

	Systema Corporation (2317)
	
Kenji Miura, President	

Corporate Information

Exchange	TSE Prime
Industry	Information and communications
Representative Director	Yoshichika Hemmi, Kenji Miura
Address	14F・16FShiodome 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
¥254	387,440,812 shares		¥98,409 million	22.9%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥10.0	3.9%	¥18.67	13.6x	¥88.19	2.9x

*The share price is the closing price on November 2. 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 3/23. EPS is taken from the estimates of FY 3/24.

*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 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 (Actual)	74,526	9,844	9,955	7,317	18.89	8.00
March 2024 (Estimate)	80,386	10,610	10,644	7,233	18.67	10.00

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

*EPS in the term ended March 2022 takes the stock split in question into account. EPS for FY2022 takes this stock split 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 second quarter of Fiscal year ending March 2024 and forecasts for the fiscal year ending March 2024 of Systema Corporation.

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Key Points

- In the second quarter of FY 3/24, sales grew 4.8% year on year and operating income declined 1.5% year on year. Although the Solution Design business and the Overseas business struggled, sales increased in all of the other four segments, mainly the Framework Design business and the Business Solution business. Overall profit was affected by the Solution Design business, whose profit decreased 44.6% year on year, as it was significantly impacted both directly and indirectly by unprofitable projects.
- For FY 3/24, the company expects that sales will rise 7.9% year on year to 80,386 million yen and operating income will increase 7.8% year on year to 10,610 million yen. Both sales and profit are likely to grow in all segments excluding investment and development fields. Double-digit growth of sales and profit is expected especially in the Framework Design business and the Cloud business. However, the profit of the Solution Design business, which is the mainstay, is projected to remain almost unchanged as the company will keep focusing on bolstering working conditions, etc., in addition to enhancing their organizational capability by cooperating with other business departments and assigning human resources to most suitable positions. The dividend amount is forecast to increase 2 yen/share year on year to 10 yen/share per year, with an interim dividend of 5 yen/share and a term-end dividend of 5 yen/share.
- Looking at the financial results in the first half of the term, the momentum seems to have somewhat slowed down in comparison with the first quarter, even in businesses which seem to be performing favorably, with the exception of the Cloud business. Moreover, the increase of the retirement of mid-level engineers negatively impacted especially the Solution Design business in FY 3/23. Although measures for addressing this issue were successful and thus stopped staff from leaving in FY 3/24, the company mentioned at the briefing session that this trend has also indirectly led to the emergence of unprofitable projects. While it appears that they have taken steps to prevent this from happening again, some concerns do remain about their future on the market, which cannot be helped. It will be necessary to keep an eye on the trends in their performance in every 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 7 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. However, they announced a revision to this plan on October 26, 2023, changing the targets to consolidated sales of 83.1 billion yen, an operating income of 11.73 billion yen (an operating income margin of 14.1%) and an ROE of 20.7%.

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 30.0% in FY 3/23)

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 8.2% in FY 3/23)

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. Previously, their tasks were mostly the development and operation of financial systems, but the projects for developing and operating public and corporate systems are increasing. They are promoting cross-selling to clients of two businesses through the linkage with the IT service business and solution marketing, and pursuing financial systems and applying them to other fields through the linkage with the Solution Design Business for solutions for smartphone apps, web apps, etc. like the Solution Design Business section, Systema Vietnam Co., Ltd. is functioning as an offshore foothold.

◎IT Service Business (accounting for 23.8% in FY 3/23)

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 35.6% in FY 3/23, 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 2.7% in FY 3/23)

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 0.2% in FY 3/23)

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 0.4% in FY 3/23)

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 ▲0.9%

BRIDGE REPORT



1-2 Group Companies

● Consolidated subsidiaries

ProVision
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)

Tokyoto 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] Tokyoto 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)

IDY
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
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)

MINGAL
MINGAL,Inc.
[Capital] 100,000,000 Yen [Ratio of capital contribution] 60.0%
Development, distribution, maintenance, and operation of cloud services relating to professional practice
(Cloud Business)

● Equity method affiliated companies
HiS Group
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)

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(Taken from the reference material of the company)

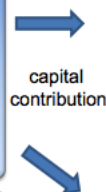
Overseas group companies



● Consolidated subsidiaries

systema
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
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

STRONKEY
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
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 101 billion yen in sales and 15.2 billion yen in operating income. However, they announced a revision to this plan on October 26, 2023, lowering the target values to 83.1 billion yen in consolidated sales, 11.73 billion yen in operating income (operating margin of 14.1%) and ROE of 20.7%.

