

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

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
¥406	387,429,912 shares		¥157,296 million	21.6%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥8.0	2.0%	¥18.07	22.5x	¥81.60	5.0x

*The share price is the closing price on November 8. 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 is the value as of the end of FY 3/22. EPS is taken from the estimates of FY 3/23. BPS is the value as of the 2Q of FY 3/22.

*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 2Q ending March 2023 and full-year earnings forecasts for the fiscal year ending 2023 of Systema Corporation.

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Key Points

- **In the second quarter of FY 3/23, sales increased 16.0% year on year, and operating income rose 14.9% year on year. In terms of profit, the profit of the Framework Design business grew 37.3% year on year, and the profit of the IT Services business was as healthy as up 29.3% year on year. The Solution Design business, Business Solution business, and Cloud business recovered from a slow start in the first quarter and grew 6.1%, 6.0%, and 6.8%, respectively, and maintained overall profit growth. The company was able to absorb the increase in SG&A expenses, including personnel costs associated with the mass hiring of new graduates (808 new employees joined the company in April) and rent for the increased office space.**
- **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.**
- **The Cloud business, which showed signs of slowing momentum in the first quarter, made up for the results in the first half and secured an increase in profit, which can be evaluated as a certain level of success. At the time of our previous report, we also pointed out that the key point for the Solution Design business would be "the pace of conversion of mass-hired new graduates into profit-making employees." We are positive that the business is on track for further improvement in profitability in the second half of the fiscal year, as segment profit grew steadily from a stagnant 0.9% year-on-year decline in the first quarter to a 6.1% year-on-year increase in the second 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

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)

● Equity method affiliated companies

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

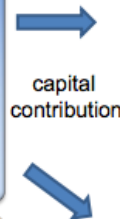
Systema America Inc.
 [Capital] 28,000,000 US dollar
 [Ratio of capital contribution] 100%
 Mobile communications-related technical support, development and verification support, Provision of various solutions, Trend research and commercialization of the latest technologies and services
 (Overseas Business)

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)

● Equity method affiliated companies

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)

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	11.4	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	25.4	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.

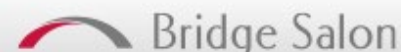
The company aims to achieve sales of 18 billion yen in FY 3/25 (7.8 billion yen in FY 3/19) and an operating income of 3.55 billion yen (1.1 billion yen in FY 3/19). Based on know-how cultivated through projects, the company will focus on high value-added outsourced contracting services of IT support, 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).

◎Business Solution 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	240	259	214	222	224	353.9
Operating income	12	16	14	14	14	24.5

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*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

