

# Message from the CFO

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Division



**We will continue to elevate our unique corporate value through sufficient growth investment and shareholder returns while maintaining financial health.**

### Financial strategy of ITFOR

**Realizing growth with flexible ideas based on three policies: no-loan management, growth investment, and enhancement of shareholder return**

For the past 20 years, ITFOR has been maintained the no-loan management policy. One of the main reasons for avoiding loan is that we have many customers that are financial institutions, and therefore, we want to avoid a situation of asking for loans from only some of them. In the past 20 years or so, we have been achieving steady growth without being in the red despite many changes in the economic climate and business environment including the Lehman crisis and COVID-19 pandemic. In addition, we have been increasing dividends since we went public, and have never decreased them. Although the capital cost is kept high due to no-loan management, we have been making continuous growth through investment on package systems in order to respond to customer needs. In fiscal 2023, ended March 2024, the consolidated revenue and operating profit of the Group marked a sixth consecutive record high. During that period, we have accumulated cash on hand, and we are looking to use it in investments for our growth to the next stage.

The Company recently announced a FY 2033 plan “HIGH FIVE 2033,” in which we aim at sales of 70 billion yen and an operating profit of 12.6 billion yen. In order to realize this drastic development, we must bring our existing business to new fields and enhance new businesses. The current fourth mid-term management plan (fiscal 2024 to 2026), which will be explained later, only indicates a three-year capital

allocation. However, we have not decided to continue no-loan management for the next 10 years. I think there is a possibility of making a financial procurement by a loan when we decide on a large investment to start a new business, management integration with another company, or acquisition of a company.

One of our important purposes of investment is technology development. Because we are shifting to self-manufacturing to speed up development and improve quality, we need to make continuous investment on securing and nurturing excellent personnel who engage in development. Furthermore, when we enhance our business portfolio in the future, we will be seeking partnership in various forms such as making investment in, M&A with, or cross-licensing with a good company that engages in technology development. We will make investment actively aiming for incorporating software technologies, which is our core field, as well as high technologies such as those related to AI and blockchain.

### Management with capital cost and stock price in mind

**Recognizing the effect of ROIC management and disseminating it across the Company  
Enhancing the opportunities of dialog with investors to communicate the attractiveness of ITFOR**

Since its foundation in 1972, the Company has been growing as an independent enterprise that engages in system development and the sales of IT products, without falling under the control of large capital. We maintain a strong mindset of a venture company that carefully responds

to customer needs with “the power of empathy” for each and every customer in local communities. Such behavior enables us to create a solid customer base, and the customer base grows involving other customers. Based on this business model, we have been considering the sales, orders, and gross profit margin as the major management indicators. However, while recurring businesses are gradually increasing and ITFOR is changing from a company that sells products and systems to a company that provides services, we have been trying to change our mindset from the third medium-term management plan, putting forward a management policy that values ROIC in addition to profitability. There must have been many employees who felt it difficult to change their minds. However, the introduction of ROIC enabled us to conduct meticulous profit management based on plans through to the operating profit stage, and more employees, especially those in management positions, now understand the effect of this policy. In order to have all employees understand the policy, we have to reflect it to the performance evaluation system and the incentive rule. As the first step, we started deliberation on a stock compensation plan for employees. We will continue to take measures steadily so that each employee can control management indicators and keep capital efficiency in mind as they conduct business.

As for running business in consideration of the capital cost and stock prices, we added ROE and ROIC as management indicators with target levels exceeding the capital cost. Our current PBR is kept at around 2 times (as of July 2024). I think one of the factor for this is that we have been able to maintain a certain level of earning rate after the completion of the disposition of non-profitable businesses. In the fourth medium-term management plan, we have set a target ROE of 15% and a target ROIC of 15%. They are not easy goals, but we are determined to achieve them.

On the other hand, PER, which represents growth expectation from shareholders and investors, stays around 14 times (as of July 2024), lower than the average of the information and communication industry, which is 25 times. We thought that this is because the business content and management status of the Company are not easy to understand from outside, and we started active dialog with shareholders and investors from the year before last. Our strength is in B-to-B niche areas, and we are earning steady profits on a firm business base in these areas. It may be difficult to make a rapid growth like companies that engage in front-line fields, but I think there is still a lot of room for growth on a medium- and long-term basis. However, in order to have investors recognize the Company as an attractive brand, it is important to achieve a market capitalization value of 50 billion yen soon and conduct more understandable information disclosure and IR activities. We are planning to hold briefing sessions on our business performance and business content, as well as on details of trends and our strategy of financial and payment businesses.

### Capital allocation

**Planning to put more emphasis on investment and shareholder return than cash flow**

We forecast the operating cash flow in three years from fiscal 2024 to

be 8.8 billion yen. By adding currently available cash to it, we are planning investments totaling 11.86 billion yen. First, in order to maintain and maximize the value of our current core products and services, we will conduct steady investment on the backbone system, security, and human resources of the Company.

Other investments on existing businesses are for the major version update of existing products and the development of new services to respond to new needs of customers. We are planning to launch new services gradually from fiscal 2025, ending March 2026, the second period of the fourth medium-term management plan, although some of them are still in the research and development stage while others are already in business negotiation.

Furthermore, the key to our major growth for the future is investment in new businesses. For the public system business, we established a new company ITFOR BeX Inc. in April 2024. The company will start operation in BPO business targeting local governments in this year. We will invest for further strengthening and development of this business. New projects, VVPs (Visionary Ventures Projects), have been born through open solicitation as internal ventures under the direct control of the President. We are also paying close attention to and will make active investment in these projects.

We estimate the amount of investment in these growth businesses as 5.7 billion yen, and plan to return the remaining 6.16 billion yen to shareholders to continue our target payout ratio of 50% and total return ratio of 70%. Besides these budgets, we will consider investment in M&A and CVC when opportunities arise.

### Message to stakeholders

**Pursuing what only ITFOR can do in the past and into the future**

We have set target sales of 70 billion yen and a target profit of 12.6 billion yen for fiscal 2033, which enabled us to consider measures for achieving more concrete indicators. For existing businesses, however, our main focus will be continuing to extend new products and services in the market keeping pace with social evolution, rather than making a major leap. For new businesses, however, we have already started to study what the management resources are that we need more and what we should acquire to gain these resources from a wide range of options. We are considering disaster, agriculture, education, infrastructure, AI, etc. as key words for new business areas. For these new business areas, we will continue to select directions so as to ensure the growth of ITFOR, taking speedy actions including investment. I think these efforts will support secure, safe, and convenient everyday life in local communities and align with our purpose—Engagement with Communities and Contribution to Regional Revitalization.

ITFOR has been and will be a company that pursues what only ITFOR can do. We promise shareholders and investors that we will maintain financial health, make growth investment, and enhance shareholder return, while maintaining the ITFOR way.