



**TIS**

TIS INTEC Group

Go Beyond

# **Information Meeting Materials for the First Two Quarters of the Fiscal Year Ending March 31, 2019**

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**October 31, 2018**

**TIS Inc.**

## **Fiscal 2019 First Two Quarters Financial Highlights**

**Fiscal 2019 Performance Forecast**

**Progress on Medium-Term Management Plan (2018-2020)**

**Reference Materials**

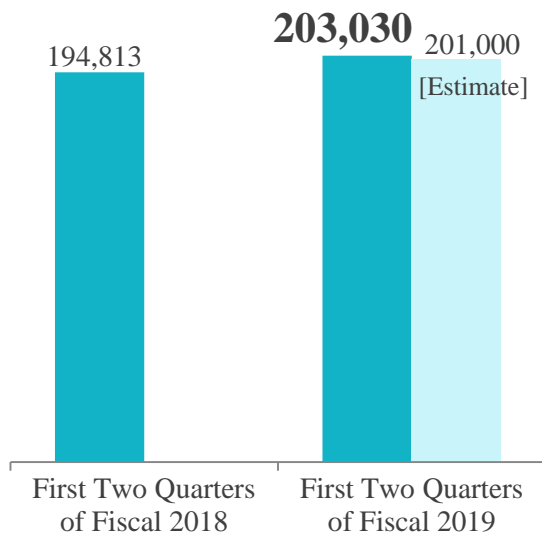
# Fiscal 2019 First Two Quarters: Financial Highlights

[Millions of yen]

•Against a favorable business backdrop, sales and income were up over the corresponding period a year ago, thanks to higher business volume and efforts to improve profitability. Settled above target.

## Net Sales

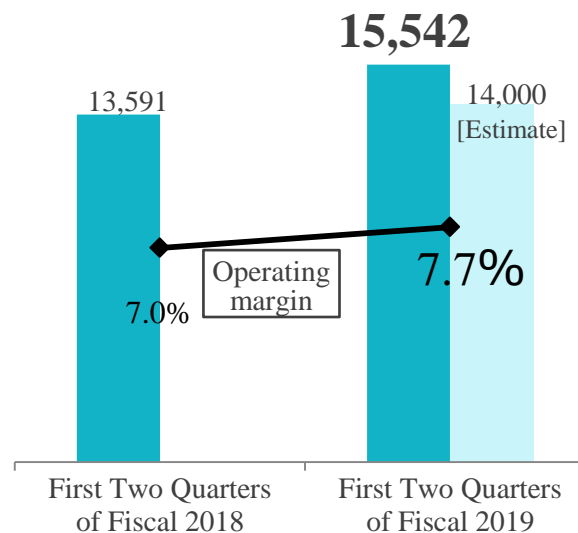
- YOY change: + ¥8,216 million [+ 4.2%]
- Compared with estimate: + ¥2,030 million [+ 1.0%]



In sectors where IT investment is showing renewed growth, we emphasized accurate identification of client needs and were rewarded with higher sales, year-on-year. Exceeded target.

## Operating Income

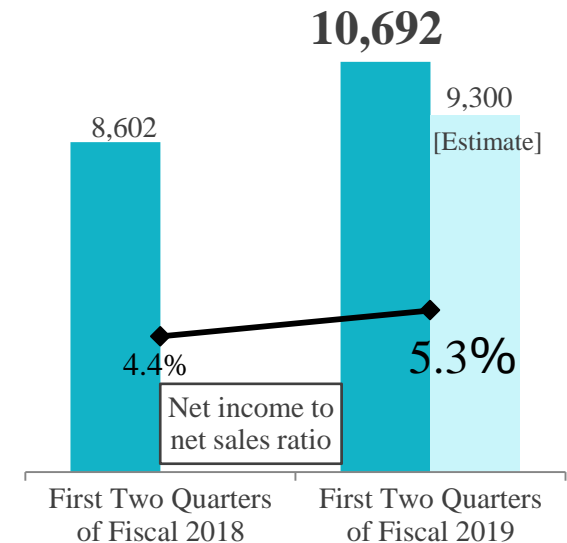
- YOY change: + ¥ 1,951 million [+ 14.4%]
- Compared with estimate: + ¥1,542 million [+ 11.0%]



Increase in gross profit, reflecting higher net sales starting point and enhanced profitability, absorbed rising selling, general and administrative expenses, primarily costs associated with stronger response to restructuring. Operating income was up year-on-year. Exceeded target.

## Net Income Attributable to Owners of the Parent Company

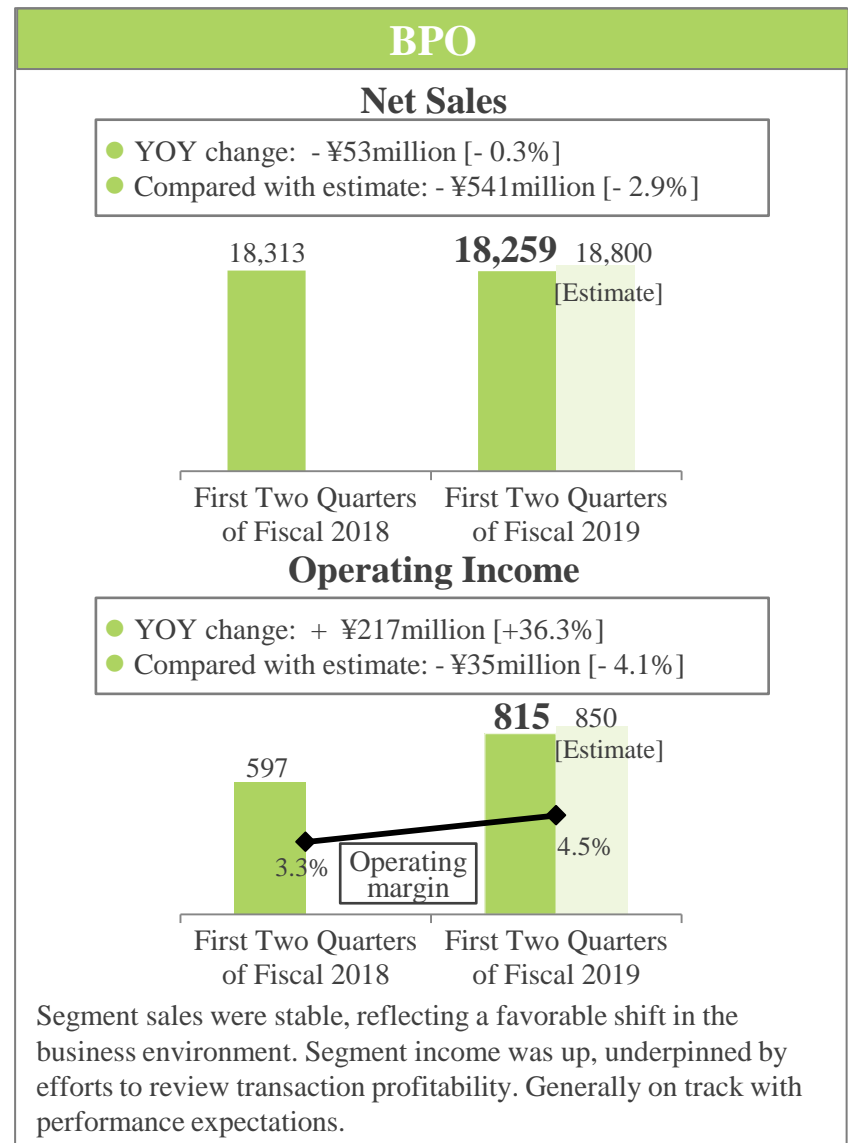
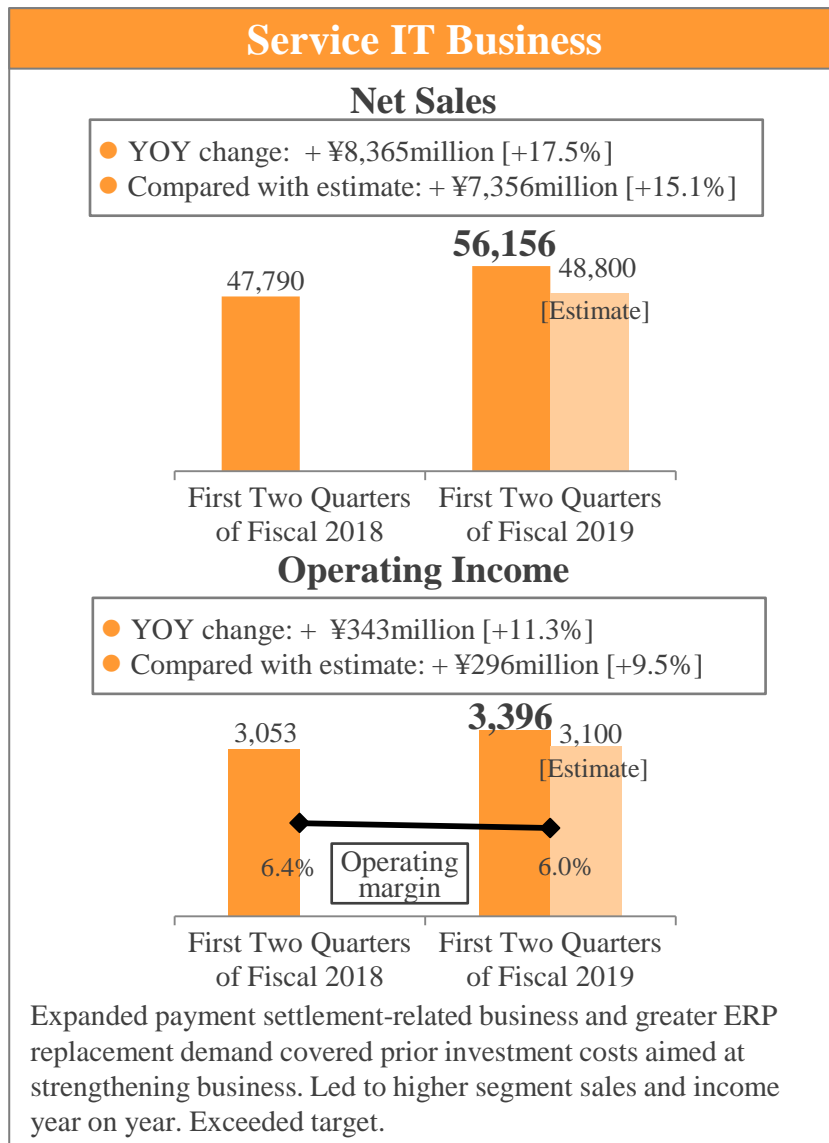
- YOY change: + ¥ 2,089 million [+ 24.3%]
- Compared with estimate: + ¥1,392 million [+ 15.0%]



Year-on-year improvement, paralleling higher operating income and net extraordinary income. Exceeded target.

# Fiscal 2019 First Two Quarters: Sales and Income for Key Segments-1

[Millions of yen]



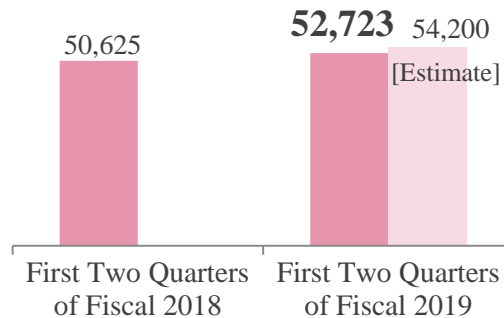
# Fiscal 2019 First Two Quarters: Sales and Income for Key Segments-2

[Millions of yen]

## Financial IT Business

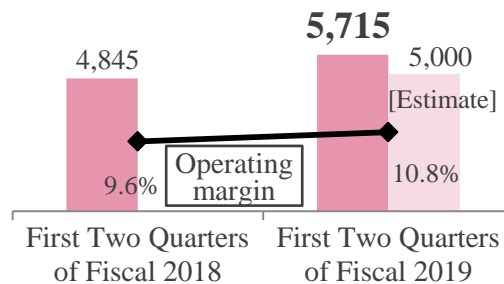
### Net Sales

- YOY change: + ¥2,097million [+4.1%]
- Compared with estimate: - ¥ 1,477 million [- 2.7%]



### Operating Income

- YOY change: + ¥ 870 million [+18.0%]
- Compared with estimate: + ¥ 715 million [+14.3%]

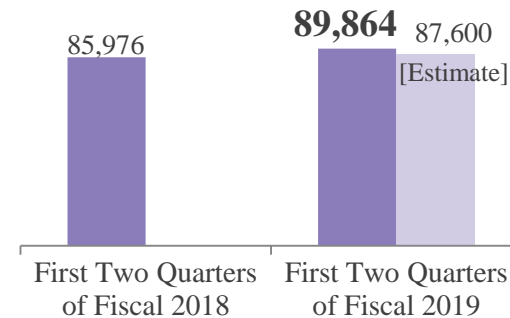


Sales and income up year on year, fueled by contribution from large credit card related projects and trend toward greater IT investment among core clients. Sales fell short of target owing to acceleration of strategic reassignment of essential personnel to Service IT Business.

