

Financial Results Briefing Session for the Second Quarter of the Fiscal Year Ending January 2024

Computer Engineering & Consulting Ltd. (9692)
September 13, 2023

Contents



Operating Results for the Second Quarter of the Fiscal Year Ending January 2024

Full-Year Earnings Forecast for the Fiscal Year Ending January 2024

3. Appendix

Contents



Operating Results for the Second Quarter of the Fiscal Year Ending January 2024

Full-Year Earnings Forecast for the Fiscal Year Ending January 2024

3. Appendix

Year-on-year comparison of 2Q results

- Net sales and income increased as system development projects continued to be favorable in line with the strong demand for DX from major customers.
- Operating income and ordinary income marked new <u>record highs</u>, but net income declined in reaction to the recording of extraordinary income in the previous fiscal year*.
 (Unit: Million yen)

	FY2023/2Q	FY2024/2Q		e same period of s fiscal year
			Amount of change	Rate of change
Net sales	23,478	26,445	2,967	12.6%
Operating income	1,969	' 3,525	1,555	79.0%
Operating income ratio	8.4%	' 13.3%	4.9 pt	_
Ordinary income	1,988	' 3,549	1,560	78.5%
Ordinary income ratio	8.5%	13.4%	4.9 pt	
Net income	3,495	2,452	(1,043)	(29.9%)
Net income ratio	14.9%	9.3%	(5.6 pt)	_

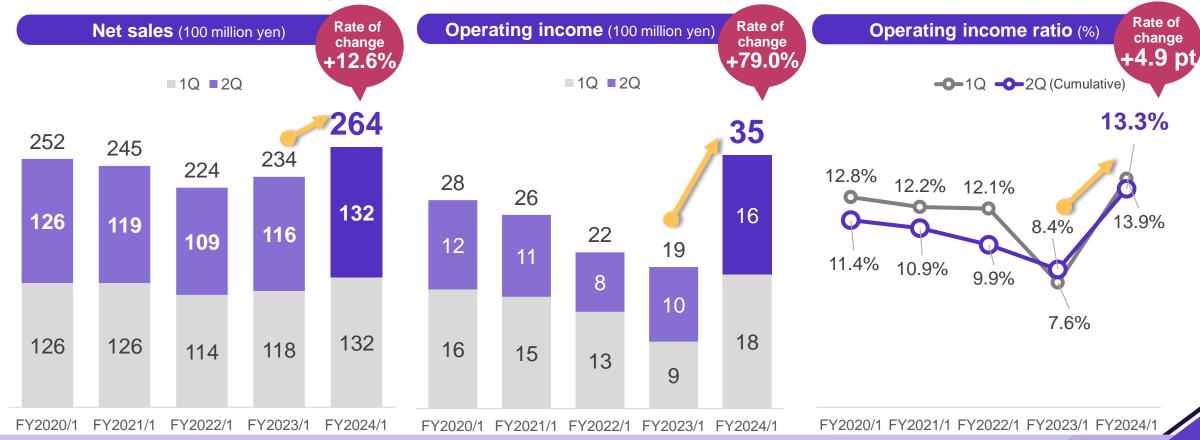
^{*} Gain on sale of investment securities was recorded to extraordinary income in the second quarter of the fiscal year ended January 2023.

First half Financial results

* Description of the focused business is detailed in the Appendix.

