1. Business Highlights for the Nine Months of 41st Business Period (Fiscal Year Ending March 31, 2025)

(1) Qualitative Information on Consolidated Results of Operations

During the nine months ended December 31, 2024, the Japanese economy was said to be on a moderate recovery trend, amid an improved employment and income environment. Meanwhile, due to the instability of the financial markets, in addition to soaring raw material and energy prices driven by such factors as the tension in the Middle East and the prolonged situation in Ukraine, the economic outlook continues to be uncertain. There have also been increasing concerns over the trends of U.S. policies going forward.

In the Information Infrastructure Business, as cyber-attacks primarily of large companies become more frequent and sophisticated, and legal regulations and corporate governance are strengthened, cybersecurity measures are considered management issues. As a result, the demand for cybersecurity products and services has continued to grow. Under these circumstances, in the Information Infrastructure Business, the Company's core business, we saw strong demand continuing for cloud-based security measure products. Integrated security monitoring services provided by the Company were also robust, proving that its value-added strategies are making progress.

In the Application Services Business, business has remained strong in the CRM field thanks to collaboration with a major system integrator and telemarketing vendor. Additionally, business has been steadily increasing through subscription-based products. Furthermore, the Company has been working to launch products that utilize generative AI technology, having established a foothold in the form of the capital and business alliance agreement with Mobilus Corporation concluded in the previous fiscal year. In the Software Quality Assurance field, demand remained robust for testing tools used to ensure the quality of enterprise systems and embedded software. In particular, with the further application of IT in automobiles, there was a strong demand for improvement in the quality of embedded software such as in-vehicle software, and orders continued to be favorable. In the Business Solutions field, the accumulation of projects including bidding projects has slowed down and we are currently focusing on accumulating orders toward the end of the fiscal year. In the EdTech field, we are constantly receiving inquiries, resulting in a steady increase in the number of new adoptions of our platform by both private and public schools. Moreover, the Company has decided to support the development of "Benesse School Admin Cloud," the school administration support system to be offered to high schools by Benesse Corporation. The Company will continue to expand its business by strengthening the cooperation between the two companies.

In the Medical Systems Business, the new PSP Corporation ("PSP"), which was started on April 1, 2022, has been working to unify our customer base and integrate our products and services, as well as promoting the shift of PACS (medical imaging management) to recurring revenue business models. PSP has also expanded its business through a capital and business alliance with Medmain Inc. to promote the digital pathology-related business and has started to offer solutions in the pathology field.

As a result of the above, consolidated revenue for the nine months ended December 31, 2024 was ¥46,730 million, a year-on-year increase of ¥8,721 million (22.9%), achieving a record high for the first nine months. Gross profit amounted to ¥14,780 million, a year-on-year increase of ¥1,834 million (14.2%). Selling, general and administrative expenses were ¥9,972 million, a year-on-year increase of ¥851 million (9.3%), due to increases in personnel expenses and other costs. As a result, operating profit came to ¥4,795 million, a year-on-year increase of ¥971 million (25.4%).

Consequently, profit before tax was ¥4,535 million, a year-on-year increase of ¥722 million (19.0%), and profit attributable to owners of parent was ¥2,896 million, a year-on-year increase of ¥552 million (23.5%).

Results by operating segment were as follows:

1) Information Infrastructure Business

Results of the Information Infrastructure Business for the nine months ended December 31, 2024 were strong thanks to orders for new projects, due to large orders for subscription-based cloud cybersecurity measure products and on-premise cybersecurity products. Additionally, there was a steady accumulation of renewal orders including multi-year contracts. Revenue steadily increased thanks to the abundant order backlog accumulated in the previous fiscal year, orders for new projects, and sales of on-premise products. Operating profit increased compared to the previous fiscal year. This was because the growth of the business covered the impact of factors such as the further weakening of the yen, increased headcount, and selling, general and administrative expenses. By product, in addition to cloud-based security measure products, other cybersecurity measure products, including e-mail security products to protect against ransomware attacks, a security awareness training solution, and solutions to visualize vulnerabilities inherent in companies and organizations, are increasingly adopted as they gain recognition. Furthermore, during the nine months ended December 31, 2024, the major Malaysian cybersecurity specialist, Firmus Sdn. Bhd., which became a wholly-owned subsidiary in November 2024, and two other subsidiaries became consolidated subsidiaries.

