



February 5, 2026

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Listing: Tokyo Stock Exchange
Securities code: 4414
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**Notice Regarding Publication of Transcript and Video of the Financial Results Briefing for
the Third Quarter of the Fiscal Year Ending March 2026**

We have published the transcript and video of the “Financial Results Briefing for the Third Quarter of the Fiscal Year Ending March 2026” held on February 6, 2026.

The transcript covers an overview of the financial results for the third quarter of the fiscal year ending March 2026, recent topics, our latest updates, our growth strategy going forward, and the Q&A session.

[Date and Time]

Friday, February 6, 2026, 13:00–14:00 (JST)

[Format]

Webinar delivered via Zoom

[Speaker]

Koji Kurokawa, Representative Director and CEO

[Transcript and Video Link]

<https://www.youtube.com/watch?v=33c1Ij-E8pA>

*You will be redirected to the YouTube “FLECT IR Channel.”

*The video is available in Japanese only.



FLECT Co., Ltd.

Financial Results Briefing for the Third Quarter of the Fiscal Year Ending
March 2026

February 6, 2026, 13:00–14:00 (JST)

[Speaker]

Koji Kurokawa, Representative Director and CEO

(3rd Quarter, Fiscal Year Ending March 2026) Financial Results Summary



[†] Professional human resources such as engineers and managers in the Cloud Integration Services Division, excluding administrative personnel (as of the end of December 2025)

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I would like to explain the Q3 FY2025 financial results.

Here is the financial results summary. First, the cumulative Q3 numbers: sales decreased by 0.2% YoY to JPY5,968 million, operating income increased by 2.2% YoY to JPY791 million, and net income increased by 1.6% YoY to JPY474 million.

The Company's efforts from the beginning of the current fiscal year to strengthen our proposal organization have led to a solid expansion of transactions with some existing customers, and we achieved solid QoQ sales growth.

Secondly, Q3 also saw a steady increase in new customers, with the number of quarterly contract customers among major companies increasing significantly by 14 YoY to 65.

While we achieved expansion of transactions with some existing customers, new customers tended to start small. Therefore, quarterly ARPA with major companies decreased YoY by JPY7 million to JPY30.8 million.

Third, the number of engineers and other employees increased YoY by 55 and by 5 from the previous quarter. However, employee departures exceeded expectations, and the annual plan was revised downward to 417 from 424 at the end of FY2025.

Lastly, point four, the full-year earnings forecast for FY2025 has been

revised downward because net sales did not increase enough to offset the slower-than-expected sales growth since Q1, although we achieved QoQ sales growth.

Specifically, we revised net sales to JPY8,237 million, operating income to JPY1,204 million, and net income to JPY644 million.

(3rd Quarter, Fiscal Year Ending March 2026) Topics -1

We have obtained reseller certification for Salesforce licenses for the public sector and have launched an ID platform implementation package utilizing Auth0.

Certified as a reseller of Salesforce licenses for the public sector

— Strengthening our solution capabilities and creating new revenue opportunities in the public sector —

We have been certified by Salesforce Japan Co., Ltd. as a reseller of Salesforce licenses for the public sector.

This enables the direct provision of Salesforce licenses and related services to central government ministries and agencies, local governments, and affiliated organizations, which is expected to strengthen our solution capabilities and create new revenue opportunities in the public sector.

We will continue to focus on winning projects and strengthening our customer support system in the public sector.



Launch of an identity platform implementation package utilizing Auth0

— Achieving Enhanced Security and Improved Customer Experience for High-Quality, Seamless Implementation —

We have launched an identity platform implementation package built on Auth0, the customer identity platform service provided by Okta, Inc. (headquartered in the United States). Based on Auth0, this is a comprehensive identity platform implementation package whose functions have been enhanced and standardized by our company, which has one of the strongest track records of implementations in Japan. This enables us to provide one-stop support for implementing a high-quality, seamless identity platform while keeping initial costs under control.

Comprehensive ID Platform Implementation Package
Centered on Auth0, Designed for Both Security and UX



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The next slide is about Q3 topics. First, we are now certified as a reseller of Salesforce licenses for the public sector.

This certification enables the direct provision of Salesforce licenses and related services to central government ministries and agencies, local governments, and affiliated organizations, which is expected to strengthen our solution capabilities and create new revenue opportunities in the public sector.

Next, we have launched an identity platform implementation package built on Auth0, the customer identity platform service provided by Okta, Inc. for businesses.

Based on Auth0, this is a comprehensive identity platform implementation package which functions have been enhanced and standardized by our company, which has one of the strongest track records of implementations in Japan. This enables us to provide one-stop support for implementing a high-quality, seamless identity platform while keeping initial costs under control.

(3rd Quarter, Fiscal Year Ending March 2026) Topics -2

We are certified to ISO 9001, the international standard for quality management systems, and have also resolved to conduct a share buyback.

Certified to ISO 9001, the international standard for quality management systems

– Further strengthening our quality foundation to support customer experience in the AI era –

As the use of AI accelerates, opportunities to import and utilize companies' valuable data in areas are rapidly increasing, and the importance of "safety" in data handling and the "quality" of proper operations is higher than ever.

With this ISO 9001 certification, we have established a framework to operate our quality management system in an integrated manner with the information security and personal data protection initiatives we have cultivated to date. This will further strengthen the safe handling of data—indispensable for AI utilization—from both security and quality perspectives.

[Scope of Registration]

Registration Type: Quality Management System

Applicable Standard: JIS Q 9001:2025 (ISO 9001:2015 + Amd 1:2024)

Registration Number: JUSE-RA-2298

Registered Organization: FLECT Co., Ltd. Cloud Integration Division, 1st Department

Scope of Registration: Planning, design, development, and operation of systems utilizing cloud services

Location: Head Office (Minato-ku, Tokyo), Osaka Branch (Osaka City, Osaka Prefecture)

Certification Body: Union of Japanese Scientists and Engineers ISO Center

Date of Registration: November 26, 2025

Decision on Acquisition of Treasury Shares

– Aiming to Resolve the Accumulated Earnings Tax Issue –

We have been considering the resolution of our accumulated earnings tax issue as an important management matter, and we approached KURO LLC, regarding the potential sale of a portion of our shares held by KURO LLC. As a result, we confirmed KURO LLC's intention to sell part of such shares. Although this acquisition of treasury shares alone will not satisfy the requirement that the controlling shareholder's voting rights ratio be reduced to 50% or less, which is necessary to resolve the accumulated earning tax issue, after considering our stock price, financial condition, and market trends, etc., we decided to acquire such shares as treasury shares. We believe that this acquisition of treasury shares will lead to an increase in the value per share, improved capital efficiency, and enhanced governance through the reduction of the controlling shareholder's ownership ratio.

We may utilize the treasury shares acquired through this acquisition in the future for M&A and capital and business alliances using shares as consideration, or for stock compensation plans.

[Details of the Acquisition of Treasury Shares]

Type of shares: We will acquire our common stock

Total number of shares to be acquired (maximum): 860,000 shares (up to 13.99% of total number of shares issued and outstanding (excluding treasury stock))

Total acquisition amount (maximum): 1.2 billion yen

Period: From February 6, 2026 to February 27, 2026

Method: Purchase through Off-Auction Own Share Repurchase Trading System (ToSTNeT-3)

Next, we acquired ISO 9001 certification, the international standard for quality management systems. With this certification, we have established a framework to operate our quality management system in an integrated manner with the information security and personal data protection initiatives we have cultivated to date.

