

# Results for the 3<sup>rd</sup> Quarter of 34<sup>th</sup> Business Period



TechMatrix Corporation  
March 2, 2018

- 1. Business Highlights for the 3rd Quarter of 34th Business Period (Consolidated)**
- 2. Progress of the Medium-Term Management Plan “TMX 3.0”**
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# Business Highlights for the 3rd Quarter of 34th Business Period (Consolidated)

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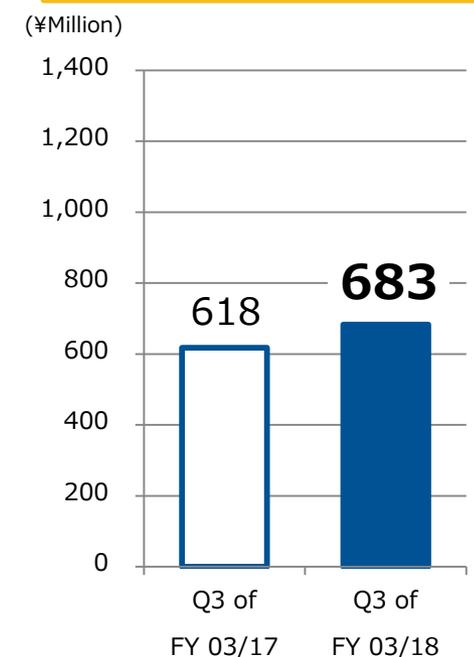
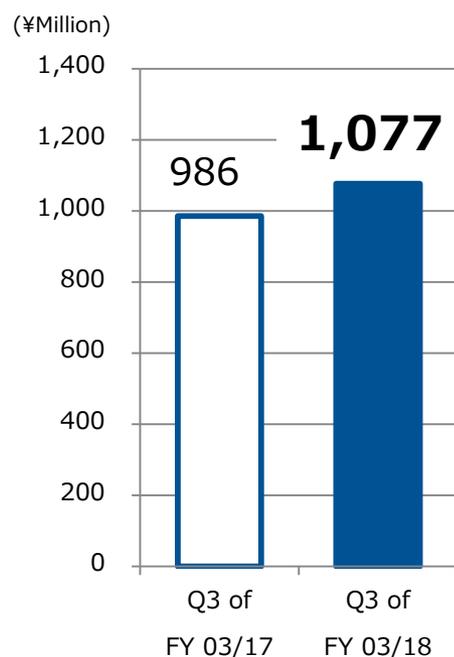
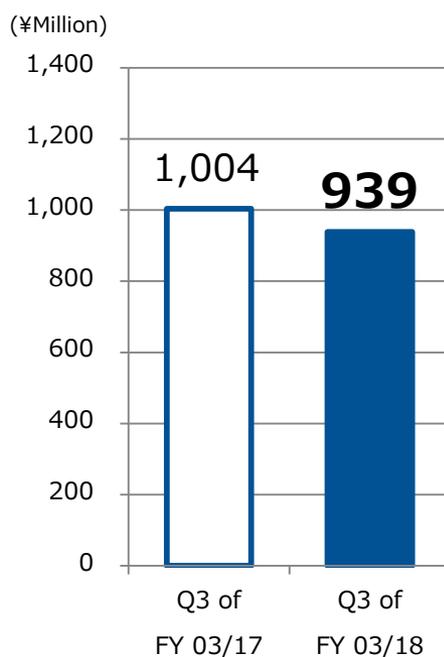
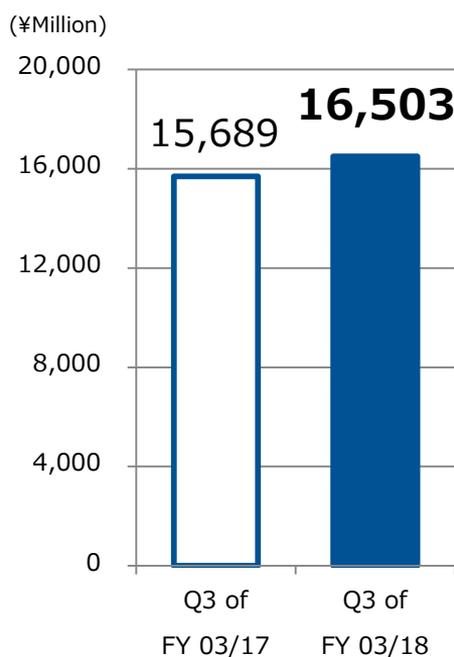
- ◆ The highest consolidated net sales in Q3 total due to steadily increasing stock type business and expanding security-related businesses.
- ◆ Operating income was decreased due to unprofitable projects in CRM and Internet Service filed and a business restructuring at CROSS HEAD which were attributed to H1.
- ◆ Ordinary income and Profit attributable to owners of the parent were increased due to gains from the investments partnership at CROSS HEAD.
- ◆ The highest record ever for key metrics on a non-consolidated basis.

**Net sales**  
Year on year up  
5.2%

**Operating income**  
Year on year down  
6.4%

**Ordinary income**  
Year on year up  
9.3%

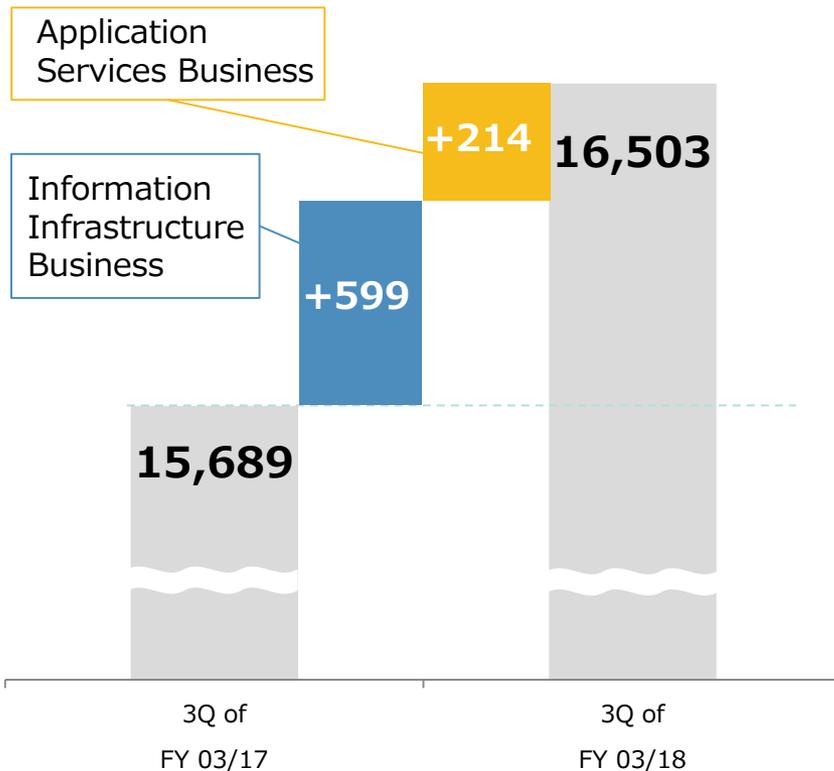
**Profit attributable to owners of the parent**  
Year on year up  
10.5%



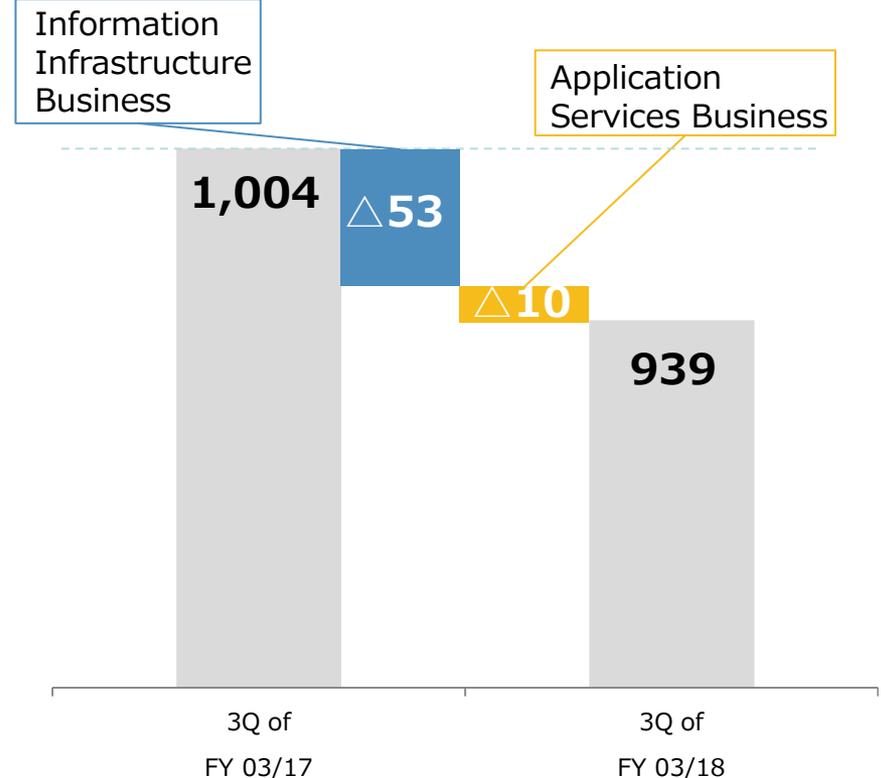
# Business Highlights for the 3rd Quarter of 34th Business Period (Consolidated)

- ◆ Information Infrastructure Business: Net sales was solid. Operating income was decreased due to business restructuring at CROSS HEAD through Q1.
- ◆ Application Services Business: Net sales was increased due to solid businesses for Healthcare field and Software Quality Assurance field. Operating income was decreased due to unprofitable projects in CRM and Internet Service field through Q2.

## Net sales (¥Million)



## Operating income (¥Million)



# Business Highlights for the 3rd Quarter of 34th Business Period (Consolidated)

◆ Information Infrastructure Business		Year on year
	Load balancers (BIG-IP, EDGE)	
	Next-Generation Firewalls (PaloAlto, Traps)	
	Antivirus / Intrusion prevention Appliances / Security Information and Event Management(SIEM) / Web security	
	Personal authentication systems / Forensic products / Storage products	
	Security-related operation and monitoring services	
	Business for governments and public agencies(Direct)	
	Others	
	CROSS HEAD & Okinawa Cross Head	
◆ Application Services Business		Year on year
	Internet Service field (Including CASAREAL)	
	Software Quality Assurance field	
	Healthcare field (Including Ichigo)	
	CRM field	

+10% and over   
 +5% ~ +10%   
 within +5%   
 within  $\Delta$ 10%   
 under  $\Delta$ 10%

