

 Takehiko Motani, President	XNET Corporation (4762)
	

## Company Information

Market	TSE Standard
Industry	Information and Communication
President	Takehiko Motani
HQ Address	Sumitomofudosan-building 4th Floor 13-4 Araki-cho Shinjuku-ku Tokyo, Japan
Year-end	March
Homepage	<a href="https://www.xnet.co.jp/about/index_ab_en.html">https://www.xnet.co.jp/about/index_ab_en.html</a>

## Stock Information

Share Price	Shares Outstanding (Term-end)	Total Market Cap	ROE Act.	Trading Unit	
¥1,002	8,261,600 shares	¥8,278 million	8.9%	100 shares	
DPS Est.	Dividend Yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥30.00	3.0%	¥73.84	13.6 x	¥971.25	1.0x

\* The share price is the closing price on June 5. The figures are from the financial results for the fiscal year ended March 2023.

## Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2020 Act.	4,670	711	732	515	62.44	28.00
March 2021 Act.	5,039	694	719	576	69.81	28.00
March 2022 Act.	5,419	968	995	718	86.95	28.00
March 2023 Act.	5,357	950	985	694	84.00	30.00
March 2024 Est.	5,300	880	910	610	73.84	30.00

\*Unit: million yen. Estimates are those of the company.

We will provide you with a summary of XNET Corporation's financial results for the fiscal year ended March 2023.

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## Key Points

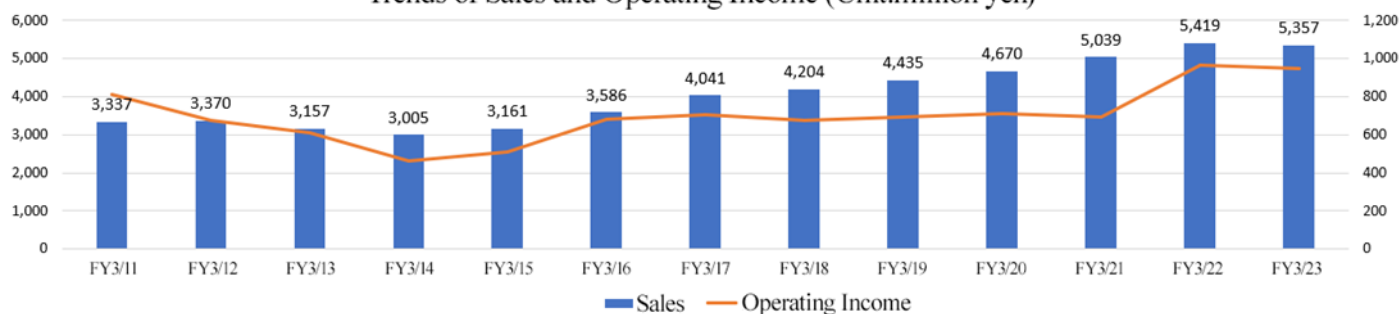
- The company operates XNET Service, which primarily provides securities management systems for a monthly fee to over 180 institutional investors. Since its founding, it has led the industry as the de facto standard, boasting a market share of around 90% in the life and non-life insurance industry in Japan. In addition to providing systems, it actively develops "SO service," the service of undertaking accounting work, etc. to further expand its business.
- Although both sales and profit decreased year on year in the fiscal year ended March 2023, both sales and profit exceeded the revised forecast. Sales fell 1.1% year on year to 5,357 million yen. Application services and SO (Smart Outsourcing) service remained strong. There was a reactionary decline in sales of AMO (Application Management Outsourcing) service after receiving large-scale projects in the previous fiscal year. However, due to the diligent order-taking activities during the fiscal year, the decline was only slight, and sales exceeded the revised forecast. Although sales decreased slightly from the previous fiscal year, business conditions are generally strong, and sales are almost unchanged from the fiscal year ended March 2022, when the company achieved its largest sales ever. Operating income decreased 1.8% year on year to 950 million yen. The company had expected a decrease in profit due to a reactionary decline due to the large-scale projects received in the previous fiscal year in AMO service, but the decrease in profit was only minor compared to the previous fiscal year, when profits were the highest ever recorded. This is because the decrease in sales was small and, although costs increased due to investment in internal systems to improve operational efficiency and human capital to maintain and improve service quality, these expenses were absorbed by a decrease in depreciation and amortization expenses. \*Please refer to "Main Service Lineup" on page 6 for service details.
- For the fiscal year ending March 2024, sales and profit are expected to decline, but remain at high levels. Sales are expected to be 5.3 billion yen, down 1.1% year on year, and operating income is expected to be 880 million yen, down 7.4% year on year. Sales are forecast to continue to be healthy for all services. Yet, it is estimated to decline slightly because of the cancellation of the SO service due to the integration of customers. Regarding profit, amortization expenses related to XNET application investment are projected to decrease further, but costs will continue to increase this fiscal year due to investments in securing human resources and office environment investments. Thus, profits are expected to decrease. Operating income margin is expected to remain at a high level of 16.6%. The dividend is scheduled to be 30.00 yen/share, unchanged from the previous term. The expected dividend payout ratio is 40.6%.
- The company is forecasting a decline in sales and profit this fiscal year like in the previous fiscal year. However, in terms of sales, the performance of all services is expected to remain strong. Regarding profit, as stated in the Medium-term Management Plan, the company will thoroughly invest in "application service development" and "human resources strategy." Therefore, costs are forecast to augment, and profit is expected to decrease. Still, although sales and profit will not be as high as those in the fiscal year ended March 2022, when sales and profit were at record highs, both sales and profit have been on a steady growth trend since before that.

- **Loan management services for life and non-life insurance are expected to expand horizontally, with the start of the provision of services to super major companies, Meiji Yasuda Life Insurance Company, and trust management systems for individuals targeted at local banks are also steadily expanding. With this expansion of customers, the company is steadily building the foundation for achieving core sales of 5 billion yen, the goal for the fiscal year ending March 2026.**
- **We would like to pay close attention to the progress of the core strategy in this fiscal year, which is the second year of the Medium-term Management Plan.**

## 1. Company Overview

The company operates the “XNET Service,” which mainly provides securities management systems to more than 180 institutional investors, including life and non-life insurance companies, investment trust advisors, trust banks, and banks, for a monthly usage fee. Since its establishment, the company has led the industry as the de facto standard, holding a market share of around 90% in the life and non-life insurance industry in Japan. Currently, in addition to its securities business, it is expanding its management targets to include individual trusts and loans. It is also actively offering “SO service,” in which it not only provides systems, but also undertakes accounting and other tasks, aiming to further expand its business operations.

Trends of Sales and Operating Income (Unit: million yen)



### [1-1 Corporate History]

The company was established in June 1991 and began offering “XNET Service,” its current mainstay service. In October of the same year, Nippon Life Insurance Company adopted the “XNET Service” for its middle-office operations, which was the first major order received by the company. Based on this achievement, it expanded its service domain to include back-office services for life and non-life insurance companies. The convenience and economic benefits of these services were highly evaluated, due to which the number of clients using it increased at leading firms in the asset management industry, resulting in the expansion of its business. It was listed on NASDAQ Japan of Osaka Exchange in June 2000, and on the First Section of the Tokyo Stock Exchange in March 2004.