By doing so, we will further strengthen the safe handling of data indispensable for AI utilization, from both security and quality perspectives. Finally, in order to resolve the accumulated earnings tax issue, which is an important management matter, we have decided to acquire a portion of our shares held by KURO LLC as treasury shares, taking into consideration our stock price, financial condition, and market trends, etc.

Although this acquisition of treasury shares alone will not satisfy the requirement that the controlling shareholder's voting rights ratio be reduced to 50% or less, which is necessary to resolve the accumulated earning tax issue, it is expected to increase the value per share, improve capital efficiency, and improve governance by reducing the controlling shareholder's ownership ratio.

We may utilize the treasury shares acquired through this acquisition in the future for M&A and capital and business, or for internal stock compensation plans.

(3rd Quarter, Fiscal Year Ending March 2026) Results Trends

Net sales totaled 2,154 million yen (up 4.1% year on year). Our efforts to strengthen our proposal organization led to expanded transactions with certain existing customers, resulting in record-high net sales for the 3Q fiscal period. In addition, disciplined operations—through sound project execution, optimized engineer assignments, and the use of in-house AI—enabled us to achieve a high gross profit margin of 47.7% (up 3.4 pts year on year). Gross profit reached a record high of 1,027 million yen (up 12.1% year on year).



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This slide shows results trends for Q3 net sales and gross profit.

Net sales increased YoY by 4.1% to JPY2,154 million. FLECT's efforts to strengthen our proposal organization led to expansion of transactions with certain existing customers, resulting in record-high Q3 net sales.

In addition, disciplined operations including sound project execution, optimized engineer assignments, and the use of in-house AI, enabled us to achieve a high gross profit margin of 47.7%, up 3.4 pts YoY.

Gross profit increased YoY by 12.1% to JPY1,027 million, also a record high.

(3rd Quarter, Fiscal Year Ending March 2026) Results Trends

Driven by the increase in gross profit, operating income was 376 million yen (up 9.8% year on year), and net income was 224 million yen (up 6.8% year on year).



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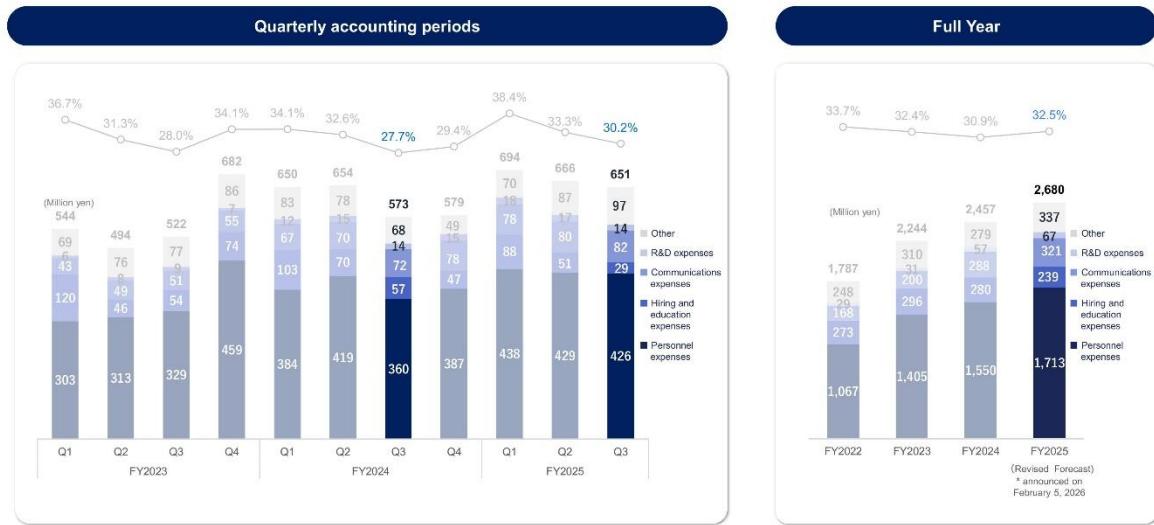
This slide shows results trends for Q3 operating income and net income.

Driven by the increase in gross profit, operating income increased YoY by 9.8 to JPY376 million, also a record high.

Net income increased YoY by 6.8% to JPY224 million.

(3rd Quarter, Fiscal Year Ending March 2026) Selling, General and Administrative Expenses

Selling, general and administrative expenses for 3Q of the fiscal year ending March 2026 were 651 million yen (up 13.5% year on year), and the SG&A ratio was 30.2% (up 2.5 pts year on year).



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Next, in Q3, SG&A expenses increased YoY by 13.5% to JPY651 million, and SG&A ratio increased YoY by 2.5 points to 30.2%.

(Cumulative 3rd Quarter, Fiscal Year Ending March 2026) Financial Results Summary

Net sales for the cumulative 3Q of the fiscal year ending March 2026 were 5,968 million yen (down 0.2% year on year). Supported by strong DX demand, we achieved record-high 3Q sales. However, although we realized expansion of transactions with existing customers, sales did not increase enough to recover from the slower sales progress since 1Q, and we revised our net sales outlook downward. Through operational discipline, we maintained a high gross profit margin. Additionally, we partially restrained SG&A expenses, but this did not fully offset the decrease in net sales, and we also revised our operating income outlook downward. Furthermore, we expect to record a loss on valuation of shares in an associate as an extraordinary loss of up to 102 million yen in 4Q.

(*Details of the revisions are provided below.)

(Million yen)	FY2024 1Q-3Q (Apr.-Dec.)	FY2025 1Q-3Q (Apr.-Dec.)	YoY		Results forecast for full year, FY2025 (Initial forecast)	Results progress rate
	Change in amount	Rate of change				
Sales	5,979	5,968	-10	-0.2%	9,600	62.2%
Gross profit	2,652	2,803	+151	+5.7%	4,243	66.1%
(%)	44.4%	47.0%	+2.6pt		44.2%	
SG&A	1,878	2,012	+134	+7.2%	2,814	71.5%
(%)	31.4%	33.7%	+2.3pt		29.3%	
Operating income	774	791	+16	+2.2%	1,429	55.4%
(%)	13.0%	13.3%	+0.3pt		14.9%	
Net income	467	474	+7	+1.6%	863	55.0%
(%)	7.8%	8.0%	+0.1pt		9.0%	

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This is the cumulative Q3 financial results summary. As announced at the beginning, cumulative Q3 sales were JPY5,968 million, gross profit was JPY2,803 million, operating income was JPY791 million; and net income was JPY474 million.

(Full year, fiscal year ending March 2026) Revision of the Earnings Forecasts

We revised net sales downwards to 8,237 million yen (down 14.2% from the initial forecast), gross profit downwards to 3,885 million yen (down 8.5% from the initial forecast), operating income downwards to 1,204 million yen (down 15.7% from the initial forecast), and net income downwards to 644 million yen (down 25.4% from the initial forecast).