## Figures explaining growth of Healthcare field

**760**

December 31, 2017

The number of medical facilities using NOBORI

**20,174,260**

December 31, 2017

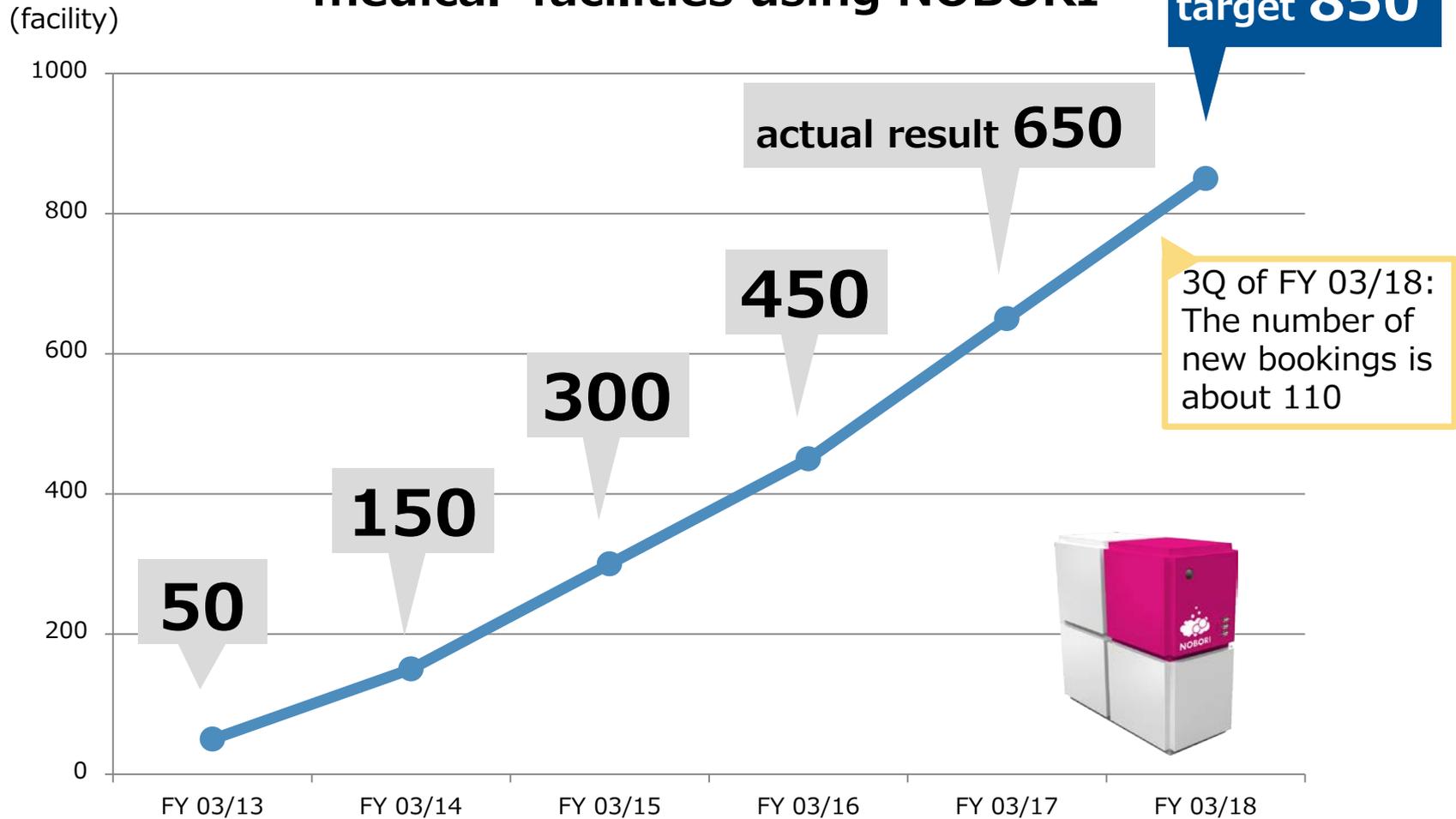
The number of patients who stored medical images in NOBORI

**1,405**

December 31, 2017

The number of teleradiologist using Ichigo service (platform of teleradiology)

## Progress of the number of medical facilities using NOBORI



## NOBORI Ltd.



A cloud service for healthcare information “NOBORI” which has the largest number of medical images in Japan. We founded NOBORI Ltd. to aggressively promote new businesses using deta. (Diagnosis with AI, Service for patients (PHR), Overseas expansion)

### Point!

## Concluded a business/capital alliance agreement with MITSUI & CO., LTD.

NOBORI Ltd. will be a joint venture company between Techmatrix and MITSUI & CO., LTD. in April 2018. MITSUI & CO., LTD. will invest ¥2.2 billion (33.4%) in NOBORI Ltd.

## Concluded a business alliance agreement with Medical Data Vision Co.,Ltd.

Jointly commenced the provision of a new service which enables patients to view their own medical information including medical images through Internet on an opt-in basis.

## Recent developments in cyber security



- ▶ Security cloud for Local government
- ▶ Resilience and sanitization for security (The social security and tax number system, LGWAN, Internet)
- ▶ National center of Incident readiness and Strategy for Cybersecurity (NISC)
- ▶ Teleworking



▶ March 2015  
MIC:  
**Guideline for information security policy of Local government (revision)**

▶ March 2016  
METI:  
**Information Security Management Standards (revision)**

▶ July 2016  
METI:  
**IoT security guideline**

▶ October 2016  
**Basic Law for Cyber Security (revision)**

▶ December 2016  
METI:  
**Cyber security Management Guidelines (revision)**

▶ October 2017  
MEXT:  
**Guideline for information security policy for Educational institutions**

DDoS attacks

Ransomware



Targeted mails

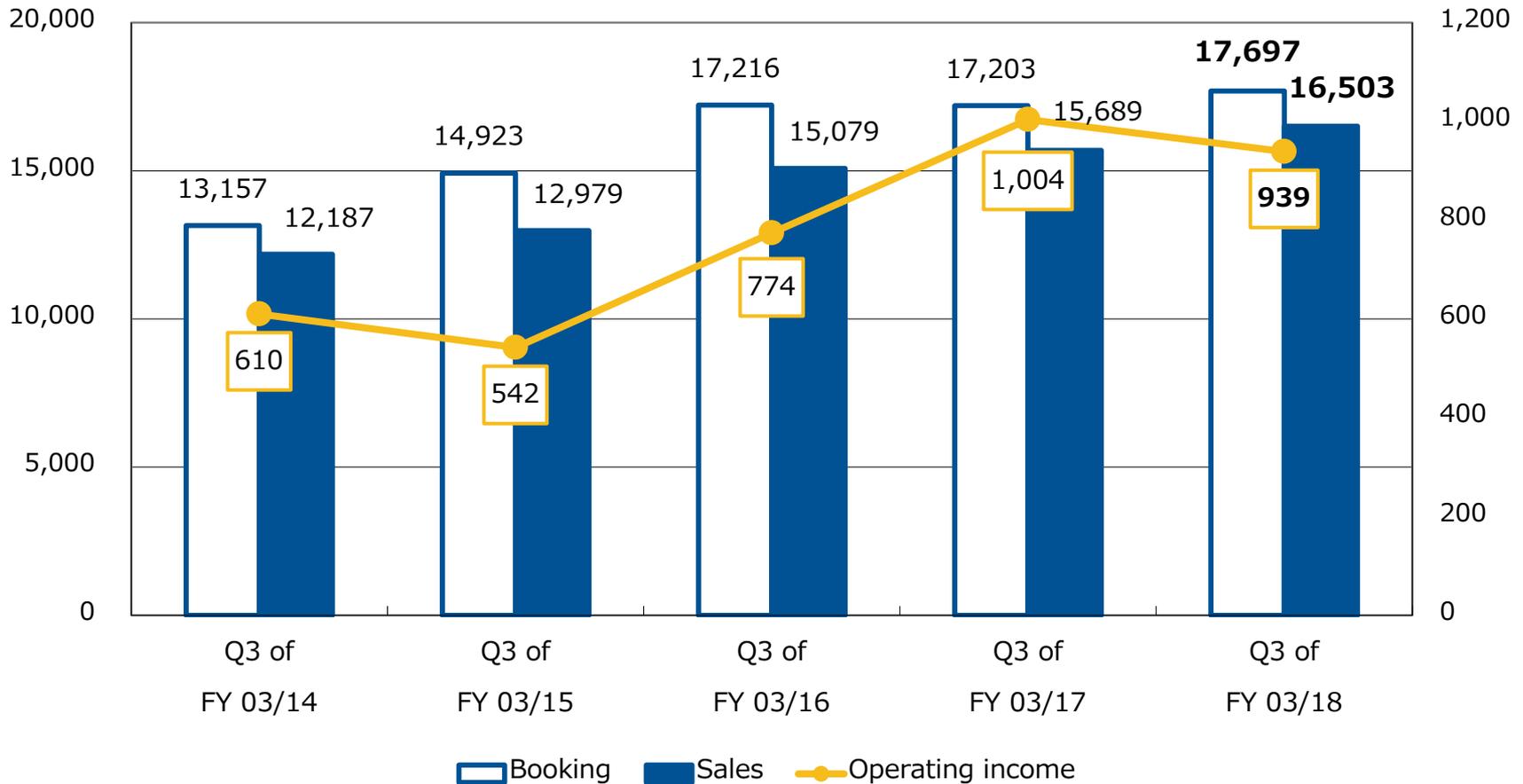
Phishing

# Business Highlights for the 3rd Quarter of 34th Business Period (Consolidated)

Booking and sales  
(¥Million)

## Booking and sales / Operating income

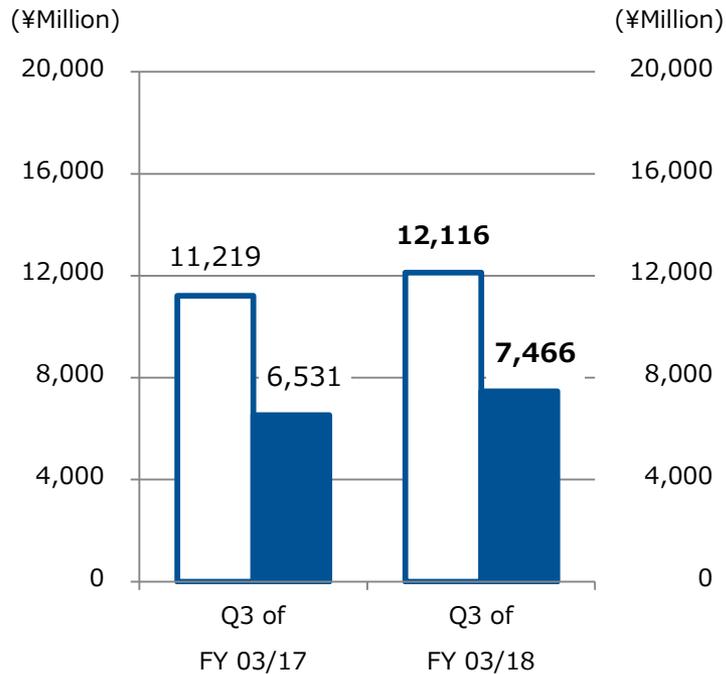
Operating income  
(¥Million)



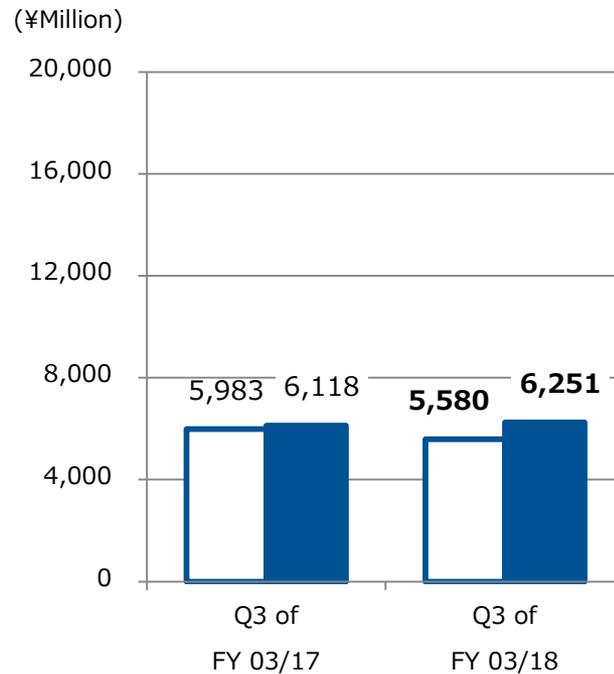
# Business Highlights for the 3rd Quarter of 34th Business Period (Consolidated)

- ◆ Information Infrastructure Business: Businesses for Load balancers were in good shape. Bookings exceeded the previous year's result due to large-scale projects for governments and universities (8.0%UP). Backlog has increased (14.3%UP).
- ◆ Application Services Business: Bookings was lower than the previous year's result (6.7%DOWN). Backlog increased by progress of cloud businesses (2.2%UP).

