TIS Inc.

Q3 Financial Results Briefing for the Fiscal Year Ending March 31, 2023

February 3, 2023

Event Summary

[Company Name]	TIS Inc.	
[Company ID]	3626-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending March 31, 2023	
[Fiscal Period]	FY2023 Q3	
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[Number of Pages]	24	
[Time]	16:30 – 17:05 (Total: 35 minutes, Presentation: 12 minutes, Q&A: 23 minutes)	
[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]*	Jun Tanabe	UBS Securities
	Chikai Tanaka	Goldman Sachs
	Makoto Ueno	Daiwa Securities
	Hiroko Sato	Jefferies

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

Presentation

Moderator: Ladies and gentlemen, thank you for your patience. The conference call to discuss TIS Inc.'s financial results for Q3 of FY2023 will begin immediately.

Today’s attendees are Masakazu Kawamura, Executive Officer and Division Manager of Corporate Planning SBU, as well as Takahiro Kimura, Department Manager of the Corporate Management Department. Kawamura will first give a 10-minute presentation, followed by a question & answer session. The entire meeting will last approximately 30 minutes. The presentation materials are available on the TIS website. We will now begin our explanation.

Kawamura: My name is Kawamura from TIS. Thank you for your cooperation. I will now explain the details of the financial results for Q3 of FY2023, which were announced at 3:00 PM today. To begin, please see page two. Here are the highlights of the current financial results.

First, I would like to discuss the results for Q3 of FY2023. The cumulative results for Q3 were favorable as in H1, with both sales and profits increasing YoY. In terms of profitability, gross margin improved further from H1, reaching 12% of operating income, while continuing to invest aggressively in growth. Orders received and order backlogs also accumulated to a record high in the Q3 cumulative period. Although there was a decrease in the most recent Q3, this was due to a reactionary decline and a wave of orders booked, and there has been no significant change in our view of the business environment since H1 of the fiscal year.

Next, we have revised upward our net income forecast for FY2023, taking into account extraordinary gains resulting from the reduction of policy shareholdings. We will continue to aim to exceed the numerical targets for FY2024, the final year of our medium-term management plan.

Fiscal 2023 First Three Quarters: 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.
- Maintained consistently strong rate of growth. Operating margin hit 12.0%.

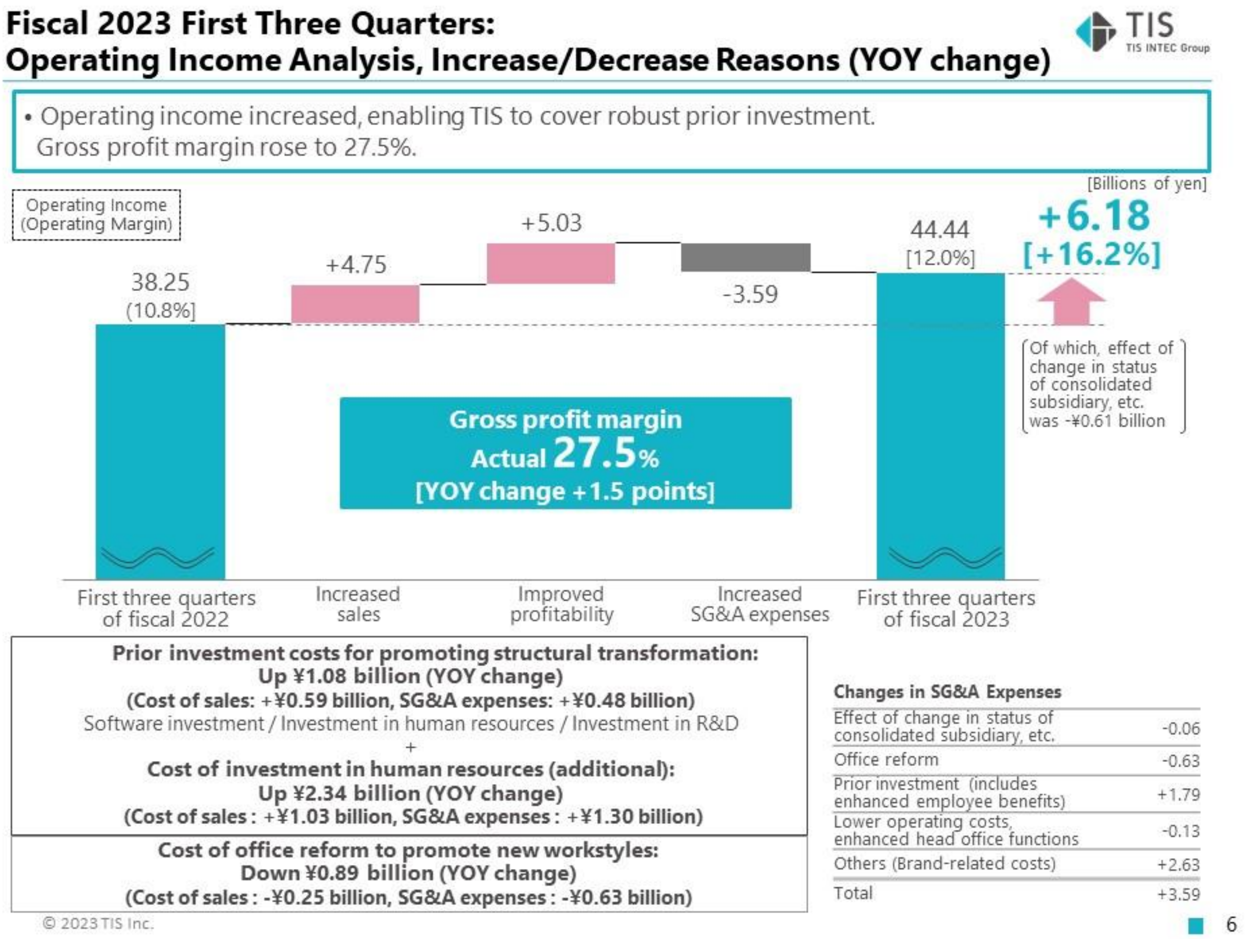
[Millions of yen]	First three quarters of fiscal 2022	First three quarters of fiscal 2023	YOY change	
Net Sales	353,133	**370,382**	+17,249	[+4.9%]
Operating Income	38,258	**44,444**	+6,186	[+16.2%]
Operating Margin	10.8%	**12.0%**	+1.2P	-
Net Income Attributable to Owners of the Parent Company	29,414	**32,158**	+2,743	[+9.3%]
Net Income to Net Sales Ratio	8.3%	**8.7%**	+0.4P	-

