System Integrator Corporation
Financial Results Briefing for the Fiscal Year Ended February 2019

April 26, 2019
Event Summary

[Company Name]  System Integrator Corporation
[Event Type]  Earnings Announcement
[Event Name]  Financial Results Briefing for the Fiscal Year Ended February 2019
[Fiscal Period]  FY2018 Annual
[Date]  April 26, 2019
[Number of Pages]  35
[Time]  10:00 – 11:05
(Total: 65 minutes, Presentation: 47 minutes, Q&A: 18 minutes)
[Venue]  Tokyo Shoken Kaikan 9F
1-5-8 Nihonbashi Kayabacho, Chuo-ku, Tokyo 103-0025
[Venue Size]  66 m²
[Participants]  40
[Number of Speakers]  1
Hiroyuki Umeda  President CEO
Umeda: Good morning. Now, I will start the financial results briefing. Thank you.

Since there are people who are here for the first time, I would like to begin with an overview of the company. We are a company founded by three people in 1995. Revenues exceeded 4 billion for the first time in the current fiscal year. This was the first time to have a total of 200 employees including all executives and employees. We are seeing a steady growth in the company.

This is our 25th year, but we have been creating software products and selling them to the world for 24 years.
This is our business domains. As I have just said, packaged software. Today, times have changed, and in addition to making and selling packaged software, we provide cloud services since there are many more needs in the world now. We are mainly doing this regarding new products.

In Japan, few companies are working in this area, and according to this statistic here, the ratio is 9%. With the majority of companies engaged in outsourced development and resident dispatch businesses, we believe it is better to compete with products.
With regard to the trend of business results since the founding of the company, as described from the first term, the blue is sales and the red is ordinary profit. Until the 19th fiscal period, there were ups and downs, but in the 20th fiscal period, there was an extremely difficult project with a loss of 1 billion yen. We have suffered a big loss, but I believe that although we suffer some losses, we have been steadily growing with sales and profits reaching record highs in the next fiscal year.

It is a matter of course that the economy has been in good condition for six to seven years now. Against this backdrop, the 24th fiscal year marked record-high sales and profits for the second consecutive year. As I wrote in the previous news release of the Medium-Term Management Plan, we have a fairly positive outlook. I believe that the Mid-Term Management Plan for the 24th, 25th, and 26th Fiscal Years will be quite successful and that we are now entering a new growth stage. When the economy suddenly changes again, I anticipate that we will not be able to say such an optimistic thing, but we have various plans in place, and I recognize that we are now entering a growth phase.
This is a summary of the financial results for the fiscal year ending February, 2019. Sales rose 7.9%. Ordinary profit increased 12.3% for the second consecutive year. Net income was a little inflated by a special factor in this period, so there was a slight up and down here. I would like to explain this a little later.

For the fiscal year ending February 2020, we expect sales to increase by 13.1% now. Ordinary profit is 8.1% on the other hand, which is expected to be a little lower.

Rate of increase for net income has been negative here, but this is a special factor only for one year as mentioned earlier. I believe that we are steadily growing if we view it from the big picture, so we hope you will see it as so too.
This shows the change in net profits I just explained. The left-most is the net profit of the previous fiscal year compared to the 240 million yen of gross profit. Under the good economy and our good performance, this number will become positive with our ordinary operations.

On the other hand, in the previous fiscal year, we had a lot of selling, general and administrative (SG&A) expenses, which are in line with the medium-term management plan and are broken down here. Personnel, R&D, and advertising expenses are important factors that will contribute to the future of the business.

We have also formulated a policy of educating and hiring employees and spending more money on them during this fiscal year. In addition, AI-centered R&D was positive, adding 23 million yen to normal R&D. Please understand this increase as a breakdown. The rest consist of advertising and recruitment expenses. This is about 100 million yen, which is about 200 million yen more than ordinary SG&A expenses.

