ProjectHoldings, Inc.

Financial Results Briefing for the First Quarter of the Fiscal Year Ending December 2024

May 16, 2024

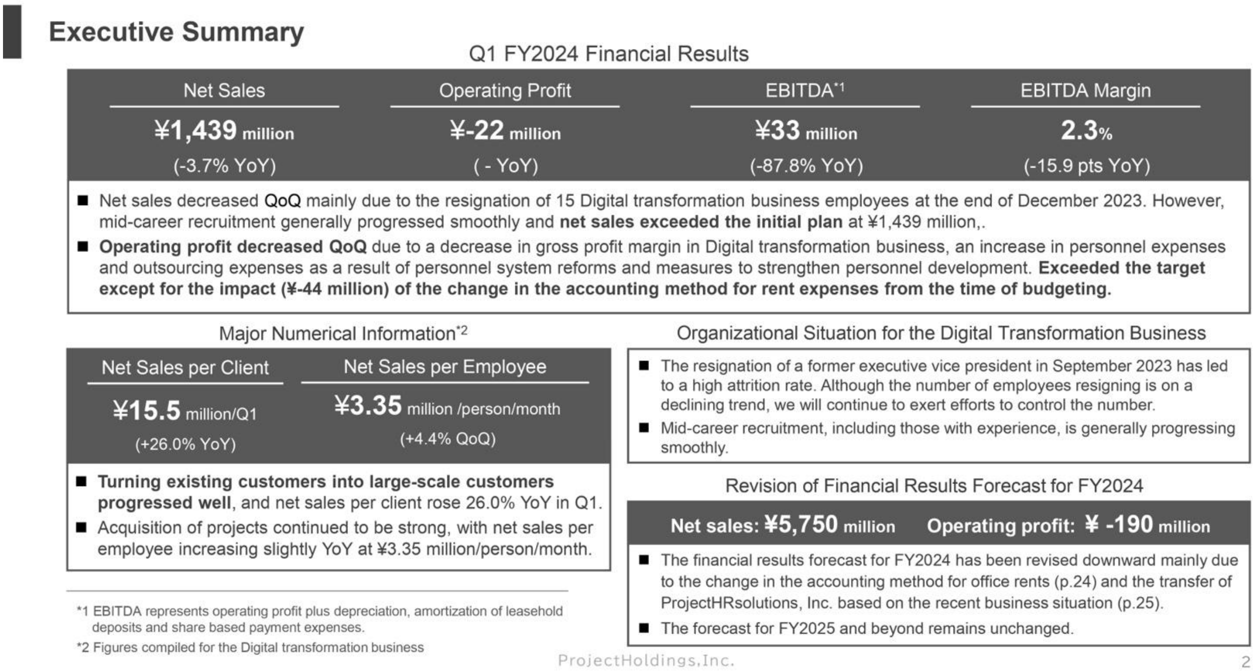
Event Summary

[Company Name]	ProjectHoldings, Inc.
[Company ID]	9246-QCODE
[Event Language]	JPN
[Event Name]	Financial Results Briefing for the First Quarter of the Fiscal Year Ending December 2024
[Date]	May 16, 2024
[Time]	13:00 – 13:22
[Number of Speakers]	1 Ryo Matsumura Managing Director and CFO

Presentation

Matsumura: The time has come, and we will now begin the presentation of ProjectHoldings, Inc. financial results for Q1 of the fiscal year ending December 31, 2024.

Once again, I am Matsumura, Managing Director and CFO of ProjectHoldings, Inc. Thank you very much for taking time out of your busy schedule today to attend our earnings presentation.



Here is a summary of today's explanation.

For Q1 of fiscal year ending December 2024, the Company reported net sales of JPY1,439 million and operating income of minus JPY22 million.

As indicated in the previous financial results, 15 employees retired at the end of December 2023, and this was the main reason for the decline in sales QoQ, but mid-career hiring and assignments of outside partners generally progressed well, resulting in an upward revision in sales compared to the plan.

Operating income decreased in QoQ due to lower gross profit margins in the mainstay Digital transformation business and higher personnel and outsourcing costs resulting from measures to reform the personnel system and strengthen training.

Excluding the JPY44 million increase in expenses due to a change in the method of accounting for land and rent expenses from that assumed at the time the budget was formulated, the projection is up compared to the plan.

On the other hand, we have decided to revise downward our forecast for the fiscal year ending December 31, 2024, mainly due to a change in the accounting method for this land and rent expenses from the assumption used when the budget was prepared, and the transfer of shares in Project HR Solutions based on recent business conditions, which we will also explain today. We will also explain this downward revision today.

After this, I will first give a brief overview of our group, followed by an explanation of our Q1 results for 2024 and the status of our core Digital transformation business, and finally, a downward revision of our forecast for the fiscal year ending December 31, 2024.

