Financial Results Explanatory Material Third Quarter of the fiscal year ending August 31, 2024

FIXER
the Cloud native Company



FIXER Inc.

July 11, 2024
（Securities code 5129）

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GAIXER
Enterprise AGI Platform

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Financial Results for the Third Quarter of the fiscal year ending August 31, 2024

Financial Highlight

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✓ **Net sales and profits decreased compared to the same period of the previous fiscal year, due to the impact of the end of the contract with the Ministry of Health, Labour, and Welfare.**

	Third quarter of the fiscal year ended August 31, 2023（Actual）	Third quarter of the fiscal year ending August 31, 2024（Actual）	Changes (%) Comparison with the same period of the previous fiscal year
Net sales	**8,895**million yen	**5,420**million yen	**39.1%down**
Gross profit	**3,233**million yen	**1,977**million yen	**38.8%down**
Operating profit	**1,877**million yen	**545**million yen	**70.9%down**
Net income	**1,169**million yen	**351**million yen	**69.9%down**

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Summary of Financial Results for the Third Quarter

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- ✓ **In response to the decline in net sales, the gross profit margin remained high through cost controls.**
- ✓ **Operating profit ratio declined due to increases in selling, general, and administrative expenses resulting from the addition of staff for growth.**

(Unit：Million yen)	Third quarter of the fiscal year ended August 31, 2023 (Actual)	Third quarter of the fiscal year ending August 31, 2024 (Actual)	Changes Comparison with the same period of the previous fiscal year	Changes(%) Comparison with the same period of the previous fiscal year
Net sales	**8,895**	**5,420**	**-3,475**	**-39.1%**
Cost of sales	5,662	3,442	-2,219	-39.2%
Gross profit	**3,233**	**1,977**	**-1,255**	**-38.8%**
Gross profit margin	36.3%	36.5%		
Selling, general and administrative expenses	1,356	1,431	75	5.6%
Selling, general administrative expense ratio	15.2%	26.4%		
Operating profit	**1,877**	**545**	**-1,331**	**-70.9%**
Operating profit ratio	21.1%	10.1%		
Ordinary profit	**1,855**	**546**	**-1,308**	**-70.5%**
Ordinary profit ratio	20.9%	10.1%		
Income taxes	685	196	-489	-71.3%
Net income	**1,169**	**351**	**-817**	**-69.9%**

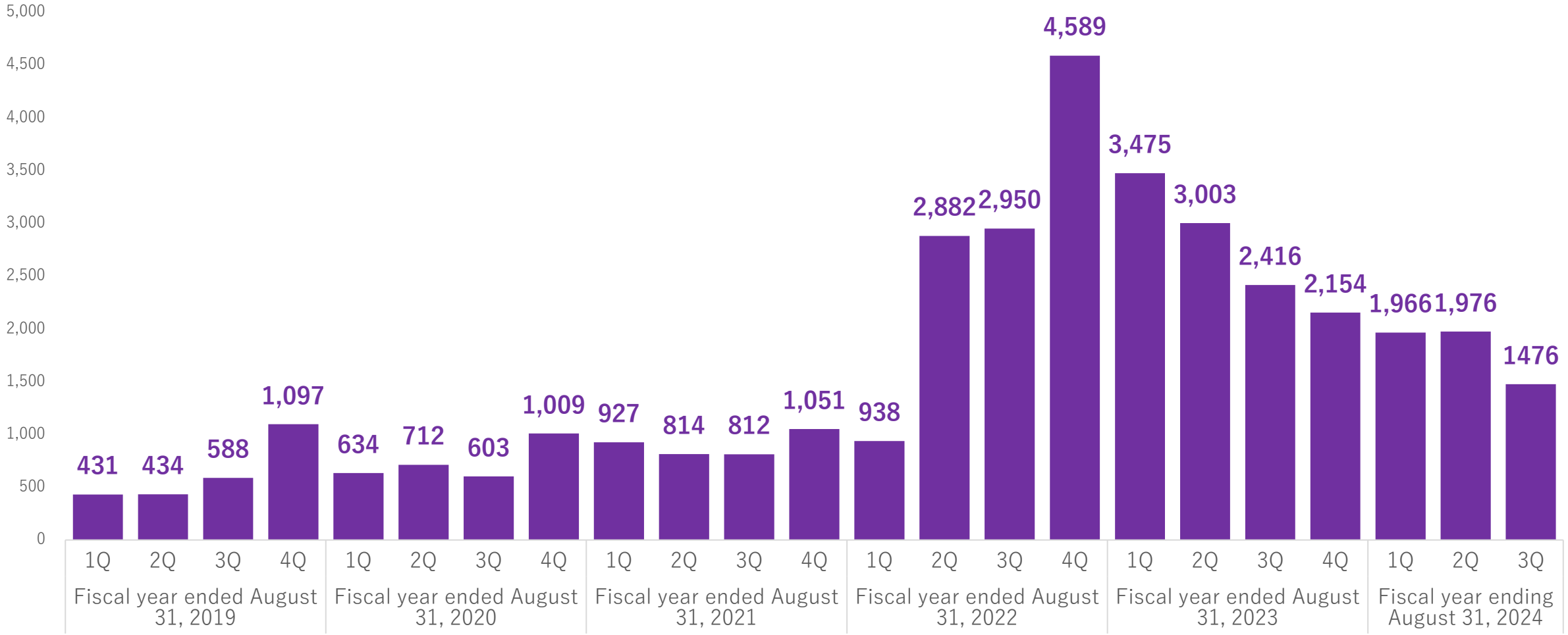
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Trend of Quarterly Net Sales

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✓ **In the third quarter, net sales increased by 65 million yen compared to the plan.**

(Unit：Million yen)



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Trend of Net Sales by Business Model

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✓ Due to new orders, net sales from Project type Services continued to increase.
✓ Due to the impact of the end of the HER-SYS, net sales from Resale significantly decreased.

(Unit：Million yen)

	Fiscal year ended August 31, 2022				Fiscal year ended August 31, 2023				Fiscal year ending August 31, 2024		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Project type Services	108	301	270	41	866	705	754	563	416	421	487
Resale	410	571	744	1,085	1,198	1,156	1,177	1,230	1,206	1,212	670
Managed service	316	555	489	438	385	445	430	343	327	330	306
SaaS	102	1,454	1,446	3,023	1,021	695	53	15	14	12	9
Other					2				1		1
Total	938	2,882	2,950	4,589	3,475	3,003	2,416	2,154	1,966	1,976	1,476

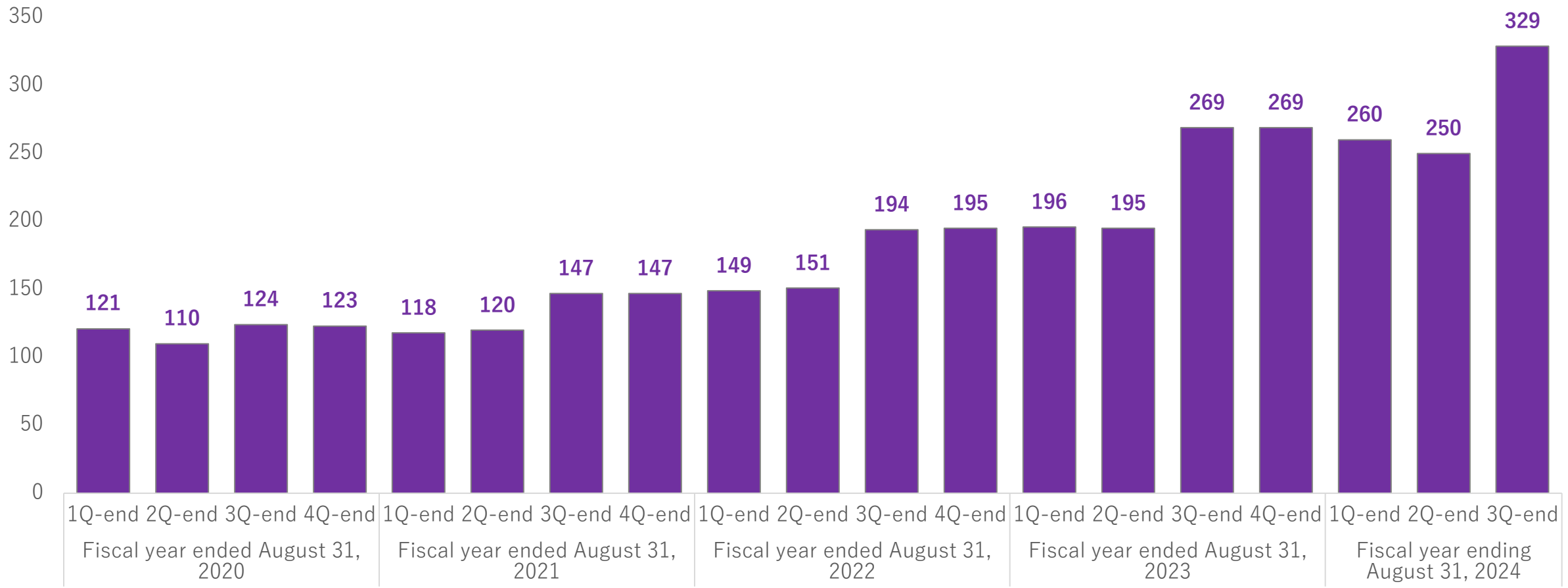
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Quarterly Trend of the Number of Employees

