

Nihon Unisys, Ltd.
Earnings Announcement
for the Third Quarter of the Fiscal Year Ending March 2019
held on February 1, 2019

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 :

You had a good flow of System Services orders in Q3 (Oct-Dec).

What projects did you post?

A :

We posted projects for financial institutions and logistics/distribution businesses. They were: approx. ¥1.0 billion projects of creating core-banking systems for shinkin banks; a project worth slightly less than ¥2.0 billion of implementing a test phase for creating an open core-banking system, 'BankVision', for its 11 thbank; and, a ¥1.0 billion project of creating core systems for a logistics/distribution company. These projects were accumulated and eventually helped an increase in orders in Q3.

Q :

May I ask when you plan to post net sales of those projects?

A :

We plan to post most of the net sales in the next fiscal year.

Q :

I know that your service-type Outsourcing business has not grown large in Q3 yet despite your focus. It seems that your conventional-type Outsourcing services have begun to serve and thus have contributed to an increase in net sales and income/profit. There was a decrease in Outsourcing order backlogs at the end of Q3. May I ask about the amount of net sales that you plan to post in the next fiscal year?

A :

We expect an increase of approx.¥5.0 billion to ¥6.0 billion in the net sales of the entire Outsourcing in the next fiscal year. This increase will be partly attributable to our expectation that some of our focal businesses in preparation will be posted as service-type Outsourcing businesses in the future. For your reference, we expect an increase of approx.¥1.0 billion in the fee-for-service business in the current fiscal year. We think that the business will continue to increase approximately at the same rate in the future.

Q :

I remember that you admitted that it would take time to increase the fee-for-service business on the occasion of your summarizing your 1H performance. May I ask about the actual situation?

A :

We had approx.¥3.0 billion net sales of the fee-for-service business in the first half. The business is now slightly less than ¥5.0 billion. We anticipate that its full-year net sales will be approx.¥7.0 billion.

[Questioner B]

Q :

You said that you experienced unprofitability in the third quarter. Despite the unprofitability, you significantly improved the gross margin of System Services compared with the same period of the previous fiscal year. May I ask if you posted one-time highly profitable projects?

A :

The increase was enabled not as a result of posting highly profitable projects. Rather, it was attributable to impacts of accumulated efforts to improve productivity as indicated in the previous mid-term management plan. Such efforts include reuse of internal knowledge and expertise, standardization, and componentization. These efforts eventually contributed to a decrease in costs and strengthened profitability of System Services.

Q :

You mentioned that you suffered the underperforming operation for the first time in the four years. May I ask about causes?

A :

The unprofitability in Q3 was experienced in a phase of a project to re-create applications in order to enable our long-standing mainframe customer to operate open-source oriented mission-critical systems. The challenge was to do with a renovation of systems that were developed by the customer. In this project phase, we were expected to comply with their existing systems. Thus, our risk management systems did not operate effectively for this special project. Thus, the project phase was not profitable.

Q :

You referred to measures to increase the System Services profitability. Can we expect a continued gradual increase in the business despite swinging back and forth from quarter to quarter?

A :

We have been making efforts to increase productivity in order to improve profitability. If we take into consideration the fact that we have enabled many improvements in the past three to four years, we do not see much potential for a further dramatic increase in productivity and a significant increase in profitability in the future.

Q :

There was a decrease in Software net sales and gross profit in Q3 compared with the same period of the previous fiscal year. Please share with us the reasons why Software alone made a low performance in the favorable business environment.

A :

Software net sales and gross profit in this third quarter showed a decrease when compared with the same quarter of the previous fiscal year. Relatively highly profitable but not expensive projects were posted in Q3 FY2017. However, we have had a lack of such projects in this quarter. Software profitability is varied depending on the mix of products. We expect a continuing increase in Software businesses for financial institutions' branch offices and informational systems, and thus we can ensure a profitability of a certain percentage or more. Also, let me refer to our planned decrease in the Software full-year net sales and gross profit. We made this plan by considering that we posted multiple highly profitable mid-size projects in the previous fiscal year. The expected decrease is not due to changes in the order trends.

Q :

It seems that your focal areas' businesses have been making weak progresses on net sales up to Q3. May I ask if you have established your planned growth towards the ¥35.0 billion full-year plan? You explained that you plan to increase ¥1.0 billion in the fee-for-service business during this fiscal year. Please tell us about the progress of your planned increase.

A :

Net sales of the fee-for-service businesses such as QR and bar code payment/settlement services has increased, as planned. We also expect an increase in the net sales of all focal areas in Q4. The increase will be enabled in Q4 when AI-related product sales of slightly less than ¥2.0 billion and projects related to IoT and work style reforms are expected.

[Questioner C]

Q :

Net sales of the focal areas in Q3 were at the same level as of Q3 FY2017. Did the businesses generally fail to increase? Or, is it because an increase in the net sales of some businesses was offset by a decrease in others?

A :

Net sales of the focal areas in Q3 mainly consisted of an accumulation of small-size projects. Positive numbers and negative numbers of the projects' net sales evened out. As a result, the net sales in Q3 stayed the same as Q3 of the previous fiscal year. There was no significant increase or decrease in net sales of the projects. Generally speaking, various project operations have been witnessed in the areas related to digital transformation.

Q :

You mentioned that more businesses of the focal areas would exceed break-even points, and thus you would expect an increase in productivity in the future, on the previous occasion of your summarizing the first half performance. May I ask about the situation as of now?

A :

We are now in the period where we are sowing seeds of business through proof of concept (POC) tests. Thus, we do not have many opportunities where we can witness any short-term significant increases in profitability in the fiscal year. However, we expect that some of the business seeds that we are sowing and growing will be promising in the next fiscal year. Some projects do not enable net sales due to legal restrictions. Upon a deregulation, they are expected to contribute to an increase in net sales.

[Questioner D]

Q :

You had a good flow of System Services orders in Q3. May I ask about your expectations of these System Services orders?

A :

Basically speaking, we had the orders as we expected. In other words, we received orders on a timely basis as we had expected and as a result of having made business preparations.

(Note)

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