FUJI SOFT INCORPORATED

Financial Results Briefing for the Fiscal Year Ended 2020

February 10, 2021

Event Summary

[Company Name]	FUJI SOFT INCORPORATED	
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[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	5	
	Satoyasu Sakashita	President & Representative Director
	Masaki Shibuya	Director & Senior Executive Operating Officer
	Seto Arai	Director & Senior Executive Operating Officer
	Yoshiharu Shiraishi	Director & Executive Operating Officer
	Masashi Umetsu	Operating Officer
[Analyst Names]*	Hideaki Tanaka	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
	Yoshihiro Maeda	FISCO Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

Moderator: Ladies and gentlemen, thank you very much for your patience. FUJI SOFT INCORPORATED will hold a financial results briefing for the fiscal year ended December 31, 2020. Thank you very much for taking time out of your busy schedule to join us today.

First of all, I would like to introduce today's attendees. Could you give us a few words? President & Representative Director, Satoyasu Sakashita.

Sakashita: I'm Sakashita.

Moderator: Director & Senior Executive Operating Officer, Masaki Shibuya.

Shibuya: This is Shibuya. Thank you very much.

Moderator: Director & Senior Executive Operating Officer, Seto Arai.

Arai: Arai. Thank you very much.

Moderator: Director & Executive Operating Officer, Yoshiharu Shiraishi.

Shiraishi: Here is Shiraishi. Thank you very much.

Moderator: Operating Officer, Masashi Umetsu.

Umetsu: I'm Umetsu. Thank you very much.

Moderator: These are the attendees today. Thank you for your cooperation.

Next, I would like to explain today's progress. First of all, Mr. Sakashita will explain the details of our financial results.

There will be time for questions and answers after the presentation. Please let us know your company name and your name, and ask your questions.

Now we would like to explain our financial results for the fiscal year ended December 31, 2020. President Sakashita, could you start please?

1. Consolidated Financial Highlights-1 (4Q Results Jan-Dec)

Net sales rose after license sales growth and strong performance in System Construction.

◇ Net sales rose 4.3% year on year, to 240,953 million yen, thanks to solid performances of social infrastructure systems in embedded/control system development and of system infrastructure construction in operation software, in addition to a strong performance in Products and Services, especially in license sales.

Operating income rose due to higher sales.

◇ Operating income rose 20.4% year on year, to 15,972 million yen, reflecting the rise in sales.
◇ Ordinary income increased 18.9% year on year, to 16,343 million yen.
◇ Profit attributable to owners of parent stood at 8,573 million yen, up 9.4% year on year.

(Million yen)

	FY2019 4Q results	FY2020 4Q results	YoY change (Amount)	YoY change (%)	FY2020 4Q plan	FY2020 Comparison with the plan
Net sales	231,074	240,953	+9,878	104.3%	238,000	101.2%
Operating income	13,266	15,972	+2,706	120.4%	13,600	117.4%
Operating income margin	5.7%	6.6%			5.7%	
Ordinary income	13,749	16,343	+2,593	118.9%	13,850	118.0%
Ordinary income margin	6.0%	6.8%			5.8%	
Profit attributable to owners of parent	7,836	8,573	+737	109.4%	8,000	107.2%
Profit margin attributable to owners of parent	3.4%	3.6%			3.4%	

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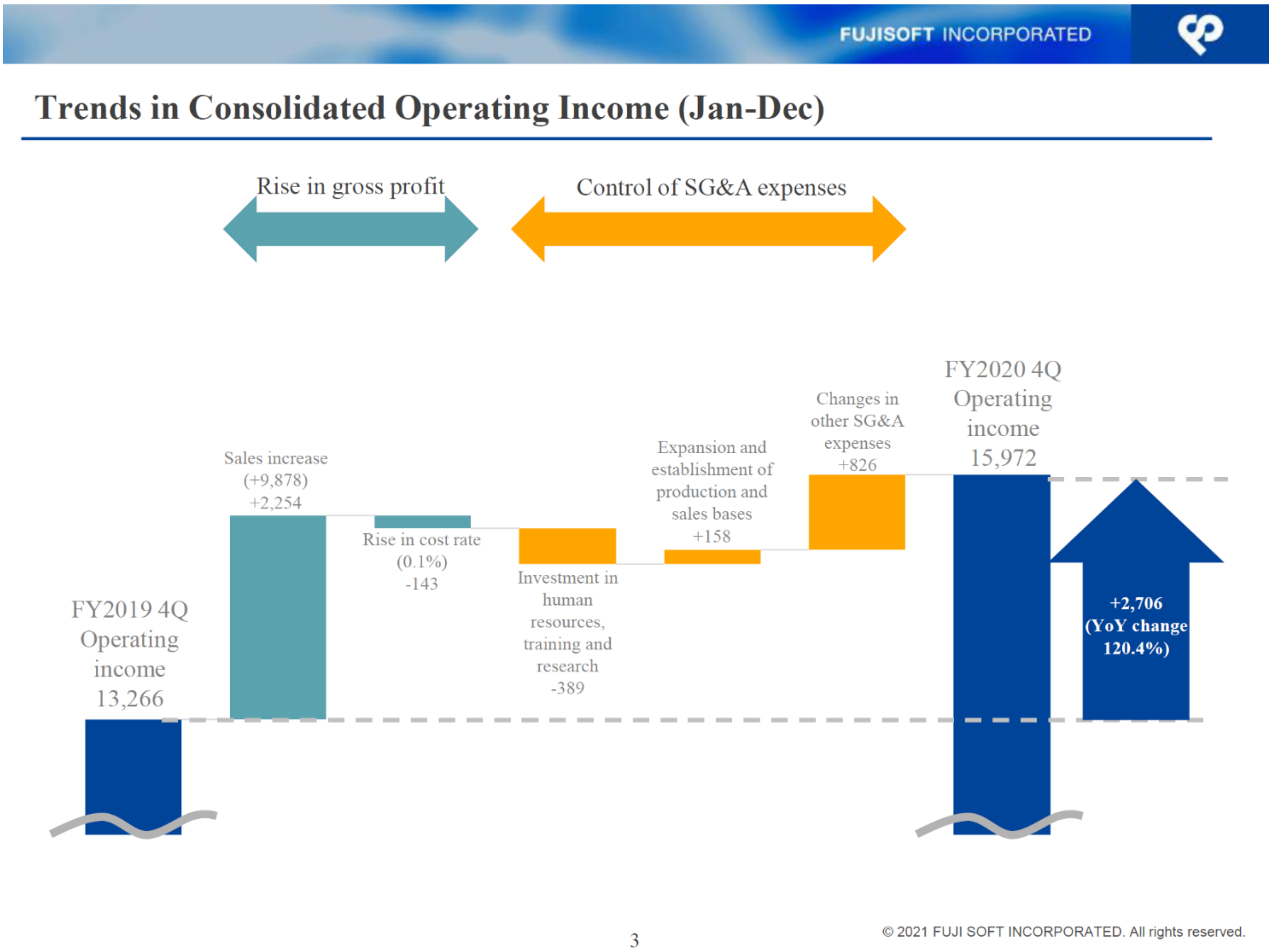
Sakashita: I would like to explain the details of the financial results.

Let me explain the financial results for the fiscal year ended December 31, 2020.

As you can see from the figures in the consolidated financial highlights, the cumulative total for the four quarters was JPY240.9 billion, with operating income of JPY15.9 billion, ordinary income of JPY16.3 billion, and net income of JPY8.5 billion, representing 104.3%, 120.4%, 118.9%, and 109.4% of the previous year's figures, respectively.

