

∞ **ProjectCompany**

ProjectCompany, Inc.

Q3 Financial Results Briefing for the Fiscal Year Ending December 2023

November 15, 2023

Event Summary

[Company Name]	ProjectCompany, Inc.	
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[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending December 2023	
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[Date]	November 15, 2023	
[Number of Pages]	22	
[Time]	10:00 – 10:29 (Total: 29 minutes, Presentation: 16 minutes, Q&A: 13 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 the Company was able to identify from the audio who spoke during Q&A.

Presentation

Doi: Now that it is time, we will begin the presentation of ProjectCompany, Inc.'s financial results for Q3 of the fiscal year ending December 31, 2023. Once again, I am Doi, Representative Director, President, and Group CEO of ProjectCompany.

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

Doi: Thank you very much for taking time out of your busy schedules today to attend our financial results briefing. Please wait a moment.

Executive Summary

Q3 FY2023 Financial Results

Net Sales	Operating Profit	EBITDA ^{*1}	EBITDA Margin
¥1,616 million (+44.3% YoY)	¥246 million (-12.8% YoY)	¥295 million (-2.6% YoY)	18.3%
<ul style="list-style-type: none"> On a year-on-year basis, despite an increase in net sales, operating profit decreased due to the impact of the larger burdens of rent expenses associated with the use of a temporary office. On a quarter-on-quarter basis, net sales remained flat but operating profit increased mainly because of lower-than-planned expenses, such as a decrease in hiring expenses from a temporary completion of hiring of 2024 graduates. In the Digital transformation business, net sales grew slightly but gross profit margin declined quarter on quarter. This is because the number of employees decreased as efforts were made to foster existing employees in Q1 and Q2 while curbing new employment, and the attrition rate rose in accordance with the expansion of the organization. 			

Major Numerical Information

Net Sales per Client	Partner ratio
¥30.4 million /Q3 (cumulative)	0.93 partners /employee
<ul style="list-style-type: none"> Worked to expand transactions with existing clients to turn them into large-scale customers, resulting in net sales per client at ¥30.4 million for Q3 (cumulative). The partner ratio (number of partners per employee) rose from Q2 to 0.93 in accordance with the decrease in the number of employees and the completion of one-time project works that utilized the group company workforce and back office employees. 	

Issues and Countermeasures for the Digital Transformation Business

Recognized challenges
<ul style="list-style-type: none"> Many man-hours are spent in fostering members, mainly new graduate employees, causing a slowdown in performance growth, while the attrition rate is rising due to such man-hours making workload heavier.
Countermeasures taken
<ul style="list-style-type: none"> Fostering new graduate employees is generally advancing steadily due to measures taken since Q2. To foster managers in a more sophisticated manner, organizational changes and revisions to the employee evaluation system are under way, anticipating that they will exert effects in 2024 and thereafter. Efforts are being made to reinforce governance by involving outside experts, given the incident in which the former Executive Vice President resigned in September 2023.

*1 EBITDA represents operating profit plus depreciation, amortization of leasehold deposits and share based payment expenses.

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Quickly, here is a summary of today's explanation.

Full-year results for Q3 of the fiscal year ending December 31, 2023, showed net sales of JPY1,616 million and operating profit of JPY246 million. Compared YoY, operating profit declined due to factors such as a cost increase in rent. On the other hand, QoQ, operating profit increased mainly due to lower-than-planned SG&A expenses such as recruitment costs.

In addition, I will also explain today the current business challenges and their countermeasures in the digital transformation business.

First, I will give a brief overview of our group and then explain our business results for Q3 of FY2023, as well as our recognition of issues in the digital transformation business and the status of countermeasures.

ProjectCompany Group

Group Management Philosophy

Creating a Project-based Society

The Japanese economy remains stagnant and is feared to keep declining going forward if no change is made to the situation.

We believe that the only way for the Japanese economy and, by extension, the Japanese society to regain vitality is for Japanese companies to break out of their conventional organization structure that is vertical, top-down and "task-based," and transform it into a "project-based" structure where talents with the ability to promote projects on their capacity are organically connected around their missions and work together as a team toward their goals. Based on this management philosophy, we work together to expand our businesses for creating a "project-based society."

Now, I would like to provide an overview of our group.

First, our group management concept is to create a project-based society. The Japanese economy has been stagnant for a long time since the bubble period. However, the world is shifting from an industrial capitalist society to an information capitalist society nowadays, and the character of required human resources is shifting from task-oriented human resources that do exactly as they are told to project-oriented human resources that can carry on projects on their own initiative.

We believe that the only way for the Japanese economy and Japanese society to regain vitality is for Japanese companies to break out of their conventional organization structure that is vertical, top-down and task-based, and transform it into a project-based structure where talents with the ability to promote projects on their capacity are organically connected around their missions and work together as a team toward their goals. Based on the management philosophy of "creating a project-based society", we work together to expand our businesses.

Company History



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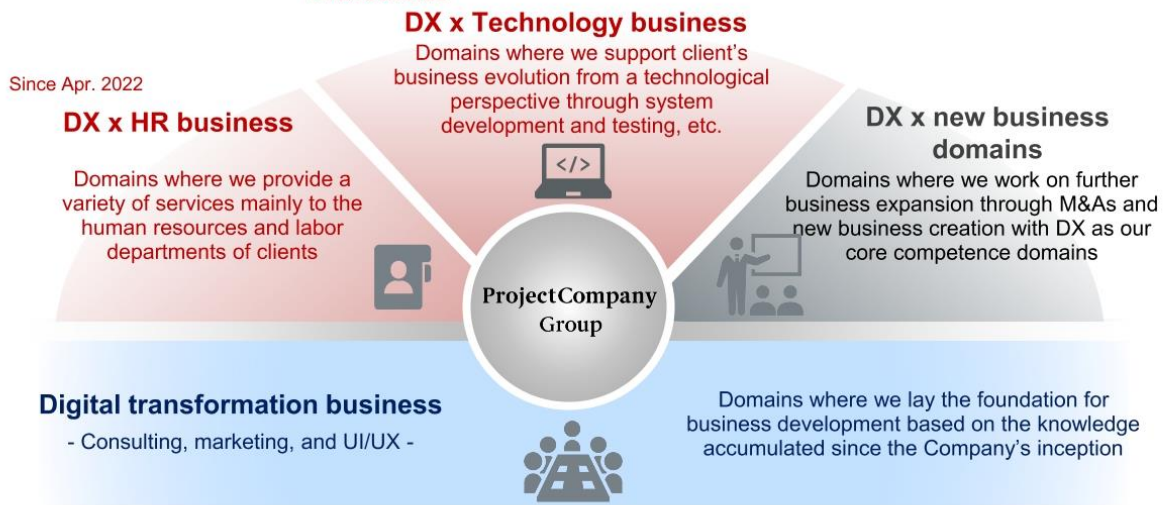
Next, I would like to give you a brief history of our company.

