

# Operating Results for the 3<sup>rd</sup> Quarter of the Fiscal Year Ending March 31, 2023

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ITOCHU Techno-Solutions Corporation



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## Summary

### ◆ YoY Revenue growth, income decline

- Performances in the Enterprise, Regional & Social Infrastructure and Financial Services Groups were favorable thanks to continuously booming DX and Cloud computing businesses for a wide range of industries.
- The Telecommunication Group performance was sluggish due to product delivery delays stemming from the semiconductor shortage, slower investments by its customers and low-margin projects strategically acquired for new business area expansion.
- Increase in SG&A expenses mainly came from personnel expense increase due to headcount growth, salary increases, and performance-linked bonus provision.

# Performance highlights

(Yen in billions)

|  | 3rd Quarter<br>(9months)<br>FY2021 Results | 3rd Quarter<br>(9months)<br>FY2022 Results | YoY change | YoY change<br>(%) |
|--|--|--|------------|-------------------|
| Revenue  | 359.0                                      | 399.0                                      | +40.0      | +11.1%            |
| Gross profit   | 91.0                                       | 94.2                                       | +3.2       | +3.5%             |
| Gross profit margin  | 25.3%                                      | 23.6%                                      | (1.7p)     | -                 |
| Other income and expenses  | (56.1)                                     | (66.4)                                     | (10.3)     | +18.3%            |
| <Reference> Of the above, the impact from sale of data centers in Q3 FY2021* | +4.1                                       | -  | (4.1)      | +8.0%             |
| Operating income   | 34.9                                       | 27.7                                       | (7.1)      | (20.4%)           |
| Operating income margin  | 9.7%                                       | 7.0%                                       | (2.7p)     | -                 |
| Net profit attributable to CTC's shareholders                                | 24.7                                       | 19.2                                       | (5.4)      | (22.0%)           |
| Orders received  | 366.9                                      | 409.3                                      | +42.4      | +11.6%            |
| Backlogs   | 322.8                                      | 349.9                                      | +27.1      | +8.4%             |

\* The gain on sale of data centers recorded in Q3 of FY2021:

Operating income: +4.1 billion yen, Net profit attributable to CTC's shareholders: +2.8 billion yen



## ■ Revenue

- Revenue growth was strong in fields such as manufacturing, transportation, automobile, government agencies, public sector and financial services, as well as in the business of our domestic and overseas consolidated subsidiaries.

## ■ Gross profit

- Increased YoY thanks to the revenue growth despite a YoY decline of 1.7P in gross profit margin mainly due to the following reasons.
  - Revenue coming from low-margin projects strategically acquired for new business area expansion in the Telecommunication Group.
  - Up-front expenses to enhance the organizational structure and functions of one of our consolidated subsidiaries that chiefly provides maintenance and infrastructure construction services, etc.

## ■ Other income and expenses

- Increased due to a rise in personnel expenses and a drop in "Other income" reflecting lack of one-off gain such as the one from sale of data centers recorded in Q3 of FT2021.

## ■ Operating income/ Net profit attributable to CTC's shareholders

- Decreased YoY due to the gross profit margin decline and the increase in "Other income and expenses".

## ■ Orders received

- Trended firmly across a wide range of fields including manufacturing, information service, energy, transportation, pharmaceuticals, construction, automobile, public sector, social infrastructure, local government, financial services, as well as in the business of our domestic consolidated subsidiaries.

## Performance by business group

(Yen in billions)

|                                     | Orders received                               |   |            | Revenue                                       |   |            | Backlogs                                      |   |            |
|-------------------------------------|---|---|------------|---|---|------------|---|---|------------|
|                                     | 3rd Quarter<br>(9months)<br>FY2021<br>Results | 3rd Quarter<br>(9months)<br>FY2022<br>Results | YoY Change | 3rd Quarter<br>(9months)<br>FY2021<br>Results | 3rd Quarter<br>(9months)<br>FY2022<br>Results | YoY Change | 3rd Quarter<br>(9months)<br>FY2021<br>Results | 3rd Quarter<br>(9months)<br>FY2022<br>Results | YoY Change |
| Enterprise                          | 60.9  | 75.2  | +14.3      | 60.8  | 72.6  | +11.8      | 55.7  | 62.3  | +6.6       |
| Distribution                        | 34.5  | 34.9  | +0.4       | 38.6  | 43.6  | +5.0       | 27.6  | 27.0  | (0.6)      |
| Telecommuni-<br>cation              | 122.7   | 101.6   | (21.1)     | 122.8   | 120.7   | (2.1)      | 109.9   | 91.6  | (18.3)     |
| Regional & Social<br>Infrastructure | 67.3  | 79.6  | +12.3      | 59.6  | 66.4  | +6.9       | 70.2  | 82.3  | +12.1      |
| Financial Services                  | 27.4  | 55.0  | +27.6      | 29.4  | 34.1  | +4.7       | 27.6  | 49.9  | +22.3      |
| Others                              | 54.0  | 63.0  | +9.0       | 47.9  | 61.6  | +13.7      | 31.8  | 36.9  | +5.1       |
| Total                               | 366.9   | 409.3   | +42.4      | 359.0   | 399.0   | +40.0      | 322.8   | 349.9   | +27.1      |