There is also settlement money. I asked for mediation of the project with the large deficit four years ago, but we reluctantly had to pay. We paid 145 million yen. There was a tax benefit of refunding all the taxes paid in the past to for our losses, as the entire settlement was finalized. As a result, net income has risen dramatically.
Performance by business segment is as follows. One of our business segments is Japan's first e-commerce package business established in our first year since our founding. This is called the "EC Omni-Channel Business". Then, the Object Browser segment was created a year later though the products were created before EC Omni-Channel. Improving productivity for work style reforms has recently become a keyword, and we have been introducing a series of tools to raise productivity in the IT industry. This is the second pillar that has been growing steadily over the last 20 years. We have created a Web version of ERP a dozen years ago and are doing business based on it. This is the ERP business, and we are doing this with these three pillars.

In our case, a distinctive feature of our company is the provision of packages and cloud services. There are a number of companies that have been successful in specializing in a single product. However, I believe that we are doing something like Japanese electrical machinery companies, which continued to make new products based on the needs of the times. I envision such software versions. We are introducing the new TOPSIC and AI businesses.

Nevertheless, new businesses will always start with upfront investments. In the previous fiscal year, we invested 62 million yen, including R&D expenses, and in the current fiscal year we invested 138 million yen. We are doing business in a cycle of generating profits from our existing businesses and investing in new businesses.
This is a graph showing not only sales but also profits for each of the three segments. The outer circle show sales. The ERP business accounts for 63.6% of total sales which is quite big. ERP takes a lot of labor. For example, one project of 300 million yen takes one year and a half to deliver GRANDIT packages to one customer. There are also projects of 500 million yen running for one year and eight months. Multiple projects are running at the same time. This is the ERP business. The sales are large, and the percentage of our people is also quite large.

This is why it takes more labor in terms of profitability in this business. The operating profit accounts for 30.2% of our total operating profit. As for EC, we have successfully taken advantage of our position as Japan’s first EC package. Both sales and profits are about 20% of our total.

That leaves us with Object Browser. We either sell the actual package or let customers use it through cloud. This is a business that is not too labor-intensive. In fact, this accounts for about the half of the profit.

People often tell us that we are a company which has a competitive advantage in ERP when they look at our sales, but in fact, Object Browser is really making the profit.

Nevertheless, for both ERP and EC, we are a company that is based on ordinary packages. Compared to entrusted development, they are much more profitable. I believe this plays a sufficient role to a certain extent.

Our challenge has been to increase the stock conversion rate since about a decade. This is our weakest area, and EC and ERP are very large projects for each project. Even so, ERP still accounts for 21.4%, even though it is much higher than it was in the beginning. Since Object Browser is based on cloud and maintenance contract,
it has been increasing and has now reached about 40%. Approximately 24% of the company is converted to stock. The percentage of stock businesses.

For the share of this stock business, we are trying to see how stable this number will be when the economic recession does come in the future. We hope it will become higher. We have a sense of danger because if a big tsunami comes, we will be impacted, but we hope it will continue to rise little by little.

8-1. EC事業の売上高・営業利益推移

E-Commerce事業（ECオムニチャネル事業）

Here are the comparisons for three fiscal years of each business. The light blue on the left represents the 23rd fiscal year, the blue is the previous 24th year, and the 25th year is the plan for the current fiscal year. The upper row shows sales and the lower row shows operating profit. EC is increasing steadily. The EC business is actually our original and first business. However, a majority of the e-commerce market has seen a red ocean, and there was a time when it temporarily declined. But in the last three to four years, it has finally returned and is now entering a new phase of growth. It is difficult but we are working on this.

The operating profit at the bottom shows our plan for the current fiscal year, and it shows a slight decline. As a president, I believe this is been done so as a part of the plan. The profit margin seemed too high in the previous fiscal year.
The second is the ERP business. In the ERP business, sales and profits are expected to grow steadily. Our policy is that if existing businesses grow steadily from year to year, they will become big by the time we realize it. We hope to reach two digits and even higher, but may sometimes see around 8 to 9%. This is how this business is operated today.
The third is the Object Browser business. Both sales and profits are expected to grow steadily. I mentioned earlier about the new medium-term management plan, which is now in a new growth phase. I believe that each business and existing businesses will grow steadily in this fiscal year.
Regarding other sales and profits, the top shows our new business that is currently seeing sales, which is a programming skills test service, TOPSIC. I will explain this later, but it just started in January last year, and this is in the blue. For the cloud business, it will accumulate in a cumulative format, so I think this will turn out to be quite surprising in three, four, and five years. This is still in the second year, but we are steadily moving toward a growth curve. I feel that this will probably become our fourth business. In the current fiscal year, we are targeting sales of around 30 million.

