Presentation Material of Financial Results for FY2019 (ended December 31, 2019)

February 10, 2020

Information Services International-Dentsu, Ltd.

Note: This English translation is solely for reference purposes and not a legally definitive translation of the original Japanese text.
In the event a difference arises regarding the meaning herein, the original Japanese version will prevail as the official authoritative version.

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Agenda

Section 1

Outline of financial results for FY2019 and forecast for FY2020

Nobuo Uehara
Executive Vice President

Section 2

Progress of the medium-term management plan (FY2019–FY2021)

Ryoichi Nawa
President, CEO & COO

Note:
1. The Engineering Solutions Segment was changed to the Manufacturing Solutions Segment on January 1, 2019.
2. Dentsu Inc. changed its name to Dentsu Group Inc. on January 1, 2020. In this document, "Dentsu Group" refers, in principle, to the entire corporate group.

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Section 1

Outline of financial results for FY2019

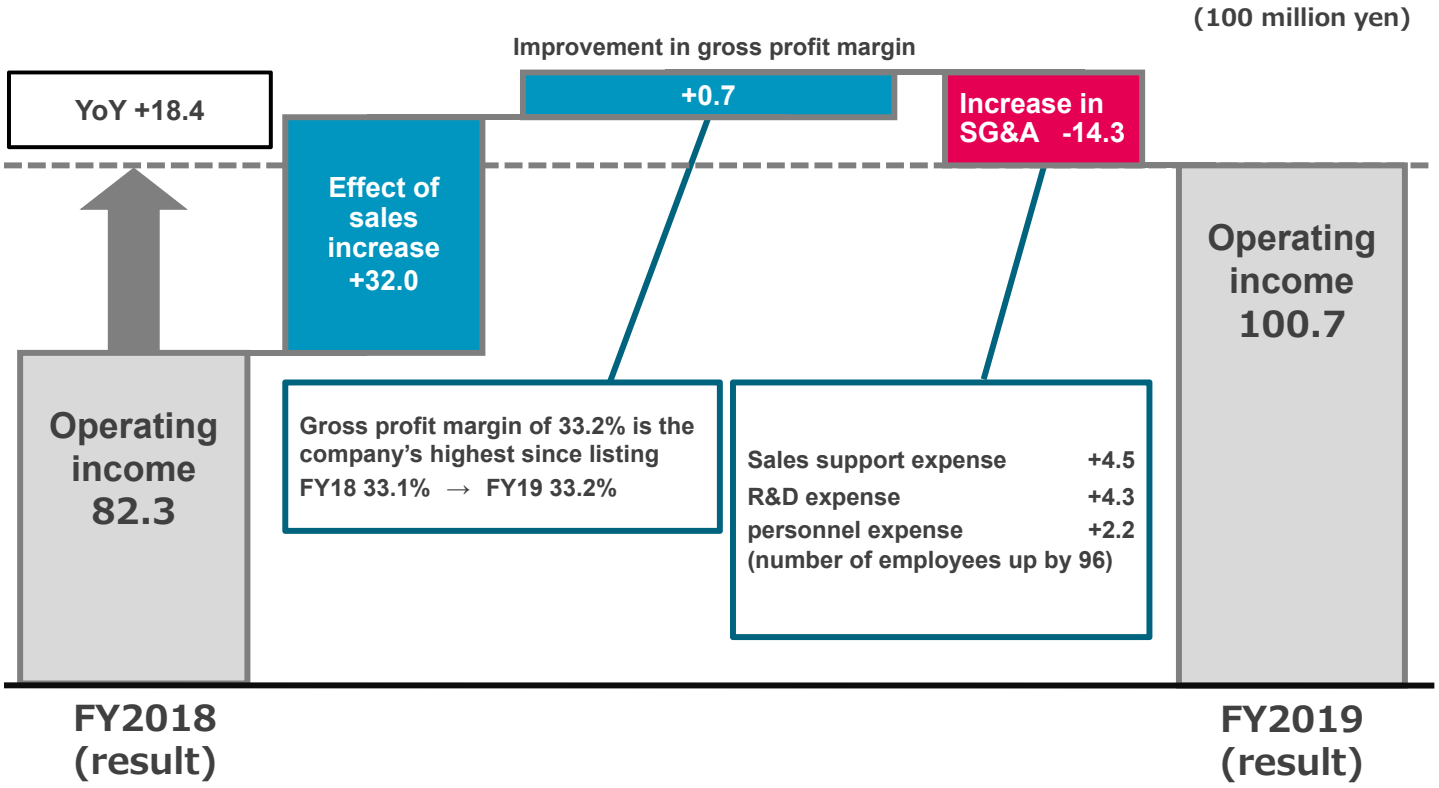
1. Consolidated Results for FY2019

Year on year	Net sales and all profit items set record-high for the Group for the second consecutive year.
Vs. initial forecast	Mainly due to higher sales in Communication IT than forcasts. (revisions to forecasts were announced on January 22, 2020)
Year-end dividend	Plans to pay a dividend of ¥42 per share, an increase of ¥7 from the initial forecast. (full-year total of ¥77 per share, dividend payout ratio of 40.3%, seventh consecutive year of increase)

(Million yen)

