baudroie inc.

Financial Results Briefing Material for the Third Quarter of Fiscal Year Ending February 2025

January 2025

Notice:This document has been translated from the Japanese original for reference purposes. In the event of any discrepancy between this translated document and the Japanese original, the latter shall prevail.

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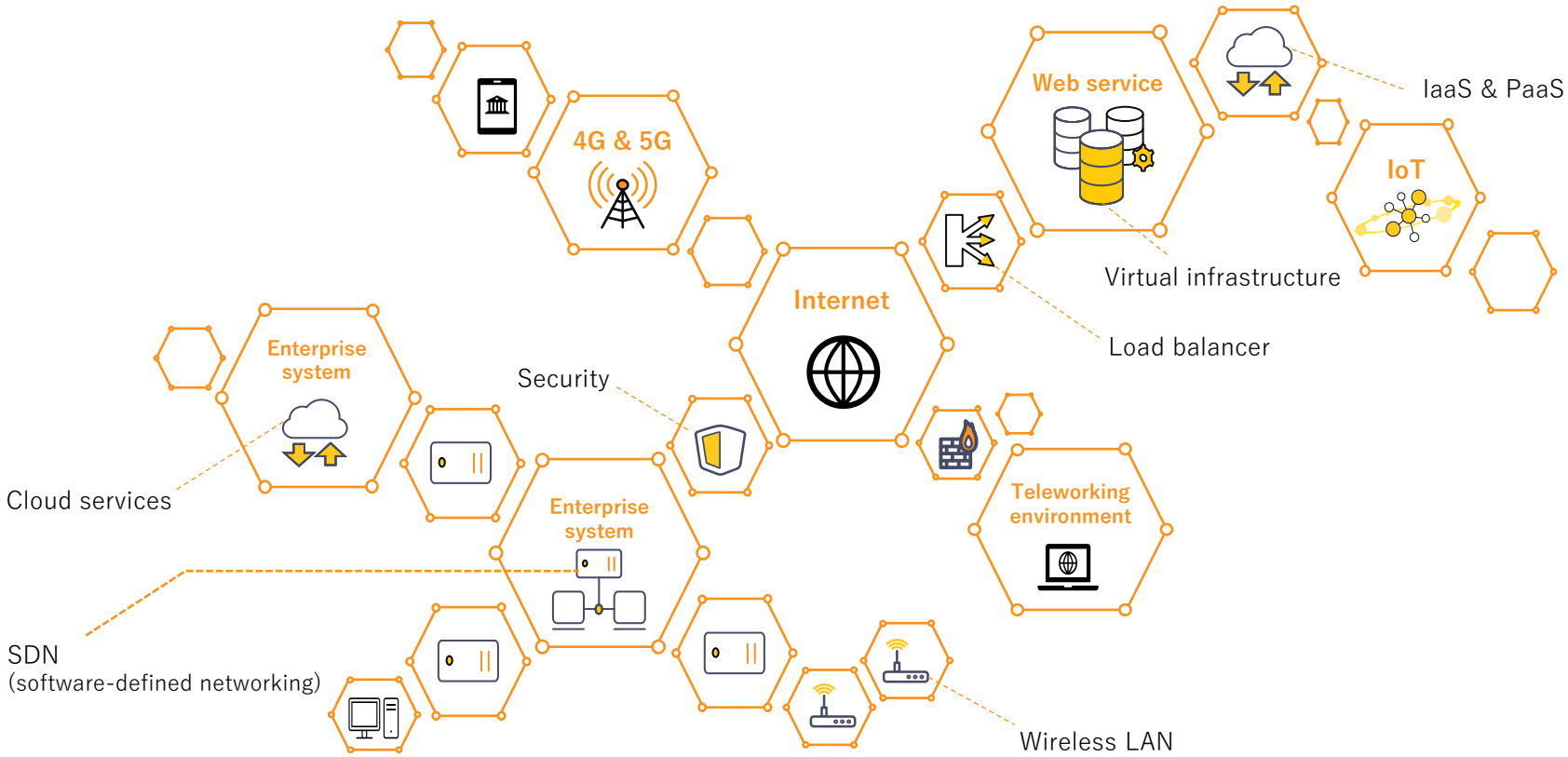
Business Overview

Company Overview

Company name	baudroie inc.
Directors	**President and Chief Executive Officer** Shigehiro Tominaga **Representative Director** Kazuya Fujii **Director** Yoshiaki Hodoshima **Director (Audit and Supervisory Committee Member)** Toshio Okamoto Kiyoko Yagami Anna Seo
Established	April 2007
Fiscal year-end	February
No. of employees	1063 (including full-time and contract employees) *As of November 2024
Line of business	IT infrastructure business
Major clients	SoftBank Corp. NTT Communications Corporation Nippon Telegraph and Telephone East Corporation KDDI CORPORATION Mitsubishi Research Institute, Inc. Nomura Research Institute, Ltd. SQUARE ENIX CO., LTD.
Subsidiaries	ZOSTEC Inc. ALJOY Inc. FunClock Inc. actias Inc.
Head office	Azabudai Hills Mori JP Tower 17F, 1-3-1 Azabudai, Minato-ku, Tokyo
Second office	BPR Place Kamiyacho 5F, 1-11-9 Azabudai, Minato-ku, Tokyo

What Are IT Infrastructure Services?

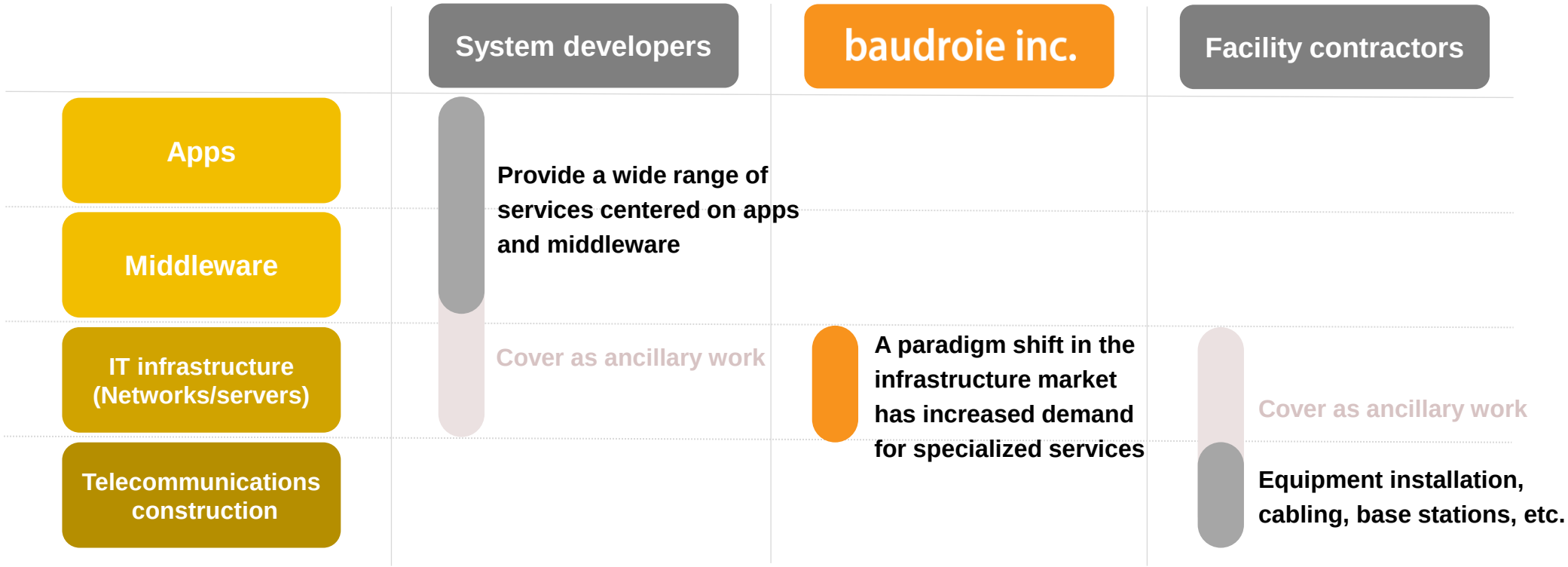
IT infrastructure services refer to designing and constructing complex IT infrastructure, including servers that operate systems, networks that connect devices to systems, and security solutions that protect secure communications and information, as well as conducting their operation and maintenance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



