

 Yoshichika Hemmi, Chairman	 Kenji Miura, President	Systema Corporation (2317)
		

Corporate Information

Exchange	TSE 1 st Section
Industry	Information and communications
Representative Director	Yoshichika Hemmi, Kenji Miura
Address	14F Shiodome Building 1-2-20 Kaigan, Minato-ku, Tokyo
Year-end	March
URL	https://www.systema.co.jp/

Stock Information

Share Price	Shares Outstanding (Excluding Treasury Shares)		Total Market Cap	ROE (Actual)	Trading Unit
¥1,561	96,841,789 shares		¥151,170 million	25.5%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥20.00	1.3%	¥51.29	30.4 times	¥233.94	6.7times

*The share price is the closing price on June 4. The number of shares issued was obtained by subtracting the number of treasury shares from the number of outstanding shares as of the end of the latest quarter. ROE and BPS are the values as of the end of the previous term.

Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent	EPS	DPS
March 2017 (Actual)	46,255	3,693	3,407	2,197	22.42	36.00
March 2018 (Actual)	54,320	5,170	5,147	3,542	36.32	46.00
March 2019 (Actual)	59,742	6,902	6,706	4,584	47.00	16.00
March 2020 (Actual)	64,552	8,163	7,871	5,471	56.22	20.00
March 2021 (Estimate)	62,227	7,634	7,370	4,967	51.29	20.00

* The estimated values were provided by the company. Unit: Million yen

* In June 2018, a 4-for-1 stock split was conducted. (EPS is revised retroactively.)

This Bridge Report reviews fiscal year March 2020 earnings results and fiscal year March 2021 earnings estimates of Systema Corporation.

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Key Points

- For FY 3/20, sales and operating income grew 8.1% and 18.3%, respectively, year on year. Sales increased in all segments, as the sales of IT services, whose business range expanded, and the Solution Sales, which focused on system integration, increased, while the development of software mainly for 5G, Internet services, and digital transformation (DX) performed well. Profit rate improved mainly in major segments. The term-end dividend is to be 10 yen/share, up 0.5 yen/share (Combined with the dividend at the end of 2Q, the annual dividend is to be 20 yen/share, up 4 yen/share).
- For FY 3/21, sales and operating income are estimated to decline 3.6% and 6.5%, respectively, year on year. The company forecasted the decrease in sales and profit for the first time since the mid-term management plan was announced in 2015, but it fulfilled its responsibility as a listed company by disclosing the earnings forecast, which helps investors predict corporate activities in the foreseeable future. In the conservative earnings forecast that takes into account the impact of the spread of the new coronavirus, their business performance is estimated to be affected considerably by the pandemic in the first half (while assuming that the economic activities will recover gently from the second half). The annual dividend is to be 20 yen/share, being at the record-high level (In June 2018, a 4-for-1 stock split was conducted).
- There are significant uncertainties due to the stagnation of business negotiations, the postponement of transactions, etc. caused by the pandemic, but the demand for products related to teleworking and remote working is reportedly strong. Some clients adopted a wait-and-see stance regarding IT investment, but there are reportedly no clients that have totally abandoned IT investment plans. Therefore, if the pandemic subsides, IT investment may be implemented all at once. The company will strive to meet demand through timely businesses related to teleworking, remote working, etc., and plans to establish a system for the post-pandemic society.

1. Company Overview

Systema Corporation was founded, when System Pro Corp. absorbed Katena Corp., which was an equity-method affiliate, on April 1, 2010. It is cultivating new domains by operating the business that fuses the former System Pro's technologies, know-how, and open technologies for designing, developing, and testing mobile terminals and the financial knowledge and infrastructure technologies of the former Kanena Corp. It forms a corporate group with 9 consolidated subsidiaries and 3 equity-method affiliates.

【Management goal — To become one of Japan's leading IT companies and support the Japanese economy from the ground up!】

In order to attain this objective, the company pursues good balances between conflicting items, such as “destruction and creation”, “stability and growth,” and “maintenance and innovation” as its basic policy.

【Target management indicators】

The company sets stably high dividends, high return on equity and high operating income rate as target managerial indicators. To achieve these goals, the company aims to develop a highly profitable structure under its basic policy for business administration. As for its near-term goals (mid-term management goals), the company declares to generate consolidated sales of 101 billion yen, operating income of 15.2 billion yen (an operating income rate of 15%), per-capita operating income of 2.6 million yen, and 25% ROE in the term ending March 2024.

1-1 Business description

The business of Systema Corporation is classified into the Solution Design Business, the Framework Design Business the IT Service Business, the Solution Sales, the Cloud Business, the Overseas Business, and the Investment & Incubation Business.

◎Solution Design Business

The company concentrates its managerial resources on five business categories; “in-vehicle” items such as automatic driving technology and telematics where its know-how nurtured through the development of mobile terminals can be utilized, “social infrastructure” in the fields of electric power, transportation, aviation, space, defense, etc., “Internet business” for communications carriers, e-commerce, education, e-books, etc., “smart devices/robots/AI,” including smartphones, home appliances, and robots, and “business operation systems,” including workflow and order receipt/placement systems. In every category, the company is swamped with inquiries about the development, testing of IoT-related systems and services. In addition, Systema Vietnam Co., Ltd., which is an overseas affiliate, functions as an offshore foothold for developing, testing, evaluating, maintaining, and operating software, handling all kinds of IT services, and so on.