In March 2009, NTT DATA Corporation officially acquired the shares of XNET Corporation, making it a wholly-owned subsidiary of NTT DATA Corporation.

In April 2022, it got listed on the standard market of Tokyo Stock Exchange due to market restructuring.

### [1-2 Corporate Philosophy]

The company aims to be an **“eXcellent Company”** that can continue to grow while collaborating with its clients.

Its objectives as an “eXcellent Company” are as follows.

- |   |
|---|
| 1. Become a “One-Stop Solution Company for Asset Management.”   |
| 2. Continue to make efforts to bring smiles to clients' faces by transforming “Impossible” into “Possible.” |
| 3. Create a better society by developing “new frameworks” and “new value.”                                  |
| 4. Implement management practices while being mindful of the well-being of employees and                    |

their families and the profit returns to shareholders.

In addition, the company aims to become “an ecosystem orchestrator\* in the asset management industry” by “becoming a master of asset management industry operations” and “further reducing costs associated with the asset management industry,” with the mission of “contributing to building Japanese people's overall assets.”

Furthermore, its vision is to achieve “Four-Way Satisfaction,” i.e., “Good for the Buyer: the asset management industry as a client,” “Good for the Seller: the company,” “Good for the Society: The Japanese economy and people,” and “Good for the Future.”

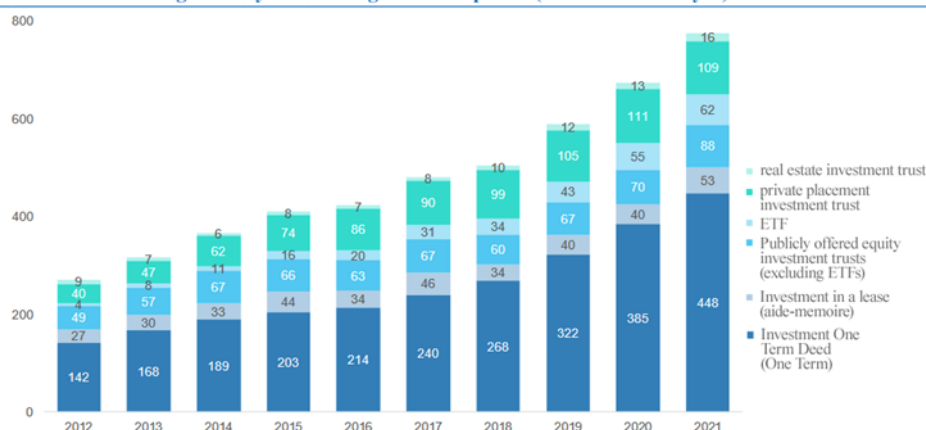
(\*) Ecosystem Orchestrator

It is a role to create an ecosystem (a structure to create significant value through symbiosis) in the asset management industry. For this, it is necessary to become familiar with all information and elements related to asset management. The company aims to create a symbiotic environment by connecting it with any service or system that the customer requires without owning all the solutions.

**[1-3 Business Environment]**

The amount of money management in Japanese asset management companies is on an increasing trend, indicating that the company's client market will continue to expand stably.

Amount under management by asset management companies (Unit : trillions of yen)



Compiled from the Financial Services Agency's "Asset Management Upgrading Progress Report 2021" and statistical data from The Investment Trusts Association, Japan and the Investment Advisers Association, Japan.

(Taken from the company's documents)

Meanwhile, the company's clients are being affected by shifts in the business environment and facing resource shortages while being forced to focus on their core businesses, resulting in growing needs for below-mentioned services of undertaking tasks such as AMO and SO services as well as a growing market for these services.

Life & Non-Life Insurance	With the advancement of information technology, the demand for developing advanced insurance-related services is increasing. The company would like to focus its resources on developing these services more than operation.
Investment Trust Advisors	Making profits with conventional management methods is becoming increasingly challenging, and the business volume for Investment Trust Advisors is increasing due to the expansion of investments in alternative assets, etc., and compliance with new financial regulations.
Local Banks	The environment with extremely low interest rates continues, making it increasingly difficult to earn profits from providing loans, which is the core business of banks. The top priority is to increase profits through securities investment to compensate for this, however, there is a shortage of appropriate personnel, and the administrative burden is increasing.

**[1-4 Business Description]**

The company provides “XNET Service,” a specialized asset management system developed by the company, to over 180

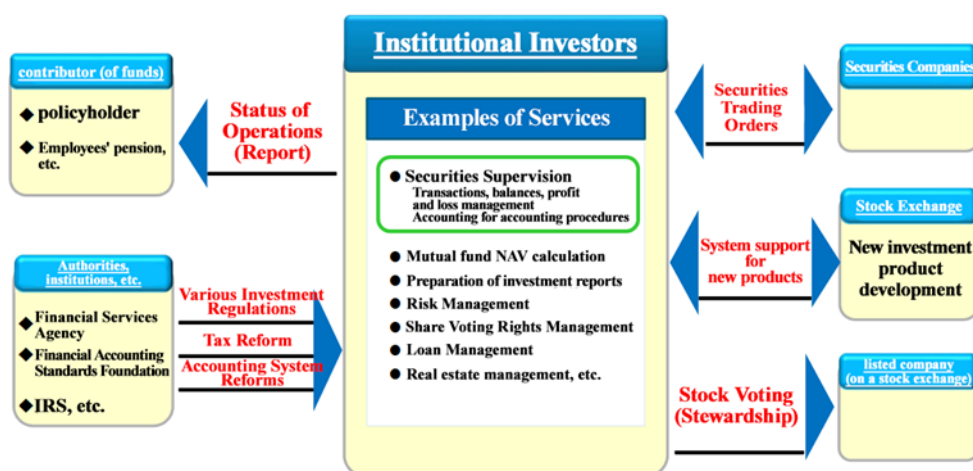
institutional investors, including life and non-life insurance companies, investment trust companies, investment advisors, trust banks, and banks.

It has a single business segment, the XNET service business. The services can be categorized into “XNET Service” and “Equipment Sales.” However, “Equipment Sales” service is provided to clients who wish to install computers and other equipment while adopting “XNET Service” and accounts for about 0-1% of total sales.

**(1) XNET Service**

**1. Clients' Situation**

The institutional investors who are the company's clients invest in thousands of securities, including stocks and bonds, and have invested in various high-cost systems to manage their securities, including transactions, balances, profits/losses, and accounting processes.



(Taken from the company’s documents)

Many Japanese companies have conventionally built such systems and used them exclusively in-house. In cases of system outsourcing, where development and management are outsourced to an external company, the system is often the company-specific system, with all development and maintenance costs borne by the company.

In response to this situation, the company developed its own information system since its foundation and came up with a unique business model, which it named “XNET Service,” to offer this system to multiple clients for a monthly fee only. It also provides comprehensive support for asset management operations from front to back office, including providing the stock information.

