

 <p>Yoshichika Hemmi, Chairman</p>	 <p>Kenji Miura, President</p>	<b>Systema Corporation (2317)</b>
		

## Corporate Information

Exchange	TSE 1 <sup>st</sup> 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	<a href="https://www.systema.co.jp/">https://www.systema.co.jp/</a>

## Stock Information

Share Price	Shares Outstanding (Excluding Treasury Shares)		Total Market Cap	ROE (Actual)	Trading Unit
¥2,074	96,843,688 shares		¥200,853 million	25.5%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥20.00	1.0%	¥51.29	40.4x	¥249.20	8.3x

\*The share price is the closing price on November 16. 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 the second quarter of fiscal year ending March 2021 earnings results and full-year estimates of Systema Corporation.

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## Key Points

- In the first half of FY 3/21, sales decreased 6.7%, and operating income decreased 10.4% year on year. The company proceeded with business activities with the goal of achieving an operating rate of 90% or higher by IT support and software development support through remote sales and telework. Despite having taken in telework-related demand, sales decreased due to the recoil from the demand for updates to Windows 7-based PCs in the same period last year and the impact of the spread of the novel coronavirus in the Solution Design and Framework Design businesses. The increase in labor costs due to the proactive hiring of new graduates has put a strain on the company.
- There is no change in the full-year forecast, with a 3.6% decrease in sales and a 6.5% decrease in operating income from the previous term. In the second half, the Solution Design business will grow due to the mobilization of new graduates and other factors, and the Framework Design business, which postponed projects will be launched, will also turn to sales growth. Both businesses are also expected to improve their profitability with an improved operating ratio. On the other hand, the outlook for the IT Service business, which saw strong orders for high value-added projects in the first half of the year, is conservative. The term-end dividend is to be 10 yen/share, and when combined with the interim dividend, the annual dividend is to be 20 yen/share.
- The progress rate toward the full-year forecast was 47.1% for sales (48.7% in the same period last year, compared with actual results), and 48.2% for operating income (50.3% in the same period last year). Although they were slightly below those of the same period last year, the remote sales and telework environment has been developed and the prospect of paying for new graduates is on the horizon, and the company is poised to make a comeback. Although the third wave of infection is a concern in the second half of the year, the company will attack with products that take advantages of the coronavirus crisis, such as telework-related services, RPA, AI, security, cloud services, remote control, and its own products with high profit margins.

## 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 Katena 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 40% 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.

### ◎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.

## 2. The Second Quarter of Fiscal Year March 2021 Earnings Results

### 2-1 Consolidated Business Result for the first half of fiscal year March 2021

	1H of FY 3/20	Ratio to net sales	1H of FY 3/21	Ratio to net sales	YOY
Net sales	31,411	100.0%	29,304	100.0%	-6.7%
Gross profit	7,128	22.7%	6,928	23.6%	-2.8%
SG&A expenses	3,019	9.6%	3,245	11.1%	+7.5%
Operating income	4,109	13.1%	3,683	12.6%	-10.4%
Ordinary income	3,961	12.6%	3,723	12.7%	-6.0%
Profit Attributable to Owners of Parent	2,680	8.5%	2,511	8.6%	-6.3%

\*Unit: Million yen

### Sales fell 6.7% year on year, and operating income fell 10.4% year on year

Sales fell 6.7% year on year to 29.3 billion yen. Although the IT Service business took in demand for telework support, sales in the Solution Sales business declined due to the recoil from the demand for Windows 7 PC updates in the same period last year, and the Solution Design and Framework Design businesses were affected by the spread of the novel coronavirus.

In terms of profit, operating income decreased 10.4% year on year to 3.68 billion yen due to factors such as an increase in labor costs associated with a decline in the operating ratio and the aggressive hiring of new graduates, while ordinary income decreased 6.0% year on year to 3.72 billion yen due to factors such as the recording of a gain on the sale of investment securities and a decrease in equity method investment loss.

