

Earnings Announcement for the Second Quarter of the Fiscal Year Ending March 2018 held on November 6, 2017

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 2017 refers to the fiscal year ending March in 2018.)

[Questioner A]

Q :

Looking back on the first quarter (Q1), net sales remained at the same level in Q1 of the previous fiscal year, and operating income increased by 15% from the previous Q1.

Q2 witnessed a 6% increase in net sales and a 41% increase in operating income. We are enquiring about the reasons for the drastic increases.

A :

Software businesses contributed much in Q2 as they did in Q1. A large-scale mainframe project was posted in Q1. In Q2, the net sales of our in-house-developed customer interaction software and informational system software totaled approx. ¥1.0 billion. Also, a project in cooperation with a telecommunications carrier enabled us to post approx. ¥1.0 billion net sales of hardware and software.

Furthermore, there were other contributing factors from outsourcing businesses that enabled strong net sales in Q2. They include a service launch of BankVision (core-banking system for regional banks) in May 2017 as well as a core-banking system beginning to serve a Shinkin bank in January.

Q :

The plan announced in the beginning of the fiscal year forecasted a ¥1.2 billion increase in operating income in the second half (2H) compared with 2H of the previous fiscal year.

The Q2 forecast predicts that the operating income of 2H will remain the same as the year-before period.

May I ask if Nihon Unisys has any specific factors such as ahead of schedule posting of any projects that should have been posted in 2H?

(Note)

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A :

We did not have any large-scale projects posted ahead of schedule in the first half. We achieved the result beating the forecast as a result of cruise-speed performance in the first half. The result is partly attributable to posting highly profitable projects.

We have not incorporated any specific factors capable of negatively impacting profits in the second half. We forecast an increase in gross profit compared with the corresponding period of the previous fiscal year.

It is noteworthy, however, that a new outsourcing project of BankVision was posted in the previous period. Again, in this period, a new project is expected. However, it has not been confirmed as yet.

If we revisit end of September order backlogs, we witness that more of them are scheduled to be posted as net sales before the end of the fiscal year than Q2 of FY2016. Thus, we see a continuingly strong bigger picture, orders and order backlogs both.

Having this recognition, we are aware of new types of businesses such as those in service provision sector. They are growing. And, they are not easy subjects for numerical forecasts, compared with conventional types of businesses. Thus, we are revising our second half forecast to reflect those risk factors.

Q :

What is the main cause for a decrease in SG&A costs in the first half (by ¥0.4 billion compared with 1H of FY2016)?

Will the costs continue to experience this downward trend?

A :

Small sales support costs and R&D costs drove down SG&A costs in the first half.

Sales support costs are susceptible to accrual timing. They are expected to increase by approx. ¥0.3 billion in the second half compared with H2 of FY2016. R&D costs are expected to increase by approx. ¥0.4 billion in 2H (or, remain at the same level as FY2016 on a full-year basis), due to an increase mainly in proof-of-concept (POC). Finally, these factors are reflected in our full-year SG&A costs plan. It notes a ¥1.1 billion increase, compared with FY2016.

Q :

The employee number continues to decrease. May I ask if the decrease impacts SG&A costs and the cost of goods?

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A :

Numerical expressions do not entirely reflect impacts of a reduced workforce as expected. Less personnel costs enabled by the smaller workforce are neutralized by an increase in bonuses which are linked to performance as we enacted. Thus, our personnel costs in total have not fluctuated significantly.

Q :

Some question about the necessity of payment/settlement platforms in the future when payment/settlement will be enabled among consumers due to the advent of virtual currencies such as MUFG coins and J-Coins issued mainly by megabanks. May I ask for your views about this movement?

A :

We think that Japan will undoubtedly become a further cashless society. Credit card used to be the key payment instrument in coordination with bank account. Recently, however, a pre-paid type of electronic money that we deal with has become popular. It is an e-money that does not link to bank accounts and thus requires no credit management, and therefore has become popular.

We think that consumers will select from various types of payment services their choices that may suit individual usage situations or tastes.

It is worthy to mention that as online purchasing becomes a norm, ensuring protection of consumers' payment information rather than administering credit should be prioritized. In that environment, payment instruments of low risk such as prepaid cards and virtual currencies would constitute part of the future's widely used payment services.

Furthermore, we expect that more non-Japanese visitors will express their desire of using e-money devices from their own countries in Japan. We have already responded to this request by providing business operators with a service that enables payment/settlement through the use of simple bar codes without installing reading devices anew. We think that further demands can be expected of this service in such an environment where payment instruments are becoming further varied.

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[Questioner B]

Q :

There was a BankVision development project that had been postponed from Q1. It has been reported that Nihon Unisys was given the order for the development project from BankVision's 11th bank as scheduled in the second quarter. May I ask how much in contributions the order made? Also, it has been reported that Nihon Unisys created strong in-house developed software businesses in Q2. Did the Company post any of the software businesses that had not been scheduled?

A :

We announced that an order for BankVision development project for its 11th bank had been postponed. It was worth approx.¥3.0 billion at the end of Q1. We received an order worth approx.¥2.0 billion out of the amount in Q2. An order for the rest will probably be posted in Q4.

Orders for our in-house developed software products had not been scheduled.

Q :

Nihon Unisys has not revised its full-year operating income forecast. However, the gross profit forecast breakdown by segment at the beginning of the period has been revised. Notably, the outsourcing gross profit forecast has been revised downward by ¥1.0 billion compared with the forecast value at the beginning of the period. Can I ask why?

A :

We made a downward adjustment to the full-year outsourcing plan. The revision now reflects the current accumulations of new businesses. Also, we expect an accrual of costs such as those for sales promotion and server enhancements in order to increase further our Value Card business.

Q :

I have revisited a comment made during the Q1 performance briefing explaining that a prior investment had been made in order to make preparations for launching an outsourcing service, and the cost would be recovered in Q4 and thereafter. May I ask whether or not Nihon Unisys has revised the plan at this point in time?

A :

No, we have not revised the plan.

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Q :

Digital innovation net sales significantly increased in Q2. They are expected to increase further in the second half. May I ask what types of businesses have currently been growing and can be expected to grow further in the future?

A :

We anticipate a further increase in our payment/settlement services as we envisage a cashless society.

Our 2H performance will partly depend on the acceptance level of the cashless scheme in Japan.

Thus, we have had an expected increase in our services interpreted into growth indicators such as growth tendencies in the past. It has been reflected in our 2H performance forecast.

Furthermore, we have steadily received enquiries mainly about our customer interaction solutions specialized for the financial and distribution industries. They will continue to grow in 2H.

Many of our customers have strengthened their efforts to enable digital transformation. Thus, we expect an increase in projects of IoT, AI, robotics, and RPA areas in 2H and thereafter, although they are now of small scale at the stage of POC.

Q :

May I ask if your Alipay business has begun as expected?

A :

The key for our Alipay business is the number of stores where the Alipay scheme is enabled. The stewardship by stores has steadily expanded, as witnessed in the case of a volume-sales electronics retailer. The Alipay payment scheme will be available for all stores of that retailer from the summer of 2017. We occupy the largest market share providing Alipay services in Japan.

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