	FY2025 (Fiscal year ending March 2026) forecast (Initial forecast)	FY2025 (Fiscal year ending March 2026) forecast (Revised forecast)	Compared with initial forecast	
			Change in amount	Rate of change
Sales	9,600	8,237	△1,362	△14.2%
Gross profit (%)	4,243 44.2%	3,885 47.2%	△358 +3.0pt	△8.5%
SG&A (%)	2,814 29.3%	2,680 32.5%	△134 +3.2pt	△4.8%
Operating income (%)	1,429 14.9%	1,204 14.6%	△224 △0.3pt	△15.7%
Net income (%)	863 9.0%	644 7.8%	△219 △1.2pt	△25.4%

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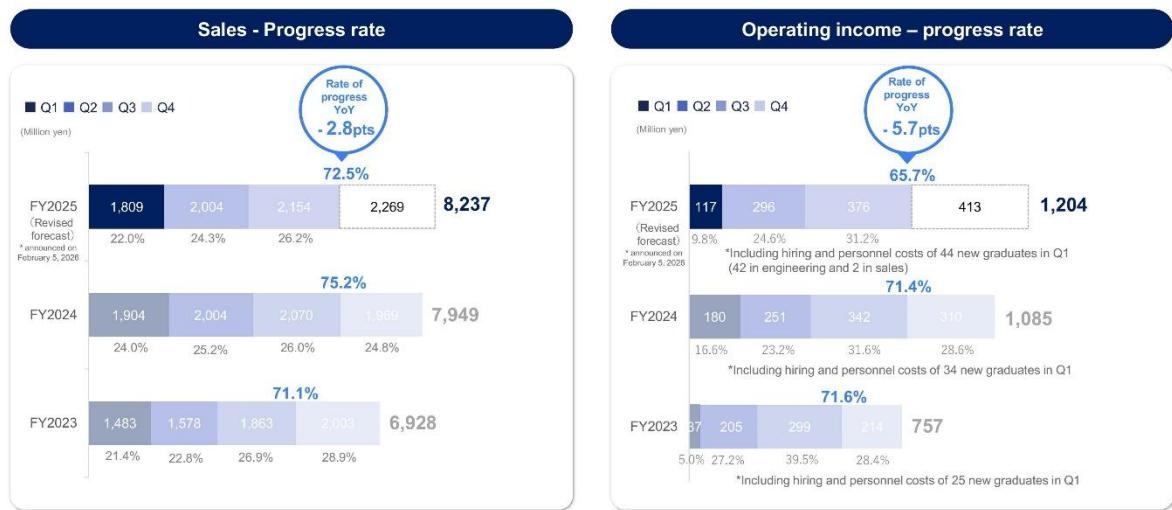
Although we achieved QoQ sales growth, sales did not increase enough to recover from the slower sales progress since Q1, and we revised our forecasts downward.

Specifically, we revised net sales to JPY8,237 million, down 14.2% (versus the initial forecast); gross profit to JPY3,885 million, down 8.5%; operating income to JPY1,204 million, down 15.7% from; and net income to JPY644 million, down 25.4%.

We expect extraordinary loss of up to JPY102 million from valuation loss of affiliates for Q4. This has an impact.

(3rd Quarter, Fiscal Year Ending March 2026) Results Progress

The sales progress rate is at 72.5%, and the operating profit progress rate is at 65.7%.

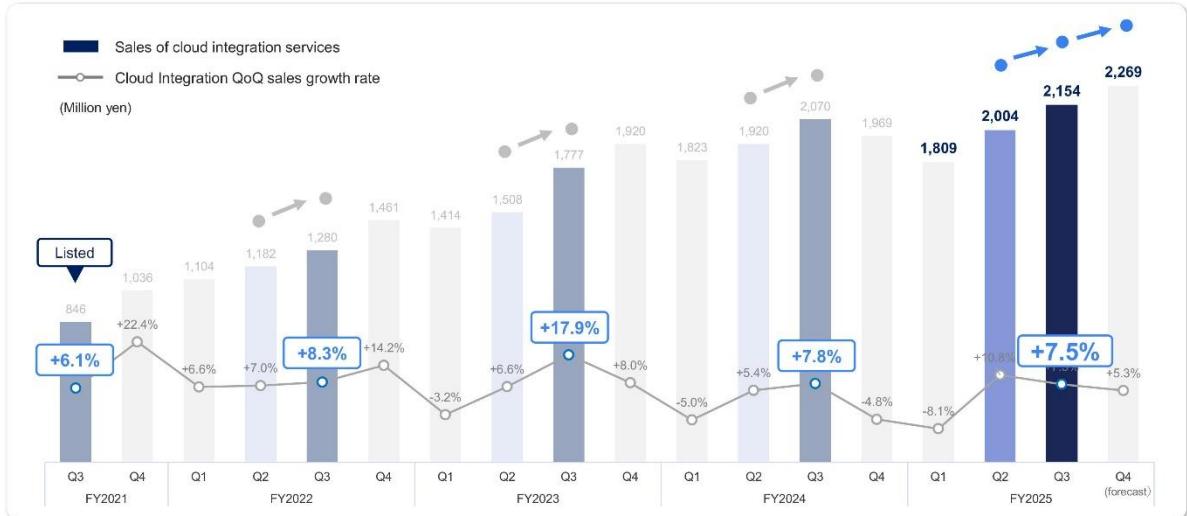


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This slide shows Q3 results progress. The progress rate of net sales and operating income is 72.5% and 65.7%, respectively, against the downwardly revised FY2025 full-year forecast.

(3rd Quarter, Fiscal Year Ending March 2026) Quarterly Sales Growth Rate (QoQ) of Cloud Integration Services

The quarterly sales growth rate (QoQ) for Cloud Integration Services in Q3 was + 7.5%. Excluding Q3 of FY2024, when we received large additional orders from existing customers, the growth rate has remained consistent with previous years. Sales have continued to grow since Q1, and we expect quarterly sales growth of + 5.3% in Q4.



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Q3 quarterly sales growth rate was 7.5%. The growth rate has remained consistent excluding Q3 of FY2023, when we received large additional orders from existing customers.

Since Q1, sales have continued to grow, and we expect a 5.3% quarterly sales growth for Q4.

(3rd Quarter, Fiscal Year Ending March 2026) Balance Sheet

The main changes were an increase in current assets of 363 million yen and a decrease in current liabilities of 69 million yen. The equity ratio stands at 70.6%, indicating a sound financial foundation.

(Million yen)		FY2024 (March 31, 2025)	FY2025 (December 31, 2025)	Change in amount
Total assets	4,198	4,543	+345	
Current assets	3,733	4,096	+363	
Fixed assets	465	447	△18	
Total liabilities	1,476	1,333	△142	
Current liabilities	994	924	△69	
Fixed liabilities	482	409	△72	
Net assets	2,722	3,209	+487	
Total assets	4,198	4,543	+345	
Cash and deposits	2,128	2,182	+54	
Interest-bearing liabilities	517	469	△48	
Equity ratio	64.8%	70.6%	+5.8pt	

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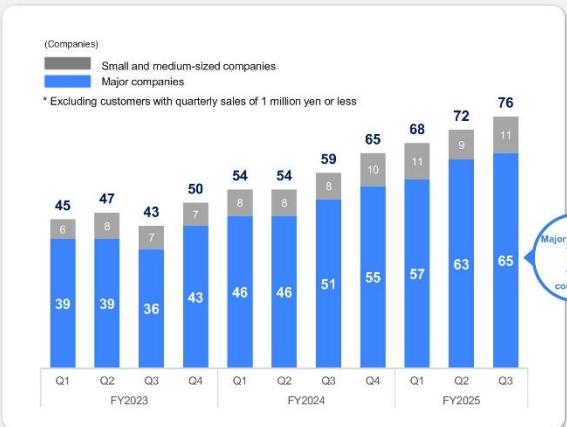
Next, the balance sheet.