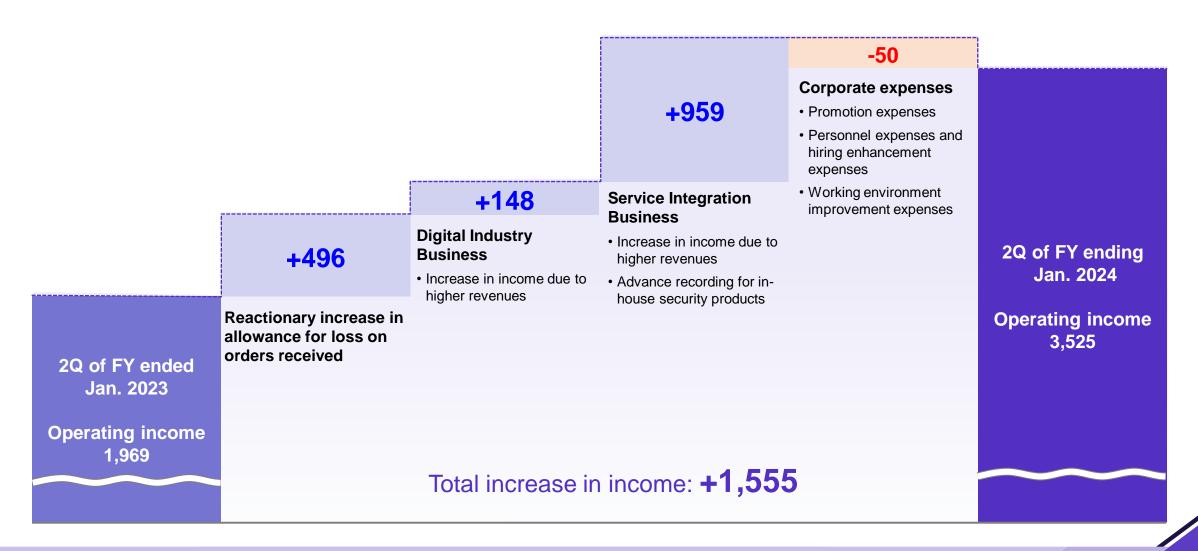
- Net sales increased due to growth in the focused business* and the core business.
- Operating income increased due to higher revenue, expanded sales of in-house solutions, and a reactionary increase in allowance for loss on orders received.

The operating income ratio rose in 1Q due to the year-end demand from customers and an increase in highly profitable projects, but returned to normal levels in 2Q.



Major factors for increase/decrease in consolidated operating income

(Unit: Million yen)



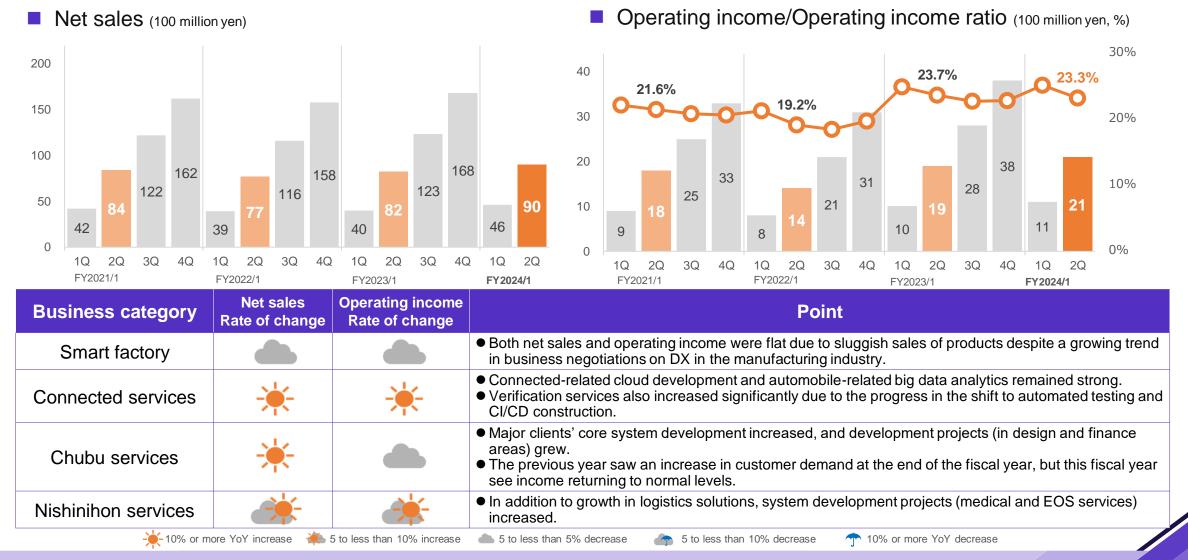
Year-on-year comparison by business segment

- In Digital Industry Business, both net sales and operating income increased thanks to growth in ICT investment made by customers in the manufacturing industry.
- In Service Integration Business, sales increased due to advance recording for in-house security products and ICT infrastructure construction projects. Operating income grew due to a reactionary increase related to "allowance for loss on orders received," as well as the impact of the higher revenue.

