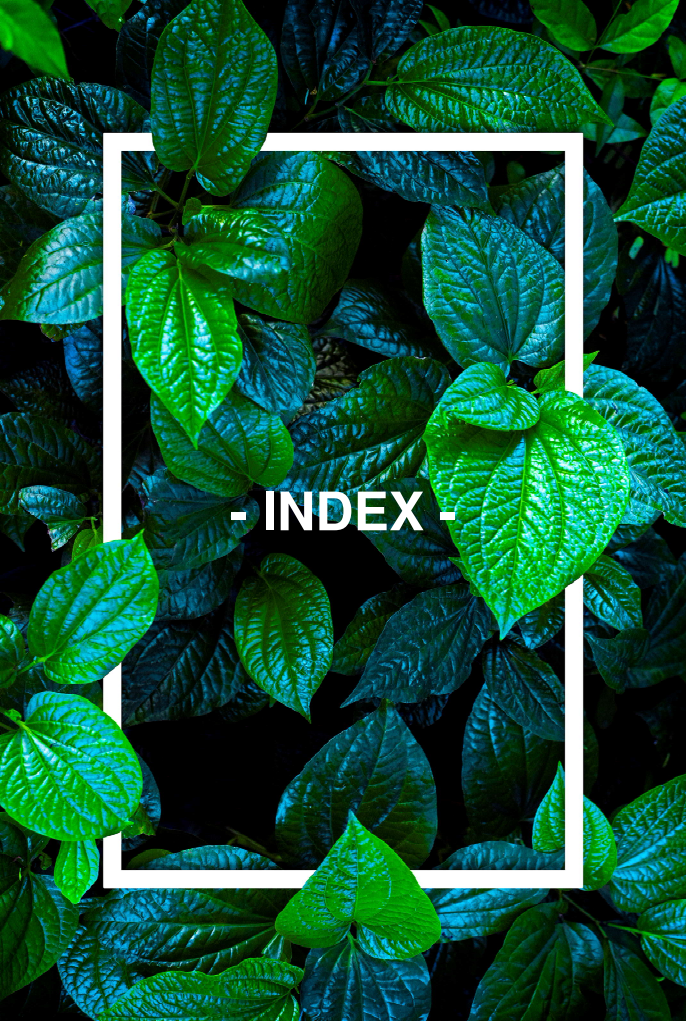


Q2 FY2024 Financial Results

8/2024

LTS, Inc.

(TSE Prime Market　Securities code 6560)



1. **Business Overview**
2. H1 FY2024 Financial Results
3. H1 FY2024 Initiatives
4. Outlook for H2 FY2024
5. Capital Policy
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What Is LTS?

LTS

Install AGILITY in your Business

Best Partner for the Digital Era

Supporting management, business, and organizational operations of the digital era rather than digitalization

(Find a partner to solve social issues)	×	(Growing pains occurring in each stage)	×	(In process of providing solutions)	=	(Realizing purpose)
Support for every stage from founding to maturity		**Solving various issues from strategy to implementation**		**Strengthening client's own adaptability to change**		**Commitment to client's growth and evolution**

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Business Structure

- Supporting clients in acquiring and enhancing business agility through our professional services business and platform business to increase the digital competitiveness of Japanese companies

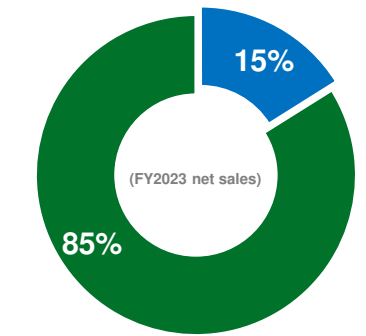
LTS Group

Acquire and enhance business agility

Professional services business

Support reform and DX at each company

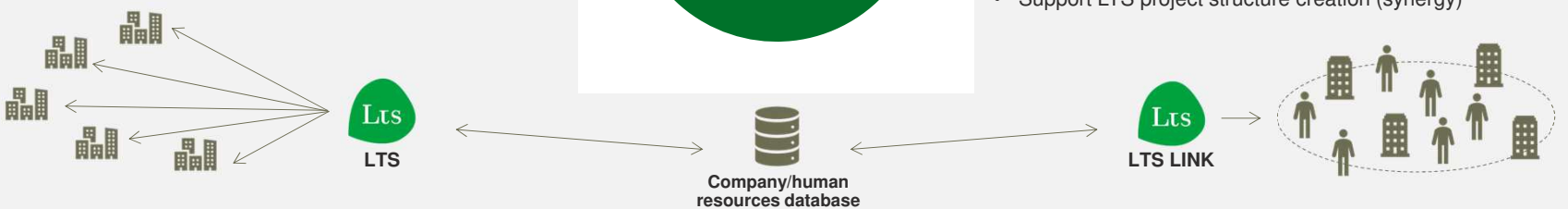
- Centered on services for large companies
- Promote co-creation with clients
- Utilize LINK as external resource database (synergy)



Platform business

Provide platform promoting collaboration across IT industry

- Services for small and medium-sized venture companies, IT companies, and freelancers
- Promote collaboration and co-creation among members within the platform
- Support LTS project structure creation (synergy)



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Services Offered by LTS

As a partner in collaborative innovation, we support clients in acquiring and enhancing business agility throughout the lifetime (all corporate stages and all growth phases) in a total (end to end and crossover) manner.

We aim to go beyond being just a partner in corporate change to provide consulting services that serve as a foundation for social change.



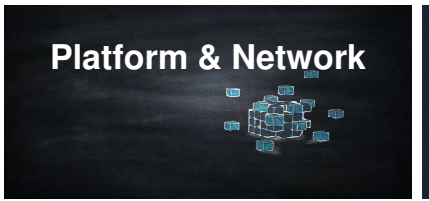
Discontinuous growth design

- Research/M&A support
- Strategy establishment
- Business creation/business revitalization
- Data analytics



Digital business establishment

- Architecture design
- Business consulting
- Human capital consulting
- IT consulting



Collaborative community operations

- Professional staffing
- Matching platform
- SaaS platform
- Management community



Creation of foundation for affluent society

- CSR/SDGs promotion
- Public-private partnerships/regional development
- Administrative management
- Social entrepreneur development

Evolution into change creating organization

Enhancement of adaptability to change

Development and production of human resources for change

Enhancement of business agility

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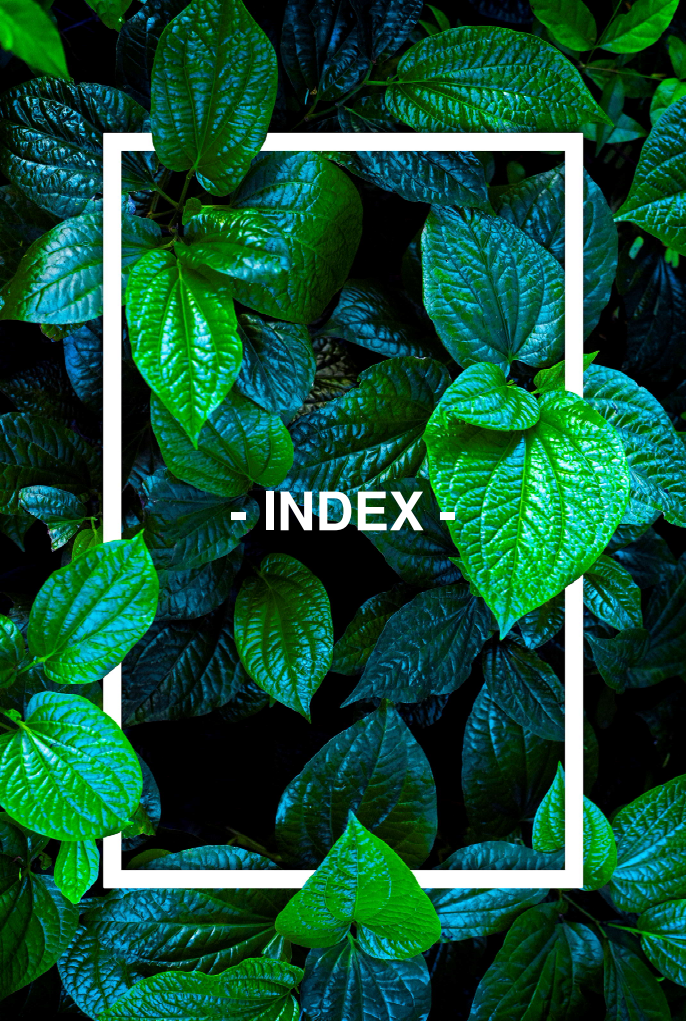

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H1 FY2024 Summary

FY2024 Management Policy

- Net sales of ¥16,500 million and operating profit of ¥1,250 million
- Strengthening of system for integrated service provision by consultants and engineers

H1 FY2024 Consolidated Financial Results

(Millions of yen)

Net sales	Gross profit	Operating profit	Ordinary profit
8,020	2,814	414	433
(YoY +45.6%)	(YoY +45.2%)	(YoY +4.7%)	(YoY -6.3%)

- Q2: Operating profit significantly impacted by off-season and new graduate hiring period, but ¥56 million secured
- H1: Results slightly exceeded initial expectations (net sales and operating profit reached record highs for the half)
- H2: Maintaining initial forecast despite ongoing challenges with new graduate utilization rate.

Human Resources

Shifted emphasis to training and retention while continuing with active hiring

- 45% of mid-career hires were manager class throughout H1
- Promoted professional certifications in areas of project management and business analysis with total of 46 employees obtaining new certifications

Customers

Developed sales promotion system centered on account sales

- Strengthening account sales targeting 30 key clients, accelerating receipt of new orders and unit price revisions
- Saw increase in new customers, such as Digital Garage, Inc., as result of marketing activities and sales efforts by top management

Services

Strengthened and promoted trendy services such as generative AI and GX

- Launched initiative called “supporting change through Copilot for Microsoft 365” to make the most of generative AI
- Participated Generative AI Accelerator Challenge (GENIAC) by NEDO as member of development team at University of Tokyo Matsuo Lab

Group Management

After previous merger, changed governance structure of HCS in FY2023

- HCS began contributing profits exceeding amortization of goodwill
- Transferred HCS real estate management business and began selling off some real estate holdings
- Expanded 15th floor of Akasaka Office as Group collaboration space

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H1 FY2024 Consolidated Profit and Loss Statement

- Seasonal factors (off-season, influx of new graduates) led to Q2 results being lower than Q1 across all major indicators
- H1 results set record highs in both net sales and operating income, slightly exceeding initial plan

(Millions of yen)	FY2024 full year plan	Progress vs initial plan	H1 FY2024 results	H1 FY2023 (YoY)		Q2 FY2024 results	Q1 FY2024 (QoQ)	
				results	Pct change		results	Pct change
Net sales	16,500	48.6%	8,020	5,506	↑ 45.6%	3,954	4,066	↓ -2.8%
Gross profit	6,400	44.0%	2,814	1,938	↑ 45.2%	1,369	1,444	↓ -5.2%
Gross profit margin	38.8%	-	35.1%	35.2%	↓ -0.1pt	34.6%	35.5%	↓ -0.9pt
SG&A	5,150	46.6%	2,399	1,542	↑ 55.6%	1,313	1,086	↑ 20.8%
EBITDA*	1,493	36.2%	539	444	↑ 21.5%	123	415	↓ -70.2%
EBITDA margin	9.0%	-	6.7%	8.1%	↓ -1.3pt	3.1%	10.2%	↓ -7.1pt
Operating profit	1,250	33.1%	414	395	↑ 4.7%	56	358	↓ -84.3%
Operating margin	7.6%	-	5.2%	7.2%	↓ -2.0pt	1.4%	8.8%	↓ -7.4pt
Ordinary profit	1,150	37.7%	433	462	↓ -6.3%	56	377	↓ -85.1%
Profit before income taxes	1,150	37.7%	433	462	↓ -6.3%	56	377	↓ -85.1%
Profit attributable to owners of parent	690	52.0%	358	316	↑ 13.1%	47	311	↓ -84.9%

* EBITDA = Operating profit +depreciation +amortization of goodwill

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H1 FY2024 Consolidated Balance Sheet

- Long-term borrowing of ¥4.6 billion in H2 FY2023 for HCS M&A-related expenses and working capital
- Policy is to repay debt while securing operating CF and disposing of assets (no plans to raise capital)

(Millions of yen)	H1 FY2024 results	H1 FY2023 (YoY)		Q1 FY2024 (QoQ)	
		results	Change	results	Change
Current assets	6,563	4,865	+1,698	6,172	+391
Cash and deposits, etc.	4,010	1,853	+2,156	3,514	+496
Non-current assets	5,363	969	+4,394	5,292	+71
Total assets	11,927	5,834	+6,092	11,464	+462
Current liabilities	3,483	1,847	+1,635	3,327	+156
Income taxes payable	76	153	-77	128	-52
Non-current liabilities	4,559	392	+4,167	4,315	+243
Shareholders' equity	3,778	3,539	+239	3,729	+48
Net assets	3,885	3,594	+290	3,822	+62
Equity ratio	31.8%	60.7%	-28.9pt	32.6%	-0.8pt

Reference indicators

Liquidity ratio	188.4%
Fixed assets ratio	141.6%
Interest-bearing liabilities ratio	139.6%

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Quarterly Trend in Consolidated Net Sales (Q2)

- Results exceeded initial forecast despite challenges in maintaining balance between employee utilization rates and partner company usage
- Seasonal factors (off-season, influx of new graduates) led to Q2 results being slightly lower than Q1



