TIS, Inc.
Q&A (Summary) on Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2022 (August 5, 2021)

Content has been edited for clarity.

Q: Maybe it is the seasonality in sales activities, but it seems that first-quarter results could push TIS way above its first-half targets. Can you speak to the potential for favorable results?

A: With a positive shift in order volume in the fourth quarter of fiscal 2021, the first quarter started off on a favorable note, and sales and operating income showed solid improvement over what we had expected. The market environment was good, overall, as well, complemented by a trend among core clients toward brisk IT investment. Going forward, we will take a robust approach to capitalize on these conditions as we work toward our full-year targets.

Q: You indicate that solid demand from core clients was a key factor, so in segment terms, would it be correct to assume that the Financial IT Business and the Industrial IT Business were the drivers of this demand?

A: Yes. Core clients in the Financial IT Business and the Industrial IT Business segments were drivers of demand.

Q: Your performance outlook hasn't changed, but are there any obvious issues that you see now, such as a big increase in costs from the second quarter, that could push profits down?

A: At present, there are no significant issues of concern. Our initial targets assume higher selling, general and administrative expenses, and we consider the status of expenses to be on track.

Q: My questions are related generally to the credit card sector. First, order volume for the Financial IT Business increased significantly, and I assume orders from clients in the credit card sector were part of this increase. How much did large-scale projects contribute to growth? And for Credit SaaS in the Service IT Business, I realize that development continues toward the launch of this service, but what is the status on inquiries from clients?

A: As shown in the Sales by Client Sector, demand from the credit card sector is brisk. The credit card sector is a driver of growth in order volume for the Financial IT Business, accounting for nearly half the segment's order volume increase. Several big projects are under way for core clients, and each has initially brought in several hundred million yen, so the overall picture is bright. In the Service IT Business, as mentioned previously, we are making steady progress on the project for the first Credit SaaS user. A second company is in the pipeline, as well, and we are firming up details. Going forward, we will redouble sales activities to capture new orders.

Q: Business results are good, and order volume and backlog are at high levels. How have M&As, particularly MFEC, impacted consolidated performance?

A: The three companies brought under consolidation through M&A activity contributed ¥5.3 billion to net sales and ¥190 million to operating income, after ¥110 million in amortization of goodwill. Of these amounts, MFEC accounted for the largest contribution, with sales of about ¥4.0 billion and operating income above the ¥100 million mark. Similarly, overall order volume across the three companies reached ¥5.4 billion, with MFEC's portion exceeding ¥4.0 billion. For order backlog, MFEC accounted for about ¥6.0 billion of the three-company ¥7.2 billion total.

Q: What is your expectation for MFEC's contribution to business results in the second quarter onward?

A: The economic environment in Thailand, as elsewhere, has been severely impacted by COVID-19, and the path ahead remains extremely uncertain. But MFEC's projects for core client banks and government agencies are moving briskly forward. The company has accumulated a good backlog, so there should be no problem in reaching targets set for fiscal 2022.

Q: A share buyback, planned for fiscal 2022, hasn't happened yet. If you are able to comment on this plan, please provide an update.

A: What we can say at this time is that the plan to execute a share buyback by the end of December, as announced back in May, remains unchanged.

Q: On the topic of order volume for software development, just under half the ¥4.7 billion increase in orders for the Financial IT Business came from clients in the credit card sector. What other key factors contributed to this amount? Also, order volume for the Industrial IT Business grew by ¥7.2 billion—a huge increase—and I wonder if you can disclose the key factors that led to this result.

A: Both the Financial IT Business and the Industrial IT Business experienced a reactionary increase from the previous year, which had been challenging even beyond specific clients and large projects, and responded to diverse client needs, including digital transformation. Both segments saw order activity expand extensively. In addition, the Industrial IT Business attracted orders from core clients under a slightly more cohesive format, which was a factor in the large increase in order volume.

Q: About the ¥6.7 billion increase in Service IT Business sales, let me reconfirm. Development of Credit SaaS for the first user is already in the final stretch, but I don’t think this has contributed significantly or fully to sales. So what fueled the Service IT increase?

A: As mentioned earlier, sales from MFEC, at about ¥4.0 billion, provided a significant portion. This amount was complemented by higher demand and broad increases across various aspects of payment services and digital marketing, as well as cloud-related services and a recovery in demand for ERP, which slumped in the previous fiscal year. Note that sales related to development of software for the first Credit SaaS client may have represented only a small portion of the ¥6.7 billion increase in Service IT Business sales right now, but we expect continued contribution going forward.

Q: What is the reason for continued improvement in the gross profit margin and can this trend be sustained? Also, was the first-quarter result in line with what you had expected? Or was it better?

A: As mentioned previously, there was no specific or temporary factor but rather our ability to provide high-value-added services, complemented by a steady accumulation of productivity-enhancing innovation. The gross profit margin in the first quarter got us off to a great start toward the 26.2% target for the full-year. Going forward, we will steadily promote approaches in line with our goals to keep the momentum going.

Q: In the first quarter, application of the accounting standard for revenue recognition had an income-squeezing effect of about ¥1.0 billion on the Industrial IT Business. Is this impact likely to continue in the second quarter onwards?

A: As was explained at the beginning of the fiscal year, we assumed the standard would impact results over the course of the fiscal year, and our targets reflect the extent of the impact as far as we can estimate. The value impact over the full year could be in the vicinity of several billion yen, more than ¥5 billion but less than ¥10 billion.

END