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SB Technology Corp. Overview of Earnings Results Briefing for FY2023 1Q

This is a transcript of the SB Technology Corp. FY 2023 1Q Results Briefing held on July 27, 2023.
Speaker: Mr. Shinichi Ata, President & CEO, SB Technology Corp.

SB TECHNOLOGY, Full-year net income more than doubled YoY to ¥8.2 billion due to the transfer of subsidiary stock. Orders received for Digital Agency projects for Public Sector's expansion

Shinichi Ata: Hello everyone, I am Shinichi Ata from SB Technology. Thank you for participating in our financial briefing while you are very busy today. I would like to explain the outline of the results and the progress of the Medium-term Management Plan.

First, we made a press release today that we were the first to be selected as a FTSE Blossom Japan Index composition brand. In 2022, we were listed on the Prime Market. It was soon recognized by FTSE as a Japan Sector Relative Index. After working to raise this score for one year, we were selected for inclusion in FTSE Blossom Japan Index of 310 issues in our ESG score of 3.3 or higher in June 2023.

Summary

Summary

| FY2023 Q1

FY23 Q1
Financial
Results

Higher revenues in Public Sector& Enterprise, [sales achieved record highs as Q1](#)
Operating income decreased due to restrained investment in Telecommunication and strengthened recruitment.

Orders
Received

[Orders received for the demonstration phase of horizontal development projects in the map -related field,](#)
although orders received decreased due to the effects of Local Government Information SC* in the previous fiscal year.

FY23
Forecast

[Net income has been revised upward by ¥4.25 billion to ¥8.2 billion compared to the initial forecast](#) due to the recording of extraordinary income associated with the transfer of shares of subsidiary Fontworks, Inc.
(Revised full-year forecast for net sales of ¥68 billion and operating income of ¥5.9 billion)

* : Abbreviation for security cloud

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A summary of business results. In the first quarter of the fiscal year under review, sales in the Public

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Sector and Enterprise rose, reaching a record high for the first quarter. On the other hand, operating income decreased due to the impact of restrained investment in Telecommunication and the strengthening of recruitment.

Orders received fell due to factors such as the impact of Local Government Information Security Cloud ordered in the previous fiscal year, but we were able to receive orders for the demonstration phase of a very strategic, horizontal deployment project in the map-related field.

With regard to the earnings forecast for the current fiscal year, due to the recording of an extraordinary gain on the transfer of shares of subsidiary Fontworks, Inc., net income has been upwardly revised to ¥8.2 billion, an increase of ¥4.25 billion from the initial forecast.

In addition, net sales have been revised downward by ¥1 billion to ¥68 billion, and operating income has been revised downward by ¥500 million to ¥5.9 billion.

Consolidated P/L (Full year cumulative)

| | | Consolidated P/L (Full year cumulative) | | FY2023 Q1 | |
|---|-----------------|---|-----------------|-----------|----------|
| [Millions of yen] | (Profit margin) | FY23Q1 | FY22Q1 | Change | Change % |
| Net sales | | <small>RecordHigh</small> 15,958 | 15,560 | +397 | +2.6% |
| Operating income | | 1,057 (6.6%) | 1,085 (7.0%) | ▲28 | ▲2.6% |
| Ordinary income | | 1,054 (6.6%) | 1,070 (6.9%) | ▲15 | ▲1.4% |
| Profit attributable to owners of parent | | 505 | 646 | ▲141 | ▲21.9% |
| Net profit | | (3.2%) | (4.2%) | | |
| EBITDA ※ | | <small>RecordHigh</small> 1,505 | 1,494 | +11 | +0.7% |