Again, ProjectCompany was founded in January 2016 and has been expanding its business steadily since then, 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 of being listed in 2021.

Since going public, we have pursued diversified growth through group management, with uloqo Co., Ltd., an HR solutions business, joining the Group in April last year, and cuatro technologies Inc., a technology services company, in October. In April of this year, Dr. KENKO KEIEI Inc., a healthcare service company, and artwize inc., a technology service company, were newly added to the Group.

Business Domains of the Group

- ❑ In FY2022, attempted an integrated group management system through M&As and spin-offs, resulting in a **generally favorable** assessment.
- ❑ Over the medium to long term, aim for multi-faceted growth through an integrated group management system, with an eye on expanding **business domains with DX as our core competence.**
Since Oct. 2022



While we base our business strategy on consulting, marketing, UI/UX, and streamlined digital transformation support areas whose knowledge we have accumulated since our founding, we also aim to diversify growth based on digital transformation, such as entering the digital transformation and HR business and digital transformation and technology business through M&A in the last fiscal year.

We seek to continue expanding our business domain based on digital transformation through M&A and new business creation.

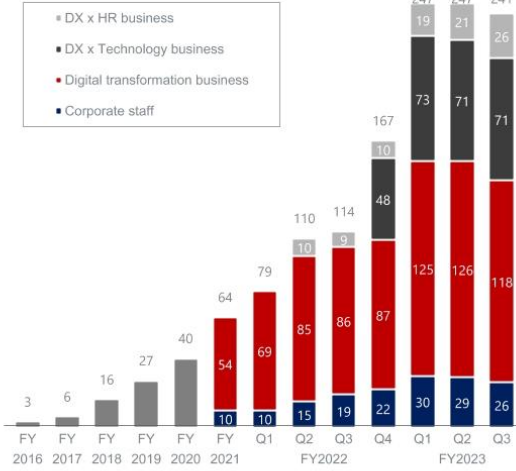
We will not provide details on the business statistics chart and case studies.

Situation of Employees

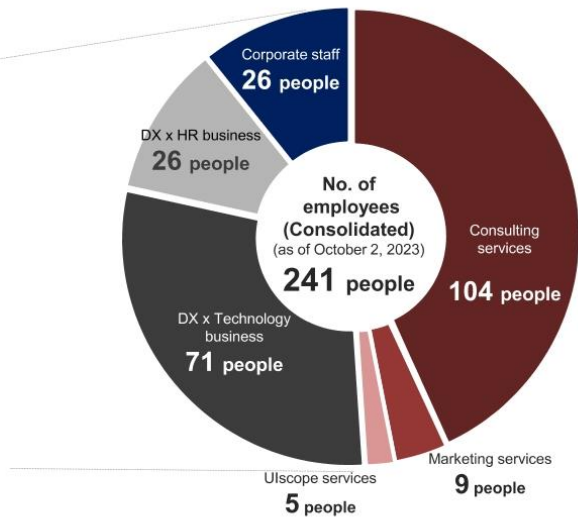
□ The number of employees was 241 as of October 2, 2023, **decreasing slightly from Q2**. In the current fiscal year, a focus is being made on fostering employees who have most recently joined the Company.

Trends in the number of employees (people)

*Starting with Q1 FY2023, the number of employees as of the business day following the end of each period is indicated.



Composition of employees



Here is the situation of employees.

The number of employees had been increasing steadily since the Company's establishment, but declined slightly to 241 as of October 2, mainly due to a decrease in the number of mid-career hires since H2 of the previous fiscal year. Of these, 118 employees, or about half, are engaged in the digital transformation business.

Matsumura: From here, I will explain the results for Q3 of FY2023.

Special Remarks

(i) How the Former Executive Vice President Resigned the Company

Handling of the matter by the Company

- As announced in the "Report on the Change (Resignation) of Representative Director and Director" (Japanese) dated September 13, 2023, we are investigating the facts and examining measures to prevent recurrence and reinforce governance, with outside experts also involved.
- Tentative measures to prevent the occurrence of such incidents have already been prepared internally. The findings of the examination by outside experts, etc. are to be compiled in late November to early December 2023.

Handling of the Company's shares held by Mr. Ito, former Executive Vice President

- With regard to the policy on the disposition of the Company's shares held by Mr. Ito, there is no information to be disclosed as of the date of announcement of this material, as we are discussing and negotiating with him, selecting possible measures allowed in accordance with the Companies Act, Financial Instruments and Exchange Act, and other laws and regulations.
- We will promptly announce the specific disposition method as soon as we reach an agreement with Mr. Ito.

(ii) Changes in Sales Recording Standard at Dr.KENKO KEIEI Inc.

- With regard to Dr.KENKO KEIEI Inc., which was newly consolidated in Q2 FY2023, the Company has decided to change the sales recording standard so that sales are recorded in net amount instead of gross amount.
- The impact of this change on the Company's earnings forecast for FY2023 is immaterial.
- In this financial results presentation, the portion corresponding to the change in sales (revenue) for Q2 FY2023 of the DX x HR business segment (healthcare services) to which Dr. KENKO KEIEI belongs is indicated as a reference value.



Before explaining the actual results, we would like to make two special remarks.

First of all, with regard to the resignation of Shota Ito, former Executive Vice President and Representative Director of the Company, which was announced recently on September 8, we are currently conducting a fact-finding investigation with outside experts and examining measures to strengthen governance to prevent recurrence of such a situation.

