’s 34.7%, we anticipate a broader expansion, or upward trajectory, expected to unfold in the latter half.

Currently, we are assisting subsidiaries and undergoing project transfers to maximize group-wide profits. We are taking on SMB (Small and Medium Business) projects for the purpose of transitioning the work to our subsidiaries, and we anticipate that the PMI (Post-Merger Integration) effects will begin to materialize from the middle of the third quarter through the latter half of the fourth quarter.

Additionally, regarding the next term, we aim for high growth again. From the perspective of demand and supply, ‘supply’ refers to staffing in our case. We have long maintained the personnel necessary to achieve high growth next term.

On the demand side, around October each year, the projects for the next term become roughly visible. Some of these are already evident this term. While, of course, choices still need to be made, sufficient volume should already be secured. In summary, we can anticipate high growth for the next term from both the demand and supply perspectives.

Executive Summary

Revenue (Q1-Q2 [cumulative])

7.69 billion yen (up 45.5% YoY)

Operating profit (Q1-Q2 [cumulative])

1.41 billion yen (up 34.7% YoY)

✓ **Three new subsidiaries were added to the consolidated accounts beginning in the second quarter.** (SPIN TECHNOLOGY, GOKU TECHNOLOGIES and ONE-TECH)

- As of the second quarter, progress is on track with the revised full-year forecast that reflects the figures of the three new subsidiaries.
  ➡ An overview of the progress in operating profit for the current fiscal year is provided on page 20.
- While keeping the profit plan in mind, we are preparing and implementing initiatives aimed at maximizing the overall profit of the group.

✓ **The expected timeline for inclusion in TOPIX**

- Regular review(October 2025) ：It is expected that an amount roughly equivalent to the initial inclusion in TOPIX will be included.
- Removal of adjustment factor(April 2026) ：The 0.75 adjustment factor will be removed, and the remaining 0.25 is expected to be included.

Returning to the executive summary.

While being mindful of guidance figures and consensus, we aimed to retain a certain level of profit. With the available profits, we strengthened the hiring of new employees this quarter. In the previous fiscal year’s second quarter, we hired 41 people, but in the current fiscal year’s second quarter, we hired more than double that, with 110 hires. The net increase in employees is about 76 people.

The lower section is about TOPIX. The next TOPIX will be determined in October of next year, not the current one. At that time, our company’s free float ratio will be based on the shareholder composition described in the securities report for the fiscal year ending February 2025, and it is expected to be taken as 30% of our company’s free float ratio. Additionally, although it is a minor point, as our company is already included in the TOPIX. The selection criteria for the next TOPIX are based on the top 97% of the cumulative free float market capitalization on a continuing basis for our company. There is also talk of 96%, but that applies when newly incorporating companies; for our company, the 97% criterion will apply. While the free float ratio will be taken as 30%, the stock price used in the calculation will not be the current stock price but rather the market capitalization in October one year from now.

Summary of Consolidated Financial Results

✓ **Revenue and profit are showing strong growth momentum, and we aim to outperform the full-year forecast in the latter half of the fiscal year.**

(Thousands of yen)	Q1-Q2 FY2025 Results (Cumulative)＊	Q1-Q2 FY2026 Results (Cumulative)＊	YoY (First half-year)	FY2026 Full-year Forecast (Revised)	YoY (Full year)
Revenue	5,291,928	7,698,792	+45.5%	17,100,000	+46.8%
Operating profit	1,044,264	1,406,949	+34.7%	3,250,000	+32.1%
Profit before tax	1,053,250	1,397,733	+32.7%	3,234,890	+31.4%
Profit	759,484	1,014,802	+33.6%	2,345,295	+30.3%

* The figures for the fiscal year ended February 2025 reflect the finalized content of the provisional accounting treatment related to the business combination.

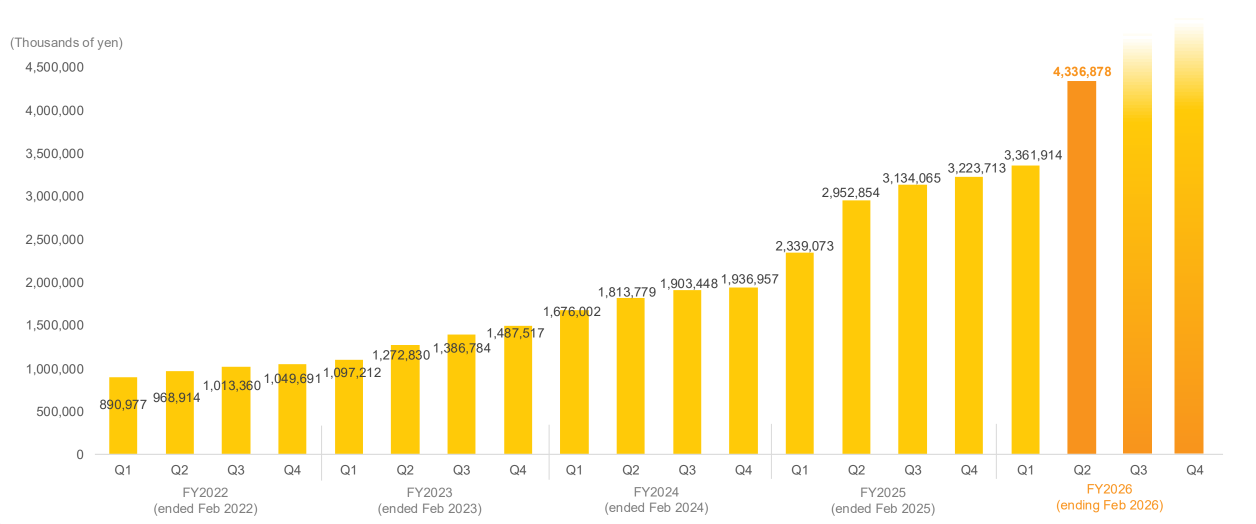
This is a table comparing each stage's profit with the previous years. You can see the overall growth.

Earlier, we discussed the image of profit progression, and three new subsidiaries have joined from this second quarter. In other words, these three companies have been counted for nine months in the current term, but only three months are included in the first half. Therefore, sales progress can be said to be smooth.

Trends in Quarterly Consolidated Revenue

✓ **As before, revenue are expected to increase gradually in the remaining quarters of FY2026 for the following reasons.**

- **The number of acceptance inspections will further 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.**



This represents the quarterly sales trend. Our company's sales gradually increase from the second quarter through the fourth quarter. I will now explain the reasons for this.

