

Financial Results Presentation for the Second Quarter of the Fiscal Year Ending March 2019 (43rd Business Year)

Focus Systems Corporation (Securities Code: 4662)





- Financial Results for the Second Quarter of the Fiscal Year Ending March 2019 (43rd Business Year) p. 3
- Projections for the Fiscal Year Ending March 2019 (43rd Business Year) p. 23
- Supplementary Information: Current Topics p. 25
- Supplementary Information: Company Outline p. 30

Financial Results for the Second Quarter of the Fiscal Year Ending March 2019 (43rd Business Year)



Financial Results

- ✓ Second-quarter net sales post historic high
- ✓ Project expansion and acquisition of new projects boast revenues and income in all segments

Operations

- √ Advancing partnerships
 - Concluded collaborative cooperation agreement with Kasama City, Ibaraki Prefecture, relating to the application of unmanned aerial vehicles p. 28
 - · Cooperative development for FRONTEO, Inc.'s Al-driven patent research and analysis p. 29



✓ Favorable performance from steady business expansion in a favorable operating environment

(Unit: Million yen))

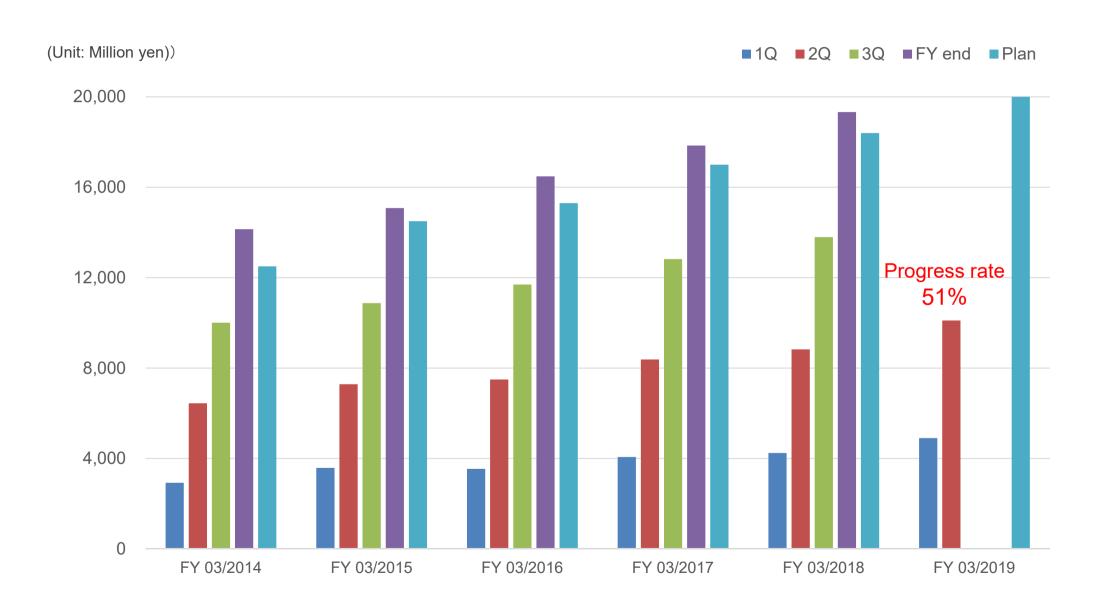
	FY 03/2018	FY 03/2018	FY 03/2018	FY 03/2018	FY 03/2019	FY 03/2019 2Q Results	Year-on-year change	
	1Q Results	2Q Results	3Q Results	Full-Year Results	1Q Results		Amount	Ratio
Net sales	4,244	8,827	13,793	19,327	4,904	10,107	1,280	14.5%
Operating income	38	227	661	1,025	288	621	394	173.6%
Ordinary income	36	229	655	1,019	288	619	389	170.0%
Net income	33	183	462	719	189	405	222	121.2%



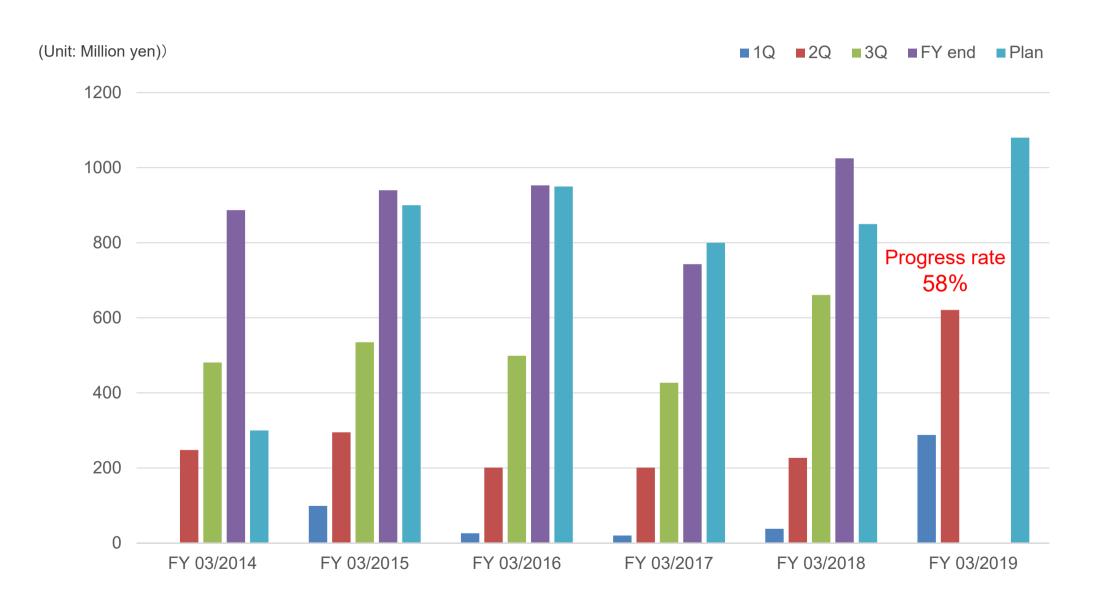
✓ Sales and income both continue to develop favorably from the first quarter.

