

#### Financial Results Presentation for the Fiscal 2019

May 31, 2019 Focus Systems Corporation (Securities Code: 4662)





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Financial Results for the Fiscal Year Ended March 31. 2019 (43rd Business Year)



#### →Financial Results

- ✓ Sales and all income metrics set historic highs
- Dividend increased from 16 yen to 20 yen per share; and payout ratio increased from 31.2% to 34.4%

#### Operations

- New businesses making advances
  - ⇒ Drones / New company establishment (VR, AI, Blockchain) / RPA / NoSQL Database / Tertiary batteries
- Existing businesses expanding, profit margins improving

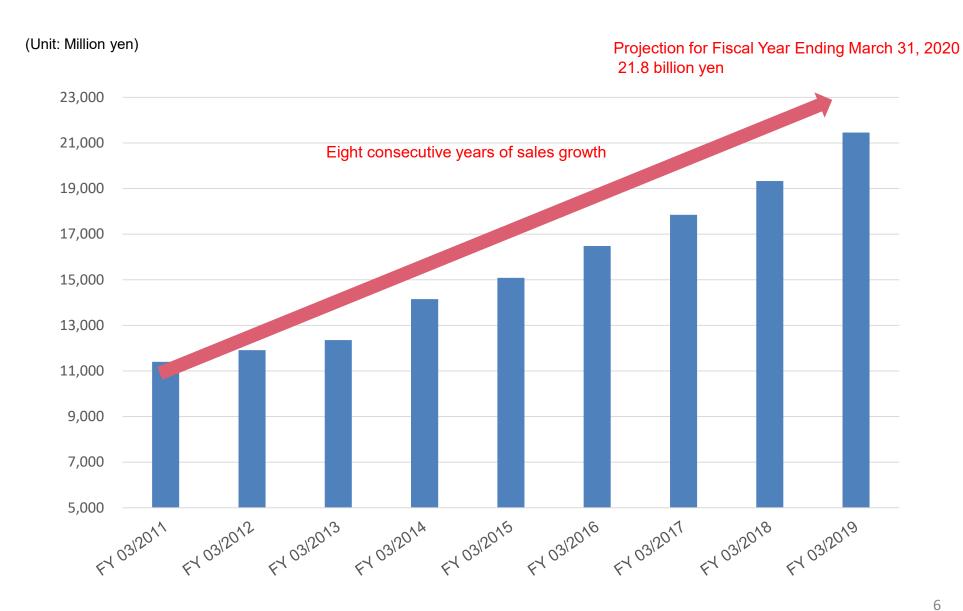


- Despite an operating environment affected by labor shortages, the Company achieved sales growth by taking strategic measures to secure human resources and through project acquisitions
- ✓ Earnings growth realized through increased contracted projects and exhaustive project management

(Unit: Million yen))

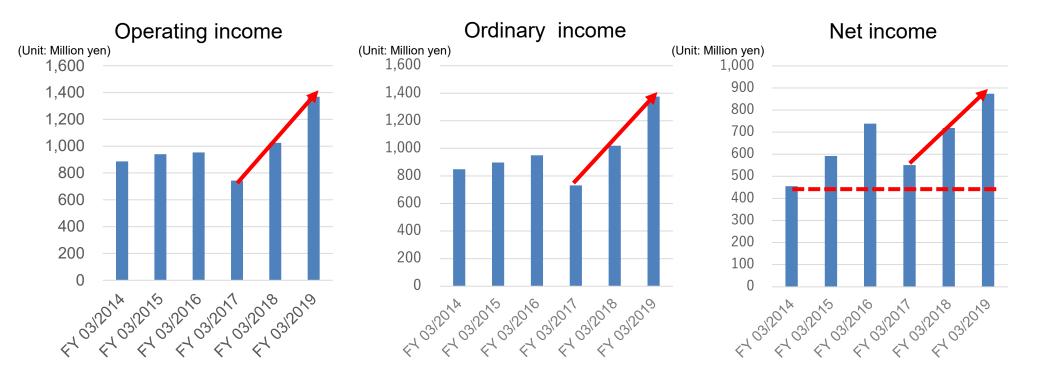
	FY 03/2018	FY 03/2019	FY 03/2019	Changes from Previous FY		Changes from the Plan	
	Results	<b>Plan</b> (Before upward revision)	Results	Amount	Ratio	Amount	Ratio
Net sales	19,327	20,000	21,453	2,126	11.0%	1,453	7.3%
Operating income	1,025	1,080	1,368	342	33.4%	288	26.7%
Ordinary income	1,019	1,060	1,375	356	34.9%	315	29.8%
Net income	719	700	874	155	21.6%	174	24.9%







- ✓ For the second consecutive year, efforts made to improve profit margins strongly buoyed all income metrics
- √ Net income nearly doubled compared with five years ago in FY2014



(Unit: Thousand yen)

	portable segme	nts		Adjustment	Recognized	
	Public sector business	Private sector business	Security equipment business	Total	amount  Note 1	on financial statements Note 2
Net sales	6,893,502	13,300,439	1,259,887	21,453,829	_	21,453,829
Sales composition ratio	32.1%	62.0%	5.9%	100%	_	_
Segment income	1,142,003	1,540,047	316,087	2,998,138	(1,629,854)	1,368,284

Note 1: The adjustment amount of negative 1,629,854 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 income data have been reconciled with operating income as per statement of income.

