First Nine Months of Fiscal Year ending November 30, 2024 (FY2024)

Financial Results Briefing

GRCS Inc.

Securities code：9250

October 15, 2024

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1. Company Profile

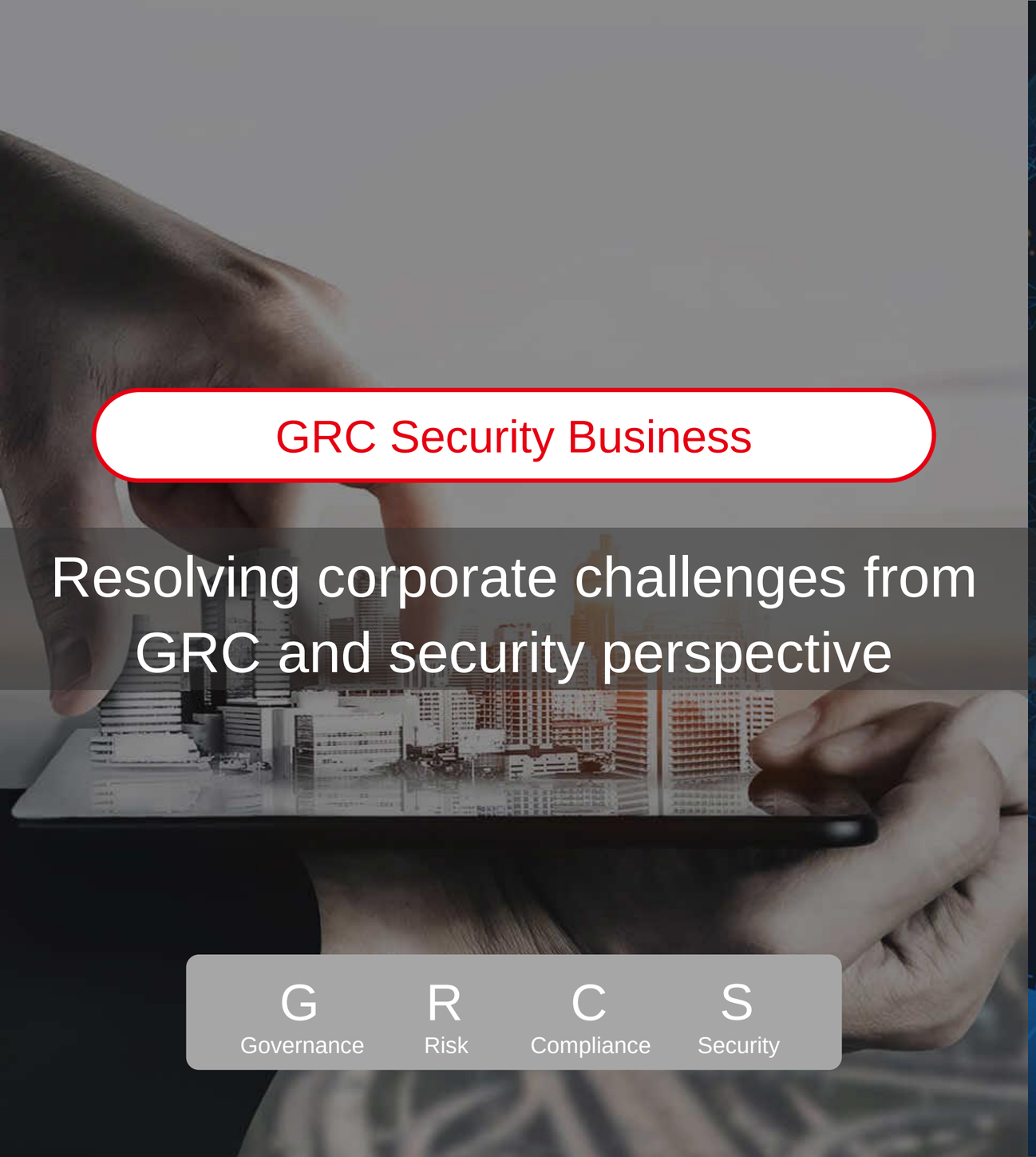
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Corporate Mission

Accelerate Evolution

Corporate Vision

Tech Makes It Simple



GRC Security Business

Resolving corporate challenges from GRC and security perspective

G Governance

R Risk

C Compliance

S Security

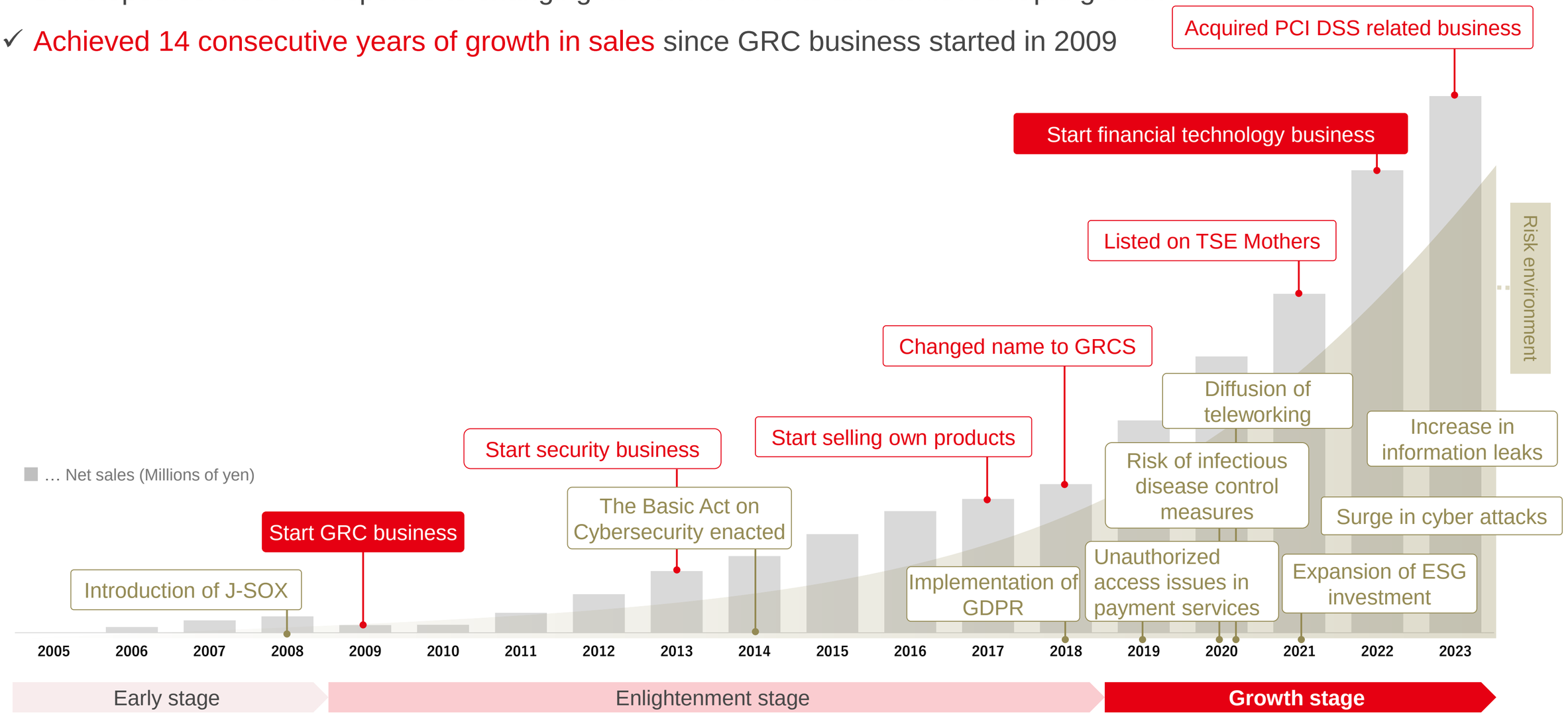


Financial Technology Business

Advanced technology solutions for capital markets

History

- ✓ Developed services in response to changing risk environments and achieved rapid growth
- ✓ Achieved 14 consecutive years of growth in sales since GRC business started in 2009

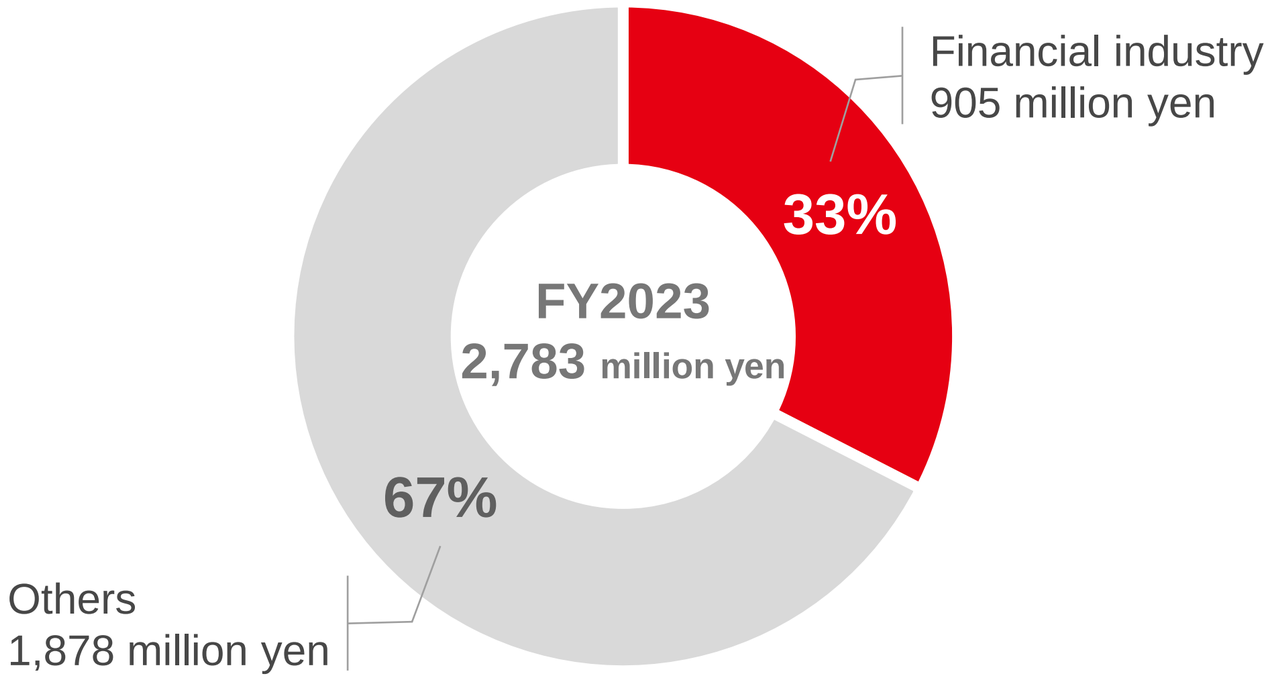


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Key customer industries and Strategies

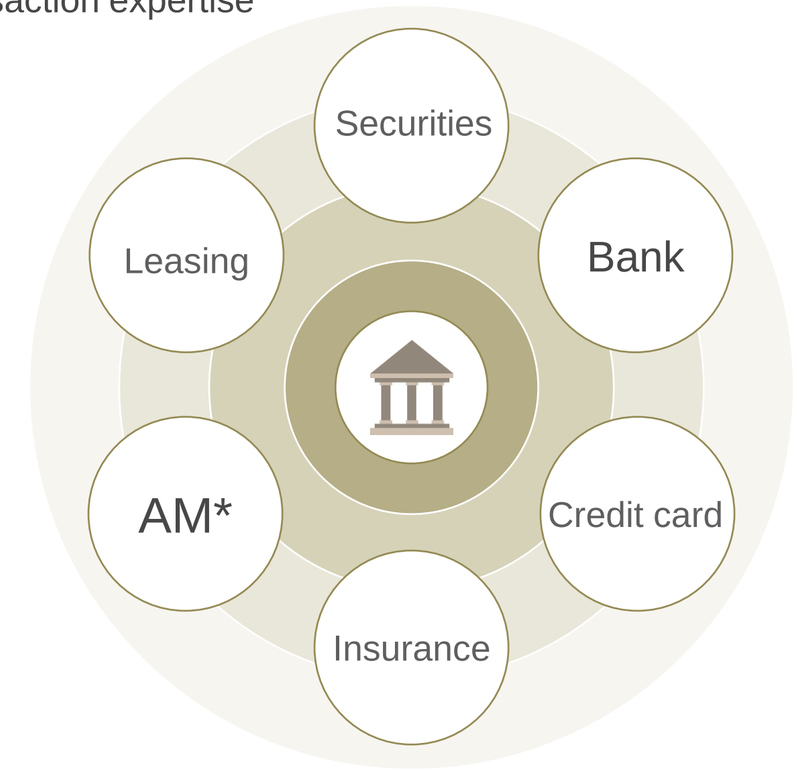
- ✓ High demand in the financial industry, which is strictly regulated by regulatory authorities and overseas laws, and accounts for approximately 30% of sales
- ✓ Focusing on expanding business primarily in the financial industry with large scale of budgets for risk management and IT investment