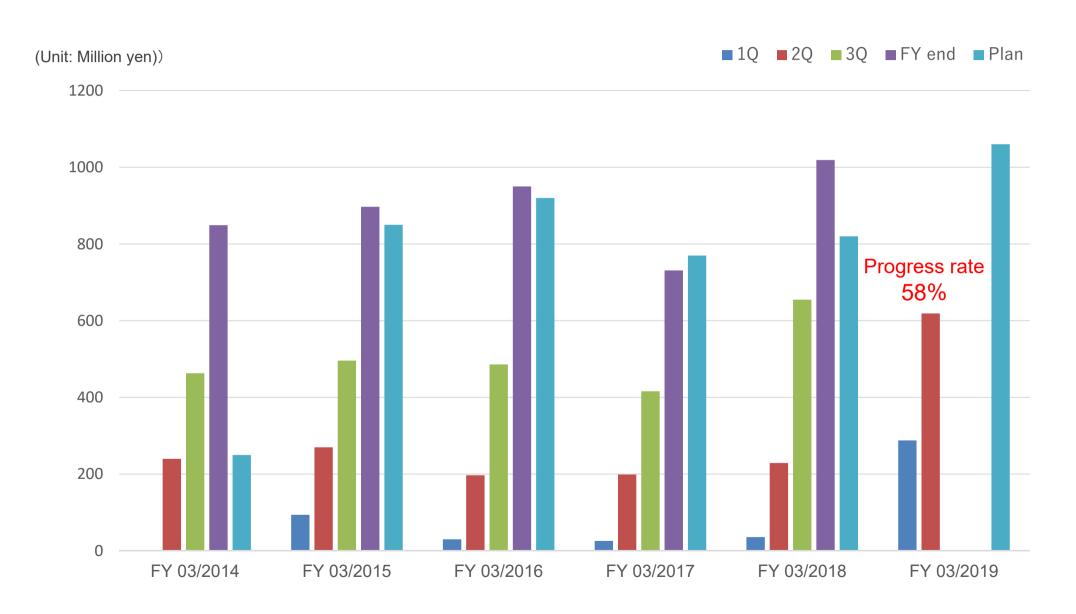


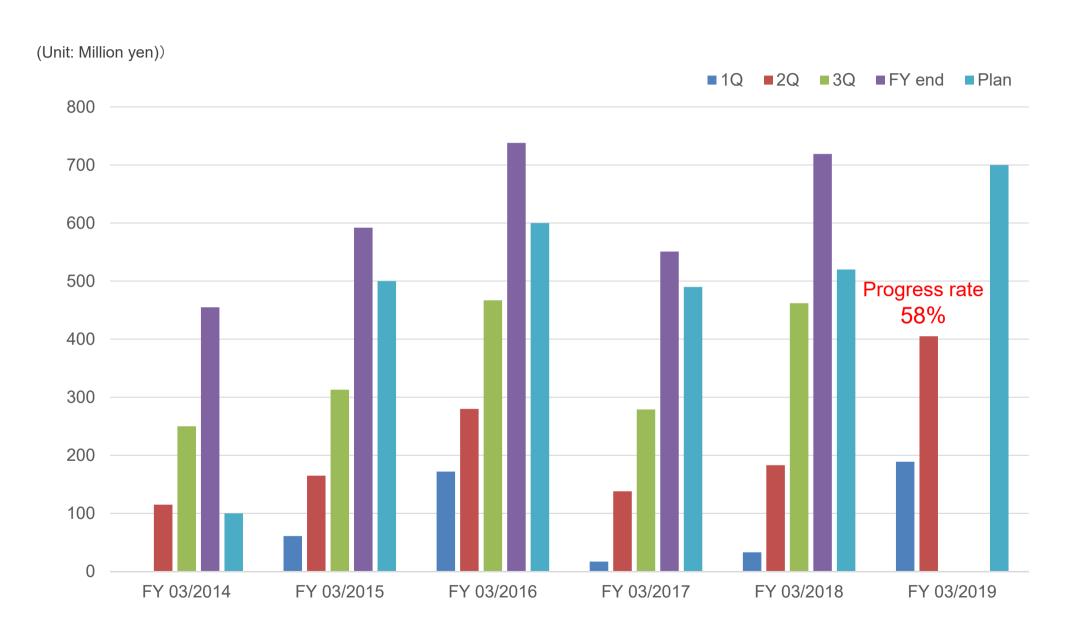














(Unit: Thousand yen)

	R	eportable segment	:s	Inco		
	Public sector business	Private sector business	Security equipment business	Iotai	amount	amount for the quarter
Net sales	3,077,990	6,496,748	533,112	10,107,851	_	10,107,851
Segment income	493,910	801,958	63,624	1,359,494	(737,949)	621,544

Note 1: The adjustment amount of -737,949,000 yen applied to segment income represents, for the most part, general administrative expenses (company overheads) that are not attributable to reportable segments.

