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SB Technology Corp.
Overview of Earnings Results Briefing for FY2022 Q1

This is a transcript of the SB Technology Corp. FY 2022 Q1 Results Briefing held on July 27, 2022. Speaker: Mr. Shinichi Ata, President & CEO, SB Technology Corp.

SB Technology Forecasts Record Operating Income

Announced business alliance with Modis and carbon neutral declaration

Results Summary

Shinichi Ata: Hello everyone.　　My name is Ata, and I am the president of 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 at once.

Today, I will explain the overview of our business results and the 4th Mid-Term Business Plan that begins this fiscal year.　Figures and company information are attached, so we would like to see them.

First, an overview of our performance.　All indicators, including net sales and operating income, achieved record highs for the first quarter.　We also expect the incidents of the next-generation local government data SC, which we were concerned about in the previous earnings announcement, to converge within the allowance.

We were able to receive orders from the Ministry of Agriculture, Fisheries, and two additional prefectures for the next municipal information security cloud.　As a result, we have achieved record-high orders and order backlog in the first quarter.

In terms of the full-year outlook, we will accumulate orders through the promotion of DX by companies and administrations.　The full-year forecasts are for net sales of ¥70 billion and operating income of ¥5.4 billion.

Consolidated P/L

About the contents of performance.　Net sales were ¥15.56 billion, a record high.　Operating income was ¥1.085 billion, ordinary income was ¥1.07 billion, and quarterly net profit was ¥646 million, both record highs.

From this Medium-Term plan, EBITDA of operating income plus goodwill depreciation and amortization is also presented.

This is because depreciation expenses will also increase in line with the increase in investment, such

as additional investment in service infrastructure such as the municipal information security cloud, during the period of this Medium-Term plan.

In order to grow in the future, we are also actively pursuing business alliances and business alliances, including M&A, and in some cases, acquisitions of companies.

It is not clear yet, but we would like to check the cash flow by looking at EBITDA.

Changes in Disclosure Policy

Furthermore, from this fiscal year, the indicators of market classification, solution classification, and profit indicators have been changed.   In terms of the Telecommunications area, in our case, almost 100% of the market classification relates to the telecommunications business of SoftBank Corp.

The Enterprise area is the corporate portion excluding the telecommunications business of SoftBank Corp.   In the future, we believe there will be cases in which we work with enterprise customers in collaboration with SoftBank Corp.   For example, we will collaborate with Softbank Group companies such as Z Holdings and Yahoo!, PayPay, LINE to develop the enterprise domain.

In addition, the Public area was previously the sum of the Enterprise, but I will log it out and explain it.

In addition to Norton LifeLock's sales of security software for PC, it also includes Fontworks fonts for consumers.   This is something that prosumer designers will use, but since it is a private business, I have placed it in this category.

As for the classification of solutions, we will talk again from the conventional Business IT and Corporate IT to the classification of Cloud solutions and Security solutions.   I would like to explain this in four categories, including technical solutions that are on-premises and the procurement and sale of equipment and licenses.

Various indicators of profit have been pointed out.   Marginal income is not very normal, so from this time we have disclosed Gross profit.

Net Sales and Gross Profit by Market

The total amount of sales increased from 14.9 billion yen to 15.5 billion yen.   Looking at the slide bars in order from the top, the consumer area is shown in orange, but sales and profits decreased from 1.1 billion yen to 1 billion yen.

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I've already explained several times, but it's due to the impact of a contract change with NortonLifeLock Co.,Ltd..　As for the acquisition of new customers, we will surely descend to the right-of-the-right position, since we are already in the process of replacing existing customers instead of our business.　We believe that the projected decline in profits for the current fiscal year will exceed ¥400 million, and we have factored this into our forecasts.

In the area of Consumer in the first quarter of this fiscal year, there was also a ¥10 million decline in both sales and profits.　We were able to cover a small amount of Fontworks, but we had an impact of a ¥100 million decrease in sales and a ¥20 million decrease in Gross profit.

In the Public Sector area, net sales increased from ¥1.8 billion to ¥2.3 billion, but gross profit leveled off at ¥140 million.　This growth is attributable to projects for the Ministry of Agriculture, Forestry and Fisheries and the operation of the next-generation municipal information security cloud.

We were successful in winning a bid for a project for the Ministry of Agriculture, Forestry and Fisheries in June, but since it was originally scheduled to be taken in March, we have begun preparations such as arrangements for personnel at the end of March.　Due to a period lag in orders received, costs for three months have worked negatively, resulting in a flat gross profit.　Although not all this amount of money, we believe that many parts can be collected before delivery in March of next year.

