

Financial Results Briefing for the FY2016

Infocom Corporation

Infocom Corporation

April 27, 2017

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(FY17~FY19)
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Financial Results for the FY16



Medium-term management plan
(FY17~FY19)



Outlook for FY17

FY16 Earnings Highlights (Consolidated)

(Unit: 100 million yen)

	FY15	FY16	YoY	
	Amount	Amount	Change	Change (%)
Net sales	403.1	417.6	+14.5	+3.6
Operating income (Operating margin)	44.2 (11.0)	47.7 (11.4)	+3.4	+7.9
Ordinary income	45.5	48.5	+2.9	+6.5
Profit attributable to owners of parent	7.2 [*]	32.6	+25.3	+347.7
E.P.S.(yen)	26.64	119.28	+92.63	+347.7
ROE (%)	3.5	14.6	+11.1	

* The extraordinary loss of 2.71 billion yen posted for data center related business restructuring expenses

- ◆ Increased YoY both in sales and profit.
While IT Services saw declines in sales and profit, E-book Distribution Services were robust, renewing record highs both in sales and profit.
The relocation of the data center also progressed as planned.

Business Areas and Segment Structure

Business Solution Group

Digital Entertainment Group



Enterprise Service Management

System integration for major companies

- Textile makers
- Trading companies
- Pharmaceutical wholesalers
- Cell-phone companies



Business Software

Business package cloud services

- ERP GRANDIT®
- Emergency contact/safety confirmation
- Document management, etc.



Health IT

Package services for medical institutions

- Hospitals
- Pharmaceutical companies
- Nursing care companies
- Health industry



Digital Entertainment

Internet contents for consumers

- E-book
- E-commerce
- Contents delivery for women, music

Business Solution Results (Consolidated)

(Unit: 100 million yen)

	FY15	FY16	YoY	
	Amount	Amount	Change	Change (%)
Net sales	237.3	224.1	-13.2	-5.6
Operating income (Operating margin)	24.7 (10.4)	19.9 (8.9)	-4.8	-19.5

◆ Net sales : Although business for corporate business performed well, the Health IT business declined due to the influence of restraining IT investment at medical institutions due to medical fee reimbursement etc.

◆ Operating income : Decreased due to the impact of decreased sales in the health IT business.

Digital Entertainment Results (Consolidated)

(Unit:100 million yen)

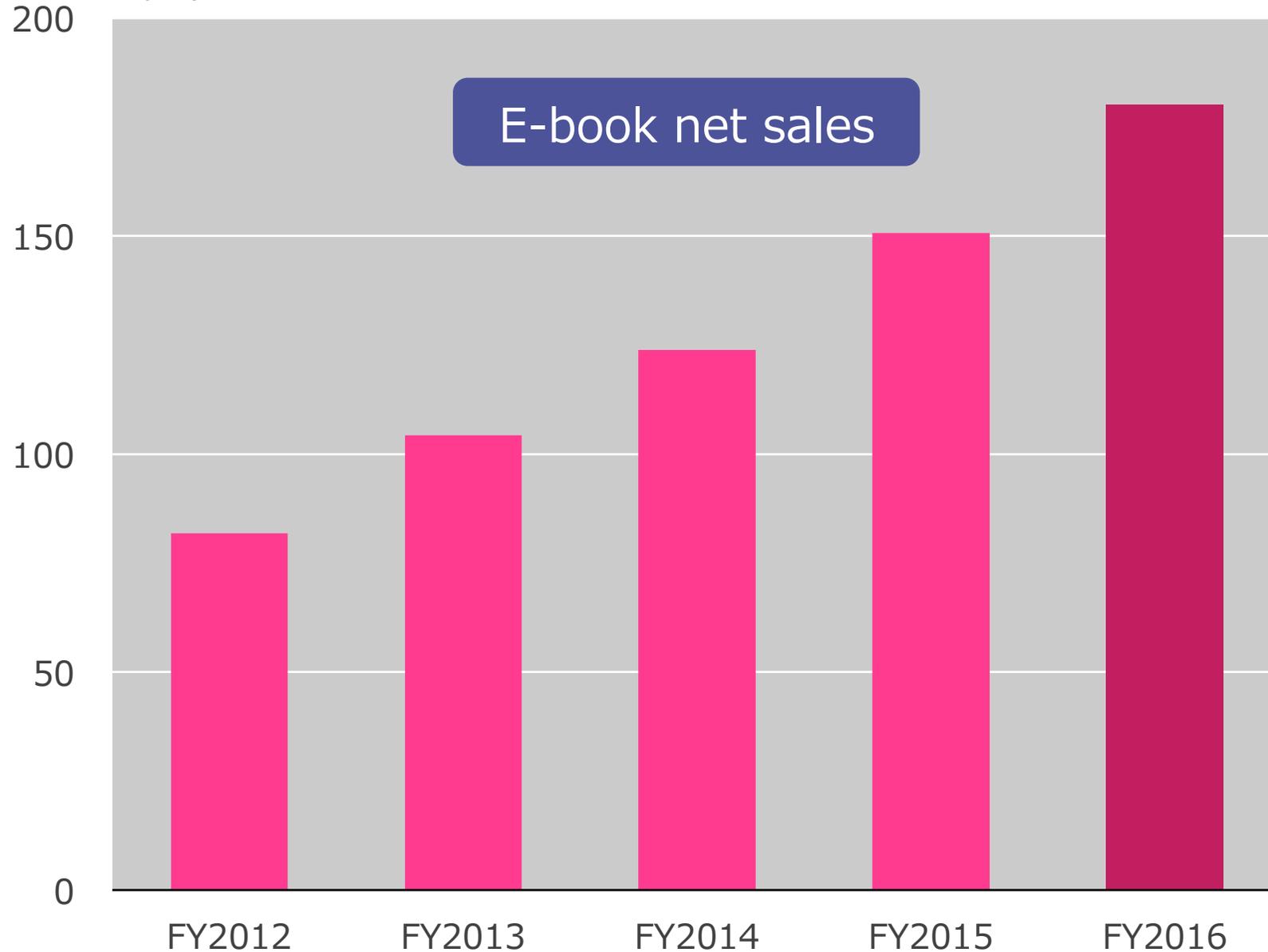
	FY15	FY16	YoY	
	Amount	Amount	Change	Change (%)
Net sales	165.7	193.5	+27.7	+16.7
E-book	150.7	180.0	+29.3	+19.4
Operating income (Operating margin)	19.5 (11.8)	28.0 (14.5)	+8.4	+43.2

◆Net sales : E-book distribution service has been steady and achieved target of 18 billion yen.

◆Operating income : In addition to sales growth of E-book distribution service, continuous cost reduction measures and the structural reform effect of e-commerce are also developed.