Note 2: Segment earnings are adjusted to the operating income stated in the quarterly statement of income.

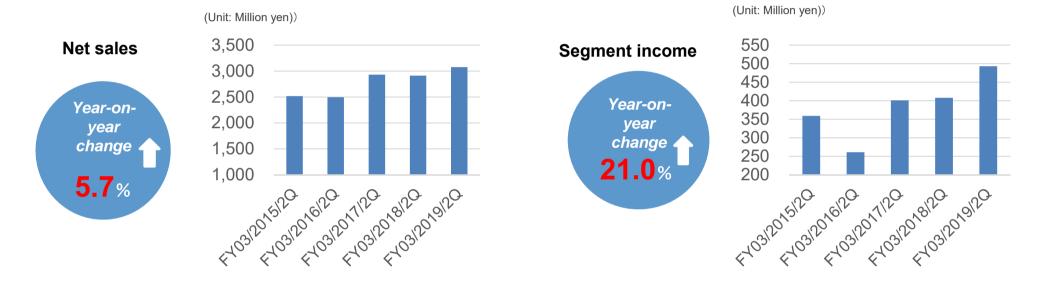


Public Sector

End users are government agencies and local governments.

Operations span the range from project design, manufacture, and testing through to the maintenance and running of systems after implementation.

Supporting society in various settings such as financial systems, trading systems, air traffic control systems, welfare and nursing care systems, and social insurance systems.



- ✓ Business as a whole has shown a rising trend.
- Profitability has improved thanks to the stricter stance adopted in decisionmaking meetings for received orders

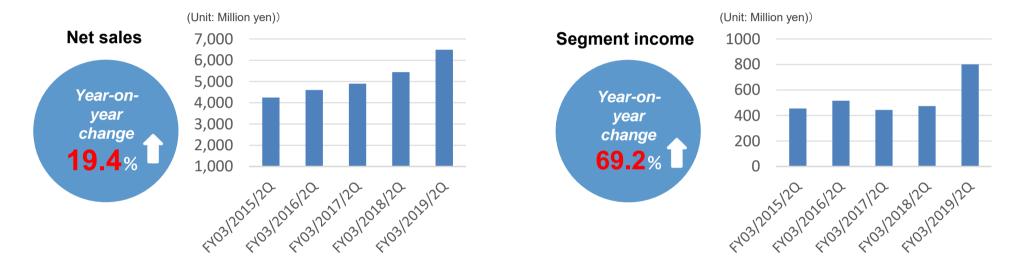


Private Sector

End users are mostly companies in the private sector.

In partnerships with IBM Japan, Oki Electric Industry, Softbank, ITS Intect, and others, operations span the range from system development and platform building through to the running and maintenance of systems for a diversity of private sector businesses.

Operations cover various types of systems such as business applications, communications control systems, loT-related systems, and A-related systems.



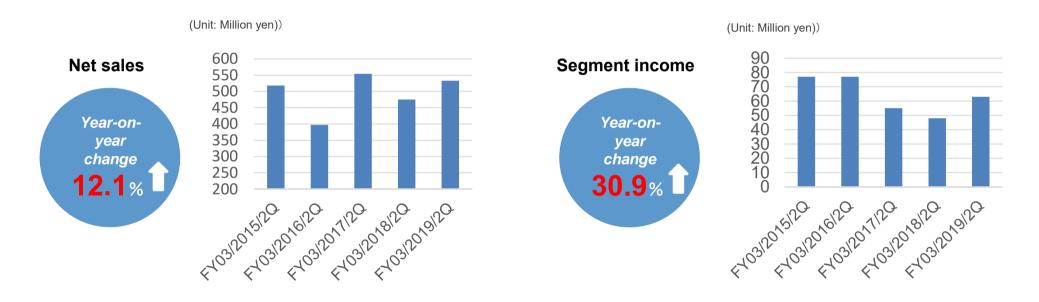
- Business reflects the favorable effects of expanding projects in system building for core customers and new project acquisitions.
- √ Stepped-up project control contributed to income growth.



Security Equipment

The segment caters to a broad customer base across the public and private sectors.

Offerings address a diversity of customer needs spanning the range from security breach prevention measures (encryption technology and electronic watermarks) through to ex-post measures (digital forensics and cyber security). The security equipment business collaborates with numerous overseas partners and emphasizes the acquisition of growth technologies and the fostering of specialists.



- Strong contributions to sales and income growth came from favorable sales of products especially in the digital forensics field for public agencies.
- ✓ Sales of the company's encryption products posted solid growth this quarter year on year.