The operating losses at the bottom are not related to the development of this TOPSIC, but rather to the R&D expenses of the AI business. Personnel expenses for AI workers accounts for most of this. So far for AI, I feel that a lot of research investments are made today and is in the really upfront investment phase.
Here is our balance sheet. When we had a loss of 1 billion yen, our cash and cash equivalents decreased considerably. However, we have steadily accumulated cash and cash equivalents have reached a record high. For the allowance for loss on orders and work in process marked in red, the work in progress was 1.1 billion until the previous fiscal year while the allowance for loss on orders was about 1 billion. These had been reported until the loss-making project that arose four years ago was settled. We got these numbers here and finally a balance sheet with no scars since the project has finally been settled.
Here is the Mid-Term Management Plan. This is Break2018. “Break” may not be a nice word. Two years ago, in a speech I gave for employees at the beginning of the year, I talked about going with the stance of breaking the tradition. Japanese have the virtue of humility and tend to be protective. But this is also the bad part of the Japanese people as they have been doing so for a long time. That’s why I have said to keep the breaking of the tradition in mind. We are doing a lot of things. I would like to add this to our medium-term management plan, and this is why I have named it Break2018.

The first is expansion of existing businesses. As mentioned earlier, this is in a steady growth phase.

The second is the establishment and settlement of overseas bases. We are now hiring a lot of Vietnamese people. There will be sevenx this year. If we build a unit of Vietnamese people of 10 or 20 people, we would become powerful. This would be harder if done in a sporadic matter. We are adopting a policy of making this our power by creating a unit.

The bases will be for when a portion of the unit starts to feel like returning home in five years or so. Or we can circulate them while building a development power in Vietnam. We are working on building a base for these reasons. Last year, we saw a lot of progress so I hope we can establish a base around this year.

Third is the establishment of AI businesses that are extremely important to our future. We are working on AI and RPA. This will be explained later.

The fourth point is to improve our employees’ skills. We are expanding investments in educational programs. As the slide mentions the utilization of TOPSIC, a software company is all about human resources. However,
many companies do not study much even so, which is a problem in Japan today. I was saying such a thing, but when I thought about our company, I thought it was still not enough.

Two years ago, I had drastically implemented educational plans, educational policies, and so on. It’s not about what you have to do for education, but it’s about determining what kinds of results will be made. I made several structured plans, such as doing follow-ups afterwards. I am quite aware of the top-down need to invest money heavily. I believe that the effects on this area have been considerable.

To be the top domestic company in terms of rationalization comes for our fifth point. We are currently talking about improving productivity, but we have been doing a lot of this for some time, but we have not yet reached 100% or so. We are working on rationalization by the GRANDIT of ERPs and using OBPM of managing projects through Amazon cloud by using RPAs in-house.

As a result, the amount of overtime work hours for employees is declining year by year. Taking into account the growth in sales and other factors mentioned above, I believe that productivity has increased considerably. So far, we have reached a place where I can feel a lot of enthusiasm. I feel that we are now working as a model company to increase the degree of completeness and propose this to our customers.

For this reason, the Mid-Term Management Plan is now in its second year, and is showing good progress. The result of AI business is still uncertain, and there are some areas that have yet to be finally decided on in Vietnam, but this is the progress.
These are the performance targets of the medium-term management plan. In 2018, we have actually made investments even though it was as a low-growth investment year under our plan. Given the fact that growth was better than expected, we have changed the figures for 2019 and 2020 and announced it a little while ago.

We believe that we can continue to achieve double-digit growth in net sales of 13.1% and 13% respectively, at good growth rate. We thought ordinary profit would level out, but it wasn’t. This fiscal year, however, is a conservative plan. In any case, the most important issue is how to make the company a little more profitable. We have announced plans with a slight emphasis on profit margins, in response to the feeling that our profit margins have been rising.