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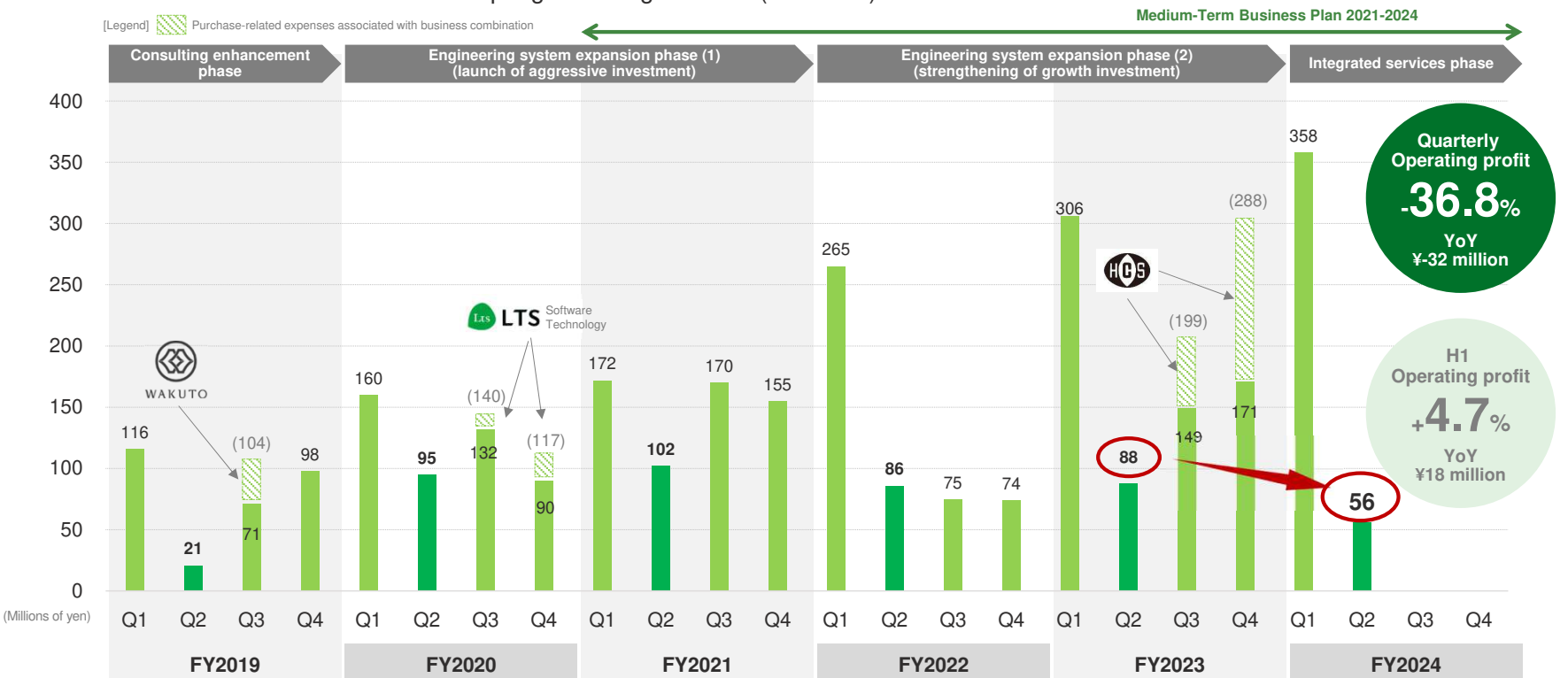
Quarterly Trend in Consolidated Operating Profit (Q2)

- Lower-than-expected results due to decreased utilization rates in some divisions and subsidiaries (utilization rates recovered in June)
- Unable to absorb costs from accepting 93 new graduates (FY23: 81)



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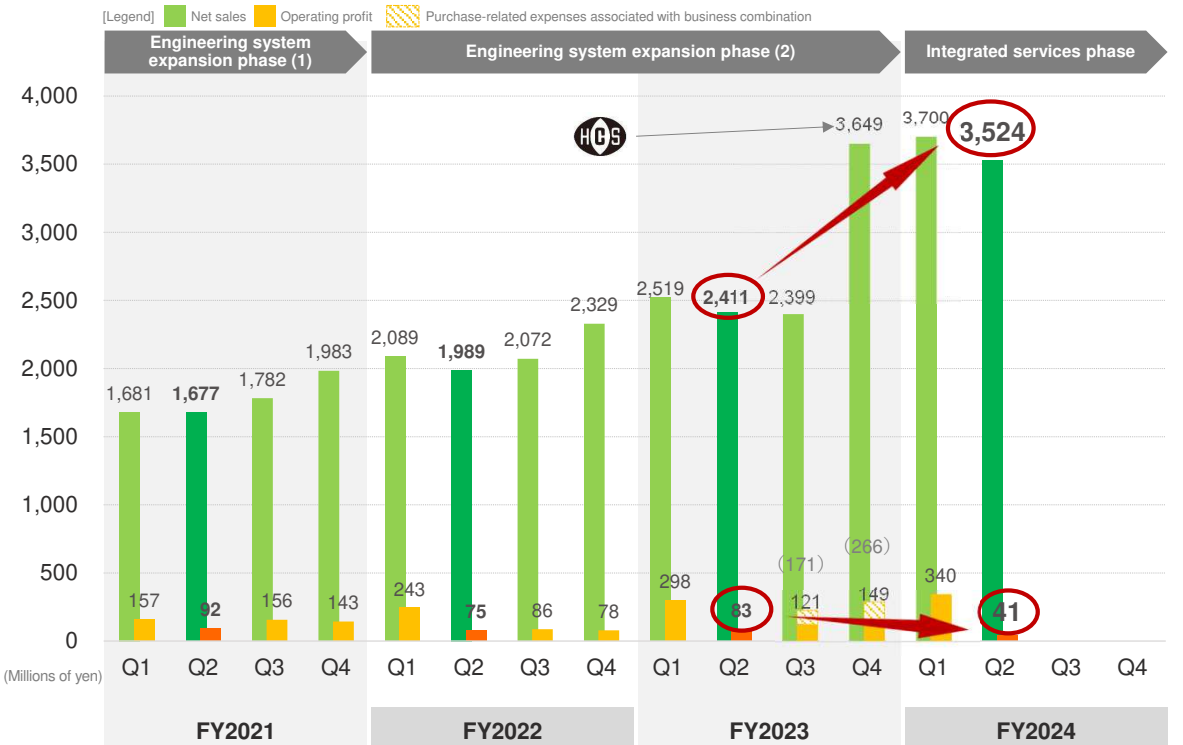
Quarterly Trend in Professional Services Business Results

- Mainstay DX consulting (medium unit price range x medium to long term) performing well in both unit price and utilization rate
- Issues for stabilizing engineer utilization rate in subsequent phases include securing large project orders and recruiting PM human resources



Net sales
+46.1%
YoY
¥1,112 million

Operating profit
-50.3%
YoY
¥-41 million

Highlights

● Market trends
- Demand for operational reform promotion projects remained strong
- Many inquiries received particularly for generative AI, Climate Tech, and GX
- Increasing number of DX effectiveness verifications and inspections

● Profit situation (unit prices)
- Unit prices continue to rise for both one-off and recurring projects

● Profit situation (utilization rates)
- DX consulting utilization rates recovered
- Some divisions and subsidiaries had more available employees in April and May than expected, leading to lower utilization rate

* Net sales includes internal sales

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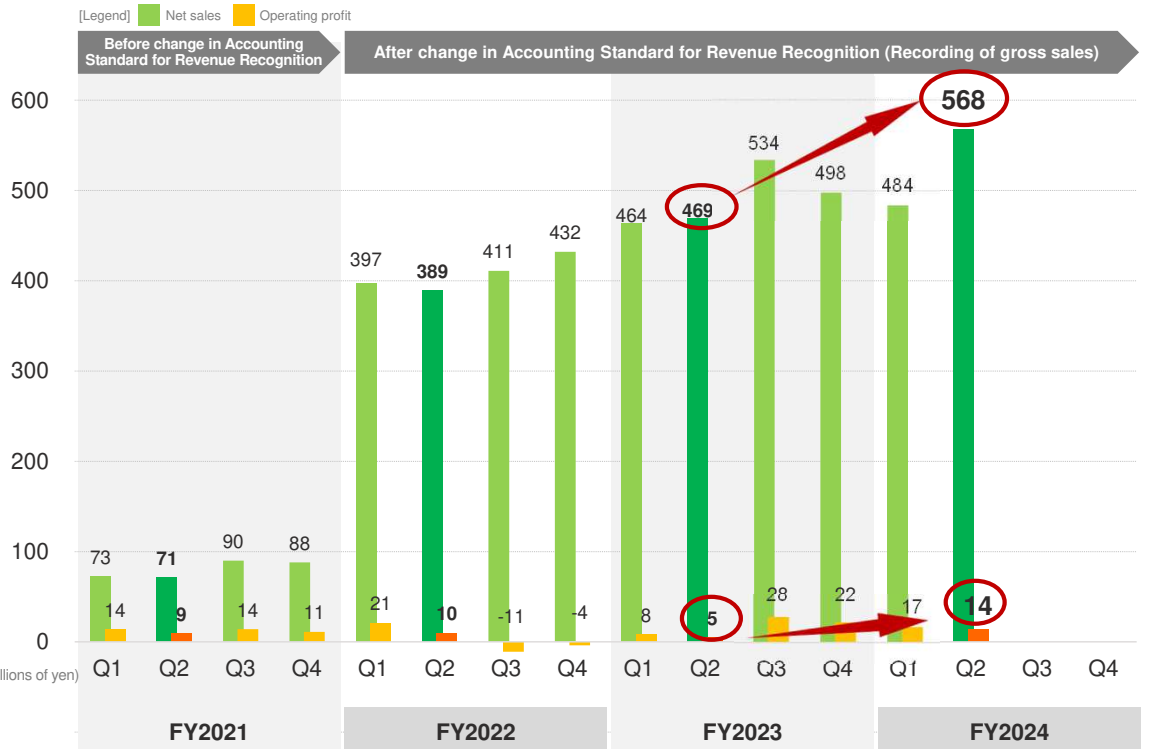
Quarterly Trend in Platform Business Results

- Mainstay Professional Hub expanding in business scale
- Challenge is enhancing sales productivity (advisory quality) to stabilize earnings by improving matching accuracy



Net sales +21.0% YoY ¥98 million

Operating profit +157.9% YoY ¥9 million

Highlights

Market trends
- IT-related business operators actively engaged in sales activities

Community assets
- The number of Assign Navi members continues to increase.
  - Companies: Cumulative total: 5,233 companies (+140 QoQ)
  - Individuals: Cumulative total: 8,619 people (+154 QoQ)

Profit situation (operational scale)
- Professional Hub work force growing slightly
  - Number of active employees: 360 (+46 QoQ)
  - Agent fee: Basically fixed

Profit situation (Other)
- New SaaS business (AXLGEAR implementation consulting, environment building, subscriptions) expected to contribute to revenue in H2
- Certain amount of internal transactions contributed to establishment of LTS and professional services business structure

* Net sales includes internal sales

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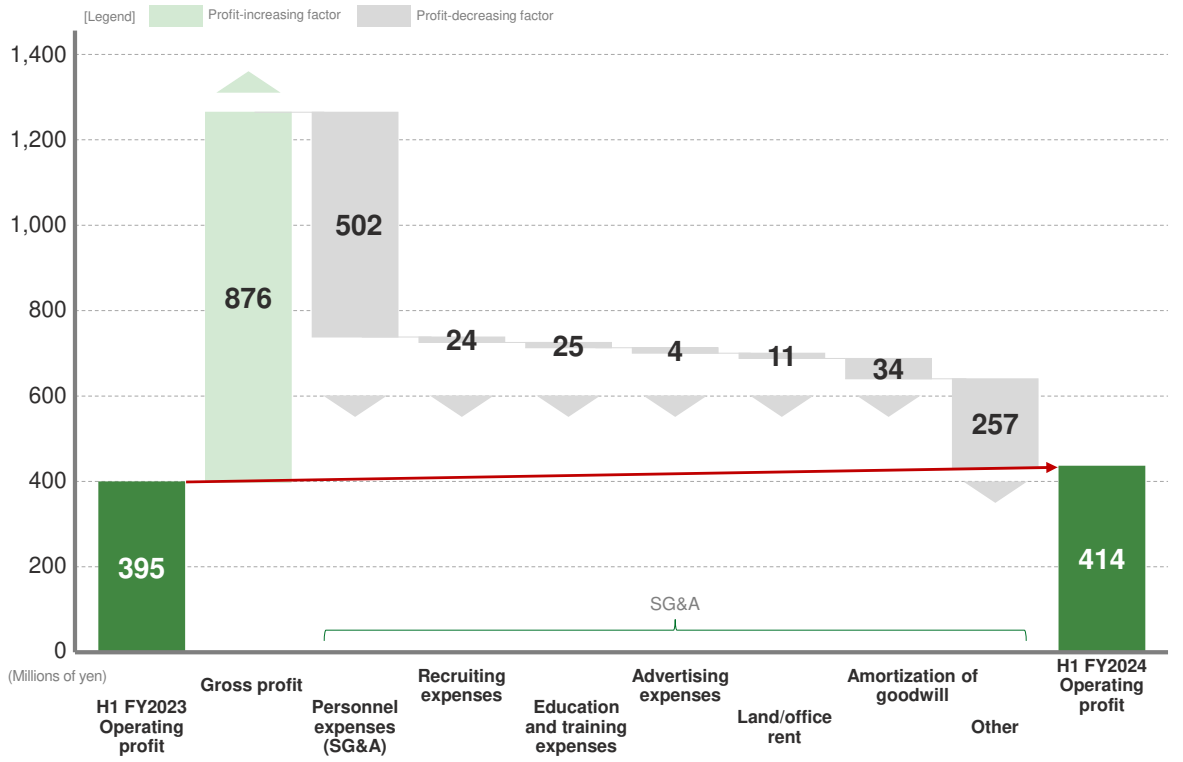
Factors Behind Change in Consolidated Operating Profit



Gross profit
+45.2%
YoY
¥876 million

Operating profit
+4.7%
YoY
¥18 million

Highlights

- **Gross profit**
  - Expanding the engineering domain, a relatively low-profit model compared to consulting services, while maintaining a gross profit margin over 35%
  - Challenge for H2 and beyond is improving profitability
- **Personnel expenses (SG&A)**
  - HCS personnel expenses increased due to M&A (332 million yen)
  - Cost of hiring has increased compared to last year due to hiring 12 more new graduates
  - Utilization rates declined due to mismatches between human resources and projects
- **Investment-related SG&A (hiring, education and training, advertising, land/office rent)**
  - Strategic investments up slightly
  - Land/office rent increased due to expansion of 15th floor of Akasaka Office
- **Operational SG&A (goodwill and other)**
  - Goodwill amortization increased due to HCS M&A, along with higher audit fees from the expanded scope of consolidation
  - Service usage fees and depreciation and amortization also increased

