

Company Report

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Strategy Advisors Inc.

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Pioneer in Data/AI Utilization Seeks to Expand Profits through “In-House Capability Building Support”, that Breaks Down Japan's Weakness as "an Industrial Structure that Relies on External IT Human Resources"

BrainPad is a leading company in data/AI utilization. It operates 2 businesses: the Professional Services Business that designs and implements optimal data utilization for corporate management and the Product Business that makes data utilization a part of daily corporate activities through SaaS.

The two founders (Chairman Mr. Takafumi Takahashi & Director, Mr. Seinosuke Sato) realized there were business opportunities in utilizing data for corporate management and so established the company in 2004. By around 2019, the company had established a system that allowed it to provide a value chain for data-driven value creation on its own. Mr. Tomohiro Sekiguchi, joined from a management consulting company in 2017 was appointed CEO in 2023 and has taken over general management.

The company's "corporate DNA" is one of "professional spirits that are not afraid to get down to business in order to breathe life into data". The company's "data scientist organization", which is a collection of core personnel, and its "accumulated experience in data utilization", which are difficult-to-imitate resources (management resources), are unmatched by other companies and are the source of the company's competitive advantage, which is simply "the ability to utilize data to contribute to business decision-making".

The focus of the medium-term management plan, which begins in FY06/2024, is first shifting to "radical strengthening of data/AI utilization systems within client companies = in-house capability building support", which can be described as its "exciting dream". The "second challenge" of establishing this new style of support has the potential to fundamentally change the way of services provided in the current IT industry, which does not contribute to strengthening the competitiveness of Japanese client companies. At the same time, the company will also have the opportunity to expand its profits by supporting the in-housization of IT human resources at client companies. The ultimate goal is another "exciting dream" for the company, which is to "become the No.1 company in Japan that produces human resources" that can convert data into business value (human resources that utilize data/AI).

The company's stock price has barely risen above the levels at the beginning of 2020 when the COVID-19 pandemic began and has lagged significantly behind TOPIX. Going forward, the stock price will likely be affected by short-term performance fluctuations; but in the medium-to-long-term, the penetration of the shift to the "in-house capability building support" model and increased recognition as a "company that produces human resources" are likely to be reflected in the stock price through an increase in valuation.

Stock Price and Volumes



Source: Strategy Advisors

Key Indicators

Stock Price (10/30/24)	815
Year-to-Date High (2/25/24)	1,720
Year-to-Date Low (8/4/24)	743
52-Week High (2/25/24)	1,720
52-Week Low (8/4/24)	743
Shares on Issue (mn)	22.3
Market Capitalization (¥ bn)	17.5
EV (¥ bn)	19.3
Equity Ratio (06/24 Actual, %)	76.3
ROE (06/24 Actual, %)	17.43
PER (06/25 CEO, Times)	19.25
PBR (06/24 Actual, Times)	3.15
Dividend Yield (06/25 CEO, %)	0.98

Source: Strategy Advisors

Japanese GAAP – Consolidated

FY	Net Sales (¥ mn)	YoY (%)	Operating Income (¥ mn)	YoY (%)	Ordinary Income (¥ mn)	YoY (%)	Net Income (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
06/2021	7,101	7.2	851	-19.8	884	-18.1	601	-30.0	27.0	0.0
06/2022	8,561	20.6	1,145	34.5	1,167	32.0	803	33.6	36.5	0.0
06/2023	9,798	14.4	681	-40.5	752	-35.6	515	-35.9	23.7	8.0
06/2024	10,561	7.8	1,349	98.1	1,358	80.6	909	76.5	42.3	8.0
06/2025 CEO	11,800 to 12,000	11.7% to 13.6%	1,400 to 1,500	3.8 to 11.2	1,400 to 1,500	3.1 to 10.5	910 to 970	0.1 to 6.7	40.81 to 43.50	8.0

Note: Non-consolidated results are disclosed for FY06/2022. YoY for FY06/2022 are comparisons with consolidated results for FY06/2021. YoY for FY06/2023 are comparisons with non-consolidated results for FY06/2022.

Source: Strategy Advisors. Based on Company Data.

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Executive Summary

Pioneer in Data/AI Utilization

BrainPad (hereinafter, the company) has been consistently working on business creation and management improvement through data since its establishment in 2004. The company is a pioneer in data/AI utilization, having focused on the importance of data in corporate management and commercialized it long before words such as "big data" (2010's) and "AI" (2020's) began to attract attention.

The Current CEO Mr. Sekiguchi's View on the Background of BrainPad

Mr. Tomohiro Sekiguchi, who joined the company in 2017 from Accenture, was appointed Representative Director, President and CEO in 2023, taking over general management from the two founders (Mr. Takafumi Takahashi, Chairman and Mr. Seinosuke Sato, Director). The two founders found business opportunities in utilizing data in corporate management and established the company in 2004. Since its establishment, the company has focused on providing data analysis services, and in 2006 it began providing its own marketing tools. At the same time, it expanded its scope to engineering for building data analysis platforms and systems. By around 2019, the company had established a system that allowed it to provide a value chain of value creation, from upstream consulting to the creation of value.

The company's "corporate DNA" is built on "professional spirits that are not afraid to get down to business in order to breathe life into data". The data scientists who are at the core of the company's data utilization workforce are willing to do the hard work to pursue "transforming the value of data". The value provided by this pursuit is the foundation of the company's sustainable growth.

BrainPad's Business Strategy from the Perspective of Business Strategy Theory

Based on Michael Porter's positioning theory, the company is focusing on a differentiation strategy that specializes in "utilizing data/AI in business". As a result, it has distinguished itself from other SI companies and management consulting firms, particularly in terms of the value it provides for its client companies and has established itself as a leading company in data/AI utilization.

2 Resources that are Difficult to Imitate

The company's resources that are incredibly difficult for other companies to imitate are its "data scientist organization gathering the largest number of data scientists in the industry" and "accumulated experience in data utilization". These 2 resources interact with each other to create the source of the company's competitive advantage, "the ability to utilize data to encourage behavioral changes in businesses or managers".

Business Development Covering the Value Chain of "Value Creation through Data/AI"

The company's capability is "a value chain of value creation through data/AI that can be completed by itself". It covers the value chain by combining the Professional Services Business, which designs optimal data utilization and implements it in management and the Product Business, which makes data/AI utilization a part of daily corporate activities through practical SaaS, but the Professional Services Business is driving its growth.

Earnings Trends

The company has seen an increase in sales for 20 consecutive years since its establishment; but its operating profit until FY06/2023 did not exceed the level of FY06/2019 and its operating profit margin has been on a downward trend. Therefore, one of the main themes of its current medium-term management plan starting from FY06/2024 is to increase profitability by reviewing the cost structure of existing businesses.

The effects of this have appeared immediately, with its operating profit for FY06/2024

reaching a record high, exceeding the level of FY06/2019; and its operating profit margin also rapidly recovered compared to the previous reporting period, where it had dropped significantly.

The New Ways of Support an "Exciting Dream"

The most noteworthy point of the current medium-term management plan ending in FY06/2026, is that the company is trying to shift its focus from simply providing "results of data/AI utilization" to "providing a system for data/AI utilization built within the client company = supporting in-house capability building". For the company, this is its "second challenge" and the "exciting dream" that the company currently holds. If this new way of supporting spreads, client companies will be able to fundamentally reconsider the significance of IT in management and achieve results from data/AI utilization that will lead to strengthening of the competitiveness of their business. The company will also be able to break away from the traditional labor-intensive business model and both expand the scale of its business and improve its profit margins, which has been a challenge. The result would end up helping make come true another "exciting dream" for the company, which is to "become the No.1 company in Japan that produces talent" for data/AI utilization.

More important than short-term performance trends and quantitative targets in the medium-term business plan is the fact that the company is trying to change the way it supports its client companies. In other words, based on an awareness of the issues facing the industry as a whole, the company has shifted course from simply providing its client companies with "the results of data/AI utilization" to "providing a system for data/AI utilization built within the client company = supporting in-house capability building", and it is noteworthy that the company has set a clear goal of "becoming the No.1 company in Japan that produces talent" for data/AI utilization.

Stock Price Outlook

The company's stock price has barely risen above levels at the beginning of 2020 when the COVID-19 pandemic began and has also significantly underperformed TOPIX. In the process, the sense of overvaluation is being eliminated. The stock price will likely continue to fluctuate for a while due to short-term performance fluctuations, but we must not forget the shift to an "in-house capability building support" model in the medium-term management plan and the goal of becoming "the No. 1 talent producing company in Japan". These measures by the company have the potential to change the way services are provided in the IT industry; and if it becomes more likely that these measures will lead to improved profitability for the company in the medium-to-long-term, the valuation criteria for the stock price may change. In addition, when the company becomes more recognized as being in a position to benefit from the growth of the entire industry by becoming the "No.1 talent producing company in Japan"; the superiority of the company's business and business model is likely to be reflected in the stock price through an increase in valuation.

1. A Pioneer in Data/AI Utilization for Business

Pioneer in Data/AI Utilization

BrainPad is a pioneer in the field of data /AI utilization, supporting business creation and management improvement using client companies' data.

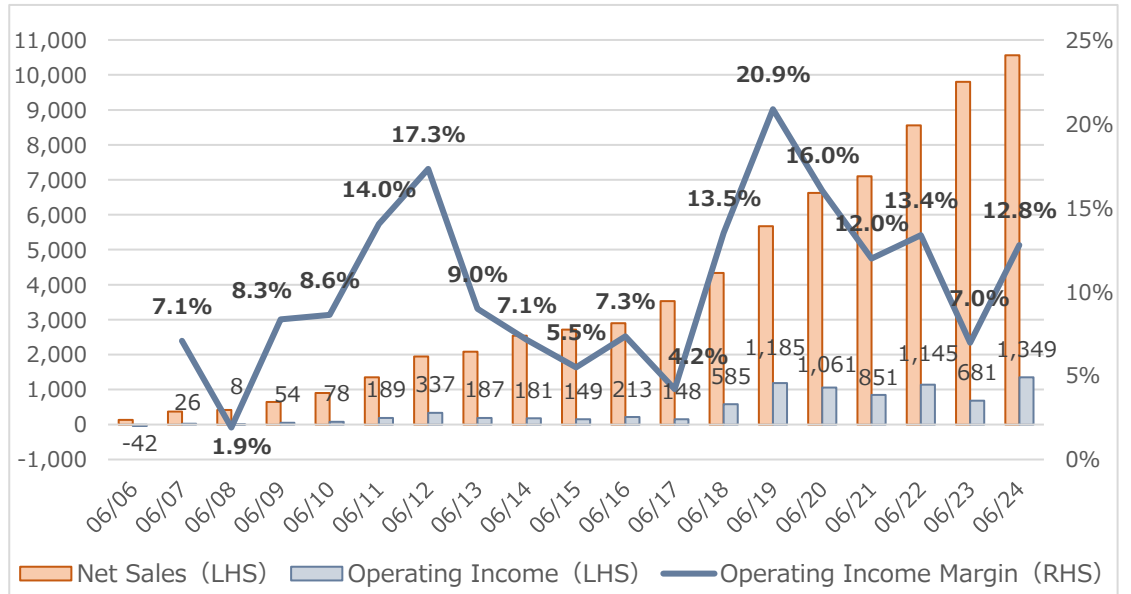
Data is generally defined as "existing information and knowledge that is expressed and coded in a form suitable for more appropriate use and processing" and is considered a factor in decision-making for changing and improving corporate activities. In the 2010's, when the term "big data" became popular, it was said that "data is the new oil of the digital economy". As the amount of accumulated data increases, the importance of using data in corporate management just keeps increasing.

Oil does not have value until it has been discovered. Similarly, data has nearly no value if it remains just data. For example, a B2C company that offers membership services previously only accumulated information on its members, but by conducting analysis that combined member attribute data, online behavior history, past contact history, and other data; and using AI to predict which members are likely to be interested in which services, it was finally able to effectively use that data in marketing activities. Data only becomes valuable when it is utilized through analysis and AI.

The Company was established in 2004, ahead of the trend of the growing importance of data utilization, finding business opportunities in data utilization for management decision-making. Since then, the company has consistently focused on the utilization of data/AI for management support and has established itself as a leading company in data/AI utilization.

When the company was listed on the Tokyo Stock Exchange Mothers Market in September 2011, it had sales of ¥1.347 billion and operating profit of ¥189 million (FY06/2011 results). Since then, over the 13 years up to FY06/2024, sales have increased 7.8 times and operating profit has increased 7.1 times. Although the business scale has expanded with sales increasing for 20 consecutive years since the company's establishment, the operating profit margin has swung up and down. The margin exceeded 20% once in FY06/2019, but had been on a downward trend until FY06/2023.

Figure 1. BrainPad's Sales and Operating Profit



Note: Only non-consolidated results are disclosed for FY06/22.

Source: Strategy Advisors. Based on Company Data.

2 Businesses Covering the Entire Value Chain of "Data/AI-Driven Value Creation"

The biggest feature of the company's business is that it can do all functions of value chain of value creation through data/AI by itself. It covers the value chain through two segments: the Professional Services Business, which designs optimal data/AI utilization for client companies and implements it in their management; and the Product Business, which enables data/AI utilization on a daily basis. At present, the main drivers of the company's performance are consulting and analysis contracts for data/AI utilization in the Professional Services Business, as well as system engineering for data/AI utilization in the Professional Services Business.

