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SB Technology Corp.
Overview of Earnings Results Briefing for FY2020

This is a transcript of the SB Technology Corp. FY 2020 Results Briefing held on April 27, 2021.
Speaker: Mr. Shinichi Ata, President & CEO, SB Technology Corp.

SB Technology: Significant increase of +27% due to increase in demand related to DX in the previous fiscal year. Aiming for Double-digit Growth in Sales and Profits in the Current Fiscal Year.

Consolidated PL (Full Year Cumulative)

Shinichi Ata: Hello everyone. I am SB Technology Corp.'s chief executive officer. Thank you very much for participating in our Earnings Results of Operations despite your busy schedule today. In my recent financial results, there are about 70 pages of data that includes analyses from various perspectives. I will explain the overview of our business performance and the progress made in the medium-term plan.

First of all, an overview of business performance. As you can see, Net Sales is 70.4 billion yen, operating income is 3.85 billion yen, ordinary income is 3.98 billion yen, and net income is 2.42 billion yen. On February 22 of this year, we made an upward revision to our earnings forecasts, but the results exceeded them.

FY2020 (by quarter)

This section explains changes by quarterly period. As a whole, amid the Corona crisis, DX promotion and cloud and Zero trust security projects remained firm due to an increase in demand for new normal response.

Next is the vendor management project. Vendor management deals involve the standardization of dozens of IT vendors contracted directly by SoftBank Corp. through the coordination of management, and the provision of added value such as project and quality improvement. The program began in the third quarter of FY2019, and continued in the previous fiscal year, and the coverage area is expanding steadily. The slides indicate increases in sales and profits in the first half of the fiscal year, but this is one of the factors behind the increases in sales and profits in the first half and the second half of the fiscal year.

In conjunction with this, we acquired DENEN Co. Ltd in July. This has had the effect of increasing sales in the second quarter.

In addition, we recorded sales from the fourth quarter of FY2019 for an electronic application platform project for MAFF, but in the previous fiscal year, sales increased from the first quarter to the third quarter.
Please refer to operating income on the right side of the slides. In the fourth quarter, sales grew significantly compared with the previous year. However, we made upfront investments in the fourth quarter of FY2019 for an electronic application infrastructure. This year, in reaction to this, operating income grew significantly in YoY in the fourth quarter.

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By Solution Category

The next step is by solution category. The chart to the left of the slide shows the marginal benefit in Net Sales and to the right. The top blue area is what we call Business IT. In particular, I hope that you will understand that it is an area that directly contributes to customers' business through IT.

Net Sales of that Business IT is growing from ¥4.6 billion to ¥6.3 billion. Revenues increased due to the expansion of cloud development for SoftBank Corp.'s business divisions and the operation of the Japanese version of O-NET by the Ministry of Health, Labour and Welfare, as well as the development of the foundations for IoT.

The green part of the graph is the Corporate IT solutions. This section is responsible for communication infrastructure, security issues, and ERP (backbone information system) issues for the entire company, where various information system divisions of conventional companies are involved.

In 2018 and 2019, SoftBank group companies migrated their core systems to cloud computing, which accounted for about 10% of sales in the amount of 16.2 billion yen. In fiscal 2019, however, sales peaked, and in fiscal 2020, the system was shifted to the operation phase. Despite these major changes, sales grew to ¥17.6 billion. The image is 10 billion yen for the purpose of viewing, but it has grown by 20% more in terms of experience. We intend to greatly expand the two areas of business IT and corporate IT.

Technical Solutions segment grew significantly from ¥15.3 billion to ¥24.4 billion due to the vendor management project I mentioned earlier and the consolidation of DENEN Co. Ltd. The marginal margin has also grown in the same manner.

Pink-colored E-commerce solutions is generally strong and flat overall.

Vendor Management Projects for SoftBank Corp. and DENEN Co. Ltd. Drive TS Results

This section explains vendor management projects for SoftBank Corp. and DENEN Co. Ltd. SB Technology has traditionally been in contact with various departments of SoftBank Corp., but on the slide, the sections with which you have a relationship are collectively referred to as A and B departments.

In October 2019, we launched a vendor management project to standardize work and quality after summarizing dozens of vendors who had been directly supportive of those divisions that had not been in contact with us.

