

# Results for the 2<sup>nd</sup> Quarter of 31<sup>st</sup> business period

(Fiscal Year Ending March 31<sup>st</sup>, 2015)

## TechMatrix Corporation

<http://www.techmatrix.co.jp/>

(Stock Code:3762)

**December 10, 2014**

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# 1. Business Highlights for the Six Months of 31<sup>st</sup> Business Period

Business Period

# 1. Business Highlights for the Six Months

## Highlights

## (Consolidated)

### Net sales

- Net Sales : 8,604¥Million
- Year on year : up 3.4%



- Consumption tax hike gave a very limited impact on corporate capital spending during the first half of the fiscal year.
- Achieved the highest ever revenue record for 1st half. Achieved the revenue target (8,500¥Million).

### Income

- Operating income:350¥Million (year on year down 18.7%)  
Operating income margin:4.1%  
Achieved the target (320¥Million)
- Ordinary income:343¥Million (year on year down 23.1%)  
Ordinary income margin:4.0%  
Achieved the target (320¥Million)
- Net income : 211¥Million (year on year up 47.1%)  
Net income margin:2.5%  
Achieved the target (200¥Million)



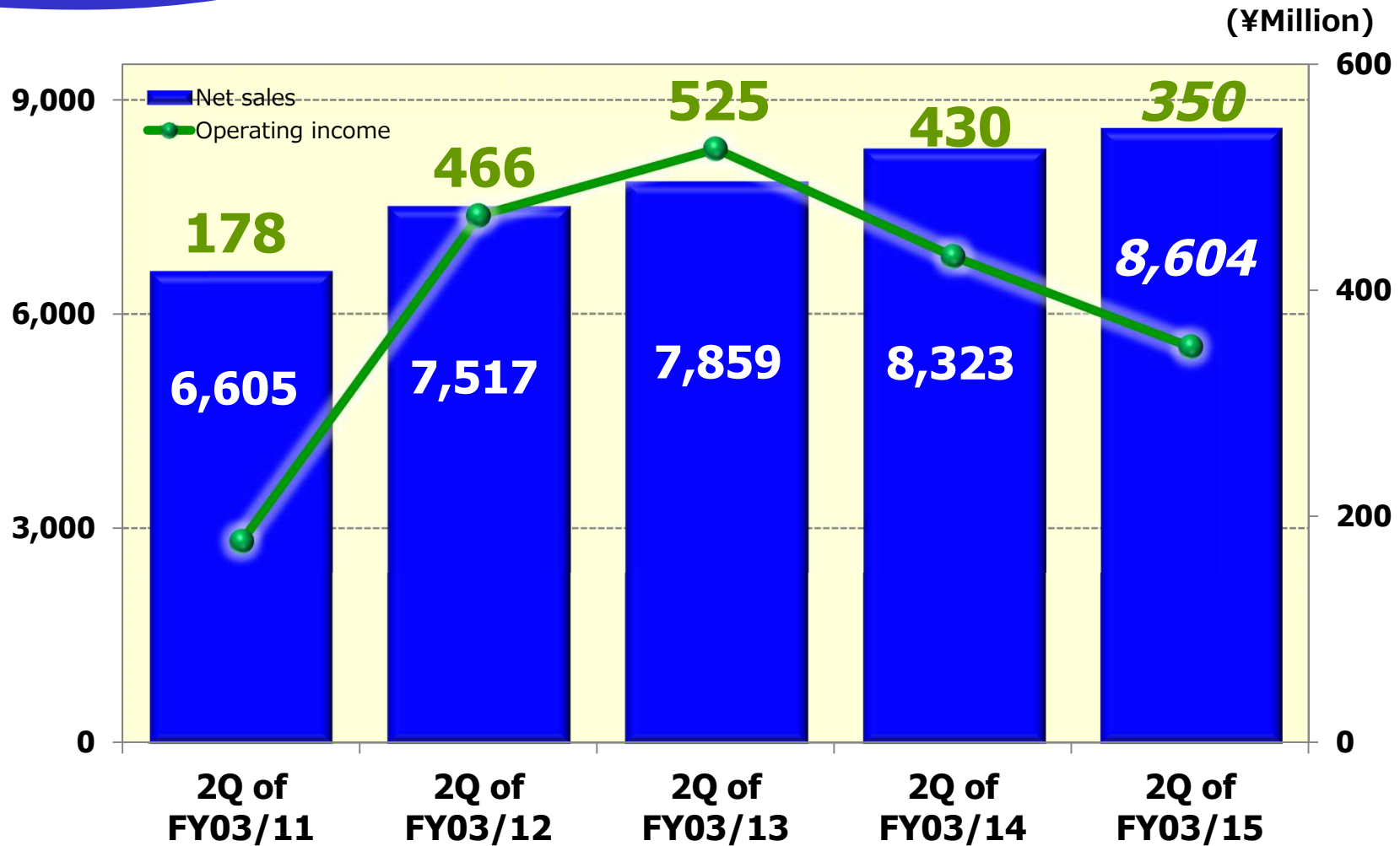
- Strategic expansion of stock-type businesses including cloud services has gone on as planned.
- Offset sales decline of the Healthcare segment as planned with sales growth of other business segments.
- 4 out of 5 consolidated subsidiaries were in surplus.
- Net income increased due to the addition of deferred tax assets in Q1 of FY03/2014.

- Information Infrastructure Business : Achieved the highest ever revenue record for 1<sup>st</sup> half. Sales have steadily increased for next-generation firewalls. Obtained orders for large scale integration projects from a number of government and other public agencies.
- CRM segment steadily increased bookings. Our first overseas cloud service project commenced its operation.
- NOBORI, a cloud service for healthcare information steadily increased bookings. Obtained orders for large scale projects from university hospitals.
- Achieved the highest ever sales booking record on a single month basis in September 2014.

# 1. Business Highlights for the Six Months

Progress of business performance

(Consolidated)



# 1. Business Highlights for the Six Months

Progress of business  
performance for each quarter

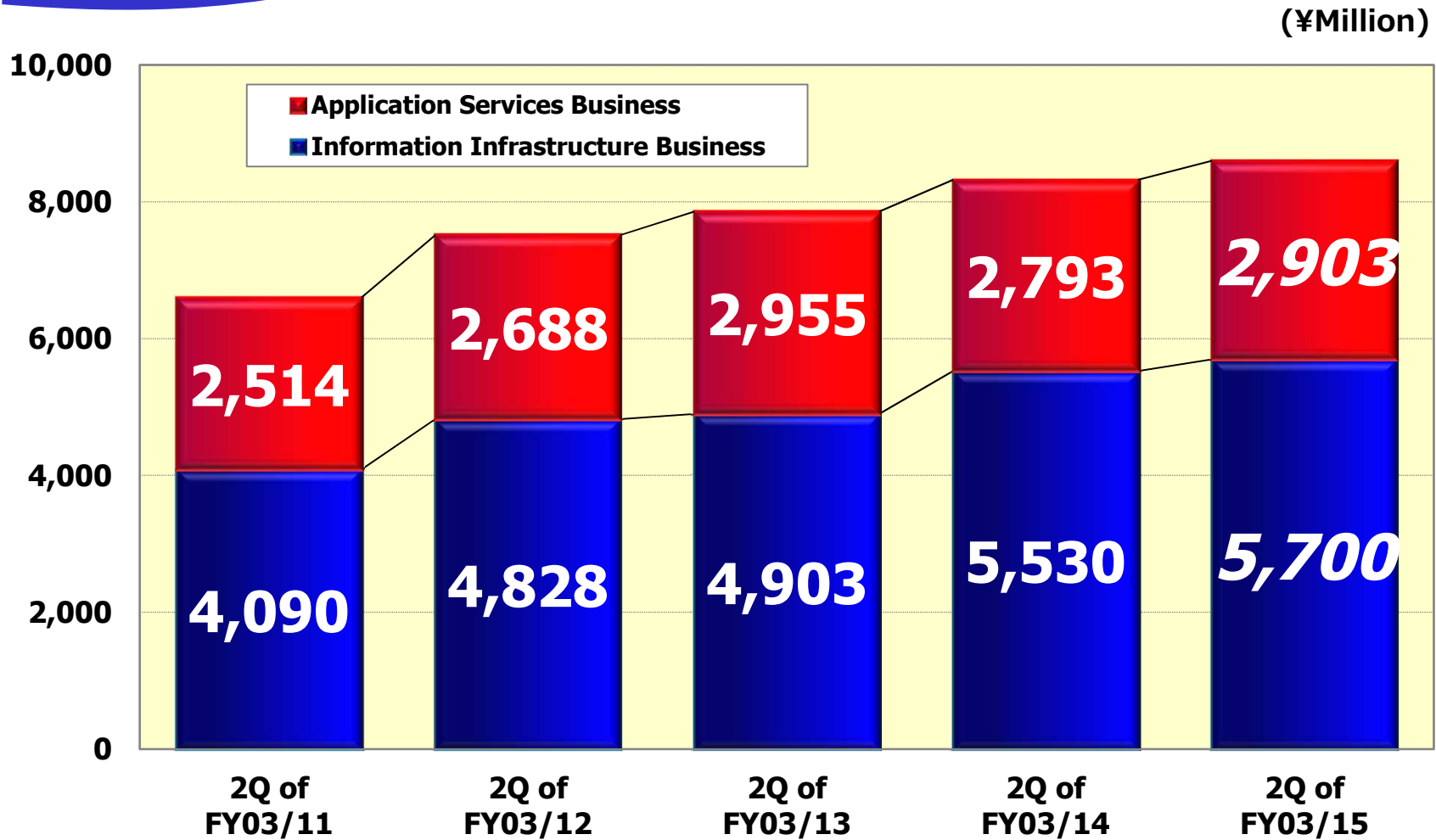
(Consolidated)

