TIS, Inc.
Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2022 (February 4, 2022)
Q&A (Edited for Clarity)

Q: Can you speak to the financial impact associated with changes in subsidiary status in the third quarter?

A: In the third quarter, the contribution from MFEC was a positive factor, benefiting the Service IT Business. Sales were ¥3.9 billion and operating income was just over ¥200 million. In addition, overall order volume, at ¥3.7 billion, included ¥600 million in software development orders. Order backlog has been incorporated into segment results since the third quarter of the previous year so there is no impact on the recently completed third quarter of fiscal 2022.

Meanwhile, a negative factor was Chuo System, impacting the Industrial IT Business. Sales were ¥1.7 billion and operating income just under the ¥200 million mark. Order volume, overall and for software development, together reached ¥2.0 billion, and order backlog, overall and for software development, together came to ¥1.3 billion. Amortization of goodwill was less than ¥100 million and had only a minor effect.

Q: What caused software development order volume in the Service IT Business to decrease in the third quarter? You explained that orders for individual payment services projects were booked together in the third quarter of fiscal 2021. Did this have a financial impact on the first quarter of this fiscal year?

A: Of the ¥2.2 billion decrease in software development order volume, just over ¥2.0 billion tracks back to a reactionary drop, mainly on individual payment services projects. This had a major impact. The timing of orders coming in affects volume status, and overall trends, such as clients' willingness to invest in IT, have not changed, so the situation going forward is not something of serious concern to us.

Q: Since the Service IT Business showed a large increase in sales in the third quarter, was the drop in order volume due to the timing of orders booked and also the result of steps to restrict order activity so as to focus on production activity?

A: We do not necessarily limit our focus to production activities. We tackle both sides, promoting order activities to win projects while also executing development of software on orders received. Order volume does not necessarily chart monotonously upward, and this was the case in the third quarter as the segment simply did not see a buildup in order volume.

Q: Regarding unprofitable projects, the aggregate amount as of the third quarter is ¥1.2 billion so that would mean ¥500 million for the third quarter. Could you expand on the status of unprofitable projects by segment and your outlook going forward?

A: The ¥500 million applicable to the third quarter is an overlay of small projects, but the Service IT Business and the Financial IT Business each have one relatively large project valued at just over ¥100 million. We cannot provide specifics about these projects, but they are typical development projects and, at the current time, we have taken a robust approach targeting cutover in fiscal 2023, so we expect to move ahead without any issues going forward.

Q: From the perspective of gross profit margin, excluding the impact of unprofitable projects, year-on-year improvement is tighter for the third quarter than for the first and second quarters. How should this be interpreted?

A: In the first half of fiscal 2021, the spread of COVID-19 was a factor that contributed to an extremely challenging business environment. In comparison, the first half of fiscal 2022 was characterized by recovery, including better business conditions, and we achieved major improvement through a determined push to enhance profitability. Meanwhile, the third quarter of fiscal 2021 produced an extremely high gross profit margin—at 26.7%— and being able to sustain this level in the third quarter of fiscal 2022 is commendable.

From here on, we will engage in activities that underpin constant improvement in profitability and also hammer out a firm strategy, including investment, to push the gross profit margin to a higher level again.

Q: "Enhanced profitability," which was integral to a huge increase in operating income in the first half, seemed to vanish in the third quarter. What are your thoughts on "enhanced profitability" in the fourth quarter?

A: We set a target of 26.6% for the gross profit margin on a full-year basis, and toward this end, we aim to achieve a gross profit ratio in the fourth quarter that exceeds the level posted in the fourth quarter of fiscal 2021. That quarter

saw a high gross profit margin, but our goal for fiscal 2022 is possible if we make solid progress on current development projects.
That said, the sizable "enhanced profitability" in the first half reflects recovery over the corresponding period a year earlier, when business conditions were challenging. That was a big factor as well.

Q: Regarding the status of sales by client sector in the first half, the credit card and processing-based manufacturing sectors were drivers of sales, reflecting favorable demand from core clients. In the third quarter, did this trend change somehow?

A: Overall, there has been no change in the trend toward greater investment across a wide segment of our client base since the fourth quarter of fiscal 2021. Projects for core clients in the credit card and processing-based manufacturing sectors moved steadily along in the third quarter. Other than that, demand from the public service sector, where we struggled in the first half, gradually rallied and we saw growth instead of reduction year on year. This contributed to better results.

Q: Was the reactionary drop in individual payment services projects, which was a key factor in lower order volume for the Service IT Business, a situation limited to the third quarter? And, which areas are likely to show growth going forward?

A: Naturally, orders peak at different times, depending on the project, so decreases due to a reactionary drop or project replacement, are not limited to a certain quarter and will occur in the future as well. Therefore, we aim to offset such decreases with a robust approach to order activity and efforts to build a base of new orders.
In regard to the status of projects by area, we do not have expectations for any particular area. Rather, we will strive to attract orders across all areas, not only payment services but also ERP and cloud/network projects.

Q: The operating income margin for the Financial IT Business in the third quarter deteriorated year on year. Could you speak to the financial impact from such factors as unprofitable projects and the one-time costs of office relocation? Also, what is the forecast for this segment?

A: Unprofitable projects of just over ¥100 million and one-time costs of office relocation at about ¥100 million had an adverse impact on the operating income margin. But the impact was not as deep year on year, and profitability should remain high. We will continue to prioritize profitability in the fourth quarter.

Q: Earlier, you touched on key factors in the decrease of order volume on software development in the Service IT Business in the third quarter. I wonder if another factor might be your brisk pursuit of development related to CreditSaaS toward the start of service in the first half of fiscal 2023. Can you comment on this?

A: As already announced, the launch of CreditSaaS is scheduled for the first half of fiscal 2023. Moving toward launch, development work has peaked so order volume will gradually decline. The reactionary drop in payment services orders was, as mentioned, just over ¥2 billion, and the effect from these projects has been included, but that is not the only factor.

Q: According to an official bulletin, you successfully bid on a large project from the Urban Renaissance Agency. Can you offer additional details about the size of this project and the schedule going forward? And has this project already been included in order volume?

A: It is true that TIS won a project from the agency, as you say, and we can tell you that it has been included in order volume for the third quarter. Other details have not been formally announced, and therefore, we, too, must refrain from providing additional information at this time. It is a project that will require more than a year to fulfill. We will work hard to meet the expectations of the client.

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