

SoftBank Technology Corp. Overview of Earnings Results Briefing for FY2018

This is a transcript of the SoftBank Technology Corp. FY 2018 Results Briefing held on April 26, 2019.

Securities code: 4726

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

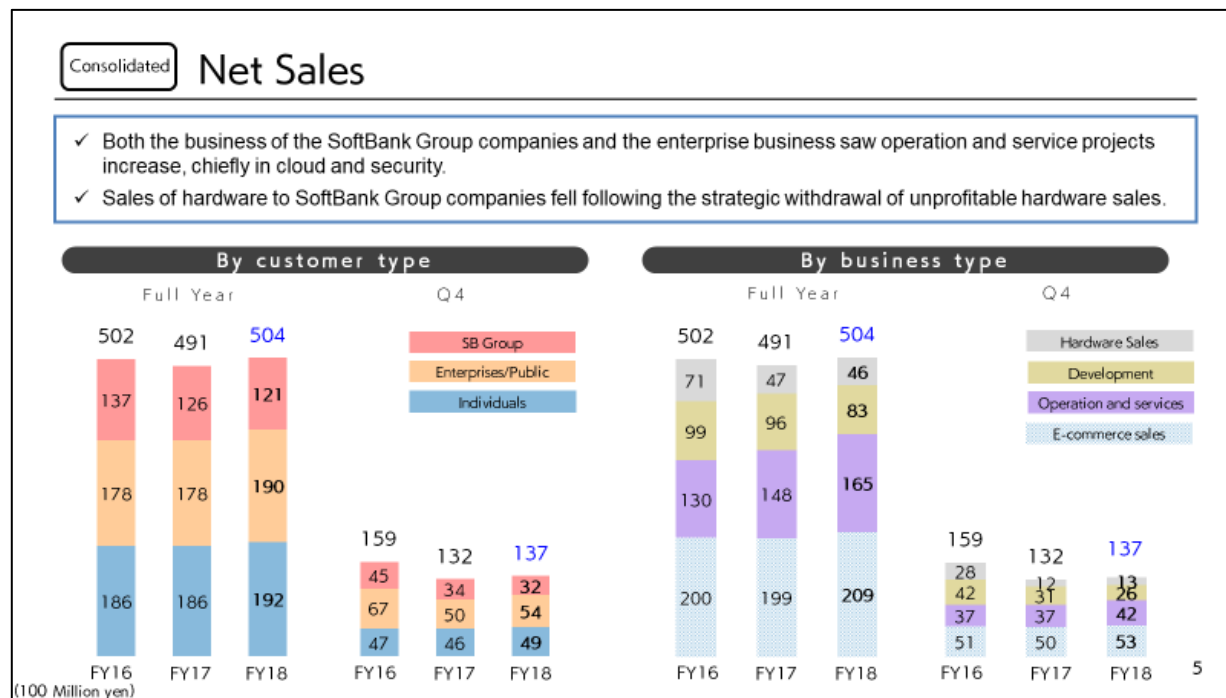
Earnings Results Briefing for FY2018

Results for the Fiscal Year Ended March 31,2019 (vs. Previous Year & Forecast)

<div>Consolidated</div> Results for the Fiscal Year Ended March 31,2019 (vs. Previous Year & Forecast)						
Highest net sales and operating income ever		<ul style="list-style-type: none"> • Growth in the cloud and security business helped set a new record high operating income. • The net sales target was not met, due possibly to the concentration of resources in unprofitable projects affecting the receipt of orders. • A temporary non-operating loss resulted in failure to meet ordinary income and profit targets. 				
(Millions of yen)	FY18	FY17	Amount of change	Ratio of change	Forecast	Progress rate
Net Sales	50,430	49,140	+1,289	+2.6%	52,000	97.0%
Marginal Profit	14,521 (28.8%)	13,744 (28.0%)	+777 (+0.8pt)	+5.7%		
Fixed Cost	12,008	11,567	+440	+3.8%		
Operating Income	2,513 (5.0%)	2,176 (4.4%)	+337 (+0.6pt)	+15.5%	2,500 (4.8%)	100.6%
Ordinary Income	2,291 (4.5%)	2,399 (4.9%)	▲107 (▲0.4pt)	▲4.5%	2,500 (4.8%)	91.7%
Profit attributable to owners of parent	1,386 (2.8%)	1,556 (3.2%)	▲169 (▲0.4pt)	▲10.9%	1,600 (3.1%)	86.7%

- Increases in net sales and operating income are attributable to the growth of the cloud and security business.
- For the fiscal year under review, unprofitable projects amounted to nearly 350 million yen.
- A non-operating loss and retirement following the office relocation of a subsidiary had negative impacts on ordinary income and profit.

Net Sales



- Net sales remained almost unchanged in the past three years.
- With respect to net sales by business type, the important point is that that operation and services expanded.
- Q4 development sales dropped year on year due to unprofitable projects.

Operating Income

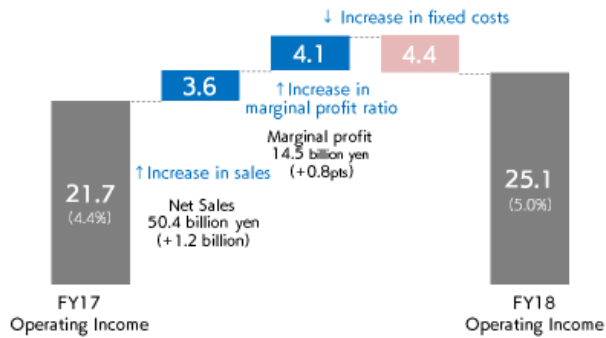
Consolidated

Operating Income

- ✓ Revenue growth in cloud and security and a rise in the sales composition ratio led to a higher operating income ratio.
- ✓ The withdrawal of unprofitable hardware sales and the progress of recurring business eased the overconcentration at the end of the fiscal year.

