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Summary of questions and answers at the Q4 FY2019 Earnings Results of Operations

Date of the event: April 27, 2020 16:00-17:00

Venue: SB Technology Corp. Head Office, Seminar Room

Respondent: Shinichi Ata, President & CEO

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Tetsuya Shimizu, Vice President, Senior Director, Corporate Planning Dept. • • • (1)

<Questioner 1>

(1) Fixed costs in Q4 were about JPY3.9 billion (YoY + about JPY0.9 billion), but did personnel costs exceed the target? Sales in Q4 grew significantly to YoY + about JPY3.7 billion, so it is impressive that operating income may grow even more. I want to confirm the reason for this.

The structural increase in fixed costs is personnel costs. Increases in the number of employees and base pay raises remained within the plan. On the other hand, unexpectedly increased fixed costs include costs incurred in preparation for the capitalization of software, which were recorded in the 4Q.

In addition, vendor management projects for SoftBank Corp., which contributed to sales growth in the 4Q, had lower marginal profit ratios than cloud and security projects, and had less marginal profit contribution to sales growth.

Consequently, operating income for the 4Q was approximately JPY0.9 billion (YoY ▲ 0.1 billion).

<Questioner 2>

(2) The full year forecast said that operating income grew by about 20%. Please tell us about the ratio for the 1H and the 2H of the fiscal year. What do you think there are sufficient opportunities, such as the risks associated with the new coronavirus and the growth in telework demand under such circumstances?

At present, we expect the upside and downside balance to be on a par with the previous fiscal year.

Compared to the 1H of the fiscal year under review, vendor management projects for SoftBank Corp., which were launched in the 2H of the fiscal year under review, FY19 are scheduled to continue, and sales in this project will exceed the forecast by JPY2 billion. In Enterprises public sector, the backlog of orders is steadily increasing, and telework demand is expected to be strong in the short term. At the same time, I have not heard anything that could have a critical impact on our business performance. However, I believe that there are a certain number of issues in Enterprises business, particularly in the business IT, where business is the main business, such as the discontinuation of projects or the falling back of projects due to the effects of the new coronavirus.

In the 2H of the fiscal year, we believe that the acceleration of the promotion of digital government is a positive factor.

(3) Please tell us about how the society will change in the after-corona era, and what position your company will be in, or will you aim at?

We believe that there are 3 challenges customers face when telework becomes a normal society.

In order to grow our core business, many projects will be launched, and this will be accomplished online. To do so, we need to have more tools such as Microsoft Teams and rules-based communications such as morning meetings, evening meetings, and weekly meetings.

We also need security measures to support communications such as those listed above, as well as environment and know-how to provide secure access to important systems at headquarters, data centers, and other locations.

We are also taking on challenges, but as the process becomes difficult to see due to physical departure, we can evaluate processes such as new concepts and attempts.

With the declining birthrate, the aging population, and the shift to a work style in the after-corona era, raising efficiency will become increasingly important. In addition to system development and the introduction of tools, we will take the initiative in taking on the challenge of this new work style and system, and by communicating our know-how, we intend to contribute even more to our customers than ever before.