ITOCHU Techno-Solutions Corporation

Summary of Q&A at Announcement of Operating Results for the First Half of the Fiscal Year ending March 31, 2021

Date/Time: November 2, 2020 (Monday) 14:00-15:00

Presenters: Ichiro Tsuge, President & CEO

Tadataka Okubo, Senior Managing Executive Officer, CTO, Director

Mamoru Seki, Managing Executive Officer, CFO

Q：Actual orders received in Q2 appear to be higher than the Q2 forecast at the end of Q1. Why?

A：This growth is partly due to the acceleration of projects but is mainly attributable to growth in 5G projects in the Telecommunication Group and projects which were planned in the Regional & Social Infrastructure Group.

Q：Orders received appear to be stronger in some areas than others. Are the signs of recovery that have emerged in H2 confined to specific areas? Is it fair to assume that business groups which performed poorly in H1 such as the Enterprise Group and Distribution Group will also recover?

A：Overall, the signs are optimistic.

The Enterprise Group was affected by COVID-19 in H1, with major customers cancelling or postponing projects. Some customers in the manufacturing industry have had their operations disrupted on a global scale. However, the Enterprise Group does business with thousands of customers and some of these have shown a positive attitude towards IT investment over the past two months. Recently there is a real sense that business is recovering.

Meanwhile, the Distribution Group's H1 results were weak compared with the previous fiscal year's strong performance, however, here as in the Enterprise Group, signs of recovery have emerged in H2.

As for the Telecommunication Group, 5G-related projects are growing steadily.

The Regional & Social Infrastructure Group is seeing high levels of business activity, with telework projects and GIGA school projects. Inquiries from the railway transport sector are also increasing, Therefore, our understanding is that, overall, the outlook is positive.

Q：Recurring business posted H1 sales of JPY 33.6 billion. Growth appears to be slowing. Please give details of business to date and your future outlook.

A：A simple comparison of the figures may give that impression. However, changes in the agreed format of certain projects which meant they were not aggregated in the total revenue for this business resulted in a decrease in revenue of around JPY 1.0 billion. Since this amount was recognized in another category (not Services), there was no decline in CTC's total business revenue as a result. Excluding special factors such as these, the rate of growth increased. We are receiving a high level of inquiries about these services and we continue to recognize this business as one which can grow steadily in the future.

Q：Even excluding the decrease of JPY 1.0 billion, which is a special factor, the cloud and outsourcing business grew by around +5% which seems slow compared with the growth rate in the past of around 20%. Do you expect the business to recover in the H2?

A：We have also formed a capital alliance with Megazone in the U.S. and believe there are still things to do and room for growth. Meanwhile, we are collaborating with other overseas companies besides Megazone.

Q：Estimated unprofitable projects of JPY 1.0 billion appears to be a bit large. Please give further details, including the number of projects, the sectors they are in, and the possibility of additional allowances.

A：One large unprofitable project accounts for most of the JPY 1.0 billion and this is a project for the distribution sector which we have been working on for a while. It is a slightly challenging project involving a complex system and incorporating new development techniques and the project became unprofitable because we failed to satisfy the client's requirements and had to start development over again and repeatedly conduct careful tests. We will carefully examine forecasts and make allowances as appropriate. All the other projects are small.

Q：You say that the increase in personnel expenses in Q2 reflects the impact of lower utilization rates. Please specify the amount of the impact?

A：It is difficult to calculate the exact figure, but we estimate that personnel expenses increased by around JPY 500 million, which is similar to the Q1 increase.

Q: In H1, personnel expenses increased significantly because you focused on presales. Am I correct in understanding that orders received in H1 will be translated into sales and contribute to profit in H2?

A：Yes, that is correct.

Q：Regarding the "One Version UP" strategy for SEs you mentioned when talking about the next-medium-term management plan, will this involve upfront costs? How will you approach the balance between the top line and costs when drawing up the medium-term management plan?

A : We believe, for example, this is not a simple matter of increasing mid-career recruitment to gain new technologies, rather it is a wide-reaching matter that encompasses the nature of organizations and personnel systems and remuneration systems. Accordingly, this will probably be a strategy which will take three years to accomplish.

Q：In your view, what is the key to being a winner in the digital transformation era? In particular, which areas will CTC strengthen in the IT platform domain?

A：A sense of speedy when developing IT platforms is the most important factor.

The crucial question is how quickly we can create infrastructure to keep pace with advances in communications technologies of endpoint such as 5G, local 5G and Wi-Fi6 and infrastructure that is linked with applications related to these technologies. In the past, we met such needs with products. However, in the future, we will meet needs with software and for this reason, we intend to focus on improving the skills of software engineers to make sure we succeed.