

2. Our Strategy



Value Creation Strategy

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Medium-Term Management Plan

FY2023 marked the final year of the 3rd Medium-Term Management Plan “NEXT STAGE 2023,” and we have embarked on the 4th Medium-Term Management Plan “FLY ON 2026” from April 2024. We are aiming to achieve “HIGH FIVE 2033” as our ideal vision for a decade ahead.

Review of third medium-term management plan NEXT STAGE 2023 - HENCA SINCA SOZO -

Financial targets have been mostly achieved. Only slightly short in terms of sales.

The financial target for operating income in the 3rd medium-term management plan was revised upward to 3.4 billion yen, as the target was achieved in FY2022. Only the target for sales fell short in FY2023, the final year of the plan, but other figures for operating income, ROIC and ROE significantly exceeded targets.



Significant growth in performance over 3 years

Financial Systems achieved steady growth, and Retail EC Systems and Payment Systems also expanded significantly.

Unit: JPY MM	FY2021	FY2022	FY2023	FY21-23 Ratio
System Development and Sales				
Financial Systems	4,954	4,966	5,197	104.9%
Public Systems	501	368	489	97.6%
Retail EC Systems	705	645	1,006	142.5%
CTI Systems	989	1,200	1,317	133.2%
Communication Systems	934	1,210	1,300	139.1%
Payment Systems	1,429	1,543	1,945	136.1%
Others	338	678	859	253.8%
Recurring				
BPO	3,103	3,499	3,869	124.7%
Maintenance, Usage Fees	4,062	4,210	4,665	114.8%

Results and remaining issues from implementing our basic strategy

Reinforcing Management Base

- + Reform organization and systems
- + Strengthen internal collaborations
- + Promote internal DX
- + Strengthen HR
- + Strengthen Development
- + Flexible and continuous organizational restructuring
- + Renewal of HR system
- + Digitalization of internal procedures
- Room for collaboration between sales and development
- Room for collaboration among sales divisions
- Carryover of internal core systems renewal
- Room for investment in HR

Enhancing Profitability

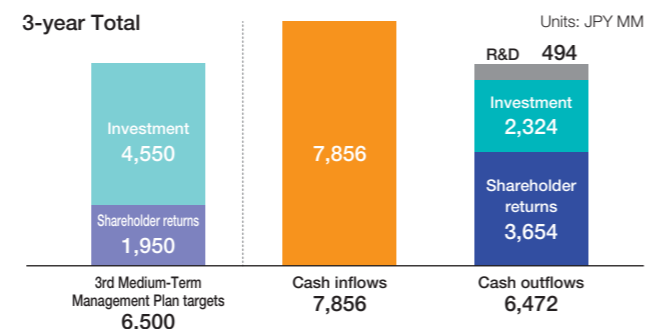
- + Introduce ROIC mgmt
- + Reform monitoring
- + Investment/Exit rules
- + Synergies among divisions
- + Investment in new and growing businesses
- + Increase in the frequency of management indicator monitoring
- + Expansion of cross-selling
- + Divestiture of an affiliate company
- Wider penetration of ROIC by business lines
- Thorough implementation of investment/exit rules
- Pursuit of further synergies among divisions
- Explored M&As as investments in new and growing businesses, but efforts did not materialize

Advancing ESG Management

- + Designate officer
- + Make significant changes in current approach
- + Publication of Integrated Report
- + Establishment and enhancement of the Sustainability Promotion Committee
- + Stronger regional connections

Growth investments and shareholder returns exceeding plan

Investments in R&D are for new payment terminals, SaaS-type applications, R&D for Web 3.0 technology applications, and others. We announced a new policy for shareholder returns, outlining a “dividend payout ratio target of 50%” and a “total return ratio of over 70%,” and in FY2023, we achieved a total return ratio of 71.8%, with total returns to shareholders of 1,988 million yen.



We have developed the foundation for the next stage of growth, and preparations are complete for taking off.

ITFOR FY2033 Concept HIGH FIVE 2033

Toward achieving our ideal vision in a decade

ITFOR has announced its FY2033 Concept, “HIGH FIVE 2033.” Since being established, we have been providing systems and services that are useful for regional financial institutions, local governments, regional department stores, and other local communities. ITFOR’s customer base, which is now present in every area of Japan, is one of our greatest strengths, and we pondered how we could leverage this foundation to give back to local communities with our role backing up revitalization efforts in those regions. This is the idea underpinning “HIGH FIVE 2033.” We envision ourselves celebrating with local communities throughout all 47 prefectures of Japan, for achieving our purpose of “Realizing a sustainable future by supporting regional societies and the life stages of residents through innovation, and providing surprises.”



Create quality time for people through our businesses

Together with members of the local community, we hope to take on challenges for resolving various issues that the region is currently facing, such as the “population decline and labor shortages,” “vacant houses and unused land,” “aging society,” and “abnormal climate and natural disasters,” by leveraging the capabilities of our IT and BPO. These are the thoughts that drive ITFOR.

We are aiming to transform into a company that creates businesses which generate regional economic circulation to stimulate the economy in local communities, by expanding into new areas in addition to existing business areas. We will also help create quality time for people. It is for these reasons that we embarked on “HIGH FIVE 2033.”



What are businesses that generate regional economic circulation?

ITFOR’s systems and services will be used to create a platform that facilitates economic circulation within the region, with the aim of helping to revitalize the region by expanding the scope of this circulation.



Forecasts for the business environment surrounding our company

ITFOR holds a 75% share of the regional bank market for screening and delinquent loan management systems, an 85% cross-selling ratio with two or more business units in the same region, and has also been involved in business with 65% of the top 30 companies in terms of

sales for 10 years or more. While these are tremendous fortes, many challenges remain in terms of local regions and markets, and we believe that our current fortes alone will be insufficient for achieving ITFOR's long-term growth.

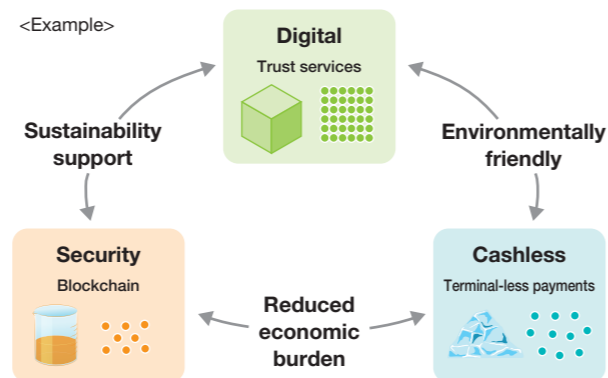
We will be evolving into the ideal vision we seek to achieve in a decade: "becoming a company that creates businesses which generate regional economic circulation."