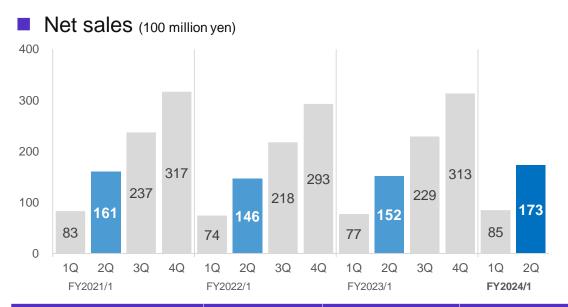
(Unit: Million yen)

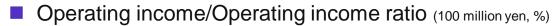
	FY2023/2Q		FY2024/2Q		Amount of change	
	Net sales	Operating income Rate of return	Net sales	Operating income Rate of return	Net sales Rate of change	Operating income Rate of change
Digital Industry Business	8,260	1,961 23.7%	9,052	2,109 23.3%	792 9.6%	148 7.6%
Service Integration Business	15,218	2,066 13.6%	17,393	3,524 20.3%	2,1 7 5 14.3%	1,457 70.5%
Corporate expenses	_	(2,058)	_	(2,108)	_	(50)
Total	23,478	1,969 8.4%	26,445	3,525 13.3%	2,967 12.6%	1,555 79.0%

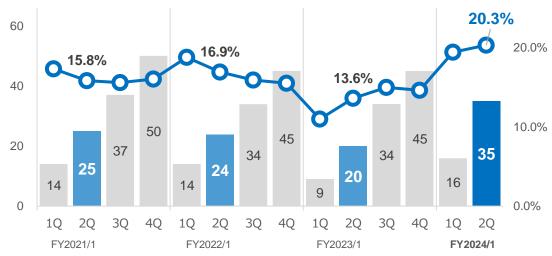
Digital Industry Business



Service Integration Business







Business category	Net sales Rate of change	Operating income Rate of change	Point		
Service integration		*	 Both net sales and operating income increased due to an increase in new customers for services in cooperation with Microsoft in focused business areas, although financial development was flat. In terms of migration needs, business was favorable with many discussions aimed at cloud computant security enhancement. 		
Platform architect	*	*	 As for security services in the focused business areas, in-house products for government offices rose net sales and operating income due to advance recording from the second half of the fiscal year. Both sales and income grew as demand related to operations in the ICT infrastructure construction business increased and the level of semiconductor supply normalized. 		
Group companies	*	-	Both sales and income expanded due to an increase in business negotiations for nearshore development and operation projects for major customers.		
	ore YoY increase 🌟	5 to less than 10% increase	▲ 5 to less than 5% decrease		

