



Briefing Materials for Third Medium-term Management Plan

May 8, 2015

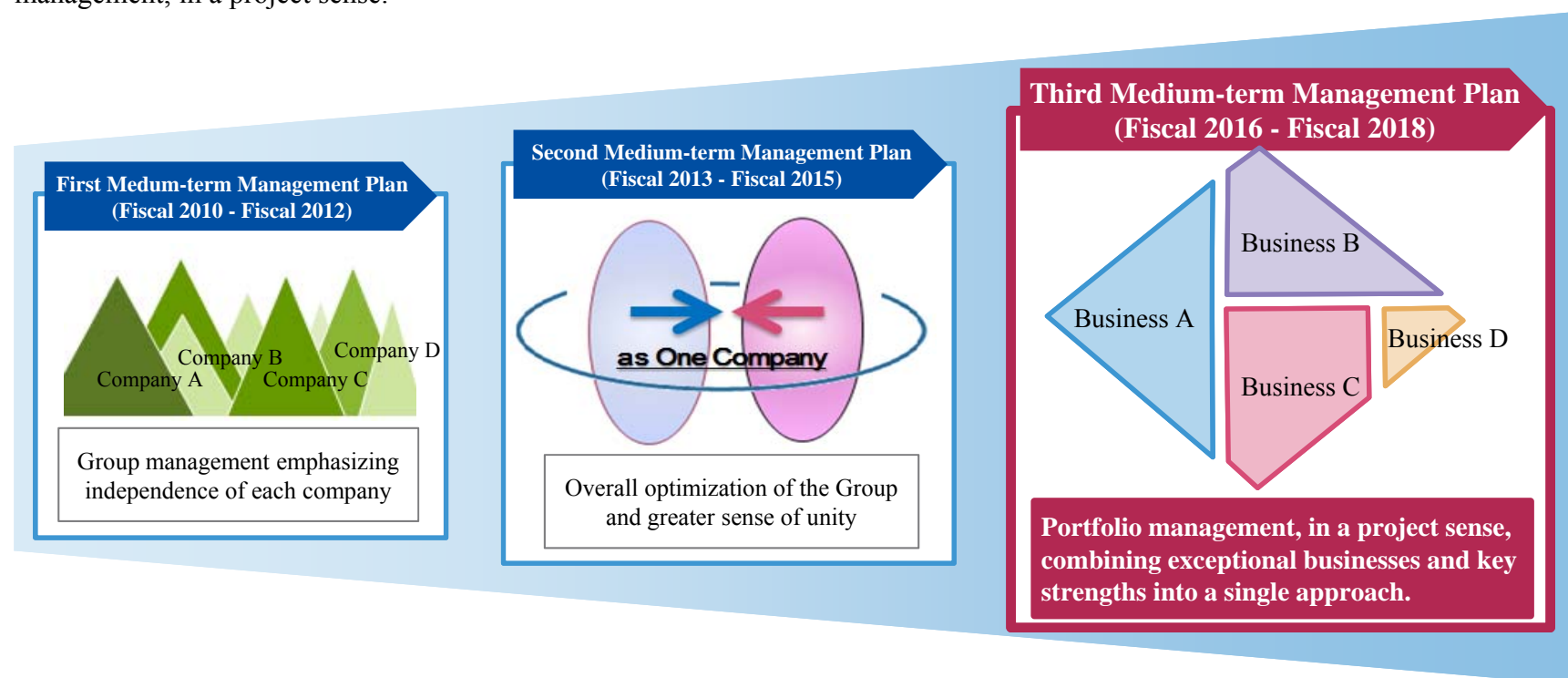
IT Holdings Corporation



Third Medium-term Management Plan “Beyond Borders 2017” and Ideal Management Structure

ITHD has embarked on its third medium-term management plan—“Beyond Borders 2017”—which runs through March 31, 2018. (The use of “2017” in the name reflects a common practice in Japan to refer to a fiscal year by its start date.) “Beyond Borders” evokes the idea of going beyond perceived barriers between companies and business structures to achieve cooperation and collaboration, to transform the current business model, to shift from a domestic perspective to a global view, and to see each and every employee within the Group transcend their own boundaries.

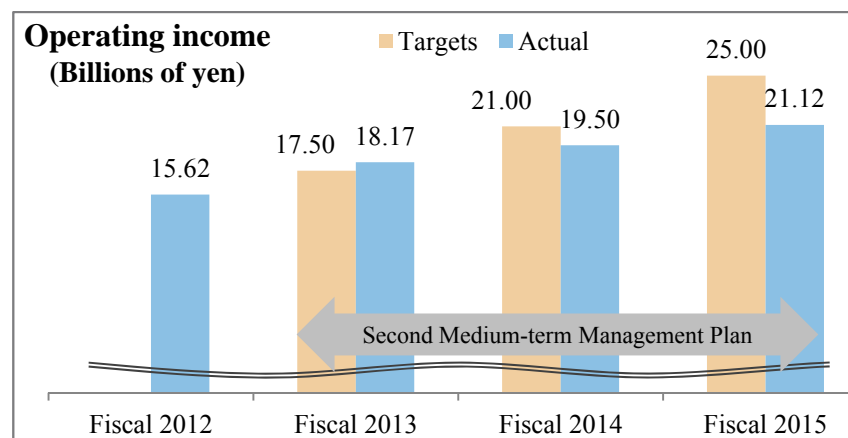
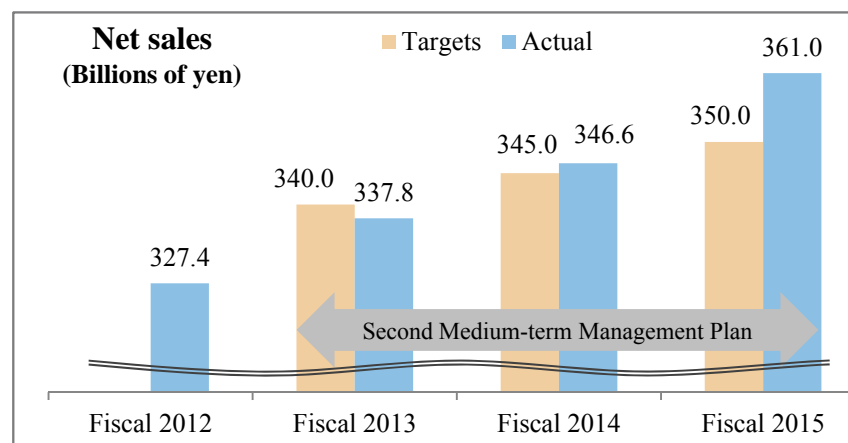
Through the second medium-term management plan, the Group transitioned from the direction laid in the first medium-term management plan, which prioritized the independence of each company, and built a stronger sense of unity as a group. With the third medium-term management plan, ITHD seeks to integrate and restructure the Group by establishing a better business model, sharpening recognizable capabilities distinct to each company, and achieving growth through groupwide implementation of portfolio management, in a project sense.



