

Nihon Unisys, Ltd.
Earnings Announcement
for the Second Quarter of the Fiscal Year Ending March 2022
held on November 2, 2021

Principal Questions and Answers

(with certain details modified in an attempt to provide readers with a deeper understanding.)

[Questioner A]

Q : System Services orders made a strong comeback in Q2 (July-September period). May I ask about conducive factors?

A : We received orders specifically for digital transformation (DX) projects. These orders drove revenue. We saw a steady recovery of small and medium-sized projects in the System Services revenue of Q2. We expect that the recovery will continue.

Customers in the business sectors and industries where the movement of people is involved have continuously postponed new investment projects. But, they do not cancel projects. Thus, we expect that they will resume investments if their business prospects improve in accordance with the movement of people recovering. We see signs of the COVID-19 pandemic fading away before we can expect a return of human mobility. We will have the movement of people definitely again, although we do not know how to predict the timing.

Q : SG&A costs increased by 7% in Q1 compared with the same quarter of the previous fiscal year. The costs decreased by 1.4% in Q2 on a year-over-year basis. May I ask about reasons for the changes?

A : A decrease in R&D costs on a year-over-year basis is a key reason for the decrease in SG&A costs in Q2. Some of the R&D costs have been dragged on to the second half of the fiscal year. Therefore, R&D costs will increase in the second half.

Q : I would like to know the situation of your core-banking system for financial institutions, "BankVision". You have increased specifically regional bank users. For the past two to three years, amply-funded government-affiliated financial institutions have come to join as users. Your customer base has been expanding to include a new layer, as exemplified in the most recent use of "BankVision on Azure" by a financial institution belonging to the Second Association of Regional Banks. Does it mean that you can get rid of your past pattern of winning over one bank per year and increase users more quickly?

A : A purchase of the "BankVision" service meant a critical decision of replacing a core-banking system for regional financial institutions. The customers spent a long time for considerations and examinations. Also, we spent a significant amount of resources for implementing the

system. However, we have recently seen a budding movement among financial institutions to share information with regional businesses on the basis of core-banking systems and train employees in their own DX promotion initiatives with an aim to strengthen their capabilities of consulting regional businesses and supporting them in their DX promotion initiatives.

The latest user of BankVision has decided to avail itself of various types of services in addition to BankVision, further than switching its core-banking system. The bank decided to steer a course towards a self-managed system development by training its own employees. The bank intends to become a regional financial institution that contributes to the local economy. I think that financial institutions will aspire more than being content with their growth on the basis of financial services. They will be keener on making business decisions for also developing regional economies through consulting and DX promotion services. We feel that those banks are turning the tide. As they will increase in the future, "BankVision on Azure" and our service-type solutions will be used more broadly. We hope that we can serve slightly more compared with one or two banks per year in the past.

[Questioner B]

Q : You referred to a large-scale System Services order intake in Q2. I would like to know the contents and price. Also, what business sectors are showing signs of recovery?

A : It is a project of public utility service (a waterworks bureau of local autonomous body). It was about ¥2.0 billion. Also, we posted an approx. ¥1.0 billion project related to BankVision. DX projects for retailers are increasing. Business sectors dealing with human mobility have suffered continuously. Except the business sectors, we have seen an increase in the total order intake. We feel that projects that lagged a bit in Q1 have come to be driven all at once in Q2.

Q : Outsourcing revenue decreased in Q2 compared with Q1. Outsourcing gross margin also decreased. Furthermore, outsourcing revenue increased and outsourcing gross margin decreased compared with the same period of the previous fiscal year. Are there any transient factors?

A : We posted a highly profitable outsourcing project in Q1. And, we hardly had new projects comparable to it in Q2. As a result, Q2 outsourcing revenue decreased compared to Q1. The gross margin also decreased. We have seen no specific reasons for a decrease in the gross margin on a year-over-year basis. We expect a further increase in DX outsourcing projects as well in future, and the gross margin will also be driven.

