



FY2023 Q2

Financial Results

August 25, 2023

Segue Group Co., Ltd.

Stock Code : 3968

Opinions and forecasts contained in this material are based on our judgments at the time the materials were prepared, and we do not guarantee the accuracy of the information.
Actual results may differ materially from the forward-looking statement due to changes in various factors.

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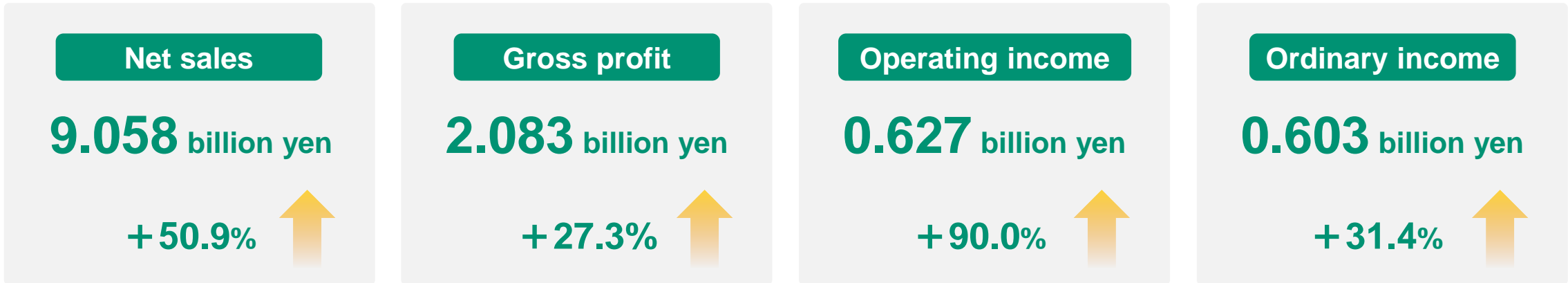
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FY2023 Q2 Highlights

Highlights: Performance

Strong demand for digital transformation (DX) led to strong performance, particularly in IT infrastructure product sales and service orders.

With the resolution of delivery delays, net sales, gross profit, operating income and ordinary income reached record highs for the first half!



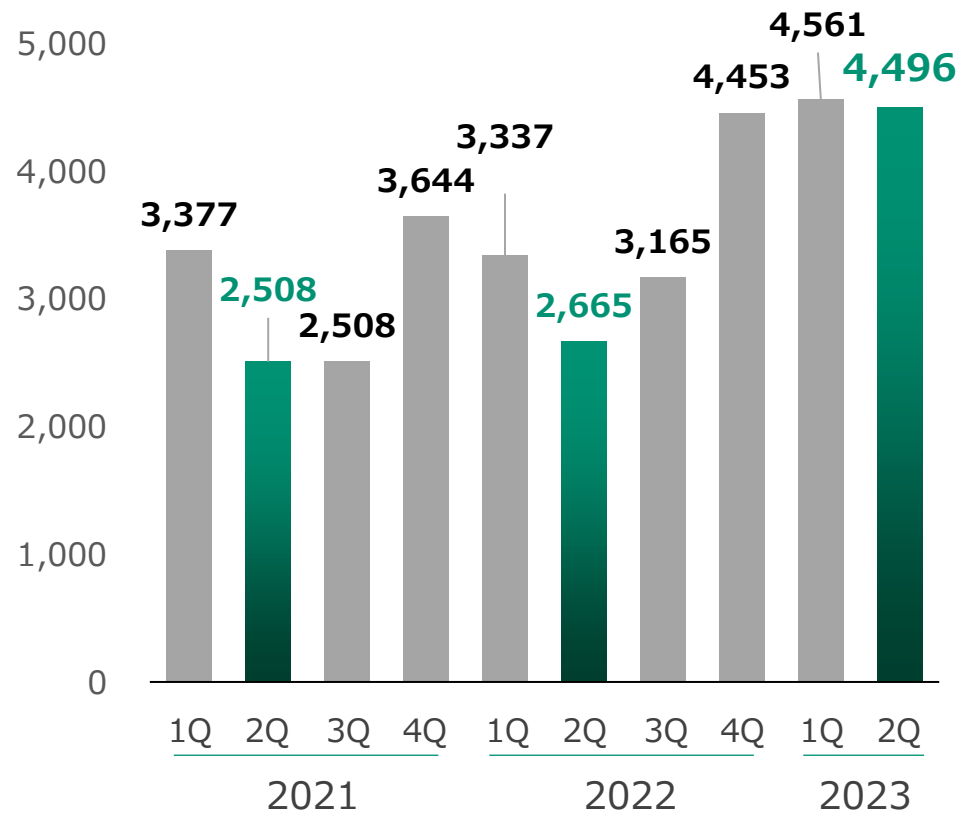
- Net sales: Strong product sales and service offerings continued from Q1. In addition, delivery delays due to semiconductor shortages are recovering, and sales of order backlogs were recorded.
- Gross profit and operating income: Gross profit and operating income increased due to significant growth in net sales.
- Ordinary income: Ordinary income also increased due to the increased operating income, despite the foreign exchange losses due to the yen's depreciation. Significantly higher than the previous year's figure, when foreign exchange gains were recorded due to the valuation of foreign currency-denominated assets held.

Highlights: Quarterly Comparison (Q2 Accounting Period)

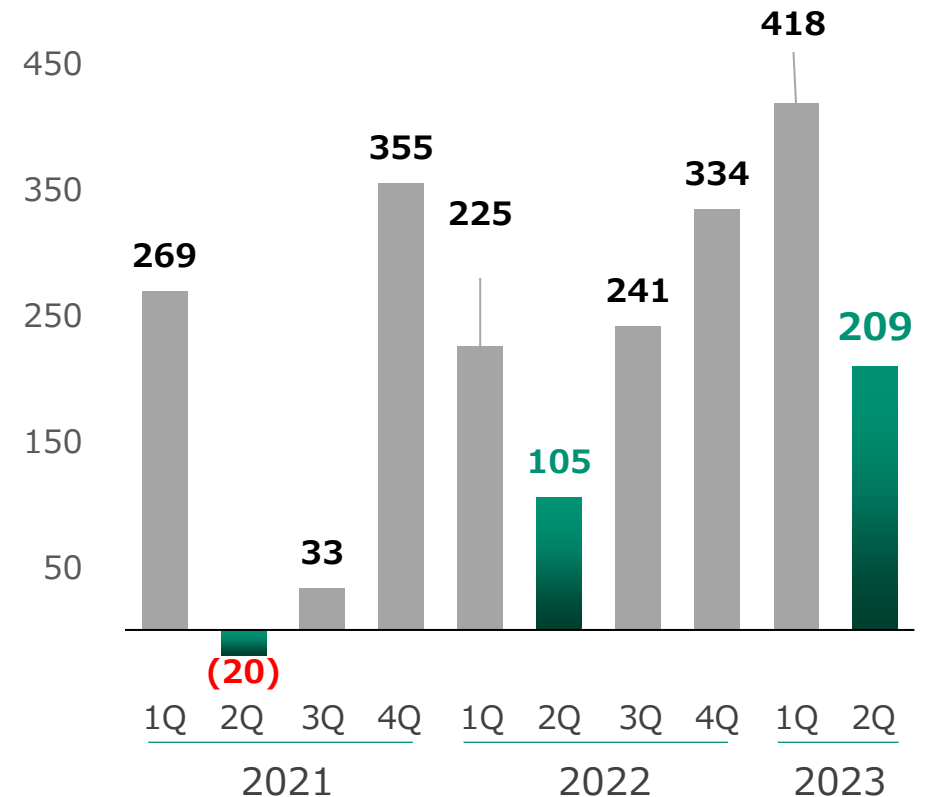
	Net sales	Gross profit	Operating income
FY2021 Q2	2.508 billion yen	0.583 billion yen	▲0.019 billion yen
FY2022 Q2	2.665 billion yen	0.784 billion yen	0.105 billion yen
FY2023 Q2	4.496 billion yen	0.992 billion yen	0.209 billion yen

Highlights: Quarterly Performance Trends (Accounting Period)

Net sales (million yen)

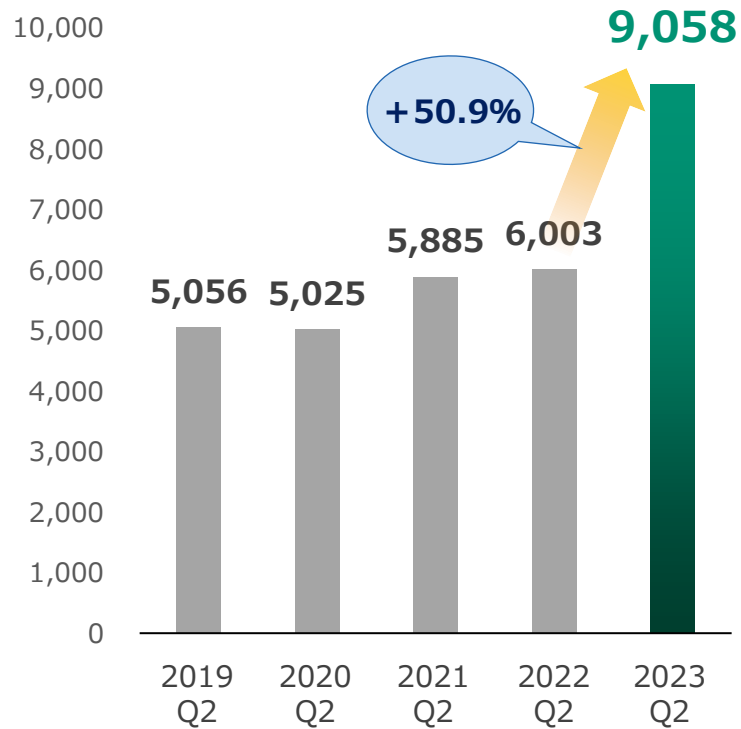


Operating income (million yen)

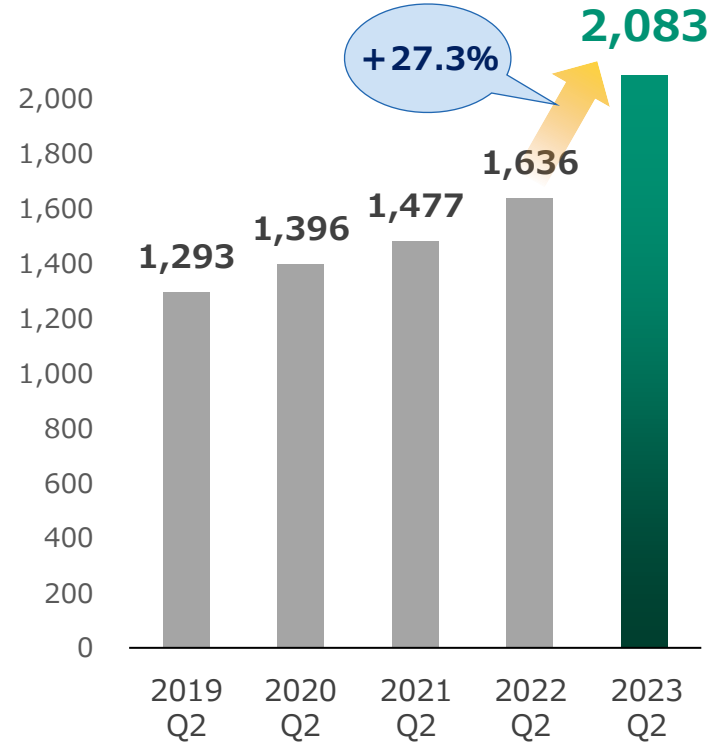


Highlights: Performance Trends

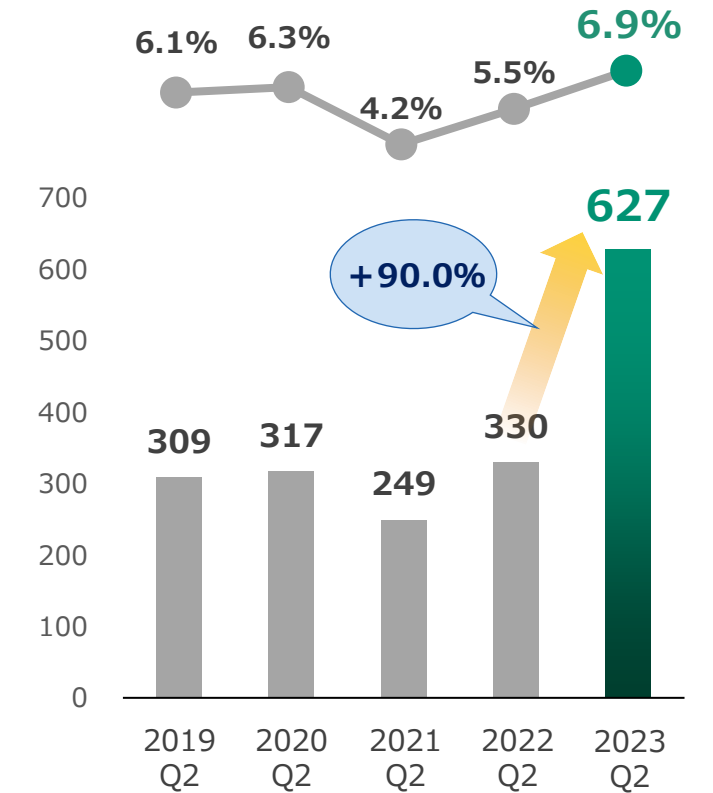
Net sales (million yen)



Gross profit (million yen)



Operating income (million yen) Operating income margin (%)



