System Integrator Corporation
Q2 Financial Results Briefing for the Fiscal Year Ending February 2020

October 18, 2019
# Event Summary

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<td>Kabutocho Heiwa Building 2F Second Seminar Room</td>
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<td>3-3 Kabutocho Nihonbashi, Chuo-ku, Tokyo 103-0026</td>
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<td>(Hosted by The Securities Analysts Association of Japan)</td>
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<td>[Venue Size]</td>
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<td>2</td>
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<td></td>
<td>Hiroyuki Umeda President CEO</td>
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<td>Hiromi Yamada Director and General Manager of Administration</td>
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Moderator: Now it’s time to start the Q2 financial results briefing for the fiscal year ending February 2020 of System Integrator Corporation.

First, I would like to introduce the two persons we welcome from the Company. President and CEO, Mr. Hiroyuki Umeda.

Umeda: I’m Umeda. Thank you very much.

Moderator: Director and General Manager of Administration, Ms. Hiromi Yamada.

Yamada: I’m Yamada. Thank you very much.

Moderator: Today, Mr. Umeda will give us an explanation, and after that we will hold a Q&A session.

You should have a questionnaire form in your hand. We would like to ask you to complete it during the briefing and place it on your desk when you leave the venue.

Now, I would like to turn over the discussion to Mr. Umeda for the presentation.

Moderator: Hello. I will start the briefing on our financial results. Thank you very much.

First, I would like to introduce the Company. The right-hand side on the slide briefly shows my career. I initially worked as an engineer at Toshiba. Then, in 1989, I moved to the current SCSK. At that time, I planned and created ProActive, Japan’s first ERP, and I became successful by jumping on the bandwagon of that time. After that, I left the corporation and in 1995 created a spinout company with one subordinate and another new
worker, which became the backbone of System Integrator. This is the Company’s 25th fiscal year and the number of employees, including executives, has exceeded 200.

We are involved in the software industry and create our own products. In the past, we were dealing with package software. We are still selling package software, of course, but in recent years, we have been providing our products in the form of cloud services.

The pie chart on the left-hand side shows categories of software and IT companies in Japan. In Japan, the percentage of companies engaged in package software is less than 10%, and we are performing the best in this field.

On the right-hand side, although it is a little small, we indicated some reference information. The top graph of the report is about “package software” and “custom” in Japan. “Custom”, meaning a business model, provides customer requests on a contract basis, or dispatches staff to customers and receives money. As shown in the pie chart on the left, the percentage of package software in Japan is no higher than 10%. That’s the rich purple portion.

On the other hand, in the US by comparison, the percentage of packages has increased considerably over the past few decades and it is now around 60% to 70%. The figures are totally different between Japan and the US, and we are hoping that the package industry in Japan will increase like that of the US.

The merits of package software are highly profitable and there are factors that it can be deployed worldwide, although we have not made it happen yet. We are planning to develop and market products for worldwide use.
We have three business domains shown in the doughnut chart on the left, all of which will be discussed later. The first domain is the EC omni-channel business centered on package software called Web Shopping. There are many sites that sell items on the Internet and we have a package software system for creating such websites. By introducing this system, we aim to incorporate a variety of designs into the specifications requested by our customers.

The second domain is the Object Browser business. Companies like ours develop systems that use a variety of convenient tools to increase the productivity of development. In the Object Browser business, we create such tools for those companies.

The third domain is the ERP business, which is based on ERP products called GRANDIT. The outer circle of the chart is the percentage of sales, and 63.6% of sales came from GRANDIT. This sales figure might convince you to consider us as an ERP-based enterprise.

The inner circle of the chart shows operating income, but the Object Browser business is so profitable that it has become the best source of operating income. We are currently managing the Company by striking a balance between the three businesses.

The right-hand graph shows the ratio of stock sales. Stock sales are revenues from monthly subscription sales rather than, for example, just selling products priced at 10.0 million yen. In the case of package software, its maintenance and cloud services are the revenue of the stock.

Our stock sales are not very high, and we consider that one of our issues. In 2014 it was 18.6%, and prior to that, it was even lower than 15%. However, we have set a goal to increase stock sales and are striving to achieve 23.9% by 2019. In the future, we would like to increase this to about 40% by shifting to more cloud-based businesses.
The benefit of the stock is that it is resilient during a recession, like the last one triggered by the collapse of Lehman Brothers. In case another recession takes place around the next year, we are preparing to overcome its effects by raising the stock ratio a little.