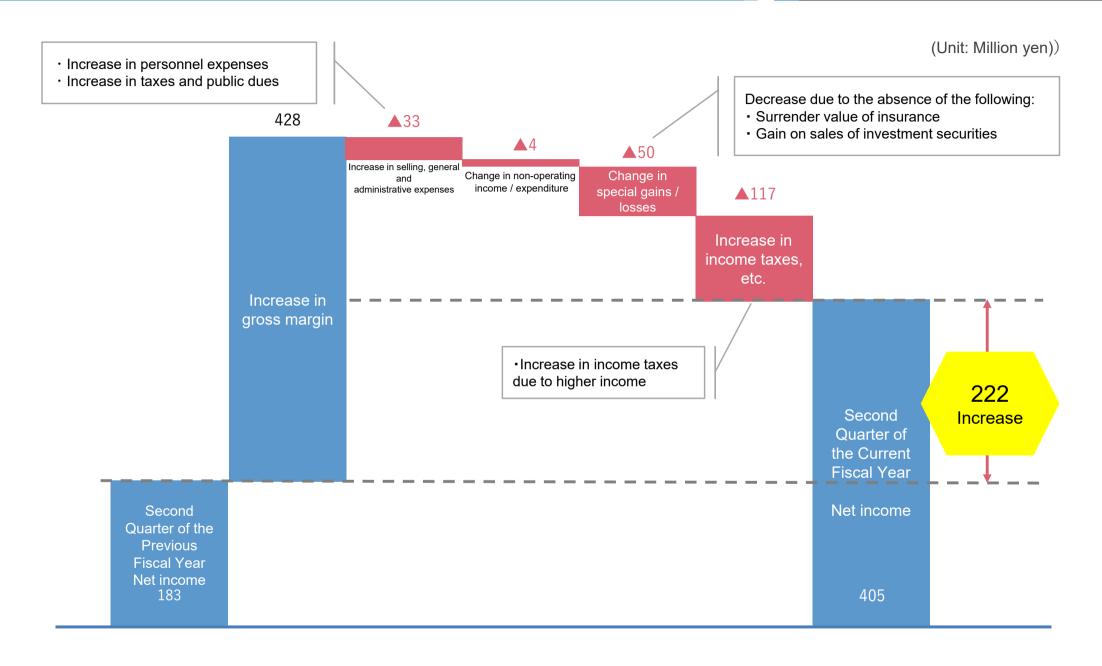
Balance Sheets — Second Quarter of the Fiscal Year Ending March 2019 (43rd Business Year)



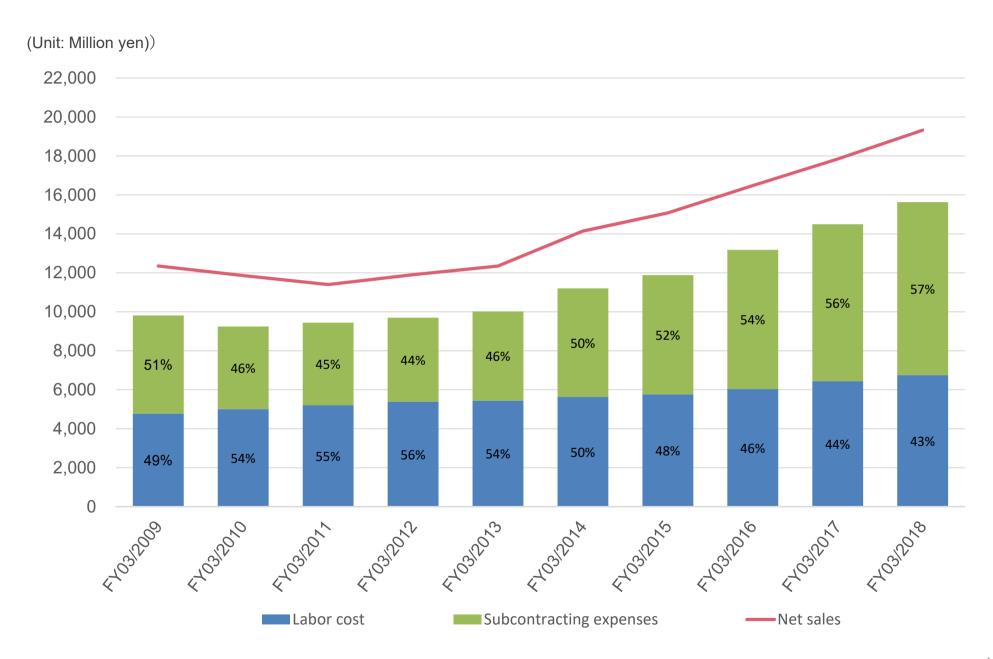
		(Unit: Million yen)
	Second Quarter of the Previous Fiscal Year	Second Quarter of the Current Fiscal Year
Assets		
Current assets	9,759	9,873
Non-current assets	7,061	7,631
Property, plant, and equipment	3,506	3,486
Intangible assets	151	120
Investments and other assets	3,403	4,024
Total assets	16,820	17,504
Liabilities		
Current liabilities	4,459	4,396
Non-current liabilities	3,160	3,337
Total liabilities	7,619	7,733
Net assets		
Capital stock	2,905	2,905
Capital surplus	2,138	2,138
Retained earnings	2,615	2,780
Treasury stock	(359)	(359)
Valuation difference on available- for-sale securities	1,898	2,303
Share acquisition rights	2	2
Total net assets	9,201	9,770
Total liabilities and net assets	16,820	17,504

[•] Starting with the first quarter of the fiscal year ending March 2019, the Company applies the Partially Revised Tax Effect Accounting Standard (Business Accounting Standard No. 28 of February 16, 2018), etc., with deferred tax liabilities now presented in non-current liabilities.











(Unit: Million yen)

	First half of the previous fiscal year	First half of the current fiscal year
Cash flows from operating activities	244	582
Cash flows from investing activities	92	(73)
Cash flows from financing activities	194	(27)
Net increase in cash and cash equivalents	531	481
Cash and cash equivalents at beginning of period	3,447	4,683
Cash and cash equivalents at the end of the period	3,979	5,165

Increased 337 million yen in the same period of the previous fiscal year. This was due to business expansion and improved profitability.

