

Announcement of 1st Half Operating Results for the Fiscal Year Ending March 31, 2021

November 2, 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.
• A numerical notation in this document has been changed from rounding down to rounding off to the nearest full unit since FY2020. The figures for FY2019 has been changed to the same notation.

I **FY2020**
Overview of Operating Results

II **FY2018~FY2020**
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III **FY2020**
Operating Results Forecast

I FY2020 Overview of Operating Results

II FY2018~FY2020 Progress of Medium-Term Management Plan

III FY2020 Operating Results Forecast

Performance Highlights for 1st half FY2020

- In the first half of the fiscal year, revenue, gross profit, orders received and backlogs reached record highs after the merger FY2006.
- Profit items below operating profit decreased chiefly due to an increase in personnel expenses.
- The impact of the COVID-19 in the first half of the year was almost as expected

Performance highlights (Compared with 1st half FY2019)

(Billions of yen)

	1st Half FY2019 Results	1st Half FY2020 Results	YoY change	YoY change (%)
Revenue	210.4	215.0	+4.7	+2.2%
Gross profit	50.2	51.4	+1.2	+2.3%
Gross profit margin	23.9%	23.9%	+0.0p	-
Other income and expenses	(35.5)	(38.1)	(2.5)	+7.1%
Operating income	14.7	13.3	(1.4)	(9.3%)
Operating income margin	7.0%	6.2%	(0.8p)	-
Net profit attributable to CTC's shareholders	9.9	9.2	(0.7)	(6.7%)
Orders received	210.7	216.1	+5.4	+2.5%
Backlogs	268.2	273.3	+5.2	+1.9%



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1st Half FY2020 Performance highlights

[Revenue]

Revenue increased, particularly from the telecoms industry, public offices and railroad companies.

[Gross profit]

Rose with the increase in revenue.

The gross profit margin excluding the effect of unprofitable projects improved 0.3 p year on year.

[Other income and expenses]

SG&A expenses increased, chiefly reflecting increases in personnel expenses.

[Operating income]

Decreased due to an increase in other income and expenses despite an increase in gross profit.

[Net profit attributable to CTC's shareholders]

Decreased, reflecting the decrease in operating income.

[Order received]

Orders primarily from the telecoms industry and social infrastructure, municipalities rose.

[Backlogs]

Increased in business for telecoms industry, social infrastructure and government financial institutions.

Performance by business group

(Billions of yen)

	Orders received			Revenue			Backlogs		
	1st Half FY2019 Results	1st Half FY2020 Results	YoY Change	1st Half FY2019 Results	1st Half FY2020 Results	YoY Change	1st Half FY2019 Results	1st Half FY2020 Results	YoY Change
Enterprise	55.6	49.3	(6.4)	50.6	50.7	+0.1	64.9	64.4	(0.5)
Distribution	18.0	19.1	+1.0	25.8	23.0	(2.8)	27.2	24.1	(3.1)
Telecommunication	72.4	80.2	+7.8	65.9	72.4	+6.5	84.7	88.5	+3.8
Regional & Social Infrastructure	30.8	34.8	+3.9	26.9	28.9	+2.1	51.5	53.1	+1.6
Financial Services	10.2	11.2	+0.9	11.0	11.4	+0.3	14.7	19.6	+4.8
Others	23.6	21.6	(2.0)	30.1	28.7	(1.5)	25.2	23.7	(1.4)
Total	210.7	216.1	+5.4	210.4	215.0	+4.7	268.2	273.3	+5.2

Performance by Business group

[Enterprise]

Orders particularly from infrastructure equipment for manufacturers and energies industry decreased.

Revenue was roughly on a par with the previous fiscal year.

[Distribution]

Orders rose, particularly from development for distribution industry.

Revenue declined, particularly from development for distribution industry, credit card companies and infrastructure equipment for credit card companies.

[Telecommunication]

Orders and revenue rose, particularly from infrastructure equipment for telecoms companies and 5G related projects.

[Regional & Social infrastructure]

Orders rose, particularly from infrastructure equipment for social infrastructures and municipalities.

Revenue increased, particularly from infrastructure equipment and development in public offices and railroad companies.

[Financial Services]

Orders rose, particularly from infrastructure equipment and development for government financial institutions. Revenue was roughly on a par with the previous fiscal year.

