

Risk Factors

1. Risks Related to Our Business and Industry

(1) Dependence on specific industries

We depend on existing clients for a large proportion of our revenue, particularly in the form of repeat orders from existing clients in our systems integration business (e.g., feature updates and responses to changes in applicable laws and regulations after system integration) and recurring business from ongoing operations and maintenance services and SaaS solutions. In particular, our existing client base is heavily concentrated in the traditional financial services sector in Japan, particularly clients in the securities and banking industries. The large proportion of our revenue from our existing client base in the domestic financial sector is one of our strengths and characteristic of our business. However, as a result of this industry concentration, any abrupt and substantial change in IT investment trends and the business environment in this sector or any other developments negatively impacting clients in this sector could in turn adversely affect demand from our clients, and our business and results of operations could be materially and adversely affected.

In addition, the financial services sector is highly regulated, and changes in applicable laws and regulations that would require our clients to change the specifications of their existing systems may force our clients to basically incur expenses for such specification changes. The changes may also force us to incur additional costs that we may be unable to pass on to our clients for adapting to our clients' changed compliance requirements, such as costs incurred for preparing documents. Furthermore, our business and results of operations would be adversely impacted by any future changes in laws or regulations that restrict the existing business areas and practices of our financial service clients to whom we offer services and solutions or the ability of our financial service clients to outsource technological solutions such as those that we offer.

To respond to these risks, we will strive to propel the expansion of business areas, not limiting to the financial sector in Japan, which is our medium- to long-term business strategy.

(2) Retaining and acquiring client companies

As part of our strategy, we seek not only to acquire clients for new projects such as consulting, design and development of new systems but also aim to increase repeat orders and expand recurring business from existing clients by providing additional services and solutions such as SaaS solutions and system operations and maintenance services. Although we make such strategic effort to keep and increase revenues from our existing clients, we may be unable to do so if our services and solutions do not address the needs of our clients effectively or if we are unable to offer competitive pricing even when our services and solutions address the needs of our clients effectively. Existing clients may also decide not to use our services for other reasons, such as their financial condition and changes in their strategy, any of which can result in the termination or cancellation of contracts with us or suspensions or delays of projects. In such a case, our clients may choose not to retain us for new projects or additional stages of existing projects, try to renegotiate the terms of their contracts or terminate or cancel planned projects. When contracts are terminated or not renewed, we lose the anticipated revenues associated with the contracts, and it may take significant time to replace the level of revenues lost.

Based on our business model established in the traditional financial services sector and our know-how about consulting sales, we have been seeking to further expand into new areas in the Cross Frontier Domain, which we define as business areas where technology plays a vital role for clients' business success, including in sectors such as life and non-life insurance and enterprise DX. However, there is no assurance that we will be successful in developing and deploying our services and solutions in a manner attractive to clients in these areas. We may be unable to distinguish ourselves effectively from competitors, some of which may have larger client bases and an established presence in the vertical segments that we target. This may prevent us from increasing revenues as we expected. In addition, although we seek to obtain more orders for our strategy/DX consulting business from non-financial institutions and for our consulting business that does not link to system development from financial institutions (our existing clients) mainly through Xspear Consulting, Inc., there is no assurance that we will be as successful in expanding our client base as we planned.

Further, part of our strategy is to achieve a high level of profitability in business areas with high

barriers to entry in the Cross Frontier Domain. However, if such areas do not develop as we expected or if we are unable to establish a leading position in such areas, we may be unable to expand our client base as we expected, which could result in the loss of anticipated revenue increase.

In addition, we may also need to incur significant sales and marketing expenses, including personnel expenses and research and development expenses, but there is no assurance that our sales and marketing efforts will result in the growth of our client base or an increase in revenue that will allow us to recover such expenses. This could adversely affect our results of operations.

(3) Responding to technological innovation

Our business strategy is to be actively engaged as our clients' leading technology partner in the full cycle of each project, from consulting to system development and operations and maintenance services. In addition to Financial Frontier Areas, we focus particularly on other areas within the Cross Frontier Domain. However, there is no assurance that we will be able to adapt to changes in clients' needs driven by technological developments in the industries we serve. Such technological developments could trigger a shift in demand away from existing services and solutions to new services and solutions. If we are not able to continue providing solutions in a manner that is responsive to clients' changing technological needs, our ability to develop and maintain a competitive advantage and to expand our business could be adversely affected.

