# Event Summary

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<th>[Company Name]</th>
<th>System Integrator Corporation</th>
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<tr>
<td>[Event Type]</td>
<td>Earnings Announcement</td>
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<td>[Event Name]</td>
<td>Financial Results Briefing for the Fiscal Year Ended February 2020</td>
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<td>[Fiscal Period]</td>
<td>FY2019 Annual</td>
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<td>April 16, 2020</td>
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<td></td>
<td>Hiroyuki Umeda        President and CEO</td>
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Support

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<tr>
<th>Japan</th>
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<tbody>
<tr>
<td>Tollfree</td>
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<td>North America</td>
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</tbody>
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First of all, I would like to explain and introduce the Company. We were established in March of 1995 and now 25 years have passed. We started with three people in the form of a corporate dropout, and 212 people are now enrolled.
We are a software company, and we are making and selling products in the packaged software area, as noted in the upper right pink area.

In the case of Japan, outsourced development at the lower right accounts for a large proportion, but the European and US style companies competing in such packages account for around 8% of the total, and we are one of them. In the past, we used to create and sell products, but today's products are basically being provided in the cloud.
This is the figure for each business area. The outside part of the graph on the left shows net sales and the inside part shows operating income.

For the fiscal year ended February 2020, the sales are in the green area. The ERP division is quite large, followed by ecommerce division and then the Object Browser division.

Currently, we have earned profits from these three business divisions.

Concerning benefits, the ERP and the ecommerce are package-based customization work. They are in the form of a package plus customization, which is also shown on the right, and the profit margin is certainly higher than that of ordinary consignment development. However, this blue Object Browser business has a fairly higher profit margin by selling products or providing them through cloud services.

In terms of profits, the Object Browser division is the biggest earner.

We have set a goal of increasing the ratio of stock-type businesses year by year, and in 2019, it was finally 23.9% compared to 2014. In addition, this year, next year, and the year after, we plan to gradually increase this ratio by providing all new products in the cloud.
This is our business performance since our founding. We had been profitable since the first period, but it was sluggish for two years when the IT bubble burst, and in the wake of the Lehman crisis, only one period saw a slight deficit for the first time.

After that, it recovered, but once there was a trouble project worth about JPY1 billion, and that project alone had a deficit. That’s why we had a concave period, and since then, we feel we’re returning to the growth phase smoothly.

Concerning the coronavirus outbreak this time, a little over a year ago in October 2018, we were trying to simulate what happens if the recession hits the economy at the beginning of 2020. At that time, we looked back once again on what happened at Lehman’s time, and based on that, we had worked out countermeasures for a little over the next year.

Although we didn’t foresee coronavirus outbreak this time, we predicted that a big recession would occur every decade. We were just preparing for it, but now I feel that it was a much bigger wave than I thought.
This is the settlement of accounts for the fiscal year ended February 2020. Percentage is shown on the right-hand side. Sales increased by 12% YoY in 2020, and operating profit increased by 21.5%. Ordinary income increased by 19.2%, so I think we were able to do very well. In terms of net income, due to the tax effect after the previous fiscal year's deficit of JPY1 billion, net income for the period before the previous fiscal year and for the period before the previous fiscal year increased due to the tax effect, so it has declined to some extent, but basically the business is performing very well in this year.

It was very difficult to anticipate this for 2021, and we exchanged opinions with other companies about whether they would make a variety of predictions or not within the industry. Actually, we were expecting a little higher before the coronavirus outbreak, but as it is influenced by the coronavirus, the upper limit is held down a little.

It's often said that it would be worse, and it may be, but it's hard to see what's going to happen. In some cases, we were making preparations, and in other cases, a big shock wave may be delayed to come to us in the case of IT, like the Lehman's time.

Among them, many projects are for one and a half years or one year in terms of ERP and EC. Due to the existing order backlog or such, there was an effect, and work would not be immediately eliminated, so we now estimate that the growth rate will be positive even at the lower end of this range compared to the previous year.
This is the balance sheet. The balance sheet itself has not changed so much, but what recently has changed slightly internally has been that, so far, because we have always been making our products, when we sell our products on-premises, we have amortized them for three years. However, when it becomes a cloud business, creating a cloud system is not for selling to such customers, but rather creating a system in-house. So, it has changed to depreciation for five years in the form of own assets, or systems for its own use. The impact has not been so great, but that's what's happening these days.
This section summarizes the results for the fiscal year ended February 2020 by division. The ecommerce, the ERP/AI, then the Object Browser business, each increased in sales, and operating income in Object Browser business was a little negative.