*1 Share of regional banks nationwide *2 Cross-selling rate of divisions in region (2 or more divisions) *3 10-year persistency rate of the top 30 companies with sales

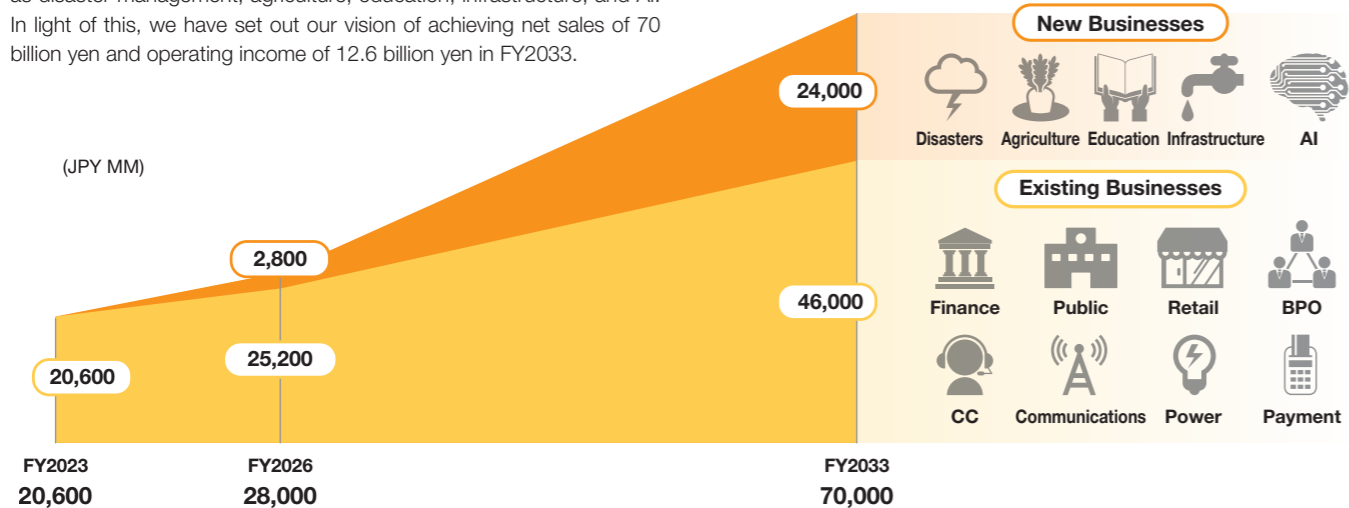
Build social infrastructure with no regional differences

Efforts are anticipated to be accelerate by local governments to make the shift to DX that had been lagging behind, with the view to meeting the end of FY2025 deadline for standardizing local government systems. With telecommunication infrastructure and IT infrastructure being installed throughout regional areas today, ITFOR is seeking to expand its three platforms—digital, cashless, and security—to help eliminate differences in social infrastructure of regions. These platforms will then operate in tandem to support the promotion of regional economic activities and the sharing economy.



Vision of achieving net sales of 70 billion yen and operating income of 12.6 billion yen in FY2033

We will be further cultivating our existing businesses, with the aim of using them as the foundation from which to expand into new areas such as disaster management, agriculture, education, infrastructure, and AI. In light of this, we have set out our vision of achieving net sales of 70 billion yen and operating income of 12.6 billion yen in FY2033.



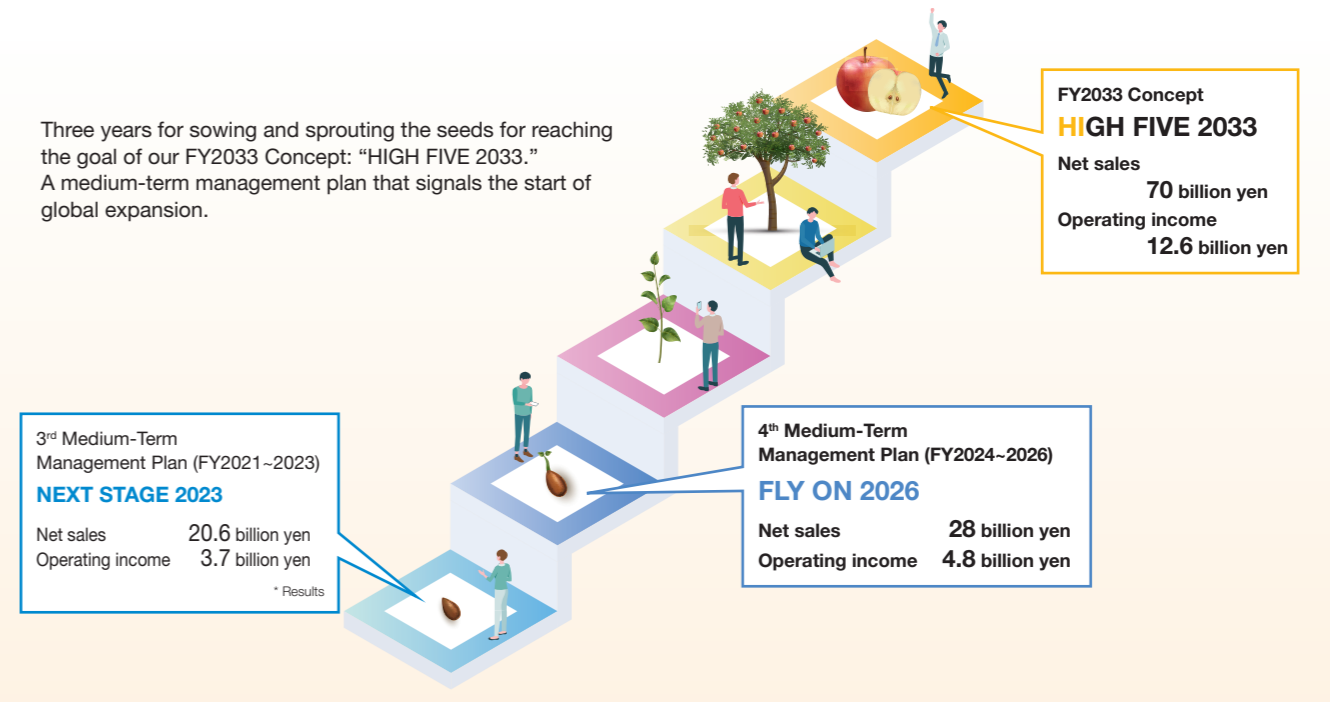
Fourth medium-term management plan

FLY ON 2026 (FY2024 to 2026)

FLY ON ! The curtain has risen on a new era
Dynamically develop our existing businesses and achieve drastic growth through new businesses

Medium-term management plan developed by backcasting the ITFOR FY2033 Concept "HIGH FIVE 2033"

Three years for sowing and sprouting the seeds for reaching the goal of our FY2033 Concept: "HIGH FIVE 2033." A medium-term management plan that signals the start of global expansion.



Business strategy: Expanding of Business Portfolio

We will be expanding our business portfolio by leveraging and further cultivating the strengths we have built up with our existing businesses, expanding our customer base and developing them into new businesses.

