

Q&A Summary – Briefing on Financial Results for FY2018 and Third Medium-Term Management Plan

Date and Time: April 24, 2019, from 4:00 p.m. to 5:00 p.m.
 Venue: Daiwa Conference Hall B, 18th Floor, Gran Tokyo North Tower
 1-9-1 Marunouchi, Chiyoda-ku, Tokyo, Japan
 Answering Personnel: Shinichi Ata, President & CEO (for (1) to (5) and (7) to (9))
 Tetsuya Shimizu, Vice President & Senior Director of Corporate Planning (for (6))

<Questioner 1>

(1) What is your M&A policy in the medium- and long-term strategy?

We are positively and continuously considering mergers and acquisitions. Recently, we have seen a large number of projects for business transfer. We are aiming to depart from the so-called *ninku*, or labor-based business model, in which projects cannot be obtained without increasing the number of workers. We are therefore not thinking about merging and acquiring any company with this business model. We are considering several companies that have original technologies, but so far nothing has been determined.

<Questioner 2>

(2) How do you perceive business implementation risks in the course of drawing up the medium-term management plan?

Significant risks include a shortage of engineer resources and the occurrence of unprofitable projects. We anticipate that the cloud business will grow in the next three years, but our resources alone will be insufficient. To address this problem, we will work to increase sales of packaged services with a view to departing from the labor-intensive business model and boosting profitability.

On the other hand, we will continue our activities in the domain of business IT, even though unprofitable projects have occurred there. To control these projects, it is important to make use of the development approach known as scrum development, in which we will firmly define the requirements together with customers and display outlines at an early stage. We said that we made a loss of 350 million yen in FY2018. We provided 150 million yen in the fourth quarter of FY2018 to partially cover the loss. For FY2019, a reserve fund of 150 million yen has been earmarked in the budget.

(3) What is the current status of the employment and education of consulting personnel? What is your future policy in this respect?

We have fewer than 10 employees who are able to serve as consultants in the business IT domain.

According to the process flow, preliminary consulting is followed by the definition of the requirements made chiefly by project managers, basic design and later phases. For FY2018, we had a major regret that we failed to implement any process like that in the Business IT domain.

With regard to Corporate IT and Security Consulting, we do not think that we will need any help from consulting firms. In Business IT, however, we will develop employees to ensure that they will be able to play that role while considering the possibility of forming a partnership agreement with a consulting firm.

(4) What do you think about the forecast of sales to the SoftBank group in the new medium-term management plan?

The SoftBank group has two aspects. One is group companies as our customers. A project in which a group company shifts its mission-critical system to Azure is underway. Sales to group companies have so far grown at an approximate rate of 20%. We forecast that the growth rate will remain at nearly the same level.

The other is SoftBank Corporation as our collaboration partner. We will work to build closer ties with it, although we have not set a numerical target for synergy.

(5) What was the result of the IoT business in the preceding fiscal year, and what scale do you expect the IoT business to have in three years?

It earned net sales of 180 million yen on a non-consolidated basis. We are planning to boost this figure to around 250 million yen in three years.

(6) What is behind the dividend increase of 5 yen per share, and what is your medium-term dividend policy?

In the past, our sales and income were overconcentrated in the fourth quarter. We now have the capability to make them more even throughout the year independently. We hope you understand that our confidence has led to the increase in the dividend and our first payment of an interim payment.

We think that it is primarily important to keep the dividend level at 20 yen if this trend continues. In addition to raising the ROE to meet shareholders' expectations, we will be thinking flexibly about our dividend policy.

<Questioner 3>

(7) What will the structural reforms you are thinking of conducting be like, and what cost increase do you expect from them in placing the focus on business IT?

Employees are our sole asset, and staff development is the top priority.

IT professionals are in severe short supply. It is extremely costly to recruit such personnel. We are also aware of the problem of some engineers leaving us for our competitors and other manufacturers.

We will revise our remuneration system and make investments in a talent management system that makes future career paths visible to individual employees. We have already made a decision to introduce the talent management system.

(8) The number of employees was 1,012 at the end of fiscal year on a consolidated basis. By how many are you planning to increase staff members with a view to accomplishing the third medium-term management plan?

As of today (i.e. April 24, 2019), the number of employees is considered to have reached around 1,070, since new employees joined us after the end of the previous fiscal year. For FY2019, in addition to 42 new graduates, we are planning to hire an additional 70 to 80 personnel in the first half, although the number of those joining us will not represent a net increase because some existing employees will retire. We expect to recruit on the same or similar scale during the period of the medium-term management plan.

(9) With regard to Cybertrust Japan, IoT-related security is considered to expand in the next three years. What advantages does Cybertrust Japan have, and what competitive environment is it in? According to your outlook, how long will it take to achieve the expansion?

Cybertrust Japan will maintain its IoT strategy of introducing authentication chips to all devices.

Meanwhile, this business model has a problem. The timing of introducing authentication chips depends on the life cycles of devices. For example, their introduction to a device that is replaced every ten years occurs every ten years. To deal with this, we think it will be necessary to devise a solution that takes advantage of Cybertrust's software authentication keys.

We feel that 5G will provide significant opportunities, not only to carriers but also to peripheral manufacturers and businesses, after it is opened up to solutions for enterprises. However, many corporate customers do not introduce any solutions for enterprises before fully trying it. We therefore predict that it will take about two years until they contribute to business after commercial 5G services become available.