11. 主要ブランド

This is our main products. The upper left is SI Web Shopping. Launched in 1996, 1,100 sites have been using our product. The SI Object Browser below this was released in 1997, and we have produced a variety of additional products. The upper right is GRANDIT. GRANDIT was launched in 2004. We are using a consortium system, which may be unusual. In total, 1,000 companies have introduced the system, and it has been successful among the ERP. Now to SI Object Browser PM. This is fairly favored now, with 170 companies introducing the system, mainly IT companies.

In addition to these four established businesses, TOPSIC was released. We now feel that these businesses are likely to be successful. The remaining is artificial intelligence, on the lower right. This is a product that we will see victory or defeat from now on.
Moving on to SI Web Shopping. If we divide the number of users into large-sized, medium-sized, and small-sized, SI Web Shopping has many large-sized customers. One contract is worth more than 100 million yen. The figure of 1,100 was announced a long time ago. Now, it's about four to five new companies a year. However, the scale has got larger. It is increasing at a pace of three to four companies and four to five companies as new contrasts. Since this is on a larger scale, we think that if we increase the number, we may not be able to manage the business well.

In the case of EC, it is interesting to see that there are many repeat orders. The EC business is characterized by a high percentage of repeat orders because it is a business that does not end once it has been completed, but continues to be devised to enable customers to sell more in line with the times.
The second is GRANDIT. GRANDIT was made in 2003 by the money collected from 13 companies. Originally, it was supposed to be made by the money collected from 10 companies. We are now a part of the consortium of 13 companies.

GRANDIT is on the upper side of a medium-sized scale, and it is batted with SAP. It is similar to OBiC7 that is on the bottom. The ERP business used to be considered a red ocean in the past, but there were very few new entrants to this business. Young engineers are not willing to engage in the core business. As a result, the red ocean market has unexpectedly become a violet or ultramarine market, which is not a blue ocean market but in between red and blue. Therefore, we expect to be able to successfully increase sales and profits.
The SI Object Browser series is a product that enhances the productivity of IT companies like us. The SI Object Browser, the SI Object Browser ER, the SI Object Browser PM, and the SI Object Browser Designer. Currently, we have four main products. SI Object Browser and SI Object Browser ER have been on sale for more than 20 years, and they are products that have long supported profits.

The SI Object Browser PM was also launched about a decade ago, and it is now the best-selling and growing product compared to the previous year. Compared with the SI Object Browser and SI Object Browser ER, sales and earnings in the SI Object Browser PM have exceeded those in the last two years. We think that the SI Object Browser PM will grow even further in the years ahead.

SI Object Browser Designer is a little new. This is a product with a new concept, which is CAD that is used to develop systems. It is not selling as much as expected. It has been selling so-so, and it needs to be remade so it will sell well. There was not a web version originally, but we have invested a lot of money in this. We have released the version this year, and we are seeing if this will really become a second SI Object Browser PM.
One of the new businesses is TOPSIC. This was introduced last January. This product helps to visualize programming skills. It is like the programming version of TOEIC. With TOEIC, you can see your English conversation skills. We created TOPSIC to get that effect with programming.

Programming skills are not something that can be seen on a bubble sheet, but rather programming has to be written. For example, you have to tackle four programming problems in 90 minutes. The system is designed so that people who can answer four questions, three questions, two questions, one question, and zero questions can be judged in real time at the end of 90 minutes. We are making more than 100 problems now, but we are doing this business by making them and getting customers to sign up for them through cloud.

One thing which customers can use the results for is during the screening process in recruitment. There are many cases when engineers are hired but do not work well. To prevent this, TOPSIC serves in place of the general SPI test, or rather an additional test to the SPI test for recruiting engineers.

It also plays an important role in employee education. It is used in this way more than expected. Clients are using TOPSIC in educating employees. Existing employees and new employees are taught programming, but it is not known how much skill they originally have. The companies have their employees take the tests at the 3-month mark, and after one year and two years, and so on.