The main changes were an increase in current assets of JPY363 million and a decrease in current liabilities of JPY69 million. The equity ratio was 70.6%, indicating a sound financial foundation.

KPI Trends (Quarterly Basis)

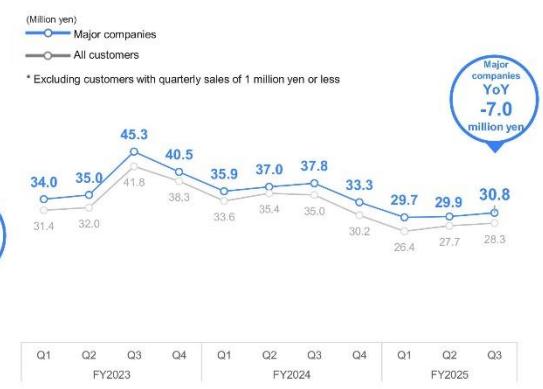
Number of quarterly contract customers^①

The number of major company quarterly contract customers in 3Q of the fiscal year ending March 2026 increased by 14 companies compared to the previous year to 65 companies as a result of acquiring new customers continuously.



Quarterly average revenue per account (ARPA^②)

As new customers tend to start small and the expansion of transactions with acquired customers was slower than expected, the ARPA for major companies in 3Q of the fiscal year ending March 2026 was 30.8 million yen, a decrease of 7.0 million yen compared with the previous year.



^① Number of contract customers in the quarterly accounting period excluding resales and quarterly sales of 1 million yen or less. Resales are where the company resells purchased licenses to customers and are excluded because the amount of the company is small.
^② Abbreviation of average revenue per account (average sales per customer) or quarterly average sales per customer excluding resales and quarterly sales of 1 million yen or less.
Calculated by dividing quarterly sales excluding resales and quarterly sales of 1 million yen or less by the number of quarterly contract customers.

KPI Trends (Quarterly Basis)

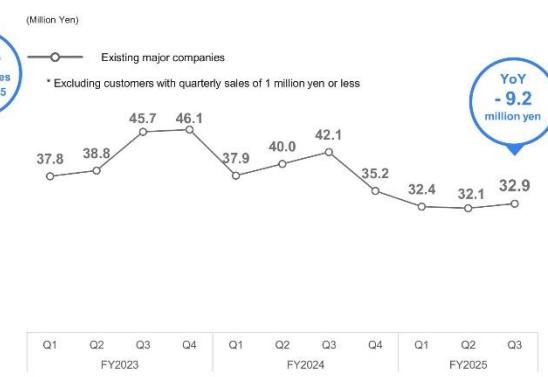
Quarterly contract customers (major companies)¹ : New vs. Existing breakdown²

In 3Q of the fiscal year ending March 2026, we acquired 5 new major customer companies. The number of existing major company customers increased by 15 compared to previous year to 60 companies.



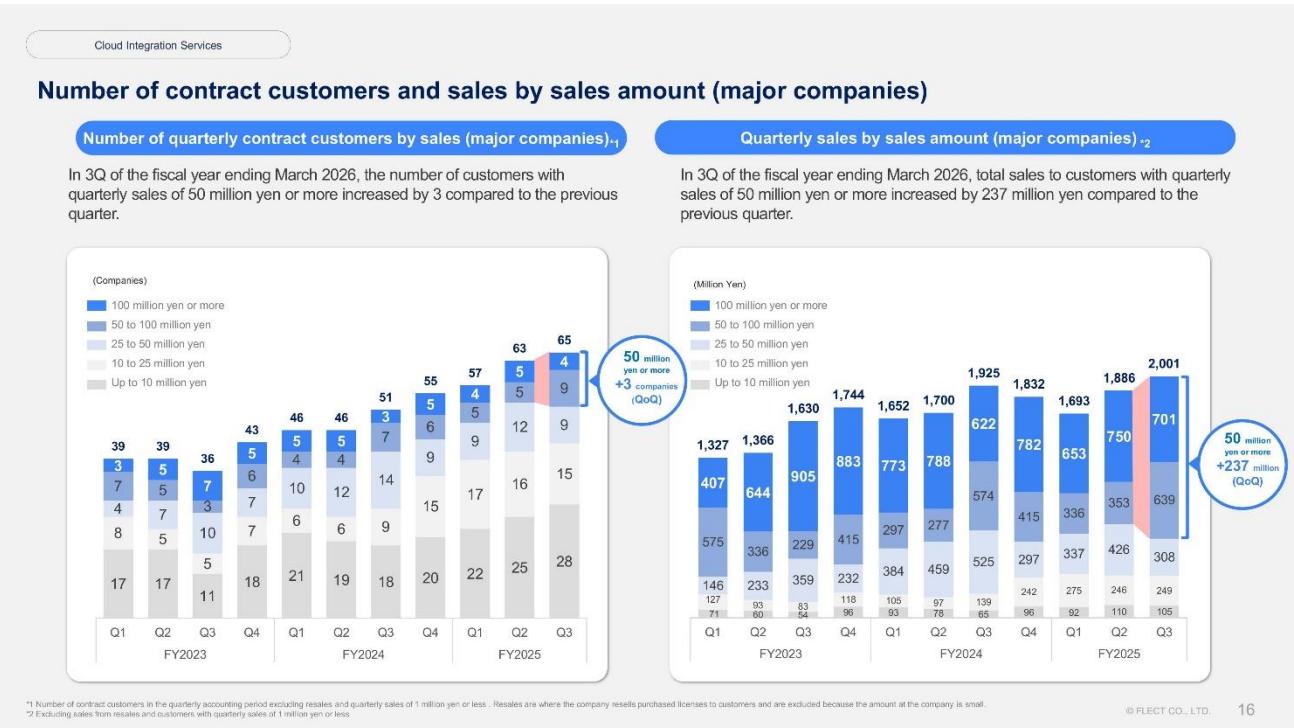
Quarterly average revenue per account (ARPA-3) Existing major companies

ARPA in 3Q of the fiscal year ending March 2026 decreased by 9.2 million yen compared to the previous year to 32.9 million yen.



¹ Number of contract customers in the quarterly accounting period excluding resales and quarterly sales of 1 million yen or less. Resales are where the company resells purchased licenses to customers and are excluded because the amount at the company is small.
² Customers newly acquired in the current quarter are referred to as new customers and other customers as existing customers.

