## A decade of performance

The investment landscape in Japan over the past decade, from fiscal 2013 to 2022, has broadly followed the trajectory outlined below. In the aftermath of the supply chain disruptions triggered by the 2011 Great East Japan Earthquake, the government of the day, unable to devise effective measures, yielded to the Abe administration of the Liberal Democratic Party at the close of 2012. Abe was intent on avoiding deflation and introduced Abenomics, a growth strategy that combined financial easing, fiscal policy, and initiatives to stimulate private-sector investment—known as the "three arrows." Helped by a weak yen and a decline in oil prices, Abenomics fostered a fledgling recovery in corporate earnings.

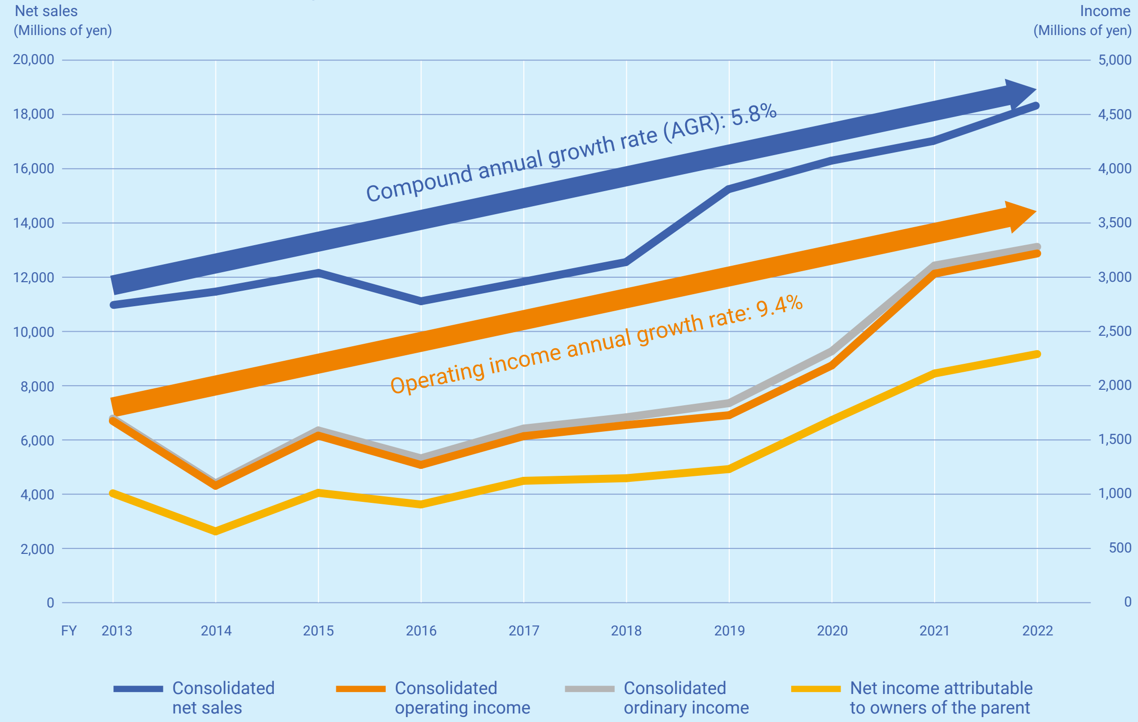
Corporations' accumulated retained earnings, however, did not translate into investments for growth. In fact, two consecutive consumption tax hikes hindered Japan's economic growth, resulting in two periods of negative growth. Since the early 2020s, the global economy has grappled with challenges, such as the COVID-19 pandemic, Russia's invasion of Ukraine, inflation due to surging raw material prices, and worldwide interest rate hikes.

Only companies adaptable to the economy's "new normal" could look beyond the challenges and see business opportunities.

Domestic IT services providers, including ITFOR, have experienced heightened demand for system updates to address regulatory compliance in sectors such as finance and distribution. There has also been a surge in demand among businesses for efficiency improvements that contribute to work-style reform. The COVID-19 pandemic has accelerated the transformation to digitization to achieve noncontact and remote interactions. And that digital transformation spans the whole of society and not just business enterprises.