This graph shows the performance of the Company since its founding, with blue showing sales and red showing ordinary income. We were operating in the black with no debt for a while. However, we didn't fare well at the time of the IT bubble. What’s worse, due to the collapse of Lehman Brothers, our performance further dropped for three years. After that, we recovered and went public, but right after the listing, a project with a deficit of 1.0 billion yen put us in dire straits. We recovered in a year and I feel that we entered the growth phase. This 25th term is the second year of the Medium-term Business Plan, and I feel that we will be able to continue to achieve double-digit growth every year.

We actually drew up a long-term management plan, which covers a period of 10 years, and I feel that we will be able to grow at the same pace over this 10-year period. I don’t know what will happen in a long-term, but we have made such plan. It is probably difficult to grow at quite a rapid pace like a factor of two or three, but we are making every effort so that we can continue to grow at a double-digit rate.
This is the settlement of accounts for the second quarter showing sales, operating income and ordinary income. The far-left column shows results from the previous fiscal year, and the column to its right shows plans and achievements for the second quarter for the current fiscal year under review.

Normally, our performance does not tend to be skewed toward the end of the fiscal year. However, there are cases in which the ERP business, which has the largest sales, is slightly concentrated in the second half of the fiscal year or the first half of the fiscal year, depending on the project and the year. The previous fiscal year was heavily weighted toward the first half of the fiscal year. On the other hand, the current fiscal year will be balanced as usual or slightly weighted toward the second half of the fiscal year. As a result, it looks like sales for the first half of the fiscal year alone is declining. On a full-year basis, taking all of these factors into account, we anticipate double-digit growth in both sales and operating income at 13.1% and 10.3% year-on-year, respectively.

Although we did not intentionally hold down the plan for the first half, we were supported by more favorable factors than we had anticipated. As the document in your hand shows, the result exceeded the revised plan.
This slide is the balance sheet with the comparison of the second quarter at the end of the previous fiscal year. Cash and deposits are decreasing because we pay dividends or taxes. There is no explanation to be added for the balance sheet.

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This is a little more numerical representation of business results. The top E-commerce business posted a 9.5% increase in net sales year-on-year, but operating income jumped significantly, up to 39.6%.
The E-commerce business was not performing well four-to-five years ago, and its profit margins have declined considerably. However, its performance led to a number of changes to the business structure and a variety of initiatives resulting in the development of a business with an extremely high profit margin every year. The reason that this business is still highly profitable in the current fiscal year is that operating income has increased by about 40%.

Concerning the ERP business, as I mentioned earlier, the previous fiscal year is slightly concentrated in the first half of the fiscal year, and this fiscal year is slightly concentrated in the second half of the fiscal year. Looking at this second quarter, both sales and operating income are negative, but we expect this year to exceed the previous fiscal year for the full fiscal year.

In the Object Browser business, sales are up 6.4%, and operating income is growing at a double-digit rate. I believe that we can achieve double-digit growth in all of our businesses this year.

The remaining businesses include TOPSIC and AI’s R&D expenditures. These will be explained later.

Here are the graphs for each of our current businesses. The graph on the left shows the E-commerce business. The top row shows sales and the bottom row shows operating income. The left side of the graph shows the second quarter, while the right side shows the fourth quarter.

As for the E-commerce business, the figure shows a slight increase in sales and a strong increase in operating income in the lower row from a second quarter perspective.

The dotted line on the right-hand side of the chart shows the results for the full fiscal year. This suggests that operating income is below the previous fiscal year’s level. We did not take into account the fact that operating income rose dramatically in this second quarter, and we have left the plan unchanged for the full fiscal year, so I would like you to understand that these results appear slightly negative. We do not expect the second half of the fiscal year to worsen, but we do expect growth to continue steadily in the second half of the fiscal year.
The graph on the right shows the ERP/AI businesses, although it shows a decline on a first-half basis. However, on a full-year basis, it is expected to exceed the previous fiscal year’s level. We have been operating the ERP business for a long period of time and it is much easier to forecast. This is what I think is going to happen here.

Next, is the Object Browser business. Both the second and fourth quarters are doing well. The remainder comes in the form of other businesses.
Here, I would like to explain some of the key segments and E-commerce businesses that I have described in terms of the numbers above.

