

Results for the 1st Quarter of FY March 2021

August 6, 2020

Nihon Unisys, Ltd.

Foresight in sight

(Note) The expression 'FY/Fiscal Year' utilized in this document indicates a fiscal year which finishes at the end of March of the following year.

Example: The expression of FY2020 refers to the fiscal year ending March 2021.

- ✓ Despite a continued strength of outsourcing services, net sales were lower in contrast with Q1 of FY2019 when a large-scale product sale was posted.
- ✓ Sales activities were limited in response to COVID-19, while R&D efforts remained active. As a result, SG&A costs were reduced. Operating income was thus increased.

(Unit: Billion Yen)

	Q1 (Apr-Jun)		Changes	
	FY2020	FY2019		
Net Sales	64.1	65.2	-1.0	-1.6%
Gross Profit	15.7	15.7	-0.1	-0.4%
SG&A Costs	-12.4	-12.7	+0.3	+2.1%
Operating Income	3.3	3.1	+0.2	+6.7%
(Operating Margin)	(5.1%)	(4.7%)		(+0.4pts)
Profit Attributable to Owners of Parent	2.1	2.6	-0.6	-21.0%
Orders	54.8	67.6	-12.7	-18.8%
Order Backlogs	221.3	229.0	-7.6	-3.3%

<Key Points of Q1 Performance Results>

■ Net sales

Outsourcing services remained strong. However, net sales were lower in contrast with Q1 of FY2019 when a large-scale product sale had been posted.

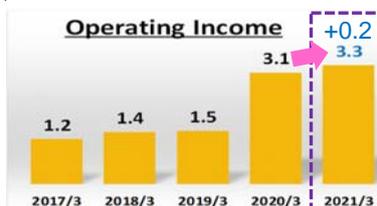
■ Operating income

The decrease in net sales made only limited impacts on gross profit, as Products Sales performed. Lower SG&A costs mainly composed of general expenses contributed to an increase in operating income despite continuous implementation of active R&D efforts.

■ Orders and order backlogs

Orders and order backlogs decreased due to customers considering system development for a longer time than before as well as our limiting sales activities in response to COVID-19.

[Reference] 5-Year Changes of Q1 Results (Unit: Billion Yen)



This is Hiraoka, CEO of Nihon Unisys, Ltd.

Normally, CFO summarizes our first quarter performance.

It has become difficult to have direct contact with investors due to the COVID-19 novel coronavirus pandemic, and our business environment has become unpredictable. Thus, I would like to hold this performance briefing session today as an opportunity to convey my present thoughts directly to our investors.

First of all, I would like to summarize the performance of the first quarter of the fiscal year ending in March 2021.

Net sales were ¥64.1 billion, a decrease of ¥1.0 billion compared with the first quarter of the previous fiscal year. Operating income was ¥3.3 billion, an increase of ¥0.2 billion. Net income (profit attributable to owners of parent) was ¥2.1 billion, a decrease of ¥0.6 billion.

Outsourcing services continued to be steadily accumulated. However, we had posted a large-scale product sales project in the same quarter of the previous fiscal year. Compared with the past quarter, net sales are lower by ¥1.0 billion. That sales project proved to be not so profitable. It helped gross profit remain almost unchanged from the same quarter of FY2019. SG&A costs decreased by ¥0.3 billion compared with Q1 of FY2019, attributable to R&D cost increases outweighed by reduced general expenses as a result of limited mobilities of sales activity in response to the COVID-19 pandemic. This helped operating income increase by ¥0.2 billion on a year-over-year basis. Posting a decrease in non-operating income such as dividend income and loss on valuation of investment securities as an extraordinary loss reduced net income (profit attributable to owners of parent) by ¥0.6 billion from the same quarter of the previous fiscal year.

