

Chapter 01

# Greetings from the President

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# Towards Becoming the Leading Digital Infrastructure Company

## Advancing to the next stage with conditional certification as a government cloud provider and GPU cloud services for generative AI

Recently, SAKURA internet has seen a succession of positive news. Notably, in November 2023, the company received conditional certification as a provider for the Government Cloud, a cloud service used by national and local governments, provided that all technical requirements are met by the end of fiscal year 2025. The endorsement from the government is believed to be a testament to our company's expertise in turning "what you want to do" into "what you can do," thus satisfying customers' needs with our technical capabilities and service quality.

The development plan for official certification as a government cloud provider is progressing smoothly. According to an evaluation by the Digital Agency in June 2024, no delays are affecting the overall development plan, and progress is on track.

Another notable topic is that we were able to swiftly release "Koukaryoku PHY" and "Koukaryoku DOK." After our plan to develop GPU cloud services for generative AI was certified under the government's "Cloud Program," based on the Economic Security Promotion Act, we found these servers to be ideal for our AI and deep learning needs.

The driving force behind these developments is Japan's long-standing concern about its digital industry significantly falling behind other developed nations. This concern is evident in the digital deficit, which amounted to 5.5 trillion yen last year. To ensure economic security, the government has launched the "Cloud Program" certification initiative as a national strategy. This initiative aims to actively promote Japanese cloud vendors, develop infrastructure for generative AI, and foster IT professionals. This decision aligns Japan's national strategy with our company's business policy, leading to the certification of our plan to develop GPU cloud services for generative AI under the government's "Cloud Program."

Securing a stable supply of the globally renowned, high-performance "NVIDIA H100" GPUs and effectively utilizing government subsidies have enabled us to rapidly provide services to customers aiming to achieve "what you want to do" using our GPU servers. In addition, we have embarked on an ambitious development and data center expansion strategy to provide services for even more customers.

Generative AI is currently in its early days and expected to be widely adopted. As such, the demand for generative AI is expected to be sustained into the foreseeable future. Our company is leading the way in expanding business into this field, which is likely to grow significantly in the future.



I am confident of Japan's growth. If we enhance nationwide productivity as a leader in the digital industry, and the digital industry grows, our company will achieve two-fold growth. I believe that Japan will gradually overcome the setbacks its digital industry has experienced so far and make up for the delayed progress in its existing industries due to the lack of digitalization.

Our company is now heading toward a new stage. Our future vision is to contribute to creating a prosperous Japanese society of tomorrow, where more people and companies will utilize the skills we helped to cultivate. Now that the environment is right for rapid growth as a company, all we need to do is execute our strategy with a strong will.



### Now is the time to focus on cloud business, our core business

In light of this situation, as a medium-term growth strategy, our company has decided to focus on cloud business, which is our core business, beyond the fiscal year ending March 2025.

This strategy has two major advantages. One is that owning infrastructure is challenging because it requires both physical investment and engineers to maintain it, making it difficult for new companies to enter the market. Another strength of our company is the ability to develop services in-house. We are not just a provider of physical infrastructure; we have established a system that creates a synergistic effect by developing in-house services and

providing software. This system enables us to focus on our cloud business and identify opportunities for rapid growth.

The measures we have implemented include developing the technical requirements for the government cloud, providing GPU cloud services for generative AI, and building an ecosystem to promote these services.

Regarding building the ecosystem, we have reviewed our current partner system to strengthen relationships with our partners who build their systems using "SAKURA Cloud." We aim to increase the number of partners and end users who use "SAKURA Cloud."

In addition, we are now offering the "SAKURA Cloud Certification," designed for a wide range of individuals, from students to engineers.

These efforts will enable us to form closer business and technological alliances with our partners and provide excellent systems and services for our end users. These initiatives are expected to build an ecosystem that creates a virtuous cycle, increasing job opportunities even for our partners.

### Taking on challenges with our unique "vertically integrated business model," "self-dependence," and "technical capabilities"

Our vertically integrated business model and self-dependence comprehensively support our medium-term growth strategy. While both vertical integration and horizontal division have their merits and demerits, the vertically integrated business model allows us to capitalize on our strengths as a company that has grown through a server business since its inception.

The business scope for vertical integration is limited. Therefore, if employees can demonstrate

their expertise in a relatively limited area, they can achieve results. Employees from any department can actively participate and demonstrate their respective skill sets while transferring within the same company. For example, an employee who joins as a service developer can perform their duties using their original knowledge and experience, even if transferred to sales or customer support.

As a result of handling everything in-house, our company has accumulated a wide range of know-how. I enjoy working with servers, and many employees work for our company because they find building networks and services independently exciting. The same applies to employees who have recently joined. They find both using the cloud and building it themselves appealing. This engagement reduces employee turnover and imparts an organizational strength that allows most tasks to be handled solely by employees. The development of "SAKURA Cloud," aimed at government cloud certification, has been internally achieved, which I believe is a significant strength.