Shown on the upper left is the E-Commerce EC business. As it describes, we are the first company that created EC package software. We created the package software in 1995 and it was very successful. We continued to work hard making this EC package software, while envisioning becoming a package software company. In 1996, when we finally began selling EC package software, it did not sell at all because at that time people thought it was dangerous to purchase goods via the Internet. Nevertheless, we believed that an era of online shopping would eventually come and continued making improvements. The product finally started selling around 1999 during the Internet bubble, and we have developed it into a product with a track record of introduction at 1.1 thousand companies while continuing to upgrade it.

Below is the ERP/AI business. I succeeded in creating an ERP called ProActive in my previous job prior to creating the Company. While we were operating the EC business, some colleagues of mine in my previous job joined the Company and we agreed to do the ERP business again. Because there was no ERP for websites at that time, we created GRANDIT by using new technologies.

The GRANDIT is unique, and the consortium method is adopted. Creating ERPs is very expensive, and we had very little money. Therefore, we asked 10 companies to fund these products. This is the GRANDIT that we made with that money. Now we’re the eleventh company to pay money and share this one product with thirteen companies, which is a unique way of doing business.

On the right-hand side of the chart is AISIA. This name was created with the idea that by attaching SI to AI and then adding returned A at the end, this will also read AISIA even if it is turned upside down. We plan to use deep learning to detect AI abnormalities and sell them to the manufacturing industry at an increasingly fast rate. We include in the ERP business, and we are developing a business that will generate synergies.

The upper right corner is the Object Browser business. When we developed the SI Web Shopping in 1996, we created tools we thought would be convenient and started selling them. They ended up making great sales. Today, the software has grown into a fairly famous software package with 18,000 licenses and 410,000 licenses, and it continues to sell.

In this series, we have been offering tools necessary for development, such as development support tools, design support tools, database design support tools and project management tools. These have become a major pillar of our business.

Other business includes TOPSIC as indicated. This is a programming skill assessment service, originally developed from the needs of our company. When hiring engineers, it is difficult to determine whether or not they are experienced. We have them take SPI and qualification tests, but we can’t judge whether they are really technologically capable. We have them write a bit of programming and, in addition to the qualification tests, decide from the results if they have sufficient skills.

To provide this system as a service, we launched a service that enables customers to write four programs in about 90 minutes and to see the results in real time. Since last year, the number of users has steadily increased, and this system is likely to grow into one of the next pillars.
We will explain each of our businesses in more detail. In terms of E-commerce, customers’ EC websites are divided into large, medium, and small. Regarding the scale of the websites, for example, sites that sell more than 1.0 billion yen or 2.0 billion yen are classified into a category of large size. Our products are used by customers who operate EC websites that sell considerably well. In short, we have been engaged in E-commerce business for more than 20 years in areas where there are a large number of users, excellent performance is required, and strong security is demanded. Therefore, we have positioned ourselves to leverage this know-how in order to develop our business.

Although the products for small EC websites are likely to be used as they are, the requirements for customization to suit the customer are high in our target area. For example, our product price reaches 0.1 billion yen or 0.2 billion yen in total including customization, while on the other hand, package software cost reaches 10.0 million yen.
The second is the ERP, GRANDIT. If the scale of EC websites is classified into large-scale, medium-scale, and small-scale enterprises, our target is for the upper area of medium-scale. For really large-scale sites, overseas products such as the German product, ORACLE, have superior advantages. Depending on the project, we compete with them, and in some cases, such as the medium-scale, we compete with OBiC7. This category is also fairly large, and the package itself costs, say, 50.0 million yen, a worth of 0.3 billion yen or 0.5 billion yen projects. There is a good deal of this kind and there are many large-scale projects that are constructed over a period of about a year and a half.

Another thing is RPA Express of Work Fusion below. RPA has been very popular since last year, or even two years ago. We investigated about thirty products two years ago, including those from overseas, in order to use RPA for our internal rationalization, and found one product of interest.

It is a free-to-use product that is used worldwide in the freemium model. We first tried it because it was free, and it worked very well. Even though we encourage our customers to use it, we did not think it would offer us any benefits. Then, we started to think that if it is beneficial to our customers, we could also enjoy some of those benefits as well. While we ourselves are using it as a user, we have signed a contract as the first partner in Japan, as shown in the bottom left. Now, an increasing number of companies in Japan are using the product.

Since there are some paid versions, some of the free customers are gradually switching to paid versions. Now, in this situation, we are doing business with the feeling that as more and more users convert to this version, we can expect to have more revenue.
Another is AI business, which offers AISIA Anomaly Detection. We are taking a product-based business style. This doesn’t mean we are an AI-related specialist, and can meet any request by doing anything. Our policy is to create and provide products that can only be made using AI.

