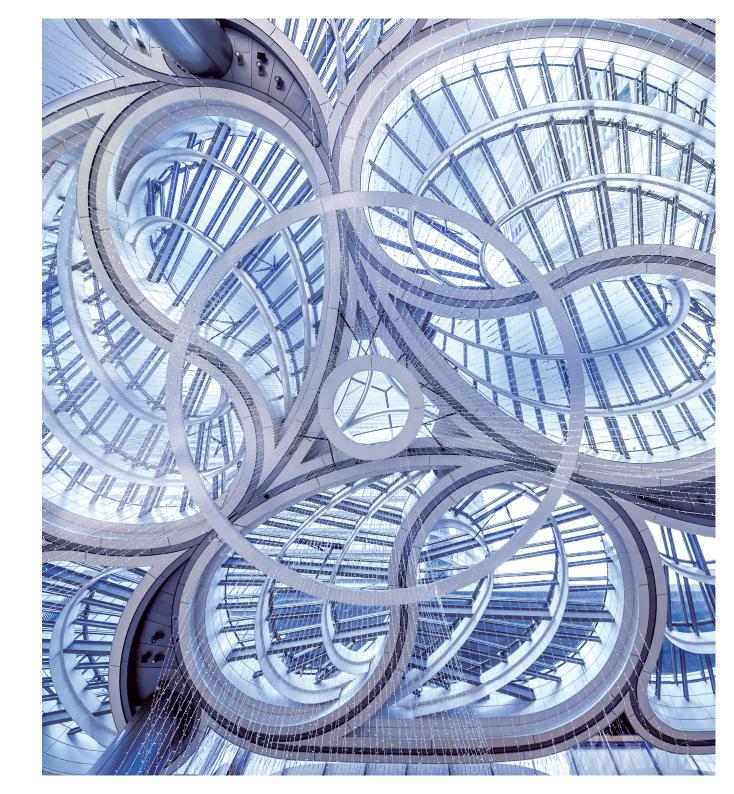
## Simplex Integrated Report 2024

Simplex Holdings, Inc.

TSE: 4373



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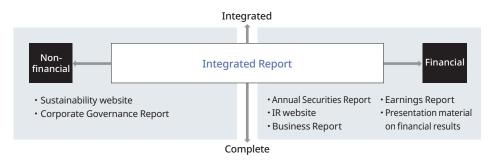
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## **Editorial policy**

In this integrated report, the first of its kind for the Simplex Group, we have aimed to provide information necessary for shareholders and investors to make their own assessments of our future prospects, and organize this in a systematic and integrated manner. In particular, we have focused on providing a deeper understanding of the Simplex Group's approach to its business activities, focusing on the business model, strategy, governance, and other areas that have frequently come up in one-on-one meetings with institutional investors since our re-listing in September 2021. In addition, we have made efforts to enhance the content of this report by referring to various quidelines, including the International Integrated Reporting Framework, the Ministry of Economy, Trade and Industry's Guidance for Collaborative Value Creation, TCFD Recommendations, and the GRI Standards. For more detailed information on the Simplex Group, please refer to our IR and Sustainability websites, which have more comprehensive disclosure.

## Information disclosure structure



## Reporting scope

Reporting period: April 1, 2023 through March 31, 2024 (Note that some information refers to activities before or after the reporting period.)

Entities covered: Simplex Holdings, Inc and its subsidiaries and associates

## Disclaimer for forward-looking statements

This integrated report contains forward-looking statements, including the Simplex Group's current outlook, forecasts, targets, and plans. Forward-looking statements are based on the judgment of our management in light of the information currently available to us. These forward-looking statements are therefore subject to various risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Accordingly, you should not place undue reliance on forwardlooking statements. We undertake no obligation to change or revise any forward-looking statements in light of new information, future events or other findings.

Chapter

## About the Simplex Group

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## **CEO** Message

## Creating value added and delivering innovation with the best and brightest team

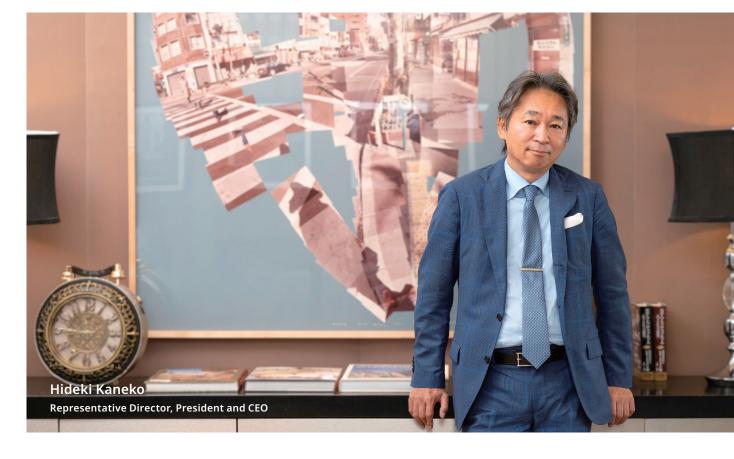
It has already been three years since our relisting in September 2021. As a manager, I am fully committed to driving business growth and enhancing our fundamental value as a company. I believe that what I am about to share will provide a context that will help you, as shareholders or investors, assess the future outlook of the Simplex Group.

In our first integrated report, I, as CEO, look back on the progress we have made to date and share with you the vision we aim to achieve at the Simplex Group. I hope that, in reading this report, you will gain some sense of what drives us as a company.



## Simplex Group's origins

The Simplex Group, with Simplex as a tech firm working in tandem with Xspear as a consulting firm, guides our clients throughout their entire digital transformation (DX) journey. Our core competencies are technology, consulting, and finance, these are skills that I first developed while working as a company employee. I joined Arthur Andersen (now Accenture) after graduating from college. Later, I moved to a Silicon Valley startup that developed trading tools, which sparked my interest in finance. I then moved on to Solomon Brothers Asia Securities (now Citigroup Securities), then regarded as the world's most powerful investment bank. There is no doubt that my experiences at these three companies are at the core of the Simplex Group.



One thing I felt strongly while working for these international companies was the high potential of a team of Japanese professionals. Through my experiences at the U.S. headquarters of these firms, I became confident that a team based out of Japan could compete on an equal footing with finance and IT professionals working in New York, London, and even Silicon Valley. However, in the eyes of the world, Japan as a country was often looked down as being second-rate in both finance and IT. The key factor for this ultimately comes down to corporate management and the industry structure peculiar to Japan. I was determined to build the best possible team capable of making an impact on the Japanese financial and IT industries by Jaunching a company of my own, and ultimately, taking innovation from Japan to the rest of the world. It was with these resolutions and aspirations that I founded Simplex in September 1997.

## First founding phase and IPO

After our founding in 1997, Simplex achieved consistent growth with a business model that defied the conventional wisdom of the industry and an "edgy" strategy that differed from other IT companies. One of the reasons for this steady growth was the lack of Japanese companies capable of proposing and building trading systems based on an understanding of financial engineering. Simplex successfully took the lead in this niche field and acquired most of the major financial institutions as clients without the need for organizing a sales force. Instead, project managers worked closely with the end users and provided solutions that truly impressed them. As a result of these business activities, Simplex achieved strong growth, listing on the JASDAQ market in February 2002, then moved to the First Section of the Tokyo Stock Exchange in September 2005.

However, after FY3/2010, Simplex's growth reached a plateau. This was due, in part, to the fact that we had run our course in terms of building systems for major financial institutions in niche fields. But more fundamentally, it was because the scope of our business activities had become limited by the strong brand image of Simplex as a firm that could only deal with complex projects in niche fields that other companies could not. I was acutely aware that we needed to focus on making our capabilities more widely known to our major financial institution clients. In addition, the business environment at that time was such that there was a need to provide major financial institutions with a one-stop platform for trading and risk management, in response to a trend toward enhancing risk management functionality that began after the collapse of Lehman Brothers in 2008. We therefore took the best people in the field off projects and set up a sales force, implementing a proactive consultative sales approach. This was a major shift in strategy as we decided to approach clients not only as a niche player but also as a player handling the entire platform. To that end, we began by targeting capital markets departments in major financial institutions and helping them create an IT roadmap for the next five years free of charge. Based on that roadmap, we intended to take on the construction of an entire platform that would go live in a few years. This measure naturally entailed the risk of stagnation in business performance during this period, since the top professionals on the frontline had to be taken off the client site. At the time, the Nikkei Stock Average was trading around multi-year lows, below 10,000 yen, due to the Great East Japan Earthquake and other factors. Simplex's share price was also on a downward trend. I determined that I could not allow shareholders to bear the risk of a decline in the share price due to stagnating earnings. Finally, in October 2013, we decided we would carry out an MBO.

## Second founding phase and re-listing

The key factor for the MBO was to achieve breakthroughs in existing businesses and to launch new ones. As a result, immediately after the MBO, we did indeed make breakthroughs in existing businesses and put several new ones on track, aided by factors such as the trend toward more robust risk management. With the confidence that we had proven the reproducibility of the Simplex business model in new businesses, we achieved a re-listing in September 2021. In June 2024, we held a longawaited shareholders' reception after the annual shareholders' meeting, which had previously been postponed due to the pandemic. Although it had been over 11 years since the MBO, some of the shareholders at that time were in attendance, which was guite an emotional experience.

## Innovation we are trying to achieve

Simplex was founded with the strong conviction that we wanted to create innovation that had never existed before and take this from Japan to the rest of the world. However, the kind of innovation we are referring to is fundamentally different from the kind that Steve Jobs brought about when he transformed the world with his smartphone. The innovation achieved by a visionary manager like Steve Jobs requires an ability to see a future that ordinary people cannot imagine. So, what kind of innovation Simplex Group is trying to achieve? There are certain problems in the world that have an ideal solution that everyone can envisage, but too many barriers exist to make it happen. The kind of innovation we are referring to is achieved by solving these kinds of problems in a hands-on and tenacious manner, and before other companies.

## 5DNAs as a code of conduct

To realize such innovation, we established the 5DNAs as our code of conduct in 2010. Of these, "No. 1" is the one we emphasize most, namely that we will steadily deal with difficult problems one at a time to reach ideal solutions envisioned by everyone in the fastest possible time. The ability to create the kind of innovation we have in mind should only be possible for a company with the No. 1 competency in its business area. That is why the 5DNAs start with "No. 1." And for the 27 years since our founding, we have made it our mission to become the No.1 company in the domains we serve. The 5 DNAs, starting with "No. 1," are central to everything we do within the Group on a daily basis. This is also an important guideline for recruiting talent. The Simplex Group values diversity among our employees, as we require a wide variety of talents to innovate. At the same time, we need a strong culture that we all share in order to continue creating added value. The core of this culture is our 5DNAs.

In terms of employee diversity, with the establishment of Xspear in 2021, we have been strengthening our recruitment of mid-career talent on top of hiring new graduates. Our policy of recruiting and training the top 10% of talent in the market, regardless of whether they are new graduates or mid-career hires, remains unchanged. People are the cornerstone of the Simplex Group's entire strategy, and they support us in achieving sustainable growth and high profitability. The Simplex Group is a place where outstanding professionals with different talents can achieve selffulfillment. I hope that the Simplex Group will continue to play a meaningful role in the life journeys of our employees.

## Sustainable management in pursuit of reproducibility

FY3/2024 was a year in which we clearly demonstrated our commitment to sustainability. We identified our materiality issues and set specific goals for each of them, with a focus on human capital management—the most important element in our operations (Page 33 Materiality Issues and Major Risks).

The sustainable management I am striving for is to hire the top 10% of talent in the market who share our 5DNAs and provide an environment where they can maximize their abilities. The success of these individuals will serve as a catalyst for bringing more new people onboard with high aspirations for growth. Once this virtuous cycle has been set in motion, we will be able to respond flexibly to any changes in the times and create a new cycle of innovation down the line.

It is important that all our employees share the process to acquire the capabilities required of them at any given time—a requirement that goes hand in hand with "reproducibility." In this instance, reproducibility refers to the ability to continue producing results with a steep learning curve in a short period of time. This can be achieved by leveraging accumulated know-how through legitimate and sustained efforts in the right direction. This is why we always emphasize reproducibility, not only in consulting and system development, but also in employee training and evaluation.

## Toward sustainable development of all of society

Over the past ten years, the Simplex Group has become a leading cultivator of talent. Today, many startups and publicly listed companies have former Simplex employees in CEO or CTO positions. While it is with some sadness that I have seen these talented people leave, I am also personally delighted to see them step up to the next level. Every day I am reminded that the success of ex-Simplex professionals enhances our reputation as a company that cultivates talent. The formation of this "Simplex Ecosystem" is my greatest joy as a manager. I believe that the success of ex-Simplex professionals, who have honed their skills with us, contributes in a variety of industries to sustainable development of the whole society.

## Vision1000 as a long-term growth strategy

## Trend and challenge of DX in Japan

The DX of Japanese companies now lags that of Europe and US companies. One of the reasons for this situation is the "third generation banking online system," an interbank remittance system that was considered the most advanced in the world in the 1980s. Prior to the bubble era, the third generation banking online system was a symbol of Japan leading the world in technology. However, its convenience meant no change was required through DX, and as a result, Japan fell behind Western economies.

Looking at this in another way, there is still solid DX demand in Japan. We believe that by capturing this demand, we can expect sustained growth and high profitability. However, many Japanese companies also face an important challenge when it comes to DX, which is the limitations of inhouse system development.

While Japanese companies are increasingly willing to utilize in-house system development, this brings high barriers for non-tech companies. One example would be the lack of IT personnel. There is a need for staff who can assess and make a judgment on how a company's business model should change with the evolution of IT, especially at the management level However, it takes a long time to develop such personnel.

There are also structural issues that get in the way of in-house system development. Especially in non-tech companies, talented staff tend to be assigned to core businesses and rarely to the systems department function. In addition, the larger the company, the larger and heavier legacy existing systems there are that cannot be easily untangled. These compounding factors make bringing the in-house system development a challenging task for many Japanese companies.

## **Simplex Group's vision**

In order for us to have a certain social impact in the midst of this DX trend, we believe it is important to first aim for 100 billion yen in revenue. Based on this belief, we have formulated Vision1000, which defines the Simplex Group's vision and also serves as a long-term growth strategy for sustainable enhancement of corporate value. And as a halfway point on our journey toward Vision1000, we have also formulated our Medium-Term Business Plan (MTBP2027) covering three years from FY3/2025.

There are three goals that we aim to achieve with Vision1000. The first is to be the one and only strategic partner for our clients. SBI SECURITIES, the leading comprehensive online securities company in Japan in terms of number of accounts and market share, has selected us to be its one and only strategic partner. We aim to be similarly chosen by leading firms in various industries. Second, for our employees, the Simplex Group will continue to be the dominant Biz x Tech innovator. Innovation in the DX field is at the forefront of the times, and the exciting appeal of this challenge is attracting many talented people. In order to continue to draw in such talent, Simplex Group will continue to aspire to be a dominant innovator in the field of Biz x Tech. The third is to be the game changer in the age of DX for society. While more and more Japanese companies are facing challenges in DX, we are of the view that in-house production is not the only answer, and we aim to be the game changer who can have an impact on society.

Vision1000 sets out indicative targets of 100 billion yen in revenue, a 30% operating profit margin, and a 20% ROE by the early 2030s. If we can reach this level, we should finally be able to draw close to the top tier players in the IT industry in terms of operating profit.

## Vision1000

The Simplex Group Aspires to Be

The one and only strategic partner for Clients

The dominant Biz x Tech innovator for Employees

The game changer in the age of DX for Society

Indicative targets with an assumed achievement timeframe of the early 2030s

Revenue

Operating profit margin

Return on equity

## A passion to evolve myself from an Entrepreneur to a Leader

For FY3/2025, the first fiscal year of MTBP2027, the Simplex Group has set a target of exceeding 10 billion yen in operating profit for the first time since its founding. I am aware that there are only a few dozen managers in Japan who have consistently achieved operating profit of 10 billion yen or more in their own start-up companies. Although I am not a type of person who is eager to set personal goals, I feel that I will be able to make the transition from an Entrepreneur to a Leader only when I can generate 10 billion yen in operating profit on a regular basis. In that sense, while achieving 10 billion yen in operating profit is one step along the way for Vision1000, it is a number that I personally consider very important. Although it is my personal story, I am making my own preparations for FY3/2025, which will see me make the leap from an Entrepreneur to a Leader.

My responsibility as a manager to our shareholders and investors is nothing less than to aim for sustainable growth and high profitability. The numerical performance targets in MTBP2027 are my commitment, and I am prepared to take full responsibility as management if we fail to achieve them. In terms of our share price, we will continue to be mindful of conducting IR activities based on transparency and consistency so that volatility will be kept within a certain range, taking into consideration CAGR for both revenue and operating profit margin as indicated in MTBP2027.

Innovation is the source of our profitability and continued growth. What it takes to bring that innovation is creativity of our people. We will continue to focus on recruiting and training the top 10% of talent in the market who are passionate about making clients happy and who derive a sense of accomplishment through work. Finally, I would like to thank all of our employees for their dedication to creating innovation, and I would also like to thank our shareholders and investors for their continued support.

Hideki Kaneko

Representative Director, President and CEO

Nacho Kanako

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ESG

(Forecast)

## **Our Trajectory of Transformation**

An essential part of our trajectory of transformation is the delisting of our shares following the MBO in 2013 in a bid to return to a growth path. Since then, we have positioned the post-MBO period as our second founding phase and we focus on breakthroughs in the Financial Frontier



## First founding phase and listing on the stock exchange (FY3/1998-FY3/2010)

Simplex, founded in September 1997 as Simplex Risk Management, expanded its client base and solution offerings by engaging in a system development business, with a focus on the Financial Frontier Domain. We supported financial institutions in improving profitability from a technology perspective, and steadily increased our earnings. Our shares were listed on the JASDAQ market in February 2002, and then on the 1st Section of the Tokyo Stock Exchange in September 2005. After the IPO, we continued to achieve steady earnings growth through FY3/2010 toward securing a position as Japan's leading provider in the Financial Frontier Domain.

## **Earnings stagnation and MBO** (FY3/2011-FY3/2014)

However, after FY3/2010, our earnings entered a downward trend to the extent that sustainable growth in the future could no longer be expected without drastic business restructuring. Under these circumstances, we decided to conduct a tender offer with the support of the Carlyle Group. We believed that, for us to sustainably increase our corporate value over the medium to long term, we needed to delist our shares by means of an MBO and establish a structure that would enable us to quickly and boldly implement management reforms under a consistent policy. After the completion of the tender offer, our shares were delisted from the 1st Section of the Tokyo Stock Exchange in October 2013.

## \*1 Net sales for the period from FY3/2011 to FY3/2017 exclude those of Virtualex Consulting, which was a consolidated subsidiary from August 2010 to June 2016.

## Second founding phase and re-listing (FY3/2015-FY3/2022)

FY3/2022

Re-listed on the TSE 1st Section

(currently the TSE Prime Market)

While defining the period after the delisting due to the MBO as a second founding phase, we then spent the first four years on achieving a breakthrough in the Financial Frontier Domain, which had reached a plateau in its growth. This was done by thoroughly implementing a proactive consulting sales approach. During the latter four years, we developed the key technologies from the Financial Frontier Domain and took these into several new business areas that broadened our target clients outside financial institutions. In order to achieve further growth, we newly defined the Cross Frontier Domain as a business area in which technology could make a significant contribution to improving the profitability of client companies. In September 2021, we relisted on the 1st Section of the Tokyo Stock Exchange (currently the Prime Market of the Tokyo Stock Exchange).

<sup>\*2</sup> Revenue for FY3/2017 and beyond were prepared in accordance with International Financial Reporting Standards (IFRS).

## **Group Overview**

Since its founding in 1997, Simplex, the core company of the Simplex Group, has developed its business as a technology partner of Japan's leading financial institutions. Today, Simplex is recognized by clients in a variety of industries for its extensive know-how cultivated through building missioncritical systems to support the core operations of financial institutions and developing financial services to bring new user experiences. As such, we are given opportunities to support both financial institutions as well as public institutions and leading companies in various industries in promoting their digital transformation (DX).

**Business Model** 

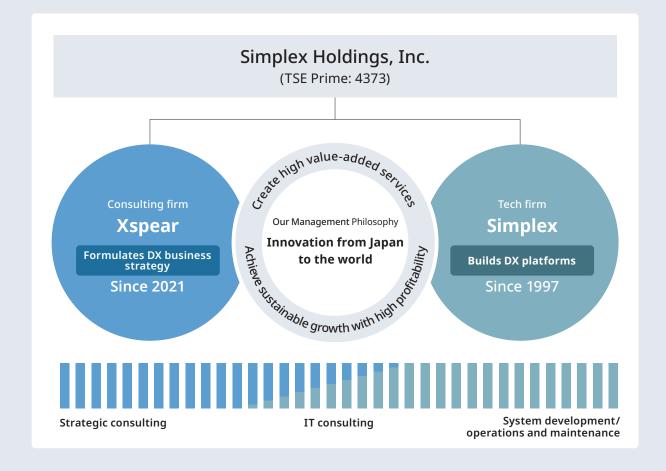
1997 Founded 407 billion yen Revenue 88 billion yen Revenue 42.9% Gross profit margin 21.7% Operating profit margin 13.9% ROE 1,350 Number of employees

## **Basic Management Policy**

ESG

With the goal of bringing "Innovation from Japan to the world," all of us are united in our pursuit of "Creating high value-added services" that contribute to the business success of our clients. Our basic management policy is to contribute to clients as a technology partner with a solid understanding of their business and to constantly strive for achieving sustainable growth with high profitability. Currently, Simplex Holdings, a listed company, comprises Simplex, a tech firm founded in 1997 and Xspear, a

consulting firm established in 2021. The two core companies work to provide DX support to clients. Simplex and Xspear execute their business strategies as operating companies, while Simplex Holdings concentrates and strengthens its functions as a holding company to further enhance corporate value by formulating and promoting strategies and implementing appropriate governance and monitoring.