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

What Differentiates Us from System Developers and Facilities Contractors

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



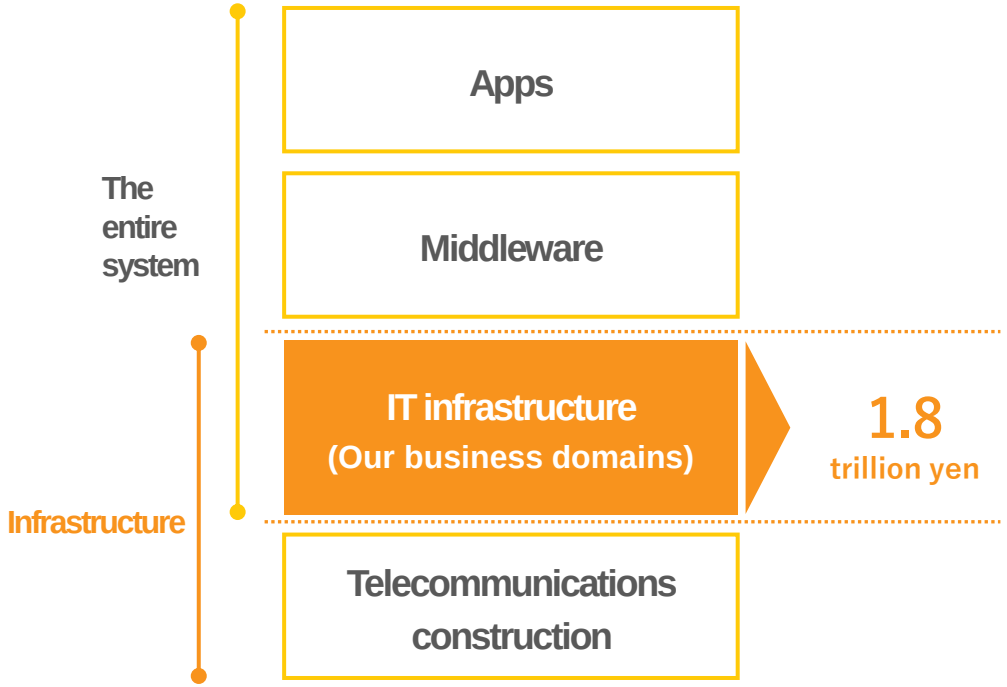
*Apps (applications): refer to such programs as mission-critical systems (for enterprise resource planning), programs operated by users such as web and smartphone applications, groupware (like Microsoft Office 365), and AI and machine learning. These programs are developed using programming languages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

Business Domains

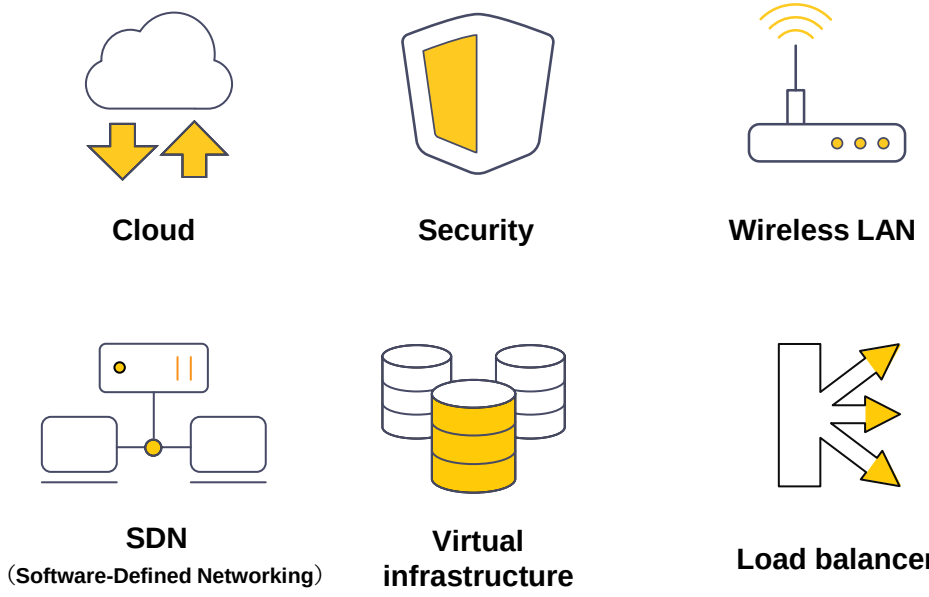
We are a professional operator specializing in IT infrastructure services, especially in advanced technology areas.

Where the IT infrastructure services market is positioned

In 2021, the entire Japanese IT market amounted to 19 trillion yen, of which the IT infrastructure services market accounted for 1.8 trillion yen.



Advanced technology areas that are growing prominently in the IT infrastructure area



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

Highlights of Consolidated Financial Results

Executive Summary

Revenue (Q1-Q3 [cumulative])

8.42 billion yen (up 56.2% YoY)

Operating profit (Q1-Q3 [cumulative])

1.73 billion yen (up 52.1% YoY)

✓ As of the third quarter, the operating profit progress rate against the full-year forecast is 75.6%.
This year, as is customary, profits are expected to increase each quarter.

✓ We are making steady preparations to achieve strong growth next fiscal year
and are expected to maintain a high growth rate.

➡As a result of strengthening recruitment, this year we expect the net increase in employees to exceed the initial forecast by approximately 30 to 40.

➡We will balance this fiscal year's profit plan and market consensus figures, and upfront investments aimed at achieving high growth in the coming years.

✓ Due to the offering, the costs related to the transition to the Prime Market, which were initially planned for the next fiscal year, were recorded in the current fiscal year. However, we have continued to grow while absorbing these costs.

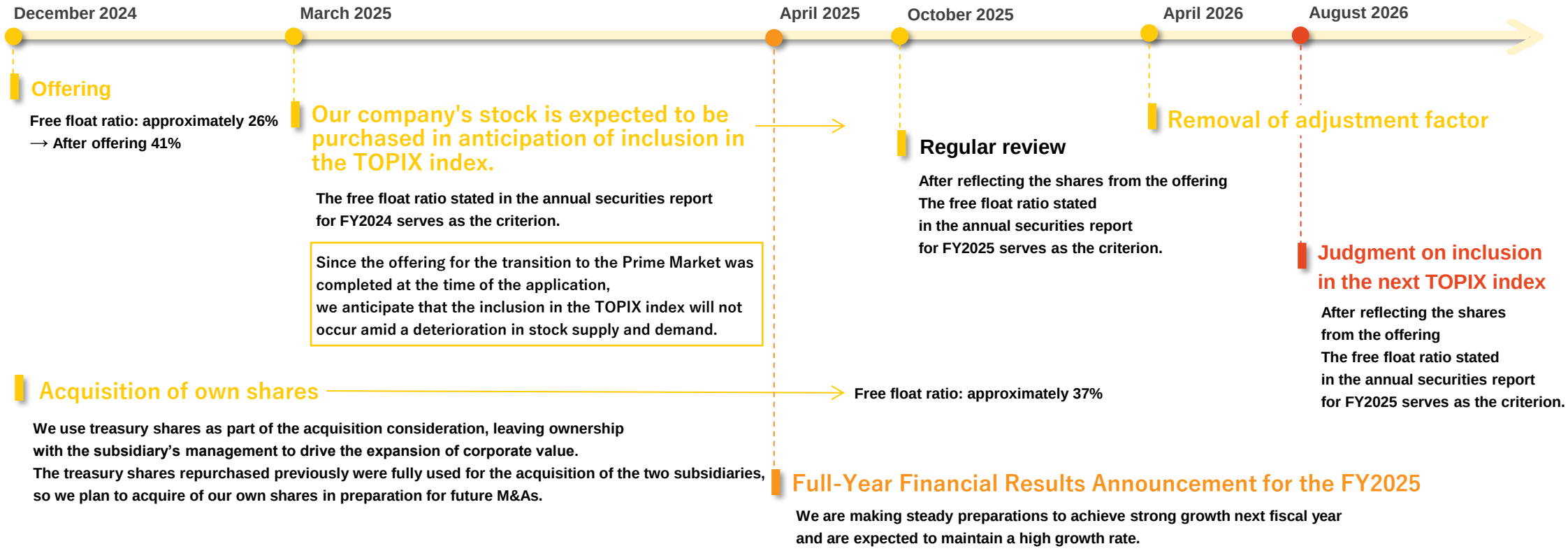
✓ On November 25, 2024, we made the following three disclosures (details are provided on the next page).

- A resolution to apply for the transition to the Prime Market was approved at the Board of Directors meeting. (Application submitted in December 2024)
- A stock offering was conducted to meet the free float ratio requirement for transitioning to the Prime Market and to aim for inclusion in the next TOPIX index. (Completed in December 2024)
- Acquisition of own shares for next M&A (Scheduled from December 11, 2024, to April 30, 2025).

Purpose and Timing of the Offering / Acquisition of own shares for the next M&A

- Compliance with the circulating stock ratio requirement for transitioning to the Prime Market*1
  ➡ Current free float ratio: approximately 26% → After offering: approximately 37% (Excluding the 2.25% for the over-allotment option and the estimated 4% for acquisition of own shares)
- As the number of IR meetings with overseas institutional investors has increased recently, we need to increase liquidity so that new investors can purchase our shares.
- This will also increase the likelihood of inclusion in the next TOPIX index (top 97% criterion based on the cumulative free float market capitalization weight).
  ➡ Since the judgment will be based on the figures from the annual securities report for the FY2025, our company needs to take action within this fiscal year to meet the criterion.

The idea is to connect supply and demand events for the stock.



*1 Please note that the approval or disapproval of the change application by the TSE and the timing of the approval are uncertain at this time, and a resolution to change the listing market classification is not a guarantee of a change in the listing market classification.

