

Financial Results Briefing for the Fiscal Year Ended March 2018: Q&A Summary

Questioner 1

(1) In FY2017, there was a negative 1.6 billion-yen difference in public sector projects compared with the previous fiscal year. How much impact did sales from project revenue (development project) in cloud solutions in the fourth quarter have?

In the fourth quarter of FY2016, public sector development projects in that segment accounted for roughly 500 million yen.

(2) Setting aside the public sector, have there been any changes in market conditions or the state of competition in the cloud solutions business?

We propose scenarios for cloud migration split into three stages, and we are currently focused on stage 2, which involves collaborative infrastructure, but I believe enterprise cloud market conditions are very good. For example, two loyal customers we are working with in the hope of becoming business partners decided in fiscal 2017 to migrate all of their systems, which number between 100 and 200, to the cloud. Additionally, as we work together with customers on moving their systems to the cloud, we get requests regarding security measures from almost all of them. To address this need we are currently proposing a cyber-resilience approach. We experienced an incident in July last year, and as president I understand the temptation to say “never let an incident happen,” but no one can guarantee that nothing will ever happen. Therefore, we offer services in various forms that provide a structure and determine how systems can be restored to a workable state.

(3) In your plan for FY2018 (sales of 52 billion yen, operating income of 2.5 billion yen), it appears that achieving your sales goal is a key point. With the order backlog in FY2017 down compared with the end of the previous fiscal year, I'd like to confirm your thinking on how you intend to increase earnings.

We have declared the goal of operating income of 3.3 billion yen by FY2019, and that is based on the assumption of raising the operating income margin to between 5.5 and 6 percent. In FY2017 we generated 49.1 billion yen in sales, but if you consider the impact of revising the products we handle in hardware sales, to achieve 52 billion yen in sales we have to boost sales by a little less than 5 billion yen. We are not saying that this will be easy to achieve, but I believe our greatest challenge will be shifting to more substantial work (work with higher added value and profit margins).

(4) Regarding your target operating income (3.3 billion yen) for FY2019, I would like to check what measures you will implement to improve profit margins and when you expect the effects of those measures to appear.

In FY2017 we recorded a drop in sales due to revised hardware sales, but the downsizing of a business that offered narrow margins has raised the relative percentage of our high-margin businesses. In FY2018, we will be focused on selling tool products, and our existing tool products carry very high profit margins. While we will also bolster sales of unique services, we also plan to drive the introduction of AI and automation behind the scenes of these services, and expect to generate high profit margins from these efforts. Also, in terms of hiring that impacts fixed cost increases, as we have already announced we will actively work on hiring in FY2018, but barring any special circumstances we are not planning on significant increases from next year and beyond. We will be making graduate hires on par with this period and making up for losses due to resignations will be considered as the baseline for mid-career hires.

Questioner 2

(5) Please indicate the business sectors of the twenty core customers for which you decided to

accommodate each and every request as part of efforts to become their business partners.

They are mainly from the construction and manufacturing industries, from which there are four and eight companies respectively. We didn't select these twenty customers because, for example, they happened to place large orders with us. We have shared our proposed three stages of cloud migration with these customers, and most of them have agreed to undergo stage 1 together with us. In addition to these 20 companies, we are also working closely with around 200 customers under a system where our representatives are assigned to each.

(6) You have described your track record in cloud adoption as amounting to 800 companies and 1.5 million users. Could you share how you arrived at that user count?

This is the total number of people using Microsoft cloud services such as Office 365 and Dynamics 365, and using our own services such as Online Service Gate and ADFS on Cloud.

(7) In an industry with fast-developing technological trends, I expect customers also engage in a great deal of discussion over the adoption of cutting-edge technologies. For its part, it appears that SoftBank Technology Corp. also requires considerable control skills in promoting its management strategies, such as the ability to pay attention in management, organizational strength, research capacity and the ability to adapt and adjust. While I agree with the direction of your management strategies, I have some concerns over feasibility considering the size and structure of the company. Could you comment on your thinking in that regard?

We have achieved a consensus among employees to "take on new challenges" with respect to our 20 core customers. On the other hand, even when we get requests from employees wanting to submit proposals to many government agencies, we have to pace them, explaining that they need to gain more experience first. Our stance is not to take on the challenge of all prospective customers in all areas. Rather, by dividing our efforts into a part that satisfies customer needs using the experience and designs or process asset and services based on our track record, and a part that takes on new challenges together with customers, we hope to control our direction in a smart way.