

 President Masayuki Aoki	Ubicom Holdings, Inc. (3937)
	

## Company Information

Exchange	TSE 1st Section
Industry	Information and communications
CEO	Masayuki Aoki
HQ Address	Joko Bldg., 9F, 2-23-11, Koishikawa, Bunkyo-Ku, Tokyo
Year-end	End of March
Homepage	<a href="https://www.ubicom-hd.com/">https://www.ubicom-hd.com/</a>

## Stock Information

Share Price	Shares Outstanding		Market Cap.	ROE (Act.)	Trading Unit
¥2,920	11,832,000 shares		¥34,549million	24.2%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
Undecided	-	¥68.68	42.5x	¥249.28	11.7x

\*The share price is the closing price on November 26. The number of shares outstanding, DPS and EPS are from the financial results for the second quarter of fiscal year ending March 2022. ROE and EPS are from the result of previous term.

## Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2018 (Act.)	3,208	322	355	212	19.08	0.00
March 2019 (Act.)	3,555	564	591	368	32.57	5.00
March 2020 (Act.)	4,038	707	715	533	46.17	5.00
March 2021 (Act.)	4,198	919	877	623	53.25	7.00
March 2022 (Est.)	4,963	1,079	1,104	811	68.68	Undecided

\*Unit: million yen, yen. Forecasts are those of the company. The definition for net income means net income attributable to owners of parent.

The company has adopted the "Accounting Standard for Revenue Recognition" etc. at the beginning of the first quarter of the fiscal year ending March 2022.

This Bridge Report overviews the financial results of Ubicom Holdings, Inc. for the second quarter of fiscal year ending Mar. 2022 and more.

## Table of Contents

### [Key Points](#)

#### [1. Company Overview](#)

#### [2. Second Quarter of Fiscal Year ending March 2022 Earnings Results](#)

#### [3. Fiscal Year ending March 2022 Earnings Forecasts](#)

#### [4. Efforts to Realize the Medium-term Vision](#)

#### [5. Conclusions](#)

#### [<Reference: Regarding Corporate Governance>](#)

## Key Points

- In the second quarter of the fiscal year ending March 2022, sales increased 8.4% YoY to 2,268 million yen. Global business continued to be strong in sales from major pillar customers and in securing orders for solutions. In the medical business, package sales of the mainstay Mighty series were steady. Operating income increased 10.7% YoY to 435 million yen. Although gross profit margin declined 1.2 points due to strategic investments in the global business, gross profit increased 5.4% YoY. SG&A expenses increased only 1.0% YoY, resulting in double-digit profit growth. Ordinary income increased 26.7% YoY to 478 million yen. All kinds of profits reached a record high for the second quarter.
- The company forecasts net sales of 4,963 million yen, up 18.2% from the previous fiscal year, an operating income of 1,079 million yen, up 17.4%, and an ordinary income of 1,104 million yen, up 25.9%. Operating income and ordinary income are expected to reach record highs this fiscal year too. The company will continue to make "strategic investments," but by absorbing these investments, it aims to achieve double-digit profit growth. The company has not decided on a dividend at present but intends to continue to provide appropriate shareholder returns in line with profit levels this fiscal year.
- The profitability of the medical business improved remarkably this fiscal year, too. Sales increased 9.6% YoY while the company decreased projects with low profit margins. The Mighty series is steadily capturing demand for the improvement in hospital management efficiency, and operating income margin has exceeded 50% and is approaching 60%, thanks to increased direct sales and cross-selling and price revisions. In addition to the existing Mighty series, a variety of functions have begun to be installed in the insurance knowledge platform.
- The company has identified the medical domain as one of the four themes for the second growth phase, and is focusing on training medical engineers and strengthening the development of next-generation medical engines at its base in the Philippines. It will be interesting to see when leverage strategies such as M&A, the launch of new platforms, and the accumulation of SaaS/recurring models will start to take shape and contribute to earnings.

## 1. Company Overview

Ubicom Holdings is a one-of-a-kind business innovation company that creates IT solutions to social issues, such as the shortage of manpower and a medical crunch. It recognizes the medical, financial/public, automobile, and manufacturing/robotics etc. markets as strategic markets, and offers a broad range of IT solutions and services.

It has about 1,000 engineers mainly at the development center in the Philippines and operates two core businesses. One is the global business that solves the shortage of IT personnel and promotes digital transformation (DX) in Japan, by developing software and advanced solutions including AI. The other is the medical business that offers healthcare optimization solutions, such as medical claims inspection, support for medical safety, and cloud services, as a leading company that offers IT solutions for supporting the management of medical institutions. It established a highly profitable business model through business restructuring by implementing scrap and build. Furthermore, the company will promote a win-win investment model for accelerating its business through strategic alliances and M&A with leading companies and burgeoning enterprises, and quickly aims to establish new businesses with different approaches from the existing businesses, such as the platform business.

### 1-1 Corporate History

Mr. Masayuki Aoki, who had entrepreneurial ambition all along, took the position of President and CEO at WCL Co., which was a new business subsidiary of WORLD CO., LTD. in March 2005, and then found out that there are many young talented engineers who work vigorously in the Philippines when he visited there during his domestic and international search for seeds of various new businesses. As the adoption of IT on internal operations of companies progressed in Japanese companies, he thought that conducting the system development in the Philippines will open the possibilities to offer a wide array of system solutions globally at a low cost and capture the demand and decided to commercialize the idea. In December 2005, He founded Advanced World Solutions, Ltd. (currently: Ubicom Holdings, Inc.)

Following the trend of ICT adoption, the increase of new clients progressed well, and the business expanded thanks to the competitive advantage of having a development center in the Philippines, which possesses many capable top-class engineers. In 2012, the company acquired AIS Co., Ltd., which is the largest company in the field of systems for medical claims, as a subsidiary. In June 2016, the company was listed on Mothers of Tokyo Stock Exchange. After it changed its name to Ubicom Holdings, Inc. In July 2017, it was listed on the First Section of the Tokyo Stock Exchange in December of the same year.

### 1-2 Corporate Ethos and Vision

The company advocates the following three management visions as the one and only business innovation company that creates innovative IT solutions combining people and technology.

#### 1. Unique beyond comparison

To remain a one-of-a-kind business innovation company that looks ahead to the future and creates IT solutions to social issues

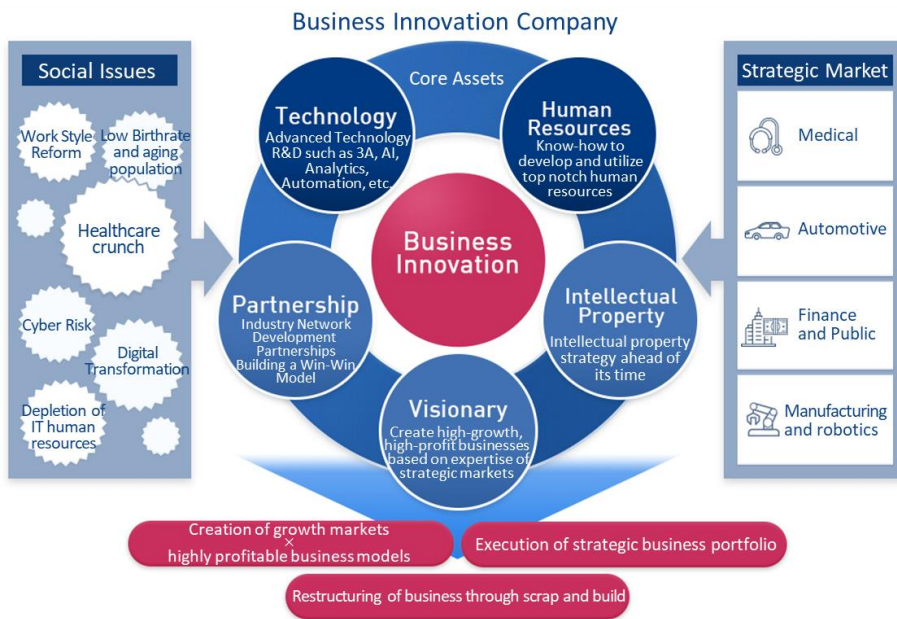
#### 2. Go Global

To use the business scheme of the Ubicom group globally mainly in the U.S. and Asian countries

#### 3. Win-Win

To increase the “fellows” of the Ubicom group, by prospering together with customers, collaboration partners, and all other stakeholders

Based on five core assets: technology, human resources, intellectual property (IP), foresight, and partnerships, the company creates business innovations aimed at solving issues such as Japan’s aging society, healthcare crunch, a lack of IT personnel, and digital transformation (DX), which it sees as its social responsibility and raison d’être.