In addition, we may be forced to make significant investments to develop new services and solutions in response to such changing demand. If we are unable to successfully enhance our existing solutions and develop new solutions to meet client requirements or otherwise gain market acceptance, we may not be able to recover our investments, and our business, results of operations, and financial condition would be harmed.

Furthermore, although we do not currently anticipate an abrupt and substantial increase in research and development expenses as of the time of this document, our actual research and development expenses may be higher than initially expected due to changes in our business plan or developments in the technological landscape outside of our control. This may also adversely affect our results of operations.

To respond to these risks, we will make investments to acquire new technologies and carry out research and development activities, and strive to adapt to changes in clients' needs and business environment.

(4) Competition with other companies

We operate our business, focusing particularly on the Cross Frontier Domain. However, the markets in which we offer our services and solutions are highly competitive. Some competitors, now or in the future, may have greater financial, marketing or other resources than we do. Therefore, they may be more able to innovate and provide new services and solutions faster than we can, or may be able to anticipate the need for services and solutions before we do. In addition, new services and solutions offered by new market entrants with technological expertise may make our offerings less differentiated or less competitive. If our existing or new competitors develop and offer equivalent or better services and solutions than those we offer in areas in which we currently have a more competitive advantage than they do, our offerings may become less competitive, which could adversely affect our results of operations. Furthermore, if more packaged services are available in the marketplace, causing their prices to become more competitive than we expected, this could also materially and adversely affect our results of operations.

To respond to these risks, we will carefully monitor our competitors and continue to evaluate our competitive advantage.

(5) Our medium-term business plan

We have formulated a new medium-term business plan for the three fiscal years (the year ending March 31, 2025 to the year ending March 31, 2027) as part of our effort to achieve further growth by adapting to expected changes in the market environment and needs of our clients and announced the plan in October 2023. Under this medium-term business plan, we aim to achieve sustainable growth and a higher level of profitability by further promoting focus themes, namely domain expansion, deep-diving, and strengthening recruitment and development, set forth in our previous medium-term business plan.

However, such goals and targets set forth in our medium-term business plan are subject to various risk factors and uncertainties discussed in this section, including the following challenges:

- our ability to recruit personnel with high potential and develop and retain sufficient skilled employees that can support our planned growth;
- our ability to expand our client base in our strategy/DX consulting business through Xspear Consulting, Inc.;
- our ability to manage project profitability and avoid unprofitable projects;
- our ability to develop new technologies and solutions that are effective at capturing demand from new and existing clients; and
- our ability to control costs as our revenue scales by managing research and development expenses, amortization of intangible assets, personnel expenses, selling, general and administrative expenses, and other operating expenses so that such expenses increase at a slower pace compared to revenue growth.

If these risk factors or uncertainties materialize, it may become difficult for us to implement initiatives set forth in our medium-term business plan or such initiatives may become ineffective for us. In such a case, we may not be able to achieve the targets set forth in our medium-term business plan or may need to revise the medium-term business plan. If we fail to implement our effective initiatives in a timely manner, our business, results of operations and financial condition could be materially and adversely affected.

(6) Talent strategy

One of our central business resources to operate our business is our people. One of our top-priority strategies is to attract and retain talented professionals proficient in both technology and business to meet our client demand. In particular, we target highly qualified new graduates and focus on training new employees so that they will cultivate a diverse skillset. If we are unable to develop employees who can keep pace with the rapid and ongoing changes in technology and the industries we serve, we may not be able to innovate and deliver new services and solutions to fulfill client demand. Although our focus is to hire new graduates, we also face competition in hiring or retaining experienced employees from a broad range of companies. In order to compete with them, we must offer competitive compensation packages and a high-quality work environment to attract, retain and motivate employees. Such competition may add to our recruitment costs, and if they become excessive, we may be unable to cost-effectively hire and retain new graduates with high potential or mid-career employees with market-leading skills to fulfill client demand for our services and solutions. Similarly, our profitability depends on our ability to effectively source and staff people with the right combination of technical and business skills and experience to perform services for our clients, including our ability to transition employees to new assignments on a timely basis. If we are unable to effectively deploy our employees on a timely basis to fulfill the needs of our clients, or if we are unable to well leverage our professionals' skills, it could have an adverse effect on our profitability, the quality of the work performed, and our overall reputation in the recruiting market. Furthermore, deterioration of working conditions and other such factors may cause employees to develop physical and mental problems, which may lead to lower labor productivity or, eventually, the outflow of employees.