At CROSS HEAD, orders received, revenue, and operating profit increased significantly compared to the previous fiscal year, due in part to receiving orders for large projects involving storage solution products.

At OCH Co., Ltd., orders received, revenue, and operating profit increased compared to the previous fiscal year. Orders continued to be strong for the new-model UTM (Unified Threat Management)*1 product (SG-ONE TANDEM) geared to small and medium-sized businesses and storage services.

As a result, revenue of the business amounted to ¥33,426 million, a year-on-year increase of ¥8,100 million (32.0%), achieving a record high for the first nine months. Operating profit amounted to ¥3,965 million, a year-on-year increase of ¥1,184 million (42.6%).

2) Application Services Business

Results of the Application Services Business for the nine months ended December 31, 2024 exceeded those for the same period of the previous fiscal year thanks to strong orders received, revenue, and operating profit.

In the CRM field, orders received, revenue, and operating profit all exceeded those of the previous fiscal year. Revenue increased thanks to the accumulated sales of subscription-based services from the previous fiscal year.

In the Software Quality Assurance field, strong demand continued for testing tools for in-vehicle software. In addition, orders received, revenue, and operating profit exceeded those of the previous fiscal year, thanks to the accumulated sales of subscription-based services.

In the Business Solutions field, although orders received increased from the previous fiscal year, revenue and operating profit fell short of the previous fiscal year, due to a slowdown in orders received in the previous quarter. At ARECCIA Fintech Corp., revenue and operating profit exceeded the levels of the previous fiscal year, while orders received fell below that of the previous fiscal year. Going forward, we will further expand the financial systems-related business, which was spun off in the business reorganization of July 2023. At CASAREAL, Inc., orders received and revenue exceeded the levels of the previous fiscal year. Meanwhile, operating profit fell short of that of the previous fiscal year, due to poor performance in the education business such as IT training and the deterioration of profitability.

In the new EdTech field, our school communication platform is being adopted by national and other public schools, in addition to private advanced schools. Furthermore, in conjunction with this service, we are working on a project to offer cloud services to support administrative affairs at the schools that have adopted our school communication platforms, and as a result, both orders received and revenue progressed strongly, exceeding the levels of the previous fiscal year. The deficit in operating profit grew from the initial budget due to continuing investments in product development, marketing, and increasing sales and engineering staff.

As a result, revenue of the business amounted to ¥6,570 million, a year-on-year increase of ¥698 million (11.9%). Operating profit amounted to ¥282 million, a year-on-year increase of ¥135 million (91.5%).

3) Medical Systems Business

For the nine months ended December 31, 2024, the Medical Systems Business saw continued strong orders for “NOBORI,” a cloud service for medical information, and the cumulative number of contracting facilities increased. We have also secured orders for the renewal of service agreements with existing users and orders received have exceeded the levels of the previous fiscal year. Revenue was on the same level as the previous fiscal year due to delays in the renewal of on-premise projects. Operating profit decreased compared to the previous fiscal year due to the shift to cloud-based PACS (medical imaging management), the increase in personnel for the expansion of business, and aggressive investments into development, which had all been incorporated into the initial plan. Meanwhile, upfront investments are continuing in projects such as the development of PHR (Personal Health Record) services[*2] targeted at general patients and the joint development with medical institutions, AI venture companies, and external partners to launch new businesses, and they have achieved strong results.

At Ichigo LLC, our medical-related consolidated subsidiary, orders received, revenue, and operating profit significantly exceeded the levels of the previous fiscal year, as a result of winning contracts for large projects.

At A-Line Co., another medical-related consolidated subsidiary, orders for MINCADI, a radiation dose management system, have been increasing as medical institutions are increasingly willing to invest in safety management systems for medical radiation, resulting in a steady increase in revenue and a significant reduction in operating loss.

As a result, revenue of the business amounted to ¥6,733 million, a year-on-year decrease of ¥76 million (1.1%), while operating profit amounted to ¥546 million, a year-on-year decrease of ¥348 million (38.9%).