Besides, for a user company, they use our test to measure the skills of vendors that visit their company. It can also be taken in English, so it can be used for remote use overseas, such as for hiring foreigners or for offshore outsourcing.
This has led to a steady increase in orders. There are now more than 50 companies. This year, for example, we have reached 100 companies, and we are expecting to reach 200 companies next year. Cloud services seem to be a fairly good business according to our calculations today.

What is interesting is the programming battle. It also promotes TOPSIC and is a competitive programming battle for companies and schools. It is divided into categories: Corporates, universities, technical colleges, and high schools. Last year, we held the first round of competition in which three people make up one team. Last year, 260 teams and 780 people took part in this effort, and it was quite successful in the first year. We are aiming for 1,000 teams and 3,000 people this year.

Since this year, we have started a sponsorship program, with one million for Gold Sponsors, 500,000 for Silver Sponsors, and 200,000 for Prize Sponsors. We have already a dozen sponsors today. There are two Gold, seven Silvers, and several more for Prize. We are expecting the sponsorship fee to be about eight million yen. I feel very much relieved as we can use this for prizes and for other promotions, and basically promotions to attract participants.

With the right number of sponsors, this event will probably continue to be held for five or ten years. We are now aiming for this competition to become a festival for Japanese programming, with 10,000 and 20,000 participants at that time. Admission is free and young people have the opportunity to become familiar with programming at an early stage. This is like a volunteer service for us, but we are using TOPSIC. We hope to have people become familiar with TOPSIC at an early stage, and to utilize this event as a selling pitch for TOPSIC.

Since we host this program, we are also thinking about the effects of recruiting as young engineers can learn about our company.
The next item is AI. In our case, we made a policy when we first launch AI business. We are going to do B to B AI, and we’ll be looking at what the strengths and weaknesses for AI are, and focus on AI’s areas of expertise. Rather than being entrusted with this, we will create a product that enables tasks that can be done because of AI. We are now launching the first, second and third products with this policy.
The first product we made is AISI∀ Design Recognition. This is a unique idea. AI is good at regular image recognition, but this is a flat image. In this example, it is a screen capture. The application screen is copied and read. We created the design data by having the AI recognize each control and using part recognition, character recognition, and position recognition. We made this with thought that we could use this reverse engineering.

For example, when you put this type of image to the DR, it turns out like this. The orange is the text box, the blue is the label, the yellow is the check box, and the green is the push button. By breaking it down into each separate control, it is possible to use it as CAD data. As I said earlier, this is the CAD for software development, and we are making it in such way.

CAD generally is thought to be used in designing machines, architectures, and fashion. Even in computer edit designs. For some reason, this software design specification is still created by word processors around the world. This is the reason SI Object Browser Designer was created with the idea of using CAD in this industry.

This idea is patented. We are now creating a complete Web version that moves faster. We are trying to proactively promote the use of CAD in this industry this year.

At such time, to meet the needs of customers who want to create design specifications for existing applications, and to migrate them, we have created the AISI∀ Design Recognition that uses AI for such requests.
Next is the biggest expectation, AISI Anomaly Detection. This is an error detection using deep learning. This was released on October 24 of last year, and it is very popular. People from various factories are inquiring about how this product can be used for inspections at their factories. We are busy answering their requests now.

In December, we created the AI Solutions Department separately from this product development, and now we have put this into the ERP Division. We are now able to do it in the form of Company A, Company B, and Company C through human interaction. This was just released in October, so it is only starting. The market is so big that even if there are competing products, a wide range of products stand together with ERP because the market is big. We hope we can make this into a winner product in the field of error detection.
The third is still not sold yet. We plan to launch this service around June, but it is a freemium corporate information search service. This is corporate information. We are creating a service that provides corporate information. So far, this is done by gathering information through labor-intensive tactics, and are registered by people. There are many companies doing that. But by doing so, this causes two problems in which there will be a rise in costs and that information will be old. This product enables this to be done automatically.

Several web crawlers crawl websites for 24 hours a day. Scraping, a type of technology that collects information, is performed. These crawlers gather everything that is written such as company name, address, time of establishment, representatives, and a database is created.