1. Overview of ProjectHoldings, Inc.

Group Management Philosophy

Mission

Creating a Project-based Society

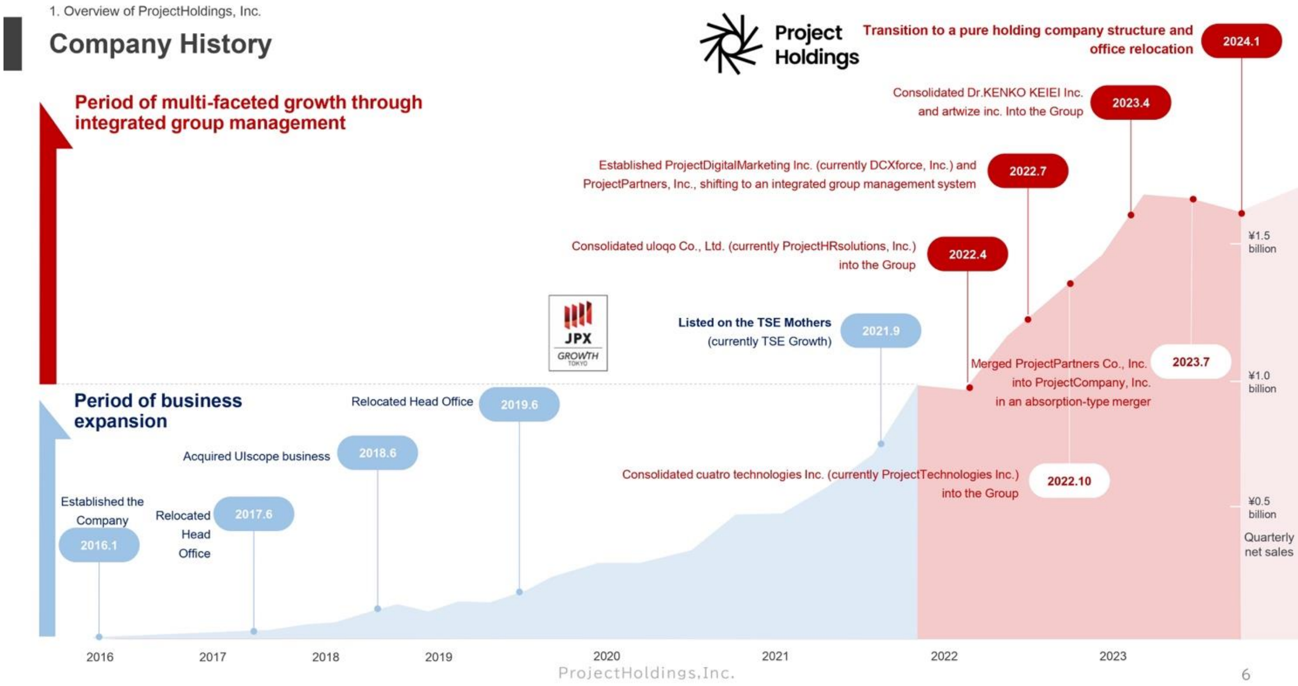
Vision

Our vision is to foster and develop a large number of professionals
who will lead the next generation
and provide a variety of solutions that transform companies.
By doing so, we aim to guide each of our client companies to become enterprises
that represent the next generation
and contribute to the revitalization of Japanese society.

Let me now give you an overview of our company, ProjectHoldings.

Our group management philosophy is to create a project-based society. The Japanese economy has been stagnant for a long time since the bubble period, but as the world shifts from an industrial capitalist society to an information capitalist society, the quality of human resources required is shifting from task-oriented personnel who do exactly what they are told to project-oriented personnel who can promote projects on their own initiative.

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 traditional task-based organizational structure of stove-piping and superiors and transform themselves into a project-based structure where people who can promote projects on their own are organically connected based on their missions and rallied as a team toward a goal.

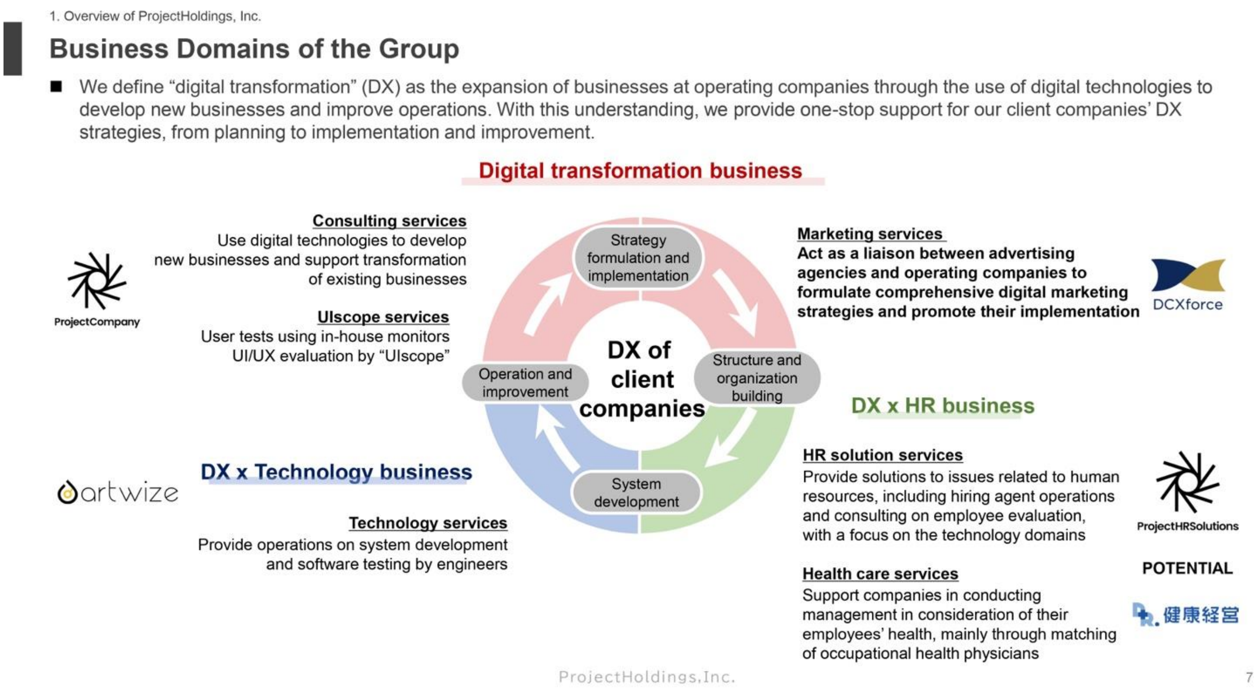


Next, I would like to give you a brief history of our company.

We were founded in January 2016 as ProjectCompany Inc. and have been steadily expanding our business ever since. By listing on the then TSE Mothers market in September 2021, we were able to achieve our mid-term goal from the time of our founding of going public in 2021.

Since going public, we have also planned for diversified growth through group management, with uloqo (HR solutions), Quattro Technologies (technology services), Artwise, and Dr. KENKO KEIEI (healthcare services) joining the Group through mergers and acquisitions.

Although we are in a bit of a difficult situation at the moment through the acquisition of new shares and the launch of new businesses, we will transition to a holding company structure in January 2024 and change our trade name to ProjectHoldings, Inc. for the purpose of continuously increasing the corporate value of our group over the medium to long term.



The Group considers business expansion through business development and operational improvement utilizing digital technology to be digital transformation and provides comprehensive support to its client companies from DX strategy formulation to system construction, system development, and operational improvement.