As you can see above, the sales figures are a result of steady growth in license sales, products and services, social infrastructure systems in the embedded/control software, and system infrastructure construction in the operation software.

The operating income figure is as shown, with the increase in both revenue and profit.



This is a graph of the increases and decreases of consolidated operating income.

Operating income has been boosted considerably by the increase in gross profit, but other than that, SG&A expenses have been controlled. Naturally, we are investing in human resource training and it is increasing, but we are saving on various SG&A expenses. This is partly due to COVID-19. Because of this, operating income was JPY15.9 billion, which is 120% of the previous year's figure.

1. Consolidated Financial Highlights-2 (Q4 Results Oct-Dec)

Net sales rose 4.1% year on year.

The cost of sales margin increased to 77.6%.

◇ The cost of sales margin stood at 77.6% due to an increase in license sales, which partly reflects the expansion of remote work. The cost of sales margin declined year on year (while the gross profit margin was improved) due in part to unprofitable projects in the previous fiscal year. (Year-ago level: 78.0%)

SG&A expenses remained unchanged year on year.

◇ The amount was unchanged from the year-ago level, despite an increase in the cost for investments in human resources, because of a decrease in expenses related to movement such as commuting and business trips, attributable to the impact of the COVID-19 pandemic.
◇ Operating income rose 28.1% year on year, to 3,327 million yen.

(Million yen)

	FY2020 3Q results	YoY change (Amount)	YoY change (%)	FY2020 Q4 results	YoY change (Amount)	YoY change (%)
Net sales	181,708	+7,554	104.3%	59,244	+2,323	104.1%
Cost of sales	140,116	+6,170	104.6%	45,988	+1,597	103.6%
Cost of sales margin	77.1%			77.6%		
Gross profit	41,591	+1,384	103.4%	13,256	+726	105.8%
SG&A expenses	28,946	-592	98.0%	9,928	-2	100.0%
Operating income	12,644	+1,976	118.5%	3,327	+729	128.1%
Operating income margin	7.0%			5.6%		

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Figures for Q4 are shown here.

Net sales totaled JPY59.2 billion, 104.1% of the previous year's figure. In terms of operating income, the figure is JPY3.3 billion, which is just under 130% of the previous year's figure. You can see that operating profit is growing considerably, although sales were 104%.

The cost to sales ratio has increased slightly. There was an improvement from the unprofitable projects in the previous year.

SG&A expenses were unchanged from the previous year, and although investments in human resources increased, expenses for commuting and business trips decreased due to COVID-19. That's why the operating income for Q4 was quite positive compared to the previous year.

In Q3, YoY sales were down, but in Q4, we were able to turn this sales figure into a YoY increase.

2. Sales/Operating Income by Major Companies of the Group

(Million yen)

FY2020		Net sales	Operating income	
FUJI SOFT INCORPORATED	4Q results	164,094	9,257	Net sales grew, reflecting strong performances of social infrastructure in embedded/control software development and system infrastructure construction in operation software development, as well as brisk sales of licenses related to the spread of remote working and others in the Products and Services segment. Operating income rose after sales growth and suppression of SG&A expenses.
	YoY change (amount)	+14,011	+1,503	
	YoY change (%)	109.3%	119.4%	
CYBERNET SYSTEMS Co., Ltd.	4Q results	21,665	2,877	Net sales expanded with an increase in sales of IT solution services in Japan and at some overseas subsidiaries notably in Taiwan and China offsetting sales slides in CAE solution services in Japan and at overseas subsidiaries, notably in the United States. Operating income grew following the sales growth and decrease in expenses.
	YoY change (amount)	+314	+856	
	YoY change (%)	101.5%	142.4%	
VINX CORP.	4Q results	27,720	2,128	Net sales declined. While sales of software products rose with mounting needs amid trends among retailers towards cashless payment and a multi-vendor model in which hardware and software are separated, there were delays in the acceptance of orders, mainly in hardware sales, due to the impact of the COVID-19 pandemic. Operating income surged, resulting from improvement in development productivity.
	YoY change (amount)	-2,028	+458	
	YoY change (%)	93.2%	127.5%	
CYBER COM Co., Ltd.	4Q results	13,672	827	The total amount of net sales declined. While sales in the service business increased, the software development business saw insufficient orders received for projects to develop control software/operation software (extension of the development period and size reduction due to COVID-19). Operating income grew, chiefly reflecting improvement in productivity and a decrease in expenses.
	YoY change (amount)	-295	+81	
	YoY change (%)	97.9%	110.9%	
FUJI SOFT SERVICE BUREAU INCORPORATED	4Q results	9,131	570	Net sales plunged considerably. Despite a strong performance in both call center services and BPO services for local governments and for private corporations, BPO services failed to win a large order from the national government. Operating income also fell due to the sales contraction.
	YoY change (amount)	-2,341	-36	
	YoY change (%)	79.6%	93.9%	

* Results from January to December, 2020 are stated in the FY2020 4Q results column.

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Group companies.

As you can see here, FUJI SOFT's sales and operating income were 109.3% and 120%, respectively. The areas explained earlier were favorable. In addition, In products and services, license sales were strong due to the spread of remote work. We will tell you the details later. Both revenue and profit increased, and the increase in terms of profit is a little larger.

CYBERNET SYSTEMS' revenue was 101.5%, but operating profit was 142.4%. As shown here, sales in Japan and the US were down slightly, but sales in IT solution services, Taiwan, and China were up. You can see that operating income increased in general due to the reduction of labor costs and other factors.

VINX reported a decrease in sales and a large increase in profits. As for sales, sales of software products increased, but due to the delay in orders for hardware, sales were slightly down from the previous year. Profits are on a significant upward trend due to productivity improvements and other factors.

CYBER COM also reported higher earnings on lower revenue. Net sales have decreased due to the extension and contraction as a result of the impact of COVID-19, but operating income has turned positive due to the same improvements in productivity and decrease in expenses.

FUJI SOFT SERVICE BUREAU reported a decrease in revenue and a small decrease in profit. Sales were strong in call centers, BPO services, local government sectors, and the private sector. However, we were unable to receive orders for large-scale projects from public agencies, which resulted in a larger decrease in revenue.

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3. Consolidated Sales/Operating Income by Segment

(Million yen)

	FY2020 Net sales 4Q results	Component ratio	YoY change (Amount)	YoY change (%)	FY2020 Operating income 4Q results	Operating income margin	YoY change (Amount)	YoY change (%)
Consolidated total	240,953	100.0%	+9,878	104.3%	15,972	6.6%	+2,706	120.4%
SI Business	227,995	94.6%	+12,486	105.8%	14,908	6.5%	+3,170	127.0%
System Construction	134,017	55.6%	+2,779	102.1%	8,807	6.6%	+1,171	115.3%
Embedded/Control Software	65,040	27.0%	+369	100.6%	4,924	7.6%	+480	110.8%
Operation Software	68,977	28.6%	+2,410	103.6%	3,882	5.6%	+690	121.6%
Products and Services	93,977	39.0%	+9,707	111.5%	6,100	6.5%	+1,999	148.8%
Products and Services	79,971	33.2%	+10,687	115.4%	5,121	6.4%	+1,979	163.0%
Outsourcing	14,005	5.8%	-980	93.5%	978	7.0%	+20	102.1%
Facility Business	2,653	1.1%	-245	91.5%	810	30.6%	-400	66.9%
Other Businesses	10,304	4.3%	-2,362	81.3%	253	2.5%	-63	79.9%

Highlights of Sales by Segment

● Embedded/Control Software

Sales were up 0.6% year on year, reflecting a strong performance from social infrastructure systems.
Operating income also rose 10.8% following the sales growth.

