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## **SB Technology Corp. Overview of Earnings Results Briefing for FY2021 Q1**

This is a transcript of the SB Technology Corp. FY 2021 Q1 Results Briefing held on July 28, 2021.  
Speaker: Mr. Shinichi Ata, President & CEO, SB Technology Corp.

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### **SB Technology Achieves Record Sales and Operating Income Orders from 2Q onwards have been solid due to higher performance than initial forecasts**

#### **Information**

Shinichi Ata: Hello everyone. I am Shinichi Ata, representative director of SB technology. Thank you very much for participating in our FY2021 First Quarter Account Meeting while you are busy today. Therefore, we will be able to fill in the accounting explanation as well.

First, I would like to introduce the latest information. On July 9, we received an announcement about the compliance status of the new market category for the Tokyo Securities market, which will be reorganized in the next fiscal year. We received a report from the Tokyo Stock Exchange that it was in conformity with the "Prime Market."

At the General Meeting of Shareholders held on June 21 this year, the ratio of outside directors was one-third, with two out of a total of six directors being outside directors.

In terms of "diversity/female activity," we acquired "Eruboshi," which is one proof of female activity, three years ago. On June 17 of this year, we received "Kurumin" certification for support for child-rearing.

As of July 16, two new advisors joined us as executive advisors. Women who are very knowledgeable and experienced in their IT, as well as those who are networked and familiar with their customers' conditions. We were assigned as an advisor not only because of the active use of women, but also because we were able to give good advice to our management.

#### **Third Medium-Term Management Plan: Realizing an Information-Rich Society**

This three-year business plan is the third medium-term management plan. We have explained this to everyone before, but we intend to evolve into a service provider by advancing one more step beyond conventional system integration for the information systems division.

Furthermore, in order for our customers' information-systems departments to increasingly emerge in our business divisions and improve DX of our business, we consider it our transformation to be the

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creation of more and more consulting and business IT, and we have made it one of our goals.

### **Third Medium-Term Management Plan/ FY21 Management Indicators**

Numerically, we will maintain an average annual growth rate of 20% every year from fiscal 2018, and operating income of ¥4.3 billion will be our goal for this year, the final year of the Third Medium-Term Management Plan.

We have achieved our goal of raising the ratio of business IT and corporate IT to 50% of net sales last year. However, our management benchmark is to maintain ROE13 percentage in the current fiscal year.

### **Premise for this briefing material**

As you can see in the graph on the slide, this is a big difference between the previous year and the previous year. As you can see, the grey portion is the sales recorded on the accounting standards up to the previous fiscal year.

From this fiscal year, the new revenue recognition standard will be applied. Fiscal 2020, when the figure was ¥17.9 billion, would be an unsupervised reference figure that represents net sales of EC solutions under the old standard. Please see the slides. Compared to last year, this is a decline and the blue part of the graph is rising.

I think you will be aware of it soon, but CIT・BIT included here made the starting point in FY2012 at ¥2.7 billion. When half of the ¥59 billion in the current fiscal year can be done in CIT・BIT, the key driver area will be more than 10 times more in the last nine years. This is why the blue part of the graph will be mainly explained later.

### **Consolidated PL**

The consolidated P/L has sales of 14.994 billion yen. If we calculate the first quarter of last year based on the new revenue standard, it will be 10.375 billion yen, so I would like to see the sales growth at about 44%.

Operating income, ordinary income and quarterly net income are not so affected. Operating income was ¥912 million, or 36.8% of the ¥666 million recorded in the previous year. Ordinary and quarterly profits are as shown in the slide.

### **Impact of Change in Accounting Standards (Net Sales)**

The bridge from last year will let you know. If ¥4.38 billion due to the impact of the new revenue recognition standard is subtracted from the ¥14.75 billion sales in the first quarter of last year, the sales

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will be ¥10.37 billion. As a positive factor, the impact of sales of the new subsidiary, which has been consolidated since the second quarter of last year, is about 800 million yen.

In addition, due to the companies at that time, including ourselves, sales increased by 3.83 billion yen. I believe that more than 90% will be the increase in sales of SB technology alone.

### **Trends in Fixed Costs and Profits**

Fixed cost and profit trends. The marginal profit disclosed on an ongoing basis is ¥4 billion for the previous year, with a breakdown of ¥3.3 billion for fixed costs and ¥660 million for operating income.

This first quarter cost 5.2 billion yen, and the fixed cost is 4.3 billion yen. The main items were personnel expenses of ¥600 million, relocation expenses for the company that became a subsidiary, and restoration expenses. It was also 4.3 billion yen due to an increase in training and other expenses for employees. Therefore, the remaining operating profit is 910 million yen.

### **Solution classification**

In terms of solution categories, sales on the left side of the slide represent increases in revenue and revenue for both Business IT and Corporate IT. In particular, in the area of Business IT, sales rose from ¥1.1 billion last year to ¥2.4 billion due to the operation and additional developments of electronic application bases for the Ministry of Agriculture, Forestry and Fisheries, and the renewal project of Web website at SoftBank Corp. Growth has been seen in this quarter.

