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SB Technology Corp. Overview of Earnings Results Briefing for FY2021

This is a transcript of the SB Technology Corp. FY 2021 Results Briefing held on April 27, 2022.
Speaker: Mr. Shinichi Ata, President & CEO, SB Technology Corp.

Achieved record highs for SB Technology, net sales, and each profit, and achieved operating income of 8 billion under the 4th Mid-term Management Plan.

Results Summary

Shinichi Ata: Hello everyone. This is Ata, president of SB Technology. Thank you very much for participating in our financial briefing today despite your busy schedule.

Today, I will explain the performance overview and the 4th Medium-Term Management Plan. Afterwards, we will accept questions, including documents attached to the account closing and company information.

As our first report, we were able to move to the prime market on April 4, 2022.

To strengthen governance, we plan to welcome three new directors in order to increase the ratio of outside directors to a majority. We have already joined the Board of Managing Board and various business reviews as our advisor since last year. Five of the nine members of the board, who are scheduled to be resolved at the General Meeting of Shareholders on June 20, would like to start with an external board member.

We also intend to identify materiality and enhance the disclosure of ESG-related data regarding the promotion of sustainability, which is required of the prime market.

About Sustainability

Our vision is "Making People Happy with the Information Revolution-Building a Future with the Power of Technology." In this context, the slides on which you can read the basic policy that outlines how we will contribute to sustainability. We would like to proceed with activities in accordance with a total of seven policies.

Identifying Critical Issues (Materiality)

Among them, we identified six key issues (materiality).

The first is to promote the use of cloud computing, which has been focused on the last decade. I had a worldwide announcement, but using the cloud, such as Amazon's AWS or Microsoft's Azure, saves more power than placing a system on-premises. In particular, AWS announced that it could reduce its electrical consumption by 80 percent. By moving to the cloud, we intend to promote it because it can contribute to the reduction of GHG emissions.

Second, in promoting DX, we will contribute to our core business through the use of data by customers.

The third is the continuous enhancement of security technologies. We want to continue providing comprehensive security services to businesses and local governments.

Fourth, I have been involved in eight years or so, but I would like to contribute to ensuring safety in the field of food, such as the digitalization of the Ministry of Agriculture, Forestry and Fisheries and the navigation of agricultural land.

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The fifth is to contribute to the diversification of lifestyles in society. We will contribute to the degree of freedom in working styles, including telework, which has been spreading due to the Corona disaster. We are still using telework by approximately 75% of our employees. Sixth, we are actively recruiting human resources and investing in education as a means of expanding our human resource capital and building a framework for business creation.

Summary of Account Settlements

This is an overview of business performance. In the Summary of Financial Results, we achieved record highs for all indicators, including sales and operating income. In net income, extraordinary gains from the sale of investment securities and extraordinary losses for structural reforms for the next fiscal year and beyond were recorded.

Regarding the status of orders that will lead to the current fiscal year, in the fourth quarter we are able to move toward the fourth medium-term management plan with record-high orders and order backlog. In fiscal 2024, the final year of the Fourth Medium-Term Management Plan, we intend to raise our operating income to ¥8 billion. Over the past three years, we intend to lay the groundwork for achieving the upcoming operating income level of ¥10 billion in fiscal 2025 and beyond.

Assumptions for this Explanatory Material

This is the premise for this explanatory material. The new revenue recognition standard has been applied since fiscal 2021, and net sales for the current fiscal year will be 66.1 billion yen. The gray portion of the bar graph shows the purchase amount of EC, which had been recorded under the old standard in the past nine years up to last year. Please note that the growth rate of this document for the current period will be explained in blue after the new revenue recognition standard is applied.

Consolidated PL (Full Year Cumulative)

P/L of the concatenation. Net sales were ¥66.183 billion, an increase of ¥13.649 billion from the previous fiscal year. This is the comparison after applying the new revenue standard. Operating income was ¥5.152 billion, an increase of ¥1.297 billion from the previous fiscal year. The rate of change is 33.7 percent positive, and recurring revenue is shown on the slide.

Income before income taxes and minority interests was ¥5.633 billion, an increase of 45.2% compared with the previous fiscal year. This item includes temporary gain on the sale of assets. Profit attributable to owners of parent was ¥3.63 billion, up 49.5% year on year.

Impact of change in accounting standards (net sales)

I will explain about bridging sales. From last year's total sales of 70.4 billion yen, 17.9 billion yen will be negative due to the effect of the new revenue standard. As a result, net sales after adjustment for the new revenue recognition standard are ¥52.5 billion. This figure, combined with the addition of ¥790 million from the consolidation of subsidiaries since the second quarter of last year and ¥12.8 billion from the increase in sales, totaled ¥66.1 billion.

