

# Medium-term Management Plan (FY2024-2026)

May 12, 2023  
BrainPad Inc.



# Message from Top Management Announcing the Next Medium-term Management Plan

BrainPad will soon celebrate its 20th anniversary. We would like to express our heartfelt gratitude to all those who have supported the company in various ways up to this significant milestone.

BrainPad was founded on the premise that data will bring value and importance to the world, and since that time we have embraced our mission of developing industry and enriching people's lives through the widespread utilization of data, expanding the scale of our operations to help as many companies as possible, and establishing a position as a pioneer in data utilization.

However, amid the rapid changes of the current environment, we have not fully lived up to the expectations of shareholders, other stakeholders and market.

Having taken this reality very seriously, we have decided to change our management policy and structure, clarify the improvement of shareholder value as our management policy, and announce these changes in the form of our new medium-term management plan.

Looking back over these past two decades, the international competitiveness of the Japanese economy has lost some of its former luster, and particularly in the areas of digital technology and data utilization, we face the harsh reality of lagging far behind other countries.

We want to break free from this reality, and we strongly recognize that to play a greater role as an entity that contributes to the improved competitiveness of companies, we need to go beyond the conventional methods of IT and consulting firms that have given rise to the current situation, and create a new form of support.

Today, it is becoming important for companies to use IT to enhance the "inner strength" to create new value in response to the times.

To achieve that, we look at issues such as the shortages of IT and data utilization personnel in Japan, reskilling and promoting the development of in-house IT and data utilization, and try to solve them head-on.

In particular, by taking the various technologies that are evolving each day and turning them into practical forms, while rebuilding the conventional supply chain of technologies and human resources, we will help companies speed up and advance their digital transformation efforts.

By emphasizing improved business performance and giving top priority to transforming into a highly profitable structure even while fulfilling this mission, we will establish foundations for making active investments in improving efficiency and expanding our business, and achieve sustainable growth.

These thoughts are summarized in these materials.

We hope you will read through these materials and share our high hopes for the new BrainPad.

BrainPad Inc. CEO/Representative Director/Co-Founder  
Director, Executive Officer and CGO (next CEO/Representative Director)

May 12, 2023  
Takafumi Takahashi  
Tomohiro Sekiguchi

# Premise of the Next Medium-term Management Plan

The Approaching 20th Anniversary

Establish our brand as a pioneer of data utilization

Rapid changes in the market environment related to DX and divergence from initial growth targets



A turning point in management strategy

**= Shifting to a model with a favorable cycle incorporating the pursuit of profit and active investment in growth**

# Main Points of Next Medium-term Management Plan

## Redefining our long-term vision

Revising the role of the IT industry based on data utilization  
Rebuilding the technology and human resource supply chain supporting the intrinsic ability of companies to strengthen themselves



## Main Emphasis of the Next Medium-term Management Plan

**Structural reform and the evolution of management = Rebuilding the foundation for growth**

Review the cost structure of existing businesses

Evolution of a differentiation structure  
positioning the shift to in-house data utilization and staffing as the central axis of value

Revising investment strategy and capital policy

Switch to an EBITDA basis and accelerated growth investments

Shareholder Returns



## Financial Targets

Sales  
¥14-15 billion

EBITDA margin  
Over 16%

ROE  
20%

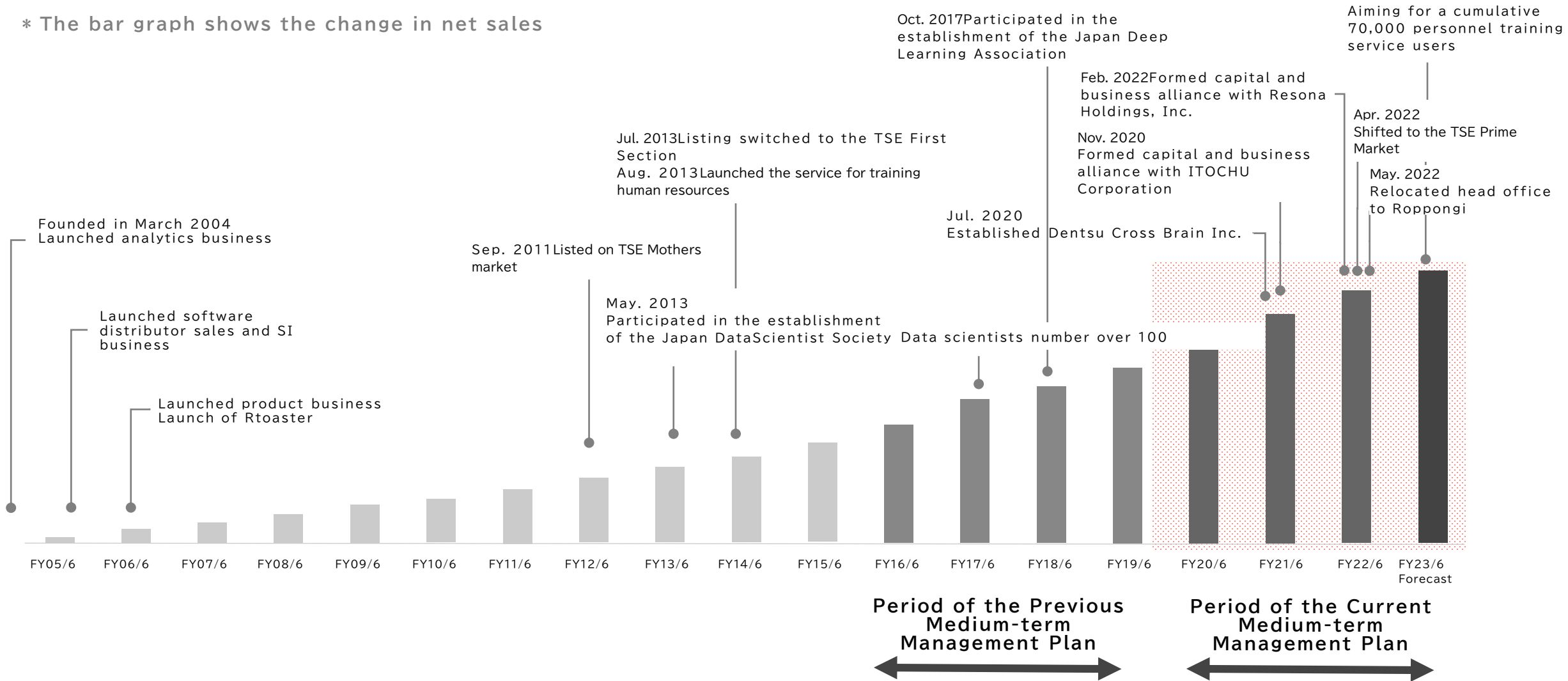
## 1. Review of the Current Medium-term Management Plan

2. Long-term Vision: the Challenges BrainPad Faces and What It Aims to Become
3. Positioning of the Next Medium-term Management Plan
4. Growth Strategy and Investment Policy
5. Financial Indicators and Capital Policy

# BrainPad's History: Approaching the 20th Anniversary

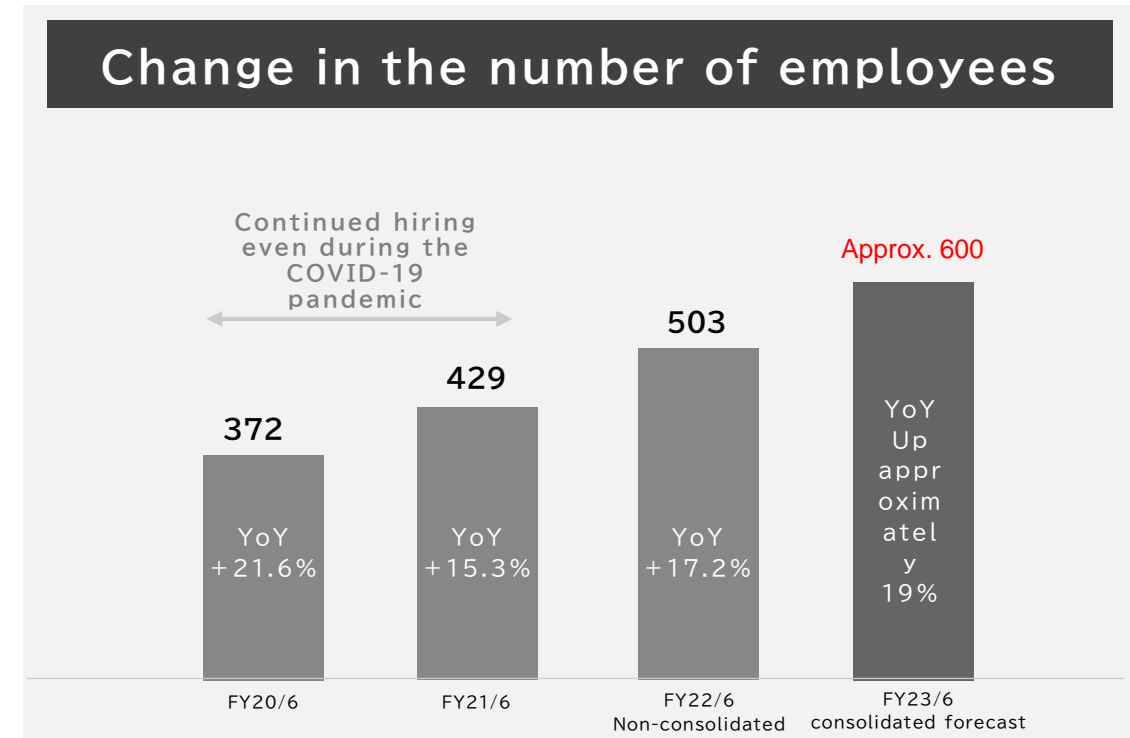
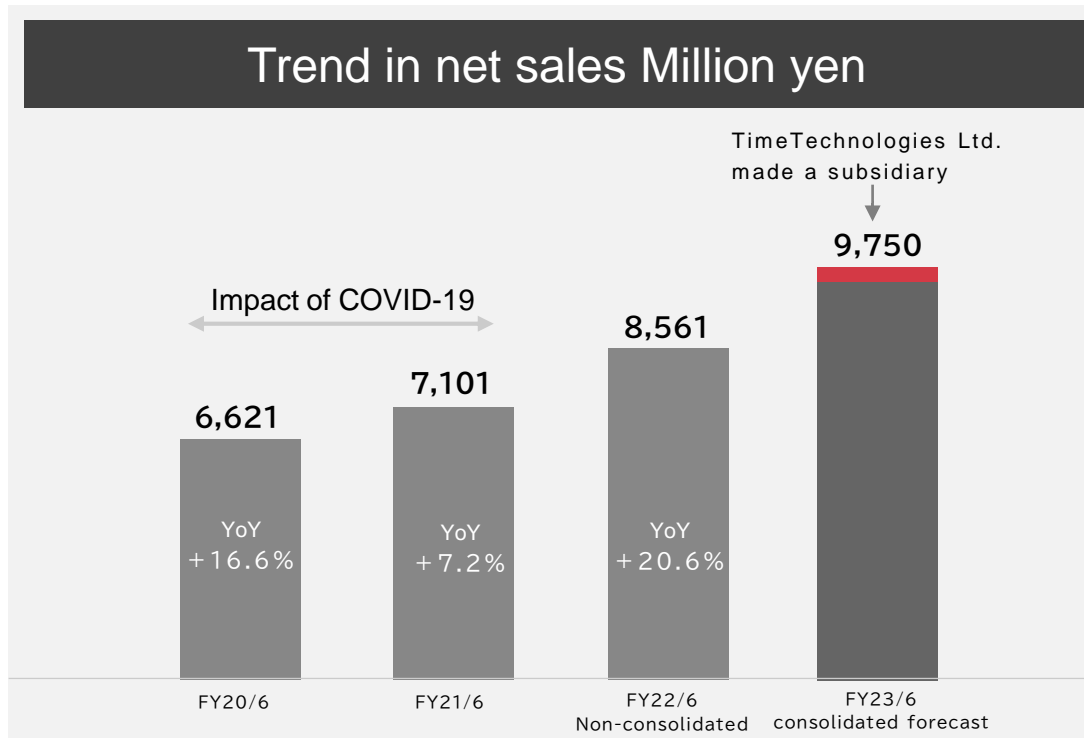
19 consecutive fiscal periods of revenue growth since its founding