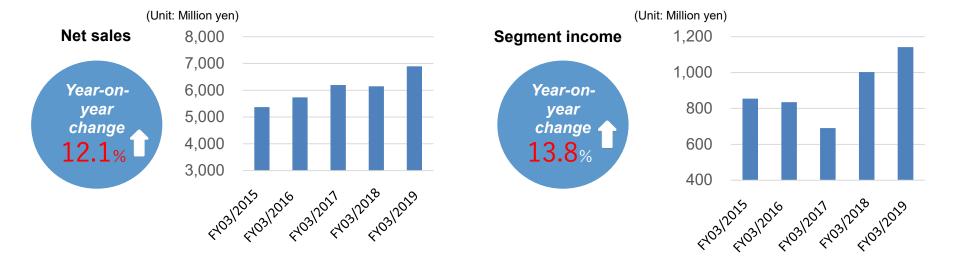


#### **Public Sector**

End users are government agencies and local governments.

Offerings range from system proposals to design, manufacturing, testing, and maintenance and operation after system start-up.

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



- Increase in projects with participation at the beginning with upstream processes, such as definition of system requirements and system basic design
- ✓ Favorable sales and earnings performance realized as a result of the following efforts: Narrowed focus in the selection of projects, proactive acquisition of human resources, and exhaustive project management

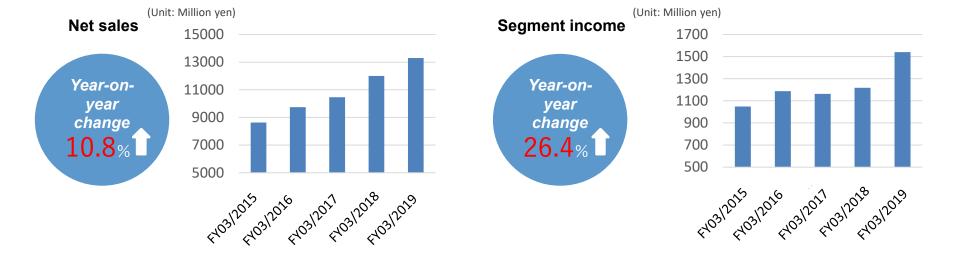


#### Private Sector

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, IoT-related systems, and Al-related systems.

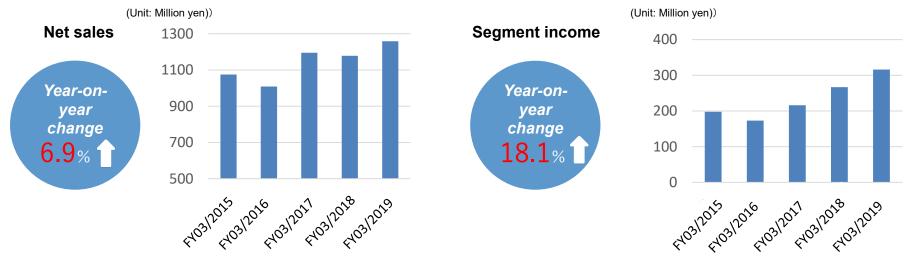


- ✓ Although the problem of labor shortages continues, we will focus on the effective use of our resources and the acquisition of human capital in order to maintain the growth trend backed by the rising demand for IT investment.
- Rising sales and income from strengthened marketing efforts leading to the acquisition of new projects both contracted and directly commissioned.



#### Security Equipment

The segment caters to a broad customer base across the public and private sectors. Offerings cover a broad range of diverse needs from protective arrangements for the prevention of security incidents to ex-post response measures, using technologies such as encryption, digital watermarking, digital forensics, and cyber security technologies. The security equipment business collaborates with numerous overseas partners, helping us to the acquisition of new technologies and the fostering of specialists.



- Digital forensics marked favorable product sales to public agencies.
   Security incident-related surveys and training to support professional skills also increased.
- ✓ Solid sales and income growth resulting from efforts to enhance technical capabilities and heightening added value.

#### **Balance Sheets** (B/S)



	(Unit: Million yen)		
	Previous fiscal year	Fiscal year under review	
Assets			
Current assets	9,759	9,789	
Non-current assets	7,061	6,202	
Property, plant, and equipment	3,506	3,492	
Intangible assets	151	96	
Investments and other assets	3,403	2,613	
Total assets	16,820	15,991	
Liabilities			
Current liabilities	4,459	4,434	
Non-current liabilities	3,160	2,450	
Total liabilities	7,619	6,885	
Net assets			
Shareholders' equity			
Capital stock	2,905	2,905	
Capital surplus	2,138	2,138	
Retained earnings	2,615	3,249	
Treasury stock	△359	△359	
Valuation difference on available- for-sale securities	1,898	1,170	
Share acquisition rights	2	2	
Total net assets	9,201	9,106	
Total liabilities and net assets	16,820	15,991	

Decreased 828 million yen compared with the end of the previous fiscal year

Main increases

Cash and deposits increased 109 million yen Main decreases

Investment securities decreased 910 million yen

Decreased 734 million yen compared with the end of the previous fiscal year

#### Main decreases

Deferred tax liabilities decreased 333 million yen Long-term borrowings decreased 290 million yen Long-term debt (portion due within one year) decreased 116 million yen