● Operation Software

Sales increased 3.6% year on year, reflecting solid performances in system infrastructure construction and the online business domain. Operating income jumped 21.6% year on year as a result of the sales leap.

● Products and Services

Sales increased 15.4% year on year, due to bullish sales of licenses from other companies and our products. Operating income jumped 63.3% year on year as a result of the sales leap.

● Outsourcing

Sales contracted 6.5% year on year due mainly to the shrinkage of service fees because of the closure of stores of overseas customers. Operating income rose 2.1% year on year, chiefly reflecting the curbing of SGA expenses.

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Sales and operating income by consolidated segment.

As you can see, this column is for embedded/control software, and I'm sure you are interested in this column. Cumulative total of four quarters was barely on par YoY. 110% for operating profit and 100% for sales. The profit margin for operation software was 103%, and 121% on an operating income basis, so the profit margin was much larger for operation software.

Products and services sales grew to 115%, and operating income was 163%, which is quite positive.

As you can see here, the embedded/control software was doing well in these areas. As for operation software, again, system infrastructure construction and the internet-related business were doing well, and making profits.

For products and services, as you can see here, the figures are 115% and 163% for licensing and in-house products, respectively.

In the Outsourcing Business, sales declined partly because overseas sales depending on the number of customers' stores decreased, due to gradual closure of some overseas customers' stores. Operating income was slightly higher due to the control of SG&A expenses, but revenue was down.

4. Consolidated Income Statement

(Million yen)

	FY2019 4Q Results	FY2020 4Q Results	YoY change (Amount)	YoY change (%)	FY2020 4Q Plan	Comparison with the plan
Net sales	231,074	240,953	+9,878	104.3%	238,000	101.2%
Cost of sales	178,337	186,105	+7,767	104.4%	–	–
Cost of sales margin	77.2%	77.2%				
Gross profit	52,736	54,847	+2,111	104.0%	–	–
Gross profit margin	22.8%	22.8%				
SG&A expenses	39,470	38,875	-595 (1)	98.5%	–	–
SG&A expense ratio	17.1%	16.1%				
Operating income	13,266	15,972	+2,706	120.4%	13,600	117.4%
Operating income margin	5.7%	6.6%			5.7%	
Non-operating income	667	514	-153	77.0%	–	–
Non-operating expenses	420	436	+15	103.8%	–	–
Share of (profit) loss of entities accounted for using equity method	236	292	+55	123.6%	–	–
Ordinary income	13,749	16,343	+2,593	118.9%	13,850	118.0%
Ordinary income margin	6.0%	6.8%			5.8%	
Extraordinary income	660	988	+327 (2)	149.7%	–	–
Extraordinary losses	395	1,683	+1,288 (3)	-	–	–
Income before income taxes	14,014	15,647	+1,632	111.6%	–	–
Total income taxes	4,523	5,213	+689	115.2%	–	–
Net income	9,491	10,434	+942	109.9%	–	–
Profit attributable to non-controlling interests	1,655	1860	+205	112.4%	–	–
Profit attributable to owners of parent	7,836	8,573	+737	109.4%	8,000	107.2%
Profit margin attributable to owners of parent	3.4%	3.6%			3.4%	

Points of Income Statement

(1) SG&A expenses (-595 million yen)

Decreases in expenses relating to movement such as commuting and business trips and expenses relating to HR activities such as recruitment activities and training due to the shift to online activities

(2) Extraordinary income (+327 million yen)

An increase in gain on sales of investment securities

(3) Extraordinary losses (+1,288 million yen)

Expenses for COVID-19 countermeasures and office relocation

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Consolidated statements of income.

I don't have much to say about this, but in terms of SG&A and general administrative expenses, commuting, business trips, and transportation, these expenses are quite reduced.

As for extraordinary gains and losses, we are continuing to sell securities like cross-shareholdings, and extraordinary losses are due to COVID-19 and office relocation.

5. Consolidated Balance Sheet

(Million yen)

	End of FY2019	End of FY2020	Change (Amount)
Current assets	88,009	105,363	+17,354
Cash and deposits	22,278	38,330	+16,051
Notes and accounts receivable – trade	49,570	52,750	+3,179
Securities	7,000	6,000	-1,000
Inventories	5,930	5,526	-403
Other	3,229	2,756	-472
Non-current assets	119,609	129,173	+9,564
Property, plant and equipment	86,334	89,928	+3,594
Intangible assets	4,043	4,705	+661
Investments and other assets	29,231	34,539	+5,307
Total assets	207,618	234,537	+26,919
Current liabilities	48,106	68,751	+20,644
Accounts and notes payable – trade	13,361	12,519	-842
Short-term loans payable	4,159	24,156	+19,997
Commercial papers	3,000	-	-3,000
Accrued expenses / provision for bonus	10,476	10,801	+325
Income taxes payable	3,534	3,155	-379
Provision for loss on construction contracts	194	319	+124
Other	13,380	17,799	+4,419
Non-current liabilities	32,691	30,623	-2,068
Long-term loans payable	22,618	20,515	-2,102
Other	10,073	10,107	+34
Total liabilities	80,797	99,374	+18,576
Total net assets	126,820	135,163	+8,342
Total liabilities and net assets	207,618	234,537	+26,919

Points of the Balance Sheet

(1)Current assets (+17,354 million yen)

An increase in cash and deposits to ensure working capital in light of the impact of COVID-19

(2)Non-current assets (+9,564 million yen)

Building construction assets to secure office space as a result of strengthening systems

(3)Current liabilities (+20,644 million yen)
Non-current liabilities (-2,068 million yen)

A rise in short-term funds for securing working capital in light of the impact from COVID-19 and repayment of long-term loans payable

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Balance sheet.

Current assets: We secured working capital last year. In fixed assets, office space is continuously being secured, so the construction assets for that are increasing.

For current and fixed liabilities, this working capital is secured. Short-term financing has increased slightly, and long-term loans have been repaid. This is the way things are going.

6. Consolidated Cash Flow Statement

(Million yen)

	FY2019 4Q results	FY2020 4Q results	YoY change (Amount)
Cash flows from operating activities	12,584	14,787	+2,202
Cash flows from investing activities	-9,442	-16,109	-6,666
Cash flows from financing activities	-1,451	12,703	+14,155
Effect of exchange rate change on cash and cash equivalents	-119	-89	
Net increase (decrease) in cash and cash equivalents	1,570	11,291	
Cash and cash equivalents at beginning of period	24,587	26,158	
Cash and cash equivalents at end of period	26,158	37,450	

Highlights of Cash Flows

- Cash flows from operating activities
  Net cash provided by operating activities stood at 14,787 million yen, with a year-on-year increase of 2,202 million yen due to an increase in money received, attributable to higher sales.
- Cash flows from investing activities
  Net cash used in investing activities came to 16,109 million yen mainly due to construction expenses to secure office space.
- Cash flows from financing activities
  Net cash provided by financing activities was 12,703 million yen due to borrowings for the working capital.

Cash flow.

The cash flow from operating activities was positive due to the increase in sales. As for investment activities, although the figure is negative, we used it for office space. In terms of financing activities, I think it's safe to say that the borrowing of working capital, et cetera, which I mentioned earlier, has shown a positive figure.

7. Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	FY2020 4Q results							
	Order backlog at beginning of term	YoY change (%)	Orders	YoY change (%)	Net sales	YoY change (%)	Order backlog at end of term	YoY change (%)
SI Business Total	54,712	122.6%	233,548	103.5%	227,995	105.8%	60,265	110.1%
System Construction	34,899	111.4%	134,887	100.1%	134,017	102.1%	35,768	102.5%
Embedded/Control Software	14,138	110.8%	64,977	98.4%	65,040	100.6%	14,075	99.6%
Operation Software	20,761	111.8%	69,909	101.7%	68,977	103.6%	21,693	104.5%
Products and Services	19,812	149.0%	98,661	108.7%	93,977	111.5%	24,496	123.6%
Products and Services	17,130	158.7%	85,252	112.7%	79,971	115.4%	22,412	130.8%
Outsourcing	2,681	107.2%	13,408	88.4%	14,005	93.5%	2,084	77.7%

Highlights of Orders and Order Backlogs

● Highlights in System Construction

- Embedded/Control Software
  Orders decreased 1.6% year on year despite strong orders for social infrastructure systems, due in part to a decline in orders for machine control systems. The order backlog at the end of the term decreased 0.4% year on year.
  Orders for Q4 were down 4.5% year on year. (Year-on-year change in orders each quarter: 1Q: up 8.0%, 2Q: down 5.3%, 3Q: down 4.7%)
- Operation Software
  Orders rose 1.7% year on year, with a decrease in orders mainly from the financial sector offset by brisk orders for other operation software. The order backlog at the end of the term rose 4.5% year on year.
  Orders for Q4 increased 12.9% year on year.
  (Year-on-year change in orders each quarter: 1Q: up 7.3%, 2Q: down 18.9%, 3Q: up 7.7%)
- Year-on-year change in orders each quarter in the system construction domain
  (1Q: up 7.6%, 2Q: down 12.5%, 3Q: up 1.5%, 4Q: up 4.0%)

● Highlights in Products and Services

- Products and Services
  Orders increased 12.7% year on year thanks to an increase in orders for licenses for other companies' products. The order backlog at the end of the term increased 30.8% year on year.
- Outsourcing
  Orders declined 11.6% year on year due to a slide in orders for operation and maintenance projects and in orders for services from distributors. The order backlog at the end of the term dropped 22.3% year on year.

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Orders received and order backlog.

As can be seen here, orders for embedded/control software were down from the previous year. Sales were at the same level as the previous year, and the order backlog was slightly lower than the previous year.

As for operation software, orders increased YoY, sales also increased, and the order backlog also increased significantly.

Orders, sales, and order backlogs have increased significantly for products and services, which are doing well, as I mentioned earlier. The order backlog for outsourcing was also negative.

As you can see below, orders for embedded/control software were 98.4%, which was lower than the previous year, but if you compare the results, Q1 was 108%, and orders were still strong at that time. Since Q2, due to the impact of COVID-19 and other factors, the percentages were 94% and 95% YoY, respectively, but this time, 98.4% was achieved. Although the percentages for embedded/control software were lower than the previous year, they are clearly on a recovery track.

If we cut orders for operation software into quarters, Q1 was 107%, Q2 saw a large drop to 81.1%, but Q3 saw a recovery, and Q4 saw an increase to 101.7%, which is not so large. The order backlog was 104%, which is well above the previous year's level, and although there is some unevenness, we believe that we are back on track.

In the system construction field, which is a combination of these two, the transition has been like this, and putting both of them together, I think you can see that Q2 was the bottom and it has been rising.

Products and services performed quite well at 130.8% YoY, although we did not cut quarterly.

Outsourcing was 77.7%, which does not account for a big number on the whole, but it is not very strong.

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8. Dividend

The year-end dividend for FY2020

The year-end dividend will be 23 yen as forecast, making the annual dividend 51 yen per share.

(Yen)

	End of interim period	Commemorative dividend	Most recent prospective dividend	Determined amount of year-end dividend	Annual dividend
Dividend per share (FY2020)	23.00	5.00	23.00	**23.00**	**51.00**

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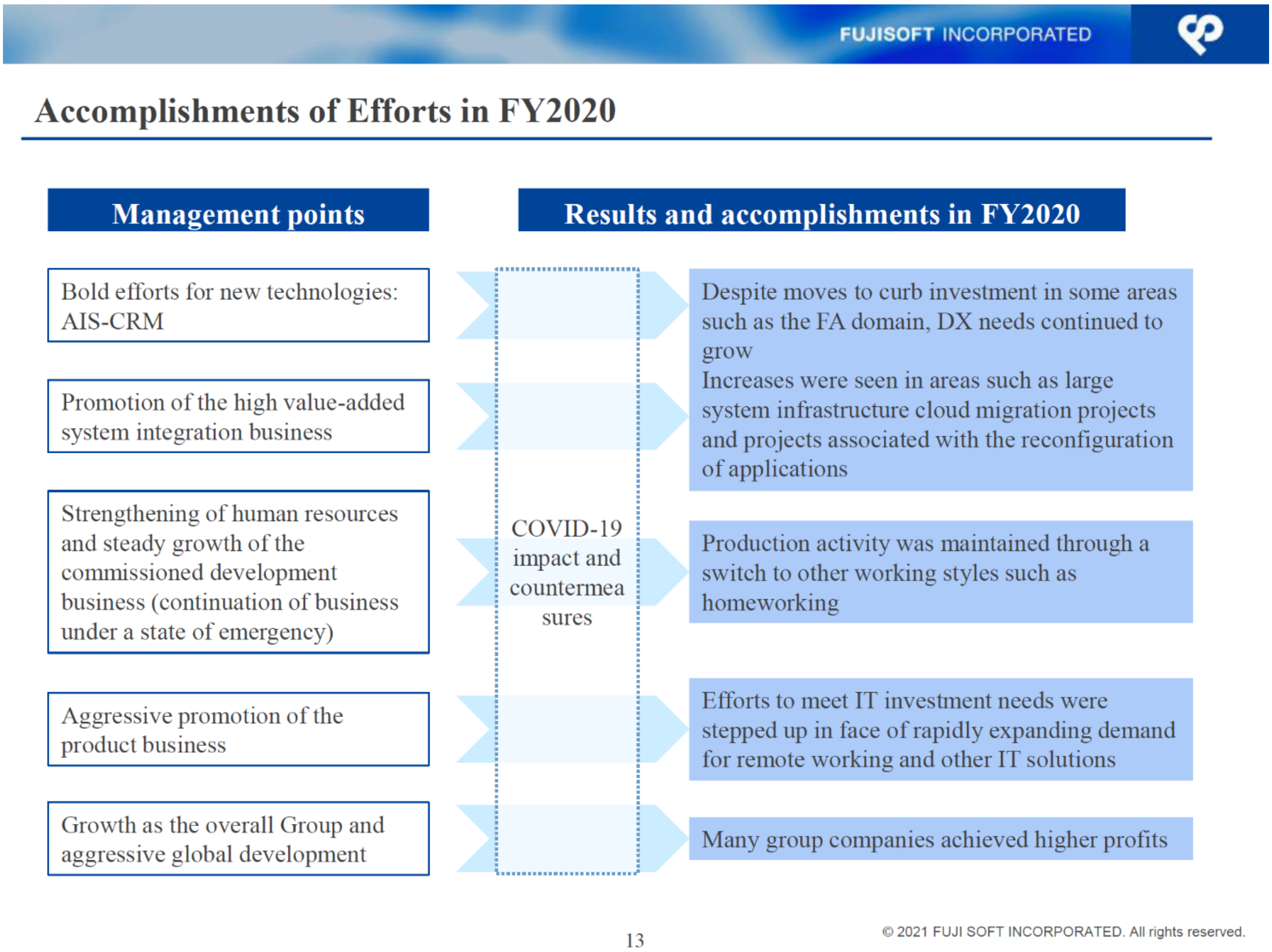
As for dividends, we will pay a base dividend of JPY23 and a commemorative dividend of JPY5, and a total annual dividend will be JPY51, as planned at the beginning of the fiscal year.