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✓ **The number of employees significantly increased due to 79 newly graduated employees joining.**

(Unit：Person)



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Trend of Expenses

- ✓ **Payroll expenses increased due to the addition of 79 newly graduated employees for growth.**
- ✓ **The Company restrained outsourcing expenses and advertising expenses by implementing cost controls.**

(Unit：Million yen)

	Fiscal year ended August 31, 2022				Fiscal year ended August 31, 2023				Fiscal year ending August 31, 2024		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Payroll expenses	305	344	410	425	404	404	477	519	482	456	500
Rent expenses on land and buildings	67	63	78	79	78	108	125	124	125	125	127
Outsourcing expenses	99	109	130	155	215	317	246	191	164	132	97
Advertising expenses	16	27	74	345	50	11	40	59	63	20	10

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Balance Sheet

- ✓ **While other current assets increased by 161 million yen, trade accounts receivable and contract assets decreased by 598 million yen. As a result, total assets decreased by 435 million yen.**
- ✓ **Total liabilities decreased by 788 million yen due to decreases in trade accounts payable and income taxes payable.**
- ✓ **Total net assets increased by 353 million yen due to net income.**

(Unit：Million yen)	As of August 31, 2023	As of the end of the third quarter of the fiscal year ending August 31, 2024	Changes
Current assets	6,325	5,965	-360
Non-current assets	815	739	-75
Total assets	**7,140**	**6,704**	**-435**
Current liabilities	1,404	620	-783
Non-current liabilities	17	11	-5
Total liabilities	**1,421**	**632**	**-788**
Shareholders' equity	5,717	6,070	353
Stock subscription rights	1	1	-0
Total net assets	**5,718**	**6,072**	**353**
Total liabilities and net assets	**7,140**	**6,704**	**-435**
Equity ratio	80.1%	90.5%	

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Financial Plan for the year ending August 31, 2024

Financial Plan for the fiscal year ending August 31, 2024

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- ✓ **Net sales and profits decreased due to the end of the HER-SYS contract, which accounted for 56% of net sales in the previous fiscal year.**
- ✓ **The necessary investment will be steadily made to aim for discontinuous growth from the next fiscal year.**

(Unit：Million yen)

	2019/8 (Actual)	2020/8 (Actual)	2021/8 (Actual)	2022/8 (Actual)	2023/8 (Actual)	2024/8 (Plan)	Changes Comparison with the same period of the previous fiscal year	Changes(%) Comparison with the same period of the previous fiscal year
Net sales	**2,551**	**2,960**	**3,606**	**11,360**	**11,049**	**7,116**	**-3,933**	**-35.6%**
Cost of sales	1,432	1,681	2,299	7,292	7,002	4,445	-2,557	**-36.5%**
Gross profit	**1,118**	**1,279**	**1,307**	**4,068**	**4,047**	**2,671**	**-1,376**	**-34.0%**
Gross profit margin	43.8%	43.2%	36.3%	35.8%	36.6%	37.5%		
Selling, general and administrative expenses	1,044	941	989	1,673	1,936	2,069	132	6.9%
Selling, general administrative expense ratio	41.0%	31.8%	27.4%	14.7%	17.5%	29.1%		
Operating profit	**73**	**337**	**317**	**2,394**	**2,110**	**601**	**-1,509**	**-71.5%**
Operating profit ratio	2.9%	11.4%	8.8%	21.1%	19.1%	8.4%		
Ordinary profit	**58**	**328**	**314**	**2,391**	**2,089**	**602**	**-1,487**	**-71.2%**
Ordinary profit ratio	2.3%	11.1%	8.8%	21.1%	18.9%	8.5%		
Income taxes	27	90	118	889	706	217	-489	**-69.3%**
Net income	**31**	**142**	**196**	**1,495**	**1,382**	**386**	**-996**	**-72.1%**

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Trend of Net Sales by Business Model

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- ✓ **Due to the end of the HER-SYS contract, significant decreases in net sales from Resale, Managed service, and SaaS are expected.**
- ✓ **Focusing on securing new orders to drive growth in the next fiscal year and beyond**

(Unit：Million yen)

	2019/8 (Actual)	2020/8 (Actual)	2021/8 (Actual)	2022/8 (Actual)	2023/8 (Actual)	2024/8 (Plan)
Project type Services	1,942	1,369	323	721	2,890	2,601
Resale	405	988	1,380	2,811	4,764	3,366
Managed service	180	521	1,443	1,799	1,604	1,098
SaaS		31	454	6,028	1,786	49
Other	22	49	4		3	1
Total	2,551	2,960	3,606	11,360	11,049	7,116

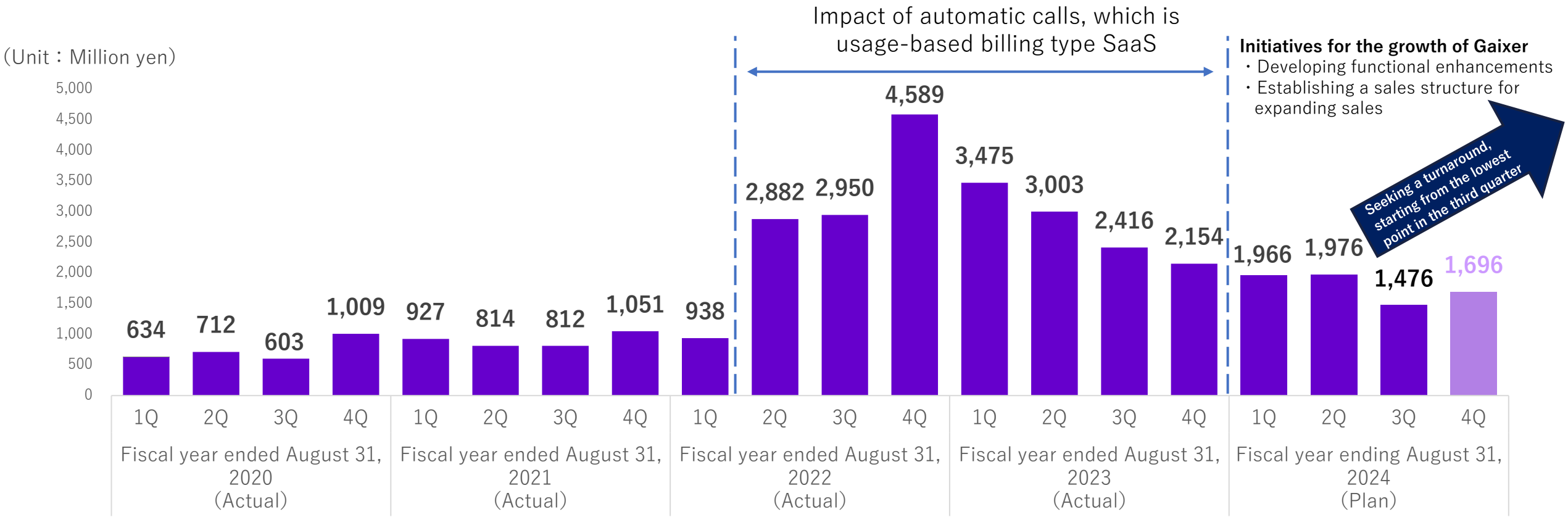
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Seeking a turnaround of net sales, starting from the lowest point in the third quarter by promoting business transformation

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✓ **Net sales are expected to decline significantly due to the end of the HER - SYS contract, but the Company seeks a turnaround of net sales by promoting business transformation.**

Acquiring Project type Services(flow type) ➡ Building up Resale and Managed service(stock type) ✚ Building up GaiXer (stock type)



Concentrate development resources on HER-SYS → **Gradually deploy development resources to other projects** → **Enhancing investments in GaiXer**

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Growth Strategy

GaiXer Empowers Your Potential

GaiXer Enterprise AGI Platform

Providing as a subscription-based SaaS
In addition to direct sales, aiming to increase user numbers through expanding sales via collaborations

Examples of utilization
- Semi-automated preparation of standard documents
- Preparation of public relations materials
- AI chatbots of home pages
- Handling inquiries regarding internal regulations, etc.
- Sales support, customer helpdesk support
- Operational efficiencies through the integration with other systems

Enhancing Profit Margin through "the Application of Automation and Utilization of Generative AI"
Utilizing GaiXer for large-scale projects to reduce man-hours and improve quality
Expanding the scope of automation to enhance profit margins further

Project type Services
- System construction
- Test
- Preparation of various documents