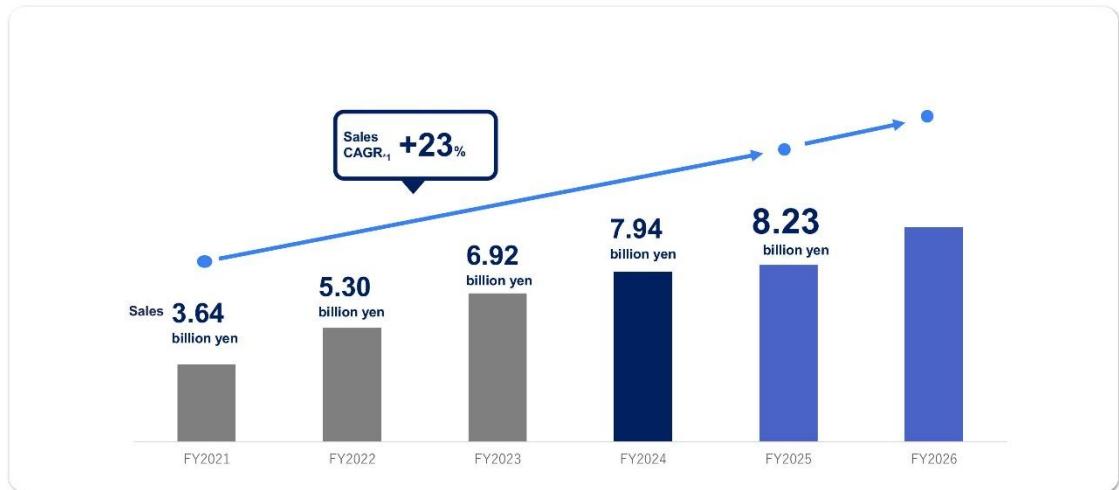
³ Abbreviation of average revenue per account (average sales per customer), or quarterly average sales per customer excluding resales and quarterly sales of 1 million yen or less.
 Calculated by dividing quarterly sales excluding resales, and quarterly sales of 1 million yen or less by the number of quarterly contract customers.



The number of contract customers and quarterly sales by sales amount, also focused on major companies, are shown here. The number of customers with quarterly sales of JPY50 million or more rose QoQ by 3 in Q3. Total sales to customers with quarterly sales of JPY50 million or more increased by 237 million from Q2.

Medium to long-term growth plan

We will continue executing our growth strategies: creating large accounts, investing in talent, and investing in R&D. As we do not expect to meet the cumulative ordinary profit requirement of ¥2.5bn for FY2024–FY2025, we will revisit the timing of a TSE Prime listing (targeted for FY2027). Following the 3Q period of FY2025, we also expect record-high sales for the 4Q period of FY2025. We aim for sustainable business growth in the coming fiscal years.



*1 Compound Annual Growth Rate from FY2021 to 2025.

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Finally, I will explain our growth strategy.

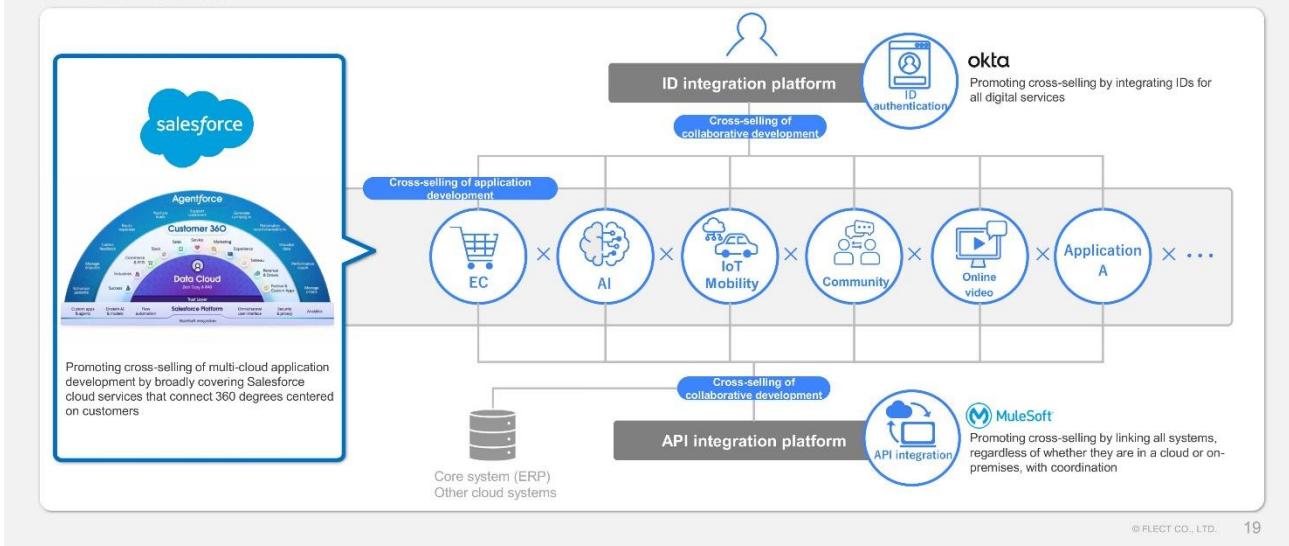
Regarding our medium- to long-term growth plan, we will continue executing our growth strategies: creating large accounts, investing in talent, and investing in R&D.

Although we have a target of a TSE Prime listing for FY2026, it has become difficult for us to meet the cumulative ordinary profit requirement of JPY2.5 billion for FY2024 and FY2025. We will revisit the timing.

Following Q3, we expect record-high sales also in Q4, and we are aiming for sustainable business growth in the coming fiscal years.

Creating Large Accounts-1 Enhancing and Developing Multi-cloud Services

In addition to multi-cloud application development, we will promote cross-selling through platform collaborative development to increase ARPA among existing customers. Further, we will also expand business channels by developing cloud partners towards increasing the number of contracted customers.



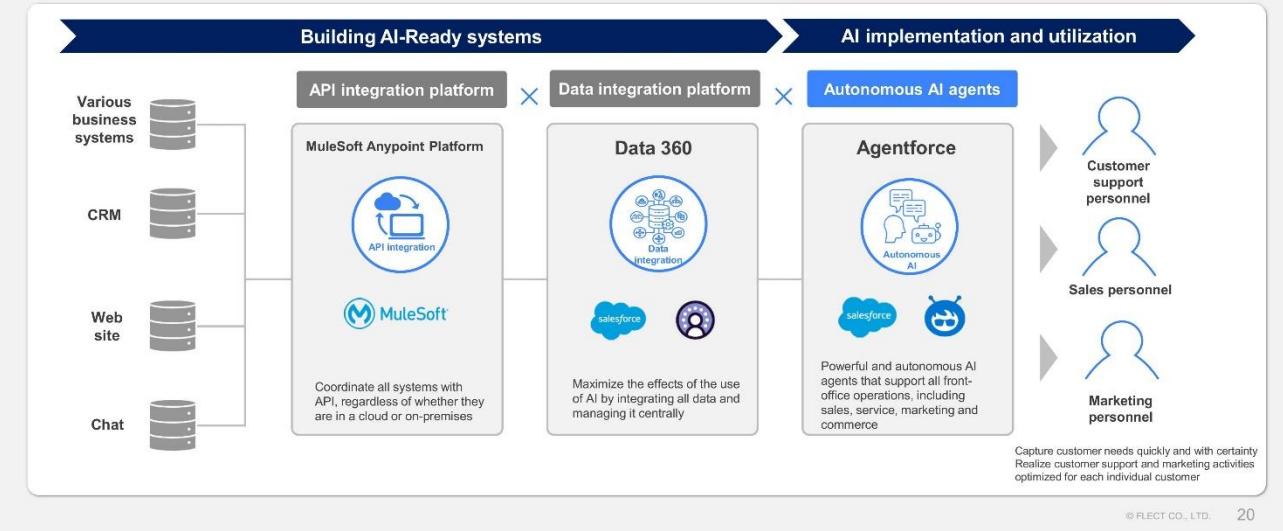
As a means of achieving growth, we will enhance and develop multi-cloud services.