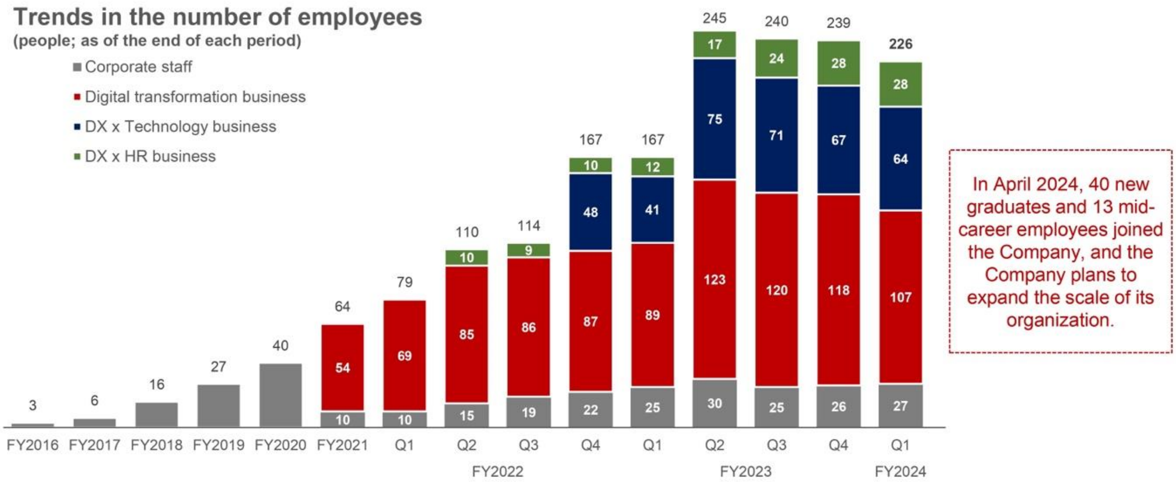
We divide the business into three segments. In the Digital transformation business, we provide consulting services for new business development and existing business transformation, UIscope services to evaluate the UI/UX of websites and applications through user testing using our own monitors, and marketing services to support the formulation and execution of overall strategies in the digital marketing domain between advertising agencies and business companies.

In the DX x HR domain, which we entered in April 2022, we have been developing HR solution services, including recruitment agency services, mainly in the technology domain, and we continue to operate healthcare services that support corporate health management, mainly through our industrial physician matching service.

In addition, the DX x Technology business, launched in October 2022, provides system development and software testing services by engineering personnel.

Situation of Employees

- The number of employees on a consolidated basis decreased to 226 as of March 31, 2024, mainly due to the resignation of 15 employees in the Digital transformation business at the end of the previous quarter.
- In April 2024, 40 new graduates and 13 mid-career employees joined the Company, and the Company plans to expand the scale of its organization.



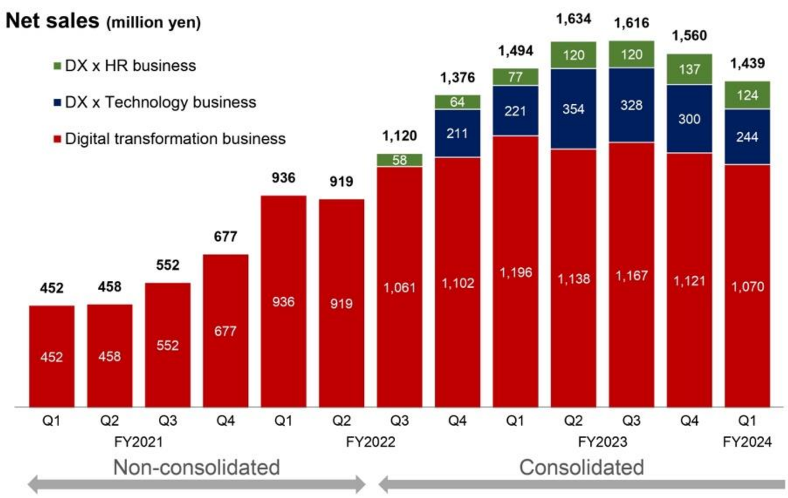
Here you can see the status of our employees.

Although the number of employees had been steadily increasing since the Company's establishment, a decline in the number of mid-career hires since H2 of the previous fiscal year and a high turnover rate have had an impact, bringing the total number of employees in the Group to 226 as of the end of March. Of this total, approximately half, or 107 employees, are engaged in the Digital transformation business.

Although the number of employees has been on a continuous downward trend since Q2 of last year, we have about 40 new graduates and 13 mid-career employees joining us as of April 1, 2024, and we intend to expand the size of our organization in the future.

Financial Results - Net Sales

- Achieved net sales of **¥1,439 million** in Q1 FY2024, **down 7.8% QoQ** and **down 3.7% YoY**.
- Net sales of the Digital transformation business totaled **¥1,070 million**, **down 4.5% QoQ** and **down 10.5% YoY**.



DX x HR business

ProjectHRsolutions Inc. will be sold based on recent business conditions and the state of synergies within the Group (p.25).

DX x Technology business

Sales continued to decline due to the departure of sales staff at ProjectTechnologies Inc.

The attrition has been settled at present as progress has been made in coordinating with artwize inc., which excels in creating a comfortable working environment for engineers.

Aim to expand business scale by focusing on recruitment, which is progressing smoothly, to increase the number of qualified engineers.

Digital transformation business

Net sales decreased due to the resignation of 15 employees at the end of December 2023 (as previously disclosed).

Although the employee attrition rate remained high in Q1, it was on a decreasing trend, and due to the strong progress in recruitment, the result was better than the plan.

We will now discuss the results for Q1 of FY2024.

First-quarter net sales were minus 7.8% in QoQ and minus 3.7% in YoY, landing at JPY1,439 million. In the Digital transformation business, our core business, as disclosed in the previous earnings announcement, revenue decreased due to the retirement of 15 employees at the end of the year.

Although the turnover rate remained high this quarter, it is currently on a downward trend. In addition, mid-career hiring, and the assignment of outside partners progressed favorably, resulting in an upward revision compared to the plan.