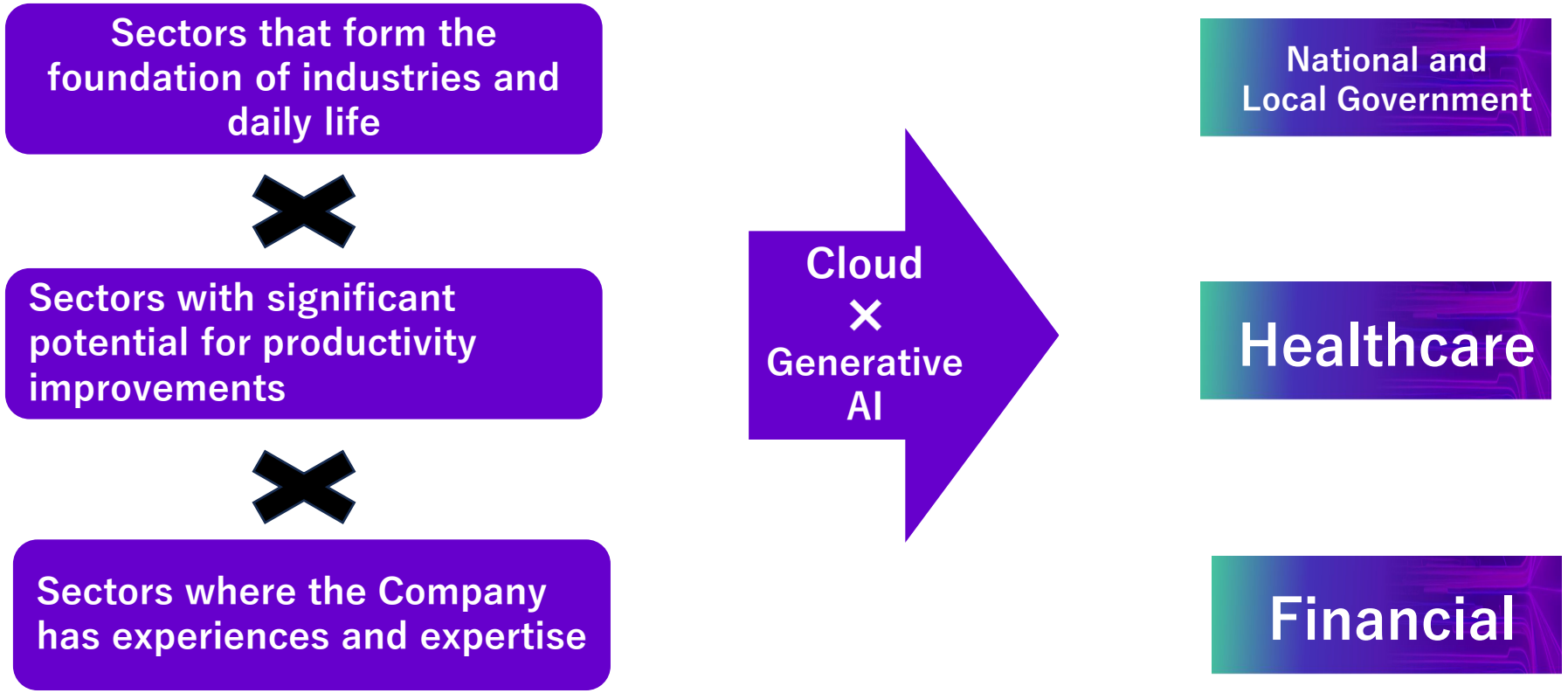
Managed service
- Monitoring

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Target market for growth

✓ Creating innovation through technology in industries with significant market size

Utilizing experiences and expertise gained from building, maintaining, and operating Japan's first full-cloud banking system for the Hokkoku Bank, Ltd., as well as systems for HER-SYS and the National Cancer Center Japan, the Company aims for growth by focusing on significant innovations through productivity improvements using Generative AI in the national and local government, healthcare, and financial sectors.

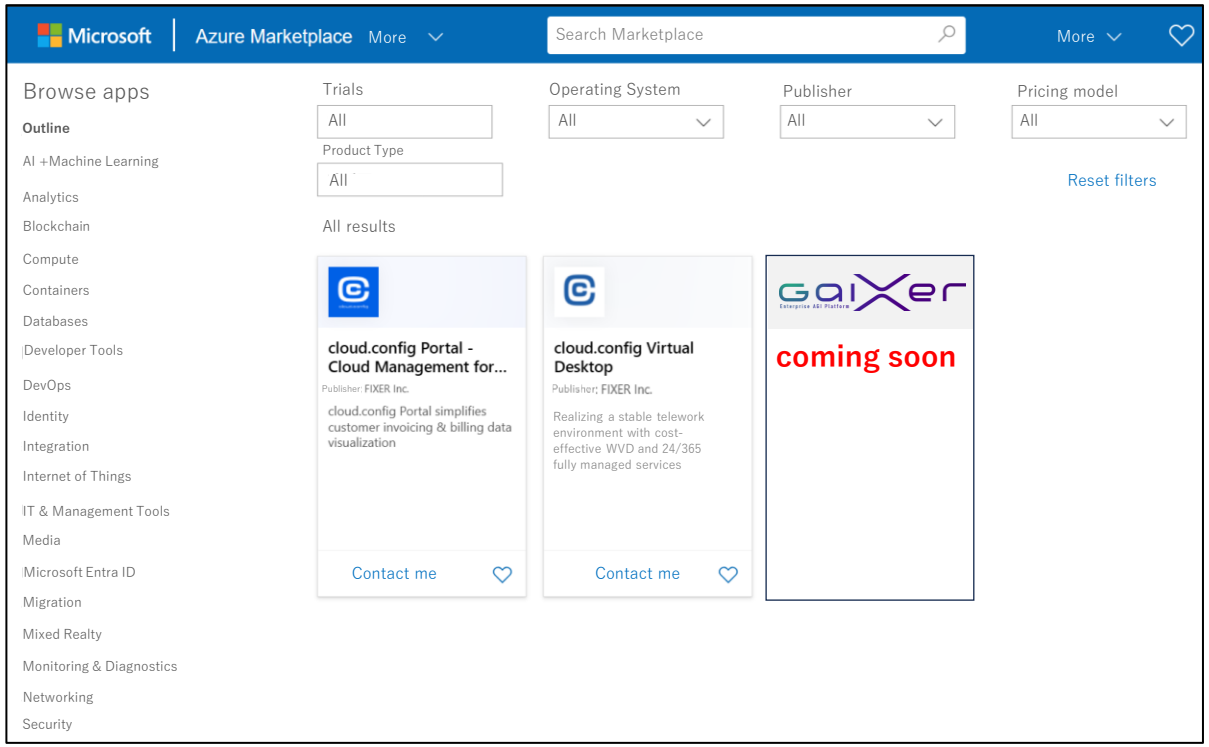


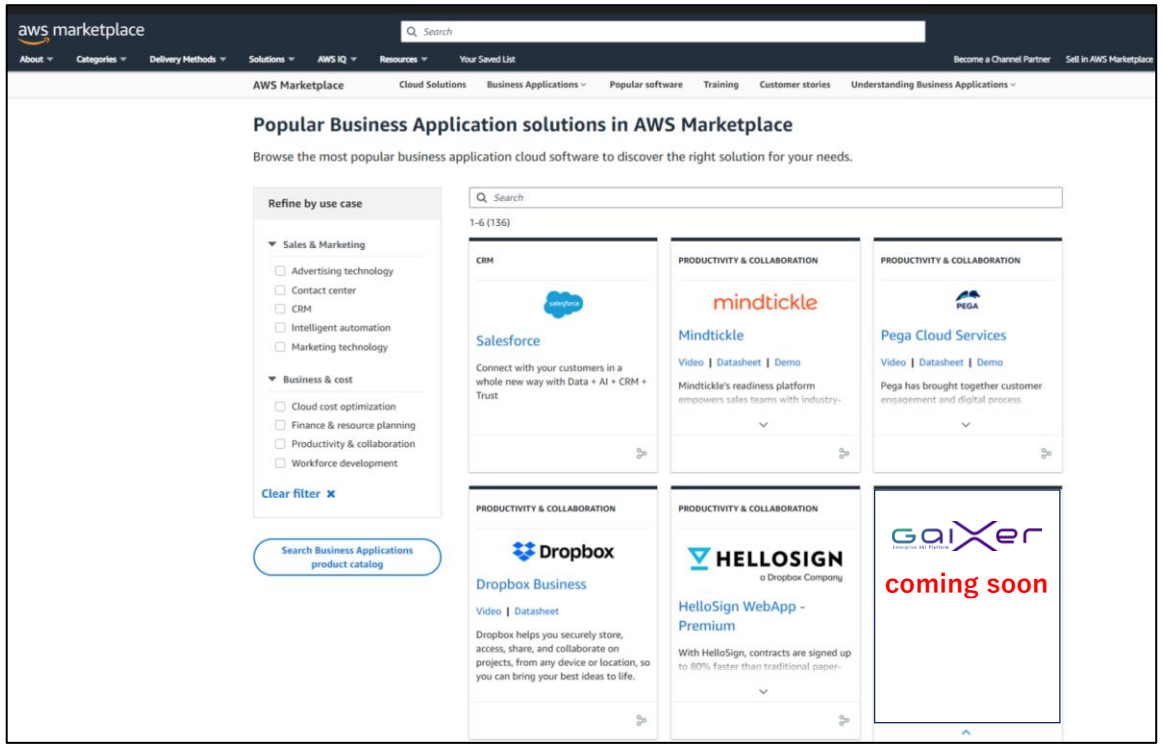
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Planning for GaiXer's global expansion

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✓ **The Company began preparing for GaiXer's sales to users worldwide through Microsoft Azure Marketplace and AWS Marketplace.**





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Contracted “Building and operation of an environment for utilizing Generative AI” of the Ministry of Foreign Affairs of Japan

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✓ Based on the enterprise Generative AI platform 'GaiXer,' the Company will build and operate an environment for utilizing Generative AI within the Ministry of Foreign Affairs of Japan to improve operational efficiency and increase productivity.

