Serverworks

Q3 FY02/21 Financial Summary

2020.9.1 – 2020.11.30

Serverworks Co., Ltd. (Securities code: 4434)

About the effects of the new COVID-19 infection（Continuously）

☐ Efforts to prevent the spread of new COVID-19 infections

- Provide monthly remote-work allowance of 20,000 yen（continuously
- In response to the state of emergency on Jan. 7th, as a general rule, the target area will be prohibited from coming to office.



☐ Impact on business continuity and business outcome

- Since telework has been maintained and actively promoted, the impact on business execution is very minor
- While the number of companies utilizing the cloud is increasing, IT investment is curtailed and projects are canceled or delayed
- The Cloud Integration department was affected but now it is improving

☐ Publish the telework practice guide book for with Corona / after Corona era

- Published “Best practice for efficiently implementing telework” based on our experiences

3rd Quarter Topics

FY2021 3Q Topics

☐ Obtained the AWS latest 4.1 certification of MSP

- Continuously keeping certification renewal since 2015. Maintain APN Premier Consulting Partner qualification

☐ Our company was posted at Gartner report “Market Guide for Public Cloud Managed and Professional Services Providers, Asia/Pacific”

- Posted as one of Public Cloud Managed and Professional Services Providers

☐ Expansion of Osaka office space

- Increase Osaka office space to expand cloud business in Western Japan area by increasing the headcount

FY2021 3Q Topics

January 8th, 2021

- **Approval of listing market change to the 1st section of the Tokyo Stock Exchange**
  - As of January 15th, 2021, the listed market of our stock will change from the Mothers market of the Tokyo Stock Exchange to the 1st Section of the Tokyo Stock Exchange

December 11th, 2020

- **Named in revenue-based growth ranking "2020 Japan Technology Fast 50"**
  - Named in the TMT (Technology, Media, Telecommunications) industry's growth rate ranking, based on revenue(sales) for the past three fiscal years, announced by the Deloitte Tohmatsu Group

Financial Results

FY02/21 Earnings Forecasts（Revised in October）

Earnings forecast revised on Oct. 9th, 2020. Extraordinary income based on partial sales of the investment securities, which was not included in the initial plan, and various expenses related to MS warrants and market changes are included

（Unit: million yen）

	FY02/20 results	Composition (%)	FY02/21 forecasts	Composition (%)	% of year-earlier level
Net sales	6,811	100.0	8,003	100.0	117.5
Gross profit	1,086	15.9	1,190	14.9	109.6
Operating profit	417	6.1	392	4.9	94.0
Ordinary profit	421	6.2	377	4.7	89.5
Profit	333	4.9	448	5.6	134.5

※There is no change in the full-year earnings forecast from the “Notice concerning recording of extraordinary income (Gain on sale of investment securities) and revision of full year forecast for the fiscal year ending February 2021”, announced on October 9th, 2020.

Q3 FY02/21 Results

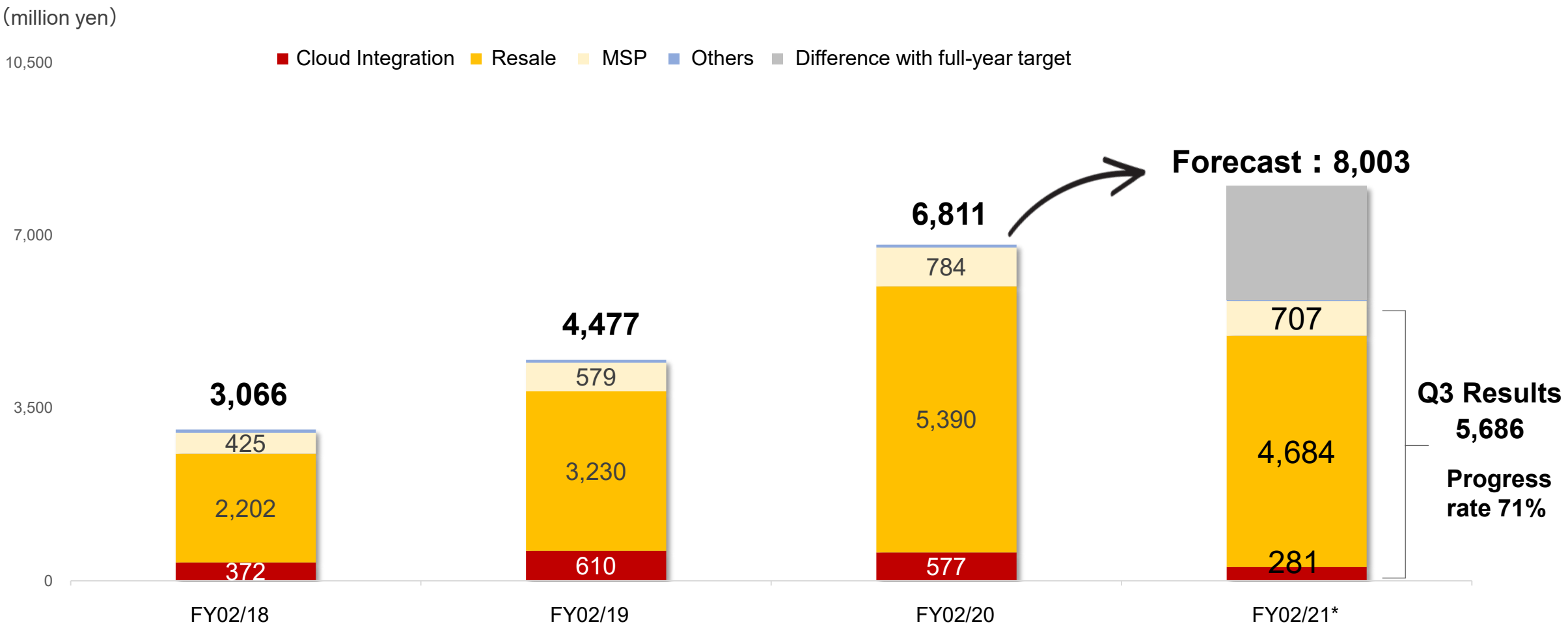
Although the growth rate of sales slowed down due to the effects of the COVID-19 infection and the strong yen, maintaining a high sales growth rate of +20% compared to the previous year, which exceeds the full-year earnings forecast of +18%. The profit margin also seeing improvement from the 2nd quarter.

(Unit: million yen)

	Q3 FY02/20 results	Composition (%)	Q3 FY02/21 results	Composition (%)	% of year-earlier level
Net sales	4,741	100.0	5,686	100.0	120.0
Gross profit	800	16.9	848	14.9	106.0
Operating profit	312	6.6	262	4.6	84.1
Ordinary profit	315	6.6	266	4.7	84.5
Profit	250	5.3	367	6.5	146.9
EBITDA	367		311		

Net Sales

Approximately 71% progress against the full-year earnings forecast

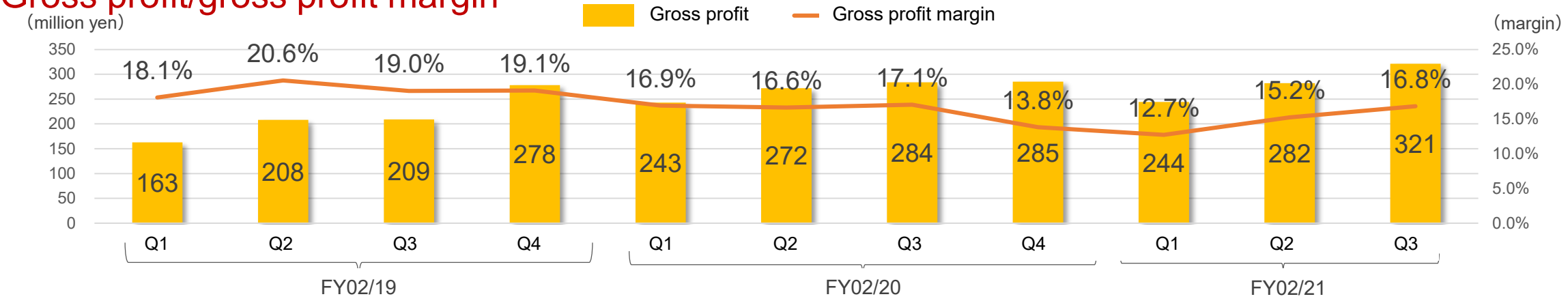


* FY02/21 figures reflect results from March to end - November 2020.

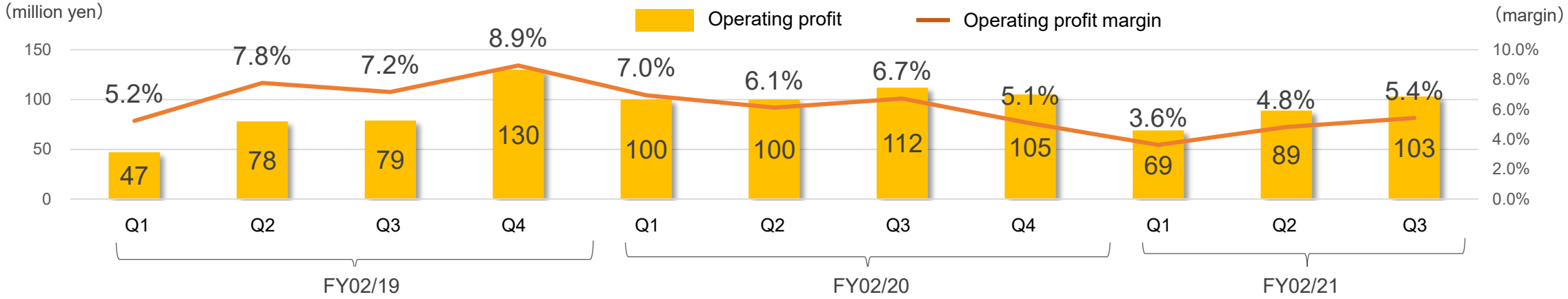
Profit Margins

Both profit amount and profit margin increased mainly due to the improvements in each index such as the unit price of the project and the number of projects win for cloud integration and unit price

Gross profit/gross profit margin



Operating profit/operating profit margin



Q3 FY02/21 Sales by Product/Service(*) Segment

Stable stock businesses, Resale and MSP, continue to drive the growth.
Cloud integration, which was affected by the COVID-19 infection, shows improving trend from the latter half of the 2nd quarter.

(Unit: million yen)

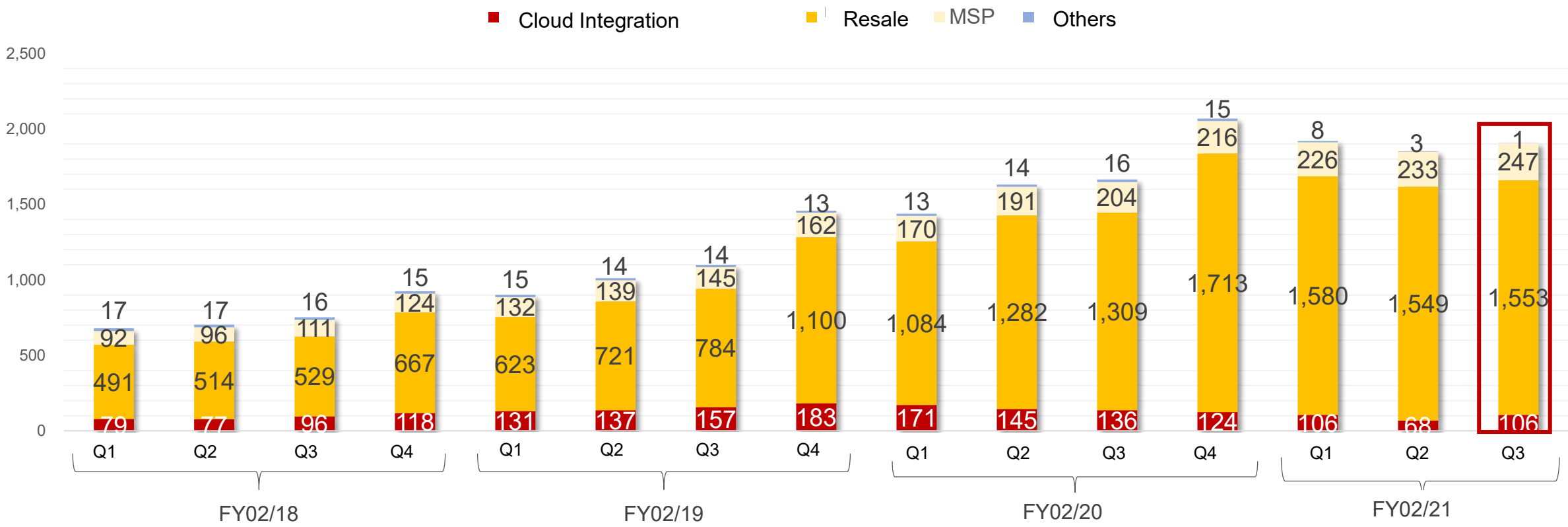
	Q3 FY02/20 results	Composition (%)	Q3 FY02/21 results	Composition (%)	% of year-earlier level
Cloud Integration	452	9.6	281	5.0	62.2
Resale	3,676	77.5	4,684	82.4	127.4
MSP (Managed Service Provider)	567	12.0	707	12.4	124.7
Other	44	0.9	13	0.2	31.1
Total	4,741	100.0	5,686	100.0	120.0

※ The explanation of each services is described in detail at page 38

Quarterly Net Sales

Cloud integration, which was affected by the COVID-19 infection, is showing improving trend at each index such as the unit price of the project and number of project wins and sales is recovered by +55% from the 2nd quarter. MSP remained strong. Sales increased while resale is affected by the strong yen.

