

 President Masayuki Aoki	Ubicom Holdings, Inc. (3937)
	

Company Information

Exchange	TSE 1st Section
Industry	Information and communications
CEO	Masayuki Aoki
HQ Address	Joko Bldg., 9F, 2-23-11, Koishikawa, Bunkyo-Ku, Tokyo
Year-end	End of March
Homepage	http://www.ubicom-hd.com/

Stock Information

Share Price	Shares Outstanding	Market Cap.	ROE (Act.)	Trading Unit	
¥1,220	11,541,280 shares	¥14,080 million	24.7%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
TBD	-	¥38.46	31.7 x	¥147.18	8.3x

*The share price is the closing price on November 15. The number of shares issued, DPS and EPS were taken from the latest brief financial report.
ROE and BPS are the values of the pervious term.

Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2016	2,926	193	232	-4	-0.49	0.00
March 2017	2,992	237	289	112	10.60	0.00
March 2018	3,208	322	355	212	19.08	0.00
March 2019	3,555	564	591	368	32.57	5.00
March 2020 (Est.)	4,021	671	710	443	38.60	TBD

*Unit: million yen, yen

*Forecasts are those of the company.

This Bridge Report overviews the financial results of Ubicom Holdings, Inc. for the first half of the term ending Mar. 2020, outlook for the term ending Mar. 2020 and so on.

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Key Points

- In the second quarter of the term ending March 2020, Ubicom Holdings achieved double-digit increases in sales and profits. Sales rose 13.6% year on year to 1,925 million yen. Orders for solutions from major customers in the global business continued to increase. In the medical business, the company established a highly profitable business structure, and the launch of new products contributed to the improvement in profitability. Operating income was 322 million yen, up 13.5% year on year. The company was also able to offset the cost of strategic investments (approximately 60 million yen) that were conducted on a full-scale basis in the second quarter, achieving double-digit profit growth. Cumulative operating and ordinary incomes for the second quarter reached record highs.
- There is no change to the full-year forecast for the term ending March 2020. Sales are expected to grow 13.1% year on year to 4,021 million yen, operating income is forecasted to increase 19.0% year on year to 671 million yen, and ordinary income is expected to rise 20.1% year on year to 710 million yen. Both businesses continue to perform well. Ubicom Holdings offset the cost of strategic investments made in order to raise profits, and is aiming for a double-digit increase this term. Both operating income and ordinary income are expected to reach record highs for the sixth consecutive term. The company began paying dividends to shareholders in the previous term. As of now, dividends for the current term are undecided, but the company will continue to provide appropriate shareholder returns based on profit.
- In May 2019, the company signed a memorandum for expanding investment for growth at the ceremony for business arrangement between Japan and the Philippines, which was hosted by the Philippine government and held in the presence of the President Duterte, so that the economic activities between the two countries will grow further and the Ubicom group will make a greater leap. As the company has recently made transactions with mainly major clients, it has decided to increase its strategic investment, forecasting a further rise in the number of orders, as well as demands for the advancement of self-developed engines mounted with the core technologies, such as “automation” and “analysis”, and human resource enhancement.
- In the first half of this term, Ubicom Holdings was able to make strategic investments while improving profitability in both businesses. In particular, in the medical business, operating income rate increased roughly 5%. If more resources are put towards joint marketing and the company’s sales expansion strategy is successful, packaged products will likely have a greater advantage of scale, leading to further improvement in profitability.
- In the global business, it is essential to exert originality in the 3As field, where high average spending per customer and large revenue can be expected, through the recruitment and training of advanced personnel and the upfront investment for developing advanced technologies. As the company aims to achieve an ordinary income rate of 20% or higher in FY 3/21, we would like to pay attention to how much they are able to raise the profitability base during the current term.

1. Company Overview

Ubicom Holdings, Inc. is the one and only global innovation company, which pursues achieving growth by providing solutions that conform with national policies.

The company conducts a global business that offers IT solutions to diverse markets such as automotive, financial, medical, manufacturing, and robotics markets, and a medical business that deals with medical solutions, such as medical claims validity inspection software. The source of the company's competitive advantage lies in the development base of the subsidiary in the Philippines, which has a top-class engineering group composed of about 900 engineers.

The company aims to achieve ordinary income margin to sales of 20% or higher in FY 2020 by making even more growth through strategic alliances, collaborations based on a win-win investment model, and the expansion of a high profitability recurring-revenue business.

1-1 Corporate History

Mr. Masayuki Aoki, who had entrepreneurial ambition all along, took the position of President and CEO at WCL Co., which was a new business subsidiary of WORLD CO., LTD. in March 2005, and then found out that there are many young talented engineers who work vigorously in the Philippines when he visited there during his domestic and international search for seeds of various new businesses. As the adoption of IT on internal operations of companies progressed in Japanese companies, he thought that conducting the system development in the Philippines will open the possibilities to offer a wide array of system solutions globally at a low cost and capture the demand, and decided to commercialize the idea. In December 2005, He founded Advanced World Solutions, Ltd. (currently: Ubicom Holdings, Inc.)

Following the trend of ICT adoption, the increase of new customers progressed well and the business expanded thanks to the competitive advantage of having a development base in the Philippines, which possesses many capable top-class engineers. In June 2016, the company was listed on Mothers of Tokyo Stock Exchange. After it changed its name to Ubicom Holdings, Inc. In July 2017, it was listed on the First Section of the Tokyo Stock Exchange in December of the same year.

1-2 Corporate Ethos and Vision

The company advocates the following 3 management visions as the one and only global innovation company.

1. To achieve innovation and create new markets ahead of competitors
2. To achieve global development
3. To remain the one and only company in providing solutions in a niche field.

The company pursues achieving growth by providing national policy-consistent solutions, including the alleviation of labor shortage and the rationalization of medical expenses. At the same time, the company sees this as its social responsibility and *raison d'être*.

1-3 Business Description

1-3-1 Overview

The company perceives social structure changes such as globalization and the decreasing birthrate and aging population, as well as technological advances in the field of Medical Life Sciences, Cybernetics, and Robotics, as an opportunity to develop new businesses. It develops its own core solutions mainly in the "3As" fields (Automation/RPA (Automation of software testing or inspection process of the production line), Analytics, AI (Artificial intelligence)) for the strategic business domains: automobile, financial, medical, manufacturing, and robotics ones, and provides services for many client companies.