Q : What DX businesses are driving your recent business growth? I would like to know specific projects.

A : We think that the AI-driven automated order placement solution for retailers is so promising.

We received four orders in the first half. We received many enquiries as well. It is noteworthy that this business is deployed for each store. We cannot expect an increase in revenue until the business further expands. We would like to re-use the knowledge and knowhow that we gained through our retailer- services for other business fields. The key words such as front-end and for customers are common to the manufacturing industry, the public sector, and the financial institutions. We would like to expand this scheme in total.

Also, purchase/procurement related services for the manufacturing industry and EC related services continue to be strong. We are now working on a business proposal of EC related services for a large company. We expect the services to continuously increase as our outsourcing businesses.

[Questioner C]

Q : Your entrusted operation-type outsourcing revenue decreased in Q2 on a year-over-year basis. May I ask about reasons?

A : We had a decrease in the number of BankVision customers as a result of business integrations implemented by regional financial institutions.

Q : You obtained a new BankVision customer in September. Can I ask about the timing of future order intakes, revenue posting, and schedules and the entire business size to the extent that you can share with me?

A : We have just launched the project towards migration. We would like to refrain from answering. We would appreciate your kind understanding.

Q : I would like to know reasons for changes in the gross margin by segment in Q2.

A : Small and medium-sized System Services projects have come back. Many of them are highly profitable. Therefore, the gross margin of System Services has improved compared with the same quarter of the fiscal year. The gross margin of Support Services has improved owing to our past measures that we took such as elimination and consolidation of support offices. The outsourcing gross margin decreased on a year-over-year basis. We have not identified any significant factors for the decrease. We think that the decrease remains within the range of error. We posted a Hardware Sales project related to the GIGA School concept in the same quarter of the previous fiscal year. The sales project was of slightly small gross margin. The gross margin of Hardware Sales increases in this Q2 on a year-over-year basis. The gross margin of Hardware Sales is at a high level in Q2 of this fiscal year. This is only attributable to posting a Hardware Sales project of high profitability. We do not think that we can continue to hold a gross margin at this level in the future.

[Questioner D]

Q : You have had an increase in the DX project quantity. Does it impact the profitability of System Services order intakes?

A : We have shifted from entrusted system development as we used to conventionally to system development that entails services. We expect a certain level of profitability. In areas where we face many competitors, our profitability will naturally become small. However, if a customer selects our unique services, we can expect a highly profitable project of system development.

Q : Your plan expects a decrease in gross margin in the second half on a year-over-year basis. May I ask about reasons? Also, you plan an increase in R&D costs in the second half. I would like to know if you have any cost assumptions.

A : We expect that the entire gross margin will decrease due to a segment mix that reflects an increase in Product Sales share in the entire revenue as expected in the second half. The gross margin on Product Sales in the second half cannot be at the same level as of the first half, as I mentioned. SG&A costs in the second half are expected to become a burden heavier than in the first half. It is due to some R&D costs dragged on to the second half and taxes such as business office tax, enterprise tax and fixed asset tax to be concentrated (approx. a billion-plus yen) in the second half under the IFRS regulations, not under the Japan GAAP that recorded quarterly equalized amounts.

Q : You seem to have various Outsourcing projects proceed. From the viewpoint of your revenue target of ¥100.0 billion, may I ask your thoughts about the progress towards the target? Do you feel confident in increasing faster your growth rate in the next period and the period after the next period? I would like to know how we can predict your future Outsourcing business gross margin.

A : We have seen the pipeline for the service-type businesses including businesses related to EC and AI getting thicker. We feel confident in the businesses. We have seen developments as expected from most of our past efforts of creating pipelines and implementing measures towards the revenue target of ¥100.0 billion. The service-type Outsourcing business is related to customers' business performance and developments. We take slight risks into consideration. We think that we can improve the profitability by shifting the conventional entrusted operation-type of outsourcing to the corporate DX-type outsourcing.

(Note)

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