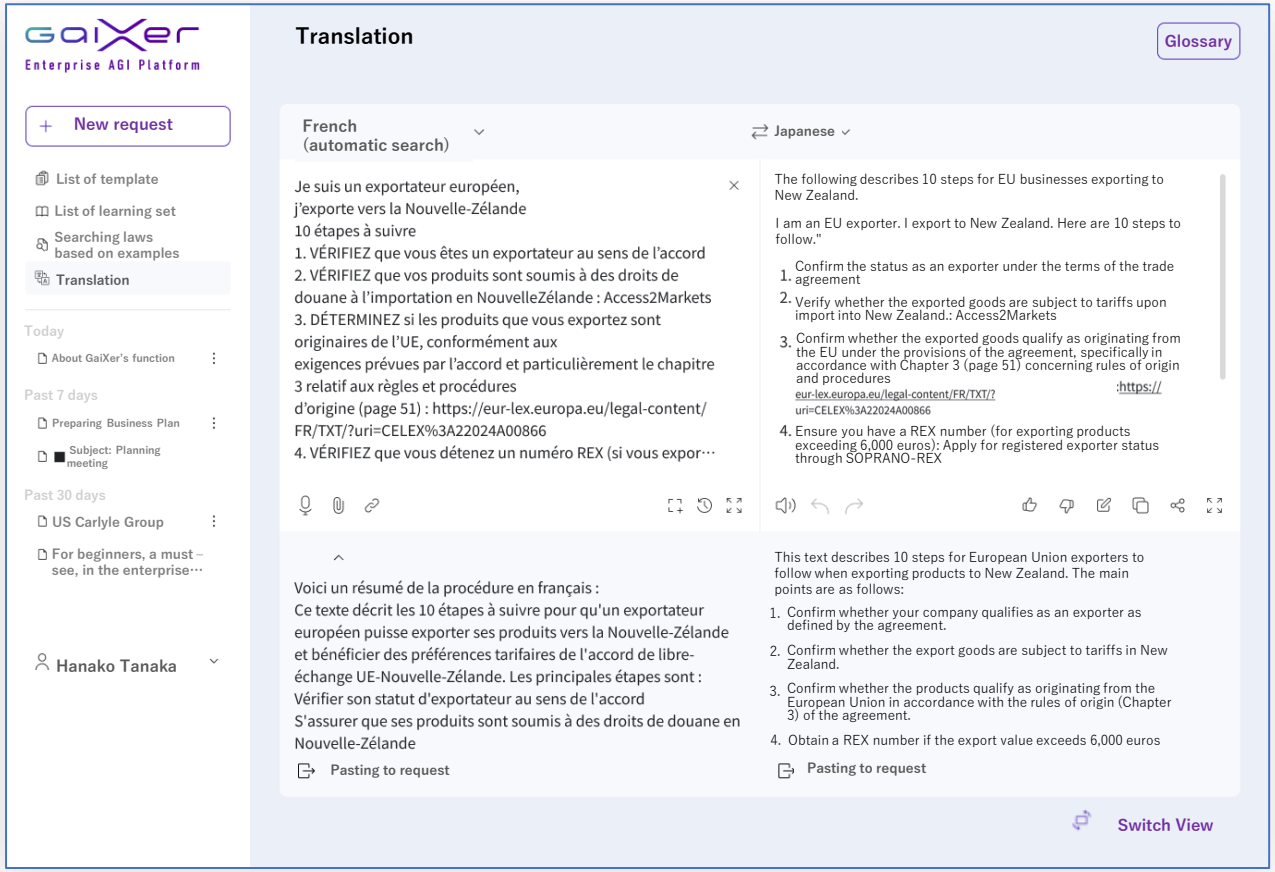
Existing Generative AI chat tools

- Poor usability due to being a general-purpose-interface
- Hallucination risk

Existing translation tools

- Editing and proofreading documents after using translation tools has burdened operations.

Become a hindrance to operational efficiency



Developing a series of workflows to address the issues of existing Generative AI and existing translation tools.

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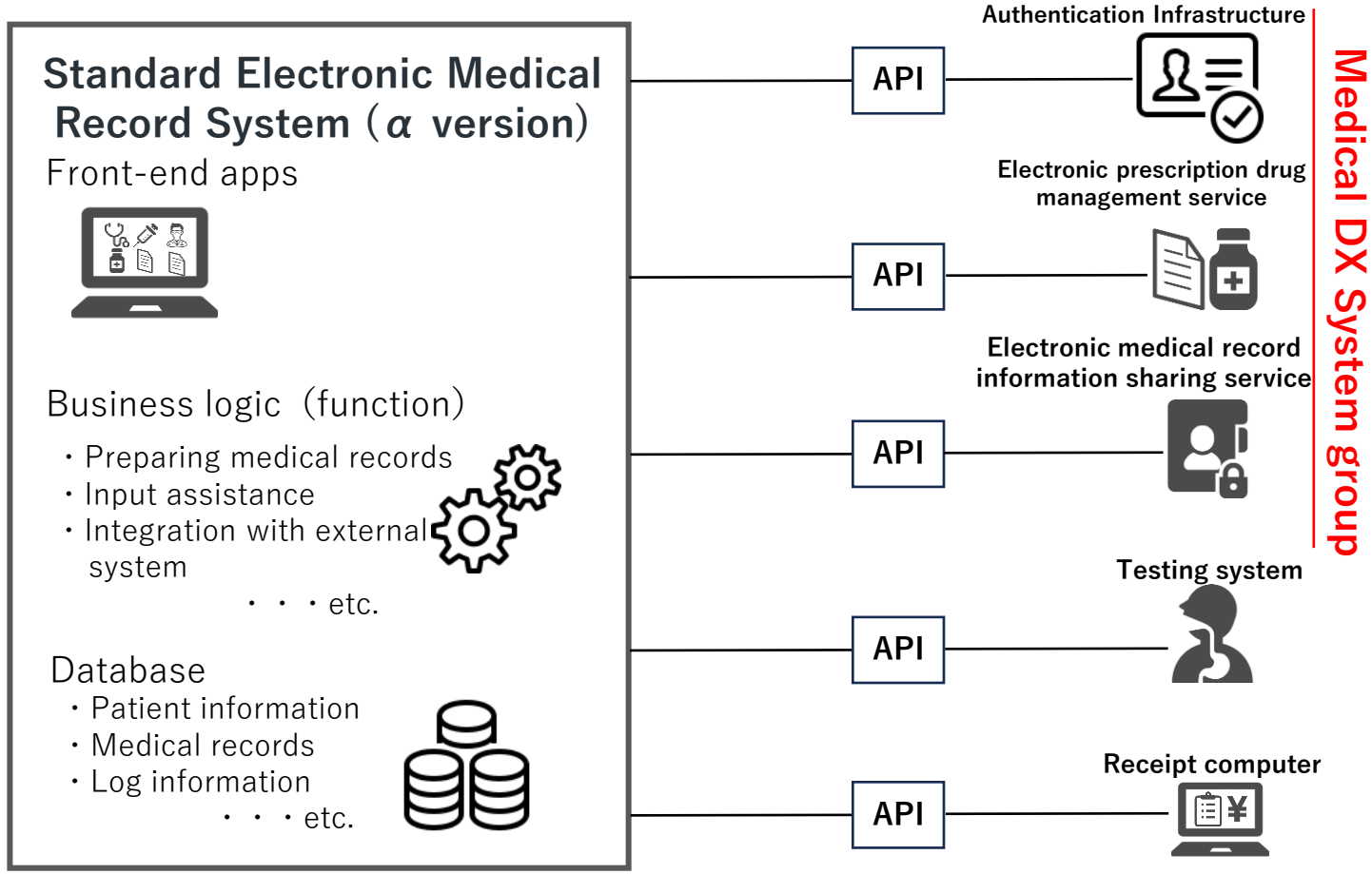
Contracted “Design and development works of the Standard Electronic Medical Record System（α version)” of the Digital Agency.

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✓ **Contracted “Design and development works of the Standard Electronic Medical Record System（α version)” of the Digital Agency**

✓ **Aiming to contribute to achieving delivery of seamless, high-quality healthcare through building an open healthcare DX foundation**

- Separation of front-end apps and back-end apps
- Modularization of business logic
- Loose coupling between business logic and database
- Using standard database code
- Development of integration modules with healthcare DX-related systems
- Development of integration modules with receipt computers
- Development of integration modules with testing system
- Incorporation of healthcare safety and business improvement tools
- Cloud based system



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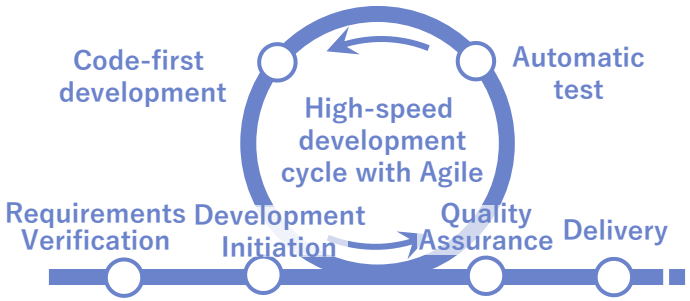
Appendix

Business Model　Business Domain

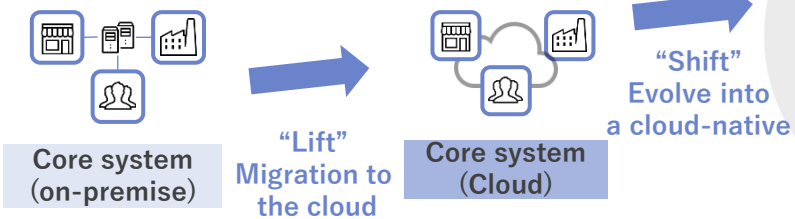
- Project type Services to build cloud-native systems
- Resale of cloud and software licenses and providing Managed service(maintenance, operation, and enhancement development)
- SaaS business is also being developed by creating a platform for customers' highly-demanded functions.