Summary of Consolidated Financial Results

- ✓ **actias Inc. is included in the consolidated financial results from Q2.**
- ✓ **The performance has continued to show a high growth rate since the first half of the year.**

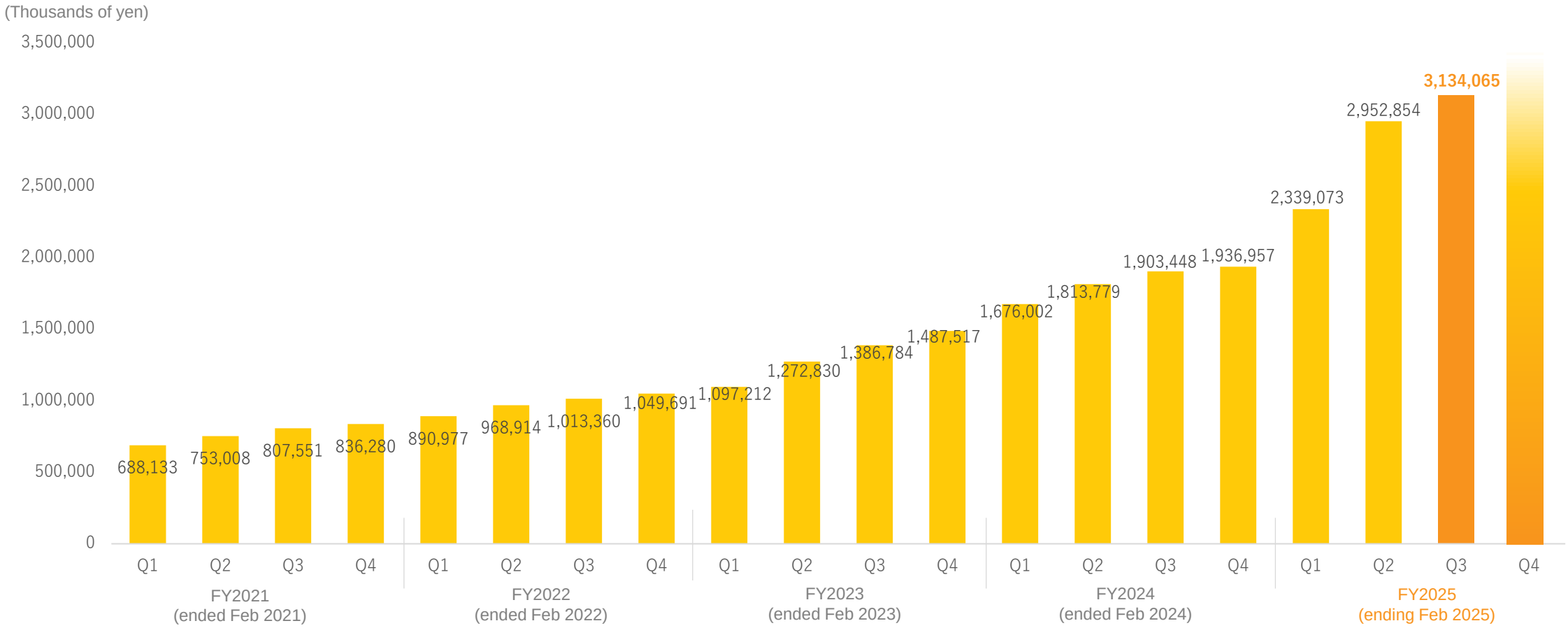
*Adjustment from Japanese GAAP to IFRS figures.

(Thousands of yen)	Q1 – Q3 FY2024 Results (Cumulative) *	Q1 – Q3 FY2025 Results (Cumulative)	YoY (First half-year)	FY2025 full-year Forecast (Update)	YoY (Full year)
Revenue	5,393,229	8,425,993	+56.2%	11,400,000	+55.5%
Operating profit	1,142,488	1,737,915	+52.1%	2,300,000	+45.0%
Profit before tax	1,135,418	1,742,225	+53.4%	2,302,000	+46.2%
Profit	837,135	1,255,821	+50.0%	1,644,000	+41.6%

Trends in Quarterly Consolidated Revenue

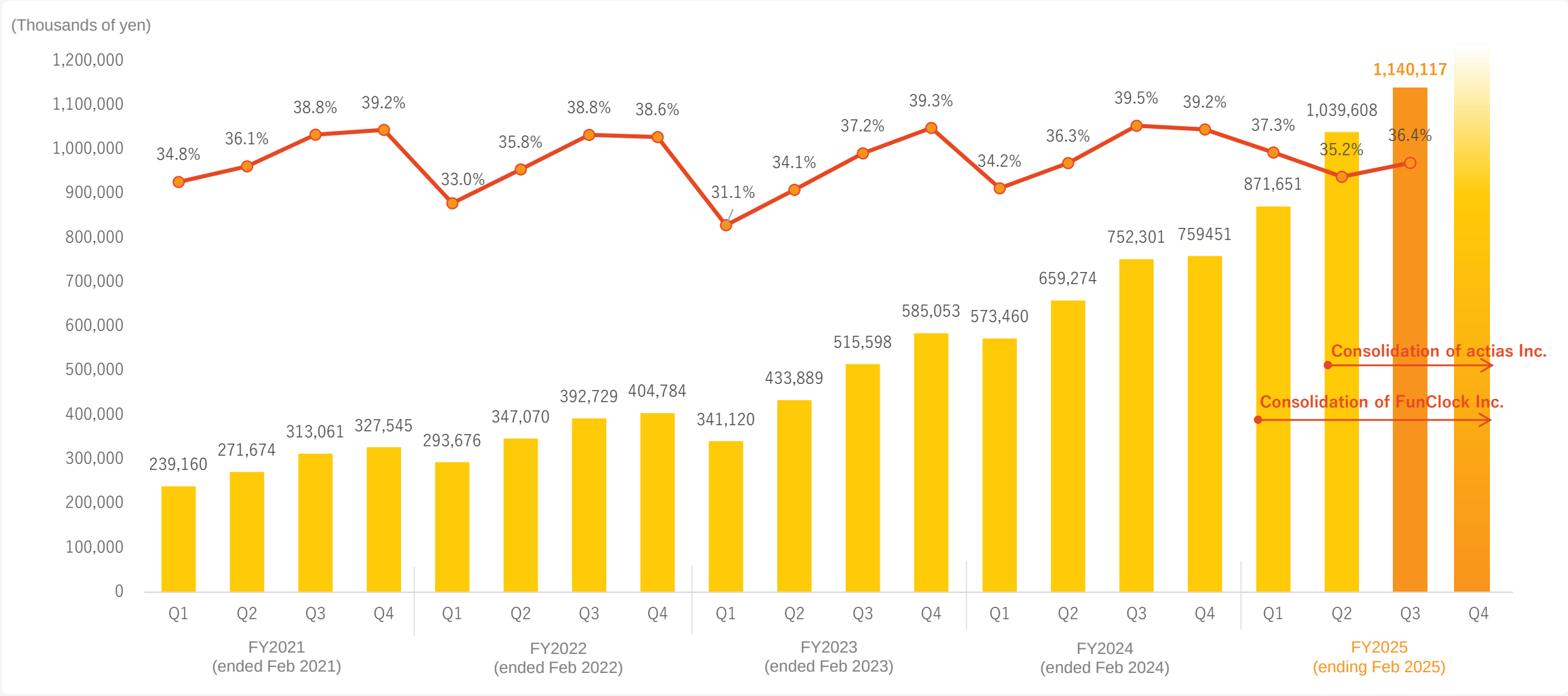
✓ **As before, an increasingly larger proportion of sales is projected in the remaining quarters of FY2025 for the following reasons**

