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ProjectCompany, Inc.

Transcript of FY2022 Financial Results Briefing for Analysts and Institutional Investors

February 15, 2023

Event Summary

[Company Name]	ProjectCompany, Inc.	
[Company ID]	9246-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results Briefing of the Fiscal Year Ending December 2022 for Analysts and Institutional Investors	
[Fiscal Period]	FY2022 Annual	
[Date]	February 15, 2023	
[Number of Pages]	41	
[Time]	17:00 – 17:50 (Total: 50 minutes, Presentation: 25 minutes, Q&A: 25 minutes)	
[Venue]	Webcast	
[Number of Speakers]	2	
	Yunosuke Doi	Representative Director and President, Group CEO
	Ryo Matsumura	Senior Managing Director, Group CFO
[Analyst Names]*	Masao Yoshida	Ichiyoshi Research Institute

*Analysts that our company able to identify from the audio who spoke during Q&A.

Presentation

Doi: ProjectCompany, Inc. will now begin the presentation of financial results for the fiscal year ended December 31, 2022.

I am Yunosuke Doi, Representative Director and President, Group CEO of ProjectCompany, Inc.

Matsumura: I am Matsumura, Senior Managing Director, Group CFO.

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Doi: Thank you very much for taking time out of your busy schedule to participate in our financial results briefing today.

Today, we will explain as described in the table of contents.

I would like to begin with a summary of the financial results and an overview of the Company. Next, Mr. Matsumura will explain our Q4 and full-year results for the fiscal year ended December 31, 2022, as well as our outlook for the fiscal year ending December 31, 2023. Finally, I will again explain our management policy.

Executive Summary

FY2022 Full-Year Financial Results

Net Sales	Operating Income	Employees ^{*1}	Net Sales per Client ^{*2}
¥4,352 million (YoY +103%)	¥958 million (YoY +88%)	167 (YoY +103)	¥30.2 million (YoY +65%)
<ul style="list-style-type: none"> Both consolidated net sales and operating income nearly doubled year-on-year, achieving seven consecutive years of net sales and operating income growth since the company's founding. The number of year-end employees increased significantly due to steady recruitment throughout the year and the addition of two companies to the Group through M&A. We believe that the human resources we secured will serve as the foundation for sales growth and contribute to future increased sales for the Company. Due to our successful strategy of providing cross-domain services to major companies in a wide range of industries, we have significantly increased per-client sales, while discovering new clients. 			

FY2023 Earnings Forecast

Net Sales	Operating Income
¥7,470 million	¥1,270 million
<ul style="list-style-type: none"> Consolidated net sales are projected to be ¥7,470 million (+71.6% YoY), and operating income ¥1,270 million (+32.6% YoY). In FY2023, we will aggressively invest in future growth, while prioritizing top-line growth and securing a certain level of operating income. In particular, recruiting expenses and land and office rents are expected to increase significantly. 	

Management Policy

Achievement of medium-term performance targets one year ahead of schedule
<ul style="list-style-type: none"> In addition to FY2022 results, FY2023 forecasts are also expected to significantly exceed the medium-term performance target "TARGET100" (announced in March 2022). Promote our initiatives to achieve the sales target of ¥10 billion one year ahead of schedule.
Full-scale shift to group management system
<ul style="list-style-type: none"> Further accelerate M&As and new business creation based on the steady progress of the group management system that was tried out in FY2022.

*1. Consolidated number of employees, excluding part-time and non-regular employees. *2 Results for the digital transformation business only.

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I will explain the Company's overview.

Here is a summary of today's explanation.

For the fiscal year ended December 31, 2022, the Company reported net sales of JPY4,352 million and operating income of JPY958 million, both approximately double those of the previous fiscal year, marking the seventh consecutive year of growth in both sales and income since its founding.

Recruitment activities progressed steadily throughout the period, and the number of employees at the end of the fiscal year increased from 64 at the end of the previous fiscal year to 167, due in part to M&A activities.

The strategy of providing cross-disciplinary services to major companies in a wide range of industries was successful, and sales per client in the digital transformation business amounted to JPY30.2 million.

For the fiscal year ending December 31, 2023, we forecast an approximately 70% increase in net sales to JPY7,470 million and a 30% increase in operating income to JPY1,270 million.

Our management policy for FY2023 is, while placing the highest priority on top-line growth and assuming that a certain level of operating income will be secured, to invest in hiring and office space as growth investments for the future. Our policy is to achieve sales of JPY10 billion in FY2025, one year ahead of schedule.

We also plan to further accelerate mergers and acquisitions to shift to a group management structure, which we have been attempting since FY2022.

∞ ProjectCompany Group

Group Management Philosophy

Creating a Project-based Society

The Japanese economy has continued to stagnate. If the situation remains unchanged, it is feared that it will continue to decline in the future.

We believe that the only way for the Japanese economy and society to regain their vitality is for Japanese companies to break away from their old, vertical, top-down "task-based" organizational structure and transform themselves into a "project-based" structure, where human resources who can proactively promote projects are organically connected based on their missions and work together as a team toward their goals. Based on this management philosophy, we will work together to develop our business toward creating a project-based society.

Once again, our group management philosophy is creating a project-based society. I would like to discuss the thoughts behind this management philosophy and the recognition of the issues it assumes.

The Japanese economy has been stagnant for a long time since the bubble period, and there are fears that it will continue to decline at this rate. We believe this is due to the fact that the Japanese system is bound by training human resources based on industrial capitalism before the shift to the information industry.

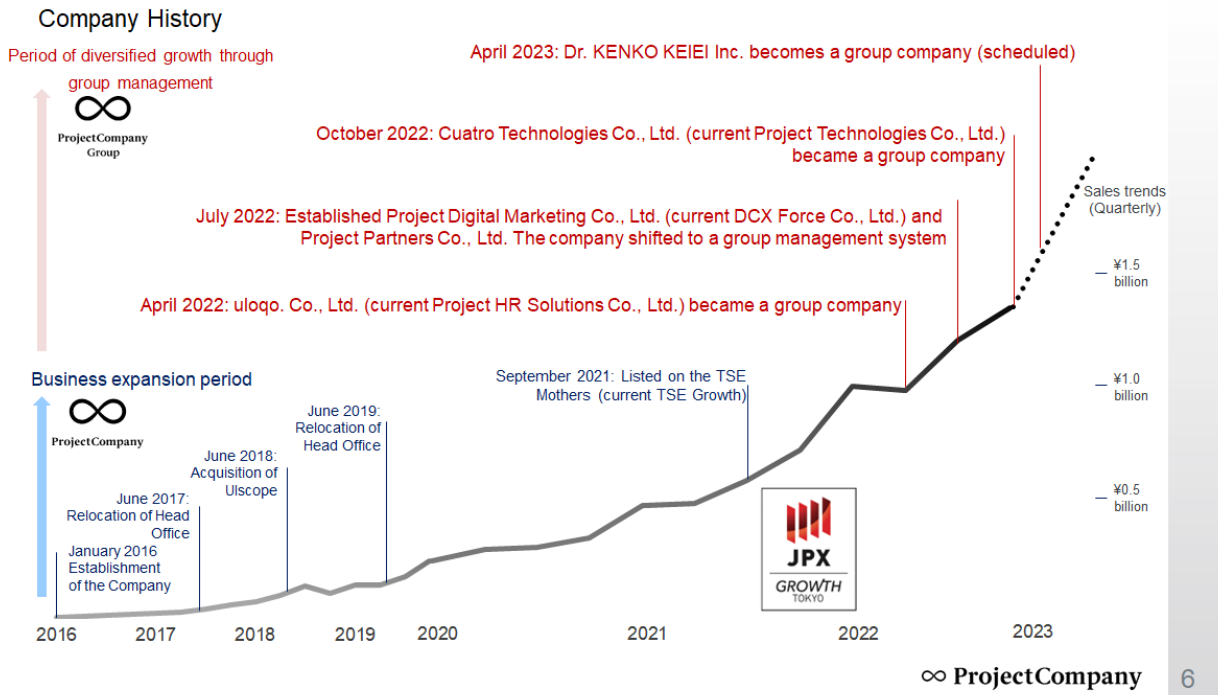
In an industrial capitalist society, the winning strategy was to be able to make things with high specifications, such as making safe cars or fine, high-tech products, and people who did the prescribed work in the factory and did their jobs properly as they were told were valued as good human resources.

However, the world is now shifting from an industrial capitalist society to an information capitalist society. The quality of human resources required is changing from task-oriented personnel, who do exactly what they are told, to project-oriented personnel, who can promote projects on their own.

In the US, many companies like GAFAM have actually emerged to change society by a single project, but unfortunately, this is not the case in Japan. We believe that this is not because of the industrial structure, but because the quality and mindset of the human resources, which is a prerequisite, is task-oriented, which prevents innovation.

We believe that the only way for the Japanese economy and society to regain its vitality is for Japanese companies to break away from the top-down and task-based traditional organizational structure, and transform themselves into a project-based structure where people who can promote projects on their own are organically connected based on their mission, and come together as a team to achieve their goals.

Based on the recognition of these issues, we will work together to develop our business based on our management philosophy of creating a project-based society.



Next, I would like to give you a brief history of our company.

Once again, our company, ProjectCompany, was founded in January 2016 by myself and Mr. Ito, who currently serves as the Chairman. Thanks to your support, we have steadily expanded our business since our establishment, and with our listing on the Mothers market in September 2021, we were able to achieve our mid-term goal from the time of our founding to the time of going public in 2021.

After listing on the stock exchange, we have been pursuing diversified growth through group management, with uloqo Co., Ltd., an HR solutions business, joining the Group in April last year, and Cuatro Technologies Co., Ltd., a technology services company, joining the Group in October. On February 14, we newly announced that we will make Dr.KENKO KEIEI Inc., a healthcare service provider, a group company.

To Our Investors



I would like to express my sincere gratitude to all of our shareholders and potential investors for your warmest support.

I would like to take this opportunity to share with you what I value most as a manager:

"Accomplishing ordinary tasks with maximum effort" (in Japanese as "Borji Tettei").

I used to practice the piano, until my junior high school years, and I practiced very hard so I could become a professional pianist. However, my teacher at the time told me, "Even if you continue to practice hard, you will only become the third best pianist in Japan." Therefore, I decided to compete not in the field of art, which requires an innate artistic sense, but in a field where I can achieve successful results by being thorough in my work. Since then, I pursued the field of management as the career of my choice.

Although our main business domain is digital transformation (DX), which in a sense is a trendy area, we are striving to be thorough even with ordinary tasks, such as, first and foremost, raising the level of our organization, working united as one team, providing value to clients at a deeper level, and committing to sales and profit figures as ultimate results.

As a publicly traded company, we understand that we are naturally expected to produce quantitative results in the form of sales and profit growth.

In return for the long-term support from our stakeholders and shareholders, we are committed to showing our gratitude by increasing our corporate value.

Going forward, I would like to ask for your continued support and encouragement.

Yunosuke Doi, Representative Director and President

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I will also talk about what I value in running a company.

