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SB Technology Corp. Overview of Earnings Results Briefing for FY2022

This is a transcript of the SB Technology Corp. FY 2022 Results Briefing held on April 27, 2023.
Speaker: Mr. Shinichi Ata, President & CEO, SB Technology Corp.

Achieved record highs for SB Technology from net sales to ordinary income, and forecast a 15% increase in profits in the current fiscal year, achieving the Medium-term management plan target of an operating income of 9%

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Shinichi Ata: Hello everyone, I am Shinichi Ata from SB Technology. Thank you for participating in our financial briefing while you are very busy today.

Today, after explaining the outline of the results and the progress of the Medium-term management plan, we receive questions based on the attached calculation materials and company information.

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Summary

Summary

| FY2022 Q4

FY22 Financial Results

Net sales, operating income, and ordinary income achieved record highs

Operating income improved 0.5 of a percentage point year on year to 8.3%

Orders Received

Received orders for large-scale operational projects from central ministries and agencies in several years

Achieving record-high orders and order backlog to FY23

FY23 Forecast

Full-year forecast net sales ¥69 billion operating income ¥6.4 billion

Aiming for growth in high-value-added services such as security and improvements in quality and productivity, the operating income will be in the 9% range ahead of the medium-term plan target

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Summary of performance. In fiscal 2022, net sales, operating income, and ordinary income achieved record highs. The operating income improved 0.5 percentage points from fiscal 2021 to 8.3%. We received orders for several years for large-scale operation projects in central ministries and agencies. We have achieved record-high orders and backlog, and have entered fiscal 2023.

This is a forecast of business results for the current term. The full-year forecasts are for net sales of ¥69 billion and operating income of ¥6.4 billion. Aiming to grow high-value-added services such as security and improve quality and productivity, we intend to realize an operating income of 9% ahead of the Medium-term management plan target during the current fiscal year.

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Consolidated P/L (Full year cumulative)

Consolidated P/L (Full year cumulative)		FY2022 Q4			
[Millions of yen]	(Profit margin)	FY22	FY21	Change	Change %
Net sales		RecordHigh 67,227	66,183	+1,044	+1.6%
Operating income		RecordHigh 5,557 (8.3%)	5,152 (7.8%)	+404	+7.8%
Ordinary income		RecordHigh 5,499 (8.2%)	5,133 (7.8%)	+365	+7.1%
Profit attributable to owners of parent		RecordHigh 3,497 (5.2%)	3,630 (5.5%)	▲133	▲3.7%
Net profit					
EBITDA ※		RecordHigh 7,217	6,702	+514	+7.7%

*EBITDA = Operating income + Amortization of goodwill + Depreciation

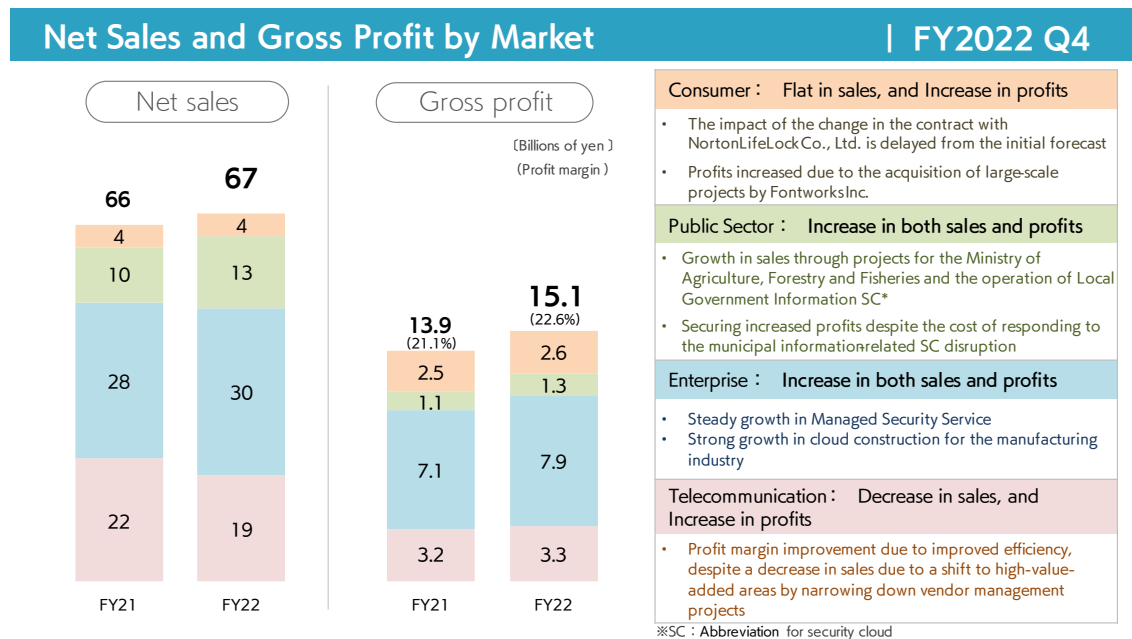
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Consolidated PL. Net sales are ¥67.227 billion, operating income is ¥5.557 billion ordinary income is ¥5.499 billion, net profit is ¥3.497 billion, and EBITDA is ¥7,217 million. As shown on the slide, it is a record high, excluding net profit.