	FY2019	YoY			Vs. initial forecast (announced on February 8, 2019)		
		FY2018	Variance	% change	Forecast	Variance	% change
Net sales	100,679	91,024	+9,655	+10.6	93,000	+7,679	+8.3
Gross profit	33,390	30,123	+3,267	+10.8	32,032	+1,358	+4.2
Profit margin	33.2%	33.1%	+0.1p	–	34.4%	-1.2p	–
Selling, general and administrative expenses	23,315	21,884	+1,431	+6.5	23,532	-217	-0.9
Operating income	10,075	8,239	+1,836	+22.3	8,500	+1,575	+18.5
Operating margin	10.0%	9.1%	+0.9p	–	9.1%	+0.9p	–
Ordinary income	9,648	8,197	+1,451	+17.7	8,408	+1,240	+14.7
Net income attributable to owners of parent	6,226	5,187	+1,039	+20.0	5,683	+543	+9.6
ROE	11.8%	10.5%	+1.3p	–	–	–	–

2-1. Factors for Increase/Decrease in Operating Income (YoY)



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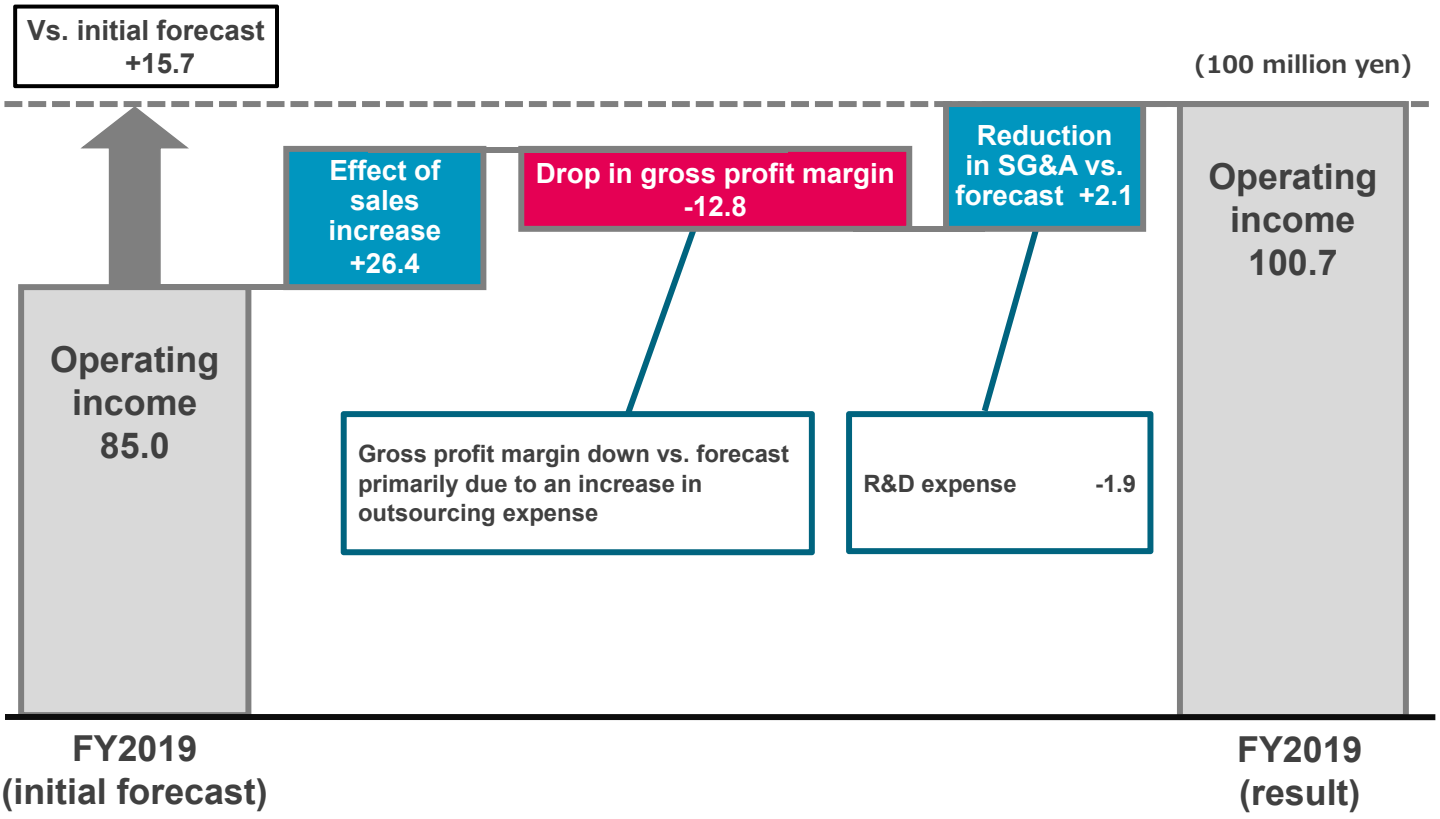
2-2. Factors for Increase/Decrease in Operating Income (vs. initial forecast)



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3. Net Sales and Operating Income by Business Segment

(Million yen)