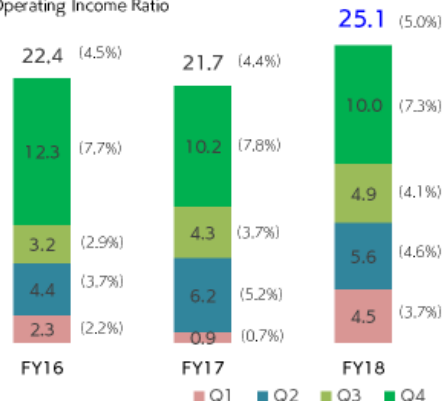
Increases / decreases in operating income

(100 Million yen)



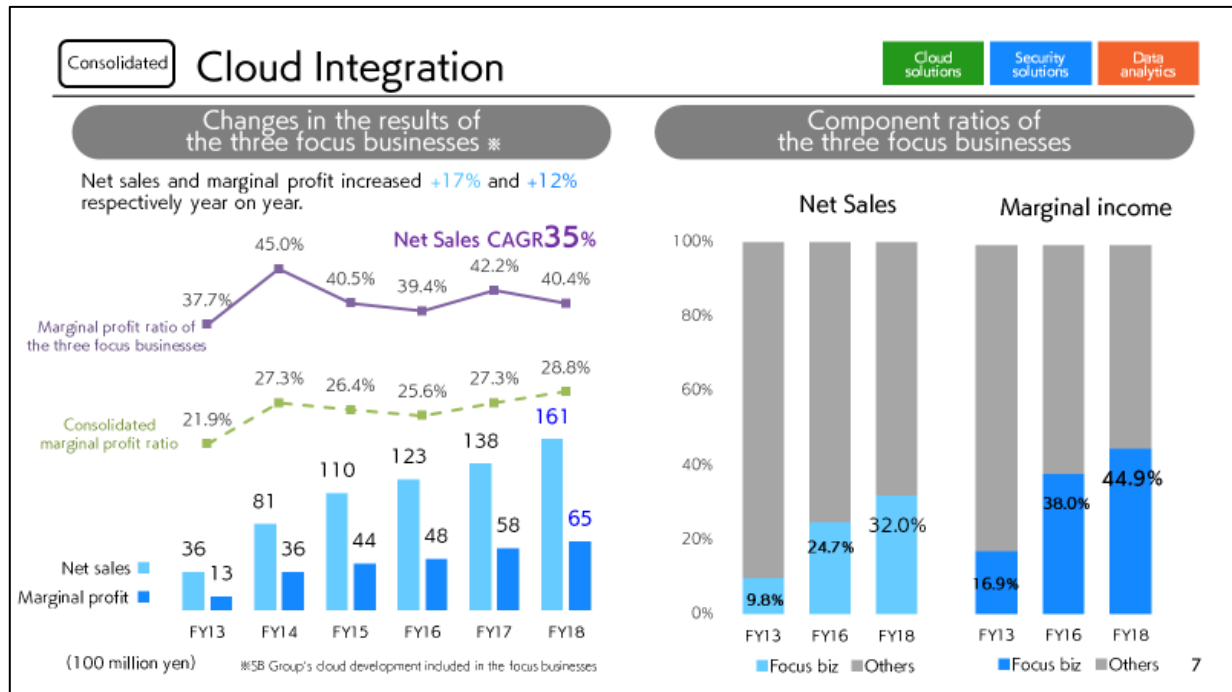
Changes in operating income

() Operating Income Ratio



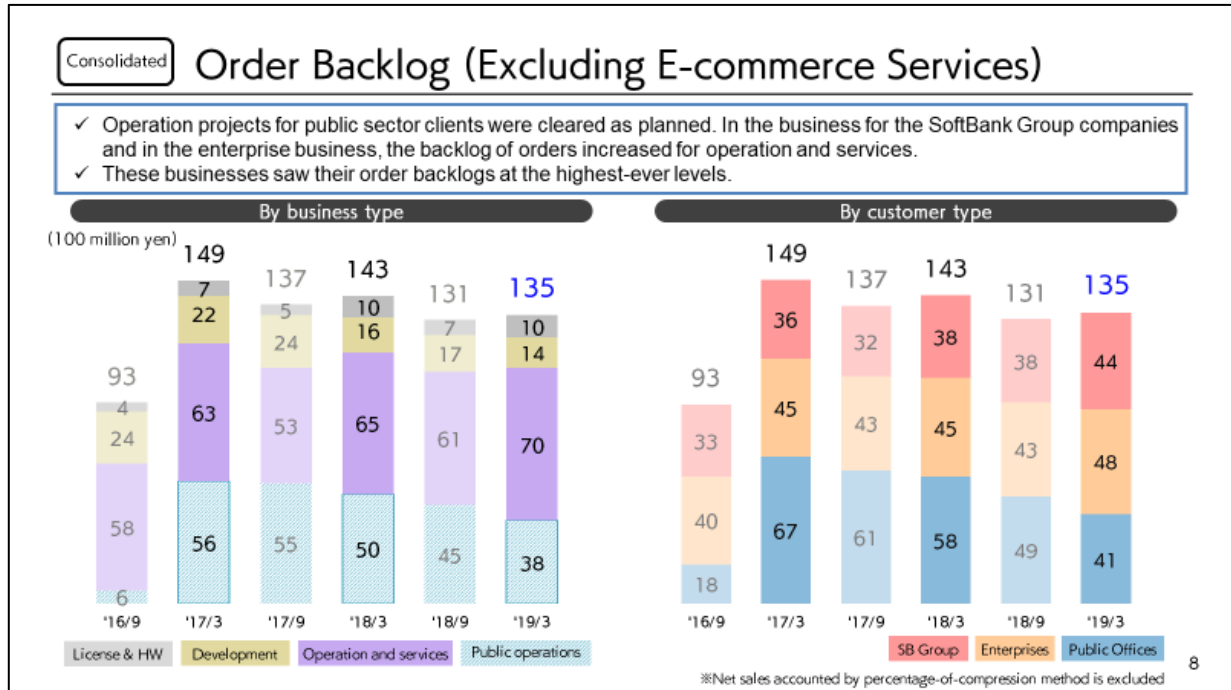
- Operating income reached 2.5 billion yen following sales growth, marginal profit ratio hike and soaring fixed costs.
- The overconcentration in Q4 eased.