\* The bar graph shows the change in net sales



# Review of the Current Medium-term Management Plan: Scaling Up Operations by Actively Expanding the Organization

- In response to the increasing importance of data utilization associated with the third AI boom and accelerating DX investment in Japan, we captured demand mainly in Professional Services, expanding operations to nearly 10 billion yen in net sales.
  - In response to the COVID-19 pandemic in FY2020 and FY2021, sales growth temporarily stalled, and we expect to fall short of our target for net sales (11.5 billion yen) in the final year of the current plan.
- However, in anticipation of increased demand in the future, we pursued hiring even during the pandemic when other companies were holding off on hiring personnel. As a result, we managed to increase the number of data utilization personnel we employ despite the fierce competition to secure them. We expanded to an organization numbering some 600 personnel.



# Review of the Current Medium-term Management Plan :Major Accomplishments

## Capital and business alliances, acquisitions

### Formed capital and business alliances



2020-



2020年~



2022-

### Acquisitions



TimeTechnologies

2022年~

## DX and data utilization support for leading industry companies

Supported key data utilization initiatives for major Japanese companies

**TOYOTA**

Development of new services in the area of materials development

**Asahi**

Provision of a program to train data utilization personnel

**JP BANK** ゆうちょ銀行

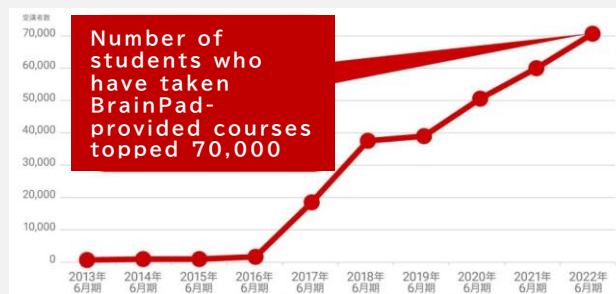
Strategic partner for DX promotion

**docomo**

Data utilization support

## Cumulative number of who have taken data utilization personnel training services topped 70,000

Certified by METI as Fourth Industrial Revolution Skill Acquisition Course and under MHLW Education and Training Benefit System



## Strengthened alliances with cloud vendors



The first in Japan to be designated a Premium Partner covering the three areas of Sell, Service and Build\*

\* Associated with joint sales expansion of ISV Solution Connect program



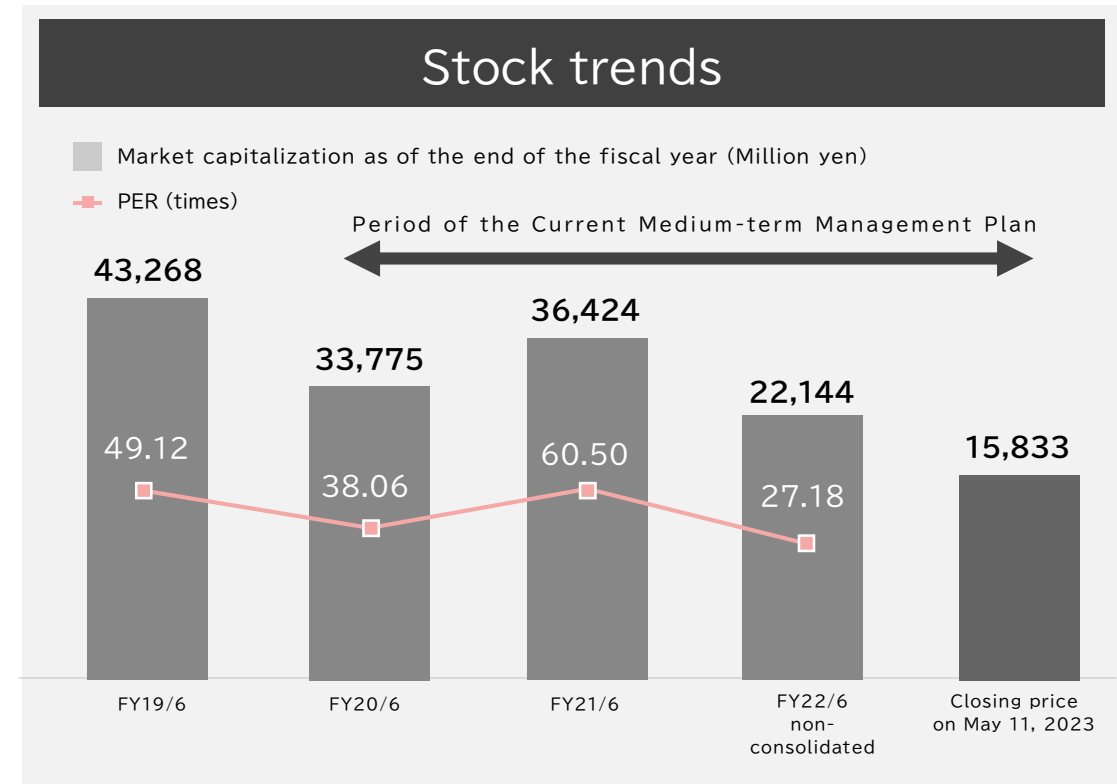
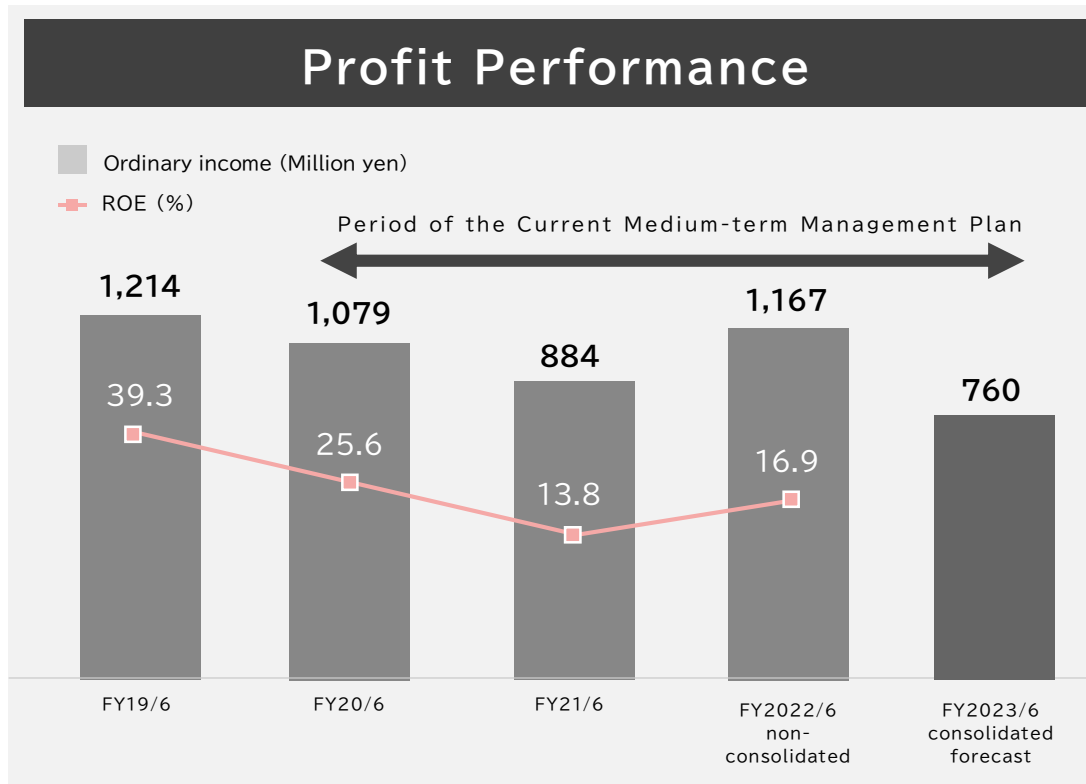
Received Microsoft Japan Partner of the Year Award in the area of data analysis for the second year running

Azure AI partner



# Issues with Maintaining Profit Levels

- Support in the area of marketing for retail and consumer services, which had been BrainPad's focus, was affected by the COVID-19 pandemic, and led to a replacement of the customer base.
- With the competitive environment intensifying and the difficulty of projects rising, we could not fully control the decline in profit levels, in part due to increased costs due to the expanded size of the organization.
- As a result, aside from net sales, we were unable to surpass our performance in the final year of the previous Medium-term Management Plan (FY2019) and thus failed to meet market expectations.



# Review of the Current Medium-term Management Plan: Looking to the Next Medium-term Management Plan

- Despite having built stable business foundations, in order to achieve growth that meets market expectations, it is necessary to evolve from the organizational expansion-driven business growth and management model that is predicated on the current value of BrainPad's services.