(¥Million)

	FY03/2013 Net sales/ operating income	FY03/2014 Net sales/ operating income	FY03/2015 Net sales/ operating income
Q1	<b>3,696/93</b>	<b>3,823/58</b>	<b>3,949/63</b>
Q2	<b>4,162/431</b>	<b>4,500/372</b>	<b>4,654/286</b>
	<b>7,859/525</b>	<b>8,323/430</b>	<b>8,604/350</b>
Q3	<b>4,252/346</b>	<b>3,864/179</b>	
Q4	<b>4,620/322</b>	<b>5,165/507</b>	
FY	<b>16,731/1,194</b>	<b>17,353/1,118</b>	

# 1. Business Highlights for the Six Months

## Net sales of business segments (Consolidated)



# 1. Business Highlights for the Six Months

## Information Infrastructure Business

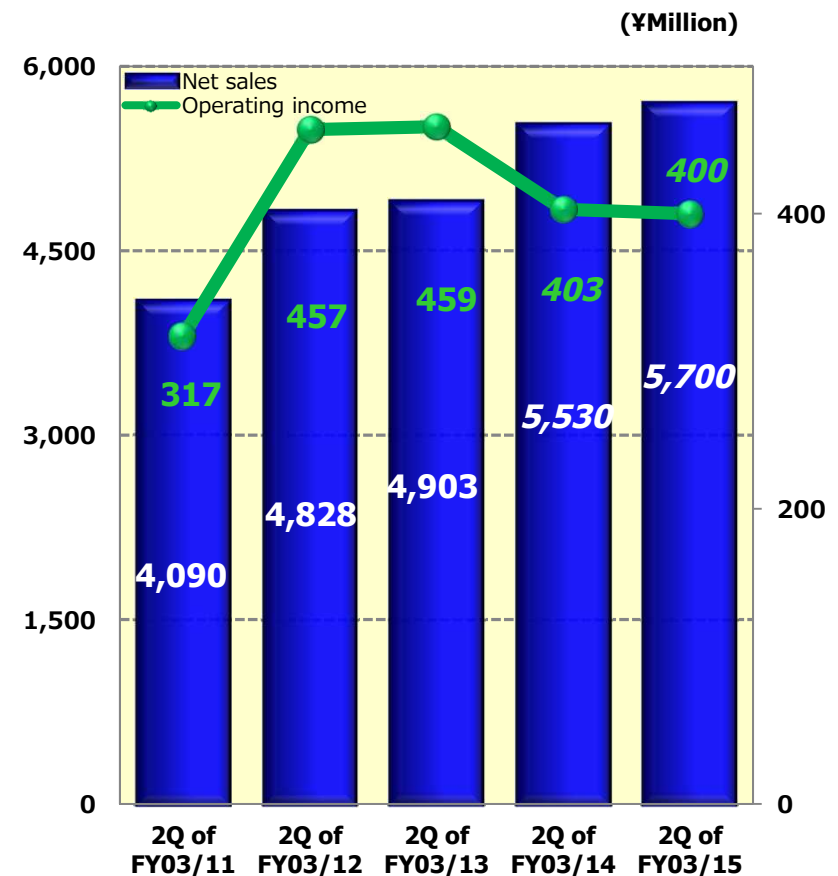
## (Consolidated)

- **Business performance** :Net sales 5,700¥Million (Year on year 3.1% up)  
:Operating income 400¥Million (Year on year 0.5% down)  
\* Declining profit was mainly due to exchange rate fluctuations.

- Achieved the highest ever sales record

- **Highlight**

- The sales of our main product, load balancers, have tended to peak out somewhat, partly in reaction to strong sales during the previous fiscal year.
- Sales have steadily increased for next-generation firewalls, due in part to the growing threat from cyber-attacks such as Advance Persistent Threat (APT).
- We obtained orders for large scale integration projects to build information infrastructure, primarily for security related solutions, from a number of government and other public agencies.
- Sales were stagnant for two -factor user authentication system and integrated log management appliances for reasons such as progression of maturity in the target markets and the approaching product generation change.
- While CROSS HEAD received continuous orders in the maintenance, operation and monitoring services, it lost some sales opportunities due to difficulty in securing sufficient engineering staff.
- Okinawa Cross Head Co., Ltd. realized the participation in an information infrastructure building project led by the prefectural government, and sales of cloud services and security appliances were also steady.
- NCL Communications K.K., sales of next-generation network appliances which support network virtualization technologies and security-related products were solid.





# 1. Business Highlights for the Six Months

## Application Services Business

## (Consolidated)

- **Business performance** :Net sales 2,903¥Million (Year on year 4.0% up)  
:Operating loss 50¥Million (Operating income 27¥M prev. FY)

### ■ Highlight

#### ● The Internet Service field

- Contracted development business sustained good performance mainly due to orders of developments related to smartphones from existing customers.
- CASAREAL, Inc. sales stagnated somewhat due to difficulty in securing sufficient engineering staff.

#### ● The Software Quality Assurance field

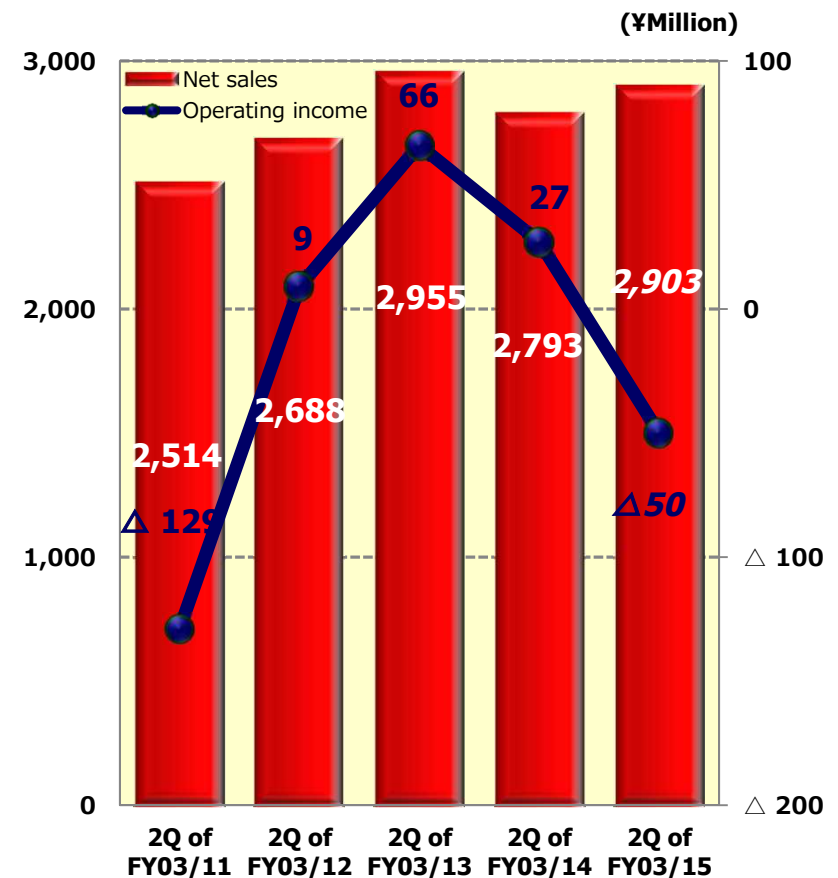
- Sales were in good shape in the context of rising demand for test tools in the manufacturing and financial industries.
- The necessity for improvement of the quality of embedded software and functional safety is prevalent in the manufacturing industry.
- The industry is regaining its motivation for capital investment along with the recovery in the manufacturing due to the correction in the appreciation of the Japanese yen.

#### ● The Healthcare field

- NOBORI, a cloud service for healthcare information, received substantial inquiries and steadily increased orders.
- Obtained orders for large scale projects from university hospitals.
- The revenue of this service is recognized in proportion to its corresponding service period, this method will result in a decrease of revenue for the short term. (business results are progressing almost as planned.)
- Ichigo LLC has steady expansion of number of contracted facilities, teleradiology orders, and pay-as-you-go payments as a result of progress of gaining customers from healthcare facilities and others in addition to the conventional service provision for hospitals, which led to better results than scheduled in both revenue and profit terms.

#### ● The CRM field

- Sales remained steady thanks to increased orders from the business collaboration with a major system integrator as well as the expanding demand for cloud services.
- Our first overseas cloud service project commenced its operation.



