TIS, Inc.
Q&A (Edited for Clarity) on Financial Results for the First Two Quarters of the Fiscal Year Ending March 31, 2022 (November 5, 2021)

Content has been edited for clarity.

Q: How much did the companies brought under consolidation through M&A contribute to second-quarter results? And which segments were these results applied to?

A: For the three companies brought under consolidation through M&A, sales for the three months of the second quarter came to about ¥5 billion, operating income after amortization of goodwill was just under ¥300 million. Of this amount, the largest portion was from MFEC—with sales around ¥4 billion and operating income before amortization of goodwill around ¥200 million—and these results were applied to the Service IT Business account. Amounts from the other two companies were applied to the Industrial IT Business account.

Q: Also on the M&A topic, how much did the companies contribute to order volume and backlog?

A: Order volume on a three-company basis was about ¥6 billion, with software development accounting for about ¥2.5 billion. Order backlog totaled about ¥8 billion, with software development accounting for almost ¥6 billion.

Q: The Service IT Business posted a 92% increase in operating income for the second quarter. Was this a one-time achievement or can such strong growth be expected going forward?

A: We had the contribution—¥200 million—from MFEC and also, compared with the fiscal 2021 when we faced challenges on the profitability front overall, fiscal 2022 has brought improvement in demand for services, including cloud and network services. Probably more a return to normal, so we hope to build firmly on this as a baseline for growth. Note that MFEC performance has been included in consolidated results from the fourth quarter of fiscal 2021, so the second half will not necessarily show as large a contribution as the first half.

Q: Looking at operating income by segment, the Service IT Business turned in an extremely strong performance from fiscal 2022. Paralleling this,

profitability, which had been trending low from fiscal 2020, rebounded. Please clarify what fueled this uptick.
Also, with regard to the Financial IT Business, sales have increased, fueled particularly be demand from core clients, but operating income in the second quarter did not go up much. If temporary costs incurred through relocation of Group offices is factored out, how much would the increase be?

A: As mentioned earlier, Service IT Business operating income was buoyed by the contribution from MFEC. Other organic factors were that our cost burden was huge due to aggressive upfront investment under the previous medium-term management plan emphasizing payment services, which was compounded by very challenging ERP and cloud business conditions, exemplified by unprofitable projects. These factors likely pulled the baseline down. But from fiscal 2022, we made steady progress toward bringing the status of ERP and cloud services back on track, and brought the baseline up again. We will maintain robust upfront investment activity while boosting profitability through a recovery in business.
For the Financial IT Business, higher temporary costs associated with relocation of Group offices hovered at ¥200 million, so if that were factored out of the profit equation, operating income would have increased by ¥500 million to ¥600 million. The segment has been able to expand operating income mainly through a solid response to core client needs, so segment profitability should not be a cause for concern.

Q: Results by Chuo System will be excluded from the second half. What impact will this have? And, what kind of results did the company post in the first half?

A: We estimate the negative impact from the exclusion of Chuo System's contribution to consolidated performance in the second half will be about ¥4 billion in net sales and ¥300 million in operating income. The impact should be offset by overall Group results, so management will not be making any changes to initial second-half estimates. Regarding Chuo System's first half results, you can assume they were at a similar level to the second-half estimates just mentioned. Note that the company was part of the Industrial IT Business, and its business activities were essentially aimed at external clients.

Q: This question is about expanding your team of DX consultants, which relates to the stronger frontline that President Okamoto has also emphasized. You had 250 people, at the end of the previous fiscal year, in the consultant team. Where are they allocated? Going forward, you apparently plan to boost the number of DX consultants through various approaches, such as robust career recruitment, but could you tell me what points of contact you will use to bring external consultants into TIS as employees as well as some examples of this?

A: The allocation of these 250 consultants is based on a scale targeting 200 at TIS and dozens at Miotsukushi Analytics.

The backgrounds of people joining TIS are varied. For example, the head of the Business Innovation Unit—the consulting team at TIS—came from a consulting firm. This is one point of contact. In addition, the market is aware that TIS is proactive—a mover—in DX, highlighted by the consolidation of Miotsukushi Analytics and investment in venture companies through a corporate venture capital program. We will draw on this advantage to gradually increase the number of consultants working for us.

Going forward, we will identify excellent consultants and encourage them to join TIS, and we will reinforce the employment structure, including a review of salary levels reflective of experience and skill.

Q: The positive initiatives embraced by President Okamoto bode well for strengthening the sense of solidarity—unity—within the Group. Ultimately, what kind of corporate group do you want to be?

A: Our goal is to appropriately manage a business portfolio based on strategic domains. Recent activities, such as the sale of Chuo System, are in line with this goal. The four strategic domains we have tapped right now are described in Group Vision 2026 and may evolve in the future, but we decided on these strategic domains and will create conditions that enable each company in the Group to focus on respective business models to achieve the highest possible results. Therefore, just as we centralized offices and promote the use of shared systems within the Group, we will encourage further collaboration—standardization—to reach our goal.