We have completed the formulation of provisional measures to prevent recurrence within the Company, and the results of the investigation by experts are scheduled to be compiled in late November or early December.

In addition, the Company has requested that Ito dispose of the Company shares he holds in the sense that the Company will sever all ties with Ito and is in the process of discussing and negotiating the method of disposal in accordance with various laws and regulations. There is nothing we can announce at this time, but we will make an announcement as soon as we reach an agreement on the outlook and other matters.¹

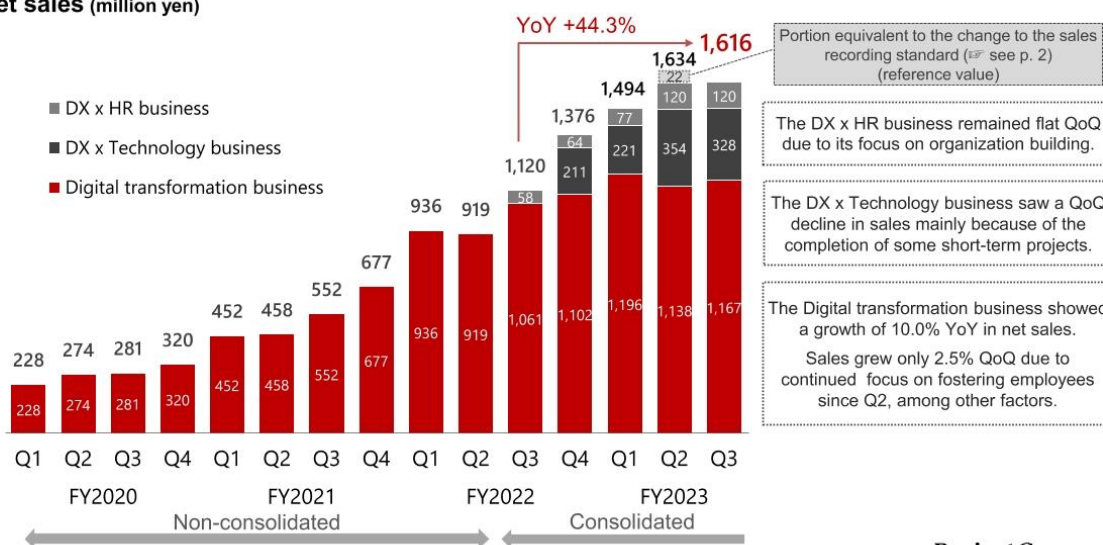
The second point, then, is to change the basis for recording sales of Dr. KENKO KEIEI, which began consolidation in April 2023, from the basis for recording gross sales from customers to the net amount after deducting payments to occupational health physicians and others.

This will result in an apparent decrease in sales of healthcare services in the digital transformation and HR segment, but the impact on the full-year forecast for the fiscal year ending December 31, 2023 is expected to be negligible.

Quarterly Consolidated Financial Results - Net Sales

- ▣ Achieved net sales of 1,616 million in Q3 FY2023, down 1.1% QoQ and up 44.3% YoY.
- ▣ Net sales of the Digital transformation business totaled 1,167 million, up 2.5% QoQ and up 10.0% YoY.

Net sales (million yen)



Let me begin by explaining consolidated net sales.

Sales for Q3 of FY2023 increased 44.3% YoY to land at JPY1,616 million. Considering the change in the basis for recording sales at Dr. KENKO KEIEI as explained earlier, sales remained flat QoQ.

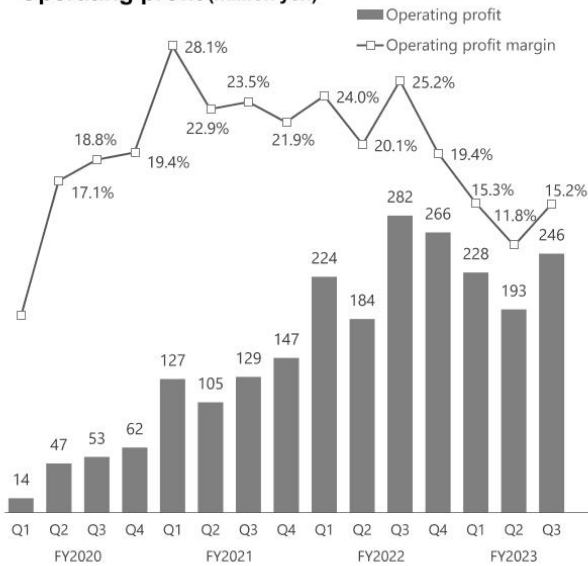
¹ Additional disclosure on the progress was made after the financial results briefing. For details, please refer to the timely disclosure dated November 15 (in Japanese only).

The digital transformation business accounted for JPY1,167 million, or about 70% of consolidated net sales, and this business increased sales by 10% YoY, but sales increased by only 2.5% in QoQ, mainly due to the continued focus on employee development since Q1.

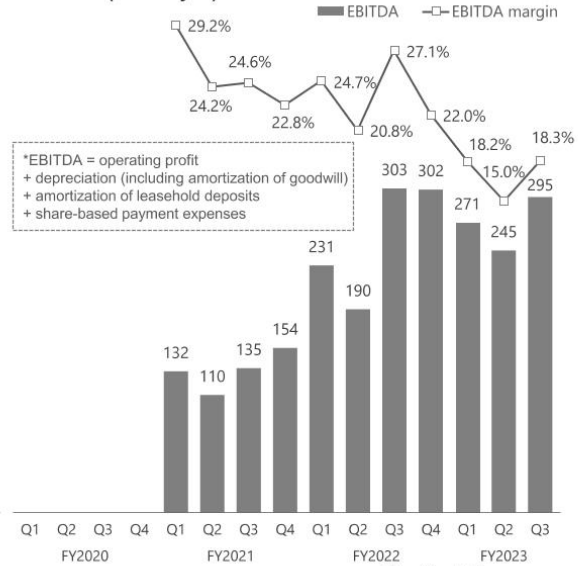
Quarterly Consolidated Financial Results - Operating Profit & EBITDA

Operating profit and EBITDA resulted in a QoQ increase mainly due to the temporary completion of investments in human resources, centered on hiring expenses.

