

Disclaimer:

This financial report is solely a translation of the "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.

July 28, 2020

SB Technology Corp.
Consolidated Financial Report for the First Quarter of Fiscal Year Ending March 31, 2021
(Three Months Ended June 30, 2020)

[Japanese GAAP]

Company name: SB Technology Corp. (Tokyo Stock Exchange/Code No. 4726)

(URL <https://www.softbanktech.co.jp/>)

Representative: Shinichi Ata, President & CEO

Contact: Tetsuya Shimizu, Vice President & Senior Director of Corporate Planning

Phone: +81-3-6892-3063

Scheduled date of filing of Quarterly Report: August 13, 2020

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2020 (April 1, 2020 – June 30, 2020)

(1) Consolidated Results of Operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Jun. 30, 2020	14,759	13.8	666	22.1	658	20.7	348	5.5
Three months ended Jun. 30, 2019	12,969	5.8	546	21.3	545	26.2	330	29.0

Note: Comprehensive income (million yen) Three months ended Jun. 30, 2020: 368 (up 9.1%)

Three months ended Jun. 30, 2019: 337 (up 31.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2020	17.30	17.20
Three months ended Jun. 30, 2019	16.62	16.41

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Jun. 30, 2020	30,165	17,603	54.3	811.65
As of Mar. 31, 2020	32,486	17,617	50.5	813.94

Reference: Shareholders' equity (million yen) As of Jun. 30, 2020: 16,365 As of Mar. 31, 2020: 16,410

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2020	—	10.00	—	20.00	30.00
Fiscal year ending Mar. 31, 2021	—				
Fiscal year ending Mar. 31, 2021 (forecast)		15.00	—	15.00	30.00

Note: Revisions to the most recently announced dividend forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	62,000	6.3	3,600	18.6	3,600	18.7	2,100	13.1	104.16

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of special accounting for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates, and restatements

- i. Changes in accounting policies due to revisions in accounting standards, others: None
- ii. Changes in accounting policies other than i. above: None
- iii. Changes in accounting estimates: None
- iv. Restatements: None

(4) Number of outstanding shares (common stock)

- i. Number of shares outstanding at the end of the period (including treasury shares)
As of Jun. 30, 2020: 22,664,800 shares As of Mar. 31, 2020: 22,663,200 shares
- ii. Number of treasury shares at the end of the period
As of Jun. 30, 2020: 2,501,422shares As of Mar. 31, 2020: 2,501,422shares
- iii. Average number of shares outstanding during the period
Three months ended Jun. 30, 2020: 20,162,243shares Three months ended Jun. 30, 2019: 19,889,309shares

* This consolidated financial report is not subject to quarterly review procedures by a certified public accountant or audit company.

* Explanation for appropriate use of operating forecasts, and other special items

Cautionary statement with respect to forward-looking statements

Forecasts regarding future performance in this report are based on assumptions based upon valid and other reasonable information available to the Company at the time this report was created. This report is not promised by the Company regarding future performance. The actual performance may differ significantly from these forecasts for a variety of reasons.

How to view supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results will be disclosed today (July 28, 2020), using the Timely Disclosure network (TDnet), and will be available on the Company's website (<https://www.softbanktech.co.jp/corp/ir/>).

○Appendix
Table of Contents

1. Qualitative Information on Financial Results of the Period Under Review	2
(1) Explanation of Business Results	2
(2) Explanation of Financial Position	5
(3) Explanation on Consolidated Forecast and Other Forward-looking Statements	5
2. Quarterly Consolidated Financial Statements	6
(1) Quarterly Consolidated Balance Sheet	6
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	8
(For the Three-month Period)	8
(3) Notes to Quarterly Consolidated Financial Statements	9
(Going Concern Assumption)	9
(Significant Changes in Shareholders' Equity)	9

1. Qualitative Information on Financial Results of the Period Under Review

(1) Explanation of Business Results

The global spread of COVID-19 has increased uncertainty about the future of the economy. Against this backdrop, the shift to cloud computing and teleworking to improve operational efficiency have become more pronounced as urgent issues facing companies. To respond to the era of the new normal, it has become a major issue for companies to strengthen their strategic business domains and deal with DX to secure a competitive advantage, and for government and other public offices to quickly implement digitalization toward the realization of digital governance. The growth of IT investment in Japan is expected to slow compared to the period before the effects of COVID-19 are actualized, but we believe that urgent issues and demand for strategic IT investment are firm.