## ■ Enterprise:

- Orders /Revenue : Grew mainly from infrastructure and Cloud computing projects for customers across a wide range of industries.

## ■ Distribution:

- Orders : Remained flat as a result that fewer orders in development projects for distribution and trading companies were mainly offset by increases in infrastructure and Cloud computing projects for distribution companies.
- Revenue: Increased mainly from development and infrastructure projects for trading, distribution and entertainment companies.

## ■ Telecommunication:

- Orders : Decreased mainly due to fewer orders in large-scale non-networking business projects and a decrease in networking business projects.
- Revenue: Decreased mainly from a decrease in networking business projects despite an increase in non-networking business projects.

## ■ Regional &amp; Social infrastructure:

- Orders : Increased mainly from common platform construction projects for public sector, operation projects for utility companies, infrastructure projects for automobile companies, and security projects for local governments, despite fewer orders in infrastructure construction projects for government agencies.
- Revenue: Increased mainly from infrastructure construction projects for government agencies, common platform construction projects for public sector and social infrastructure companies and infrastructure projects for automobile companies, despite fewer orders in infrastructure projects for social infrastructure companies.

## ■ Financial Services:

- Orders /Revenue : Increased mainly from infrastructure projects for government-affiliated financial institutions and banks.

## ■ Others:

- Orders : Increased mainly from infrastructure projects by our consolidated subsidiaries in Japan and overseas consolidated subsidiary (in Singapore).
- Revenue: Gained mainly from infrastructure projects by our consolidated subsidiaries in Japan and overseas consolidated subsidiaries (in Singapore and Malaysia).

# Performance by business model

(Yen in billions)

|                           | Orders received                            |  |               | Revenue                                    |  |               | Backlogs                                   |  |               |
|---------------------------|--|--|---------------|--|--|---------------|--|--|---------------|
|                           | 3rd Quarter<br>(9months)<br>FY2021 Results | 3rd Quarter<br>(9months)<br>FY2022 Results | YoY<br>Change | 3rd Quarter<br>(9months)<br>FY2021 Results | 3rd Quarter<br>(9months)<br>FY2022 Results | YoY<br>Change | 3rd Quarter<br>(9months)<br>FY2021 Results | 3rd Quarter<br>(9months)<br>FY2022 Results | YoY<br>Change |
| <b>Services</b>           | 117.3<br>(31.9%)                           | 140.6<br>(34.3%)                           | +23.4         | 153.0<br>(42.6%)                           | 166.2<br>(41.6%)                           | +13.2         | 180.2<br>(55.8%)                           | 199.2<br>(57.0%)                           | +19.0         |
| <b>SI<br/>Development</b> | 87.6<br>(23.9%)                            | 105.5<br>(25.8%)                           | +17.9         | 83.8<br>(23.4%)                            | 92.1<br>(23.1%)                            | +8.2          | 40.7<br>(12.6%)                            | 48.7<br>(13.9%)                            | +8.0          |
| <b>Products</b>           | 162.1<br>(44.2%)                           | 163.2<br>(39.9%)                           | +1.1          | 122.2<br>(34.0%)                           | 140.7<br>(35.3%)                           | +18.5         | 101.9<br>(31.6%)                           | 102.0<br>(29.1%)                           | +0.1          |
| <b>Total</b>              | 366.9                                      | 409.3                                      | +42.4         | 359.0                                      | 399.0                                      | +40.0         | 322.8                                      | 349.9                                      | +27.1         |

\* Percentage shows composition ratio

## ■ Services

- Orders : Increased mainly from Cloud computing projects for manufacturing, construction and service companies and operation and maintenance projects for manufacturing and utility companies and government-affiliated financial institutions, despite fewer orders in operation projects for distribution companies.
- Revenue: Increased mainly from Cloud computing projects for distribution companies, maintenance and operation projects for public sector and utility companies, and services for banks.