Decreased 94 million yen compared with the end of the previous fiscal year

#### Main increases

Retained earnings carried forward increased 633 million yen

Main decreases

Valuation difference on available-for-sale securities decreased 728 million yen

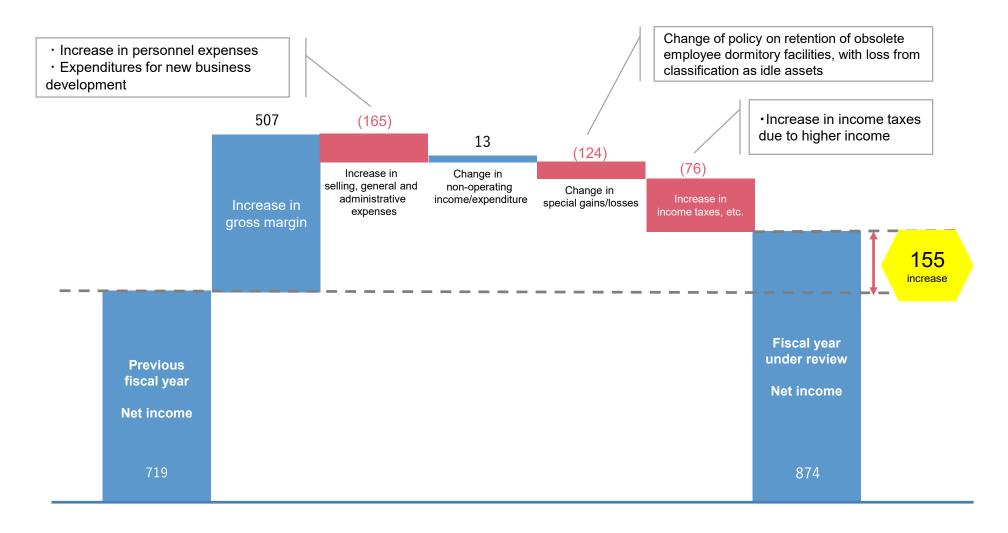


(Unit: Million yen)

	Previous fiscal year	Fiscal year under review
Net sales	19,327	21,453
Cost of sales	16,836	18,455
Gross margin	2,490	2,998
Selling, general, and administrative expenses	1,465	1,630
Operating income	1,025	1,368
Non-operating income	50	48
Non-operating expenses	56	40
Ordinary income	1,019	1,375
Extraordinary income	58	_
Extraordinary loss	8	73
Income before income taxes	1,070	1,301
Income taxes	350	427
Net income	719	874



(Unit: Million yen)





(Unit: Million yen)

	Previous fiscal year	Fiscal year under review
Cash flows from operating activities	641	1,322
Cash flows from investing activities	49	(395)
Cash flows from financing activities	544	(832)
Net increase in cash and cash equivalents	1,236	94
Cash and cash equivalents at the beginning of the period	3,447	4,683
Cash and cash equivalents at the end of the period	4,683	4,778

Cash provided: 1,322 million yen

Main expenditures

406 million yen (such as corporation tax)

Main income items

1,301 million yen in income before income taxes

143 million yen in depreciation charges

132 million yen decrease in accounts receivable-trade

Cash used: 395 million yen

Main expenditures

138 million yen in expenditure for the acquisition of investment securities

119 million yen in expenditure for the acquisition of property, plant, and equipment