Project type Services

Developing new systems cloud natively



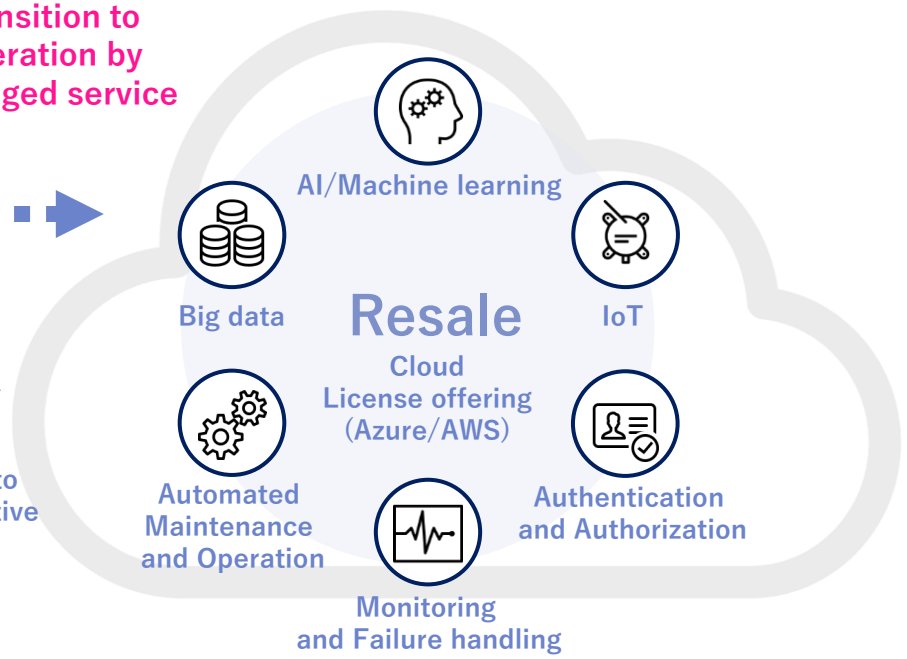
Migration of existing systems to the cloud



Managed service

Maintenance, operation and enhancement development of the completed enterprise cloud system through Managed service

Transition to operation by Managed service



SaaS

Providing high-value-added SaaS services by creating a platform for customers' highly-demand functions

GaiXer
AGI platform for enterprises run within a secure network environment on Microsoft Azure, with learning and generation in a dedicated environment

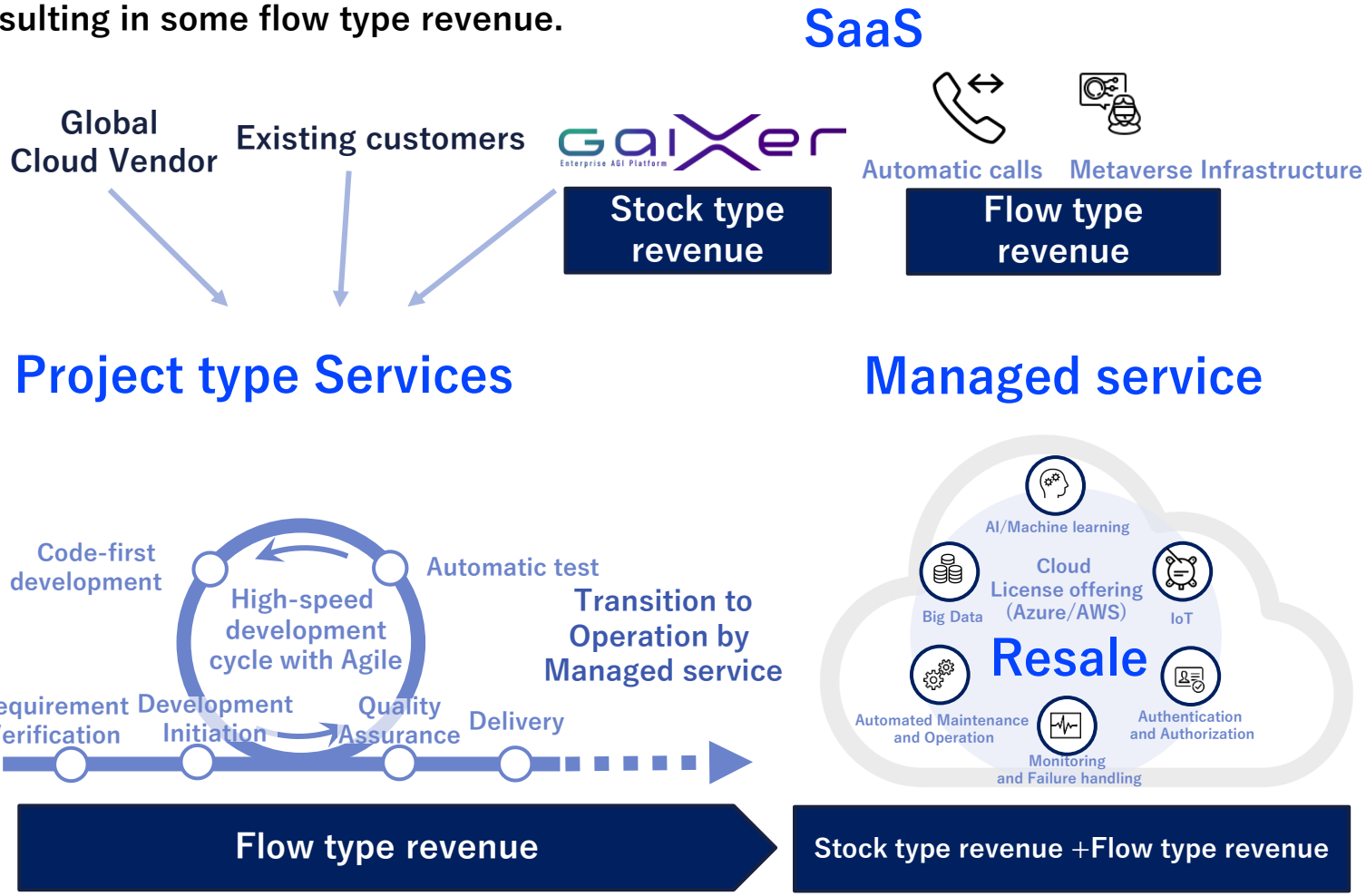
Automatic calls
Providing the post-failure detection notification service used in the Managed service as a general-purpose automatic calls + SMS sending service

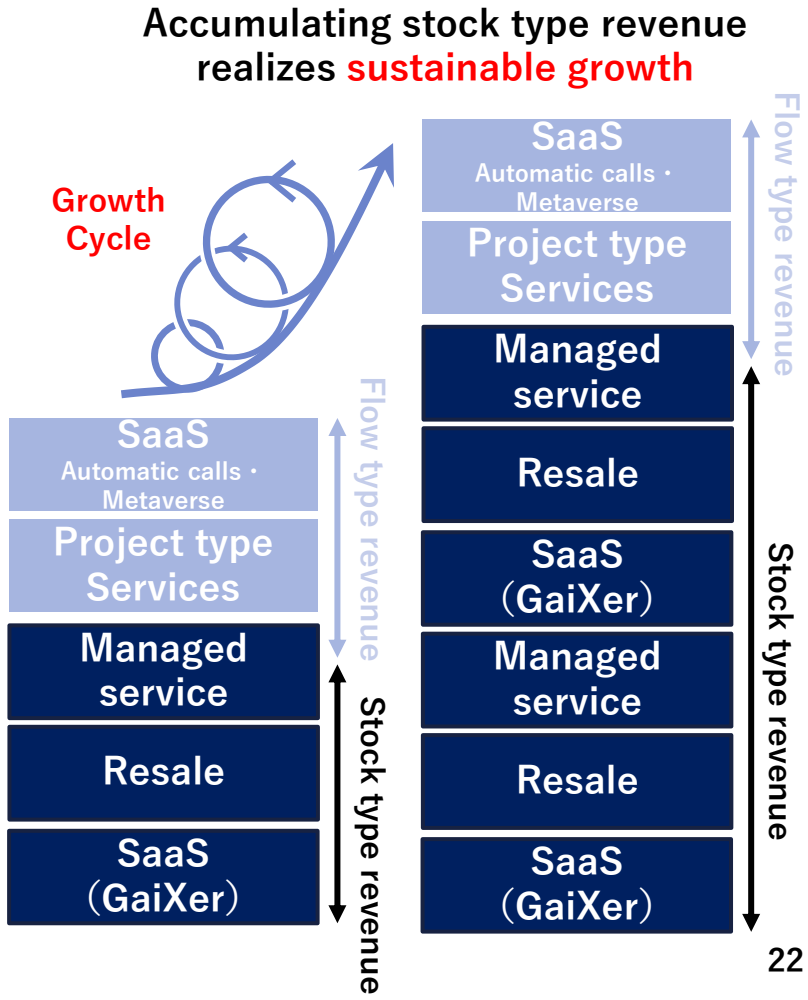
Metaverse Infrastructure
Providing SaaS-type cloud systems for BtoBtoC required for the Metaverse platform

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Business Flow of Business Domain

- The Company receives orders for Project type Services through referrals from global cloud vendors and existing customers.
- The systems developed through Project type Services are transferred to Resale and Managed service, contributing to stock type revenue.
- In Managed service, the Company also provides enhancement development (additional functions) tailored to customer needs, resulting in some flow type revenue.