## ■ SI Development

- Orders : Increased mainly from development projects for transportation companies, common platform projects for research institutes and public sector and infrastructure construction projects for government-affiliated financial institutions, despite fewer orders in infrastructure construction projects for telecommunication carriers.
- Revenue: Rose mainly from common platform projects for public sector and infrastructure construction projects for government agencies and government-affiliated financial institutions, despite fewer orders in infrastructure construction projects for telecommunication carriers.

## ■ Products

- Orders : Grew mainly from infrastructure projects for manufacturing and entertainment companies, public sector, automobile companies, government-affiliated financial institutions and banks, despite fewer orders in networking projects for telecommunication carriers.
- Revenue: Increased mainly from infrastructure projects for manufacturing, energy and entertainment companies.

## Breakdown of “Other income and expenses”

(Yen in billions)

|                  |                                  | 3rd Quarter<br>(9months)<br>FY2021<br>Results | 3rd Quarter<br>(9months)<br>FY2022<br>Results | YoY Change     |
|------------------|----------------------------------|---|---|----------------|
| SG&A<br>expenses | Personnel expenses               | (36.5)  | (40.3)  | (3.8)          |
|                  | Outside staff expenses           | (5.6)   | (6.2)   | (0.6)          |
|                  | Depreciation and amortization    | (6.5)   | (4.7)   | +1.9           |
|                  | Others                           | (12.2)  | (16.9)  | (4.7)          |
|                  |                                  | (60.8)  | (68.0)  | (7.2)          |
|                  | Other income                     | 4.8   | 1.8   | (3.0)          |
|                  | Other expenses                   | (0.1)   | (0.2)   | (0.1)          |
|                  | <b>Other income and expenses</b> | <b>(56.1)</b>                                 | <b>(66.4)</b>                                 | <b>(10.3)*</b> |

\*YoY change in “Other income and expenses” excluding gain on the sale of data centers of +4.1 billion yen : (6.2 billion yen)

## &lt;SG&amp;A expenses&gt;

## ■ Personnel expenses

- Rose mainly due to the headcount growth, salary increases, performance-linked bonus provision, one-time 50th anniversary payments to employees in Q1 FY2022 and the lower utilization rates in the Telecommunication Group.

## ■ Others

- Increased mainly due to improvement of our internal IT environment and increased sales activities.

\*Expenses associated with head office relocation in the previous fiscal year were divided into “Depreciation and amortization” and “Others” but the total amount of the said expenses was negligible. Therefore, the positive and negative impacts on YoY changes from the total amount were negligible as well.

