



(1st Quarter, Fiscal Year Ending March 2024) Financial Results Presentation Materials

FLECT Co., Ltd. (Securities Code: 4414)

August 14, 2023

Company Profile

Company Name

FLECT Co., Ltd.

Established

August 2005

Capital Stock

694 million yen (as of June 2023)

Number of Employees

283 (as of June 2023)

Address

11F, Hamamatsucho Bldg., 1-1-1 Shibaura, Minato-ku, Tokyo

Business Description

- Cloud Integration Services
- Cariot Services





Representative Director CEO
Koji Kurokawa

Realizing an Ideal Future with the Cloud

We are a Multi-Cloud Integrator supporting corporate DX with our cutting-edge cloud technology and designs.

In a society where all people and things are digitally connected, we realize a new digitally optimized customer experiences and support customer-centered business innovation.

Service Overview

Cloud Integration

Professional services supporting corporate DX

We support “Proactive DX” that can realize a new customer experiences through our cutting-edge cloud technology. This is a one-stop service for digital transformation in existing and new business initiatives, ranging from service planning, designing, multi-cloud development, to actual implementation.



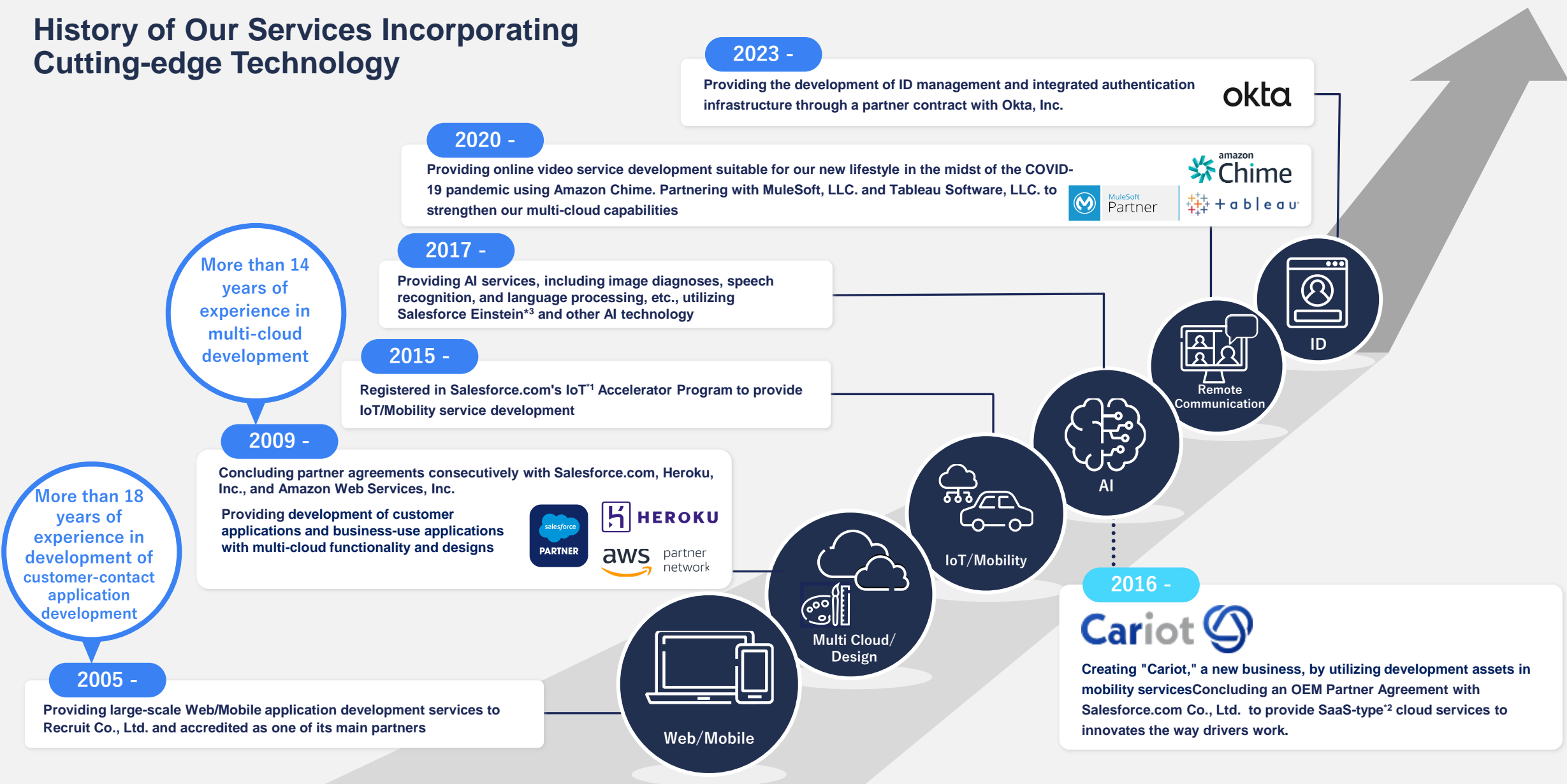
Cariot

Cloud service that innovates the way drivers work and connects vehicles and companies

Cariot is the company’s cloud service that provides work efficiency, peace of mind and safety in the field by using real-time information on commercial vehicles and vehicle management work DX. We support the work style innovation of all people involved with vehicles, centered on drivers and also including managers, staff and customers.



History of Our Services Incorporating Cutting-edge Technology



*1: IoT (Internet of Things): Physical things that can be operated via the Internet
 *2: SaaS (Software as a Service): Service to provide applications that used to be provided as packages over the Internet
 *3: Salesforce Einstein: Name of the AI (artificial intelligence) service provided by Salesforce.com, Inc.
 *4: Salesforce.com Co., Ltd. changes company name to Salesforce Japan Co., Ltd. as of February 2022

Our Domestically and Globally Acclaimed Advanced DX Achievements

Our DX achievements in domestic AI services are critically acclaimed, and received the Salesforce Global Innovation Award in 2019, the first of its kind in Japan. In addition, we are also certified as top domestic partners for Salesforce and MuleSoft.

- May 2015

“Special Award,” Salesforce Partner Award
 Awarded for the achievements in our highly acclaimed IoT projects
- May 2018

Salesforce "Innovation Partner of the year"
 Awarded for our achievements in the Einstein (AI) Project
- October 2018

Introduced as an IoT integrator with high technological capabilities in the CEATEC Keynote Speech by the President and Representative Director of Komatsu Ltd.
 As a Smart Construction Service TRUCK VISION creation partner
- November 2019

Salesforce Partner Innovation Award
 First Japanese company awarded for achievements in our Einstein (AI) Project in Japan
- May 2020

Salesforce "Innovation Partner of the year"
 Awarded for our achievements in a multi-cloud development project
- March 2022

MuleSoft Japan
“MuleSoft Japan Partner Enablement Award 2022”
 Awarded for our achievements in MuleSoft business
- May 2023

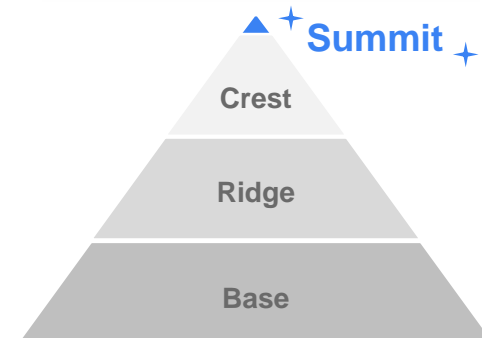
MuleSoft Japan
“MuleSoft Japan Partner Enablement Award 2023”
 Awarded for our achievements in MuleSoft business



PARTNER INNOVATION AWARDS 2019 WINNER

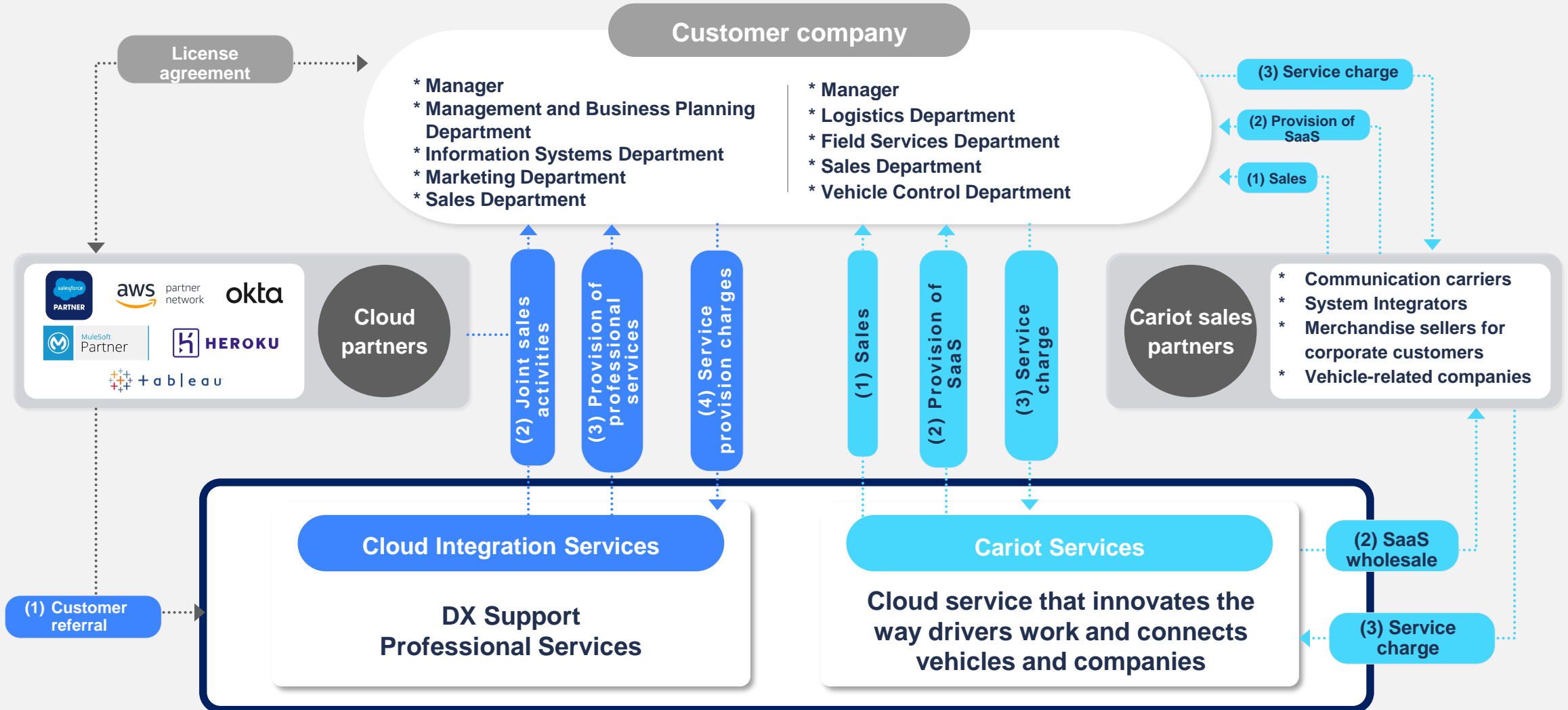
**Top partner rank
「Summit」
certification**

**Top partner rank
「Expert」
certification**



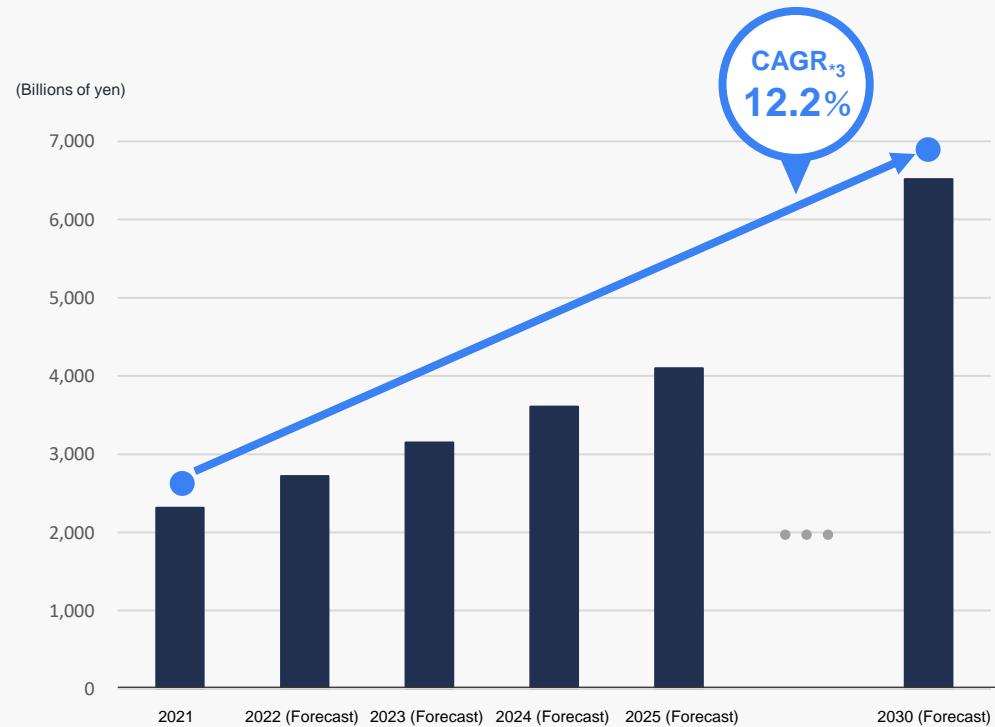
Service Flow

In Cloud Integration Services, professional services are provided directly to customer companies through joint sales activities with cloud partners. Cariot Services is a subscription-type business model to provide SaaS licenses primarily in direct sales to customer companies.

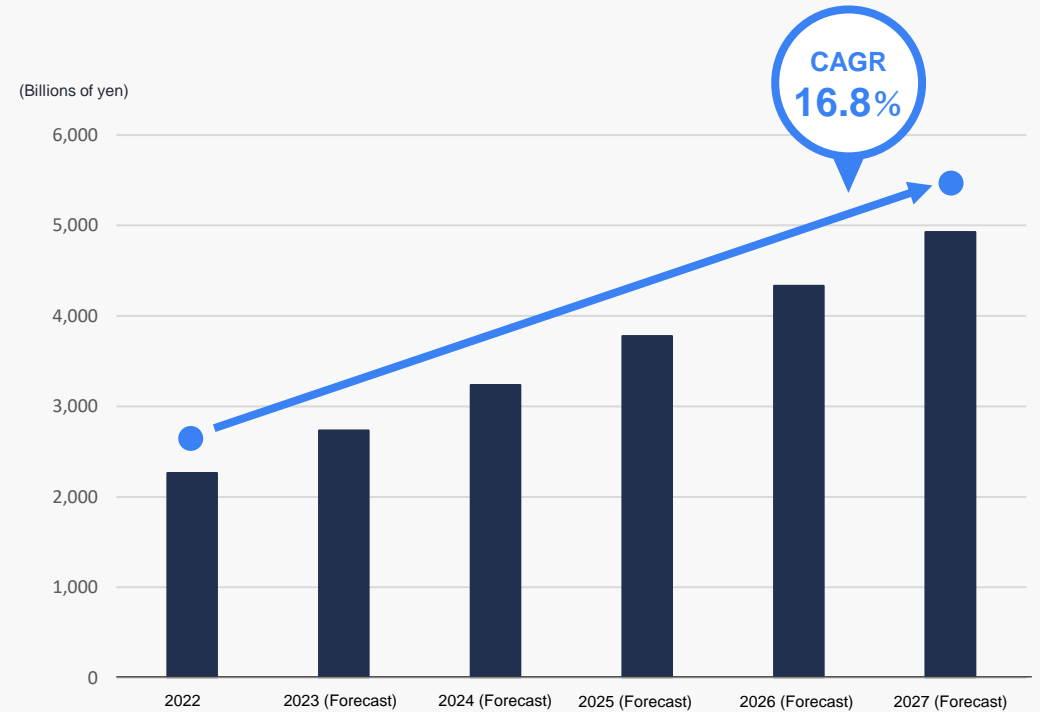


Both DX and Cloud Markets in Japan Are Steadily Expanding

The domestic DX market is expanding at a CAGR of 12.2% from 2021 to 2030.*₁



The domestic public cloud market is expanding at a CAGR of 16.8% from 2022 to 2027.*₂