Looking Back on the Second Medium-term Management Plan

A groupwide approach to strategies under the top-line emphasis concept was rewarded with consolidated net sales—¥361.0 billion—that exceeded the target of ¥350 billion. However, operating income stalled at ¥21.1 billion, or 7.1% below the target of ¥25 billion, due to insufficient progress in preventing projects from becoming unprofitable and in achieving higher productivity. Major issues still remain to be addressed on the profit front.

Performance Targets and Actual Results



Achievements under Each Basic Concept

Top-Line Emphasis

Status

- Net sales target achieved, but operating income target missed
- Insufficient progress in efforts to improve business profitability through higher productivity
- Profits squeezed by continued appearance of unprofitable projects

Issues

- Progress on establishment of growth engines — distinctive strengths with an advantage — and connection of business strengths among Group companies as well as concentration of resources into core businesses
- Major problem with approach to eradicate unprofitable projects and improve business profitability

as One Company

Status

- Certain degree of success in restructuring businesses under Group umbrella and strengthening business connections
- Progress on centralization of corporate functions and activities to foster greater sense of unity
- Created single brand for Group to underpin centralized management of entire organization

Issues

- Still more to achieve in restructuring businesses under Group umbrella and strengthening business connections within the Group
- Overall optimization must be more pervasive, more extensive

Bold and Enterprising

Status

- Steadily built up orders as IT partner for large, priority clients
- Progress on approaches to achieve evolution in services and globalize operations

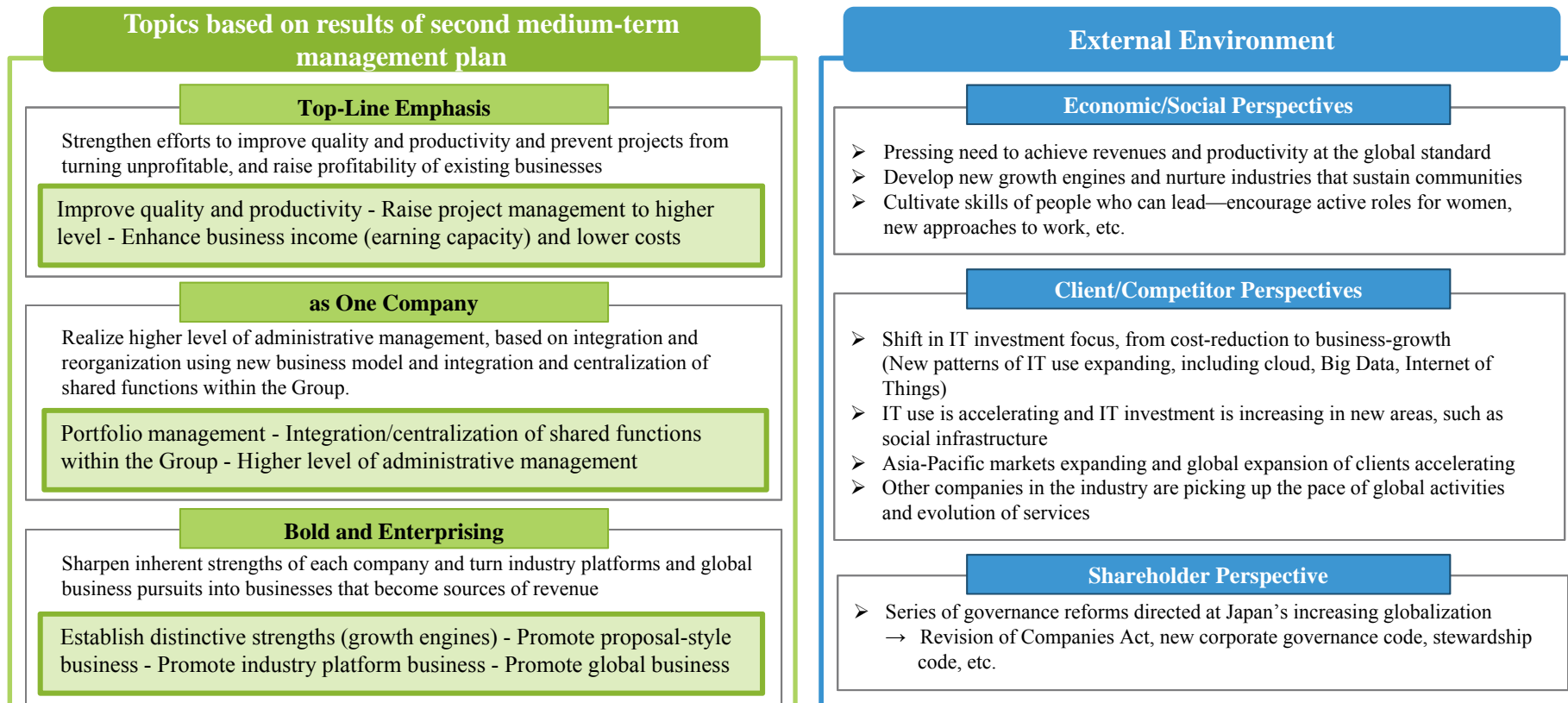
Issues

- Not enough IT business partner connections, need more lateral development through client industries
- Evolution and globalization of services did not lead to businesses with revenue-source potential

Looking Back on the Second Medium-term Management Plan

Key Strategies		Grade	Key Strategies		Grade	
Business activities	Survive amid competition with solid presence in existing business segments	Restructure client base	○	Finances, capital	Implement corporate cash management system, address taxes on a groupwide basis	△
		Achieve paradigm shift in engineering	×		Enhance capital efficiency and create structure to underpin fund procurement	×
		Develop strategic BPO business	○		Control reallocation of management resources	○
	Create new demand with distinctive services	Promote market-driven services and platform creation	○		Create structure to facilitate aggressive investment front-loading	×
		Tackle industry platform business	△		Maintain A rating	○
		Secure position in smart business realm	○		Human Resources	Cultivate spirit that permeates throughout the Group
	Establish independent position through overseas operations	Establish overseas business platform	△	Make strategic personnel assignment groupwide		△
		Management of Group businesses	Enhance Group governance	△		Implement strategies applicable groupwide
	Promote visualization of management information		△	Brand	Unify Group brands (logos)	◎
Promote shared administrative processes	○		Unify service brands		×	

Issues to Address Going Forward



Third Medium-term Management Plan: Basic Concepts

Profit Emphasis

Promote management activities with an even greater emphasis on profitability

- Highlight operating income, operating margin and even more importantly, net income
- Raise corporate value by introducing ROE and other management indicators

IT Brain

Always look one step beyond clients' current needs and provide value-added proposals to enhance clients' earning capabilities

- Shift from existing assignment solution style services, which address client requests, in favor of value-added creation and market-cultivating styles