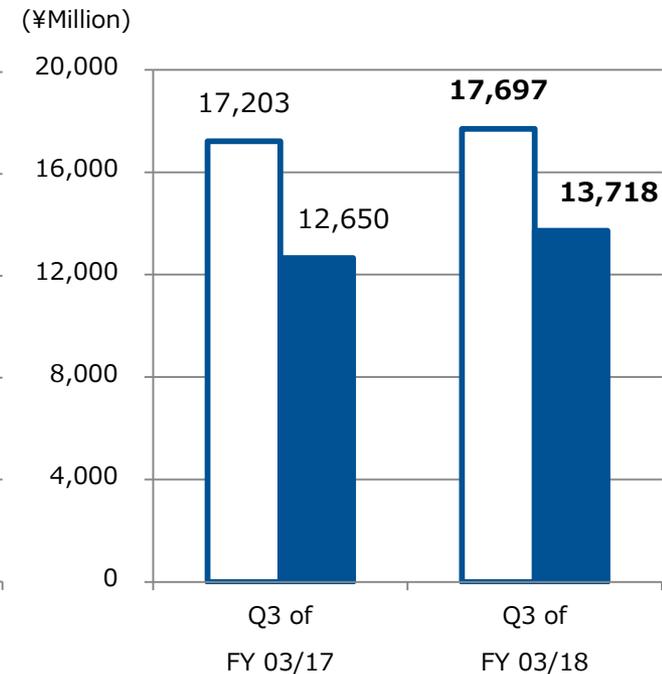
## Information Infrastructure Business



## Application Services Business



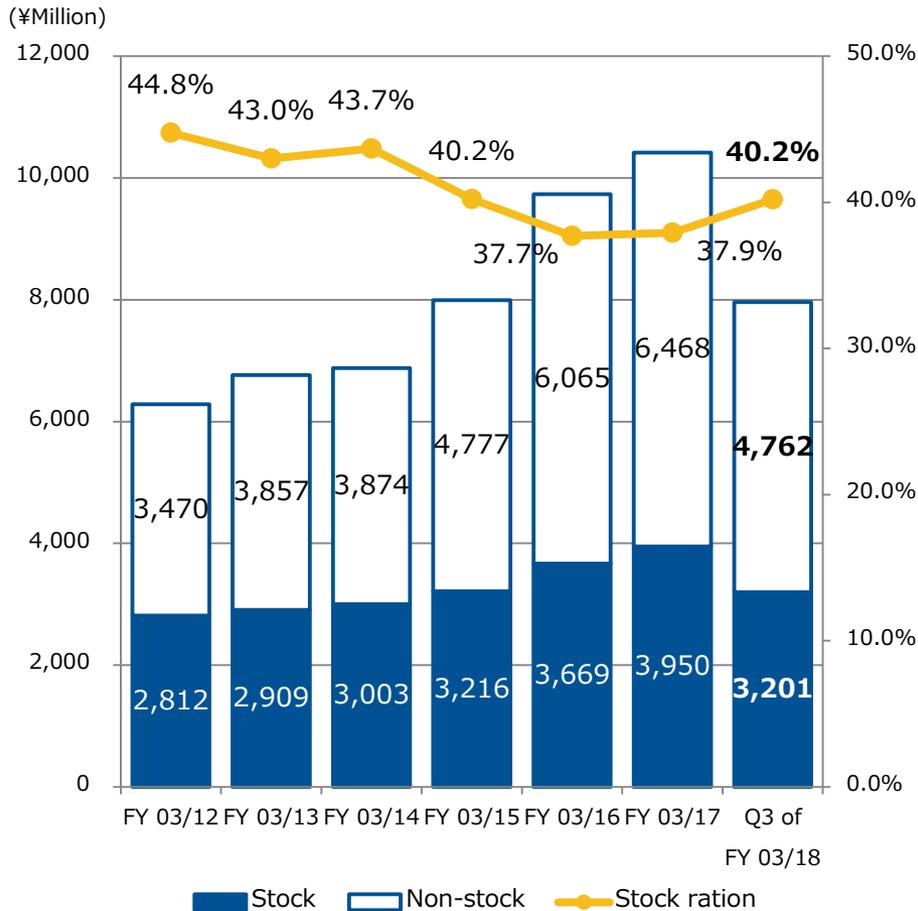
## total



□ Booking ■ Backlog

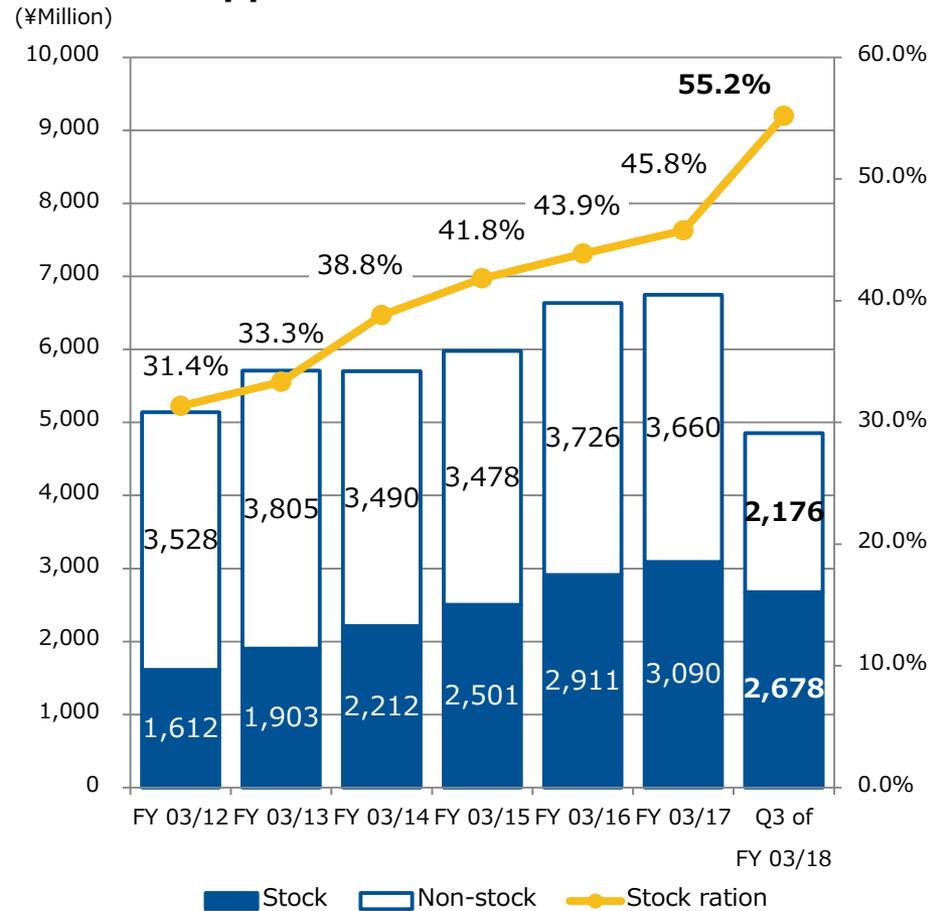
## Stock type sales (Recurring revenue) ratio (non-consolidated)

### Information Infrastructure Business



\* Information Infrastructure Business: Stock ratio was healthy

### Application Services Business



\* Application Services Business: Stock ratio went up due to the growth of cloud businesses

# Business Highlights for the 3rd Quarter of 34th Business Period (Consolidated)

## Balance sheet

(¥Million)

	FY 03/17	Q3 of FY 03/18		FY 03/17	Q3 of FY 03/18
<b>Current assets</b>	<b>13,343</b>	<b>13,569</b>	<b>Current liabilities</b>	<b>8,886</b>	<b>8,825</b>
Cash and deposits	5,458	5,319	Accounts payable-trade	1,081	1,127
Notes and accounts receivable-trade	3,991	3,604	Short-term loans payable	450	450
Other	3,893	4,645	Current portion of long-term loans payable	300	300
<b>Noncurrent assets</b>	<b>3,937</b>	<b>3,850</b>	Other	7,055	6,948
Property, plant and equipment	1,205	1,083	<b>Noncurrent liabilities</b>	<b>3,540</b>	<b>3,240</b>
Goodwill	126	48	Long-term loans payable	1,750	1,525
Other	1,085	1,212	Other	1,790	1,715
Investments and other assets	1,519	1,506	<b>Total liabilities</b>	<b>12,427</b>	<b>12,065</b>
<b>Total assets</b>	<b>17,280</b>	<b>17,419</b>	Shareholders' equity	4,849	5,274
			Total accumulated other comprehensive income	△36	12
			<b>Total net assets</b>	<b>4,853</b>	<b>5,354</b>
			<b>Total liabilities and net assets</b>	<b>17,280</b>	<b>17,419</b>

\* Equity ratio  
 FY 03/17 : 27.9%      Q3 of FY 03/18 : 30.3%

# Progress of the Medium-Term Management Plan “TMX 3.0”

## Key principle

Continuing transformation to "Next-Gen. IT Service Creator", "Next-Gen. IT Service Provider" through a breakaway from conventional labor-intensive contract business.