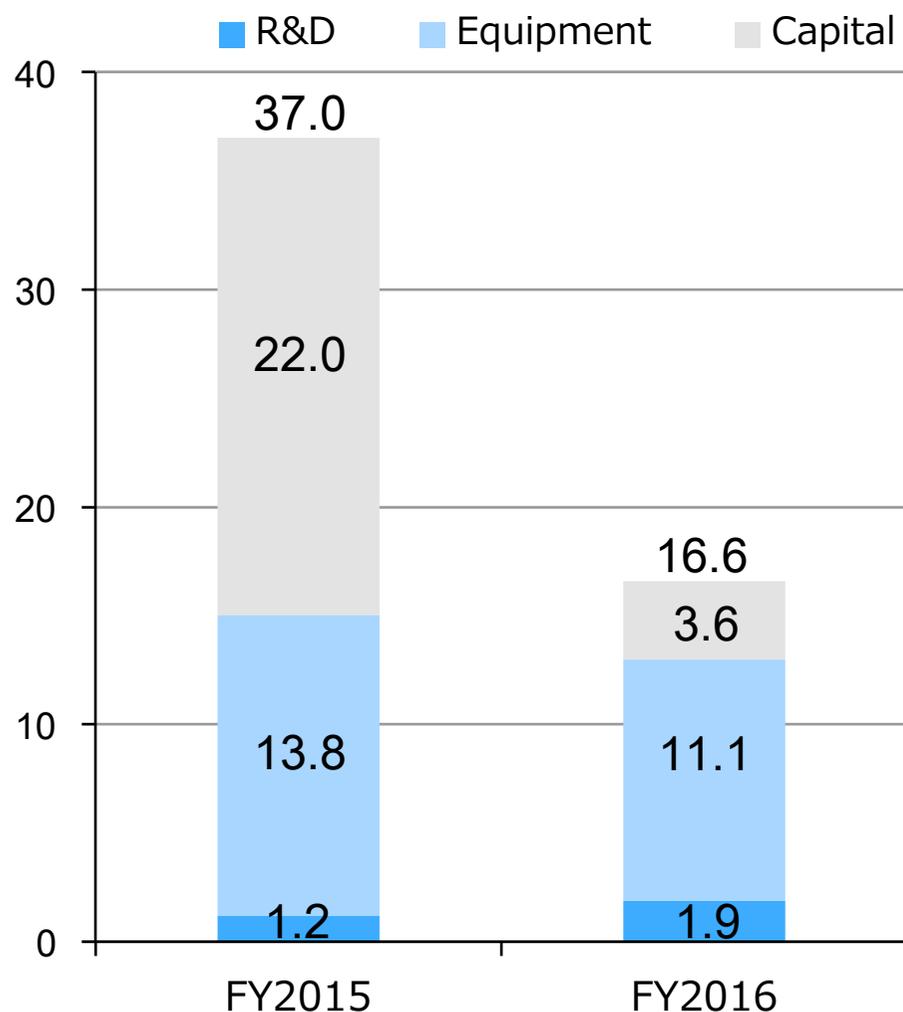
Digital Entertainment E-book Distribution Services Net Sales Results

(Unit: 100 million yen)



Investment

(Unit:100 million yen)



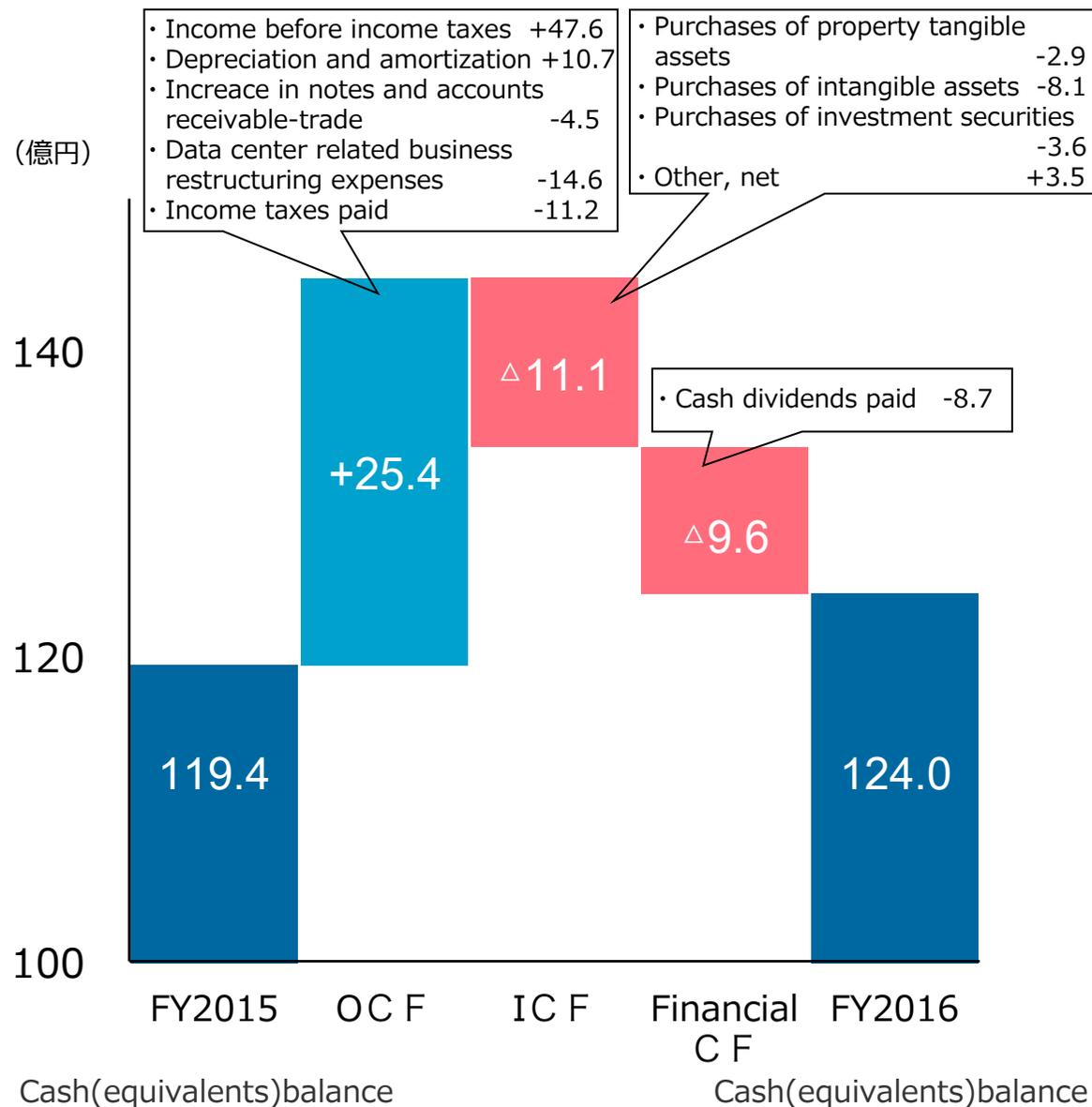
Major Investments (100 million yen)

Category	Investment Item	Amount
Capital	IoT platform company, etc.	3.6
	Others	
Equipment	E-book distribution services	11.1
	Hospital system	
	System for pharmaceutical company	
	GRANDIT	
	Regional inclusive care area	
R&D	AI, New technology development (company-wide research)	1.9
	Others	

Balance Sheet (Consolidated)

	March 31, 2016		March 31, 2017			(Unit:100 million yen, %)
	Amount	Ratio	Amount	Ratio	Change	Major factors for changes
Current assets	227.5	72.0	237.3	72.7	+9.8	<ul style="list-style-type: none"> • Cash and deposits +4.6 • Notes and accounts receivable-trade +4.1
Fixed assets	88.6	28.0	88.8	27.3	+0.2	
Total assets	316.1	100.0	326.2	100.0	+10.0	
Current liabilities	99.2	31.4	86.3	26.5	-12.9	<ul style="list-style-type: none"> • Reserve for loss from business restructuring -14.6
Non-current liabilities	5.4	1.7	3.1	1.0	-2.3	<ul style="list-style-type: none"> • Reserve for loss from business restructuring -3.6
Total liabilities	104.7	33.1	89.5	27.5	-15.2	<ul style="list-style-type: none"> • Data center related business restructuring expenses, etc. -18.2
Total net assets	211.4	66.9	236.6	72.5	+25.2	<ul style="list-style-type: none"> • Retained earnings +23.8
Total liabilities and net assets	316.1	100.0	326.2	100.0	+10.0	
Shareholders equity ratio	66.5%		72.2%			

Cash Flow (Consolidated)

