Business and Financial Update for the 1st Half of Fiscal Year 2024

Nov 6, 2024

ITOCHU Techno-Solutions Corporation

CTC
Challenging Tomorrow's Changes

Contents

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Financial Results for 1st Half of FY2024

- Orders received, revenue and all the income items reached all-time highs thanks to growth of existing businesses on the whole and favorable performances of relatively new businesses including generative AI platform construction projects.
- Orders received grew by nearly 20%, while revenue and gross profit grew by more than 20%. Furthermore, YoY growth rates of operating income and net profit exceeded 40%.

(Billions of yen)

	1st Half FY2023 Results	1st Half FY2024 Results	YoY change	YoY change (%)
Revenue	274.6	345.6	+71.0	+25.8%
Gross profit	69.2	85.2	+16.0	+23.1%
Gross profit margin	25.2%	24.6%	(0.6p)	-
Other income and expenses	(48.2)	(54.9)	(6.7)	+13.8%
Operating income	21.0	30.3	+9.3	+44.3%
Operating income margin	7.6%	8.8%	+1.2p	-
Net profit attributable to CTC's shareholders	14.9	21.4	+6.5	+43.8%
Orders received	296.9	356.1	+59.2	+19.9%
Backlogs	419.3	453.9	+34.7	+8.3%

Orders received

- Orders from service platform building projects, including generative AI platform construction projects for Internet-related service providers, remained brisk.
- Orders from cloud integration projects for construction companies and government agencies were strong.
- Orders from the manufacturing, petroleum wholesaling, electric power, finance and other wide range of industries remained at a high level.
- The collaboration with ITOCHU Corporation and its Group of Digital Businesses continued contributing to order growth from new business acquisitions.

Revenue

- Revenue from service platform building projects, including generative AI platform construction projects for Internet-related service providers, was strong and projects for telecommunications carriers' facilities also saw revenue growth.
- Revenue from the following significantly increased: cloud integration and security projects for the power generation, finance, manufacturing and other wide range of industries.
- Revenue from projects to build environments for data utilization of the manufacturing and financial industries was brisk.

Gross profit

- Our overall business trended favorably. In particular, product sales in generative AI projects grew significantly, which contributed to marking the 9th consecutive first-half YoY increase in gross profit.
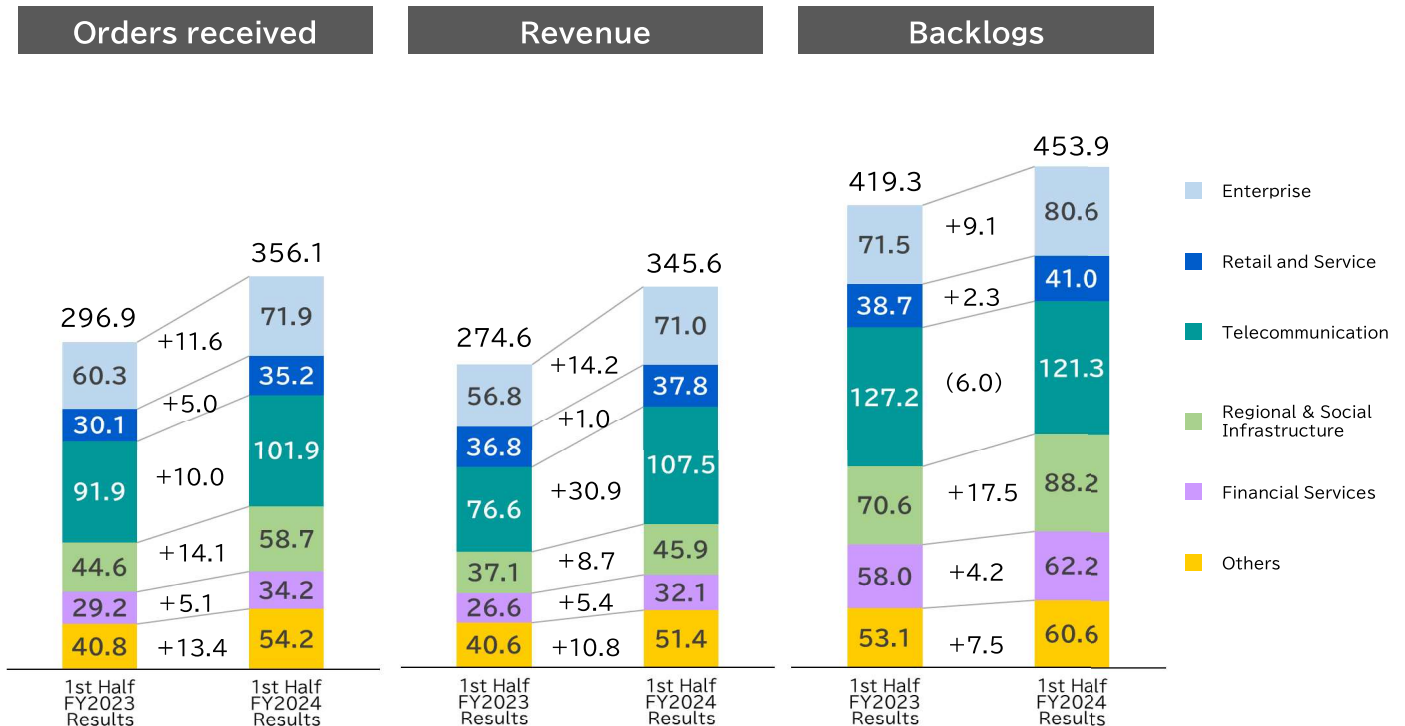
1st Half of FY2024
Orders received, revenue and backlogs by business group

