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SB Technology Corp.
Overview of Earnings Results Briefing for FY2022 3Q

This is a transcript of the SB Technology Corp. FY2022 3Q Results Briefing held on January 25, 2023.
Speaker: Mr. Shinichi Ata, President & CEO, SB Technology Corp.

SB Technology, 3Q sales record highs.　Net sales revised downward, but profit margin improved and full-year profit forecast unchanged

Results Summary

Summary		FY2022 Q3
Financial Results	Public Sector and Enterprise drive revenue growth Operating income declined due to the inability to cover the increase in fixed costs resulting from the strengthening of personnel, etc.	
Orders Received	Orders received increased in Enterprise and Public Sector, record high in Q3 Record-high order backlog at the end of December	
Full-year Forecast	Continue withdrawal from low-margin projects, etc., leaving operating income unchanged despite lower sales Full-year forecast net sales JPY 67 billion, Operating income JPY 5.4 billion Improving margins	

3

Shinichi Ata: Hello everyone, I am Shinichi Ata from SB Technology. Thank you very much for participating in our financial briefing while you are very busy today.

Summary of performance. Public Sector and Enterprise was the driving force behind the increase in sales, but profits declined due to the inability to cover the increase in fixed costs such as the strengthening of personnel. Orders received are increasing in the Enterprise and Public Sector, which is a record high for the third quarter. The order backlog at the end of December also reached a record high.

As a full-year outlook, we are currently promoting a shift from low-margin projects to high-value-added areas. Although net sales will decline, operating income remains unchanged. We have revised our full-year forecast for net sales from ¥70 billion to ¥67 billion, and we intend to keep our operating income unchanged at ¥5.4 billion for the fourth quarter.
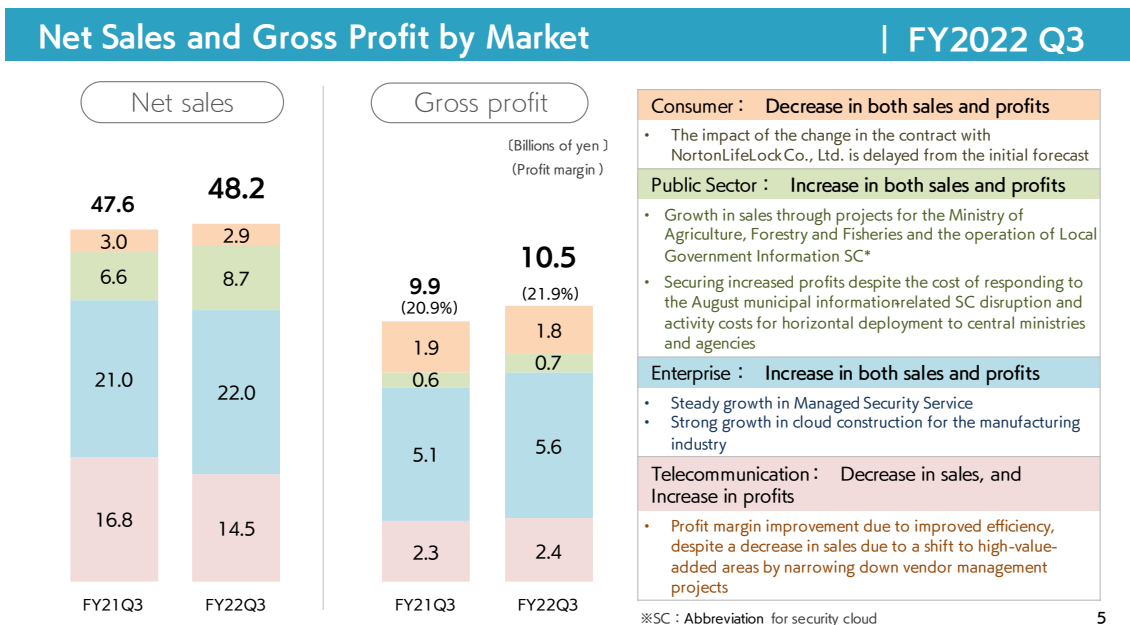
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Consolidated P/L（Apr－Dec）

Consolidated P/L（Apr－Dec）		FY2022 Q3

- Public Sector and Enterprise projects increased, offsetting lower Telecommunication revenues
- Despite an improvement in the gross profit margin, operating income decreased due to an increase in SG&A expenses stemming from the strengthening of personnel and other factors

[Millions of yen]　（Profit margin ）	FY22Q3	FY21Q3	Change	Change %
Net sales	RecordHigh 48,231	47,626	+605	+1.3%
Operating income	3,541 (7.3%)	3,660 (7.7%)	▲118	▲3.2%
Ordinary income	3,489 (7.2%)	3,622 (7.6%)	▲133	▲3.7%
Profit attributable to owners of parent Net profit	2,108 (4.4%)	2,187 (4.6%)	▲79	▲3.6%
EBITDA*	4,778	4,813	▲34	▲0.7%

*EBITDA＝Operating income ＋Amortization of goodwill ＋Depreciation

4

Net sales increased by 1.3% year on year to ¥48.231 billion, and operating income decreased by approximately ¥118 million to ¥3.541 billion, a decrease of 3.2% year on year.