To respond to these risks, we consider our talent strategy as one of our key management strategies, and will strive to attract, retain, and develop talented professionals.

(7) Macroeconomic and political situation

Our results of operations are affected by macroeconomic and political conditions. In particular, the economic outlook for Japan, where we operate substantially all of our business, remains highly uncertain and could be adversely affected by a range of economic, social and geopolitical developments. Any economic downturns may add pressure to cause clients to reduce or defer their spending on new initiatives and technologies, and result in clients reducing, delaying or eliminating spending under existing contracts with us, which may negatively affect our business. Moreover, any negative developments affecting foreign markets, including the potential escalation of geopolitical risks, could impact the regional economy in the Asia-Pacific and the global economy more generally. The Japanese economy may also be adversely affected by any future changes in Japan's fiscal and monetary policy, or increases in consumption or other taxes.

Adverse economic conditions in or affecting any of our major operating markets or the global economy due to any of the foregoing factors and beyond may reduce demand for our services and solutions, which could negatively affect our ability to acquire new clients and retain existing clients. Accordingly, adverse economic conditions affecting those and other industries in which our clients operate could negatively affect our business, financial condition and results of operations.

(8) Occurrence of problems related to system development and solutions

In our system development business, we provide services under contracts entered into with clients. The contracts include various service requirements including delivery deadlines, agreed-upon performance and functional requirements, and required service levels. Although we seek to provide services under contract terms, if we fail to comply with them for some reasons, it could reduce our fees to be paid by clients under the contracts or increase the cost to us of meeting the contract terms. The use of new technologies in our offerings can expose us to additional risks if those technologies fail to work as predicted, or if defects or errors (i.e., bugs) are found for some reasons after clients have inspected deployed systems, which could lead to cost overruns, project delays, financial penalties, or damage to our reputation.

Although we have set the maximum amount of liability in the contracts with our clients and obtained insurance to mitigate the risk of liability, our insurance policies may not be sufficient to cover the full amount of liability under our contracts or may not provide any protection in some cases. In such a case, our results of operations could be adversely affected by liability, loss of trust, or other harms.

The technology infrastructure underlying our solutions is inherently complex and may contain material defects or errors. If we or our clients find such defects or errors in our solutions, our reputation, business and results of operations could be materially and adversely affected.

Our solutions may in the future cause delays, disruptions, outages, and other performance problems due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, or other security related incidents. If we are unable to meet committed service levels, whether due to us or the third parties on which we rely for the delivery, maintenance or performance of our solutions, our clients may terminate our solutions. As a result, our business and solutions would be negatively affected through negative publicity, loss of or delay in market acceptance of our platform, loss of competitive position, or claims by clients for losses sustained by them.

(9) Systems provided by third parties

Certain of our services and solutions use software and hardware from various third parties as well as cloud infrastructure services from third parties, and third-party applications. If any of these software, hardware, cloud infrastructure services or applications operated by third parties become unavailable due to loss of license, extended outages, interruptions, or because they are no longer available on commercially reasonable terms, there may be delays in the provisioning of our services and solutions until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated, which could increase our expenses or otherwise harm our business. In addition, any errors or defects in or failures of third-party software, hardware, cloud infrastructure services or applications

could result in errors or defects in or failures of our services and solutions, which could have an adverse and material effect on our reputation, business, financial condition and results of operations although our contracts with clients contain certain disclaimers.