Corporate numbers in Japan is like the company's personal identification number. There are 4.8 million companies that have it, but we are now in the process of acquiring more on top of this 4.8 million and providing them as a service.

What is difficult is this type of industry. The rest can be gathered from existing sections. In terms of the classification of industries, people don't normally write, for example, a printing business of themselves. So, when people look at the business overview page, we can see that this is a printing industry or this is a software company or we don’t know what this company is doing. In order to make such human judgments, we have started with such ideas as whether AI's natural language processing can be used or not. We are in the midst of the struggle to create this, but my homework for this year's Golden Week will contribute to the development.
17. 株主還元（配当）

配当について

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<th>2020年2月期（予想）</th>
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上場からの配当性

※1株当たり配当金は2012年9月1日（1株→200株）と2013年8月1日（1株→2株）、2016年12月1日（1株→2株）の株式分割が各期初に行われたと仮定して計算しております。

配当方針

● 業績連動型の配当
● 配当性向30%を目標水準としています。

Regarding shareholder returns, the dividend payout ratio is 30% and the dividend is performance-linked. The fiscal year ending February, 2019 saw a commemorative dividend due to the special factors mentioned earlier, but you could see that it is growing steadily in general.
18. 株主優待

※ 半年以上保有されている株主様を対象としています。
株主優待は、毎年8月末の株主名簿に記載され、かつ同年2月末次の株主名簿にも同一株主番号で記載されていることが条件となります。

We are distributing delicious rice made specially for us in Niigata for our shareholder incentives.
### 19. 株主との対話

#### 株主総会

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<th>開催日</th>
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<td>株主総会の模様をU-Streamでリアルタイム配信</td>
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#### 株主懇親会

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<td>株主と役員（社外役員含む）との直接対話</td>
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【懇親会の様子】

【大人気！社長の手作りチーズケーキ】

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Regarding our shareholders’ meeting, we have decided to hold the General Meeting of Shareholders at night. We concluded that it would be easier for everyone to participate if the meeting is held at night, and it will be held at a hotel adjacent to the station. If it is held at night, we can also hold a social gathering, and we enjoy talks while drinking beer every year. We see many familiar faces each year and we only see each other once a year, so it is a very peaceful meeting.

I am also bake cheesecakes. I said on a radio that I will bake cheesecakes for my shareholders, and as luck ran out, three cheesecakes turned into five, into eight, 12, and then at one time I baked 15. Last year, I baked 12. 12 is now the maximum, and now it is all about how thin I can cut the slices.
Finally, I will talk about our commitment in working environments. I believe that this is very important for management. I have long been working on this well before the words "work style reform" coming and I am really conscious of this. We are awarded a lot of prizes, and this year, we have finally received the Platinum Kurumin.

What's important is to have an atmosphere in which people can freely ask for paid holidays, and an environment in which employees can easily take child-rearing leave. The most important question is whether or not we can create such an environment for the company. I feel that we are successful in making this happen. As a result, the percentage of employees who took paid holidays was about 80%, and the average overtime was 7.4 hours. Many people leave on time.

We feel very importantly about this and we are able to gather nice people. They look at these things when they apply for us. There has been a labor shortage lately and companies are having problems finding people. There are not many companies show a rise in performance numbers, and have a job turnover below 5%. We are in a state of attracting good employees.

Well, I have briefly explained the facts.
Question & Answer

Umeda: Please let us know if you have any questions.

Participant: Thank you very much today. Could you please answer my three questions?

I think there was a talk about strengthening stock-type businesses in preparation for a recession, but I think the software industry is very vulnerable to the recession. I am very concerned about how you stated about having a feeling of an upcoming recession. Could you tell us about the current business environment?

Umeda: I’ll answer one question at a time.

Now, there is no shadow of a recession in the immediate future. Every division has said that, and I think it won’t happen shortly.

However, the economy has been booming for a long time since around 2012, and it is a weakness for people to think that this will continue eternally. That’s not true. One year ago, I gave homework to each division. It was about if the recession should come one and a half years later, how much of a recession will it be and what measures should be taken from now on.