This year, the TS field continued to grow, increasing sales by 9 billion over the previous year. In addition, the development of cloud development support is not overlooked behind this situation. Thanks to our cloud achievements and cooperative relationships with various vendors already in new departments, cloud development support is also spreading to C departments, which are new departments.

As a result of these developments, DENEN Co. Ltd. became a consolidated subsidiary in July 2020 and is working together.

Net Sales by Customer

When viewed in Net Sales by Customer, it is the blue and orange parts of the chart that are growing greatly.

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The blue portion is sales of the SoftBank group. In FY2019, CIT amounted to 4.9 billion yen, which was larger due to the shift of the mission-critical system I mentioned earlier to the cloud. In FY2020, billions of yen in development projects were completed, so this figure has fallen slightly, but because of the significant growth in cloud security projects within the Group, this figure is 4.3 billion yen.

The BIT area, which was 400 million yen, grew significantly to 1.8 billion yen. Of course, vendor management projects have grown by 6.4 billion yen, from 11.9 billion yen to 18.3 billion yen.

See Enterprises/Public on the right side of the slide. BIT, such as the development of IoT infrastructure, has been firm. Since this is out of the group, it is affected by COVID-19 a little, and various things have become backward, but it still extends from ¥4.3 billion to ¥4.6 billion.

CIT's areas are becoming increasingly cloud-operated and secure. In this environment, our own service has also increased, rising from ¥11.2 billion to ¥13.3 billion.

The TS-related segment is growing due to DENEN Co. Ltd.'s consolidation effects. Also, I hope you understand that the operation and renewal of existing on-premises systems before the transition to the cloud is expanding as the work that leads to the cloud.

Operating Profit

This is a bridge of operating profit. In FY2019, we earned ¥3.03 billion, but marginal profit increased ¥3.47 billion in line with sales growth. Fixed costs increased by 2.55 billion yen because of an increase of 260 people over the previous year.

M&A-related expenses are expenses associated with the acquisition of DENEN Co. Ltd. As I would like to introduce later, we made upfront investments in research and development and an increase in the number of bases. As for operating expenses, we were able to significantly reduce business trips due to corona damage and other factors, which resulted in a positive effect of 0.2 billion yen. The result is 3.85 billion yen.

[Non-consolidated] Orders Received/Order Backlog (Excluding EC Solutions)

Orders received. In FY2019, we received approximately ¥35 billion in orders for the full year. In FY 2020, the figure was ¥49 billion, an increase of approximately ¥14 billion.

The main reason for the increase was that we received a positive order for public works projects worth approximately ¥5 billion in March compared to the previous year. In addition, the vendor management projects I mentioned earlier increased by about 4 billion yen compared to FY2019.

As a result, the order backlog at the end of March was 24 billion yen, which will be substantially higher than in FY2019 and will be approached in FY2021. We have been informed about the above numbers.

Direction SBT is aiming at

However, what is important is how progress is being made toward the mid-term plan. I would very much like to explain about this.

As we are a BtoB company, we hope to contribute to society through our customers' business. In the first and second medium-term plans of the past, we have focused on "refining technologies."

In this context, the information systems divisions of various companies have been involved. I understood that various changes are required for this DX era, as I have been working with the Information Systems Division for a long time.

I learned that communication infrastructure and security-related items would need services to be used instead of owning IT assets, and I learned very hard.

In addition, during many years of relationships, many of the information systems divisions that worked together moved to business divisions to realize the way IT was used to win the competition, which was useful in the divisions. There are a number of people who want to create things together with their business divisions and develop services by raising the efficiency of their existing operations and by outsourcing. This is what I learned in the First Medium-Term Plan and the Second Medium-Term Plan.

In response to such trends, we have first transferred the cloud of many companies to the Information Systems Division as a cloud integrator. Alternatively, we have created a communication infrastructure. Alternatively, we have taken measures for security. The first step in the Third Medium-Term Plan is to deliver this service as a service provider.

The other is how people in the Information Systems Division who have been familiar with information technology should use IT and accelerate the use of DX as a business unit as they go to their business divisions. We intend to use consultation to solve the problems of our customers. We are also determined to develop business-oriented information technology together if there is something that can be built together, and we are proceeding with this third Medium-Term Management Plan.