Portfolio Management

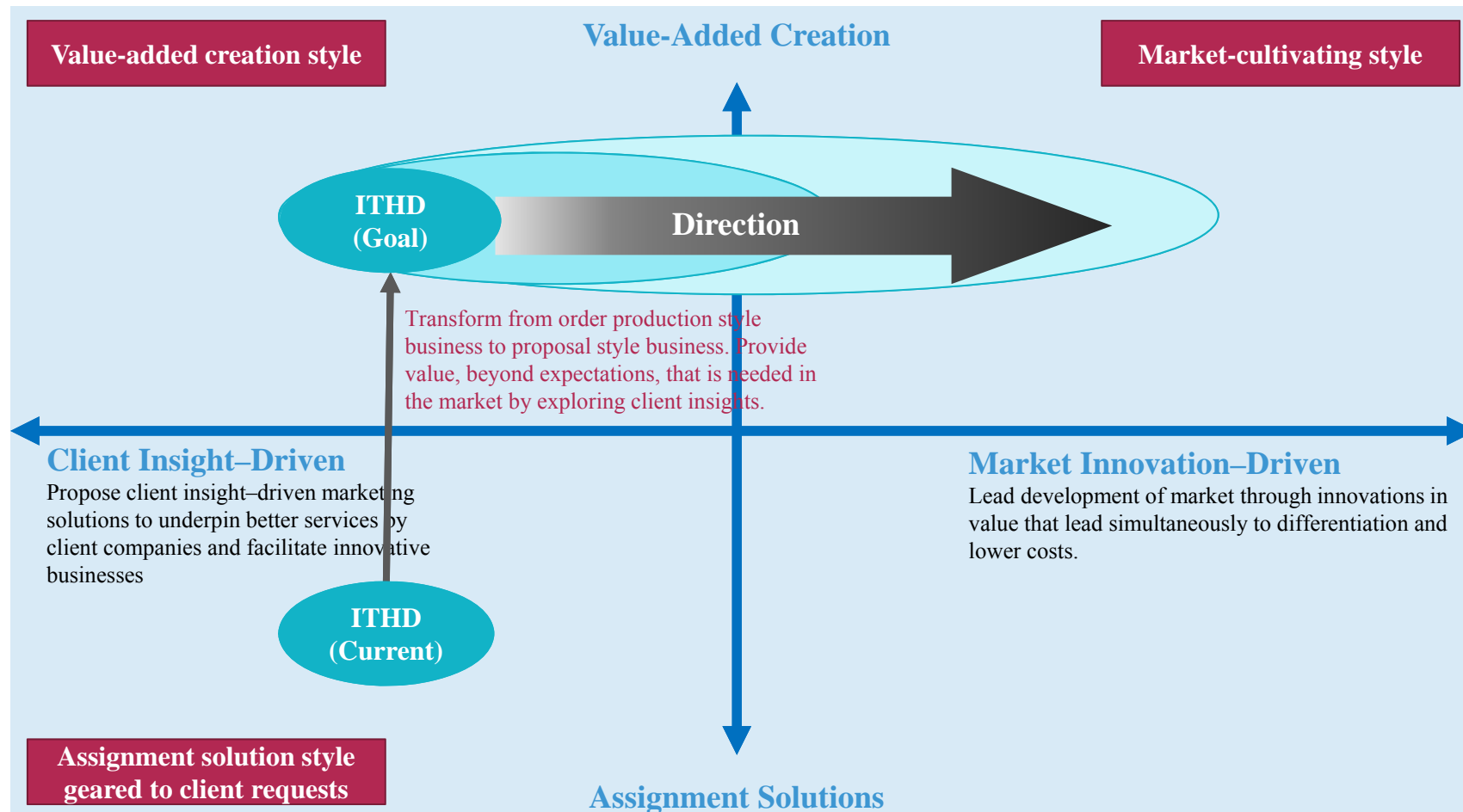
Utilize distinct strengths of operating companies as growth engines while promoting cooperation — working together — and collaboration — creating together — within the Group

- Draft and execute business portfolio strategies
- Reinforce and restructure operating platform through pursuit of groupwide optimization of all resource categories

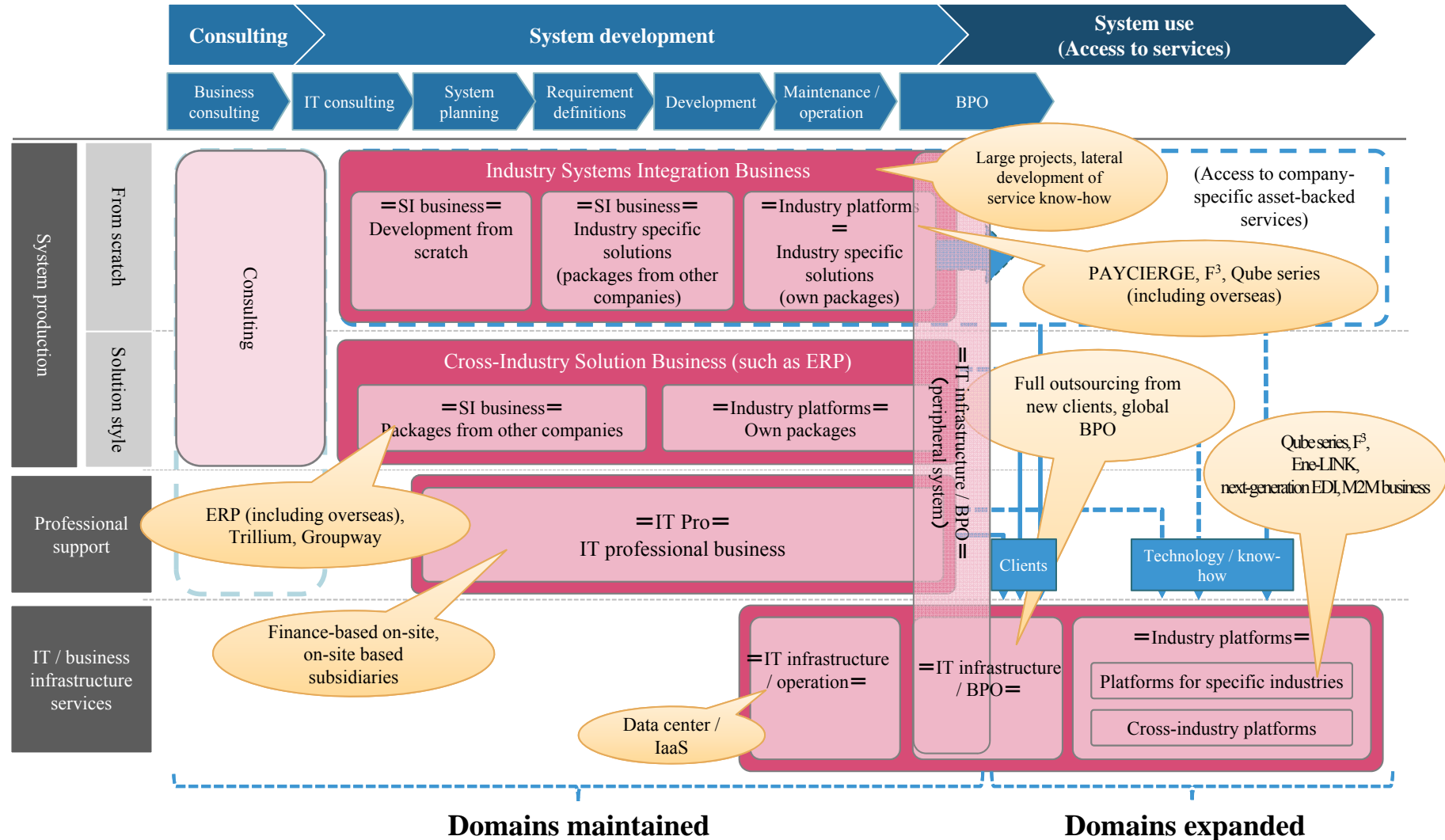
Emphasize ROE as a key performance indicator, strive to boost corporate value, and realize sustainable growth.