1-3-2 The business environment surrounding the company

1) Worsening labor shortage in the IT field

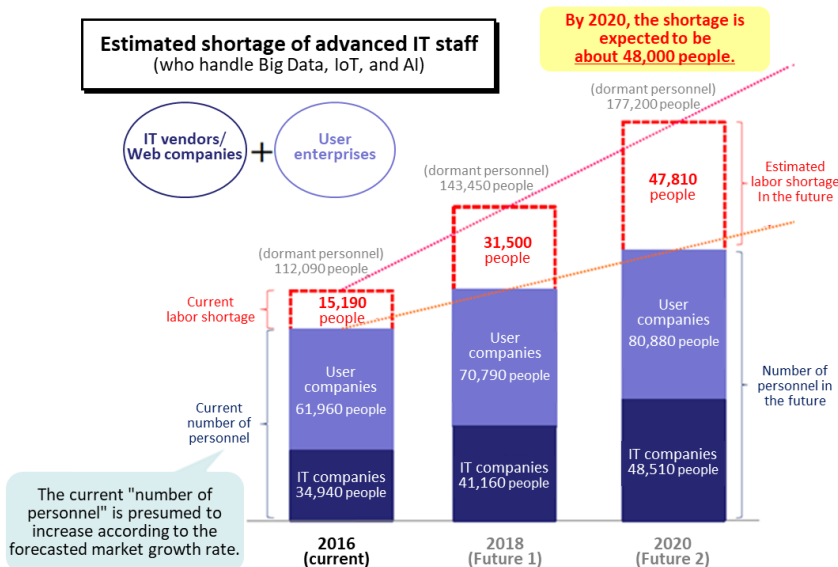
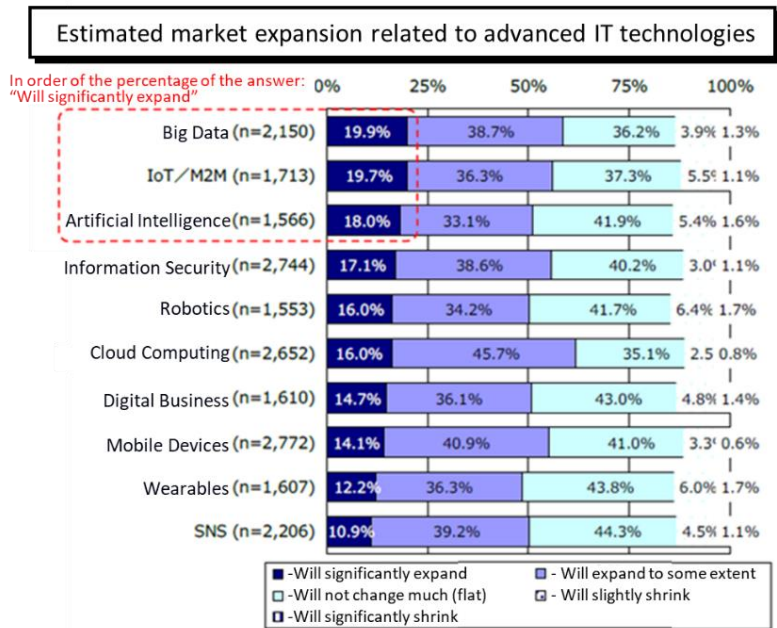
The "results of a survey on the latest trend and future forecast of IT personnel" (published on June 10, 2016) conducted by the Ministry of Economy, Trade and Industry states that the IT demand is expected to continue to further grow in the medium to long term while the workforce (especially the youth population) will decrease due to the decreasing population; This will make it even more difficult to employ IT personnel, and it's highly possible that the shortage of IT personnel issue will become severer.

While a labor shortage in 2015 was about 170,000 people, the labor shortage is estimated to reach about 790,000 people in 2030 under

a negative scenario, and about 590,000 people under a neutral scenario.

Particularly, the labor shortage in the growing markets of advanced IT technologies, such as big data, IoT, and AI, is estimated to expand from about 15,000 people in 2015 to about 48,000 people by 2020.

In addition, in Japan, the English language barrier limits the access to the most advanced technologies of Europe and the US, which makes the problem of labor shortage extremely severe in Japan.



(Taken from the "Results of a survey on the latest trend and forecast of IT personnel" conducted by the Ministry of Economy, Trade and Industry, and published on June 10, 2016)

2) Augmentation of national medical expenditure and tightening of examination of Medical Claims

The estimated medical expenditure (excluding expenses such as workers' accident compensation insurance and payments when the full payment is covered with own expenses. It accounts for about 98% of the national medical care expenditure, which is the overall estimate of all expenses required for treating injuries or diseases after examinations by doctors in medical institutions) has marked a record high in FY 2017 at 42.2 trillion yen, which came higher than the 41.5 trillion yen in FY 2015.

As medical expenses are in an increasing trend due to the progression of the aging population, the financial situation of medical

insurances keeps getting worse. In order to reduce insurance costs, the national government is implementing a measure for rationalizing medical expenses by tightening the examination of Medical Claims, etc.

(What are the medical claims?)

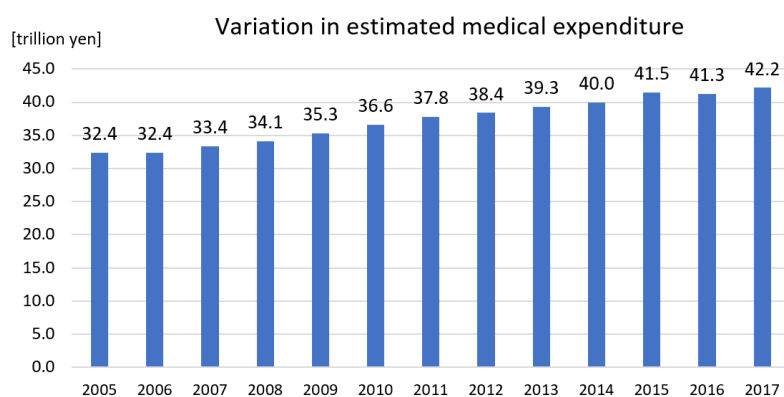
Under the current system of health care services provided by health insurance, medical institutions receive up to 30% from patients and the other 70% or more from the health insurance association, mutual aid associations, city or ward offices, etc.

Medical institutions define the detailed statement of diagnosis and treatment, which is required to claim the amount covered by insurance from these public institutions, a Medical Claim; and the tasks performed to issue the Medical Claim are a very important procedure, which makes up most of the revenue of medical institutions.

The submitted Medical Claims are meticulously scrutinized by the Examination and Payment institutions. In case there is a mistake in its content, the Medical Claim may be sent back (returned) by the Examination and Payment institution, or the scores of medical fees may be reduced. In case the Medical Claim is returned, it must be carefully examined, revised, and resubmitted. Submitting appropriate Medical Claims is an extremely important task for the efficient management of medical institutions.

In 2009, medical institutions were obligated to make online requests for Medical Claims, as a general principle.

While it is said that most of hospitals in Japan are in the red, Examination and Payment institutions are tightening the examination of Medical Claims and the work style reforms progress, so it is essential to increase the precision and efficiency of the Medical Claims Inspection at medical institutions.



