

# Operating Results for the Fiscal Year 2019

April 30, 2020

**ITOCHU Techno-Solutions Corporation**

These materials contain forward-looking statements about the future performance of CTC, based on management's assumptions and beliefs in light of information currently available to it, and involve certain risks and uncertainties. Actual results may differ from projected performance, owing to a variety of factors, including changes in the economic environment.



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# I FY2019 Overview of Operating Results

## II FY2019 Progress of Medium-Term Management Plan

## III FY2020 Operating Results Forecast

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## III FY2020 Operating Results Forecast

## Performance Highlights for FY2019

- Revenue, all profit line items, orders received and backlogs reached record highs after the merger in 2006.
  - Results exceeding the forecast
  - Reached GPM 24%+ and OPM 8%+
- Net profit attributable to CTC's shareholders has been a record high for 6 consecutive years.
- ROE reached 12.6% which is a record high

## Performance for FY2019 (vs. FY2018)

(Billions of yen)

	FY2018 Results	FY2019 Results	YoY change	YoY change (%)
Revenue	451.9	487.0	+35.0	+7.8%
Gross profit	107.7	118.0	+10.3	+9.6%
Gross profit margin	23.8%	24.2%	+0.4p	-
Other income and expenses	(71.8)	(76.3)	(4.5)	+6.4%
Operating income	35.8	41.6	+5.7	+16.1%
Operating income margin	7.9%	8.6%	+0.6p	-
Net profit attributable to CTC's shareholders	24.6	28.4	+3.8	+15.6%
Orders received	470.1	490.7	+20.5	+4.4%
Backlogs	262.9	272.2	+9.3	+3.6%
ROE	11.5%	12.6%	+1.1p	-

### Performance for FY2019(vs. FY2018)

#### [Revenue]

Revenue increased, particularly from the projects for manufacturing companies, public offices and public utilities industries. Revenue in overseas consolidated subsidiaries also rose in acquisition of IT companies in Indonesia.

#### [Gross profit]

Rose with the increase in revenue and profitability.

The gross profit margin excluding the effect of unprofitable projects improved 0.4p year on year.

#### [Other income and expenses]

SG&A expenses, chiefly personnel expenses increased. Other expenses also rose by impairment losses about goodwill of overseas consolidated subsidiaries.

#### [Operating income]

Rose due to the rise in gross profit.

#### [Net profit attributable to CTC's shareholders]

Increased, reflecting the rise in operating income.

#### [Orders received]

Orders rose, primarily from the projects for manufacturing industry, public offices and financial industries. Orders at overseas consolidated subsidiaries also rose in acquisition of IT companies in Indonesia.

#### [Backlogs]

Backlogs increased, particularly from the projects for manufacturing, financial and telecoms industry. Backlogs in overseas consolidated subsidiaries also increased in acquisition of IT companies in Indonesia.

## Performance for FY2019 (vs. forecast)

(Billions of yen)

	FY2019 Forecast	FY2019 Results	vs. Forecast	vs. Forecast (%)
Revenue	480.0	487.0	+7.0	+1.5%
Gross profit	115.0	118.0	+3.0	+2.7%
Gross profit margin	24.0%	24.2%	+0.3p	-
Other income and expenses	(76.0)	(76.3)	(0.3)	+0.5%
Operating income	39.0	41.6	+2.6	+6.8%
Operating income margin	8.1%	8.6%	+0.4p	-
Net profit attributable to CTC's shareholders	27.0	28.4	+1.4	+5.4%
Orders received	485.0	490.7	+5.7	+1.2%
Backlogs	267.9	272.2	+4.3	+1.6%

### Performance for FY2019(vs. forecast)

#### 【Revenue】

Increased in manufacture and public offices. Overseas consolidated subsidiaries also rose in acquisition of IT companies in Indonesia.

#### 【Gross profit】

Rose with the increase in revenue and profitability.

\*Gross profit margin excluding "Unprofitable projects" improved +0.3p YoY.

#### 【Other income and expenses】

The results were roughly as we had expected. Other expenses rose by impairment losses about goodwill of overseas consolidated subsidiaries in spite of a decrease of SG&A expenses.

#### 【Operating income】

Rose due to the rise in gross profit.

#### 【Net profit attributable to CTC's shareholders】

Increased due to an increase of operating income.

#### 【Orders received】

Increased in business for manufacture, public offices. Overseas consolidated subsidiaries also rose in acquisition of IT companies in Indonesia.

