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## **SB Technology Corp. Overview of Earnings Results Briefing for FY2020 H1**

This is a transcript of the SB Technology Corp. FY 2020 H1 Results Briefing held on October 28, 2020.

Speaker: Mr. Shinichi Ata, President & CEO, SB Technology Corp.

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### **Operating income in SB Technology and 2Q increased 19% year on year Higher sales and profits for the sixth consecutive year**

#### **Consolidated PL**

Shinichi Ata: Hello everyone. I am Ata from SB Technology. Thank you very much for taking the time out of your busy schedule to attend our financial briefing today. Well then, I would like to begin with the explanation at once.

This is PL of the consolidated results. Net sales were ¥31.864 billion, an increase of approximately ¥5 billion, or 18.7% over the previous year. Operating income increased by ¥255 million to ¥1.596 billion, an increase of 19%. Please see the Ordinary income and net profit.

One of the factors that we were able to achieve during this period was that the sum of BIT (IT for business divisions) and CIT (IT for corporate purposes), which we had positioned in this three-year plan, exceeded 10 billion yen in half-year terms. Furthermore, vendor management projects for Softbank, which began in October last year, contributed significantly to the increase in sales, and cost control through telework also contributed to the increase in operating income.

#### **Solution classification**

In the solution category, the left side shows year-on-year changes in sales and the right side shows marginal profit. BIT and CIT, and Cloud solutions that are surrounded by blue borders. Net sales rose from ¥9.6 billion last year to ¥10.8 billion, and the marginal profit also grew from ¥3.8 billion to ¥4.4 billion.

The yellow area in the center is a Technical solution, which is a development or operation project for the SoftBank Group. Since it began in October of the previous year, there were no vendor management deals between April and September of the previous year. Net sales ranged from ¥6.3 billion to ¥10.3 billion, which means that sales are increasing with a large position. Marginal profit increased by 700 million yen, from 2.3 billion yen to 3 billion yen. However, because vendor management projects themselves are businesses with low profit margins, we believe that they are areas where we must continue to improve.

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At EC area, as we explained in the first quarter or at the end of last fiscal year, the NortonStore business has peaked and is now in a slight downturn. As a result, the previous year's figure was ¥10.8 billion to ¥10.6 billion. The ¥100 million increase in marginal profit can be seen as a result of the expansion of the Font business, which is included in this category, contributing to the increase in profit.

### **Sales by Customer Type**

Next is sales by customer. The bottom is net sales of NortonStores for consumers. The Group on the top is sales to SB group, and Orange is sales to the Enterprise/Public. Looking at the breakdown in the chart on the right, we see that SB Group's sales are the largest in terms of TS (Technical Solutions) sales, which I mentioned earlier. Systems for BIT&CIT cloud range from ¥2.5 billion to ¥2.6 billion, and do not seem to have grown as much. In fact, the development of shifting core systems for the Group to the entire cloud peaked in the previous fiscal year. The project has shrunk, and this year is on the pace of operation, but this part will not be significantly reduced, and I think you can see that BIT is growing in particular.

The right-hand side is Enterprise/Public sales. Regarding this, I think you can see that the ¥9.6 billion is ¥11.3 billion and the ¥7 billion is ¥8.1 billion for BIT&CIT, which is a 10% increase. Although Technical solutions are not cloud projects, they are growing slightly due to connection.

### **Operating income**

Next is a bridge to Operating income. The increase in net sales also increased marginal profit by 12.9 percent. In contrast, personnel expenses increased by 255 year-on-year in fixed costs. Of these, 180 people were included in Denen and subsidiaries that were acquired by M&A.

Then, M&A-related expenses of 110 million yen, which we have already reported in the first quarter, have been recorded. We were also making up-front investments in the second quarter because of the need for major preparations. However, as these preparations were delayed not only in the second quarter but also in the third quarter, the investment portion remains at ¥80 million. In addition, training expenses, sales activity expenses, etc. are curtailed, resulting in a positive figure of 110 million yen, and when combined, the bridge is 1.59 billion yen.