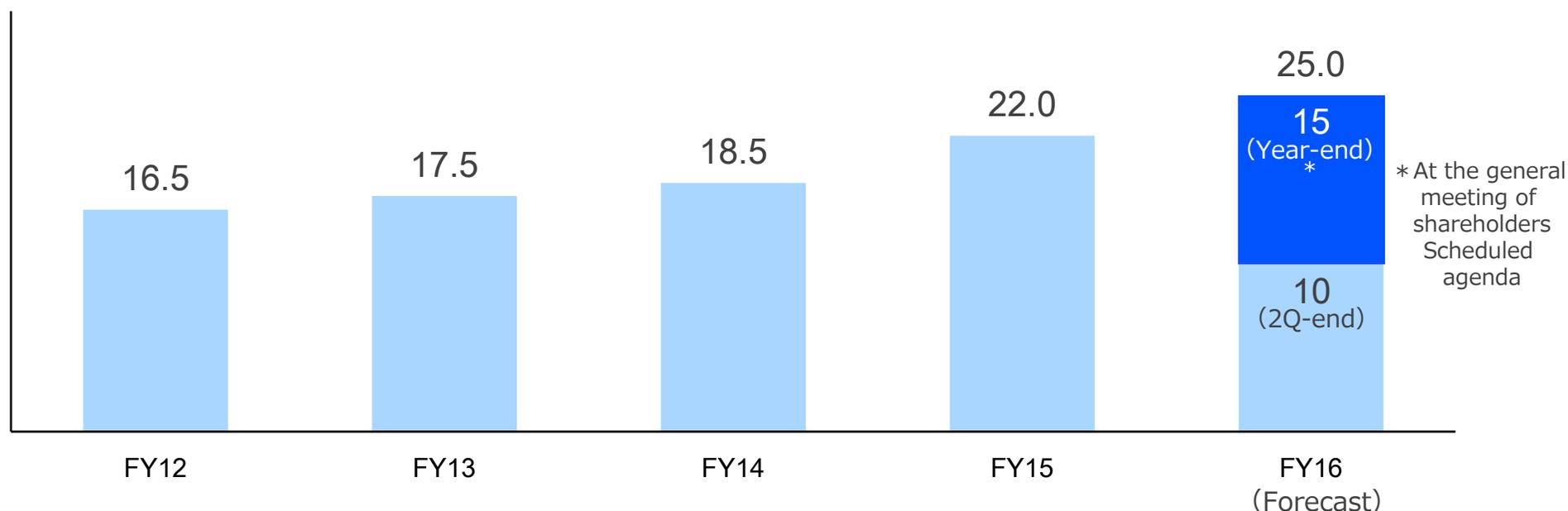


(Unit: 100 million yen)

	FY15	FY16	Change
Operating CF	41.6	25.4	-16.2
Investment CF	-35.7	-11.1	+24.6
Free CF	5.9	14.3	+8.4
Financial CF	-5.7	-9.6	-3.9
Effect of exchange rate changes on cash and cash equivalents	-0.1	0.0	+0.0
Net increase (decrease) in cash and cash equivalents	-0.0	4.6	+4.6
The period cash and cash equivalents at beginning of the period	119.4	119.4	-0.0
Cash and cash equivalents at end of the quarter	119.4	124.0	+4.6

Returning to shareholders

■ Annual dividend per share (yen)



E.P.S.	74.51 yen	73.98 yen	79.43 yen	26.64 yen	109.73 yen
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Note: The Company conducted a 200-for-1 stock split of common stock effective October 1, 2013. The annual dividend per share and net profit per share before the share split are adjusted to figures that take into account the share split.

- ◆ Dividend: In fiscal 2016, in addition to an interim dividend of 10 yen, we will pay a year-end dividend of 15 yen and plan a total dividend of 25 yen.
- ◆ Shareholder benefit : Implemented for shareholders holding one or more units stated in the register of shareholders as of September 30, 2016



Financial Results for the FY16



Medium-term management plan
(FY17~FY19)



Outlook for FY17

FY2012–FY2016

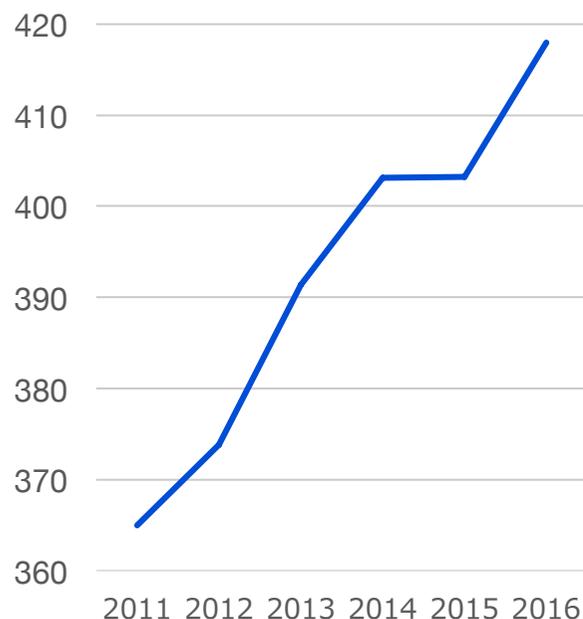
Review of the previous
medium-term management plan

Summary of previous medium-term management plan

- E-comics grew big and continued to increase revenue for 5 consecutive years and maximum sales
- Improve profitability through review of business portfolio and promotion of structural reform

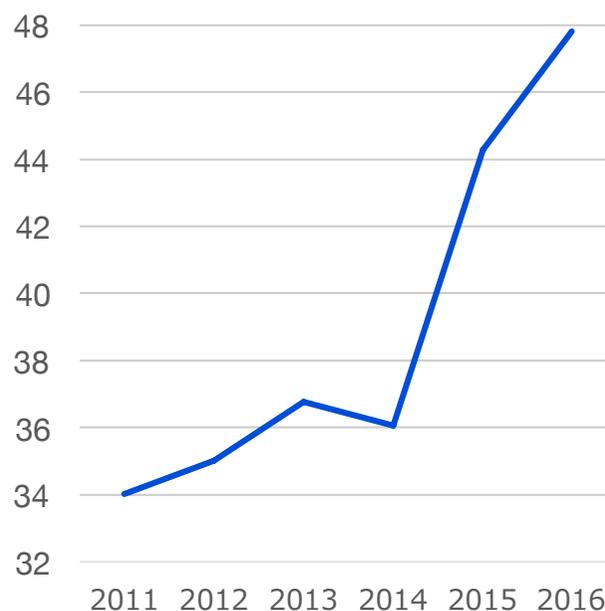
Net sales
(Unit:100 million yen)

365 → 417



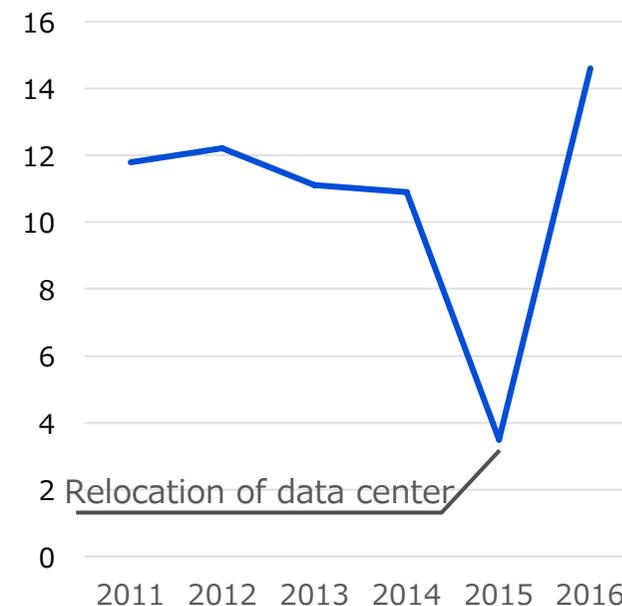
Operating income
(Unit:100 million yen)

