

※It is translated by AI.

SB Technology, operating profit up 32% in 1H, steady progress in cloud security and IoT services

Notice of Change of Company Name

Mr. Shinichi Ata: I am Shinichi Ata of SB Technology. We would like to thank all of you for participating in earnings results briefing in this terrible weather.

This is the content of today's financial results briefing. This section provides an overview of our business results, the progress of our medium-term management plan, and an overview of each solution.

We changed our trade name to SB Technology on October 1, 2019.

SoftBank Technology Corp. was born by integrating the 3 units of SoftBank's Information Systems Division, a company that handled the SoftBank Network Center network at that time, and SoftBank Giken, a company specializing in the localization of overseas software. It was also listed on the over-the-counter market. We then changed the company name to mark the 20th anniversary.

Growth Strategy of the Third Medium-Term Business Plan

I became the president for 8 years. In FY2013, the second year of the president, we formulated the First Medium-Term Business Plan. In FY2016, we formulated the Second Medium-Term Plan. In 2019, we launched the Third Medium-term management plan. We are determined to grow further over the past 3 years.

8 years ago, most of the sales were in EC (EC Solutions) at the bottom of the slide, and in TS (Technical Solutions) above. Since FY2019, CIT (Corporate IT Solutions) and BIT (Business IT Solutions) were categorized. The Third Medium-Term Business Plan focuses on these 2 areas. CIT and BIT grow revenues centered on cloud and security, which are our strengths.

In our first and second medium-term management plans, we have focused on cloud and security for the enterprise in order to obtain the weapon that we can't lose to our competitors.

Our achievements have been highly regarded by enterprise customers. We separated CIT and BIT in order to contribute to our customers' businesses. In the future, we intend to manage these businesses in 4 segments and expand their respective fields.

Outline of the medium-term plan

In the final year of the Second Medium-Term Plan (FY2018), 700 dozens of our employees conducted the "Vision 2030" project. All employees considered and discussed the ideal situation for society, customers, and us after 10 years from now. The Third Medium-Term Business Plan is a 3-year period for achieving the answers we have received from this project.

Up to now, we have faced the information systems departments of each company. The concerns and challenges they face are changing. There are 3 major changes.

First. They are expected from the management of their customers to steadily introduce the cloud, realize cost reductions and productivity improvements, and utilize data in their business.

Second. The keyword is "Cliffs of 2025." As the customer's old backbone systems will be completely out of support by 2025, it will be necessary to move to a more streamlined backbone system. Without the transition, the information systems department will be heavily burdened.

Third. Security measures. With the proliferation of cloud computing, there are cloud solutions that have been ordered separately by various departments, and there are problems that could cause a security crisis. Under such circumstances, information system professionals are gradually shifting to business divisions.

I would like to talk about the important themes of the Third Medium-Term Business Plan.

In CIT's domain, I think it is important to reduce the burden on customers' information systems. In

※It is translated by AI.

the area of security, we have recruited a lot of security personnel. we gave them experience as security analysts. It has been cultivated by analyzing large volumes of data, and the quality of security has improved.

In the area of cloud installation, we have been developing individual products for customer orders. However, there are problems with resources and the amount cannot be addressed. So we packaged our best-case solution and created a cloud services brand called "clouXion". This "clouXion" is a monthly fee model. We believe that using this package will enable a cloud migration that does not fail.

We intend to distribute this. We would also like to provide packaged solutions to our competitors' Sier. We will also collaborate to promote the use of cloud computing and the use of cloud computing by corporations.

Next, I will talk about the BIT area. The people in charge and managers in the Information Systems Division who have helped us up to now are gradually shifting to the Business Divisions. We need to be able to talk about how BIT can differentiate itself from its competitors, how it can improve efficiency, and how it can raise productivity by visiting people who have been transferred from the Information Systems Division to divisions.

We provide consulting services and contribute to BIT. This is a major challenge for us.

We accomplish our CIT and BIT weight themes and grow at an annual rate of 20% on an operating income basis.