Summary	What we accomplished	<ul style="list-style-type: none"><li>• Established a position as a pioneer of data utilization and steadily captured DX and data utilization demand</li><li>• Curbed demand overshoots by securing sufficient personnel in connection with a strengthened hiring system</li><li>• Enhanced business opportunities through alliances with major companies and acquisitions</li></ul>
	The issues that materialized	<ul style="list-style-type: none"><li>• Changed to a heavy cost structure associated with rapid organizational expansion and upfront investment (hiring of personnel) during the COVID-19 pandemic</li><li>• Lagged behind in the evolution of BrainPad's services in relation to the changing market environment and needs related to DX investment</li><li>• Investments based on a long-to-medium-term perspective were limited due to the focus on improving revenue in the short term</li></ul>



Points to be Considered in the Next Medium-term Management Plan	<ul style="list-style-type: none"><li>■ Review the cost structures of existing businesses to develop high profitability</li><li>■ Evolve services, the value provided and differentiating factors to reflect market conditions and needs</li><li>■ Make proactive business investments from a long-term perspective (M&amp;A activities, technology exploration and solution development)</li><li>■ Strengthen management structure and introduce more sophisticated management techniques to support the above</li></ul>
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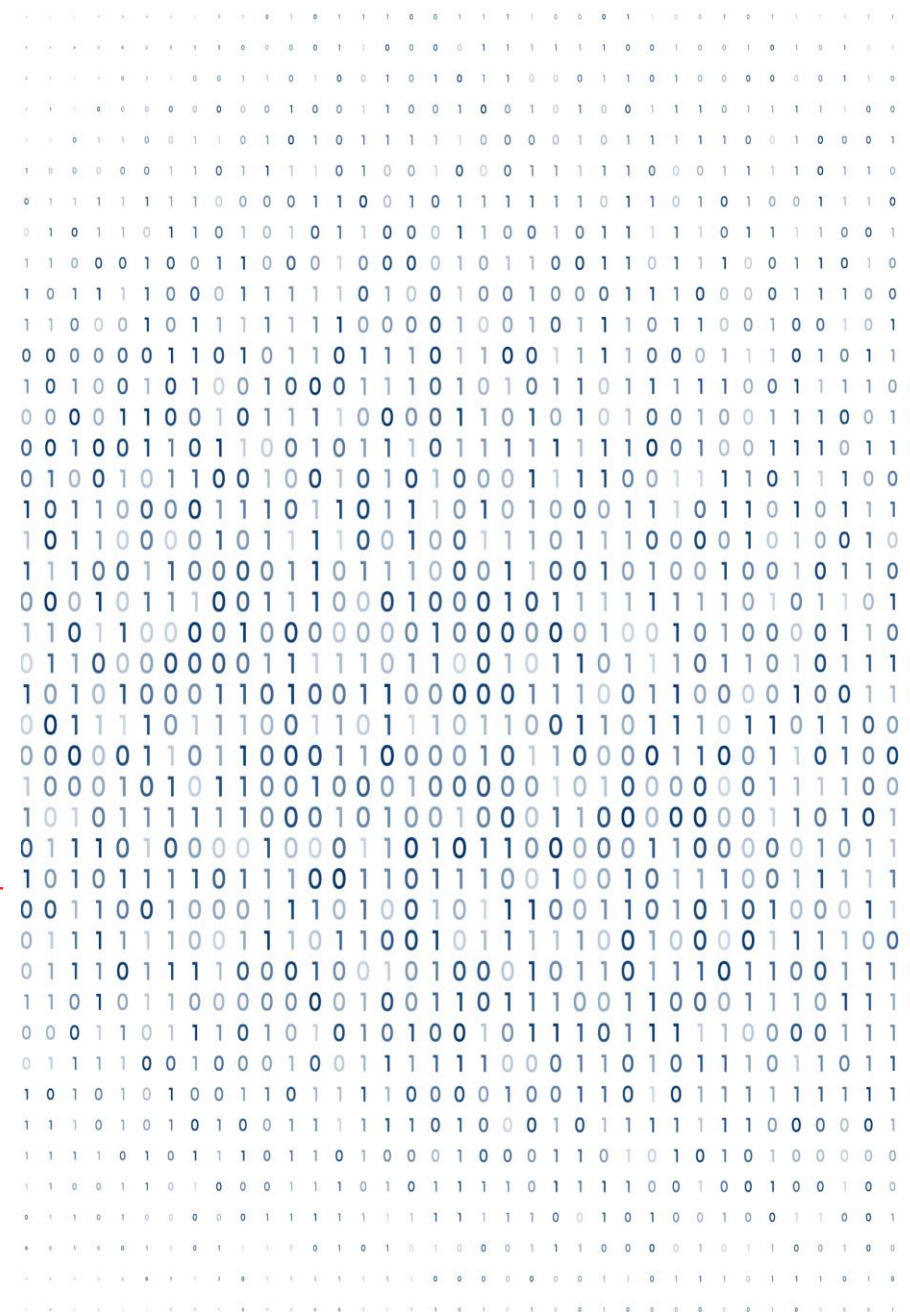
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**2. Long-term Vision**  
**: the Challenges BrainPad Faces and What It Aims to Become**

3. Positioning of the Next Medium-term Management Plan

4. Growth Strategy and Investment Policy

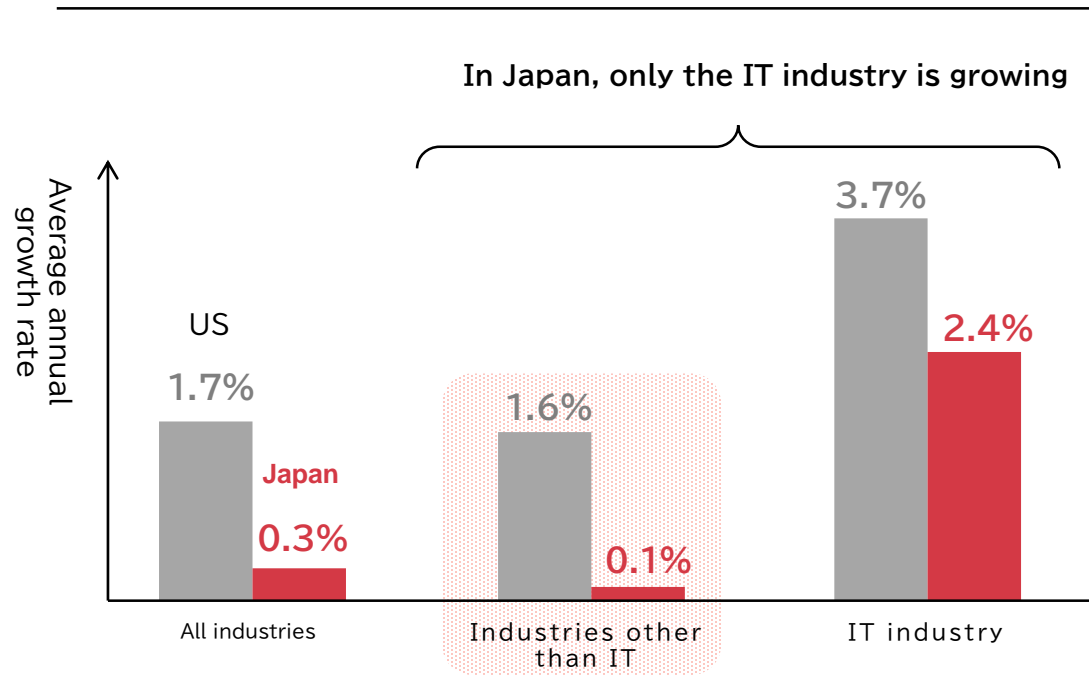
5. Financial Indicators and Capital Policy



# The Challenges We Face

- We need to fundamentally rethink both the role of IT systems in business, and the role of enterprise support on the IT industry side.
- To leverage digital technologies and data for improved competitiveness, the IT industry itself requires reform.

2000-2020 market growth rate Comparison between Japan and the US\*



**The domestic IT industry has grown significantly due to the evolution of information technologies**

The size of the market for business analytics and DX investment has been growing at almost 10% annually

And it is forecast to continue growing at around 10% annually in the future



**Enterprise IT investment has not contributed to the growth of industry overall**

Japan's digital competitiveness has declined year after year, and over the last 20 years, only a handful of industries have achieved growth over 1%

\* In the United States, industries other than IT have also grown.

\* US data: Collated based on real GDP by industry announced by the US Bureau of Economic Analysis (BEA). The IT industry classification corresponds to the BEA-defined "Information."  
Japanese data: 2022 White Paper on Information and Communications in Japan from the Ministry of Internal Affairs and Communications (MIC). The IT industry classification corresponds to "Information and Communications Industry" defined in the whitepaper.

# Reference: Japan's Digital Competitiveness Has Continued to Decline

- **Data utilization in management** and **digital skills**, which are the areas in which BrainPad seeks to offer support, have had a significant impact on the decline of Japan's competitiveness.
- In other words, BrainPad's reason for existing and the business opportunities it is presented with are expected to continually grow into the future.

IMD World Digital Competitiveness Ranking 2022  
(Among 63 ranked countries)

Rank	Country	YoY Change
1	Denmark	↑
2	US	↓
3	Sweden	-
4	Singapore	↑
5	Switzerland	↑
6	Netherlands	↑
7	Finland	↑
8	South Korea	↑
9	Hong Kong	↓
10	Canada	↑
⋮		
29	Japan	↓
⋮		
63	Venezuela	↑



Rankings are determined based on the total score from 54 objective criteria

Category	Subcategories	Rank
Knowledge	<b>Human Resources</b>	<b>50</b>
	Training and education	21
	Scientific concentration	14

Category	Subcategories	Rank
Technologies	Regulatory framework	47
	Capital	32
	Technological framework	8

Category	Subcategories	Rank
Future Readiness	Adaptive attitudes	20
	<b>Business agility</b>	<b>62</b>
	IT integration	18