Now that I have explained the results for FY2020, let me move on to the forecast for FY2021.



In the qualitative part, the results of our efforts.

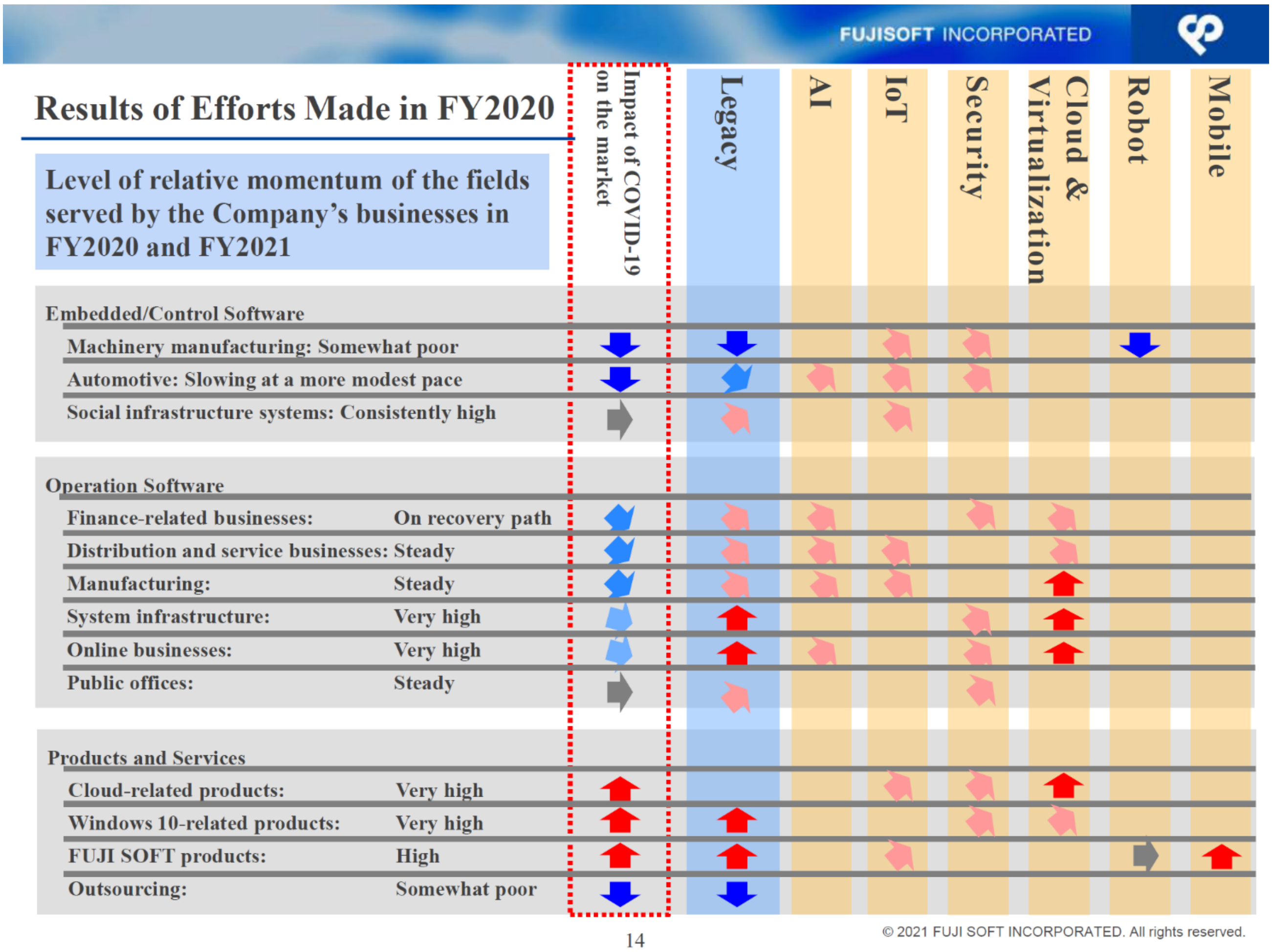
We have been telling you about the new technology, AIS-CRM, and we are going to shift more and more to this area and to high value-added areas. As for these two synergies, as you can see here, the market is restraining investment in robotics and factory automation, but AIS-CRM is very much related to DX needs, so it is growing.

In particular, in the area of cloud computing for system infrastructure, large scale projects and others have been relatively strong and steady.

In order to steadily expand our Outsourced Development Business while strengthening our human resources, we are of course increasing the number of employees, but the key point about COVID-19 this time is working at home. I think the fact that we are able to run our business properly at home and without any major problems means that we are able to deal with the effects of COVID-19.

In the Product Business, this has been a positive factor, providing a wind at our back in a very positive way.

In terms of the growth of the Group as a whole and aggressive global development, some of the Group's sales have declined, but we have been able to secure profits while taking various measures. Globally some parts were a little slow due to the influence of COVID-19, but I believe that the Group companies have been able to absorb these factors and increase profits.



We drew a picture to try to explain what the market was like in 2020.

This side shows the fields, and inside the red dotted line are the impressions of the impact of COVID-19 on the market. In addition to this, the conventional field centered on the outsourced work that we have been doing. In addition, the AIS-CRM fields are placed side by side and the whole picture is shown here with words.

In terms of embedded/control field, I think COVID-19 has had a great impact on the machinery manufacturing industry. We are also influenced in the conventional field. Although there was investment in IoT and security, the situation in FY2020 was that the machinery manufacturing industry, excluding automobiles, was on a downward trend.

In the automotive field, the impact of COVID-19 on the business has had a significant impact, and although the conventional field was declining, there were still projects in the CASE field. The pace of deceleration was quite large from H1 to H2 of the year, but the pace itself has become steady. I think it will become positive from here.

Social infrastructure is performing well. This continues to be strong, including the 5G and other telecom carriers. I don't think they have been affected much by COVID-19. Conventional field is positive.

In terms of operation software, the financial sector is still in the process of recovery from our point of view, and although they were affected by COVID-19, the conventional field and DX-related fields have been positively affected.

Distribution and services are steady. There is a little influence from COVID-19, but we are also focusing on the conventional field, especially in the field of what we call "new retail," and these fields are performing well.

The manufacturing industry is also affected by COVID-19, even in the operation field. However, from our point of view, there are themes such as DX-related core system support, so this is relatively steady regardless of the market. In the cloud computing field, the lift part of so-called lift and shift is very active in the manufacturing industry.

System infrastructure and internet-related businesses are still booming. Although they were somewhat affected by COVID-19, the resulting figures are positive, with growth well over double digits. In particular, the use of cloud computing has had a very positive impact.

As for public agencies, the market has not been significantly affected, so they are firm. I think that our traditional work has become a little positive.

As for products and services, we described as cloud-related products, Microsoft products, and in-house products, which means that COVID-19 is working positively and we are also experiencing a boom. Cloud-related products are positive, of course.