(Billions of yen)

Orders received | **Revenue** | **Backlogs**

Legend:
- Enterprise
- Retail and Service
- Telecommunication
- Regional & Social Infrastructure
- Financial Services
- Others

Orders received

	1st Half FY2023 Results	Change	1st Half FY2024 Results
Total	296.9		356.1
Enterprise	60.3	+11.6	71.9
Retail and Service	30.1	+5.0	35.2
Telecommunication	91.9	+10.0	101.9
Regional & Social Infrastructure	44.6	+14.1	58.7
Financial Services	29.2	+5.1	34.2
Others	40.8	+13.4	54.2

Revenue

	1st Half FY2023 Results	Change	1st Half FY2024 Results
Total	274.6		345.6
Enterprise	56.8	+14.2	71.0
Retail and Service	36.8	+1.0	37.8
Telecommunication	76.6	+30.9	107.5
Regional & Social Infrastructure	37.1	+8.7	45.9
Financial Services	26.6	+5.4	32.1
Others	40.6	+10.8	51.4

Backlogs

	1st Half FY2023 Results	Change	1st Half FY2024 Results
Total	419.3		453.9
Enterprise	71.5	+9.1	80.6
Retail and Service	38.7	+2.3	41.0
Telecommunication	127.2	(6.0)	121.3
Regional & Social Infrastructure	70.6	+17.5	88.2
Financial Services	58.0	+4.2	62.2
Others	53.1	+7.5	60.6

Enterprise

Orders

Orders increased mainly from seismic analysis projects for energy-related facilities, projects to deploy virtual desktop environments for automobile design work, network equipment renewal projects for manufacturers and cloud migration of contact centers for insurance companies.

Revenue

Revenue was strong mainly in private cloud infrastructure and integrated storage environment construction projects for automobile manufactures, and network equipment renewal projects and provision of internal communication tools for manufactures.

Retail and Service

Orders

Orders increased from POS system renewal projects for petroleum wholesalers, internal infrastructure development projects for distribution companies and provision of solutions to integrate ERP and peripheral systems for transportation companies.

Revenue

Revenue mainly from POS system renewal projects for petroleum wholesalers and provision of solutions to integrate ERP and peripheral systems for transportation companies was favorable. Revenue from system development and operation/maintenance projects for trading companies was also steady.