[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 83.1 billion yen, operating income of 11.73 billion yen, operating margin of 14.1% and ROE of 20.7%.

[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 Results	FY 3/24 Estimates	FY 3/25 Targets
Sales	212	229	238	207	224	245	220
Operating income	37	41	41	41	39	40	33.5

*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 22.0 billion yen in FY 3/25 (21.2 billion yen in FY 3/19) and an operating income of 3.35 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 3.5 billion yen in automotive (2.7 billion yen in FY 3/19), sales of 4.5 billion yen in social infrastructure/products (0.8 billion yen in FY 3/19), sales of 11.0 billion yen in the Internet business (10.2 billion yen in FY 3/19), and sales of 3.0 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 Results	FY 3/24 Estimates	FY 3/25 Targets
Sales	53	58	51	51	61	69	77
Operating income	8.4	10.6	8.6	10.1	12.8	14.5	18

*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 7.7 billion yen in FY 3/25 (5.3 billion yen in FY 3/19) and an operating income of 1.8 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 Results	FY 3/24 Estimates	FY 3/25 Targets
Sales	78	87	94	157	178	194	211
Operating income	11	13	14	22	25	28	36.5

*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 21.1 billion yen in FY 3/25 (7.8 billion yen in FY 3/19) and an operating income of 3.65 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 Results	FY 3/24 Estimates	FY 3/25 Targets
Sales	240	259	214	223	265	276	305.5
Operating income	12	16	14	14	18	19	24.3

*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 for sales of 30.55 billion yen in FY 3/25 (24.0 billion yen in FY 3/19) and an operating income of 2.43 billion yen (1.2 billion yen in FY 3/19). The company will create and expand value-added businesses and transform itself into an ICT partner that supports customers' businesses by providing solution services to solve customers' management issues such as productivity improvement, cost reduction, and security enhancement as the company's comprehensive sales force, leading to continuous sales and profit growth. The numerical targets for FY25/3 are 40% growth in existing businesses compared to FY19/3, 180% growth in services businesses, and 350% growth in DX-related businesses.

◎Cloud Business

	FY 3/19 Results	FY 3/20 Results	FY 3/21 Results	FY 3/22 Results	FY 3/23 Results	FY 3/24 Estimates	FY 3/25 Targets
Sales	11	14	15	18	20	23	20
Operating income	2	2.1	3	4.1	3.9	4.4	5

*Unit: Hundred Million yen

The company is aiming for sales of 2.0 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 Results	FY 3/24 Estimates	FY 3/25 Targets
Sales	1.2	1.5	1.9	1.7	1.3	1.8	1.6
Operating income	-0.3	-0.2	0.07	-0.09	-0.29	0.01	0

*Unit: Hundred Million yen

The company aims to achieve sales of 160 million yen in FY 3/25 (100 million yen in FY 3/19) and an operating income of 0 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.

3. Second quarter of Fiscal Year ending March 2024 Earnings Results

3-1 Result of the second quarter of fiscal year ending March 2024

	FY 3/23 2Q	Ratio to net sales	FY 3/24 2Q	Ratio to net sales	YOY
Net sales	35,805	100.0%	37,521	100.0%	4.8%
Gross profit	8,792	24.6%	8,745	23.3%	-0.5%
SG&A expenses	4,357	12.2%	4,377	11.7%	0.5%
Operating income	4,435	12.4%	4,368	11.6%	-1.5%
Ordinary income	4,497	12.6%	4,334	11.6%	-3.6%
Profit Attributable to Owners of Parent	3,084	8.6%	2,976	7.9%	-3.5%

*Unit: Million yen

Sales grew 4.8% year on year, while operating income declined 1.5% year on year.