At that time, most divisions came up with the model of the bankruptcy of the Lehman Brothers which experienced a 20 percent drop in sales. One division said that ERP has fallen by about 20 percent. E-commerce did not fall. E-commerce is strong against recessions. So, what do you do? We are taking various measures to increase the number of repeat customers rather than new customers.

I don’t feel a recession will come at this moment, but it will always come when it comes. It is important for a company to prepare for the damage it suffers when a recession comes. It may not be rock solid measures though. So far, we have been planning with this awareness in mind.

Participant: The next question is about TOPSIC. How do you think about TOPSIC’s sales channels? Perhaps, I felt that you would not be able to sell this in a way if it is not different from your company’s normal sales channels. Could you tell me how you will sell here?

Umeda: Thank you very much. We, of course, are aware that TOPSIC’s sales channels are different from those of the past when the business started. Rather than doing anything else, we will distribute only over the Internet with marketing. The SI Object Browser was a successful model. In this way, we only have one sales staff now.

To this end, we have held various events, such as PG battles. We expect it to become so familiar that everyone knows that TOPSIC will help you test programming skills.

But a happy thing happened the day before yesterday. An employee from the HR said that two people who recently applied for our company took TOPSIC when applying for another company. They found out that there is a company that is offering this service and decided to apply for us. This is a story I can’t tell our customers. I think it will be a big success if name recognition increases.

Participant: Last question. I don’t know much about GRANDIT. I understand that this is being sold by various companies. Could you tell us how these sales are appropriated?
Umeda: I originally proposed GRANDIT, but I proposed that 10 companies invest money in the product and have the products in the form of shares owned by 10 companies. However, the share of the 10 companies is difficult to get involved. After it was created, there are units dedicated to managing GRANDIT Corporation, maintaining its products, and enhancing its functions.

We pay a certain amount of money each year to them, and we use some of the money from the sales to our customers. With this money, GRANDIT will expand these functions. That’s why it’s a little different, but as a result, they are the manufacturer, and we're selling it as a primary agent.

That’s why it seems that the partition rate is much lower than that of the manufacturer. It is a little different from anything else in the scheme because a certain amount will be paid annually whether it sells or not.

Participant: I understand. Thank you very much.

Umeda: Any other questions?

Participant: Thank you. At the base in Vietnam, you mentioned the Vietnamese unit. Are these employees working in Vietnam?

Umeda: Currently, the seven people in the unit are in Japan.

Participant: In Japan?

Umeda: They are the first and second generations. After that, we will establish an offshore base in Vietnam, which will recruit people in Vietnam. We are deciding whether it will be from scratch, or to use M&A. If we can do so, I want people who have our culture to go there, and I envision a system of rotation.

Participant: Would this be for new graduates?

Umeda: Both new graduates and mid-career. In terms of new graduates, Danan University is the third largest city. It’s a good university. I can recruit the IT people there. So, about thirty people last year took TOPSIC by remote. The top seven to eight people were quite good, and I felt that we would be able to interview them remotely and hire good candidates among them. We want the best new graduates.

Furthermore, the number of Vietnamese people in Japan is very large, and they are well-versed in Japanese, so we hired by a mix of these people. We are using this policy now.

Participant: Are they actually entering a project and doing it on-the-job?

Umeda: Yes. Now there are four people, and one new employee was from Okayama University and is Vietnamese. The first two people are now working hard to create a mechanism for detecting abnormalities by using AISIV’s AI.

Participant: Are they working together with the Japanese on these fronts?

Umeda: Yes. There are five people on the team in total, two of whom are Vietnamese.

Participant: If you do not mind, could you tell me whether the salary level of Vietnamese employees will change?

Umeda: No, in the case of Japan, it is the same with all of our employees.

Participant: Thank you. I have another question.
Do you think your company is a very strong model, such as improving productivity and changing work styles? I was impressed today. Have you been conscious of this since your founding? I don’t think this can be imitated overnight.

**Umeda:** We are a company that was originally creating ERP. The president and executive knew how to do the most efficient business. For a long time, I had a policy of sparing money if we could increase efficiency by investing in systems.

We don’t have a CIO as a section, but I do everything like a CIO voluntarily. I decide how the KPI will be this year, as a result of the fact that we have done such things every year.