In the DX x Technology business, ProjectTechnologies, one of the two companies in the group in this area, is experiencing a decline in sales due to the departure of a sales representative and other factors.

In April, we completed a merger with Artwise, another company in the same field that excels in creating a comfortable working environment for engineers, and the number of retirements has settled down. We are now trying to turn things around by using the increase in the number of engineers as a starting point.

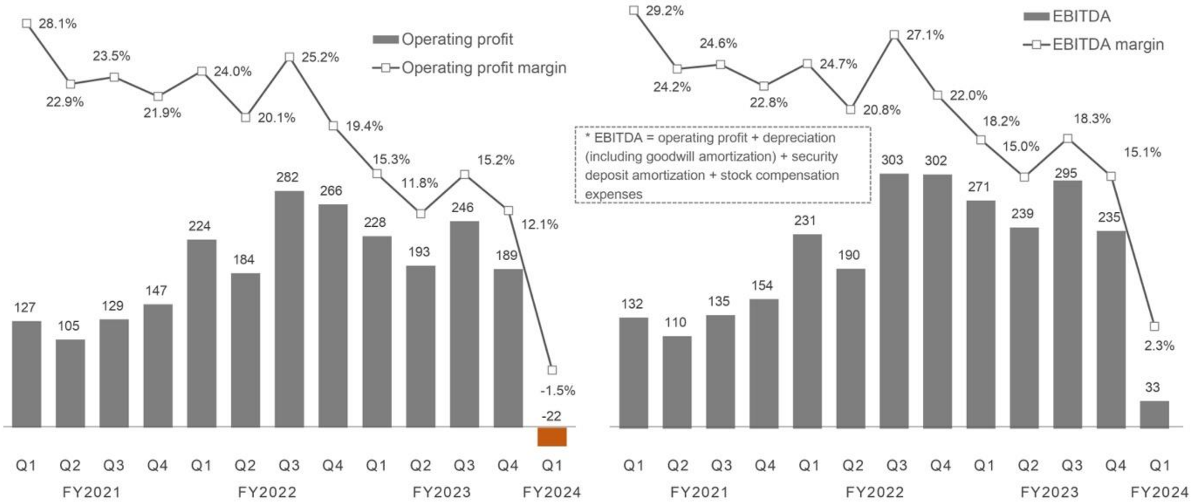
The DX x HR business slightly declined from the previous quarter.

In addition, we decided recently to transfer the shares of Project HR Solutions, Inc. based on the most recent business situation, the overall group business situation, the synergy within the Group, and from the perspective of concentrating management resources on our core businesses.

2. Q1 FY2024 Financial Results

Financial Results - Operating Profit and EBITDA

- Amid a decrease in revenue, operating profit and EBITDA decreased QoQ due to increases in personnel expenses and outsourcing expenses from personnel system reforms and measures to strengthen human resources development, as well as a change in the accounting method for office rents (p.24).



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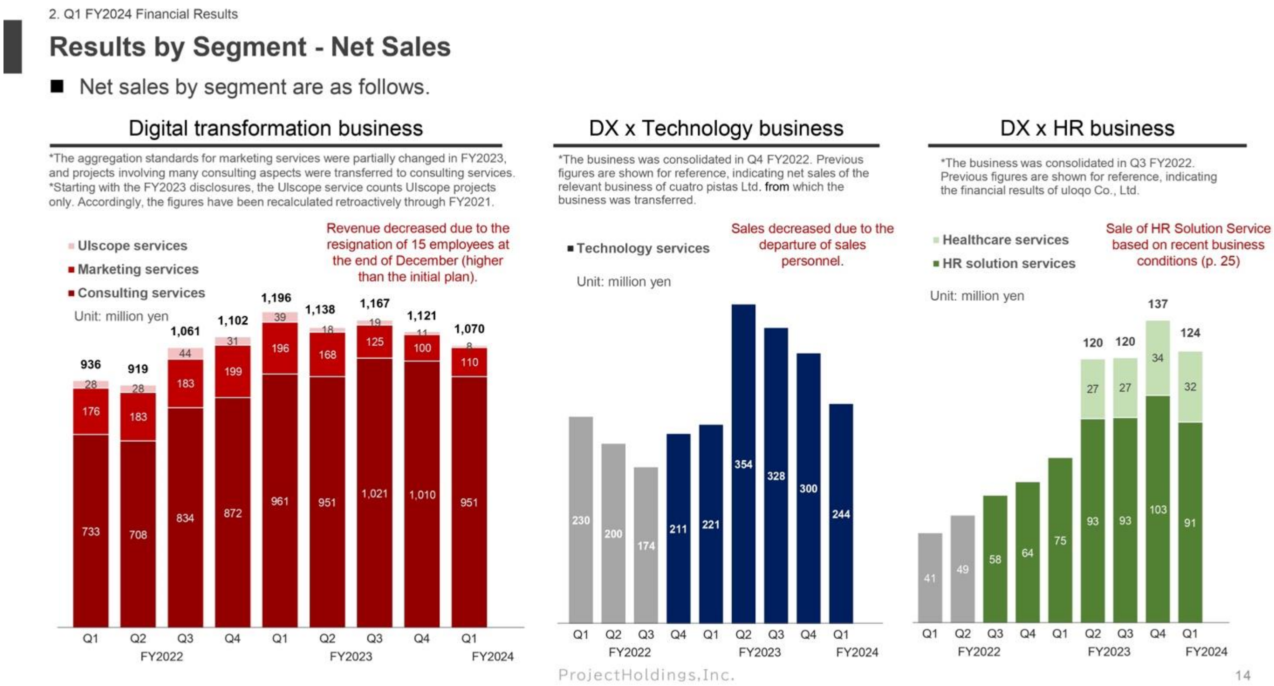
In terms of profit, operating loss was JPY22 million, and EBITDA decreased QoQ to JPY33 million, mainly due to increased personnel and subcontracting costs associated with the reform of the personnel system and measures to strengthen training mainly in the Digital transformation business, as well as a change in the accounting method for land and rent expenses, amid lower revenue.



Segment performance.