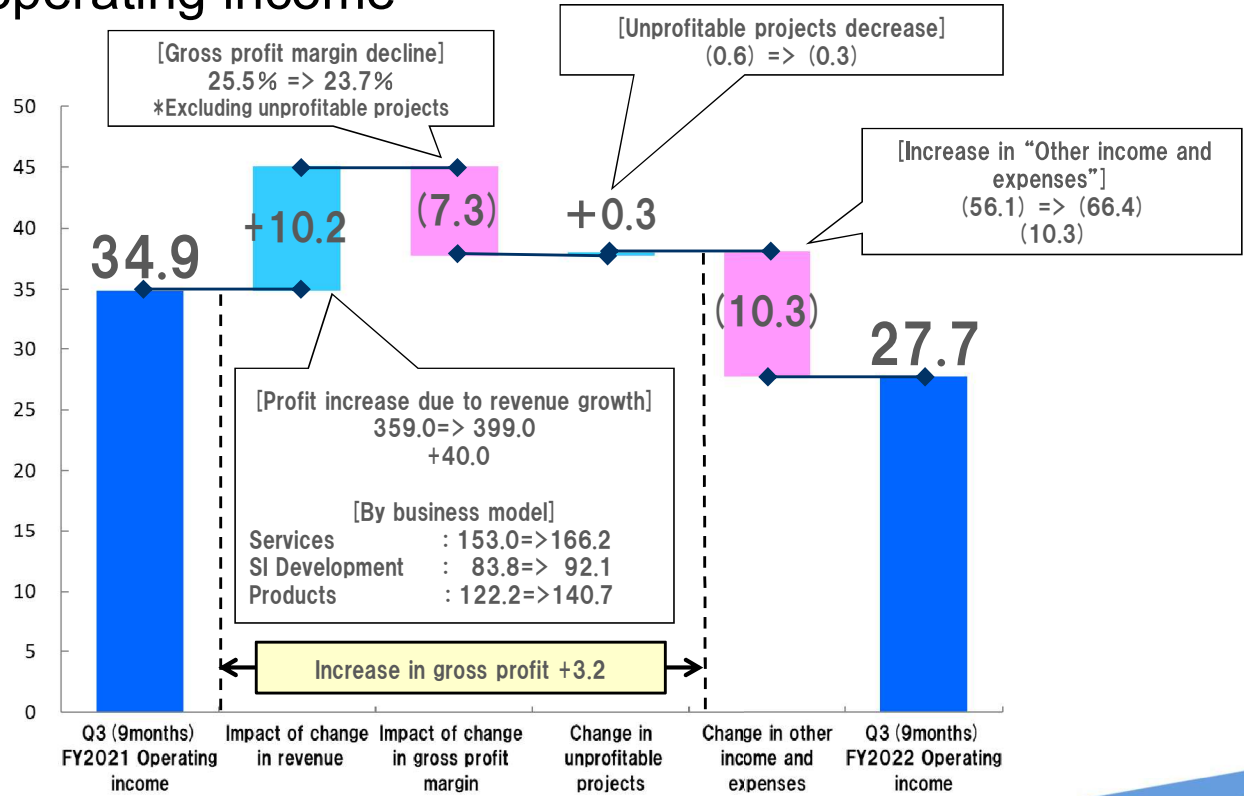
## &lt;Other income&gt;

- The negative YoY change was due to lack of one-off gain such as the one from sale of data centers recorded in Q3 of FY2021.
- Recognized foreign exchange gains on foreign currency deposits held to hedge foreign exchange risk.



# Main reasons for YoY changes in operating income

(Yen in billions)



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# FY2022 Earnings Forecast Revision

(Yen in billions)

|  | FY2021<br>Results | FY2022<br>Revised<br>forecast | YoY change<br>(%) | FY2022<br>Forecast<br>before<br>revision | Change from<br>before<br>revision |
|--|-------------------|-------------------------------|-------------------|--|-----------------------------------|
| Revenue  | 522.4             | 563.0                         | +7.8%             | 553.0                                    | +10.0                             |
| Gross profit                                     | 134.7             | 136.5                         | +1.4%             | 143.0                                    | (6.5)                             |
| Gross profit margin                              | 25.8%             | 24.2%                         | -                 | 25.9%                                    | (1.6p)                            |
| Other income and<br>expenses                     | (84.2)            | (91.5)                        | +8.7%             | (87.5)                                   | (4.0)                             |
| Operating income                                 | 50.5              | 45.0                          | (10.9%)           | 55.5                                     | (10.5)                            |
| Operating income margin                          | 9.7%              | 8.0%                          | -                 | 10.0%                                    | (2.0p)                            |
| Net profit attributable to<br>CTC's shareholders | 35.4              | 33.0                          | (6.7%)            | 38.0                                     | (5.0)                             |
| Order received                                   | 547.0             | 607.0                         | +11.0%            | 563.0                                    | +44.0                             |
| Backlogs   | 339.6             | 383.6                         | +13.0%            | 349.6                                    | +34.0                             |

## <Reason for revision>

- Our revenue is expected to exceed the previous forecast since orders received for DX, Cloud computing, and other service businesses from a wide range of industries have remained strong.
- We anticipate to see a decline in revenue from the existing business areas of the Telecommunication Group due to product delivery delays stemming from the semiconductor shortage and slower investments by its customers. The Group's gross profit margin lowered because of our efforts to acquire new business areas. These impacts have made it difficult for us to deliver the initial company-wide operating income forecast.
- We are considering taking measures potentially including posting impairment loss for one of our overseas consolidated subsidiaries.

\*Our dividend forecast has remained unchanged.