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



Trends in Quarterly Consolidated Gross Profit

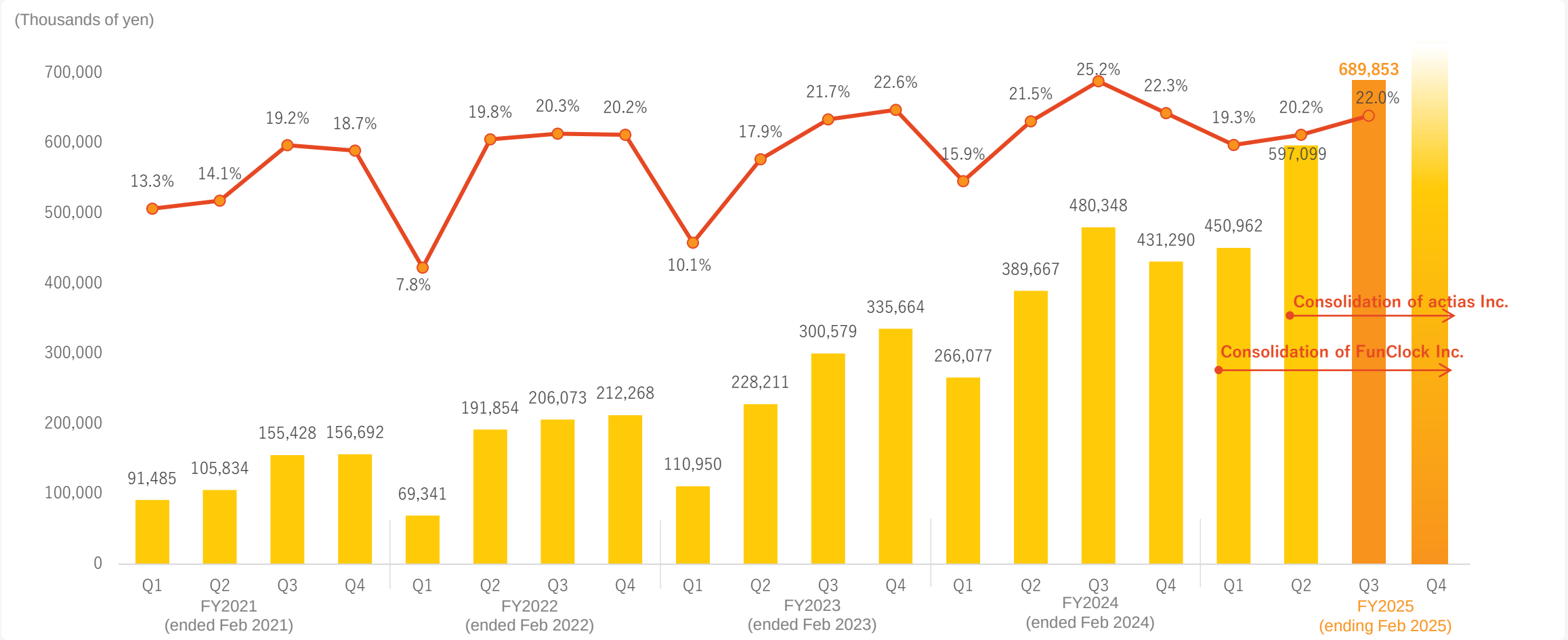
✓ **In the first half of the year, the gross profit margin temporarily decreased due to the impact of consolidating subsidiaries. However, as is customary, our company tends to see an increase in profit from the second quarter onwards, and the gross profit margin has also risen.**



Trends in Quarterly Consolidated Operating Profit

✓ **To achieve strong growth in the coming years, we have strengthened recruitment and expect the net increase in employees this fiscal year to exceed the initial plan by approximately 30 to 40.**

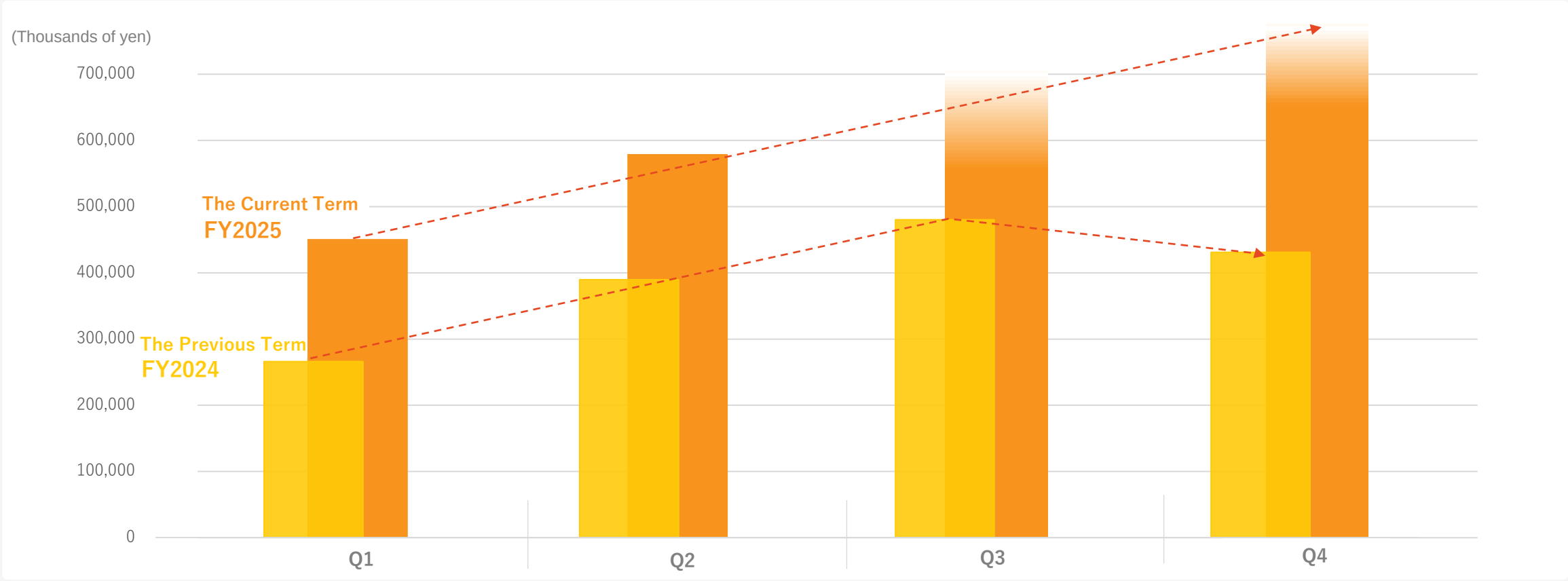
✓ **Due to the offering, the costs related to the transition to the Prime Market, which were initially planned for the next fiscal year, were recorded in the current fiscal year. However, we have continued to grow while absorbing these costs.**



Consolidated Operating Profit Quarterly Image

✓ **Operating income was higher in the Q3 than in the Q4 only in the previous fiscal year, but is expected to be higher in the Q4 than in the Q3 this fiscal year as in past years.**

✓ **We will balance this fiscal year's profit plan and market consensus figures, and upfront investments aimed at achieving high growth in the coming years.**



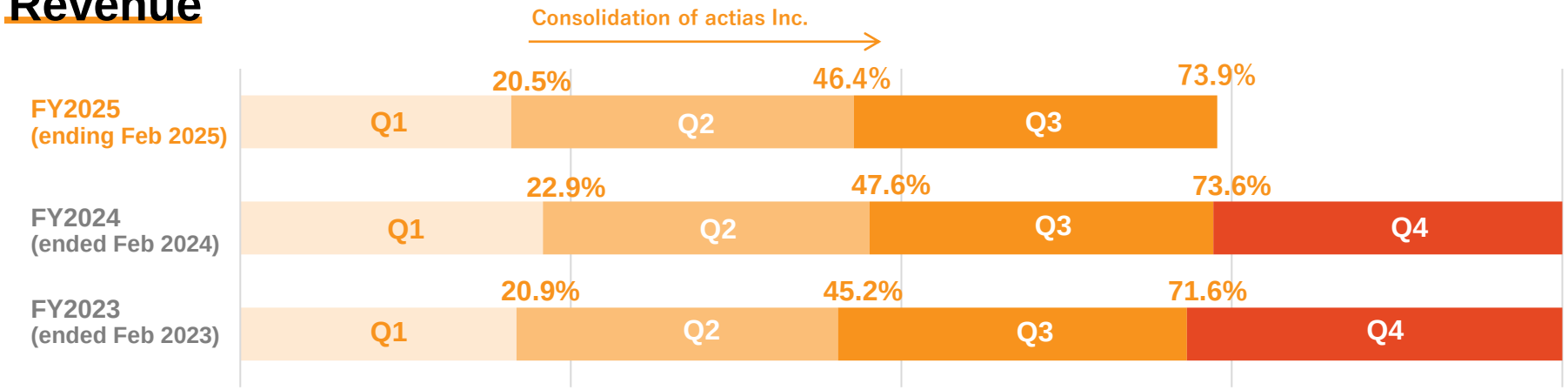
Status of Progress Toward the Full-Year Consolidated Earnings Forecast

✓ **The progress rate is on track with the revised full-year forecast.**
We aim to achieve results that exceed the full-year forecast.