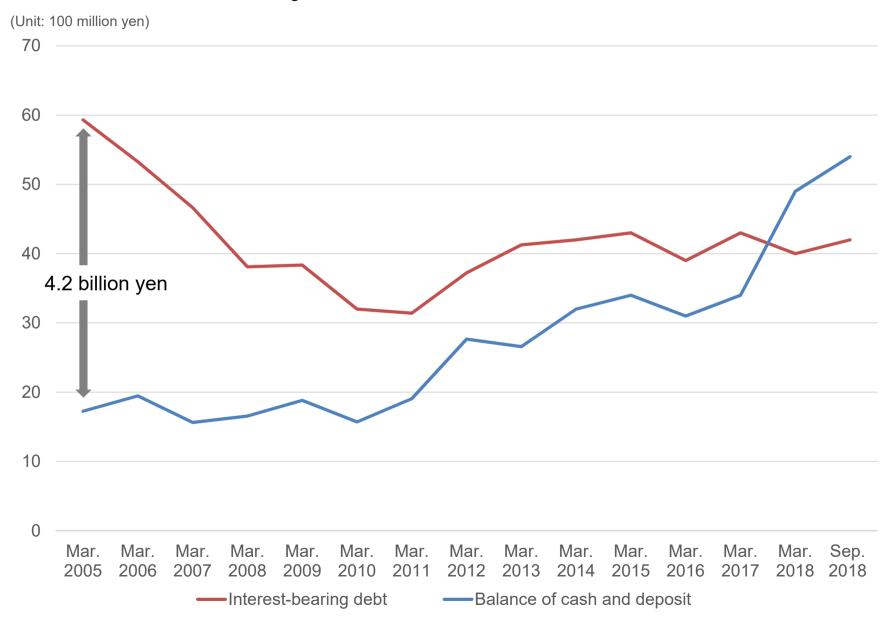
Decreased 116 million yen due to expenditures for the provisioning of insurance funds and the acquisition of property, plant, and equipment, etc., although there was income from the collection of loans.

Decreased 221 million yen due to a reduction in interest-bearing debt and a rise in dividend payments as a result of an increase in per-share dividends and a higher number of shareholders due to the exercise of stock warrants.

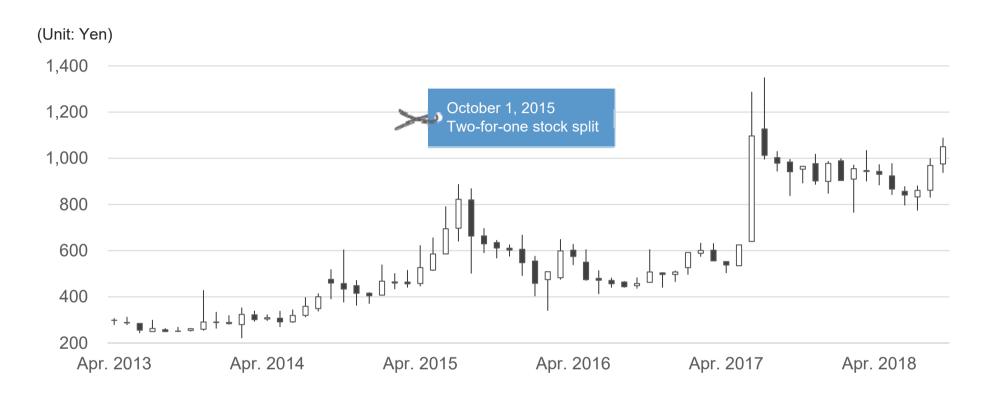
Cash and cash equivalents were 1,186 million yen higher compared with the same period of the previous fiscal year.



 Progress made in reducing net interest-bearing debt and further improvements continue even after achieving zero debt