**◎Main Service Lineup**

1) Front Office for Securities	A service for institutional investors and securities companies to provide functions related to placing and receiving orders for securities.
2) Middle Office for Securities	A service to provide performance analysis, reporting to beneficiaries, and other functions for financial products invested by institutional investors.
3) Back Office for Securities	A service to provide management functions such as journal entries, deposits, withdrawals, and actual item storage for financial products invested by institutional investors.
4) Back Office for IM	A service to provide investment trust advisory companies with functions for investment trust accounting operations (calculating base prices of investment trusts and creating management reports and other forms).
5) Center-type Indicative STP	A service allowing investors to electronically send trust instructions to a managing trust bank.
6) Disclosure of Trust-linked Data	A service allowing users to receive portfolio data (transactions, balances, portfolio attributes) in XNET format for special funds, fund trusts, etc., which are re-trusted by the managing trust bank.
7) Loan Management	A service that offers functions to manage all loan-related operations, including primary,

	secondary, syndicated, and mortgage loans, on a uniform platform regardless of the loan type.
8) Stewardship Solutions	A service providing functions to support the administrative operations of shareholder voting rights.
9) Report Manager	Support services for preparing external forms required in the investment trust and investment advisory business. In addition to providing application service (basic service), it offers data creation support (optional service) services.
10) XNET-AMO Service	A service in which dedicated CEs provide comprehensive support from “operation /maintenance” to “design/development” related to XNET application use from the customer's perspective, supporting the business operation of XNET applications suitable for the clients.
11) Smart Outsourcing (SO) Service	Services in which the company uses XNET services (back office, middle office, investment trust, etc.) to perform operations on behalf of its clients.
12) Remuneration Management Service	Support services for managing operations related to remuneration for investment advisory companies.
13) Trust Management for Individuals	It is possible to provide “beneficial interest management” and “jointly managed money trust/investment account management” for a representative trust for wills. It can be used independently by a trust bank or by a trust bank in partnership with a local financial institution as an agent.
14) Support Service for Investment Trust Management Business	Comprehensive support services for launching an investment trust management business, starting from establishing a company and preparing investment applications to starting the business.
15) Support Service for Discretionary Investment Business	Comprehensive support services for launching a discretionary investment business, starting from establishing a company and preparing investment applications to starting the business.

In addition to providing software customized to customer needs, the company is focusing on expanding its outsourced system management and business process services, including “10) XNET-AMO Service” and “11) Smart Outsourcing (SO) Service.” By having the company's professional human resources undertake front, middle, and back-office operations, clients are able to focus their resources on other tasks.

**(2) Business Model: Adopting a subscription model**

Since its launch in 1991, the “XNET Service” has been offering its services on a subscription model, receiving a fixed monthly subscription fee on a continuous basis.

It is a pioneer in the “subscription” business model, an innovative business model distinct from the “in-house development type,” in which SI vendors and software houses develop software on contract, and the “package type,” in which package vendors provide packages.

In the “in-house development type,” all costs are borne by the ordering company, and the risk of unsuccessful development is borne solely by one company.

In the “package type,” it is cheaper to install a pre-existing system, but the cost of modification and additional development is high.

In contrast, the “XNET Service,” developed under the concept of “collaboration with clients,” differs significantly from the “in-house development” and “package type” services. The reason for this is that after the launch, it is improved and refined with clients, with no initial cost and additional investment required.

The company owns the copyrights to the application and provides it to other users, thereby increasing profitability as the number of users grows.

In addition, a major advantage for both the clients and the company is that all the know-how accumulated through collaboration with multiple clients can be stored in the XNET application to facilitate knowledge sharing.

Merits for users	* No initial investment required
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	<ul style="list-style-type: none"> <li>* Quick installment period</li> <li>* No additional investment required</li> <li>* Overall cost is low because many users pay for one system</li> <li>* Incorporate ideas from many users so advanced know-how can be shared (knowledge sharing)</li> <li>* Constantly updated so the system does not get outdated</li> </ul>
Merits for the company	<ul style="list-style-type: none"> <li>* Stable revenue due to monthly fees, unlike selling the entire system outright.</li> <li>* Discontinuation of the service is difficult</li> <li>* High profitability due to collaborative use of the same application</li> </ul>

Another feature of the “XNET Service” is the low number of service cancellations owing to the fact that users are unlikely to switch to another company's system due to the significant burden of transferring historical data once the XNET system has been installed.

### [1-5 Features, Strengths, Competitive Advantages]

#### (1) Largest Market Share

XNET utilization accounts for 82% of the total amount of securities under management for all companies affiliated with The Life Insurance Association of Japan and 96% of non-life insurance.

The convenience and economic advantages of the comprehensive XNET service are evaluated highly, and the track record of the company's asset management system, including front, middle, and back-office services, is ranked predominantly No. 1 in the life and non-life insurance industry.

The source of this competitive advantage is extensive information on securities and applications updated constantly to reflect the information and know-how.

In addition to revising rules and systems in the securities investment and management industry, it is necessary to stay updated on new investment targets, such as cryptocurrencies. Additionally, it is essential to incorporate the information into logic and reflect it in the application rather than simply having it as information.

The “XNET System” incorporates not only the information and know-how accumulated by the company, but also the know-how acquired by its clients through securities management into the application, making it the best and most up-to-date application that accumulates a variety of know-how at any time.

#### (2) Provide High-added Value

The company creates high-added value by providing high-level “applications,” “know-how,” and “support” as an integrated package.

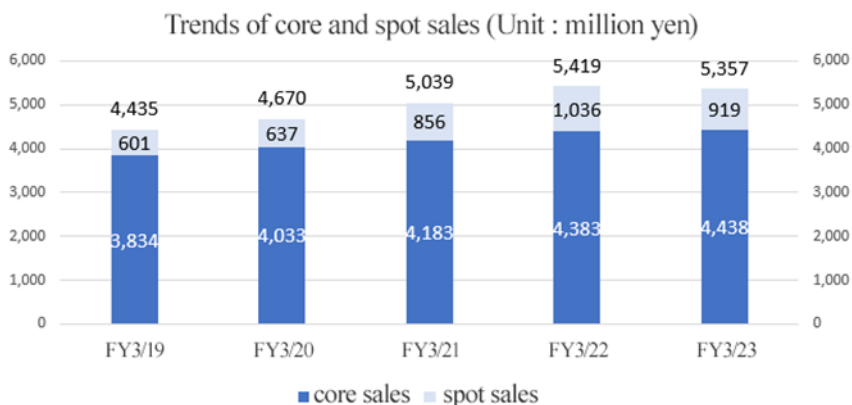
#### (3) Stable Profit Structure

Core sales account for about 80% of the company's sales. It is striving to establish a stable revenue base by expanding its core sales.

The Medium-term Management Plan targets core sales of 5 billion yen for the fiscal year ending March 2026.