◎Framework Design Business

Systema Corporation develops financial systems and foundational systems for not only life and non-life insurance companies, but also banks inside and outside Japan. As for life and non-life insurance tasks, the company has developed solutions for dealing with a broad range of tasks, including information management, contract management, insurance premium calculation, agency business, and sales management. As for banking tasks, the company has developed a variety of systems for sales branches and external channels in the field of open systems, while handling main frames. In the past, development and operation of financial systems accounts for most parts of the work, but nowadays, new businesses such as robotic process automation (RPA), cloud services, data analysis, voice recognition, and image recognition have grown to make up 30% of total sales. The company is further cultivating the financial market and expanding its business horizontally to other business fields, through cross-selling to customers of the IT Service Business and the Solution Sales or the cooperation with the Solution Design Business in solutions, such as smartphone apps and online apps. Like the Solution Design Business section, Systema Vietnam Co., Ltd. is functioning as an offshore foothold.

◎IT Service Business

Systema Corporation operates and maintains systems and networks, and offers IT outsourcing services including help desk operation, user support, data inputting, and large-volume output. Clients are mainly electric-appliance manufacturers, financial institutions, foreign-affiliated enterprises, and public offices.

◎Solution Sales Business

The company sells IT products including servers, PCs, peripheral devices, and software, to enterprises and integrates systems. The company is shifting business model from selling hardware to offering services. The company aims to expand its business and improve its added value by meeting the changing demands from ownership to usage (cloud, etc.) in cooperation with the IT Service Business section, etc. Clients are mainly electric-appliance manufacturers and foreign-affiliated enterprises.

◎Cloud Business

The company offers services ranging from the support for installation of cloud services to the provision of apps. For example, it offers cloud services of the Systema version of groupware combined with “Cloudstep,” which was developed jointly by the company and G Suite, “Canbus,” a cloud database service, which was launched in May 2017, and “Web Shelter,” an anti-phishing solution for smartphones. It currently specializes in the public cloud, but it is also preparing for offering the private cloud service. “Cloudstep” is a collective term including business applications for improving the usability of cloud services, such as “G Suite,” and management tools for administrators.

◎Overseas Business

The U.S. subsidiary operates two core businesses; one is the support for development and testing mobile and communications-related products, and the other is the researching on trends of the latest technologies and services and incubation in the U.S. The Vietnamese subsidiary is recognized as an offshore foothold that develops, tests, evaluates, maintains, and operates software, and handles all kinds of IT services.

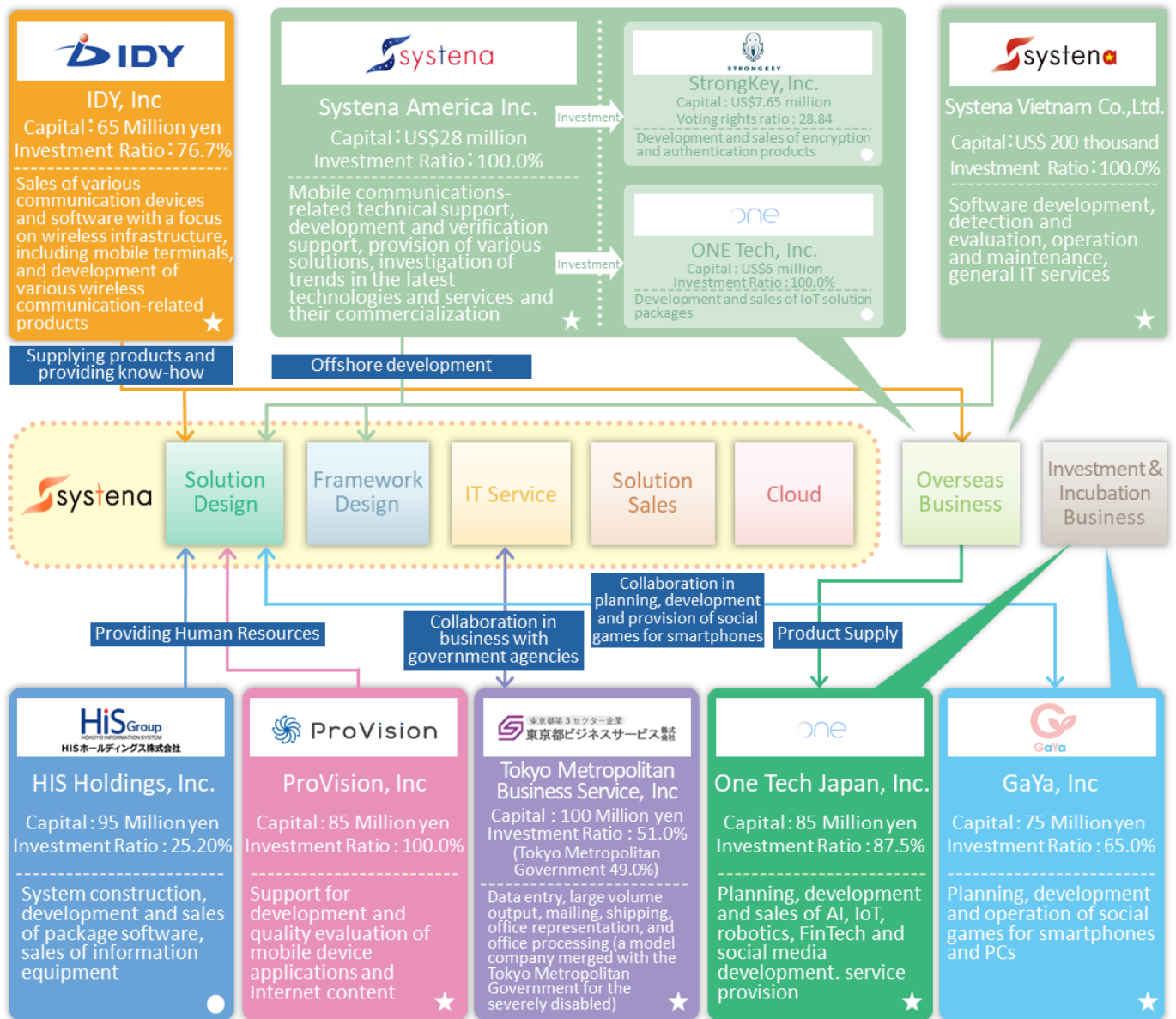
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◎Investment & Incubation Business

The strategic subsidiary “ONE Tech Japan, Inc.” conducts the planning, development, sale, and service provision in the fields of IoT, robots, FinTech, and social media. GaYa Co., Ltd. develops game content for smartphones, offers the contents to leading SNS websites and undertakes the operation of video games developed and released by other companies.

