

TIS Inc.
Q&A (Edited for Clarity) on Business Briefing (Sustainability Management)
December 1, 2021

Q: With regard to healthcare services that address health concerns, the visual on page 33 of the materials certainly makes sense, but other companies seem to be going a similar route. How far along is TIS' effort, and what makes healthcare services from TIS better than what other companies have to offer? Also, where do the competitors stand?

A: Similar services are definitely being rolled out in different places but some of the inherent systems have issues. For example, with financial support from the government, just getting a system built is a monumental challenge, and there's nothing left to operate the system long-term; the cost burden is huge because the conventional approach to the process is pegged to an amount for each system; and the movement of residents is not taken into consideration in building a system for each region.

Given such factors, we opted to promote standardization and cloud-based service on a billing model matched to usage and worked on the idea that the system would connect medical care data on the assumption that residents might transfer between facilities or care providers. A clearly different approach to that of the competition. Another point of distinction is that TIS addresses cloud security, offers a total response to the national certification system and protects personal information.

As for the competition, we'd break them broadly into two groups. One group comprises companies that make electronic medical records, but they differ from us in that they develop information networks which exclude residents while our efforts put residents in the spotlight. The other group comprises providers that include residents in the information networks they develop, and we'd like to work with them to build ecosystems. We are sharing appropriate information and engaging in discussions with such providers.

Q: Why would companies that make electronic medical record exclude residents in the development of information networks? What would the reason be? Is there some obstacle to include them? And, if you can disclose the information, which providers and ecosystems might TIS be thinking of hooking up with?

A: First off, companies that make electronic medical records each pursue their own form of standardization, and it would be extremely difficult to team up separately with each vendor. On the point of including residents, there has to be consensus-building with healthcare providers (including hospitals). This is perhaps an obstacle for makers of electronic medical records. In addition, including residents in the network is contingent upon consent of the individual patient. For many providers, the administrative process for obtaining or removing consent is paper-based, which puts too much of a burden on the folks at the medical facilities. This also has an impact.

Regarding providers that we are working with, Integrated Clinical Care Informatics, Inc. (ICI) is one. The company is introduced in the presentation materials. ICI is a certified provider under Japan's Next-Generation Medical Infrastructure Act, and it was a shared philosophy on the utilization and application of medical care data along the same lines that led to our alliance. We will work very well together. Complementing these efforts, we

vigorously exchange information with various companies, including a testing company, a company developing a pharmacy network and a company deploying a prescription history smart app.

Q: I think your disclosure on sales targets for the service business and working to find solutions to social issues is great, and I wonder if you could highlight points that are in sync with your direction on ESG management. Also, as the business grows, what will you use as KPI?

A: Sales, profitability and ROIC are the primary KPIs we look at. We are still in the process of considering additional indicators but we're leaning toward calculating the social value that this business generates and present that as a measure of performance. For example, the degree to which residents of Japan utilize our healthcare service could be a KPI. Perhaps a more telling number, though, would be the health-related benefits gained through the use of this service. Seeing results, such as preventing illness and maintaining good health or preventing an illness from becoming more serious, is important. A great case-in-point would be the five-year or 10-year survival rate for cancer residents. We will set and trace a KPI from the perspective of how much our service contributes to residents' stable good health or, more meaningfully, their improved health.

Q: It's easy to see that this business contributes to solutions that address management issues and social issues, but from the perspective of "well-being" that you mention in the presentation, how will TIS contribute to the reduction of Scope 2 and Scope 3 emissions, which are attracting increasingly more attention in discussions about the environment?

A: Currently, the largest amount of Scope 1 and Scope 2 emissions from our business activities comes from data center operations. To realize a major decrease in emissions, we are closing old-style data centers, integrating and consolidated operations at new-style data centers and switching to renewable energy to meet electricity needs. Going forward, for any businesses we start up, we will definitely confirm GHG emission status before moving ahead. In addition, as part of our sustainability efforts, we will now be carefully measuring the kind of impact exerted on the value chain that links groupwide business activities and pinpointing efforts that will help reduce impact.

Helping to curb emissions through business activities = measures that deliver a positive effect. In this regard, as described earlier in several examples about the energy business, we will be focusing on approaches that underpin a reduction in GHG emissions. In addition, clients who work together with us in the SI business have embraced these approaches as well, and in these cases, we all contribute through associated IT system creation.