Although socioeconomic activities are returning to a normal state after the COVID-19 crisis, showing signs of modest recovery especially in consumer spending, central banks in all countries have been tightening monetary policies to counter global inflation caused by rising prices of resources and materials, and the risk of economic downturn overseas is growing. Amid such situation, the company recognized the elevation of productivity as an important challenge and promoted the expansion of high value-added business such as consulting services and PMO projects for the promotion of DX in the Software Development business, etc., in addition to further focusing on recurring-revenue businesses. Moreover, they keep forging ahead with initiatives for stable securing of excellent human resources by proactively investing in human resources and improving working conditions.

Sales grew 4.8% year on year to 37,521 million yen. Although the Solution Design business and Overseas business struggled, sales increased in all of the other four segments, mainly the Framework Design business and Business Solution business.

Overall profit was affected by the Solution Design business, where profit decreased 44.6% year on year, as it was significantly impacted both directly and indirectly by unprofitable projects. However, profit increased 39.3% year on year in the Framework Design business and 41.8% year on year in the Business Solution business, maintaining favorable performance for most part. As a result, overall operating income ended up decreasing slightly, 1.5% year on year. Gross profit margin was 23.3%, a little worse than in the same period of the previous term. On the other hand, the ratio of SG&A expenses to sales dropped 0.5 points year on year to 11.7%.

3-2 Trends by segment

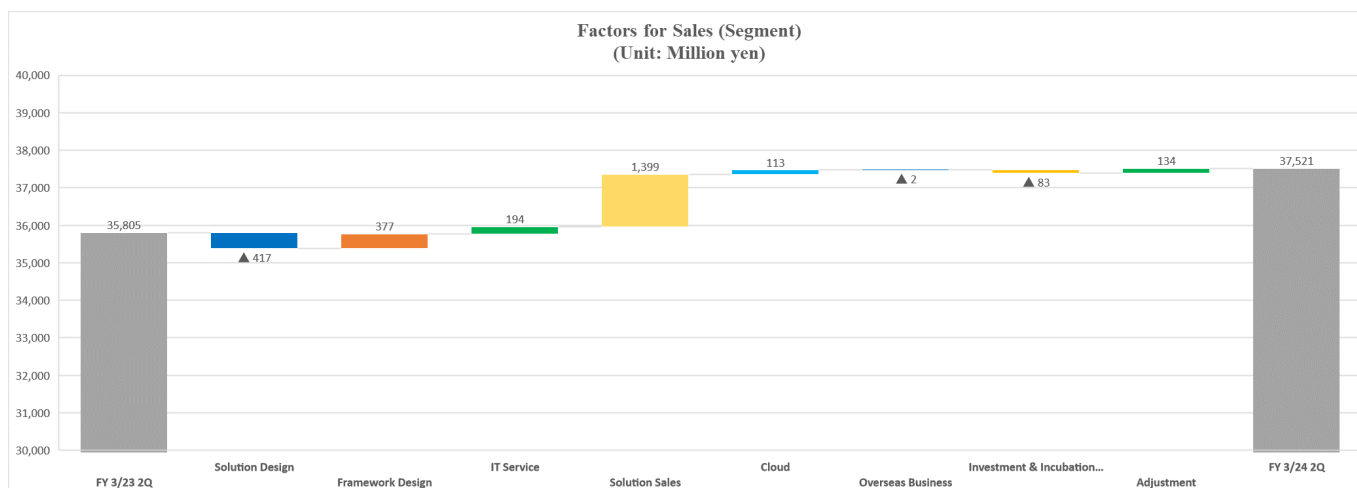
	FY 3/23 2Q	Composition ratio/ Income margin	FY 3/24 2Q	Composition ratio/ Income margin	YOY
Solution Design	10,870	30.4%	10,453	27.9%	-3.8%
Framework Design	2,937	8.2%	3,314	8.8%	12.8%
IT Service	8,755	24.5%	8,949	23.9%	2.2%
Solution Sales	12,238	34.2%	13,637	36.3%	11.4%
Cloud	1,079	3.0%	1,192	3.2%	10.5%
Overseas Business	70	0.2%	68	0.2%	-2.4%
Investment & Incubation Business	177	0.5%	94	0.3%	-47.0%
Adjustment	-323	-	-189	-	-
Consolidated Sales	35,805	100.0%	37,521	100.0%	4.8%
Solution Design	1,705	15.7%	944	9.0%	-44.6%
Framework Design	578	19.7%	806	24.3%	39.3%
IT Service	1,232	14.1%	1,367	15.3%	11.0%
Solution Sales	723	5.9%	1,026	7.5%	41.8%
Cloud	226	21.0%	222	18.6%	-2.1%
Overseas Business	-12	-	-10	-	-

