TIS Inc.

Announcement of Financial Results for the First Quarter of FY 2023/3

August 4, 2022

Event Summary

[Company Name]	TIS Inc.	
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[Event Name]	Announcement of Financial Results for the First Quarter of FY 2023/3	
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[Venue]	Dial-in	
[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	Masakazu Kawamura	Executive Officer, Division Manager of Corporate Planning SBU
	Takahiro Kimura	Department Manager of Corporate Management Department
[Analyst Names] *	Makoto Ueno	Daiwa Securities Co. Ltd.
	Hideaki Tanaka	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
	Hiroko Sato	Jefferies Japan Limited
	Chikai Tanaka	Goldman Sachs Japan Co., Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

Moderator: Thank you very much for your patience, We will now hold the Financial Results Briefing for Q1 of the Fiscal Year Ending March 2023 for TIS Inc.

Masakazu Kawamura, Executive Officer, Division Manager of Corporate Planning SBU, and Takahiro Kimura, Department Manager of Corporate Management Dept., are attending today's conference call. Kawamura will first give a 10-minute presentation, followed by a Q&A session. Kimura will join the Q&A session, and the two of us will be available to answer questions. The entire meeting is scheduled to last 30 minutes.

The explanatory materials are available on the website of TIS Inc. for your reference.

Now, we will start with the presentation.

Kawamura: This is Kawamura from TIS. Thank you. I will now explain the details of the Group's Q1 financial results, which were announced at 3:00 PM today, using the financial results presentation materials.

Please see page two.

The highlights of this Q1 financial results are the YoY increase in sales and profit. Operating profit margin reached the 10% level for the first time in Q1, driven by an increase in gross profit margin. Despite the impact of the exclusion from consolidation and a reactionary decline, orders received were firm and at a high level on an actual basis. Based on the above three points, we can say that the fiscal year ending March 2023 is off to a good start.

Fiscal 2023 First Quarter: Performance Highlights (YOY change)

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- Higher sales and income, reflecting business expansion fueled by accurate response to IT investment needs, including demand among clients for digital transformation.
- Operating margin moved into 10% range for first time in a first quarter. Will maintain solid profit growth ratio.

[Millions of yen]	First Quarter of Fiscal 2022	First Quarter of Fiscal 2023	YOY change	
Net Sales	113,520	**118,072**	+4,551	[+4.0%]
Operating Income	10,258	**12,502**	+2,243	[+21.9%]
Operating Margin	9.0%	**10.6%**	+1.6P	-
Net Income Attributable to Owners of the Parent Company	7,002	**8,763**	+1,760	[+25.1%]
Net Income to Net Sales Ratio	6.2%	**7.4%**	+1.2P	-

-Non-operating income: ¥1,414 million
(YOY change +¥501 million)
→Dividend income ¥579 million
Foreign exchange gains ¥383 million, etc.

-Non-operating expenses: ¥124 million
(YOY change -¥186 million)

-Extraordinary income: ¥49 million
(YOY change +¥48 million)

-Extraordinary loss: ¥343 million
(YOY change +¥14 million)
→Loss on valuation of investment securities: ¥325 million, etc.

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Now, please take a look at page five, a summary of results for Q1 of the fiscal year ending March 2023.

The business environment remained favorable, resulting in a strong performance. Net sales increased JPY4.5 billion YoY to JPY118.0 billion. We believe that we were successful in accurately responding to IT investment needs, such as customers' demand for digital transformation.

Operating profit increased JPY2.2 billion YoY to JPY12.5 billion, and the operating profit margin rose from 9% to 10.6%. This is the first time that the rate has exceeded 10% in Q1. Net profit attributable to owners of the parent increased by JPY1.7 billion YoY to JPY8.7 billion, backed by an increase in operating profit.

Fiscal 2023 First Quarter: Operating Income Analysis, Increase/Decrease Reasons (YOY change)