Net Sales and Gross Profit by Market

Net Sales and Gross Profit by Market		FY2022 Q3

Net sales

Gross profit

〔Billions of yen 〕 (Profit margin)

47.6
3.0
6.6
21.0
16.8
FY21Q3

48.2
2.9
8.7
22.0
14.5
FY22Q3

9.9 (20.9%)
1.9
0.6
5.1
2.3
FY21Q3

10.5 (21.9%)
1.8
0.7
5.6
2.4
FY22Q3

Consumer：　Decrease in both sales and profits
- The impact of the change in the contract with NortonLifeLock Co., Ltd. is delayed from the initial forecast

Public Sector：　Increase in both sales and profits
- Growth in sales through projects for the Ministry of Agriculture, Forestry and Fisheries and the operation of Local Government Information SC*
- Securing increased profits despite the cost of responding to the August municipal information related SC disruption and activity costs for horizontal deployment to central ministries and agencies

Enterprise：　Increase in both sales and profits
- Steady growth in Managed Security Service
- Strong growth in cloud construction for the manufacturing industry

Telecommunication：　Decrease in sales, and Increase in profits
- Profit margin improvement due to improved efficiency, despite a decrease in sales due to a shift to high-value-added areas by narrowing down vendor management projects

※SC：Abbreviation for security cloud

5

Net sales and gross profit by market. For Telecommunication, Sales are decreased, but the profits are increased. From among the vendor management projects that drove sales for the past three years, we have selected those that will be discontinued at the timing of April, July, and October, and are shifting
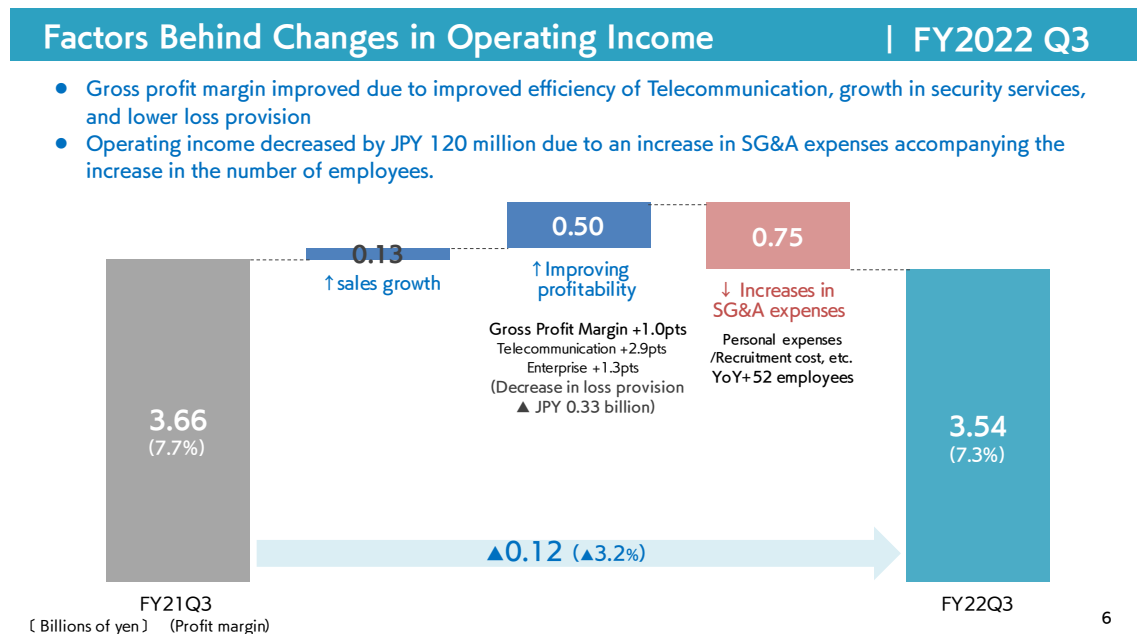
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to high-value-added areas. As a result, net sales in fiscal 2022 were 14.5 billion yen, down 2.3 billion yen from 16.8 billion yen in fiscal 2021, but gross profit has grown from 2.31 billion yen to 2.4 billion yen.

This is followed by the Enterprise area. Although there are still licensing trading in the long-lasting portion of Microsoft's solutions, we have finished licensing trading from the first quarter to the third quarter for those that cannot be advanced to the next stage. Net sales increased from ¥21 billion in fiscal 2021 to ¥22 billion in fiscal 2022, and gross profit increased from ¥5.1 billion to ¥5.62 billion.

Net sales in the Public Sector area increased by 2.1 billion to 8.7 billion in fiscal 2022 from 6.6 billion in fiscal 2021. Gross profit increased from ¥620 million to ¥720 million. However, the increase in profit was smaller due to the costs incurred in August for dealing with failures in the municipal information security cloud and for activities aimed at the horizontal development of central government agencies.

The Consumer area is a business with NortonLifeRock Co., Ltd. and a subsidiary Fontworks. Net sales decreased from ¥3 billion in fiscal 2021 to ¥2.9 billion in fiscal 2022, and gross profit also decreased by ¥100 million.

Factors Behind Changes in Operating Income

Factors Behind Changes in Operating Income | FY2022 Q3

- Gross profit margin improved due to improved efficiency of Telecommunication, growth in security services, and lower loss provision
- Operating income decreased by JPY 120 million due to an increase in SG&A expenses accompanying the increase in the number of employees.

0.13
↑sales growth

0.50
↑Improving profitability
Gross Profit Margin +1.0pts
Telecommunication +2.9pts
Enterprise +1.3pts
(Decrease in loss provision ▲ JPY 0.33 billion)

0.75
↓ Increases in SG&A expenses
Personal expenses /Recruitment cost, etc.
YoY+52 employees

3.66
(7.7%)

3.54
(7.3%)

▲0.12 (▲3.2%)

FY21Q3
〔Billions of yen〕 (Profit margin)

FY22Q3

6

Operating income increased by ¥130 million due to an increase in sales, and gross profit margin increased by ¥500 million due to an improvement in profitability, and decreased by ¥750 million due to an increase in SG&A expenses. As a result, operating income decreased by ¥120 million year on

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year to ¥3.54 billion.