Data

## **Value-Creating Model**



Top 10% of talent in the market



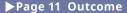
**Extensive digital capabilities** 

▶Page 11 Management Capitals **Management capitals** that drive value

▶Page 12 Business Model

Sources of Competitive Advantage

## **Simplex Way**





An organization where talented people thrive



Improvement in quality and evolution of digital capabilities

▶Page 27 Strategy by Business Area

High value-added services that contribute to clients' business success



Domain expansion and high-quality revenue model



Achievement of sustainable growth with high profitability



Reliability as a DX partner



Strong financial base

- ▶ Page 34 Materiality Issues
- 1 Innovation and competitiveness
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- 3 Human capital management
- 4 Product quality and safety
- ⑤ Response to environmental issues ►Page 57 Environmental Initiatives
- **6** Sophistication of governance

## Foundations for Value Creation

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Business Model

Capital classification	Human capital	Intellectual capital	Social and relationship capital	Financial capital
Management capital that creates value	Top 10% of talent in the market	Extensive digital capabilities and IP rights	Reliability as a DX partner	Strong financial base
	<ul> <li>Number of employees: 1,350</li> <li>Number of new graduate hires*1: 185</li> <li>Number of mid-career hires: 118</li> </ul>	<ul> <li>Cutting-edge technology cultivated in the financial domain</li> <li>IP rights accumulated through contracted development</li> </ul>	<ul> <li>Ranked in the IDC FinTech Rankings, a ranking of the world's financial IT service providers, for the 12th consecutive year</li> </ul>	<ul> <li>Total assets: 79.2 billion yen</li> <li>Total capital: 47.0 billion yen</li> <li>Cash and cash equivalents: 13.7 billion yen</li> </ul>
	Positioning human capital as the most important management capital, we strive to recruit the top 10% of talent in the market and foster them. Hybrid talent well versed in both business and technology work as one team in pursuit of innovation by sharing the 5DNAs and the Simplex Philosophy.	Technologies such as AI, UI/UX, cloud and web3, which have been cultivated over many years in the financial domain, an early adopter of cutting-edge technologies, are also required for DX support in the non-financial domain. Through consulting inclusive of know-how provision, Simplex, as a tech firm, retains IP rights for substantially all systems	The Simplex Group has established a top brand position in Japan as a technology partner of major financial institutions, including Japan's leading banks, comprehensive securities firms, and online securities firms.	In order to prioritize investments for growth that will strengthen our business foundation, we are striving to maintain financial soundness based on our strong cash flow generating capability.
Outcome	An organization where talented people thrive	Improvement in quality and evolution of digital capabilities	Domain expansion and high-quality revenue model	Achievement of sustainable growth with high profitability
	<ul> <li>Turnover rate: 8%</li> <li>Rate of paid leave taken*2:66.6%</li> <li>Proportion of female employees: 15.7%</li> <li>Proportion of female employees in managerial positions: 6.6%</li> </ul>	<ul> <li>Improvement in quality through re-use of IP rights</li> <li>Retention of IP rights in the non-financial domain</li> </ul>	<ul> <li>Percentages of total revenue</li> <li>Revenue from Strategy/DX Consulting: 10%</li> <li>Revenue from non-financial Solutions: 20%</li> <li>Revenue from stable, lower-risk revenue sources: 63%</li> </ul>	<ul> <li>Revenue: 40.7 billion yen</li> <li>Operating profit: 8.8 billion yen</li> <li>Gross profit margin: 42.9%</li> <li>Operating profit margin: 21.7%</li> <li>ROE: 13.9%</li> </ul>
	"Be a player" is one of our values that fosters a structure and corporate culture that promotes diverse career choices and employee growth. As a result of the introduction of the Commitment Declaration System, which allows employees to declare their own monthly overtime hours, and efforts to improve the labor share rate, the turnover rate dropped by 1ppt year on year to 8%.	By reusing retained IP rights as a library, we are able to shorten development times and ensure system stability. We have retained IP rights both in the financial domain as well as in the non-financial domain, allowing us to build and leverage the library in various areas.	By developing cutting-edge technologies cultivated in the financial domain, we provide high value-added services to clients outside the financial services sector. In addition, we have built a high-quality revenue model, in which stable, low-risk revenue streams expand in a cascading fashion as the one-time-fee business expands.	Against the backdrop of firm domestic DX demand, both revenue and operating profit reached record highs. The gross profit margin improved 1.1ppt year on year to 42.9% due to the revenue mix effect of Strategy/DX Consulting, which has a high profit margin, and unused safety cushions.
Management capital required for further growth and response measures	In order to achieve sustainable growth with high profitability, we must continue to strengthen our recruitment of talent; in the fiscal year ending March 31, 2025, we plan to hire 150 mid-career workers in addition to the 185 new graduates who joined the company in April 2024.	In order to maintain a high level of competitiveness in DX support, we need to constantly update our cutting-edge technology. By investing in human resources and in new and growing business domains, we strive to respond to changes in our clients' demand and business environment.	Given the high sales dependency on specific industry sectors, such as securities and banking, we are working to diversify our business portfolio through sales expansion in non-financial business domains, in addition to business development of Strategy/DX Consulting through Xspear.	When attractive investment opportunities arise that will strengthen the business foundation, such as M&A, we will allocate free cash flow to additional investments, and if there is a shortfall, we will prioritize debt financing to raise funds.
Relevant content	▶Page 39 ESG: Social	▶Page 17 Business Model	Page 17 Business Model ▶Page 23 Growth Strategy	▶Page 23 Growth Strategy
Relevant materiality issues	<ul><li>1 Innovation and competitiveness</li><li>3 Human capital management</li><li>4 Product quality and safety</li></ul>	<ul><li>Innovation and competitiveness</li><li>Client relationship management</li><li>Human capital management</li><li>Product quality and safety</li></ul>	<ol> <li>Innovation and competitiveness</li> <li>Client relationship management</li> <li>Human capital management</li> <li>Product quality and safety</li> <li>Sophistication of governance</li> </ol>	<ul><li>1 Innovation and Competitiveness</li><li>2 Client relationship management</li></ul>

<sup>\*1</sup> Based on the number of employees decided to be hired during the current fiscal year, and the actual date of entry is April 1 of the following fiscal year.
\*2 Since annual paid leave is granted on the record date of January 1 of each year, the figures are based on the results for the period from January 1 to December 31, 2022 and 2023.

**Business Model** 

Chapter 02

## Business Model

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As Competency Lead of System Development, a cross-company organization consisting of selected members who are highly regarded for their technical skills within Simplex, he contributes to our growth by serving as a tech lead for high-difficulty projects, as well as playing a leading role in research and development, talent development and training. Currently, he is focusing on building and developing systems that support business expansion at SBI Simplex Solutions, a joint venture with SBI SECURITIES.



## Our digital capabilities in supporting DX

- 1 Consulting
  - ·
- 2 Project management
- 7 Mathematical engineering

6 Financial services development

- 3 System development
- 3 System developmen
- 8 Generative AI
- 4 Infrastructure/Cloud
- 9 web3

5 UI/UX

10 Blockchain/NFT

## **Our Business Landscape**

## Contribute to business success by creating value added

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Since our founding in 1997, we have developed our business as a technology partner of major financial institutions, including Japan's leading banks, comprehensive securities firms, and online securities firms, and have continued to grow robustly to achieve a position as Japan's top brand in the Financial Frontier Domain.

Currently, we have expanded our business landscape to the Cross Frontier Domain, in which we provided high value-added services to a wide range of clients, even outside the financial services sector, by evolving AI, UI/UX, Cloud, web3 and other cutting-edge technologies we acquired in the Financial Frontier Domain.



## **Financial Frontier Domain**

The Financial Frontier Domain is the term we use to describe the domain that supports financial institutions in revenue-earning operations such as front-office trading and technology-led risk management. Banks, comprehensive securities firms, and online securities firms are our main clients, and this is an area with high entry barriers, requiring both extensive business know-how and advanced technology.



## **Cross Frontier Domain**

The Cross Frontier Domain is the term we use to describe this domain where technology contributes significantly to the success of a client's business. The Financial Frontier Domain could be said to be one of the main Cross Frontier Domain areas because it is the very area where technology has been driving the business. In addition to this, the domain includes new areas such as Insurance and Enterprise DX. These are areas in which we have been engaged since our MBO in 2013, as well as the Strategy/DX Consulting services we provide across industries.

## **Our Values**

## Pursuing innovation as one team

For us to continue creating value added, we believe it is important to have a clear management policy and a mindset ingrained in our employees in addition to our unique business model. At the Simplex Group, under the strong leadership of our experienced management team, a diverse group of professionals work as one team in pursuit of innovation by sharing 5DNAs as our code of conduct and Simplex Philosophy as our values.

Among the 5DNAs, "No. 1" is the most important one. If we enter a new field, we must be No. 1 in that field, or otherwise, we will never enter that field. This policy represents our values. It is also an expression of our determination to seriously aspire to achieve innovation.

In order to remain No. 1, we must always be open to new ideas and pave the road less traveled without being bound by conventional thinking. We believe that no matter how difficult it is, only by becoming a No. 1 player can we obtain the right to take on the challenge to drive innovation. The Simplex Group has long been able to obtain the right to take on this challenge by maintaining the top brand position in Japan in the Financial Frontier Domain. And now, we are taking up a challenge to become "No. 1" in a new domain with reproducibility by leveraging the wealth of expertise we have cultivated in the process.

## Continuing to create value-added services with high reproducibility

Reproducibility refers to the ability to continue to deliver results in a short period of time with a high growth curve, even in different fields and projects, by utilizing know-how accumulated through repeated efforts in the right direction. At the Simplex Group, we always emphasize the importance of reproducibility, not only at the forefront of consulting and system development, but also in the fostering and evaluation of our employees.

The Simplex Group has long positioned ourselves as a specialist in the Financial Frontier Domain. This is because the Financial Frontier Domain is exactly where a company like ours, which continues to accumulate expertise through the right approach, can constantly demonstrate its competitive advantage. To continue to create value-added services with high reproducibility and an impact on society in an area where our clients can fairly evaluate the value we add, we continue to take on challenges tenaciously every day as a team of people who trust and respect each other in the form of a company.

## Demanding fair price as compensation for value added

Our value of existence lies in taking on complex projects that other tech firms or consulting firms cannot undertake, and creating value added that exceeds clients' expectation as their technology partner. This is also the reason why we place the importance on whether we can charge fair price for the value added we create when considering entering a new market.

By fair price we mean that goods and services are offered at fair and reasonable prices in the market. It means that both we, as a supplier, and our clients are satisfied with pricing. This leads to a supplier not pursuing excessive profits and clients not demanding unreasonably low prices.

Because we create value added that other companies cannot deliver, the prices we demand from our clients inevitably tend to be higher than the industry average. Nevertheless, we believe that doing business in markets that recognize the prices we demand as fair prices is essential to building a sustainable business model.

## **5DNAs**

Innovators have always been the No. 1 companies in their fields. So always seek to be No. 1 at any time.

## **Client First**

The success of the client's business is our top priority. Make clients happy by creating value added that exceeds their expectations.

### Commitment

Cultivate the fortitude to get through any difficulty to deliver results. Have a strong sense of purpose and act without losing sight of the goal to be accomplished.

## Professionalism

As a first-class professional, pursue the best results. Doubt common sense, think outside the box, and work out what is key.

## Global

Keep challenging ourselves toward fulfilling our management Don't be afraid of any change, and bring innovation to the world.

## Simplex Philosophy

Player

We have valued the "Be a player" mindset since our founding. Regardless of the job title, everyone creates value added as a player.

## Work for Simplex

Think over what you can do to maximize the value of Simplex as a team. Think over what it should be not only for yourself but also for your team.

## **Mutual Respect**

Achieving the best results as a team requires to bring together a variety of sharp-edged talent. Be humble to recognize talent that others possess, learn from others, and respect each other.

## God is in the Details

Always remember, God is in the details. Be meticulous in your job, such as thinking through every last line of source code.

## **Most Important KPI**

## Gross profit margin, a measure of value added

To achieve sustainable growth with high profitability, we place emphasis on three KPIs: revenue, gross profit margin, and operating profit. Among them, the gross profit margin is the most important KPI for us because we believe that in the labor-intensive IT and consulting industries, gross profit margin is an indicator that highlights the following:

- the quality of our engineers and consultants is superior to that of
- our productivity improvement system is in place and functioning, and
- the satisfaction of our clients with our services.

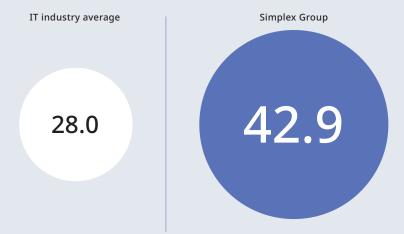
The Simplex Group's industry-leading gross profit margin objectively indicates that all of the above factors are achieved at a high level. In other words, it indicates the high level of value-added services we provide to our clients.

In addition, given an increasing proportion of revenue from Non-financial Solutions, in which we have been engaged since 2013, the fact that we have been able to maintain the highest gross profit margin in the industry indicates that we have been able to steadily reproduce our success in new husiness areas

Furthermore, as we manage the Group with capital efficiency in mind, we have set the ROE target as one of our KPIs and recognize shareholder return, which contributes to capital efficiency, as an important measure in our capital allocation. (Page 24 CFO Message)

## Comparison of gross profit margins (%)

ESG



The IT industry average is calculated by the Group based on gross profit divided by revenue of "Software Industry" for FY3/2022 according to the Ministry of Economy, Trade and Industry's Basic Survey on Corporate Activities in the "2022 Corporate Activity Basic Survey Confirmation Report: FY3/22 Results" released on June 29, 2023.

Source: Ministry of Economy, Trade and Industry's Basic Survey on Corporate Activities "2022 Corporate Activity Basic Survey Confirmation Report: FY3/21 Results"

## Revenue by business area (Billions of yen)

## Percentage of total revenue by business area (%)



## **Simplex Way**

## Alternative to multi-layered vendor hierarchy a source of our competitive advantage

We specialize in business domains with high entry barriers that require extensive business know-how and advanced technology. For us to have a competitive advantage in such an environment, our unique business model, the Simplex Way, which we have nurtured since our founding, plays an important role.

The basic concept of the Simplex Way is that we adopt a Full Cycle Coverage model in which a project team comprised of hybrid talent with expertise in both business and technology are responsible for every step of the process to provide a total solution.

In the domestic IT industry, a multi-layered vendor hierarchy is the norm, in which tasks are outsourced in stages from the prime contractor to subcontractors. However, we maintain a Direct Client Engagement model in which we deal directly with our clients and do not outsource development work to subcontractors.

## IT Industry Structure in Japan and its Problems



## **A** Pyramid-shaped multi-layered vendor hierarchy

A major system integrator acts as a prime contractor and outsources fragmented tasks to a multi-layered chain of subcontractors.

Makes it difficult to identify who is responsible for quality

Generates structural margins

Makes it difficult to develop outstanding talent due to fragmentation of work Creates disparity in the working environment and profitability between prime contractors and subcontractors

Creates security risks associated with multi-layered subcontracting agreement

**Our Business Model** 

## **Simplex Way**

Project teams comprised of hybrid talent provide total solutions through full cycle coverage and direct client engagement.



**Full Cycle Coverage** 



Direct Client Engagement



**Hybrid Talents** 



## **Full Cycle Coverage**

### Feature

We organize project teams of hybrid talent with expertise in both business and technology to look at issues faced by clients in various industries, and take responsibility for all processes from consulting to system development, operations and maintenance.

### Advantages

The Full Cycle Coverage model allows the project team that handled the consulting work to continue to identify the client's improvement needs even after the system is implemented, resulting in a steady stream of repeat orders.

See Revenue Model (▶Page 18)



## **Direct Client Engagement**

### Featur

In contrast to the Japanese IT industry practice of multi-layered vendor hierarchy, in which tasks are outsourced in stages from the prime contractor to subcontractors, we have maintained a system in which we deal directly with clients to secure prime vendors and does not outsource development work to subcontractors.

### Advantage

The Direct Client Engagement model eliminates intermediary margins and ensures efficient project execution, resulting in achieving the highest gross profit margin in the industry.

See Most Important KPI (▶Page 15)



## **Hybrid Talent Development**

### Feature

The management capital essential to the realization of our unique business model is our people. Our most important strategy is to develop and retain talent who are well versed in both business and technology in order to meet client demands.

### Advantages

Through consulting inclusive of know-how provision and system development by hybrid talent, we retain IP rights for substantially all systems, even though we are a contracted developer.

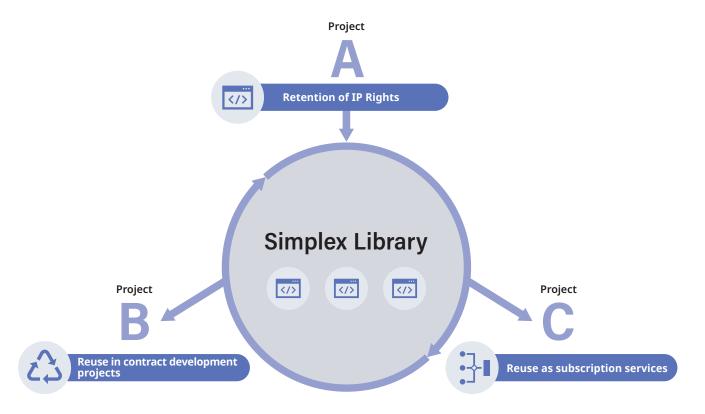
See Acquisition of IP Rights (▶Page 17)

## **Acquisition of IP Rights**

## Retaining IP rights through consulting inclusive of know-how provision

In the system development business, we frequently hear the following complaints from clients: "Even if we hire a consulting firm, they do not commit to development." or "System developers we hired in the past lacked understanding of our business and did not offer any suggestions." Such complaints are wide of the mark for the Simplex Group. As DX support specialists, we have extensive knowledge and experience to ensure our clients' success and provide the best solutions for their projects.

In a typical contract development project, IP rights to the system are handed over to the client, but our approach is totally different. Although we are a contracted developer, we are allowed to retain IP rights. Such a privilege is only given to a system developer like us that provides knowhow and ideas at the consulting stage as a prime contractor, and then develops systems in-house. By retaining IP rights, we can develop reusable source codes as the Simplex Library to promote more efficient project management.





## Reuse in contract development projects

### **Feature**

We reuse retained IP rights in a library, mainly for the development of highly versatile system functions in contract development projects. We have succeeded in acquiring IP rights in both the financial domain as well as the non-financial domain, promoting the accumulation and utilization of libraries across a variety of domains.

## Advantages

Clients benefit from reduced development and testing person-hours, shorter lead times, and improved quality. In addition, they can focus their resources on customization, which gives them a competitive advantage. For us, the Simplex Library helps us standardize our know-how and promote more efficient project management.

## **Utilizing the Simplex Library can:**

Reduce development and testing person-hours

Shorten lead times

Improve quality



## Reuse as subscription services

### **Feature**

By making full use of the know-how and source codes accumulated over the years, we have planned and developed our own systems and provide them widely to multiple clients in a SaaS format. Currently, our systems are widely used in the financial retail category within the financial domain, where individual investors are the end users.

## Advantages

Clients can use de facto standard systems as a service to get up and running quickly and at a lower initial cost. We are also able to focus our resources on customization, which is linked to a competitive advantage for each of our clients

## Revenue Model

## A high-quality revenue model enabled by the **Simplex Way**

The Simplex Way has successfully created a high-quality revenue model in which repeat-order business and recurring business grow in a cascading fashion as one-time-fee business related to new system development expands. Repeat-order and recurring businesses are a low-risk, stable source of revenue, accounting for 63% of total revenue for FY3/2024.



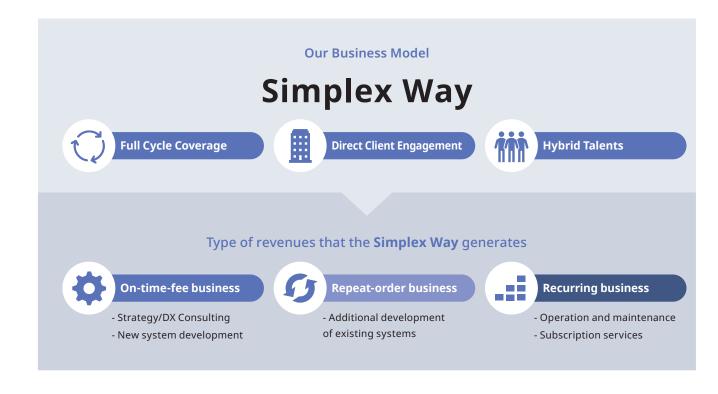
## **Repeat-order business**

Repeat-order business refers to additional development projects that result from proactive business tuning after a system is up and running. Specifically, it refers to projects for additional development of existing systems at clients resulting from a business gap analysis against the system concept development phase, business plan review, and improvement proposals. As the above-mentioned process is a key element of DX success, winning repeat orders is essential for strengthening existing client loyalty and keeping abreast of cutting-edge business and technology.

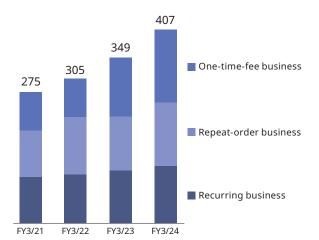


## **Recurring business**

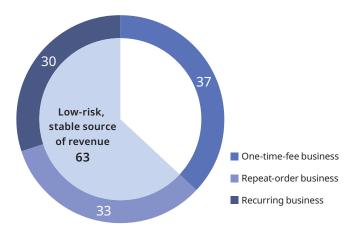
Recurring business refers to a project in which monthly revenue is stably recorded as long as the contract with the client continues. Specifically, revenue from recuring business consists of operation and maintenance services including 24/7 system operation and monitoring, troubleshooting and recovery activities and from subscription services. In the multi-layered vendor hierarchy of the IT industry that is commonplace in Japan, the final subcontractors are often only responsible for operations and maintenance. In contrast, our Operation Service, handled by the industry's best hybrid talent, satisfies many of our clients.



## Revenue by revenue type (Billions of yen)



## Percentage of total revenue by revenue type (%)

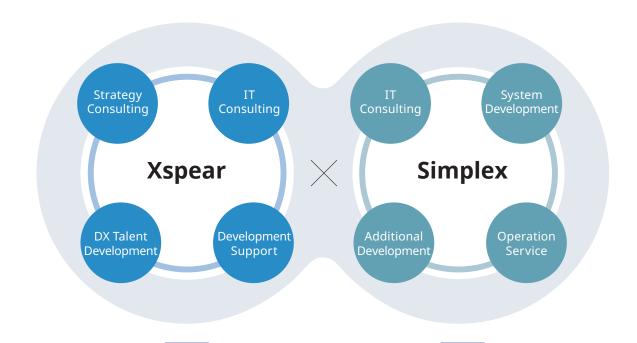


## **Group Synergies**

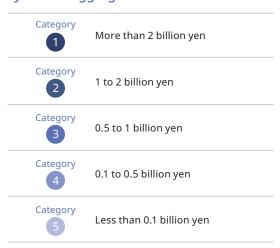
## Promoting domain expansion and deep-diving through group synergies

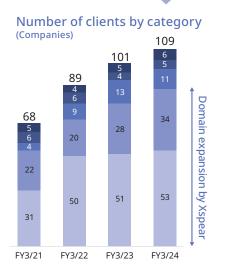
Since its founding in 1997, Simplex, a tech firm, has grown by gaining the support of the user departments that actually use the systems, such as dealers and traders at financial institutions. Since the establishment of Xspear in 2021, we have started a strategic consulting practice focused on the DX of our clients, which allowed us to reach client management that we were not previously able to reach in depth.