Examples of criteria for which Japan ranked particularly low

**Digital/Technological Skills**  
**Ranked 62 out of 63 countries**



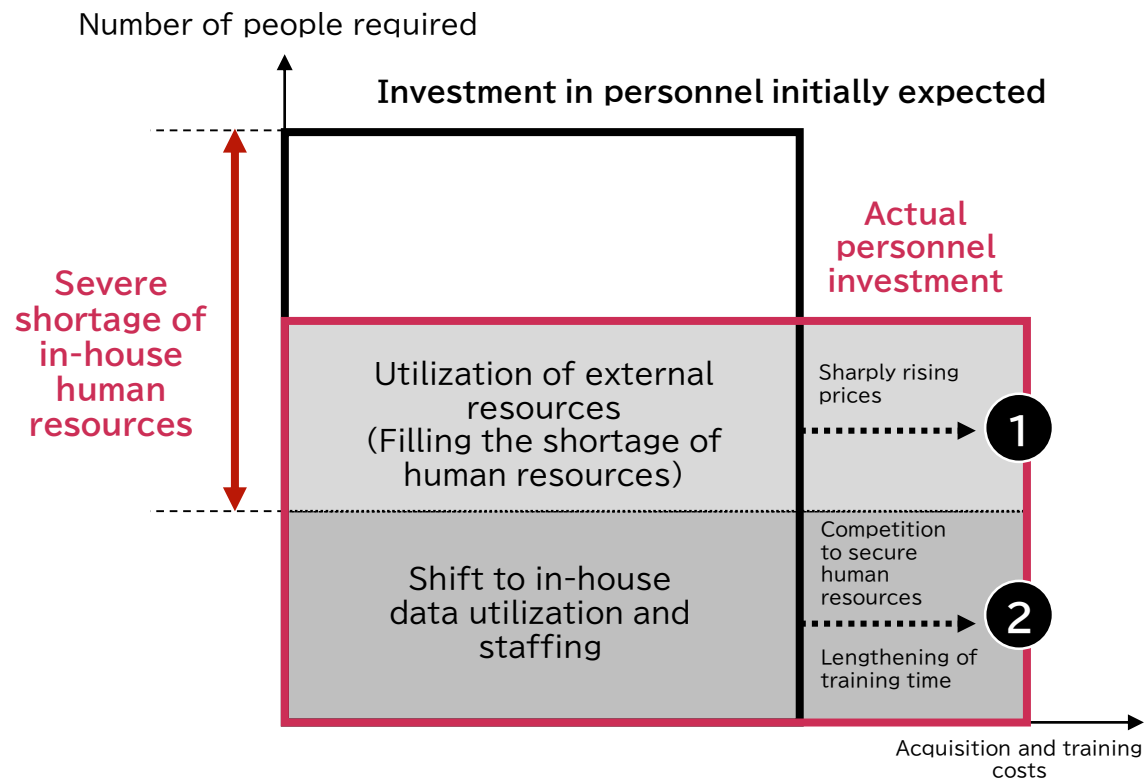
**Use of big data and analytics**  
**Ranked last out of 63 countries**

Source: IMD, World Digital Competitiveness Ranking 2022. <https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-digital-competitiveness-ranking/>

# The Challenges We Face: The Wall of Resistance Against Doing Things "In-house" at Japanese Companies

- As a result of continually supplementing personnel with outside human resources to prioritize the acceleration of DX promotion, progress has not been made augmenting internal personnel.
- Under an environment of personnel shortages, it has become extremely difficult to secure and develop high-level and specialized human resources, and it is necessary to quickly break the dependence on external sources.

The Reality of Securing Digital and Data Utilization-Oriented Human Resources (Conceptual Image)



Companies aim to acquire highly specialized human resources but investments balloon amid stiff hiring competition

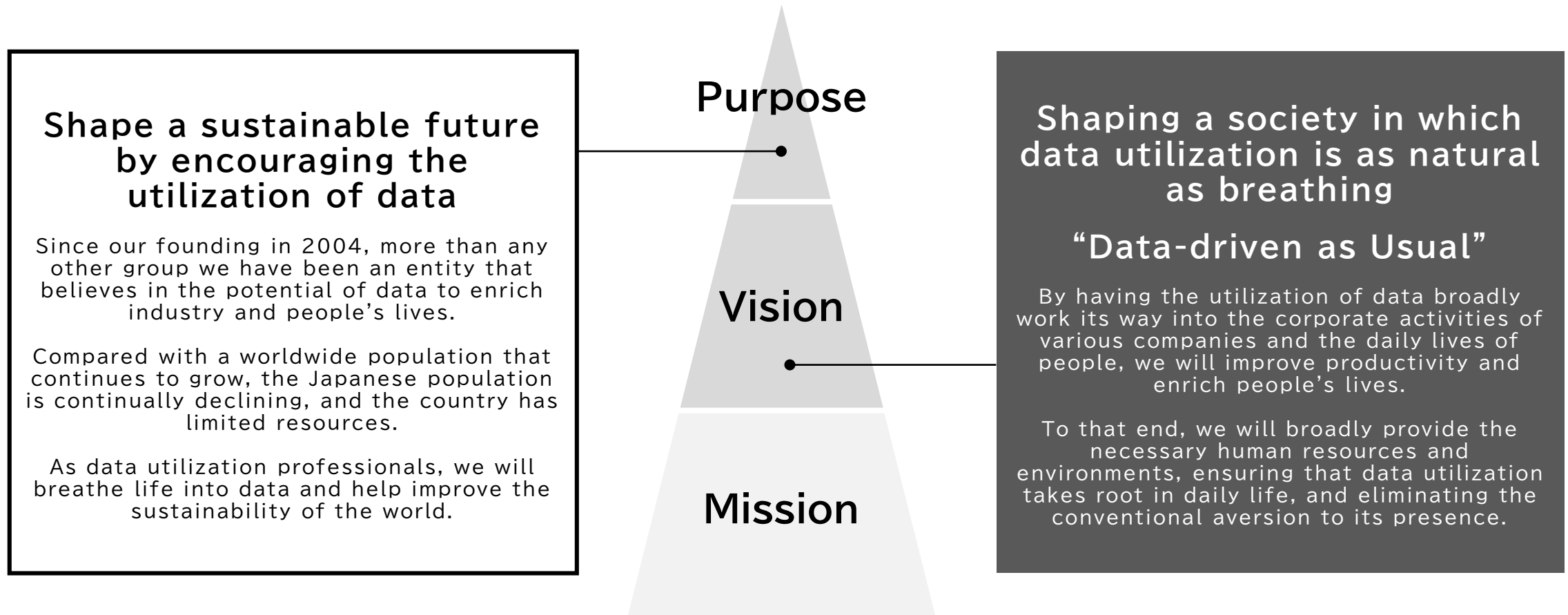
→ Only the IT industry and staffing industry have grown



- 1 Shortage of in-house personnel filled with external human resources that command higher unit prices
  - High-level personnel are secured by outside companies at high rates of compensation
  - Outsourcing costs continue to soar
- 2 Soaring hiring and internal acquisition costs
  - High-level personnel are in demand, making them increasingly difficult to hire
  - As methods to train them have not been established, training take longer

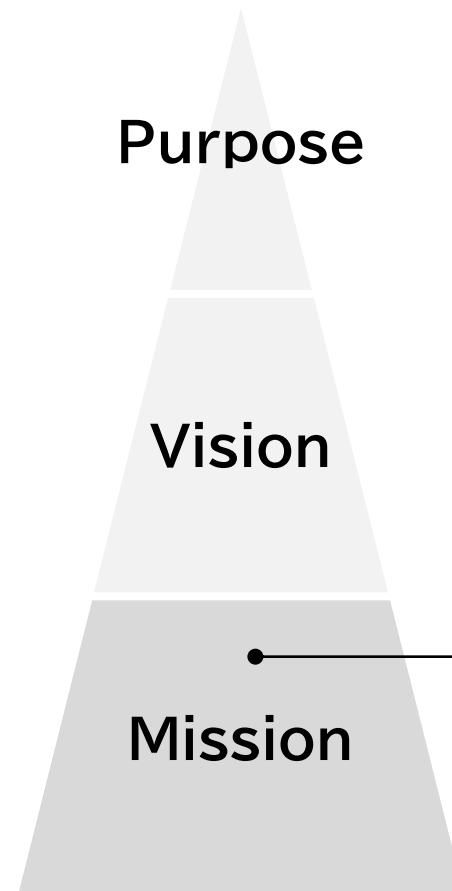
# What We Aim to Be and Our Reason for Existing: Redefining our Mission, Vision and Purpose

- In keeping with our founding principles, we aim to create a sustainable society through the utilization of data, and help solve social issues.



# What We Aim to Be and Our Reason for Existing ~Redefining our Mission, Vision and Purpose

- We will set ourselves apart from conventional IT and consulting companies, and firmly establish data technologies and the human resources who have mastered their use in companies. In doing so, we will help companies strengthen internally and fundamentally, a challenge that has eluded some of them to date, and contribute to economic development beyond that.



**We will rebuild the supply chain of technology and personnel, helping to restore Japan as a flourishing country that boasts international competitiveness.**

Differentiating ourselves from traditional IT companies and consulting firms who dispatch highly skilled personnel to their clients, we offer solutions that help companies fundamentally enhance their structure.

To accomplish this, we develop environments where advanced technologies and highly skilled personnel are entrenched in corporate activities, and support the promotion of data utilization.

**We embrace the highly difficult challenge of producing "hybrid" human resources with proficiency in data technologies as well as business**

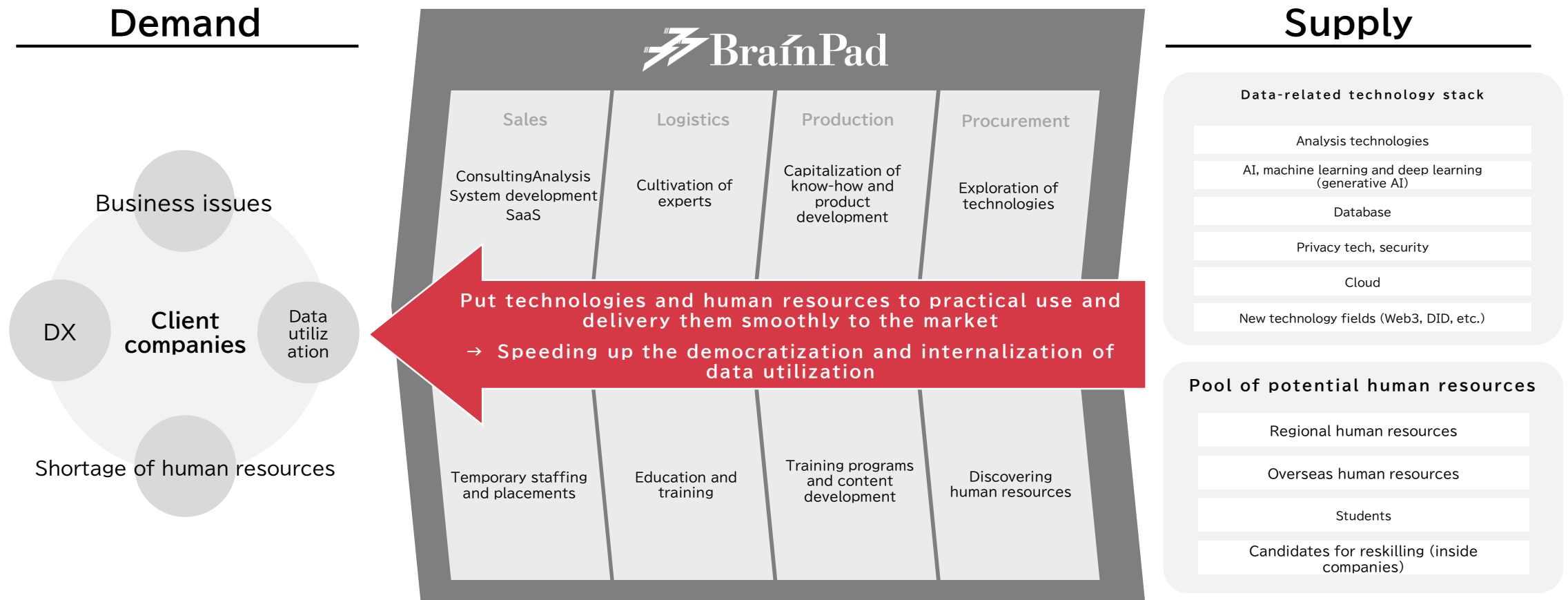
**Through the democratization of advanced technology, we will promote the widespread adoption of data utilization beyond the speed of human resource development**




