

# Results for the 2nd Quarter of FY March 2021

November 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.

# 1 Summary of Financial Results

## 2 Efforts in accordance with the Mid-term Management Plan

✓ Increased gross profit attributable to improved profitability and decreased SG&A expenses pushed up operating income.

(Unit: Billion Yen)

	H1 (Apr-Sep)		Changes	
	FY2020	FY2019		
Net Sales	144.6	149.7	-5.2	-3.4%
Gross Profit	37.7	37.4	+0.3	+0.9%
SG&A Expenses	-26.2	-26.4	+0.2	+0.8%
Operating Income	11.6	11.0	+0.5	+5.0%
(Operating Margin)	(8.0%)	(7.4%)		(+0.6pts)
Profit Attributable to Owners of Parent	7.6	7.9	-0.4	-4.6%
Orders	141.7	138.3	+3.4	+2.5%
Order Backlogs	227.8	215.1	+12.7	+5.9%

## <Key Points of H1 Performance Results>

### ■ Net sales

Despite a significant growth in outsourcing, net sales decreased due to a decline in products sales ('products') and systems services mainly of the ICT Core area.

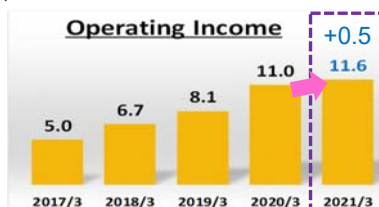
### ■ Operating income

Despite the decline in net sales, gross profit increased due to improved profitability. While R&D costs for new business creation increased, SG&A expenses decreased as a result of a decline in general expenses mainly attributable to restricted movements under the COVID-19 pandemic. Thus, operating income rose year-on-year, and operating margin was 8%, the full-year target.

### ■ Orders and order backlogs

Both orders and order backlog were driven up by receiving several orders for long-term large-scale outsourcing project under the circumstances where sales activities have been gradually resumed. Order backlogs to be posted in FY 2020 recovered to almost the same level as Q2 of FY2019.

[Reference] 5-Year Changes of H1 Results (Unit: Billion Yen)



Here is an overview of the financial results for the first half of this fiscal year.

Net sales in the first half were ¥144.6 billion, down ¥5.2 billion compared with the same period of the previous fiscal year. Operating income was ¥11.6 billion, up ¥0.5 billion year-over-year. Profit attributable to owners of the parent was ¥7.6 billion, down ¥0.4 billion.

Net sales fell ¥5.2 billion due to decreased product sales and system services despite growth in outsourcing.