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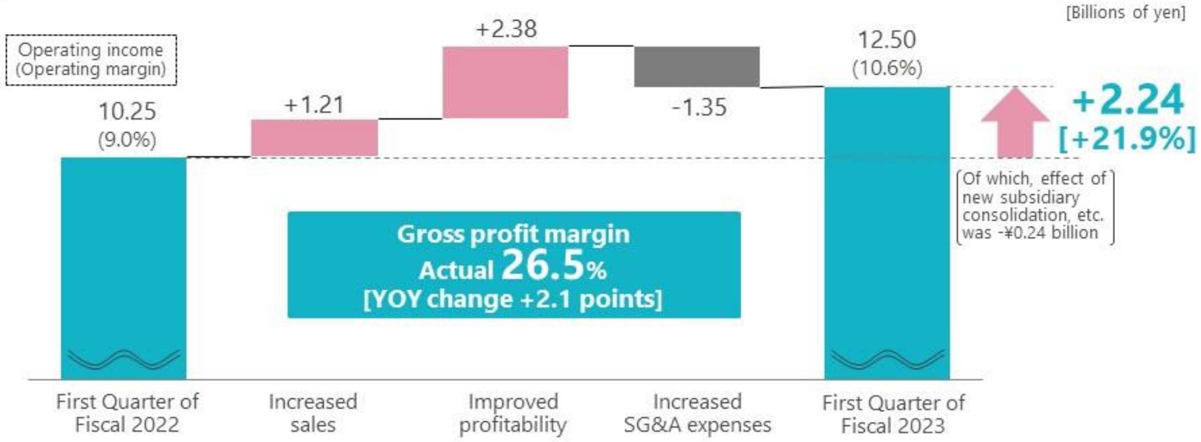
- Driven by improvement in gross profit margin, operating income increased, enabling TIS to cover robust prior investment.



Prior investment costs for promoting structural transformation: Up ¥0.43 billion (YOY change)
(Cost of sales: +¥0.25 billion, SG&A expenses: +¥0.18 billion)
Software investment / human resources investment / R&D investment
+
Human resources investment costs (additional): Up ¥0.48 billion (YOY change)
(Cost of sales: +¥0.27 billion, SG&A expenses: +¥0.20 billion)

Cost of office reform to promote new workstyles: Down ¥0.27 billion (YOY change)
(Cost of sales: -¥0.08 billion, SG&A expenses: -¥0.19 billion)

Changes in SG&A Expenses	
Effect of change in status of consolidated subsidiary, etc.	-0.09
Office reform	-0.19
Prior investment (includes enhanced employee benefits)	+0.38
Lower operating costs, enhanced head office functions	+0.00
Other (includes brand-related costs)	+1.25
Total	+1.35

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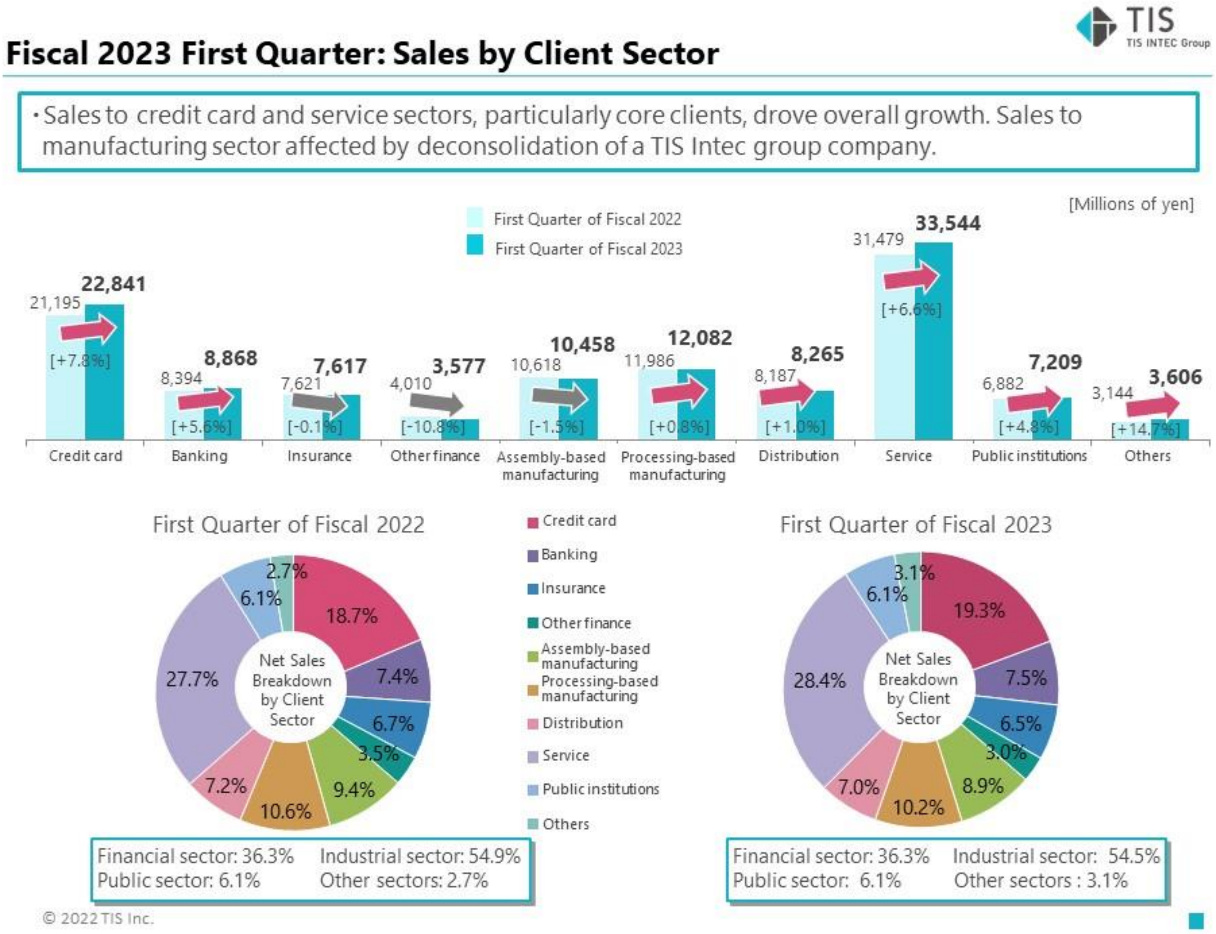
Page six shows changes in operating profit by factor.