Business segment		FY2019	YoY			Vs. initial forecast	
			Variance	% change	Overview	Variance	% change
Financial Solutions	Net sales	24,622	+1,380	+5.9	Sales increased due to an expansion of projects for government-affiliated financial institution and business companies, and services for customers engaged in business restructuring. Profit decreased mainly due to an increase in cost of sales in some projects.	+832	+3.5
	Operating income	1,542	-252	-14.0		-819	-34.7
	%	6.3%	-1.4p	–		-3.6p	–
Business Solutions	Net sales	19,289	+2,479	+14.7	Sales and profits increased due to an expansion of licensing sales and installation of POSITIVE, STRAVIS and software in the accounting or ERP fields.	+1,659	+9.4
	Operating income	1,741	+1,040	+148.4		+671	+62.7
	%	9.0%	+4.8p	–		+2.9p	–
Manufacturing Solutions	Net sales	30,027	+775	+2.6	Sales increased due to an expansion of licensing sales and installation of iQUAVIS, software in CAE and the Smart Factory domain. Profit decreased due to an increase in personnel expense resulting from an increase in the number of employee.	-621	-2.0
	Operating income	2,103	-125	-5.6		-179	-7.8
	%	7.0%	-0.6p	–		-0.4p	–
Communication IT	Net sales	26,739	+5,021	+23.1	Sales and profits increased due to the start of large-scale renewal projects in Dentsu Group's core system field, and a significant expansion of collaborative businesses with Dentsu Group, mainly for the public sector.	+5,906	+28.3
	Operating income	4,688	+1,173	+33.4		+1,903	+68.3
	%	17.5%	+1.3p	–		+4.1p	–

* POSITIVE: Human Resources Management Solution STRAVIS: Consolidated Accounting Solution iQUAVIS: MBSE Solution CAE: Computer Aided Engineering

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4. Consolidated Net Sales by Service Category

(Million yen)

Service category	FY2019	YoY			Vs. initial forecast	
		Variance	% change	Overview	Variance	% change
Consulting Services	6,819	+1	+0.0	Remained the same level as the previous fiscal year due to an expansion of Communication IT, despite the decline in Financial Solutions	+486	+7.7
Custom System Development	29,153	+4,965	+20.5	Expansion of Financial Solutions and Communication IT	+3,884	+15.4
In-house Software	17,126	+2,056	+13.6	Expansion of mainly POSITIVE, STRAVIS, iPLAss and iQUAVIS	+1,363	+8.6
Third-party Software	29,945	+2,684	+9.8	Expansion of Salesforce Solutions, software in CAE and the accounting or ERP fields	+756	+2.6
Outsourcing, Operation and Maintenance Services	9,524	-31	-0.3	Remained the same level as the previous fiscal year due to an expansion of Business Solutions, despite the decline in Financial Solutions	+579	+6.5
IT Equipment Sales and Others	8,110	-20	-0.2	Remained the same level as the previous fiscal year due to an expansion of Manufacturing Solutions, despite the decline in Financial Solutions	+612	+8.2

iPLAss: Marketing Platform

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5. Consolidated Net Sales by Industry

(Million yen)

Industry	FY2019		YoY		
	Net Sales	Composition Ratio	Variance	% change	Variance of Ratio
Banks	19,399	19.3%	+586	+3.1%	-1.4p
Other financial institutions	5,497	5.5%	+1,104	+25.1%	+0.6p
Financial	24,896	24.7%	+1,690	+7.3%	-0.8p
Transportation equipment	14,846	14.7%	+1,341	+9.9%	-0.1p
Electric appliances Precision instruments	9,105	9.0%	+49	+0.5%	-0.9p
Machinery	6,518	6.5%	-345	-5.0%	-1.1p
Others products	8,191	8.1%	+985	+13.7%	+0.2p
Manufacturing	38,660	38.4%	+2,030	+5.5%	-1.8p
Services and public offices	29,743	29.5%	+5,252	+21.4%	+2.6p
Distributions and others	7,380	7.3%	+682	+10.2%	-0.0p

Reference; Sales to the Dentsu Group.

Dentsu Inc. and it's subsidiaries	23,337	23.2%	+5,058	+27.7%	+3.1p

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6. Consolidated Balance Sheets

(Million yen)

	As of December 31, 2019	As of December 31, 2018	Variance	Main Factors for Increase/Decrease
Total current Assets	69,728	64,668	+5,060	increase in Deposits paid (+2,612) Increase in work in process (+803) increase in Cash and deposits (+619) increase in Advance payments (+554)
Total non-Current Assets	17,576	15,604	+1,972	increase in Investment securities (+1,164) increase in Property, plant and equipment (+401)
Total assets	87,305	80,273	+7,032	
Total current liabilities	29,456	26,551	+2,905	increase in Advances received (+1,362) increase in Accounts payable – trade (+829) increase in Income taxes payable (+362)
Total non-current liabilities	2,966	2,755	+211	increase in Lease obligations (+100) increase in Asset retirement obligations (+74)
Total liabilities	32,423	29,307	+3,116	
Total net assets	54,882	50,966	+3,916	increase in Retained earnings (+3,946)
Total liabilities and net assets	87,305	80,273	+7,032	

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7. Consolidated Statements of Cash Flows

(Million yen)

	FY2019	Main Factors	YoY	
			FY2018	Variance
Cash flows from operating activities	10,642	Net income before income taxes（9,185） Depreciation（2,531）	9,319	+1,323
Cash flows from investing activities	-3,952	Purchase of shares of subsidiaries and associates（-2,075） Purchase of intangible assets（-1,495） Purchase of property, plant and equipment（-458）	-3,353	-599
Cash flows from financing activities	-3,260	Cash dividends paid（-2,280） Repayments of lease obligations（-967）	-2,564	-696
Effect of exchange rate change on cash and cash equivalents	-68		-134	+66
Net increase (decrease) in cash and cash equivalents	3,360		3,266	+94
Cash and cash equivalents at the beginning of period	33,620		30,353	+3,267
Cash and cash equivalents at the end of period	36,981		33,620	+3,360

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8. Orders received and Order backlog

- Orders received: Increased in year on year. Increased orders in Business Solutions and Communication IT segments offset a decline following a large-scale project (6,500 million yen) for government-affiliated financial institution in the 2Q of FY2018.
- Order backlog: Increased in all business segments except Financial Solutions, which had declined in reaction, in year on year.