Figure 2. Sales and Operating Profit by Segment

FY	Sales	By Segment			
		Professional Service	Sales Composition	Product Service	Sales Composition
06/20	6,621	4,347	65.7%	2,274	34.3%
06/21	7,101	4,868	68.6%	2,234	31.5%
06/22 non-consolidated	8,561	6,075	71.0%	2,486	29.0%
06/23	9,798	6,736	68.7%	3,062	31.3%
06/24	10,561	7,378	69.9%	3,183	30.1%

FY	Operating Profit	By Segment				
		Professional Service	Profit Margin	Product Service	Profit Margin	Adjustment Amount
06/20	1,061	1,717	39.5%	697	30.6%	-1,353
06/21	851	1,841	37.8%	672	30.1%	-1,661
06/22 Non-Consolidated	1,145	2,543	41.9%	611	24.6%	-2,009
06/23	681	2,347	34.8%	444	14.5%	-2,110
06/24	1,349	2,911	39.5%	769	24.2%	-2,331

Note: Only non-consolidated results are disclosed for FY06/22.

Source: Strategy Advisors. Based on Company Data.

Purpose, Vision & Mission

Since its establishment, the company's purpose has been "Promoting data utilization to create a sustainable future". Its vision is "Creating a society where data use becomes as natural as breathing" and it aims to widely provide the necessary human resources and environment for data utilization to take root within corporate activities.

Based on the above purpose and vision, the company's mission is "Contributing to the revitalization of an internationally competitive and prosperous Japan by rebuilding the technology and human resources supply chain". Specifically, unlike traditional contract-based IT services, the company envisions a world in which technology and human resources are embedded in client companies, strengthening them from within.

Most of the Shareholders are Individuals

The company was listed on the Tokyo Stock Exchange's Mothers in September 2011, and on the First Section of the Tokyo Stock Exchange in July 2013. As of the end of June 2013, immediately prior to the listing on the First Section of the Tokyo Stock Exchange, Mr. Takahashi held 35.04% of the shares (including 30.19% held by Discipline, an asset management company) and Mr. Sato held 15.69%. Since then, their ownership ratios have decreased, and as of the end of June 2024, Mr. Takahashi's ownership ratio was 12.18% (including the shares held by Discipline Asset Management company) and Mr. Sato's was 7.86% (after taking into account treasury stock).

In addition, the shareholder ratios by category as of the end of June 2024 (after taking into account treasury stock) were 44.96% by individuals and others, 25.12% by financial institutions, 18.00% by other corporations and 6.74% by foreigners, meaning

that even excluding those held by directors, the shareholder composition is dominated by individuals and others.

Figure 3. Shareholder Composition of BrainPad

Classification	Shareholding Ratio	
	End of June 2024	(Excluding Treasury Stock)
Individuals And Others	47.27%	44.96%
Foreign Corporations, etc.	6.49%	6.74%
Financial Institutions	24.19%	25.12%
Other Corporations	17.34%	18.00%
Government And Local Publics	0.00%	0.00%
Other (Financial Instruments Firms)	4.70%	4.88%
Directors		
Mr. Tomohiro Sekiguchi	0.86%	0.89%
Mr. Takafumi Takahashi	11.72%	12.18%
Mr. Takahashi	1.18%	1.23%
Discipline (Asset Management Company)	10.54%	10.95%
Mr. Seinosuke Sato	7.56%	7.86%
Others (Excluding Outside Directors, Audit Committee Members)	0.14%	0.14%

Note: The ownership ratio is calculated using the number of shares issued minus the number of treasury shares. Fractional shares are included in "Other (Financial Instruments Business Operators)".

Source: Strategy Advisors. Based on Company Data.

2. BrainPad's Background from the Current CEO Mr. Sekiguchi's Point of View

Mr. Tomohiro Sekiguchi, who was born in 1977 and joined Accenture in 2001 after graduating from university. When he joined Accenture, one of the major global consulting firms, he did so as a systems consultant, partly because he had a science background. Soon after joining Accenture, he was involved in a large-scale project for systems consulting project, then a few years later, he was transferred to the strategic consulting team, which he had long desired to join. He spent 16 years at Accenture before moving to the BrainPad in 2017, during most of time he was a strategic consultant.

The Current President Hails from Accenture

The Current President's Encounter with BrainPad

Within Accenture's strategic consulting, Mr. Sekiguchi has extensive experience in teams specializing in organizational and human resource strategies. During his time with Accenture, the organizational strategy team tripled in size and his experience in contributing to revive and expand the team became valuable assets that supported his subsequent management capabilities.

As Accenture grew significantly and its business model was established, Mr. Sekiguchi felt a strong desire to be in a place where he could experience new growth and began to look for his next career. At this time, Mr. Sekiguchi had the following two thoughts in mind:

- ① When foreign consulting firms provide support, they mainly involve bringing advanced cases from overseas to Japan and offering them as solutions, so won't Japanese companies end up just following what other countries are doing?
- ② If Japan does not develop its own ability to create something from scratch, won't the gap between Japan and the rest of the world only widen?

Mr. Sekiguchi, who loves Japan and was thinking about how he could contribute to the country, decided to look for his next career opportunity in a Japanese company. At that time, he was contacted by a former Accenture employee at BrainPad. This was how Mr. Sekiguchi was first introduced to the company.

Established in 2004 by 2 Like-Minded Founders

Now let us turn back the clock to the early 2000's, when Mr. Sekiguchi started working in the field of strategic consulting at Accenture.

One of the founders, current Chairman of the Board, Mr. Takafumi Takahashi, joined Sun Microsystems Japan (now Oracle Japan) after graduating from graduate school. Mr. Takahashi went to graduate school because he didn't want to work for a large company and wasn't sure what he wanted to do and his main motivation for joining Sun Microsystems Japan was to go out in the world for a while. After that, at the invitation of a friend from graduate school, he was involved in the Internet business in the early 2000's as a director of FreeBit.com (now FreeBit 3843 TSE Prime).

At the time, broadband was becoming widespread and E-commerce and direct communication were expanding in online businesses. Naturally, data was being accumulated within companies, but the situation was such that data was simply being accumulated and was far from being put to effective use.

While running his online business, Mr. Takahashi witnessed how data analysis was not keeping up with the increasing volume of data and through a mutual acquaintance, he met the other founder and current director, Mr. Seinosuke Sato, in 2003. At the time, Mr. Sato was the representative director of MarketSwitch Japan, the Japanese subsidiary of MarketSwitch, a US company that dealt in optimization software for one-to-one marketing and was an expert in building predictive models and optimization using data.

Mr. Takahashi is someone who always thinks from the perspective of "What does Japan need for the future?" While running his online business, Mr. Takahashi, who recognized the situation where data had continued to accumulate without being utilized as a social issue and Mr. Sato, who had a solution for utilizing data, quickly hit it off together.

As they got along well and continued to talk, the two men came to strongly recognize the importance of the value of data and the impact that using data could have on the world. And since no one was doing this as a business, they became increasingly convinced that there were great business opportunities in applying data to business. So, in 2004, the two men established the company to specialize in supporting companies in using data to increase their productivity.

Although Mr. Takahashi is about 15 years younger than Mr. Sato, Mr. Sato apparently thought it would be better for Mr. Takahashi to be at the top and so at the time the company was established, Mr. Takahashi became the CEO and Mr. Sato joined as head of the sales department (Mr. Sato became a director in 2006).

Started Providing Contracted Data Mining Services Soon After Establishment

Soon after its establishment, the company began providing contracted data mining services. From the start, the company offered its services with the aim of converting data into value for clients' business purposes, rather than simply processing it.

However, people around them said, "There's no way you can make money from data". Regarding this, Mr. Sekiguchi speculates, "At the time, IT systems were more strongly seen as tools to help with work and make it easier and no one could imagine converting the data stored in those IT systems into concrete business value".

There was no recognition that data analysis could be a business, nor was there any recognition of the service concept of using data to support management. As a result, it was difficult to find specialists to analyze data. As for the data to be used, data handled by core systems such as ERP was not provided. In this situation where there was nothing, the company initially steadily completed projects related to data in the areas of marketing and sales that were handled by front-end systems. It could be said that the fact that many of the company's client companies are still in the retail and consumer services industries is a vestige of this time.

Started Providing Products with "Rtoaster"

Due to these backgrounds, the number of cases in the areas of marketing and sales increased. The company had felt the need for tools for data processing and analysis from an early stage, and in 2006 began offering "Rtoaster", a private DMP equipped with a recommendation engine, as a marketing tool. DMP stands for Data Management Platform, a platform that can centrally manage various data useful for marketing accumulated on the internet, and "Rtoaster" remains its core product at present. After start of "Rtoaster", the company began offering several other tools, which became the foundation of the company's current the Product Business.

2011 Listing

In 2011, 7 years after it was established, the firm was listed on the Tokyo Stock Exchange Mothers and shifted to the First Section of the Tokyo Stock Exchange in 2013.

Around this time, the company began to expand its business domain. In 2013, it launched the "BrainPad educational Program" (now the Data Utilization Human

Resource Development Service), which was a training course designed for companies and individuals. It also led the establishment of The Japan DataScientist Society in the same year. In 10 years since its establishment, the company's success not only symbolizes that data scientists have gained social recognition as a profession, but also that the company has established a leading position in the field of data/AI utilization.

Change of President in 2015

Until that time, the company's main projects were data analysis contracts, where data was received from clients, analyzed and the results were delivered. Naturally the scale of each project was smaller than it is today. As a result, even though sales increased, operating profits remained at the ¥100 million level, and the company's challenge was to increase profitability.

Therefore, in 2015, the company changed its previous structure of Mr. Takahashi as CEO and Mr. Sato as Director, to one where Mr. Sato became CEO and Mr. Takahashi became Chairman.

With Mr. Sato taking over as CEO, the company went beyond simply delivering analysis results to provide comprehensive proposals, from upstream data/AI utilization consulting to engineering to systematize the logic used in analysis. At the same time, the company began to promote itself as an "analytics innovation company". This was a sign of the company's intention to broaden its scope beyond data analysis and provide more comprehensive support for its clients' data/AI utilization.

When Mr. Sekiguchi joined the company in 2017, Mr. Sato was serving as CEO and was actively promoting comprehensive proposals.

Mr. Sekiguchi's Thoughts on the 2 Founders

According to Mr. Sekiguchi, the two founders, Mr. Sato and Mr. Takahashi, are not the type of people he would find in a large Japanese company or consulting firm and he found them very interesting from the moment they first met. In Mr. Sekiguchi's eyes, Mr. Sato is "someone who continues to have a dream of accomplishing something big," and Mr. Takahashi is "someone who doesn't usually show much passion, but who has an extremely strong sense of crisis about the current situation in Japan and has sharp insight".

Mr. Sekiguchi believed that his long experience working for large client companies would be useful in helping these two entrepreneurs achieve their goals at BrainPad, and this was one of the reasons why he decided to join the company.

Raise Operating Profit Levels by Establishing a Successful Pattern

A successful pattern for providing comprehensive support was established, and the company's performance expanded to the point where operating profits reached ¥1 billion for the first time in FY06/2019. At this stage, Mr. Takahashi returned to the position of CEO and Mr. Sato was appointed Chairman, effectively a swap in roles.

After this, in the 2020's, the company has been working on partnerships with client companies to expand its scale through the horizontal expansion of successful patterns. These include the establishment of Dentsu Cross Brain, a joint venture with Dentsu Group (4324 TSE Prime) in July 2020, a capital and business alliance with Itochu Corporation (8001 TSE Prime) in November 2020 and a capital and business alliance with Resona Holdings (8308 TSE Prime) in February 2022.

A Frustrating Period During the COVID-19 Pandemic

However, this was also the time of the COVID-19 pandemic. The AI boom and accelerated DX investments boosted demand for data utilization and revenues continued to grow. At the same time, competition intensified, especially in recruiting. Under these circumstances, the company actively promoted recruitment for future growth, despite the COVID-19 pandemic. As a result, although it was able to acquire personnel with talent, the size of the organization expanded rapidly and the Company's cost structure became bloated. During the period of the medium-term management plan from FY06/2020 to FY06/2023, the company saw a decrease in profits for 2 consecutive years in FY06/2020 and FY06/2021 and its operating profit did not exceed the level of FY06/2019, making it a frustrating period for the firm.

Management Succession

In 2023, in preparation for the start of the current medium-term business plan from FY06/2024 to FY06/2026, Mr. Sekiguchi was appointed CEO, Mr. Takahashi, who had been CEO, returned to become Chairman and Co-Founder and Mr. Sato, who had been Chairman, became a Director and Co-Founder. Mr. Sato also serves as CEO of the subsidiary, Time Technologies.

Mr. Sekiguchi is now the only person with representative authority and is now responsible for the general management of the company. In its medium-term management plan, the company advocates a shift from a management model led by the founder to a collective management system. In this way, the company is moving forward with the succession of management while also changing the management structure.

In relation to the shift to a collective management system, it is also worth noting that the company's current management team includes many former employees of Accenture, just like Mr. Sekiguchi. As mentioned above, Mr. Sekiguchi contributed to triple the size of the organizational strategy team at Accenture and the other team members from Accenture were also key players during their time there. Having members who have first-hand experience with Accenture's outstanding management model is likely to be an advantage when moving forward with reforms. In fact, the company has already achieved results, such as achieving a profit margin improvement that exceeds initial expectations in its medium-term management plan, the first year of which is FY06/2024, which prioritizes improving profitability.