Direction

The direction that the ITHD Group looks to travel points to a change, away from services under the existing assignment solution style, which address client requests, and toward services under value-added creation and market-cultivating styles.



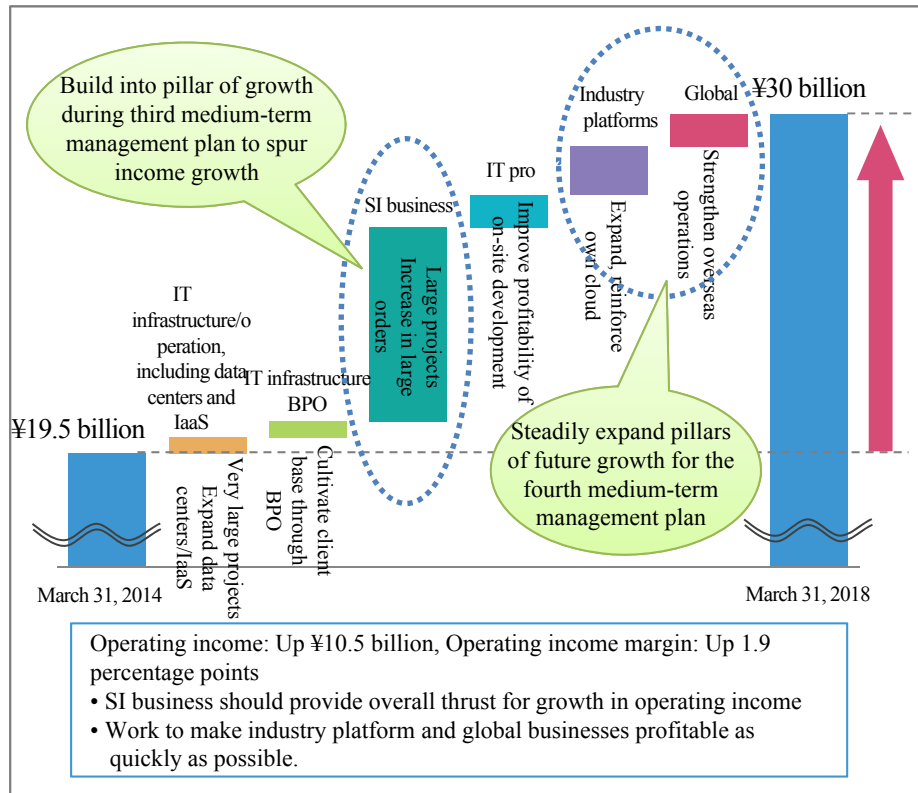
ITHD Group Business Model



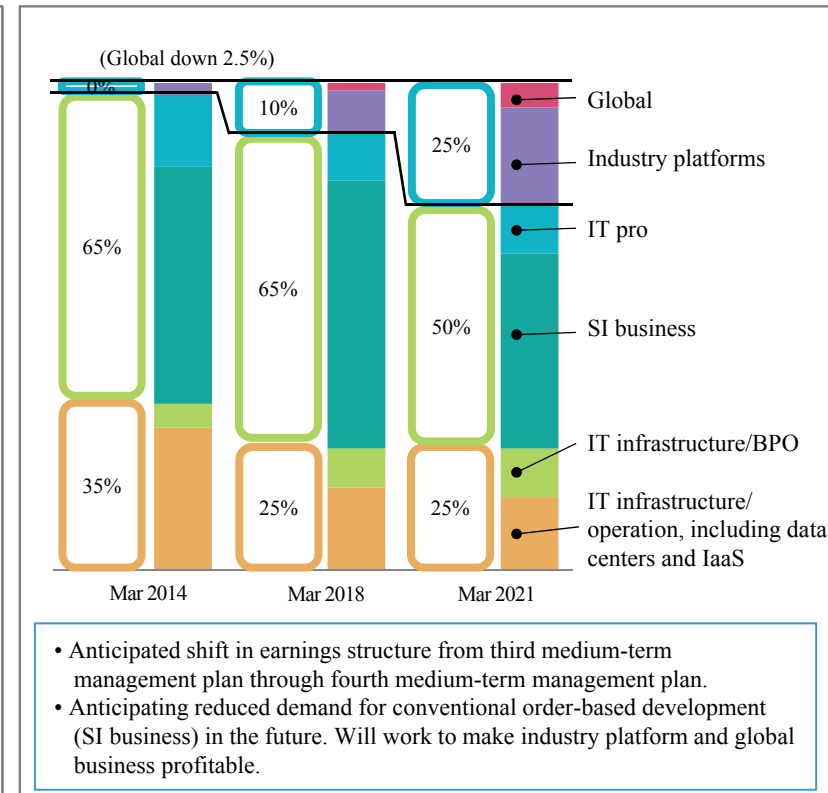
Business Portfolio Strategy

Spur net sales and income growth by building the systems integration business into a pillar of growth. At the same time, respond flexibly to changes in the external environment and reinforce industry platform and global businesses to set the stage for new growth businesses in the future.