Focused Items of "Be a service provider"

This is a key issue in Be a service provider. To date, we have been working on a variety of initiatives at one SB Technology company. In the third year of this medium-term plan, we will work together to expand sales of services that mutually complement the core products of Group companies, conduct advertising and sales promotion activities more aggressively, and realize the development of services with an eye to the next fiscal year.

In the first year, Stock market was only ¥1 billion, but in the last year, it could grow by 5% to ¥1.5 billion. We intend to double this fiscal year to ¥3 billion.

Leverage through SB Group Synergy (Strengthen Service Sales)

In terms of the synergy of the SB Group, both SoftBank Corp. and SB C&S Corp. have strong sales capabilities and merchandising capabilities, and have signed up for numerous security products. Needless to say, we also have a line service. We intend to achieve this figure, coupled with our solutions utilizing Managed Security Services and Zero trust security Starter Pack, Microsoft's Microsoft Teams and our clouXion.

Providing Services for Local Governments (Development of Services for Next Generation)

As explained in the third quarter announcement, the renewal of security clouds for local governments will finally begin on a full scale in this fiscal year.

In the past, the Ministry of Internal Affairs and Communications (MIC) secured a budget to secure internet connections among 47 prefectures and 20 government-designated cities. Then, the directive

was issued to ensure that the system was constructed during the year of FY2016 and operated securely for a total of five years from FY2017 to FY2021. This was compatible with bidding.

We constructed four prefectures as a result and have been operating them for five years since then. We are currently in the fifth year of operation, and we have various know-how obtained through this operation. There are 30 municipalities under one prefecture, but basically we will ask the prefecture to serve as a contact point and respond to it.

At the beginning, however, we sometimes asked rose inquiries from 121 municipalities or requested us to respond. As a result of these efforts, in fiscal 2017 we experienced a large deficit as soon as we felt that projects were taken, that they were successfully established, and that we were able to operate them successfully. In doing so, we are sincerely facing each other and celebrating this fifth year. Since FY2022, the five-year operation period has been completed, so we must finally renew the equipment.

Many security cloud systems are on-premises systems. In some cases, we use services on the cloud, but the majority of these systems were on-premises systems in FY2016.

If we continue to do so, we will return to computing in the age of no cloud until now, in which we renovate obsolete systems every five years. With this in mind, we thought that this could be serviced. We have been preparing for the development of services since FY2020, with the aim of placing all of them on the cloud and getting only user fees from the prefectural and government-designated cities.

With guidelines issued by the Ministry of Internal Affairs and Communications and numerous requirements, we are in the midst of preparing a maximum number of services to add them to our services. We are currently making intense efforts to explain it to each prefecture and make it possible for them to adopt it.

We also recognize that among the 47 prefectures and 20 government-designated cities, perhaps half will be renewed in the next fiscal year, and the other half will be extended by one year to be renewed in FY2023. The service will be refined according to the timing.

Of course, we intend to respond to requests for individual development, but we also plan to provide the minimum necessary items for this service. We also intend to make this a service that will enable us to refine the contents more and more.

Conventionally, it is said that the life of the system is five years due to the relation of the depreciation period, but after five years, the capacity of the system has been 10 times larger. The power of only one-tenth the power will not always be able to protect against external attacks that attack at ten times the power. Therefore, we are proposing a service that always provides new security measures.

"Creation of Consulting & Business IT" Key Points

Next is the creation of consulting & business IT. What must be done in order to realize DX, there are two areas of competition: one must make original things by striving to win competition with other companies, and the other must collaborate with other companies.

In the architectural and global manufacturing industries in which we are involved, CIOs, representing each company, are aware of the issues of "this kind of industry is a problem" and "it is impossible to achieve this kind of situation" beyond the boundaries of the company. However, the current situation is that they are individually developed and operated in an individual fashion.

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We will be very pleased if we find a coordinated area and create a service and user fee. Sometimes customers push their back, so we are thinking of making services in such places.

In the competitive domain, of course, we do not talk to competitors, but the momentum is rising to adopt them together in the cooperative domain.

Capturing Con-Bridge Shares and Strengthening External Collaboration

A typical example is the "Con-Bridge" we talked about in January. The term "Construction bridge."

Currently, at the construction site, which is a coordinated domain of various companies, general contractors put all blueprints or process charts into the server. We will show only the parts necessary for various construction works such as electrical work, air-conditioning work, and sanitary work. Then, only the necessary places can be entered, and if the work is actually completed, the work will be "terminated" in the progress table.