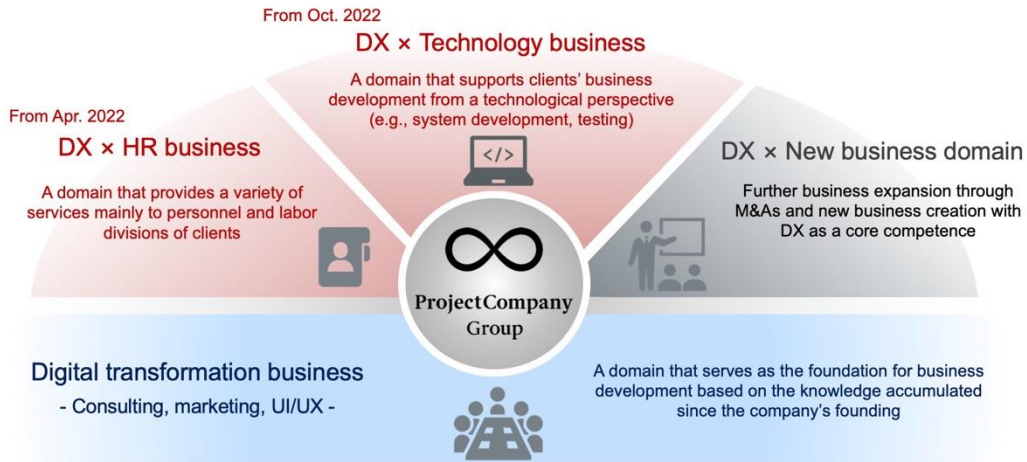
The most important thing for me as a manager is to thoroughly do what is natural.

Our business area is DX, an area that has become fashionable in some ways. First of all, I strive to do the obvious: to raise the level of our organization, to work as one, to provide value to our clients at a deeper level, and to commit to sales and profit figures as a result.

As a publicly traded company, we recognize that quantitative results, such as sales and profit growth, are naturally required. We hope that our shareholders will support us over the long term. We will do our utmost to return the favor in the form of a return and in the form of increased corporate value.

Our Group's Business Domains

- ▶ We expanded our business domains to include DX × HR business and DX × Technology business in FY2022 based on digital transformation (DX), an area we have accumulated knowledge in since the company's founding.
- ▶ We will continue to strive to expand our business domains through M&As and new business creation based on DX.

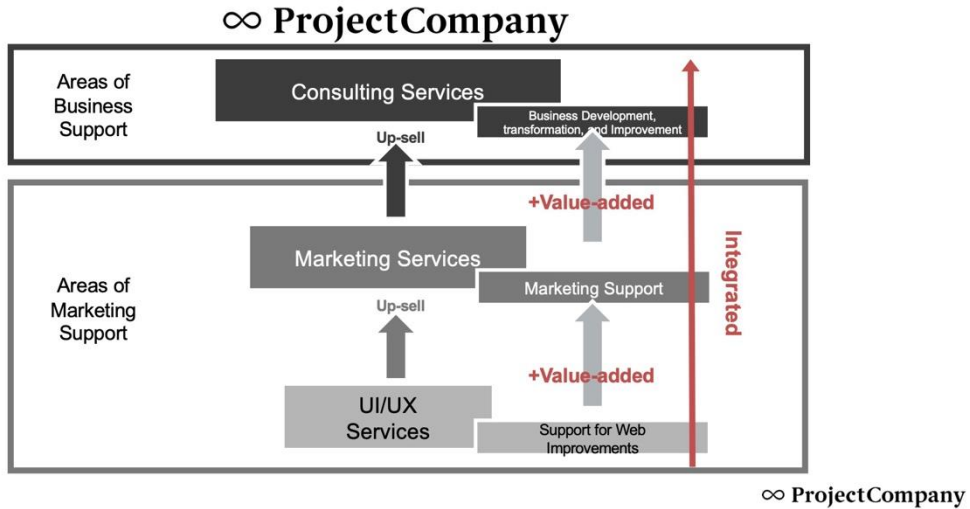


Next is our business strategy.

Our foundation is based on a ready set of digital transformation supports including consulting, marketing, and UI/UX areas, of which we have accumulated knowledge since the Company's inception. At the same time, we are aiming for diversified growth centered on DX, such as entering the DX x HR business and DX x technology business through M&A in the last fiscal year. We intend to continue to expand our business domain based on DX through M&A and new business creation.

Digital Transformation Business: Advantages and Features 1 - Integrated Advisory System Towards DX

- ▶ Provides full-range integrated services, from support for improving the Web user interface through to marketing support and even business support including new business development.
- ▶ Enables efficient and effective DX by providing clients with one-stop support.
- ▶ While there are many competitors in each service we provide, only a limited number of them can provide integrated services.



This section describes the strengths and characteristics of our digital transformation business, which is the foundation of our business.

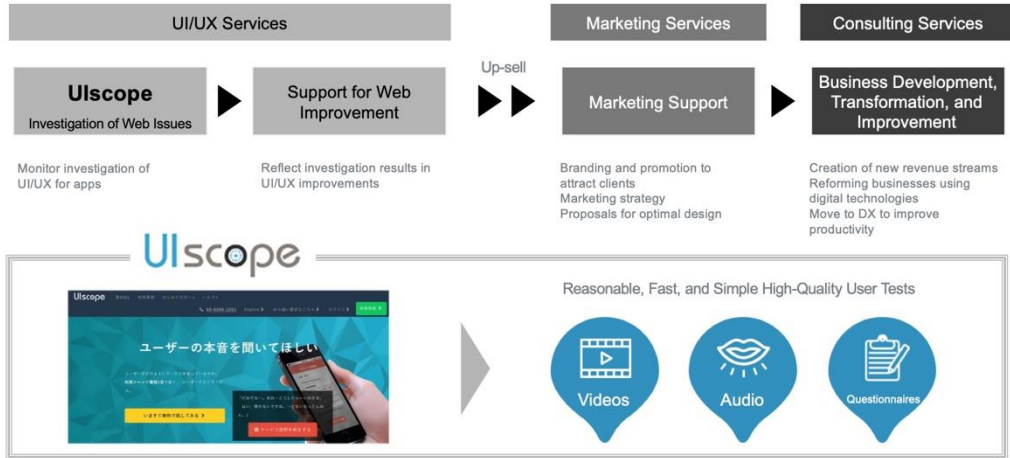
The first feature is a one-stop advisory system for realizing DX.

The three pillars of our services—consulting, marketing, and UI/UX—each have their own stand-alone clients. On the other hand, we have these three services and can provide a full range of services from web improvement support as a user interface to marketing support, as well as business support such as new business development. This allows customers to receive one-stop support and realize efficient and effective DX.

In each of our services, we have many competitors. However, we recognize that there are only a limited number of companies that can provide a one-stop service, and we believe that it is when this one-stop service or support is realized that we can provide the most added value to our clients.

Digital Transformation Business: Advantages and Features 2 - Ulscope as a Starting Point

- ▶ The starting point for an integrated model is Ulscope for usability testing and improvement. UI/UX surveys using monitors provide support for objective and exhaustive app/website improvements.
- ▶ Boasts high recognition in the areas of UI/UX, with 82% of UI/UX service projects acquired from inbound* inquiries (FY2022).
- ▶ Ulscope has over 30,000 monitors (as of the end of June 2021).



*Inbound: Inquiries from clients that lead to orders, instead of making sales approaches to companies

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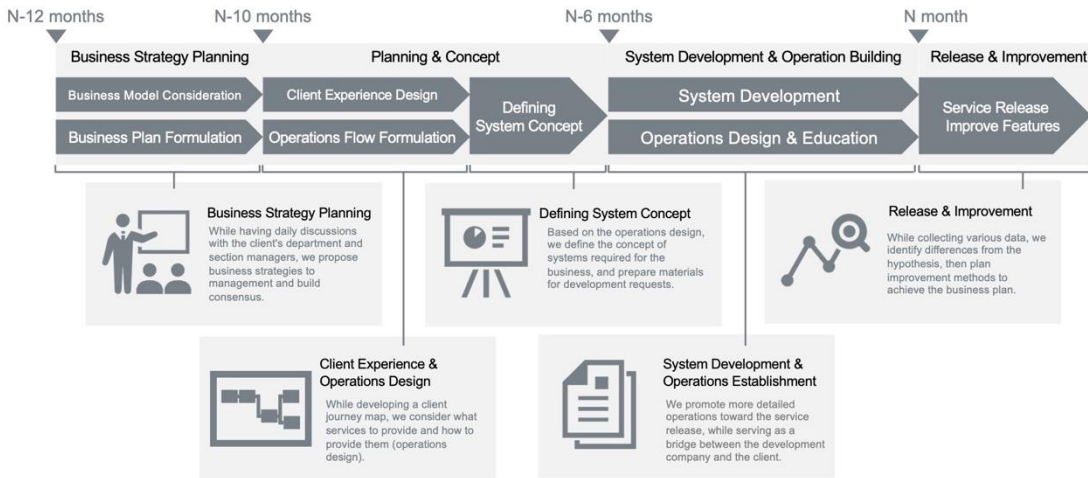
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The second feature of the digital transformation business is Ulscope, the starting point for this all-in-one service.

Ulscope is a usability verification and improvement service that provides support for improving applications and websites, especially those related to smartphones, through UI/UX research using monitors. This Ulscope is highly recognized in the UI/UX domain, and with approximately three-quarters of its UI/UX service projects coming in through inquiries from customers, the Company is able to efficiently acquire new clients.

Consulting Services: Case Introduction - New Business Development

- ▶ In new business development, there are many cases where we provide support from the stage of business strategy planning, such as considering business models and formulating business plans.
- ▶ As business development professionals, we formulate and manage the overall schedule until service release, leading problem solving, and facilitating meetings.

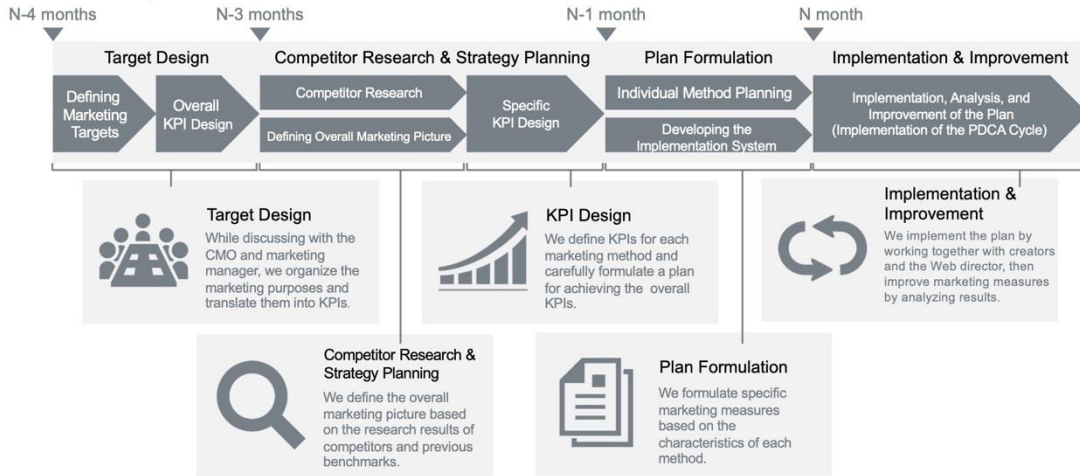


I will introduce the support in each service on a case-by-case basis.