Operating profit (million yen)



EBITDA* (million yen)



*EBITDA = operating profit
+ depreciation (including amortization of goodwill)
+ amortization of leasehold deposits
+ share-based payment expenses

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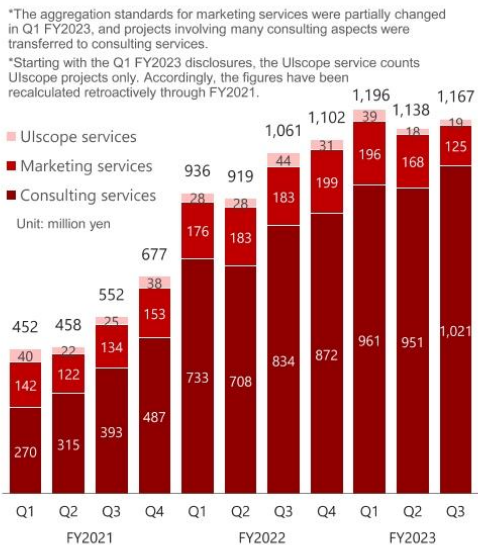
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Operating profit increased QoQ, mainly due to a lull in investment in human resources, particularly in hiring expenses. EBITDA, excluding the impact of non-cash charges, was JPY295 million.

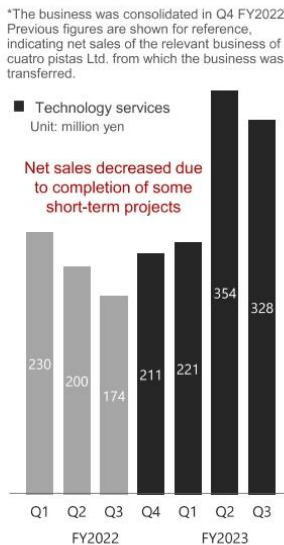
Results by Segment - Net Sales

Net sales by segment are as follows.

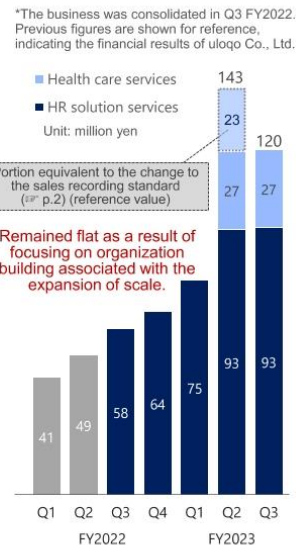
Digital transformation business



DX x Technology business



DX x HR business



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This is sales by segment.

In the digital transformation business, sales of consulting services increased, while sales of marketing services and Ulscope services decreased, but we believe that this was mainly due to the continued focus from the previous quarter on training members, mainly new graduates who joined the Company in April. We do not see any significant change in the demand side of the business.

In the digital transformation and technology business, sales decreased due to the completion of some short-term projects for which orders were received in Q2.

In the digital transformation and HR business, sales remained flat QoQ as the business shifted from a phase of scale expansion to a phase focusing on organization building.

Results by Segment - Cost of Sales & Gross Profit

- In the Digital transformation business, gross profit margin decreased slightly QoQ, mainly due to an increase in personnel expenses and outsourcing expenses.
- In the DX x Technology business, gross profit decreased due to lower sales resulting from the completion of some short-term projects.

	Digital transformation business		DX x Technology business		DX x HR business	
	Results [million yen]	QoQ	Results [million yen]	QoQ	Results [million yen]	QoQ
Net sales	1,167	+2.5%	328	-7.3%	120	+0.0%
Personnel expenses (cost of sales)	187	+11.3%	70	-1.4%	20	+0.0%
Outsourcing expenses (cost of sales)	492	+3.6%	178	-9.6%	8	+33.3%
Other costs	3	+0.0%	0	-	0	-
Gross profit*	484	-1.4%	78	-8.2%	90	-3.2%
Gross profit margin	41.5%	-1.6pts	23.8%	-0.2pt	75.0%	-9.5pts
SG&A expenses			407		-14.3% QoQ	
Operating profit			246		+27.5% QoQ	
Operating profit margin			15.2%		+3.4pts QoQ	

*The figures are before allocation of SG&A expenses such as rent expenses to cost of sales, and accordingly do not correspond to gross profit as stated in the summary of financial results and quarterly report, etc.

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Next, we discuss cost of sales and gross profit by segment.

In the digital transformation business, gross profit declined slightly QoQ, mainly due to higher personnel and outsourcing expenses.

In the DX x technology business, the overall amount of profit has decreased in line with the decline in sales, but the gross profit margin has remained relatively high due to the collaboration with the digital transformation business and other factors.

In the DX x HR business, the gross profit margin increased due to the effect of the change in the basis for recording sales at Dr. KENKO KEIEI as explained earlier.

As a result of the above, gross profit decreased QoQ, while SG&A expenses decreased QoQ, resulting in a 27.5% increase in operating profit QoQ.

