

 Yoshichika Hemmi, Chairman	 Kenji Miura, President	Systema Corporation (2317)
		

Corporate Information

Exchange	TSE Prime
Industry	Information and communications
Representative Director	Yoshichika Hemmi, Kenji Miura
Address	14F Shiodome Building 1-2-20 Kaigan, Minato-ku, Tokyo
Year-end	March
URL	https://www.systema.co.jp/

Stock Information

Share Price	Shares Outstanding (Excluding Treasury Shares)		Total Market Cap	ROE (Actual)	Trading Unit
¥431	387,396,212 shares		¥166,967 million	21.6%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥8.0	1.9%	¥18.07	23.9x	¥76.83	5.6x

*The share price is the closing price on May 26. The number of shares issued was obtained by subtracting the number of treasury shares from the number of outstanding shares as of the end of the latest quarter.

*ROE and BPS are the value as of the end of FY 3/22. EPS is taken from the estimates of FY 3/23.

*With December 1, 2021 being the effective date, a 4-for-1 stock split was conducted.

Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent	EPS	DPS
March 2019 (Actual)	59,742	6,902	6,706	4,584	47.00	16.00
March 2020 (Actual)	64,552	8,163	7,871	5,471	56.22	20.00
March 2021 (Actual)	60,871	8,006	7,507	4,974	51.36	20.00
March 2022 (Actual)	65,272	9,106	8,578	5,992	15.47	-
March 2023 (Estimate)	71,450	10,280	10,280	7,000	18.07	8.00

*The estimated values were provided by the company. Unit: Million yen

*On December 1, 2021, a 4-for-1 stock split was conducted.

*EPS in the term ended March 2022 takes the stock split in question into account. Both EPS and DPS were not retroactively adjusted for the stock split. DPS in the term ended March 2022 was 10.00 yen for the interim period and 3.50 yen for the end of the term, but the simple total amounts are not shown due to the implementation of the stock split in question.

This Bridge Report reviews the summary of the financial results of the fiscal year ended March 2022 and full-year earnings forecasts for the fiscal year ending 2023 of Systema Corporation.

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Key Points

- In the term ended March 2022, sales grew 7.2% year on year and operating income increased 13.7% year on year. The Business Solution Business and the Overseas Business struggled throughout the term due to the ongoing difficulty in procuring IT equipment caused by semiconductor supply shortages. However, the mainstay Solution Design Business and other segments performed well, with notable double-digit sales growth, and overall sales grew. Profits were supported by the Solution Design Business, which saw an increasing number of highly profitable projects. The Cloud Business also contributed to profit growth, mainly through its proprietary service Canbus.
- For the term ending March 2023, the company forecasts 9.5% year-on-year increase in sales to 71,450 million yen and a 12.9% year-on-year increase in operating income to 10,280 million yen. The company plans double-digit sales and profit growth in its three segments: the mainstay Solution Design Business, the Framework Design Business, and the IT Service Business. On the other hand, the company expects profit and loss to become favorable, but its Overseas Business is expected to be lackluster. The ratio of operating income to sales is projected to be 14.4%, up 0.4 points from the previous term. The company expects to pay an annual dividend of 8 yen per share, consisting of 4 yen per share for the first half and 4 yen per share for the end of the term.
- Although the Business Solution Business, which has been affected by the ongoing difficulty in procuring IT equipment due to the global shortage of semiconductors, was unable to fully recover, but the overall position of the business is good. However, while solid growth is basically expected for the term ending March 2023, led by the mainstay Solution Design Business, the initial outlook for the Cloud Business, whose momentum has slowed, as we had feared in our previous report, seems a bit negative. Nevertheless, we believe that the outlook for the Business Solution Business is somewhat conservative, and we would like to see the progress of these two businesses in the first quarter.

1. Company Overview

Systema Corporation was founded, when System Pro Corp. absorbed Katena Corp., which was an equity-method affiliate, on April 1, 2010. It is cultivating new domains by operating the business that fuses the former System Pro's technologies, know-how, and open technologies for designing, developing, and testing mobile terminals and the financial knowledge and infrastructure technologies of the former Katena Corp. It forms a corporate group with 8 consolidated subsidiaries and 3 equity-method affiliates.

【Management goal — To become one of Japan's leading IT companies and support the Japanese economy from the ground up!】

In order to attain this objective, the company pursues good balances between conflicting items, such as “destruction and creation”, “stability and growth,” and “maintenance and innovation” as its basic policy.

【Target management indicators】

The company sets stably high dividends, high return on equity and high operating income rate as target managerial indicators. To achieve these goals, the company aims to develop a highly profitable structure under its basic policy for business administration. As for its near-term goals (mid-term management goals), the company declares to generate consolidated sales of 101 billion-yen, operating income of 15.2 billion yen (an operating income rate of 15%), per-capita operating income of 2.6 million yen, and 25% ROE in the term ending March 2025.

1-1 Business description

The business of Systema Corporation is classified into the Solution Design Business, the Framework Design Business the IT Service Business, the Solution Sales, the Cloud Business, the Overseas Business, and the Investment & Incubation Business.

Involving all group companies, they offer comprehensive solution services for planning, designing, developing, installing, and maintaining systems and giving user support, including the development and quality check of software for automatic driving and in-vehicle systems, social infrastructure systems, online business systems, IoT-related systems, robots, AI, and mobile devices, the development of systems for financial institutions, system operation, help desk management, the sale of IT products, system integration, the provision of cloud services, and the development of game content.

◎Solution Design Business (accounting for 31.6% in FY 3/22)

The company concentrates its managerial resources on five business categories; “in-vehicle” items such as automatic driving technology and telematics where its know-how nurtured through the development of mobile terminals can be utilized, “social infrastructure” in the fields of electric power, transportation, aviation, space, defense, etc., “Internet business” for communications carriers, e-commerce, education, e-books, etc., “smart devices/robots/AI,” including smartphones, home appliances, and robots, and “business operation systems,” including workflow and order receipt/placement systems. In every category, the company is swamped with inquiries about the development, testing of IoT-related systems and services. In addition, Systema Vietnam Co., Ltd., which is an overseas affiliate, functions as an offshore foothold for developing, testing, evaluating, maintaining, and operating software, handling all kinds of IT services, and so on. Clients include telecommunications carriers, telecom equipment manufacturers, automobile manufacturers, Internet business enterprises, etc.