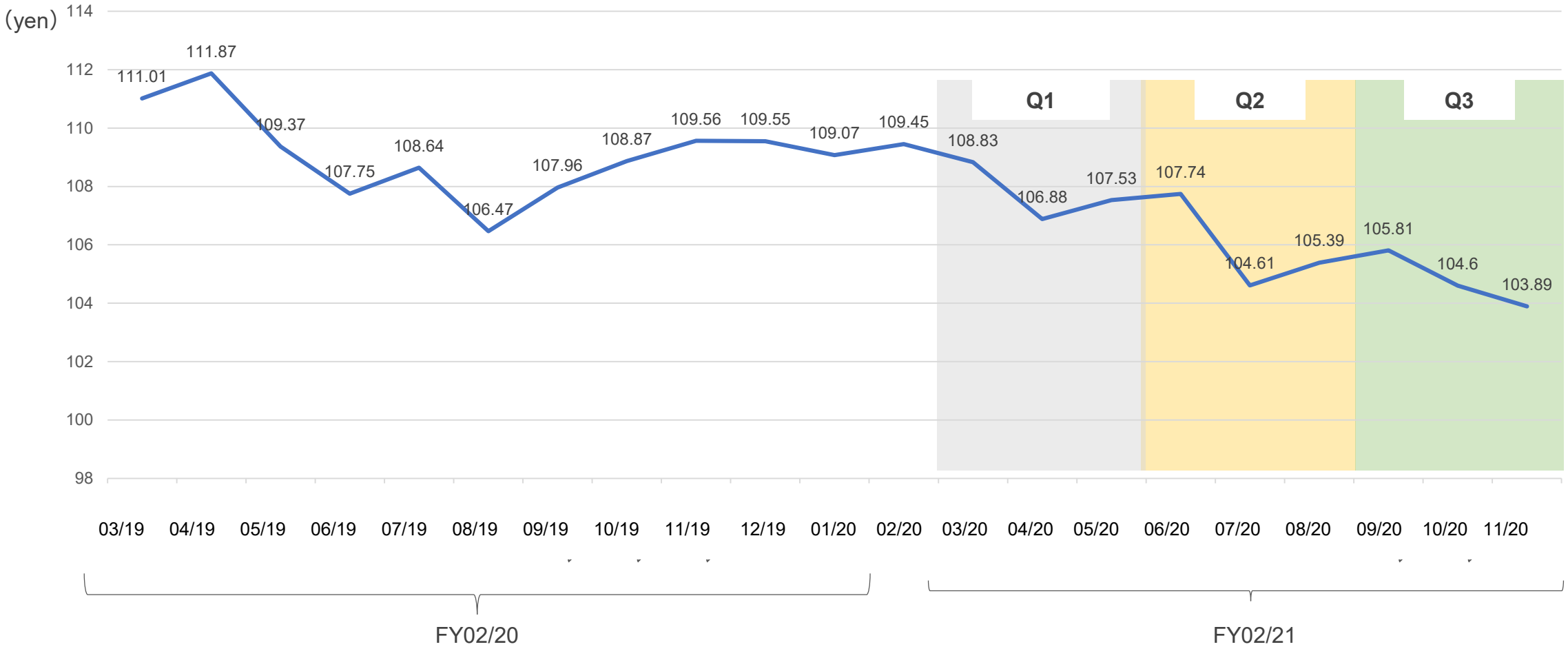
(million yen)



* Due to the nature of AWS Resale transactions, total usage fees are recorded as net sales.

Reference）Resale : Exchange rate trend

Although the continued strong yen affects Japanese yen based revenue, the strong yen is working positive for customers and the cloud usage is steadily and surely increasing. (next slide)
The impact on profits will be minor since purchase price will decrease as well.

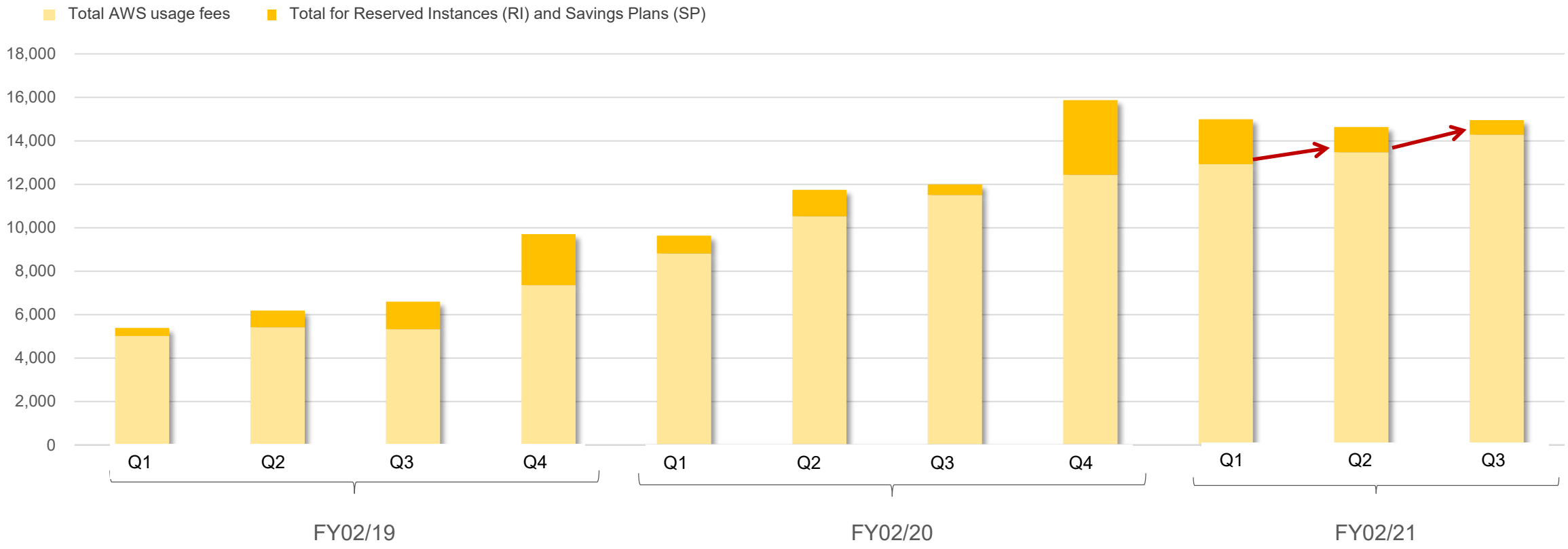


※ Mizuho Bank official market price : End of month TTM rate

Reserved Instances, Saving Plans(*)

Normal AWS usage fees grow organically without falling. On the other hand, for the temporary sales from the purchase of Reserved Instances and Saving Plans, it is not the downward trend, rather the number of purchases in the 1st and 2nd quarter were higher than usual.

(Unit: thousands of dollars)

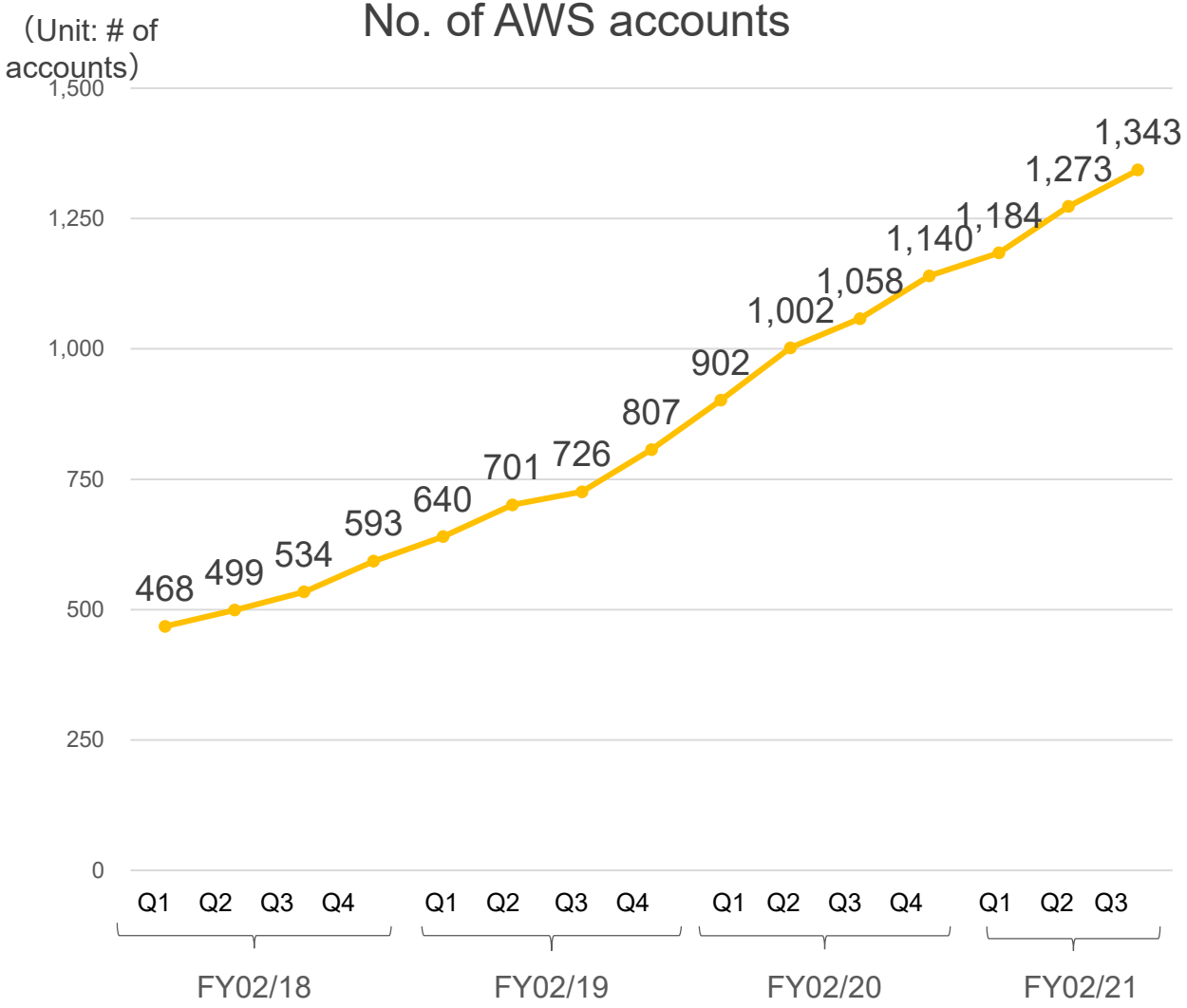


* AWS service under which substantial discounts are offered to customers who pay a fixed reservation fee and commit to AWS usage for a certain period.

Number of AWS Accounts, ARPU

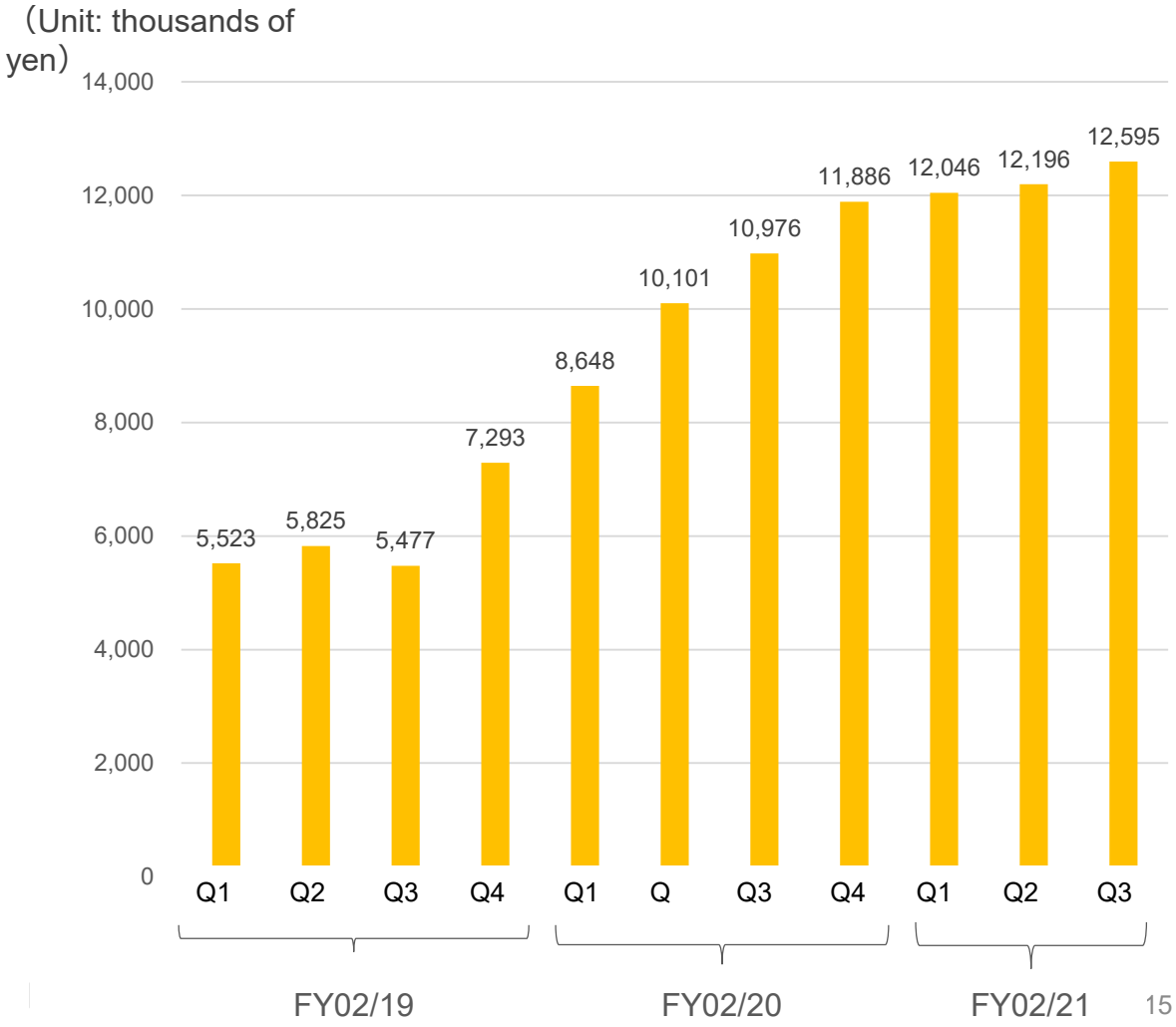
Both the number of AWS accounts and ARPU increased steadily, contributing to the expansion of the resale revenue.

No. of AWS accounts



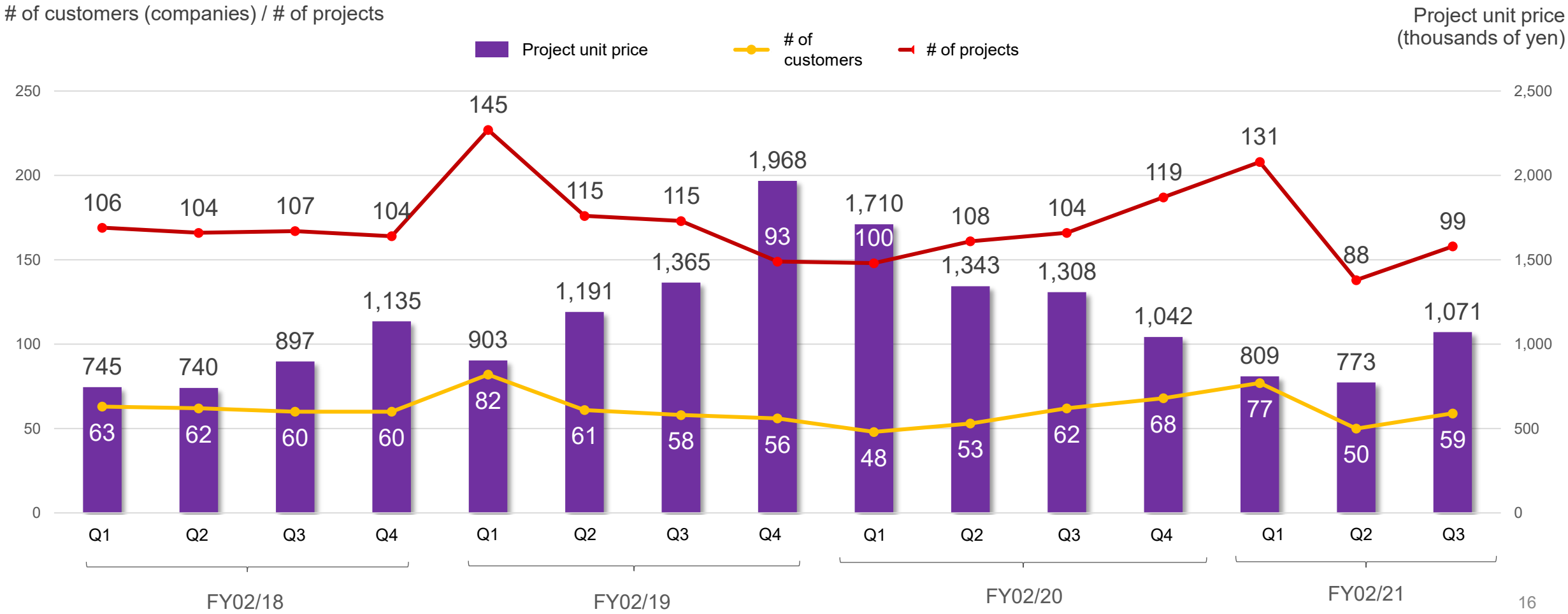
ARPU*

* Obtained by dividing AWS usage fees, including Reserved Instances, by number of customers.