# Our role

## Rebuild the supply chain of technologies and personnel related to data utilization

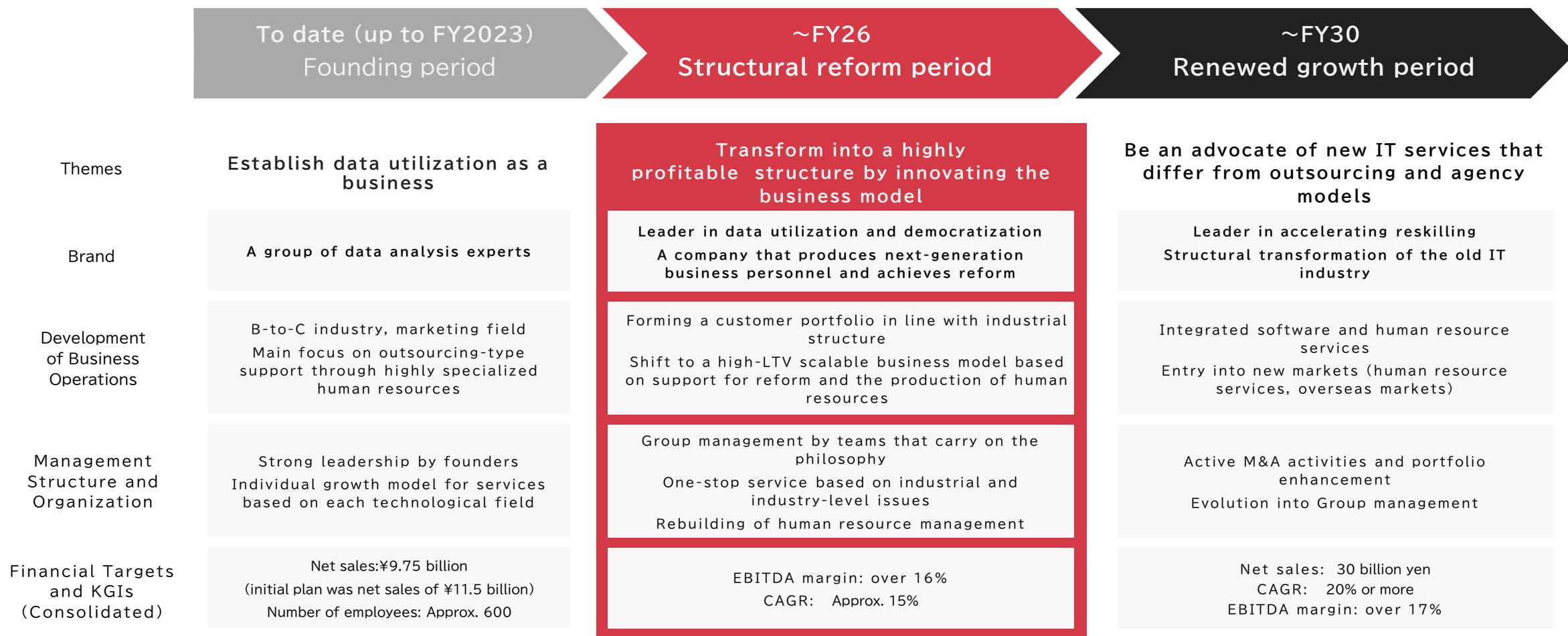
- We will transform continually evolving data-related technologies and potential human resources into a form that industry can put to practical use.
- We will develop a wide range of service formats that reflect market needs, helping to speed up the democratization and internalization of data utilization in companies.

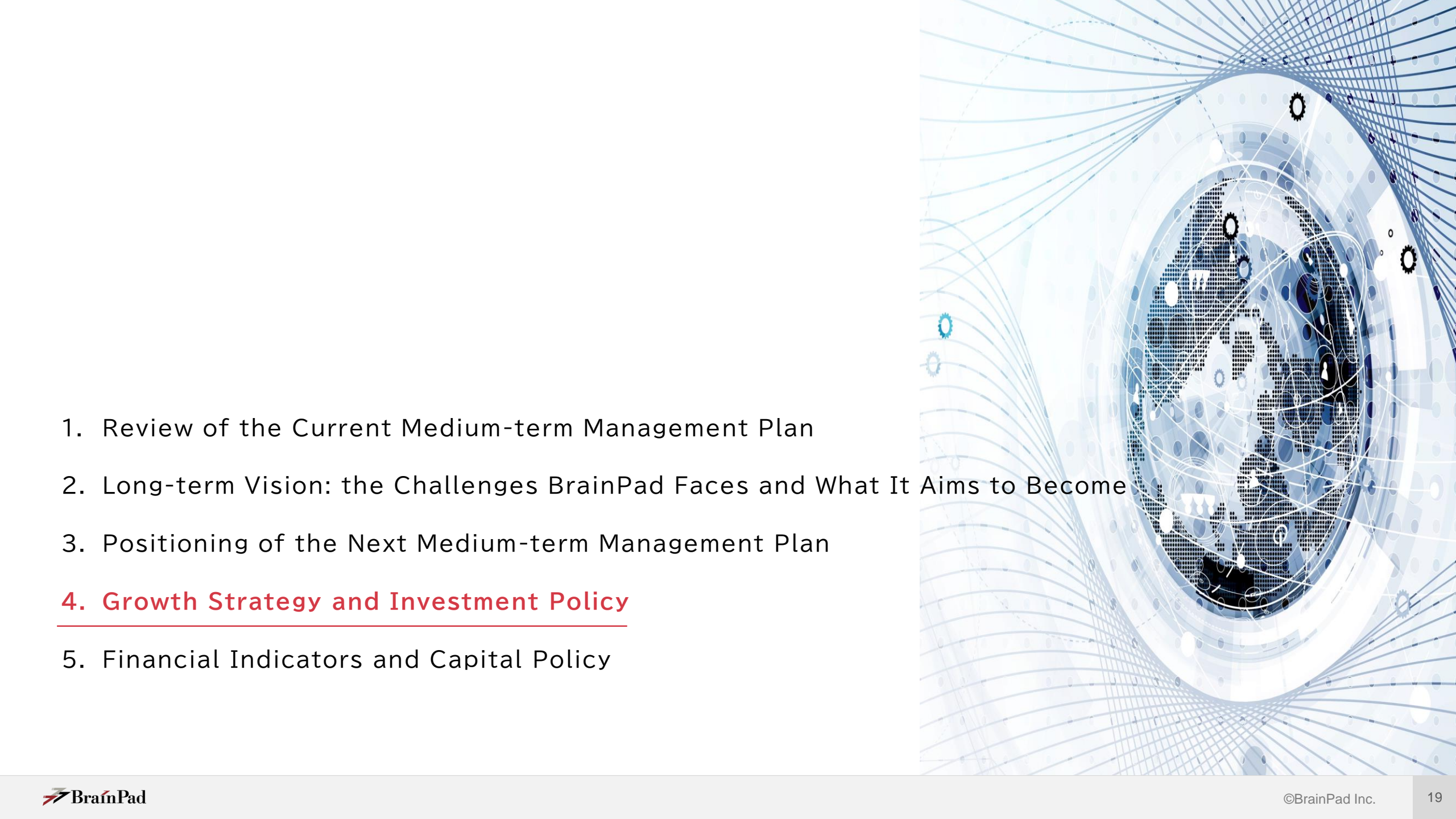


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# Positioning of This Medium-term Management Plan

- Positioning the term of this medium-term management plan as a structural reform period, we will transform the business structure that we have significantly expanded to date into a framework that can flexibly respond to future environmental changes, with the aim of further business growth.



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# Market Potential

- DX investment and investment in data utilization, which are expected to undergo solid growth, as well as eliminating the shortage of IT personnel to support its implementation, both represent the market potential related to the business growth of BrainPad.

## Demand Side

Market related to DX investment and investment in data utilization



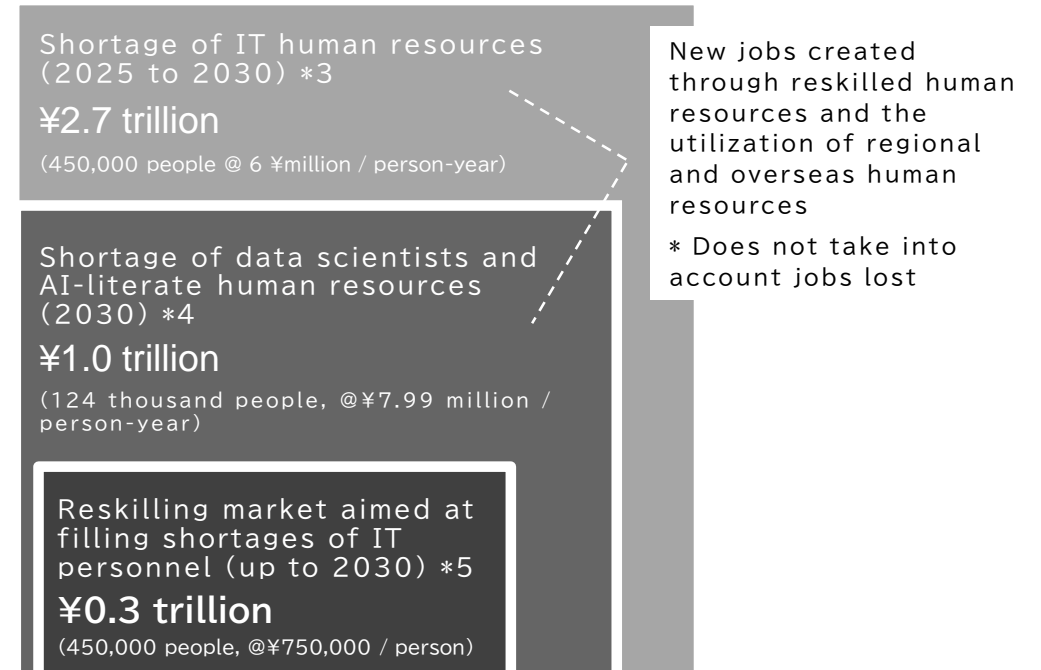
Skill development and supply of human resources