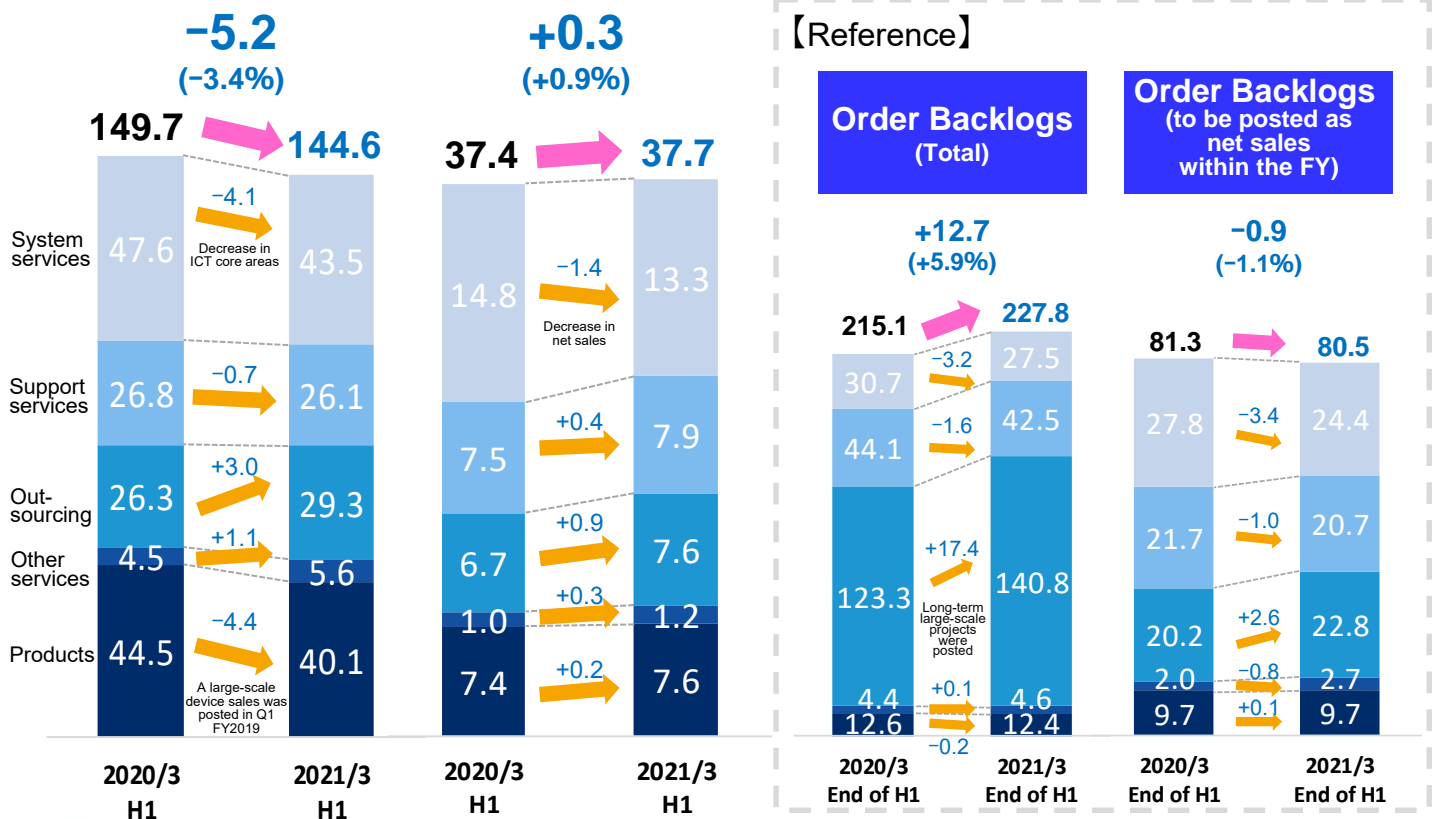
Gross profit increased ¥0.3 billion despite the decrease in net sales, owing in part to an increase in high-margin digital transformation (DX) projects and the effects of productivity improvement measures that we have been working on. SG&A expenses were ¥0.2 billion lower than the same period last year, as general administrative expenses dropped on lower travel expenses due to travel restrictions caused by COVID-19, despite an increase in R&D expenses for new business creation. Operating profit increased ¥0.5 billion year-over-year. As a result, the operating margin was 8%, improving 0.6 percentage points and reaching the full year's target level. Profit attributable to owners of parent decreased ¥0.4 billion due to a decline in dividend income and an increase in tax burden.

Orders increased ¥3.4 billion year-over-year. This was attributable to multiple orders for large long-term outsourcing projects received from financial institutions in the second quarter, despite signs of continued restraint in investments by customers in some industries due to COVID-19. The orders backlog increased ¥12.7 billion from the same period of the previous fiscal year for the same reasons. Out of the order backlogs at the end of the second quarter, the amount scheduled to be posted as net sales by the end of the fiscal year has almost recovered to the same level as the previous fiscal year.

(Unit: Billion Yen)

## Net Sales

## Gross Profit



Here is the segment performance.

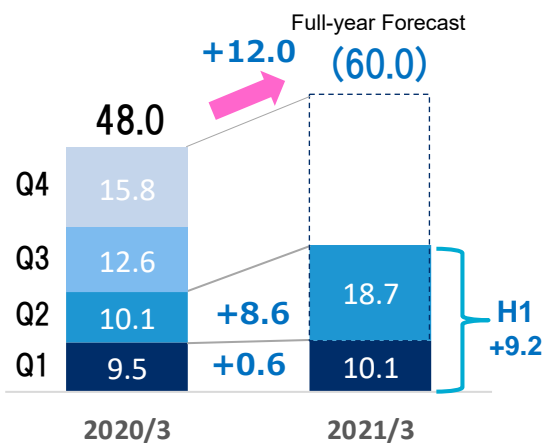
In System Services, we posted a decrease in net sales and gross profit. The decline was attributable to curtailed investments at customers in industries facing a difficult operating environment and postponements of small and mid-sized projects in the ICT Core areas, despite a steady increase in digital transformation (DX) -related projects. Note that there have been no new unprofitable projects incurred in the second quarter. We have been making progress with an unprofitable project as planned toward a production operation in the next fiscal year. (We posted a provision for the project in the first quarter.)

In Support Services, we recorded decreased net sales but increased gross profit, thanks to cost structure reforms such as the consolidation of support bases.

In Outsourcing, we saw increased net sales and gross profit. The increase was attributable to the operation of BankVision for the 11th bank customer, and a buildup in accounting services for financial institutions and small and mid-sized IT outsourcing projects across a wide range of industries.