I studied about AI and published an AI-related book as shown in slide two. While writing the book, I realized AI’s strengths, the difficulty of putting it into practical use, and other facts, despite the fact that it is a topic of discussion. I think AI’s strength is the image perception. What is surprisingly difficult is natural language processing. While voice synthesis or voice recognition is possible, it is very difficult to construct a sentence. Through such study, I now feel that AI can demonstrate its strengths in the area of anomaly detection using image recognition, which is a huge market.

There are so many people conducting visual inspections in various factories, and in order to create a mechanism to release and assist them, we put out products called AISIA Anomaly Detection. After that, we received a great deal of inquiries from various factories throughout Japan about whether we can do the visual inspections we are doing here. At present, we are raising money for tests to verify whether or not it is possible, and are gradually expanding the business system.

Other than the several companies put in the slide, other competitors have emerged. I believe this means the market is so broad. As in the case of ERP, since the market is so wide, multiple products will survive and can play a certain role. Therefore, there will naturally be some winners or losers in the future. GRANDIT seems to have achieved a certain success as an ERP winner, and I feel that it is just as crucial that our products will become winners’ products.
Next is the Object Browser series, which promote efficiency of development. In creating a system, development proceeds starting with defining the requirements, to designing, manufacturing, testing and operating as shown in the upper part of the chart. We offer a variety of tools to increase productivity, including a project management product necessary in general, a database building product called ER used in the design process, an application design product called Designer, and a product called Object Browser used during development. Object Browser and ER are used by 18,000 companies, which represent most IT companies. The project management tool is used by more than 180 companies, and I think it has a fairly top share with 180 IT companies. In June of this year, we launched an application design support tool called SI Object Browser Designer of Web version under the concept of CAD for system development. CAD is used to design machinery, construction, and fashion. In the IT industry only, the system development design is made with word processors. This product was created based on the idea that the design of the IT industry should be made by CAD. This idea is patented, and I feel that if the design of the IT industry can use CAD in the same way as other industries in the future, it will have a considerable advantage in doing business.
The other is TOPSIC. As I mentioned earlier, this is the second year of the programming skill assessment service and it is doing well. This is a cloud service, and the number of users has been increasing to 60 to 70. The initial plan was for it to be around black in the third year. However, in this year, which is the second year, it seems likely that it will be black alone, so I think that we can take a good position if it continues to do well.

Let’s move on to the Medium-term Business Plan. FY2016, FY2017, and FY2018 are the results, and we are in FY2019. We plan to maintain double-digit growth in profit margins, and also would like to engage in this kind of package software business. Therefore, we are aiming for the second half of double-digit profit margins.
Although the profit margins of each division are higher, we are currently doing business based on a plan to
invest heavily in R&D expenses because they are package software. Rather than raising the profit margin
rapidly, we are planning to allocate R&D expenses while gaining profit margins in the upper 10%.

The details of the Medium-term Business Plan are divided into five categories. One is the expansion of existing
businesses. In our case, there are too many to discuss at this time, but we are constantly introducing a variety
of new products. This is why we are aiming at a variety of targets, considered more interesting at this time
rather than doing a single business domain alone. I mentioned that AI-based abnormal detection is a new
area. We are expecting a programmatic skill assessment service using TOPSIC to be successfully positioned as
a TOEIC test. While offering new products at the fast pace, we have to make decent profit in the existing
businesses. Our top priority is, first and foremost, to expand the pillars of existing businesses.

The second detail is the establishment of overseas bases. The IT industry has been buoyant for a long time,
and it is still today. I’m paying close attention to it now, because it is likely that the economy will enter into a
recession. Currently, there are still many inquiries, such as ERP and EC, but the development power is
insufficient. We are declining to accept orders, though we are losing sales opportunities. In the ERP and EC
businesses, expanding development power somehow is an extremely important issue.

Amid the declining birthrate in Japan, it is somewhat difficult to secure IT engineers, so we began recruiting
Vietnamese employees about three years ago. Currently, there are six Vietnamese employees in the Company.
We drew up a plan to establish a development base in Vietnam, secure around 20 Vietnamese employees,
and make it work in the same way the manufacturing industry has established a plant overseas. The
establishment of an overseas base is included as the second target in the Medium-term Business Plan.