1-2 Situation of the corporate group



Consolidated subsidiaries are marked with ★ and equity-method affiliates are marked with ●.

(Taken from the reference material of the company)

2. Fiscal Year March 2020 Earnings Results

2-1 Consolidated Business Result

	FY 3/19	Ratio to net sales	FY 3/20	Ratio to net sales	YOY	Initial forecast	Ratio to forecast
Net sales	59,742	100.0%	64,552	100.0%	+8.1%	63,147	+2.2%
Gross profit	12,753	21.3%	14,412	22.3%	+13.0%	-	-
SG&A expenses	5,850	9.8%	6,248	9.7%	+6.8%	-	-
Operating income	6,902	11.6%	8,163	12.6%	+18.3%	7,865	+3.8%
Ordinary income	6,706	11.2%	7,871	12.2%	+17.4%	7,622	+3.3%
Profit Attributable to Owners of Parent	4,584	7.7%	5,471	8.5%	+19.3%	5,140	+6.4%

*Unit: Million yen

Sales and operating income grew 8.1% and 18.3%, respectively, year on year

Sales were 64,552 million yen, up 8.1% year on year. Due to the spread of the new coronavirus, almost all of PoC transactions and budget using transactions at the end of the term disappeared, but the sales of the Solution Design business, which is the mainstay, increased 7.9% year on year, and other main segments, too, saw sales growth with the improvement in profitability.

Operating income was 8,163 million yen, up 18.3% year on year. The augmentation of SG&A expenses, centered on personnel and R&D costs, etc. was offset by the sales growth and the improvement in profitability with high added value, etc.

2-2 Trends by segment

	FY 3/19	Composition ratio/ Income margin	FY 3/20	Composition ratio/ Income margin	YOY	Initial forecast	Ratio to forecast
Solution Design	21,214	35.5%	22,914	35.5%	+7.9%	23,450	-2.3%
Framework Design	5,294	8.9%	5,771	8.9%	+9.0%	5,770	+0.0%
IT Service	7,827	13.1%	8,650	13.4%	+10.5%	8,692	-0.5%
Solution Sales	24,032	40.2%	25,887	40.1%	+7.7%	24,000	+7.9%
Cloud	1,129	1.9%	1,404	2.2%	+24.4%	1,230	-
Overseas Business	120	0.2%	147	0.2%	+22.6%	150	-
Investment & Incubation Business	377	0.6%	213	0.3%	-43.4%	305	-
Adjustment	-272	-0.4%	-437	-0.6%	-	-450	-
Consolidated Sales	59,742	100.0%	64,552	100.0%	+8.1%	63,147	+2.2%
Solution Design	3,666	17.3%	4,059	17.7%	+10.7%	4,408	-7.9%
Framework Design	841	15.9%	1,057	18.3%	+25.7%	968	+9.2%
IT Service	1,067	13.6%	1,264	14.6%	+18.4%	1,220	+3.7%
Solution Sales	1,155	4.8%	1,622	6.3%	+40.4%	1,242	+30.7%
Cloud	197	17.5%	209	14.9%	+5.8%	64	+227.0%
Overseas Business	-31	-	-16	-	-	-15	-
Investment & Incubation Business	4	1.2%	-33	-	-	-22	-
Adjustment	-	-	-	-	-	-	-
Consolidated Operating Income	6,902	11.6%	8,163	12.6%	+18.3%	7,865	+14.8%

*Unit: Million yen

Solution Design Business

The solution design business focuses on five growing fields: In-vehicle systems, Social infrastructure, Internet services, AI & robots, and Business operation system.

For FY 3/20, sales were 22,914 million yen, up 7.9% year on year, and operating income was 4,059 million yen, up 10.7% year on year. The effects of unprofitable transactions for development of business operation systems in the third quarter subsided, and sales and profit, which temporarily dropped, recovered thanks to the increase of business inquiries and orders for system development related to 5G, Internet services, digital transformation (DX), the reform of ways of working, etc. As for profit, the offshore use in Vietnam increased 33% year on year, improving profitability. Considering the emergence of unprofitable transactions, the company will keep enhancing sales promotion in target fields and its project management system.

Framework Design Business

For this business, the company is striving to increase the number of orders while targeting mainly existing clients in the financial field and offering business operation automation solutions in the new service field.

For FY 3/20, sales were 5,771 million yen, up 9.0% year on year, and operating income was 1,057 million yen, up 25.7% year on year. In the existing financial field, the development of large-scale insurance systems peaked out, and sales grew thanks to the development of new systems for finance, insurance, and business operation. In the new service field, the sale of licenses for business operation automation solutions, accompanied by the support for installation and development, etc. increased, boosting sales composition ratio to 30% (35% in the fourth quarter). Profitability improved, thanks to the contribution of profitable new services.

IT Service Business

For this business, the company is shifting from the conventional service of dispatching “help-desk staff,” “system operators,” and others while utilizing its staffing capacity to task-undertaking services, including “IT support” and “development of IT infrastructure.”