Revenue composition by industry



Expansion in Financial industry

Cross-sector expansion leveraging securities company transaction expertise



＊：Asset Management

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2. GRC Security Business

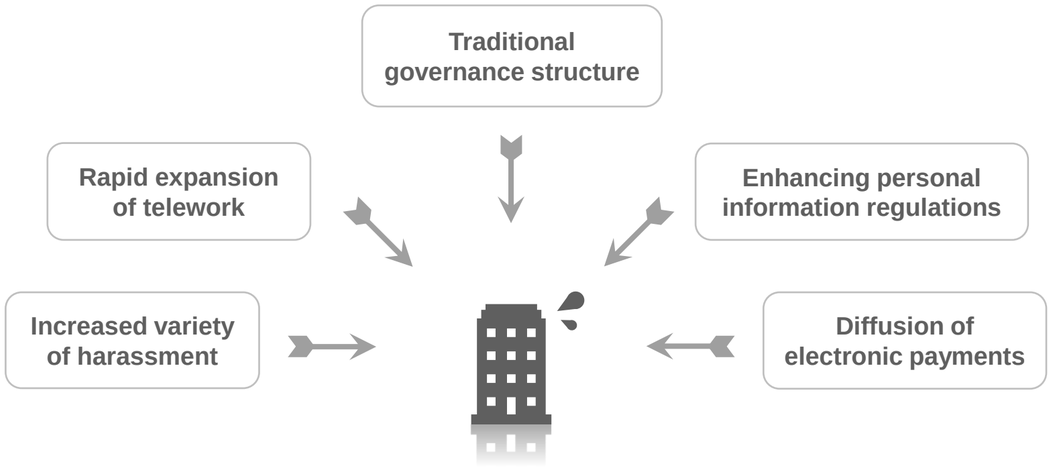
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Service of GRC Security Business

- ✓ Undertake the visualization and mitigation of risks, and support appropriate risk-taking for corporate growth
- ✓ Expand services to meet diverse customer needs and adapt to environmental changes

Risk surrounding companies

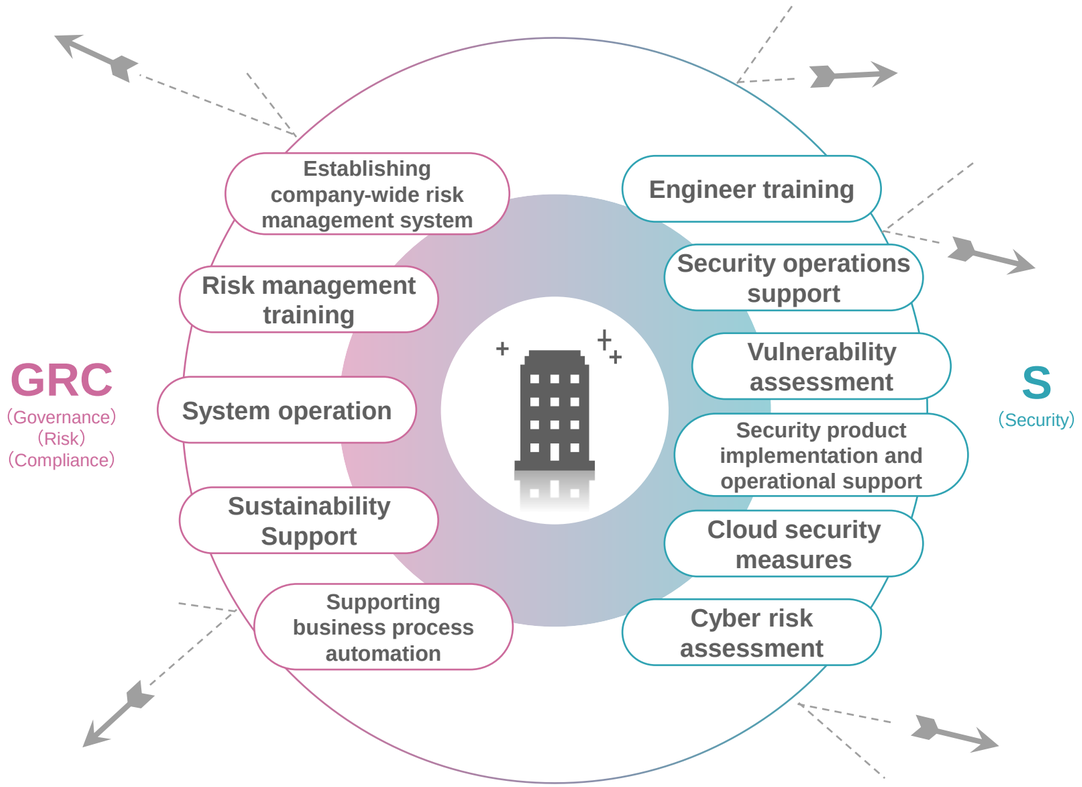
Business environment is rapidly changing, resulting in diversified risks. Many companies have yet to address these risks due to reasons such as shortage of skilled personnel and cost reduction pressures.



Severe impact on the company's overall management

- Critical system outages
- Significant recovery costs
- Loss of credibility
  Decrease in business

Major Services of GRC Security Business



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Competitive Environment

- ✓ Major competitors include large multinational accounting firms and solution vendors.
- ✓ Established a unique position and achieved top market share in GRC tool market trend analysis

Competitors

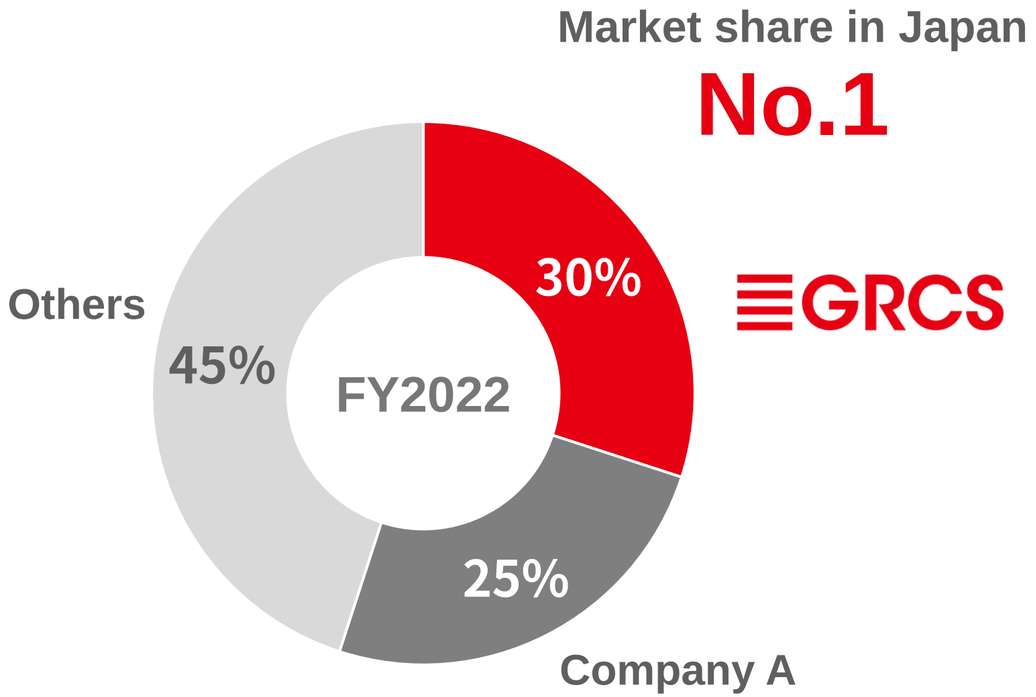
Solutions

EY	pwc	KPMG	Deloitte.
UK	UK	Netherlands	U.S.

Products

ORACLE	IBM	servicenow	SAP
U.S.	U.S.	U.S.	Germany

GRC Tool Entrant Trends



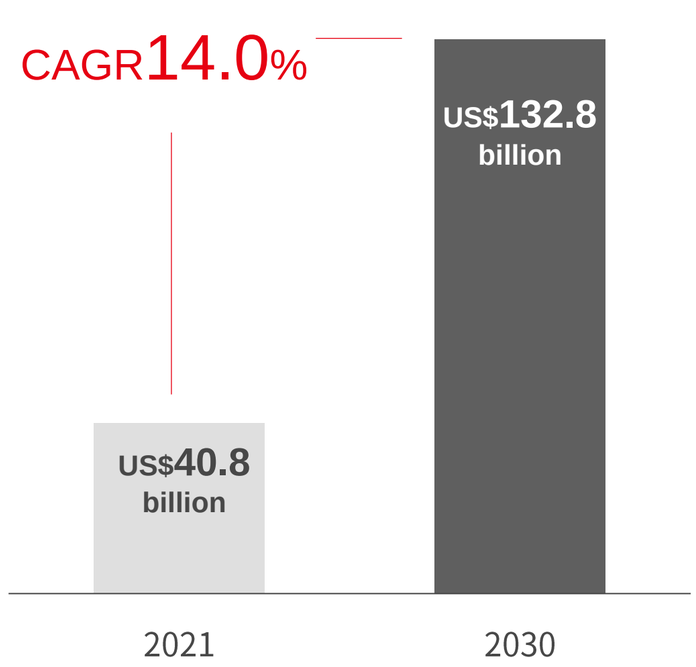
＊： Figures based on number of companies
＊： See “2023 Future Prospects of Digital Technology to Realize DX/Web3.0” (Fuji Chimera Research Institute Co., Ltd.)

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Market Environment

- ✓ No numerical figure is yet available for the domestic GRC market, but GRC and security controls are a pressing issue for Japanese companies
- ✓ The global GRC market is forecasted to grow by 14.0% annually on average; similar growth is anticipated for Japan

Global GRC market＊



Growth of Japanese GRC market

To catch up with the Western market, where GRC frameworks are already set in motion in business management, the Japanese market is likely to grow at a faster speed



A high-level risk management scheme is required due to compliance with overseas regulations or oversight by government agencies.

▼

Demand is strong from industries under stricter regulations



＊： Prepared by GRCS based on the data from Grand View Research/Enterprise Governance, Risk & Compliance Market Size, Share & Trends Analysis Report By Component, By Software, By Services, By Organization Size, By Vertical, And Segment Forecasts, 2022 - 2030

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Implementation Examples

✓ Demand is becoming apparent in the financial industry, and steadily cultivating our presence by capturing customer needs

Nippon Life Insurance Company has implemented the external contractor risk management support tool, “Supplier Risk MT”.

Challenges

With the expansion of business scale, the management of external contractors has become increasingly complex, requiring significant manpower for progress tracking and reminders.

- ✓ Compliance with Guidelines and Oversight Standards
- ✓ Labor-Intensive Management Processes, Such as Vendor Management in Excel and Email
- ✓ The lack of database integration for outsourced partner information prevents intended analysis.



Implementation Benefits

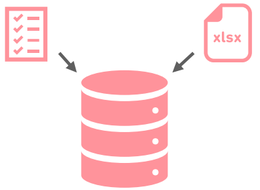
Introducing SRMT has reduced the workload by 30%.



- ✓ Systemize the outsourcing partners management process through customization



- ✓ Streamline the outsourcing partner management operations



- ✓ Centralization of outsourcing partner information

日本生命



SRMT, capable of implementing multifaceted analysis and evaluation along with the systematization of its unique management processes

”While there were numerous services specialized in system security, they were insufficient to meet our specific management needs. We were seeking a highly flexible system capable of evaluating external outsourcing partners from various perspectives. After assessing several options, we determined that SRMT could systematize our external outsourcing management process and could be customized to meet our specific requirements. Consequently, we decided to implement SRMT.”