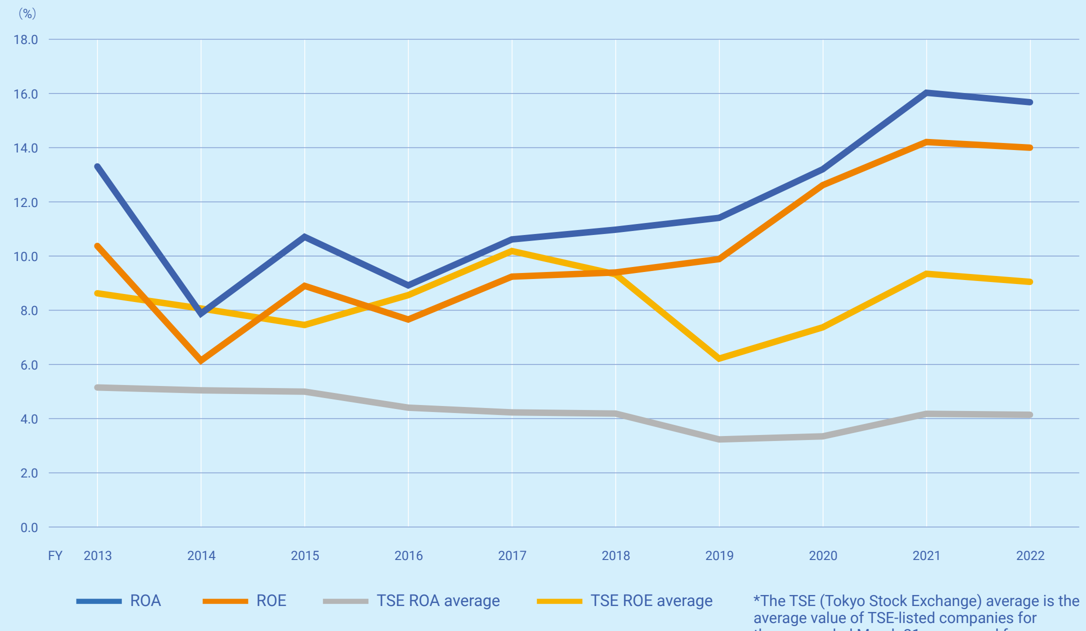
A decade's worth of changes have, for ITFOR, increased net sales from ¥10,429 million to ¥18,322 million over the 10-year period. This growth, of 75.7%, corresponds to an annual growth of 5.8%. The company's operating income, meanwhile, has increased from ¥1,315 million to ¥3,217 million, a gain of 144.7% or, on an annual basis, of 9.4%, as shown in figure 1.

Figure 1.  10-Year Net Sales and Income Trends




In figure 2, we examine profitability trends that reveal that ITFOR's return on assets (ROA) and return on equity (ROE) are consistently and significantly higher than the Tokyo Stock Exchange (TSE) average. ITFOR's ROA in fiscal 2022, for example, is a notable 15.7%, whereas the TSE average lags at 4.2%. This showcases a substantial advantage for ITFOR over the market norm. Also in fiscal 2022, ITFOR's ROE (including net income attributable to owners of the parent) is 14.0%, surpassing the TSE average of 9.1% and signifying superiority in this regard as well.

Figure 2. Capital Returns vs TSE Average*




*The TSE (Tokyo Stock Exchange) average is the average value of TSE-listed companies for the year ended March 31 as sourced from the *TSE Monthly Report*.

Table 1 breaks down ITFOR's ROE, with a focus on fiscal 2022, into three components using DuPont analysis, which employs formulas to dissect the financial condition of a company into multiple elements and to detail the factors that influence ROE. ITFOR's ROE is revealed to be challenged by the absence of external capital and by a high equity to total assets ratio. But analysis also shows the company's ROE to be superior in profitability (net profit margin) and operational efficiency (asset turnover), offsetting the challenges. The latter contribute heavily to ITFOR's elevated capital profitability.

ITFOR's enhanced revenue growth and profit margin in recent years is attributable to the improved sophistication of the packaged systems that it has developed for financial institutions over its decades in business. Also contributing are the company's improved customization capabilities, which have grown its customer base considerably.

Table 1. DuPont Analysis of ROE

ROE = Net income / Shareholders' equity =

Profitability — Net profit margin (Net income / Sales) × Operating efficiency — Asset turnover (Sales / Total assets) × Financial leverage — Leverage factor (Total assets / Shareholders' equity)

| | ROE | Net profit margin | Asset turnover | Leverage factor |
|---|---|---|---|---|
| ITFOR | 14.0% | 12.5 | 0.9 | 1.3 |
| TSE average | 9.1% | 5.0 | 0.6 | 3.0 |

In this report's section on our business divisions (pages 30–36), for example, we speak to how we leverage the expertise that we've gained in developing packaged systems for financial institutions to develop products and services for local governments. We also plan to employ our know-how in retail solutions to offer payment business solutions for financial institutions. We intend to maximize our resources to explore new customers and products.