# 1. Business Highlights for the Six Months

Profit-and-loss statement

(Consolidated)

(¥Million)

Fiscal year	Q2 of FY03/2014	Q2 of FY03/2015	Percentage change from previous quarter
Net sales	8,323	8,604	3.4%
Operating income	430	350	△18.7%
Income rate	5.2%	4.1%	
Ordinary income	446	343	△23.1%
Income rate	5.4%	4.0%	
Net income	400	211	△47.1%
Income rate	4.8%	2.5%	

# 1. Business Highlights for the Six Months

## Balance sheet

## (Consolidated)

(¥Million)

	Q2 of FY03/2014	Q2 of FY03/2015		Q2 of FY03/2014	Q2 of FY03/2015
<b>Current assets</b>	<b>9,291</b>	<b>9,946</b>	<b>Current liabilities</b>	<b>5,479</b>	<b>5,939</b>
Cash and deposits	3,744	4,310	Accounts payable-trade	870	922
Notes and accounts receivable-trade	2,937	2,700	Short-term loans payable	350	350
Other	2,608	2,935	Other	4,258	4,666
<b>Noncurrent assets</b>	<b>3,211</b>	<b>3,065</b>	<b>Noncurrent liabilities</b>	<b>751</b>	<b>925</b>
Property, plant and equipment	408	461	<b>Total liabilities</b>	<b>6,230</b>	<b>6,864</b>
Goodwill*	529	406	Shareholders' equity	5,738	6,059
Other	767	769	Total accumulated other comprehensive income	50	5
Investments and other assets	1,506	1,427	Subscription rights to shares	—	—
<b>Total assets</b>	<b>12,502</b>	<b>13,012</b>	Minority interests	483	82
			<b>Total net assets</b>	<b>5,479</b>	<b>5,939</b>
			<b>Total liabilities and net assets</b>	<b>12,502</b>	<b>13,012</b>

\*Declining goodwill was due to one-time depreciation of the additional acquisition to have 100% ownership of CROSS HEAD and Okinawa Cross Head Co., Ltd.

# 1. Business Highlights for the Six Months

Cash flow

(Consolidated)

(¥Million)

	Q2 of FY03/2013	Q2 of FY03/2014	Q2 of FY03/2015
I. Net cash provided by operating activities	<b>428</b>	<b>409</b>	<b>562</b>
II. Net cash provided by investing activities	<b>△226</b>	<b>△163</b>	<b>△103</b>
III. Net cash provided by financing activities	<b>△204</b>	<b>△135</b>	<b>△110</b>
IV. Net increase in cash and cash equivalents	<b>△1</b>	<b>111</b>	<b>347</b>
V. Cash and cash equivalents at beginning of period	<b>3,624</b>	<b>3,633</b>	<b>3,759</b>
VI. Cash and cash equivalents at end of period	<b>3,662</b>	<b>3,774</b>	<b>4,110</b>

# 1. Business Highlights for the Six Months

Press releases in 1<sup>st</sup> half

Date	Contents
Jun.	Entered into distributorship agreement with Indonesia-based CBN Cloud
	CROSS HEAD concluded a Japan exclusive distributorship agreement with French company Ulteo SAS
	Announcement of the details of the shareholder special benefit plan
Jul.	Entered into distributorship agreement with Nippon Jimuki Co., Ltd. for sales of NOBORI
Aug.	Okinawa Cross Head Co., Ltd. entered into a business alliance with Hewlett-Packard Japan, Ltd.
Sep.	Concluded distributorship agreement with U.S.-based Avere Systems, Inc.
	Concluded distributorship agreement with U.S.-based VERACODE, Inc.

# 1. Business Highlights for the Six Months

## Press releases in 1<sup>st</sup> half

Date	Contents
Oct.	<b>CROSS HEAD made investment in U.S.-based Pica8, Inc.</b>
	<b>NCL Communications K.K. commenced the provision of a free trial license for "PicOS", a new network OS, announced by Pica8, Inc.</b>
	<b>Commenced the provision of a cloud service for healthcare information jointly with SoftBank Telecom Corp. and Densan, Inc.</b>
Nov.	<b>Commenced the provision of the Web-based assistance for customer support organization</b>

## 2. Progress of Business Strategy for 31<sup>st</sup> Business Period

Business Period

# Our Strategy

### ① Strategic and accelerated promotion of cloud-related businesses

- Self-driven operation of cloud service businesses
- Development and provision of technologies to capacitate cloud services

### ② Pursuit of security and safety

- Provision of network security solutions
- Provision of solutions for software security and software quality improvement





## 2. Progress of Business Strategy

Topics

(non-consolidated)

### Strategic and accelerated promotion of cloud-related businesses

#### ■NOBORI

- Steadily increased the number of customers as planned toward the goal (a total of 300 at the end of this fiscal year)
- Sales bookings steadily grew by obtaining large-scale orders and strategically enhancing business alliances

#### ■Ichigo LLC

- Led to better results than scheduled in both revenue and profits due to steady increase of the number of healthcare facilities

#### ■CRM

- Increase demands for cloud services and business collaboration with major system integrators let to strong sales results  
<Number of contracts increased 10.7% and monthly service charge increased 5.9% year on year >

#### ■Internet Service

- Contracted the large-scale orders for EC-related development projects and sustained good performance

### Pursuit of security and safety

#### ■Network and Security

- Concluded distributorship agreement with U.S.-based Avere Systems, Inc., known for its Hybrid Cloud NAS system, and U.S.-based VERACODE, Inc., who provides cloud-based application vulnerabilities assessment service

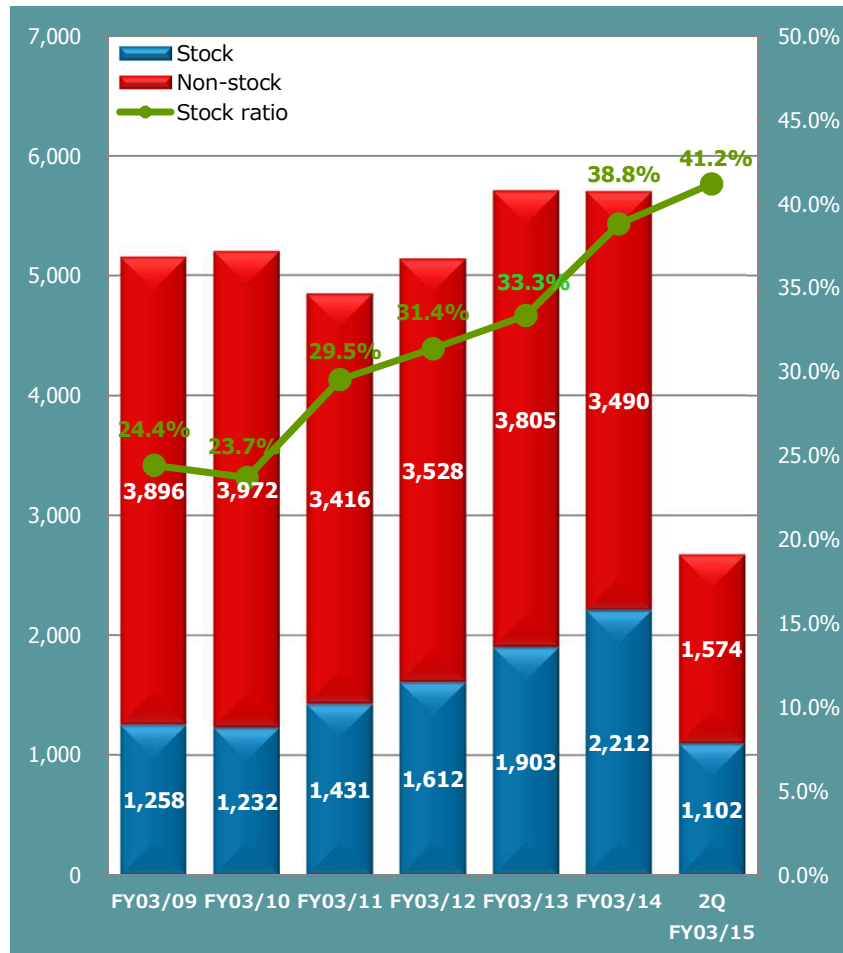
#### ■Software Quality Assurance

- Sales were in good shape in the context of rising demand for test tools in the manufacturing and financial industries. Consulting services revenue for functional safety increased mainly in healthcare equipment industry.