Breakdown of SG&A Expenses

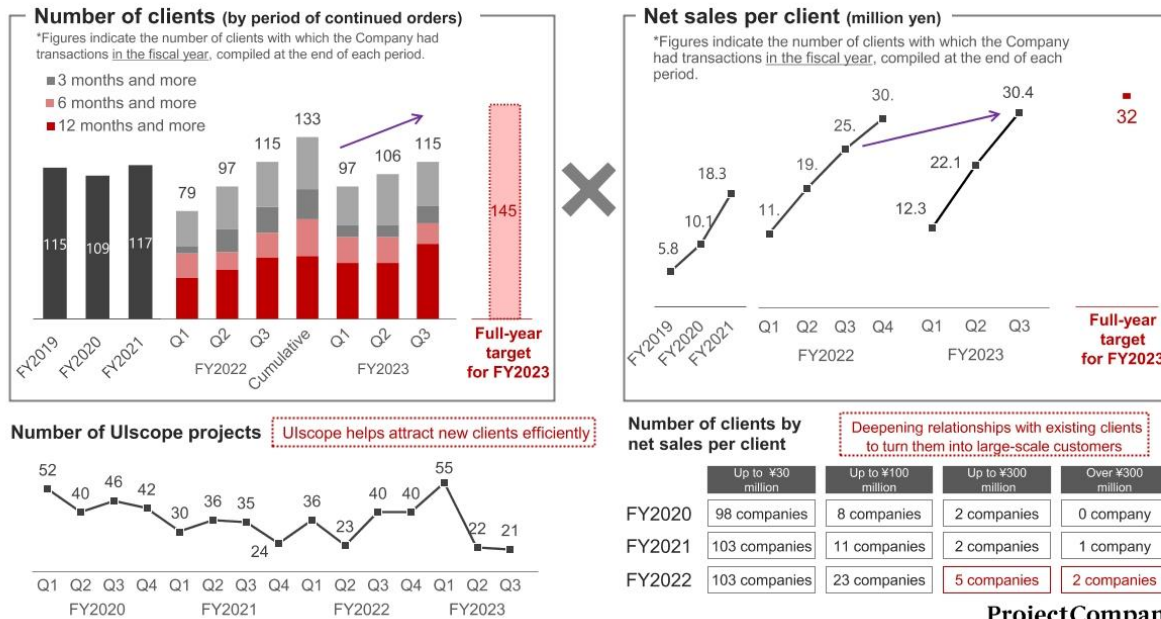
- While hiring expenses significantly decreased QoQ as 2024 graduates' acceptance of job offers peaked out for the moment, rent expenses increased in line with the use of the temporary office in preparation for the head office relocation.
- Other SG&A expenses also decreased QoQ, mainly because of not recording brokerage fees, etc. due to the absence of M&A execution in Q3.

	Results [million yen]	SG&A expenses to net sales	QoQ	Description
Personnel expenses/outsourcing expenses (SG&A expenses)	145	9.0%	-8.8%	Remuneration for directors and officers, salaries for back office employees and outsourcing expenses, etc.
Hiring expenses	54	3.3%	-46.5%	Agent fees and event expenses, etc.
Rent expenses	85	5.3%	+11.8%	Office rent, etc.
Depreciation, etc. (including amortization of goodwill)	49	3.0%	+6.5%	Amortization of goodwill, depreciation of other non-current assets and share-based payment expenses, etc.
Other SG&A expenses	73	4.5%	-20.7%	Fee expenses, etc.
Total SG&A expenses	407	25.2%	-14.3%	

As for the breakdown of SG&A expenses, the peak of informal acceptance of job offers for new graduates scheduled to join the Company in April 2024 has slowed down, resulting in a significant 46.5% decrease in hiring expenses QoQ, while land rent for the office relocation in January next year increased, resulting in a 14.3% decrease in overall SG&A expenses QoQ.

Digital Transformation Business | Number of Clients & Net Sales per Client

- Expansion in the number of clients was slowed as priority was placed on reinforcing the organization, but net sales per client grew steadily.



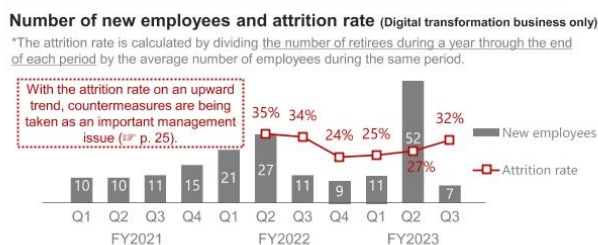
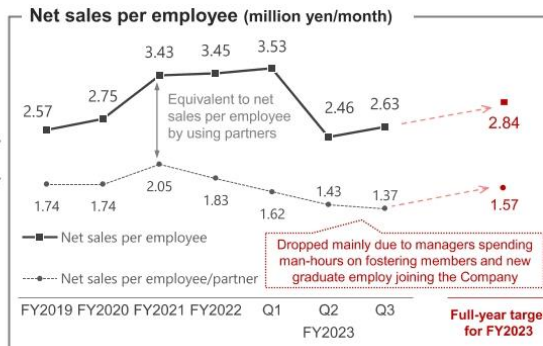
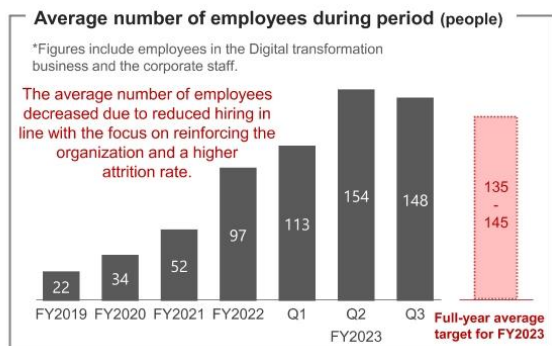
I will continue with an explanation of the key KPIs of our core digital transformation business.

First, let's look at the number of clients and net sales per client that make up the revenue of the digital transformation business.

The number of clients is the number of clients with whom we had transactions from the beginning of the fiscal year to the end of each quarter, and the number of clients by the end of Q3 was 115. Although growth in the number of clients was soft, due in part to our focus on training members, net sales per client, shown on the right side, increased JPY5 million YoY to JPY30.4 million.

Digital Transformation Business Business | Number of Employees & Net Sales per Employee

While the average number of employees during the period decreased due to reduced hiring in line with the focus on fostering existing employees, net sales per employee increased.