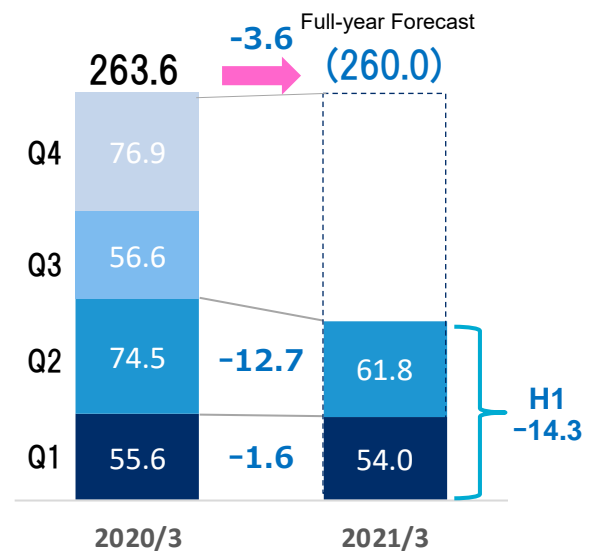
In Products (Products Sales), we logged a decrease in net sales, despite the recognition of DX projects for retailers and GIGA School projects in Q2. The net sales from Products in this first half were smaller compared with H1 FY2019 when there was an AI-related large device sales project in Q1 and a strong demand for PC and small devices such as tablets in Q2. On the other hand, gross profit inched up on improved project mix, as the large device sales project of FY2019 had low margins.

## Net Sales of Focal Areas



- DX-related services mainly for retail businesses as well as customer interaction-related services for financial institutions remained strong.
- Increase in the sales of devices to drive digital transformation in education (GIGA school program)
- Steady growth in the use of dashcams and energy management services

## Net Sales of ICT Core Areas



- Net sales decreased compared with Q2 FY2019 when demands for small devices were robust.
- Investments were held down in some sectors. Investment projects mainly related to back-office systems were postponed.

I will explain our Focal Area business under the mid-term management plan.

In the ICT Core areas, net sales decreased substantially due to order postponements caused by the interruption in sales activities during the first quarter. On the other hand, in the Focal Areas, net sales increased ¥9.2 billion from the same period of the previous fiscal year to ¥28.8 billion. The increase was attributable to a steady buildup of digital transformation-related projects and an expansion of GIGA School projects during the second quarter.

In the Fee-for-Service Business, first-half net sales increased slightly from the same period of the previous fiscal year. The increase was attributable to a steady expansion of services related to dashcam (EDR) and energy management, along with the slight upturn in the Value Card Business that had entered a downward trend in FY2019, thanks in part to stay-at-home demand, despite ongoing sluggishness in the businesses related to inbound tourism and carsharing services.

I will explain the specific progress of Focal Area businesses and our initiatives in the second half later on.

✓ The full-year forecast announced on August 6 remains unchanged.

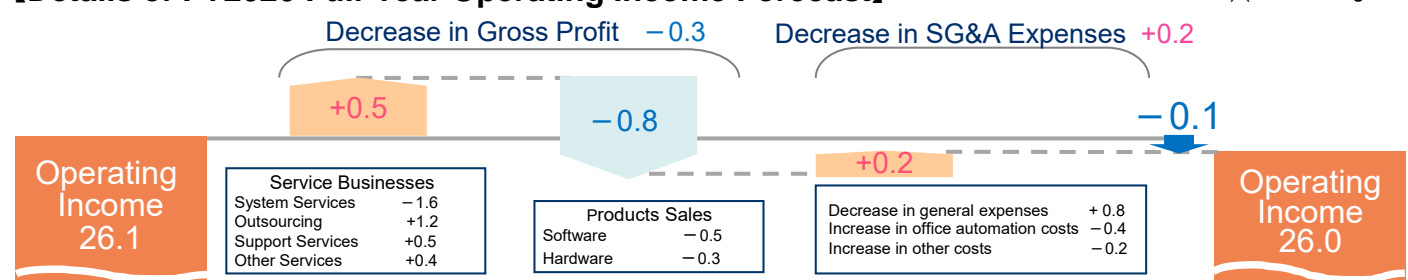
(Unit: Billion Yen)

	FY2020 H1 Actual		FY2020 H2 Forecast		FY2020 Full-Year Forecast		FY2020 Targets stipulated in the mid-term management plan
	Amount	Yr/Yr	Amount	Yr/Yr	Amount	Yr/Yr	Amount
Net Sales	144.6	-5.2	175.4	+13.6	320.0	+8.4	320.0
Operating Income	11.6	+0.5	14.4	-0.7	26.0	-0.1	
(Operating Margin)	(8.0%)	(+0.6pt)	(8.2%)	(-1.1pt)	(8.1%)	(-0.3pt)	8.0% or more
Profit Attributable to Owners of Parent	7.6	-0.4	9.4	-0.8	17.0	-1.2	

\* See the supplementary material for a breakdown of the forecast above.