I think you will be able to see various tables of Corporate IT later, but there have been some 10 million yen in unparalleled projects. However, sales increased by 4.5 billion yen from 3.7 billion yen last year. This field has grown from a total of ¥4.8 billion to about ¥7 billion, due to strong demand, particularly in the security field, or growth in our own services.

With regard to Technical solutions, we mainly construct and operate on-premise systems for the Group, but this is also an increase from 4.3 billion yen last year to 6.8 billion yen. The amount of vendor management projects also grew. However, the direct development of new fields derived from these projects also grew significantly.

Therefore, in the marginal profit on the right-hand side of the graph in the slide, it is the Technical solution area that has not been able to achieve a significant growth in sales until now, but I think that the marginal profit will also be seen to grow.

In the case of EC, the value is also shown in net value, so we would like to see it as almost flat.

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### **Net Sales by Customer**

Sales by customer. The bar chart on the left-hand side of the slide shows that the blue segment above represents SB's sales, which grew from ¥5 billion to ¥7 billion. Enterprise/Public sales grew from ¥4.8 billion to ¥7.4 billion, while sales of EC for consumers were flat at ¥500 million.

In terms of sales within the Group, SB Group saw a further increase from 1.1 billion yen last year to 1.8 billion yen in CIT・BIT cloud-based solutions. Including vendor management projects, the portion of Technical solutions is also growing, from ¥3.7 billion to ¥5.2 billion.

In the Enterprise/Public area on the right-hand side of the slide, BIT・CIT area-particularly BIT-has doubled from ¥900 million to ¥1.8 billion. In terms of Corporate IT, security-driven investment grew from ¥2.6 billion to ¥3.4 billion, with a combined significant increase from ¥3.6 billion to ¥5.2 billion.

In the Technical solution area, the consolidation effect of Denen, etc., which we have been consolidating since July of the previous fiscal year, is about 800 million yen, but I would like to see it grow from 600 million yen to 1.5 billion yen, including this.

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

Regarding the status of orders, the graph on the slide shows the non-consolidated orders for each quarter of last year. Orders received for SB Technology on a non-consolidated basis will be ¥11.6 billion for the first quarter of this year compared to ¥8.4 billion for the same period of the previous year.

The order backlog at the end of June last year was ¥16.5 billion, but this year it increased to ¥23.6 billion. We have also been able to win orders for the next-generation development/construction of the nationwide farmland Navi, which we have been involved in since 2015, and our vendor management projects are also steadily expanding. Approximately 80% of the ¥23.6 billion order backlog is scheduled for sales in the current fiscal year.

### **[Progress Report] Local Government Information Security Cloud Services**

Regarding the information security cloud released on July 28, there are some news already distributed online such as "Nikkei Computer", but I would like to explain a little about the contents.

The Information Security Cloud was launched in 2016, just five years ago, under the leadership of the Ministry of Internal Affairs and Communications (MIC) to "take responsibility for managing the mouths when going into the Internet" in 47 prefectures and 10 designated cities.

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Each of them was transmitted to the prefectural unit or the city unit designated by the Cabinet Order, and a budget was added.

Development of 47 prefectures plus 10 ordinance-designated cities began at the same time, and five years commenced from the following year. For this reason, the renewal will be used as a theme for this year, starting in April next year, or due to changes in the start time, etc., it is likely to be used from April 2 years later. The information security cloud projects are about half the volume this year, and about half the volume next year.

Looking at the Japanese map on the left side of the slide, we had adopted it five years ago in four prefectures: Iwate, Miyagi, Niigata, and Nagasaki. We are still in operation.

The news was given in a proposal to jointly use it in six prefectures in Tohoku and Niigata prefectures as well as in seven prefectures. We explained that we would like to provide it as a service instead of setting it individually.

This service includes everything that the Ministry of Internal Affairs and Communications says "this is an essential requirement." The optional item "If there is a margin, what should you add such an option?" has a menu as an additional service.

In addition, each prefecture can set up individually if there are special circumstances or special offerings in the island, and if there are many requests, it can be provided as a service.

As a result of a proposal for joint use in seven prefectures, which was led by Aomori Prefecture, we received an announcement that we had been selected as the best. I think the contract with each prefecture will be around August.

As for the amount feeling and others, it is such a situation, so I hope you will see them when each prefecture is open to the public. In addition, as we will provide it as a nationwide available service, we are planning to propose several other proposals after this.

### **FY2021 Forecast**

With regard to our earnings forecast, we were able to record sales of approximately ¥15 billion in the first quarter compared to our earnings forecast of ¥59 billion for the current fiscal year. This is more than a quarter of the progress. The operating income target is ¥912 million, which is about 21% of the target of ¥4.3 billion.

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Considering the past progress, which is drawn by the gray on the right side of the slide, I think that a very good number may be produced.

In terms of sales, we feel that we are surely on an upward trend. However, we feel that it is difficult to correct the forecast at the moment.

We intend to make more accurate forecasts at the time of the second quarter's announcement of the results, so we submitted these forecasts as they were.

After taking time, the above is the details of today's account. Thank you for your attention.

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