Q: Overall order volume in the Service IT Business jumped 30% in the second quarter. I know that bringing MFEC under consolidation was a factor, but of services, such as payment, ERP, data centers and cloud, which saw growth? And, could you comment on prospects for the second half onward? ERP replacement demand is a possibility, right?

A: Overall order volume grew about ¥12 billion. Of this amount, MFEC accounted for just under ¥5 billion, so non-MFEC amount also represented strong order activity. Payment services—an area of strength for TIS—presented brisk demand, complemented by digital marketing demand. This is a trend in line with strategy, so we aim to achieve solid growth in the second half and beyond. ERP demand rebounded after lackluster results up to the last fiscal year. But we have to continue to accumulate orders, and we will be working hard to show progress based on numbers.

Q: You have revised full-year estimates upward, but your second-half forecast is on a par with estimates announced at the start of the fiscal year. First-half order status was favorable, showing a huge increase, and since deterioration in conditions is essentially unlikely, would it be safe to assume that you are being slightly conservative in your estimate for the second half? Or do you expect something in particular that will squeeze profits?

A: As mentioned earlier, the second half will be impacted by the sale of Chuo System since the company's business results will no longer be included in consolidated reporting and thus decrease anticipated sales and income. These amounts will probably be offset by solid results from the rest of the Group, and we will be working to reach the estimates announced at the start of the fiscal year. Order status has already climbed higher than initially imagined, so we will continue to build on this base. At the current time, we do not foresee any particular big risk issue looming in the second half. Office reform and upfront investment will continue as planned, but we will strive to achieve a gross profit that is well above these costs. Our position on this will not change.

Q: Regarding software development order volume in the second quarter, Financial IT showed low growth. But orders from the credit card sector, particularly your core clients, was good. I'm guessing then that low growth in the second quarter reflects weak demand from sectors other than the credit card sector. Meanwhile, you've got Industrial IT, with high growth in the first quarter continuing in the second quarter as well. What trends are you seeing in each client sector? And what do you expect in the second half?

A: Financial IT is affected by timing—that is, when orders are accounted for in the books—but it seems that orders from the credit card sector, including large projects, remained strong, while orders for clients in the banking sector were weak. We expect the second half to be a time for proposals to be firmed up by more clients, including those in the banking sector, and we will strive to make up for previous sluggish growth.

Industrial IT is benefiting from strong IT investment by core clients, especially those in the processing-based manufacturing sector. In addition, compared with generally challenging conditions in the previous fiscal year, order activity is expanding across a wider base. Going forward, we will strive harder to meet emerging demand.

Q: I’d like to ask about any changes you might be thinking of the medium-term management plan, given the upward revision you made to full-year estimates. The revision presents a performance forecast better than imagined already from the first year of the plan, and your progress toward targets stated in the medium-term management plan is solid. So, compared with assumptions made when the medium-term management plan was drafted, has some aspect of operations having more impact? Could you provide some details?

A: When we drafted the medium-term management plan, COVID-19 would have consequences, and we struggled to predict how those consequences would unfold and their effect on business. Indeed, the market has made a much stronger recovery than imagined, which was a factor in our performance. You may all think we were being too conservative, but a conservative view will still be necessary going forward to understand how COVID-19 influences market trends not only in Japan but overseas as well. Against this backdrop, we will steadily implement strategies under the medium-term management plan to achieve growth.

Q: For CreditSaaS, which you have identified as a key to medium- to long-term growth, you will soon be launching services for the first user of this platform. As this go-live moment approaches, where do you stand with inquiries on services for a second user and more?

A: We are moving steadily toward service launch for the first user, and no one need have any concerns about the launch. A client likely to be the second user of the service has shown strong interest, and we are currently making various adjustments to make the service more appealing to this client. We don’t have a confirmed order yet but we are fairly confident that the client will sign on with large project scale. As for other clients, we have made a list of target companies—those of a certain size in non-financial sectors, namely, service and distribution—and will use this list to continue our sales activities.

Q: After the service launches in fiscal 2023, how much will the CreditSaaS business contribute to overall income? And how will you incorporate results from the CreditSaaS business into medium-term targets?

A: Those are issues for fiscal 2023, and we know that we can present overall estimates for Group performance in fiscal 2023, including revenue/cost structure and an idea of revenue contribution after the launch of CreditSaas. Right now, we anticipate revenue contribution from the first user following service launch in fiscal 2023, and our target value for fiscal 2024, which is the final year of the medium-term management plan, assumes that we will improve revenue from the payment services structure, which includes CreditSaas. We will promote measures designed to make this a reality.

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