The increase in gross profit due to higher sales and improved profitability offset the increase in SG&A expenses, resulting in a strong profit margin of over 20%. The gross profit margin increased 2.1 percentage points YoY to 26.5% due to the provision of high value-added businesses, and the promotion of productivity improvement measures, which absorbed aggressive upfront investments for future growth, including compensation improvements, and led to a 1.6 percentage point increase in the operating profit margin.

Loss from unprofitable projects in Q1 was JPY0.1 billion, which was firmly under control.



Please refer to page seven. Sales by client sector.

We believe that the overall performance was strong, as many industries improved their performance. Credit card and service drove overall growth, especially for core customers.

The deconsolidation effect from the sale of subsidiaries during the previous fiscal year occurred mainly in Assembly-based manufacturing and Processing-based manufacturing. If this is taken into account, Assenbly-based manufacturing also increased YoY, so it can be said to have been robust.

Fiscal 2023 First Quarter:
Sales and Income by Key Business Segment (YOY change)

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[Millions of yen]		First Quarter of Fiscal 2022	First Quarter of Fiscal 2023	YOY change	
Offering Service Business	Net Sales	24,703	**26,192**	+1,488	[+6.0%]
	Operating Income	898	**1,467**	+569	[+63.4%]
	Operating margin	3.6%	**5.6%**	+2.0P	-
Business Process Management	Net Sales	10,412	**10,581**	+169	[+1.6%]
	Operating Income	994	**1,087**	+93	[+9.4%]
	Operating margin	9.6%	**10.3%**	+0.7P	-
Financial IT Business	Net Sales	21,555	**22,960**	+1,404	[+6.5%]
	Operating Income	2,649	**2,795**	+146	[+5.5%]
	Operating margin	12.3%	**12.2%**	-0.1P	-
Industrial IT Business	Net Sales	24,317	**26,701**	+2,383	[+9.8%]
	Operating Income	2,476	**3,544**	+1,068	[+43.1%]
	Operating margin	10.2%	**13.3%**	+3.1P	-
Regional IT Solutions	Net Sales	37,506	**36,397**	-1,108	[-3.0%]
	Operating Income	2,886	**3,404**	+518	[+18.0%]
	Operating margin	7.7%	**9.4%**	+1.7P	-

-**Offering Service Business:** Improvement in profitability, complemented by capture of IT investment demand in payment settlement services, paralleling client embrace of digital transformation, underpinned higher sales and income.
-**Business Process Management:** Against backdrop of rising corporate outsourcing needs, segment saw stable shift in demand that fueled higher sales and income.
-**Financial IT Business:** Growing trend toward IT investment among core clients in the credit card sector spurred increase in sales and income.
-**Industrial IT Business:** Sales and income grew, reflecting improvement in profitability, complemented by growing trend toward IT investment, especially among existing clients in manufacturing and energy sectors.
-**Regional IT Solutions:** Despite lower sales due to impact from sale of a subsidiary, segment marked brisk sales on actual basis. Operating income grew, reflecting progress on business activities emphasizing profitability.

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Page eight shows the situation by major segment.

The offering services segment posted higher revenues and profits due to improved profitability from a buildup of infrastructure-related projects, in addition to capturing demand for IT investments in settlement and other services in line with the progress of digitization.

