SoftBank Technology Corp.
Overview of Earnings Results Briefing for FY2017

This is a transcript of the SoftBank Technology Corp. Financial Results Briefing for the Fiscal Year Ended March 2018 held on April 26, 2018. IR Materials

Securities code: 4726

Speaker: Mr. Shinichi Ata, President & CEO, SoftBank Technology Corp

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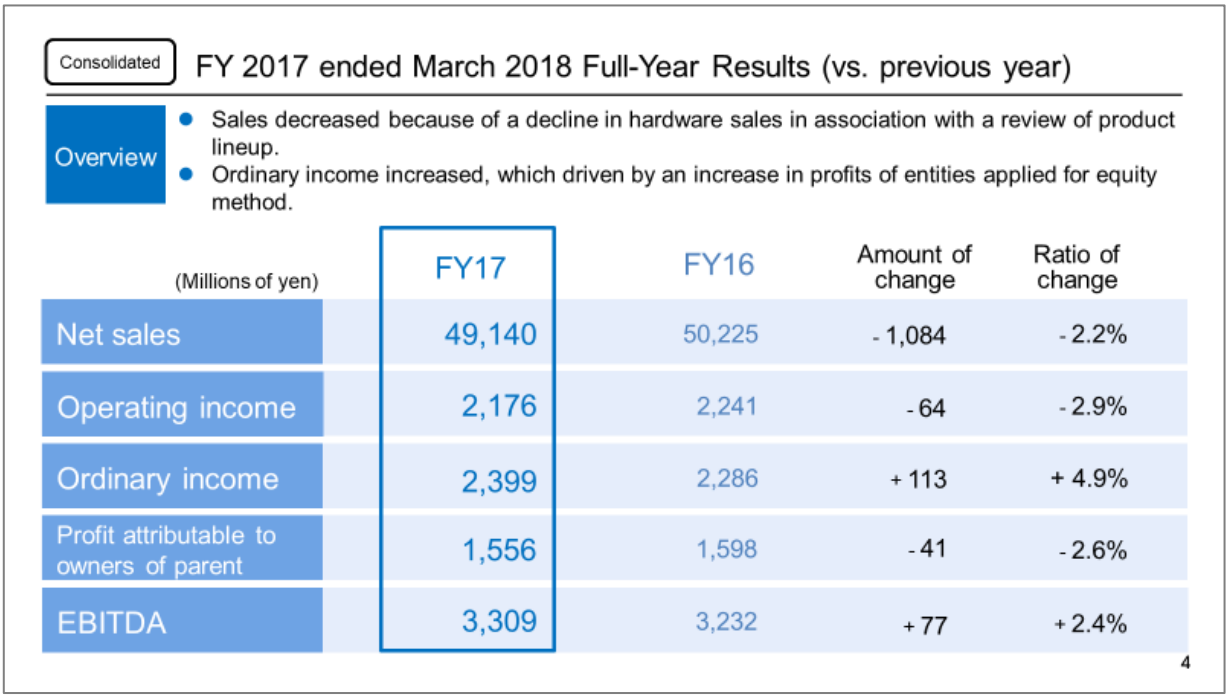
Earnings Results Briefing for FY2017

FY2017 ended March 2018 Full-Year Results (vs. previous year)

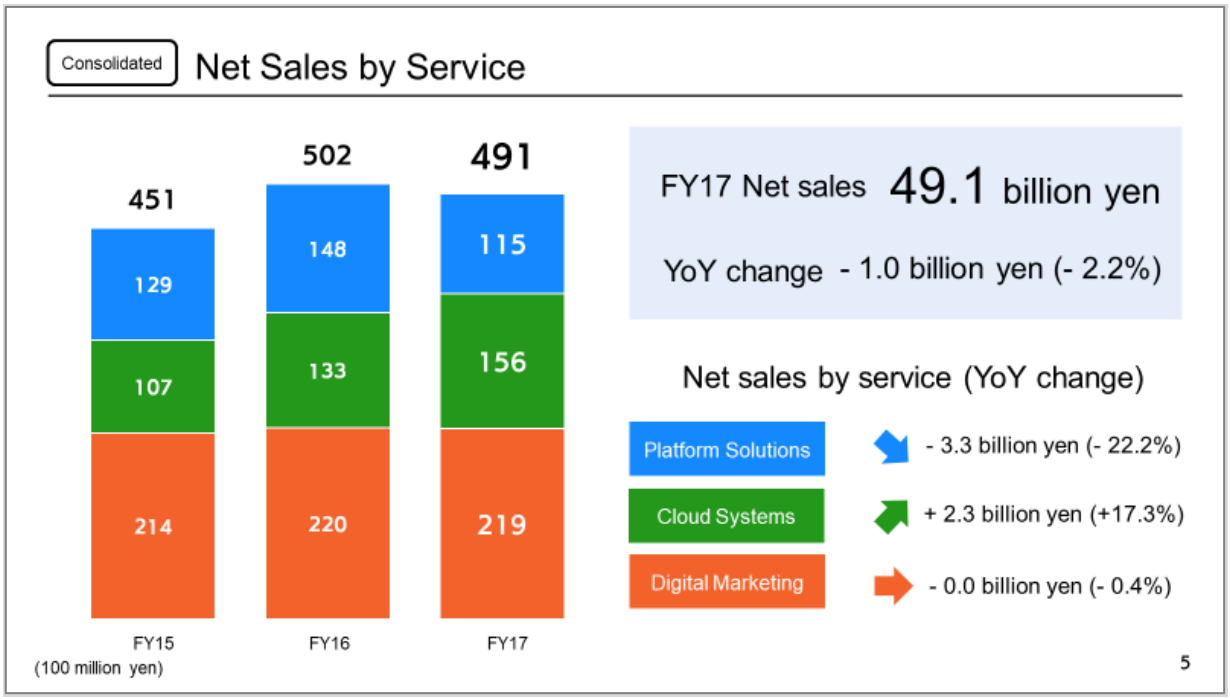


Mr. Shinichi Ata:

Good morning. I am Shinichi Ata, President & CEO of SoftBank Technology Corp. Thank you for taking the time out of your busy schedules to attend this briefing. I would like to use these materials to go over our financial results for FY2017 and speak about our future direction.

First, this is an overview of our performance. As we announced in a release yesterday (April 25), SoftBank Technology posted sales of 49,100 million yen, down 2.2 percent from the previous fiscal year. Operating income also fell to 2,176 million yen, marking a decrease of 2.9 percent from the previous year.

Consolidated Net Sales by Service



This is a breakdown of sales by service. It is split into three main services, namely Platform Solutions, Cloud Systems and Digital Marketing.

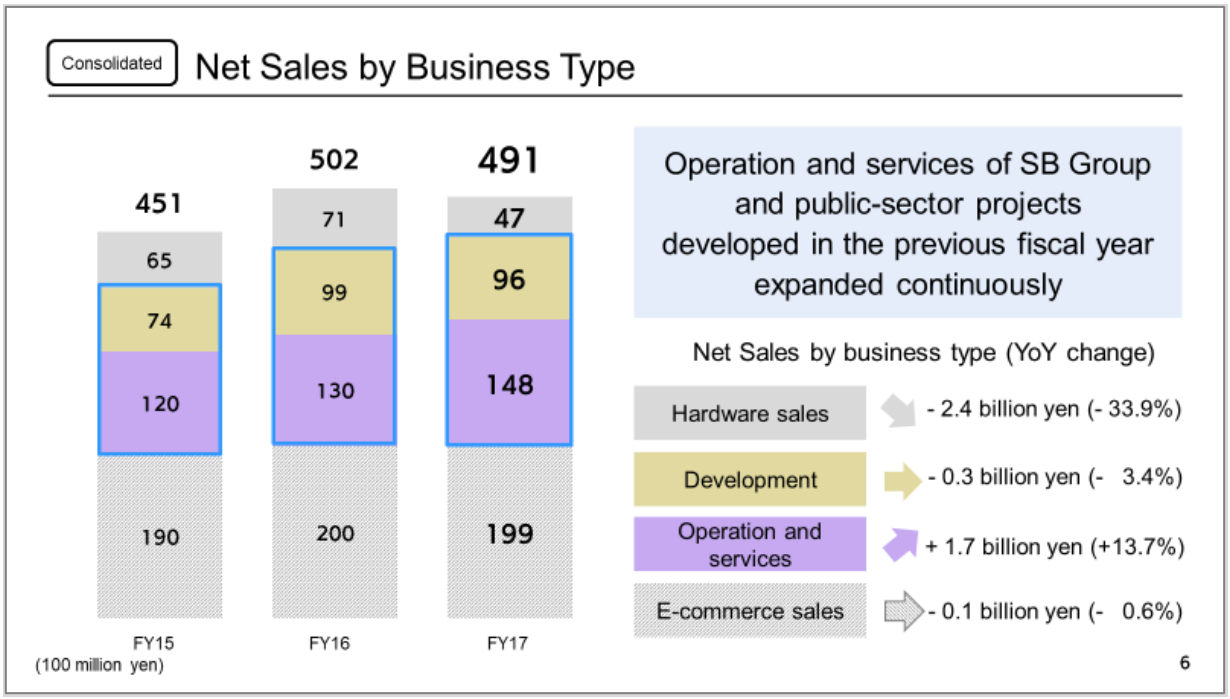
Looking from the bottom of the slide, Digital Marketing is performing strongly.

In the center is Cloud Systems. This service is up 17.3 percent over the previous year and is also growing as planned.

However, sales for Platform Solutions at the top are down 3.3 billion yen compared with the previous year.

Over the next three slides we will look at sales in greater detail, but what we can deduce from this slide is that the Platform Solutions service has dropped significantly compared with the previous year.