## Business strategy

- ✓ Strategic and accelerated promotion of cloud-related businesses
- ✓ Pursuit of security and safety

## Operation strategy

Cost reduction for high profitability

Closer ties with partners

Direct sales & government and other public agencies

Strengthen workforce by promotion of diversity

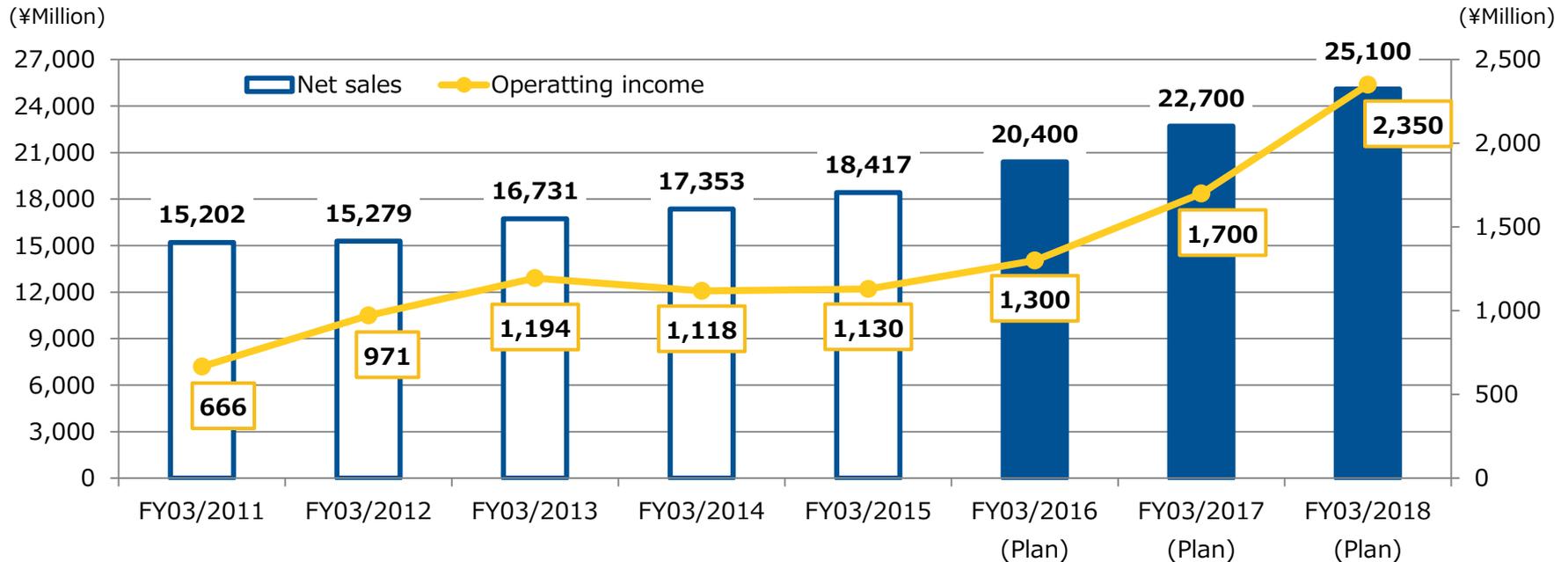
Strengthen company's brand as corporate group

## Shareholder returns

- ▶ Key principle : dividend payout ratio is more than 20% at the end of fiscal year
- ▶ Emphasize an increase in dividends based on profit level
- ▶ Improve the shareholder special benefit plan

# Progress of the Medium-Term Management Plan "TMX 3.0"

Continuing transformation to "Next-Gen. IT Service Creator",  
"Next-Gen. IT Service Provider"



**10%**

Growth rate of net sales

**To  
¥30Billion**

Business scale may reach ¥25B-30B through M&A and expanded Biz in overseas markets

**50%**

Stock type sales ratio (Cloud, maintenance, operation and monitoring services)

**10%**

Challenge to operating income margin of 10%

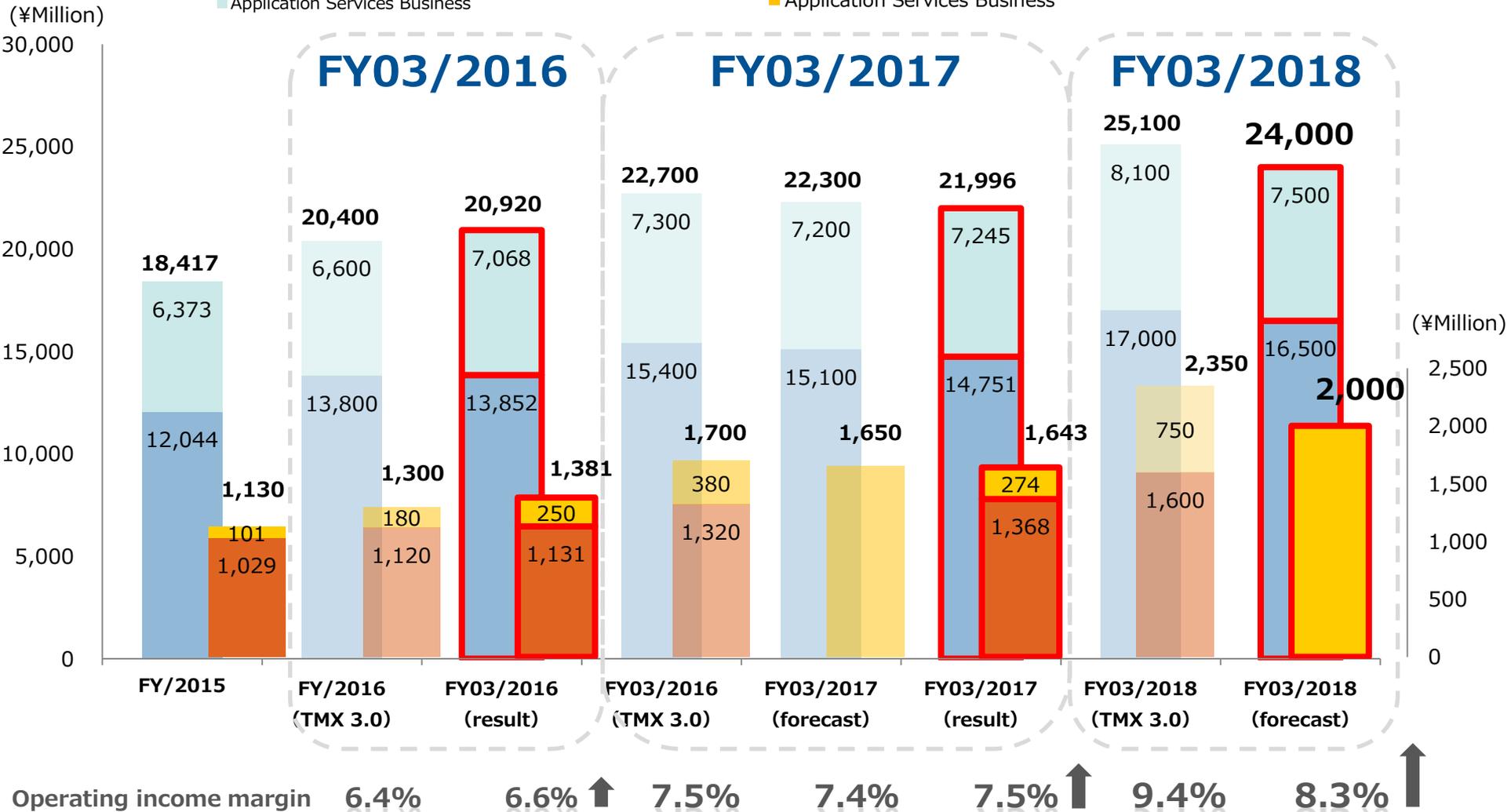
# Progress of the Medium-Term Management Plan "TMX 3.0"

## Net sales

- Information Infrastructure Business
- Application Services Business

## Operating income

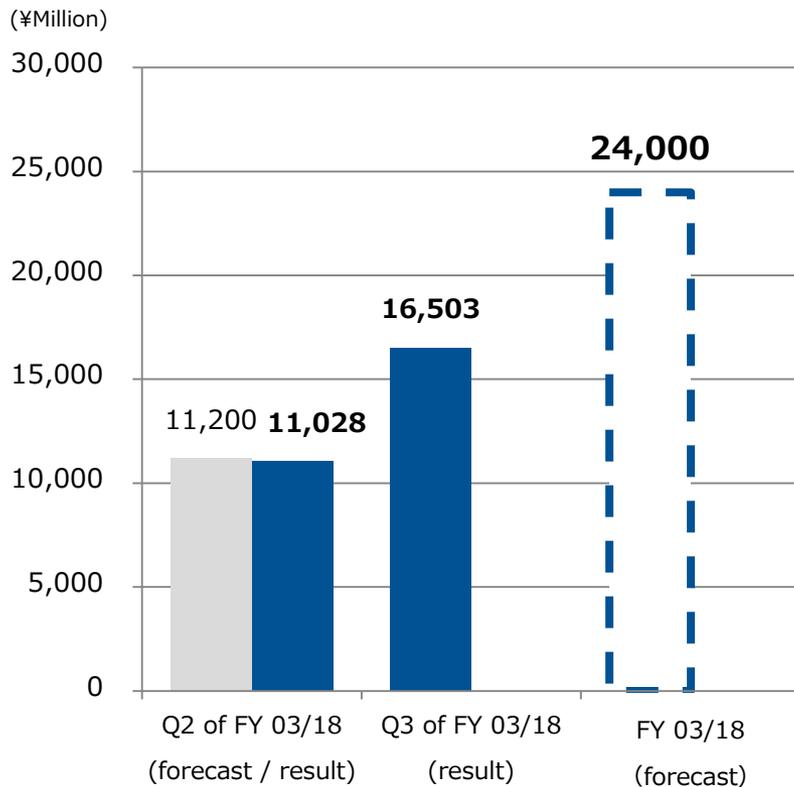
- Information Infrastructure Business
- Application Services Business



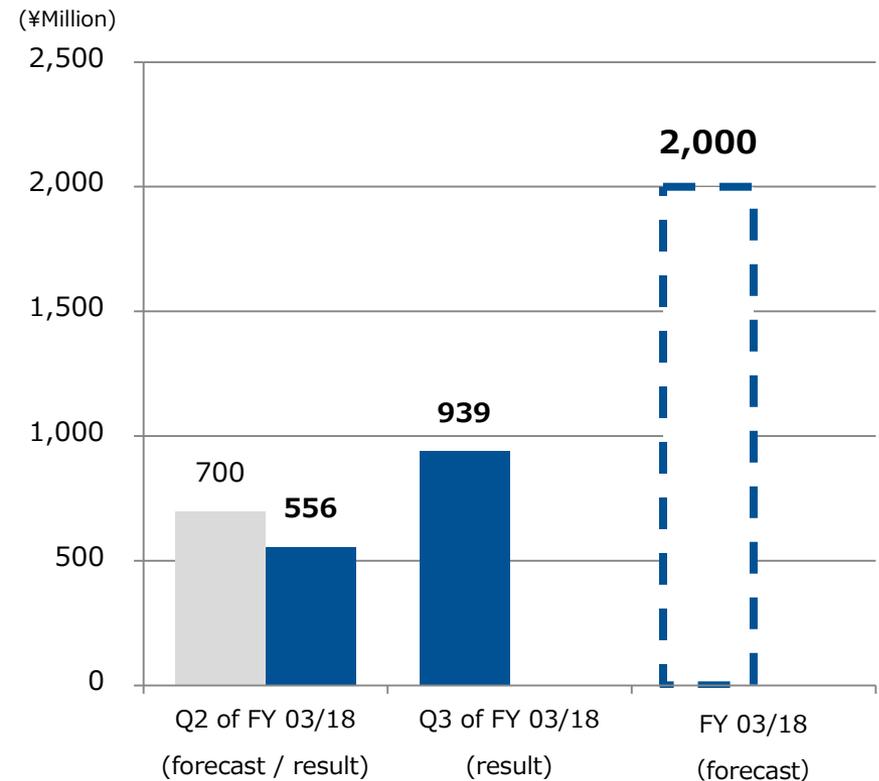
# Progress of the Medium-Term Management Plan "TMX 3.0"

- ◆ Net sales went on almost as planned.
- ◆ Operating Income was less than originally planned. The forecast for FY 03/18 full business year still remains unchanged because booking and backlog were in good shape.