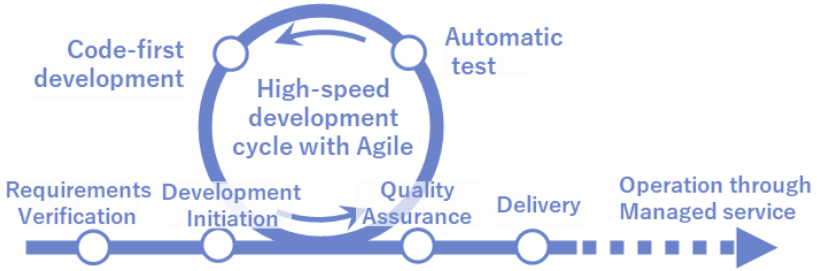
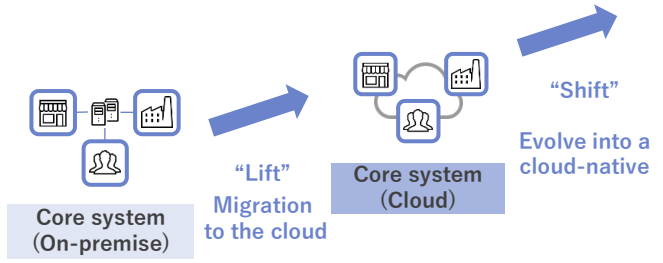




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Project type Services

Project type Services are services that implement new system development or cloud migration in a project-based manner. System migration responds to both “Lift” – converting the system infrastructure to the cloud, and “Shift” – transforming into a cloud-native system that is easy to maintain and operate concurrently with the migration.

	New system development	Cloud migration
Contents of service	 Agile development of a cloud-native core system that can handle “Smart Use [1)] ” of the cloud	 Migrating on-premise [2)] core systems to the cloud (Lift) and evolving to cloud-native (Shift)
Value provided	**Shorten new system development time and continuously improve operational quality through smart use**	**Cloud-nativization of existing systems to achieve reductions of person-hours for maintenance and operation (smart use)**

For Smart Use, it's crucial to have "high-speed new system development and cloud migration with agile" and "automated monitoring and maintenance services." To achieve both end-to-end, the Company offers an infrastructure environment equivalent to the production environment and system monitoring services from the early stages of development and migration.

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Resale

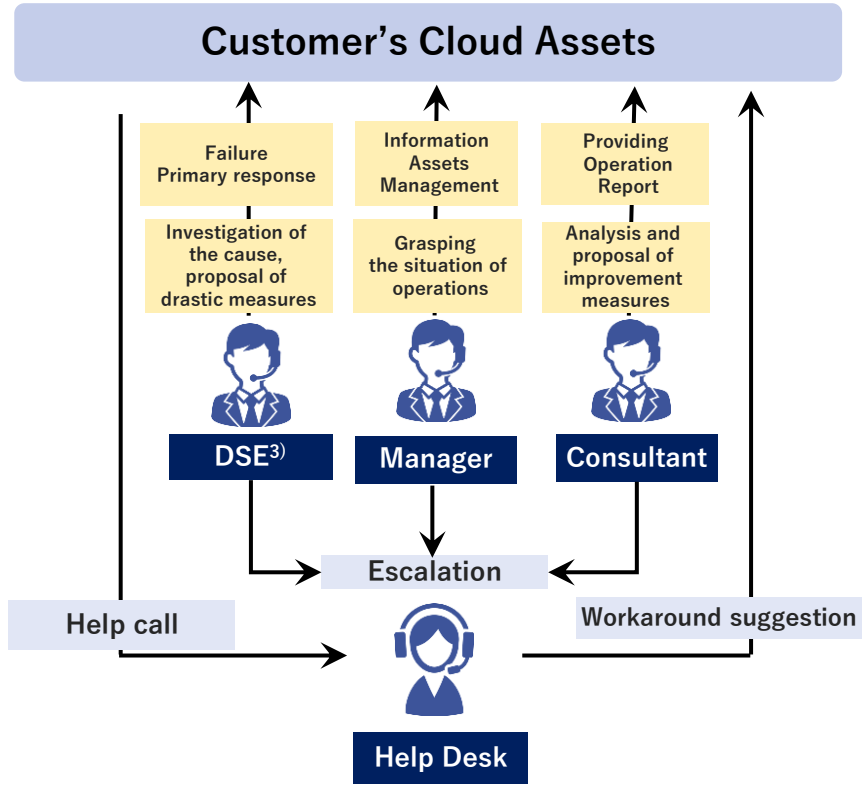
The Company sells public clouds like Microsoft Azure and software licenses including Microsoft 365 and Power Platform. Differentiates itself from competitors by offering value-added services such as Managed service and education services in addition to purchased licenses.

Products and services for sale		FIXER's unique value-added
Azure aws Public Cloud Cloud computing environment provided for general users and enterprises	×	Offering monitoring services, which are part of Managed service, at no cost Technical support for usage-related challenges that arise after purchasing a license
Microsoft 365 Cloud-based services that offer Office products like Word and Excel, as well as SharePoint, Teams, and security products.	×	Track record of introduction in government agencies and banks with stringent security requirements Winner of the Telework Promotion Award1 1) Remote work/paperless know-how
Microsoft Power Platform A cloud App development platform that can be used (no-code/low-code) 2) even by beginners	×	DX internalization education program Providing templates customized for specific industries and job functions

1. In 2019, the Company received the "Telework Promotion Award," which aims to promote the adoption of telework from the Japan Telework Association.
2. A method for developing applications without having to learn complex programming

Technical Support System

Help desk works with a team of experts to resolve issues



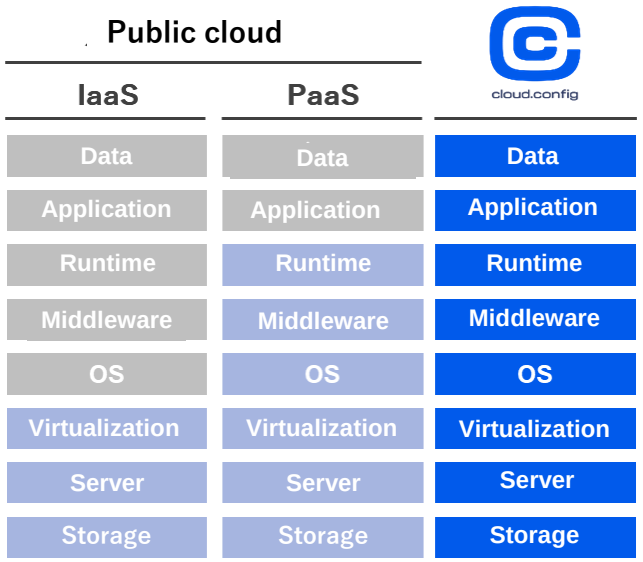
3. Dedicated Support Engineer

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Managed service

Offering end-to-end cloud maintenance and operations with a primary focus on 24-hours a day, 365 days a year surveillance
Balancing between reduction of person-hours and operational quality improvement through automation technology
Responding to enhancement development (modifications and additional development) tailored to meet customer needs

Monitoring and operations, including the application layer, which can not be achieved with public cloud alone



: Managed by public cloud providers
: Managed by enterprise users that utilize the cloud
: Managed by FIXER's Managed service

Together with 24 hours a day, 365 days a year surveillance Offering end-to-end cloud operation

Design[1] > Construction > Monitoring > Failure response > Technical support

cloud.config

FIXER's Managed service, cloud.config[1], has been certified by a third-party organization through an audit, conforming to the best practices of the Cloud Adoption Framework[2] for cloud adoption.

Design[1]	Construction	Monitoring	Failure response	Technical support
Infrastructure design following cloud design patterns Proposing the utilization of existing services, SaaS3), OSS4), etc.	Construction and configuration using automation technology (IaC[5])) Typical configurations are quickly established, and normality checks are completed	24 hours a day, 365 days a year surveillance for systems using a multi-cloud [6] When an error occurs, the severity of the error is automatically determined and notified.	Priority decisions based on impact and urgency As the primary response, focusing on isolating the causes of the failure	Assign engineers to assist with technical issues Providing the latest information on the constantly evolving cloud on a daily basis

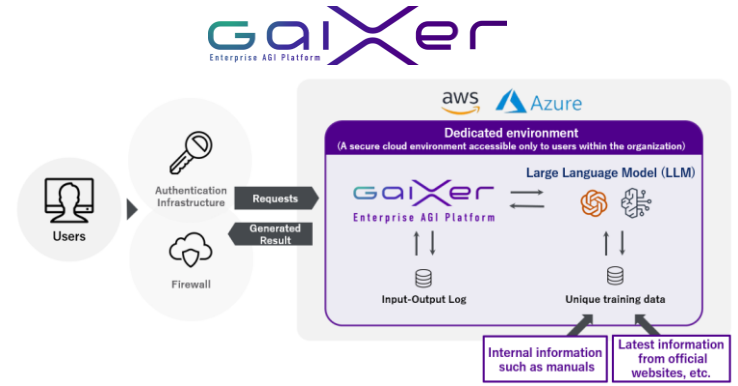
The Company's cloud maintenance and operational services; 2. A framework that demonstrates the impact of an organization's cloud adoption and supports the adoption; 3. Abbreviation for Software as a Service. A situation in which users use software running on the provider (server) side as a service via a network such as the Internet rather than installing the software on the user (client) side.; 4. Abbreviation for Open Source Software. A generic term for software whose source code can be used, examined, reused, modified, extended, and redistributed for any purpose by any user. 5. Best practices and know-how for design and codes that automate construction and configuration, etc. that the Company has accumulated through its development projects.; 6. The utilization of multiple cloud services concurrently, which, in this context, involves monitoring Azure from AWS, and vice versa

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SaaS

Providing high-value-added SaaS services by creating a platform for customers' highly-demand functions

Subscription



It runs within a secure network environment on Microsoft Azure, and learning and generation occur in a dedicated environment for your company called a "tenant," which considers the risk of information leakage.
In addition, it can be combined with various services on the cloud to enable multiple uses, such as for users, customer support, and improving organizational operations.