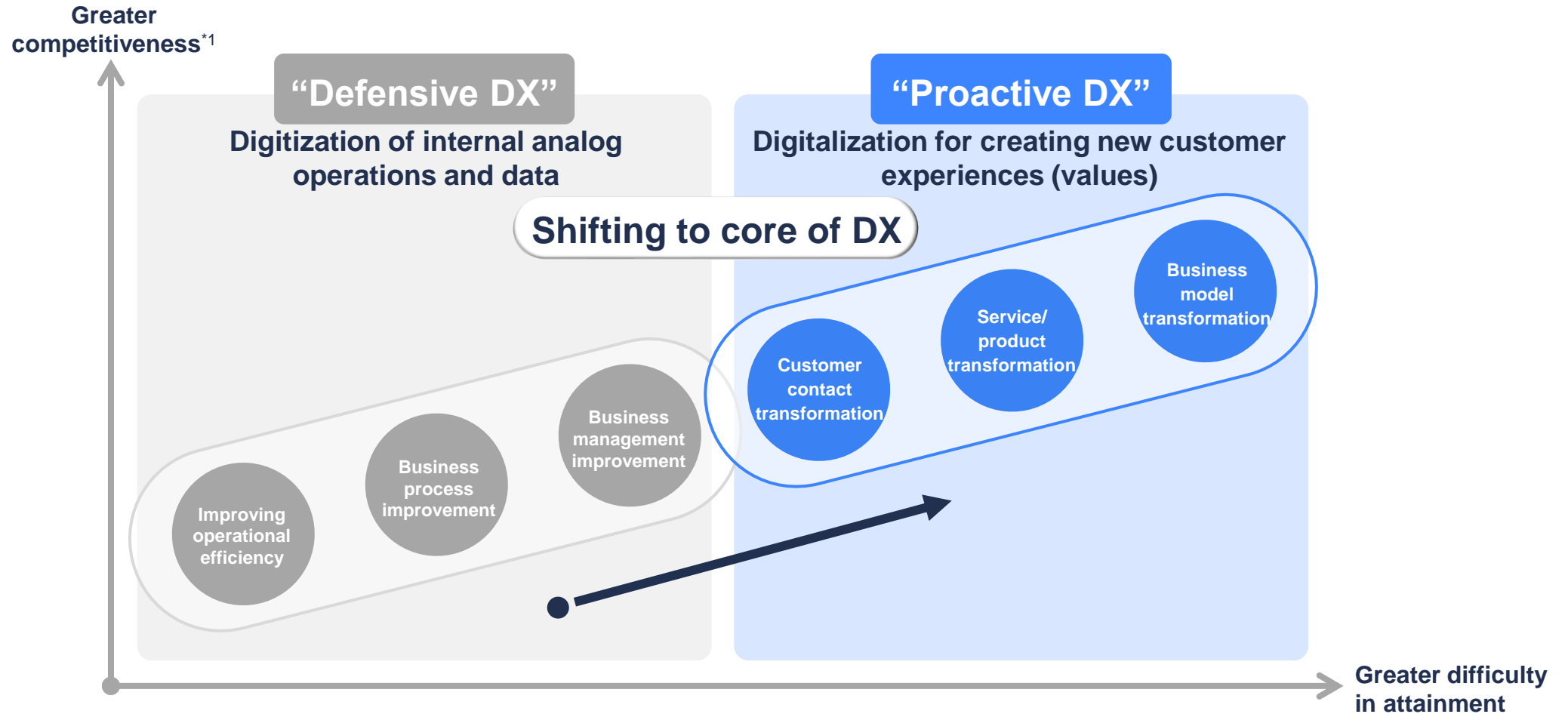
*1: Quoted from "2023 Future Prospects of the Digital Transformation Market," Fuji Chimera Research Institute, Inc.

*2: Quoted from "Sales Prospects in the Domestic Public Cloud Service Market," International Data Corporation Japan (IDC)

*3: CAGR (Compound Annual Growth Rate) is an annual geometric mean calculated from multiple-year growth rates.

Core of DX Lies in “Proactive DX” that can Enhance Corporate Competitiveness

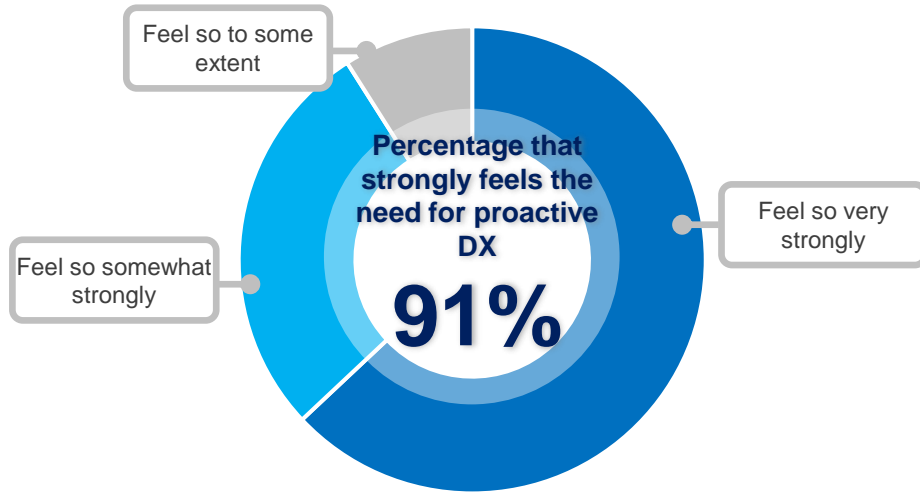
Companies can enhance their competitiveness by shifting from “Defensive DX,” digitizing internal analog operations and data through replacement of paper documents with data in order to cut costs, to “Proactive DX,” creating new customer experiences designed to enhance revenue and customer engagement.



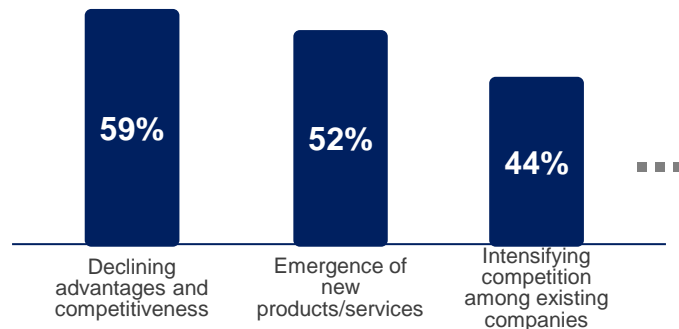
*1: Compiled proprietarily based on “Survey on Digitization Initiatives in Japanese Companies,” NTT DATA INSTITUTE OF MANAGEMENT CONSULTING, Inc.

Current DX Status in Japan

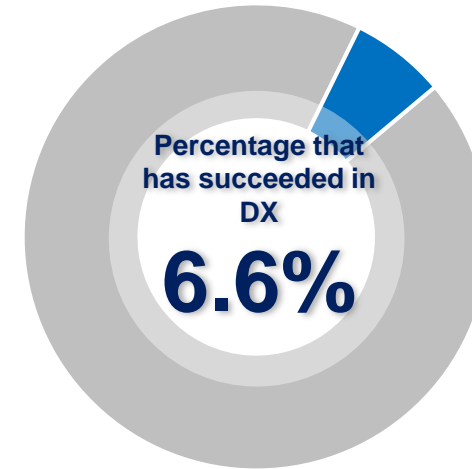
About 90% of the companies have strong needs for “Proactive DX.” This is due to their concerns about the potential decline of their own advantage and competitiveness.*1



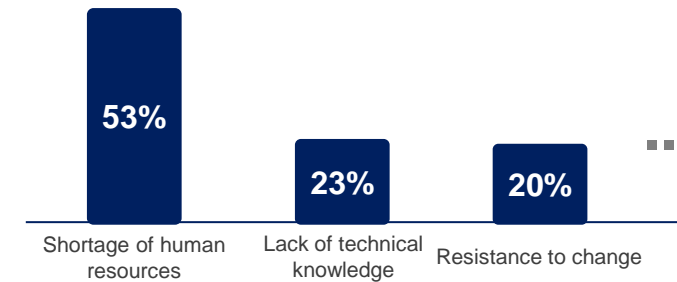
Challenges associated with concerns about the proliferation of digital technology



On the other hand, only 6.6% of all companies have succeeded in DX.*2 Challenges associated with the promotion of DX are manpower/organizational problems frequently cited as “insufficient digital human resources and relevant skills.”*3



Challenges in promoting DX



*1: Compiled proprietarily, based on “A Study on Functions and Roles of Human Resources Promoting Digital Transformation,” (May 17, 2019) Information-technology Promotion Agency, Japan (IPA) (<https://www.ipa.go.jp/files/000073700.pdf>)

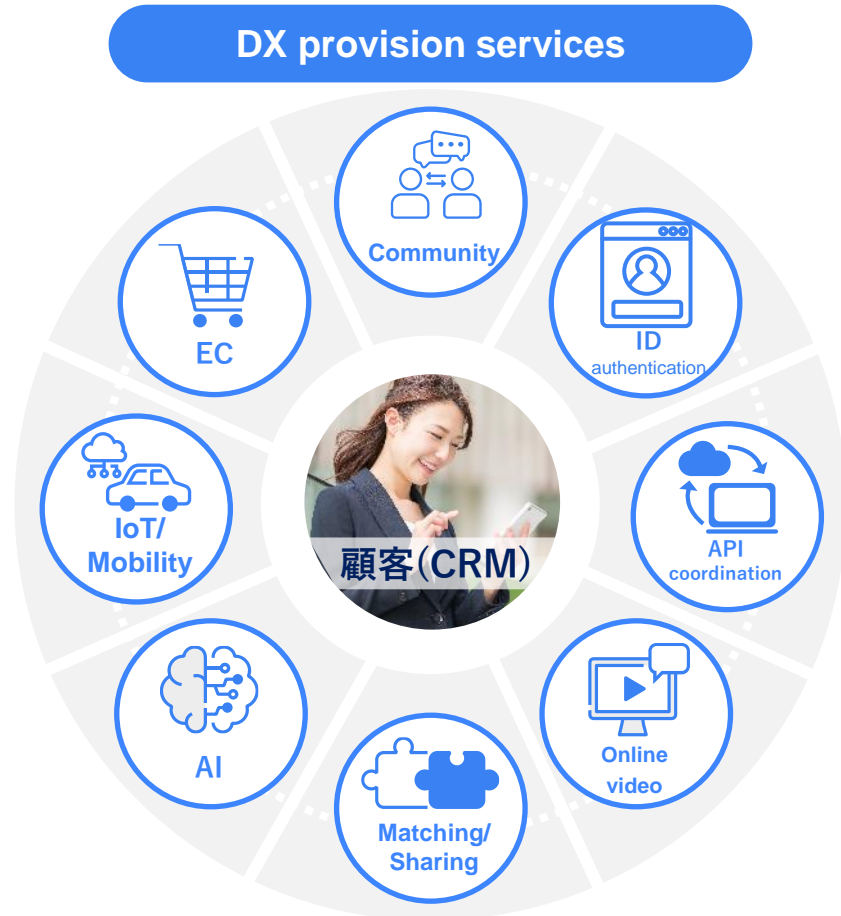
*2: Compiled proprietarily, based on “The Essential Nature of DX for Japanese Companies (FY2020),” ABeam Consulting Ltd.

*3: Compiled proprietarily, based on “Information and Communications in Japan: White Paper 2021 (July 30, 2021),” Ministry of Internal Affairs and Communications, Japan

Supporting “Proactive DX” that can Realize a New Customer Experiences Through Our Cutting-edge Cloud Technology

We support the digital transformation of companies’ new and existing business, including IoT / mobility, AI services, community and EC services that connect with customers, and the building of API coordination and ID authentication infrastructure.

Our customer base is centering on major companies,*1 intending to actively promote DX, Major companies accounted for 94% of the total sales*2.

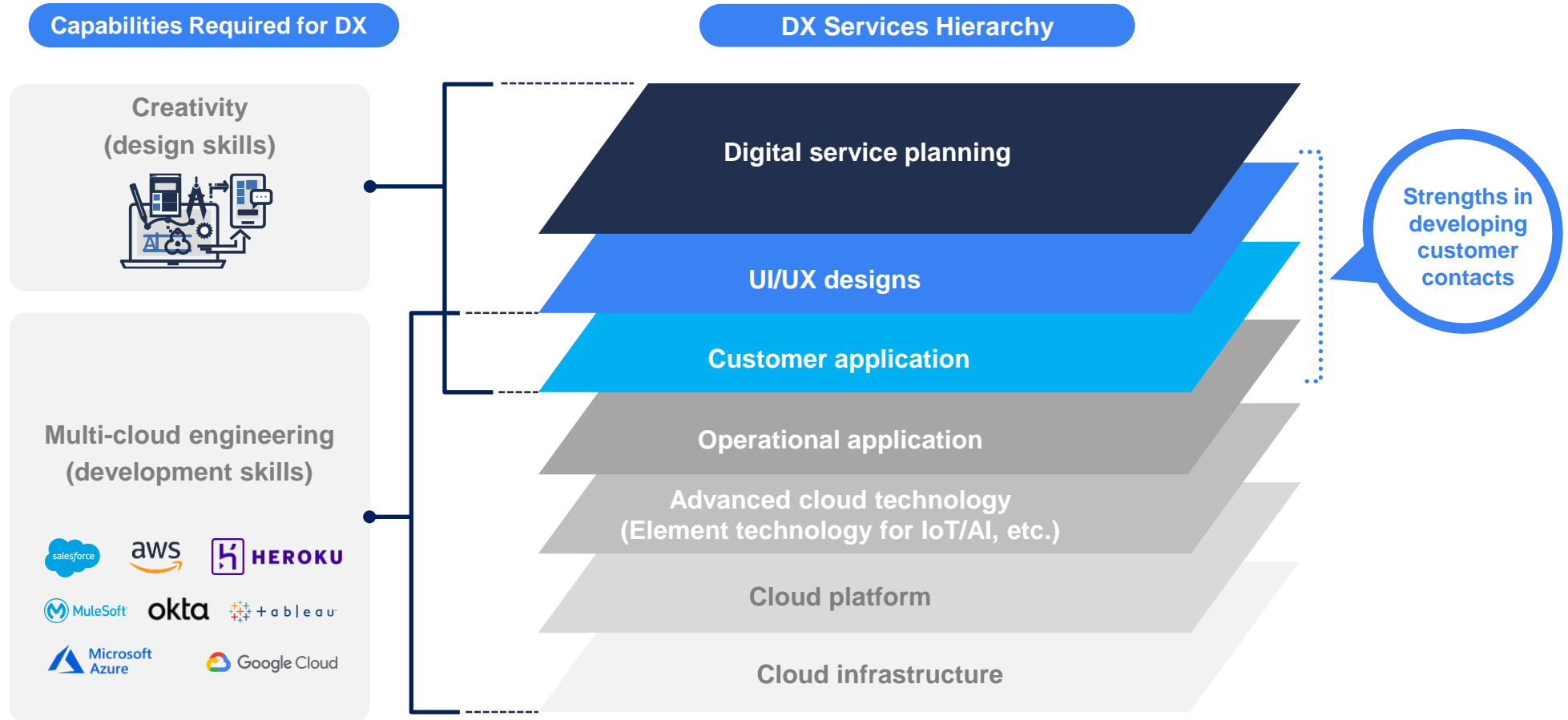


*1: Major companies: Those listed in Nikkei 225, Nikkei 400, or Nikkei 500; or their group companies or those whose sales are equivalent (100 billion yen or more)