GRCS

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3. Financial Technology Business

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Establishment of Financial Technology Business

- ✓ Established the financial technology business to explore opportunities in the financial industry, with a focus on expanding operations through securities companies
- ✓ Anticipate synergies with GRC security business, aiming to expand transactions through cross-selling

Major service of Financial Technology Business

Capital market solutions

- Offer technology solutions in the financial capital markets business
- Secured long-term contracts through services in the front-end areas that contribute to revenue

Partnership business

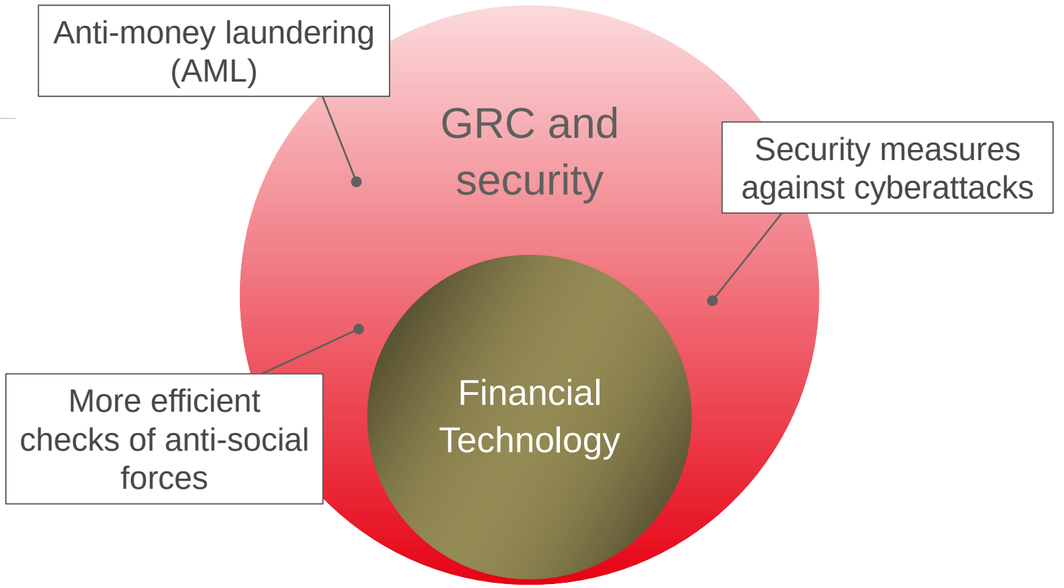
- Introduce innovative global technology into Japan's financial capital markets
- Expansion through partnerships with international startups

Global operation business

- Provide monitoring services for financial institutions' core systems
- Established Yokohama Global Center as a base of operations

Synergy effect

Financial Technology Business	Development of major financial business systems
GRC Security Business	Support for risk management in surrounding areas



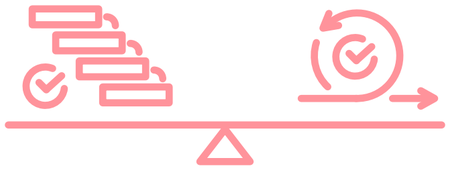
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Implementation Examples

✓ Further expanding business through core securities firm and building customer base in the financial industry

Jointly develops equity Order Management System with Mizuho Securities

Key Strengths of GRCS



✓ Balancing both Waterfall and Agile methodologies



✓ One-stop service from analysis and development to operation



✓ Technology capabilities achieving global standards

MIZUHO
みずほ証券



Global development team capable of achieving both flexibility and robustness

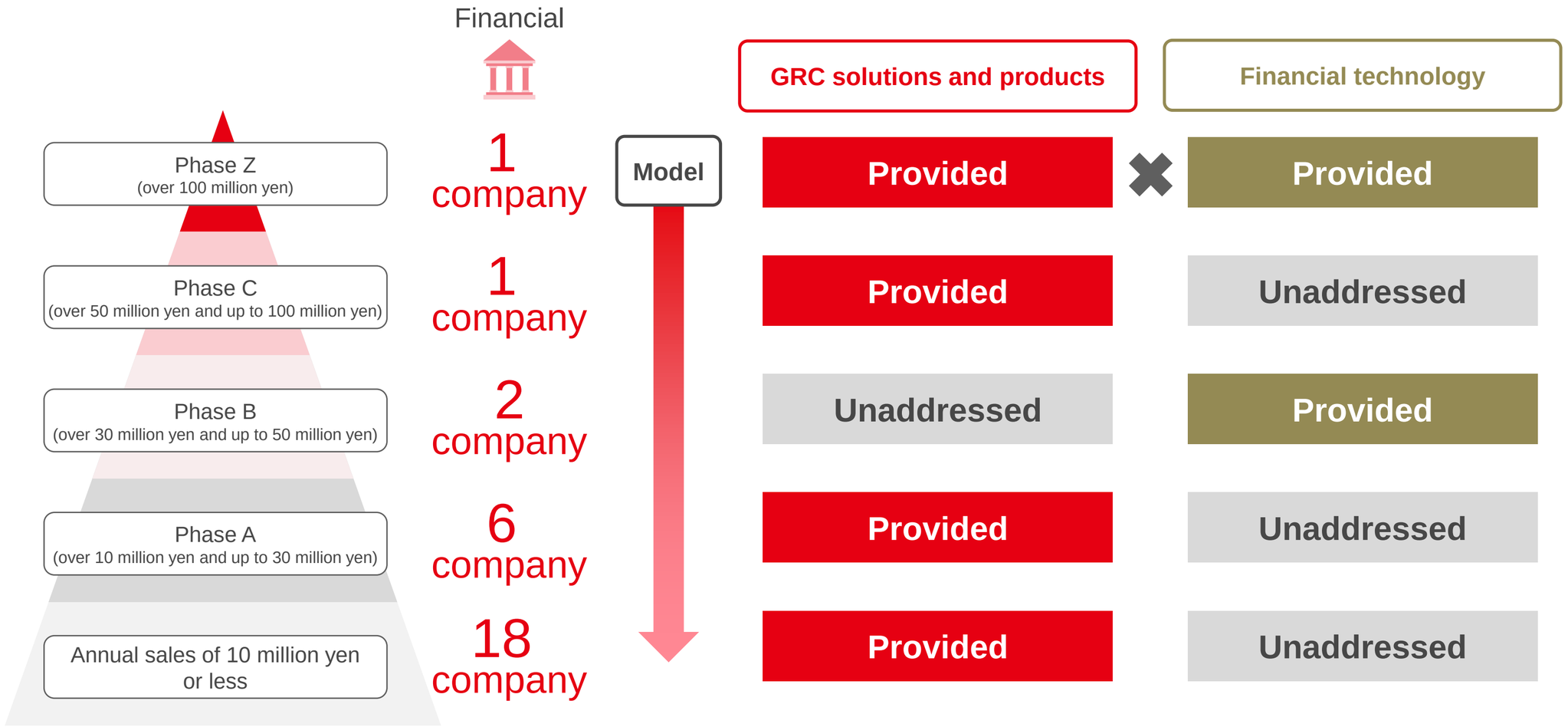
“We are pleased to announce that, as part of one of our key strategies for the Japanese equity market, we have successfully implemented a highly flexible and reliable system in collaboration with GRCS team experienced in developing and managing a wide range of products across domestic and international financial markets. Moving forward, we will continue to enhance the robustness of our platform and advance our execution services to further improve customer convenience.”

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Initiatives in FY2024

- ✓ Expand our specialized cross-selling model into the financial industry
- ✓ Focus on the financial industry with high demand and enhance our expertise



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4. Financial Results for the First Nine Months of FY2024

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Executive Summary

FY2024 Objective

Financial Technology Business

"Challenge to revitalize the business" ▶ Transition from growth investment to profitable phase

Net sales

2,427million yen

+18.5% year on year

Gross profit

785million yen

+45.4% year on year

EBITDA

76million yen

-128 million yen last year

Operating profit

-11million yen

-161 million yen last year

Business progress

Operation rate and profit margin declined as personnel are on standby for a large-scale project.

Full-scale operations are expected to commence in Q4, driving profitability for the year.

Key topics

GRC Security Business: Secured contracts related to government agencies

Financial Technology Business: Landed a major project with a new securities firm

＊： EBITDA=Operating profit + Depreciation + Goodwill amortization

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Summary of Financial Results

(Millions of yen)	FY2023 Q3	**FY2024 Q3**	Change amount	Change ratio	FY2024 forecast	Progress ratio (vs. full-year forecast)
Net sales	2,047	2,427	379	18.5%	3,315	73.2%
GRC solutions and products	1,598	1,720	121	7.6%	2,480	69.3%
Financial technology	449	707	258	57.4%	835	84.7%
Gross profit	539	785	245	45.4%	—	—
Gross profit margin	26.4%	32.3%	+5.9pt	—	—	—
Selling, general and administrative expenses	701	796	95	13.6%	—	—
EBITDA	(128)	76	204	—	161	47.5%
Operating profit (loss)	(161)	(11)	149	—	53	—
Ordinary profit (loss)	(175)	(27)	147	—	34	—
Profit (loss) attributable to owners of parent	(211)	(33)	177	—	17	—

Highlights

1 Sales recovery to prior levels after a big project's termination via a partner company

2 Good progress by securing orders well above the plan

3 Improvement in profitability level through increased product sales

4 Project from new securities firm made a significant contribution in Q4
Maintain the yearly forecast

＊： EBITDA=Operating profit + Depreciation + Goodwill amortization

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Summary of Financial Results (Quarterly Trends)

(Millions of yen)	FY2023 Q1	FY2023 Q2	**FY2023 Q3**	FY2023 Q4	FY2024 Q1	FY2024 Q2	**FY202 Q3**	Year on Year change
Net sales	675	691	681	736	868	747	811	19.1%
GRC solutions and products	538	534	525	565	536	553	630	19.8%
Financial technology	136	156	155	171	331	194	181	16.4%
Gross profit	139	205	194	252	359	211	214	9.9%
Gross profit margin	20.6%	29.8%	28.6%	34.2%	41.4%	28.2%	26.4%	-2.2pt
Selling, general and administrative expenses	236	234	230	236	272	267	256	11.4%
EBITDA	(88)	(17)	(22)	29	133	(35)	(21)	—
Operating profit (loss)	(96)	(28)	(35)	15	87	(56)	(42)	—
Ordinary profit (loss)	(93)	(37)	(44)	2	83	(65)	(45)	—
Profit (loss) attributable to owners of parent	(106)	(54)	(51)	(68)	66	(63)	(36)	—

Highlights

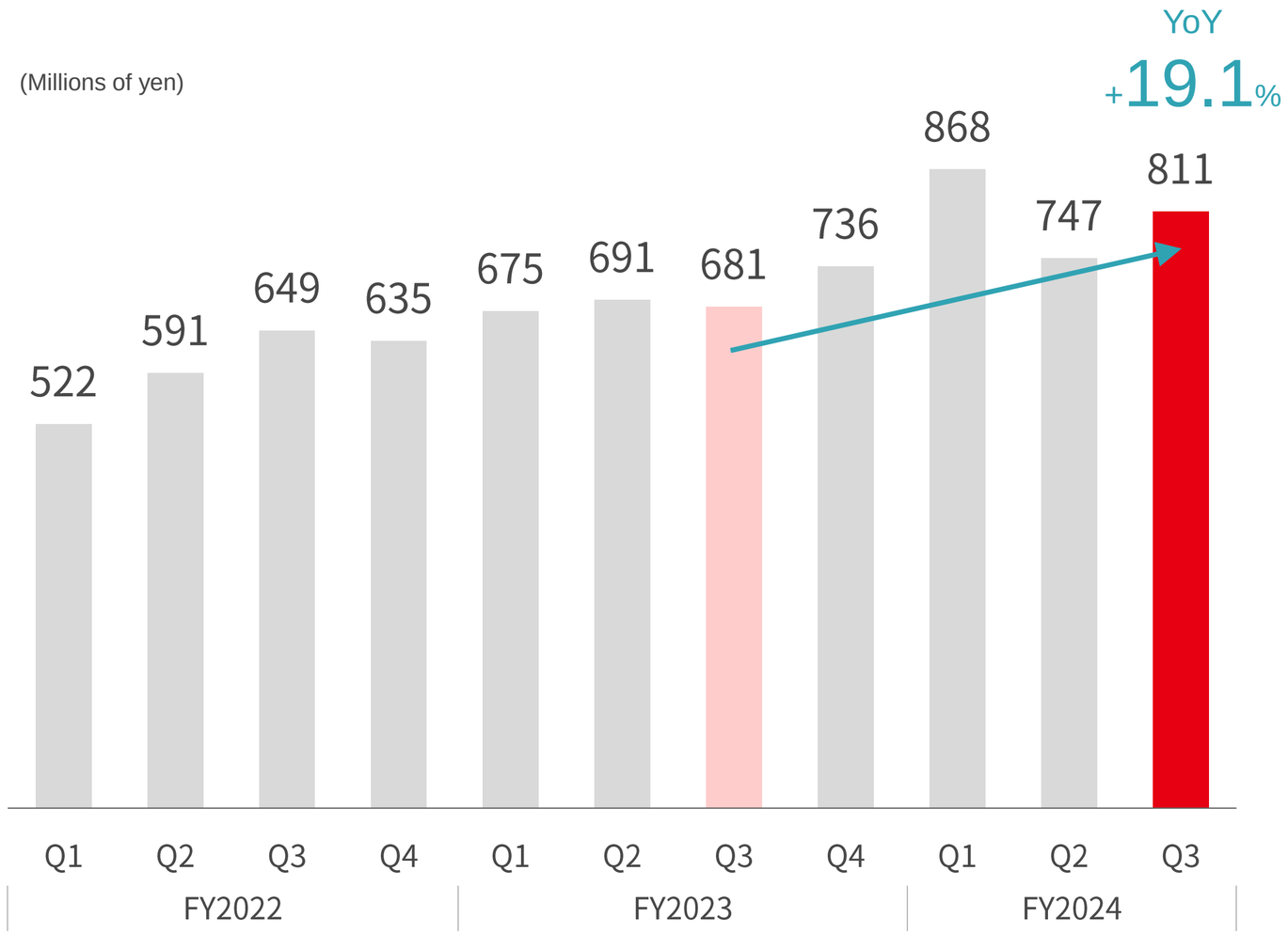
1. Back to growth trajectory after termination of a big project via a partner company
2. Recurring revenue increases by accumulation of operation and maintenance projects while stabilize quarterly revenue plan
3. Although operation rate declined as personnel are on standby for a large-scale project, Lower in profit margin is temporary
4. Increased incentives due to securing a large-scale project, operating costs remained stable