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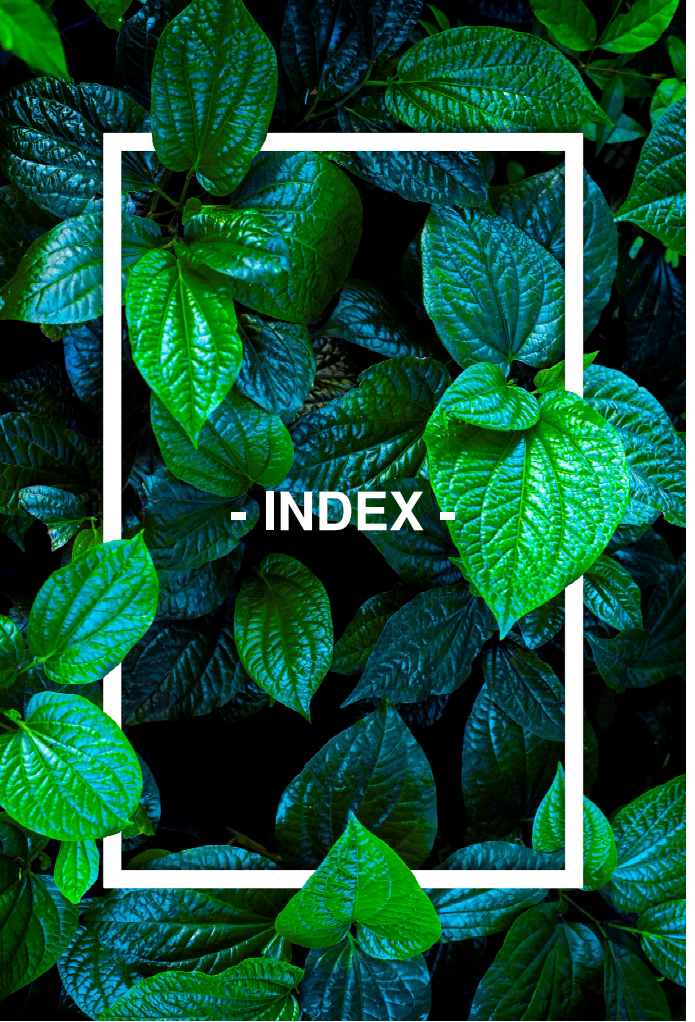

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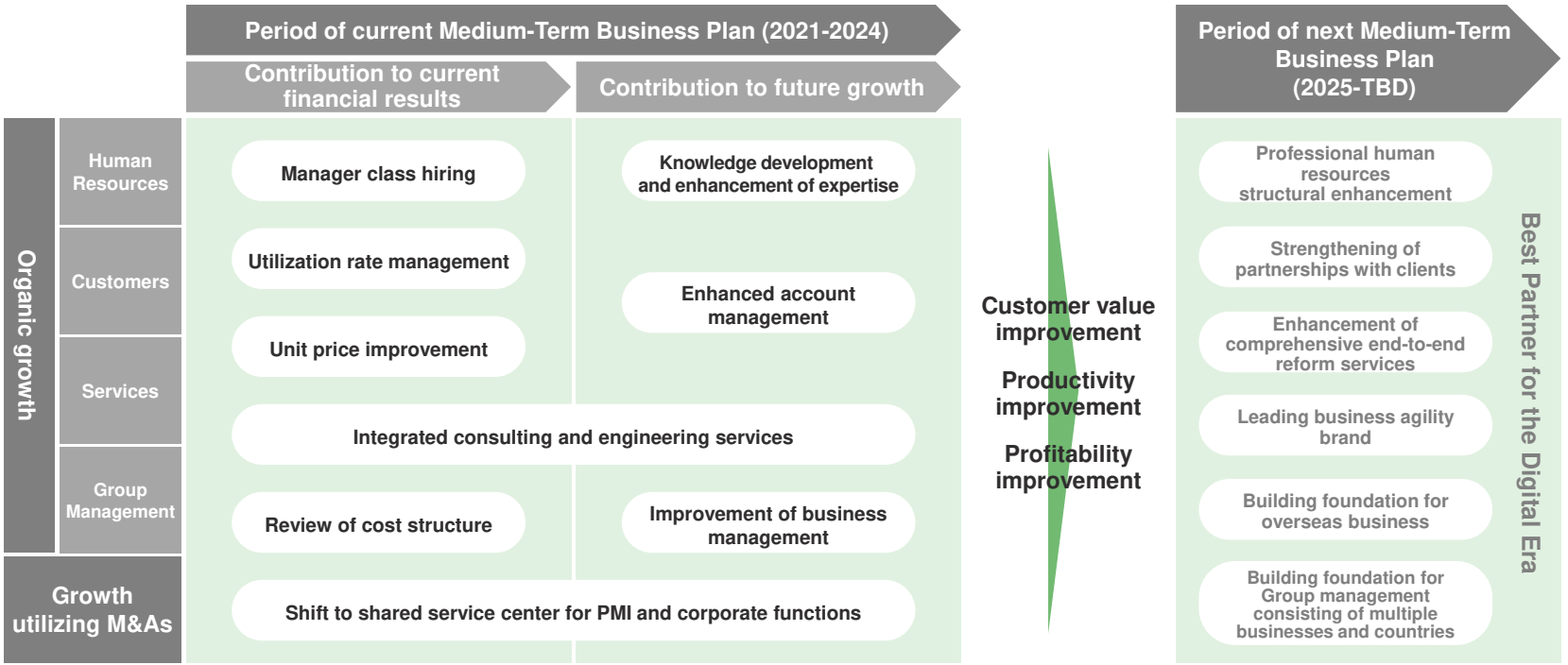
H1 FY2024 Initiatives

- Maintain steady organic growth while simultaneously improving current financial results and preparing for future growth
- Accelerate Group growth while working on PMI for previous M&As and preparing for future M&As



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Results of Initiatives and Future Direction

- In H1, unit price improved according to plan, but utilization rate fell below initial expectations
- Progress in hiring managers has strengthened the system for receiving integrated consulting and engineering projects

	Key points	H1 results	Work in process	Future direction

Human Resources	Manager class hiring
	Knowledge development and enhancement of expertise
		• Within consultant and engineer hiring, **PM hires increased to 45%**
		• Promoted **certification in specialized areas (PM and BA)**, which is central to career development, and 46 employees acquired new certifications
		• Accepted largest number of new graduates to date → **Challenges include maintaining utilization rates and ensuring profitability**
		• Launched **project to reform personnel system**
			+ Engineer career development	• Direction of personnel system reform
				  • Accelerate manager hiring (PMs/general managers) and revise compensation system to prevent employee turnover
				  • Revise evaluation system to expand the number of people responsible for business performance and strengthen the focus on achieving results
				  • Grading system that balances career development with placing the right person in the right role

Customers	Enhanced account management	• Established Marketing & Sales Department and launched **account management** for key clients **and corporate sales for CxOs** • Started **doing business with 24 new companies** (non-consolidated) • **Steady increase in unit prices** for consultants and engineers • **Assignment management** of members on short-term projects **remains ongoing challenge**	+ Assignment measures for off-season projects	• **Account manager training** (strengthening relationships with key clients) • **Resumption of partner sales** (strengthening relationships with general firms handling large projects and major SIers)
Services	Utilization rate management Unit price improvement Review of cost structure Integrated consulting and engineering services	• Established Digital Business Headquarters integrating IT consultants and engineers • Launched group-wide sales and delivery system → **Increased orders for E2E projects and project scale remain a challenge** • Orders related to trendy themes such as **generative AI, GX, and Agile development** increased • Ongoing disciplined investment in regional revitalization projects	+ Establishment of medium-term business strategy	• **Improvement of assignment efficiency** through enhanced forecast management • **Organization of E2E projects** by consultant teams **and assignment of engineer teams** • **Receiving orders for large-scale projects** as environments for early monetization and training of junior employees
Group Management	Shift to shared service center for PMI and corporate functions	• **Group structure and management system changed** centering on HCS to accelerate decision making • **Expanded** 15th floor of Akasaka Head Office to provide place for cross-company and cross-departmental collaboration (effort to encourage return to office) • **Challenge is to improve business productivity** by reorganizing processes and infrastructure amid increasingly complex **corporate operations** (M&A, organizational changes, service diversification)	+ Integration of corporate operations	• **Streamlining and reducing SG&A** • Establishment of results management system • Sharing of non-financial information across the Group • Integration of Group corporate operations

Improvement of business management

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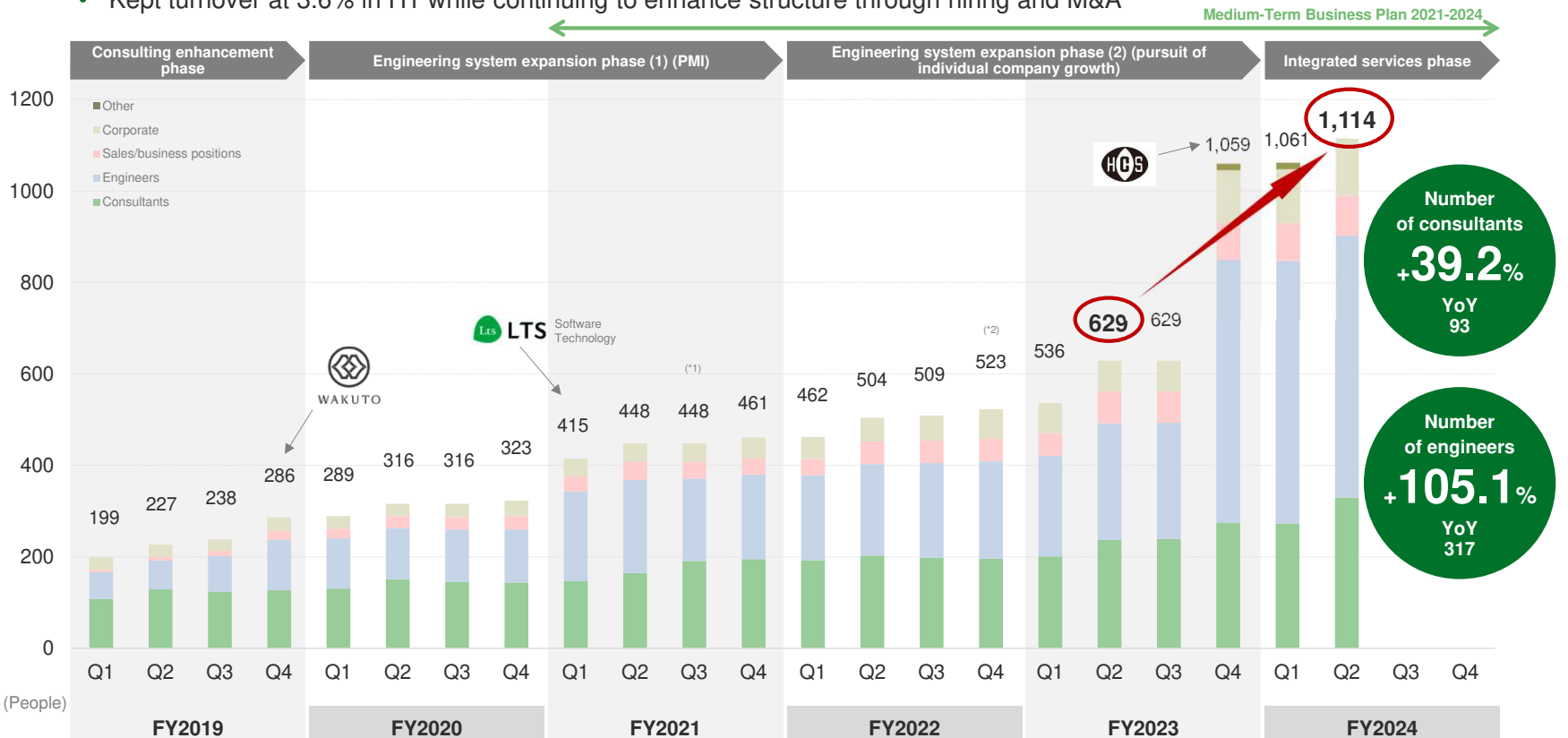
[Human Resources] Quarterly Trend in Number of Employees (Consolidated)

- Kept turnover at 3.6% in H1 while continuing to enhance structure through hiring and M&A



*1. Changes were made to the tabulation method for employee numbers by job type from Q3 2021. *2. Including Yotsuba Saien contract employees (employment for people with disabilities)

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[Human Resources] Progress on Hiring Consultants / Engineers

- 62 consultants and 48 engineers joined the Company in H1 (61% progress)
- Transition to hiring only senior employees while continuing aggressive hiring

Consultants / engineers
Plan for number at year-end (consolidated)

	2020	2021	2022	2023	2024	
	Results	Results	Results	Results	Plan	**Results (Q2)**
Number of consultants	168	195	196	275 (including 37 at HCS)	330	**330**
Number of engineers	93	185	213	575 (including 319 at HCS)	610	**572**
Total	261	380	409	850 (including 356 at HCS)	940	**902**
Vs. previous year	-	+17.6%*1	+7.6%	+20.8%*2	+10.6%	**N/A**

Consultants / engineers
Hiring plan (consolidated)

	2021	2022	2023	2024	
	Results	Results	Results	Plan	**Results (Q2)**
Number of consultants	39	30	68 (+37 at HCS)	85	**62**
Number of engineers	26	44	62 (+319 at HCS)	95	**48**
Total	65	74	130 (+HCS 356名)	180	**110**
Vs. previous year	-	+13.8%	+75.7%	+38.5%	**N/A**

*1. Comparison is based on number (307 in 2021) prior to SOFTEC (73 engineers) joining the Group in 2021
*2. Comparison is based on number (494 in 2023) prior to HCS (37 consultants・356 engineers) joining the Group in 2023

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[Services] Examples of Other Generative AI Projects

- Various initiatives underway as many companies explore possibility of applying generative AI to business operations

Objective	Client	Description of support
Improve operational efficiency	Temporary staffing company	LLM*1 utilization for structuring work history data for temporary workers
Manage knowledge	Bank	LLM utilization for converting paper-based documents to digital knowledge
Improve operational efficiency	Finance company	Data preparation and PoC*3 design for LLM utilization of CRM*2 voice data
Improve operational efficiency	Communications company	Operational analysis and demonstration experiment for application of LLM to help desk operations
Improve operational efficiency	Major temporary staffing company	Operational analysis and demonstration experiment for application of LLM to security operations
Strengthen organization	Manufacturer	AI-CoE*4 launch support
Research technology	Manufacturer	Ideation (idea generation) of themes for LLM utilization