(Thousands of yen)	Japanese GAAP			IFRS				
	Q1 – Q3 FY2024 Results (Cumulative)	FY2024 Full-year Results	Progress rate	Q1 – Q3 FY2025 Results (Cumulative)	FY2025 Full-year Forecast (Before update)	Progress rate toward before update forecast	FY2025 full-year Forecast (Updated)	Progress rate toward update forecast
Revenue	5,393,229	7,330,186	73.6%	8,425,993	9,900,000	85.1%	11,400,000	73.9%
Operating profit	1,136,092	1,567,382	72.5%	1,737,915	2,130,000	81.5%	2,300,000	75.6%
Profit before tax	1,145,836	1,622,010	70.6%	1,742,225	2,135,000	81.6%	2,302,000	75.7%
Profit	766,690	1,171,690	65.4%	1,255,821	1,540,000	81.5%	1,644,000	76.4%

Status of Progress Against the Full-Year Consolidated Earnings Forecast

Revenue

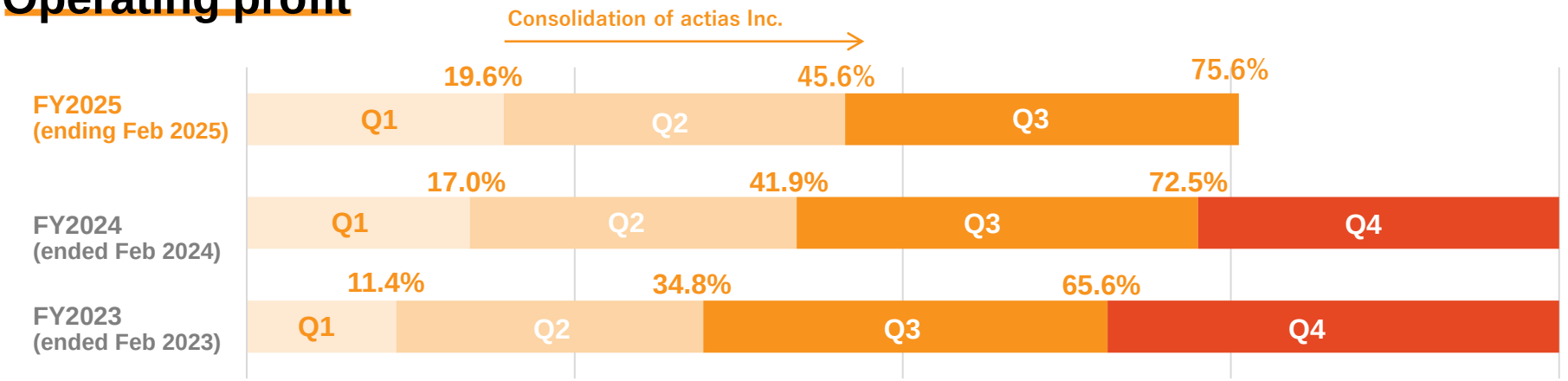


Full-year forecast
11,400,000 thousand yen
(YoY up 55.5%)

Full-year results
7,330,186 thousand yen
(YoY up 39.8%)

Full-year results
5,244,343 thousand yen
(YoY up 33.7%)

Operating profit



Full-year forecast
2,300,000 thousand yen
(YoY up 45.0%)*

Full-year results
1,567,382 thousand yen
(YoY up 60.7%)

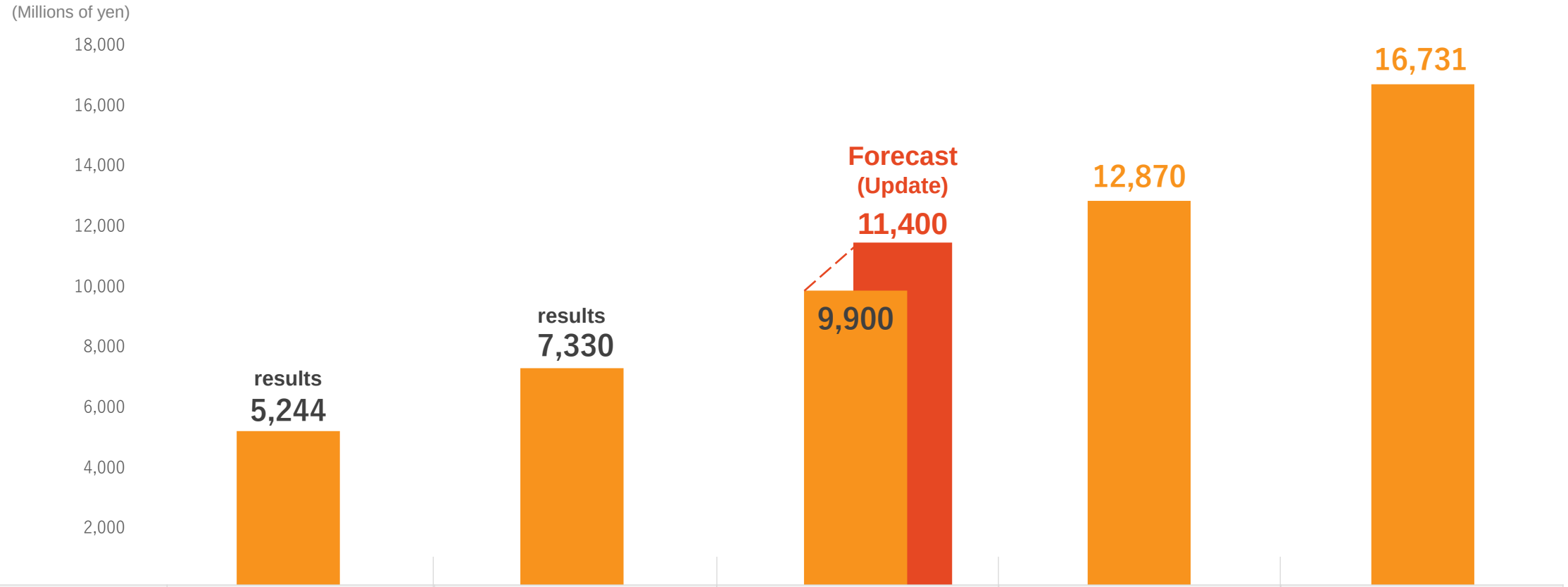
Full-year results
975,404 thousand yen
(YoY up 43.5%)

* YoY change after adjusting previous year's figures to IFRS

Medium-Term Management Plan

Medium-Term Business Plan: Revenue

✓ **We are already exceeding our medium-term management plan, which was updated in April 2024.**

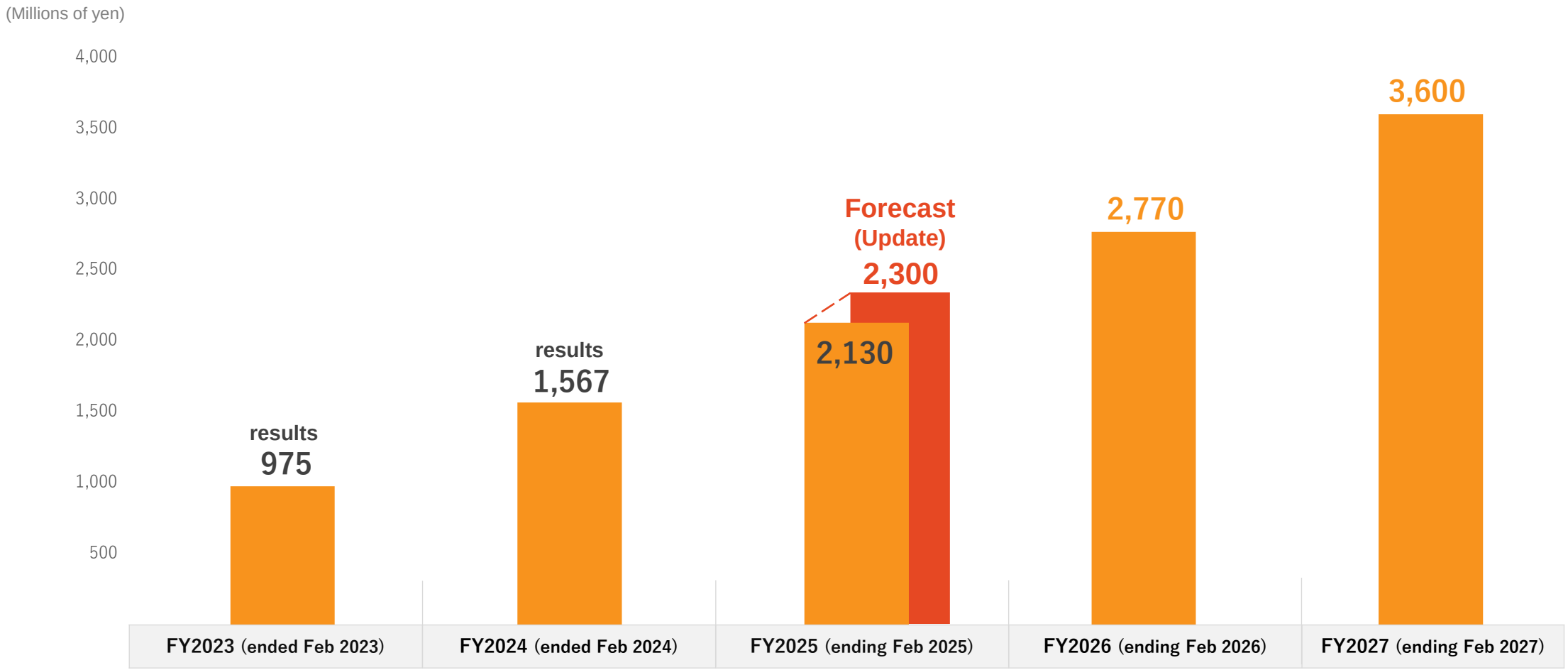


	FY2023 (ended Feb 2023)	FY2024 (ended Feb 2024)	FY2025 (ending Feb 2025)	FY2026 (ending Feb 2026)	FY2027 (ending Feb 2027)
Highly specialized Talents	135	165	220	295	380
Specialized Talents	247	334	405	500	610

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

Medium-Term Business Plan: Operating Profit

✓ **This plan is scheduled to be updated at the time of the full-year financial results announcement.**