Highlights: Consolidated Statements of Income

Strong performance in the first half against full-year plan

Unit: million yen

	FY2022 Q2	FY2023 Q2	YoY		Full-year plan	Achievement rate
			Change	Change ratio		
Net sales	6,003	9,058	+3,054	+50.9%	15,700	57.7%
Gross profit	1,636	2,083	+447	+27.3%		
(Profit margin)	27.3%	23.0%	▲4.3pt			
SG&A expenses	1,306	1,456	+150	+11.5%		
Operating income	330	627	+297	+90.0%	1,000	62.8%
(Profit margin)	5.5%	6.9%	+1.4pt		6.4%	
Ordinary income	458	603	+144	+31.4%	1,000	60.3%
(Profit margin)	7.6%	6.7%	▲1.0pt		6.4%	
Net income*	416	407	▲9	▲2.2%	679	60.0%

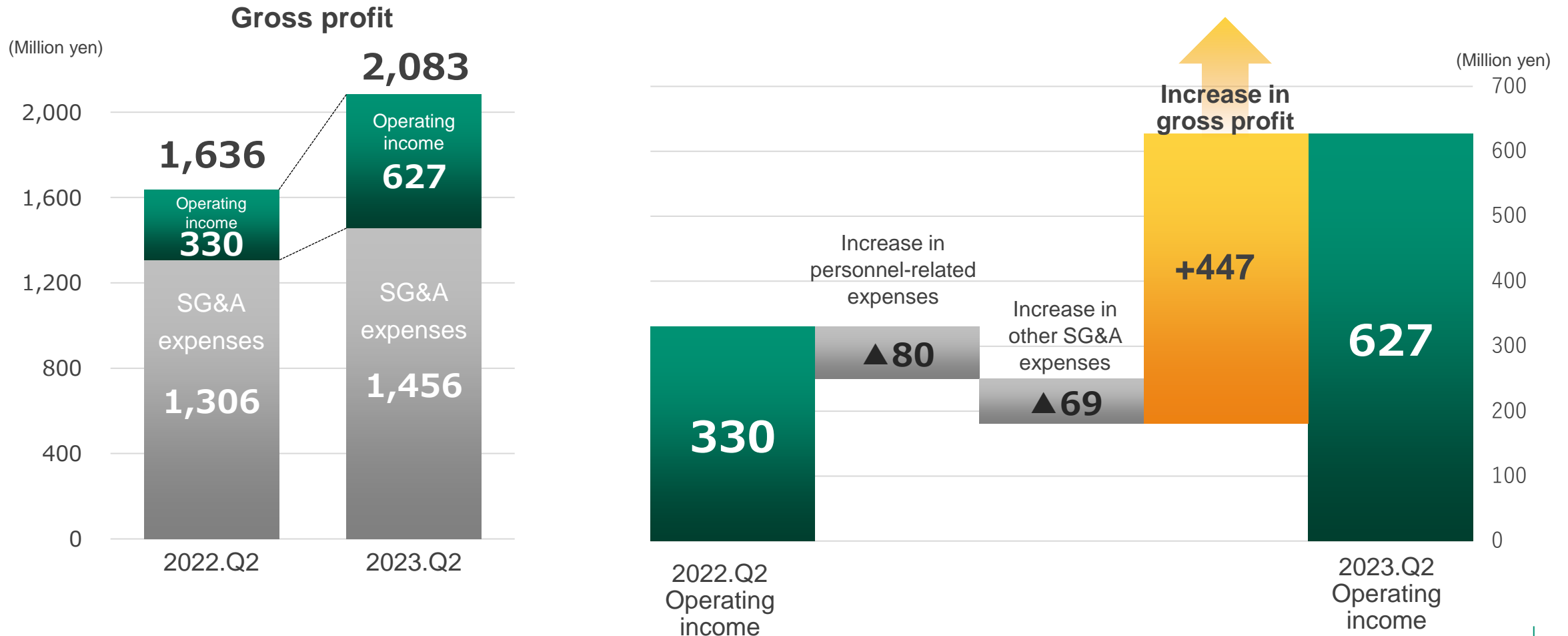
*Net income attributable to owners of parent

*Foreign exchange losses (24 million yen) recorded in non-operating income

*In the previous fiscal year, foreign exchange gains (154 million yen) were recorded in non-operating income and gains on sales of securities (174 million yen) were recorded in extraordinary income.

Highlights: Breakdown of Changes in Operating Income

Operating income increased due to a significant increase in gross profit, despite increase in personnel-related expenses due to increased hiring and “inflation allowance” to all employees.



Highlights: Consolidated Balance Sheets

Significant increase in advances received due to increase in orders for recurring revenue services.

Unit: million yen

	FY2022 Q2	FY2022 Year-end	FY2023 Q2
Current assets	8,865	9,975	10,221
Cash and deposits	2,981	2,989	2,431
Notes and accounts receivable, and electronically recorded monetary claims	1,485	2,360	2,934
Inventory assets	2,522	3,103	2,942
Other	1,875	1,521	1,912
Non-current assets	1,261	1,276	1,488
Property, plant and equipment	207	248	278
Intangible assets	136	258	255
Investments and other assets	917	770	954
Total assets	10,127	11,252	11,709

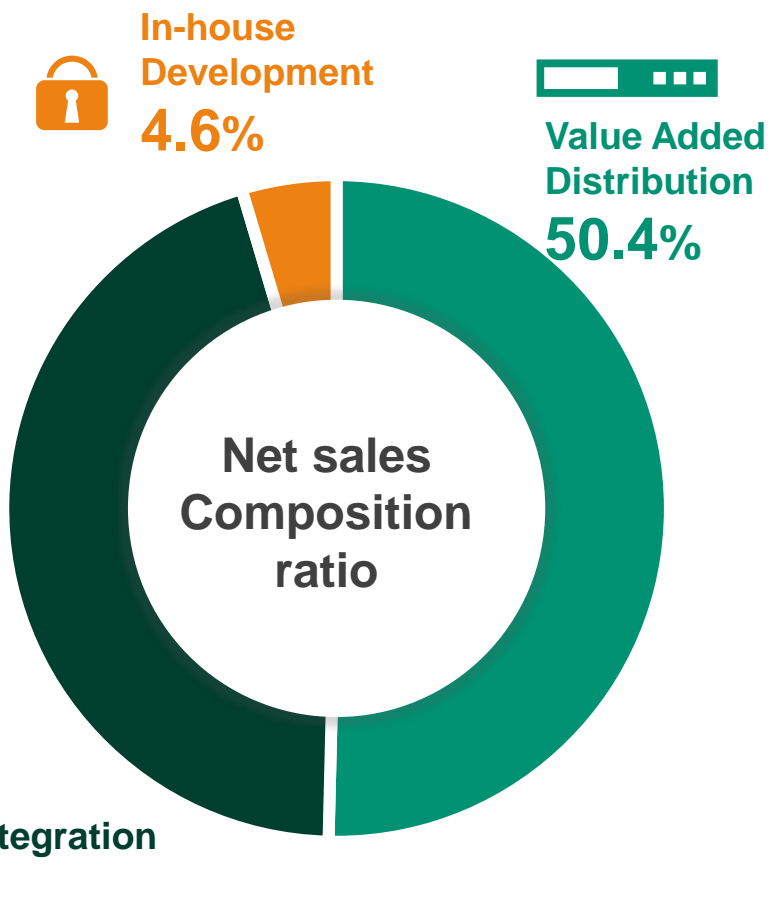
	FY2022 Q2	FY2022 Year-end	FY2023 Q2
Current liabilities	4,038	6,367	6,677
Accounts payable-trade	825	1,885	885
Short-term debt	5	287	790
Advances received	2,531	3,137	3,941
Other	675	1,055	1,060
Non-current liabilities	307	1,200	1,107
Total liabilities	4,345	7,567	7,785
Total net assets	3,190	3,685	3,924
Total liabilities and net assets	7,536	11,252	11,709

Highlights: Figures by Business

Value Added Distribution Business: Deliveries of the order backlog progressed, and both net sales, gross profit grew significantly.

System Integration Business: Deliveries of infrastructure systems were strong due to DX demand.

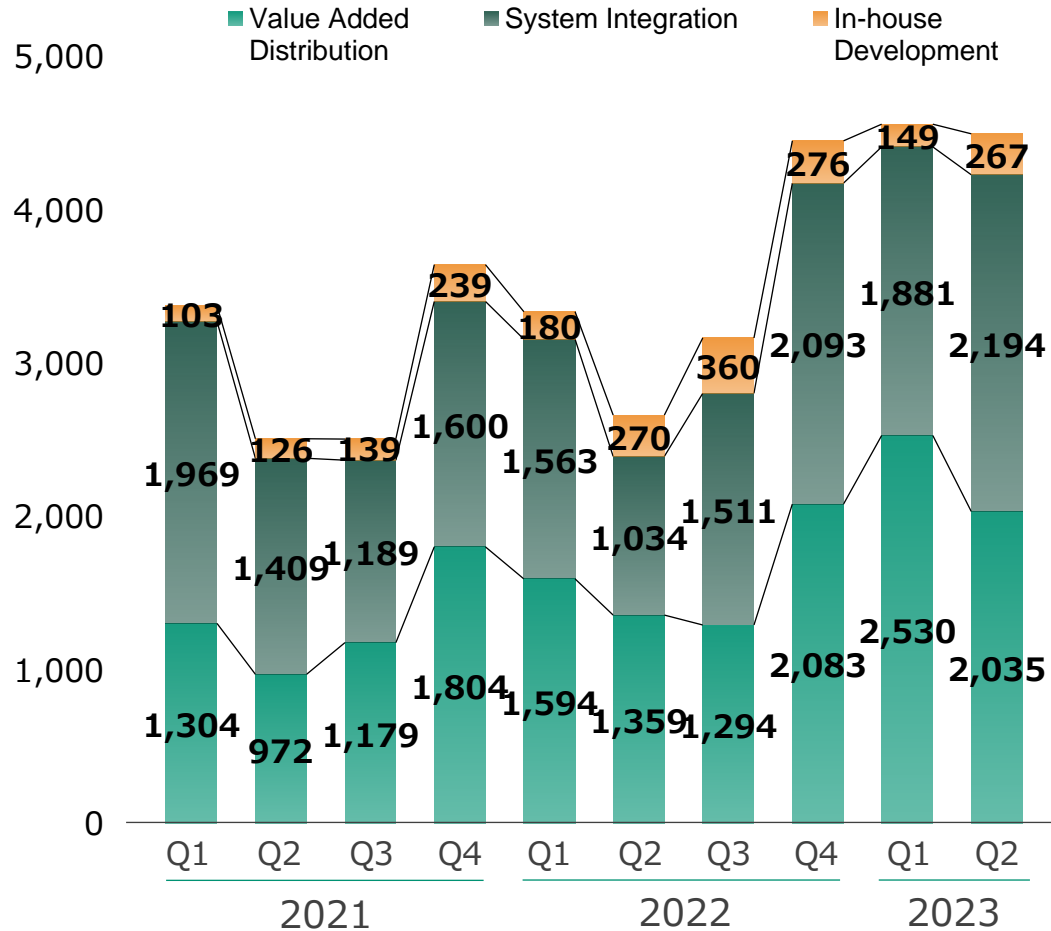
In-house Development Business: Sales declined after peak demand from local governments, but large public sector projects were secured.



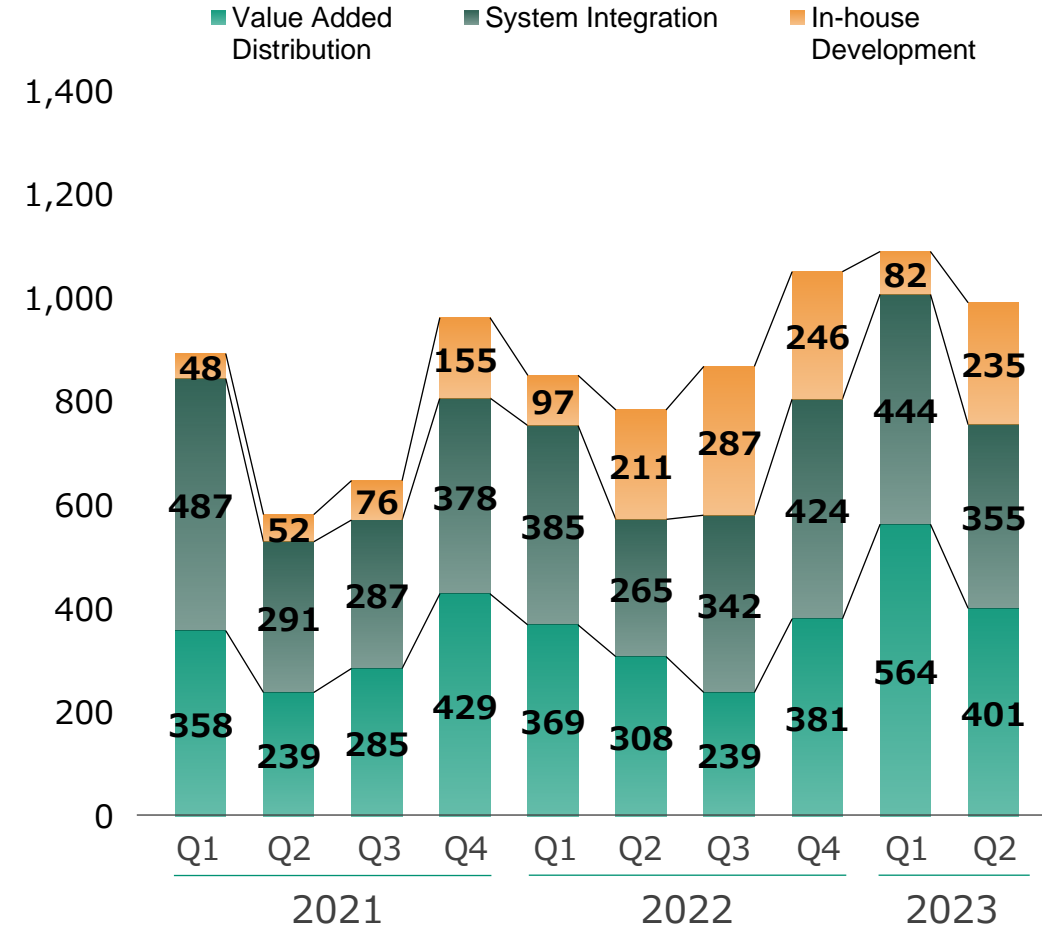
Business	Net sales (billion yen)	% Change	Gross profit (billion yen)	% Change
Value Added Distribution Business	4.563	+54.5%	0.966	+42.6%
System Integration Business	4.077	+56.9%	0.800	+23.0%
In-house Development Business	0.416	▲7.7%	0.317	+2.9%

