Earnings Announcement
for the First Quarter of the Fiscal Year Ending March 2019
held on August 1, 2018

Principal Questions and Answers

(with certain details modified in an attempt to provide readers with a deeper understanding)

(Note) The expression 'FY/Fiscal Year' utilized in this document indicates a fiscal year which finishes at the end of March of the following year.
Example: The expression of FY 2018 refers to the fiscal year ending March in 2019.)

[Questioner A]

Q :

May I ask how you think of your performance for the first quarter ("Q1") (April to June) of the fiscal year ending March 2019 in light of your progress towards the First Half Plan? Did you feel there were different degrees of strength depending on each segment?

A :

We had Q1 results which were as expected. There were two factors in the first quarter of the previous fiscal year: we made a prior investment in an outsourcing project; and we had strong Product Sales as a result of a large-scale software project for a financial institution.
These have already been factored into our First Half forecast. Thus, we think that these Q1 results are in line with the expected progress that should be made in order to achieve our First Half forecast.

Q :

I would like to know why there was a significant increase in the 'System Services' order amount of Q1. Tell me which business types increased. I think that the 'Outsourcing' order amount seemed small, compared with Q1 of FY2017 when you had posted a long-term project. May I ask about its actual performances?

A :

'System Services' orders generally remained at a high level, regardless of business types. We had projects for financial institutions where orders from Shinkin banks totaled more than ¥1.0 billion, and orders from a mega bank exceeded ¥1.0 billion, as well. Furthermore, our projects for a power company exceeded ¥1.0 billion in total. These increased the 'System Services' order amount.
On the other hand, the 'Outsourcing' order amount reflected a lack of large-scale Outsourcing

orders in this first quarter. This makes a stark contrast with the first quarter of FY2017 where we had posted an order worth slightly less than ¥3.0 billion from a distributor.

Q：
In this summary of your net sales results in the focal areas, you described that the net sales of fee-for-service businesses continued at the same level as the previous Q1. May I ask why no increase occurred?
Also, your description states an increase of ¥0.5 billion in the focal areas' net sales in Q1. What is your take on this Q1 increase, in light of progress that should be made in order to achieve a full-year forecast of ¥8.0 billion increase?

A：
We posted the FY2017 full-year net sales of fee-for-service businesses, approx. ¥6.0 billion. We think that the businesses performed well in this first quarter in order to achieve the net sales of approx. ¥7.0 billion that we aim for in FY2018.
As shown in our presentation material, our electronic payment service businesses have shown signs of growth such as an increase in the types of payment/settlement scheme and the number of affiliated shops. We anticipate that their growth will have an impact only in Q2 or after. In light of this anticipation, we think that the net sales of fee-for-service businesses related to settlement/payment are also almost at the same level as the previous Q1, which is consistent with our expectation.
We have been busy in the area of digital transformation businesses, not fee-for-service businesses, where there are various types of projects such as RPA projects and IoT projects for the manufacturing industry as well as efforts including POCs related to implementing RPA for financial institutions. These projects are numerous in number, but they are still small in size. They will take time before maturing into revenue sources. We expect that they will sequentially bloom in Q2 and Q3.

Q：
I remember your remark that you would raise the operation rate of engineers from 83% in FY2017 to approx. 86% in FY2018. May I ask if the rate has already moderately increased in Q1?

A：
The operation rate in Q1 was approx.84%. It has been making steady progress towards the full-year target of 86%.

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[Questioner B]

Q :

You described that your System Services orders in Q1 were increased due to projects mainly for the financial industry and power industry. I would like to know when delivery and sales posting periods are scheduled to come for those projects.

You had a high level of orders and order backlogs, both in Q1. Tell me how much of them will be posted in Q2.

A :

Those projects will contribute to the sales of FY2018 and FY2019, although they have independent delivery periods. Order backlogs at the end of June which are scheduled to be posted as Q2 net sales increased by approx. 10% year to year. Thus, we think that those projects will highly likely contribute to the First Half net sales plan.

Q :

I would like to know why you had a low-level gross margin of Software business in Q1.

A :

Our in-house developed software products have high gross margins. Sales composition ratios of our own software products and products developed by other companies tend to impact the gross margin of Software business.

In this first quarter under review, we experienced a low-level gross margin as a result of comparatively small percentage of our own software net sales.

Having said that, we have our software sales scheduled in this fiscal year, and thus we expect that the Software gross margin will become settled at an appropriate level for the rest of the fiscal year.