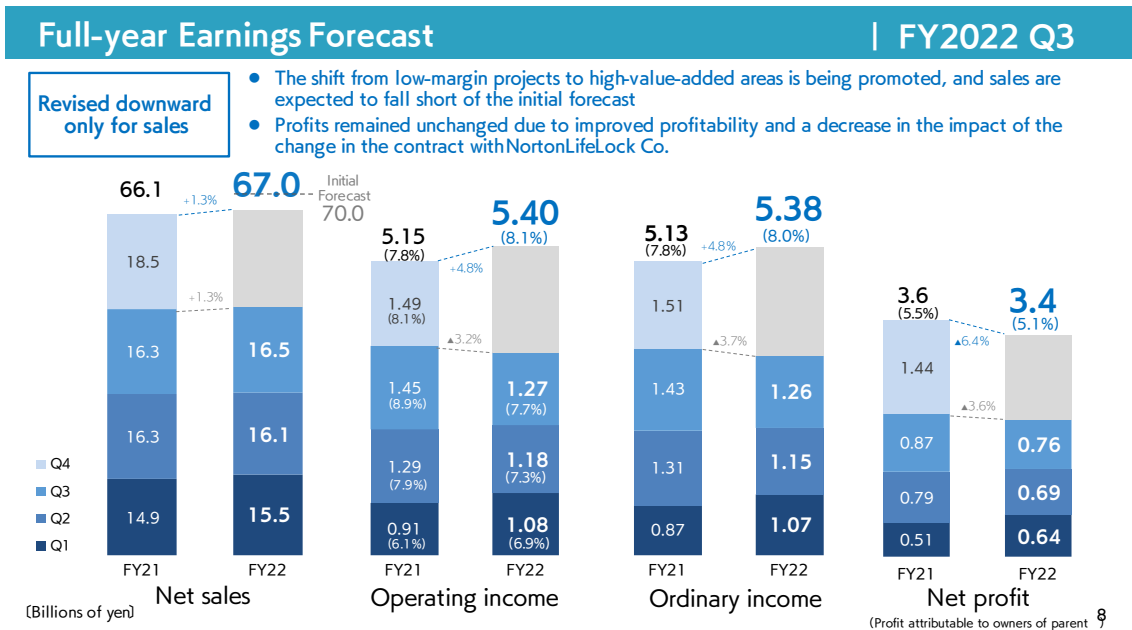**[Non-Consolidated] Orders Received/Order Backlog （ Except Consumer business）**
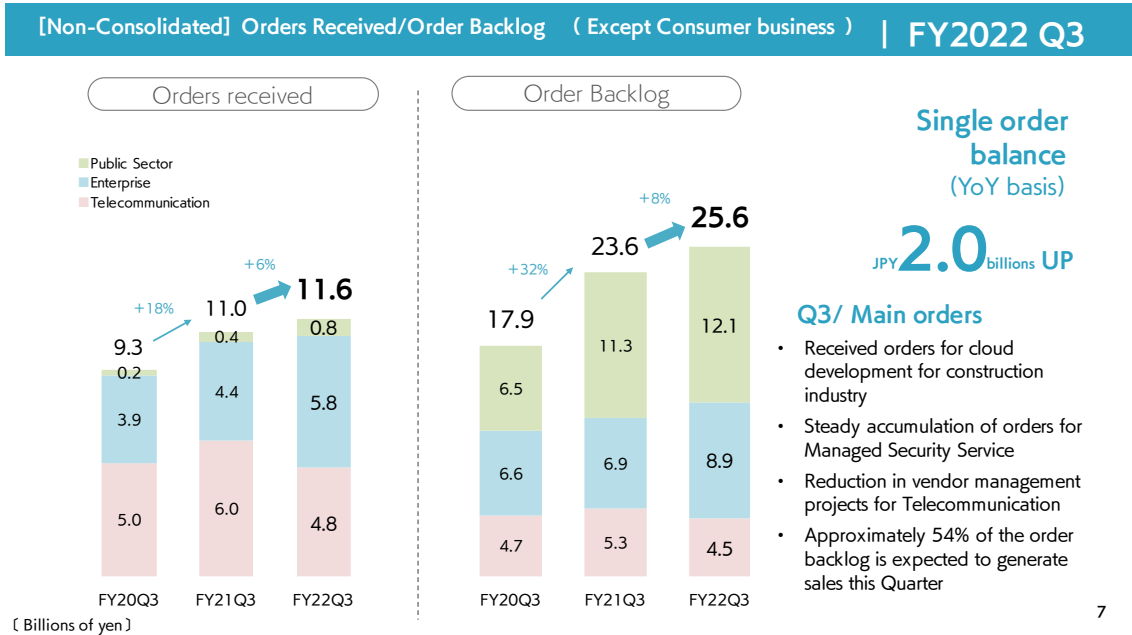
The amount of orders received in the third quarter was 11.6 billion yen, and the order backlog at the end of the third quarter was 25.6 billion yen. The order backlog in the Telecommunication area was 4.5 billion yen, the lowest in the past three years. The order backlog in the Enterprise Area is ¥8.9 billion, an increase of ¥2 billion year on year.