Highlights: Quarterly Performance Trends by Business (Accounting Period)

Net sales (million yen)



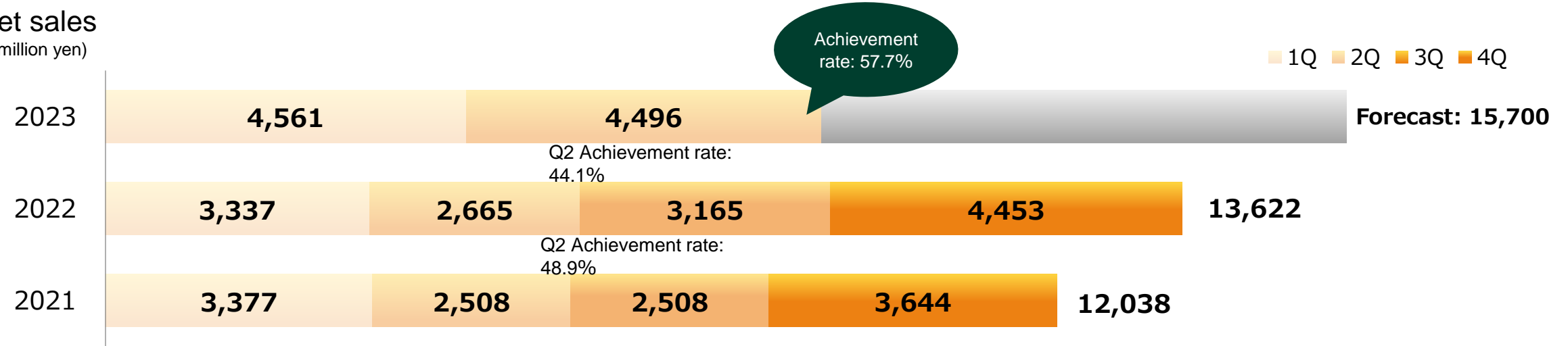
Gross profit (million yen)



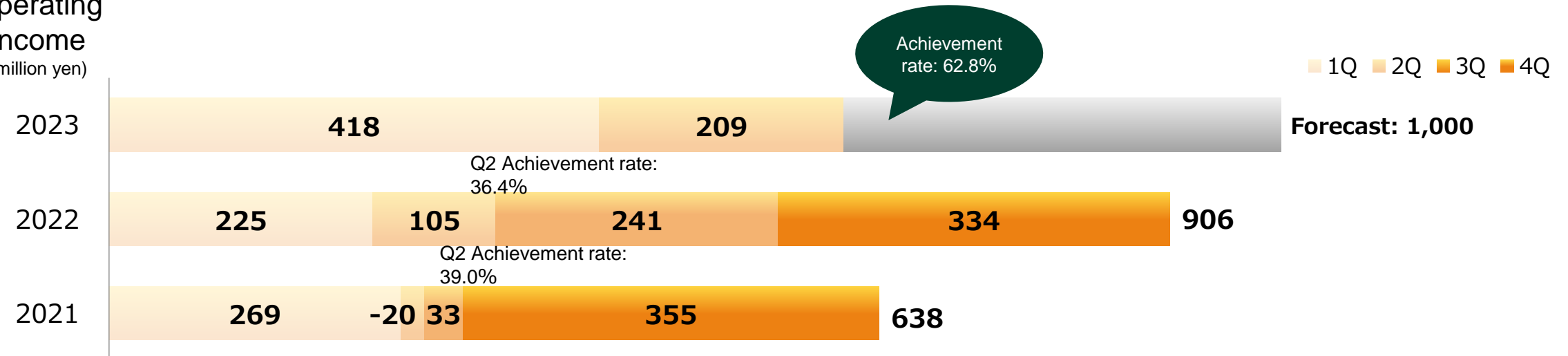
Highlights: Progress toward Full-year Business Forecasts

Steady progress toward full-year forecasts due to strong performance

Net sales
(million yen)



Operating income
(million yen)

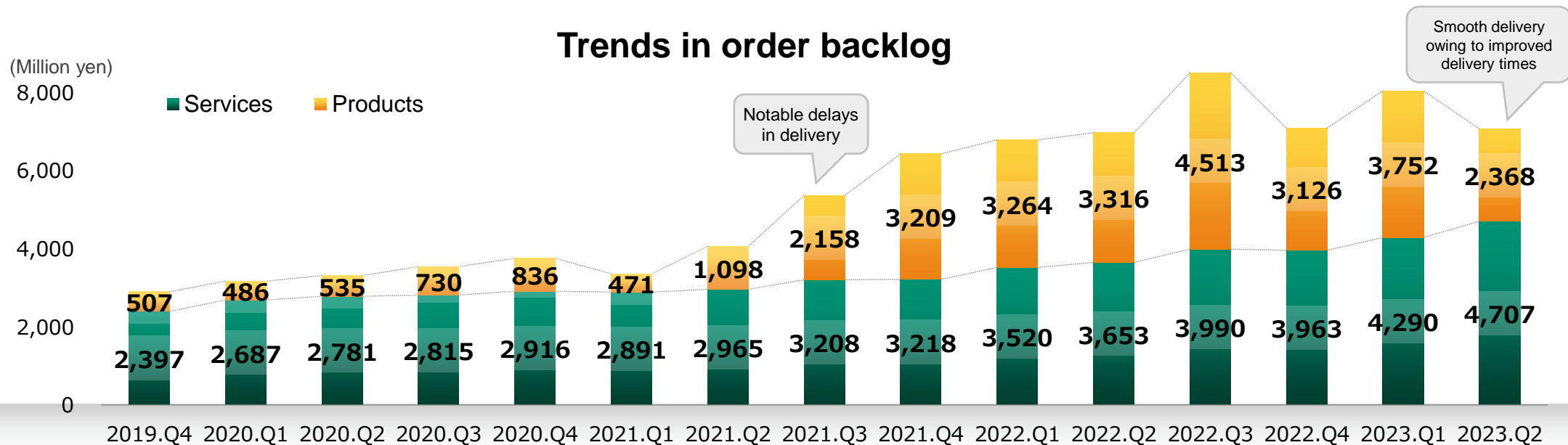


Highlights: Status of Orders

As a result of improved delivery times, product order backlogs appear to be returning to levels seen prior to the delivery delays.

Order backlog for services increased due to strong orders.

	FY2022 H1 Orders received	FY2023 H1 Orders received	YoY Change ratio	FY2022 Q2 Orders backlog	FY2023 Q2 Order backlog	YoY Change ratio
Products	3,738	5,037	+ 34.7%	3,316	2,368	▲ 28.6%
Services	2,806	4,006	+ 42.7%	3,653	4,707	+ 28.9%
Total	6,544	9,043	+ 38.1%	6,970	7,076	+ 1.5%

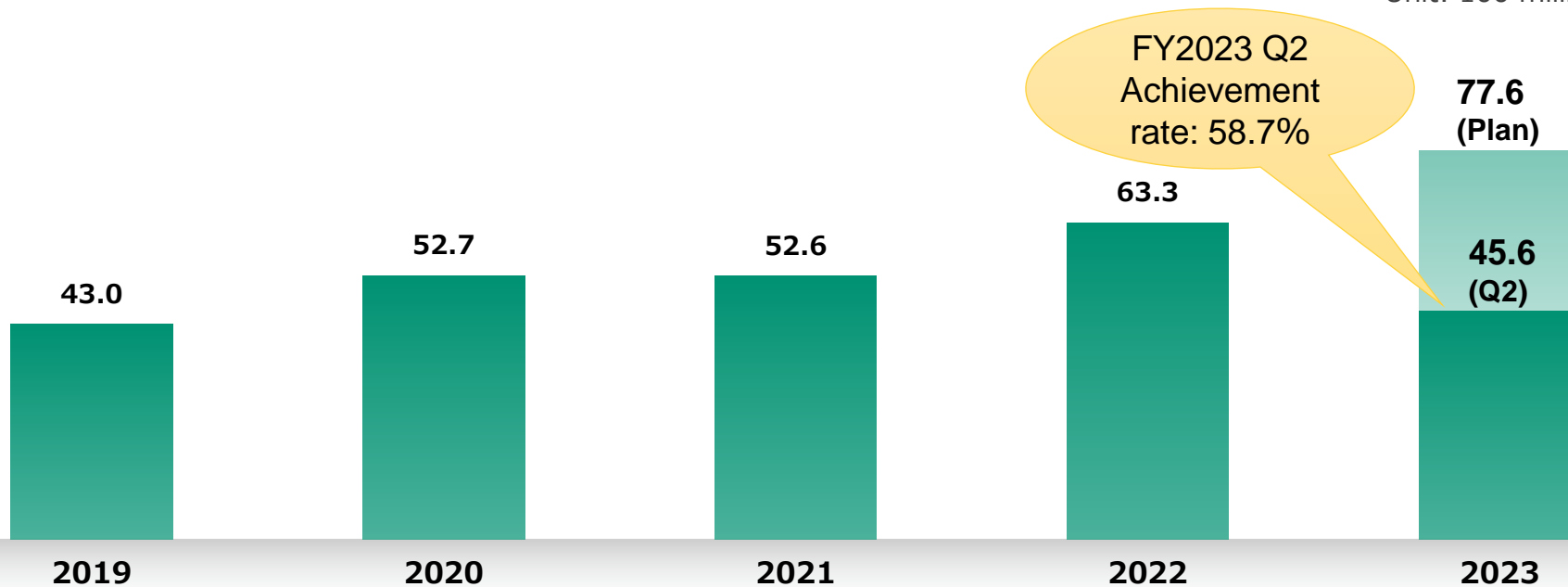


Business Topics: Value Added Distribution Business

- ✓ Strong sales of IT infrastructure-related products due to the DX demand and improved delivery times.
Sales of Juniper products up 133% YoY
Sales of Ruckus products up 57% YoY
- ✓ Deliveries of the order backlog proceeds due to improved delivery times. Orders received remained firm.

Performance Trends in Value Added Distribution Business

Unit: 100 million yen

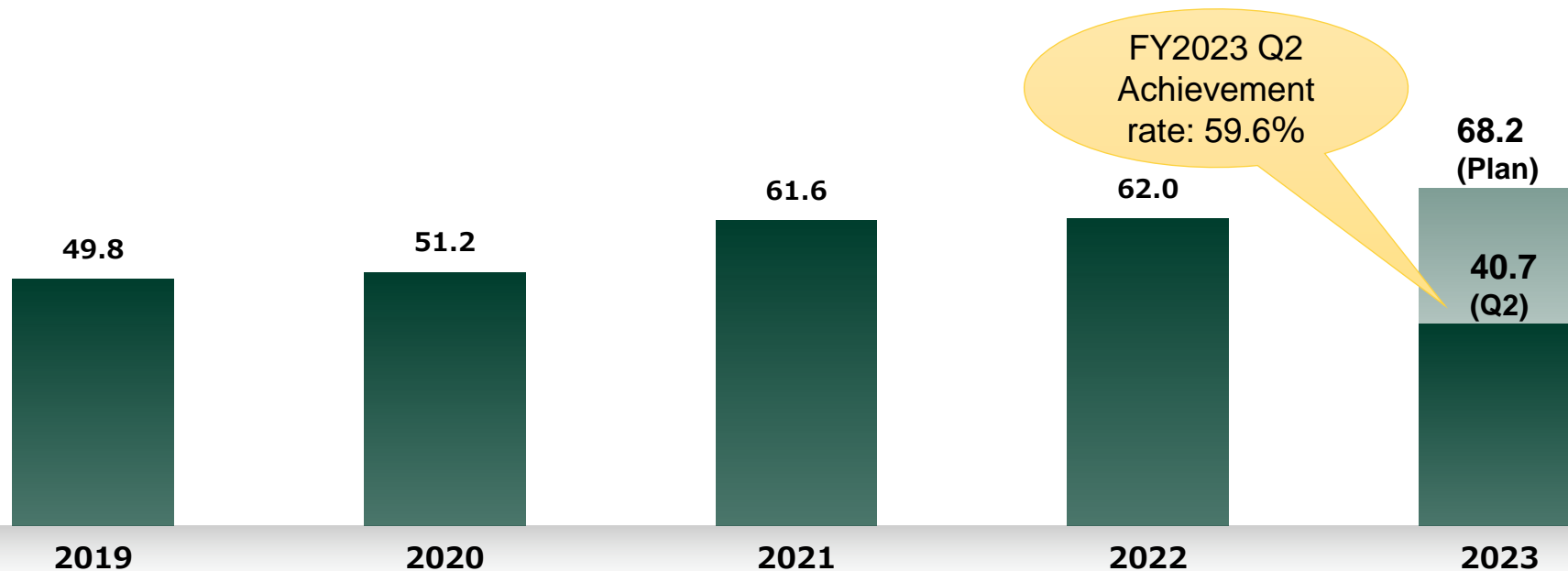


Business Topics: System Integration Business

- ✓ Sales growth especially in product due to the acquisition of large-scale projects.
- ✓ J's Technology opened DX Center in Kyushu and Tokyo.
- ✓ ISS Resolution in Thailand moves forward with securing human resources to strengthen its management base.
- ✓ Sales promotion of Kaetec services*.
* For details of Kaetec services, see page 18.