*2: Figures for the 1Q fiscal year ending March 2024

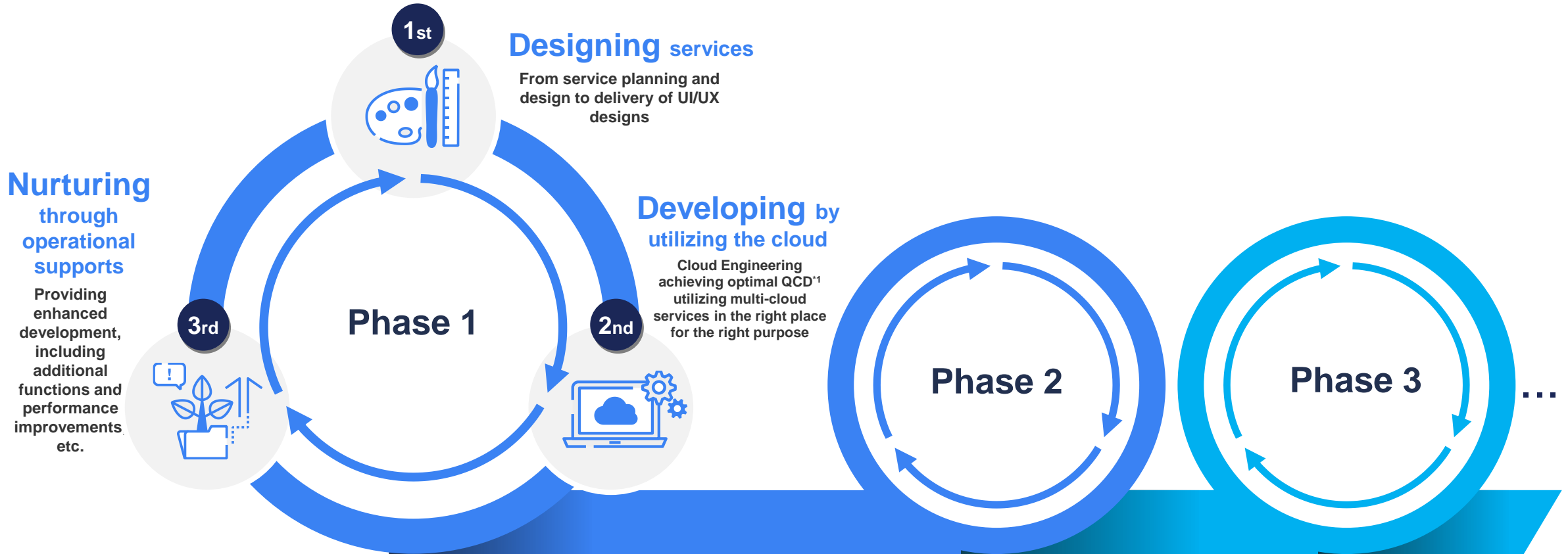
One-stop Service that Create Digital Services

We take advantage of the “Creativity (design skills)” that can achieve proactive DX and the “multi-cloud engineering” capabilities (development skills), and of the strengths in developing value-creating customer contacts (front end).



High Agility in Adapting to Changes (Ability to Think and Move Quickly)

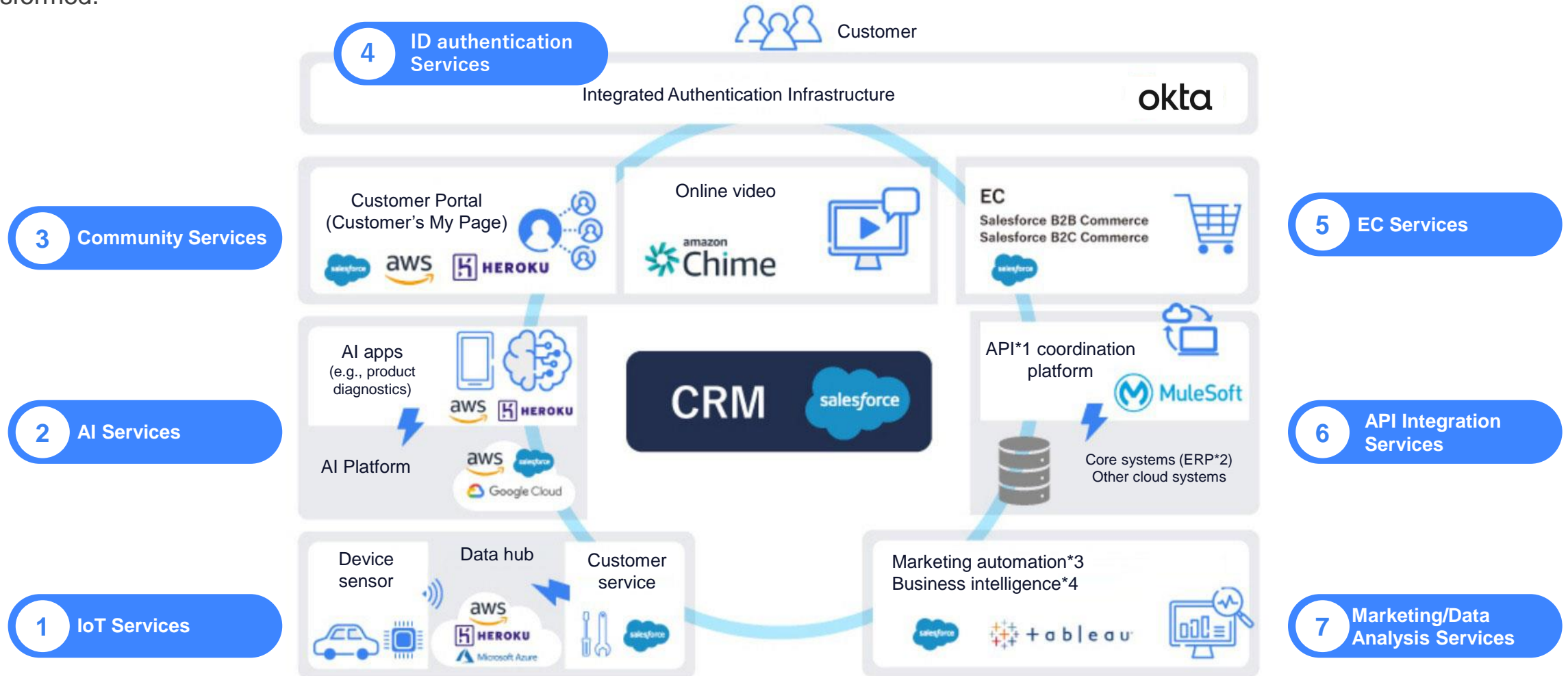
An average period of a single project cycle is about three months. A project does not end with the initial construction but supports DX service growth by repeating the delivery cycles.



*1: QCD: Quality, Costs, Delivery

High Technological Capabilities of Multi-cloud Functions Enabling Business Transformation based on DX

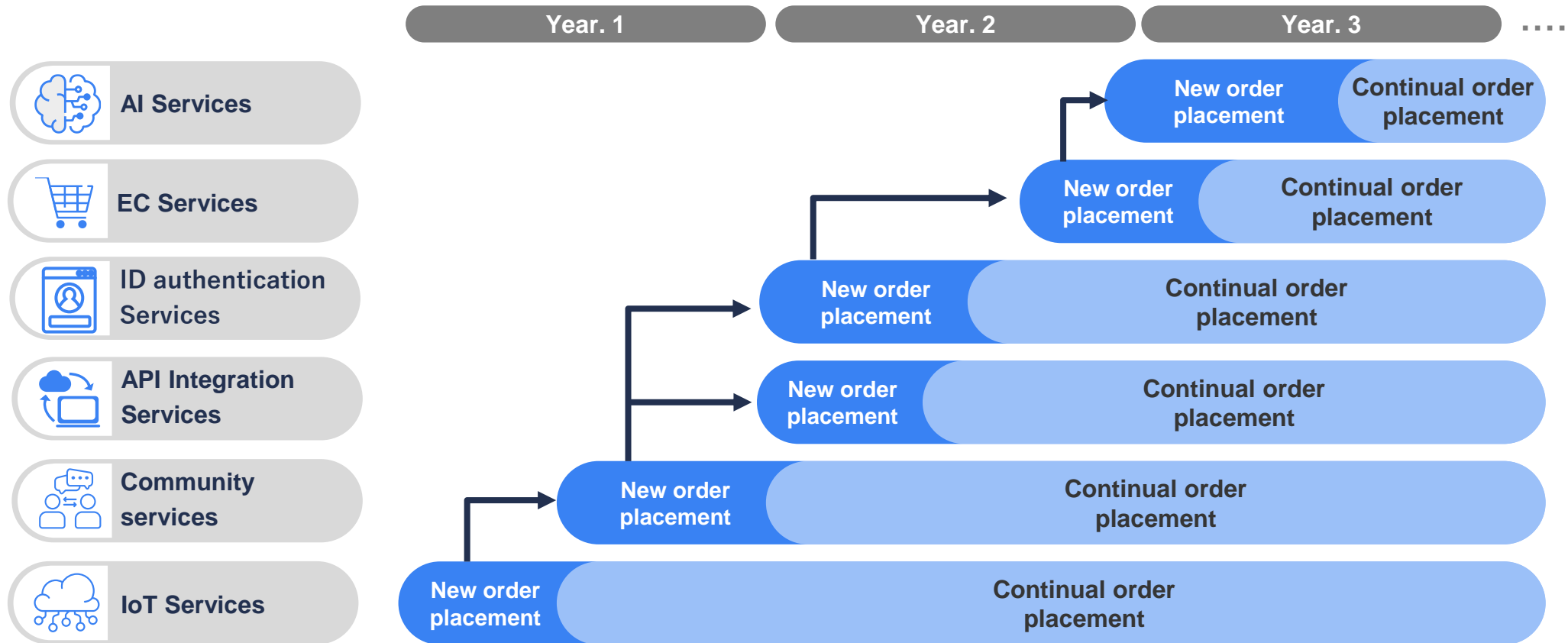
Instead of simply building a single digital service, we develop multiple digital services and bundle them together to help business models to be transformed.



*1: Application Programming Interface: Interface specification used for multiple software products to exchange information with each other
 *2: Enterprise Resource Planning: An integrated core operational system
 *3 Marketing Automation: A tool to automate marketing activities
 *4 Business Intelligence: A tool to collect, accumulate, analyze, and process large amounts of data to support management strategy decisions

Continuous Orders for DX Projects and Expansion with Cross-selling

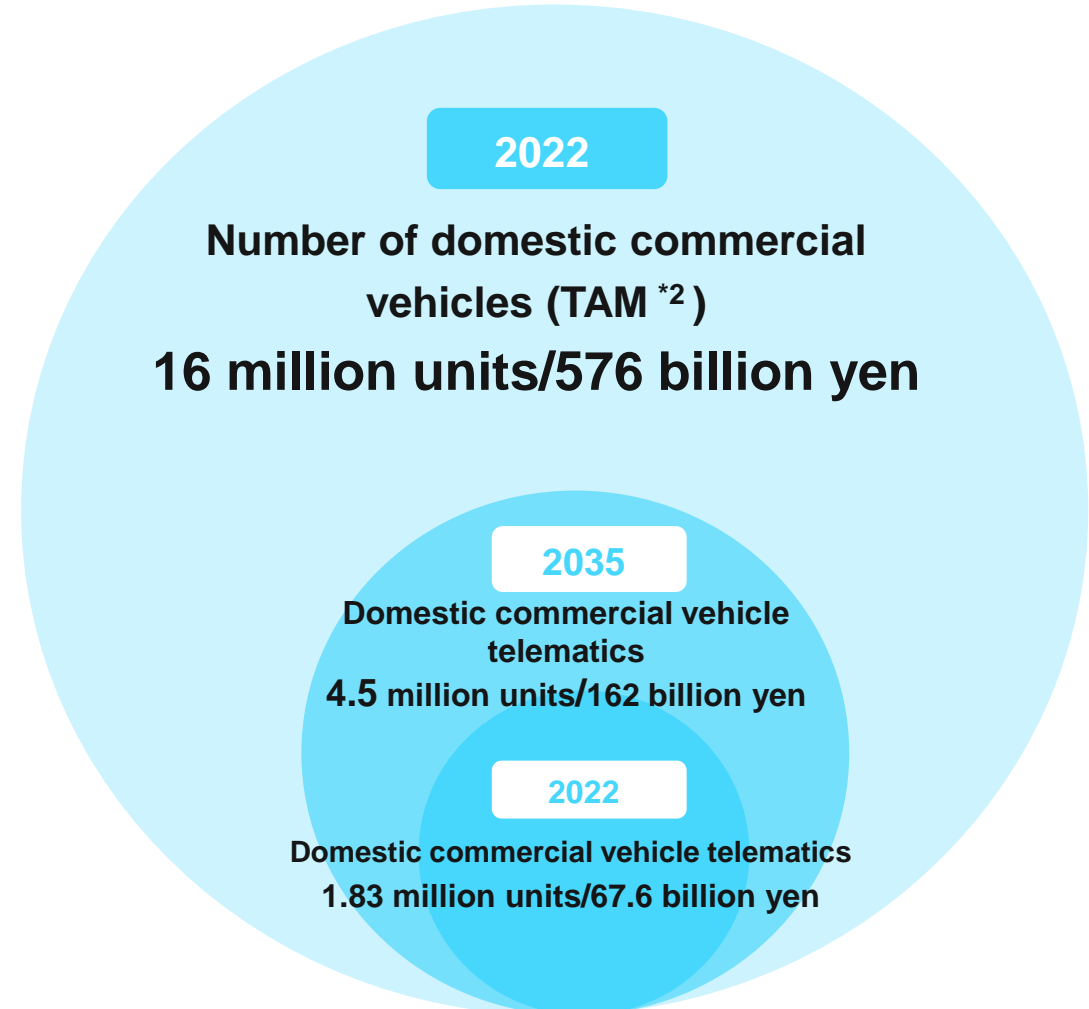
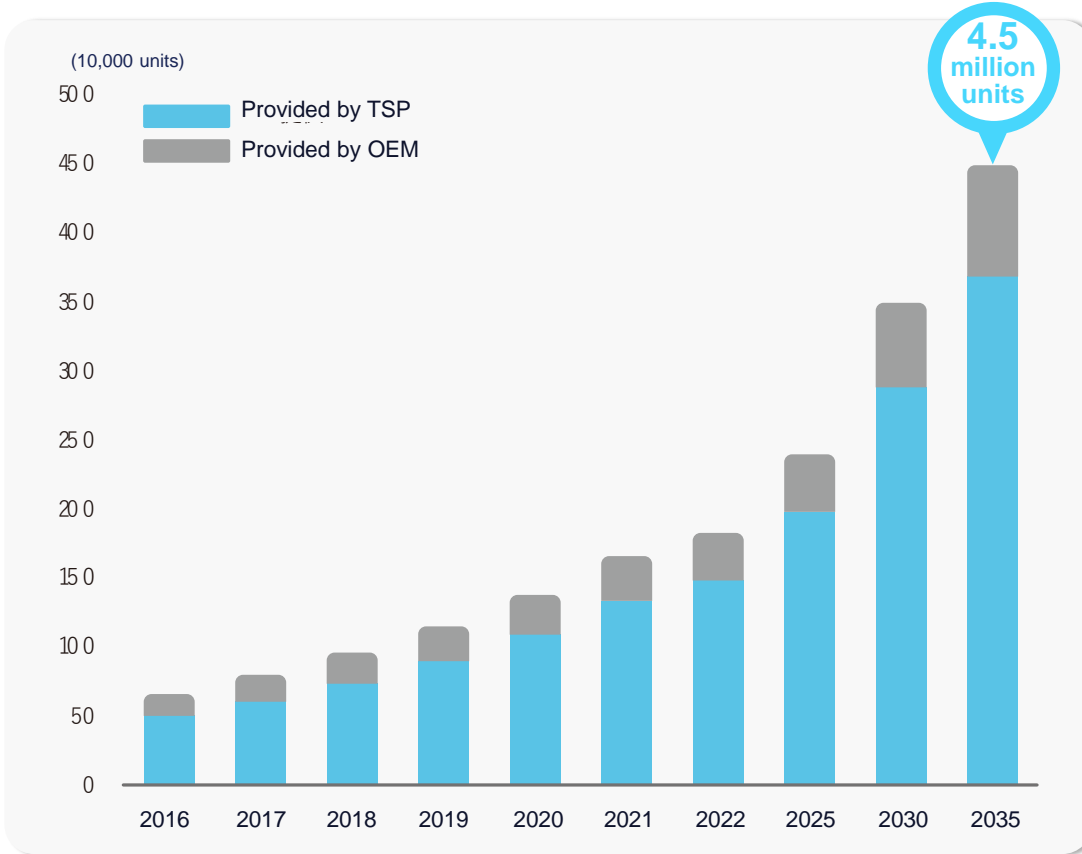
We will continue to develop digital services while simultaneously promoting the development of multiple digital services.