(2) Qualitative Information on Consolidated Financial Position

Current assets increased ¥10,270 million (14.6%) from March 31, 2024 to ¥80,733 million as of December 31, 2024. The principal factor in this change was an increase of ¥9,112 million in advance payments to suppliers. Non-current assets stood at ¥20,922 million, an increase of ¥5,628 million (36.8%) from March 31, 2024. The principal factor in this change was a ¥3,740 million increase in goodwill due to the acquisition of Firmus Sdn. Bhd. It should be noted that the goodwill incurred due to the acquisition of Firmus Sdn. Bhd. has been tentatively calculated, as the allocation of the consideration for acquisition has not been completed as of December 31, 2024. As a result, total assets amounted to ¥101,655 million, an increase of ¥15,899 million (18.5%) from March 31, 2024.

Current liabilities stood at ¥64,109 million, an increase of ¥12,460 million (24.1%) from March 31, 2024. The principal factor in this change was an increase of ¥13,235 million in contract liabilities. Non-current liabilities stood at ¥8,485 million, a ¥1,421 million (20.1%) increase from March 31, 2024. The principal factor in this change was a ¥1,700 million increase in borrowings. As a result, total liabilities amounted to ¥72,595 million, an increase of ¥13,882 million (23.6%) from March 31, 2024.

Total equity was ¥29,060 million, an increase of ¥2,017 million (7.5%) from March 31, 2024. The principal factor in this change was an increase of ¥1,652 million in retained earnings. As a result, the ratio of equity attributable to owners of parent to total assets was 23.1%.

(3) Qualitative Information on Consolidated Financial Results Forecast and Other Forward-looking Statements

At this point, the financial results forecast is unchanged from the figures announced on October 31, 2024.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousand yen)

	As of March 31, 2024	As of December 31, 2024
Assets		
Current assets		
Cash and cash equivalents	27,265,398	25,637,998
Trade and other receivables	6,874,634	6,100,307
Inventories	484,768	758,680
Advance payments to suppliers	24,946,977	34,059,855
Advance payment - cost of maintenance service	9,792,446	12,107,960
Other financial assets	—	70,560
Other current assets	1,097,798	1,997,648
Total current assets	70,462,023	80,733,012
Non-current assets		
Property, plant and equipment	6,117,671	6,169,835
Goodwill	171,978	3,912,153
Intangible assets	2,420,292	3,942,580
Investments accounted for using equity method	1,003,917	702,208
Other financial assets	3,650,032	4,256,815
Deferred tax assets	1,525,861	1,430,345
Other non-current assets	404,549	508,735
Total non-current assets	15,294,304	20,922,675
Total assets	85,756,328	101,655,687

(Thousand yen)

	As of March 31, 2024	As of December 31, 2024
Liabilities		
Current liabilities		
Trade and other payables	2,230,641	2,323,474
Borrowings	570,000	560,000
Lease liabilities	727,316	759,432
Income taxes payable	1,419,212	687,367
Contract liabilities	42,225,862	55,461,710
Other financial liabilities	533,893	616,917
Other current liabilities	3,941,478	3,700,232
Total current liabilities	51,648,404	64,109,134
Non-current liabilities		
Borrowings	100,000	1,800,000
Lease liabilities	2,769,352	2,770,328
Other financial liabilities	1,613,717	1,170,186
Retirement benefit liability	2,121,092	2,061,779
Provisions	166,541	167,539
Deferred tax liabilities	—	273,352
Other non-current liabilities	293,713	242,776
Total non-current liabilities	7,064,416	8,485,962
Total liabilities	58,712,820	72,595,096
Equity		
Share capital	1,298,120	1,298,120
Capital surplus	4,767,089	4,798,073
Treasury shares	(930,159)	(921,995)
Retained earnings	16,037,638	17,689,857
Other components of equity	571,780	664,111
Total equity attributable to owners of parent	21,744,468	23,528,168
Non-controlling interests	5,299,038	5,532,423
Total equity	27,043,507	29,060,591
Total liabilities and equity	85,756,328	101,655,687

(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Condensed Quarterly Consolidated Statement of Comprehensive Income

Condensed Quarterly Consolidated Statement of Profit or Loss

For the nine months ended December 31

(Thousand yen)