Cloud Integration



- For the focus businesses, net sales rose 17% and marginal profit rose 12% year on year.
- Their share steadily increased. They were developing into key drivers.

Order Backlog (Excluding E-commerce Services)



- A public-sector project for operation worth around 5 billion yen was progressing steadily.
- In the public sector, no major projects were won after the operation project worth 5 billion yen acquired at the end of FY2016 and orders worth 2 billion yen obtained from four prefectural governments for security cloud solutions for local governments.
- Amid the ongoing shift of projects from development to operation services, recurring projects piled up.

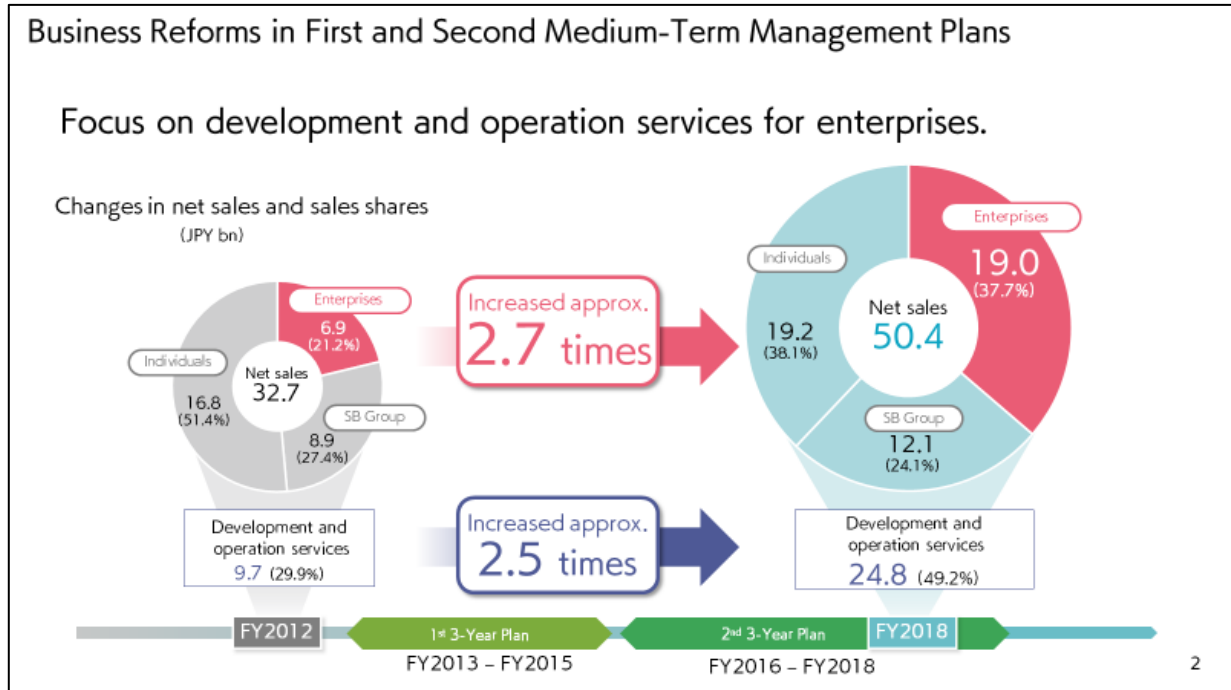
Forecast for the fiscal Year Ending March 31, 2020 (FY2019)

<div>Consolidated</div> Forecast for the fiscal Year Ending March 31, 2020 (FY2019)			
<ul style="list-style-type: none"> ✓ The cloud and security business will continue to enjoy strong demand. ✓ SBT will work to boost income margins by enhancing its service sales structure. 			
(Millions of yen)	FY18	FY19 Forecast	Ratio of change
Net sales	50,430	54,000	+7.1%
Operating Income	2,513 (5.0%)	3,000 (5.6%)	+19.3%
Ordinary Income	2,291 (4.5%)	2,900 (5.4%)	+26.6%
Profit attributable to owners of parent	1,386 (2.8%)	1,700 (3.1%)	+22.6%

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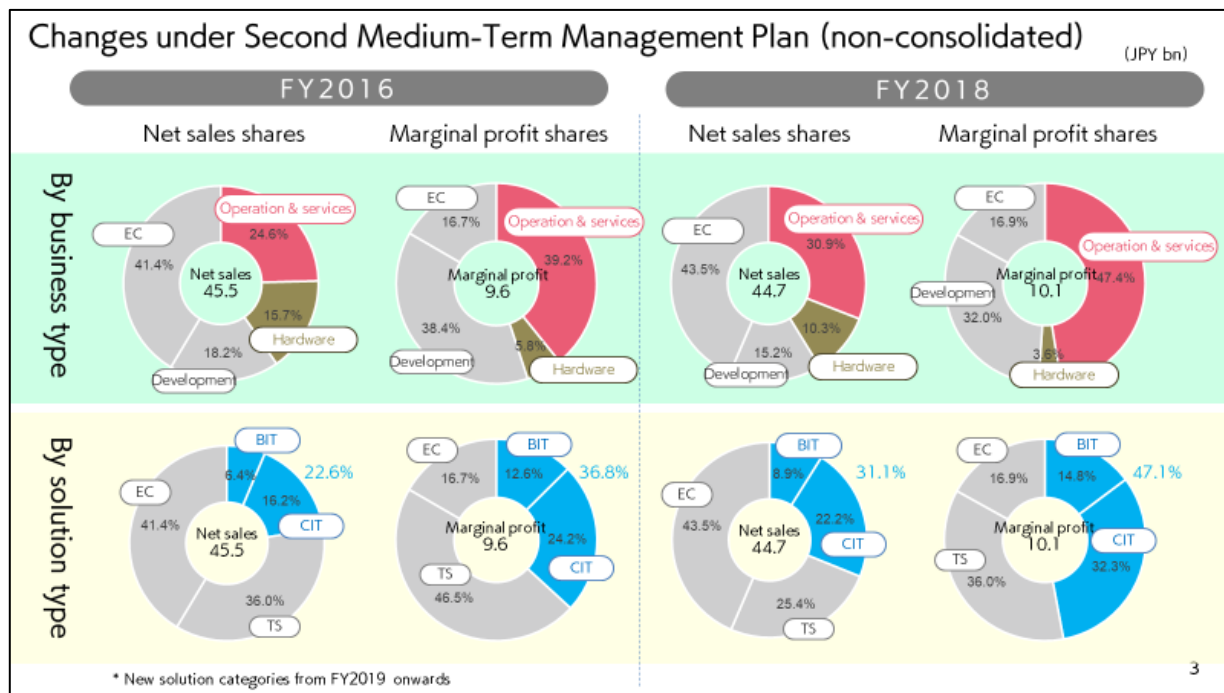
- The targets for net sales and operating income have been set at 54.0 billion yen and 3.0 billion yen, respectively. Efforts will be made to increase operating income by 20%.