Potential of the Commercial Vehicle Telematics Market in Japan

The number of vehicles participating in the telematics market is expected to rise to 4.5 million by 2035 in Japan.

Cumulative numbers of vehicles participating in the commercial vehicle telematics market in Japan*1



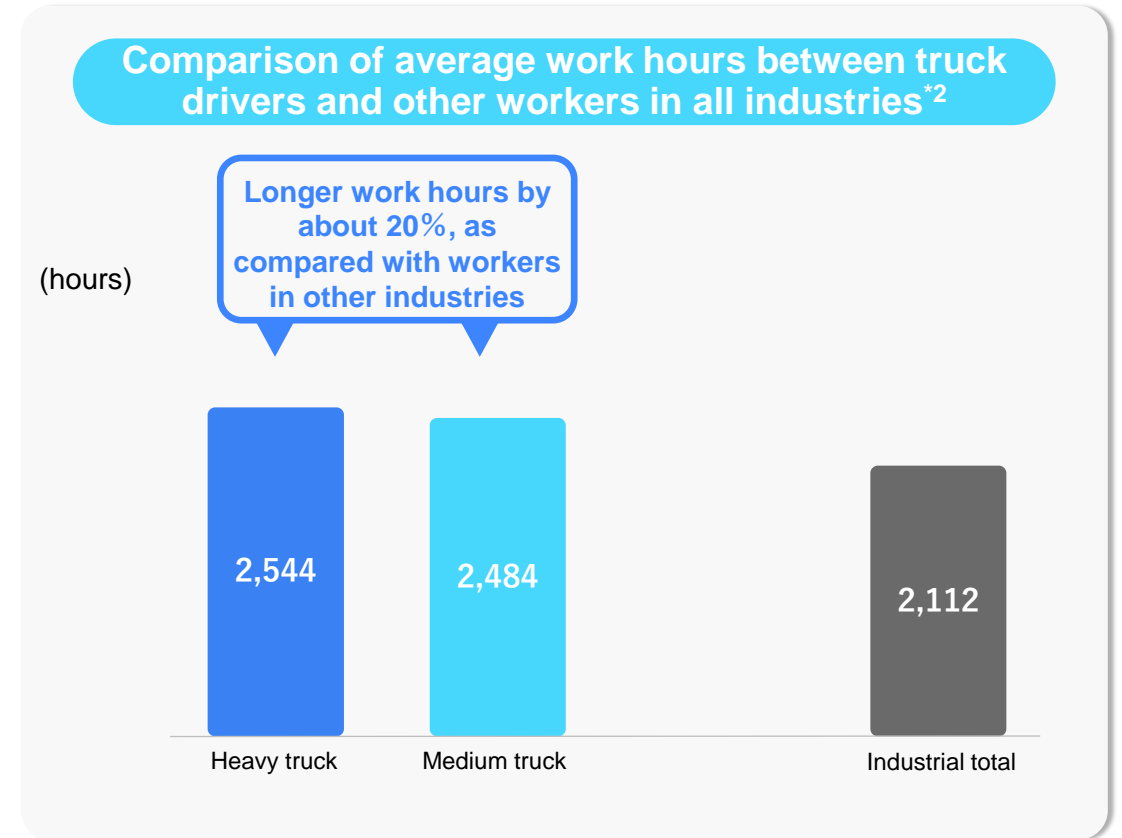
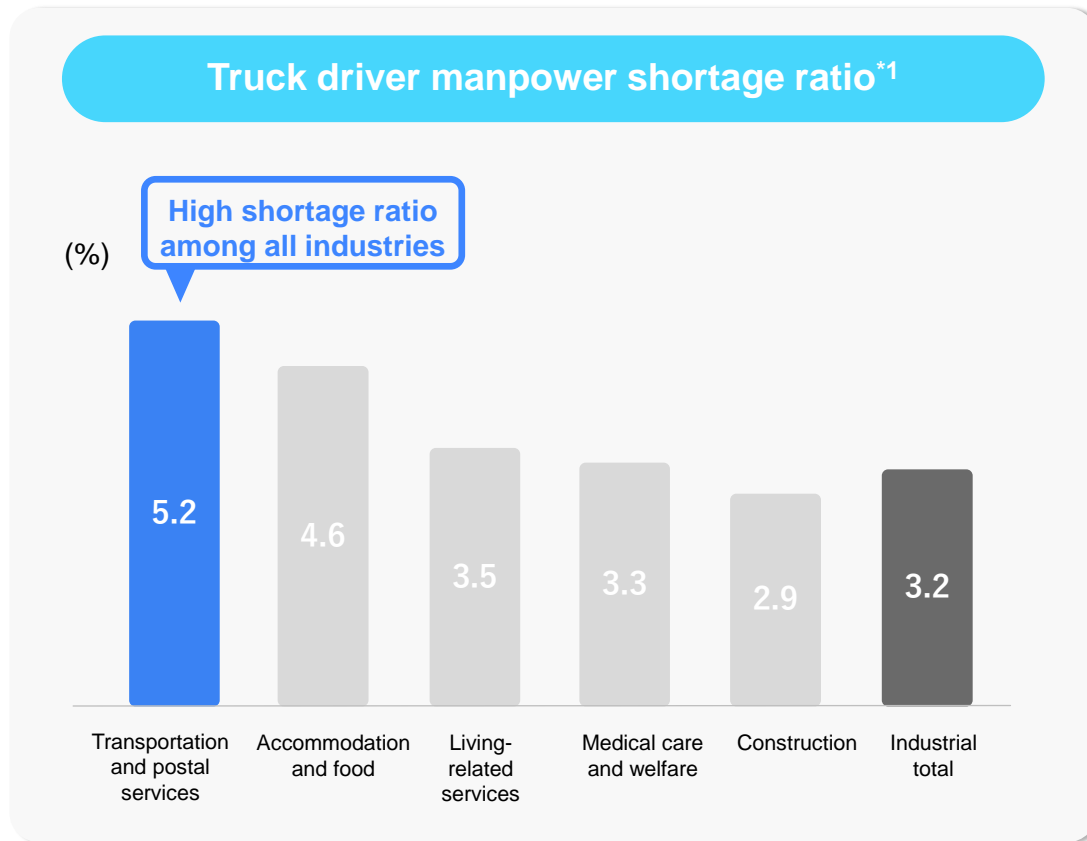
*1: Propriarily compiled, based on "Current State of Connected Car-related Markets and Telematics Strategies in 2019," Fuji Keizai Co., Ltd. TSP (Telematics Service Provider) represents third parties; OEM (Original Equipment Manufacturer) represents auto manufacturers.

*2: TAM: Total Addressable Market indicates the largest market opportunity that can be obtained. The monetary values are propiariarily calculated provisionally by our monthly average service unit price x 12 months x number of vehicles.

The numbers of vehicles are calculated by subtracting the number of privately leased vehicles from the number of freight vehicles (as at the end of January 2023) in the "Number of Vehicles Owned" issued by the Automobile Inspection & Registration Information Association of Japan and the number of passenger vehicles in the "Annual Changes in the Number of Vehicles Leased by Model in Japan and Year-on-Year Changes" issued by the Japan Automotive Leasing Association.

Problems in the Mobility Industry

The critical situation in logistics has emerged due to a shortage of truck drivers, etc. In addition, the “restriction of annual overtime work hours to 960 hours” will be imposed on automobile driving operations in 2024, according to the “Work-style Reform.”

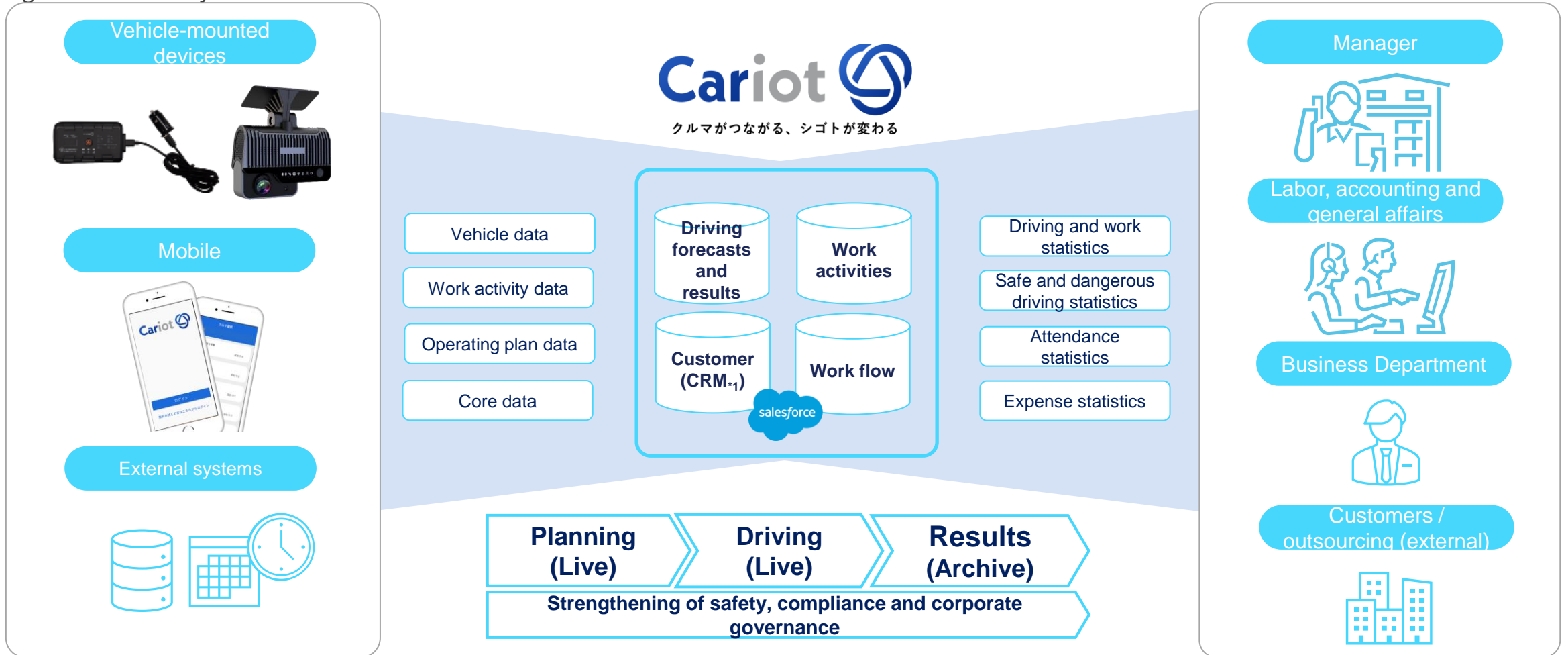


*1: Labor Economy Trend Survey February 2023 (Ministry of Health, Labour and Welfare)

*2: Compiled proprietarily, based on the “Portal Site for Improvement of Long Working Hours for Truck Drivers” of the Ministry of Health, Labour and Welfare.

“Cariot,” a cloud that innovates the way drivers work and connects vehicles and companies

This is a cloud service with which vehicle data can be obtained, visualized and used simply and in real-time by means of vehicle-mounted devices and smartphone applications. It provides a consistent, digital work experience, from driving forecast management to statistical analysis, to support the greater efficiency of vehicle-related work.



*1 Abbreviation of Customer Relationship Management, a customer management system.

**Financial results for the 1st Quarter
of the fiscal year ending March 2024**

(1st Quarter, Fiscal Year Ending March 2024) Financial Results Summary

1 Highest ever 1Q sales. Returned to profitability after losses last year

As for unprofitable projects, despite delivery inspections as planned in the first quarter, additional handling was generated and profit margins declined. However, sales were strong and profits reached the level as planned.

1Q, fiscal year ending March 2024



2 Acquired many new customers in anticipation of sustainable growth

Although the impact on results in the first quarter was small, we expect this to contribute to results from the second quarter on.



3 The number of engineers and other employees increased significantly

We are also progressing ahead of schedule in the human resources seller's market, increasing by 41 people compared to March 2023, including 25 new graduates.

As of the end of June 2023



4 Strong demand for DX remains unchanged and there is no change in the results forecast

Although there will be additional costs associated with the unprofitable projects in the 2nd quarter, we will be able to absorb increased costs.

Forecast of results for full term, FY2023



*1 Professional human resources such as engineers and managers in the Cloud Integration Services Division, excluding administrative personnel (as of the end of June 2023)

(1st Quarter, Fiscal Year Ending March 2024) Topics

We started doing business with the Ministry of Economy, Trade and Industry. In addition, we also received an award from MuleSoft for the second consecutive year.

Start of business with the Ministry of Economy, Trade and Industry

We started business after receiving an order from the Ministry of Economy, Trade and Industry for an employee information database and attendance management system using Salesforce.

We have strengthened our framework for government offices and the public sector to expand our business areas, and realized the company's first direct contract with a central government agency.

We will aim to expand this business from now on.



FLECT

Award from MuleSoft

We received an Enablement Award from MuleSoft for the second consecutive year in appreciation of our contribution to support for the introduction of the MuleSoft API coordination platform in MuleSoft business.



Received the MuleSoft
Japan Partner
Enablement Award
for the second
consecutive year

(1st Quarter, Fiscal Year Ending March 2024) Results Trends

Against the backdrop of vigorous demand for DX support, sales reached a record 1st quarter high of 1,483 million yen (up 26.5% year-on-year). On the other hand, although deliveries of unprofitable projects in 1Q were as planned, some additional handling was generated. Because we provided for the expected losses due to the additional handling in the 2nd quarter, this pushed the gross profit margin down slightly to 39.2%. However, sales were strong and gross profits reached the level as planned. As other projects are sound, we expect to be able to absorb the increased costs of the 2nd quarter.