For FY 3/20, sales were 8,650 million yen, up 10.5% year on year, and operating income was 1,264 million yen, up 18.4% year on year. Sales and profit grew, as the company increased transactions by enhancing sales promotion targeted at the profit divisions of client companies and there was the contribution from spot transactions with high added value, such as “the shifting to Windows 10” and “support for installation of AI and RPA” in IT sections. As the company increased new clients by introducing its “AI-related services” and “IT training,” the number of new customers increased 20% year on year, the ratio of transactions for undertaking tasks rose to 75%, contributing to the improvement in profitability.

Solution Sales Business

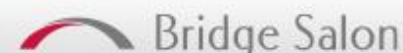
The primary tasks in this business include the sale of IT-related products to corporations and system integration mainly for foreign-affiliated and medium-sized enterprises. Through the establishment of ALL Systema systems, business models and revenue structures are changing.

For FY 3/20, sales were 25,887 million yen, up 7.7% year on year, and operating income was 1,622 million yen, up 40.4% year on year. Due to the termination of support for Windows 7 and Windows Server 2008, system-related transactions increased, and the efforts to stir demand mainly for mobile, security, and cloud services with the keyword “the reform of ways of working” paid off. The company also saw the increase of transactions for one-stop services with high added value, including the comprehension of roadmaps, the installation of IT devices, infrastructure development, system development, maintenance and operation.

Cloud Business

Sales were 1,404 million yen, up 24.4% year on year, while operating income was 209 million yen, up 5.8% year on year. The keywords “digital transformation (DX)” and “data management” were used to stimulate demand. As a result, orders for “Canbus.” increased, and companies promoting work style reform and telework Systems related to “Canbus.,” “G Suite” and “Cloudstep” for Integration also increased.

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Overseas Business

Sales were 147million yen, up 22.6% year on year, while operating loss was 16 million yen (an operating loss of 31million yen posted in the same period of last year).

As the collaborative marketing with ONE Tech and ONE Tech Japan produced good results, the company received more business inquiries and orders for its original services using AI and IoT (LoRa) from various enterprises in Japan and the U.S. In addition, the development of software and support business for several Japanese enterprises contributed to the sales growth. Also, in response to the enforcement of CCPA (which will be described later), the security services of StrongKey, Inc. were promoted also in the U.S.

As for profit and loss, operating income remains positive in the second half, indicating that the company can earn profit continuously.

CCPA stands for the California Consumer Privacy Act, which is a state law of California for providing consumers with the right to control the handling of their own personal information. This act applies to not only enterprises in California, but also enterprises that earn a certain amount of sales (\$25 million) and have ever obtained personal information (including business cards and email addresses) of citizens in California.

2-3 Financial Conditions and CF

Financial Conditions

	March 2019	March 2020		March 2019	March 2020
Cash and deposits	14,376	14,925	Trade payables	6,056	5,868
Trade receivables	13,486	13,883	Accounts payable and accrued expenses	1,547	1,858
Inventories	906	1,126	Income taxes payable and consumption tax	2,318	2,170
Current assets	29,166	30,840	Interest-Bearing Liabilities	1,550	1,550
Tangible Assets	588	836	Liabilities	13,312	13,000
Investments and Others	3,842	3,976	Net assets	20,592	22,955
Noncurrent assets	4,738	5,115	Total Liabilities and Net Assets	33,904	35,956

*Unit: Million yen

Through the business expansion, term-end total assets were 35,956 million yen, up 2,051 million yen from the end of the previous term. Its financial standing, which is highly liquid and stable, is unchanged. The ratio of liquidity on hand was 2.77 months, and capital-to-asset was 63.0% (59.9% at the end of the previous term).

Cash Flow

	FY 3/19	FY 3/20	YOY	
operating CF	7,028	4,831	-2,197	-31.3%
Investing CF	-970	-640	+330	-
Financing CF	-1,247	-3,145	-1,898	-
Cash and Equivalents at the end of term	14,180	15,221	+1,041	+7.3%

*Unit: Million yen

The company secured an operating CF of 4,831 million yen, with pretax profit being 7,871 million yen (6,699 million yen in the previous term), despite the augmentation of working capital, including the payment of income taxes: 2,664 million yen (1,088 million yen in the previous term). Investing CF is attributable to the acquisition of tangible and intangible fixed assets, loans to affiliates, etc. Financing CF is due to the acquisition of treasury shares and the payment of dividends.

Reference: Trends in ROE

	FY 16/3	FY 17/3	FY 18/3	FY 19/3	FY 20/3
ROE (%)	17.22	15.73	22.43	24.63	25.47
Net Profit to Sales Ratio	5.27	4.75	6.52	7.67	8.48
Asset Turnover Ratio (x)	1.93	1.92	2.03	1.92	1.85
Leverage (x)	1.70	1.72	1.70	1.67	1.63

* ROE = Net Profit to Sales Ratio × Asset Turnover Ratio (x) × Leverage (x)

2-4 Response to COVID-19: No employees have been infected, and the business performance remains normal

Since February, in which the spread of the new coronavirus started attracting public attention, the company has implemented some measures for “prevention of infection” and “business continuity,” while assuming the worst-case scenario. In detail, they set alcohol-based hand sanitizers at every entrance inside the company, encourage employees to wear face masks, and distribute face masks at places where over a certain number of people get together. In addition, the company takes measures for health control of employees and prevention of in-company spread of the new coronavirus, while following instructions from industrial doctors and full-time health nurses. As of June 12, no employees have been infected with COVID-19 inside the company.

In parallel, the company has established an environment for teleworking, and employees, who are able to do, have started teleworking one after another. Also, in order to actualize flexible work styles according to national policies and requests, the company has revised various in-company rules, and improved the degree of freedom for employees’ working hours. In mid-April, the company realized online diagnosis exclusively for employees in cooperation with hospitals, to implement measures for preventing employees from contracting the new coronavirus as well as to detect infections early, and respond early. Thanks to these measures, the company can continue its business at the normal level.