## 【Details of FY2020 Full-Year Operating Income Forecast】

(Unit: Billion Yen) (Yr/Yr changes)



FY2019 Full-Year

FY2020 Full-Year

I will explain the full-year earnings forecast.

We retain the full-year guidance issued on August 6, assuming that the impact of COVID-19 on our full-year net sales, operating income, and profit attributable to owners of parent will be limited.

We currently see gradual signs of recovery in small and mid-sized projects in the ICT Core areas. We expect IT investment appetite at customers to maintain the first-half momentum centered on digital transformation-related projects. We expect to acquire business orders with a short lead time from order receipt to recording sales, especially for small and mid-sized projects and digital transformation-related projects in the second half, and the order pipeline is abundant. As a result, we retained our net sales forecast for ¥320 billion.

We also maintained our forecast for operating income and profit attributable to owners of parent, assuming that the increase in product sales will lower the profit margin in the second half.

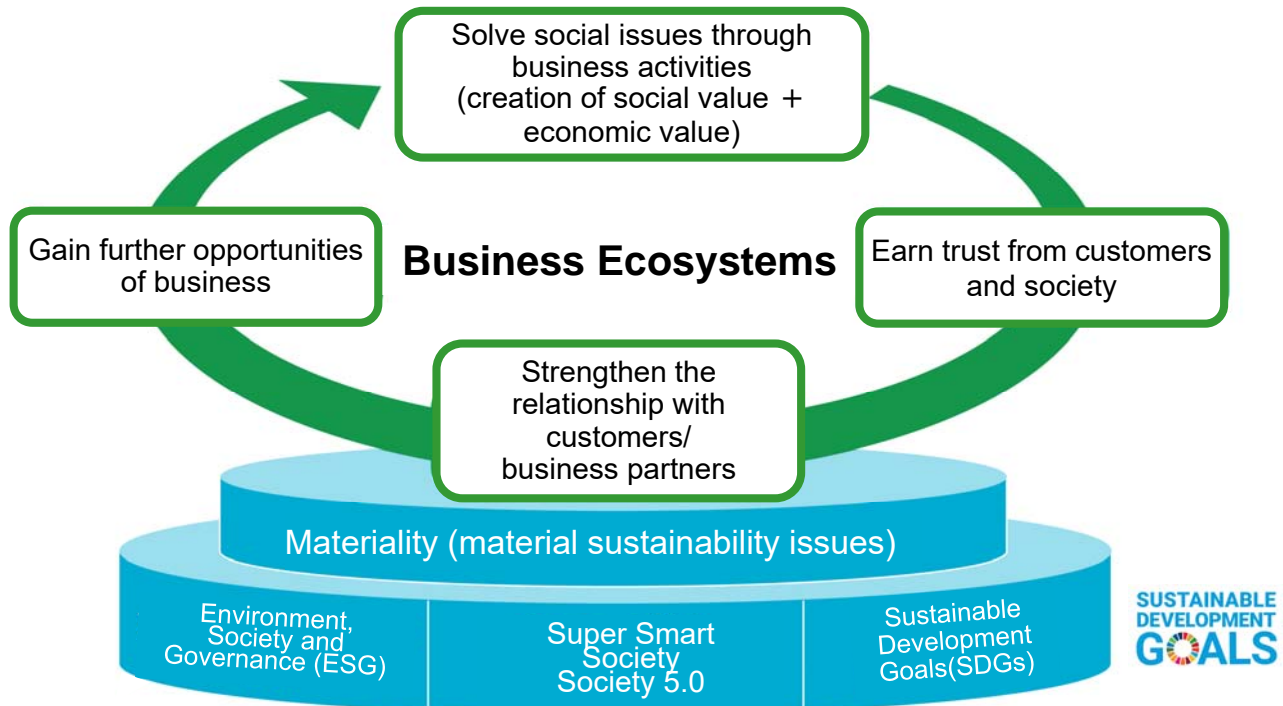
# 1 Summary of Financial Results

# 2 Efforts in accordance with the Mid-term Management Plan

Let me explain our effort status under the Mid-term Management Plan

**Become a sustainable company following a cycle of sustainable growth that is predicated on solving, through business activities in our areas of focus, social issues that lie behind issues experienced by customers**

Sustainable Growth Cycle for the Nihon Unisys Group



Next, I will go over the initiatives under our mid-term management plan, “Foresight in Sight 2020.”

Under the mid-term management plan started in the fiscal year ending March 2019, the Nihon Unisys Group has promoted business activities with the theme of solving social issues, serving as a core player in creating business ecosystems transcending boundaries of industries and business types.

While there is half a year left under the current medium-term management plan, we were faced with the need to make a major strategic shift from the period until the previous fiscal year when sales and profit were on an uptrend. This is because the COVID-19 pandemic heavily impacted the global economy and the Japanese economy since the beginning of the current fiscal year.