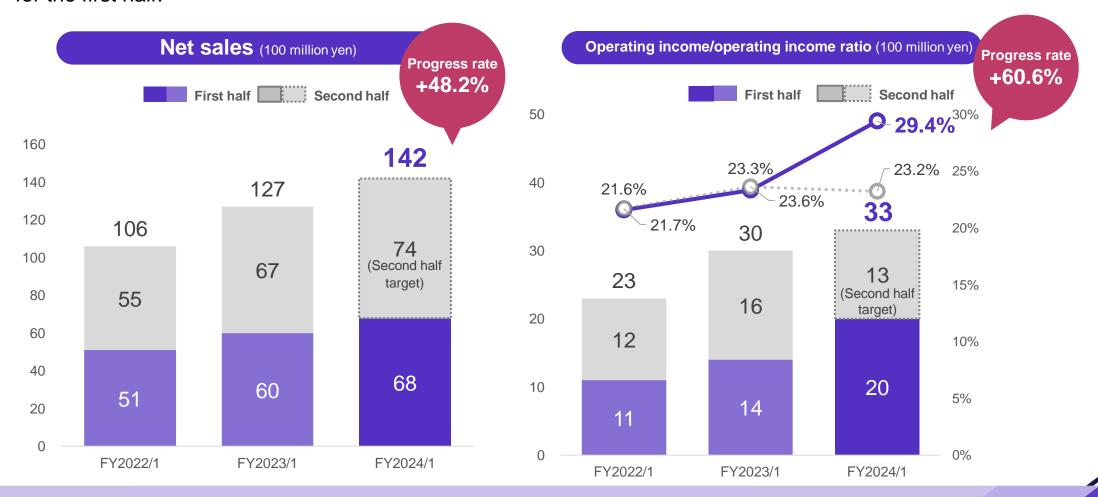
Progress of focused business

■ Progress varies from area to area, with mobility and migration leading the way in the first half.

Digital Industry	Production and logistics solutions	Progress rate against full-year sales target	 Production: Progress rate has been slow due to sluggish product sales, while DX business negotiations in the manufacturing industry are on the rise. Logistics: In-house logistics solutions are booming, and business negotiations are also rising against the backdrop of logistics issues.
Business	Mobility services	47.0%	 Cloud development and automobile-related big data analytics projects have remained strong. In big data analysis, vehicle information (CAN) and location data analysis increased, leading to business negotiations on projects of a larger scale.
	Services in cooperation with Microsoft Japan		 In Dynamics 365 CRM and Power Platform, a major business negotiation for a new client contributed to growth. Business negotiations on generative AI-related services have been on the rise, promoting inhouse research focusing on AI research.
Service Integration	Migration services	Progress rate against full-year sales target	 In terms of migration needs, business was favorable with many discussions aimed at cloud computing and security enhancement. Business negotiations increased in connection with the mainframe exit by vendors, exit by UNIX, and end of support for Windows Server 2012.
Business	Security services	49.7%	 Large-scale business deals on in-house security products for government and public offices contributed to raising sales and income. Demand for security products expanded although upgrading demand to increase resilience among local governments calmed, and stocking and sales declined.
	DX cloud platform		 We are reconsidering our policies, including considering the configuration of services based on customer needs and product differentiation, and expanding the scope of coverage.

Progress of focused business

- Sales progressed as planned, and the operating income ratio progressed well against the full-year target.
- Advance recording for in-house security products contributed to raising the level of both sales and income for the first half.



Orders received/orders in hand

Orders received

System development and connected development projects for the manufacturing industry expanded.

Migration services and services in cooperation with Microsoft grew in the focused business areas while ICT infrastructure construction grew in the core business.

Digital Industry Business

Service Integration Business

Orders in hand

System development projects for the manufacturing industry expanded.

Orders in hand increased due to long-term, large-scale operation projects in the data center business, security services, and services in cooperation with Microsoft.



Year-on-year comparisons of sales by industry

(Unit: Million yen)

		(Offic. Million yen)				
	FY2023/2Q	FY2024/2Q	Year-on-year comparisons		Points by industry	
	1 12023/20	1 12024/20	Amount of change	Rate of change	Folities by illudeity	
Manufacturing industry Component ratio	10,331 (44.0%)	11,423 (43.2%)	1,092	10.6%	[Manufacturing industry] System development projects expanded.	
Communication and information service industry Component ratio	6,495 (27.6%)	7,003 (26.5%)	507	7.8%	[Communication and information service industry]	
Financial industry Component ratio	2,321 (9.9%)	2,436 (9.2%)	115	5.0%	ICT infrastructure construction projects of leading carriers expanded.	
Distribution industry Component ratio	1,314 (5.6%)	1,539 (5.8%)	224	17.1%	[Financial industry] Large-scale projects for major customers postponed. Size of business negotiations shrank.	
Government and public offices Component ratio	933 (4.0%)	1,946 (7.4%)	1,012	108.5%	[Distribution industry]	
Other Component ratio	2,082 (8.9%)	2,096 (7.9%)	14	0.7%	Migration projects expanded. Services in cooperation with Microsoft expanded	
Total	23,478 (100%)	26,445 (100%)	2,967	12.6%	[Government and public offices] Security services expanded. System development projects expanded.	