## Industrial IT Business

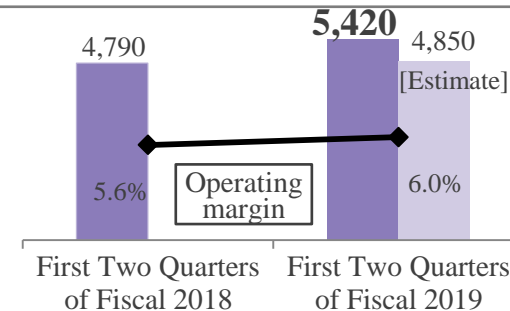
### Net Sales

- YOY change: + ¥ 3,887 million [+ 4.5%]
- Compared with estimate: + ¥ 2,264 million [+ 2.6%]



### Operating Income

- YOY change: + ¥ 629 million [+13.1%]
- Compared with estimate: + ¥ 570 million [+11.8%]

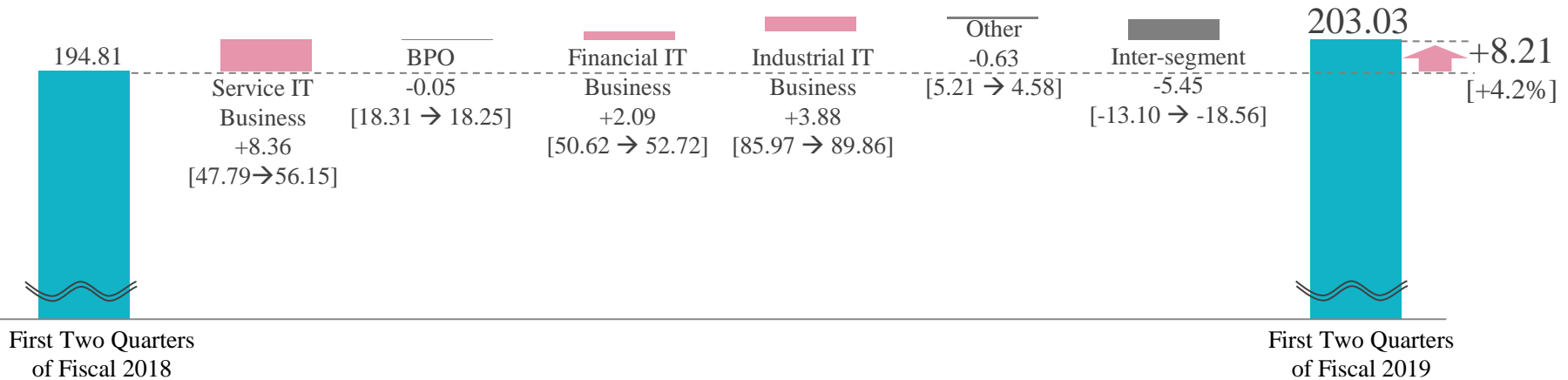


Sales and income up year on year, owing to greater IT investment by a wide range of client groups, including companies in the energy business. Exceeded target.

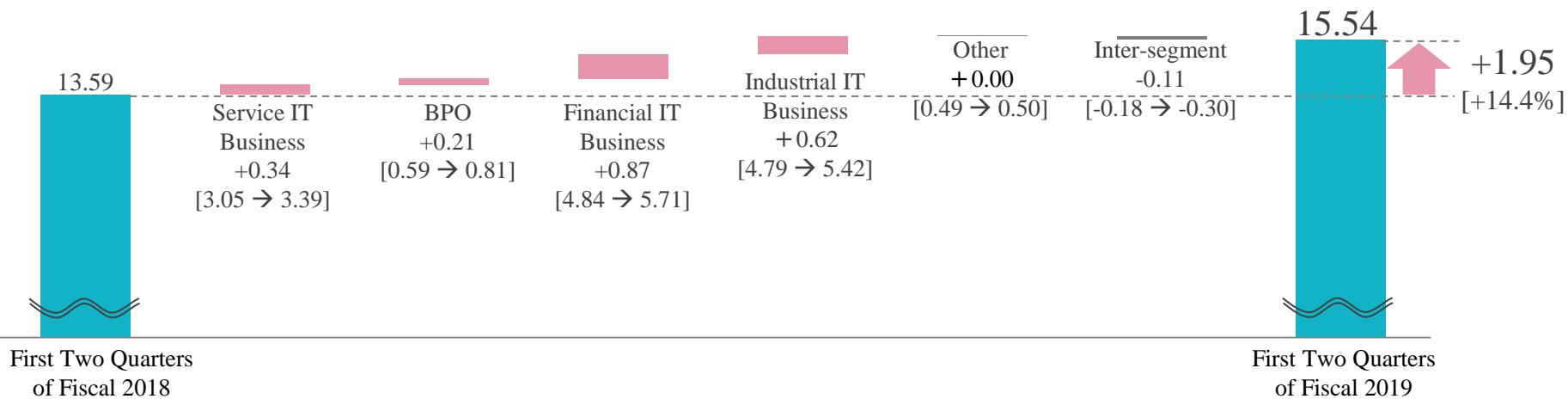
# Fiscal 2019 First Two Quarters: Net Sales and Operating Income Analysis

[Billions of yen]

## Net Sales

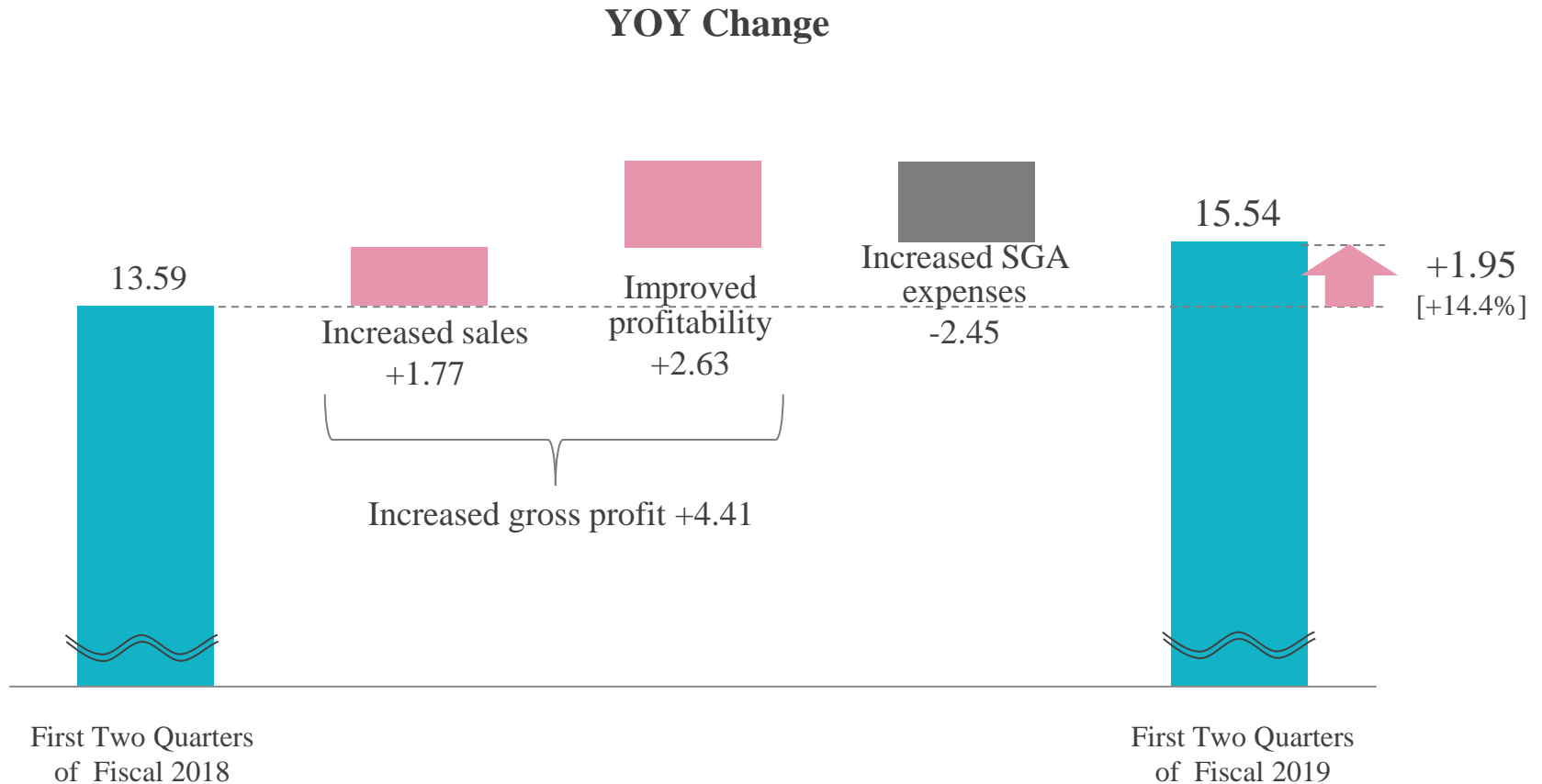


## Operating Income



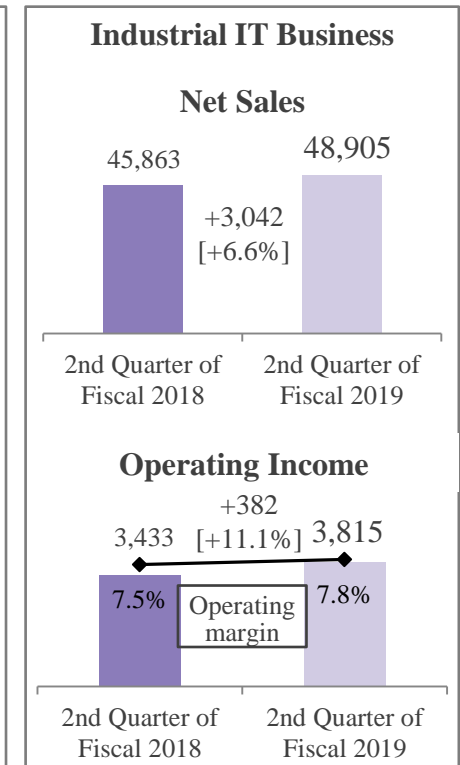
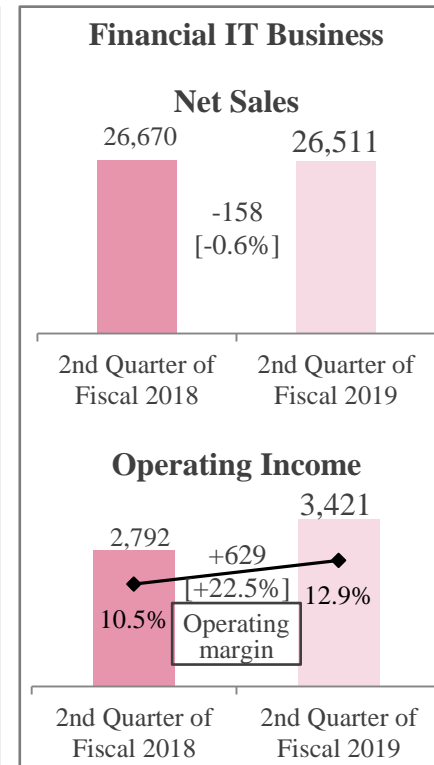
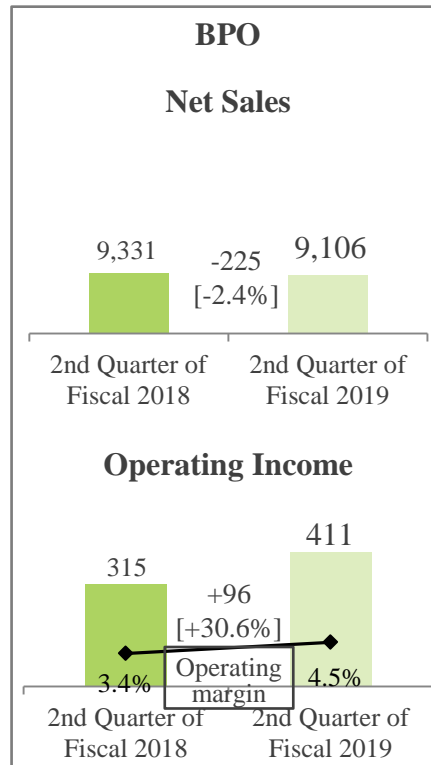
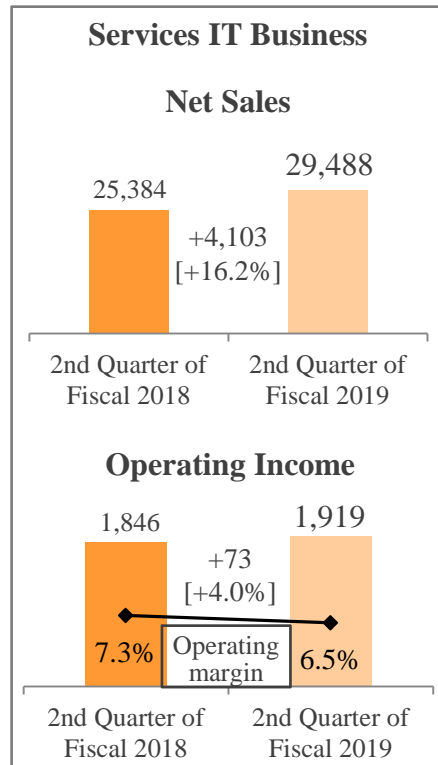
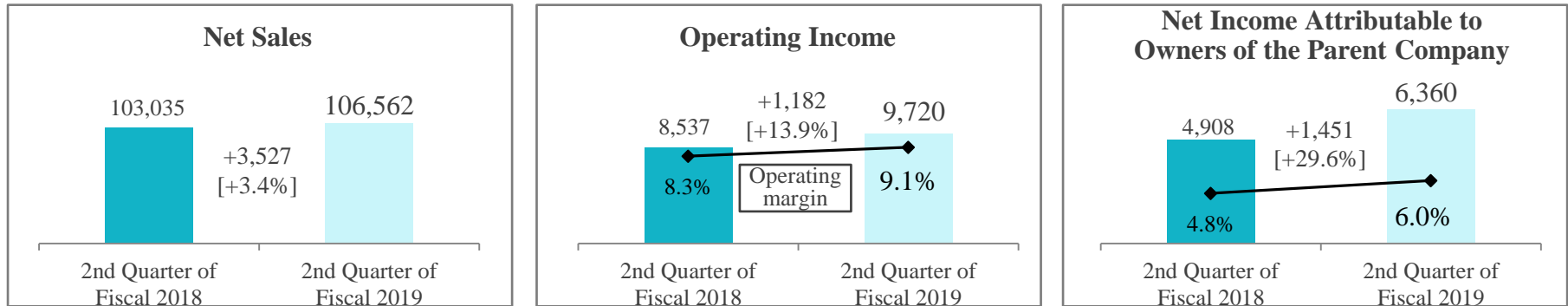
# Fiscal 2019 First Two Quarters: Operating Income Analysis, Increase/Decrease Reasons