(Million yen)

		Orders received		Order backlog	
		FY2019	YoY (%)	FY2019	YoY (%)
Business Segment	Financial Solutions	21,597	-27.0	8,537	-26.2
	Business Solutions	21,060	+28.3	7,367	+31.6
	Manufacturing Solutions	30,535	-1.6	10,726	+5.0
	Communication IT	28,561	+34.2	5,870	+45.0
Service Category	Consulting Services	6,764	-5.4	846	-6.1
	Custom System Development	27,754	-7.6	8,478	-14.2
	In-house Software	19,225	+33.7	6,695	+45.7
	Third-party Software	30,325	+4.0	11,483	+3.4
	Outsourcing, Operation and Maintenance Services	9,544	+11.3	1,507	+1.3
	IT Equipment Sales and Others	8,140	-9.6	3,491	+0.9
Total		101,755	+3.5	32,502	+3.4

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Ref.) Consolidated Results for 4Q of FY2019

- Net sales: Revenues increased due to expansions of Manufacturing Solutions and Communication IT, despite a reaction to large-scale projects in Financial Solutions.
- Operating income: Decreased due to an increase in SG&A expenses (R&D expense up ¥260 million, increased expenditures associated with work style reforms, etc.).

(Million yen)

	4Q of FY2019	YoY		
		4Q of FY2018	Variance	% change
Net sales	27,715	26,399	+1,316	+5.0
Gross profit	9,244	8,785	+459	+5.2
Profit margin	33.4%	33.3%	+0.1p	–
Selling, general and administrative expenses	6,771	6,208	+563	+9.1
Operating income	2,472	2,577	-105	-4.1
Operating margin	8.9%	9.8%	-0.9p	–
Ordinary income	2,108	2,521	-413	-16.4
Profit attributable to owners of parent	1,066	1,398	-332	-23.7

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Ref.) Consolidated Results for 4Q of FY2019

■ Net Sales by business segment

Business segment		4Q of FY2019	YoY	
			Variance	% change
Financial Solutions	Net sales	6,212	-700	-10.1
	Operating income	241	-319	-57.0
	%	3.9%	-4.2p	–
Business Solutions	Net sales	5,044	-34	-0.7
	Operating income	82	-263	-76.2
	%	1.6%	-5.2p	–
Manufacturing Solutions	Net sales	8,045	+439	+5.8
	Operating income	630	+276	+78.0
	%	7.8%	+3.1p	–
Communication IT	Net sales	8,413	+1,612	+23.7
	Operating income	1,518	+202	+15.3
	%	18.0%	-1.4p	–

■ Net Sales by service category

Service category	4Q of FY2019	YoY	
		Variance	% change
Consulting Services	1,743	-411	-19.1
Custom System Development	7,608	+7	+0.1
In-house Software	4,758	+620	+15.0
Third-party Software	8,450	+1,252	+17.4
Outsourcing, Operation and Maintenance Services	2,787	-74	-2.6
IT Equipment Sales and Others	2,366	-77	-3.2

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Ref.) Orders received for 4Q of FY2019

（単位：百万円）

		Orders received			
		3Q of FY2019 (cumulative)	YoY % change	4Q of FY2019	YoY % change
Business Segment	Financial Solutions	16,187	-30.1	5,410	-15.7
	Business Solutions	16,543	+35.5	4,516	+7.4
	Manufacturing Solutions	24,085	-1.4	6,449	-2.4
	Communication IT	22,883	+41.1	5,677	+12.1
Service Category	Consulting Services	5,205	+1.4	1,559	-22.6
	Custom System Development	22,599	-6.7	5,154	-11.4
	In-house Software	14,951	+38.1	4,274	+20.5
	Third-party Software	23,593	+4.5	6,731	+2.0
	Outsourcing, Operation and Maintenance Services	7,994	+20.3	1,550	-19.6
	IT Equipment Sales and Others	5,357	-19.1	2,783	+16.7
合計		79,701	+4.8	22,053	-1.1

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Section 1

Forecast for FY2020

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1. Forecast for FY2020

Main measures

Overall view
While there are risks in economic trends, IT investments in strategic areas such as DX (Digital Transformation) remained firm. Aiming to achieve record-high results for the third consecutive year.

Net sales
Aiming for higher sales in all segments by expanding existing businesses and creating new businesses through promoting X Innovation between 4 segments.

Operating income
Aiming to increase profits by maintaining an operating income margin while increasing investments in human resources and business growth.

Aiming for a dividend increase for the eighth consecutive year to ¥86 per share (¥43 at the end of the first half and ¥43 at year-end).