BPM remained stable, with both sales and profits increasing, reflecting growing corporate outsourcing needs.

In financial IT, both sales and profit increased due to the expansion of IT investment by credit card-related core customers.

Industrial IT reported higher revenues and earnings on the back of increased IT investment, particularly by manufacturing and energy-rooted customers, as well as improved profitability due to the promotion of productivity improvement measures and other factors.

The decline in revenue in the regional IT solutions segment is due to the approximately JPY2.0 billion effect of deconsolidation and is solid on an actual basis.

Operating profit increased mainly due to the promotion of productivity improvement measures.

Reference: Fiscal 2023 First Quarter: Sales by Key Business Segment *For external clients

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[Millions of yen]	First Quarter of Fiscal 2022	First Quarter of Fiscal 2023	YOY change	
Offering Service Business	21,546	**23,358**	+1,811	[+8.4%]
Software development	11,502	**11,177**	-325	[-2.8%]
Operating/cloud services	5,512	**6,983**	+1,471	[+26.7%]
Product/software sales	4,531	**5,197**	+665	[+14.7%]
Business Process Management	9,794	**9,997**	+202	[+2.1%]
Software development	4,038	**4,289**	+251	[+6.2%]
Operating/cloud services	5,756	**5,707**	-48	[-0.8%]
Product/software sales	-	-	-	-
Financial IT Business	21,154	**22,570**	+1,416	[+6.7%]
Software development	10,480	**12,115**	+1,635	[+15.6%]
Operating/cloud services	8,499	**9,103**	+603	[+7.1%]
Product/software sales	2,174	**1,351**	-822	[-37.8%]
Industrial IT Business	23,975	**26,526**	+2,551	[+10.6%]
Software development	15,097	**17,758**	+2,660	[+17.6%]
Operating/cloud services	5,862	**5,827**	-35	[-0.6%]
Product/software sales	3,014	**2,940**	-74	[-2.5%]
Regional IT Solutions	36,471	**35,005**	-1,465	[-4.0%]
Software development	19,322	**17,883**	-1,438	[-7.4%]
Operating/cloud services	12,272	**13,603**	+1,331	[+10.8%]
Product/software sales	4,876	**3,518**	-1,358	[-27.9%]

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In addition, sales by business segment are listed on page nine.

Although these are sales to external customers, I hope you will find them useful in reference to what I have just said.

Fiscal 2023 First Quarter: Order Status (Total)

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・Primarily reflects order conditions for software development. Order volume and order backlog at high levels. Order volume firm on actual basis despite deconsolidation impact and reactionary decrease in orders.

[Millions of yen]		First Quarter of Fiscal 2022*	First Quarter of Fiscal 2023	YOY change	
Orders received during first quarter		89,088	**88,249**	-839	[-0.9%]
	Offering Service Business	15,965	**15,733**	-232	[-1.5%]
	Business Process Management	11,370	**10,237**	-1,132	[-10.0%]
	Financial IT Business	10,354	**14,415**	+4,060	[+39.2%]
	Industrial IT Business	22,472	**19,827**	-2,644	[-11.8%]
	Regional IT Solutions	28,924	**28,034**	-890	[-3.1%]
Order backlog at end of first quarter		123,519	**132,876**	+9,356	[+7.6%]
	Offering Service Business	20,940	**23,786**	+2,846	[+13.6%]
	Business Process Management	8,791	**8,744**	-46	[-0.5%]
	Financial IT Business	27,936	**31,235**	+3,298	[+11.8%]
	Industrial IT Business	29,028	**31,166**	+2,137	[+7.4%]
	Regional IT Solutions	36,823	**37,943**	+1,120	[+3.0%]

*Figures for first quarter of fiscal 2022 have been restated under new segment classification.

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Beginning on page 10 is an explanation of the status of orders. First, page 10 shows the overall order situation, including operations.

The status of software development orders, which are largely reflected in the overall order situation, is explained on the next page.

Orders received were JPY88.2 billion, down 0.9% YoY, but this was due to the exclusion of the regional IT solutions business from consolidation, which had a negative impact of approximately JPY2 billion, and a decrease in orders received in the industrial IT business in reaction to the large volume of orders received in Q1 of the previous fiscal year. We believe that the actual sales were firm and at a high level on a prevailing basis.

The order backlog was similarly high, building up to JPY132.8 billion, up 7.6% YoY.

Fiscal 2023 First Quarter: Order Status (Software Development)

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- Increase in financial IT orders, against backdrop of favorable demand from core clients, absorbed reactionary drop in demand for business process management and industrial IT orders and deconsolidation impact on demand for regional IT solutions.