In fiscal 2021, the sale of investments in securities had an impact of approximately ¥0.6 billion. As a result, Apple to Apple net income for the fiscal year under review was approximately ¥3 billion, a substantial increase in income.

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Net Sales and Gross Profit by Market



I will explain net sales and gross profit by market. The graph on the left side of the slide shows net sales and the middle is gross profit. Net sales in the Telecommunication area amounted to ¥19.5 billion in fiscal 2022, down approximately ¥3 billion from ¥22.8 billion in fiscal 2021. Gross profit increased by ¥0.1 billion, despite a shift from conventional vendor management projects to high-value-added areas, which resulted in lower sales.

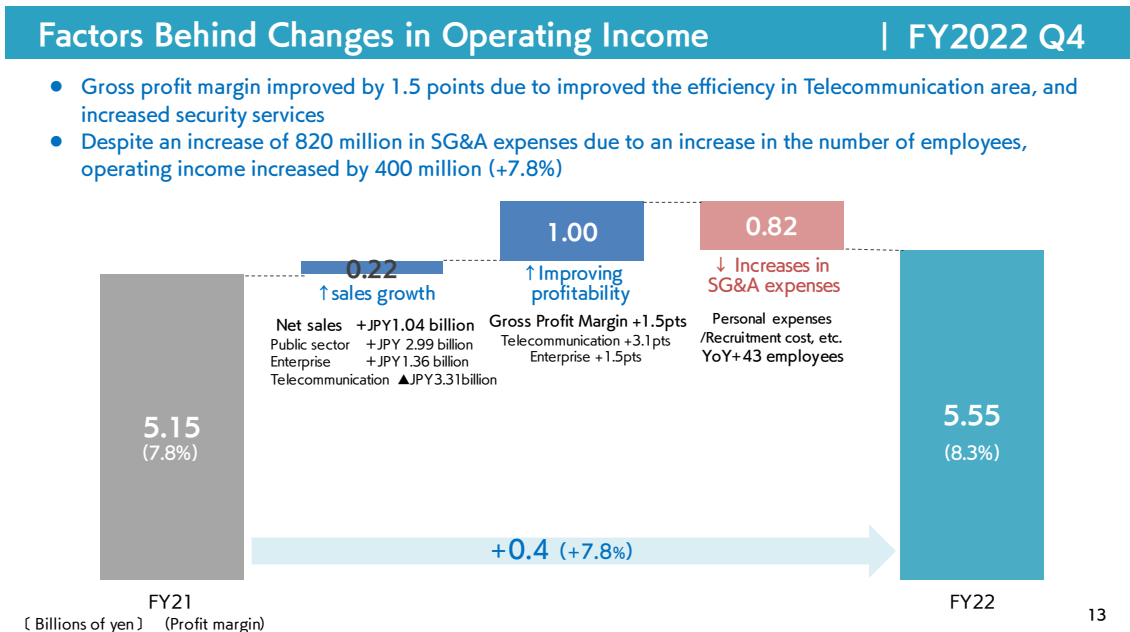
In the Enterprise area, net sales increased from ¥28.9 billion in fiscal 2021 to ¥30.3 billion in fiscal 2022, and gross profit increased from ¥7.1 billion to ¥7.9 billion.