[Others]

Orders decreased, particularly for infrastructure equipment and operation at domestic and overseas consolidated subsidiaries.

Revenue declined, particularly due to operation at domestic consolidated subsidiaries.

Performance by business model

(Billions of yen)

	Orders received			Revenue			Backlogs		
	1st Half FY2019 Results	1st Half FY2020 Results	YoY Change	1st Half FY2019 Results	1st Half FY2020 Results	YoY Change	1st Half FY2019 Results	1st Half FY2020 Results	YoY Change
Services	74.2 (35.2%)	72.8 (33.7%)	(1.4)	92.3 (43.9%)	93.9 (43.6%)	+1.5	172.1 (64.2%)	176.2 (64.5%)	+4.0
SI Development	51.8 (24.6%)	52.2 (24.2%)	+0.4	47.1 (22.4%)	44.7 (20.8%)	(2.4)	36.5 (13.6%)	34.8 (12.7%)	(1.7)
Products	84.7 (40.2%)	91.0 (42.1%)	+6.4	71.0 (33.7%)	76.5 (35.6%)	+5.5	59.5 (22.2%)	62.4 (22.8%)	+2.9
Total	210.7	216.1	+5.4	210.4	215.0	+4.7	268.2	273.3	+5.2

*Within the parenthesis is composition ratio.



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Performance by business model

[Services]

Orders decreased, particularly from maintenance for the manufacturing and telecoms companies.
Revenue increased, particularly from maintenance for the energy and telecoms companies.

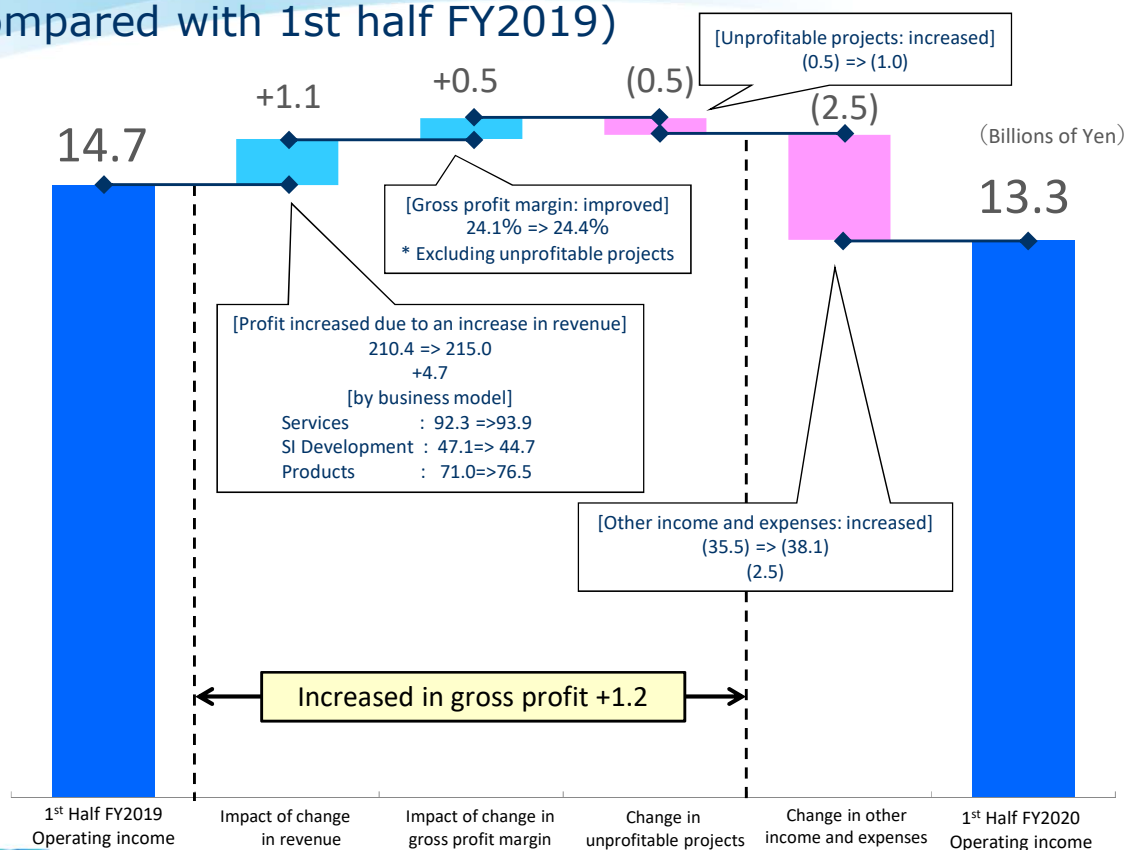
[SI Development]

Orders almost unchanged.
Revenue decreased, chiefly from development for distribution.