The vertically integrated business model offers the advantage of incurring fewer additional costs when starting new projects. As our customer base grows, our operational efficiency improves. Regarding technical capabilities, we will continue actively hiring new personnel, leveraging their fresh perspectives and discoveries to drive further improvements.

### Phase of active investment while expanding sales

We announced a plan to invest 13 billion yen in June last year and 100 billion yen in April this year. In addition, 18 billion yen was raised through a public offering in June this year. The funds were primarily invested in securing GPUs, developing services, constructing container-type data centers, meeting the technical requirements for “SAKURA Cloud” as a government cloud provider, and acquiring highly skilled personnel. The timing for the capital increase was favorable. Thanks to the rise in our stock prices due to the news of our conditional certification as a government cloud provider, we could implement the capital increase earlier than originally planned.

Currently, our company's sales are growing rapidly, achieving double-digit growth rates. In the fiscal year that ended March 2024, our cloud infrastructure services performed favorably, growing 10.4% year-on-year. With the growth in cloud services and the

full-scale launch of GPU cloud services for generative AI, we are expecting record-high profits in the fiscal year ending March 2025, with projected sales of 28 billion yen (up 28.3% year-on-year), operating income of 2 billion yen (up 126.1% year-on-year), and net income of 1.25 billion yen (up 91.8% year-on-year). We are now actively investing in policies aimed at our company's medium- to long-term growth without focusing on short-term profits.

### Approach to address risks and challenges

Our company has expanded in size by riding the waves of the Web boom and AI boom. I realize that while corporate management requires skill, growth can be achieved through aptitude and keeping up with the times. I intend to be discerning and prepared as a business operator regarding the cloud business. Our company's “ability to ride the currents of the times” is a major factor that has helped us achieve our current position.

At present, the procurement of GPUs is stable, and the cloud business is on track. In addition, due to the deprecia-

tion of the yen, customers in Japan are experiencing an increase in the price of overseas cloud vendors. This situation makes our company's cloud and software usage fees appear cheaper and gives us a competitive edge over global companies.

However, it is naturally uncertain how long this situation will last. There is a global scramble for NVIDIA GPUs. Since GPUs are not manufactured in Japan, we must rely on imports, which means we are directly affected by exchange rates. The future situation is unclear, and we understand that the heavy reliance on GPU cloud sales for the next 2-3 years also poses a risk.

Moving forward, while remaining mindful of potential risks arising from social circumstances, we will rigorously manage our operations to ensure reliable infrastructure development and the creation of high-value software.

### Success of our employees and customers leads to our success

Our long-standing focus in management is on customer success (CS) and employee success (ES), as we aim for sustainable growth rather than short-term growth. When employees experience customers' success, they feel a sense of accomplishment in their work. The employees will then take action to contribute more to the customers. As the virtuous cycle of customer success and employee success is created, the company also grows, allowing it to deliver value to society. Providing high value to society can also be reflected in shareholder returns through stock price valuation.

The ES-CS cycle thus creates the foundation for the company's growth. Given the growing shortage of human resources, companies risk losing out if they can-

