

BeNext-Yumeshin Group Co. Financial Results for FY6/2021 Q3

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Hello, everyone. I am Sato, Director and CFO. Thank you very much for participating in your busy schedule.

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One and a half month have passed since the management integration with Yumeshin Holdings on April 1.

We are making efforts to realize the integration results as soon as possible. Today, I will explain with this kind of themes.

First of all, I would like to explain the Q3 financial results of the BeNext-Yumeshin Group.

After that, I will also explain 3-month business forecasts of the Yumeshin Group following the merger and our approach to shareholders' equity and financial strategies reflecting the significant changes in its financial structure due to the integration.

Finally, I would like to explain some of the Q2 results of the former Yumeshin Holdings.

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I will start with our consolidated results. We saw a steady progress compared to the full-year forecast. EBITDA increased year on year, but the number of working days and employment adjustment subsidies decreased slightly in the Q3, resulting in a slight decline compared to Q2 figures.

Another employment adjustment subsidy in overseas is approximately 300 million yen, which has been counted in operating income. Some comments have been made by the auditing firm. Due to this Q3's reclassification to non-operating income, some figures may appear to be somewhat unrelated, so I will explain it in detail later.

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Next is the trend of consolidated quarterly results. With Q1 as the bottom, sales are in the process of steady recovery. Meanwhile, EBITDA is recovering steadily in terms of the nature of the business, but in Q3, the operating day was less than in Q2 by about one day, so it remains slightly unchanged.

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Next is the performance of the segments. Sales in all 3 segments increased compared to Q2. We believe that all segments are performing well.

Following this, we will explain the results by segment.

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First of all, this is the technical field. In the Q3 Arrow Trust Systems Co., Ltd., a system development company, was acquired and merged into the Group. As a result of this consolidation, sales increased due to the impact. This Q3 of Arrow Trust Systems, or one quarter in short, accounts for approximately 680 million yen in sales and 100 million in operating income.

As the utilization rate has also recovered to 97-98%, the employment adjustment subsidy has greatly decreased on the other hand. For example, since Q2 was about 200 million yen, compared to 100 million yen in Q3, it is decreasing by about 100 million yen, so the figure is like this.

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This is the trends in the number of employees and utilization rates. Since we are restraining new recruitments, the number of employees has decreased slightly.

In the Q3 of the previous fiscal year, we recruited about 520 people. In this Q3, we continue to restrain new recruitments with about 57 people.

On the other hand, we have added 156 people of Arrow Trust Systems, so total number of employees was 6,422.

The utilization rate was 98% for the machinery and electrical field and 97.5% for the software systems, and we have been able to recover to the normal level. Until last month, we had said that we will have about 300 employees, but the actual figure was 275 people who joined the company on April 1. This figure is not included.

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Next, the number of working days and overtime hours in the machinery and electric field. In the software business, the number of working days is almost the same. According to calendar, the number of working days in Q3 is less than in Q2 by about one day. On the other hand, the level of overtime working hours is still low compared to the previous fiscal year, but I think that it is steadily on a recovery track.

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This shows the contract unit price and the monthly bill amount. Contract unit prices of machinery and electric field have been higher than those of the previous year. Although it appears to be slightly downward, there is also a difference in mix, such as a decrease in automobile-related systems and an increase in semiconductors, machinery, and electrical systems. This is still higher than last year.

On the other hand, IT software is shown on a monthly basis, as most contracts are on a monthly basis. In Q3, Arrow Trust Systems, a system development company, joined the Group. System developers have extremely high worker's hourly rate, so it seems that the monthly bill is largely improving because

of the 626 thousand yen per month for group-wide IT software.

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Next is the number of active engineers by technology. The number of active engineers in Q2 was 6,240, and the number in Q3 was 6,209, slightly decreased with changes in the number of employees. With the addition of Arrow Trust to the Group, the number of people in the field of IT software has further increased to 43.4%.

On the other hand, in terms of sales by industry, the ratio of the information and communications industry is extremely increasing, although not all IT software is in the information industry,

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Next, in the manufacturing field. It is steadily improving, after bottoming out in Q4 of the last year. With regard to this Q3, although profits declined slightly due to a decrease in the employment adjustment subsidies, the number of working days is also declining, so it appears that profits declined slightly. The actual situation is improving.

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The number of employees and operating days is about one day less due to calendar factors. The number of employees is steadily increasing. As I mentioned at the 1-on-1 meeting, in the manufacturing field, recruitment has returned almost as usual. For example, we have recruited 305 people from September to March. A year ago, we recruited 299 people, so our recruitment are almost returned to normal.

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Next is the contract unit price for manufacturing. In the manufacturing field, we continue our strategy of diversifying customers without targeting large lots, compared to UT, a super major company. The unit price has also been above 2 thousand yen. As you can see on the right side and sales by industry, you can clearly see the diversification.