## Net Sales(Consolidated)



## Operating Income(Consolidated)



## ◆ Core business strategy

Item	Valuation	Description
<b>Strategic and accelerated promotion of cloud-related businesses</b>		
Profit contribution by the cloud business (Realize profitability of the healthcare cloud business)	◎	<ul style="list-style-type: none"> <li>Positive turnaround of healthcare cloud</li> <li>Strengthen sales for "RAKURAKU-Item Manager"</li> <li>FastCloud (CRM) in good shape</li> <li>Techma Cloud (Office 365 traffic control and user restriction) in good shape</li> </ul>
Turn our cloud service into a platform (diversification)	◎	<ul style="list-style-type: none"> <li>"NOBORI-PAL" (expanded the services)</li> <li>ICHIGO LLC concluded business alliance with SoftBank Corp in the pathology sector</li> </ul>
Establish cloud business in overseas (Asian) market (At first, the success of the joint venture in China)	△	<ul style="list-style-type: none"> <li>Healthcare field: founded a joint venture company in China. Alliance with Peking University in the pathology sector</li> <li>CRM field: Alliance with Transcosmos (Thailand) in ASEAN market was progressed</li> </ul>
Quality improvement for cloud operation (Exponential improvement of operational skills)	○	<ul style="list-style-type: none"> <li>Driven by PMO section, stabilized operation, continuing facility investment</li> </ul>
Strategic application of virtualization technologies (Cloud first)	○	<ul style="list-style-type: none"> <li>Hyper converged solution "VCE VxRail"</li> <li>Okinawa Cross Head Co., Ltd.: nas2cloud Plus</li> <li>CROSS HEAD : Train many engineers for AWS</li> </ul>
Analysis of Big data gathered by the cloud (Secondary use of the data)	○	<ul style="list-style-type: none"> <li>Pharmacy BI, Development of Budget management field</li> </ul>

## ◆ Core business strategy

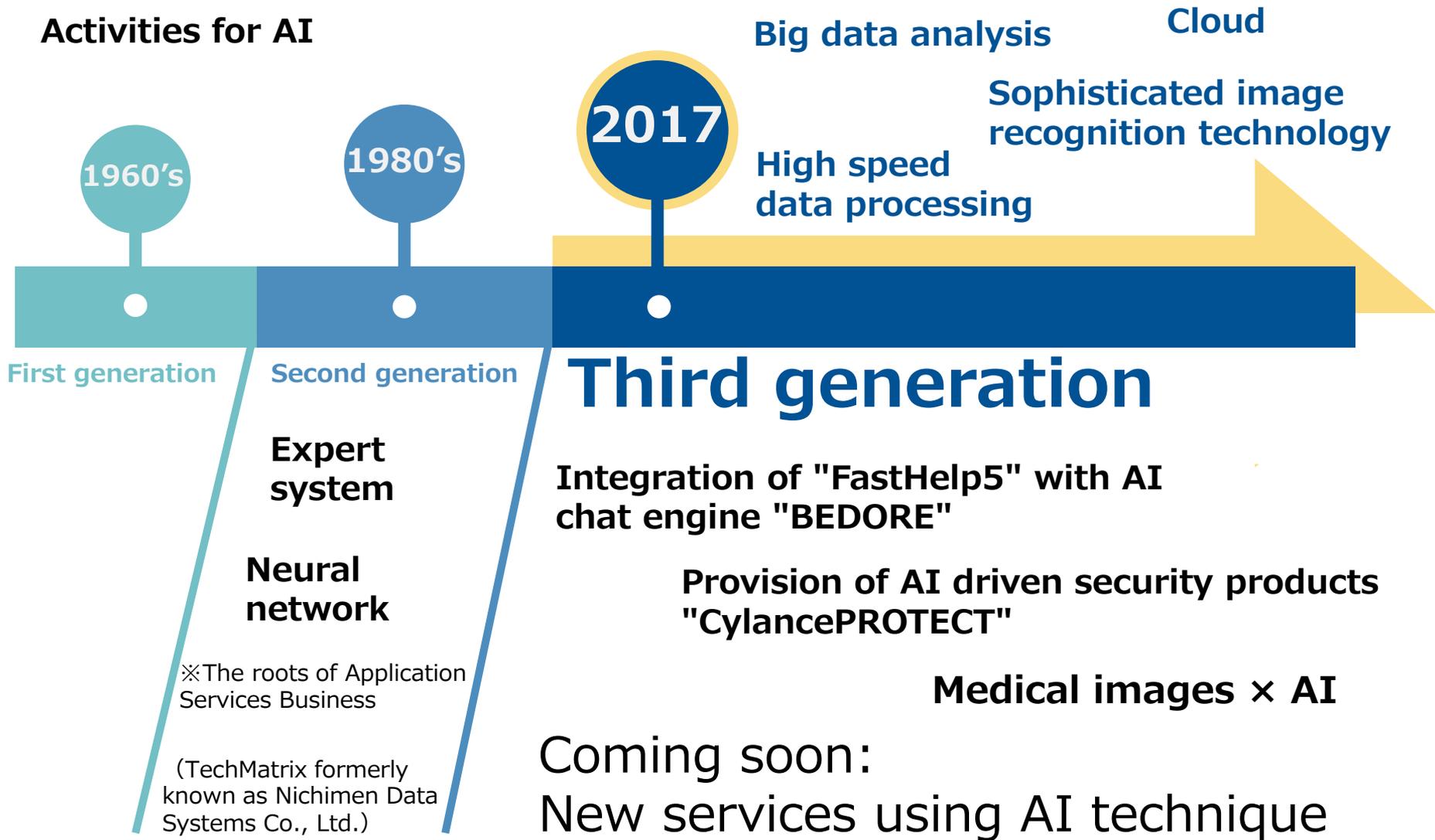
Item	Valuation	Description
<b>Pursuit of security and safety</b>		
Enhancement of defenses against cyber-attacks and provide as one-stop service	◎	<ul style="list-style-type: none"> <li>• Votiro Auto Mail Link with matrixGate, Votiro Auto SFT Plus, TRINITY security monitoring service for McAfee SIEM, TRINITY security monitoring service for Palo Alto Traps</li> </ul>
Design, construction, maintenance, operation and monitoring services Realize value chain of automatization	◎	<ul style="list-style-type: none"> <li>• Expanded product sales and the maintenance, operation and monitoring services</li> <li>• NOC/SOC (TRINITY)</li> </ul>
Realize functional safety of embedded software for IoT (Internet of Things)	○	<ul style="list-style-type: none"> <li>• Software Quality Assurance field : Booking is steady</li> <li>• Lychee Redmine</li> </ul>
Contribute to safety and security within Internet-based society (accumulation of knowledge as a professional group in the Technology for Information Security and Software Quality Assurance field)	○	<ul style="list-style-type: none"> <li>• Service virtualization and API testing by SOAtest/Virtualize of Parasoft (IoT filed including automotive)</li> <li>• Large-scale projects in automotive field</li> </ul>

## ◆ Operation strategy

Item	Valuation	Description
<b>Operation strategy</b>		
Cost reduction for high profitability		
▸ Promote the active utilization of offshore development	◎	<ul style="list-style-type: none"> <li>Offshore development in Vietnamese and China was progressed</li> </ul>
▸ Improve operation efficiency by integrating the office space of Head Office	◎	<ul style="list-style-type: none"> <li>Additional relocation of offices</li> <li>Deployment of a new ERP system</li> </ul>
▸ Transform business model without monotonic increase of human resources	◎	<ul style="list-style-type: none"> <li>Stock ratio increased</li> </ul>
Closer ties with partners	◎	<ul style="list-style-type: none"> <li>CRM field : Intercom</li> <li>Information Infrastructure field : JB Service, JPIX, Yokogawa Rental &amp; Lease Corporation, HP Japan Inc.</li> <li>Internet Service field : MakeShop</li> <li>Healthcare field : MITSUI &amp; CO., LTD., Medical Data Vision Co.,Ltd.</li> </ul>
Strengthen direct sales. Penetrate deeply into the market for the government and other public agencies	◎	<ul style="list-style-type: none"> <li>Automatic data exchange tool for Secure Data Sanitization “Votiro Auto Suite” for local governments, Financial institutions and Educational institutions</li> </ul>
Strengthen workforce by promotion of diversity	○	<ul style="list-style-type: none"> <li>Growing diversity on hiring of new graduates</li> </ul>
Strengthen company's brand as a corporate group	○	<ul style="list-style-type: none"> <li>Strengthen IR</li> </ul>

# Progress of the Medium-Term Management Plan "TMX 3.0"

## Activities for AI



# Topics of Business activities

Date	Contents
<b>April</b>	CROSS HEAD, commenced the provision of the construction service for virtual edition of Palo Alto's next generation firewall
	Concluded a distributorship agreement for "LINE Customer Connect" with LINE
	CROSS HEAD, commenced the provision of the vulnerability assessment service for enterprise systems
	Commenced the provision of "Lychee Redmine" for project management
	Commenced the provision of "Votiro Auto Mail Link with matriXgate" as an automatic sanitization tool for files attached to e-mails
<b>May</b>	Commenced the provision of "Parasoft SOAtest/Virtualize" to improve efficiency for API development
	Commenced the provision of "Jtest 10.3.1" for Java testing
	Okinawa Cross Head Co, Ltd. concluded a business alliance agreement with JB Service Corporation
	CROSS HEAD, released the demonstration of "Kaigishitu-navi" at their head office
<b>Jun</b>	CROSS HEAD, awarded the prize of Radar Partner of the Year from F-Secure
	CROSS HEAD, expanded sales of security products for local governments

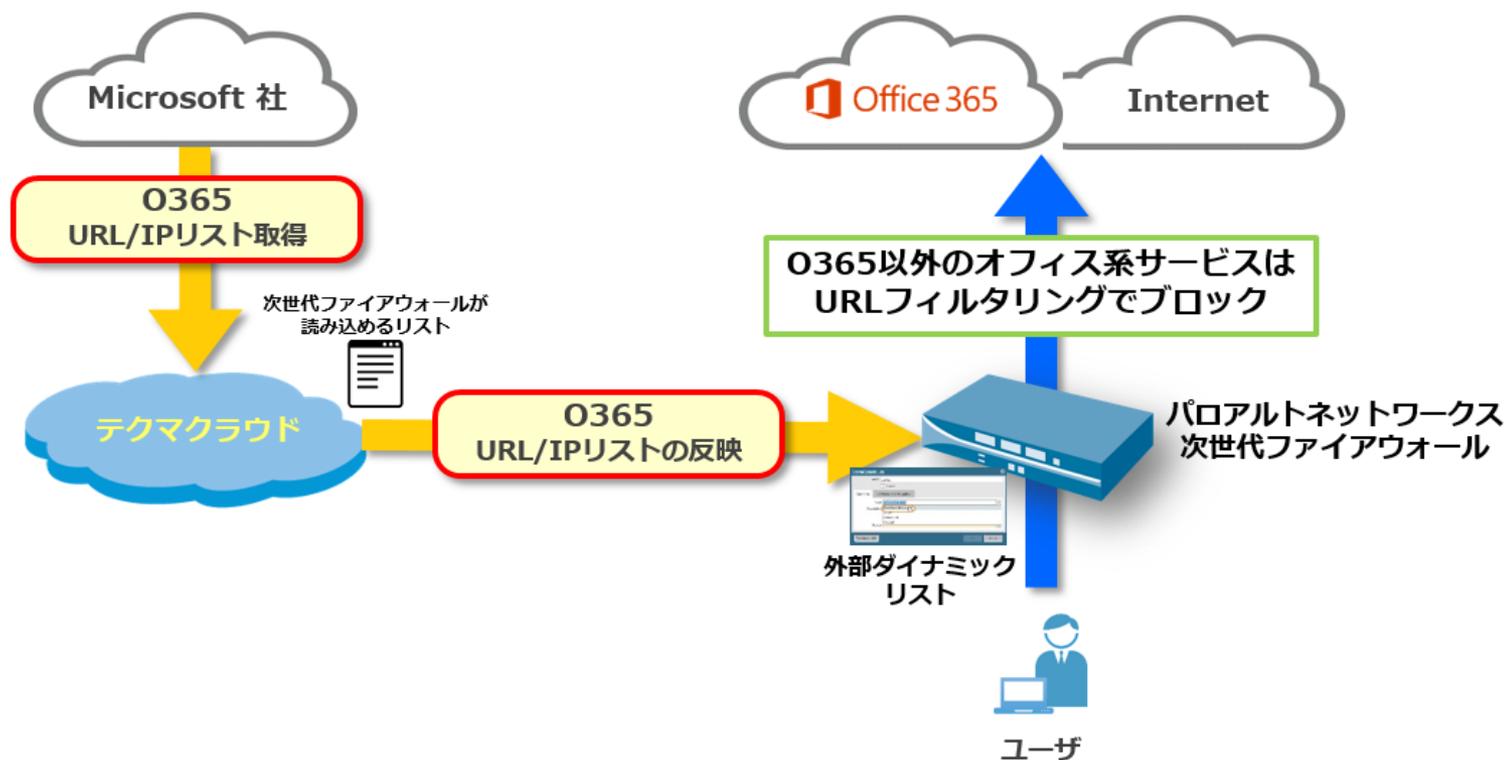
Date	Contents
<b>July</b>	Okinawa Cross Head Co, Ltd. concluded a business alliance agreement with JPIX for commencing the provision of "IX service"
	CROSS HEAD, commenced the provision of the IT course at the Yozemi license school
	Concluded a business alliance agreement with Intercom, Inc. to provide the integrated solution between FastHelp and My Talk for contact centers
	Okinawa Cross Head Co, Ltd. was named as the first "splashtop's exclusive technical support provider" in the world
	Held the "TechMatrix group Family Day"
<b>August</b>	Commenced the provision of Web Isolation platform "Menlo Security Isolation Platform on-premise version"
	Commenced the provision of the new security monitoring services "TRINITY" for AWS in cloud environment
	Commenced the provision of the new service for Office 365 traffic control using Techma cloud and Palo Alto
<b>September</b>	Commenced the provision of "FastAnswer2"
	CROSS HEAD, received Japan's first certification for Integration Partner of F5