[Billions of yen]



# (Reference) Fiscal 2019 Second Quarter (July-September): Sales and Income for Key Business Segments

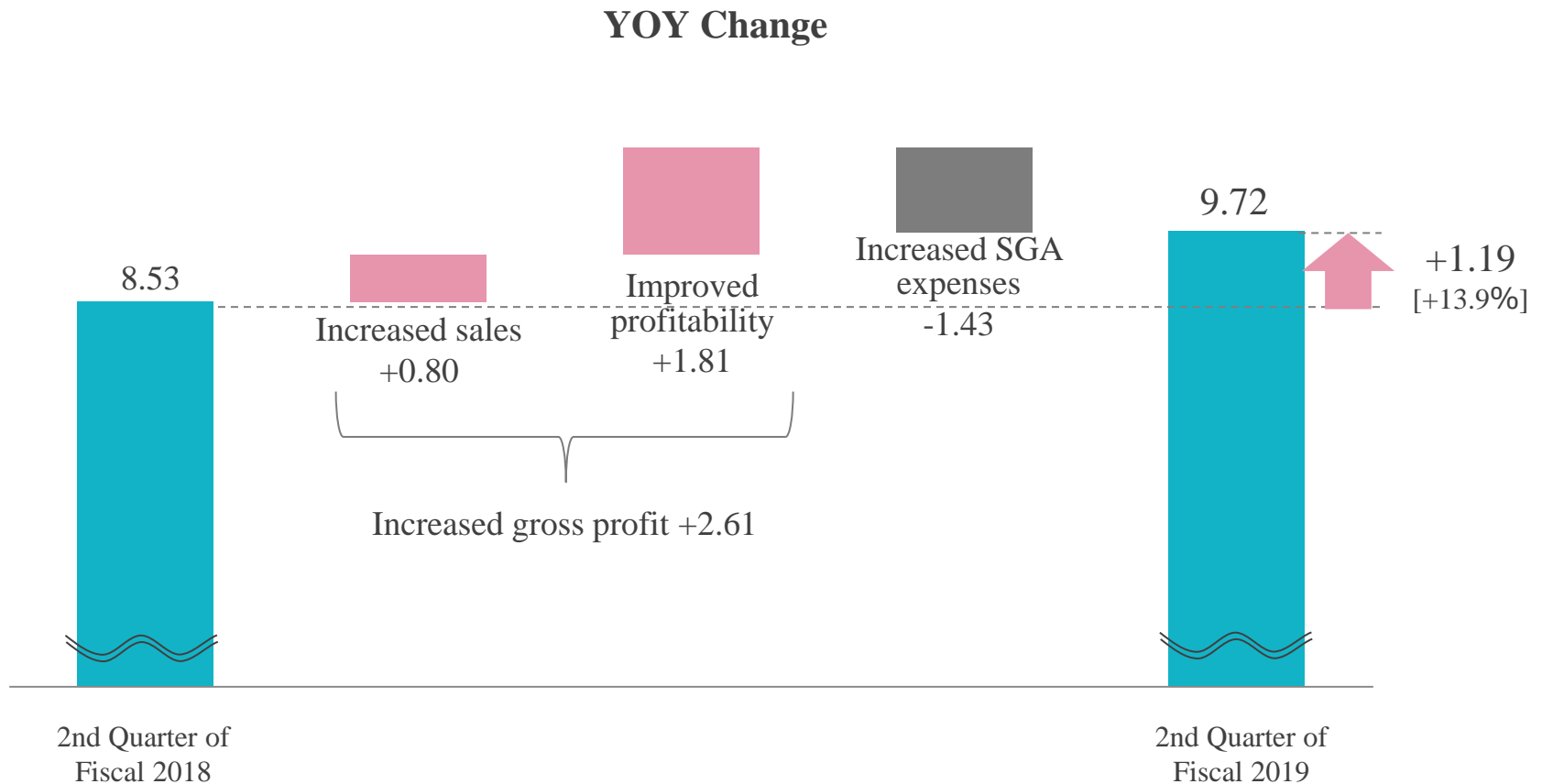
[Millions of yen]





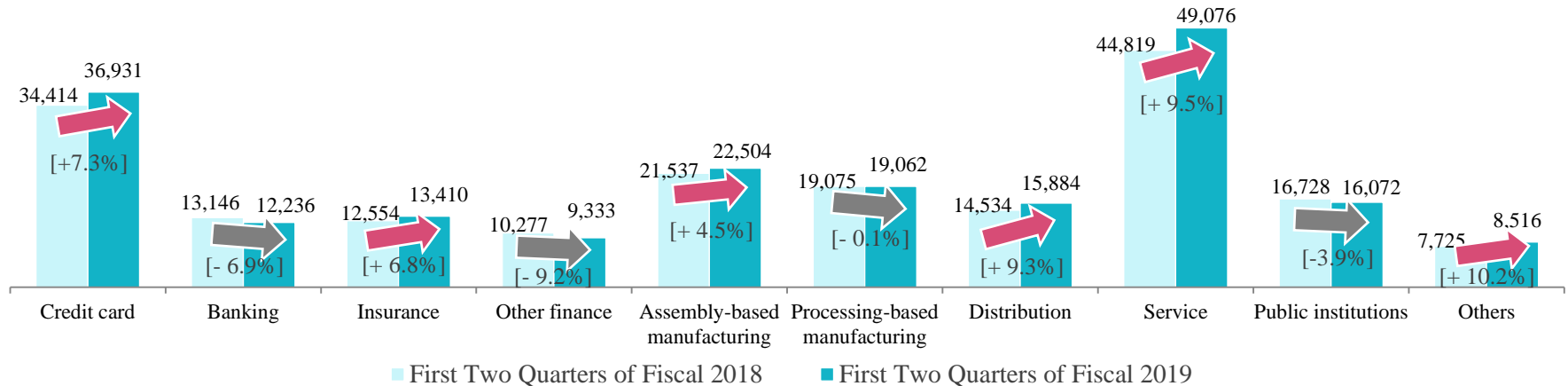
# (Reference) Fiscal 2019 Second Quarter (July-September): Operating Income Analysis, Increase/Decrease Reason

[Billions of yen]

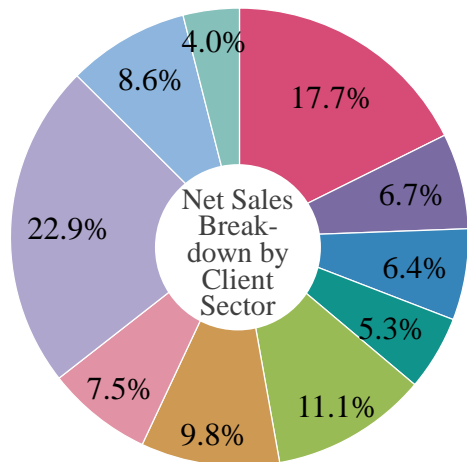


# Fiscal 2019 First Two Quarters: Sales by Client Sector

[Millions of yen]

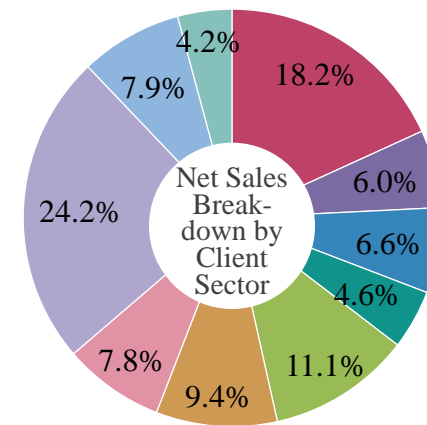


First Two Quarters of Fiscal 2018



Financial sector: 36.1 %    Industrial sector: 51.3 %  
Public sector: 8.6 %    Other sectors: 4.0 %

First Two Quarters of Fiscal 2019



Financial sector: 35.4 %    Industrial sector: 52.5 %  
Public sector: 7.9 %    Other sectors: 4.2 %

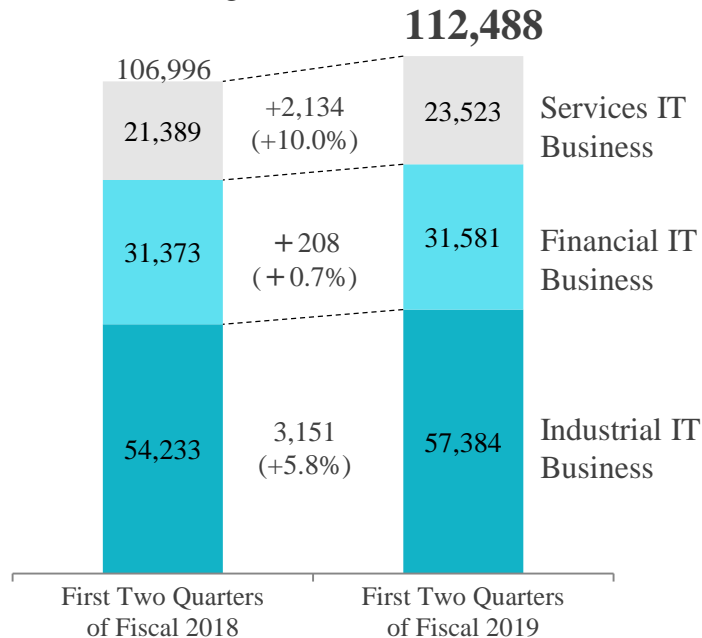
# Fiscal 2019 First Two Quarters: Order Status (Software Development)

[Millions of yen]

- Absorbed reactionary decrease in number of large projects in Financial IT Business, and posted year-on-year increase in order volume and order backlog as of the end of the first two quarters. (Stronger second quarter results offset year-on-year drop in first quarter.)