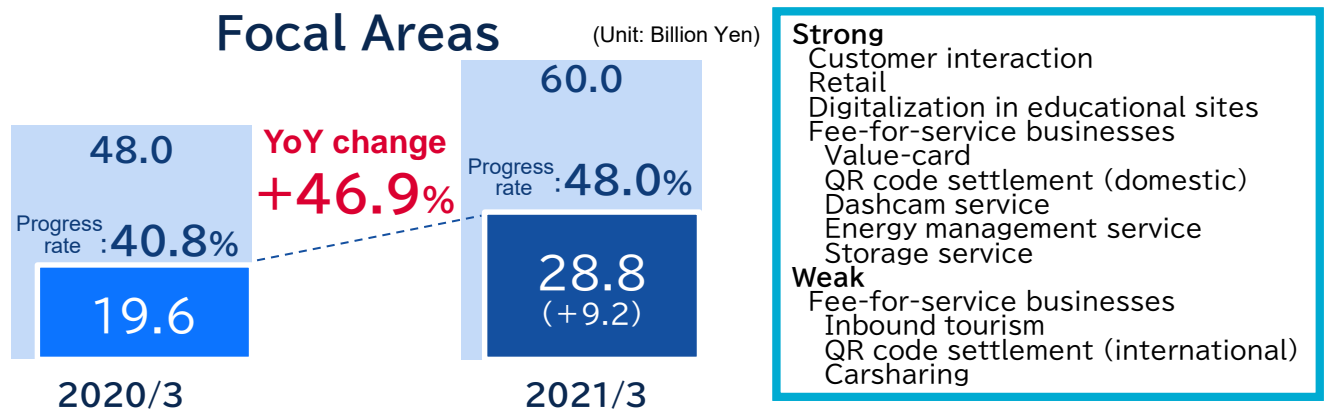
In the first quarter, we worked on social contribution activities, such as the free provision of support to customers for business continuity and widespread adoption of teleworking, in addition to such activities carried out within the Group, while placing foremost priority on preventing the spread of COVID-19.

In the second quarter, economic activities were resumed, while ongoing efforts were made to prevent the spread of COVID-19. We promoted hybrid business activities that combined online and face-to-face meetings, aiming for a recovery in orders.



## <H1 performance analysis>

In the Focal Areas, DX business grew significantly in response to robust demand under the COVID-19 pandemic. DX service, a revenue source, has become strong enough to make up for sluggish businesses. It is growing robustly and rapidly in various business sectors such as retail.



### Key factors of increase/decrease

- ✓ Reduced or postponed investments in Product sales and small-and medium-sized projects of System Services have impacted the ICT Core area.
- ✓ DX services to transform business operation such as those to strengthen customer interactions at sales offices of financial institutions and enable ESL (electronic shelf label) for retailers drove up the Focal Area sales. Workstyle reforms and digital environment development are promoted by the rapidly growing DX businesses.

First-half results were heavily affected by curtailed or postponed investments in products and small and mid-sized projects in the ICT Core areas. On the other hand, net sales grew substantially in the Focal Areas, increasing 46.9% compared with the same period of the previous fiscal year.

Investment appetite at customers has grown even stronger than the first quarter with regard to digital transformation-related projects, and we are continuing to receive a large number of inquiries. Progress toward the target for the Focal Areas is being made faster than the same period of the previous fiscal year.