Many others

*1: LLM (Large Language Models) - Language models built using large amounts of data and deep learning technology
*2: CRM (Customer Relationship Management) - Concept of managing customer information, action history, and customer relationships to build positive relationships with customers
*3: PoC (Proof of Concept) - Verifying feasibility of new ideas and concepts and the potential effects
*4: CoE (Center of Excellence) - Department or research facility that consolidates excellent human resources, equipment, and know-how scattered throughout organization

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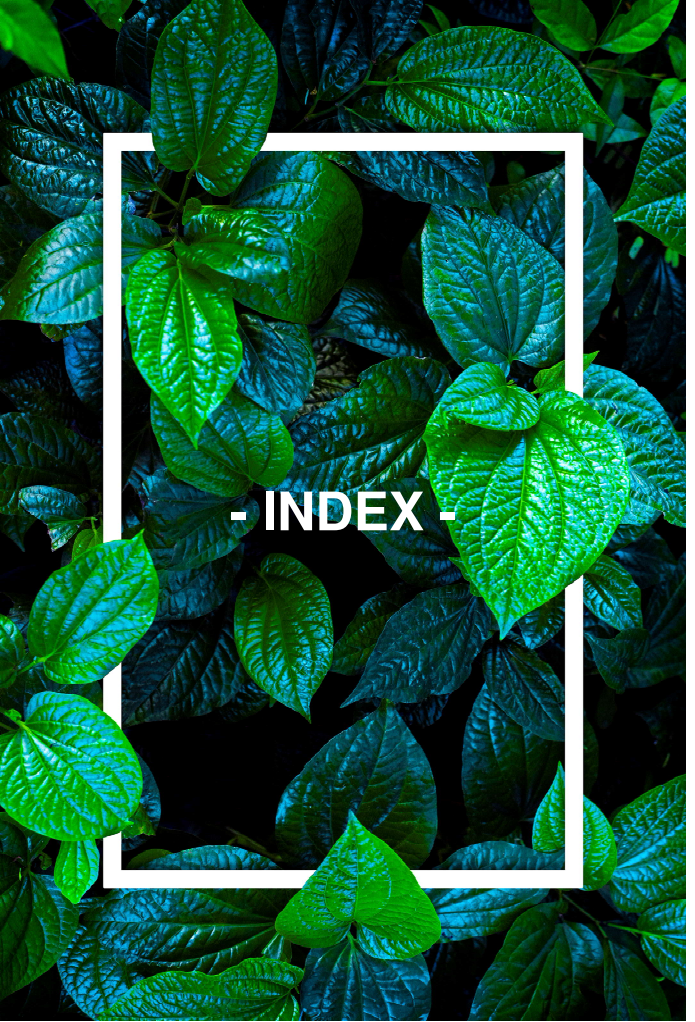

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FY2024 Consolidated and Segment Forecasts

Full-year forecasts below based on business progress in FY2023.

Substantial increases in revenues and earnings expected across Group.

(Millions of yen)	LTS Group overall			Professional services business			Platform business		
	FY2023 results	FY2024 full-year forecast	YoY % change	FY2023 results	FY2024 full-year forecast	YoY % change	FY2023 results	FY2024 full-year forecast	YoY % change
Net sales	12,242	16,500	+ 34.8%	10,979	15,150	+ 38.0%	1,967	2,000	+ 1.6%
Operating profit	717	1,250	+ 74.3%	652	1,180	+ 80.8%	64	70	+ 8.2%

*Net sales for each segment include internal sales

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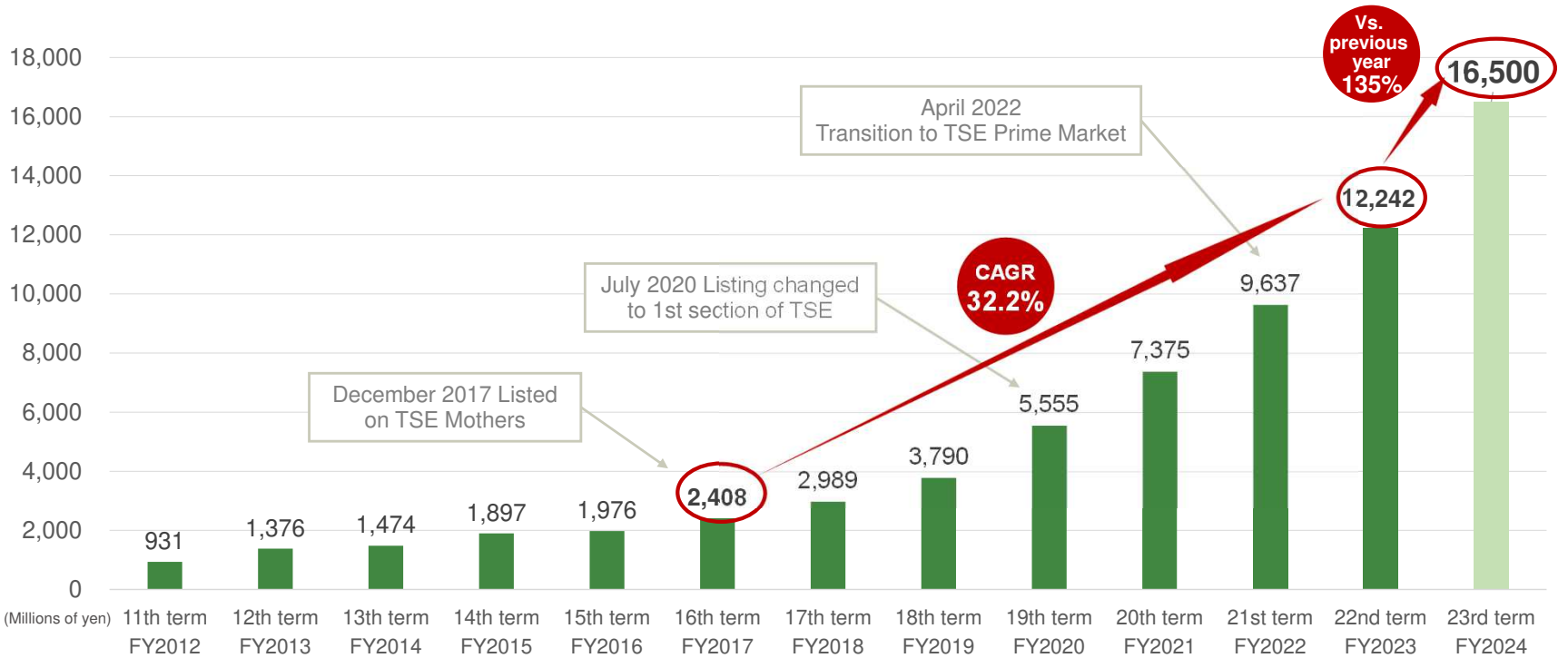
FY2024 Consolidated Net Sales Forecast

CAGR for seven years since listing in 2017 is 32.2%.
For FY2024, we expect net sales of ¥16,500 million, growth of 135% vs. previous year.



*Figures for FY2012 (11th term) to FY2014 (13th term) are non-consolidated, and figures for FY2015 (14th term) and later are consolidated.

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FY2024 Consolidated Operating Profit Forecast

CAGR for seven years since listing in 2017 is 25.7%.
For FY2024, we expect operating profit of ¥1,250 million, growth of 174% vs. previous year.



*Figures for FY2012 (11th term) to FY2014 (13th term) are non-consolidated, and figures for FY2015 (14th term) and later are consolidated.

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Progress on Consolidated Financial Results in FY2024

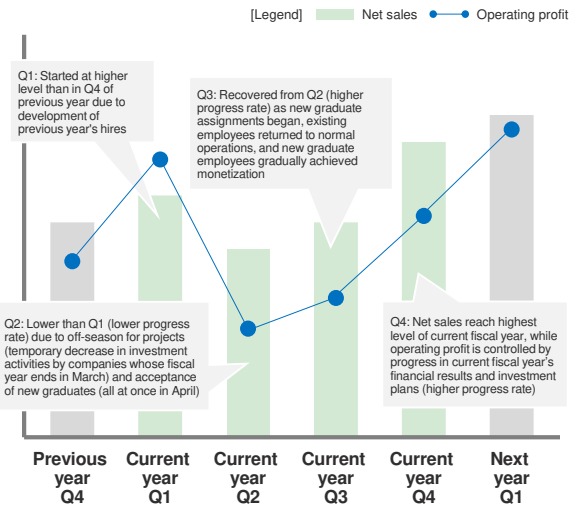
- Net sales and operating profit progressed according to expectations in H1
- Biggest challenge in achieving H2 weighted performance plan is securing paid utilization rate for 93 new graduates
- Continuing to strengthen sales capabilities and hire PMs to secure utilization rates, while also promoting human resource development (including qualification acquisition) to achieve early monetization

Progress vs. Initial Forecast

Financial results indicators	H1 progress	Progress	Initial forecast
Net sales	¥8,020 million	48.6 %	¥16,500 million
Operating profit	¥414 million	33.1 %	¥1,250 million
Ordinary profit	¥433 million	37.7 %	¥1,150 million

0% 25% 50% 75% 100%

Reference: Quarterly Performance Trend



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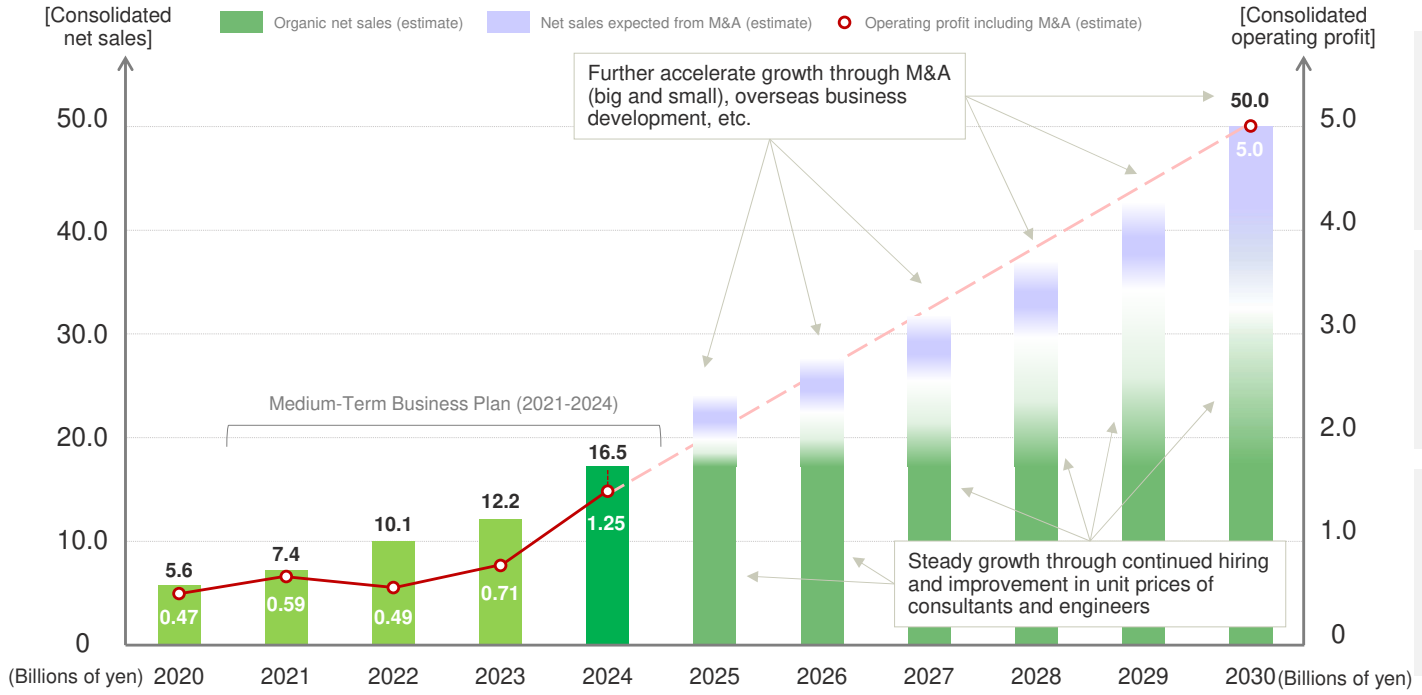
Future Growth Looking Ahead to 2030

- Long-term management targets: **Net sales of ¥50,000 million and operating margin of more than 10% by 2030** (no change)
- Target operating profit of ¥2,000 million established in Medium-Term Business Plan (2021-2024) to be achieved early



[Overall Group growth]

- **Growth scenario for 2025 and beyond currently being formulated (to be disclosed by time of announcing financial results for FY2024)**

[Organic growth]

- **Make YoY operating profit growth rate key management indicator**
- **Continually improve operating margin as well**

[M&A growth]

- **Plan to aggressively expand as important growth strategy based on results of past four projects**
- **Anticipate M&A in digital domain and overseas business**

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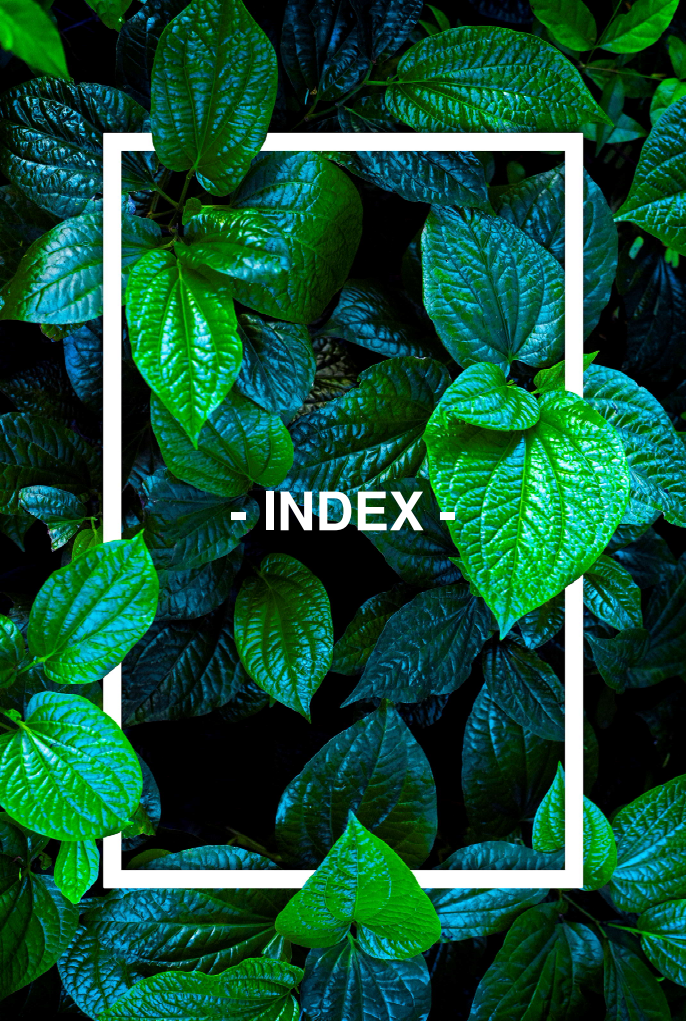