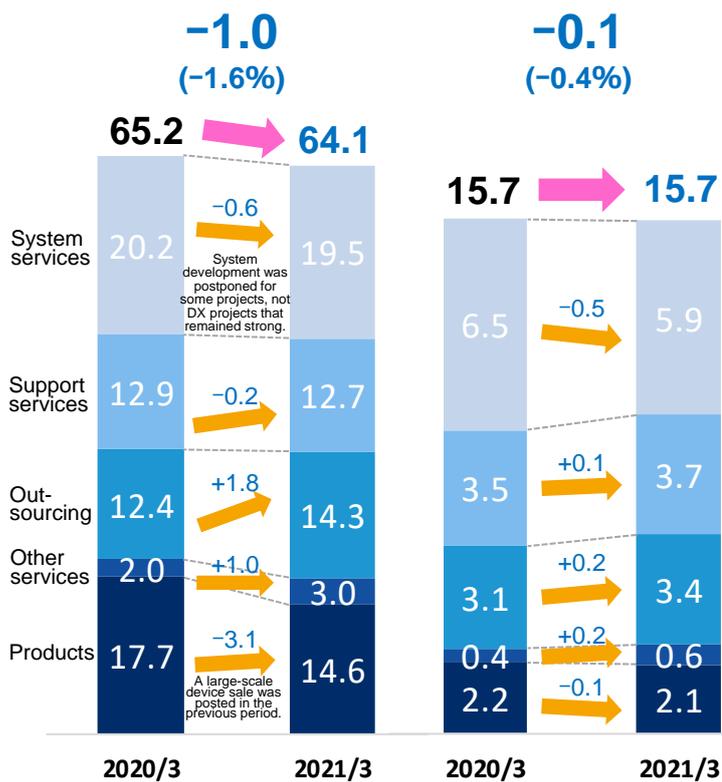
Orders were reduced by ¥12.7 billion on a year-over-year basis. This is ascribable to impacts of the spreading COVID-19 pandemic. Our sales activities were partly limited. Customers postponed system development schedules and project considerations mainly in the ICT Core business area. Order backlogs decreased by ¥7.6 billion in accordance with the reduced orders.

We are faced with extremely tight numbers of orders and order backlogs in this quarter. However, we hope that we will recover orders in accordance with resumed economic activities. This assumption is based on our witnessing that sales activities once limited have been gradually resumed in the wake of the declaration of the lifting of the state of emergency. Also, we have seen many inquiries from customers keen on investments in the DX-related areas.

(Unit: Billion Yen)

Net Sales

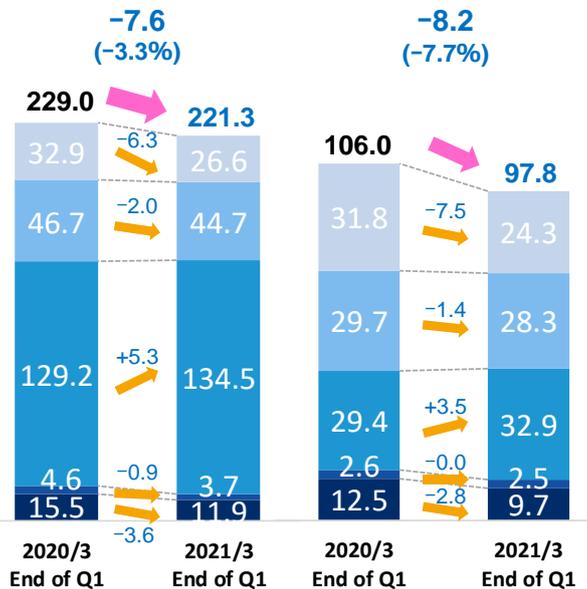
Gross Profit



【Reference】

Order Backlogs (Total)

Order Backlogs (to be posted as net sales within the FY)



Next, let me explain the situations by segment.

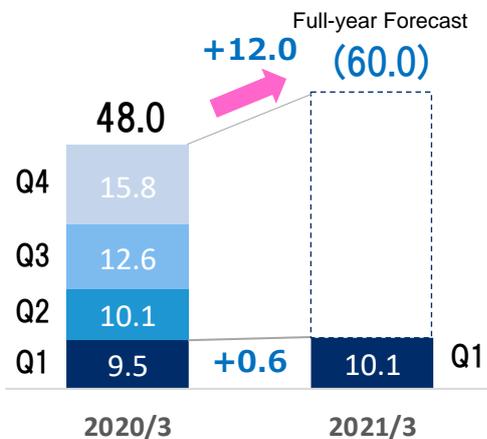
System services projects related to digital transformation (DX) were comparatively strong. However, we suffered postponements of production operation phase and revisions of system development schedule of some large-scale system services projects under stress of the COVID-19 pandemic. As a result, despite the strength of DX-related projects, we posted a decrease in net sales and gross profit of system services. We posted a ¥0.5 billion loss provision to care about an unprofitable project. This provision outweighed our fruitful efforts to improve productivity as well as the growth of DX business. As a result, gross margin was slightly lowered. Although we had a system development project suffering cost-overrun up until the previous period, we have begun to enter a production phase sequentially for individual development parts, as planned. However, we regrettably saw a postponement of production phase in a different project. We made the loss provision for the project in this quarter.