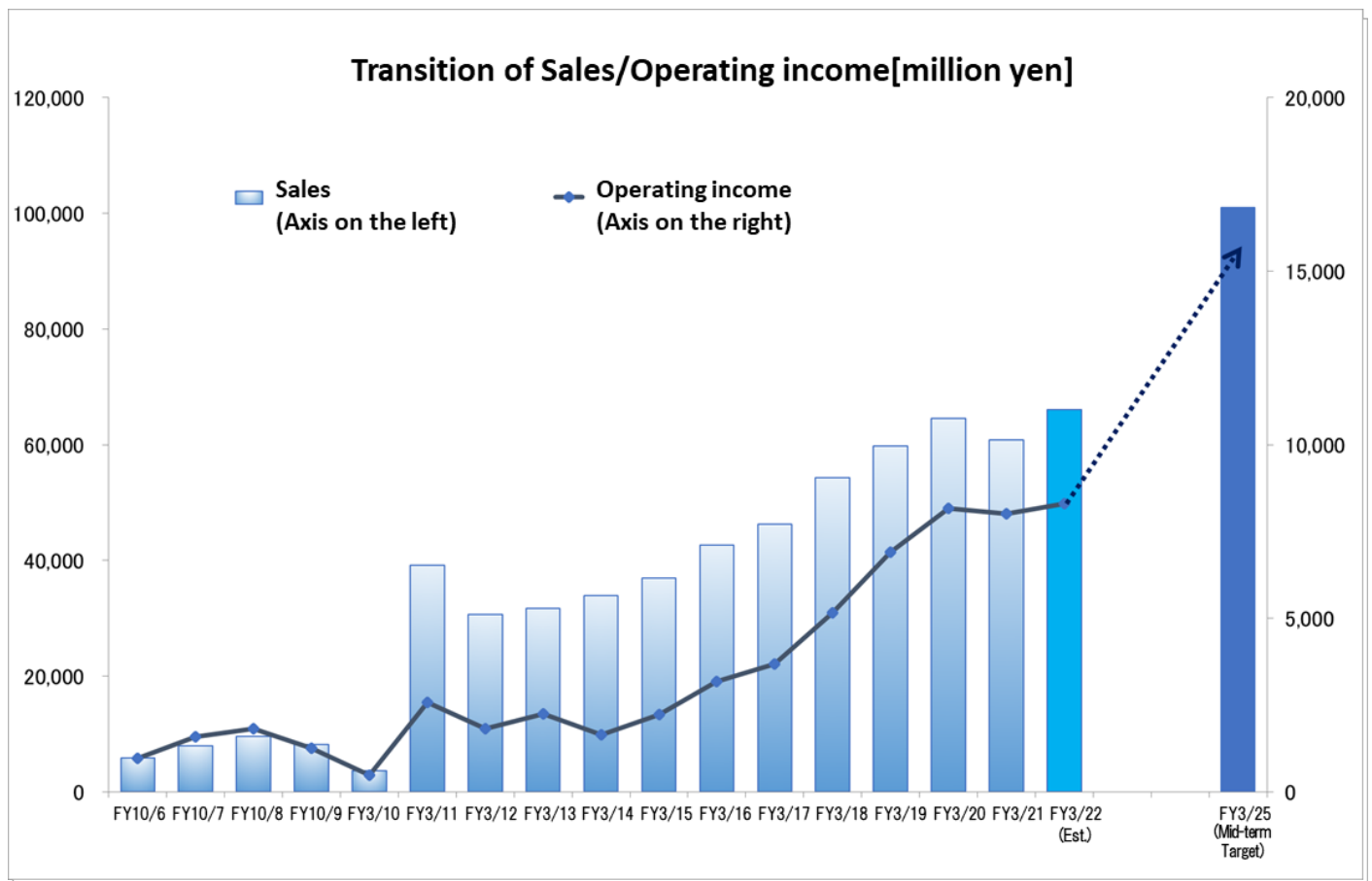
The company is aiming for sales of 1.97 billion yen in FY 3/25 (1.1 billion yen in FY 3/19) and an operating income of 500 million yen (200 million yen in FY 3/19). The company will accelerate the subscription model through its DX platform "Canbus." which promotes DX. In addition, they aim to grow their 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.



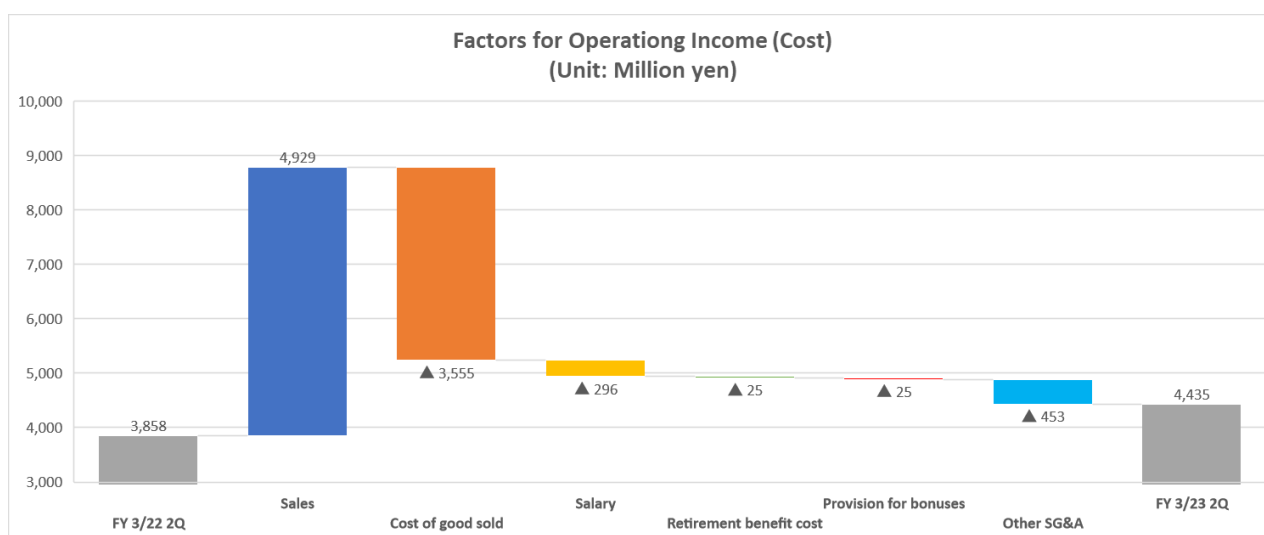
*The fiscal year ended March 2010 was an irregular five-month period due to changing the accounting period.