- Non-operating income: ¥1,741 million (YOY change -¥178 million)
- Non-operating expenses: ¥716 million (YOY change -¥631 million)
- Extraordinary income: ¥4,694 million (YOY change -¥2,168 million)
  → Gain on sales of investment securities: ¥4,639 million, etc.
- Extraordinary loss: ¥1,113 million (YOY change -¥174 million)

5

Now, please see page five, summary of results for Q3 of FY2023.

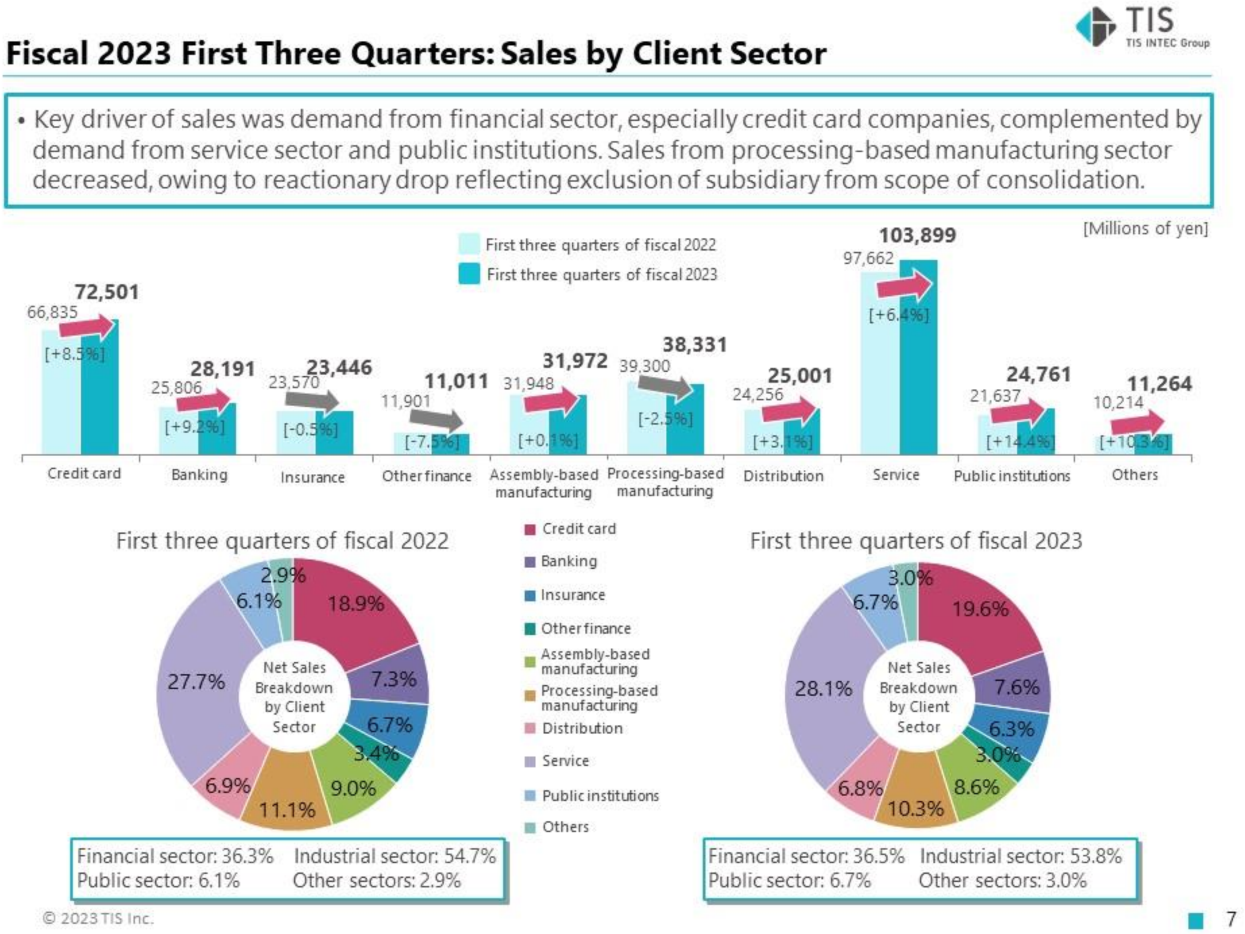
Amid a favorable business environment that continued from H1, we were able to achieve increases in both sales and profit by firmly promoting business expansion. Sales increased 4.9% YoY to JPY370.3 billion, operating income increased 16.2% to JPY44. 4 billion, and the operating margin improved significantly from 10.8% to 12%. Current net income attributable to shareholders of the parent company increased 9.3% YoY to JPY32.1 billion. In addition, a gain on sale of investment securities of slightly more than JPY4 billion was recorded as an extraordinary gain in Q3.



Page six shows changes in operating income by factor.

As in the past, an increase in gross profit due to the effect of increased revenue and improved profitability absorbed an increase in SG&A expenses, resulting in a JPY6.18 billion increase in operating income compared to the same period last year. The gross profit margin rose 1.5 percentage points YoY to 27.5%, thanks to the provision of high value-added businesses and the promotion of productivity and quality improvement measures.

Unprofitable projects were firmly controlled as in H1, amounting to JPY140 million in Q3 and JPY270 million in the first nine months of the year.