### 2-2 Trends by segment

	1H of FY 3/20	Composition ratio/ Income margin	1H of FY 3/21	Composition ratio/ Income margin	YOY
Solution Design	11,373	36.2%	11,664	39.8%	+2.6%
Framework Design	2,804	8.9%	2,515	8.6%	-10.3%
IT Service	4,117	13.1%	4,553	15.5%	+10.6%
Solution Sales	12,407	39.5%	10,086	34.4%	-18.7%
Cloud	682	2.2%	655	2.2%	-4.0%
Overseas Business	55	0.2%	91	0.3%	+65.7%
Investment & Incubation Business	109	0.3%	86	0.3%	-20.4%
Adjustment	-137	-0.4%	-349	-1.1%	-
Consolidated Sales	31,411	100.0%	29,304	100.0%	-6.7%

## BRIDGE REPORT



Solution Design	2,153	18.9%	1,774	15.2%	-17.6%
Framework Design	503	17.9%	387	15.4%	-23.0%
IT Service	564	13.7%	700	15.4%	+24.1%
Solution Sales	810	6.5%	745	7.4%	-8.0%
Cloud	111	16.3%	104	16.0%	-6.3%
Overseas Business	-24	-44.4%	7	7.6%	-
Investment & Incubation Business	-8	-8.0%	-35	-41.1%	-
Adjustment	-	-	-	-	-
Consolidated Operating Income	4,109	13.1%	3,683	12.6%	-10.4%

\*Unit: Million yen

### Solution Design Business

Sales were 11.66 billion yen (up 2.6% year on year), and operating income was 1.77 billion yen (down 17.6% year on year). While orders based on the keywords "cashless," "GIGA school concept," and "EC" were strong, the company actively pursued new development in growth areas such as "Mobility," "AI," and "IoT" and as a result, despite the increase in sales, the increase in the number of new graduates (2.5 times that of the same period of the previous year) and upfront investments such as the opening of new offices, became a burden.

### Framework Design Business

Sales were 2.51 billion yen (down 10.3% year on year), and operating income was 380 million yen (down 23.0% year on year). In the existing financial sector, although maintenance and development projects in life and non-life insurance and banks have progressed by maintaining their systems, the spread of the novel coronavirus has caused a decrease of business inquiries, delays and interruptions in new projects that could not be resolved. The company continued to focus on online marketing through online seminars and other activities, mainly in the development of new business systems and infrastructure construction (cloud). On the other hand, for the new service field, the company expanded the services of the business automation (RPA) solution to increase orders, and also promoted a change from exhibition-based marketing to web-based marketing through online seminars and other means.

### IT Service Business

Sales were 4.55 billion yen (up 10.6% year on year), and operating income was 700 million yen (up 24.1% year on year). By providing services such as "PMO" and "IT support" to support customers' telework and other services suited for customers' working styles, the company has succeeded in capturing high value-added spot deals. The company also made progress in attracting new customers by using "IT training", which promotes telework, as a sales hook.

### Solution Sales Business

Sales were 10.08 billion yen (down 18.7% year on year), and operating income was 740 million yen (down 8.0% year on year). In addition to the expansion of system integration, mainly in VDI environment construction projects and HCI projects, there was an increase in high-value-added one-stop service projects, ranging from understanding the roadmap to the introduction of IT equipment, infrastructure construction, system development, and maintenance and operation, but it was not able to offset the recoil from the demand for updating Windows 7-based PCs in the same period last year.

### Cloud Business

Sales were 650 million yen (down 4.0% year on year), and operating income was 100 million yen (down 6.3% year on year). Business inquiries for "Canbus." increased from companies that are reforming their working methods through telework to shift to data-driven operations, and orders for "Cloudstep" increased along with a review of groupware towards the normalization of telework. In addition, inquiries for development based on the "G suite" platform and SI also increased, but demand was generally weak due to the spread of COVID-19.