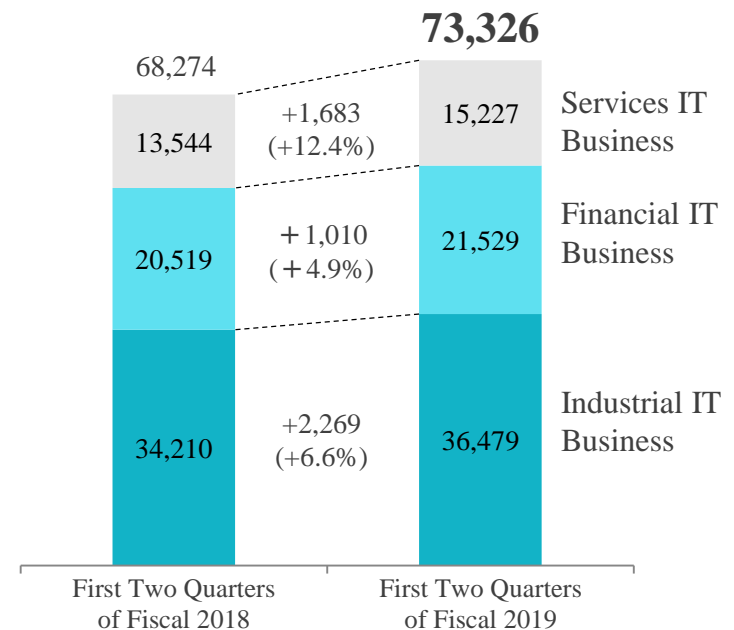
## Orders received during first two quarters

- YOY Change: + ¥5,492 million [+5.1%]



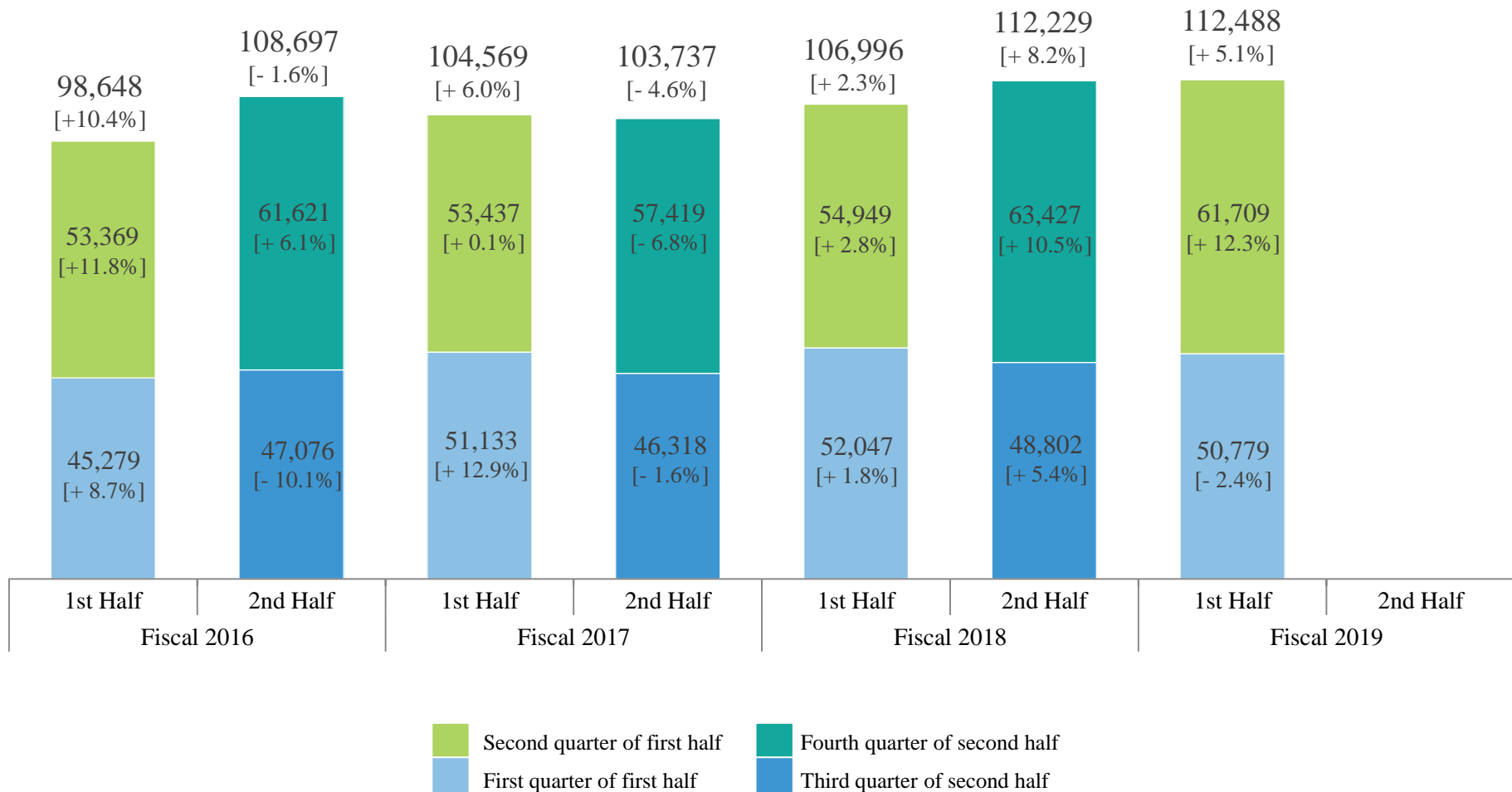
## Order backlog at end of first two quarters

- YOY Change: + ¥ 4,962 million [+ 7.3%]



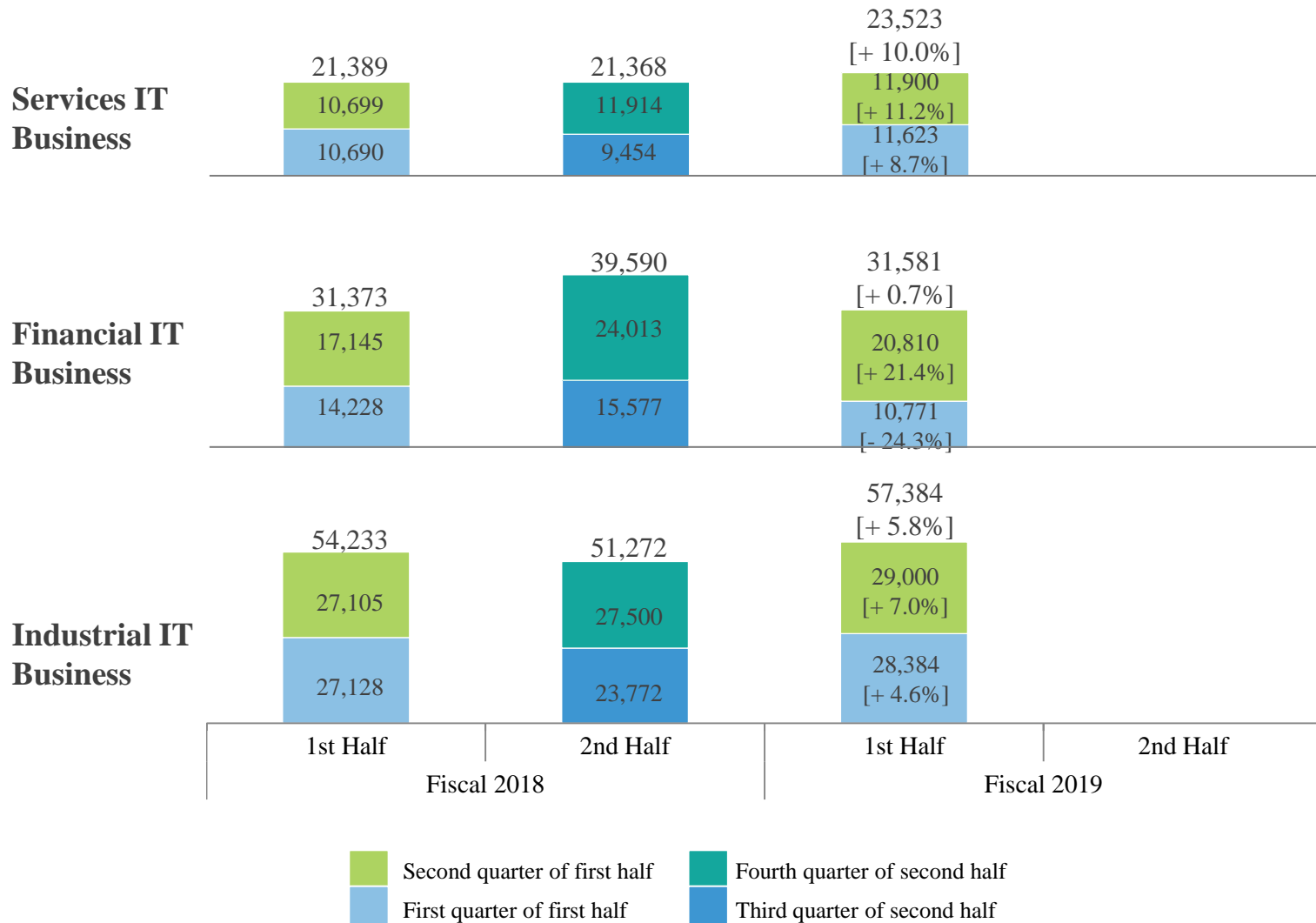
# Changes in Orders Received (Software Development)

[Millions of yen]



# Changes in Orders Received by Segments (Software Development)

[Millions of yen]



## Fiscal 2019 First Two Quarters: Order Status (Total)

[Millions of yen]

- Started disclosing order information related to system operation and others. Order backlog higher, as of the end of second quarter (total), and order status favorable. Decrease in orders of Financial IT Business, compared with level at the end of fiscal 2018, due to drop in sales-related projects.

### Orders Received (Total)

	Fiscal 2019 first two quarters
Services IT Business	57,320
BPO	16,801
Financial IT Business	50,218
Industrial IT Business	84,985
<b>Total</b>	<b>209,326</b>

### Order backlog (Total)

	At end of Fiscal 2018	At end of first two quarters of Fiscal 2019	YOY change
Services IT Business	30,693	38,257	+ 24.6%
BPO	—	—	—
Financial IT Business	39,254	36,885	- 6.0%
Industrial IT Business	52,120	55,447	+ 6.4%
<b>Total</b>	<b>122,067</b>	<b>130,591</b>	<b>+ 7.0%</b>

### Thoughts on order information related to system operation and others

- Started disclosing order information related to system operation and others, effective in fiscal 2019 (with disclosure every six months).
  - Order backlog: At March 31, 2018
  - Order volume: At end of second quarter of fiscal 2019
- Implement reversal for contracts (including system operation contracts), regardless of duration, at end of second and fourth quarters, respectively.
  - Anticipated net sales for the next six-month period are deemed order volume for the fiscal year and booked at the end of the fiscal year. Same value booked for order backlog.
- BPO orders are transaction-based, so order backlog is considered to be zero.

**Fiscal 2019 First Two Quarters Financial Highlights**

**Fiscal 2019 Performance Forecast**

**Progress on Medium-Term Management Plan (2018-2020)**

**Reference Materials**

# Understanding the External Environment

- Business environment should continue to move in a favorable direction, against a backdrop highlighted by wider IT investment needs among clients increasingly keen to embrace digital management.
- Factors indispensable to business growth are perceptively identifying changes in the external environment, including social issues, namely changes in industry structure and new workstyles, and corporate transformation that helps solve social issues.

## Service IT Business

- ✓ Trend toward greater use of cloud services to continue. Cloud procurement likely to account for majority of services provided in 2020.
- ✓ Domestic security market to continue high growth up to 2020, with information security becoming a major management issue.
- ✓ IT investment to remain at high level in wide range of industry sectors, owing to changing structure of retail payment settlement business.

## BPO

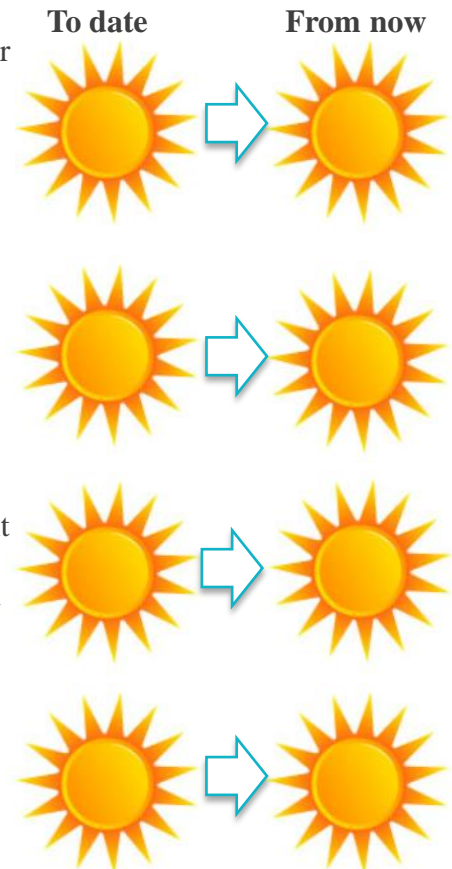
- ✓ BPO business should see sustained increase in demand for outsourced administration services contributing to improved corporate management.
- ✓ Digital innovation demand expanding in response to changing environment caused by persistent shortage of personnel and evolving workstyle reform.

## Financial IT Business

- ✓ In the credit card sector, IT investment will remain high, especially for core system replacement demand and to address changing structure of retail payment settlement business.
- ✓ Sense of uncertainty exists in banking and insurance sectors but IT investment appears to be on recovery trend, hinging on industry majors, owing to progress on business and service reforms.

## Industrial IT Business

- ✓ In manufacturing, service and distribution sectors, companies will continue to invest in front-office IT to sharpen competitive edge, especially in marketing-related pursuits.
- ✓ IT investment to underpin electric power and gas system reforms should lead to brisk increase in demand for projects related to corporate spin-offs.