Sales Type	Summary	Target Service
Core	Stable sales through a subscription model	Application, AMO (monthly), SO
Spot	Sales from one-time transactions only, although necessary to maintain core	AMO (spot) *New installation and platform renewal

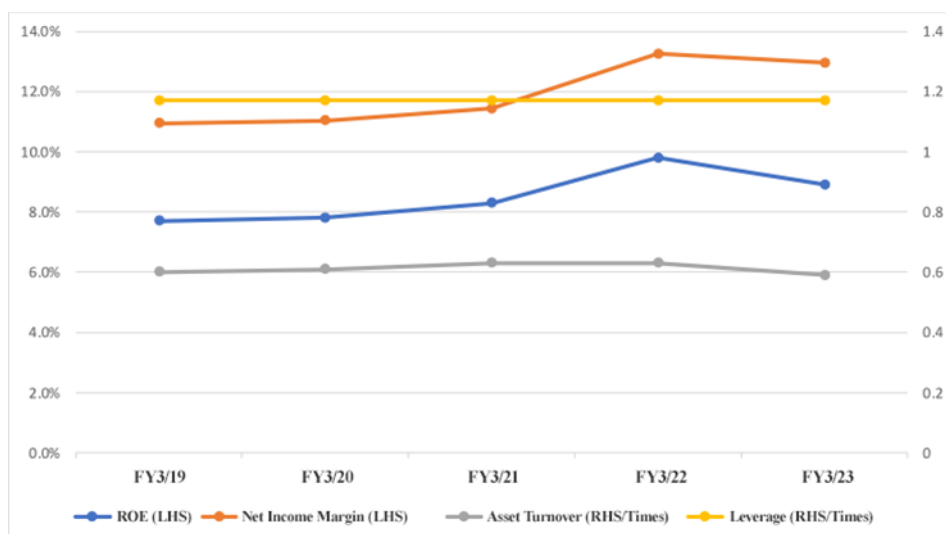
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(Taken from the company's documents)

[1-6 ROE Analysis]

	FY 3/18	FY 3/19	FY 3/20	FY 3/21	FY 3/22	FY 3/23
<b>ROE (%)</b>	<b>7.7</b>	<b>7.7</b>	<b>7.8</b>	<b>8.3</b>	<b>9.8</b>	<b>8.9</b>
Net income margin (%)	11.08	10.94	11.04	11.44	13.25	12.95
Total asset turnover (times)	0.60	0.60	0.61	0.63	0.63	0.59
Leverage (x)	1.15	1.17	1.17	1.17	1.17	1.17



\*Prepared by Investment Bridge Co., Ltd. based on disclosed material.

Although the net income margin and total asset turnover declined in the fiscal year ended March 2023, ROE exceeded 8%, which is generally targeted by Japanese companies. In its Medium-term Management Plan, the company targets 8.0% or over in the fiscal year ending March 2026.



## 2. Fiscal Year ended March 2023 Earnings Results

### [2-1 Overview of Financial Results]

	FY 3/22	Ratio to sales	FY 3/23	Ratio to sales	YoY	Compared with revised forecast
Sales	5,419	100.0%	5,357	100.0%	-1.1%	+1.1%
Gross Profit	1,521	28.1%	1,506	28.1%	-1.0%	-
SG&A	553	10.2%	556	10.4%	+0.5%	-
Operating Income	968	17.9%	950	17.7%	-1.8%	+5.6%
Ordinary Income	995	18.4%	985	18.4%	-1.1%	+7.1%
Net Income	718	13.3%	694	13.0%	-3.4%	+11.9%

\*Unit: million yen. The revised forecast ratio is the ratio to the earnings forecast announced in November 2022.

### Despite the decrease in sales and profit, they both exceeded the revised forecasts.

Sales decreased 1.1% year on year to 5,357 million yen. Sales of application services and SO service remained strong. In the AMO service, there was a reactionary decline due to the large-scale projects in the previous fiscal year. Still, due to the contribution of diligent order-receiving activities during the term, the decrease was slight and exceeded the revised forecast. Although sales decreased slightly from the previous fiscal year, business conditions are generally strong, and sales are almost unchanged from the fiscal year ended March 2022, when the company achieved its largest sales ever.

Operating income decreased 1.8% year on year to 950 million yen. The company had expected a decrease in profit due to a reactionary decline due to the large-scale projects received in the previous fiscal year in AMO service, but the decrease in profit was only minor compared to the previous fiscal year, when profits were the highest ever recorded. This is because the decrease in sales was small and, although costs increased due to investment in internal systems to improve operational efficiency and human capital to maintain and improve service quality, these expenses were absorbed by a decrease in depreciation and amortization expenses.

Since the application of the tax system promoting wage increases was unclear, net income was expected to decline significantly compared to the previous fiscal year when the tax system promoting the securing of human resources was applied. However, the company was able to apply the tax system promoting wage increases. Thus, the decline was only small, like the cases of operating income and ordinary income.

### [2-2 Trend of each service]

	FY 3/22	Composition ratio	FY 3/23	Composition ratio	YoY
XNET services	5,416	100%	5,353	99.9%	-1.2%
Application services	3,724	68.7%	3,779	70.5%	+1.5%
AMO/SO service	1,692	31.2%	1,574	29.4%	-7.0%
Equipment sales, etc.	2	0.0%	4	0.1%	+60.3%
Total sales	5,419	100.0%	5,357	100.0%	-1.1%

\*Unit: million yen.

#### ◎Application services

The company's mainstay securities management system continues to perform well.

The market for trusts for individuals, including testamentary trusts, is expanding due to the aging of society, which has led to the expansion of the customer base, including new customers.

The company's position as a system vendor in the market has become stronger as financial institutions have expanded the variety of trust products they offer, leading to the enhancement of system functions.

Regarding the loan management system, the company started providing services to Meiji Yasuda Life Insurance Company. Loan management in the life and non-life insurance industry continues to rely on legacy systems in many cases. Therefore, the company expects there to be much room for market entry.

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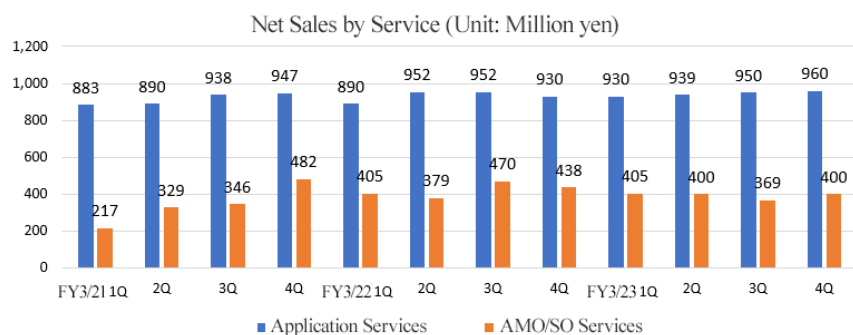
## ◎AMO service

The number of orders for continuous system maintenance and infrastructure update projects remains healthy.

In addition to the expansion of the customer base for application services, there is also a shortage of IT personnel at financial institutions, which has led to stable orders for AMO service.