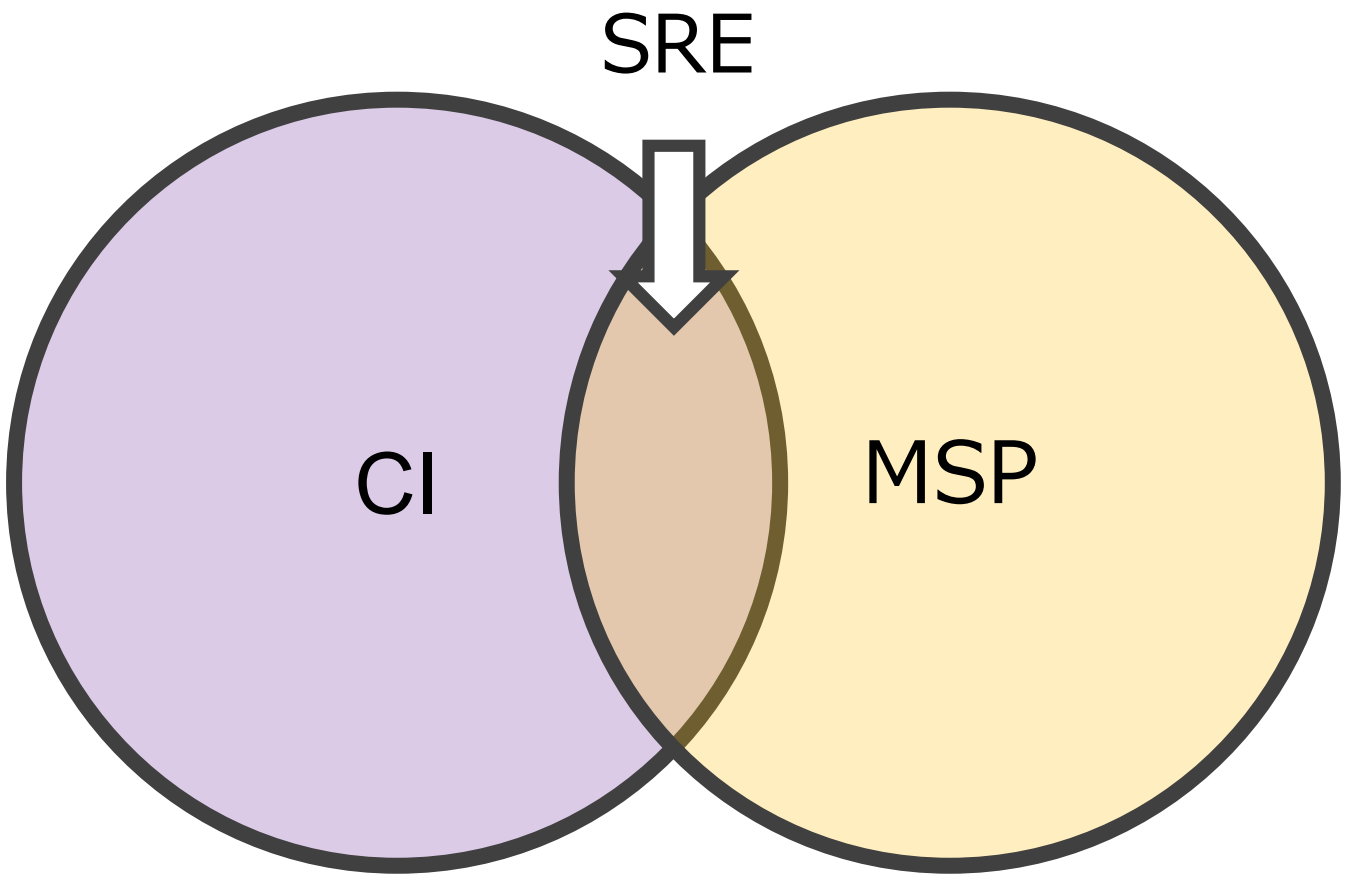
Cloud Integration

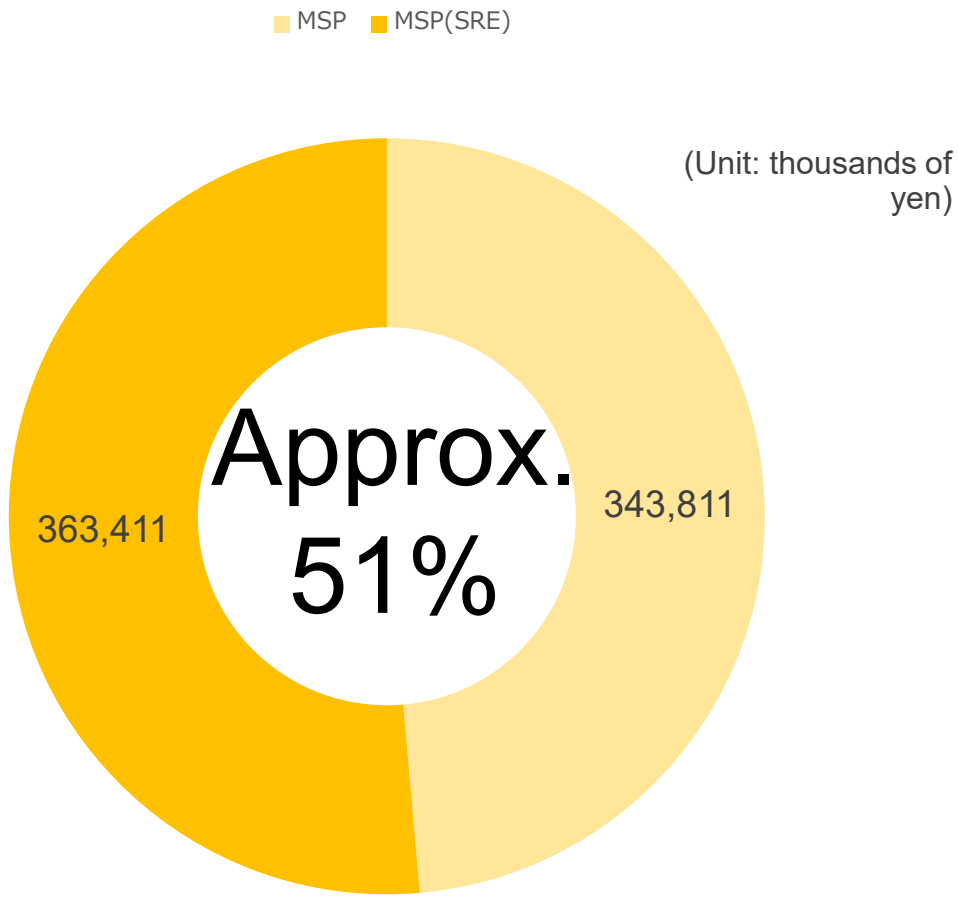
Compared to the 2nd quarter, all indicators such as the unit price of the project and the number of projects have improved.
In addition, both the number of projects (+1.9%) and the number of customers (+14.1%) were increased even we compared to cumulative period (1Q to 3Q cumulative) of last year.



SRE(*) portion of MSP

The SRE, the dedicated team that handles everything from system construction to operation to support customer specific needs, portion of business has increased.

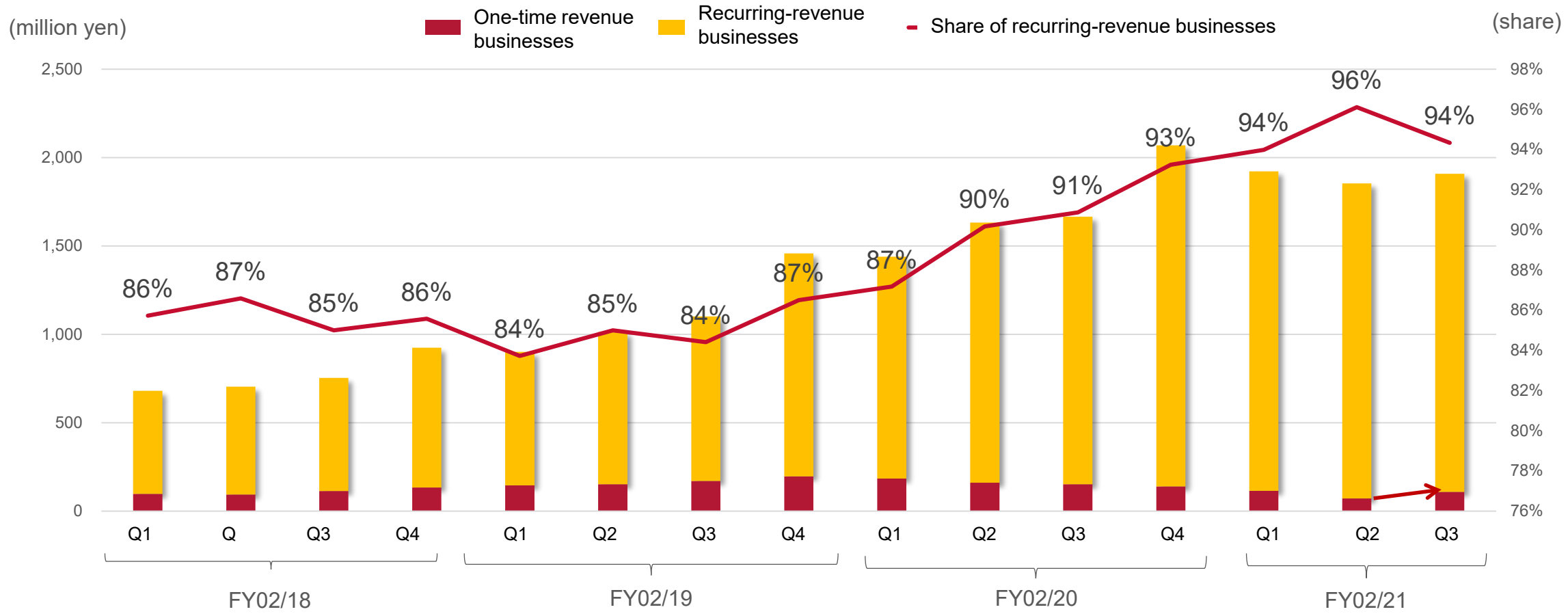




* SRE : **S**ite **R**eliability **E**ngineering

Stock Business(*)

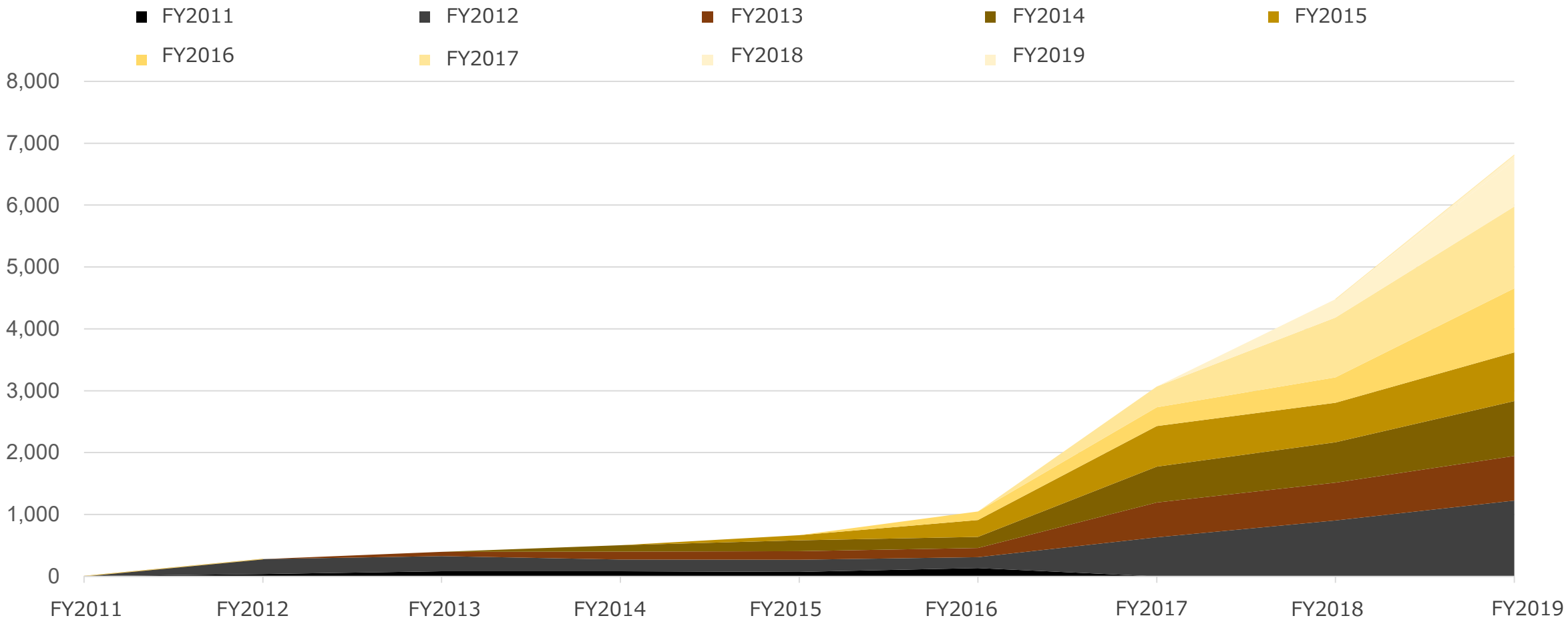
The flow ratio increased (stock ratio decreased) due to the improvement of cloud integration business, which is a flow business.



* One-time sales from Cloud Integration, where sales are recorded at the time of customer acceptance, positioned as one-time revenue, is specified as “Flow Business” . Recurring sales from AWS monthly usage fees, monthly charges for proprietary services such as Cloud Automator, licensing fees for continued use of third-party software services, and MSP usage fees and maintenance fees for AWS server monitoring and backup services (all of which entail continued AWS usage by companies) are specified as “Stock Business”.

