

COMTURE CORPORATION
Financial Results Briefing Session for
1Q of the Fiscal Year Ending March 31, 2025 (Held on August 8, 2024)
Key Questions and Answers

Some sections of these questions and answers have been revised to make this information easier to understand.

Q: Why is the pace of growth decreasing in the growing business sectors of the Cloud Solutions and Digital Solutions businesses?

A: The demand for these services among our customers is still very strong. However, we were unable to grow as quickly as expected because we could not expand our team of engineers to utilize resources fast enough to keep up with demand. Demand is especially strong in sectors involving the digital transformation. We believe significant growth is possible if we can establish the required infrastructure. This is why we are making up-front expenditures for recruiting and training activities.

Q: You hired more people with prior work experience in the first quarter than in the fourth quarter of the previous fiscal year. Will these people contribute to a recovery of your sales and earnings?

A: We believe these people will have a positive effect on the recovery of our sales and earnings. In the first quarter, the number of people with prior work experience who joined COMTURE was almost half of our goal for the fiscal year.

FY3/24: Hired 38 people vs. FY goal of 70 people with prior work experience

FY3/25: Hired 32 people in the first quarter vs. FY goal of 70 people with prior work experience

(25 are working at COMTURE and 7 plan to start their jobs soon)

Until the previous fiscal year, we were unable to keep up with changes involving recruiting people by directly contacting people who may be interested in COMTURE. In this fiscal year, there has been a big increase in hiring because we took actions that were needed for direct recruiting. As a result, we have strengthened our mid-level workforce. Adding a large number of engineers will make a direct contribution to business growth. We will continue to hire many people with prior work experience as we aim for the growth of our sales and earnings.

Q: What is your sales growth for individual vendors?

A: First quarter sales compared with the first quarter of the previous fiscal year are as follows.

Cloud Solutions

- Microsoft: +26.5%
- Salesforce: +1.5%
- ServiceNow: +2.8%
- Cybozu: +19.4%

Digital Solutions

- Data science: +4%
- AWS: +21%

The big increase in Microsoft sales is mainly the result of steady progress in cooperation with Microsoft Japan. Cybozu and AWS sales are also up significantly. There are only small increases for Salesforce, ServiceNow and data science. As for Salesforce, our ability to cover the entire regional financial institution sector, where business is very strong, is limited. ServiceNow sales are partly affected by changes in the structure of ServiceNow's Japanese subsidiary. Issues holding down sales involving these two vendors are clear and we are taking actions to deal with these issues.

Q: You started the fiscal year with lower first quarter earnings. Why did your profitability decline?

A: Large recruiting and training expenditures are temporarily exerting downward pressure on profitability. We believe these expenditures are needed. We are making good progress with hiring people with prior work experience. Furthermore, although new graduate recruiting activities normally continue through September and October, this fiscal year we have received preliminary job offer acceptances in June from a larger number of new graduates than planned. As a result, recruiting expenses moved up to the first quarter and lowered our earnings by about 50 million yen. Furthermore, we have increased the training period for newly hired new graduates by one month, which extended the training period to the end of June. This additional expenditure increases fees these people generate when they become productive in July due to a higher level of technical skills. For our current employees, we started a new human resources system in April that includes more career paths and training programs and the addition of training programs involving technologies and management positions. During the first quarter, 150 employees received two to three-day training structured for specific management positions. This raised first quarter training expenses.

Q: You are hiring many new graduates and people with prior work experience. Is this because the recruiting environment has recovered in relation to the situation in the previous fiscal year?

A: We believe the larger number of people we hired is the result of improvements in our recruiting methods rather than a change in the recruiting environment. For people with prior work experience, we now have a sound framework for using direct contact for recruiting people. For new graduates, our carefully planned initiatives are producing results. For example, we are using internships and other activities to contact students earlier in the year. All of these measures are supporting the success of our recruiting activities despite the challenging environment in Japan for hiring people.

Q: Your plan for this fiscal year is to increase by at least 10% the number of business processes outsourced to partner companies. But you reported that the increase was only 5.6% as of the end of the first quarter. Has the shortage of human resources held down your utilization of partner companies?

A: We need partner companies with advanced skills for conducting work that requires advanced technologies. However, finding people capable of performing this work is difficult. Our annual goal is an increase of at least 20% in business processes, but the labor shortage is a problem. We are now providing education programs to partner companies by using our core partner program, but these education programs are not yet fully operational. Furthermore, as you noted, we do not yet have a framework for growing market sectors that demand advanced skills. This is one reason for our slow progress concerning the utilization of partner companies. Securing sufficient resources is still a major issue for us and we will continue to take actions to acquire these resources.