## For reference : Comparison vs. FY2022 Initial Earnings Forecast

|                                  | Q3 YTD   | Q4   |
|----------------------------------|--|--|
| Enterprise                       | <ul style="list-style-type: none"> <li>• Outperformed with projects for major customers and customers across various industries</li> </ul>   | <ul style="list-style-type: none"> <li>• Will remain strong in performance</li> </ul>  |
| Distribution                     | <ul style="list-style-type: none"> <li>• Almost on a par with the initial forecast</li> </ul>  | <ul style="list-style-type: none"> <li>• Almost on a par with the initial forecast</li> </ul>  |
| Tele-communication               | <ul style="list-style-type: none"> <li>• Underperformed with decreases in NW business projects for telecommunication carriers</li> </ul>   | <ul style="list-style-type: none"> <li>• Sales opportunity loss from impact of semiconductor shortage</li> </ul>   |
| Regional & Social Infrastructure | <ul style="list-style-type: none"> <li>• Outperformed with projects for automobile &amp; utility companies and public sector</li> </ul>  | <ul style="list-style-type: none"> <li>• Will remain strong in performance</li> </ul>  |
| Financial Services               | <ul style="list-style-type: none"> <li>• Outperformed with projects for government-affiliated financial institutions and banks</li> </ul>  | <ul style="list-style-type: none"> <li>• Will remain strong in performance</li> </ul>  |
| Others                           | <ul style="list-style-type: none"> <li>• As for overseas consolidated subsidiaries, they generated mixed performances by country</li> <li>• GPM declined at the domestic consolidated subsidiary that provides maintenance and infrastructure construction services</li> </ul> | <ul style="list-style-type: none"> <li>• Will consider posting impairment loss for one of our overseas consolidated subsidiaries</li> <li>• Can expect a moderate recovery in this business group</li> </ul> |

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## For reference : Performance

(Yen in billions)

|  | 3rd Quarter<br>(3months)<br>FY2021 Results | 3rd Quarter<br>(3months)<br>FY2022 Results | YoY change | YoY change<br>(%) |
|--|--|--|------------|-------------------|
| Revenue  | 125.6                                      | 144.5                                      | +19.0      | +15.1%            |
| Gross profit   | 31.9                                       | 33.6                                       | +1.8       | +5.5%             |
| Gross profit margin  | 25.4%                                      | 23.3%                                      | (2.1p)     | -                 |
| Other income and expenses  | (16.6)                                     | (23.2)                                     | (6.6)      | +39.7%            |
| <Reference> Of the above, the impact from sale of data centers in Q3 FY2021* | +4.1                                       | -  | (4.1)      | +27.6%            |
| Operating income   | 15.3                                       | 10.4                                       | (4.8)      | (31.6%)           |
| Operating income margin  | 12.2%                                      | 7.2%                                       | (5.0p)     | -                 |
| Net profit attributable to CTC's shareholders                                | 10.6                                       | 7.3  | (3.3)      | (31.3%)           |
| Orders received  | 122.5                                      | 123.2                                      | +0.7       | +0.6%             |
| Backlogs   | 322.8                                      | 349.9                                      | +27.1      | +8.4%             |

\* The gain on sale of data centers recorded in Q3 of FY2021:

Operating income: +4.1 billion yen, Net profit attributable to CTC's shareholders: +2.8 billion yen

## ■ Revenue

- Revenue growth was strong in various fields such as manufacturing, public sector, automobile, local government and financial services.

## ■ Gross profit

- Increased YoY thanks to the revenue growth despite a YoY decline of 2.1P in gross profit margin mainly due to the following reasons.
  - Lack of large-scale profitable projects recorded in Q3 2021, and revenue coming from low-margin projects strategically acquired for new business area expansion in the Telecommunication Group.
  - Up-front expenses to enhance the organizational structure and functions of one of our consolidated subsidiaries that chiefly provides maintenance and infrastructure construction services etc.

## ■ Other income and expenses

- Increased due to a rise in personnel expenses and lack of one-off gain such as the one from sale of data centers recorded in Q3 of FY2021.

## ■ Operating income/ Net profit attributable to CTC's shareholders

- Decreased YoY due to the gross profit margin decline and the increase in "Other income and expenses".

## ■ Orders received

- Remained flat as a result that order increases in projects for manufacturing, service, transportation, information service, distribution, automobile, construction and financial services companies were offset by fewer orders in 5G-related and non-networking business projects for telecommunication carriers.