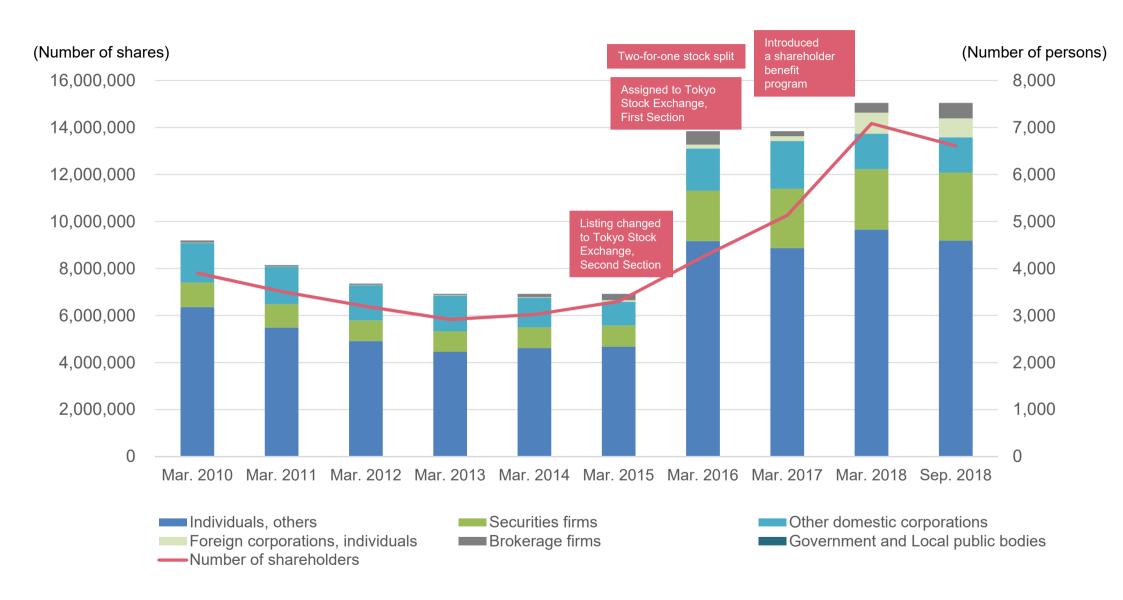




	Mar. 2013	Mar. 2014	Mar. 2015	Mar. 2016	Mar. 2017	Mar. 2018
Net income per share	17.02 yen	32.91 yen	42.81 yen	53.36 yen	39.83 yen	51.21 yen
Dividend per share	7.5 yen	10.0 yen	12.5 yen	16.0 yen	12.5 yen	16.0 yen
Dividend pay-out ratio	44.1%	30.4%	29.2%	30.0%	31.4%	31.2%

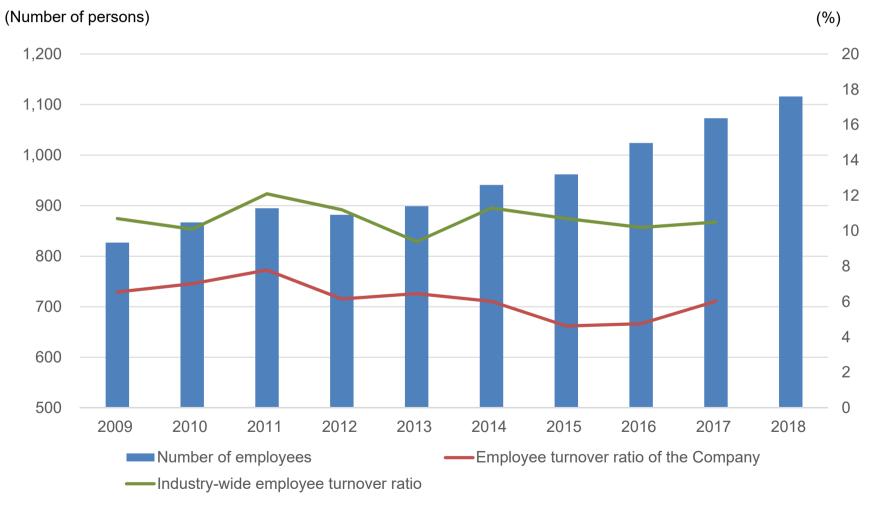
^{*}The Company implemented a two-for-one split of its common shares with October 1, 2015, as the effective date. Accordingly, figures before the split have been converted in accordance with the number of shares after the split.







- ✓ In 2016, the number of employees topped 1,000 and has continued on an ascending trend.
- ✓ The employee turnover rate has been consistently below the average for the IT industry, which is known for its high personnel turnover.
- ✓ The Company promotes employment of persons with disabilities and meets the statutory 2.2% employment ratio.



^{*}Turnover rate of IT industry refers to the summary report on "Survey on Employment Trends" announced by the Ministry of Health, Labour and Welfare. Turnover ratio in 2018 is not shown as it has not yet been announced.

Projections for the Fiscal Year Ending March 2019 (43rd Business Year)



✓ Strategizing for business expansion through human investment, new product and service development, M&A, and equity-based cooperative alliances.

(Unit: Million yen)

	FY 03/2018 Results	FY 03/2019 Projections	Year-on- year change
Net sales	19,327	20,000	3.5%
Operating income	1,025	1,080	5.3%
Ordinary income	1,019	1,060	4.0%
Net income	719	700	-2.7%

Extraordinary income of ¥58 million arose due to surrender of insurance and the like in accordance with the retirement of directors. No extraordinary income projected for the next fiscal year.

	FY 03/2018 Results	FY 03/2019 Projections
Annual per-share dividend	16.00 yen	15.00 yen
Dividend payout ratio	31.2%	32.2%

Improved dividend payout ratio

Supplementary Information: Current Topics



May 28, 2018

Establishment of new joint venture company VRaiB Inc., together with JPPVR for creating new fields of application for VR and AI technologies

- ✓ Using the latest technologies such as VR, JPPVR has experience in system development of eSports and VR-experience machines as well as high image-quality VR video distribution.
- ✓ VRaiB will utilize various state-of-the-art technologies to solve issues of concern to industry and society.





June 27, 2018

Working toward deregulation with a view to promoting the industrial application of drones

✓ Aiming for deregulation with a view to expanding the usage of drones based on the combined knowledge, experience, and resources of the Company and the Drone Pilot Association

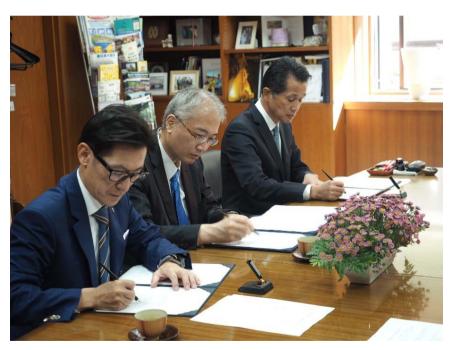




Nov. 2, 2018

Concluded collaborative cooperation agreement with Kasama City, Ibaraki Prefecture, relating to the application of unmanned aerial vehicles