Balance sheet compared with the beginning of the fiscal year

(Unit: Million yen)

	(Grint Williams year)					
	End of January 2023	End of July 2023	Amount of change	Rate of change	Point	
Current assets	35,208	36,662	1,453	4.1%		
Cash and deposits	23,302	25,392	2,090	9.0%	[Assets] Increased Increase in cash and deposits	
Non-current assets	11,124	10,923	(201)	(1.8%)		
Total assets	46,333	47,585	1,251	2.7%	[Liabilities] Decreased	
Current liabilities	8,311	7,519	(791)	(9.5%)	Decrease in allowance for loss on orders received	
Non-current liabilities	642	669	26	4.2%		
Shareholders' equity	37,309	39,370	2,061	5.5%	[Shareholders' equity] Increased	
Equity ratio	80.5%	82.7%	_	2.2 pt	Increase in retained earnings	

Unprofitable projects and measures to deter unprofitability

- Status of unprofitable projects
 - □ In the second quarter of the fiscal year ending January 2024, confirmed <u>stable operation of the system even during the peak season</u>.
 - □ Transitioned to the **normal operation** in an enhanced environment upon optimizing the structure.
- Measures to deter unprofitability

Measures to prevent occurrence of unprofitability

- Refine check items at the time of receiving orders and make the risk measures stricter.
- Make the project progress transparent to issue warning alerts early.

Measures to quickly make improvements in the event of a problem

- Reconstruct the company-wide response scheme in the event of a problem.
- Standardize the judgment criteria for introducing third parties to projects.

Contents



Operating Results for the Second Quarter of the Fiscal Year Ending January 2024

Full-Year Earnings Forecast for the Fiscal Year Ending January 2024

3. Appendix

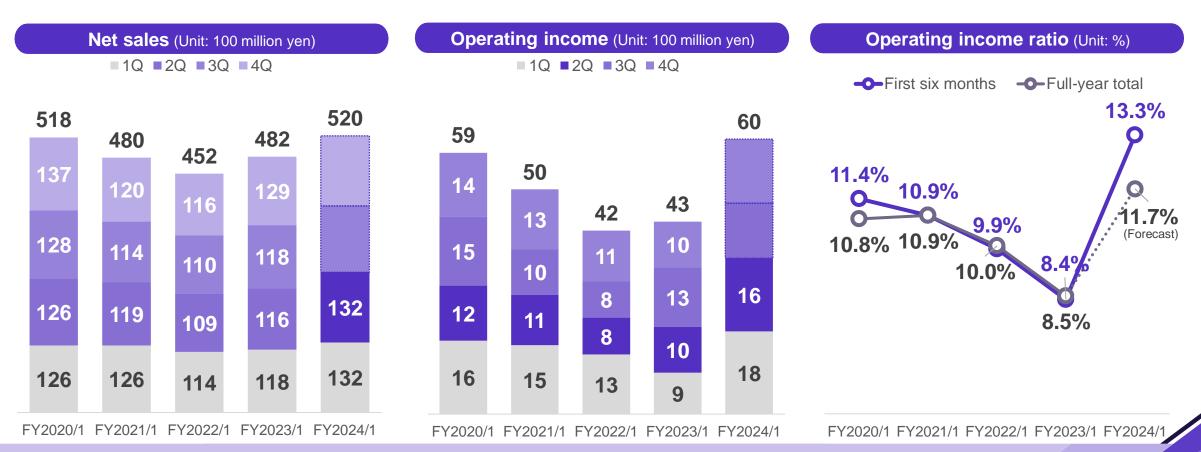
Adjustments to full-year earnings forecast for the fiscal year ending January 2024