The order backlog in the Public Sector area increased by 800 million yen from 11.3 billion yen in the same period of the previous year to 12.1 billion yen. Of the five-year contracts, sales for the period up to the third quarter have already been achieved, so the order backlog for the third quarter of the fiscal year ending March 31, 2023 was ¥25.6 billion after adding ¥800 million for other orders. Of this amount, about 54% is scheduled to be sold in the fourth quarter.
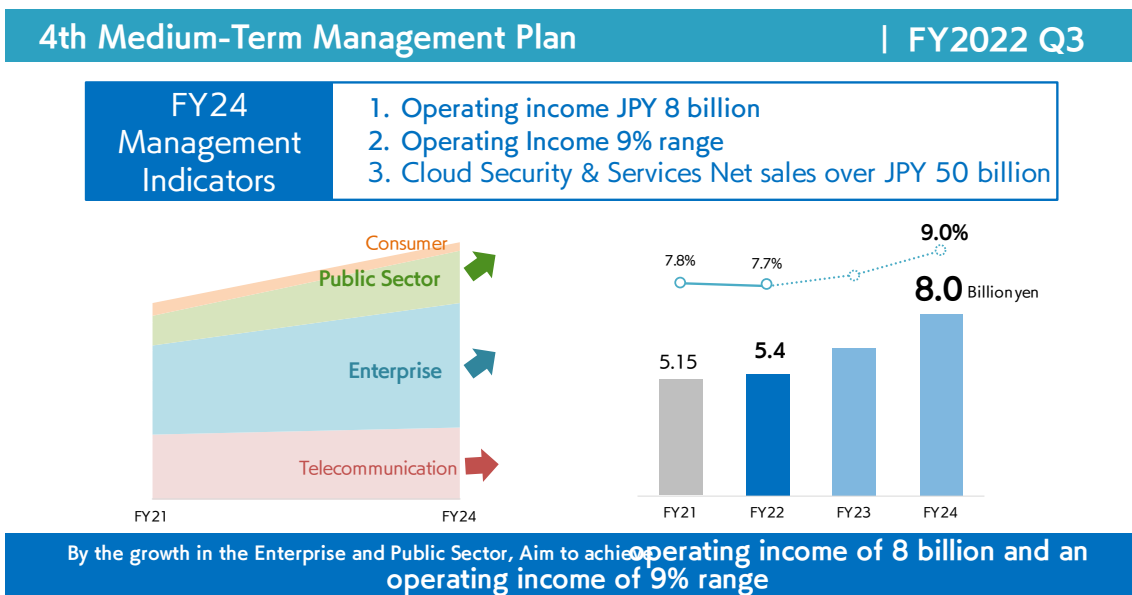
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Full-year Earnings Forecast

Full-year Earnings Forecast | FY2022 Q3

Revised downward only for sales

- The shift from low-margin projects to high-value-added areas is being promoted, and sales are expected to fall short of the initial forecast
- Profits remained unchanged due to improved profitability and a decrease in the impact of the change in the contract with NortonLifeLock Co.

Net sales [Billions of yen]
- FY21: 66.1 (Q4 18.5, Q3 16.3, Q2 16.3, Q1 14.9)
- FY22: 67.0 (+1.3%) — Initial Forecast 70.0 (Q3 16.5, Q2 16.1, Q1 15.5) +1.3%

Operating income
- FY21: 5.15 (7.8%) (1.49 (8.1%), 1.45 (8.9%), 1.29 (7.9%), 0.91 (6.1%))
- FY22: 5.40 (8.1%) +4.8% (1.27 (7.7%), 1.18 (7.3%), 1.08 (6.9%)) ▲3.2%

Ordinary income
- FY21: 5.13 (7.8%) (1.51, 1.43, 1.31, 0.87)
- FY22: 5.38 (8.0%) +4.8% (1.26, 1.15, 1.07) ▲3.7%

Net profit (Profit attributable to owners of parent)
- FY21: 3.6 (5.5%) (1.44, 0.87, 0.79, 0.51)
- FY22: 3.4 (5.1%) ▲6.4% (0.76, 0.69, 0.64) ▲3.6%

Q4 / Q3 / Q2 / Q1

8

Full-year earnings forecast. We have revised our sales forecast downward from ¥66.1 billion in fiscal 2021 to ¥70 billion in fiscal 2022, to ¥67 billion this time. Operating income remains unchanged from the initial forecast at ¥5.4 billion as the effects of improved profitability and contract modifications in EC domain have been reduced.
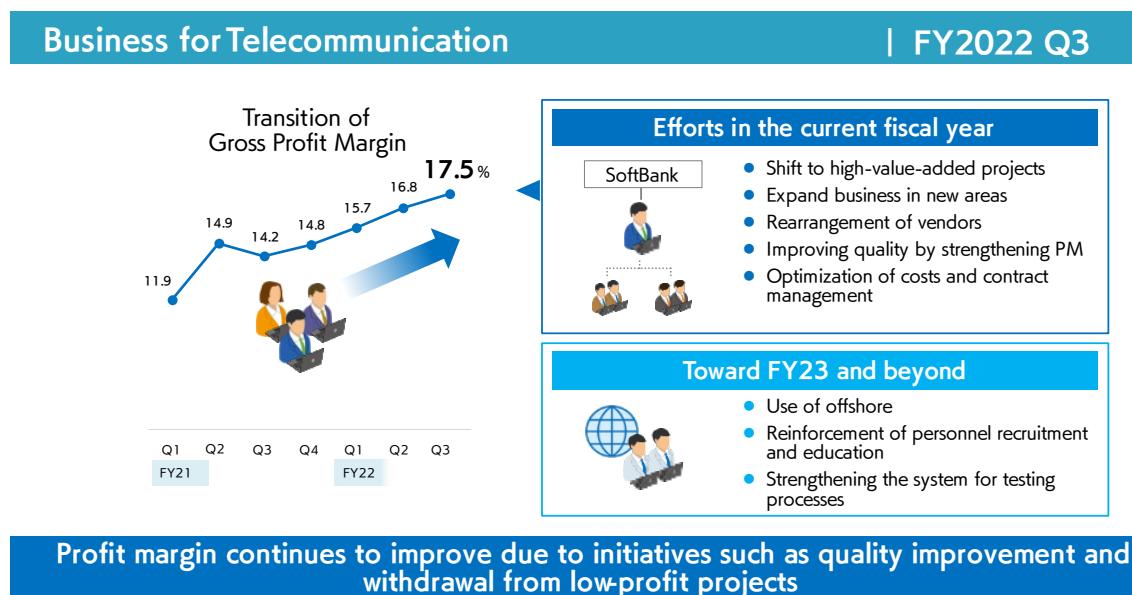
4th Medium-Term Management Plan