Anticipated Breakdown of Operating Income

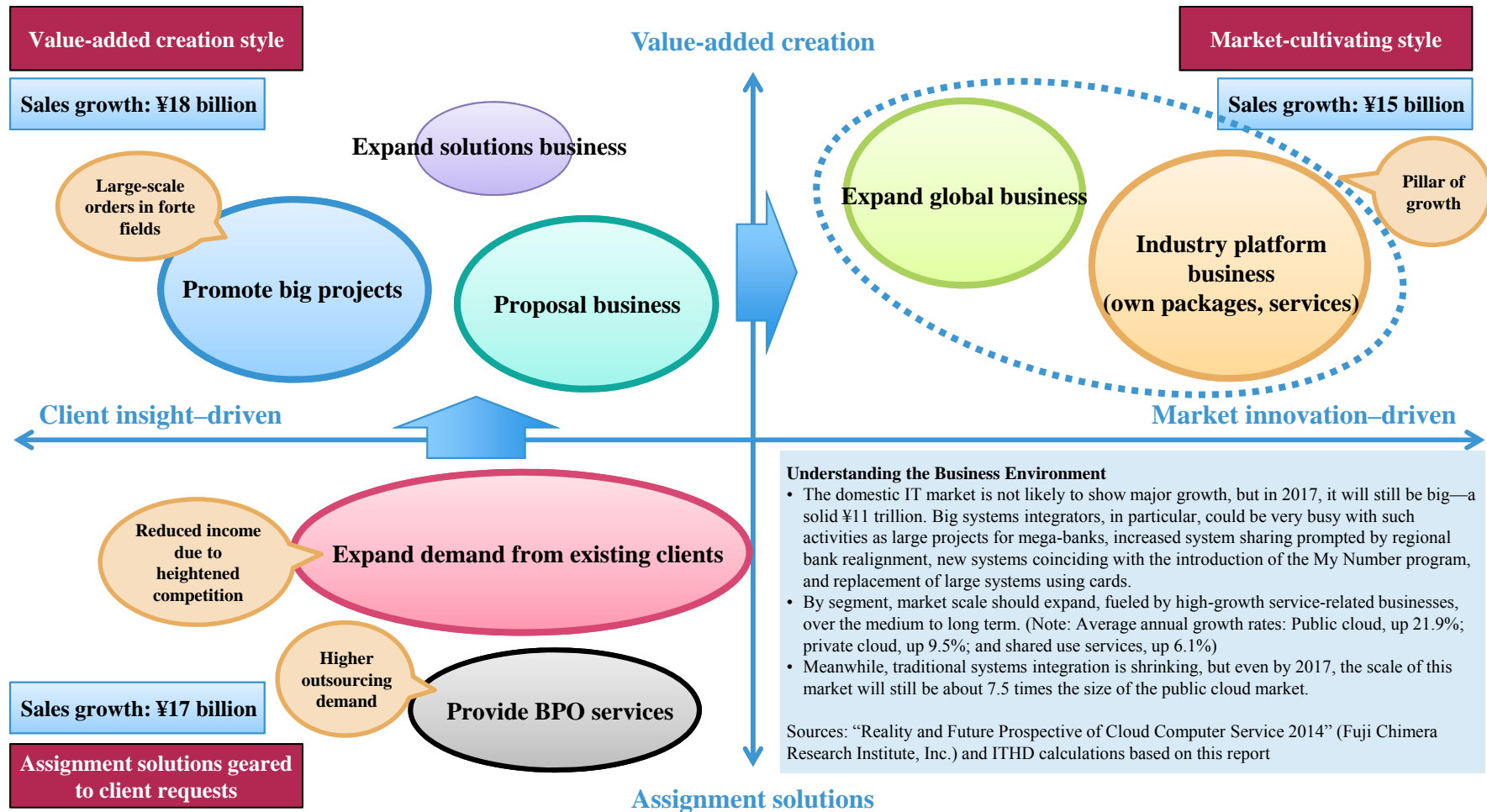


Anticipated Shift in Earnings Structure



Growth Engines

Expand assignment solution style business targeting client requirements while extending the scope of value-added creation style business and market-cultivating style business. Emphasize efforts to shift toward market-cultivating style business.

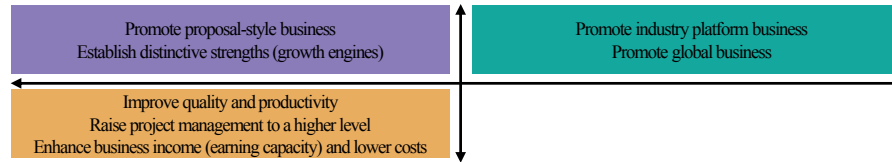


Understanding the Business Environment

- The domestic IT market is not likely to show major growth, but in 2017, it will still be big—a solid ¥11 trillion. Big systems integrators, in particular, could be very busy with such activities as large projects for mega-banks, increased system sharing prompted by regional bank realignment, new systems coinciding with the introduction of the My Number program, and replacement of large systems using cards.
- By segment, market scale should expand, fueled by high-growth service-related businesses, over the medium to long term. (Note: Average annual growth rates: Public cloud, up 21.9%; private cloud, up 9.5%; and shared use services, up 6.1%)
- Meanwhile, traditional systems integration is shrinking, but even by 2017, the scale of this market will still be about 7.5 times the size of the public cloud market.

Sources: “Reality and Future Prospective of Cloud Computer Service 2014” (Fuji Chimera Research Institute, Inc.) and ITHD calculations based on this report

Key Strategies

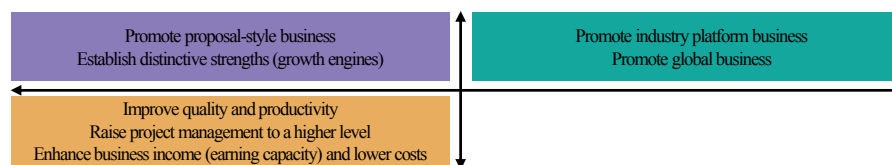


Quadrant	Theme	Strategies/Approaches	Fiscal2015	Fiscal2016	Fiscal2017	Fiscal2018
Assignment solutions geared to client requests	Improve quality and productivity	• Turn software into systemized service components, and reuse (such as Nablarch)	→	→	→	→
		• Use standardized tools, such as test automation	→	→		
	Raise project management to higher level	• Create specialized team under project manager/project management office	→	→	→	→
		• Promote advanced upstream/requirement definition processes	→	→		
Enhance business income (earning capacity) and lower costs	• Aim for low-cost operations (use of offshore/near-shore providers)	→	→	→	→	
Value-added creation style services	Establish distinctive strengths (growth engines)	• Utilize existing strengths to build new strengths (growth engines)				
		• Reinforce and sharpen strengths with a noticeable advantage	→	→	→	→
		• Enhance strengths through business tieups among Group companies				
	Promote large projects	• Determine priority projects and work as a united Group to execute these projects	→	→	→	→
Promote proposal-style projects	• Develop solutions/business plans for new and expanding markets	→	→	→	→	
	• Acquire/add in notable businesses, such as CSS-NET, Kensetsu ASP	→	→	→	→	

Main activities in the proposal-style business

- Develop new markets through social system solutions (INTEC)
 - Response to My Number system, projects for energy industry, creation of traffic ICT towns, EMS business
- Full-scale development of imbedded software solutions (QUALICA)
 - Establish field of expertise in embedded software business, cultivate new clients, pursue business expansion, including M&A opportunities
- Laterally develop distinctive strengths derived through business with the Asahi Kasei Group (AJS)
 - Sell outside the Group, to members of the chemical, home and building materials, and medical and medical equipment industries

Key Strategies



Quadrant	Theme	Strategies/Approaches	Fiscal2015	Fiscal2016	Fiscal2017	Fiscal2018
Market-cultivating style services	Promote industry platform business	<ul style="list-style-type: none"> Expand laterally to industry clients using value-added creation style services Promote business tieups on industry platforms among Group companies 		→		
	Promote global business	<ul style="list-style-type: none"> Focus on China and ASEAN region as business territory, then expand local activities through M&A/alliance relationships with local partners boasting specialization → Three-point business expansion: Singapore/Vietnam/Thailand > Make inroads to ASEAN region → Increased profitability 	→			