In many cases, our consulting services for new business development support begin with the formulation of business strategies, such as business model studies and business plans, and continue for about one year, or even longer, as business development professionals responsible for overall schedule management, leading problem solving, meeting facilitation, etc.

Marketing Services: Case Introduction – From Marketing Strategy Planning to Implementation Support

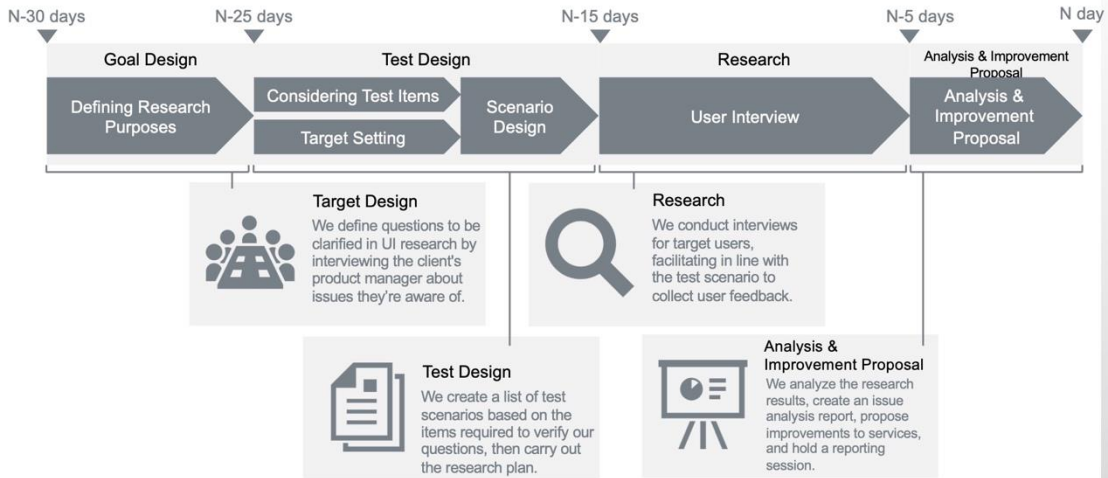
- ▶ In planning a marketing strategy, it is important to clarify "what is marketing for?" by defining targets.
- ▶ The value provided by our marketing support is to achieve visible results, not just planning strategies, but also by repeating the PDCA cycle.



In addition, when we take on the responsibility of supporting the planning and execution of marketing strategies, we first clarify what marketing is for and organize the goals, and then go beyond mere strategy formulation to repeat the PDCA cycle in the execution phase to achieve tangible results.

UI/UX Services: Case Introduction - UI Research

- ▶ In UI research, we collect opinions from target users on the convenience of applications and websites.
- ▶ We offer effective improvement proposals by discovering bottlenecks that cannot be detected by quantitative data only.

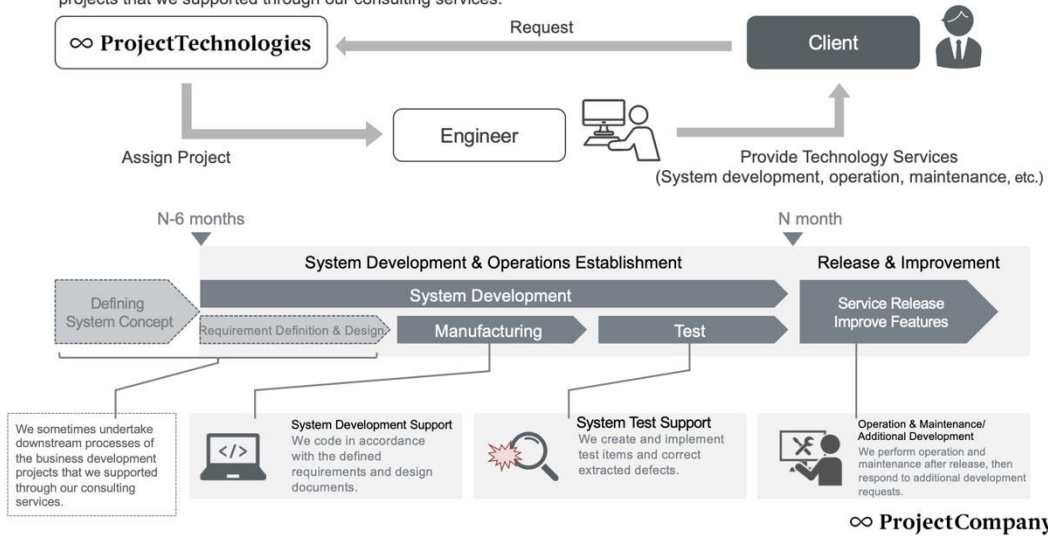


UI research using UIscope is conducted by collecting real voices from target users regarding the usability of applications and websites to discover bottlenecks that quantitative data alone cannot reveal, and to make effective proposals for improvement.

The support contents introduced here are only an example. In reality, we support our clients' DX in a variety of styles according to their requirements.

Overview of DX × Technology Business

- ▶ In technology services, we mainly provide dispatch services of engineers for system development, operation, and maintenance.
- ▶ There are cases where we undertake system development, operation, and maintenance phases of the business development projects that we supported through our consulting services.

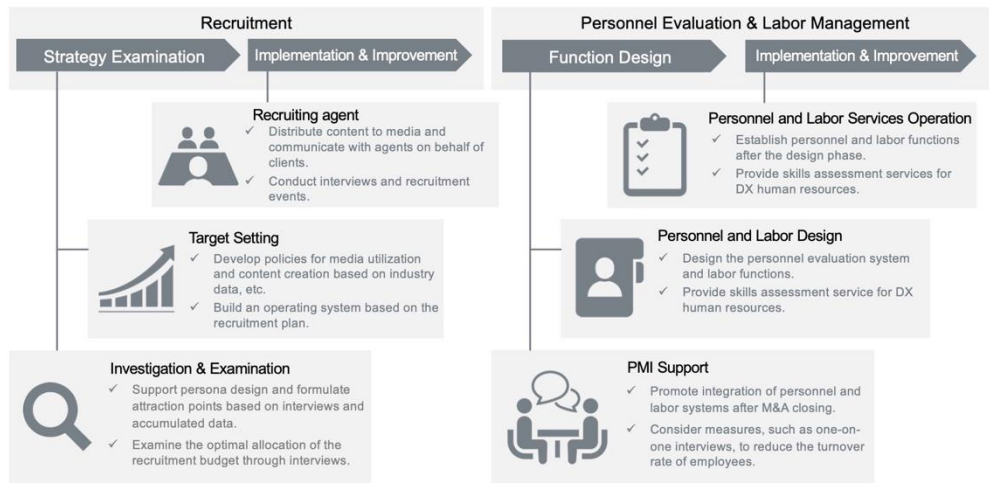


I will also provide an overview of our services outside of the digital transformation business.

First, in the technology services of the DX x technology business, we provide support for system development projects and operation and maintenance projects by dispatching engineers. In addition, as a synergy with the digital transformation business, we expect to take on system development, operation, and maintenance for business development projects supported by our consulting services.

Overview of DX × HR Business

- ▶ We provide a lineup of HR solutions services for comprehensive backup support in the HR domain, from recruitment through to personnel evaluation and labor management.
- ▶ We provide services to personnel and labor divisions in a wide range of industries.



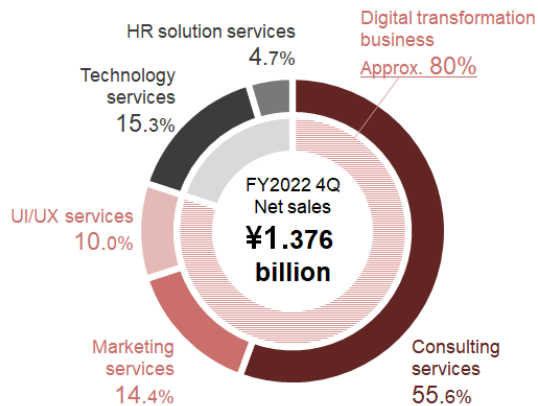
In the HR solution service of the DX × HR business, we provide services to HR and labor departments in a wide range of industries with a lineup of services that provide full backup in the HR field, from recruitment to personnel evaluation and labor management, centered on the area of recruitment agency services.

These are the current business areas of the Group.

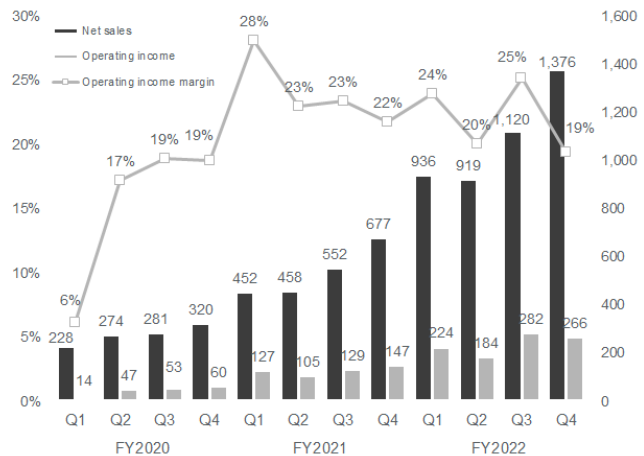
FY2022 Q4 Net Sales Composition & Earnings (All businesses)

- ▶ Consulting, marketing, and UI/UX services account for approx. 80% of our net sales (FY2022 Q4 results)
- ▶ FY2022 Q4: Net sales up 103% YoY to ¥1,376 million; operating income up 81% YoY to ¥266 million

Net Sales Composition



Earnings* (million yen)



*As a result of making ulqo Co., Ltd. a consolidated subsidiary by acquiring its shares, ulqo's income statement has been included in the scope of consolidation from FY2022 Q3.
Also, as a result of making Quattro Technologies Co., Ltd. a consolidated subsidiary by acquiring its shares, Quattro Technologies' income statement has been included in the scope of consolidation from FY2022 Q4.

ProjectCompany

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Matsumura: I, Matsumura, will now explain the financial results for Q4 of the fiscal year ended December 31, 2022.

First, please see the graph on the left-hand side for the composition of Q4 sales by service. The digital transformation business, the ProjectCompany's original business, accounts for about 80% of sales, of which consulting services account for about 70%, marketing services for less than 20%, and UI/UX services for more than 10%.

Technology services, which were added through M&A in October, account for 15% of total sales, and HR solution services, which were added in April, account for 5%.

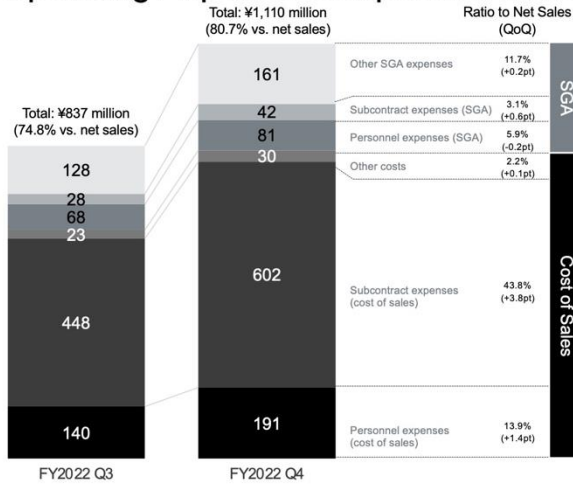
Please see the quarterly trend of the Group's overall performance. In Q4 of FY2022, we were able to grow our business significantly, with net sales up 103% YoY and operating income up 81% YoY.