Establishing the New Form of Management Support Outlined in the Medium-Term Management Plan As an "Exciting Dream"

In 2018, some members of the company published a book, "Fail-Proof Data Analysis and AI Business Implementation" (Morikita Publishing). In the postscript, Mr. Takahashi points out that Japan's IT investments are not leading to corporate competitiveness and that the way in which the industry is supported must change. He goes on to argue that if companies want to differentiate themselves through AI, they need to get management involved and reform the entire company. He concludes with the following:

"For Japanese companies...the saving grace is that AI technology itself is rapidly becoming a commodity and in many industries, competition is likely to be driven not by the development of AI technology itself, but by the implementation of business models that integrate data collection and utilization".

The baton from the founders was passed to Mr. Sekiguchi, who, same as Mr. Takahashi, is always thinking about how to do something for Japan. In the medium-

term management plan starting from FY06/2024 under Sekiguchi's leadership, it is clear the company will establish a new form of management support that overturns the methods of traditional IT companies and consulting firms, which have given rise to the harsh reality that Japan continues to lag far behind other countries in the world. Details will be described in the "Medium-to-Long-Term Outlook" chapter, but the new form of support envisioned by the company has the potential to overcome the chronic labor shortages in the industry as a whole, restore the competitiveness of client companies; and also expand the company's business and improve profit margins without significantly increasing the number of employees in the company, resulting in a win-win situation. The atmosphere at present is similar to when the company was established despite being told that "data does not make money" and began its journey as a pioneer in data utilization, but the challenge of establishing this new form of management support is the company's "exciting dream".

Corporate DNA

Every company has DNA. Corporate DNA is a set of unique values and management philosophy that take root throughout the organization and employees and these values are often the source of a company's competitiveness. When a founder starts a business with passion and its products and services are widely accepted by the world, the company begins to grow in earnest. And in the process of corporate growth, it is believed that the founder's passion evolves into the corporate DNA.

In addition, there are cases where a change in management occurs during the business, leading to the evolution of the company's founding philosophy and the establishment of a new corporate culture. A change in management can be a major opportunity for a company. For the company, this was the case with Mr. Sekiguchi's appointment as president and CEO in 2023.

The core competence (the core capability of a company) is brought about by resources that are incredibly difficult to imitate and the corporate DNA of a company is considered to be a powerful factor in shaping this. Just as a person can win by competing in his or her field of expertise, a company's formula for victory is to develop its business within scope in its DNA.

BrainPad's Corporate DNA: "Professional Spirits that are not Afraid to Get Down to Business in order to Breathe Life into Data"

It can be said that BrainPad's corporate DNA is "professional spirits that are not afraid to get down to business in order to breathe life into data."

Ever since the company's establishment, when people said that focusing on data did not make money, the company has been committed to "transforming the value of data", linking the input of data with the output of behavioral changes in client companies. The company believes that data can only be valuable and usable in the real world when it contains both what can be expressed in data and what cannot be expressed in data, such as the background of things.

If the key to using data is to reproduce what happens in the real world with data, then the data scientists who are at the core of the company's data utilization workforce are the ones who continue to pursue ways to increase this reproducibility. And the work required to achieve this is 'down-to-earth'.

Since the company's establishment, when the job of "data scientist" was not yet widespread in Japan, data scientists who were willing to do the hard work to pursue

"transforming the value of data" have gathered at the company. And by continuing to pursue behavioral changes at client companies, these data scientists have increased the value the company provides. This "professional spirit that is willing to get to the hard work" is the foundation of the company's sustainable growth.

3. BrainPad's Business Strategies from the Perspective of Management Strategy Theory

1) Approach from Michael Porter's Positioning Theory

BrainPad's Focuses on Differentiation Strategy

Michael Porter explains that in order to succeed in an industry, it is necessary to take a clear position. He argues that there are three basic strategies for taking a specific position and building competitive advantages: (1) cost leadership strategy, (2) concentration strategy and (3) differentiation strategy, and that it is essential to steer the company toward at least one of them. According to this positioning theory, the BrainPad is focusing on a differentiation strategy.

Differentiation strategy is a strategy to gain an advantage over the competition by offering unique added value that customers recognize, rather than low cost, while targeting a wide range of customers. It can also be described as a strategy to provide value that other companies do not offer and that customers are willing to pay for.

Since its establishment, the company has been dedicated to "supporting companies in using data to increase their productivity" and has consistently pursued the down-to-earth pursuit of converting data into value. At the time of the company's establishment, the founder Mr. Takahashi found business opportunities in bridging the gap between the ever-increasing amount of data and the sluggish ability to analyze data. He then took advantage of the situation at the time when it was said that "data is not profitable" and became more convinced of the business opportunities, saying, "No other companies will enter the data-based business for a while."

Between the company's establishment in 2004 and the early 2010's when the term "data scientist" began to gain widespread use, the company successfully established itself as a pioneer in data utilization within the IT industry. The value (output) the company provides to its clients is the behavioral change of the clients through data utilization and the strengthening of the organization and human resources that support data utilization.

It can be said that the company's differentiation strategy, which continues to set it apart from SI companies whose output is system construction and management consulting firms whose output is mainly problem extraction, has been successful in terms of the value (output) it provides, business concept and business development method.

2) Approach from Resource Based View (RBV)

BrainPad's Core Competency: "The Ability to Use Data & AI to Transform a Collection of Information into Something Valuable Which Can Lead to Behavioral Changes Among Managers"

In contrast to Porter's positioning theory, there is also an approach called "Resource Based View (RBV)" which focuses on a company's own resources. Gary Hamel and CK Prahalad focus on core competencies (a company's core capabilities that provide unique value that other companies cannot imitate), while George Stokes, Philip Evans, and Lawrence Shulman focus on capability (organizational capabilities that span the entire value chain), respectively.

In the case of BrainPad, the core competency is "the ability to utilize data/AI to transform a mere collection of information into something valuable that leads to behavioral change among managers" and the capability is "a value chain for creating value through data/AI that can be completed by itself".

On the other hand, Jay Barney, a major proponent of RBV, discusses both core competence and capability as resources in a broad sense, and then advocates VRIO as a framework to check how strong the company's resources are. Barney lists "Economic Value", "Rarity", "Imitability" and "Organization" as axes for evaluating the potential for effective use of the company's resources. VRIO is an acronym for these four evaluation axes, and Barney believes that resources that are "difficult to imitate" and are backed by an "organization" will contribute to competitive advantage.

3) BrainPad's Two Resources that are Highly Difficult to Imitate

Whether a resource is difficult or easy to imitate is evaluated based on whether imitation is impossible in the first place and whether attempts to imitate it would require enormous costs. The company's resources that are highly difficult to imitate are its "data scientist organization gathering the largest number of data scientists in the industry" and "accumulated experience in data utilization". These two resources interact with each other to create the source of the company's competitive advantage: "the ability to utilize data to encourage behavioral changes in businesses or managers".

1. Difficulty in Imitation: The Largest Data Scientist Organization in the Industry

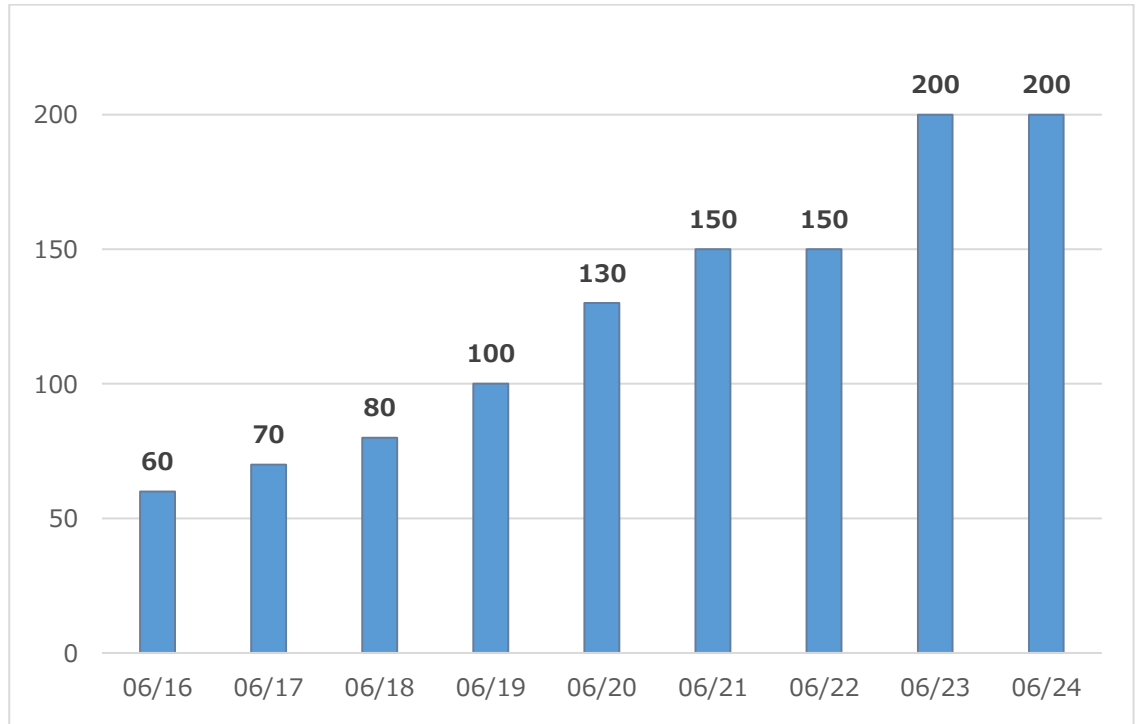
The First Resource that is Difficult to Imitate: The Largest Data Scientist Organization in the Industry

Data scientists, defined as "people who are responsible for designing, implementing, and operating systems for collecting and analyzing data in order to realize operational transformation and new business using data," are said to be in short supply throughout the industry, partly due to the boom of "big data" and "AI". The term "data scientist" began to be used around 2013 when The Japan DataScientist Society, of which the company is a core member, was established; but the company had been gathering data scientists and organizing them into teams since before that. Data scientists at the company account for about one-third of the company's total employees and as of the end of FY06/2024, the number exceeded about 200, which is the largest in the industry. In addition, while there are many data scientists in the world who spend a lot of time on research and development and technology verification, it is also worth noting that most of the company's approximately 200 data scientists are engaged in client work and contribute to improving the business value of client companies.

The policy clearly stated in the medium-term management plan starting from FY06/2024 is to develop personnel for technical positions, including data scientists, who possess the following 3 competencies.

- ① Data analysis skills honed by being members of the company
- ② The ability to think philosophically and gain insight from multiple perspectives based on data analysis
- ③ Practical skills developed through providing services to major client companies

Figure 4. Number Of Data Scientists Employed (Persons)



Note: In the financial results presentation materials for each period, the number is stated as "More than XX people", so it is assumed that the actual number is higher than the figure in the chart.

Source: Company Data Compiled by Strategy Advisors.

2. Difficulty in Imitation: Accumulation of Experience in Data Utilization

The amount of experience in utilizing data/AI is thought to be proportional to the amount of data utilized by data scientists and other data/AI specialists. Because data is utilized for the benefit of client companies, the variables that determine the amount of experience in utilizing data/AI which an organization possesses are the number of client companies, the number of data/AI personnel and years of experience.

As a pioneer in data/AI utilization, the company has 20 years of experience and boasts the largest number of data scientists in the industry. The company has also supported over 1,300 client companies, exceeding other companies in all 3 variables.

The 2 resources mentioned above cannot be built overnight by other companies, and it is impossible for them to catch up with the company; so, the competitive advantage backed by these highly difficult-to-imitate resources is likely to be maintained for the long term. Therefore, the experience of the data scientist organization which is the largest in the industry will continue to accumulate and it is highly likely that sales, at least, will continue to expand.

"Experience in Using Data/AI". Outperform Competitors in All of these Variables

Advantage Supported by Resources that Are Difficult to Imitate

Organizational Expansion and Experience Accumulation Proceed In Tandem

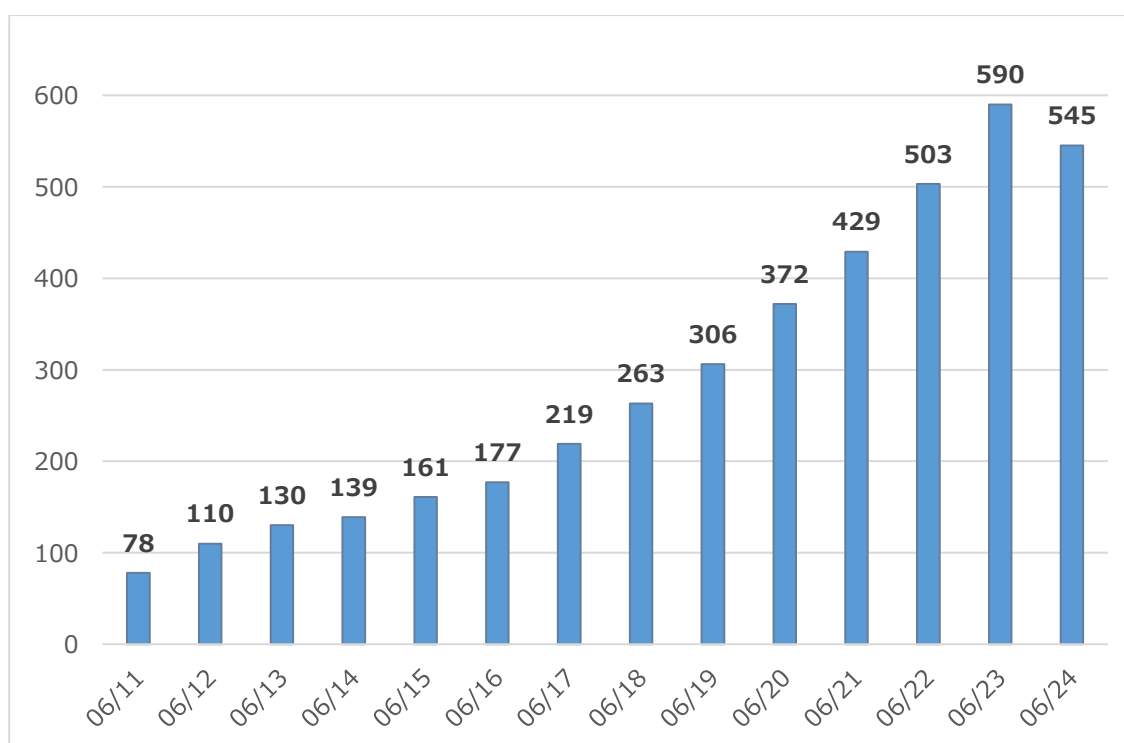
4) Organizations that 'Realize' Resources that are Difficult to Imitate

The 2 highly difficult-to-imitate resources mentioned above have an interactive relationship. In other words, as the "accumulation of experience in data utilization" progresses through the "data scientist organization", people will join, attracted by the prospect of being able to do something interesting and the "data scientist organization" will expand. As a pioneer in the field of data/AI utilization, the company is well-positioned to create a virtuous cycle of this interaction.