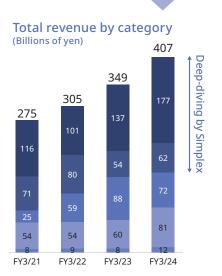
Our current basic growth strategy has two prongs: domain expansion through consulting services provided by Xspear and deep-diving into the domain by Simplex with the Simplex Way as the driver. The graphs below show the number of clients and total revenue by category, grouping clients based on annual aggregate contract size. The left graph shows the increase in the number of clients due to domain expansion by Xspear, and the right graph the deep-diving into large clients by Simplex.



## Client group categorized by annual aggregate contract size









## **COO** Message

## Challenges and prospects of Xspear, a DX-focused consulting firm

Since its establishment in April 2021, Xspear, the provider of our Strategy/ DX Consulting services and the largest area of focus in MTBP2027, has garnered interest from a wide range of stakeholders. We spoke with Masataka Soda, Director, Vice President and Co-COO of Simplex Holdings and Representative Director and President of Xspear Consulting, about Xspear's competitive advantage, ability to attract outstanding consultants, and its prospects going forward.

## Partnering with clients' management teams driving DX

## - What is Xspear's role in the Simplex Group?

The Simplex Group defines the crucial areas where technology determines business success as "cross-frontier domains," and has made expansion into these domains a core part of its growth strategy. Xspear, a general consulting firm specializing in DX, was born out of this vision. The name "Xspear" reflects the firm's strong desire to lead the growth of the Group as a whole by "spearheading" its way into various domains aiming to achieve DX. Xspear indeed plays a pivotal role in the Simplex Group's growth strategy. Specifically, it not only captures the rapidly growing demand for DX in Japan as it expands its revenue as a consulting firm, but also serves as a pioneer in exploring new domains beyond finance.

Strategy/DX Consulting achieved revenue of 1.0 billion yen in the first year of Xspear's establishment, 2.1 billion in the second, and 4.2 billion in the third year, which ended March 31, 2024. These were all well above what we had initially planned. Furthermore, we have successfully developed a wide variety of non-financial domains, including government agencies, telecommunications, manufacturing, media, and entertainment. This remarkable growth has proven that our vision matches the needs of the market



## - Given the rapid growth that Xspear is experiencing, can you say a bit about what sets it apart?

Xspear's management vision is to become a dominant force among consulting firms in the DX domain. Most of the projects Xspear handles are focused on critical business issues faced by C-suite executives. We aim to deliver business success by working with them to confront such issues head-on on a daily basis.

In contrast, in the field of DX support, there is growing demand both for strategy formulation, as well as for implementation. This is because highly perceptive management teams are often frustrated by the traditional arrangement in which a consulting firm formulates the strategies, and then a different vendor is brought in to develop the systems and handle the implementation. In other words, what they want is not only strategy formulation, but also the ability to swiftly implement technical validation to assess feasibility, conduct a proof of concept (POC), and carry out platform construction.

In response to this need, the Simplex Group has established a system whereby Xspear formulates strategies by considering specific use cases for cutting-edge technologies such as AI, UI/UX, cloud, and web3. Simplex then swiftly conducts technical validation or a POC and can also create the platform itself from scratch if necessary. In this way, Xspear and Simplex work in tandem to provide full-cycle coverage from strategy formulation to implementation support. This is a major differentiating factor for the Simplex Group vis-a-vis other consulting firms.

Furthermore, in addition to actively recruiting experienced consulting professionals, we also encourage intra-Group transfers from Simplex (with all its technological knowledge and experience) to Xspear. In this way, we have built up a diverse group of professionals who can contribute to the business development of our clients by combining our diverse domain knowledge with technology evolving day by day. This is another source of our competitive advantage.

## - Can you tell us more about some of the specific DX projects Xspear is working on?

It is fair to say that there is virtually no Strategy/DX Consulting service offered by Xspear that does not involve technology at all. That is why Xspear's great advantage lies - the ability to develop all areas from strategy planning to implementation support after thoroughly considering specific use cases for cutting-edge technologies such as AI, UI/UX, cloud, and web3.

The establishment of Xspear has allowed us to directly communicate with our clients' management teams. One symbolic deal we secured as a result was the capital and business alliance with SBI Holdings and SBI SECURITIES. With the ambition to design the future of the securities industry in Japan, we have gone beyond a mere client-vendor relationship and brought together the resources and expertise of both parties to implement system development projects and establish a framework for these. This is exactly the kind of DX that we aspire to. (Page 22 Case Study)

In addition, Xspear, together with Simplex, is constantly exploring use cases for cutting-edge technologies and their application to monetization opportunities for client businesses, leading to the development of a variety of initiatives. A key example is the AI-based attendance forecasting system for Sanrio Puroland, a theme park dedicated to Hello Kitty, the details of which were announced in a press release. By improving the accuracy of forecasts for visitors to the theme park, the system helps optimize staff allocation, schedule shows, and order food for the restaurants. This supports efficient operations while enhancing value provided to guests. In this case, Xspear's consultants and Simplex's data scientists worked together to implement all tasks from the POC to post-implementation refinement. It would have been difficult for other consulting firms to achieve such full-cycle coverage.

As a result, we have been selected as a business partner by companies seeking to achieve fundamental DX through undertaking new challenges using cutting-edge technology. We are confident that this contributes to the creation of social value.

## - What is it that attracts experienced consultants to Xspear?

The most attractive point is that we can consistently provide them with opportunities to get involved in DX-specific strategic planning and implementation support based on cutting-edge technology. Many consulting firms leave post-strategy formulation to other vendors. As a result, consultants have limited opportunities to see how the strategies they have drawn up actually contribute to the success of their clients' businesses. Xspear, on the other hand, is able to leverage the technological capabilities of Simplex to the full in translating cutting-edge technologies into concrete use cases and assisting in the design of monetization strategies and commercialization of initiatives. Another noteworthy point is that a POC can be used to confirm the effectiveness of strategies at an early stage and ensure a smooth transition through to the implementation phase.

We are also able to respond quickly and with high quality to projects that require building a platform from scratch for a completely new business model. In addition, we can provide ongoing support to our clients' businesses while adapting to changes in the market and competitive dynamics. In this way, Xspear goes beyond the scope of support provided by a typical consulting firm. The sense of satisfaction and accomplishment gained in the process of optimizing a client's business is a major attraction for our consultants.

Another appealing aspect is the large degree of autonomy. In large consulting firms, functions and roles are often limited by your title or team to which you belong. Even if there are opportunities to stretch yourself, the organizational structure often makes it difficult to take on different challenges. Xspear, in contrast, provides an environment where you are given a large amount of discretion and therefore have ample opportunity to try new things. In addition, the culture fostered by the leadership, who themselves have honed their skills at international consulting firms, combined with a compensation structure that offers significant upside potential, has enabled Xspear to successfully attract consultants capable of leading domain expansion.

## Responsibility as a true business partner

## - Finally, what is your outlook for the future?

For a latecomer like us to succeed in the consulting industry, it is important to have a strong commitment to the success of our clients' businesses. While there are many consulting firms that claim to support DX, it will take many years and a proven track record for other firms to catch up with the inherent strengths in technology that the Simplex Group has built up.

In order to facilitate domain expansion to achieve Vision1000, the Simplex Group has positioned Strategy/DX Consulting as its largest area of focus in MTBP2027. Xspear will continue to increase the number of consultants through recruitment of mid-career employees and intra-Group secondments. In addition, the acquisition of boutique consulting firms that offer advanced expertise and services will also be a priority.

We believe that a true business partner is one that responds flexibly to changes in the times and environment, supporting clients on their path to success while staying close to their challenges. Xspear will continue to work hand-in-hand with our clients to help bring about their business success.



Data

## Simplex has become a strategic partner of SBI SECURITIES, a comprehensive online securities company with the largest number of accounts and highest market share in the industry

One of the symbolic deals that we were able to win after establishing Xspear and then directly dealing with client management was the capital and business alliance with SBI Holdings and SBI SECURITIES.

Since the launch of its Internet trading services in October 1999, SBI SECURITIES, as a pioneer of the comprehensive online securities business in Japan, has been striving to develop the industry's lowest commission structure, offer attractive investment opportunities (products and services), and ensure a secure and better trading environment by adhering to the "Customer-centric Principle." These efforts have met with the approval of large numbers of individual investors, and the company has built a position as the leader in Japan's online securities industry in terms of the number of accounts, customer deposit assets, and individual stock brokerage trading value.

To further develop its customer base, SBI SECURITIES will endeavor towards proactive promotion and expansion of services for NISAs (an investment tax exemption system) and iDeCo (individual defined contribution pension plan), as well as provision of highly convenient financial services through cooperation with companies inside and outside of the SBI Group including companies in other industries.

Simplex Holdings and SBI SECURITIES established a joint venture SBI Simplex Solutions in February 2023 as part of the capital and business alliance, and are working to strengthen the SBI Group's system development and operation structure centered on SBI SECURITIES.

One of the themes of our new Medium-term Business Plan, MTBP2027, is to respond to SBI SECURITIES, which has recognized us as its one and only strategic partner, with overwhelming results that exceed their expectations. We believe the key to our sustainable growth over the medium to long term lies in proving the effectiveness of this scheme, which goes beyond a mere client-vendor relationship to become one team with the client company, thereby bringing together the resources and knowhow of both parties to promote system development projects and the establishment of the required structure.

SBI SECURITIES, a company constantly leading the securities industry with innovative initiatives, and Simplex Group, a company founded as a financial IT venture and constantly growing as a DX company versed in both business and technology, have joined forces to establish a joint venture named SBI Simplex Solution.

Against a backdrop of the new NISA and a shift to commissionfree trading, a rapidly growing focus on asset management by individuals will warrant the expansion in the number of accounts and trading volume of SBI SECURITIES going forward. It is the mission of SBI Simplex Solutions to continue to provide a secure and better trading environment for existing customers while responding quickly to the said changes.

By combining the innovative business infrastructure of the SBI Group with the advanced knowledge and capabilities of the Simplex Group, SBI Simplex Solutions will further accelerate the business growth of SBI SECURITIES and the entire SBI Group as well. Please look forward to the fruits of our new challenge.

## Overview of Joint Venture and Major Events





trade name	SBI Simplex Solutions Co., Ltd.	
Location	18F Roppongi T-Cube, 3-1-1 Roppongi, Minato-ku, Tokyo	
representative	Representative Director and President, Kozo Sukema Representative Director and Vice President, Keiji Muto	
Business	System development and operation for SBI Group including SBI SECURITIES	
Date of Establishment	February 28, 2023	
Investment Ratio	SBI SECURITIES 51%, Simplex Holdings 49%	

## Kozo Sukema

Director, Vice President and Co-COO of Simplex Holdings, Inc.

Managing Director of SBI SECURITIES Co., Ltd. Representative Director and President and of SBI Simplex Solutions Co., Ltd.

## **Growth Strategy**

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## **CFO** Message

## Aiming for a leap forward with MTBP2027 to achieve Vision1000

In October 2023, Simplex Group announced its Medium-Term Business Plan covering the three-year period beginning in FY3/2025 (MTBP2027). This also represents the midpoint of Vision1000, our long-term growth strategy, MTBP2027 has our short-, medium-, and long-term implementation strategies. It expresses our commitment to achieving numerical targets for FY3/2027, the final year of MTBP2027. As CFO, I would like to look back on our previous Medium-Term Business Plan that ended on March 31, 2024, as well as provide an overview of MTBP2027 and the status of our ongoing sustainability initiatives.

## MTBP2024: A period when our Group synergies were fully demonstrated

## Reflecting on MTBP2024

MTBP2024 was the medium-term business plan announced in December 2020 covering the three years from FY3/2022. During that period, DX became an urgent management issue across all industries. We drove our business forward by focusing on "domain expansion" and "deep-diving into domains." The domain expansion was led by Xspear, our consulting firm established in 2021, as a hook. The "deep-diving into domains" was led by Simplex, our tech firm, driven by "the Simplex Way." As a result, Xspear grew at a rate beyond our expectations and created synergies with Simplex, enabling us to achieve the numerical targets originally set for the fiscal year ended March 31, 2023 —one full year ahead of schedule. Comparing the consolidated results for FY3/2021, the year immediately prior to the start of MTBP2024, and FY3/2024, the final year covered by the plan, revenue increased from 27.5 billion yen to 40.7 billion yen (for a three-year CAGR of 13.9%), and operating profit grew from 4.5 billion yen to 8.8 billion yen (three-year CAGR of 25.2%). Furthermore, the gross profit margin, our most important KPI, improved by 3.8 points to 42.9%, and the operating profit margin increased by 5.3 points to 21.7%. As a result, ROE also improved from 9.8% to 13.9%.



## Essential achievements made during the MTBP2024 period

Allow me to touch on some of the essential achievements that Xspear brought to the Simplex Group during the MTBP2024 period. In the days when Simplex operated as a single entity, we secured projects after a client company had decided to develop a system, and we handled everything from IT consulting to system development and operations and maintenance, which we call "full-cycle coverage." In fact, Simplex has always garnered the overwhelming support of departments that were the users of the systems, such as dealers and traders at financial institutions. Then along came Xspear, which added strategic consulting to the Simplex Group's service portfolio. Expanding the scope of our services through the inclusion of strategic consulting has allowed us to be deeply embedded in business model development. This was intended to be an evolution of our unique business model, the Simplex Way, which is characterized by fullcycle coverage from upstream to downstream. As a result, we were able to engage directly with leadership at client companies, an area we had struggled to reach in the past. This brought about a major change in the very nature of our business.

## Changes in operating results during the MTBP2024 period

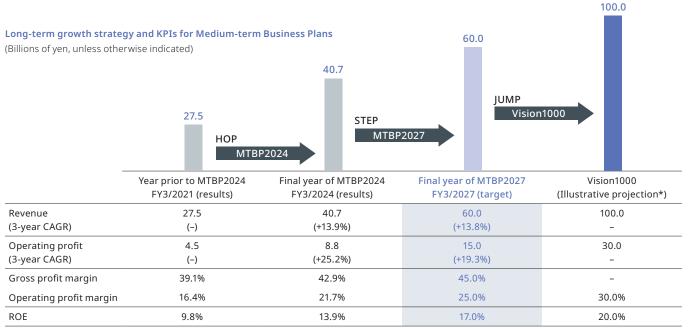
(Billions of yen, unless otherwise indicated)

	Year prior to MTBP2024 FY3/2021	Final year of MTBP2024 FY3/2024	Change (ppt)	3-year CAGR
Revenue	27.5	40.7	+13.2	+13.9%
Revenue	4.5	8.8	+4.3	+25.2%
Revenue	39.1%	42.9%	+3.8	_
Revenue	16.4%	21.7%	+5.3	_
ROE	9.8%	13.9%	+4.1	_

## MTBP2027 as the midpoint toward Vision1000

## Themes of MTBP2027

In MTBP2027, we continue to build on the fundamental strategies of MTBP2024 and promote "domain expansion" and "deep-diving into domains" by further leveraging intra-Group synergies between Simplex and Xspear. In the context of domain expansion, Xspear, positioned as the spearhead in exploring new domains, makes approaches to clients' management through leveraging strategic consulting as a hook. By enhancing the Simplex Group's reputation, we aim to increase the number of clients who recognize us as a strategic partner. Next, in the context of deep-diving into domains, we explore building relationships similar to that which we have with SBI Holdings and SBI SECURITIES. Specifically, we aim to go beyond mere outsourcing client-vendor relationships to combine resources and expertise of both parties for system development projects and establish structures for these. In doing so, we are committed to exceeding client expectations with outstanding results. (▶Page 22 Case Study)



\*Aim to achieve by early 2030s (timeframe not specified)

## Numerical targets of MTBP2027

Regarding numerical targets for the MTBP, we have set the figures for FY3/2027, the final year of the plan, as follows (changes versus the figures for FY3/2024, the previous fiscal year are shown in parenthesis). For FY3/2027, we plan to achieve revenue of 60 billion yen (an increase from 40.7 billion with a three-year CAGR of 13.8%) and operating profit of 15 billion (an increase from 8.8 billion yen with a three-year CAGR of 19.3%). In terms of profitability, the gross profit margin is expected to increase by 2.1 percentage points to 45.0%, due to a mixture of an increase in the proportion of revenue from Strategy/DX Consulting and improved productivity. The operating profit margin is expected to increase by 3.3 points to 25%, primarily due to an improved gross profit margin and a decline in the SG&A expenses ratio. We are also targeting an increase in ROE of 3.1 points to 17%. For FY3/2025, the first year of MTBP2027, we are targeting operating profit of 10.6 billion yen, up 19.8% year on year.

## MTBP2027's basic policy on capital allocation

We invest in growth that will lead to strengthening our business foundation. Among others, we place the highest emphasis on investing in our human resources. Positioning human capital as the most important type of management resource for value creation, the Simplex Group is committed to recruiting and training the top 10% of talent in the market. In MTBP2027, we will continue to actively recruit new graduates and mid-career professionals, while striving to create a system and corporate culture that promotes diverse career choices and employee growth. (Page 39 ESG: Social)

In addition, to realize Vision1000, it is also important to invest in new and growth domains. We have set a ratio of R&D expenses versus revenue at approximately 4% for each fiscal year. With a view to achieving further growth after MTBP2027, we intend to aggressively conduct R&D to expand our portfolio in growth domains. Regarding M&A, we will aim to acquire

or merge with companies that directly contribute toward strengthening the Simplex Group's core competencies, such as boutique consulting firms (that offer sophisticated expertise and services despite their relatively small size) and tech firms that boast high profitability. In particular, we intend to be more aggressive in acquiring boutique consulting firms and have factored in approximately 3.5 billion yen in revenue from inorganic growth for FY3/2027. On the other hand, we will also make minor investments in areas that indirectly contribute to strengthening our core competencies. One example of a minor investment undertaken during MTBP2024 was the investment in CIRCULATION Co., Ltd. This was done with the purpose of improving our ability to recruit DX professionals.

In line with this strategy, whenever attractive investment opportunities arise, we will first allocate free cash flow to additional investments. Then, if funding is required, we prioritize debt financing. We aim for a net leverage ratio of approximately three times as a guideline for raising funds.

Data

ESG

Due to our MBO in 2013, our paid-in capital is larger than that of a typical company of its size. Our cost of capital is therefore less likely to reflect what the company requires. The funds for the MBO were mainly provided by debt financing and equity investments from the Carlyle Group's investment fund, (a private equity fund), on top of cash on hand and investments by our founding members. For this reason, our largest shareholder post-MBO was the Carlyle Group. Subsequently, in 2016, an absorption-type merger was carried out by a special purpose company with the Development Bank of Japan as the main investor. This was for the purpose of acquiring the company's shares held by the Carlyle Group's investment fund, resulting in the recognition of 36.4 billion yen of goodwill. All of the shares held by Development Bank of Japan were sold at our re-listing in 2021.

In light of this situation, we have made it our policy to set an ROE target as one of our KPIs. Assuming the absence of inorganic growth through M&A or other measures, we aim for a must-achieve target level of 17% ROE by the final year of the MTBP 2027 period, in addition to a long-term target of 20% ROE, a globally-recognized level.

## **ROE** targets and shareholder returns

As we are committed to capital efficiency-conscious management, we recognize that shareholder returns, which contribute to improving capital efficiency, are also an important measure in capital allocation. Specifically, we will strive to enhance shareholder returns through dividends, considering business performance trends, ROE levels, growth investment opportunities, and other factors.

With regard to dividends, we have adopted a strategy of stable and sustainable increases in dividend per share through profit growth, and in March 2024, we changed our policy to raise the baseline dividend payout ratio from 30% to 40%. In addition, in line with our desire to have a shareholder return policy that contributes to improving capital efficiency, we intend to flexibly implement share buybacks, taking into account market conditions, including stock prices, on top of the aforementioned considerations regarding dividend decisions.

## Sustainability initiatives

For us to continue growing sustainably in a changing business environment, we must look to the future of society as a whole (the source of our growth), and contribute to solving the issues we feel we can address. With this in mind, we intend to fulfill our social responsibilities and give back to society by continuously innovating and enhancing our competitiveness.

In our sustainability initiatives, we place particular emphasis on maximizing human capital. Our Sustainability Council was established in 2023 and is chaired by our Representative Director, President and CEO. In that forum, we discuss and make decisions on the Simplex Group's overall approach to sustainability, including the maximization of human capital.

In FY3/2024, as CFO and a process owner, I focused on identifying materiality issues and enhancing the information provided in our Annual Securities Report and corporate website. The creation of this Integrated Report is a further measure aimed at enhancing our disclosure. Although we still have a long way to go, we would greatly appreciate any feedback from our shareholders and investors on the Integrated Report, which we will use as valuable inspiration for future activities.

These efforts have also led to improvements in external third-party evaluations. For example, our latest MSCI (Morgan Stanley Capital International) ESG rating improved from BB to BBB. On the other hand, while our governance scores improved, our social and (in particular) human capital ratings remain low. We take the results of these evaluations very seriously and will continue to strengthen our information disclosure to ensure that our efforts are appropriately recognized.

## **External ESG rating**

MSCI BBB

As of 2024, Simplex Holdings, Inc. received an MSCI ESG Rating of BBB.



## Challenges and commitments as CFO

I joined Simplex as a new graduate in 2007. As an engineer, I fully dedicated myself to improving the profitability of our client companies. Later, after working in the corporate planning department, I was appointed CFO at our re-listing in 2021. Since then, I have been working closely alongside President and CEO Kaneko to implement IR activities. I recognize that one of our current challenges is to improve the liquidity of our shares in the stock market. To address this issue, we intend to broaden our investor base by holding discussions with shareholders and investors and implementing measures to increase awareness of Simplex Group.