By Solution Category

Changes in sales by solution category. The graph on the left side of the slide shows sales and the marginal benefit on the right side. Sales in the Technical Solutions segment have risen by 5 billion yen, from 24.3 billion yen to 29.2 billion yen. Cloud-based business IT and corporate IT saw an increase in sales of 8.8 billion yen, from 24 billion yen to 32.8 billion yen.

Marginal profit is also growing, with the TS portion rising from ¥7 billion to ¥8 billion and the cloud portion rising from ¥9.6 billion to ¥11.8 billion.

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Net Sales by Customer

Sales by customer. The yellow portion of the bar graph on the left side of the slides is the sales of the SoftBank Group, which ranges from ¥24.6 billion to ¥30.7 billion and is a positive ¥6.1 billion. The blue portion represents corporate/public sales, from 25.8 billion to 33.4 billion and 7.6 billion plus. In the past three years, CIT and BIT, which are cloud-based solutions focused on in the medium-term plan, were able to grow significantly from ¥6.1 billion to ¥7.0 billion and ¥900 million in the SOFTBANK Group, and from ¥17.9 billion to ¥25.9 billion and ¥8.0 billion in the corporate and public sector, respectively.

In addition, I think that the portion of the SOFTBANK Group's TS is seeing a significant increase in revenues due to the expansion of the scope of SOFTBANK projects.

Factors behind changes in operating income

This is a factor that increases or decreases the operating margin. Last year's consolidated operating income was 3.85 billion yen, which is a positive 3.12 billion yen due to an increase in marginal profit. The breakdown is 40 percent for TS and 60 percent for cloud-based BIT/CIT.

Negative factors included an increase of ¥1.14 billion in fixed costs such as personnel expenses and a loss reserve of ¥550 million in large-scale and strategic projects.

In addition, we allocated ¥130 million as the cost of responding to incidents in response to the fraudulent use of distribution servers in the local government security cloud on March 18. As a result, operating income came to ¥5.15 billion.

Factors behind changes in income before income taxes and minority interests

This is a factor that increases or decreases the net gain before tax and other adjustments. In addition to the ¥3.88 billion in the previous fiscal year, an ordinary income of ¥1.15 billion was added to the extraordinary income of ¥780 million from the sale of investment securities.

The extraordinary loss of ¥180 million was due to the retirement of existing software in preparation for the Fourth Medium-Term Plan that will begin in the current fiscal year and the establishment of bases in response to the decline in the number of employees coming to the company due to the Corona scandal. As a result, the price is 5.63 billion yen.

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

In the earnings outlook for the current fiscal year, the left-hand side of the slides is the trend in orders received by quarter. This is a record-high annual order value, with an increase of 9.6 billion yen from 49 billion yen last year to 58.6 billion yen this fiscal year.

The order backlog was ¥24 billion at the end of the previous fiscal year and ¥27.6 billion at the end of the current fiscal year. Of the 27.6 billion JPY, approximately seven percent will be sold during this period (FY2022).

Growth under the Third Medium-Term Management Plan

This section describes the 4th Medium-Term Management Plan. Looking back first at the Third Medium-Term Management Plan, we were able to double sales from ¥33.3 billion in fiscal 2018 to ¥66.1 billion and operating income from ¥2.51 billion to ¥5.15 billion.

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Priority Areas of the Fourth Medium-Term Management Plan ①

Here are the key areas of the 4th Medium-Term Plan. In order to promote sustainability activities based on the materiality mentioned at the beginning, I would like to allocate resources to the four concentrated areas listed on the slide.

First, the basis is security. This is a managed security service or a iTrust certification service promoted by the Group's CyberTrust Company.

Next, I want to invest in the fields of communication infrastructure in our fields of expertise, digital marketing including access analysis, and aggregation, integration, and utilization of these two types of data.

Priority Areas of the Fourth Medium-Term Management Plan ②

Full support for corporate DX, which has been promoted under the Third Medium-Term Management Plan, will also be a priority area. The track record of cloud adoption is already among the top in the country, but I think that cloud use will continue to grow increasingly for sustainability in the future. In addition to support from existing consulting to actual implementation and operation, new functions will be added to managed services afterwards.

Another important point is that we learned from our three-year e-application project at the Ministry of Agriculture, Forestry and Fisheries, which we discussed at the last IR meeting.

The department of the Ministry of Agriculture, Forestry and Fisheries has submitted more than 3,000 types of applications in paper, and the data is being sent to other ministries and agencies as paper or as data that has been newly redacted by a special-purpose machine. In order to introduce a cloud service, such as an electronic application, which is distributed in a series, it is necessary to understand the various laws and ministerial ordinances defined for each application, and it takes a long time for a company with SI such as us, so it is not easy to do it.