In the Digital transformation business, the segment as a whole experienced a decline in revenue, especially in consulting services, due to the significant impact of the retirement of 15 consultants at the end of December 2023, which resulted in a lower launch pad.

As for the DX x Technology business, sales are continuously declining here as well.

The DX x HR business is also showing a slight decrease when viewed on a QoQ basis.

Results by Segment - Cost of Sales & Gross Profit

- Q1 operating profit was ¥-22 million due to a decrease in gross profit margin in the Digital transformation business (p.21), a decrease in gross profit from decreased sales in the DX x Technology business, and an increase in SG&A expenses (p.16).

	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	**1,070**	-4.5%	**244**	-18.7%	**124**	-9.5%
Personnel expenses (cost of sales)	184	-1.1%	64	-5.9%	28	-3.4%
Outsourcing expenses (cost of sales)	476	+5.8%	122	-20.8%	9	-25.0%
Other costs	2	-0%	0	-	0	-
Gross profit *	**406**	-15.6%	**56**	**-25.3%**	**85**	-9.6%
Gross profit margin	37.9%	**-5.0 pt**	23.0%	-2.0 pt	68.5%	-0.1 pt
SG&A expenses	571					**+23.3% QoQ**
Operating profit	**-22**					N/A QoQ
Operating profit margin	-1.5%					-13.6 pt 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.

Next, we show here the profit side of the results by segment.

We believe that there were three main reasons for this quarter's loss. The first was a decline in gross profit margin in the Digital transformation business. We will explain this again later.

The second point is the decline in gross profit in the DX x Technology business. As explained earlier, the top line declined as a result of sales personnel turnover and other factors, and profits declined in tandem with this.

The third point is the increase in SG&A expenses, which will be explained in detail on the next page.

Breakdown of SG&A Expenses

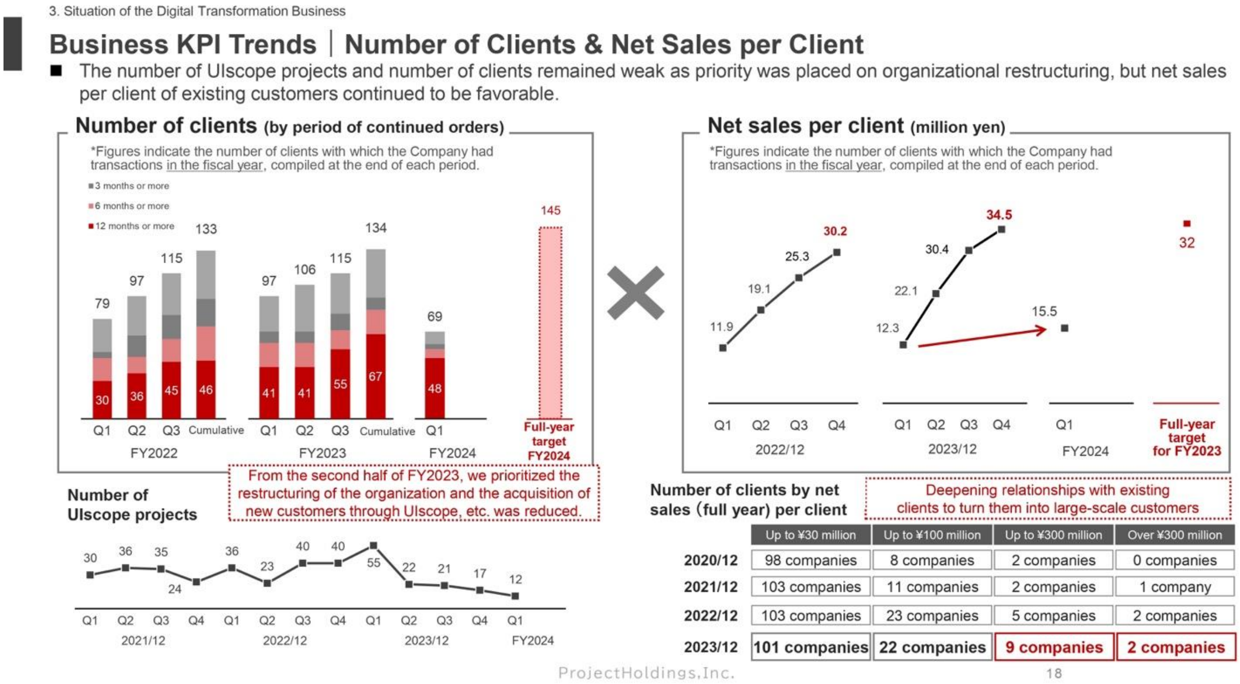
- To reform the personnel system and strengthen human resource development, external human resources were utilized. Therefore, personnel and outsourcing expenses increased.
- Basically in line with the initial plan, except for the increase in office rents due to recording them in advance (p. 24).

	Results [million yen]	SGA expenses to net sales	QonQ	Description
Personnel expenses (SG&A expenses)	117	8.1%	+17.0%	Salaries for back-office employees, etc.
Outsourcing expenses (SG&A expenses)	70	4.9%	+118.8%	Use of external human resources and training costs, etc. for strengthening development
Hiring expenses	52	3.6%	+10.6%	Agent fees and event expenses, etc.
Rent expenses	180	12.5%	+37.4%	Office rent, etc. (change in Accounting Method; p. 24)
Depreciation etc. (including amortization of goodwill)	56	3.9%	+21.7%	Amortization of goodwill and depreciation of other non-current assets etc.
Other SG&A expenses	94	6.5%	-11.3%	
Total SG&A expenses	571	39.7%	+23.3%	

This is a breakdown of SG&A expenses. First of all, as we are strengthening human resource development mainly in the Digital transformation business, outsourcing expenses have increased due to the use of outside personnel and training costs.

In addition, land and rent expenses increased from the previous quarter due to the relocation. The total SG&A expenses also increased from the previous quarter to JPY571 million, mainly due to an increase in the rent for the relocation.

As I will explain later, we have changed our approach to accounting for land and rent expenses from the assumption at the time the plan was formulated at the beginning of the fiscal year, and except for an upward revision in land and rent expenses due to this change, SG&A expenses are generally in line with the plan.