(From the company’s website)

### 1-3 Business Description

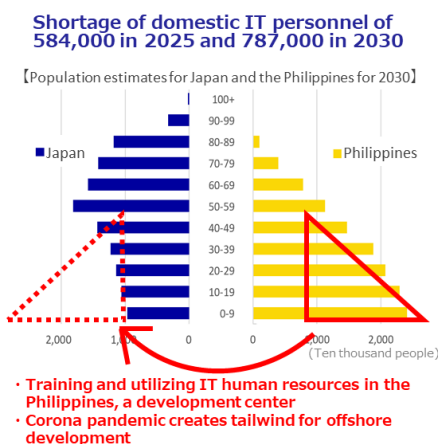
#### 1-3-1 Overview

With more than 20 years of experience in embedded software development, application development, testing, and quality assurance services, the company perceives social structure changes such as globalization and the decreasing birthrate and aging population, as well as technological advances in the field of Medical Life Sciences, Cybernetics, and Robotics, as an opportunity to develop new businesses. In the medical, financial/public, automotive, and manufacturing/robotics sectors, which are strategic markets, the company has developed its own core solutions in the field of mainly AI (Artificial intelligence), Analytics and Automation/RPA (Automation of the running and management of software testing etc.), and is now working to develop and implement them, and provides services for many client companies.

#### 1-3-2 The business environment surrounding the company

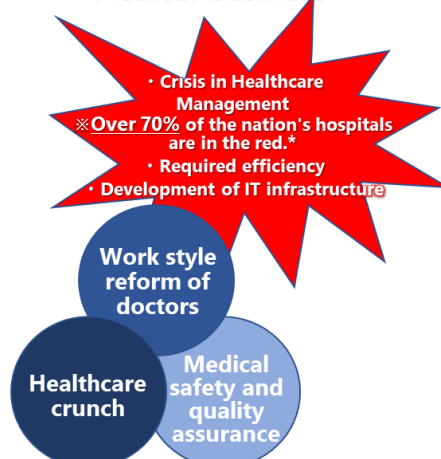
The business environment of Ubicom Holdings, which pursues the growth by offering IT solutions to social issues, such as the support for solving the shortage of manpower and the support for healthcare optimization, is as follows. The environment surrounding the global business and the medical business (which will be described in detail later) is favorable.

#### Global business



\*Source : "Survey on the demand and supply of IT personnel" published by the Ministry of Economy, Trade and Industry in March 2019, the case scenario of a high IT demand growth. ([https://www.meti.go.jp/policy/it\\_policy/jinzai/houkokusyo.pdf](https://www.meti.go.jp/policy/it_policy/jinzai/houkokusyo.pdf))

#### Medical business



\*Source : 2019. Aug. 1. Nihon Keizai Shimbun morning paper

(From company documents)

### **1) Nationwide promotion of digitalization, Worsening labor shortage in the IT field**

With the government's flag-waving for digitization in full swing, according to "Survey on the demand and supply of IT personnel" published by the Ministry of Economy, Trade and Industry in March 2019, it is important to secure IT personnel who can contribute to the improvement in productivity by creating added value and streamlining business operations in an innovative fashion, but it is difficult to secure them, due to the declining birthrate and the aging population. When the growth of IT demand is classified into "minor," "medium," and "significant" ones, it is estimated that Japan will be 584,000 engineers shortage in 2025 and 787,000 engineers shortage in 2030 in the case of "significant" growth.

### **2) Augmentation of national medical expenditure and tightening of examination of Medical Claims, Crunch in medical institution management, work-style reforms for healthcare providers**

The estimated medical expenditure (excluding expenses such as workers' accident compensation insurance and payments when the full payment is covered with own expenses. It accounts for about 98% of the national medical care expenditure, which is the overall estimate of all expenses required for treating injuries or diseases after examinations by doctors in medical institutions) has marked a record high in 2018 at 42.6 trillion yen. As medical expenses are in an increasing trend due to the progression of the aging population, the financial situation of medical insurances keeps getting worse. In order to reduce insurance costs, the national government is implementing a measure for rationalizing medical expenses by tightening the examination of Medical Claims, etc.

(What are the medical claims?)

Under the current system of health care services provided by health insurance, medical institutions receive up to 30% from patients and the other 70% or more from the health insurance association, mutual aid associations, city or ward offices, etc.

Medical institutions define the detailed statement of diagnosis and treatment, which is required to claim the amount covered by insurance from these public institutions, a Medical Claim; and the tasks performed to issue the Medical Claim are a very important procedure, which makes up most of the revenue of medical institutions.

The submitted Medical Claims are meticulously scrutinized by the Examination and Payment institutions. In case there is a mistake in its content, the Medical Claim may be sent back (returned) by the Examination and Payment institution, or the scores of medical fees may be reduced. In case the Medical Claim is returned, it must be carefully examined, revised, and resubmitted. Submitting appropriate Medical Claims is an extremely important task for the efficient management of medical institutions.

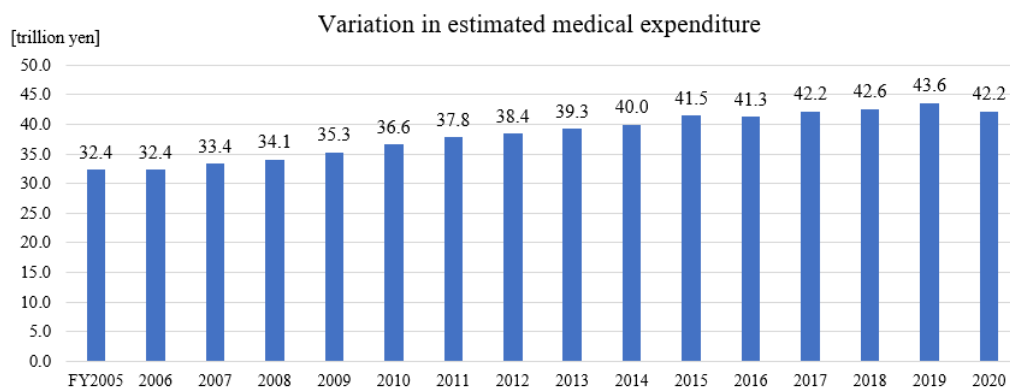
In 2009, medical institutions were obligated to make online requests for Medical Claims, as a general principle.

(Workstyle reform for doctors, etc.)

While Japan's medical needs are rapidly expanding, diversifying, and becoming more sophisticated with the progress of a super-aging society, the problems of shortage and uneven distribution of medical doctors and workloads such as long working hours are becoming apparent.

In order to alleviate the ever-increasing burden on doctors and promote reforms in the way doctors work in the medical field, a cap on overtime work for doctors with penalties will come into effect in April 2024. As a result, medical institutions are faced with the urgent task of streamlining and optimizing the work of doctors and others.

The crunch in medical care provision systems and deterioration of hospital management caused by the COVID-19 pandemic are becoming serious social issues. Against this backdrop, examination and payment institutions are moving to tighten the examination of medical claims, and work-style reforms are in progress for health care providers. Accordingly, it is now essential for the management of medical institutions to improve revenues through better operational efficiency for medical claim checks, etc., ensure the safety and quality of medical care, and deal with work-style reforms.