Q: The downturn in the Digital Solutions Business is not as much as in the Cloud Solutions and Business Solutions businesses. Is this because there was no increase in training expenses due to the small number of new graduates assigned to the Digital Solutions Business?

A: The longer training period for newly hired new graduates is having a negative effect on the earnings of all businesses. Based on lessons learned from issues in the previous fiscal year, we are using the effective placements of new graduates in this fiscal year to give these people the skills they need faster. We hired 196 new graduates in this fiscal year, remaining at about the 200 level following the 213 new graduates added in the previous fiscal year. In the previous fiscal year, most of the new graduates we hired were assigned to the Cloud Solutions and Digital Solutions businesses. However, this concentration of new people in these businesses caused some delays in making people productive. In this fiscal year, we decided to give new graduates experience in other departments during their first two years at COMTURE. Then we will shift their skills to growing business sectors. In the Business Solutions Business, the assignment of more new graduates than in the previous fiscal year was one reason for the decline in earnings. In the Cloud Solutions Business, the number of new graduates decreased but the training period was one month longer. The result was a negative impact on first quarter earnings. By taking these actions,

we are improving how we determine assignments and develop skills of new employees with the goal of minimizing the negative effects of expenses involving new employees on our businesses from a long-term perspective.

Q: Your corporate value and stock price have been moving down for almost three years. What types of actions are you considering?

A: The stock price is determined by how the market evaluates COMTURE. This is not something we can directly control. Our goal is to meet the expectations of investors by increasing sales and earnings and distributing earnings to our shareholders as dividends. We ask for your understanding as we take actions aimed at accomplishing this goal.

Q: You are planning on reskilling current employees in the second quarter. Will this cause profitability to fall below the first quarter level?

A: We expect that the positive effect of making new graduates productive will offset the negative effect of the cost of reskilling. During the previous fiscal year, reskilling programs shifted 140 engineers from legacy business domains to growing business domains. In this fiscal year, we are planning on reskilling and reassignment programs for 60 to 80 people. In the first quarter, we briefly suspended reskilling activities because we were concentrating on training newly hired new graduates. In the second quarter, we plan to start reskilling programs for 30 to 40 people. Although sales will decrease during reskilling programs, we believe that the new contributions to sales as we complete the training of the 196 new graduates that we hired this fiscal year can offset this decrease.

Q: Regarding your basic strategy for M&A, is there a possibility of using M&A for acquiring resources that you need?

A: We have used M&A in the past to add business models that differ from ours. The acquisition of Edifist Learning is one example. Basically, the acquisition of resources is the objective of our M&A activities. The acquisitions of TAKT SYSTEMS and SoftwareCreation added sales of about 2 billion yen. In addition, the profitability of both companies improved significantly because they quickly started using COMTURE's performance management system and benefited from joining the COMTURE Group in other ways. Furthermore, M&A contributes to COMTURE's growth because we use newly acquired companies for reskilling people who were in legacy businesses and moving them to growing businesses. Our goal is to use organic growth for about 10% of annual sales growth and M&A for sales growth of about 5%. The number of potential deals in our pipeline is increasing. We will continue to use M&A strategically for acquiring resources and contributing to our growth.

Q: I have the impression that the increase in the use of partner companies will continue to be small during the last three quarters of this fiscal year. Please explain your policies for activities concerning resources for business operations.

A: There are two perspectives regarding these resources: our employees and our partner companies. Our plan is to continue acquiring and efficiently using resources by recruiting and training people, including reskilling, and strengthening relationships with partner companies. These are the main components of our activities for using the resources of partner companies.

- In the Cloud Solutions and Digital Solutions businesses, which we designate as growing businesses, we will use support for training programs to acquire resources due to the difficulty of recruiting people in these categories.
- We are adding partner companies and strengthening the core partner program for the strategic acquisition of resources.
- We are considering more ways to strengthen partner company relationships. Two examples are the use of Edifist Learning for educational services and technical training and the provision of new graduates training services at reduced prices to partner companies.

Q: In the first quarter, I believe that the growth rate of the Digital Solutions Business decreased. Is this due to changes in the business climate?

A: There have been no big changes in the business climate. During the first quarter, activity involving several projects declined because of the timing of completions, delays in the start of projects caused by customers, and other reasons. Signs of a recovery beginning in the second quarter are appearing. Our customers are continuing to make big investments to construct data infrastructures and analyze data for the digital transformation of their business operations. Consequently, we believe that we are well positioned for the growth of our sales and earnings.