[Products]

Orders rose, particularly from infrastructure equipment for telecoms companies and 5G related projects. Products resale for social infrastructures also rose.
Revenue increased, mainly from 5G related projects, infrastructure equipment for public offices and also infrastructure projects at overseas consolidated subsidiaries.

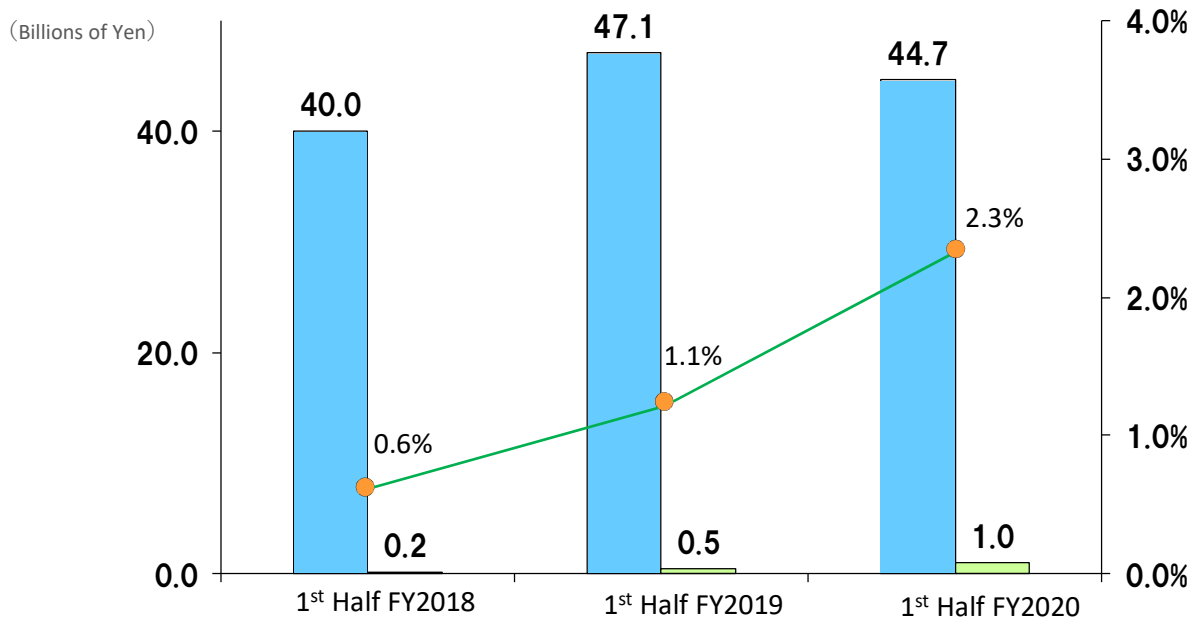
Main reasons for YoY changes in operating income (Compared with 1st half FY2019)



For reference: Revenue and unprofitable projects in SI development

The ratio of unprofitable projects to SI development revenue increased.

■ SI development revenue ■ Value of unprofitable projects ● Incidence of unprofitable projects



For reference: Breakdown of “Other income and expenses”

(Billions of yen)

	1st Half FY2019 Results	1st Half FY2020 Results	YoY Change
Personnel expenses	(20.6)	(22.9)	(2.3)
Outside staff expenses	(3.2)	(3.8)	(0.7)
Depreciation and amortization	(3.1)	(3.4)	(0.3)
Others	(9.0)	(8.2)	+0.7
SG&A expenses	(35.8)	(38.4)	(2.5)
Other income	0.4	0.5	+0.1
Other expenses	(0.0)	(0.2)	(0.1)
Other income and expenses	(35.5)	(38.1)	(2.5)

Breakdown of “Other income and expenses”

[Personnel expenses]

Personnel expenses increased due to an increase in number of employees, salaries and performance-linked bonuses.