Business Reforms in First and Second Medium-Term Management Plans



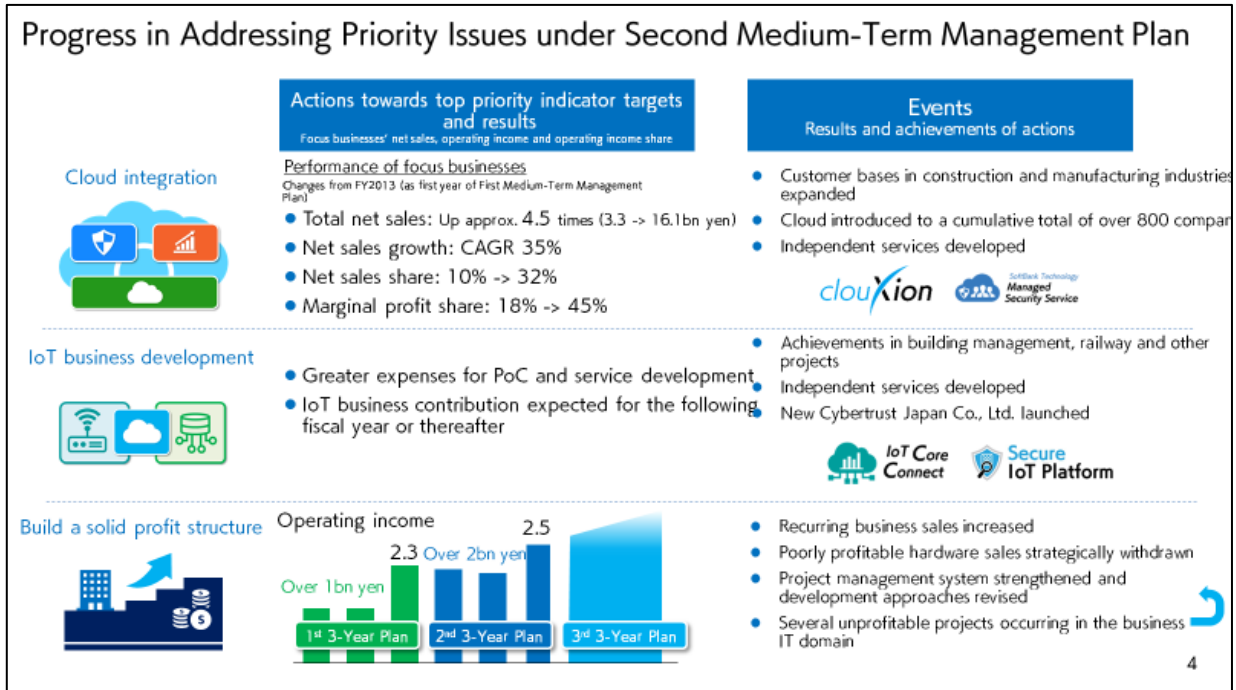
- Sales grew from 32.7 billion yen to 50.4 billion yen.
- In e-commerce services, sales to individuals had a sales share of nearly 50%. Sales to enterprises amounted to 6.9 billion yen. Total sales for the fiscal year under review stood at 19.0 billion yen, quite close to the 20.0 billion yen mark.
- Sales of development and operation services rose 2.5 times, to 24.8 billion yen.
- Cloud, security and big data were defined as key drivers. They grew considerably.
- An increasing number of customers had an interest in SBT.
- SBT has taken a stance of taking up development projects for the purpose of subsequently receiving orders for operation services, even though these projects are unprofitable.

Changes under Second Medium-Term Management Plan (non-consolidated)