Performance Trends in System Integration Business

Unit: 100 million yen

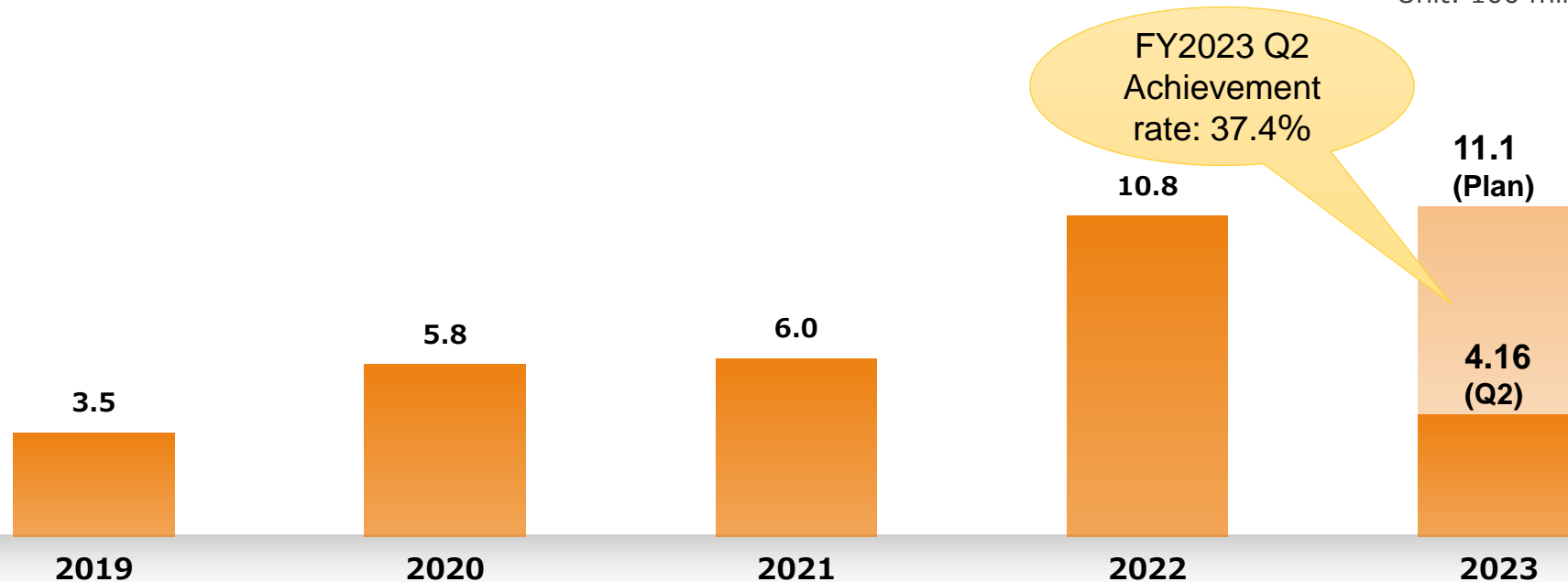


Business Topics: In-house Development Business

- ✓ Acquisition of large-scale projects from the public sector
- ✓ Robust deals from local governments
- ✓ Segue Security has established a sales structure for in-house development services, although there were delays from the original plan.

Performance Trends in In-house Development Business

Unit: 100 million yen



J's Technology Started with a New Organization from January 2023

On January 1, 2023, JC Technology merged with J's Communication's system integration business for the purpose of revitalizing and optimizing the system integration business. JC Technology also changed its name to J's Technology and started a new organization.



- ✓ In April 2023, we opened DX Centers in Tokyo and Fukuoka to provide strong support for customers in promoting digital transformation.
- ✓ Strengthen provision of Kaetec, a total solution service for environmental management that supports DX promotion
- ✓ Hired 10 engineers in conjunction with the start of operations at DX Centers

*What is Kaetec?

Services that enable experienced IT specialists to provide total solutions for information system operations, from overall IT system consulting to outsourcing of non-core operations.



Segue Security



- ✓ Steady progress in recruiting advanced IT and security engineers
- ✓ Promoted consulting proposal activities for major companies
- ✓ Plans for new in-house development services are delayed, but a sales system is in place.

ISS Resolution



- ✓ Transformed into a profitable structure progresses after acquisition
- ✓ Strengthened existing businesses and prepares for new businesses



2

Medium-Term Targets and Progress

Medium-term Numerical Targets

Selected the Prime Market on December 29, 2021,
Set the medium-term targets for FY2024.

	Net sales	Operating income	Net income
FY2021 (Results)	12.0 billion yen	0.63 billion yen	0.45 billion yen
FY2022 (Results)	13.6 billion yen	0.90 billion yen	0.74 billion yen
FY2023 (Plan)	15.7 billion yen	0.10 billion yen	0.67 billion yen
FY2024 Targets	17.0 billion yen	1.2 billion yen	0.80 billion yen

*The "Accounting Standard for Revenue Recognition" has been applied since FY2022.

Initiatives to Achieve Medium-Term Targets

Significant increase in the number of engineers,
who are the foundation of our company

Growth

Growth in the Value Added
Distribution business

Expansion of the In-house
Development Business

Enhancement of the System
Integration Business

Change and reform

Expansion of recurring
revenue services

Business transformation

M&As, Capital and
business alliances

Raising corporate value

IR/Capital Policy

Initiatives for SDGs

Initiatives to Achieve Medium-Term Targets

Initiatives to meet the criteria ①

Significantly increase the number of engineers who are the foundation of our business

Approximately 70% of our Group's personnel are engineers, and they are engaged in the consideration of new products, quality assurance, development of in-house products, and provision of various services. They are essential to the foundation of our business.

We will form a new recruitment team and aim to double the number of engineers hired over the next three years.

Estimated transition of engineers

Period	Number of Engineers
End-Dec. 2019	~280
End-Dec. 2020	~310
End-Dec. 2021 (Forecast)	~330
End-Dec. 2022 (Target)	~380
End-Dec. 2023 (Target)	~420
End-Dec. 2024 (Target)	~470

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Initiatives to meet the criteria ②

Growth in Value Added Distribution Business

- Continuous handling of new security products
- Strengthening of efficient sales system
- Accumulation of steady support services (recurring revenue)

Expansion of In-house Development Business

- Acquisition of local governments' projects for information systems resilience
- Expansion of private sector demand, including medical institutions, financial institutions, and manufacturing companies
- Expansion of sales partners and accelerate of collaboration
- Development of new series and cloud versions
- Provision of cloud services
- Strengthening development team

Strengthening System Integration Business

- Acceleration of increase in consultants, sales and technical staffs
- Development of sales areas such as western Japan
- Expansion of domains such as cloud, DX, AI
- Increasing the size of projects

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Initiatives to meet the criteria ③

Expansion of recurring revenue business

- Establishment of a new division specializing in services
- Improvement of customer satisfaction
- Strengthening cloud-based service model
- Development of new services

Business transformation

- Recruitment and training of IT engineers
- Hiring and training of engineers for advanced security
- Promotion of digital transformation (DX)
- Regional expansion
- Establishment of new domestic offices
- Consideration of overseas expansion

M&As, Capital and business alliances

- Execution of M&As
- Expansion of alliances with companies possessing leading-edge and proprietary technologies

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Initiatives to meet the criteria ④

IR/capital policy

- Increase opportunities for communication with shareholders and investors
- Communication with existing shareholders regarding measures to increase the liquidity of our shares, including requests for existing shareholders to sell our shares.

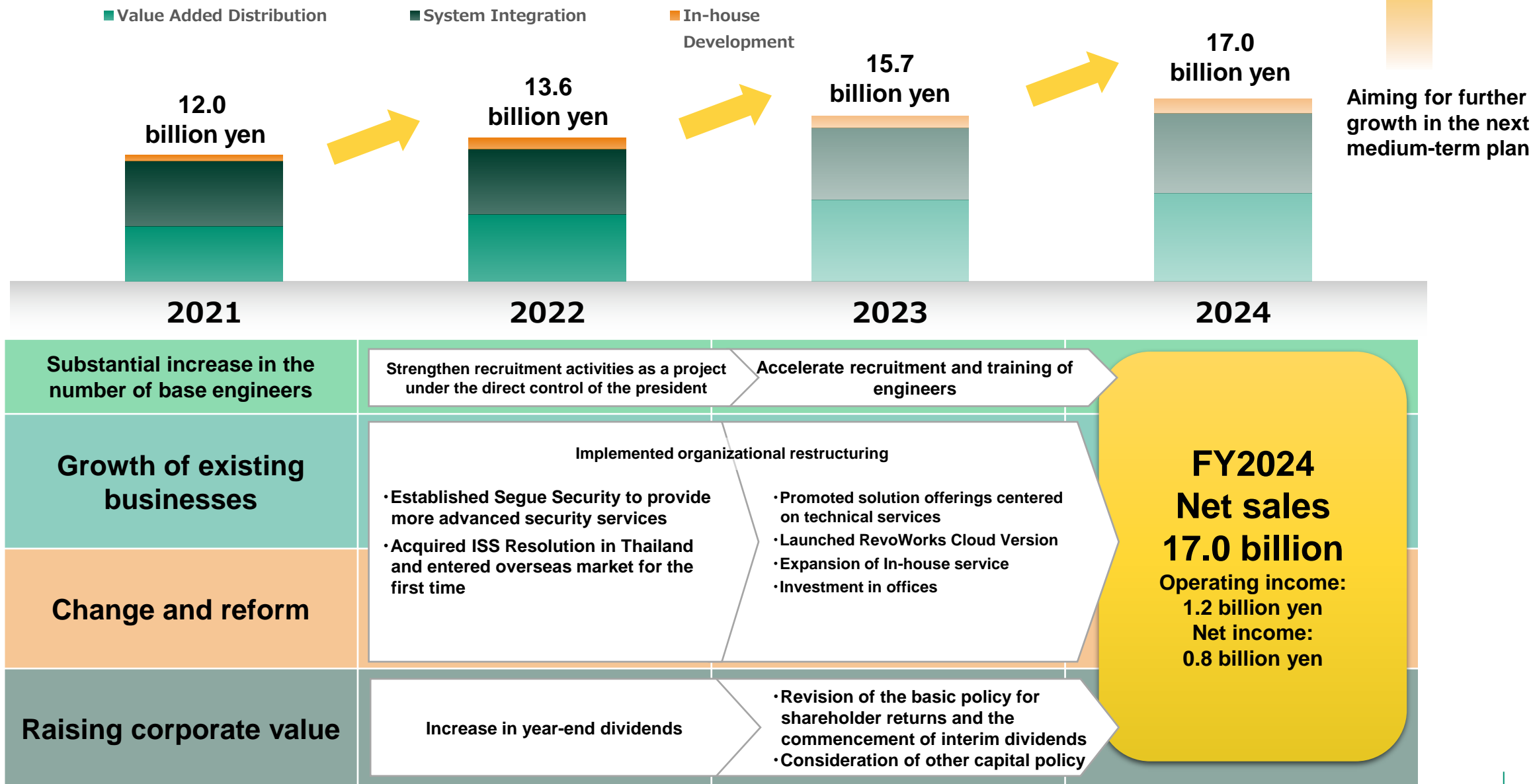
SDGs Initiatives

- Development and production of IT and security personnel
- Provision of engineer training to customers
- Development of human resources who can achieve high value-added results
- Creation of an environment that enables employees to perform more rewarding work
- Continuous investment in companies with new and unique technologies, such as AI

*The medium-term targets are currently being formulated based on the figures on page 4 and the outline above, but the content may change during the process of formulation. More specific details of the medium-term targets are scheduled to be announced in February 2022.

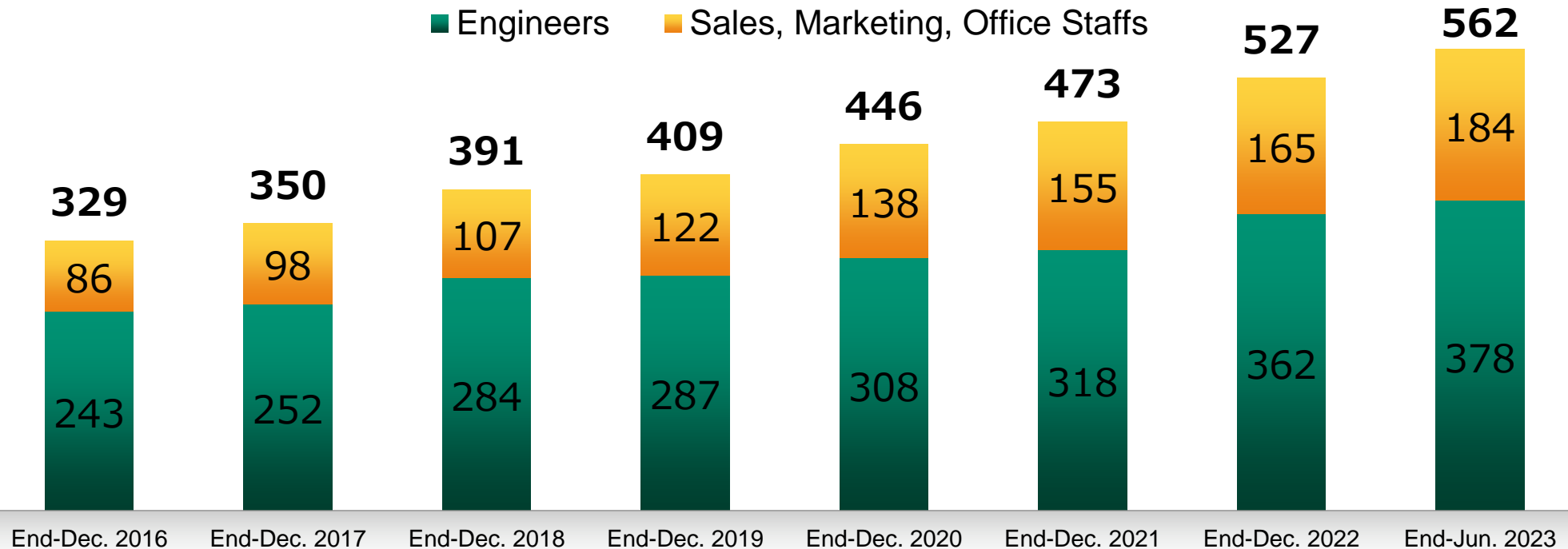
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Progress in Initiatives to Achieve Medium-term Targets