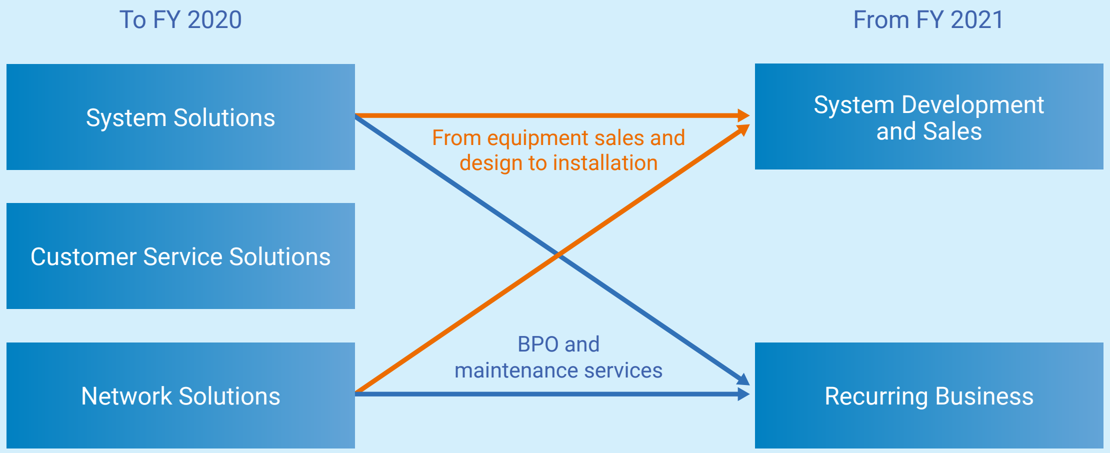
ITFOR remains debt free and has achieved steady growth by offering customers quality system products and services and by benefiting from the recommendations of satisfied customers to garner further business opportunities and customers. The rapidly changing social and business landscapes make it imperative for our growth that we extend ourselves beyond our usual activities to implement novel growth strategies. Absent initiatives and investments, our further enhancement of our corporate value may prove difficult. How best to sustain our growth is an ongoing issue for management.

## Background to change in segment classification

ITFOR recently changed the segment classification outlined in its securities reports. Until fiscal 2020, it categorized segments by the form of the solutions provided: System Solutions, Service Solutions, and Network Solutions. Since fiscal 2021, it has streamlined its classification into two business segments: System Development and Sales and Recurring Business. ITFOR discloses its financial figures under this revised classification. System Development covers equipment sales, design, and installation until the service launch of contracted projects. Recurring Business encompasses BPO and maintenance, activities of stable revenue.

The company's reason for this change in segment classification was its expanding customer base. We believe that classifying our operations by System Development and Sales and by Recurring Business elucidates our performance better than a classification based on solutions. To complement that explanation of our performance for investors, we also disclose the net sales of our six business divisions as categorized by customer industry: the Financial Systems Division, Public Systems Division, Retail EC Systems Division, CTI Systems Division, Communications Systems Division, and Payment Systems Division.

Changes in Segment Classification




## Analysis of fiscal 2022 performance

During ITFOR's fiscal year 2022, ended March 31, 2023, the Japanese economy showed signs of gradual normalization as COVID-19 movement restrictions were eased. Global uncertainties persisted, however, because of soaring resource and commodity prices, inflation, and interest rates in the United States and elsewhere.

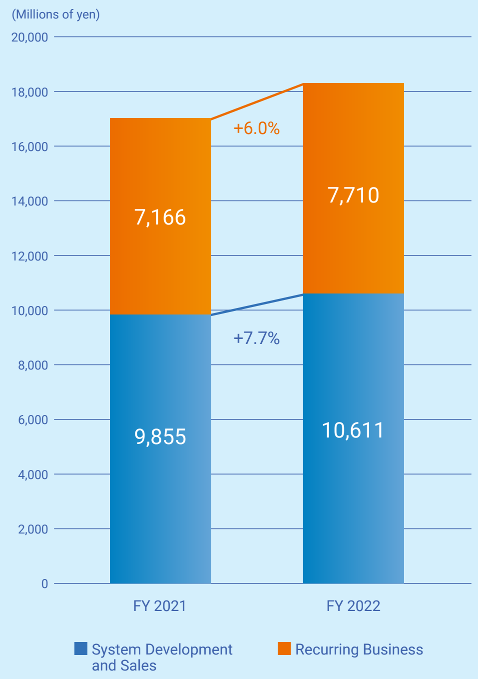
The Japanese IT service industry of which ITFOR is a part witnessed rising attention from consumers in digital technologies that help to avoid contact and face-to-face interactions and that promote artificial intelligence (AI) and blockchain. Some companies nevertheless limited or delayed investments in IT. Consequently, robust economic recovery for our industry remained elusive.