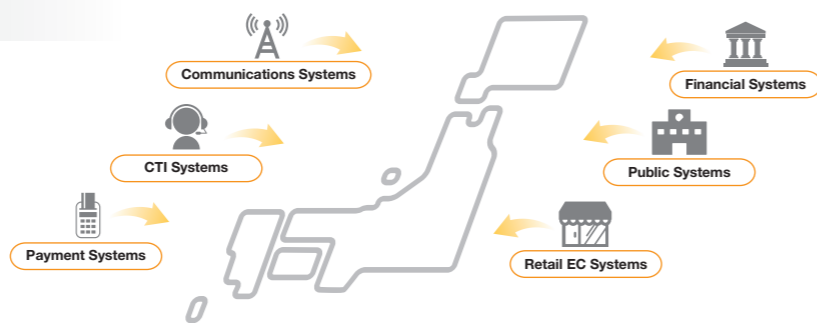


*1 Cross-sell ratio on business divisions within regions (at least two divisions) *2 Market share for regional banks *3 10-year retention rate for top 30 clients in terms of sales

Account sales system

In addition to the traditional sales activities conducted in the past in each industry, we will leverage our solid nationwide customer base by promoting cross-divisional sales activities with regional sales systems that factor in the characteristics and connections unique to each region.

With these efforts, we are aiming to increase the cross-selling ratio between two divisions from the current 85.1% to 95%, and the cross-selling ratio between three divisions from the current 59.6% to 75%.



- Aggregate regional information
- Propose multiple services
- Serve as a focal point of businesses driving regional economies
- Strengthen connections with customers

Strengthen development capability and development functions

We will be moving away from a development system where each developer specializes in a particular product and uses conventional development methods, and accelerating the use of the latest technologies and strengthening alliances to achieve shorter delivery times, improve quality, and enhance cloud-based packages.

- Utilize AI technology effectively
- Combine with agile development
- Promote SaaS models
- Advance Web3.0 initiatives
- Expanding existing products horizontally
- Growing customer base

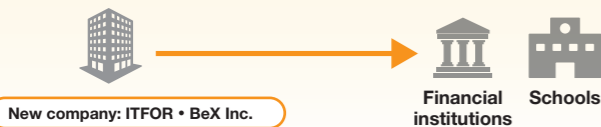
Expanding existing solutions into new areas, rolling out new solutions in existing areas

Expanding existing solutions into new areas

- Expand contact center services provided to financial institutions into new areas, and contribute to improved operational efficiency through such as inquiry automation.

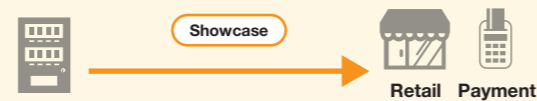


- Spin off BPO services cultivated through public sector projects and expand them into other business areas

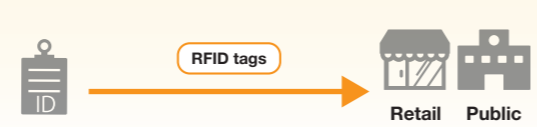


Rolling out new solutions in existing areas

- Develop unmanned vending machines that enable cashless payments in the retail business areas to further promote cashless payments, alleviate labor shortages, and achieve zero food waste



- Provide regional sightseeing promotion services using digital means in order to help revitalize regional economies



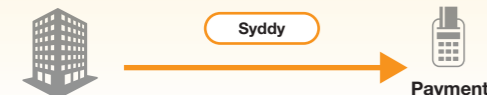
- Developing new products
- Accelerating development

Targeting sales of 2.8 billion yen in FY2026 from new businesses

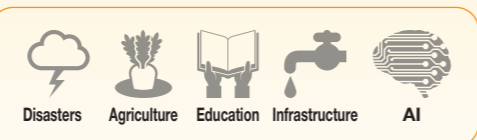
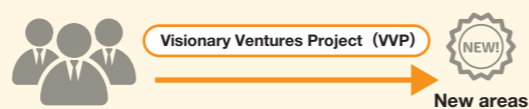
- Provide digital Safe using blockchain technology
An electronic end-of-life document apps that combines "Safe Deposit Box" and "End-of-Life Documents" by using blockchain technology securing important information in a safe place



- Provide optimal solutions for ever-growing digital payment through BtoB payment services and digital payment agency services



- Creation of new areas of business through internal venture organizations in the following new areas



Business strategy: Active investment in human resources

Human resources, the source of value creation, are our most important management resource. To implement our management strategy, we will be maximizing our human resources capabilities by increasing the hiring of new graduates, hiring with the view toward developing new businesses, encouraging in-house training and reskilling, and working on improving employee satisfaction.

- Recruitment**
 - Recruitment of a diverse range of new graduates
Raising from current 30 to 60 people annually (FY2026)
 - Recruitment of experienced professionals
 - Recruitment of human resources with an eye to new business development
- Training**
 - Enhancement of internal training
 - Encouragement of reskilling
- Improving engagement score (ES)**
 - Continuous wage rise
 - Enhanced office environment
 - Introduction of a stock-based compensation program
 - Further improvement of efficiency via DX promotion

Topic Approach to next-generation human resources

We sponsored the FY2023 National Selection Coding Competition for Elementary School Students. Recipient of the ITFOR Award Misawa (3rd grade elementary school student when receiving award) visited our head office to showcase her work. We also held a junior high school student work experience (internship) program, with four junior high school students taking part in three days of work experience at our head office.



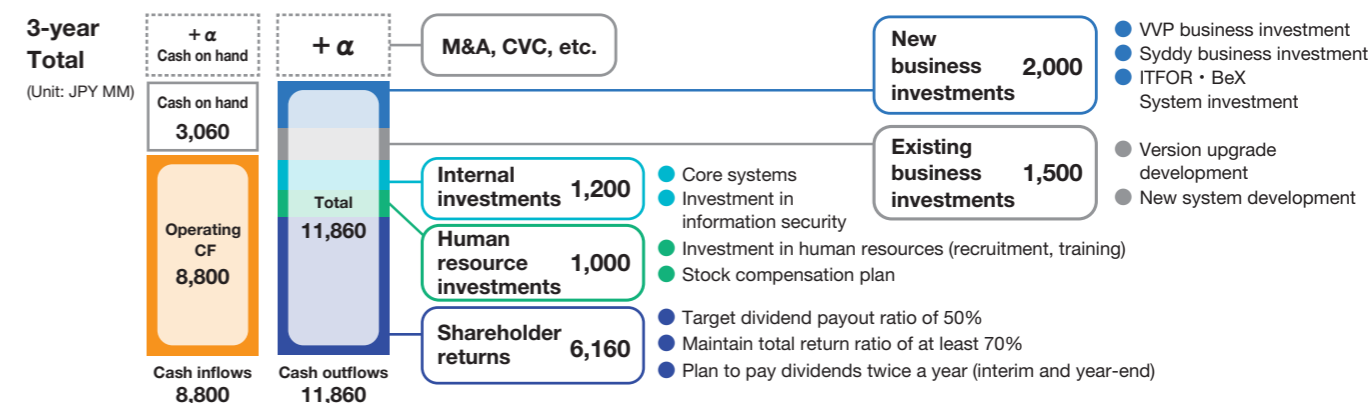
Misawa, ITFOR Award recipient



Work experience for junior high school students

Corporate value enhancement strategy: Capital allocation

With our fourth medium-term management plan "FLY ON 2026," we are planning on growth investments and shareholder returns beyond a three-year period of cash inflows. We will also be examining additional investments toward achieving major growth, such as M&As and CVC.