As for outsourcing, unfortunately, the trend is a bit negative.

I made this picture to better explain the impact in FY2020, and I hope it has communicated well to you.

Automotive

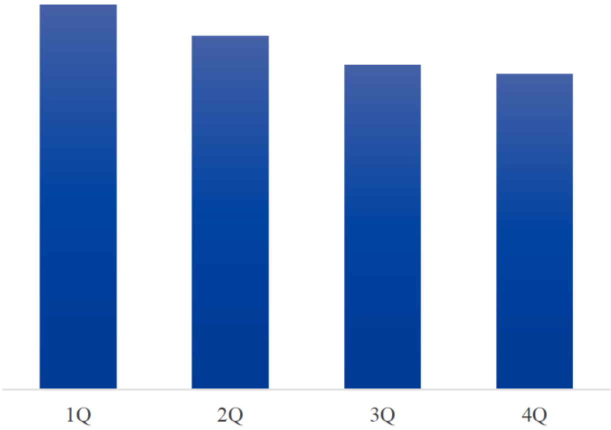
Sales fell, reflecting production cuts due to COVID-19 and a modest recovery is forecast in 2021.

- Automotive domain net sales (consolidated)

2020

Sales fell in 2020. Inquiries show tendency towards recovery recently.

- Orders fell, reflecting the effects of production cuts due to COVID-19 and a shortage of semiconductors. Inquiries show a tendency towards recovery recently.
- Autonomous driving domain held firm and performed solidly, while other domains slowed down.



2021

A modest recovery is forecast in 2021.

- A modest recovery is forecast in 2021 thanks to better business conditions in the automotive sector and, in the second half of the year, expansion in services associated with DX and ECU development is anticipated.

(i) Domains expected to grow (DX themes)
Electric vehicles and digitalization of software development
(MBD, simulation, AI, etc.)

(ii) Domains where firm investment demand is forecast
Automotive networking technology, security and the support for new semiconductors

(iii) Domains where investment will be curbed
Development of long-established functions

As I explained earlier, Automotive. If you look at this quarterly, sales have been dropping all the time in our Company.

This is very difficult to predict, but we are currently seeing a recovery in inquiries. In 2021, there may be a sharp increase in some cases, but our current forecast is for a mild recovery in 2021.

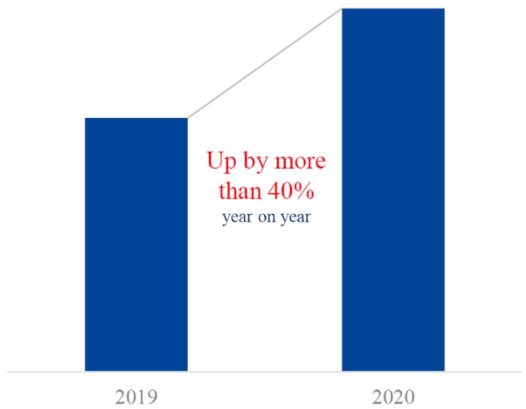
In H2 of the year, we expect that it will grow considerably with the theme of DX, but we think that it will be moderate in H1 and increase in H2. The DX theme, the area of solid investment demand, and the area of development of old functions are likely to be restrained, and we expect growth in these areas.

System Infrastructure

Digital transformation drove business growth and further acceleration in growth is forecast.

◇ COVID-19 caused some projects to be put on hold but was also a reminder of the importance of digital transformation.
◇ The Company also performed strongly in areas such as system infrastructure cloud migration and virtualization.
◇ Already an AWS Premier Consulting Partner, the Company was certified as having Migration Consulting Competency and a partner under the AWS Well-Architected Partner Program.

Net sales of system infrastructure construction business in FY2020



AWS adoption case studies

Number of companies adopting AWS in FY2020: Up by **more than 80% year on year**
- Large migration projects involving around 1,000 servers (lift and shift to cloud environment) increased.
- The number of success stories is increasing, with system standardization and improvement of maintenance and operation efficiency being achieved through delivery of microservice-based applications.
- Continued growth, driven by upgrades of windows servers and suchlike, is forecast.

Tsumura & Co.
- Plan to move around 1,000 servers to the cloud to improve the efficiency of the on-premises environment
- Utilization as a big data analysis platform also planned

Tsutaya Books Co., Ltd.
- Plan to shift around 1,000 virtual servers to the cloud
- Realized next-generation IT by switching mainly online services to microservices