◎Framework Design Business (accounting for 7.9% in FY 3/22)

Systema Corporation develops financial systems and foundational systems for not only life and non-life insurance companies, but also banks inside and outside Japan. As for life and non-life insurance tasks, the company has developed solutions for dealing with a broad range of tasks, including information management, contract management, insurance premium calculation, agency business, and sales management. As for banking tasks, the company has developed a variety of systems for sales branches and external channels in the field of open systems, while handling main frames. In the past, development and operation of financial systems accounts for most parts of the work, but nowadays, new businesses such as robotic process automation (RPA), cloud services, data analysis, voice recognition, and image recognition have grown to make up 40% of total sales. The company is further cultivating the financial market and expanding its business horizontally to other business fields, through cross-selling to customers of the IT Service Business and the Solution Sales or the cooperation with the Solution Design Business in solutions, such as smartphone apps and online apps. Like the Solution Design Business section, Systema Vietnam Co., Ltd. is functioning as an offshore foothold.

◎IT Service Business (accounting for 24.0% in FY 3/22)

Systema Corporation operates and maintains systems and networks, and offers IT outsourcing services including help desk operation, user support, data inputting, and large-volume output. Clients are mainly electric-appliance manufacturers, financial institutions, foreign-affiliated enterprises, and public offices.

◎Solution Sales Business(accounting for 34.1% in FY 3/22, The former Solution Sales Business)

The company sells IT products including servers, PCs, peripheral devices, and software, to enterprises and integrates systems. The company is shifting business model from selling hardware to offering services. The company aims to expand its business and improve its added value by meeting the changing demands from ownership to usage (cloud, etc.) in cooperation with the IT Service Business section, etc. Clients are mainly electric-appliance manufacturers and foreign-affiliated enterprises.

◎Cloud Business (accounting for 2.8% in FY 3/22)

The company offers services ranging from the support for installation of cloud services to the provision of apps. For example, it offers cloud services of the Systema version of groupware combined with “Cloudstep,” which was developed jointly by the company and “Google Workspace”, “Canbus,” a cloud database service, which was launched in May 2017, and “Web Shelter,” an anti-phishing solution for smartphones. It currently specializes in the public cloud, but it is also preparing for offering the private cloud service. “Cloudstep” is a collective term including business applications for improving the usability of cloud services, such as “Google Workspace”, and management tools for administrators. Clients include medium to large-sized companies that conduct general business, etc.

◎Overseas Business (accounting for 0.3% in FY 3/22)

The U.S. subsidiary operates two core businesses; one is the support for development and testing mobile and communications-related products, and the other is the researching on trends of the latest technologies and services and incubation in the U.S. The Vietnamese subsidiary is recognized as an offshore foothold that develops, tests, evaluates, maintains, and operates software, and handles all kinds of IT services. Clients include Japanese enterprises, American enterprises, telecommunications carriers, telecom equipment manufacturers, etc.

◎Investment & Incubation Business (accounting for 0.3% in FY 3/22)

The strategic subsidiary “ONE Tech Japan, Inc.” conducts the planning, development, sale, and service provision in the fields of IoT, robots, FinTech, and social media. GaYa Co., Ltd. develops game content for smartphones, offers the contents to leading SNS websites and undertakes the operation of video games developed and released by other companies.

***Adjustment ▲1.0%**

1-2 Group Companies

Domestic Group Companies



● Consolidated subsidiaries

● Equity method affiliated companies

ProVision Co., Ltd.

[Capital] 85,000,000 Yen
[Ratio of capital contribution] 99.6%

・Comprehensive internet service business focusing on development support and quality evaluation of mobile terminal apps and internet content

(IT Service Business)

Tokyo Business Service Co., Ltd.

[Capital] 100,000,000 Yen
[Ratio of capital contribution] Systema 51% TOKYO METROPOLITAN GOVERNMENT 49%

Data entry, Large volume output, Mailing service, Secretariat agency, Paperwork agency. Model company for employing heavily disabled persons incorporated jointly with TOKYO METROPOLITAN GOVERNMENT.

(IT Service Business)

TBSOPERATION CO., LTD

[Capital] 40,000,000 Yen
[Ratio of capital contribution] Tokyo Business Service Co.,Ltd 100%

Employment transition support and continuous employment support based on the General Support for Persons with Disabilities Act. Employment training for persons with disabilities.

(IT Service Business)

HIS HOLDINGS, INC.

[Capital] 95,000,000 Yen
[Ratio of capital contribution] 25.0%

Development and sale of products (software) for computers and related equipment, Provision of personnel including computer engineers and technicians.

(Solution Design Business)

IDY Corporation

[Capital] 65,000,000 Yen
[Ratio of capital contribution] 76.7%

Design, manufacture and sales of IoT/M2M router, LTE/3G/WiMAX2+/PHS router, Wi-Fi board, Android terminal, wireless digital signage, antenna etc

(Business Solution Business)

GaYa Co., Ltd.

[Capital] 75,000,000 Yen
[Ratio of capital contribution] 65%

Planning and management of social games for mobile, smartphone, PC

(Investment & Incubation Business)

ONE Tech Japan, Inc.

[Capital] 85,000,000 Yen
[Ratio of capital contribution] 87.5%

Provide planning, development, sales and other services in the fields of AI, IoT, robots, Fintech and social media.

(Investment & Incubation Business)

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(Taken from the reference material of the company)

Overseas group companies



● Consolidated subsidiaries

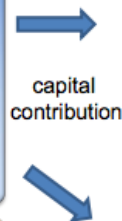
● Equity method affiliated companies

Systema America Inc.

[Capital] 28,000,000 US dollar
[Ratio of capital contribution] 100%

Mobile communications-related technical support, development and verification support, Provision of various solutions, Trend research and commercialization of the latest technologies and services

(Overseas Business)



StrongKey, Inc.

[Capital] 7,650,000 US dollars
[Ratio of capital contribution] 28.8%

Development and sale of encryption and authentication products

※ StrongAuth, Inc. changed business name to StrongKey, Inc.

(Overseas Business)

Systema Vietnam Co., Ltd.

[Capital] 200,000 US dollar (4,200,000,000 Vietnamese DONG)
[Ratio of capital contribution] 100%

Software development, evaluation and verification, operation and maintenance, IT Service in General.

(Solution Design Business)
(Framework Design Business)

ONE Tech, Inc.