Synergy with SoftBank Corp. (parent company)

We were a subsidiary of SoftBank Group Corp. for a long time. In April 2018, SoftBank Group Companies in Japan announced that they would be subordinates of SoftBank Corp.

Since April 2018, we have been examining how to generate synergies with SoftBank Corp. SoftBank Corp. is a telecom company and has its own network. In addition, They have a large number of data centers. In such circumstances, they were considering cloud computing and recommending the most up-to-date Alibaba Cloud.

After repeated discussions, at the beginning of 2019 they began thinking of "Microsoft Azure as well." We have been refining our resources and technologies for many years toward Microsoft Azure.

As some customers are interested in Microsoft Azure, we have proposed using Microsoft Azure as well. SoftBank Corp. will develop the product directly, but in April 2019, We agreed to continue to collaborate in sales.

I will explain the details later.

Consolidated PL (1H)

I will explain our business results in a manner that does not cause misunderstanding. In terms of ordinary income, there was a non-operating loss in the previous fiscal year, and a loss of approximately 240 mn was recorded for equity-method affiliates.

This is because the timing was delayed because the same amount of non-operating income was included in the previous fiscal year. The impact appeared in the 2Q of March 2018.

This is why ordinary income appears to have grown so much in the current fiscal year. Not an outlier value.

By Solution Segment

The portion of "102" and "108" at the bottom is EC sales. This is mainly for individual customers of Symantec operates software.

On top of that is technical sales. Developing systems on-premises or in private clouds, not on Microsoft Azure. 2 of these are the sales of corporate IT and business IT.

Thanks to these efforts, corporate IT has grown to a certain extent. Business IT is still a very small

※It is translated by AI.

part, but it includes a package of solutions. As a result, it is a slightly better segment than conventional system integration tools.

Sales by Customer/Type

Next, sales by customer. Please understand that the blue portion at the bottom is an individual, and is the portion of the EC mentioned above. The second category, corporate and public sectors, was JPY9.6 bn, up from JPY9.3 bn, a slight increase.

Sales to the SoftBank Group grew significantly from JPY5.8 bn to JPY7.3 bn. one of the SoftBank Group companies is shifting its mission-critical systems from conventional mainframe systems to cloud-based systems over a period of 2 years.

Currently, the development of the application layer is in the process. In the 1H of the fiscal year, I believe that major contributions from sales will be made by replacing core systems developed for Microsoft Azure.

Depending on the type of development, please understand that the sales of the temporary development has become extremely large because the flow includes the development system.

[Non-Consolidated] Orders Received/Order Backlog (Excluding EC Services)

In response to requests to disclose the amount of orders received, this report has been published. Orders received during the first 6 months of the fiscal year amounted to JPY16.1 bn, which was significantly greater than the growth in development of operations services. The order backlog at the end of September also shows that the backlog of development orders is large compared with the previous fiscal year.

FY2019 Forecast

The 2H of the year has started in October. Our sales forecast to date has been JPY54.0 bn, and we are currently JPY26.7 bn.

Operating income still stands at 45%, but considering the progress made in the past, it is steady.

Market Trends (Status of Digital Transformation)

From this point on, I will discuss the progress of the medium-term plan. Page 14 describes our customers' concerns about the impact of the spread of digital technology on our company.

It is written that "competitiveness may decline." In contrast, it was said that there is a shortage of 170 k IT personnel in 2017. Now, what about the future of 2025? This is 1 of the risks faced by Japanese corporations, known as the "cliff of 2025," and it is expected that there will be a shortage of 430 k IT human resources.

As we implement our cloud-first strategy, it is important to see how cloud growth is growing. A typical data chart is located in the middle of the bottom of page 14. The orange portion below represents the private cloud and the blue portion above the public cloud. Research organizations have announced that the public cloud we are focusing on is expected to grow in the range of 20% to 30%.

In addition, we expect steady growth in managed cloud security services at more than 20%. These are the data that have been investigated to date.