The operating margin in Q4 declined QoQ due to the start of consolidation of technology services with relatively low profit margins and the impact of goodwill.

FY2022 Q4 Operating Expense Composition (All businesses)

- ▶ Cost of sales significantly increased mainly due to an increase in the use of joint participation partners as a result of winning new projects and the consolidation of the DX x Technology business, which has a relatively high cost of sales ratio. As a result, operating expenses increased by ¥273 million QoQ (ratio to net sales + 5.9 pt) to ¥1,110 million.

Operating Expense Composition (QoQ, Million yen)



SGA vs. net sales:

FY2022 Q3 20.1% → FY2022 Q4 20.7%

- Other SGA expenses increased by ¥33 million QoQ due to an increase in the amortization of goodwill and recruiting expenses.
- The ratio of SGA expenses to net sales increased QoQ.

Cost of sales vs. net sales:

FY2022 Q3 54.7% → FY2022Q4 59.9%

- Subcontract expenses (cost of sales) significantly increased by ¥154 million (vs. net sales +3.8pt) QoQ mainly due to an increase in the use of joint participation partners as a result of winning new projects and the consolidation of the DX x Technology business, which has a relatively high cost of sales ratio.
- Personnel expenses also increased because the number of year-end employees increased by 53 QoQ.
- The ratio of cost of sales to net sales increased QoQ.

This is the QoQ trend of the composition of operating expenses.

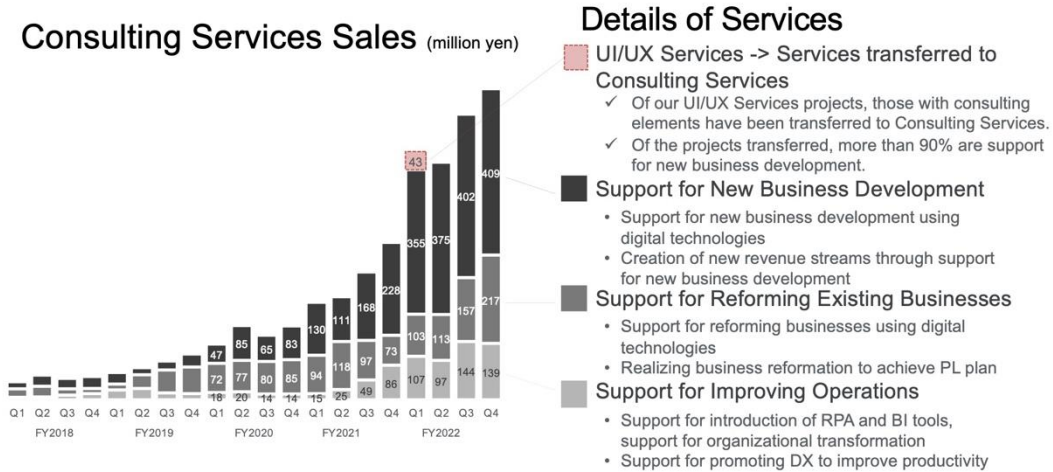
Cost of sales increased significantly and the ratio of cost of sales to net sales also rose, mainly due to the increased use of joint participation partners to win new projects and the newly consolidated DX x technology business and technology services, which have relatively high cost of sales ratios.

The ratio of SG&A expenses to net sales was generally unchanged.

Performance by Service 1 Consulting Services

- ▶ Our mainstay work in consulting services is new business development using digital technologies, accounting for roughly 50% of sales. Needs for new business development to secure new revenue sources remain strong, leading to stable sales.
- ▶ In FY2022 Q4, sales of support for reforming existing business increased significantly from the previous quarter, driving sales growth.

Consulting Services Sales (million yen)



Details of Services

- UI/UX Services -> Services transferred to Consulting Services
 - ✓ Of our UI/UX Services projects, those with consulting elements have been transferred to Consulting Services.
 - ✓ Of the projects transferred, more than 90% are support for new business development.
- Support for New Business Development
 - Support for new business development using digital technologies
 - Creation of new revenue streams through support for new business development
- Support for Reforming Existing Businesses
 - Support for reforming businesses using digital technologies
 - Realizing business reformation to achieve PL plan
- Support for Improving Operations
 - Support for introduction of RPA and BI tools, support for organizational transformation
 - Support for promoting DX to improve productivity

This is net sales by service.

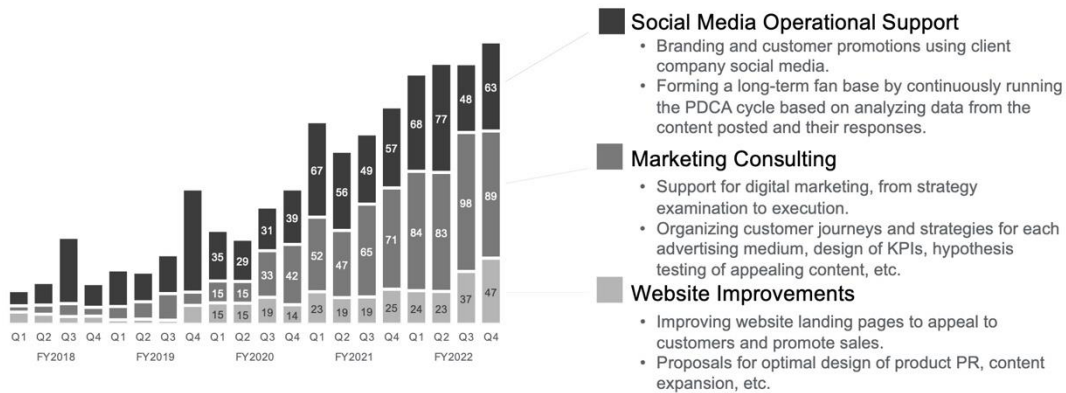
In consulting services, support for new business development using digital technology remains the mainstay, accounting for approximately 50% of sales. The need for new business development to secure new sources of revenue remains strong and is driving our sales growth.

In Q4, sales of existing business transformation support increased significantly from the previous quarter, driving sales growth.

Performance by Service 2 Marketing Services

- ▶ Social media operational support and marketing consulting are core sales elements. We produced results through social media operational support, and planned a more wide ranging strategy for digital marketing as a whole (marketing consulting) to create a demand structure.
- ▶ In FY2022 Q4, sales of web site improvements grew, boosting overall sales.

Marketing Services Sales (million yen) Details of Services



- Social Media Operational Support**
 - Branding and customer promotions using client company social media.
 - Forming a long-term fan base by continuously running the PDCA cycle based on analyzing data from the content posted and their responses.
- Marketing Consulting**
 - Support for digital marketing, from strategy examination to execution.
 - Organizing customer journeys and strategies for each advertising medium, design of KPIs, hypothesis testing of appealing content, etc.
- Website Improvements**
 - Improving website landing pages to appeal to customers and promote sales.
 - Proposals for optimal design of product PR, content expansion, etc.

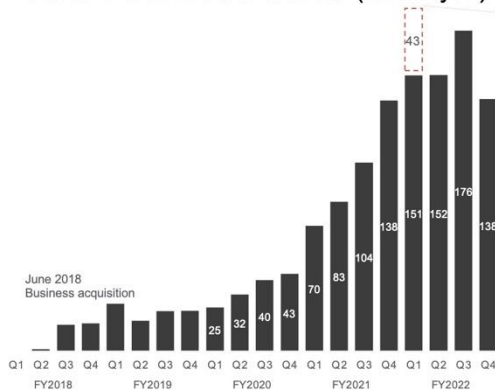
Next, marketing services.

SNS operational support and marketing consulting are the main sources of sales. The structure is designed to produce results through SNS operational support and lead to broader digital marketing strategy planning, etc. Sales of website improvement services also increased in Q4, boosting overall sales.

Performance by Service 3 UI/UX Services

- ▶ Ulscope, our usability testing service for improving UI/UX, is used in our research and advisory business to test smartphone apps and websites for the formation of service experience design proposals (business acquired in June 2018).
- ▶ Cross-selling to companies that introduced UI/UX services contributed to the sales increase in consulting services.

UI/UX Services Sales (million yen)



Details of Services

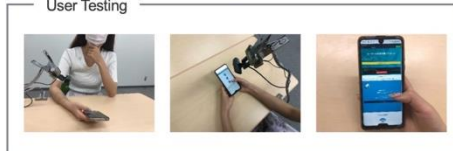
UI/UX Services -> Services transferred to Consulting Services

- ✓ Of our UI/UX Services projects, those with consulting elements have been transferred to Consulting Services.

Ulscope

- Knock-in tools that lead to new client development.
- Adopted by 178 companies in total (from business acquisition to Dec. 2022)
- Usability testing service that records user operations and proposes UI/UX improvements based on the recorded videos, audio, and questionnaire results.

User Testing



Next is the UI/UX service.

This business is expanding sales by not only operating Ulscope, a usability testing service for UI/UX improvement, but also by providing consulting proposals to companies that have introduced user testing since FY2020.

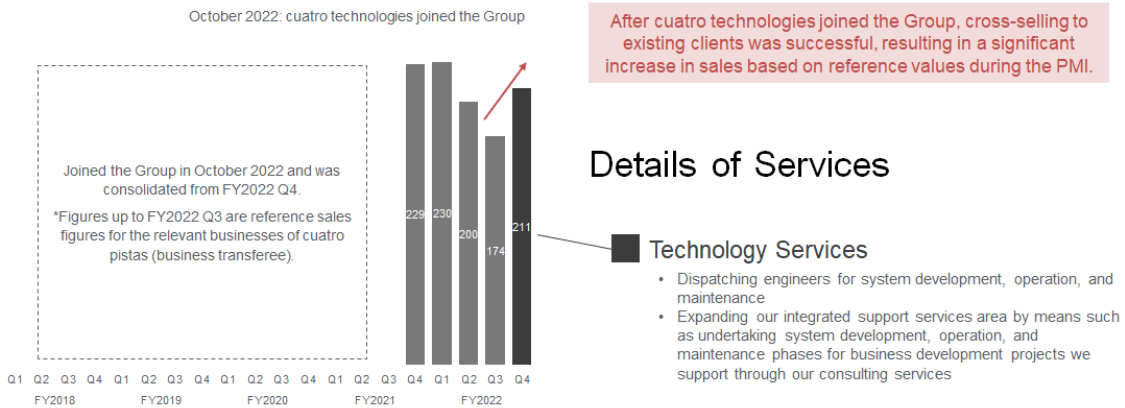
Some consulting projects were transferred to the consulting service business at the beginning of FY2022. Since then, sales have steadily increased, driven by both research provided by Ulscope and UI/UX consulting services. However, Q4 sales declined QoQ due to factors such as internal personnel allocations.