In the Enterprise area, sales are up slightly, but profits are improving.　This is due in particular to the increase in annual contracts since April for security measures.　In addition, systems for the manufacturing industry are also making steady progress, and this has also contributed significantly to the increase in profits.

The Telecommunication area is shown in pink, but sales decreased from 5.2 billion yen to 5 billion yen.　On the other hand, the profit of 620 million yen is 790 million yen, so the profit has increased. This was due to the negative impact of one of the large cloud projects related to the Telecommunications industry in the first quarter of last year.　The impact on sales was significant, and the impact on profits was small.

Factors Behind Changes in Operating Income
About the bridge of operating profit.　This is an increase of about 110 million yen from 910 million yen last year due to the increase in sales.　The gross profit margin rose 2.2 percentage points due to improved profitability, resulting in a positive growth of ¥270 million.

In addition, despite information security incidents and other provisions, the provision for losses decreased in this quarter, resulting in a gain of about 70 million yen.　On the other hand, SG&A expenses increased.　The base was increased by about 3% for employees, and the cost of new employees and recruitment made negative ¥280 million.　As a result, it is 1.08 billion yen.

[Non-Consolidated] Orders Received/Order Backlog 　（ Except Consumer business）

About orders.　In the first quarter, orders received in Public Sector areas were ¥4.4 billion, up from ¥1.3 billion last year.　By March, approximately half of the orders had to be kept, but we were able to receive an order of 14.7 billion yen.

At the end of the first quarter, the order backlog was ¥29.6 billion, up 25 percent year-on-year.　Here too, the big potions are Public Sector area.

Of this amount, about 70% will be sold during the current fiscal year.　The remaining 30% includes maintenance for five years and municipal information security clouds, so I would like to see that there are such multiple years remaining.

Full-year Earnings Forecast

Full-year forecasts.　Net sales for the previous fiscal year were 66.1 billion yen, but we expect this fiscal year to be 70 billion yen.　As of the first quarter, the progress rate is 22%.

We expect operating income to be ¥5.4 billion, after factoring in a decrease of approximately ¥400 million in NortonLifeLock from ¥5.15 billion in the previous fiscal year.　Only the Net profit forecast has been lowered. However, in the fourth quarter of last year, there was an extraordinary gain of ¥860 million due to the sale of shares in the company in which we had invested. Therefore, we forecast a slight decrease in income for the current fiscal year.

Shareholder Return

Shareholder return.　At the General Meeting of Shareholders held in June, we declared a year-end dividend of ¥30 for the previous fiscal year, for an annual dividend of ¥50.　For the current fiscal year, we forecast an interim and year-end dividend of 25 yen each, for a total of 50 yen.

The dividend payout ratio was 33.4% for the previous fiscal year, excluding the gain on sale of shares in the fourth quarter of the previous fiscal year.　This year, we expect 32.6% to return to the original flat condition.

Changes in the Third Medium-Term Management Plan

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I would like to explain about the fourth medium-term management plan. Before that, we will first look back at what we have implemented and obtained in the Third Medium-Term Management Plan.

The graph of sales transition on the left-hand side of the slide has been retroactively applied to the new accounting standard. As of FY18, it was ¥33.3 billion, but this figure increased to ¥66.1 billion during the period of the Third Medium-Term Business Plan. Profits have almost doubled, from FY18 of ¥2.51 billion to ¥5.15 billion in three years.

As part of these efforts, we expanded the scope of vendor management projects and strengthened our relationships with partner companies. In particular, sales in the Telecommunications business have increased, and our biggest aim is to increase the number of partners and engineers in order to expand our business in the future. In addition, we have strengthened our relationships with partner companies because we cannot advance our business without the cooperation of our partners.

We were also able to cultivate a company that wanted to do Public Sector work with us in communication with partner companies. As a result, the Public Sector was able to grow from a business worth 20 billion yen to a business worth 10 billion yen at once. In addition, we established a portfolio by putting this public business in place.

We got from 800 partners in FY18, which now has more than 3,000 people. It was also the fourth year since we started developing an electronic application platform for the Ministry of Agriculture, Forestry and Fisheries. It has been extremely difficult for us to learn, remember, and create a system for the past three years of studying various ministry ordinances and methods.

For this reason, we have adopted a platform-style approach in which we ask the Ministry of Agriculture, Forestry and Fisheries officials to work on creating applications on the platform. We have them develop LowCode or NoCode.

To enable this, users must be educated, such as staff and employees. We launched a service to educate us on how to create applications for electronic applications and what kind of flow to work with.