Sales (quarterly accounting period)

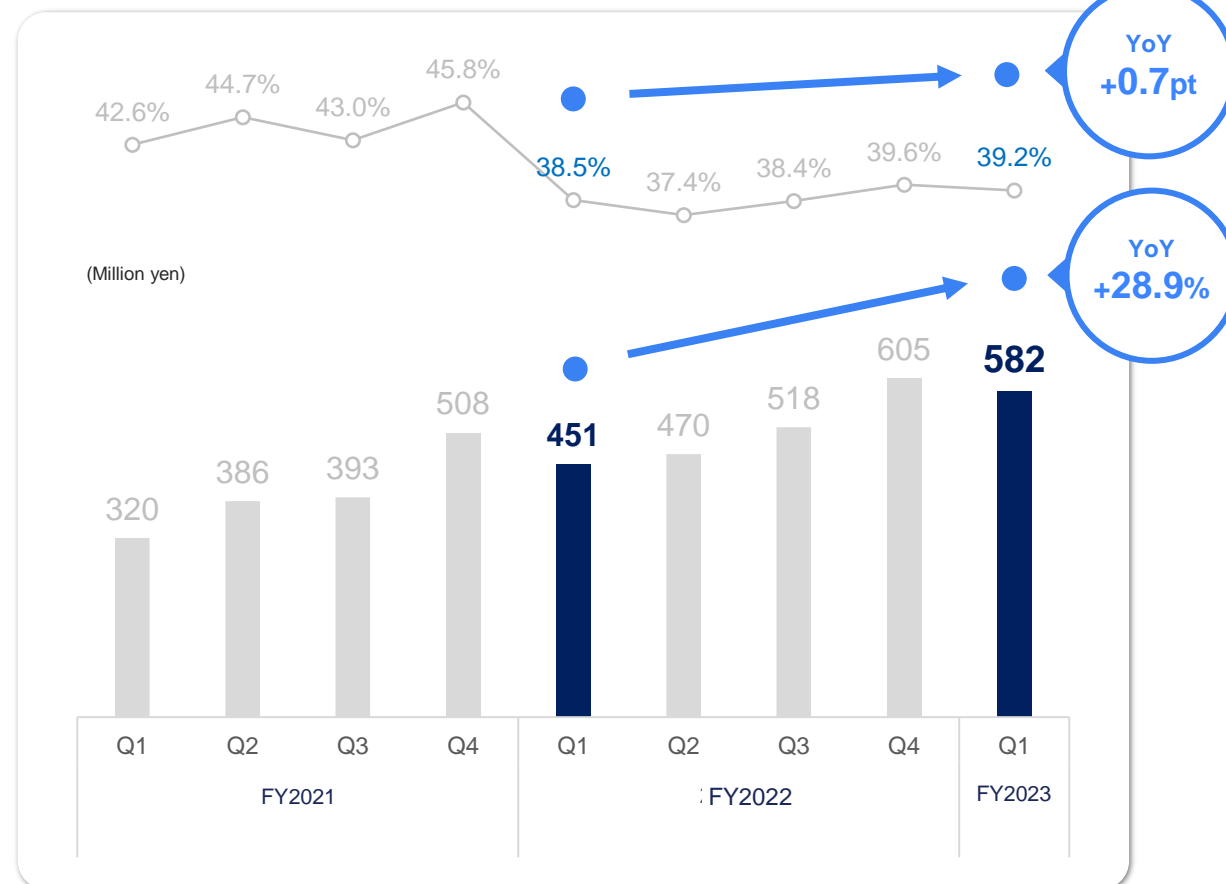
YoY
+26.5%



Gross profit (quarterly accounting period)

YoY
+0.7pt

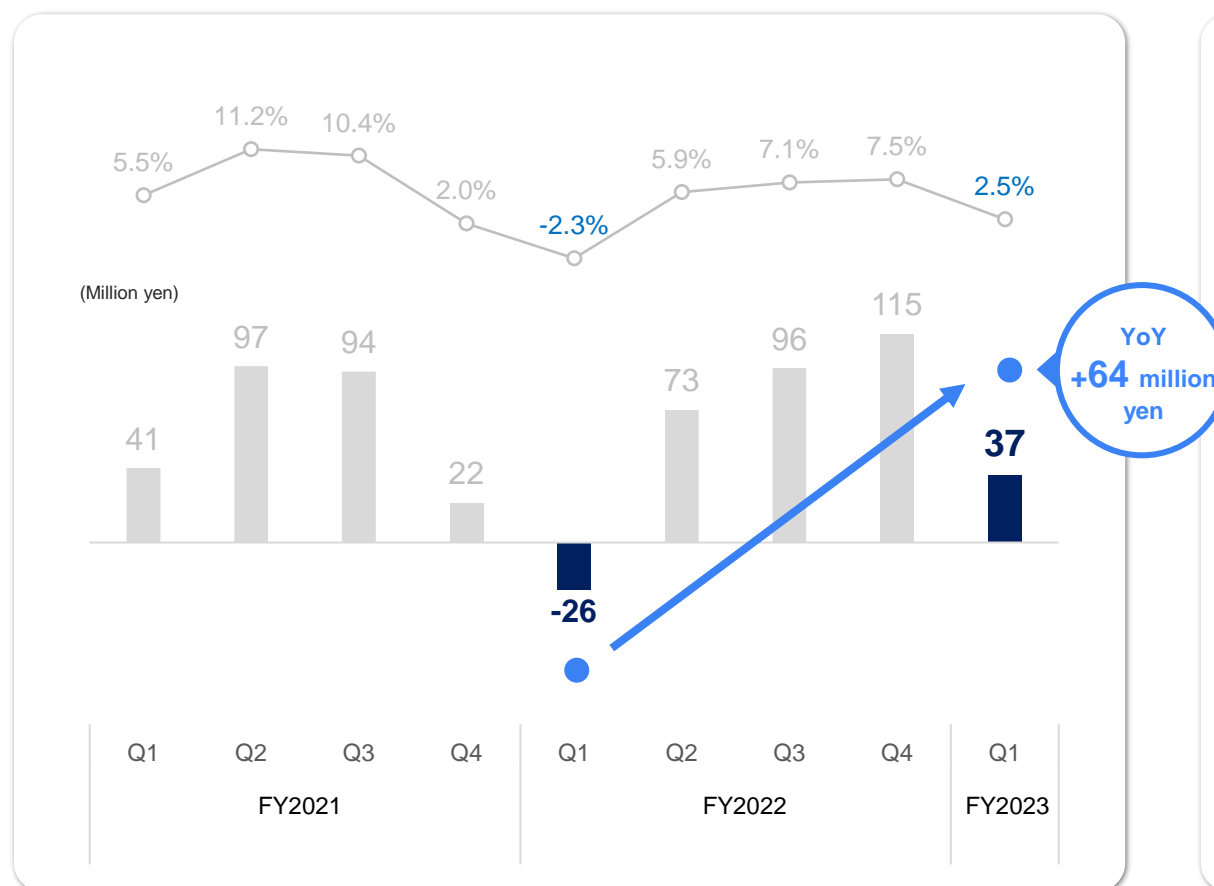
YoY
+28.9%



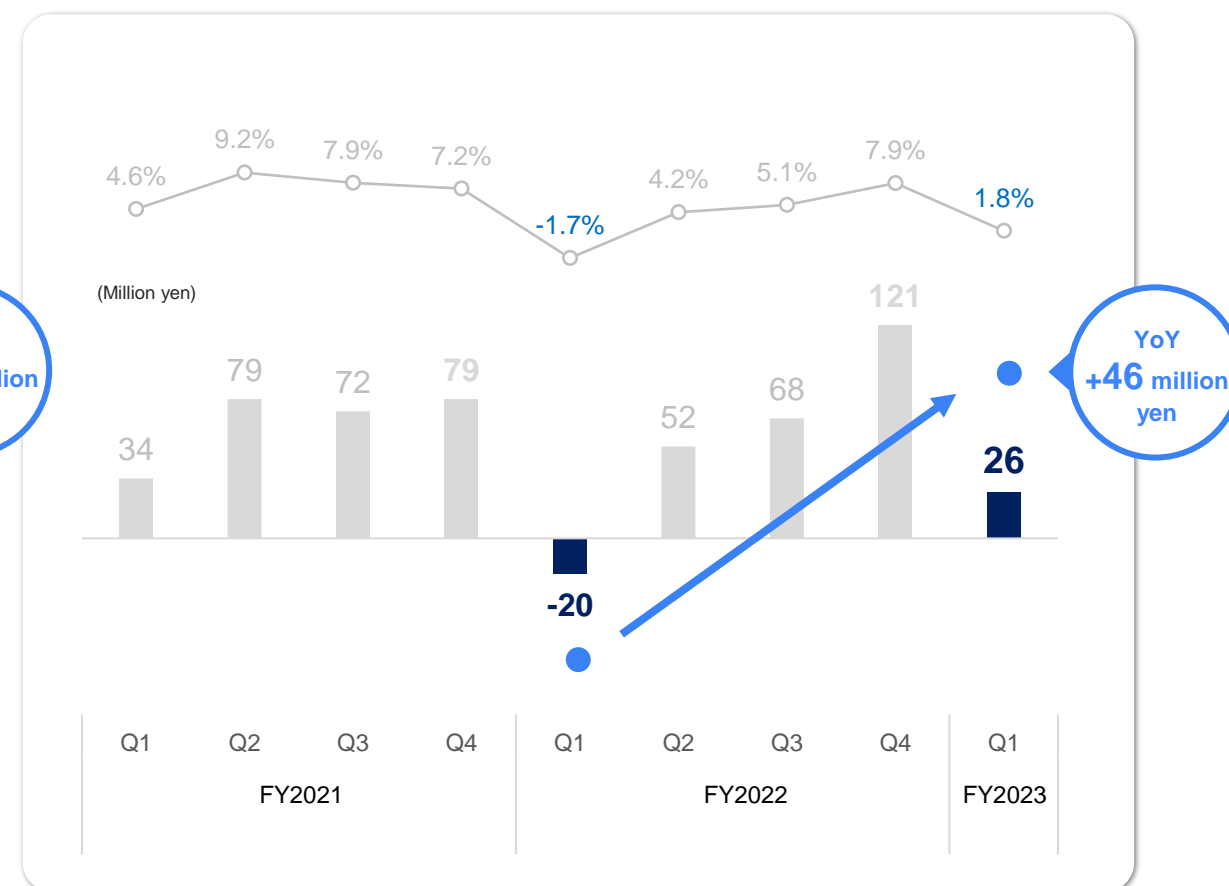
(1st Quarter, Fiscal Year Ending March 2024) Results Trends

Operating income increased to 37 million yen (up 64 million yen year-on-year) due to increased revenue effects even while costs increased in association with the hiring of new graduates in April 2023. Although we posted a loss in the same period last year, we returned to profitability this term. Net income was 26 million yen (up 46 million yen year-on-year).

Operating income (quarterly accounting period)



Net income (quarterly accounting period)

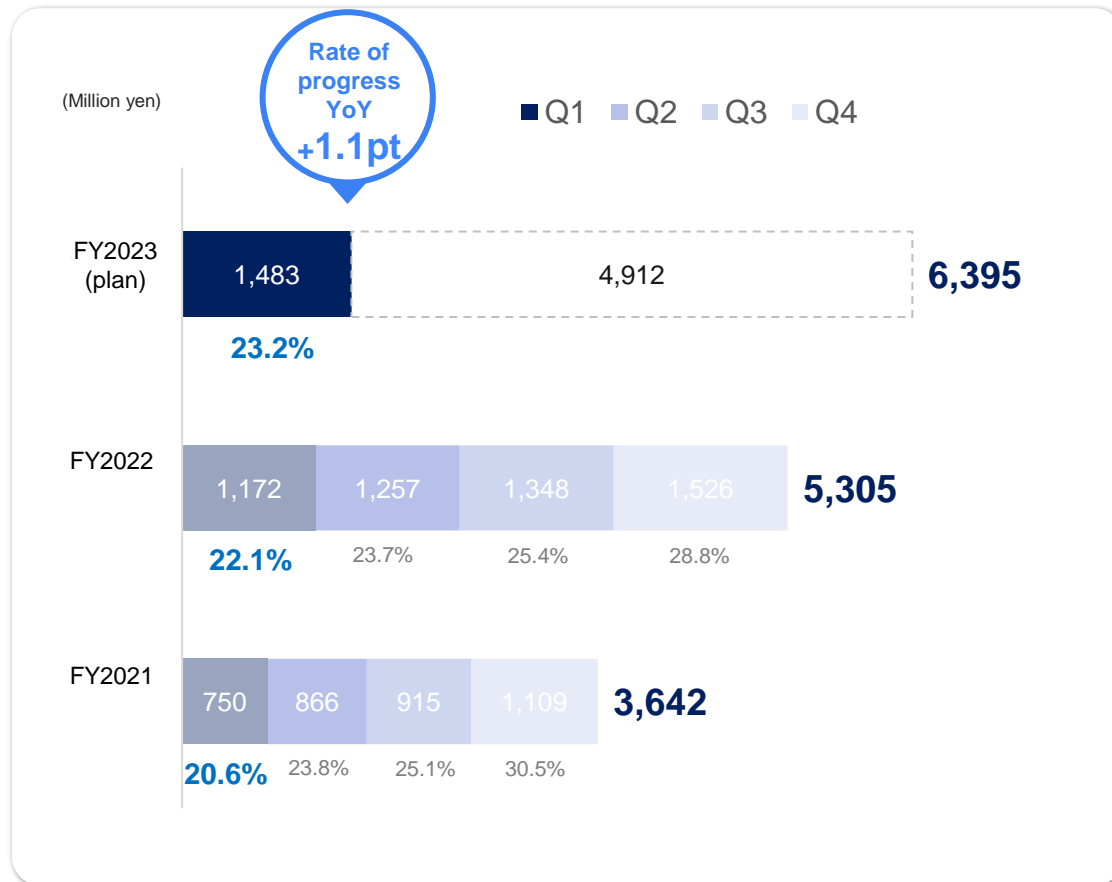


(1st Quarter, Fiscal Year Ending March 2024) Results Progress

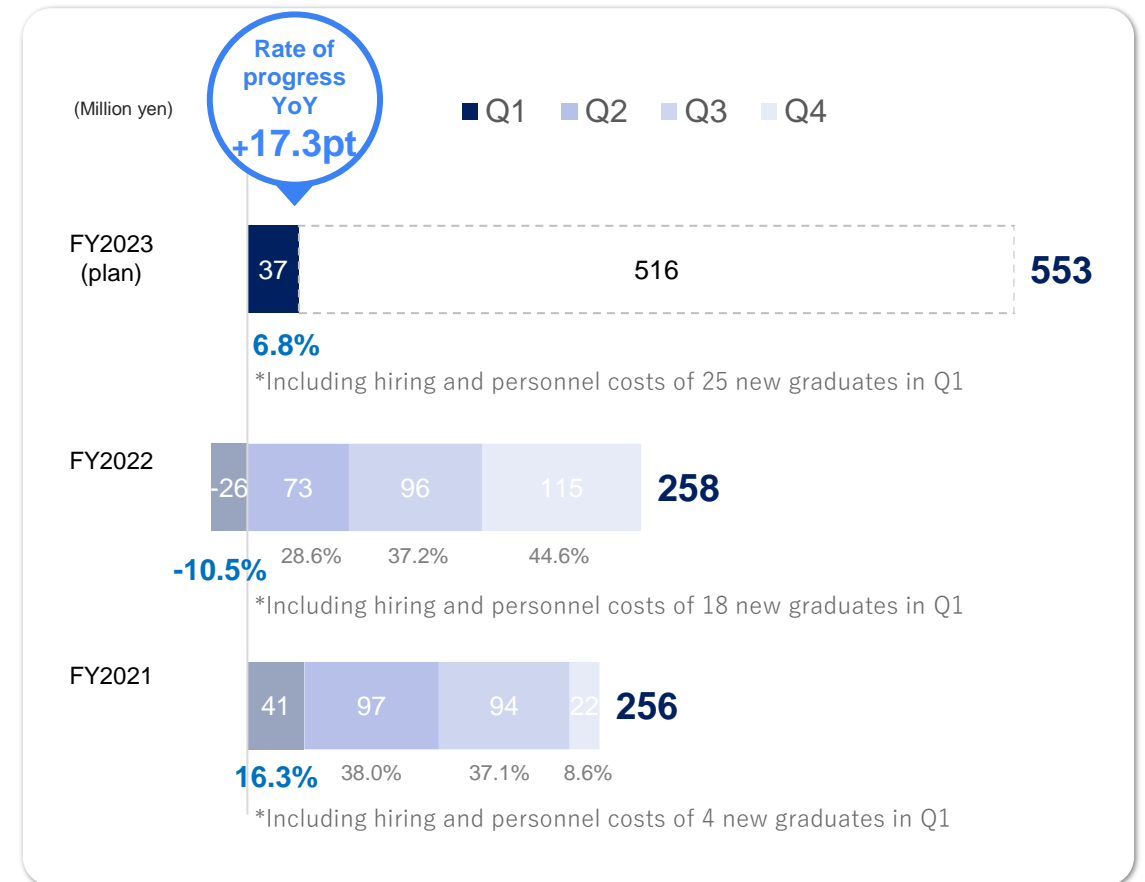
Sales remained steady at a rate of progress of 23.2%, which was above the previous fiscal year.

Operating income was as planned due to sales remaining strong, even while we were impacted by increased costs due to unprofitable projects.

Sales - rate of progress



Operating income - rate of progress



(1st Quarter, Fiscal Year Ending March 2024) Balance Sheet

The main changes are current assets increasing by 62 million yen and current liabilities increasing by 34 million yen. The equity ratio of 53.3% is a sound financial foundation.