Date	Contents
<b>October</b>	Commenced the provision of the new academic document search system "FastAnswer Pe" for pharmaceutical industry
	CROSS HEAD, commenced the provision of the security solution "Ekran System" for preventing internal frauds
	Commenced the provision of "C++test 10.3.2" and "Parasoft DTP 5.3.2" for software development
	Commenced the provision of the new citizen engagement system "FastHelp Ce" for local governments
	Okinawa Cross Head Co, Ltd. commenced the provision of the backup solution for small and medium sized companies with Hewlett-Packard Japan, Ltd.
	Commenced the provision of the one-stop solution for "McAfee SIEM" from installation to monitoring service
	Started teleworking for all employees
	CROSS HEAD, commenced the provision of the process automation solution using RPA tool "ROBOWARE"
	Commenced the provision of "Raku-Raku data converter for Wowma!" for EC businesses

Date	Contents
November	Our "Fast Series" customers received "2017 CRM Best Practice award" : SBI SECURITIES Co.,Ltd., TOKYU COMMUNITY CORP., Broadleaf Co., Ltd. and Rakuten Direct, Inc.
	Commenced the provision of "Votiro Auto SFT Plus" as an automatic sanitization solution for board of educations
	Okinawa Cross Head Co, Ltd. commenced the provision of the service to prevent Information Leak with K.K. Ashisuto
December	Commenced the provision of TRINITY security monitoring service for Traps
	An automatic sanitization solution of using "m-FILTER" of Digital Arts Inc.
	In Healthcare field, concluded a business alliance agreement with Medical Data Vision Co.,Ltd.
	Okinawa Cross Head Co, Ltd. commenced the provision of the solution to promote work style reforms with Yokogawa Rental & Lease Corporation
January	In Healthcare field, concluded a business/capital alliance agreement with MITSUI & CO., LTD.
February	Okinawa Cross Head Co, Ltd. commenced the provision of the disaster recovery service for Oracle database

**Point!**

Restrict Internet traffic other than Office 365 with Next-generation firewalls of Palo Alto using our cloud service "Techma cloud Office 365 solution for Palo Alto"



# October, Commenced the provision of the new products “FastAnswer Pe” and “FastHelp Ce”

**Point!**

New products “FastAnswer Pe” and “FastHelp Ce”

## FastAnswer<sup>Pe</sup>

“FastAnswer Pe” is the new academic document search system for pharmaceutical industry. (PE : Pharmaceutical Edition)

## FastHelp<sup>Ce</sup>

“FastHelp Ce” is the new citizen engagement system for local governments. (CE: Citizen Engagement)

**Point!**

We celebrated the 30th anniversary since our foundation. We started a project consisting of diverse employees regardless of his/her profession, division, gender and generation. The members discuss and formulate many ideas and plans for Next Gen. Techmatrix on their own initiative.

● **"TechMatrix group Family Day"**

The second "TechMatrix group Family Day" on July 28. About 50 families participated in the event at the head office.



● **Started teleworking in October**

Expect decline of turnover due to childcare, nursing care or others. Improve operational efficiency by embracing work-life balance and a change of work-style.



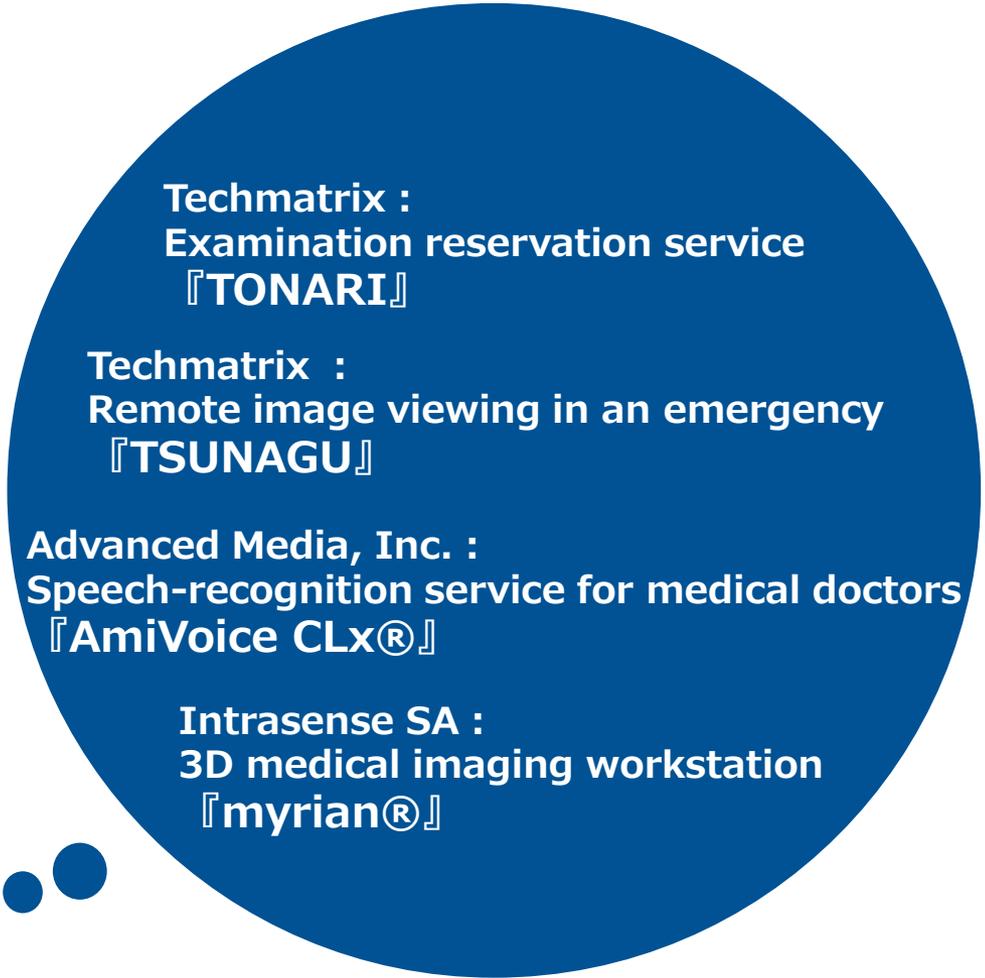
# "For Next Gen. Techmatrix"



# Business Models

**Point!**

Turn NOBORI into a platform (diversification).  
Increased a number of services from NOBORI-PAL partners.

A large blue circle containing text about partner services. A trail of blue dots of varying sizes leads from the bottom of the NOBORI PAL logo towards this circle.

**Techmatrix :**  
Examination reservation service  
『TONARI』

**Techmatrix :**  
Remote image viewing in an emergency  
『TSUNAGU』

**Advanced Media, Inc. :**  
Speech-recognition service for medical doctors  
『AmiVoice CLx®』

**Intrasense SA :**  
3D medical imaging workstation  
『myrian®』



**Point!**

Enhancing the competitiveness of customers' businesses by CRM system.

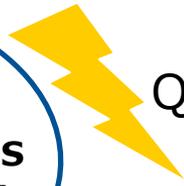
- Contacts about products
- Contacts after purchase