Consolidated Net Sales by Business Type



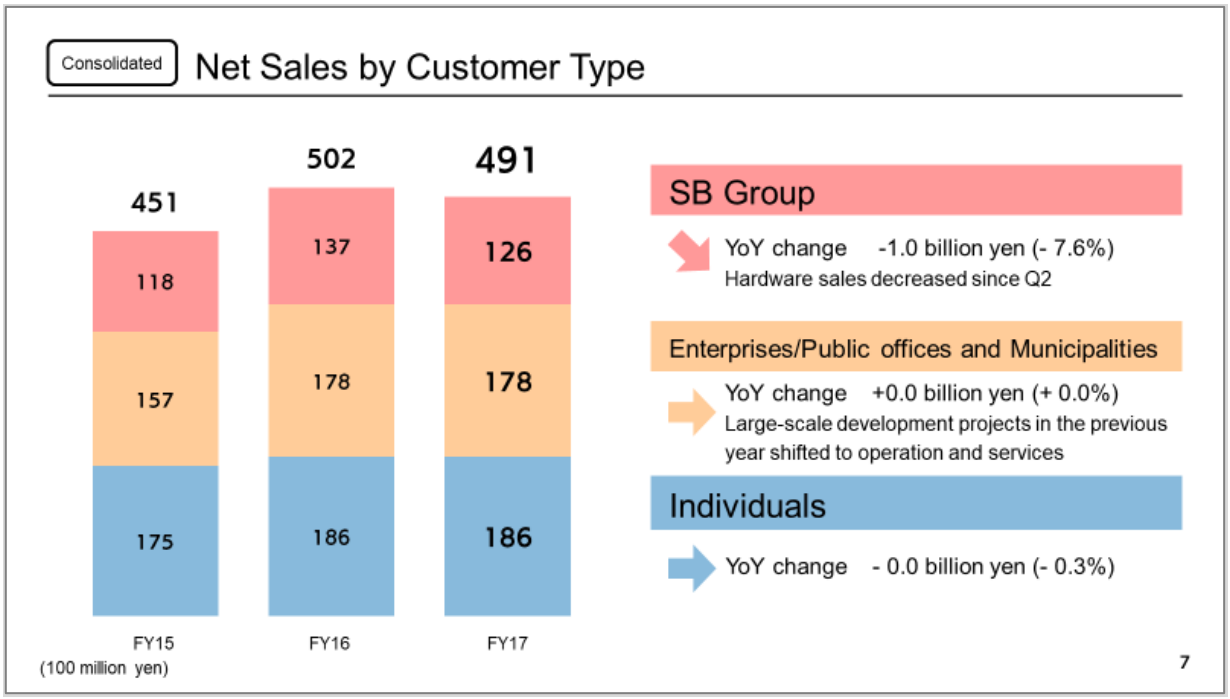
This shows sales by business type.

From the bottom, we can see e-commerce sales, which contains a major part of the Digital Marketing service. This is largely unchanged from the previous year.

Operation and Services recorded around 13 percent growth year on year, while Development recorded a slight decrease.

Equipment sales shows a drop of 2.4 billion yen.

Consolidated Net Sales by Customer Type



This next slide depicts sales by customer.

Sales to individuals is shown at the bottom. Similarly, this represents the major parts of e-commerce sales and digital marketing. Sales from this customer type have also remained largely flat.

The center area shows enterprise and public sector sales, and there has been no change year on year.

At the top, we can see that sales to the SoftBank Group has fallen 1 billion yen from the previous year.

One factor behind the decline is equipment sales.

After the first quarter last year (ended June 2017), we stopped selling servers. This was a business we had continued for many years, and mainly involved the sale of servers for Yahoo Japan Corporation data centers.

In the past, we ran a business of verifying several overseas servers and installing them at Yahoo, but the question was how we could deliver added value.

When we initially installed the servers, we would put considerable effort into adopting specifications that would actually suit the data center in question. After that were the tasks of delivering the equipment and performing maintenance.

However, at about one year after delivery, we were already struggling to find ways to provide added value on an ongoing basis. This significantly ate into our profit margins.

For one type of server, we can provide added value for three years at the most. This business undergoes rapid changes that make it extremely difficult to generate profits. For this reason, we wanted to shift company resources away from hardware sales to the higher margin cloud business, and decided to stop selling servers for data centers.

When we formulated our business plan for the previous fiscal year, at the time we thought that added value in hardware sales would probably hold up for 2017, but since our profit margins fell more than expected in the first quarter, we decided to actually stop selling servers for data centers, and halted sales at the end of June.

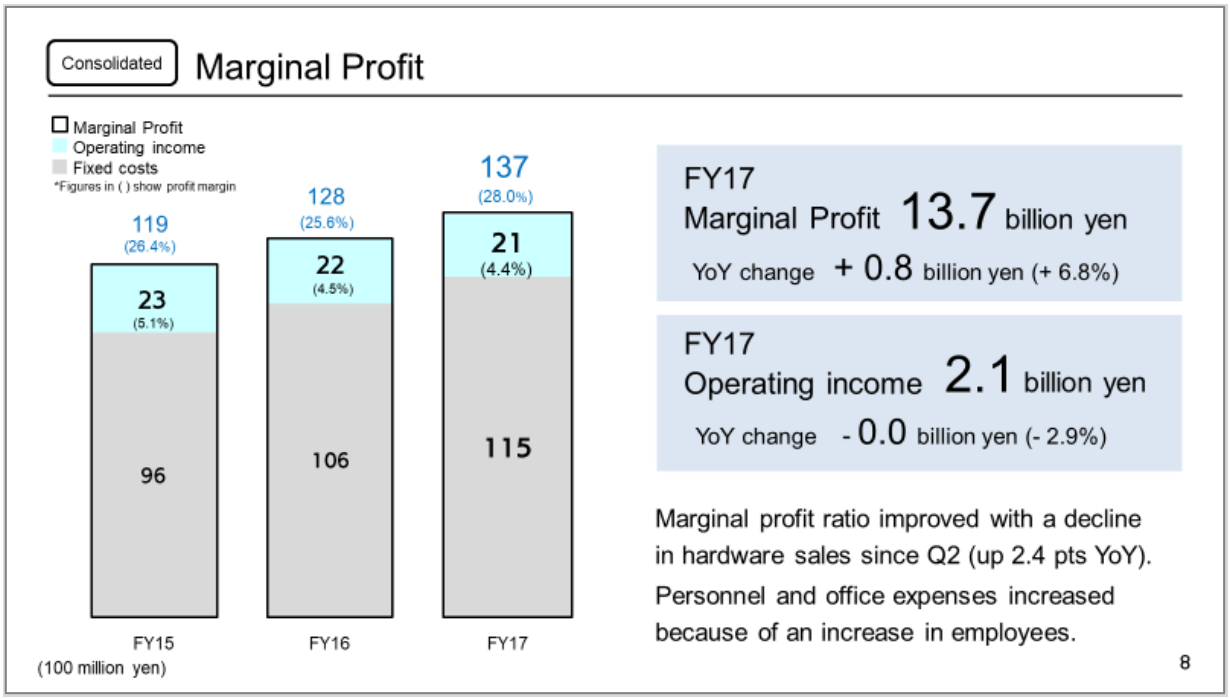
As a result, in FY2017 we lost north of two billion yen in sales that we would have otherwise generated in a normal year. At the time, we had made 50 billion yen in sales for FY2016, and our plan was that even if we lost two billion yen in sales from this development, we would be able to maintain our forecast performance of 52 billion yen. In fact, we enjoyed strong performance in the first half of the year and up to the third quarter.

In the fourth quarter, we developed various proposals and quotations for many public sector projects, but it was not until early February of this year that it was finally determined that these projects would not be implemented (orders would not be received) during FY2017.

As a result, sales from this business field were not posted in FY2017, and we were also forced to account for the expenses incurred for advanced preparations as expenses, rather than being counted as costs making up part of system building expenses.

The difference in public sector sales year on year was around 1.6 billion yen. As a result, our top line failed to reach the targeted 52 billion yen.

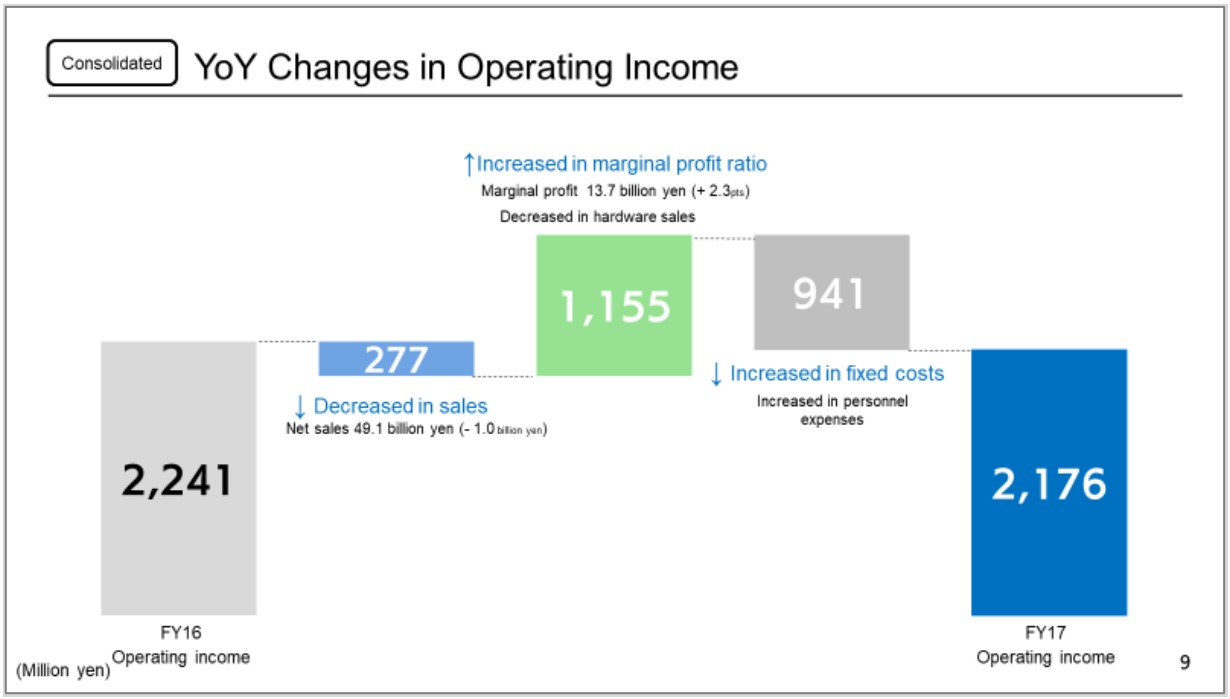
Consolidated Marginal Profit



This shows marginal profit. Profit margin on hardware is extremely thin, and as there were no hardware shipments for the third quarter (resulting in lower sales), this led to an improved marginal profit rate and higher marginal profits.

However, we need to train and hire various staff as part of the three-year plan ongoing since FY2016. As personnel expenses has risen considerably as a result, the remaining operating income unfortunately represents a year-on-year decline.