(Million yen)

	FY2020	YoY		
		FY2019	Variance	% change
Net sales	105,000	100,679	+4,321	+4.3
Operating income	10,500	10,075	+425	+4.2
Profit margin	10.0%	10.0%	–	–
Ordinary income	10,217	9,648	+569	+5.9
Net income attributable to owners of parent	6,911	6,226	+685	+11.0
Annual dividend per share	86 yen	77 yen	+9 yen	Payout ratio 40.5%

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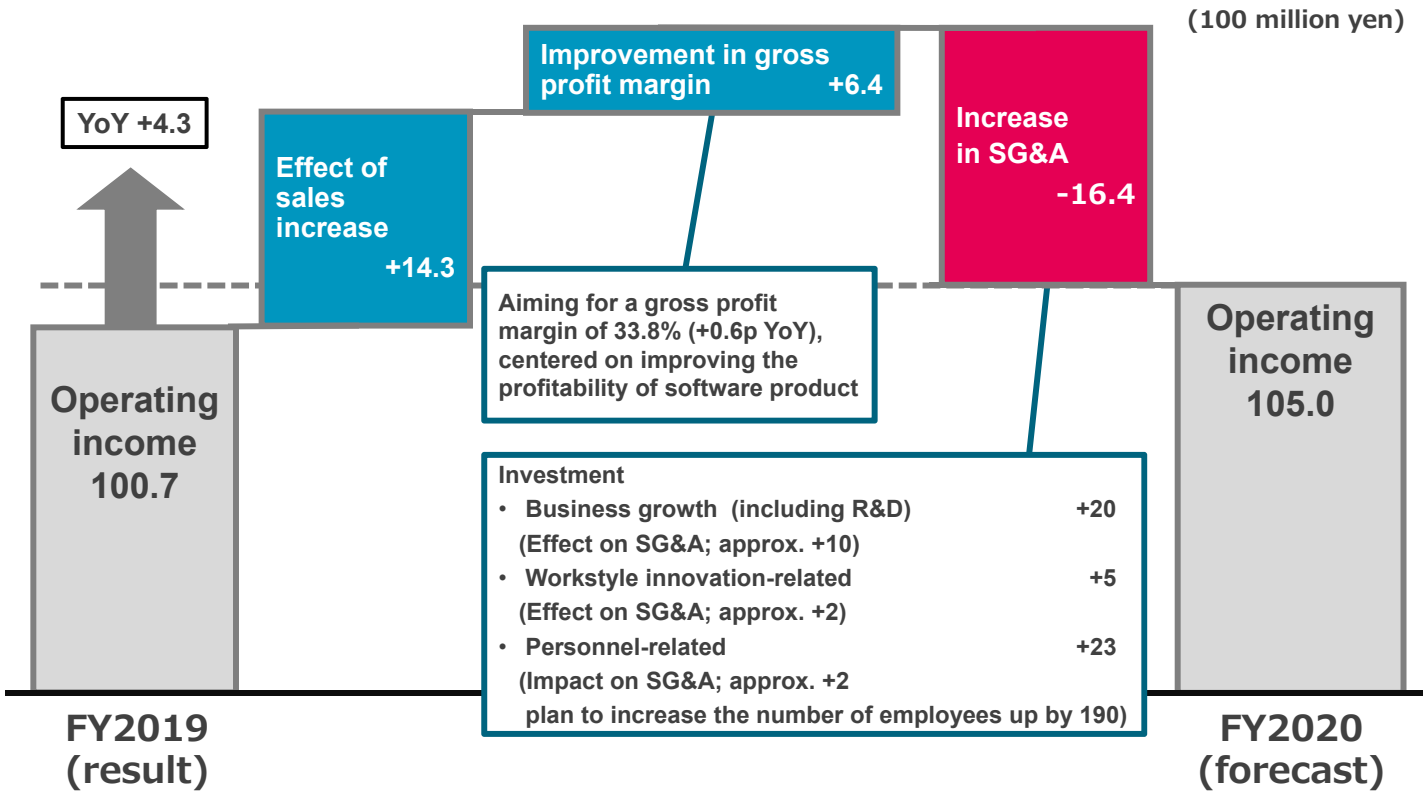
2. Factors for Increase/Decrease in Operating Income



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3. Net Sales Forecast by Business Segment

(Million yen)

Business segment	FY2020	YoY		
		FY2019	Variance	% change
Financial Solutions	25,611	24,622	+989	+4.0
Business Solutions	20,057	19,289	+768	+4.0
Manufacturing Solutions	31,410	30,027	+1,383	+4.6
Communication IT	27,920	26,739	+1,181	+4.4

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4. Net Sales Forecast by Service Category

(Million yen)

Service category	FY2020	YoY		
		FY2019	Variance	% change
Consulting Services	6,589	6,819	-230	-3.4
Custom System Development	29,798	29,153	+645	+2.2
In-house Software	18,824	17,126	+1,698	+9.9
Third-party Software	31,694	29,945	+1,749	+5.8
Outsourcing, Operation and Maintenance Services	9,701	9,524	+177	+1.9
IT Equipment Sales and Others	8,390	8,110	+280	+3.5

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5. Earnings Forecast for the First Half of FY2020

(Million yen)

	First half of FY2020 (Jan. – Jun.)	YoY		Ratio to full year
		First half of FY2019	Variance	% change	
Net sales	52,300	49,185	+3,115	+6.3	49.8%
Operating income	5,300	5,204	+96	+1.8	50.5%
Operating margin	10.1%	10.6%	-0.5p	–	–
Ordinary income	5,164	5,152	+12	+0.2	50.5%
Net income attributable to owners of parent	3,450	3,412	+38	+1.1	49.9%

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6. Net Sales Forecast for the First Half of FY2020

■ Net sales by business segment

(Million yen)