## ◎SO service

In addition to the solid performance of existing services for investment trust advisory companies, SO service for the life and non-life insurance industry have been adopted by the second company. The company expects the adoption of SO service by the life and non-life insurance industry to continue to grow.



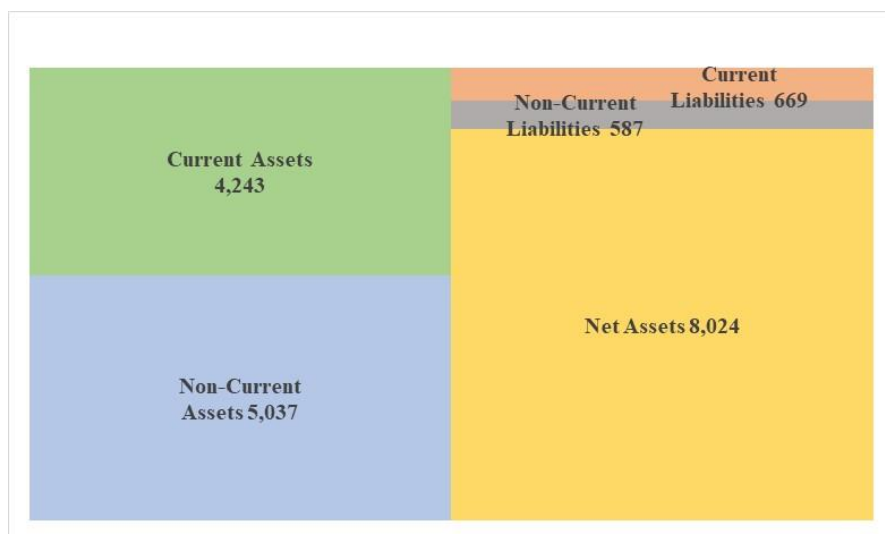
## [2-3 Financial Standing and Cash Flows]

## ◎Main Balance Sheet

	End of March 2022	End of March 2023	Increase/Decrease		End of March 2022	End of March 2023	Increase/Decrease
Current assets	4,097	4,243	+146	Current liabilities	813	669	-144
Cash and deposits	1,865	2,258	+393	Accounts payable	266	289	+22
Deposit paid in subsidiaries and affiliates	1,444	1,463	+18	Income taxes payable	243	150	-92
Non-current assets	4,855	5,037	+181	Non-current liabilities	569	587	+18
Intangible assets	1,425	1,218	-206	Total liabilities	1,383	1,257	-126
Software	1,424	1,217	-206	Net assets	7,569	8,024	+454
Investment, others	3,339	3,725	+386	Retained earnings	5,325	5,779	+454
Total assets	8,952	9,281	+328	Total liabilities and net assets	8,952	9,281	+328

\*Unit: million yen. The software contains temporary accounts.

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\*Prepared by Investment Bridge Co., Ltd. based on disclosed material.

Total assets increased 328 million yen from the end of the previous term to 9,281 million yen due to increases in cash and deposits and investment securities.

Total liabilities dropped 126 million yen from the end of the previous term to 1,257 million yen due to a decrease in income taxes payable.

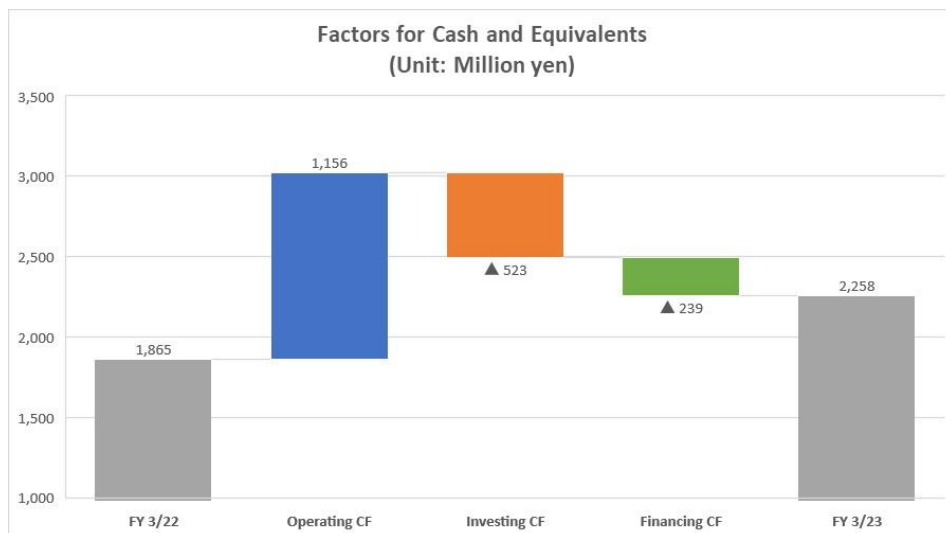
Net assets grew 454 million yen from the end of the previous term to 8,024 million yen due to an increase in retained earnings.

Equity ratio rose 1.9 points from the end of the previous term to 86.5%.

**◎CF**

	FY 3/22	FY 3/23	Increase/ decrease
Operating Cash Flow	1,387	1,156	-231
Investing Cash Flow	-685	-523	+162
Free Cash Flow	701	632	-68
Financing Cash Flow	-230	-239	-8
Balance of Cash and Equivalents	1,865	2,258	+393

\*Unit: million yen.



\*Prepared by Investment Bridge Co., Ltd. based on disclosed materials.

The surplus in operating CF and free CF shrank.

The cash position improved.

#### [2-4 Topics]

##### ◎ Started providing loan management services to the life and non-life insurance industry

In March 2023, it was announced that the company started providing XNET loan management services to Meiji Yasuda Life Insurance Company on February 20, 2023.

(Background/Outline)

As part of its medium-term strategy to rebuild its asset management platform, Meiji Yasuda Life Insurance Company is working to improve the efficiency and sophistication level of the administrative services of its asset management and establish a long-term competitive administrative foundation.

In order to update the host system for the loan administration management that plays a part in this, Meiji Yasuda Life Insurance Company will fully adopt the XNET loan management service in addition to the XNET service that involves foreign currency loan management and the XNET service that entails the evaluation of loan market value that it has used so far,

(Characteristics of XNET loan management service)

- (1) Complex repayment schedules, such as unequal principal and interest repayments and interest additions, can be registered.
- (2) Supports the interest calculation method for fixed interest rates in arrears.
- (3) Supports face value/book value management, accrued interest management, and amortized cost processing of purchased receivables.
- (4) Supports complex billing and payment processing unique to insurance companies that do not hold settlement accounts.
- (5) It can manage loans not only in specific major currencies, but also in all currencies.
- (6) Can adjust to holidays according to the calendars of not only Japan, but also overseas countries, states, and cities.
- (7) It is possible to evaluate the market value of loans by using the XNET service entailing the evaluation of loans market value (optional function).
- (8) Offers seamless linkage with XNET IFRS accounting management service (optional function)

By providing XNET loan management service, the company intends to actively respond to the increasing needs of insurance companies to expand their earning power and streamline their operations as their operation modes diversify.