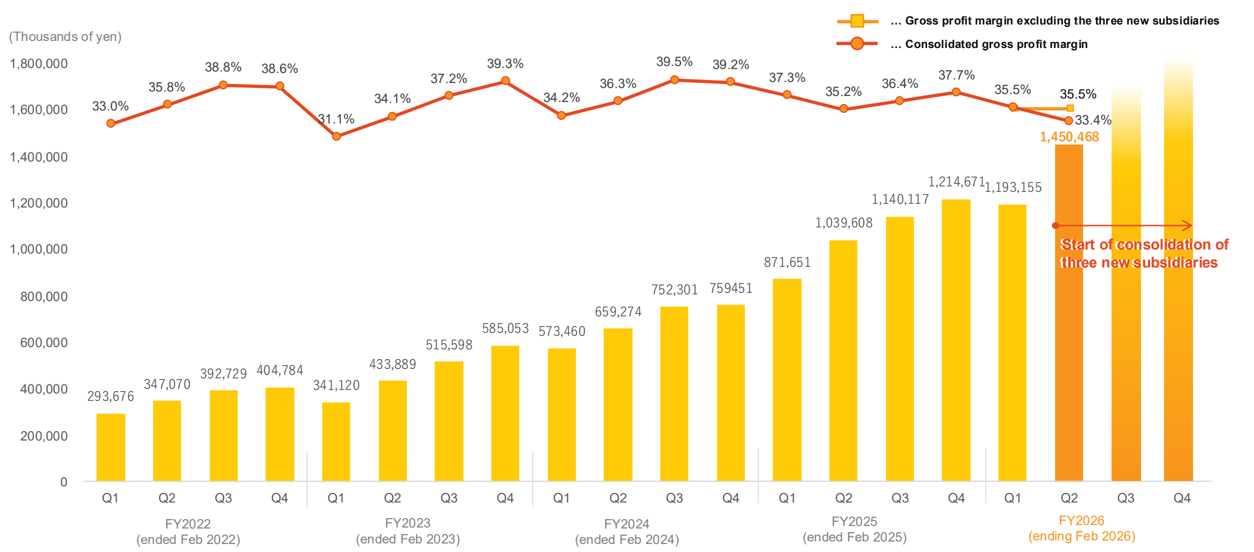
The first reason is due to project acceptance inspections.
Although our company handles many projects with monthly acceptance, like recurring revenue, we also have many projects where acceptance is raised only upon final delivery after completion.
We do not have many acceptances in April and May, but the number gradually increases as we head toward the second half of the year.

Another point is internal personnel relocation policy. Our company recruits mainly inexperienced individuals, especially new graduates. During their first year, they observe the work of seniors and undergo training like Baudroie College, which is an on-the-job training period. When they become second-year employees, they begin to take over the work of their seniors gradually. Last year’s new graduates, for example, became second-year employees this April and started taking over their seniors’ work gradually.

As they take over the work of Specialized talents or Highly specialized talents on the same project, the workload for these experts gradually decreases. This results in available capacity that can be allocated to new projects, such as 0.3 or 0.5 person-months. From the middle of the first half to the second half, new sales are added to this available capacity. As a result, our sales are expected to increase gradually towards Q4.

Trends in Quarterly Consolidated Gross Profit

✓ **Following the first quarter, more than 100 employees were hired in the second quarter as well.**
However, the gross profit margin, excluding the three newly consolidated subsidiaries, increased year on year.



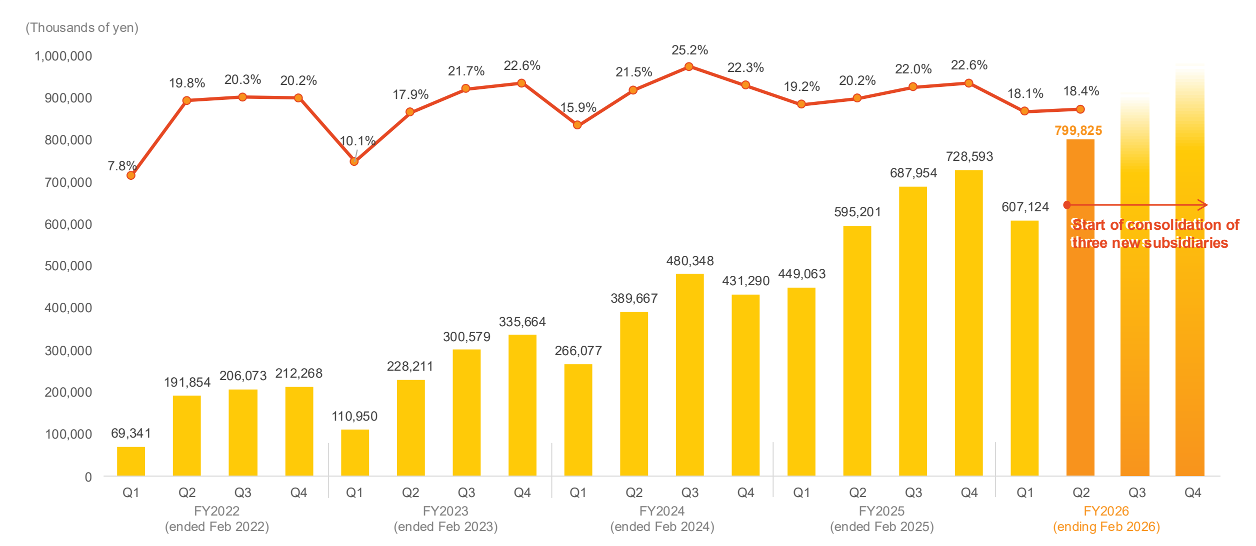
Continuing to gross profit and gross profit margin.
The gross profit margin seems lower than last year. Additionally, we have disclosed the gross profit margin excluding the three companies acquired this fiscal year, which shows a slight increase compared to the same period last year. The limited increase is influenced by the fact that hires in the current second quarter were 110, compared to 41 in the same quarter of the previous year. Recruitment incurs personnel introduction fees in selling and administrative expenses, and the cost of new employees is higher than in the same period last year.

Our profit margin is more a matter of hindsight, meaning we first look at the operating profit we must achieve, and then allocate the remainder to various investments. These investments are primarily in recruitment and projects transfers, so we believe we are maintaining solid control.

To quickly switch topics, our recruitment focuses on the inexperienced market, which provides the largest talent pool.
Therefore, we can control the increase or decrease in the number of hires about two months in advance.