See page seven. Sales by client industry.

Strong sales were driven by services/public, centered around cards. As for banks, they are growing strongly, especially overseas. Manufacturing sales appear to be weak due to the effect of deconsolidation from the sale of a subsidiary in the previous fiscal year and the peak out of projects, but excluding these factors, sales would have increased.

Fiscal 2023 First Three Quarters: Sales and Income for Key Business Segments (YOY change)

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[Millions of yen]		First three quarters of fiscal 2022	First three quarters of fiscal 2023	YOY change	
Offering Service Business	Net Sales	74,917	**81,516**	+6,598	[+8.8%]
	Operating Income	3,443	**4,499**	+1,055	[+30.6%]
	Operating Margin	4.6%	**5.5%**	+0.9P	-
Business Process Management	Net Sales	32,040	**32,223**	+182	[+0.6%]
	Operating Income	3,555	**3,644**	+89	[+2.5%]
	Operating Margin	11.1%	**11.3%**	+0.2P	-
Financial IT Business	Net Sales	67,839	**74,079**	+6,240	[+9.2%]
	Operating Income	9,131	**9,907**	+776	[+8.5%]
	Operating Margin	13.5%	**13.4%**	-0.1P	-
Industrial IT Business	Net Sales	78,863	**82,621**	+3,757	[+4.8%]
	Operating Income	10,520	**12,124**	+1,604	[+15.3%]
	Operating Margin	13.3%	**14.7%**	+1.4P	-
Regional IT Solutions	Net Sales	114,475	**115,422**	+946	[+0.8%]
	Operating Income	11,066	**13,569**	+2,502	[+22.6%]
	Operating Margin	9.7%	**11.8%**	+2.1P	-

Offering Service Business: Trend toward wider IT investment for payment settlement and basic systems fueled higher sales and income. Overseas operations also showed growth in sales, which contributed to segment performance.

Business Process Management: Existing data entry business struggled but situation was stabilized by rising demand paralleling digital shift.

Financial IT Business: Growing trend toward IT investment among core clients in the credit card sector spurred increase in sales and income. Profitability affected, paralleling promotion of measures including steps to reinforce structure.

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: Countered impact from exclusion of subsidiary from scope of consolidation as of first half and, with positive trend toward expansion in IT investment and progress on business activities emphasizing profitability, marked higher sales and higher income.

8

Page eight shows the situation by major segment.

In the offering services segment, sales and profits increased, driven by the accumulation of settlement and infrastructure-related projects in line with the progress of digitization. Overseas operations also contributed to sales growth.

As for BPM, while existing data entry operations have been struggling, the Company has remained stable by providing solutions to meet the growing needs for digitization.

Financial IT reported higher revenues and earnings on the back of increased IT investment by card-affiliated core customers. The operating income margin remained at the same level as in the same period of the previous year, despite the impact of the promotion of measures such as the strengthening of the system.

In industrial IT, both sales and income increased due to the expansion of IT investments mainly by manufacturing and energy-related fundamental customers, as well as the improvement of profitability through the promotion of productivity and quality improvement measures.

Wide-area IT solutions business increased, absorbing approximately JPY4 billion of deconsolidation effects through H1. Operating income increased due mainly to the promotion of business activities emphasizing profitability. The operating income margin increased by 2.1 percentage points, a significant improvement.

Fiscal 2023 First Three Quarters: Sales by Key Business Segment and Operating Activity *For external clients

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[Millions of yen]		First three quarters of fiscal 2022	First three quarters of fiscal 2023	YOY change	
Offering Service Business		66,505	**72,506**	+6,000	[+9.0%]
	Software development	34,621	**34,055**	-566	[-1.6%]
	Operating/cloud services	18,824	**22,732**	+3,907	[+20.8%]
	Product/software sales	13,059	**15,718**	+2,659	[+20.4%]
Business Process Management		30,242	**30,505**	+263	[+0.9%]
	Software development	12,674	**13,082**	+407	[+3.2%]
	Operating/cloud services	17,567	**17,423**	-143	[-0.8%]
	Product/software sales	-	**-**	-	-
Financial IT Business		66,593	**72,836**	+6,242	[+9.4%]
	Software development	34,134	**39,837**	+5,703	[+16.7%]
	Operating/cloud services	27,037	**27,713**	+676	[+2.5%]
	Product/software sales	5,422	**5,284**	-137	[-2.5%]
Industrial IT Business		77,529	**82,067**	+4,538	[+5.9%]
	Software development	50,816	**55,426**	+4,610	[+9.1%]
	Operating/cloud services	17,564	**17,870**	+306	[+1.7%]
	Product/software sales	9,147	**8,769**	-378	[-4.1%]
Regional IT Solutions		110,151	**110,651**	+500	[+0.5%]
	Software development	57,756	**57,616**	-139	[-0.2%]
	Operating/cloud services	37,423	**40,729**	+3,305	[+8.8%]
	Product/software sales	14,972	**12,305**	-2,666	[-17.8%]

9

Please refer to page nine for sales to external customers by business segment, which should be helpful in confirming the detailed status of each segment.