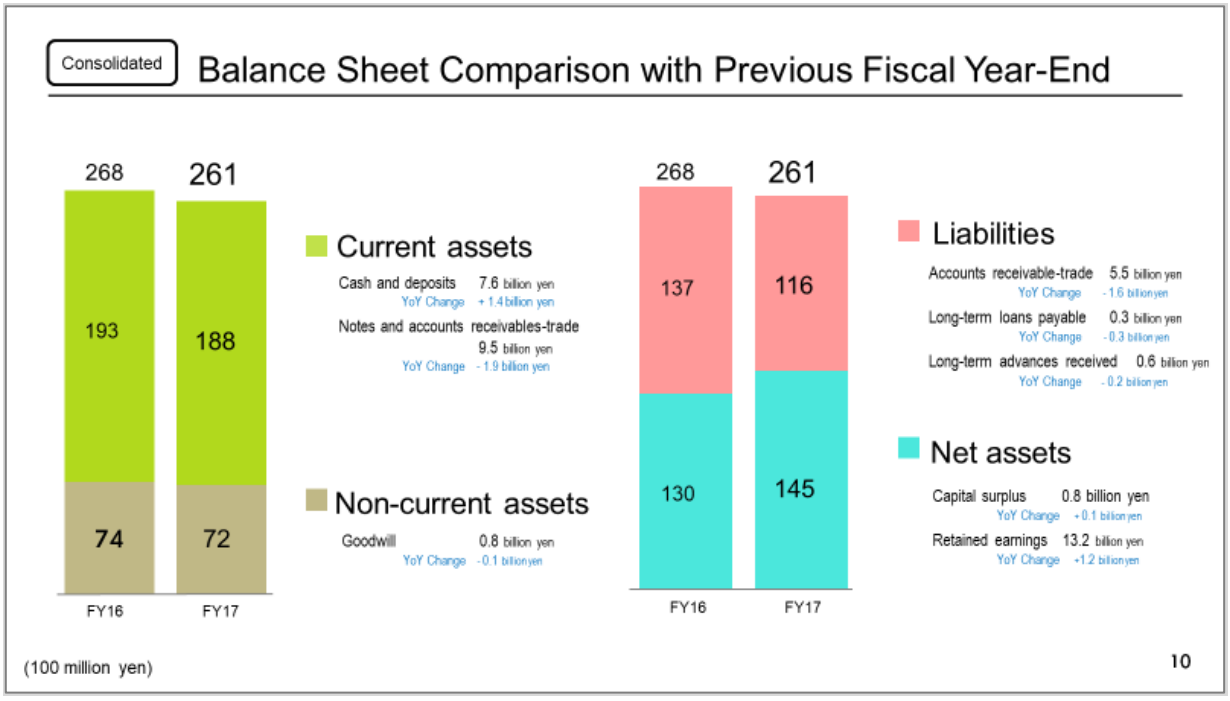
Consolidated YoY Changes in Operating Income



Here we have operating income compared with the previous year.

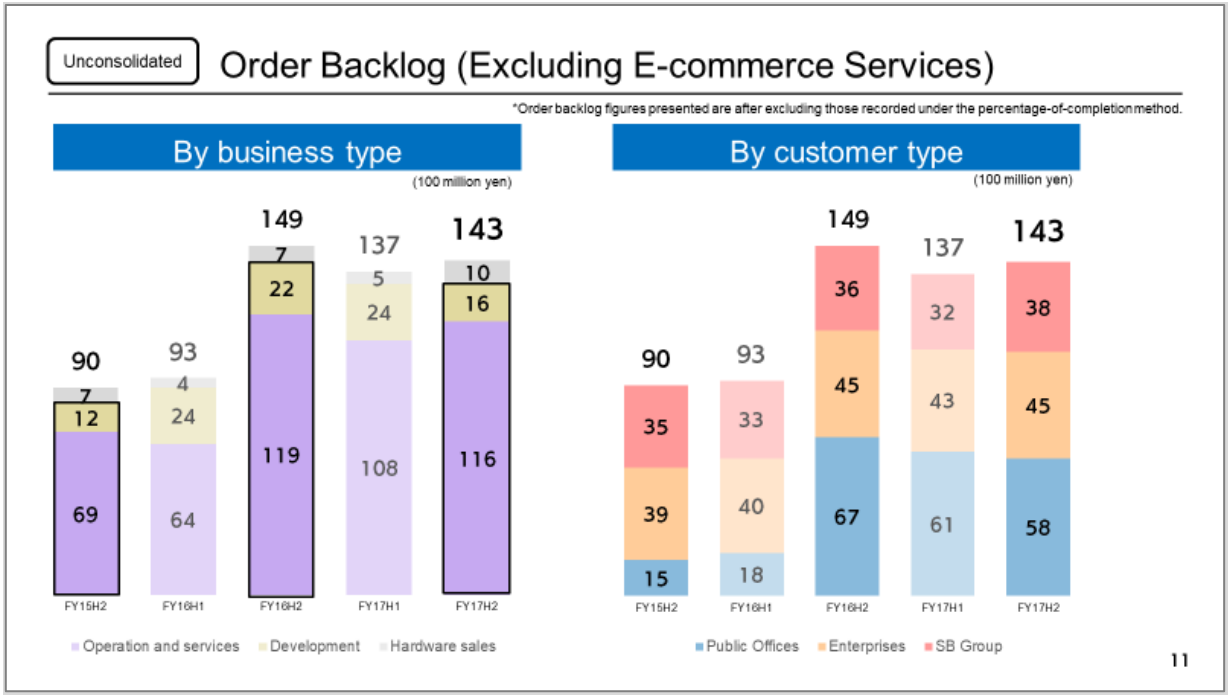
The negative change due to the fall in sales is 277 million yen. Marginal profits are up 1,155 million yen thanks to an improved marginal profit rate. Fixed costs were 941 million yen. As a result, operating income for FY2017 stood at 2,176 million yen.

Consolidated Balance Sheet Comparison with Previous Fiscal Year-End



I will just show the balance sheet.

Unconsolidated Order Backlog (Excluding E-commerce Services)



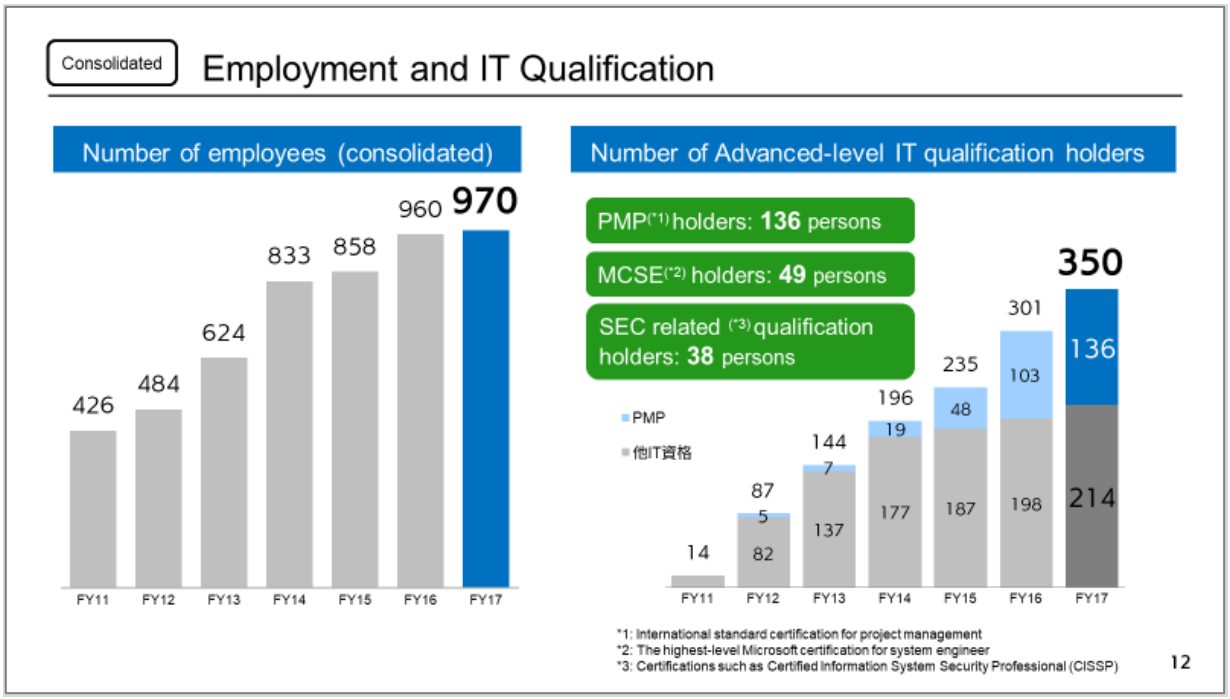
Next is the order backlog.

I would like to talk about a program for agricultural land we had been developing continuously for three years prior in the fiscal year ended March 2017. We received an order covering five years of operational services for the agricultural land project ordered by the National Chamber of Agriculture. This came at a time when we were receiving large orders. This order was worth approximately 5 billion yen over a five-year period, which you can imagine works out to about a billion yen being used up each year.

Those amounts of one billion yen have not decreased on the graph because we have received orders for other operational business in the meantime.
Next, I would like to talk about development work, the majority of which is for public sector projects. This period the budget for those projects was not used at the last moment.

Please refer to the order backlog by customer on the right side of the slide. Public sector orders at the bottom of the graph have simply fallen by around one billion yen from the fiscal year ended March 2017. Other areas are largely on par with the previous year.

Consolidated Employment and IT Qualification



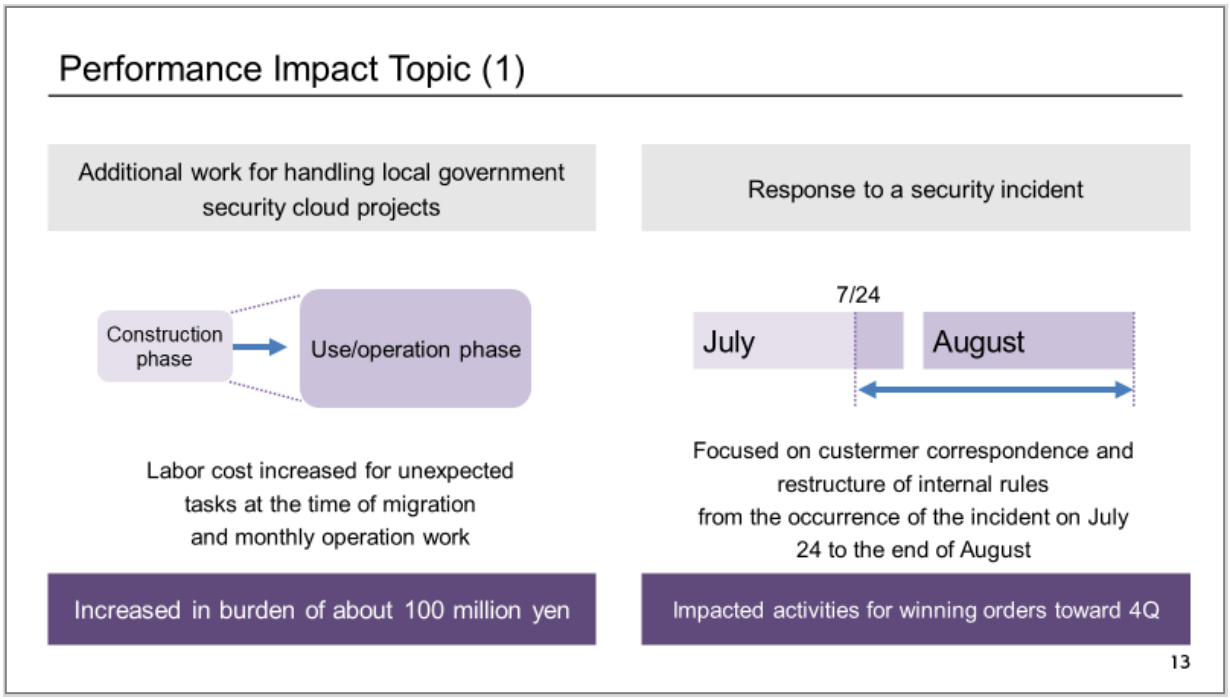
This section relates to our hiring activities.

