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SB Technology Corp.
Overview of Earnings Results Briefing for FY2019

This is a transcript of the SB Technology Corp. FY 2019 Results Briefing held on April 27, 2020.
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SB Technology achieved a 20% growth in operating profit in the first 3 years of the medium-term plan and continued to maintain a growth track with an operating gain of 3.6 billion in the next fiscal year.

Introduction

Shinichi Ata: Hello everyone. It's Ata of SB technology. I will start Earnings Results of Operations at this point, but I would like to talk about a few things before that.

First of all, I would like to express my condolences to those who have died due to a new type of coronaviral infectious disease and their families, and I would like to express my heartfelt condolences to the affected people.

Our Countermeasures for the New Coronavirus

I would like to start by talking about the status of our countermeasures against the new type of coronavirus. Teleworking was strongly recommended from the stage of March before the announcement of the declaration of a state of emergency. Since April 2, before the announcement of the declaration of a state of emergency, in principle, I have been working for telework.

We have about 1,000 seats at our headquarters office, but approximately 30 to 40 people attend each day. 95 percent of employees are teleworking and continuing their work.

We have several offshore locations, but we have already recovered our offshore locations in Dalian, China, and we have heard that development activities have been completed at almost 100% of the locations. I heard that offshore in Vietnam can be resumed quickly, and is currently under preparation.

In addition, although I cannot say the name of the country, the status of the Global Monitoring Center is not satisfactory, and the business is stagnant, but this situation is that it is covered entirely by domestic operations.

In the operation of the system, there is a maintenance work that cannot be done without actually going to the data center site. In this regard, the number of employees has been reduced slightly and sufficient measures have been taken to carry out their duties.

Postponement of listing of Cybertrust Japan Co., Ltd., a consolidated subsidiary

Another point is the postponement of the listing of Cybertrust Japan Co., Ltd., a consolidated subsidiary. It was announced that the listing would be approved on March 13 and be listed on April 17, but the market was not very good in March as well, and 20 of the 24 companies greatly fell below the initial price.

In April, 15 companies were scheduled to be listed, but 14 of them will be postponed, and Cybertrust Japan Co., Ltd. will be 1 of them. I am pleased to report that Cybertrust Japan Co., Ltd. itself decided

that it was not possible to form appropriate prices, and that this time it was postponed.

Holding of Earnings Results of Operations by Teams
This Earnings Results of Operations is then in the form of Earnings Results of Operations using the "Teams" features. This is, of course, the first time that we have been able to hold on-line, but there have been no examples of Earnings Results of Operations using Teams in the past.

When I spoke to Microsoft Japan this time, they were very impressed and they said, "We would love to cooperate", so today we have a full of professional photographers, equipment, and staff. Although it is difficult to see a web camera so far, we have received this kind of cooperation.

I have heard that there are about 80 guests who have announced to attend this "Teams" meeting today. On the other channel, we provide streaming services called "Live Events," which are attended by 1100 of our employees at any time.

Teams Meeting has a capacity of up to 250 people, and the Live Events capacity of up to 10000 people. If this is an opportunity for companies that want to show them not only to Earnings Results of Operations, but also to employees, I would like to add it if you can use it as an example.

Full-year PL (cumulative)
Now, I would like to participate in the financial results briefing. Today, I would like to explain directly to you the outline of our business results for the fiscal year ended March 31, 2020, and the progress made in the Medium-Term Management Plan.

This is an overview of results.

Net Sales was approximately JPY58.3 billion, operating profit was approximately JPY3 billion, ordinary profit was approximately JPY3 billion, and net income was approximately JPY1.8 billion, all record highs. With the start of 2019, I would like to talk about 3 years of growth, with an average annual growth rate of 20%, from about JPY2.5 billion in FY2018 as our new 3-year business plan.

In FY2019, the first year of the plan, we were able to achieve JPY3 billion, a 20 percent increase. It may have been noticed that ordinary profit and net income have grown by 30 percent.

As we explained last time, extraordinary income from equity-method affiliates was recorded in FY2017, which pushed up ordinary profit and net income.
The adjustment was made in FY2018, and conversely, equity in net losses of affiliates of more than JPY200 million were recorded.

However, as our indicators are based only on profits from our core business, I would like to report honestly that operating income has risen by 20%.