### 3. Fiscal Year ending March 2024 Earnings Forecasts

#### [3-1 Earnings Forecast]

	FY 3/23	Ratio to Sales	FY3/24 (Est)	Ratio to Sales	YoY
Sales	5,357	100.0%	5,300	100.0%	-1.1%
Operating Income	950	17.7%	880	16.6%	-7.4%
Ordinary Income	985	18.4%	910	17.2%	-7.6%
Net Income	694	13.0%	610	11.5%	-12.1%

\*Unit: million yen. Estimates are those of the company.

#### Sales and profit are expected to decline, but remain at a high level

Sales are expected to be 5.3 billion yen, down 1.1% year on year, and operating income is projected to be 880 million yen, down 7.4% year on year.

Sales are forecast to continue to be strong for all services. Yet, it is estimated to decline slightly because of the cancellation of the SO service due to the integration of customers.

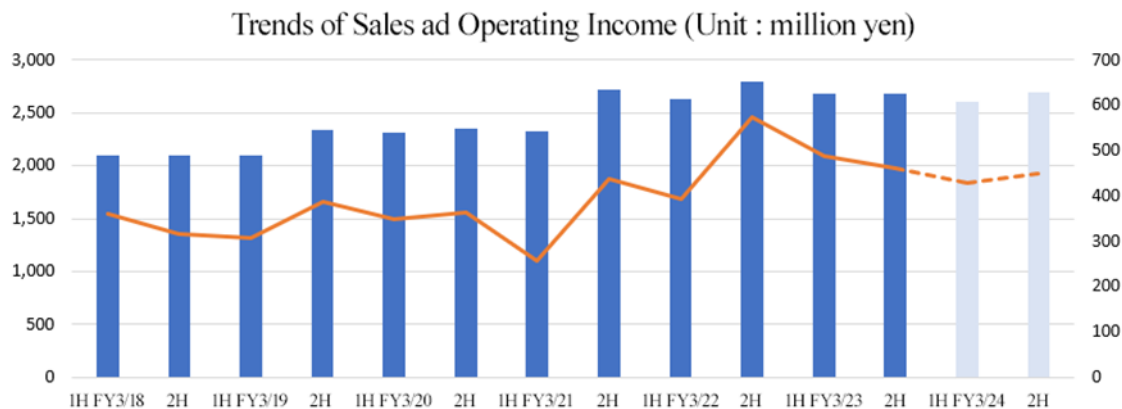
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Regarding profit, amortization expenses related to XNET application investment are expected to decrease further, but costs will continue to augment this fiscal year due to investments in securing human resources and investing in the office environment. Thus, profit is expected to decrease.

Operating income margin is expected to remain at a high level of 16.6%.

The dividend is scheduled to be 30.00 yen/share, unchanged from the previous term. The expected dividend payout ratio is 40.6%.



## 4. Conclusions

The company forecasts a decline in sales and profits this fiscal year like in the previous fiscal year. However, in terms of sales, the situation for all services is expected to remain strong. Regarding profit, as stated in the Medium-term Management Plan, the company will thoroughly invest in "application service development" and "human resources strategy." Therefore, costs are expected to augment, and profit is projected to decline. Still, although sales and profit will not be as high as those in the fiscal year ended March 2022, when sales and profit were at record highs, both sales and profit have been on a steady growth trend since before that.

Loan management services for life and non-life insurance are expected to expand horizontally, with the start of provision of services to a super major company, Meiji Yasuda Life Insurance Company, and trust management systems for individuals targeted at local banks are also steadily expanding. With this expansion of customers, the company is steadily building the foundation for achieving core sales of 5 billion yen, the goal for the fiscal year ending March 2026.

We would like to pay close attention to the progress of the core strategy in this fiscal year, which is the second year of the Medium-term Management Plan.

### <Reference 1: Medium-term Management Plan 2022-2025>

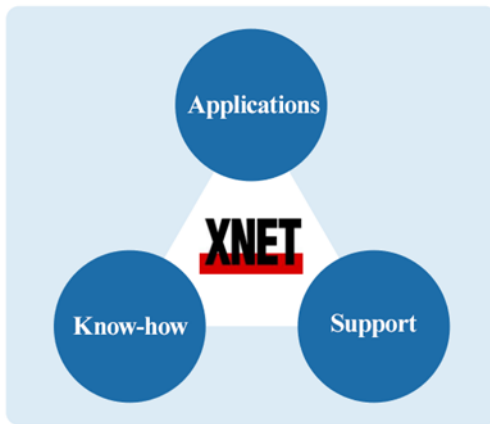
The company, which achieved record sales and profit in the fiscal year ended March 2022, plans to promote growth strategies and effectively utilize its assets to refine its "earning" and "spending capabilities" in order to continue to improve its corporate value and sustainable growth.

To this end, the company has formulated a Medium-term Management Plan with the fiscal year ended March 2023, as its first year. This is the first Medium-term Management Plan made public.

#### [1. Sources of Added Value of the Company]

The three sources of added value of the company are "applications," "know-how," and "support." The company generates higher added value by fusing all the above at an advanced level.

**Our value-added offerings**



**Applications**

- ◆ No initial investment required
- ◆ Fixed monthly fee
- ◆ No maintenance costs
- ◆ Freely combinable from over 4,000 applications (object-oriented)

**Know-how**

- ◆ Attentive support system by customers and our customer representatives (CE)
- ◆ Accumulated know-how to keep your applications up-to-date with the latest features

**Support**

- ◆ Attentive support by our customer representatives (CEs)
- ◆ Knowledge of professionals in the asset management industry

(Taken from the company’s documents)

**(1) Application**

As mentioned in “1. Company Overview,” the company’s “XNET service” is an application service with a fixed monthly fee and no additional charges.

It is a pioneering subscription model and an advanced business model, distinct from the services of other companies.

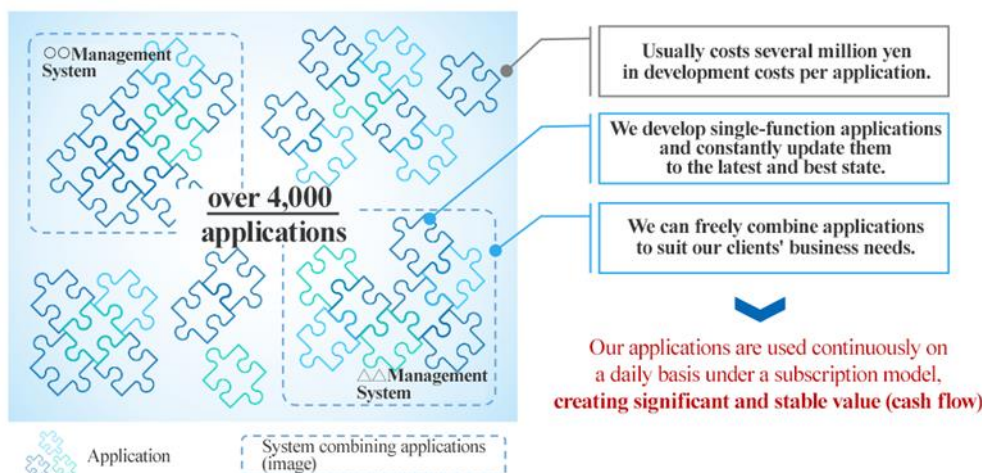
The company currently has approximately 4,000 applications.