But I have said about the first fifteen years. I said, but I didn’t really have enough seriousness in myself. If you don’t pay much money, time, and passion, you don’t go that way. I am very serious now. In a real sense, it has been about a decade since that kind of rationalization has been implemented.

**Participant:** Thank you very much.

**Umeda:** Yes. Could you please?

**Murakami:** I am Murakami of SMBC Nikko Securities. Thank you. I have only one question.

This time, the figures in the Mid-Term Management Plan were changed to milder figures. My little concern is that I don’t think it was necessary to reduce sales. The plan for the current fiscal year and the plan for the next fiscal year have been lowered by 200 million to 100 million, respectively. Are there anxiety factors that lowered the numbers? Could you tell us what kind of background you have?

**Umeda:** I didn’t deliberately lower them due to anxiety factors, and the result of recalculation became these levels. But I honestly think it’s good enough if we can secure profits and 13% sales growth.

In fact, there are Visionary Companies 4. I’ve seen a lot of stories about companies that are steadily advancing even in times of recession, and I’m looking at how they share the same points. I was impressed with that.

There is a 20-mile march to make good progress when the recession comes. The weather is good today, so I’ll go thirty miles. The weather is bad so march 10 miles. Instead of that, it is better to do 20 miles every day to reach the goal faster. It is also an example of a company’s growth. That’s a statistical story. Sometimes I think that is the fact.

There was a little reflection that the previous plan had up and down, but we were lucky. I think it would be a right level if the growth is 13.

**Murakami:** Isn’t it necessary to worry about missing orders due to the shortage of human resources and the lack of capacity?

**Umeda:** This is the case sometimes. In particular, ERP is now in a very good business climate. If the economy is good, ERP is good. It is quite linked. We receive too many orders that we cannot handle all of them. It sounds not so good, but it would still be enough if the existing business goes ahead by 13%. I believe that if we recruit more and more people by greed, we will suffer a great deal of trouble. I am doing it based on such a view of management.

**Murakami:** Thank you very much.

**Umeda:** Yes.
Participant: Only one question.

About TOPSIC. I believe that an atmosphere has emerged that seems to grow very much. How much sales do you have in the long term? Regarding profitability at that time, what is the level of profitability?

Umeda: TOPSIC’s sales are 10 million yen in its first year. This year is about 30 million in the second year. I think this year’s performance will rise slightly. From the perspective of the company as a whole, it is a slight matter. It’s a third year, for example, doubling again, and in the fourth year, doubling again. At first, we would like to go in this way in such a growth phase and grow further dramatically somewhere when it becomes so famous.

The rate of return is about 80 percent of SI Object Browser’s profits. The SI Object Browser PM is a little lower than that, about 60 percent. The profitability of TOPSIC is in between them. The TOPSIC is still done by one sales person, and it's hardly being developed, so it's like SI Object Browser 80 or near it. However, because it is a business that needs marketing, it depends on how much to spend on that marketing.

It is time. Last question, yes.

Participant: Can I confirm one thing?

As for the AISI Anomaly Detection, there are still talks about 800 million yen in sales in three years. Does the medium-term plan include this? If you have been doing this for six months, please tell us if you have any answers or issues.

Umeda: First, we say 800 million yen, and the news release was a bright figure. I am not 100% sure that it will be achieved, so I didn’t include it in the plan. However, in the current fiscal year, we expect sales of approximately 100 million yen.

Half a year's response is quite as the market had thought. The answer is that there is a need. I don't feel such a threat that there are other competitors. I believe that it is impossible for all competitors to deal with each other’s businesses relative to the size of the market, because we are trying to make every effort for each and every one of them.

However, the problem is how you can really do AI to detect problems and provide something useful. It is just as we anticipate that this is not so easy because we are doing each company's own requirements one at a time, although it is as expected. We are suffering from the fact that it's not so easy.

As for what would be going on in this field five years later, it is likely to be incorporated in a variety of factories. If that is the case, we will be able to believe in it, and we are now working hard to enjoy the bitterness of the creation of that business.

I'm sorry. It's time. Thank you very much today.

[END]
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