*Created by Investment Bridge Co, Ltd. with reference to “Trend of Medical Expenditure” published by the Ministry of Health, Labor, and Welfare

3) The medical big data market, which is expected to grow rapidly

As the social insurance system is being reconsidered due to the progression of the aging population, it is required to reduce medical expenses by streamlining medical services while maintaining and improving its quality.

The key to achieving that is the utilization of data based on medical practices, such as the data of medical claims, digital diagnostic records, health checkups, etc. and it is expected to solve regional medical issues, improve the efficiency of R&D and the management of medical institutions, and so on.

The “Next-generation Medial Base Act,” which was enforced in May 2018, was established as a system that paves the road to allow medical institutions to use personal information smoothly while considering the protection of personal information.

This act mentions “providing patients with optimum medical treatments through large-scale research on the effects, efficiency, etc. of medical treatments utilizing technological advancement of ICT,” which is expected to be achieved in the future. Also, the utilization of medical big data is expected to contribute to cutting-edge research and development in the fields of medicine manufacturing, insurance, and medical equipment, as well as creating new industries.

According to a private-sector survey, the domestic market of medical big data business in FY 2025 will be represented by diagnosis and treatment systems and its scale will be about 830 billion yen; and it is expected to steadily expand in the future.

The company, which pursues achieving growth by providing national policy-consistent solutions, offers its own data analysis solution for the above-mentioned social issues, such as “the growing shortage of IT personnel,” “the rationalization of the expanding national medical expenditure,” and “the utilization of medical big data,” to meet demand and grow steadily.

1-3-3 Strategic business domains

The company focuses its efforts to expand its business based on the strategic business domains of the “3As” fields, which will usher in the new age.

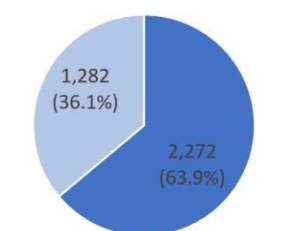
Field	Current situation and future plans
Automation/RPA	The company has established a software automation engine and promoted Robotics/RPA (automation of work processes with robots). It aims to reach the major Robotics and FA (factory automation) companies to expand the market.
Analytics	The company finished the development phase of Japan’s number one Medical Claims Inspection Software, the Mighty series, and analysis tools, and will proceed to a phase of achieving a new monetization model by building an engine that analyzes big data of medical-related fields to improve the quantity and quality of the data. In addition, the company provides solutions for predictive maintenance for factories and shipping companies.
AI	The company proceeds with cross-sectoral promotion after the development of voice AI and chatbots (automatic conversation program). In the future, it will focus on developing solutions with in-vehicle AI devices by using voice AI with automobiles’ SDL (The smart device link that connects car audio with smartphones). In addition, it also plans to support devices installed in self-driving cars and aims to build a recurring-revenue business that will sustainably generate significant profit by the time self-driving cars become popular.

1-3-4 Segments

The company has 2 business segments; one is a global business that provides IT solutions to diverse markets such as Automotive, Finance, Medical, Manufacturing, and Robotics, and the other one is a medical business that deals with medical solutions, such as the Medical Claims Inspection Software.

Sales composition

(FY Mar. 2019, Unit: million yen)

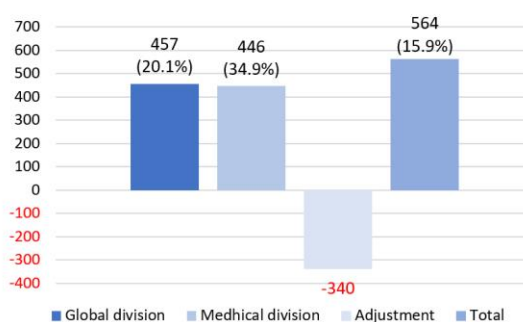


■ Global division ■ Medical division

* Sales to external customers

Operating income composition

(FY Mar. 2019, Unit: million yen)



■ Global division ■ Medical division ■ Adjustment ■ Total

* The parenthesis represents the ratio of profit to sales to external customers.

1) Global business

- Overview

Its wholly-owned subsidiaries, Advanced World Systems, Inc. and Advanced World Solutions, Inc. are the major development bases in the Philippines, where it focuses on Automotive, Finance, Medical, Manufacturing, and Robotics fields and delivers embedded software development, business application development, maintenance, and testing services.

The company defines “3As” (Automation/RPA, Analytics, and AI) as a strategic business domain, and develops its own core solutions, utilizing these 3A technologies. The advanced capability of developing solutions is derived from its development bases in the Philippines, which has a top-class engineering group composed of about 900 engineers. This gives it a strong competitive advantage. (Refer to 【1-4 Characteristics and Strengths】 for more details.)

- Customers

Its client companies range broadly from automotive, manufacturing, medicine, to finance-related ones.

As mentioned above, in addition to the worsening IT personnel shortage, there have been strong needs for the reduction of costs for development and operation, but the company, which has 900 competent engineers who are native in English and proficient in Japanese, is steadily meeting such needs.

On top of that, the rich experience of development for numerous big domestic clients over many years has further earned their trust and built its reputation.

2) Medical business

- Overview

Its wholly-owned subsidiary, AIS Co., Ltd., develops and sells software products for medical information systems of medical institutions, it also offers medical data analysis and consultation services.

The “Mighty Series,” which improves the management quality and increases the work efficiency in medical fields, is well-received thanks to its user-oriented and cost effective features. Sales were positively affected by work style reforms and, as of the end of September 2019, the Mighty series occupied the top market share and was being used by approximately 37.5% of hospitals with a patient capacity of 20 or more (3,115 facilities), and 12.8% of clinics with a patient capacity of 19 or less (13,083 facilities), for a total of about 16,000 facilities.

- Mainstay products

The Medical Claims Inspection Software (Mighty Checker®)

As improvement in efficiency and precision of Medical Claims Inspection were required, the company was ahead of competitors in releasing Medical Claims Inspection Software (Mighty Checker®) in 1999; it was well-received for its usability and it managed to establish its position as a leading maker of “Medical Claims Inspection Software.” In FY 2019, it released “Mighty Checker® EX,” an AI-based new-generation Medical Claim check system, and reaffirmed its market position.

Mainly, the company strongly supports the Medical Claim issuing process with the following features:

Product name	Features
Mighty Checker® EX	<ul style="list-style-type: none"> ▪ Top-end product in the Mighty Checker series released in the autumn of 2018 ▪ Next-generation system for checking Medical Claims, which was developed by upgrading the highly-evaluated functions and usability of the conventional product “Mighty Checker PRO” and incorporating AI for Medical Claims Inspection
Mighty Checker® PRO Analyze	<ul style="list-style-type: none"> -An advanced version of Medical Claims inspection software -Analyzes inspection results, and suggests an efficient inspection process. - In addition to the assessment and return measures, it can use inspection results more efficiently by utilizing the result of checking medical claims. - It makes it easier to modify a database by capturing the assessment and return data; thus, it helps curb assessments and returns.
Mighty Checker® PRO Advance	<ul style="list-style-type: none"> - A standard version of Medical Claims inspection software. - Validates the disease name, medicines, and medical care of the indication. - Inspects the measures for assessment and return (cross-check inspection, general inspection, calculation day check, etc.) - Validation by the claims support functions (checks items that can be calculated with consultation fees, etc.)