Main activities in the industry platform business

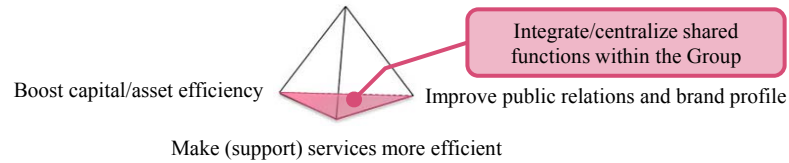
- Reinforce settlement system solution (PAYCIERGE), improve earnings (TIS)
 - Expand service-based business by providing not just IaaS or SaaS but rather a set combining applications and infrastructure
 - Use CLO (Card Linked Offer) to expand services in domain fusing settlement and marketing
- Reinforce finance-oriented CRM (F³), improve earnings (INTEC)
 - Reinforce F³ series, including application to cloud, and expand sales and income.
- Promote construction-oriented cloud-style system services (Kensetsu ASP) business (INTEC)
 - Enrich services through joint business structure derived from investment in subsidiary of Mitsubishi Corporation
- Boost market share for Qube series still higher (QUALICA)
 - CareQube (IoT/forestry IT/aftermarket), AToMsQube (manufacturing), TastyQube/SpecialtyQube (restaurants/retailing)

Main activities in the global business

- Expand local business activities, with a focus on Thailand (TIS)
 - Broaden joint activities with alliance partners, take strategic perspective including overseas M&As, identify business in ASEAN region
- Full-scale entry into global BPO business (AGREX)
 - Start services for Japan-affiliated businesses/local companies in overseas markets to complement services for existing domestic client base
- Capture larger share for Qube series in China, make inroads to ASEAN region (QUALICA)
 - Expand sales of stock services (SaaS) at QUALICA Shanghai, establish profile in Indonesia and Thailand and build sales network

Investment in new businesses, in growth fields, could reach ¥ 24 billion over three years.

Realize higher level of administrative management



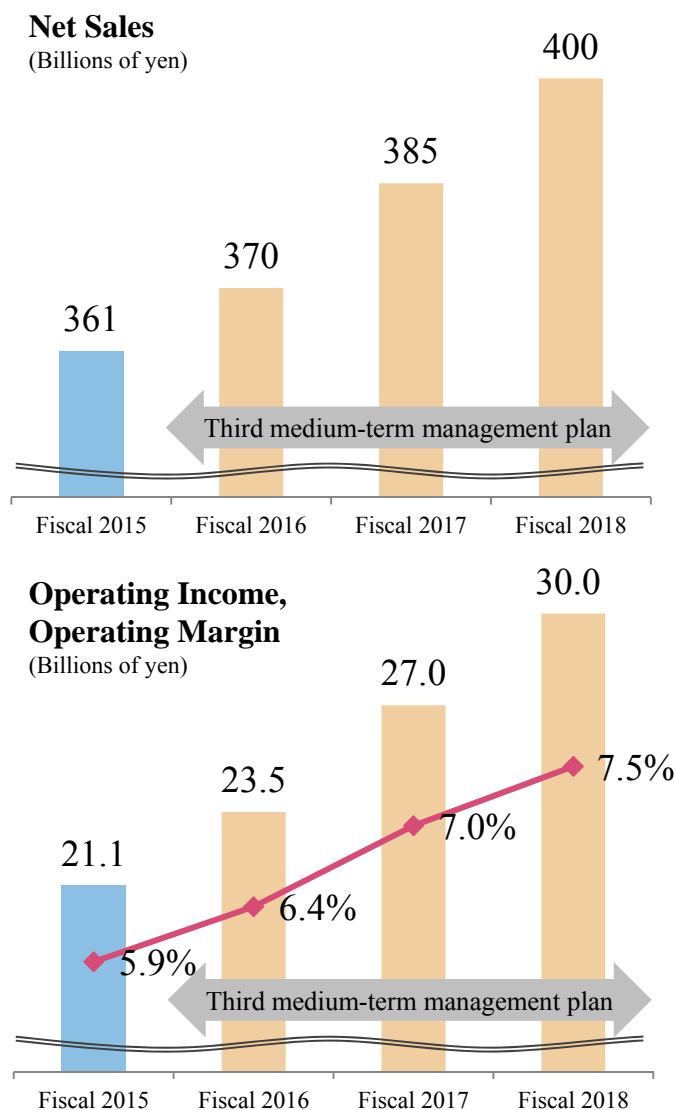
Key Strategies

Category	Theme	Strategies/Approaches	Fiscal2015	Fiscal2016	Fiscal 2017	Fiscal2018
Integrate/centralize shared functions within the Group	Increase administrative efficiency	<ul style="list-style-type: none"> Standardize administrative processes Expand shared systems groupwide 	→			
		<ul style="list-style-type: none"> Integrate/centralize offices 		Osaka	Nagoya	Other areas (Overseas)
	Boost capital/asset efficiency	<ul style="list-style-type: none"> Improve capital efficiency 	→			
		<ul style="list-style-type: none"> Improve asset efficiency 	→			
		<ul style="list-style-type: none"> Investment strategies 	→			
	Raise Group awareness and cultivate sense of unity	<ul style="list-style-type: none"> Improve public relations efforts and raise brand profile Enhance in-house communication 	→			
	Realize higher level of administrative management	Management with income emphasis	<ul style="list-style-type: none"> Introduce new key performance indicators (ROE, ROIC) 	→		
Greater sophistication in accounting, taxation and finance		<ul style="list-style-type: none"> Raise level of accounting and revenue control capabilities 	→			
		<ul style="list-style-type: none"> Tackle local accounting and taxation topics (overseas) 	→			
Shareholder structure and IR practices		<ul style="list-style-type: none"> Stabilize shareholder structure 	→			
		<ul style="list-style-type: none"> Enhance corporate governance and IR practices 	→			
Group human resources strategy		<ul style="list-style-type: none"> Embrace diversity in employment practices 	→			
		<ul style="list-style-type: none"> Train and utilize human resources 	→			

Numerical Targets





(Billions of yen)	Fiscal 2015	Fiscal 2016 Target	Fiscal 2017 Target	Fiscal 2018 Target
Net sales	361.0	370.0	385.0	400.0
Year-on-year increase (%)	4.1%	2.5%	4.1%	3.9%
Year-on-year increase (¥)	14.4	9.0	15.0	15.0
Operating income	21.1	23.5	27.0	30.0
Year-on-year increase (%)	8.3%	11.4%	14.9%	11.1%
Year-on-year increase (¥)	1.6	2.4	3.5	3.0
Net income	10.2	12.8	14.0	16.0
Year-on-year increase (%)	29.8%	25.5%	9.4%	14.3%
Year-on-year increase (¥)	2.3	2.6	1.2	2.0
Operating margin	5.9%	6.4%	7.0%	7.5%
Net income ratio	2.8%	3.5%	3.6%	4.0%
ROE	6.0%			8.0%

ITHD is targeting an ROE of at least 10% by March 31, 2021.



Road toward ROE Target, Change in Shareholder Return Policy

Pivotal factor in boosting ROE is to improve profitability from operating segments.