[Millions of yen]		First Quarter of Fiscal 2022*	First Quarter of Fiscal 2023	YOY change	
Orders received during first quarter		61,326	**61,232**	-93	[-0.2%]
	Offering Service Business	9,200	**9,561**	+361	[+3.9%]
	Business Process Management	5,614	**4,530**	-1,083	[-19.3%]
	Financial IT Business	8,231	**11,872**	+3,641	[+44.2%]
	Industrial IT Business	19,266	**16,839**	-2,427	[-12.6%]
	Regional IT Solutions	19,013	**18,427**	-585	[-3.1%]
Order backlog at end of first quarter		84,794	**92,331**	+7,536	[+8.9%]
	Offering Service Business	13,937	**14,684**	+746	[+5.4%]
	Business Process Management	8,791	**8,744**	-46	[-0.5%]
	Financial IT Business	17,822	**21,635**	+3,812	[+21.4%]
	Industrial IT Business	21,443	**23,220**	+1,776	[+8.3%]
	Regional IT Solutions	22,799	**24,046**	+1,247	[+5.5%]

*Figures for first quarter of fiscal 2022 have been restated under new segment classification.

Page 11 shows the status of orders received for software development.

Although orders received were slightly lower YoY, the Company evaluates that it was able to achieve a high level of orders, comparable to the record-high Q1 of the previous year, through an increase in financial IT orders, despite a reactionary decline in industrial IT orders and the exclusion of regional IT solutions from the consolidation. BPM was also lower YoY, but this was due to a wave of orders.

Fiscal 2023: Performance Forecasts *No change

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- Against backdrop of brisk IT investment demand, expect higher sales and higher income, with medium-term management plan targets in sight. Possible drop in net income due to decrease in extraordinary income. ROE to hover at target level despite year-on-year decrease.
- To realize structural transformation, will reinforce investment in human resources, who are the driving force that fuels this effort.

[Millions of yen]	Fiscal 2022 Actual	Fiscal 2023 Estimate	YOY change	
Net Sales	482,547	**500,000**	+17,453	[+3.6%]
Operating Income	54,739	**57,000**	+2,261	[+4.1%]
Operating Margin	11.3%	**11.4%**	+0.1P	-
Net Income Attributable to Owners of the Parent Company	39,462	**37,500**	-1,962	[-5.0%]
Net Income to Net Sales Ratio	8.2%	**7.5%**	-0.7P	-
Net Income per Share (Yen)	157.69	**154.22**	-3.47	[-2.2%]
ROE *	14.0%	**12.9%**	-1.1P	-

* ROE estimate for fiscal 2023 is a calculated value.

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Next, I would like to explain our forecast for the full year ending March 2023.

Page 13 shows the full-year forecast for the fiscal year ending March 31, 2023.

As we mentioned at the beginning of this report, Q1 results can be considered a strong start, but given the still uncertain outlook for the external environment, we have not changed our outlook for the fiscal year ending March 31, 2023, at this time.

Net sales are projected to increase by 3.6% YoY to JPY500 billion, operating profit by 4.1% to JPY57 billion, and net profit attributable to owners of the parent is projected to decrease by 5% to JPY37.5 billion.

We will continue to acquire projects and accumulate orders on the premise of both aggressive investment in growth and improvement in profitability to further ensure the achievement of the initial plan.

This is the end of my presentation.

Moderator: Thank you.

Question & Answer

Moderator [M]: I will now take your questions.

When it is your turn to ask a question and the moderator calls your name, please ask your question after your company name and name. Please note that only two questions can be asked per person at a time.

Okay, first, Mr. Ueno of Daiwa Securities, please ask a question.

Ueno [Q]: Yes, I know it's a bit big, but the first big one is on page eight, the operating profit margin. There is a breakdown by segment of the improvement in operating margin, and although the rough explanation is in writing, there is quite a bit of variation in each segment. Two points in offerings.

On the other hand, financial IT is almost unchanged, especially since the amount of increase in value is very large in industrial IT, improving by 3.1 percentage points.

And lastly, I think the regional IT solutions may be excluded from consolidation, but I see that operating profit is increasing while revenue is decreasing.

If it is productivity improvement, for example, has there been an improvement in unit price, or an increase in per capita sales or you are selective in receiving orders from customers? Please explain in more detail and tell me if this trend will continue in Q2 and beyond. Here is the first one. Thank you.