59 million yen in expenditure for provisioning insurance reserve funds

Cash used: 832 million yen

Main incomes

591 million yen increase from bond issuance

300 million yen increase from long-term loans

Main expenditure items

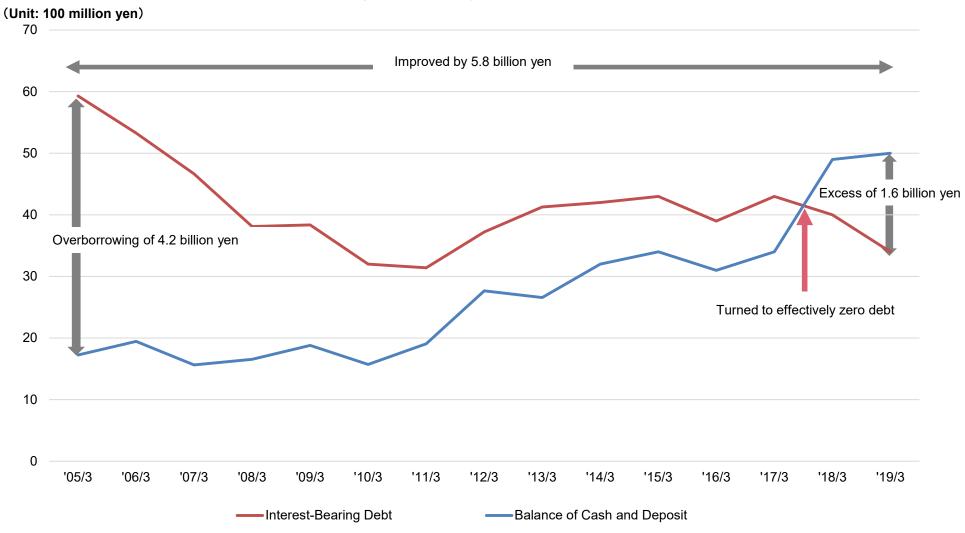
777 million yen for bond redemptions

706 million yen for long-term loan repayment

94 million yen higher than the end of the previous fiscal year



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





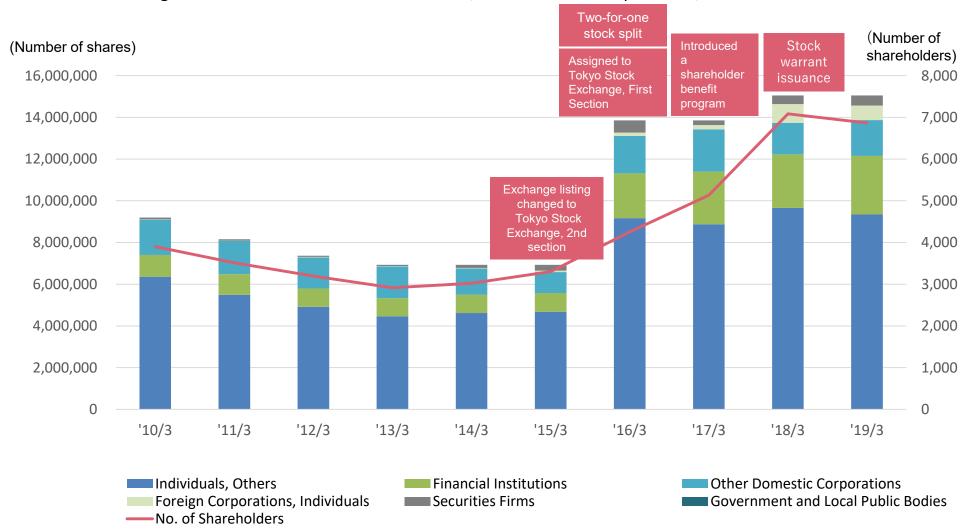


	FY 03/2015* <sub>1</sub>	FY 03/2016	FY 03/2017	FY 03/2018	FY 03/2019
Net income per share	42.81 yen	53.36 yen	39.83 yen	51.21 yen	58.11 yen
Dividend per share	12.50 yen	16.00 yen	12.50 yen	16.00 yen	20.00 yen
Dividend pay-out ratio	29.2%	30.0%	31.4%	31.2%	34.4%

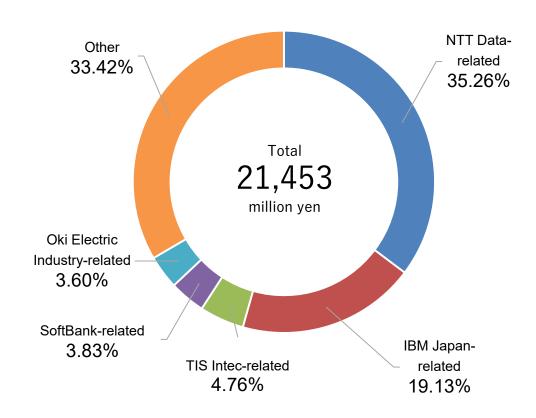
<sup>\*</sup> Values have been calculated after the two-for-one common stock split instituted on October 1, 2015.



- ✓ The number of shareholders as of March 31, 2019, totaled 6,867 (reduced by 218 compared with March 31, 2018)
- ✓ Shareholding ratios increased at financial institutions, other domestic corporations, and securities firms







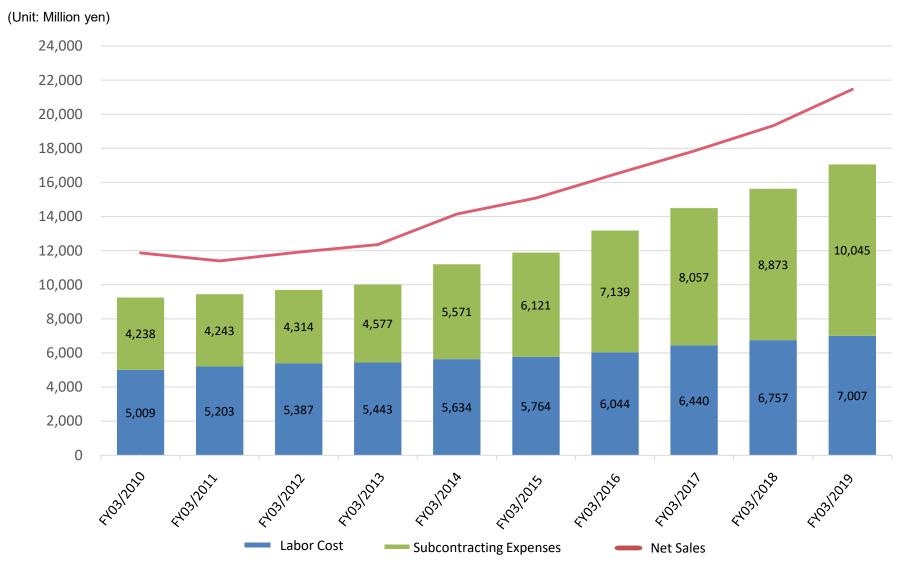
Customer name	Sales in FY 03/2019 (Million yen)
NTT Data-related	7,563
IBM Japan-related	4,103
TIS Intec-related	1,020
SoftBank-related	821
Oki Electric Industry-related	774
Other	7,169
Total	21,453

- ✓ Orders from TIS Intec-related corporate customers in the fiscal year rose to the third-highest sales ranking among all customers.
- Orders from SoftBank-related corporate customers dipped, but orders from other corporate customers related to the top four customer groups were overall on the rise.