[Capital] 6,000,000 US dollars
[Ratio of capital contribution] 50%

Development and sale of IoT solution packages

(Overseas Business)

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(Taken from the reference material of the company)

2. Medium-Term Management Plan (FY 3/19-FY 3/25)

The company has been promoting its 5-year medium-term plan, which was formulated in 2019 and will end in FY 3/24. However, in FY 3/21, the company was faced with a decline in sales due to stagnation of the economic activity caused by COVID-19. In light of these circumstances, the company has decided to postpone the achievement year of the mid-term plan for one year and set FY 3/25 as the final year of the new plan, aiming for the previous plan targets of 101 billion yen in sales and 15.2 billion yen in operating income. FY 3/22 and FY 3/23 will be a period of upfront investment, whereas full-scale business expansion is expected in FY 3/24 and FY 3/25.

[Major Management Policies - Improving Productivity through Data Management -]

- To conduct cost control precisely and grasp real profits and losses early by utilizing the IT management system established with the Canbus. Platform, which was developed in house
- The company aims to maximize profits by thoroughly improving productivity based on management information quantified by visualization of management data and AI-based prediction.

[Strategy, Key Management Indicators, and Targets for FY 3/25]

The company will concentrate its management resources on automotive, cashless/payment, robotics/IoT/RPA/cloud, and its own products and services, which it positions as the areas that will grow the most in the next 10 years.

Key Management Indicators, and Targets for FY 3/25

The company's key management indicators are consolidated net sales, operating income, operating margin, operating income per capita, and ROE. For FY 3/25, the company has set the following targets: consolidated net sales of 101 billion yen, operating income of 15.2 billion yen, operating margin of 15%, operating income per capita of 2.6 million yen, and ROE of 25%.

[Targets and Initiatives by Segment]

◎Solution Design Business

	FY 3/19 Results	FY 3/20 Results	FY 3/21 Results	FY 3/22 Results	FY 3/23 Estimates	FY 3/25 Targets
Sales	212	229	238	206	236	395
Operating income	37	40	41	41	47	71

*Unit: Hundred Million yen

*From FY3/22, the segment of subsidiary ProVision, which had been included in the Solution Design business, was changed to the IT Services business, and the segment of subsidiary IDY was changed to the Business Solution business. Figures for FY 3/22 and beyond have been adjusted to reflect the change.

The company is aiming for sales of 39.5 billion yen in FY 3/25 (21.2 billion yen in FY 3/19) and an operating income of 7.1 billion yen (3.7 billion yen in FY 3/19). They aim to expand the industry by concentrating on the Internet business, which is experiencing an increase in social demand due to the impact of COVID-19. The in-vehicle business, which is undergoing a period of transformation in the industry, will be selected and concentrated on with a long-term perspective. The company also aims to stimulate demand for digital transformation by transforming customers' business models and processes and to expand its business by providing not only system integration but also its own services.

The plan for FY 3/25 by field is as follows: sales of 6.5 billion yen in automotive (2.7 billion yen in FY 3/19), sales of 8.0 billion yen in social infrastructure/products (0.8 billion yen in FY 3/19), sales of 20.0 billion yen in the Internet business (10.2 billion yen in FY 3/19), and sales of 5.0 billion yen in DX services (2.3 billion yen in FY 3/19).

In addition to infotainment and sharing, which are the current mainstays of the automotive industry, there are many business opportunities in MaaS, connected cars, automated driving, and safety measures. In the area of social infrastructure/products, demand is expected to grow for the development of communication robots as well as lifestyle robots such as nursing care, industrial robots, and robots and systems for medical use. In the Internet business, the focus will be on education-related and 5G-related services, as well as AI and IoT. In business systems, in addition to work style reforms and open source applications, which are currently in high demand, development demand can be expected for AI, business automation, DX, and countermeasures for human resource shortages.

◎Framework Design Business

	FY 3/19 Results	FY 3/20 Results	FY 3/21 Results	FY 3/22 Results	FY 3/23 Estimates	FY 3/25 Targets
Sales	53	58	51	51	58	75
Operating income	8.4	10.6	8.6	10.1	11	12.5

*Unit: Hundred Million yen

*From FY3/22, the new service field segment included in the Framework Design business was changed to the Business Solution business. Figures for FY 3/22 and beyond have been adjusted to reflect the change.

The company is aiming for sales of 7.5 billion yen in FY 3/25 (5.3 billion yen in FY 3/19) and an operating income of 1.25 billion yen (840 million yen in FY 3/19). While developing know-how in financial system development, the company will make changes to become DX-compatible and actively expand its business to new and existing customers. In addition, the company will strengthen its contract development system, achieve comprehensive support for development, infrastructure, and maintenance, create a new growth engine for the DX era, and expand into SaaS utilization development. In the insurance, banking, and social infrastructure sectors, the company will work to expand the domain of existing customers, renew core systems in response to digitalization, and acquire support for integration. In public and distribution services, the company aims to expand into new areas by deploying its know-how in the financial sector and to maximize the value of DX-related development.

The plan for FY 3/25 by business field is as follows: 3.0 billion yen in sales from existing financial businesses (2.5 billion yen in FY 3/19), 2.0 billion yen in sales from new businesses in the public and other sectors (0.5 billion yen in FY 3/19), and 1.5 billion yen in sales from DX-related businesses (no track record).

◎IT Service Business

	FY 3/19 Results	FY 3/20 Results	FY 3/21 Results	FY 3/22 Results	FY 3/23 Estimates	FY 3/25 Targets
Sales	78	87	94	156	181	180
Operating income	11	13	14	21	25	35.5

*Unit: Hundred Million yen

*From FY3/22, the segment of the subsidiary ProVision, which was included in the Solution Design Business, was changed to the IT Services Business. Figures for FY 3/22 and beyond have been adjusted to reflect the change.

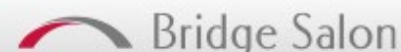
The company aims to achieve sales of 18 billion yen in FY 3/25 (7.8 billion yen in FY 3/19) and an operating income of 3.55 billion yen (1.1 billion yen in FY 3/19). Based on know-how cultivated through projects, the company will focus on high value-added outsourced contracting services of IT support, IT infrastructure, and PMO, as well as assessment and consulting services. In addition to the expansion of "Software Quality Assurance Services" BtoBtoC "Social Games," "Internet Business" and other entertainment domains, the company aims to expand the BtoB enterprise domain. In these areas, the company will work to expand its business field by strengthening alliances and new services and expanding its bases.

The company's plan by field for FY 3/25 is as follows: sales of "IT support," "IT infrastructure," "PMO," and outsourced contracting services will be 8 billion yen (4.5 billion yen in FY 3/19), and sales of quality verification services will be 6 billion yen (3.3 billion yen in FY 3/19).