Net sales in the Public Sector are increased by 3 billion to 13.2 billion in fiscal 2022 from 10.2 billion in fiscal 2021. Gross profit increased by ¥0.2 billion from ¥1.1 billion to ¥1.3 billion. While net sales grew due to the operation of Local Government Information Security Cloud and for the Ministry of Agriculture, Forestry and Fisheries, many customers were inconvenienced by the accident that occurred on March 18, 2022 and the equipment breakdown and response that occurred in August. We believe that this will have an impact in the current fiscal year and beyond, and as we provided a reserve of more than ¥0.5 billion at the end of fiscal 2022, the extent of the increase in profits will be small.

For the Consumer area in fiscal 2022, we assumed that the change in the agreement with NortonLifeLock Co., Ltd. would have a negative impact on earnings of about ¥0.4 billion. However, this was a little less than ¥0.1 billion as they pushed back from expectations. Conversely, the reason for the growth in gross profit was the acquisition of a large-scale project by Fontworks Inc., a consolidated 100% subsidiary, in the fourth quarter.

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Factors Behind Changes in Operating Income



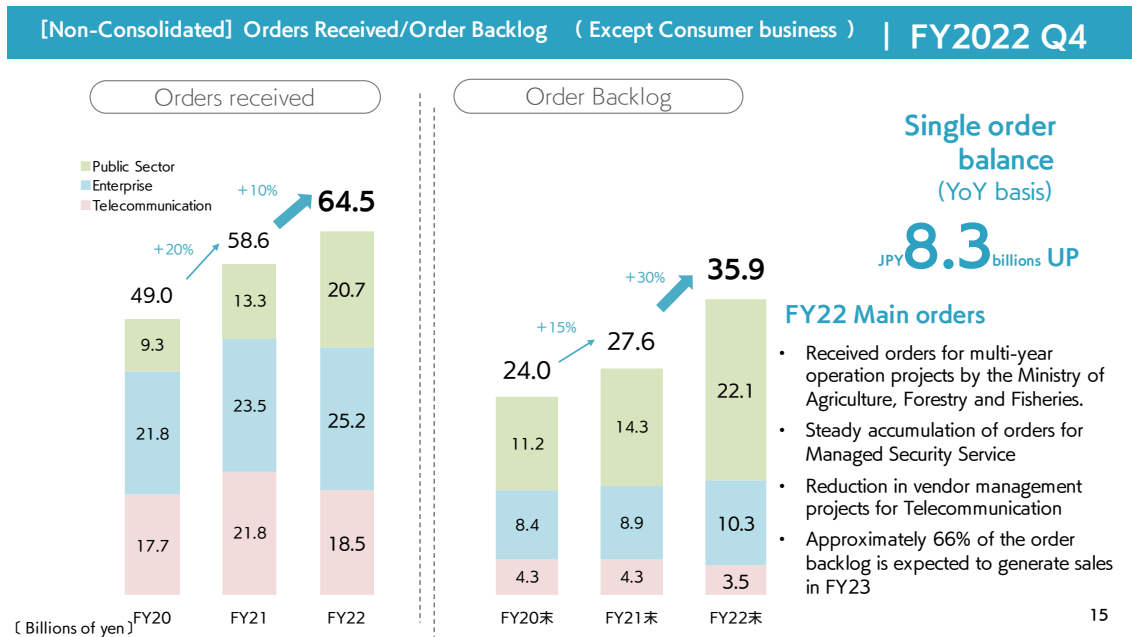
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The factors behind changes in operating income. Net sales increased by ¥2.99 billion in the Public Sector area, decreased by ¥3.31 billion in the Telecommunication area, and increased by ¥1.36 billion in the Enterprise area. Overall, net sales increased by ¥1.04 billion, resulting in an increase in sales of ¥0.22 billion.

The gross profit margin improved by 3.1 percentage points for the Telecommunication area and by 1.5 percentage points for the entire company, resulting in an improvement in monetary value of ¥1 billion. In addition, due to an increase of 43 employees during this period, SG&A expenses, including personnel expenses and activity expenses, increased by ¥820 million. As a result, operating income was ¥5.55 billion.