## Overseas Business

Sales were 91 million yen (up 65.7% year on year), and operating income was 7 million yen (a loss of 24 million yen in the same period last year). As a result of joint sales and service planning with ONE Tech and ONE Tech Japan, inquiries and orders for unique services using AI and IoT (LoRa) from various companies in the U.S. and Japan increased, in parallel with an increase of PoC orders using elemental technologies of start-ups from several Silicon Valley Japanese companies. In addition, StrongKey's security services were also rolled out in conjunction with the CCPA implementation. As a result, despite the difficult business environment caused by the coronavirus crisis, a monthly profit has been established (it has remained profitable since the second half of the previous year).

Here, CCPA stands for California Consumer Privacy Act, a California state law that gives consumers the right to control the handling of their personal information.

## 2-3 Financial Conditions and CF

### Financial Conditions

	March 2020	September 2020		March 2020	September 2020
Cash and deposits	14,925	16,926	Trade payables	5,868	3,890
Trade receivables	13,883	10,962	Accounts payable and accrued expenses	1,858	1,797
Inventories	1,126	783	Income taxes payable	1,430	1,247
Current assets	30,840	29,984	Provision for bonuses	1,239	1,079
Tangible Assets	836	866	Interest-Bearing Liabilities	1,550	1,550
Intangible Assets	303	310	Liabilities	13,000	10,464
Investments and Others	3,976	3,768	Net assets	22,955	24,465
Noncurrent assets	5,115	4,945	Total Liabilities and Net Assets	35,956	34,930

\*Unit: Million yen

Total assets at the end of the second quarter decreased 1.02 billion yen from the end of the previous term to 34.93 billion yen. Cash and deposits increased while trade receivables decreased due to a decrease in working capital. For liabilities and net assets, net assets increased while accounts payable and other liabilities decreased. Capital-to-asset ratio was 69.1% (63.0% at the end of the previous term).

### Cash Flow

	1H of FY 3/20	1H of FY 3/21	YOY	
Operating CF (A)	1,666	3,774	+2,108	+126.5%
Investing CF (B)	-363	-1,201	-838	-
Free cash flow (A+B)	1,303	2,573	+1,270	+97.5%
Financing CF	-926	-976	-50	-
Cash and Equivalents at the end of term	14,544	16,808	+2,264	+15.6%

\*Unit: Million yen

Income before taxes of 3.72 billion yen and income tax payments of 1.29 billion yen resulted in an operating CF of 3.77 billion yen. Investing CF is due to the acquisition of tangible and intangible fixed assets, increase in time deposits, and acquisition of investment securities, while financing CF is due to dividend payments.

### 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 are expected to decline 3.6% and operating income to decline 6.5% year on year

There was no change in the full-year earnings forecast. In the second half of the year, the Solution Design business is expected to grow due to the mobilization of new graduates and other factors, and the Framework Design business, which postponed projects are being launched, is also expected to increase sales. On the other hand, the outlook for the IT Service business, which saw strong orders for high value-added projects in the first half of the year, is conservative. The Solution Design and Framework Design businesses are expected to improve their profitability thanks to higher capacity utilization rates.

The term-end dividend is to be 10 yen/share, and when combined with the interim dividend, the annual dividend will be 20 yen/share.

#### 3-2 Outlook and efforts for each segment

	FY 3/20	Composition ratio/ Income margin	FY 3/21	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	14.9%	190	14.3%	-9.2%
Overseas Business	-16	-11.2%	-22	-13.9%	-
Investment & Incubation	-33	-15.7%	35	10.5%	+204.6%
Adjustment	-	-	-	-	-
Consolidated Operating Income	8,163	12.6%	7,634	12.3%	-6.5%

\*Unit: Million yen

### **Solution Design Business**

Sales are projected to be 24.05 billion yen (up 5.0% year on year) and operating income to be 4.1 billion yen (up 1.1% year on year). The company aims to create high value-added business domains through selection and concentration, and the measures it is taking include active expansion into growing areas, shifting to comprehensive solutions, and developing new business opportunities by strengthening services.

#### Aggressive expansion into growing areas

Work on new development in growing areas such as Mobility, 5G, GIGA School Initiative, AI, IoT, and DX.