◎Solution Sales Business—Renamed the Business Solution business in FY 3/22

	FY 3/19 Results	FY 3/20 Results	FY 3/21 Results	FY 3/22 Results	FY 3/23 Estimates	FY 3/25 Targets
Sales	240	259	214	222	224	353.9
Operating income	12	16	14	14	14	24.5

BRIDGE REPORT



*Unit: Hundred Million yen

*From FY3/22, the new service field included in the Framework Design business and the segment of subsidiary IDY included in the Solution Design business were changed to the Business Solution business. Figures for FY 3/22 and beyond have been adjusted to reflect the change.

The company is aiming to achieve sales of 35.39 billion yen in FY 3/25 (24 billion yen in FY 3/19) and an operating income of 2.45 billion yen (1.2 billion yen in FY 3/19). The company will create and expand value-added businesses by providing solution services to solve customers' management issues such as productivity improvement, cost reduction, and security enhancement as a comprehensive sales force, and transform itself into an ICT partner that supports customers' businesses, leading to continuous sales and profit growth. The numerical targets for FY 3/25 are a 40% increase compared to FY3/19 in the existing business, a 180% increase in the service business, and a 350% increase in the DX business.

◎Cloud Business

	FY 3/19 Results	FY 3/20 Results	FY 3/21 Results	FY 3/22 Results	FY 3/23 Estimates	FY 3/25 Targets
Sales	11	14	15	18	19	19.7
Operating income	2	2	3	4	4.5	5

*Unit: Hundred Million yen

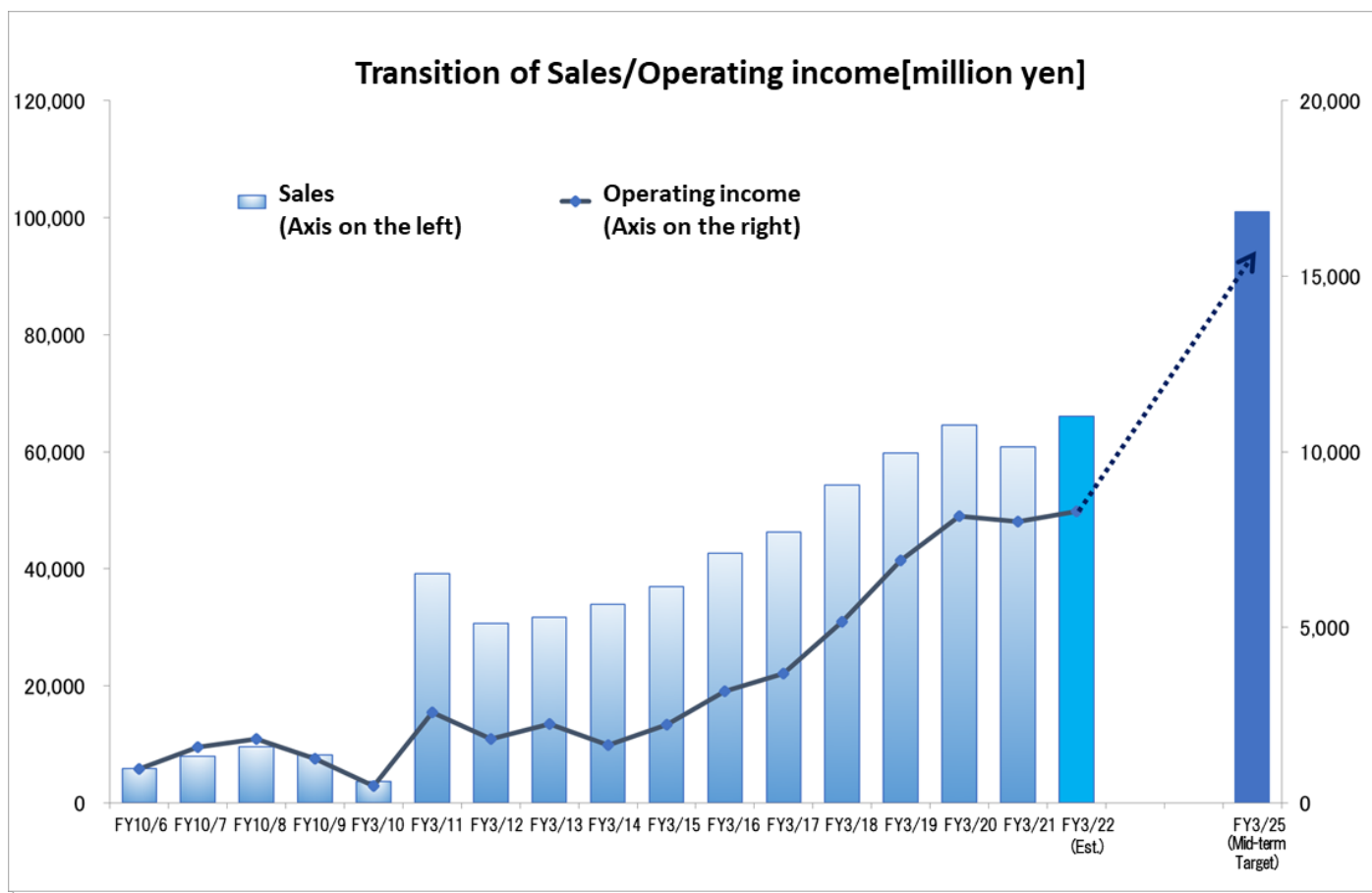
The company is aiming for sales of 1.97 billion yen in FY 3/25 (1.1 billion yen in FY 3/19) and an operating income of 500 million yen (200 million yen in FY 3/19). The company will accelerate the subscription model through its DX platform "Canbus." which promotes DX. In addition, they aim to grow their high value-added business with "Cloudstep" and "Canbus." to support process innovation through remote work and other work style reforms.

◎Overseas Business

	FY 3/19 Results	FY 3/20 Results	FY 3/21 Results	FY 3/22 Results	FY 3/23 Estimates	FY 3/25 Targets
Sales	1	1	1.9	1.7	1.5	6.4
Operating income	-0.3	-0.2	0.07	-0.09	0.01	2.5

*Unit: Hundred Million yen

The company aims to achieve sales of 640 million yen in FY 3/25 (100 million yen in FY 3/19) and an operating income of 250 million yen (30 million yen loss in FY 3/19). In the U.S., the company will promote joint sales with One Tech in the field of edge AI building on its technical support for Japanese companies. The company will also provide technical support to Japanese companies in the U.S., PoC in the U.S., and incubation support services to solidify its sales and profit base.