Financial Targets

	FY2023	FY2026 (Targets)
Net sales (JPY MM)	20,652	28,000
Operating income (JPY MM)	3,737	4,800
Operating income Margin (%)	18.1	17.1
ROE (%)	15.4	15.0
ROIC (%)	15.0	15.0

Web Details of fourth medium-term management plan <https://pdf.irpocket.com/C4743/BbNL/pFae/kXgM.pdf>



Overview by business division

Financial Systems Division



Built on a dominant share and trust among regional banks in Japan
Assisting customers to boost competitiveness even in times of rising interest rates

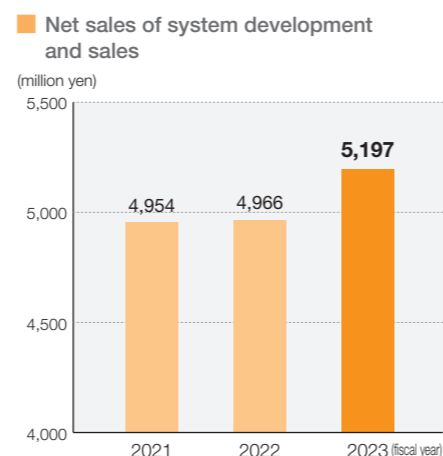
Go Yoshimura Executive Officer
 General Manager of Financial Systems Division

ITFOR's strengths (in the Financial Systems Division)

- Business knowledge cultivated since developing the first auto-call system in Japan
 - No. 1 market share in the delinquent loan management systems sector
 - High level of competitiveness for personal loan operation support systems
 - More than 450 systems installed at financial institutions around Japan.
- Building strong relationships of trust by providing maintenance and services

Opportunities and Risks

- | | |
|----------------------|--|
| Opportunities | <ul style="list-style-type: none"> ◆ Accelerating shift to non-face-to-face customer contact ◆ Accelerate DX with the aim of improving operational efficiency and creating new value |
| Risks | <ul style="list-style-type: none"> ◆ Shift of major customers developing in-house systems ◆ Market contraction due to consolidation of regional financial institutions |



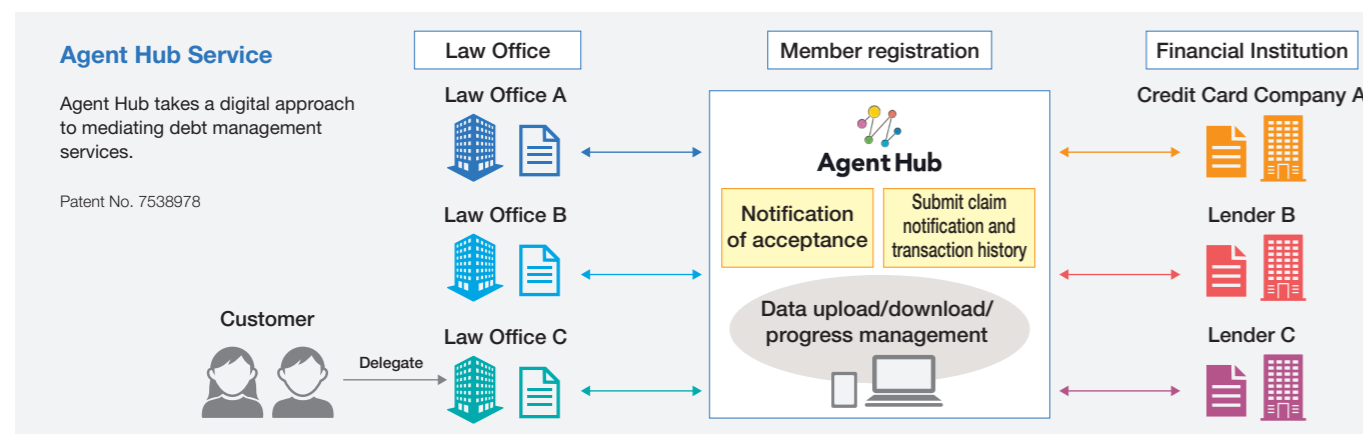
FY2023 business overview

During FY2023, net sales from the Financial Systems Division's system development and sales came to 5,197 million yen, a result of 104.7% from the previous year. Regional financial institutions saw a growth in residential loans, and instead of traditional branch-based services, there is growing shift to non-face-to-face services that are more efficient for both the loan customer as well as the financial institution. In light of this demand, the personal loan operation support system "SCOPE" and the web-based loan application system "WELCOME" both performed well, becoming a core pillar of business accounting for around 45% of total sales. The other core pillar of business, delinquent loan management systems that encompasses "TCS" for nonbank entities and servicers

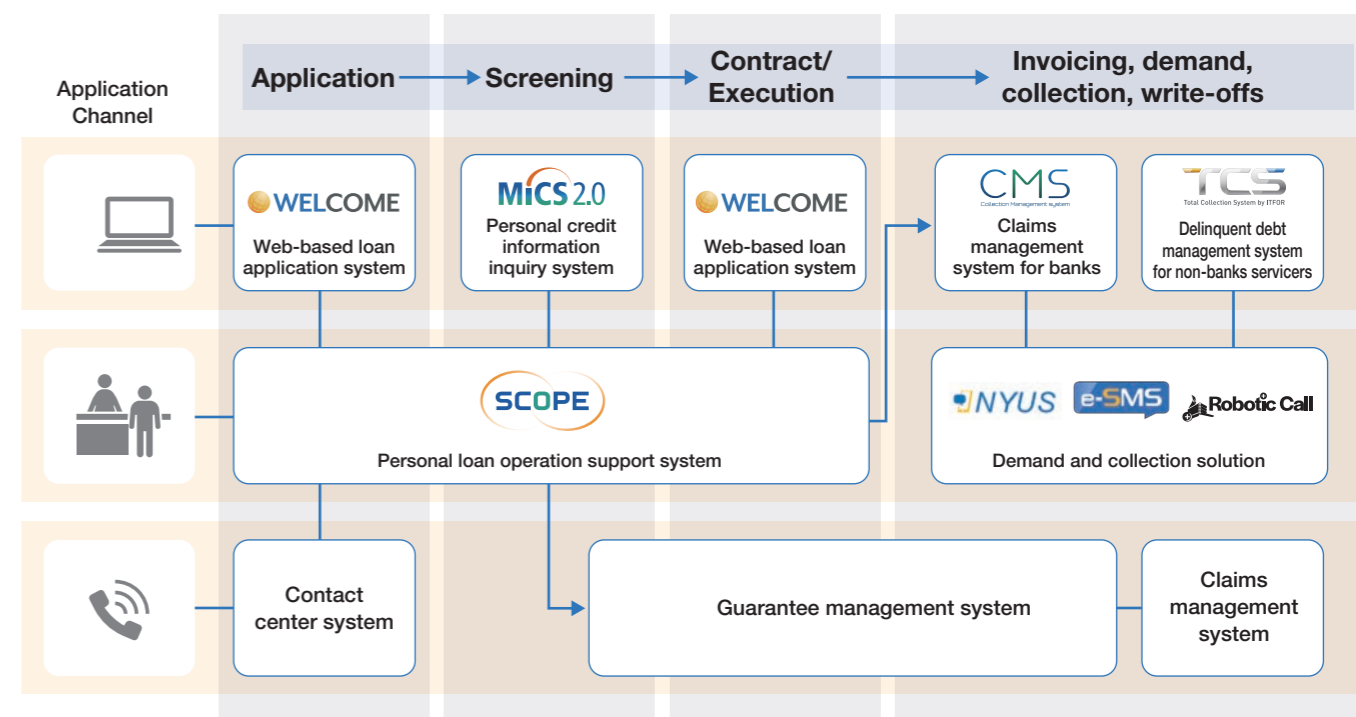
and "CMS" for banks, accounted for 37% of total sales—these two pillars of businesses are contributed most to sales. Recurring businesses for maintenance and services following new system development and installation also led to growth. In November 2023, we resumed the "ITFOR Bank User General Meeting" that had been put on hold for three years due to the COVID-19 Pandemic, and drew customers from some 80 countries around the country.