Reference: Fiscal 2023 Third Quarter (October-December): Sales and Income for Key Business Segments

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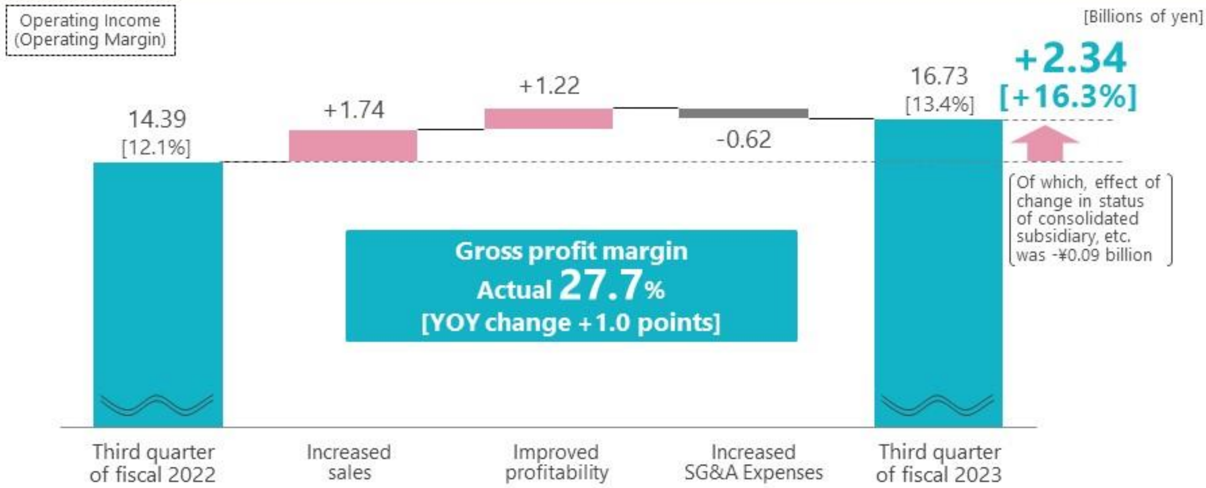
[Millions of yen]		Third quarter of fiscal 2022	Third quarter of fiscal 2023	YOY change	
Net Sales		118,800	**125,077**	+6,276	[+5.3%]
Operating Income		14,391	**16,734**	+2,343	[+16.3%]
Operating Margin		12.1%	**13.4%**	+1.3P	-
Net Income Attributable to Owners of the Parent Company		13,892	**13,323**	-569	[-4.1%]
Net Income to Net Sales Ratio		11.7%	**10.7%**	-1.0P	-
Key Business Segments					
Offering Service Business	Net Sales	25,131	**27,628**	+2,497	[+9.9%]
	Operating Income	1,285	**2,004**	+718	[+55.9%]
	Operating margin	5.1%	**7.3%**	+2.2P	-
Business Process Management	Net Sales	10,810	**10,732**	-77	[-0.7%]
	Operating Income	1,329	**1,239**	-90	[-6.8%]
	Operating margin	12.3%	**11.5%**	-0.8P	-
Financial IT Business	Net Sales	23,496	**25,361**	+1,864	[+7.9%]
	Operating Income	3,214	**3,596**	+381	[+11.9%]
	Operating margin	13.7%	**14.2%**	+0.5P	-
Industrial IT Business	Net Sales	26,903	**27,401**	+497	[+1.9%]
	Operating Income	4,585	**4,361**	-223	[-4.9%]
	Operating margin	17.0%	**15.9%**	-1.1P	-
Regional IT Solutions	Net Sales	36,946	**39,117**	+2,171	[+5.9%]
	Operating Income	3,921	**5,216**	+1,294	[+33.0%]
	Operating margin	10.6%	**13.3%**	+2.7P	-

Reference: Fiscal 2023 Third Quarter (October-December): Operating Income Analysis, Increase/Decrease Reasons (YOY change)



Prior investment costs for promoting structural transformation:
Up ¥0.56 billion (YOY change)
(Cost of sales: +¥0.39 billion, SG&A expenses: +¥0.17 billion)
Software investment / Investment in human resources / Investment in R&D
+
Cost of investment in human resources (additional amount):
Up ¥0.65 billion (YOY change)
(Cost of sales: +¥0.26 billion, SG&A expenses: +¥0.38 billion)

Cost of office reform to promote new workstyles:
Down ¥0.18 billion (YOY change)
(Cost of sales: -¥0.08 billion, SG&A expenses: -¥0.10 billion)

Changes in SG&A Expenses

Effect of change in status of consolidated subsidiary, etc.	+0.10
Office reform	-0.10
Prior investment (includes enhanced employee benefits)	+0.56
Lower operating costs, enhanced head office functions	-0.07
Others (Brand-related costs)	+0.12
Total	+0.62

Reference: Fiscal 2023 Third Quarter (October-December): Sales by Key Business Segment and Operating Activity *For external clients

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[Millions of yen]		Third quarter of fiscal 2022	Third quarter of fiscal 2023	YOY change	
Offering Service Business		22,264	**24,626**	+2,361	[+10.6%]
	Software development	11,621	**11,225**	-396	[-3.4%]
	Operating/cloud services	6,590	**8,380**	+1,790	[+27.2%]
	Product/software sales	4,052	**5,020**	+967	[+23.9%]
Business Process Management		10,241	**10,188**	-53	[-0.5%]
	Software development	4,342	**4,345**	+2	[+0.1%]
	Operating/cloud services	5,898	**5,842**	-55	[-0.9%]
	Product/software sales	-	**-**	-	-
Financial IT Business		23,091	**24,924**	+1,833	[+7.9%]
	Software development	11,641	**14,127**	+2,485	[+21.3%]
	Operating/cloud services	9,489	**9,193**	-295	[-3.1%]
	Product/software sales	1,960	**1,604**	-355	[-18.1%]
Industrial IT Business		26,451	**27,222**	+770	[+2.9%]
	Software development	18,224	**18,383**	+158	[+0.9%]
	Operating/cloud services	5,788	**6,012**	+223	[+3.9%]
	Product/software sales	2,438	**2,826**	+387	[+15.9%]
Regional IT Solutions		35,798	**37,476**	+1,677	[+4.7%]
	Software development	18,069	**19,622**	+1,553	[+8.6%]
	Operating/cloud services	12,587	**13,726**	+1,138	[+9.0%]
	Product/software sales	5,141	**4,128**	-1,013	[-19.7%]

12

Pages 10 through 12 show our results for Q3, which we believe were still strong overall.

The decrease in current net income was due to a decrease in the amount of extraordinary income recorded compared to the same period of the previous year.

Fiscal 2023 First Three Quarters: Order Status (Total)

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- Order volume and order backlog hit record highs.
- Changes, including decrease in order volume for Business Process Management and for Industrial IT Business, largely due to changes in software development order volume.