# For reference : Performance by business group/business model

(Yen in billions)

|                   |                                     | Orders received                            |  |            | Revenue                                    |  |            |
|-------------------|-------------------------------------|--|--|------------|--|--|------------|
|                   |                                     | 3rd Quarter<br>(3months)<br>FY2021 Results | 3rd Quarter<br>(3months)<br>FY2022 Results | YoY Change | 3rd Quarter<br>(3months)<br>FY2021 Results | 3rd Quarter<br>(3months)<br>FY2022 Results | YoY Change |
| By business group | Enterprise                          | 23.5                                       | 27.8                                       | +4.3       | 22.7                                       | 28.4                                       | +5.8       |
|                   | Distribution                        | 11.0                                       | 11.5                                       | +0.5       | 13.5                                       | 14.0                                       | +0.5       |
|                   | Telecommuni-<br>cation              | 39.4                                       | 35.5                                       | (3.8)      | 43.0                                       | 42.5                                       | (0.4)      |
|                   | Regional & Social<br>Infrastructure | 21.4                                       | 23.0                                       | +1.6       | 18.5                                       | 23.0                                       | +4.5       |
|                   | Financial Services                  | 8.6  | 9.1  | +0.4       | 9.3  | 12.7                                       | +3.4       |
|                   | Others                              | 18.5                                       | 16.3                                       | (2.3)      | 18.6                                       | 23.9                                       | +5.3       |
|                   | Total                               | 122.5                                      | 123.2                                      | +0.7       | 125.6                                      | 144.5                                      | +19.0      |
| By business model | Services                            | 37.7                                       | 37.2                                       | (0.5)      | 52.8                                       | 57.0                                       | +4.2       |
|                   | SI Development                      | 28.3                                       | 35.3                                       | +7.0       | 31.3                                       | 34.5                                       | +3.3       |
|                   | Products                            | 56.4                                       | 50.7                                       | (5.8)      | 41.5                                       | 53.0                                       | +11.5      |
|                   | Total                               | 122.5                                      | 123.2                                      | +0.7       | 125.6                                      | 144.5                                      | +19.0      |

## <Performance by Business Group>

### ■ Enterprise

Orders increased mainly from infrastructure construction projects for service companies, development projects for transportation companies and Cloud computing projects for manufacturing companies, while revenue rose mainly from infrastructure projects for manufacturing and pharmaceutical companies and common platform construction projects for research institutes.

### ■ Distribution

Both orders and revenue were flat YoY.

### ■ Telecommunication

Orders declined from fewer orders in large-scale non-networking business and 5G-related projects, while revenue was almost flat YoY.

### ■ Regional & Social infrastructure

Orders rose mainly from infrastructure projects for automobile companies despite fewer orders in Cloud computing projects for public sector, while revenue increased mainly from infrastructure projects for automobile companies.

### ■ Financial Services

Orders were almost flat YoY, while revenue rose mainly from infrastructure projects for banks and government-affiliated financial institutions.

### ■ Others

Orders decreased mainly from fewer orders for infrastructure projects received by overseas (the U.S, Indonesia) consolidated subsidiaries, while revenue increased mainly from infrastructure projects by overseas consolidated subsidiaries in Singapore and Malaysia.

## <Performance by Business Model>

### ■ Services

Orders were almost flat YoY as a result that increases in Cloud computing and maintenance projects for service companies were offset by fewer orders in network operation and maintenance projects for government agencies and Cloud computing projects for public sector. Revenue rose mainly from Cloud computing projects for manufacturing companies and operation projects for public sector.

### ■ SI Development

Orders climbed mainly from development projects for transportation companies and banks, common platform construction projects for research institutes and infrastructure construction projects for telecommunication carriers. Revenue increased mainly from development projects for transportation companies and construction projects for research institutes, government-affiliated financial institutions and banks, despite a high base effect related to revenue growth from 5G-related projects for telecommunication carriers in the previous year.

### ■ Products

Orders declined from a high base effect related to 5G-related projects for telecommunication carriers recorded in Q3 of the previous year, despite increases in infrastructure projects for automobile and construction companies and some other projects. Revenue grew mainly from infrastructure projects for manufacturing and automobile companies, telecommunication carriers and financial institutions.