Telecommunication

Orders

Orders were brisk mainly in generative AI platform construction projects for Internet-related service providers, businesses for corporate customers of information service providers, and system building projects for telecommunication facilities of telecommunications carriers.

Revenue

Revenue was strong mainly in generative AI platform construction projects for Internet-related service providers, businesses for service platform provided by telecommunications carriers and projects to build systems for telecommunication facilities of telecommunications carriers.

Regional & Social Infrastructure

Orders

Orders grew mainly from projects to improve system environments of government agencies and local governments for deployment of government cloud, power plant anomaly detection system projects for electric power companies and cloud computing projects for construction companies.

Revenue

Revenue increased mainly from DX projects for power companies facing the liberalization of electricity markets, IT environment improvement projects for semiconductor manufacturers, and projects to improve system environments of government agencies and local governments for deployment of government cloud.

Financial Services

Orders

Orders were brisk mainly from zero-trust projects for megabanks, operational system common platform construction projects for government-affiliated financial institutions and provision of service-based sales support systems for cooperative financial institutions.

Revenue

Revenue was strong mainly from provision of service-based sales support systems for cooperative financial institutions, application acceptance system projects for credit card companies and risk management application platform renewal projects for megabanks.

Others

Orders

Orders were solid mainly in IT infrastructure development projects for local based entities such as banks and public sectors and server projects for data centers by our overseas consolidated subsidiaries in Malaysia, Singapore and USA.

Revenue

Revenue was strong mainly in IT infrastructure development projects for local based entities such as hospitals, government agencies and banks and server projects for data centers by our overseas consolidated subsidiaries in Malaysia, Singapore and USA.

Four technologies identified as our focus areas

Cloud Native

ビジネスに、いま必要なアジリティを。
The agility your business needs now.

The modern business market is changing at an unprecedented speed. In order to create new values in such a market, ideas need to be shaped in a flexible and agile manner. It is the cloud-native approach that makes this possible. CTC will serve our customers as their partner on their journey to innovating their IT environments so that we can support their business success.

Security

総合力で守る。対応力で支える。
Protect with total solution.
Support with responsiveness.

CTC 's strength in the cybersecurity is our comprehensive capabilities. With unique perspective obtained from our rich experience in system development and operation, we can offer security solutions that combine multiple methods to hit the nail on the head. Our solutions cover everything from diagnosis to deployment/monitoring. We have strengths in current advanced technologies but also can combat fast-evolving and sophisticating threats. We will eliminate all business worries of our customers and support further growth of their business.

Data & Analytics

次の打ち手は、データに聞く。
Listen to the data for next action.

Data is accumulated in various types and formats and is scattered across different locations of a company. CTC's data business involves designing the optimal systems and creating the necessary environments to utilize such data as information assets. How can we gather and utilize information to increase our corporate value in a highly competitive market? We will serve our customers as their partners along every step of the way to find out solutions for this by utilizing the knowledge we have cultivated.

Advanced AI

AIで、未来を共創する。
Co-Create the Future with AI.

The world of AI continues to evolve at a rapid pace. CTC proposes the most appropriate ways to use AI by quickly discovering the latest advancements and combining them with our expertise gained through various deployments in order to make AI useful for our customers' businesses. By complying with AI governance standards, we will take responsibility for leading our customers appropriately and will work together to take on challenges for promising effective use of AI.

その未来図を、共に現実にする。
Implement the future vision together.