Q: Your approach to help deal with social issues through business activities is two-fold: efforts through SI and efforts that deliver solutions through service-style business. In expanding the latter, which was covered today, might this not lead to competition over human resources for the former? The operating scale of your existing core businesses is huge, so what is your stance on the allocation of human resources? Going forward, will it be possible to shift human resources from the SI side to the service-style business side?

A: That's like asking about the ambidexterity of managing existing business and new business. The existing SI business is what underpins our operations, so going forward, we

intend to grow this business even bigger. Part of this process will be to improve profitability as well as expand capacity through sustained efforts to boost productivity as well as joint creation with business partners. Any surplus human resources generated through these efforts will be redirected to service-style business.

Also, in the service-style business as well, as the four presenters mentioned, we do not rely solely on our own strengths and human resources but also effectively utilize ecosystems through alliances and joint operations with other companies.

Q: I know prior investment to get social issue solution services ready for launch has created a huge burden for TIS right now, but where to you peg eventual profitability?

A: As you note, we are in the investment phase right now, so the profitability of social issue solution services is low compared with existing SI business. But looking ahead, it should be on a par with that of the SI business or perhaps exceed the level, which is what we'd like to achieve.

Q: You say you want to improve profitability from social issues solutions services. But do you have a certain profit level in mind for, let's say, fiscal 2024, ending March 31, 2024?

A: Going forward, we will maintain a robust prior investment program, but we will work hard to achieve profitability—an operating margin—in the 10% range, which is the same level we have tapped for existing businesses, by the time the current medium-term management plan ends.

Q: What intrigues me most in today's announcement is CreditSaaS. Service-style businesses related to payment processing, which include CreditSaaS, are moving steadily toward a net sales estimate of ¥32.5 billion by fiscal 2022, ending March 31, 2022. How much do you think the CreditSaaS-related contribution will be? And what are your thoughts on profitability?

A: As a response appropriate to this business briefing, I can tell you that CreditSaaS will provide a rather significant portion of the ¥32.5 billion. Also, profitability on development of a customized platform for the first CreditSaaS user, currently in progress, will probably be not much different than the typical amount generated by the SI business.

Q: So then, what portion of payment-related fiscal 2024 sales of ¥34 billion will come from CreditSaaS-related sales? Also, could you detail any major factors that would prompt a change in profitability?

A: As described on page 17 of the presentation materials, our estimate for the CreditSaaS-related sales is ¥20 billion, that is, contributing ¥20 billion to the fiscal 2024 estimate of ¥34 billion in payment-related sales in the Service IT segment. We expect CreditSaaS to launch in the first half of 2023, and this, along with other factors, will boost overall profitability from service-style businesses related to payment services, paralleling wider recurring business.

Q: Could you provide some details on the content of services through your connection with DeCurret Inc. and future monetization? Have you incorporated the contribution from this business in the medium-term management plan?

A: As described on pages 27 and 28 of the presentation materials, we have been leveraging our connection to DeCurret on digital currency since last fiscal year. Details appeared on the front page of the Nihon Keizai Shimbun on November 24 and 25, but to summarize, a number of subcommittees met during the Digital Currency Forum, where 74 companies, including operating companies and megabanks, participated. TIS is the company leading the subcommittee on regional currency.

At this forum, discussions unfolded on the construction of a two-tier infrastructure comprising a common area and a business process area, underpinned by blockchain technology. The common area is a structure addressing core features of digital currency, and the business process area is a structure addressing features needed to distribute digital currency appropriate to needs and use cases. We teamed up with DeCurret, which is responsible for the common area, and are promoting discussion on use cases with about 30 operating companies while looking ahead to the development of a platform for a business process area applicable to regional currency.

On monetization, it really depends on how pervasive use cases go and how wide the scope of use for regional currency grows, but basically, we'd like to develop a pay-per-use service model.

The medium-term management plan does not include any specific estimates on the contribution that this business might provide, but amid a deepening embrace of cashless transactions and animated dialogue and exploration of a central bank digital currency, we are ready to test out an approach for digital currency as a vital future theme under financial inclusion.

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