BRIDGE REPORT



Investment & Incubation Business	-19	-	12	13.6%	-
Adjustment	-	-	-	-	-
Consolidated Operating Income	4,435	12.4%	4,368	11.6%	-1.5%

*Unit: Million yen



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

Solution Design Business - Sales: 10,453 million yen (-3.8% YoY), Operating Income: 944 million yen (-44.6% YoY)

The demand for the development of next-generation mobility in the in-vehicle device field is healthy and the company will keep focusing on receiving more orders (they are gradually shifting to a position close especially to automobile manufacturers). Furthermore, inquiries concerning the company's services are increasing in the DX service field. The company's policy is to proactively keep promoting the development of their services. Moreover, the number of employees in the business has increased owing to the reinforcement of alliances with business partners and proactive recruitment. However, unprofitable projects emerged in the Internet business field (already dealt with) and the company lost opportunities in addition to using resources on these projects, which affected their performance.

Framework Design Business - Sales: 3,314 million yen (+12.8% YoY), Operating Income: 806 million yen (+39.3% YoY)

Inquiries in the financial field have increased, especially for DX-related projects, leading to a growth in sales. Progress in the development of new fields such as host migration and cloud adaptation has also had positive influence. In the public field, the company is now offering services not only to central government ministries and agencies, but also to local municipalities, leading to an increase of inquiries for both app development and infrastructure. In the corporate field, they have enhanced low-code development. They have been acquiring new business opportunities through a comprehensive maintenance and development service utilizing DX labs.

IT Services Business - Sales: 8,949 million yen (+2.2% YoY), Operating Income: 1,367 million yen (+11.0% YoY)

They have reorganized the structure in each business domain to clarify their core services. Among these services, they focused on proposals for PMO services and succeeded in expanding sales and profit. Moreover, they engaged in the reinforcement of client analysis in order to grasp the IT investment plans and IT events of their clients, enhanced marketing activities toward divisions where they used to have no transactions and thus horizontally expanded the business among their existing clients. Furthermore, they are looking ahead at the future and making endeavors in seeking new customers in order to acquire next royal clients.

The Business Solution - Sales: 13,637 million yen (+11.4% YoY), Operating Income: 1,026 million yen (+41.8% YoY)

Despite the rising prices of resources, inflation and uncertainties concerning the future, the company kept enhancing their marketing activities as economic activities are returning to a normal state. Moreover, there has been an improvement in the delivery of server and network products, which was delayed due to lack of semiconductors, leading to a growth in recorded sales of service projects. In the system integration business, they received orders for shifts to a cloud environment, system development and maintenance services necessary for digitalization. Furthermore, there has been a continuous increase in projects concerning their high value-added one-stop service which encompasses the grasping of roadmap, installation of IT devices, infrastructure construction, cloud utilization, system development, maintenance and operation.

The Cloud Business - Sales: 1,192 million yen (+10.5% YoY), Operating Income: 222 million yen (-2.1% YoY)

The needs for replacing systems for business operation has grown as enterprises focus on DX, leading to an increase of inquiries concerning “Canbus.,” which allows for replacement in a short period of time. Furthermore, there has been an increase of inquiries regarding PMO and integration for the reform of business operations from clients who are using “Canbus.” in order to promote DX. The company has also distributed “Canbus.” among new clients through alliance reinforcement.

Overseas Business: Sales: 68 million yen (-2.4% YoY), Operating Loss: 10 million yen (1 million yen loss decrease)

Although the overall tech industry in the U.S. is sluggish, impacting system development and inspection services in part of the manufacturing industry, the company newly received orders for system development and inspection services from other Japanese-affiliated enterprises. Furthermore, they have received new orders for PoC development and inspection services for the examination of start-up technologies of Japanese-affiliated enterprises. Moreover, they have received additional orders for smart factory projects from manufacturing enterprises which now have sufficient resources for investments.