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[Non-Consolidated] Orders Received/Order Backlog (Except Consumer business)



I will explain about the orders received. The number of orders received in fiscal 2022 was ¥64.5 billion, which was a very large order. The order backlog increased significantly from ¥27.6 billion at the end of fiscal 2021 to ¥35.9 billion at the end of fiscal 2022. This includes orders from the Ministry of Agriculture, Forestry and Fisheries for multi-year operation in fiscal 2024. Overall, approximately ¥24 billion of the ¥35.9 billion will be realized in fiscal 2023, and the remaining ¥12 billion will be carried forward to fiscal 2024 and beyond.

As shown in the slide, the end-of-year order balance of the Telecommunication area has decreased considerably, and the Enterprise area has increased significantly. Then, please understand that the number of orders received in the Public Sector area includes the number for FY2024.

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FY23 Full-year Earnings Forecast

FY23 Full-year Earnings Forecast		FY2022 Q4		
<ul style="list-style-type: none"> Despite restrained investment in the Telecommunications field and the impact of changes to the contract with NortonLifeLock Co., Ltd. demand for security and cloud utilization is strong and Enterprise and Public Sector sales are expanding. The operating income is expected to be in the 9% range, one year ahead of the medium-term plan target, due to growth in-house services and improvements in quality and productivity. 				
	FY23	FY22	Change	Change %
Net sales	69,000	67,227	+1,772	+2.6%
Telecommunication	16,300	19,575	▲3,275	▲16.7%
Enterprise	35,400	30,358	+5,042	+16.6%
Public Sector	14,000	13,223	+777	+5.9%
Consumer	3,300	4,070	▲770	▲18.9%
Operating income	6,400 (9.3%)	5,557 (8.3%)	+842	+15.2%
Ordinary income	6,350 (9.2%)	5,499 (8.2%)	+850	+15.5%
Profit attributable to owners of parent Net profit	3,950 (5.7%)	3,497 (5.2%)	+452	+12.9%

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I would like to explain the full-year earnings forecast for fiscal 2023. Net sales are expected to be ¥69 billion, consisting of a decline of more than ¥3 billion in the Telecommunication area and an increase of approximately ¥5 billion in the Enterprise area. The Public Sector area is projected to increase slightly from ¥13.223 billion in fiscal 2022 to ¥14 billion in fiscal 2023, and increase further thereafter. The Consumer area is expected to decrease from ¥4.07 billion in fiscal 2022 to ¥3.3 billion in fiscal 2023 in anticipation of the impact of NortonLifeLock Co., Ltd..

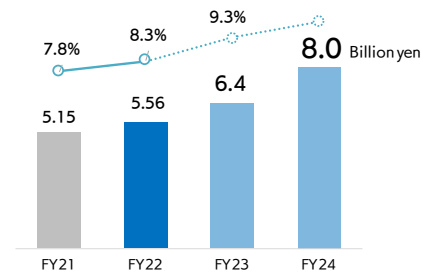
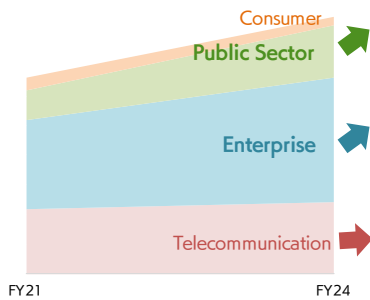
Operating income was ¥6.4 billion, ordinary income was ¥6.35 billion, and net profit was ¥3.95 billion. The operating income will be 9.3%, and we intend to achieve the 9% level targeted under the 4th Medium-Term Management Plan during the current fiscal year.

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4th Medium-Term Management Plan

4th Medium-Term Management Plan | FY2022 Q4

FY24 Management Indicators	<ol style="list-style-type: none"> 1. Operating income JPY 8 billion 2. Operating Income 9% range 3. Cloud Security & Services Net sales over JPY 50 billion
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By the growth in the Enterprise and Public Sector aim to achieve operating income of 8 billion / operating income of 9% range

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I will explain the progress of the Medium-term management plan. Our target for fiscal 2024 is to achieve operating income of ¥8 billion and an operating income margin in the 9% range. We also intend to raise sales of cloud security and services to over ¥50 billion.