- Full-year earnings forecast has been <u>revised upward</u> since demand for ICT investment by customers is on the rise against the backdrop of DX promotion.
- We will aim to achieve the full-year targets despite the lingering concerns about rising prices and stagnant overseas economic conditions.
 (Unit: Million yen)

	FY2024/1	FY2024/1	Comparison w forec	•	Ye	ar-on-year compari	son
	(before revision)	(after revision)	Amount of change	Rate of change	FY2023/1	Amount of change	Rate of change
Net sales	51,000	52,000	1,000	2.0%	48,206	3,793	7.9%
Operating income	5,550	6,070	520	9.4%	4,374	1,695	38.8%
Operating income ratio	10.9%	11.7%	0.8 pt	<u> </u>	9.1%	2.6 pt	
Ordinary income	5,570	6,100	530	9.5%	4,413	1,686	38.2%
Ordinary income ratio	10.9%	11.7%	0.8 pt	_	9.2%	2.5 pt	_
Net income	3,840	4,200	360	9.4%	5,179	(979)	(18.9%)
Net income ratio	7.5%	8.1%	0.7 pt	_	10.7%	(2.6 pt)	_

Full-year earnings forecast

- Excluding the impact of the advance recording for in-house security products from the third quarter to the second quarter of this fiscal year, second half results are expected to remain in line with the initial plan.
- In the fiscal year under review, which is the second year of the medium-term management plan, we will strengthen business activities to achieve our targets in both our focused business areas and core business.



Full-year earnings forecast by business segment

- Digital Industry Business: Mobility, a focused business, is expected to remain strong.
- Service Integration Business: Strong performance is expected in both focused business and the core business.

(Unit: Million yen)

	FY2024/1 (before revision)		FY2024/1 (after revision)		Amount of change	
	Net sales	Operating income Rate of return	Net sales	Operating income Rate of return	Net sales Rate of change	Operating income Rate of change
Digital Industry Business	18,000	4,000 22.2%	18,150	4,150 22.9%	150 0.8%	150 3.8%
Service Integration Business	33,000	5,600 17.0%	33,850	6,120 18.1%	850 2.6%	520 9.3%
Corporate expenses	_	(4,050)	_	(4,200)	_	(150)
Total	51,000	5,550 10.9%	52,000	6,070 11.7%	1,000 2.0%	520 9.4%

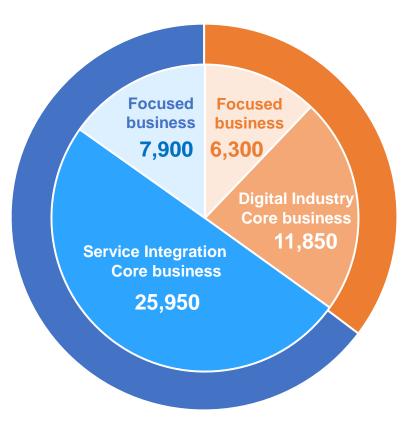
Full-year earnings forecast by business segment

Net sales and operating income forecast

(Unit: Million yen)

		FY2024/1	FY2024/1		
		2Q	Full-year forecast	Progress rate	
Digital Industry Business	Net sales	9,052	18,150	49.9%	
	Operating income	2,109	4,150	50.8%	
Focused business	Net sales	2,958	6,300	47.0%	

		FY2024/1	FY2024/1		
		2Q	Full-year forecast	Progress rate	
Service Integration Business	Net sales	17,393	33,850	51.3%	
	Operating income	3,524	6,120	57.6%	
Focused business	Net sales	3,923	7,900	49.7%	



(FY2024/1 Sales target by business segment)

Contents



Operating Results for the Second Quarter of the Fiscal Year Ending January 2024

Full-Year Earnings Forecast for the Fiscal Year Ending January 2024

3. Appendix

Other indicators



■ Number of employees (Unit: Persons)

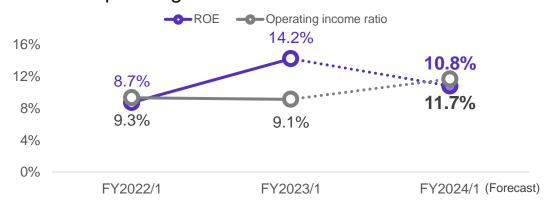


■ Number of partners*1 (Unit: Persons)