Support services' net sales slightly decreased. However, our efforts to reform the cost structure such as consolidating Support bases have come to gradually bear fruit. Accordingly, the gross profit of this business segment increased.

We launched new outsourcing projects partly for financial institutions in the fourth quarter of the previous fiscal year. Furthermore, small- and medium-sized IT outsourcing projects were steadily accumulated. Accordingly, we posted an increase in the net sales and gross profit of outsourcing business.

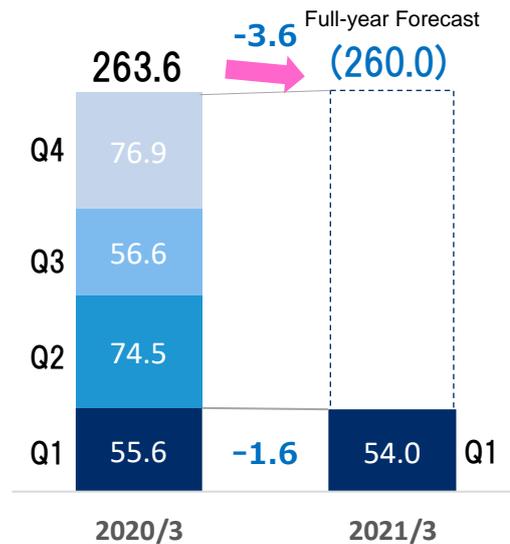
Products sales are less than Q1 of FY2019. In the previous quarter, we posted an AI-related large-scale device sale.

Net Sales of Focal Areas



- Robust DX-related businesses mainly based on customer interaction system
- Steady increase in the usage of dashcams (event data recorders) and energy-management services

Net Sales of ICT Core Areas



- Impacts of postponing a production operation phase or an entire project mainly on part of mission-critical system renewal projects
- Steady increase in outsourcing service quantity

Let me describe the business situations of focal areas indicated in the mid-term management plan.

Net sales of the focal areas were ¥10.1 billion, up by ¥0.6 billion, compared with the same quarter of the previous fiscal year. We saw a steady performance of DX-related business for a broad range of business sectors as we had seen in the previous fiscal year. The business performance could absorb a year-over-year negative difference in the net sales of this quarter, which is worth an AI-related large-scale device sale posted in the Q1 of FY2019. As a result, an increase in net sales was enabled.

Fee-for-service businesses related to inbound tourism and carsharing service have drastically sagged under the effect of the COVID-19 pandemic. However, our fee-for-service net sales slightly increased compared with Q1 of FY2019. This increase was enabled by the transaction amount of value-card business eventually bottoming out after having gradually decreased throughout FY2019. Furthermore, a steady increase in the use of dashcam service and energy-management services conducted to the increase in the net sales.

- ✓ We keep the growth prediction numbers indicated in the mid-term management plan.
(No revisions of the previous announcement on May 18, 2020)

(Unit : Billion Yen)

	FY2019 Full-Year Actual			FY2020 Full-Year Forecast			FY2020 Targets stipulated in the mid-term management plan
	Amount	Yr/Yr Changes		Amount	Yr/Yr Change		Amount
Net Sales	311.6	+12.5	+4.2%	320.0	+8.4	+2.7%	320.0
Operating Income	26.1	+5.5	+26.8%	26.0	-0.1	-0.5%	
(Operating Margin)	(8.4%)		(+1.5pt)	(8.1%)		(-0.3pt)	8.0% or more
Profit attributable to Owners of Parent	18.2	+3.9	+27.7%	17.0	-1.2	-6.5%	

(Note) See the supplementary material for the full-year forecast breakdown.

Let me describe our performance forecast for the fiscal year ending March 2021.

We now operate in a business environment where customers are interested in making IT investments mainly in the digital transformation area, as indicated in many inquiries that we have been receiving. However, partly due to the continuously spreading novel coronavirus pandemic which may impact customers' capabilities to inspect and accept, we cannot avoid allowing a reasonable leeway in estimating timings to post sales for on-going projects. In addition, we now provide free-of-charge services related to remotely working and teleworking as well as disaster countermeasures from our standpoint of contributing to society. Under the circumstances where the COVID-19 pandemic is expected to linger, it is becoming extremely difficult for us to figure out right timings to shift the services to fee-payment services. We now estimate that we will finish our first half with a result in the acceptable range of a baseline which is the performance for H1 of FY2019. We assume that the range could be positive or negative considerably. Therefore, we will refrain from announcing our performance forecast for the first half.