We have an extremely diverse range of security services. We provide services that enable us to conduct transactions with a variety of companies and monitor them in an integrated manner.

In the cloud business, we expect advances in Microsoft Azure to continue in the new 3-year period. Currently, in Japan, approximately 30% of cloud computing is in the form of AWS (Amazon Web Services). Microsoft Azure is estimated to be around 20%.

However, in terms of growth rates, the AWS market is growing at about 30% to 40% over the full

※It is translated by AI.

year, while the Microsoft Azure market is growing at about 80% to about 90%. We have invested in Microsoft Azure for 6 to 7 years, and the market is still expanding. I cannot relax my hand here.

Performance in Public Cloud

In Microsoft Partner Award, which takes place on a global scale, we have not been able to tap the IoT field until now. This year, we missed the victory, but we received the second prize in the 2019 Partner of the Year Finalist (Internet of Things Award). The Partner of the Year has been offered annually for the past 6 years.

In addition, 5 to 6 years ago, the average overtime was 47 hours, which was an extremely difficult task for the company, but in the previous fiscal year the average overtime was less than 5 hours. We participated in Telework Days to encourage more active use of telework in order to create more productive ways of working. In addition, we have been selected as a Telework Declaration Company.

Strategies for the Third Medium-Term Business Plan

Return to the area chart again. E-commerce at the bottom is as I mentioned earlier. In addition, I believe there is still room for growth in on-premise IT support. CIT and BIT, which we call growth domains and growth domains, have added "Who are our customers?" and "What will we provide?" In order to work with more than 500 engineers and 1 k partner companies, it is not possible to select "get bigger" for a single work case in order to do the work in the size of 1 k partner companies... In particular, over the past 3 years, we will not reject the jobs of dozens of customers who have agreed particularly with our strategic system for incremental cloud computing. We have the know-how we have cultivated through our strategy of "making it absolutely cheerful for our customers." We have chosen companies that do not turn down jobs in the global manufacturing, construction and agriculture sectors. We also consider synergies with SoftBank Corp. I would like to introduce the activities that have taken place so far in each of the selected companies.

Progress: Customers (Manufacturing)

Security is the biggest problem in global manufacturing. Factories and offices are also. Under these circumstances, we opened a Global SOC (Security Operation Center) in 2019 in the Asian region to support customers globally in order to provide security support.

The SOC includes security engineers. More detailed information is analyzed by security analysts in our Tokyo-based Security Operation Center. This system is now working smoothly.

The right-hand side of page 17 shows the IoT in the manufacturing industry. The example here is TOSEI, a coin laundry equipment firm. We have delivered more than 0.1 mn units to 8.5 k coin laundry shops throughout Japan. In response to this, the company indicated that it would like to introduce IoT facilities, and is providing prototypes for March.

Progress: Customers (Construction)

Next is the construction industry. There are 5 companies in Japan that are called super general contractors. In the past 6 years, 4 of these companies have introduced Microsoft Azure, communications infrastructures and collaborative platforms.

Under such circumstances, there was a request to migrate to the cloud. In the construction industry, many construction sites, called non-competitive areas, are conducted through joint ventures. There are several 100 partner companies that have joined forces between the 2 and 3, and they are engaged in scheduling work sites and other activities. We have received requests to think about such solutions, and are currently building them.

The case of Takasago Thermal Science is shown as a seasonal 1. As the Windows will no longer be supported during the year-end and New Year's holidays, we plan to shift this to "Microsoft Azure" at this time. We are moving to a "Microsoft Azure" server toward March.

※It is translated by AI.

In doing so, we use Cloud Migration Suite packages to verify how we can make our operations more efficient. The "Cloud Migration Suite" embodies the various migration know-how that we have been working on to date.

Next, we will discuss the case of Asahi Facilities. A company that manages hundreds of buildings has built an IoT platform to enable remote monitoring and pre-maintenance from the outside, rather than the traditional on-premise monitoring centers in each building.