Furthermore, an organization cannot exist, relying solely on data scientists. As the number of data scientists increases, the number of engineers who build systems to link them together and consultants who build relationships with client companies also increases, and the organization as a whole expands. The increase in the number of employees across the company can be said to be due to a virtuous cycle of interactions.

The number of employees at the end of FY06/2024 was the first decrease since the company was listed, compared to the end of the previous fiscal year. This was because, although there were natural resignations during the process of reviewing the management structure and organization in the first year of the medium-term management plan, new hires were carefully selected based on the policy for FY06/2024 that emphasizes improving profitability.

Figure 5. Number Of Employees at The End of Each Period (Persons)



Note: Only non-consolidated results are disclosed for FY06/22.

Source: Company Data

Evolution from Functional Organization to Matrix Organization

Until now, the company has operated its organization with an emphasis on technical fields and expertise. For example, it has sought to research and incorporate advanced technologies and improve its expertise by organizing functions such as data science, consulting, and data engineering. In the medium-term management plan starting from FY06/2024, while maintaining the functional organization, it has established new industry-specific organizations to strengthen client contact points and solutions and is shifting its focus to forming and establishing a matrix-type organization based on the 2 axes of function and industry.

"Synapse" - Human Resources Strategy in the New Medium-Term Management Plan

In addition, in relation to the medium-term business plan starting from FY06/2024, the company is sharing with all employees a human resources strategy story consisting of the following 5 elements. The human resources strategy shared with all employees is named "Synapse" and the company is working tirelessly to make it even more difficult to imitate.

- ① Symbiotic career development: By checking the vectors of company goals and self-realization goals, the company encourages the development of one's own career in a mutually dependent relationship.
- ② Cultivating management talent based on science-based thinking. Cultivating management talent with advanced science-based thinking who possess the three competencies of data analysis, philosophical thinking, and practical skills, and sending them out into the world.
- ③ Flexible staffing and team composition
- ④ Penetration of corporate philosophy
- ⑤ Achieving empathetic communication

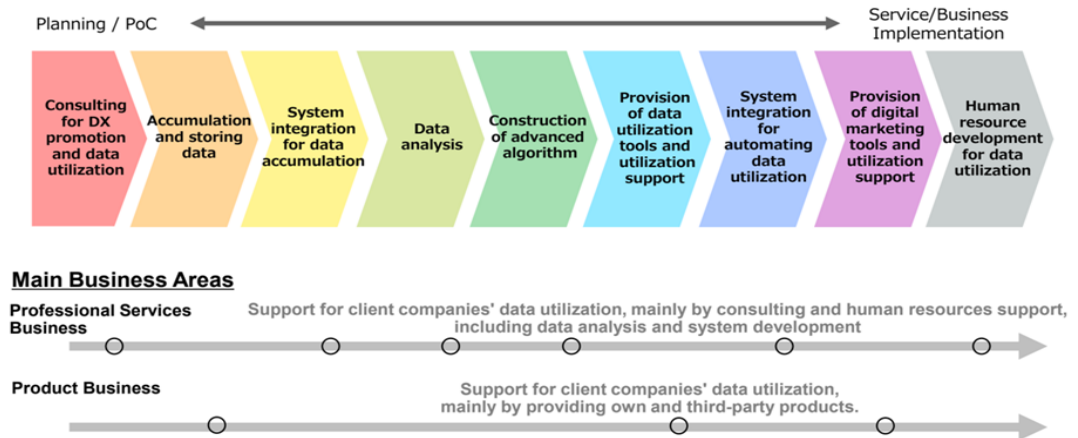
4. Two Businesses Covering the Entire Value Chain of "Value Creation through Data/AI"

1) Overall Picture of the Value Chain for Value Creation

Earlier-on, the company's capabilities were defined as "a value chain of value creation through data/AI that can be completed by the company alone". The company designed optimal data and AI utilization and implements it into management and by combining the Professional Services Business, which supports human resource development to support data/AI utilization; with the Product Business, which makes data utilization a part of daily corporate activities through practical SaaS, the company covers the entire value chain of value creation through data/AI and supports its client companies in utilizing data/AI.

Value Chain of "Value Creation through Data/AI"

Figure 6. Value Chain of "Value Creation through Data/AI"



Source: Company Data

2) The Professional Services Business (The PF Business)

The Professional Services Business as BrainPad's Core Business

The Professional Services Business (hereinafter referred to as the PF Business) is the core business of the company, which prides itself on being a leading company in data/AI utilization. In addition to supporting client companies in utilizing data/AI through human support such as consulting, including data analysis, AI development, and system development, the PF Business also provides a service of training human resources to utilize data/AI for companies.

Strengths of the Professional Services Business

The strengths of the PF Business are as follows:

- ① By combining a variety of analytical techniques, data scientists, a resource that is difficult to imitate, can provide optimal solutions to the management issues specific to each client company.
- ② The company was one of the first in the industry to start hiring new graduates and has a system in place to train several dozen new graduates every year.
- ③ The company doesn't specialize in a particular industry, so has a track record of providing support to almost all industries.
- ④ Since the company is not dependent on specific tools or system environments, it can select tools that meet the management challenges of our client companies and develop systems based on an understanding of the characteristics of data and AI.
- ⑤ The company has a human resource development and education service that commercializes the know-how it has accumulated since its founding in training data scientists.

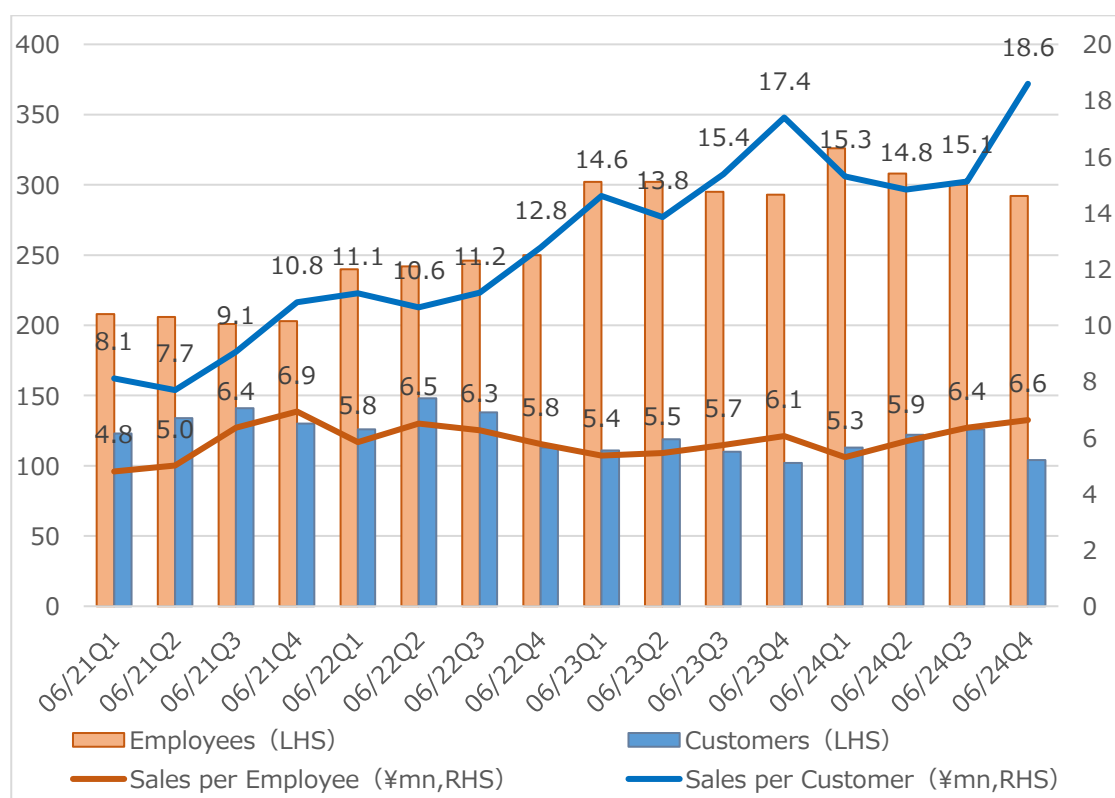
The Professional Services Business Classified into Flow Business

In the PF Business, the company designs the most optimal ways to utilize data/AI for its client companies and implements them into their management, resulting in a flow-business revenue model in which orders are received on a project-by-project basis in line with the management challenges of the client company.

Project types can be roughly divided into consulting/analytics projects and engineering projects. In FY06/2024, the ratio of sales from consulting/analytics projects was 62.9%, while the ratio of sales from engineering projects was 37.1%.

The duration of a project can range from a few months to a few years and the project team size can range from a few people to a few dozen people, depending on the amount of work involved. However, unlike typical projects in the IT industry, there are many projects that require continuous support over several years. For this reason, the proportion of existing customers is high.

Figure 7. Professional Service Business: Sales Per Customer & Per Employee



Source: Company Data

The main expense in the PF business is employee labor costs, which account for about 60% of the total expenses. Therefore, although detailed figures are not disclosed, the paid utilization rate of data/AI utilization personnel is an important indicator. Short-term fluctuations in performance in the PF Business are largely due to fluctuations in the paid utilization rate, which tends to be linked to increases and decreases in sales.

The Product Business Centered on Providing "Rtoaster"

3) The Product Business (The PD Business)

The Product Business (hereinafter referred to as the PD Business) is a business that supports client companies in data/AI utilization by products made by the company itself or other providers. Among products the company provides, "Rtoaster", which was launched in 2006, is a product that boasts a high market share.

In addition, LINE-specific marketing automation "Ligla" is a product of Time Technologies, which became a consolidated subsidiary through M&A. The effects of the M&A, such as sales collaboration with the company and the transfer of product development and operation know-how, have been apparent; and the number of customers has been increasing since it was included in the consolidated financial results in Q2 FY06/2023.

Figure 8. Products Managed in the Product Business

Category	Product Name	In-house Products	Features
Personalized Infrastructure, Policy Execution	Rtoaster	✓	Private DMP with a recommendation engine that enables a variety of marketing actions from data.
	Ligla	✓	Marketing automation that automates personalized LINE communications. Provided by Time Technologies, a consolidated subsidiary.
	Probance		Marketing auto-email platform for B2C.
	Conomi	✓	Flexible matching engine that does not choose where to embed or what data to use.
	exQuick	✓	Dynamic segmentation system that manages different database products and flat files in an integrated manner.
Analytics, Prediction, Machine Learning	Brandwatch		Next-generation marketing research platform powered by the industry's largest data and AI.
	Tableau		Business intelligence tool that visualizes all kinds of data.
	Altair Analytics		Statistical analysis and big data processing system.
Cloud Platform	Microsoft Azure		Platform that provides a series of functions necessary for big data utilization in the cloud.
	Google Cloud		Cloud platform provided by Google™.
	Amazon Web Services		Cloud platform provided by Amazon.
	Snowflake		Data warehousing and data sharing solution with cloud-native architecture.

Source: Strategy Advisors. Based on Company Data.

Strengths of the Product Business

The PD business has the following three strengths.