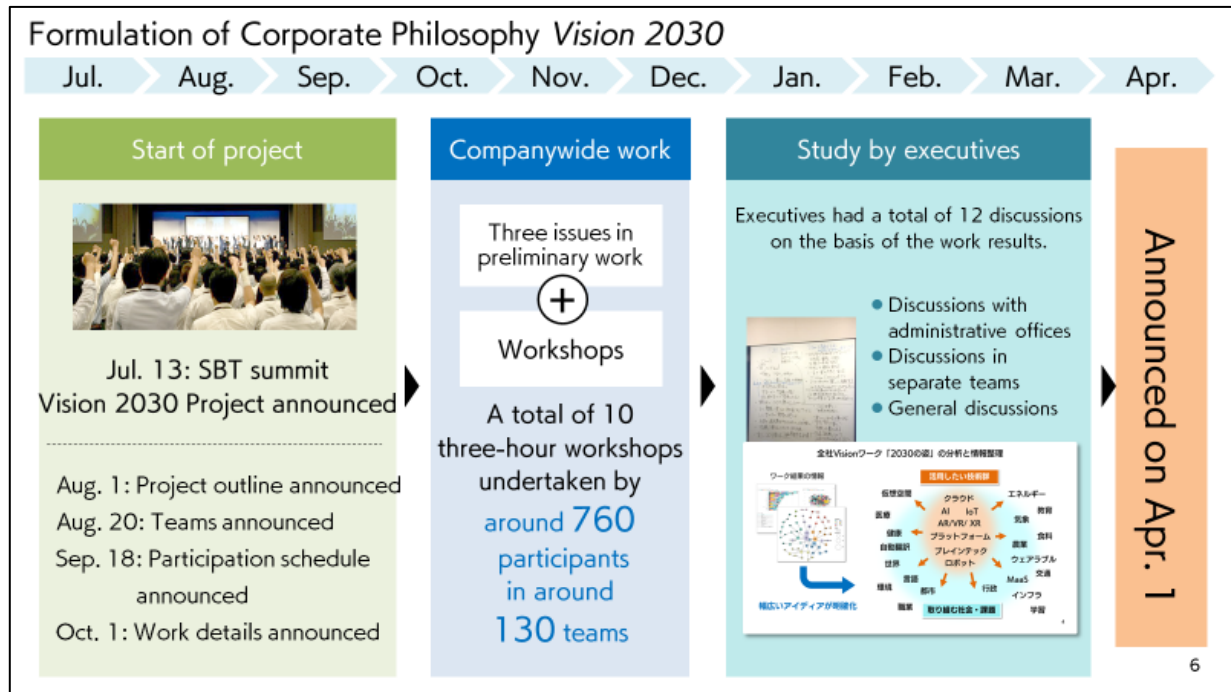
- After attaining operating income of 2.3 billion yen for FY2015, SBT maintained this income level from FY2016 to FY2018 while the sales composition changed.
- With respect to net sales by business type, hardware sales accounted for 16% and operation services accounted for 25% for FY2016.
- Meanwhile, in terms of marginal profit by business type, hardware sales accounted for merely around 6%, whereas operation services accounted for 40%.
- SBT decided to terminate something with limited profitability and place greater emphasis on operation services.
- Net sales by business type for FY2018 confirmed that 10% of net sales came from hardware sales and 30% came from operation services.
- According to the composition of marginal profit for FY2018, hardware sales had a share of 3% whereas operation services had a share of 47%.
- SBT was unable to immediately stop hardware sales, which earned approximate annual sales of 4.0 billion yen. After some delay, they came to an end in the first quarter of FY2017.
- Even for FY2018, hardware sales contributed 10% of net sales, but they are in fact not hardware sales but sales of Microsoft licenses.
- From FY2019 onwards, SBT will have four solution categories. Prior to this, there were six solution categories.
- Corporate IT solutions (CIT) serve information systems departments and internal IT systems.
- This category deals mainly with the integration of communication platforms and groupware.
- CIT covers cloud and security solutions, which were defined as SBT's key drivers in the past.
- Business IT solutions (BIT) provide IT solutions that are designed to boost principal operations in sectors such as manufacturing, marketing and sales.
- For FY2018, some projects in this category produced a loss of 350 million yen.
- In BIT, customers had difficulties determining the definition of requirements due to IT literacy issues and significant business changes. It was merely time and labor consuming for them.
- Three years of efforts made us realize that the approach must be fundamentally changed in BIT.

Progress in Addressing Priority Issues under Second Medium-Term Management Plan



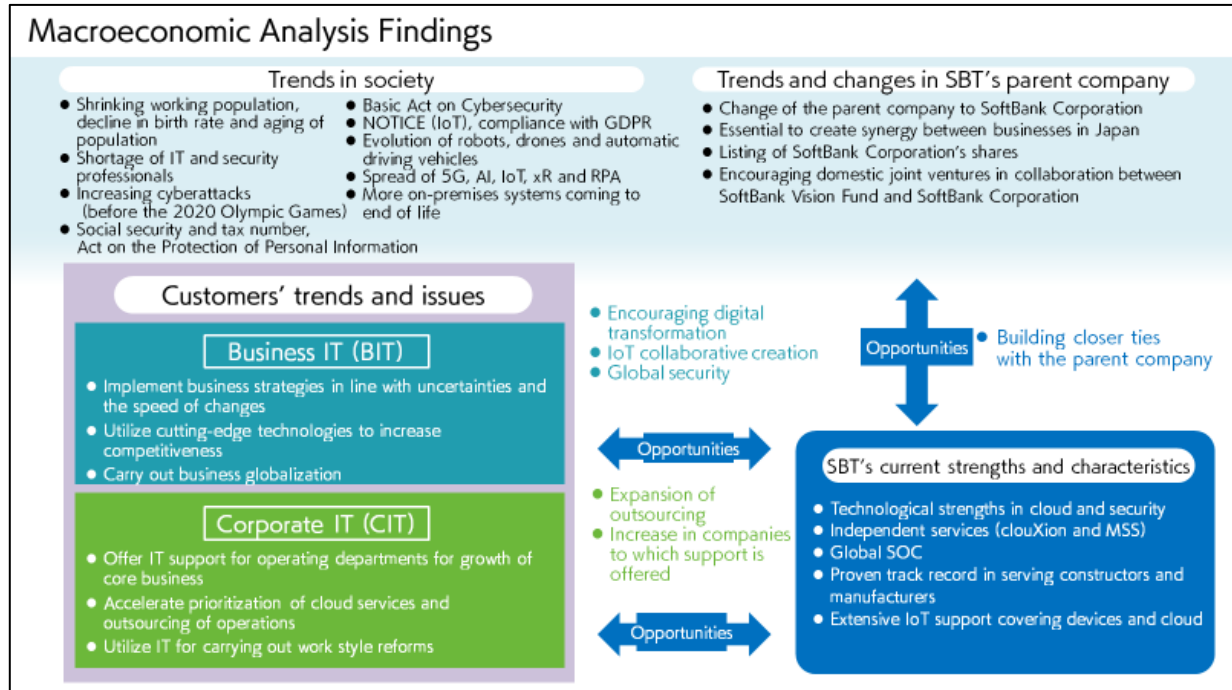
- Customer bases were expanded in the construction and manufacturing industries.
- Cloud solutions have been introduced to more than 800 companies.
- In the IoT business, proof of concept was persistently pursued.
- For 5G, SBT has several business ideas, but it will take at least a year until any of these ideas is monetized.
- With respect to the IoT business, SBT has published several projects.
- It has developed the IoT Core Connect. This is a one-stop platform for the collection and analysis of data from sensors with the use of IoT technologies.
- In BIT, there was a project with a railway company.