*The fiscal year ended March 2010 was an irregular five-month period due to changing the accounting period.

3. Fiscal Year Ended March 2022 Earnings Results

3-1 Full Year Consolidated Business Result of the fiscal year March 2022

	FY 3/21	Ratio to net sales	FY 3/22	Ratio to net sales	YOY
Net sales	60,871	100.0%	65,272	100.0%	+7.2%
Gross profit	14,372	23.6%	16,127	24.7%	+12.2%
SG&A expenses	6,365	10.5%	7,020	10.8%	+10.3%
Operating income	8,006	13.2%	9,106	14.0%	+13.7%
Ordinary income	7,507	12.3%	8,578	13.1%	+14.3%
Profit Attributable to Owners of Parent	4,974	8.2%	5,992	9.2%	+20.5%

*Unit: Million yen

7.2% year-on-year increase in sales and 13.7% year-on-year increase in operating income

While inflation pressure is growing worldwide and the rising costs of resources and raw materials caused by Russia’s military invasion of Ukraine and the rapid appreciation of the yen posed further risk factors to the economy in addition to the novel coronavirus crisis around the end of the term, the company kept up its business activities centered on IT support and software development support through remote sales and telework. Regarding the launch of new projects, the company made proactive use of the increase in face-to-face meetings stemming from the rise in the ratio of clients working at their offices and forged ahead with marketing, alongside acquiring new clients through inbound sales utilizing online contents.

Sales stood at 65,272 million yen, up 7.2% year on year. As it is still difficult to procure IT devices due to the insufficient supply of

semiconductors, the Business Solution Business and the Overseas Business struggled throughout the term. However, favorable performance with a striking double-digit increase in profit was achieved in some segments such as the mainstay Solution Design Business, and an increase in overall profit was ensured.

Profit is supported by the Solution Design Business, which demonstrates a rising tendency of high-revenue projects. Furthermore, mainly DX-related inquiries are increasing in the financial field and a considerable contribution was also made by the Framework Design Business as business related to social security and tax numbers in the public field and commissioned development business in the corporate field performed favorably. The Cloud Business also contributed to the increase in profit as the building up of profit progressed mainly owing to their unique service, Canbus. Moreover, gross profit margin improved 1.1 points year on year to 24.7%. The ratio of SG&A expenses to sales grew by 0.3 points year on year to 10.8%.

*In the first quarter of this year, the company reconsidered its business management categories. ProVision Inc., which had been classified as part of the Solution Design business, was changed to be part of the IT Service business, and IDY Corporation was changed to be part of the Business Solution business. In addition, new service fields such as RPA, which had been classified as part of the Framework Design business, were reclassified as the Business Solution business.

3-2 Trends by segment

	FY 3/21	Composition ratio/ Income margin	FY 3/22	Composition ratio/ Income margin	YOY
Solution Design	19,163	31.5%	20,663	31.6%	7.8%
Framework Design	4,498	7.4%	5,143	7.9%	14.3%
IT Service	13,662	22.4%	15,690	24.0%	14.8%
Solution Sales	22,343	36.7%	22,290	34.1%	-0.2%
Cloud	1,484	2.4%	1,804	2.8%	21.6%
Overseas Business	188	0.3%	176	0.3%	-6.5%
Investment & Incubation Business	178	0.3%	171	0.3%	-3.6%
Adjustment	-647	-1.0%	-668	-1.0%	-
Consolidated Sales	60,871	100.0%	65,272	100.0%	7.2%
Solution Design	3,624	18.9%	4,132	20.0%	14.0%
Framework Design	772	17.2%	1,014	19.7%	31.5%
IT Service	1,873	13.7%	2,197	14.0%	17.3%
Solution Sales	1,499	6.7%	1,436	6.4%	-4.2%
Cloud	300	20.2%	406	22.5%	35.3%
Overseas Business	7	4.0%	-9	-5.3%	-
Investment & Incubation Business	-71	-39.9%	-72	-42.4%	-
Adjustment	-	-	-	-	-
Consolidated Operating Income	8,006	13.2%	9,106	14.0%	13.7%

*Unit: Million yen

Solution Design Business: Sales of 20,663 million yen (up 7.8% year on year) and an operating income of 4,132 million yen (up 14.0% year on year)

The in-vehicle business, social infrastructure business, and Internet business centered on mobility, 5G, and cashless payments performed steadily. DX-related inquiries are still increasing, as clients take into account the post-pandemic era. The company also perceives it as a growing field and engages in proactive development of new businesses, which led to the growth of sales. In addition, they utilized Canbus. to forge ahead with the upfront visualization (transparency improvement) of businesses and projects.

Framework Design Business: Sales of 5,143 million yen (up 14.3% year on year) and an operating income of 1,014 million yen (up 31.5% year on year)

Originally, the tendency of the scaling down of large-scale projects caused by the uncertainty stemming from the novel coronavirus crisis was striking in the financial field. However, recently the number of DX-related business inquiries has been on rise. The company is especially active in the development of new areas such as cloud computing and Internet banking.

In the public field, expansion was seen in the orders for new social security and tax numbers-related projects, which led to an increase in the number of orders. The company has been proactively working toward the development of both applications and infrastructure in these areas.

In the corporate field, new business opportunities will be acquired through the reinforcement of the commissioned development business and services integrating maintenance and development utilizing a development lab.

IT Service Business: Sales of 15,690 million yen (up 14.8% year on year) and an operating income of 2,197 million yen (up 17.3% year on year)

Growth in sales and profit was driven mainly by the increasing number of high value-added projects for the creation of the workstyles of clients, such as assessment and consulting amid the progress of IT support for promoting the business of clients and the reconstruction and optimization of the conventional IT environment. Furthermore, the company used IT training and security service for promoting telework as a hook for sales to enhance the alliance with manufacturers and acquired new clients.

Business Solution Business: Sales of 22,290 million yen (down 0.2% year on year) and an operating income of 1,436 million yen (down 4.2% year on year)

Both sales and profit decreased as it was still difficult to procure IT devices due to the lingering novel coronavirus crisis and worldwide insufficiency of the supply of semiconductors. However, the company received orders for the replacement of virtual infrastructures containing core systems and hybrid environment development in the system integration business, and projects concerning the shift to a cloud environment, system development, etc. for digitalization in the DX promotion department. Furthermore, there was an increase of high value-added one-stop service projects, including the grasping of the roadmap, the installation of IT equipment, infrastructure construction, system development, and maintenance and operation.