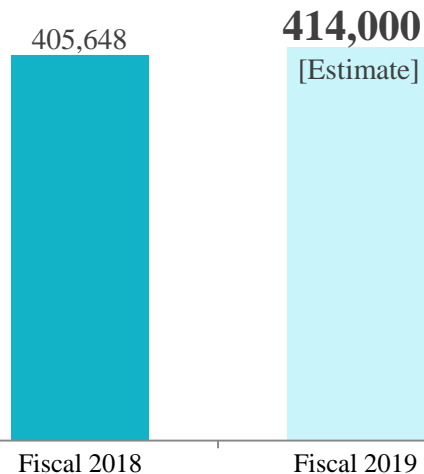
# Fiscal 2019: Performance Forecasts-1

[Millions of yen]

- Amid brisk business conditions, absorb reactionary drop in large projects and work toward higher sales and higher income.
- Vigorously invest into growth domains and forte fields to facilitate structural transformation described in new medium-term management plan.  
→No change to initial targets.

## Net Sales

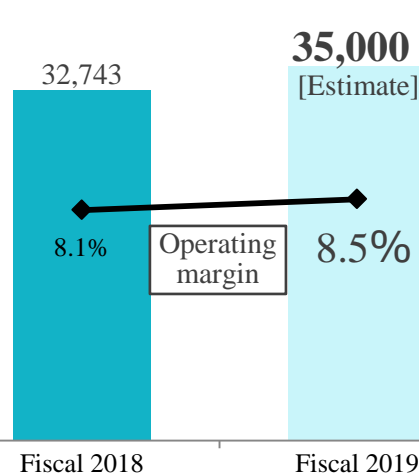
• YOY Change : + ¥8,352million [+2.1%]



Focusing on service IT and industrial IT demand, strive to expand business through accurate responses to IT investment needs of clients. Expect year-on-year increase in sales.

## Operating Income

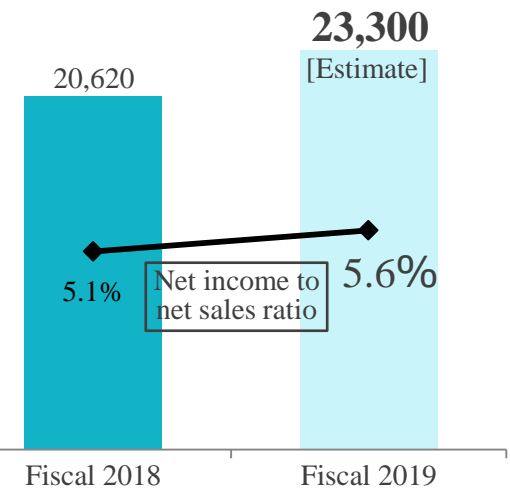
• YOY Change : + ¥ 2,257million [+6.9%]



Higher sales effect and ongoing effort to boost productivity. Will absorb higher cost burden associated with structural transformation, including embrace of prior investment approach. Should lead to year-on-year increase in operating income.

## Net Income Attributable to Owners of the Parent Company

• YOY Change: + ¥ 2,680million [+13.0%]



Increase in operating income and net extraordinary income should deliver year-on-year improvement in income attributable to owners of parent.

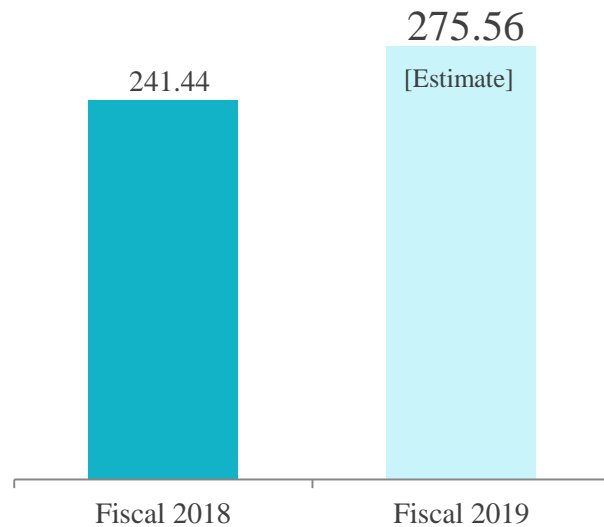
# Fiscal 2019: Performance Forecasts-2

[Yen]

- Seeking to exceed initial 10% ROE target.

## Net Income per Share

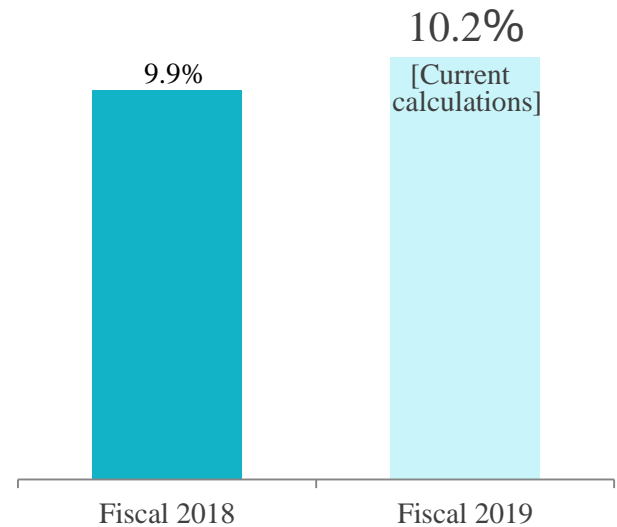
• YOY change: + ¥34.12 [+14.1%]



Anticipating year-on-year improvement, paralleling higher net income attributable to owners of parent. (Raised from initial estimate, paralleling treasury stock purchase)

## ROE

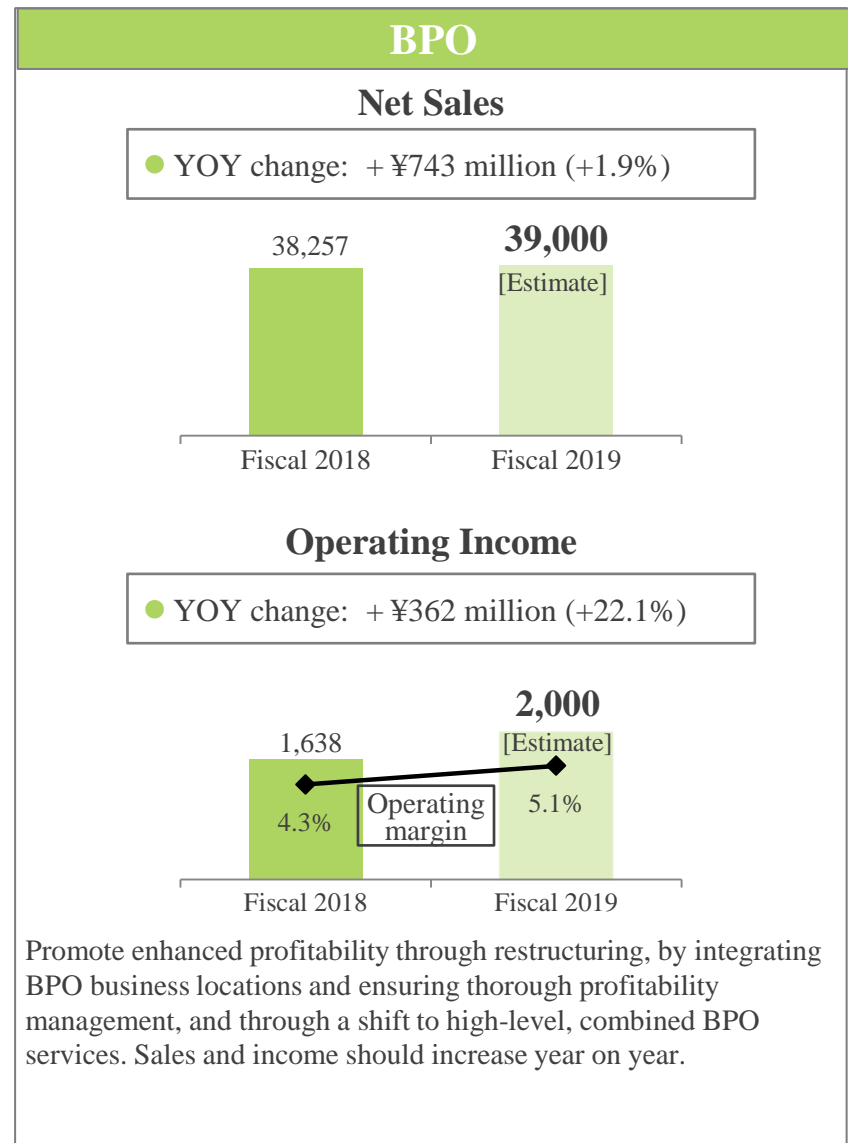
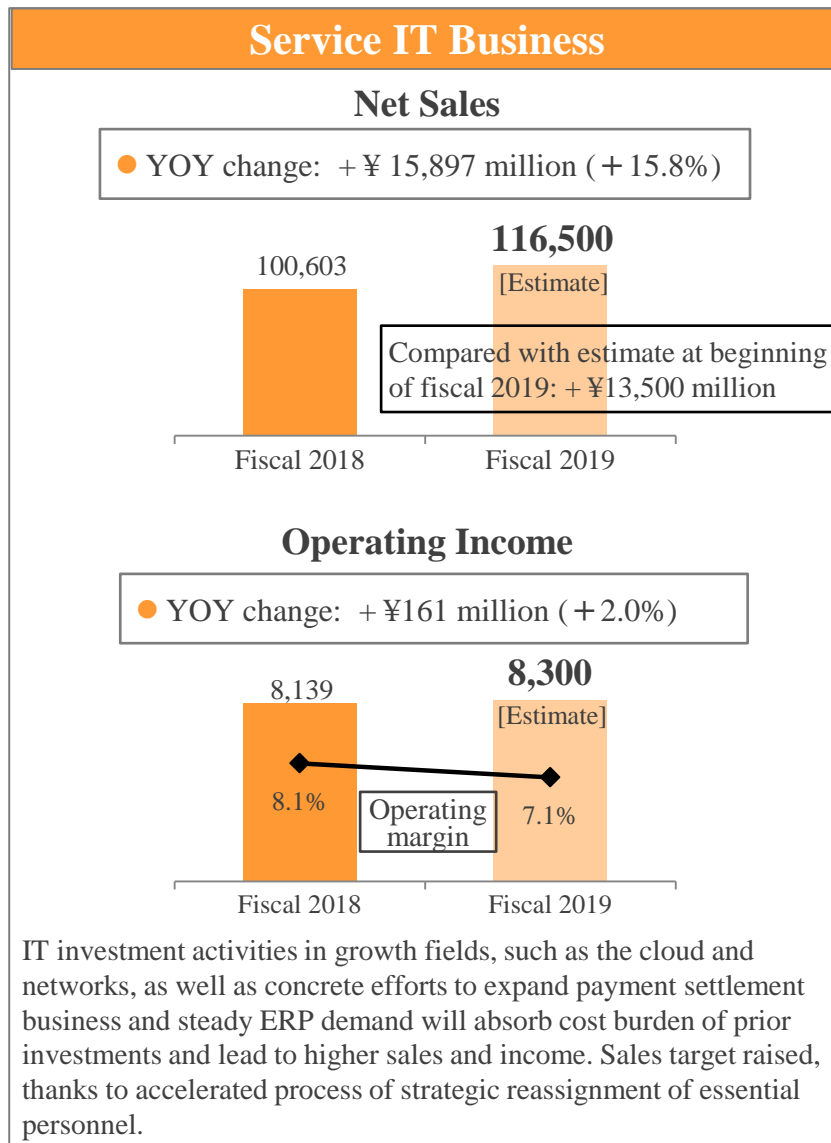
• YOY change: +0.3%



Anticipating further growth, mainly due to higher profitability.