34.0 → 47.7



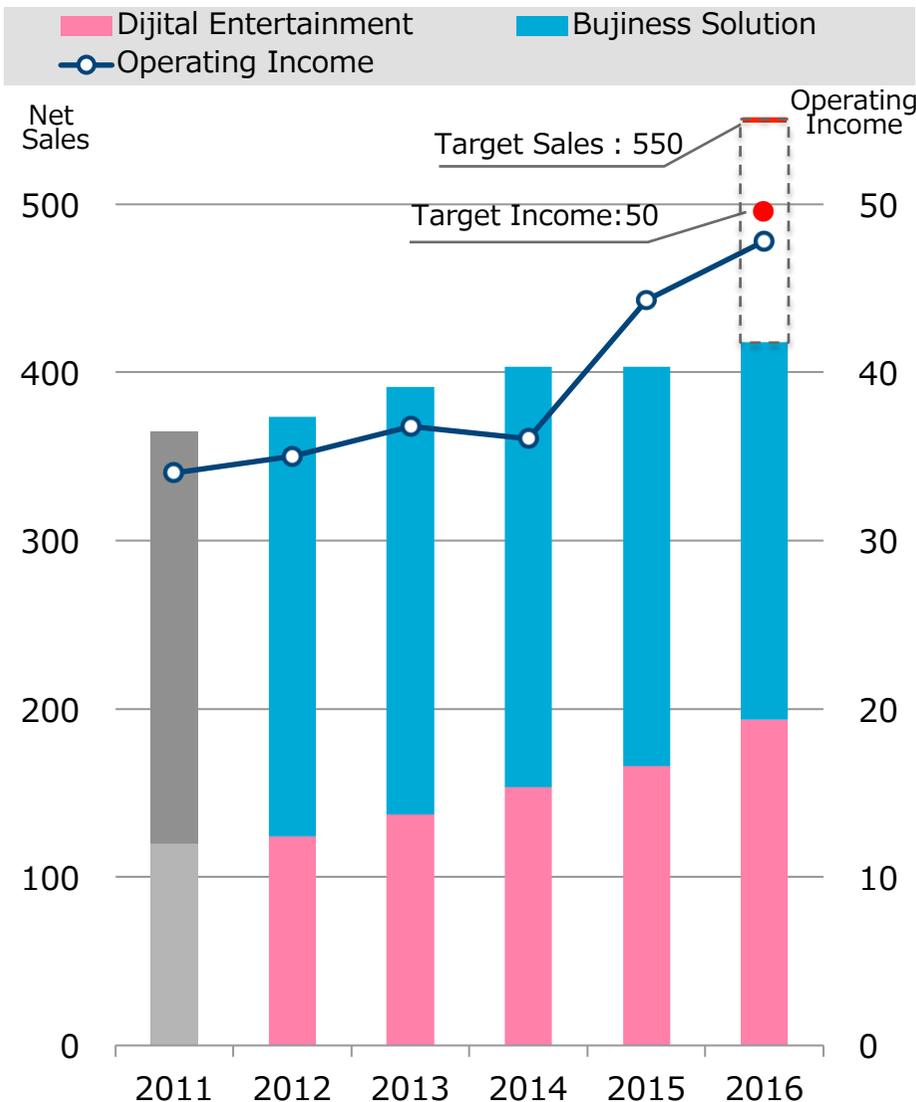
ROE (%)

11.8 → 14.6



Results of Previous Medium-Term Management Plan

Net Sales / Operating Income (Unit:100 million yen)



~ United Innovation · Evolution ~

(Unit:100 million yen)

1 Fast response to environmental change

- "Infocom Fund" : Investment amount(upper limit)
(Business promotion Corporate fund) **¥20**(100 million)
- "Digital Health Connect" Launch
(Health IT New business creation program)
- Regional inclusive care & IoT new focus area

2 Business expansion of priority business areas

- E-comic elongation
¥73 (100 million) → **¥180** (100 million)
(FY2011) (FY2016)
- M & A not yet achieved
- GRANDIT does not growth acceleration

3 Continue reinforcement of business base

- Business process that emphasizes quality penetrates
- Data center sale (From possession to use)
- Withdraw from unprofitable business

FY2017–FY2019

New medium-term management plan

External environment recognition, Market Trend

IT service
/Internet business
Whole

- While the Internet business will expand, the enterprise IT market will remain flat
(However, depending on the area, the market expansion and contraction are mottled)
- Quickly expanding business using AI and IoT
- IT engineer's talent shortage markedly

Medical
/Nursing care
IT

- Medical IT market growing moderately
- While the nursing care market is expanding greatly, lack of human resources of care worker has become serious. The creation and expansion of the IT market in the nursing care domain

E-comic

- Stable growth continues in the E-comic market
- Competition with major competitors intensified

Points of the new medium-term management plan

Previous medium-term
management plan
(FY2012~FY2016)



New medium-term
management plan
(FY2017~FY2019)

Strategy for growth

- Infocom Fund(Business promotion Corporate fund)
- Digital Health Connect
(Health IT New Business Creation Program)
- Regional inclusive care commencement
(Business alliance with Solasto Corporation)
- Approach to AI and IoT technology

Business expansion of priority businesses

- E-comic business growth

Improvement of business base

- Penetration of quality emphasis
- Data center sale
- Withdraw from unprofitable business

Pursuit of growth

- Execution of M & A
- Business development utilizing
AI and IoT
- Accelerate growth of E-comic and
Health IT business

Continue strengthening of business base

- Resource concentration
- Productivity improvement

United Innovation “Co-creation”

1

Pursuit of growth

- Growing with E-comic and Health IT as priority business
- Active promotion of M & A
- Business development utilizing AI and IoT

2

Continual reinforcement of management base that supports growth

- Continuous enhancement of quality control and improvement of service quality utilizing IT
- Enhance efficiency through business process reform and strengthen cooperation promotion with society
- Strengthen human resource development of business promotion, technology etc

Management targets

- Focus on growth potential (sales, cash flow) and maintain profitability
- Strengthen shareholder returns

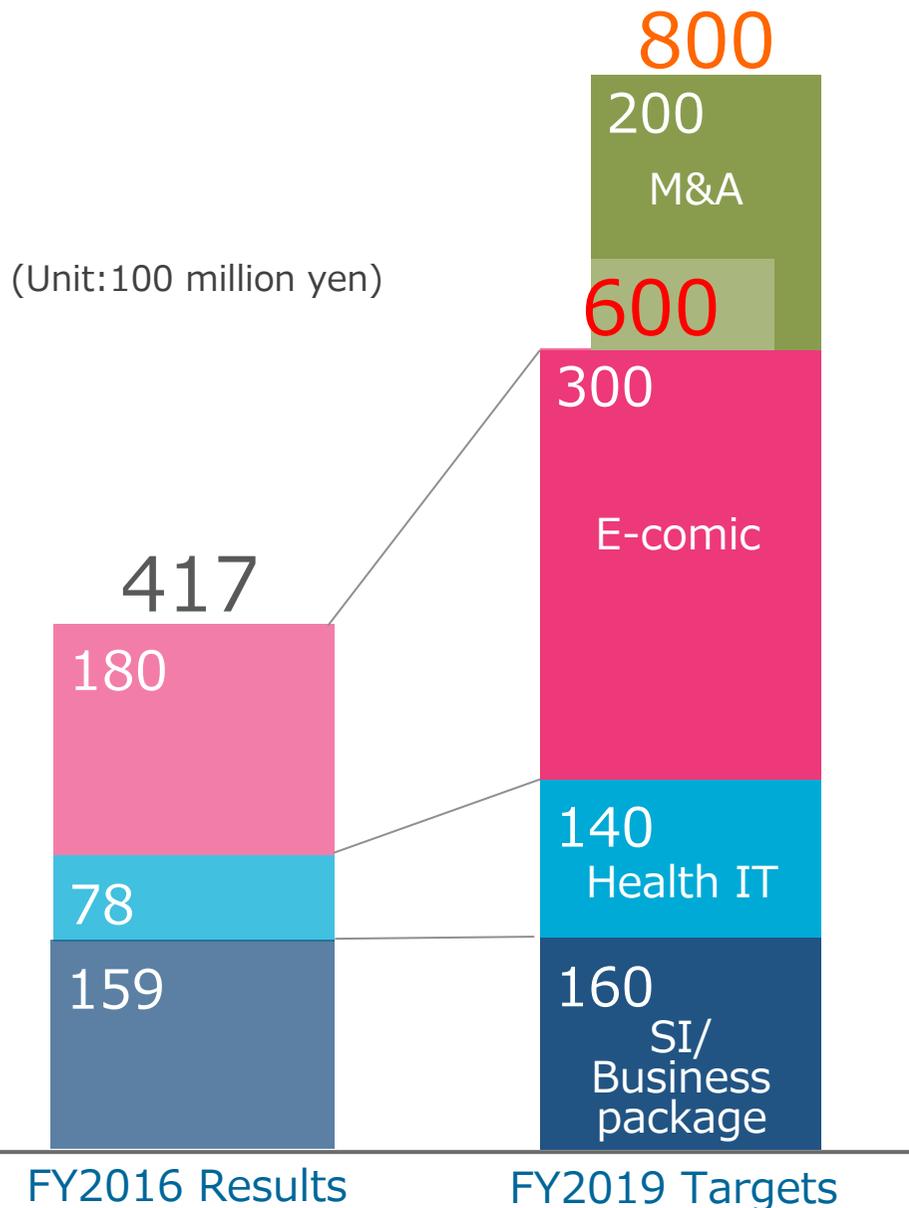
		FY2019 Targets	FY2016 Results
 Growth potential	Net sales	¥600~¥800 (100 million)	¥417 (100 million)
	(※1) EBITDA	¥70~¥100 (100 million)	¥58 (100 million)
	(※2) Priority business Ratio	70%	61.9%
 Profitability	ROE	10%+	14.6%
 Returning to shareholders	(※3) Payout ratio	30%	21.0%