[Millions of yen]	First three quarters of fiscal 2022	First three quarters of fiscal 2023	YOY change	
Orders received during first three quarters	327,633	**344,697**	+17,064	[+5.2%]
Offering Service Business	61,051	**64,223**	+3,171	[+5.2%]
Business Process Management	31,396	**30,762**	-634	[-2.0%]
Financial IT Business	56,076	**67,739**	+11,662	[+20.8%]
Industrial IT Business	76,538	**74,741**	-1,797	[-2.3%]
Regional IT Solutions	102,569	**107,231**	+4,662	[+4.5%]
Order backlog at end of third quarter	122,397	**138,543**	+16,145	[+13.2%]
Offering Service Business	20,685	**23,456**	+2,771	[+13.4%]
Business Process Management	8,369	**8,760**	+390	[+4.7%]
Financial IT Business	28,218	**34,293**	+6,074	[+21.5%]
Industrial IT Business	29,541	**30,539**	+997	[+3.4%]
Regional IT Solutions	35,582	**41,494**	+5,911	[+16.6%]

13

Beginning on page 13 is an explanation of the status of orders. First, page 13 shows the overall order situation, including operations.

Orders received increased 5.2% YoY to JPY344.6 billion. The order backlog was up 13.2% to JPY138.5 billion, also a record high for the first nine months of a fiscal year. The increase or decrease, including the decrease in orders for BPM and industrial IT, will be explained on the next page, as the increase or decrease is largely due to the impact of software development orders.

Fiscal 2023 First Three Quarters: Order Status (Software Development)

- Primary cause of decrease for Offering Service Business was that project level peaked while decrease for Industrial IT Business was reactionary drop on large projects for public sector.
- Increase for Financial IT Business driven by multiple large projects, while increase for Regional IT Solutions reflects capture of IT investment demand across wide spectrum of business sectors.

[Millions of yen]	First three quarters of fiscal 2022	First three quarters of fiscal 2023	YOY change	
Orders received during first three quarters	188,342	**197,217**	+8,875	[+4.7%]
Offering Service Business	31,336	**30,208**	-1,127	[-3.6%]
Business Process Management	13,829	**13,338**	-490	[-3.5%]
Financial IT Business	32,566	**43,099**	+10,532	[+32.3%]
Industrial IT Business	55,000	**52,333**	-2,667	[-4.9%]
Regional IT Solutions	55,608	**58,237**	+2,629	[+4.7%]
Order backlog at end of third quarter	80,831	**91,682**	+10,851	[+13.4%]
Offering Service Business	12,685	**12,614**	-71	[-0.6%]
Business Process Management	8,369	**8,760**	+390	[+4.7%]
Financial IT Business	18,504	**25,139**	+6,634	[+35.9%]
Industrial IT Business	21,459	**21,045**	-413	[-1.9%]
Regional IT Solutions	19,812	**24,123**	+4,310	[+21.8%]

14

Now, on page 14, we will discuss the status of software development orders.

Offering services and industrial IT decreased from the same period of the previous year, mainly due to the peak out of projects. We are not concerned about the decrease in BPM as it is due to the impact of high orders in H1 of the previous fiscal year. Financial IT continued to benefit from several large project orders. In the wide-area IT solutions business, orders increased YoY as a result of capturing IT investment demand from a wide range of industries, despite the impact of the exclusion of approximately JPY4 billion in orders from the consolidation by H1 of the fiscal year.

Fiscal 2023 Third Quarter (October-December): Order Status

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Order Status (Total)

[Millions of yen]	Third quarter of fiscal 2022	Third quarter of fiscal 2023	YOY change	
Orders received during third quarter	83,723	**78,703**	-5,020	[-6.0%]
Offering Service Business	13,239	**13,482**	+242	[+1.8%]
Business Process Management	9,857	**10,745**	+887	[+9.0%]
Financial IT Business	13,420	**8,482**	-4,937	[-36.8%]
Industrial IT Business	23,896	**20,994**	-2,902	[-12.1%]
Regional IT Solutions	23,309	**24,999**	+1,689	[+7.2%]

Order Status (Software Development)

[Millions of yen]	Third quarter of fiscal 2022	Third quarter of fiscal 2023	YOY change	
Orders received during third quarter	57,185	**53,727**	-3,457	[-6.0%]
Offering Service Business	7,352	**8,377**	+1,024	[+13.9%]
Business Process Management	3,958	**4,902**	+943	[+23.8%]
Financial IT Business	11,556	**6,731**	-4,824	[-41.7%]
Industrial IT Business	18,894	**16,840**	-2,053	[-10.9%]
Regional IT Solutions	15,424	**16,875**	+1,451	[+9.4%]

15

Page 15 shows orders received for Q3.

The decrease in orders for financial IT was due to a wave of orders for large projects. The decrease in industrial IT was due to a reactionary decline in public sector projects, and excluding this impact, Q3 as well as Q3 cumulative would have been higher YoY. As shown on page 13, the order backlog at the end of Q3 was also firmly built up, so our view of the business environment has not changed from H1, and we believe we can continue to develop our business on a firm footing.

Revisions to Fiscal 2023 Performance Forecast

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- Revised full-year forecast, given booking of extraordinary income following sale of cross-shareholdings and other factors.
- No change to net sales, operating income or recurring profit since progress is generally in line with current forecast.

[Millions of yen]	Fiscal 2023 revised estimate	Fiscal 2023 current estimate	Change from revised estimate	
Net Sales	505,000	**505,000**	-	-
Operating Income	59,000	**59,000**	-	-
Operating Margin	11.7%	**11.7%**	-	-
Net Income Attributable to Owners of the Parent Company	39,800	**52,000**	+12,200	[+30.7%]
Net Income to Net Sales Ratio	7.9%	**10.3%**	+2.4P	-
Net Income per Share (Yen)	163.25	**213.50**	+50.25	[+30.8%]
ROE *	13.7%	**17.8%**	+4.1P	-

* ROE estimate for fiscal 2023 is a calculated value.