＊： EBITDA=Operating profit + Depreciation + Goodwill amortization

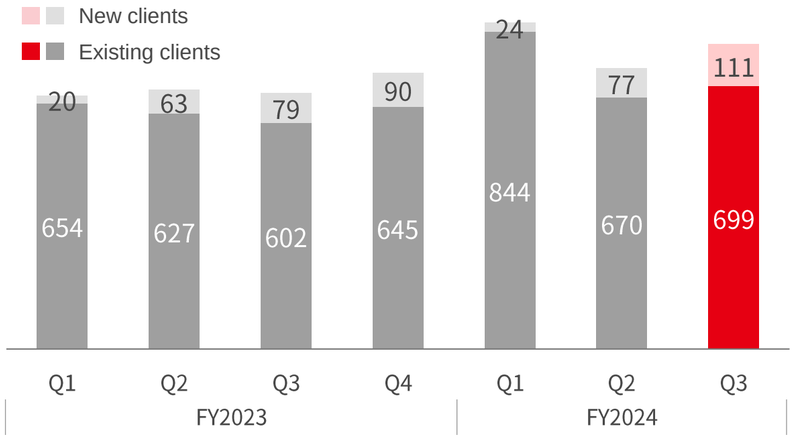
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Trends in Net Sales (Quarterly)

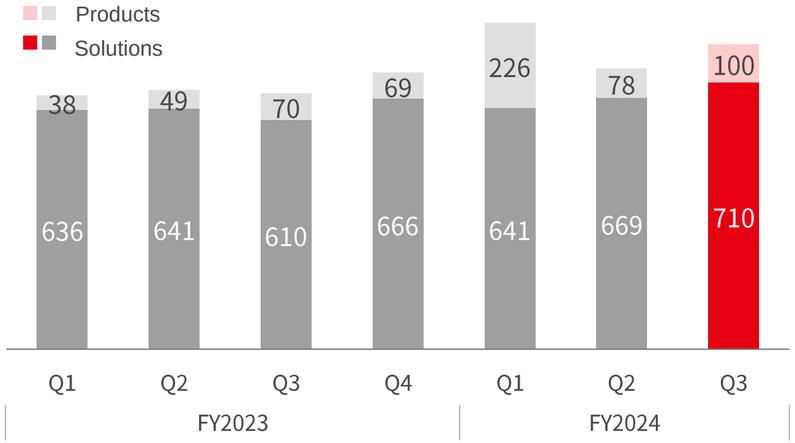
✓ Favorable result in license sales, with the revenue composition ratio of the product up to 12.4%



Existing clients and new clients (Millions of yen)



Solutions and products (Millions of yen)

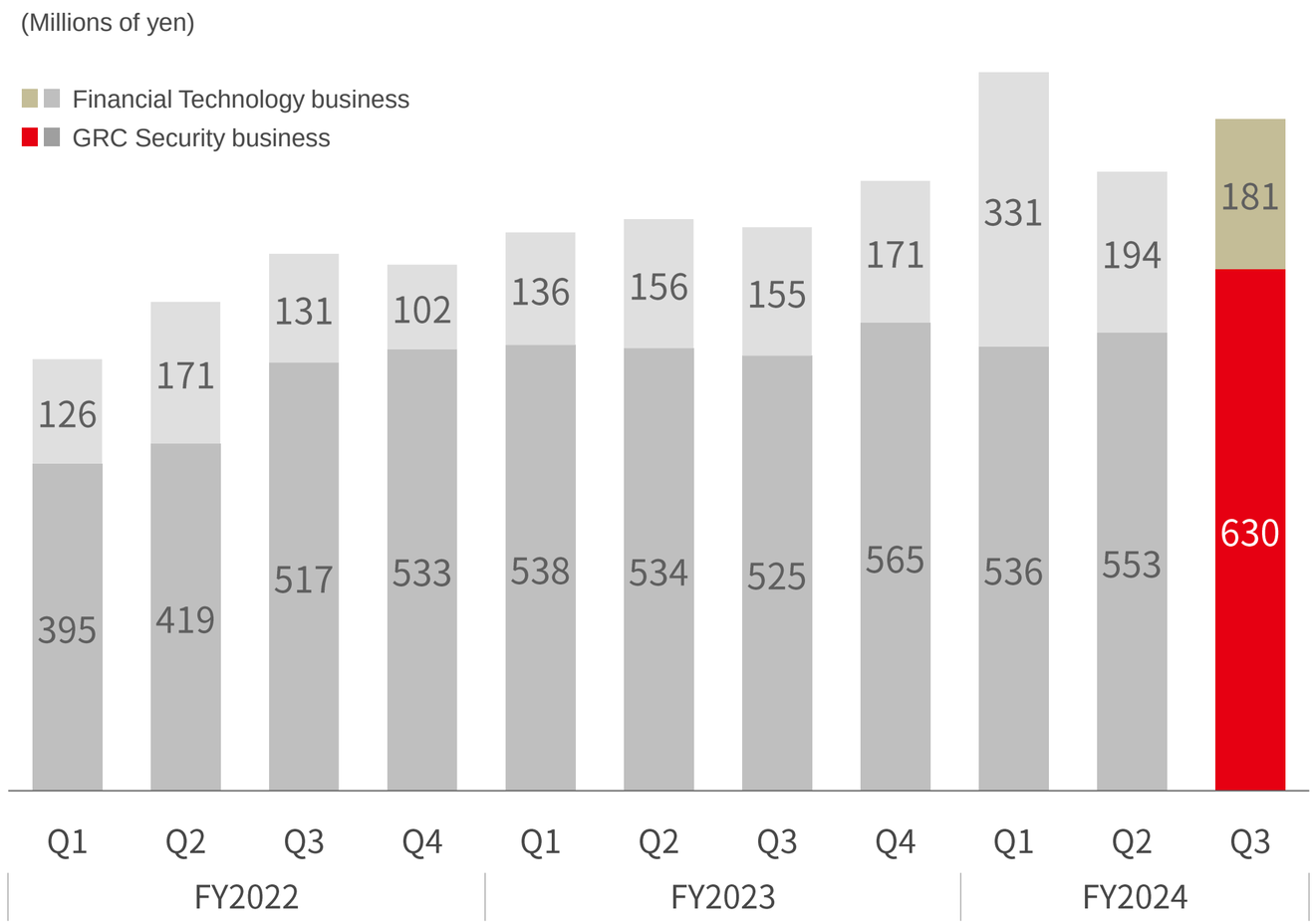


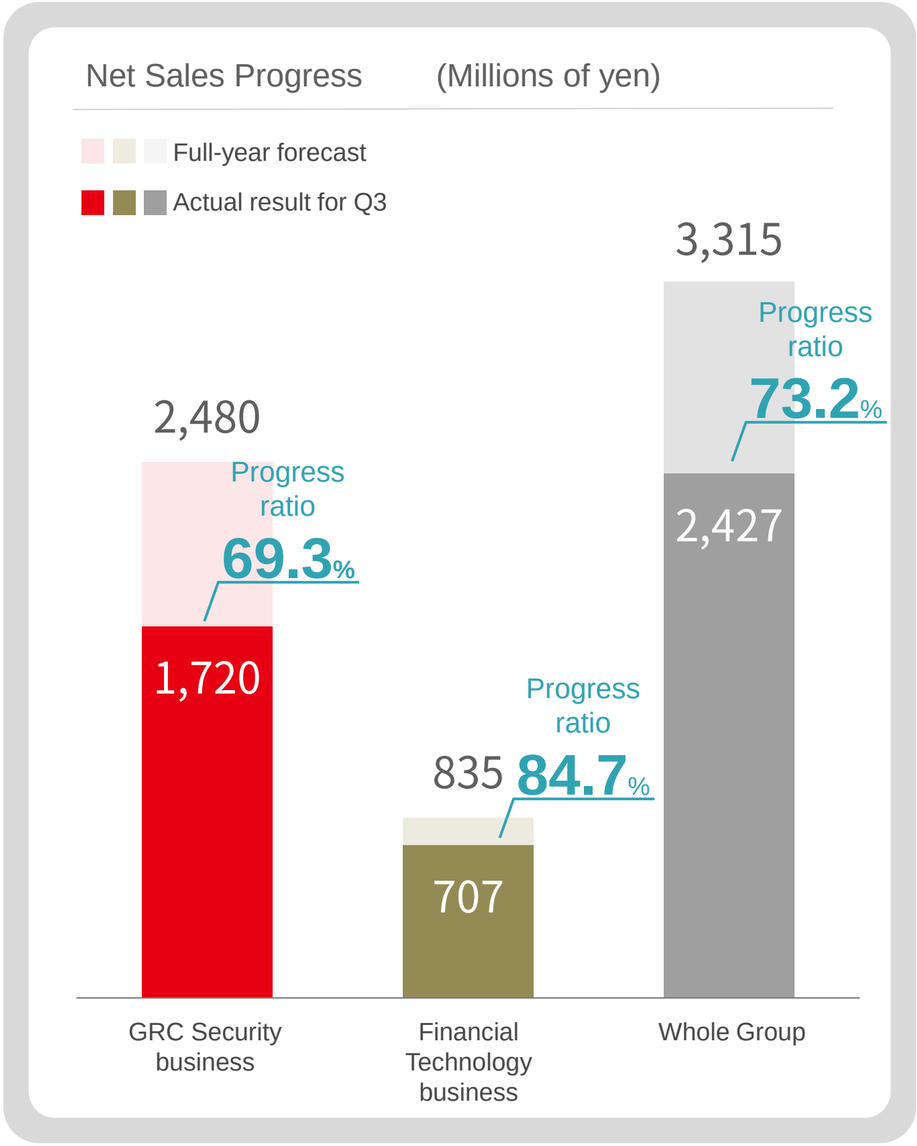
*： GRCS shifted to consolidated accounting in Q3 FY2022

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Trends in Net Sales by Business Unit (Quarterly)

✓ Large-scale project has been successfully secured with steady progress made towards the full-year performance targets





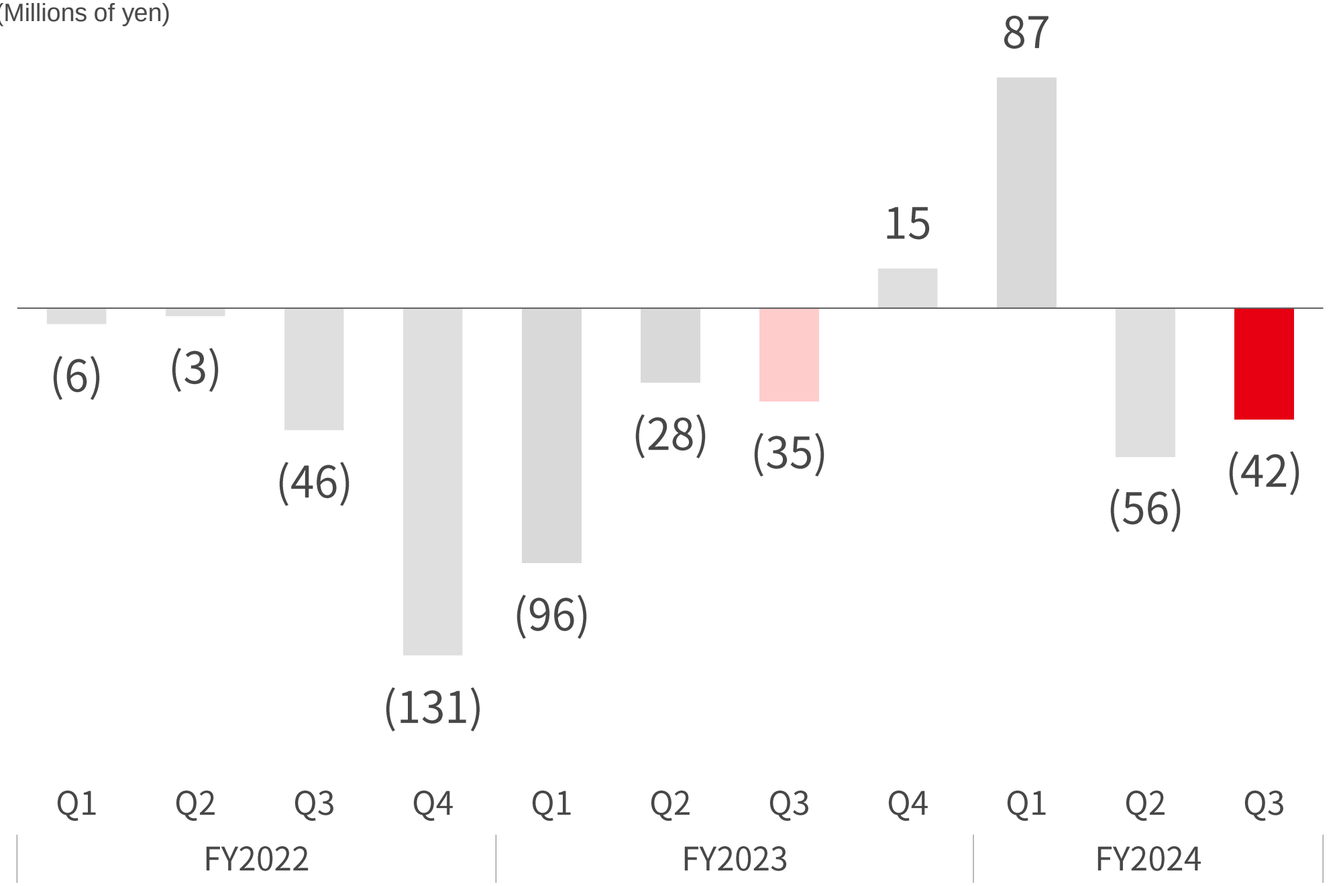
*： GRCS shifted to consolidated accounting in Q3 FY2022

