



TIS Inc.

Conference Call for Timely Disclosure on March 29, 2023

March 29, 2023

Event Summary

[Company Name]	TIS Inc.	
[Company ID]	3626-QCODE	
[Event Language]	JPN	
[Event Type]	Special Announcement	
[Event Name]	Conference Call for Timely Disclosure on March 29, 2023	
[Fiscal Period]		
[Date]	March 29, 2023	
[Number of Pages]	8	
[Time]	17:00 – 17:19 (Total: 19 minutes, Presentation: 5 minutes, Q&A: 14 minutes)	
[Venue]	Dial-in	
[Venue Size]		
[Participants]		
[Number of Speakers]	1	
	Masakazu Kawamura	Executive Officer, Division Manager of Corporate Planning SBU
[Analyst Names]*	Hiroto Segawa	Morgan Stanley MUFG Securities
	Jun Tanabe	UBS Securities
	Yusuke Hori	Mizuho Securities

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

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Presentation

Moderator: Thank you very much for your patience. We will now hold a conference call regarding the matter disclosed in a timely manner today.

Mr. Masakazu Kawamura, Executive Officer, Division Manager of Corporate Planning SBU, is attending today's conference call. Mr. Kawamura will first give a 10-minute presentation, followed by a question-and-answer session. The entire meeting will last a maximum of 30 minutes. The explanatory materials are available on the website of TIS Inc. for your reference. We will now start the presentation.

Kawamura: This is Kawamura from TIS. Thank you. Thank you for joining us on this short notice conference call. I would now like to explain the contents of the notice concerning acquisition of fixed assets, trust beneficiary interest in real estate, announced by the Company at 15:00 today. The contents I would like to convey are generally contained in the timely disclosure materials, so I would like to briefly supplement them.

First, the purpose of the acquisition. The new facility is a core facility for providing system operations and our own brand of cloud services, which we, as a system integrator, have developed to provide a one-stop solution for our customers' system lifecycles.

Our basic policy is to own such facilities from the viewpoint of ensuring long-term and stable business continuity, but for this facility, we decided to lease it due to the circumstances at the time.

As you are aware, in the course of developing our business since then, we have fundamentally reviewed our unique system operation operations and strategies in light of changes in the business environment, including the rapid progress of cloud computing, but our recognition of the importance of owning facilities has not changed, and we have continuously sought opportunities to switch from renting to owning such facilities in line with our basic policy.

We have now decided to acquire the subject facility without missing the opportunity, after comprehensively considering the opportunity to enjoy the benefits of ownership through negotiations with the owner, the economic rationale for switching from leasing to ownership, and our current financial position, which allows us to make a large-scale investment.

Next is an overview of the acquisition. The total acquisition price is approximately JPY72 billion, which includes JPY70 billion for the trust beneficiary interest in real estate and miscellaneous expenses. The seller is Sekisui House Reit, which will acquire 10% of the quasi co-ownership of the trust beneficiary interest in real estate for JPY7 billion each in 10 semi-annual installments beginning in October 2023, with the final acquisition scheduled to be completed in April 2028.

Next, I will explain about the impact on business performance. The actual decrease in rent will occur in stages in proportion to the percentage of real estate trust beneficiary interests acquired. Although the initial impact on performance will be negligible due to the small acquisition ratio, the eventual acquisition of 100% of the property is expected to result in an annual cost reduction of more than JPY1 billion, even after deducting increased depreciation expenses.

Finally, although this is a very large investment, we believe that owning the facility will have significant managerial significance and benefits, including the ability to ensure long-term and stable business continuity of system operation operations and our own brand of cloud services, as well as cost reduction effects, and that it will contribute to improving our group's corporate value over the medium to long term. Therefore, we would appreciate your understanding.

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This is the end of my explanation.

Moderator: Thank you.

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Question & Answer

Moderator [M]: We 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 stating your name and company. Please note that only two questions can be asked per person at a time.

First, Mr. Segawa, Morgan Stanley MUFG Securities, please ask your question.

Segawa [Q]: I'm Segawa from Morgan Stanley MUFG Securities. First of all, to confirm your earlier explanation, when you acquire 100% of the properties, which I believe will be in FY2028, did you say that the cost savings there will be more than JPY1 billion? I would like to confirm the facts of this point, and also, since you said that it will occur in stages, I believe that the 10% acquisition will be effective for half of the year in the next fiscal year, that is FY2024. So, how much of a cost savings will that have? In addition, what are the current rental costs and what are the post-acquisition depreciation costs? I would like to know your image of this.

Kawamura [A]: Thank you very much. First of all, regarding the first question, as you know, if 100% of the acquisition is completed by April 2028, we can expect an annual rent reduction of more than JPY1 billion.