3. Fiscal Year March 2021 Earnings Estimates**3-1 Full-year Consolidated Earnings Estimates**

	FY 3/20 Results	Ratio to net sales	FY 3/21 Estimates	Ratio to net sales	YOY
Net sales	64,552	100.0%	62,227	100.0%	-3.6%
Operating income	8,163	12.6%	7,634	12.3%	-6.5%
Ordinary income	7,871	12.2%	7,370	11.8%	-6.4%
Profit Attributable to Owners of Parent	5,471	8.5%	4,967	8.0%	-9.2%

*Unit: Million yen

Sales and operating income are forecasted to decrease 3.6% and 6.5% year on year, respectively

Considering the impact of the coronavirus pandemic, the forecast was conservative. It is based on the assumption that the economic activities will gradually recover from the second half.

As for the performance of each segment, sales and profits are projected to decline in the Framework Design, the Solution Sales, and the Cloud Business due to the impact of the coronavirus pandemic. Sales of the IT Service Business are forecasted to increase as the company will capture demand related to telework/remote work, but profits are considered to decline as one-off deals with high added value will be completed. Meanwhile, in the Solution Design Business, although in-vehicle systems will be affected, sales and profits are forecasted to increase in other fields.

3-2 Outlook for each segment

	FY 3/20 Results	Composition ratio/ Income margin	FY 3/21 Estimates	Composition ratio/ Income margin	YOY
Solution Design	22,914	35.5%	24,059	38.7%	+5.0%
Framework Design	5,771	8.9%	5,667	9.1%	-1.8%
IT Service	8,650	13.4%	9,282	14.9%	+7.3%
Solution Sales	25,887	40.1%	22,000	35.4%	-15.0%
Cloud	1,404	2.2%	1,327	2.1%	-5.5%
Overseas Business	147	0.2%	158	0.3%	+7.2%
Investment & Incubation	213	0.3%	334	0.5%	+56.5%
Adjustment	-437	-0.6%	-600	-1.0%	-
Consolidated Sales	64,552	100.0%	62,227	100.0%	-3.6%
Solution Design	4,059	17.7%	4,106	17.1%	+1.1%
Framework Design	1,057	18.3%	1,010	17.8%	-4.5%
IT Service	1,264	14.6%	1,116	12.0%	-11.7%
Solution Sales	1,622	6.3%	1,199	5.5%	-26.1%
Cloud	209	14.6%	190	14.3%	-9.2%
Overseas Business	-16	-	-22	-	-
Investment & Incubation	-33	-	35	10.5%	-
Adjustment	-	-	-	-	-
Consolidated Operating Income	8,163	12.6%	7,634	12.3%	-6.5%

*Unit: Million yen

Solution Design Business

It is estimated that sales will be 24,059 million yen, up 5.0% year on year, and operating income will be 4,106 million yen, up 1.1% year on year. Because in-vehicle systems are expected to decrease by about 5 to 10% in consideration of the environment surrounding the automobile industry, the company will focus on high-growth fields such as ADAS and mobility services. AI and robots are anticipated to substitute for people as working styles are changing due to the coronavirus pandemic. In fact, inquiries on robots and AI of medical care and nursing care for the company are increasing. Internet services, which accounts for about 50% of sales in this segment, have many projects such as cashless, 5G, IoT, and AI, and in order to effectively utilize limited resources of engineers, the company will strive to achieve high profitability through selection and concentration. As for business operation systems, it will focus on alliances with each vendor.

In-vehicle systems business	<ul style="list-style-type: none"> To increase orders for improving the comfort of in-vehicle space (in-vehicle infotainment) To expand projects and accumulate know-how with a focus on the fields of safety of passenger vehicles, route buses, etc. (automated driving) To strengthen sales of mobility services such as in-vehicle service platforms with AI.
Robot/AI business	<ul style="list-style-type: none"> To expand solution development and consultation by using service robots. To increase orders by developing engineers specialized in robots and AI during a revolutionary period of changing work styles due to the coronavirus pandemic.
Internet services business	<ul style="list-style-type: none"> To increase transactions for developing service and upgrade the lab for entrusted development for cashless payment. To expand Internet services projects with keywords being 5G, IoT, and AI. To expand services from technical support on development and verification to direction to operate services and operation services.
Business operation systems business	<ul style="list-style-type: none"> To increase orders of DX projects by increasing service menu using Open Source Software (OSS).

Framework Design Business

It is projected that sales will be 5,667 million yen, down 1.8% year on year, and operating income will be 1,010 million yen, down 4.5% year on year. Although the business environment is unclear due to the spread of the coronavirus pandemic, projects with a focus on insurance/finance systems, business operation systems and foundation establishment in the existing businesses will continue, and a roadmap for horizontal development has also been established. Based on stable earnings from existing businesses, the company will expand services through new businesses. Furthermore, considering the coronavirus pandemic, it will review the sales method from face-to-face sales to on-line seminars, on-line conferences, and on-line sales.

Continuation and horizontal development of existing businesses	<ul style="list-style-type: none"> To continue and horizontally develop projects with a focus on “insurance/finance systems,” “business operation systems” and “business foundation establishment.”
Receiving orders of projects with DX as a keyword	<ul style="list-style-type: none"> To renew the core system, accumulate know-how for ordering foundation establishment (cloud) projects, and establish sales routes.
Operation of new businesses centering on the cooperation among all Systema departments and with manufacturers and distributors.	<ul style="list-style-type: none"> To improve services for the sales of licenses and installation support such as robotic process automation (RPA), AI, security, cloud and remote control by strengthening the cooperation among all Systema departments and with manufacturers and distributors.
Response to the Emergency Declaration (stay-at-home advisories)	<ul style="list-style-type: none"> To support staggered hours, shift work, and telework, and provide remote support for business continuity. To shift from exhibitions, seminars, face-to-face sales to on-line seminars, on-line conferences, and on-line sales.