I would like to supplement two points. One is about ERP. There may be an impression that ERP’s profit is small despite its large sales, compared to EC. However, the AI business is brought together to this ERP so far, and it is still very much being invested. The profit margin of ERP seems to be low, but this is because the profit margin of the AI business is still red, or negative. EC has a higher profit margin, but I think ERP’s profit margin is also fairly good enough now.

Another is that Object Browser’s net sales and operating income growth rates are slow, but now one of Object Browser’s mainstay products, Object Browser PM is fairly cloud-based. In addition, Object Browser Designer is sold only in the cloud. Therefore, the percentage of cloud products is high. In the case of the cloud, it takes three years to make as much profit as on-premises. It is finally about the same as on-premises after three years, and the cloud will grow thereafter. This is the first year of such scenario, so growth has been somewhat sluggish. The same figures will continue for the next year. The year after, we will finally be able to break even.
The YoY comparisons between the second and fourth quarters of each division’s sales and profits are shown here; the numerical value in the form of current term and next term expectation.

Although sales of TOPSIC are increasing in large part, we are still pouring money into the system and expanding the system, and we are planning to continue with the deficit a little more.
In addition, we are involved in the packaging business by focusing on a high-profit structure, and we have been focusing on profit margins. The gross profit margin of e-commerce business is 44.8%. We have targeted 40% for a long time, but from around the 24th fiscal year, it has surpassed 40%, and we believe this figure is quite favorable at 44.8%.

ERP’s scale is large per sale, so it doesn’t go so far. However, the profit margin is increasing year by year and it feels that it won’t be losing to e-commerce.
This is the third, as I mentioned earlier, where we will increase the percentage of cloud services, and while it has increased by 5.7% YoY in the 25th fiscal year, we are currently undertaking a full-scale renewal of Object Browser PM. This time we will release a web version, and when that happens, it will only be sold in the cloud. Therefore, the percentage of the cloud is expected to increase considerably.
As I mentioned earlier, the main segments are ecommerce, followed by Object Browser, and then ERP of GRANDIT. In addition, the AI business specializes in defect detection using deep learning. Moreover, the programming skill evaluation service called TOPSIC is steadily growing.
Regarding the mid-term management plan, the three-year plan targets FY2018, FY2019 and FY2020, and this year is the third year of the plan. We were trying to be a little ahead of schedule and it was growing with a good feeling, but due to the coronavirus outbreak, we are now looking at it in the range. At present, we have shifted from an aggressive stance toward a defensive stance, reducing costs and thoroughly scrutinizing where each division can cut. In any event, this fiscal year we are working to reduce costs and to cover the division with a portion of the decline.

Whether or not sales will reach this point, we are engaged in a strategy of securing profits.
Shareholder returns, as shown at the bottom, are performance-based dividends, and have been paid at a payout ratio of 30% for many years. As I mentioned earlier, last year’s dividend was JPY16 because of the special tax effect and the high net profit. However, this year’s performance was a little better than the plan of JPY12, so the dividend increased by JPY1.
This is a shareholder benefit program, which is quite popular, because it has been for a long time, and we have just given out some carefully selected rice to our shareholders.
In addition, we are very careful and we attach great importance to this point. We are proud of the fact that we have been working for more than 10 years to create an environment in which everyone can work comfortably, not only in name, but also in reality. The effort is highly valued and we have received a variety of awards listed here.

The term remote work has suddenly become famous, but we have been selected as one of the 100 most famous telework pioneers, and we are doing it early. Today, we have been using Teams internally for some time, and we have established the use of Zoom outside the Company.

The rate of taking annual paid leave is just under 80% and non-statutory average overtime working hours are around six hours. The employee retention rate is 96%. These figures are extremely high in this industry. The problem of people is a problem in this industry, but I think we are doing fairly well in hiring people and establishing them.

Briefly, I have explained the Company.
Question & Answer

Umeda: I would like you to ask a few questions. I think you have a button on hand to raise your hand. If you have a question, could you raise your hand? Do you have any questions?

It’s a remote briefing today and I’m not used to it, but thank you everyone for listening. I will finish the meeting here. Thank you very much.

[END]

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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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