17

I will now explain our full-year forecast for FY2023. First, on page 17, I will explain the revisions to the current earnings forecast.

As we have announced in our timely disclosure materials, we have further raised our current net income forecast by JPY12.2 billion to JPY52 billion from the revised plan in H1 of the fiscal year, taking into account the recording of extraordinary gains from the sale of shares held by the Company in strategic partnerships. There is no change in net sales, operating income, and recurring profit, as they are generally progressing in line with the plan revised in H1 of the fiscal year.

Fiscal 2023: Performance Forecasts

- Against backdrop of solid IT investment demand, anticipate sales and income will surpass targets presented in Medium-Term Management Plan.
- 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 current estimate	YOY change	
Net Sales	482,547	**505,000**	+22,452	[+4.7%]
Operating Income	54,739	**59,000**	+4,260	[+7.8%]
Operating Margin	11.3%	**11.7%**	+0.4P	-
Net Income Attributable to Owners of the Parent Company	39,462	**52,000**	+12,537	[+31.8%]
Net Income to Net Sales Ratio	8.2%	**10.3%**	+2.1P	-
Net Income per Share (Yen)	157.69	**213.50**	+55.81	[+35.4%]
ROE *	14.0%	**17.8%**	+3.8P	-

* ROE estimate for fiscal 2023 is a calculated value.

Page 18 shows the latest plan I just mentioned compared to the previous year.

As I mentioned at the outset, we will continue to work firmly to achieve the targets of the medium-term management plan one year ahead of schedule. In addition, we intend to use the cash generated to make proactive investments, including upfront investments in human resources, to accelerate business growth.

Since there are no changes from the revised plan on pages 19 and 20, we will not reiterate them.

Topics

■ **Treasury stock buyback (completed) and cancellation**

✓ Buyback of treasury stock, totaling about ¥30 billion, began in May 2022 and wrapped up in December 2022.

✓ TIS decided to cancel equivalent of about ¥24.5 billion of above amount (or 2.7% of total number of issued shares before cancellation) to optimize capital structure. Planned date for completing cancellation of treasury stock is February 28, 2023.

■ **Reduce cross-shareholdings**

✓ TIS decided to sell ¥17.8 billion of ¥54.3 billion in cross-shareholdings, as of March 31, 2022, in fourth quarter of fiscal 2023, ending March 31, 2023. Along with ¥6.4 billion already sold as of third quarter, will be able to reduce cross-shareholdings by ¥24.2 billion for the full year.

✓ Marks major progress toward early realization of target to reduce cross-shareholdings to 10% of value of consolidated net assets on balance sheet.

■ **Enhance investment into human resources through new personnel system**

✓ TIS anticipates increase in personnel costs groupwide at ¥5 billion level in fiscal 2024, ending March 31, 2024, hinging on a higher compensation standard paralleling revision of the personnel system.

✓ TIS sees investment in human resources as indispensable to sustained improvement in corporate value, and promotes a higher level of added value through enhanced investment in human resources which is the most important component of management capital.

21

Finally, on page 21, I will explain three topics based on the timely disclosure also announced today.

The first point is the termination and retirement of treasury stock. As previously announced, the acquisition of approximately JPY30 billion of treasury stock was completed in December 2022. Of this amount, we have decided to cancel 2.7% of treasury stock, equivalent to approximately JPY24.5 billion, for the purpose of optimizing the capital structure, as originally planned.

The second point is the reduction of policy shareholdings. As we continue to reduce our policy shareholdings, we decided to sell JPY17.8 billion in the Q4. Combined with the JPY6.4 billion sold up to Q3, we expect to be able to reduce the amount by JPY24.2 billion for the full year. This is a significant reduction from JPY54.3 billion at the end of the previous fiscal year and represents a significant step forward toward achieving our goal of a 10% ratio of balance sheet amount to consolidated net assets as soon as possible.

Finally, I would like to talk about strengthening upfront investment in human resources. As explained at the time of the Q2 financial results, we recognize that it is management's responsibility to respond firmly to the activities of employees, who are the bearers of corporate growth. In order to advance the value exchange between the Company and employees, we will introduce a new personnel system in April 2023 to further push forward reform of the meaning of work and compensation.

In particular, we have decided to increase base salaries by up to 17% and 6% on average by investing in high-level personnel who will lead the business and in young people who will lead the future. By focusing on these initiatives and strengthening upfront investment in human resources, the most important management capital for the entire group, we expect to increase personnel expenses by approximately JPY5 billion in FY2024.

However, intend to absorb this increase with business earnings and formulate a management plan that will enable us to continue profitable growth. This concludes the explanation.

Question & Answer

Moderator [M]: Thank you very much. We will now take your questions.

First of all, Mr. Tanabe from UBS Securities, please ask a question.

Tanabe [Q]: Thank you for your help. This is Tanabe from UBS. This time, the landing has not changed, gross profit has improved, and operating income has increased by 16%. If simply subtracted, Q4 result in a decrease in profit. However, I think you just said that you did not change it. Can I confirm that?

Also, I think the remaining Q4 is quite misleading since the assumptions for segment profits have not been changed at all this time. Again, please give us a sense of direction. If there are any segments that would change from the current trend, please let us know. This is the first point.

Kawamura [A]: There is no change in operating income for the revised published figures. First of all, we would like to promote the achievement of the announced figures revised in H1 of the fiscal year. However, we are not assuming a YoY decrease in profits, but rather that we will continue to accumulate profits, so we are not facing any issues at this point in time.

However, I believe that the figures are by no means easy, since profits were very high in the previous Q4, especially for wide-area IT. We have a solid order backlog for this Q3, and we intend to promote the project based on this backlog. That is all.