### **FY2020 Forecast**

This is the outlook for business performance. Our targets for the current fiscal year are net sales of ¥62 billion and operating income of ¥3.6 billion. It is 31.8 billion yen in the first half of the year alone, so it will be deducted from 62 billion yen and the remainder will be 30.2 billion yen. You may think that it is "less than the previous year," but we understand that "the first half was much better than

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the budget." The second half of the fiscal year is not lower than the previous year, and we recognize that the overall performance is on an upward trend. However, we have left our full-year earnings forecast unchanged, because we still cannot see how the setting is right and the profits corresponding to that.

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

Next, I will explain the amount of orders received during this period and the order backlog at the end of the period. Orders received were ¥20.1 billion, a record high compared to ¥16.1 billion in the same period of the previous fiscal year. The total order backlog was ¥18.2 billion, which is another record high for the first half of the fiscal year.

I would like to explain to you that there is a part of the content that has been transferred. The role of vendor management projects, which we have been conducting for six months since October last year, is to consolidate the development and operation projects of various departments that have been developed individually at Softbank into one standard type that we deliver to enterprise customers.

One is a specification document. There will be some changes to the specifications before completion. However, new orders will be added to the design document every month, and when changes are added, a change control note will be issued. Our role is to manage the system in such a way that we can see, in a certain way, what functions, what specifications, and what capacities the system is moving together with the change history, so that we can see how the initial development plan is changing. As we are moving to the stocks of items that have exceeded the standardization work for about six months and are continuing in the future, the stocks are growing considerably.

Conversely, the newly launched vendor management project will enter the development stage. Although the part of the development may seem smaller than in the past year, I would like you to understand that we have shifted to the stock of items that have completed the semi-annual standardization work for vendor management projects and that are expected to continue in the future. This is the first half of this year's score card.

#### **SBT's Aims for the Future**

We refer to the three-year period from fiscal 2019 to fiscal 2021 as the Third Medium-Term Management Plan. I will explain this progress. This Medium-Term Management Plan aims to expand BIT and CIT, and in the second quarter of the previous fiscal year, we worked to enhance cloud computing and security, and we used this to develop a variety of services, centered on our customers' information-systems divisions.

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In addition, we decided to advance both BIT, CIT in the cloud in fiscal 2018 by shifting the information-systems division to the business division, or by using IT that is directly useful for business in the business division, and we have moved to the current three-year program.

Currently, the Information-Systems Division has set the goal of evolving into a service provider so that it can deliver the response and preparation for DX era in the form of a "service."

In addition, DX of business divisions will accelerate. In doing so, we intend to create consulting and business-oriented IT by replacing work forecasts with systems, "If such systems are prepared and use such systems will be more competitive." We are now aiming for a mid-term plan. In line with this, just now half of the three-year plan has passed, so I would like to explain to everyone what progress is being made.

### **Changes in Customer Issues**

Within this plan, there have been major changes to customers, including the Declaration of Emergency in April. I would like to explain the acceleration of DX, which is essential for the New Normal Era, from three perspectives. First, there is a problem with offline communication or paper mixing in the workflow in preparing for online communication. Recently, we have been talking about coming to the company only to "Eliminate Hanko" and approval, but we will complete this online. In the workflow, I think it is required that the approval can be made from the telework location instead of from the Hanko. "Zero Trust Security" also means that it is necessary to prepare security on the assumption that everyone will not be dangerous and that no one will be trusted, and that it will not be dangerous if they are brought outside the company if they can work anywhere. The third point is on-line sales support, which describes how to proceed with a business negotiation if the sales staff cannot see the customer in this situation. I would like to talk with you on these three fronts.

As for digitalization and elimination Hanko, we have a workflow product/service of our "Flow", so Cybertrust Japan Co., Ltd. have electronic certification in their "iTrust" service.

