**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

Simplex Integrated Report 2024 13

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.

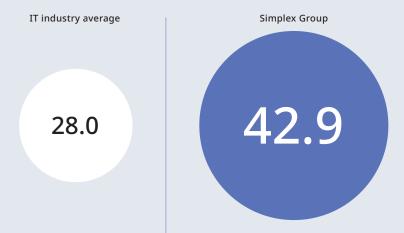
The Simplex Group's industry-leading gross profit margin objectively indicates that all of the above factors are achieved at a high level. In other words, it indicates the high level of value-added services we provide to our clients.

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.

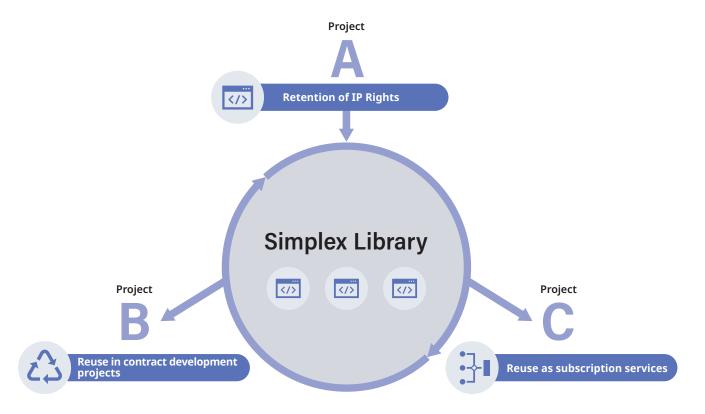
See Acquisition of IP Rights (▶Page 17)

## **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.



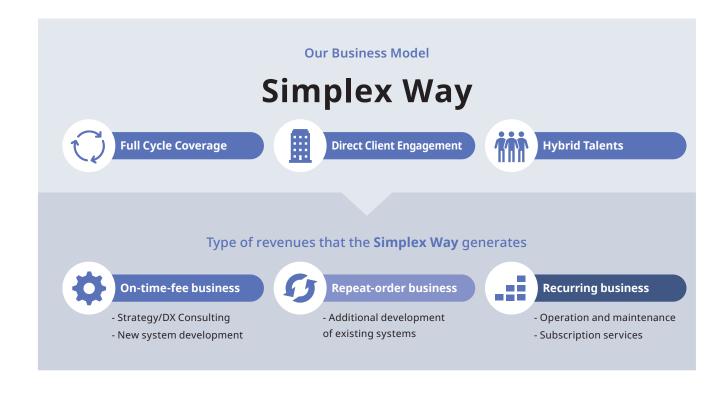
## **Repeat-order business**

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.

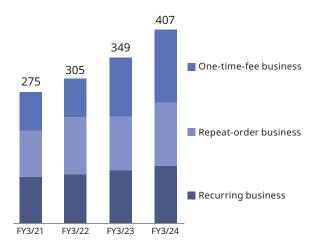


## **Recurring business**

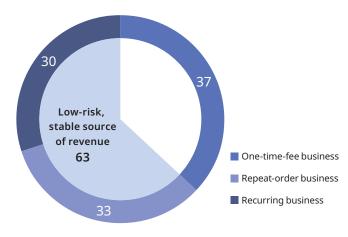
Recurring business refers to a project in which monthly revenue is stably recorded as long as the contract with the client continues. Specifically, revenue from recuring business consists of operation and maintenance services including 24/7 system operation and monitoring, troubleshooting and recovery 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 (%)

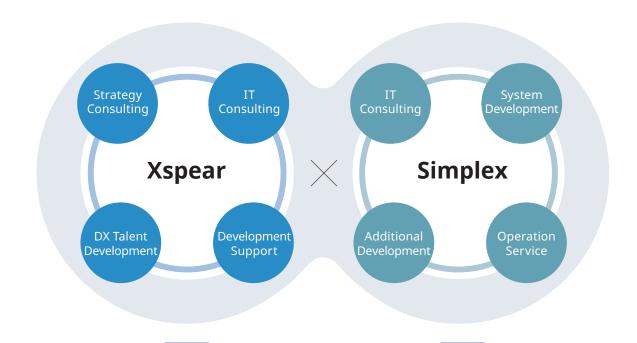


## **Group Synergies**

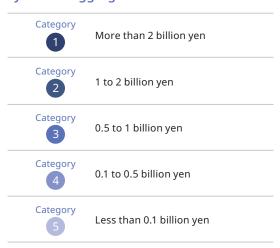
### Promoting domain expansion and deep-diving through group synergies

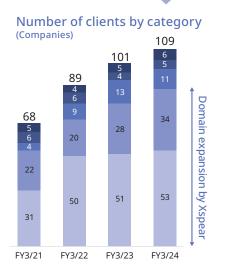
Since its founding in 1997, Simplex, a tech firm, has grown by gaining the support of the user departments that actually use the systems, such as dealers and traders at financial institutions. Since the establishment of Xspear in 2021, we have started a strategic consulting practice focused on the DX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

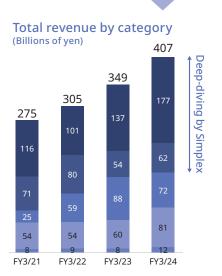
Our current basic growth strategy has two prongs: domain expansion through consulting services provided by Xspear and deep-diving into the domain by Simplex with the Simplex Way as the driver. The graphs below show the number of clients and total revenue by category, grouping clients based on annual 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.