(※1) Operating income + Amortization expenses

(※2) Percentage of priority business sales (E-comic, Health IT) to consolidated sales.

(※3) FY 2016 Results are calculated based on the initial dividend forecast (25 yen per share).

Growth strategy of the new medium-term management plan



Pursuit of growth

Further concentration of priority business

Growth achieved with Health IT and E-comic

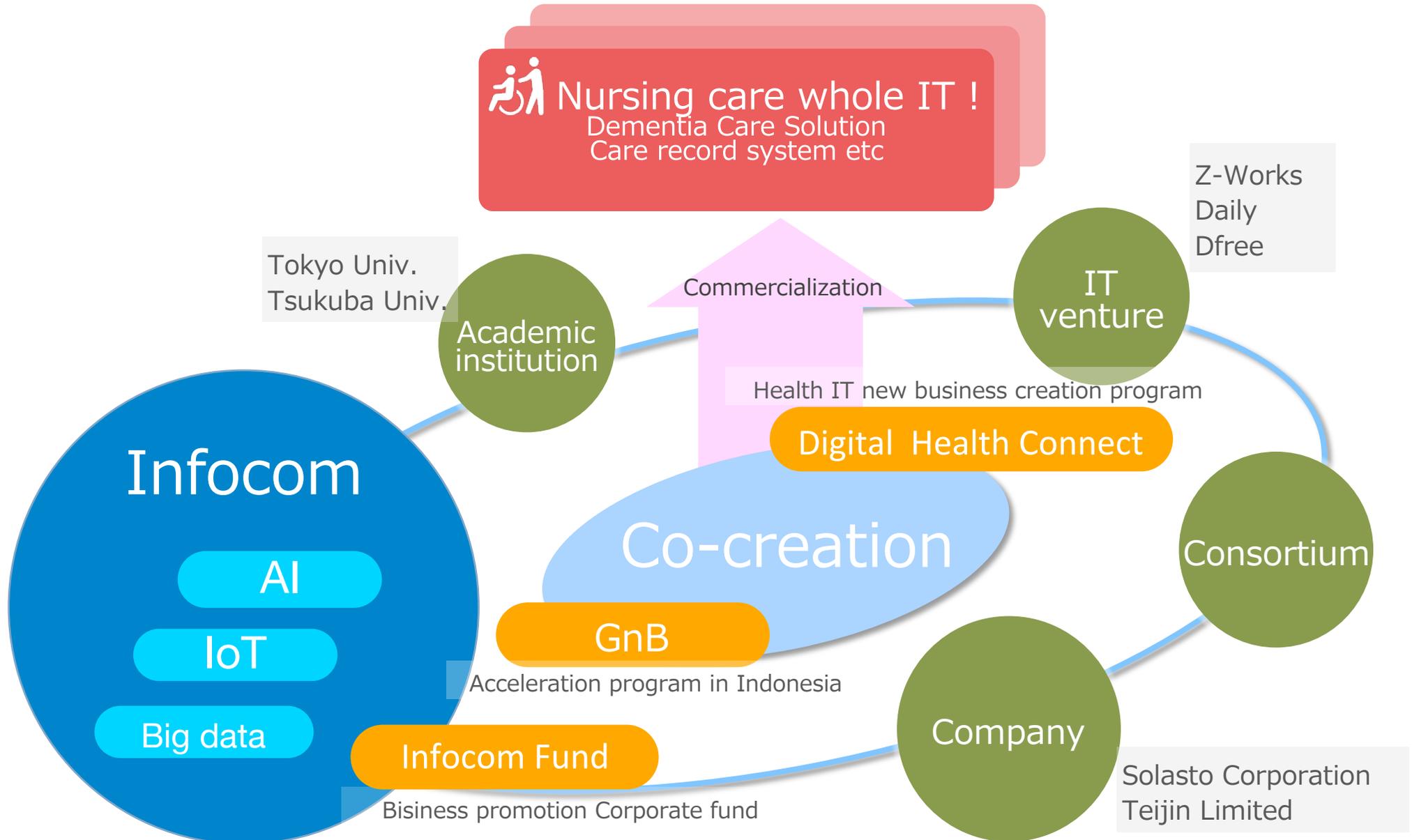
M&A

Set a strategic investment limit of ¥200(100 million)