Staffing needs supporting change

## Supply Side

Markets associated with eliminating human resource shortages

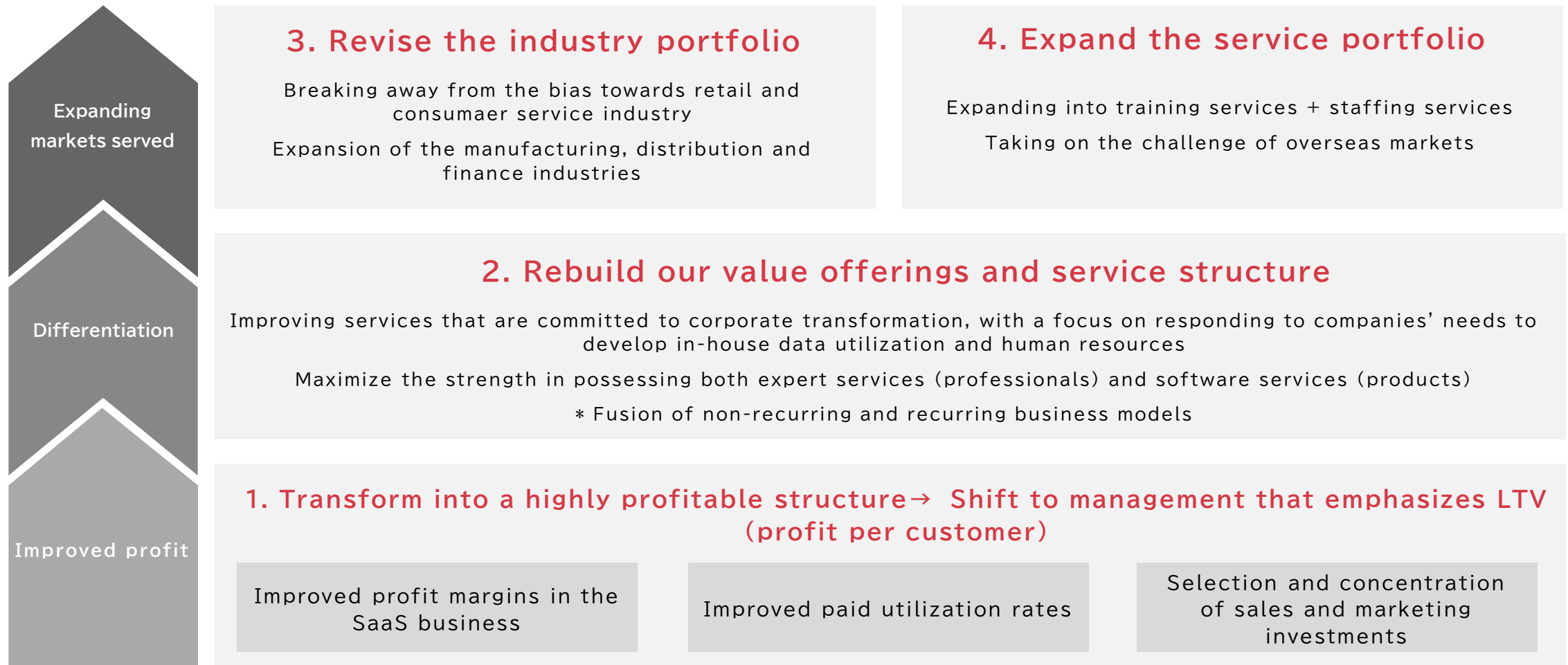


\*1. "2023 Digital Transformation Market Future Outlook - Market Edition" from Fuji Chimera Research Institute  
\*2 "Business Analytics Market Outlook FY2022 Edition" from Deloitte Tohmatsu MIC Research Institute Co., Ltd.

\*3. BrainPad estimate based on 2019 METI "Survey on Receipt of IT Human Resources (Summary)" showing shortage of IT human resources in medium demand growth scenario, and 2018 METI "Results of Fact-finding Survey on Salaries, etc. in IT Related Industries"  
\*4. BrainPad estimated based on 2019 METI "Survey on Receipt of IT Human Resources (Summary)" showing AI-literate human resources receipt gap in average AI demand growth scenario, and 2021 "National Skill Survey" from IT Skill Research Forum  
\*5. BrainPad estimate based on 2019 METI "Survey on Receipt of IT Human Resources (Summary)" showing shortage of IT human resources in medium demand growth scenario, and 2019 US Amazon-dot-com reskilling budget announced by US-based Amazon

# Growth Strategy Four Pillars Aimed at Growth

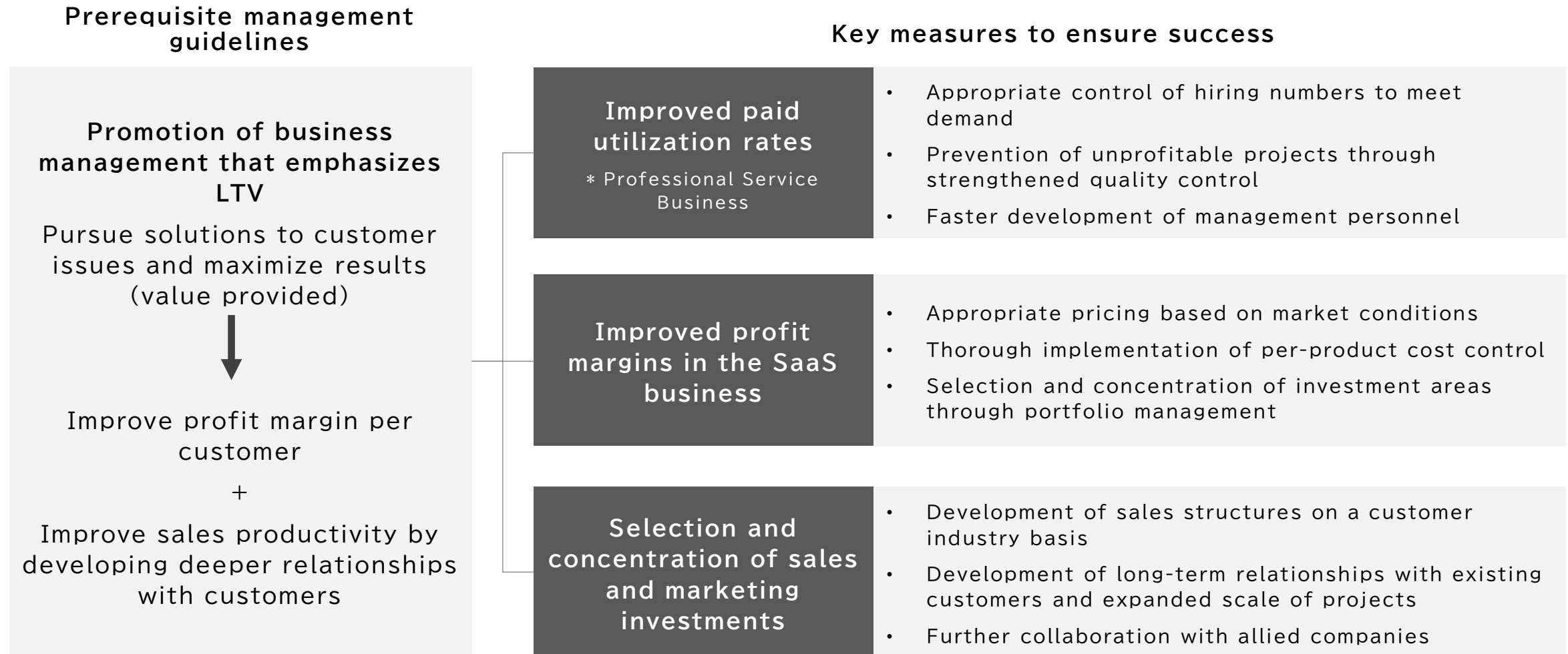
- We will successfully eliminate the decline in productivity associated with our organizational expansion at an early stage, and accelerate business growth that reflects changing market needs.



# Supplementary information) Growth Strategy

## ~1. Transform into a highly profitable structure

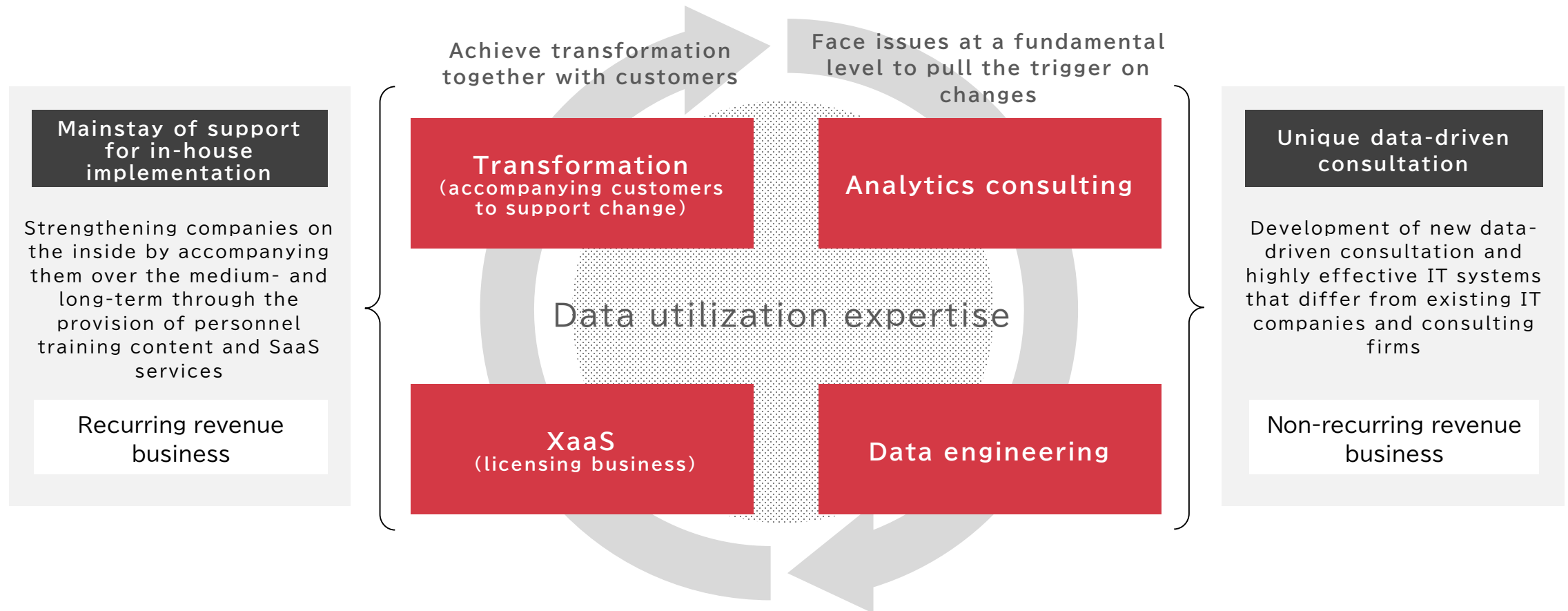
- We will shift from an expanded structure designed to accommodate rapidly expanding demand to a lean business management structure, laying the foundations for further growth.