Business for Telecommunication

Business for Telecommunication | FY2022 Q4



FY23 Initiatives

Use of offshore
(Cost reduction/Resource reserve)

To expand Share of wallet
(Invading on competitive areas)

Profit margin continues to improve due to initiatives such as quality improvement and withdrawal from low-profit projects

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For each market, I would first like to explain the business for the Telecommunication compared to fiscal 2021. Gross profit fell below 12 percent in the first quarter of fiscal 2021, when there were strong vendor management deals and unprofitable deals, but picked up to the 14 percent level in the

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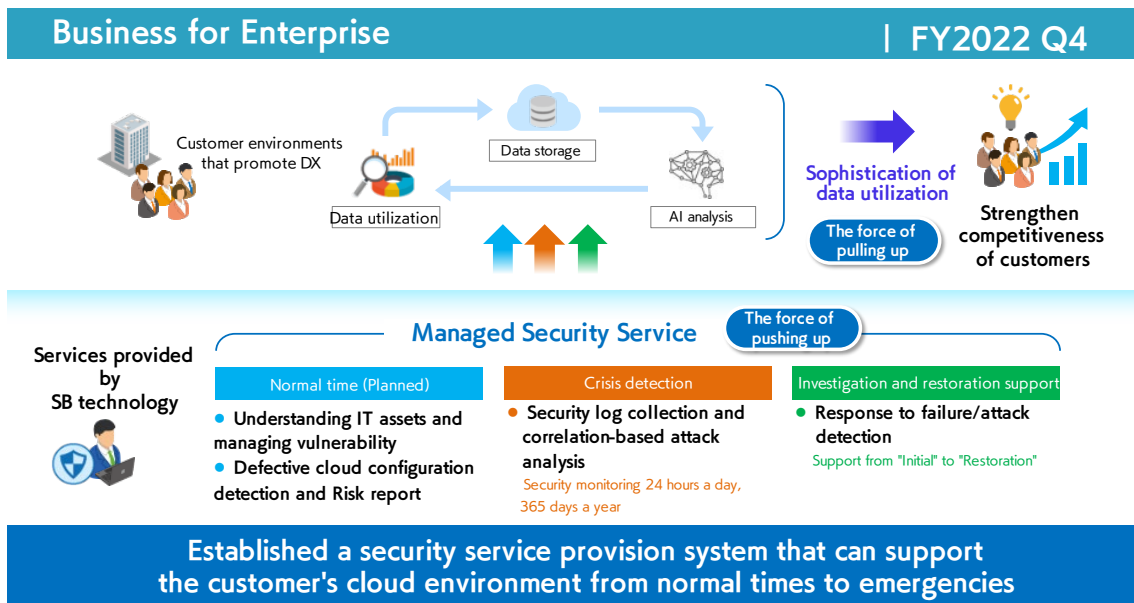
second, third, and fourth quarters.

In fiscal 2022, we gradually reduced the number of vendor management deals and challenged higher value-added deals. As a result, we have increased the percentage by one point each quarter to 15.7 percent in the first quarter, 16.8 percent in the second quarter, 17.5 percent in the third quarter, and 18.4 percent in the fourth quarter. Not only on-site efforts but also only SoftBank staff understand this, and we are able to shift in this way.

We believe that there is still a growth in margin improvement. In FY2023, we plan to actively develop this system overseas, taking into account the fact that COVID-19 is a Class 5 from May 8, 2023. Employees inspected the plant locally last year and studied local conditions and what type of project they could use.

In addition, we intend to increase the ratio of Share of wallet within Telecommunication. Although we expect to see significant declines in sales, we believe that increasing profitability is the key to our Telecommunication business.

Business for Enterprise



I will explain the business for the Enterprise. In the current fiscal year, we intend to increase the number of consulting-related projects and promote DX together with our customers, thereby enhancing our customers' competitiveness.

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As part of our efforts to achieve this goal, we currently have 52 qualified personnel who can systematically acquire CBAP consulting. As there are hundreds of individuals acquiring certificates in Japan, we are in a state of taking a large percentage.