4th Medium-Term Management Plan | FY2022 Q3

FY24 Management Indicators
1. Operating income JPY 8 billion
2. Operating Income 9% range
3. Cloud Security & Services Net sales over JPY 50 billion

Consumer
Public Sector
Enterprise
Telecommunication
FY21 — FY24

7.8% — 7.7% — 9.0%
8.0 Billion yen
FY21: 5.15
FY22: 5.4
FY23
FY24

By the growth in the Enterprise and Public Sector, Aim to achieve operating income of 8 billion and an operating income of 9% range

10

In fiscal 2024, the final year of the Fourth Medium-Term Management Plan, we plan to improve our

operating income and operating income margin to the 9% level by ¥8 billion. We also hope to raise the sales of our cloud security services, which are key drivers of products and solutions, to more than ¥50 billion.

Business for Telecommunication

| Business for Telecommunication | FY2022 Q3 |

Transition of Gross Profit Margin

11.9 → 14.9 → 14.2 → 14.8 → 15.7 → 16.8 → **17.5** %

Q1 Q2 Q3 Q4 Q1 Q2 Q3
FY21   FY22

Efforts in the current fiscal year

SoftBank

- Shift to high-value-added projects
- Expand business in new areas
- Rearrangement of vendors
- Improving quality by strengthening PM
- Optimization of costs and contract management

Toward FY23 and beyond

- Use of offshore
- Reinforcement of personnel recruitment and education
- Strengthening the system for testing processes

Profit margin continues to improve due to initiatives such as quality improvement and withdrawal from low-profit projects

11

This section describes the business for Telecommunication. Although sales themselves have declined slightly, the gross profit margin is on an improving trend. In the fourth quarter of fiscal 2021, the percentage improved from 14.8 percent to 15.7 percent in the first quarter of fiscal 2022, 16.8 percent in the second quarter, and 17.5 percent in the third quarter, an improvement of approximately 3 percentage points.

It is true that vendor management projects have greatly increased our sales. We tried to standardize the role of the project by standardizing the project. Standardization to reduce the dependence on cost and specific vendors, but because we were unable to cut costs because we could not separate them from specific vendors, we returned to them about what did not produce good results after three years of efforts.

We are continuing high-value-added projects, including new projects and the relocation of vendors, and are making changes in a manner that lowers costs for clients and increases our profit margins.

In spring, we expect to change the Corona Viruses from Category II Infectious Diseases to Category V, so we will continue to promote offshore development since 2019, adopt new methods of human

※It is translated by AI.

resources and education, and strengthen our labor-intensive testing process so as to raise the gross margin.

Business for Enterprise
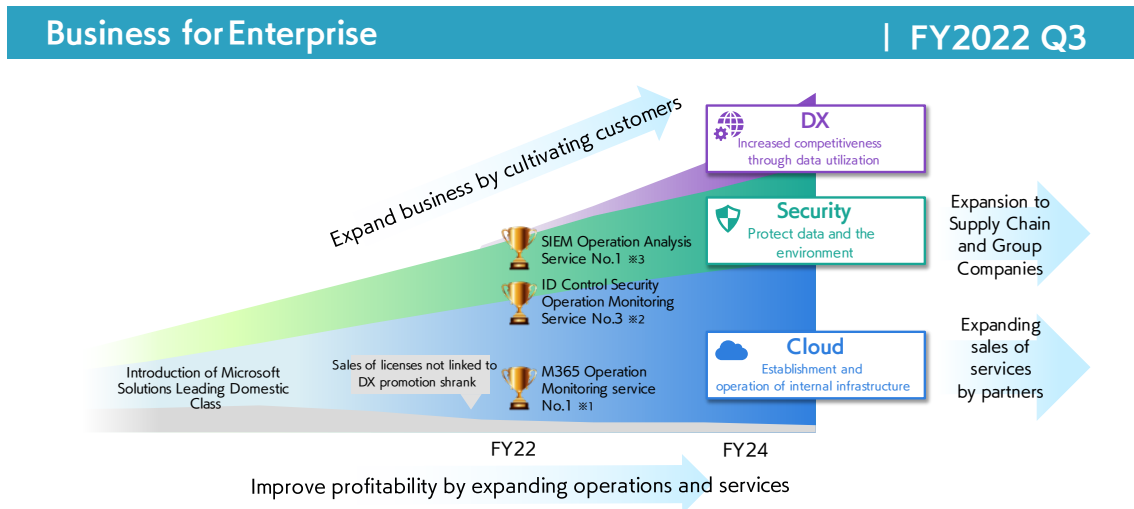
This section describes business for Enterprises. Our Enterprise business has been the first company to introduce Microsoft solutions in the domestic market 10 years ago, which is an advantage.