#### 【Backlogs】

Increased in business for financial and transportation industries. Overseas consolidated subsidiaries also rose in acquisition of IT companies in Indonesia.

## Performance by Business Groups

(Billions of yen)

	Orders received			Revenue			Backlogs		
	FY2018 Results	FY2019 Results	YoY Change	FY2018 Results	FY2019 Results	YoY Change	FY2018 Results	FY2019 Results	YoY Change
Enterprise	115.2	124.6	+9.3	114.8	119.5	+4.6	63.4	68.4	+5.0
Distribution	46.8	39.7	(7.1)	43.7	46.0	+2.3	31.4	25.1	(6.3)
Telecommunication	180.1	176.2	(3.9)	171.3	173.4	+2.0	78.2	80.9	+2.7
Regional & Social Infrastructure	50.6	60.3	+9.6	49.6	60.7	+11.0	47.5	47.1	(0.4)
Financial Services	21.5	28.3	+6.8	25.4	24.0	(1.3)	15.5	19.7	+4.2
Others	55.7	61.4	+5.6	46.8	63.1	+16.2	26.7	30.7	+4.0
Total	470.1	490.7	+20.5	451.9	487.0	+35.0	262.9	272.2	+9.3

### Performance by Business Groups (vs. FY2018)

#### [Enterprise]

Orders increased, particularly for infrastructure equipment and development in manufacturing and transportation companies and revenue from them also rose.

#### [Distribution]

Orders declined, particularly from development in the distribution industry and infrastructure equipment at securities companies. Revenue increased, particularly from development in the distribution industry.

#### [Telecommunication]

Orders declined by reactionary fall from infrastructure equipment at telecoms companies and internet service provider in the previous fiscal year. Revenue increased by infrastructure project for telecoms company in spite of reactionary decrease from projects in new fields (up-front investment projects) in the previous fiscal year.

#### [Regional & Social infrastructure]

Orders increased, primarily for development and infrastructure equipment for some of public offices, municipalities, railroad and manufacturing companies. Revenue rose from same as above and infrastructure equipment for public utilities.

#### [Financial Services]

Orders increased, particularly for development and infrastructure projects for banks. Revenue declined, primarily from infrastructure projects for government financial institutions.

#### [Others]

Orders increased, particularly for infrastructure equipment at overseas consolidated subsidiaries in acquisition of IT companies in Indonesia.

Revenue rose for the same as above. In addition to that, reflecting an increase in revenue from the absence of management accounting adjustments that took place in the previous fiscal year in association with a change in accounting policy.

## Performance by Business Models

(Billions of yen)

	Orders received			Revenue			Backlogs		
	FY2018 Results	FY2019 Results	YoY Change	FY2018 Results	FY2019 Results	YoY Change	FY2018 Results	FY2019 Results	YoY Change
Services	184.4 (39.2%)	199.1 (40.6%)	+14.6	179.1 (39.6%)	192.4 (39.5%)	+13.3	189.4 (72.1%)	197.2 (72.4%)	+7.7
SI Development	101.5 (21.6%)	100.5 (20.5%)	(0.9)	94.9 (21.0%)	105.0 (21.6%)	+10.0	31.7 (12.1%)	27.2 (10.0%)	(4.4)
Products	184.1 (39.2%)	191.0 (38.9%)	+6.8	177.8 (39.4%)	189.5 (38.9%)	+11.6	41.6 (15.8%)	47.8 (17.6%)	+6.1
Total	470.1	490.7	+20.5	451.9	487.0	+35.0	262.9	272.2	+9.3

\*Within the parenthesis is composition ratio.

### Performance by business model

#### [Services]

Orders increased, particularly from maintenance and services for the manufacturing and transportation industries, public offices and banks. Overseas consolidated subsidiaries also rose in acquisition of IT companies in Indonesia.

Revenue rose, primarily from maintenance and services for the manufacturing, transportation industries and telecoms. Overseas consolidated subsidiaries also increased in acquisition of IT companies in Indonesia.

#### [SI Development]

Orders almost unchanged.

Revenue increased, mainly from development for distribution companies and infrastructure construction for public utilities, public offices and railroad companies.