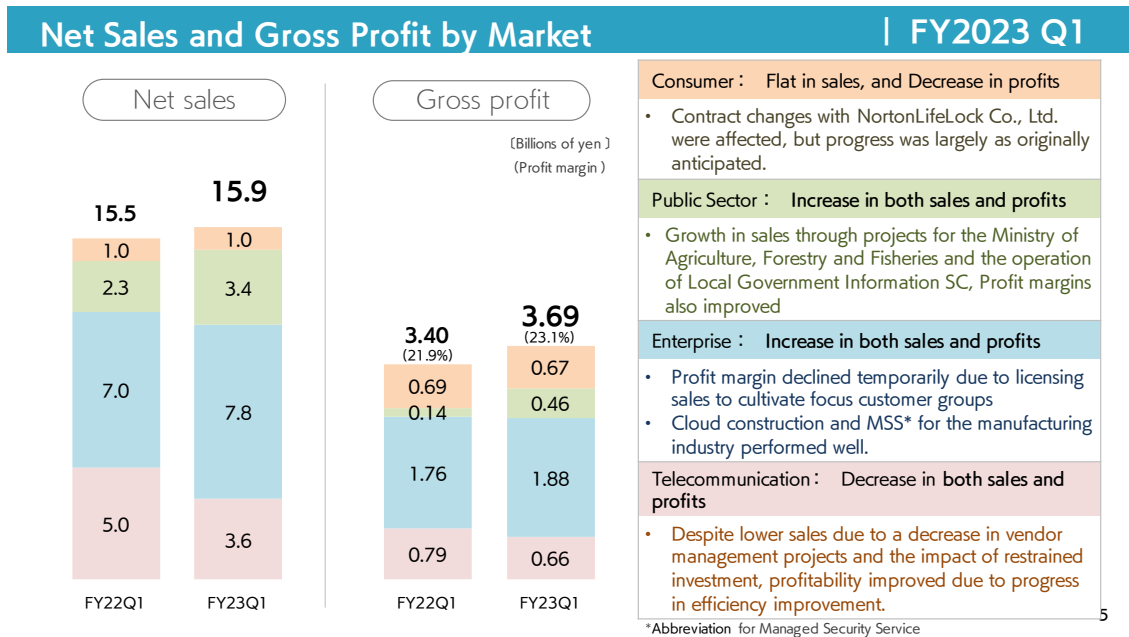
※EBITDA = Operating income + Amortization of goodwill + Depreciation

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As described in the slide, operating income and ordinary income have been in line with our initial plan.

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Net Sales and Gross Profit by Market



I will explain net sales by market. Net sales in the Telecommunication area decreased by slightly less than 30% to ¥3.6 billion from ¥5 billion in 2022. Gross profit fell 10 percent from ¥790 million to ¥660 million.

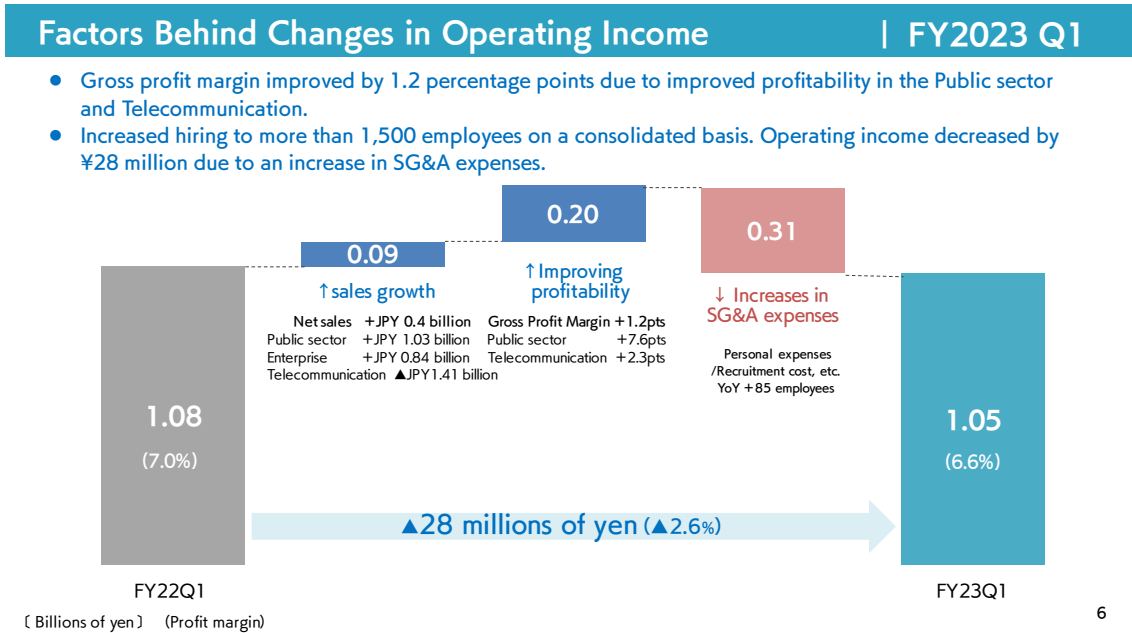
In the Enterprise area, net sales increased from ¥7 billion in 2022 to ¥7.8 billion, and gross profit increased from ¥1.76 billion to ¥1.88 billion. Although sales grew, margins were slightly depressed due to licensing sales to focus customers.