The total number of SoftBank Technology Group (consolidated) employees at the end of the March last year (2017) was 970, and that number has not increased significantly. As of today (April 26, 2018), we currently have 1,016 employees. I would like to report that we employ more than 1,000 employees, including a little over 40 newly hired employees.

We have also been focusing on the number of employees holding advanced IT qualifications. As of the end of March (FY2017), 136 employees held Project Management Professional (PMP) qualifications, marking an increase of 33 from the previous year.

In addition to PMP qualifications, recently in particular we have had employees obtain security-related qualifications in order to develop security as a service. We have also had some employees obtained cloud computing engineer qualifications, which are included in the grey section of the graph. This is a result have having our employees engage in study towards becoming advanced engineers.

Performance Impact Topic (1)



As I mentioned earlier, the factor I can offer as to why our sales and profit were at the levels they were is that I did not do enough. Having said that, since I believe that we can only determine what will happen in the future by analyzing this, I would like to summarize the reasons into four points.

The first point is something I touched upon in our results briefing for the first half of the period (2017) (October Financial Results Briefing). In FY2016, we proposed a “Local Government Security Cloud” to 24 prefectural governments and managed to receive orders from four of them.

The implications for what were actually 121 municipalities under those four prefectures began from April, the first quarter of FY2017. Originally, the towns and cities belonging to those prefectures would all have their internet networks unified at the prefectural level, allowing them to commence safe communication with the Internet. This was the “Information Security Cloud” that we envisaged.

The plan was for each local government belonging to one of these prefectures connect to the cloud (of SoftBank Technology) as instructed by their prefectural government, but in actual practice, these 121 municipalities contacted SoftBank Technology individually. The task of implementing the solution while responding to each municipality individually went on for half a year spanning FY2017 Q1 and Q2.

While we managed to get the situation under control over those six months, the expenses we covered over that period was only for the Building Phase indicated below, and this accounted for more than 100 million yen. As I explained, this had an effect on our business performance.

The second point relates to July (2017) as we entered the second quarter, when it was discovered that our servers had been infested with malware. After carrying out a company-wide internal investigation that lasted a week, we publicly announced the incident.

As we also retain a large number of security professionals internally, all of the checks could be carried out internally on our own, but every night we were locked in discussions about whether it was sufficient for a company that suffered an issue internally tell the rest of the world that everything was okay just because it completed checks of its own systems. Eventually we announced the incident and opted to submit to an investigation by a third party organization.

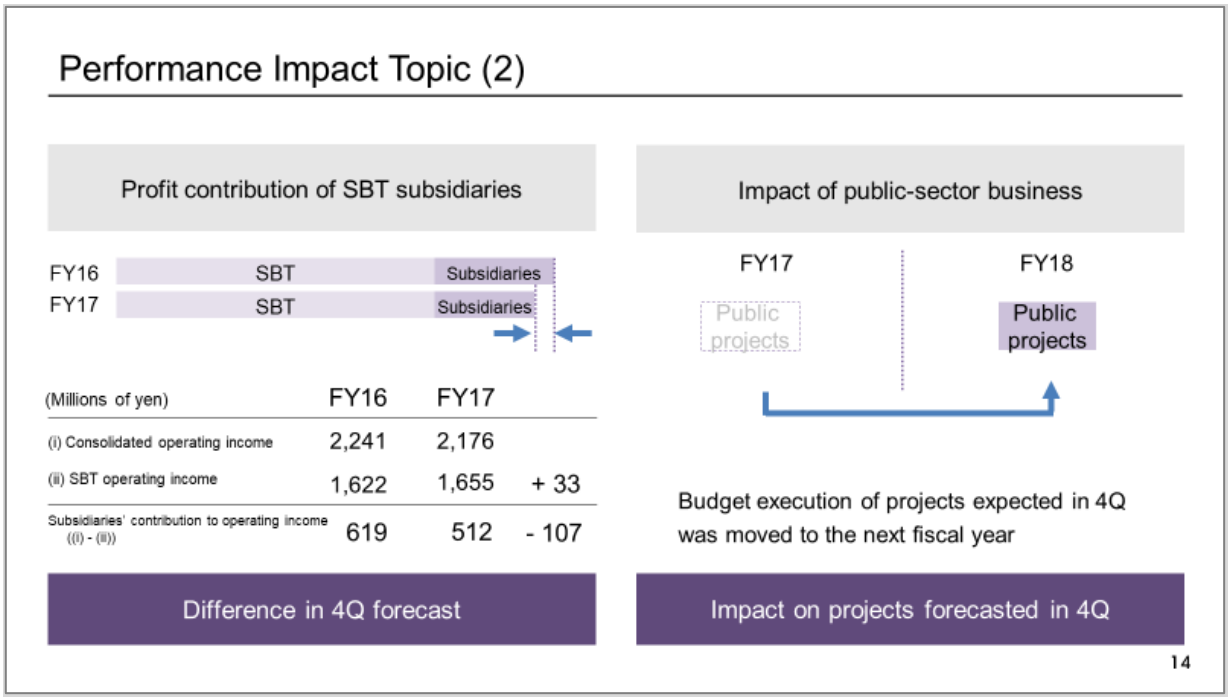
Fortunately, in less than a week the organization in question determined that there was “absolutely no evidence that the issue leaked outside,” but when something like this happens even once, it is necessary to thoroughly take stock of everything to ensure that all systems are completely clear of issues. As a result, we halted almost all sales activities for a month in August.

We spend a month and one week explaining the issue to customers and taking stock of all internal information assets and on August 30 released a safety declaration. This serves as a highlight of the security incident handling we conducted last year.

Naturally, we will absorb all of the costs associated with this incident internally. In addition, since we forwent business opportunities during this time in August, there was an impact on our order activities and other business after that. Fortunately, however, not a single company told us “because of this, we won’t do business with you anymore.”

In that sense, I think our sales staff have tried exceptionally hard. As security services are an essential part of a future cloud business, the fact that we managed to fit our response to the incident into the short space of a month was a blessing in disguise. Having said that, we are reflecting deeply on the fact that it occurred in the first place.

Performance Impact Topic (2)



This is the third factor that affected business performance. On a unconsolidated basis, we managed to surpass the previous year's performance, albeit by a slim margin, but in addition to the security cloud issue and security incident we faced, our subsidiaries also suffered considerable declines in profits.

On a unconsolidated basis, at SBT we focus on enterprise customers with sales of around 300 billion yen, and go about our work while learning from one another in pursuit of business and the development of cloud computing.

We also have a system integrator subsidiary that caters to small and medium-sized customers. In FY2016, this company made significant contributions to consolidated operating income, but unfortunately in FY2017 the company ran into large deficits due to disagreements with customers and other issues. This represents a negative change on the order of 140 million yen, and this is one area where our performance has deviated from the previous year.

Another subsidiary is a company running a subscription-based font business which posted its highest sales in March.

The company had been physically delivering font licenses but began a new downloadable sales mechanism.

Therefore, fonts valid for use from April 1 did not need to be shipped in March, and could instead be downloaded and made available on April 1. This development also had an impact in terms of year-on-year sales.

We did this knowing that it would have an impact on sales, but we wanted to show it in the sense that had we not made this change, the results would have been slightly different for this period.

Lastly, as I mentioned earlier, is the public sector business. I really didn't know enough about this, and I thought that even if a project was not accepted by a supplementary budget, it could be covered by the main budget, but when a project is incorporated in a supplementary budget, it remains in the supplementary budget. On achieving this in the current period, although we have made proposals, we learned that this must be properly timed with the supplementary budget.

On the information security cloud, naturally various areas we don't consider to sufficient have emerged. Whether those are ultimately paid for by the national government or become part of prefectural budgets is something I am honestly unclear on at this time.

However, practically speaking network traffic from the 121 municipalities of the four prefectures where the Local Government Security Cloud was installed will come out of networks through the gateways set up at the prefectural level. When that happens, my understanding is that issues that need to be re-considered by each prefecture regarding the thickness of the backbone will be brought up.

Therefore, since a policy requiring all municipalities to emerge through a prefectural gateway has been established, we recognize the need to think about that backbone as an issue that each prefecture has, and we believe that that is where our business opportunities will lie.

While I spent some time going over four factors that have affected our business performance, we will take the utmost care to ensure these factors do not emerge again, and despite those setbacks, we are committed to tackling significant business opportunities in a resolute manner.

Forecast for Consolidated Fiscal Year Ending March 2019(FY2018)

Consolidated

Forecast for Consolidated Fiscal Year Ending March 2019 (FY 2018)

Overview

- Profit margin improved with growth in cloud services and recurring business.
- Enhanced talent and investments made for business expansion.

(Millions of yen)	FY18 Forecast	FY17 Results	Amount of change	Ratio of change
Net sales	52,000	49,140	+ 2,859	+ 5.8%
Operating income	2,500	2,176	+ 323	+ 14.9%
Ordinary income	2,500	2,399	+ 100	+ 4.2%
Profit attributable to owners of parent	1,600	1,556	+ 43	+ 2.8%

15

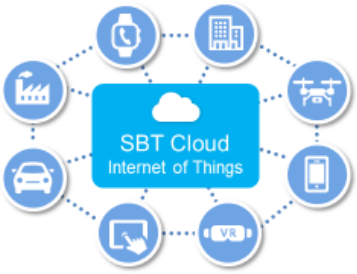
For the fiscal year ending March 2019, we hope to follow through with the targets we set in the previous fiscal year. Along with this declaration, we want to make sure that we reinforce our human resources and make investments aimed at business expansion.

Basic Strategies of the Second Three-Year Plan

Basic Strategies of the Second Three-Year Plan

Cloud integration

IoT business development



A business partner to customers

Provide added value by moving systems to the cloud and beyond cost cutting using information technology. Contribute to growth of core businesses and creation of new businesses with knowledge in cutting-edge technologies, such as AI and IoT, moving up the roles of the Company.

Next I would like to talk about the 2nd Three-Year Plan. This plan was formulated at the beginning of 2016 to set targets for what we wanted to do over the subsequent three years. Around two years has now passed since then and I would like to report on our progress.

We established these three goals as part of the plan.