In line with this aim, after the annual shareholders' meeting in June 2024, we held a shareholders' reception. This was the first reception of its kind since our re-listing (and the first in 11 years). The reception was attended by more than 200 of our shareholders and provided a wonderful opportunity for our management team, including outside directors, to engage in dialogue with them. We intend to reward our shareholders by returning profits through dividends from retained earnings and other means, as well as by increasing our corporate value. We will continue to devote ourselves to building a relationship of trust with our shareholders and investors through sincere IR activities.



**Growth Strategy** 

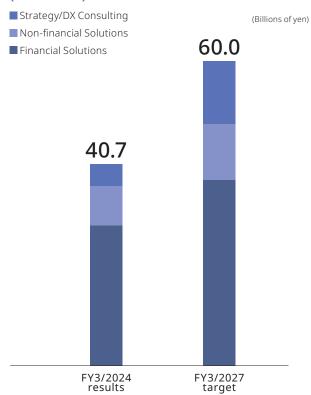
ESG

## **Strategy by Business Area**

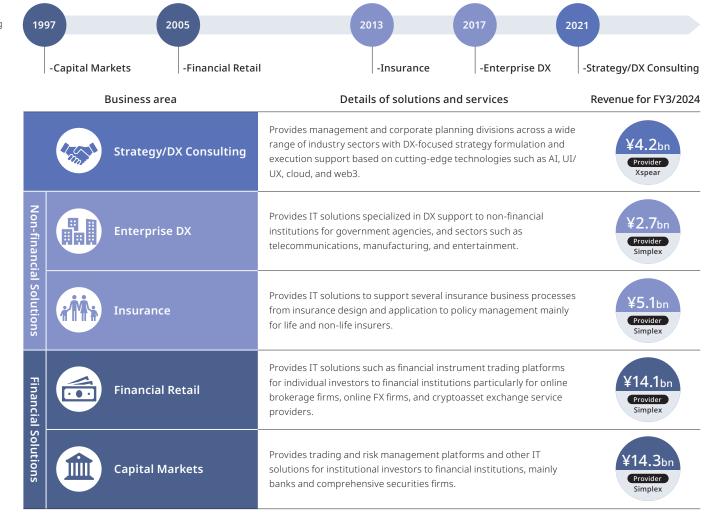
Business Model

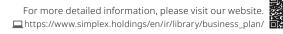
As the Simplex Group operates a single segment that develops business activities centered on the provision of IT solutions that contribute to the success of client's business, we do not disclose information by segment. Nevertheless, we do disclose information by business area after classifying into five areas based on major customers and markets. In MTBP2027, we have positioned Strategy/DX Consulting as our largest focus area and are promoting efforts for domain expansion and deep-diving in this area.

## Change in sales portfolio projected in MTBP2027 (illustrative)



## Our history of business area expansion

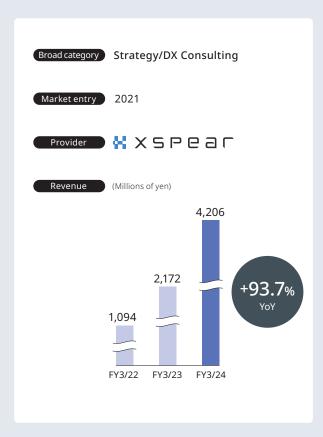




## Strategy/DX Consulting

## Aims to achieve further group synergies as a team of professionals who can directly deal with client management teams.

Strategy/DX Consulting provides management and corporate planning divisions for a wide range of industry sectors with DX-focused strategy formulation and execution support based on cutting-edge technologies such as AI, UI/UX, cloud, and web3.



## Why Choose Xspear?

The foundation of Xspear lies on technological knowledge and insight cultivated by Simplex Group and in-depth understanding of specialized business field possessed by each consultant. Our strengths lie in our DXfocused strategic formulation and execution support so that clients in a wide range of industry sectors can optimize the use of cutting-edge technology, a critical driver of business today. In this way, we provide IT solutions for clients both in the financial domain, as well as in government agencies, telecommunications, manufacturing, software, media, entertainment, and venture businesses.

We are committed to navigating the stormy waves of the digital shift alongside our clients using our capability to make solid proposals and execute. The four values of Xspear are set out below. This should pave the way to success with a high degree of flexibility and mobility.

## Value 1: Integrating cutting-edge technology and diverse domainspecific knowledge

We contribute to the development of clients' businesses by integrating ever-evolving technology with diverse domain-specific knowledge. Our consultants, who are knowledgeable about the client's business domain, ensure projects proceed smoothly.

## Value 2: Solving issues through full cycle coverage from strategy formulation to implementation

Merely making proposals is not the end point for our goal. We aim to provide support through full cycle coverage from strategy formulation to research, verification, and implementation. Our engineers and consultants share the client's aspirations, and work with them to achieve their goals or go on to assess the effectiveness of our solutions and help them improve outcomes should this be necessary.

## Value 3: Always approaching projects with a customer-first mentality

Our goal is to lead the client to success. We place the client's business domains, management policy, and problem-solving approach at the center of our solution development, and by responding flexibly to these factors, we provide highly satisfactory solutions.

## Value 4: Accompanying and supporting clients until they can run on their own

We contribute to the development of highly capable human resources and provide accompaniment and support until our clients can run on their own. Xspear believes that experiencing processes of problem solving enhances individual skills and promotes personal growth.

## **Future Growth Strategy**

In addition to active mid-career recruitment of experienced consulting professionals, Xspear also promotes intra-group transfers from Simplex, which has technological expertise and a proven track record. In this way, Xspear deploys personnel with practical skills to promote DX from both consulting and technological perspectives, and this is exactly what differentiates us from other consulting firms. We will continue to increase the number of consultants through mid-career hiring of experienced consultants and intra-group transfers from Simplex.

In addition, as another priority measure, we will explore opportunities to acquire boutique consulting firms that are relatively small but provide advanced expertise and services.

Strategy/DX Consulting, which is positioned as the largest area of focus in MTBP2027, will continue to support clients as a strategic partner to help them seize the future by meticulously solving various issues that differ from client to client and providing effective and comprehensive DX support. (Page 20 COO Message)

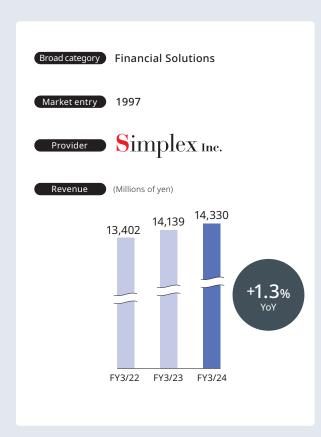
## [Reference] FAQs about Strategy/DX Consulting

- Q. Why did you carve out the consulting business as a separate operating company?
- Q. Why does demand for consulting in Japan remain strong?
- Q. What is Xspear's competitive advantage over its competitors?
- Q. What attracts senior consultants to Xspear as a career change destination?
- Q. Why can talent seconded from Simplex also actively play their role at Xspear?
- Q. What is the progress of M&A of boutique consulting firms?

## Capital Markets

## Accelerates talent development and the acquisition of cutting-edge technologies in the environment where advanced "Biz x Tech" is required

In our Capital Markets business, we provide trading and risk management platforms and other IT solutions for institutional investors to financial institutions, mainly banks and comprehensive securities firms.



## **History of Capital Markets**

Simplex is a unique tech firm that has been helping financial institutions increase their value by focusing on advanced financial technologies primarily for trading and risk management. Capital Markets, a core business domain that has remained unchanged since the firm was founded in 1997, has gone through three major phases of deep-diving.

ESG

## Phase 1: Entry into the Securities Industry

Simplex demonstrated its value as a tech firm capable of implementing a full stack of services, from low-layer source code development to mission-critical system construction and 24/7 operations and maintenance. While major system companies were mainly localizing overseas packages, it did not take long for Simplex's bond front office system to become the de facto standard in the securities industry.

## Phase 2: Expansion into banking

Since the 2000s, we expanded our business domain to the banking industry. Our trading systems can be used for more than 200 types of financial instruments, from plain vanilla products to small-volume exotic products and have become synonymous with Simplex. Based on our advanced financial technology and engineering capabilities, including a high-speed computing platform that enables real-time risk monitoring, we have become a household name in the banking industry.

## Phase 3: Transition from individual optimization to overall optimization

We were responsible for building systems on a financial instrument-by-instrument basis in Phase 1 and Phase 2. For this reason, what we pursued during these phases was individual optimization. In contrast, Phase 3 after the MBO in 2013 was truly a challenge to achieve total optimization. Another major turning point was the need for regulatory response to strengthen risk management triggered by the collapse of Lehman Brothers in 2008. By providing a single platform that integrates trading and risk management for several major banks and securities firms that were facing advanced risk management challenges, we have achieved true business transformation that is not superficial DX.

## **Future Growth Strategy**

Leading financial institutions, which are the major clients in Capital Markets, are enhancing their competitiveness and strengthening risk management through long-term IT investments with an eye to the future. We at Simplex Group have a strong belief that we can work with these clients to contribute to the development of capital markets. Based on this belief, we will continue our proactive consulting sales approach and focus on winning important projects that will benefit from our one-platform offering.

The modest growth rate for Capital Markets targeted in MTBP2027 is a strategic decision to focus our engineering resources on other growth areas. However, Capital Markets remains our core of core areas, as it brings evolution in our digital capabilities such as ultra-low latency, massive cloud, AI, and web3.

Also, this is an ideal area for the development of hybrid professionals, as Capital Markets requires not only advanced financial engineering, but also a high degree of business understanding. Simplex Group aims to maximize client value in capital markets and achieve sustainable growth through these innovations and talent development.

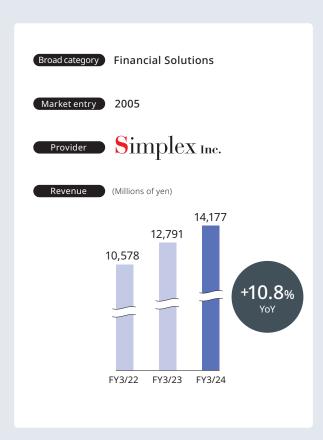
## [Reference] FAQs about Capital Markets

- Q. What is the value of the one-platform offering?
- Q. How should we view the contribution of one platform to our business performance?
- Q. How much room is there for development of clients who are interested in one-platform offering?
- Q. What factors contributed to your breakthrough after the MBO?
- Q. Why is the growth rate in MTBP2027 so modest?
- Q. To what extent do you expect sales to expand over the medium to long term?

## Financial Retail

## Drives growth targeted in MTBP2027 and leads the joint venture to overwhelming success as its biggest mission

Financial Retail provides IT solutions such as financial instrument trading platforms for individual investors to financial institutions mainly consisting of online brokerage firms, online FX firms, and cryptoasset exchange service providers.



## **History of Financial Retail**

In the early 2000s, widespread use of the internet and advances in technology enabled individual investors to trade stocks and other financial instruments online. Simplex has been a technology partner to financial institutions since those early days, evolving ourselves with the growth of the industry.

ESG

## Phase 1: Launch of subscription services

We aspire to be a true technology partner committed to improving the profitability of financial institutions. With this in mind, we have launched a SaaS-type subscription service that provide systems planned and developed ourselves to multiple financial institutions as a service. A unique feature of this service is that in addition to the basic monthly fee, a portion of the financial institution's revenue generated through the use of the service is charged as a contingency fee. The advantages of low initial costs and quick business start-up have been highly evaluated, and we have been able to increase the number of clients who have adopted this service, particularly for stock and futures option systems.

## Phase 2: Become the de facto standard for FX systems

FX systems that are the de facto standard have been essential to the growth of Financial Retail. Our FX system is equipped with an easy-touse and intuitive UI/UX, infrastructure that can withstand rapid increases in trading volume, and complete security technology to protect personal information and trading data. The expertise we nurtured in FX systems is indispensable to our value creation in our technological capability that differs from that of Capital Markets.

### Phase 3: To be the one and only strategic partner in a JV scheme

In the fiscal year ended March 31, 2024, the capital and business alliance with SBI Holdings and SBI SECURITIES, a comprehensive online securities company with the largest number of accounts and market share in Japan, attracted a great deal of interest from various stakeholders. Since the establishment of the joint venture in February 2023, we and SBI SECURITIES have gone beyond a mere client-vendor relationship and have been working as one team to promote system development projects and the establishment of the required structure.

## **Future Growth Strategy**

Enhancing services for individual investors using digital technology is an important theme for financial institutions as they seek to improve customer satisfaction and strengthen competitiveness. We will continue to provide highly reliable platforms by leveraging our expertise as the top brand in Japan. In addition, we will work alongside financial institutions to help maximize their profits through detailed consulting services in response to market trends.

Currently, we are also expanding our business with in-house-oriented financial institutions that have long followed a policy of developing platforms in-house. We aim to achieve further growth in Financial Retail by using Xspear's consulting services as a spearhead to expand the scope of our support and earn the trust of clients' management teams.

One of the themes of MTBP2027 is to respond to SBI SECURITIES, which has chosen us as its one and only strategic partner, with overwhelming results. We believe the key to our sustainable growth lies in proving the effectiveness of this IV scheme by bringing together the resources and know-how of both parties to promote system development projects and the establishment of the required structure. ( Page 20 Case Study)

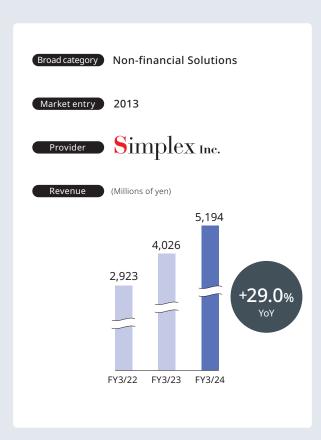
## [Reference] FAQs about Financial Retail

- Q. How much room do you have to develop Financial Retail?
- Q. Do you have a plan to work on systems other than front systems in the future?
- Q. How do you see the contribution to earnings from the JV scheme with SBI SECURITIES?
- Q. What specific support services do you provide?
- Q. Will you be expanding the scope to include securities companies outside the SBI Group?
- Q. Is the JV scheme a scalable business model?

## Insurance

Focusing on the expansion of library and the development of major insurer clients in a bid to win legacy system renewal projects.

Insurance provides IT solutions that support a series of insurance business processes from insurance design and application to policy management mainly for life and nonlife insurers.



## **History of Insurance**

Since 2010, competition in the Japanese insurance industry has intensified due to the emergence of online-only insurance companies and deregulation that has encouraged new entrants. Simplex entered the insurance market in 2013, and since then has been promoting DX in the insurance industry by leveraging its digital capabilities cultivated in the Financial Solutions domain.

ESG

## Phase 1: Emergence of Online-only Insurance Companies

Our first insurance project was the construction of a front desk system for LIFENET INSURANCE COMPANY, a pioneer in the online insurance industry. They highly evaluated the UI/UX capability that we had cultivated over many years in Financial Retail, which was key to securing the contract. This experience subsequently led to the expansion of the online sales channel of a comprehensive insurance company, and the number of clients has been growing since then.

### Phase 2: Establishment of a core system

The deregulation of the life insurance industry has encouraged new entrants into the industry, and this has brought a turning point for Simplex. We received an order for a core system construction project from a company entering the life insurance industry from a different industry sector. Around the same time, in 2022, we won a contract from an onlineonly, non-life insurance company for a project to renew their core system to feature an overseas package. We also built a core system covering all tasks of insurance operations, with a focus on policy administration, which plays an important role in operations for any insurance company.

### Phase 3: For legacy system renewal

Traditional Japanese insurance companies are undertaking important initiatives to revamp legacy systems. However, they are struggling to find effective solutions due to difficulties in migrating data and a shortage of human resources. Our goal under Vision1000, to be achieved in the early 2030s, is to be a company that can assist major insurance companies in legacy system renewal efforts. Currently, through various system construction projects, we are working to expand the library required for large-scale legacy system renewal. (▶Page 17 Acquisition of IP Rights)

## **Future Growth Strategy**

As we found out during our success in Capital Markets and Financial Retail, there are several essential processes to establishing top positions in niche areas. First, you must start any business with a challenger mindset. Even when achieving small successes, there will still be various challenges to tackle next. You can only become No. 1 by overcoming these. And to remain No. 1, you need to continue to take on the challenges that keep on coming.

In MTBP2027, along with the expansion of our library, an important theme is to enhance Simplex Group's reputation among major insurance companies. For the time being, we intend to work on improving our reputation through a variety of projects, including support for cloud migration and the establishment of core systems limited to certain products.

In addition, in renewing heavy legacy systems, it is essential to conduct a detailed analysis of existing systems and develop a renewal strategy that minimizes risks associated with data migration. By leveraging group synergies with our consulting firm Xspear, we hope to grow Insurance into a major pillar of our business, on par with Capital Markets and Financial Retail.

## [Reference] FAQs about Insurance

- Q. What factors have enabled you to expand Insurance domain in such a short period of time?
- Q. Is the insurance system easy to generalize?
- Q. Are you also allowed to retain IP rights in the Insurance domain?
- Q. Tell us about the growth potential and strategies in the Insurance domain.
- Q. How do you plan to develop major insurance companies?
- Q. Are there any characteristics that differ between life and nonlife insurance companies?

## **Enterprise DX**

Aims to maximize synergies with Xspear by promoting the winning of projects using cutting-edge technology cultivated in the Financial Solutions.

Enterprise DX provides IT solutions specialized in DX support to non-financial institutions such as government agencies, and sectors such as telecommunications, manufacturing, and entertainment.



## **Defining Enterprise DX**

We have a group of clients in non-financial sectors whose orders to Simplex Group do not reach a certain amount on an industry-byindustry basis. We collectively group these kind of industry sectors under "Enterprise DX." Therefore, we assume once the revenue from a sector in Enterprise DX reaches a certain size, the sector will be separated out as an independent business domain. Insurance has already been carved out as an independent domain ahead of other sectors, and the same process is expected in other sectors.

## Why Choose Simplex?

The financial industry, also described as the information industry, is an early adopter of cutting-edge technology ahead of other industries. Here we demonstrate our digital capabilities, by which we have provided added value to the financial sector since our founding. These capabilities are also essential for non-financial sectors such as government agencies, telecommunications, manufacturing, and entertainment which are looking to promote DX to create new business models, improve operational efficiency, and enhance user experience.

### Capability 1: AI

We provide AI solutions that can immediately accommodate to any client need, from strategy formulation to business implementation.

### Capability 2: UI/UX

A team of UI/UX experts with a deep understanding of any client business will help the clients develop products with a focus on user experience.

### Capability 3: Cloud

We support clients in implementing cloud services consistent with business strategies by leveraging our unparalleled knowledge gained from advanced case studies.

### Capability 4: web3

Experts with extensive knowledge of crypto assets, the metaverse, NFTs, etc. work with clients to solve problems.

## **Future Growth Strategy**

Our greatest group synergies are found in materializing business models and systemization concepts developed by Xspear, a consulting firm specializing in DX, with Simplex's digital capabilities. Specifically, Xspear discovers non-financial sector clients and provides system development projects to Simplex.

To expand the non-financial domain by leveraging these group synergies, we will continue to seek to maximize group synergies with Xspear in Enterprise DX. In addition, we will continue to promote winning projects that leverage cutting-edge technologies cultivated in the Financial Solutions domain, such as AI, UI/UX, cloud, and web3.

In light of the premise of Enterprise DX, which is to carve out an industry sector as an independent domain when its revenue reaches a certain size, we will aim for further expansion in promising industries such as government agencies, telecommunications, manufacturing, and entertainment.

## [Reference] FAQs about Enterprise DX

- Q. How are you developing the Non-financial Solutions domain?
- Q. Are there any industry sectors that could be carved out as a new domain like Insurance?
- Q. Are you also allowed to retain IP rights in the Enterprise DX domain?
- Q. Why is the gross profit margin so high as in the Financial Solutions domain?
- Q. Tell us about projects that show the characteristics of Enterprise DX.
- Q. What can explain the high volatility of revenue from Enterprise DX?

Chapter O4

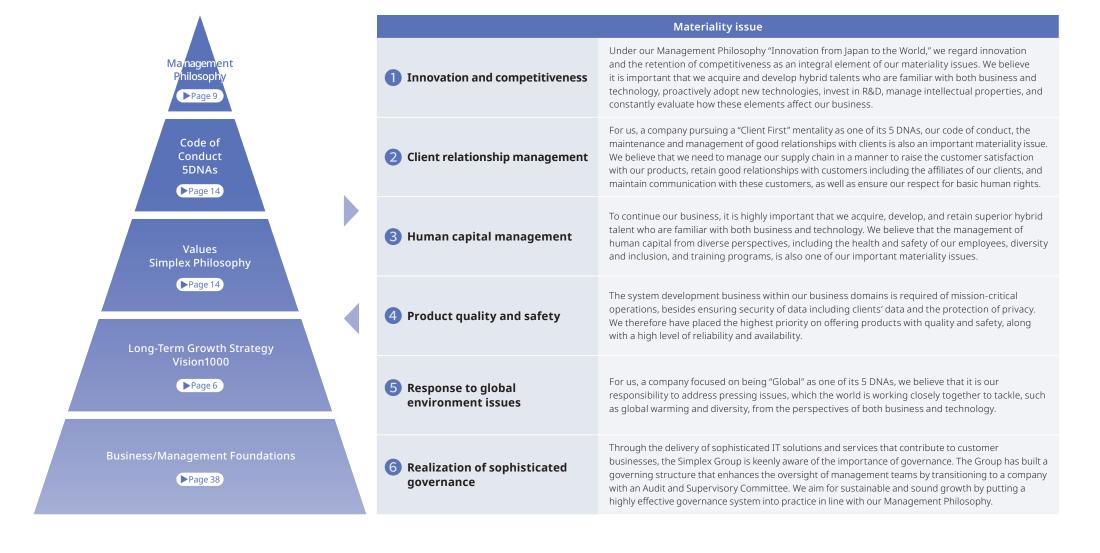
# Materiality Issues and Major Risks

### Contents

- 34 Materiality Issues
- 35 Risk Management
- 36 Major Risks
- 37 Long-term Goal

Business Model

We have identified six materiality issues primarily in light of our management philosophy, code of conduct, values and long-term growth strategy. Based on these materiality issues, we develop, implement, and promote strategies, as well as review and revise the materiality issues, as needed, in line with changes in the business environment and society. For the process of identifying the materiality issues, please refer to Risk Management on page 35.