Life Time Value

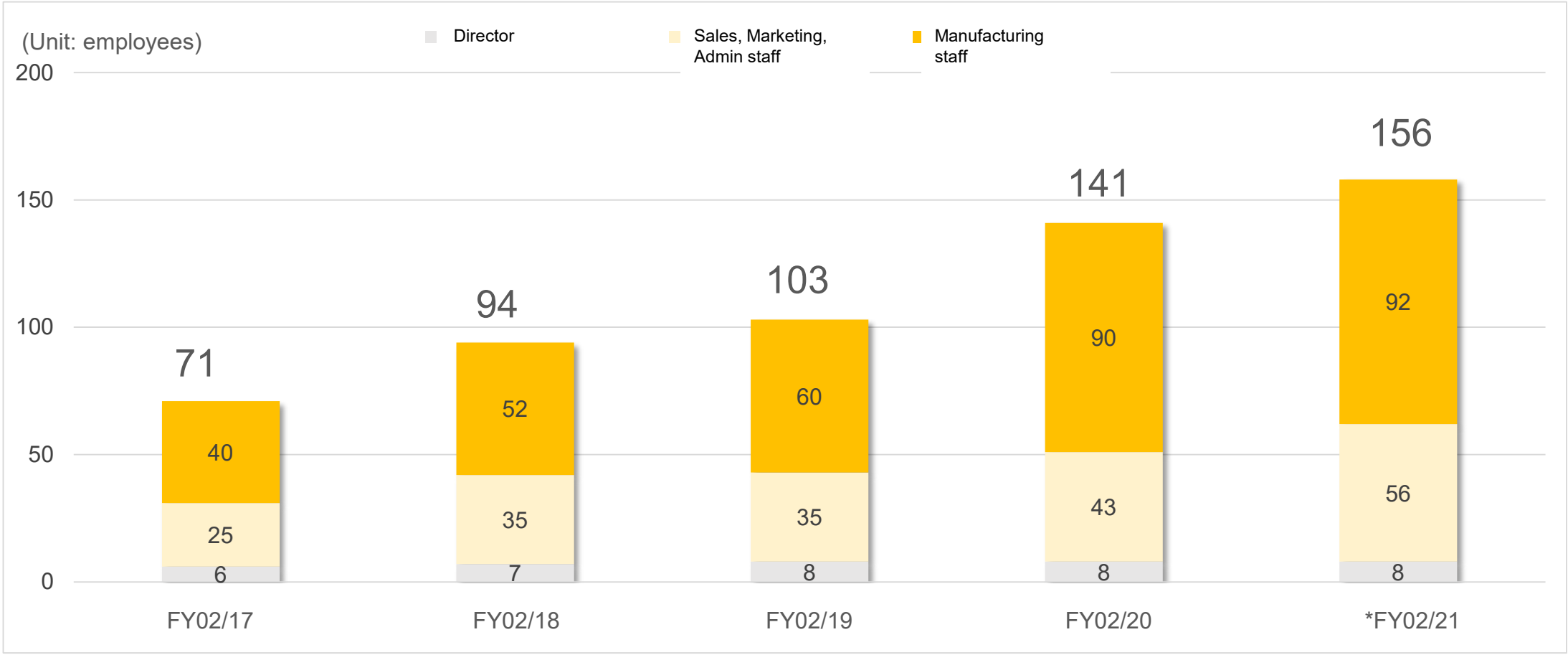
The existing customers, who had been contracted with us, have a trend to increase our sales revenue (total of CI, Resale, MSP) over the years.



* The sales revenue before FY2017 is an estimated value based on re-calculated AWS resale revenue using recent results

Number of Employee Trend

Achieved original hiring plan of 22 people for this year (29 people were hired as of Q3).
Future new hiring will be carefully considered by taking the trends in economic activities in to account.

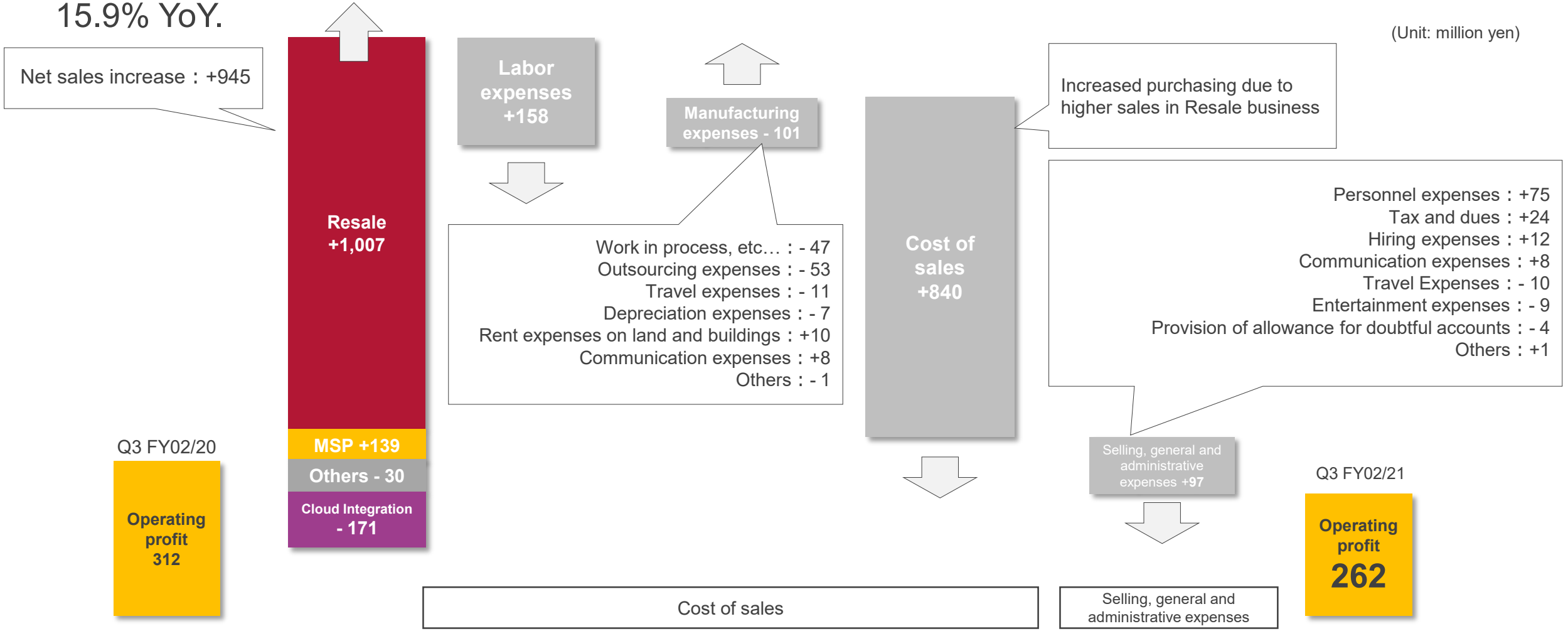


* FY02/21 figures reflect results from March to end - November 2020.
※The number of employees includes the number of temporary employees (part-time employee)

Analysis of Factors Affecting Operating Profit in Q3 FY02/21

The purchase cost has increased due to the increase in the resale business and the labor cost and personnel expenses have increased resulting from the active hiring. The operating profit declined 15.9% YoY.

(Unit: million yen)



Operating profit declined by 49 million yen, or -15.9% YoY

Q3 FY02/21 Financial Condition: Balance Sheet (Summary)

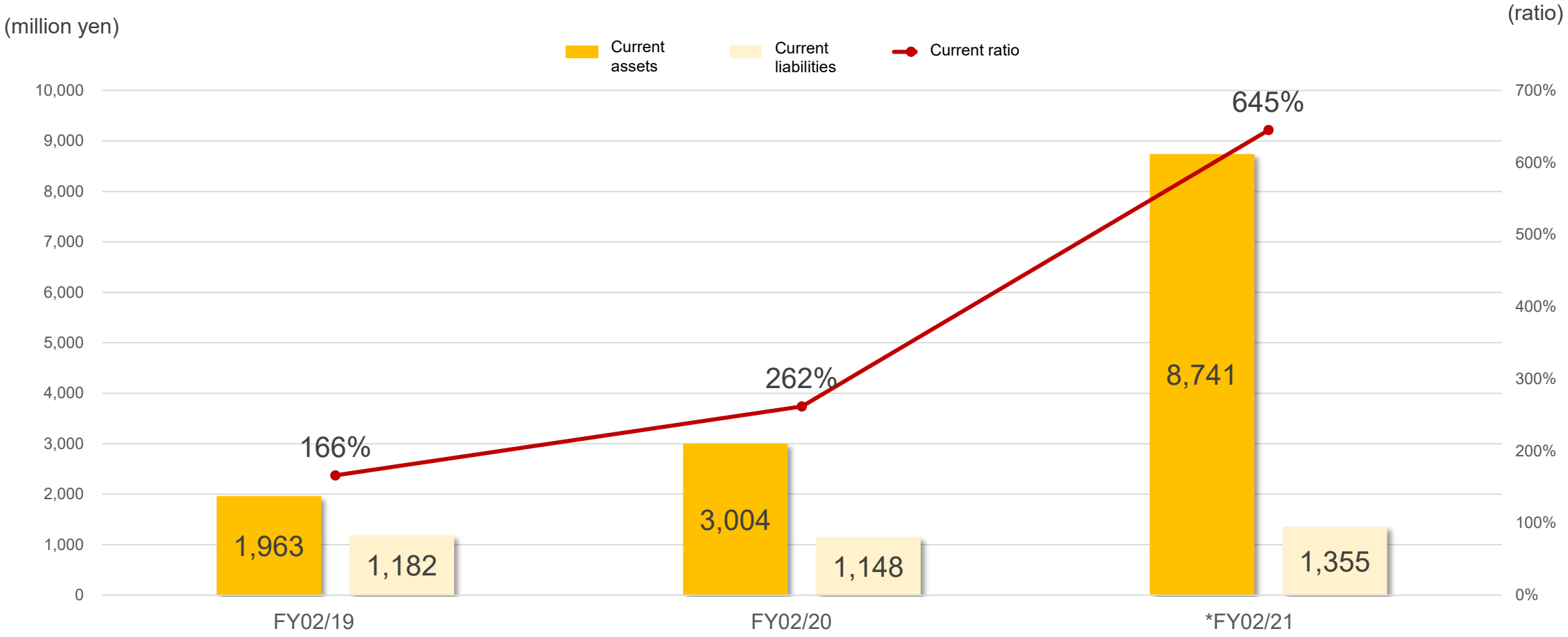
In addition to the increase in “current assets” and “total equity” based on the issuance and exercise of stock acquisition rights, the increase in “fixed assets” and “fixed liabilities” due to the increase in the valuation of investment securities.
Retained earnings are also steadily accumulating.

(Unit: million yen)

	FY02/20	FY02/21 Q3	Change
Current assets	3,004	8,741	5,736
Non-current assets	1,467	2,141	673
Property, plant and equipment	69	75	5
Intangible assets	100	107	6
Investments and other assets	1,297	1,958	660
Total assets	4,472	10,882	6,410
Total liabilities	1,437	1,844	407
Current liabilities	1,148	1,355	207
Non-current liabilities	288	489	200
Total net assets	3,035	9,038	6,003
Total liabilities and net assets	4,472	10,882	6,410

Current Ratio

Based on the increase in cash by exercising the stock acquisition rights, the current ratio exceeded 645% and liquidity on hand is in a good shape.



* FY02/21 figures reflect results from March to end - November 2020.

Company Profile

Company Profile

*as of 11/30/2020

Company Name	Serverworks Co., Ltd.
Business Domain	System Planning/Development/Operation utlizing Cloud Computing
Founded	February, 2000
Capital	3,200,923,011 yen
Headquater	Agebacho 1-21, Shinjuku-ku, Tokyo, Japan
Office	Tokyo office ANNEX, Osaka, Fukuoka, Sendai
Number of Employees	148
Management	Ryo Oishi CEO Takashi Hashiba Senior Vice President Hiroyuki Oshio Senior Vice Presidnet & CAO Ichiro Terajima Outside Director Mikiya Inoue Audit & Supervisory Board member Tsutomu Toyao Audit & Supervisory Board member Akihito Mochizuki Audit & Supervisory Board member Shigetoshi Heiho Audit & Supervisory Board member
Affiliated company	Sky365 Co., Ltd.
Major Shareholders	Board Members, TerraSky Inc., NTT Communications Corporation, NTT Data Corporation
Certification	APN Premier Consulting Partner AWS Migration Competency Partner AWS Digital Workplace Competency AWS Managed Service Provider Program AWS Well-Architected Partner Program ISO /IEC 27001 (JIS Q 27001)

Management Introduction



President & CEO　　Ryo Oishi

Oishi graduated from Tohoku University, majored in Economics, and joined Marubeni Corporation, which is one of the biggest “Sogo-Shosha”. He engaged in establishing communication network related subsidiary as well as planning internet related business and sales. In Feburary 2000, he founded the company. After he started AWS business in 2009, Oishi became one of the first Cloud Evangelists in Japan and continue to evangelize Japanese market to use Cloud.



Senior VP　　Takashi Hashiba

Hashiba graduated from Tokyo University of Agriculture, majored in Agriculture, and joined wholesale process food company, experiencing sales role. After joining our company in April 2006, he became head of sales and technical department and engaged in a large number of system installations. After starting AWS business, he continued engaging in numerous projects as well and provide huge contribute to expand our business. He became Senior VP in October 2013.



Senior VP & CAO　　Hiroyuki Oshio

Oshio graduated Kobe University, majored in Economics, and joined Marubeni Corporation. He engaged in planning and installation of Internet enabled systems. Then, he joined software venture company and became SVP at subsidiary company in abroad as well as General Manager of Marketing. After joined our company in October 2013, he served as a head of Business Development as well as back office team. Oshio became Senior VP in August 2014.