This was done on an individual basis at each construction site. We heard that each general contractor was making it loose, and from the electricity and air conditioning-related areas responsible for the downstream processes, we felt that it was very inconvenient.

Based on this background, we decided to provide "Con-Bridge." Con-Bridge provides integrated identity management and allows you to share your files. In addition, the price varies depending on the storage of the file. In addition, to manage each individual by ID, it is only necessary to manage by ID when entering, viewing files, or saving data. Trial is scheduled to begin in this first quarter.

Toward the Realization of Digital Governance (1/2 Paper → Digital)

Next, I would like to explain about how to realize a digital governance. One of the factors that caused this order to be concentrated at the end of March was MAFF electronic application project, which began in the fourth quarter of FY2019.

Various applications are being submitted for various next processes, but all of them are made of paper. We have developed five typical workpiece Flow. And out of the 4,500 applications in MAFF, the staff made 1,000 in just a year, and we were able to flow to the work flow we designed. In FY2021, we will continue our efforts to create more and more accurate products at a faster pace.

In addition, we will make another workpiece flow. In addition, 1,000 cases have been created in one year, but the government target is to electronize 9% of the total, so we will accelerate this fiscal year to 1,000 cases and 2,000 cases, respectively. We have also received orders for operation and maintenance for that.

I believe that one of the key features of this initiative was the careful arrangement of some work flow and the implementation of a system that allows MAFF employees who understand the contents of the application to implement it themselves. In this fiscal year, we expect that more than 1,000 administrative procedures will be digitized in accordance with the work flow.

Toward the Realization of Digital Governance (Common use of 2/2 Maps)

I will explain another step toward the realization of digital governance. The standardization of maps. MAFF manages a very large proportion of Japanese land, including mountainous forests and agricultural land. The farmland ledger, which we have been in charge of since 2015, has a map of

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farmland. The forest has a map of the forest. In addition, paddy fields developed a few years ago have maps of paddy fields.

Each map is discrete, and even if you go to each area, the map system is managed in a different state. This time, we have decided to assist with the project of "Let's unify this map as a common base". Various discrete systems on the common foundation have different laws and ordinances based concepts, but there is only one map. In this way, we have been undertaking the development of a common foundation for geographic information.

I think that there are some thick content in the discussions so far, but I explained the business for such municipalities and public, construction, and global manufacturing industries.

Shareholder Returns

I will explain shareholder returns and performance forecasts. We were able to achieve net income of ¥2.42 billion in the previous fiscal year. We believe that this is also very important with the understanding and support of the shareholder.

With regard to dividends, at the General Meeting of Shareholders in June, the Company intends to consult with shareholders to increase the annual dividend from the initial dividend forecast of ¥30 per share to ¥40 per share, an increase of ¥10 per share. If you accept it, it will be ￥ 40 and the payout ratio will be 33.3%.

In formulating this third medium-term plan, we targeted an ROE of 13%, which we considered to be problematic. In the previous fiscal year, we were able to achieve 14%.

Impact of Adoption of Accounting Standard for Revenue Recognition

Effective from FY2021, the new accounting standard for revenue recognition is effective. In fiscal 2020, ¥70.4 billion is the consolidated Net Sales, but if we apply the standard of making e-commerce licensing sales a net amount, ¥17.7 billion will be deducted from EC Solutions sales. Accordingly, Net Sales under the new accounting standard for fiscal 2020 is ¥52.7 billion.

Performance Forecasts (Adoption of Accounting Standard for Revenue Recognition)

Based on this, we are targeting Net Sales of ¥59 billion for this fiscal year. In terms of operating income, when we announced our third medium-term management plan, we decided to "grow the average annual growth rate by 20%." We also stated that operating income, which was ¥2.5 billion at the time, would be ¥4.3 billion over the three-year period. Since the previous year is ¥3.85 billion, the growth rate may appear to be slightly smaller, but we would like to achieve this target reliably first. The following indicators are shown below.

FY21 Management Indicators

For the current fiscal year, our management indicators are operating income of ¥4.3 billion, a BIT&CIT Net Sales ratio of 50%, and a ROE13 percentage. We will do our best to this end, and thank you for your support. Thank you for your attention.