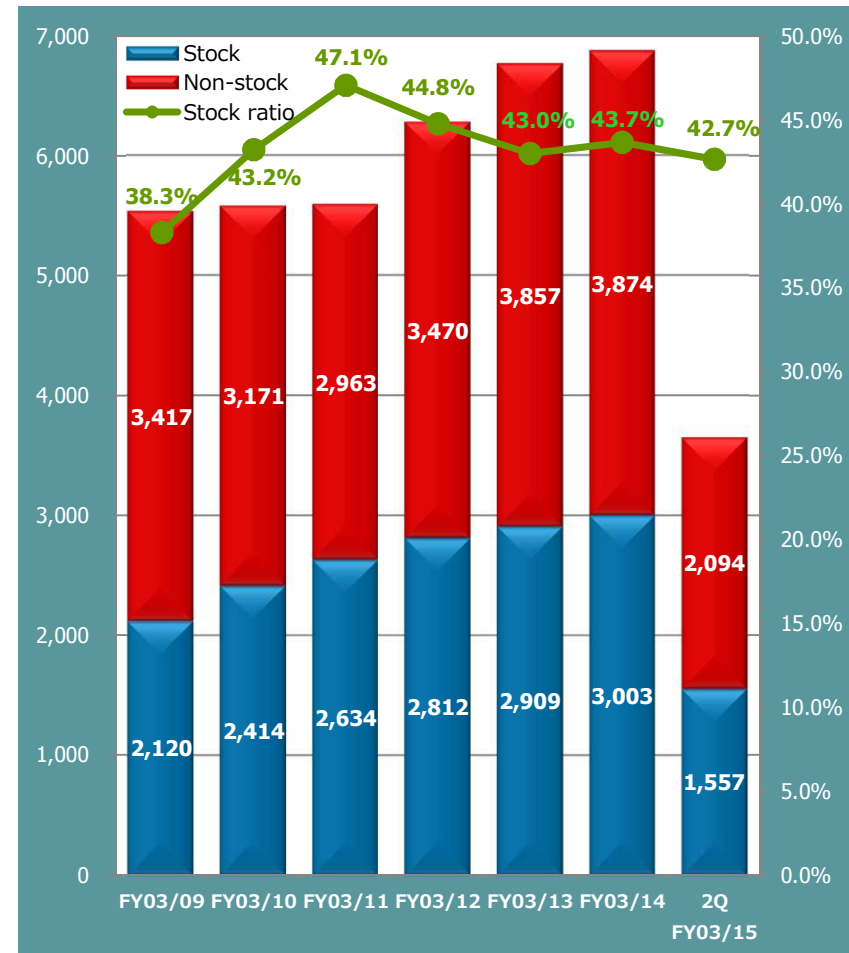
# 2. Progress of Business Strategy

## Stock type sales ratio (non-consolidated)

### Application Services Business



### Information Infrastructure Business



## 2. Progress of Business Strategy

### Progress for plan of FY03/2015 (Consolidated)

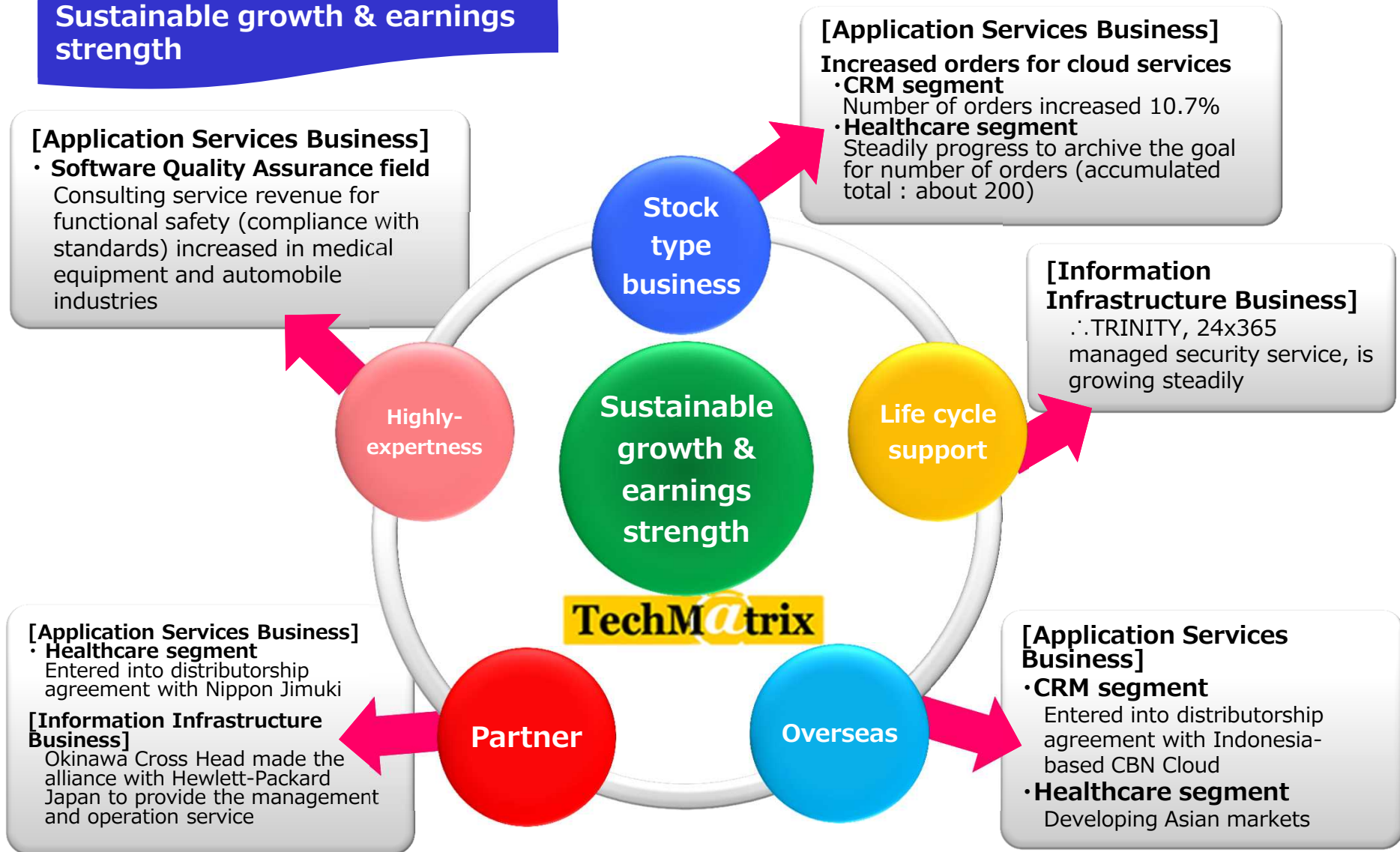
(¥Million)

FY	Q2 of FY03/2015	Q2 plan of FY03/2015	Achievement rate	Plan of FY03/2015	Progress level
Net sales	<b>8,604</b>	<b>8,500</b>	<b>101.2%</b>	<b>18,300</b>	<b>47.0%</b>
Operating income	<b>350</b>	<b>320</b>	<b>109.5%</b>	<b>1,160</b>	<b>30.2%</b>
Ordinary income	<b>343</b>	<b>320</b>	<b>107.4%</b>	<b>1,160</b>	<b>29.6%</b>
Net income	<b>211</b>	<b>200</b>	<b>105.7%</b>	<b>700</b>	<b>30.2%</b>

- ◆ Achieved all key numbers (cumulative) as of Q2 FY03/2015
- ◆ Volume of inquiries and sales bookings increased solidly

# 2. Progress of Business Strategy

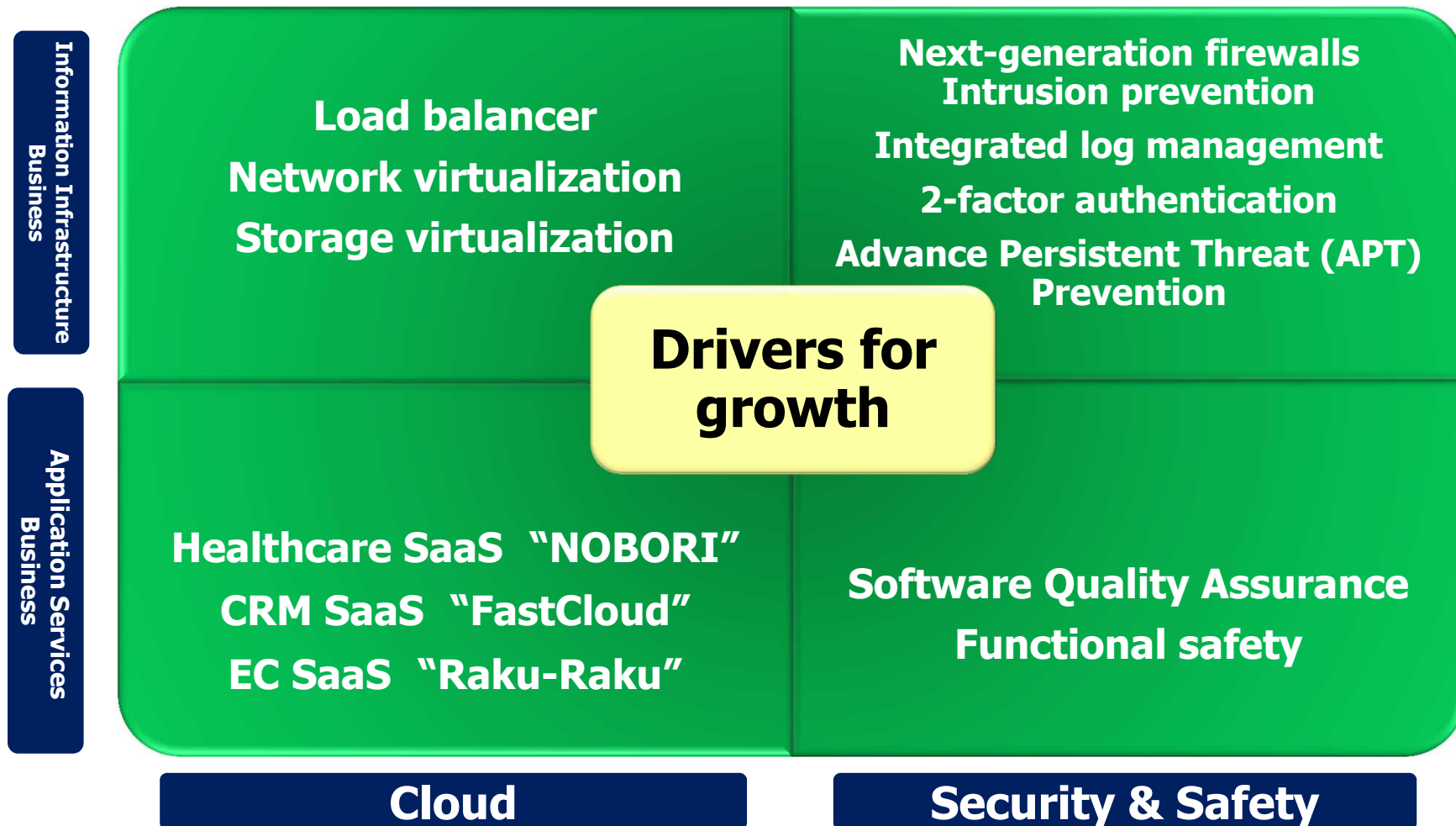
## Sustainable growth & earnings strength