CTC's strength is its ability to make the envisioned future a reality through its cultivated implementation capabilities. We have an ability to take on any challenge by skillfully combining a wide range of products and services. We follow pace with rapidly changing technology on a global scale and refine our ability to make proposals that exceed expectations and to design the entire process. As our clients embark on a new future, we at CTC are your partners in taking the challenges together.
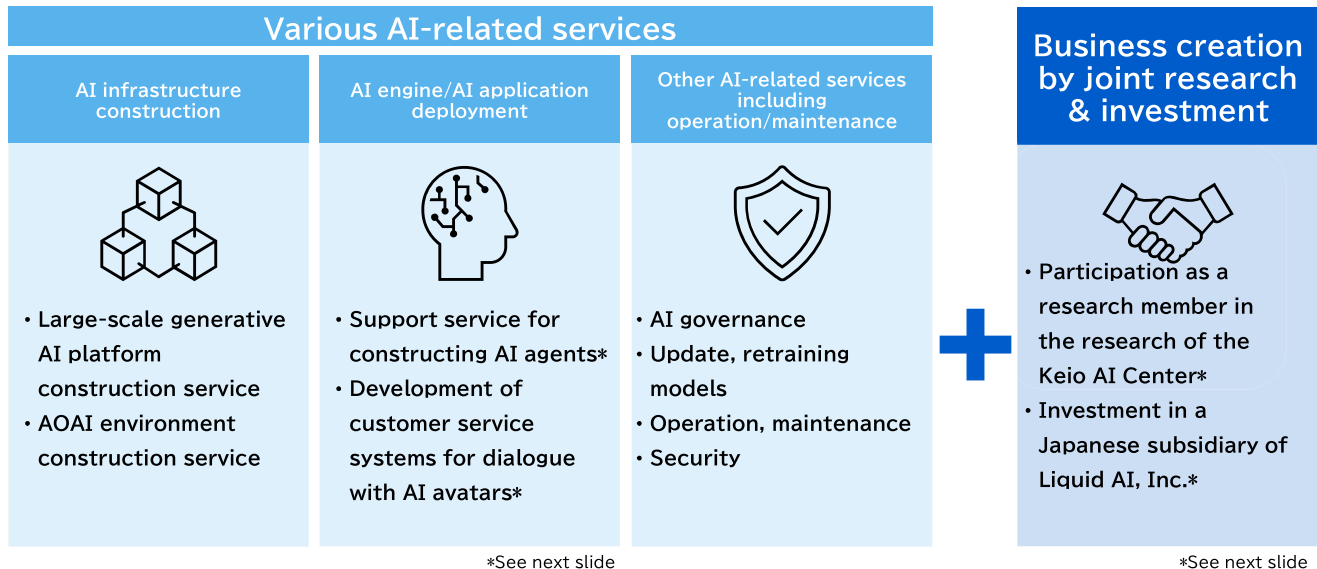
1) CTC's Advanced AI Initiatives

Accelerate AI-powered Digital Transformation of Customers

- CTC has a proven track record in the AI infrastructure construction with completion of projects worth over 20 billion yen for the past two years. In addition to that, we will accelerate our customers' digital transformation by providing a variety of AI development menu options, including AI agents, AI avatars, and lightweight AI engines.

- CTC's AI-related services and business creation initiatives

Various AI-related services

AI infrastructure construction	AI engine/AI application deployment	Other AI-related services including operation/maintenance
• Large-scale generative AI platform construction service • AOAI environment construction service	• Support service for constructing AI agents∗ • Development of customer service systems for dialogue with AI avatars∗	• AI governance • Update, retraining models • Operation, maintenance • Security

+

Business creation by joint research & investment

- Participation as a research member in the research of the Keio AI Center∗
- Investment in a Japanese subsidiary of Liquid AI, Inc.∗

∗See next slide

∗See next slide

Various AI-related services

Launch support service for constructing AI agents that help streamlining our customers' internal operations

- ✓ AI itself judges questions and instructions and generates appropriate responses by carrying out step-by-step planning, understanding and researching.

- ✓ The agent helps to greatly improve work efficiency and prevent errors and can also be used for advanced and atypical tasks.

We will build the optimal AI agent for each customer.

Launch collaboration with NTT QONOQ Corporation to develop customer service systems for dialogue with AI avatars

- ✓ Aim to reduce the burden on customer service operations and improve customer service quality by providing a customer service system that is easy to develop and to use for service users.