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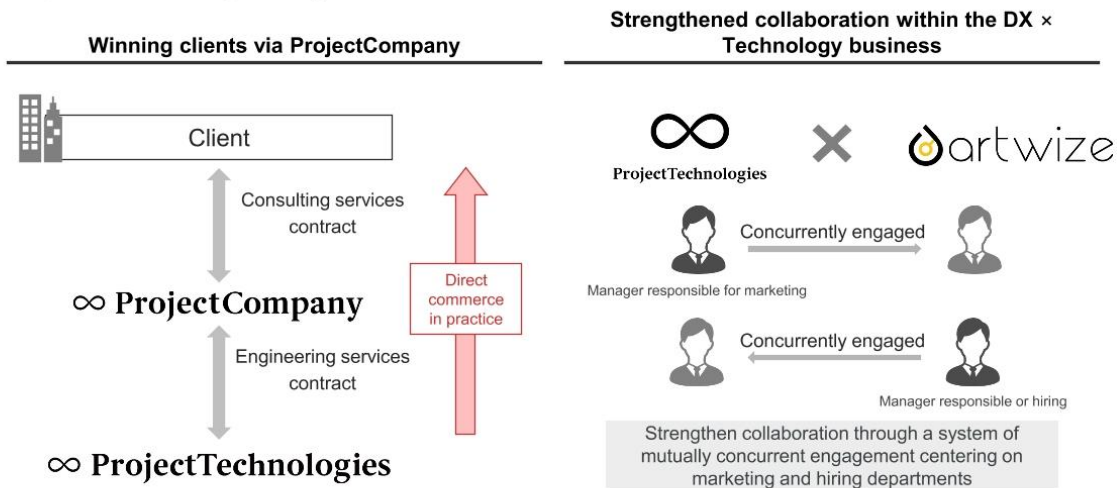
Next is the average number of employees during the period and net sales per employee, which are also components of sales in the digital transformation business.

The average number of employees during the period decreased by 6 to 148, due to a high turnover rate amid hiring restraints prioritizing organizational strengthening. The partner ratio increased from the previous quarter as the number of employees declined, and a certain amount of progress was made in training employees, resulting in an increase in net sales per employee to JPY2.63 million.

Finally, I would like to give an overview of our businesses other than the digital transformation business.

DX x Technology Business | Overview of Operations

- Gross profit margin of cuatro technologies, Inc. (currently ProjectTechnologies, Inc.), which joined the Group in October 2022, improved against the backdrop of a shift to a direct commerce format in practice due to winning of clients via ProjectCompany, Inc.
- At artwize inc., which joined the Group in April 2023, intra-group collaboration is being reinforced with ProjectTechnologies, Inc. mainly in terms of marketing and hiring.



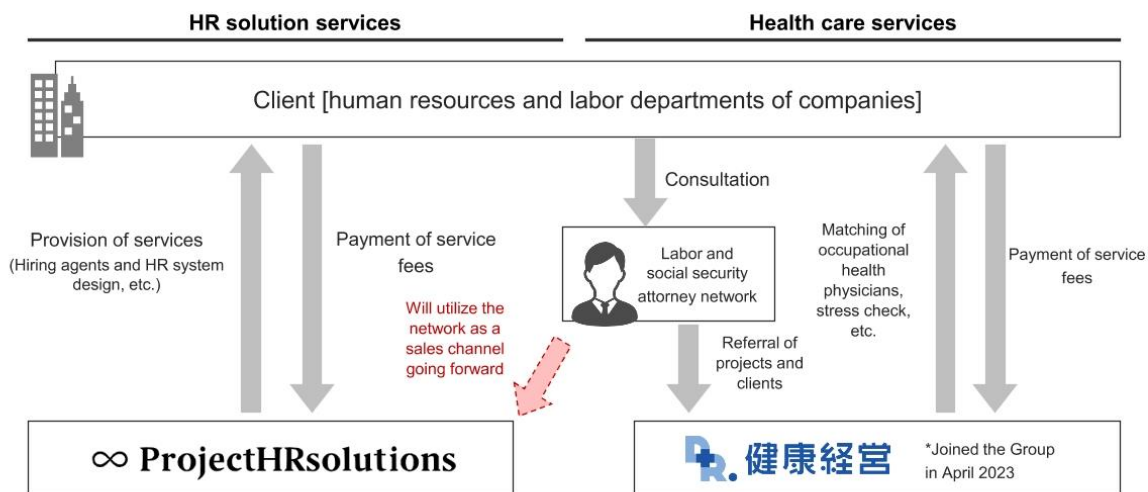
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First, in the DX x technology business, ProjectTechnologies, Inc., which became a group company in October last year, has been able to improve its gross profit margin by acquiring clients through the ProjectCompany, which in effect has led to a direct sales flow, and we believe that synergies are now being realized.

artwize, which joined the Group in April, is strengthening intra-group collaboration, particularly in the sales and recruiting divisions, through the establishment of a mutual dual-employment system with ProjectTechnologies, a company in the same industry.

DX x HR Business | Overview of Operations

- Steady growth in business performance has been seen at ulogo Co., Ltd. (currently ProjectHRsolutions, Inc.), which joined the Group in April 2022, as it utilized the Group's know-how with a focus on organization building.
- In April 2023, the Company acquired shares of Dr.KENKO KEIEI Inc., which mainly provides occupational health physician referral services, in an effort to expand the range of services it offers in the HR and labor areas and to enhance its sales channels by utilizing the labor and social security attorney network of Dr.KENKO KEIEI Inc.



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Next is an overview of the DX x HR business.

For ProjectHRsolutions, Inc., which joined our group in April 2022, we applied our group's know-how, mainly in terms of organization structuring and gradually established an organization from the starting phase of a very small organization scale, whose business performance is growing steadily.

Dr. KENKO KEIEI, an occupational health physician referral service that was consolidated in April, is different in nature from the HRsolutions service, but it also provides services to the corporate human resources and labor affairs departments, and we hope to grow our business through synergy by expanding our menu of offerings and cross-selling our services.

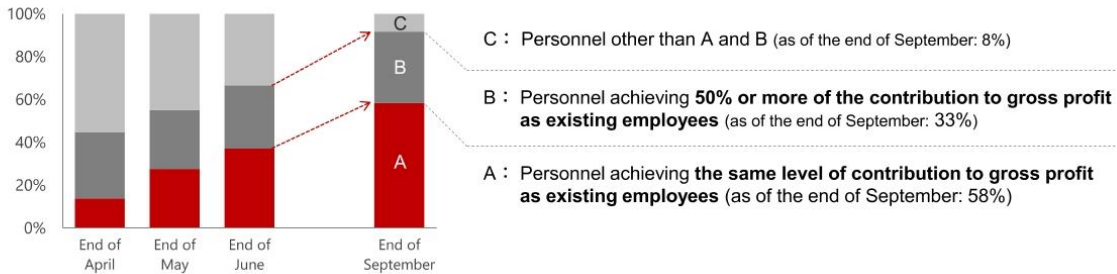
In light of the business results explained thus far, I would like to explain the recognition of challenges and the status of countermeasures in the digital transformation business.