### 3. Outlook for 31<sup>st</sup> Business Period

# 3. Outlook for 31st Business Period

## Proof of growth hypothesis



# 3. Outlook for 31st Business Period

Strategic investment on insight into the future

External environment and efforts

## Network & Security

- Smarter cyber attacks
- Off-balance-sheet computer assets (Cloud)



New products & services

## Healthcare

- Removed the restrictions on storing healthcare information outside hospitals (Cloud)
- Enhancing and streamlining healthcare services by IT



Develop Asian markets

## CRM

- increased demands for cloud services
- Differentiation by fostering customer loyalty



Expand Asian markets

## Internet service

- Continued growth of EC marketplace (popularization of smartphones)
- Innovation by Big Data analysis



Expand BI business

## Software assurance

- Tightening of the functional safety standard (Compliance)
- Prevailing computerized control in consumer products

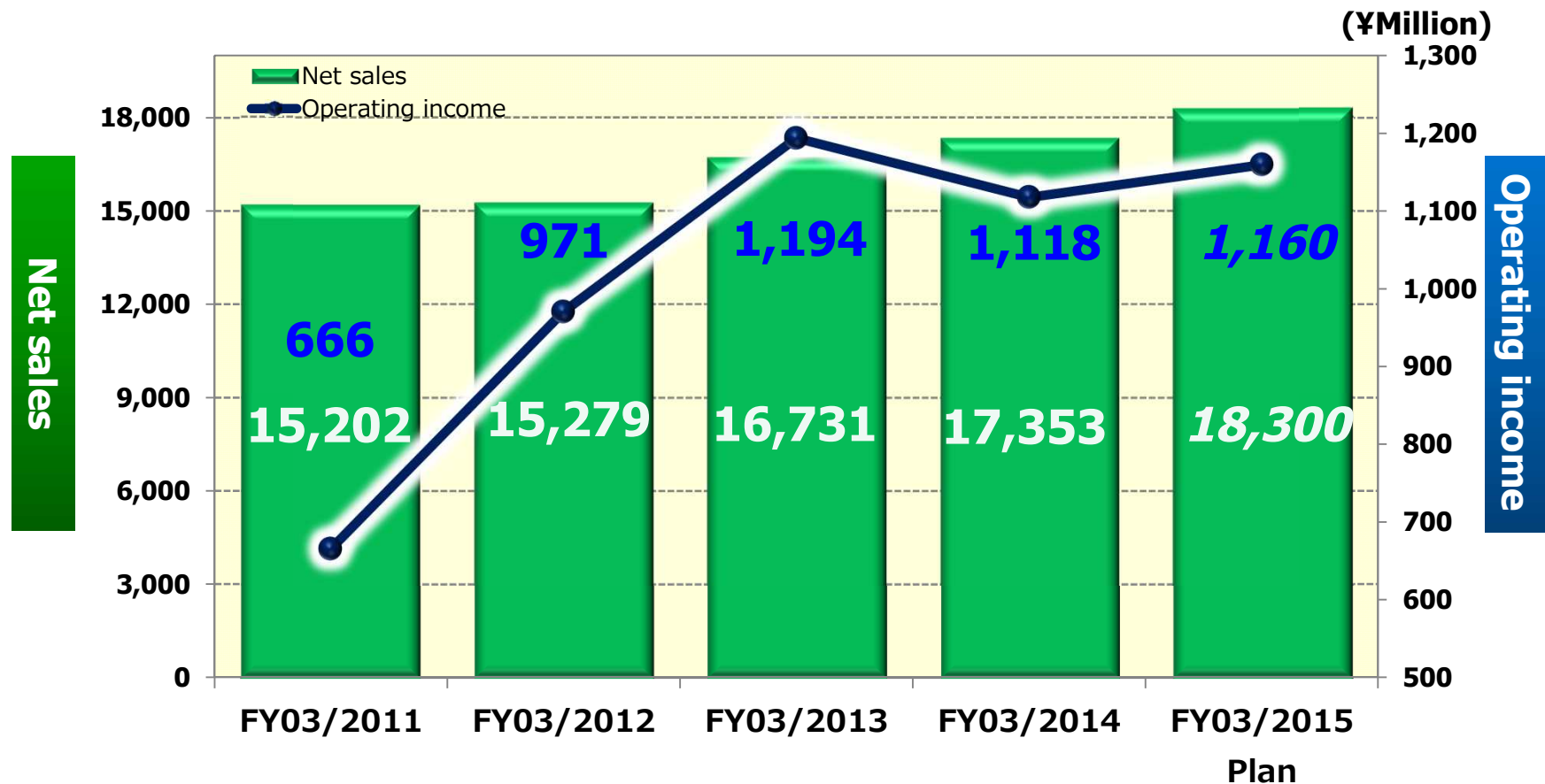


Expand consulting services

# 3. Outlook for 31st Business Period

Trends in the sales & income volume

(Consolidated)





# 3. Outlook for 31st Business Period

Plan for FY03/2015

(Consolidated)

(¥Million)

	FY03/2014	FY03/2015 Plan	year-on-year rate
Net sales	17,353	18,300	5.5%
Operating income	1,118	1,160	3.7%
Rate	6.4%	6.3%	-
Ordinary income	1,164	1,160	△0.4%
Rate	6.7%	6.3%	-
Net income	793	700	△11.7%
Rate	4.6%	3.8%	-

\* We revised the company category for tax effect accounting during the first quarter of the previous fiscal year, and recognized negative ¥165 million of income taxes-deferred due to the addition of deferred tax assets, however, there were no such special factors in accounting during the six months ended September 30, 2014.

### 3. Outlook for 31st Business Period

Sales breakdown by segment

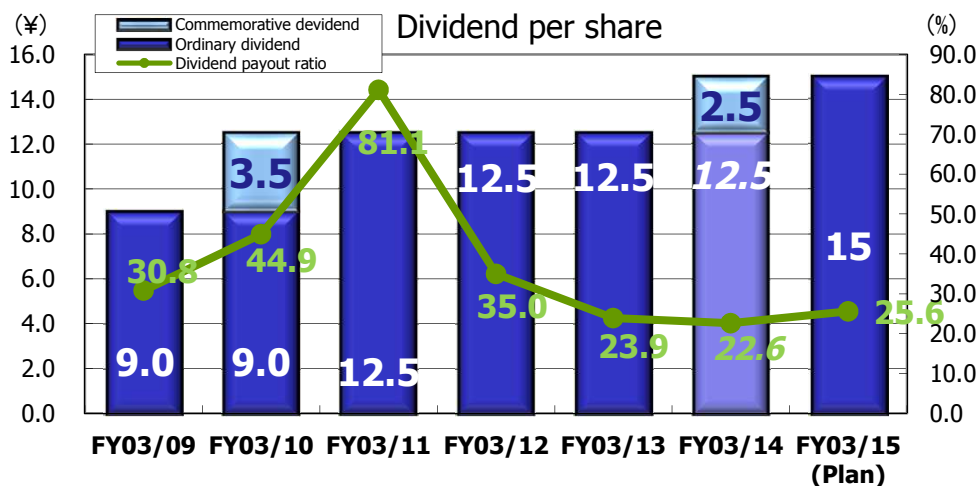
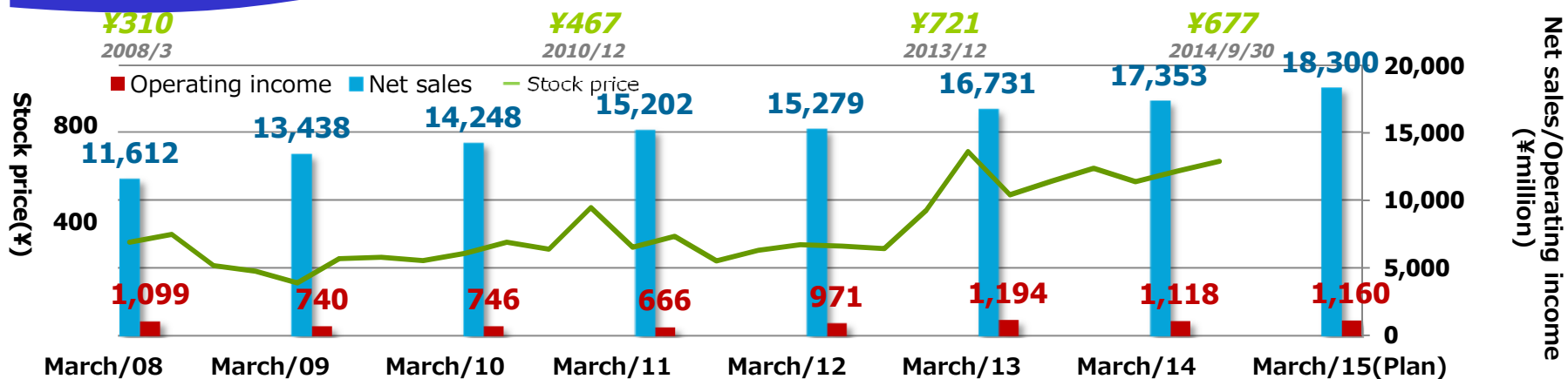
(Consolidated)