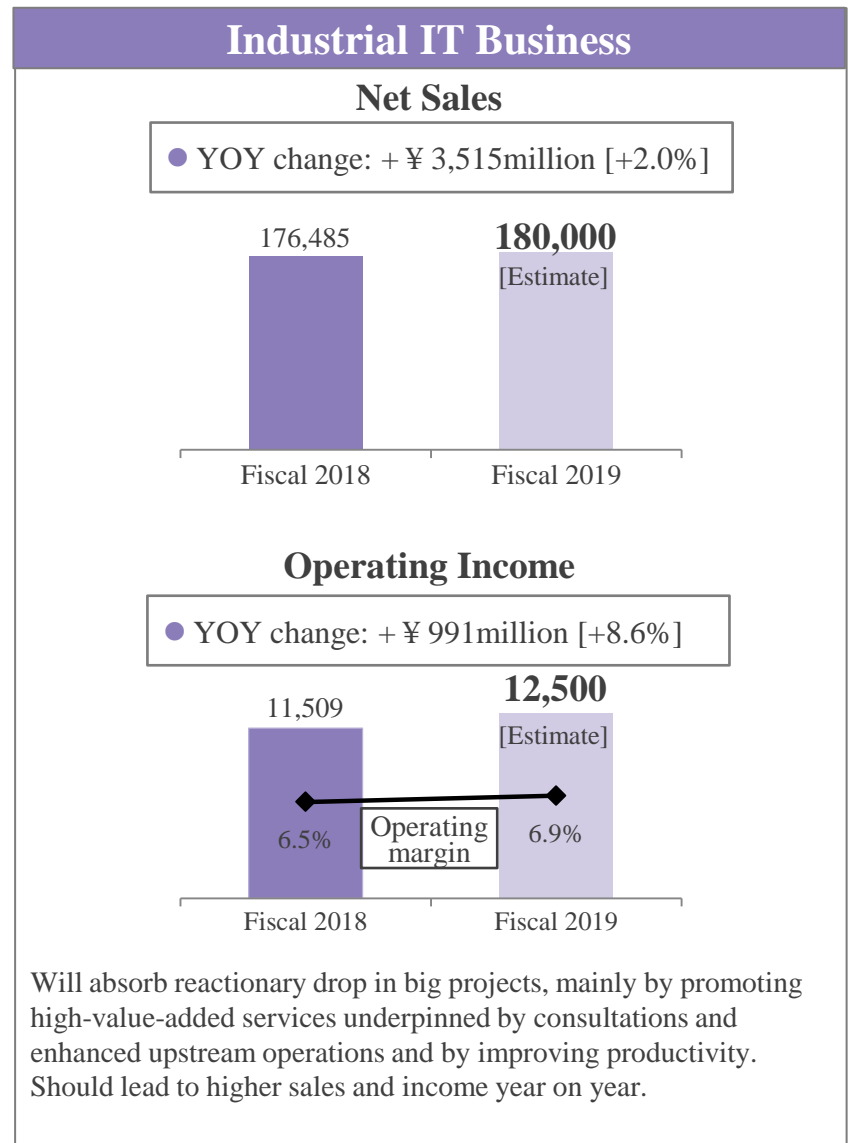
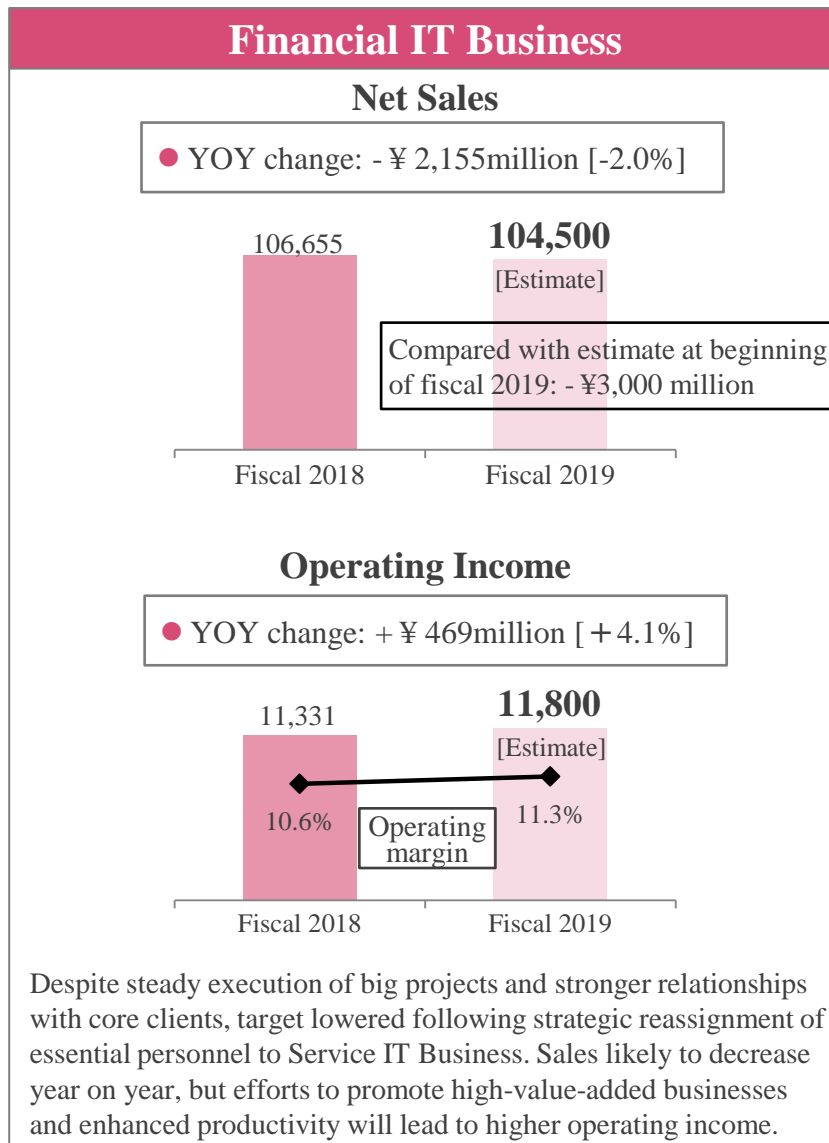
# Fiscal 2019: Key Business Segment Performances [Forecast]-1

[Millions of yen]



## Fiscal 2019: Key Business Segment Performances [Forecast]-2

[Millions of yen]



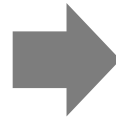
# Fiscal 2019: Return to Shareholders

## Basic Policy on Return to Shareholders in Medium-Term Management Plan (2018-2020)

Promote growth investment, maintain financial health and strengthen return to shareholders—all in the right balance.

### To Fiscal 2018

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



### From Fiscal 2019

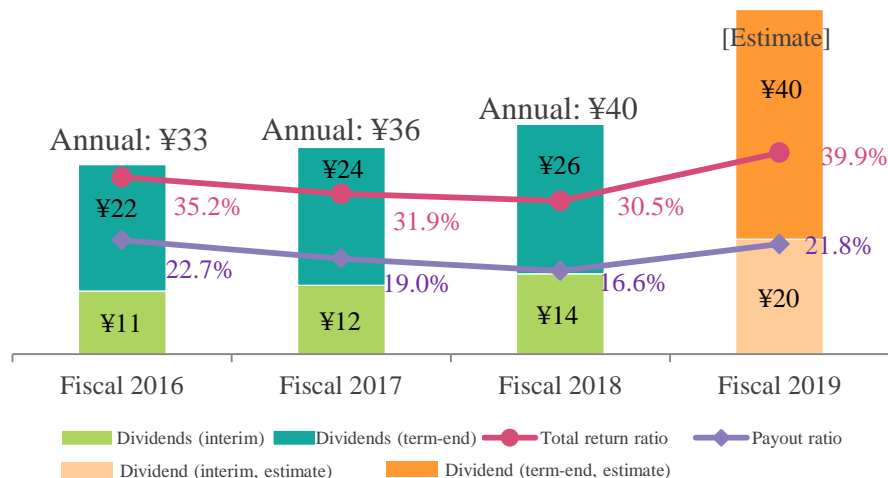
- Total return ratio (yardstick): 40%
- Payout ratio (yardstick): 30% (by March 31, 2021)
- Set upper limit on treasury stock holdings to 5% of total number of issued shares, with excess of this amount cancelled.

## Annual dividend per share

Target for Fiscal 2019: ¥60 (up ¥20 year on year)

### Changes in Dividends per Share

Annual: ¥60

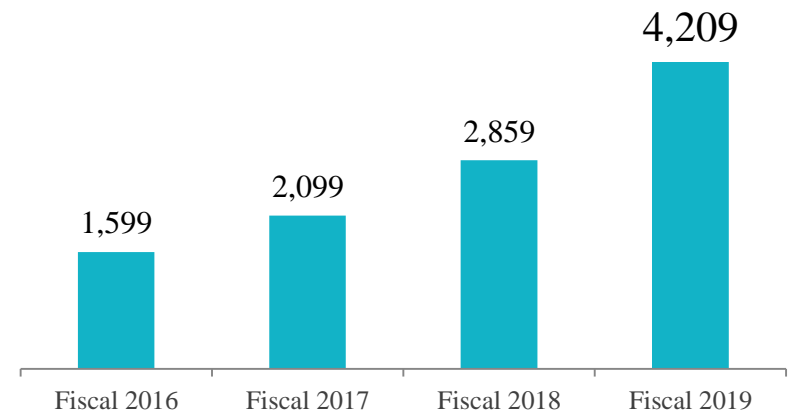


## Acquisition of Treasury Shares

Total ¥ 4.2 billion (actual results)\*

\*Actual amount of treasury stock buyback announced May 10, 2018

### Total Acquired Treasury Shares [Millions of yen]



**Fiscal 2019 First Two Quarters Financial Highlights**

**Fiscal 2019 Performance Forecast**

**Progress on Medium-Term Management Plan (2018-2020)**

**Reference Materials**

# Outline of Medium-Term Management Plan (2018-2020)

## Transformation to 2020

- Achieving structural transformation as a corporate family and taking the lead in finding solutions to social issues -



Company where diverse human resources, reliable, proud and carrying a sense of solidarity, **approach work enthusiastically**

Increase high-value-added quality (boost value of technology/social research results) through **value chain reform**



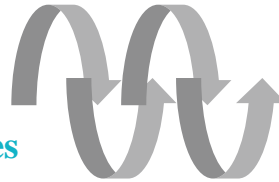
Budget for growth investment to fuel structural transformation

**¥80 billion** in 3 years



**Structural transformation**

to deliver ratio of 50% from strategic domain sales



Net sales **¥430 billion**  
Operating income **¥43 billion**  
Operating margin **10%**

ASEAN Region

Become



**top class**  
group united in IT



Through enhanced management efficiency

ROE **12%**

Become corporate group that contributes

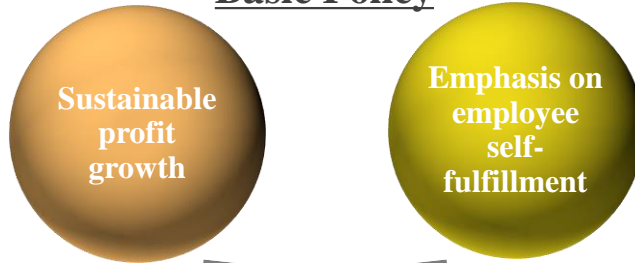
**solutions to environment/social issues**



through business activities

# Basic Policy/Key Performance Indicators

## Basic Policy



Sustainable profit growth

Emphasis on employee self-fulfillment

- With solutions to social issues derived through business activities, establish structure generating medium- to-long-term benefits for society as well as profits to sustain corporate presence
- Achieve cost reduction through enhanced, more efficient headquarters function

- Create environment, culture and programs that motive employees to work hard
- Build human resources portfolio that supports structural transformation, and optimize deployment throughout Group

### Constant transformation, with sense of speed

Concentrate on core businesses

Shift to prior investment style of business development

Expand global business

- Actively invest to rev up growth engines
- Improve value provided to clients, reinforce existing fields through productivity innovation

- Proactively propose solutions to markets/clients and transform structure to realize business creation
- Pursue strategically directed, robust investment, mainly through M&A and service investment

- Become top-class IT group in ASEAN region
- Hone global strengths, emphasizing payment settlement/banking/ERP solutions

## Key Performance Indicators (Fiscal 2021)

Strategic Domain Sales Ratio  
**50%**

Operating Income  
**¥ 43 billion**

Operating Margin  
**10%**

ROE  
**12%**



# Fiscal 2019 Group Management Direction

## Fiscal 2019 Group Management Direction

### Charge forward on switch to service-style business

- Push vigorously ahead on structural transformation, seeking new set of values and style emphasizing speed and flexibility as well as knowledge-intensive style business structure

### Robust prior investment to create new services

- Selectively invest in growth and forte fields to turn service-style businesses into growth engines

### Added-value and productivity improvements in domains of expertise

- Focus on forte fields and key client businesses, eliminate unprofitable projects, implement enhancement reforms, and improve order profitability in good business environment

### Promote growth strategy aimed at becoming a top-class IT group in ASEAN region

- Expand business domains established through cooperation built over time with overseas partners in line with global strategy and pursue strategic investments

### Boost motivation and reinforce human resource management

- Strive to create framework and corporate culture in which employees—the driving force behind the Group’s growth—can thrive, and steadily realize measures described in personnel manifest

### Pursue activities to enhance management practices and boost efficiency

- Steadily implement “G20” project to elevate head office functions, and study and declare key sustainability issues

## Progress during First Two Quarters

- △
  - Strategic domain ratio hit 42% in first half, moving briskly upward from 35% a year earlier. While maintaining focus on core businesses, must drive profitability higher to meet medium-term target.
  - Service IT exceeded target in first half, driven by demand for payment settlement-related, ERP and network services. Launched businesses requiring prior investment, including token requestor service.
  - Wider capture of IT investment demand through stronger ties to strategic partners.