The structure remains unchanged, with this business continuing to contribute to sales growth in consulting services and other areas through cross-selling to Ulscope-implementing companies.

Performance by Service 4 Technology Services

- ▶ In Technology Services, we mainly provide an engineer dispatch service for system development, operation, and maintenance.
- ▶ After acquiring the business from cuatro pistas Co., Ltd. in October 2022, sales significantly increased from FY2022 3Q, just before it joined the Group.

Technology Services Sales (million yen)



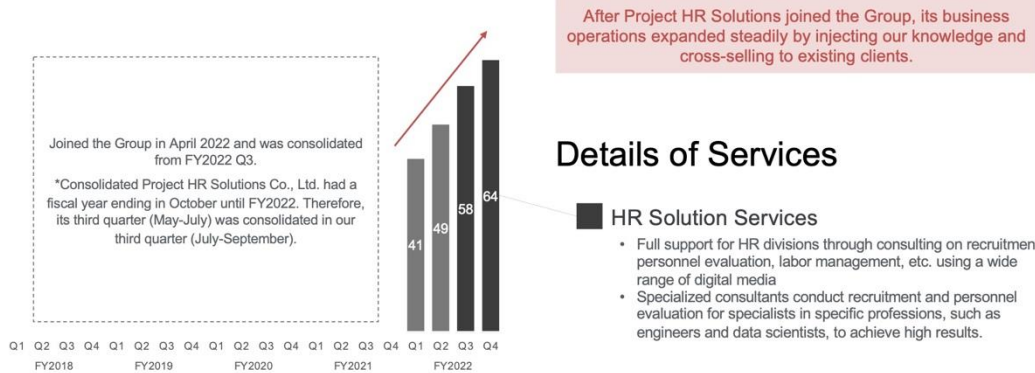
Next, technology services.

The former Cuatro Technologies just joined the Group in October, so the assumption is that it is under PMI. However, since its joining the Group, we have been successful in increasing sales by cross-selling to its existing customers, and we believe that the situation is promising for future growth.

Performance by Service 5 HR Solution Services

- ▶ In the HR solution services, we mainly provide recruitment and other consulting services in the HR area, and fully support personnel and labor divisions of companies
- ▶ Sales increased steadily even after joining our group by injecting our knowledge including organization building and demonstrating synergies with existing businesses.

HR Solution Services Sales (million yen)



Details of Services

- HR Solution Services
 - Full support for HR divisions through consulting on recruitment, personnel evaluation, labor management, etc. using a wide range of digital media
 - Specialized consultants conduct recruitment and personnel evaluation for specialists in specific professions, such as engineers and data scientists, to achieve high results.

Finally, HR solution services.

The HR solution service business was on a growth trajectory even before joining the Group. Since its joining the Group, it has continued to achieve higher growth than anticipated at the time of its integration, thanks to organizational development based on the knowledge of ProjectCompany and other factors.

These are the sales trends for each service.

Quarterly Performance Summary (QoQ)

	Million yen	FY2022 Q3	FY2022 Q4	QoQ	QoQ (%)
▶ FY2022 Q4 net sales increased 22.9% QoQ to ¥1,376 million due to growth in existing businesses and the contribution of newly consolidated Technology Services.	Net sales	1,120	1,376	+256	+22.9
	Consulting services included	702	765	+63	+9.0
	Marketing services included	183	199	+16	+8.7
	UI/UX services included	175	138	-37	-21.1
	Technology services included	-	211	-	-
	HR services included	58	64	+6	+10.3
▶ Within services, Consulting Services and Marketing Services contributed positively to the sales growth.	Cost of sales	612	824	+212	+34.6
▶ Gross profit margin and operating income margin as well as operating income decreased QoQ, due to the relatively lower gross profit margin of newly-consolidated Technology Services and the expanded use of joint participation partners.	Gross profit (Gross profit margin)	507 (45.3%)	551 (40.1%)	+44	+8.7
	Selling, general and administrative expenses	225	285	+60	+26.7
	Operating income (Operating income margin)	282 (25.2%)	266 (19.4%)	-16	-5.7
	Ordinary income	279	263	-16	-5.7
▶ Quarterly net income increased 20.0% QoQ to ¥216 million.	Quarterly net income (Net income margin)	180 (16.1%)	216 (15.7%)	+36	+20.0

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Finally, here is a summary of the quarterly results based on these factors.

In addition to the growth of existing businesses, the technology service business was newly consolidated, resulting in sales of JPY1,376 million in Q4 of FY2022, an increase of 22.9% over the previous quarter.

By service, the increase in sales of consulting services and marketing services, as well as the start of consolidation of technology services, made a significant contribution.

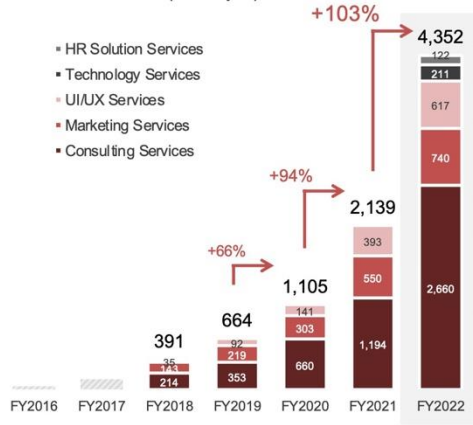
In addition, with the start of consolidation of technology services, which have relatively low gross profit margins, and the increased use of joint participation partners, gross profit and operating profit margins declined, and operating income decreased from the previous quarter.

Performance Highlights (1) Changes in Net Sales and Operating Income

All businesses DX only

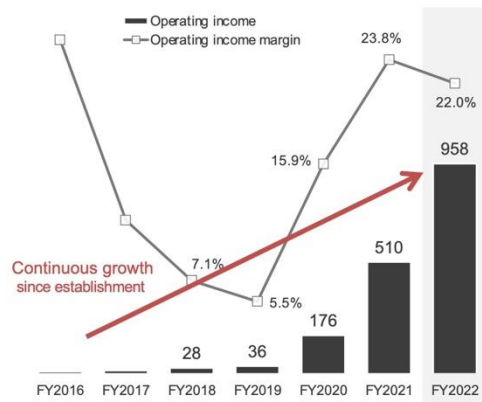
- ▶ FY2022 net sales amounted to ¥4,352 million. Operating income amounted to ¥958 million.
- ▶ FY2022 sales growth was higher than the growth rates in past fiscal years, mainly due to the favorable impact of M&As.
- ▶ Operating income continued its growth trend since the company's establishment.

Net Sales (million yen)



*Net sales from FY2016 to FY2017 indicate total net sales for each service

Operating Income (million yen; %)



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Next, I would like to present our full-year results.

Net sales were JPY4,352 million and operating income was JPY958 million.

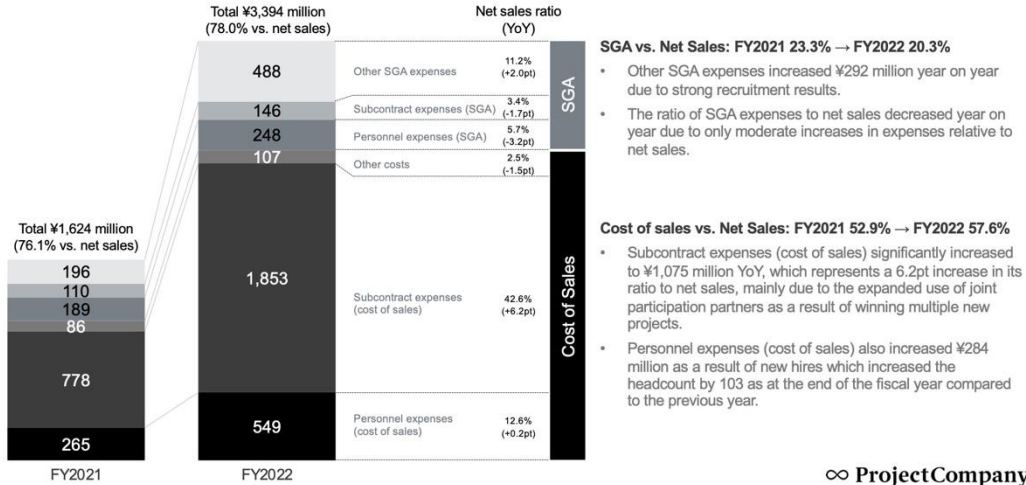
The sales growth rate for the fiscal year under review was 103%, which is a high level compared to the past results, mainly due to the effects of M&A. Operating income also grew by a significant 88% over the previous year, continuing the trend of increased profits since the Company's establishment.

Performance Highlights (2) Changes in Operating Expenses

All businesses DX only

- ▶ The decrease in the SGA expenses to net sales ratio was offset by the expanded use of participating partners and other factors, leading to a higher cost of sales to net sales ratio.

Operating Expense Composition (YoY, Million yen)



Here you see YoY changes in the composition of operating expenses.

Although the absolute amount of SG&A expenses increased from the previous year, mainly due to strong recruitment throughout the year, the increase was only moderate relative to sales, resulting in a decrease in the ratio of SG&A expenses to sales of about three percentage points.

On the other hand, the ratio of cost of sales to net sales increased by less than five percentage points as a result of an increase in subcontracting expenses due to factors such as increased use of joint participation partners as a result of the successful acquisition of several new projects.

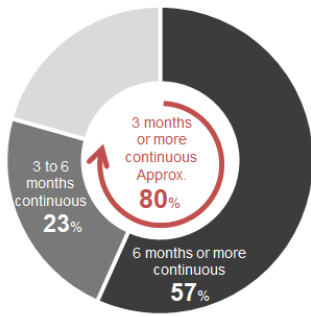
Reasons for Strong Business Performance (1) Progress of Stock-Type Business Model

All businesses DX only

- ▶ We are aware that many consulting companies generally have a sales structure with a disproportionate emphasis on spot and flow projects.
- ▶ We have built a stock-type business model based on the assumption of continuous support backed by integrated services, etc., leading to sales growth over time.
- ▶ The FY2022 Q4 stock sales ratio was approximately 93%.

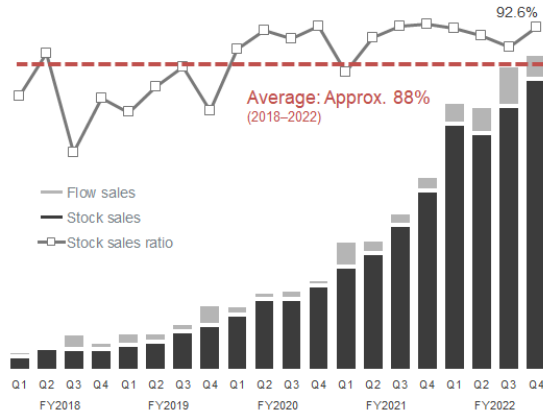
Order Retention Ratio* (%)

*Percentage of clients with sales of ¥10 billion or more that signed contracts over multiple months between January 2018 and December 2022



*Data only of Digital Transformation business
Excluding clients for Ulscope shot projects

Stock Sales* Ratio



*Stock sales: Sales from clients with 6 months or more consecutive orders received, excluding user tests, etc., which have strong spot characteristics.