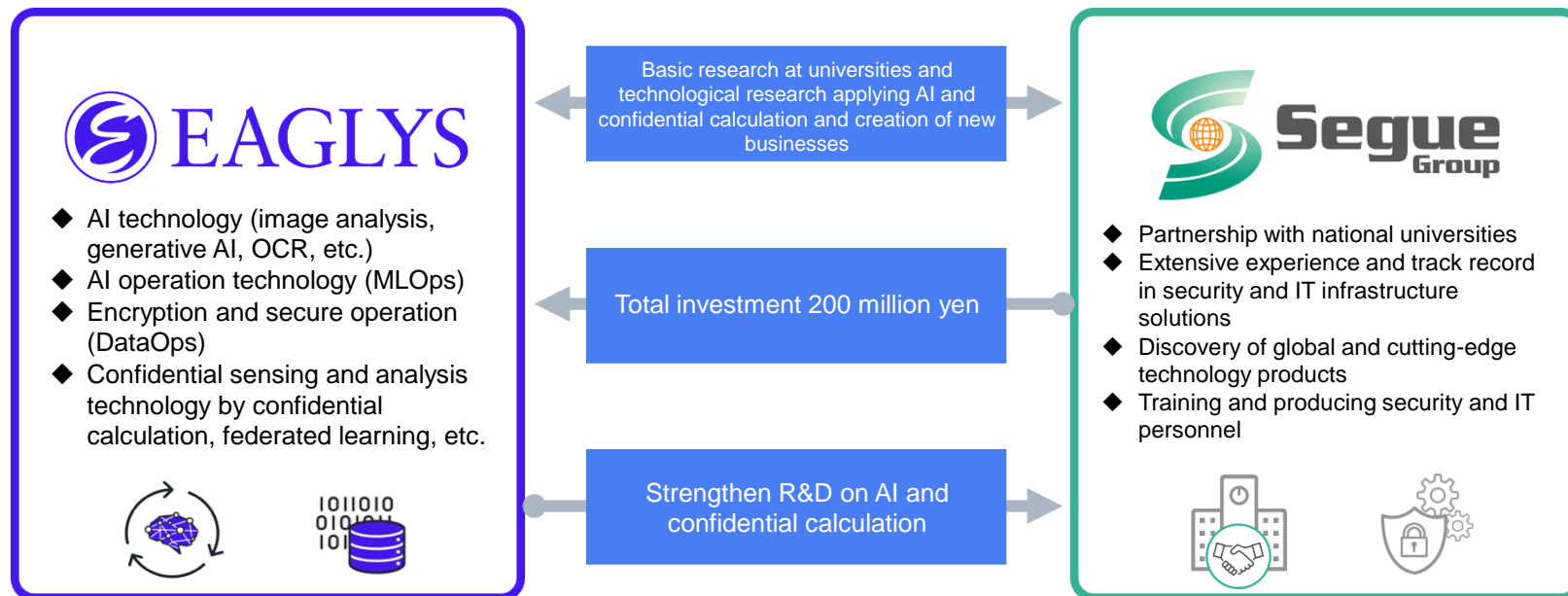
Progress in FY2023: Number of Employees

- ✓ Strengthened recruitment activities as a project under the direct control of the president since last year
- ✓ Recruitment of new graduates in FY2024 steadily progressed toward the planned targets



- ✓ In May 2023, we made an additional investment in EAGLYS with data security and AI designing techniques centered on confidential calculations.

Aiming to solve social issues through industry-academia collaboration and open innovation



- **Value Added Distribution Business**
 - ✓ Opening a logistics center in the Tokyo metropolitan area to secure product inventories in line with rising demand
- **System Integration Business**
 - ✓ J's Technology expands DX Center.
 - ✓ ISS Resolution in Thailand is considering securing human resources and new businesses for the next fiscal year and beyond.
- **In-house Development Business**
 - ✓ Releasing RevoWorks Cloud Version
 - ✓ Segue Security developed new in-house development services
- **Others**
 - ✓ Expansion of floors of Tokyo Office
 - ✓ Consideration of M&As and capital policy
 - ✓ New graduate recruitment expected to increase by 36% from the previous year

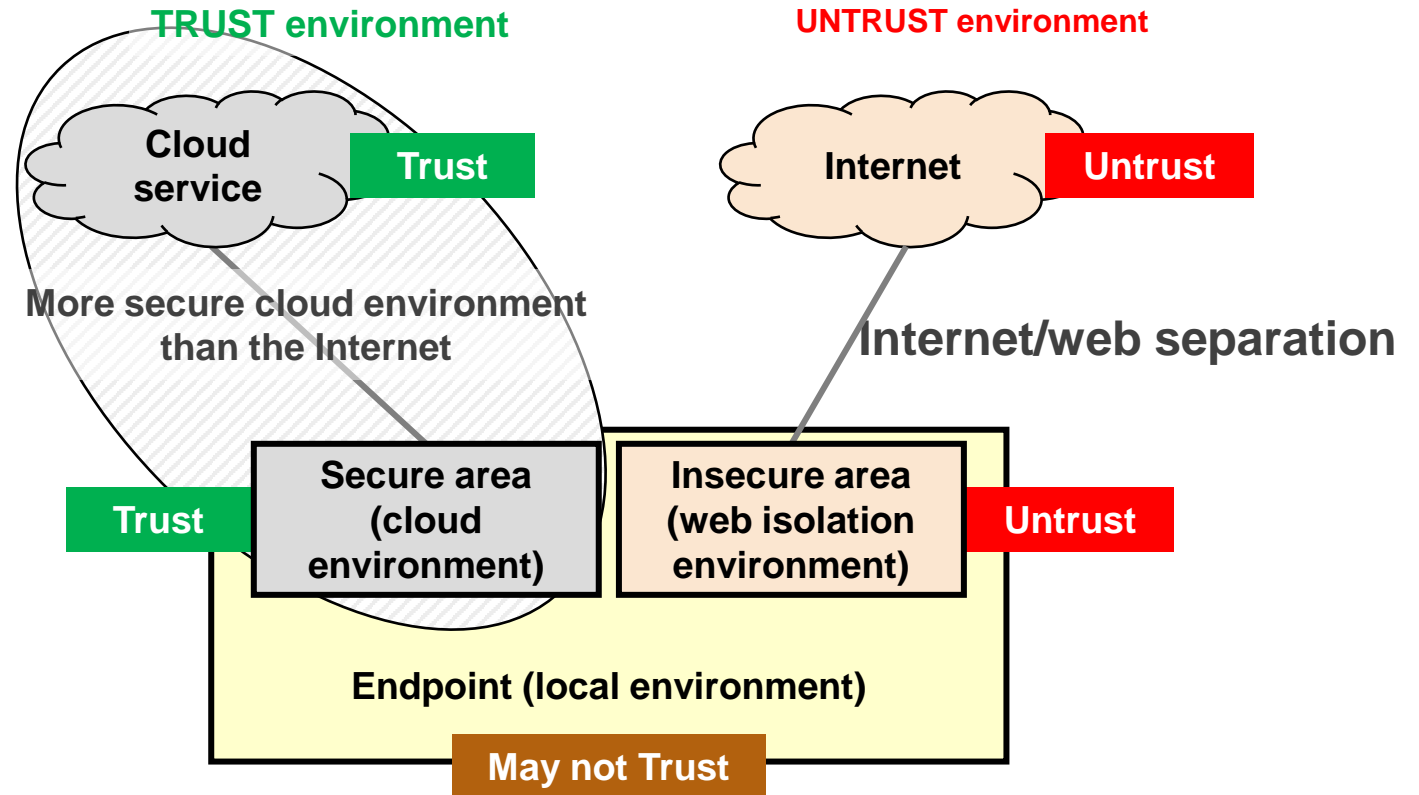
Development of RevoWorks Cloud Version

Developed a cloud version of RevoWorks with the aim of providing a more secure cloud usage environment.

*The release date was changed to winter 2023.

<Strengths>

- ✓ Protection of user data (information leakage prevention)
- ✓ Integration of secure cloud usage environment and web separation environment
- ✓ Pursuit of user convenience and cost performance





3

Business Forecasts

FY2023 Full-year Business Forecasts

Investment planned for the first half was delayed from the initial plan due to careful consideration.

Expecting these expenses in the second half and maintaining the initial plan.

Unit: million yen

	FY2022 Full-year	FY2023 Full-year (Plan)	YoY	
			Change	Change ratio
Net sales	13,622	15,700	2,077	15.2%
Operating income	906	1,000	93	10.3%
(Profit margin)	6.7%	6.4%	▲0.3pt	
Ordinary income*	1,050	1,000	▲50	▲4.8%
(Profit margin)	7.7%	6.4%	▲1.3pt	
Net income	743	679	▲63	▲8.6%

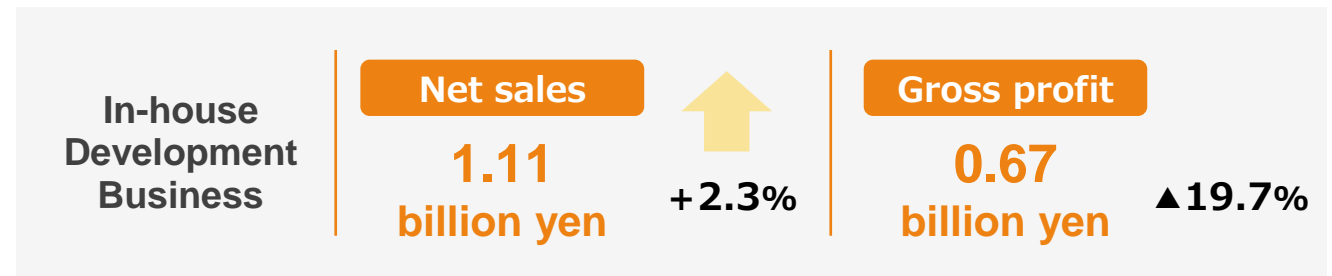
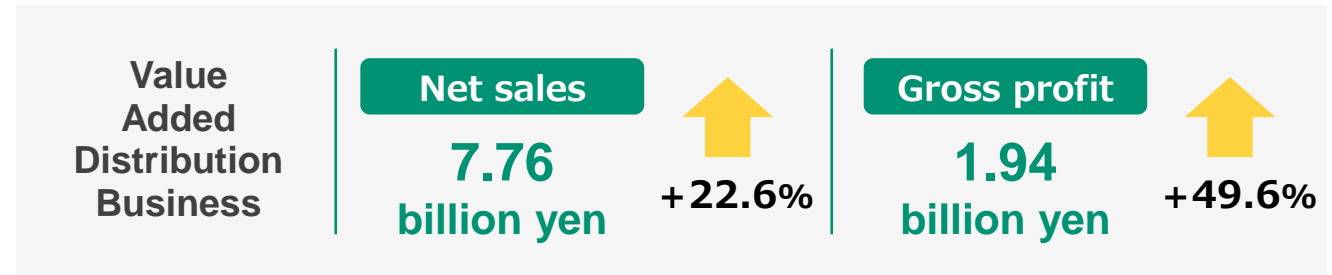
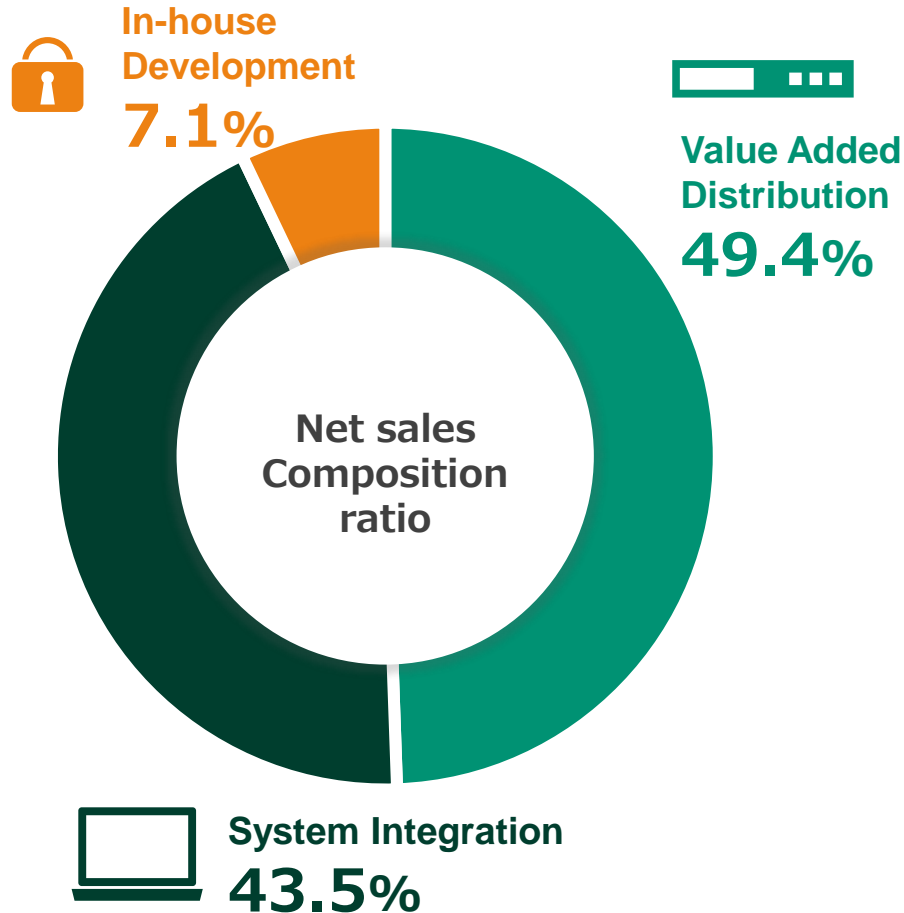
*Ordinary income (result) for 2022 includes the impact of the exchange rate of 197 million yen, but we do not anticipate the impact of the exchange rate in our full-year plan for 2023.