(10) Brands and rumors

We believe that maintaining and enhancing our brand and reputation is critical to our relationships with our existing clients and to our ability to attract new clients. However, our brand and reputation may be negatively impacted by a risk that negative information about us spreads, or actual or alleged illegal activity or conduct, as well as misconduct or inappropriate behavior or activities, by our employees or management. Damage to our brand and reputation could make potential or existing clients reluctant to select us for new engagements or cause existing clients to terminate our services, resulting in a loss of business, and could adversely affect our efforts to recruit and retain new graduates and other talented employees. As a result, it could materially and adversely affect our share price, business, results of operations and financial condition.

In addition, the proliferation of social media increases the risk of rumors and negative perceptions concerning us or our businesses to be widely and swiftly disseminated through various methods such as media reports or comments on online platforms, which may damage our social trust and confidence and impact our ability to recruit and retain highly talented employees.

Maintaining and enhancing our brand may require us to make substantial additional expenditures, and we anticipate that these expenditures will increase as the areas in which we operate become more competitive and as we expand into new areas. Even if these activities yield increased revenue, such increase may not always offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, and we may have reduced pricing power relative to competitors and could lose clients or fail to attract new clients, all of which would materially and adversely affect our business, results of operations and financial condition.

(11) Future acquisitions and strategic investments

We may in the future seek to acquire or invest in businesses, services, experienced employees or technologies that we believe could complement or expand our services, enhance our technical capabilities or otherwise offer growth opportunities. We may not be able to find and identify desirable acquisition targets in the future. Even if we acquire businesses, we may not be able to successfully integrate the acquired personnel, operations, and technologies, or effectively manage the combined business following the acquisition. An acquired business may also fail to meet our initial expectations. Such cases may adversely affect our business, results of operations and financial condition.

(12) Natural disasters or other unexpected events

We rely on the internet, network, cloud infrastructure, enterprise applications, technology systems and other infrastructure of us and third parties for our development, sales and marketing of our services and solutions and operational support activities. Such systems and operations are vulnerable to damage or interruption from natural disasters, such as earthquakes, volcanoes, typhoons, heavy rain, heavy snow, fires and floods, as well as power losses, telecommunications or other infrastructure failures, cyberattacks, human errors, and other unexpected events. In case of any natural disaster or unexpected event described above, our systems and operations may become unavailable or we may endure delays or lengthy interruptions in our solution development and improvement, which would cause us to be unable to continue our operations, resulting in an adverse effect on our future business and results of operations.

We have established a crisis management system and taken measures to brace ourselves for such natural disaster or unexpected event. However, if a natural disaster, such as a typhoon, earthquake or tsunami, occurs at significantly larger-scale than expected, devastating people or infrastructure, it could consequently have an adverse impact on our business and results of operations.

In addition, such natural disaster or unexpected event may potentially lead to weak financial condition at our clients and decrease in IT expenditure by our existing and potential clients, which could adversely affect demand for our solutions and services, resulting in an adverse impact on our business and results of operations.

To respond to these risks, we strive to minimize an impact of such natural disaster or unexpected event by preventing or avoiding interruptions in our business with measures such as regularly backing up our data and constantly monitoring our system operations.

2. Legal and Regulatory Risks

(1) Our businesses are subject to various laws and regulations

The businesses that we currently operate, as well as those that we may operate in the future, are subject to a variety of laws and government regulations in Japan and abroad. There is no specific law which regulates design and development of systems for the financial sector we primarily serve. However, our recruitment agency and staffing agency businesses require licenses pursuant to the Act on Securing the Proper Operation of Worker Dispatching Businesses and Protecting Dispatched Workers and the Employment Security Act, and are compliant with these acts. Failure to comply with any of applicable laws and regulations could result in fines, penalties, loss of licenses or permissions to operate some of our businesses, being ordered to suspend operations, litigation and other legal proceedings, and have an adverse and material effect on our reputation.

In addition, most of our clients operate businesses that are highly regulated and are subject to various laws and regulations including the Financial Instruments and Exchange Act, the Banking Act, the Payment Services Act, the Insurance Business Act, and the Act on the Protection of Personal Information. These clients generally need to establish stringent internal control systems to secure compliance with these laws and regulations. As a result, the systems which we design, develop and operate for these clients are required to maintain a particularly high degree of safety and stability. If there is any breach of personal information or other data, systems failures, operational errors, or similar incidents affecting our clients as a result of defects, errors or performance problems in the systems or solutions we provided, we may suffer severe reputational damage, and our results of operations may be adversely affected regardless of whether we were responsible for such incidents.