Tanabe [Q]: Is it correct to understand that except for wide-area IT, there is no particularly large YoY decrease in profits, and that offering services, on the other hand, are not to increase profits so much as planned?

Kawamura [A]: Yes. However, there is no change in the direction of achieving or building on the plan in each segment, so there are no particular issues in any segment. We are not in a situation where there is an issue in any segment, and we are determined to take appropriate measures to address it. That is all.

Tanabe [Q]: Thank you very much. Second, I want to ask about the increase in personnel costs. Can we assume that this JPY5 billion increase will be entirely added as costs to the project? Also, if you plan to increase profits accordingly, is there any discussion on how you plan to return profits to shareholders?

Kawamura [A]: First of all, we would like to provide guidance for the next fiscal year separately, in conjunction with the announcement of the Q4 financial results. However, we would like to make a plan that incorporates the JPY5 billion increase in personnel expenses, and we believe that it will be difficult to achieve the same level of profit growth or improved profitability in the short term as we have achieved in the past several years. However, we have determined that investment in human resources is essential at this point in time for the medium- to long-term growth that lies ahead.

The management style of our group is to balance aggressive upfront investment with improved profitability, and this has not changed at all. Although we are considering incorporating an increase in personnel expenses into our plan, we have not changed our policy of solid medium- to long-term growth, and we intend to create a solid management plan to achieve this goal.

No decision on shareholder returns has been made at this time. On the other hand, since we have reduced our policy shareholdings, we will be able to accumulate cash, and we want to make solid investments for growth, as explained in our medium-term management plan. Thus, our first priority is to continue to make solid investments for growth. That is all.

Tanabe [M]: Thank you very much.

Moderator [M]: Thank you very much. Now, let me move on to your next question. Mr. Tanaka from Goldman Sachs, would you like to ask a question?

Tanaka [Q]: This is Tanaka from Goldman Sachs. First of all, I would like to ask you about the changes in the area of orders. I think you explained that the large drop in the financial and industrial sectors was a reaction to the special large projects of the previous year, but what kind of things were the reactions? What is the scale of these changes? Can stable growth be expected in the future despite these changes? I think that the drop-off is a quite strong. Thus, could you please explain this?

Kawamura [A]: I understand. First, I would like to focus on development orders. As for financial IT, I hope you can understand that this is a wave of orders from our core customers in the card field. The decrease is a reactionary decline from the considerable volume of orders received in Q3 of the previous fiscal year. This reactionary decline reflects the scale. Oher than that, there has been a solid accumulation. We are also working to accumulate orders for the Q4, so we believe that we will be able to absorb the reactionary decline in the financial IT business.

On the other hand, in the industrial IT business, as I explained, there was a large order for public sector projects in Q3 of the previous fiscal year, and this was largely a reactionary decline that exceeded the negative impact of the large order. As for the rest, we have been building up our manufacturing customers, ERP and SAP businesses, and excluding them, we expect orders to increase. Thus, we are confident that we will be able to accumulate orders, including in the Q4. That is all.

Tanaka [Q]: Thank you. I would like to ask some more questions. For both finance and industry, how positive were they when excluding the series of reactionary declines? Can you disclose the figures?

Kawamura [A]: Yes, sir. First, for financial IT, there was a reactionary decline of about JPY3. 5 billion. As for industrial IT, there was a reactionary decrease of about JPY3 billion.

Tanaka [Q]: Thank you. How can we interpret this? Will such a reactionary decline prevail in the Q4 and after? Can you please follow up on these two points?

Kawamura [A]: As I have said every time, we perceive this as a quarterly wave of orders. Thus, at this point we do not anticipate a major backlash in the Q4.

The financial sector has multiple customers as its core clients, and large orders from each of these customers come in during Q3 and Q4, respectively. For the Q4, we believe at this point that we will be able to build up a solid base to prevent this from happening.

Tanaka [Q]: So, in summary, in the quarter in which the reactionary decline was strong, especially when viewed on the basis of actual inquiries, there was no particular impact from the deterioration in business confidence, and the environment has not changed as you mentioned at the beginning?

Kawamura [A]: Yes. We hope you understand it that way.

Tanaka [Q]: Thank you. The second point is the JPY5 billion increase in personnel expenses for the next fiscal year. Last year, I believe, the amount was about JPY3 billion, so the increase will be even greater. Does this figure include the increase in headcount? Or is it based on the assumption that the wage increase alone will increase by JPY5 billion based on the current workforce? Please confirm.

Kawamura [A]: Regarding the JPY5 billion scale, the majority of the increase will basically be in the wage rate, reflecting the personnel plan. That being said, it still includes both.

Tanaka [Q]: I see. In this case, I think the nuance is that since there will be a considerable amount of upfront investment, we cannot expect much profit growth in the next fiscal year. Can't we offset this increase to some extent by passing it on to prices, or by raising the unit price of the project? Should we look at the next fiscal year as purely a cost increase for now?

Kawamura [A]: First of all, I think that the increase in personnel expenses up to now has been more in the sense of performance-linked bonuses based on improved business performance. However, as I explained earlier, the increase planned for the next fiscal year is more in the sense of upfront investment, as we will raise base salaries firmly. As you pointed out, we are and have been trying to improve our business performance by firmly implementing a cycle of making solid upfront investments to increase the value of our human resources and then adding value to our customers.

Therefore, although the JPY5 billion will be an increase in personnel expenses, we will regard it as an investment. Although it may be difficult to absorb all of it in the short term in our earnings plan for the next fiscal year, we will make a solid return on this investment in the medium to long term. Also, in the short term, we would like to consider this plan as a plan to achieve a solid increase in profit, although the rate of profit increase will probably be lower than in the past, as part of our guidance for the next fiscal year. That is all.

Tanaka [M]: Thank you very much.

Moderator [M]: Thank you very much. Now, let me move on to your next question. Next, Mr. Ueno from Daiwa Securities, please ask your question.