## FastHelp5



**Integrating the purchase histories and the past Q&A**



**Quick search !**

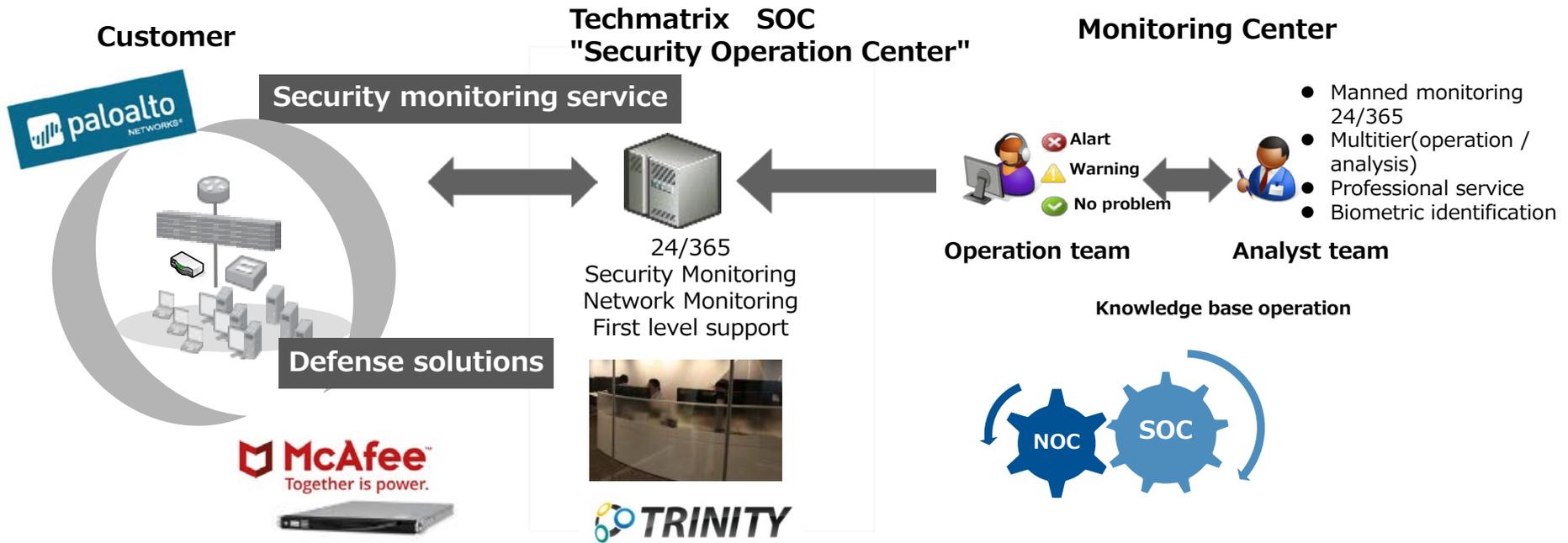


**Quick response to the customers' inquiries**



**Improvement of customer satisfaction !**

**Point!** One-stop solution from Techmatrix.



## One-stop solution

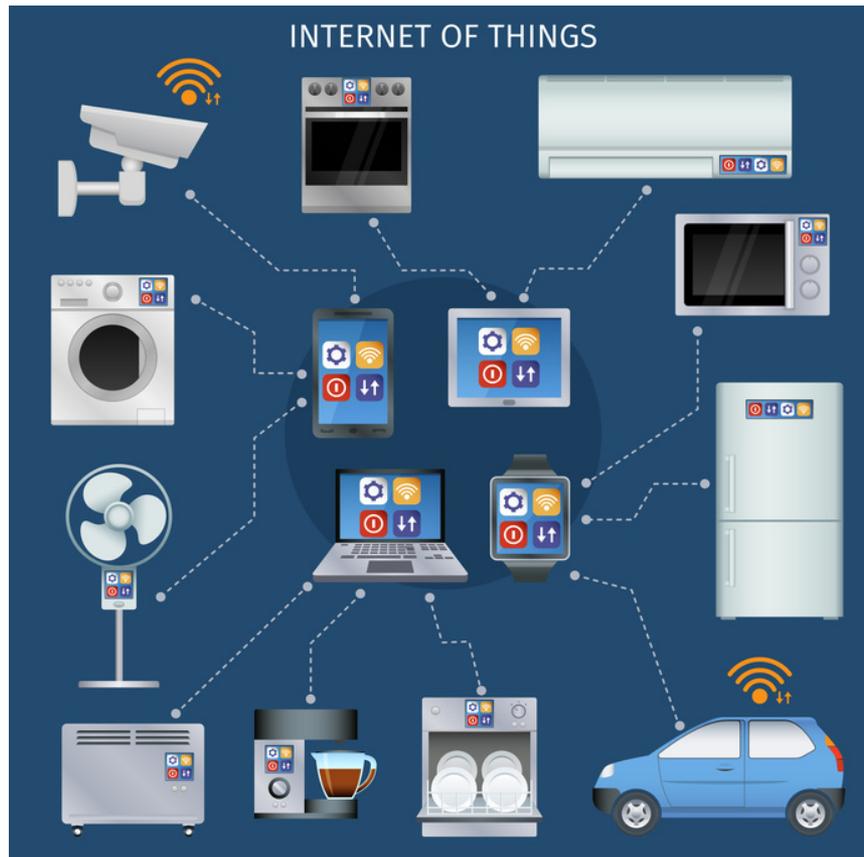
One-stop solution for system design, construction, maintenance, operation and monitoring services.

## Professional service with expert knowledges

Techmatrix provides security monitoring services based on its in-depth knowledge on the products it delivers, although other security vendors provide basic services for a wide variety of products.

**Point!**

Every internet-connected device can be a target for cyber-attacks in the IoT era.



- ▶ Solution for test, systems design and version control system
- ▶ Integration of infrastructure, training and operation support for development process
- ▶ Support for substantive improvement of software quality and productivity enhancement

**Improve quality of embedded software**  
**Comply with functional safety standards**

**Point!**

Provision of cloud services based on open-source software  
Analysis for big data accumulated on the cloud  
Provision of risk management systems based-on financial engineering



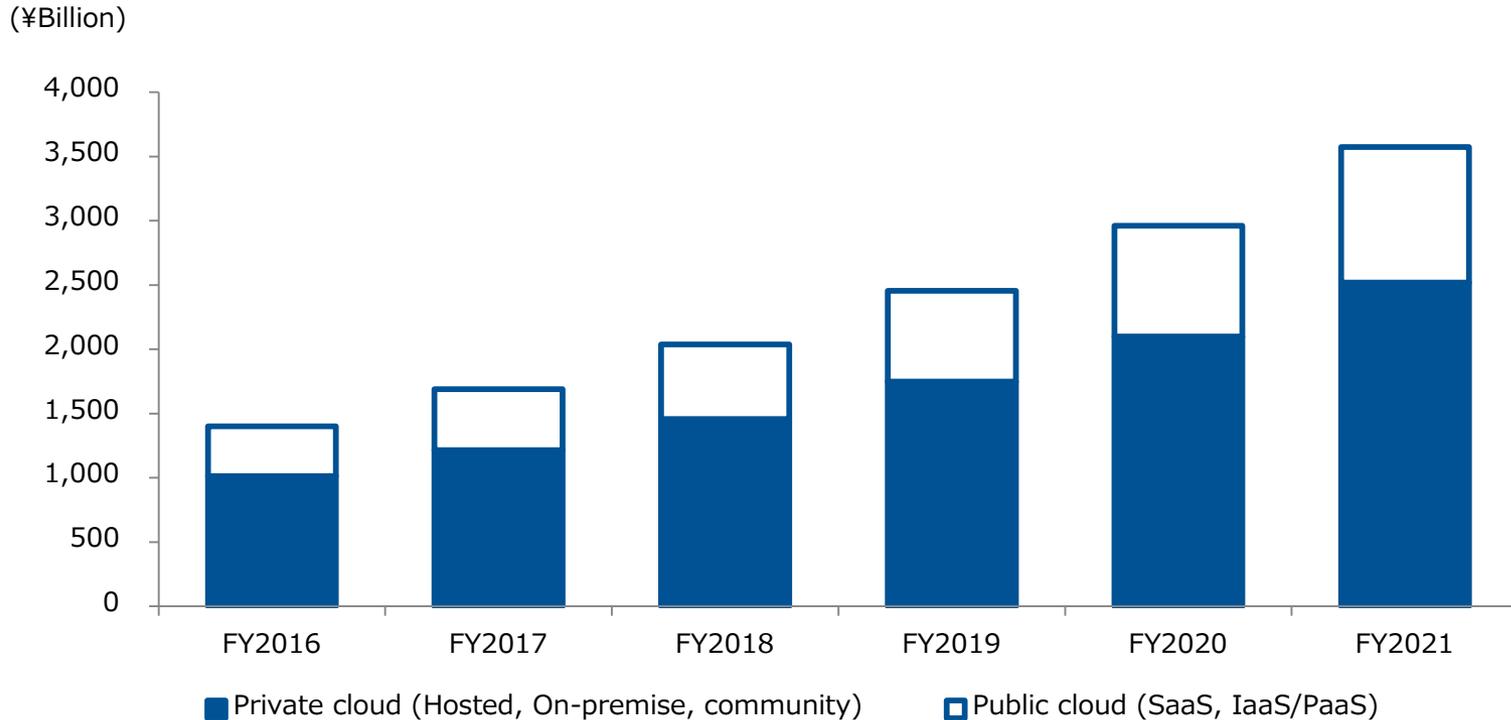
**EC, Smart phone**

**Analysis**

**Big data**

# Market Conditions for our business

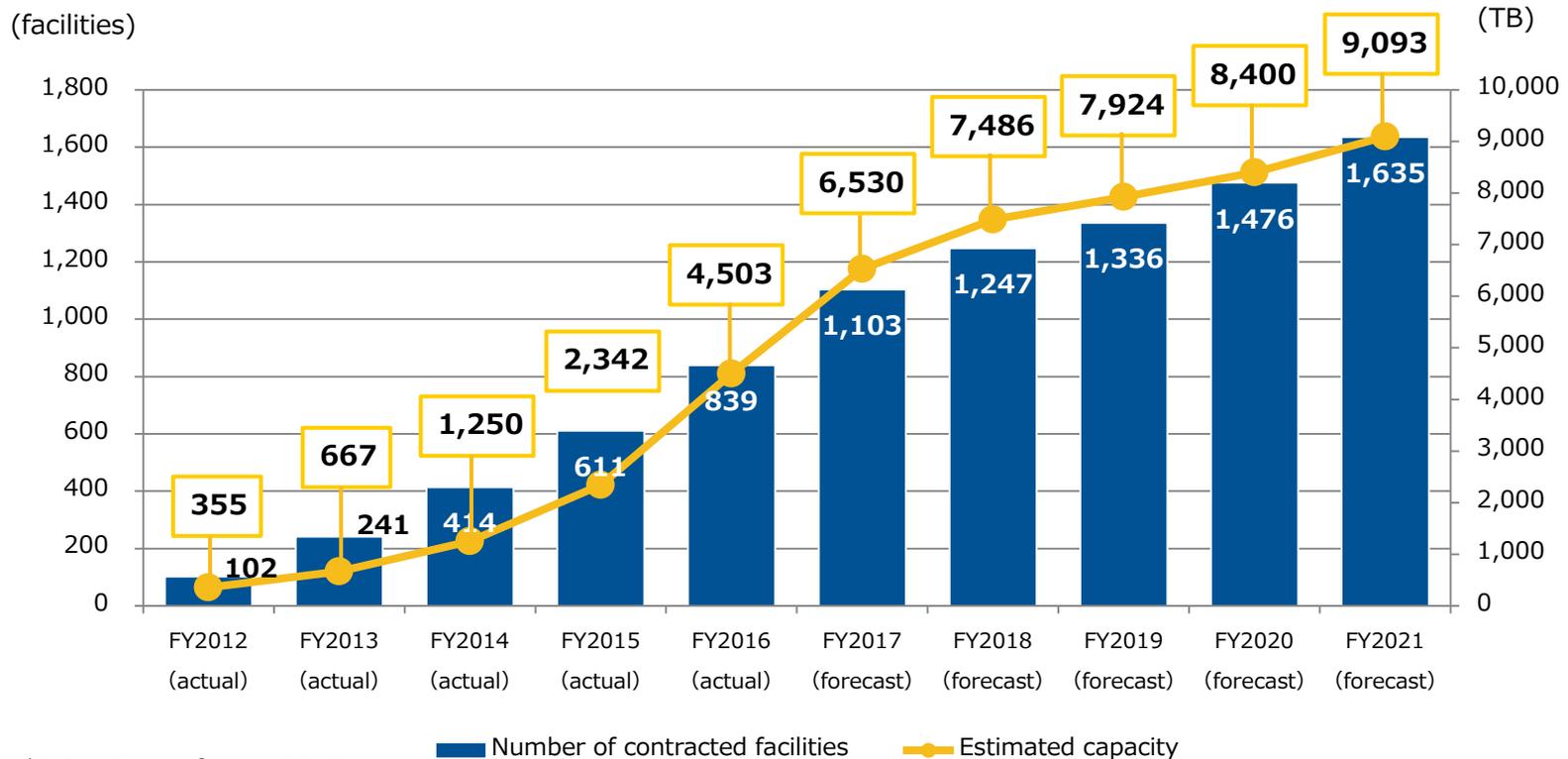
## Cloud business market size actual/forecast (Japan)



◆ Domestic cloud market size was ¥1,400.3 billion in 2016 (38.5% up year on year) and it expand to ¥3,571.3 billion in FY2021.