To increase ARPA among existing customers, in addition to the development of applications in the Salesforce multi-cloud, we will promote cross-selling through platform collaborative development, including API integration that connects all systems with MuleSoft and authentication platform linkage that integrates IDs in all digital services with okta.

Creating Large Accounts-2

One-stop solutions for the AI and data infrastructure areas, where expansion is expected

We focus on supporting the implementation of "Agentforce," an autonomous AI agent developed by Salesforce. To maximize the impact of AI adoption, we provide one-stop solutions by combining "MuleSoft," an API integration platform that connects all systems, and "Data 360," a data integration infrastructure that centrally manages data.

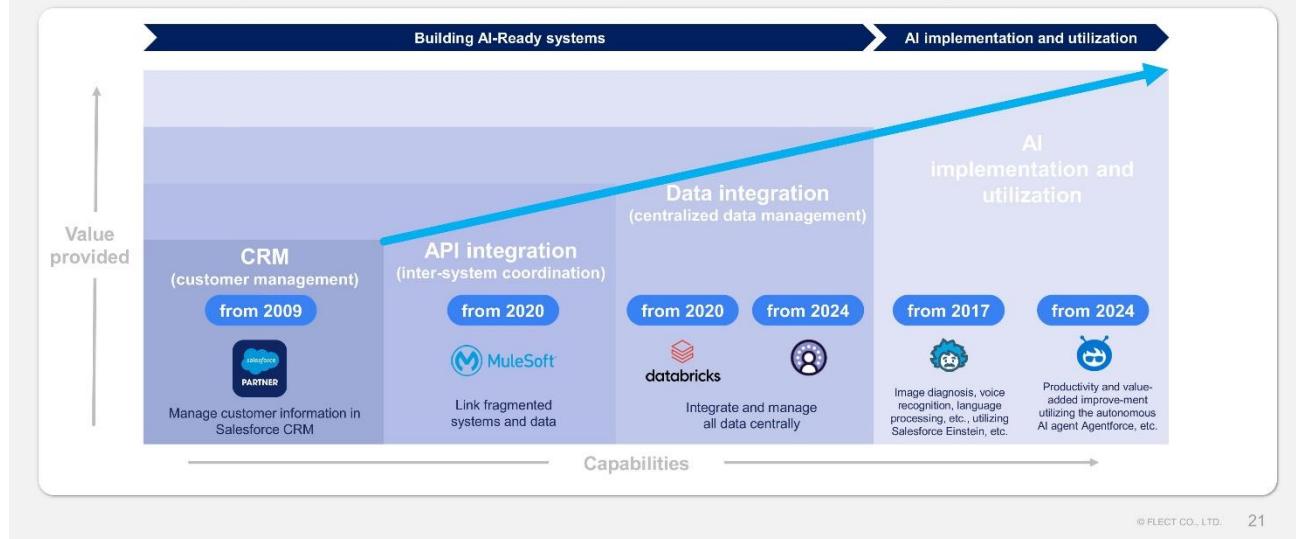


We will promote one-stop solutions for the AI and data infrastructure areas where expansion is expected. We focus on supporting the implementation of Agentforce developed by Salesforce.

In addition, to maximize the impact of AI adoption, we provide one-stop solutions by combining MuleSoft, an API integration platform that connects all systems, and Data 360, a data integration infrastructure that centrally manages data.

The expanding AI demand serves as a tailwind that boosts the strengths we have developed over the years

For some time, we have worked on “building AI-ready systems” based on CRM, API integration and data integration, as well as “AI implementation and utilization” in R&D and actual projects. Players with abundant knowledge and results in both “building AI-ready systems” and “AI implementation and utilization” are rare, and we will realize the further acceleration of growth thanks to the tailwind of the expansion of demand for AI.

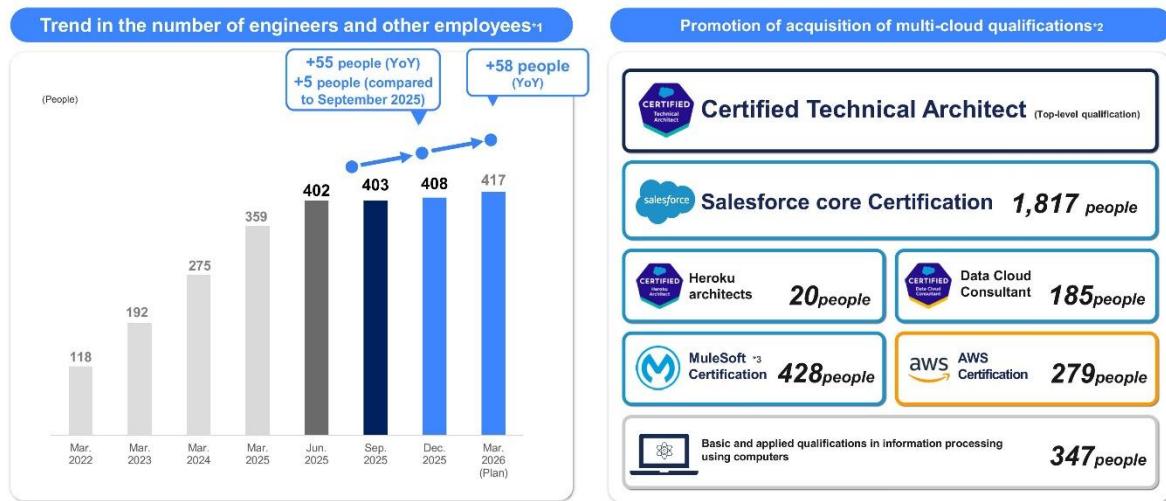


As for our strength in providing one-stop solutions for the AI and data infrastructure areas, we have worked on building AI-ready systems based on CRM, API integration, and data integration, as well as AI implementation and utilization in R&D and actual projects.

Players with abundant knowledge and results in both building AI-ready systems and AI implementation and utilization are still rare in the market, and we will realize the further acceleration of growth using the tailwind of the expansion of demand for AI.

Organizational expansion centered on cloud engineers and other employees

The number of cloud engineers and other employees increased by 55 year-on-year, and by 5 compared with the end of September 2025.



¹1 Professional human resources such as engineers and managers in Cloud Integration Services Division, excluding administrative personnel

²2 As of December 31, 2025

³3 Total number of people with 5 qualifications as a MuleSoft Developer I, Senior MuleSoft Developer II, MuleSoft Integration Foundations, MuleSoft Platform Architect, MuleSoft Platform Integration Architect

As I mentioned at the beginning, the number of cloud engineers and other professional employees increased YoY by 55 and QoQ by 5. However, employee departures exceeded expectations. Therefore, our plan was revised downward to 417 at the end of FY2025 from 424.

In addition, we will continue to promote acquisition of multi-cloud certifications to develop engineers.

Strictly selected hiring of engineers based on high recruitment standards

We have established high hiring standards to identify human resources with strong basic computer skills. In hiring experienced engineers, the entry-to-join ratio is about 1 in 50 people so we select the best engineers strictly. Additionally, five new graduates with Master's or PhD degrees in science or engineering joined the company as engineers in October 2025.