ITFOR, meanwhile, continues to update its flagship delinquent loan management system targeted primarily at financial institutions. The company is seeing steady sales of that system's latest iteration, which combines a personal loan operation support system SCOPE and the web-based loan application system, WELCOME. This innovative solution facilitates interactions that are not face to face, and we are constantly adding features to enhance its functionality.

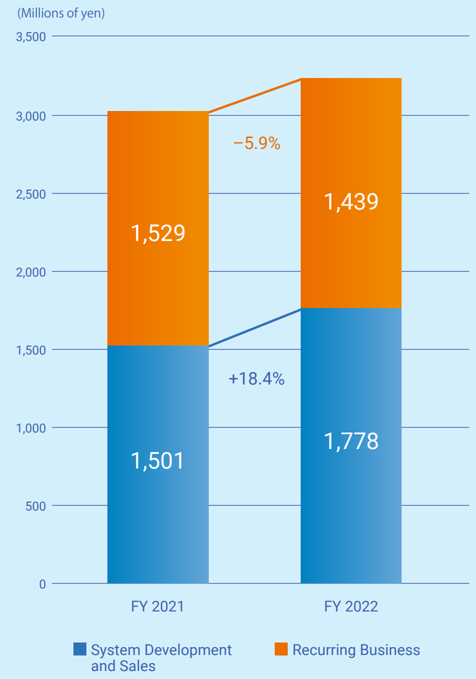
To address concerns about labor shortages, we offer Robotic Call, an efficient call center solution that has gained widespread adoption by major financial institutions. ITFOR is also responding to heightened demand for the replacement of legacy network equipment.

Consequently, we achieved record highs in new orders for our various solutions, which rose to ¥18,567 million in fiscal 2022, a 5.8% year-on-year increase, and in order backlogs, which reached ¥15,300 million, a 1.6% increase. As a result, our fiscal 2022 net sales were ¥18,322 million, up 7.6% over the previous fiscal year; operating income was ¥3,217 million, up 6.1%; ordinary income was ¥3,278 million, up 5.5%; and net income attributable to owners of the parent was ¥2,291 million, up 8.5%.

Segment Sales




Segment Income




Sales and profits for the year under review represent record highs. In addition, we surpassed the operating income target of our medium-term management plan a year ahead of schedule and enhanced our operating profit margin. We credit improvements in our financial performance to our reinforced in-house development, which has led to cost reductions, and to our improvements to ensure system stability, which contributed to increased profits. Our emphasis on system sales, moreover, and particularly on packaged systems, has enabled us to establish a robust and profitable foundation.

By business segment, System Development and Sales achieved net sales growth of 7.7% year on year and an 18.4% increase in operating income. Recurring Business saw net sales rise 7.6%, but the segment's operating income decreased 5.9%. Whereas System Development and Sales gained strongly in sales and profit, Recurring Business saw its profit decline because of an increase in orders for BPO services. ITFOR's emphasis on human resources education and training as a differentiator in its BPO services resulted in an initial increase in costs during the first year of contract acquisition. When contracts continue over the long term, however, costs tend to decrease in subsequent fiscal years.

As of March 31, 2023, ITFOR's total assets were ¥21,667 million, an increase of ¥1,656 million compared with the end of fiscal 2022. This is mainly attributed to an increase of ¥1,470 million in notes and accounts receivable—trade, in contract assets, and in securities. Total liabilities increased ¥96 million year on year, to ¥4,499 million.

Net assets at fiscal year-end 2023 were ¥17,167 million, up ¥1,560 million over the previous fiscal year-end. This growth was predominantly driven by an increase of ¥2,291 million in net income attributable to owners of the parent but was partially offset by a decrease of ¥831 million in dividend payments from retained earnings. As a result, our equity to total assets ratio rose to 79.1%, up from 77.9% at the previous fiscal year-end.