We have set a target of digitizing a total of 3000 applications, but at the end of last fiscal year, the third year of the system, we have achieved over 2500 forms as a result. I think it is a great success, and I would like to develop smoother education and LowCode and NoCode to be able to develop the business.

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With regard to the municipal information security cloud, in addition to the 10 prefectures in the previous fiscal year, this fiscal year we were able to receive orders from Saitama Prefecture and Yamaguchi Prefecture.   Together, we will start trading with 405 municipalities and 12 prefectural agencies.   I think this is also a big opportunity.

Significance of SB technology

The policy of the Fourth Medium-Term Business Plan is based on the results of the Third Medium-Term Business Plan.   We will maintain our high-level technological capabilities and focus on cloud security with this technology.   As a member of the SoftBank Group, we understand that synergies with Group companies will become important to promote Japanese DX.

In addition, we were selected for the Prime Market in April of this year.   As a responsible member of society, we understand that meaning of our existence and position is to focus our efforts on sustainability, governance and sustainability.

Change in Organizational Structure

Organizational structure has been changed.   Until last fiscal year, we had adopted a business unit system with three divisions: Softbank Group companies, Enterprise Business & Public sector, and Consumers (EC).

I know that many SIer (System Integrators) have a business division system, and I also received advice that "If that happens, there will be a business division up to the line of operating profit?"

However, I believe that the division and headquarters systems will be replaced.   We have shifted to a new organizational structure from this time because we believe that if we can only see the same thing within the same framework, we will not be able to move in a new direction.   I would like to leave a good part of the business division where we can keep close contact with our customers.

At the same time, we will develop marketing for new technologies and changes to the new world. We will extract engineers about security and technology, and we will continue to work together in sales.   We will also cut out marketing.

Significant innovation is about to happen.   As we will explain later, we have created a Business Innovation Division, which will promote the Fourth Medium-Term Management Plan, with about 30% of the total, about 300 people in charge of Service Division, more than 500 people in charge of Business Division, and more than 200 people in charge of Management Division.

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The management Indicators of 4ᵗʰ Medium-Term Management Plan /Key Themes

As I explained in April, the management indicator for the 4th Mid-Term Business Plan is an operating income of 8 billion yen for the 3rd year.　In addition, while the operating income is currently 7%, we will raise it to 9%.　Furthermore, we have set net sales of the key cloud security and services at over 50 billion yen.

Three key themes are listed in the lower part of the slide.　The first is "The force of pushing up." The first thing we need to do is digitalization, but in contrast, there are many people who have allergies in order to increase DX in the future.　I think that because there is a problem of security.　I would like to provide infrastructure support centering on security.

The second is "The force of pulling up."　In the future, we will absolutely need a co-creation type DX that utilizes customers' datasets on secure infrastructures.　The third is "The force of moving ahead."　We need to support our customers through consulting and IT training in order to continue our DX.

DX Promotion of SB Technology

We intend to realize the future of our customers by combining these three forces well.　I would like to proceed with this as well according to the theory.

Providing Services That are Secure and Increase Customer Productivity

" The force of pushing up " is the power to digitize.　What is necessary for digitization is to provide security assurance.　As I mentioned earlier, we are currently providing information security clouds to 417 municipalities, providing managed security services to hundreds of enterprises.

Both are monitored at the center 24 hours a day, 365 days a year, and analyzed by AI.　Especially for municipal security clouds, not only SOC (Security Operation Center) but also NOC (Network Operation Center) are monitored.　If a hazardous event related to it is identified, it is currently necessary to report and wait for judgement. However, if the credibility increases, we believe it will be possible to stop it immediately.

Based on this, we will promote the use of DX.　In just three years, the Ministry of Agriculture, Forestry and Fisheries has applied for 2500 in 3000 different types of application papers, and it is expected that there will be a series of cases such as this which could have been created by the power of staff in the Ministry.

We believe that the basic business, generally referred to as 17 operations, will shift to governmental

clouds in a nationwide standardized manner, but each local government has its own resident service and notification, etc. There are about 1,000 cases in 1 million cities, which means that 1,000 types of paper are moving.

Various vendors say that "dozens of these are possible," and that residents can apply from PC and smartphones. However, the actual situation is that it is only a semi-digital system in which the office prints out once and presses a seal for approval, and it is not a DX system. We hope to make this a world that will become a DX by ensuring security.

Also, the process of moving in here when I move out will lead to a series of things, and it will become like an electronic system of the central government. When this happens, we're going to build a 1,000-pattern system. Since various SaaS companies have created very convenient services, we hope to make them safely available to the governments. I think this is a major opportunity.

Renewal of Security Monitoring Centers

The security monitoring center was upgraded to double the area this July. Security personnel also communicated with universities three years ago, and this year twelve talented students entered the company.