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We have established high hiring standards to identify human resources with strong basic computer information processing skills. The ratio of entry-to-join in hiring experienced engineers is approximately 1 out of 50 people. We carefully select the best engineers.

In addition, 99% of new graduates hired between April 2020 and October 2025 have science background, and only those who completed graduate school were hired. The top three schools in terms of number of hires are the University of Tokyo Graduate School in first place, Kyushu University Graduate School in second place, and Kyoto University Graduate School in third place. In October 2025, five new graduates with master's or postgraduate degrees in science joined us as engineers.

Follow-up mechanisms that increase employee engagement

We have established an operational system that regularly aggregates employee engagement scores, monitors them by department, and swiftly implements measures based on identified issues. We also accept feedback from employees and conduct individual follow-ups. By flexibly and proactively implementing initiatives in response to changes in employee conditions and external environments, our engagement score has been trending upward since measurements began.



¹ Described based on Attrae Inc.'s Waveox engagement survey items

² Waveox engagement scores for Cloud Integration Services, shown as a one-year moving average and indexed to 100 in February 2019.

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We have established an operational system that regularly aggregates employee engagement scores, monitors them by department, and swiftly implements measures based on identified issues.

By flexibly and proactively implementing initiatives in response to changes in employee conditions and external environments, our engagement score has been on an upward trend since measurements began and is now 13 pts higher compared to the same industry.

Social implementation of cutting-edge technologies through R&D

Aiming to solve corporate, industrial, and social issues with cutting-edge technology, we conduct R&D on cutting-edge technologies that are not yet in widespread use and areas that could attract attention in the future. As specific areas of research, we are promoting research on work automation and optimization through AI, real-time voice changers based on AI, etc.

Work automation and optimization through AI

We are conducting research to automate or save labor in planning and decision-making work that has always been performed by people by using OR (Operations Research) technology.

Results of use / image

- Automation of vehicle test schedule preparation with Honda Motor Co., Ltd.
- Optimization of transportation and delivery plans by vehicle and freighter
- Automation of the preparation of project assignment proposals



Real-time voice changers based on AI

We are conducting R&D to convert the human voice, which is increasingly in need of privacy protection as biometric information, into another voice in real time using AI.

We are aiming to realize a superior voice experience for the listener at the same time as protecting privacy.

Image of use

- Voice privacy protection (telephone handling at call centers)
- Security measures (answering on an intercom)
- Superior voice experience (digital signage avatars)



We have made a partial release to the public as OSS (Open Source Software) and are currently highly acclaimed on GitHub with more than 15,000 Stars, proof of availability.

The company's technology has also been used in the real-time voice conversion technology for the voice of former Prime Minister Kishida, which was introduced at the "Dialogue with Next Generation Leaders on May 16, 2023, at the Prime Minister's Official Residence.

*1 OR (Operations Research): Various approaches to support decision-making scientifically (mathematical optimization, data analysis, algorithms, etc.)

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Lastly, R&D. Aiming to solve corporate, industrial, and social issues with cutting-edge technology, we continue to conduct R&D on cutting-edge technologies that are not yet in widespread use and areas that could attract attention in the future.

As specific areas of research, we are promoting research on work automation and optimization through AI including use of OR, Operations Research technology, and real-time voice changers based on AI, etc.

This was a bit of a rush, but that is all for us. Thank you very much for listening.

Question & Answer

Moderator [M]: We will now move to the question-and-answer session. This is the first question.

Participant [Q]: The sales forecast has been revised downward. Do you have anything you can comment on the impact of strengthening your proposal organization at present? Also, just to confirm, do you see deterioration in the external environment, such as customer investment appetite?

Second, can you tell us the reason why employee departures exceeded expectations?

Third, you explained that your strength lies in AI solutions. Currently, how much do they contribute to your revenue?

Moderator [M]: CEO Kurokawa, please answer these questions.

Kurokawa [A]: Thank you for your questions. I would like to answer your questions one by one.

First, I will answer your question regarding our analysis and evaluation of the downward sales forecast revision.

First, in terms of customer investment appetite, we understand that they continue to invest aggressively. In the area of AI, in particular, there are still a large number of projects in its PoC stage in the current fiscal year, but some projects are now in full operation with the customer, and I believe that the overall appetite for investment remains high.

As one trend among our customers, some customers have expressed a desire to work on in-house production, and for such customers, we provide support for in-house production, including skill transfer in areas in which we have expertise.

In terms of the external environment, demand continues to be strong, but competition on the supply side, including recruitment, becomes more intense. In this sense, I believe that we must continue to make the value we provide unique and make our service lineup selected.

Second, although employee departures exceeded expectations, the turnover rate is now about 10%, which is low compared to the industry average of 12%. Therefore, I think the accuracy of our estimates may be partly a problem, but in this sense, I think we must reflect this in our plan for the next fiscal year. Those who left us had their own reasons. We are making a move to take measures to discuss with people for whom measures can be taken. But we understand that a certain number of employee departures is unavoidable. We will try our best to keep them within the plan.

Lastly, we do not disclose the extent to which AI solutions contribute to our earnings, either individually or specifically, but we have seen an increase in the number of cases where AI is used as a hook to acquire new customers and to win orders in the expansion of existing customers.

So, if we take up the scale only in the context of AI, it is still really at the level of a few hundred million yen; but, considering the increase in development volume that occurs there, I think the incidental contribution is substantial.

However, as for the AI itself, we will introduce it into production soon, and in this sense, we would like to increase the volume and aim to achieve sales of JPY1 billion or more.

Moderator [M]: CEO Kurokawa, thank you. This is the next question.

Participant [Q]: Can you tell us the reason why employee departures exceeded expectations? Employee engagement also appears to be declining. Do you have any actions to address these issues?

Moderator [M]: CEO Kurokawa, please answer this question.

Kurokawa [A]: Thank you for your question.

As I explained earlier, the turnover rate is generally lower than the industry average. There are individual circumstances, and we will take firm measures to address them, but in general, project operation rate is getting higher due to sales growth.

We also want to support our employees in maintaining their health and, in some cases, mental health care, as well as providing them with a solid training support system to ensure that they are able to face customers with the right skills as a number of projects which involve new technologies and new areas increases.

As you said, the engagement score slightly decreased this quarter. In my explanation, overall, it is on an upward trend, so I apologize for misleading you.

Moderator [M]: CEO Kurokawa, thank you. This is the next question.

Participant [Q]: Currently, how do you think the rapid evolution of Anthropic's AI tools will have an impact on your business?

Moderator [M]: CEO Kurokawa, please answer this question.

Kurokawa [A]: Thank you for your question.

It is really a most recent topic, and I have a feeling that the assessment on software companies is now very severe.

For us, AI, including Anthropic, is not our competitor. We would like to use them to increase our productivity and provide services to our customers by

clarifying areas where we can provide more value.

Specifically, we are actually using internally a lot of tools including generative AI for development tests and documents, and I believe that this is contributing sufficiently to productivity improvement.

On the other hand, when it comes to defining requirements and identifying customer issues, we believe that this is an area that must be handled by humans, and we would like to deliver value to our customers by working with them on the upstream parts of DX and leaving the parts that can be handled by AI to AI.

In that sense, again, we believe that we can coexist well. This is my answer.