We need to increase security as a "The force of the pushing up" in the sense that we support the business infrastructure for our customers to promote DX. For this reason, in fiscal 2022 we focused on improving our security product lineup, quality, and system. We intend to provide reliable support from normal times for customers who use older versions of OS and apps, or use them without patching since it can be used without trouble,

In the event of a customer security crisis, we will assign an analyst who can analyze the security log and provide assistance for investigation and restoration. In FY2022, we were able to significantly enhance our resilience capabilities, such as preventing recurrences, which is particularly important, and providing support for restoration to the previous business.

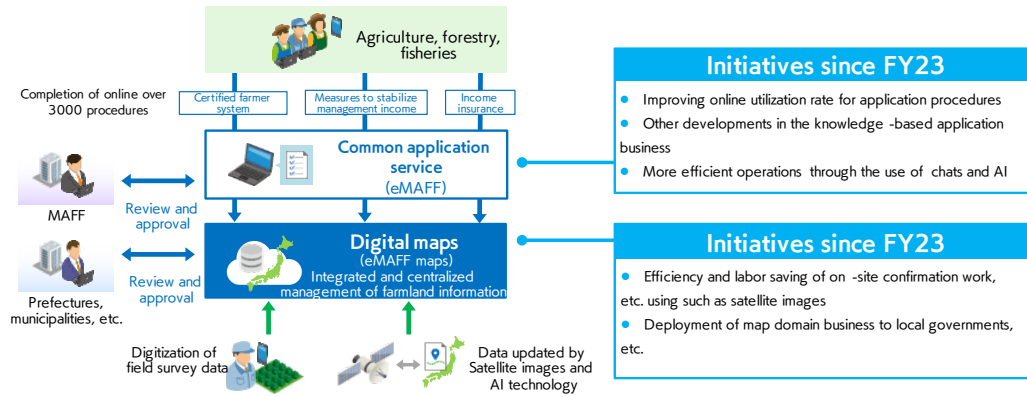
I think that the security part for using the business infrastructure safely has been expanded. We believe that there will be a large number of customers taking the challenge of data utilization based on the secure foundation in 2023, and we have received a great number of inquiries, including the topic of "ChatGPT".

In this way, to promote DX and utilize data, we need to assemble individually with our customers how data is stored and under what conditions data will be utilized. In fiscal 2023, we intend to expand this area.

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Business for Public Sector (Central ministries and agencies Related)

Business for Public Sector (Central ministries and agencies Related | FY2022 Q4



Since FY23, we have focused on utilizing digitized data, mainly in areas where our strengths have been active, and on expanding into other areas

About business for the Public Sector. There are two major initiatives.

One was to digitize the procedure for the Ministry of Agriculture, Forestry and Fisheries (MAFF) for three years. In FY2022, the staff members from the MAFF completed making over 3,000 procedures and over 5,000 application patterns using low-code and no-code, and compiled data on application-related documents that were managed with five or ten files.

In the future, we would like to use this more and improve the online utilization rate in the application procedure. There has been some discussion on the use of "ChatGPT" in the manuals and usage. One theme is to revitalize electronic applications in fiscal 2023, with a view to expanding knowledge-oriented application work to other departments and agencies.

The other is the utilization of digitized maps (eMAFF maps) in the agricultural sector as the following stage of the Common application service. Initially, costs were larger than anticipated, but we were working for three years until fiscal 2022.