NTT QONOQ — AI avatar solution — NTT XR Concierge

✕

CTC — Interactive AI hub platform — Benefitter

- It is easy to integrate with generative AI and multiple external systems.
- First, the AI responds to customers, and the system makes a switch to manned responses if necessary.

Customer service by AI avatar (home screen)

Business creation by joint research & investment

Pursue new possibilities of AI with power-saving AI platform

- ✓ CTC has invested in Liquid AI Japan, Inc., a subsidiary in Japan of Liquid AI, Inc,∗ which has developed its own AI model to enable highly adaptive machine learning with minimal processing power.

- ✓ We will jointly work on development of the Japanese-language "Edge LFM", a language model unveiled by Liquid AI, Inc.

- Enabling power efficient and highly adaptive machine learning
- Accelerating deployment of AI on edge devices including home appliances and robots to further expand our AI business

Edge AI   Home appliance   Robot

Adoption example

∗ MIT spin-off start-up

Create businesses with cutting-edge AI technology through Japan-US academic partnership with industry collaborators

- ✓ In September 2024, Keio University established the "Keio AI Center" as a research base for cutting-edge AI.

- ✓ CTC participated in the collaboration as a research member, aiming to create use cases from the cutting-edge AI research with Carnegie Mellon University and other industry researchers.

Keio University   Carnegie Mellon University   Keio AI Center ⟷ CTC   Eight other research members

2)Launch of GX Support Service with Simplified Menu Options

Diagnostically assess the status of efforts to adopt IT system for GHG emissions calculation, which requires as short as two months

■ Support customers who are working to promote sustainability and GX in order to achieve reduction in GHG (greenhouse gas) emissions in the entire society

■ Provide assessment service for adopting IT to reduce workload of and improve efficiency of GHG emissions calculations and others

GX Advisory Service Starter Pack

Menu option	Assessment for IT utilization in sustainability duties	Assessment for IT utilization in CFP∗ calculation
Target customer	Sustainability Management Division	DX Promotion Division GX/Environmental Strategy Division
Service detail	• Assessment for improving information disclosure duties and efficiency	• Assessment for promoting decarbonization and improving CFP calculation efficiency

Assessment for IT utilization in sustainability duties

Organizing the current workflow → Identifying issues → Diagnostic assessment

Organize the current workflow for data collection and information disclosure

Identify issues based on the organization results

Make diagnostic assessment for IT system adoption including tool selection

Assessment for IT utilization in CFP∗ calculation

Examining currently used data → Identifying issues → Diagnostic assessment

Examine data currently used including electricity consumption for production

Identify issues based on examination results

Diagnostic assessment for IT system adoption to automate data acquisition and utilize data

∗CFP: Carbon footprint measures the total volume of greenhouse gas (GHG) emitted over the entire life cycle of a product or service from raw-material procurement to disposal or recycling and the volume is converted into an equivalent volume of CO_2 emissions.

Background of Demand for GX Support Service

■ With more serious extreme weather events, achieving carbon neutrality has become our mission on a global scale.

■ As the first step to achieve the mission, collecting data on GHG emissions for disclosure is required and the disclosure requirements have been tightened. Corporations are being urged to promote GX and to monitor and reduce their emissions.

GX investment
Market size in Japan
¥150trn

More serious extreme weather due to global warming

Natural disaster risk

Damage to primary industries

Health hazard

GX

Corporation
・Growing expectations for actions to tackle climate change
・Requirement to monitor, disclose and reduce GHG emissions
・Especially prominent importance placed on information disclosure

Achieving carbon neutrality

Reaching net zero GHG emissions by 2050
(Paris Agreement Goal: 1.5C limit)

Expectations for actions to tackle climate change by corporation

Business partner	Consumer	Government	Environmental group	Financial institution/ Shareholder	International organization
Requirement for environmentally friendly transactions and information disclosure	Growing concern about environmental issues	Formulation of regulations and legal frameworks	Requirement for information disclosure	Environmentally-friendly investment and financing	Establishment of reporting standards for targets and emissions