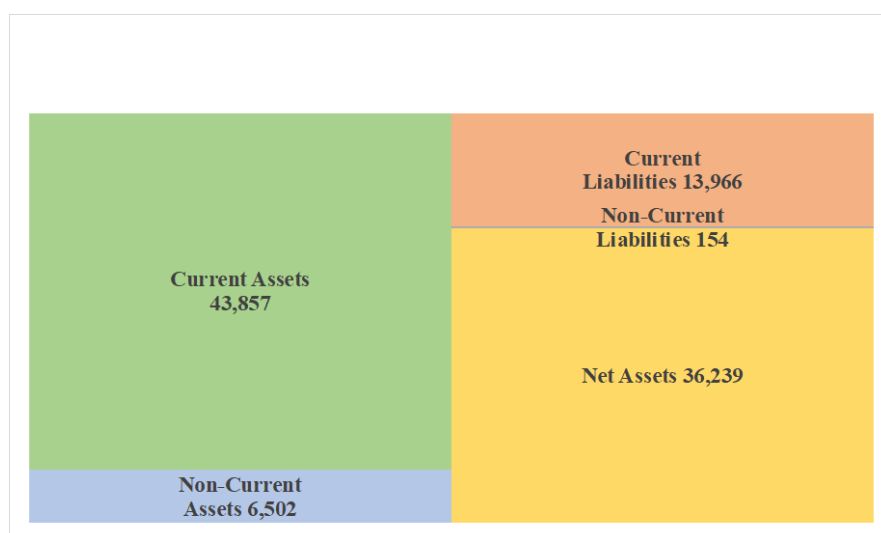
A group company StrongKey became the industry pioneer in making the company’s secure network transmission (PKI) compatible with the smart home integrated standard (Matter), leading to a continuous rapid growth of inquiries. In addition, the company’s security service based on FIDO authentication has made a progress, being newly adopted by and delivered to a major telecommunication carrier in the U.S.

3-3 Financial Conditions

Financial Conditions and CF

	March 2023	September 2023		March 2023	September 2023
Cash and deposits	25,033	27,325	Trade payables	6,096	5,781
Trade receivables	14,999	13,962	Accounts payable and accrued expenses	2,459	2,656
Inventories	1,501	1,685	Income taxes payable	1,524	1,501
Current assets	42,275	43,857	Provision for bonuses	1,460	1,457
Tangible Assets	1,622	1,499	Interest-Bearing Liabilities	1,550	1,550
Intangible Assets	317	284	Liabilities	14,228	14,121
Investments and Others	4,663	4,718	Net assets	34,650	36,239
Noncurrent assets	6,603	6,502	Total Liabilities and Net Assets	48,879	50,360

*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.

BRIDGE REPORT



As of the end of September 2023, total assets stood at 50,360 million yen, up 1,481 million yen from the end of the previous fiscal year. On the asset side, accounts receivable and fixed assets decreased in regard to current assets, while cash and deposits increased. Liabilities decreased 107 million year on year to 14,121 million yen, mainly due to the decrease in accounts payable. Net assets increased 1,588 million yen YoY to 36,239 million yen. Equity ratio was 71.0%, up 1.1 points from the end of the previous period.

4. Fiscal Year Ending March 2024 Earnings Estimates

4-1 Consolidated Earnings Estimates

	FY 3/23 Results	Ratio to net sales	FY 3/24 Estimates	Ratio to net sales	YOY
Net sales	74,526	100.0%	80,386	100.0%	+7.9%
Operating income	9,844	13.2%	10,610	13.2%	+7.8%
Ordinary income	9,955	13.4%	10,644	13.2%	+6.9%
Profit Attributable to Owners of Parent	7,317	9.8%	7,233	9.0%	-1.1%

*Unit: Million yen

Sales and operating income are expected to grow 7.9% and 7.8%, respectively, year on year.