FY2023 Plans by Business

Value Added Distribution Business: Sales and profits to increase, including security and DX infrastructure products and new products handled. Continue to improve delivery times.

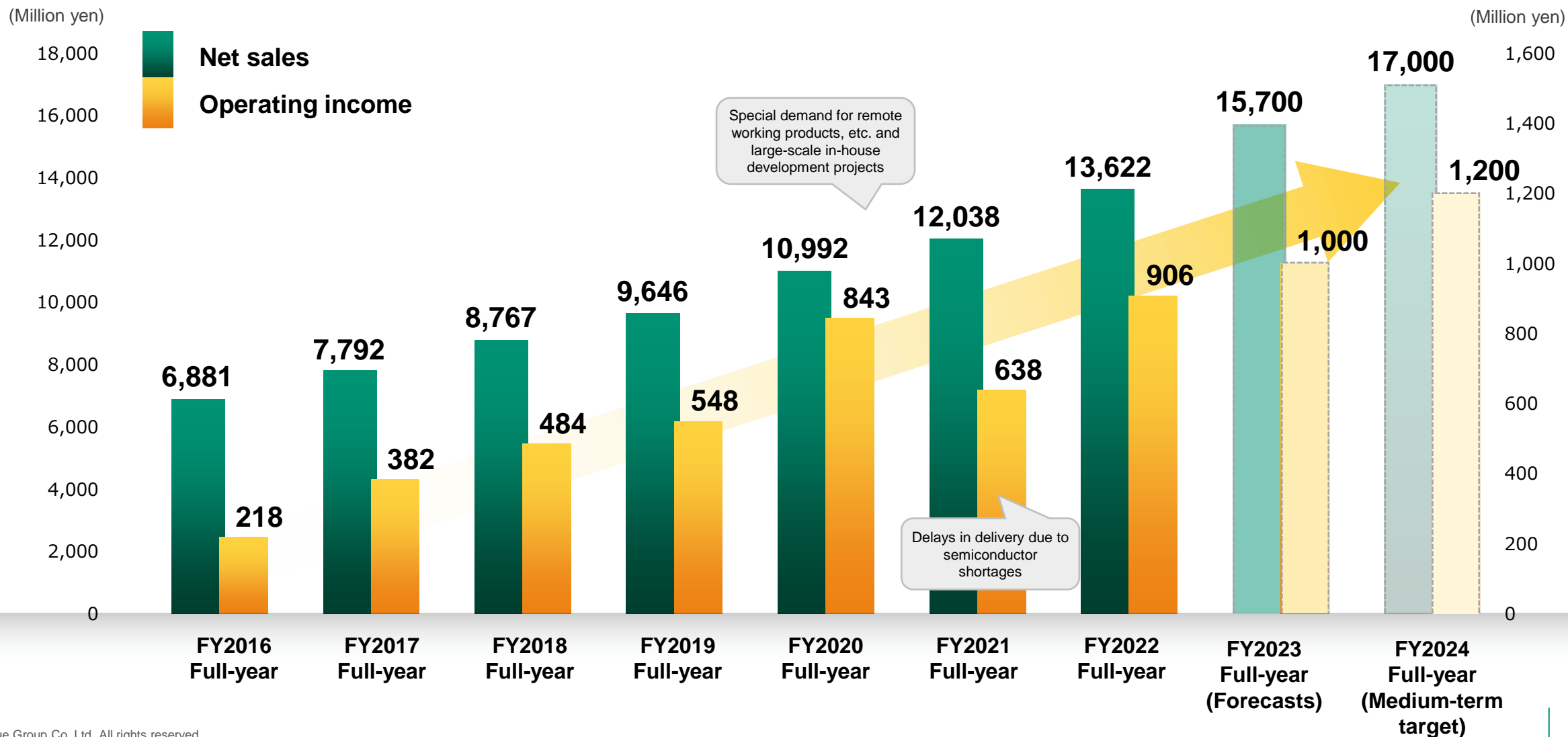
System Integration Business: Aim to increase sales and profits while expanding service offerings and accelerating recruitment and training of engineers.

In-house Development Business: Shift to RevoWorks cloud version (subscription revenues) has put costs ahead of schedule. Temporary decline in gross margin



Performance Trends and Forecasts

Continue to achieve double-digit average growth rate and aim to achieve medium-term targets.



- ✓ Changed its dividend policy from FY2023* (announced on February 13, 2023)
Began to pay interim dividend to clarify and enhance the stance of returning profits to shareholders
- ✓ The interim dividend is 15 yen per share, in line with the initial forecast.

*The revised dividend policy will be applied until FY2026, for the time being.

FY2023	Interim dividend	Year-end dividend (Forecast)
Dividend per share	15 yen	15 yen
Dividend payout ratio	50.0%	

Changes in Dividends

	FY2018	FY2019	FY2020	FY2021	FY2022
Dividend per share	5 yen (Commencement of dividends)	10 yen (Including 5 yen commemorative dividends)	16 yen (10 yen planned at the beginning of the term)	16 yen	18 yen (16 yen planned at the beginning of the term)
Dividend payout ratio	15.1%	27.9%	29.2%	40.0%	27.4%

We will continue to grow together with our customers by leveraging IT to create value . We contribute to the realization of a prosperous society.



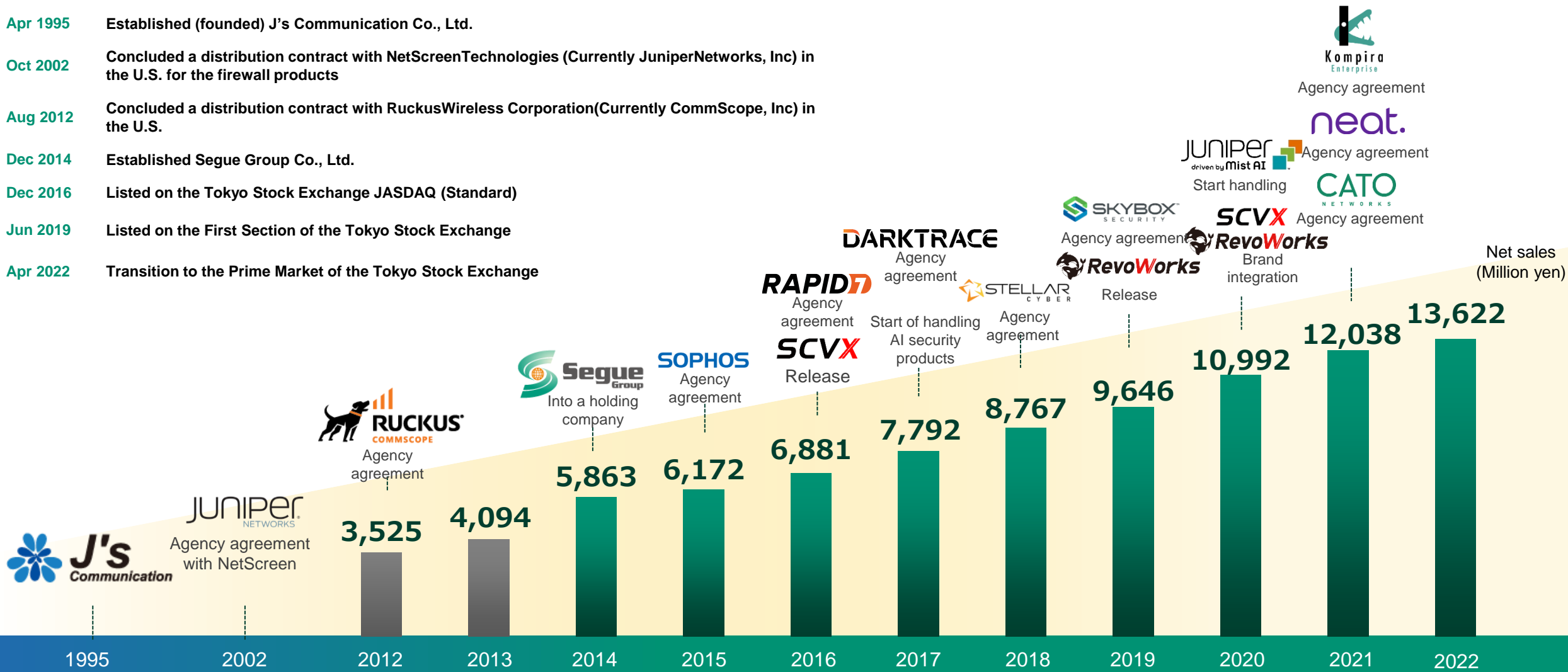


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Reference Material

History of Segue Group

- Apr 1995** Established (founded) J's Communication Co., Ltd.
- Oct 2002** Concluded a distribution contract with NetScreenTechnologies (Currently JuniperNetworks, Inc) in the U.S. for the firewall products
- Aug 2012** Concluded a distribution contract with RuckusWireless Corporation(Currently CommScope, Inc) in the U.S.
- Dec 2014** Established Segue Group Co., Ltd.
- Dec 2016** Listed on the Tokyo Stock Exchange JASDAQ (Standard)
- Jun 2019** Listed on the First Section of the Tokyo Stock Exchange
- Apr 2022** Transition to the Prime Market of the Tokyo Stock Exchange



Established J's Communication Co., Ltd.	Established JC Technology	Established Segue Group	Listed on JASDAQ	Listed on TSE2	Listed on TSE1	Transferred to the TSE Prime market
	Established J's Telecom Systems			Made Falcon System Consulting as a subsidiary	Made ASTEM as a sub-subsidiary	Established Segue Security
						Made ISS Resolution as a subsidiary

Supporting customers' business foundations
by providing total solutions for security and IT infrastructure

Security

Target attack countermeasures

Information leakage countermeasures

Vulnerability countermeasures

Telework security



IT infrastructure

Network

Virtualization

Cloud

Wireless

**Carrier data center
Service provider**

**Government agencies and local governments
Academic institutions
Medical institutions**

**Enterprise
Manufacturing industry
Financial institution etc..**

Company Profile: Segue Group

Number of Group Employees : 562 employees
(about 70% are Engineers)



Solution products

Network Security Products

[In-house development
Security software]

IT infrastructure Products

Providing Solutions Combining Security and
IT Infrastructure Products
System Integration

Solution services

Design and
construction Services

Maintenance
Services

Help desk
Services

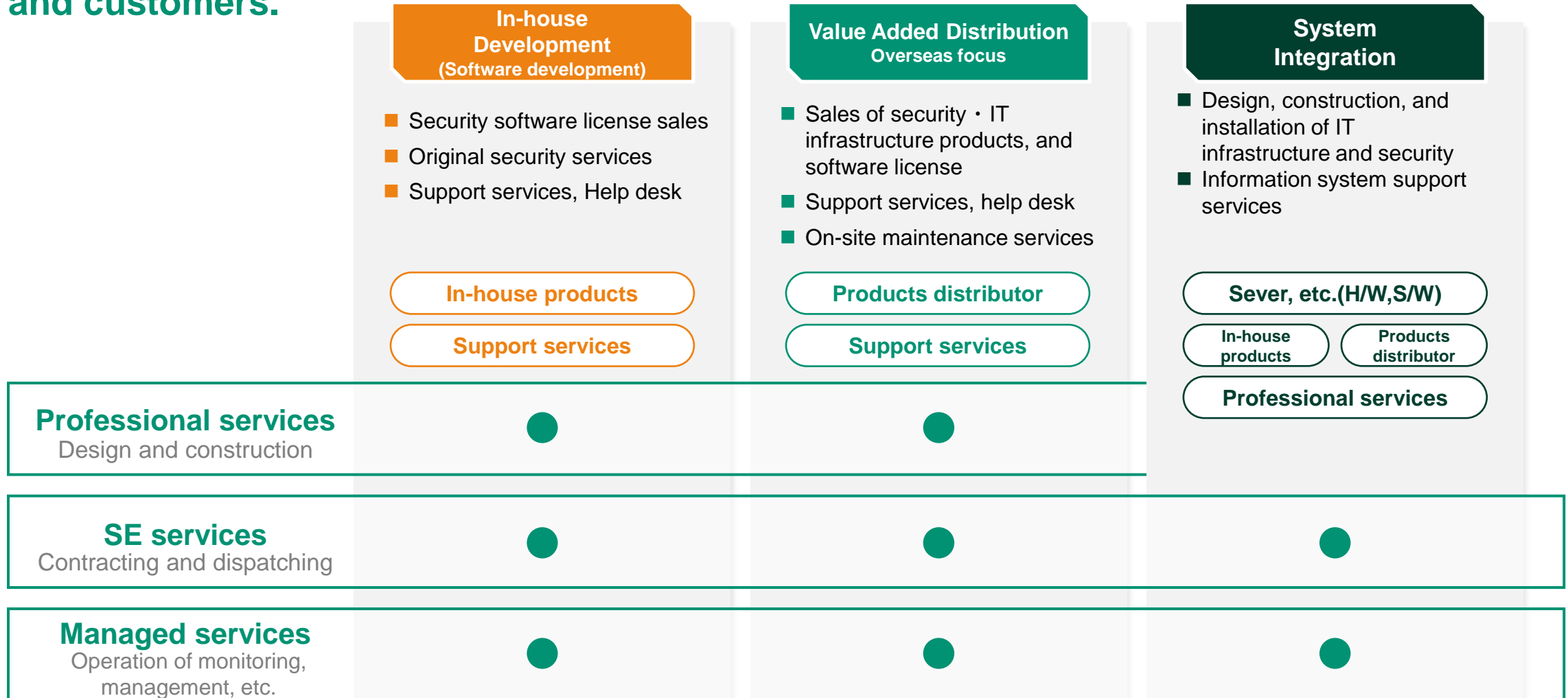
Original security
services

IT engineer SE
services

Others
(Monitoring, dispatch, etc.)