✓ Contributing to community revitalization and improved services for citizens through the utilization of drones and other devices



At the signing ceremony (from left to right)
Focus Systems: President Keiichi Mori

Drone Pilots Association: President Kazuo Kobayashi Kasama City, Ibaraki Prefecture: Mayor Nobuyuki Yamaguchi

Content of the collaboration

- Promotion of regional industry
- Studies and research on fields of application for unmanned aerial vehicles
- Diffusion, awareness, and application of unmanned aerial vehicles
- Regional safety, security, and disaster mitigation measures
- Community revitalization and improvements of services for citizens that can be promoted by the application of other advanced information and communication technologies





Cooperation in the development of FRONTEO, Inc.'s "artificial intelligence-based patent search and analysis systems"

- ✓ The Company plans to continue its involvement in the development of certain product groups of FRONTEO, Inc.
- ✓ The Company plans to further expand Al-related operations with a view to investment in areas such as human resources development

Patent Explorer 19







The Company intends to support FRONTEO, based on the Company's wealth of web application development technology

Human resources of the Company with AI skills

Holders of Official
Qualifications
of the Japan Deep
Learning
Association

Data Analysts

Python*
Experienced
Developers



^{*} Program language used in fields such as AI and data analysis

Supplementary Information: Company Outline



Name	Focus Systems Corporation
Line of business	Software development and IT services
Head office	2-7-8 Higashi Gotanda, Focus Gotanda Bldg., Shinagawa-ku, Tokyo
Business offices	Tokyo, Osaka, Nagoya
Capital	2,905 million yen
Exchange listings	Tokyo Stock Exchange, First Section (Securities Code: 4662)
Employees	1,116 (as of March 31, 2018)

1977	Focus Systems Corporation established for the purpose of software development
1978	Starts doing business with Oki Electric Industry Co., Ltd., and initiates software development work on electronic switchboards
1988	Starts doing business with Nippon Telegraph and Telephone Corporation (now NTT DATA Corporation) and begins providing services for the development of systems for government and other public agencies
1996	OTC share registration with the Japan Securities Dealers Association (now Tokyo Stock Exchange JASDAQ Standard)
1997	Commences business with IBM Japan, Ltd. and begins system operation/maintenance and infrastructure technology support business
1999	Starts information security business
2004	Starts selling products for digital forensics, a new field of information security
2015	Exchange listing changed to Tokyo Stock Exchange, Second Section
2016	Listing designation changed to Tokyo Stock Exchange, First Section





Triple FOCUS

1st FOCUS

System Integration

The Company provides comprehensive system integration at information system introduction, spanning the range from information system planning and development consistent with customers' business purposes through to the running of systems.

2nd FOCUS

IT Services

The Company provides practical applications of cutting-edge IT technology, support for customers' business systems, IT environment optimization and problem solutions, and improvement in value available from IT application.

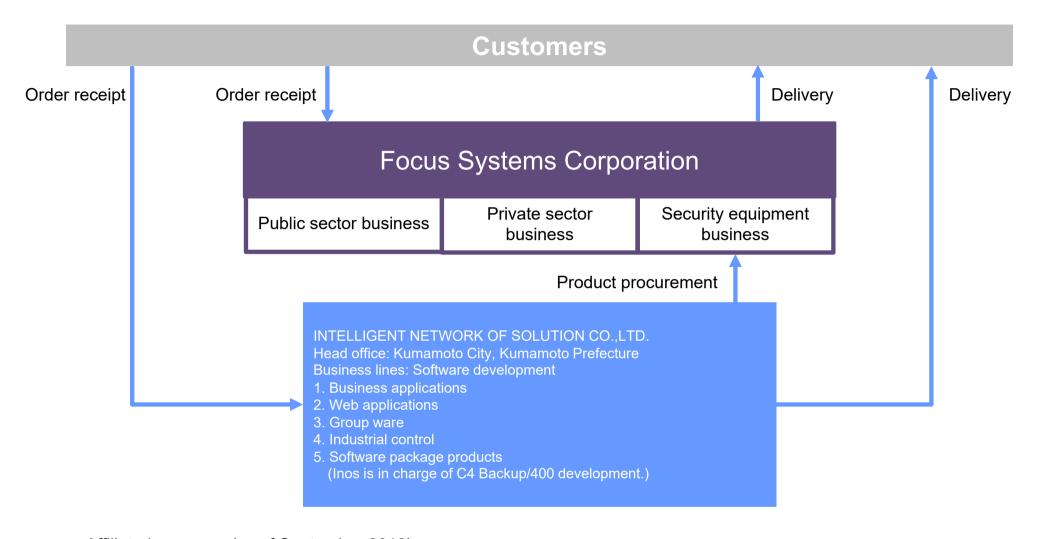
3rd FOCUS

Information Security

The Company provides customers with information risk control through information security technologies such as digital forensics, encryption, and digital watermarks.