This case study is also linked to the Microsoft Azure side with our packaged "IoT Core Connect" products and analyzed by BI and AI in the "Microsoft Azure" side.

Progress: Target customers (agriculture)

Third, we are focusing on agriculture. 5 years ago, Japan became the first government agency to take measures to achieve Microsoft Azure. It accounts for more than 10% of Japan's total agricultural land, and currently there are 0.3 bn lots.

Everything, including those managed with paper, was digitized 3 years ago. We divided this into a GIS map and sorted out who was the owner and what was being created. It took 2 years to do this, and now has 5 years of maintenance.

The biggest problem for the government is the application form. Currently, 3 major typhoons have caused huge damage in Chiba, Southeast North and Nagano prefectures. For example, we need information about how much harvest was made last year, how much it was sold, and how much it was earned last year.

In order to stabilize farmers' management in the event of damage caused by natural disasters, the government covers 80% of the insurance. In some cases, it is 60%.

The Ministry of Agriculture, Forestry and Fisheries deposits 2.5 k types of applications for business stability, all of which are paper-based documents. In the current fiscal year, we received an order for Phase 1 to digitize this system over a period of several years.

What are the current problems with Phase 1? This is not only a matter for the Ministry of Agriculture, Forestry and Fisheries, but also for the Ministry of Justice. It is also related to the Ministry of Land, Infrastructure, Transport and Tourism because it is also a matter of land registration and rivers. In short, we were able to take the first step in a project where government offices are computerized. We believe this will greatly contribute to society, and are now making every effort to do so.

The "AGMIRU" on the right-hand side of page 19 is the smart agricultural service we are promoting as a group.

Progress: Group synergies

About Group Synergy. We will expand the scope of IT support. SoftBank Corp. has more than 100 IT partner companies and has a staff of several 1 k. As vendor control is also very difficult, we have started a project to transfer management to us from the key point in October 2019.

In this sense, jobs can be handled in large quantities. Profits may be tough. However, we also believe that analyzing and experiencing a large business may be an experience for cloud migration.

To the right of page 20. In corporate and public business, I heard that SoftBank Corp.'s corporate sales force is 6 k people. Our selling Power and support capabilities will lead to the sale of our packaged solutions. Since this is still a On the way, we have not yet decided what we should focus on.

What is clear is the UniTalk IP-based telephony service that SoftBank Corp. has decided to collaborate with Microsoft Corporation. This service is developed as an add-on for chat-like conversation services between groups called Microsoft Teams for customers using Microsoft's Microsoft Office 365.

The conventional fixed-line telephone number "0ABJ number" will be available as a telephone system starting from [03] at the end of 2019, so that the number starting from [03] will be accepted as it is. In doing so, we will be able to cooperate in more areas where we have expertise in Microsoft Office 365 and Microsoft Teams.

※It is translated by AI.

In addition, some of the solutions packaged by us are solutions for configuration. It has been highly appreciated that it is very effective as a controller for telephone systems. Looking ahead, I think that collaboration between corporations and public businesses will continue.

Progress: Unique services

About "clouXion". "clouXion" has been created together with our customers. ClouXion offers a variety of services. Until 2018, there were many services created from what had been called "unprofitable projects."

And the number of subscribers to Managed Security Services has been increasing. AI systems based on Microsoft Azure are mainly used for the analysis. We are now able to analyze the interaction.

Aiming for Consolidated Operating Income of JPY4.3 bn in FY2021

The last page. Over the past 6 years, BIT and CIT sales have risen to more than 1-third. This is mainly a cloud and security solution, but we would like to expand this area. I would like to make sure that it accounts for 50% of sales. Currently, I think that the planting phase of BIT will continue. CIT, a growth area, grew steadily in line with the plan. In addition, IT support for on-premises and private cloud services as a stable platform also grew steadily as planned. In addition, the EC management agency business, which is a major foundation, also performed well, although it is difficult to achieve significant growth.

The above is an explanation of our current financial results. Thanks for your attention.