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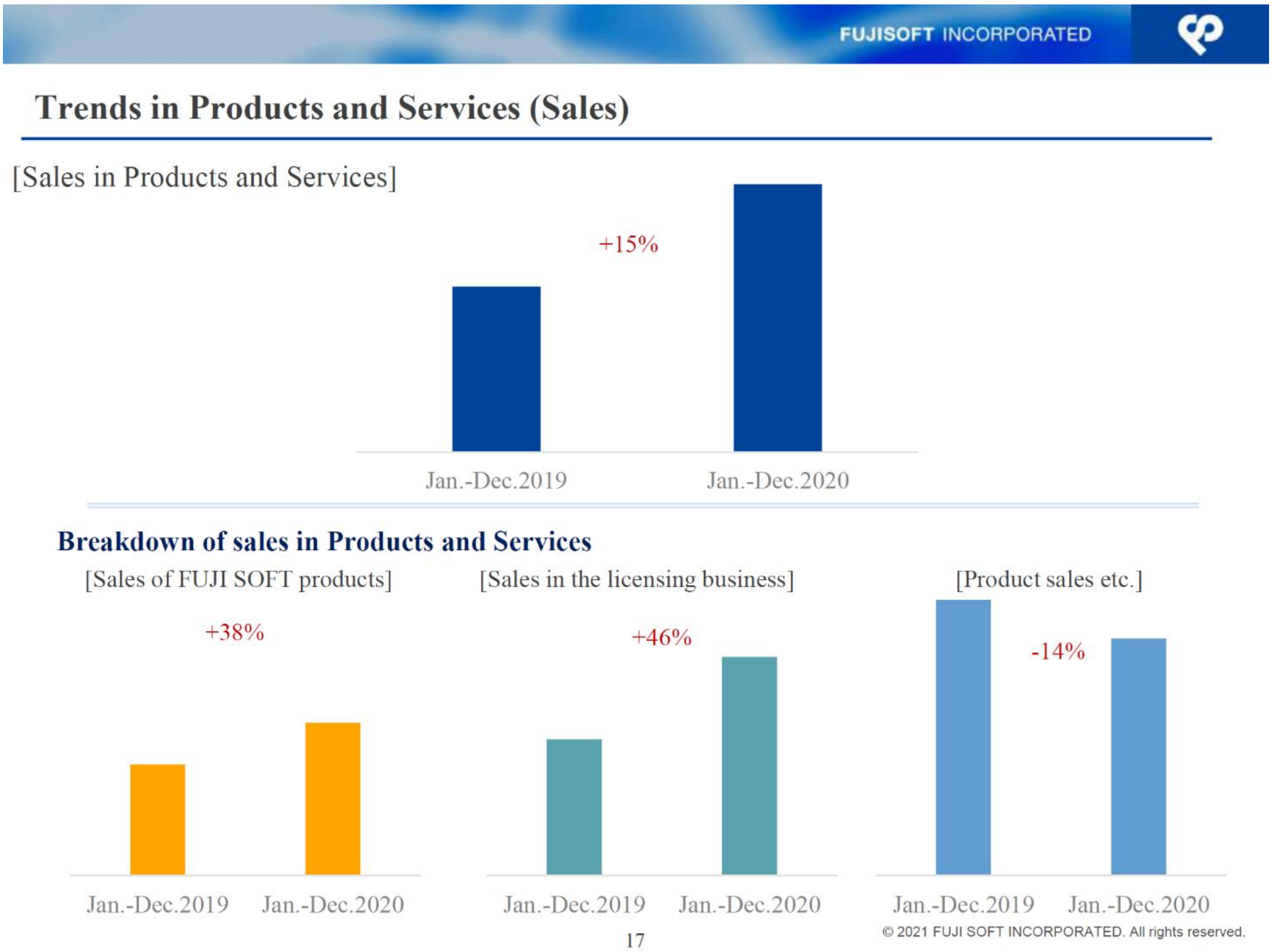
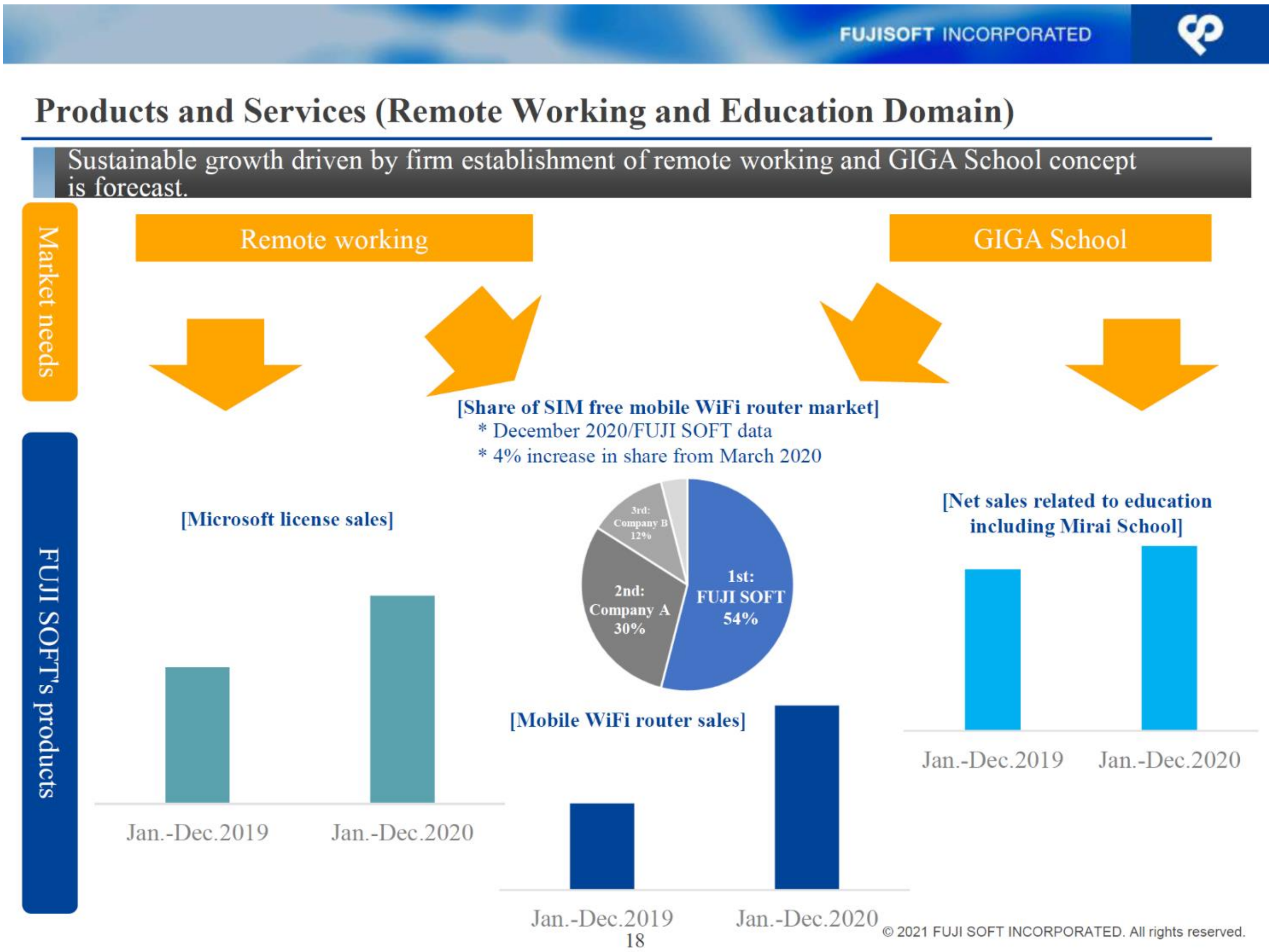
In the area of System Infrastructure, which has been mentioned many times, there were some reservations due to the impact of COVID-19. We are doing well in the digital transformation, trying to promote this cloud computing and virtualization.

Regarding Amazon AWS, a premium consulting partner, we are certified for migration competency and the AWS Well-Architected Partner Program.

This is a growth of 140% on a monetary level and 180% on a customer level. In particular, we have been able to work on a number of large-scale migration projects, including those of TSUMURA & CO. and TSUTAYA BOOKS Co., Ltd., which I have included here.



Products and Services, as a whole, are 15%. In-house products and licenses are growing. Sales of goods have become a little negative in many ways.



In this context, this remote work and GIGA school have had quite a positive impact on us, which is why we are expressing them here.

Now that remote work has become commonplace and Microsoft Teams is often used, sales of Microsoft licenses, or product licenses, are increasing dramatically.

On the other hand, the GIGA School concept involves the distribution of computers to workplaces, while our education-related services and products such as our Mirai School can handle the necessary content and related devices. Accordingly, our Mirai School is growing due to the effect of GIGA School.

Our WiFi products. This is the impact from both. The number of SIM-free mobile routers has increased significantly since the previous year, and our share of the market has also increased, despite COVID-19, and we are in the first place. These products have extremely grown with COVID-19 as the wind at the back.

Impact of COVID-19 and Business Implementation Framework

	2020	2021
Approach	The Company implemented its own countermeasures, prioritizing prevention of transmission, ahead of the government's declaration of a state of emergency.	Whilst assuming that the impact of COVID-19 on economic activity will persist to some extent, the Company will prepare to be able to quickly adapt to any changes in the operating environment.
Communication with customers	The Company encouraged work from home and the taking home of projects from the viewpoint of preventing transmission.	Whilst continuing to encourage remote working, the Company will also actively conduct activities to win orders for onsite projects based on consultation with customers.
Business implementation framework	The Company introduced measures such as work from home and physical attendance during off-peak times. The Company reduced costs through online training and other measures. The Company assessed and reviewed productivity, quality, rules and other aspects of operations.	The Company will ensure that the productivity of employees working from home reaches a certain level and continue to operate with around 30-40% of employees working from home. The Company will build an adaptable framework, allowing fluctuation of the work-from-home rate to 70-80% depending on the rate of infections. The Company will continue to reduce costs through a shift to online recruitment, training and promotional activities, the termination of office lease contracts and other measures.
Promotion of DX (internally)	The Company introduced AI into some of its internal administrative operations. The Company also implemented AI validation and some PoC testing as part of development. The Company applied virtual offices as part of workstyle reforms.	The Company will increase AI use in its value chain, strengthen communication between virtual offices, and harness the IOT to improve productivity, whilst further strengthening security.

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I made a picture that shows a summary on COVID-19, comparing 2020 and 2021.