Company Representative [A]: Thank you. Now, let me explain. First, in offering services, there are two major factors. One is that we continued to perform well in the settlement, which is one of our strengths, and this is firmly linked to earnings.

Another point is that the infrastructure business, which had been struggling a bit in recent years, has been generating solid orders since the end of the previous fiscal year and has become profitable in Q1 as well, indicating that the business has recovered from a slight profitability issue. This combination has resulted in very strong growth for the offering services.

Ueno [M]: I see.

Company Representative [A]: Next, industrial IT. As for this one, the revenue has been solidly generated along with sales. In particular, we have accumulated a solid number of projects, mainly from our core customers in the manufacturing and energy industries, and we believe that these projects are now generating solid revenues.

We have also said that unprofitable projects have been curbed. The amount of unprofitable projects in the previous fiscal year was about JPY300 million, and about 100 million in the current fiscal year, so we believe that the improvement in profitability of about JPY200 million can also be included in the positive effect.

Lastly, in the area of regional IT solutions, as you have indicated, we believe that the organic growth was very strong, due to the sale of the subsidiary at the end of the last fiscal year.

The utilization rate was very good, especially in this segment, because we were able to accumulate a wide range of businesses, focusing on the banking, government, and medical sectors.

In addition, the mix of sales and other activities has also improved, and we believe that together with the results of our profit improvement enhancement activities, profitability has come out very strongly.

As I mentioned, rather than special events occurring in each segment in Q1, we believe that the improvement activities we have been steadily carrying out are bearing fruit, and we intend to continue to make solid improvements in earnings.

That's all from me.

Ueno [Q]: I see. So, about the current level is the new normal for the future, I understood. The full-year plan calls for an increase in SG&A expenses of JPY3.9 billion, but in Q1 the increase was about JPY1.35 billion, so I wonder if this is an advance in the digestion process. Is this digestion, or ahead of schedule, or is it possible that SG&A expenses will continue to expand at this pace for the full year since order sales are also strong? Please let me know if there will be an increase in SG&A expenses for the full year. That's all from me.

Company Representative [A]: Regarding SG&A expenses, they were JPY1.35 billion in Q1 of this fiscal year. We believe that the results are slightly higher than originally planned. Naturally, sales activities were very strong in Q1, and we were able to fully absorb expenses. In addition, we are strengthening our governance, promoting global business, and investing in human resources at our headquarters. I think this SG&A expense shows that we are using such policy costs well.

The biggest factor is an improvement in compensation. We explained at the beginning of the fiscal year that the improvement of compensation will affect the cost of goods sold and SG&A. As you can see from Q1, this trend will continue in Q2 and beyond. We are closely monitoring the cost control and effectiveness of the measures. We will continue to control SG&A expenses while keeping a close eye on sales and revenue growth.

That's all from me.

Ueno [Q]: I'm sorry, is it restrained against the planned 3.9 billion, or if the sales gross margin base is growing very strongly, is there a pattern of increasing it above 3.9 billion, for example, based on future projections? You just used the word control, but how about looking at the actual amount, for these JPY3.9 billion?

Company Representative [A]: Yes, First, we will use the JPY3.9 billion well and make upfront investments, and we will make sure that the portion that exceeds the plan will be closely monitored taking into account our business performance. We would like to make a solid up-front investment and also improve profitability. The concept of turning this cycle around remains unchanged.

Ueno [M]: If things are going pretty well up to the gross profit stage, that means there may be human resource measures, etc. up front to save money for the next fiscal year. Thank you. Those were my two questions.

Moderator [M]: Thank you very much. We will move on to the next question. Mr. Tanaka of Mitsubishi UFJ Morgan Stanley Securities, please.

Hideaki Tanaka [Q]: I am Tanaka from Mitsubishi UFJ Morgan Stanley Securities. Thank you. I have two questions. As for the first point, it is on page 11 of the document. In the area of software orders, there was a negative JPY2.4 billion in industrial IT. JPY2 billion was due to the sale of subsidiaries, and there is a decrease of JPY400 million other than this.

First of all, how much was the impact of the large-scale projects? And secondly, I think there was the impact of the central system in Q2. Please give us an outlook of orders, excluding these factors. Also, if there is anything else that might change the landscape a bit in other areas, please supplement the status of the orders.

Company Representative [A]: Regarding the disclosed orders for industrial IT, excluding the sale of the central system, it is organic and positive, sorry, you said that the decrease in industrial IT is significant, but excluding the sale of the central system this time, industrial IT is JPY1.8 billion, which is positive. Without the current reaction from the central system, orders would have turned positive, so we believe that on an actual basis, orders have remained firm.