As of March 31, 2023, we had cash and cash equivalents of ¥10,796 million, a ¥211 million increase since the previous fiscal year-end. This uptick is attributed to funds generated by operating activities of ¥1,714 million as driven by an increase in net income before taxes. We also allocated ¥758 million to investing activities, mainly in tangible fixed assets. In addition, we used ¥744 million for financing activities, including dividend payments.

## 11-year financial summary

(Millions of yen)

### Balance sheet (As of March 31)

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Current assets | 8,692 | 10,225 | 9,886 | 10,796 | 10,507 | 11,322 | 12,299 | 12,849 | 14,694 | 16,264 | 17,676 |
| Fixed assets | 3,384 | 3,213 | 4,770 | 4,166 | 4,411 | 4,095 | 3,578 | 3,445 | 3,996 | 3,746 | 3,990 |
| Current liabilities | 2,362 | 2,830 | 2,986 | 2,954 | 2,445 | 2,777 | 3,244 | 3,459 | 4,341 | 4,174 | 4,243 |
| Fixed liabilities | 258 | 246 | 351 | 257 | 386 | 427 | 266 | 271 | 248 | 229 | 256 |
| Net assets | 9,456 | 10,361 | 11,318 | 11,750 | 12,088 | 12,213 | 12,367 | 12,564 | 14,101 | 15,606 | 17,167 |
| Total assets | 12,076 | 13,438 | 14,656 | 14,962 | 14,919 | 15,259 | 15,878 | 16,294 | 18,690 | 20,010 | 21,667 |

### Income statement (As of the years ended March 31)

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 10,429 | 10,974 | 11,467 | 12,154 | 11,111 | 11,831 | 12,554 | 15,239 | 16,289 | 17,021 | 18,322 |
| Gross profit | 3,931 | 4,248 | 3,989 | 4,410 | 4,079 | 4,528 | 4,652 | 4,840 | 5,386 | 6,156 | 6,734 |
| Operating income | 1,315 | 1,675 | 1,078 | 1,540 | 1,270 | 1,535 | 1,637 | 1,728 | 2,186 | 3,031 | 3,217 |
| Ordinary income | 1,344 | 1,697 | 1,100 | 1,588 | 1,331 | 1,605 | 1,709 | 1,839 | 2,317 | 3,106 | 3,278 |
| Net income attributable to owners of parent | 823 | 1,009 | 658 | 1,013 | 906 | 1,124 | 1,148 | 1,232 | 1,683 | 2,112 | 2,291 |

### Cash flow statement (As of the years ended March 31)

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash flows from operating activities | 2,396 | 1,118 | 1,215 | 1,464 | 1,531 | 1,830 | 899 | 1,879 | 2,728 | 2,811 | 1,714 |
| Cash flows from investing activities | −223 | −1,534 | −1,239 | −186 | −155 | −203 | −306 | −714 | −429 | −353 | −758 |
| Cash flows from financing activities | −360 | −225 | −562 | −255 | −825 | −1,129 | −693 | −694 | −526 | −544 | −744 |
| Cash and cash equivalents at year-end | 5,687 | 5,045 | 4,458 | 5,480 | 6,031 | 6,528 | 6,428 | 6,899 | 8,672 | 10,585 | 10,796 |

### Key indicators

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ROA (%) | 11.4 | 13.3 | 7.8 | 10.7 | 8.9 | 10.6 | 11.0 | 11.4 | 13.2 | 16.1 | 15.7 |
| ROE (%) | 9.1 | 10.3 | 6.2 | 8.9 | 7.7 | 9.3 | 9.4 | 9.9 | 12.7 | 14.3 | 14.0 |
| ROIC (%) | 8.8 | 10.1 | 5.8 | 8.6 | 7.3 | 8.4 | 9.0 | 9.3 | 11.8 | 13.9 | 13.7 |
| Equity to total assets ratio (%) | 77.1 | 76.0 | 75.9 | 77.5 | 80.9 | 79.9 | 77.7 | 76.8 | 75.2 | 77.9 | 79.1 |
| Net debt to equity ratio (times) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating profit margin (%) | 12.6 | 15.3 | 9.4 | 12.7 | 11.4 | 13.0 | 13.0 | 11.3 | 13.4 | 17.8 | 17.6 |

ROA (return on assets) = (Current ordinary income / Average total assets of the current and previous period) × 100

ROE (return on equity) = (Net income attributable to owners of parent for the current period / Average equity of the current and previous period) × 100

ROIC (return on invested capital) = (Net income attributable to owners of parent for the current period / Average of (Equity - New stock subscription rights) of the current and previous period) × 100