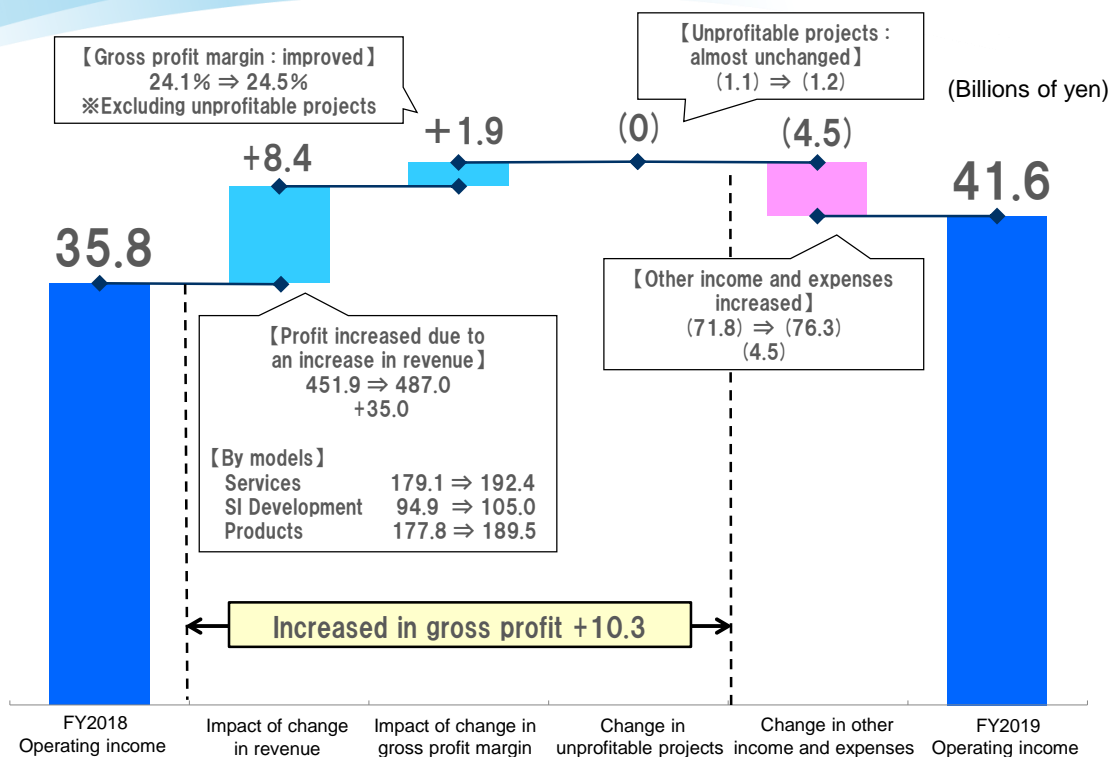
#### [Products]

Orders increased, mostly for infrastructure equipment for public offices and municipalities. Overseas consolidated subsidiaries also increased in acquisition of IT companies in Indonesia.

Revenue increased in infrastructure equipment for public utilities and electronic power companies. Revenue in overseas consolidated subsidiaries also increased in acquisition of IT companies in Indonesia.