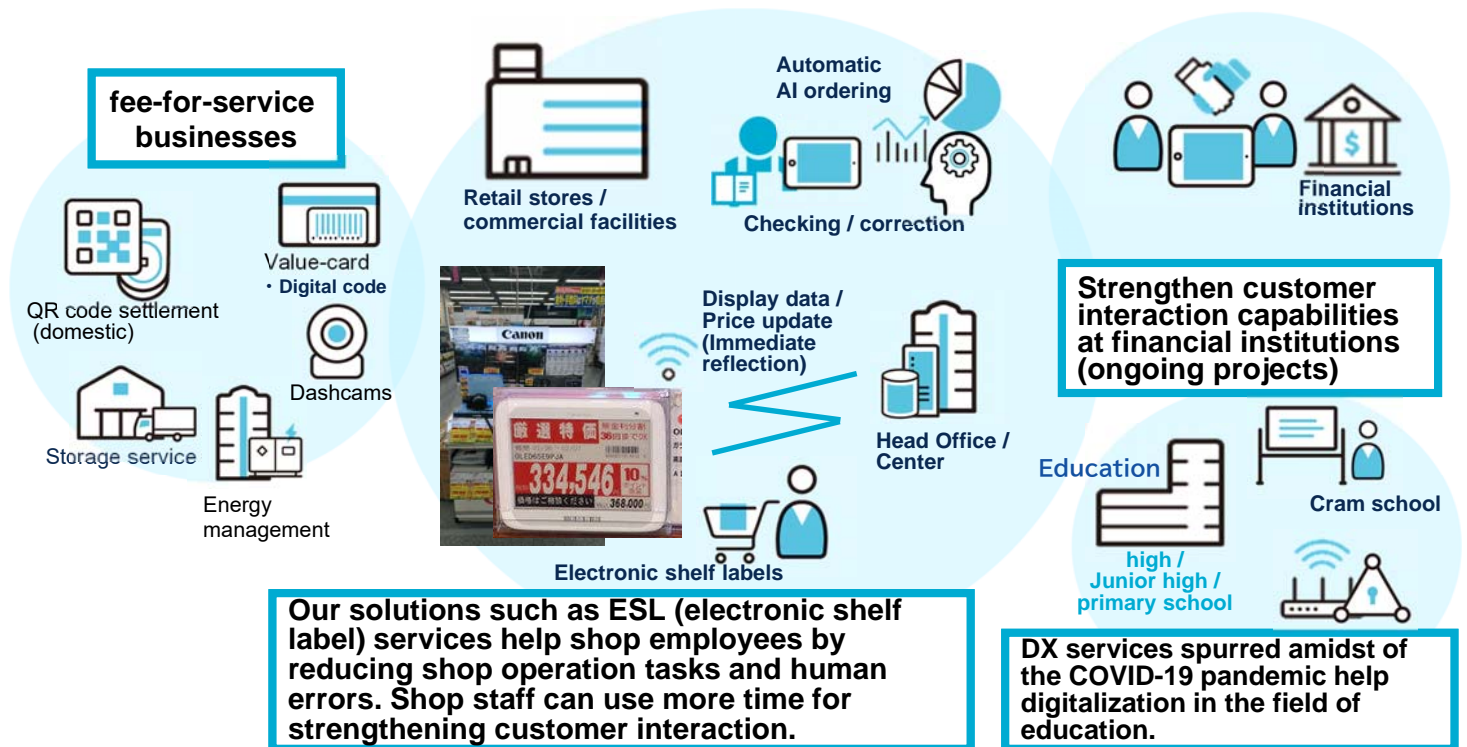
The Focal Areas grew on the expansion of the digital transformation domain, including the following: strengthening customer interaction capabilities for financial customers, which we have been working on up to now; business reform at brick-and-mortar stores such as electronic shelf labels in retail; implementation of workstyle-reform solutions that have been spurred by the COVID-19 pandemic; and the adoption of online educational settings.

In the Fee-for-Service Business, although COVID-19 has continued to impact services related to inbound tourism and car-sharing, the decrease in net sales from international transaction volume for QR and barcode payments was offset by domestic settlements.

The transaction volume of digital codes has also been solid, with increased penetration of digital money and coupon usage. Expansion of dashcam, energy management, and storage services, and the recovery in Value Card business thanks to stay-at-home consumption due to COVID-19, have contributed to increased net sales in the Fee-for-Service Business.

## <Growth of DX projects>

DX businesses for real shop services increased such as those to strengthen customer interactions for financial institutions and to enable ESL (electronic shelf label) for retailers. DX services spurred amidst of the COVID-19 pandemic has contributed to workstyle reforms and digitalization in the field of education.