(¥Million)

	FY03/2014	FY03/2015	year-on-year rate
<b>Information Infrastructure Business</b> •Network & Security	<b>11,195</b>	<b>12,200</b>	<b>9.0%</b>
<b>Application Services Business</b> •Internet Service •Financial •Software Quality Assurance •Healthcare •Call center CRM	<b>6,157</b>	<b>6,100</b>	<b>△0.9%</b>
<b>Total</b>	<b>17,353</b>	<b>18,300</b>	<b>5.5%</b>

# 3. Outlook for 31st Business Period

## Stock prices & return to stockholders



### Shareholder special benefit plan

- Eligible shareholder**  
Shareholders who have 500 shares and over at the end of September
- Benefit plan**  
500 and over : ¥1,000 worth of products or donation to charity  
1,000 and over : ¥3,000 worth of products or donation to charity

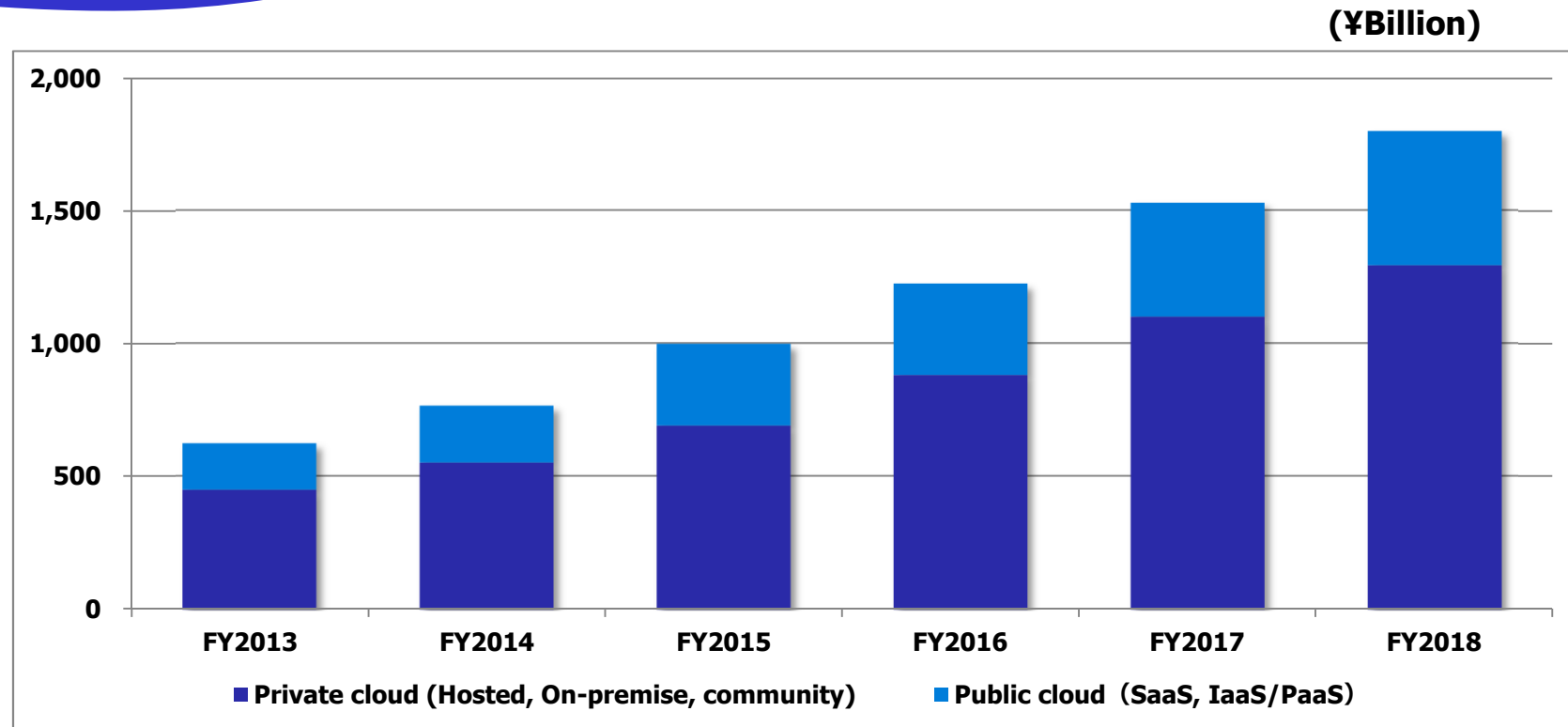
\*The Company conducted a stock split at a ratio of 200 shares for every 1 share of common stock on April 1, 2013, based on a resolution passed at the Board of Directors' meeting held on February 28, 2013. Accordingly, stock price and dividend are calculated assuming the stock split was conducted at the beginning as of March 2009.

## 4. Market Conditions for our business

# 3. Market Conditions

Forecast of cloud market size  
(Japan)

Forecast ¥1,800 billion in FY2018



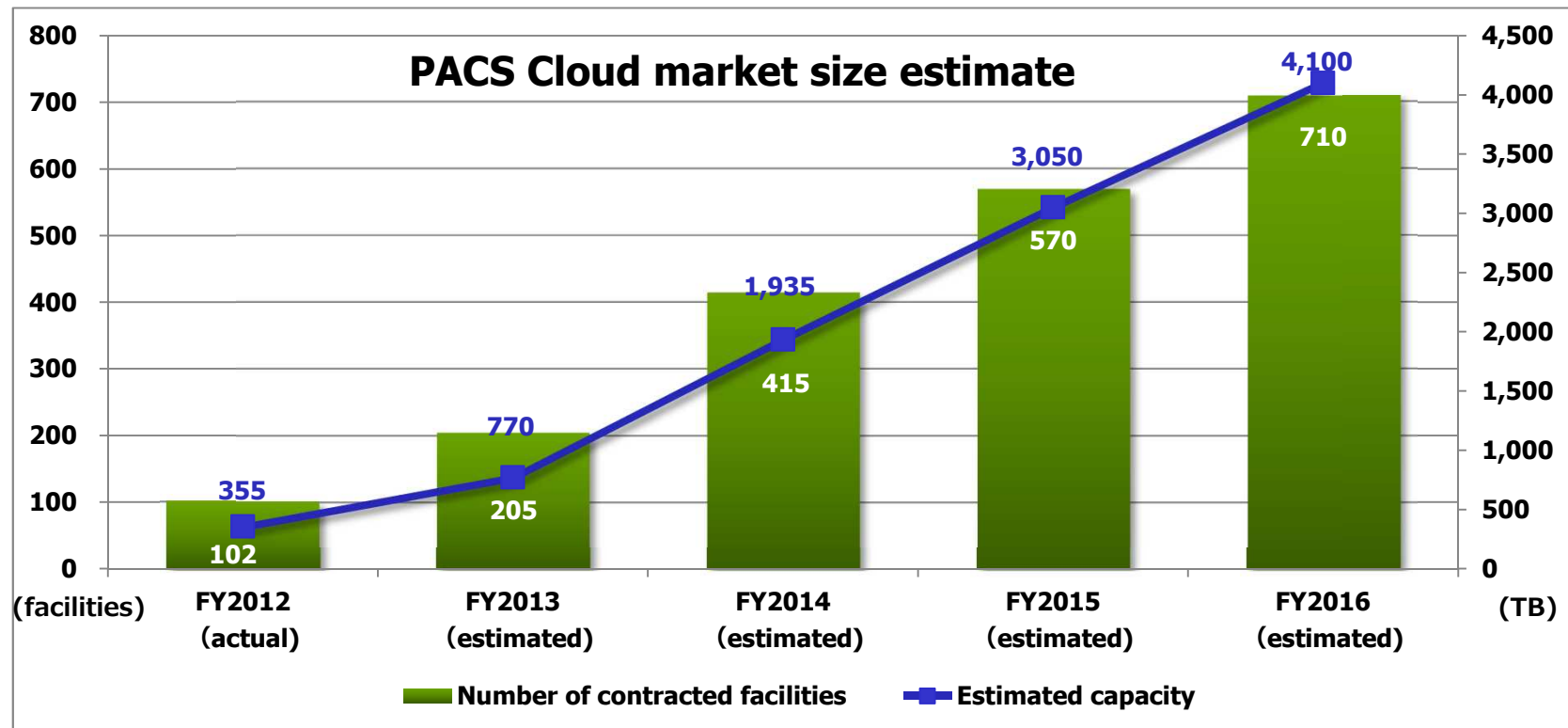
◆ Domestic cloud market size was ¥625.7 billion (22.6% up year on year). Forecast over ¥1,000 billion in FY2015 and expand to ¥1,800 billion.