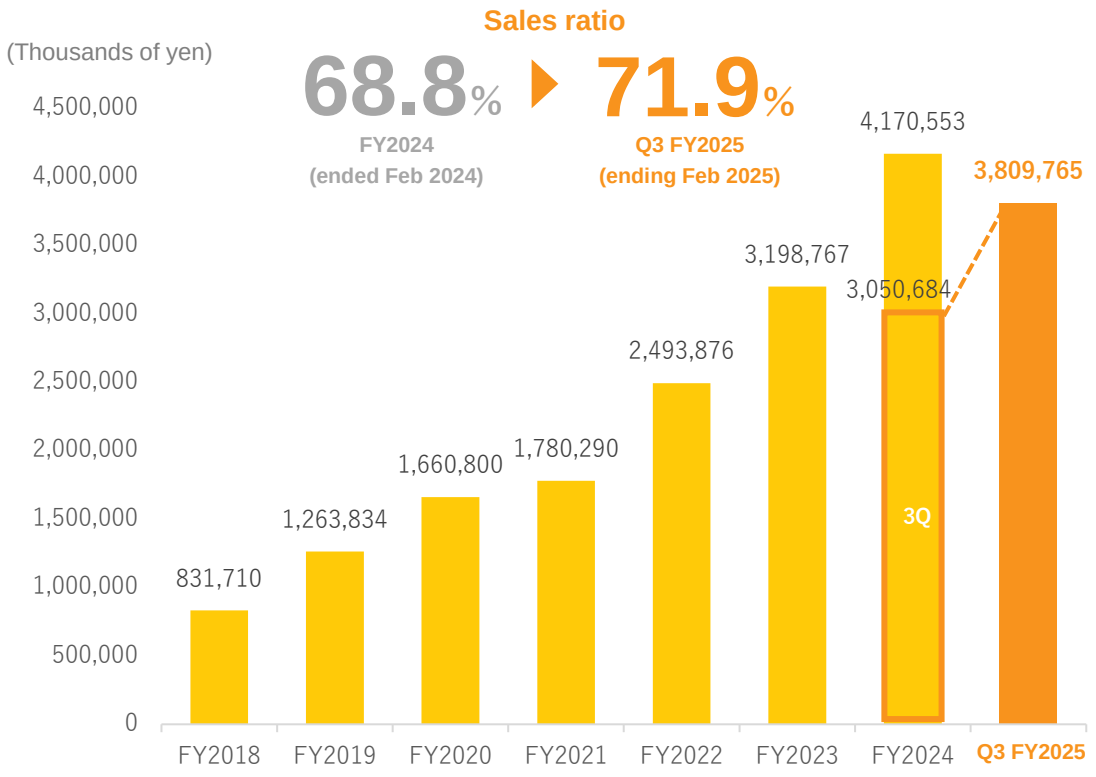
Highlights of Non-Consolidated Financial Results

Sales to Enterprise Clients

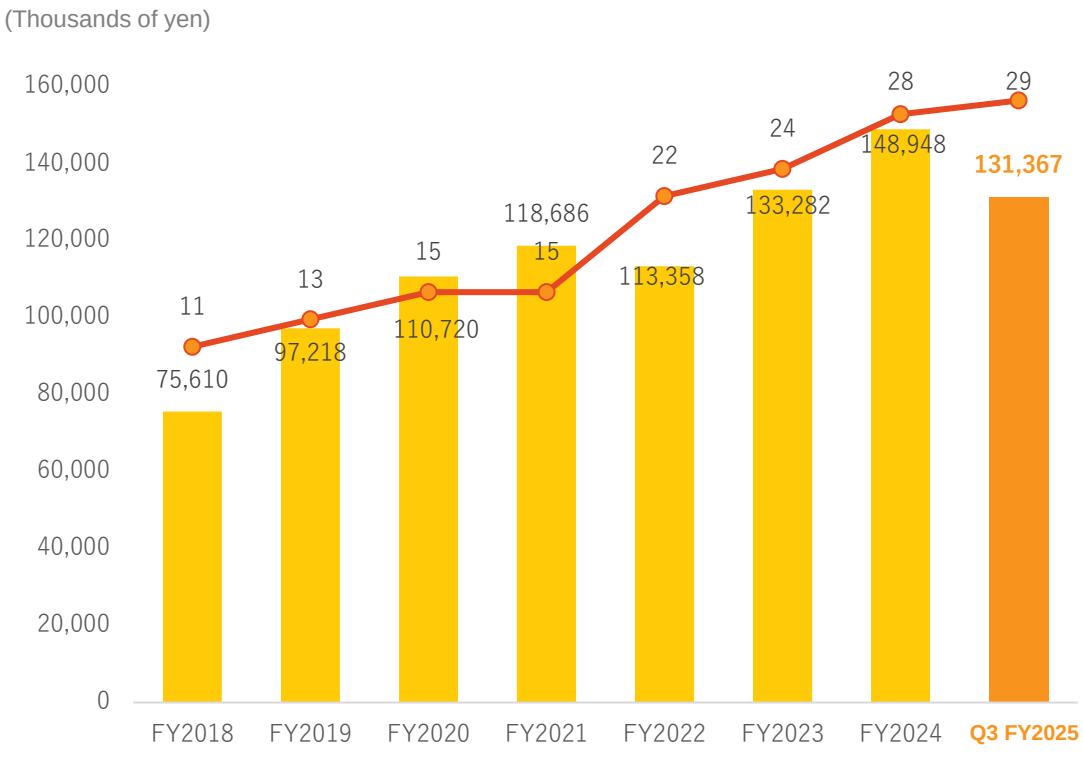
✓ **Both combined sales and average sales grew strongly, as selective order receptions to prioritize projects for more promising enterprise clients were smoothly conducted.**

✓ **Focus on increasing average sales per company and total sales percentage.**

Total sales to enterprise clients



Average sales per company and the number of enterprise clients

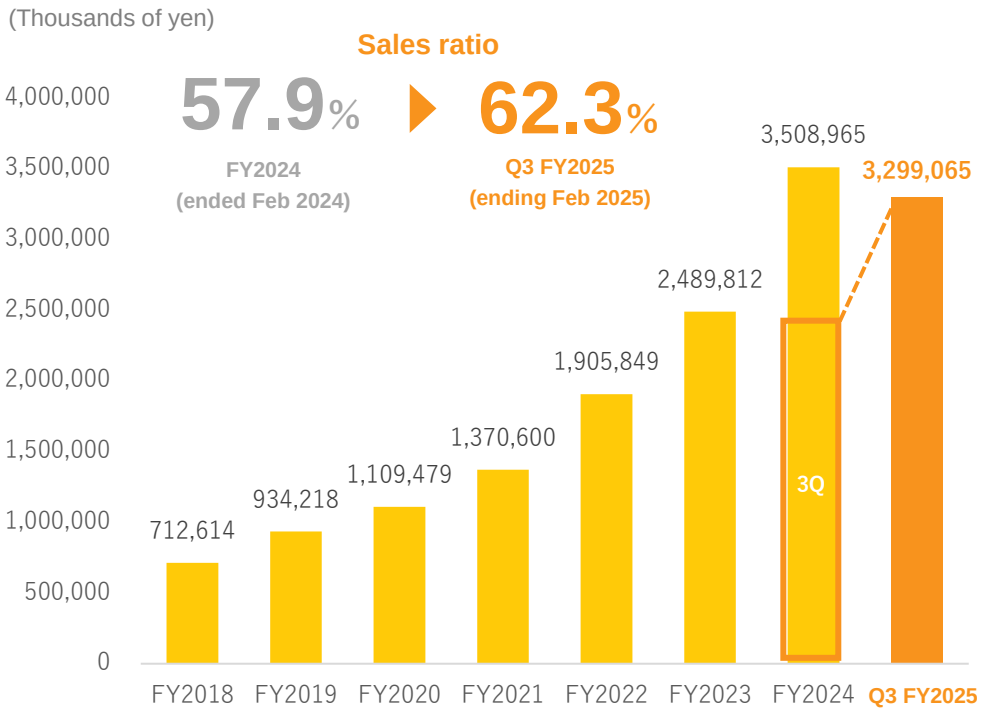


*Enterprise clients are defined as companies selected for either the Nikkei 225, Nikkei 400, or Nikkei 500, or companies with sales of 50 billion yen or more.

Sales in Advanced Technology Areas

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

Sales trends in the advanced technology areas



Advanced technology areas expected to have high growth potential

Forecasted market size		CAGR of the market	Our sales ratio ※6
Wireless (global market)	US$**130.6** billion (2026)*1	**15**%	**17**% 0p
Load balancer (global market)	US$**8.9** billion (2027)*2	**13**%	**22**% 1p
Network virtualization (domestic market)	Approx. ¥**50** billion (2026) *3	**3**%	**10**% 1p
Cloud (domestic market)	¥**4.3** trillion (2026)※4	**21**%	**26**% 1p
Security (Domestic market: software, appliances)	¥**531.7** billion (2026) *5	**4**%	**18**% 2p

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

*1 Source: "Global Wireless Connectivity Market" by BCC Research (provided by Global Information, Inc. as agent)
*2 Source: "Load Balancer Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast" by IMARC Services Private Limited (provided by Global Information, Inc. as agent)
*3 Source: Press release by IDC Japan, "Announcement of Domestic Network Virtualization/Automation Market and NFV Market Forecasts" (May 11, 2022)
*4 Source: Press release by IDC Japan, "Announcement of Domestic Public Cloud Service Market Forecast" (September 15, 2022)
*5 Source: Press release by IDC Japan, "Announcement of Latest Domestic Information Security Market Forecasts" (May 26, 2022)
*6 The changes in "our sales ratio" (indicated by arrows) show comparison with FY2024 results and include overlapping sales in two or more areas.