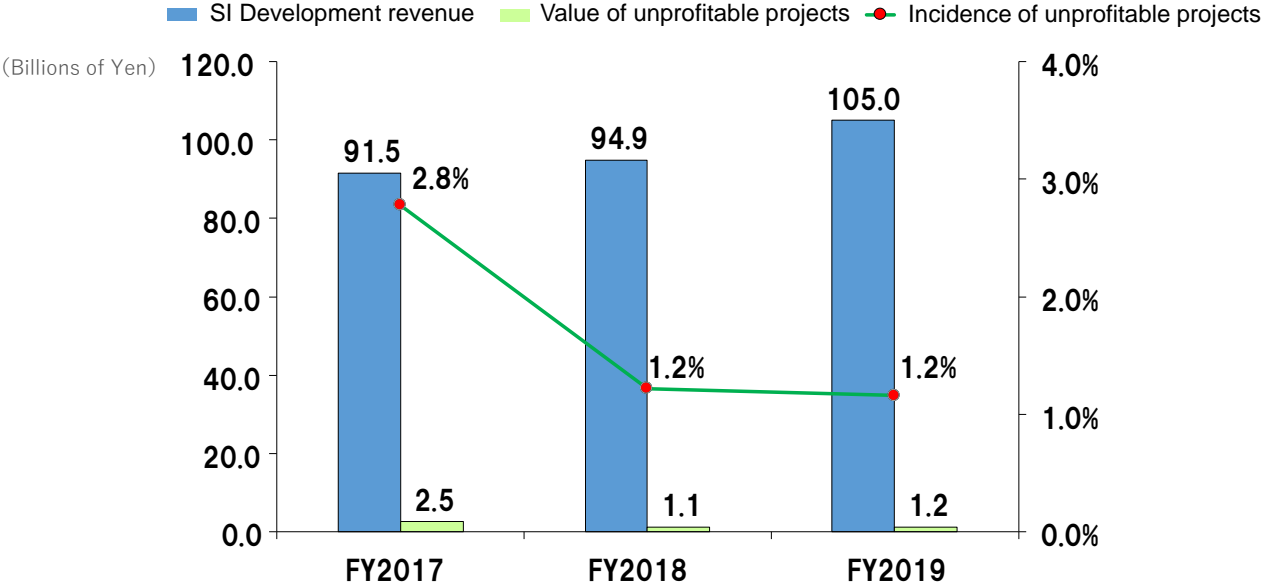


## Main reasons for YoY changes in operating income



For reference:  
Revenue and unprofitable projects in SI Development

The ratio of unprofitable projects to SI Development revenue maintained low levels.



**For reference:  
Other income and expenses**

(Billions of yen)

	FY2018 Results	FY2019 Results	YoY Change
Personnel expenses	(41.2)	(43.6)	(2.4)
Outside staff expenses	(6.2)	(6.2)	(0.0)
Depreciation and amortization	(3.0)	(6.2)	(3.2)
Others	(21.2)	(19.2)	+1.9
<b>SG&amp;A expenses</b>	<b>(71.7)</b>	<b>(75.4)</b>	<b>(3.6)</b>
<b>Other income</b>	<b>0.5</b>	<b>0.8</b>	<b>+0.2</b>
<b>Other expenses</b>	<b>(0.5)</b>	<b>(1.7)</b>	<b>(1.1)</b>
<b>Other income and expenses</b>	<b>(71.8)</b>	<b>(76.3)</b>	<b>(4.5)</b>

**Breakdown of “Other income and expenses”**

**[Personnel expenses]**

Personnel expenses increased due to an increase in number of employees including acquisition of IT companies in Indonesia, salaries and performance-linked bonuses.

**[Depreciation and amortization]**

Rose because of a change in accounting policy.

(Rent and related expenses decreased by approximately the same amount due to the change in accounting policy, and the effect of the change in accounting policy on SG&A expenses is minor and insignificant.)

**[Others]**

Rent and related expenses decreased due to the change in accounting policy.

**[Other expenses]**

Other expenses rose by impairment losses about goodwill of overseas consolidated subsidiaries.

**For reference:**  
**Consolidated balance sheets**

(Billions of yen)

	End of FY2018	End of FY2019	YoY Change
Current assets	298.3	324.7	+26.4
Non current assets	80.6	114.0	+33.4
<b>Total assets</b>	<b>378.9</b>	<b>438.8</b>	<b>+59.8</b>
Current liabilities	135.4	162.6	+27.2
Non current liabilities	18.4	37.6	+19.2
<b>Total liabilities</b>	<b>153.8</b>	<b>200.2</b>	<b>+46.4</b>
<b>Equity</b>	<b>225.1</b>	<b>238.5</b>	<b>+13.4</b>
<b>Total liabilities and equity</b>	<b>378.9</b>	<b>438.8</b>	<b>+59.8</b>

<b>1. Current assets :</b>	<b>+26.4</b>
Cash and cash equivalents	+15.7
Trade and other receivables	+5.3
Other current assets	+4.9
<b>2. Non-current assets :</b>	<b>+33.4</b>
Property, plant and equipment	+20.8
Goodwill	+6.1
Shares of subsidiaries and associates	+3.4
Other non-current financial assets	+2.4
<b>3. Current liabilities :</b>	<b>+27.2</b>
Trade and other payables (Current)	+2.8
Short-term lease obligations	+8.5
Income taxes payables	+1.7
Provision for bonuses	+2.3
Contract liabilities	+10.5
<b>4. Non-current liabilities :</b>	<b>+19.2</b>
Long-term lease obligations	+16.2
<b>5. Equity :</b>	<b>+13.4</b>
Retained earnings	+13.6

**For reference:  
Consolidated cash flows**

(Billions of yen)

	FY2018	FY2019	YoY Change
Cash and cash equivalents at the beginning of the period	51.0	58.8	+7.8
Operating activities	20.6	50.1	+29.4
Investing activities	(3.2)	(17.1)	(13.9)
Financing activities	(9.5)	(17.1)	(7.5)
Cash and cash equivalents at the end of the period	58.8	74.6	+15.7
Free cash flow	17.3	32.9	+15.5