1. Business Overview
2. H1 FY2024 Financial Results
3. H1 FY2024 Initiatives
4. Outlook for H2 FY2024
5. Capital Policy
6. Reference Material

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Capital Allocation

- Capital allocation for medium- to long-term corporate value improvement will prioritize investment for business growth while balancing shareholder returns

Preconditions for capital allocation

Also reached certain scale in financial domain

- Business has grown significantly since listing in 2017
  - Net sales and operating profit increased by around 7x
  - Number of employees increased by about 6x
- Funds in hand have increased with business growth while maintaining certain degree of financial soundness
  - Operating profit reached level where billion yen is in sight
  - Operating cash flows also growing steadily
  - Using debt and equity financing as necessary
- Also looking into effective use of asset holdings such as some stocks and real estate, including conversion to capital

Business growth investments

Continue investing aggressively to improve corporate value

- Human capital investment (hiring, development, and retention of human resources, our fundamental growth driver)
- Establishment of operational infrastructure (enhancement of IT, offices, and intellectual property to support improved productivity)
- R&D investment (develop next growth engine)
- M&A investment (realize discontinuous growth)

Shareholder return

Maximize while maintaining balance with business growth

- Stock price increase due to earnings per share (EPS) growth
- Dividends of Surplus
- Share buybacks with eye to improving capital efficiency

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Dividends of Surplus

We will begin paying dividends at the end of FY2024 based on the preconditions for capital allocation.

Our approach to shareholder return

EPS improvement	• Main shareholder return measure is to increase corporate value (stock price) through medium- to long-term EPS growth
Dividends	• **Basic principle is to pay stable ordinary dividends over long term** • **Dividend payout ratio to be around 20%**

Share buyback	• Share buybacks considered on case-by-case basis while balancing investment in growth and capital efficiency and implemented flexibly as needed
	• Past results
	  • Implemented irregularly in 2019-2023
	  • Around ¥840 million worth purchased in 2019-2023

Dividend planned for FY2024

Dividend per share

¥30.0 (ordinary dividend)

(Planned for year-end)

Dividend payout ratio

19.8%

(Calculated based on FY2024 forecast)

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Compliance with criteria for continued Prime Market listing

- As of the end of June 2024, the tradable share market cap is in a state of non-compliance due to slumping stock prices

	Number of shareholders	No. of tradable shares	Tradable share ratio	Stock price	Tradable share market cap
Status	○	○	○	-	×
Criteria	800 people	20,000 units	35.0 %	-	10.0 (Billions of yen)
Assessment as of December 2023	1,716 people	24,656*1 unit	54.0 %	3,240 yen	7.99 (Billions of yen)
Assessment as of March 2024				2,700 yen	6.66 (Billions of yen)
Assessment as of June 2024	2,152 people	24,789 unit	56.3 %	2,220*2 yen	5.50 (Billions of yen)

*1: For convenience, no. of tradable shares as of December 2023 used to calculate tradable share market cap as of March
*2: Using average stock price for three-month period from April to June

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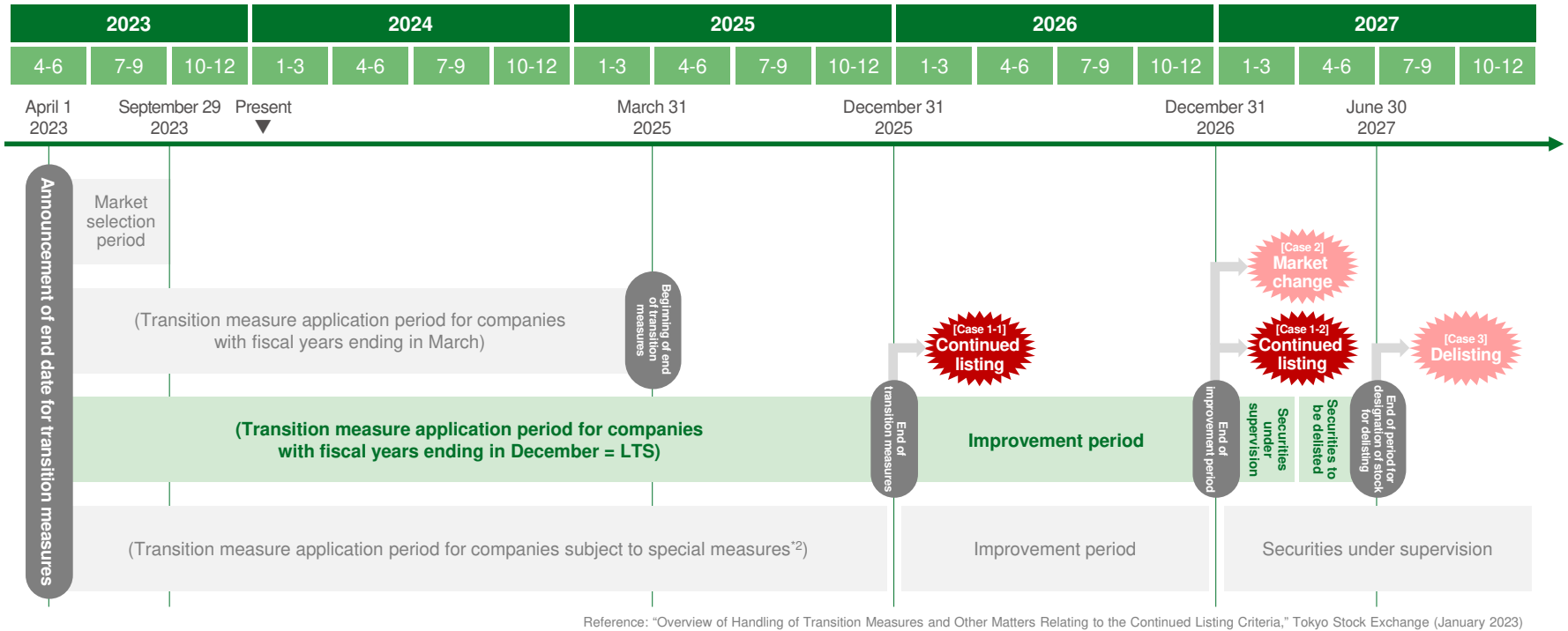
Criteria for Continued Prime Market Listing

Through FY2024 and FY2025, LTS will meet the criteria for continued listing on the Prime Market[*1].



Reference: "Overview of Handling of Transition Measures and Other Matters Relating to the Continued Listing Criteria," Tokyo Stock Exchange (January 2023)

*1. Among the listing criteria, those for (1) number of shareholders, (2) No. of tradable shares, (3) and tradable share ratio are met, but that for (4) tradable share market cap is not (must continue to meet these criteria after the end date of transition measures).
*2. Companies disclosing a plan as of March 31, 2023 with a completion date beyond the first record date on or after December 31, 2026.

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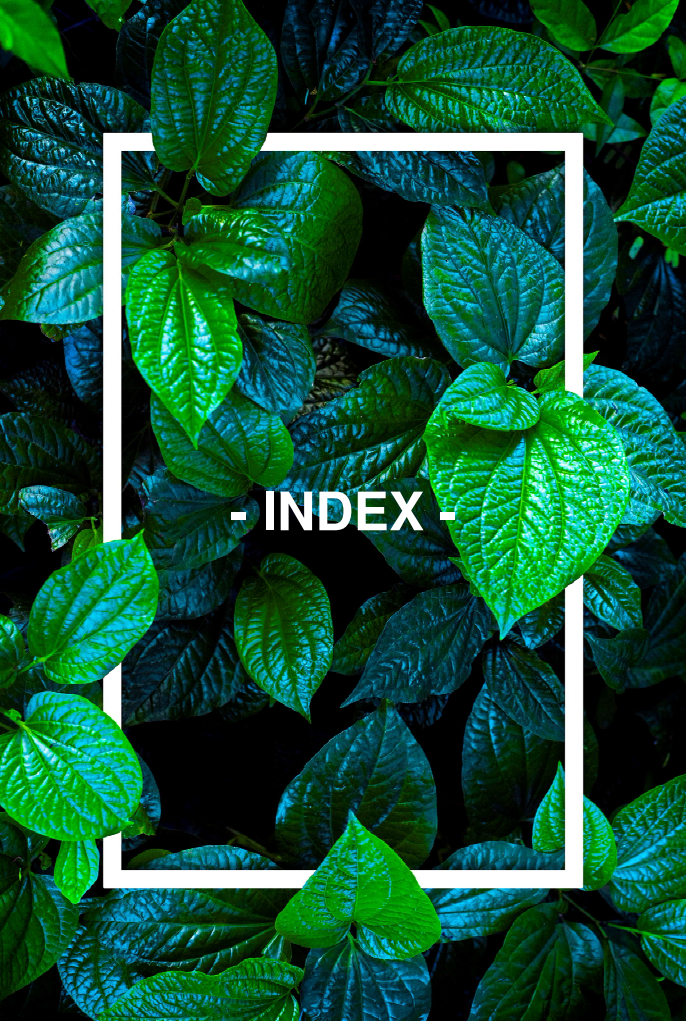

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Market environment
Business information

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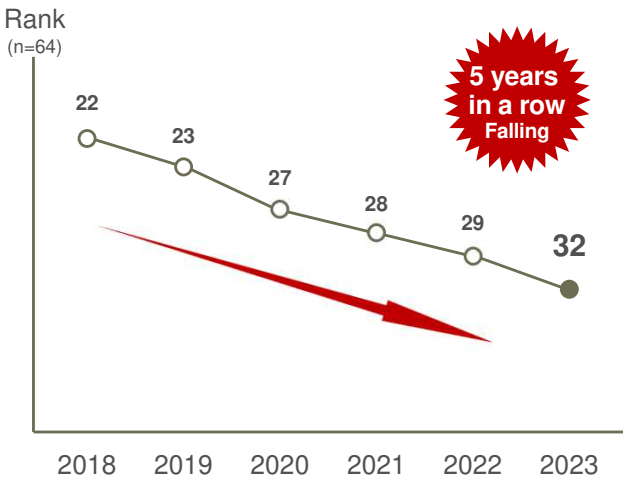
Social Issues to Be Solved in the Digital Era

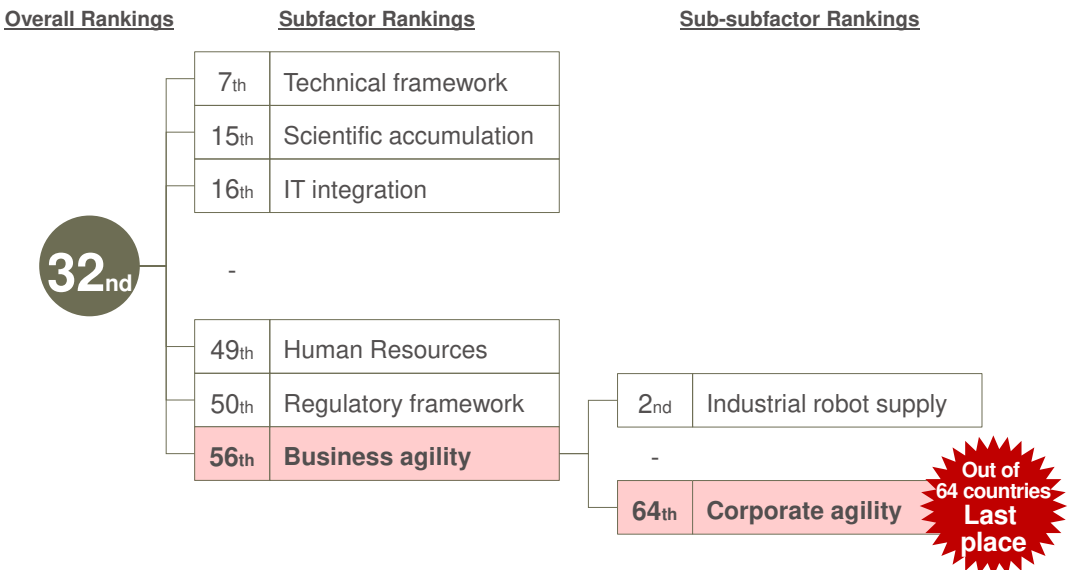
Foundation of Japan's industries subsiding in terms of GDP per capita, labor productivity, and other indicators, due in part to inability to respond to global mega-changes taking place.

To regain competitiveness in digital era where change is everyday occurrence, companies must acquire and strengthen agility.