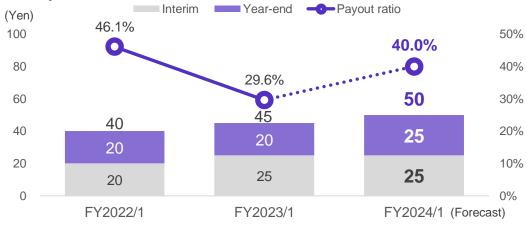


^{*1} Computer Engineering & Consulting < Non-consolidated > excluding service contracts.

■ ROE/operating income ratio*2



Payout ratio and dividends*2



^{*2} The Company recorded gain on sale of investment securities to extraordinary income in the first half of the fiscal year ended January 2023, and increased the dividend by 5 yen.

Company profile



Company name

Date of establishment

Date of Listing

Capital
Net sales

Licenses and approvals

Computer Engineering & Consulting Ltd.

February 24, 1968

April 2022 (Prime Market)
July 2001 (First Section of Tokyo Stock Exchange)

6,586 million yen

48,206 million yen (FY ended Jan. 2023)

- Stated in the list of companies providing system auditing services, the Ministry of Economy, Trade and Industry
- Stated in the list of companies providing information security auditing services, the Ministry of Economy, Trade and Industry
- PrivacyMark-certified business operator 11820032(12)
- JQA Certification
 - Quality Management System ISO 9001:2015 (Certification No. JQA-1481)
 - Information Security Management System ISO/IEC 27001 (Certification No. JQA-IM0007)
 - Cloud Service Information Security Management System ISO/IEC 27017 (Certification No. JQA-IC0040)
 - Information Technology Service Management System ISO/IEC 20000 (Certification No. JQA-IT0005)
 - Environmental Management System ISO 14001:2015 (Certification No. JQA-EM7701)
- Telecommunication engineering business, Minister of Land, Infrastructure, Transport and Tourism (Ordinary-4) No. 28700 (License date: November 21, 2022)

Number of Employees

Consolidated subsidiaries

Head Office

Representative

Business Description

2,260 (as of July 31, 2023)

8 companies

JR Ebisu Bldg., 5-5 Ebisu Minami 1-chome, Shibuya-ku, Tokyo 150-0022

Takashi Himeno, Representative Director & President

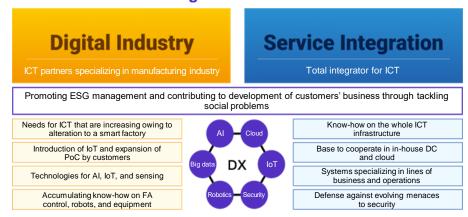
■ Digital Industry Business

Providing original ICT products and services aimed mainly at supporting the manufacturing industry to improve operational efficiency, improve quality, and create attractive products.

■ Service Integration Business

Supporting the entire ICT life cycle, which is necessary to reform and improve the business operations of companies and organizations. Providing total ICT services and products, including cloud computing and security.

<Two businesses contributing to the realization of a sustainable society>





Vision 2025: To a Company That Creates the Future with ICT Technologies

1. Strengthening business capabilities Increasing the areas of focused business to six from two Shifting to service-oriented business A synergy of business across the whole company 2. Strengthening human resources and technical capabilities Cultivating human resources Changing to an increase in the number of employees Diversity and work-style reform

3. Strengthening management foundation

Promoting ESG activities	Promoting in-house DX	Improving the financial base and other matters

	Net sales	Ordinary income	Ordinary income ratio	ROE/Payout ratio
Target management indices	56.0 billion yen	6.9 billion yen	12% or more	ROE: 12% or more Payout ratio: 40% or more

Segment Information



Digital Industry Business

ICT partners specializing in manufacturing industry

Smart factory

 Product planning, product development and system development, maintenance, and solution services for production and logistics areas in the manufacturing industry