Medical Ordering check software, “Mighty QUBE® PRO”

It's a system that utilizes the Mighty Checker® database, and inspects the compatibility of the medical practices and medications with patients, and checks usage, dosage, etc. at the time of prescription; in case there is incompatibility or omission of the disease name, the system notifies users (doctors) of an error. By restraining incorrect human input and inappropriate operation at the time of issuing a prescription, it can prevent medical accidents (close calls) and assessment (reduction).

It is highly evaluated because it supports the financial and managerial improvement of hospitals through the pursuit of the safety of medical treatment and the streamlining of business operation, and it also brings benefits to medical doctors, the medical professions division, and patients, so many medical institutions have adopted it.

◎ Case study

In a case of installation in a hospital with 6 medical staff members, the hours for Medical Claims per month halved in a month after installation, and the claims support functions increased sales.

In the future, working hours will become even shorter as the staff gets used to operating the software. As more data accumulated, accuracy is also expected to improve further with the use of AI detection.

1-4 Characteristics and Strengths

1-4-1 A top-class engineering group composed of about 900 engineers at the development base in the Philippines

As was touched upon in the corporate history section, the president Aoki had inspected the site several times, and considered the Philippines as an optimum location for IT development. It not only is the source of the company's competitive advantage, but also plays an extremely important role for driving the future growth strategy.

The development base in the Philippines and its predecessor have over 20 years of development experience, and their main characteristics are as follows:

1) The optimum location for global IT development: the Philippines

The Philippines enjoys the demographic dividend period, where a long-term population growth, especially for young citizens, continues. It maintains an economic growth rate of roughly 6% on average. Moreover, young citizens are full of vigor and strive for upward mobility. In addition, the fact that English is the official language plant the seeds for engagement in global activities, the fact that IT literacy is high, and its easily accessible location at the center of ASEAN countries, etc. make it an optimum location as a global base for IT development.

2) Employing elite staff

The development base in the Philippines currently has as many as about 900 engineers enrolled, but it does not only boast of the quantity (number of people), but also the quality (their aptitude), which is unrivaled.

Backed by a long track record, the engineers who seek employment at the company highly value the development base in the Philippines, and the group receives a few thousand applications for engineer positions every year. However, only top 4% of applicants are accepted.

3) Human resources development with original education and training

Building a top-class engineering group cannot be achieved just by hiring elite personnel.

One of the differentiating factors that make it hard for competitors to catch up with the company is, in fact, its educational system and training, which turn staff into capable top engineers.

In April 2003, 16 years ago, the corporate group established its own training center ACTION in the Philippines and started its operation. The training programs offered at "ACTION" were developed by the company. It is constituted by 4 categories: basic concept for IT, advanced technologies, interpersonal skills, and the Japanese language. The training is conducted for 5 months and it aims employees will pass the PhilNITS (The Filipino National Information Technology Standards exam) and the Japanese Language Proficiency Test level 4.

After completing the training, the trainees present their achievements to a board member, and after going through interview assessments, they are finally assigned to projects. Even for elite students, the journey up to the point of being able to handle job assignments is not an easy one. The program graduates who overcome such hurdles acquire the skills needed for fulfilling their duties in an advanced technical field and a Japanese-speaking environment, hence they are overwhelmingly superior in the Japanese IT market, and they are the engine driving the company's growth.

Furthermore, the company is always handling numerous challenging cutting-edge projects, giving highly motivated staff chances to shine. This is also one of the reasons why the corporate group is so popular as an employer in the Philippines.

4) Further upgrading and reinforcing of solution development capabilities

The company is already outshining competitors with its advanced solution development capabilities, but as it aspires to make robust use of this advantage, the company established the “Advanced Technologies Development Center” in 2017.

About tens of the center’s advanced engineers specialize in AI and big data analysis. By taking advantage of their native English to connect with top-class researchers globally, the company established a system that gives access to the latest cutting-edge technologies. With this, it became possible to produce a prototype with highly added value that matches customer needs in a short period of time at low cost and directly offer it to major clients in Japan. Accordingly, the company’s capability of giving a proposal is improving considerably.

5) Receiving external acclaim

The work of its top engineers, who had overcome high hurdles and managed to participate in projects, has received high external acclaim, which led to the winning of numerous awards.

* In 2016, two of its engineers were placed among the top 3 of Asia’s common standardized version exam of the Japanese Information-Technology Engineers Examination.

* In 2017, its Philippine subsidiary, AWS, Inc. was awarded as the best software company across the Philippines in the “International ICT Award.”

* Its training program “ACTION” has been consecutively awarded the Outstanding Company Program award at the "e-Services Philippines Award” for 6 years.

1-4-2 A robust customer base

Armed with a strong competitive advantage of having both a global division and a medical division, the company has established a robust customer base.

The robust client assets are considered to play a big role for the expansion of the recurring-revenue business, which is based on subscriptions, and the win-win investment model that matches growing corporations with customer enterprises, etc.

1-4-3 Feeling of partnership inside and outside the Group

The president Aoki considers all the employees, including those who work overseas, and their family members as "fellows." He thinks that one of the Group's strengths is that it achieves leaping growth thanks to all the employees who positively work with a cheerful never-fading smile, yet are never satisfied with status quo; each and everyone has a sense of ownership and thus pioneer the new times.

This feeling of partnership that values harmonious relationships extends to even outside the Group.

The win-win investment model, one of the company’s important growth strategies, offers support from various perspectives, such as capital, marketing, and the development environment, to venture companies that are expected to rapidly grow. The company embraces a sense of “fellowship” for growing together beyond differences in corporate size and relationships between shareholders and portfolio companies. This is expected to help motive venture firms grow. This is probably the big difference from general VC (venture capital) and CVC (corporate venture capital).

1-5 ROE Analysis

	FY 3/2015	FY 3/2016	FY 3/2017	FY 3/2018	FY 3/2019
ROE (%)	4.9	-	12.2	17.7	24.7
Net Income to Sales Ratio (%)	1.24	-0.16	3.76	6.63	10.37
Asset Turnover Ratio (x)	1.33	1.46	1.44	1.36	1.27
Leverage (x)	2.97	2.62	2.25	1.96	1.87

*The asset turnover ratio and leverage are calculated with the average amount between the beginning and the end of the term. Calculated by Investment Bridge Co, Ltd. based on annual securities reports and brief financial statements.

For the three most recent fiscal years, profitability recovered, and ROE substantially increased.

The net income to sales ratio in the term ending 2020 is forecasted to significantly rise to 11.0%, and ROE is expected to further rise.