Recognized Challenges (1): Delay in Training and Fostering New Graduate Employees and Other Members

- Since Q2, managers have spent more man-hours than initially anticipated for training and fostering 2023 graduate employees to make them ready for work.
- Focus has been placed on their fostering to be completed by the end of the year. **Approx. 60% of them made similar contributions as existing employees to gross profit as of the end of September.**

Ratio of new graduate employees by charge rank

*Compiled the graduate employees who joined the Company in April 2023 and were assigned to the Digital transformation business



Countermeasures for the challenges

Employees who had experienced the role of managers at ProjectCompany and have been reassigned to back office operations or group companies will partly be engaged in fostering the members.

Status of initiatives taken in Q3

As of the end of September, approx. 60% of new graduate employees were as ready for specific assignments as existing employees (in contrast to approx. 40% at the end of June), **generally making good progress in training to be completed by the end of this year.**

First, we will focus on the development of our member base, especially new graduates who joined the Company in April, which had been an issue in the previous quarter. As shown in the slide, the percentage of personnel achieving a gross profit margin equivalent to that of existing employees increased from less than 40% at the end of June to approximately 60% at the end of September, and the number of members achieving a gross profit margin less than 50% of that of existing employees decreased significantly to less than 10%.

We view the start-up of members, which was targeted for the end of FY2023, as generally progressing well.

Recognized Challenges (2): Shortage of Managers and Candidates for Managers Who Can Foster Members

- ❑ After reviewing requirements for managers in Q2 from the viewpoint of fostering members, efforts were made in Q3 to **build an organization structure based on the new requirements for managers and verbalize and systematize such requirements.**
- ❑ Revised the target figures for the number of managers for the current fiscal year in light of the current manager training situation.

Requirements for managers

- ❑ Negotiations with clients
 - ❑ Partner management
 - ❑ Risk management and service quality management
- +
- ❑ **Organization building and fostering of members**



Countermeasures for the challenges

Foster managers in a more sophisticated manner by introducing a system in which units of a small group of managers, who are selected under new requirements for managers and are given a certain degree of discretion, will closely coordinate with the executive team to achieve results in both budget progress management and organizational management.

Status of initiatives taken in Q3

Shift from a pyramid-type, monolithic organization to an organizational structure comprising units of a small group led by managers with a certain degree of discretion.

Conduct verbalization and systematization of "behavioral characteristics" (competency) as a manager.

Follow-up is underway on how the measures are being taken, anticipating that they will be effective in 2024 and thereafter.

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Secondly, in response to the tight utilization of manager personnel who can handle member training in the previous quarter, we are working to update manager training through a system in which managers are selected based on manager requirements, which include a viewpoint of human resource development, and aim to demonstrate results with units of small groups with a certain level of discretion.

During the quarter, we shifted from a monolithic organization to a small group-based organizational structure in which managers have a certain degree of discretion, and we are also working to verbalize and systematize the behavioral characteristics required of managers and are now closely examining the status of these measures.

The target for the number of managers for the current fiscal year has been revised from the initial 30 to 20, based on the current performance. We plan to continue to strengthen training toward April 2024, when the next batch of new graduates will join the Company, and to build up the number of managers by using experienced hires as needed.

Recognized Challenges (3): Upward Trend of Employee Attrition Rate

- Mainly due to the heavier workload from the man-hours spent fostering members in line with the organizational expansion in Q1 and Q2, performance growth has slowed down while the attrition rate is on the rise.
- While close attention should be paid to the resignation of the former Executive Vice President in September 2023 as a future organizational risk, efforts are being made to reinforce governance involving outside experts and review the HR system with more focus on enhancing capabilities and fostering members.

Number of new employees and attrition rate (Digital transformation business only, reposted)

*The attrition rate is calculated by dividing the number of retirees during a year through the end of each period by the average number of employees during the same period.



In Q1 and Q2 FY2023, workload was concentrated on some people, mainly due to the man-hours spent fostering members in line with the rapid expansion of the organization.

- Man-hours to be spent promoting projects and marketing are restricted, causing performance growth to slow.
- The attrition rate has risen mainly among employees most recently joining the Company due to lower performance and a heavier workload.

*Although there have not been many attritions directly due to the incident involving the resignation of the former Executive Vice President in September 2023, attention is being paid as a future organizational risk.

Countermeasures for the challenges

Establish an appropriate governance structure in line with the expansion of the organizational structure, and shift the employee evaluation system, which has focused on the achievement of numerical targets, to a system that includes enhancing one's own capabilities and fostering others.

Status of initiatives taken in Q3

In addition to studying changes to the institutional design, a third-party investigation is underway (to be completed in early December) regarding how the former Executive Vice President resigned in September 2023.

Revised the salary table by adding enhancement of one's own capabilities and fostering of others to the evaluation criteria on top of the achievement of numerical targets (management by objectives).

Finally, we view the recent upward trend in the employee attrition rate as an important management issue.

As the rapid growth in the size of the organization since the previous quarter has concentrated the workload on a few personnel, mainly in member training and limited the person-hours allocated to project acquisition and promotion, we believe this is the result of slowing performance growth as well as an increase in turnover, particularly among the most recently hired members, due to performance and workload.

Based on these results, along with the establishment of an appropriate governance structure to match the expanded size of the organization, the personnel evaluation system, which had previously focused on the achievement of numerical targets, is now being revised to include the perspective of skill growth and the development of others, and the salary table is being revised.

Doi: Lastly, I would like to reiterate to all of you who hold our company's shares as shareholders, and to all of you who are considering holding our company's shares, thank you for your warm support.

As we announced recently on September 8, we would like to again offer our deepest apologies for the anxiety and concern caused by the resignation of the executive vice president and representative director.

As a company in the venture phase, it is undeniable that up to now we have been pursuing expansion and growth anyway. In terms of management awareness, performance targets have been extremely important.

However, while performance targets are an important aspect of management, we must also recognize that in order to realize our vision of "creating a project-based society," which we have held since our founding, we must provide value to our many stakeholders, including shareholders, customers who use our services, employees, and business partners, and that the results of our efforts will be reflected in our business performance. We believe that it is extremely important to quickly shift to a management structure and internal culture that is in line with this recognition.