#### **Ratios of Labor Cost and Subcontracting Expenses**



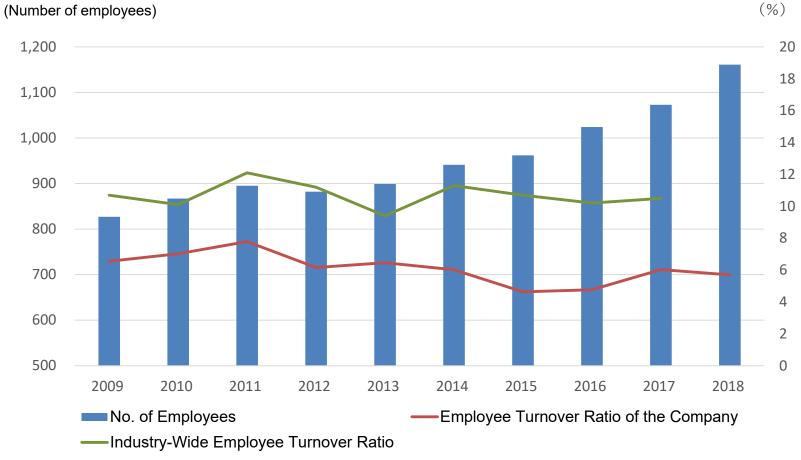
✓ Irrespective of business results and the economy, new project acquisitions benefitted from the Company's sustained steady hiring, efforts to strengthen relationships with business partners, and new customer development.



#### **Changes in the Number of Employees & Turnover Rate**



- ✓ Although the labor shortage in our industry is becoming conspicuous, hiring by the Company has been stable.
- ✓ The personnel turnover ratio of the Company remains below the industry average.



<sup>\*</sup>Turnover rate of IT industry refers to the summary report on "Survey on Employment Trends" announced by the Ministry of Health, Labor and Welfare. Turnover ratio in 2018 is not shown as it has not yet been announced.

Top Message and Business Results Projections for the Fiscal Year Ending March 31, 2020 (44th Business Year)



#### Aspiring to be a company that never ceases to excite and amaze

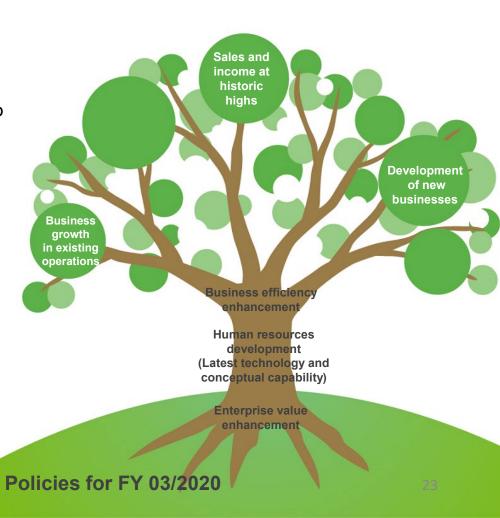
Companies in our time are shaped by layer upon layer of exciting and amazing narratives from their histories. In the same fashion, at Focus Systems each of our employees continues to excite and amaze us in so many different ways.

In nurturing existing operations and in creating new businesses, every one of them has been and will continue to strive with all their heart for a bright and happy future. As a result, we have earned the trust of our customers and our business has grown and prospered.

Today, we are in the process of creating exciting new innovative businesses.

We will continue to be a company that excites and amazes stakeholders as new narratives keep unfolding.

Keiichi Mori, Representative Director & President





- ✓ Continuing on from the fiscal year ended March 2019, we aim to once again achieve record-high sales and income.
- ✓ We expect to maintain the dividend amount of 20 yen per share, which increased in the fiscal year ended March 31, 2019.

	FY 03/2019 Results (Million yen)	FY 03/2020 Projection (Million yen)	Y-o-Y Change (%)
Net sales	21,453	21,800	1.6
Operating income	1,368	1,420	3.8
Ordinary income	1,375	1,420	3.2
Net income	874	930	6.4

	FY 03/2019 Results	FY 03/2020 Projection
Annual per-share dividend (yen)	20.00	20.00
Dividend payout ratio (%)	34.4	32.4

3 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

- ✓ VRaiB will engage in advanced technology development in IT, such as VR, AI, and Blockchain.
- √ VRaiB will provide solutions to issues in industry and society by utilizing a wide range of cutting-edge technologies.