Business segment	First half of FY2020 (Jan. – Jun.)	YoY		
		First half of FY2019	Variance	% change
Financial Solutions	12,257	12,240	+17	+0.1
Business Solutions	9,884	9,572	+312	+3.3
Manufacturing Solutions	15,857	15,140	+717	+4.7
Communication IT	14,300	12,231	+2,069	+16.9

■ Net sales by service category

(Million yen)

Service category	First half of FY2020 (Jan. – Jun.)	YoY		
		First half of FY2019	Variance	% change
Consulting Services	3,346	3,597	-251	-7.0
Custom System Development	14,852	13,912	+940	+6.8
In-house Software	9,081	8,383	+698	+8.3
Third-party Software	15,622	14,713	+909	+6.2
Outsourcing, Operation and Maintenance Services	4,788	4,613	+175	+3.8
IT Equipment Sales and Others	4,607	3,965	+642	+16.2

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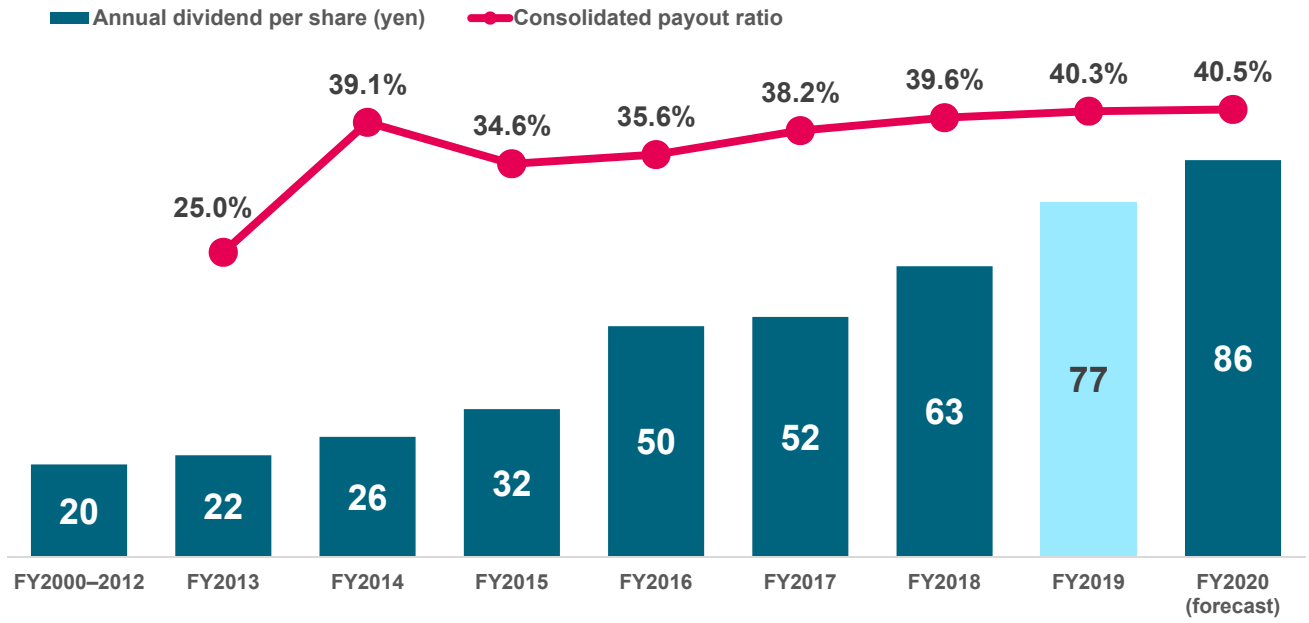
7. Returning Profits to Shareholders

- Basic Policy; To maintain an appropriate level of steady dividends while retaining sufficient internal reserves to ensure sustained growth. The target consolidated payout is 40% and more.
- Dividend forecast; To increase the dividend by ¥9 from the current fiscal year to ¥86 per share in accordance with the basic policy. The consolidated dividend payout ratio is expected to be 40.5%.



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Section 2

Progress of the Medium-Term Management Plan (FY2019-2021)

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Medium-term management plan for FY 2019-2021

ISID X(Cross) Innovation 2021

Aim to create new value through collaboration with a wide range of partners and realize our corporate philosophy through the promotion of "X Innovation" going beyond technologies, industries, companies, organizations and regions.

Basic policy

1. Evolution of core businesses
2. Creation of new businesses
3. Innovation of business foundation

- Strengthen human resources.
- Accelerate advanced technological initiatives.
- Improve added value capabilities of business support departments.

Quantitative targets

	FY2021 Goals	CAGR based on FY2018 results
Net sales	¥ 110 billion	6.5%
Operating income	¥11.0 billion	10.3%
Operating margin	10%	
ROE	12.5%	

Investment plan (3-year total)

Human resources	+¥12.0 billion
R&D	¥10.0 billion
Investments and M&A	¥10.0 billion

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[Progress] Summary

- Sales growth in all segments: **Communication IT achieved the target of FY21 ahead of schedule and Business Solutions is also expected to meet its target in 2020.**
- Steady launch of X Innovation: **More than 10 new projects were created.**

Unit: Billions of yen, figures in parentheses indicate year-on-year growth rate

	FY18	FY19	FY20	FY21
Financial Solutions	232	246 (+5.9%)	256 (+4.0%)	270 (+5.5%)
Business Solutions	168	192 (+14.7%)	200 (+4.0%)	200 (-)
Manufacturing Solutions	292	300 (+2.6%)	314 (+4.6%)	345 (+9.9%)
Communication IT	217	267 (+23.1%)	279 (+4.4%)	235 (-)
X Innovation	-	※ Net sales are recorded in each segment	-	50 (-)
Total	930	1,006(+10.6%)	1,050(+4.3%)	1,100(+4.8%)