Connected services

- Consulting, system development, maintenance and operation, and solution services related to the IoT-connected field with a focus on mobility
- Operations related to the development of embedded software, mainly for invehicle devices
- Operations on quality solutions such as automated testing, CI/CD building

Chubu services

Overall ICT services for the Technical Information Division (bill of material/PDM/CAD), Corporate Information Division (sales/finance/accounting), and Corporate Information Division (personnel/production logistics) that target the automotive industry

Nishinihon services

- Provision of SI services using business SI and EOS solutions in the Kansai and Hokuriku areas
- Product planning, development, maintenance, operation and provision of product services, with a focus on the IoT field in the logistics and manufacturing sectors
- Provision of system development, verification, maintenance, operation and installation services, mainly in the FA/industrial equipment and medical & healthcare fields

Service Integration Business Total integrator for ICT

Service integration

Enterprise

- Consulting, system development, maintenance and operation using Microsoft's cloud services such as Dynamics 365, Microsoft 365 and Azure
- Development, maintenance and operation of solution systems for government agencies and municipalities

AX services

 Consulting, systems development, maintenance and operation related to ICT modernization using migration services

Business systems

 System development, maintenance and operation for the financial sector, including banking, insurance, credit card, securities and leasing

Platform architect

Security services

- Monitoring and operation of various security services and security equipment
- Product development and sales, solution services, system development, maintenance and operation related to office security based on authentication technology

Platform

 Operations related to the overall life cycle management from planning and examination of ICT infrastructure construction and cloud services to design, construction, migration and operation

Data center

- Operations related to data center and cloud services
- Operations related to system operation design, implementation support, and operation management services

Group companies

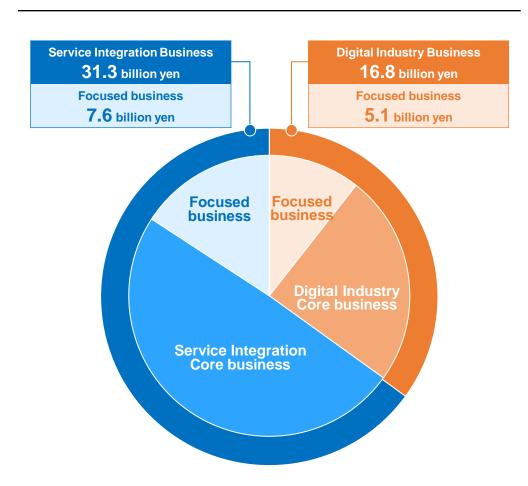
Foresight System, etc.

- Nearshore development, construction, maintenance and operation
- Temporary staffing service

Focused business (Results for FY ended Jan. 2023)



Total company sales: 48.2 billion yen



Focused business: Business areas that leverage their unique features

Digital Industry Business	Production and logistics	∀ Visual Factory LogiPull ✓ LogiPu	In addition to product services for the manufacturing industry, LogiPull, a logistics solution, is added to support digitalization and DX strategy in fields from production sites to logistics.
	Mobility services	◆ PlusLocation. ← SimuField*-SC	Provides services utilizing automotive/transportation big data, mainly in the connected field of the automotive industry.
Service Integration Business	Services in cooperation with Microsoft Japan	Convergent*	Promotes services in cooperation with Microsoft and supports DX, mainly through management analysis and marketing of Dynamics 365/Azure platform.
	Migration services	Re@nove	Supports legacy ICT innovation, cloud migration and DX of systems and application environments.
	Security services	Cyber NEXT® TYVXE+3UF-YU3-VBV SmartSESAME XY-AEPS	Provides security consulting, design, construction, and operation services, with a portfolio of products that protect ICT elements connected to the network from security threats.
	DX cloud platform	BizVision	Promotes cloud computing through installation of in-house applications on cloud platforms.

Disclaimer



- ✓ This document has not been prepared for the purpose of soliciting investments.
- ✓ Forward-looking statements in this document are based on judgments and assumptions made in light of trends in the Japanese economy and the information services industry, as well as information available at the time of preparing this document.
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