Trends in Quarterly Consolidated Operating Profit

✓ **In the second quarter, recruitment costs remained at the same level as in the first quarter, and performance has been steady while absorbing the impact of the newly consolidated subsidiaries.**



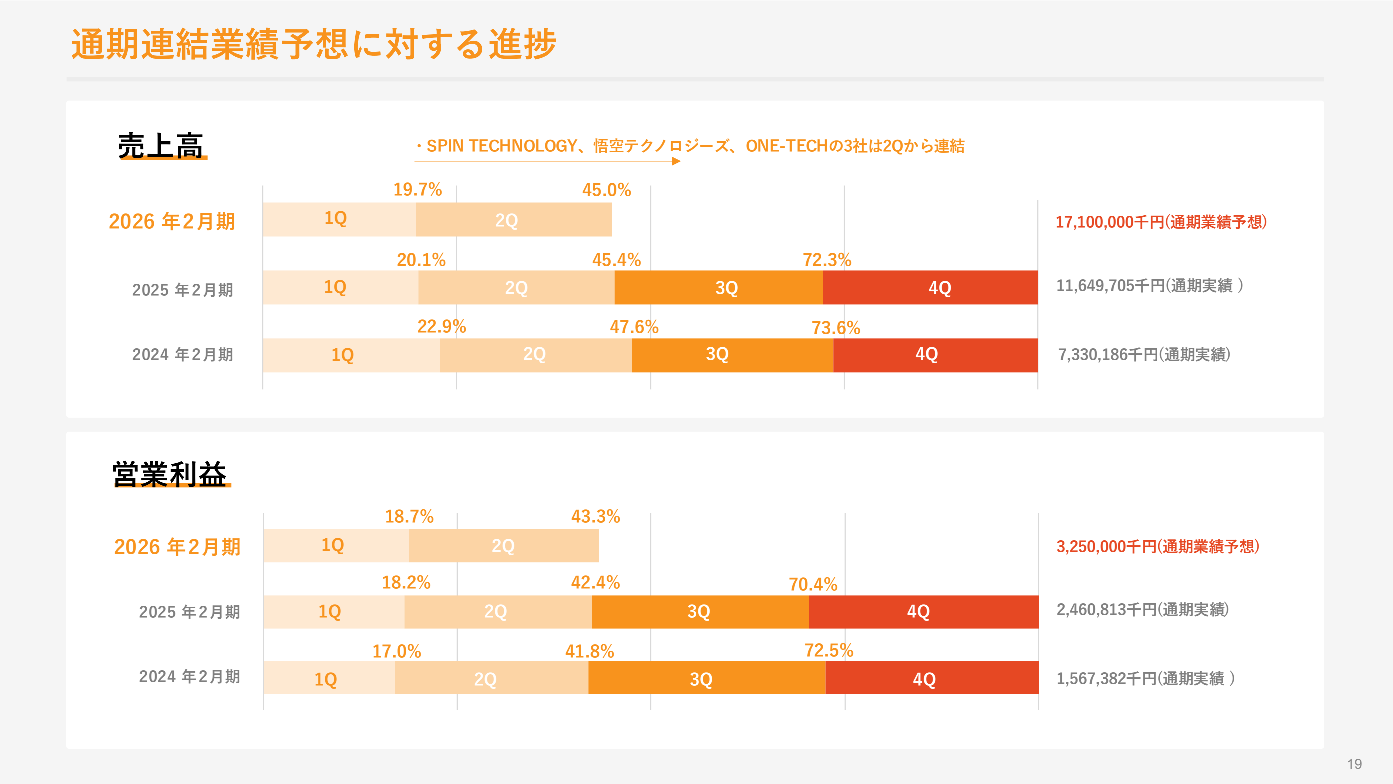
This is the quarterly transition of operating profit.
In Q1, selling, general and administrative expenses were high due to the many new graduates joining, resulting in high recruitment costs. In this quarter's Q2, approximately the same level of recruitment costs have been recorded as selling, general and administrative expenses.

Progress on the Full-Year Consolidated Earnings Forecast

✓ The revised full-year forecast includes the figures of the three new subsidiaries. Although only the second quarter is consolidated in the first half, both revenue and operating profit are progressing as planned.

(Thousands of yen)	Q1-Q2 FY2025 Results (Cumulative)	FY2025 full-year results	Progress rate	Q1-Q2 FY2026 Results (Cumulative)	FY2026 full-year Forecast (Revised)	Progress rate toward update forecast
Revenue	5,291,928	11,649,705	45.4%	7,698,792	17,100,000	45.0%
Operating profit	1,044,264	2,460,813	42.4%	1,406,949	3,250,000	43.3%
Profit before tax	1,053,250	2,461,226	42.8%	1,397,733	3,234,890	43.2%
Profit	759,484	1,799,365	42.2%	1,014,802	2,345,295	43.3%

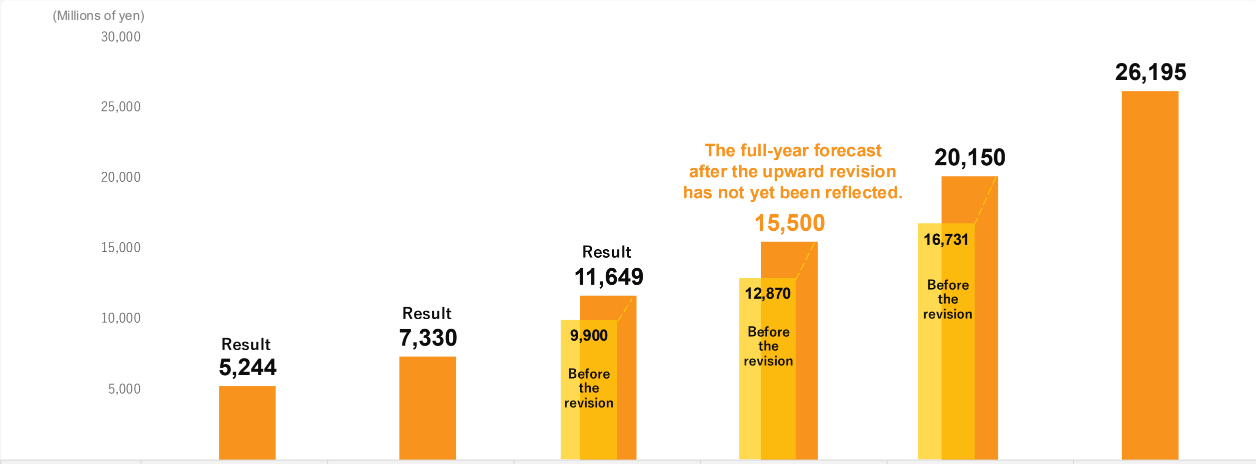
Next, the progress. As mentioned earlier, the three companies that were acquired through M&A will be counted as three months' worth in the first half, compared to six months in the second half. Furthermore, from the middle of Q3 through Q4, the PMI effect will start materializing, so it is expected that the operating profit for the second half will deviate further from guidance.
Consequently, we believe that both our sales and profit performance are progressing smoothly relative to our guidance.