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 of the agreement)

#### 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
- 4 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 products, the "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 Al skills

Holders of Official
Qualifications
of the Japan Deep
Learning
Association

**Data Analysts** 

Python\*
Experienced
Developers



<sup>\*</sup> Program language used in fields such as Al and data analysis





2019 2/18

Conclusion of a development resources partnership agreement with UiPath Creation of human resources using RPA to resolve the ongoing labor shortage

- A shift to high added-value operation and the streamlining and saving of labor in current operations are becoming ever more important
- √ Realization of efficient operation by automating routine tasks using RPA



X

(Robotic Process Automation)

### Focus Systems

Solutions for shifting human resources to high added-value tasks that cannot be achieved through robot-driven efficiency gains derived from automating routine tasks



Creation of new business opportunities for customers

Future provision of advanced business process improvement solutions in combination with Al technology

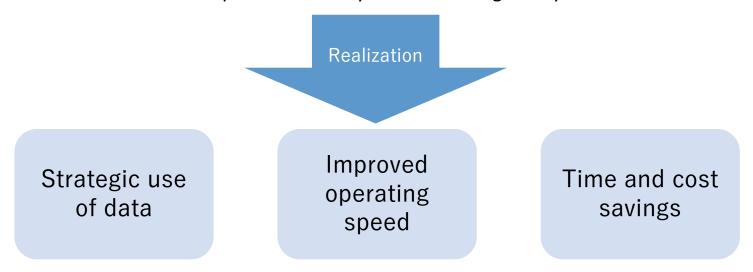


#### 2019 3/11

#### Initiation of provision of Enterprise NoSQL Solutions From the effective use of big data to strategic application

- ✓ Conclusion of a partnership agreement with NoSQL database pioneer, MarkLogic Corporation
- √ Raising the value of customers' data assets and enterprise value

Practical application of operational knowledge, know-how, and customer bases derived from our enterprise business system consulting and system introductions



https://www.focus-s.com/focus-s/media/20190311-E.pdf



#### 2019 3/26

Cost

Joint research with the University of Tsukuba for the implementation of a tertiary battery A low-cost, safe, innovative battery with power generation function

- Aiming at the implementation of a tertiary battery (battery equipped with a power generation function driven by temperature differences)
- ✓ Solution to the battery replacement and disposal issues associated with one-way batteries and rechargeable batteries

	Conventional primary and secondary batteries	Tertiary battery
Initial cost	System design in consideration of battery life Appropriate procurement of new batteries New batteries loaded in IoT devices Initial installation in IoT devices	Procurement of tertiary battery Tertiary battery loading in IoT devices Initial installation in IoT devices
Operating cost	Replacement schedule according to lifetime and residual charge Appropriate procurement of new batteries and charging schedule Battery replacement in IoT devices Resetting after battery replacement Disposal of exhausted batteries	Replacement of battery if defunct

Enabling the development of low-cost IoT systems with minimal battery replacement and eco-friendly features

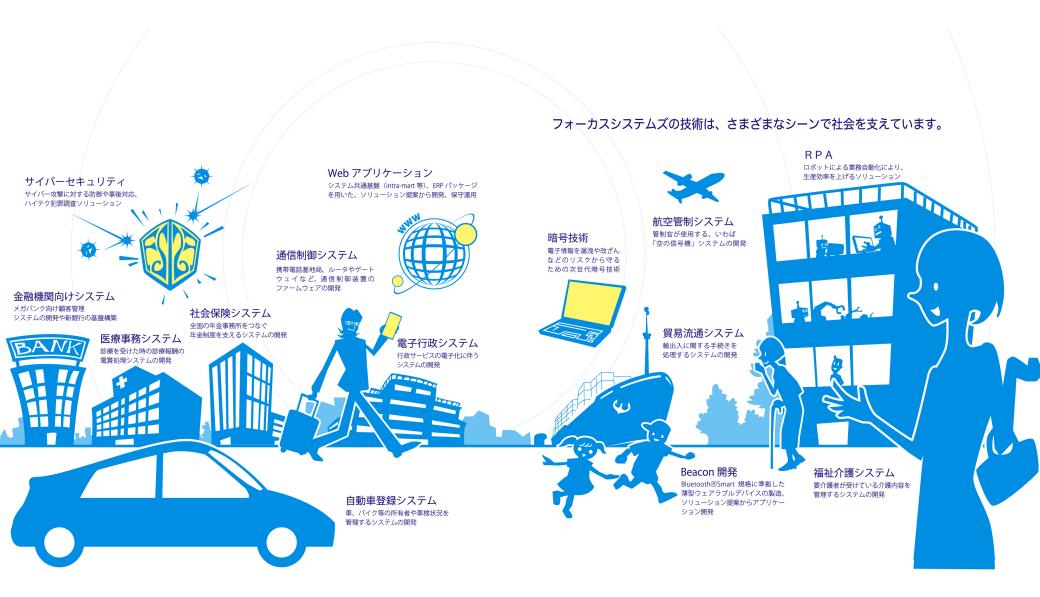
4 Supplementary Information: Company Outline



Company Name	Focus Systems Corporation
Line of business	Software development and IT services Security product development, sales, and service provision
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	1,161 (as of March 31, 2019)