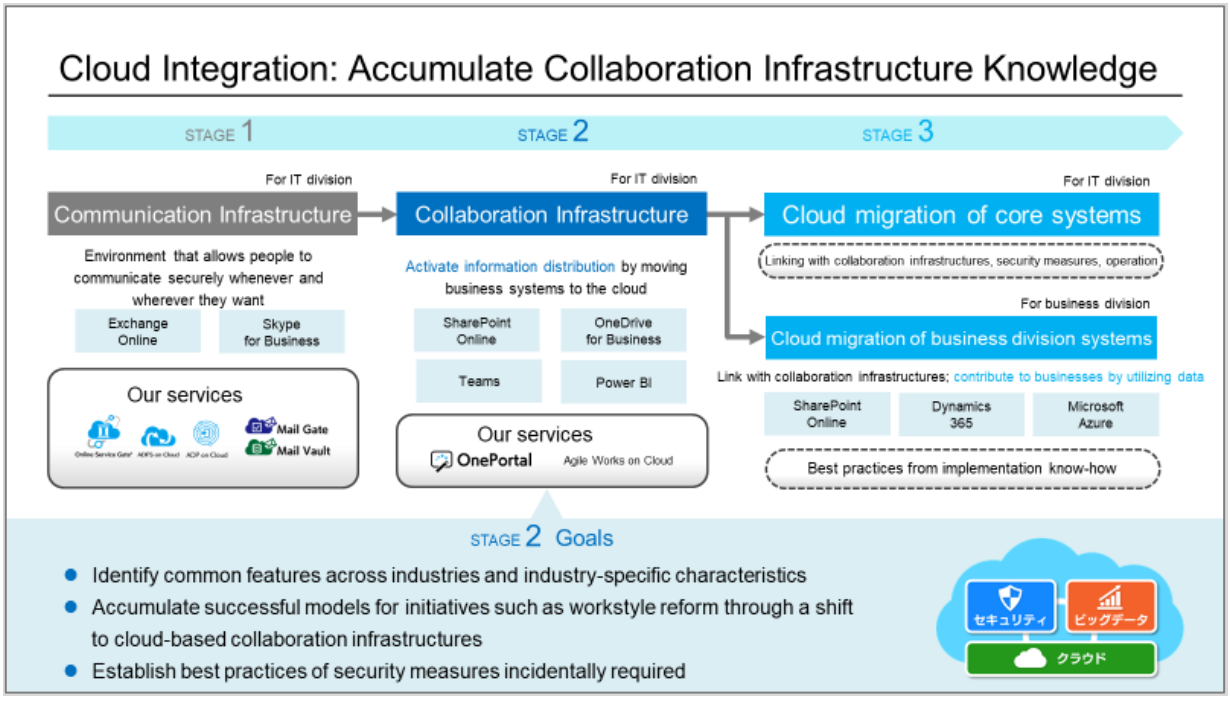
The first was the deployment of cloud, security and big data, which we had cultivated in the 1st Three-Year Plan, completely on the cloud. This was an effort to position the company as one that deploys solutions to the cloud. With the exception of our existing customers, we pursued an approach of "if it's not on the cloud, we don't submit proposals for new customers." This was our first goal.

Second, under circumstances around two years ago, we were not sure if we could operate an IoT business, and the question was how to go about launching that endeavor as a business. So, this second goal was to search for a business model that we could contribute to in our capacity as SBT.

The third goal is shown at the bottom of this slide: to become a business partner to our customers.

Naturally SBT is thought of as an "IT Partner" and perhaps a "system integrator" by many. When you think about computers in the future, we can see a definite switchover from budgets assigned to a specific line of business to IT. In that sense, we thought there would be no potential for SBT to develop in the future unless we could populate the sense of distance between business lines. Accordingly, we established these three goals as basic strategies.

Cloud Integration: Accumulate Collaboration Infrastructure Knowledge



First of all is Cloud Integration. Our goal in this regard has remained unchanged for the past six years. To migrate to the cloud moving forward, you need to start with a communication infrastructure. Next, an infrastructure that allows you to work as a group comes up to the surface (the cloud). Our market is in offering the latest data. Sales organizations have the latest data, while static data is housed in the inner sanctum of the system.

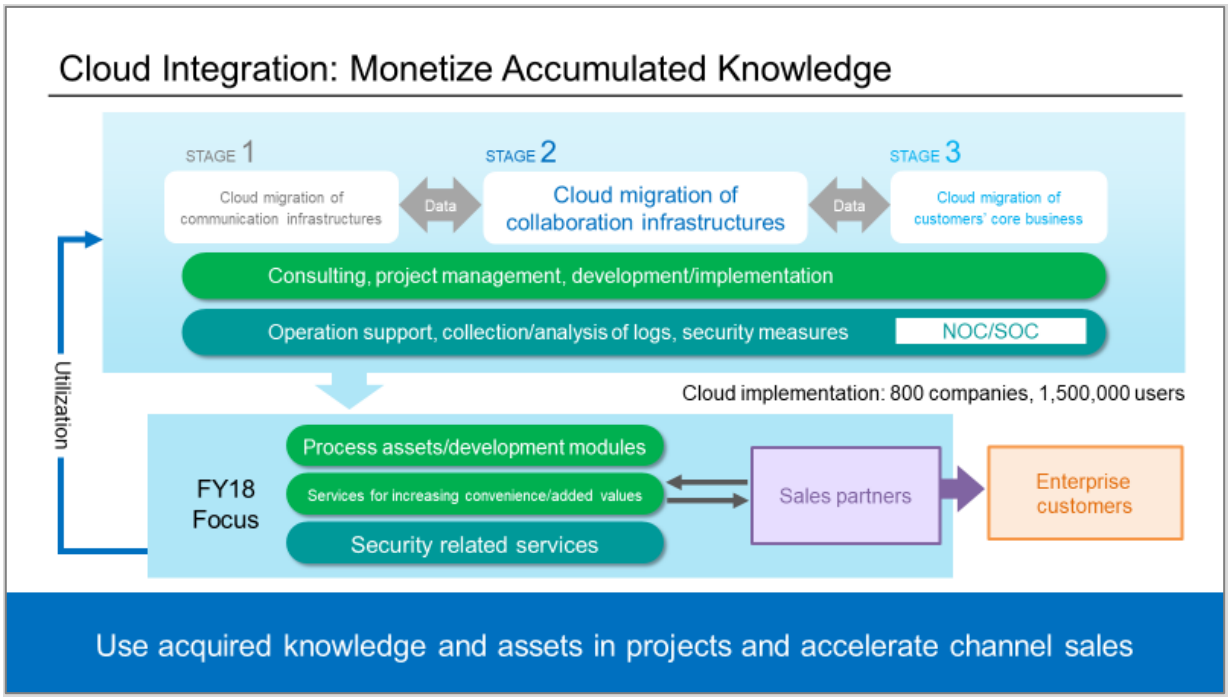
Through this structure, when the latest data is updated, the sales data or customer data housed at a deeper level is brought up to the surface (cloud). To form that process into something robust, we also need to boldly pursue the development of this stage 2 (collaborative infrastructure). When these efforts have born fruit, the seamless migration to the cloud while transplanting mission critical systems a little at a time represents the scenario of cloud integration.

We have shared our desire to pursue businesses together with customers that agree with this scenario. In this area, our discussions have gradually moved from IT professionals to those working in the field.

Until now we have gained the understanding of the IT departments at each company, and when we convey that we can make that a reality as an IT partner, people from the business side say, “we are facing these problems, and we have a budget (to fix them), but even though people tell us these problems can be immediately resolved with the cloud, they never get fixed.” In order to become involved with discussions about those requests, we need to develop consulting skills.

At the moment, we are making a considerable effort to develop project management capabilities. We have cultivated the ability to split a project into phases and implement it convincingly once we have clearly established a proposition.

Cloud Integration: Monetize Accumulated Knowledge



What we will need during this next stage will be the consulting abilities allowing us to make proposals to really replace what flows through business lines with IT.

Of course, in Stage 2 and our 2nd Three-Year Plan, it is important to first hone our PMP quality, but the needs in this area (consulting) have steadily increased. Several assets have also been formed as part of this process. These are tools that customers can control themselves even if we sell them the package as-is.

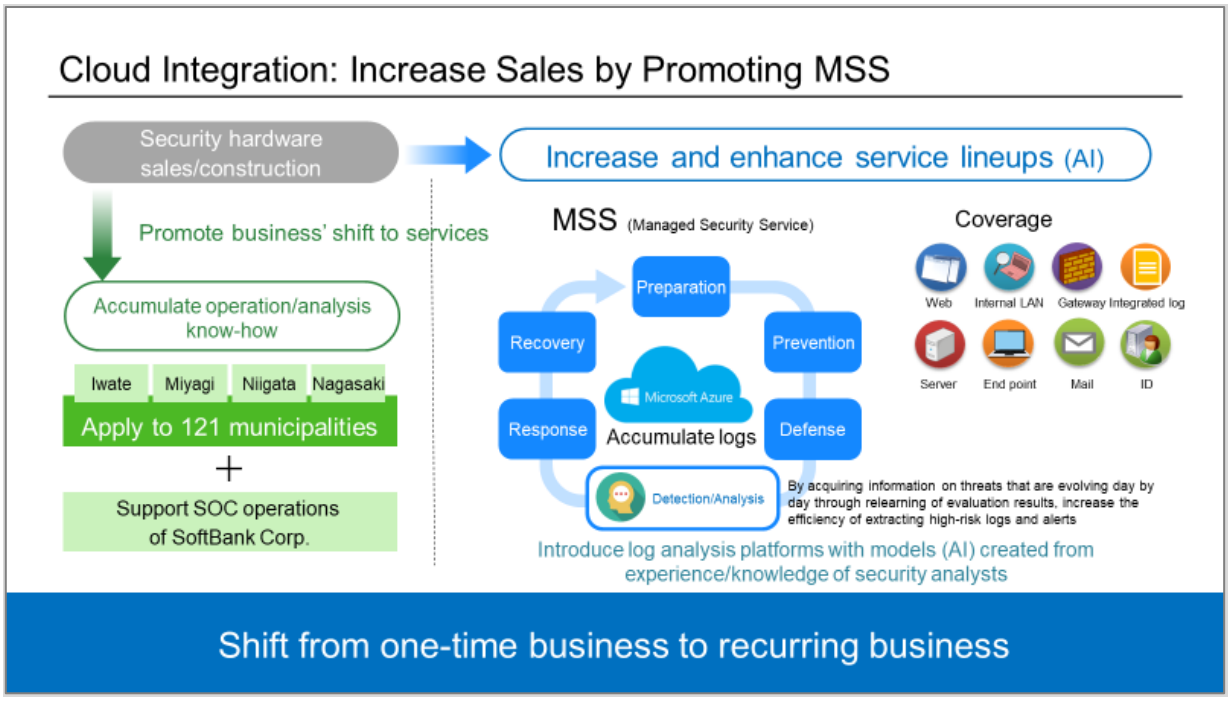
There are also processes that can be reused so that we don't need to double or triple-up on development work, and we have developed these as assets. We will look to sell those assets externally. In fact, we cannot handle the current cloud migration needs on our own by far. Therefore, when the timing does not match up realistically, in many cases we have to turn down business. We can take on maybe three out of every ten projects. For the rest, we have to offer our sincere apologies.