IT Service Business

It is forecasted that sales will be 9,282 million yen, up 7.3% year on year, and operating income will be 1,116 million yen, down 11.7% year on year. The company will strengthen its alliance with each vendor in order to provide solutions for telework, etc. as the work styles are shifting from on-site to telework and remote work. It will also work on selling new products and services through inside sales and shift management resources to high value-added fields. For new products and services, it will strengthen products such as “AI related services,” “RPA,” “security enhancement support,” and “IT training” to meet the needs of new markets and customers. To shift to high value-added fields, it will move from personnel mobilization services such as “help desk” and “system operators” to entrusted businesses on a service unit directly linked to customer’s business development including “IT support,” “IT infrastructure,” “PMO,” “DX related support,” and “cloud installation/support.”

Solution Sales Business

It is estimated that sales will be 22,000 million yen, down 15.0% year on year, and operating income will be 1,199 million yen, down 26.1% year on year. This segment was faced with a difficult situation, as projects of special demands in association with ending support for Windows 7 came to an end, while it was forced to reduce sales activities due to the spread of the coronavirus pandemic. Therefore, it is estimating double-digit decreases in sales and profits. However, with a focus on SI projects for which all the group companies’ strengths can be used, it will cultivate an expanded customer base and shift its focus to growth fields.

Investment to expand solution area	<ul style="list-style-type: none"> To expand service menu and expand sales targeting profit divisions
Strengthening initiatives to the hybrid environment	<ul style="list-style-type: none"> To strengthen responses to the hybrid environments and strengthen alliances with cloud partners
Strengthening profitability by expanding sales of services	<ul style="list-style-type: none"> To provide one-stop services for all services of ALL Systema

Cloud Business

It is projected that sales will be 1,327 million yen, down 5.5% year on year, and operating income will be 190 million yen, down 9.2% year on year. The company will bear upfront investment mostly to expand the functions to enhance popularity, improve product competitiveness, and increase the customer satisfaction level of its services, and to increase sales of the company's services, mainly Canbus. It aims to increase sales and profit by capturing replacement projects and stimulating SI demand.

Increasing inquiries by enhancing popularity of Canbus.	<ul style="list-style-type: none"> To increase orders from corporations that implement work style reforms such as DX and telework to establish or replace business operation systems for enhancing work efficiency and improving productivity.
Upfront investment by strengthening services	<ul style="list-style-type: none"> To make various businesses feasible, the company will "improve product competitiveness," "strengthen human resources" to enhance support capabilities, and increase "customer satisfaction level."

Overseas Business

Sales will be 158 million yen, up 7.2% year on year, and operating loss will be 22 million yen (an operating loss of 16 million yen posted in the same period of the previous year). In collaboration with ONE Tech and ONE Tech Japan, it aims to expand sales of AI/IoT services. Specifically, in addition to sales expansion to the same industry with a track record of service introduction, it will aim to raise visibility by showing microAI and each IoT solution at multiple exhibitions in the U.S. Furthermore, by utilizing offshore bases in Vietnam, it will focus on receiving orders for ongoing as well as new projects from Japanese business partners that are based in the U.S. In addition, in parallel with sales in Japan, it will also strengthen the sales of StorngKey products for corporations with branches in California in line with CCPA enforced in January 2020.

4. Mid-Term Management Plan (FY 3/19 to 3/24)

【Policies of Management — Improving productivity through data management—】

Using “Canbus.” which was developed internally in the Cloud Business, it will grasp the business situation in real time and improve productivity. It is aiming to maximize the profit by utilizing the digitized data that visualize operation, profit margin, progress, etc. for each project as management information and linking them to improve the productivity of each employee.

【Strategies and Priority Management Indicators and Targets for FY 3/24】

It will focus its management resources on automotive, cashless payment, robot/IoT/RPA/cloud, and its own products/services, that are positioned as the most growing fields in the next 10 years.

Priority Management Indicators and Targets for FY 3/24

Consolidated sales, operating income, operating income rate, per-capita operating income, and ROE are listed as the company’s important management indicators. The targets for FY 3/24 are consolidated sales of 101 billion yen, operating income of 15.2 billion yen, operating income rate of 15%, per-capita operating income of 2.6 million yen, and ROE of 25%.

【Targets and Initiatives by Segment】

	FY 3/19 Act.	Composition ratio/ Income margin	FY 3/20 Act.	Composition ratio/ Income margin	FY 3/24 Est.	Composition ratio/ Income margin
Solution Design	21,234	35.5%	22,914	35.5%	40,950	40.6%
Framework Design	5,294	8.9%	5,771	8.9%	9,400	9.3%
IT Service	7,827	13.1%	8,650	13.4%	11,060	11.0%
Solution Sales	24,032	40.2%	25,887	40.1%	36,580	36.2%
Cloud	1,129	1.9%	1,404	2.2%	1,970	1.9%
Overseas Business	120	0.2%	147	0.2%	640	0.6%
Investment & Incubation	377	0.6%	213	0.3%	400	0.4%
Adjustment	-272	-0.4%	-437	-0.6%	-	-
Consolidated Sales	59,742	100.0%	64,552	100.0%	101,000	100.0%
Solution Design	3,666	17.3%	4,059	17.7%	8,100	19.8%
Framework Design	841	15.9%	1,057	18.3%	1,600	17.0%
IT Service	1,067	13.6%	1,264	14.6%	2,350	21.2%
Solution Sales	1,155	4.8%	1,622	6.3%	2,300	6.3%
Cloud	197	17.5%	209	14.9%	500	25.4%
Overseas Business	-31	-	-16	-	250	39.1%
Investment & Incubation	4	1.2%	-33	-	100	25.0%
Adjustment	-	-	-	-	-	-
Consolidated Operating Income	6,902	11.6%	8,163	12.6%	15,200	15.0%

