Earnings Announcement
for the First Quarter of the Fiscal Year Ending March 2020
held on August 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 FY2019 refers to the fiscal year ending March in 2020.)

[Questioner A]

Q :

You made a significant increase in the gross profit of system services in the first quarter (Q1). Is it due to an improvement of operation rate of engineers, impacts of project mix, contributions by digital transformation (DX) related projects, or else? Please tell us about the reason(s) for the increase.

A :

The operation rate of engineers was 86% in Q1 (against 84% in Q1 FY2018).
We assume an 86% full-year operation rate in this fiscal year. Thus, our engineers are operating at their full capacity from the viewpoint of this assumption.

The gross margin of system services in Q1 was extremely high, 32%. The key reasons are a high operation rate of system engineers as well as our efforts to implement productivity improvement measures beginning to show effects slowly but steadily every year for the past few years.

With respect to your reference to DX projects contributing to gross margin, the gross margin of DX projects was not so different from that of ICT core area projects in Q1. A broad range of DX and ICT core area projects deal partly with financial institutions and logistics/distribution businesses, and the projects evenly include comparatively highly profitable projects.

Q :

May I ask if you have made progress in increasing affiliated shops for your QR and bar code payment/settlement business through a business alliance with JCB, as you planned?

A :

Although we are slightly behind our initial assumption, we have been making efforts to increase affiliated shops. We expect that we will see our efforts to bear fruit in the second half (H2) or thereafter.

Q :

Your fee-for-service type business net sales remained almost the same level in Q1 as before. Thus, the business sales seem slightly weak from the viewpoint of your full-year plan. Please tell us how you foresee your second quarter and thereafter.

A :

We anticipate an approx. ¥1.0 billion increase in the fee-for-service type business net sales for this full fiscal year in comparison with ¥7.0 billion in the previous fiscal year. The net sales were almost unchanged from Q1 FY2018. However, we now see a steady increase in QR and bar code payment/settlement businesses and mobility-related businesses, and so we would like to promote the businesses with an eye to achieving our full-year net sales target value.

Q :

I remember that you posted highly profitable software and hardware projects in the second quarter (Q2) of the previous fiscal year. In a case where you cannot expect such a posting again in Q2 of this fiscal year, you may suffer a decrease on a year-to-year comparison. I presume that you have already included the possibility in your Q2 forecast. In this connection, may I ask about a ¥1.1 billion decrease in the gross profit of product sales that you foresee in Q2 this year? Is the decrease mostly attributable to this anticipation of yours?

Also, you forecast an increase in gross margin in Q2 despite impacts of the decrease. May I ask why?

A :

We had approx. ¥1.5 billion sales of highly profitable mainframe products in Q2 of the previous fiscal year. We do not expect such sales in Q2 this year. In other words, this lack is the key reason for the decrease forecast in product sales.

We experienced a significantly small gross margin of software product sales in Q1, due to the fact that we sold software products many of which were developed by other companies. We expect an improvement of gross margin in Q2 partly owing to increasing our own products sales. Products net sales in Q2 may slightly beat our conservative forecast. If the actual beats the forecast, the entire gross margin may eventually reach our standard level.

[Questioner B]

Q :

May I ask you to summarize your Q1 performance from the viewpoint of your internal plan?

A :

A sale of AI-related large-scale products (worth over ¥2.0 billion in total for hardware products and software products) was posted in June, although we assumed that it would be posted in Q2. The sale enabled net sales to outperform our expectation. This sale consisted mainly of hardware product sales which had small impacts on profit. Eventually, however, operating income slightly outperformed our internal expectation, owing to an improved system services profitability which was bolstered by the system services productivity as we had expected since the beginning of this fiscal year.

Q :

You referred to an improvement of system services profitability. May I safely expect that the strong system services profitability will continue in Q2 and thereafter, partly due to significantly accumulated order backlogs?

A :

System services have remained strong since the previous period. We do not foresee any big changes in the system services situation, from the viewpoint of the current order environment and order backlog situations. Also, we have seen a high operation rate of engineers. Thus, we think that we will continue to see highly productive system services as we do now.

Q :

You indicate that the system services profitability in Q1 slightly outperformed your forecast. Your table reads that your Q2 forecast values are given if the Q1 actual values are deducted from the H1 plan values. May I correctly assume that you are now making steady business progress and throwing in something extra?

A :

Order backlogs increased compared with Q1 of FY2018. Thus, we think that the increase will drive an increase in net sales on a year-to-year comparison. Furthermore, we expect that an improved system services productivity will continue to bolster gross margin.

Specifically, we expect the gross profit of system services in Q2 to increase by ¥0.6 billion and even more, depending on the situations.