

Nihon Unisys, Ltd.
Earnings Announcement
for the Third Quarter of the Fiscal Year Ending March 2022
held on February 1, 2022

Principal Questions and Answers

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

[Questioner A]

Q : System services orders continuously increased in the Q3 (Oct-Dec) period. May I ask from which business sectors you received more orders? Do you expect the orders to continuously increase? Also, there are business sectors specifically subject to the COVID-19 pandemic impacts. I would like to know how your customers in the business sectors are recovering from the impacts.

A : We have experienced generally strong orders mainly about digital transformation (DX) regardless of business sections. We expect the strong order intake to remain in the future partly from the viewpoint of the current pipeline situations. Indeed, we have received a continuum of DX orders mainly for large-scale DX-related system creation. We are busy with many projects in concurrent motion. Order intake from airline and tourism customers suffering COVID-19 impacts has not been resumed as yet. We are prepared to take more patience.

Q : I remember that you told us that you would post approx. ¥0.5 billion to pay for the cost of changing your company name for this fiscal year. May I ask if you posted the cost in Q3? Also, do I correctly assume that you will not spend this transient cost any longer, and thus your SG&A expenses would not be driven significantly in the next fiscal year and thereafter?

A : Our cost for company name change spent until and including Q3 amounts to slightly less than ¥0.1 billion. We expect that the rest ¥0.4 billion approx. will be incurred in Q4. We will not see any big changes in SG&A expenses for the next fiscal year and beyond.

Q : You state in the management policy that you will achieve the adjusted operating margin of 10% or more in the fiscal year ending March 2024. I think that you will need to increase operating profit by double digits in the next fiscal year and beyond. Do I correctly assume that you would depend upon the profit growth, to the extent that the current order intake situations and cost structure will remain almost the same? Or, do you expect some special factors in the next fiscal year onwards?

A : We do not expect any major changes in the SG&A expenses structure. Thus, we would like to increase the operating margin by increasing outsourcing business, specifically Service-based-type outsourcing and Corporate DX-type outsourcing from the viewpoint of achieving

the targets stated in the management policy.

[Questioner B]

Q : I would like to confirm your Q3 report of performance (revenue and gross profit) by segment. You posted an increase of 14.5% in system services revenue compared with the third quarter of the previous fiscal year. Is the increase composed partly of any large-scale projects? Also, I would like to know factors to decrease software gross profit and factors to decrease hardware revenue.

A : We have received no specific orders for large-scale system services projects. A steady and sound growth of system services is enabled mainly by small and medium-sized projects. Software gross profit is smaller than it was supported mainly by our own software products sales/revenue posted in the third quarter of the previous fiscal year. Hardware revenue is smaller than it was in the said past quarter (posted by including GIGA School-related projects worth approx. ¥1.0 billion and electronic shelf tag project for a retailer worth approx. ¥3.0 billion).

Q : Did you suffer impacts from the shortage of semiconductors on your procuring hardware?

A : ¥1.0 billion or more sales/revenue will be posted in Q4 onwards, although the sales/revenue should have been posted in Q3.

Q : Do you think that it is difficult to expect electronic shelf-tag large-scale projects to be posted in the future?

A : Sales/revenue amounts largely depend upon the business size and shop quantity of retailers who will implement the solution. Each project size will look smaller if compared with a significantly major customer of the previous fiscal year. Having said that, we have received many inquiries about the solution. We will see projects for multiple retailers piling up. Furthermore, we will begin to deploy the service for a major customer in Q4. We think that the trend of using DX at shops to make up for human labor shortages will not taper off. We will continue our efforts for this solution.

[Questioner C]

Q : You referred to posting the BankVision initial fee from its 13th bank in the Q3 outsourcing business. How much would the amount be worth comparatively to the scale of the initial fee (approx.¥1.0 billion) from BankVision's 12th bank that you posted in Q1?

A : The amount was worth about a half of the project that we posted in Q1.

[Questioner D]

Q : What types of efforts are needed for the next fiscal year from your viewpoints in order to achieve the medium-term targets stated in the management policy?

A : We think that what is needed for us, besides our efforts about DX business order intake and sales/revenue, is enabling an increase in the service type outsourcing business, our targeted outsourcing business. We think that an increase in our market share of this outsourcing business area will help us to increase sales/revenue and profit/income both towards the final fiscal year targets.

Q : You will change your company name. As a result, you will easily expand your business overseas without the constraints of licensing. I would like to know your efforts about overseas business from the medium to long-term viewpoints.

A : The primary significance of changing our company name is to convey our intention of transforming ourselves in the future to all stakeholders such as customers, employees, and partners. At the same time, we would like to deploy overseas our services originating in Japan. However, we have not performed as we thought partly due to impacts from COVID-19 and the omicron variant. Our launch of overseas business will be delayed slightly. We plan to focus on companies acquired through M&A, and we will earnestly conduct business pursuant to plans made on the basis of our understandings of situations.

[Questioner E]

Q : You referred to many inquiries about DX projects. How long will the keen interest continue from your viewpoint?

A : We are at the very beginning. We are releasing new services such as an EC platform service in rapid succession. This flow will continue for a while. We have expectations ourselves. Having said that, we will keep watchful on a return of demands from customers suffering the COVID-19 impacts.

Q : I would like to know the utilization rate of your system engineers in Q3. Also, I would like to know your thoughts about the utilization rate of system engineers and hiring from the viewpoint of working on DX projects in the future.

A : The utilization rate is 82% in Q3, unchanged from the same quarter of the previous fiscal year. In fact, the rate has been persisting at around this level recently. We plan to create new businesses through a less tight use of engineers. Thus, we will not see any surge in the rate. We have not increased the number of employees who are to join us in April 2022. The number of new employees is almost unchanged.

Q : I would like to know specifics of orders for DX projects that you were able to receive.

A : We received orders for new platform services for Shinkin Banks, and we have launched multiple projects. We finalized our e-commerce platform services for multiple customers, and we have launched the implementation. The pipeline status for this service is extremely reliable. We can continuously provide the service in succession.

(Note)

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