\* Reference : Cloud business market report 2017 (27,Dec,2017) by MM Research Institute

## Cloud PACS market size estimate (Japan)



\*Estimate as of JDec, 2017

- ◆ Number of contracted facilities using cloud was 1,103 as of the end of FY2017 in Japan.
- ◆ Techmatrix has successfully contracted with about 650(accumulated) as of the end of FY2016.

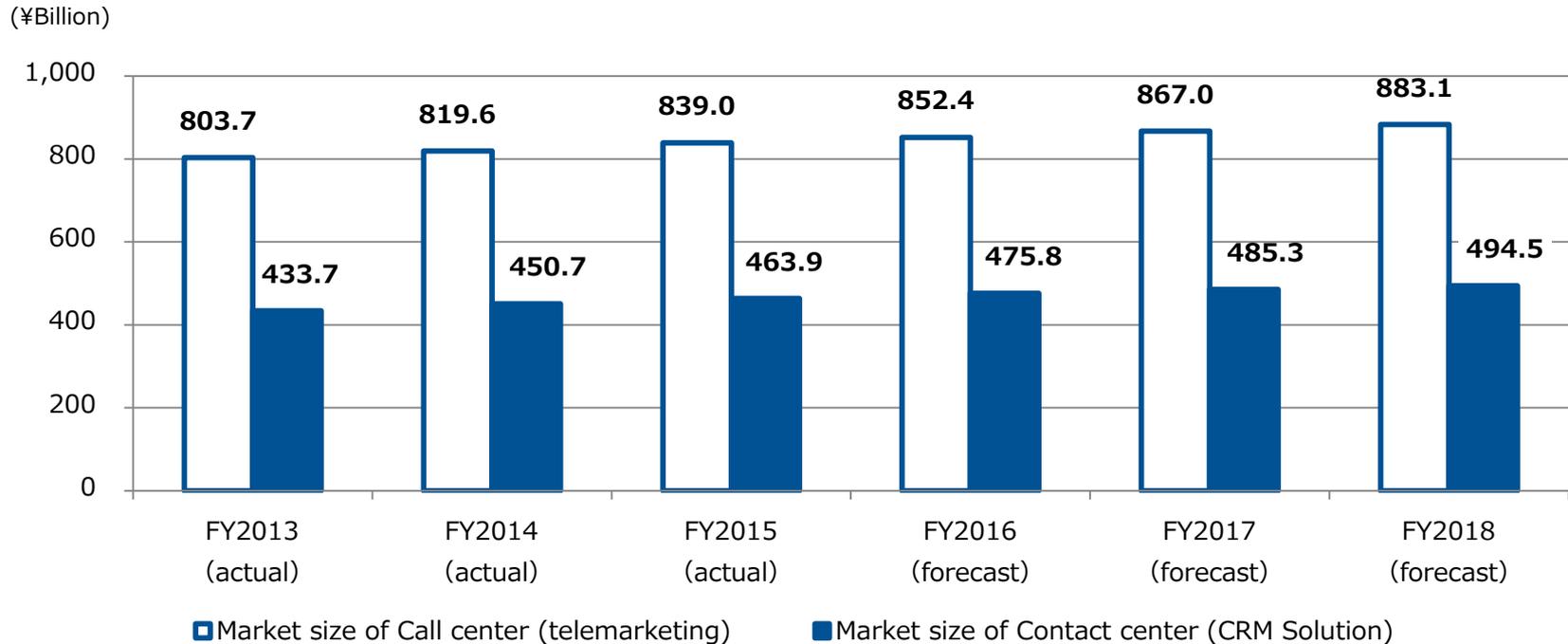
\* Reference : Medical Imaging Systems and PACS Markets 2017 (Dec, 2017) by Yano Research Institute

## 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.

## CRM software market size (Japan)



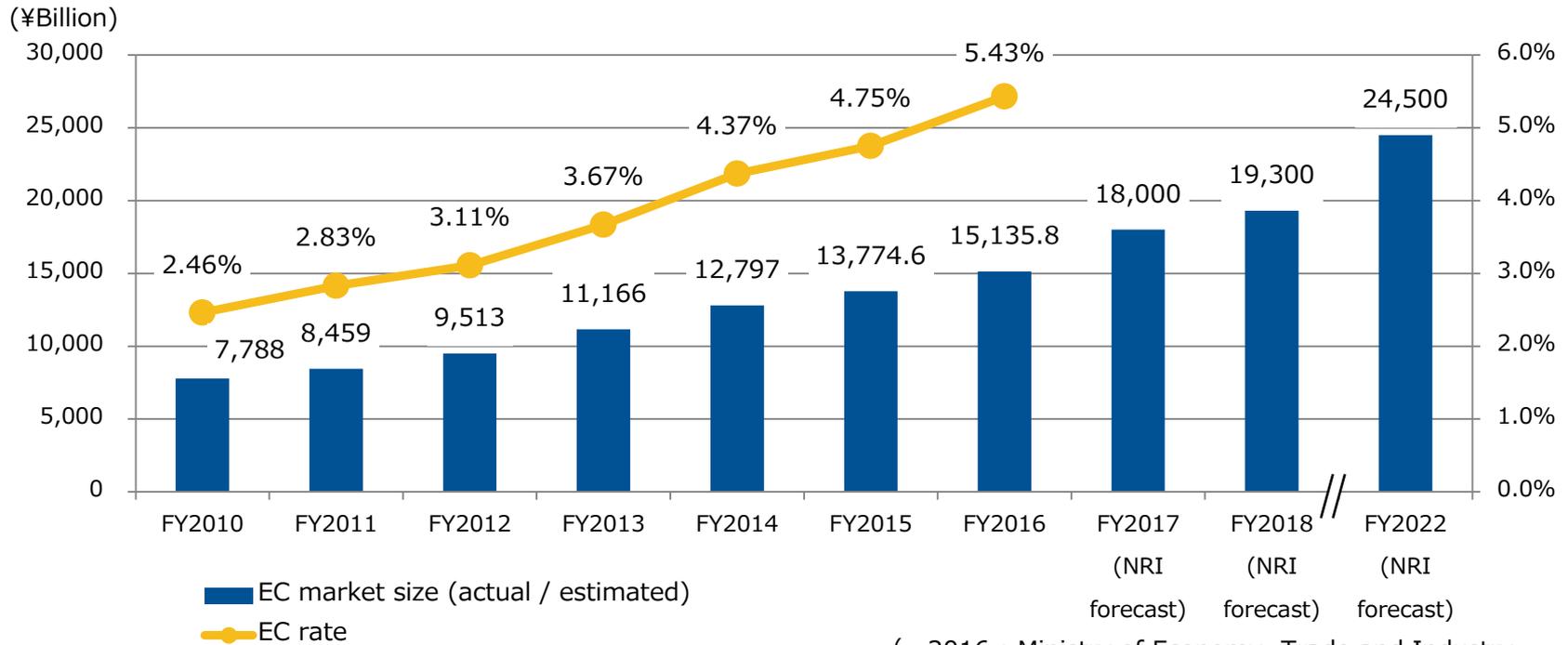
\*Service provider's sales. Estimate as of Nov, 2016

◆Market size of Call center (telemarketing) is forecasted to grow at average rate of 1.9% each year from FY2013 to FY2018 and to ¥883.1 billion as of FY2018.

◆Market size of Contact center (CRM Solution) is forecasted to grow at average rate of 2.7% each year from FY2013 to FY2018 and to ¥494.5 billion as of FY2018.

\* Reference : Call Center (Telemarketing)/Contact Center/CRM Solution Market in Japan: Key Research Findings 2016 by Yano Research Institute

## EC(B2C) market size actual/forecast (Japan)



(~2016 : Ministry of Economy, Trade and Industry, 2017~ : Based on Nomura Research Institute )

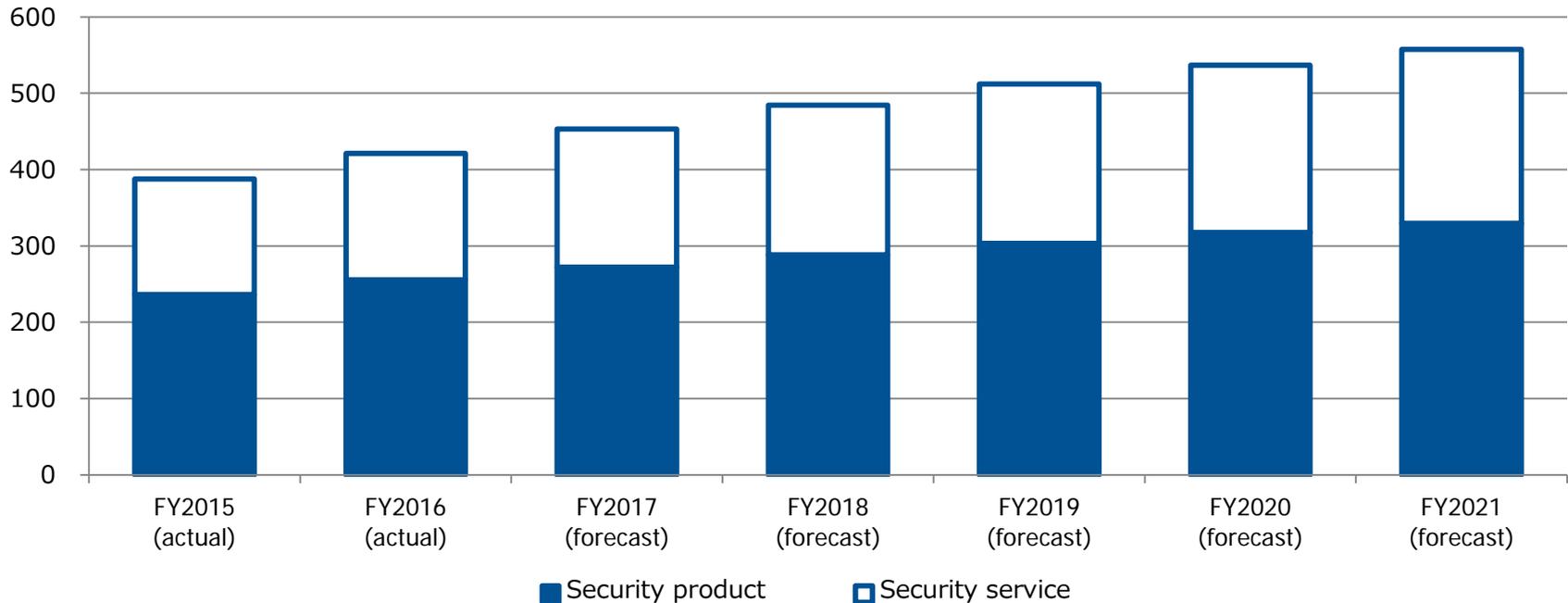
◆ Market size related to EC was 9.9% up in 2016 year on year. Increased EC rate to 5.43% in 2016.

◆ Market size will be 24,000 billion in 2022. (NRI)

\* Reference: "The E-Commerce Market Survey" by Ministry of Economy, Trade and Industry, "IT navigator 2018" by Nomura Research Institute

## Network & Security market size (Japan)

(¥Billion)



- ◆ Forecasted Networks Security business market in Japan expanding from ¥421.2 billion in FY2016 to ¥557.4 billion in FY2021.
- ◆ High growth rate on average at 5.8% has been forecasted.

\* Reference : Network Security business report 2017 by Fuji Chimera Research Institute

# QUESTION

## TechMatrix Corporation

Planning and accounting division Corporate planning team

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