As I mentioned, we have leeway with timings to post sales. Be that as it may, we do not assume a significant gap from the target numbers indicated in the mid-term management plan that we had decided to keep at the beginning of this period. Accordingly, we do not revise our full-year performance forecast.

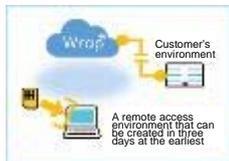
We have seen impacts of the COVID-19 pandemic mainly on our businesses to renew mission-critical systems for customers of some business sectors. We have been experiencing postponements of system production operation phase or even system renewal projects.

On the other hand, we have seen workstyle reform promoted partly through efforts related to remote work, and strong demands for security enhancement. Customers are witnessing a paradigm shift thus driven, and they will further accelerate their business model structures. Accordingly, we expect that we will have more DX-related business opportunities for our group.

- ✓ Strong demands for services related to workstyle reforms such as telework as well as security enhancement
- ✓ Provide services to help customers solve issues about their business continuity

➤ Services related to telework

■ Wrap®, a cloud-type network service



We launched a free-of-charge Wrap service in the early part of March. Inquirers about the free Wrap service: 51 companies. Approx. 70% continue the service

Case of implementation:

JAPANET HOLDINGS Co., Ltd.

The system was launched in April as a platform for workstyle reform promotion. It is used as part of the customer's ICT infrastructure to enable a scheme 'Hotel Juchuh (accept orders at hotel)* to continue a Call Center business.



The scheme to ensure social distancing at Call Center

■ Packaged solution for telework

A ready-to-use packaged Wrap service for telework was released on June 1. The solution comprises providing PCs and managing operations.

■ Uni-Contract®

The service breaks away from traditional seal usage by interlaying electronic signature with existing business workflows.

■ Network infrastructure development

Solve issues about creating a network infrastructure.

Case of implementation:

A major cram school operator (provider of private extra classes)

Prompt development of a wide range of network infrastructure capable of coping with an increase in teleworking employees in response to cancelling in-person classes due to the spreading COVID-19 pandemic. The network infrastructure can support 74 school facilities in total without security concerns.

➤ Service related to workstyle reform

■ AFER™, automatic form-data input solution

A trial operation for a new function of our existing service AFER™ began. The new function via smartphone can help the service promote paperless businesses without compromising social distancing.

➤ Service related to security

■ Uniadex CloudPas™, cloud security service.

Providing a cloud-type security service with an awareness of zero trust security.

*new attempt to lease an entire wing of hotel that suffers a loss of demands due to the COVID-19 pandemic, and use it as a Call Center facility

Last but not least, let me describe our efforts to deal with the novel coronavirus pandemic.

The Nihon Unisys group companies endeavor to continue businesses by placing maximum priority on safety of our stakeholders such as employees, customers, and business partners.

The entirety of our group had shifted to telework before the state of emergency was declared in April. We have executed and continuously implemented various types of measures throughout our businesses in order to prevent COVID-19 from further spreading.

We have seen extremely strong demands for services related to workstyle reforms and telework as well as security at this point in time. We have been keenly responding to many customer inquiries.

Wrap, cloud-type network service provided by UNIADEX, Ltd. of our group was launched free of charge in early March. We have received extremely many inquiries since then. One example is our service that we launched in April for JAPANET HOLDINGS. The customer performed further than its internal efforts to promote telework. The company borrowed an entire hotel and uses it as its Call Center facility where employees can avoid the Three Cs* and at the same time can continuously perform Call Center duties in a secure environment. Our ICT infrastructure service for the scheme 'accept orders at hotel' helps the customer continue its businesses and ensure safety.

*the "Three Cs"1. Closed spaces with poor ventilation. 2. Crowded places with many people nearby. 3. Close-contact settings such as close-range conversations.

In addition, our group helped another customer that operates cram schools (to provide private extra classes) solve their long-time issue of network infrastructure for all of its school facilities. The network infrastructure that we created enables the customer to cope with an increase in teleworking employees as a result of cancelling in-person classes in response to the spreading COVID-19 pandemic.

We would like to provide continuously various types of services based on digital technologies that can contribute to ensuring the safety and security of customers and society and helping customers continue their business operations.

This concludes my briefing. Thank you for your time and attention.

Foresight in sight

UNISYS

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(Note)

Forecasts in this document rely on judgments and assumptions based on information available at present. Actual results may differ from the forecasts due to changes in risks, uncertainties, economy and other factors.

Thus, the certainty of these forecast is not guaranteed by our Group.

Also, the information is subject to change without prior notice in future.

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