Net sales in the Public Sector area rose nearly 50% from ¥2.3 billion in 2022 to ¥3.4 billion. Until 2022, the gross profit was extremely small due to the need to provide large allowances for municipal projects and other projects. However, in 2023, a variety of projects entered the operation phase. As a result, a certain amount of profit has been generated, resulting in gross profit of ¥460 million.

In the Consumer area, although there were changes to the contract with NortonLifeLock Co., Ltd., progress is generally in line with the initial forecast.

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Factors Behind Changes in Operating Income

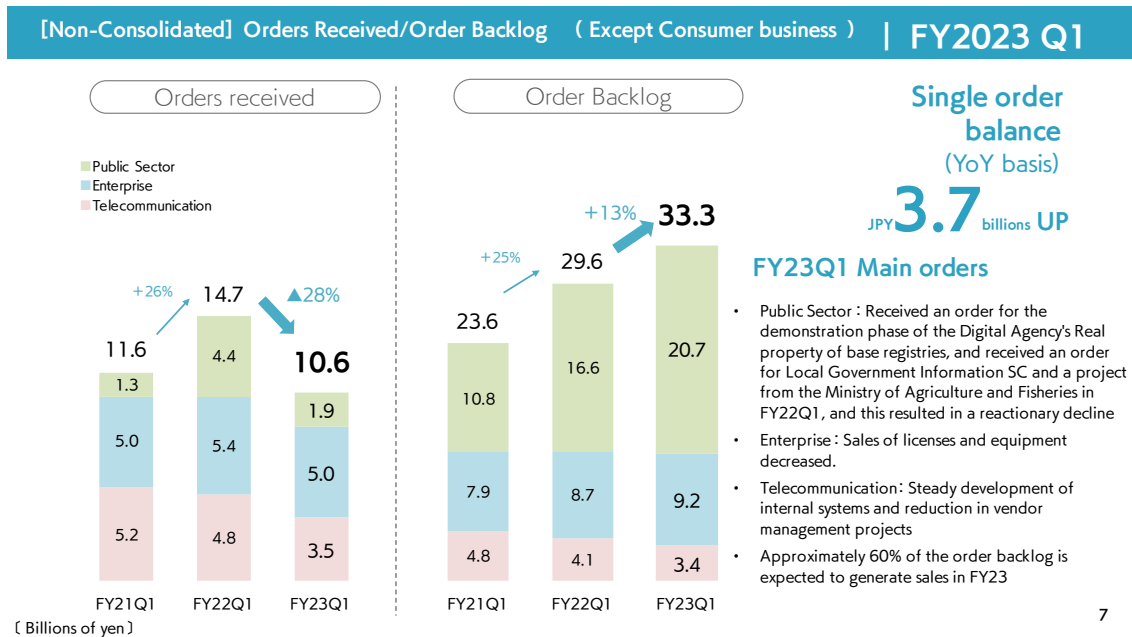


This is a bridge to operating income. The increase in sales resulted in an increase of 90 million yen. As a means of improving profitability, we raised the number of points by 7.6, particularly in the Public Sector, due to the reasons I mentioned earlier. Steady efforts have raised in the Telecommunication by 2.3 points.

The increase in SG&A expenses was ¥310 million lower due to an increase in the number of employees by 85 compared to the same period and an increase in expenses as activities have become very active since the consecutive holiday in May. The result is an operating income of 1.05 billion yen.

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



The status of orders received. Telecommunications area decreased by 1.3 billion yen to 3.5 billion yen from 4.8 billion yen in fiscal 2022. This represents a restraint on investment in this area.

The Enterprise area was ¥5 billion, compared with ¥5.4 billion in fiscal 2022. Although we touched on licensing sales earlier, the overall trend was that sales of low-margin licenses and equipment have declined, resulting in a slight decline in orders received.