Hideaki Tanaka [Q]: I'm sorry, it's simple, industrial IT is minus JPY2,427 million compared to the same period last year. JPY2 billion of that is the amount excluded from the central system, so you are down JPY400 million in simple arithmetic. So, since you are explaining that this is the impact of the large-scale projects, how much impact did the large-scale projects have, first of all?

Company Representative [A]: Sorry, I made a mistake. To rephrase, there was a decrease in industrial IT orders, but there was a large project in the previous fiscal year, and excluding this, I believe the impact was enough to turn positive on an actual basis. I'm sorry, the sale of the subsidiary was about regional IT solutions. I correct my answer like this.

Hideaki Tanaka [Q]: Yes, yes. Sorry, I must have misunderstood too. I guess that's why industrial IT had this 2.5 billion or so impact.

Company Representative [A]: Yes, The impact was so great that it turned negative into a positive one. However, there is also the issue of how orders are received, so we are determined to steadily accumulate projects in Q2.

Hideaki Tanaka [Q]: I understand. Thank you. On the second point, please update us on the progress of the first user of CreditSaaS, and also on the status of negotiations with the second user and other customers. That's all from me.

Company Representative [A]: First of all, as I have already mentioned, we will launch our CreditSaaS in H1 of this fiscal year, and it is currently progressing smoothly as planned.

As a matter of fact, no sales were recorded at the end of June, so we think that this will happen in the future. As for second users, there has been no major change in the situation of individual customers, although there has been some progress in their individual situations.

That's all from me.

Hideaki Tanaka [M]: Thank you very much. That's all from me.

Moderator [M]: Thank you very much. We will move on to the next question. Now, Ms. Sato of Jefferies Securities.

Sato [Q]: My name is Sato from Jefferies. Thank you. I have two questions. First of all, sorry, but I would like you to organize the information for my understanding. May I ask what was the impact of the deconsolidation of the Company in terms of profit on sales, orders received, and the backlog of orders? This is my first question.

Company Representative [A]: First, regarding sales, JPY1.9 billion in regional IT solutions. Operating profit was affected by JPY150 million. The order received was related to development, which had an impact of approximately JPY2 billion.

Sato [Q]: I understand. Thank you. Looking at pages 10 and 11, the orders and order backlog, I think there has been quite a bit of negative sign increase in those orders, but I think there is quite a bit of backlog remaining at the end of Q1. Could it be that Q1 was not converting as many sales as expected, or in fact, not converting from backlog to sales? I think it was 4% top line.

There is a certain amount of order backlog, so I don't think it will be an immediate switch to sales in Q2, but there is quite a bit of it remaining, so I think we can expect a solid 4% to 5% sales in Q2. How should I have read the sales view into the order backlog in this area? Please tell us about Q1 and Q2. That's all from me.

Company Representative [A]: I understand. As for orders, as I have said since the previous quarter, there are some fluctuations in Q4, so we are not in a situation where we are happy or sad every quarter. As Ms. Sato mentioned, the order backlog is building solidly. We believe that this is very important, and at this point, we believe that we have a solid backlog of orders to fulfill our plan.

Q1, in particular, was not that different from the past in terms of whether the sales of the orders were good or bad, since orders, including larger projects, were accumulated in Q4 of the previous year. We are now in a situation in which we are proceeding with the orders while making sure that they are fully digested, and we are determined to continue to receive orders in Q2 as well.

In Q1, in particular, orders for operations are booked in Q2 and Q4 together for six months, so please take a look at the orders received in Q2.

Sato [Q]: I understand. So, since you have accumulated so much, I guess you are not too worried about sales and such for Q2? If you can digest it properly and well.

Company Representative [A]: Yes, yes. We believe that if we can do this profitably, we will have enough orders to achieve our plan.

Sato [Q]: I understand. One additional confirmation. As for the gross profit margin that Mr. Ueno mentioned earlier, when your company's gross profit margin is high in Q1, it tends to be a little low in the following quarter. I think that you were able to improve profits and the gross profit margin by about 2 points this time by efficiently combining various factors, as well as controlling unprofitable projects, which were the key points.

Is there some kind of momentum that seems to be meshing well within the Company and start working smoothly, or is it still going to be bumpy? I am a bit nervous about this, but I think that the gross profit margin in Q2 is usually lower in the past, but are there any risk factors or factors that we should be concerned about?

Company Representative [A]: As for the improvement in gross profit margin, as I have explained in the past, we have been working on enhancement activities and the profitability of orders, and we believe that these activities have penetrated into each segment, which has led to the improvement in profitability.