3. 2Q Ending March 2023 Earnings Results

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

	FY 3/22 1H	Ratio to net sales	FY 3/23 1H	Ratio to net sales	YOY
Net sales	30,876	100.0%	35,805	100.0%	+16.0%
Gross profit	7,417	24.0%	8,792	24.6%	+18.5%
SG&A expenses	3,558	11.5%	4,357	12.2%	+22.5%
Operating income	3,858	12.5%	4,435	12.4%	+14.9%
Ordinary income	3,738	12.1%	4,497	12.6%	+20.3%
Profit Attributable to Owners of Parent	2,518	8.2%	3,084	8.6%	+22.5%

*Unit: Million yen



*Produced by Investment Bridge Co., Ltd. with reference to the material of the company.

*▲ represents a rise in expenses.

Sales increased 16.0% YoY and operating income rose 14.9% YoY.

While the economy showed signs of gradual recovery, especially in personal consumption, amid the normalization of economic and social activities, the economic outlook remained uncertain due to the high prices of resources and raw materials following Russia's military invasion of Ukraine and the rapid depreciation of the yen, which has intensified inflationary pressure. Under these circumstances, the company further accelerated the withdrawal and creation of its businesses and quickly deployed management resources. In addition to strengthening its own sales force, the company is also actively promoting alliances with partners to strengthen sales of its own products and services. Furthermore, the company is investing to expand its scale by continuing to aggressively hire new graduates and increasing office space.

Sales increased 16.0% year on year to 35,805 million yen. Although the impact on the overall business was minimal in terms of scale, the overseas business continued to struggle like in the first quarter. However, other segments, led by the mainstay Solution Design business, performed well in terms of sales across the board.

In terms of profit, the profit of the Framework Design business grew 37.3% year on year, and the IT Services business also performed well, increasing profit by 29.3% year on year. The Solution Design business, Business Solution business, and Cloud business recovered from a slow start in the first quarter and grew 6.1%, 6.0%, and 6.8%, respectively, and maintained overall profit growth. The company was able to absorb the increase in SG&A expenses, including personnel costs associated with the mass hiring of new graduates (808 new employees joined the company in April) and rent for the increased office space. Gross profit margin increased 0.6 points year on year to 24.6%. The SG&A-to-sales ratio rose 0.7 point year on year to 12.2%.

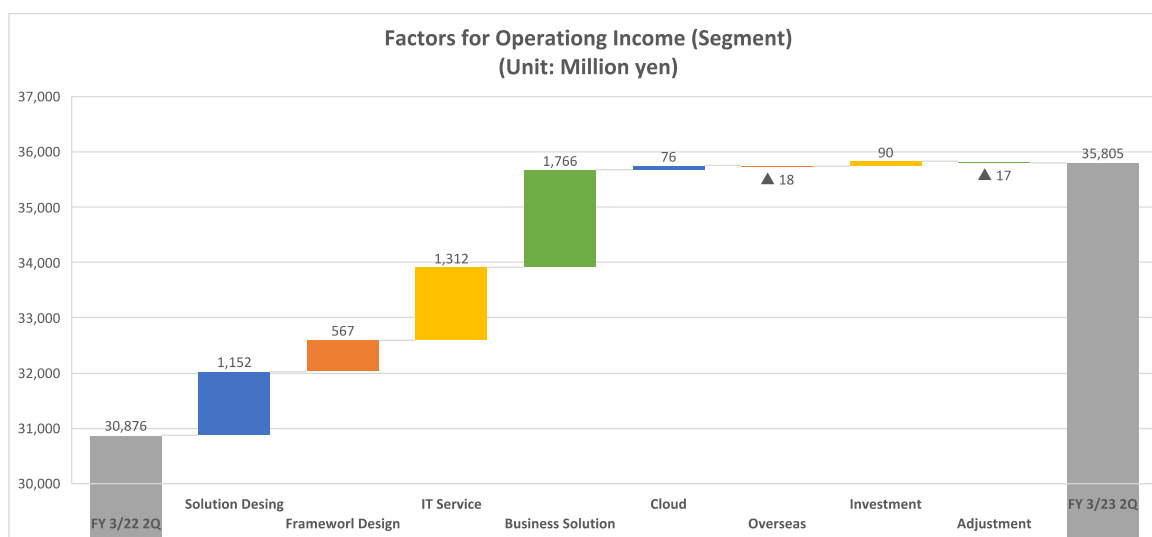
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3-2 Trends by segment