\*Created by Investment Bridge Co, Ltd. with reference to “Trend of Medical Expenditure” published by the Ministry of Health, Labor, and Welfare

**(3) Medical cloud market that is expected to grow rapidly**

Thanks to the notice of the Ministry of Health, Labor and Welfare titled “Regarding places for storing medical records” partially revised in February 2010, it became possible to store medical information at data centers owned by private enterprises, which made it easier for private enterprises to offer medical cloud services.

It is expected that application platforms and cloud services in which servers exist in networks will be utilized in the medical field for electronic charts, medical image management systems, regional medical cooperation systems, and various services for home care support, remote image diagnosis, clinical trials, and dispensaries.

Especially, as the volume of data in today’s medical institutions increased steeply and networks are used more widely, expectations toward medical cloud services are growing, as cloud services have merits, such as “It is easy to cooperate with other facilities,” “It is unnecessary to maintain and manage data by yourself,” and “They are inexpensive,” and they turned out to be useful for anti-disaster measures after many medical charts were lost in areas devastated by the Great East Japan Earthquake in March 2011. Furthermore, the medical crunch due to the spread of COVID-19 made us strongly aware of the necessity of online diagnosis and electronic charts.

Some point out the problem of safety from the viewpoint of protection of personal information, but the medical cloud market is expected to grow considerably for offering solutions to social issues while keeping a balance between the tightening and easing of regulations.

**1-3-3 Strategic business domains**

The company focuses its efforts to expand its business based on the strategic business domains of the “3As” fields, which will usher in the new age.

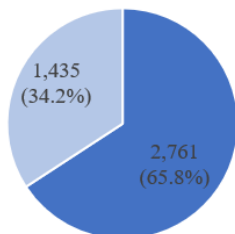
Field	Current situation and future plans
AI	After finishing development for audio AI and chatbots (automatic conversation programs), the company is promoting cross-sectoral application. In the future, it will focus on developing solutions with in-vehicle AI devices by using voice AI with automobiles' SDL (The smart device link that connects car audio with smartphones). In addition, it also plans to support devices installed in self-driving cars and aims to build a recurring-revenue business that will sustainably generate significant profit by the time self-driving cars become popular.
Analytics	The company finished the development phase of Japan’s number one Medical Claims Inspection Software, the Mighty series, and analysis tools, and will proceed to a phase of achieving a new monetization model by building an engine that analyzes big data of medical-related fields to improve the quantity and quality of the data. In addition, the company provides solutions for predictive maintenance for factories and shipping companies.
Automation/RPA	The company has established an engine for software automation and is pursuing robotics and RPA (automation of business operations with robots). It aims to expand its market reaching leading robotics and FA manufacturers.



### 1-3-4 Segments

The company reports 2 business segments; one is a global business that provides IT solution services to diverse markets such as Finance/Public, Medical, Automotive, Manufacturing and Robotics, and management improvement solutions etc for medical institutions such as the Medical Claims Inspection Software.

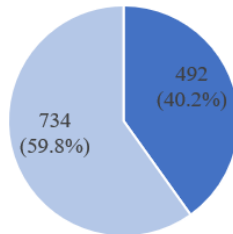
Sales composition  
(FY Mar. 2021, Unit: million yen)



■ Global division ■ Medical division

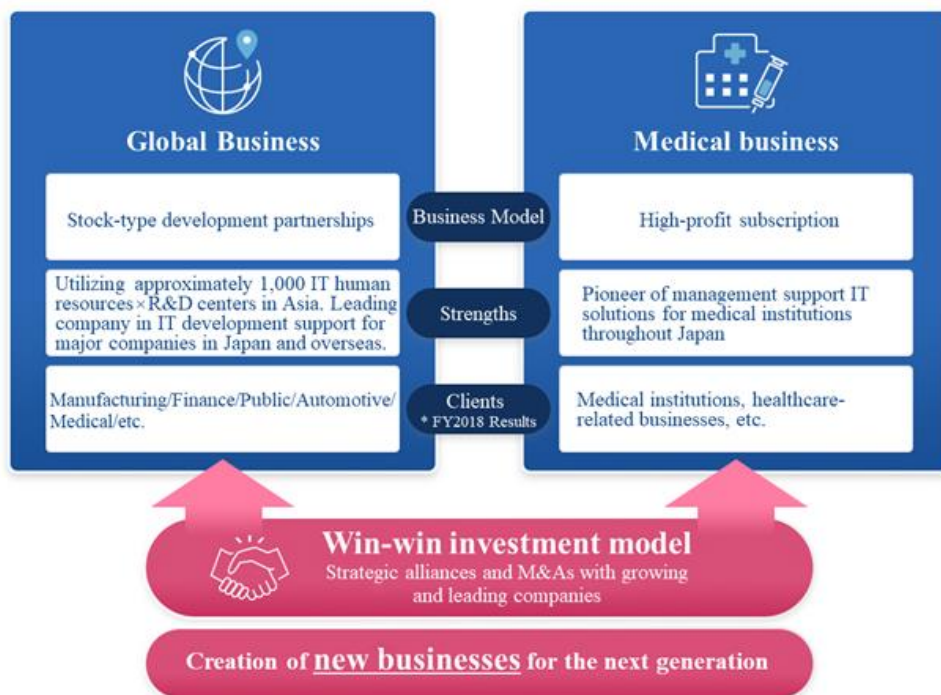
\* Sales to external customers. Ratio to the sum of external customers and reported segments

Operating income composition  
(FY Mar. 2021, Unit: million yen)



■ Global division ■ Medical division

\* Ratio to total 2 business amount



(From the company's website)

### 1) Global business

#### - Overview

Its wholly owned subsidiaries, Advanced World Systems, Inc. and Advanced World Solutions, Inc. are the major development centers in the Philippines, where it focuses on Finance, Public, Medical, Automotive, Manufacturing, and Robotics fields and delivers embedded software development, business application development, maintenance, and testing services.

The company defines “3As” (AI, Analytics and Automation/RPA) as a strategic business domain, and develops its own core solutions, utilizing these 3As technologies. The advanced capability of developing solutions is derived from its development centers in the Philippines, which has a top-class engineering group composed of about 1,000 engineers. This gives it a strong competitive advantage. (Refer to 【1-4 Characteristics and Strengths】 for more details.)

## - Clients

Its client companies range broadly from finance, public, medical, automotive, manufacturing, to service industry-related ones. As mentioned above, in addition to the worsening IT personnel shortage, there have been strong needs for the reduction of costs for development and operation, but the company, which has 1,000 IT person who are proficient in Japanese and English, is steadily meeting such needs.

On top of that, the rich experience of development for numerous big domestic clients over many years has further earned their trust and built its reputation.

## 2) Medical business

### - Overview

AIS Co., Ltd., which is a 100% subsidiary, engages in the development and sale of packaged solutions for medical institutions, cloud services, data analysis solutions, development support, and consulting services, contributing to the reform of workstyles of medical professionals and staff in medical institutions, the improvement of revenues at medical institutions, and the improvement in safety and quality of healthcare.

The “Mighty Series,” which improves the management quality and increases the work efficiency in medical fields, is well-received thanks to its user-oriented and cost-effective features. Sales were positively affected by work style reforms and over the past few years, it has gained more than 1,300 new users each year, as of the end of Mar 2021, the Mighty series occupied the top market share and was being used by approximately 40.0% of hospitals with a patient capacity of 20 or more (3,311 facilities), and 14.0% of clinics with a patient capacity of 19 or less (14,141 facilities), for a total of about 17,452 facilities.

### - Mainstay products and services

#### (1) The Medical Claims Inspection Software (Mighty Checker®)

As improvement in efficiency and precision of Medical Claims Inspection were required, the company was ahead of competitors in releasing Medical Claims Inspection Software (Mighty Checker®) in 1999; it was well-received for its usability and it managed to establish its position as a leading maker of “Medical Claims Inspection Software.” In FY 2019, it released “Mighty Checker® EX,” an AI-based new-generation Medical Claim check system and reaffirmed its market position.