Transfer amount to cost from SG&A expenses declined due to temporary suspension and postponement of SI development projects because of the impacts of COVID-19, in addition to that, by an increase in presales activities for obtaining new projects.

[Outside staff expenses]

Increased due to an increase in number of outside staff.

[Other expenses]

Travel expenses and overseas travel expenses declined due to a decrease in business trips.

For reference: Consolidated balance sheets

(Billions of yen)

	End of FY2019	End of 1st half FY2020	YoY Change
Current assets	324.7	314.4	(10.3)
Non current assets	114.1	113.7	(0.4)
Total assets	438.8	428.1	(10.8)
Current liabilities	162.6	147.9	(14.7)
Non current liabilities	37.6	37.6	+0.0
Total liabilities	200.3	185.5	(14.8)
Equity	238.6	242.6	+4.0
Total liabilities and equity	438.8	428.1	(10.8)

1. Current assets :	(10.3)
Cash and cash equivalents	(4.3)
Trade and other receivables	(31.1)
Other current assets	+25.1
2. Non-current assets :	(0.4)
Property, plant and equipment	(1.1)
Goodwill	+0.5
Shares of subsidiaries and associates	+1.1
Other non-current financial assets	(0.9)
3. Current liabilities :	(14.7)
Trade and other payables (Current)	(17.8)
Income taxes payables	(8.6)
Liabilities for employee benefits	(4.1)
Provision	+1.0
Other current liabilities	+14.9
4. Non-current liabilities :	+0.0
5. Equity :	+4.0
Retained earnings	+2.3
Other components of equity	+1.5

For reference: Consolidated cash flows

(Billions of Yen)

	1st Half FY2019 Results	1st Half FY2020 Results	YoY Change
Cash and cash equivalents at the beginning of the period	58.9	74.6	+15.7
Operating activities	15.1	8.3	(6.8)
Investing activities	(7.6)	(3.2)	+4.4
Financing activities	(8.1)	(9.4)	(1.4)
Cash and cash equivalents at the end of the period	58.3	70.3	+12.1
Free cash flow	7.5	5.2	(2.4)

1. Cash flows from operating activities :	(6.8)
Profit before tax	(1.3)
A decrease (an increase) in trade and other receivables	(5.8)
A decrease(an increase) in trade and other payable	(2.3)
A decrease(an increase) in inventory	+1.1
Prepaid expenses	+1.7
Contract liabilities	+1.1
Payment of Corporate income tax	(2.0)
2. Cash flows from investing activities :	+4.4
Decrease (increase) in deposits other than cash equivalents	(2.0)
Purchases of shares of subsidiaries	+6.9
3. Cash flows from financing activities	(1.4)
Proceeds from sales and leaseback	(1.6)
Dividends paid	(1.0)
Repayments of lease obligations	+0.6
A decrease (an increase) in Short-term loans payable	+0.7

For reference: Performance for the 2nd quarter of FY2020 (3months)

(Billions of Yen)

	2nd Quarter FY2019 Results	2nd Quarter FY2020 Results	YoY change	YoY change (%)
Revenue	113.4	111.0	(2.4)	(2.1%)
Gross profit	27.3	26.4	(0.9)	(3.4%)
Gross profit margin	24.1%	23.8%	(0.3p)	-
Other income and expenses	(17.5)	(18.9)	(1.5)	+8.3%
Operating income	9.8	7.5	(2.4)	(24.2%)
Operating income margin	8.7%	6.7%	(2.0p)	-
Net profit attributable to CTC's shareholders	6.6	5.1	(1.5)	(22.7%)
Orders received	109.1	120.2	+11.2	+10.2%
Backlogs	268.2	273.3	+5.2	+1.9%



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Performance for the 2nd Quarter of FY2020 (3months)

[Revenue]

Decreased in business for manufacturing industry, energy companies, distribution industry and public utilities.

[Gross profit]

Decreased due to a decline revenue and an increase in unprofitable projects.

The gross profit margin excluding the effect of unprofitable projects improved 0.3p year on year.