While cherishing the assets we have built up to date, we are determined to rebuild a better company and fulfill our management responsibility by regaining the trust of everyone.

We will do our utmost to repay our shareholders with a return in the form of increased corporate value, and we ask for your continued support in this endeavor.

That is all for today's explanation, and I would like to take questions from everyone.

Question & Answer

Doi [M]: Yoshida-san, please.

Yoshida [Q]: First of all, regarding the resignation of the vice president, I would like to clarify something since it happened in such a short period of time. From what I have seen in the June release, the first thing that comes to mind is the 2-person representative director structure to respond quickly to changes in the business environment and ensure that the growth strategy is implemented.

The release says that he was appointed on July 1 and resigned only 2 months later, but since it was so short a period of time after his appointment, I'm not sure if something happened suddenly that I really didn't understand, or if it was just as the release says.

Also, since the initial purpose was to have a 2-person team, what will be done about that in the future?

Doi [A]: I would like to start by talking about the structure. We had initially planned to set up the business firmly with a two-person team and to go out in the field to recover the numbers in order to restore performance from a fairly short-term perspective.

However, looking back over the past 3 months, we have reconsidered our fundamental issues, such as training the personnel we have hired and improving quality for the customers in front of us, and ensuring that our basic actions are thoroughly implemented.

Although the management structure will change from the initial 2-person system to a one-person system of me, I believe the major change will be a shift to a more essential approach that includes looking back.

We are currently investigating the facts with outside experts, so we are unable to say anything more about the circumstances of the resignation than we have disclosed, for which we are very sorry.

Matsumura [A]: If I may add something, first of all, the fact that you appointed him as a Representative Director and the fact that there are no days between that appointment and his resignation is because the circumstances of his resignation were due to a sudden scandal in the first place, so it is not that he tried it and it didn't work after 2 months of trying, or that they suddenly changed the Company's policy, but that he caused an unforgivable situation at a time immediately after that, completely unrelated to the fact that he was originally on the management team as Executive Vice President and slightly changed the role based on the progress of performance and the Company's situation.

Frankly speaking, I do not see much significance in the fact that it is only 2 months. I believe that Doi has just told you about the change in policy since the timing in July when we changed our future management approach and load.

Yoshida [Q]: I see. Basically, things like a whistle-blowing system were put in to prevent recurrence.

Matsumura [A]: Yes. We would like to strengthen governance in every sense of the word, and this includes the whistle-blowing system, which of course we had established, but we would like to strengthen the system of escalation to ensure that it is well known and that it can be reported to a more diverse group of people.

Yoshida [Q]: I see. Thank you.

The second question I would like to ask is about slide 18, page 18. The growth in the number of clients is shown, and the number of Ulscope projects is shown below that. As stated in the comments here, Ulscope helps attract new clients efficiently.

This number of projects may appear to be decreasing, though, because Q1 happened to be so big. I wonder if the trend is that it is getting harder to get projects through Ulscope, and I also wonder if we should be less concerned about the fact that the number of clients seems to be growing a little lower than your goal, because it is just a number. In other words, is it something we don't have to worry about so much as long as net sales per client are growing well? Please tell me about this.

Matsumura [A]: First of all, as a premise, if I were to ask whether we should take this as a big deal or a serious matter, or whether we should not be so concerned about it, I would say the latter, but it is also true that having the number of Ulscope projects in the 20s in both Q2 and Q3 was not originally intended.

As background, there is a slight decrease in headcount and continued consulting projects. To be honest, it was faster for us to get consulting projects in order to increase our numbers, and we had shifted our personnel and awareness to that side of the business.

On the other hand, we would like to continue to expand and utilize the system to acquire customers using Ulscope as a hook, so we are currently talking about allocating more sales person-hours to Ulscope staff. If we are able to win projects, of course, the management will allocate more human resources .

Yoshida [Q]: I see. Ulscope, I'm sorry, to begin with, is inbound, or rather, it is the recipient rather than the one who appeals from here.

Matsumura [A]: Yes. There are some projects that we just throw away, so there is some business judgment as to how far we will go to get them after receiving an inquiry.

As you have said before, the system does not just work on its own once the service is received, but it is a service that requires a certain amount of manpower, so it may not be possible to receive the service without human resources, so please understand that there is a correlation between whether or not resources are allocated for this and how many cases are received.

Yoshida [Q]: I see. And lastly, there are some measures on page 25 to address the rising attrition rate on page 19, but I would like to know more about the specifics of the measures taken to address this issue.

Regarding the review of the personnel evaluation system, I am wondering if it is necessary to raise the overall budget for personnel costs, and I have a feeling that just changing the evaluation system and changing the allocation will not have much effect. I also wonder if it is necessary to consider the possibility of an increase in labor costs per employee next year.

Matsumura [A]: We are currently preparing a personnel system for the next fiscal year, but when we say in the document that we are revising the salary table, we also mean that we are raising wages. Therefore, personnel costs per employee are expected to rise to a certain degree.

The increase in personnel costs per employee depends on the ratio of new graduates and second-year graduates, so it is difficult to say what will happen, but overall, however, we would like to raise the wages of existing employees, including those in their first and second years, and we would like to raise the wages of current employees slightly in the next fiscal year.

Yoshida [Q]: I see. Also, related to this, the operation rates also show on the slide that the burden is concentrated on some employees, but I feel that this negative cycle may occur if you do not have a sufficient

number of employees. Can you tell me if there is any change in your thinking on the past and future operation rates?

Matsumura [A]: I think that the ideal situation is to reduce the operation rates while keeping the sales per employee as low as possible. If so, what will happen is that the unit price will be raised.

Of course, it is difficult to simply raise the unit price for the same number of employees as before, so the personnel system is used to evaluate the improvement of employees' abilities by raising their own unit price, and the unit price is raised for those who have improved their abilities. It may be a bit qualitative, but the ideal would be to drop the number of person-hours while trying not to drop sales per person as much as possible.

Yoshida [M]: I understand. That's all. Thank you.

Doi [M]: Does anyone else have any questions?

Since there are no questions, I would like to conclude these financial results briefing.

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

[END]