<b>1. Cash flows from operating activities :</b>	<b>+29.4</b>
Profit before tax	+5.2
Depreciation and amortization expense	+7.3
A decrease (an increase) in trade and other receivables	+4.5
A decrease(an increase) in trade and other payable	(4.6)
Accounts receivable	(11.3)
Contract assets	+16.1
Unearned revenue	+39.4
Contract liabilities	(34.5)
<b>2. Cash flows from investing activities :</b>	<b>(13.9)</b>
Purchases of property, plant and equipment	(1.6)
Purchase of stocks of subsidiaries and affiliates	(3.1)
Decrease (increase) in deposits other than cash equivalents	(3.0)
Purchases of shares of subsidiaries	(6.8)
<b>3. Cash flows from financing activities</b>	<b>(7.5)</b>
Proceeds from sales and leaseback	+3.5
Repayments of lease obligations	(9.2)

## For Reference: Performance for the 4<sup>th</sup> Quarter of FY2019 (3 months)

(Billions of yen)

	4th Quarter FY2018 Results	4th Quarter FY2019 Results	YoY change	YoY change (%)
Revenue	151.9	159.6	+7.7	+5.1%
Gross profit	36.6	39.3	+2.7	+7.5%
Gross profit margin	24.1%	24.7%	+0.6p	-
Other income and expenses	(18.6)	(21.8)	(3.2)	+17.6%
Operating income	18.0	17.4	(0.5)	(3.0%)
Operating income margin	11.9%	11.0%	(0.9p)	-
Net profit attributable to CTC's shareholders	12.2	12.2	+0.0	+0.0%
Orders received	163.5	169.7	+6.2	+3.8%
Backlogs	262.9	272.2	+9.3	+3.6%

## Performance for the 4th Quarter of FY2019 (3months)

### 【Revenue】

Increased in business for telecoms and public offices.

### 【Gross profit】

Rose with the increase in revenue and profitability.

※Gross profit margin excluding “unprofitable projects” improved +0.3p YoY.

### 【Other income and expenses】

SG&A expenses increased due to a rise in personnel cost and other expenses also rose by impairment losses about goodwill of overseas consolidated subsidiaries.

### 【Operating income】

Decreased due to a rise in Other income and expenses in spite of an increase in gross profit.

### 【Net profit attributable to CTC's shareholders】

Ultimately unchanged. Profit attributable to non-controlling interests by impairment losses about goodwill increased in spite of a decrease of operating income.

### 【Orders received】

Overseas consolidated subsidiaries also rose in acquisition of IT companies in Indonesia.

## For Reference : Performance by Business Groups/Business Models for the 4<sup>th</sup> Quarter of FY2019 (3 months)

		Orders received			Revenue		
		4th Quarter (3months) FY2018 Results	4th Quarter (3months) FY2019 Results	YoY Change	4th Quarter (3months) FY2018 Results	4th Quarter (3months) FY2019 Results	YoY Change
By business group	Enterprise	34.4	36.1	+1.7	35.9	35.1	(0.8)
	Distribution	17.8	16.8	(1.0)	13.0	12.4	(0.5)
	Telecommuni- cation	60.7	66.1	+5.3	63.5	70.6	+7.0
	Regional & Social Infrastructure	21.2	16.5	(4.6)	16.1	19.3	+3.1
	Financial Services	8.1	11.4	+3.2	8.0	7.2	(0.8)
	Others	21.1	22.6	+1.5	15.0	14.8	(0.2)
	Total	163.5	169.7	+6.2	151.9	159.6	+7.7
By business model	Services	85.8	87.5	+1.7	48.4	50.4	+2.0
	SI Development	28.7	24.3	(4.4)	30.5	31.0	+0.5
	Products	48.9	57.9	+8.9	72.9	78.1	+5.1
	Total	163.5	169.7	+6.2	151.9	159.6	+7.7

### Performance by business group

#### **[Enterprise]**

Orders increased from development for transportation industry and infrastructure equipment for manufacture. Revenue declined from infrastructure equipment for manufacture.

#### **[Distribution]**

Orders and revenue decreased from development for distribution industry.

#### **[Telecommunication]**

Orders and revenue rose in infrastructure projects at telecoms companies.

#### **[Regional & Social infrastructure]**

Orders decreased, primarily from infrastructure equipment for public utilities. Revenue rose, particularly from development and infrastructure equipment for public offices, municipalities, railroad companies and manufacture.