Growth strategy

With the fourth medium-term management plan that we embarked on FY2024, we are aiming to improve the ratio of our recurring business segment. System development and sales currently account for around



One-stop solutions for lending services



three-quarters of sales of Financial Systems Division, with the recurring business segment accounting for the remaining quarter of sales—to ensure more stable earnings, we are of the view that the recurring business segment, which is less susceptible to demand fluctuations, needs to be further strengthened, and we are aiming to expand this to 40% of total sales in FY2033. As the first step to achieve this, we are planning to launch the SaaS-type service "Agent Hub" during FY2024. SaaS-type services are a potent option for customers because they facilitate the use of ITFOR's solutions without needing any initial investment. Going forward, we are moving ahead with plans to roll out second and third batches of new services.

In June 2024, we finished upgrading our "TCS Servicer System" and begin offering a next-generation packages catering to industry trends and changes in system environments. Armed with this, we are aiming to further build up our market share in the industry. We also launched an account sales system beginning from our new medium-term management plan.

The Financial Systems Division maintains a dominant share of the regional financial institution market, and has built up an extremely solid customer base by holding regular user meetings for exchanging information with customers throughout the country. Starting from this customer base, we want to create a regional economic circulation business by increasing the number of proposed services and strengthening our ties with customers in other industries and sectors. Looking ahead, we are anticipating an unprecedented level of services.

R&D

We are strengthening our alliances with business tie-ups and open innovation in order to respond quickly to diversifying needs, customer issues and social issues, such as providing automated screening functions by combining "SCOPE" with the "Screening AI Service" supplied by Mitsubishi Research Institute, Inc., and linking packaged systems with

external services like AI-OCR and eKYC. We are focusing on developing highly value-added packaged systems and services that improve the quality and productivity of business operations, by combining ITFOR's fortes in business know-how and cutting-edge technologies.

Toward the future

In the wake of the COVID-19 Pandemic, we feel that initiatives toward achieving DX are moving at full-pace and accelerating among our financial institution clients around Japan. "SCOPE" and "WELCOME" are increasingly being used by regional and second-tier regional banks, as well as by credit unions, and we anticipate even more areas where we will be able to provide useful services. The shortage of human resources is also becoming evident as a social problem, resulting in us relying on systemization. The collections departments of nonbank entities and servicers are finding it increasingly difficult to handle collections using only human resources, and are considering automating collections with the use of systems. The Financial Systems Division developed automated debt collection solutions for customers by providing systems such as "Predictive Dialer" based on the "TCS" delinquent loan management system, "Robotic Call (IVR)," "e-SMS," and the "NYUS" payment pledge service, but will also be developing SaaS-type services to support automating debt collection for an increasing number of customers.

The high market share that ITFOR has captured in the industry comes from its ability to provide solutions from the customer's perspective, with the combined efforts of system engineers who are well versed in operations and business know-how, and sales staff. The time needed for installing systems is short, and we offer a high value proposition that is far superior to the competition. Our mission is to assist customers with promoting DX and enhancing their competitiveness through digitalization. We will continue providing systems and services that are supported by our customers.

Payment Systems Division

Aiming to provide multi-service solutions in response to the accelerating cashless era

Kazunori Kono

Director and Executive Officer
General Manager of Payment Systems Division

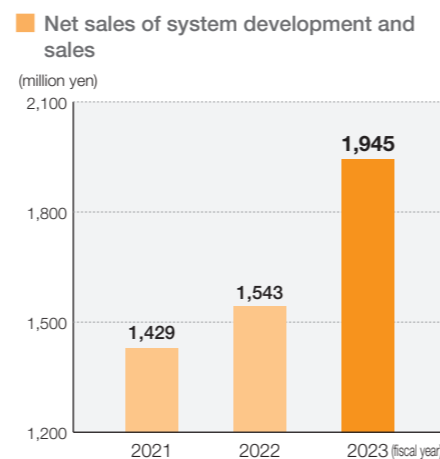


ITFOR's strengths (in the Payment Systems Division)

- Multi-payment platform "iRITSpay" supporting the industry's most popular payment methods
- One-stop business model providing terminals, apps and terminal-related operations
- Strengths in development and multi-functionality with expertise in the financial, distribution and retail industries

Opportunities and Risks

- Opportunities**
 - ◆ From multi-payment to multi-service (financial, distribution and retail industries)
 - ◆ Acceleration of cashless, contactless and tap payments
- Risks**
 - ◆ Emergency in Taiwan due to terminals being made in Taiwan, and greater yen depreciation



FY2023 business overview

During FY2023, net sales from the Payment Systems Division's system development and sales came to 1,945 million yen, a result of 126.1% from the previous year. There was an increase in demand for replacement terminals following discontinuation of ISDN lines, and sales grew on the back of around 150% of shipped units compared to the previous year. Meanwhile, the yen continues to depreciate, which has increased procurement costs and put pressure on profits.

Growth strategy

"iRITSpay" is a multi-payment platform that provides a one-stop service for various types of payments. Many stores currently use different terminals to process different types of payment methods, but iRITSpay is able to process a variety of payment methods such as credit cards, debit cards, mobile payments, and e-money on a single device. This not only saves time and effort for consumers, but also allows for easier processing by store staff. iRITSpay helps to save space around the cash register and makes aggregating sales work more efficient, which gives it a superior position within the market. Yet times continue evolving, and there is an emerging trend toward integrating all terminals in the store, including payments and POS, attendance, and business systems. In light of this trend, in FY2023 we completed development of "SATURN," which is compatible with the Android OS. "SATURN" is a terminal that can be used in the same way as a smartphone with tap and flick

controls, and is being developed as a multi-service terminal supporting not only payment functions but also POS functions.