	FY 3/22 1H	Composition ratio/ Income margin	FY 3/23 1H	Composition ratio/ Income margin	YOY
Solution Design	9,718	31.5%	10,870	30.4%	11.9%
Framework Design	2,370	7.7%	2,937	8.2%	23.9%
IT Service	7,443	24.1%	8,755	24.4%	17.6%
Solution Sales	10,472	33.9%	12,238	34.2%	16.9%
Cloud	1,003	3.3%	1,079	3.0%	7.6%
Overseas Business	88	0.3%	70	0.2%	-19.9%
Investment & Incubation Business	87	0.3%	177	0.5%	103.4%
Adjustment	-306	-1.1%	-323	-0.9%	-
Consolidated Sales	30,876	100.0%	35,805	100.0%	16.0%
Solution Design	1,606	16.5%	1,705	15.7%	6.1%
Framework Design	421	17.8%	578	19.7%	37.3%
IT Service	952	12.8%	1,232	14.1%	29.3%
Solution Sales	682	6.5%	723	5.9%	6.0%
Cloud	212	21.1%	226	21.0%	6.8%
Overseas Business	-1	-1.4%	-12	-17.9%	-
Investment & Incubation Business	-15	-18.3%	-19	-10.8%	-
Adjustment	-	-	-	-	-
Consolidated Operating Income	3,858	12.5%	4,435	12.4%	14.9%

*Unit: Million yen



*Produced by Investment Bridge Co., Ltd. with reference to the material of the company.

Solution Design Business - Sales: 10,870 million yen (+11.9% YoY), Operating Income: 1,705 million yen (+6.1% YoY)

The company has further expanded its development structure by increasing the number of employees by 142 and increasing the floor space compared to the previous term. The automotive business, social infrastructure business, and Internet business are performing well, especially in the areas of "mobility," "5G," and "cashless payment." Inquiries related to digital transformation continue to increase. The company also actively cultivated opportunities in new growing areas. In addition, the company is expanding the scope of its business to include IT consulting, which is a top-end process, and inquiries are robust. The company plans to continue to focus on this area.

Framework Design Business - Sales: 2,937 million yen (+23.9% YoY), Operating Income: 578 million yen (+37.3% YoY)

In the financial sector, IT investment plans were restarted, and inquiries increased mainly for DX-related projects, while the company continued to aggressively expand into new areas such as Cloud and AI applications. In the public sector, the company is actively expanding into central government projects (expansion of both applications and infrastructure), starting with projects related to the Individual Number system. Orders for central government projects are at a record high level. In the corporate sector, the company is strengthening its contracted development business. New projects are being acquired through integrated maintenance and development services using the development lab.

IT Services Business - Sales: 8,755 million yen (+17.6% YoY), Operating Income: 1,232 million yen (+29.3% YoY)

The company is feeling a sense of relief that the backlog (projects that should be implemented but have not yet been started) is gradually turning into sales and profit figures. As mentioned in the results briefing session, the company focused on the development of PMO services, which provide IT support to help clients implement DX, and project management support for the installation of various tools, smart devices, etc. The company also continued its efforts to reel in new customers by strengthening the use of inbound sales, using the "IT training" and "security services" as sales hooks.