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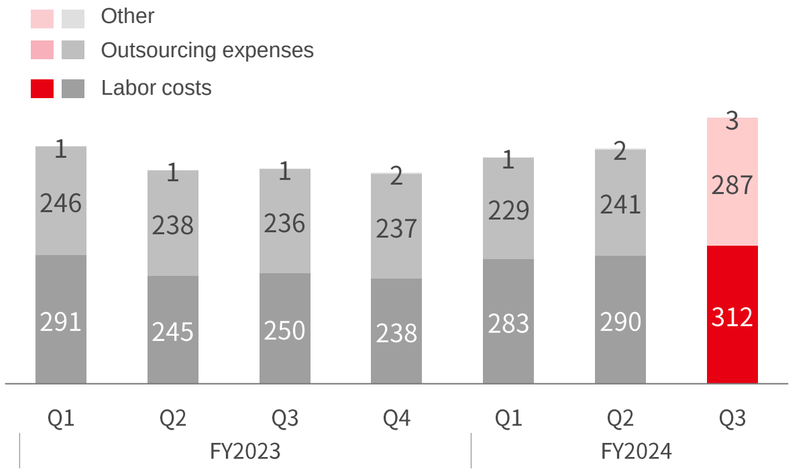
Trends in Operating Profit (Quarterly)

- ✓ Personnel are on standby for a large-scale project, resulting in losses due to lower operation rate and profit margins
- ✓ As the project progresses, full-scale operations are anticipated in Q4, which will lead to an improvement in profit margins.

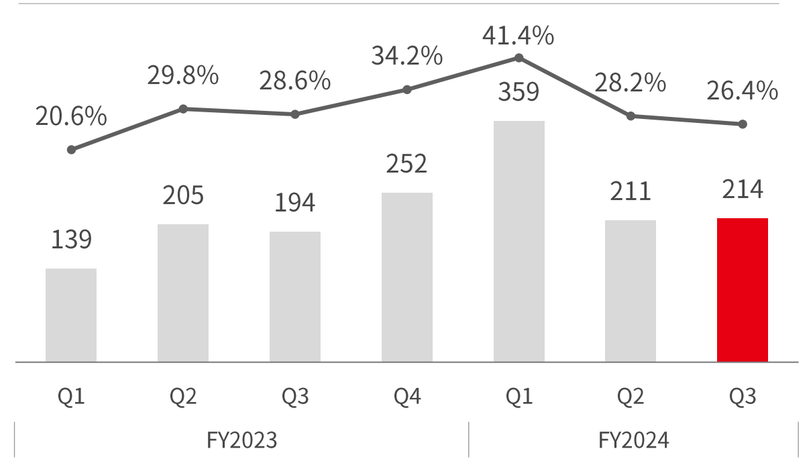
(Millions of yen)



Cost of sales (Millions of yen)



Gross profit/gross profit margin (Millions of yen)

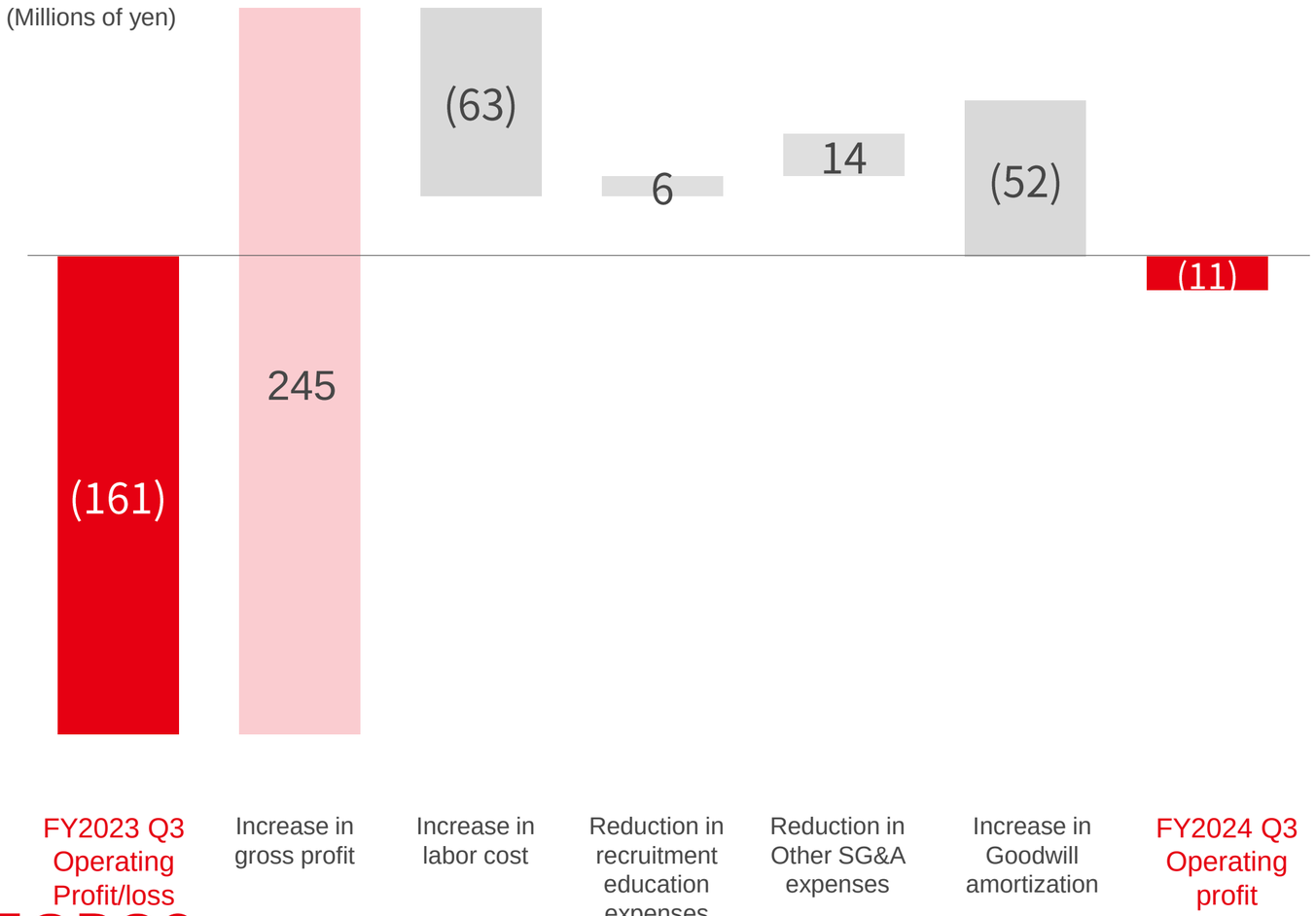


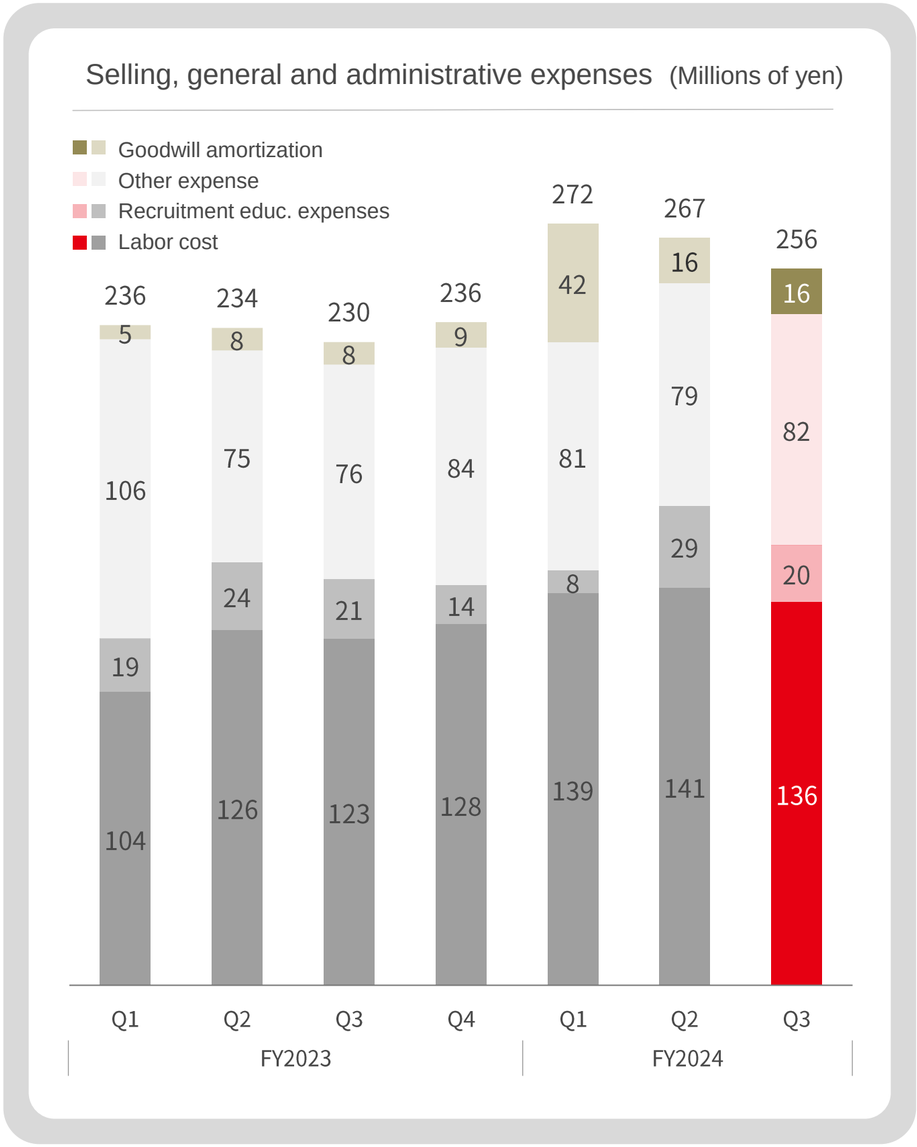
*： GRCS shifted to consolidated accounting in Q3 FY2022

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Analysis of Operating Profit Change

✓ Increase in labor costs resulting from incentives related to securing a large-scale project