Under the supervision of the Board of Directors, the Executive Committee manages group-wide risks. Among others, the Sustainability Council is delegated authority to identify and assess sustainability-related risks and opportunities.

Business Model

Growth Strategy

The Sustainability Council consists of the president and CEO and the executive directors of the Company and its subsidiaries and is chaired by the president and CEO. The assessment of sustainability-related risks and opportunities deliberated by the Sustainability Council and the progress of related goals and initiatives are reported to the Executive Committee for deliberation as part of group-wide risk management.

In addition, the Board of Directors receives a semi-annual report, which enables effective supervision by the Board of Directors. Based on these reports, the Board of Directors formulates strategies for the entire group, which are reflected in the medium-term business plan, risk management policies, and business strategies.

At the same time as the process of identifying materiality issues, the Group also identifies the risks and opportunities associated with these issues and establishes a policy for responding to them. Specifically, each department responds to each materiality issue on an individual basis and, depending on the importance and expertise of the case, the status of these responses are monitored by the Board of Directors, the Executive Committee, the Information Risk Management Committee, and the Project Review

In some cases, these bodies issue directions to implement countermeasures directly, thereby ensuring effective management.

In parallel with this process, each department conducts a bottom-up risk assessment from the viewpoint of likelihood of occurrence and business impact, and individual countermeasures are implemented for those cases determined to be of high importance

## **Process of identifying materiality issues**

## (1) Identification of issues

While operating companies often prefer to develop systems in-house, we recognize that barriers to successful in-house system development at non-tech companies are high, given social conditions such as technological innovation in generative AI and the rapid decline in the working-age population. In order to resolve these issues, we interviewed each department to determine what materiality issues should be selected for Simplex Group, and extracted all possible issues.

## (2) Determination of importance

First, the materiality issues are divided into two categories: business materiality issues, which are issues to be addressed in the normal course of business, and management foundation materiality issues, which are issues that are linked to promoting business and strengthening the management foundation. Then, we evaluate based on two aspects: importance to the Simplex Group and importance to stakeholders, including our clients, business partners, shareholders and investors. In assessing these issues, we refer to domestic and international standards such as the Guidance for Collaborative Value Creation and the SASB Standard\*, and select items that are important for both categories, as well as items that are important as social issues even if they are important for only one of them



- 1 Innovation and Competitiveness
- 2 Client relationship management
- 3 Human capital management
- 4 Product quality and safety
- **5** Response to global environment issues
- 6 Realization of sophisticated governance

\* Sustainability Accounting Standards Board

## (3) Discussions at Executive Committee, Sustainability Council, etc.

The appropriateness of these evaluations is discussed at Management Committees and the Sustainability Council, and materiality issues determined to be important from a management's perspective are selected.

## (4) Discussion and decisions by the Board of Directors

Ultimately, the Board of Directors, including outside directors who are experts in various fields such as management and law, hold discussions and determines materiality issues for Simplex Group.

## (5) Feedback from stakeholders

We undertake timely reviews of materiality issues we highlight, taking into account changes in social conditions and the internal environment, as well as feedback from our clients, business partners, shareholders, investors, and other stakeholders.

Business Model

Data

Materiality issue	Risks	Countermeasures		
Innovation and competitiveness	Dependence on specific industries  - A large proportion of revenue is from financial institutions such as securities firms and banks	- Develop Strategy/DX Consulting business driven by Xspear - Diversify the business portfolio through expansion of Non-financial Solutions domain  ▶Page 12 Business Model		
	Competition with other companies  - Decline in the Group's competitive advantage resulting from the provision of superior solutions by competitors  - Price competition greater than expected due to the spread of packaged products, etc.	- Continuously verify the Group's competitive advantage by analyzing competitors' solutions, packaged product developments, market share, etc.		
Human capital management	Talent strategy  - Decline in the Group's competitive advantage due to an inability to recruit the top 10% of talent in the market  - Decline in labor productivity and increase in employee turnover due to deteriorating labor environment	<ul> <li>Maintain one of the highest compensation packages in the industry</li> <li>Provide an environment and growth opportunities for a diverse range of professionals to demonstrate their sharpest talents</li> <li>Establish various systems that help improve employee engagement, such as a fair and transparent evaluation system</li> <li>Page 39 ESG: Social</li> </ul>		
Product quality and safety	Occurrence of problems related to system development and solutions  - Loss of confidence resulting from the inability to provide solutions that meet the functional requirements and service levels specified in contracts or to meet delivery deadlines.  - Service suspension due to product defects or changes in licensing terms and conditions provided by third parties	<ul> <li>Thoroughly review development progress by the Executive Committee, Competency Team, Quality Improvement Division, etc.</li> <li>Collect information on third-party product defects, changes in regulations, etc., and timely and appropriately share such information to relevant departments</li> <li>Have clients agree to certain disclaimers and take out compensation liability insurance</li> </ul>		
ŕ	Information Security - System failures or service outages due to computer viruses or cyber- attacks, or leakage of confidential information such as personal data	<ul> <li>- Put in place the internal information security system by acquiring ISO/IEC 27001         Information Security Management System (ISMS) certification, etc.     </li> <li>- Select secure software and hardware</li> <li>▶ Page 56 Information Security</li> </ul>		
Response to global environment issues	Information Security - Inability to use data centers, cloud servers, and other infrastructure due to natural disasters such as major earthquakes, volcanic eruptions, windstorms, and floods	- Conduct periodic drills to prepare for natural disasters Ensure regular data backup, redundancy, etc.		



ESG

				FY3/2023 Results	FY3/2024 Results	FY3/2027 Targets	
프	Revenue			34.9 billion yen	40.7 billion yen	60.0 billion yen	
Financial targets	Operating profit			7.4 billion yen	8.8 billion yen	15.0 billion yen	
ial t	Gross profit (GP) margin			41.8%	42.9%	45.0%	\" : 4000
arge	Operating profit (OP) mare	gin		21.3%	21.7%	25.0%	Vision1000
sts	ROE			13.7%	13.9%	17.0%	
	Innovation and competitiveness	Investmen	t in R&D	1.4 billion yen	1.8 billion yen	Approx. 4% of revenue	
	Client relationship management	Average nu period*1	mber of business partner engineers and consultants during the	542	522	Approx. 500	Simplex Group's Vision To be the one and
		Average nu	mber of engineers and consultants during the period*2	1,436	1,678	2,400	only strategic partner
		Number of	new graduates hired*3	290	185	300	for Clients
z		Number of	mid-career professionals hired	112	118	150	To be the dominant
Non-financial targets	Human capital management	Turnover rate		9%	8%	Less than 9%	"Biz x Tech" innovator
inan		Percentage of women to total employees		12.6%	15.7%	20.0%	for Employees
ıcial		Percentage of women in management positions		6.3%	6.6%	20.0%	To be the game changer in
targ		Percentage of women out of new graduate hires		22%	15%	25%	the age of DX
ets		Percentage	e of paid leave taken <sup>*4</sup>	61.9%	66.6%	70.0% or more	for Society
for ma	Product quality and safety		of employees who participate in the annual measurement of the understanding security	100%	100%	100%	Aim to achieve the following
materiality	salety	Number of	Information Risk Management Committee meetings to be held	Held every week	Held every week	To be held every week	indicative targets by early 2030s
ality			Scope 1 (direct emissions from owned or controlled sources)	0t-CO2	0t-CO2	0t-CO2	Revenue
issues	Response to global environment issues	GHG emissions	Scope 2 (indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company)	445.8 t-CO2	10.3 t-CO2	0t-CO2*6	100 <sub>billion</sub> yen
0,			Scope 3 (all other indirect emissions that occur in the reporting company's supply chain	5,270.4 t-CO2	6,880.0 t-CO2	- *7	OP margin 30%
	Realization of	(non-consc	inside and outside directors (Percentage of outside directors) lidated)	Inside: 4 Outside: 5 (55.6%)	Inside: 4 Outside: 6 (60.0%)	To maintain a majority of outside directors	ROE 20%
	sophisticated governance	Number of consolidate	male and female directors (percentage of female directors) (non- ed)	Male: 9 Female: 0 (0.0%)	Male: 9 Female: 1 (10.0%)	To increase the percentage of female directors	

<sup>\*1</sup> Business partners refer to temporary workers, employees of subcontractors, and equivalents who are engaged in work in the office environment of Simplex Group.

<sup>\*2</sup> Average of total number of employees and business partners during the period.

<sup>\*3</sup> The number of new graduates hired is based on the number of those decided or targeted to be hired during each fiscal year, and the actual date of joining the company is April 1 of the following fiscal year.

<sup>\*4</sup> Since annual paid leave is granted on the record date of January 1 of each year, the figures are based on the results or target for the period from January 1 to December 31, 2022, 2023 and 2026.

<sup>\*5</sup> Each Item is calculated based on the Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain (March 2022, Ministry of the Environment and Ministry of Economy, Trade and Industry). Scope 1 emissions of Simplex Group are excluded from the calculation because they are negligible

<sup>\*6</sup> Scope 2 emissions target is the target for FY3/2026.

<sup>\*7</sup> Scope 3 emissions target will be disclosed as soon as the targets are formulated.

About the Simplex Group

# **ESG**

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## **Direction of Talent Strategy**

## Providing environment for highest performance growth opportunities

Our purpose is to create innovation. We are not there to simply do our jobs and get paid. We at Simplex Group espouse the value of "being a player," and everyone in the organization, including the CEO, is at the forefront of taking on new challenges and growing while taking ownership of their work. This very attitude is our driving force.

We have made a serious effort to recruit and train people who share Simplex Group's values such as making our clients happy and who can derive a sense of accomplishment through his or her work. Our talent strategy tells why we attract a diverse group of passionate professionals.

Since our founding, we have specialized and added value in areas where technology makes a significant contribution to the business success of our clients. Innovation in the DX field stays truly ahead of the curve. Now, the exciting appeal of this challenge is attracting many talented individuals. Simplex Group will continue aspiring to be the dominant "Biz x Tech" innovator in order to continue to attract the best and brightest talent.

Materiality Issues and Major Risks

## **Recruitment and Compensation System**

#### A recruitment strategy unique in the IT industry

Since going public in 2002, we have focused on recruiting new graduates. The most important feature of our recruiting policy is our focus on potential hires. Based on their own experience of our founding members, who acquired technology over the course of their careers, our hiring policy is to emphasize intellectual capabilities and high motivation, without taking into account IT knowledge at the time of interview. This stance, which targets students from a wide range of backgrounds regardless of their academic background, is unique in the IT industry, where a science or engineering background tends to be a prerequisite.



#### **Potential-Focused Recruitment and Training Capabilities**

One reason we have focused on recruiting new graduates has been a shortage of top talent in the IT industry. Due to the multi-layered vendor hierarchy in Japan, it has been difficult for talented individuals to find jobs in the IT industry because of unappealing compensation structure and the harsh working environment. In the IT industry, which had these kinds of structural problems, we have refined a system for identifying high-potential talent from students with no work experience and rapidly developing them in a short period of time. This system is the foundation that supports Simplex Group and is the driving force behind our growth going forward.

#### The highest level of compensation in the industry

It is also worth mentioning that despite being in the IT industry, we have always seen our competitors in recruitment as the global consulting firms. We have focused both on fostering a culture and developing a compensation structure in order to attract high potential and gifted students who are in the top 10 percent in the HR market. We have designed a compensation structure that allows us to offer compensation at the same level as the global consulting firms for those who develop their career at the normal speed, and compensation exceeding that of global consulting firms for those who excel. This gives us a significant advantage in our recruitment activities.

#### Group-wide compensation structure (Thousands of yen)

	Band D	40,000 + performance pay	
Evacutive Principal	Band C	30,000 + performance pay	
Executive Principal	Band B	25,000 + performance pay	
	Band A	20,000 + performance pay	
Principal		1,500 – 1,900	
Associate Principal		1,100 – 1,400	
Lead	800 – 1,000		
Staff		600 <sup>*1</sup> -	

<sup>\*1</sup> The starting salary has been increased to 6 million yen for new graduates joining the company in April 2025.

#### Strengthening mid-career recruitment throughout the Group

The establishment of Xspear in 2021 was the catalyst for us to strengthen our strategic mid-career recruitment, after having long focused on hiring new graduates. Along with intra-group transfers from Simplex, we focused on mid-career recruitment of consultants who are oriented toward practical DX support based on technological expertise.

We have made steady progress in recruiting experienced consultants who can make an immediate impact on our business. Behind such a good progress lies in our corporate culture and compensation structure forged since our establishment by the leadership of our management team, who have working experience at global consulting firms. Furthermore, this trend of mid-career recruitment is not limited to Xspear, but is also spreading to Simplex, a tech firm. The number of mid-career hires, which previously hovered around 30 each year, has increased to more than 100 per year for the entire group since the establishment of Xspear.

One reason we are strengthening mid-career recruiting is the fact that the IT industry is attracting more and more attention every year due to the rise of FinTech ventures and other factors. This has created momentum for talented individuals with high potential who would not have considered IT in the past, but who now aspire to enter the IT industry. These external changes are creating a tailwind not only for new graduates, but also for mid-career hiring.

#### Number of employees hired (consolidated)



<sup>\*2</sup> The number of new graduates hired is based on the number of those decided to be hired in FY2024/3, and the actual date of joining the company is April 1 of the following fiscal year.

## **Talent Development**

#### Variety of career choices and commitment to growth

Everyone at the Simplex Group, including the CEO, operates as a player with a project owner's mindset and contributes to our growth based on the "Work for Simplex" value system. We therefore have equal respect for those in management positions, whose mission is to help their teams achieve their goals and develop individually, and those in specialist positions, in which employees master specific skills. Here are three features that promote diverse career choices and employee growth.

#### Quality OJT through projects done via the Simplex Way

The first feature is our unique business model, called the Simplex Way, is high-level on-the-job training acquired through projects. In contrast to the Japanese IT industry, where a multi-layered vendor hierarchy in the norm, and work is outsourced in stages from prime contractors to subcontractors, we receive prime vendor orders directly from clients. We therefore ensure we maintain a system that does not outsource development to outside vendors.

An environment in which our staff are able to directly communicate with client's management and users, and engage in daily, in-person discussions to resolve issues, is critically important to understand the true nature of any issues that arise. This environment allows employees to work on projects that affect the success of client's business with a sense of ownership and contributes greatly to the growth of our employees.

The Simplex Way is also effective in training new employees. New graduates get a solid grounding in financial engineering fundamentals, information technology, and business in the first six months of in-house training before joining their colleagues. Then they undergo another fourmonth training program, before being assigned to their own projects. At project sites, senior employees (unit leaders) and two new employees form one unit to further development and ensure new skills are developed on the job. (Page 16 Simplex Way)

#### In-house training organization in specialized areas

The second feature is the Competency Team, an internal training organization dedicated to specialized areas. It was established in 2018 with the aim of taking over and refining competencies that have been the crux of the Simplex Group's strengths, and with it strengthening our organizational capabilities.

Currently, there are six teams, namely Project Management, System Development, UI/UX, Infrastructure/Cloud DX, and Mathematical Engineering, as well as Generative AI, which was newly established in July 2023. Each team further develops talent alongside OJT through projects and maintains a training system, as well as engaging in crossorganizational involvement in various projects as experts in their respective areas of expertise. The teams are also involved in researching trends and cutting-edge technologies.

Each team has a high degree of specialization. In these, employees who have mastered management or specific skills are appointed as a Competency Lead. In addition, mid-career employees who have gained a certain level of experience through OJT on projects are also offered the opportunity to participate as members if they meet requirements set by each team.

The Competency Team, in which various team members hone strengths in an apprenticeship-like environment, offers a growth opportunity for employees to acquire both specialized skills, and also leadership skills, solid work ethics, and other diverse skills.

#### List of Competencies

1 Project Management	4 Infrastructure/Cloud DX
2 System Development	5 Mathematical Engineering
3 UI/UX	6 Generative AI

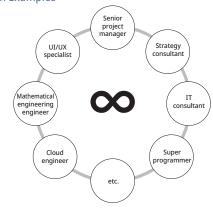
#### A corporate culture that maximizes individual strengths

The third characteristic is a corporate culture that encourages diversity in career paths and maximizes individual strengths. Underpinning this philosophy is the value of Mutual Respect. For the team to achieve the best results, we need to bring together the best talents from various fields. Mutual Respect requires humility, recognizing the talents of others, learning from each other, and respecting each other. Based on these values, Simplex Group forges a corporate culture that maximizes the potential of each individual and recognizes unique talents.

In addition, from the interview stage at the time of hiring, we emphasize the importance of determining whether candidates can share our 5DNAs code of conduct. To continue being a team of value-creating professionals, we need to ensure we can maximize the power of each individual to make the Simplex Group even stronger by sharing the 5DNAs with all employees.

In addition, in order to maximize the potential of an "edgy" personality of each employee, we consider it important to make a clear distinction between job title and role. In our evaluation system, we have equal appreciation for those both in management positions and specialist positions. Our company has had employees rise to the highest level without having any reporting team members.

#### **Career Path Examples**



We also have a full-scale filming

studio for more attractive delivery of

in-house events and study sessions.

## **Personnel System**

#### System to keep our people on top of their game

Business Model

Growth Strategy

The personnel system in Japanese companies is one typically based on lifetime employment and seniority. As a result, length of service and management ability have been the main criteria for salary increases and promotions. However, in order to contribute to the business success of our clients, we have adopted a unique HR system that is different from the traditional HR system.

#### Fair and transparent evaluation system

Employee evaluations are conducted through an annual review session that we call "Bidding," or fudaire in Japanese. All senior managers involved in the project work for the fiscal year under review evaluate our employees, so the evaluation is not biased toward the subjective opinions of any one supervisor, but rather provides a fair assessment of the employee's performance.

At the bidding process, a theoretical annual salary for the following year is determined based on the evaluation of the employee's reproducible capabilities, reflecting the degree of difficulty for projects and past experience. There is no system of salary increases based on years of employment, as is the norm at Japanese companies. Instead, a culture of "Pay for Value" has taken root, in which employees are fairly evaluated on their work output, and not on how long they have been at the company, the number of hours worked, gender, or nationality.

In addition, the first words the CEO tells new employee at training are competition and cooperation. While we encourage competition, which is essential for growth, we also emphasize teamwork to make projects successful. Furthermore, while we adopt a meritocracy, we do not believe growth opportunities should end as a result of poor performance in any one year. Our culture emphasizes "Up or Stay" rather than "Up or Out," and we will continue to give opportunities to and value our employees as long as they share and commit to our 5DNAs.

#### **Increased engagement**

As we consider our employees to be our most important asset, we believe that innovation will never be achieved without fostering an environment in which a diverse workforce can freely generate ideas. Based on this belief, we have established a variety of activities and systems that help improve their engagement.



#### Catching up on technology and know-how

#### Simplex Tech Day

An in-house conference showcasing the insights and best practices gained through technical challenges and initiatives in each business area.

#### Career Sharing Meetings

#### **Career Sharing Meetings**

An event where mid-level employees can share their experiences and learnings from their careers with younger employees, followed by a Q&A session.

#### Catching up on technology and know-how

#### **FIKA**

This is Xspear's unique approach that incorporates a coffee break culture similar to that in Sweden. FIKA promotes free interaction horizontally, vertically, and diagonally.

#### Creating a rewarding work environment

#### Commitment-style system

We have introduced a commitment style system that allows employees to declare their own monthly overtime hours.

#### Simplex Biz Day

An in-house conference that showcases the challenges and successes in consulting, project management, and other areas related to business promotion.

#### boost

Simplex Group's learning portal site. A variety of training materials are available for each business area and competency.

#### In-house short-term study program

A study program for the purpose of mutual understanding and exploration of transfer opportunities within the company. For a short period of time, participants are assigned to a project or department outside of their own responsibility to learn about its activities.

#### Style Journal

An interview program with people who have gone through various stages of their careers. Interviewees include management team members, including outside directors, employees, and various other professionals.

#### Club activities system

To improve communication among employees and foster a sense of unity through club activities, subsidies are provided based on the number of employees involved.

#### Family Day

This event encourages communication by inviting employees' family members to the company and introducing them to the office environment and other team members.

#### Flextime system, discretionary labor system

We support flexible and efficient work styles by introducing flextime and discretionary labor systems.

#### **Engagement Survey**

An engagement survey focusing on job satisfaction is conducted every three months.

## **Diversity & Inclusion**

#### A rewarding corporate culture that creates innovation

We promote diversity and inclusion that allows each employee, regardless of gender, age, nationality, or disability, to fully demonstrate their abilities, while complying with laws and regulations and taking sufficient care not to undermine our corporate culture. Through these efforts, we are striving to foster a rewarding corporate culture that creates innovation.

#### **Respect for Human Rights**

The Simplex Group considers it a social responsibility to conduct its business in a manner consistent with human rights—in other words, everyone's right to pursue happiness. To effectively promote this philosophy in each of our businesses, we have established the Simplex Group Basic Policy on Human Rights and strive to conduct our business with the utmost respect for human rights.

#### **Promotion of Health and Productivity Management**

For us to improve productivity and achieve sustainable growth, it is important that its employees are able to show their great potential at all times—in other words, they need to be healthy both physically and mentally. The Simplex Group proactively focuses efforts on Health and Productivity Management and is dedicated to providing an environment in which all employees can work with peace of mind and engage in work with health, vitality, and a sense of fulfillment. Under the Health and Productivity Management Declaration issued by the President and CEO, Simplex Group implements a variety of initiatives built on the premise of Health and Productivity Management.

#### **Health and Productivity Management Declaration**

The Simplex Group places the utmost value on employee health and also considers health and productivity management to be an important operational matter.

Our Health and Productivity Management Declaration aims to maintain and improve the physical and mental health of our employees and their families, while also maintaining the company's productivity, by putting its principles into practice.

#### Social contribution

Materiality Issues and Major Risks

We make donations to Hitotsubashi University, which has a Master's Program in Financial Strategy (MBA), and also provide free lectures (on informatization strategies and applications, and risk management and financial education). We also support our employees' participation in various competitions for athletes with disabilities and provide support to organizations and employees engaged in minor sports.

#### **Obtaining external certifications**

In September 2023, Simplex received the "Kurumin Certification" from the Minister of Health, Labor and Welfare as a company supporting childcare. The Kurumin Certification is a system to certify companies that have formulated a general employer action plans based on the Act on Advancement of Measures to Support Raising Next-Generation Children and that have achieved the goals set forth in the plan and meet certain standards.