Regarding the concept, in 2020, we have been taking various measures in advance of the declaration of a state of emergency. From now on, there will be various issues such as COVID-19 and vaccines, but we will proceed with the concept of responding to changes in the business environment on the premise that we will continue to do so to a certain extent.

In terms of communication with customers, although we also have resident work, we have been taking more projects home. We are also moving forward with telecommuting, and in that sense, it would be positive for us both in working from home and on-site, so we would be able to communicate without being affected too much.

Business promotion system includes working at home, off-peak commuting and online training. We can also reduce costs. We have been able to maintain a certain level of productivity and quality while reviewing productivity, quality, and rules, which we considered to be issues.

As written here, telecommuting will continue to be 30% to 40% of the time, but we will develop a flexible environment so that it can be 70% to 80% if the infection spreads. This is not only on the operational side. Usually we run a virtual environment at our data centers, but we have also created a hybrid VDR virtual environment within the Company, which can be used to increase the number of employees who can work from home or remotely at a moment's notice, using the cloud. We have built an environment where our employees can work from home freely and flexibly, and it has already been in operation.

Other than that, we are doing a lot of work online, and we are cutting costs by canceling leased offices that are vacant as people are at home. This is something that has already begun.

We haven't expressed this until now, but we are also working on DX within our Company, not that COVID-19 was a trigger, but we are working on it a lot in this digital transformation trend. We have been working on PoC for using AI in-house or in the development scene since last year.

In this fiscal year, we will use AI in our value chain, enhance the communication in the virtual office space, implement IoT to improve productivity, and also enhance security. This has been covered by several media, but we have created a virtual office where employees can come to work. We are creating an environment where people at home and at work can talk with each other using avatars in a virtual space.

This is how we are working to strengthen communication. We also give out tablets to each employee, so we can use IoT in these areas to use data on the way we work, or we can use the virtual office space I mentioned earlier to increase productivity by converting the way we work into data. This is what we are working on this fiscal year. We are promoting the digitization of the Company as well as of ourselves.

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The Market Environment and Group Initiatives in 2021

Market Environment and Group Initiatives	**Embedded/Control Software**	
	Machinery manufacturing:	Demand will recover as customers' earnings improve and the Company will optimize its business framework on the assumption of a step up in demand for development in 2021.
	Automotive:	With inquiries gradually recovering, a rebound in demand is forecast during 2021. The Company will develop a business framework that enables it to respond quickly to the resumption of projects, including a model based development approach, simulation technology, and CASE-related capabilities.
	Social infrastructure systems:	Demand is strong and the Company will steadily strengthen the business framework on the assumption of continued development demand in the telecommunications domain, including 5G-related projects.
	Operation Software	
	Finance-related businesses:	Recovery of demand in the life insurance and non-life insurance domain is forecast and demand for DX initiatives such as cloud migration are likely to resurface. The Company will step up its solution proposal activities.
	Distribution and service businesses:	Moves to resume investment are emerging and the Company will focus on tapping into demand in domains where growth is expected such as unmanned payment systems.
	Manufacturing:	The Company will resume efforts to tap into potential DX-related needs. System infrastructure & online businesses: Although the market continues to see high growth, some projects have been put on hold. The Company will develop the business framework on the assumption of accelerated business growth on the resumption of projects.
	Public offices:	The Company will actively meet needs related to digital offices.
	Products and Services	
		Expansion in products suited to teleworking and the other aspects of the new normal The Company will capture GIGA School-related demand.

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What the situation is likely to look like given the market environment and other factors are described here.

The embedded/control software and machinery manufacturing industries were very depressed at the beginning of FY2020 due to COVID-19. I think there were some effects of the trade friction between the US and China, but the Chinese market has been revived and the business conditions of our customers are on a recovery track.

It is still unclear how much of an impact this will have on the current fiscal year, but we are optimizing our structure based on the assumption that there will be more development demand than the previous fiscal year. Some people are shifting from the machinery manufacturing industry to other fields, so we are working to improve the system around that.

There is a feeling that inquiries for automobiles are gradually returning, and we expect demand to recover, but we don't know at what pace. In addition to that, we will add model-based development, simulation technology, and CASE-related technologies, as there is no solid demand in these areas. For automobiles, even if something like automatic ECU development is a little slow, we will proceed this term so that we can grow sufficiently.

The area of social infrastructure, such as 5G and telecommunications, will continue to increase while steadily strengthening our systems.

In the financial sector, demand is recovering and the need for DX continues to grow, so I think that we can expand our business in this area, if we respond well.

In distribution and services, there was a bit of restraint in investment due to the impact of COVID-19, but it is reopening. Or, there is a great demand in new retail, and we will be proactive in addressing this area.

The manufacturing industry is also showing a willingness to move forward in DX-related areas. Although the progress may be a little slow, we will proactively expand in this area.

In the areas that we see as growth areas, such as System Infrastructure and the Internet Business, some projects have been affected by COVID-19, but overall, they are growing. There are some themes that have been put on hold, but these projects will be reopened, and we are hoping that the pace of orders will increase. We see it coming up.

As for public agencies and local governments, we are trying to respond positively to the emerging needs related to the Digital Agency.

In terms of products and services, we will further expand the range of products and services, and we will also respond to the current demand.

This is what we are thinking about.

Results Forecasts for FY2021

FY2021

(Million yen)

	FY2020 Results	FY2021 Plan	YoY change (Amount)	YoY change (%)
Net sales	240,953	**249,000**	+8,046	103.3%
Operating income	15,972	**16,300**	+327	102.1%
Operating income margin	6.6%	**6.5%**		
Ordinary income	16,343	**16,900**	+556	103.4%
Ordinary income margin	6.8%	**6.8%**		
Profit attributable to owners of parent	8,573	**8,900**	+326	103.8%
Profit margin attributable to owners of parent	3.6%	**3.6%**		

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As for the full-year earnings forecast, sales are expected to be 103% of the previous year's level, and operating income will be 102%. We have made this consolidated earnings forecast as a promise, and we are determined to fulfill these figures. We have been able to achieve 10% growth for the past several years, and our growth rate for 2020 was a little over 4%, which is over the disclosed value even with the sudden impact of COVID-19.

We will disclose these values as they are, but we will try to be more proactive in our business operations in response to changes in the environment.

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Trends of Dividends and the Plan

Annual dividend of FY2021 is planned to be 50 yen per share.

The Company's basic policy is to pursue the "stable return of profits" whilst ensuring a certain level of retained earnings to aggressively expand business and guard against unexpected risks.

■ Trends in per-share net income, dividend and dividend payout ratio (consolidated)

(Yen)

	FY2017 Results	FY2018 Results	FY2019 Results	FY2020 Results	FY2021 Plan
Per-share net income	185.33	208.22	250.40	273.96	284.40
Dividend per share	33	37	42	46	50
Commemorative dividend	-	-	-	5	-
Dividend payout ratio	17.8%	17.8%	16.8%	18.6%	17.6%

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Dividends. The dividend payout ratio is in line with the forecast of net income. Since we still want to invest in growth, we have decided on a dividend amount of JPY50, based on the same assumed dividend payout ratio as before.

Although the impact of COVID-19 is not yet apparent in some areas, we have been able to increase sales and profits despite the considerable impact on the market. Although the impact of COVID-19 will still continue in the current fiscal year, we would like to develop our business even more aggressively based on the absolute adherence to the business forecast mentioned earlier.

That is all. Thank you very much for your kind attention.

Moderator: This concludes the presentation.