#### **[Financial Services]**

Orders increased, particularly from infrastructure equipment for banks. Revenue decreased from development and infrastructure projects for government financial institutions.

### Performance by business model

#### **[Services]**

Orders increased, particularly for installation work for telecoms and maintenance for financial industries. Revenue rose, primarily from maintenance and installation work for telecoms industries.

#### **[SI Development]**

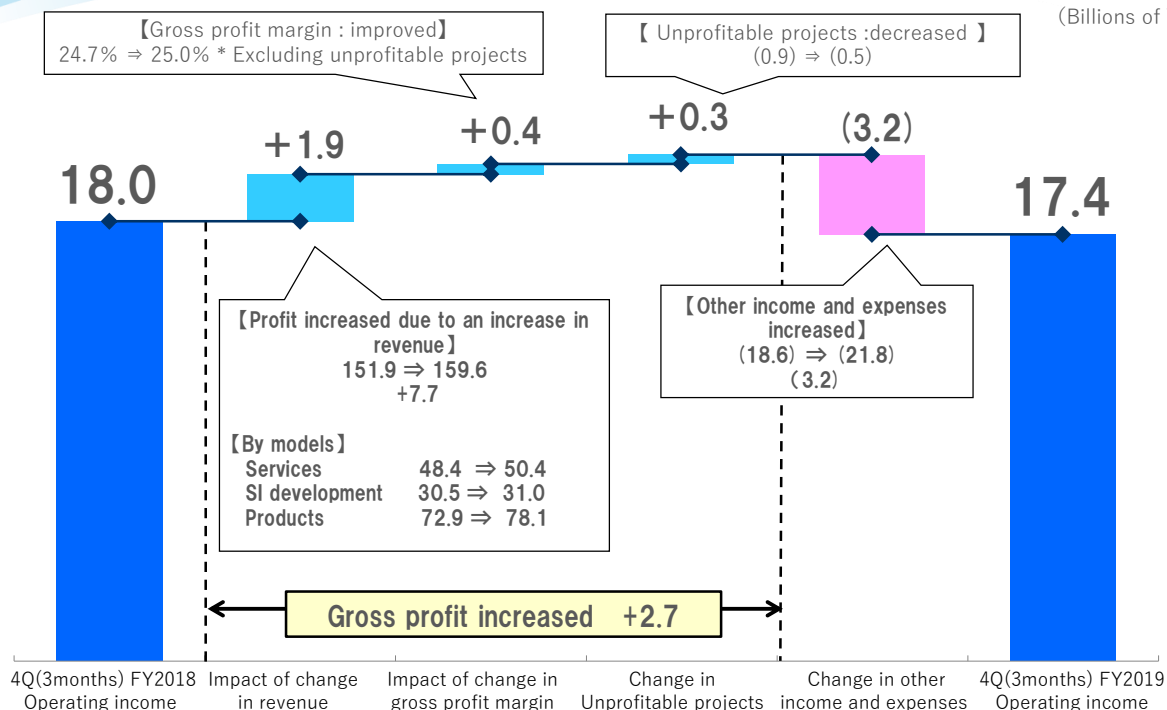
Orders decreased, chiefly for development and infrastructure construction for telecoms and development for distribution industry. Revenue roughly unchanged.

#### **[Products]**

Orders rose, primarily for telecoms and financial companies. Overseas consolidated subsidiaries also increased. Revenue increased, mostly for telecoms and municipalities.

## For Reference: Main Reasons for YoY Changes in Operating Income for the 4<sup>th</sup> Quarter of FY2019 (3 months)

(Billions of Yen)





**For Reference:**  
**Other Income and Expenses for the 4<sup>th</sup> Quarter of FY2019 (3months)**

(Billions of yen)

	4th Quarter (3months) FY2018 Results	4th Quarter (3months) FY2019 Results	YoY change
Personnel expenses	(10.6)	(11.8)	(1.2)
Outside staff expenses	(1.3)	(1.5)	(0.1)
Depreciation and amortization	(0.7)	(1.7)	(1.0)
Others	(5.7)	(5.4)	+0.3
<b>SG&amp;A expenses</b>	<b>(18.4)</b>	<b>(20.6)</b>	<b>(2.1)</b>
<b>Other income</b>	<b>0.3</b>	<b>0.3</b>	<b>+0.0</b>
<b>Other expenses</b>	<b>(0.4)</b>	<b>(1.6)</b>	<b>(1.1)</b>
<b>Other income and expenses</b>	<b>(18.6)</b>	<b>(21.8)</b>	<b>(3.2)</b>

**Breakdown of “Other income and expenses”**

**[Personnel expenses]**

Personnel expenses increased due to an increase in number of employees including acquisition of IT companies in Indonesia, salaries and performance-linked bonuses.