Formulation of Corporate Philosophy *Vision 2030*



- Prior to the formulation of a third medium-term management plan, SBT held a companywide conference to call on its staff to think about a new principle together.
- It was joined by 760 participants. Discussions and workshop activities were conducted in a total of 130 teams, which each consist of five to six members from different age groups.
- The ideas proposed by these workshops, business opportunities and risks were analyzed with the use of artificial intelligence. Management executives took the initiative in working on a plan.
- SBT organized its SWOT analysis findings to do business completely in line with customers' trends in BIT and CIT categories.
- Accordingly, SBT implemented an organizational change on April 1.

Macroeconomic Analysis Findings



- On April 1, 2018, SBT's parent company changed from SoftBank Group Corporation to SoftBank Corporation.
- In cloud solutions, SBT promoted Microsoft Azure, whereas SoftBank Corporation promoted multiple cloud environments including Alibaba Cloud.
- While SBT started with Microsoft Office 365, SoftBank Corporation had a different orientation, dealing with Gmail for example.
- Partly due to the difference in orientation, SBT received a very small number of orders from the IT departments of communication carriers.
- In the past six months, SBT had in-depth discussions with SoftBank's officers to reach an agreement on collaboration regarding security.
- After securing their understanding regarding the point that cloud solutions are unable to cover everything other than Azure, SBT agreed with them to produce synergy.
- In the future, SBT will strive to expand the Global Security Operation Center that was launched with some ten members while addressing the essential challenge of attaining global service coverage.

New Corporate Philosophy

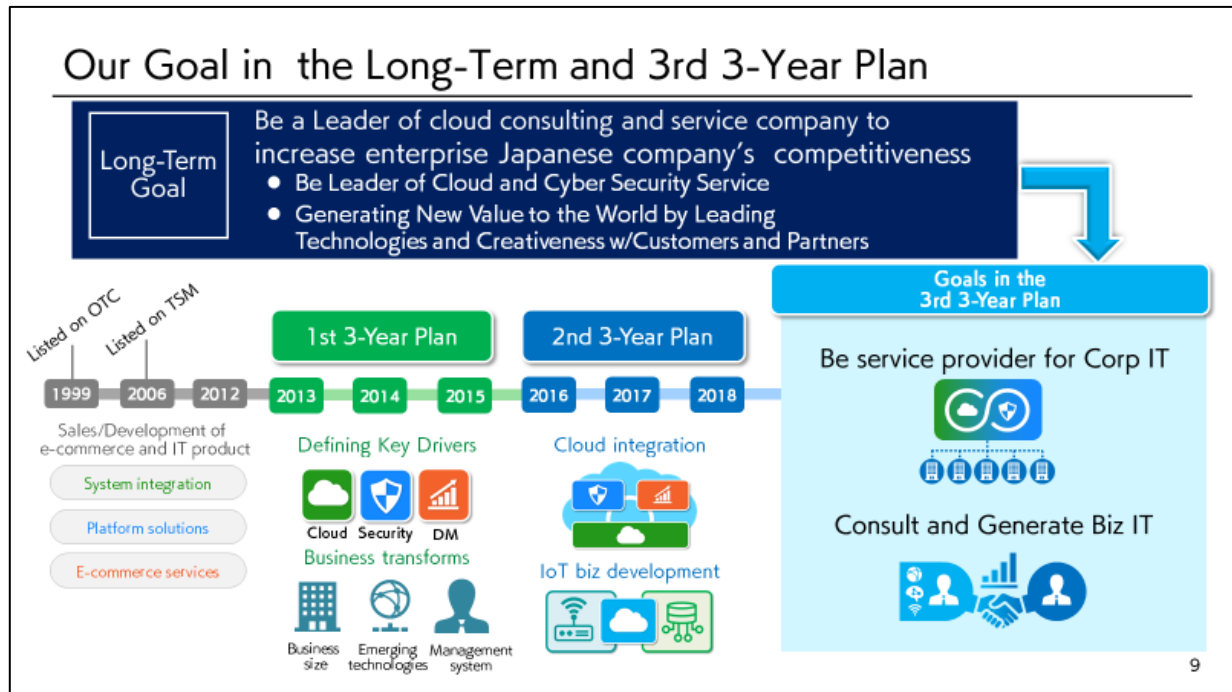


- After the companywide conference, the answer reached by seeking SBT's vision was nothing new.
- I think that the common process that all the employees experience is valuable.

Generating New Value to the World by Leading Technologies and Creativeness with Diverse Work Styles and Opportunity-full Culture