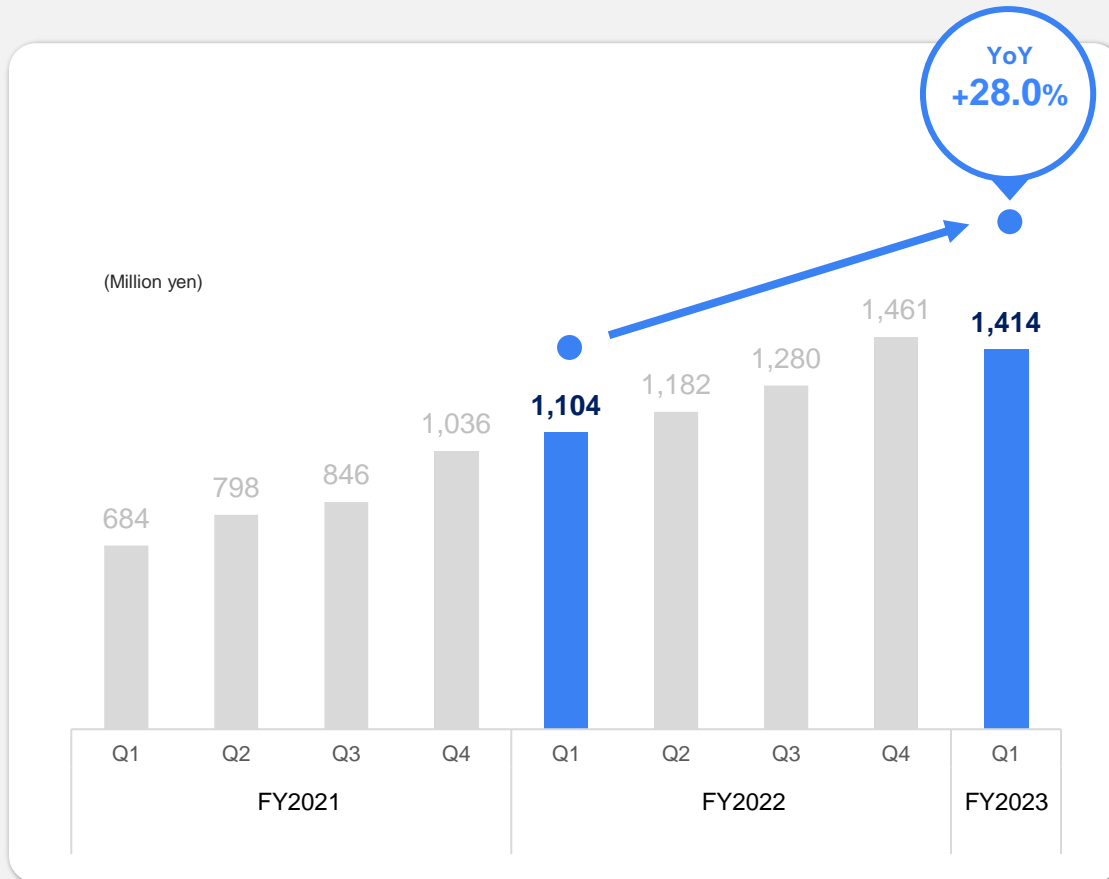
(Million yen)

	FY2022 (As of term-end)	FY2023 (June 30, 2023)	Change in amount
Total assets	2,881	2,930	+49
Current assets	2,577	2,639	+62
Fixed assets	304	290	-13
Total liabilities	1,351	1,369	+18
Current liabilities	768	803	+34
Fixed liabilities	582	566	-16
Net assets	1,530	1,560	+30
Total assets	2,881	2,930	+49
Cash and deposits	1,155	1,063	-91
Interest-bearing liabilities	633	625	-7
Equity ratio	53.1%	53.3%	+0.2pt

Trend in Results

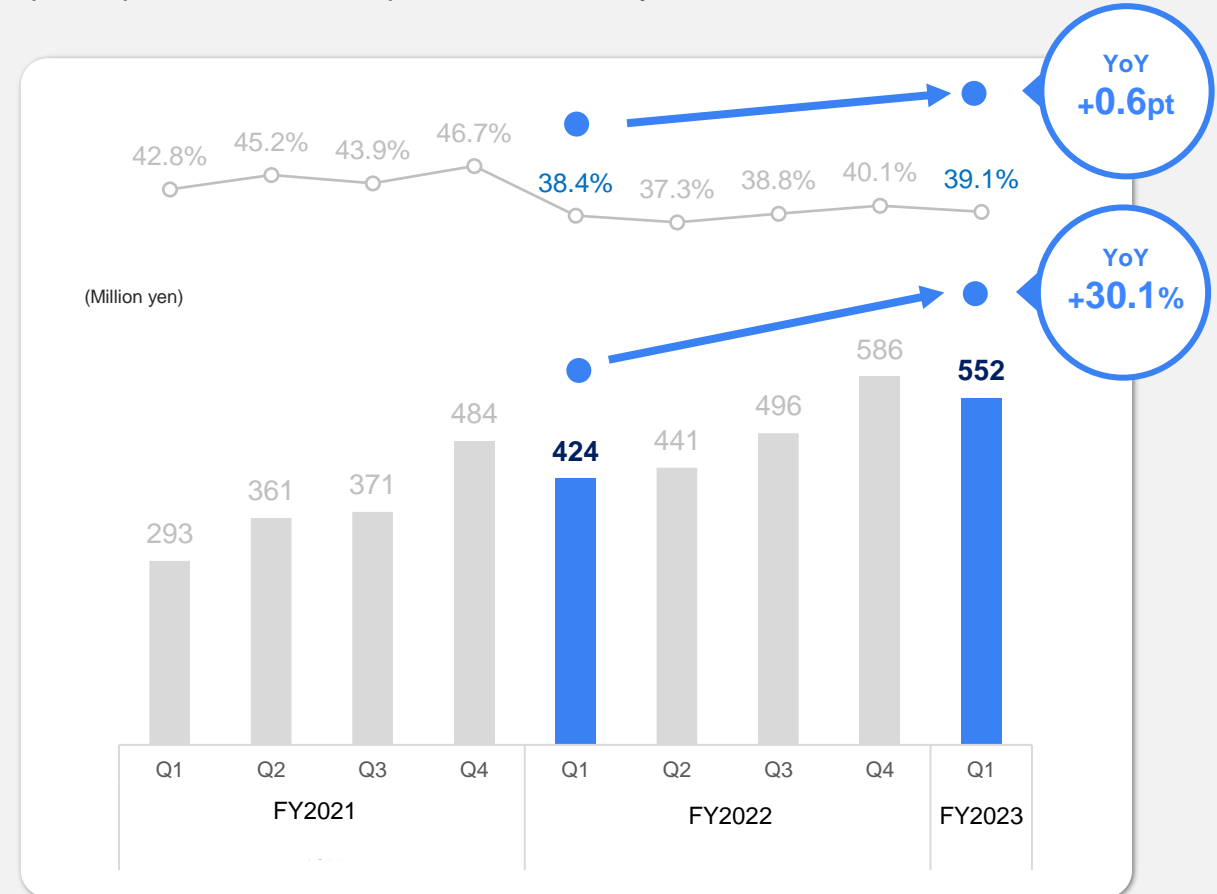
Sales (quarterly accounting period)

Against the backdrop of vigorous demand for DX support, sales reached a record first quarter high of 1,414 million yen (up 28.0% year-on-year).



Gross profit (quarterly accounting period)

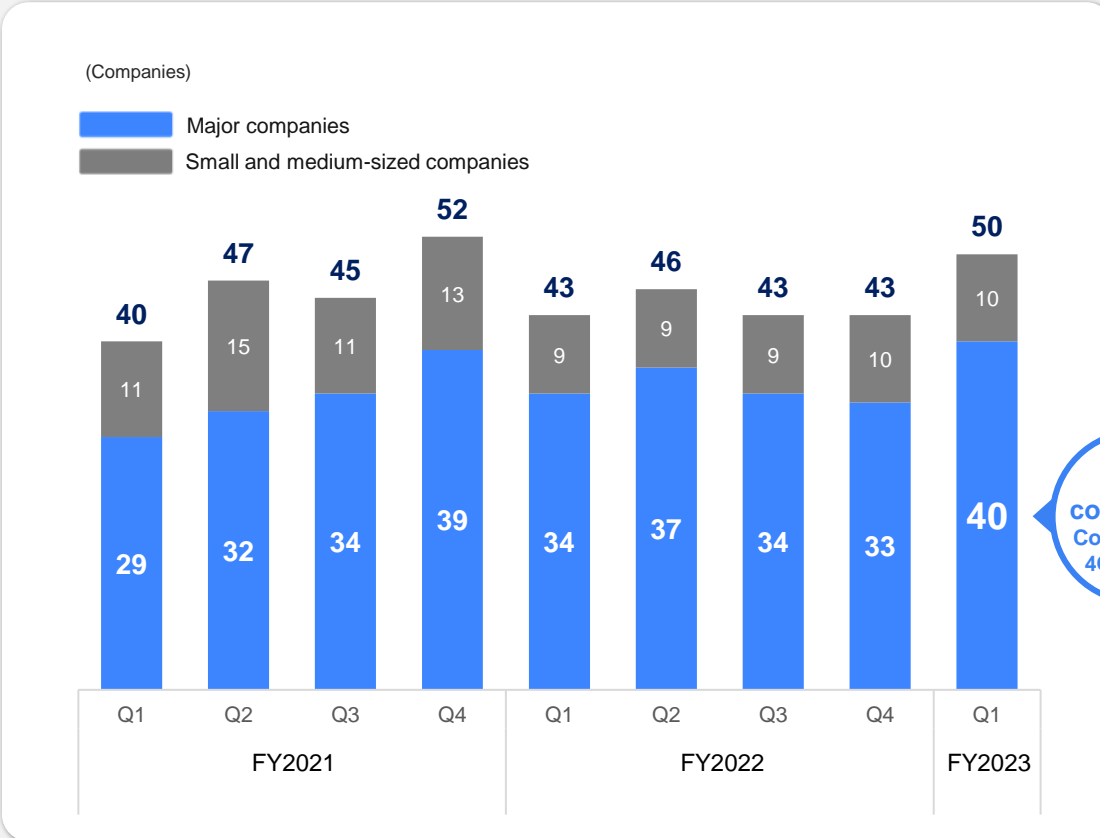
Because we provided for the losses expected in the second quarter due to additional handling on unprofitable projects, the gross profit margin decreased 1.0 pt compared to the fourth quarter of the fiscal year ended March 2023 to 39.1%.



KPI Trends (Quarterly Basis)

Number of quarterly contract customers*1

In the first quarter of the fiscal year ending March 2024, the number of quarterly contract customers that are major companies increased by seven compared with the fourth quarter of the term ended March 2023 to 40 companies as a result of focusing on the acquisition of new customers with whom business can be expected to expand in the future, looking ahead to sustainable growth.



Quarterly average revenue per account (ARPA*2)

Because we acquired many new customers, ARPA for major companies in the first quarter of the term ending March 2024 trended at 33.2 million yen, a decrease of 8.5 million yen compared with the fourth quarter of the term ended March 2023. We expect the expansion of transactions from the second quarter on.

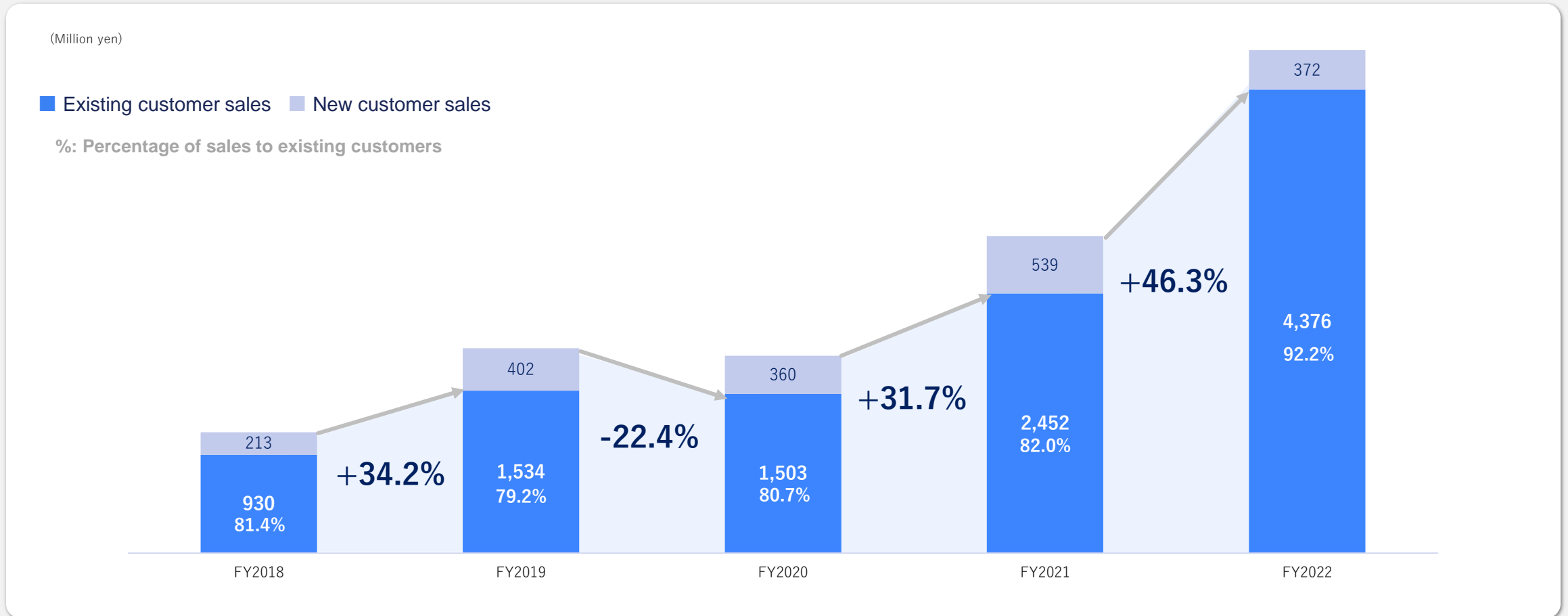


*1 Number of contract customers in the quarterly accounting period excluding resales. Resales are where the company resells purchased licenses to customers and are excluded because the amount at the company is small.

*2 Abbreviation of average revenue per account (average sales per customer), or quarterly average sales per customer excluding resales. Calculated by dividing quarterly sales excluding resales by the number of quarterly contract customers

Year-on-year sales growth rate for existing major company customers*1

Because DX starts from small scale development and continues with the development of functional improvements, we will continue and expand business with existing customers. In the fiscal year ended March 2021, orders by some large customers were suspended due to the impact of COVID-19, but average year-on-year sales growth for existing customers from the fiscal year ended March 2019 through the fiscal year ended March 2023 was +22.4%.