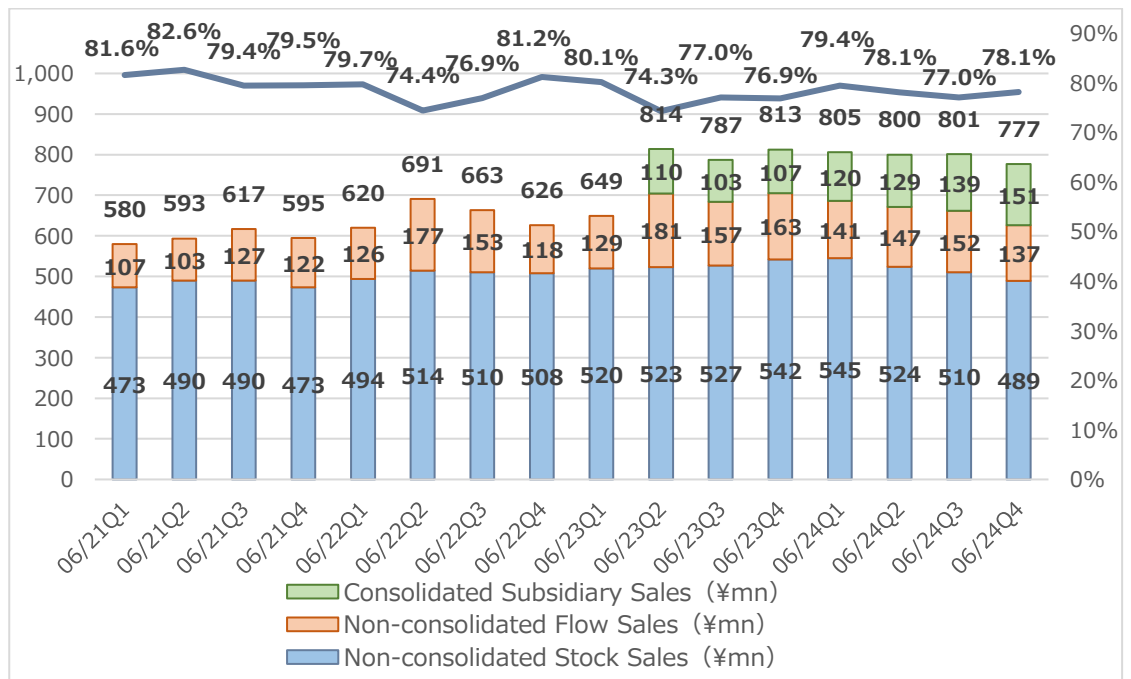
- ① The company can develop in-house high-precision algorithms that form the basis of its product value.
- ② The company has in-house developed products that boast the top market share in the industry, such as "Rtoaster".
- ③ Excellent judgment in assessing cutting-edge products from other companies.

The Product Business Classified into a Stock Business

The PD business's sales come from recurring monthly license fees, with recurring sales accounting for just under 80% of the revenue of the PD business alone.

As shown in Figure 9, stock sales of the standalone PD business have been declining since Q1 FY06/2024. This was because the company discontinued some products with declining profit margins as part of the restructuring.

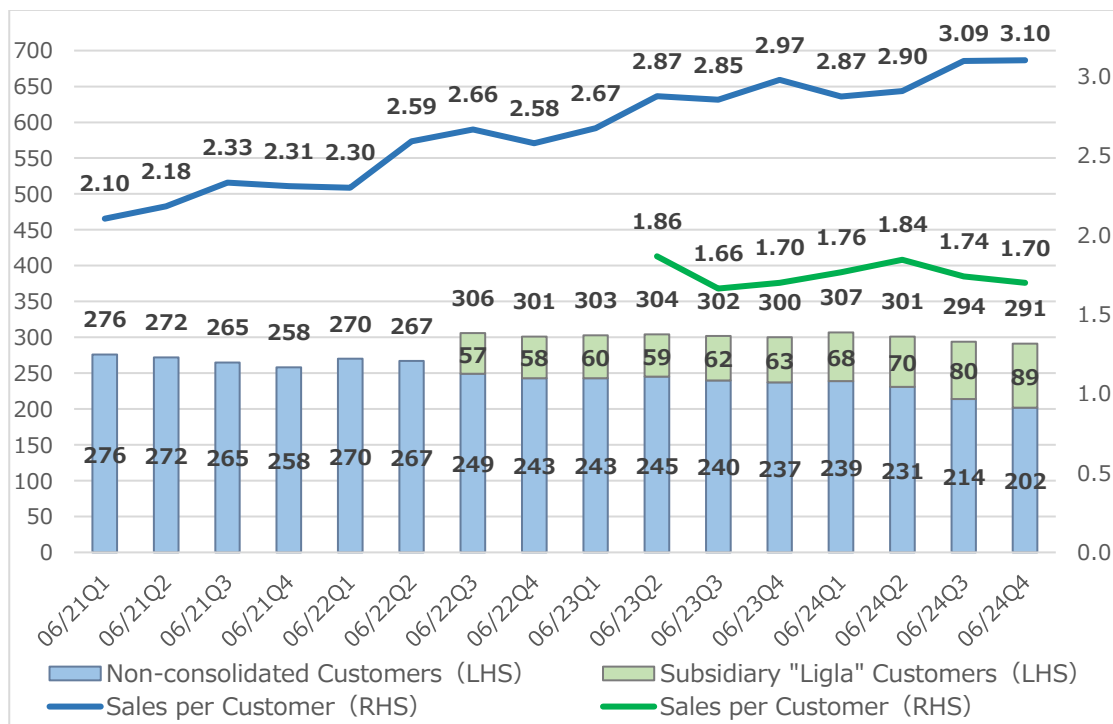
Figure 9. Breakdown of the Product Business (Non-consolidated Stock Sales, Non-Consolidated Flow Sales, Sales of Consolidated Subsidiaries)



Note: The calculation of the non-consolidated stock sales ratio does not include sales of consolidated subsidiaries.

Source: Company Data

Figure 10. Number of Customers & Sales per Company in the Product Business



Source: Company Data

5. Current Performance Trends

Notable Increase in Profits for FY06/2024

The notable performance for FY06/2024 was a significant increase in profits. Sales increased ¥7.8% YoY to ¥10.56 billion and operating profit increased 98.2% YoY to ¥1.34 billion. The reasons for the significant increase in profits were the improvement in project income and expenditures in the PF business and the absence of one-time costs incurred in the previous term (contract loss reserves, M&A-related business integration costs).

The company's plan at the beginning of the current term was for sales of ¥11.0 billion and operating profit of ¥1.1 billion. Although sales came short of the target at the beginning by about 4%, operating profit exceeded the target by about 23%.

As described below, the company has positioned the period from FY06/2024 to FY06/2026 as a period of structural reform in its medium-term management plan and has set out a policy of placing emphasis on "profit-oriented management" rather than the previous "growth through organizational expansion". FY06/2024 began in line with this policy, but the fact that it prioritized measures to improve profit margins and stabilize the new organizational structure affected orders in the second half of the year, and sales fell short of the initial plan. On the other hand, profits exceeded the initial plan because the effects of various measures that have been ongoing since the beginning of the period were greater than expected, as well as an increase in the paid utilization rate of the PF Business.

By segment, the PF Business saw segment sales increase by 9.5% YoY and segment profits increased by 24.0% YoY. The performance of the PF business was largely due to fluctuations in the paid operation rate, but the segment profit margin improved by 4.7 percentage points YoY to 39.5%, thanks to the recovery of the paid utilization rate due to an increase in orders, the implementation of measures such as reviewing project management methods and the expansion of the scale of existing projects.

In the PD Business, segment sales increased 4.0% YoY and segment profit increased 73.3% YoY. After the boost in sales from the M&A of Time Technologies ran its course in the first quarter, sales fell slightly short of the initial plan due to sluggish parent sales. On the other hand, profits recovered significantly. This is due to the increase in sales of "Ligla", which has resulted in profits exceeding the costs incurred from the acquisition of Time Technologies (amortization of goodwill, amortization of customer-related assets), as well as the discontinuation of some products whose profit margins had been declining as part of restructuring efforts.

As a result, the operating profit margin for FY06/2024 increased by 5.9 percentage points YoY to 12.8%.

The Company's Plan for FY06/2025 Emphasizes Increasing Sales Rather Than Profits

The company's plan for FY06/2025 is projected for sales of ¥11.8 to ¥12.0 billion (+11.7% to +13.6 % YoY) and for operating profit of ¥1.4 to ¥1.5 billion (+3.8% to +11.2% YoY).

As mentioned above, the medium-term management plan for the period from FY06/2024 to FY06/2026 places emphasis on "profit-oriented management." Based on the judgment that the company was able to achieve a greater-than-expected transformation to a profitable structure in FY06/2024; the company has decided to accelerate investments in sales growth for FY06/2025 while bringing forward its initial structural reform plan.

Figure 11. Sales and Profit Trends (¥ mn)

FY	06/20	06/21	06/22	06/23	06/24	06/25 CEO
Sales	6,621	7,101	8,561	9,798	10,561	11,800~ 12,000
YoY change	16.6%	7.2%	20.6%	14.4%	7.8%	11.7%~ 13.6%
Operating Income	1,061	851	1,145	681	1,349	1,400~ 1,500
YoY change	-10.5%	-19.8%	34.5%	-40.5%	98.1%	3.8%~ 11.2%
Operating Income Margin	20.9%	16.0%	12.0%	13.4%	7.0%	11.9%~ 12.5%
Net Income to Owners of the Parent	858	601	803	515	909	910~970
YoY change	-2.6%	-30.0%	33.6%	-35.9%	76.5%	0.1%~ 6.7%
Net Income Margin	13.0%	8.5%	9.4%	5.3%	8.6%	7.6%~ 8.1%

Note: Only non-consolidated results are disclosed for FY06/22, whose comparison with consolidated results for FY06/21.

The comparison of FY06/23 with the non-consolidated results for FY06/22.

Source: Strategy Advisors. Based on Company Data.

Figure 12. Half-Year/Quarterly Performance Trends (¥ mn)

FY	06/23		06/24	
	H1	H2	H1	H2
Income Statement				
Net Sales	4,732	5,066	5,145	5,416
Cost Of Sales	2,806	3,061	2,956	2,901
Gross Profit	1,926	2,005	2,189	2,515
Gross Profit Margin	40.7%	39.6%	42.5%	46.4%
SG&A Expenses	1,498	1,752	1,572	1,783
SG&A to Sales Ratio	31.7%	34.6%	30.6%	32.9%
Operating income	428	253	617	732
Operating Income Margin	9.0%	5.0%	12.0%	13.5%
Non-Operating Income and Expenses	-51	-20	-40	31
Ordinary Income	479	273	657	701
Ordinary Income Margin	10.1%	5.4%	12.8%	12.9%
Extraordinary Income/Loss	0	0	-19	-1
Pretax Profit	479	307	638	755
Total Income Taxes	156	115	227	257
(Corporate Tax Rate)	32.6%	37.5%	35.6%	34.0%
Net Income to Owners of the parent	323	192	411	498
Net Income Margin	6.8%	3.8%	8.0%	9.2%

BrainPad | 3655 (TSE Prime)

FY	06/23				06/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Income Statement								
Net Sales	2,270	2,462	2,479	2,587	2,534	2,611	2,706	2,710
Cost Of Sales	1,367	1,438	1,528	1,534	1,503	1,453	1,389	1,512
Gross Profit	903	1,023	952	1,053	1,030	1,159	1,317	1,198
Gross Profit Margin	39.8%	41.6%	38.4%	40.7%	40.6%	44.4%	48.7%	44.2%
SG&A Expenses	712	786	819	933	748	824	787	996
SG&A to Sales Ratio	31.4%	31.9%	33.0%	36.1%	29.5%	31.6%	29.1%	36.8%
Operating income	191	237	133	120	282	335	530	202
Operating Income Margin	8.4%	9.6%	5.4%	4.6%	11.1%	12.8%	19.6%	7.5%
Non-Operating Income and Expenses	26	24	10	11	31	9	-34	3
Ordinary Income	217	262	142	131	313	344	496	205
Ordinary Income Margin	9.6%	10.6%	5.7%	5.1%	12.4%	13.2%	18.3%	7.6%
Extraordinary Income/Loss	0	0	0	-5	-2	-17	0	-1
Pretax Profit	217	262	180	127	311	327	551	204
Total Income Taxes	68	88	64	51	113	114	189	68
(Corporate Tax Rate)	31.3%	33.6%	35.6%	40.2%	36.3%	34.9%	34.3%	33.3%
Net Income to Owners of the Parent	149	174	116	76	198	213	362	136
Net Income Margin	6.6%	7.1%	4.7%	2.9%	7.8%	8.2%	13.4%	5.0%

Source: Strategy Advisors. Based on Company Data.

6. Medium-to-Long-Term Outlook

1) Increasing Data Volume and Shortage of IT Human Resources Make it Difficult to Close the Supply-Demand Gap

In relation to the external environment surrounding the company, we will consider it from two perspectives: data volume and IT human resources.