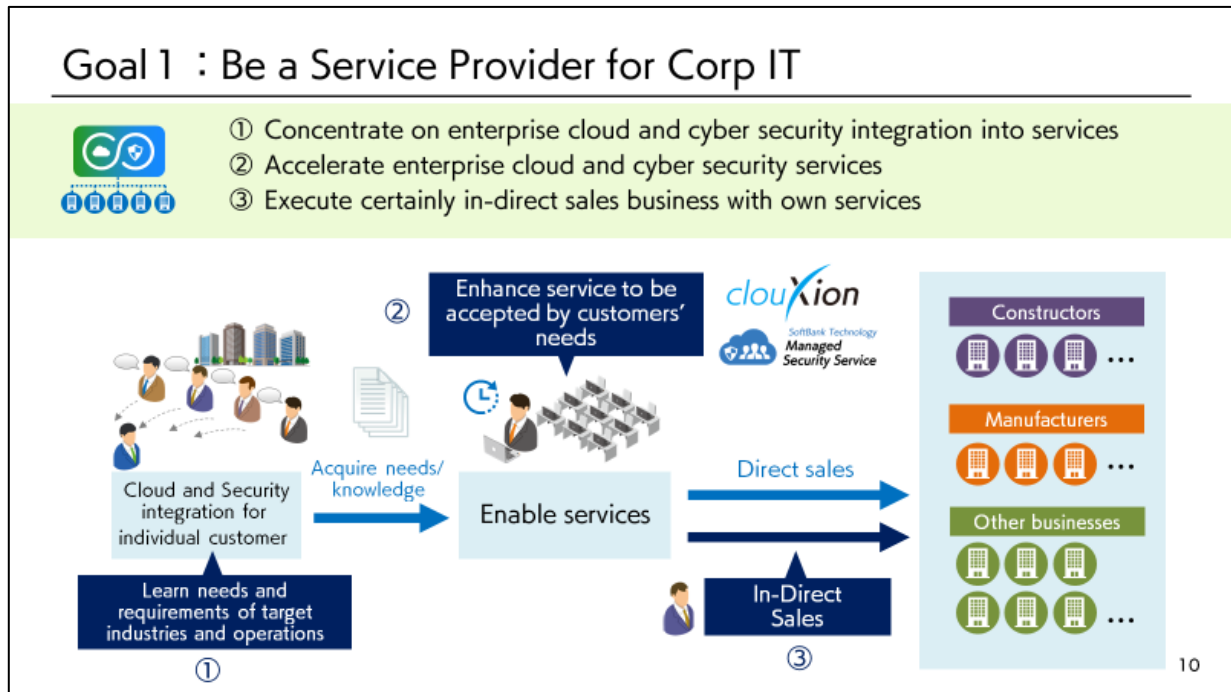
- Employees should attach importance to growth, trust and value.
- They should take actions for *Tanoshimu*, *Tsukuru* and *Tsunagu*.

Our Goal in the Long-Term and 3rd 3-Year Plan



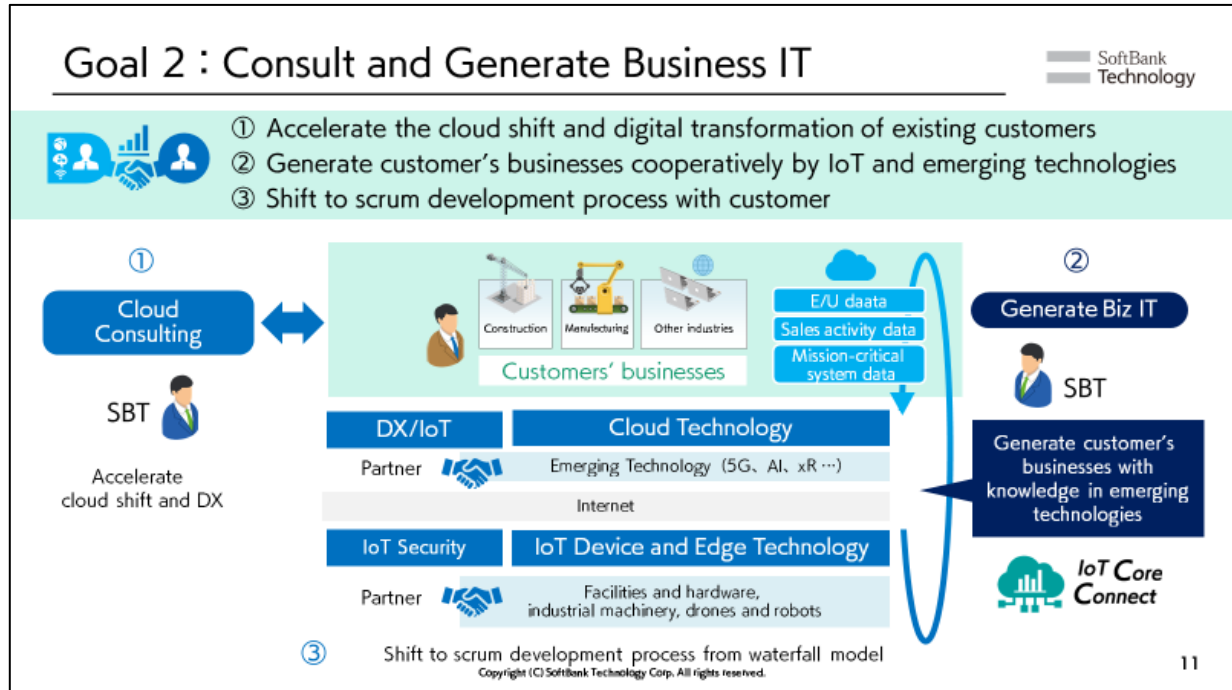
- SBT should evolve from a system or network integrator into a service provider.
- SBT should build up its consultation capabilities to press ahead with BIT.
- SBT aspires to promote consultation by capitalizing on its experience and knowledge of past services.
- SBT will aim to create business IT with the help of consulting firms in areas where it lacks capabilities.

Goal 1: Be a Service Provider for Corp IT



- A new organization, called the Solution Unit, is established to determine service configuration.
- In this unit, the partner sales team will engage in indirect sales.
- Given that SBT alone is unable to provide full support amid a rapid transition to cloud technologies, it will ask customers to purchase services that incorporate its expertise. Collaboration with existing vendors will increase the speed of the transition to cloud platforms.

Goal 2: Consult and Generate Business IT



- Manufacturers and constructors are delayed in terms of IT introduction. SBT's cloud technologies will be helpful.
- Two years ago, there were only eight project management professionals (PMPs). Today, there are around 130 PMPs.
- It is suited to waterfall system development, but in BIT time passed wastefully without the requirements being fixed. Losses were thus produced.
- In the future, the shift to scrum development will be accelerated.
- SBT will work hand in hand with customers to carry out development projects while applying frequent updates.