Amid this business environment, the ICT services business remained firm, and performance by solution was as follows compared to the same period in the previous fiscal year.

Sales of Business IT Solutions increased due to significant growth in development projects for IoT systems for the global manufacturing industry, which we have designated as our key industry, as well as progress on development projects for the electronic application platform for the Ministry of Agriculture, Forestry and Fisheries. In addition, we are anticipating large-scale projects in 2H and the fiscal year ending March 2022 and beyond, and we are ahead of schedule in terms of strategic costs such as PoC (demonstration experiments).

In Corporate IT Solutions, although Microsoft's licensing sales declined, workstyle reform accelerated due to the social situation, and system development using Microsoft Azure, security solutions and electronic authentication services, as well as our services clouXion and managed security services grew.

In Technical Solutions, which provides solutions for on-premises environments, vendor management projects in the IT field of SoftBank Corp., which began in 3Q of the previous fiscal year, led the increase in sales. However, outsourcing expenses increased due to the rapid growth in the number of development partners and the number of partner employees, resulting in a decrease in the marginal income ratio.

In EC Solutions, although there was a change in the invoice price in Norton Store's e-commerce management agency business, operating income increased due to steady performance in the Fonts business.

In addition, although M&A transaction costs were temporarily incurred, net sales, marginal income, operating profit, ordinary profit, and profit attributable to owners of parent reached record highs for the 1Q of the fiscal year under review, and the results were as follows.

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020	Change (Amount)	Change (Ratio)
Net sales	12,969	14,759	1,789	13.8%
Marginal profit	3,642	4,061	418	11.5%
Fixed costs	3,096	3,394	297	9.6%
Operating profit	546	666	120	22.1%
Ordinary profit	545	658	113	20.7%
Profit attributable to owners of parent	330	348	18	5.5%
Net income per share	JPY 16.62	JPY 17.30	JPY 0.68	4.1%

The Company has only a single business segment, which is the ICT services business. See <Explanation of solutions> on page 4 for the details and performance of solutions constituting the ICT service business.

<Progress in the third medium-term management plan>

The Group focuses on the third medium-term management plan by positioning “be a service provider for corp IT” and “consult and generate business IT” as key themes.

- Be a service provider for corp IT

Over 1,000 companies have installed Microsoft’s cloud solutions and clouXion, SBT’s original services. We are steadily contributing to preparations for DX compliance by supporting customers’ cloud utilization and outsourcing their information systems operations, including increasing the number of managed security services sold and winning orders for global help desks. In addition, we are making steady progress on preparations to scale our business, such as establishing sales agent contracts and concluding contracts with partner companies. In the second year of the third Medium-Term Management Plan, our servicing net sales increased YoY by 53.2% to 441 million yen in the 1Q. As of the end of March 2022, we set a 50% target for the percentage of stock sales from own services. As of the end of June 2020, this figure rose to 23.0%.

- Consult and generate business IT

We are focusing on collaborative creation in the fields of global manufacturing, construction, and agriculture. In these industries, we are working to strengthen our R&D, new service development, and development systems, taking into account such major opportunities as the use of cloud services to strengthen competitiveness, support for the development of customers’ IoT services, support for collaboration between sales support systems and marketing systems, and efforts to realize government-wide digital governance.

In the second year of the third Medium-Term Management Plan, orders for Business IT Solutions increased 74.0% on a YoY basis in the 1Q.

In addition, management indicators for the fiscal year ending March 31, 2022 include increasing the percentage of sales from business IT solutions and corporate IT solutions, which achieve cloud-first strategies of business enterprises, to 50% and achieving consolidated operating income of 4.3 billion yen (with CAGR growth of 20% from the fiscal year ended March 31, 2019 as the starting point).

The percentage of sales from business IT solutions and corporate IT solutions for the three-month period under review decreased by 1.4 percentage points year on year, to 32.7%. Operating income increased 22.1% year on year, to 666 million yen.