**[Depreciation and amortization]**

Rose because of a change in accounting policy.

(Rent and related expenses decreased by approximately the same amount due to the change in accounting policy, and the effect of the change in accounting policy on SG&A expenses is minor and insignificant.)

**[Others]**

Rent and related expenses decreased due to the change in accounting policy.

**[Other expenses]**

Other expenses rose by impairment losses about goodwill of overseas consolidated subsidiaries.

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**Progress of Medium-Term Management Plan**

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# New Horizons

Horizon **1**  
**Go Upwards!**

Horizon **2**  
**Go Forwards!**

Horizon **4**  
**Consolidate Footholds!**

Horizon **3**  
**Go Outwards!**

## **Horizon 1** **Go Upwards**

- Co-creation of Digital Transformation Businesses with Major Clients
- Expand Businesses in Application Service Layer

## **Horizon 2** **Go Forwards**

- No.1 Cloud-Computing Integrator
- No.1 IT Infrastructure & Network Environment Provider
- Accelerate Expanding of Recurring Businesses

## **Horizon 3** **Go Outwards**

- Create Open Innovation Activities as New Business Models
- Expand Global Activities

## **Horizon 4** **Consolidate Footholds**

- Skill Transition & Workstyle Transformation
- Consolidate CTC-Group Governance
- Quality First & Customer Centric
- Keep Shareholders Value & Returns

## Main Measures of Mid-term Management Plan Review



### Go Upwards

- Expanded DX Businesses on Key Customers
- Promotion of Cloud-Native Technology



### Go Forwards

- Acquired 5G Projects and Expanded Network Area
- Expanded Recurring Businesses



## Go Outwards

- Acquisition of IT Companies in Indonesia
- Capital Alliance to Promote DX



## Consolidate Footholds

- Establishment of ITOCHU Techno-Solutions Future Foundation
- Increased dividends for 11 consecutive years

(Forecast)

## For Reference: Recognition about Work Style Reforms and Health and Productivity Management from External Parties



Semi NADESHIKO  
Elected 2 consecutive  
years



Received highest rank of  
"Eruboshi," a symbol of  
certification based on the  
act of promotion of  
women's participation and  
advancement in the  
workplace.



Competitive IT  
Strategy Company  
Elected 3 consecutive  
years



White 500  
Elected 4 consecutive years

## Business Goal (FY2020)

3

**Strengthen profitability**

Net profit attributable to  
CTC's shareholders

¥**30** billion

6

**Growth in  
focused businesses**

Recurring Business

¥**60** billion

Global Business

¥**60** billion

12

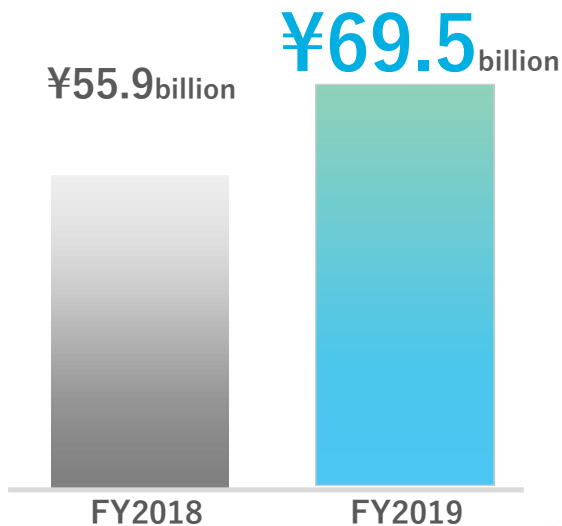
**Increase ROE**

ROE

**12**%+



## Recurring Business



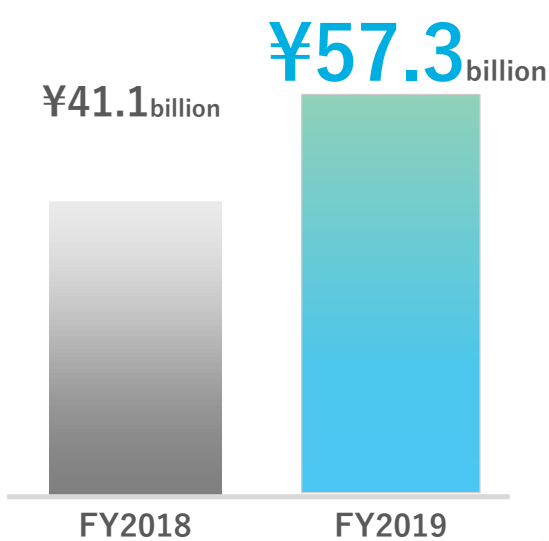
### Expansion in the model of recurring business