Affiliated company (as of September 2018)

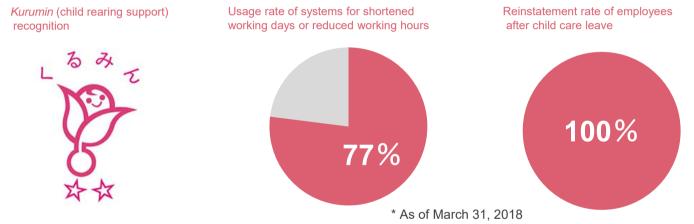
Company name	Equity (%)	Sales (thousand yen)	Ordinary income (thousand yen)	Net income (thousand yen)
INTELLIGENT NETWORK OF SOLUTION CO.,LTD.	20.0	563,020	59,624	54,225



Work–Life Balance

Systems for shortened working days or reduced working hours

- · · · Systems for helping employees reconcile work duties with child care or elder care. Employees can choose shortened working days (3 days a week) or reduced working hours (choice of 5 hours or 6 hours per day).
 - * Child care up to the 3rd elementary school year; caregiving until no longer needed.



Job return system (Re-employment system)

••• Re-employment is possible within 10 years of resignation due to a life event (marriage, child birth, or child rearing) or for career advancement (overseas study or change of employer).

Workday with fixed end-of-work time

· · · Each week on Wednesday work ends at a fixed time. Overtime is reduced.





Diversity

Job creation

••• In 2015 the Company initiated the production of vegetables by hydroponic cultivation, aiming at creating new fields of employment for persons with disabilities. An in-house magazine with employment information for persons with disabilities is issued at regular intervals.

Currently, the Company is also promoting the development of clerical work areas for them.





- Information exchange for female employees
- ··· Addressing young women, this meeting serves to communicate information on work methods and support for career advancement.



L-Star (Female employee career promotion)

In April 2016, the Company received the top-ranking recognition out of three recognition levels for its efforts at career promotion for female employees.



Support for club activities

· · · To promote the health of employees, the Company supports club activities. Currently around 100 employees are enrolled in 8 types of club activities.





Health maintenance seminars ··· To mitigate lifestyle habits and to prevent obesity, the Company sponsors seminars dedicated to specific topics such as dietary improvements and the prevention and improvement of sleep apnea syndrome.



- Online programs for smoking cessation
- · · · The Company introduced a quit-smoking program combining online hospital visits and smoking cessation prescriptions. Medical consultation is available via PC, smartphone or tablet. The Company supports employees making efforts to quit smoking.





Mascot Character "Fukue-san"

To promote a sense of familiarity with Focus Systems and the world of information systems, Fukue-san serves as the conduit for various kinds of information dissemination revolving around business, company performance, and employees.







The Company's original manga "Forensic Detective"

The content serves to help a wide range of stakeholders gain a deeper understanding of the field of digital forensics, which accounts for a growing share of the sales of the Company.

All episodes are available in the web magazine.

http://magazine.focus-s.com/category/comic/forensic/



Changes in Non-consolidated Financial Results (Full Year)

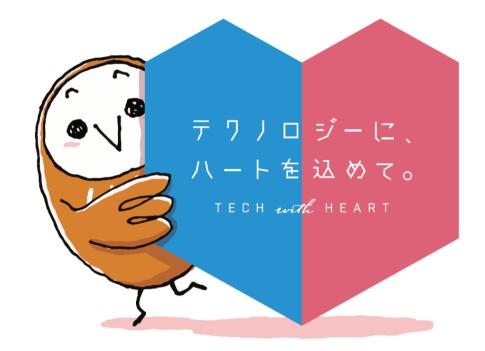


Fiscal year, ended March	2014	2015	2016	2017	2018 ※ 2
Net sales (1,000 yen)	14,146,242	15,081,738	16,482,792	17,846,896	19,327,344
Operating income (1,000 yen)	887,789	940,310	953,356	743,538	1,025,541
Ordinary income (1,000 yen)	849,751	897,205	950,301	731,331	1,019,522
Net income (1,000 yen)	455,647	592,742	738,841	551,571	719,243
Capital (1,000 yen)	2,905,422	2,905,422	2,905,422	2,905,422	2,905,422
Total number of shares issued and outstanding (1,000 shares) 💥1	8,146	8,146	16,292	16,292	16,292
Net assets (1,000 yen)	5,029,600	6,769,094	7,415,953	7,258,918	9,201,228
Total assets (1,000 yen)	11,837,231	14,340,827	14,936,873	14,567,320	16,820,805
Net assets per share (yen) %1	726.46	977.72	535.58	524.24	611.34
Dividend per share (yen) ×1	20.00	25.00	16.00	12.50	16.00
Net income per share (yen) %1	65.81	85.61	53.36	39.83	51.21
Equity ratio (%)	42.5	47.2	49.6	49.8	54.7
Return on equity (%)	9.2	10.0	10.4	7.5	8.7
Payout ratio (%)	30.4	29.2	30.0	31.4	31.2
Number of employees	941	962	1,024	1,073	1,116
Stock price – high (yen) ※1	858	1,210	888	634	1,350
Stock price - low (yen) %1	442	540	340	412	503

Note 1: The Company implemented a two-for-one split of its common shares with October 1, 2015, as the effective date. Accordingly, figures before the split have been converted in accordance with the number of shares after the split.

Note 2: "Total assets (in thousand yen)" and "Equity ratio (%)" have been restated to apply for the Partially Revised Tax Effect Accounting Standard (Business Accounting Standard No. 28 of February 16, 2018), etc.

Focus Systems sincerely requests the continued guidance and support of all stakeholders.



This document is based on information available as of November 9, 2018, and on assumptions as of the same date concerning uncertain factors affecting future financial results.

Actual financial results may materially differ from projections due to various factors in the future. Consequently, the Company offers no warranty for the certainty of the Group's business projections.