IMD World Digital Competitiveness Rankings



Overall rankings broken down into subfactor rankings



Source: IMD World Competitiveness Center , "The 2023 IMD World Digital Competitiveness Ranking" (2023)

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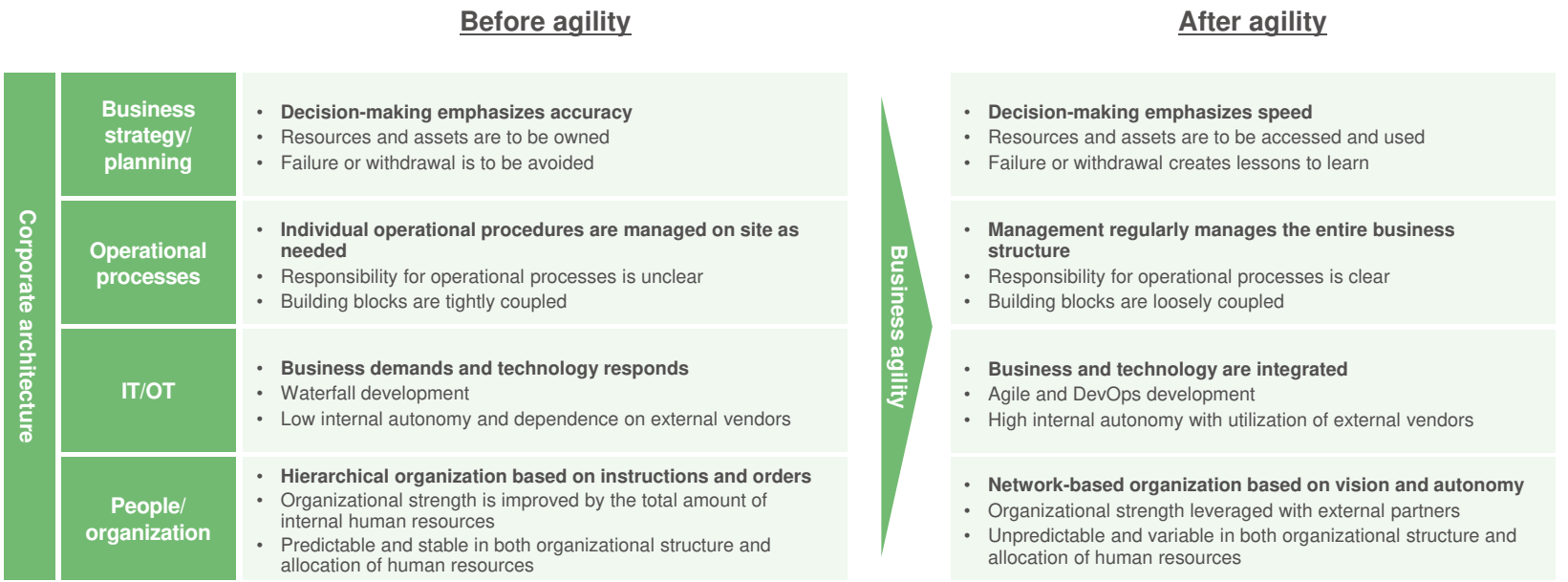
What Is Business Agility?

Business agility* refers to the organizational capacity that enables the business structure to adapt quickly to changes in the external environment. It is the ability to understand, break down, and rebuild the business structure.



*Agility: A word that means quickness, swiftness, and nimbleness.
As a business term, it refers to the agility in management and organizational operations that is essential to respond quickly to fast-paced environmental changes.

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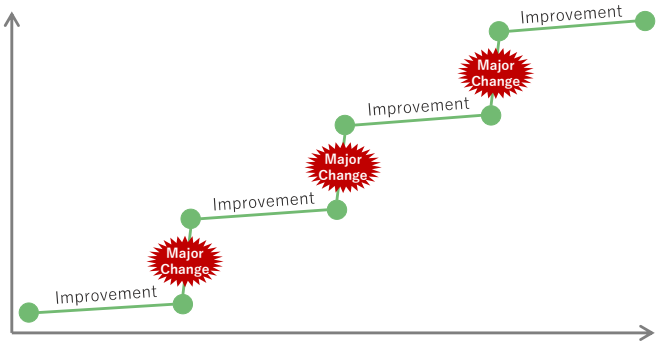
Background Driving the Need for Agility - Making Reform Routine

- The spread of digital technology has led to major changes in all aspects of society becoming a regular occurrence, and this wave of change means that companies must have agility (the ability to adapt quickly to changes).

Past corporate reform

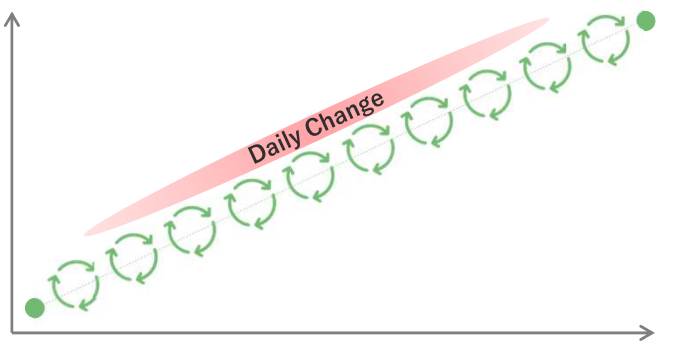
Era of gradual social change



➡ Gap closes through major change every 10 years

Current corporate reform

Era of drastic social change



➡ Continuously changing and adapting to changes in environment

Support success of large-scale projects	**Role**	Support promotion of high-ROI project planning
End of project is end of relationship	**Customer relationships**	Long-term relationships that do not end with projects
Solutions for structuring and delivering large projects	**Competitiveness**	Understanding of business structure and organization for growth scenarios

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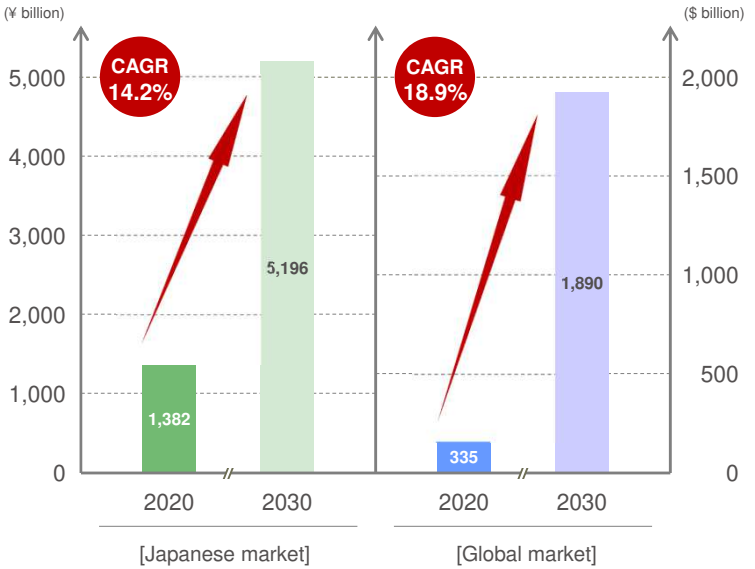
Expansion and Growth of Consulting Market

Various transformations (Xs) such as DX, SX, and GX increasing in both frequency and volume, so consulting market to support corporate Xs continues to grow. Peripheral markets huge with vast opportunity for cultivation.

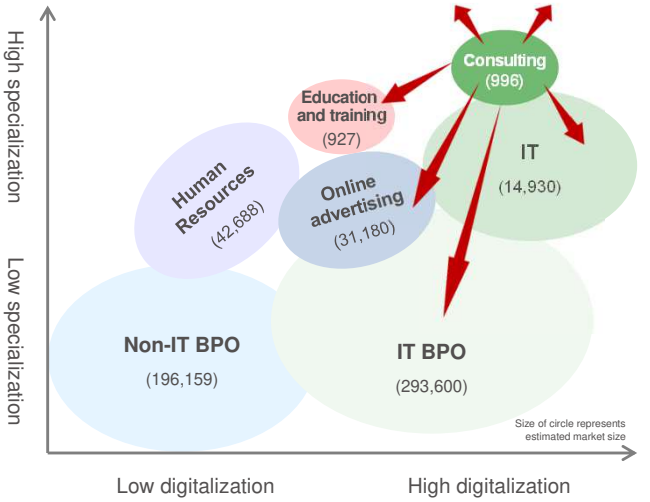
Growth of consulting industry

Projected size of DX market (2030)



Expansion of consulting industry

Projected size of domestic market in 2023 (¥1 billion)



Source: Prepared by LTS based on various information in "Digital Transformation Market Outlook" (2021) by Fuji Chimera Research Institute and "Digital Transformation Market - Industry Analysis and Forecast" (2021) by Panorama Data Insight

Source: Prepared by LTS based on various information from Yano Research Institute

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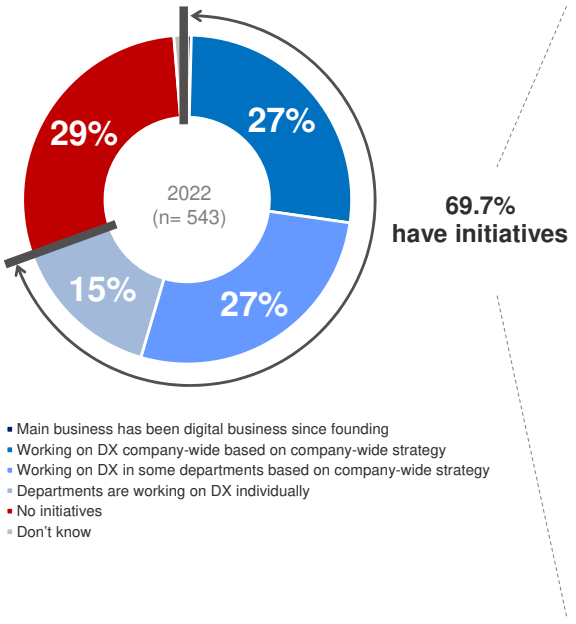
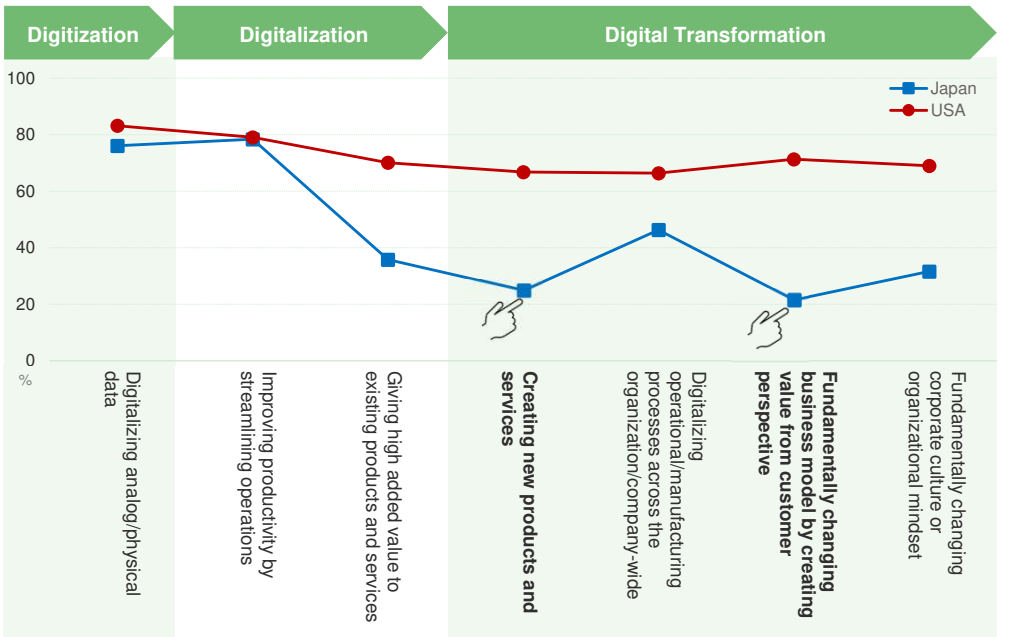
Progress of DX in Japanese Companies - Percentage of Companies Taking Action and Level of Action

- About 70% of Japanese companies are working on DX in some form or another.
- Most of the initiatives are limited to digitalizing data and processes and do not extend to transformation (X) where digital technology is a business assumption.

Status of DX Initiatives at Japanese Companies



Content and results of initiatives (percentage of responses indicating that results have been achieved)



Source: Prepared by LTS based on "2023 IPA Human DX White Paper" by Information-technology Promotion Agency

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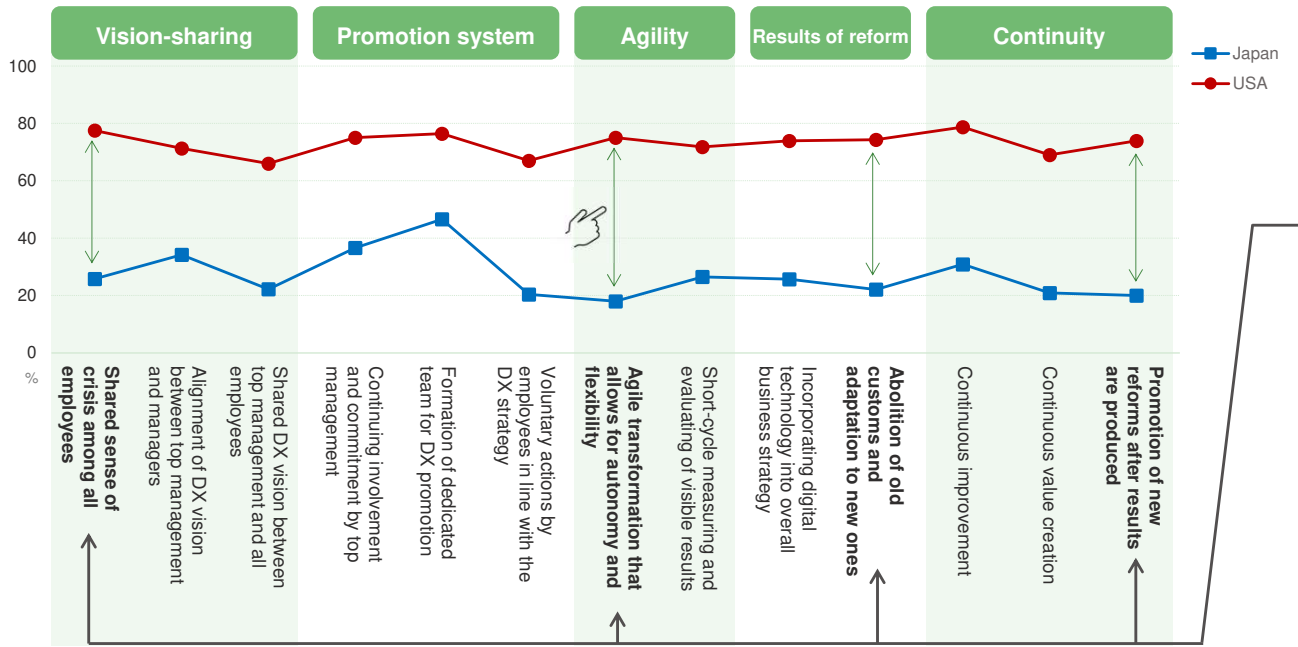
Things Achieved/Not Achieved Using DX

- Despite the promotion of various initiatives, they have not led to significant changes in corporate culture. Consequently, the acquisition and enhancement of agility remain insufficient.
- The point where the greatest divergence in achievement between Japan and the US occurs is agile transformation (-57 points).