As described above, our overall performance was strong. One of the reasons for this is the stock-type business model shown here.

We recognize that consulting firms generally have a sales structure centered on spot projects in many cases. The Company has built a stock-type business model based on the premise of continuous support with a background of one-stop services, etc., and sales have been increasing.

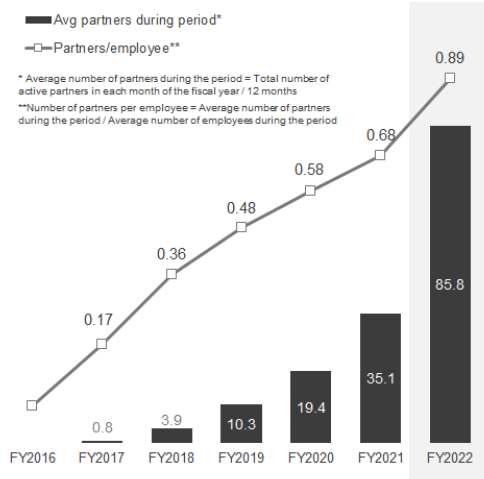
The stock sales ratio for Q4 of FY2022 was approximately 93%.

Reasons for Strong Business Performance (2) Organizational Structure

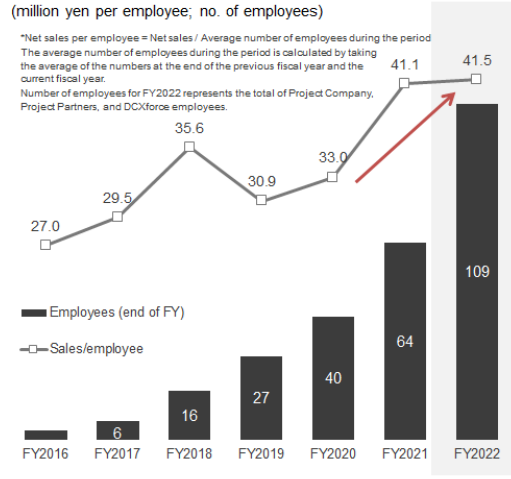
All businesses DX only

- ▶ The number of partners per employee increased due to the expanded use of joint participation partners to receive orders more flexibly.
- ▶ Despite the rapid increase in the number of employees, sales per employee are on an upward trend due to the use of joint participation partners and the sharing of internal know-how to avoid dependence on individual expertise.

Number of Partners



Net Sales per Employee*



The second reason behind our strong performance is our organizational structure, including the use of joint participation partners.

Since H2 of last fiscal year, the Company has expanded its use of joint participation partners, resulting in more agile project orders and higher sales per worker.

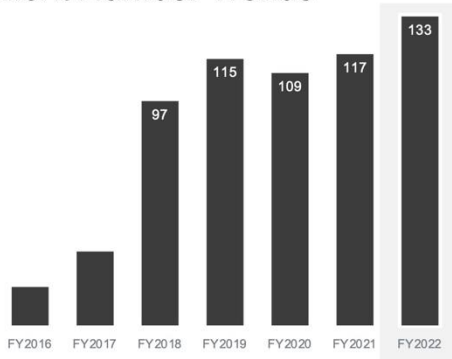
The number of partners has expanded from about one for every two employees in FY2020 to two for every three employees in FY2021 and one for every employee in FY2022. As a result, sales per employee have maintained growth even as the number of employees has increased and new members have joined the Company.

Number of Clients

All businesses DX only

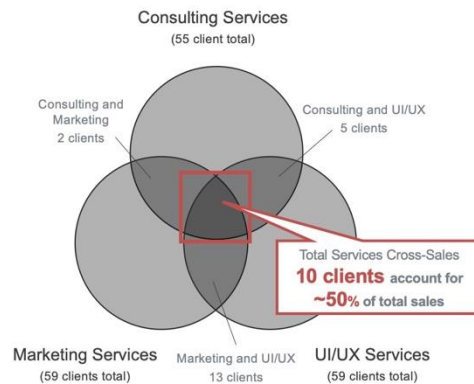
- ▶ Although the number of clients decreased slightly from FY2019 to FY2020 due to a partial narrowing of the focus to clients more compatible with our business style, the number of clients* increased again to 133 in FY2022, driven by company-wide efforts to acquire new clients since FY2021.
- ▶ Each service has its own client base; however, sales to clients for whom we provide integrated support across all services account for about 50% of total sales.

Client Number Trends



*No. of Clients: Client businesses that have concluded an agreement for any of our three services, and who have made payment for said services within the corresponding fiscal year.

No. of Clients by Service



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I will also explain the client's situation.

In FY2022, the number of clients with which transactions occurred in the digital transformation business totaled 133.

Although the number of clients decreased slightly from FY2019 to FY2020 due to a partial narrowing of the client base to those clients that are more compatible with our business style, the number of clients has begun to increase again from FY2021 to FY2022.

Although each of the consulting, marketing, and UI/UX services has its own clients, sales from clients for whom we provide comprehensive support that delivers the most value account for about half of the total sales of the business.

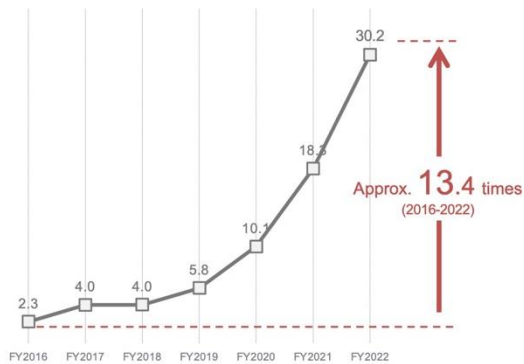
Net Sales per Client

All businesses DX only

- ▶ As a result of successful upselling to existing clients, net sales per client rose nearly thirteenfold in seven years
- ▶ We have 30 large clients with sales of ¥30 million or more per client. Becoming more intimate with clients and increasing the number of large clients is important for sales growth.

Net Sales per Client

(million yen/client)



*Figures for FY2016–FY2017 are unaudited results.

Number of Clients by Unit Price

Client unit price	Small Large			
	< ¥10 million	< ¥30 million	< ¥100 million	> ¥100 million
Net sales per client	< ¥10 million	< ¥30 million	< ¥100 million	> ¥100 million
Number of applicable clients	79	24	23	7
Total net sales	¥220 million	¥410 million	¥1200 million	¥2.23 billion
Ratio to total net sales	5.5%	10.3%	29.5%	54.8%

Increasing the number of large clients is important for sales growth

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Revenue per client has also grown steadily, averaging JPY30 million in FY2022.

In addition, there are a total of 30 large clients with sales exceeding JPY30 million per client. Of these, seven of the 30 companies had loyal customers exceeding JPY100 million. We believe that getting inside the customer and growing the number of large clients is critical to expanding sales.

Full-Year Performance Summary (YoY)

All businesses DX only

Million yen	FY2021	FY2022	YoY	YoY (%)
Net sales	2,139	4,352	+2,213	+103.5
Consulting services	1,194	2,660	+1,466	+122.8
Marketing services	550	740	+190	+34.5
UI/UX services	393	617	+224	+57.0
Technology services	-	211	-	-
HR solution services	-	122	-	-
Cost of sales	1,131	2,510	+1,379	+121.9
Gross profit (Gross profit margin)	1,008 (47.1%)	1,841 (42.3%)	+833	+82.6
Selling, general and administrative expenses	497	883	+386	+77.7
Operating income (Operating income margin)	510 (23.9%)	958 (22.0%)	+448	+87.8
Ordinary income	502	948	+446	+88.8
Net income attributable to shareholders of the company (Net income margin)	359 (16.8%)	676 (15.6%)	+318	+88.3

- ▶ FY2022 net sales increased 103.5% YoY to ¥4,352 million due to successful upselling to existing customers and steady progress in acquiring new customers.
- ▶ Gross profit margin declined as the rate of increase in cost of sales exceeded the rate of increase in net sales owing to the expanded use of participating partners.
- ▶ Owing to increased sales, FY2022 operating income increased 87.8% to ¥958 million, while net income increased 88.3% to ¥676 million.

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Finally, here is a summary of the full-year results for FY2022.

Sales increased 103% YoY to JPY4,352 million due to successful up-selling to existing customers, steady progress in acquiring new customers, and the effect of M&A.

In addition, due to the increased use of joint participation partners, the rate of increase in cost of sales exceeded the rate of increase in net sales, and although the gross profit margin and other profit margin indicators declined, the absolute amount of profit increased by more than 80% from the previous fiscal year in the gross profit level and beyond.

FY2023 Earnings Forecast Summary
Net Sales Increase by 70%/Net Income Increase by 30%

	Million yen	FY2022 (Actual)	FY2023 (Forecast)	YoY	YoY (%)
Net sales		4,352	7,470	+3,118	+71.6
Digital transformation		4,019	6,100	+2,081	+51.8
DX×Technology		210	890	+670	- ※3
DX×HR		122	480	+358	- ※3
Gross profit ^{*1} (Gross profit margin)		1,939 (44.6%)	3,110 (41.6%)	+1,171	+60.3
Digital transformation		1,814 (45.1%)	2,710 (44.4%)	+896	+49.4
DX×Technology		43 (20.5%)	140 (15.7%)	+106	- ※3
DX×HR		82 (67.2%)	260 (54.2%)	+180	- ※3
Operating income (Operating income margin)		958 (22.0%)	1,270 (17.0%)	+312	+32.5
EBITDA ^{*2} (EBITDA margin)		1,016 (23.4%)	1,470 (19.7%)	+454	+44.6

^{*1} Gross profit figures, which are before allocation of cost to SGA Expenses, do not match those reported in the consolidated profit and loss statements.
^{*2} EBITDA = Operating income + Depreciation (including goodwill amortization) + Security deposit amortization + Stock compensation expenses
^{*3} Changes for DX×Technology and DX×HR businesses, both consolidated mid-year, are not shown because these figures do not reflect the full year results.

Finally, here are our full-year forecasts for the current fiscal year ending December 31, 2023.

The sales growth rate for FY2023 is projected to increase 71.6% over the previous year, bringing net sales to JPY7.47 billion.

By business segment, the digital transformation business, our existing business, is expected to increase sales by 50%. In addition, the DX x technology business, which entered the Group through M&A in FY2022, and the DX x HR business, which added a new company in FY2022 and is expected to add new companies again in FY2023, are expected to contribute to the increase in sales throughout the year.

On the expense side, due to an increase in SG&A expenses, mainly due to recruitment and office rent, we expect the operating margin to decline to 17% in FY2023, with the decline in operating margin to be particularly pronounced in H1.