#### Shift to Comprehensive Solutions

Shift to a comprehensive solution that supports the entire process of customer service, from planning to operation. By expanding the scope of services from traditional design, development and evaluation to planning and operation, the company aims to provide higher value-added services.

#### Development of New Business Opportunities by Strengthening Services

Provide OSS and telework-related services and find business opportunities by strengthening alliances.

### **Framework Design Business**

Sales are estimated to be 5.66 billion yen (down 1.8% year on year), and operating income to be 1.01 billion yen (down 4.5% year on year). Although the market trend is unclear due to the coronavirus crisis, the company will work on the continuation and cross-sectoral expansion of existing businesses and the enrichment of services in new businesses. In addition, it will review its marketing methods.

#### Continuation and cross-sectoral expansion of existing businesses

The company will pursue the continuation and cross-sectoral expansion of projects centered on insurance and financial systems, business systems, and infrastructure construction.

#### Aggressive receipt of orders for projects with the keyword DX

The company will work to accumulate know-how and establish sales channels to win orders for mission-critical system renewal and infrastructure construction projects associated with DX.

#### New business development based on collaboration among all Systema and with manufacturers and distributors

The company will work to expand orders for license sales and implementation support services by enriching services such as RPA, AI, security, cloud, and remote control, and by strengthening cooperation among headquarters and with manufacturers and distributors.

#### Response to the declaration of a state of emergency (self-isolation)

The company will promote staggered work hours, work shifts, telework and remote support in preparation for another state of emergency declaration or other issues. Moreover, it will push the shift from face-to-face marketing (trade shows and seminars) to online marketing (online seminars and meetings).

### **IT Service Business**

Sales are estimated to be 9.28 billion yen (up 7.3% year on year), and operating income to be 1.11 billion yen (down 11.7% year on year). The company's measures include shifting resources to high value-added areas, strengthening new developments through the expansion of new products and services, and providing services tailored to the business impact of its customers.

#### Shifting management resources to high value-added areas

Based on the know-how cultivated through the provision of personnel-based services such as "helpdesk" and "system operator," the company will focus on developing high value-added per-service outsourced operations such as "IT support," "IT infrastructure," "PMO," "DX-related support," and "cloud implementation and support," and will focus on services that are more directly related to customers' business development.

Increase of new customers through the enrichment of new products and services

The company will promote the strengthening of products for new markets and needs, the use of insights into sales, etc., to promote the creation and distribution of services and increase customers and sales. Also, it will focus on alliances with various vendors to provide solutions such as promoting telework.

Providing services tailored to the customers' business impact

Promoting telework in the wake of the global spread of COVID-19. Build a flexible system that includes remote service delivery rather than the traditional resident-centric work style.

### **Solution Sales Business**

Sales are estimated to be 22 billion yen (down 15.0% year on year), and operating income to be 1.19 billion yen (down 26.1% year on year). The first half of the year started under strong headwinds as the special demand associated with the end of the Windows 7 support came to an end and the coronavirus crisis forced a reduction in sales activities. However, the company's customer base is expanding, and it will use this customer base to expand its existing businesses and to move forward with the development of growth areas.

Investment to expand the solution domain

To expand its service lineup and conduct marketing targeting profit divisions.

Strengthening initiatives to the hybrid environment

To adapt to the hybrid environments and strengthen alliances with cloud partners

Improving profitability by expanding sales of services

To provide one-stop services for all services of All Systema.

### **Cloud Business**

Sales are projected to be 1.32 billion yen (down 5.5% year on year), and operating income to be 190 million yen (down 9.2% year on year). There are an increasing number of inquiries on business improvements for DX and telework normalization and internal infrastructure development. The company aims to expand its business through aggressive upfront investment in its own services, especially "Canbus."

Upfront investment to increase awareness of "Canbus." and promote it

To strengthen alliances and promote the brand strategy through online promotions.

Upfront investment accompanying service enhancements

In order to achieve greater customer satisfaction, the company will enhance its product capabilities to enable a variety of operations and strengthen its human resources to improve support capabilities.