	For the nine months ended December 31, 2023	For the nine months ended December 31, 2024
Revenue	38,008,977	46,730,676
Cost of sales	(25,063,500)	(31,950,367)
Gross profit	12,945,476	14,780,309
Selling, general and administrative expenses	(9,120,261)	(9,972,156)
Other income	11,983	15,206
Other expenses	(13,095)	(28,178)
Operating profit	3,824,104	4,795,180
Finance income	16,895	76,124
Finance costs	(24,131)	(34,325)
Share of profit (loss) of investments accounted for using equity method	(4,371)	(301,708)
Profit before tax	3,812,497	4,535,270
Income tax expense	(1,156,130)	(1,427,075)
Profit	2,656,367	3,108,195
Profit attributable to:		
Owners of parent	2,344,615	2,896,692
Non-controlling interests	311,752	211,502
Earnings per share		
Basic earnings per share (Yen)	58.54	72.14
Diluted earnings per share (Yen)	58.33	71.93

Condensed Quarterly Consolidated Statement of Comprehensive Income

For the nine months ended December 31

(Thousand yen)

	For the nine months ended December 31, 2023	For the nine months ended December 31, 2024
Profit	2,656,367	3,108,195
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Equity financial assets measured at fair value through other comprehensive income	45,662	75,282
Total of items that will not be reclassified to profit or loss	45,662	75,282
Items that may be reclassified to profit or loss		
Cash flow hedges	10,705	93,947
Exchange differences on translation of foreign operations	2,114	(22,911)
Total of items that may be reclassified to profit or loss	12,819	71,035
Other comprehensive income, net of tax	58,481	146,318
Comprehensive income	2,714,849	3,254,513
Comprehensive income attributable to:		
Owners of parent	2,398,464	3,040,488
Non-controlling interests	316,385	214,025

(3) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in Equity Attributable to Owners of Parent)

Not applicable.

(Segment Information)

1) Overview of reportable segments

The Group's reportable segments are Group components for which separate financial information is available and subject to periodic review by the management to determine the allocation of management resources and evaluate business performance.

The Group has established a business division for each company's product/service, and each business division formulates comprehensive strategies for the product/service it handles and undertakes business activities based on these strategies.

Accordingly, the reportable segments of the Group comprise segments by product/service based on their business divisions, and the three reportable segments are the "Information Infrastructure Business," the "Application Services Business," and the "Medical Systems Business."

The Information Infrastructure Business comprises the Company and its subsidiaries CROSS HEAD, OCH Co., Ltd., Firmus Sdn. Bhd., Firmus Consulting Sdn. Bhd., and Firmus Pte. Ltd., and engages in the sale of network, security, storage products, etc., and provides integration as well as services involving maintenance, operations, monitoring, etc. The Application Services Business comprises the Company and its subsidiaries CASAREAL, Inc., ARECCIA Fintech Corp., TechMatrix Asia Holdings Co., Ltd., and TechMatrix Asia Co., Ltd. and provides business solutions, software quality assurance, system development for CRM face-to-face markets, application packages, cloud SaaS services, application and services with high added value such as tests. The Medical Systems Business comprises PSP Corporation, Ichigo LLC, and A-Line Co., and engages in the development/integration of medical-related software, cloud services, etc. for the medical market.

2) Information on reportable segments

The accounting methods for reportable segments are the same as the accounting policy for the preparation of the Group's Condensed Quarterly Consolidated Financial Statements. The profit figures of reportable segments are based on operating profit. Intersegment revenues are based on market prices.

For the nine months ended December 31, 2023 (April 1, 2023 to December 31, 2023)

(Thousand yen)

	Reportable segment			Total	Adjustment (Note 1)	Amount reported in the Condensed Quarterly Consolidated Financial Statements
	Information Infrastructure Business	Application Services Business	Medical Systems Business			
Revenue						
Revenue from outside customers	25,326,507	5,872,327	6,810,142	38,008,977	—	38,008,977
Intersegment revenue	145,594	184,843	—	330,437	(330,437)	—
Total	25,472,101	6,057,171	6,810,142	38,339,414	(330,437)	38,008,977
Segment profit (Note 2)	2,781,232	147,708	895,164	3,824,104	—	3,824,104
Finance income						16,895
Finance costs						(24,131)
Share of profit (loss) of investments accounted for using equity method						(4,371)
Profit before tax						3,812,497

Notes: 1. Adjustment of intersegment revenue is the amount of elimination of intersegment transactions.
2. Total segment profit represents the amount of operating profit in the Condensed Quarterly Consolidated Statement of Profit or Loss.