1-6 Shareholder Return

While the company recognizes returning profits to shareholders as one of the management priorities, it has been prioritizing expansion of its internal reserves for future business development and reinforcing the management quality. However, the company decided to pay dividends for the first time in FY 2019, while considering the recent increase of orders received, robust business performance, and the establishment of the foundation for a profitable recurring-revenue business model. The dividend was 5 yen per share, and payout ratio was 15.4%.

Going forward, the company will aim for a dividend payout ratio of 30% or more, and focus on expanding shareholder returns. At the same time, they will create a stable cash flow by switching to a subscription-based business model, and will pursue active investment in human resources, R&D, and the development of new businesses.

2. First Half of the Fiscal Year ending March 2020 Earnings Results

2-1 Earnings Trends

	FY Mar. 19 1H	Ratio to sales	FY Mar. 20 1H	Ratio to sales	YoY
Sales	1,694	100.0%	1,925	100.0%	+13.6%
Gross profit	751	44.4%	840	43.7%	+11.8%
SG&A	467	27.6%	518	26.9%	+10.8%
Operating Income	284	16.8%	322	16.8%	+13.5%
Ordinary Income	293	17.3%	336	17.5%	+14.8%
Net Income	204	12.1%	236	12.3%	+15.9%

*Unit: million yen

Double-digit increase in sales and profits. Profitability was improved.

Sales rose 13.6% year on year to 1,925 million yen. Orders from mainly major customers and solution services in the global business continued to increase. In the medical business, the company established a highly profitable business structure, and the launch of new products contributed to improve profitability.

Operating income was 322 million yen, up 13.5% year on year. The company was also able to offset the cost of strategic investments (approximately 60 million yen) that were conducted on a full-scale basis in the second quarter, achieving double-digit profit growth. Cumulative operating and ordinary incomes for the second quarter reached record highs.

2-2 Trend of Segments

	FY Mar. 19 1H	Ratio to sales	FY Mar. 20 1H	Ratio to sales	YoY
Global Business	1,062	62.7%	1,287	66.9%	+21.2%
Medical Business	631	37.3%	637	33.1%	+0.9%
Consolidated Sales	1,694	100.0%	1,925	100.0%	+13.6%
Global Business	197	18.6%	248	19.3%	+25.8%
Medical Business	234	37.1%	267	42.0%	+14.2%
Adjustment	-147	-	-193	-	-
Consolidated Operating Income	284	16.8%	322	16.8%	+13.5%

*Unit: million yen. Sales is the sales toward external customers. Ratio to sales in Operating Income is profit margin.

(Global business)

In addition to increased orders from current major customers, including Lenovo and Japan IBM, the company succeeded in securing other highly profitable orders utilizing established development platforms such as automated testing solutions for major automobile manufacturers, mobile and cloud.

In the Enterprise division, both new and existing finance and public sector projects expanded rapidly, and operating income increased roughly 90% year on year thanks to aggressive recruitment including mid-career recruits and the human resources platform that began

full-scale operation in the previous term.

In the same way that the medical business uses a subscription model, the company also focused on other recurring-revenue business such as server maintenance for manufacturers and major computer game developers.

Strategic investments made into recruitment, research, and development from the previous term are producing visible effects (for example, the cross-sectoral introduction of AI chat-bot to the consulting group in a major auditing corporation).

(Medical business)

The recurring revenue business related to sales of Mighty series packages is steadily growing.

Profitability improved significantly due to the establishment of a high-revenue subscription model and a reduced number of outsourced projects with low profit margins (excluding projects related to strategic development).

There have been many inquiries about the next-generation prescription-checking system “Mighty Checker EX,” which was launched in the previous term. The number of facilities using the Mighty Checker EX system increased steadily, including several hospitals belonging to top-class medical groups.

Moving forward, in addition to expanding use of the Mighty Checker EX system within major medical groups, the company will work with multiple financial institutions to promote direct sales and strengthen marketing, and implement measures to achieve even higher profits.

They plan to actively invest to secure “new revenue sources” for the future, which will come after the Mighty series. Examples include developing new solutions for insurance companies, analyzing data for health insurance associations and academic societies, and recruiting staff for direct sales.

2-3 Financial position and cash flow

Main Balance Sheet

	Mar. 19	Sep. 19		Mar. 19	Sep. 19
Current Assets	2,532	2,685	Current liabilities	1,210	1,198
Cash and Deposits	1,637	1,728	ST Interest Bearing Liabilities	120	118
Receivables	553	597	Advances received	645	717
Noncurrent Assets	561	649	Noncurrent liabilities	192	250
Tangible Assets	72	68	LT Interest Bearing Liabilities	15	5
Intangible Assets	79	177	Liabilities	1,403	1,448
Investment, Others	409	404	Net Assets	1,690	1,887
Total assets	3,093	3,335	Total Liabilities and Net Assets	3,093	3,335

*Unit: million yen

Total assets were 3,335 million yen, up 241 million yen from the end of the previous term due to increases in cash and deposits and intangible assets.

Total liabilities rose 45 million yen from the end of the previous term to 1,448 million yen due to an increase in advance received.

Net assets grew 196 million yen from the end of the previous term to 1,887 million yen due to an increase in retained earnings.

As a result, capital; adequacy ratio rose 2.0 points from the end of the previous term to 56.6%.

2-4 Topics

① Entire corporate group

◎ Began group-wide efforts to launch the third pillar of business

Following the global business and medical business, group-wide efforts to launch the third business have begun. The company is strengthening cooperation between the head office and overseas affiliates, and is working to further share and effectively utilize group

resources.

◎ **Promotion of a win-win investment model**

The company examined multiple projects, including those from overseas.

They plan to expand to venture businesses and advanced technology in the United States.

◎ **Full-scale overseas IR**

The company held a briefing for institutional investors in Asia.

In the future, they plan to travel around and present at various operation facilities worldwide (such as Singapore).

② **Global business**

◎ **Announced in-vehicle solutions for a “smart mobility” society**

In July 2019, at the “ZMP World 2019” exposition, the company presented a solution that uses technology to automatically visualize and quantify reactivity and responsiveness of driver to changes in the external environment, and to in-vehicle HMI (Human Machine Interface) messages and warnings while driving.

In addition to in-vehicle solutions, the system can be used in various ways such as consumer behavior analysis in stores, behavior monitoring for elderly people and children, crime prevention and anomaly detection. Moving forward, the company will consider commercialization from a variety of perspectives.

◎ **Progress in the 3As field, which is positioned as a strategic technical field**

The following development projects are steadily growing.