This section shows the progress compared with the past.

Medium-Term Business Plan: Revenue

✓ The revised full-year forecast already exceeds the plan below, and we expect to revise it upward at the time of the full-year financial results announcement



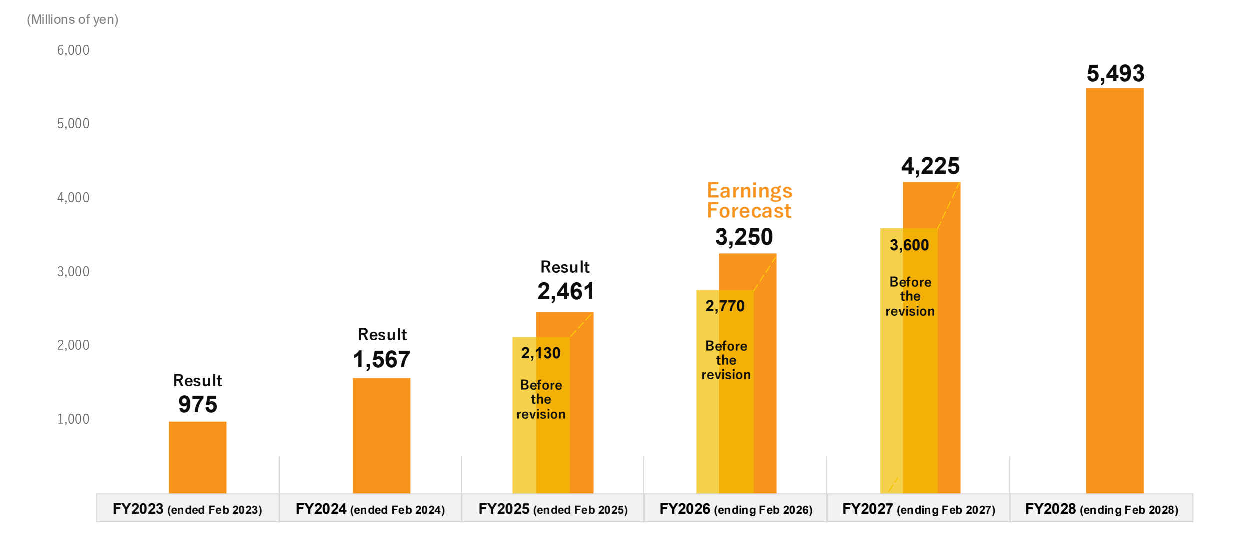
	FY2023 (ended Feb 2023)	FY2024 (ended Feb 2024)	FY2025 (ended Feb 2025)	FY2026 (ending Feb 2026)	FY2027 (ending Feb 2027)	FY2028 (ending Feb 2028)
Highly specialized Talents	135	165	223	295	380	470
Specialized Talents	247	334	408	505	690	910

* Subsidiary personnel are expected to be included in the specialized talents from FY2026 by sharing our skills with those who wish to do. Therefore, it already reflects the approximate number of people.

Next is the medium-term management plan. The full-year earnings forecast for this period has been revised upwards, but the revised figures have not yet been reflected. It is planned to update the medium-term management plan at the end of the period.

Medium-Term Business Plan: Operating Profit

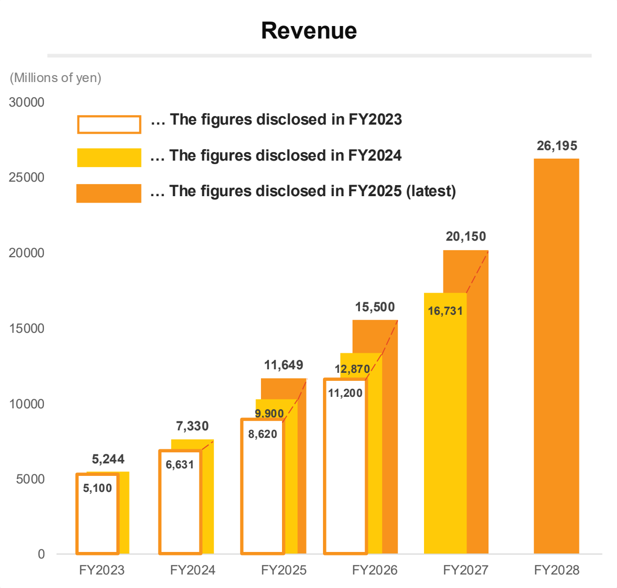
✓ **Even after the transition to the Prime Market, we aim to maintain strong growth.**

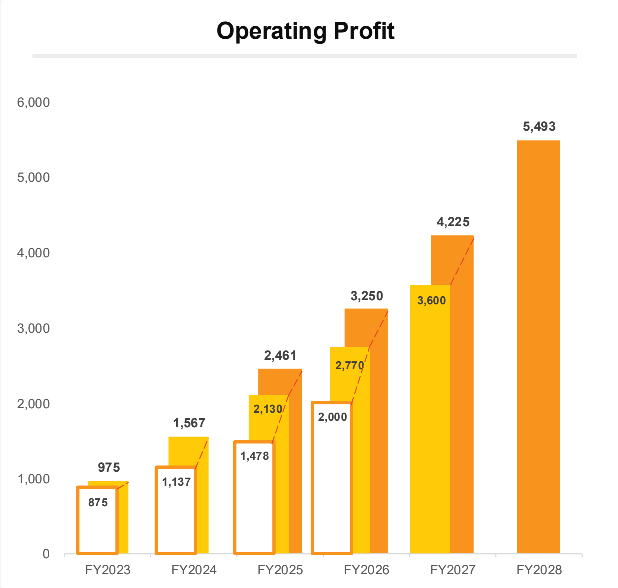


The medium-term management plan for operating profit is also scheduled to be updated at the end of the period.

Past revisions to the medium-term management plan

✓ **We exceeded the targets set in the previously disclosed medium-term management plan, and the plan has been updated twice in the past.**





This section displays all the medium-term management plans released in the past. The one closest to the front is the first plan presented, and the one in the back is the new plan. There have been two updates in the past.

Of course, it is also important to significantly exceed this medium-term management plan, but for our company, this plan represents high growth and its continuity. For example, having a growth rate of 69 percent in one year, followed by 0 percent the next year with a two-year CAGR of 30 percent lacks continuity. We believe it is more valuable for our company to maintain a 30 percent growth rate consistently over two years.