The biggest change was in the Public Sector. Originally, the orders to be received at the end of March 2021 was delayed to the first quarter of 2022. Normally, we do not receive such orders in the first quarter. However, in 2022, we received large orders, which caused an abnormal value. As a result, the 1.9 billion yen in 2023 compared to 2022 is by no means small, and we have received sufficient orders for strategic items.

Order backlog totaled 33.3 billion yen, compared with 29.6 billion yen at the end of the previous fiscal year. Approximately 60% of these sales are expected to be recorded during the current fiscal year, of which 50% will be in the Public Sector.

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Revisions to FY23 Full-year Earnings Forecasts

Revisions to FY23 full-year earnings forecasts | FY2023 Q1

- Revised full-year earnings forecasts in connection with the transfer of shares of consolidated subsidiary Fontworks Inc. on September 1, 2023
- From the initial plan, Net sales to Consumer were -¥1 billion, Operating income was -¥500 million, and Net profit was +¥4.25 billion due to the impact of the gain on sale
- The policy of growing with security and cloud utilization centered on the Enterprise and Public Sector have not changed.

| [Millions of yen] | (Profit margin) | FY23 (Initial forecast) | FY23 (Current revision) | Change | FY23Q1 (Actual) | Progress rate |
|---|-----------------|----------------------------|----------------------------|---------------|--------------------|---------------|
| Net sales | | 69,000 | 68,000 | ▲1,000 | 15,958 | 23.5% |
| Telecommunication | | 16,300 | 16,300 | 0 | 3,669 | 22.5% |
| Enterprise | | 35,400 | 35,400 | 0 | 7,862 | 22.2% |
| Public Sector | | 14,000 | 14,000 | 0 | 3,403 | 24.3% |
| Consumer | | 3,300 | 2,300 | ▲1,000 | 1,023 | 44.5% |
| Operating income | | 6,400 | 5,900 | ▲500 | 1,057 | 17.9% |
| | | (9.3%) | (8.7%) | (▲0.6%) | (6.6%) | |
| Ordinary income | | 6,350 | 5,750 | ▲600 | 1,054 | 18.3% |
| | | (9.2%) | (8.5%) | (▲0.6%) | (6.6%) | |
| Profit attributable to owners of parent Net profit | | 3,950 | 8,200 | +4,250 | 505 | 6.2% |
| | | (5.7%) | (12.1%) | (+6.4%) | (3.2%) | |

* Fontworks Inc. is not subject to consolidation after Q3

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Although we have already announced revisions to the full-year earnings forecast, we have mechanically reduced the 1 billion yen sales for Fontworks, Inc. for the half-year and revised the full-year forecast from 69 billion yen to 68 billion yen.

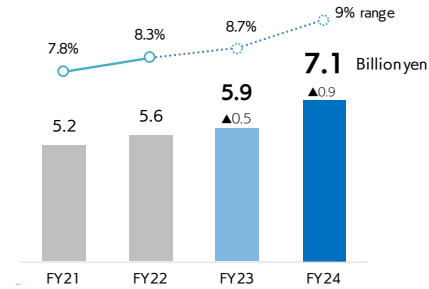
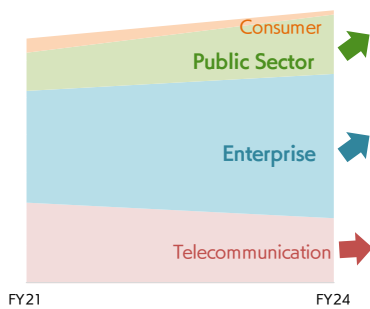
Operating income was also revised from ¥6.4 billion to ¥5.9 billion after mechanically subtracting the planned operating income of ¥500 million for Fontworks, Inc. in the second half of the year. The same applies to ordinary income. Net profit attributable to owners of the parent has been revised from ¥3.95 billion to ¥8.2 billion due to the recording of an extraordinary gain of ¥4.25 billion resulting from the transfer of Fontworks, Inc. shares.