#### Main factor

- Cloud service increased.
- Application maintenance and system engineering services increased.

Definition of recurring business : Total revenue of cloud services, operations of system application and managed security services.

## Global Business



**Growth in existing overseas subsidiaries and implementation of strategic investment**

### Main factor

- Higher revenue in overseas subsidiaries.
- Execution of strategic business investment (in Indonesia)
- Increased overseas related sales in Japan

Definition of global business : Total revenue of overseas subsidiaries, the project related to overseas business implemented in Japan and affiliated overseas company accounted for by the equity-method.

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## Positioning of FY2020 in the Mid-term Management Plan

FY2018

FY2019

FY2020

序

Intro

破

Breakthrough

急

Accel

Steadily Adagio

In Tempo  
More Rhythmic

Rush  
Presto

**CTC**

Challenging Tomorrow's Changes

## Key Measures from FY2020 Plan



**Go Upwards**

- 
- Expanding the Range of DX Businesses
  - Promotion of Cloud-Native Projects for LoB
  - Promotion of Back bone System Projects
-



## Go Forwards

- 
- "Lift&Shift" in Cloud Service
  - Continuous Expansion of 5G Business
-



## Go Outwards

- 
- Strengthen Overseas Business Structure
  - Continuous Promotion of Open Innovation
-



## **Consolidate Footholds**

- 
- Strengthen Consolidated Group Management
  - Keep Shareholders Value & Returns
-





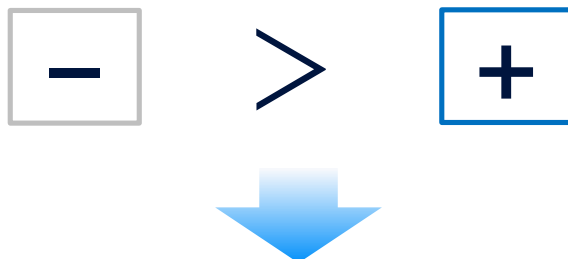
- Reduction or Delay of IT Investment

VS



- Telework, Online demand
- Improving Productivity
- Expense Reduction

## Assumption in the present



Targeting after-tax profit of 30 billion yen,  
which is final target of mid-term management plan  
“A Challenging Year”

## FY2020 Operating Results Forecast

(Billions of Yen)

	FY2019 Results	FY2020 Forecast	YoY change	YoY change (%)
Revenue	487.0	500.0	+12.9	+2.7%
Gross profit	118.0	123.6	+5.5	+4.7%
Gross profit margin	24.2%	24.7%	+0.5p	-
Other income and expenses	(76.3)	(79.0)	(2.6)	+3.4%
Operating income	41.6	44.6	+2.9	+7.0%
Operating income margin	8.6%	8.9%	+0.4p	-
Net profit attributable to CTC's shareholders	28.4	30.0	+1.5	+5.4%
Orders received	490.7	505.0	+14.2	+2.9%
Backlogs	272.2	277.2	+5.0	+1.8%

# Shareholders Return Plan

Pay stable dividends mindful of linkage with performance continuously. Our target consolidated payout ratio approx 45%

In FY2019, we are planning to increase dividends per share by ¥ 3 from the initially planned ¥ 55 to ¥ 58.  
(+ ¥ 8 from the previous year)

FY2019 : Planned a total annual dividend of ¥58⇒ a dividend payout ratio of 47.1%

FY2020 : Planned a total annual dividend of ¥63⇒ a dividend payout ratio of 48.5%



※The Company implemented a stock split, splitting common stock at a ratio of 2 for 1, effective April 1, 2018. The results of dividends per share before FY17 are displayed in the converted values after the stock split.

※The dividend payout ratio in the above graph is shown by rounding off the first decimal place.



CTC will contribute to the achievement of SDGs with technology.

“CTC is the Answer.”