TIS, Inc.
Information Meeting Materials for the Fiscal Year Ended March 31, 2021 and Briefing Materials for the New Medium-Term Management Plan (May 13, 2021)
Q&A (Summary)

Content has been edited for clarity.

Q: Glad to hear that fourth-quarter order status was good. But what is the status of software development orders, and how is the order environment? Also, regarding overall order status, would you speak to the Service IT Business in particular, which showed extremely strong growth, up more than 20% in the second half?

A: We, too, are very pleased with the positive year-on-year shift in fourth-quarter software development orders. The Industrial IT Business had really struggled, but order activity returned across a wide spectrum of the client base, especially from core clients. This gives us a certain degree of reassurance for fiscal 2022. The Financial IT Business posted negative growth, but this is largely a technical issue, and on an actual basis, it's not a concern.
The huge increase in orders posted under the Service IT Business reflects full-year order activity. Favorable demand for payment services provided about ¥4.5 billion. Capturing new demand on sales projects, such as those related to the GIGA School Program, provided about ¥3.0 billion. Newly consolidated subsidiaries also contributed, adding about ¥6.0 billion. These were the primary factors in higher Service IT Business order results.

Q: If the impact from newly consolidated subsidiaries is discounted, what would order status be?

A: Newly consolidated subsidiaries had a major impact on overall order status, particularly in the second half. But even without this, the order volume would be up, and the year-on-year order backlog at the end of fiscal 2021 would be about 5% higher than a year ago. The software development order volume grew in the fourth quarter, even without the contribution from newly consolidated subsidiaries, thanks mainly to results by the Industrial IT Business.

Q: You are working on a big project for a certain card company. Where does this project stand? Has it been included in fourth-quarter order volume? And can you give some details on the scale of this project, the timing and the impact on TIS?

A: On this big project, we are involved as one of several key vendors under the direction of the client. This project is large and while it will run over a long period of time, we expect our portion of the project to be relatively large as well. Because we have a business relationship with the client and an obligation to maintain client confidentiality, we can't provide specific information about this project.

Q: What is the current status of Credit SaaS? You've explained that it is set to launch in the first half of fiscal 2023. Also, you indicate that payment services should deliver ¥34 billion in sales in fiscal 2024. I'm thinking sales may exceed that estimate. What do you think? Does that potential exist?

A: Yes, we are currently working on Credit SaaS and plan to make the service available to clients as a platform beginning in the first half of fiscal 2023. We have no new information on the first-user project for Credit SaaS.
Our estimate of ¥34 billion in sales in fiscal 2024 is based on the expectation of subsequent users of the service which will spur wider demand for Credit SaaS. But we hope to elicit as much demand as possible during the next medium-term management plan through wider use of Credit SaaS.

Q: Of the ¥2.5 billion impairment loss booking in fiscal 2021, ¥1.5 billion arose during the fourth quarter. Could you provide a breakdown of the amount?

A: The impairment loss in the fourth quarter was reassessed based on the status of each software asset and a portion was written off on the books.

Q: TIS has a tendency to post a substantial amount of extraordinary losses, including impairment losses, so the need to control such losses is undoubtedly a priority. As software assets accumulate in large quantity, the risk that impairment losses will appear also increases, right? That's a worry, isn't it? What steps will you take during the new medium-term management plan to address this issue?

A: In the process of providing various services, we accumulate software and software in progress. But the plan is to carry out rigorous project management, launch services, and then offset whatever depreciation expenses appear with service revenue. Rest assured that the situation is under control. Note that preparations toward the launch of Credit SaaS are moving steadily ahead. And by strengthening efforts at R&D stages, we will mitigate the risk of impairment losses on the balance sheet while underpinning growth in business results.

Q: What is the status on discussions toward transition to IFRS?
A: TIS, like other companies, is engaged in discussions on transition to IFRS. Information will be made available at a later date with the timing decided for voluntary adoption of IFRS.

Q: With regard to Group management going forward, what strategy do you have for integrating Group companies?
A: We are not pursuing anything at the current time regarding Group formation. We always consider the allocation of business from the perspective of optimizing groupwide capabilities, and our position on centralizing duplicated functions, including measures under the G20 project to enhance headquarters' functions, has not changed.

Q: Generally, overseas operations are hard to control, and it's difficult to know if operations represent a pure investment or a business investment. For the record, what is your position on overseas operations?
A: Our overseas strategy will continue to evolve. As previously explained, investments into overseas operations of the TIS INTEC Group are not pure investments but rather a precursor to joint business activities, which include sending our people to these companies. Demand for payment services—a strength of the Group—is expanding not only in Japan but also overseas, and a key reason in establishing a more resilient presence abroad is essential if we are to capitalize on this situation. In addition, ASEAN companies move at a different—faster—speed, and we can learn from their methods and agile initiatives. These overseas operations will reinforce domestic operations.

Q: What is the gross profit margin you are aiming to achieve by the final year (fiscal 2024, ending March 31, 2024) of the new medium-term management plan? With fiscal 2021 results, you already exceeded 25%, which was one benchmark, and you are aiming toward the 26% level for fiscal 2022. Is there room for further improvement and to what degree? And which businesses or which segments will be the fuel for that growth?
A: Our target is 30%. System integration is central to our efforts, and we will emphasize a stronger frontline to achieve higher added value and continue to improve productivity as well. We will also strive to enhance profitability by expanding service-style business.

Q: Regarding your policy on return to shareholders, the market also looks favorably on your raising the total return ratio to 45%. Where does the dividend fit in? You've explained that any increase in dividends per share will be pegged to improvement in business results, so is it safe to assume an increase of about 10%, similar to the growth rate you seek for net income per share? Currently, the payout ratio is about 31%. By vigorously driving up the payout ratio, are you trying to convey confidence in your ability to generate future results and cash flow?

A: Within the context of a total return ratio of 45%, we aim to raise dividends per share through improvement in net income, which will reflect higher operating income paralleling wider business activities. The payout ratio is unlikely to fall below the level maintained to date.

Q: On the issue of cash allocation, I'd like to confirm one point.
On page 22 of the medium-term management plan materials, you say about ¥50 billion will be used over three years to reinforce shareholder returns. You note that the source of capital will not be limited to cash generated from businesses that are susceptible to fluctuation but also draw on capital from optimization of assets, such as cross-shareholdings. I know that reducing cross-shareholdings is a powerful tool for raising the probability of enhanced return to shareholders, but given background, such as ties built with customers, which go back a long time, unilateral disposal of cross-held shares as you would envision could be rather difficult to achieve. Which cross-shareholdings would you reduce? And if you have such a list, by how much would you reduce the shareholdings?

A: We are always conscious of cross-shareholdings and the possibility of reducing such investments. We verify all factors, though, including how the shareholdings affect cooperation in our business pursuits, and if the relevance of such shareholdings diminishes in significance, we will discuss the situation with those clients and sell off the shares. We will continue to apply this approach, regardless of whether the portfolio company is a key client or not.
I cannot comment on scale. But going forward, efforts to reduce cross-shareholdings will remain a priority theme that we will pursue in all sincerity.

Q: The new medium-term management plan sets out realistic targets. But your operating income margin estimate for fiscal 2022 is 10.3%, which seems rather low compared with 11.6% for fiscal 2024, the last year of the plan. What is your rationale for such a conservative number?

A: Order status in the fourth quarter provides a sense of recovery, but the novel coronavirus continues to spread, creating uncertainty in the market. The estimates for fiscal 2022 may be revised, as necessary, as we move forward.

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