Third is the establishment of the AI business, centered on Anomaly Detection that I previously explained. This
is still being worked on in a variety of ways, and in response to various inquiries, in order to establish a system
to make it an actual business.
Fourth is to improve the skills of employees. Over the past three years – covering last year, this year, and next year – we have spent a lot of money on education in the Medium-term Business Plan. We are doing this because productivity will not increase unless we improve the skills of our employees.

The fifth detail is to become the leading streamlined company in Japan. The first thing to do is improve the skills of each and every employee to raise productivity, and the second is systems and tools. Since these the twin pillars of creating a rationalization system, we have implemented a variety of systems, and we will probably be able to achieve rationalization at nearly the top level in the IT industry.

We’re using GRANDIT for our core business operation, and we’re using the SI Object Browser PM to manage projects. We’ve come to the point where we’ve used the various tools of the Object Browser series I mentioned earlier, and we’ve been able to use BI to get them on the screen in the management meetings so that materials don’t have to be prepared by using Excel. I believe that we have been able to offer this kind of know-how to customers as a model when proposing ERPs, for example. We have presented to our customers that RPA automation has also proven successful.

Our shareholders are sometimes dissatisfied with us due to no dividend payments when earnings decline. However, we have maintained our policy to pay dividends linked to business performance and a dividend payout ratio of 30%. Dividends will decline slightly next year compared to last year because we had a special factor last year that net income was padded due to tax-related matters, which didn’t relate to business results. This will reduce dividends, but the actual results are growing steadily in line with business results.
In terms of shareholder returns, we wrote in the slide as less agricultural chemical, less chemical fertilizer, and non-BL rice. I was born in Niigata, and an acquaintance of mine in Niigata introduced me to a farmer who grows a special kind of rice only for this farmer’s family and relatives, not to provide for the agricultural cooperative. I have been asking the farmer for that rice to be available for our shareholders, and we have been making it a gift.

Furthermore, we place considerable emphasis on dialogue with shareholders, and are holding the General Meeting of Shareholders at night so that they can attend after the end of their ordinary day’s work. Better
participation is expected, which is a little unique approach. Moreover, holding a gathering after the General Meeting of Shareholders, allows the participants time for socialization. I place great importance on communicating with shareholders by doing a variety of things, such as getting up early in the morning, baking 12 cheesecakes, and distributing them, which was very popular. The slide says there are 180 shareholders, but in the past, there have been less than 10 participants.

Regarding the initiatives for the workplace, we have been doing many things from an early stage. Before the word “work style reform” became a topic of discussion, we have encouraged employees not to work long hours, have not dispatched employees full-time to clients’ offices, and have put into place a system that permits female employees to take three years of childcare leave. We have been highly commended for such activities and granted various awards, such as “Platinum Kurumin” certification.

The rate of taking paid vacations has reached around 80%. The retention rate is extremely important for IT companies, and although it is very difficult for a company to grow if the turnover rate is high, our retention rate is 94.6%, which continues to be quite high. This has a great effect when recruiting people because some people apply for our company after seeing those figures on the Internet. We have been rather successful in recruitment for today’s labor shortage. Though the situation is still severe, I think we are doing well in securing new employees.

I provided you with a brief introduction of this company. I would like to start the question and answer session from now on.
Question & Answer

Moderator: Thank you for your explanation. Now, we are starting the question and answer session. If you have any questions, please raise your hand. The clerk will bring you a microphone. We plan to post and disclose the full text of this results briefing, including the question and answer session. If you mention your name when asking a question, it will be disclosed as it is stated. If you wish to remain anonymous, please do not mention your affiliation or name.

Now, I would like to start the question and answer session. Does anyone have a question?

Participant: Thank you for your explanation. I have three questions but let me ask you one at a time. First, for the first half, you revised the guidance upward and have been in good shape. Compared to the first half, are there any expenses that will increase in the second half?

Umeda: There will not be any particular expense.

Participant: I understand. Second, you told us you have been declining orders because of the lack of engineers’ resources. Including that point, is the figure of 5.2 billion yen for the next fiscal year almost possible to achieve, and are you expecting it to rise if your resources increase?

Umeda: That’s true, I almost see it that way. This 5.2 billion yen is based on the current situation, not under the assumption that we succeed in increasing our resources.

Participant: Lastly, I would like to ask about the AI business. You said the demonstration tests are actually in progress. My question is when will you start the full operation of the service? I also would like you to tell me the current situation of the AI services that will be used in combination with the SI Object Browser Designer.