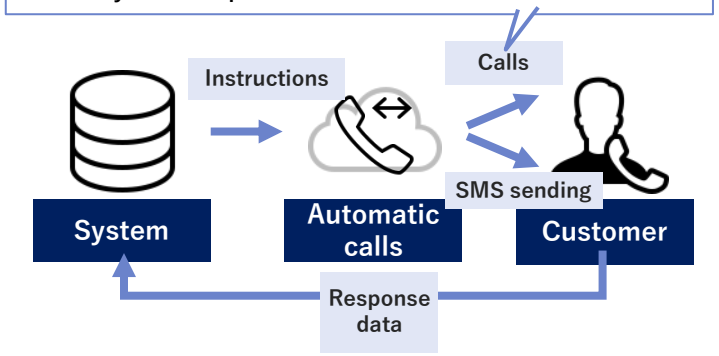
Usage-based billing

Automatic calls/SMS sending

The Company provides the functions to make calls and send SMS via IVR (Interactive Voice Response) established on the cloud.

(Automatic voice)
"This is the final reservation confirmation call. Mr./Ms. OO, you have a reservation for two people on September 1 at 7:00 PM. If this reservation is confirmed, please press "1."
If you wish to make changes, please press "2."

If you have questions about the operation, press "9," and we will connect you to an operator."

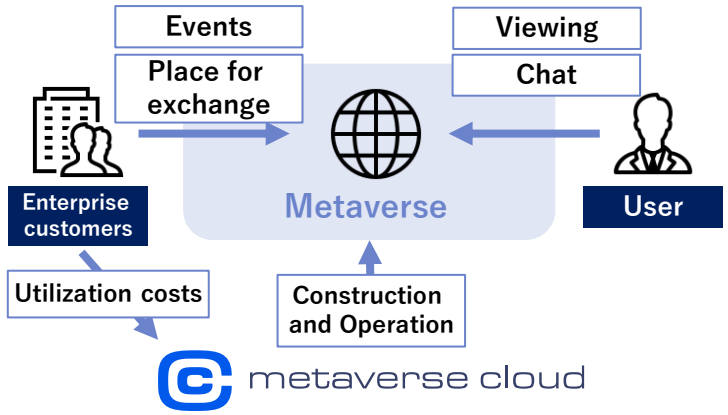


- Securing quotas of call and messaging capacity of external services/carriers based on historical usage records.

Usage-based billing

Metaverse

Providing metaverse spaces and functions as a service



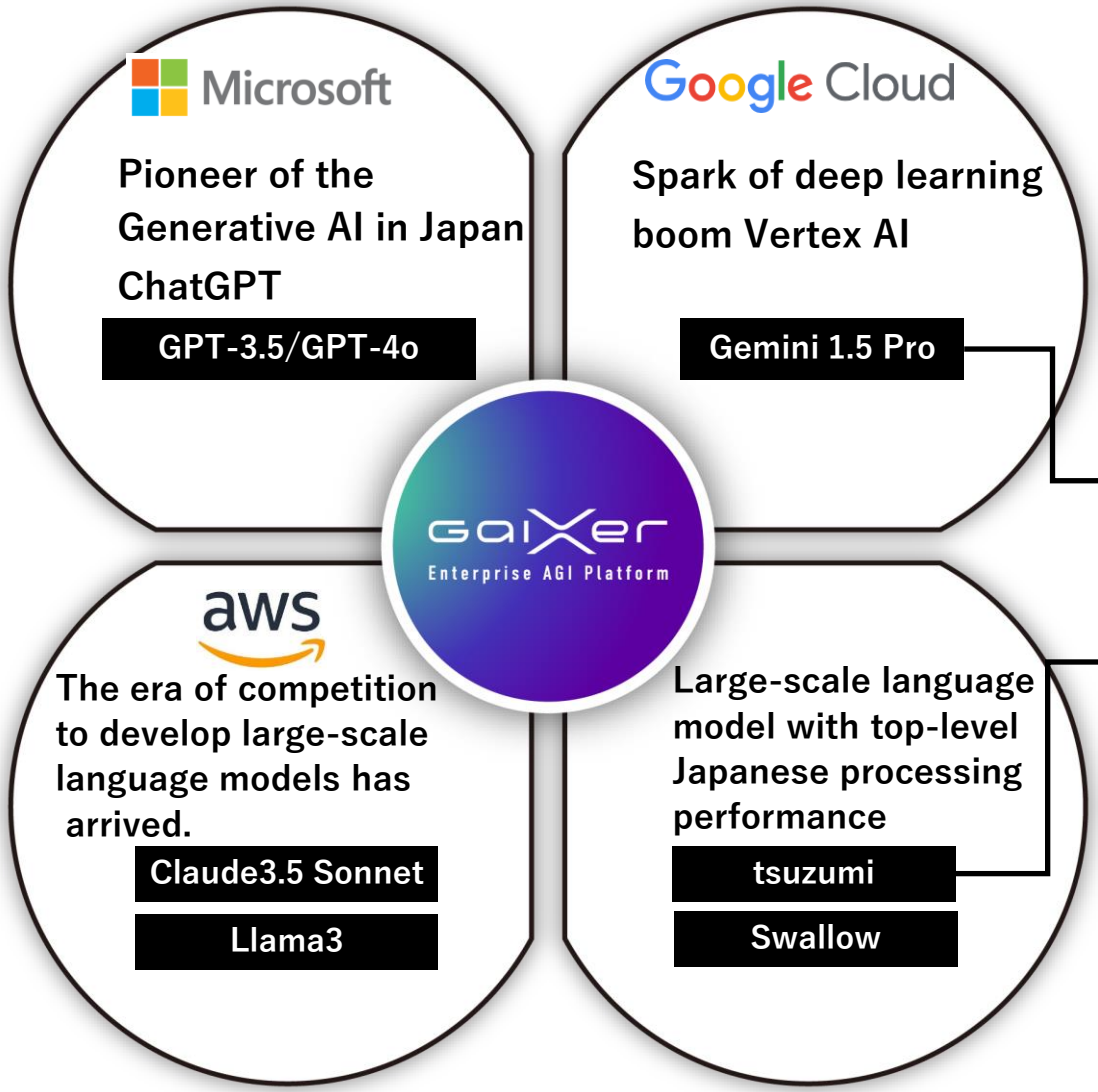
Features of the Company's services

Cloud-Native	Ensuring availability and stability in response to increased number of visitors and access concentration
Browser -Based	There is no installation obstacles, even when users utilize enterprise PCs. It can widely respond to various browsing environments.
Self-Service	The host's control panel allows for access control and content replacement.

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GAIXER's features

FIXER the Cloud native Company



GAIXER Enterprise AGI Platform **is sequentially mounted with additional LLMs optimized for business operations.**

Getting the best of both worlds from multiple LLMs is possible

The huge context frame of 1 million token allows for the input and output of very long sentences, etc. Using Google's existing technology, multimodal (images, videos, audio) responses are possible.

LLM was developed based on NTT's long-standing research results in natural language processing technology, and is characterized by its high Japanese natural language processing capability and low power consumption.