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

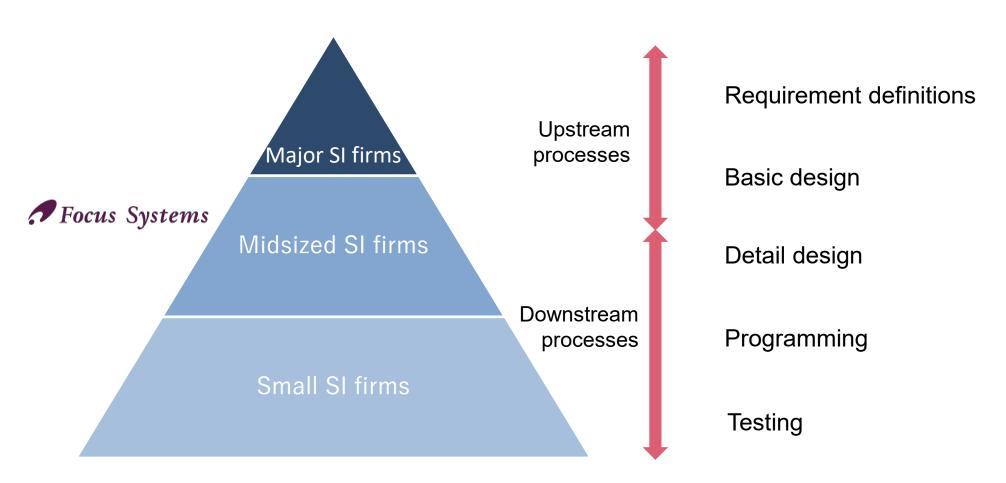
#### **Information Security**

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

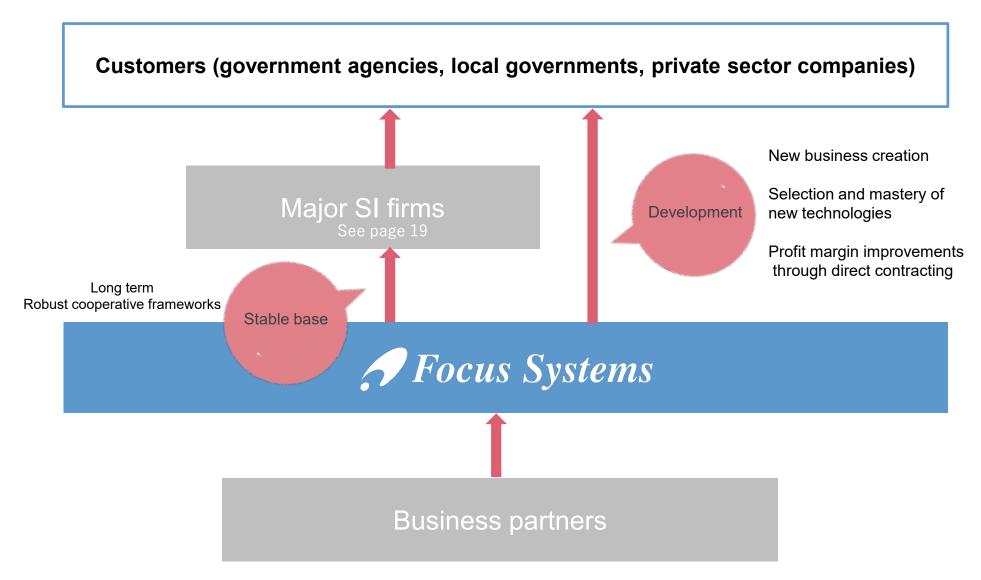


## Focus Systems is an independent system integrator (SI) Processes range from upstream to downstream and projects from small to large

(including operation and maintenance after system start-up)









Public infrastructure-related business

#### Stable business base of the Company

Participation in diverse systems continuing over the long term
Periodic lifecycles (accommodation of legislative revisions, system renewals)
In-depth expert knowledge and ample track record grown over many years

Private sectorrelated business

#### Business development and expansions

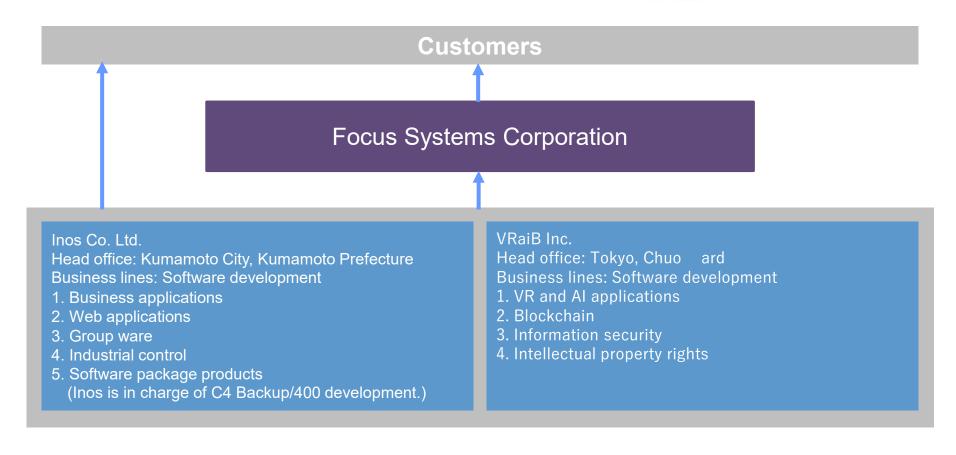
Wide-ranging business fields (smartphones, automotive, cloud, AI, RPA, business applications, and more)
Trend toward ICT-driven productivity enhancement in times of negative population growth keeps markets expanding