It possesses the latest and best applications by accumulating know-how over the applications it develops.

The development cost per application is typically 2-3 million yen, but the value of each application goes beyond this amount, when it is considered that it is the latest application with accumulated know-how.

The 4,000 high-value-added applications generate stable high value or cash flow through the subscription model.

**Applications owned by XNET**



(Taken from the company’s documents)

**(2) Know-how**

The company’s applications are improved and mounted with new functions, reflecting not only the voices of customers, but also the latest needs that the company’s employees grasp on site, and changed on a daily basis according to the operational and institutional changes.

In addition, as the company owns the copyrights to the applications and has accumulated various types of in-house know-how, it can provide the “latest and the best” at all times, ensuring that its applications do not become obsolete.

### (3) Support

The company is more deeply customer-oriented than its competitors. It assigns a Client Executive (CE) for each customer to meticulously serve them and offer expertise-based support.

In many cases, the call centers of general system companies are either unaware of whether they can handle emergency requests received over a phone call or are incapable of providing an immediate response if professional support is required.

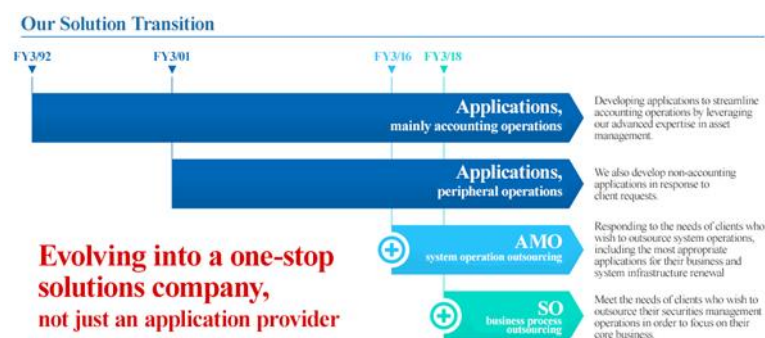
In contrast, the company’s CEs can directly respond to customers in an emergency. It can also provide immediate, specialized support and meticulously serve the customers as per the customer’s unique circumstances.

## [2 Key Business Domains for Sustainable Growth]

To further strengthen its “earning capacity,” the company aims to become a “one-stop solution company” that not only provides applications, but also offers a full range of solutions for asset management.

### (1) Evolution into a One-Stop Solution Company

In addition to the provision of applications (software), the company provides further added value by AMO (undertaking application management) and SO (undertaking business operations) services.



(Taken from the company’s documents)

### (2) Medium- to Long-Term Service Deployment: Growth of the businesses of AMO and SO

Over the medium to long term, the company will grow the businesses of AMO (undertaking application management) and SO (undertaking business operations) services to become a true one-stop solution company.

By achieving significant growth of these businesses, the company will create a product mix that meets the needs for asset management.



(Taken from the company’s documents)

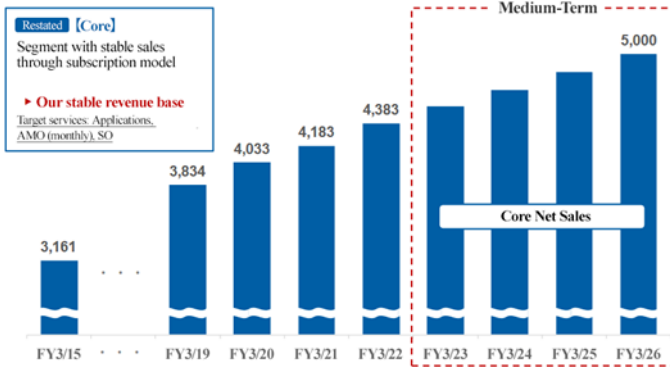
### (3) Business Strategy During the Medium-Term Management Plan

The company will further strengthen its “core” segment, which secures stable sales through a subscription model, and maintain high profitability.

Focusing on the “core” will provide the basis for “earning capacity,” strengthen the management base, and further increase

corporate value.

**Core Net Sales in the Medium-Term Management Plan Period**



(Taken from the company’s documents)

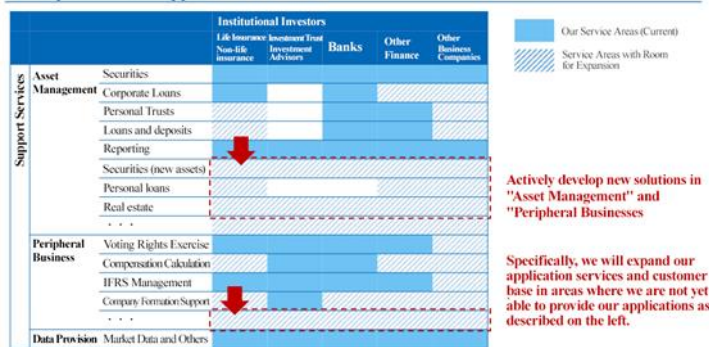
**[3. Investment Strategy]**

The company will actively invest in applications, systems, and human resources while refining the “spending capacity.”

**(1) Development of New Application Services**

The company will actively develop new solutions and further expand its application service, one of its sources of added value. It intends to actively promote the development of new solutions in uncultivated areas of “asset management” and “peripheral businesses.”

**Development of new application services**



(Taken from the company’s documents)

**(2) System Investment**

The company will invest “aggressively” and “defensively” in its existing services.

**\*Aggressive Investment**

The company will invest for improving and upgrading over 4,000 existing applications, which are their high-quality assets, to develop new solution services and improve convenience for customers.

**\*Defensive Investment**

The company will ensure that the system is updated with the upgraded operating system to maintain a high level of service.

**(3) Human Resources Strategy**

The company will actively invest in human resources, which are vital.

The company will continue to focus on actively recruiting experienced personnel.



At the same time, it will utilize the expertise of veterans and the know-how accumulated in the applications to train young personnel for the future. In addition, the company will create an improved environment to enhance productivity. The company's strength is its ability to recruit industry veterans ready to work immediately in the face of the shortage of IT personnel.

#### [4. Management Goals]

The following targets have been set for the final year of the plan, that is, the fiscal year ending March 2026.

Core Sales	5 billion yen
Operating Income Margin	15.0% or higher
ROE	8.0% or higher

#### [5. Shareholder Return]

The company has maintained a stable dividend, including that in the fiscal year ended March 2015, when there were impairment losses.

The company will continue to increase dividends actively based on long-term stable dividends.

In addition, the company newly introduced a benefit plan for shareholders.

They plan to express their gratitude to shareholders and deepen their understanding of the Medium-term Management Plan to encourage them to hold shares over the medium to long term.

(Overview of the Shareholder Benefit Plan)

\*Effective Period

In line with the period of the Medium-term Management Plan (April 1, 2022, to March 31, 2026).