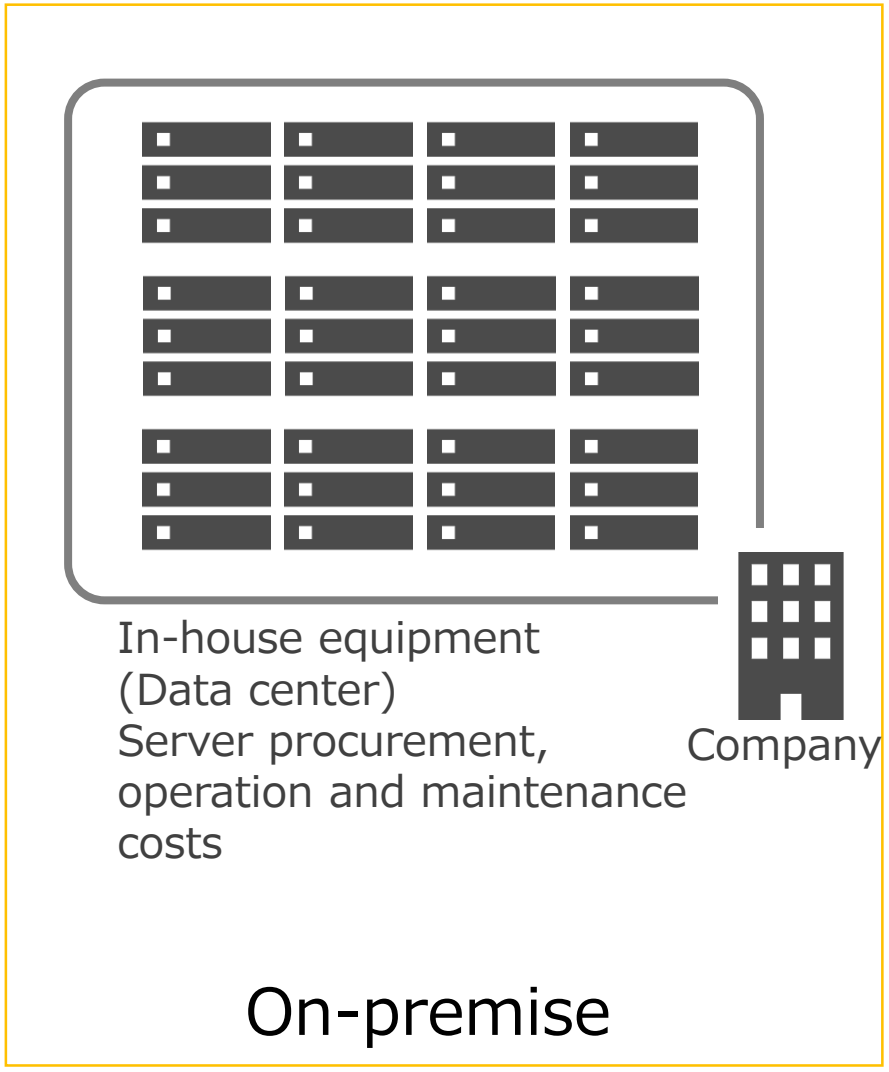
Outside Director　　Ichiro Terajima

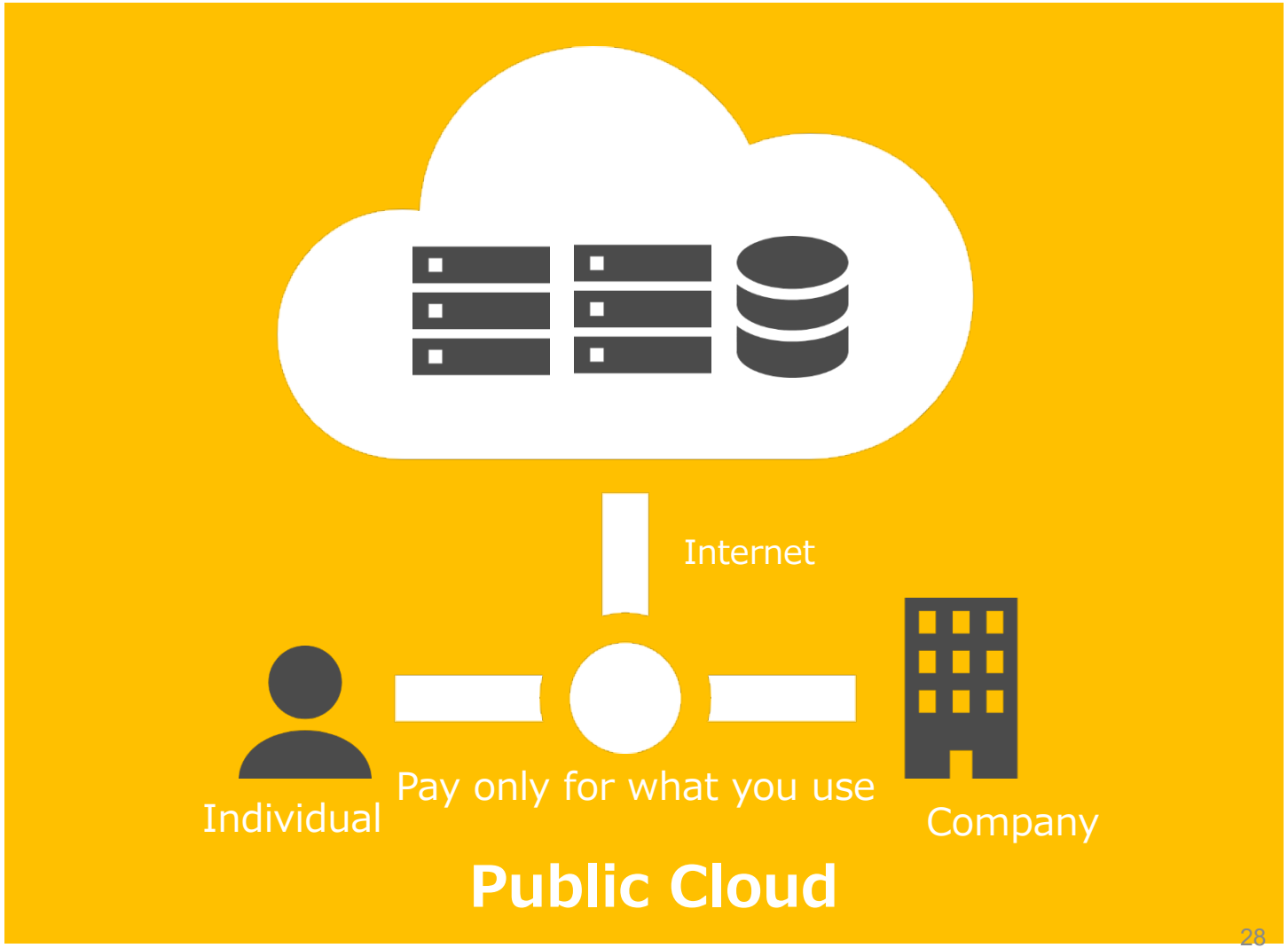
Terajima graduated Tokyo University, majored in Engineering, and joined Sekisui Chemical Co., Ltd. He also studied at MIT and established AI venture company inside of the company, experienced wide variety of business roles. He became General Manager of Information Systems Dept. and served as a Chief of Information system group. He Joined TERRANET as a company representative. Terajima joined our company as Outside Director in November 2017.

About Amazon Web Services(AWS)

Market environment : About Public Cloud

A method of using software/Database/Server storage and other functions as a service via internet





Market environment : Public Cloud Classification

SaaS : Software as a Service

Provide software package via internet

Example：Salesforce, Kaonavi, TeamSpirit, sansan etc…

IaaS : Infrastructure **as a S**ervice

Provide hardware and ICT infrastructure via internet

Example：AWS、Microsoft Azure

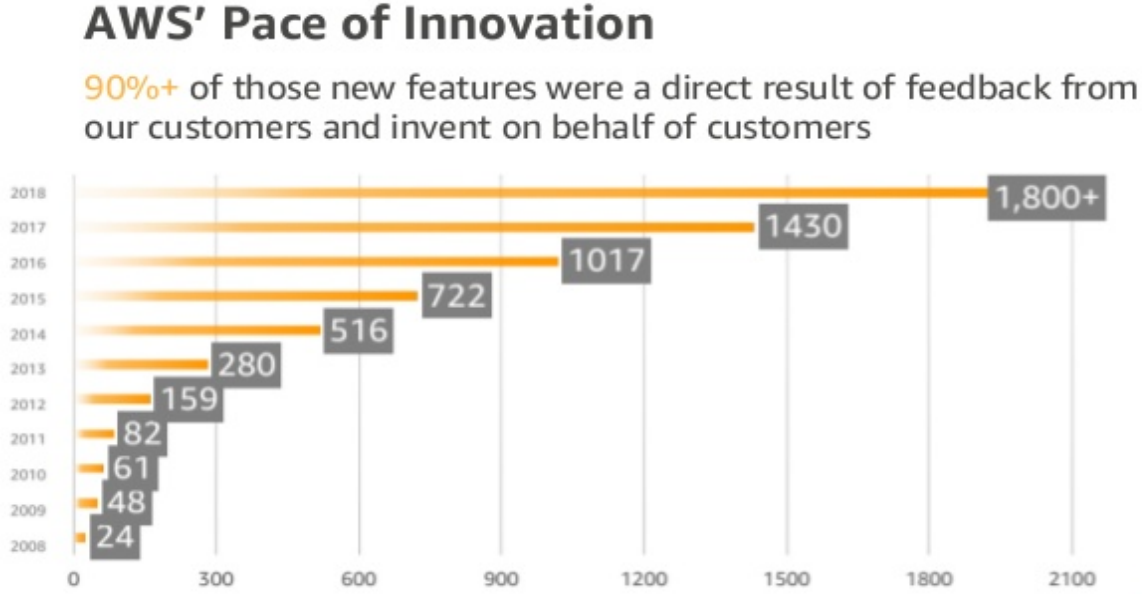
Market Environment: AWS Continues to Lead

Selected as a “Leader”, the world’s most visionary and excellent execution ability company, for 10th consecutive year at Gartner’s Magic Quadrant for Cloud Infrastructure and Platform Services

Figure 1. Magic Quadrant for Cloud Infrastructure and Platform Services



A leader in the cloud computing world with largest market share. Based on the customers feedback, the company continues to provide new services and functional improvements one after another.



Source： https://aws.amazon.com/jp/blogs/news/aws-named-as-a-cloud-leader-for-the-10th-consecutive-year-in-gartners-infrastructure-platform-services-magic-quadrant/?nc1=b_rp

Source： https://www.slideshare.net/AmazonWebServices/awsome-day-2019-keynote

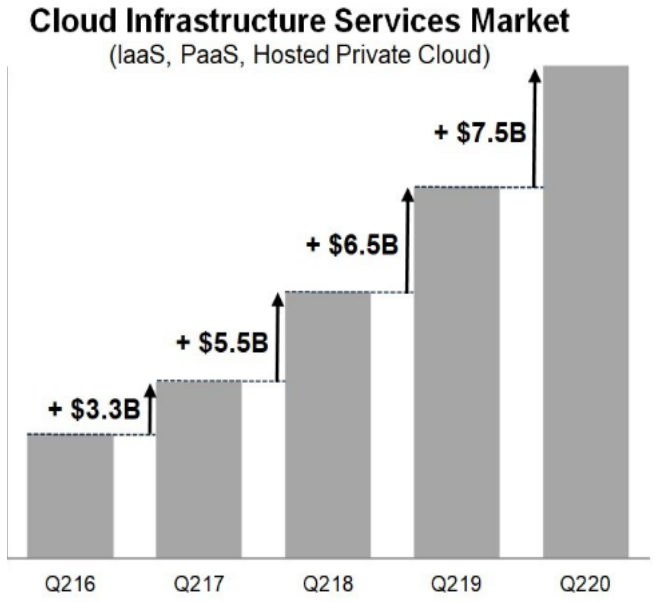
Market Environment: AWS Market Share

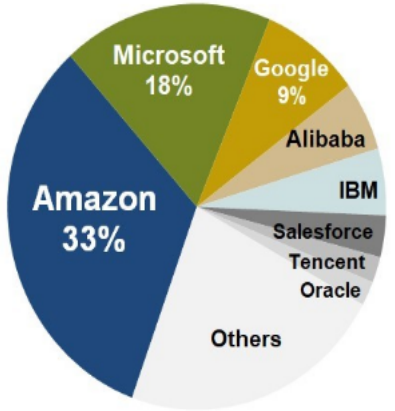
AWS still maintains its leadership position in the global cloud market share in 3Q of 2020.

Table 1. Worldwide IaaS Public Cloud Services Market Share, 2018-2019 (Millions of U.S. Dollars)

Company	2019 Revenue	2019 Market Share (%)	2018 Revenue	2018 Market Share (%)	2018-2019 Growth (%)
Amazon	19,990.4	45.0	15,495.0	47.9	29.0
Microsoft	7,949.6	17.9	5,037.8	15.6	57.8
Alibaba	4,060.0	9.1	2,499.3	7.7	62.4
Google	2,365.5	5.3	1,313.8	4.1	80.1
Tencent	1,232.9	2.8	611.8	1.9	101.5
Others	8,858	19.9	7,425	22.9	19.3
Total	**44,456.6**	**100.0**	**32,382.2**	**100.0**	**37.3**

Source: Gartner (August 2020)





Market Share Q2 2020

Source: Synergy Research Group

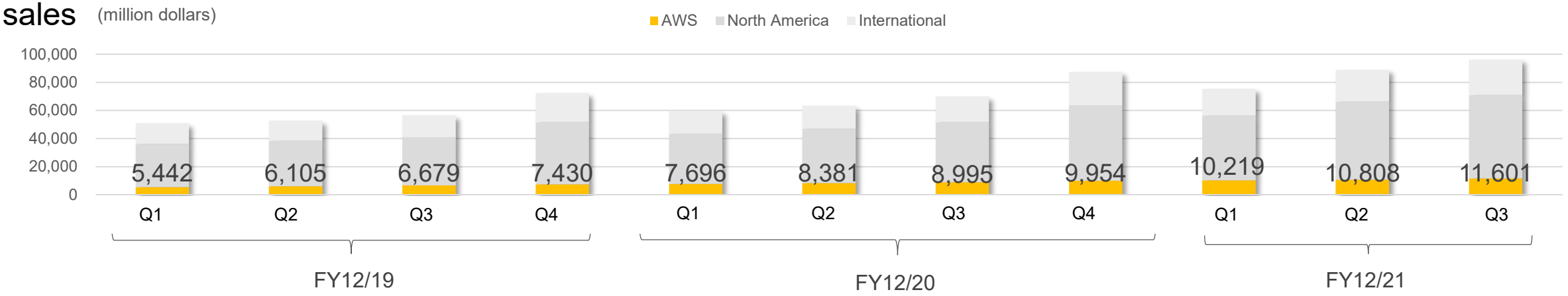
Source： https://www.gartner.com/en/newsroom/press-releases/2020-08-10-gartner-says-worldwide-iaas-public-cloud-services-market-grew-37-point-3-percent-in-2019

Source： https://www.srgresearch.com/articles/quarterly-cloud-spending-blows-past-30b-incremental-growth-continues-rise

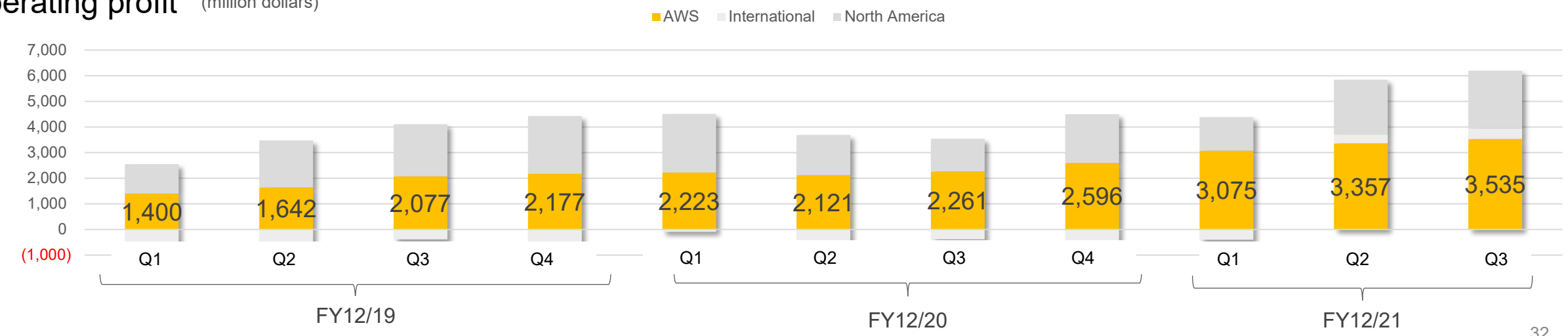
Market Environment: AWS Growth and Profitability at Amazon

AWS continues to grow sustainably. Operating profit rose to about 57% of Amazon's total operating profit.