Level of Achievement of DX Promotion Projects



Problems of DX promotion at Japanese companies

Lack of shared sense of true crisis regarding arrival of the digital age

Promoting DX as initiative does not go as far as updating customs and culture

Cycle of change does not operate autonomously, and initiatives remain isolated

Source: Prepared by LTS based on "2023 IPA Human DX White Paper" by Information-technology Promotion Agency

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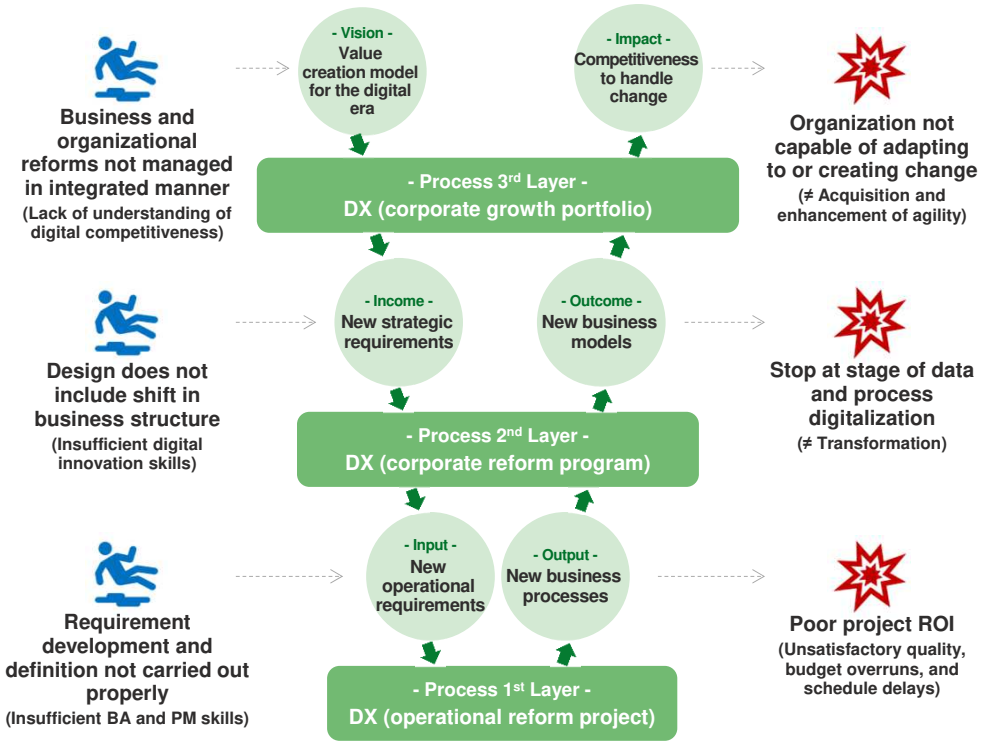
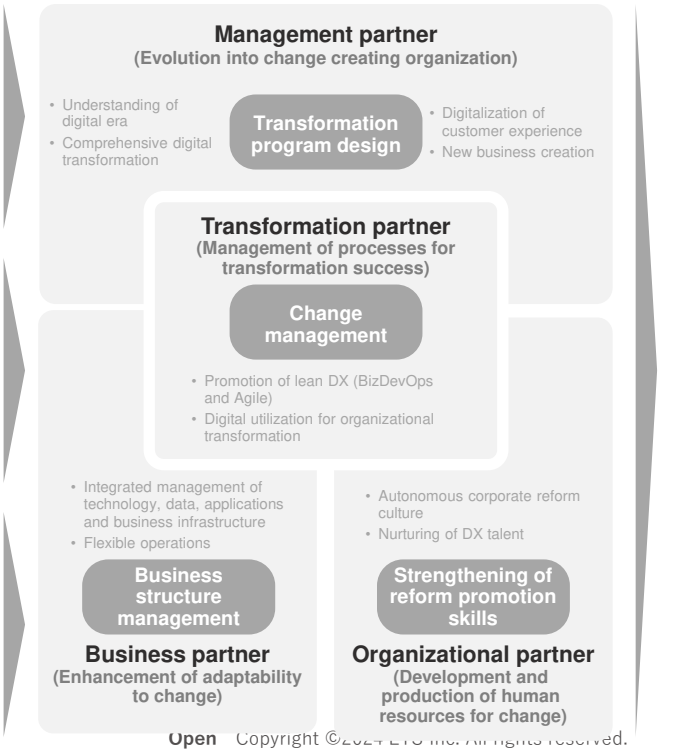
Functions Required to Avoid Failure with DX

- Comprehensive management of transformation (X) necessary at three levels of project, program, and portfolio

V-shaped model of DX and structure of failed initiatives



Functions Required for Success with DX



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Our Business Characteristics

- Promoting acquisition of business agility by clients in process of co-creating business results
- True partnership itself is source of profitability (improving unit prices and maintaining utilization rates → increasing personnel)

Best Partner for the Digital Era



[Management partner]

Design reform programs and plan and organize projects

Lead formation of group of reform projects necessary for realizing strategy by securing sources of reform

➡ **Understand investment plan**

[Business partner]

Manage business structure and improve project ROI

Promote projects efficiently by managing structure of organizations, operations, systems, and data

➡ **One-stop support (roll out innovation group-wide)**

[Organizational partner]

Strengthen client's own ability to promote reform while promoting projects

Provide knowledge and human resources development capabilities related to enhancing business agility to build co-creation relationship with next-generation reform leaders

➡ Increase in number of projects and improved delivery efficiency

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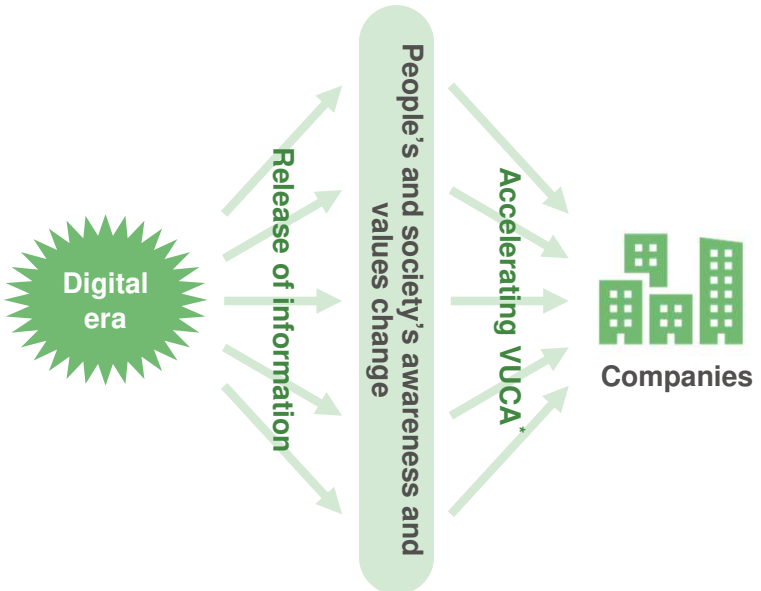
What Is the Digital Era?

The spread of digital technology has led to such things as faster change, increasing complexity in society, and changes in people's awareness. All aspects of society are undergoing major changes, and this wave of change means that companies must adapt quickly to change.



Wave of changes of the times companies must address

Management Strategy

- **Decision-making**: Emphasize speed (from plan-driven to change-driven)
- **Business creation**: Address additional destructive innovation
- **Industry restructuring**: Normalize intra-company collaboration and M&A

Operational IT

- **Operational management**: Management takes lead in managing overall picture of operational structure
- **DX promotion**: Integrate business and technology
- **Data-driven**: Design and course correct based on data

Organization Human Resources

- **Network-based organization**: Flat and flexible organizational structure
- **Social responsibility**: Promote visibility of minorities, diversity, and inclusiveness
- **Mobilization of human resources**: Importance of generalization of job types and specialist human resources

*VUCA: Volatility, Uncertainty, Complexity, and Ambiguity

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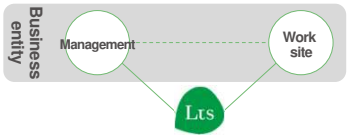
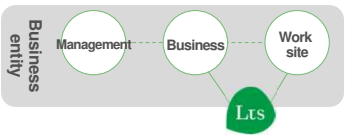
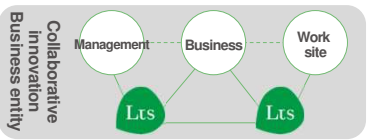
Reference: Transformation of Consulting

- Building true partnerships to co-create business results while working with clients to acquire agility is necessary

	[Consulting 1.0] Specialized consulting	[Consulting 2.0] General Consulting	[Consulting 3.0] Collaborative innovation consulting
Value provided	 • **Suggesting strategies** to management • **Presenting systems** for businesses/functional organizations	 • **Providing cross-functional solutions** • **Providing business engineering** for businesses/functional organizations	 • Commitment to clients' **business results as partner in changing times** • Develop clients' **own adaptability to change**
Challenges	• New strategies **fall through** • Corporate reform stops at **partial optimization**	• DX stops at **digitalization (efficiency)** • Corporate reform projects stop at **one-off measures**	• Few consulting firms go beyond a business model of being a supporter
LTS support	 **■Change management** Bridging gap between management and work site to prevent reform projects from failing	 **■Business process management** Improving ROI of reform projects by integrating business and digital technology	 **■Agility management** Engaging in collaborative innovation on story of growth and evolution through integrated management of business structure (strategy, operations, people, and IT)

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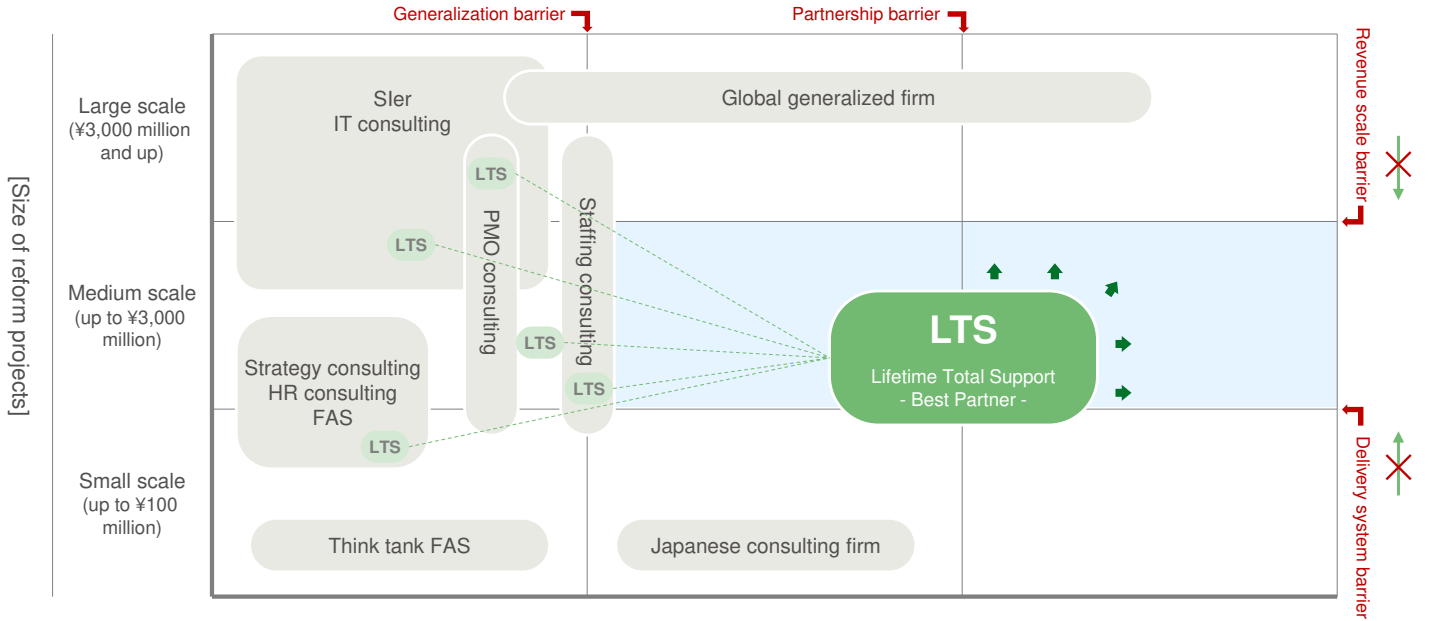
Reference: Positioning in Corporate Reform Support Market

- Very few consulting firms can be called true partners for companies drawing up strategies for long-term growth by bundling a diverse group of medium-sized reform projects into a program.
- LTS provides support for acquiring and enhancing business agility as a collaborative innovation partner to medium-sized to semi-major companies.



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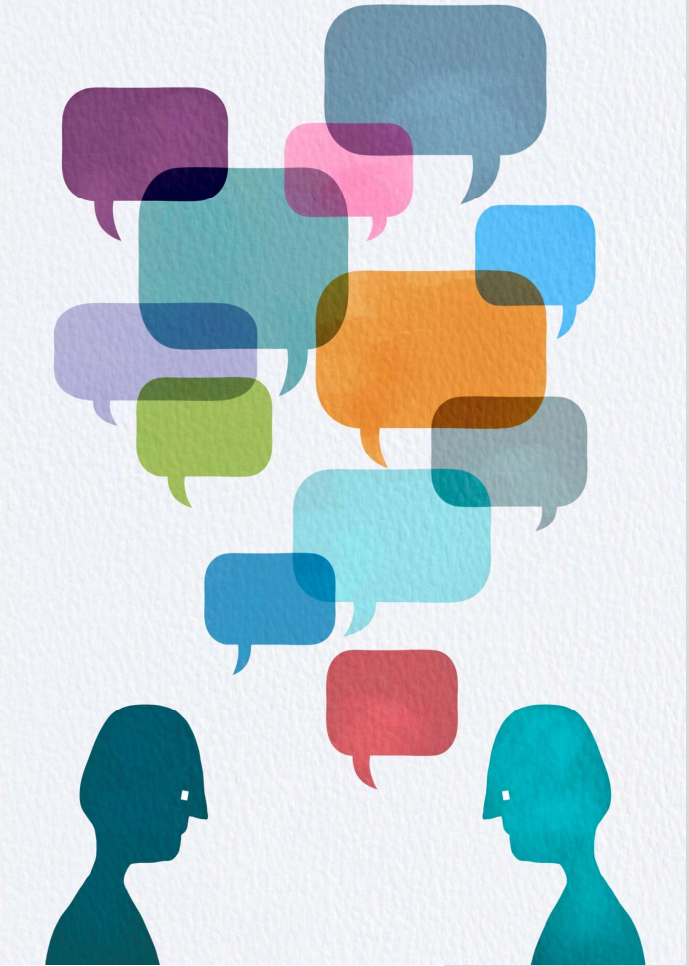

Company Overview

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Company Overview

Company Name	LTS, Inc.
Foundation	March 2002
Representative	Hiroaki Kabashima
Service	Support for corporate transformation Professional services business Platform business
Address	Akasaka Center Building 14F, 1-3-13 Motoakasaka Minato-ku, Tokyo, 107-0051, Japan
Subsidiaries	LTS ASIA CO., LIMITED (Hong Kong corporation) LTS Link, Inc. LTS Software Technology, inc. WAKUTO, inc. HIBIYA COMPUTER SYSTEM CO.,LTD. Isis CO.,LTD. HIBIYA RESOURCE PLANNING CO.,LTD. ME-lab Japan, Inc.
Group company	FPT CONSULTING JAPAN CO., LTD. *Japanese subsidiary of FPT software which is the biggest IT company in Vietnam Busy Bee, Inc.