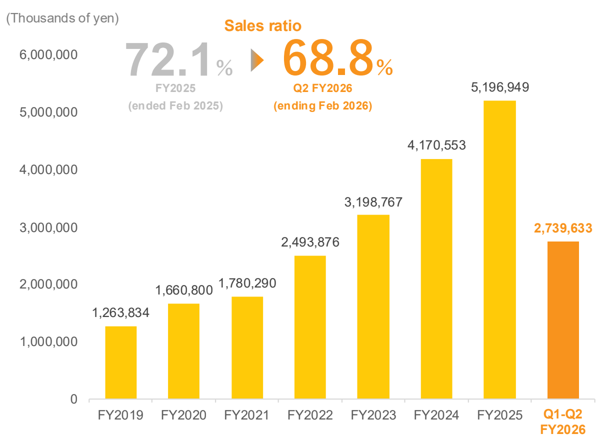
As we maintain high growth, we aim to invest in preparations for high growth in two to three years. However, we have a policy not to invest to the point of impairing the necessary high growth for that year.

Sales to Enterprise Clients (Non-consolidated)

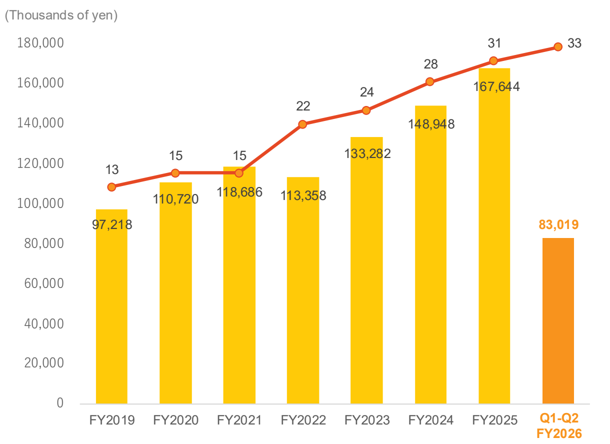
✓ **Driven by group management, SMB customer sales are trending upward this fiscal year. From the next fiscal year, we plan to shift our focus back to increasing the proportion of sales from enterprise customers.**

→We will control costs with an awareness of the expected year-end profit, while operating on the basis of achieving results above the full-year forecast.

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.

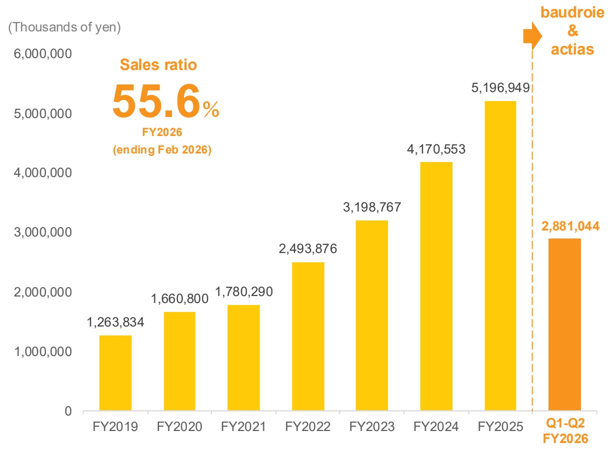
Next, I will highlight the points of our company.

Here is the first point, which is the expansion and deepening of enterprise clients. Enterprises refer to large corporations, which tend to place larger orders compared to SMBs and have better profitability. We aim to increase this proportion. Although the share of SMBs has slightly increased now, we intentionally take on tasks planned for transfer to subsidiaries to maximize group profit. As a side note, our sales team consists of fewer than 20 members.

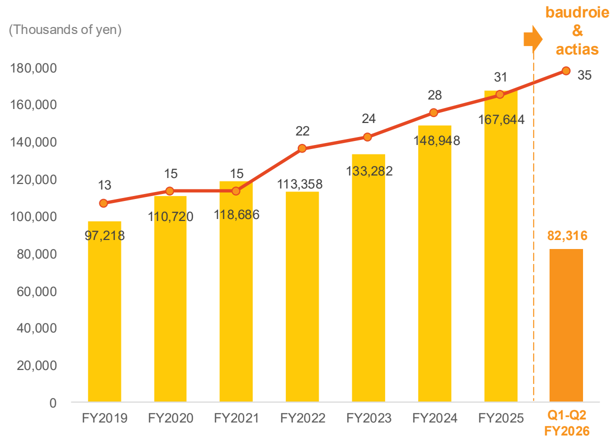
Sales to Enterprise Clients (baudroie & actias)

- ✓ **Starting from Q1 of this fiscal year, we have begun aggregating the enterprise customer sales of baudroie inc. and actias Inc.**
- ✓ **In the medium to long term, we aim to increase the combined enterprise customer sales ratio of the two companies.**

Total sales to enterprise clients



Average sales per company and the number of enterprise clients



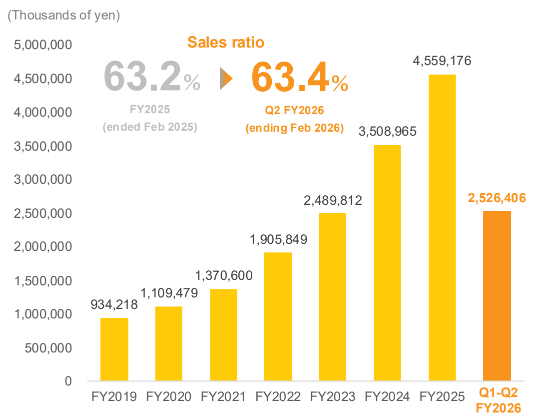
※ For Q1 – Q2 of the fiscal year ending February 2026, the number of companies excludes customers that overlap between baudroie and actias.

In the past, we have acquired several companies, and some have started to mature with repeated PMIs. Within our subsidiaries, the company actias inc. has begun transitioning slightly from SMBs to enterprise clients, so we have reported the enterprise clients ratio including actias inc. We will advance PMI across the group to make it closer to our company and aim to produce such figures group-wide.

Sales in Advanced Technology Areas

✓ **Sales ratio of advanced technology field is increasing due to selective orders.**

Sales trends
in the advanced technology areas



*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.

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%	19% (1p up)
Load balancer (global market)	US$8.9 billion (2027)*2	13%	21% (1p down)
Network virtualization (domestic market)	Approx. ¥50 billion (2026) *3	3%	10% (0p)
Cloud (domestic market)	¥4.3 trillion (2026)※4	21%	23% (3p down)
Security (Domestic market: software, appliances)	¥531.7 billion (2026) *5	4%	21% (3p up)

*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 Pr ivate 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 FY2025 results and include overlapping sales in two or more areas.

Moving on to the second point, which pertains to the sales and sales ratio in the advanced technology sectors that are somewhat more challenging than traditional technologies within IT infrastructure. Currently, the sales ratio is 63 percent, with the remainder being traditional types. Basically, we use a mix of traditional and advanced technology sectors.