- - Held number of unprofitable projects low in first half, targeting 0.8% for full-year.
  - Gross profit margin also improved, thanks to such efforts as enhancement upgrades.

- - Strengthened ties to PT Anabatic Technologies Tbk through additional capital participation and purchase of corporate bonds. Also drew on leading-edge technologies of technology-oriented investment targets to accelerate business expansion, including establishment of joint schemes.

- △
  - Encouraged employees to reach for their own career goals. Steadily implementing 28 measures planned for fiscal 2019, in line with Human Resources SBU manifesto.
  - Efforts to enhance human resources throughout the Group are in progress and will gradually be expanded.

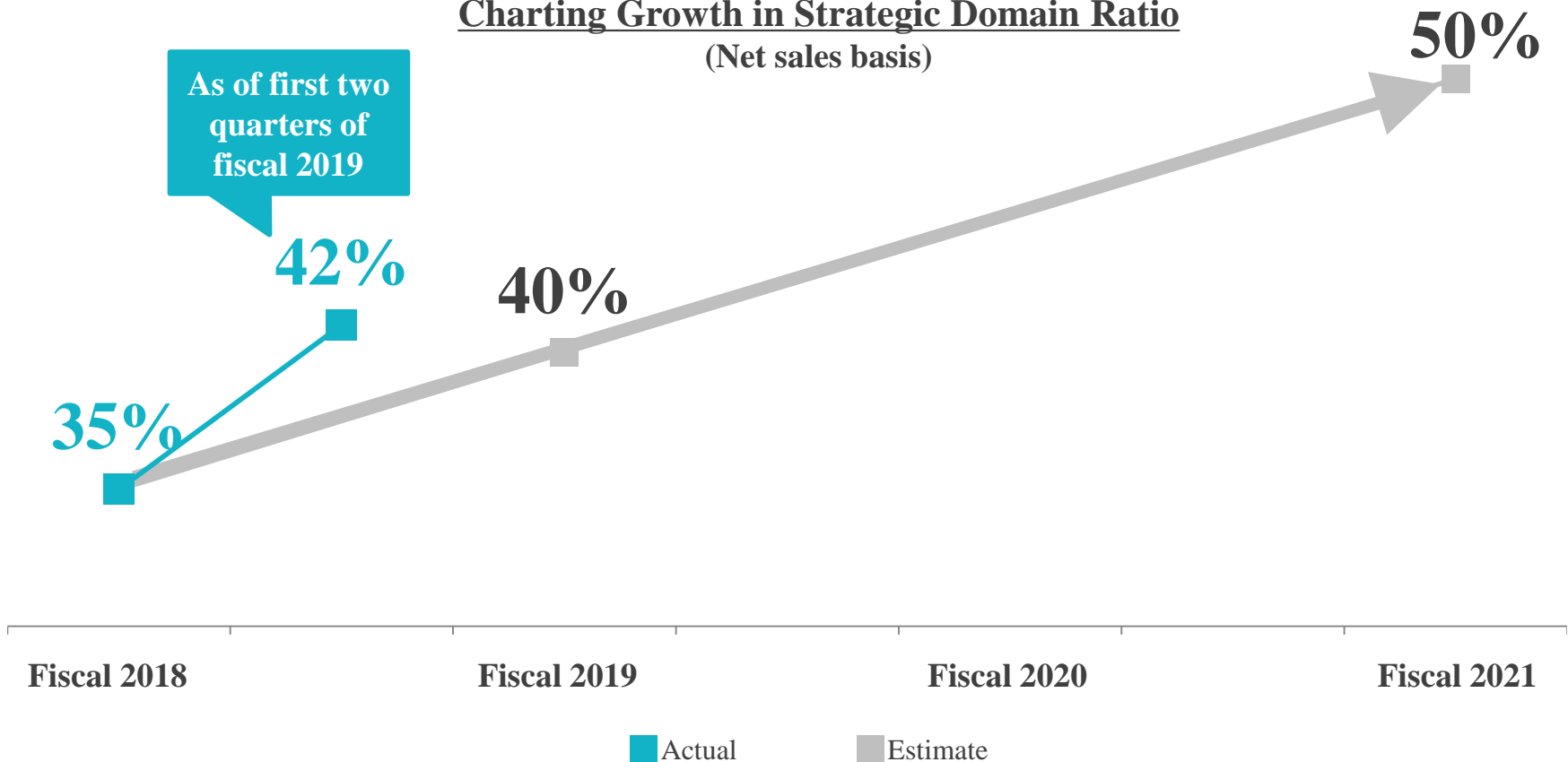
- - “G20” project to elevate head office functions moving along as planned.
  - Pursuing sustainability-related activities, including identification of materiality.

# Activities under Medium-Term Management Plan (Topics)

## 1. Structural Transformation Strategy

Medium-Term Management Plan (2018-2020) guiding structural transformation with sense of speed toward success of Group Vision 2026. Concerted effort to build content in strategic domains.  
 → Favorable progress, with ratios in Strategic Partnership Business and IT Offering Service charging upward. Maintain concentration on core businesses.

**Charting Growth in Strategic Domain Ratio**  
(Net sales basis)



# Activities under Medium-Term Management Plan (Topics)

## 2. Settlement Payment Business Strategy

Digital Banking Platform Concept — Making banks closer and more personal through API connection —

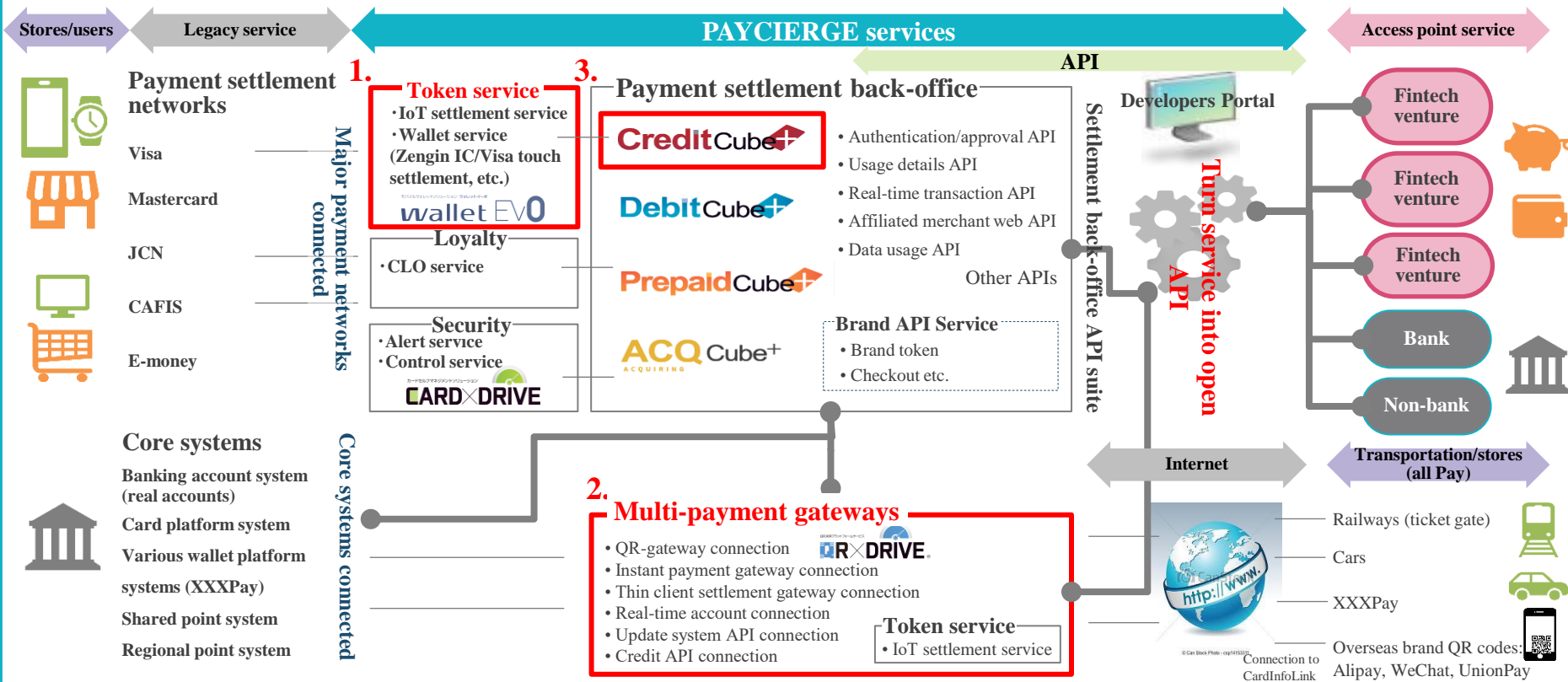
### Basic policy

1. Promote wallet service based on **token service**
2. Promote services, such as QR settlement, based on **multi-payment gateway** (connects to overseas brands and domestic XXXPay)
3. Propose **credit SaaS-type service** as follow-up to debit/prepaid services (anticipate service-sharing style business expansion)

IoT settlement!  
Easy payment method for visitors to Japan!  
API-based

### Status

1. Working with MUFG Bank to create first token requestor service featuring technology (token) for MUFG Wallet (provisional name).
2. Preparing to gradually link QR code-using brands at home and abroad to complement access to Alipay, WeChat and UnionPay gateways, linked by CardInfoLink, affiliated with TIS through capital and business alliance.
3. Working to expand credit SaaS-type service. Progress on track, including start of projects with companies using service for first time.



## Reference: Token Requestor Agency Service

Launch of token requestor agency service\* with MUFG Bank primed for the IoT era.

\*Service securely stores payment ID information as a token on various devices, such as wearable devices and IoT equipment, not only smartphones.

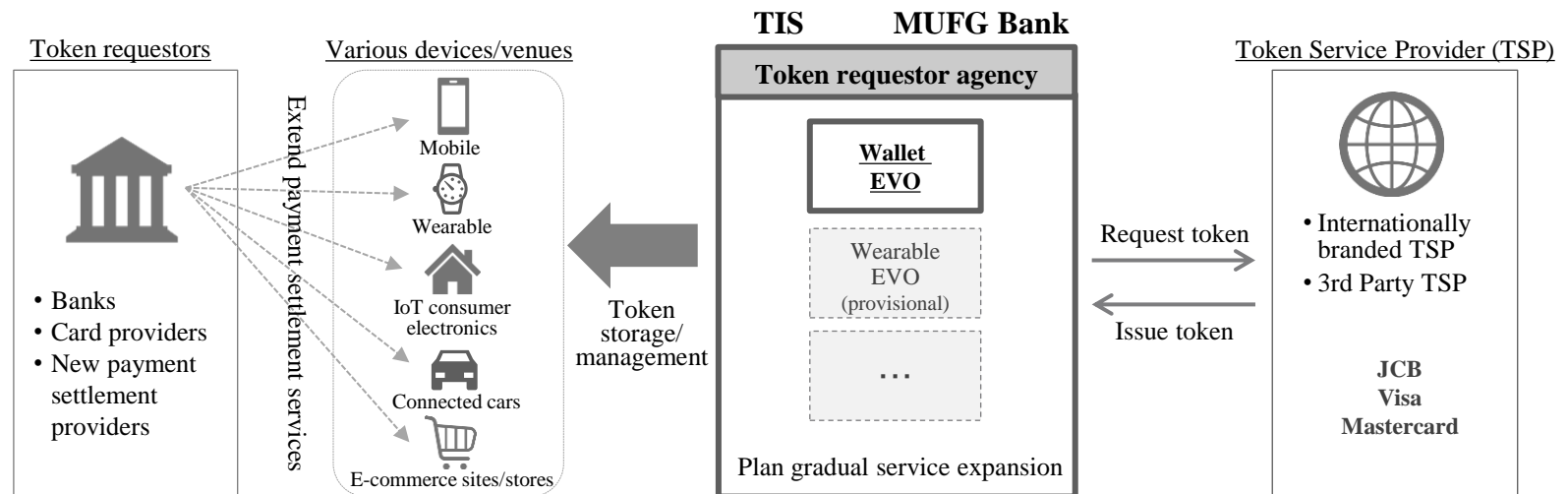
### TIS' technology used in MUFG Wallet (provisional name)

- ✓ Use TIS' secure technology for tokenization (encryption) of payment settlement information and credit card information for MUFG Wallet (provisional name), a service that MUFG Bank is thinking of starting in spring 2019.

### Work with MUFG Bank to develop token requestor agency services as a business

- ✓ Draw on strengths of both companies—TIS' expertise accumulated in configuration and operation of payment settlement IT platforms and MUFG Bank's specialized knowledge in the payment settlement business—and extend services to mobile/digital wallet providers (token requestors).