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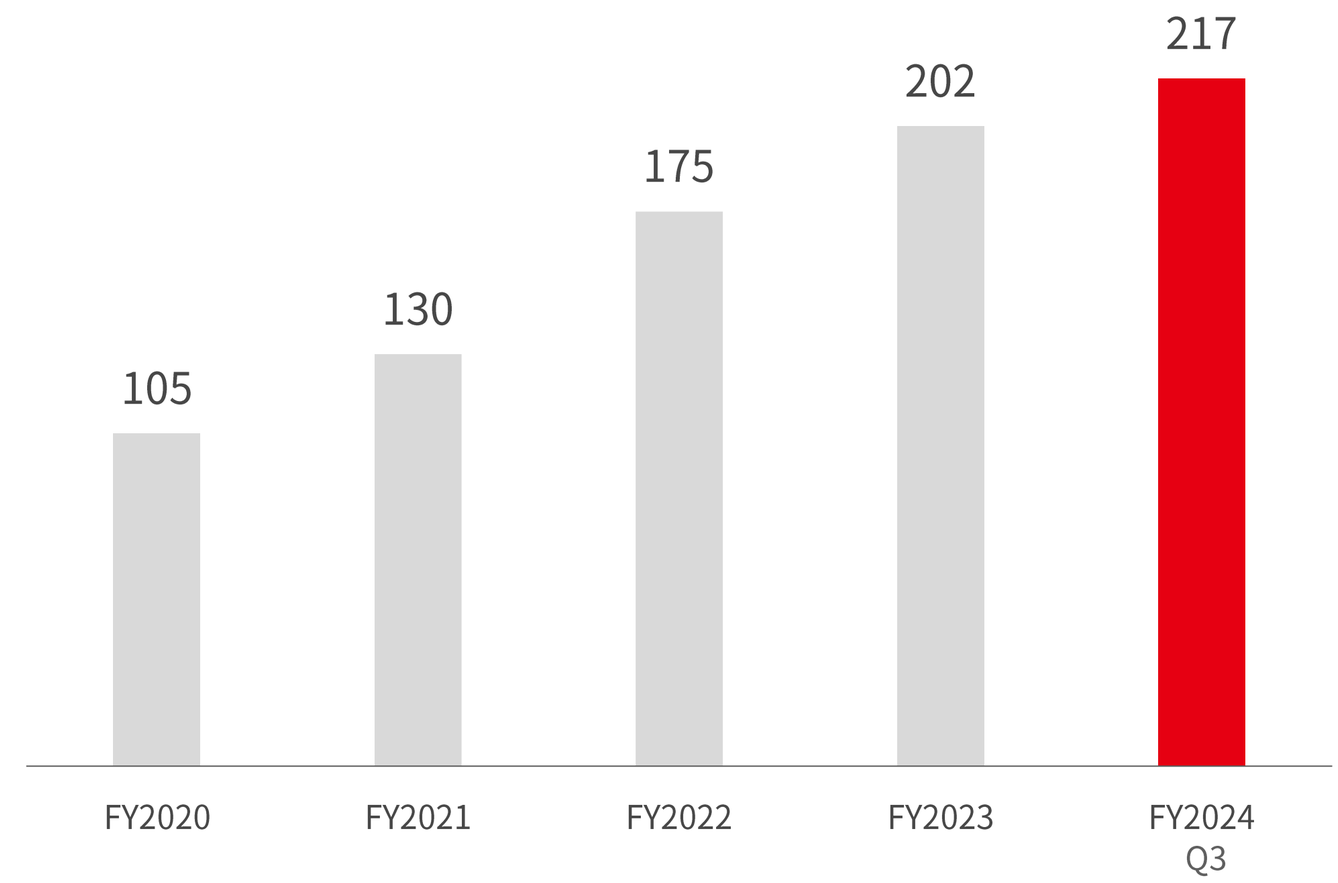
Headcount Trends

✓ Moderate increase in personnel to enhance profitability for the year

Change from the end of FY2023

+15persons

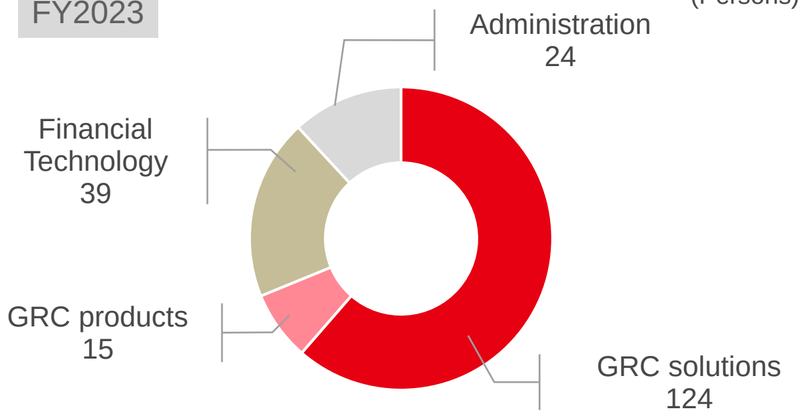
(Persons)



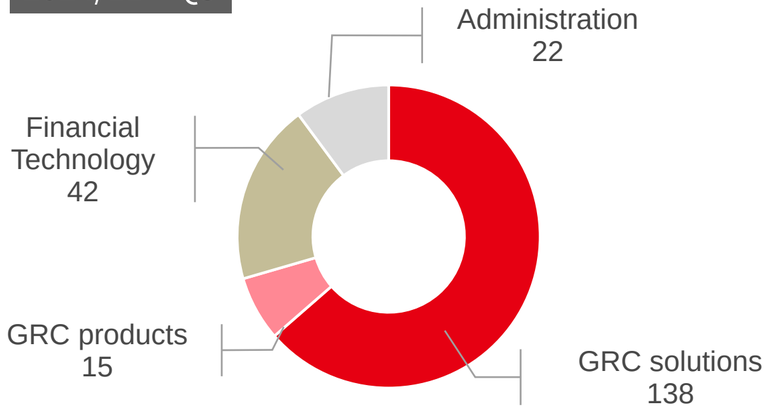
Personnel allocation

(Persons)

FY2023



2024/11・Q3



＊：GRCS shifted to consolidated accounting in Q3 FY2022

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5. Earnings Forecast

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Full-Year Earnings Forecast for the FY2024 ending November 30, 2024

✓ Secured a large project from a new securities company, progressing steadily towards the full-year performance forecast

(Millions of yen)	FY2023	Composition ratio	FY2024 forecast	Composition ratio	Change amount	Year on year change
Net sales	2,783	100.0%	3,315	100.0%	532	119.1%
GRC solutions and products	2,163	77.7%	2,480	74.8%	317	114.7%
Financial Technology	620	22.3%	835	25.2%	214	134.6%
EBITDA	(98)	(3.5%)	161	4.9%	259	—
Operating profit (loss)	(145)	(5.2%)	53	1.6%	199	—
Ordinary profit (loss)	(173)	(6.2%)	34	1.1%	208	—
Profit (loss) attributable to owners of parent	(280)	(10.1%)	17	0.5%	297	—

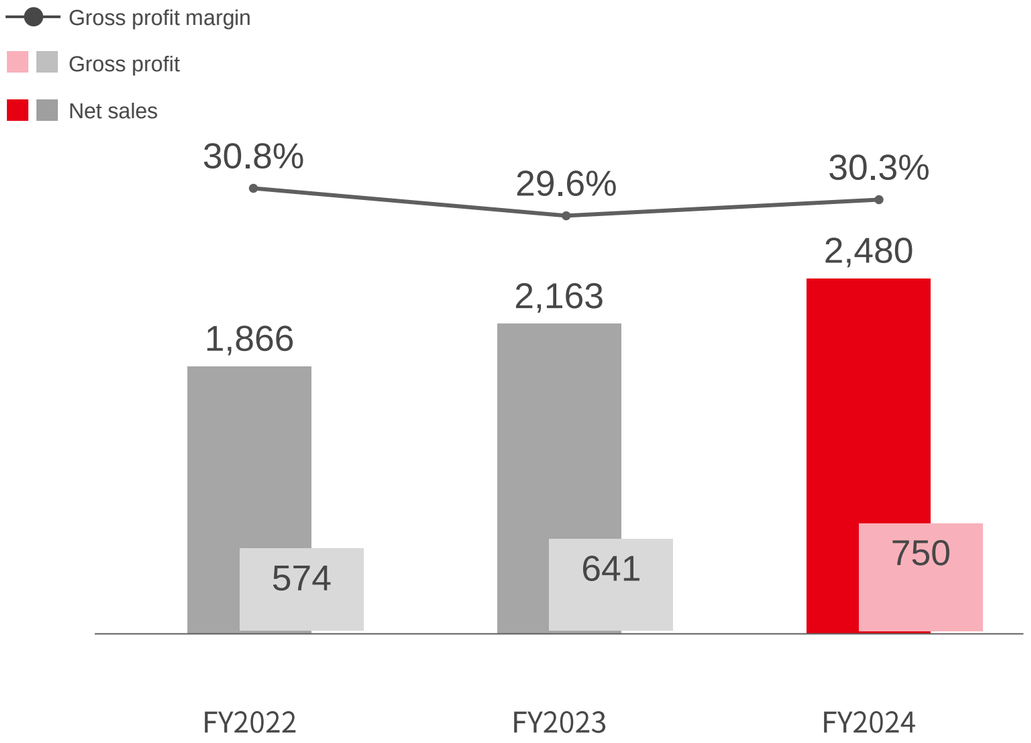
＊：EBITDA=Operating profit + Depreciation + Goodwill amortization

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Plan by Business Unit for FY2024

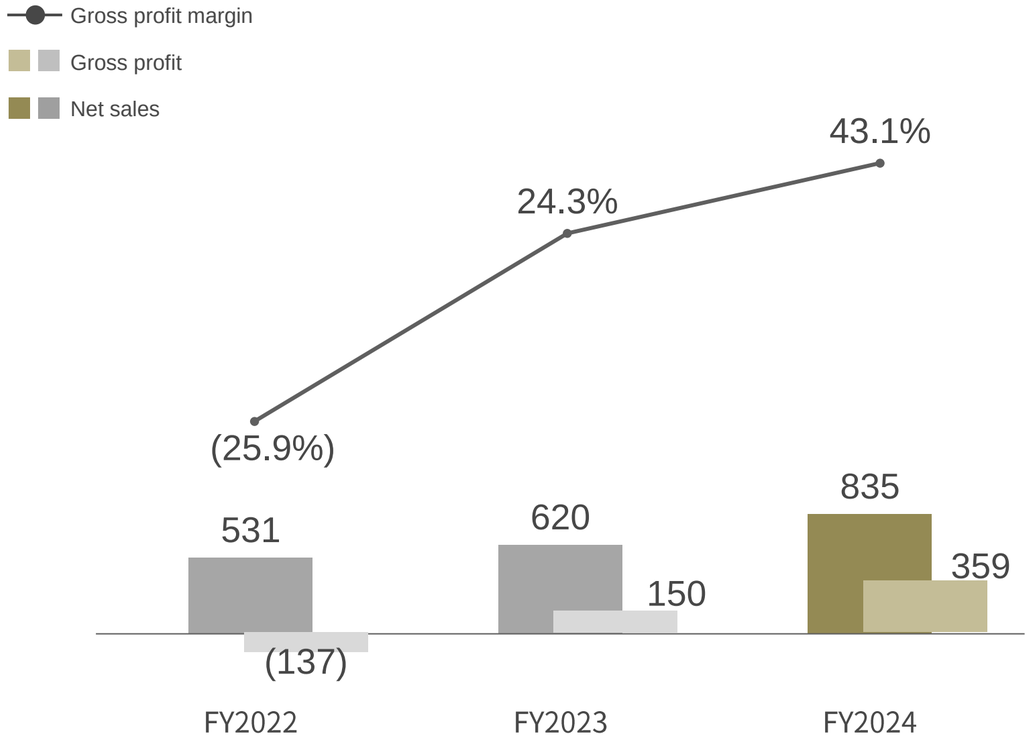
GRC solutions and product (Millions of yen)

- ✓ Plan design based on performances
- ✓ Improve operation ratio



Financial Technology (Millions of yen)

- ✓ Gain orders of carried over projects
- ✓ Further improvement of profit margin by maximizing sales



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6. Appendix

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Company Profile

Company name	GRCS Inc.
Founded	March 2005
Fiscal year	November each year
Paid-in capital	363 million yen
Address	Palace Building 5F, 1-1-1 Marunouchi, Chiyoda-ku, Tokyo
No. of employees	202 (as of November 30, 2023, consolidated)

Officers	Yoshikazu Sasaki, President & Representative Director
	Takuya Tsukamoto, Director
	Ikue Tanaka, Director
	Keiichi Kubo, Outside Director
	Osamu Yamano, Outside Director
	Koshi Oizumi, Auditor
	Yasuo Shimada, Auditor
	Shino Iga, Auditor