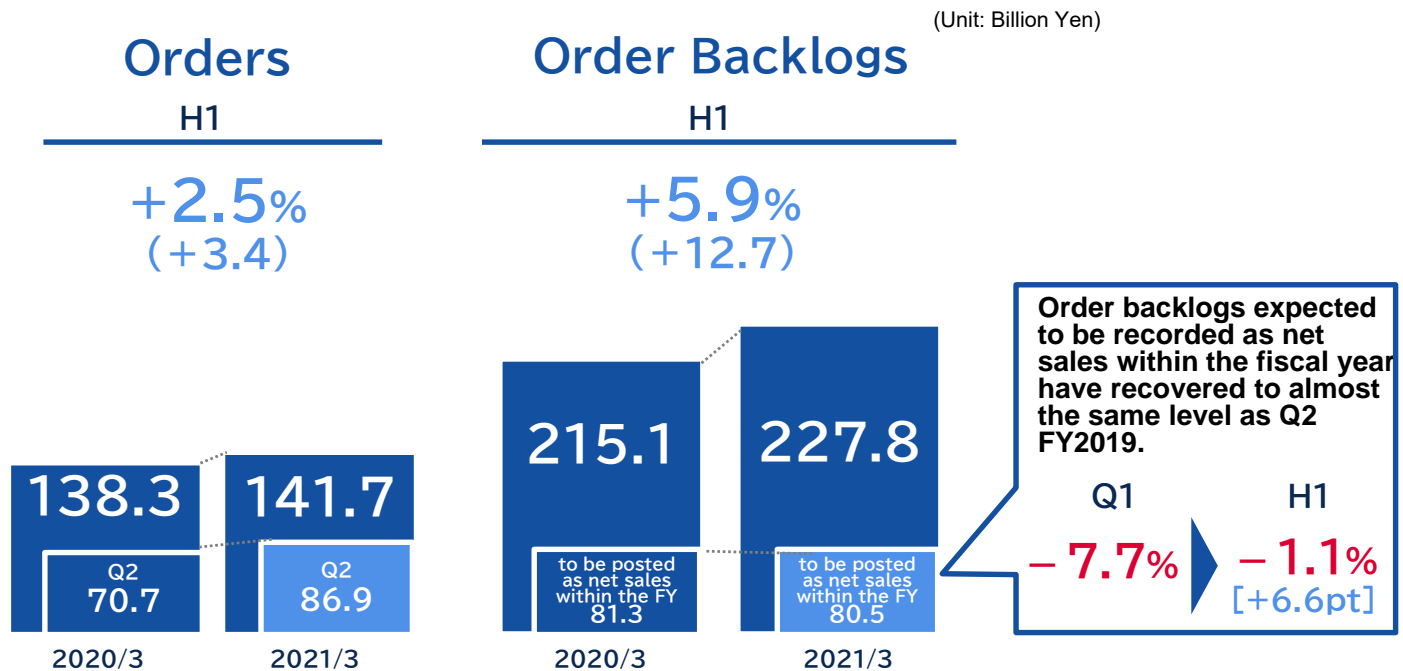
I will share some specific initiatives that we have taken in the Focal Areas explained on the previous page.

As I explained, our Focal Areas have been booming in various fields. The travel restrictions imposed by COVID-19 have spurred the shift to online modes across many industries, including the digitalization of operations at brick-and-mortar stores. We saw a buildup of digital transformation projects aimed at reducing administrative burden at financial institutions and in retail industries so that the saved time can be used to enhance customer service. As a result, the Focal Areas grew robustly.

In particular, we are gradually making progress in implementing electronic shelf labels, which is part of our IoT Business, at major mass retailers. We are contributing to substantial work time reduction by centrally processing price and shelf label design, making it possible to instantly reflect changes and save the time previously spent on changing labels such as when replacing seasonal items. By enabling real-time changes in price from our processing center, we help customers strengthen their competitive advantage.

## <Status of orders and order backlogs>

Both orders and order backlogs increased. The order backlogs to be posted as net sales in the current fiscal year have recovered to the same level as Q2 FY2019. DX businesses in the Focal Areas are expected to continue to drive up the sales in H2.



In the second quarter, orders and the order backlogs improved significantly from the first quarter, whilst society as a whole grappled with striking a balance between resuming economic activities and preventing the spread of the virus. Orders in the first half amounted to ¥141.7 billion, up 2.5% compared with the same period of the previous fiscal year, and the order backlogs stood at ¥227.8 billion, up 5.9% year over year.

Orders and the order backlogs are at higher levels than the same period of the previous fiscal year, indicating that we have secured projects that will underpin future growth even under the COVID-19 pandemic. The order backlogs scheduled to be recognized as net sales in the current fiscal year has also recovered to the same level as the previous fiscal year.

Looking ahead, we expect ongoing curtailment of capital investment, but we aim to expand net sales by accumulating orders, particularly in the Products and Software Businesses, which have a short lead time from order receipt to net sales recognition.

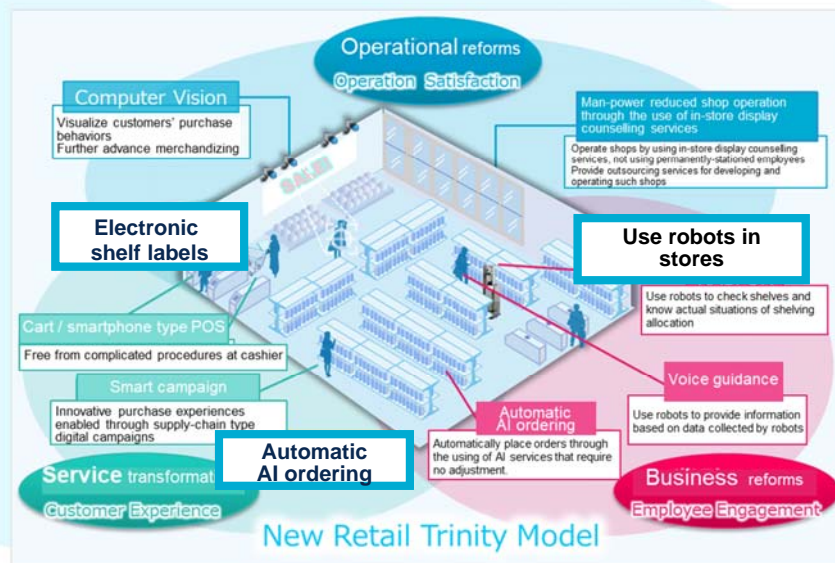
In the Focal Areas, we expect DX projects to remain robust mainly for retailers and the GIGA School Program. We aim to acquire even more projects that will help expand net sales in the second half and contribute to growth from the next fiscal year.