### **Overseas Business**

Sales are forecasted to be 150 million yen (up 7.2% year on year), and operating loss to be 22 million yen (an operating loss of 16 million yen in the previous term). The company's measures include expanding sales of AI and IoT services through collaboration with ONE Tech and ONE Tech Japan, providing technical support to Japanese manufacturers in the U.S., and strengthening sales of StrongKey's products in the U.S.

Expanding Sales of AI and IoT Services by Collaborating with ONE Tech and ONE Tech Japan

The service will be rolled out to industries where it has a proven track record while deploying a machine failure prediction IoT (LoRa) solution using ONE Tech's proprietary AI "MicroAI."

Technical Assistance to Japanese Manufacturers in the U.S.

The company will focus on continuing to receive orders from the Japanese companies with whom it is doing business and acquiring new PoC projects while reducing costs through the use of Vietnam's offshore resources.

Strengthening U.S. domestic sales of StrongKey products

In conjunction with the CCPA, which goes into effect in July 2020, the company will step up sales of security products for companies with branches in California.

## 4. Conclusions

In the first half of the year, sales and profits declined due to lower sales and sluggish growth in some businesses due to the coronavirus crisis, the cost of developing a telework environment, the delay in hiring new graduates to join the workforce, etc. Progress rate toward the full-year forecast is 47.1% for sales (48.7% in the same period last year, compared to the actual results), 48.2% for operating income (50.3% in the same period last year), 50.5% for ordinary income (50.3% in the same period last year), and 50.6% for net income (49.0% in the same period last year). Although sales and operating income were slightly below the results in the same period last year, the remote sales and telework environment has been developed and the prospect of paying for new graduates is on the horizon, and the company is poised to make a comeback. Although the third wave of infection is a concern in the second half of the year, the company will attack with products that take advantage of the coronavirus crisis, such as telework-related services, RPA, AI, security, cloud services, remote control, and its own products with high profit margins.

## <Reference: Regarding Corporate Governance>

### ◎Organization type, and the composition of directors and auditors

Organization type	Company with a board of corporate auditors
Directors	9 directors, including 2 outside ones
Auditors	4 auditors, including 4 outside ones.

### ◎Corporate Governance Report (Updated on June 24, 2020)

#### 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 4-3-3 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)>**

【Supplementary Principle 4-11-3: Analysis and Evaluation of the Effectiveness of the Entire Board of Directors, and Summary of Results】

The Company's Board of Directors consists of 13 members, six of whom are outside directors or auditors and are independent officers as defined by the Tokyo Stock Exchange. To analyze and evaluate the effectiveness of the Board of Directors, all directors and corporate auditors conducted a self-evaluation of the composition and operation of the Board of Directors using the "Questionnaire for the Evaluation of the Board of Directors," and two outside directors and four outside corporate auditors discussed the results of the questionnaire in an outside directors' meeting. As a result of the analysis of the self-evaluation in the questionnaire and the discussions at the outside directors' meeting, we have confirmed that the Board of Directors of the Company is engaged in discussions that contribute to sustainable growth and the enhancement of shareholder value from a medium- to long-term perspective by utilizing the knowledge and experience of each of the directors and officers, and that sufficient discussions are taking place for the supervision of management, which we believe ensures the effectiveness of the Board of Directors. In principle, we will analyze and evaluate the effectiveness of the Board of Directors as a whole every year with reference to the self-evaluation of directors and auditors, and make further improvements to ensure that the Board remains effective and that there is effective discussion.

【Principle 5-1 Policy on Constructive Dialogue with Shareholders】

We have established and disclosed a disclosure policy to promote constructive dialogue with our shareholders. For more information, please refer to the details posted on our website. <https://www.systema.co.jp/ir/management/disclosure.html>  
For more information on the systems and measures to be taken, please refer to "2. IR Activities" in "III. Status of Implementation of Measures Related to Shareholders and Other Stakeholders" in this report.

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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