Mainly, the company strongly supports the Medical Claim issuing process with the following features:

Product name	Features
Mighty Checker® EX	<ul style="list-style-type: none"> <li>- Top-end product in the Mighty Checker series released in the autumn of 2018</li> <li>- Next-generation system for checking Medical Claims, which was developed by upgrading the highly evaluated functions and usability of the conventional product “Mighty Checker PRO” and incorporating AI for Medical Claims Inspection</li> </ul>
Mighty Checker® PRO Analyze	<ul style="list-style-type: none"> <li>- An advanced version of Medical Claims inspection software</li> <li>- Analyzes inspection results and suggests an efficient inspection process.</li> <li>- In addition to the assessment and return measures, it can use inspection results more efficiently by utilizing the result of checking medical claims.</li> <li>- It makes it easier to modify the database by importing the assessment and return data; thus, it helps curb assessments and returns.</li> </ul>
Mighty Checker® PRO Advance	<ul style="list-style-type: none"> <li>- A standard version of Medical Claims inspection software.</li> <li>- Validates the disease name, medicines, and medical care of the indication.</li> <li>- Inspects the measures for assessment and return (cross-check inspection, general inspection, calculation day check, etc.)</li> <li>- Validation by the claims support functions (checks items that can be calculated as consultation fees, etc.)</li> </ul>
Mighty Checker® Cloud	<ul style="list-style-type: none"> <li>- A cloud service for inspecting medical claims, which can be linked with electronic charts in the cloud</li> <li>- Can be used for adopting the cloud for in-hospital systems, streamlining operations, realizing remote work, BYOD with any terminals, and BCPs, as it is easy to install and operate</li> <li>- Collaborations with cloud-type electronic medical record systems to be pursued</li> </ul>



## **(2) Medical Ordering check software, “Mighty QUBE® PRO”**

This system utilizes the database of Mighty Checker<sup>®</sup> to immediately check appropriateness of treatment and medication with disease, dosages and administration at the time of ordering prescriptions, and report errors when there is any inappropriate treatment, or any disease name is missed. By preventing the erroneous input of medical instructions and mis operation, it can avoid medical accidents (near-miss accidents) and assessment (reduction of claimed amount), so that medical doctors can concentrate on their primary task, that is, healthcare. It is highly evaluated because it supports the financial and managerial improvement of hospitals through the pursuit of the safety and quality of medical treatment and the streamlining of business operation, and it also brings benefits to both hospital and patients, so many medical institutions have adopted it.

### **◎ Case study**

In a case of installation in a hospital with 6 medical staff members, the hours for Medical Claims per month halved in a month after installation, and the claims support functions increased sales.

In the future, working hours will become even shorter as the staff gets used to operating the software. As more data accumulated, accuracy is also expected to improve further with the use of AI detection.

## **(3) SonaM, a medical cloud in preparation for disasters**

This is a cloud service for supporting BCPs and preservation of medical data in medical institutions with one of the most advanced security bases in Japan.

Due to the spread of COVID-19, the necessity of online diagnosis and treatment attracted public attention, the diversification of diagnosis and treatment methods is progressing, and the demand for security in digital and cloud healthcare services is growing.

In addition, at medical institutions that take more important roles at the time of disasters, it is imperative to secure safe, reliable places and methods for storing in-hospital medical data.

“SonaM,” which was developed for the purpose of supporting healthcare systems suffering the lack of resources under these circumstances, is used for preserving medical data, including medical claims, medical charts, and examination images, with the security cloud.

In order to handle medical data in the cloud, it is necessary to comply with the three medical information security guidelines (the generic term is Three Guidelines from Three Ministries) suggested by the three ministries: the Ministry of Health, Labor and Welfare, the Ministry of Economy, Trade and Industry, and the Ministry of Internal Affairs and Communications, but the company covered all of them, by adopting the advanced cloud security base of NTT East.

Multiple step-by-step plans are prepared for meeting various needs from individual medical institutions with different scales.

This is a new profitable subscription model following the Mighty series, and the company aims to increase the average spending per user by cross-selling it with the Mighty series and increasing direct transactions.

## **4) Insurance Knowledge Platform**

“Insurance Knowledge Platform” is the industry’s first (based on Ubicom’s research) platform that supports improved operating efficiency by providing the information and knowledge necessary for insurance payment examinations carried out in the insurance industry on one, integrated system.

### **(Overview and features)**

Until now, insurance companies have needed to exert a great deal of effort to cover the scattered information in examinations of insurance claims from clients, such as medical practices, medical products, names of injuries and illnesses, advanced medical care, and law revisions.

The insurance knowledge platform, which uses a unique medical database backed by the company's track record of providing services to more than 18,000 medical institutions, can greatly streamline cumbersome screening operations.

After discharging the insured, it currently takes 2-4 weeks for insurance policy holders to receive benefits after completing paperwork with the insurance company and hospital, and it takes the insurance company about 2-3 weeks from examination to payment.

In Phase 1, the Insurance Knowledge Platform will shorten the above-mentioned period needed for the insurance company by at least one day.

In Phase 2, the claim process for the policy holder will be completed in minutes.

#### (Monetization concept)

The company is aiming to achieve a high-priced, high-profit subscription model that surpasses the Mighty series.

Revenue consists of basic initial costs, basic connection usage fees, optional initial costs, and optional connection usage. The company has developed multiple options to meet diverse needs, planning to secure high profits by offering a wide range of solutions.

#### (Strengths of the platform)

##### 1. Intellectual Property (IP)

Utilizing the company's own medical database backed by a track record of providing solutions to more than 18,000 medical institution users for over 20 years, the platform is equipped with medical treatment, drug codes, advanced medical information, etc., used for insurance examinations.

The platform also benefits from the knowledge of AI development.

##### 2. Business model

The platform is operated via a cloud-based, next-generation service model with a high unit price and monthly subscription.

In addition, as the platform can be rolled out from the next year of development with only the burden of maintenance costs, its potential future value is enormous.

Also, the utilization of IT should reduce the burden of insurance claim procedures and shorten the number of days until insurance benefits are received. We also expect the company's participation in the "Life Insurance Ecosystem Concept," which aims to significantly reduce the administrative burden of insurance companies, to accelerate the platform's market penetration.

Another big advantage is that the company can utilize its development resources in the Philippines to brush up its services.

##### 3. Marketability

The company believes it is the first industry player to foray into an uncontested market space.

There is a potential client base/market of approximately 100 companies, with an annual usage fee of several millions to tens of millions of yen per company.

#### (Future developments)

The company aims to expand the Insurance Knowledge Platform across the entire insurance industry in the form of a new subscription-type solution in the medical business, as well as develop and implement a payment examination search system equipped with AI and other advanced technologies geared toward further evolution of solutions for the insurance industry. Furthermore, it is focusing on capturing development demand associated with digital transformation and increased use of AI technology across financial services (including the insurance industry), boosted by the need to switch from "face-to-face services" to "non-face-to-face services" due to recent measures to prevent the spread of the coronavirus.

In addition, in November 2020, it was decided that the company would participate in the Life Insurance Ecosystem Concept for expanding the Insurance Knowledge Platform.

The life insurance ecosystem concept aims to reduce the burden of insurance claim procedures and shorten the time required to receive insurance benefits, as well as significantly reduce the administrative workload of insurance companies by utilizing IT.

IRRC Corporation (1st section of TSE, 7325), a company that has atypical AI-OCR technology and engages in insurance sales, solutions, and system businesses, as well as Assist Corporation, a company engaged in software sales and technical support, forms the core of the concept.

In order to develop and expand this concept, the company's insurance payment automation technology in the "Insurance Knowledge Platform" was highly acclaimed, and the company decided to participate as the first company to strengthen the concept.