There are two ways we can better accommodate customer expectations. The first is for us to operate more efficiently. The other is to develop mid-range detailed design, coding specifics, testing of standalone products and similar processes into a package, and contract outside parties to follow through with implementation.

Basically, we would be responsible for the broader tasks such as overview design and acceptance testing, and have our partners take on the specifics such as detailed design, development and testing. Alternatively, we could completely offload certain projects to outside parties. We would ask them to use specific tools to complete the projects. Without that approach, a project that could be accomplished by five people a month would end up as a proposal for 20 or 30 people a month, and that is not feasible for actual customer businesses.

As part of this process, we will sell products that package these process assets. However, we don't intend to simply sell these packages and be done with it. We understand the need to consider how to sell them under a scheme that facilitates recurring business thereafter.

Cloud Integration: Increase Sales by Promoting MSS



One typical example of this is managed security services, or MSS. In many ways now, MSS is not a specialty of SBT but rather a generalized term, so let's take a look. The center for analyzing security is called the Security Operation Center, or SOC.

As part of this, we analyze various types of malware, and over the past year, we have managed to deploy this for 121 municipalities. In practical terms this was done at considerable effort and cost, but in the process we gained a lot of expertise and developed a strong knowledge base.

The service includes various equipment, because security equipment has not yet undergone unification. Certain equipment might be best suited for the task, so we might choose McAfee, Symantec, FireEye or Palo Alto Networks or others. American companies often base themselves in Israel, but those companies tend to brand themselves as the strongest in a certain area, and since you cannot completely protect your security by only addressing that one area, we need to combine various products.

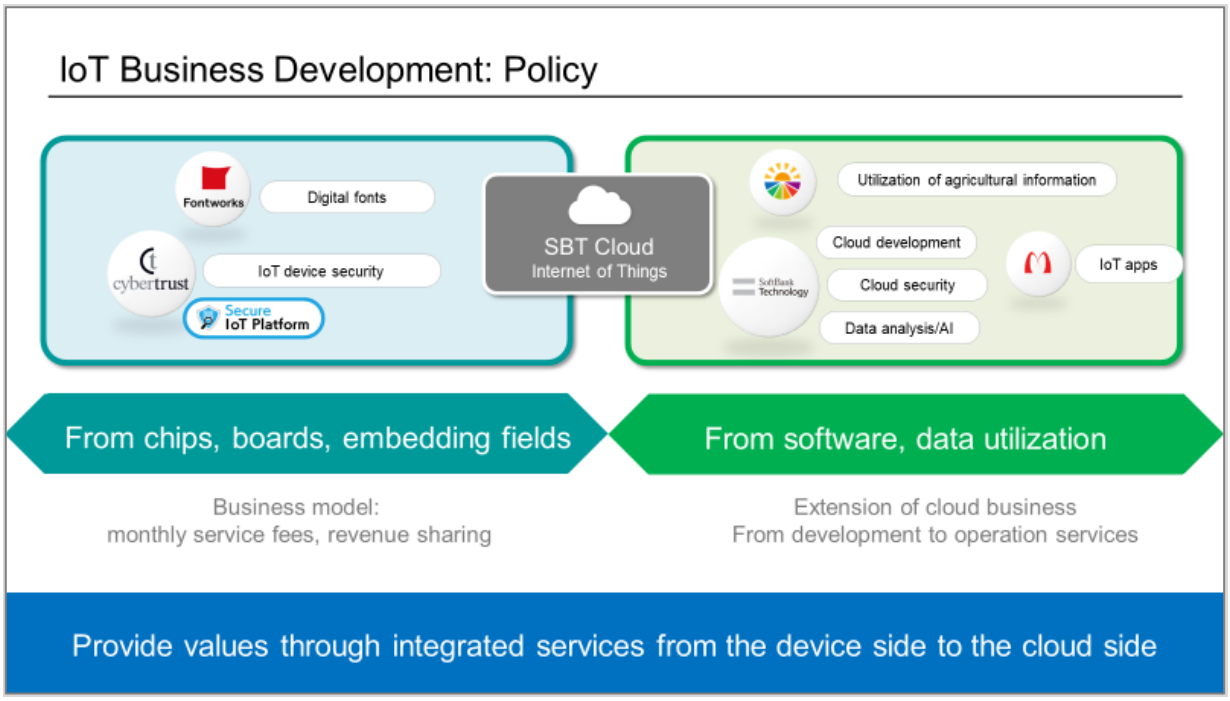
With our managed security service, we understand the need to support all kinds of things, and as you can see on the right, our coverage extends to eight areas. For these eight areas, we have developed the ability to analyze equipment logs, perform thread analysis and carry out other functions.

In the course of putting together the service manually, over the past six months we have explored the feasibility of developing AI features and have had to steadily develop features where knowledge is accumulated on the cloud to facilitate learning. We can't get through the work required by assigning two or three people to each company. That is why in April 2018 we launched this infrastructure that is able to exploit AI in an intensive way. The service will be rolled out from May.

We are currently providing managed services to 150 customers, including the 121 municipalities mentioned earlier. As we have the AI capacity for 400 customers and are building the first phase, we want to expand the service all at once. To sell this some of the cloud projects we have had to decline will flow to other companies, perhaps our competitors in terms of system integration.

With that said, while some cloud projects may flow to others, there are very few system integrators that can accommodate everything from security to networks. In that sense, we will look to distributing this service to those companies as well. We actually started to distribute the service from April 1, and we have already dealt with four or five projects. Moving forward, we hope to expand sales of our expertise and ongoing security services under more natural circumstances.

IoT Business Development : Policy



Next, I'd like to talk about our second value proposition, IoT business development. It is crucial to divide up who will be responsible for the IoT business, where, and to what extent.

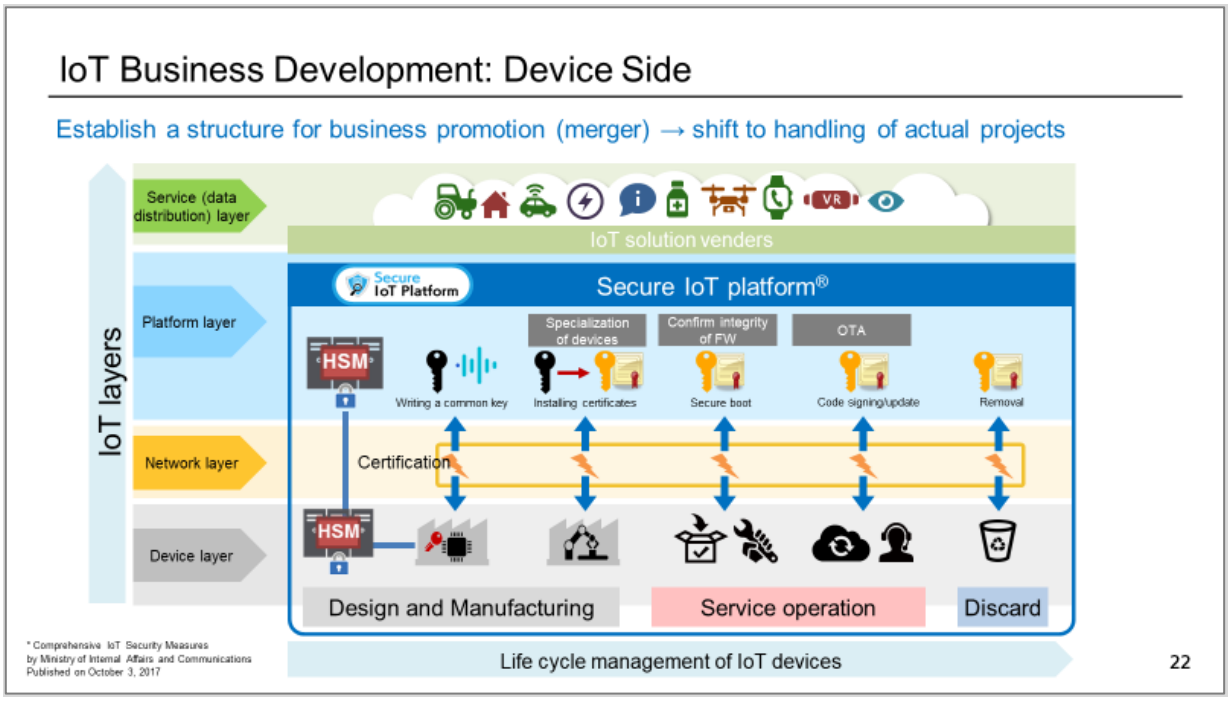
It helps if you look at the left side of this slide as devices, and the right such as the cloud. On the device side, Cybertrust and Miracle Linux were merged in October last year. As a result, in April the newly formed company began selling and developing solutions as a single entity providing embedded systems (Miracle Linux) and certificates (Cybertrust).

I personally served as president of this subsidiary for six months, and there were many differences between the systems of the two merging companies, such as the personnel schemes in place. Over those six months I worked as hard as I could on the questions of “what is important to us” and “what goals are we striving to achieve” while combining Cybertrust as an extremely rigid certificate authority with the open source culture of Miracle Linux.

On April 1, there was a switch of presidents and SBT currently owns just short of a 70% stake in the new Cybertrust Japan. However, in terms of where this company is positioned, it is not beholden to any specific carriers or manufacturers, and we want it to contribute to the industry as a company with a highly neutral stance.

There are so many different certificates all over the place, and in the end they are not compatible with one another. In the sense that this variation of certificates would only be cumbersome in the world of IoT, we created this company out of a hope that certificates from Cybertrust Japan, its embedded technologies, update technologies and similar mechanisms will become the standard.