Umeda: First of all, AISIA Anomaly Detection, we put out the products at the end of last year. And now we have been receiving inquiries from various factories about whether they can use what we are doing for visual inspections. Initially, they sent us various defective products, but it was a burdensome procedure for us. In recent years, we have only received photos. So, while making a first-time decision as to whether or not it works well, we will proceed when we can verify that we can actually start the full operation at the customer’s premises in exchange for fee. We call it POC.

Also, we check what kind of anomaly we can and cannot find out. We are performing this POC for several companies. When the POC ends up, we put it in place, and customers make further investments. However, there are many cases in which the POC has been prolonged longer than expected, and so far, there is no reason that we implement the full operation. That’s the situation now. We have several such projects, so I feel that some projects will be able to proceed to the full operation within this fiscal year or in the next fiscal year.

Another AI is the Design Recognition of AISIA, and I will explain this verbally because there are no product description page. After we launched the CAD product called SI Object Browser Designer that I mentioned earlier, we received notice from a customer that it is useful in creating a new design document, and in turn received an order. Many customers don’t have satisfactory design specifications for the system currently in operation. So, we have heard such demand that they would like to shift to CAD products to make maintenance easier.
It’s very difficult to create a CAD design blueprint from scratch to move from the current system to CAD because this will be a reverse engineering process, where AI reads the screen capture of the current system, recognizes in each part there is a text box here, or a push button there, and AI recognizes and captures the image by control unit from the current image. We have begun to sell the product called AISIA-DR as an optional product. This technology allows AI to recognize and incorporate the information in such control units, and take it back to the screen-design and control lists.

However, AISIA-DR doesn’t sell on its own, and AISIA is the SI Object Browser Designer’s option, so it’s hard to see a chance if it doesn’t sell. We have just completely renewed their Web versions of the SI Object Browser Designer in June, and we are trying hard to sell this Web version. I think that while this is somewhat emerging, AI’s products will follow with some delays. Therefore, I think that AI’s products themselves will be delivered to a variety of customers next year or so.

**Moderator:** Does anyone have a question?

**Participant:** Thank you for your discussion. I would like to ask about the cost structure. As for the breakdown of personnel expenses and R&D expenses, how much is the ratio of personnel expenses for sales, distribution and development, and which ratio is increasing or decreasing? I also would like you to explain which areas of R&D costs are rising and which areas are being reduced.

**Umeda:** In terms of personnel expenses, there are about 200 people today, but about 195 people excluding executives. Of these, about 30 people are sales representatives?

**Yamada:** Around 13% is sales staff.

**Umeda:** That’s the number in percentage. 13% of the 200 is 26.

**Yamada:** Yes. Approximately 75% of employees are development people.

**Umeda:** The rest is in the administration department.

**Yamada:** Yes. The administrative department is about the same as the sales department.

**Umeda:** So, I think we have to strengthen our sales forces a little more. I feel that we are now becoming a development-oriented company. Among those who develop the product, there are those who make the product and those who offer customized solutions for projects, and the people who make the product account for about 13% of the total?

**Yamada:** Those who make products are half of that. That’s not true. Approximately 12% to 13%.

**Umeda:** About that many of people make a product. Sorry. It accounts for about 13% of the Company’s total, about 62 employees are doing projects, which is calculated by subtracting 13 from the 75. So, of the 13% of them, which is larger? Cost for R&D or cost capitalized in the form of product upgrades?

**Yamada:** Cost capitalized in the form of product upgrades is larger.

**Umeda:** I feel that is a little large. The annual R&D expenditure is about 0.1 billion yen.

**Yamada:** Yes. In the current fiscal year, it is just under 0.1 billion yen.

**Umeda:** Just under 0.1 billion yen. That’s what I think. The rest is marketing expenses, and it was also the expenses of doing the exhibition. But I think that there is not more than 0.1 billion yen spent.
Moderator: Do you have another question?

Participant: Yes, thank you. Are R&D expenses spent heavily on AI now?

Umeda: Yes. Now AI is the main.

Participant: Thank you.

Moderator: Now, we will conclude the financial results briefing. If you still have a question, please feel free to ask questions directly during the remaining time.

We will conclude the financial results briefing. Thank you for your attendance today, and thank you to the two speakers.

[END]

Document Notes

1. Portions of the document where the audio is unclear are marked as follows: [Inaudible].
2. This document has been translated by SCRIPTS Asia.
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