Against the backdrop of many business inquiries for the "Insurance Knowledge Platform," the company is preparing to implement multiple functions as an option in addition to the "medical information search engine" for insurance payment examination operations, which is a basic function, in order to expand the user-oriented functions and strengthen the appeal of the platform.

In order to develop the provision of a subscription-based platform for the insurance industry, which is a new initiative for Ubicom, as one of its new core businesses, the company will create mutual benefits for insurance companies and their clients, synergies with collaborating companies, and establish technological innovations and business models.

In addition, from the third quarter of FY 3/21, the company will expand the use of its approximately 1,000 global IT personnel to develop advanced solutions for the insurance industry, including the Insurance Knowledge Platform, and to further strengthen its DX promotion. Furthermore, the company plans to invest in human resource development to train the next-generation engineers specializing in advanced fields such as AI, to further increase its corporate value with an eye on the future.

## **1-4 Characteristics and Strengths of Ubicom**

### **1-4-1 Training and utilizing approximately 1,000 engineers, mainly at its development sites in the Philippines**

As was touched upon in the corporate history section, the president Aoki had inspected the site several times, and considered the Philippines as an optimum location for IT development. It not only is the source of the company's competitive advantage, but also plays an extremely important role for driving the future growth strategy.

The development center in the Philippines and its predecessor have over 25 years of development experience, and their main characteristics are as follows:

#### **1) The optimum location for global IT development: the Philippines**

The Philippines enjoys the demographic dividend period, where a long-term population growth, especially in young age groups, continues. It maintains an economic growth rate of roughly 6% on average. Moreover, young citizens are full of vigor and strive for upward mobility.

In addition, the fact that English is the official language plant the seeds for engagement in global activities, the high IT literacy, its easily accessible location at the center of ASEAN countries, etc. make it an optimum location as a global base for IT development.

#### **2) Employing elite staff**

As many as about 1,000 engineers enrolled mainly in development centers in the Philippines, but it does not only boast of the quantity (number of people), but also the quality (their aptitude), which is unrivaled.

Backed by a long track record, the engineers who seek employment at the company highly value the development center in the Philippines, and the group receives a few thousand applications for engineer positions almost every year. However, only top 4% of applicants are accepted.

#### **3) Human resources development with original education and training**

Building a top-class engineering group cannot be achieved just by hiring elite personnel.

One of the differentiating factors that make it hard for competitors to catch up with the company is, in fact, its educational system and training, which turn staff into capable top engineers.

In April 2003, 18 years ago, the corporate group established its own training center ACTION in the Philippines and started in-house developed training programs. It is constituted by 4 categories: basic concept for IT, advanced technologies, interpersonal skills, and the Japanese language. The training is conducted for 5 months, and it aims employees will pass the PhilNITS (The Philippine National Information Technology Standards exam) and the Japanese Language Proficiency Test level 4.

After completing the training, the trainees present their achievements to the board members, and after going through interview assessments, they are finally assigned to projects. Even for elite students, the journey up to the point of being able to handle job assignments is not an easy one. The program graduates who overcome such hurdles acquire the skills needed for fulfilling their duties in an advanced technical field and a Japanese-speaking environment, hence they are overwhelmingly superior in the Japanese IT market, and they are the engine driving the company's growth.

Furthermore, the company is always handling numerous challenging cutting-edge projects, giving highly motivated staff chances to shine. This is also one of the reasons why the corporate group is so popular as an employer in the Philippines.

#### 4) Further upgrading and reinforcing of solution development capabilities

The company is already outshining competitors with its advanced solution development capabilities, but as it aspires to make robust use of this advantage, the company established the “Advanced Technologies Development Center” in 2017.

About tens of the center’s advanced engineers specialize in AI and big data analysis. By taking advantage of their native English to connect with top-class researchers globally, the company established a system that gives access to the latest cutting-edge technologies.

With this, it became possible to produce a prototype with highly added value that matches clients’ needs in a short period of time at low cost and directly offer it to major clients in Japan. Accordingly, the company’s capability of giving a proposal is improving considerably.

#### 5) Receiving external acclaim

The work of its top engineers, who had overcome high hurdles and managed to participate in projects, has received high external acclaim, which led to the winning of numerous awards.

\* In 2020, its Philippine subsidiary was awarded the Export Excellence Award for Software Development Services by the country’s Department of Trade and Industry (DTI).

\* In 2020, two engineers were selected as Asian top guns, who are outstanding among top passers of Asia’s common standardized version exam of the Japanese Information-Technology Engineers Examination.

\* In 2017, its Philippine subsidiary, Inc. was awarded as the best software company across the Philippines in the “International ICT Award.”

\* Its training program “ACTION” has been consecutively awarded the Outstanding Company Program award at the "e-Services Philippines Award” for 6 years.

#### 1-4-2 A robust customer base

Armed with a strong competitive advantage of having both a global division and a medical division, the company has established a robust customer base.

The robust client assets are considered to play a big role for the expansion of the recurring-revenue business, which is based on subscriptions in the growth strategies, and matching the win-win investment model partners (growing corporations) with client enterprises, etc.

#### 1-4-3 Feeling of partnership inside and outside the Group, and a corporate culture with a sense of ownership

The president Aoki considers all the employees, including those who work overseas, and their family members as "fellows." He thinks that one of the Group's strengths is that it achieves leaping growth thanks to all the employees who positively work with a cheerful never fading smile yet are never satisfied with status quo; each and everyone has a sense of ownership and thus pioneer the new times.

This feeling of partnership that values harmonious relationships extends to even outside the Group.

“The win-win investment model,” which is one of important growth strategies of the company, promotes the collaboration and strategic alliances with leading companies and growing enterprises, to accelerate the growth of existing businesses and create new businesses.

The mindset that investors and investees aim to grow together as “fellows” regardless of business scale and the relationship between shareholders and portfolio companies is expected to motivate alliance partners further. This is probably the big difference from general VC (venture capital) and CVC (corporate venture capital).

#### 1-5 ROE analysis

	FY 3/2015	FY 3/2016	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021
<b>ROE (%)</b>	<b>4.9</b>	<b>-</b>	<b>12.2</b>	<b>17.7</b>	<b>24.7</b>	<b>27.3</b>	<b>24.2</b>
Net Income to Sales Ratio (%)	1.24	-0.16	3.76	6.63	10.37	13.21	14.86
Asset Turnover Ratio (x)	1.33	1.46	1.44	1.36	1.27	1.17	1.02
Leverage (x)	2.97	2.62	2.25	1.96	1.87	1.76	1.60

\*The asset turnover ratio and leverage are calculated with the average amount between the beginning and the end of the term. Calculated by Investment Bridge Co, Ltd. based on annual securities reports and brief financial statements.

Total asset turnover and leverage are on a downward trend, but margins continue to improve. The projected net income to sales ratio for the current fiscal year is 16.3%.

The company is likely to maintain a high level of ROE.

### 1-6 Shareholder Return

While the company recognizes returning profits to shareholders as one of the management priorities, it has been prioritizing expansion of its internal reserves for future business development and reinforcing the management quality. However, in FY03/19, the company paid a dividend of 5.00 yen per share for the first time considering the recent increase of orders received, robust business performance, and the establishment of the foundation for a profitable recurring-revenue business model. In the previous fiscal year March 2021, the company also paid a dividend of ¥7.00 per share, an increase by 2 yen, and the payout ratio was 13.1%.

From now on, the company will concentrate on the improvement of measures for returning profits to shareholders with the aim of achieving a payout ratio of 30% or higher in the future, while considering the balance between the improvement in business performance and strategic investment, based on the creation of stable cash flows through the shift to the subscription business model.

### 1-7 ESG-related initiatives

The company believes that it has a social responsibility and raison d'être to create business innovation based on its five core assets: technology, human resources, intellectual property, foresight, and partnerships, and solve issues such as the declining birthrate and aging population, the shortage of medical care, the depletion of IT human resources, and DX. The company's ESG initiatives are as follows.