Net sales (million dollars)



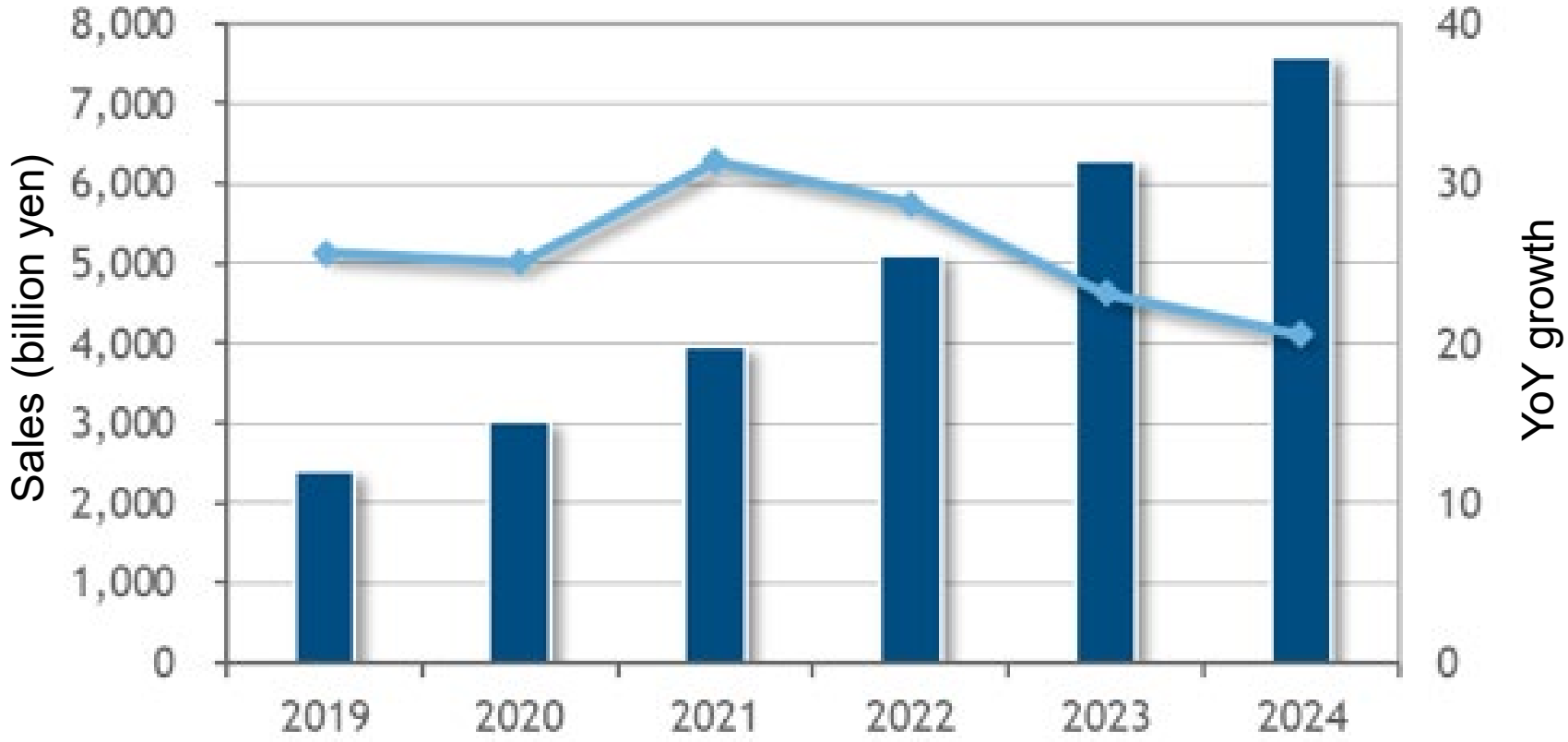
Operating profit (million dollars)



Source: https://ir.aboutamazon.com/quarterly-results

Market Environment: Size of Japanese Enterprise IT market

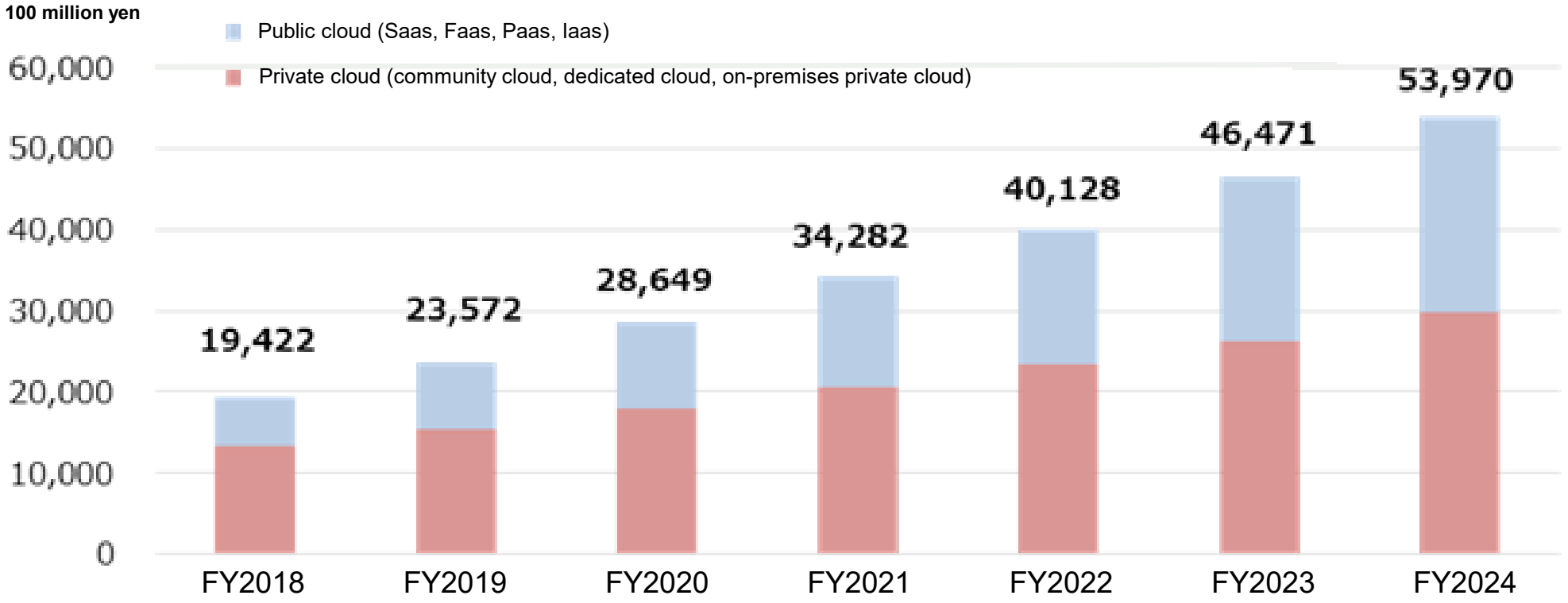
The Japanese enterprise IT market was valued at 10.8 trillion yen (+4.4% YoY) in 2019. In 2020, the market is projected to 10.8 trillion yen as active investment in cloud solutions to resolve pressing issues offsets reductions in IT investment due to COVID-19 impact. Sales of cloud solutions are expected to account for over 50% of the market by 2023, and the market is projected to grow to 12.8 trillion yen by 2024 (CAGR of 3.4%).



Source： https://www.idc.com/getdoc.jsp?containerId=prJPJ46296020

Market Environment: Size of Japanese Cloud Service Market

The Japanese cloud service market was valued at 2.4 trillion yen (+21.4% YoY) in FY2019, with the public cloud market accounting for 812.1 billion yen (+34.1% YoY). The growth momentum is projected to continue in FY2020 and beyond, and the public cloud market is projected to expand to roughly 2.4 trillion by FY2024 (CAGR of 24.4%).

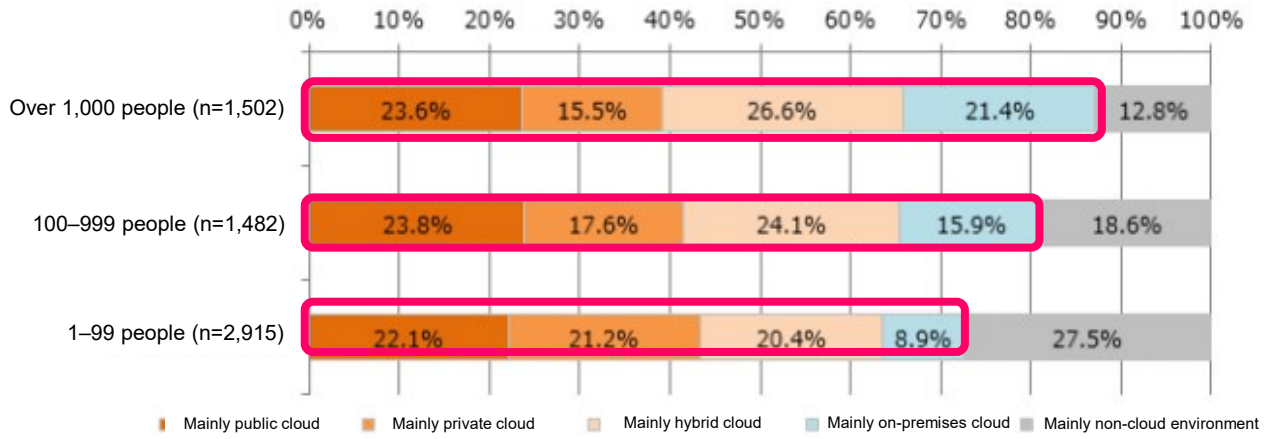


Source： https://www.m2ri.jp/release/detail.html?id=434

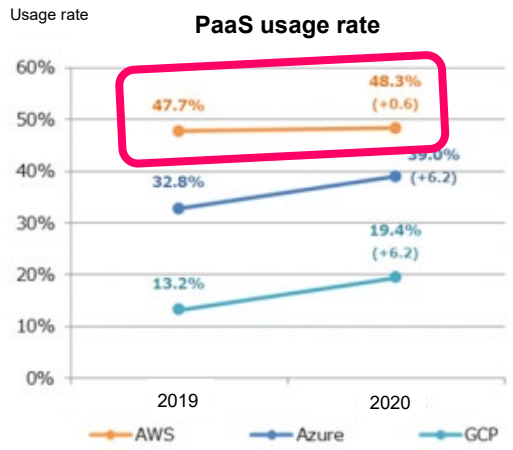
Market Environment: Size of Japanese Cloud Service Market (continued)

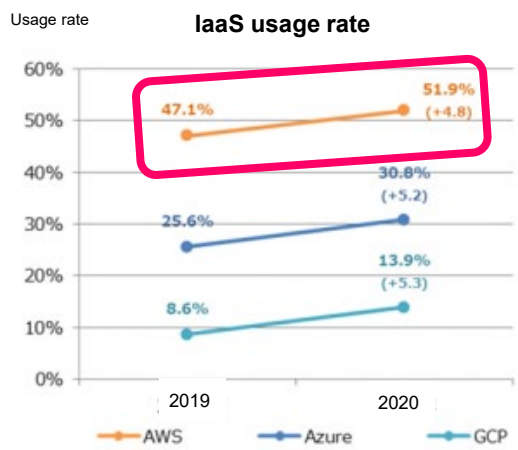
The three leading cloud companies (AWS, Microsoft Azure, and GCP) continue to see growth in service usage. AWS remains the leader in the PaaS and IaaS markets.
In the IaaS market, which offers solutions often used by companies migrating from an on-premises environment, AWS leads with a usage rate of 51.9% (+4.8% YoY), and over half of the Japanese companies adopting an IaaS solution opt for AWS.

[Configuration policy for new systems]



[Service usage rates for AWS, Microsoft Azure, and GCP]



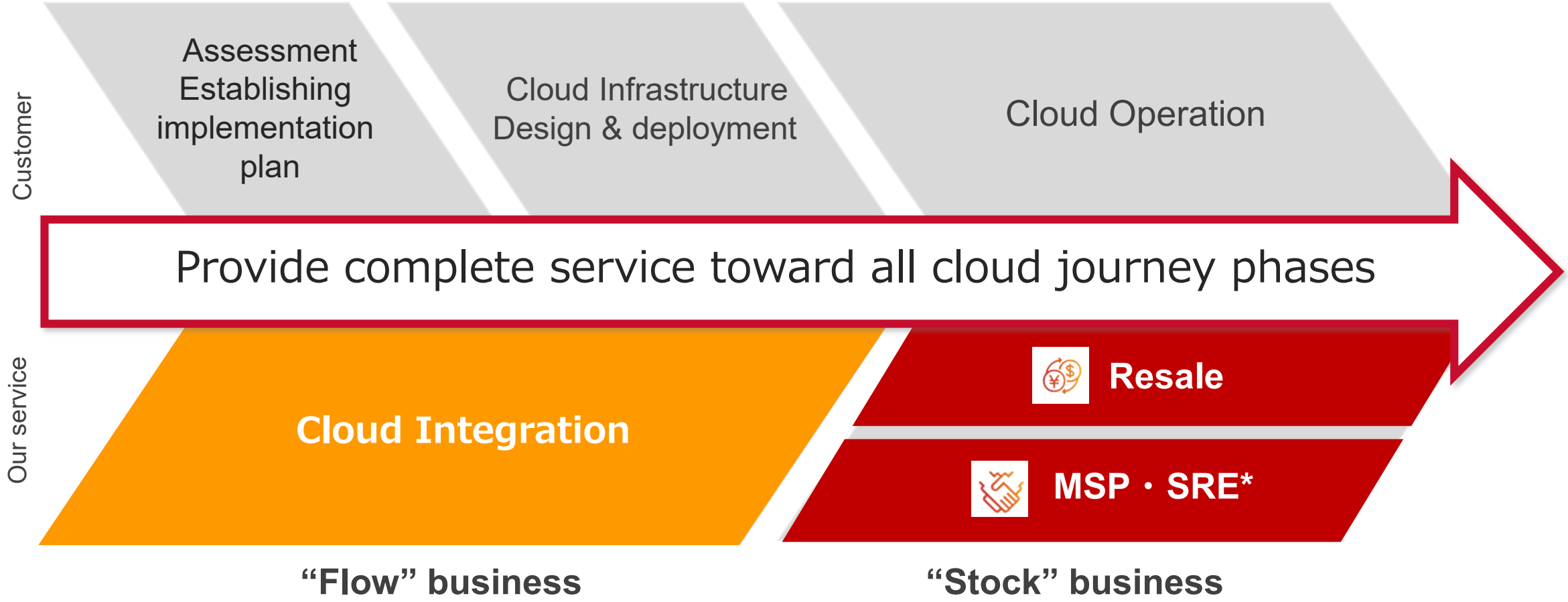


Source： https://www.m2ri.jp/release/detail.html?id=434

Our Business Model

Business Model

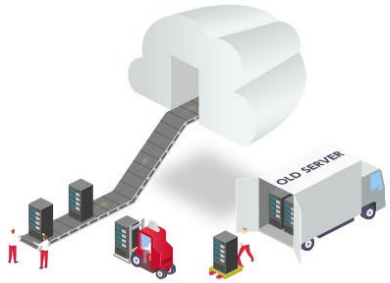
Provide complete services for cloud journey, from Cloud strategy consultation to actual deployment and migration as well as post-migration operating services.



*SRE: Site Reliability Engineering. A concept advocated by Google Inc. in 2003 to operate an expanding large-scale IT system. The mission is to improve performance, availability, elasticity, security, etc. in order to secure the reliability of the IT system and build a system that can be continuously improved by introducing various tools and strengthening collaboration with customers.

Core Service overview

Providing variety of services around AWS.