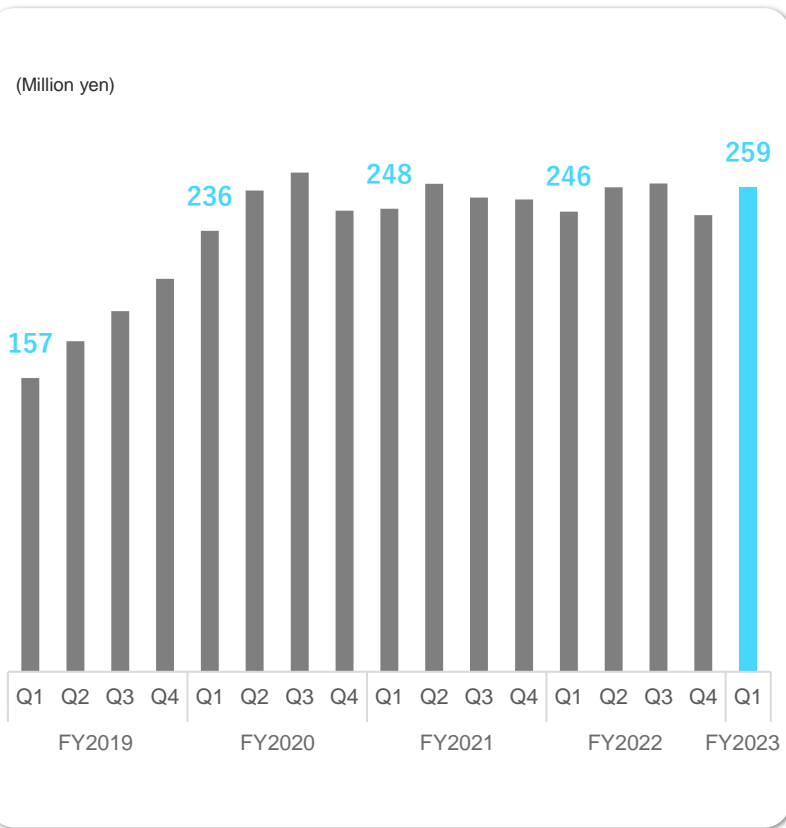


*1 Year-on-year sales growth rate for existing major company customers: Growth rate of total sales for major company customers with contracts prior to the previous fiscal year

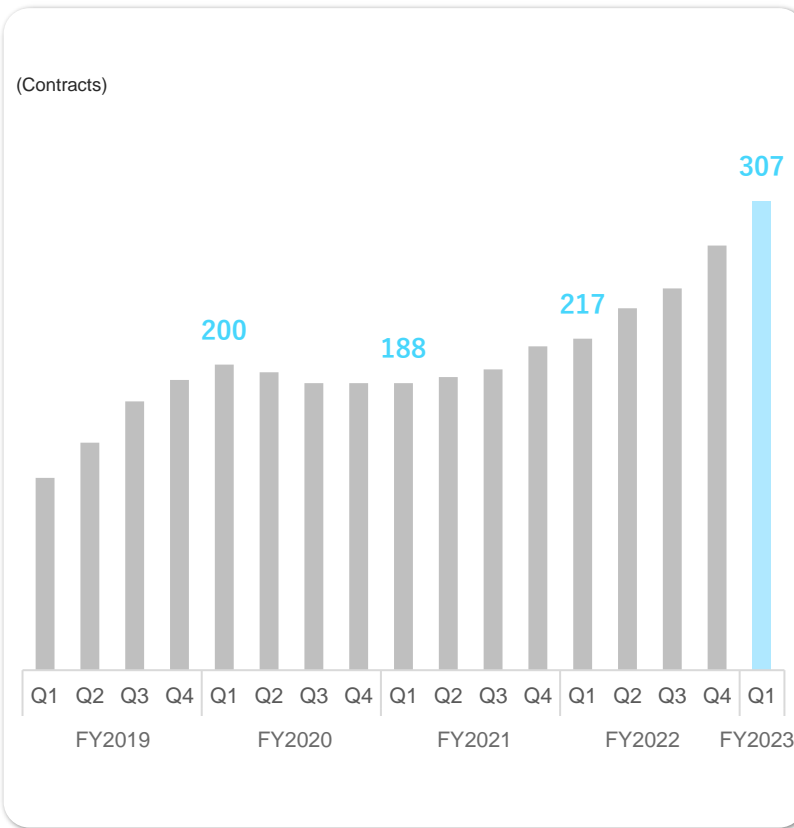
KPI Trends

As a result of focusing on targeted areas where we can take advantage of our competitive superiority, such as small to medium companies' delivery trucks, garbage trucks, and sales and door-to-door service vehicles, we obtained a large number of new customers, with the number of contracts increasing to a record high of 307 in 1Q of the fiscal year ending March 2024. ARR for 1Q of the fiscal year ending March 2024 was 259 million yen, up 15 million yen from the previous quarter.

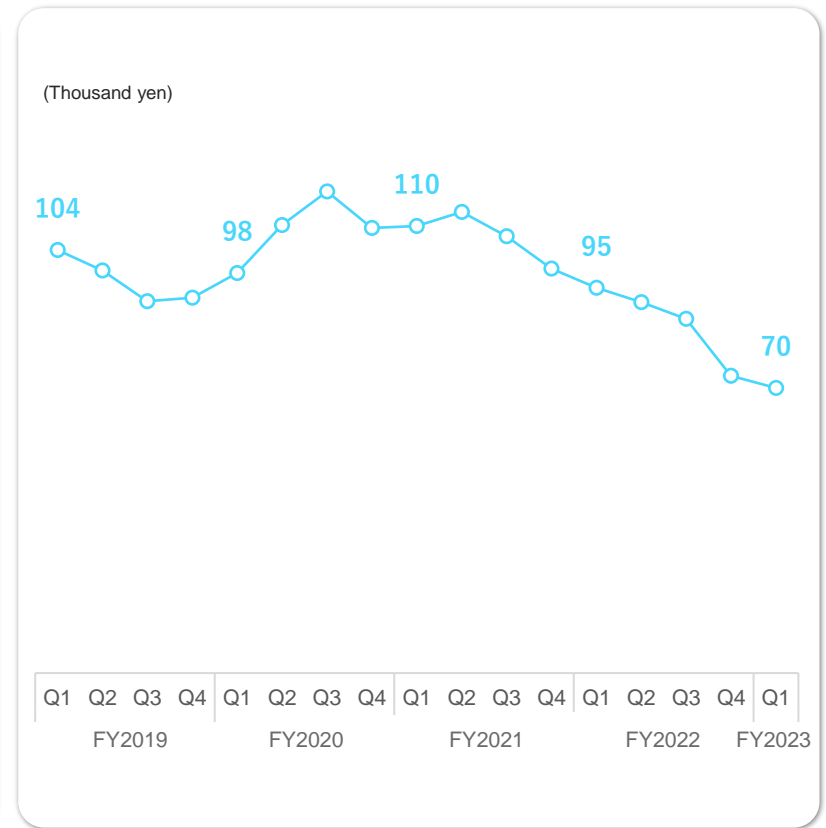
ARR*₁



Number of contracts*₂



ARPA*₃



*1 Abbreviation of annual recurring revenue. Annual recurring revenue calculated by multiplying MRR (abbreviation of monthly recurring revenue) at the end of the month by 12

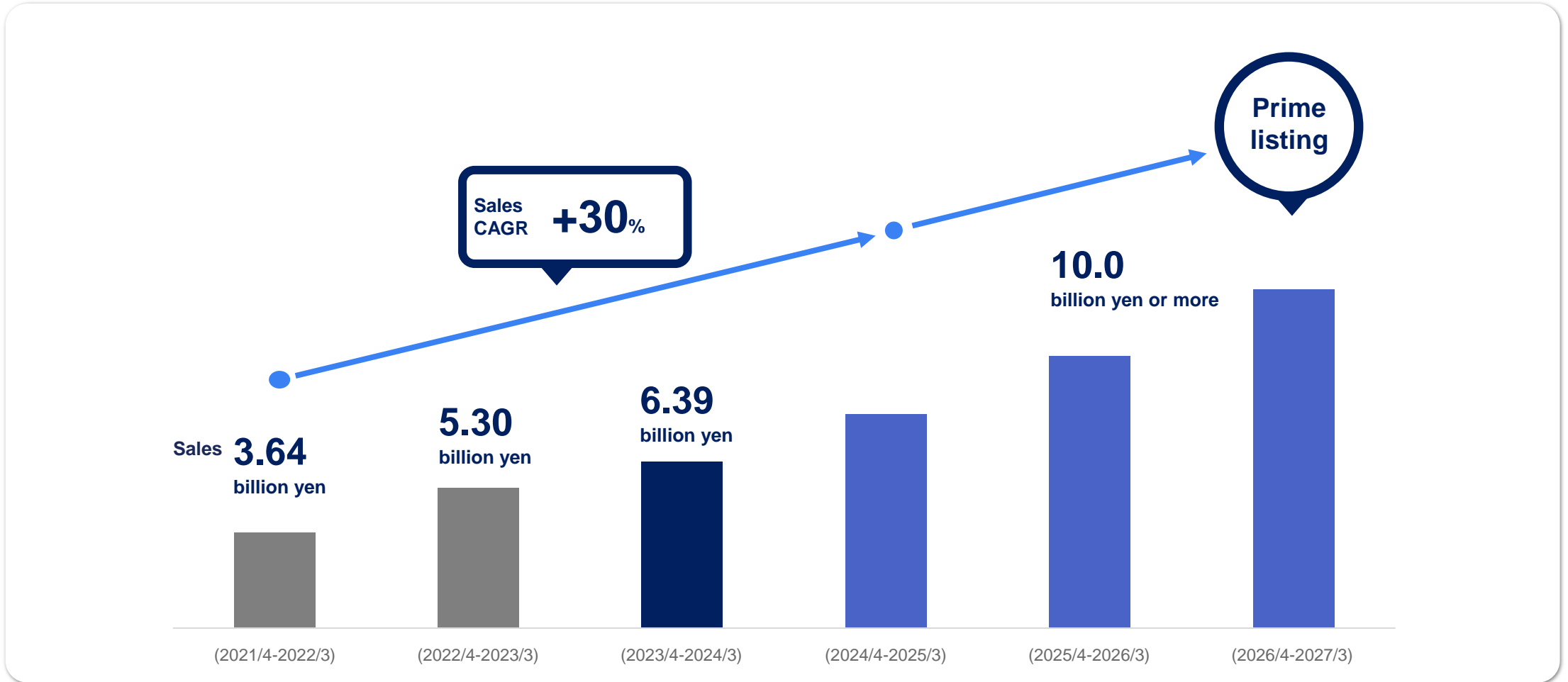
*2 Number of contracts per month at end of quarter

*3 Abbreviation of average revenue per account. Average MRR per contract

Growth Strategy

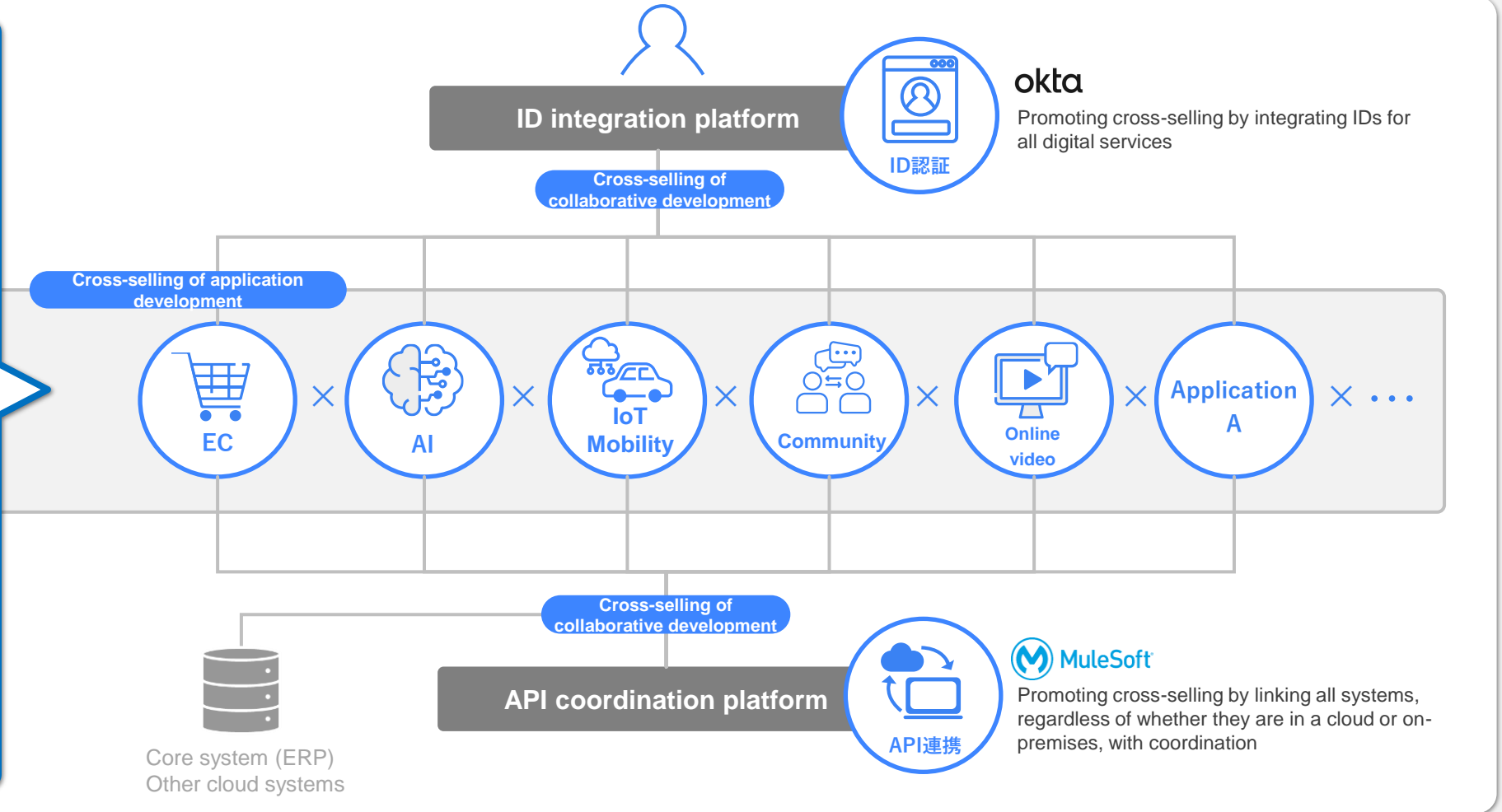
Medium to long-term growth plan aimed at Prime market listing

By promoting the growth strategies of “multi-cloud strengthening and development,” “investment in human resources (education and recruitment),” “investment in R&D” and “investment in Cariot,” we will continue growth centered on Cloud Integration Services. We will aim to achieve net sales of at least 10 billion yen in FY2025 and a listing on the Tokyo Stock Exchange Prime market in FY2026.



Enhancing and Developing Multi-cloud Services

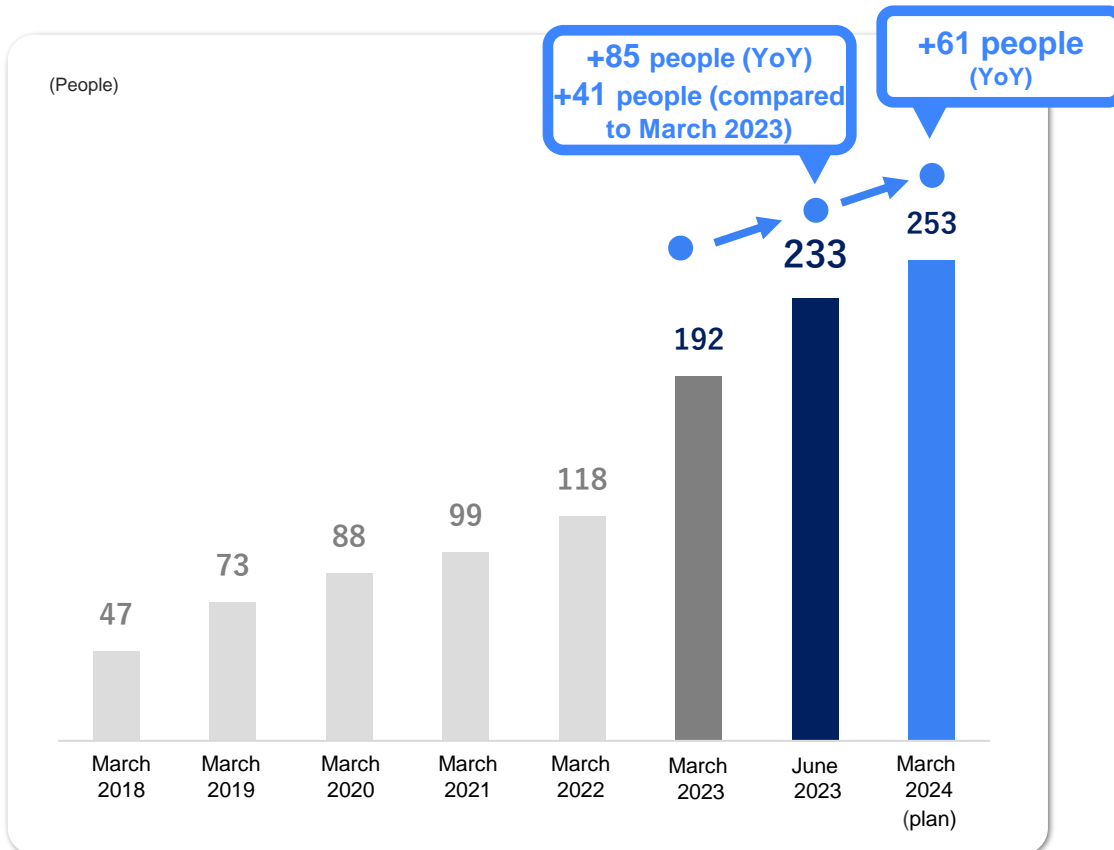
In addition to multi-cloud application development, we will promote cross-selling through platform collaborative development to increase ARPA among existing customers. Further, we will also expand business channels by developing cloud partners towards increasing the number of contracted customers.