Security device-related business

#### High added-value technologies

Ownership of rare "digital forensics" technology Ownership of own encryption and digital watermark technologies Multiple introductions at the Ministry of Defense, National Police Agency, Financial Services Agency, and central government ministries and agencies





#### Affiliated company (March 2019)

Company name	Equity (%)	Sales (thousand yen)	Ordinary income (thousand yen)	Net income (thousand yen)
Inos Co. Ltd.	20.0	1,151,825	106,789	95,508
VRaiB Inc.	20.0	84,243	3,587	3,587

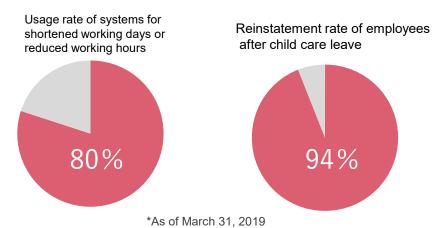


#### Work–Life Balance

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 job-changing).

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.

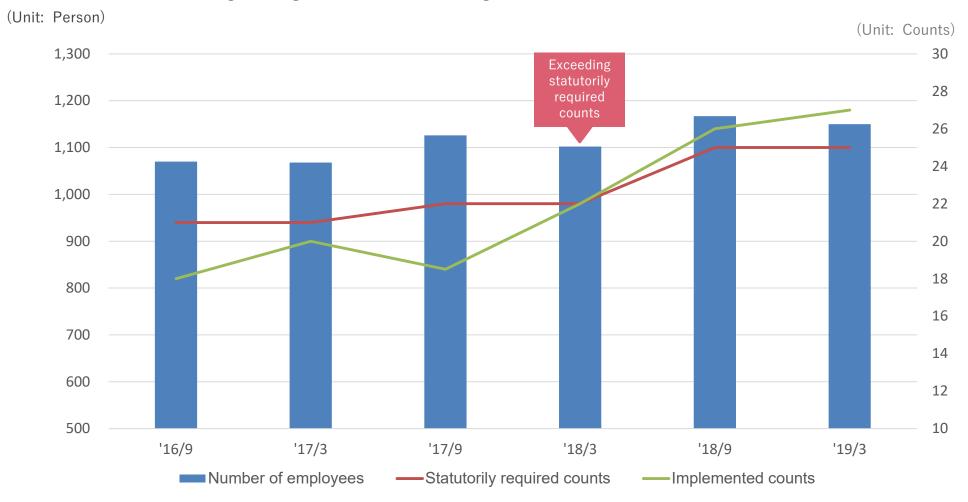


#### L-Star (Female employee career promotion)

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



- Efforts at developing areas for employment in agriculture and clerical operations and the creation of environments for the long-term employment of persons with disabilities
- ✓ Company internal training to promote appreciation of working with persons having disabilities and strengthening measures to work together





Support for club activities · · · To promote the health of employees, the Company supports club activities. Currently around 100 employees are enrolled in any of the 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.





"I start walking today" seminar, scheduled to be held in the fiscal year ending March 2020



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 guit 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.





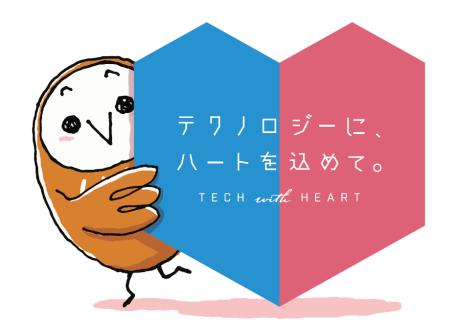


Fiscal year, ended March 31	FY2015	FY2016	FY2017	FY2018 *2	FY2019 *2
Net sales (1,000 yen)	15,081,738	16,482,792	17,846,896	19,327,344	21,453,829
Operating income (1,000 yen)	940,310	953,356	743,538	1,025,541	1,368,284
Ordinary income (1,000 yen)	897,205	950,301	731,331	1,019,522	1,375,563
Net income (1,000 yen)	592,742	738,841	551,571	719,243	874,282
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) $\frac{1}{2}$	8,146	16,292	16,292	16,292	16,292
Net assets (1,000 yen)	6,769,094	7,415,953	7,258,918	9,201,228	9,106,539
Total assets (1,000 yen)	14,340,827	14,936,873	14,567,320	16,820,805	15,991,992
Net assets per share (yen) ※1	488.86	535.58	524.24	611.34	605.04
Dividend per share (yen) X1	12.50	16.00	12.50	16.00	20.00
Net income per share (yen) %1	42.81	53.36	39.83	51.21	58.11
Equity ratio (%)	47.2	49.6	49.8	54.7	56.9
Return on equity (%)	10.0	10.4	7.5	8.7	9.6
Payout ratio (%)	29.2	30.0	31.4	31.2	34.4
Number of employees	962	1,024	1,073	1,116	1,161
Stock price – high ( yen) ※1	1,210	888	634	1,350	1,153
Stock price - low (yen) %1	540	340	412	503	774

Note 1: Values calculated after the two-for-one common stock split instituted on October 1, 2015.

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 report is based on information available as of March 31, 2019, and premised on assumptions as of the same date concerning uncertain factors that may affect future business results. Actual business results may significantly differ due to various future factors. The Company Group offers no warranty for the reliability of the information provided in this report.