Cloud Integration

Providing service to create Cloud migration strategy for migrating the system, which has been managed in on-premise environment, to cloud environment, as well as Infrastructure design, Establishment/deployment support services. We provide optimum design for customers from setting business objectives using Cloud, to actual migration, operation planning after cloud implementation.



Re-sale

We are reselling AWS centered cloud services to our customers as a solution which we add our unique values.
Especially, we develop and provide our unique application, “Cloud Automator”, a service that automates AWS operations, to our customers. By combining these solutions with AWS, we maximize the benefit of AWS to our customers.

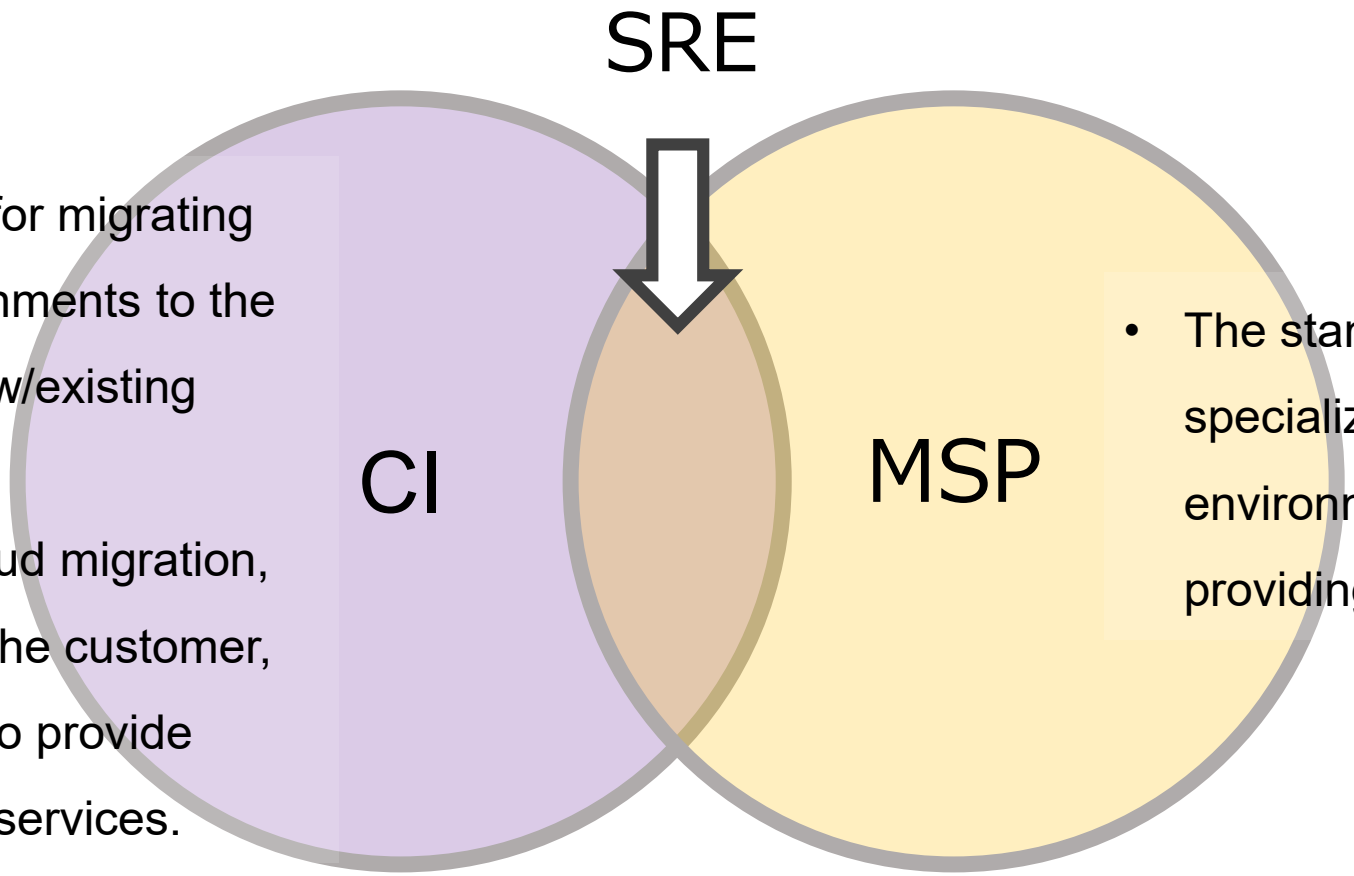


MSP（Managed Service Provider）

We provide 24x7 operation services, such as system performance monitoring, failure monitoring, recovery operation in the event of a failure, back-up operation for quick recovery from the failure, and security patches application for AWS infrastructure to middleware level.

Difference between SRE(*) and conventional MSP

For specific large customers, we set up a dedicated team to support customer needs which cannot be handled by the standard MSP service and provide service from system construction to operation and maintenance.



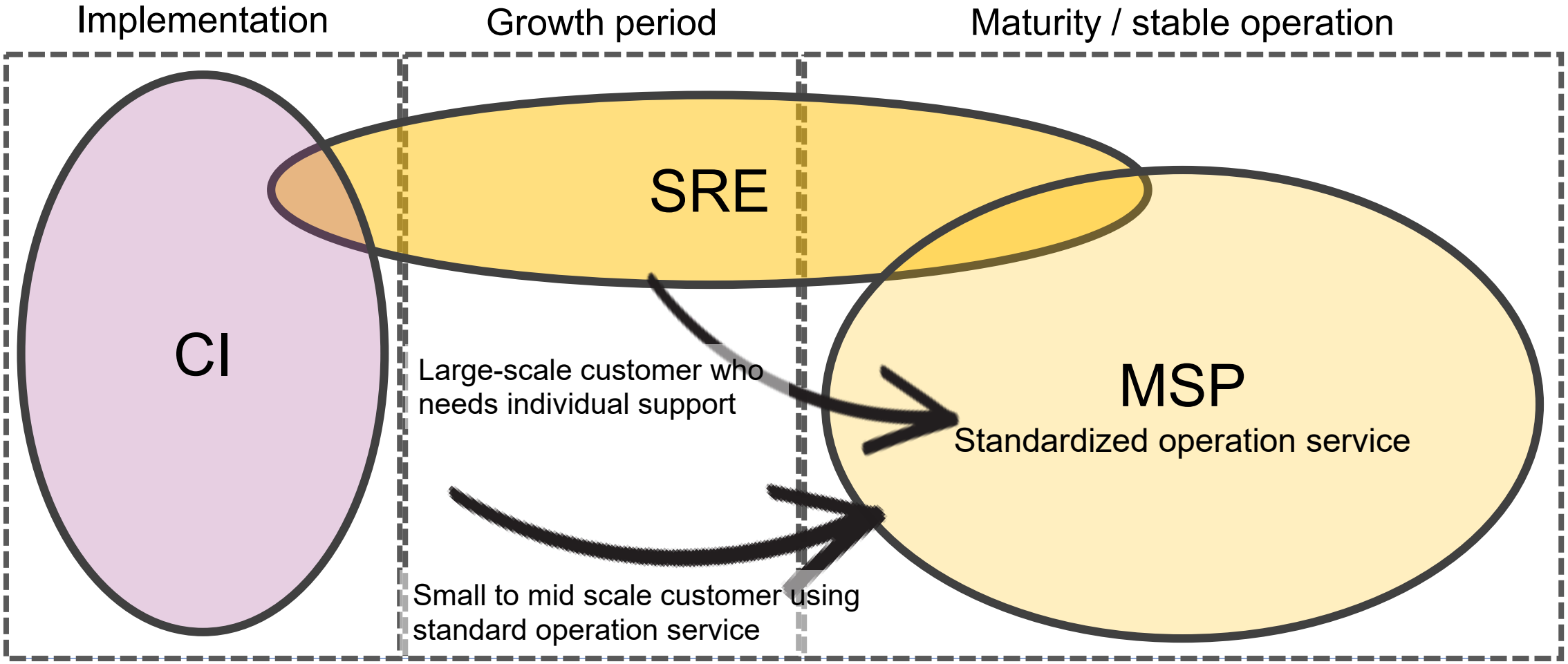
- Mainly provide support for migrating from on-premise environments to the Cloud, regardless o fnew/existing customers.
- After completing the cloud migration, our MSP will take after the customer, when customer ask us to provide operation/maintenance services.

- The standard operation service specialized for the Cloud environment, which we have been providing to customers.

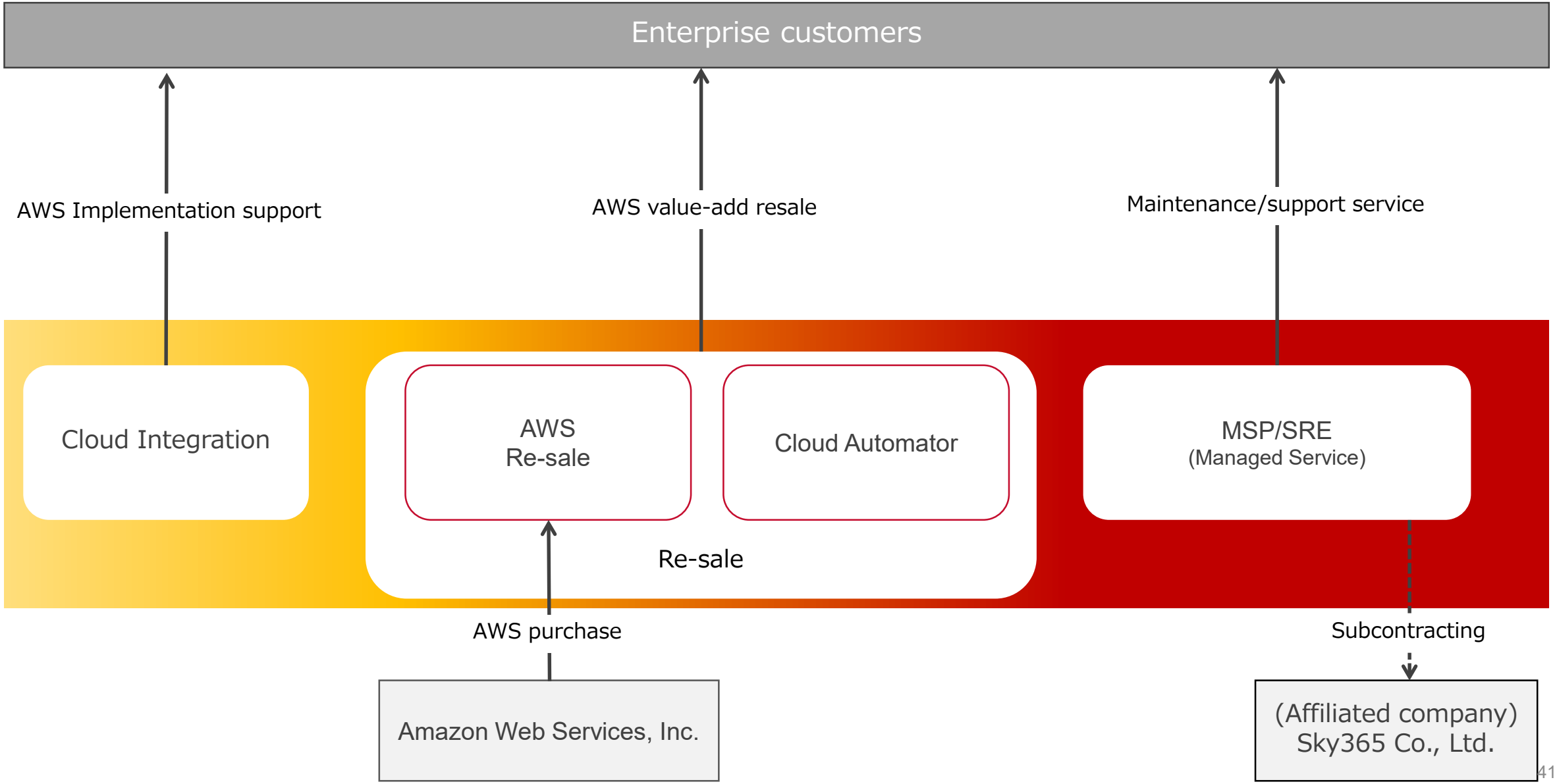
* SRE : **S**ite **R**eliability **E**ngineering

Cloud migration lifetime

In the process from initial implementation(migration) to stable operation, the importance of SRE*, which supports customers unique needs, is increasing.

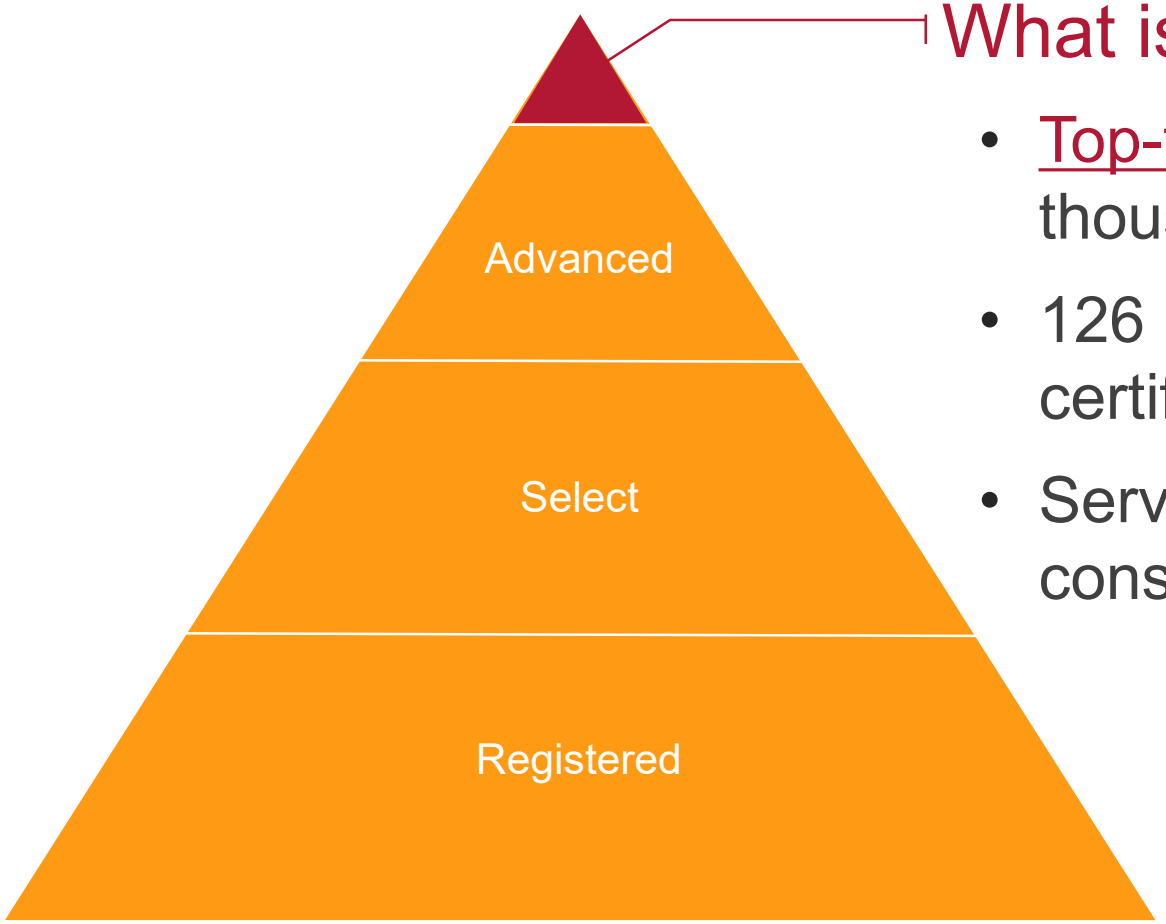


Business model diagram



Our Strength

Unique Strengths ①: AWS Certified Top Tier Partner



What is a Premier Consulting Partner?