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Impact on the 4th Med-Term Business Plan

Impact on the 4th Mid-Term Business Plan | FY2023 Q1

| | |
|-----------------------------------|---|
| FY24 Management Indicators | <ol style="list-style-type: none"> 1. Operating income JPY 8 billion → JPY 7.1 billion 2. Operating Income 9% range 3. Cloud Security & Services Net sales over JPY 50 billion |
|-----------------------------------|---|

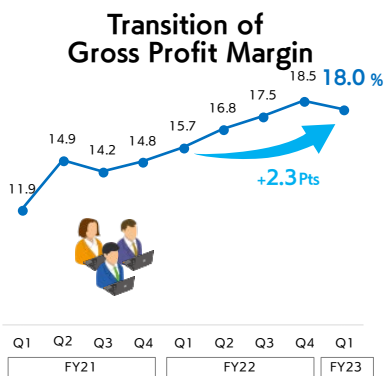


FY24's Operating income target was revised to ¥7.1 billion in connection with the transfer of shares of subsidiaries. Continue to aim for Operating income in the 9% range

Progress of the Medium-Term Management Plan. The Medium-Term Management Plan began in fiscal 2022, and currently one year and three months have passed. Originally, the target for operating income was ¥8 billion, but for the reasons mentioned earlier, the target has been changed to ¥7.1 billion. There is no change in the target for the operating income margin to be in the 9% range and net sales of Cloud Security & Service to be over ¥50 billion.

Business for Telecommunication

Business for Telecommunication | FY2023 Q1



Offshore initiatives

| | |
|---|--|
| Cost reduction | Win-Win Relation to SOFTBANK CORP. by enhancing added value through cost-reduction |
| + | |
| Expanding capabilities | Received orders by expanding the technical field of supply and challenging projects in new fields. |
| + | |
| Expansion and efficiency of engineer resources | |
| • | Full-scale launch from Q2 and expansion from Q3 |
| • | Leading application in AI and other cutting-edge areas, for use in Enterprise and Public Sector |

Q1 plans to invest in offshore operations, and make full -scale use from Q2 to expand significantly from 2H onward

This section describes the business for Telecommunication. Although investment remains constrained,

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the gross profit margin is 18% due to cost reductions and the expansion of capabilities. This represents a significant increase from 15.7% to 18.0% compared to the first quarter of the previous fiscal year.

This is followed by the thinking behind the second quarter and beyond. In the past, offshore operations were underway, but in the case of the coronavirus pandemic, it was difficult to control overseas conditions, making it difficult for local partners to provide guidance.

These conditions have also improved since the first quarter, so we believe that we will gradually launch them in earnest from the second quarter and expand them in the third quarter. We believe this will expand our engineering resources and improve efficiency even further. As for this, I would like you to understand that more aggressive efforts will be made toward offshore deployment by not only developing applications that we have been working on for a long time, but also making advanced use of AI and other cutting-edge fields.

Business for Enterprise

Business for Enterprise
| FY2023 Q1

| | |
|---|--|
| <div style="border-bottom: 1px solid #ccc; padding-bottom: 10px;">  <p>Microsoft Japan Microsoft Cloud Partner Program</p> <p style="background-color: #0070C0; color: white; padding: 2px;">Approved as the solution partner in all six fields</p> <p>In all 6 fields, SBT is the only company in Japan ※1</p> </div> <div style="border-bottom: 1px solid #ccc; padding-bottom: 10px;">  <p>Microsoft Japan Partner of the Year 2023</p> <p style="background-color: #0070C0; color: white; padding: 2px;">Awarded for 10 consecutive years</p> <p>To promote customer's digital transformation through Microsoft 365 E5 Security and Microsoft Sentinel implementation support were evaluated.</p> </div> <div>  <p>Microsoft Top Partner Engineer Award is newly established</p> <p style="background-color: #0070C0; color: white; padding: 2px;">Received awards to 2 employees from us</p> <p>Achievements in projects in the areas of "Business Application" and "Security" are evaluated.</p> </div> | <div style="border-bottom: 1px solid #ccc; padding-bottom: 10px;">  <p>"Microsoft 365 Operation Monitoring Service" market "SIEM Operation Analysis Service/Managed XDR Service" market</p> <p style="background-color: #0070C0; color: white; padding: 2px;">Ranked No. 1 share of sales by vendor※2</p> <p>Achieved 2 in the 6 areas of domestic endpoint security measures/ Information leakage countermeasure SOC services for which ITR is investigating</p> </div> <div>  <p>"SIEM Operation Analysis Service" market</p> <p style="background-color: #0070C0; color: white; padding: 2px;">Ranked No. 1 share of sales※3</p> <p>In SIEM management services market, we hold 33.6% of the domestic market in terms of sales value in fiscal 2022 and have the largest market share. In fiscal 2023, SBT is expected to grow by double digits, at 110.3% compared to the previous year, and is expected to be ranked No. 1 in the market</p> </div> |
|---|--|

In addition to evaluating Microsoft techniques and initiatives, the security-market presence has increased in recent years.