The resale (switchover) of licenses after the price revision of Google's G Suite also made a significant contribution. Moreover, there was an increase of inquiries regarding Canbus. from companies shifting to data-driven business operation, taking into consideration the post-pandemic era. Furthermore, growth was seen in the number of integration projects for business operation reform from the existing clients who use Canbus., for promoting DX.

Overseas Business: Sales of 176 million yen (down 6.5% year on year) and an operating loss of 9 million yen (a loss of 16 million yen in the same period last term)

While the organization of exhibitions, etc. is slowly starting regarding PoC development, the overall situation shows little development. However, the company received many inquiries regarding the development of smart factories using AI and IoT (LoRa) from U.S. and Japanese companies and factories. Moreover, inquiries and orders for the original service Canbus., which has proven its reliability in Japan, have increased in the U.S. Furthermore, the number of inquiries and orders for the remote BPO service, Remo-ote has also grown amid the novel coronavirus crisis and rising personnel costs.

3-3 Financial Conditions

Financial Conditions and CF

	March 2021	March 2022		March 2021	March 2022
Cash and deposits	19,037	21,657	Trade payables	5,257	5,696
Trade receivables	12,826	14,322	Accounts payable and accrued expenses	1,872	2,076
Inventories	834	1,151	Income taxes payable	1,681	1,525
Current assets	33,420	38,002	Provision for bonuses	1,227	1,348
Tangible Assets	917	1,058	Interest-Bearing Liabilities	1,550	1,550
Intangible Assets	307	278	Liabilities	12,889	13,303
Investments and Others	4,240	4,138	Net assets	25,996	30,173
Noncurrent assets	5,465	5,475	Total Liabilities and Net Assets	38,886	43,477

*Unit: Million yen. Trade receivables are the sum of notes, accounts receivable and contract assets.

Total assets at the end of March 2022 were 43,477 million yen, increase of 4,590million yen from the end of the previous fiscal year. On the asset side, cash & deposits, notes receivable, accounts receivable, and contract assets increased, but accounts payable, income taxes payable and accrued expenses increased. Capital-to-asset ratio was 68.5%, up 2.6 points from the end of the previous fiscal year.

Cash Flows

	3/21	3/22	YoY	
Operating Cash Flow	7,205	5,544	-1,661	-23.1%
Investing Cash Flow	-1,562	-559	+1,003	-
Free Cash Flow	5,643	4,985	-658	-11.7%
Financing Cash Flow	-1,983	-1,905	+78	-
Cash and Equivalents at the end of term	18,875	21,964	+3,089	+16.4%

*Unit: Million yen

Regarding cash flows, operating CF decreased from the previous term due to the payment of income taxes, the increase in trade

receivables and inventories, etc. Moreover, while the cash outflow from investing activities has shrunk, operating CF significantly decreased and free CF eventually ended up shrinking as well. On the other hand, financing CF was nearly unchanged from the previous term. As a result, cash and equivalents at the end of the term increased 16.4% year on year.

3-4 Latest topics

Certified as Health & Productivity Management Outstanding Organization 2022: Large Enterprise (White 500)

The company announced, on March 14, 2022, that it has been certified as Health & Productivity Management Outstanding Organization 2022 in the Large Enterprise category (White 500), recognized by the Nippon Kenko Kaigi under the auspices of the Ministry of Economy, Trade and Industry, for the second consecutive year. Since 2017, the company has been promoting the elevation of health awareness among the staff, health level measurement, and creation of a workplace environment where employees can be healthy and feel assured working under the Systema Health Declaration.

The Certified Health & Productivity Management Outstanding Organizations Recognition Program commends corporations such as large enterprises and small and medium-sized enterprises that implement especially outstanding health and productivity management based on Nippon Kenko Kaigi's initiatives to advance health, and this year, 2,299 corporations were certified in the large corporation category (high-ranking corporations receive the White 500 title).

Certified as Sports Yell Company 2022

Japan Sports Agency certifies companies that proactively engage in the promotion of sport activities to advance the health of the staff as Sports Yell Company. The company makes proactive efforts to organize a variety of events, supporting club activities, spreading information on gymnastics and exercise, etc. so that the staff can work with both their hearts and bodies full of energy, and announced, on March 14, 2022, that it has been certified for the second consecutive year following 2021.

4. Fiscal Year Ending March 2023 Earnings Estimates

4-1 Consolidated Earnings Estimates

	FY 3/22 Results	Ratio to net sales	FY 3/23 Estimates	Ratio to net sales	YOY
Net sales	65,272	100.0%	71,450	100.0%	+9.5%
Operating income	9,106	14.0%	10,280	14.4%	+12.9%
Ordinary income	8,578	13.1%	10,280	14.4%	+19.8%
Profit Attributable to Owners of Parent	5,992	9.2%	7,000	9.8%	+16.8%

*Unit: Million yen

Sales and operating income are expected to grow 9.5% and 12.9%, respectively, year on year.

For the term ending March 2023, the company forecasts a 9.5% year-on-year increase in sales to 71,450 million yen and a 12.9% year-on-year increase in operating income to 10,280 million yen. For the Business Solution Business, the company expects a slight increase in sales and profit, as investment restraints due to the novel coronavirus pandemic will remain to some extent, and the supply shortage of semiconductors is forecast to continue. However, the company forecasts double-digit sales and profit growth in its three segments: the mainstay Solution Design Business, Framework Design Business, and IT Service Business. On the other hand, the company expects profit and loss to become favorable, but its Overseas Business is projected to be lackluster. The ratio of operating income to sales is projected to be 14.4%, up 0.4 points from the previous term.

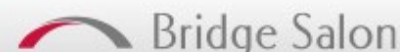
The dividend forecast is 4 yen per share for the first half and 4 yen per share for the end of the term, for an annual dividend of 8 yen per share.

*The company conducted a 4-for-1 common stock split with the effective date being December 1, 2021, so the annual dividend for the previous term is not shown.