Development of Specialized and Highly Specialized Talent

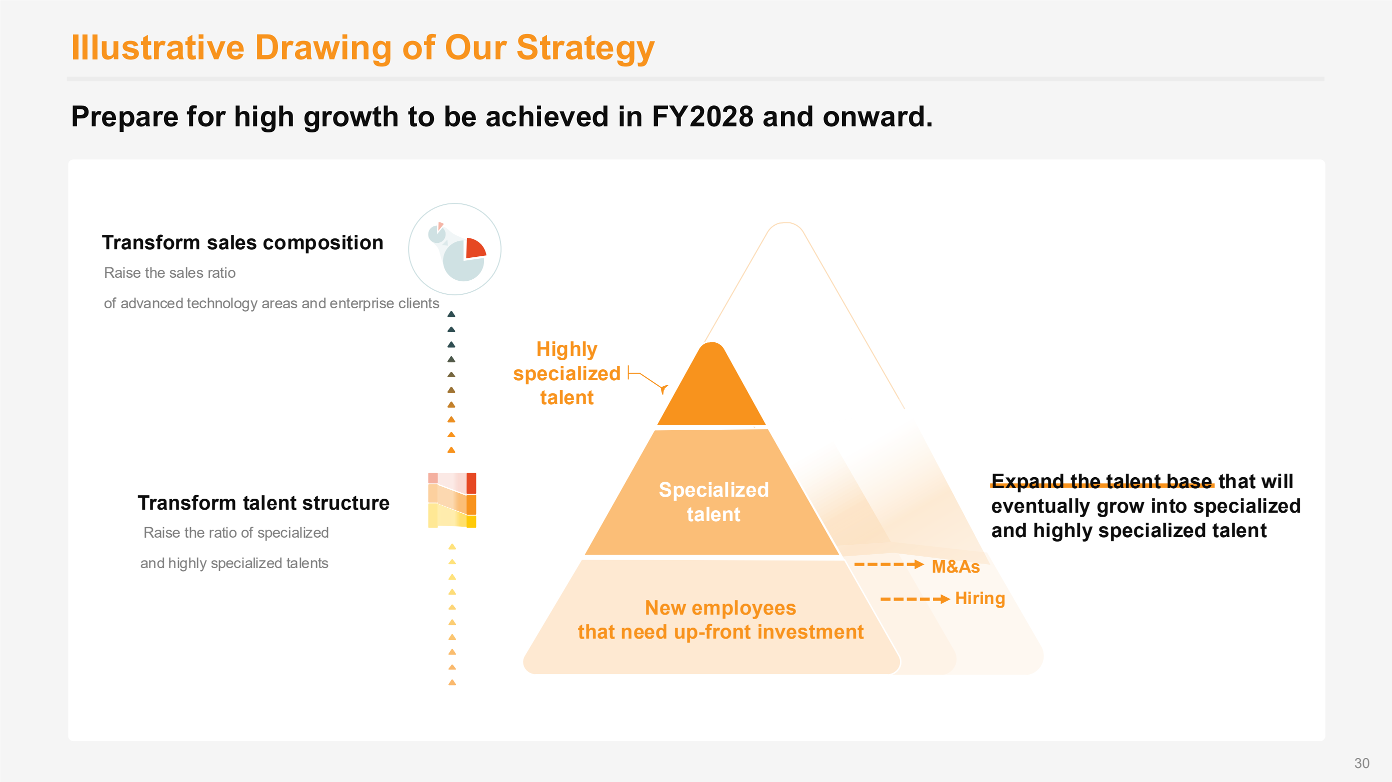
- ✓ **Develop highly specialized talents based on our education and training systems dedicated to IT infrastructure.**
- ✓ **The increase in the number of highly specialized talents are becoming larger as a result of intensified recruitment prior to the listing.**

	Specialized talents	Highly specialized talents
FY2021 (ended Feb 2021)	122	97
FY2022 (ended Feb 2022)	174	109
FY2023 (ended Feb 2023)	247	135
FY2024 (ended Feb 2024)	334	165
FY2025 (ended Feb 2025)	408	223
Q2 FY2026 (ending Feb 2026)	**479**	**290**

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

Next, as mentioned earlier, I'll discuss the progression of Specialized talents and Highly specialized talents. Our employees are divided into three tiers. In terms of an image, those in their first to second years do not appear here. Those in approximately their third to sixth years are classified as Specialized talents, and those in their seventh year or above are Highly specialized talents.

Back in the 2021 February term, Highly specialized Talents did not increase significantly. We began mass recruitment two to three years before the IPO, meaning many had not yet reached their seventh year, leading to a surplus of Specialized Talents initially. Currently, those members have begun entering their seventh year, initiating an era where Highly specialized Talents increase more compared to before.

