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Summary of questions and answers at the Q2 FY2020 Earnings Results of Operations

Date of the event: October 28, 2020 16:00-17:00

Venue: SB Technology Corp. Head Office

Respondent: Shinichi Ata, President & CEO . . . (1)(2)(3)

Tetsuya Shimizu, Vice President, Senior Director, Corporate Planning Dept. . . . (4)(5)

<Questioner 1>

(1) I think that there are many on-premises systems for local governments and government agencies. What are your medium-and long-term approaches to how these systems will become in the future?

In the future, the systems used by staff members of Kasumigaseki, prefectural government offices, and city offices will be digitized and their working styles will also change to telework, making use of the cloud. Also, in the past, we used a very strictly managed network of LGWAN, but assuming cases like telework, we assume a transition from border-type security to zero-contrast. For this reason, we believe that our business opportunities are very large.

<Questioner 2>

(2) In the first quarter, I think there was an explanation that the operating margin in the second quarter was at the same level as the previous year. What was the difference from the original one?

At the time of our first quarter financial results, we had expedited the move related to digital governance and believed that we would have to spend the second quarter on preparing for it, but in the first half there was no bid for large-scale projects in the areas we had anticipated. In general, the tender for large-scale development projects that will run in the following fiscal year will be around spring, so the preparation period will continue in the second half of this period.

(3) Since the movement of the digital government is slowing down, it seems to have been compensated for that amount by the technical solution. Was there such a change of direction?

While it is true that they supported the top line during this period, there was no change in direction. I feel that the digital agency is neutral in the short term and very tailwind in the medium-and long-term. To this end, we are expanding SoftBank's vendor management projects, strengthening relationships with partner companies, and establishing a system that enables us to cooperate quickly if public projects are accelerated. In addition, the increase in the number of contacts with SoftBank through the expansion of vendor management projects has also led to the acquisition of business IT solutions projects.

(4) The major growth in both sales and profits in technical solutions was due to the expansion of vendor management projects and progress in standardization?

Sales to SoftBank grew significantly, but the newly consolidated DENEN Co. Ltd. was also a result of the acquisition. In addition to standardization for SoftBank, DENEN Co. Ltd., which has a high marginal profit margin, has also contributed to the improvement of profit margins.

(5) I thought that there was no significant benefit from the new consolidation of DENEN Co. Ltd.. Again, why did you raise the margin?

Technical Solutions profit is presented as "marginal profit," which is calculated by subtracting external costs such as purchasing and outsourcing costs from sales, and the content disclosed at the time of acquisition is "operating profit." Marginal profit has contributed to the improvement of the profit margin, but you are aware of the impact on operating income.