# Supplementary information) Growth Strategy

## ~2. Rebuild our value offerings and service structure

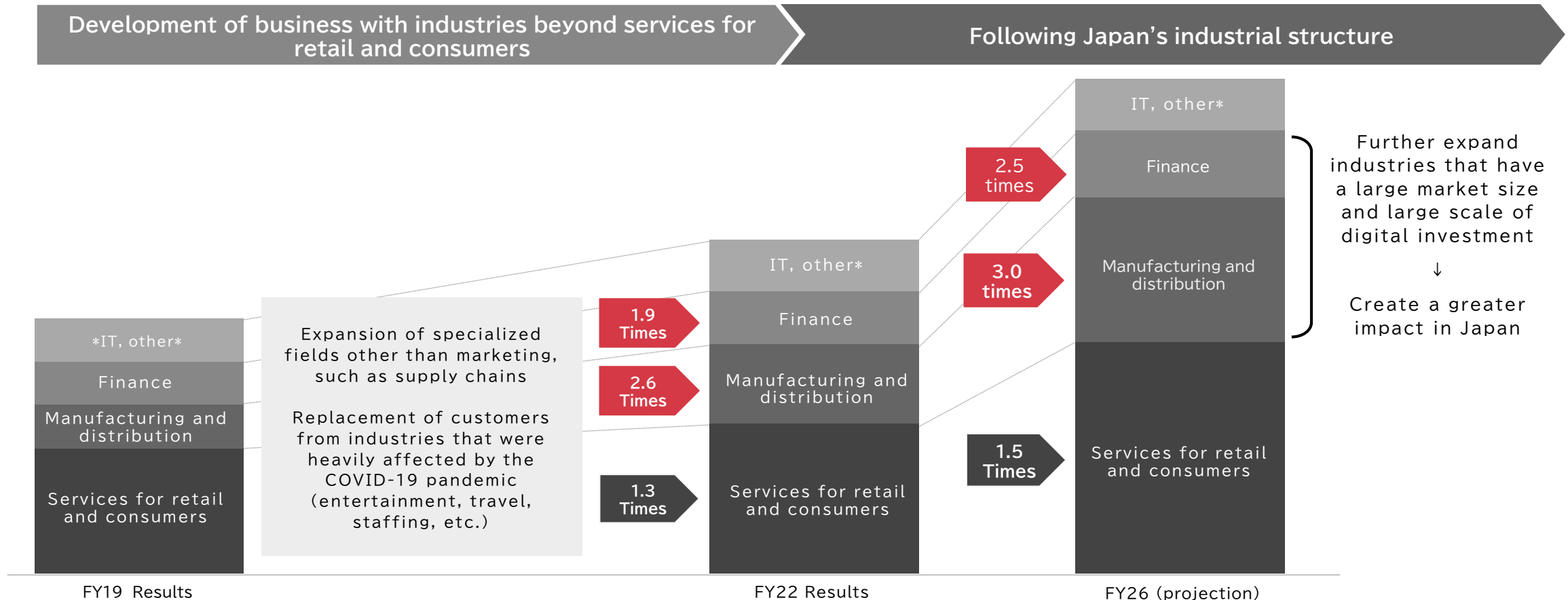
- Providing integrated support for solutions to management issues has become the norm, and is no longer a differentiating factor.
- We will shift to a service structure that links our growth with client companies making progress on in-house data utilization and staffing - something that is difficult for the competition that is reliant on one-off business centered around staffing support.





# Supplementary information) Growth Strategy ~3. Revise the industry portfolio

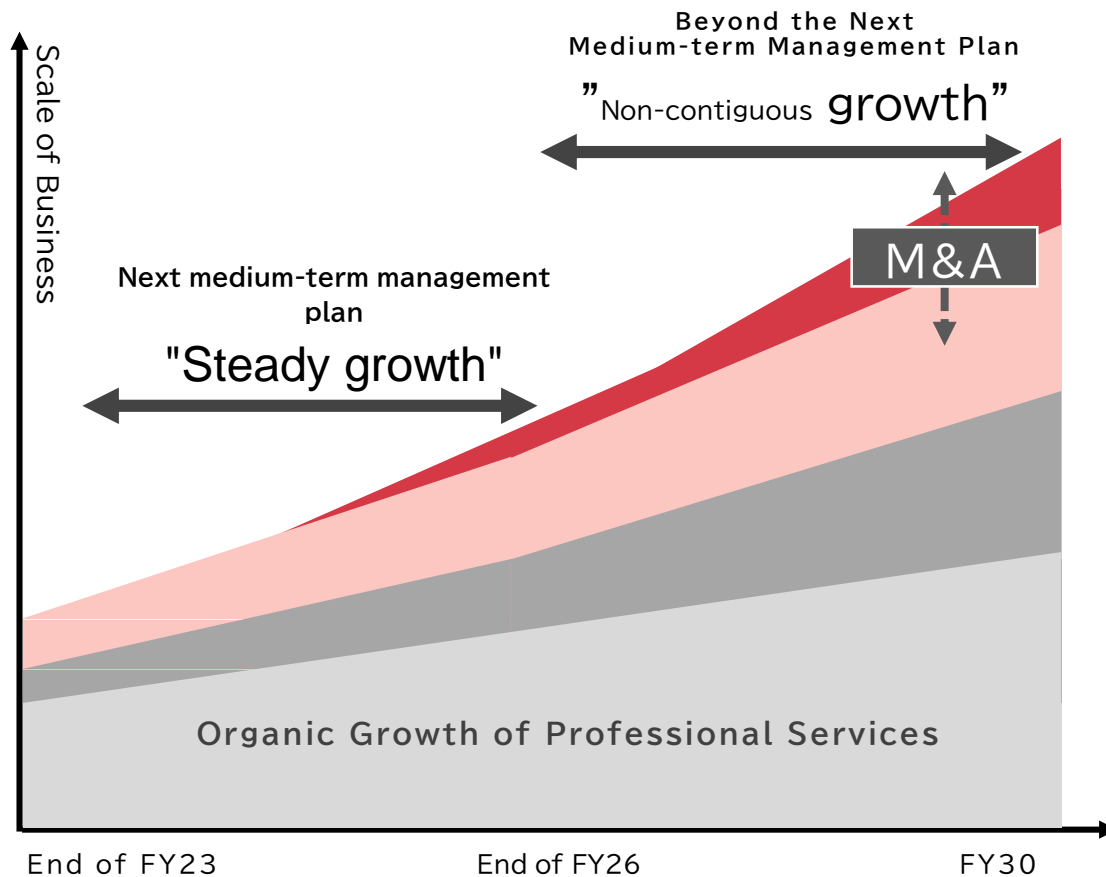
- We will work to revise our customer industry portfolio in light of Japan's industrial structure and the scale of digital and IT investment by industry.
- We will further strengthen our customer base by expanding sales to the manufacturing, distribution and finance industries.



\* "Other" includes companies whose net sales for the fiscal year in question are less than a certain amount, and unlisted companies that are difficult to classify

# Growth Strategy ~ Projected Future Growth Scenario

- For the time being, we will aim for solid growth by focusing on strengthening customers' self-directed growth capabilities (developing in-house data utilization and human resources) as the cornerstone of our value proposition.
- While implementing our transformation in a speedy fashion, we will steer BrainPad toward renewed growth based on the progress we make with the aim of further improving shareholder value.



**3** Forays into new markets through M&A activities and alliances (new human resource and software services, overseas operations)

**2** Shift to a recurring business model based on expertise in professional services and expansion of SaaS services

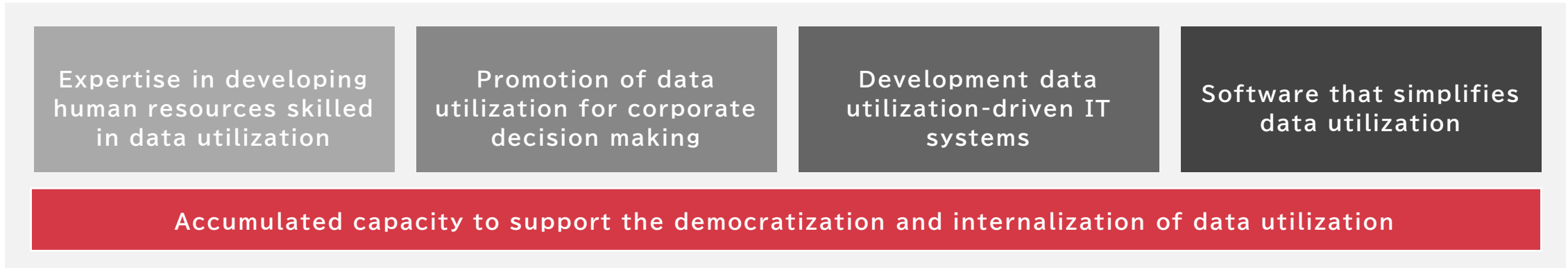
**1** Shift from existing outsourcing business to services that involve supporting change by accompanying customers and promoting development



Shifting away from the emphasis on one-off business generating high unit prices in the short-term, and orienting towards a sustainable growth model

# Why BrainPad?

- In addition to expertise and technical capabilities based on experience gained from independently developing services in the data utilization field, BrainPad has earned broad acclaim for its ability to tackle the issues faced by its client companies at a fundamental level and adopt a sincere approach to finding solutions without being influenced by precedent or established theories.