Company Profile: Business Structure

Providing a variety of added value in response to the needs of partners, system integrators, and customers.



Our Business: In-house Development Business

About In-house Development business

Providing our original security products and software supporting the safety of our customers with our technologies

In-house developed software

- "RevoWorks" series improve security and business efficiency to enhance the quality of work



Server-based Virtual Browser "RevoWorks SCVX"



Local Virtual Browser "RevoWorks Browser"



Local Virtual Desktop "RevoWorks Desktop"

- "WisePoint" series use visually-friendly images and random number tables for passwords

WisePoint

Authentication & Telework Solution "WisePoint Authenticator"

Authentication & Single Sign-on Solution "WisePoint 8"

Original security services



Provide integrated, one-stop solutions essential to cybersecurity: From assessment services for security risks that exist in the organization to monitoring and analysis measures, security diagnostics, employee training, and investigations and responses to incidents.

In-house Developed Products RevoWorks



Improve security and operational efficiency to enhance the quality of work !



RevoWorks SCVX

Virtual browser with server container



RevoWorks Browser

Virtual Browser with local container



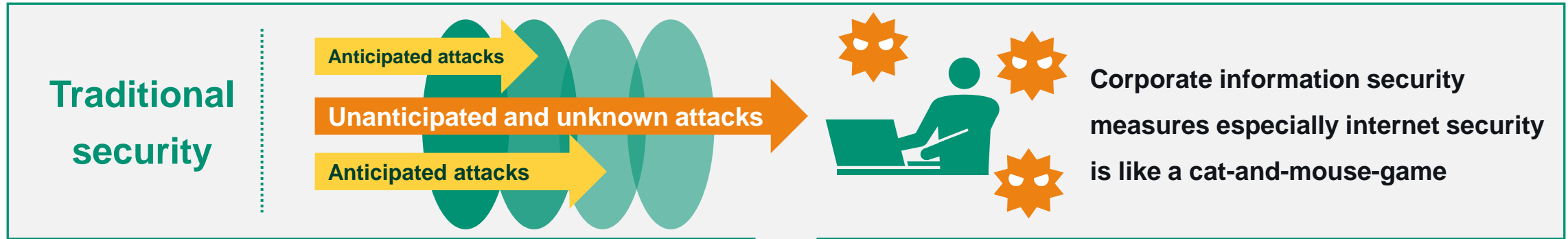
RevoWorks Desktop

Virtual Desktop with local container

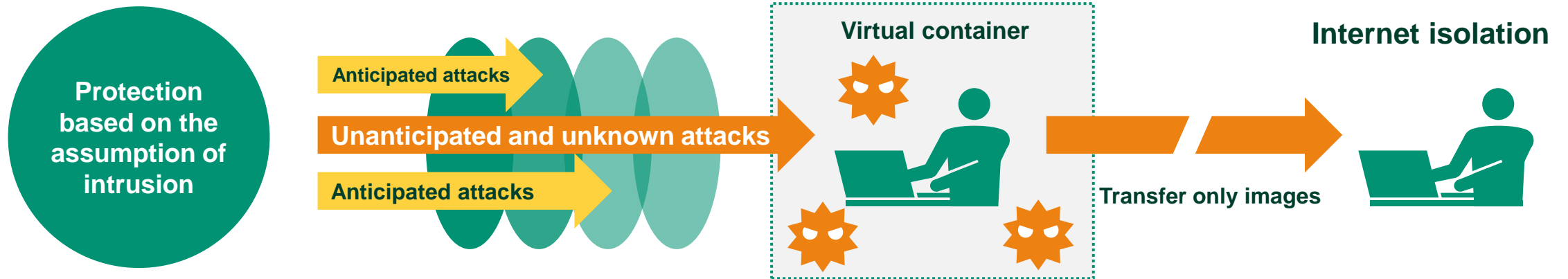
Internet isolation / Content Sanitizer

Information leakage countermeasures,
Work style reforms / Telework

Structure of RevoWorks SCVX



RevoWorks SCVX Security



1. Even if attacks occur, their impact is limited to virtual containers, and their PCs remain intact
2. By closing your PC browser, the virtual container disappears with malware

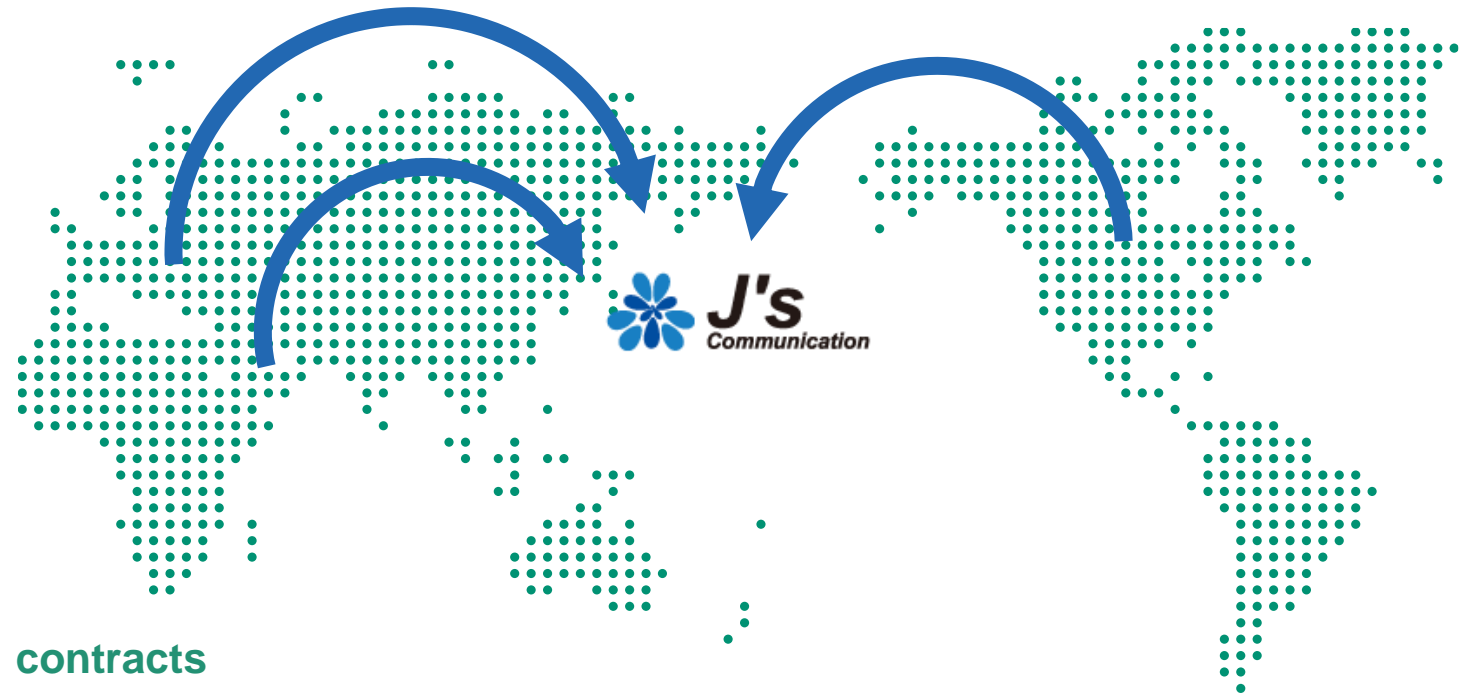
Our Business: Value Added Distribution Business

About Value Added Distribution Business

Importing of products with cutting-edge technologies, global technologies, niche technologies, etc. from United States and other developed security countries, and providing technical value-added services such as design, construction, and support in response to customer requests

Line-up of Security products

- WAF
- Security vulnerability diagnosis and management
- IP address management
- Network management
- Firewall / VPN
- Nest-generation Firewall
- UTM
- Malware protective