In fiscal 2022 and 2023, Microsoft "Microsoft 365" will enter a new scene. Since a client version of the so-called "Endpoint Security" is included in the communications system called "Microsoft 365 E5", we predict that the introduction of this system will be a major move in 2023 and 2024.

However, it is not possible to introduce it simply by setting it, and it is necessary to devote labor and manpower as has been done 10 years ago. I have just told you that we have refused to sell licenses, but there is a possibility that there will be problems such as difficulty in moving to the next stage after the end of sales, and difficulty in making use of licenses after the peak of busyness.

For these three years, we have been promoting a security-aware surveillance service after the transition to a new version as the Third Medium-term Management Plan. In January 2023, ITR Corporation, a researcher in IT market, certified us as a market No.1 in fiscal 2021 with a domestic market share of 40% for M365 management monitoring services. This is based on a trophy situation in the center of the slide.

We have treated "Microsoft Sentinel" that confirms the security behavior included M365 operations

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monitoring service and the new Microsoft M365 as one pillar of our managed security services for two years. Even if we leave the transition work to a company with a large number of other people, we are sure to monitor the operation after that, which is extremely popular.

"ID control" is also of great importance. This is always done when considering zero trust security, and it is to proceed to the next process by confirming ID or identity verification. Our share is third in this ID control security marketplace.

SIEM of "SIEM Operation Analyses" refers to "Security Incidents & Event Management."
In this SOC, we SIEM various communication devices and agent applications to analyze irregular movements and unusual temporal movements in a complex manner. There are many security vendors in the marketplace for SIEM operation analytical services. However, in this statistic, we were No.1.

This is also related to the reduced gray part of the slide. In most cases, licensing businesses come together when installing services. However, there were cases in which licensing businesses with very low profits remained among customers who had long relationships with us. Therefore, it has been a difficult situation to raise the profit margin if we do not have a hands on cloud and security services.

Accordingly, since April 2022, we have been talking to customers who have reached 70% or 80% of their sales through licensing transactions, asking them to think a bit about how to do business.
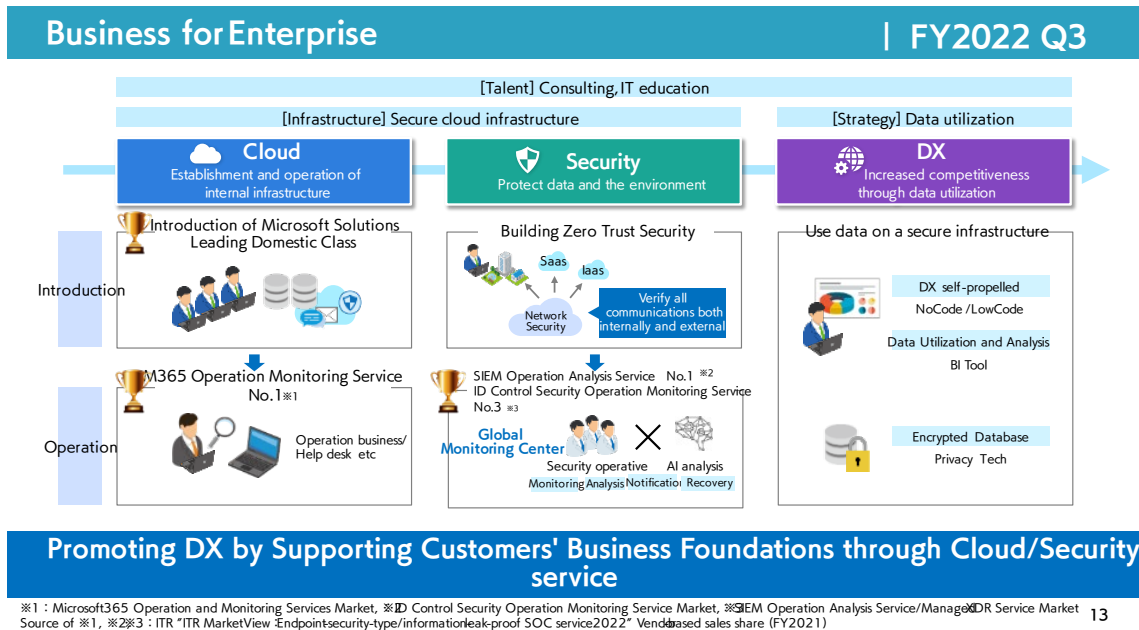By focusing on security in this way, we were able to adjust the direction of our business.

Looking ahead, we will promote our cloud and security services to major manufacturing companies with supply chains, which will be sold to partner companies of those companies, and will steadily move forward with the idea of getting them to be included in the menu.

※It is translated by AI.

Business for Enterprise

Business for Enterprise		FY2022 Q3

[Talent] Consulting, IT education

[Infrastructure] Secure cloud infrastructure

[Strategy] Data utilization

Cloud — Establishment and operation of internal infrastructure

Security — Protect data and the environment

DX — Increased competitiveness through data utilization

Introduction

Introduction of Microsoft Solutions Leading Domestic Class

Building Zero Trust Security
Saas Iaas
Network Security
Verify all communications both internally and external

Use data on a secure infrastructure
DX self-propelled
NoCode /LowCode
Data Utilization and Analysis
BI Tool

Operation

M365 Operation Monitoring Service No.1 ※1
Operation business/ Help desk etc

SIEM Operation Analysis Service No.1 ※2
ID Control Security Operation Monitoring Service No.3 ※3
Global Monitoring Center × AI analysis
Security operative
Monitoring Analysis Notification Recovery