[Other income and expenses]

SG&A expenses, chiefly personnel expenses increased.

[Operating income]

Decreased due to a decline gross profit and an increase in other income and expenses.

[Net profit attributable to CTC's shareholders]

Decreased, reflecting the decrease in operating income.

[Order received]

Orders increased, primarily from telecoms companies, social infrastructure, construction industry, municipalities.

For reference : Performance by business groups/business models for the 2nd quarter of FY2020 (3months)

(Billions of Yen)

	Orders received			Revenue		
	2nd Quarter (3months) FY2019 Results	2nd Quarter (3months) FY2020 Results	YoY Change	2nd Quarter (3months) FY2019 Results	2nd Quarter (3months) FY2020 Results	YoY Change
Enterprise	28.0	25.4	(2.7)	26.8	25.1	(1.8)
Distribution	11.1	10.7	(0.4)	13.0	11.6	(1.4)
Telecommuni- cation	40.0	48.5	+8.5	37.1	37.6	+0.5
Regional & Social Infrastructure	11.6	20.1	+8.5	15.9	14.5	(1.4)
Financial Services	6.4	5.5	(0.8)	6.0	6.1	+0.1
Others	11.9	10.0	(1.9)	14.5	16.1	+1.5
Total	109.1	120.2	+11.2	113.4	111.0	(2.4)
Services	38.0	39.1	+1.1	47.4	47.1	(0.4)
SI Development	27.4	30.8	+3.4	25.2	24.1	(1.1)
Products	43.7	50.4	+6.7	40.8	39.8	(1.0)
Total	109.1	120.2	+11.2	113.4	111.0	(2.4)



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Performance by business group (vs. 2nd Quarter FY2019)

[Enterprise]

Orders decreased, particularly from infrastructure equipment and maintenance for the manufacturing.
Revenue decreased, particularly from infrastructure equipment for manufacturing and energy companies.

[Distribution]

Orders was roughly on a par with the previous fiscal year.
Revenue declined, particularly from development for distribution industry, credit card companies and infrastructure equipment for credit card companies.

[Telecommunication]

Orders rose, particularly from 5G related projects. Revenue was roughly on a par with the previous fiscal year.

[Regional & Social infrastructure]

Orders rose, particularly from infrastructure equipment and maintenance for social infrastructures, construction industry and municipalities. Revenue decreased, particularly from infrastructure equipment for public utilities.

[Financial Services]

Orders decreased, particularly from infrastructure equipment and development for government financial institutions. Revenue was roughly on a par with the previous fiscal year.

Performance by business model(vs. 2nd Quarter FY2019)

[Services]

Orders increased, particularly from maintenance for social infrastructures and construction industry, and service for telecoms companies. Revenue almost unchanged.