In addition, from the perspective of what you mentioned, unprofitable operations will affect gross profit margins, so we will make sure to control these operations.

Even with the increase in SG&A expenses, we have strengthened our systems to ensure that each company, including group companies, will once again take firm steps to curb unprofitable operations. So far it's been functioning well, and we are now making good progress on the projects that have been a challenge so far, and we are determined to continue our efforts in Q2.

Sato [M]: Thank you very much. That's all from me.

Moderator [M]: Thank you very much. We will move on to the next question. Mr. Tanaka from Goldman Sachs Securities. Please ask your question.

Tanaka [Q]: My name is Tanaka from Goldman Sachs. I have two points. I would like to go over the orders one more time. I'd like to focus on the financial sector and industrial sector. First of all, what is the reason for the considerable increase in the financial sector? Is it because of large projects related to credit cards? I think there is a blurring of the quarters in the industrial area, but if it is only slightly positive, even after excluding the impact of exclusions, the trend seems to be a bit different from the industry trend.

It would be fine if it were transient, but there are several industrial customers whose investments have peaked out among the major customers, and I think there is a possibility that the trend will continue after Q2, not transient, and that it does not increase that much. Or is this not a concern?

Those are my two questions. Please start with the one concerning orders.

Company Representative [A]: I understand. In financial IT, the contribution from large credit card-related projects was very large, and we also received a large number of orders from our core customers, which was a positive factor in Q1.

As for Industrial IT, I'm sorry, my explanation earlier was not good. The deconsolidation was not for this segment but for the regional IT solutions segment. As for industrial IT, orders from major and core companies were very good in Q1 of the previous fiscal year, so there is some influence of that.

Other than that, we have a stack of orders from our manufacturing customers and their energy customers, so we understand that we have a solid stack of industrial customers as well.

In addition, the SAP business, which has been struggling for some time in recent years, has seen a solid improvement in orders and Q1 sales and profits. We would like to take advantage of our strengths and continue to build up orders.

However, some customers are still very uncertain about the future of the economy, so we need to keep a close eye on the situation and not be complacent.

That's all from me.

Tanaka [Q]: I'm sorry, Let me follow up on the industry part. You meant that the impact was from the rebound decrease, not the exclusion, but is that rebound decrease only in Q1? I hope the story ends in 1Q, but there are some of your major customers whose investments have peaked out. Won't the reactionary decline continue well into Q2 and beyond? I think if you look at the sense of level last year, it would be clear. What are your thoughts on these areas?

Company Representative [A]: Looking at the total throughout the year, I still think there is a reactionary decline, especially distinctive in Q1.

Tanaka [Q]: I understand. Thank you. The second point is the gross profit margin. Since you mentioned the operating profit margin at the beginning of this presentation, we know the detailed movements in each segment, but the improvement in the gross profit margin has been even greater. What are the common company-wide efforts that have been particularly effective?

Also, for the full year, I understand that the profit margin is not expected to improve much, but in the latter half of Q2 and H2, will the cloud computing business start and margins will decline? How is the current improvement in gross profit margin on an actual basis compared to the plan? Could you please add something about that?

Those are my two questions.

Company Representative [A]: I understand. As for the improvement in gross profit, as I have already explained, especially in Q1 of the current fiscal year, the cloud-based infrastructure business in the offering services and the ERP business in industrial IT, which had been struggling a bit, have improved their profitability. In addition to the steady improvements that we have made so far, we have also seen an increase in earnings.

In addition, the industrial IT projects themselves are becoming quite large in size, and in this sense, we have been able to manage the projects well so that they can generate a positive profit effect, which we believe is having a positive impact on our profits.

In addition, we believe that there is still potential for earnings improvement in the regional IT solutions business, thanks to an improved sales mix and higher overall utilization rates, and we are determined to improve earnings.

We have not changed our plan to improve the gross profit margin throughout the year, but we believe that the good results of Q1 are not transitory and can be continued well beyond Q2, so we intend to continue the plan.

That's all from me.

Yoshida [M]: I understand. Thank you.

Moderator [M]: Thank you very much. So, we will now conclude the question-and-answer session.

In closing, Kawamura will offer a few words.

Kawamura [M]: Thank you very much for participating in this conference call today to discuss TIS Inc.'s financial results for Q1 of the fiscal year ending March 2023.

If you have any questions, please contact our IR staff during an individual interview or by phone, and we will be happy to answer them.

Thank you for your continued support.

Moderator [M]: This concludes the teleconference. Thank you all for your participation.

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