- * Joint development of AI technology with major automobile manufacturers
- * Test development of AI chat-bots for major global companies
- * Development of automated testing solutions for major manufacturers
- * Beginning marketing of factory automation solutions in the Philippines

◎ **Signed a memorandum for expanding investment for growth at the ceremony for business arrangement between Japan and Philippines**

In May 2019, the company signed a memorandum for expanding investment for growth at the ceremony for business arrangement between Japan and the Philippines, which was hosted by the Philippine government and held in the presence of the President Duterte, so that the economic activities between the two countries will grow further and the Ubicom group will make a greater leap. As the company has recently made transactions with mainly major clients, it has decided to increase its strategic investment, forecasting a further rise in the number of orders, as well as demands for the advancement of self-developed engines mounted with the core technologies, such as “automation” and “analysis”, and human resource enhancement.

③ **Medical business**

◎ **Strengthened marketing for the strategic RPA model “Mighty Checker EX”**

The company strengthened marketing activities including the participation in “International Modern Hospital Show 2019” in July 2019, to promote their latest product, “Mighty Checker EX,” which features improved usability and updated versions of popular functions from an earlier product, “Mighty Checker PRO.” “Mighty Checker EX” is also equipped with AI detection and other functions unique to the industry.

◎ **Began examining the possibility of collaboration with multiple financial institutions**

The company intends to expand sales of “Mighty Checker EX,” a solution that supports and improves management at medical institutions, with a focus on group hospitals and large hospitals.

In order to promote the product and pursue direct sales, the company began to look into collaborating with financial institutions that deal with a large number of medical institutions.

3. Fiscal Year ending March 2020 Earnings Forecasts

Earnings Forecasts

	FY Mar. 19	Ratio to sales	FY Mar. 20 Est.	Ratio to sales	YoY	Progress rate
Sales	3,555	100.0%	4,021	100.0%	+13.1%	47.9%
Operating Income	564	15.9%	671	16.7%	+19.0%	48.1%
Ordinary Income	591	16.6%	710	17.7%	+20.1%	47.5%
Net Income	368	10.4%	443	11.0%	+20.3%	53.4%

*Unit: million yen.

*The forecasted values were provided by the company.

No change in the earnings forecast. Sales and profit to increase by double digits. Profit will reach a new record high.

There is no change in the earnings forecast. Sales are estimated to rise 13.1% year on year to 4,021 million yen. Operating income is forecasted to grow 19.0% to 671 million yen, and ordinary income will increase 20.1% year on year to 710 million yen.

Both businesses will continue to perform well. Ubicom will conduct strategic investment with the intention of further boosting profits from the term ending 2020 onward, but the company will be able to offset investment costs, resulting in a double-digit increase in profit. Both operating income and ordinary income are expected to reach record highs for the 6th consecutive term.

Although the dividend has not yet been decided, the company plans to return profits to shareholders appropriately, as they did in the previous term, in which they paid dividends for the first time.

4. Future Vision and Growth Strategy

4-1 Growth strategy in each business segment

The company, which has grown by offering its original core solutions, is enhancing the following activities in both the global business and the medical business, in order to establish a more profitable model.

The company will also work towards launching new businesses, in order to create another pillar of revenue.

4-1-1 Global Business—Enhancement of profitability through “cross-sectoral” expansion and next-generation solutions

The company defined the “cross-sectoral” expansion as the application or provision of the technology developed in each of the fields of “3As” to prioritized business domains of automobiles, manufacturing, robots, medicine, finance, etc. It aims to improve profitability by applying and utilizing a single development resource for multiple core solutions.

Strategic fields in the global business include embedded software development, software testing, and automotive testing. For the enterprise business, the company will seek out financial and public infrastructure business applications. In terms of solutions, strategic fields include 3As solutions (analysis for the manufacturing and medical care industries; automated tests for automobiles), mobile and IoT.

In the enterprise business, the company will focus on strengthening profitability by accelerating the development of young engineers in the Philippines.

In the past, the company mainly assigned mid-level engineers to projects, but is now starting to utilize younger engineers as immediate workforce. In the short term, they can avoid lost opportunities by meeting the demand of rapidly increasing financial and public infrastructure projects. It can also be expected to see an improvement in motivation. In the medium term, the company will train solution development engineers and skilled project managers, leading to a greater number and improved quality of projects.

It also aims to further increase profitability by developing and offering next-generation recurring revenue solutions based on a subscription model. The target gross profit rate is 60% or greater.

4-1-2 Medical business—to become a leading enterprise specializing in medical optimization solutions

The gross profit rate of the packaged software of the company exceeded 70% for both “Mighty Checker®” and “Mighty QUBE®.” Profitability remains extremely high, but the company will pursue higher profitability (75% or more) by offering high added value.

From the term ending March 2020, the company progresses to increase the share of next-generation medical claims inspection system “Mighty Checker® EX,” which launched at the previous term.

By using the company’s strength: voices from 16,000 medical institutions, data and technical capabilities accumulated for over 30 years and Group’s management resource, “Mighty Checker® EX” improved its functions and usability significantly, resulting from that the company has an overwhelming advantage towards other company’s products.

Ubicom Holdings will accelerate market share growth utilizing network of collaborative partners, while opening direct dealings with major group hospitals and academic institutions. The company aims to further improve profit margins.

In addition, the company will develop a robust revenue structure by establishing a subscription model, and further innovate original analysis engines and cloud engines by actively investing in development and utilizing the technological capability of the group in a cross-sectoral manner.

By making full use of the know-how to utilize the accumulated data on Medical Claims and its original data analysis engine, the company will develop services and solutions targeted at the medical data analysis market, which has growth potential.

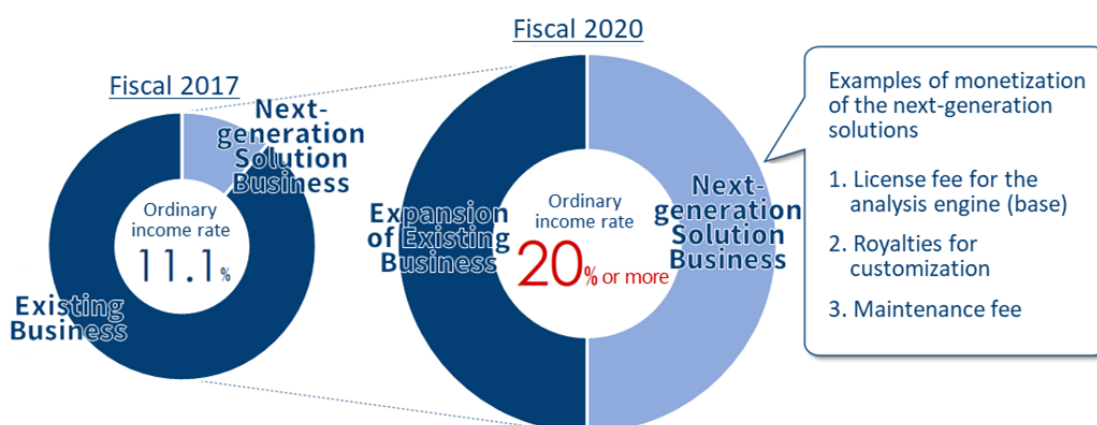
4-1-3 Launch of new business

This term, the company started group-wide activities for launching the third business, following the global business and the medical business, by cementing the cooperation between the headquarters and overseas footholds and utilizing the resources of the corporate group in a cross-sectoral manner.