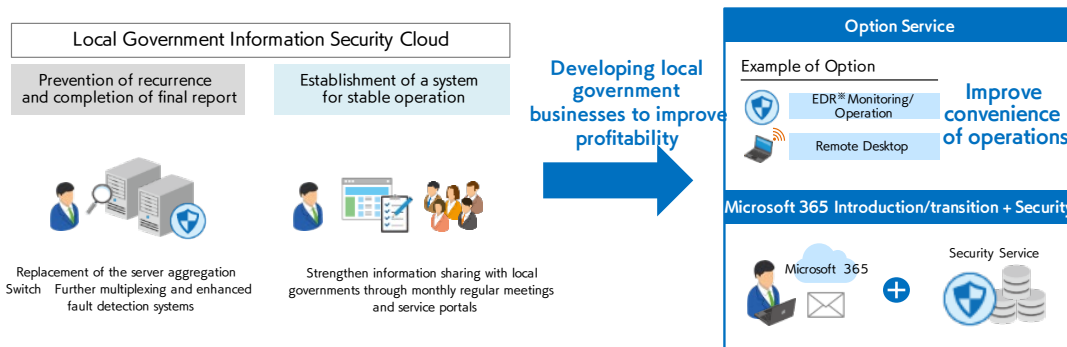
This effort will enable us to accurately analyze the extent of damage in agricultural land using satellite-based images and AI techniques with a small number of field surveys. In addition, we will continue to seek and approve measures to stabilize management income and support for reconstruction during reviews.

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In this way, we have reached the stage where digital maps are used to confirm the application. We have received orders for several years for the common application service and the maintenance and operation of digital maps.

Business for Public Sector (Local governments Related)

Business for Public Sector (Local governments Related) | FY2022 Q4



Implementing measures to prevent recurrence to ensure stable operation of information-based SC Acquisition of communication infrastructure around local governments in addition to optional services

※ : Security of endpoints such as terminals (abbreviation for Endpoint Detection and Response)

It is the Local Government Information Security Cloud. The accident that occurred on March 18, 2022, and the equipment failure that occurred on August 8, 2022, caused a deep reflection of the incident, followed by repairs and four major accident training sessions. Two of them were attended by all 417 municipalities and tested how long it took to receive information and how long it took to recover. On top of that, we completed our response at the end of March 2023.

This has changed the composition, and the operational system must also be sufficiently improved. This is a five-year contract with a four-year term starting in fiscal 2023. As a corresponding cost for that period, a provision of more than ¥0.5 billion was made at the end of fiscal 2022.

On this basis, we intend to sell as an optional service a service that can securely monitor within the specifications of Local Government Information Security Cloud.

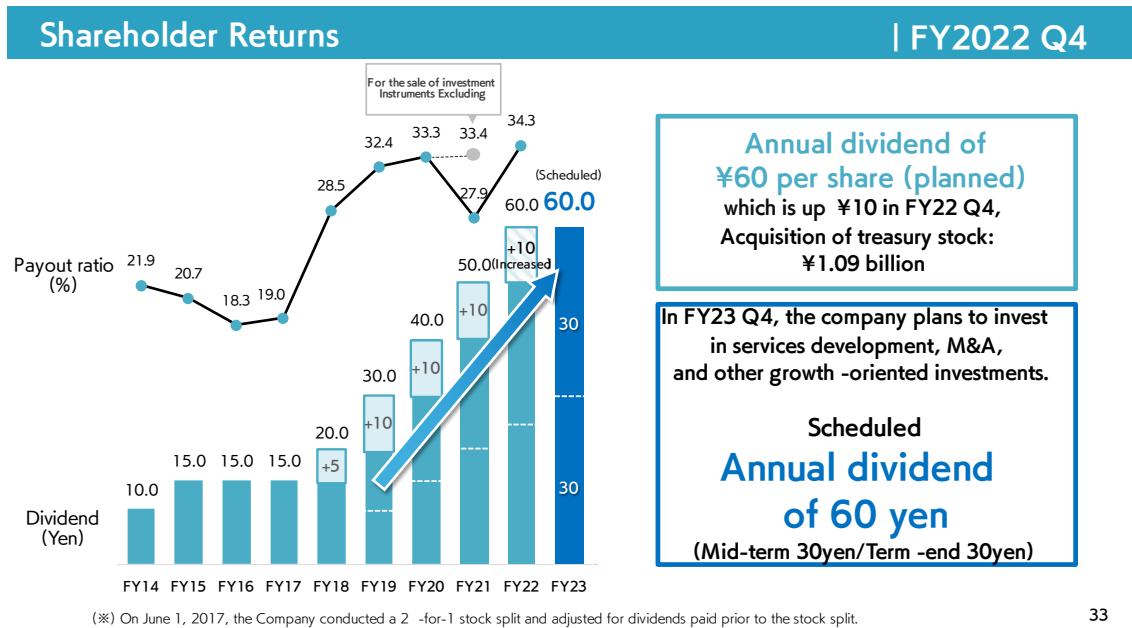
In addition, the number of local governments introducing "Microsoft365" is increasing. This "Microsoft365" and "Teams" play a crucial role in "Azure OpenAI Service." How a globally trained AI gives answers is a big topic. For AI to provide a good answer to our field, it must be trained to include the communications infrastructures and files used within the group. We believe that we will

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be able to provide better AI servicing for users by ensuring that we are fully prepared.