## <Focal Areas for the second half>

With the advent of the New Normal era, the DX field will continue to drive orders in the second half, mainly in retail.

### Business reform to support essential workers

#### Business reforms at retail stores



#### DX penetration fields / case studies

In retail, the use of AI contributes to social issues by reducing the burden on store operations and reducing food loss.

I will brief you on the domains that are supporting orders in the second half.

The retail industry is indispensable in our daily lives, and our daily lives are supported by the people who work there. The pandemic has pressed society to think about how to protect the safety of essential workers. At the Nihon Unisys Group, we are tackling this issue through digital transformation solutions to the retail industry.

The electronic shelf label solution I mentioned earlier is also part of the digital transformation of retail stores. Here I would also like to talk about our initiatives in automated orders using AI and robotics.

AI-Order-Foresight, our AI-powered automated ordering service based on demand forecasting, automatically determines the appropriate amount to order based on data such as sales performance and weather information. Realizing store management that does not depend on experience or skill contributes to the reduction of opportunity loss and disposal loss. Also, the introduction of automatic traveling robots that perform inventory and selling price checks at stores after they are closed has contributed to labor-saving in store operations.

Going forward, we will continue to steadily develop and expand ICT solutions that utilize the latest technologies such as AI and IoT, as well as core systems that comprehensively realize the merchandising process of the retail industry.

Promote our sustainability management strategies predicated upon working on businesses conducive to achieving the SDGs as well as formulating the Long-Term Environmental Vision 2050 and joining RE100 .

## Initiative to promote participation in social contribution activities

"BE+CAUS"

- Platform where opportunities of social contribution are provided through cooperation among consumers, retailers and manufacturers
- A campaign to reduce marine debris was launched, the first attempt in July 2020, by enabling participation through shopping at supermarkets



## Food loss and waste

- The cloud-based automatic ordering service "AI-Order-Foresight" automates order operations based on AI-driven demand forecasts.
- This service makes up for labor shortage in the retail industry, reduces excessive inventory in supply chain and contributes to efforts in addressing an environmental issue of food loss & waste.

## Social issues in the retail industry

Food loss in food retail  
**Approximately 640,000 tons per year**  
 Loss of daily delivery at retail stores  
**About 18,000 tons per year**  
 (about 7.6 billion yen)

Labor supply shortage in wholesale retail in 2017  
**About 220,000 people**  
 Outlook for labor supply shortage in wholesale retail in 2030  
**Expansion to about 600,000 people**  
 (5.2%)

\* Source: Ministry of Agriculture, Forestry and Fisheries "Food Loss and Recycling Situation" (May 2020)

\* Source: METI, "Monthly Topics" (March 2, 2019) PERSOL RESEARCH AND CONSULTING CO., LTD. & Chuo University, "Future Estimate of Labor Market 2030" (March 1, 2019)

## CO2 reduction, climate change

- Toward the proliferation/spread of environmental value tradings.
- The Company participated in demonstration projects selected as 'Virtual Power Plant Construction and Demonstration Project for Fiscal 2020'
- The Company established the NUL Group's Long-Term Environmental Vision 2050 and joined RE100



I would like to explain the Group's main sustainability initiatives in the first half.

We have begun to provide BE+CAUS, a social action platform that allows you to participate in social contribution through daily shopping. We hope to create a major movement toward achieving the SDGs through collaboration between retailers and stakeholders in collectively tackling social issues against the backdrop of heightened awareness toward solving such issues.

As I stated just now, we started offering AI-Order-Foresight, a cloud-based automated ordering system, as part of our initiative to reduce food loss & waste by using AI to help forecast demand and automate ordering work. We aim to solve environmental problems by reducing food loss & waste by eliminating labor shortages in the retail industry and reducing excess inventory in the supply chain.

Furthermore, as part of our initiatives to reduce CO2 emissions and counter climate change, we have formulated the Group's Long-Term Environmental Vision 2050 and joined RE100 in addition to ongoing efforts in proliferating the environmental value trading, including non-fossil fuel energy certificates. Through these initiatives, we aim to realize a circular economy society by 2050.

In these ways, the Nihon Unisys Group will work to solve social issues together with various stakeholders through our business. We will continue to promote sustainable management, aimed at contributing to the creation of a sustainable future society and realizing the Group's sustainable growth.

This concludes our earnings presentation.

# 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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