# For reference : Breakdown of “Other income and expenses”

(Yen in billions)

|                  |                                  | 3rd Quarter<br>(3months)<br>FY2021<br>Results | 3rd Quarter<br>(3months)<br>FY2022<br>Results | YoY change    |
|------------------|----------------------------------|---|---|---------------|
| SG&A<br>expenses | Personnel expenses               | (12.8)  | (14.0)  | (1.2)         |
|                  | Outside staff expenses           | (1.8)   | (2.0)   | (0.2)         |
|                  | Depreciation and amortization    | (1.8)   | (1.6)   | +0.2          |
|                  | Others                           | (4.6)   | (5.9)   | (1.3)         |
|                  |                                  | (21.1)  | (23.6)  | (2.5)         |
|                  | Other income                     | 4.5   | 0.6   | (3.8)         |
|                  | Other expenses                   | (0.0)   | (0.2)   | (0.2)         |
|                  | <b>Other income and expenses</b> | <b>(16.6)</b>                                 | <b>(23.2)</b>                                 | <b>(6.6)*</b> |

\* YoY change in “Other income and expenses” excluding gain on sale of data centers of +4.1 billion yen : (2.5 billion yen)

## <SG&A expenses>

### ■ Personnel expenses

- Rose mainly due to the headcount growth, salary increases, performance-linked bonus provision and the lower utilization rates in the Telecommunication Group.

### ■ Others

- Increased as a result of aggregation of small amount expenses for improvement of our internal IT environment and increased sales activities.

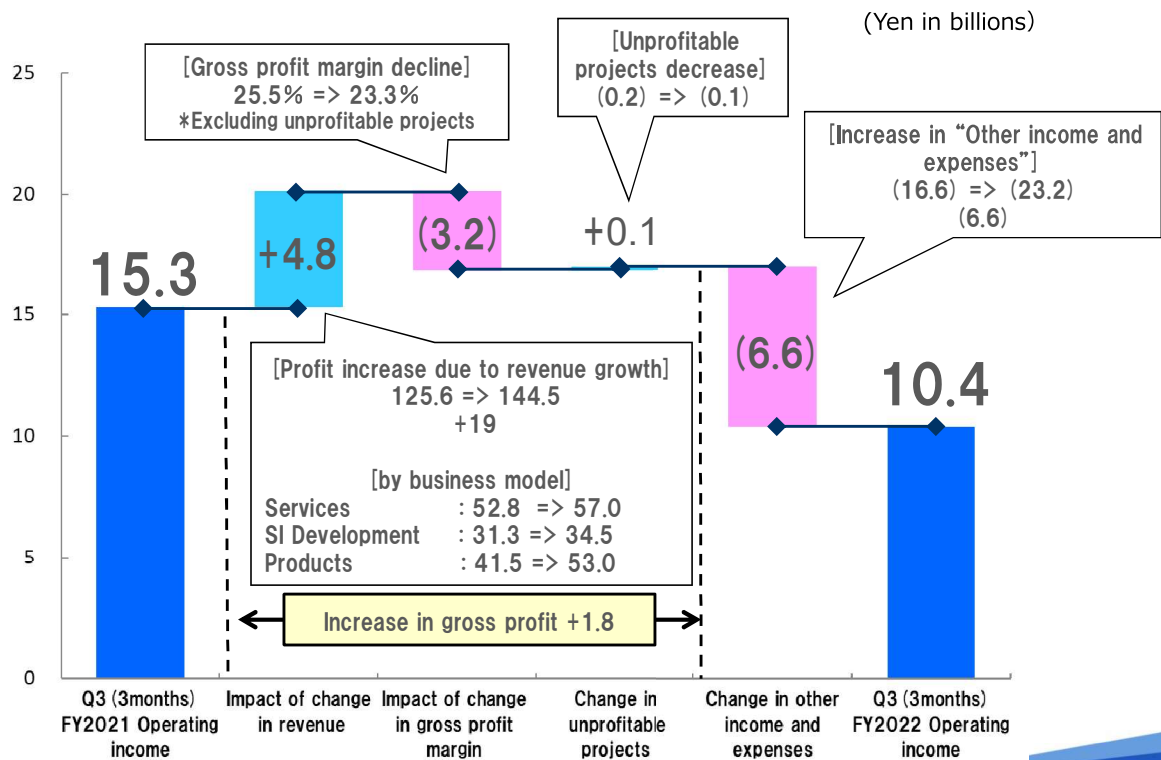
## <Other income>

- The negative YoY change was due to lack of one-off gain such as the one from sale of data centers recorded in Q3 of FY2021.

For reference :

3rd Quarter(3months) FY2022

## Main reasons for YoY changes in operating income



# Beyond the Horizons



To the Future Ahead