*Unit: Million yen

Solution Design Business

It aims for sales of 40.95 billion yen (21.2 billion yen for FY 3/19) and an operating income of 8.1 billion yen (3.7 billion yen for FY 3/19) in FY 3/24. By using the business experience and technical capabilities cultivated in the in-vehicle products that have grown into the Internet business and core business, it will grow the business to enter the robot and business operation fields related to innovation of DX and legacy systems, etc. Estimates in each field are as follows: In-vehicle: from 2.7 billion yen in FY 3/19 to 6 billion yen in FY 3/24, robot: from 800 million yen to 5 billion yen, Internet business: from 10.2 billion yen to 20.0 billion yen, and business operation system: from 2.3 billion yen to 5 billion yen.

The field of in-vehicle systems has many business opportunities in addition to the current mainstay infotainment and sharing, MaaS, connected cars, automatic driving and safety measures, etc. The robot field will also have increasing demand for development of robots and systems including communication robots, life-support robots for nursing care, etc., industrial robots, and medical robots. For the Internet business, education-related, 5G-related services, and technical fields such as AI and IoT are drawing attention. For the business operation systems, it is anticipated that the demand will increase for development of systems to be used for the reform of ways of working, which are currently in high demand, open source utilization, AI/business operation automation, DX, and countermeasures for personnel shortage.

Framework Design Business

The company aims to achieve sales of 9.4 billion yen (5.3 billion yen for FY 3/19) and an operating income of 1.6 billion yen (0.8 billion yen for FY 3/19) in FY 3/24. It will continue to work on existing services related to finance and insurance and new services centered on automation, and develop the business into new areas related to digitalization. Its targets are sales of 6,000 million yen (4,760 million yen for FY 3/19) and an operating income of 800 million yen (750 million yen for FY 3/19) from the financial/insurance business, the expansion of the domain, digitization, renewal and integration of core systems, etc., sales of 2,500 million yen (540 million yen for FY 3/19) and operating income of 500 million yen (100 million yen for FY 3/19) from the new services centered on automation/efficiency, including automated diagnosis, installation support, license sales, and AI collaboration, and sales of 1,500 million yen (no result yet) and an operating income of 300 million yen (no result yet) from the new field related to digitization.

IT Service Business

The company aims to achieve sales of 11.06 billion yen (7.8 billion yen for FY 3/19) and operating income of 2.35 billion yen (1.1 billion yen for FY 3/19) in FY 3/24. Based on the know-how cultivated in the projects, it will develop contract-type businesses on a service basis with high value-added services such as “IT support,” “IT infrastructure,” “PMO,” and “LABO.” It will also focus on new products and services such as “AI/Chatbot” and “RPA.” It will increase sales of contract-type business from 4.5 billion yen (FY 3/19) to 8 billion yen, and raise the gross profit margin rate of the entire business from 30% to 34%.

Solution Sales Business

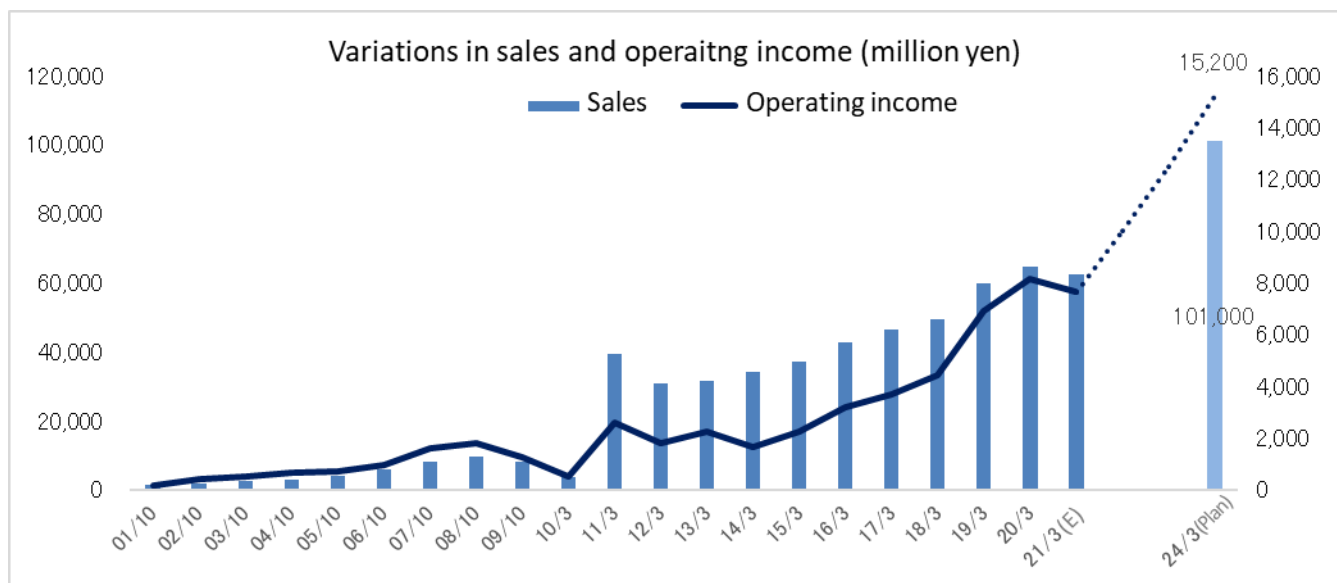
The company aims to achieve sales of 36.58 billion yen (24.0 billion yen for FY 3/19) and an operating income of 2.3 billion yen (1.2 billion yen for FY 3/19) in FY 3/24. As integrated sales of Systema, it will reform its business model to become an ICT partner that supports customers’ businesses by providing solutions for addressing customers’ management issues such as productivity improvement, cost reduction and security enhancement. As a result, it anticipates to achieve continuous growth of sales and profits. It is intending to grow the existing business, the service business, and cloud business by 34%, 176% and 341%, respectively, from FY 3/19.