◆ The “cloud first” is prevailing in the market. 80% of companies have evaluated cloud services when they build new system.

Reference : Cloud business market report 2014(4.Nov.2014) by MM Research Institute

## 2. Progress of Business Strategy

### PACS: Picture Archiving and Communication System



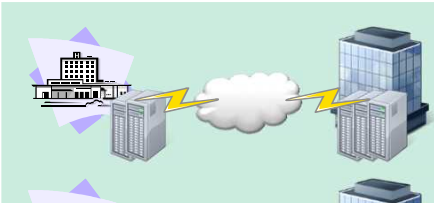
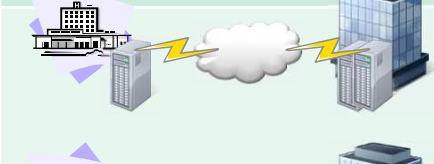

◆Number of contracted facilities using cloud is 102 as of the end of FY2012 in Japan. They estimate full-fledged growth in about 2014.

◆Techmatrix has successfully contracted with 50 facilities as of the end of FY2012. Accumulated total 150 as of the end of FY2013.

Reference : PACS market report 2013 (15.Nov.2013) by Yano Research Institute

## 2. Progress of Business Strategy

### Type of PACS Cloud

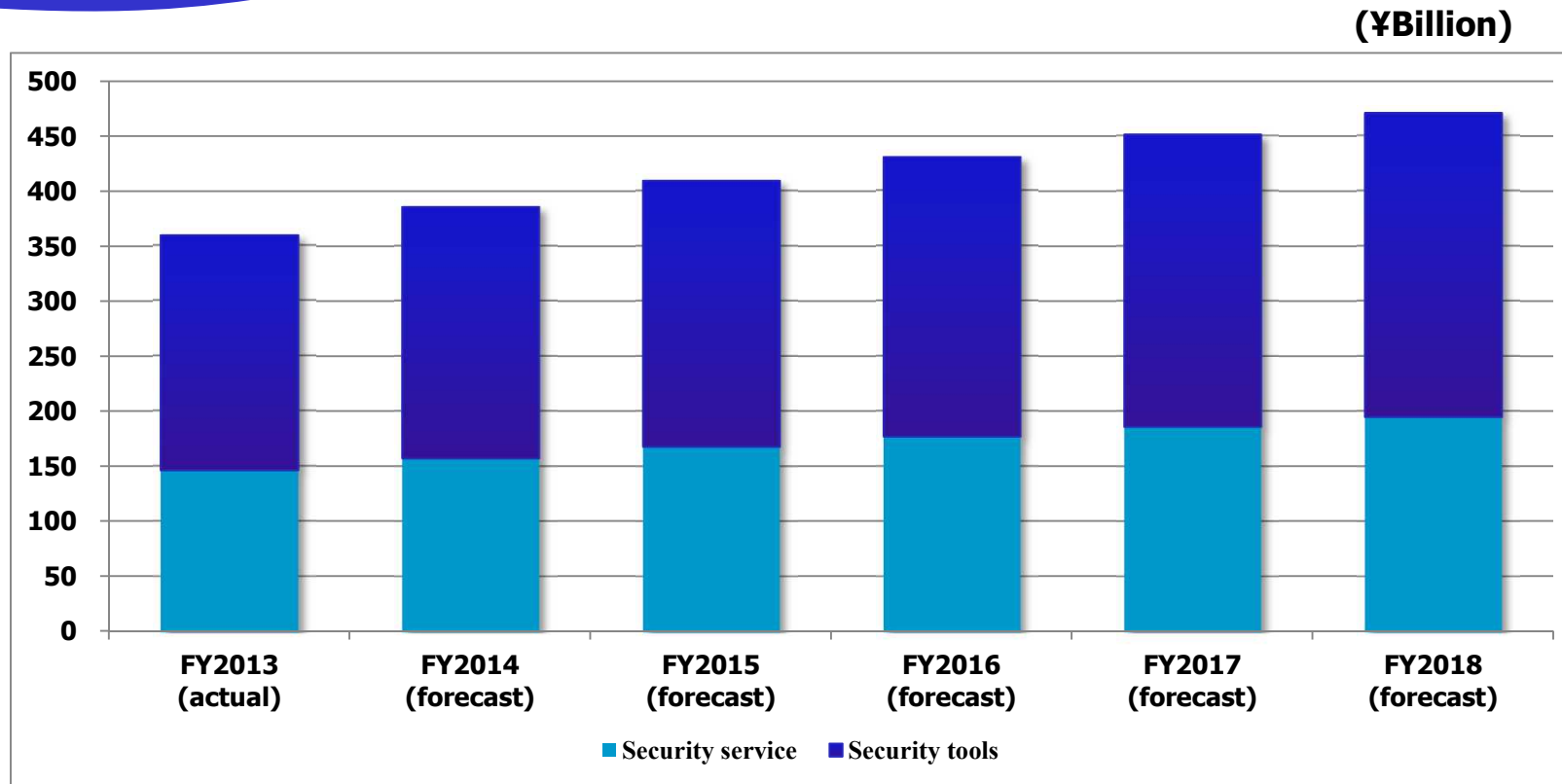
Cloud type	Brief summary	Feature	Configuration image	"NOBORI"
TYPE 1	Store both short term and long term data in a in-house server + data center (dual storage for all data)	Data back up by data center Additional cost		—
TYPE 2	Store short term data in a in-house server + long term data in data center	High frequency use data in hospital Additional cost		—
TYPE 3	All data in data center without in-house server (only cash in NOBORI appliance)	No additional cost and lower price range		◎

◆Techmatrix is ahead in the healthcare cloud business with "NOBORI" which is installable at a low price and in short term.

Reference : PACS market report 2013 (15.Nov.2013) by Yano Research Institute

# 3. Market Conditions

## Network & Security market size (Japan)



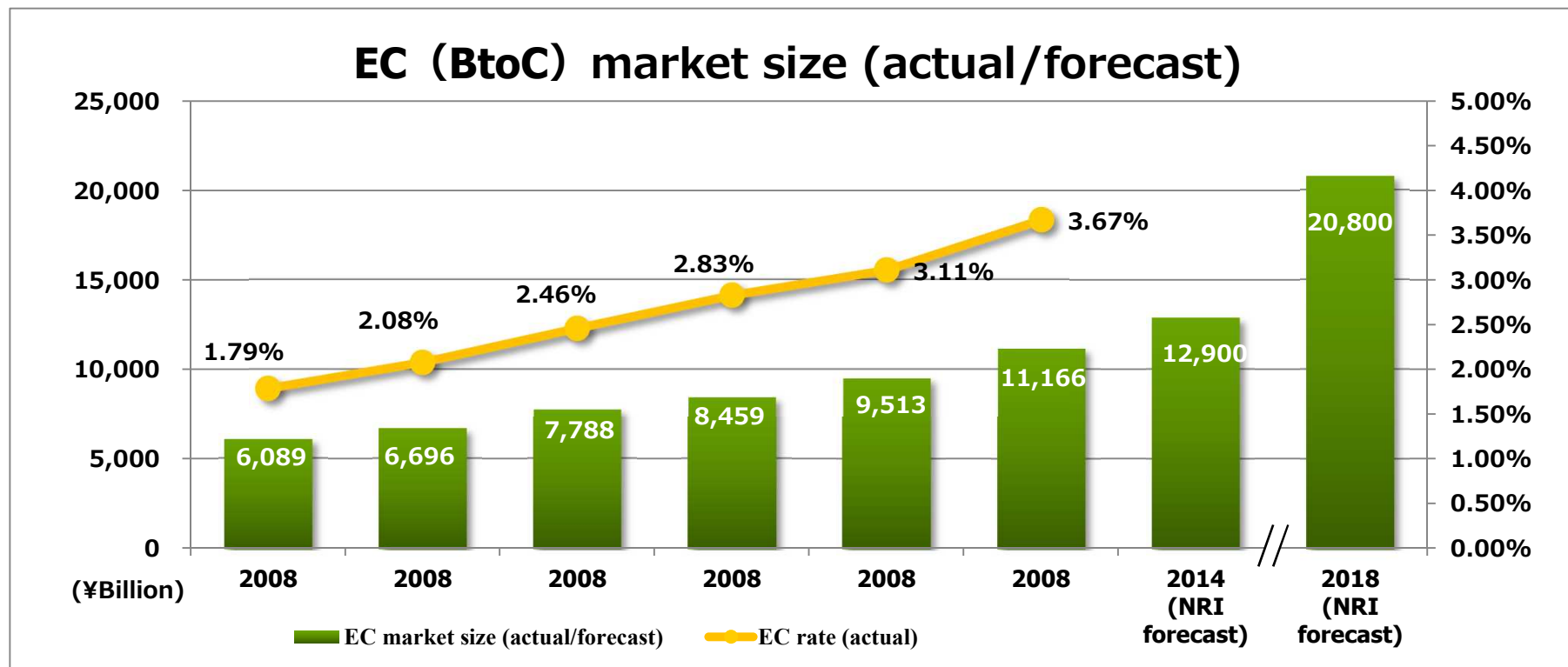
◆ Forecasted Networks Security business market in Japan expanding from ¥359.4 billion in FY2013 to ¥471.2 billion in FY2018.

◆ High growth rate on average at 5.6% has been forecasted.