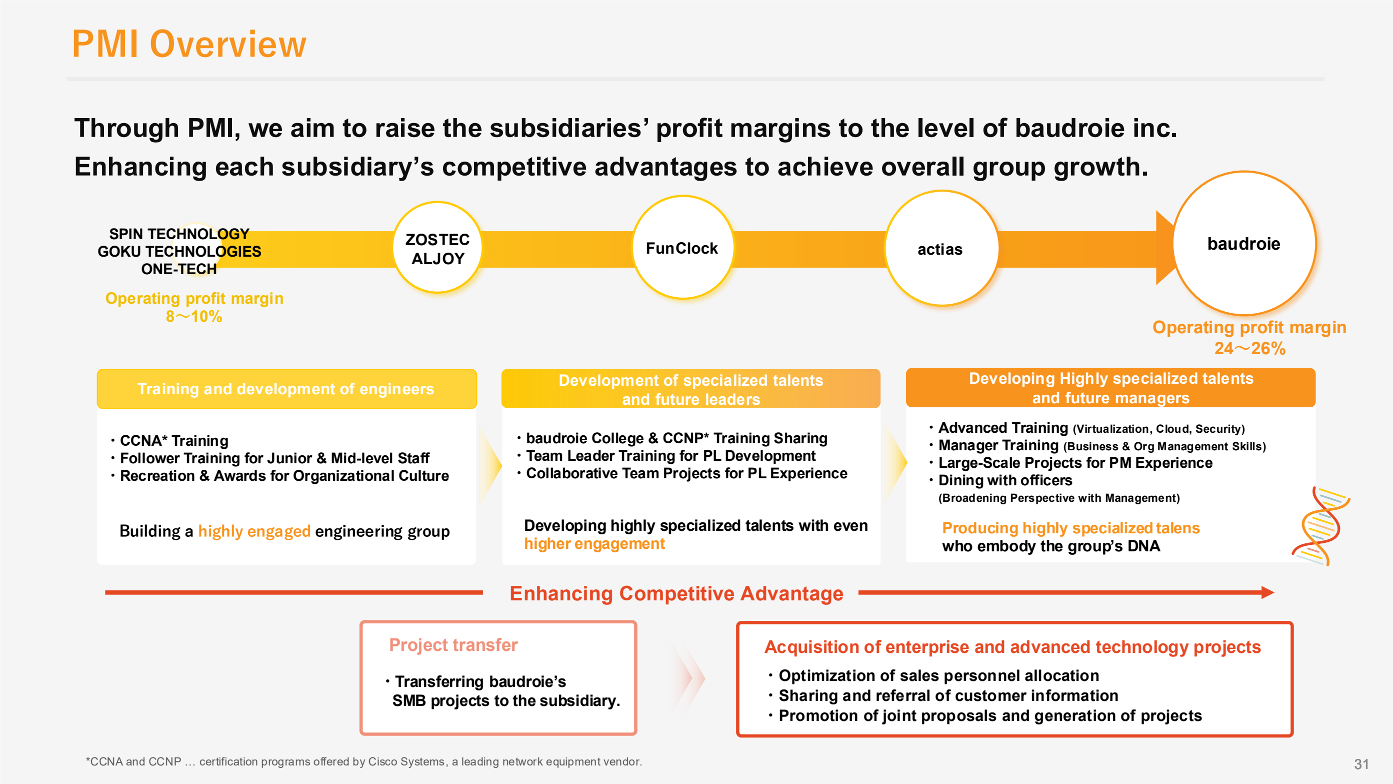


Next is the image of the growth strategy. This is an image, but there are three key points.

First, the change in the three orange colors. Since our company nurtures from those with no experience, this mix will keep changing even if we do not hire new people. For example, even if we do not hire any new employees this year, the number of Specialized talents and Highly specialized talents will increase next year.

The second is the transformation of sales composition at the top left, where the increase in the ratio of enterprise clients and the proportion of advanced technology fields enhances our distinct features and strengthens our competitive advantage. In other words, the height of this triangle itself will increase.

The third aspect is on the right side, relating to supply. To ensure sustained high growth beyond the medium-term management plan, we are increasing the number of future Specialized talents and Highly specialized talents, which serve as the base, through hiring new graduates and inexperienced mid-career hires, as well as expanding this foundation through M&A.



Next is the image of PMI. Earlier, the position of actias inc. was at the far right, and it is gradually getting closer to us. Since actias inc. was originally a company that mainly dealt with networks, it was quite easy to perform PMI and they came up quite early. Other companies are still handling SMB projects and studying basic network concepts like CCNA, so they are in a situation like our company 8 to 10 years ago. Currently, they are in a stage where they are acquiring many SMB projects, so through gradual PMI, they will transition from SMB to enterprise clients and be able to work in advanced technology domains. Along with that is the operating profit margin. Newly merged companies achieve around 8% to 10% after some PMI.

Our non-consolidated operating profit margin is between 24% and 26%, and we aim to bring our subsidiaries' operating profit margins closer to this range as well.
Ultimately, we plan to execute PMI in a phased manner to align the subsidiaries with the same unified metrics, such as increasing their ratio of enterprise clients.

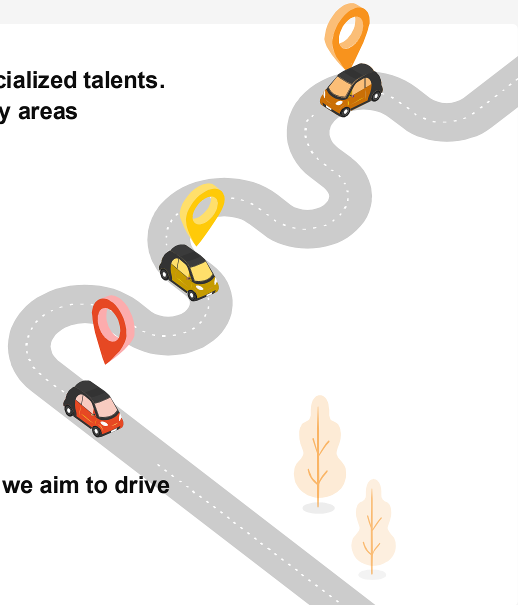
Summary of Highlights

01
- ✓ Raise the ratio of specialized talents and highly specialized talents.
- ✓ Expand and deepen projects in advanced technology areas and for enterprise clients.
- ✓ M&A

02
- ✓ Maintain high growth rates
- ✓ Medium -term business plan

03
- ✓ Transition to the TSE Prime market.
- ✓ Start paying dividends.

04
- ✓ While enhancing baudroie's competitive advantage, we aim to drive growth for the entire group company.
- ✓ Dividend Policy



Lastly, this is content we have been stating since we went public. We are currently at the bottom stage. Presently, we are in the process of maximizing group profits and growing through PMI.
Although there are no plans as of yet, of course, the payout ratio will increase in the future. When that happens, it will transform into something that can be called shareholder returns, so we will offer this along with our dividend policy.

Q&A Session

Tominaga : Now, we will move on to the Q&A session.

[Q] : Operating profit forecast for the current term is a 32% increase year-on-year, and the growth rate for the first half was 34.7%. Is our understanding correct that the full-year growth rate is expected to be even higher?
[A] : That is correct. The increase in operating profit compared to the previous period is expected to accelerate around the middle of Q3 and lead into Q4.

[Q] : Both sales and profit exceeded the company's forecast at the close. Could you please tell me the factors?
[A] : It is true that we slightly exceeded the guidance, but this is more or less in line with our expectations rather than due to any unexpected positive factors. Despite the high costs associated with the recruitment of 110 new employees in Q2, including personnel and hiring costs, we believe we have maintained proper control.

[Q] : What are the assumptions for the gross profit margin and the operating profit margin for the current fiscal term?
[A] : Both figures are of course expected to increase. Although some costs will be incurred from transferring projects to subsidiaries and hiring, all of these measures are taken for the high growth potential of 2 to 3 years later. However, those aspects will also settle down in the latter half of the fiscal year, and the operating profit margin is expected to rise in the fourth quarter.

[Q] : Is the increase in Specialized talents and Highly specialized talents progressing according to plan?
[A] : The increase in Specialized talents and Highly specialized talents is progressing as planned. There are no significant fluctuations, and the turnover rate is as expected, so the increase is progressing according to plan. There is a significant increase in the first half of the year, with expectations for slightly more in the second half.

[Q] : We assume personnel and recruitment costs are also increasing; are we able to convert those costs into our pricing?
[A] : Basically, we anticipate zero profitability in the first year, with revenue starting to pick up slightly around the second year. However, the truly significant earnings will only begin in the third year or later, once the specialized personnel are fully established.