In May 2024, Xspear received "Eruboshi Certification (2 Stars)" from the Minister of Health, Labor and Welfare. The Eruboshi Certification is a system to certify companies with excellent performance in promoting advancement of women based on the Act on the Promotion of Women's Active Engagement in Professional Life. Xspear has met the four criteria of "continuous employment," "working hours," "ratio of managers," and "various career paths."

#### Kurumin Certification mark



#### Eruboshi Certification mark



For more extensive information, please visit our website □ https://www.simplex.holdings/en/sustainability/





#### Diversity promotion project using a bottom-up approach

### Gerbera

Gerbera is a project launched in 2021 by volunteer members to achieve diversity and inclusion in Simplex Group. The project aims to create an environment that embraces diverse talents and enables all employees to continuously demonstrate their value.

Gerbera's activities emphasize a bottom-up approach to listening to opinions of employees, acting as a bridge between employees and management. The concept is therefore to provide specific support to employees who have concerns or are facing problems in continuing to work for the Simplex Group.

Gerbera's goal is not simply to find value in diversity, but to achieve a state where employees can share values represented by the Simplex Group's 5DNAs and the Simplex Philosophy, thereby demonstrating their own value based on these principles.

Specifically, we are engaged in the following activities:

- Preparation of "Work Life Integration Handbook", a booklet that provides easy-to-understand guidance and procedures for pregnancy, childcare, weddings, funerals, etc.
- Implementation of interview project "Style Journal"
- Holding of Career Sharing Meetings

## Personnel policies that deepen our culture and unlock employee potential

The Simplex Group's greatest strength is its people. Our employees are the cornerstone of our overall strategy and are essential for achieving sustainable growth and high profitability. We asked Yoshihiro Kuji, Head of the Human Resources Division, how the Simplex Group will deepen its culture and create an environment that brings out the best in its employees as it aims for further growth in the future.

#### When hiring talent, we aim to determine how they will fit into our culture

#### - What qualities do you look for when hiring?

As the Simplex Group promotes expansion and deep-diving into new business areas, we hire both new graduates and mid-career professionals collectively as a Group, regardless of which company (Simplex or Xspear) they are assigned to.

This way, each and every one of our employees can go on to achieve their potential and develop their careers in their own unique way. The qualities we emphasize in hiring new graduates are the ability to work diligently, a willingness to take on any task and deliver results, and a strong desire to grow. In the recruitment process, we also check to see if the candidate is likely to fit into our culture as represented by our code of conduct (the 5DNAs) and our values (the Simplex Philosophy).

In mid-career hiring, we do look at the candidate's work history and achievements, but that's not all. We also place emphasis on what mindset that has guided their life as a business professional to date. We value people who have maintained a positive attitude and desire to grow, even in the face of setbacks or stagnation. We believe what matters is a willingness to learn from failure and move forward.



#### - What is Simplex's competitive edge in the new graduate labor market?

Our greatest competitive advantage is our ability to identify talent with high potential from students with no prior work experience and rapidly develop them in a short period of time. Although no IT knowledge is required when they interview, all employees undergo rigorous training to enhance their IT skills, including programming, during pre-employment training and after they join the company. After being assigned to a project team, new employees are prioritized for development projects.

IT skills are a valuable asset for future success as a business professional. Being able to develop these skills while still young and put them into practice on the job is an advantage that many other companies do not offer. Some say that today's young people are averse to challenging themselves, but the reality is many graduates want to work for a company that can offer abundant opportunities for growth while they are in their twenties. The total number of students in Japan is decreasing due to the declining birthrate, and the fresh graduate recruitment environment is a challenging one. But by adopting the right approach and ensuring that the Simplex Group is a place where people can grow, we believe we can strengthen our brand in the new graduate labor market.

#### - How are you working to deepen the culture?

Assuming that we can reach the top 10% of talent in the labor market, we look at candidates' fundamental attributes, qualities, and potential to determine whether they are a good fit to our culture at the hiring stage. We attach particular importance to this process. We look to bring in employees who embody our values and have been evaluated favorably by our interview panels. Although we do not conduct uniform checks, we focus on ensuring candidates can communicate effectively in a team and determining if our culture would be a good fit for them.

Beyond this, we focus on their potential to transmit and sustain our workplace culture. There are many employees onsite who make decisions on how to behave based on this culture while verbalizing to others the process that led to those decisions. New graduates and mid-career professionals with strong potential are immersed in such an environment. This repetition deepens the culture. I am always checking the extent to which our corporate culture has gained traction within our organization through interviews with employees, of which I conduct around 80 to 100 per month. I am very satisfied with the current situation.

Materiality Issues and Major Risks

Data

## Dynamic and strategic resource

#### - What is your approach to resource assignment?

assignment

One reason for corporate stagnation is the formation of silos. Japanese companies are often vertically organized and there is little cooperation between departments and the sharing of information can be extremely difficult. We also cannot ignore adverse effects when talented people are hoarded within one own team. In this context, we have managed to achieve a flat organizational management structure that eliminates divisional boundaries and assigns talent on a project-by-project basis. Simplex does split up the organization by business area for simplicity in external reporting. However, in reality, employees move back and forth across divisions between projects. Recently, we have also been focusing on intra-Group secondments from Simplex to Xspear. This mission of placing the right people in the right places throughout the Group is carried out by the independent Resource Management Division.

#### Resource assignment system illustrated

Project Project Project Assign employees Upon the expiration of the to each project for a period, conduct an interview specific period with each employee to help them determine the next assignment "Home base" for all employees **Resource Management Division** 

The Resource Management Division was formed in 2020 with the goal of executing dynamic and strategic resource assignments. In addition to matching project-side demand with company-wide supply of talent, the Division focuses on the strategic rotation of employees from a personal development perspective. It may be easier to think of the Resource Management Division as a "home base" for all employees. We assign employees to each project for a specific period based on the status of all projects within the Group. By having an overview of the skillsets of employees and how they are being used, including assignment periods, our goal is to perform Group-wide optimization of talent deployment according to project status.

When the assignment deadline is approaching, I conduct interviews in my additional capacity as head of the Resource Management Division with relevant employees. During these interviews, I focus on understanding career aspirations, current roles in projects, sense of accomplishment, and any stresses they may be experiencing. We are very thorough when it comes to discussing future career aspirations, covering matters such as whether employees want to focus on management or solutions development, whether they want to deepen their technical expertise as an engineer, or be involved in projects from their initial stages as a consultant. I said earlier that I interview employees around 80 to 100 times a month, and these interviews are the core activity of the Resource Management Division.

After that, an assignment meeting is held once a week with the executive directors, division heads, and others in attendance, and based on the results of the employee interviews, adjustments are made with project managers. Of course, it is not always possible to fulfill everyone's wishes, but if an assignment is made that does not align with an employee's preferences, care is taken to explain the reasons for the assignment until the employee is satisfied.

This strategic assignment of employees based on career aspirations has enabled us to put the right people in the right places, which in turn has contributed to reducing our turnover rate from 11% in FY3/2021 to 8% in FY3/2024. MTBP2027 aims for a turnover rate of less than 9%, which we have already achieved numerically. The challenge now is to further improve or at least maintain this level.

### Contribute to adding value to each and every employee

#### - Finally, what are your thoughts as head of the HR Division?

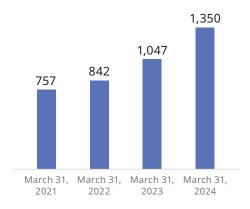
The businesses that we currently operate are not the kind that generate high returns from moderate effort. We are not engaged in the business of developing blockbuster games to generate large revenues or operating platforms for advertising. It is a steady, labor-intensive business model that provides high value-added services that boost clients' business. Therefore, to achieve sustainable growth and high profitability in the future, more and more talented people will be needed.

It is no exaggeration to say that more than half of our management issues are related to human resources. From a different perspective, it means that the HD Division is directly responsible for more than half of our management issues, and thus plays a pivotal role in the organization. I believe that the sum of the value added by each and every employee is reflected in the company's business performance. Although the hiring environment remains challenging, we will continue to strengthen our recruitment, reduce our turnover rate, and put in place an environment in which employees are motivated to increase their own added value. We will continue to work hard to achieve performance targets we committed to in MTBP2027 and the vision we set forth in Vision1000, while being acutely aware of the responsibility we carry in shaping the future of Simplex Group.



## **Human Capital in Numbers**

#### **Number of Employees**

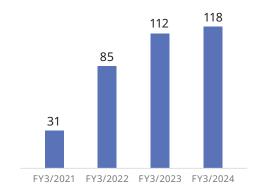


#### Number of new graduate hires\*1

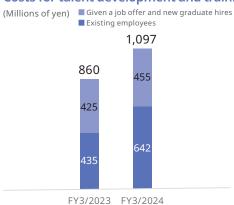


\*1 The number of new graduates hired is based on the number of those offered jobs in FY2024/3. The actual date of joining the company is April 1 of the following fiscal year.

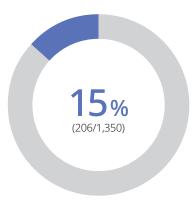
#### Number of mid-career hires



#### Costs for talent development and training



#### Percentage of women to total employees

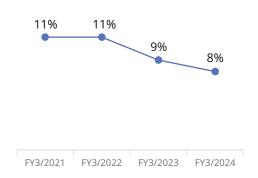


#### **Engagement Score**\*2



<sup>\*2</sup> The results of the engagement survey conducted in February 2024.

#### **Turnover rate**





bout the Simplex Group Business Model Growth Strategy Materiality Issues and Major Risks **ESG: Governance** Data

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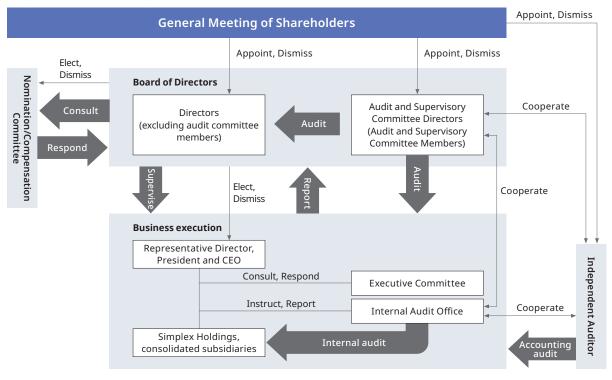
## **Corporate Governance**

#### **Corporate Governance Structure**

We have adopted an audit and supervisory committee system to further enhance corporate governance by strengthening the supervisory function of the Board of Directors, as well as to improve management efficiency and enable prompt decision-making. Under the Companies Act of Japan, the Audit and Supervisory Committee is required to be composed of at least three directors and a majority of whom must be outside directors, and all five members of the Audit and Supervisory Committee are outside directors.

Independent Audit and Supervisory Committee members have voting rights at Board of Directors meetings, and the Audit and Supervisory Committee further enhances the management oversight function by proactively utilizing the internal control system to conduct audits. Furthermore, the Audit and Supervisory Committee strengthens and enhances the management oversight function by having an environment that allows the Committee members to voluntarily attend various meetings, including Executive Committee meetings, and by conducting inspection of the minutes of such meetings.

#### **Corporate Governance Organizational Chart**



#### Transition and Strengthening of Corporate Governance Structure

2016	Simplex Holdings, Inc. established through a share transfer to transition to a holding company structure
2021	Transitioned from a company with an audit & supervisory board to a company with an audit and supervisory committee Nomination/Compensation Committee established as a voluntary advisory body to the Board of Directors
2022	Discloses skills matrix of directors
2023	Appoints female directors
2024	Issues Integrated Report

#### Status of Corporate Governance Structure (as of June 30, 2024)

Organizational structure	Company with an audit and supervisory Committee
Directors	9 (including 5 outside directors)
Terms of office of directors	1 year for directors not serving as Audit and Supervisory Committee members 2 years for directors serving as Audit and Supervisory Committee members
Directors serving as Audit and Supervisory Committee members	5 (consisting entirely of outside directors)

Voluntary committee	Nomination/Compensation Committee
Incentives provided to directors	Not provided
Independent auditor	Grant Thornton Taiyo LLC
Corporate Governance Report	Available on our website https://www.simplex.holdings/en/sustainability/governance/

#### **Board of Directors**

The Board of Directors consists of the Representative Director, President and CEO, three executive directors, and five outside directors (nine members in total). Board members are selected so that the majority are outside directors. We aim to improve management transparency by revitalizing the Board as a decision-making body, developing a system to prevent fraud, and strengthening the management oversight function over the management team.

Business Model

Growth Strategy

At the Board meetings, executive directors make regular reports on the status of their execution of duties and business performance. All directors engage in lively discussions on priority issues in response to changes in the business environment. Specifically, directors share issues related to the enhancement of human capital, discuss how to deploy talent, and share and discuss the latest technology and security issues. In each of these, the executive directors and outside directors discuss and consider matters that contribute to Simplex Group's medium- and long-term development from their own perspectives, rather than focusing solely on short-term performance trends.

#### Board Composition (as of June 30, 2024)



#### Number of meetings held and attendance rate

	Number of meetings held	Attendance rate
Board of Directors meeting	13 times	100%
Audit and Supervisory Committee meeting	14 times	100%
Nomination/Compensation Committee meeting	2 times	100%

#### **Executive Committee**

The Executive Committee consists of the representative director, president and CEO and three executive directors. As an advisory body to a representative director, president and CEO, the Executive Committee meets at least twice a month in principle so that they can deliberate and assess important matters on the execution of the Company's business. By discussing a wide range of management issues, large and small, we have developed a system that can respond to the rapidly changing IT industry and flexibly implement corporate strategies.

#### **Nomination/Compensation Committee**

In order to enhance the transparency and objectivity of the deliberation process in the election and dismissal of directors and the compensation system, a voluntary Nomination/Compensation Committee has been established as an advisory body to the Board of Directors. Matters on the election and dismissal of directors and compensation are first heard by the Nomination/Compensation Committee, and then determined at the Board meeting based on the content of the Committee's report. The Nomination/ Compensation Committee consists of at least three members elected from among the directors of the Company, with the majority of committee members being outside directors.

#### Analysis and evaluation of the Board effectiveness

During the fiscal year ended March 31, 2023, we analyzed and evaluated the Board effectiveness as a whole based on each director's self-assessment. As a result, the Board was evaluated as having effective governance and efficient operation, thereby ensuring effectiveness, given that the majority of the Board members consists of outside directors with diverse experience and knowledge. At the same time, there were requests for the appointment of more diverse talent, considering gender diversity, and for more information sharing on medium- to long-term corporate strategies.

#### Policy and Process for Determining Director Compensation

Compensation for directors (excluding Audit and Supervisory Committee members) is initially discussed by the Nomination/Compensation Committee, and then determined by the Board of Directors based on the content of the Committee's report. This is subject to the maximum amount of compensation determined by a resolution of the General Meeting of Shareholders. Compensation for directors serving as Audit and Supervisory Committee members is decided through discussions among all Audit and Supervisory Committee members.

The policy for determining the individual compensation for directors (excluding Audit and Supervisory Committee members) is resolved by the Board of Directors as per the proposal prepared in advance by the Nomination/ Compensation Committee. The specific decision-making policy is as follows.

- All individual compensation of directors (excluding Audit and Supervisory Committee members) shall be paid in the form of monthly cash compensation and bonuses that are not linked to performance.
- The Nomination/Compensation Committee shall determine the proposed amount of monthly cash compensation based on comprehensive consideration of factors such as position, responsibilities, years in office, individual contributions, and the Company's business performance.
- The Nomination/Compensation Committee shall make a proposal on bonuses as cash compensation when it deems it necessary to provide appropriate incentives after comprehensively considering the Company's business performance and other factors.
- Bonuses as cash compensation shall be paid within three months after the end of the fiscal year.

The Board of Directors has confirmed that the method of determining the details of the compensation, and the details of the individual compensation for directors (excluding Audit and Supervisory Committee members) for the fiscal year ended March 31, 2024 are consistent with the decision policy approved by the Board of Directors and therefore, determined that the compensation is in line with the decision policy.

#### **Director Candidate Selection and Dismissal Policy and Process**

With respect to the election of directors, the Company selects candidates who are of excellent character and insight, and who possess a wealth of experience and expertise appropriate for serving as directors of the Company. In addition, for the election and dismissal of directors, the Nomination/Compensation Committee, whose majority of members are outside directors, has been established as an advisory body to the Board of Directors to make initial proposals. In addition, in the notice of convocation of the General Meeting of Shareholders, the reasons for electing each candidate as a director are explicitly stated.

#### **Internal Control**

Based on our Basic Policy on Internal Control Systems, we strive to ensure appropriateness and efficiency in execution of duties by directors based on thorough compliance with laws and regulations and understanding of social ethics. Specifically, the Audit and Supervisory Committee audits whether the execution of duties by directors complies with laws and regulations, and ensures its effectiveness by utilizing the internal control systems. In addition, the Internal Audit Office, which reports directly to the representative director, president and CEO, evaluates the operation of internal controls.

#### **Cross-shareholdings**

With respect to cross-shareholdings, we hold the appropriate number of shares in another company based on the results of due diligence only when it is deemed reasonable to hold the shares, such as when it contributes to the enhancement of the Company's corporate value over the medium to long term through the maintenance and strengthening of business relationships as well as the maintenance and development of business partnerships. We exercise our voting rights for all cross-shareholdings. In exercising such rights, we make decisions about whether to approve or reject each proposal after careful consideration based on criteria such as whether it will lead to enhancing the corporate value of both Simplex Holdings and the investee company or whether it will damage the corporate value of both companies.

#### Constructive dialogue with shareholders

In order to achieve sustainable growth and enhance corporate value, we recognize the importance of sincerely listening to the expectations, concerns, and requests of our shareholders and investors through constructive dialogue, and appropriately reflecting them in the improvement of IR activities and the strengthening of business activities. Under the strong leadership of top management, we aim to conduct IR activities that always convey clear corporate messages with passion, and we will continue to work to build relationships of trust with our shareholders and investors. Regarding IR activities during FY3/2024, we held 193 individual meetings with analysts and institutional investors, six small meetings with institutional investors, four financial results briefings for analysts and institutional investors, and one company information session for individual investors. In addition, we held our first shareholders' reception since our relisting (and the first in 11 years), and more than 200 shareholders attended. The reception was attended by our management team, including our outside directors, as well as the management team of Simplex, our core group company, and we had a lively exchange of opinions with our shareholders.

#### [Reference] Frequently asked questions from shareholders and investors

(For questions on business areas, please see Strategy by Business Area (pages 28-32).

#### Macro environment

Materiality Issues and Major Risks

- O. What are the reasons for the solid demand in the DX market in Japan?
- Q. Why are you less susceptible to the effects of the external environment, such as the financial crisis?

#### Growth strategy

- Q. Why are you aiming for the expansion in the non-financial domain?
- Q. Why can you achieve a high level of gross profit margin even in the non-financial domain?
- Q. What is your competitive advantage in the nonfinancial domain?
- Q. How do you acquire clients in the non-financial domain?
- Q. Why do you focus on the Japanese market in MTBP2027?

#### Client base

- Q. Are there any changes in the top 10 clients in terms of revenue?
- Q. Why are your systems almost never replaced by competitors' systems?

#### Competitive environment

- Q. What kind of companies do you compete with?
- Q. What is your competitive advantage in DX support?

#### New graduate recruitment

- Q. How have you enhanced your brand in the new graduate market?
- Q. How long does it take for new graduates to become ready for working on projects?

#### Mid-career recruitment

- Q. Are the compensation levels you offer competitive?
- Q. What is your competitive advantage in the midcareer recruitment market?

#### Recruitment in general

- Q. Who are the competing firms when hiring?
- Q. How do you analyze the factors that contributed to the decreased turnover rate?
- Q. What are the characteristics of your business partners in the Direct Client Engagement model?
- Q. How do you expect the proportion of employees and business partners to change in the future?
- Q. What do you think about diversity?

#### Culture

- Q. How do you intend to maintain your corporate culture in the future?
- Q. Why is there no halation with Xspear and Simplex?

#### Corporate history

- Q. Why did you choose the MBO?
- Q. What measures have you focused on in the course of growth since the MBO?

#### **Business model**

- Q. What makes your gross profit margin so overwhelmingly high?
- Q. Why can you acquire IP rights?

#### Capital allocation

- Q. How do you plan to improve ROE?
- Q. How should I understand your recognition of goodwill and the risk of impairment?

#### M&A

- Q. What are your criteria or policies for M&A?
- Q. How do you plan to ensure the culture fit after the acquisition?

#### Stock

- Q. What is your policy for the founding members' shareholdings?
- Q. What are your thoughts on the incentive program for officers and employees?