For FY 3/24, the company forecasts that sales will rise 7.9% year on year to 80,386 million yen and operating income will increase 7.8% year on year to 10,610 million yen. Both sales and profit are likely to grow in all segments excluding investment and development fields. Double-digit growth of sales and profit is expected especially in the Framework Design business and Cloud business. However, the profit of the Solution Design business, which is the mainstay, is projected to remain almost unchanged as the company will keep focusing on bolstering working conditions, etc., in addition to proactive recruitment of human resources to complement the mid-level human resources. They will aim to achieve profitability in the Overseas business. Operating income margin is projected to be 13.2%, at almost the same level as in the previous term.

The dividend amount is forecast to increase 2 yen/share year on year to 10 yen/share per year, with an interim dividend of 5 yen/share and a term-end dividend of 5 yen/share.

4-2 Outlook and efforts for each segment

	FY 3/23	Composition ratio/ Income margin	FY 3/24 Estimates	Composition ratio/ Income margin	YOY
Solution Design	22,375	30.0%	24,500	30.5%	9.5%
Framework Design	6,095	8.2%	6,900	8.6%	13.2%
IT Service	17,753	23.8%	19,413	24.2%	9.3%
Business Solution	26,510	35.6%	27,630	34.3%	4.2%
Cloud	2,007	2.7%	2,250	2.8%	12.1%
Overseas Business	134	0.2%	178	0.2%	32.7%
Investment & Incubation	309	0.4%	175	0.2%	-43.5%
Adjustment	-660	-	-660	-	-
Consolidated Sales	74,526	100.0%	80,386	100.0%	7.9%
Solution Design	3,926	17.5%	4,020	16.4%	2.4%
Framework Design	1,279	21.0%	1,450	21.0%	13.3%
IT Service	2,521	14.2%	2,800	14.3%	11.1%
Business Solution	1,760	6.6%	1,874	6.8%	6.4%
Cloud	386	19.3%	439	19.5%	13.6%
Overseas Business	-29	-	1	0.6%	-
Investment & Incubation	0	-	26	14.9%	-
Adjustment	-	-	-	-	-
Consolidated Operating Income	9,844	13.2%	10,610	13.2%	7.8%

*Unit: Million yen

◎Solution Design business - Sales: 24,500 million yen(+9.5%YoY), Operating Income: 4,020 million yen (+2.4%YoY)

The company will aim for further expansion of orders received by proactively entering high value-added fields and reinforcing alliances between business divisions.

◆Aggressive expansion into growing areas

Proactive expansion to “in-vehicle device,” “social infrastructure” and “digital transformation (DX) service” fields to address the demand for the shift to EVs in the in-vehicle field, the increase in demand for energy, and demand for DX to cope with labor shortage.

◆Reinforcement of alliances between business divisions

The company will aim for acquiring new clients and receiving more orders through the enhancement of cross-selling between business division and subsidiaries.

They will aim for enhancing their organizational capability by cooperating with other business departments and assigning human resources to most suitable positions.

◎Framework Design Business - Sales: 6,900 million yen (+13.2% YoY), Operating Income: 1,450million yen (+13.3% 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/financial system development and infrastructure construction and proceed to actively expand into the public and corporate sectors to build a strong revenue base.

◆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 will strengthen DX Lab and expand services for "low-code development" and "DX solutions." The company aims to further improve profitability by strengthening competitiveness through the improvement of added value.

◎IT Service Business - Sales: 19,413 million yen (+9.3% YoY), Operating Income: 2,800 million yen (+11.1% YoY)

In response to demand for DX, the company aims to further expand its business field by broadening its scope in terms of services, markets, and customers.

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

To focus on offering PMO services for introducing various tools such as cloud solutions and supporting the management of projects related to the improvement of business processes.

◆Acquisition of new clients to support continuous growth

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.

◆Expansion of software test services in agile software development

Proactive expansion to the business operation system field, utilizing the expertise in agile test services for websites, apps and social media games.

◎Business Solution Business: Sales of 27,630 million yen (up 4.2% year on year) and an operating income of 1,874 million yen (up 6.4% year on year)

Shift of focus from the goods business to the services business.

◆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

In addition to system development, the company will strengthen the business of restructuring applications in a multi-cloud environment.

◆Improving profitability by expanding sales of services

To provide one-stop services for all services of All Systema.

◎Cloud Business —Sales: 2,250 million yen (+12.1% YoY), Operating Income: 439million yen (+13.6% YoY)

The company aims to expand into the DX field through aggressive upfront investment in its own services, centered on “Canbus.”