In addition, as I mentioned earlier, the acquisition will be phased in from October 2023, so the effect for the fiscal year ending March 2024 is expected to be a reduction of less than JPY100 million for the six months after October. After that, we would like you to understand that it is a stair-step system, in which the effect is expressed step by step according to the percentage of acquisition.

Also, please understand that our current rent is at a level of just over JPY2 billion. That's all from me.

Segawa [M]: Thank you very much. May I ask one more question?

Kawamura [M]: Yes, please.

Segawa [Q]: Since you are going to fund the project in stages, I think the cash outflow will be gradual, but since you are also going to borrow, how much will the financial impact be on the balance between cash on hand and borrowing? Also, I don't think it will have any impact on shareholder returns, but I would appreciate your comments on that.

Kawamura [A]: The total amount of this acquisition is JPY70 billion, but since the acquisition will be made in stages, we do not expect it to have a significant impact on our finances. We will consider borrowing if necessary, but we understand that our current cash and deposits are at a level that should not pose a problem.

In light of this, please consider that there is no impact on the 45% total return ratio set forth in our mid-term management plan.

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

Moderator [M]: Thank you very much. Next, Mr. Tanabe, UBS Securities, please ask your question.

Tanabe [Q]: I am Tanabe from UBS. Thank you for taking my question. I have two questions. One is the cost of electricity usage, and I am interested in the part where the cost of electricity is rising. Am I correct in assuming that the cost response to your company regarding electricity has not changed between when you were renting and when you own the property?

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Kawamura [A]: Yes. There is no change there.

Tanabe [Q]: I understand. Thank you. Another point is that you have stated that your company's GHG emissions will be carbon neutral by 2040, but I wonder what additional costs would be incurred by owning the property, if the calculated usage value of the property is increased, or if additional capital investment is required. Could you let me know what you think about it?

Kawamura [A]: Thank you very much. Regardless of the ownership policy, there is no change in the fact that we will firmly promote the measures that we have declared to be carbon neutral. Regarding this, at this time, a large additional cost will not be required, and there are no changes based on this ownership policy by firmly promoting it as before. We would like to proceed firmly toward the goal we are aiming for. That's all from me.

Tanabe [M]: I understand very well. Thank you very much.

Moderator [M]: Thank you very much. Next, Mr. Hori, Mizuho Securities, please ask your question.

Hori [Q]: This is Hori from Mizuho Securities. Thank you. I would also like to ask two questions. The first is a confirmation. Is it correct that the current rent is a little more than JPY2 billion per year?

Kawamura [A]: Yes, that is correct.

Hori [Q]: So, cash outflows for the next fiscal year will be JPY7 billion, and from there JPY14 billion for the fiscal year ending March 2025, so free cash flow will be negative unless you borrow money. Is that correct that you will make good use of your financial resources for this?

Kawamura [A]: Yes, that's right. It is as you understood. We hope to utilize borrowing as appropriate based on our financial situation.

Hori [Q]: Thank you very much. The second question is about the original purpose of the project. You explained in the release that you believe it is necessary to have assets in order to focus on operations and your own-brand cloud services. I think there is a trend to use public cloud services as the foundation, and then specialize in SaaS service development.

In this context, do you dare to say that you own the property, especially in terms of the operation part, because you think it is necessary to handle the operations of customers, who are your main customers? In some cases, you are looking at the possibility of purchasing the assets under management and continuing to provide them for a long-term period of 10 or 15 years. When that happens, is there a judgment that if you don't have the assets yourself, it's quite difficult? It would be easier for us to understand if you could tell us more than generalities. Could you let me know about it?

Kawamura [A]: Thank you very much. I think you are correct in your understanding of the various points you have mentioned.

In our system operation business, we take care of our clients' important systems for a long period of time and provide them with our value-added operations. Therefore, in order to ensure business continuity and to ensure that our customers can purchase our services with peace of mind, we have made a decision to provide more value to our customers by offering our services in a form that is owned by us.

Our cloud services also provide a number of payment services, including credit card services. The importance of the facility as a base for such services has been increasing year by year, and we intend to continue structural transformation and expansion of our cloud services. I hope you will agree that this decision reflects our strong desire to ensure the long-term and stable continuation of our business at our own facilities.

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Hori [Q]: I understand. Rather than thinking of this as a financial business or something else, like a string of financial businesses, should we think of it a bit more as an overall business, regardless of finance, including industrial IT?

Kawamura [A]: Yes. In terms of business scale, financial IT is large, but we also believe that we will become a very important facility for industrial IT and offering services.

Hori [M]: I understand. Thank you. That's all.

Moderator [M]: Thank you very much. As there seem to be no other questions, this concludes the question-and-answer session. In closing, Mr. Kawamura will offer a few words.

Kawamura [M]: Thank you very much for joining us today on TIS's conference call for timely disclosure on March 29, 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]: That concludes the conference call. Thank you all for your participation.

[END]

Document Notes

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