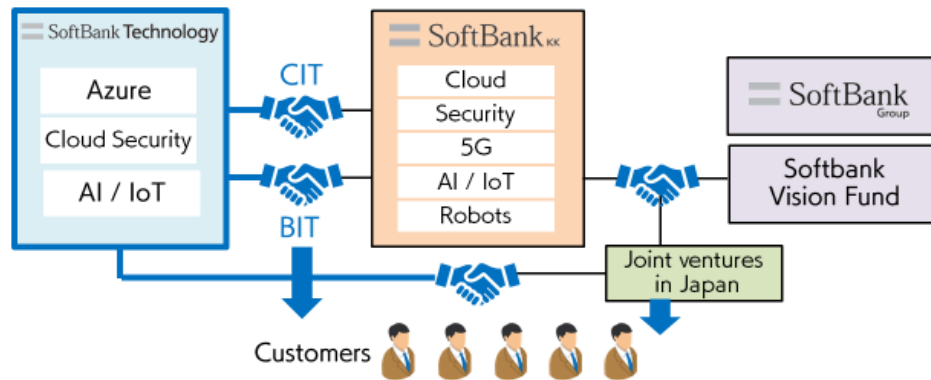
Business Opportunities: Collaboration with SoftBank KK

Business Opportunities: Collaboration with SoftBank KK



- Generate synergy business in Japan

- ✓ Collaboration between SBT's technological domains and SBKK's business domains
- ✓ Offering technological and business support to SoftBank Vision Fund's joint venture in Japan

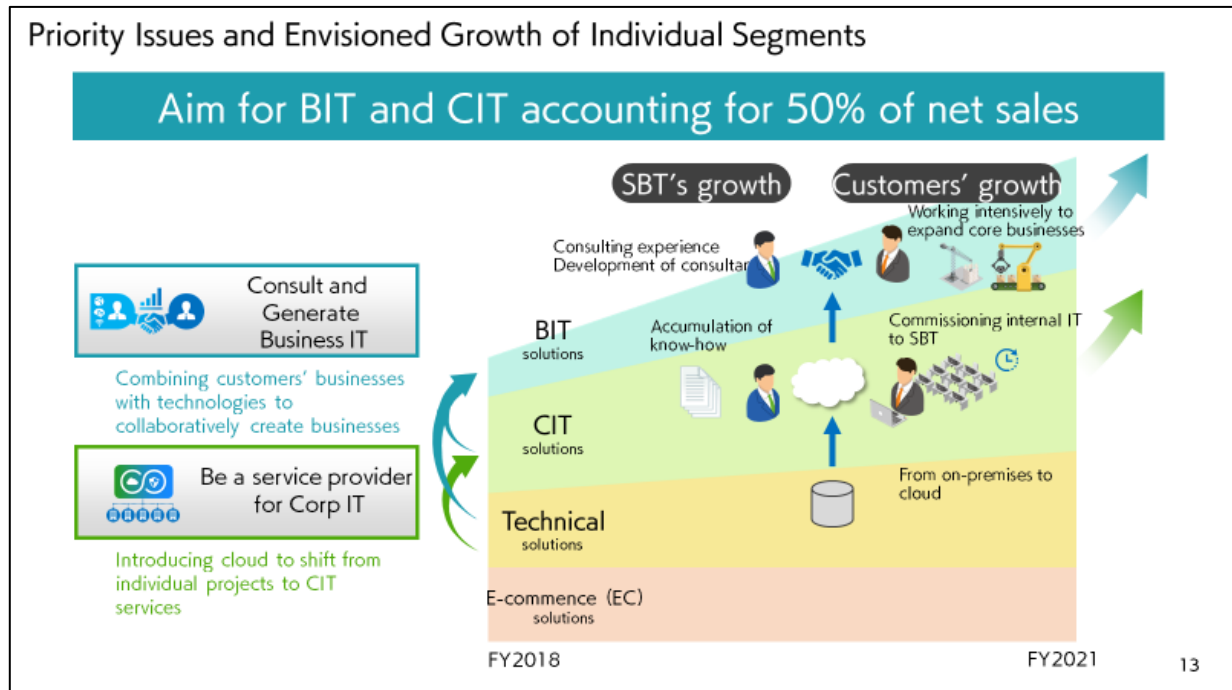


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- SBT will work with SoftBank Corporation in areas where SoftBank has advantages and where SBT can complement it to create synergy.
- SoftBank Corporation serves as an interface with SoftBank Vision Fund. SBT aspires to provide IT support for joint ventures in Japan.

Priority Issues and Envisioned Growth of Individual Segments



- With regard to e-commerce solutions, the point is how long its business scale can be maintained.
- The domain of technical solutions pertains to the development of non-cloud solutions and platform construction.
- Prospective customers have demand for strengthening systems handling confidential information and personal information that they want to keep undisclosed.
- SBT has worked together with them on the basis of long relationships with them. It has no choice to discontinue collaboration.
- It is still unforeseeable as to whether they will attain slight growth and whether they will be transferred to the cloud.
- In CIT, there is a major opportunity.
- SBT faces the question as to how much volume it can handle, but it is anticipated that there will be a significant tailwind for the next year or two.
- Notwithstanding the above, SBT will work on BIT as well for the future.

Targeted Management Indicators and Key Themes


Targeted Management Indicators and Key Themes

**FY2021
Management
Indicators**

- Operating income of **4.3 billion yen**
(20% CAGR from FY18/2.5 billion yen as a starting point)
- Business IT & Corporate IT to **50%**
as a percentage of total net sales
- ROE of **13%**


[Key Themes]

Be a service provider
for Corp IT



(1) Concentrate on system introduction and development projects that lead to the development of services
(2) Enhance and upgrade cloud and security services for enterprise
(3) Establish and strengthen partner sales

Consult and
Generate
Business IT



(1) Adopt cloud computing and IoT in existing businesses
(2) Collaborate on new businesses utilizing IoT
(3) Further the penetration of scrum development

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- SBT has set a target of increasing operating income to 4.3 billion yen for FY2021 at a CAGR of 20% during the three-year period.
- At present, CIT has a sales share of 35%. SBT will lift this figure to 50%.
- For the fiscal year under review, ROE stood at 9% due to a decrease in profit. SBT will strive to raise ROE to 13%.