For the nine months ended December 31, 2024 (April 1, 2024 to December 31, 2024)

(Thousand yen)

	Reportable segment			Total	Adjustment (Note 1)	Amount reported in the Condensed Quarterly Consolidated Financial Statements
	Information Infrastructure Business	Application Services Business	Medical Systems Business			
Revenue						
Revenue from outside customers	33,426,577	6,570,872	6,733,227	46,730,676	—	46,730,676
Intersegment revenue	156,065	206,658	—	362,724	(362,724)	—
Total	33,582,642	6,777,531	6,733,227	47,093,400	(362,724)	46,730,676
Segment profit (Note 2)	3,965,682	282,872	546,626	4,795,180	—	4,795,180
Finance income						76,124
Finance costs						(34,325)
Share of profit (loss) of investments accounted for using equity method						(301,708)
Profit before tax						4,535,270

Notes: 1. Adjustment of intersegment revenue is the amount of elimination of intersegment transactions.
2. Total segment profit represents the amount of operating profit in the Condensed Quarterly Consolidated Statement of Profit or Loss.

(Notes on Quarterly Statements of Cash Flows)

Condensed Quarterly Consolidated Statement of Cash Flows has not been prepared for the nine months ended December 31, 2024.

Meanwhile, depreciation and amortization for the nine months ended December 31, 2023 and 2024 are as follows:

(Thousand yen)

	For the nine months ended December 31, 2023	For the nine months ended December 31, 2024
Depreciation and amortization	1,700,363	1,907,210

(Business Combinations)

(1) Overview of the business combination

The Company, at a meeting of the Board of Directors held on October 18, 2024, resolved to conclude a share transfer agreement to acquire all shares of Firmus Sdn. Bhd. ("Firmus"), Malaysia's largest cybersecurity specialist and make it a wholly-owned subsidiary, and concluded the agreement on October 21, 2024. And, on November 12, 2024, the Company completed procedures to acquire the shares of the company to be acquired based on this agreement.

In conjunction with this share acquisition, subsidiaries of Firmus – Firmus Consulting Sdn. Bhd. (wholly owned by Firmus) and Firms Pte. Ltd. (70% owned by Firmus) will become sub-subsidiaries of the Company.

(2) Name of the acquired company and description of its business

Name: Firmus Sdn. Bhd.

Description of business: Security product sales, security services, and security consulting

(3) Main reason for the business combination

The Company under the new 3-year Medium-term Management Plan "Creating Customer Value in the New Era," which commenced this fiscal year, upholds "expanding business in the overseas market" as one of its key strategies. While the ICT field continues to be a growth market, limiting our business expansion to Japan alone, could pose limitations on our business growth in the future, given the decline in the domestic working population. The Company's Information Infrastructure Business commenced "seek to develop business in Asia" based on the companywide strategy of "expanding business in the overseas market" and has been placing particular focus on the ASEAN market, which promises significant economic growth, to seek out potential capital and business alliance partners.

Firmus is Malaysia's largest cybersecurity specialist and a fast-growing company serving prime customers including large financial institutions. Firmus offers security services including its proprietary penetration tests as well as state-of-the-art security technology and managed services to enterprises, with its strengths in security services. Meanwhile, the Company has prided itself in its ability to discover state-of-the-art technology and sales know-how by leveraging its foresight nurtured over the years, as well as its unique security services that support the utilization of products it has sold. Accordingly, the two companies are confident they will be able to build a solid and complementary relationship. We will leverage the Company's foresight into state-of-the-art security technology and Firmus' know-how of security services, align the products and services of the two companies, and aim to expand the respective businesses both in Malaysia and Japan.