In essence, the first year is close to being a deficit, and by the second year, the employee's personnel cost from their first year is roughly covered, bringing them close to break-even.
It is only at the stage of Highly specialized talent and above that we are truly able to convert those costs into our unit prices.
Incidentally, we have never hired experienced staff.

[Q] : Given the reported increase in security projects for SASE implementation, could you please explain the correlation between this trend and your company's IT infrastructure business?
[A] : In the past, system equipment was centralized within the data center. When connecting remotely from outside, users had to set up a VPN to access the internal corporate network, pass through the data center's security, and then connect to the internet.
However, due to the rapid increase in remote work since the COVID-19 pandemic, the traditional method of communication has become challenging. As a result, projects involving the introduction of cloud security solutions have increased to unify the security policies in remote environments. These include implementation projects for solutions like Zscaler and Prisma Access. Therefore, it is a highly relevant field within our domain.

[Q] : What is the recruitment plan for the FY2026 (ending February 2026)?
[A] : For the current year ending February 2026, we are planning to hire approximately 360 to 380 employees in total, aiming for a net increase of around 230 to 250 personnel. We expect to hire 120 to 130 individuals during the second half of the year.

[Q] : Are the project unit prices for Specialized talents and Highly specialized talents generally increasing? We would appreciate any general insight you can provide.
[A] : Our company often takes on projects on a project-by-project basis, so this will truly be an image, but the price for entry-level personnel (1st to 2nd year) has not changed much from the past.
Profitability starts to emerge with Specialized talents, but the image is that this pricing hasn't changed significantly either. However, the profitability of Highly specialized talents is on an upward trend.
Highly specialized personnel are typically those in their 7th year and beyond, with the oldest being around their 40s. The 40s age bracket is the most profitable, so the profitability of these Highly specialized talents is expected to continue increasing. Generally speaking, market prices are also on an upward trend.

[Q] : Regarding the SMB projects being transitioned to the subsidiaries, we assume the profit margin will be higher than the projects the subsidiaries originally handled. Is this primarily due to moving up the business channel or is it because your company acts as the primary contact and selects the projects?
[A] : The factors are both. First, the profit margin of the subsidiaries before they joined our group was around 5% to 8%. We are raising that slightly by transferring SMB projects from our side.
There are two effects: one is that we act as the primary contact, select projects, and carefully hand them over; the other is that by introducing them directly to customers, the business channel is elevated from what might have been fifth-tier subcontracting. So, even if they are doing the same work, the profit margin increases slightly.

However, this does not fundamentally change the situation. The essential transformation—which involves enhancing our competitive advantage through PMI, allowing us to pursue enterprise clients and secure advanced technology projects, and ultimately raising profit margins—will certainly take a period of years.

[Q] : What is your approach to M&A?
[A] : First, while our strength is certainly our specialization in IT infrastructure, another key strength lies in our recruitment and education processes.
For instance, we recruit from a very large talent pool, allowing us to hire, say, 100 people two months out if we decide to. We succeed in recruitment because we hire inexperienced individuals who other companies might find too challenging to train.

Our strength is our ability to develop these new hires into Specialized talents and Highly personnel. This point is one of the factors that demonstrates the probability of our high growth two to three years down the line.

Our approach to M&A is based on a similar philosophy. Normally, companies typically select M&A targets based on their existing technological capabilities or profitability. However, the companies we acquire are, in a sense, similar to our recruitment strategy—we target companies that other firms would generally not acquire.

We can successfully execute such M&A because we are able to drive profitability: in the short term, by changing the sales channel through project transfers during PMI; and in the medium to long term, by increasing the operating profit margin through technology sharing from the time of acquisition.

To elaborate further, we also involve equity in our PMI process. We utilize treasury stock (shares acquired through buybacks) for the acquisition, conducting share exchanges at the time of purchase to implement strong PMI. We design our M&A strategy multi-dimensionally across various aspects.

[Q] : Can you explain the reasons for the increase in the sales composition ratio of the SMB business and the anticipated decrease in the future?
[A] : To maximize group profits, we are intentionally taking on SMB projects that can be transitioned within about one or two months and passing them to our subsidiaries. This is why the sales composition ratio of SMB projects is currently increasing. However, we expect the enterprise customer sales ratio to recover in Q4.
There is a possibility that the SMB ratio will continue to grow if M&A occurs repeatedly.

However, given the current pace of M&A, we are on a schedule where the enterprise customer sales ratio should return to its previous level by Q4.

[Q] : What is the current bottleneck in meeting demand, and what might be future bottlenecks?
[A] : We are not very concerned about demand, which seems to be getting stronger. We conduct significant transactions with only a few dozen companies. However, there are many large companies in Japan, and we have fewer than 20 salespeople, so it is not as though we are aggressively pursuing sales with 50 or 100 people. We currently conduct business with certain companies almost through word of mouth. Hence, we consider demand to be quite high, with the bottleneck being more on the supply side. We believe demand will follow if we have capable personnel.

[Q] : Are we likely to see second or third Actias inc.-like companies in the future?
[A] : By implementing PMI tailored to each stage, second and third Actius-like companies will likely emerge in the future. The subsidiaries are like companies tracing us from 10 years ago, or from around 3 to 5 years ago. Our company wasn't suddenly formed by a gathering of talented individuals and has never recruited experienced personnel; instead, all started from scratch. Therefore, the stages our subsidiaries are currently in reflect our past journey. By providing further support, we aim to shorten these stages and bring them closer to our current state.

[Q] : The performance of companies related to cybersecurity is improving. Are security-related projects increasing? Also, how does the profitability of such projects compare with others?
[A] : We are truly in a situation of excessive demand, and our compatibility with networking is high, so we are focusing on it, and projects are increasing. In terms of profitability, projects in other advanced technology fields are not so bad, so it might be about the same. The image is that demand is strong.

[Q] : Apart from securing human resources, what are your thoughts on M&A?
[A] : We have consistently pursued M&A with companies that have businesses similar to ours, or those focused on developing personnel to align with our capabilities.
However, we plan to pursue M&A that generates synergy from a different angle, such as acquiring companies where AI and network virtualization show good compatibility, though we have not yet realized such an acquisition. This remains a future possibility.

[Q] : Does the use of Japanese or foreign products in integration affect your project unit prices or profitability?
[A] : In our projects, we currently use foreign products more frequently. However, whether foreign or Japanese, we can handle them multi-dimensionally, and depending on the requirements, we can certainly choose Japanese products. In reality, our company only deals with the service aspect, not the direct sales, so profitability does not change.

MC : Now that the time has come, we will conclude the financial results briefing for the second quarter of fiscal year ending February 2026. Thank you very much for your participation today.

Disclaimer