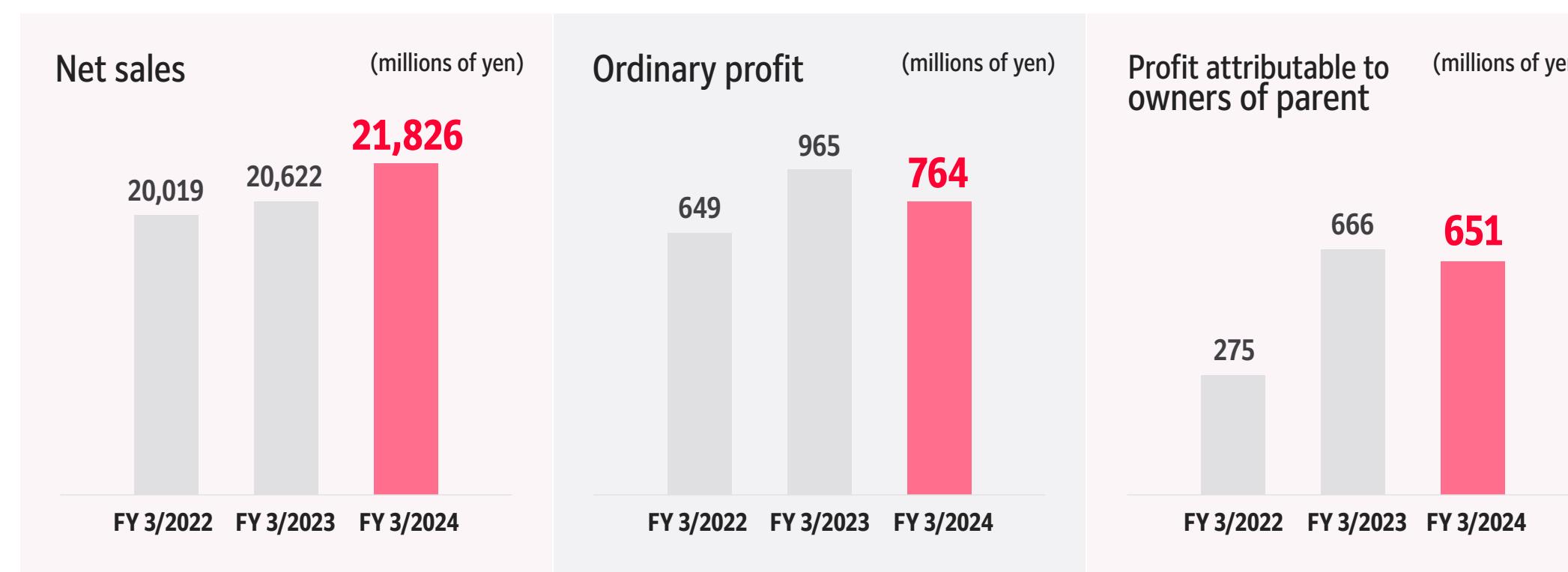
not find qualified employees to fill open positions, even when there are business opportunities. Unless a work environment is created where employees can work comfortably and find satisfaction in their work, the company will not grow. While the growth and success of both customers and employees are always directly linked to our company's growth, I believe we can achieve further progress by implementing the ES-CS cycle to the core.

### Becoming a sustainably growing company by addressing key challenges faced by Japanese society

From a sustainability perspective, we are actively engaged in ESG management. With the global spread of AI, reducing CO2 emissions from data centers using GPUs has become a worldwide challenge. Our company aims for green data center operations and has been implementing various initiatives, particularly at our Ishikari Data Center, since its opening. Among these initiatives, in June 2023, we changed the energy source of Ishikari Data Center to renewable energy, primarily hydroelectric power, achieving zero annual CO2 emissions.

In addition, to address the over-concentration in Tokyo, we are actively hiring employees without limiting their location and encouraging remote work. We are working to eliminate the disparities between Tokyo and other regions regarding income, employment, and educational opportunities. We consider addressing these issues crucial for our company, specializing in digital business.

Regarding our workforce, we recognize that there is room for improvement regarding gender diversity



and the representation of foreign nationals. The active engagement of diverse human resources involves fully accepting, respecting, and discovering value in each person's individuality; pursuing fairness in opportunities; and fostering mutual growth as an organization. We believe that maximizing diversity in terms of gender, region, nationality and other attributes, value systems, and professions will lead to higher value creation. The IT industry tends to have a higher percentage of male employees; however, the IT industry, including our company, should be a place where female employees play a more active role in the future. Diverse human resources bring diverse perspectives to the workplace, creating an environment conducive to generating new ideas. In addition to creating a comfortable work environment, we hold talks during the recruitment stage for female university students to learn about the active roles of female employees in our company and the joys of working in the IT industry. However, given the current situation where the number of female engineers is low, it is necessary to bring change from within society, such as by supporting educational institutions that foster engineers.

### Beyond becoming the leading digital infrastructure company

Japan has a long-standing reputation as a technological powerhouse. As exemplified by the semiconductor, telecommunications, and automobile technology, Japan has a history of raising the global technology level by taking businesses and products introduced from overseas and innovating them with advanced technology.

I believe the same can happen in the digital industry. The Internet, personal computers, digital applications, and cloud services are dominated by American technology. However, with the help of Japan's digital companies and engineers, including our own, there is a good chance of Japan's digital technology regaining its position among the world's best in the near future, thereby improving the nation's overall strength.

I mentioned the digital deficit at the beginning of this article. However, I believe the problem can be solved as Japan is now working to overcome that situation. Our company will contribute to solving the problem by providing cloud services developed in Japan. In the future, "SAKURA Cloud" may potentially support the internet services that are gaining popularity worldwide.

The corporate philosophy of our company is "turning 'what you want to do' into 'what you can do.'" I feel, once again, that these words encapsulate our company's aspirations. The philosophy will spread across the region, the country, and the world, starting with each employee and customer. We have been working to create a society where the wishes of everyone can be realized. As our company grows from a single self-built rental server to the cloud, this corporate philosophy can be realized in the greater world.

Our company has entered the wider market with conditional certification as a government cloud provider and the full-scale expansion of GPU cloud services for generative AI. By spreading Japan's digital technology to the world and providing more choices for individuals, we aim to create a fairer society. We will endeavor to the best of our ability to ensure that our company's technology and services become a global benchmark.

Founder & CEO, President

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