4-2 Outlook and efforts for each segment

	FY 3/22	Composition ratio/	FY 3/23 Estimates	Composition ratio/	YOY
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BRIDGE REPORT



		Income margin		Income margin	
Solution Design	20,663	31.6%	23,606	33.0%	14.2%
Framework Design	5,143	7.9%	5,850	8.2%	13.7%
IT Service	15,690	24.0%	18,172	25.4%	15.8%
Business Solution	22,290	34.1%	22,491	31.5%	0.9%
Cloud	1,804	2.8%	1,916	2.7%	6.2%
Overseas Business	176	0.3%	151	0.2%	-14.2%
Investment & Incubation	171	0.3%	98	0.1%	-43.0%
Adjustment	-668	-1.0%	-834	-1.1%	-
Consolidated Sales	65,272	100.0%	71,450	100.0%	9.5%
Solution Design	4,132	20.0%	4,759	20.2%	15.2%
Framework Design	1,014	19.7%	1,145	19.6%	12.8%
IT Service	2,197	14.0%	2,540	14.0%	15.6%
Business Solution	1,436	6.4%	1,449	6.4%	0.9%
Cloud	406	22.5%	450	23.5%	10.7%
Overseas Business	-9	-5.3%	1	0.7%	-
Investment & Incubation	-72	-42.4%	-	-	-
Adjustment	-	-	-64	-	-
Consolidated Operating Income	9,106	14.0%	10,280	14.4%	12.9%

*Unit: Million yen

◎Solution Design business - Sales: 23,606 million yen(+14.2%YoY), Operating Income: 4,759 million yen (+15.2%YoY)

Through selection and concentration, the company will concentrate on promising domains and aim to create business domains with high added value.

◆Aggressive expansion into growing areas

The company will aggressively develop new business in growing areas including Mobility, 5G, AI, IoT, cashless payment, and DX, focusing on projects for mobile carriers, which are major clients.

◆Shift to comprehensive solutions

The company will support the customers' services in all processes, ranging from IT consulting to operation. The company aims to provide added value to customers and build a highly profitable structure by expanding its range of services from conventional design, development, and evaluation to planning, operation, IT consulting, and service operations,

◆Development of new business and new fields by strengthening services

The company will strengthen its DX-related services and create new businesses. The company aims to expand its original products and services that are developed to reflect the needs of its customers, such as the cloud attendance management service "TimeTapps" that targets hospitals and medical professionals, the groupware that supports data management "Palette," the unattended hospitality reception system "WelTouch," the in-house currency system "TenaPoint," and "TENA TECH.," where technical know-how can be shared internally. Furthermore, as in the case of Osaka and Ehime prefectures, the company will develop original products and services that solve the problems of local governments, introduce them to other local governments, and connect them to SI.

◎Framework Design Business - Sales: 5,850 million yen (+13.7% YoY), Operating Income: 1,145 million yen (+12.8% YoY)

The company will continue to aggressively expand into growing areas in the financial, public, and corporate sectors, respectively. They aim to maximize orders by leveraging development know-how and cutting-edge technologies.

◆Maximize existing businesses and expand into growing areas

The company will continue projects centered on insurance and financial systems and building of infrastructure. The company will also

actively continue to expand business in the public sector and the distribution and service sector.

◆ **Actively seek orders for DX projects**

The company will strengthen both sales and technical capabilities to receive orders for DX projects, such as core system reform (migration) and the use of cloud services.

◆ **Further Expansion of high-value-added business**

The company aims to improve profitability through value-added enhancement by expanding services in the areas of "contract development," "business support," and "DX solutions".

◎ **IT Service Business - Sales: 15,383 million yen (+12.6% YoY), Operating Income: 1,950 million yen (+4.1% YoY)**

To expand their business field, they will broaden the scope of customers, services, markets, and roles, and aim for a higher level of business.

◆ **Optimization of existing businesses and expansion into growing areas**

The company will leverage its track record in IT support and expand its management resources into the growing field of DX. They will expand PMO and infrastructure, and evolve business content.

◆ **Expansion of software quality assurance services (QA services)**

The company will focus on expanding existing domains and developing new business in the enterprise domain by leveraging the quality assurance services which has been developed in the entertainment domain, where orders for social games online business, etc. are growing.

◆ **Promoting the activities of people with disabilities**

The company focuses on a wide range of services, centered on BPO business, by understanding the characteristics and individuality of each employee and promoting the creation of an environment in which their success can be realized.

◎ **Business Solution Business: Sales of 22,491 million yen (up 0.9% year on year) and an operating income of 1,449 million yen (up 0.9% year on year)**

Despite the investment restraint due to the impact of the novel coronavirus, efforts for coexisting with the novel coronavirus and investment in DX expanded. The impact of semiconductor supply shortages is expected to continue in the current term.

◆ **Investment to expand the solution domain**

To expand its service lineup and conduct marketing targeting profit divisions.

◆ **Strengthening initiatives to the hybrid environment**

Strengthening its measures for hybrid environments and alliances with cloud partners.

◆ **Expansion of DX-related services**

The company will expand its service menu including system development site, RPA and data collaboration tools.

◆ **Improving profitability by expanding sales of services**

Transfer of the DX unit from Framework Design Division. To provide one-stop services for all services of All Systema.

◎ **Cloud Business —Sales: 1,916 million yen (+6.2% YoY), Operating Income: 450 million yen (+10.7% YoY)**

Inquiries for business improvements and in-house infrastructure development considering the post-pandemic era are on the constant rise. The company aims to expand into the DX field through aggressive upfront investment in its own services, centered on "Canbus."

◆ **Upfront investment to increase awareness of "Canbus." and promote it**

To actively enhance the alliances and start offering Canbus. on an OEM basis.

◆Upfront investment accompanying service enhancements

In order to make a variety of operations feasible as a DX platform, the company will enhance its product capabilities and strengthen its human resources to improve support capabilities and conduct an increase in customer satisfaction.

◎Overseas Business —Sales: 151 million yen (+14.2% YoY), Operating Income: 1 million yen (-Loss of 9 million yen in the previous fiscal year)

As measures, the company is expanding sales of AI and IoT services, technical support for PoC development between Japanese companies in Silicon Valley and startup companies, and the scope of orders received in existing transactions. Furthermore, the company will start the operation of Canbus.

◆Expanding Sales of AI and IoT Services

In addition to horizontal expansion to industries that have already introduced the service, the company will aggressively market its unique cold chain and smart factory services powered by AI and IoT (LoRa).

◆Expansion of sale of the DX service, Canbus.

They will increase orders for Canbus. to support the shift to paperless and DX services for local U.S. companies' operations.

◆Expansion of technical support for PoC development between Japanese companies in Silicon Valley and start-ups

They aim to acquire continuing orders of PoC development projects with Japanese companies in Silicon Valley and startup companies and to reduce costs by utilizing offshore Vietnam.