	Fiscal 2015		Fiscal 2018
ROE	6.0%		8.0%
Net income ratio	2.8%		4.0%
×			
Total asset turnover ratio	1.1		Current level
×			
Financial leverage	1.9		Current level

Net income ratio (Net income/net sales)
Seek rate of growth for net income higher than that for net sales by boosting the profitability of operating segments.
⇒ **Work to strengthen core businesses and also keep extraordinary losses down.**

Total asset turnover ratio (Net sales/total assets)
Promote control of assets, such as financial assets and fixed assets, with diluted connection to core businesses or poor return on investment.
⇒ **Strive to hold back increase in total assets.**

Financial leverage (Total assets/shareholders' equity)
Apply retained earnings and surplus capital to growth investments and return to shareholders.
⇒ **Give due consideration to treasury stock buybacks. (But priority is on growth investments)**

Change in policy on return to shareholders

Will adopt total shareholder return measure (total return ratio) to promote shareholder returns through dividends and an appropriate capital structure through treasury stock buyback.

<Up to now>

- Stable, continuous dividends
- Target 30% payout ratio

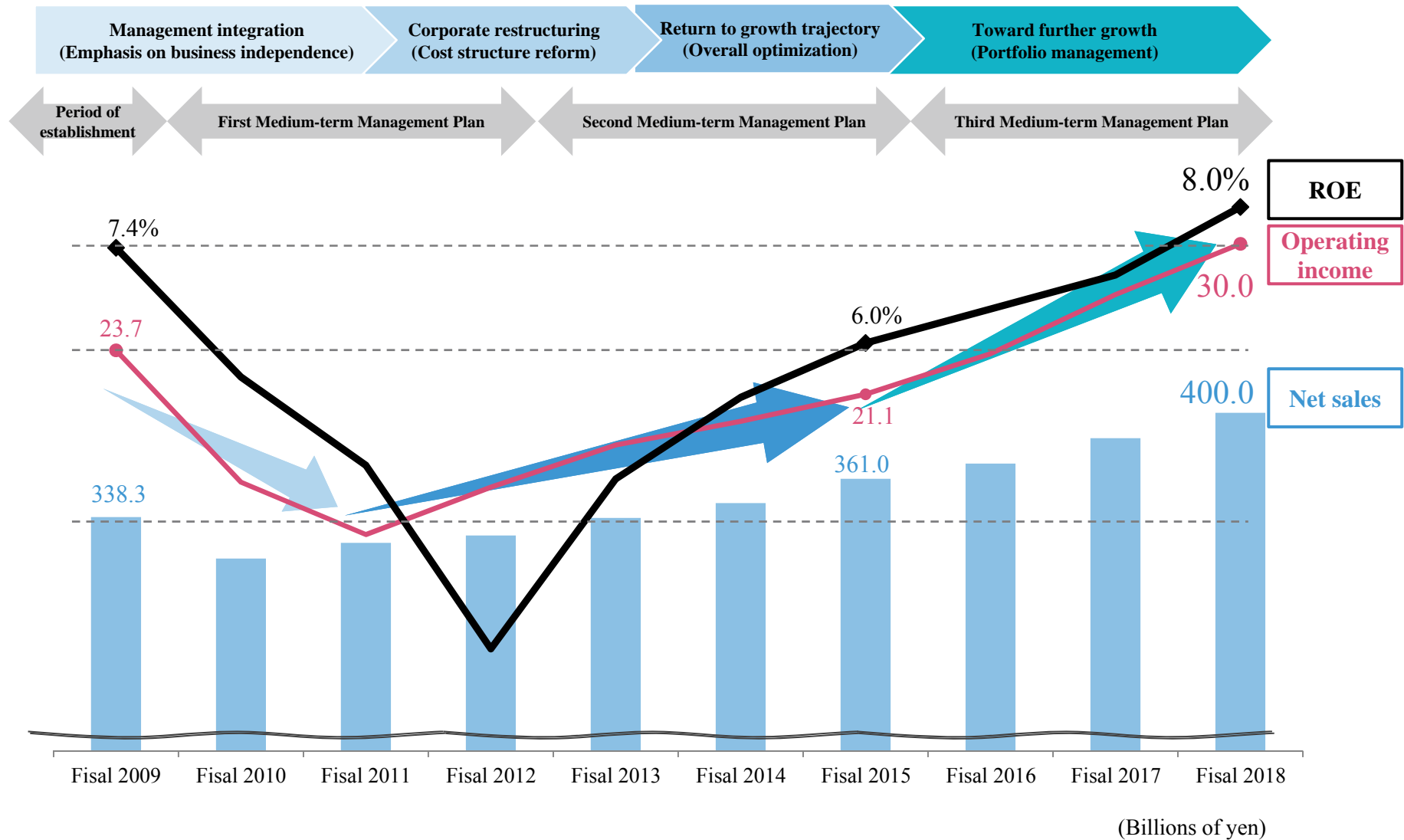


<From now>

- Target 35% total return ratio
(Stable, continuous dividends + share buybacks)