Global Business	<ul style="list-style-type: none"> <li>* Client DX (Business process reforms for clients through advanced technology support such as AI/Analytics/Automation/cloud)</li> <li>* New Normal promotion (Offshore deployment, non-contact/non-touch/remote solution development)</li> <li>* Improvement of Japan's global competitiveness through globalization support for domestic companies</li> </ul>
Medical Business	<ul style="list-style-type: none"> <li>* Pursuing the Three Way Satisfaction (insurer/insured/medical institution) through the Platformization of non-competitive areas as represented by the new business for the insurance sector</li> <li>* Business improvement, paperless, cloud deployment, telemedicine support for medical institutions</li> <li>* Workstyle reform for doctors, improvement of healthcare safety and quality</li> </ul>
Group as a whole	<ul style="list-style-type: none"> <li>* Resilient business management (reinforced business continuity structure including remote working)</li> <li>* Strategic alliances with companies with a high social impact that contribute to the SDGs</li> <li>* Providing education and opportunities to young talent in Asia</li> <li>* Diversity in employees and management positions</li> </ul>



## 2. Second Quarter of Fiscal Year ending March 2022 Earnings Results

### 2-1 Earnings Trends

	2Q of FY Mar. 21	Ratio to sales	2Q of FY Mar. 22	Ratio to sales	YoY
Net Sales	2,093	100.0%	2,268	100.0%	+8.4%
Gross profit	874	41.8%	920	40.6%	+5.4%
SG&A	480	22.9%	485	21.4%	+1.0%
Operating Income	393	18.8%	435	19.2%	+10.7%
Ordinary Income	377	18.0%	478	21.1%	+26.7%
Net Income	254	12.2%	350	15.4%	+37.4%

\*Unit: million yen

#### Sales and profits increased. Profits hit a record high for the second quarter.

sales increased 8.4% YoY to 2,268 million yen. Global business continued to be strong in sales from major pillar customers and in securing orders for solutions. In the medical business, package sales of the mainstay Mighty series were steady. Operating income increased 10.7% YoY to 435 million yen. Although gross profit margin declined 1.2 points due to strategic investments in the global business, gross profit increased 5.4% YoY. SG&A expenses increased only 1.0% YoY, resulting in double-digit profit growth. Ordinary income increased 26.7% YoY to 478 million yen. All kinds of profits reached a record high for the second quarter.

### 2-2 Trend of Segments

	2Q of FY Mar. 21	Ratio to sales	2Q of FY Mar. 22	Ratio to sales	YoY
Global Business	1,418	67.8%	1,528	67.4%	+7.8%
Medical Business	675	32.2%	740	32.6%	+9.6%
<b>Consolidated Sales</b>	2,093	100.0%	2,268	100.0%	+8.4%
Global Business	239	16.9%	198	13.0%	-13.9%
Medical Business	337	49.9%	399	53.9%	+18.4%
Adjustment	-182	-	-162	-	-
<b>Consolidated Operating Income</b>	393	18.8%	435	19.2%	+10.7%

\*Unit: million yen. Sales is the sales toward external customers. Ratio to sales in Operating Income is profit margin.

#### (Global Business)

Sales increased and profit decreased.

The company keep earning sales and receiving orders for solutions from major pillar customers. On the other hand, the company has made strategic investments ahead of schedule, to respond to the strong demand expected from the second half of the current fiscal year to the next fiscal year and to promote a highly profitable model by training DX personnel and strengthening the initiatives for producing sub-pillars while seizing the opportunity of DX during the COVID-19 pandemic.

#### ©Global division

The company has been receiving a favorable number of orders from existing pillar customers in the Philippines and Japan in the areas of automating software testing, the execution and the management, product development support, and application development.

In the area of PC/IT equipment, the company expanded transactions with major global PC manufacturers and approached other major PC manufacturers.

Moreover, in the area of AI chatbots, the company has passed the practical use stage at a global consulting group affiliated with a major auditing firm, and is steadily expanding transactions in preparation for cross-sectoral development in other areas in the group in the future, and is actively working to produce pillar customers, especially major customers representing the industry.

In the fields of Edge IoT/AIoT and Edge IoT/AR, which utilize the IVA (Intelligent Video Analysis) technology that was launched as a new solution, various advanced solutions, including remote support solutions, have been adopted by customers in the mobility field after demonstration tests.

#### ©Enterprise solutions division

The company is promoting the launch of new projects in the financial, manufacturing, and public sectors. Against the backdrop of the expected expansion of large-scale projects from the second half of the current fiscal year to the next fiscal year, the company is aggressively investing in human resources, for retraining employees and recruiting mid-career personnel, to cope with the expected shortage of human resources.

#### (Medical Business)

Sales and profit increased.

Business inquiries for the medical claims inspection software MightyChecker® and the medical order checking software Mighty QUBE® continued to increase steadily in general, despite delays in marketing activities for some embedded systems due to COVID-19. For the strategic product, MightyChecker®EX, a next-generation medical claim checking system, the company received numerous inquiries, including those from hospitals within the major group companies with top-class sales, and the number of installations, mainly through direct sales, remained steady. In addition to the distribution within these major medical groups, the company is promoting further acquisition of direct accounts (direct sales), implementation of pricing policies, and layered selling of solutions (increasing the unit price per customer) by shifting to web-based sales and support as a countermeasure against the novel coronavirus.

In addition, the company is aggressively launching new businesses related to the digitalization of healthcare, such as SonaM, a new medical cloud service, the development of new solutions for life and non-life insurance companies, and other data analysis (health insurance associations, academic societies, etc.). The company is investing aggressively to secure a "new source of subscription revenue" in the future, following the Mighty Series, and is working on measures to further improve profitability.

The company is promoting the full-scale cross-sectoral development of its Insurance Knowledge Platform, a payment review search engine based on medical databases, and has conducted demonstration tests with several life insurance companies, started negotiations for collaboration, and begun development with the aim of an early launch.

In the future, the company will work to popularize the platform in the entire insurance industry as a new subscription-based service.

The establishment of a highly profitable subscription model, the narrowing down of low-margin projects, the implementation of pricing policies, and the repeated sale of solutions led to a significant improvement in profit of this segment, with operating income margin reaching 53.9%, hitting a record high.

## 2-3 Financial position and cash flow

### Main Balance Sheet

	End of Mar. 21	End of Sep. 21	Increase /Decrease		End of Mar. 21	End of Sep. 21	Increase /Decrease
<b>Current Assets</b>	3,793	4,091	+298	<b>Current liabilities</b>	1,239	1,276	+36
Cash and Deposits	2,808	3,136	+328	ST Interest Bearing Liabilities	100	100	0
Receivables	655	758	+103	Advances received /Contract liability	682	715	+32
<b>Noncurrent Assets</b>	647	616	-30	<b>Noncurrent liabilities</b>	258	242	-16
Tangible Assets	60	51	-8	LT Interest Bearing Liabilities	-	-	0
Intangible Assets	81	48	-33	<b>Liabilities</b>	1,498	1,518	+20
Investment, Others	504	515	+11	<b>Net Assets</b>	2,942	3,189	+247
<b>Total assets</b>	4,440	4,708	+267	<b>Total Liabilities and Net Assets</b>	4,440	4,708	+267

\*Unit: million yen

Total assets increased 267 million yen from the end of the previous year to 4,708 million yen thanks to increases in cash and deposits, etc.

Total liabilities increased 20 million yen to 1,518 million yen due to an increase in advances received/Contract liability, etc.

Net assets increased 247 million yen to 3,189 million yen due to an increase in retained earnings.

As a result, capital adequacy ratio rose 1.4 points from the end of the previous term to 67.7%.

#### ◎Cash flow

	2Q of FY 3/21	2Q of FY 3/22	Increase and Decrease
<b>Operating cash flow</b>	488	498	+9
<b>Investing cash flow</b>	-42	-47	-5
<b>Free cash flow</b>	445	450	+4
<b>Financing cash flow</b>	-58	-96	-38
<b>Cash, equivalents at term-end</b>	2,344	3,101	+757

\*Unit: million yen

Operating cash flow and free cash flow increased  
The cash position improved.