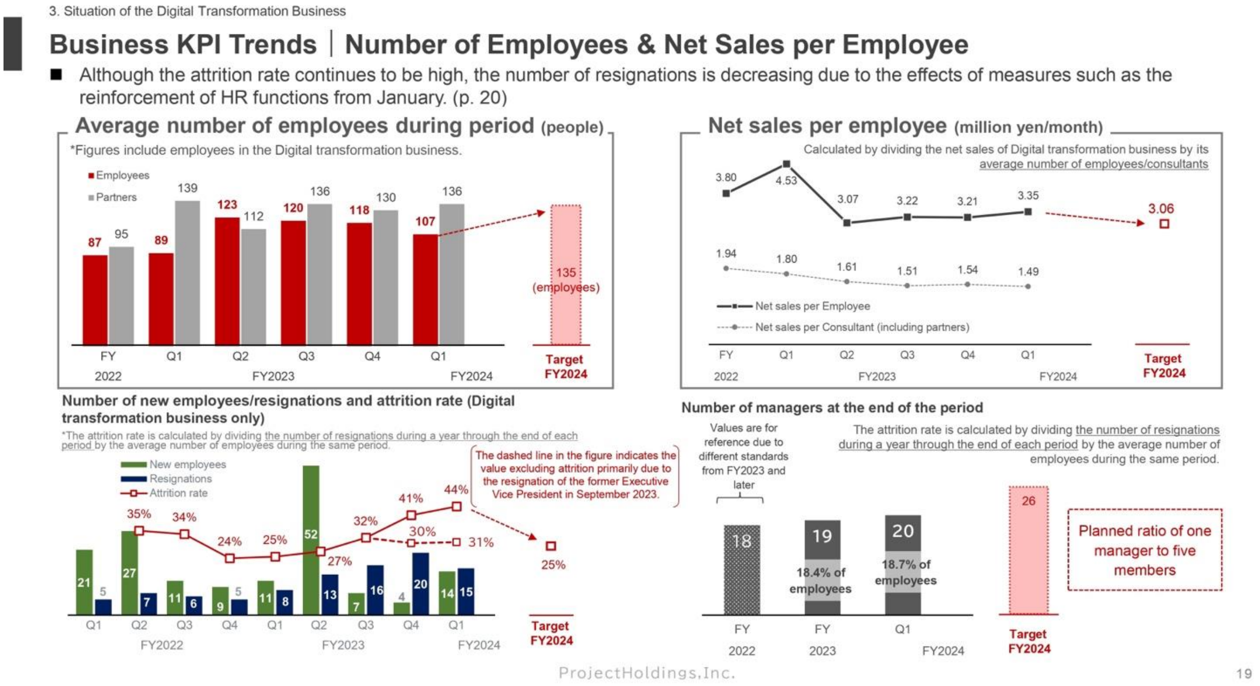


Next, I will explain the status of our core Digital transformation business.

First, the number of clients and net sales per client.

The number of clients in Q1 totaled 69, a decrease of 28 from the same period last year. This is mainly due to a decrease in the number of UIscope projects, which have a significant impact on the number of clients in our client structure, as many of our clients have short-term relationships with us.

On the other hand, the number of long-term clients who continue to receive orders for 12 months or longer is increasing YoY, and the unit prices of existing clients are also improving steadily. We are currently focusing on firmly entering into large clients with long-term, continuous, and large unit prices, and on creating the next large client.



Next is the number of employees and net sales per employee.

The turnover rate, which has been an issue for some time, has remained high, but the number of retirements has been on a downward trend as a result of measures such as the strengthening of personnel functions since January.

In addition, the number of mid-career hires has been favorable compared to the plan, and the number of new hires has increased significantly compared to the previous quarter.

In addition, the ratio of newly hired employees/consultants has increased, which has led to an expansion of the use of partners to fill the reduced number of employees, as I have explained. The sales per employee, which is the denominator of pure employees excluding the number of partners, are increasing.

On the other hand, the ratio of newly hired employees has been increasing, which has led to a slight downward trend in terms of the unit cost per consultant, including partners.

Topics | 1 | Employee Attrition Rate

- As of the end of March 2024, approximately 20 employees had left the company, mainly due to the circumstances that led to the resignation of the former Executive Vice President in September 2023.
- It is recognized that the number of employees who left the Company due to this reason has largely run its course, and follow up will occur on the effects of the personnel system reform and governance strengthening measures implemented from January.

Number of new employees/resignations and attrition rate (Digital transformation business only)

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

The dashed line in the figure indicates the value excluding attrition primarily due to the resignation of the former Executive Vice President in September 2023.

Although the attrition rate remains high, the number of resignations is decreasing, and it was recognized that the number of resignations mainly due to the circumstances leading to the resignation of the former Executive Vice President in September 2023 had largely run its course.
(The breakdown of Q1 resignations was 10 people in January, 1 in February and 4 in March.)

Status of initiatives for the future

Response to the resignation of the former Executive Vice President in September 2023

- Reformed the personnel system (completely reviewed the evaluation system, salary table, internal system, etc.) and implemented measures to strengthen governance.
- Started monthly employee surveys to follow up on the effects of the above measures and to detect organizational problems at an early stage.

Continued focus on mid-career recruitment

- Based on the fact that mid-career recruitment, including experienced personnel, has been performing relatively well since January, continue to strengthen focus to achieve the recruitment and development plan for this fiscal year.

I would like to continue with two topics that I would like to explain, particularly with regard to the Digital transformation business.

The first point is the status of employee turnover and how it is being addressed.

The number of employees who left the company mainly because of the circumstances leading to the resignation of the former executive vice president in September last year was about 15 until the end of December 2023, which was disclosed at the end of the fiscal year. We believe that a total of about 20 people have been affected in total since then, including those up to the end of March.

However, we believe that the number of employees leaving the Company for this reason has already largely run its course. In fact, in Q1, the number of employees leaving the Company by month was 10 in January, 1 in February, and 4 in March.

We intend to follow up on the effects of the renewal of the personnel system, including the evaluation system, salary table, and internal systems implemented since January, as well as the effects of the governance enhancement measures through monthly employee surveys and other means, in order to reduce the turnover rate in essence, other than where the temporary factors I mentioned earlier have fallen off.