<Overview of service category >

The Company has only a single business segment, which is the ICT services business. The following table shows the earnings from the primary components of this business segment. Note that some service categories have changed their names in the first quarter.

The values for the same period of the previous year in each solution category were calculated by applying the current method.

Solution category	Details of solutions	Core companies
Business IT solutions	[Cloud business/For business divisions] - Consulting services - DX solutions - AI/ IoT solutions, etc.	- SB Technology Corp. - Cybertrust Japan Co., Ltd. - REDEN Corp.
Corporate IT solutions	[Cloud business/For overall company or administration division] - Cloud integration - Business efficiency improvement services - Cloud security services - Security operation monitoring services - Electronic authentication solutions	- SB Technology Corp. - Cybertrust Japan Co., Ltd. - M-SOLUTIONS, Inc. - Kan Corporation - ASORA Tech Corp.
Technical solutions	- On-premise system integration - Equipment sales, building, operation, and maintenance services - Sales and embedded system development of products related to Linux/OSS, etc.	- SB Technology Corp. - Cybertrust Japan Co., Ltd.
E-commerce solutions	- Operation of e-commerce sites as agent - Online sales of font licenses, etc.	- SB Technology Corp. - Fontworks Inc.

(Millions of yen)

		Three-month period ended June 30, 2019	Three-month period ended June 30, 2020	Change (Amount)	Change (Ratio)
Business IT solutions	Net Sales	764	1,132	367	48.1%
	Marginal profit	309	322	13	4.3%
	Profit margins	40.4%	28.5%	(11.9) pt.	—
Corporate IT solutions	Net Sales	3,664	3,695	31	0.8%
	Marginal profit	1,369	1,648	278	20.3%
	Profit margins	37.4%	44.6%	7.2 pt.	—
Technical solutions	Net Sales	2,991	4,398	1,406	47.0%
	Marginal profit	1,093	1,179	86	7.9%
	Profit margins	36.6%	26.8%	(9.8) pt.	—
E-commerce solutions	Net Sales	5,548	5,533	(15)	(0.3)%
	Marginal profit	870	911	41	4.7%
	Profit margins	15.7%	16.5%	0.8 pt.	—
Total	Net Sales	12,969	14,759	1,789	13.8%
	Marginal profit	3,642	4,061	418	11.5%
	Profit margins	28.1%	27.5%	(0.6) pt.	—

(2) Overview of financial positions for the current period

Assets, Liabilities and Net assets			(Millions of yen)
	As of June 30, 2019	As of June 30, 2020	(Reference) As of June 30, 2019
Total assets	32,486	30,162	26,910
Net assets	17,617	17,603	15,946
Shareholder's equity ratio	50.5%	54.3%	55.2%

(Assets)

Total assets decreased 2,323 million yen from the end of the previous fiscal year, to 30,162 million yen at the end of the three-month period under review.

Current assets decreased 2,308 million yen from the end of the previous fiscal year, mainly because of a decrease in notes and accounts receivable-trade.

Non-current assets decreased 15 million yen, mainly due to a decrease in deferred tax assets.

(Liabilities)

Total liabilities decreased 2,309 million yen from the end of the previous fiscal year, to 12,559 million yen at the end of the three-month period under review.

Current liabilities decreased 2,107 million yen, mainly due to a decrease in accounts payable.

Non-current liabilities decreased 202 million yen, mainly attributable to a decrease in long-term advances received.

(Net assets)

Net assets decreased 14 million yen from the end of the previous fiscal year, to 17,603 million yen at the end of the three-month period under review, mainly due to a decrease in retained earnings.

(3) Explanation on Consolidated Forecast and Other Forward-looking Statements

The earnings forecasts are based on information currently available, but actual results may differ from these forecasts due to various factors.

As a result of steady progress on proposals in 4Q of the previous fiscal year, orders outstanding remained at a high level, and net sales and operating income also remained strong in 1Q. In 2Q, we plan to aggressively conduct pre-sales activities, demonstration tests, service-development, and enhancement of systems for large-scale projects in Business IT Solutions field for the second half of this fiscal year and the year ending March 2022. Orders received and net sales continued to grow, and we expect operating income to remain unchanged from the same period of the previous year.