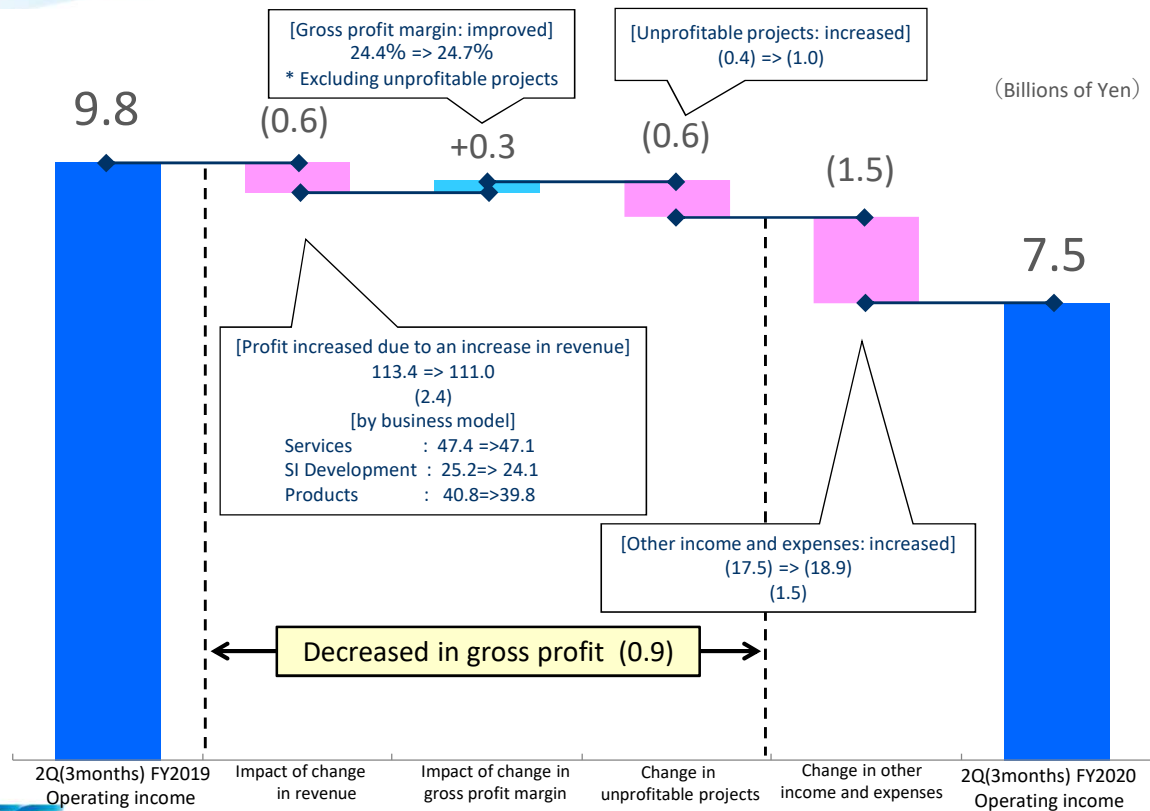
[SI Development]

Orders increased, particularly from infrastructure-building for social infrastructures and telecoms companies, development for construction industry. Revenue decreased, chiefly from development for distribution industry.

[Products]

Orders rose, particularly from infrastructure equipment for telecoms companies and 5G related projects. In addition, orders for infrastructure equipment for social infrastructures and municipalities increased. Revenue decreased, mainly from infrastructure equipment for manufacturing industry, energy companies, public utilities.

For reference: Main reasons for YoY changes in operating income for the 2nd quarter of FY2020 (3months)



For Reference: Breakdown of “Other income and expenses” for the 2nd quarter of FY2020 (3months)

(Billions of Yen)

	2nd Quarter (3months) FY2019 Results	2nd Quarter (3months) FY2020 Results	YoY change
Personnel expenses	(10.2)	(11.2)	(1.1)
Outside staff expenses	(1.5)	(1.9)	(0.4)
Depreciation and amortization	(1.5)	(1.7)	(0.2)
Others	(4.5)	(4.3)	+0.2
SG&A expenses	(17.7)	(19.2)	(1.5)
Other income	0.3	0.4	+0.1
Other expenses	(0.0)	(0.1)	(0.1)
Other income and expenses	(17.5)	(18.9)	(1.5)

Breakdown of “Other income and expenses”

[Personnel expenses]

Personnel expenses increased due to an increase in number of employees, salaries and performance-linked bonuses.

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Increased due to an increase in number of outside staff.

[Other expenses]

Travel expenses and overseas travel expenses declined due to a decrease in business trips.

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New Horizons

Horizon **1**
Go Upwards!

Horizon **2**
Go Forwards!

Horizon **4**
Consolidate Footholds!

Horizon **3**
Go Outwards!

Business Goal (FY2020)