### Image of Token Requestor Agency Services



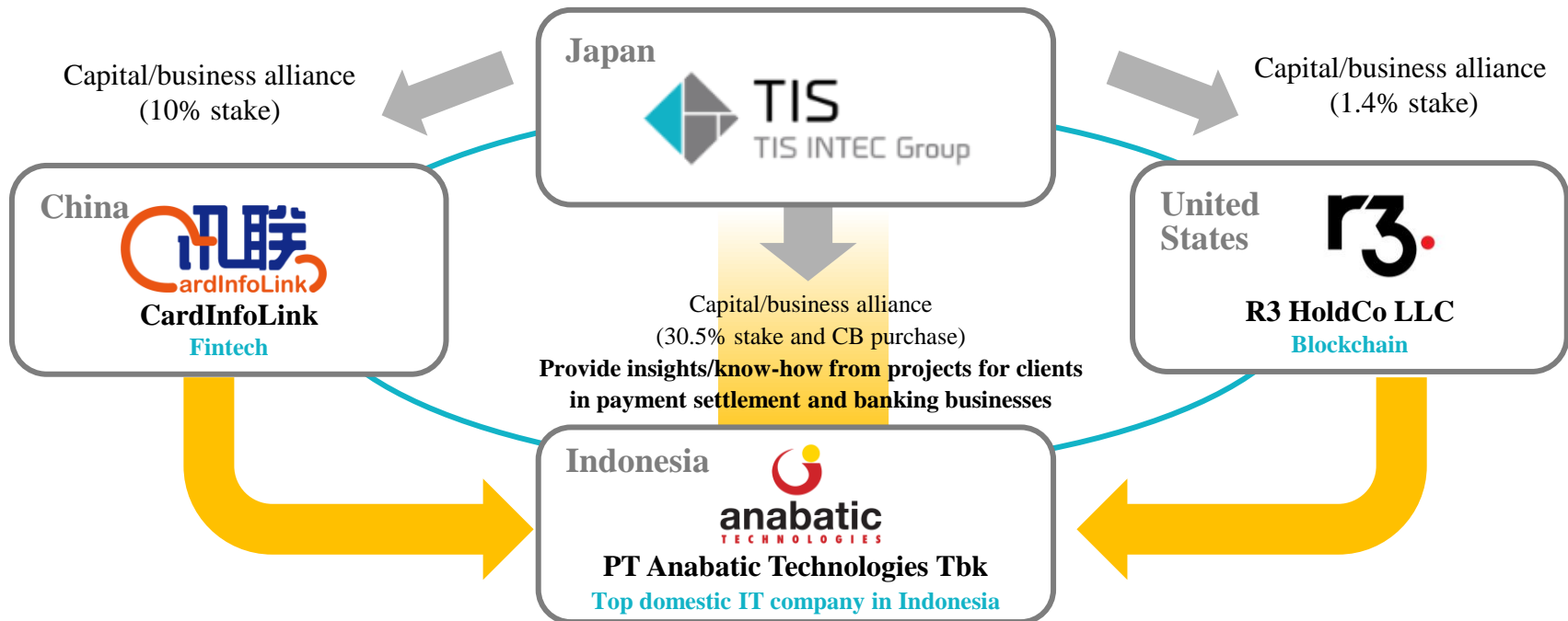
→ We aim to play a part in building the security infrastructure of the future, giving people peace of mind when paying for purchases in the IoT society, where all sorts of devices are connected to the Internet.

## Activities under Medium-Term Management Plan (Topics)

### 3. Global Business Strategy

Seeking to realize formation of top-class IT corporate association in the ASEAN region, promote global business expansion through integration of customer base and leading-edge technologies.

→ Accelerate business development by enhancing joint activities with Anabatic and pursuing greater cooperation with companies tied through capital or business alliances.



**Accelerate efforts to develop new businesses using QR codes, blockchain and other data innovations**

Expand new payment settlement services for people without bank accounts

Promote payment gateway configuration and acquirer capture in Indonesia

# Activities under Medium-Term Management Plan (Topics)

## 4. Human Resources Strategy

### Desired Status by Fiscal 2021

Boost motivation through constant cycle of self-fulfillment

Selectively develop model employees to fuel transformation of the Group

Create framework and systems to achieve optimum deployment of human resources within the Group

#### TIS Human Resources SBU Manifesto — Three objectives

1. Create company where motivation level is high, and quickly and vigorously work toward this from system and environment perspectives.
  2. Achieve optimized deployment of human resources while providing an environment conducive to self-fulfillment of career goals.
  3. Ensure thorough labor-related compliance and create safe and pleasant company atmosphere.
- Paralleling the above, define various measures from a three-point perspective highlighting 1) evaluation, working conditions and compensation; 2) workstyle reform, health management and diversity; and 3) hiring, training and assignment.

#### ■ Status of Fiscal 2019 Efforts

##### Evaluation, working conditions and compensation

Raise compensation level, boost promotion ratio and implement systems that enable employees to continue working regardless of age if they are able and willing (includes retirement at 65 program, where working conditions remain the same even after the age of 60),

##### Workstyle reform, health management and diversity

Introduce super flex work hours with no core time, broaden systems related to childcare and nursing care and relax requirements, and establish work structure premised on telework.

##### Hiring, training and assignment

Achieve top-of-industry training days per employee, and work to hire and train people with skills or expertise that will contribute to Group reforms. Going forward, define Group personnel portfolio and utilize talent pool, and consider strategic rotation approach for management-level personnel.

→ Plan to implement 28 measures in fiscal 2019 is on track. Intend to gradually expand best practices at companies groupwide.

**Fiscal 2019 First Two Quarters Financial Highlights**

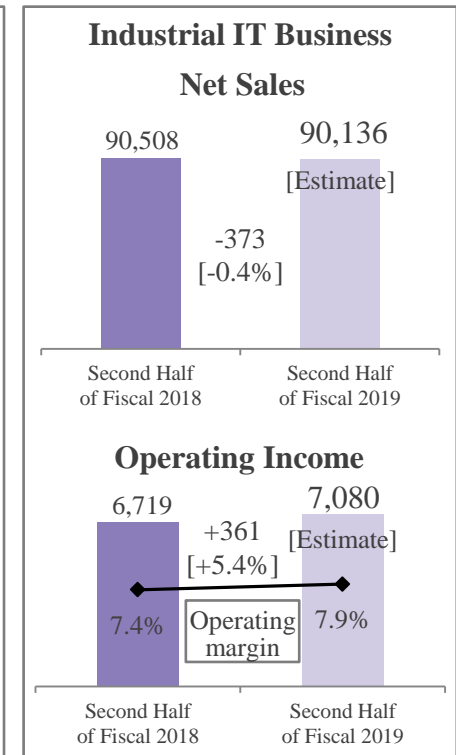
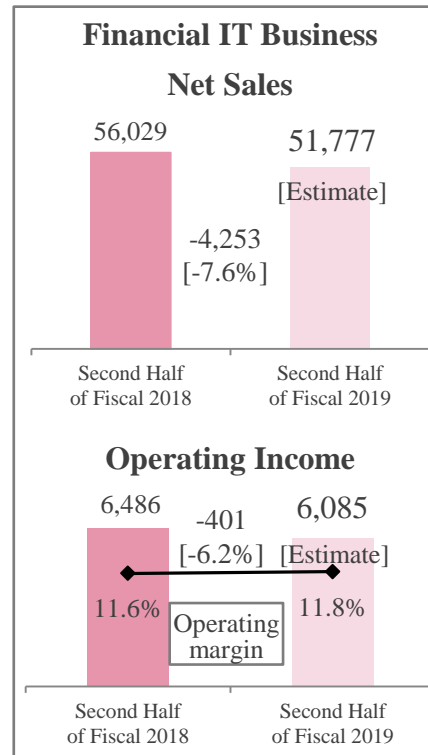
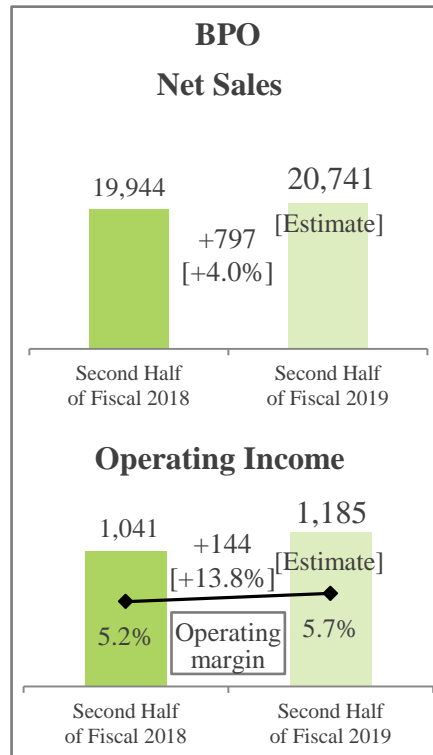
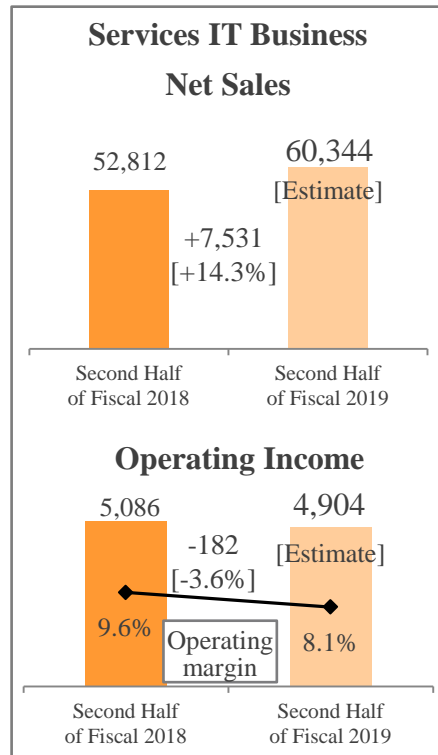
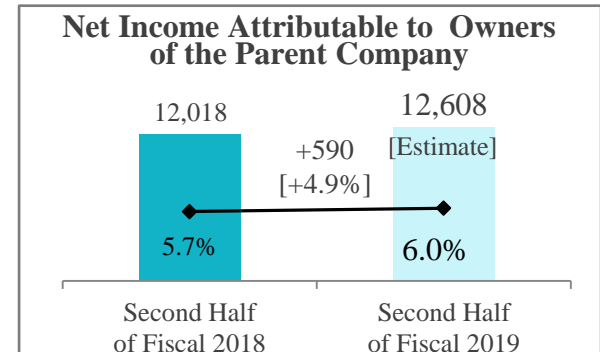
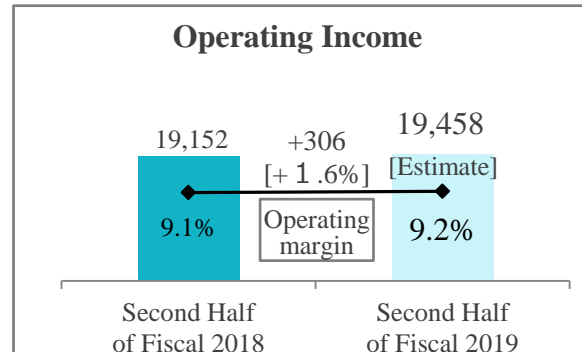
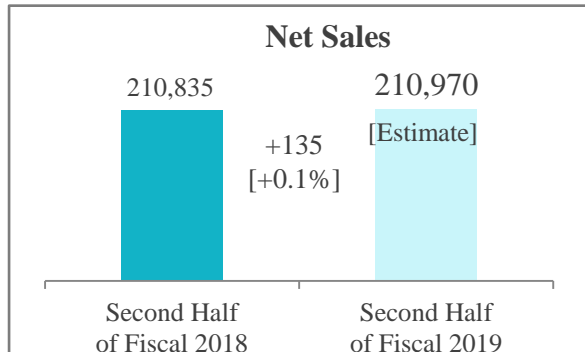
**Fiscal 2019 Performance Forecast**

**Progress on Medium-Term Management Plan (2018-2020)**

**Reference Materials**

# Fiscal 2019 Second Half: Sales and Income for Key Business Segments [Forecast]

[Millions of yen]







### **TIS INTEC Group Logo Underlying Concepts**

The logo portrays the TIS INTEC Group as a tightly knit team, powered forward by the different sets of expertise that each member brings to the table. It features our two main corporate colors: “ocean blue” for the new challenges that we are constantly tackling, and “intelligent gray” for the solid technological foundations that underpin our business.

### **Brand Message “Go Beyond”**

The brand tagline, “Go Beyond,” embodies our constant quest into the beyond in search of new challenges. It represents our firm commitment as a group to delivering solutions that are always one step ahead, not only solving clients’ problems but anticipating and meeting their own customers’ needs too.

#### **Cautionary Statements**

- All statements described in these materials are based on information available to management regarding the TIS INTEC Group—that is, TIS 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.
- From the fiscal year ending March 31, 2019, Business segments were reclassified at TIS, paralleling changes in the management structure designed to promote the shift to a new business structure. For comparison purposes, figures for fiscal 2018 have been recalculated and are presented according to the new segment breakdown