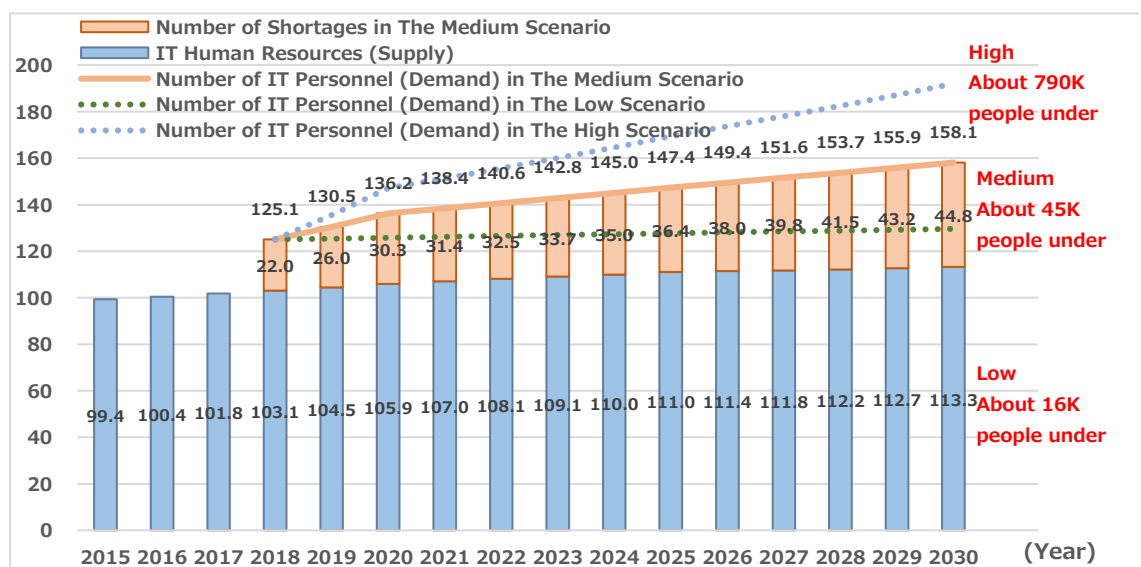
Exponentially Growing Data Volumes

According to the Ministry of Internal Affairs and Communications' "White Paper Information and Communications in Japan", Japan's internet traffic has roughly doubled in the two years from November 2019, just before the COVID-19 pandemic, to November 2021. The paper also introduces predictions that "global IP traffic will be more than 30 times larger than the present (2019) in 2030, and 4,000 times larger in 2050", and predicts that IP traffic will continue to increase against the backdrop of the digitalization of the socio-economy. Data volume is also expected to grow exponentially in tandem with the increase in traffic.

A Growing shortage of IT Human Resources

According to the Ministry of Economy, Trade and Industry's "Survey Results on the Latest Trends and Future Estimates for IT Human Resources (2019 Edition)", there is already a shortage of IT human resources, approximately 220,000 people in Japan as of 2018. As the younger workforce continues to decline in the future, a shortage of approximately 160,000 people is predicted by 2030 even in the best-case scenario (a scenario with a mild impact), approximately 410,000 people in the mid-level scenario, and approximately 790,000 people in the worst-case scenario (a scenario with a serious impacts), making it highly likely that the IT human resources shortage will not be resolved or will become even more severe.

Figure 13. Shortage of IT Human Resources in Japan



Source: Ministry of Economy, Trade and Industry, "Survey Results on Latest Trends and Future Estimates of IT Human Resources (2019 Edition)".

The Speed of Future Industry Expansion Determined by the Supply of IT Human Resources

If data that can be utilized is the demand and the supply is IT human resources that can turn the data into a usable form, it is not difficult to imagine that the growth in demand (data) will far exceed the growth in supply (IT human resources). In other words, there is a high possibility that the supply-demand gap will widen in the future, and it is conceivable that we will live in a world where unused data will simply increase. It is no exaggeration to say that how this bottleneck of IT human resource shortages is dealt with, will determine the speed of expansion of the industry.

2) BrainPad's Thoughts on the Challenges Facing Japan's IT Industry

Japan's IT Investment Not Contributed to Growth

The company recognizes that one of the factors that has led to a decline in Japan's overall international competitiveness is the fact that IT investment in Japan has not contributed to the growth of its client companies.

Japan's IT investment has been centered on "defensive IT," which aims to reduce costs because the cost-effectiveness of the investments is easy to predict. This has resulted in a big gap between Japan and the United States, which has adopted "offensive IT", which aims to reap the big rewards of sales growth, even though the results are difficult to predict.

Lack of Internal Human Resources at Client Companies as a Critical Issue

In addition, while in the United States there is a strong tendency to adapt the system being built to the current process; in Japan, where systems are built to suit the current process, unnecessary costs are incurred due to excessive add-on and customization development. This leads to a decrease in the efficiency of IT investment and in order to increase investment efficiency, development resources are sought from external IT human resources such as system vendor companies.

As a result, in Japan, the people and organizations within client companies have not accumulated experience or knowledge in IT. Furthermore, internal IT human resources have not been strengthened and the situation has fallen into one in which IT investment does not lead to improved competitiveness. The company calls this structural problem the "barrier to in-house capability building".

The Ministry of Economy, Trade and Industry's "DX Report" published in 2018 also sounds the alarm about vendor-dependent industry structures and shortages of internal IT human resources. The pace of change may be slow, but in the medium-to-long-term, client companies will likely be forced to make a major shift toward in-house capability building in order to maintain and improve their competitiveness. (www.meti.go.jp/shingikai/mono_info_service/digital_transformation/pdf/20180907_01.pdf - Japanese version only)

3) BrainPad's Medium-to-Long-Term Approach

The IT Industry Required to Reconsider how It Supports Client

In order to utilize digital and data to strengthen the competitiveness of its client companies, the way the IT industry supports companies needs to be fundamentally reconsidered.

Companies

As mentioned above, the speed of the IT industry expansion is determined by the supply of IT human resources. In other words, in the area of data/AI utilization, it is essential to increase the number of people who can utilize data/AI to keep up with the increase in the amount of data being utilized. Meanwhile, IT industry in Japan is facing a chronic shortage of IT human resources, with companies competing for limited human resources.

"Support for the In-House Capability Building" Model

In response to this situation, the company has adopted a strategy of achieving both improved competitiveness for its client companies and growth for the entire IT industry through "support for in-house capability building" model that places value in helping client companies break away from excessive reliance on external IT human resources by increasing the number of people able to utilize data and AI.

What to Offer to "People Who Want to Eat Fish"

Here, as an analogy, let us consider "someone who wants to eat fish". For you to satisfy someone who wants to eat fish, you have 2 possible methods: providing someone with "the fish itself" or "how to fish".

When providing "fish itself," you provide fish as much as someone wants, whenever he/she wants to eat it. The one who catches fish, prepares the tools and facilities for fishing and incurs the costs and effort required to obtain the fish is all you.

On the other hand, when providing "how to fish," if someone wants to eat fish, he/she needs to prepare fishermen and fishing equipment to catch fish. He/she also must learn how to fish. Learning "how to fish" does not end once he/she has learned it. He/she must learn through repeated experience and exploration as the fish he/she wants to catch and the conditions under which he/she fishes change.

The "people who want to eat fish" here refers to client companies. And it is the traditional IT companies that provide "fish itself" and it is the company in future that provides the "how to fish". The reason the company can be said to be able to provide a "how to fish" approached suited to client companies, is because it has a history of building its own difficult-to-imitate approach over the past 20 years, namely, "an organization of data scientists boasting the largest number in the industry" and has "accumulated experience in using data/AI".

Benefits for Client Companies Provided with "How to Fish"

Even if client companies are provided with "how to fish", they may not be able to catch any fish (or see results) right away. However, compared to when provided "fish itself", the client company will succeed in accumulating people with experience, tools and know-how.

The company will accompany its client companies in their process of accumulation. Sometimes it will teach them "how to fish" and another time it will provide them with the "fishing tools." It may also encourage behavioral change by "fishing" together with them on-site. And as shown in the analogy above, instructing client companies "how to fish" once is not the end of it; the company will build a long-term relationship with them to respond to the ever-changing types and quantities of fish they want to catch.

The Full-Scale Launch of the

As this "in-house capability building support" model becomes more widespread, it will be the client companies that increase their human resources. As a result, labor-

"In-House Capability Building Support" Model, Opportunity to Improve Profitability by Moving Away from a Labor-Intensive Business Model

intensive analytical services that do not require high technical difficulty will be eliminated due to reduced demand; and companies that can provide software that requires higher levels of expertise and supports the human resources of client companies will have an advantage. This is a new approach that overturns the labor-intensive business model that the IT industry has created up until now and is a logical strategy in an environment of chronic shortages of IT human resources.

In this way, the company, which is made up of the industry's leading group of experts, will be able to pursue maximizing the results of data/AI utilization at client companies in a way that differs from the competition to acquire human resources aimed at quantitative expansion. This shows there is the possibility of breaking away from a labor-intensive business model in which the bottleneck of human resources acquisition is the need to increase staff to expand business scale.

Restructuring the Supply Chain of Technology and Human Resources Required for Breaking Away from the High Degree of External Dependency that Pervades Japanese Companies

In addition, since it will be possible to set up revenue points at key points in the data/AI utilization, and the period over which revenue can be earned will be longer; it is highly likely that the total revenue obtained from client companies will be greater than before, which will contribute to the expansion of the company's business scale and improvement of profitability.

Providing the "how to fish" means providing technology and human resources related to data/AI utilization in a form that can be put to practical use by client companies. If what is provided changes, the supply chain will also change. The company has set a policy of promoting the reconstruction of the supply chain of technology and human resources necessary for data/AI utilization and is supporting client companies to break away from the high external dependency brought about by traditional IT companies, which was pointed out starting with the Ministry of Economy, Trade and Industry's "DX Report".

The Goal After Reconstructing the Supply Chain is to Become "the No.1 Talent Producing Company in Japan"

Since the key is to increase the number of human resources on the client company side, the company aims to become "No.1 talent producing company in Japan" that produces management talent that understands data/AI utilization and can even implement organizational reforms suitable for data/AI utilization, as a vision beyond the "in-house support" model and supply chain reconstruction. The company's vision for the future is for people who have been involved with the company, or who are involved in the field of data/AI utilization through the company, to play an active role not only at the company itself, but also at client companies and throughout the industry.

A Glimpse of Becoming a "Talent-Producing Company": Human Resource Development Services

One of the most important resources for becoming a "talent-producing company" is the data utilization human resource development service. Launched in 2013, it has already had a track record of over 10 years and by 2024, the total number of participants in corporate training and open lectures will exceed 80,000 people. The existence of a proven human resource development service will also support the "in-house support" model and will likely be a factor in increasing the possibility of becoming a "talent-producing company".

Looking at Examples from Other Industries, "Talent-Producing Company" Likely to Benefit from the Growth of the Industry

Review of the Previous Medium-Term Management Plan 3-Year Period

Furthermore, looking at examples such as IBM in the IT industry, Recruit (6098 TSE Prime) in the information industry, McKinsey and Accenture in the consulting industry, Sony Group (6758 TSE Prime) in the electronics industry and CyberAgent (4751 TSE Prime) in the Internet industry; it is easy to imagine that companies that produce a lot of human resources in the industry are likely to be the ones that benefit from industry growth over the medium-to-long-term.

4) Medium-Term Management Plan

In 2023, the company announced a three-year medium-term management plan ending FY06/2026. Prior to this medium-term management plan, the company looked back on the previous medium-term management plan (FY06/2020 to FY06/2023). It concluded that although the company had established itself as a pioneer in data/AI utilization and captured demand for DX and data/AI utilization, the following issues had emerged.

- ① Rapid expansion of the organization and continued active recruitment even during the COVID-19 pandemic
- ② Changes in the market environment and needs surrounding digital transformation investments leading to intensified competition and delays in the evolution of the company's services
- ③ Prioritization of short-term profit improvement over investment with a medium-to-long-term perspective during the COVID-19 pandemic

Considering these issues identified in the previous medium-term management plan, the company is positioning the period from FY06/2024 to FY06/2026 as a period of structural reform and a period of preparation for a next stage of renewed growth from FY06/2027 to FY06/2030.

Figure 14. Medium-Term Management Plan (¥ bn)

Financial Item	FY06/23 (Actual)	FY06/24 (Actual)	FY06/25 (CEO)	FY06/26 (Mid-MP)	FY06/30 (Long-MP)
Net Sales	97.9	105.6	118~120	140~150	280~300
Operating Income	6.8	13.4	14.0~15.0	—	—
EBITDA Margin	11.0%	16.7%	15.1%~ 15.6%	Over 16.0%	Over 17.0%
ROE	10.6%	17.4%	—	20.0%	20.0%

Source: Strategy Advisors. Based on Company Data.

4 Growth Strategies During a Structural Reform Period

During the restructuring reform period from FY06/2024 to FY06/2026, the company plans to pursue the following growth strategies.

- ① Transformation of the business structure to a higher profitable one and shift to management that emphasizes LTV (customer lifetime value). Specifically, improvement of the profit margins of the SaaS business, increase of the paid utilization rate and selection and concentration on sales and marketing investments
- ② Re-constructure of value proposition and service structure
- ③ Review of the company's portfolio by industry. Expansion into manufacturing and distribution and finance industries to move away from the current situation of being overly focused on retail and consumer services
- ④ Expansion of the company's service portfolio. Expansion of the company's education and human resources services and challenge of entering overseas markets for that purpose

7. Comparison with Other Companies in the Industry

Although there are companies that claim to utilize data/AI, there are no other independent companies that specialize in data/AI utilization. Previously, there was a listed company called ALBERT, but it was acquired by Accenture.

Therefore, we compared the following 4 listed companies, which are engaged in businesses that provide solutions to corporate management issues through data analysis and AI.

- TDSE (7046 TSE Growth): Providing management diagnostic services using AI data analysis
- Datasection (3905 TSE Growth): Providing AI-driven global retail sales promotion support
- Laboro.AI (5586 TSE Growth): Providing consulting on AI implementation and business transformation to address client companies' growth strategies and business challenges, as well as custom AI services for custom-made AI development
- ExaWizards (4259 TSE Growth): Supporting the introduction of AI and DX, from consulting to implementation and operation

Comparison with Listed Companies Solving Business Issues Using Data Analysis & AI

Higher ROE than Other Profitable Companies

In terms of profitability, the company's operating profit margin for FY06/2024 was 12.8%, the second highest after Laboro.AI. In addition, the ROE was 17.4%, higher than any other companies. This is due to the company's high profit margin, higher financial leverage than other companies with operating profits, and high efficiency.