Go Upwards

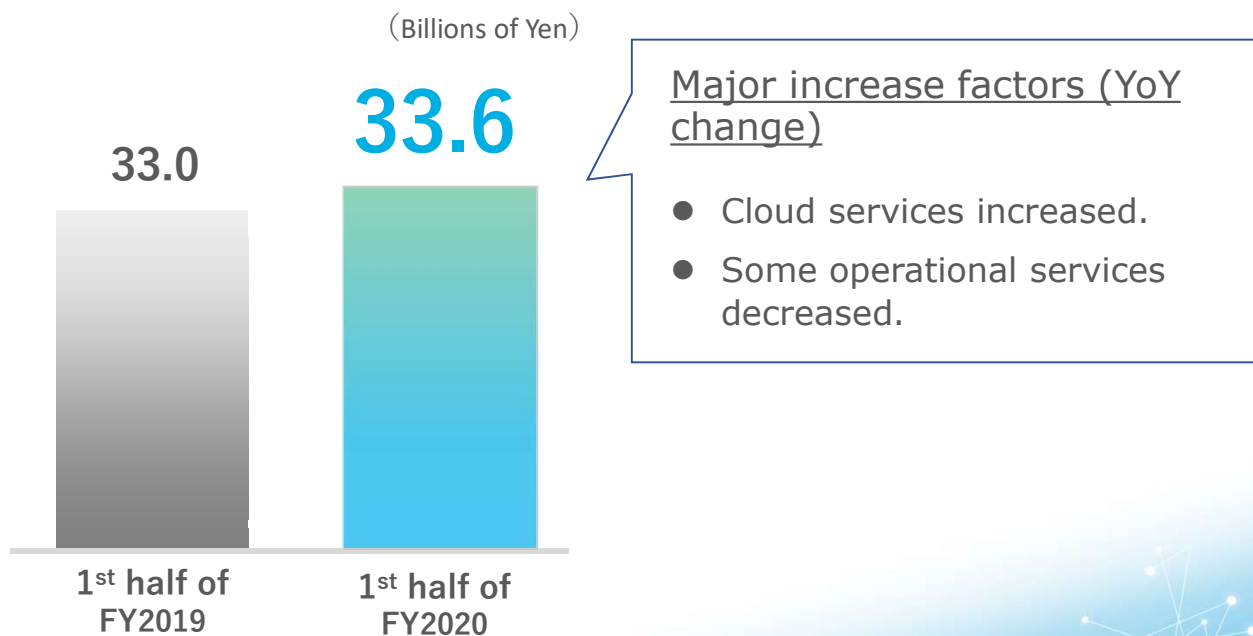
- Penetration of DX Support to Clients
- Providing New Value in New Normal



Go Forwards

- Corresponding for 5G
 - Expansion of Multi-Cloud
-

The result of recurring business for the 1st half of FY2020

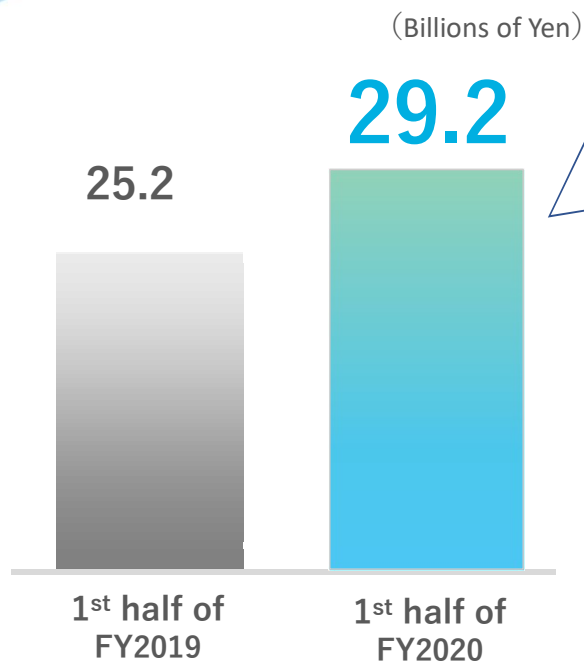




Go Outwards

- Steady Progress in ASEAN
- Promotion of Open Innovation

The result of global business for the 1st half of FY2020



Major increase factors (YoY change)

- Increased in overseas related sales in Japan.
- The effectiveness of starategic business investment in Indonesia executed in FY2019.

(Consolidated from September 2019)

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.



Consolidate Footholds

-
- Establishment of Remote Work Style
 - Social Support in the COVID-19 Pandemic
-

Social support in the COVID-19 pandemic

For Students

Benefits for continuing study by the ITOCHU Techno-Solutions Future Foundation



For Medical Institutions

Donations for expanding the inspection system and developing remedy.