The company will promote the “high unit price” model utilizing advanced personnel and try to create a business that would help solve social issues as demanded by “national policies.”

4-1-4 Creation of profits from the next-generation solution business—to achieve an ordinary income rate of over 20%

Through the above - mentioned activities for the two businesses, the company aims to significantly grow the next-generation solution business, which is highly profitable, and earn half of ordinary income from the next-generation solution business, while continuously expanding the existing businesses looking ahead to the fiscal year 2020.



(Source: Ubicom HD)

The monetization of the next-generation solution business is based on a subscription model with the charges for the analysis engine license, customization royalties, and maintenance fees.

The company plans to increase ordinary income margin to sales from 16.6% in the term ended March 2019 to over 20% in the term ending March 2021, by developing a business portfolio combining the firm existing business, including the development of apps and packaged software with an ordinary income rate of 10-20%, and the next-generation solution business, which earns recurring revenue stably with enhanced cross-sectoral functions, for which the company aims to achieve a profit margin of 30-40%.

4-2 Execution of strategic investment

Ubicom believes that strategic investment of unprecedented scope and scale is essential for realizing a profit from the next-generation solution business. From the term ending 2020 onward, they actively invest into areas such as mentioned below.

Outlook of investments for FY 3/20	Progress in IH of FY 3/20
Increase investment into advanced technology and R&D in the Philippines (Software automation, anomaly detection using AI, AI chat-bots)	Established a new team to promote the solution business utilizing advanced technology and begin marketing
Strategic investment into human resources (AI specialists, data scientists)	Established a system for fostering next-generation AI specialists
Appoint staff capable of leading large-scale projects in response to the rapid increase in clients	Currently recruiting, more hiring scheduled from the third quarter onward.
Aiming towards expansion in Asia, receive support from top Asian managers	Established Asia and Financial Strategy Officer and appointed three directors with global knowledge
Increase the number of highly skilled personnel available for consulting regarding AI and RPA, and create a “high unit price” model	Continue commercializing the highly skilled human resources business
Receive support from staff with top-level knowledge in specific fields (medical, financial, and automotive staff)	Conducted marketing and market research using the network of knowledgeable directors

4-3 Ideal state of the Ubicom Group

4-3-1 Promotion of the original alliance strategy titled “Win-Win Investment Model”

“Win-Win Investment Model” is one of the original strategies for accelerating the growth of both the global business and the medical business by taking advantage of the core competence of the company.

In this model, the company forms business and capital tie-ups and conducts M&A targeting venture firms that have the cutting-edge technologies, such as robotics ventures, AI ventures, and telemedicine firms, and supports the target ventures from various aspects, including financing, IT solution and technical support based on the development foothold in the Philippines, and business matchmaking with leading companies, which are the clients of the company. The company is expected to improve its corporate value by exerting business synergy, entering efficient new markets, increasing earning opportunities, and so on.

The company has so far achieved the following three alliances.

Date	Project	Outline
October 2019	Capital injection into a cutting-edge IT fund in the U.S. (GoAhead Ventures)	<p>(Outline of GoAhead Ventures)</p> <p>An investment fund that is operated by capitalists who graduated from Stanford University and targeted at cutting-edge IT firms at the seed or early stage in the U.S. It has produced good results by using the network of the university, which produces many entrepreneurs, finding start-up firms, and conducting support for growth.</p> <p>(Objectives)</p> <p>By fostering relations with promising venture firms in the U.S. through capital injection, the company aims to induce the following synergetic effects:</p> <ul style="list-style-type: none"> ▪ Marketing of the solutions of the company in the U.S. ▪ Access to the latest IT trend in the U.S. and incorporation into the Ubicom's business ▪ Introduction of the cutting-edge IT technologies in the U.S. to Japan and other Asian countries ▪ Search for and investment in promising venture firms in the U.S.
September 2018	Capital and business alliance with Liquid, Inc.	<p>(Outline of Liquid, Inc.)</p> <p>It developed an original authentication algorithm that enables high-speed processing by utilizing the image analysis technology focused on biological information and the big data analysis technology utilizing machine learning. It created technologies that will support the next-generation social infrastructure, while succeeding in commercialization of identification and settlement services with biometric authentication for the first time in the world.</p> <p>(Purpose and outline of the alliance)</p> <p>By fusing the know-how for advanced solutions, laboratory-type offshore development, and business development in the Philippines, at which Ubicom is good, the company will cultivate the Asian market as a solution provider, create new businesses in the medical field, and develop a new business pillar in the market of biometric authentication technologies.</p>
June 2018	Capital and business alliance with Unirobot Corporation	<p>(Outline of Unirobot Corporation)</p> <p>Venture firm that develops "unibo," a partner robot that recognizes the feelings of human beings by learning the traits, hobbies, and preferences of users through conversation, and conducts R&D for personal AI.</p> <p>(Purpose and outline of the alliance)</p> <p>This is the first project of the Win-Win Model conducted via the investment in the cooperative firm, while expecting a lot of merits, such as the affinity with the medical domain and solutions for services, on which Ubicom concentrates, and the creation of new businesses utilizing the knowledge of the cutting-edge technology.</p>

Since the company changed stock markets from Mothers to the first section of Tokyo Stock Exchange in December 2017, it increased credibility and fund procurement capability further, making it easier to take a strategic approach. It will keep using the same model actively.

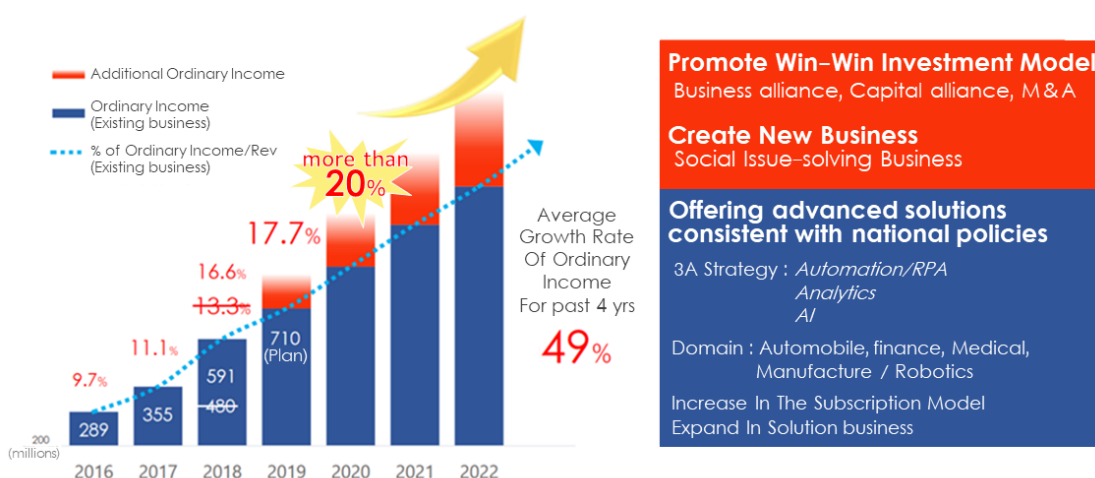
The company is now discussing or negotiating for multiple projects. It will actualize several projects as soon as possible, and concentrate on the advance into the Asian market in cooperation with leading conglomerates in Asia.