For 3Q and 4Q, we plan to increase profits over the same period of the previous fiscal year by taking advantage of the preparations made in 2Q.

The spread of COVID-19 has increased uncertainty about the future of the economy, and the growth of IT investment in Japan is expected to slow compared to the period before the effects were actualized. However, we believe that urgent issues and demand for strategic IT investment are firm.

The forecasts for the fiscal year ending March 31, 2021 were calculated based on the above assumptions, and there is a possibility that they will be changed in the event that domestic companies and government bodies freeze their strategic IT investments due to the occurrence and convergence of the second and third waves of COVID-19.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	9,826	9,298
Notes and accounts receivable - trade	12,714	10,032
Merchandise	26	81
Work in process	757	920
Other	1,026	1,708
Allowance for doubtful accounts	△0	△0
Total current assets	24,350	22,042
Non-current assets		
Property, plant and equipment		
Buildings, net	731	735
Tools, furniture and fixtures, net	756	800
Construction in progress	—	135
Other, net	—	1
Total property, plant and equipment	1,488	1,672
Intangible assets		
Goodwill	554	647
Software	1,397	1,411
Software in progress	591	679
Customer relationships	335	319
Other	170	163
Total intangible assets	3,049	3,221
Investments and other assets		
Investment securities	782	676
Deferred tax assets	960	816
Other	1,854	1,732
Total investments and other assets	3,597	3,225
Total non-current assets	8,135	8,120
Total assets	32,486	30,162

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	8,258	6,107
Lease obligations	88	88
Accounts payable - other	1,163	1,247
Income taxes payable	810	152
Advances received	1,554	2,139
Provision for bonuses	1,055	471
Provision for bonuses for directors (and other officers)	—	29
Provision for loss on order received	198	170
Provision for defect repair	1	4
Other	397	1,009
Total current liabilities	13,528	11,420
Non-current liabilities		
Lease obligations	291	269
Deferred tax liabilities	68	86
Long-term advances received	495	344
Retirement benefit liability	45	51
Asset retirement obligations	326	325
Other	112	61
Total non-current liabilities	1,340	1,138
Total liabilities	14,869	12,559
Net assets		
Shareholders' equity		
Share capital	1,176	1,177
Capital surplus	1,268	1,269
Retained earnings	15,549	15,494
Treasury shares	△1,568	△1,568
Total shareholders' equity	16,425	16,372
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△17	△9
Foreign currency translation adjustment	2	2
Total accumulated other comprehensive income	△14	△7
Share acquisition rights	205	224
Non-controlling interests	1,000	1,012
Total net assets	17,617	17,603
Total liabilities and net assets	32,486	30,162

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(For the Three-month Period)

(Millions of yen)

	Fiscal year ended June 30, 2019	Fiscal year ended June 30, 2020
Net sales	12,969	14,759
Cost of sales	10,873	12,326
Gross profit	2,096	2,433
Selling, general and administrative expenses	1,550	1,766
Operating profit	546	666
Non-operating income		
Interest and dividend income	0	0
Share of profit of entities accounted for using equity method	1	6
Miscellaneous income	2	1
Total non-operating income	4	7
Non-operating expenses		
Interest expenses	2	1
Foreign exchange losses	3	0
Commission expenses	—	9
Miscellaneous loss	0	4
Total non-operating expenses	5	16
Ordinary profit	545	658
Extraordinary losses		
Loss on step acquisitions	—	5
Total extraordinary losses	—	5
Profit before income taxes	545	653
Income taxes - current	78	146
Income taxes - deferred	134	145
Total income taxes	213	292
Profit	332	360
Profit attributable to		
Profit attributable to owners of parent	330	348
Profit attributable to non-controlling interests	1	12
Other comprehensive income		
Valuation difference on available-for-sale securities	6	7
Foreign currency translation adjustment	△0	△0
Total other comprehensive income	5	7
Comprehensive income	337	368
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	336	356
Comprehensive income attributable to non-controlling interests	1	12

(3) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Disclaimer:

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.