For Medical Specified Nonprofit Corporation

Donation of relief supplies to prevent infection

To achieve the plan


- Expanding Orders in Business Areas of CTC's Strength
- Steady Sales from High Level Backlog
- Improvement of Engineer Paid Utilization Rate

In-Process > Presales (Compared to the 1st half)

“Engineer -> Upgrade”

Breaking out from Engineer’s shell

Impact on COVID-19 pandemic

		1 st Half	2 nd Half
Assumption at the beginning	Positive	<ul style="list-style-type: none"> •Telework Demand •Improving Productivity •Expense Reduction 	Continue from 1 st Half
	Negative	<ul style="list-style-type: none"> •Review IT Investment •A Delay of Projects •Sales Activity Restrictions 	As social activities recover, those will be resolved
			
Reality	Positive	Acceleration in some projects	Increase in expenses due to increased Sales activities
	Negative	Faster convergence than expected in some area	Continue from 1 st Half

I FY2020
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FY2020 consolidated operating results forecast

No revision of financial forecasts announced on April 30, 2020.

(Billions of Yen)

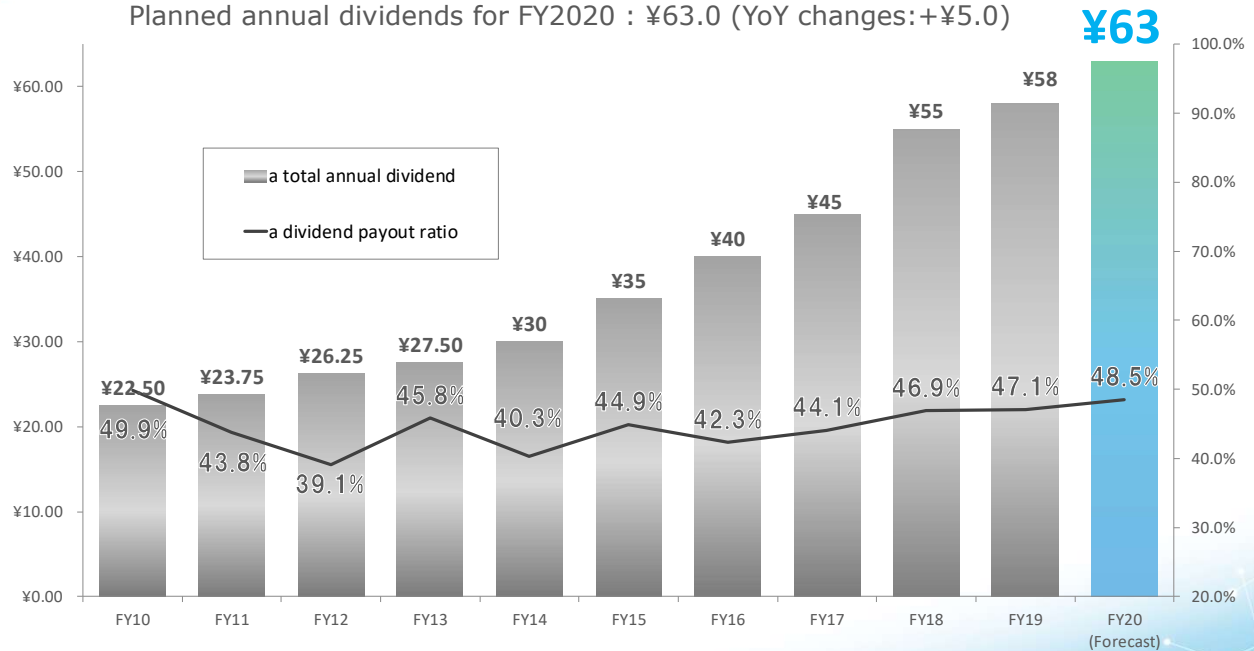
	FY2019 Results	FY2020 Forecast	YoY change	YoY change (%)
Revenue	487.0	500.0	+12.9	+2.7%
Gross profit	118.0	123.6	+5.5	+4.7%
Gross profit margin	24.2%	24.7%	+0.5p	-
Other income and expenses	(76.3)	(79.0)	(2.6)	+3.4%
Operating income	41.6	44.6	+2.9	+7.0%
Operating income margin	8.6%	8.9%	+0.4p	-
Net 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%

Shareholder returns plan

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

Planned interim dividends for FY2020 : ¥31.5 (YoY changes: +¥4.0)

Planned annual dividends for FY2020 : ¥63.0 (YoY changes: +¥5.0)



※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 is the Answer.”