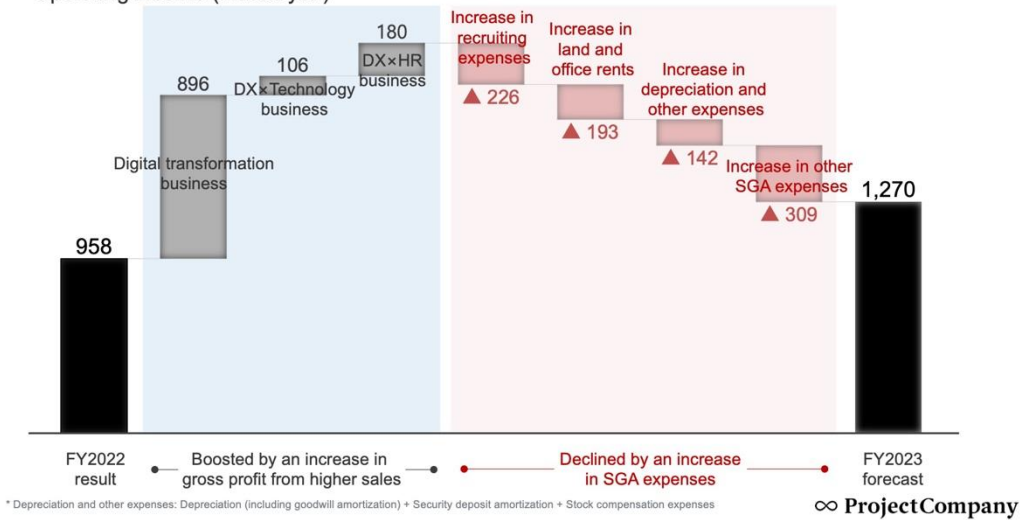
Even after factoring in these cost-increasing factors, operating income is expected to increase by more than 30%. EBITDA growth excluding the impact of goodwill amortization, etc., is expected to be about 45% over the previous year.

Factors for Changes in Operating Income

All businesses DX only

- ▶ We expect FY2023 operating income to be ¥1,270 million, factoring in the increase in recruiting expenses incurred from active recruiting and land and office rents, while expecting an increase in gross profit due to sales growth compared to FY2022.

Operating income (million yen)



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Here is a more detailed explanation of the factors that contribute to the change in operating income.

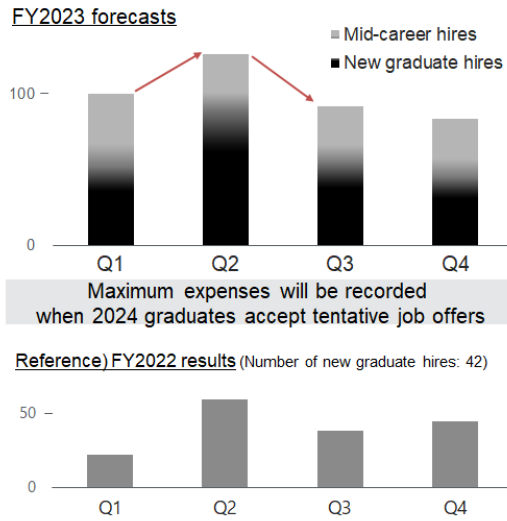
We expect gross profit to increase in FY2023 compared to FY2022 as a result of sales growth in each of our businesses. On the other hand, we have factored in an increase in recruiting expenses, mainly for new graduates, due to active recruitment, and an increase in land rent due to the office relocation, and as a result, we expect operating income for FY2023 to be JPY1,270 million, as mentioned earlier.

Forecasts of Changes in SGA Expenses during the Period

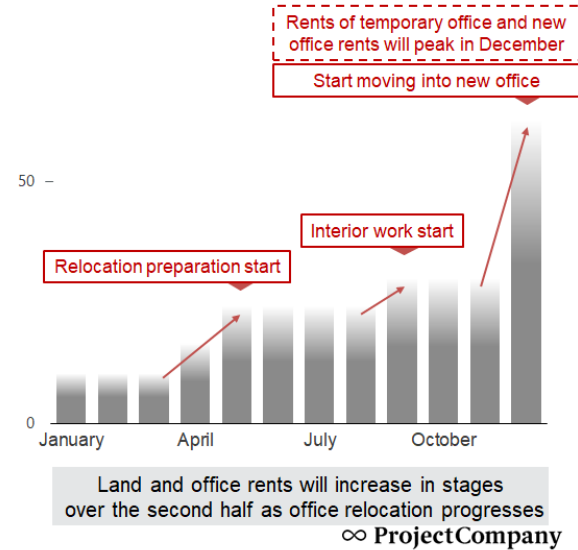
All businesses DX only

- ▶ Recruiting expenses and land and office rents, which are the main factors pushing down operating income, are expected to change significantly during the period, as shown below.
- * Recruiting expenses can vary depending on the recruitment results.

Recruiting Expenses (million yen)



Land and Office Rents (million yen)



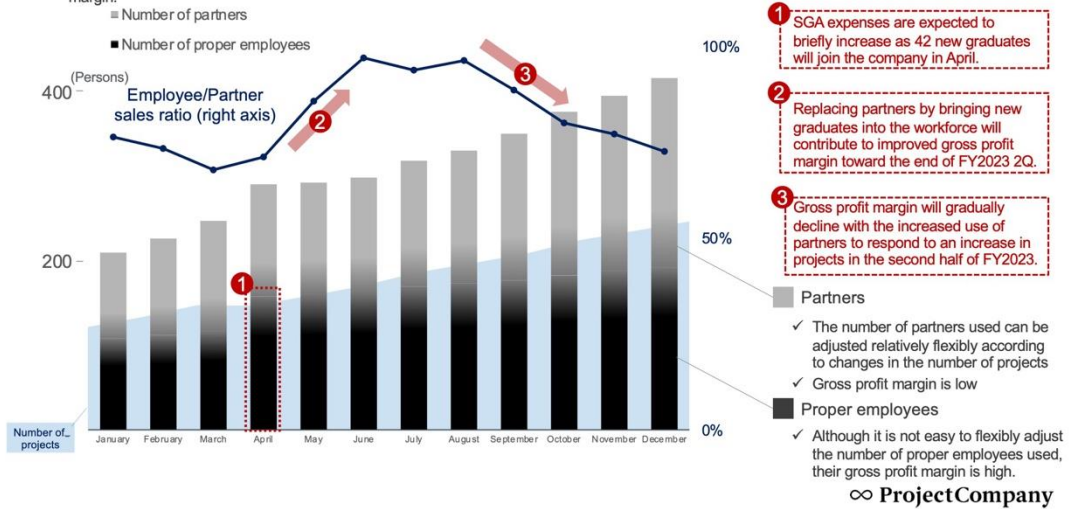
As shown here, recruitment costs are expected to be weighted toward H1, while land rent is expected to increase toward H2. Since the operating profit margin will decline once in H1 when recruiting costs increase while gross profit margins have not fully grown, we expect profits for the current fiscal year to be weighted toward H2.

We hope that you will note that the period over which recruitment expenses are recorded is likely to vary depending on actual recruitment results.

FY2023 Personnel Planning

All businesses DX only

- ▶ 42 new graduates are scheduled to join the company next fiscal year as a result of active recruiting activities targeting upper-level graduates.
- ▶ Although this will cause a temporary increase in SGA expenses, replacing partners with new graduates will contribute to improving our gross profit margin toward the end of FY2023 2Q.
- ▶ In the second half of FY2023, it is expected that the increased use of partners to respond to the pace of increase in projects will push down the gross profit margin.



Finally, the staffing plan for FY2023. There are three points to explain.

First, we expect a temporary increase in SG&A expenses due to the expected hiring of 42 new graduates in April. In addition, the Company expects to bring new graduates into the workforce and replace some of its co-partners through the second half of Q2, which should contribute to higher gross margins.

On the other hand, since the pace of sales growth is expected to outpace the pace of employee growth toward the end of the fiscal year, partner utilization is expected to once again be a factor pushing down gross margins toward the end of the fiscal year.

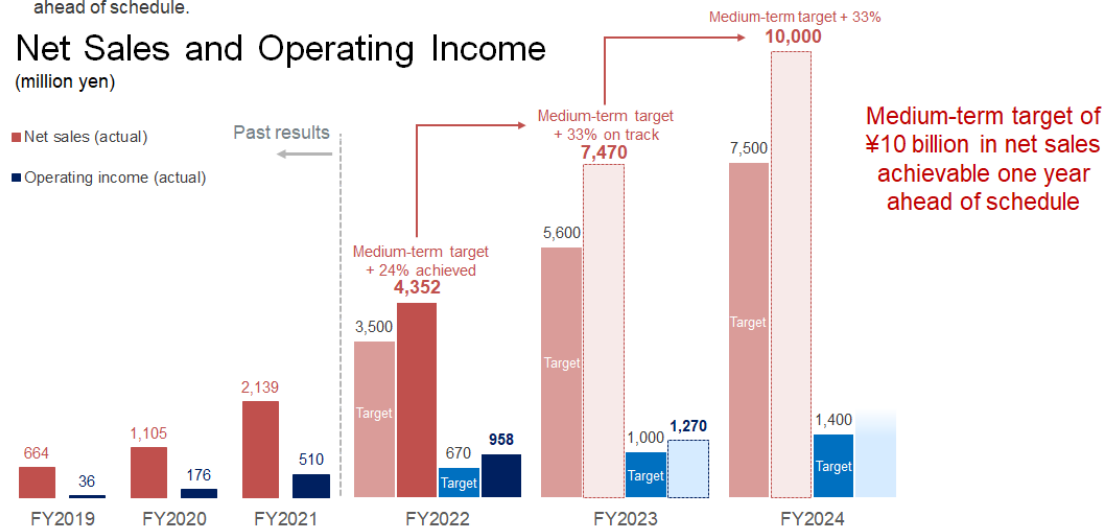
The above is our outlook for the full year.

Evaluation of Current Status toward Achieving the Medium-Term Target “TARGET100”

- ▶ Toward achieving the medium-term target “TARGET100” of ¥10 billion yen in sales and an operating income of ¥2 billion yen by FY2025, both net sales and operating income are showing steady progress.
- ▶ We will continue to focus on achieving a high growth rate and move forward to achieve the ¥10 billion mark in net sales one year ahead of schedule.

Net Sales and Operating Income

(million yen)



Doi: Finally, I would like to talk about our management policy for the fiscal year ending December 31, 2023.

We believe that we have made steady progress in both sales and operating income through the fiscal year ended December 31, 2022, toward achieving our mid-term performance target, TARGET100, announced last February, which aims to achieve sales of JPY10 billion and operating income of JPY2 billion by FY2025.

If actual performance progresses in accordance with the performance targets for the fiscal year ending December 31, 2023, we expect to achieve sales for the fiscal year ending December 31, 2023, exceeding our initial target by 33%.

Therefore, among our medium-term performance targets, we are aiming to achieve our sales target of JPY10 billion in FY2025 one year ahead of schedule in FY2024.

Action Plan

- ▶ In order to achieve ¥10 billion in net sales one year ahead of schedule, the following initiatives have been developed:

① Focus on “Profitable Hypergrowth”

- Actions will be taken to **accelerate the top line** to achieve ¥10 billion in net sales one year ahead of schedule.
- **Critical investments for future growth will be actively sought** while securing a reasonable level of operating profit.

Operating income will be secured by prospective sales growth while expenses for recruitment, office leases and other expenses for future growth are anticipated.

② Full-scale transition to group management

<Business operation assessment for FY2022>

- Net sales grew **approx. two-fold YoY** for the second consecutive year.
- **A group management structure has been explored with generally good results**, by acquiring shares of uloqo. Co., Ltd. (current Project HR Solutions Co., Ltd.) and Cuatro Technologies Co., Ltd. (current Project Technologies Co., Ltd.) and establishing two group companies through company splits.