◆Expanding sales of the BPO service, Remo-oTe

Against the backdrop of skyrocketing U.S. labor costs, the company will increase orders for Remo-oTe, a ticketed BPO service that can be used remotely and on an hourly basis.

5. Conclusions

The Business Solution Business, which has been affected by the ongoing difficulty in procuring IT equipment due to the global shortage of semiconductors, was unable to fully recover, but the overall position of the business is good. Even for the Business Solution Business, which struggled from a numerical standpoint, the company president commented during the presentation that "sales of system development for the Microsoft cloud service Azure also increased 50% from the previous term" and "we are feeling a great deal of confidence toward the final term of the mid-term business plan, and have been able to establish roots in the business."

However, while solid growth is basically expected for the term ending March 2023, led by the mainstay Solution Design Business, the initial outlook for the Cloud Business, whose momentum has slowed, as we had feared in our previous report, seems a bit negative. Nevertheless, we believe that the outlook for the Business Solution Business is somewhat conservative, and we would like to see the progress of these two businesses in the first quarter. Unfortunately, the stock split has made shareholder returns difficult to understand, but the company has in effect increased its dividend, which should be positively evaluated as a move that reflects an awareness of the stock market.

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with corporate auditors
Directors	11 directors, including 3 outside ones
Auditors	4 auditors, including 4 outside ones.

◎Corporate Governance Report (Updated on November 18, 2021)

Basic policy

Our company will promote speedy business administration based on swift decision making to keep up with the rapid changes in the business environment and enhance the efficiency of business administration, and achieve sustainable business development, the increase

in shareholder value, and the continuous return of profit to shareholders. In addition, our company will tighten our corporate governance in order to harmonize the interests of stakeholders, including shareholders, customers, business partners, employees, and local communities, maximize overall profit, secure the soundness of business administration, and comply with laws and regulations thoroughly. To do so, we will sincerely accept instructions and suggestions from external experts (audit corporations, lead-managing securities firms, lawyers, labor and social security attorneys, judicial scriveners, and others) and stakeholders, and strive to improve the fairness and transparency of our business administration. Then, we will develop a structure suited for our corporate scale by utilizing our inherent flexibility and make efforts to brush up ourselves as a listed company that always cares for stakeholders, including shareholders, strengthen corporate governance, and disclose appropriate information in a timely manner.

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

【Supplementary Principle 3-1-3 Approaches to Sustainability】

Please refer to the following website for our sustainability initiatives. In addition, we would like to explain our response to the disclosure requirements under the TCFD or equivalent guidelines that are imposed only on companies listed on the prime market.

As our company is engaged in the provision of IT services and not in the manufacture of goods or other businesses that have a heavy burden on the environment, we do not anticipate that climate change issues will have a significant impact on our business at this time. However, based on the recognition that the global environment is the common property of all mankind and an important deposit from the future, we have been certified for ISO 14001 since 2004, and are making efforts to reduce the use of resources and the emission of waste. In addition, the IT-related part of each company's response to climate change is entirely in our business domain, and the expansion of our revenue will contribute to our customers' business efficiency, which will lead to the reduction of resource use and waste emissions, thus contributing to the preservation of the global environment. Therefore, we believe that the growth of our company will lead to the mitigation of climate change. Based on the above approach, we are not currently working on disclosure based on TCFD or an equivalent guideline. We will consider this in the future, as needed. For more information on our environmental initiatives, please refer to the following website.

Our approaches to Sustainability <https://www.systema.co.jp/sustainability/>

Our approaches to environment https://www.systema.co.jp/sustainability/esg_environment.html

【Supplementary Principle 4-3-3 Establishment of objective, timely, transparent procedures for dismissing the CEO】

In our company, the representative director and chairperson, who is the founder and owner of our company, leads our business administration as CEO, and the representative director and president marshals employees based on appropriate evaluation of their performance, etc. as chief operating officer (COO). In addition, each representative director is monitored by 7 outside executives (3 outside directors and 4 outside auditors) who satisfied the requirements for becoming independent executives. If an event which would lead to the dismissal of a representative director occurs, the board of directors will have discussions and make decisions based on suggestions from independent executives, to cope with said event. Therefore, the board of directors has not yet established objective, timely, transparent procedures for dismissing the CEO. We will discuss this matter, when necessary.

【Supplementary Principle 4-10-1 Establishment of independent advisory committees, such as arbitrary nominating committees and compensation committees】

All 7 executives, including 3 outside directors and 4 outside auditors, satisfy the requirements for independent executives specified by Tokyo Stock Exchange. Each independent executive actively expresses their opinions and gives timely, appropriate advice during deliberations about important matters at meetings of the board of directors, by utilizing their expertise and plenty of experience. Accordingly, we have not yet established an independent advisory committee. We will discuss this matter, when necessary.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

【Supplementary Principle 4-11-3: Analysis and Evaluation of the Effectiveness of the Entire Board of Directors, and Summary of Results】

The Company's attending members of Board of Directors consists of 15 members, seven of whom are outside directors or auditors and are independent officers as defined by the Tokyo Stock Exchange. To analyze and evaluate the effectiveness of the Board of Directors, all directors and corporate auditors conducted a self-evaluation of the composition and operation of the Board of Directors using the "Questionnaire for the Evaluation of the Board of Directors," and two outside directors, excluding one newly appointed outside director and four outside corporate auditors discussed the results of the questionnaire in an outside directors' meeting. As a result of the analysis of the self-evaluation in the questionnaire and the discussions at the outside directors' meeting, we have confirmed that the Board of

Directors of the Company is engaged in discussions that contribute to sustainable growth and the enhancement of shareholder value from a medium- to long-term perspective by utilizing the knowledge and experience of each of the directors and officers, and that sufficient discussions are taking place for the supervision of management, which we believe ensures the effectiveness of the Board of Directors. In principle, we will analyze and evaluate the effectiveness of the Board of Directors as a whole every year with reference to the self-evaluation of directors and auditors, and make further improvements to ensure that the Board remains effective and that there is effective discussion.

【Principle 5-1 Policy on Constructive Dialogue with Shareholders】

We have established and disclosed a disclosure policy to promote constructive dialogue with our shareholders. For more information, please refer to the details posted on our website. <https://www.systema.co.jp/ir/management/disclosure.html>
For more information on the systems and measures to be taken, please refer to "2. IR Activities" in "III. Status of Implementation of Measures Related to Shareholders and Other Stakeholders" in this report.

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