\*Eligible Shareholders

Shareholders whose names are recorded in the shareholder's register on the record date, that is, the end of September or the end of March of each year during the effective period, and who have held at least one trading lot (100 shares) of the company.

\*Benefits

All shareholders with at least 1 trading lot will receive a QUO Card worth 500 yen.

## <Reference 2: Regarding Corporate Governance>

### ◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	9 directors, including 3 outside directors (of which 3 are independent directors)

### ◎ Corporate Governance Report

Last update date: July, 8, 2022

<Basic Policy>

We recognize that continuous improvement of business performance contributes to the development of society, enhances corporate value, and meets the expectations of our shareholders and other stakeholders. To this end, we believe that it is important for corporate governance to function effectively, realize a system that can appropriately respond to changes in the business environment, and conduct fair and transparent corporate management.

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

[Supplementary Principle 3-1-2]

As the ratio of foreign shareholders in our company is low, we do not translate our disclosed material into English. However,

we will discuss how to address this issue in light of future trends in the ratio of foreign shareholders and our overseas business development.

[Supplementary Principle 4-1-3]

Our company is systematically developing potential successor candidates to the CEO by assigning them as general managers in each division so that they can gain necessary experience as managers, and by having them attend regular management meetings as well as steering committees with NTT DATA, which is the parent company (attended by part-time directors and others) to continuously deepen their knowledge of our company's management issues and the industry.

On the other hand, the Board of Directors resolves the appointment of the CEO after prior discussions with part-time directors. However, the role of the Board of Directors in the development stage has not been sufficiently discussed, and we have not established a system for this purpose.

The Board of Directors is currently discussing this matter.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

[Principle 1-4]

Currently, we do not hold any listed shares for strategic shareholding. Although we do not plan to hold such shares in the future, if the possibility of holding listed shares should arise, we will take sufficient time to thoroughly examine and verify the purpose, benefits, and risks in advance, based on this principle, and will disclose the results of such examination and establish and disclose the criteria for exercising voting rights.

[Supplementary Principle 2-4-1]

(1) Human resources development and in-company environment development policies, and their statuses

Our approach to human resources development is based on on-the-job training (OJT), which is supplemented by off-the-job (OffJT) training, mainly the training programs listed below, to proactively support employees in strengthening their skills.

- Group training for new employees
- Training on basic financial knowledge
- Training on individual themes
- Introductory training in system development
- Others

In addition, as an initiative to complement employee development, we are promoting the hiring of the following people

- Hiring people who want to give back to the industry, such as veterans and retirees who have been active in the asset management industry for many years
- Hiring women left the industry after maternity or childcare and resigned employees who are experienced in the asset management industry
- Rehiring highly skilled and highly motivated former employees who are recognized by all
- Hiring people (such as temporary staff) who are employed with us and who love our corporate culture and values
- Hiring fresh graduates from high school

We actively hire people who understand our corporate culture and values, and we will continue to upgrade their skills as we integrate them within the company.

(2) Ensuring diversity

In order to create and provide services that continue to be sought after in the asset management industry, we continuously hire diverse human resources, including mid-career hires with a variety of work experience, and allocate them in a manner that respects their motivation and abilities so that each and every employee can grow to become a professional.

<Promoting women in managerial positions>

We believe that diversity in human resources, or diversity in values, is essential for maintaining the vitality of an organization. In this context, we are developing and improving various support systems to promote the active participation of women and enable them to work in a more flexible and diverse manner. As a result, the ratio of women in managerial positions is increasing and will continue to do so in the future.

## &lt;Promoting non-Japanese employees in managerial positions&gt;

At present, the percentage of non-Japanese employees is very low due to the fact that our business domain is limited to the domestic domain, and we have no track record of promoting non-Japanese employees to managerial positions. For the same reason, we do not set or disclose targets for the ratio of non-Japanese managers. However, it is our basic policy to evaluate employees based on their abilities and achievements regardless of their nationality.

## &lt;Promoting mid-career hires to managerial positions&gt;

In order to secure diverse human resources, our company has adopted mid-career hiring as a general rule since its founding, and mid-career hires account for 100% of our managerial positions. We will continue to focus on mid-career hiring based on our policy of cultivating and securing diverse human resources specializing in asset management IT and maintain the high ratio of mid-career hires in managerial positions, which is one of our company's unique characteristics.

Please refer to our website for information on the status of our employees, managers, and our training policy.

Developing Human Resources Specializing in Asset Management IT <https://www.xnet.co.jp/if/sus2.html>

## [Supplementary Principle 3-1-3]

## (1) Initiatives for sustainability

Recognizing the importance of ESG (Environmental, Social, and Corporate Governance) in improving corporate value over the medium term, we have posted our policy on sustainability and other initiatives for sustainable growth on our website. For more information on our approach toward sustainability, policies, and initiatives, please visit our website.

Sustainability [https://www.xnet.co.jp/if/index\\_sus.html](https://www.xnet.co.jp/if/index_sus.html)

## (2) Investment in human capital

In addition to supporting the diverse work styles of our diverse human resources, we are developing and improving our work-life balance support system to enable our employees to realize their ideal work styles in order to meet the demand from society, such as promoting the active participation of women and rectifying long working hours.

In addition, human resources are essential for creating and providing services that continue to be sought after in the asset management industry. To this end, we actively support the growth of each employee so that they can become professionals. Please refer to our website for more information on our efforts to provide diverse work styles and human resources development initiatives.

<https://www.xnet.co.jp/if/sus2.html>

## (3) Investment in intellectual property

As a provider of securities management systems and related services, we recognize that intellectual property is an important corporate asset. Our policy is to maintain and manage these assets appropriately and utilize them effectively as our strength. By securing intellectual property rights that are beneficial to our business as needed, and working on intellectual property activities, we aim to differentiate our services and secure a competitive advantage in the market, as well as to prevent infringement of intellectual property rights of third parties, including customers and business partners, and intend to reduce legal risks in our business operations. In addition to maintaining regulations in the divisions in charge, we are working to raise awareness of intellectual property rights by providing educational and enlightening opportunities for employees in cooperation with NTT DATA Corporation.

## [Principle 5-1]

Our company proactively responds to requests for individual interviews, including those from shareholders, taking into consideration the equality of information disclosure and the necessity from the perspective of improving corporate value, and the President and Representative Director responds to such requests.

Our policy for dialogue with shareholders and other stakeholders is as follows.

(i) The President and Representative Director oversees IR activities and promotes activities to promote dialogue with shareholders.

(ii) In conducting IR activities, the personnel in charge of corporate planning, IR, legal affairs, general affairs, accounting, and other areas within the Administration Division, under the direction of the President and Representative Director, are directly involved in everything from the preparation of IR materials to company briefings and interviews with individual shareholders, in an effort to ensure continuous internal information coordination while paying close attention to insider information and to ensure fairness of information in dialogues.

(iii) The President and Representative Director reports to the Board of Directors on the opinions received from shareholders and others during IR activities and discusses how to respond to them after sharing and exchanging opinions on the requirements and issues.

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