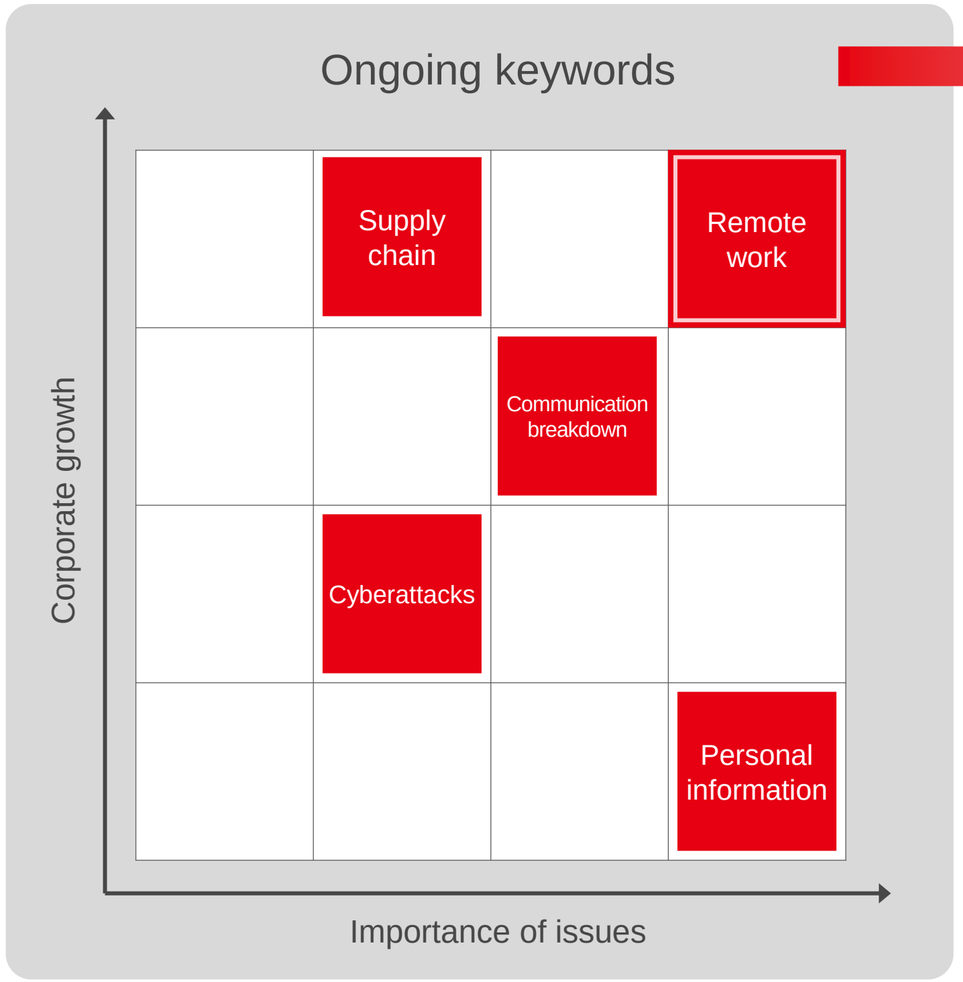
President & Representative Director **Yoshikazu Sasaki**

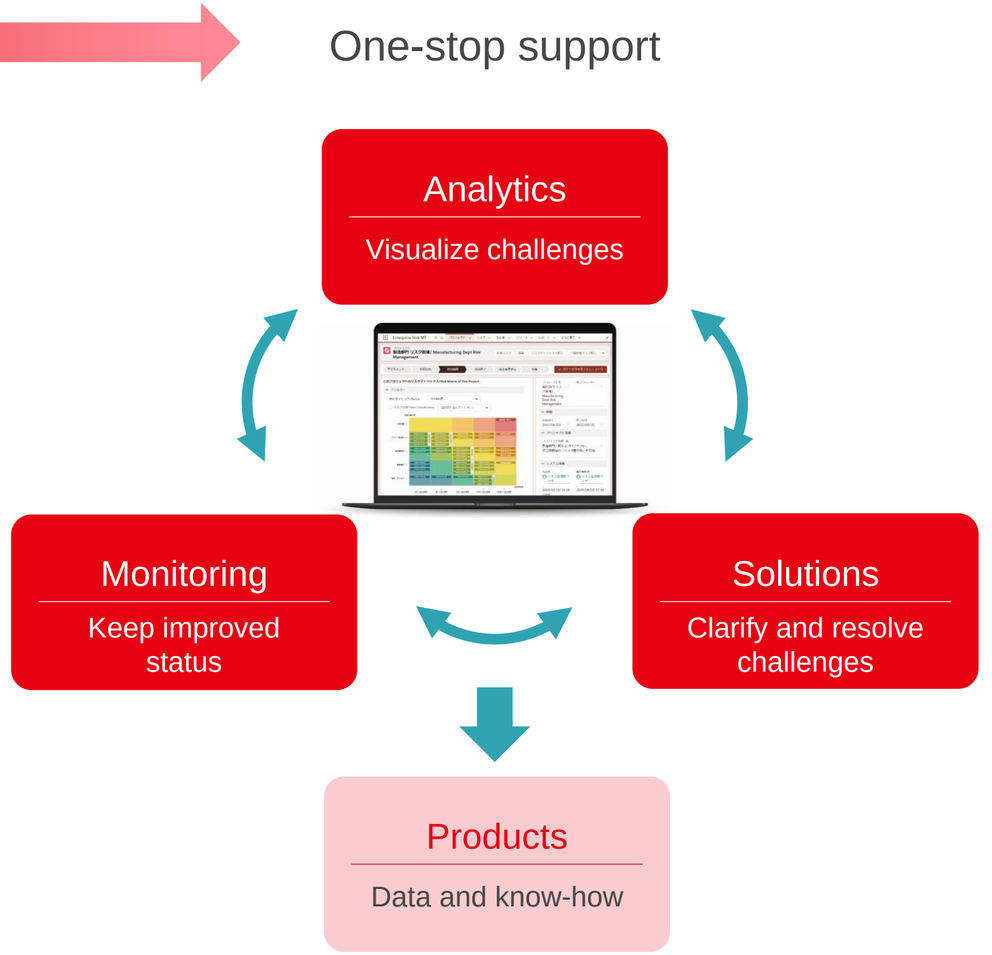
Born in Iwate Prefecture in 1976. Graduated from the Department of Computer Science, University of Southern California in 2001. Joined Hewlett-Packard Japan Co., Ltd. and engaged in security consulting. Established Frontier X Frontier Co., Ltd. in March 2005 (trade name changed to GRCS Inc. in 2018).

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Areas and Scheme of Service Provision by GRCS

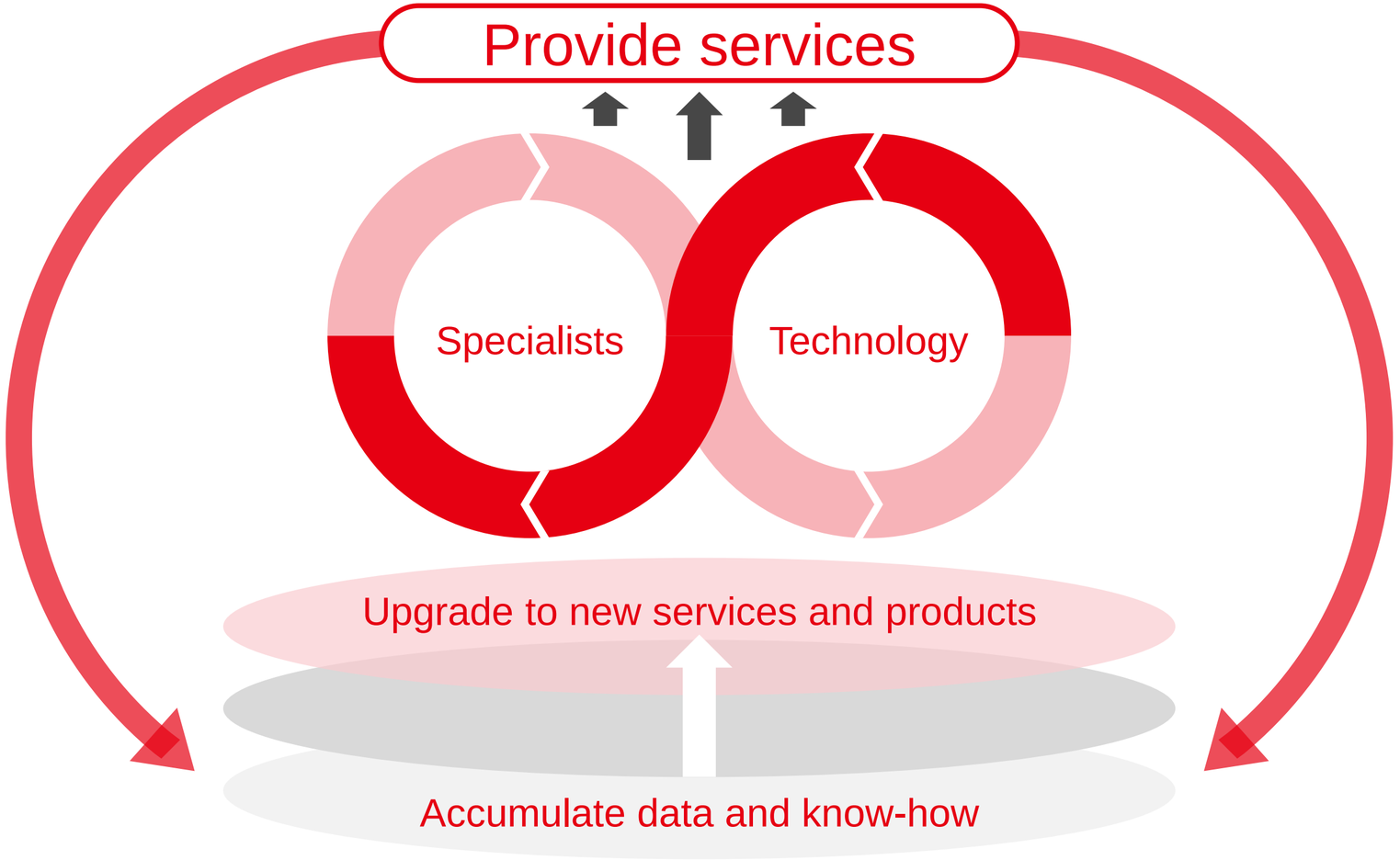
- ✓ Utilize products for efficient and better enterprise information management and sharing ⇒ Visualize business challenges
- ✓ Offer comprehensive, one-stop support to analyze and resolve challenges and keep the improved status ⇒ Create more projects through continuous PDCA cycles





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How GRCS Provides Services

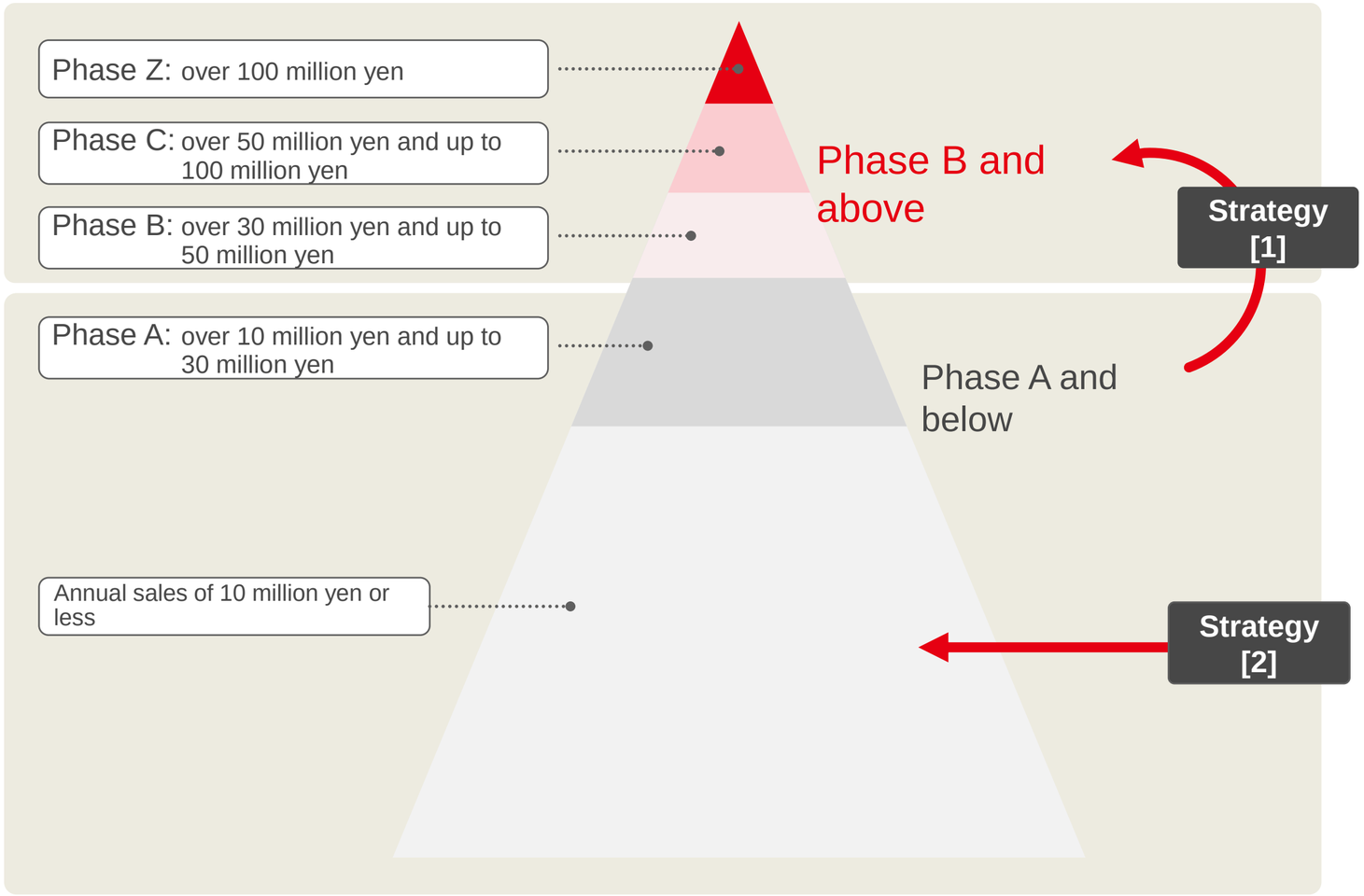


- ✓ About 150 in-house specialists
- ✓ A leading GRC specialist company in Japan
- ✓ Track record of over 10 years
- ✓ Once-stop service provider
- ✓ Global Fin Tech