Create business through Co-creation

Business development utilizing AI and IoT

Creating business through Co-creation



Growth scenario E-comic

- Aim for establishment of top share with growth exceeding market trends

1. Enhancement by latest IT technology

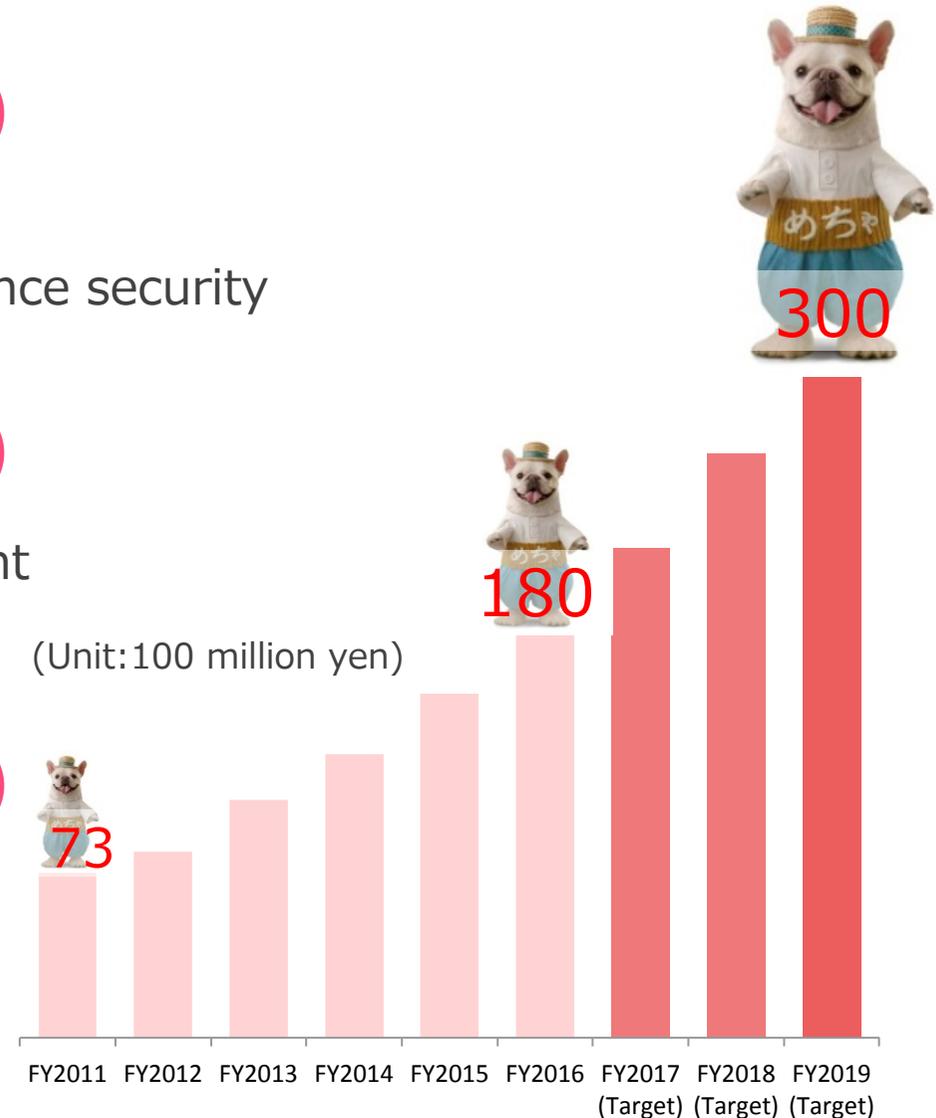
- Application of AI technology
- Improve quality by enhancing system, enhance security

2. Strengthen conductors ⇒ Increase number of members

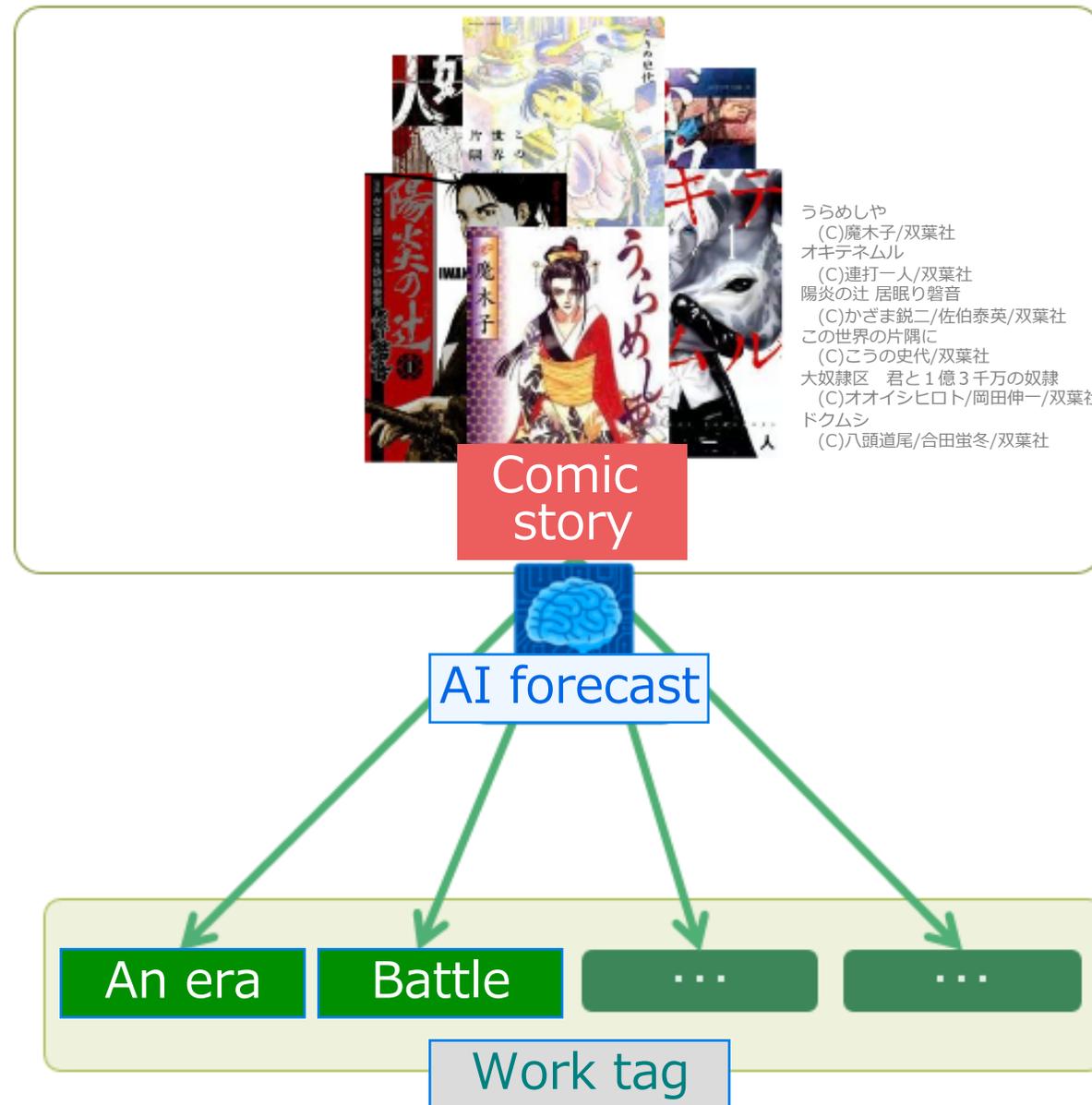
- Maximize efficiency of Internet advertisement
- Diversification of means of settlement

3. Improve user experience

- Vertical read scroll
- Monopoly precedent delivery
- Early delivery through work process review

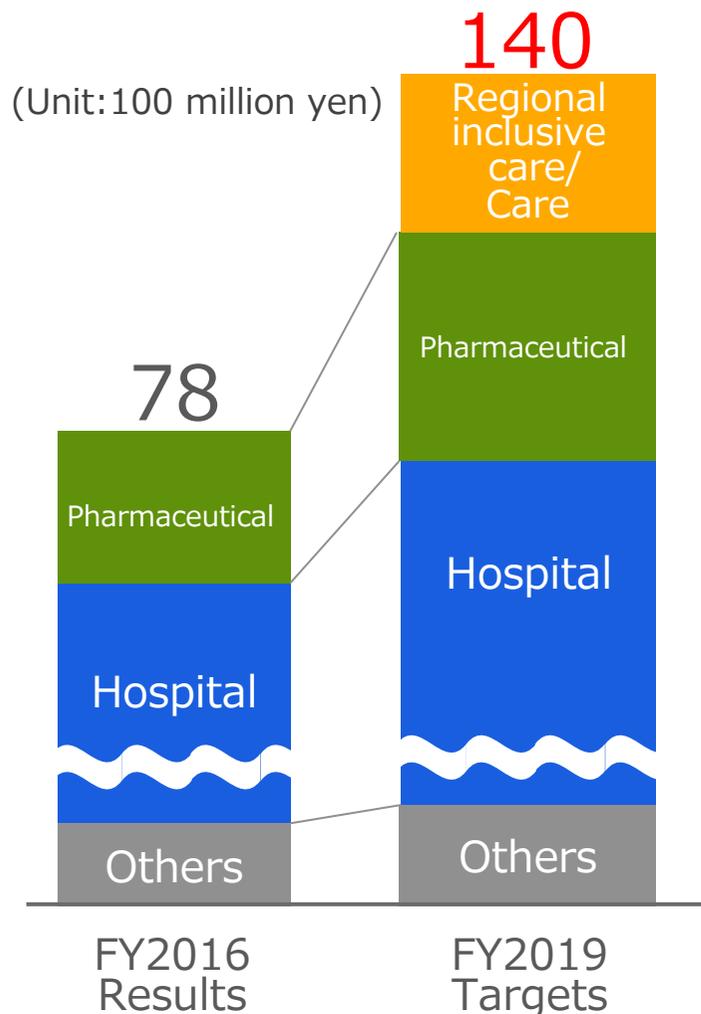


Growth scenario E-comic Image of using AI



Growth scenario Health IT

- Health IT grows to ¥140(100 million) scale by focusing on comprehensive region and focus on nursing care area