## 2-4 Topics

### (1) Investing in Illumigyn, an Israeli medical startup that promotes and empowers women's health around the world

In October 2021, the company decided to invest in Illumigyn Ltd. (Israel), which has developed a platform solution equipped with the Gynoscope™ System, a gynecological remote solution designed to empower women's health by making gynecological exams accessible and obtainable to women around the world.

#### (Summary of Illumigyn)

It was established in September 2012. It is an Israeli company that focuses on empowering women's health and making its products/services accessible and obtainable to all women around the world. Their vision is to bring a disruptive change to the gynecology field with a complete platform solution that includes an innovative FDA approved gynecological endoscope and the Gynoscope™ System, a cloud platform service. The company is also committed to building an ecosystem that will empower all aspects of women's health with its technological knowledge and expertise.

#### (Background of the investment)

The company expects medium- to long-term growth potential in the femtech market, which uses technology to address health issues faced by women.

In addition, the company resonates strongly with the projects that have a large social impact and contribute to the promotion of women's empowerment and health and welfare as stated in the SDGs. The decision to invest in Illumigyn was made as part of the company's GO GLOBAL Strategy, which is aimed at future alliances with Illumigyn and the global market.

#### (Initiatives from now on)

Ubicom is shifting to a SaaS-type model, mainly in the medical domain, and will focus on new solutions that utilize medical big data and AI. In addition, with an eye on collaboration in the domestic market, where the company has a network of more than 17,000 medical institutions, and in the global market, including the U.S., the company will promote strategic investment for engineers in the medical field, etc. and aim to create business opportunities that will become new sources of revenue in the future.

## (2) Offering "Fluctuation Correction," a DX service for partial automation of insurance payment operations on the Insurance Knowledge Platform

In November 2021, the company began offering "Fluctuation Correction," a new DX service for partial automation of insurance benefit payment operations at insurance companies, on its Insurance Knowledge Platform.

In addition, through the Life Insurance Ecosystem Initiative, in which the company has been participating since November 2020, Zurich Life Insurance Japan Company Ltd. adopted Fluctuation Correction and started using it for business operations on November 17, 2021.

(Overview of the new DX service Fluctuation Correction)

The Fluctuation Correction is a DX service specialized in improving the accuracy of reading medical documents by OCR, which is provided to the review and payment departments of insurance companies on the Insurance Knowledge Platform.

Even if the accuracy of OCR is set at 100%, it is not possible to completely identify the medical treatment or the name of the disease, because the expression of the medical treatment or the name of the disease in medical documents varies (fluctuates) among doctors and medical institution systems. By using Fluctuation Correction, fluctuations after OCR reading are corrected, and medical information is extracted and automatically coded. In the demonstration test of the fluctuation correction, it succeeded in correcting more than 98% of the fluctuations, achieving a high success rate.

The company believes that the Fluctuation Correction is a solution that was made possible by the company's specialization in the medical field, and that it will streamline the complicated insurance payment process and support DX in the entire insurance industry.

## 3. Fiscal Year ending March 2022 Earnings Forecasts

### (1) Earnings Forecasts

	FY Mar. 21	Ratio to sales	FY Mar. 22 Est.	Ratio to sales	YoY	Progress ratio
Net Sales	4,198	100.0%	4,963	100.0%	+18.2%	45.7%
Operating Income	919	21.9%	1,079	21.7%	+17.4%	40.4%
Ordinary Income	877	20.9%	1,104	22.2%	+25.9%	43.3%
Net Income	623	14.9%	811	16.3%	+30.2%	43.2%

\*Unit: million yen. The forecasted values were provided by the company.

### **There is no change in the earnings forecasts. Sales and Profit increase. Profit to achieve record highs for consecutive years.**

There is no change in the earnings forecasts. The company forecasts net sales of 4,963 million yen, up 18.2% from the previous fiscal year, an operating income of 1,079 million yen, up 17.4%, and an ordinary income of 1,104 million yen, up 25.9%. Operating income and ordinary income are expected to reach record highs this fiscal year too.

The company will continue to make "strategic investments," but by absorbing these investments, it aims to achieve double-digit profit growth.

The company has not decided on a dividend at present but intends to continue to provide appropriate shareholder returns in line with profit levels this fiscal year.

## 4. Efforts to Realize the Medium-term Vision

### 4-1 Trend of each business

#### (1) Global business

##### Direction of the global business

The company believes that the potential market for software development in Japan is about 10 trillion yen, of which the current offshore utilization rate is only about 2%, and that there is room for increasing it to 10% in the future.

In order to meet such demand, the company will focus on investing in education to develop human resources who can work on DX offshore with technical, language, and global development skills.

The company will improve the company's attractiveness by offering more attractive careers for young Asian talent.

It will also promote M&A and strategic alliances not only in Japan, but also in Europe and the United States, which are huge markets.

Having engineers who can speak both English and Japanese will further increase the company's competitive advantage. The company believes that crossing English and Japan quality are high added values only the company can provide.

##### Customer pillarization

The company defines its pillar clients ("mainstay clients") as market leaders in their respective industries with whom it has an ongoing business relationship and sales of several hundred million yen.

For new clients, 1-5 people are initially dispatched to the client's site for on-site development, but as sales expand, the number of engineers assigned to the client's site increase, and the company begin to shift to an offshore development system. The goal is to eventually have a big-pillar clients with more than 50 people working on development on a continual basis.

In the process of advancing to this stage, operating income margin will increase to 15% thanks to the economies of scale, improved development productivity through the accumulation of industry knowledge, and the deployment of in-house solutions for automated testing.

In the first half of this fiscal year, the company acquired 9 new potential pillar customers.

The company is aiming to establish more than 20 new pillar customers in addition to the existing six pillar customers by the fiscal year ending March 2024.

##### Alliance with a domestic technology-focused small architect venture, the Ubicom Development Partnership

The company will promote the Ubicom Development Partnership in Japan to further strengthen the alliance-based lab development model, including public-related companies.

In addition to covering the shortage of engineers in Japan, the company expects to accelerate producing pillar customers and increase unit prices through high value-added products.

The enterprise division continued to invest in upstream experience and proactive human resources in Japan, and the number of non-IBM projects, including financial and public projects, grew to about 40%. Business expansion is expected in the second half of this fiscal year and beyond. In addition, the company plans to combine domestic and international M&A to strengthen its development capabilities.

#### (2) Medical Business

##### Direction of the medical business

As mentioned in the "Business Description" section, Japan is facing a serious shortage in medical care. The company provides multifaceted support for the management of medical institutions to improve the situation.

Specifically, the company is promoting the use of Mighty QUBE to support doctors' work style reform, Mighty Checker to support medical professionals, and the expansion of cloud-based products.

##### \*Strengthening the management of medical institutions with MightyChecker

Assuming a medium-sized hospital with about 200 beds, the reduction in receipt work time by installing MightyChecker is about 50%. If this is combined with the consultative navigation feature (optimization of the user interface in the analysis function) to be developed from the third quarter onward, the company expects a further 20% reduction.

The company will contribute greatly to improving the management of medical institutions by solving the shortage of human resources,



reforming the working style of doctors, etc., and reducing overtime work.

**\* Insurance Knowledge Platform**

The company has been conducting marketing, prototyping, and demonstration tests for several insurance companies, and is making steady progress toward a full-scale launch (start of the recurring business) in the next fiscal year.

As mentioned in the "Topics" section, in November 2021, the company began offering Fluctuation Correction, a new DX service for the partial automation of insurance benefit payment operations at insurance companies. Moreover, through the Life Insurance Ecosystem Initiative, in which the company has been participating since November 2020, Zurich Life Insurance Japan Company Ltd. adopted the Fluctuation Correction DX service and began using it for business operations on November 17, 2021.