Encrypted Database
Privacy Tech

Promoting DX by Supporting Customers' Business Foundations through Cloud/Security service

※1：Microsoft365 Operation and Monitoring Services Market, ※2：ID Control Security Operation Monitoring Service Market, ※3：SIEM Operation Analysis Service/Managed XDR Service Market
Source of ※1, ※2※3：ITR "ITR MarketView :Endpoint-security-type/information-leak-proof SOC service2022" Vendor-based sales share (FY2021) 13
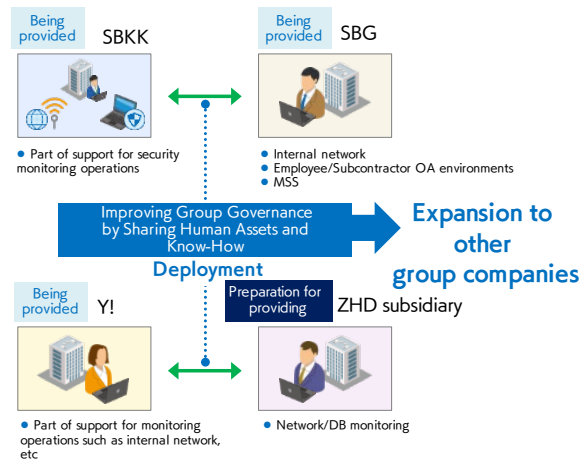
We think that we have attracted attention due to our achievements in introducing Microsoft solutions that are among the highest in the domestic market. M365 Operation Monitoring Services are also currently No.1 in the marketplace, and we intend to steadily advance the shift to services in this field in the future.

With regard to security, Zero Trust Security will be connected from consultation to implementation and servicing within SOC of MSS. In this field, operational monitoring services and security will be further advanced. Some parts of the project will be discussed together with our partners, and the project will be left to our monitoring center.

When advancing DX, it is not just a goal to make it more secure. However, unless security is reinforced, it is not possible to deploy important data on the cloud or utilize the enciphered data.

Based on this idea, we created an independent organization for security in fiscal 2022. Currently, we are investing heavily in recruiting and developing human resources for that organization. In fiscal 2021, we ranked No. 1 in the market for M365 Operation Monitoring Services and SIEM Operation Analysis Services. In fiscal 2022, we intend to continue to evolve while maintaining our No. 1 or high market share.

※It is translated by AI.

Security Business for SB group companies

Security Business for SB group companies | FY2022 Q3

SBT Security Monitoring Center

M365 Operation Monitoring Service No.1※1
SIEM Operation Analysis Service No.1※2

SBKK — Being provided
● Part of support for security monitoring operations

SBG — Being provided
● Internal network
● Employee/Subcontractor OA environments
● MSS

Improving Group Governance by Sharing Human Assets and Know-How
Deployment

Expansion to other group companies

Y! — Being provided
● Part of support for monitoring operations such as internal network, etc

ZHD subsidiary — Preparation for providing
● Network/DB monitoring

Opportunities to expand the security business for SB group companies

※1：Microsoft365 Operation and Monitoring Services Market, ※2 ： ：SIEM Operation Analysis Service/Managed XDR Service Market,
Source of ※1, ※2：ITR "ITR MarketView ：Endpoint -security -type/information -leak-proof SOC service2022" Vendor -based sales share (FY2021)

14

We also conduct security business for Softbank Group companies. For example, we support all three types of security monitoring operations at SoftBank Corp. In addition, SoftBank Group Corp. is one of the world's leading investment companies, and a variety of information is available. Therefore, we proceed with all networking and OA conditions through consultation based on the concept of Zero Trust Security, and are currently conducting operational MSS. We also support Yahoo! JAPAN Corporation for the monitoring of its internal network. This is now spreading to group companies of Z Holdings Corporation.

SB Group wants to continue servicing and deployment to other group companies, but this also applies to the manufacturing companies that are involved in the project. We think there will be an ever-increasing number of products and services, including small subsidiaries, that can be covered within the Group.

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Business for Public Sector （MAFF Related）
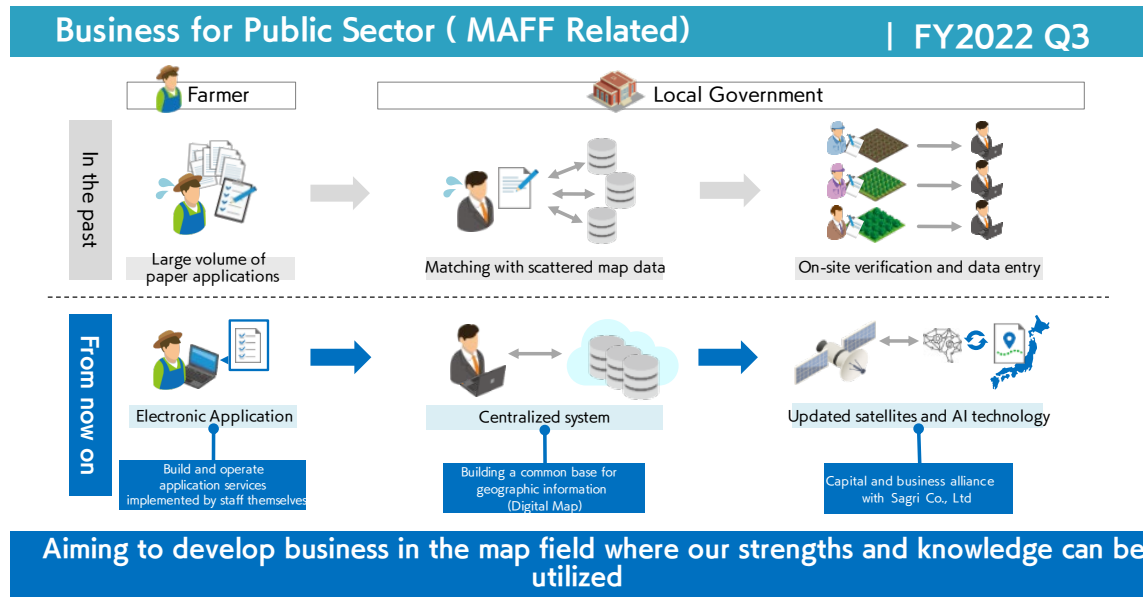
I will explain about the public businesses related to the Ministry of Agriculture, Forestry and Fisheries. Since 2015, we have been working with the Ministry of Agriculture, Forestry and Fisheries as a project for agricultural land, and this is the 9th year. In this project, agricultural firms make various applications to agricultural committees, prefectures, and the Ministry of the Government, which are being converted into electronic applications.