3. Situation of the Digital Transformation Business

Topics | 2 | Factors behind Declining Profit Margins

- The decrease in gross profit margin in Digital transformation business was mainly due to an increase in personnel expenses per employee as a result of personnel system reforms and an increase in the number of partners because external partners were utilized to handle some of the projects acquired.

	FY2023 Q4	FY2024 Q1	QoQ
Net sales [million yen]	1,121	1,070	-4.5%
Personnel expenses (cost of sales)* [million yen]	186	184	-1.1%
Average number of employees[people]	116.7	106.7	-8.6%
Personnel expenses per employee per month (cost of sales) [thousand yen / person, month]	**533**	**576**	**+8.1%**
Outsourcing expenses (cost of sales) [million yen]	450	476	+5.8%
Average number of partners [people]	**126.0**	**133.0**	**+5.6%**
Outsourcing expenses per partner per month (cost of sales) [thousand yen / person, month]	1,191	1,195	+0.3%
Other costs [million yen]	2	2	-0.0%
Gross profit [million yen] (Gross profit margin)	481 (42.9%)	406 (37.9%)	**-15.6% (-5.0 pt)**

*Personnel expenses (cost of sales) are total of salaries, allowances, bonuses, and legal welfare expenses

Personnel expenses (cost of sales) per employee per month increased due to base salary increase in the personnel system reform implemented in January 2024.

Average number of partners increased as partners handled some of the projects acquired while the number of employees decreased, due to taking priority in training, especially for new employees.

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The second point concerns the factors that contributed to the actual decline in gross margins in the Digital transformation business.

The gross profit margin of the Digital transformation business in Q1 was down approximately 5% from the previous quarter.

The first of these factors is that personnel costs per employee are rising due to the base increase in the personnel system reform implemented in January.

Looking at the total amount, it appears that personnel expenses have not increased due to the decrease in the number of employees, but since the number of employees has also decreased, personnel expenses per person have increased, and in our case, personnel expenses for consultants are included in cost, not SG&A expenses, which is the reason for the decrease in gross profit margin.

The second factor is the decrease in the number of employees and the fact that we have been prioritizing the training of new employees and taking a slightly longer lead time before assigning them to projects and charging them. The number of projects handled by outside partners has increased to fill this gap.

In our case, roughly speaking, the gross profit margin is about 60% for employees and about 20% for partners, and there is a considerable gap between the two. This means that as the ratio of partners increases, the gross margin will decrease.

Summary of Changes

- Forecast of FY2024 has been revised downward mainly due to (1) the change of accounting method for rent expenses from the assumption made at the time of budgeting (p. 24), and (2) the decision to transfer the shares of ProjectHRsolutions, Inc., a subsidiary, based on the recent business situation (p. 25).
- The forecast also incorporates the impact of revisions of some recorded accounts from the previous forecast, and the increased ratio of external partners in the Digital transformation Business as a result of enhanced employee training (p. 21).

Unit: million yen	Previous forecast (announced on 2/14)	Revised forecast (announced on 5/14)	Total changes	Factor (1) Rent expenses	Factor (2) Share transfer Deconsolidation	Factor (2) Share transfer Gain on sale of shares	Other factors Correction of recorded accounts	Other factors Others*
Net sales	6,100	5,750	-350		-250			-100
Digital transformation Business	4,390	4,390	0	-	-		-	0
Other Businesses	1,710	1,360	-350		-250			-100
Operating profit (Operating profit margin)	250 (4.1%)	-190 (-%)	-440	-180	-80	-		-180
Ordinary profit (Ordinary profit margin)	300 (4.9%)	-220 (-%)	-520	-180	-80		-80	-180
Profit (Profit margin)	200 (3.3%)	-120 (-%)	-320	-180	-80	+50	-	-110

* "Others" includes shareholder special benefit expenses, stock-based compensation expenses, etc.

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Finally, I would like to explain the revision on the earnings forecast.

As shown in the presentation materials, we have revised downward our full-year forecasts for net sales to JPY5,750 million, down JPY350 million from the initial forecast, and for operating income to minus JPY190 million, down JPY440 million from the initial forecast.

We see this as mainly due to three factors. The first is due to a change in the method of accounting for land and rent expenses from that assumed at the time the budget was developed. The impact of this increase in expenses is JPY180 million below operating income, which is a very large impact.

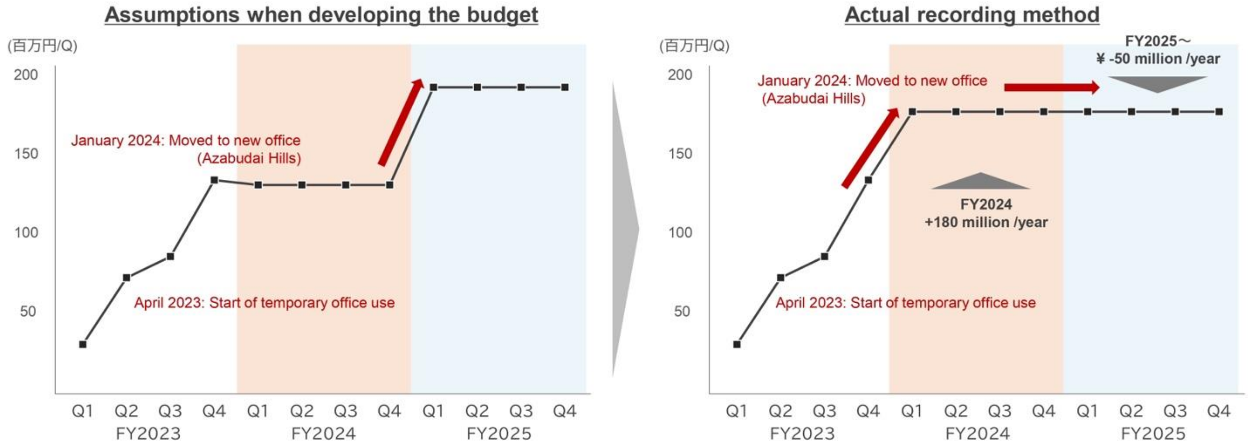
Secondly, we are planning to transfer shares in Project HR Solutions, a consolidated subsidiary, which will no longer be included in the scope of consolidation, and the sales and profits expected from this transfer will be removed from the forecast for the current fiscal year, resulting in a decrease in sales and profit. On the other hand, a certain amount is also expected to be recorded as extraordinary income from the stock transfer.