## **Board of Directors**











Data







Name	Hideki Kaneko	Kozo Sukema	Masataka Soda	Keisuke Enosawa	Ryozo Akiyama	Noriyuki Ogasawara	Mari Takahashi	Yasuto Hamanishi	Naoto Hirota
Position	Representative Director, President and CEO	Vice President and Co-COO	Vice President and Co- COO	Director and CFO	Director (Audit and Supervisory Committee Member) Outside Independent	Director (Audit and Supervisory Committee Member) Outside Independent	Director (Audit and Supervisory Committee Member) Outside Independent	Director (Audit and Supervisory Committee Member) Outside Independent	Director (Audit and Supervisory Committee Member) Outside Independent
Audit and Supervisory Committee*1					0	0	0	0	0
Nomination/Compensation Committee*1	0				0	0			
Appointed as Director in	December 2016	March 2021	March 2021	March 2021	March 2021	March 2021	June 2023	July 2022	July 2021
Attendance at Board of Directors meetings	13 / 13	13 / 13	13 / 13	13 / 13	13 / 13	13 / 13	11 / 11*2	13 / 13	13 / 13
Number of shares held*3	10,728,800 shares	446,900 shares	158,900 shares	93,450 shares	2,300 shares	-	-	-	-
Reason for Appointment	Mr. Hideki Kaneko has been appointed as Director because he has been responsible for the management of the Group as Representative Director, President and CEO since 2000 and has promoted the formulation and implementation of management strategies for many years. Therefore, we believe that he will continue to promote the business of the Group and contribute to enhancing the corporate value.	Mr. Kozo Sukema has been appointed as Director because he has extensive business execution experience and achievements in a wide range of business areas as Co-COO and has contributed to the expansion of the Group through deep-diving into clients. Therefore, we believe that he will continue to contribute to enhancing the corporate value of the Group.	Mr. Masataka Soda has been appointed as Director because he has contributed to acquiring new clients in a wide range of business areas as Co-COO, including the promotion of the new businesses launch as Representative Director and President of Xspear Consulting, Inc. Therefore, we believe that he will continue to contribute to enhancing the Corporate value of the Group.	Mr. Keisuke Enosawa has been appointed as Director because he has extensive business execution experience and achievements in the corporate division as CFO and has contributed to strengthening governance and improving organizational capabilities. Therefore, we believe that he will continue to contribute to the sustained growth of the Group by leveraging such experience and knowledge.	Mr. Ryozo Akiyama has been appointed as Outside Director because he has a wealth of knowledge gained through his work experience at a major general consulting firm and his many years of experience as a representative director. Therefore, we expect that he will provide useful advice for us to make appropriate decisions on the deployment of our business strategies.	Mr. Noriyuki Ogasawara has been appointed as Outside Director because he has abundant experience and extensive knowledge in corporate planning, human resources, and systems divisions of financial institutions. Therefore, we expect that he will help ensure soundness and appropriateness of our management decision-making from a comprehensive perspective.	Ms. Mari Takahashi has been appointed as Outside Director because she has gained many years of experience in and insight into the legal profession, particularly by handling numerous trials as a public prosecutor and an attorney. Therefore, we expect that she will supervise and advise our directors on executing their duties from a professional perspective, particularly for strengthening the governance and compliance of our corporate activities.	Mr. Yasuto Hamanishi has been appointed as Outside Director because he has many years of experience and insight in financial institutions, including his experience as general manager and global head of the global investment banking division and outside director of Mizuho Securities USA. Therefore, we expect that he will leverage such knowledge to provide useful advice particularly on our overseas operations from a high-level perspective.	Mr. Naoto Hirota has been appointed as Outside Director because he has a wealth of experience in and extensive insight into business execution and corporate management at financial institutions and other firms. Therefore, we expect that he will help strengthen the management supervisory function to ensure soundness and appropriateness of our corporate activities.
Corporate management	•	•	•	•	•	•	•	•	•
IT/Technology	•	•	•		•				
Finance/Accounting				•				•	
Internationality	•				•			•	•
HR/Talent Development  Legal/Compliance	•	•	•			•	•		

<sup>\*1</sup>  $\odot$  and  $\bigcirc$  denote chair and committee member, respectively.

<sup>\*2</sup> The attendance at Board of Directors meetings of Ms. Mari Takahashi reflects after her appointment as Director on June 16, 2023.

<sup>\*3</sup> The number of shares held represents the number of shares beneficially held by each director

Growth Strategy

Data

## **Practicing Governance** for the Future

Ryozo Akiyama and Mari Takahashi kindly took the time to speak with us on behalf of the outside directors. Director Akiyama supports the Simplex Group in making appropriate decisions on business strategies based on his extensive knowledge gained at a major international general consulting firm and his many years of experience as a CEO. Meanwhile, Director Takahashi contributes to the enhancement of Simplex Group's governance and compliance by leveraging her many years of experience and insight as a prosecutor and lawyer. As experts in their respective fields, they share how they perceive the strengths and governance of our Group.

### Strengths of the Simplex Group and its current state of governance

- From the standpoint of an outside director, what do you feel are the strengths of Simplex Group?

Akiyama: The Simplex Group's strengths are its solid business foundation, accurate grasp of its core competencies, and clear understanding of what it can and cannot do. From a business perspective, we believe that the field of systems development is very unlikely to become obsolete in the near future. Furthermore, with megabanks and major online securities firms as our major clients, our Group is involved in system development that is comparable to social infrastructure. This is an area that cannot be reached by any one individual, no matter how advanced his or her technical capabilities, but can only be achieved by combining the collective knowledge of an organization such as our Group. It can therefore be said that we have built a solid foundation that cannot easily be supplanted by other companies.

On the other hand, in today's rapidly changing world, it is a major risk to remain content with the status quo. Under these circumstances, our Group is taking on ambitious challenges while maintaining a solid business foundation, and at the same time demonstrating a unique competitive edge that other companies do not have. We recognize this as one of the Group's major strengths.



**Takahashi:** I believe that Simplex Group's strength lies in its "organizational climate," which has been fostered through years of accumulated effort. As a lawyer, I often have the opportunity to analyze investigation reports of companies that have been involved in misconduct. What many of these companies have in common is a problem with the organizational climate. Strict deadlines and excessive quotas become the order of the day, and a lack of awareness of corporate ethics and compliance makes it easier for misconduct to occur.

Against this backdrop, I have come to realize (through discussions at our Board of Directors meetings and interviews with our executive directors) that our management philosophy and values, including our 5DNAs code of conduct, are deeply ingrained throughout the company. Each and every employee has a common understanding of "doing the best possible job for the client," and the entire team works together to drive business forward. Furthermore, they take pride in their work and earn the trust of their clients. I am convinced that this kind of organizational climate is a far cry from that of a company prone to scandals, and is one of the Group's greatest strengths.

#### - How do you view the current state of governance at the Simplex Group?

**Akiyama:** The most important aspect of governance is for the Board of Directors to have the ability to stop management from making decisions or to replace the management team when problems arise. In this regard, the majority of our board consists of outside directors, and we have a system in place to ensure sufficient checks and balances.

President Kaneko's leadership, which is both aggressive and prudent, is the source of Simplex Group's growth. Bringing in outside experts in their respective fields as board members helps us to determine the right balance between defensive and offensive measures. In the decision-making process, we aim for multifaceted discussions that incorporate global trends, and we believe that our role is to add value in terms of transparency and logic.

#### - What are the Simplex Group's strengths and challenges when it comes to governance?

**Takahashi:** As I mentioned earlier, our Group is one based on trust in team members and the organization, with a high sense of commitment to achieving our objectives. At the same time, we are anticipating the expansion of the organization in line with our proactive recruitment activity. In my professional career, I have seen many instances where inherent weakness of human beings under certain stressful circumstances can lead to a scandal or misconduct. In the process of adding new associates and expanding the size of an organization, it is easy for irregularities to occur. In these situations, it is important to remember that "people are weak."

Going forward, we believe it is important for the Group to be vigilant of these risks and to expand and improve mechanisms for the early detection and prevention of misconduct. For example, when we have conducted training on the operation of whistle-blowing systems at other companies, we have found cases where the systems and mechanisms were in place but did not actually function the way they were supposed to. However, there is always room for improvement through various measures. In the case of the Simplex Group, we believe that it is important not only to have systems in place but also to ensure they function effectively in practice and are continuously improved.



#### Toward further sophistication in governance

- As outside directors, you both also serve as Audit and Supervisory Committee members. What is the atmosphere like at Board of Directors meetings and Audit and Supervisory Committee member meetings?

**Akiyama:** We have outside directors with a variety of backgrounds and knowledge, which ensures diversity of thinking. Discussions are open and frank, and there is never an atmosphere in which it is difficult to express an opposing opinion. Outside directors are also given sufficient authority, and I do not feel that there are any systemic problems. The other outside directors are also making full use of this system. The division of roles between the Audit and Supervisory Committee members and the Board of Directors is also clear, and I feel that the role of auditing the execution of business by the directors is functioning as it should.

Takahashi: It has been a year since I became an outside director, and likewise, I have never found it difficult to express my views. What matters most at board meetings is the substance of what is being said, not the speaker's gender or age, and I feel that this is an environment that accepts diversity as a matter of course. President Kaneko and all board members are open to diverse opinions at our board meetings, which fosters productive discussions.

One specific episode occurred during a regular meeting with President Kaneko, when we asked him about his perception of gift compliance (rules regarding company dinners and gifts between companies). President Kaneko, in turn, asked about cases and approaches at other companies, and agreed there was a need to expand our efforts in this area. Furthermore, at the board meeting held immediately after the interview, all board members shared the recognition that further attention to gift compliance was necessary to avoid damaging corporate value.

Prior to my appointment as an outside director, I had some concerns that President Kaneko's strong drive to push the business forward as a founder of the company might lead him to have a high tolerance for risk. However, through this experience, I realized that he is someone who genuinely listens to the opinions of those around him, and exhibits strong leadership as a CFO



#### - Finally, please tell us what you are most enthusiastic about for the future.

Akiyama: Active discussion and communication are essential for generating new ideas. To facilitate more multifaceted discussions within the Board of Directors, we could consider inviting various experts, including overseas professionals, as board members. I believe it is important to continue embracing challenges under proactive governance by incorporating diverse perspectives.

In addition, although we have ample opportunities to discuss issues with management at board meetings, we feel that there are fewer opportunities to communicate with employees on the ground. In particular, we would like to increase communication with younger employees, as their innovative perspectives and ideas are often the driving force behind a company's growth.

**Takahashi:** I am the only female director in the current structure. From the time of my appointment to the present day, I have never felt any gender differences in individual discussions, but I do wonder whether the Board of Directors is fully aware of all issues when it comes to individual employees. In this sense, going forward, I would like to have opportunities to meet with individual employees, being mindful of diversity, and bring any concerns they have to the board's attention.

Furthermore, we intend to contribute to enhancing corporate value by making recommendations based on the expertise and knowledge we have cultivated, including the expansion of mechanisms for the early detection and prevention of misconduct.

## Compliance

#### **Compliance and Risk Management Structure**

As human capital management and product quality and safety are two of the materiality issues identified, the management structure places particular emphasis on compliance with respect to employee occupational health and safety and cyber security/data security.

With regard to employee health and safety, the Health and Productivity Management Committee and the Office Environment Committee have been established under the Sustainability Council to examine specific issues and take relevant measures while complying with laws and regulations concerning occupational health and safety. In addition, the statutory Health Committee and Safety Committee are organized under the Health and Productivity Management Committee and the Office Environment Committee, respectively. The Health and Productivity Management Committee is chaired by a director of the Company who oversees the Health Committee, and seeks the participation of occupational health physicians and employee representatives. As such, under a consistent management system, the Committee plans, drafts, and implements measures that contribute to the maintenance and improvement of the physical and mental health of employees and their family members, and the resulting increase in productivity.

#### **Compliance and Risk Management System Diagram**



For the management of risks associated with cyber security and data security, we have appointed a Chief Information Security Officer (CISO) to manage compliance risks pertaining to compliance with the Personal Information Protection Act and laws and regulations related to economic security. The CISO is also the director in charge of the Group's administrative divisions to serve as a check and balance on the operating divisions. Furthermore, the Information Risk Management Committee has been established as an advisory body for the CISO, consisting of the general managers of each division and other members, to resolve issues based on information collected from the entire Simplex Group in a bottom-up manner.

#### Professional ethics

Materiality Issues and Major Risks

In order to ensure compliance, it is important for each and every employee to discipline themselves as a member of the organization under our management philosophy and to fulfill our social mission. We strive to foster compliance awareness so that our employees can act not only in compliance with laws, regulations, and contracts, but also with high ethical standards in accordance with social norms.

#### **Fair Competition**

We have established a basic anti-corruption policy and take strict measures to prevent corruption, including the offering of bribes to public officials. We are also committed to complying with laws and regulations concerning fair competition and business transactions, including the Anti-Monopoly Act and the Subcontract Act (Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors).

#### Ensuring effectiveness in compliance with laws and regulations

In accordance with the Internal Reporting Regulations, we have established an internal reporting desk operated by an external third-party lawyer as the contact person. In the event of receiving a report of a compliance violation or other incident, we have put a system in place to properly investigate the matter and implement corrective measures to the relevant departments. In addition, the Internal Audit Office, consisting of the head of the Internal Audit Office and seven staff members, conducts internal audits with the aim of enhancing compliance as a company, let alone contributing to the improvement of business performance and the safeguard and utilization of assets.

#### Implementation of compliance training

With the aim of strictly prohibiting insider trading that violates the Financial Instruments and Exchange Act, we have established Rules for Preventing Insider Trading and strives to ensure thorough information control. With regard to trading of shares by the Simplex Group's officers and employees, we have established strict periods during which trading is prohibited, and put in place approval procedures and other procedures for trading, as well as training and testing for all employees and business partners.

In addition, as part of efforts to prevent bribery and other corrupt acts and excessive business entertainment mainly against domestic and foreign public officials and deemed public officials, we have established a reporting and approval system and conducts anti-corruption training for our employees.

#### Business development mindful of human rights

We develop our business mindful of human rights. In doing so, we have established a basic human rights policy that sets priority issues based on the results of analysis of the types of human rights that could pose a risk of serious human rights violations in the Group's business activities, as well as the severity of the assumed risk of human rights violations. Please refer to the Sustainability website for details of the Simplex Group Basic Policy on Human Rights.

#### **Efforts to Eliminate Antisocial Forces**

We take a resolute stance against antisocial forces and will immediately end any relationship with them as one of our basic policies. In accordance with the Rules for Elimination of Antisocial Forces and the Implementation Guidelines for Background Check for Relationships with Antisocial Forces, we have put in place a system to eliminate transactions and other relationships with antisocial forces. With respect to our business partners, we perform procedures to confirm that they have no relationships with antisocial forces prior to starting business with them and on a regular basis as well. In addition, candidates for officers are also subject to the same procedure prior to submitting a proposal for election to a general meeting of shareholders. We also confirm with employees that they have no relationships with antisocial forces and require them to submit written pledges.

> For more extensive information, please visit our website □ https://www.simplex.holdings/en/sustainability/



## **Information Security**

#### Initiative to ensure information security

With financial institutions as our main clients, we believe that systemic risk countermeasures in cyber security are critically important. Based on this belief, we are building an infrastructure backed by solid security, developing systems compliant with the FISC Security Guidelines\*1 to prevent financial systemic risks, and conducting system audits by the Internal Audit Office on a regular and ad-hoc basis.

Since our founding, we have consistently engaged in business with an advanced awareness of information security and accumulated extensive expertise and experience in this area. Specifically, we have established the Basic Policy on Information Security and have adopted robust security measures for software and hardware in our internal systems to thoroughly prevent the leakage of confidential information. In addition, we are constantly striving to improve security awareness and knowledge of all employees through monthly theme-specific training sessions and an annual comprehension measurement test.

Furthermore, in light of the importance of maintaining confidentiality in business-to-business transactions as well as the confidentiality of personal information handled by clients, we have established the Personal Information Protection Policy and develop and provide robust products and services under strict control.

#### Third-party certification

We have obtained security-related certifications from third-party organizations to ensure that our clients can use our systems safely and securely. For internal control, we have obtained the SOC1 Type 2 Report and SOC2 (Security) Type 2 Report\*2, whereas for information security, we have obtained the Information Security Management System (ISMS)\*3 certifications for each solution. The acquisition of these third-party certifications not only enhances our information security, but also improves the reliability of the systems provided by the Simplex Group.

#### Services covered by SOC1 and SOC2

System integration services associated A)SOC1 Type2 Report with Simplex Inc.'s solutions/Operation and maintenance services/Subscription (ASP) services

B)SOC2 Type2 Report (Applicable criteria: Security)

System integration services associated with Simplex Inc.'s solutions/Operation and maintenance services/Subscription (ASP) services

SOC1



SOC2



#### Scope of ISMS (ISO27001) Registration

- Software development, maintenance, operation and provision of service infrastructure for FX (foreign exchange margin trading) systems
- Software development, maintenance, operation and provision of service infrastructure for cryptoasset systems
- Cloud system development, maintenance, operation and provision of service infrastructure for financial institutions

IS577203 / ISO27001







- \*1 FISC Security Guidelines are a set of guidelines and explanatory notes on security measures for computer systems for financial institutions, etc., established by the Financial Information Systems Center (FISC) as voluntary guidelines for financial institutions, etc. in Japan
- \*2 A report that expresses an assurance opinion based on an objective evaluation from a third-party perspective regarding SOC (System and Organization Controls), a framework for evaluating and reporting on internal control over fiduciary services at a fiduciary company, as provided by the American Institute of Certified Public Accountants (AICPA).
- \*3 A system in which a third party examines and certifies that an organization has put in place a management system for confidentiality, integrity, and availability of information security as well as a management system by repeating the PDCA cycle.

#### Simplex-CSIRT Initiatives

Cyber-attacks targeting the vast amount of client data, financial assets and cryptoassets held by companies are becoming more sophisticated, and the required level of security measures and resilience is increasing every year.

Simplex-CSIRT was established in 2017 as a team dedicated to centrally control security across Simplex Group to strengthen organizational security and achieve effective security against the abovementioned threats.

The Simplex-CSIRT is responsible for developing security policy, guidelines and rules, providing education and training, responding to any incidents, and review security in system development, operation and maintenance; primarily in the following two areas: Group-wide security management and the provision of security services for the commercial systems we provides to our clients.

Group-wide security management involves security checks when using non-standard software and external services, dissemination of vulnerability information, response to customer audits, and security training.

On the other hand, in the provision of security services for commercial systems we provides to our clients, Simplex is responsible for defining security requirements, design, solution selection, implementation, and operation for the commercial systems we provide, in cooperation with project members.



Tomoyuki Wada Principal, Simplex Inc. sbout the Simplex Group Business Model Growth Strategy Materiality Issues and Major Risks **ESG: Environment** Data Simplex Integrated Report 2024 57

# ESG: Environment

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## **Response to Environmental Issues**

Business Model

#### **Energy Management**

In June 2021, the Ministry of Economy, Trade and Industry of Japan released the Green Growth Strategy for carbon neutrality by 2050. The Strategy recommends the promotion of next-generation power management to achieve zero energy in office buildings. It also states that data centers are to be carbon neutral by 2040. The government will support efforts to achieve zero emissions in data centers by improving the ratio of renewable energy use and energy-saving performance. Furthermore, the government will strive to concurrently realize a digital society and a green society by strengthening resilience through promoting decentralized location in regional cities and utilizing renewable energy to improve business continuity capacity in the event of a disaster.

Given these developments, the Simplex Group locates its offices in office buildings operated by Mori Building Co., Ltd., which takes proactive and cutting-edge approaches to environmental issues. Approximately 98% of the offices we occupy use electricity derived from fully renewable energy sources. By proactively selecting sustainable business environments, we are engaging in responsible energy management.

For internal systems, we actively utilize cloud servers, which are energyefficient and help reduce the burden on the global environment. We are also developing cutting-edge cloud computing support services for our corporate clients.

Since 2020, we have been participating in FISC-compliant APN Consortium of Amazon Web Services (AWS) to promote the use of AWS by financial institutions and the facilitation of compliance with the FISC Security Guidelines\*1.

- \*1 FISC Security Guidelines are a set of guidelines and explanatory notes on security measures for computer systems for financial institutions, etc., established by the Financial Information Systems Center (FISC) as voluntary guidelines for financial institutions, etc. in Japan
- \*2 | HEP stands for Japan Habitat Evaluation and Certification Program, which evaluates and certifies initiatives that contribute to the conservation and restoration of biodiversity. The program is developed and operated by the Ecosystem Conservation Society-Japan.
- \*3 For more information on biodiversity initiatives at our business sites and our efforts to conserve water resources, please visit the Sustainability website of Mori Building Co., Ltd.

#### **Biodiversity**

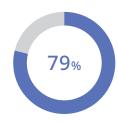
The Simplex Group is housed in the Azabudai Hills Mori JP Tower, which is located in a 2.4ha green space, including the 6,000m<sup>2</sup> central square, and the Toranomon Hills Mori Tower, which features 6,000m<sup>2</sup> of green space built on the open space and has received the highest rank (AAA) of JHEP certification \*2 in recognition of its biodiversity-conscious landscaping plan \*3

#### Water conservation

At the Azabudai Hills Mori IP Tower and the Toranomon Hills Mori Tower, where Simplex Group occupies offices, we utilize relatively clean wastewater as recycled water for flushing toilets in offices and adopt watersaving fixtures with a high performance. Furthermore, we collect and filter rainwater from the entire site to sprinkle on exterior plantings\*3.

#### Percentage of renewable energy used in data centers and other facilities

■ Renewable energy (including other reduction contributions) ■ Others



#### Percentage of renewable energy used in offices

Renewable energy Others





## **Response to TCFD Recommendations**

#### Disclosure based on TCFD Recommendations

Through our business activities, we confront the issues that must be dealt with to realize a sustainable society, aiming to achieve the kind of sustainable development that grows along with the global environment and society. As part of these efforts, in June 2023, we agreed to the TCFD recommendations, which established the framework for international climate change disclosure, and declared our intention to join the TCFD Consortium. Based on this recommendation and in recognition of climate change's impacts on our business activities as a company, we are committed to promoting efforts to achieve a decarbonized society, and to improving our disclosure practices in line with the TCFD recommendations.

#### **Board of Directors**

Develops group-wide strategies, and incorporates into the medium-term business plan, risk management policies, and business strategies

Reports once every six months on the results of considering climate change-related risks and opportunities and the progress of initiatives





#### **Sustainability Conference**

Chair: President and CEO

- · Identify and assess climate change-related risks and opportunities
- · Monitor the progress of initiatives on priority

Report

Report the results of considering climate change-related risks and opportunities

#### **Executive Committee**

Chair: President and CEO

- · Responsible for overall risk management
- Evaluate risks, including those not related to climate change and discuss and management methods, policies, and coping measures

#### Governance

Under the supervision of Board of Directors, we carry out group-wide risk management at the Executive Committee meetings, which are chaired by the Representative Director, President and CEO (hereinafter "CEO") and comprise the CEO and executive directors. For the identification and assessment of climate change-related risks and opportunities, authority is delegated to the Sustainability Council

The Sustainability Council consists of the CEO as well as the executive directors of the Company and its subsidiaries and is chaired by the CEO. Assessments of climate change-related risks and opportunities discussed at Sustainability Council meetings, as well as the progress of related goals and initiatives, are reported to and debated by the Executive Committee as part of group-wide risk management. They are also reported to the Board of Directors on a semi-annual basis, enabling effective board oversight.

Based on these reports, the Board of Directors develops group-wide strategies and incorporates them into the medium-term business plan, risk management policies, and business strategies.

#### Risk management

We define risk as any hazard that could result in economic loss, business interruption or suspension, or loss of credibility or brand image, and we have implemented a risk management system to mitigate and avoid risk.

At Sustainability Council meetings, each member reports on climate change issues based on the environment surrounding the Group, and a wide range of climate change-related risks are identified. These identified risks are then evaluated on two axes: the likelihood of occurrence and impact on the Group in the event of an actual occurrence, and the risk level of each risk is determined. Significant risks are reported to the Executive Committee and the Board of Directors.

For risks related to climate change that are considered material, the Sustainability Council sets targets, manages progress, and reports to the Board on a semi-annual basis. This provides a mechanism for regular monitoring of risks and helps ensure that the progress of measures is assessed, and material risks are re-identified.