I will not explain the "ChatGPT" in detail, but I would like to have a chance to speak separately after next month.

Shareholder Returns



It is Shareholder returns. In 2022, amid unstable market conditions, we repurchased ¥1.09 billion of our common stock. We also plan to increase the allowance by ¥10, which will be the fifth consecutive year increase since we achieved the target figure. As of the end of March 2023, shareholders were paid a year-end dividend of ¥35, with an annual dividend of ¥60.

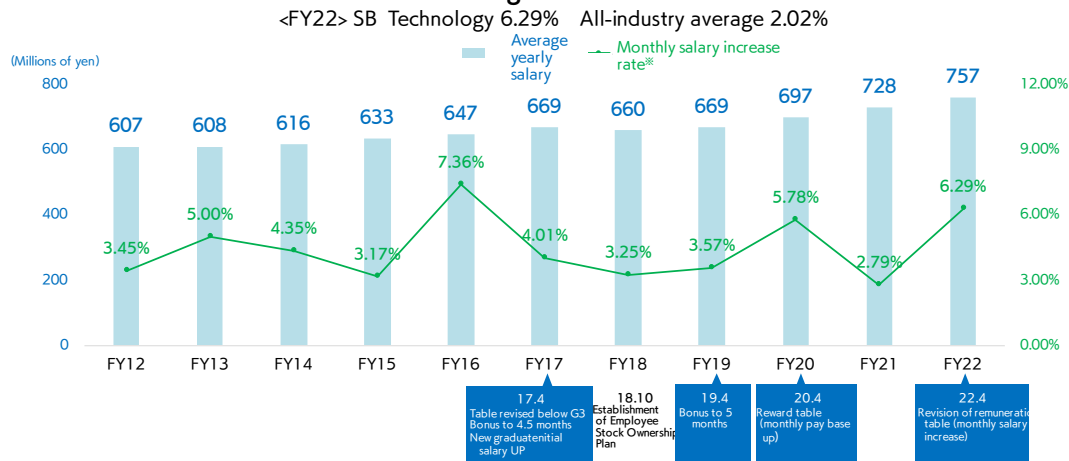
We plan to pay an annual dividend of ¥60 in fiscal 2023.

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Reference : Reduction to Employees

Reference : Reduction to Employees | FY2022 Q4

Since 2012, monthly salaries have averaged "about twice the level" compared to the public level on a wage increase rate basis.



※Average rate of increase compared to the "current monthly wage" and "monthly wage after the next year's wage increase after the year's evaluation" of the subject of the year evaluation

As a reference, the reduction to employees. The average salary in fiscal 2012 was ¥6.07 million, but has now risen to ¥7.57 million. The green line graph on the slide shows the monthly wage boost rate, which is 2.79% in FY2021 and more than 3 points in FY2022.

In addition, the 4-month bonus is 4.5 months' worth and 5 months' worth, and the base pay increase has been made twice, most recently in fiscal 2020 and fiscal 2022. In this way, we return not only dividends to shareholders, but also to employees.

4th Medium-Term Management Plan / FY24 Management Indicators

4th Medium-Term Management Plan / FY24 Management Indicators

1. Operating income JPY 8 billion

2. Operating Income 9% range

**3. Cloud Security & Services
Net sales over JPY 50 billion**

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Finally, operating income of ¥8 billion and an operating income margin of 9% under the Fourth Medium-Term Management Plan are the figures we would like to realize in the current fiscal year. We also intend to firmly advance our goal of ¥50 billion in net sales in Cloud Security & Services as the second year of the Fourth Medium-Term Management Plan.

Disclaimer:

This is an English translation of the captioned release. This translation is prepared and provided for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese of the release for complete information.