The company's beta is 1.27 over the 5-year weekly period (1.25 over the 2-year weekly period). Assuming a risk-free rate of 0.6% and an excess stock market return of 6%, the cost of equity capital is 8.2% and the excess ROE is calculated to be 9.2%.

Recent Safety Indicators Improved YoY

The company's safety indicator as of the end of FY06/2024 was equity ratio of 76.3%. This is an improvement of 1.2 percentage points compared to the equity ratio of 75.1% as of the end of FY06/2023. In FY06/2024, the effects of implementing measures to improve profitability in line with the policy of the medium-term management plan are beginning to appear. There are no particular issues with the company's safety and it can be judged that it is under control.

Figure 15. Profitability Comparison with Other Companies in the Same Industry

Company Name	Code	FY	Sales (¥ mn)	Sales Growth Rate (%)	OP (¥ mn)	OP Growth Rate (%)	OP Margin (%)	ROE (%)	ROIC (%)	Equity Ratio (%)
BrainPad	3655	06/24	10,561	13.2	1,349	2.6	12.8	17.4	16.6	76.3
TDSE	7046	03/24	2,521	13.3	272	6.9	10.8	10.1	9.9	85.0
Datasection	3905	03/24	2,229	15.4	-216	–	-9.7	–	–	51.6
Laboro.AI	5586	09/23	1,369	–	206	–	15.0	8.2	8.7	90.2
ExaWizards	4259	03/24	8,384	–	-305	–	-3.6	–	–	49.7

Note: Sales and operating profit growth rates are CAGRs over the past 5 years. Not applicable for Laboro.AI and ExaWizards as there is no data for the past five periods.

Note: ROE and ROIC are not applicable to companies with losses for the current fiscal year.

Source: Prepared by Strategy Advisors.

8. Stock Price Trends and Valuations

To see how the company's stock price has changed over the years, we have plotted the stock price trends of listed companies that solve business issues through data analysis and AI and TOPIX (Tokyo Stock Exchange Stock Price Index). Since many of the companies compared this time are new to the stock market, Figure 16 shows the trends when the stock price at the end of 2019 is set to 100 and Figure 17 shows the trends when the stock price at the end of 2022 is set to 100.

Stock Prices Since 2020 Have Lagged Behind TOPIX

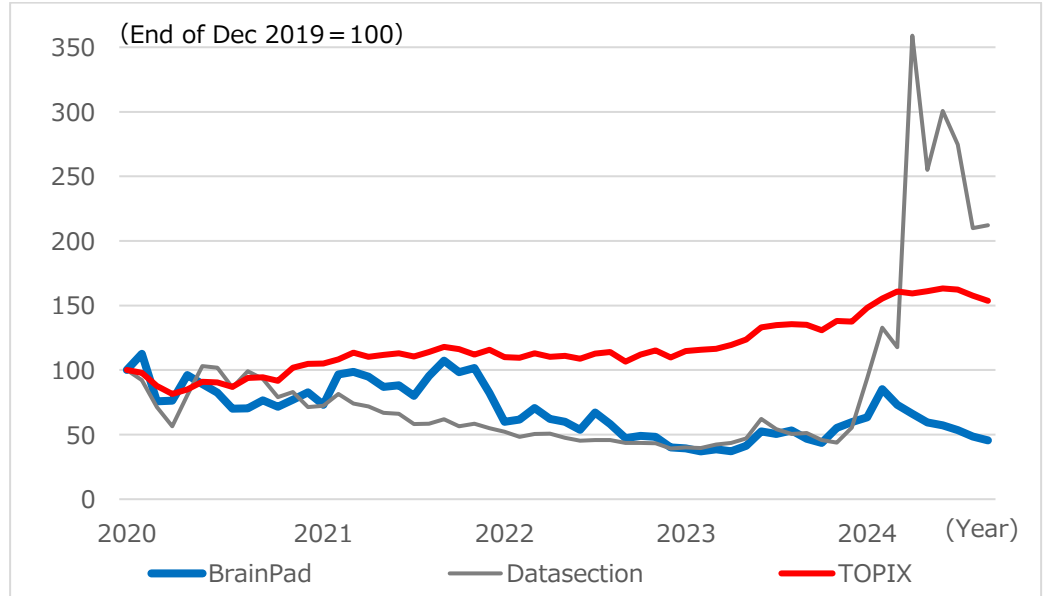
According to Figure 16, which shows stock price trends since 2020, the stock market as a whole fell in 2020 when the COVID-19 pandemic began, but as it began to recover from the second half of 2020, TOPIX began to rise at an accelerated pace from the second half of 2023. Meanwhile, the company's stock price has lagged TOPIX across the board and the decline accelerated especially in the first half of 2023, reflecting the company's sluggish performance in FY06/2023. From the second half of 2023 to 2024, there were times when the company tried to recover due to expectations of a recovery in performance, but as the view that sales in FY06/2024 would not reach the initial plan became widespread, the stock price began to decline and the gap with TOPIX widened.

Stock Prices Fluctuate Greatly Due to Earnings Expectations

Looking at the details in Figure 17 which shows the stock price trend from 2023 onwards, the company's stock price lagged behind TOPIX in the first half of 2023, when a decline in profits was expected in FY06/2023. After that, there was a period when the stock price exceeded TOPIX in relative terms due to expectations of a recovery in business performance, but as sales in FY06/2024 stagnated, it began to fall below TOPIX again from May 2024.

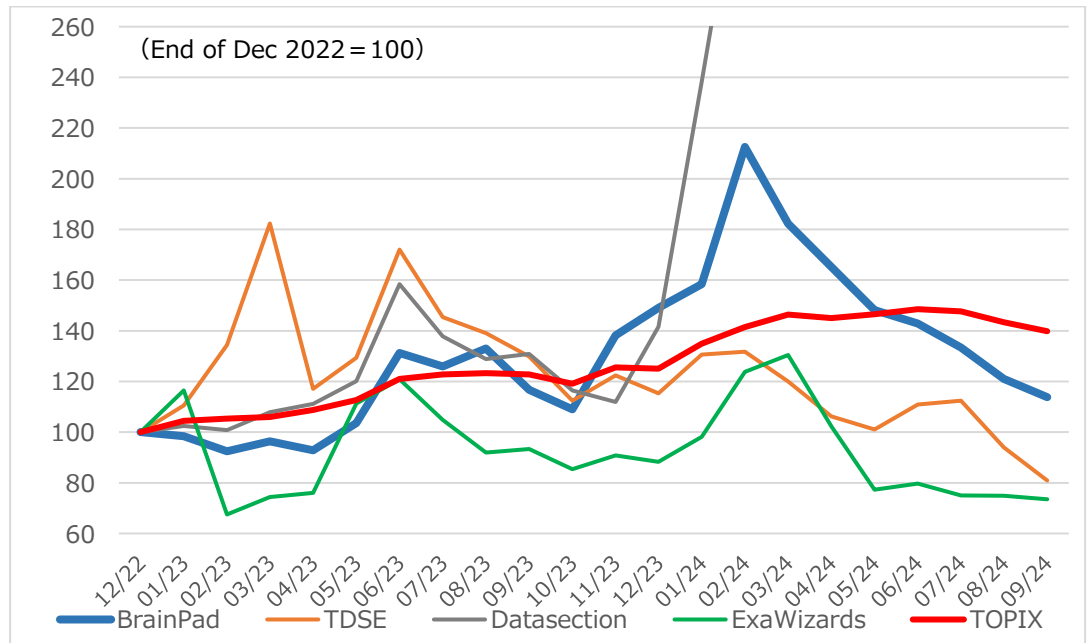
The sudden rise in the stock price of Datasection, one of the companies used for comparison, in 2024 is largely due to individual factors, such as expectations of a return to profitability in FY03/2025 following a change in management due to poor performance and rising expectations of increased revenue due to the establishment of Advanced AI Data Innovation.

Figure 16. Stock Price Trends of Listed Companies that Solve Business Issues through Data Analysis and AI (Since 2020)



Source: Prepared by Strategy Advisors.

Figure 17. Stock Price Trends of Listed Companies that Solve Business Issues through Data Analysis and AI (Since 2023)



Note: The chart for Datasection is omitted from February 2024 onwards because it exceeds 300 and cannot be displayed on the chart.

Source: Prepared by Strategy Advisors.

Valuations Less Expensive than 5 Years Ago

In terms of valuation, both PER and PBR were at high levels until around 2021, but as stock prices have fallen since 2022, both PER and PBR have declined; and the sense of overvaluation is gradually being eliminated. As a result, only TDSE has a lower PER and PBR than the BrainPad.

Figure 18. PER Trends



Source: Prepared by Strategy Advisors.

Figure 19. PBR Trends



Source: Prepared by Strategy Advisors.

Figure 20. Comparison of Valuations with Peers

Company Name	Code	FY	Stock Price (10/30) (¥)	Market Cap (¥ mn)	PER CEO (Times)	PBR Actual (Times)	Dividend Yield CEO (%)	ROE Actual (%)
BrainPad	3655	06/24	815	17,453	19.2	3.2	1.0	17.4
TDSE	7046	03/24	1,448	3,006	15.3	1.4	0.7	10.1
Datasection	3905	03/24	1,181	20,241	96.3	10.6	0.0	–
Laboro.AI	5586	09/23	976	15,486	107.6	6.9	0.0	8.2
ExaWizards	4259	03/24	336	27,622	–	5.6	0.0	–

Note: ROE is not applicable to companies that posted a loss in their most recent fiscal period.

ExaWizards' company forecasts are only for sales and operating profit, and do not include forecasts for net income or EPS. Therefore, it is not possible to calculate a PER based on company forecasts.

Source: Prepared by Strategy Advisors.

The Market Environment Moving in a Direction Where Performance is More Easily Reflected in Stock Prices. Overvaluation eliminated for the past 5 years

In the first half of 2024, the Japanese stock market has been rising thanks to a liquid stock market centered on large-cap stocks, led by foreign investors' purchases, against the backdrop of the weakening of the yen, as exemplified by the Nikkei Stock Average hitting ¥40,000 in March 2024. Since April, the rise in overall indexes such as TOPIX has stopped and the foreign exchange rate, which once reached ¥160 to the dollar, has adjusted to the ¥140 range, before then fluctuating in the low ¥150 range. In this way, it is believed that the phase of stock price increases driven by overall factors has come to an end and stock prices are becoming more responsive to individual factors such as performance and corporate actions.

On the other hand, the company's current valuation is 19.3x PER and 3.2x PBR, which means that the sense of overvaluation is gradually being eliminated compared to the end of 2019, just before the COVID-19 pandemic began and further declines in the valuation from this level are thought to be limited.

Keywords such as "In-House Capability Building Support" and "Talent-Producing Company", May Change the Criteria for Evaluating Stock Prices

In terms of business performance, progress will be monitored with sales of ¥14 to ¥15 billion and an EBITDA ratio of over 16.0% as targets for FY06/2026, the final year of the medium-term management plan. Although sales did not reach the initial plan for FY06/2024, the improvement in profit margins was greater than expected. Considering this situation, the plan for FY06/2025 prioritizes sales expansion over improving profit margins and the focus will be on whether sales can be increased as planned.

More important than short-term performance trends and quantitative targets in the medium-term business plan is the fact that the company is trying to change the way it supports its client companies. In other words, based on an awareness of the issues facing the industry as a whole, the company has shifted course from simply providing its client companies with "the results of data/AI utilization" to "providing a system for data/AI utilization built within the client company = supporting in-house capability building" and it is noteworthy that the company has set a clear goal of "becoming the No.1 company in Japan that produces talent" for data/AI utilization.

These measures and goals suggest that the company has the potential to change the way services are provided in the IT industry. If the services supporting in-house capability building become fully-fledged and it becomes more likely that this will lead to increased profits for the company in the medium-to-long-term, the valuation criteria for the stock price may change. In addition, by becoming a "talent producing company", it is expected that investors will become more aware that the company is in a position to benefit from the growth of the entire industry, which may change the way investors view the company.

As this awareness spreads, the advantages of the Company's business and business model are likely to be reflected in the stock price through an increase in valuation.

Dividend Payout Ratio Expected Between 17.7% and 18.8%

The company plans to pay an estimated dividend of ¥8.0 per share (year-end only) for FY06/2025, the same as the previous fiscal year. The dividend payout ratio was 18.9% in FY06/2024 but is expected to be between 17.7% and 18.8% for FY06/2025.

9. Risk Factors

At this point, there do not appear to be any major risks requiring attention in terms of business execution or performance. However, the following 3 risks can be identified that may prevent the company from performing as expected.

The first is the short-term performance trend. In particular, the company is focusing on increasing sales for FY06/2025 and if sales progress is seen as weak, the stock price may react.

Secondly, many of the company's client companies are still in the B2C business, such as retail, and these industries are easily affected by changes in the external environment. Although the company is promoting diversification of its client companies' industries, it is unlikely that the company's high reliance on retail will be resolved anytime soon.

The third issue is related to human resources. As Japan is facing a chronic shortage of data scientists and other personnel who can utilize data and AI, if the company is unable to recruit as planned or if there is an increase in unexpected resignations, the progress of the measures planned in the medium-term management plan may be delayed.

10. ESG Initiatives

Corporate Governance Structure

The company has a consolidated subsidiary, Time Technologies and an affiliate, Dentsu Cross Brain. Mr. Takafumi Takahashi, Chairman and Co-Founder, holds 12.18% of the shares, including those held by the afore-mentioned asset management company and Mr. Seinosuke Sato, Director, Co-Founder and Former Chairman, holds 7.86% of the shares. In addition, the internal directors hold a total of approximately 21% of the shares (as of the end of June 2024).