Reference : Network Security business report 20134 by Fuji Chimera Research Institute



## EC (BtoC) market size (Japan)



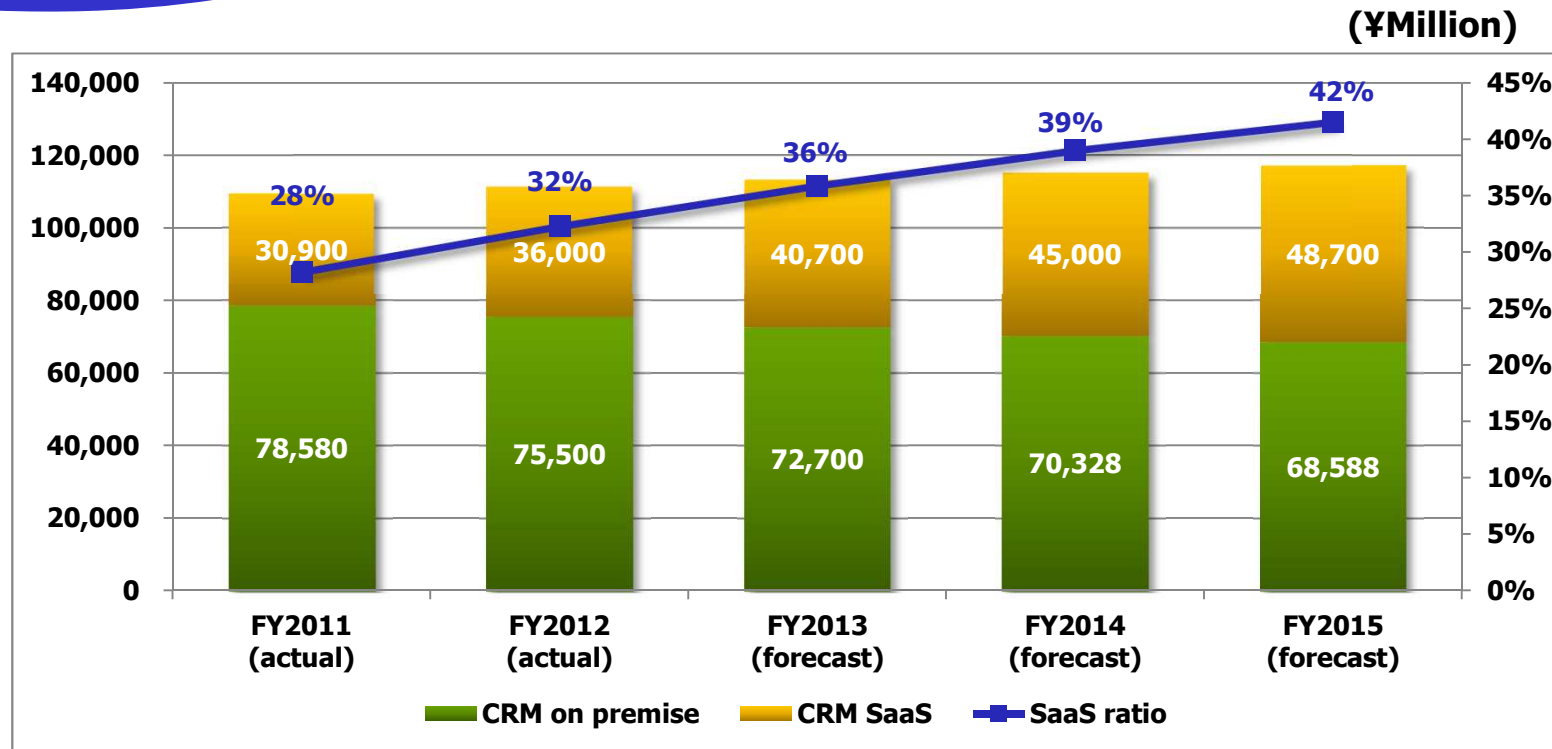
(~2013 : METI, 2014~ : NRI)

- ◆ Market size related to EC was 12.3% up in 2012 year on year, and forecasted 17.4% up in 2013.
- ◆ Growth rate on average beyond 2013 at 12.6% has been forecasted (NRI)

Reference: "The E-Commerce Market Survey" by Ministry of Economy, Trade and Industry,  
"IT market trend survey to 2018" by Nomura Research Institute

# 3. Market Conditions

## CRM software market size (Japan)

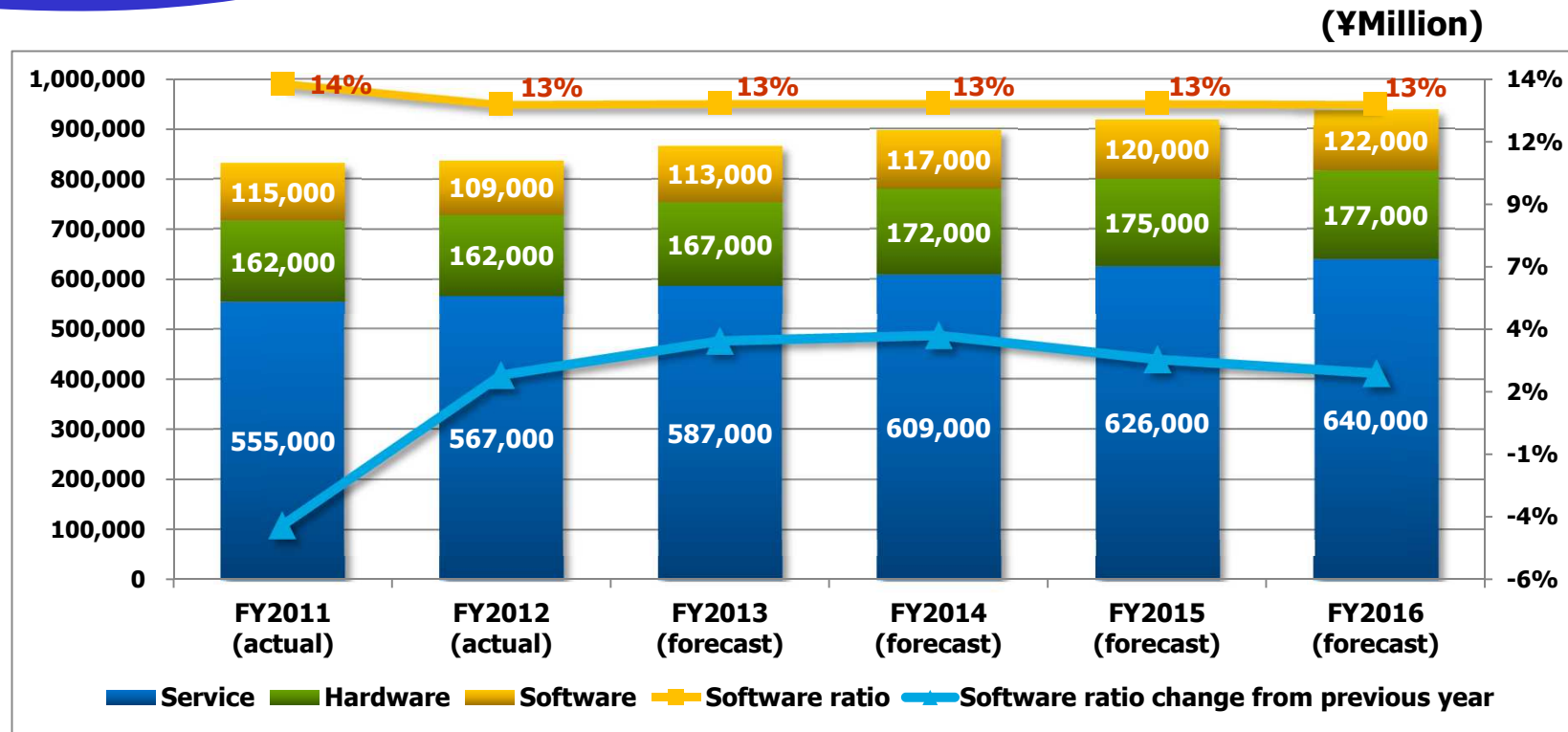


- ◆Market size related to CRM are ¥653.4 billion in FY2012, ¥686.2 billion in FY2015. Growth rate:1.6% a year
- ◆Software market size in total amount of CRM is ¥111.5 billion in FY2012, ¥117.2 billion forecasted in FY2015 by increasing 1.8% in FY2012 and 1.7% in FY2013.
- ◆SaaS market size will be ¥48.7 billion in FY 2015 from ¥36 billion in FY2012 at the annual growth rate of 10.6%.
- ◆SaaS ratio was forecasted to expand 42% in FY2015 from 32% in FY2012.

Reference : CRM business report 2013 by MIC Research Institute

# 3. Market Conditions

## Embedded system market size (Japan)



- ◆As for the embedded system market, it is expected that an annual rate of over 2% of gradual growth continues after FY2014.
- ◆In FY2013, it is ¥867 billion compared with the previous fiscal year, up 3.5%.
- ◆It is expected that the market finally grows up steadily, despite the embedded system market which was sluggish by recession after Lehman shock and the rapid shift to a smartphone .

Reference : Embedded system solution report 2013 by MIC Research Institute

# QUESTION

## **TechMatrix Corporation**

**Planning and accounting division Corporate planning team**  
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