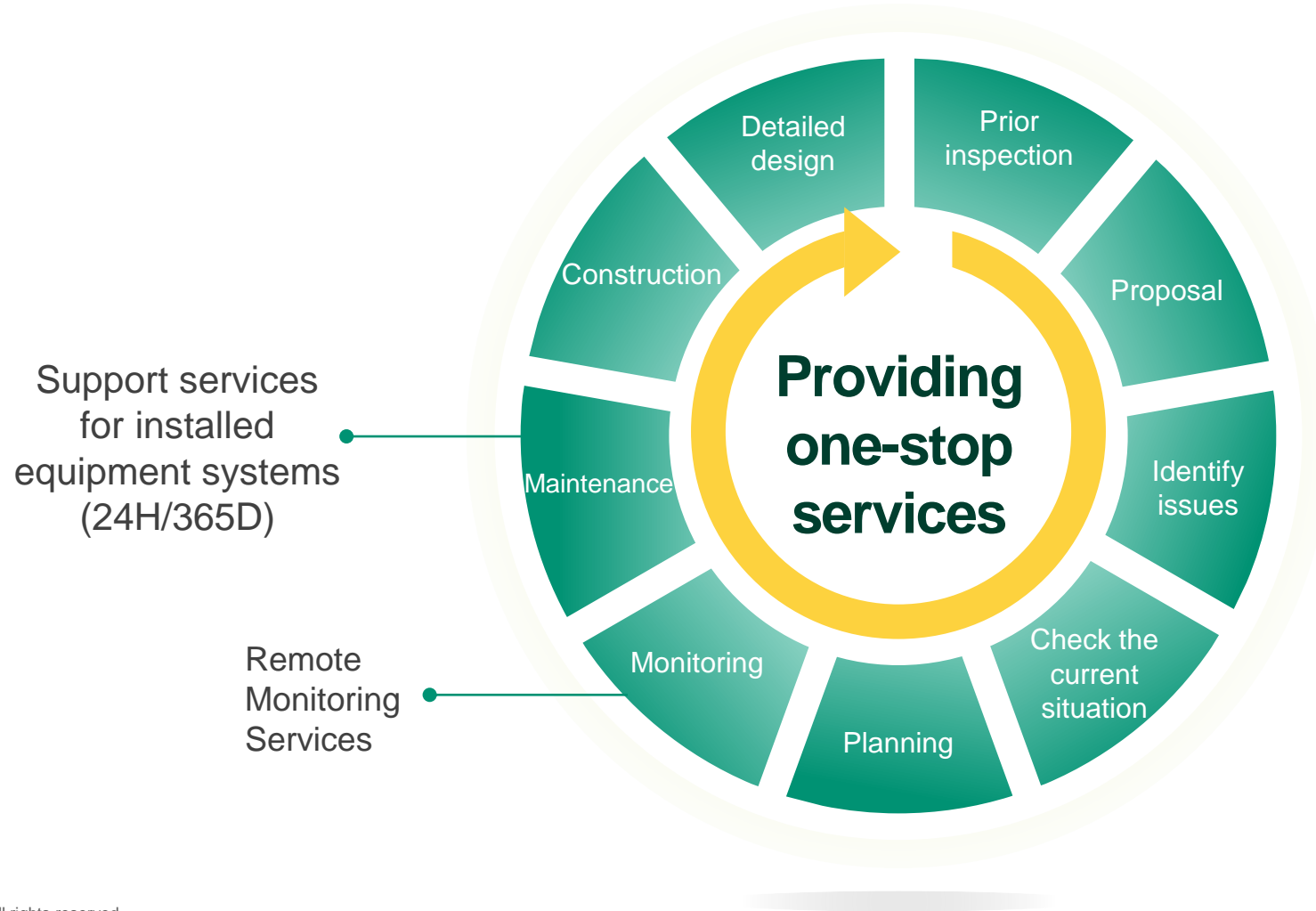


Major manufactures with distribution contracts



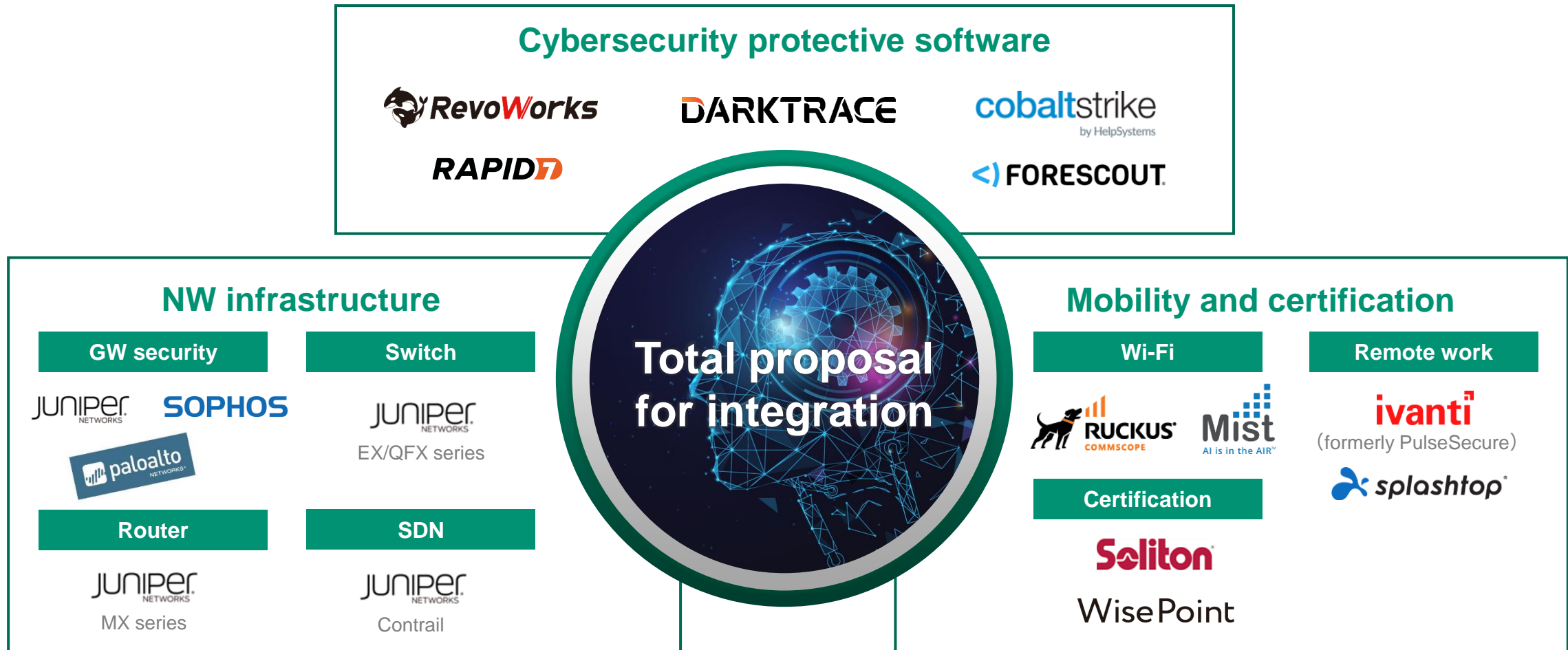
Our Business: System Integration

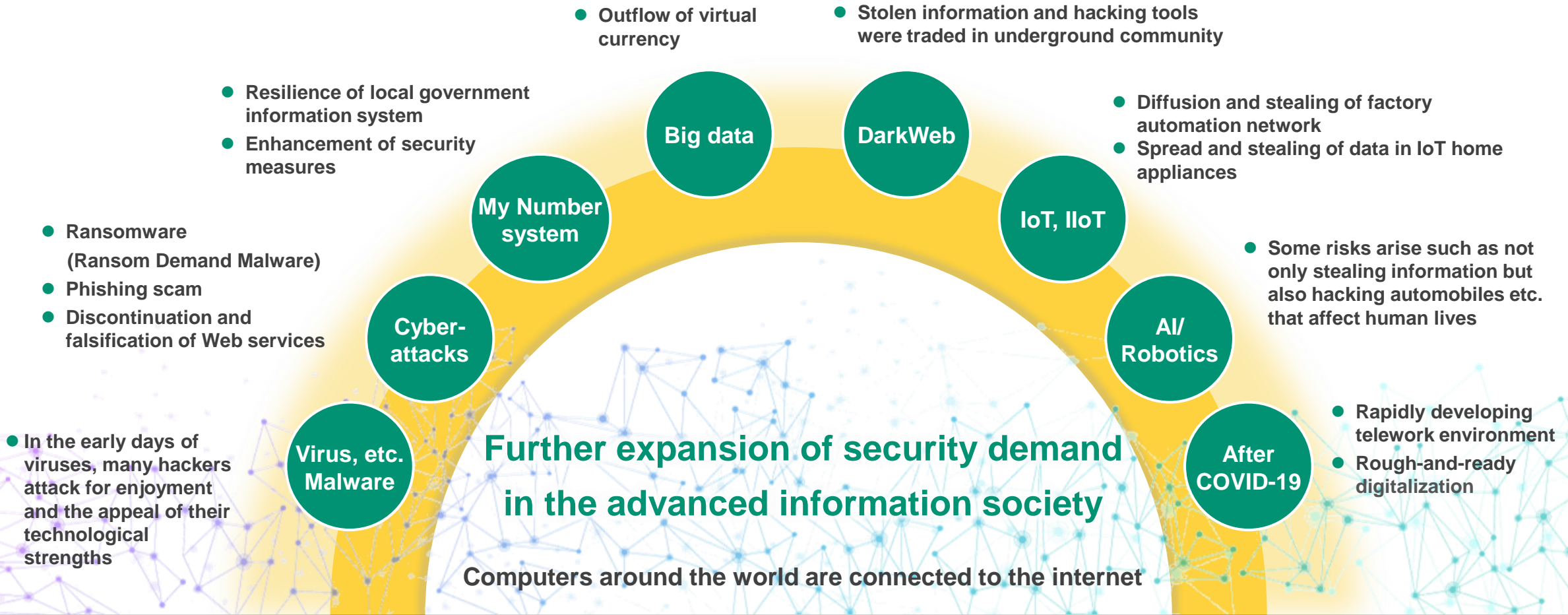
Sales of software and appliances for security and IT infrastructure, etc., combined with the provision of services such as system, after-sales, monitoring and operational support services



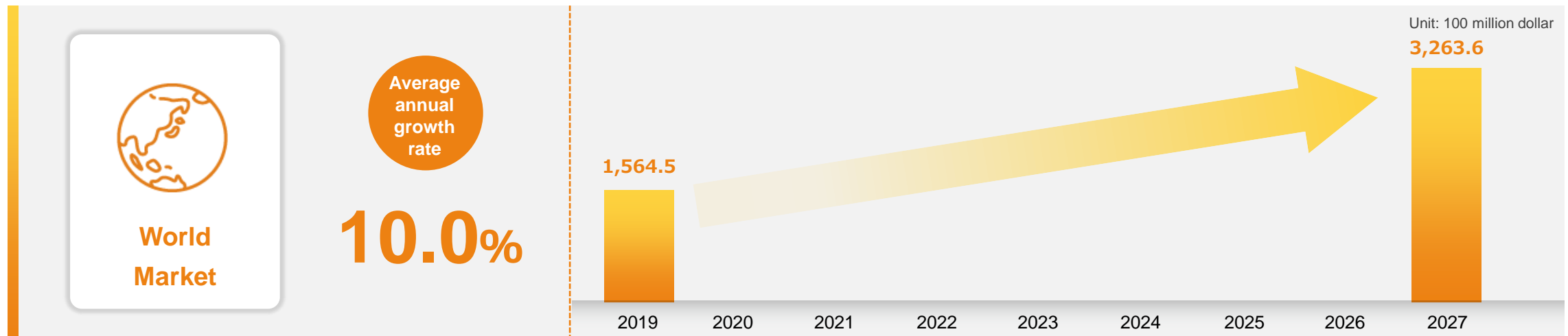
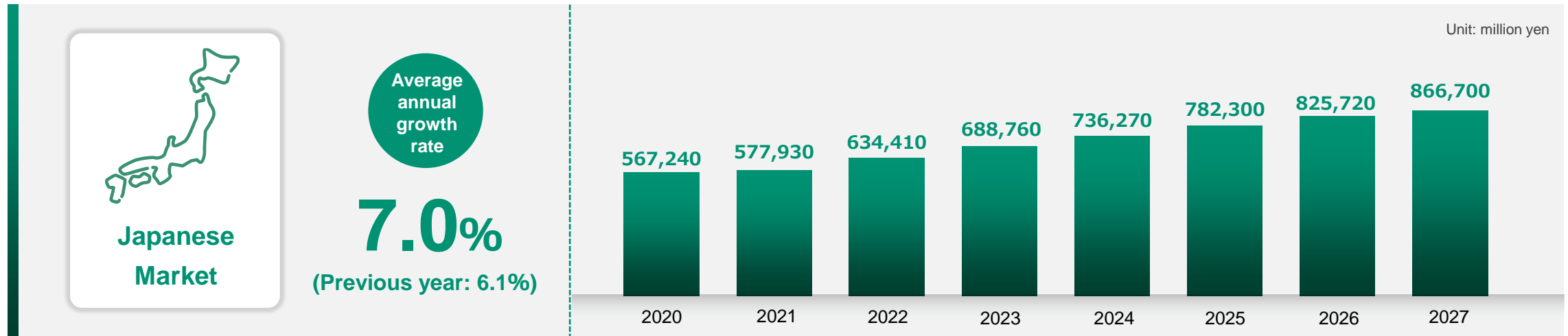
Focus on Security Software

Providing safe and comfortable solutions by compensating for a shortage of security technicians with AI and automation software





Business Environment: Security (Products and Services) Market



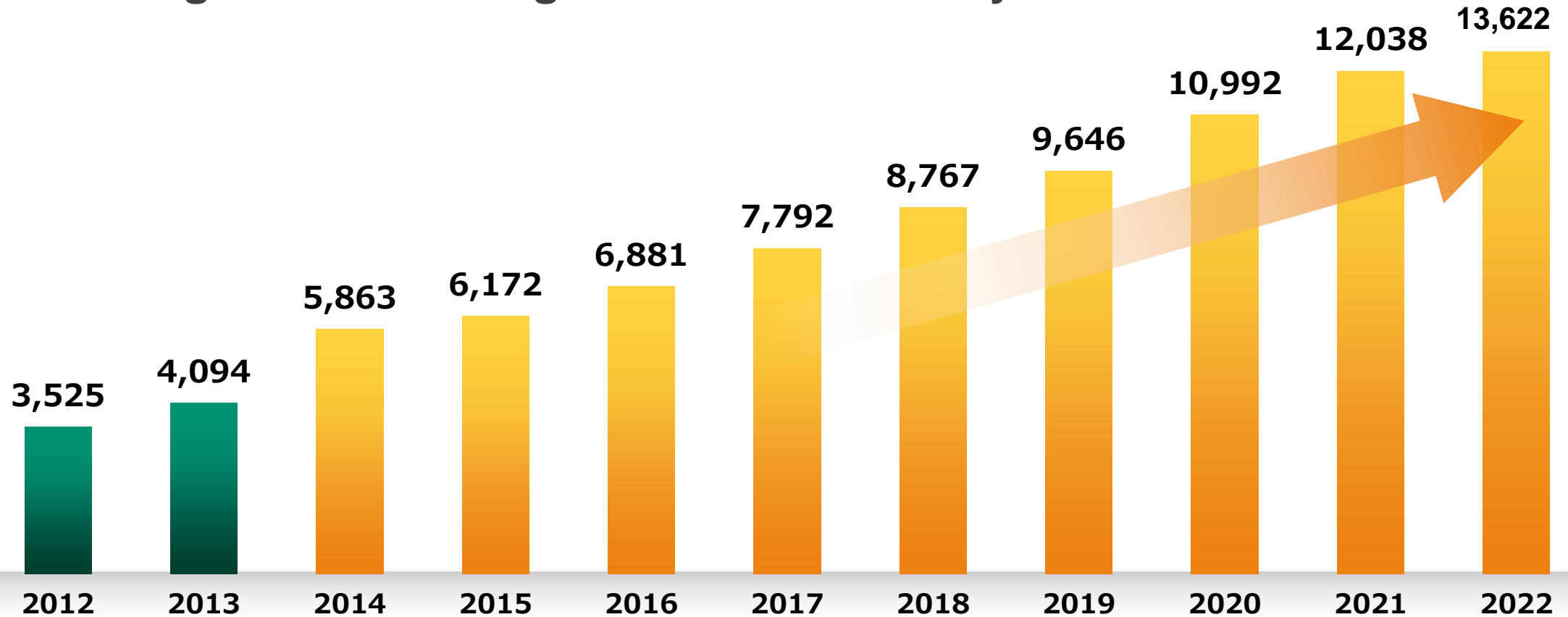
Source: Fuji Chimera Research Institute, "2022 Network Security Business Survey"
Grand View Research "Cyber Security Market Size & Share Report, 2020-2027"

Our Sales Trends

CAGR of Sales: **14.5%** (2012-2022)

Unit: million yen

Continuing to exceed the growth of the security market



* Figures for 2012 and 2013 are based on results of J's Communication Co., Ltd.

Conduct M&As since 2010 to accelerate Group development

- ✓ February 2010: Acquired Shibatsu Osaka Office mainly for strengthening technological capabilities
- ✓ November 2012: Established JC Technology as a joint venture with a non-listed company engaged in system engineering and education and training
- ✓ February 2013: Established J's Telecom System in December 2012 and acquired the construction, operation, and maintenance business of voice and IP network systems from unlisted companies
- ✓ June 2013: Made MY Workstation a subsidiary with the aim of increasing the number of sales partners
(merged with J's Communication in January 2015)
- ✓ April 2018: Acquired Falcon System Consulting as a subsidiary to strengthen development capabilities
(merged with Jays Communication in January 2022)
- ✓ March 2019: Acquired Astem as a subsidiary to strengthen sales in the Kyushu and Chugoku regions (merged with J's Communication in January 2022)
- ✓ November 2022: Established Segue Security Co., Ltd. as a joint venture with Mr. Koji Morii, Representative of Leon Technology ,Inc., an ethical hacking company
- ✓ December 2022: First overseas expansion; Acquired ISS Resolution in Thailand to expand business in ASEAN

Aiming to create various types of synergies, centered on IT companies

- ✓ Invested in February 2013: Knowledge Suite, developing cloud-based CRM/SFA businesses
 - ➡ December 2017: Listed on the TSE Mothers market (currently the TSE Growth market)
- ✓ Invested in October 2017: an unlisted company planning, development, and selling cloud services
 - ➡ Transferred to a major IT company at a price significantly higher than when acquired
- ✓ Invested in September 2018: Triple Eyes which develops AI engines independently and promote DX innovation
 - ➡ May 2022: Listed on TSE Growth market
- ✓ Invested in January 2019: lafool, which provides mental data tech using AI
- ✓ Invested in December 2020: ZenmuTech, which has proprietary secret distributed cryptography technology and concealed computing technology
- ✓ Invested in February 2021: EAGLYS, which has data security and AI designing techniques centered on secret computing
- ✓ Invested in September 2021: Fix Point, which provides system operation automation tools
- ✓ Invested in November 2021: manebi, which promotes on-line recruitment and training, and visualization of human resource development results
- ✓ Invested additionally in May 2023: EAGLYS that has data security technology centered on secure computing and AI design technology.

Initiatives for SDGs

- Training and producing IT & security personnel
- Provide engineer training to customers
- Develop human resources for achieving high-value-added results
 - ⇒ Promote group-wide initiatives such as strengthening recruitment organizations, improving the environment through organizational restructuring, and establishing a new organization of advanced security Engineers
- Creating an environment in which employees can perform work that is more rewarding
 - ⇒ Plan to expand office floor space in line with recruitment progress and increase in personnel
- Continue investing in companies with new or original technologies such as AI



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<https://segue-g.jp/ir/contact/>