- Top-tier partner certified among tens of thousands of AWS partners
- 126 partners worldwide, only 10 companies certified in Japan
- Serverworks has retained certification consistently since 2014

※ Iret, Inc. , ITOCHU Techno-Solutions Corporation, SCSK Corporation, NTT Data Corporation, Classmethod, Inc. , Serverworks Co., Ltd., TIS Inc. , NEC Corporation, Nomura Research Institute, Ltd. , Fuji Soft Inc.

* As of November 30, 2020

Unique Strengths ②: Advanced Technical Capabilities

* As of November 30, 2020

Employing many highly skilled engineers with advanced expertise backed by AWS certifications

- Solution Architect Professional	**45**	(people)
- DevOps Engineer Professional	**26**	
- Solution Architect Associate	**76**	
- DeveloperAssociate	**46**	
- SysOps Associate	**49**	
- Security Specialty	**27**	
- Big Data Specialty	**13**	
- Advanced Networking Specialty	**22**	
- Machine Learning Specialty	**7**	
- Alexa Skill Builder Specialty	**14**	
- Database Specialty	**10**	
- Data Analytics Specialty	**2**	

Unique Strengths ②: Advanced Technical Capabilities

Receive various certifications from AWS for our high technical skills and our achievement in specific fields.

AWS Managed Service (MSP) Partner

The partner who can provide total AWS cloud services from planning/designing to actual building/migrating as well as operation and optimization as a business solution to customers. We received MSP partner certification in 2014 as a 1st partner in Japan to receive this certification and we have been continuously receiving the certification.

AWS Migration Delivery Partner

The partner who can assist customers at each stage of migrating existing applications to AWS and provide staff, tools and education as part of professional services.

AWS Digital Workplace Competency

A technical certification program for AWS partners with proficient technology and a proven track record of leading customers successful in specialized solution areas. Awarded to partners who have expertise in AWS desktop and application streaming solution projects and have a track record of providing those solutions to customers. We are the 1st partner in Japan to achieve completion of the program.

AWS Well-Architected Partner Program

The partner who can appropriately evaluate customer's AWS architecture by actively using AWS Well-Architected framework backed by in-depth knowledge related to AWS implementation support as well as numerous actual project experiences.



Unique Strengths ③: Solid Track Record

Track record of over 9,100 projects for over 840 companies*, mainly medium-sized and large companies.



* As of November 30, 2020

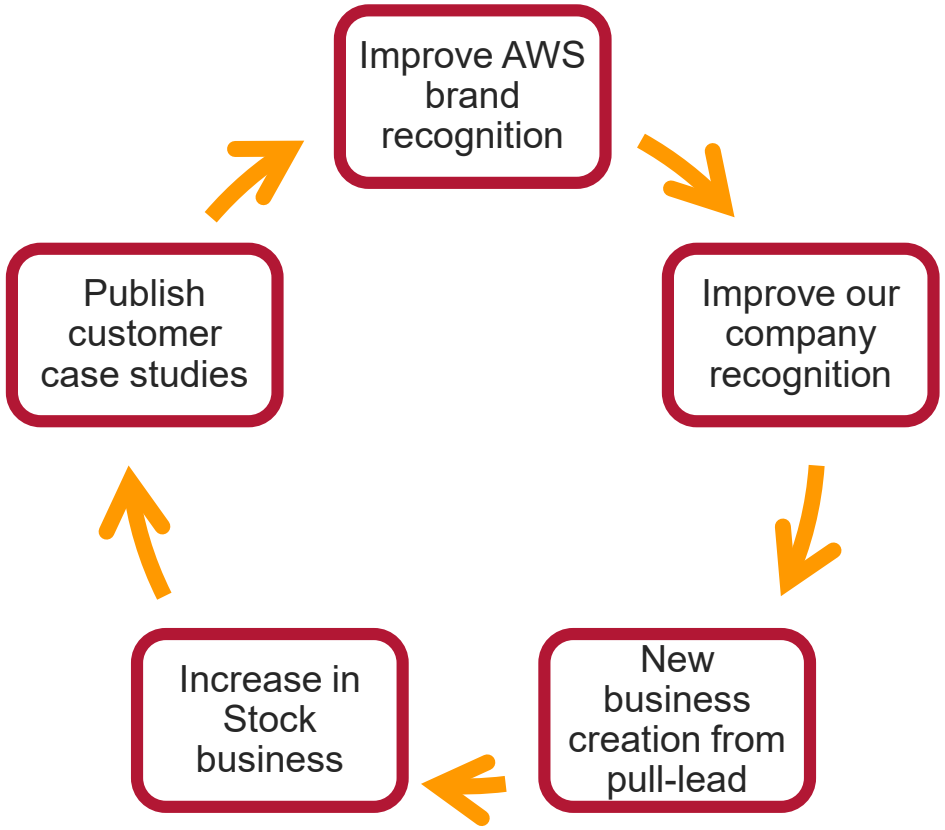
Unique Strengths ④: Front Runner advantage

Maintaining and expanding the growth cycle of increasing stock businesses by leveraging our name recognition in the AWS industry as a leading company.

A virtuous cycle has been created in which our business growth is further accelerated by cooperation with AWS.

As AWS, led by a powerful Amazon brand, has grown by 40+% compared to last year, our company recognition as the highest ranked AWS partner has been continuously improving as well. This situation leads to create pull-lead(*1) for receiving AWS implementation support project orders and leading to grow our stock businesses.

We publish more than 10 of these cases annually and this creates virtuous cycle that further raises AWS visibility in the enterprise market.



* 1 : The situation that customers are coming to us, instead of aggressively reaching out to customers from us

Unique Strengths ⑤: Our original service “Cloud Automator”

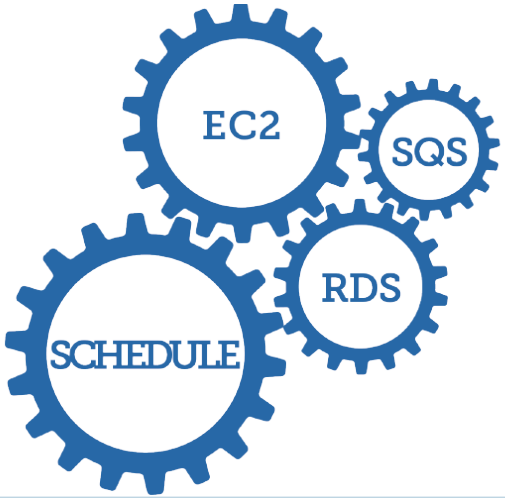
Based on our depth knowledge in AWS constructions and operations, we develop original AWS operation automation service and provide it to our customers.
Contribute to both low-cost & high-quality operations and increase in Cloud Integration project orders.

CLOUDAUTOMATOR

Feature 1

(Job Automation feature)

Automate AWS Operation



Automate AWS essential operations such as back-up, Instance start/stop, etc…

Feature 2

(Configuration review feature)

Automatic AWS Config check



Periodically review AWS resources to check whether it is configured based on designated rules

Unique Strengths ⑤: Our original service “Cloud Automator”

AGC

We have a track record of evolving services and specifications in response to changes in AWS as well as user demands. We transfer our know-how and experiences to internal resources

IDOM Inc.

Implement Cloud Automator for addressing automation, standardization, simplification, efficiency, and risk elimination of AWS operations

Marubeni

To improve IT governance, we decided for full adoption of AWS By combination of using Cloud Automator, it enables to achieve both operation automation and operation efficiency at the same time

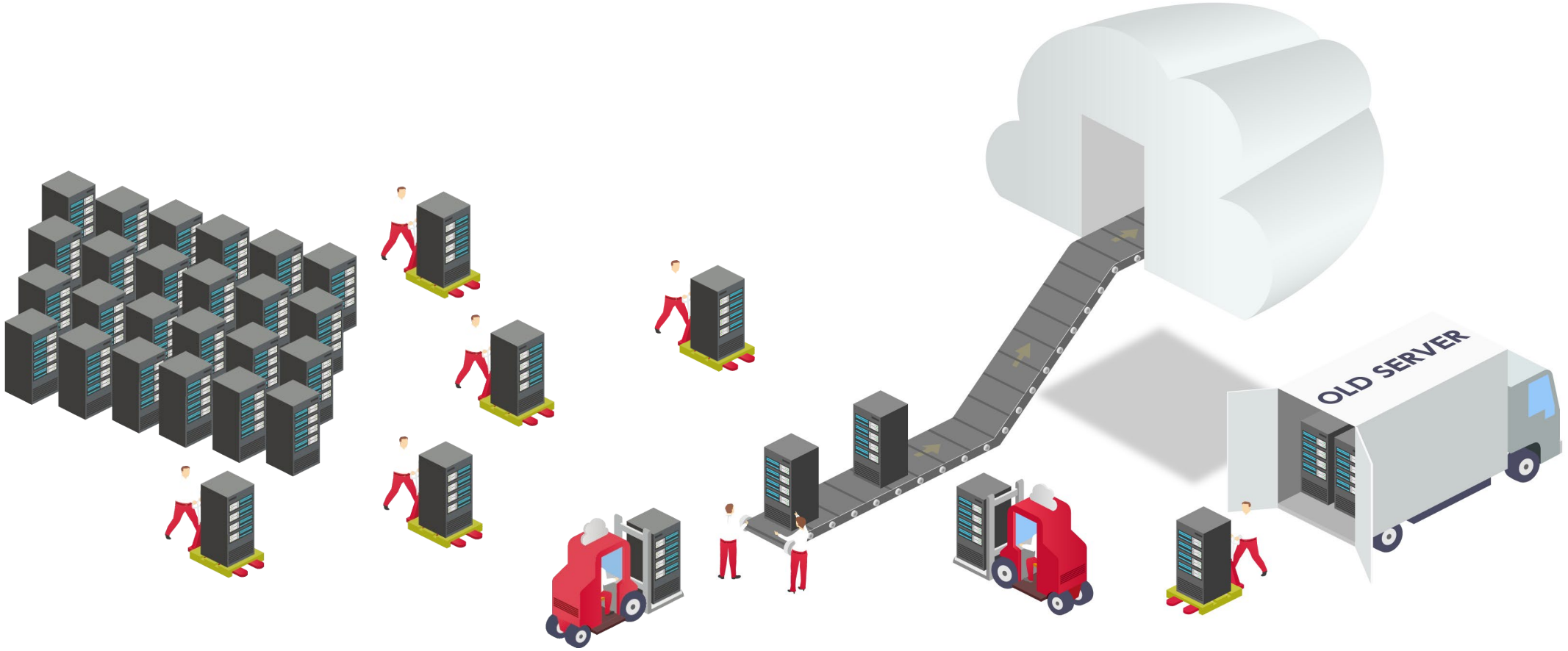
YOKOGAWA

Optimizes costs by automatically switching to the DR site by automatically launches instances, only when needed, by using Cloud Automator

Growth Strategy

Growth Strategy: Winning Large migration projects

In Japanese market, more than half of the companies still do not use Cloud. We will continue to accelerate growth by acquiring large-scale cloud migration projects that have not yet been cultivated.



Growth strategy: Support to establish New Normal work style

Leverage Amazon WorkSpaces, build company-wide telework environment in just 3 weeks

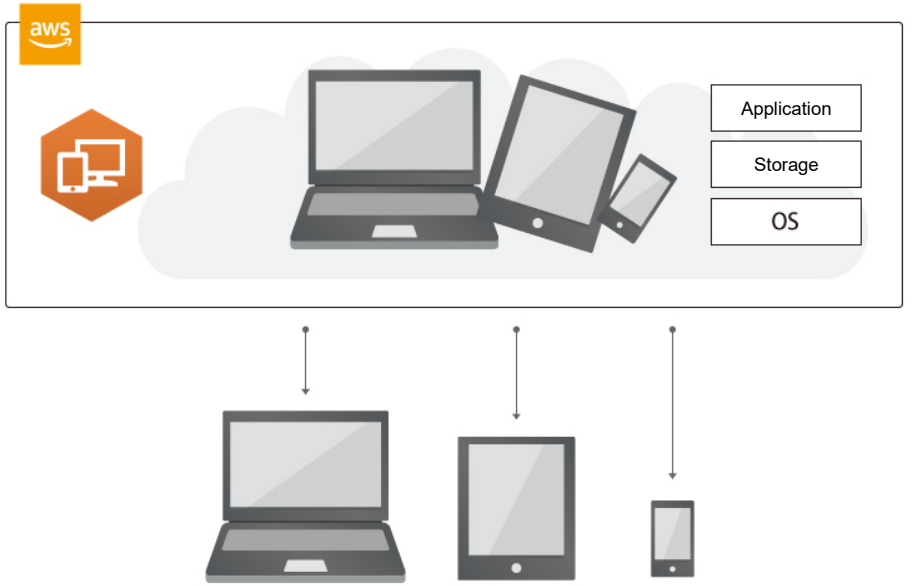
NTT SMILE ENERGY



NTT Smile Energy Inc. Has built a company-wide telework environment in just three weeks by utilizing AWS Client VPN and Amazon WorkSpaces. In addition, the company implemented Amazon Connect to improve call center operations and transformed it to cloud based call center. Operators involved in telephone support operations can now work telework basis.

Implement more than 1,000 Amazon WorkSpaces for expanding telework environment

YOKOGAWA



To expand the telework environment at Yokogawa Electric Corporation, we supported to build 1,400 Amazon WorkSpaces environment. Detailed design started in mid-March 2020, and 1,000 units were built by beginning of April, which was less than a month. After that, gradually built and supported the implementation and 1,400 Amazon WorkSpaces environment were established by mid-May.

Growth Strategy: Provide new service using Cloud

Build an automatic telephone order dialing system using IVR (Interactive voice response) provided by Amazon Connect

pal*system



Built an automatic telephone order dialing system utilizing Amazon Connect for Pal System Co-op Federation. It greatly contributed to automate the response to support sudden increase of the order calls due to the request to refrain from going out caused by COVID-19 spread.

Started providing cloud implementation consulting service towards financial institutions



An advisor who has a track record of implementing AWS in the financial field will identify the issues and clarify the items and while providing practical cooperation as necessary, advisor will support the customers to make sure to enjoy the benefits, such as speeding up the businesses as well as mitigation of IT system operation load, based on implementing public cloud.

Caution for forward-looking statements

The materials and information provided in this announcement include so-called “forward-looking statements”. These are based on current expectations, projections and risky assumptions, and include uncertainties that could result in different result from these statements.

These risks and uncertainties include general industry and market conditions, and general domestic and international economic conditions such as interest rate and currency exchange fluctuations.

In the future, even if there is a new information and/or a future event, we are not obligated to update or modify the “forecast information” including in this announcement.


Serverworks