Cloud Business

The company aims to achieve sales of 1.97 billion yen (1.1 billion yen for FY 3/19) and an operating income of 0.5 billion yen (0.2 billion yen for FY 3/19) in FY 3/24. Centered on Canbus., it will work on the high value-added subscription model. Furthermore, using Canbus., it will focus on the acquisition of high value-added projects for “business-related SI” and also carry out research and development on technological elements such as AI, IoT, and security to expand its services.

Overseas Business

The company aims to achieve sales of 640 million yen (100 million yen for FY 3/19) and an operating income of 250 million yen (negative 30 million yen for FY 3/19) in FY 3/24. In the U.S., it will work on the joint sales, mainly for the provision of technical support to Japanese companies, with One Tech in the IoT field. Also, by providing the latest technology such as StrongKey’s cyber security products, it will support the information leakage countermeasures of public institutions and corporations in Japan and make efforts to discover the next technology and market.



5. Conclusions

The good performance is attributable to the expansion of profitable businesses, including new services and original products. Accordingly, some businesses were affected by the spread of the new coronavirus, but sales grew through the improvement in profitability.

For FY 3/21, many companies have not yet determined their earnings forecasts, but the company has disclosed its earnings forecast while taking into account the impact of the new coronavirus. The earnings forecast includes the decline in sales and profit for the first time since the mid-term management plan was announced in 2015, but it fulfilled its responsibility as a listed company by disclosing the earnings forecast, which helps investors predict corporate activities in the foreseeable future. Their business performance is estimated to be affected considerably by the pandemic in the first half, but the demand for products related to teleworking and remote working reportedly remains strong. Some clients adopted a wait-and-see stance regarding IT investment amid the pandemic, but there are reportedly no clients that have totally abandoned IT investment plans. Therefore, if the pandemic subsides, IT investment may be implemented all at once. The company will strive to meet demand through timely businesses related to teleworking, remote working, etc., and plans to establish a system for the post-pandemic society.

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	9 directors, including 2 outside ones
Auditors	4 auditors, including 4 outside ones.

◎Corporate Governance Report (Updated on June 25, 2019)

Basic policy

Our company will promote speedy business administration based on swift decision making to keep up with the rapid changes in the business environment and enhance the efficiency of business administration, and achieve sustainable business development, the increase in shareholder value, and the continuous return of profit to shareholders. In addition, our company will tighten our corporate governance in order to harmonize the interests of stakeholders, including shareholders, customers, business partners, employees, and local communities, maximize overall profit, secure the soundness of business administration, and comply with laws and regulations thoroughly. To do so, we will sincerely accept instructions and suggestions from external experts (audit corporations, lead-managing securities firms, lawyers, labor and social security attorneys, judicial scriveners, and others) and stakeholders, and strive to improve the fairness and transparency of our business administration. Then, we will develop a structure suited for our corporate scale by utilizing our inherent flexibility and make efforts to brush up ourselves as a listed company that always cares for stakeholders, including shareholders, strengthen corporate governance, and disclose appropriate information in a timely manner.

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

【Supplementary Principle 4-1-3 Plan for finding successors to CEO and others】

Our company has two representative directors, namely, the representative director and chairperson, who is the founder, and a representative director and president in his early 50s. Our company is still an owner-led enterprise in which the representative director and chairperson, who founded our company, conducts business administration as chief executive officer under the managerial policy of selection and concentration. The plan for finding successors will depend on the future business environment and managerial policies, so we think that to leave it to the discretion of the chairperson is the best way for the growth of our company. Accordingly, the board of directors is not involved in the formulation or operation of concrete plans for finding successors, as of now. From now on, we will discuss this matter if necessary.

【Supplementary Principle 4-3-3 Establishment of objective, timely, transparent procedures for dismissing the CEO】

In our company, the representative director and chairperson, who is the founder and owner of our company, leads our business administration as CEO, and the representative director and president marshals employees based on appropriate evaluation of their performance, etc. as chief operating officer (COO). In addition, each representative director is monitored by 6 outside executives (2 outside directors and 4 outside auditors) who satisfied the requirements for becoming independent executives. If an event which would lead to the dismissal of a representative director occurs, the board of directors will have discussions and make decisions based on suggestions from independent executives, to cope with said event. Therefore, the board of directors has not yet established objective, timely, transparent procedures for dismissing the CEO. We will discuss this matter, when necessary.

【Supplementary Principle 4-10-1 Establishment of independent advisory committees, such as arbitrary nominating committees and compensation committees】

Two out of nine directors of our company are independent outside ones, who do not form a majority of the board of directors, but 6 outside executives, including them and 4 outside auditors, satisfy the requirements for independent executives specified by Tokyo Stock Exchange. Each independent executive actively expresses their opinions and gives timely, appropriate advice during deliberations about important matters at meetings of the board of directors, by utilizing their expertise and plenty of experience. Accordingly, we have not yet established an independent advisory committee. We will discuss this matter, when necessary.

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

【Principle 1-4 Strategically held shares】

Our policy is not to strategically hold shares of listed companies, and there are no shares we hold strategically.

【Principle 1-7 Transactions among related parties】

In our company, conflict-of-interest and competing transactions shall be discussed and reported at a meeting of the board of directors. The board of directors approves each of such transactions in advance and reports on results.

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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