※1 : As of July, 2023
 ※2 : Source: ITR "ITR Market View: Endpointsecurity/informationleakage SOC Services Marketing 2022 Vendor-based sales share FY2021"
 ※3 : Source: Deloitte Tohmatsu MIC Research Institute Co., Ltd. "Managed Security Services Market Status and Forecast 2023 Edition" (Published in June, 2023) <https://mic-r.co.jp/mr/02800/>

About business for Enterprise. Regarding Microsoft, we have received partner certification in all six areas of its solution partner certification system, which Microsoft Japan places top priority on strategically, and we hear that we are only placed in Japan.

The right side of the slide is the field of security. In the market research report in the security field, it was reported to be number one in ITR's "SIEM Operation Analysis Service/Managed XDR Service market". In addition, it was announced that it was ranked No. 1 in the Deloitte Tohmatsu MIC Research

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Institute for” SIEM Operation Analysis Service market”.

Business for Enterprise

Business for Enterprise
| FY2023 Q1

The diagram illustrates the AI utilization engine architecture. It features an 'Interface' for 'Employees' to interact with. This interface connects to the 'AI utilization Engine'. The engine processes data from two sources: 'Generic Data' (via 'Azure OpenAI Service') and 'Data specific to the customer company' (via 'Azure, SharePoint and other customer-system environments'). The engine's output is fed back into the interface. A feedback loop is shown with arrows 1, 2, 3, 4, and 5.

| Customer business type | Customer Usage Scenes and Needs |
|-----------------------------|---|
| Construction industry | <ul style="list-style-type: none"> Refer to the installation manual and other manuals/company regulations. Response to confirmation of conformity with the construction rules Ideas by utilizing new technology data |
| Pharmaceutical manufacturer | <ul style="list-style-type: none"> Checking and referencing the chemical manual Responses based on academic society data English input/output is also possible for global companies |
| Manufacturing industry | <ul style="list-style-type: none"> Summary report of fault information and search for similar faults Audio translation and summary with conference video as data source |

Supporting diverse customer groups in ways to utilize various Azure OpenAI Service
To propose ways to utilize the knowledge of our in-house use

The most noticeable area for Enterprise is the use of AI now. It is known for “ChatGPT”. There are certain tips to using AI in real business, and other systems must also be used in conjunction with each other.

In this section, we introduce our basic proposals. If an employee uses “ChatGPT” or “Azure OpenAI Service”, the answer can be derived from generic data by querying Teams or Web based interface.

On the other hand, when it is used by companies and organizations, it is necessary to make proposals or make decisions by including the company's internal data base, which contains past experience values, in the reference data. Otherwise, it will not be useful for actual operations. In April 2023, “Azure OpenAI Service” became a topic of concern as a result of the fact that it was able to use new proprietary data and that it could not leak out.

In order to use this more safely, it is important to draw AI answer by inserting it into the closed "Azure OpenAI Service". To this end, we are currently developing engines that make use of our original AI. This is a code name now, but I would like to name it if it could be announced as a service.

Specifically, it is capable of determining which data to include in “Azure OpenAI Service” for queries based on all the conference recording data of “SharePoint” and “Teams”, as well as failure data from

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other monitoring systems.