### **Zero Trust Security**

I'm going to be exposed again about zero trust security. In-house intranet services that have been protected by firewalls, the security level is divided on the network. For example, Level 1 is a place such as a conference room of a company in which people outside the company enter and leave the company. Level 2 is a place where employees generally work in offices, and Level 3. At Level 4, such as a call center or a business center that handles customer information, they are extracted or analyzed using a production machine. Level 5 is a place where real data is used, and actual physical servers are located. By raising the level of security in such a manner and switching networks as well as performing physical security checks for those who enter the room, the conventional concept of security

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(boundary type) was to protect against malicious attackers or to prevent data from being leaked to unauthorized external sites.

Telework from April has changed working styles drastically, and it is said that "the machine is absolutely inevitable here" and "customer information is only inevitable here." However, telework has been transferred at once and part of these data has been transferred to the cloud. For these reasons, we have decided to support cloud security. However, when it comes to a more serious environment and work from home, we will basically apply cloud security to all of them. The term "Zero Trust Security" has been introduced as a new term since 2019, and this is one of the key words. Zero Trust Security is a concept, and it is not what "if you put in it, it's zero Trust." When we think that there are intruders anywhere or anytime, they may lead to illegal sites anytime or anywhere, there are physical things, such as inserting "Secure Web Gateway" to protect the company's information assets and checking all of the communications they are doing. However, it's not possible to see or touch the device by yourself, as it's on the cloud, even if it's "physical."

There are various types of handsets, such as laptops, tablets, and mobile phones, which are supplied by the company. The company manages all the behaviors of the handsets and authenticates themselves with two or more elements using ID. Not only that, but professionals or their educated AI services-which can analyze whether this is a dangerous behavior-are needed here. We recognize that this can be referred to as zero-trust security.

Since February 2019, we have been preparing a global monitoring center. Currently, all over the world is exposed to COVID-19 disasters, so we will respond not only to offices in Japan, but also to offices worldwide. This means that the demand is extremely high this time. This is the Zero Trust Security.

### **Support for DX in Manufacturing and Construction**

Next is DX support in the manufacturing and construction industries. First of all, there is "DX Sales for Microsoft Teams" as a servicing for the manufacturing division. Many of our customers use Microsoft 365 and have introduced Office 365 mail or Dynamics 365. We have been using this system for a long time in our ordinary business, but in this new type of Coronal trouble, we cannot communicate with face to face or visit companies, and we cannot go to our own company. In this situation, we are using this service to promote business conversations with our customers. The content of the explanation is also recorded, the content of the activity is visualized, and the summary shows how the negotiation is proceeding, and it is very easy to understand what is the problem when the negotiation is finished, what needs to be prepared, and what needs to go for the next negotiation.

In addition, there is a press release called "Smart Secure Service+IoT Core Connect" for the

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construction industry's business division. We have a lot of customers in the construction industry, but the construction industry is designed from the initial design to the final completion, and then delivered to the owner. Major construction companies have an eye on building management. They manage real estate well and maintain high value so as not to damage the value of real estate. If they rebuild, they may design it with a new idea.

There are three large power sources in the building, one of which is the power of an elevator or the like. The other is air-conditioning-related control as sanitary, and the other is light outlets, and OA equipment etc. are done from here. Managing these three by a network also helps conserve energy, and measures can be taken assuming attacks from outside the building. Many buildings, however, are often left as a system when they were built, and even when we intend to put in a new program, each is managed by a separate system, so we have created a system with an image of integrating these and managing them on a cloud where new modules can easily be put in. Receiving through the Internet means that there are risks, so firewalls or ID must fight against risks with the most up-to-date. For this reason, "Smart Secure Service+IoT Core Connect" is a monitoring service provided by the Network Operation Center and Security Operation Center.