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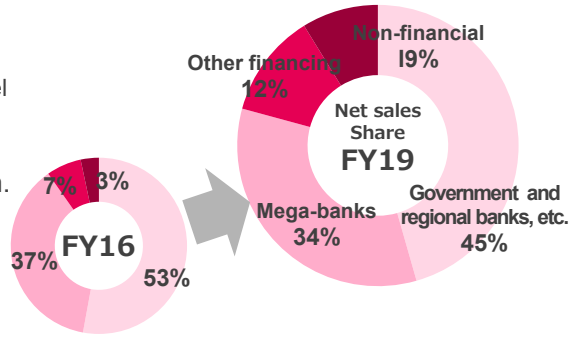
[Progress] Financial Solutions Segment

Achievements in FY19

- ✓ Diversificated **customer portfolio** through new acquisitions.
- ✓ Expanded **solutions** to support customers' structural reforms.
  - ■ Introduced RPA to improve operational efficiency, channel reform services to acquire new customers, etc.
- ✓ Developed **new businesses** through X Innovation.
  - ■ Incorporated FINOLAB with Mitsubishi Estate Co., Ltd.
  - ■ Established ACSiON Co., Ltd. with Seven Bank, Ltd.

Customer portfolio (FY16 → FY19)

Banks (mega, government-affiliated, regional, etc.) decreased and other financial and non-financial industries increased.



FY20 Action Policy

- Further diversify customer portfolios: Further expansion of business companies and insurance industries.
- Develop innovative solutions and services to support financial institutions' structural reforms.

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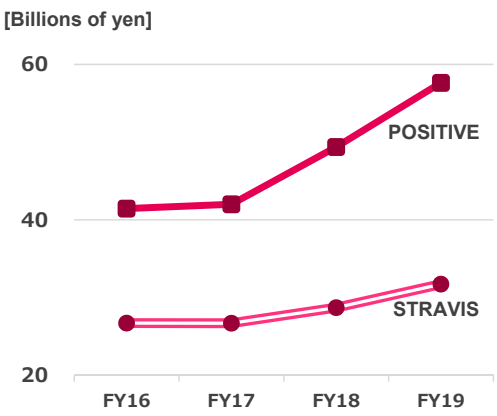
[Progress] Business Solutions Segment

Achievements in FY19

- ✓ Grew our In-house software business.
  - ■ **POSITIVE and STRAVIS** reached record high.
- ✓ Accelerated **R&D** for new product development.
  - ■ Strengthen and expanded **aiuola**, next-generation development platform, and **Ci*X** , accounting solutions.
    - Cost-effective R&D Year on year **+59%**
    - Asset-based R&D Year on year **+11%**

Net sales



FY20 Action Policy

- Strengthen our introduction system to meet the growing demand for system upgrades.
- Develop new Ci*X series products.
- launch a full-scale service business mode (cloud services and BPO business).

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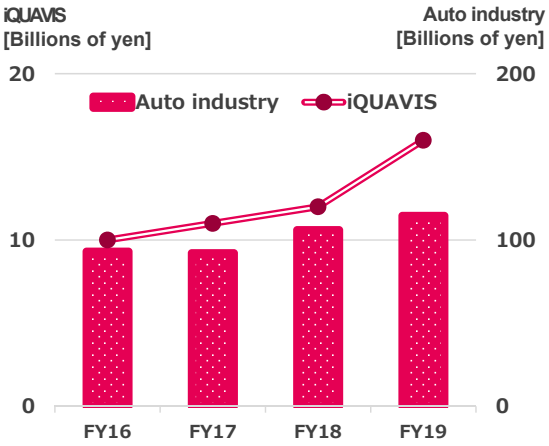
[Progress] Manufacturing solutions Segment

Achievements in FY19

- ✓ Expanded auto industry.
  - **Full-fledged users** of iQUAVIS grown.
  - Increased in projects about "**mono-kotozukuri**(value creation/story creation)" and supporting **DX** (digital transformation).
- ✓ Expanded **business areas.**
  - Smart Factory (capital alliance with FA Products)
  - CASE (equity alliance with Smart Holdings)
  - Developed new services utilizing AI/IoT.

Net sales



FY20 Action Policy

- Enhance Digital Solutions -Strengthen Cooperation with Partners.
- Further focus on the Automotive industry -Expand activities in advanced fields to other industries.
- Promote and establish iQUAVIS.

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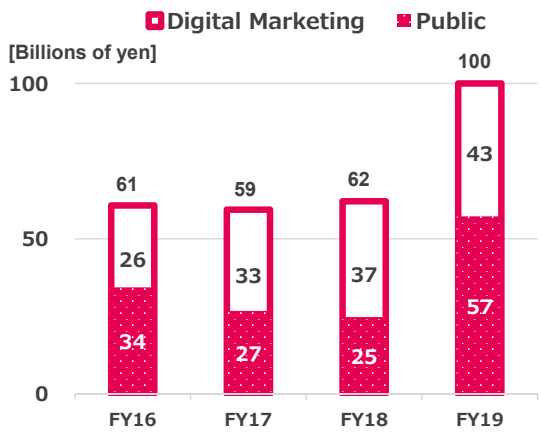
[Progress] Communication IT Segment

Achievements in FY19

- ✓ Grew the cooperative business to **over ¥10 billion.**
  - In the field of digital marketing business for corporates, and systems construction business for public sectors both expanded..
- ✓ Expanded **RPA business.**
- ✓ Launched MDI* **my data bank service.**

*MY DATA INTELLIGENCE INC.: A subsidiary of a personal data bank established by Dentsu Tec. ISID invested in December 2018.