Solution Category
Looking at Net Sales by solution category, we can see that business-IT and corporate IT combined grew from JPY17 billion to JPY20.9 billion, achieving growth of nearly JPY4 billion.

Both are cloud-based solutions. We saw growth in this field as 1 of our indicators, so we were able to grow steadily.

Then it's about technical service. This is a non-cloud on-premises service for SoftBank Corp. and SoftBank group. On-premises, SoftBank Corp. may be denied.

Because SoftBank Corp. is a telecommunications company, it basically has a very large number of data centers, and it itself is a business. In addition, since communications can of course be done on its own, it is not a public cloud, so we use this way of writing.

In the 2H of the previous fiscal year, the number of vendor-managed projects for SoftBank Corp. increased by more than JPY1 billion per quarter from October to March, which supported sales of more than JPY2 billion per quarter.

The last is EC. EC is also a norton store management agency business, and this business also performed strongly. Each of these solutions has grown from JPY50.4 billion to JPY58.3 billion.

In our case, we disclose the marginal profit after deducting external costs. In FY2018, our marginal profit of JPY14.5 billion was JPY16.4 billion, an increase of just under JPY2 billion.

Of particular note was a 1.4 billion increase from 6.9 billion to 8.3 billion in the focus areas of Business IT and Corporate IT. Technical Solutions also increased from JPY4.6 billion to JPY4.9 billion. Similarly, in the EC business, we can see that it is growing from JPY2.9 billion to JPY3.1 billion.

Net Sales by Customer
Next, by customer. Among these, what has risen greatly is sales of SoftBank group companies. This marked a significant increase from JPY12.1 billion to JPY17.5 billion.

Regarding the contents, the breakdown of JPY17.5 billion in the "SB Group" in the "Solution Classification by Customer" is conventional technical services. As vendor management, approximately 400 engineers from 10 companies have been seconded to SoftBank Corp., and we have transferred the work that we have been assisting in developing.

Not only that part, but also 1 of the companies of SoftBank Corp., which started in 2017, the project of switching all the core systems to the cloud side peaked in 2017-2018 and 2019.

For this reason, it will take some time in FY2020 to complete the transfer of the company's core systems, particularly in the field of corporate IT, and we will be able to see that this part is expanding.

In Enterprises and Public Sector, the growth rate is not very large, as it ranges from JPY19 billion to JPY20.6 billion, but I think you can see that so-called cloud projects are growing.

Operating profit
Bridges for operating income totaled JPY1.93 billion, which was attributable to increased sales and marginal profit. On the other hand, we increased the number of employees by more than 50, and since then we have improved the remuneration for our employees, raised the base, and so on. As a result, fixed costs have increased by about JPY1.4 billion. This resulted in an operating income of JPY3.03 billion.

4Q of Fiscal Year Ending March 2020
Next, sales and operating profit by quarter. I think we can see, but operating income for the 4Q is below the level of the previous year. Sales were strong through the 3Q, and fell below the previous

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year's level in the 4Q.

First, because our accounting methods follow Earned Value, sales do not increase when we receive full acceptance inspections, but we record sales and profits on sales.

In the past, we were very concentrated in the 4Q, but each quarter is now proportionately divided, and the balance has improved.

Major Decisions Made in the Fiscal Year under Review (Expansion of the Scope of Development of the Electronic Application Base)
I would like to talk about plans for 2020 and beyond and made important decisions in FY2019. As for our history, in 2015 we were commissioned by the Ministry of Agriculture, Forestry and Fisheries to digitize agricultural land ledgers nationwide, where paper management had been quite common.

From FY2015 to FY2016, we have led to the completion of the project, and we have been working on the operation of the project for 5 years starting in FY2017. In August 2019, we received the first order for an electronic application from the Ministry of Agriculture, Forestry and Fisheries, and we are working on the project.

Around December 2019, there was a talk about promoting digital government by digitizing all application systems for all government offices in Japan. This allowed us to expand horizontally, so we decided to invest heavily in the infrastructure of the cloud and the foundation for electronic filing, and we were working to book this amount as a software asset until the end of March.

That is the JPY310 million that is written here. 90 percent of the administrative procedures will be computerized by March 2025. Regrettably, we were working on an excellent opportunity and a great deal of work, but unfortunately, as of the end of March, there were no official announcements or orders for additional projects, and the impact of the new coronavirus has made us unable to see the future. As we proceeded with the settlement process, we considered whether to treat JPY310 million as an asset or JPY310 million as an expense and finally decided to treat it as an expense.