IoT Business Development: Device Side



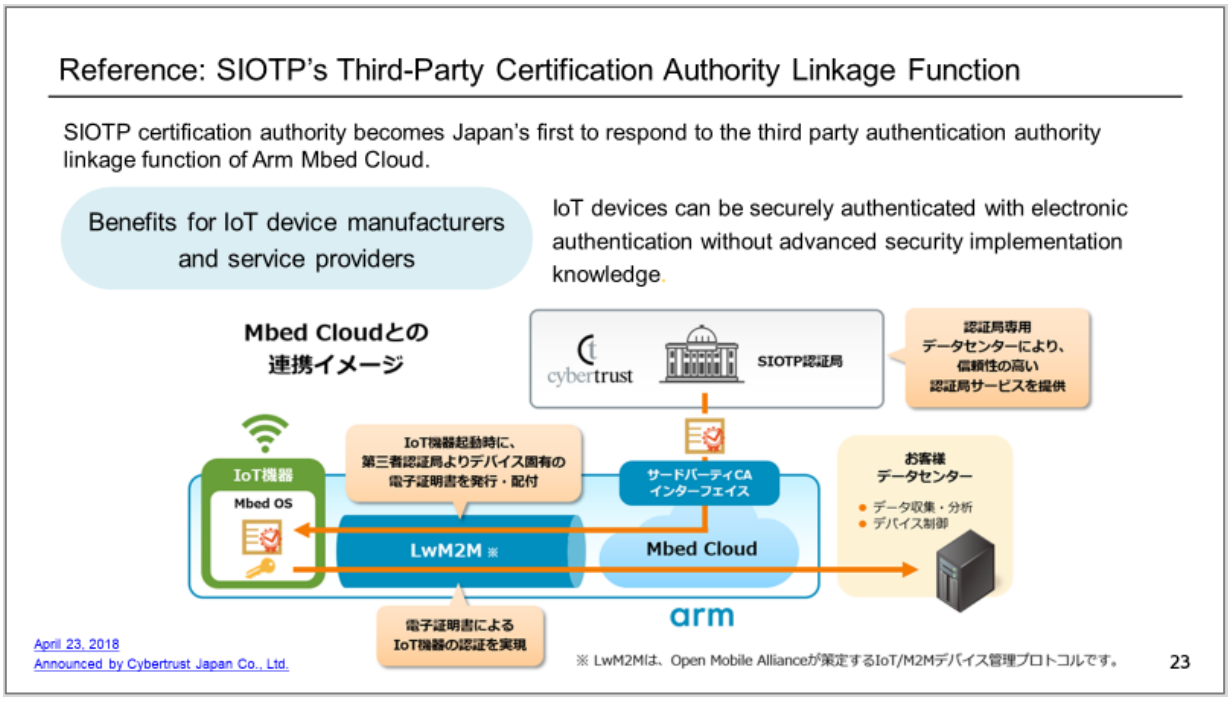
On the device side, as I also discussed in October last year (2017), with our secure IoT platform, chips will be embedded with keys that read and verify certificates while installing update modules.

When the device is ultimately discarded, if the certificated is rendered unusable, the device can no longer connect to the network. With this system, the secure IoT platform ensures that malicious actions do not take place in the IoT world.

This approach is illustrated through each IoT layer shown on the left side of the slide. These divisions are the layers announced by the Ministry of Internal Affairs and Communications. There are still only two certificate authorities in Japan (which meeting global standards) that confirm to these layer divisions.

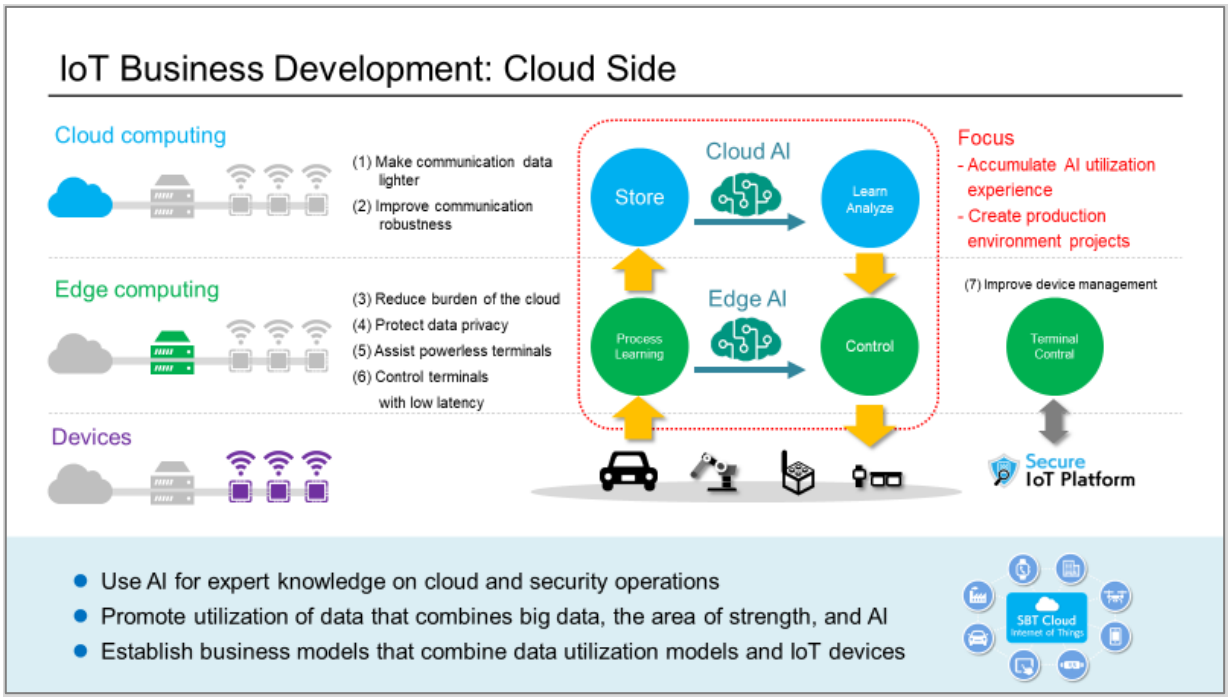
These authorities are the certificate authority operated by Cybertrust Japan and one other company. These two companies will be used as keys in the future as Japan's IoT industry moves forward. Of course, alliances with overseas organizations in addition to Japan will also be needed in the future.

Reference: SIOTP's Third-Party Certification Authority Linkage Function



This is the Arm Mbed Cloud announced in the press release we issued the day before yesterday (April 24, 2018). These are a so-called IoT devices. In the press release we announced that the certification authority of Cybertrust Japan would provide support for a certification mechanism for these kinds of devices.

IoT Business Development: Cloud Side



I suspect that many people harbor doubts regarding the cloud side of the IoT business. Up until last year, we had talked about “directly connecting each piece of IoT equipment and device.”

I think it was just about one year ago (2017) when we realized that only doing that simply wasn’t going to work. We would also need edge computing. This is something repeated again and again throughout the history of computing. There is a proposal to consolidate everything under one large machine, but in the end unless you do something like place servers locally, you can’t handle it.

But as a big concept, edge computing brings out notions that everyone can understand and adopt very easily.

Do use a car as an example, since a car is self-propelled, it’s not possible to receive an email from the Internet and turn the steering wheel. Unless a robust brain or intelligence is present locally, autonomous driving is obviously not possible.

And that’s not all. Take a factory: we have a lot of discussions with manufacturers, and since their manufacturing infrastructure has aged, they are making active efforts to bring their factories up to date.

When doing so, they insist of having some degree of control within the factory. But, when we install a server with intelligent functions inside a single factory, it ends up being something that is excessively customized and cannot be used anywhere but there.

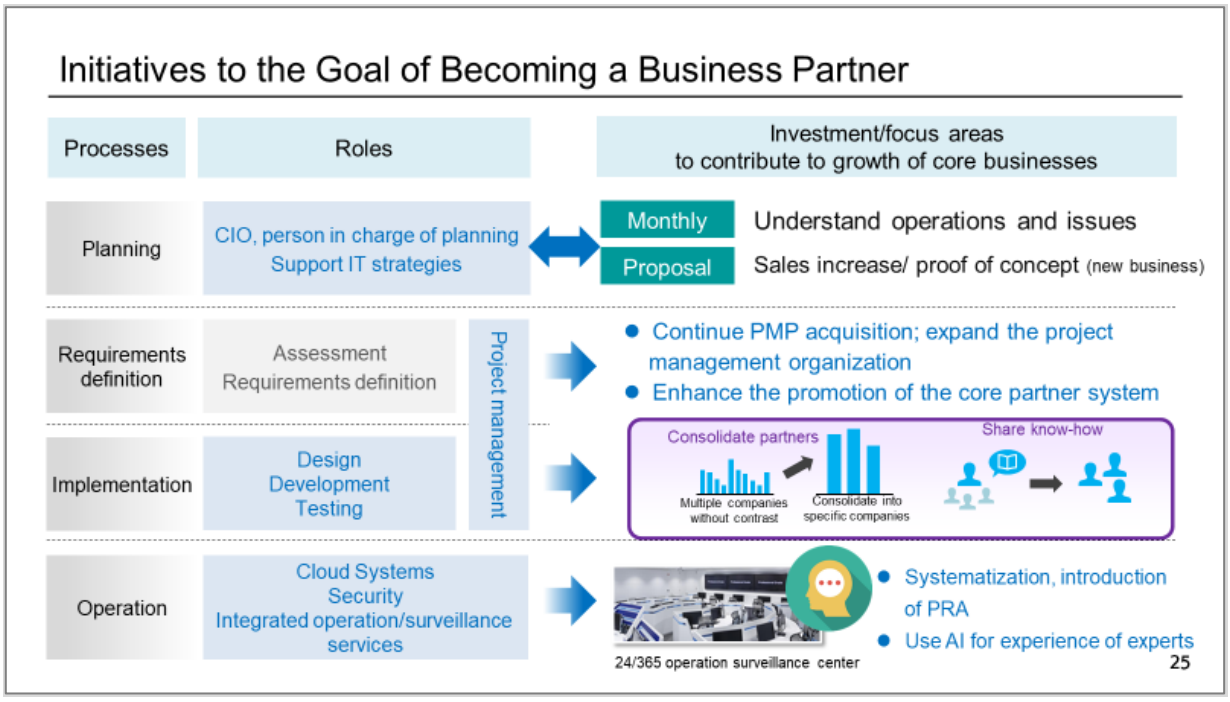
We want to apply AI edge computing supported on the cloud side to this scenario. Installing a subset of what was designed on the cloud side on the factory side corresponds to this concept of edge computing.

We have had the opportunity to explain this idea and speak with those on the construction company side. By incorporating these kinds of cloud edge and IoT edge solutions into the proposal materials used by construction companies, it is possible to introduce IoT to internal systems in a relatively shorter period of time than before.

Of course, various machinery then comes into play. IoT is making advances with respect to manufacturing equipment as well. The sensors incorporated into manufacturing equipment are an example of this. The various data produced by manufacturing equipment can be introduced into the cloud edge, and even pushed up to the cloud.

If you push all 100 pieces of data generated in a tenth of a second up to the cloud, in this case it could even be too much, so for that kind of short-term data, there is a need to process it to some degree within the local area. We are being suggested many different processes for proposals.

Initiatives to the Goal of Becoming a Business Partner



Lastly, I would like to talk about being a business partner.

I shared our progress in this area back in October 2017 and described the direction of our sales efforts. From April to the end of September last year, we decided to only handle 20 core companies, and entertain any and all consultations from those 20 companies. Those consultations would be related to the cloud, but even if the order was for an amount under a million yen, for example, we would still respond.

By only dealing with 20 companies in this way, thankfully we were able to continually hold monthly meetings between the technical members and sales staff of SBT, and our customers' CIOs, their IT planning personnel and others on the periphery. From October, we expanded this effort a little. Since once a quarter is sufficient, we are moving forward on working those in the next layer.

When it comes to major firms, some have an IT team with a thousand staff, while others might have a staff of less than 100 dealing with tens of thousands of employees. For an IT team with less than a hundred people, it is hard to respond when all manner of orders emerges from those working on the front lines.

For mission-critical systems and common company-wide systems, the IT division will have a budget and an action plan, but all kinds of things happen on the ground.