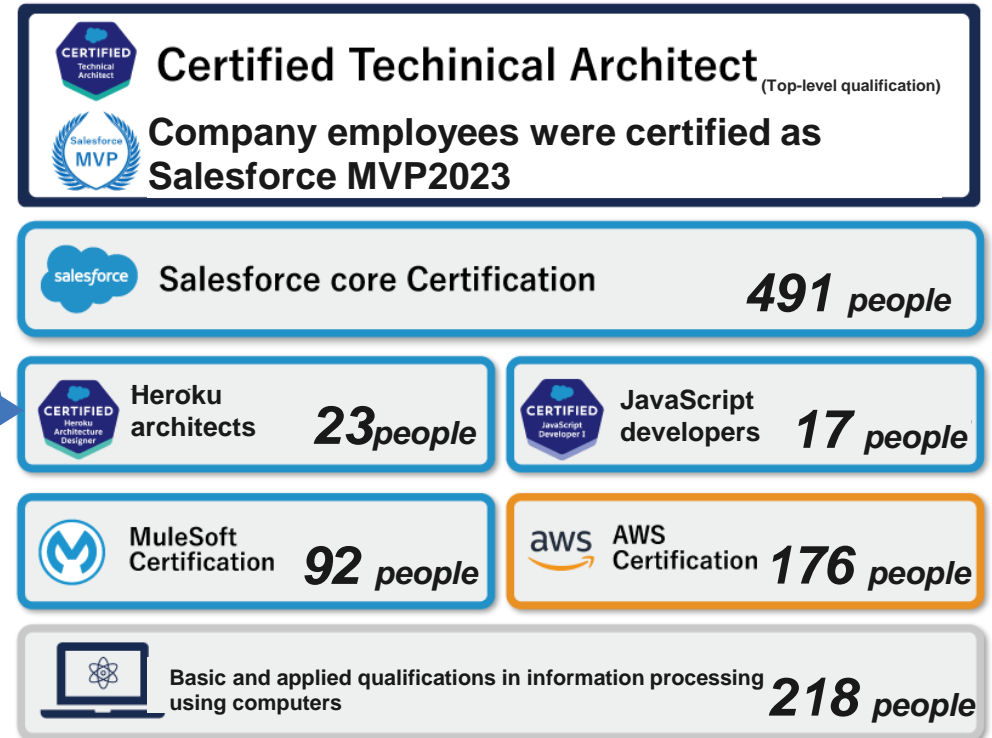
Organizational expansion centered on cloud engineers and other professional employees

The number of cloud engineers and other employees increased by 85 year-on-year, including 25 new graduates, and by 41 compared with the end of March 2023 to 233 people as of the end of June 2023, trending above the initial plan. We will continue to strengthen recruitment.

Trend in the number of engineers and other employees*1



Promotion of the acquisition of multi-cloud qualifications*2



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

*2 Total number of qualified people as of the end of June 2023

Promotion of Systems Fostering Multi-disciplinary Expertise and Human Resource Development

With a team dedicated to education enablement (promotion) as a focal point, we constantly promote employee education and systemic improvement activities.

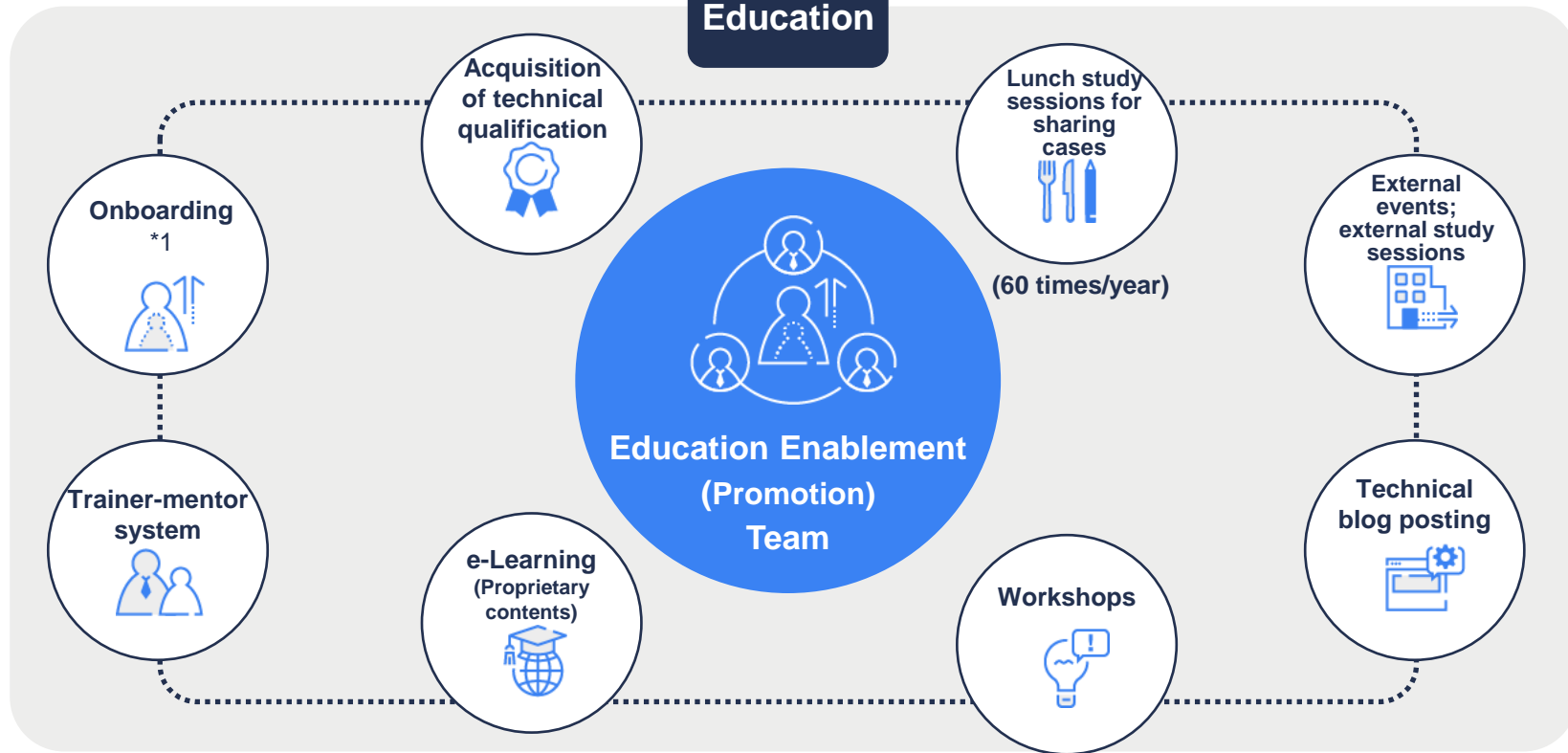
One month from joining the company to project assignment

Joining

Ratio of new mid-career recruits having no job experience in cloud business
90%



Education



Actual work

Continuous improvement through feedback cycles

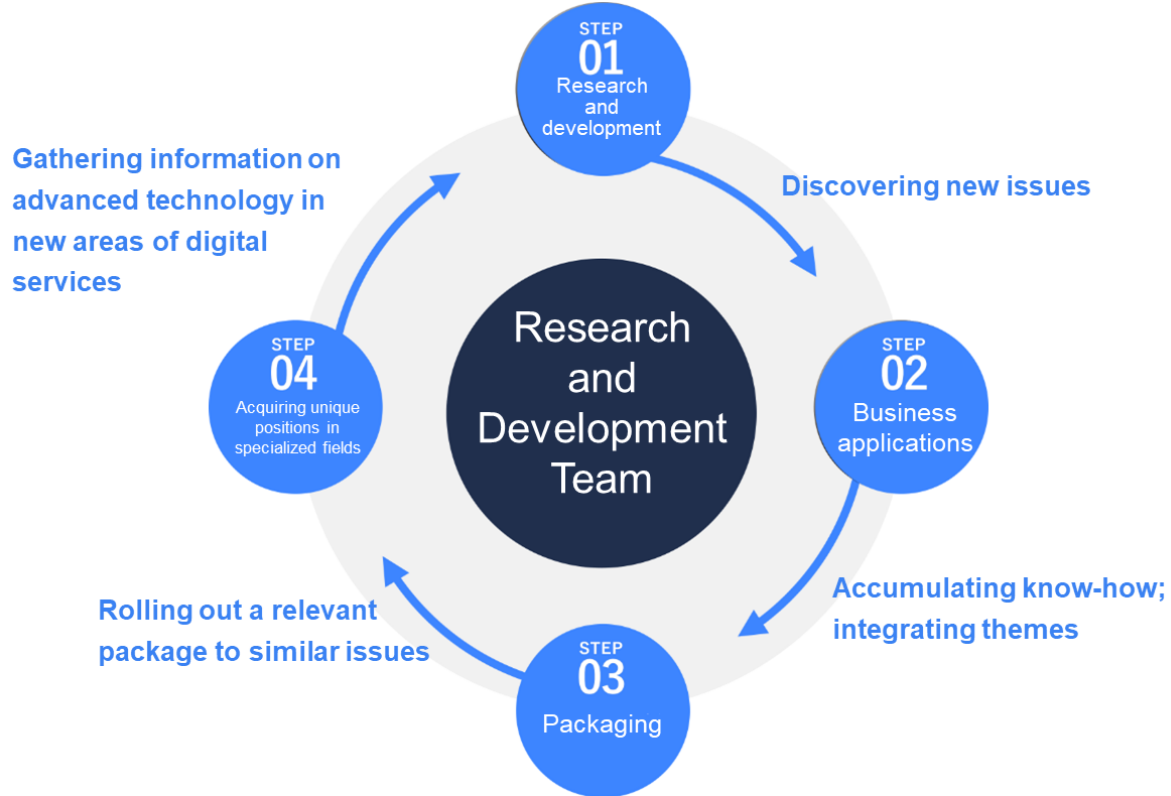


*1: A series of workforce development steps to fully induct mid-career recruits into an organization until they can be recognized as valuable assets

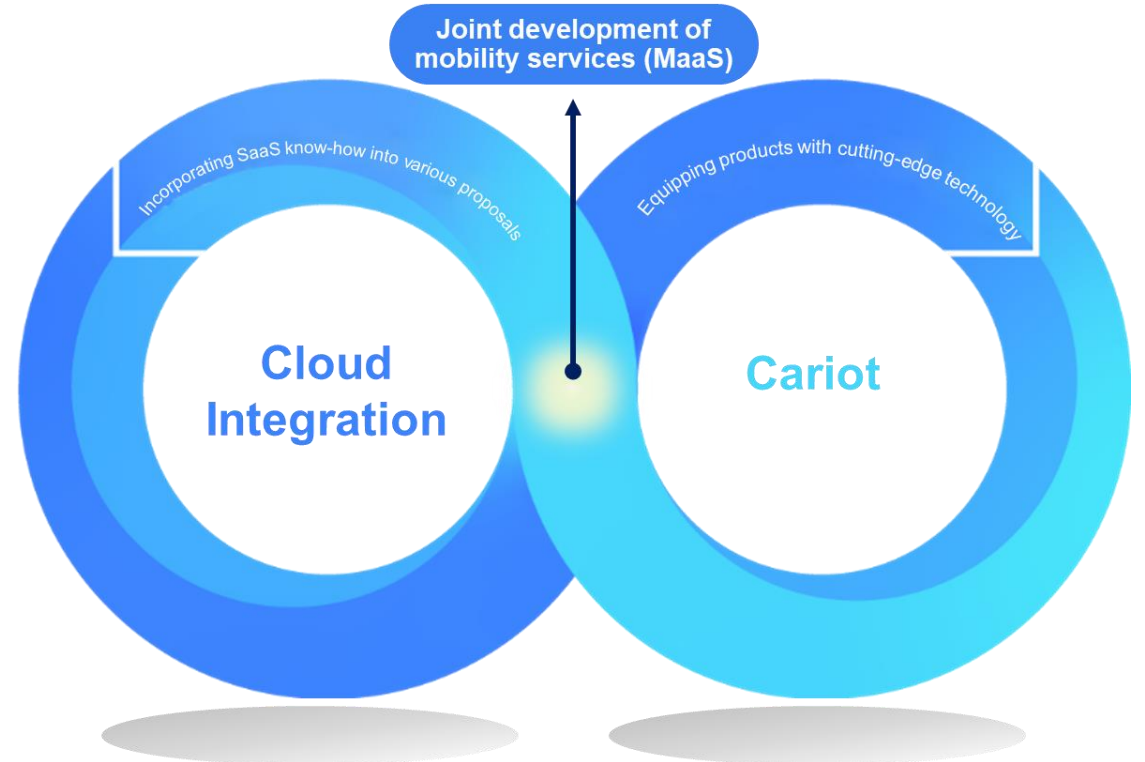
New business investment for future growth

We apply our cutting-edge cloud technology obtained through R&D expeditiously to a wide variety of issues taking place in companies and society. Through accumulating this know-how, we can create packages of the most advanced cloud technology, which can then be rolled out to similar issues and constitute our unique competitiveness ahead of our competitors in specialized fields totally unfamiliar to them. Investment in SaaS Business Cariot which is created from R&D, we create synergy by aligning and integrating both services.

R&D Investments to Create High Added Value with Cutting-edge Technology



SaaS Business Investment in Cariot



Appendix

Sustainability Initiatives

In 2020, we joined the SDGs Public-Private Partnership Platform for Local Revitalization operated by the Cabinet Office, and have contributed to the SDGs through various initiatives

Society

Job satisfaction and job opportunities

- Provision of opportunities to improve skills and advance career with the theme of maximizing value of resume
- Provision of care for job satisfaction by monitoring the Employee Engagement Scores
- Recruitment of diverse human resources, such as local residents (full remote work), those with no cloud experience, foreign nationals, and elderly staff
- Short-time work and leave for childcare
- Reform of the way drivers work with Cariot service



Promotion of education

- Promotion of education by education enablement team
- Provision of a variety of educational opportunities, including the holding of internal and external technical study sessions, support for acquisition of qualifications, and in-house original e-learning



Technology innovation

- Research and development of advanced cloud technologies, social implementation of technological innovation through DX support for companies



Economic growth and productivity

- Improvement of productivity and creation of new customer experience value through DX support for companies
- Provision of diverse ways of working to maximize performance, including full remote work



Governance

Corporate governance

- Checks by a majority of outside directors
- Fair decision-making with a composition of directors with diverse knowledge

Compliance

- Establishment of a solid management foundation through compliance



Environment

CO₂ emissions

- Support for mobility service development, contribution to CO₂ emissions reduction through Cariot service
- Contribution to reducing CO₂ emissions by eliminating physical servers

Conservation of natural resources

- Promotion of paperless operations with DX support



Management Team



**Founder/
Representative Director and CEO**

Koji Kurokawa

Starting a company as a student and accumulating entrepreneurial experience in IT for 20 years

Based on his experience of founding a predecessor IT company, Mr. Kurokawa established FLECT Co., Ltd. in 2005. As Representative Director and CEO, he launched its cloud services and established the business bases and has steadfastly directed its course at the helm. With the mission of "Pursuit of Everyone's Fulfilment of Life through the Internet," he firmly intends to maximize the happiness all stakeholders of the Company can enjoy and values it can present.



Director and COO

Masaoki Ohashi

Selected one of the 99 people capable of changing the IoT in Japan

Mr. Ohashi joined Sony Ericsson Mobile Communications in 2004 and was first engaged in the development of smartphone middleware. He joined FLECT Co., Ltd. in 2007, and was appointed director in 2009. He then took charge of its cloud business, and successfully led it onto a path of growth. Subsequently he took up the Company's IoT initiatives, and started up Cariot, the Company's connected car business, and has led it to growth. Since 2017, Mr. Ohashi has supervised overall company operations.



External Director, Audit and Supervisory Committee Member

Yosuke Tetsukawa

**Representative Partner, Improve Tax Co.
Certified Public Accountant**



External Director, Audit and Supervisory Committee Member

Akihito Fujiwara

Former Standing Audit and Supervisory Board Member, Recruit Holdings Co., Ltd.



External Director, Audit and Supervisory Committee Member

Shuya Ogawa

Attorney at Law, Partner, TMI Associates

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