These decisions mean that operating income of only JPY880 million, compared with JPY1 billion last year in the 4Q. I would like to talk about this point and a later dialogue together with the strategy for FY2020.

[Non-consolidated] Orders Received/Order Backlog (Excluding EC Solutions)
However, although the order received was JPY24.5 billion in the previous fiscal year, it was JPY34.8 billion in the previous fiscal year, so we received a large order for JPY10 billion. The order backlog at the end of March was JPY13.5 billion at the end of FY2018, but this time the order backlog was JPY16.3 billion, which was close to JPY3 billion plus, marking the beginning of FY2020.

Recognition of Business Conditions
I would like to talk about the outlook for FY2020.

Firstly, the first EC. While PC shipments were low, we have worked hard to exceed the previous year's sales, but we have recently begun to see signs of peaking out.

Then the old Symantec. Enterprises division was acquired and the company we do business with changed its name to Norton Lifloc, which specializes in private customers.

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Nevertheless, we saw a weak picture because of the risk that antivirus software will continue for a long time and because of the pressure on profits to raise the price of the invoice.

Next, we will provide on-premise IT support, primarily to SoftBank group companies. Last year, the vendor management project was a half-year period from October to March, but this fiscal year will be a full-year period from April to March, so I think that this will be positive.

Until now, our partner engineers have been asked to place orders individually and release them after the end of the period, but I am telling you to take on the challenge of using this to consolidate this to us and assign it to the next project.

For the Softbank group as well, people who understand the Group's way of doing business can work in a variety of fields. Conversely, there is the possibility that people will come to the enterprise or public-sector cloud projects, which is a positive factor.

Negative factors, of course, are in such an environment, so while we have not heard of them at present, I think there is a possibility that the budget will be reduced.

Next, corporate IT. I am confident that we will surely be able to grow in line with our plans, thanks to in-house IT support, Enterprises public works, accelerated telework and digitalization among SoftBank group companies, and security measures in the telework era.

Finally, about business IT. It is an IT support business, but promoting digital government is a public sector. Then, DX acceleration is a positive factor.

Negative factors include the tremendous impact of the new coronavirus in the global manufacturing and construction industries we are focusing on. Will investment be successful in this environment? At this time, we have heard a variety of information. Customers feel that they need to be aware that the introduction of Teams and the shift to DXs will need to be promoted more and more. I think this is still an area in which we will make up-front investments, so I wrote that it is flat compared to the plan.

FY20 revenue estimate
Based on the above, the forecasts for FY2020 are as follows. Our goals are to achieve JPY62 billion for Net Sales and JPY3.6 billion for operating income, a 20% increase. Importantly, we must support the telecommunications business of our parent company, SoftBank Corp..

In addition, we will promote digital governance in the public sector. In many ways, the cost and time required for the procedures are extremely high. In response to this, I would like to somehow make it possible for things to go ahead quickly through the power of cloud and IT.

In Enterprises field, our customers are also looking forward to the DX promotion, so we would like to have 2 meanings in the 3 areas.

FY21 Management Indicators
I would like to provide a second explanation of the medium-term management plan that we announced last year.

Under the 3-year medium-term management plan, operating profit will increase by 20% from JPY2.5 billion to JPY4.3 billion, and the sign of JPY4.3 billion will remain unchanged. In addition, we have

set a target of achieving a 50% BIT&CIT Net Sales composition ratio in our core business domains. We will also leave our ROE unchanged at 13% and make sure that we achieve the second year of the Medium-Term Management Plan.

Direction SBT is aiming for

This is the direction we are aiming for. In April and October of last year, we announced this report and explained it. Until now, we have always communicated with people in the information system division to develop and operate IT for enterprise, but our customers are increasingly interested in utilizing information system technology and IT technology in their business divisions.

In the last 2 or 3 years, I felt that the IT divisions were being transferred to the business divisions because "I would like to think more about IT that can be used in the business divisions after transferring the server to the cloud."

How can we deal with this trend? In the area of SB technology, the information systems division is becoming weaker, so we will outsource a variety of in-house support services that we have already enjoyed.

I also say that we will evolve into a service provider by packing our various solutions and applying them as they are.