4-3-2 Further global expansion as a solution provider

Under the corporate ethos, the company aims to expand its business globally as a solution provider, by offering solutions to social issues around the Asia-Pacific region, while contributing to national interest.

4-3-3 Ideal state—To increase profits based on the existing business

While expanding the established existing business for offering advanced solutions consistent with national policies, the company will drive the Win-Win Investment Model and new businesses, including the social issue-solving business aiming to increase the ordinary income-to-sales ratio to 20% or more, and profits as much as possible.



(Source: Ubicom HD)

5. Conclusions

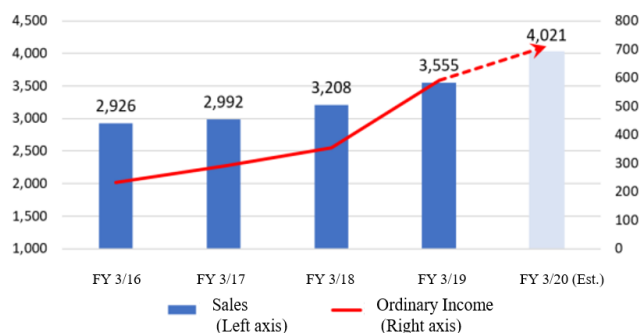
In the first half of this term, Ubicom Holdings was able to make strategic investments (as explained in 4. Future Growth Strategy) while improving profitability in both businesses. In particular, in the medical business, operating income rate increased roughly 5%. If more resources are put towards joint marketing and the company’s sales expansion strategy is successful, packaged products will likely have a greater advantage of scale, leading to further improvement in profitability.

In the global business, it is essential to exert originality in the 3As field, where high average spending per customer and large revenue can be expected, through the recruitment and training of advanced personnel and the upfront investment for developing advanced technologies. As the company aims to achieve an ordinary income rate of 20% or higher in FY 3/21, we would like to pay attention to how much they are able to raise the profitability base during the current term.

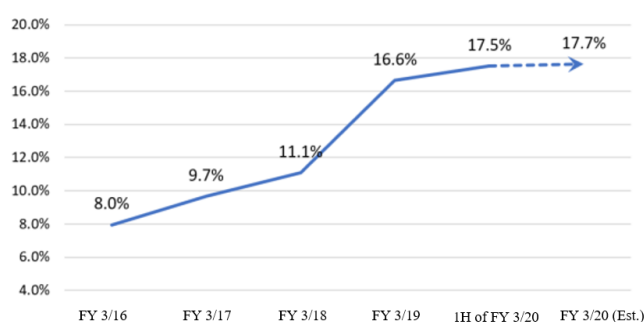
BRIDGE REPORT



Trends of Sales and Ordinary Income (Unit: million yen)



Trends of Ordinary Profit Margin



(Based on the material of Ubicom HD, Investment Bridge created)

<Reference: Regarding Corporate Governance>

◎ Organizational structure and composition of directors and corporate auditors

Organizational structure	Company with audit and supervisory board
Directors	7, out of which 2 are outside directors.
Corporate auditors	3, out of which 2 are outside auditors.

◎ Corporate Governance Report

Last updated: July 1, 2019

*Basic Policy

Our corporate ethos is “to be an enterprise that offers indispensable solutions for society,” “remain professional,” and “be global.” We recognize that in order to enhance our corporate value and maintain our global competitiveness under this corporate ethos, it is important to enrich and tighten our corporate governance. In detail, our basic policy is “to aim to enhance our profitability and maximize the profits for shareholders by conducting more efficient, sound business activities” and put importance on compliance. Under this policy, we strive to strengthen our corporate governance, while considering that it is essential to fulfill our social responsibilities toward all kinds of stakeholders, including shareholders, employees, business partners, and local communities, and achieve sustainable growth and expansion.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
【Supplementary principle 1-2-(4) Electronic exercise of voting rights, and translation of convocation notices into English】	Considering the current composition of our shareholders, we have not adopted the electronic exercise of voting rights and the translation of convocation notices for general meetings of shareholders into English. Seeing the ratio of exercised voting rights so far, we think that the exercise of voting rights in Japanese has not caused any significant troubles. From now on, we will discuss their necessity, while taking into account the situation of exercise of voting rights by overseas investors, the trend of the ratio of foreign shareholders, etc.
【Supplementary principle 4-2-(1) Remunerations and incentives for executives】	Since the term of each director of our company is one year, their remunerations are revised every year according to the performance in the previous fiscal year, but we have not adopted remunerations that vary with mid/long-term performance or remunerations paid with treasury shares. As for the remunerations for executives, we recognize the necessity to reflect mid/long-term corporate performance and potential risks in them and give incentives for stirring entrepreneurship soundly, and will keep discussing appropriate methods.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
Principle 1-4 【 The so-called strategically held shares】	Our company may hold shares strategically, if they are considered to contribute to the enhancement of the value of our corporate group from the mid/long-term viewpoint. Our policy is to hold such shares, as long as we can secure the rationality of shareholding purposes, such as the maintenance and cementing of transaction relations through business alliance, collaboration, etc. For exercising the voting rights of the shares, we discuss whether or not a bill is consistent with our shareholding policy.
[Supplementary Principle 4-11-(2) Status of concurrent outside directors]	Concurrent positions held by outside directors and outside corporate auditors at other companies are disclosed on an annual basis along with notifications for the general meeting of shareholders, securities reports, and reports on corporate governance. Two outside directors concurrently serve as outside directors of companies other than the Company, but executive directors are to focus solely on the Company, and they do not hold concurrent positions as officers of companies other than the Company and its subsidiaries. One of the two outside corporate auditors concurrently serves as an external corporate auditor of a company other than the Company, but it does not hinder their duties as a corporate auditor.
Principle 5-1 【 Policy for constructive dialogue with shareholders】	We positively respond to shareholders' application for dialogue. The finance and accounting department and the strategic planning department are in charge of our IR activities, and have developed an IR system based on their daily close cooperation, so that they can accept the phone interviews from investors, small meetings, etc. In addition, we hold a result briefing session involving the representative director and distribute a results briefing video twice or more times every year.

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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