◆Aggressively increase awareness of "Canbus." and promote it

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

◆Offering project promotion services for promoting DX

To offer not only services like Canbus., but also provide “DX design labs” for promoting DX, such as PMO and utilization of ChatGPT.

◆Upfront investment accompanying service enhancements

Proactive “enhancement of human resources” in marketing, development and support to boost product sale.

◎Overseas Business —Sales: 178 million yen (+32.7% YoY), Operating Income: 1 million yen (-Loss of 29 million yen in the previous fiscal year)**◆Expansion and horizontal development of system test services for Japanese-affiliated, mainly automobile-related manufacturers**

Expansion and horizontal development based on achievements in automobile-related system tests in the U.S., where the company has accumulated know-how over many years.

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

To receive more orders for PoC development services for checking elemental technologies of start-up companies discovered by Japanese-affiliated enterprises in the Silicon Valley.

◆Expansion of sales based on cooperation with the development team in Japan

Proactive marketing activities to expand offshore development targeted at the headquarters in Japan amid the backdrop of labor costs in the U.S., which remain high, and the USD/JPY exchange rate.

◆Expansion of sales of the DX service, Canbus and smart factory.

Horizontal development based on the achievements of “Canbus.,” a DX support app for enterprises, and introduction of smart factory elements at factories.

◆Collaboration with group companies

The company will further strengthen its sales team collaboration with StrongKey, Inc. and ONE Tech, Inc. to expand sales to companies around the world, including the services of both companies.

5. Conclusions

The company revised their medium-term management plan (lowered their initial targets), taking into account uncertainties in the external environment as well as the delay in the assignment of required personnel caused by the impact of unprofitable projects in the Solution Design business that occurred in the cumulative second quarter and the fact that it will take time to rebuild this business. While this naturally brings about a negative impression in itself, if we look at the stock value, it only temporarily dropped. Therefore, there may have been a tendency to expect this decision to a certain extent.

However, looking at the financial results in the first half of the term, the momentum seems to have somewhat slowed down in comparison with the first quarter, even in businesses which seem to be performing favorably, with the exception of the Cloud business. Moreover, the increase in the retirement of mid-level engineers negatively impacted especially the Solution Design business in FY 3/23. Although measures for addressing this issue were successful and thus stopped staff from leaving in FY 3/24, the company mentioned at the briefing session that this trend has also indirectly led to the emergence of unprofitable projects. While it appears that they have taken steps to prevent this from happening again, some concerns do remain about their future on the market, which cannot be helped. It will be necessary to keep an eye on the trends in their performance in every quarter.

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with corporate auditors
Directors	9 directors, including 3 outside ones
Auditors	4 auditors, including 4 outside ones.

◎Corporate Governance Report (Updated on October 31, 2023)

Basic policy

The Company intends to enhance corporate governance with the aim of responding to rapid changes in the business climate, to promote management emphasizing speed based on promote decision-making to increase management efficiency, to work toward sustainable growth of the business, increasing shareholder value and continuous shareholder returns, to harmonize the interests of shareholders, customers, business partners, employees, local communities and other stakeholders (interested parties) and to maximize general benefits as a whole while endeavoring to secure soundness in management and full regulatory compliance. To archive this, the Company intends to take very seriously the advice and suggestions of the audit corporation, other external experts and stakeholders and will work to enhance the fairness and transparency of management, to build systems appropriate to the size of the Company using its inherent mobility, to further promote self-improvement as a listed company in full awareness of stakeholders, to enhance corporate governance and to disclose information in a timely and appropriate manner.

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

【Supplementary Principle 2-4-(1) Ensuring Diversity in the Promotion of Core human Resources, etc.】

The Company promotes employees to management positions regardless of attributes such as gender, age, race, nationality or whether they were hired mid-career or as a new graduate. The Company's policy is to treat employees according to their abilities and to assign the right people to the right positions.

https://www.systema.co.jp/sustainability/esg_society/esg_diversity.html

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

The Company's initiatives on sustainability are described on the webpage below. Here, the Company explains its disclosures based on the TCFD recommendations or an equivalent framework, which is mandatory only for companies listed on the Prime Market.