1. Establish presence in region comprehensive care and nursing care area (Over¥20(100 million))

- Promote "Nursing care whole IT!"
- Launch of nursing care platform service

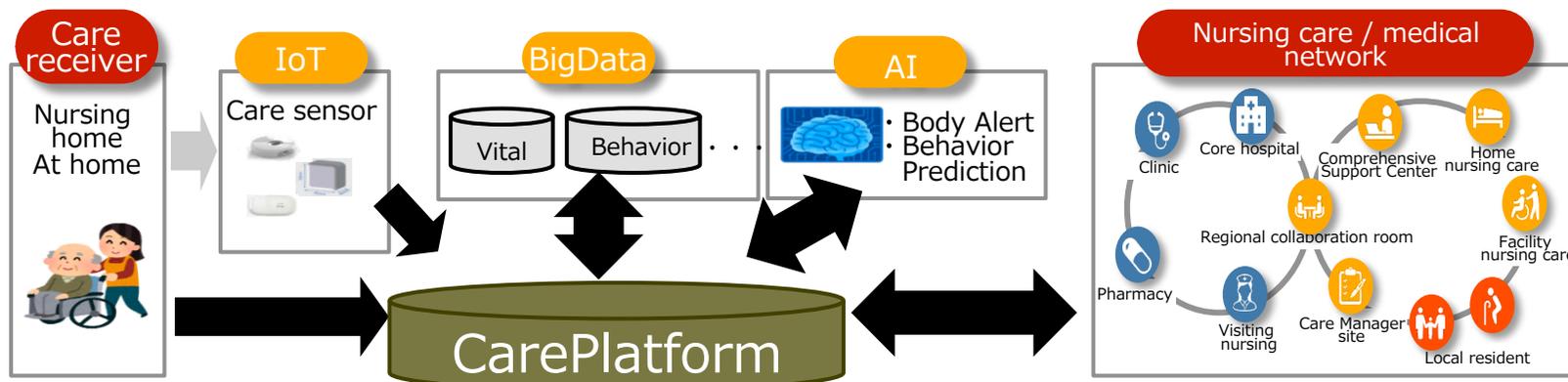
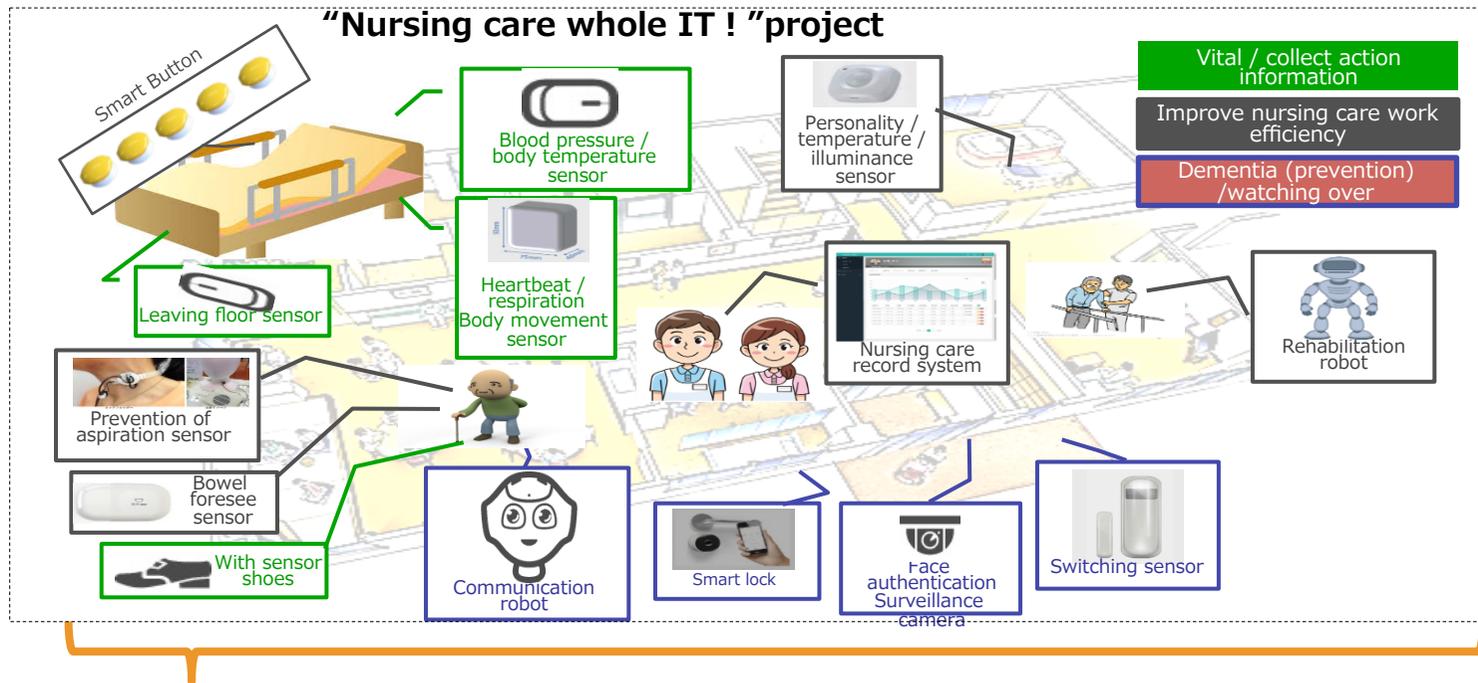
2. New healthcare service using AI and IoT

3. Expansion of lineup for hospitals and pharmaceutical companies

- For hospitals focused on surgery and nursing departments
- Growth acceleration for pharmaceutical companies through integration of manufacturing and sales

Growth scenario Health IT Nursing care whole IT!

- Promote “Nursing care whole IT!”, develop nursing care platform services.





Financial Results for the FY16



Medium-term management plan
(FY17~FY19)



Outlook for FY17

FY17 Outlook (Consolidated)

(Unit: 100 million yen, %)

	FY16			FY17 Outlook				
	1H	2H	Full year	1H	2H	Full year	Change (Full year)	%change (Full year)
Net sales	193.3	224.3	417.6	205.0	255.0	460.0	+42.4	+10.1
Operating income (Operating margin)	16.1 (8.3)	31.6 (14.1)	47.7 (11.4)	19.0 (9.3)	34.0 (13.3)	53.0 (11.5)	+5.3	+11.0
EBITDA	21.0	37.4	58.4	25.0	40.0	65.0	+6.6	+11.3
Ordinary income	16.2	32.3	48.5	19.0	34.0	53.0	+4.5	+9.2
Profit attributable to owners of parent	10.4	22.2	32.6	19.0 [*]	21.0	40.0	+7.4	+22.7
E.P.S.(yen)		119.28			146.29		+27.01	+22.7
ROE (%)		14.6			16.3		+1.7	

* Including extraordinary gains from the sale of data center

Business Solution Outlook (Consolidated)

(Unit:100 million yen,%)

	FY16	FY17 Outlook		
	Full year	Full year	Change	%Change
Net sales	224.1	235.0	+10.9	+4.9
Health IT	78.1	90.0	+11.9	+15.2
Operating income (Operating margin)	19.9 (8.9)	21.0 (8.9)	+1.1	+5.5

- ◆ Net sales : Revenue increased due to health IT recovery.
- ◆ Operating income : As a result of increased sales of health IT, we increased our earnings by absorbing the impact of upfront investment in regional comprehensive care / nursing care business and new business using AI / IoT.