To respond to these risks, we will communicate with external professionals in a timely and appropriate manner and carefully watch changes in regulatory trends so as to take appropriate actions when such incidents occur.

(2) We may become involved in claims, lawsuits, government investigations, and other proceedings that could adversely affect our business, financial condition, and results of operations

From time to time, we may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including intellectual property claims by third parties and litigation and claims by clients for liability resulting from some troubles such as failures and delays in our system development. Such legal proceedings can be time-consuming and cause us to incur significant expenses to defend ourselves against litigation and claims, harm our social trust, and affect our business, results of operations and financial condition depending on how such litigation and claims have turned out.

To respond to these risks, we will communicate with a corporate lawyer and other external professionals in a timely and appropriate manner so as to minimize risks of getting involved in legal proceedings and take appropriate actions when we become involved in them.

3. Risks Related to Data Security and Intellectual Property

(1) Data security

We are dependent on information technology networks and systems to securely process, transmit and store electronic information and to communicate with clients, alliance partners and vendors. We have effective information management and raise awareness of its importance among employees through training programs. We also take measures to prevent external unauthorized access and cyberattacks, and install and update security measures in our systems to prevent internal data breaches. However, there is no assurance that we entirely eliminate the risk of security incidents involving sensitive or confidential client or internal data handled by us, such as data breaches, data tampering, and unauthorized access. Such security incidents due to some factors could lead to legal liability and loss of trust, resulting in an adverse impact on our results of operations.

Our systems and those of our third-party service providers are vulnerable to computer viruses and cyberattacks that could increase the risk of being targeted by cyber attackers and other cyber criminals when we gain greater visibility or market share. As techniques used to obtain unauthorized access and conduct cyberattacks are constantly changing and evolving, we and our third-party service providers may not anticipate or prevent all such cybersecurity threats.

Security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or employees of our third-party service providers or any third-party business partners that may have access to our systems or data. We have put in place internal rules, policies and procedures for handling and protecting sensitive or confidential data, and require our people to comply with them. Despite such efforts, if we experience data breaches resulting from human errors or unexpected factors, we may be liable for damage or our business relationships with clients may get worse due to loss of trust from our clients, and we may consequently experience an adverse effect on our business and results of operations.

Further, as we rely on third party and cloud infrastructure in the delivery of our solutions and storage of data, we depend in part on third-party security measures to protect against unauthorized access, cyberattacks and the mishandling of client data. Our contracts with clients contain certain disclaimers for services delivered by our third-party service providers, and we have insurance covering certain security and privacy-related claims, but such insurance may not be sufficient to compensate for all liability that we may incur. If we experience any of the foregoing security breaches or other incidents, our reputation, business, results of operations and financial condition could be adversely impacted.

(2) Intellectual property

As a general rule, we obtain intellectual property rights, including copyrights and other forms of intellectual property, for our system programs, software and other solutions. Even where we obtain such intellectual property rights, they may not prevent or deter competitors, former employees or other third parties from independently developing services or solutions similar to or duplicative of ours. Further, the steps we take in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property by competitors, former employees or other third parties, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights. Enforcing our rights might also require considerable time and money, and we may not be successful in enforcing our rights. Any misappropriation of intellectual property that is used in our business, whether licensed to us or owned by us, could have a material adverse effect on our business, financial condition and results of operations.

Litigation brought to protect our intellectual property rights could be costly and time-consuming, and could result in the impairment or loss of portions of our intellectual property. Our failure to secure and protect our intellectual property rights could adversely affect our business, results of operations and financial condition.

Furthermore, although we have established a system that prevents us from infringing intellectual property rights of third parties, we may not be aware if we have infringed on the intellectual property rights of third parties, and these third parties could claim that we are infringing on their intellectual property rights. These claims could be costly and time-consuming to defend. In order to avoid any

infringement of the intellectual property rights of third parties, we may be required to obtain such rights from the third parties, and this measure could adversely affect our results of operations.