We also began receiving orders for cashless systems compatible with embedded e-money for vending machines. This system provides functions combining the Vending Machine System that manages coins/bills and sales of vending machines, with cashless processes, and will be further developed and marketed as an unmanned vending machine solution as a means of addressing worker shortages in the future.

Toward the future

Following revised guidelines in the credit industry, PIN bypass (no PIN input) payments will be prohibited in March 2025. This is anticipated to spearhead a shift from fixed terminals to mobile or pocket terminals that are suitable for in-person payments to enhance convenience for consumers. Demand for payment systems is also anticipated to grow further as regional banks, our main scope of customers, enter the credit business. As the "one and only cashless platform service provider specializing in both the financial industry and the distribution/retail industry," we are intending to respond swiftly to diversifying needs.

Reliability and security are also of the utmost importance in the payments business sector. The amount of transactions processed already amounts to 600 billion yen annually. With such volume of funds being processed by our payment platform, we are keenly aware of the extent of social issues that may arise from any potential problems with the platform. We will continue strengthening measures against risks such as system downtime and card information leaks.

Retail EC Systems Division

Aiming to resolve the management problems at regional department stores and retail mass merchandisers from the core with the capabilities of IT

Hiroataka Oeda

Director and Managing Executive Officer
General Manager of Corporate Strategy Department and Retail EC Systems Division

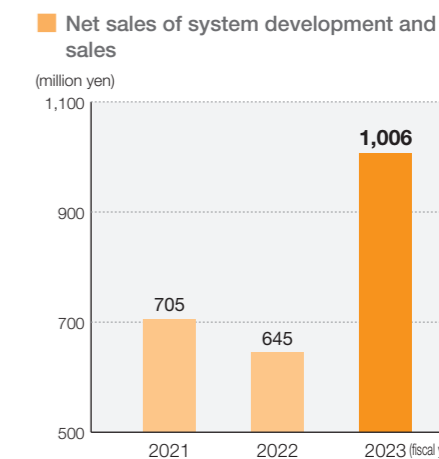


ITFOR's strengths (in the Retail EC Systems Division)

- "RITS," a total package system covering department store operations
- "ITFOReC," an e-commerce site development package for developing omni-channels with solutions developed in-house
- Comprehensive provision of operations "RITS," payments "iRITSpay" and EC "ITFOReC"

Opportunities and Risks

- Opportunities**
 - ◆ Cost structure reform trends in the department store industry
 - ◆ Reform of department store styles, shift toward new businesses
- Risks**
 - ◆ Shrinking scale of department store market



FY2023 business overview

During FY2023, net sales from the Retail EC Systems Division's system development and sales came to 1,006 million yen, a result of 155.9% from the previous year. The mainstay "RITS" contributed significantly to these sales. With the drop in profitability of the department store style due to the COVID-19 Pandemic, there is currently a very strong trend toward reforming cost structures, which has led to growth of our product, a multi-functional core system that covers all department store operations and is also highly cost-competitive.

Growth strategy

"RITS" is a product designed to address the management challenges that department store customers face, with low initial costs, business operation and maintenance without requiring a permanent technician, and low operating costs. We were able to develop a product like this due to ITFOR being the first vendor in Japan to provide online POS for department stores, and we have developed expertise pertaining to the operating flow of department stores from our long relationship with them. While "RITS" has a high market share of regional department stores around Japan, we believe there is still ample room for growth, and we are aiming to further expand our market share going forward.

The most important factor to achieve the division's goals is to further improve services. We are currently working on developing new services combined with existing services within the company. This service is likely to become one of our major growth strategies, as it already has a proven track record at customer stores, showing very positive results.

In terms of EC, we are in the process of researching and examining new business models and approaches as a way of responding to the rapid changes occurring throughout society and lifestyles. Our division is making the most of this opportunity to take on the challenge of implementing major reforms to the EC system. We are seeking to propose "marketable EC" by making department store EC, including gift shops, easier to use and more enhanced.

Toward the future

Regional department stores are viewed as a symbol of local economies, and in many cases, local businesses and various organizations support their operations in tandem, making them an "indispensable" type of business. ITFOR has set forth regional revitalization as its purpose, so we will be actively proposing DX initiatives that lead to structural reform at department stores, improvements to operational efficiency, and labor savings, as well as contributing to the creation of new systems suited to new business models and current times to support businesses.

I personally hold the position of chairperson of the cross-divisional organization Regional Revitalization Promotion Committee, and various ideas have already been raised at this committee. Some examples include a mall style as a new e-commerce system that allows tenants to enter the e-commerce market, or taking the reverse approach and developing real stores into mall styles, or alternatively building up a framework that allows business systems and e-commerce systems burdened by individual costs to benefit mutually.

I think any of these examples hold high potential. We are aiming to revitalize department stores, the distribution and retail industry, as well as local communities by providing systems equipped with various ideas harnessing ITFOR's accumulated technology and know-how.

CTI Systems Division

Providing advanced solutions contributing to business innovation and resolving problems in the contact center business

Tenpei Ogawa

Executive Officer
General Manager of CTI Systems Division

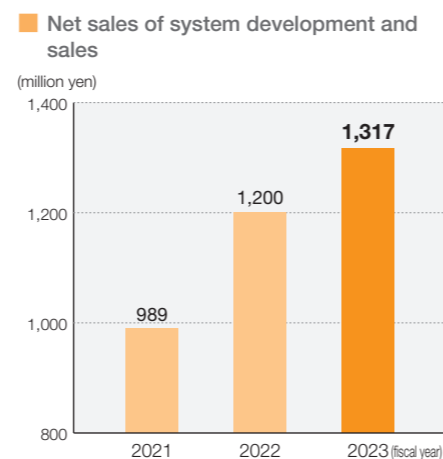


ITFOR's strengths (in the CTI Systems Division)

- Track record of providing the automated call reception system "Robotic Call" linked to our mainstay delinquent loan management system
- Providing solutions from NICE, the world's leading call recording device
- In-house integrated service system, covering construction to development and maintenance based on our expertise in contact center operations

Opportunities and Risks

- Opportunities**
- Growing demand for robotic calls in light of increase in non-face-to-face services and declining working population
 - Growing momentum in innovation with cloud-based services, SaaS, AI implementation, etc.
- Risks**
- Increased procurement costs caused by weakening yen due to large number of products from overseas



FY2023 business overview

During FY2023, net sales from the CTI Systems Division's system development and sales came to 1,317 million yen, a result of 109.7% from the previous year. We have secured a high market share of the "robotic call" segment, which led to an overall increase in the number of calls made, with recurring revenue contributed to our division's sales growth. We also strengthened sales of the full-cloud contact center platform "CXone" as a new proposal to customers, and significantly increased opportunities for making proposals to new customers. We will continue working on increasing sales during FY2024.

Growth strategy

Contact centers have an important position for our business strategy as a means of enhancing CX (customer experience) and collecting valuable customer feedback. While collections of delinquent loan are essential operations for contact centers of financial institutions, many financial institutions face challenges in dealing with this task due to the complexity of guidelines related to such reminders set out by various ministries and agencies. For more than 20 years, the CTI Systems Division has been assisting contact centers with performing their day-to-day operations in an efficient and accurate manner. Innovation in business operations has picked up the pace in recent years, with the use of communication tools such as e-mail, chat services and social media, as well as implementation of AI, in addition to telephone support.