The Company engages in the business of providing IT service, and does not operate any business with high environmental impact, such as the manufacturing of goods. Accordingly, at present the climate change problem is not expected to affect the Company's business significantly. However, the Company began to acquire ISO 14001 certification in 2004 and has since been striving to reduce resource consumption and waste emissions based on its understanding that the global environment is an asset held by all of mankind that is valuable and must be preserved for future generations. In addition, all IT-related climate change measures taken by companies are in the Company's business domain. The increase of the Company's helps increase the efficiency of customers' business and leads to their reduction of resources they consume and the waste they emit, which contributes to the protection of the global environment. Therefore, the Company believes that its growth leads to the ability to control climate change. Based on the above ideas, the Company has yet to disclose information based on the TCFD recommendations or an equivalent framework at present. The Company will consider the matter where necessary in the future. The Company's environmental initiatives are described on the webpage below.

The Company's sustainability initiatives <https://www.systema.co.jp/sustainability/>

The Company's environmental initiatives https://www.systema.co.jp/sustainability/esg_environment.html

【Supplementary Principle 4-3-3 Establishment of an objective, timely and transparent procedures for CEO dismissal】

The Company adopts a structure whereby the President & Representative Director steers the general direction of management as Chief Executive Officer and leads internal operations with an appropriate evaluation of business results and other factors. In addition, the Company structure is such that the President & Representative Director is kept in check by seven Outside Officers (three Outside Directors and four Outside Audit & Supervisory Board Members) who each meet the requirements of independent offices, and the Company believes that if a situation which might involve the dismissal of the President & Representative Director arose, the Board of Directors would come to a decision through discussion based on recommendation of the Independent Officers and would be able to deal with the situation. Accordingly, the Company has not, at present, established an objective, timely and transparent procedure for CEO dismissal. The Company will consider the matters where necessary in the future.

【Supplementary Principle 4-10-1 Establishment of independent advisory committees, such as arbitrary non-mandatory Nomination Committee and Executive Compensation Committees】

All seven Independent Officers – the three Outside Directors plus four Outside Audit & Supervisory Board Members -- satisfy the requirements for independent officers determined by the Tokyo Stock Exchange and they each leverage their specialist knowledge and extensive experience to actively express opinions during deliberations of important matters at board meetings and the Company is afforded timely and appropriate advice and has, therefore, not currently established independent advisory committees. The Company will consider the matters where necessary in the future.

<Disclosure Based on the Principles of the Corporate Governance Code>

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

The Company's Board of Directors is composed of 13 members who attend Board meetings, of whom seven are Outside Directors or Outside Audit & Supervisory Board Members who are Independent Officers in accordance with the provisions of the Tokyo Stock Exchange. To conduct an analysis/evaluation of the effectiveness of the Board of Directors, the Company uses a "Questionnaire Survey for Evaluation of the Board of Directors" and all Directors and Audit & Supervisory Board Members conduct self-evaluations of the composition and operations of the Board of Directors and the results of analysis of this survey are discussed at a meeting of Outside Officers consisting of the three Outside Directors and four Outside Audit & Supervisory Board Members.

The results of analysis of self-evaluations based on the questionnaire survey and the results of discussion at the meeting of Outside Officers confirmed that the Company's Board of Directors leverages the knowledge, experience and insights of each offices to engage in discussions which contribute to the sustainable growth and enhancement of shareholder value from a medium-to-long term perspective and that sufficient discussions for the supervision of management are held, and the Company, therefore, concluded from these findings that the effectiveness of the Board of Directors is ensured.

With reference to the self-evaluations of the Directors and Audit & Supervisory Board Members, the Company conducts an analysis and evaluation of the effectiveness of the Board of Directors every year, in principle, to maintain effectiveness and also pursues further improvement to ensure that effective discussions are held.

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

The Company establishes and discloses a disclosure policy to encourage constructive dialogue with shareholders. Please refer to the Company's website for further details. <https://www.systema.co.jp/ir/management/disclosure.html>

Please refer to "2. Status of IR Activities" in "III. Implementation Status of Measures for Shareholders and Other Stakeholders" in this Report for information about the development of a framework and initiatives for this.

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