↑  
Human Resources

↑  
Organizational Strength

### Diverse human resources that combine humanities and sciences + industry-leading technologies

**Distribution of Employees' Job Types**  
(as of March 31, 2023)

More than half in technical positions

Ratio of job types that balance humanities and sciences

**Percentage of New Graduate Hires with Science/Arts Backgrounds**  
(as of April 1, 2023)

Ability to recruit talent with science backgrounds who have strong mathematical abilities

### Culture of facing the essence of issues and thinking through them from the ground up

Identifying with a strong sense of mission and an honest organizational culture \*based on results of 2022 employee satisfaction survey

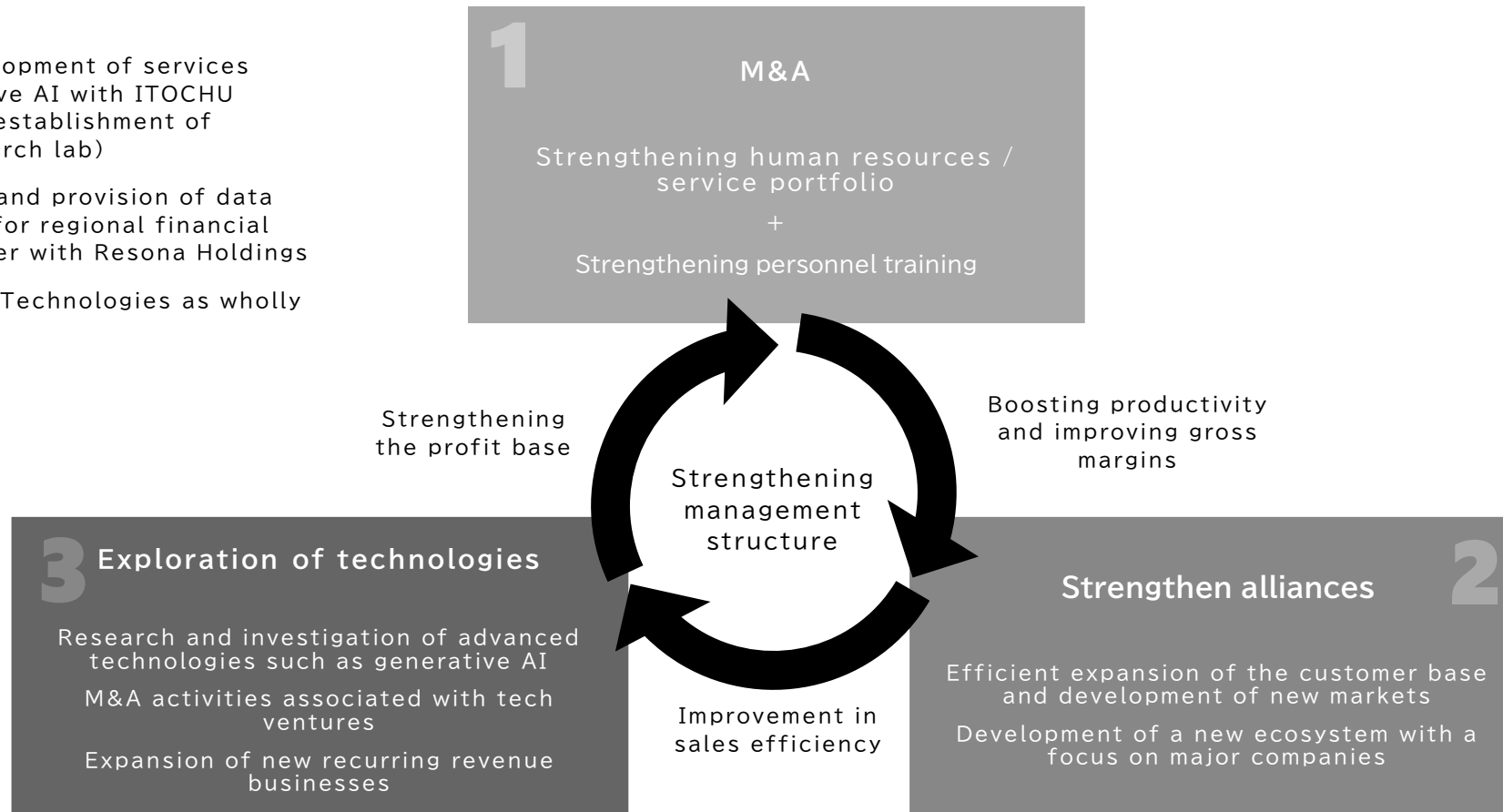
Q. Identify with BrandPad's mission	4.42pt/5pt
Q. Want to make other contributions in addition to assigned work	4.21pt/5pt
Q. I am proud to work at BrainPad	3.95pt/5pt
Q. BrainPad is a company that inspires me to do my best work every day	3.78pt/5pt

# Investment policy

- We will place priority on investing in measures that help improve the provision of services and sales productivity to strengthen our profit base.
- As with TimeTechnologies, we will actively invest in ventures that can grow by utilizing our business foundations.

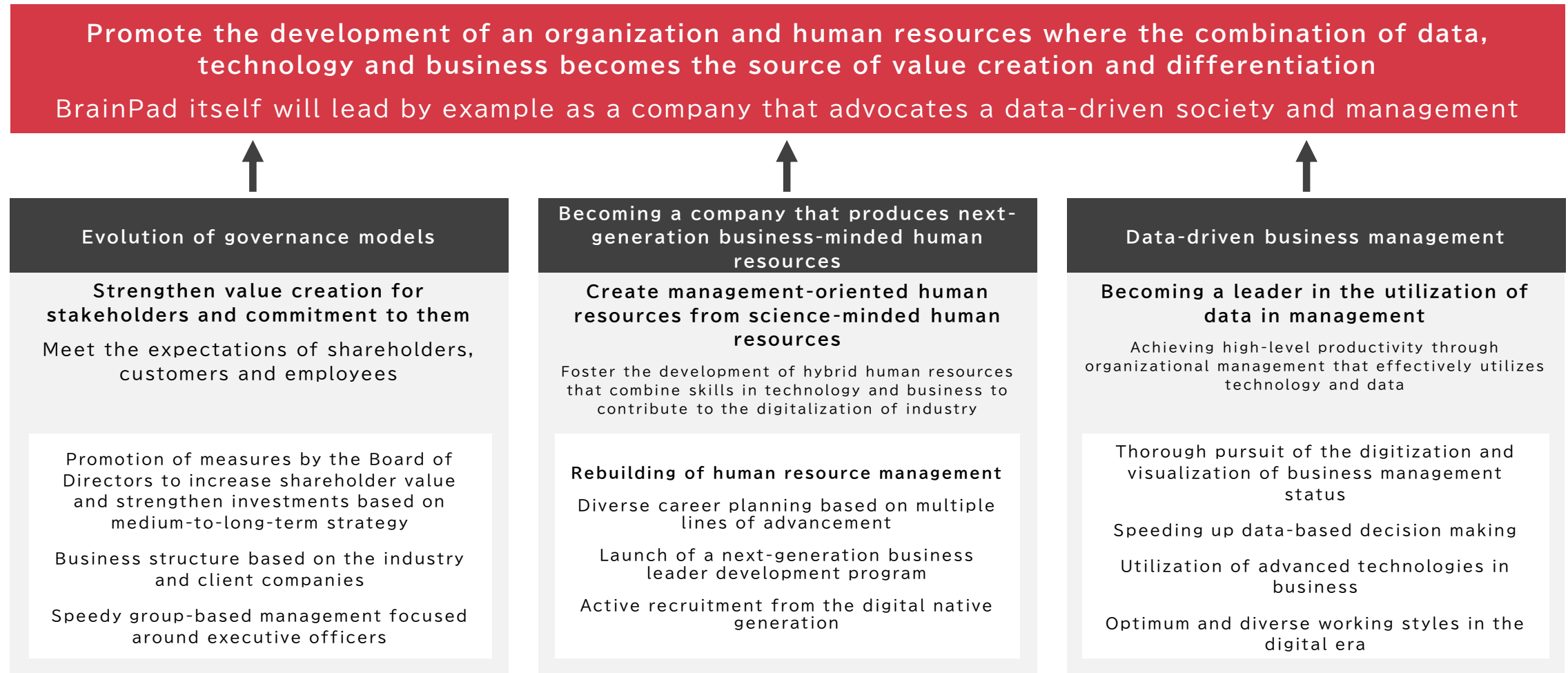
[Reference example]

- Research and development of services related to generative AI with ITOCHU Corporation (joint establishment of generative AI research lab)
- Joint development and provision of data utilization service for regional financial institutions together with Resona Holdings
- Acquisition of TimeTechnologies as wholly owned subsidiary



# Organizational Strategy and Investment in Human Resources

- High-level human resources are the source of BrainPad's unchanging competitiveness, and as a company that produces human resources, we will do even more to actively foster the development of human resources and develop environments in which they can achieve strong results.



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# Financial targets (consolidated basis)

- We have set EBITDA as a profit-based KGI, based on the premise of business expansion through M&A activities and the establishment of subsidiaries and joint ventures.
- In the next medium-term management plan, we will focus on improving the EBITDA margin beyond growth in net sales in order to shift to a highly profitable structure.

\* If structural reforms are completed early on, we will quickly transition to the renewed growth stage.

	Forecast for the Current Fiscal Year (FY2023) Announced on May 12, 2023	<b>Next medium-term management plan</b> Final target (FY2026)	[Reference] FY2030
<b>Net sales</b>	¥9.75 billion	<b>¥14-15 billion</b> ※CAGR Approx. 15%	¥28-30 billion ※CAGR 20% or more
<b>EBITDA margin</b>	Under 11%	<b>Over 16%</b>	Over 17%
<b>ROE</b>	10%	<b>20%</b>	20%



# Capital Policy

- We will further strengthen the stable financial base we have established to date, more actively pursuing growth investment and ensuring shareholder return.

## Ongoing improvements to profitability

- We have already established a sound financial structure and secured sufficient equity capital.
- We will aim to further improve profitability with a focus on improved profit margins, and strengthen measures aimed at boosting shareholder value.



## Strengthened growth investments

- **Strengthening of investments that contribute to medium-to-long-term growth**
  - Bold improvements to the service structure through M&A activities
  - Development of solutions aimed at the cultivation of new markets
  - Actively research advanced technologies
- **Making bold investments by utilizing leverage to an extent that does not compromise financial health**
  - Target M&A activities that contribute directly to profit growth



## Enhanced shareholder returns

- We will aim for shareholder returns that deliver a total consolidated payout ratio of at least 40%, targeting a stable consolidated operating margin of at least 10%
  - **Issue dividends of surplus**

Basic policy of issuing stable ordinary dividends in the long term, while issuing commemorative dividends and special dividends depending on market conditions and the business environment for shareholder returns in excess of those levels
  - **Purchase of treasury shares**

We will implement the purchase of treasury shares as appropriate with the aim of curbing declines in ROE while securing funding for growth investment.





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