While there has been a shift from on-premises to cloud-based types for call recording systems that make up our core business, there are still industries and businesses that rely on traditional on-premises systems, and we want to ensure that we are able to capture some of those markets.

The full cloud-based platform "CXone" allows operation of the omni-channel CX that covers services from voice calls to email and chat services, and also meets a wide range of other needs, such as advanced customer analytics and workforce management. Looking ahead, we hope to continue contributing significantly to the operational innovation of contact centers by proposing this product. In terms of "robotic calls," we are also accelerating development to reestablish service-oriented solutions.

Toward the future

Today, the CTI Systems Division is a department that handles cutting-edge technologies leveraging generative AI in addition to telephone services, email and chatbots. ITFOR's forte has traditionally been with hardware technology and expertise, but now we have proven software technology and expertise, and we are aiming to provide solutions that our customers truly want to have installed. In June 2024, we will have the opportunity to lead our customers to a global conference held overseas and hosted by manufacturers, to provide them with the latest information from around the world. We will continue contributing to the growth and development of the contact center industry by ensuring that each individual member of our division takes responsibility attending to our customers.

Communications Systems Division

Providing high-quality telecommunications and IT infrastructure for supporting ITFOR's customers and society

Satoshi Yumoto

Executive Officer
General Manager of Communications Systems Division

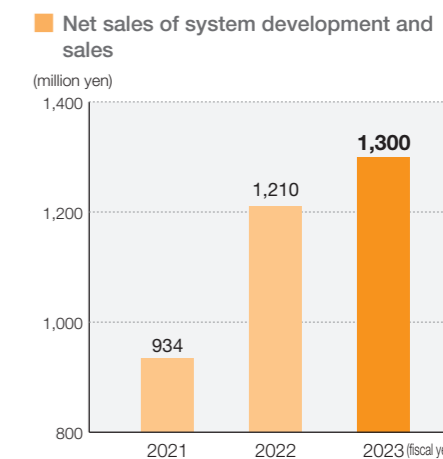


ITFOR's strengths (in the Communications Systems Division)

- Providing one-stop service for infrastructure and systems such as cloud, network, security, and lines
- Providing highly unique products and equipment from cutting-edge communications technology countries such as Israel and Taiwan
- Developing unique application package products by leveraging our technological expertise we have built up over 50 years

Opportunities and Risks

- Opportunities**
- Growing demand due to the growing threat of cyberattacks
 - Growing demand for infrastructure facility upgrades due to the acceleration of DX in society
- Risks**
- Increased procurement costs caused by weakening yen and increased geopolitical risks



FY2023 business overview

During FY2023, net sales from the Communications Systems Division's system development and sales came to 1,300 million yen, a result of 107.4% from the previous year. The increasing threat of cyberattacks has led to increased use of the AI-driven EDR "CyCraft AIR" for projects run by the Tokyo Metropolitan Government. The packaged cloud service "IPaC on AWS" also meets the cloud computing needs of customers that are seeking convenience, security and reliability, and is being adopted by more than 30 companies, primarily financial institutions. For social infrastructure systems, we also made progress increasing IP-based equipment for electric power-related companies and DPI systems for ISPs.

Growth strategy

Our operations are centered on four main areas: IT infrastructure, security, social infrastructure, and telecommunications carrier infrastructure. Our division has two missions—the first being to provide customers with IT infrastructure comprising the cloud, networking and security to ensure the various business systems and solutions developed by each division are safe and easy to use. The second is providing IT infrastructure equipment and security for social infrastructure companies such as electric power, gas, water, and telecommunications companies, to ensure efficient and secure operation of their networks.

ITFOR has been developing its own packaged cloud service "IPaC" since 2018, and "IPaC on AWS," a public cloud version of IPaC, is

anticipated to experience rapid growth as it is adopted by regional financial institutions, credit companies and other customers. In addition to financial institutions, local governments are now also allowing their subsystems to run in the cloud, so we are hoping to take advantage of this opportunity by upgrading and developing additional versions to ensure we can always respond in a flexible and speedy manner.

ITFOR also has also set forth "regional revitalization" as its own purpose, and the Communication Systems Division will also focus on developing regional markets. To ensure efficient development, we are also seeking to coordinate efforts with local businesses and integrate them as hubs for achieving provision of services to users in each region.

We are also aiming to provide new solutions catering to each region and local government based on keywords such as IoT, disaster countermeasures, and MEC (Multi-Access Edge Computing).

Toward the future

There are likely to be many competitors including existing vendors in the region and industry, during the process of taking on the challenge of developing new markets. To maintain a leading position in such markets, ITFOR will be developing businesses by partnering with IT companies that have highly unique solutions, such as RAD (Israel) and CyCraft (Taiwan) that specialize in this type of expertise. Many companies including companies in these countries and other leading IT and telecommunications companies have developed unique IT services by taking a different approach to that of Japan. We are planning on actively collecting information on such startups and incorporating them into our business, while also examining the feasibility of investing in M&As and capital and business alliances where necessary.

Public Systems Division

Leading local governments to solutions for the issues they have with systems, BPO and data analysis

Kenji Kobayashi

Executive Officer
General Manager of Public Systems Division



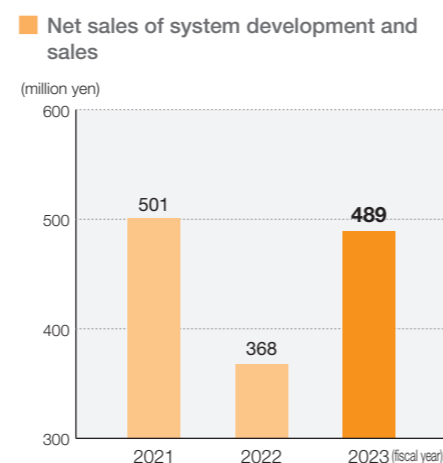
● **ITFOR's strengths (in the Public Systems Division)**

- "CARS*" supply model with our mainstay delinquent loan management system tailored to local governments
- Greater collection rate by providing BPO services in tandem with delinquency management and notification systems
- Contribute to resolving customer issues in a reliable manner, and secure long-term contracts

* CARS: Civic Administration Relationship Service

◆ **Opportunities and Risks**

- | | |
|---------------|---|
| Opportunities | <ul style="list-style-type: none"> ◆ National local government system standardization led by the Ministry of Internal Affairs and Communications and the Digital Agency (FY2025) ◆ Decrease in the number of local government employees, systemization due to mergers, etc., and expansion of outsourcing needs |
| Risks | <ul style="list-style-type: none"> ◆ On-time completion of system standardization for all local governments |



FY2023 business overview

During FY2023, net sales from the Public Systems Division's system development and sales came to 489 million yen, a result of 133.1% from the previous year. The Public Systems Division has been working on strengthening its sales capabilities, cultivating human resources in operations departments, and enhancing operational efficiency through optimized staffing. In addition to implementing collaborative strategies with external core vendors and regional Slers, we have completed development of a web-based telephone notification system.