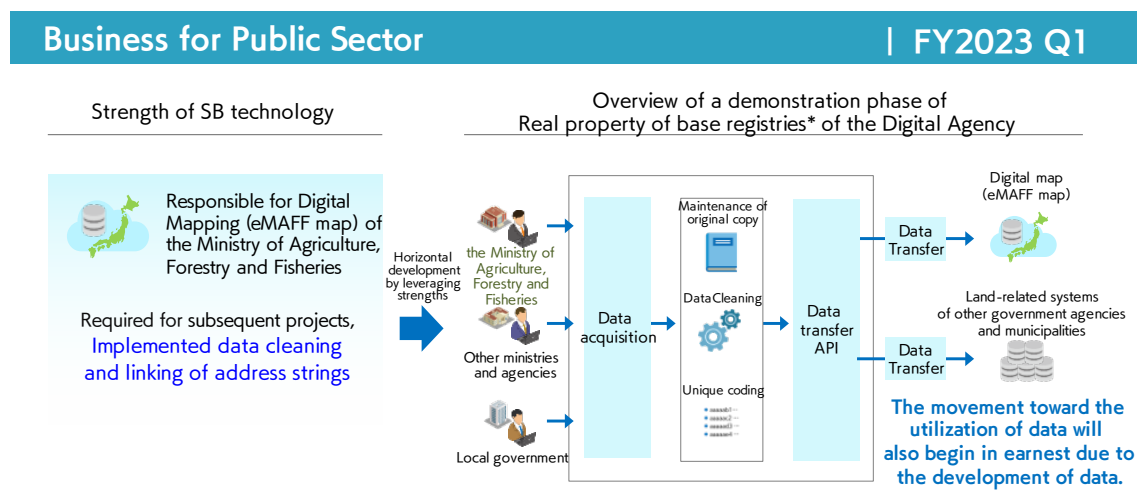
As shown on the right side of the slide, we are currently proceeding with PoC (proof-of-concept). For example, customers in the construction industry will use it to confirm whether they conform to the installation manuals and in-house regulations and rules, as well as to provide ideas on how to utilize new technical data.

Pharmaceutical manufacturers are working to confirm and refer to chemical manuals and respond based on academic society data, as well as try to test them with the ability to input and output in English as they are global companies.

In the manufacturing industry, we are studying a summary report of fault information on the manufacturing line, retrieval of similar faults, and voice translation and summarization using "Teams" conference videos as data sources.

Perhaps we will move to a more full-fledged phase from Q2 to Q3, and actual business expansion is likely to be in the next fiscal year. We expect that we will develop a world that will coexist with AI in the next year and after, while testing in various forms during the current fiscal year. In the future, we will be able to think in AI by using our own data. Instead, we will not be able to get back a answer if we simply throw it into the cloud.

Business for Public Sector



Received orders for demonstration projects for the Real property of base registries, which will be used for horizontal development of map -related projects. The scope of subsequent projects will also expand, for example, by utilizing the data.

※:A database that is registered and disclosed by public organizations and is used as the foundation of a society in which people's lives are up-to-date are assured. It is the basic data of a society in which people, corporations, land, buildings, qualifications, etc. are referred to in various situations. 14

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This is a business for Public Sector. As I mentioned at the beginning, this is a new strategic field. We were able to win a demonstration project for the Real property of base registries of the Digital Agency.

Over nine years, we have been involved in electronic applications by the Ministry of Agriculture, Forestry and Fisheries and in projects to digitize agricultural maps called “eMAFF map”. Nine years ago, we had only aerial photographs, but as satellite location data and photographs were used more and more, we have been working with the Ministry of Agriculture, Forestry and Fisheries to develop data utilization methods. We intend to use this technology in other ministries and agencies as well.

In order to do this, we need to demonstrate that we have been using the datum of farmland in the Real property of base registries of the Digital Agency whether it can really be used for real estate data. When we participated in the bidding for this demonstration project, we were able to receive orders with the highest score among the emphasis on technical points.

I feel very enjoyable what kind of world will be in the future when the data of this Real property of base registries will be prepared. In this project, we would like to expand the map-related business to a wide range of fields, including other ministries and agencies. Ultimately, we intend to expand the scope of this program under the control of local governments.

4th Medium-Term Management Plan / FY24 Management Indicators

4th Medium-Term Management Plan / FY24 Management Indicators

- 1. Operating income JPY 8 billion→ 7.1 billion**
- 2. Operating Income 9% range**
- 3. Cloud Security & Services
Net sales over JPY 50 billion**

Once again, The fourth mid-term management plan. The operating income target was set at 8 billion yen to 7.1 billion yen after subtracting 900 million yen in line with the transfer of Fontworks, Inc. Our operating income margin target is in the 9% range, and cloud security & service sales over 50 billion

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yen, so we intend to move forward with this and next fiscal years.

Disclaimer:

This is an English translation of the captioned release. This translation is prepared and provided for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese of the release for complete information.