Security personnel are difficult to hire. The task of identifying what is dangerous from a few 1 billion alerts a day and building rules is what you must like.

In addition, the number of people is also required. Since we cannot leave this to AI alone at present, we will still increase the human resources for that purpose. We currently have 80 analysts, but we hope to increase this to 150 in three years.

In addition, we have followed our global monitoring and support centers, which were created prior to the outbreak of the new Corona Viruses, and we have continued to work closely with them over the past three years. We will further strengthen and expand our collaboration with these centers.
We believe this will enable us to respond to requests from manufacturers that are developing globally.

Promote Co-creation-type DX Utilizing Data that Realizes Customer Transformation
Consultation and IT Education for the Development and Creation of DX Human Resources

Then, " The force of pulling up" and " The force of moving ahead " are required. In DX of the Ministry of Agriculture, Fisheries and Fisheries, we will provide a platform service that enables us to develop NoCode, LowCode applications. We also provide IT training services to learn how to use them.

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Until now, SE had been able to study and understand the customer well, creating interesting applications.　Therefore, it was very difficult to start a new work.　However, our customers have knowledge of their work.

This is an era in which employees do not rely on information-based systems or IT vendors to create their own systems.　We believe that the promotion of DX in the future will be an era in which people who oversee white collar and service understand and make flows by themselves.

We educated 3,600 people from the Ministry of Agriculture, Forestry and Fisheries.　They have already made 2,500 types of applications, and probably all 3,000 types will be computerized as early as this year, so we would like to develop a model for promoting such DX.　The cost efficiency and speed will also increase by making it self-propelled rather than "this is done and finished."

On the other hand, how to utilize the remaining data will be an important point for the future. Therefore, we will provide consultation for data utilization.　We will develop human resources within the company who can provide consulting on data utilization such as digital marketing.　Some of them are originally able to do it, but we will further develop them so that we can handle the data of our customers in a new form.

In addition, there is a need to share data among companies rather than close it by one company.　By combining an encrypted database and privacy tech service, this enables marketing that shares only characteristic information that does not contain personal information and grasps trends.　We will proceed with this in the business innovation I mentioned earlier.

With this technical consulting and education as the driving force, we will provide a platform that supports the autonomy of our customers.　This is the major strategy of our fourth Medium-Term Management Plan.

Business Alliances for Sustainable Growth

However, this does not mean that SI(System Integrator) is stopped immediately.　There is a great deal of demand for DX.　However, there are 3000 partners, but this time there are not enough project managers.

Employee project managers trained 100 or several dozen people and also 50 consultants.　It's still good, but there are still not enough people to do so, so we will collaborate with a Modis, Staffing firm. Although released today, we have signed a business alliance agreement on July 19.

Engineers have also formed a business alliance that develops programs to study new knowledge, as well as conventional knowledge, to create a form where immediate forces can be recommended.

Trends in the Fourth Medium-Term Management Plan

The Fourth Medium-Term Business Plan.   We are forecasting 5% growth in this fiscal year at ¥5.4 billion, but in order to achieve ¥8 billion in fiscal 2024, we will need an operating income of ¥6.5 billion in 2023.   We believe that we can achieve 8 billion yen by growing more than 20 percent each.

The operating income margin, which was 7.8% in FY21, declines in FY22 because of the ¥400 million decline in income due to the impact of NortonLifeRock, which I have been talking about earlier, also affects the profit margin.   We expect margins to decline by about 0.1 percent, even if we increase margins elsewhere.   From there, we will enter the challenge of raising our profit margin to the 9% level.

4th Medium-Term Management Plan / FY24 Management Indicators

Operating income of ¥8 billion, an operating income margin in the 9% range, and net sales of Cloud and Security services over ¥50 billion are management indicators for fiscal 2024 in the Medium-Term Management Plan.

SB Technology's Sustainability

About SDGs.   As for the sustainability of SB technology, we will proceed with the formulation of materiality in accordance with the seven basic policies.

Carbon Neutral Declaration

Today, we will make a carbon neutral declaration in conjunction with this explanatory meeting.
SB Technology will achieve "virtually zero GHG emissions" by 2030.

Our business has a major mission to shift our customers' computer systems to the cloud.   By moving into the cloud, the cloud company has announced that it will be able to reduce its computer's power consumption by 80%.

We hope that you will move away from the conventional idea of renting a data center or placing it in your own office and move it to the cloud with us.   For this reason, we also want to make carbon neutral declarations in-house.

We have received the above explanations for the first quarter and the fourth medium-term plan.

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Thank you for your attention.