Growth strategy

While the standardization of local government systems in 2025 is a significant event in solutions market for local governments, we are expecting to see major changes in the provision of solutions for local governments in the future, given that it will become difficult to differentiate ourselves from competing vendors after standardization is completed. When the challenges faced by local government customers are taken into account, the total number of employees has continued to decrease every year since 1994, and the aging of the population has increased the complexity of administrative tasks, with ICT and outsourcing to the private sector expected to continue to grow going forward. As local governments continue to seek mergers due to increasing population decline and other factors, system consolidation and outsourcing are also slated to increase further.

With the growing complexity and severity of customer issues like these, the Public Systems Division is aiming to expand its scope of new

services and operations. It will be difficult to stand out from competitors for systems after the transition to standardization, so we will be shifting to cloud-based systems and developing accompanying proprietary services. We will also be increasing our sales activities with a focus on regional hub cities, keeping in mind the declining population of each local government and potential mergers in the future. Given that it will likely become difficult securing human resources and maintaining profitability for BPO services that are handled by human resources, we are planning to shift to providing BPO services that ensure quality while reducing labor costs by leveraging ICT. We will be enhancing our support for local governments in a more strategic and swift manner, such as establishing the ITFOR · BeX Becks subsidiary specializing in BPO in April 2024.

Toward the future

ITFOR's BPO service is a business that has experienced steady growth, with many local government customers maintaining ongoing contracts. Current services are primarily related to delinquency management, but we believe that the outsourced services segment needs to be expanded, factoring in future drops in the number of local government employees. I think that services that do not require an advanced skills, such as teller information services, will be required through the use of AI and robot technology.

Our key forte in the local government solutions market is that we provide both systems as well as BPO services. After system standardization is mostly completed in FY2026, the need for automation and unmanned operations utilizing ICT, AI analysis, RPA, and other technologies is expected to grow, and the Public Systems Division will be targeting further growth in both sales and revenue.

Technology Development Department

Enhancing development personnel and reorganizing methods to achieve the strongest development system in ITFOR's history

Koji Sakata

Director and Senior Managing Director
General Manager of Technology Development Department

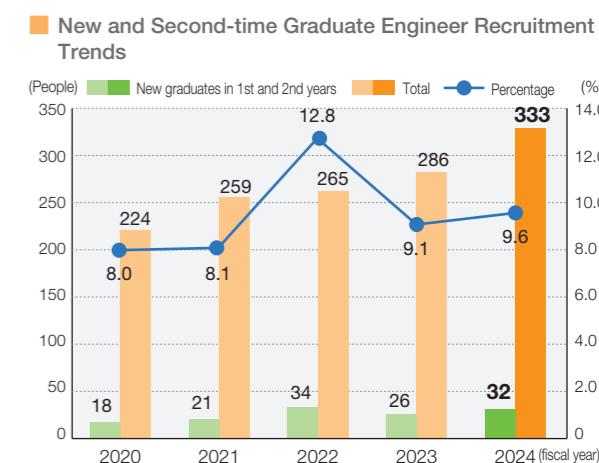


● **ITFOR's strengths (in the Technology Development Department)**

- All businesses are in possession of application packages devised and developed in-house
- Cultivating engineers with a solid foundation with intensive training for 7 months prior to deployment
- Increased development quality, speed and cost reductions by encouraging PMP certifications

◆ **Opportunities and Risks**

- | | |
|---------------|--|
| Opportunities | <ul style="list-style-type: none"> ◆ Successfully attract new and recent graduates in a highly competitive human resources market |
| Risks | <ul style="list-style-type: none"> ◆ Soaring labor costs and intensifying competition in the mid-career recruitment market |



FY2023 business overview

Financial Systems delivered a large number of projects for the web-based loan application system "WELCOME" and personal loan operation support system "SCOPE." We have embarked on development of standardization support for public systems.

We have been working on converting all of our packages to web-based systems from 2015, and are planning to begin converting to a web-based total department store and distribution package system "RITS", with all packages finally approaching completion. This is anticipated to further raise the effective utilization of engineers and increase development efficiency. For retail EC systems, we will begin integrating the gift system and "ITFOReC."

Growth strategy

The Technology Development Department has an individual software department, infrastructure systems department and customer support department for the Financial, Public, Payment, and Retail EC System divisions, with around 300 staff in charge of development and support at ITFOR. We have been encouraging our employees to acquire PMP certification from several years ago, and currently have some 60 PMP certified employees who are assigned to each project to help improve development quality, speed, and cost reduction.

In the fourth medium-term management plan we embarked on in FY2024, we are focusing on further strengthening our development staff and restructuring our methods. Our first step will be planning to double the number of engineers hired and also promoting in-house production,

with the goal of increasing the in-house production ratio from 45% in FY2023 to 50% or higher in FY2025. The objective of these initiatives is to significantly improve the quality and speed of development, and we intend to accelerate package enhancement with the latest technologies, effectively leverage AI technologies, promote SaaS-type models, introduce agile development, and adopt Web 3.0-related measures. We have also started trialling code generation AI for development methods, and hope to be able to utilize it at a certain level.

We are also expanding our investment in R&D to revamp our development environment, and are planning 120 million yen in investments during FY2024.

Toward the future

ITFOR is aware that it specializes not only in developing our own packaged products and applications, but also with its ability for developing infrastructure foundations. We currently have a large number of engineers with expertise in each of our business divisions and who specialize in the development of high-quality packaged products, but going forward, we intend to develop human resources capable of handling development in multiple fields while maintaining a high level of expertise—with this, we are seeking to create a system that enables flexible project composition.

We are aiming to become a group of high-quality engineers working closely with our customers, understanding the essence of the issues they are facing, quickly identifying the matters that need to be resolved, and developing high-quality and speedy solutions while maintaining sight of objectives. I trust that you can expect positive results from the activities of ITFOR's engineers going forward.

Message from the CFO

Katsuo Nakamura

Director and Executive Officer
General Manager of Management
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.

At a Glance 1

Financial information

Fiscal 2023, ended March 2024

Income statement (Units: millions of yen)

Net sales	20,652	Operating income	3,737
Gross profits	7,753	Ordinary income	3,846
		Net income attributable to owners of the parent	2,770



Cash flow statement (Units: millions of yen)

Cash flows from operating activities	2,836	Cash flows from financial activities	(1,623)
Cash flows from investing activities	(504)	Cash and cash equivalents at year-end	11,505



Balance sheet (Units: millions of yen)

Current assets	19,498	Fixed liabilities	280
Fixed assets	4,497	Net assets	18,836
Current liabilities	4,878	Total assets	23,996



Key indicators

ROA	16.8%	Equity to total assets ratio	78.5%
ROE	15.4%	Net D/E ratio	0.0
ROIC	15.0%	Operating profit margin	18.1%
		Total return ratio	71.8%