The Business Solution – Sales: 12,238 million yen (+16.9% YoY), Operating Income: 723 million yen (+6.0% YoY)

Despite uncertainty over the future due to the 7th wave of COVID-19, soaring commodity prices caused by the weak yen, and difficulties in procuring IT equipment due to the short supply of semiconductors, sales activities were strengthened for the post-pandemic environment. In the System Integration business, the company received orders for the construction of hybrid environments, migration to cloud environments for digitization, system development, and maintenance service projects. Furthermore, the number of high-value-added one-stop service projects ranging from roadmap identification, IT equipment installation, infrastructure construction, cloud utilization, system development, and maintenance and operation increased.

The Cloud Business - Sales: 1,079 million yen (+7.6% YoY), Operating Income: 226 million yen (+6.8% YoY)

Due to recent changes in work styles, the need to replace systems for business operations increased, and inquiries for "Canbus.," which enables low-code development, increased. In addition, the integration of business reform to promote DX from customers using "Canbus." increased, and the strengthening of alliances led to the development of new customers. In July, the company launched a new sales company in Osaka (Mingal Co., Ltd.) to sell "Canbus." externally as an OEM.

Overseas Business: Sales: 70 million yen (-19.9% YoY), Operating Loss: 12 million yen (11 million yen loss increase)

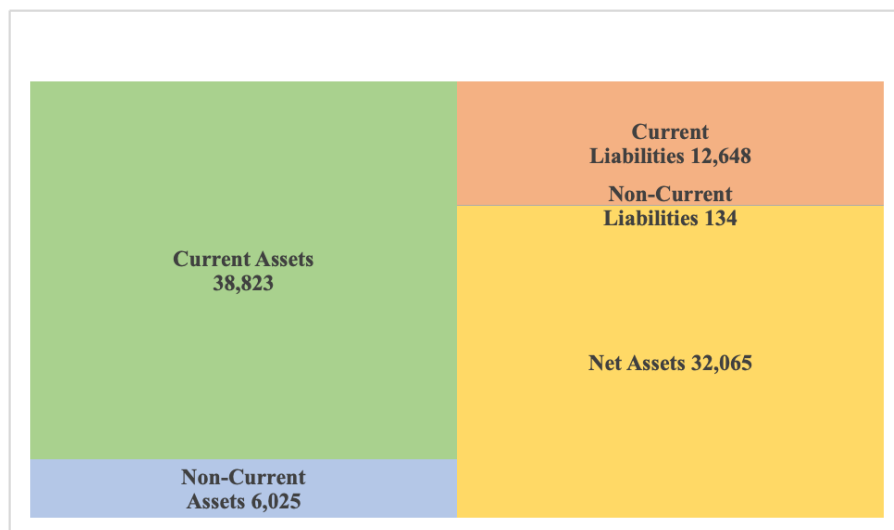
In addition to stable orders for system development and inspection at Japanese-affiliated manufacturing companies, orders for PoC development and inspection to examine start-up technologies by Japanese-affiliated companies were also solid. The company intends to continue to focus on going beyond PoC development to full-scale development. In addition, inquiries from U.S. companies for "Canbus.," business operations streamlining DX service, and inquiries for "Remo-oTe," a remote BPO service using Japanese engineers, are both increasing, and the company aims to aggressively capture demand. In addition, the company has begun to link its Solution Design business with "Remo-oTe" as its core business.

3-3 Financial Conditions

Financial Conditions and CF

	March 2022	September 2022		March 2022	September 2022
Cash and deposits	21,657	23,299	Trade payables	5,696	4,932
Trade receivables	14,323	13,076	Accounts payable and accrued expenses	2,076	2,464
Inventories	1,151	1,141	Income taxes payable	1,525	1,565
Current assets	38,002	38,823	Provision for bonuses	1,348	1,305
Tangible Assets	1,058	1,441	Interest-Bearing Liabilities	1,550	1,550
Intangible Assets	278	337	Liabilities	13,303	12,782
Investments and Others	4,138	4,246	Net assets	30,173	32,065
Noncurrent assets	5,475	6,025	Total Liabilities and Net Assets	43,477	44,848

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



*Produced by Investment Bridge Co., Ltd. with reference to the material of the company.

Total assets at the end of September 2022 were 44,848 million yen, up 1,371 million yen from the end of the previous period. On the asset side, there was no significant change in fixed assets like in the first quarter, but in current assets, in addition to an increase in cash and deposits, there were notable decreases in notes and accounts receivable, accounts receivable and contract assets. On the liability side, accounts payable decreased, while accounts payable-other and accrued expenses increased. Equity ratio was 70.5%, up 2.0 points from the end of the previous period.