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[Group Management] Change to Group Structure

- Changed to structure of eight wholly owned subsidiaries and two equity-method affiliates to accelerate decision-making and improve efficiency of corporate operations

LTS, Inc.

[Professional services business]

LTS Software Technology, inc.

HIBIYA COMPUTER SYSTEM CO., LTD.

WAKUTO, inc.

HIBIYA RESOURCE PLANNING CO., LTD.

LTS ASIA CO., LIMITED

*Hong Kong corporation

Isis CO., LTD.

ME-lab Japan, Inc.

[Platform business]

LTS Link, Inc.

[Group company]

FPT CONSULTING JAPAN CO., LTD

Joint venture with FPT Japan Holdings Co., Ltd.*
*Japanese subsidiary of FPT, Vietnam's largest IT company

Busy Bee, Inc.

・SOFTEC changed its name to LTS Software Technology, inc.
・IoTol Japan to be absorbed by LTS on June 1
・HCS Holdings, Hibiya Computer System, aütomatigo, and Isis (some businesses) merged

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History of LTS Group

- The number of consolidated group employees exceeds 1,000 and continues to grow with 11 group companies.



2024 Established **ME-Lab Japan Co., Ltd.** and reorganized group companies.

2023 Consolidated **HCS Holdings and 5 other companies**

2020 Market changed to the First Section of the Tokyo Stock Exchange (currently **Prime Market**)

2017 Listed on the **Tokyo Stock Exchange Mothers Market**

2008 Changed company name to **LTS Co., Ltd.**

2002 Established **L.T. Solutions Co., Ltd.**

Expanded head office (15F) 2024

Head office moved to Akasaka Center Building (14F) 2022

Iotoi Japan / **Softec** becomes a consolidated subsidiary 2020

Established FPT Consulting Japan
Wakuto becomes a consolidated subsidiary 2019

"Assign Navi" service started 2014

Start of recruitment of first batch of new graduates 2008

Full-scale launch of transformation support consulting to support strategy implementation 2003

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Four-Leaf Brand and Philosophy



Rather than simply providing external support to help solve customer problems and bring about growth, LTS is a partner that brings about qualitative change, integrating with the customer and turning three leaves into four.

A true partner who stands on the same footing as our customers as one of the leaves on a plant, working together to promote reform

MISSION

VISION

Unleash potential

Believe in people's potential to realize a free and vibrant human society

MISSION

VISION

A professional company that expands the world

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List of Customers

- Providing ongoing support for reform and growth to leading companies in a wide range of industries

○Trade
- **ITOCHU Corporation***
- **Mitsubishi Corporation**

○Retail
- **SEVEN-ELEVEN JAPAN CO., LTD.**
- **FamilyMart Co.,Ltd**

○Energy
- **Showa Shell Sekiyu**
- **Tokyo Gas Co., Ltd.**

○Transportation
- **Japan Airlines Co., Ltd. (JAL)**
- **East Japan Railway Company (JR EAST)**

○Automotive
- **Nissan Motor Co., Ltd.***
- **Yazaki Corporation***

○Construction/Real Estate
- **DAIWA HOUSE INDUSTRY CO., LTD.**
- **Chiyoda Corporation**

○Manufacturing
- **KOKUYO Co., Ltd.**
- **NEC Corporation (NEC)**

○Food/Restaurant
- **Kirin Holdings Company, Limited***
- **Japan Tobacco Inc. (JT)***

○Media
- **Jiji Press, Ltd.**
- **TV Asahi Corporation**

○Communications
- **NTT Communications Corporation**
- **Sony Network Communications Inc.**

○Service
- **Japan Post Holdings Co., Ltd.**
- **MonotaRO Co., Ltd.**

○Financial/Securities/Insurance
- **ORIX Corporation***
- **SUMITOMO LIFE INSURANCE COMPANY**

○Consulting/IT
- **IBM Japan, Ltd.**
- **Microsoft Japan Co., Ltd.**

○Government
- **Ministry of Economy, Trade and Industry**
- **Ministry of Internal Affairs and Communications**

Many others

(*More than 10 years of doing business together)
(Partial list of customers who agreed to be listed)

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Publications

- LTS was among the first to advocate the concept of business agility and continues to raise awareness about the social issue of sluggish digital competitiveness

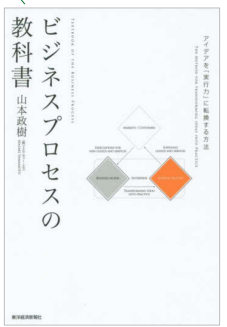
2015 | 2019 | 2021 | 2022 | 2023



Customer Co-Creation IT Business Based on Service Science

(Shoeisha)

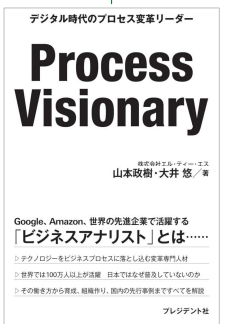
Provides direction for successful completion of projects using service science.



Business Process Textbook

(Toyo Keizai)

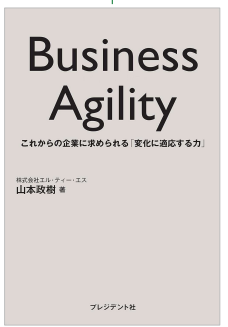
Explains what business processes are, how to manage them, and more in an easy-to-understand manner.



Process Visionary: Process Reform Leader for the Digital Era

(President)

Digital era companies explain all about business analysts, experts in operational improvement.



Business Agility: The Ability to Adapt to Change Required of Companies of the Future

(President)

Explains business agility, an ability that is essential for sustainable growth of companies amid uncertain business environments.



A Next-Generation Leader's Guide to Implementing Change: Overcome the Barriers of Awareness, Organization, and Management With a Middle-up Approach

(President)

Explains the role of middle management in bringing about change and taking companies to the next stage.



Business Process Textbook, 2nd Edition Business Architecture for a New Era Led by Empathy and Digital Technology

(Toyo Keizai)

Explains the business process management approach and mechanisms in an easy-to-understand manner.



Beginner's Introduction to DX
(Editorial supervision)

(Gentosha)

Explains that the essence of DX is reform and lays out the process for small and medium-sized enterprises to take the first step towards reform.

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Directors

Hiroaki Kabashima

Representative Director

President Executive Officer
Director of LTS Link, Inc.
Director of Hibiya Computer System Co., Ltd.

After graduating from Keio University, he joined ING Life Insurance Co., Ltd. (now NN Life Insurance Company, Ltd.). Later, after working at IQ3 Inc., he became General Manager in charge of sales at Learning Technology Consulting Inc.

In March 2002, he participated in the establishment of LTS and became Director. In December of the same year, he became President and Representative Director.
In August 2019, he became President of Assign Navi, Inc. (now LTS Link, Inc.), a subsidiary of LTS. In January 2020, he became President, Representative Director, and CEO.

In October 2022, he became Director of LTS Link, Inc., a subsidiary of LTS, and in March 2024, he became President and Executive Officer.
In April 2024, he became Director of Hibiya Computer System Co., Ltd.



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Directors

Sungil Lee

Director

Vice President Executive Officer
Director of WAKUTO Co, Inc.
Director and Vice Chairperson
of HIBIYA COMPUTER SYSTEM CO.,LTD.

Coming from Andersen Consulting Ltd. (now Accenture Japan Ltd.), he participated in the establishment of LTS in 2002.



Yu Kamemoto

Director

Vice President Executive Officer

Provides support for everything from strategy formulation to implementation based on his extensive knowledge of strategy and management



Ryosuke Ueno

Director

Senior Managing Executive Officer
General Manager of Digital Business Headquarters
Division Director of Digital Solution Business Division
Chief of Alliance & Business Promotion Office

Specializes in finance and accounting areas, with expertise in business process improvement and support for global expansion



Atsushi Tsukahara

Director

Managing Executive Officer
Deputy General Manager of Digital Business Headquarters
President of LTS software technology, Inc.

Provides support for resolving issues such as business process improvement and cost reduction, with a focus on finance, accounting, sales, and inventory control



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Directors

Yuichi Kanagawa

Director and Chairperson

After graduating from Waseda University, he joined Yokogawa Electric Works Ltd. (now Yokogawa Electric Corporation). As the intra-venture business, he established Yokogawa Multimedia Corporation and Yokogawa Q&A Corporation (now Q&A Corporation). Later, he served as President and Representative Director and as Chairperson of Yokogawa Rental & Lease Corporation. In 2021, he became a Board Member of Japan Volleyball Association. In March 2021, he became an Outside of Director of LTS and then became Director in July of the same year. In March 2022, he became Director and Chairperson. In June 2023, he became Senior Vice President of Japan Volleyball Association.



Naoki Takahashi

Outside Director (Audit and Supervisory Committee Member)

After joining Nissan Motor Co., Ltd., he became licensed as an attorney at law in New York, USA, and joined White & Case LLP. Later, he served as Director and Senior Vice President at Coca-Cola (Japan) Company, Limited and IQ3 Inc. After working at American International Group, Inc., he became Director and Managing Executive Officer of AIG Japan Holdings Kabushiki Kaisha. In December 2016, he became Auditor of LTS and became an Outside Director in March 2019.



Fumio Takemura

Outside Director (Full-time Audit and Supervisory Committee Member)

After joining IBM Japan, Ltd., he served as Director and Executive Officer. Later, he served as Senior Managing Director of IBM Japan Services Company Ltd., President and Representative Director of JAL Information Technology Co., Ltd., Advisor to IBM Japan, Ltd., and Adjunct Lecturer at Tokyo City University Faculty of Knowledge Engineering. In March 2018, he became Statutory Auditor of LTS, and in March 2019, he became an Outside Director. In June 2022, he became Corporate Auditor of subsidiary WAKUTO, Inc. a subsidiary of LTS.



Akiko Kawazoe

Outside Director (Audit and Supervisory Committee Member)

After joining Deloitte Touche Tohmatsu LLC, she became a certified public accountant and established Akiko Kawazoe CPA Office. Later, after working at Recruit Administration Co., Ltd. (Now Recruit Co., Ltd.), she became an employee of Hikari Audit Corporation in 2014. In March 2024, she became an Outside of Director of LTS.



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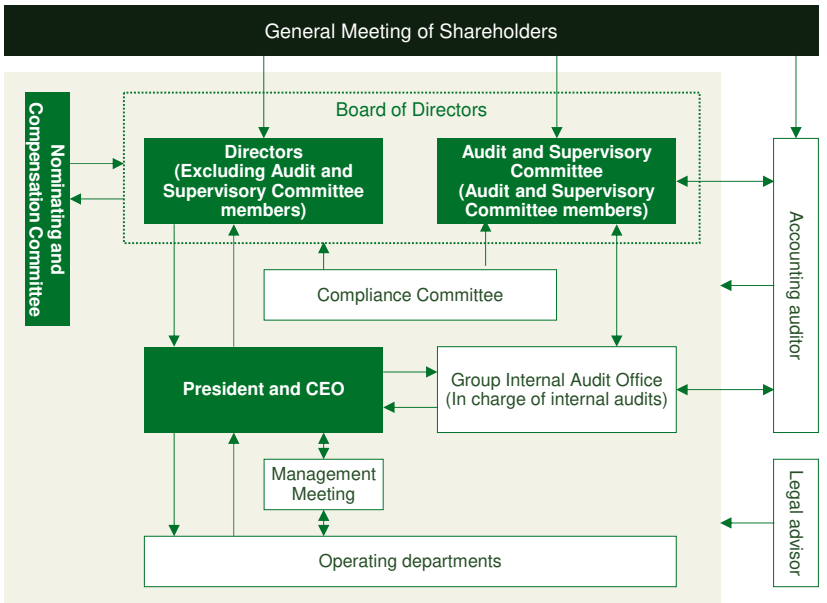
Corporate governance structure

We consider strengthening of corporate governance to be an important management issue and are working on the necessary measures in order to expand our corporate value, ensure our continued existence, and contribute to society



Efforts to date

- ✓ Transition to company with audit and supervisory committee
- ✓ Increased number of outside directors
- ✓ Establishment of Nominating and Compensation Committee
- ✓ Disclosure of summaries of financial results and briefing material in English

Themes being considered for future efforts

- ✓ Analysis and evaluation of effectiveness of Board of Directors utilizing third-party agency
- ✓ Ensuring of diversity of Board of Directors
- ✓ Establishment and implementation of succession plan for chief executive officer

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  - **The Company prepared this material using current generally known information about social and economic conditions and certain assumptions that we deemed to be reasonable. The information found in this material is subject to change without notice due to changes in business conditions or for other reasons.**

- **Note on Forward-Looking Statements**
  - **The material and information provided with this announcement contain forward-looking statements. These forward-looking statements are based on current expectations, forecasts, and assumptions that are subject to risks and include uncertainties, which may cause actual results to differ substantially from these statements.**
  - **These risks and uncertainties include general industry and market conditions as well as general Japanese and international economic conditions such as changes in interest rates and exchange rates.**
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