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Overview of Growth Strategy

- ✓ Client management by phase based on their annual sales and increase the number of clients with annual sales over 30 million yen
- ✓ Continue to focus on upselling existing clients(Strategy[1]) and developing new clients(Strategy[2])



Expand annual sales

- Move clients of phase A and below to phase B and above
- Expand service offerings

Develop the client base

- Develop clients of phase A and below that may move to phase B and above
- Expand product offerings

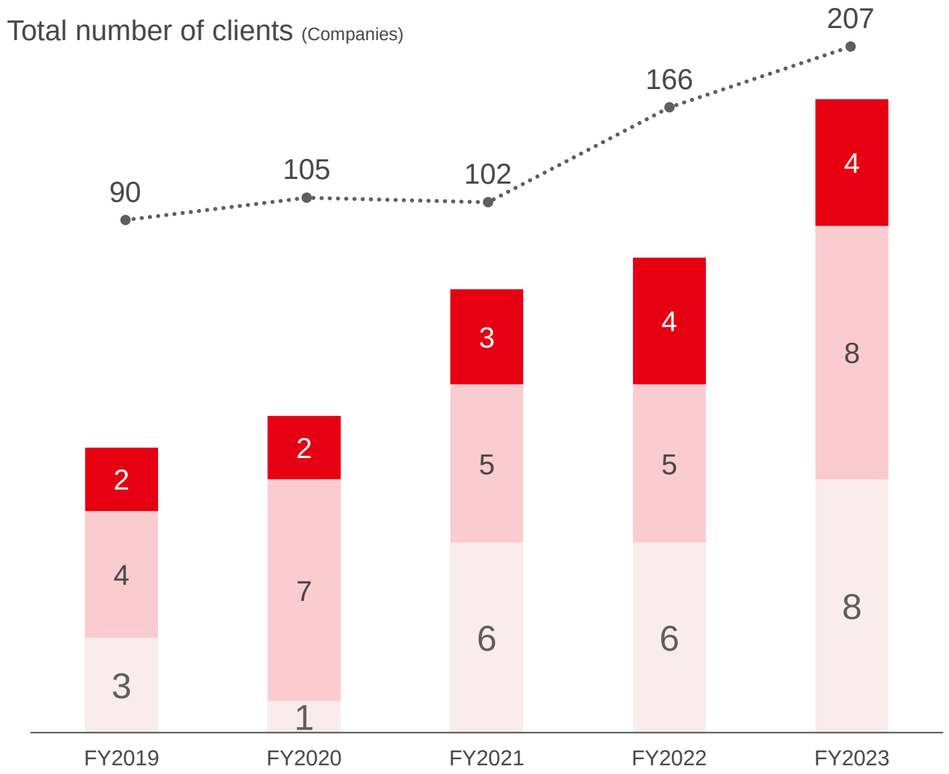
*1: Figures in parentheses represent annual sales
*2: The chart is an illustrative drawing of our growth strategy and does not reflect current client distribution

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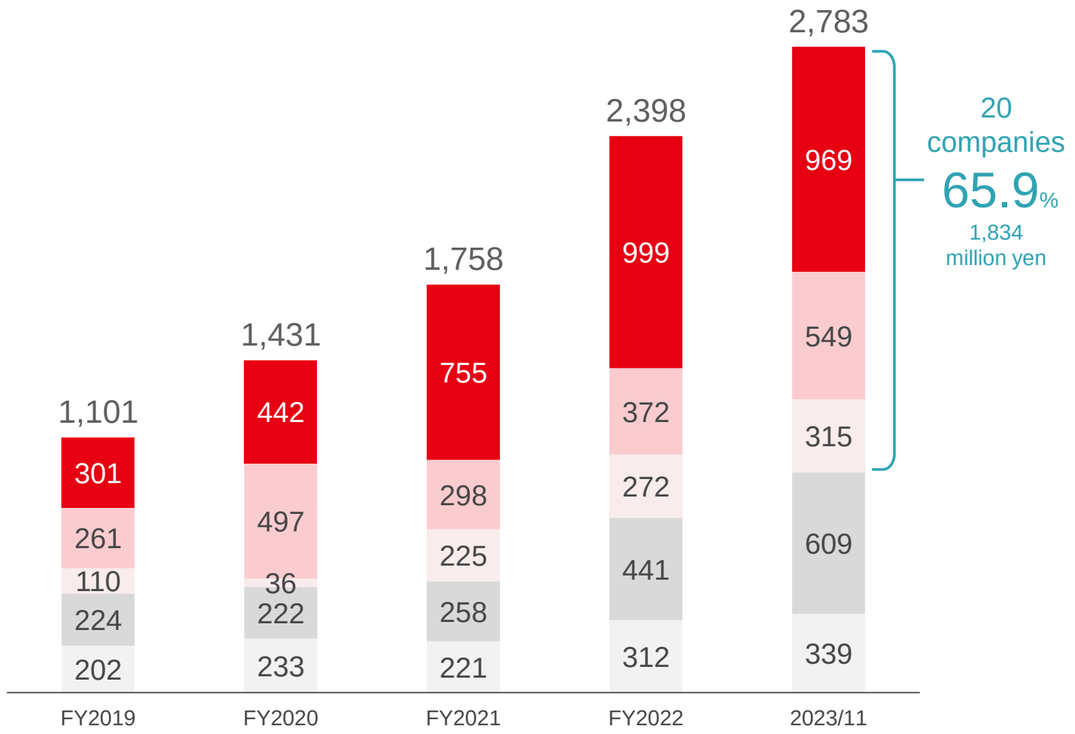
Progress (Strategy [1]): Sales by Phased Client

- ✓ The number of clients with annual sales over 30 million yen increased by 5 companies compared to FY2022.
- ✓ 20 companies at phase B and above account for 65.9% of whole sales.

Number of clients at phase B and above (Companies)



Composition ratio by phase (Millions of yen)

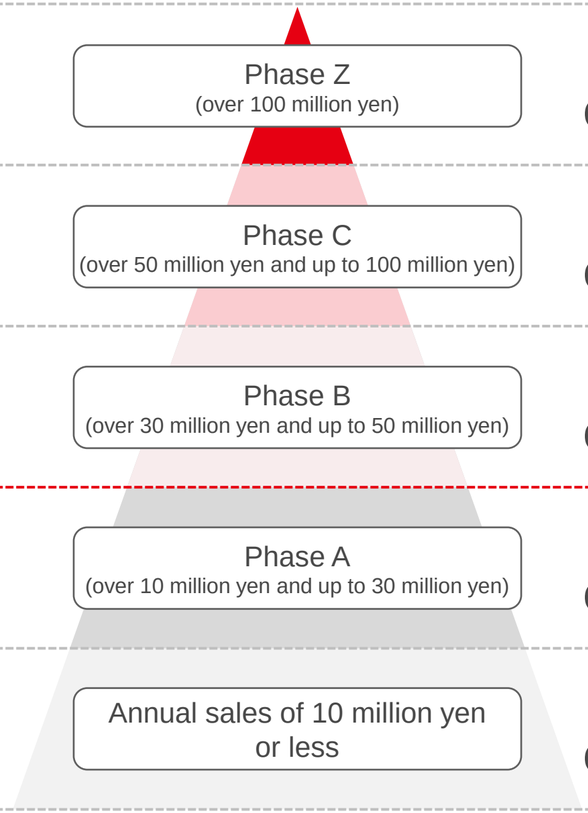


Phase Z: over 100 million yen
Phase C: over 50 million yen and up to 100 million yen
Phase B: over 30 million yen and up to 50 million yen
Phase A: over 10 million yen and up to 30 million yen
10 million yen and below

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Progress (Strategy [2]): Targets by Industry

- ✓ Continue to focus on financial, telecom and global companies with growing demand
- ✓ Gained 36 more clients of phase A compared to FY2022 and potential prospects from companies with expansion of transactions have emerged



			Financial	Telecom	Global	Others
Phase Z (over 100 million yen)	4 companies	969 million yen	1 company	1 company	1 company	1 company
Phase C (over 50 million yen and up to 100 million yen)	8 companies	549 million yen	1 company	0 company	3 company	4 companies
Phase B (over 30 million yen and up to 50 million yen)	8 companies	315 million yen	2 company	0 company	2 companies	4 companies
Phase A (over 10 million yen and up to 30 million yen)	34 companies	609 million yen	6 company	2 company	10 companies	16 companies
Annual sales of 10 million yen or less	153 companies	339 million yen	18 company	135 companies		

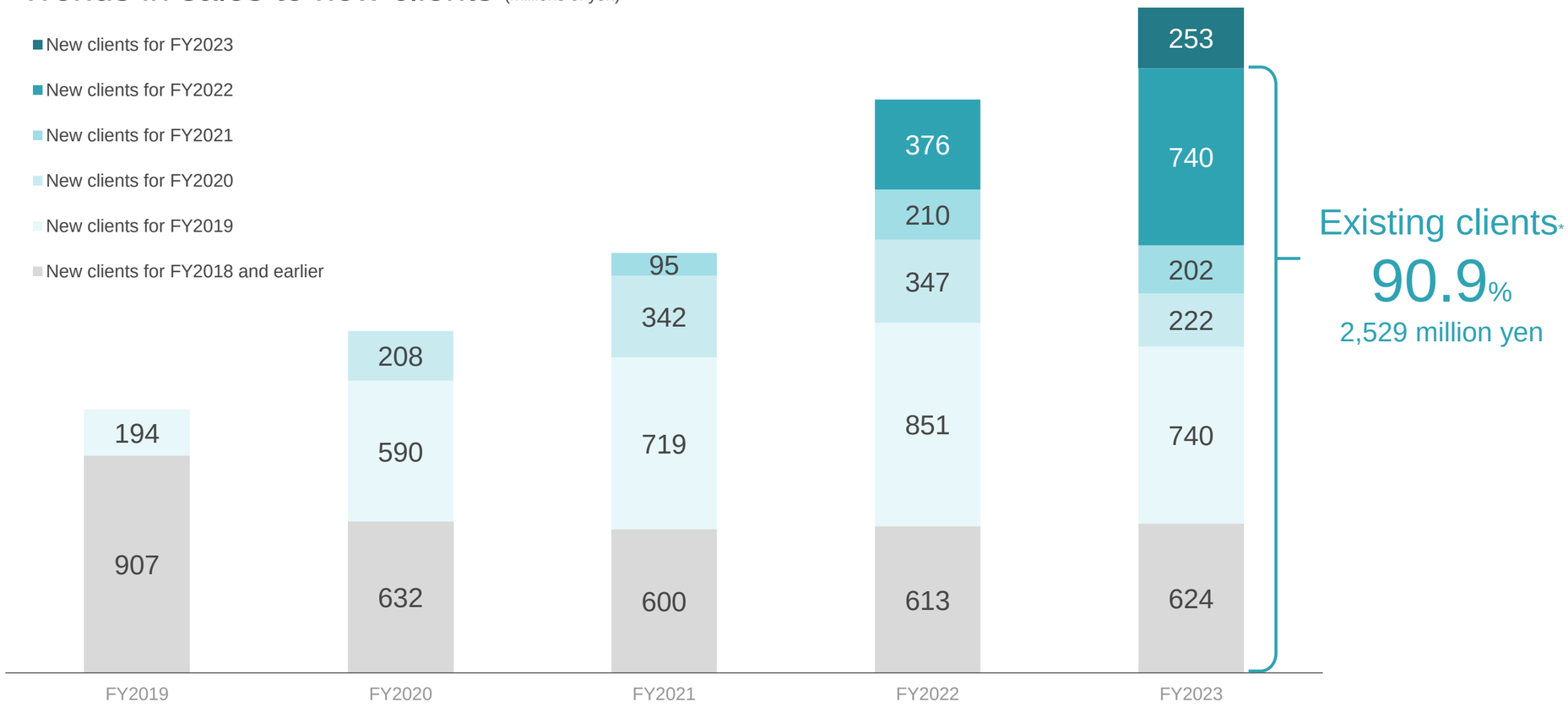
＊：Figures indicate the number of clients and transaction amount in FY2023.

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Earnings Structure to Materialize High Growth Potential and Achieve Stability

- ✓ Net sales steadily increased by upselling to new clients acquired each year
- ✓ Continued operational support as an earning source and develop projects for new clients' demands
- ✓ The earnings structure is a stock-based model and similar to a recurring model

Trends in sales to new clients (millions of yen)



*1: Companies with which transactions started as new clients are defined as existing clients for the following fiscal year and thereafter

*2: It is a numerical value that aggregates the progress of upselling to new clients regarding strategy [1] and strategy [2]

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