### **Support for the Realization of Digital Governance**

Regarding digital governments, the digital agency is scheduled to be established in the next fiscal year, but last year we have reported several times that we have already received orders for the electronic application base system of the Ministry of Agriculture, Forestry and Fisheries. We have received a lot of questions about how much we can do business with this, and we are working first on the job of the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Health, Labour and Welfare. From the next fiscal year through fiscal 2024, we heard that 90% of the various applications from the Central Agency will be digitized. Generally speaking, full-scale bidding by the Central Ministry is expected to begin early spring.

We believe that the establishment of the Digital Agency is neutral in the short and medium term, but in the long term, this will undoubtedly become a big tailwind for us. It's enough to replace the word that everything is done digitally, that is, everything is done in the cloud. There are many possibilities, such as accessing Web with telecommunications equipment and making various applications or getting a response to them. There are also municipal projects for system standardization.

Another point is that for the public, the "National Agricultural Land Navigation" which has been accepted for five years of operation, and the local government information security cloud in four prefectures are due for operation at the end of FY2021. When the operation deadline comes, I think we'll be moving to the latest system and starting with the new system from FY2022, or perhaps it's

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going to last one year. The current situation is that we are preparing in advance what suggestions should be made regarding this concept and situation. The establishment of this digital government and the Digital Agency is also preparing for a very large tailwind.

### **Synergy with SOFTBANK (Parent Company)**

This is synergy with SoftBank (parent company), but since October last year we have been standardizing it as we mentioned earlier as a vendor management project. Then, at the end of June, we conducted an M&A for a development company called Denen. We also opened a development base in the form of a "lab" in Tennozu, near our parent company, as a development base.

Regarding the Enterprise/Public part, we intend to make concrete innovations in the areas of "5G" and IoT and security-based communications. Softbank has built "Smart City Platform" in the District and moved its offices to Takeshiba. Of course, the robots, as well as the local 5G, analyze data on the cloud in various forms of communication. Our "IoT Core Connect" has been adopted, and we are currently monitoring the operation of the devices.

### **Tertiary Mid-term Management Plan Progress**

Summarizing the Third Medium-Term Management Plan, the goal is to become the "evolution to service providers," the most contributing company for digitization in the cloud & security for more than 300 billion enterprises and companies using Microsoft.

Currently, among the more than 300 billion enterprises, the number of companies introducing Teams is No.1, and the number of Azure servicing packages "clouXion" is now No.1. I think that "Teams related" will become a key word, but I would like to become a positioning of "Microsoft Teams" related servicing No.1. In terms of security, from the end of the previous fiscal year to the first half, we have introduced Zero Trust Security not only within our company, but also within corporations/public sector and SB companies. We believe that zero-trust security will be No.1 at the end of the next fiscal year, which is our goal for service providers.

Regarding consultation and business IT, we will develop solutions for the construction industry and manufacturing industry, as I mentioned earlier. The public domain is the promotion of digital governments, and we are currently in the first phase of the electronic application base. Then there is a nationwide farmland navigation system, and the last informational SC (security cloud) is a contract for operation until FY2021, so there is an opportunity for this renewal. The Ministry of Health, Labor and Welfare has a general-purpose portal that connects the Ministry of Health, Labor and Welfare with local governments. However, we are also developing and operating this portal. We would like to work hard to ensure that we can deliver this service in the mid-term three-year plan to the next

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fiscal year.

### **FY21 Management Indicators**

In terms of management indicators, from operating income of ¥2.5 billion in fiscal 2018, "Increase 20% each year". We have a numerical index of ¥3 billion in the next fiscal year, ¥3.6 billion in the current fiscal year, and ¥4.3 billion in the next fiscal year. However, we will keep the ratio of BIT&CIT and the ratio of solutions in the cloud at 50%, and we will bring ROE to 13%, which is a three-year continuous plan. We will, of course, be pushing forward with our plans.

We explained the above financial results for the first half of fiscal 2020.

Thank you for your attention.

#### *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.*