For this reason, we have prepared a platform to create a basic application workflow. This is a tool for creating applications for various applications, and it is a mechanism for selecting application patterns from a number of flows.

In addition, the Ministry of Agriculture, Forestry and Fisheries provided 3,600 staff members with instructions on how to use this tool and environmental considerations. In addition, there are a number of flows in the application form, such as A pattern, B pattern, and C pattern, but we have trained the application of the flow for each pattern, that is, how to create the application form.

As a result, staff members created actual application forms themselves, and by the end of last year more than 2500 of the 3000 applications had been submitted, thus realizing an application flow on the platform at a very fast rate.

Against this background, I think it is correct to support customers and work together with DX and cloud computing in the future or considering sustainability.

Some ordinances and laws continue to exist to date, such as the Land Improvement Law enacted in 1949. Even though it is extremely troublesome in the process, if it is in accordance with the law, we have no choice but to study and make it exactly the way we do.

However, if you have everyone in the staff, you should change the unreasonable things as much as possible. I am in that position, and I have the power to change it. I think that such a combination has been successfully formed this time.

We believe that this type of service and platform deployment will be the key to advancing DX in the future. We intend to make this the 4th Mid-Term Management Plan under which we will push forward.

Future Direction of Growth

This is the direction of future growth. As I mentioned earlier, in the Fourth Medium-Term Management Plan, we have set an operating income target of ¥8 billion for fiscal 2024. After that, I think that this will be the fifth time, but I would like to realize the figures of ¥100 billion for sales,

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¥10 billion for operating margin, and 10% for operating margin. In the fourth step, I think that this process is in progress.

However, in this fiscal year, we also discussed the IR meeting in January, but the long-term contract with Norton LifeRock will be largely revised. In this fiscal year, we are forecasting an operating income decline of perhaps around 400 million yen, and we must consider what percentage we will increase on the basis of about 400 million yen from the starting line of 5.15 billion yen.

Among these, we would like you to have more detailed fiscal 2022 plans, the four focus areas discussed earlier, the way in which new DX services are provided, and the time to further refine productivity.

The organization was changed on April 1. Previously, we had set up businesses for the Group and businesses for corporate and public sectors, and all resources were placed in those divisions. As a result, I think it was very good that I could hear the customer's voice directly, and that sales and technical jobs were considered from the same point of view.

On the other hand, it was found that the business unit alone was fairly difficult to realize "computer visits" to reach new services. From this fiscal year, we will divide our business divisions into three divisions. The division of the group, the enterprise division, and the public works division are divided into a separate business unit from the enterprise and the public.

In addition, a new service supervision has been established since April to unify the three divisions of the Sales & Marketing Division, the Security & Service Division, and the New Business Division.

Since the announcement of the IR in January, we have been considering various issues among members, but we believe that it will take some time to further refine. We mentioned the medium-term goal, but we plan to explain the specific method to be taken in the first quarter results announcement at the end of July. We would like to talk about the operating margin target and action plan for the current period, including the three months' worth of response.

Fourth Medium-Term Management Plan/ FY24 Management Indicators

Again, in the Fourth Medium-Term Management Plan, we will set an operating income target of ¥8 billion.

The operating income margin is currently in the 7% range, but we aim to achieve the 9% level. If we continue to do so at the current level, we expect an operating income margin of around 1% due to the impact of contract changes in the EC business, but we intend to raise this margin to the 9% level.

In addition, we intend to combine what we have called BIT and CIT with cloud security and services to bring sales up to over ¥50 billion from ¥32.8 billion in the current fiscal year.

The three indicators shown above are the management indicators of the Fourth Medium-Term Business Plan.

Future Disclosure Policy

Regarding the marginal profit indicators, which we used up to the Third Medium-Term Management Plan, many of which were pointed out by customers, we received opinions that "we do not know where and how we use our internal resources" and "it is difficult to compare them with other companies." Therefore, we would like to disclose them in gross profit from the Fourth Medium-Term Management Plan.

In terms of segments, we also want to disclose industry categories and solutions in a form that can be viewed in a matrix.

Shareholder Returns

Shareholder Return. At the end of March of the previous fiscal year, we increased the payout by plus 10 yen, and the annual payout was 50 yen. For the current fiscal year, we plan to pay an annual dividend of 50 yen, consisting of 25 yen for the first half and 25 yen for the second half.

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Due to the sale of investment securities in the current fiscal year, we temporarily achieved a dividend payout ratio of 27.9%. With the exception of temporary items, we intend to plan to achieve a dividend payout ratio of 33.4% on the line.

I would like to devote all my energies to the Fourth Medium-Term Business Plan, which covers the period from fiscal 2022 to fiscal 2024. Thank you for your attention.