For example, even a train operator need to create a system to manage its crew members. They can't keep doing everything with Excel tables. Similarly, somewhere engaged in sales management will find it extremely difficult to achieve distribution that integrates every aspect since all the various systems are operating. In this way, all sorts of issues occur.

We are trying to be the kind of business partner that generates feedback from a customer that never had an IT budget to begin with along the lines of, "even if we have to carve it out of our overall business budget, this is something we should do."

This is the first planning stage of the business partner. Next we define the requirements. When the system has finally been built and designed, our core partner system can come into effect. In the previous fiscal year, we made agreements with 34 companies. During our peak period in FY2016, we were contracting around 950 subcontractors and engineers, and we were still only covering a little over 40% at those 34 companies.

For FY2017, as of March 2018 we had 1,140 subcontractors over a one-month period, and more than 50 percent of those 1,140 were working at 24 companies.

Another thing we learned was that they hoped we would cultivate engineers. Since October 2017 we have been running a system where each month we pick around ten engineers out of those who have only programmed in Java until now, or have only used C until now. We ask these engineers to learn a certain programming language in order to develop systems on the cloud in the future. We have had these engineers learn for about 1 and 1.5 months while paying salary, and have been running this system for the past six months.

This year (2018), we recognize the need to drive this initiative even further.

We want these engineers to gain a proper understanding of the processes right in the middle (requirements definitions and introduction), and to understand and advance the SBT Way. If they do this, incidents will naturally be less likely to occur, and there will not be differences in the way people think.

Finally, I would like to give an explanation of operational aspects. As I mentioned once before, major customers pay a lot of their budgets into operation. Around 70 percent of annual budgets are paid to existing vendors as operational expenses.

Those operational expenses are on-premise, namely inside data centers. They loathe the idea of data going out onto the cloud, because the more data that gets stored on the cloud, the less of those existing operational expenses they can receive.

However, on-premise operational budgets aren't going to decrease just because one or two streams of data are moved to the cloud. That's because three or four out of hundreds of systems moved to the cloud. Since we have created the operational infrastructure for three or four of those systems, we merely ask for that portion of the operational expenses, but the question of where that money will come from will always be posed.

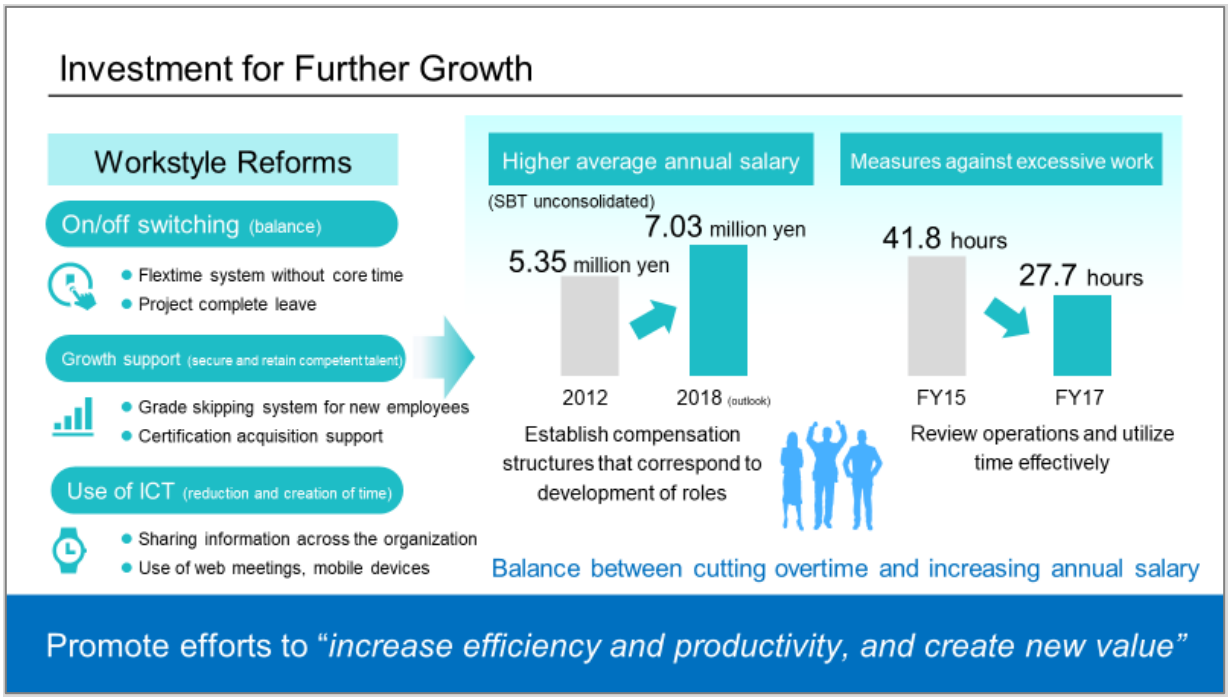
We don't know what the per-system cost is out of the operational expenses for 200 on-premise systems. The budget is assigned to all systems and is all-embracing.

No one believes that a system can be moved to our side, with a 24-hour, 365-day operational monitoring center, for zero cost, because there are 24 hours a day and 365 days a year to account for. However, it is hard for people to imagine how the use of an operational center incurs costs in regular person-months.

In that sense, AI is the only way to go. That's why, following on from the security aspects I mentioned earlier, last year we managed to apply AI systems to this area as well, even though it took around a year to achieve. This allows us to reduce costs in this area and propose to customer the ability to migrate to the cloud at low cost.

We have poured all of our energies into achieving this over the past year. These are the three themes under the basic strategy of our 2nd Three-year Plan. Of course, there are still areas in which we need to invest during the current fiscal year.

Investment for Further Growth



We are implementing various measures, particularly in relation to workstyle reforms. When it comes to the perception of system engineers, the 3Ks, *kitsui* (tough), *kitanai* (dirty) and *kyuryo-ga-yasui* (cheap salary) persist. At least that is the impression. The reality is that unless we implement workstyle reforms to address those perceptions, talented human resources will not join the industry or stay in the long-term.

A flex-time schedule that incorporates core time, where employees are told they must be at the company between 11:00 a.m. and 3:00 p.m., is the standard, but we don't impose any core time requirements at all. Employees can arrive at 4:00 p.m. and work four hours until 8:00 p.m. If they work four hours, they will be regarded as having worked four hours. When employees have no choice but to work at night to handle something, they can arrive at night and work the necessary number of hours.

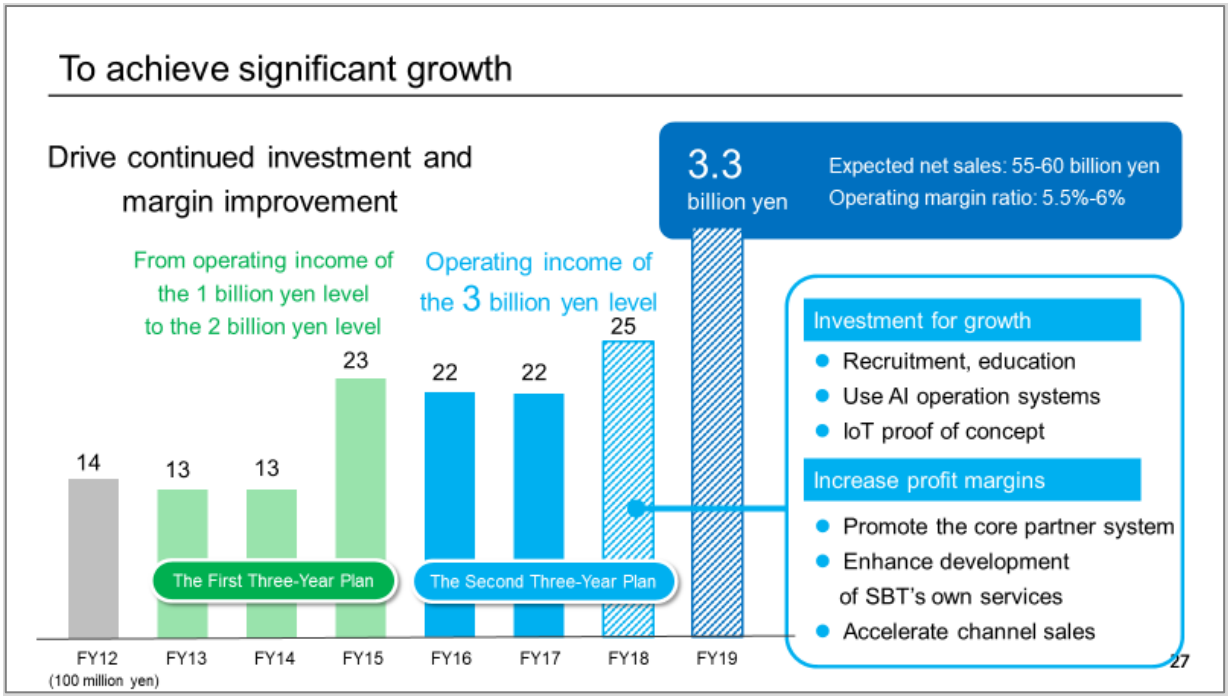
We have adopted this highly flexible "super flex time" system that is adapted to working circumstances. When we enter the final phase of a project, overtime increases by a lot, and employees can suffer both mentally and physically. To address this, we instituted a five-day long-term paid leave system once projects have ended.

Concerns over low salaries have also been raised. At the beginning of April 2012 when I joined the company, the average annual salary was around 5.35 million yen. As of April this year, that figure has now surpassed 7 million yen.

If we are going to approach this as a single goal, we will have to tackle in from an upstream perspective, and if we take on the challenge of automation, employees won't be able to work at this salary level, and these are some of the things being discussed with employees.

On the topic of overtime, we have moved away from systems that allow employees to work as much overtime as they like, and overtime has decreased from 41.8 hours a month two years ago (FY2015) to 27.7 hours a month in FY2017. As one goal, we are encouraging employees work efficiently at the level of around 25 hours of overtime per month.

To achieve significant growth



This brings us to the final page. Since I assume the post as president in 2012, operating income has changed as shown in this graph. We are now part-way through the 2nd Three-year Plan. I have promised employees that we will achieve operating income of 3.3 billion yen in FY2019, and we have also announced this publicly. We hope to make steady progress with preparations to meet this goal.

Under current circumstances, even if we field ten inquiries, we have to turn down several of them. I want to raise our PMP (international project management qualification) skill levels and entrust interim processes to subcontractors as I mentioned earlier and implement the core partner system to cover this. We will continue to increase the number of automated businesses.

Due to these efforts, we are committed to the challenge of achieving 3.3 billion yen in operating income in FY2019. At that stage, we won't regard that as the goal, but the first step was raising operating income from the billion-yen range to the two billion-yen range from FY2013 to FY2015, followed by an effort to enter the three billion-yen range from FY2016 to FY2018. That is the line of progression we have followed.

This was a somewhat lengthy briefing, and I appreciate your attention. Thank you.