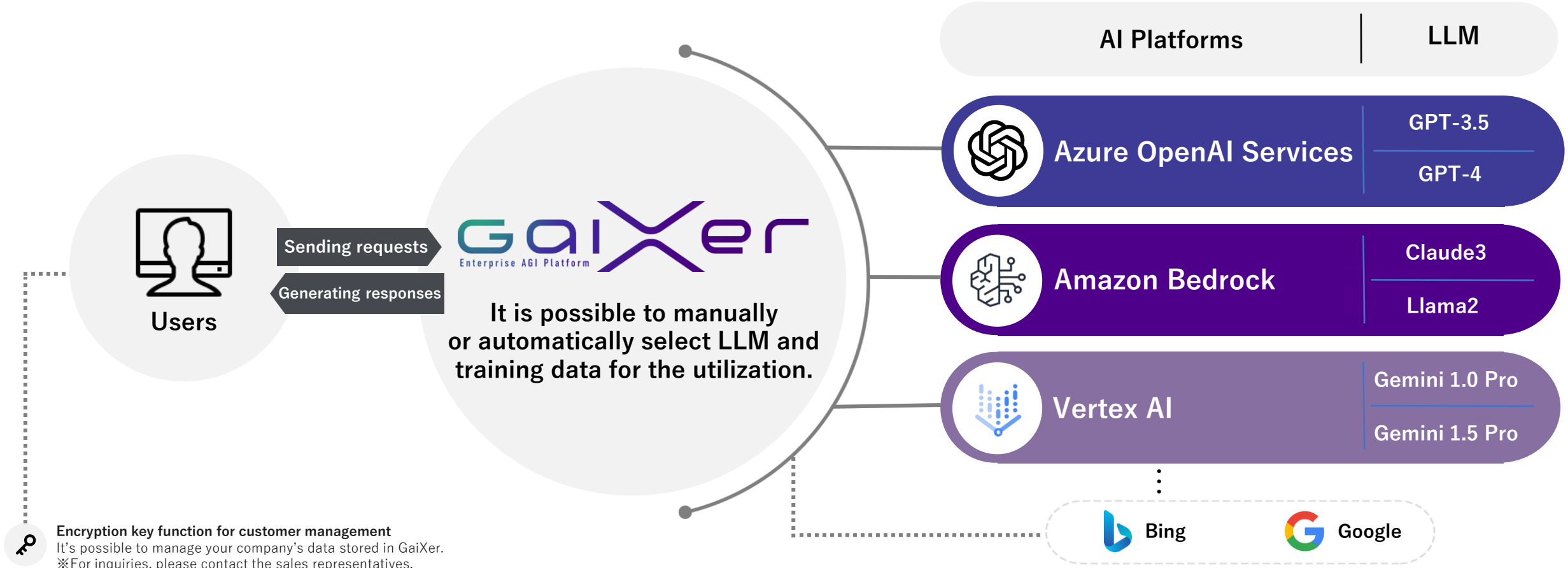
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Realizing high availability and generation quality in a multi-cloud environment

FIXER
the Cloud native Company

Preventing vendor lock-in and enabling provision across three platforms: Azure, AWS and Vertex AI



Encryption key function for customer management
It's possible to manage your company's data stored in GaiXer.
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Standard prompt categories

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the Cloud native Company

Providing over 100 built-in prompts as standard
Supporting custom category creation and offering standard prompt assistance

- Email composition assistance
- Information analysis
- Communication support
- Data extraction
- Idea generation Consulting
- Survey analysis
- Writing
- Administrative affairs
- Engineering・IT
- Proofreading
- Meeting summary
- Retail/Distribution
- Explanation・Summary
- Information retrieval(Web)
- Medical administration

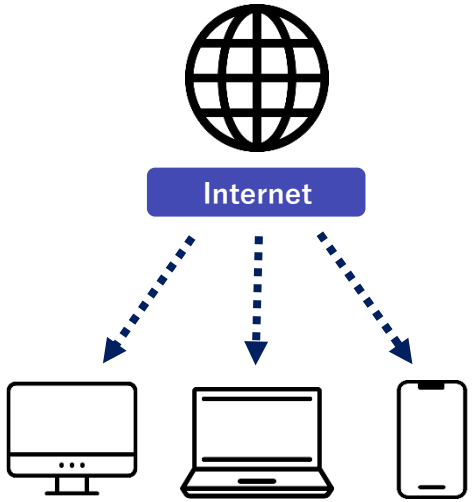
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Feature to improve generation quality

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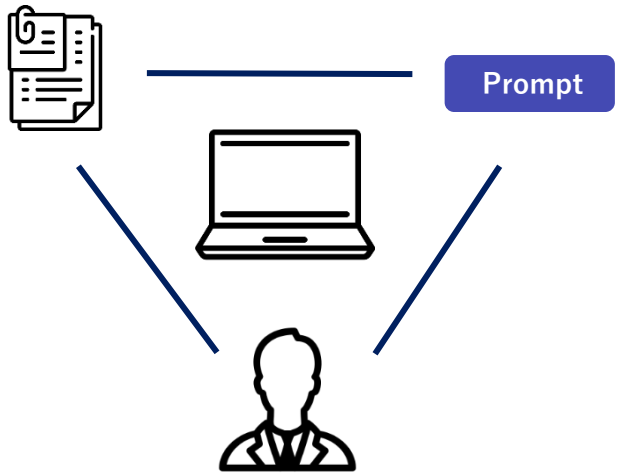
RAG
(Search engine integration feature)

If the LLM is unable to generate a response on its own, it will automatically connect with search engines like Google or Bing to generate a response based on the latest information



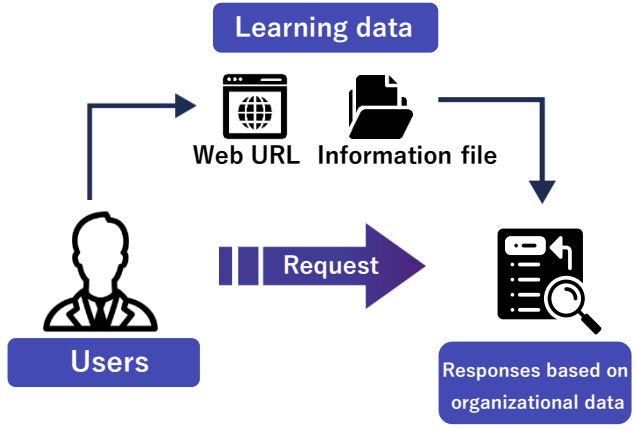
Prompt template
Creation and sharing feature

Prompt templates are available to perform various business tasks, and customers can create and share their unique templates.



Data learning feature

Additional learning of websites, manuals, FAQs, etc., is available. Text, xls, ppt, PDF, and other file formats are supported.

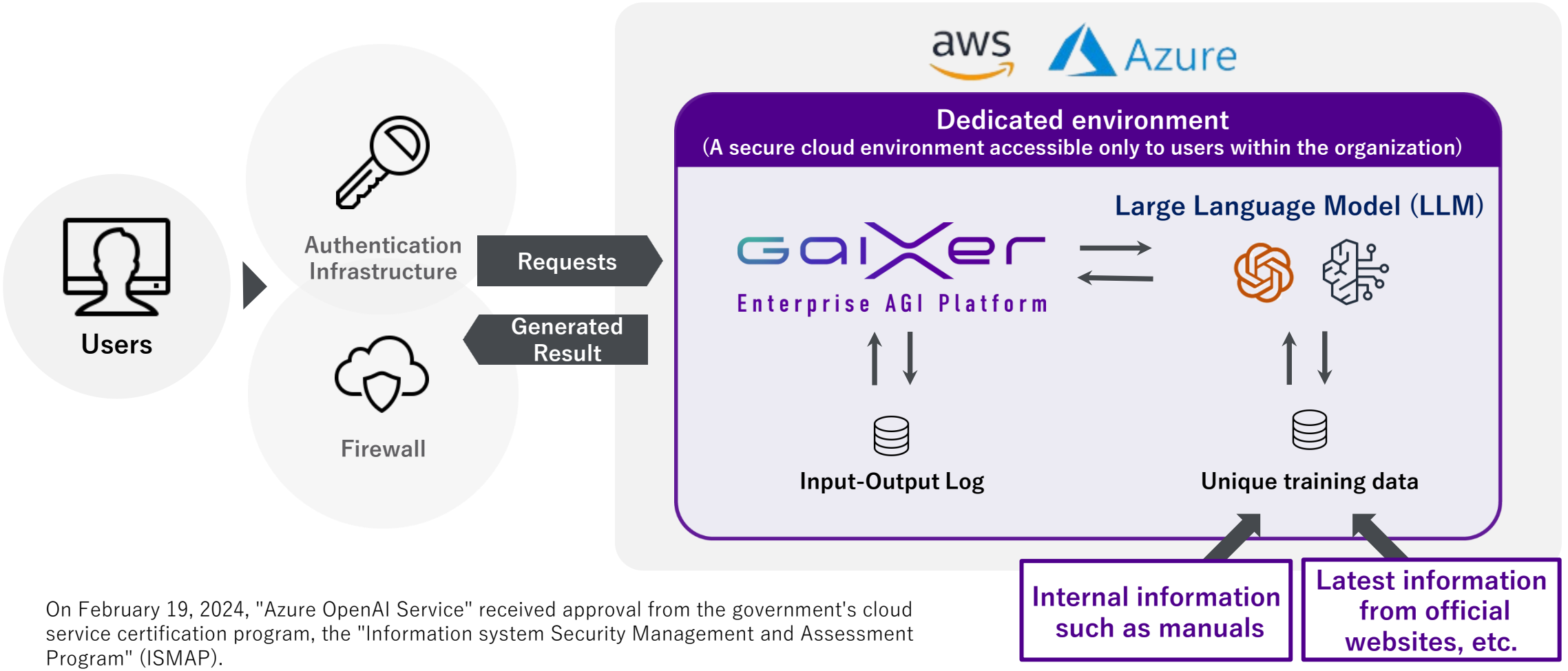


- Note: RAG = Retrieval-Augmented Generation: Searching external knowledge bases and generating answers with a large-scale language model (LLM) based on the latest accurate information.

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Providing in a dedicated environment

All resources of GaiXer are provided in a dedicated environment in the cloud, ensuring a high level of security.



On February 19, 2024, "Azure OpenAI Service" received approval from the government's cloud service certification program, the "Information system Security Management and Assessment Program" (ISMAP).
※GaiXer is also in the process of applying for ISMAP certification.

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