As the next process is, of course, land and agriculture, so the data on the map is very important. In recent years, for example, the proportion of land that does not engage in agriculture, called fallow land, has become very large. However, there is a process of conducting field surveys on each and every fallow land.

In 2022, we continued to focus on the construction, updating, and operation of digital maps in 2023, in order to enable satellite-based images and AI to be updated.

If the system could be centralized, not only would it be necessary to consolidate the usual information on farmland, but also for the confirmation work of the farm crop status in the insurance that the farm crop could not be shipped due to damage caused by the disaster. However, we believe that the system would be useful because we can make rough calculations and approvals through the system.

We also believe that horizontal development of digital maps is desirable.

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Business for Public Sector （Local Government Related）
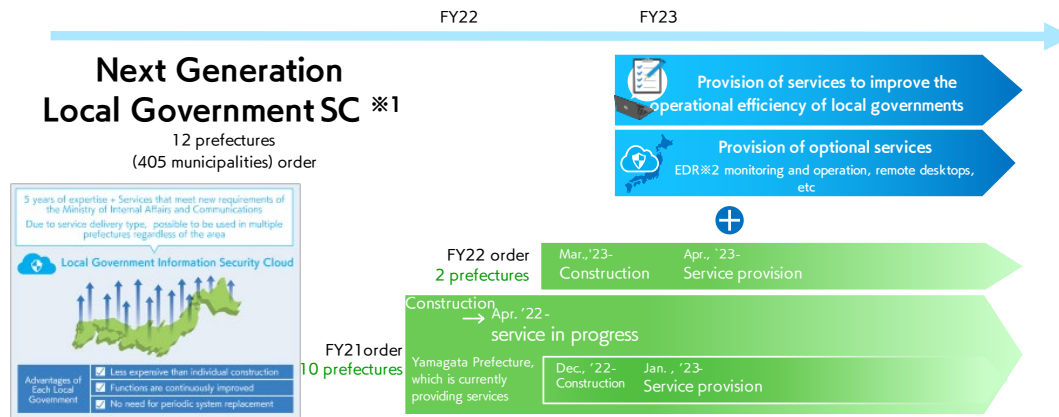
Another public business is the "Local Government Information Security Cloud." We received orders for 10 prefectures in fiscal 2021, and we planned to build a system for nine of these prefectures by the end of March 2022. However, a large setting error occurred during that time, and the repair was carried out. Although the final report was made in August 2022 and the direction was decided, the equipment breakdown occurred in August, and the repair work was also carried out.

As for Yamagata Prefecture, the construction was completed successfully by December 2022, and the service has been steadily provided since January 2023. In addition, Yamaguchi Prefecture and Saitama Prefecture, which received orders in fiscal 2022, will undergo transitional testing in February and March 2023, and we plan to begin providing services in April.

The impact of the incident I described was significant and caused a significant loss of trust in our business. Despite the great inconvenience, we were able to communicate remotely and speak to you in a timely manner compared to when we were previously working with 121 municipalities in 4 prefectures.

In addition, if all the information in the slides are realized, there will be no discrepancy between opinions and information among 405 municipalities. We are currently providing services to over 300 municipalities, but in April we hope to deliver safe services to a total of 417 clients, including 405 municipalities in 12 prefectures.

However, the municipal information security cloud is only one stage. If we do not work on security

first, we will not get the next app or service. Meetings will be held by each local government from this week to around February, and the budget for FY2023 will be discussed. If approval is obtained, the budget will be implemented from April 2023.

There are a number of optional services that we have prepared, such as EDR Monitoring, Operation, and Remote Desktops. Naturally, we are proposing these services. We believe that we can receive orders to some extent from March or April 2023 onward.

In other words, services such as those previously connected via private lines can be safely sent out on the Internet, and various applications on the Internet can be utilized. Alternatively, you may be able to apply for something like a very simple SMS. Such a world will open.

Another major point of our business is that we will be able to provide services to 405 municipalities equally. We would like to recover trust first, then propose it, and lead to the next year.

4th Medium-Term Management Plan / FY24 Management Indicators

4th Medium-Term Management Plan / FY24 Management Indicators

1. Operating income JPY 8 billion
2. Operating Income 9% range
3. Cloud Security & Services Net sales over JPY 50 billion

In fiscal 2024, the final year of the Fourth Medium-Term Management Plan, we have set operating income of ¥8 billion, an operating income margin of in the 9% range, and net sales of Cloud Security & Service exceeding ¥50 billion. We will continue to make progress in this area.

Thank you for your attention.