Digital Entertainment Outlook (Consolidated)

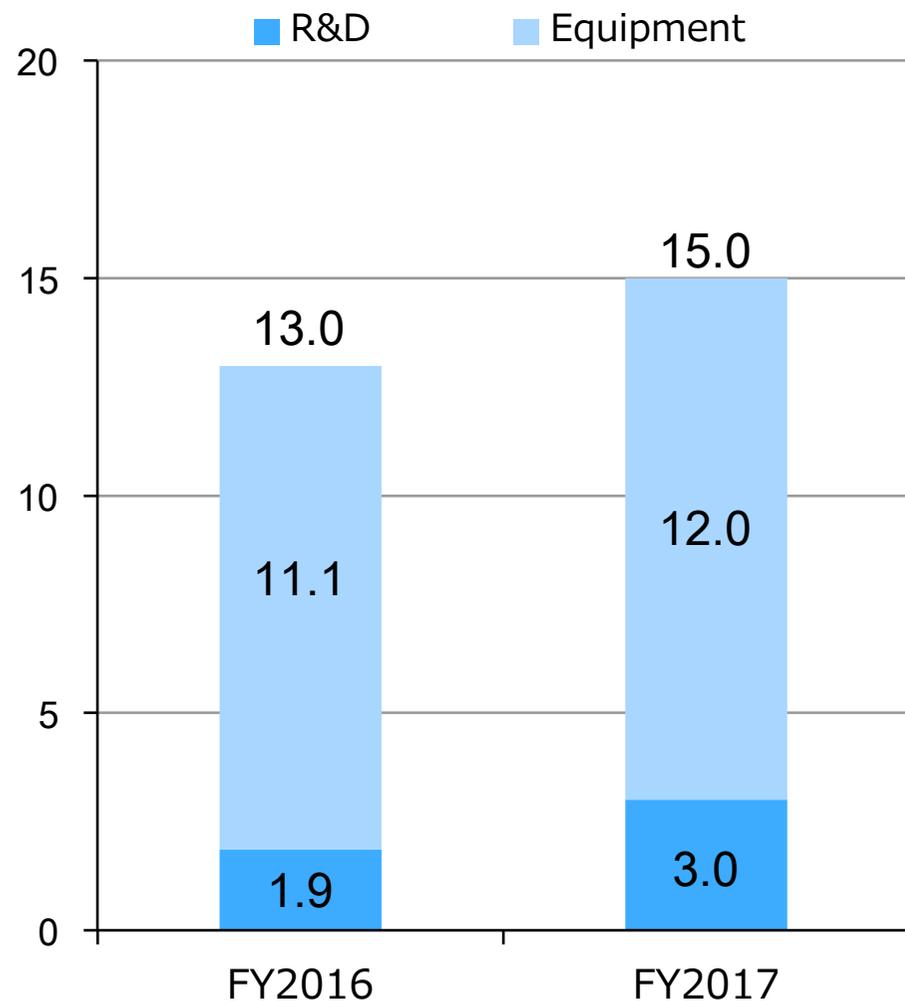
(Unit: 100 million yen, %)

	FY16	FY17 Outlook		
	Full year	Full year	Change	%Change
Net sales	193.5	225.0	+31.5	+16.3
E-comic	180.0	210.0	+30.0	+16.7
Operating income (Operating margin)	28.0 (14.5)	32.0 (14.2)	+4.0	+14.3

- ◆ Net sales : E-comic aim for ¥210(100 million)
- ◆ Operating income : Increase business by E-comic business expansion, absorbing investment in system enhancement in addition to AI utilization, data analysis and SEO measures.

Investment plan (other than capital investment)

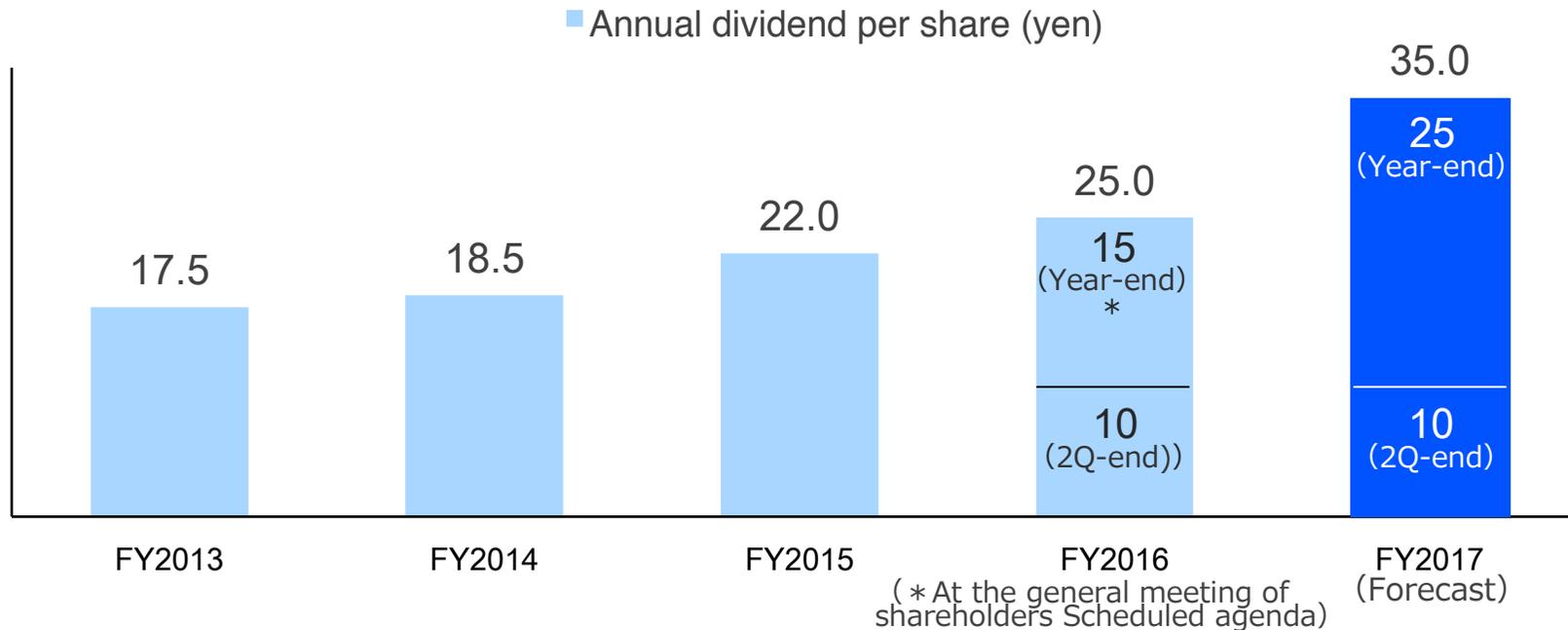
(100 million yen)



Major Investments (100 million yen)

Equipment	E-comic	12.0
	Hospital system	
	Regional inclusive care area	
	IoT area	
	GRANDIT	
R&D	Others	3.0
	AI, New technology development (company-wide research)	
	Others	

Returning to shareholders



E.P.S.	73.98yen	79.43 yen	26.64yen	119.28 yen	146.30 yen
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Note: The Company conducted a 200-for-1 stock split of common stock effective October 1, 2013. The annual dividend per share and net profit per share before the share split are adjusted to figures that take into account the share split.

◆ **Dividend:** For the fiscal year ending March 31, 2018, an interim dividend of 10 yen, a year-end dividend of 25 yen,

The total annual dividend is expected to be 35 yen (payout ratio 23.9%)

◆ **Shareholder benefits:** Planned for shareholders who hold one or more units listed on the register of shareholders as of September 30, 2017

Infocom Corporation

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