The company has an audit and supervisory committee. Of the 8 directors, 5 are independent outside directors (62.5% as of the end of September 2024). Of the 8 directors, 1 is a woman (12.5%).

The only principle that has not been implemented in the Tokyo Stock Exchange's Corporate Governance Code is Principle 3-1 (iv) "Policies and procedures for the board of directors to select and dismiss senior management and to nominate candidates for directors and auditors". As the policy and procedures for dismissing directors have not been clearly defined at this time, the company will recognize this as an important issue for the Nomination and Compensation Committee to consider and address.

Sustainability Initiatives

Similarly, Supplementary Principle 4-1③, which requires a CEO succession plan and Supplementary Principle 4-3②, which concerns the selection and dismissal of the CEO, have not been implemented. Until now, the successor has been considered mainly by the two former representative directors who are also co-founders, but going forward, the succession plan and selection and dismissal are expected to be discussed by the Nomination and Compensation Committee under the leadership of President Sekiguchi.

Supplementary principle 4-2① requires the design of a sound incentive compensation system for management. The company's management compensation consisted of cash compensation and restricted stock compensation, but from the fiscal year ending June 2013, it introduced executive bonuses linked to business performance and post-grant performance-linked stock compensation.

Principle 4-11 requires diversity on the Board of Directors. However, since there are no foreign directors, we recognize that a more diverse Board of Directors, including from an international perspective, is a future issue and will continue to consider this.

Within ESG, the company is currently placing emphasis on S (society) and G (governance). In particular, the company believes that S is the most important investment in creating corporate value, which is investment in human resources, the most important asset.

The sustainability system has been established through the establishment of a voluntary Sustainability Committee as an advisory body to the Board of Directors. It evaluates the direction (materiality), and specific measures required for the appropriate implementation of sustainability management and sustainable investment, as well as the status of their implementation. The Chairman of the Board serves as chair and outside directors with knowledge of sustainability also participate as committee members. Activities are regularly reported to the Board of Directors.

Corporate Governance Code 3-1③ states that companies listed on the Prime Market "should collect and analyze necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits and should enhance the quality and quantity of their disclosure based on the TCFD or an equivalent framework, an internationally well-established disclosure framework".

In relation to climate change, the securities report for FY06/2024 does not mention it. There has been no disclosure based on the Task Force on Climate-related Financial Disclosures (TCFD) or an equivalent framework. However, the IR information on the company's website includes a sustainability section, where environmental data is disclosed on greenhouse gas emissions, electricity usage, number of employees at the end of the fiscal year and emissions per person (www.brainpad.co.jp/ir/sustainability.html).

According to the Japan Exchange Group, of the 1,088 Prime Market listed companies that submitted securities reports between April 1, 2023 and October 31, 2023, only 16 companies have not disclosed information in line with the TCFD recommendations. Future responses are awaited.

BrainPad's Human Capital

The company's female manager ratio is 6.9%, the rate of males taking childcare leave is 81.3% and the gender wage gap is 81.3% (82.0% for regular employees, 121.1% for fixed-term employees and part-timers). There is no gender wage gap for the same position and rank. The female employee ratio is 20.5%, while the female manager ratio is 6.9%, resulting in a gender wage gap.

According to a survey by The Japan Productivity Center, a public interest incorporated foundation, the ratio of female managers among 1,130 companies listed on the Tokyo Stock Exchange Prime market with fiscal year ending March 2024 was 8.5%, the rate of males taking childcare leave was 61.5%, and the gender wage gap was 71.4¹%. Looking only at the information and communications industry to which the company belongs, the rate of males taking childcare leave was 63.6%, the ratio of female managers was 12.5% and the gender wage gap was 76.4%, the smallest of all sectors.

The company's gender wage gap is about 10 percentage points smaller than the average for companies listed on the Tokyo Stock Exchange Prime. It is about 5 percentage points smaller even when limited to the information and communications industry. The ratio of female managers is lower than the average for companies listed on the Tokyo Stock Exchange Prime and the sector average.

The company has set targets for FY06/2026, including a female manager ratio of 10% or more and a 100% rate of male employees taking childcare leave. The company aims to reduce the gender wage gap by promoting an increase in the female manager ratio.

Figure 21. Human Capital Indicators and Targets
(Actual Results are Non-Consolidated)

Index	FY06/24 (Results)	FY06/26 Target (Consolidated)
① Proportion of female workers in managerial positions	6.9%	10% or more
② Wage differences between men and women among regular workers	82.0%	By promoting the above ①, the difference will be reduced.
③ Rate of male workers taking childcare leave	81.3%	100%

Source: Company Data

¹ Japan Productivity Center, Public Interest Foundation, "Status of 'Human Capital Disclosure' in Securities Reports of Companies with Fiscal Year Ends in March 2024 (Flash Version)" (August 1, 2024) (Japanese version Only)

Sustainability Initiatives

According to the medium-term management plan (FY06/2024 to FY06/2026), the company's competitive edge remains unchanged due to its highly skilled human resources and as "the No. 1 talent-producing company in Japan", the company will proactively develop human resources and an environment in which employees can achieve high results more than ever before. The company will promote the development of organizations and human resources in which the "fusion of data, technology and business" will be the source of value creation and differentiation.

To produce management talent from science and engineering talent, the company will develop hybrid talent with both technical and business skills and contribute to the digitalization of industry. Specifically, the company will restructure human resource management, design diverse, multi-track careers, launch a program to develop next-generation management talent and actively promote the appointment of digital natives.

Going forward, the company plans to link its medium-term management plan with its new human resources strategy, set a human resources strategy and has unique indicators and goals that are linked to their management strategy.

Figure 22. Consolidated Statement of Income (¥ mn)

FY	06/18	06/19	06/20	06/21	06/22	06/23	06/24	06/25 CEO
Sales	4,332	5,677	6,621	7,101	8,561	9,798	10,561	11,800 to 12,000
Cost of Sales	2,318	2,855	3,605	3,922	4,680	5,867	5,857	
Gross Profit	2,014	2,822	3,017	3,179	3,881	3,931	4,704	
Gross Profit Margin	46.5%	49.7%	45.6%	44.8%	45.3%	40.1%	44.5%	
SG&A	1,429	1,637	1,956	2,328	2,736	3,250	3,355	
Operating Profit	585	1,185	1,061	851	1,145	681	1,349	1,400 to 1,500
Operating Profit Margin	13.5%	20.9%	16.0%	12.0%	13.4%	7.0%	12.8%	11.9% to 12.5%
Non-Operating Income	13	30	23	45	42	88	57	
Non-Operating Expenses	1	1	6	13	20	17	48	
Ordinary Profit	596	1,214	1,079	884	1,167	752	1,358	1,400 to 1,500
Ordinary Profit Margin	13.8%	21.4%	16.3%	12.4%	13.6%	7.7%	12.9%	11.9% to 12.5%
Extraordinary Income	1	0	98	0	1	41	55	
Extraordinary Loss	0	14	0	26	109	8	20	
Pretax Profit	597	1,200	1,176	857	1,058	786	1,393	
Corporate Tax, Resident Tax, Business Tax	190	319	319	256	255	271	484	
Corporate Tax Adjustments	245	365	303	312	231	314	481	
Total Corporate Tax, etc.	-54	-45	15	-56	24	-43	2	
(Corporate Tax Rate)	-9.0%	-3.8%	1.3%	-6.5%	2.3%	-5.5%	0.1%	
Net Income to Owners of The Parent	407	881	858	601	803	515	909	910 to 970
Net Profit Margin	9.4%	15.5%	13.0%	8.5%	9.4%	5.3%	8.6%	7.6% to 8.1%
EPS (yen)	20.06	43.43	40.15	27.00	36.53	23.72	42.25	40.81 to 43.50
Tangible And Intangible Fixed Asset Investments	151	169	228	237	519	161	99	
Depreciation And Goodwill Amortization	184	191	208	234	399	413	413	
Cash Flow	610	1,065	1,049	809	1,037	914	1,322	
CFPS (Yen)	30.1	52.5	47.5	36.3	46.5	41.0	59.3	
ROE	25.4%	39.2%	25.5%	13.8%	16.9%	10.6%	17.4%	
ROIC (Invested Capital)	24.3%	38.5%	22.1%	13.7%	-	-	16.6%	
ROIC (Business Assets)	45.5%	82.7%	64.6%	46.1%	-	-	31.6%	
Dividend (Yen)	-	-	-	-	-	8.00	8.00	8.00
Average Number of Shares During the Period (Million Shares)	6.0	6.0	7.0	7.0	21.0	21.0	21.0	
End Of Period Shares (Million Shares)	6.7	6.7	7.3	7.4	22.3	22.3	22.3	

Note: Only non-consolidated results are disclosed for FY06/22.

Source: Strategy Advisors. Based on Company Data.

Figure 23. Consolidated Balance Sheet (¥ mn)

FY	06/18	06/19	06/20	06/21	06/22	06/23	06/24
Current Assets	2,161	3,232	4,109	4,938	4,438	4,141	5,040
Cash and Deposits	1,267	2,077	2,985	3,431	2,908	2,507	3,355
Accounts Receivable	698	885	867	1,033	953	1,286	1,239
Inventory	28	65	25	39	92	29	15
Others	120	190	228	222	274	319	425
Fixed Assets	531	636	875	841	1,711	2,375	2,218
Tangible Fixed Assets	95	83	134	87	608	535	476
Intangible Fixed Assets	233	203	237	296	254	1,019	768
Investments and Other Assets	203	350	505	457	849	820	973
Investment Securities	11	16	75	203	352	279	443
Deferred Tax Assets	88	173	157	213	188	221	197
Others	104	161	273	41	309	320	333
Total Assets	2,692	3,868	4,984	5,779	6,149	6,516	7,258
Current Liabilities	827	1,111	873	1,104	1,151	1,382	1,506
Trade Payables	28	83	93	98	118	131	116
Accounts Payable and Accrued Expenses	193	209	236	246	451	398	549
Interest-Bearing Debt	-	-	-	-	-	-	-
Short-Term Borrowings	-	-	-	-	-	-	-
Current Portion of Long-Term Borrowings	-	-	-	-	-	-	-
Deferred Tax Liabilities	167	228	216	182	0	0	0
Others	439	591	328	578	582	853	841
Fixed Liabilities	56	67	82	0	149	239	217
Interest-Bearing Debt	-	-	-	-	-	-	-
Long-Term Borrowings	-	-	-	-	-	-	-
Deferred Tax Liabilities	-	-	-	-	-	90	69
Others	56	67	82	0	149	149	148
Net Assets	1,808	2,689	4,029	4,674	4,848	4,896	5,535
Capital Stock	1,808	2,689	4,029	4,674	4,848	4,896	5,535
Capital Surplus	642	642	1,127	1,173	1,177	1,173	1,173
Retained Earnings	1,162	2,043	2,901	3,502	4,314	4,801	5,487
Treasury Stock	-	-	-	-	-656	-1,079	-1,128
Accumulated Other Comprehensive Income	-	-	-	-	13	1	3
Stock Acquisition Rights	5	4	1	-	-	-	-
Non-Controlling Interests	-	-	-	-	-	-	-
Total Assets	2,692	3,868	4,984	5,779	6,149	6,516	7,258
Interest-Bearing Debt	-	-	-	-	-	-	-
Capital Adequacy Ratio	67.0%	69.4%	80.8%	80.9%	78.8%	75.1%	76.3%
D/E Ratio	0.49	0.44	0.24	0.24	0.27	0.33	0.31

Note: Only non-consolidated results are disclosed for FY06/22.

Source: Strategy Advisors. Based on Company Data.

Figure 24. Consolidated Statement of Cash Flow (¥ mn)

FY	06/18	06/19	06/20	06/21	06/22	06/23	06/24
Cash Flows from Operating Activities							
Income before income taxes	597	1,200	1,176	857	1,058	786	1,393
Depreciation and Amortization	203	184	191	208	234	399	413
Working Capital	-284	-163	65	-176	55	-197	44
Others	245	-183	-671	-109	-222	-98	-312
Total	761	1,038	761	780	1,125	890	1,538
Cash Flows from Investing Activities							
Payments for Acquisition of Property, Plant and Equipment	-42	-40	-95	-29	-408	-105	-55
Payments for Acquisition of Intangible Fixed Assets	-109	-129	-133	-208	-111	-56	-44
Others	-	-60	-15	-141	-430	-627	-219
Total	-151	-229	-243	-378	-949	-788	-318
Cash Flows from Financing Activities							
Net Increase/Decrease in Short-Term Borrowings	-	-	-	-	-	-	-
Net Increase/Decrease in Long-Term Borrowings	-45	-	-	-	-	-	-
Issuance of Shares	-	-	390	44	-	-	-
Purchase of Treasury Stock	0	-	-	-	-699	-503	-201
Dividend Payment	-	-	-	-	-	-	-171
Others	-	-	0	-	-	0	0
Total	-45	-	389	44	-699	-503	-372
Effect of Exchange Rate Changes on Cash and Cash Equivalents							
Cash Increase/Decrease	564	810	908	446	-482	-402	849
Cash Beginning Balance	703	1,267	2,077	2,985	3,390	2,908	2,507
Ending Cash Balance	1,267	2,077	2,985	3,431	2,908	2,507	3,355

Note: Only non-consolidated results are disclosed for FY06/22.

Source: Strategy Advisors. Based on Company Data.

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