Next, when an information system goes to a business site, there is a better understanding of IT knowledge and trends. It is important to ask how to implement IT in a unified manner and what picture should be drawn up. To that end, we aim to create consulting and business IT.

We have carried out numerous PoCs. Our 3-year goal is to evolve into a service provider, and then to create consulting and business IT. We hope to be able to talk to people who are presently in the information systems division about the values of their experiences and the methods of their trials, and to be able to draw and test a variety of pictures.

Divisional organization

In line with this, we made a major effort into the organization of the company as a whole. So far, we have created a technology headquarters in which our engineers have developed sharp engineers in the sense that "our technological capabilities must be as sharp as possible" and "our technical capabilities must be absolutely impossible to lose to our competitors." In recent years, however, engineers who will probably compete for one or two in Japan in some fields have come to limit their own locations specific to the headquarters system, saying that when they look sideways they are not in their own category.

On April 1, we shifted to a divisional system based on the belief that if we had excellent flavor technology but the story next to us was not about ourselves, we would not ultimately be able to obtain customer satisfaction.

We have created solutions and services divisions to serve as SoftBank Group Corp. companies, Enterprises and public operations divisions, conventional ECs, and service providers, which are major themes.

The corporate organization involves repeating the divisional systems and organization by function. The organization by function has been in place since 2014, but until then it had been a divisional system. For 6 years from 2,014 to 2019, we will establish the organization by function and shift to a

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divisional system.

Expand and strengthen SoftBank Corp. (parent company) businesses
In our business for SoftBank group companies, we will fulfill our positioning as a strategic SIer that supports social infrastructures through SoftBank Corp., which is positioned as SoftBank Corp.. At present, our SoftBank Corp.'s IT budget is only about a dozen percent, which is not an overwhelming percentage. However, we intend to expand this area. We will move from the style of ordering individual engineers to the lab type, and change it to a form that firmly grips our human resources.

Corporate IT/Business IT (Enterprises)
Next is Enterprises. Our cloud strategy consists of first steps, second steps, and third steps.

First, we will convert our communication infrastructure into a cloud service, and then turn the necessary data into a cloud. And by updating that data, the most fresh data is in the form of cloud computing.

While it is difficult to think of this Teams as 1, Enterprises unit's approach is to first solidify the communications infrastructure and then promote DX so that the IoT, AI, and big data processing tools on the cloud can be used in an ever-increasing manner.

Public (business IT/DX)
The second point is public. This is the electronic filing that I mentioned earlier, that is, digital government.

We concluded that we should treat them as expenses rather than as assets because we took risks about what changes would occur in FY2020.

As a result, on the 22nd, Prime Minister Abe told us that he wanted the digital government to be moved further forward, and in reality we have received inquiries from the ministries and agencies. I think the environment is 1 in which the common infrastructure and application platform of the cloud, which we developed last year, can surely survive, on what kind of form and how much we can do.

The Ministry of Agriculture, Forestry and Fisheries was engaged in 5 programs. I wanted the 2 programs to be implemented from April 2020, and wanted the 3 programs to be implemented at PoC.

There are 4,500 types of application work by the Ministry of Agriculture, Forestry and Fisheries, of which 4000 types represent 90% computerization. There are still 5 types of them, and there are still 2 types of them that are actually working. I think it's the tough work to get everything by 2025.

However, the same applies to agricultural land projects, but we have steadily digitized agricultural land data with 300 million brushes. This time as well, I would like to challenge 4,000 types of applications.

Our original service/sales partners
On the other hand, we sell various administrative and migration tools to move to the cloud, named "clouXion." The development and sales of this project began in July 2018.

In FY2019, however, we still have a large portion of our sales activities in-house. Over the years 2020

and 2021, we intend to sublime our solutions into packaged solutions that our partners can sell.

We will also strengthen partner-based sales of Managed Security Service.

Shareholder Returns
Thanks to these efforts, we were able to achieve our performance targets in 2019. In addition, we were able to anticipate a big opportunity and steady progress toward the realization of this third medium-term plan.

We intend to increase the dividend to our shareholders by JPY10 at the general meeting of shareholders in June. The dividend will be increased from JPY20 to JPY30. The dividend payout ratio has now exceeded 30%, and ROE has risen to nearly 12.

In the foregoing, I have explained the results for FY2019 and the strategy for FY2020. Thank you for your attention.