Development of Specialized and Highly Specialized Talent

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

	Specialized talent	Highly specialized talent
FY2021 (ended Feb 2021)	122	97
FY2022 (ended Feb 2022)	174	109
FY2023 (ended Feb 2023)	247	135
FY2024 (ended Feb 2024)	334	165
Q3 FY2025 (ending Feb 2025)	**407**	**219**

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

Past M&A Results and Future M&As Utilizing Treasury Shares

Company Name	ZOSTEC Inc.	ALJOY Inc.	FunClock Inc.	actias Inc.
Business Description	Network and Server Integration	Network and Server Integration	Testing and Validation	Network and Server Integration
Revenue Operating Profit	224 million yen -8 million yen (At the time of acquisition)	389 million yen 6 million yen (At the time of acquisition)	1 billion yen 50 million yen (FY2023 ended in June)	1.7 billion yen -30 million yen (FY2024 ended in January)
Acquisition Date	April 2022	March 2023	March 2024	June 2024

Revenue and Operating Profit Trends of ZOSTEC and ALJOY (Combined Total for Both Companies)

	At the time of acquisition	FY2024 results (full-year)	Q1 – Q3 FY2025 (cumulative)
Net sales	613,703 thousand yen	1,339,199 thousand yen	1,235,782 thousand yen
Operating profit	-2,136 thousand yen	135,273 thousand yen	169,245 thousand yen

Post-merger integration (PMI) is sufficiently conducted even now, but we will achieve more effective PMI by using the following method.

Going forward, we will use part of our treasury shares to acquire companies. By retaining their ownership not only at the management team of the parent company but also at the management team of the acquired companies, we will build an organizational structure that can generate further added value.

Our Stance for Implementing Future M&As

As an acquisition scheme to deepen collaboration among the Group, we will pay part of the consideration for the acquisition of a subsidiary's shares by using our treasury shares. By doing so, we intend to let the president of the acquired company retain part of its ownership while giving incentives to commit himself or herself to expanding the corporate value of the Group from the perspective of the founder.

	No participation in the Group	Participation in the Group (100% share transfer)	Participation in the Group (Partial share exchange)
Consideration for acquisition	No consideration	Consideration in money only ▸ No ownership	Cash + Treasury shares ▸ Retain ownership
		With a weak sense of unity in the Group, it is difficult to conduct PMI for deeper collaboration.	With a strong sense of unity in the Group, it is possible to conduct PMI for deeper collaboration.
Company growth	Realistic and achievable growth	Growth through PMI	Accelerated growth through PMI

Effective Utilization of Shares

Maximize the benefits of direct financing to increase corporate value

✓ Acquisition of treasury stock

October 2023～January 2024, acquired treasury shares

Number of treasury shares acquired	224,500

✓ Acquired FunClock Inc. as a subsidiary

900 shares out of 2,000 shares issued were acquired through a share exchange in FunClock Inc.

Number of treasury shares delivered	99,611

✓ Acquired actias Inc. as a subsidiary

1,420 shares out of 1,900 shares issued were acquired through a share exchange in actias Inc.

Number of treasury shares delivered	227,312

✓ Share-based compensation

Regularly grant share-based compensation to employees

＋

✓ Call options from major shareholders

Employees purchases call options

Number of eligible allottees of the share	Unrealized profit per person(approximation)※
327	8.6million yen
(As of August 31, 2024)	(Calculated based on the closing price as of August 31, 2024)

* Includes unexercised stock options and call options; does not take into account sales after exercise.
* Call options are traded relative to major shareholders. And are different from share-based compensation plans implemented by the Company itself.
* 1.67% residual potential shares from share acquisition rights; 231,200 call options from major shareholders.