The third is to place more emphasis on training in light of the recent business situation, and to lengthen the lead time until assignment for newly recruited employees. In the Digital transformation business in particular, this is a cost factor, especially with the large number of new hires. The ratio of the use of outside partners is expected to increase to compensate for this, and the impact of this has been factored into the forecast.

The first and second factors will be explained in more detail on the following pages.

1. Change in Accounting Method for Rent Expenses

- For the accounting method for rent expenses, we plan to record expenses from January 2024 on a pro-rata basis over the term of the contract.
- As expenses will increase more than expected at the time of budgeting, it will be a factor of downward revision of forecast for FY2024.
- Due to this accounting method, rent expenses from FY2025 onward will be lower than initially expected.



First, let us discuss the first method of recording land and rent expenses.

When we prepared the earnings forecast announced in February, we had prepared the budget based on the assumption that the actual rent payments would be recorded as expenses as they are, but after discussions with experts and other parties, we have decided to record the expenses from January 2024, the point of occupancy, as expenses for the total contract period and all contract periods on a pro-rata basis.

As a result, of course, there will be no change from the initial assumption on a cash basis, but we expect to record a JPY180 million increase in expenses in FY2024 and a JPY50 million decrease in expenses every year from FY2025 onward.

2. Sale of ProjectHRsolutions, Inc.

- We will transfer all shares of ProjectHRsolutions Inc. owned by the Company and withdraw from HR solution services, based on recent business conditions, the state of synergies, and the perspective of concentrating management resources on key businesses.
- The deconsolidation due to the transfer of shares will be a factor in the decrease of net sales and operating profit for the current fiscal year, while the gain on sale of shares is expected to be recorded as extraordinary income.

Overview

Company Name	ProjectHRsolutions, Inc.
Representative	Kensuke Sekigawa
Bussiness	Recruitment agency, personnel evaluation system consulting, etc.
Most recent business results	Net sales: 398 million yen (for the fiscal year ending December 31, 2023)
Transfer amount	¥ 200 million
Resolution date	May 15, 2024
Date of agreement	May 15, 2024
Execution date (planned)	May 31, 2024

Impact on consolidated P/L in FY2024 (estimated)

Decrease of net sales and operating profit due to the de-consolidation		
Net sales	:	¥ -250 million
Operating profit	:	¥ -100 million
Goodwill amortization	:	¥ + 20 million
Consolidated operating profit:		¥ - 80 million

Recording extra-ordinary income of the gain on sale of shares		
Gain on sale of shares	:	¥ +200 million
Goodwill balance	:	¥ -100 million
Retained earnings	:	¥ - 30 million
Capital stock	:	¥ - 20 million
Extraordinary income	:	¥ + 50 million

* Estimated as the consolidated period in FY2024 from January to May

Continuing on, I would like to discuss the transfer of shares in Project HR Solutions.

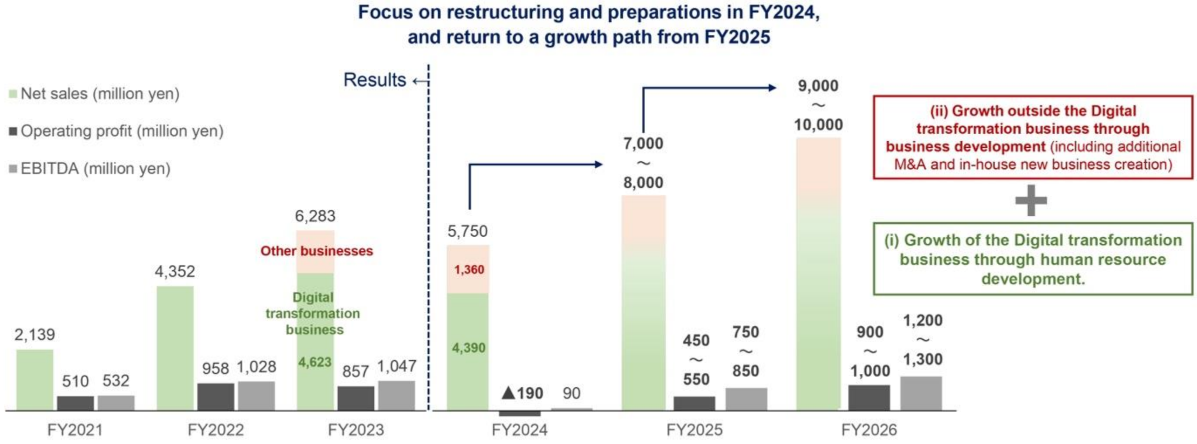
In this case, we have decided to withdraw from the HR solution services business by transferring all of our shares in Project HR Solutions to the current management team, taking into consideration the recent business situation of the entire group, the synergy between Project HR Solutions and other companies, and the need to focus management resources on our core business amid the overall difficulties.

First, the deconsolidation is expected to have the effect of reducing net sales by about JPY250 million and operating income by about JPY80 million in total for the period after the deconsolidation. Then, we expect to record about JPY50 million in extraordinary gains from the sale of shares.

4. Supplementary Explanation of Financial Results Forecast Revision

Three-Year Performance Targets (FY2024-FY2026)

- Performance targets for FY2025 and beyond are unchanged from those announced in March 2024.
- The impact on the next fiscal year and beyond is being scrutinized, and a new three-year forecast will be announced at the end of the fiscal year based on the business situation.



Finally, I would like to discuss the three-year outlook.

As for the outlook for FY2025 and beyond, at this point we are maintaining the outlook that we announced earlier in February, and we are currently examining the impact on the next fiscal year and beyond in light of the downward revision of the FY2024 forecast that we have explained so far.

The new three-year forecast is scheduled to be announced at the end of the fiscal year as originally planned, based on the business situation at that time.

That is all for today's explanation. Thank you very much.