Transition of cooperative business sales



FY20 Action Policy

- Further Strengthening Collaboration with the Dentsu Group's companies.
  - Established ISID Strategy Department within Dentsu (January 2020) to strengthen and expand contacts with the Dentsu Group Companies.

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[Progress]] X Innovation

Achievements in FY19

- ✓ Launched **X Innovation Center**: To create businesses through use of advanced technologies and open innovation.
  - "Kururi Nara," sightseeing MaaS for foreign visitors to Japan, "TunaScope" to support technical of connoisseurs with AI, and "SMAGt" to guarantee the value of agricultural products through Blockchain, etc.
- ✓ Started **Project X**: To accelerate creation of new businesses that go beyond segments.
  - Supported for business companies entering the settlement services business, etc.

FY20 Action Policy

- Strengthen AI Initiatives.
  - Establishment of **AI Transformation Center** (Announced on Feb. 10, 2020).
- Accelerate creation of new businesses.
  - Promoting **X Innovation Workshop**, a company-wide program.

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[Progress] business foundation Innovations

Achievements in FY19

NIKKEI Smart Work ★★★★ 2020
Third Nikkei Smart Work Management Survey
Acquired 4 stars

- ✓ **Strengthened Corporate Governance.**
  - Increase the ratio of independent outside directors to one-third.
- ✓ Achieved **32%** investment in human resources.

(three- year investment target +12.0 billion yen)
  - Increased personnel expense due to **an increase in the number of employees**, and recruitment and education expenses.Decided to revise salary from January 1, 2020-further improvement of compensation.
  - Promoted office renovation and improvement of remote work environment as part of **work style reform.**
  - Introduced the 65-year-old retirement system.
- ✓ Achieved **25%** in R&D (compared to the target of ¥10 billion in three-year investment).

FY20 Action Policy

- Continue to invest in human resources (recruitment/education) and strengthen R&D capabilities.
- Establish a lean, compact and agile business support structure and management administration system.

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[Progress] Investments and M&A

Investments performance

✓ Investments and M&A progressed **23%** (against three-year investment limit of ¥10.0 billion).

Major investments in FY2019	Purpose	
PT. Ebiz Cipta Solusi	Expand businesses for financial institutions in Indonesia	Subsidiary
FINOLAB Inc.	Joint venture with Mitsubishi Estate to strengthen of FinTech communities	Affiliate
ACSiON, Ltd.	Joint venture with Seven Bank to provide identity verification and fraud detection services	
FA Products Inc.	Strengthen Smart Factory Business	
Smart Holdings Inc.	Strengthen systems integrations and CASE related businesses for automotive industry.	
Augmentation Bridge Inc.	Strengthen RPA business	
OneMile Partners Inc.	Create new businesses in the financial field	
Global Walker, Inc.	Expand solutions using AI technology	

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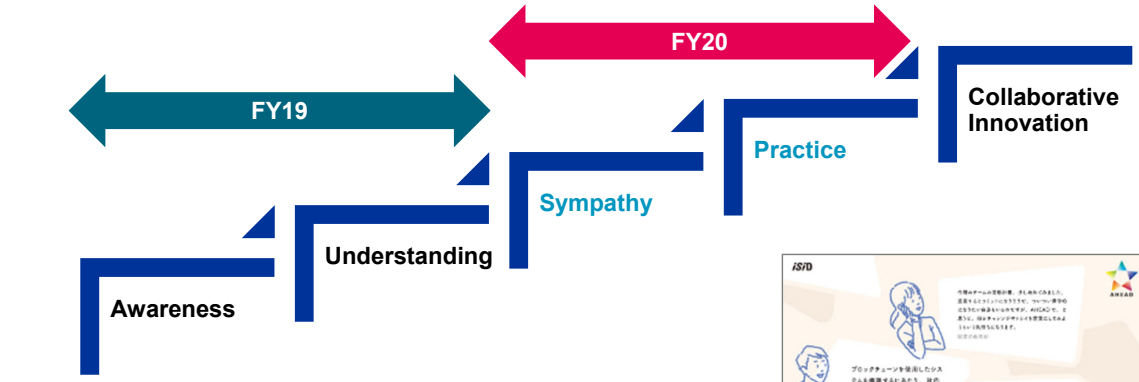
Penetration of the new corporate philosophy

✓ Implementing various measures to foster “awareness” and “understanding” in order to promote the new corporate philosophy (Renewed in February 2019).





Deployment of "AHEAD items"



My AHEAD posters

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Corporate Philosophy

Mission

Acting with sincerity, we contribute to progress and harmony
among our customers, consumers, and society by exploring the unlimited potential of technology.

Vision

HUMANOLOGY **for the future**

Bringing people and technology together to shape the future.

Understanding human trends, anticipating society's evolution and exploring the full potential of technology,
ISID Group is creating a better tomorrow through harmony between people and technology.

Action Principles

AHEAD

Be a pioneer.

Agile	**Humor**	**Explore**	**Ambitious**	**Dialogue**
Try it first.	Win through personality.	Venture into the unknown.	Have a dream.	Communicate ideas thoroughly.