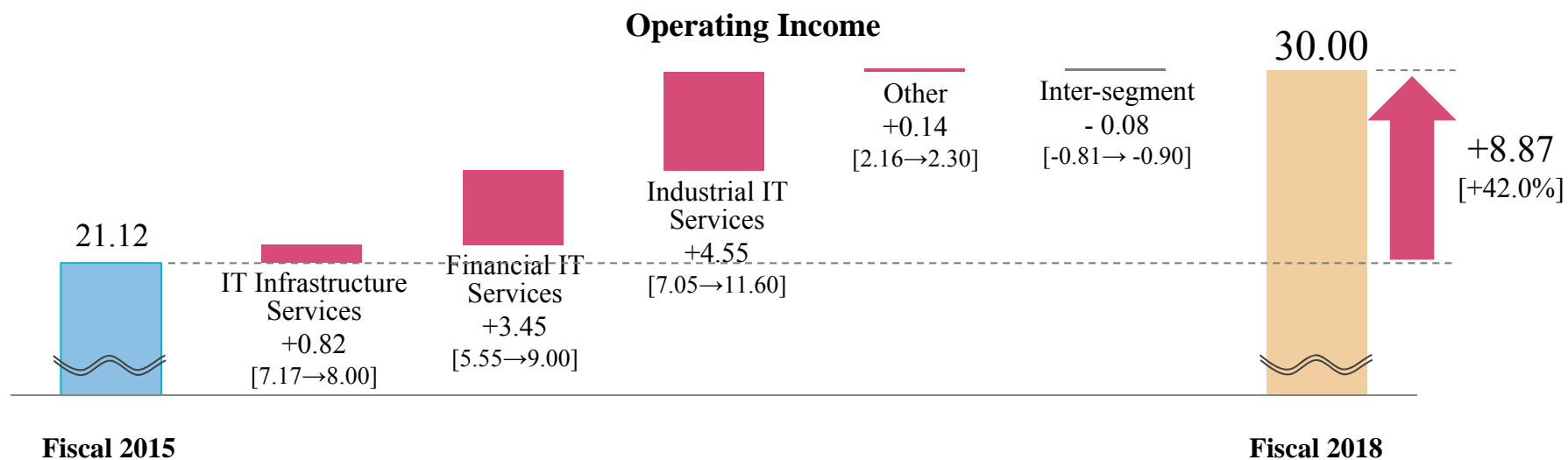
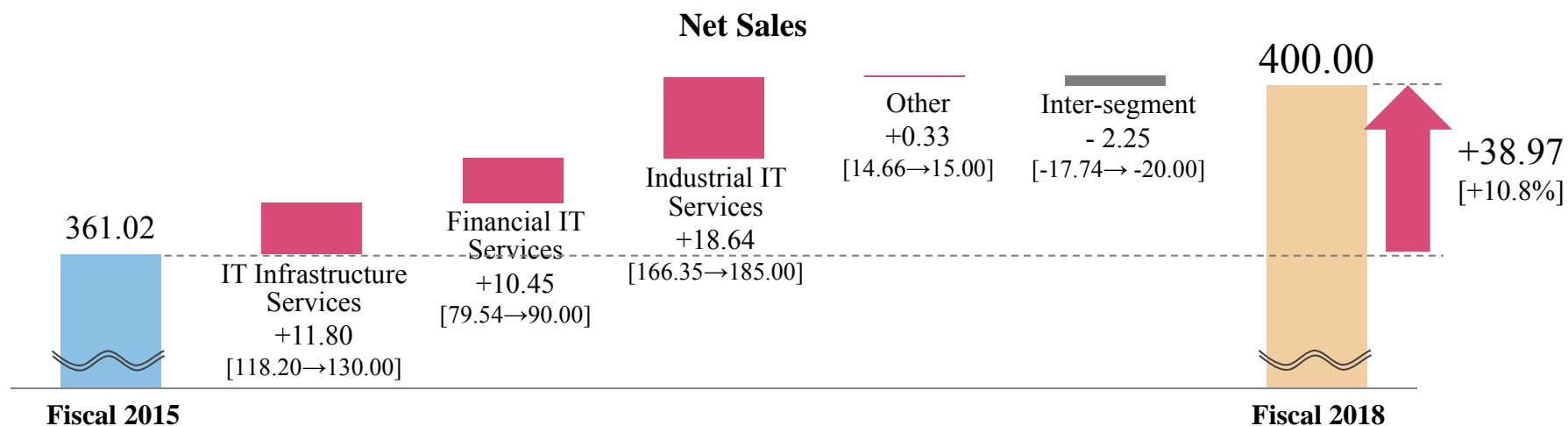
*Total return ratio: Total amount of dividends and treasury stock buybacks as a percentage of net income.

Transition in Group Management and Image of the Future

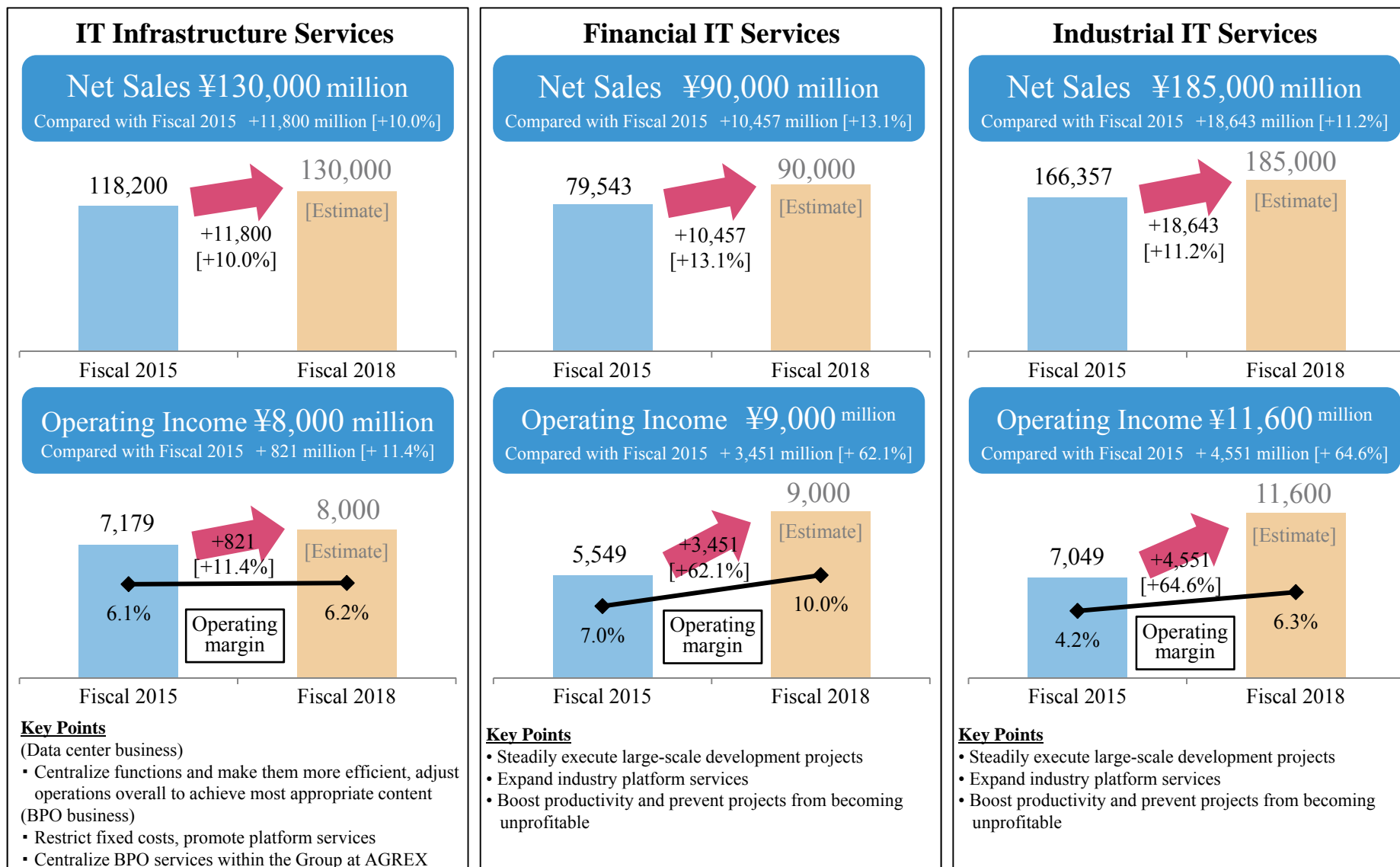


Fiscal 2018: Idea of Net Sales and Operating Income Analysis

[Billions of yen]



Fiscal 2018: Sales and Income for Key Business Segments





IT HOLDINGS

Go Beyond

Cautionary Statements

- In these materials, IT Holdings is abbreviated ITHD.
- All statements described in these materials are based on information available to management regarding the ITHD Group—that is, ITHD and the subsidiaries under its umbrella—as of the presentation date and certain assumptions deemed reasonable at this time. No intent is implied of promise by the Company to achieve such forward-looking statements. Indeed, various factors may cause future results to be substantially different from the assumptions presented in these materials.
- Amounts for each three-month quarter are calculated by subtracting data for the respective period from the cumulative total.