#### Strategy

With regard to the impact of climate change on the Group's business, we recognize that risk response (avoidance, reduction, transfer, and retention) and opportunity capitalization are critical management issues. As a result, we have broadly considered the short-, medium-, and long-term impacts of climate change and identified material risks and opportunities.

Timeline	Period covered	Approach to assumed developments along the timeline
Short term	0–3 years	Organize items that are already evident, such as current initiatives and areas where sales are increasing, as short-term issues.
Medium term	3–10 years (including 2030)	Organize items that are not occurring right now but have a very high likelihood of occurring by 2030, such as a carbon tax, as medium-term issues.
Long term	10–30 years (including 2050)	With a focus on the physical risks of disasters, organize items anticipated to have a significant impact after the 2030s as long-term issues.

With respect to the impact of each risk and opportunity on our business, we conducted an analysis under two scenarios: a scenario where global temperatures rise by less than 2°C ("below 2°C scenario"), in which climate change policies and regulations are expected to progress; and a scenario where they rise by 4°C ("4°C Scenario"), in which disasters would become more severe and chronic risks caused by global warming are expected. From the analysis, we calculated the impact (impact score) on the business along the two axes of financial impact and likelihood of occurrence, as shown below.

Based on the above analysis, we identified the risks and opportunities that could impact our business activities due to climate change, as detailed in the table below. Note that, in considering each item, we referred to the IEA (International Energy Agency) WEO 2022 Net Zero by 2050, IEA WEO 2022 STEPS, IPCC RCP8.5 scenario, etc. For the calculation method of the impact on the business, details of each scenario and our perception of the business environment under each scenario, please visit our website.

> For more detailed information, please visit our website. https://www.simplex.holdings/en/sustainability/environment/tcfd/



#### **Impact of Climate Change on the Group**

Risks and opportunities	Туре	Impact	Major impact on the Group	Timeline	Busines: Below 2°C		Possible measures
	Policy and legal risk	Carbon Pricing Mechanism	•Cost increases due to new carbon taxes could be imposed on the Group's $CO_2$ emissions.	Medium term	Low	-	Switch power consumption in offices to power derived from renewable energy sources.  Continuously monitor and strive to reduce greenhouse gas emissions.
Transition risks	Market risk	Changing Customer Behavior	<ul> <li>In an environment where customers are choosing data centers with less environmental impact, we could lose sales opportunities by continuing to use existing data centers with high environmental impact.</li> <li>Costs to implement measures could increase, such as changing to a data center with low environmental impact.</li> </ul>	Medium term	Medium	-	•Choose data centers and cloud solutions with low environmental impact and high energy efficiency.      •Conduct ongoing surveys of environmental regulation trends and consider coping measures.
		Sector condemnation	•Sales could decline due to less demand for crypto asset trading platforms as a result of the massive power consumption required for blockchain mining.	Medium Low — trends and consider coping medium	3 3 ,		
	Reputational risk	More stakeholder concerns or negative stakeholder feedback	•Loss of trust from customers or shareholders by failing to implement adequate climate change measures could reduce corporate value, causing long-term damage to the Group's brand image.	Medium term	Low	-	Continuously monitor and strive to reduce greenhouse ga emissions.  Choose data centers and cloud solutions with low environmental impact and high energy efficiency.  Conduct ongoing surveys of environmental regulation trends and consider coping measures.  Use climate change as an opportunity to more clearly define risk management.  Proactively disclose non-financial sustainability information Participate in international climate change initiatives.  Regularly review BCP plans and regularly conduct emergency drills.
Physic	al risks	Increased frequency of typhoons, floods, and other extreme weather events that cause extensive damage	•Business opportunities could be lost due to data center outages.	Long term	Low	Medium	Regularly review BCP plans and regularly conduct emergency drills.  Avoid or reduce disaster risks by geographically distributing data centers and utilizing cloud computing.

Business Model

Risks and opportunities	Туре	Impact	Major impact on the Group	Timeline	Time Below 2°C		Possible measures
		Financing for the development and/or expansion of low-emission services	Lower financing costs through sustainability bond financing that provides favorable financing.	Short term	Low	-	<ul> <li>Proactively disclose non-financial sustainability information.</li> <li>Consider third-party verification of greenhouse gas emissions, which may become a financing requirement, and continuously monitor company emissions.</li> </ul>
	Products and Services	Development of solutions for climate adaptation, resilience, and insurance risk	• Increased use of remote work to ensure business continuity due to restrictions on outdoor movement caused by disasters, temperature changes, and other factors could expand opportunities to provide our AI-based remote work solution services as demand for ICT infrastructure increases.	Medium to long term	Medium	Medium	<ul> <li>•In addition to our existing solutions, develop and provide solutions that are attuned to changes in how customers work in response to climate change.</li> <li>•Develop and provide new solutions that are tailored to customers' climate change measures created through the use of ICT.</li> </ul>
Opportunities	ns Markets		As climate change progresses, causing diversification of insurance products, there could be more opportunities to sell the insurance solutions we handle and to expand sales due to more opportunities to develop new systems.	Medium term	Medium	High	
			Sales opportunities could expand through orders to integrate or consult on DX-based climate change response systems. (weather derivatives, etc.).	Medium term	Medium	-	
		Taking proactive action on climate change	<ul> <li>By improving our social credibility and image, we could increase our advantage over other companies in recruiting employees and reduce recruitment costs.</li> <li>Stock price could increase due to increased trust from customers or shareholders.</li> </ul>	Medium term	Medium	-	Use climate change as an opportunity to more clearly define risk management.     Proactively disclose non-financial sustainability information.     Participate in international climate change initiatives.
	Resilience	Improvement of employee working conditions, etc.	Work style reform via ICT and business efficiency process reform via DX could improve business continuity as well as help maintain and improve working conditions, resulting in higher employee satisfaction and lower turnover.	Short term	Low	Low	• Diversify risks and streamline business processes through flexible working styles that use ICT technology, such as remote work.

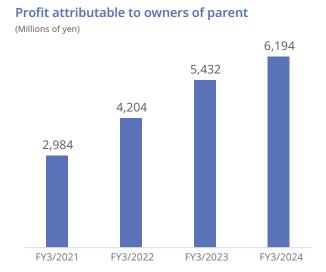
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## **Financial Highlights**

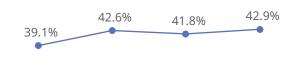






#### **Gross profit margin**

FY3/2021



### **Operating profit margin**



#### **ROE**



FY3/2022

FY3/2023

FY3/2024

<sup>\*</sup> The above figures are prepared in accordance with International Financial Reporting Standards (IFRS).

## **Financial Data**

(Millions of yen)

Summary of four-year financial results (consolidated)*1*2	FY3/2021	FY3/2022	FY3/2023	FY3/2024
Revenue	27,532	30,579	34,946	40,708
Gross profit	10,757	13,016	14,597	17,450
Gross profit margin (%)	39.1	42.6	41.8	42.9
Operating profit	4,510	6,362	7,451	8,850
Operating profit margin (%)	16.4	20.8	21.3	21.7
Profit before tax	4,324	6,191	7,298	8,744
Profit attributable to owners of parent	2,984	4,204	5,432	6,194
Basic earnings per share <sup>*3</sup> (yen)	61.80	83.06	96.91	107.54
Diluted earnings per share*3(yen)	53.97	71.74	91.23	103.47
Total assets	61,678	66,934	70,266	79,248
Total liabilities	30,216	29,640	28,282	32,159
Total equity	31,462	37,294	41,984	47,089
Equity ratio (%)	51.0	55.7	59.7	59.4
Cash flows provided by (used in) operating activities	5,255	7,561	3,733	8,329
Cash flows provided by (used in) investing activities	△234	△328	△1,441	△3,673
Cash flows provided by (used in) financing activities	△2,348	△1,346	△3,435	△3,772
Cash and cash equivalents at end of year	8,068	13,966	12,832	13,731
Share capital	285	814	1,013	1,189
ROE*4(%)	9.8	12.2	13.7	13.9
ROE*-4(%)	4.8	6.5	7.9	8.3

<sup>\*1</sup> Figures are based on International Financial Reporting Standards (IFRS).

<sup>\*2</sup> Figures are excerpts from the consolidated financial statements.

<sup>\*3</sup> In accordance with a resolution at the Board of Directors' meeting held on June 24, 2021, the Company conducted a 100-for-1 stock split of ordinary shares effective on July 10, 2021. However, the figures for basic and diluted earnings per share were calculated on the assumption that the stock split had been conducted at the beginning of FY3/2021.

<sup>\*4</sup> Amounts of equity attributable to owners of parent and total assets to be used as denominators in calculating ROE and ROA, respectively, are the averages of the beginning and ending balances.

## Non-financial Data

#### Social

Employment (consolidated)	FY3/2023	FY3/2024
Number of employees	1,047	1,350
Number of employees newly hired	402	303
New graduates*1	290	185
Mid-career professionals	112	118
Turnover rate(%)	9	8
Average age (years old)	31.7	31.0
Average years of service (years)	4.5	4.2
Average annual salary (thousand yen)	9,565	9,292

\*1 The number of new graduates newly hired is based on the number of those decided to be hired during each fiscal year, and the actual date of joining the company is April 1 of the following fiscal year.

Productivity (consolidated)	FY3/2023	FY3/2024
Average number of engineers and consultants during the period	1,436	1,678
Employees engineers and consultants	894	1,156
Business partner engineers and consultants*2	542	522
Revenue per engineer/consultant (million yen)*3	24	24

<sup>\*2</sup> Business partners refer to temporary workers, employees of subcontractors, and equivalents who are engaged in work in the office environment of Simplex Group.

<sup>\*3</sup> The figures are calculated by diving the annual revenue by the average number of engineers and consultants during the period.

Skills and competencies (consolidated)	FY3/2023	FY3/2024
Number of applications for financial support for certification	102	121
Number of AWS certifications earned*4	376	593
Number of Information Technology Engineer certifications earned*5	738	1,091
Number of advanced certifications including RISS (Registered Information Security Specialist)*5	150	188
HR development and training costs (million yen)	860	1,097
Personnel expenses incurred during the training period for those who received job offers and new graduates (million yen)	435	642
Time spent on training for skill development (hours)	176,454	204,607
Training hours per employee (hours)*6	169	152

<sup>\*4</sup> AWS: Amazon Web Services

Organizational culture <sup>*7</sup> (consolidated)	FY3/2023	FY3/2024
Number of engagement surveys conducted (times)	4	4
Engagement score (marks)*8	73	73
Number of in-house short-term study programs used (cases)	14	14
Number of internal conferences held (times)	6	4
Number of sessions at internal conferences (sessions)	85	55

<sup>\*7</sup> For details on each activity and program, please refer to page 43 Personnel System.

<sup>\*8</sup> The figures are the results of the engagement surveys conducted in February 2023 and February 2024.

HR diversity (consolidated)	FY3/2023	FY3/2024
Percentage of women to total employees (%)	12.6	15.7
Percentage of women in management positions (%)	6.3	6.6
Percentage of women to employees hired as new graduates (%)	22	15
Total number of retirees rehired	4	6
Number of retirees rehired during the period	3	2

Internal environmental improvement (consolidated)	FY3/2023	FY3/2024
Percentage of paid leave taken (%)*9	61.9	66.6
Wage disparity between male and female workers (%)*10	81.2	77.5
Regular workers (%)	81.3	77.7
Non-regular workers (%)	81.2	73.0
Number of employees taking birth-related leave before and after childbirth	3	8
Number of employees taking childcare leave	13	18
Male employees	10	14
Female employees	3	4
Percentage of male employees taking childcare leave (%)	38.5	53.8
Percentage of female employees taking childcare leave (%)	100.0	100.0
Number of employees taking nursing care leave	2	1

<sup>\*9</sup> Since annual paid leave is granted on the record date of January 1 of each year, the figures are for the period from January 1 to December 31, 2022 and 2023.

<sup>\*5</sup> Numbers of Information Technology Engineer certifications earned and advanced certifications earned including RISS awarded by the Information-technology Promotion Agency, Japan.

<sup>\*6</sup> The figures are calculated by dividing the time spent on training for skill development by the number of employees at the end of each fiscal year.

<sup>\*10</sup> The wage disparity between male and female workers for FY3/2024 is slightly lower than the average for all companies applying for the 2023 Nadeshiko Brand (81.1%), but higher than the average for companies in the information and telecommunications industry (72.0%). This is attributable in part to Simplex Group's evaluation system. Other factors contributing to the disparity are thought to be the salaries of general staff, who are more likely to be women. (See page 43 Personnel System).

ESG

Board composition*1(non-consolidated)	FY3/2023	FY3/2024
Total number of directors	9	10
Outside directors	5	6
Percentage of outside directors (%)	56	60
Number of female directors	0	1
Percentage of female directors (%)	0	10

<sup>\*1</sup> As of the date of issue of this report, there were nine directors in total, including five outside directors (56% of the total) and one female director (11% of the total).

Board of Directors meetings (non-consolidated)	FY3/2023	FY3/2024
Number of meetings held (times)	12	13
Attendance rate of all directors (%)	99	100
Attendance rate of outside directors (%)	100	100

Audit and Supervisory Committee meetings (non-consolidated)	FY3/2023	FY3/2024
Number of meetings held (times)	13	14
Attendance rate of all Audit and Supervisory Committee members (%)	100	100

Nomination and Compensation Committee meetings (non-consolidated)	FY3/2023	FY3/2024
Number of meetings held (times)	2	2
Attendance rate of all Nomination and Compensation Committee members (%)	100	100

Sustainability Council meetings (non-consolidated)	FY3/2023	FY3/2024
Number of meetings held (times)	3	10

Information security (Consolidated)	FY3/2023	FY3/2024
Percentage of employees who participated in the annual measurement of the degree of understanding security (%)	100	100
Number of Information Risk Management Committee meetings held (times)	57	57
Number of security incident response drills conducted (times)	1	1
Number of times information security education themes are communicated internally (times)	12	12
ISMS certification obtained*2	Obtained for certain solutions	Obtained for certain solutions

<sup>\*2</sup> For details on ISMS certification, please refer to page 56 Information Security.

#### **Environment**

Greenhouse gas (GHG) emissions *3 *4(consolidated)		FY3/2023	FY3/2024
Scope 1 (direct emissions from owned or controlled sources)	(t-CO2)	0	0
Scope 2 (indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company)	(t-CO2)	445.8	10.3
Scope 3 (all other indirect emissions that occur in the reporting company's supply chain	(t-CO2)	5,270.4	6,880.0
Category 1 Purchased goods and services	(t-CO2)	3,575.1	3,376.1
Category 2 Capital goods	(t-CO2)	759.2	1,980.0
Category 3 Fuel- and energy-related activities not included in Scope 1 or Scope 2	(t-CO2)	75.2	77.2
Category 5 Waste generated in operations	(t-CO2)	55.5	16.4
Category 6 Business travel	(t-CO2)	149.7	418.2
Category 7 Employee Commuting	(t-CO2)	655.8	1,012.1

<sup>\*3</sup> Each item is calculated based on the Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain (March 2022, Ministry of the Environment and Ministry of Economy, Trade and Industry). Scope 1 emissions of Simplex Group are excluded from the calculation because they are negligible. In addition, categories not listed above are not included in the calculation because they are either not applicable or of low significance to Simplex Group.

<sup>\*4</sup> The main factors for the increase in GHG emissions consist of temporary and permanent factors. The temporary factors include the replacement of the internal system environment and an increase in capital goods expenditures associated with the expansion of office space. The permanent factors include an increase of approximately 300 employees from the end of the previous fiscal year, the resumption of off-site training programs following the end of the COVID-19 infection, and an increase in business travel and commuting expenses, all of which are expected to increase gradually. On the other hand, the decrease in GHG emissions was mainly due to the switch to renewable energy sources in office buildings, cloud services, and data centers, which are expected to continue contributing to the reduction of emissions.

Energy consumption and renewable energy usage ratio (consolidated)	FY3/2023	FY3/2024
Office building energy consumption (MWh)	1,102	1,131
Office building renewable energy usage rate (%)	92	98
Percentage of data centers and other facilities using renewable energy (%)*5	56	79

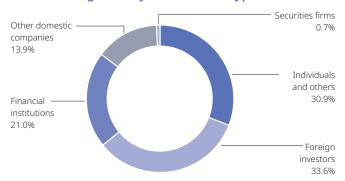
<sup>\*5</sup> In calculating the percentage, the percentage of renewable energy and the reduction contribution rate for electricity used the data centers and cloud services contracted by Simplex Group are translated into electricity consumption.

## Status of Shareholdings (as of March 31, 2024)

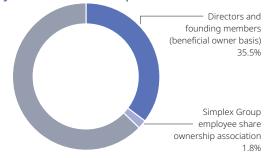
#### **Basic information**

Stock exchange listing	Tokyo Stock Exchange Prime Market
Securities code	4373
Date of listing	September 22, 2021
Total number of shares authorized to be issued	d 114,704,000 shares
Total number of shares issued	58,182,950 shares
Number of shareholders	5,002 shareholders
Number of trading unit shares	100 shares

#### Shareholding ratio by shareholder type



## Shareholding ratio by directors, founding members and employee share ownership association



#### Shareholder distribution

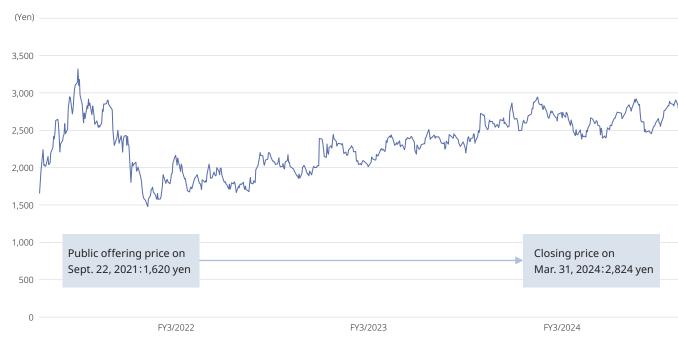
Category	Number of shareholders	Number of shares held
Government and municipalities	_	_
Individuals and others	4,690	17,967,937
Foreign investors	210	19,530,017
Financial institutions	18	12,195,200
Other domestic companies	53	8,091,799
Securities firms	30	397,850
Shares held in own names	1	147
Total	5,002	58,182,950

#### **Major shareholders**

	Shareholder Name	Number of shares held	Shareholding ratio
1	Hideki Kaneko	7,819,712	13.4%
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	5,936,500	10.2%
3	Custody Bank of Japan (Trust Account)	4,199,800	7.2%
4	SBI Holdings, Inc.	3,296,200	5.7%
5	MLPFS CUSTODY ACCOUNT*1	3,000,000	5.2%
6	Mitsuru Igarashi	2,222,800	3.8%
7	Kenichi Tanaka	1,715,000	2.9%
8	TK & Company K.K.*2	1,454,544	2.5%
8	YK & Company K.K.*2	1,454,544	2.5%
10	Yasuhito Fukui	1,400,000	2.4%
6 7 8 8	Mitsuru Igarashi Kenichi Tanaka TK & Company K.K. <sup>*2</sup> YK & Company K.K. <sup>*2</sup>	2,222,800 1,715,000 1,454,544 1,454,544	

<sup>\*1</sup> The beneficial owner of this account is Mitsuru Igarashi, a founding member of the Company.

#### Changes in share price since listing (September 2021)



<sup>\*2</sup> The beneficial owner of this account is Hideki Kaneko, Representative Director, President and CEO of the Company.

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## Company Information (as of March 31, 2024)

#### **Company Outline**

Company Name Simplex Holdings, Inc.

Founded September 16, 1997

December 1, 2016 (newly established Incorporated

through corporate reorganization)

Share capital 1,189 million yen

Number of employees 1,350 (consolidated)

Group Simplex Inc.

companies Xspear Consulting, Inc.

> Deep Percept Inc. Simplex Global Inc. Simplex U.S.A., Inc.

Simplex Consulting Hong Kong, Limited

Main business Management and control of subsidiaries and all activities

incidental or related thereto

Location Head office (registered)

1-23-1 Toranomon, Minato-ku, Tokyo, Japan

**Toranomon Office** 

19F Toranomon Hills Mori Tower, 1-23-1 Toranomon, Minato-ku, Tokyo 105-6319, Japan

Azabudai Office (opened in May 2024)

18F Azabudai Hills Mori JPTower, 1-3-1 Azabudai, Minato-ku, Tokyo 106-0041, Japan

#### **Reader Survey**

Materiality Issues and Major Risks

We are fully aware that stakeholder feedback is essential for improving and enhancing the Integrated Report in the future. We look forward to hearing your opinions.



Readers' Survey in Forms

https://forms.office.com/r/z80sf9Uzhe?origin=lprLink

#### **IR Site Information**



IR Information

https://www.simplex.holdings/en/ir/

#### **Sustainability Site Information**



Sustainability

https://www.simplex.holdings/en/sustainability/

### **Disclosure Policy**

#### Basis of information disclosure

We will carry out prompt disclosure of information under the principles of transparency, openness and continuity in accordance with relevant laws and regulations such as the Financial Instruments and Exchange Act, and rules defined by the Tokyo Stock Exchange pertaining to timely disclosure (the "Timely Disclosure Rules"). Information determined to be important or beneficial for shareholders or investors to understand us will be proactively and fairly disclosed even if this information is not required to be disclosed by relevant laws and regulations or the Timely Disclosure Rules.

#### How information will be disclosed

For information disclosure following the Timely Disclosure Rules, the information will be disclosed on TDnet (Timely Disclosure network) provided by the Tokyo Stock Exchange, and then promptly posted on our website. We will endeavor as much as possible to fairly and widely convey information which does not fall under the Timely Disclosure Rules by, for example, similarly posting such information on our website.

#### Forward-looking statements

Information disclosed by the Company pertaining to the future, such as forecasts, predictions, targets, and plans for Simplex Group is based on determinations or assumptions made by the Company at the time of disclosure, and do not constitute a promise or quarantee to our future financial results and measures. Actual results may take on greatly different outcomes due to various factors.

#### **Quiet Period**

In order to prevent the leakage of important corporate information and ensure fairness, the Company has a "Quiet Period" from a week before the end of the fiscal quarter to the earnings release day as a general rule. In this period, the Company refrains from answering questions regarding the Company's results and giving relevant comments. However, this does not apply to the occurrence of material events that the Company believe will have a significant impact on the investment decisions of shareholders or investors, even during this period.