By making Firmus a subsidiary, the Company will expand its business in both Malaysia and Japan, and using Firmus as a foothold, we will offer "state-of-the-art security technology + security services" to other ASEAN markets and further expand our business.

(4) Date of the business combination

November 12, 2024

(5) Legal form of the business combination

Acquisition of shares with cash

(6) Fair value of the consideration for transfer

MYR 145,000,000 (¥5,128,650 thousand, at 1MYR = ¥35.37)

For the payment of consideration for the acquisition, the Company executed a long-term borrowing of ¥2,000,000 thousand on December 4, 2024, after payment.

(7) Percentage of voting rights acquired

100%

(8) Fair value of assets acquired, liabilities assumed, and consideration paid as of the acquisition date

(Thousand yen)

	Amount
Fair value of consideration paid (cash)	5,128,650
Assets acquired and liabilities assumed	
Cash and cash equivalents	373,209
Other current assets	1,086,509
Property, plant and equipment	83,305
Intangible assets	1,315,407
Other non-current assets	202,526
Current liabilities	1,219,427
Non-current liabilities	445,007
Assets acquired and liabilities assumed (net)	1,396,524
Non-controlling interests	25,834
Goodwill (tentative)	3,757,959

Notes: 1. ¥184,703 thousand of direct expenses required for the acquisition have been included in "selling, general and administrative expenses" in the Condensed Quarterly Consolidated Statement of Profit or Loss.

2. The fair value of trade and other receivables is ¥534,875 thousand. The total contract amount is ¥534,875 thousand, and none of the amount is considered to be unrecoverable.
3. There are no contingent liabilities.
4. Assets acquired, liabilities assumed, and goodwill have been tentatively calculated based on information available at present, as the allocation of the consideration for acquisition has not been completed as of December 31, 2024.
5. The amount of non-controlling interests is the non-controlling interests related to the acquired company and has been measured as the non-controlling interests' ratio of the acquisition-date fair value of the identifiable net assets of the acquired company.
6. The main component of goodwill relates to the future excess earning power expected from the expansion of existing businesses generated by the acquisition. None of the goodwill recognized is expected to be deductible for tax purposes.

(9) Cash flow information

(Thousand yen)

	Amount
Cash and cash equivalents paid for the acquisition	(5,128,650)
Cash received from the acquisition of control of a subsidiary	373,209
Payment for the acquisition of shares of a subsidiary	(4,755,440)

(10) Information on profit or loss from the acquisition date related to business combination

Revenue and profit of ¥599,629 thousand and ¥144,400 thousand, respectively, generated from Firmus after the acquisition date have been included in the Group's Condensed Quarterly Consolidated Statement of Profit or Loss.

(Pro forma information)

If the business combination is assumed to have taken place at the beginning of the fiscal year ending March 31, 2025, revenue and profit of the Group for the nine months ended December 31, 2024 are calculated to have been ¥1,735,225 thousand and ¥252,567 thousand, respectively.

The above pro forma information has not undergone audit attestation. This information is also not an indication of the events that will necessarily occur. It is also not an indication of the Group's operating results, assuming that the investment had been made at the beginning of the fiscal year ending March 31, 2025.

3. Supplementary Information

Supplementary information on orders received and stock-type sales ratio

(1) Status of orders received

The status of orders received and order backlog of each segment during the nine months ended December 31, 2024 is as follows.

Segment	Orders received (Million yen)	Order backlog (Million yen)
Information Infrastructure Business	45,695	63,738
Application Services Business	6,679	5,432
Medical Systems Business	8,359	15,004
Total	60,734	84,175

(2) Supplementary information on stock-type sales ratio

The stock-type sales ratio of each segment during the nine months ended December 31, 2024 is as follows. Regarding the stock-type sales ratio, for the Information Infrastructure Business and the Application Services Business, non-consolidated figures for the Company are stated and for the Medical Systems Business, the figures for PSP Corporation, the consolidated subsidiary, are stated.

Segment	Stock type net sales (Million yen)	Flow-type net sales (Million yen)	Stock-type sales ratio (%)
Information Infrastructure Business	22,668	5,445	80.6
Application Services Business	3,869	1,789	68.4
Medical Systems Business	3,972	2,440	61.9
Total	30,510	9,675	75.9