Considering how we can expand and diversify as a group company, we are increasing efforts on expansion through M&A and new business opportunities, accelerating the scale of the group as a whole, including the share acquisition of Dr. KENKO KEIEI Inc. as announced on February 14.

The specific action plans are as follows.

The first is profitable hypergrowth orientation. In other words, while placing the highest priority on top-line growth and ensuring a certain level of operating income through sales growth, the investment policy is to invest boldly in hiring new graduates and relocating to a new office in Azabudai Hills as an investment for future growth.

The second point is to proceed in earnest with the conversion to a group management structure, which we have already begun in FY2022. Through this policy, we will not only continue to grow our existing businesses, but also pursue further growth by promoting diversified expansion as a corporate group through M&A and the creation of new businesses.

We hope that our shareholders will look forward to our further growth based on these policies, and we ask for your continued support.

That is all for today's explanation. Thank you for your attention.

Question & Answer

Doi [M]: We will now move on to the Q&A session, and I would be happy to hear your questions and comments.

Yoshida [Q]: Thank you. The first is about dependence on customers.

I believe the sales composition to NTT DATA Corporation and transcosmos inc. was about 30% in the fiscal year ended December 31, 2021. In the period just ended, the composition of the two companies has been quite high at 36%, what are your thoughts now on this high level of dependence?

Doi [A]: Of course, our goal is to acquire a wide range of companies with which we have deep business relationships. On the other hand, we believe that we are able to manage the current level of 36% for the two companies at this time, with a sales ratio of 20% per company. Regarding the 36% figure, we do not see the dependence as increasing that much.

On the other hand, we would like to continue to do business with these two companies while focusing on deepening transactions with others.

Yoshida [Q]: I understand. For example, is the higher percentage of two companies in your composition due to a lack of resources?

Doi [A]: Of course, the market needs are still very high, and if we can train and secure human resources to our satisfaction, I think our business will grow. We believe we were able to expand our business last fiscal year with a solid expansion of our workforce and optimal allocation of resources. Please understand that this is not due to a bottleneck in our hiring or personnel transfers.

Yoshida [Q]: Okay, thank you very much.

Also, you are going into new businesses, but I would like to know about the impetus for each of them.

For example, did a customer request it in an existing business and you thought the new business would be smoother if you acquired the company? For example, did you enter an area that you had not been involved in at all before because of a proposal from a client?

Doi [A]: As you mentioned, with regard to the two companies we acquired through M&A last term, we had identified the needs of clients who were currently lacking in DX personnel or were not hiring well.

Another reason for the technology business was that we had received requests from several companies to provide supports for following processes of our consulting services. We wanted to take the plunge and make a new entry through M&A, if there is an opportunity or timing to enter such an area.

In the course of targeting the needs of our original customers and the peripheral areas of our existing business, we made some good encounters, which led to our entry into the market through M&A.

Yoshida [Q]: I understand. I am very interested to know what the trigger to acquire Dr.KENKO KEIEI was.

Doi [A]: I recognize that the company's business area is mainly in the HR area as well. After all, as we provide recruiting support in the area of human resources and labor affairs, we often hear about various issues around human resources.

These days, we hear about such needs very often, as the legal system for industrial physicians, etc., is relatively well established. We thought it would be interesting for us to enter such a business, and that synergies could be generated.

Matsumura [A]: Of course, this is an M&A project, so if there is a good deal that is possible, we will go for it. We happened to come across this project when we were looking to strengthen the HR area a bit. We decided to give it a try, especially since we thought it could work well with the HR solutions business.

Doi [A]: As a supplement, we see our core value as being in the DX area.

As we expand from there into DX and new areas, we would like to diversify our growth through M&A, taking into account the needs of our existing clients, areas we would like to expand into, and encounters that may generate good synergies.

Yoshida [Q]: Could this be an opportunity to acquire new customers in the sense of a one-stop service, like UI/UX?

Doi [A]: Dr.KENKO KEIEI's business is a service that has a system that allows it to find potential customers from its network with certified social insurance labor consultants. We believe that we will be able to attract new customers that we have not yet been able to reach.

Yoshida [Q]: Okay, thank you very much. Is the establishment of Potential as a subsidiary intended to strengthen HR as a whole?

Doi [A]: Yes. We have such a thought, of course. Furthermore, in order to realize our vision, we believe that it will be extremely important to develop and produce management personnel from within the Company.

This is also part of our efforts to produce people who are willing to take on new businesses and challenges from within the Company. We let our employees try a new one this time.

Yoshida [Q]: I understand. Also, I'd like to talk about existing digital transformation business. How does the current situation compare to last year or the year before in terms of demand trends? I would also like to know if any new trends are emerging.

Also, although it may not be relevant, new technologies such as ChatGPT have recently emerged. Can you tell me if such a thing has nothing to do with your business or if it will be an opportunity for new business to be created in the future?

Doi [A]: I don't think there will be a major change in market needs trends. In the areas in which we compete, we see customer needs continuing to expand.

This is due to the fact that they are still unable to develop human resources in-house who can promote projects in the digital domain in a single integrated manner. We recognize that such needs are increasing as more and more major companies are taking on challenges in such areas. So, we have a sense that such needs have continued to expand since the year before last.

On the other hand, it is true that more and more companies are considering how they can do more to develop human resources within their companies, or whether they can have digital human resources within their companies. In order to capture this, we have been expanding our HR domain in addition to our digital transformation business.

Anyway, from a larger perspective, I have the sense that the market itself is still expanding.

ChatGPT is of course a wonderful technology, and we are trying it out within the Company. We first understand that the technology itself will not compete with our business in the future.

In project promotion or in the development of new services, I think it is possible to create new businesses while utilizing such technologies.

We have a sense that more and more companies are becoming very interested and that such projects will increase in the future. We would like to actively support the development of new digital businesses that utilize such technologies.

Yoshida [M]: Thank you very much. That's all from me.

Doi [M]: Thank you very much.

Moderator [M]: If anyone has any further questions, please use voice or chat.

Participant [Q]: I have just one question.

I understand about the M&A so far, but as for Dr.KENKO KEIEI, I got an impression that you are going completely off the axis of DX.

I am sorry to say this, but I think the goal of the first project was to focus on DX at any rate. How should we think about going off the axis of DX?

Doi [A]: This service of health management itself is not directly related to digital transformation. However, by utilizing our digital transformation know-how, we believe that this business itself can grow at a rapid pace. We are participating in this project with these aims in mind.

We view this business not only as an HR domain, but also as a DX for HR domain. We are entering this health management business with the aim of expanding the business by using digital technology to not only dispatch personnel, but also to promote digitalization for encounter and media communication.

Digital transformation for our customers is a one-stop support by DX of our infrastructure. On the other hand, in the DX for new business areas derived from the digital transformation business, in addition to directly promoting digitalization in the market, we intend to actively participate in businesses that can be expanded by utilizing our digital know-how, such as the health management business.

Participant [Q]: I don't think your company, including perhaps the President, has any expertise in industrial physician services and the like. For that, you will be using personnel from the company you have just acquired and made into a subsidiary. You don't have any problems in that control, do you?

Doi [A]: PMI know-how has been gradually established through the M&A of two companies in the last year. Again, we said to President Suzuki, who has been involved in the business of Dr.KENKO KEIEI since its foundation, that we hope to stay with him for a long time to come. I believe we have managed that risk to a certain degree, but we will continue to work on it.

Participant [Q]: Okay, thank you. In other words, for example, if DX is the entry point, you will proactively enter fields in which you have never been involved before.

Do you mean that there is a possibility of entering into e-commerce, for example?

Doi [A]: I hope you understand that while our focus is on DX services as a foundation, participation in peripheral areas such as e-commerce, as you mentioned, is also within the scope of our consideration.

Participant [M]: I understand. Thank you very much.

Doi [M]: Thank you very much.

Moderator [M]: Thank you for your question.

Yoshida [Q]: Sorry, this is my second question. I'm Yoshida from Ichiyoshi Research Institute.

Regarding the employment situation, I understand that you are aiming to hire 42 new graduates this year and 100 in the next fiscal year. In addition, I believe you will hire mid-career workers. Can you tell us how your company is doing now amidst the recent intensified competition for employment?

Doi [A]: Regarding newly graduate employees, we are currently interviewing students who will graduate in 2024. We have received a relatively large number of applications and are in the process of final selection. We see this as not bad progress against the figures we are aiming for.

In mid-career hiring, we are planning to hire at the same pace as last year. The number has remained flat and we believe that we have not been affected much by increased competition.

As the number of areas such as technology, HR, and DX increases, the scope of recruitment for the Group as a whole is also expanding, and we believe that the Group as a whole will be able to accelerate recruitment in the future.

Matsumura [A]: Regarding mid-career recruitment, as I may have mentioned this in the explanation of last year's Q3 results or something, I have a feeling that there was a slight slowdown in H2 compared to H1. We are trying to bolster this a bit while also putting the system in place.

Exactly as Mr. Doi mentioned, the scope of recruitment is also expanding. While this is a positive aspect, we feel the need to consider resource allocation and other factors as we have to recruit a variety of people.

Yoshida [Q]: I understand. With the increase in the number of people in the short term and the hiring of quite a few new graduates, I think it will be difficult to train them. Will you have specialized persons for training? Are there any areas that will be strengthened differently than in the past?

Doi [A]: Of course, it is a new challenge for us to hire this many new graduates, so we see it as a challenge in a sense. Instead of doing things the same way as in the past, we have formed a project team specializing in training new graduates well and have established a system to follow up with them afterwards, while also slightly strengthening the training we have been providing at the time of their entry into the Company.

I think it will probably be necessary to make adjustments and PDCA after the actual hiring. At this point, we are moving forward with that project team to see if we can address the issue to some extent.

Yoshida [M]: I understand. Thank you, that is all.

Moderator [Q]: Thank you for your question. I will now read out a question.

What is the actual up-sell, conversion rate from Ulscope to marketing support and consulting services as well as the lead time? What is your track record for the size of sales per company when it comes to a conversion from new client acquisition to consulting services?

Doi [A]: I have to admit that we have not been able to properly track the specific numbers. There are many different times when Ulscope customers convert to consulting and marketing.

Our main sales activities are to uncover needs through the initial Ulscope survey and propose marketing and consulting services at the appropriate time to clients who want to do Ulscope on a regular basis, and to make proposals to address their issues.

Of course, some customers use the service only for research needs, so the conversion rate is not very high. There are five to six companies per year, less than 10.

However, after converting from Ulscope to consulting services, sales per company will be very high. The average monthly unit price for consulting services is about JPY1.6 million to JPY2 million, and since most contracts are for a minimum of three months, a contract amounts to roughly just under JPY10 million. Sales per company are very high when converted.

Moderator [M]: Thank you for your question.

As there are no further questions, this concludes the financial results briefing.

Doi [M]: I hope that everyone will continue to look forward to our business. We will continue to do our utmost to manage the Company, and we ask for your continued support.

Thank you for taking time out of your busy schedules to join us today.

[END]