Ueno [Q]: My name is Ueno from Daiwa Securities. I apologize for the concentration of questions on the personnel cost, but the personnel cost has been raised by JPY5 billion this time from the previous JPY3 billion. This time, the burden is not performance-linked at the end of the fiscal year, so it will be quite heavy from the very beginning. H1 was relatively more controlled in terms of the rate of decline in revenue and profit. What about H2? For example, will the performance-linked bonus be reduced to a certain extent because of the increase in the base salary? Will the JPY5 billion be a pure increase?

Kawamura [A]: First of all, as you mentioned, we believe that the JPY5 billion will work into our guidance from the beginning of the period in that it will be firmly incorporated into our initial plan. As for the performance-linked plan, we will not change our approach to the plan when we achieve or exceed the plan.

Ueno [Q]: Due to the timing of the current quarterly balance in April, I wonder whether the burden will already be quite heavy in the Q1 and Q2, instead of the end of the year as the case with incentives.

Kawamura [A]: Yes. Since we are talking about the base salary, your understanding is correct.

Ueno [Q]: I see. Looking at your company's previous fiscal year and the current fiscal year, even with a 4% or 5% increase in labor costs, the gross profit margin continued to increase by about 1.3% to 2%, even if we look at the operating profit margin. I feel that an increase of JPY2 billion would have almost no impact on the denominator of your company and would raise the profit margin by about 1 percentage point. Are there any factors preventing it? Or will you weaken your guidance since it is at the beginning of the term, not improving the operating margin?

Kawamura [A]: I would be happy to discuss the guidance for the next fiscal year with you again, but we would like to make a solid investment in human resources and further enhance value exchange with our customers, so our viewpoint of firmly promoting our value-added business will not change. We will continue to make solid investments in human resources and further enhance the value exchange with our customers.

We have not changed our emphasis on profitability, and we have not changed our earlier statement about balancing investment and profitability improvement. That is all.

Ueno [Q]: By the way, as a final supplement, can you give us any figures on the turnover rates? They can be from the current or previous years as well.

Kawamura [A]: I don't have the figures for the most recent fiscal year, but for FY2021, it was about 3% to 4%, which means that it is kept at a low level. This is also because we are making solid investments in the working environment, and we will further invest in human resources in terms of compensation to reduce turnover and firmly increase the value of human resources. We intend to firmly establish this form of management.

Ueno [Q]: Is there any trends, such as talented human resources in middle-management increasing, while people in upper-management are decreasing?

Kawamura [A]: There is no particular event that should concern you. Rather, for us, we are in competition with the market for human resources to promote our high value-added business, so we will offer firm remuneration and work together to grow as a corporate group. This decision was made based on such a concept.

Ueno [M]: Yes, I understand very well. Thank you very much.

Moderator [M]: Thank you very much. We will proceed to the last questioner. Mrs. Sato from Jefferies Securities, please go ahead.

Sato [Q]: My name is Sato from Jefferies Securities. Thank you for your explanation. First, I wanted to ask you about the topic of credit cards.

Looking at the Offering Service, the profit margin improved by almost 2 percentage points, both on a QoQ basis and on a YoY basis. When looking at the credit SaaS alone, it is now in operation mode and depreciation probably comes in at about JPY2 billion annually. Thus, I was wondering if it would be about JPY500 million in turn. I was wondering if you could break it down a little bit and explain it to me, because the contents of the offering services seem to have a very good profit margin. Also, I would like to know if you were able to secure a second company. Please elaborate on that as well. Thank you.

Kawamura [A]: Thank you very much. First, as for the increase in earnings from Offering Services, we believe that settlement services, including credit SaaS, as well as platform and other infrastructure services performed extremely well from H1 of the fiscal year. Furthermore, unprofitable operations in the previous fiscal year contributed to an increase of about JPY300 million in earnings. We believe that these solid businesses and the curbing of unprofitable operations have been effective.

As for credit SaaS, the first user of the credit SaaS has been increasing recurring sales since its launch, and these sales have been included in operational sales since Q3, so they are also making a steady contribution to earnings. As I have explained, we are not in the red at this point, but the margin is not that high, so we would like to increase the margin as we continue to acquire second users and beyond. At this time, this is our thinking. That is all.

Sato [Q]: Am I correct in understanding that you have not yet secured a second company?

Kawamura [A]: Yes. We are still operating, but there has been no particular change in what I am going to talk about today.

Sato [Q]: I understand. Second, I wanted to ask you a question in the area of credit cards. I think large projects have been coming in for a long time, but how long do you think this high level will continue? I understand that there are a lot of orders coming in, and that you may be able to get another order in the Q4. I think this credit card development will probably continue in the next fiscal year. However, is there a sense of a peak-out? Or will you be able to continue this high level in the next fiscal year? Best regards.

Kawamura [A]: Thank you very much. Among the large projects we are working on, we are currently at the peak of our efforts, and we intend to make a solid start in FY2023.

We will also incorporate the plan for FY2024 and the next fiscal year in our guidance. While we will continue to peak in that period, we are in the process of developing a business plan beyond the end of each project. That is all.

Sato [Q]: Thank you very much. Sorry, I have an extra question at the end. Were these financial results way above average in terms of performance? I mean, when you compare them internally with past results. Or was it more or less in line with your expectations? Please let us know.

Kawamura [A]: We have not announced the budget presentation for Q3 alone, but I would like to express my appreciation for the very strong financial results. However, we still need to accumulate more orders, and the level of orders in the Q4 was high last year, so we will not let our guard down and will continue to make solid progress during the remaining three months.

Sato [M]: Understood. Thank you very much. That is all.

Kawamura [M]: Thank you very much.

Moderator [M]: That concludes the question-and-answer session. Finally, I would like to offer a few words from Kawamura.

Kawamura [M]: Thank you very much for joining us today on the TIS Inc. conference call for Q3 of FY2023. If you have any questions, please contact our IR staff during an individual interview or by phone. Thank you for your continued support.

Moderator [M]: That concludes the conference call. Thank you for your participation.

[END]

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