**(3) Entire group Strategies**


The company will strengthen the training of medical engineers and the development of next-generation medical engines using its base in the Philippines to build up its SaaS/recurring model.

Furthermore, the company aims to quickly establish an alliance system with M&A partners and global partners in the medical field, etc. As a specific initiative, as mentioned in the "Topics" section, the company decided to invest in Illumigyn, an Israeli medical startup that provides gynecological remote platform solutions, based on the medium- to long-term growth potential of the femtech market.

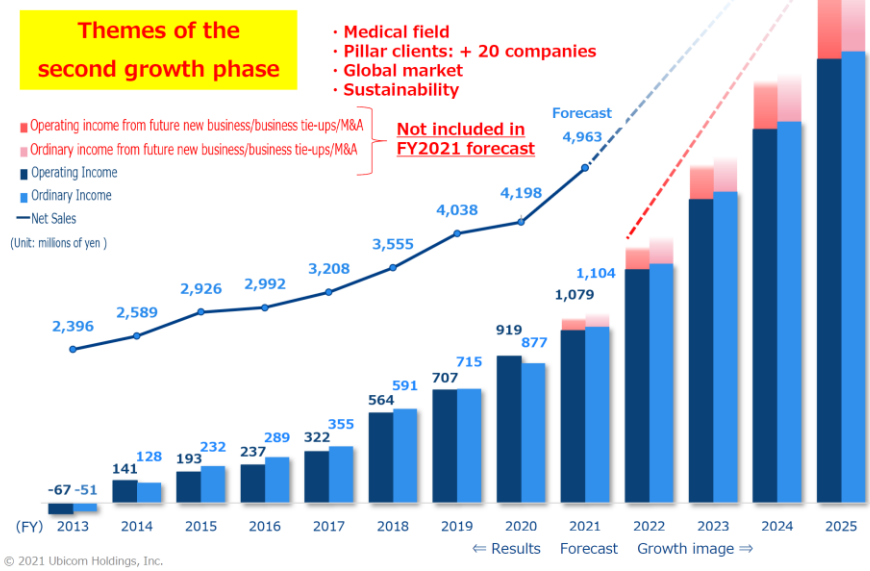
**4-2 Growth Vision**

The company will maximize synergies between existing businesses and M&A, and promote the accumulation of new recurring/SaaS models.

The company will implement strategic investments to realize the growth visions of each business and promote the “Niche No. 1 Platformer Strategy.”

Promotion of the Leverage Strategy (the 2<sup>nd</sup> Growth Phase) 

To maximize the synergy between the existing business and M&A, and promote the development of new recurring-revenue/SaaS model

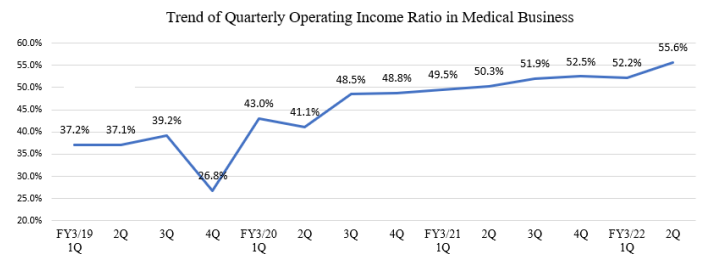
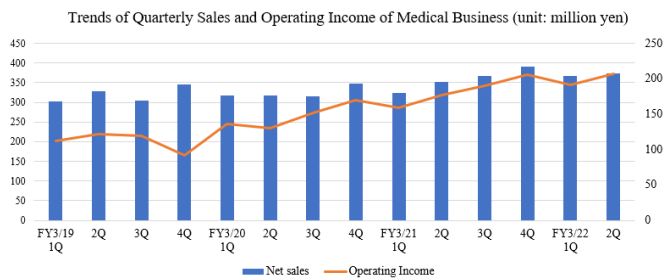


(From the company’s website)

## 5. Conclusions

The profitability of the medical business improved remarkably this fiscal year, too. Sales increased 9.6% YoY while the company decreased projects with low profit margins. The Mighty series is steadily capturing demand for the improvement in hospital management efficiency, and operating income margin has exceeded 50% and is approaching 60%, thanks to increased direct sales and cross-selling and price revisions. In addition to the existing Mighty series, a variety of functions have begun to be installed in the insurance knowledge platform.

The company has identified the medical domain as one of the four themes for the second growth phase, and is focusing on training medical engineers and strengthening the development of next-generation medical engines at its base in the Philippines. It will be interesting to see when leverage strategies such as M&A, the launch of new platforms, and the accumulation of SaaS/recurring models will start to take shape and contribute to earnings.



(Prepared by Investment Bridge based on company documents)

## <Reference: Regarding Corporate Governance>

### ◎ Organizational structure and composition of directors and corporate auditors

Organizational structure	Company with corporate auditor
Directors	5, out of which 2 are outside directors.
Corporate auditors	3, out of which 2 are outside auditors.

### ◎ Corporate Governance Report

Last updated: June 24, 2021

#### \*Basic Policy

The corporate ethos of our company is “to remain a one-of-a-kind business innovation company,” “global business operation,” and “co-prosperity based on a win-win model.” We recognize that it is essential to enrich and tighten our corporate governance, in order to improve our corporate value and maintain our global competitiveness under this ethos. In detail, our basic policy is “to aim to enhance our profitability and maximize the profits for shareholders by conducting more efficient, sound business activities” and put importance on compliance. Under this policy, we strive to strengthen our corporate governance, while considering that it is essential to fulfill our social responsibilities toward all kinds of stakeholders, including shareholders, employees, business partners, and local communities, and achieve sustainable growth and expansion.

#### <Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
【 Supplementary Principle 3-1-(2) Disclosure and provision of information in English】	At present, we do not disclose material in English. However, we recognize the necessity of disclosing and providing information in English, taking into consideration the composition of our shareholders and other factors, and we are working to enhance the provision of information in English in our IR and SR activities for overseas investors. We will continue to consider the timing of the implementation of English-language disclosure, taking into account the ratio of overseas institutional investors and the various conditions necessary to respond to their needs comprehensively.
【Supplementary principle 4-2-(1) Remunerations and incentives for executives】	Since the term of each director of our company is one year, their remunerations are revised every year according to the performance in the previous fiscal year, but we have not adopted remunerations that vary with mid/long-term performance or remunerations paid with treasury shares. As for the remunerations for executives, we recognize the necessity to reflect mid/long-term corporate performance and potential risks in them and give incentives for stirring entrepreneurship soundly and will keep discussing appropriate methods.

## &lt;Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)&gt;

Principles	Disclosure contents
Principle 1-4 【The so-called strategically held shares】	Our company may hold shares strategically, if they are considered to contribute to the enhancement of the value of our corporate group from the mid/long-term viewpoint. Our policy is to hold such shares, as long as we can secure the rationality of shareholding purposes, such as the maintenance and cementing of transaction relations through business alliance, collaboration, etc. For exercising the voting rights of the shares, we discuss whether or not a bill is consistent with our shareholding policy.
[Supplementary Principle 4-11-(2) Status of concurrent outside directors]	Concurrent positions held by outside directors and outside corporate auditors at other companies are disclosed on an annual basis along with notifications for the general meeting of shareholders, securities reports, and reports on corporate governance. Moreover, none of the Directors or Corporate Auditors, except for the Outside Directors and Outside Corporate Auditors, hold concurrent positions as Directors or Corporate Auditors of other listed companies.
Principle 5-1 【Policy for constructive dialogue with shareholders】	We positively respond to shareholders' application for dialogue. The finance and accounting department and the strategic planning department are in charge of our IR activities, and have developed an IR system based on their daily close cooperation, so that they can accept the phone interviews from investors, small meetings, etc. In addition, we hold a result briefing session involving the representative director and distribute a result briefing video twice or more times every year.

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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