3-4 Latest topics

Certified as a Vendor Recommended by Softbank

The company announced on September 29, 2022, that it has been certified by Softbank as a recommended vendor for device verification. The items that have received the recommendation are as follows. The company intends to support various businesses by creating new value through these efforts, in addition to aiming to gain further trust as a certified vendor by utilizing the verification know-how it has cultivated.

Smartphone application verification: Verification of application operation as specified by SOFTBANK

Consulting (verification): Application operation verification, bearer operation verification, usability operation verification, and consulting services specified by Softbank.

Received "Oracle Certification Award 2022" from Oracle Japan

The company announced on October 3, 2022, that it has received the "Oracle Certification Award 2022" from Oracle Japan in the "Oracle Cloud Infrastructure (PaaS/OCI) Certification" category. With the rapid growth of the cloud market, companies are now demanding higher levels of "information security concerns," "network stability concerns," and "customizability to meet their needs" as they move from on-premise environments to cloud computing environments. To resolve these issues, the company began using Oracle Cloud Infrastructure (OCI), which is "stable, fast and secure" and stipulates high-level performance SLAs. Currently, the company is promoting the training of OCI engineers, training a large number of OCI-certified personnel and establishing technology and know-how by adopting OCI as the infrastructure platform for its own systems. In the future, the company plans to train even more OCI-certified personnel and expand its comprehensive services, including OCI operation support and OCI migration packages, in order to expand Systema's Cloud business.

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/ Income margin	FY 3/23 Estimates	Composition ratio/ Income margin	YOY
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,

◆Active recruitment of human resources and reinforcement of the education system

Focus on the early development of human resources in response to increased inquiries and with a view to long-term growth by actively hiring human resources, promoting collaboration with partners, and strengthening the education system.

◎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.

◆Expansion of project management support business to support customers' DX

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 service and evolve business content.

◆Expansion of software testing services (QA operations)

Utilizing the track record of software testing services for web/applications/SNS games, actively increasing new clients for QA services for customers' business systems.

◆Acquisition of new clients

In addition to traditional outbound sales, the company will increase the number of customers and sales by strengthening the use of inbound sales, using useful information such as service introduction websites and webinars as sales hooks.

◎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

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)

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

Aggressively strengthen alliances of "Canbus." to increase recognition and promote new business development.

◆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)

◆Expansion and cross-sectoral expansion of system development and verification services for Japanese manufacturing companies

The company intends to boost customer satisfaction with the system development and verification services it is currently providing, expand these services in a cross-sectoral manner.

◆Expansion of technical support for PoC development between Japanese companies and start-up companies

Increase orders for PoC development projects between Japanese companies in Silicon Valley and startup companies and respond to them by utilizing offshore Japan and Vietnam with Japanese quality ensured.

◆Expansion of sales of the DX service, Canbus.

Aggressively propose "Canbus." to overseas companies outside Japan to support DX services such as workflow and paperless operations to increase orders.

◆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.

◆Expand sales of AI/IoT services

Expand sales of services using AI and IoT (LoRa), centered on cold chain and smart factory services.

5. Conclusions

The cloud business, which showed signs of slowing momentum in the first quarter, made up for the results in the first half and secured an increase in segment profit, which can be evaluated as a certain level of success. Nevertheless, we should continue to monitor whether the company can return to a significant growth trajectory again in terms of sales, etc.

At the time of our previous report, we also pointed out that the key point for the Solution Design business would be "the pace of conversion of mass-hired new graduates into profit-making employees." The company is positive that segment profit, which declined only 0.9% year on year in the first quarter, has steadily expanded to 6.1% year on year in the second quarter, paving the way for further improvement in profitability in the second half of the year. In November, the company announced that it had signed a sales partnership agreement with AvePoint Japan Inc. and started providing data protection and migration solutions using AvePoint products, meaning that Solution business is continuously expanded, providing a sense of security.

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with corporate auditors
Directors	9 directors, including 4 outside ones
Auditors	4 auditors, including 4 outside ones.

◎Corporate Governance Report (Updated on June 23, 2022)

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 140001 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 13 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 three outside directors 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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