4. Financial Risks

(1) Worsening profitability of the project

We negotiate and determine fees with our clients by utilizing a range of pricing structures and conditions. Particularly in our system development, we estimate the costs necessary to perform a project, and measure a profit margin based on the estimated costs to ensure that we maintain an acceptable level of profitability for our projects. However, if our internal forecasts and predictions about the costs necessary to perform a project or profitability turn out to be inaccurate, the actually incurred costs could exceed the estimated costs, making the project less profitable.

To respond to these risks, we will step up our efforts to prevent unprofitable projects by, for example, advancing the methods of estimating the costs necessary to develop systems, instituting a more stringent review system, and increasing resources in our quality control division.

In addition, we may be forced to take on projects that negatively impact our profitability due to factors outside of our control, such as competitive factors or as part of our broader strategy to expand into particular industries, or capture additional repeat orders and recurring business.

Furthermore, we have taken adequate measures for our quality control in development processes, but projects could become less profitable due to development issues or other factors.

If any or some of our projects become less profitable due to any of the foregoing risks, our results of operations could be adversely affected.

(2) Internal controls

We are aware of the necessity of further enhancing our internal control system for our future business operations and the expansion of our business. Delays in building up our internal control system as our business expands could harm our business, results of operations and financial condition. Although we have established and operate an internal control system to ensure the appropriateness of financial reporting pursuant to laws and regulations, we cannot deny the possibility that our financial reporting may have significant deficiencies, and there is no assurance that we can constantly build and operate an effective internal control system in the future. In addition, because an internal control system is subject to inherent limitations, if our internal control system over financial reporting does not work effectively or if it has significant deficiencies, these risks may adversely affect confidence in our financial reporting.

(3) Significant borrowings, fluctuations in interest rates, and violations of financial covenants

We may require additional funds for investments in our future growth and working capital to operate our business. However, our capital-raising activities could be negatively impacted by changes in the financial and securities markets, interest rate trends, supply and demand of funds and other circumstances. If we may not be able to timely obtain additional financing on terms favorable to us when required, our business, results of operations and financial condition could be adversely affected.

We have entered into syndicated loan agreements with financial institutions and financed significant amounts of money. As of March 31, 2024, the ratio of our interest-bearing liabilities to total assets under IFRS was 21.3%. If interest rates rise due to future developments in the financial markets, our financial condition and cash flows may be negatively impacted. The syndicated loan agreements subject us to certain financial covenants, and any failure to comply with these covenants could result in the acceleration of our outstanding indebtedness with the consent of a number of lenders. Such failure could also lead to immediate repayments of borrowings or other adverse consequences, which could adversely affect our financial condition and liquidity.

(4) Impairment risk

As of March 31, 2024, we recorded goodwill of ¥36,476 million in the consolidated statements of financial position, resulting from the absorption-type merger in connection with the fund exit on

December 1, 2016, and also held property, plant and equipment and intangible assets. If the profitability of our businesses related to these non-current assets declines in the future, we may be required to recognize impairment losses in the amount of the difference between the fair value and the carrying amount of such assets, which will negatively affect our results of operations and financial condition. The goodwill we recognize is wholly allocated to the Company's single segment as a single cash-generating unit. In the impairment testing of goodwill conducted each fiscal year, we confirm that the recoverable amount exceeds the carrying amount.

5. Risks Related to our Ordinary Stock

Exercise of share acquisition rights or our issuance of additional shares could lower the market price of our shares and result in substantial dilution

Our business depends heavily on our ability to recruit and retain skilled people proficient in both technology and business. We, therefore, grant our officers and employees share acquisition rights as an incentive, and intend to continue granting them. When such share acquisition rights are exercised in the future, our issuance of additional shares could lower the market price of our shares held by our current shareholders and result in dilution of the ratio of voting rights. As of March 31, 2024, there are a total of 2,457,675 shares issuable upon the exercise of outstanding share acquisition rights, which represent 4.2% of our issued and outstanding shares of 58,182,950 shares.