Illustrative Drawing of our Strategy

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

Transform sales composition

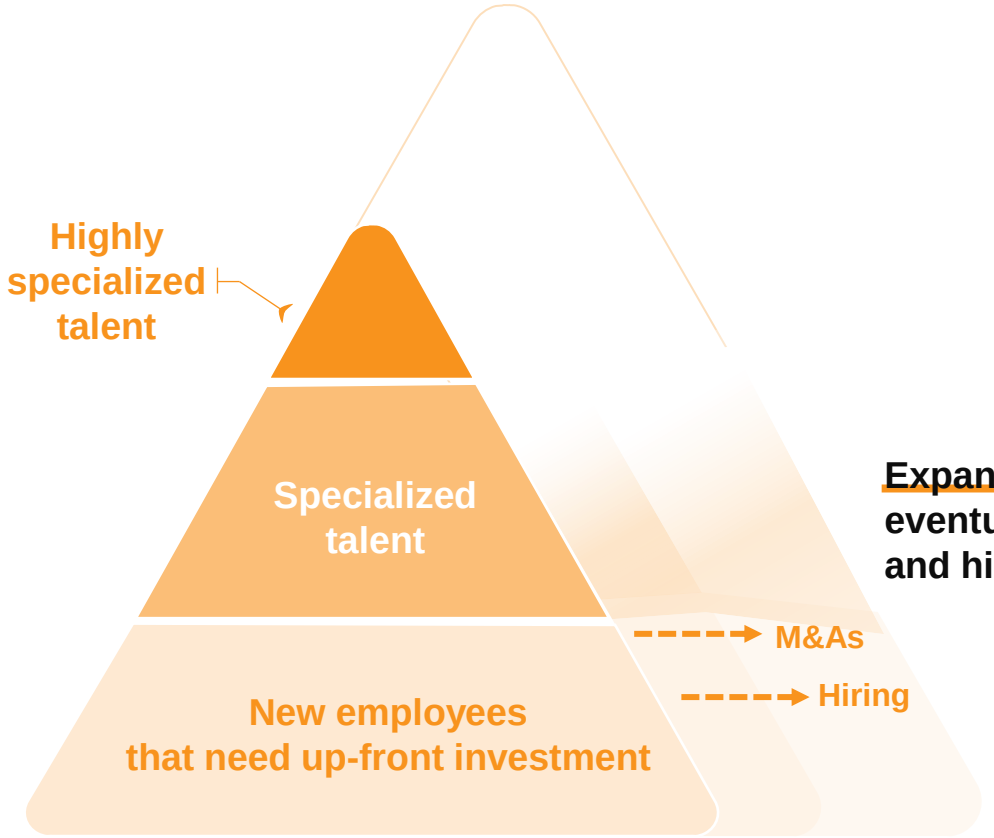
Raise the sales ratio

of advanced technology areas and enterprise clients

Transform talent structure

Raise the ratio of specialized

and highly specialized talents



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

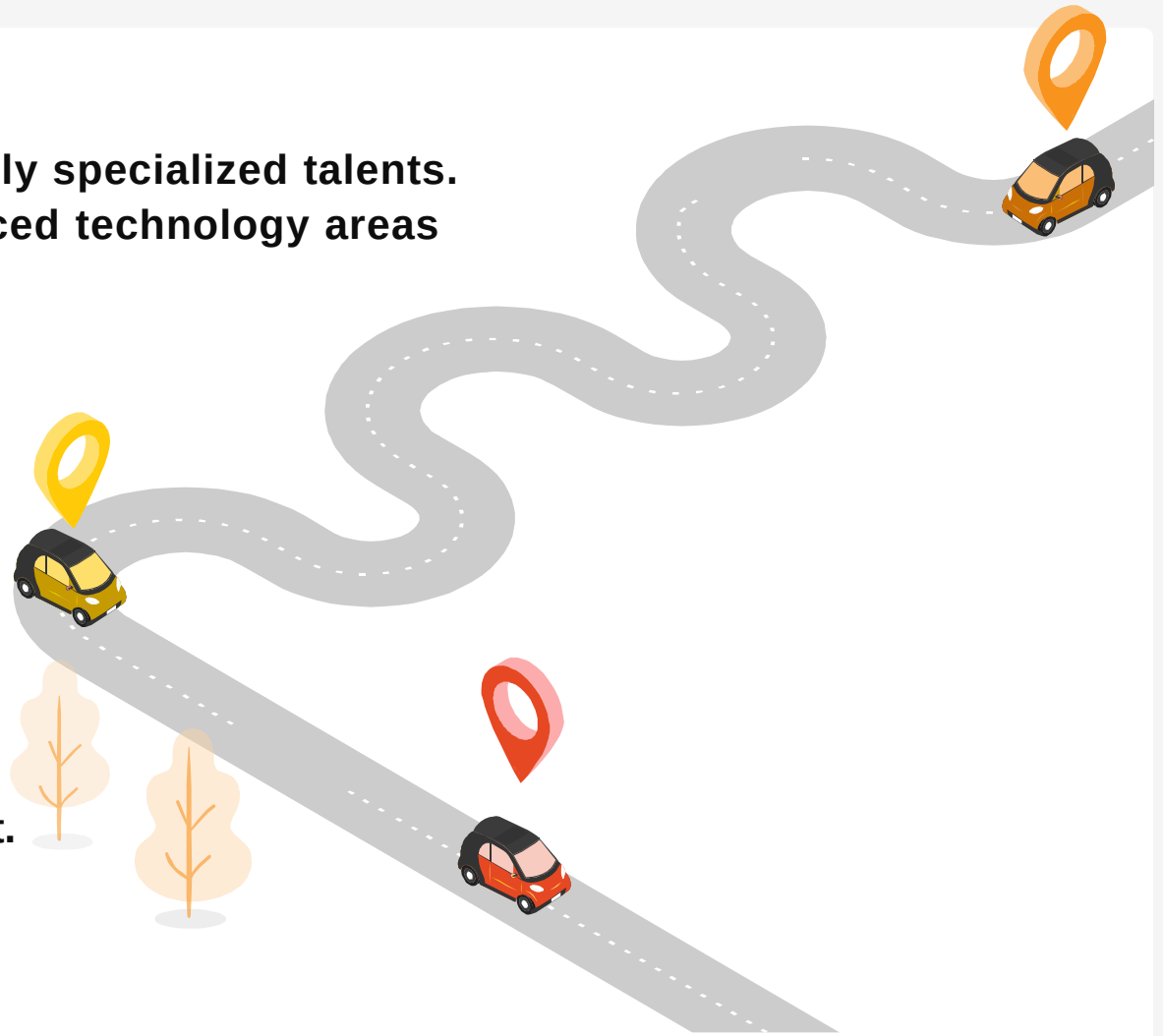
Summary of Highlights

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

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

02
- ✓ Maintain high growth rates.
- ✓ Implement the medium-term business plan.

03
- ✓ Plan to transfer to the TSE Prime market.
- ✓ Investigate implementation of the dividend policy.



Appendix

Trends in Financial Results

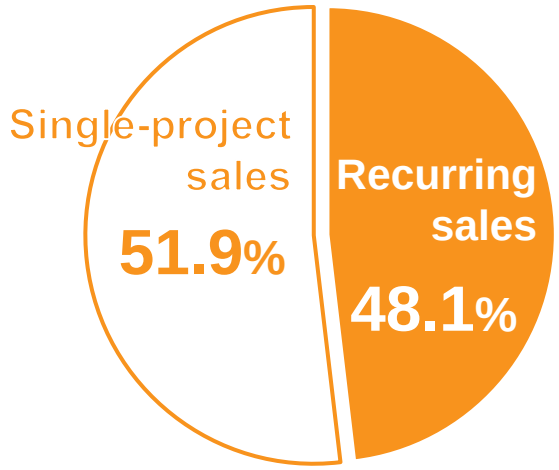
(Thousands of yen)	FY2017 10th period	FY2018 11th period	FY2019 12th period	FY2020 13th period	FY2021 14th period	FY2022 15th period	FY2023 16th period	FY2024 17th period
Net sales	**1,626,968**	**2,087,013**	**2,261,561**	**2,648,008**	**3,084,973**	**3,922,944**	**5,244,343**	**7,330,186**
Operating profit	131,471	230,012	274,696	409,339	509,439	679,536	975,404	1,567,382
Ordinary profit	116,255	217,992	237,982	395,841	542,494	688,011	1,033,662	1,558,439
Profit*	79,757	135,544	162,557	278,824	415,711	542,774	793,970	1,171,690
Operating profit margin	**8.1%**	**11.0%**	**12.1%**	**15.5%**	**16.5%**	**17.3%**	**18.6%**	**21.4%**
Ordinary profit margin(%)	7.1%	10.4%	10.5%	14.9%	17.6%	17.5%	19.7%	21.3%
Net sales growth rate (%)	-	28.3%	8.4%	17.1%	16.5%	27.2%	33.7%	39.8%
Operating profit growth rate (%)	-	75.0%	19.4%	49.0%	24.5%	33.4%	43.5%	60.7%

*Profit attributable to owners of parent

Recurring Sales through Continuous Services with Retained Clients

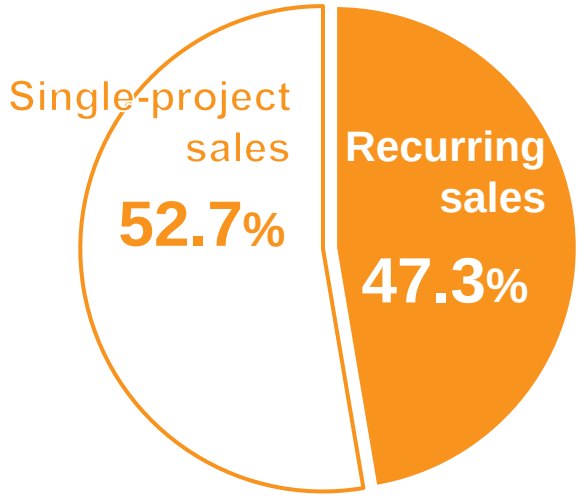
✓ **Continued stable earnings from recurring sales.**

FY2024 (ended Feb 2024)



Recurring sales: 2,865,916 thousand yen

Q3 FY2025 (ending Feb 2025)



Recurring sales: 2,506,759 thousand yen

Definitions of Specialized and Highly Specialized Talents

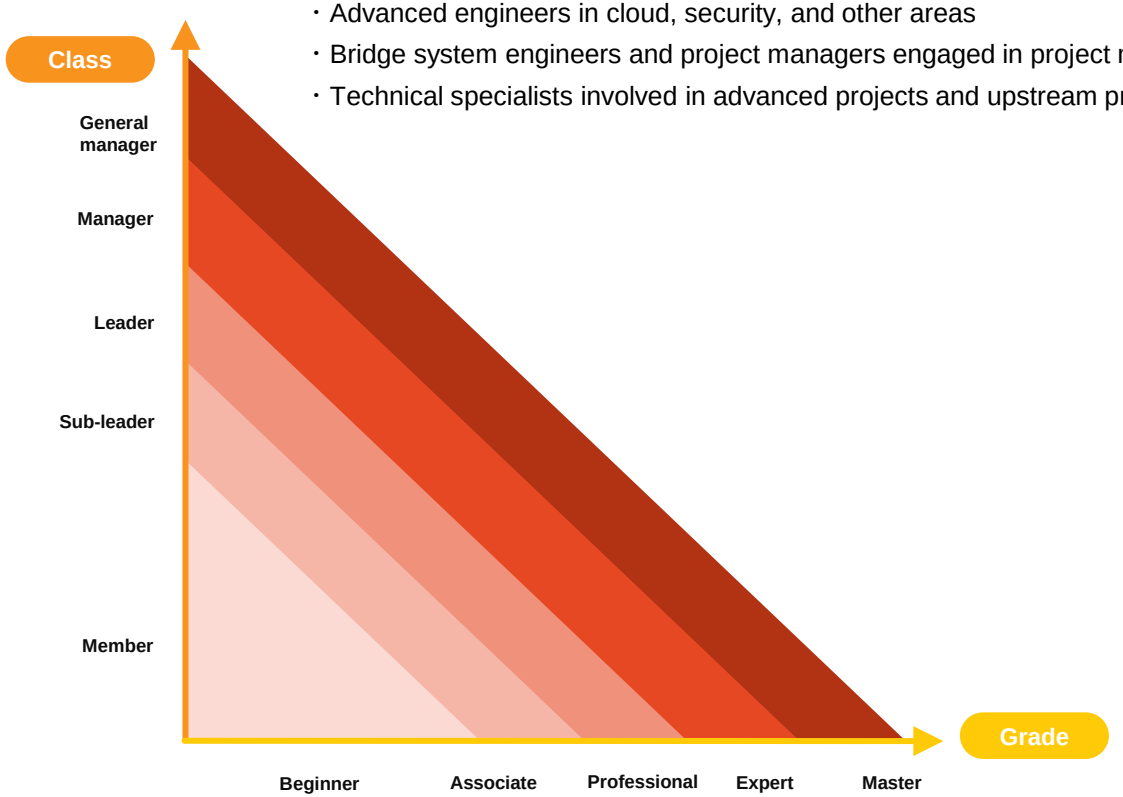
Specialized talents

Employees at sub-leader or higher levels in comprehensive capabilities, which are rated by class, or associate or higher levels in technical capabilities, which are rated by grade, in our personnel assessment and who are certified as CCNP or have passed the in-house certification exam Level 2 or above. (excluding highly specialized talents)

Highly specialized talents

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

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



Class

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

Grade

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

Corporate Social Responsibility

SUSTAINABLE DEVELOPMENT GOALS



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



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



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

Disclaimer

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

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

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

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

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

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

baudroie inc.