

Earnings Announcement
for the Third Quarter of the Fiscal Year Ending March 2021
held on February 2, 2021

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 FY2020 refers to the fiscal year ending March in 2021.)

[Questioner A]

Q : Orders continuously increased from Q2 (Jul-Sep period) to Q3 (Oct-Dec period). However, sales are slow in reflecting the increase. May I ask why?

A : Orders partly consist of an accumulation of long-term outsourcing projects. The orders are not translated immediately into sales.

Q : Don't you have any orders that you were awarded and then have been postponed by customers? Or, don't you have projects that have not made progress as expected?

A : We have not heard of any postponements of orders that we have already received.

Q : You described that your fee-for-service businesses increased. May I ask about sales record and year-over-year changes?

A : Fee-for-service business sales were slightly less than ¥5.0 billion for Q3 of the previous fiscal year on an accumulated basis. The cumulative sales total for Q3 of this fiscal year is ¥5.5 billion approx.

Q : Your company has operated a business to serve regional banks through a system of joint use. How much is the portion of the stable income of the business?

A : It is ¥10.0 billion per year approx.

Q : The software sales in Q3 decreased by ¥0.8 billion from Q3 of FY2019. May I ask why?

A : We posted a relatively large-scale mainframe project in Q3 of FY2019. Posting the highly profitable project was impactful in making the year-over-year comparison.

[Questioner B]

Q : You received an order for outsourcing project in Q3. I would like to ask you to summarize the project. When will you begin posting sales?

A : We were awarded an order of large-scale project of Shinkin-bank core-banking system service and a large-scale project for the distribution industry in Q3. We plan to begin to post sales from the Shinkin bank project in 2023. The distribution industry project is a system renewal project. We have already begun to post sales in 2020.

Q : The increase in sales of the fiscal year under review was partly enabled by outsourcing sales. What outsourcing businesses contributed?

A : BankVision, a core-banking outsourcing service for financial institutions including its 11th bank, and fee-for-service businesses such as Value Card conducted to an increase in the Outsourcing sales.

Q : At what pace do you expect that your outsourcing business will grow in the next fiscal year?

A : Orders for outsourcing projects scheduled to begin system operation in the next fiscal year have been accumulating. Thus, we expect that the business will grow at the same pace as of this fiscal year.

Q : I would like to ask you to give me a sense of size of GIGA School Program projects.

A : The GIGA School project orders and sales in H1 were approx.¥3.0 billion, each. In Q3, we received approx. ¥5.0 billion orders and posted approx.¥1.0 billion sales. Rest of the orders that we were awarded in Q3 are planned to be posted as sales in Q4. The project deals with hardware, and so it has a relatively small margin.

[Questioner C]

Q : You posted orders for two large-scale outsourcing projects in Q3. Are those orders from your existing customers, or new customers?

A : The two projects total approx.¥7.0 billion, both for our existing customers.

Q : The system services full-year sales forecast is a downward revision value of the planned value at the beginning of this fiscal year. Orders decreased as well in Q3. I would like to know background situations. I remember that I was explained that enquiries were returning relatively slowly in Q2. Have there been any changes in the situations?

A : The DX business area has been relatively strong. However, the situations until Q2 have been continuing in ICT Core Areas. We have seen a decrease in the small and mid-sized projects, partly due to postponements of revisions of existing systems according to our analysis. Also, some companies are keen on cost control and postpone due to significant impacts by the COVID-19 pandemic.

Q : In what industries have you witnessed project postponements and difficult situations about investment, according to your results until Q3? Also, do you expect what curve your business recovery will draw in Q4 and the next fiscal year onwards?

A : Public projects, part of manufacturing businesses, as well as industries such as aviation and entertainment suffer from severe conditions. We expect that the situations will continue for some time in the future, although it is so difficult to foresee the future. We need to respond by taking appropriate measures. We are thinking about measures such as the one to shift resources to projects for industries where businesses are relatively moderately impacted in the midst of the Pandemic.

[Questioner D]

Q : May I ask for your thoughts about the progress of sales record that you made cumulatively until Q3 in comparison with your internal plan?

A : We were forced to revise our original internal plan significantly downward due to the COVID-19 pandemic. The progress comparison depends on the internal plan at which point in time. We did not expect that this many small and mid-sized projects of system services would be postponed. We had planned to shift some system services projects to outsourcing services after finishing system development. This is as we expected.

Q : You will need to proceed with acceptance inspection in the midst of the COVID-19 pandemic and post a reasonable amount of sales in Q4. Don't you have concerns about performing the duties?

A : We do not expect that we will be put in situations in Q4 where we cannot execute contracts although we intend to execute contracts, as in April and May last year.

Q : Mr. Hiraoka, CEO said when he briefed us on the results of Q1 that if necessary he would take cost-control measures in order to achieve planned values of full-year profit margin and profit. May I ask what efforts you have been taking in order to reduce costs?

A : We have been reviewing all costs. The cumulative results of Q3 showed an increase in security-related costs and R&D costs. These costs are related to our future development. Our cost-control measures that we have already taken will be effective slightly slowly. The measures will begin to be effective in Q4.

Q : I would like to know any forecasts that you can share with us at this point in time about the next fiscal year and the next mid-term management plan.

A : We have been deliberating on the next mid-term management plan through internal repeated discussions. We do not have any numerical data that we can share with you.

[Questioner E]

Q : It is mentioned that you were awarded two large-scale outsourcing projects in Q3. The two projects were to renew existing systems for existing customers. Is the project amount increasing compared with the previous contracts? I would like to know whether the projects will contribute to an increase in sales when their sales begin to be posted.

A : We think that the project for a financial institution will conduce to an increase in sales. We have not seen major changes in the project size for the distribution industry.

Q : Do you have any outsourcing projects that you can expect to win in Q4? Large-scale projects were posted in Q4 of FY2019. I would like to know if the posting may be impactful when we make a year-over-year comparison for Q4.

A : We are not sure at this point in time. We have a pipeline of large-scale project right now. However, it is up to our customer whether or not we are awarded that project in Q4.

Q : I would like to know the situations of QR code settlement business, part of fee-for-service businesses.

A : Our payment/settlement business related to inbound tourism has been decreasing due to the COVID-19 pandemic. However, demands for the domestic payment/settlement service has been increasing even after a point-refund campaign finished in the previous period.

(Note)

Forecasts in this document rely on judgments and assumptions based on information available at present. Actual results may differ from the forecasts due to changes in risks, uncertainties, economy and other factors. Thus, the certainty of these forecast is not guaranteed by our Group. Also, the information is subject to change without prior notice in future. Information in this document is intended to provide further understanding of Nihon Unisys, Ltd. and is not intended to solicit investment. This Company shall not be held responsible for any damages whatsoever incurred as a result of utilizing the information provided in this document.