Moderator [M]: CEO Kurokawa, thank you. This is the next question.

Participant [Q]: The ARPA for existing customers seems to have bottomed out at JPY32.9 million. Do you expect it to increase in the future?

Moderator [M]: CEO Kurokawa, please answer this question.

Kurokawa [A]: Thank you for your question.

Concerning ARPA, the levels dropped compared to the previous year. It is difficult to show the growth here because it is an average figure and the number of new customers increases.

There are some difficulties, but in the first place, we would like to keep the trend of increasing, in the sense of firmly expanding existing customers while also acquiring new customers for future growth.

To achieve this, as I mentioned earlier in our growth strategy, we would like to promote cross-selling through use of products including MuleSoft, Okta, AI, Databricks, and Data360 in addition to Salesforce to provide full support to our customers.

We would appreciate your patience as we will discuss the numbers in the future.

Moderator [M]: CEO Kurokawa, thank you. This is the next question.

Participant [Q]: Can you tell us about the background on the planned valuation loss of affiliates?

Moderator [M]: CEO Kurokawa, please answer this question.

Kurokawa [A]: I understand that you have a question about valuation loss of our affiliates.

To be more specific this time, our affiliated company, Cariot Inc., a joint venture with SORACOM Inc. was established in October 2024. Since we are the minority shareholder, the company is managed under the leadership of SORACOM.

At the time of its establishment, the growth potential figures were presented

by us. The company has taken time to acquire large customers, etc. In short, the results were not in line with our plan.

Based on discussions with our auditor, we are talking about posting a maximum of JPY102 million as a valuation loss. We will let you know the result when it is finalized.

Moderator [M]: CEO Kurokawa, thank you. This is the next question.

Participant [Q]: Concerning examples of in-house production at your customers. Which part? Please let us know some examples. Also, to what extent do you expect the in-house production to increase considering the trends?

Moderator [M]: CEO Kurokawa, please answer this question.

Kurokawa [A]: Regarding in-house production at our customers that I explained earlier, we see a few cases only, and I consider them minorities.

I am sure that there are some companies that are thinking about this approach, but I feel that it would be very difficult to achieve it while providing support. Each customer's situation is different, so it is difficult to give specific details.

For example, instead of outsourcing the development of Salesforce or the customer's DX to an external vendor, they look to in-house development, enhance development, maintenance, and planning for the development, including the upstream.

However, again, the scope of service differs depending on the customer, so it is difficult to make a general statement. They are still minorities. We expect to receive inquiries, and we think they need support from a specialist like us. We hope to provide support in these areas.

Moderator [M]: CEO Kurokawa, thank you. This is the next question.

Participant [Q]: We would appreciate your comment on the FY2026 targets, such as earnings growth rate which you expect at present.

Moderator [M]: CEO Kurokawa, please answer this question.

Kurokawa [A]: Regarding our business growth for the next fiscal year, that's what we expect at present.

First of all, we are very sorry that we had to make a downward revision this time, as we see a slight stagnation in growth. On the other hand, looking at QoQ results, the decline in Q1 was very negative, but we are firmly on a growth trend on a QoQ basis. In Q3 we achieved record-high sales.

We expect to maintain this trend in the next fiscal year as well as Q4. In this sense, we are determined to recover from the lower growth rate in the current fiscal year, and we are determined to exceed the benchmark of JPY10 billion

that we originally planned for the next fiscal year. The gross profit margin and the operating profit margin will depend on the plan, but since gross profit margin of 45% is our benchmark, we would like to maintain it at this level.

This is my answer. Thank you very much.

Moderator [M]: CEO Kurokawa, thank you. This is the next question.

Participant [Q]: Please tell us about the low YoY sales growth of 3.6% in the current fiscal year. We were told that industry demand itself remained strong. So, what is the cause of this low growth?

Moderator [M]: CEO Kurokawa, please answer this question.

Kurokawa [A]: Thank you for your question. Again, in our cloud integration business, a one-off transaction model, we need to build up our business every quarter.

In terms of quarter sales, Q1 of FY2025 saw a YoY decrease. So, the background is that the starting point was lower. Again, although we maintained the trend of increasing revenues thereafter, we were not able to recover the shortfall.

As for the decrease, as you can see here, the downward trend has continued since Q3 of FY2024, and this is due to the fact that we have not been able to secure orders for DX investment of our existing major company customers. We have about 60 companies, but there are areas that have not been covered by our sales system in the first place. In that sense, we regret that we could not fully discover demand. We are now in the process of recovery. Since the beginning of this fiscal year, we have strengthened our proposal organization, including delivery, and are focusing on proposal activities to identify business opportunities for customers.

Therefore, I think one key point is the weakness of our sales activities and proposal organization, and in this sense, I conclude that the decline in Q1 was substantial.

Moderator [M]: CEO Kurokawa, thank you. This is the next question.

Participant [Q]: Regarding the acquisition of treasury shares to resolve accumulated earnings tax issue, depending on one's point of view, it appears that CEO Kurokawa is selling shares at this low stock price level. Please tell us about your thoughts on this.

Moderator [M]: CEO Kurokawa, please answer this question.

Kurokawa [A]: Thank you for your question. Although it is difficult for us to make a clear statement about the acquisition of treasury shares, we recognize that the valuation is still inadequate with respect to the current share price, in terms of a very monetary sense. From the perspective of FLECT,

we believe it is in FLECT's best interest to purchase at this level. Therefore, considering that we will utilize a large number of shares in our future growth strategy, including capital policy, M&A, and capital and business alliances, it is the result of internal discussions that we should aim also to resolve the accumulated earnings tax issue at this time.

Again, in this transaction, the threshold of 50% or less to resolve the accumulated earnings tax issue has not yet been achieved, so we intend to plan our capital policy, including stocks, firmly in the future and aim to resolve the accumulated earnings tax issue as soon as possible.

Moderator [M]: CEO Kurokawa, thank you. This is the next question.

Participant [Q]: Can you tell me about the background of the higher gross profit margins for Q2 and Q3 versus the past? Is it due to a decrease in the ratio of outsourcing, etc.?

Moderator [M]: CEO Kurokawa, please answer this question.

Kurokawa [A]: You asked about the analysis of gross margin and gross profit margin compared to the past.

First of all, in the previous year, we had some unprofitable projects, and overall, we maintained the 45% benchmark. The ratio of outsourcing, as you mentioned, has been reduced since Q2 of the current fiscal year, and now stands at about 35%. The proportion of external personnel in the total number of employees, or headcount, is about 35%, which is also a factor in increasing the gross profit margin.

However, as I mentioned earlier, we promote disciplined operations including foreseeing project negotiations and planning personnel assignments in advance. We do not just win a project without preparation and fill it with someone but rather conduct sales and assignment activities in a planned manner to avoid unnecessary costs. I believe that our operations there have contributed to this.

Also, as I mentioned earlier, we have not yet figured out the numbers, but we believe that the use of AI in projects is contributing to increased productivity, and this is another factor that increased the gross profit margin. Therefore, the reality is that the gross profit margin is now rising through tighter control over operations and the number of outsourced engineers.

Moderator [M]: CEO Kurokawa, thank you.

This concludes today's financial results briefing. Thank you very much for listening.

Kurokawa [M]: Thank you very much.

[END]

Document Notes

Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.

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