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Next, I will explain about overseas operation mainly UK. Here, we are still consolidating 3 months delay, so it means from October to December. This period is the busy season. Both net sales and profits are increasing year on year compared to Q2 and the same period of the previous fiscal year.

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Next, I will explain what we have done based on the integration. First of all, I will explain about post-merger segment. The former Yumeshin Group had 2 significant segments: engineer and construction,

while engineer business had IT and electrical machinery field. Therefore, construction will be the independent segment, and we intend to combine Yume technology with our technology to create an independent segment as IT/Machinery & Electric. Manufacturing and overseas are the same as before.

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Before the earnings forecast, I would like to present one major factor, stock price trends after the announcement of the integration. On January 29, when we released the integration, our stock price was 1,234 yen. Since then, we have been conducting IR activities, and our stock price has risen steadily thanks to the valuation of the market. However, the stock price was very shaken, close to speculation, around the integration date and the stock price was 1,682 yen on April 1, when the actual accounting integration process was implemented. As a result, goodwill exceeded forecasts. In my original plan, I assumed that the stock price would be around 1,250 yen and the goodwill would be around 50 billion yen. There were various plans, but it was a little bigger in reality.

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This is the combined forecast balance sheet at the end of June. At the time of integration as of April 1, goodwill related to the Yumeshin Group is approximately 70 billion yen, but this is not the final version yet. The audit by the auditing firm has not yet been completed.

In addition, intangible assets, PPA (Purchase Price Allocation), are certified at 1 billion yen. Accordingly, the amortization of goodwill in Q4, which is the assumption for the 20-year amortization, is about 900 million yen for one quarter. The opinion of the auditing firm is that the PPA of 1 billion yen should be amortized over 6 months. We should amortize it over 6 months because this is due to the order backlog, customer assets, of former Yumeshin and Yume Technology. So, we assume that the amortization cost will be 500 million yen. In light of this, our forecast of business performance is as follows.

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This is a forecast for the full fiscal year. The performance of Yumeshin is only recorded for 3 months, from April to June. To explain a little more important before the figures,

Yumeshin have adopted IFRS and we still have adopted JGAAP. Therefore, the figures are overlooked due to differences in accounting standards. For the next fiscal year, the accounting standard remains JGAAP, but we are planning to convert it to IFRS at the end of next fiscal year. We are currently in the process of moving forward, so we intend to disclose in both JGAAP and IFRS pro forma in the next fiscal year.

Next is the forecasts. Net sales for the full year will be 94.8 billion yen, increased by 17 billion yen compared to the initial forecast. Operating income will be 3.2 billion yen, decreased by 1.6 billion yen.

About next line, operating income plus subsidy, we have made a forecast of 4.215 billion yen. We would not achieve the initial forecast by 585 million yen, but the reason for this is almost all goodwill. The additional amount of the former Yumeshin Group's operating income is approximately 1.2 billion yen in 3 months. Amortization of goodwill is 900 million yen for 3 months. Amortization of PPA (Purchase Price Allocation) is expected to be 500 million yen, and integration-related expenses are expected to be 600 million yen. This breakdown is approximately 360 million yen for the financial advisor we used. The trust bank that Yumeshin used and the trust bank and the security transfer agency business that we used are different, so the fee associated with the change will be more than about 100 million yen. Then, commissions to the Tokyo Stock Exchange will be 11 million yen. Totally, integration-related expenses of approximately 600 million yen are estimated. EBITDA, our most important management indicator before the integration, is 7.415 billion yen, which is 1.415 billion yen below our initial target.

Our net income is 2.7 billion yen, the same as our initial forecast. We are working every day with the aim of producing the results of the integration as soon as possible. We estimate integration-related expenses of 100 million yen here, mainly because we incur a loss on disposal associated with the unification of floors. We hope to do this as soon as possible and make an effect as quickly as possible. Net income is 5.1 billion yen when adjusted for depreciation and amortization. The adjustment earning/share is estimated to approximately 57 yen.

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This is a table by segment. We have 4 segments: IT/Machinery & Electrical, Construction, Manufacturing, and Overseas. In terms of operating income of Construction, amortization of goodwill will be large, resulting in an accounting deficit. This is misleading, so I would like you to see EBITDA rather than operating income as the main index until we change it to IFRS. This full-year forecast is written below. In terms of conventional technical fields, IT and electrical machinery, EBITDA is 6.29 billion yen, so the ratio to sales, including Yume Technology, is 12.7%, construction is 11.8% at 1.04 billion yen, manufacturing is 6.5% at 550 million yen, and overseas is 3% at 820 million yen. These are the pillars of the forecast.

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Next, I will explain our approach to capital and financial strategies. This is the projected balance sheet at the end of June. In terms of financial indicators, the debt-to-equity ratio is 0.55 times on a net asset basis after excluding goodwill out of net assets, and if goodwill is added, it is about 0.1times. We believe that we can qualify goodwill as a risky asset, so we do not consider it here for some time. If goodwill is capital, the equity ratio is 74%. If goodwill is excluded, it is 41.5%. With regard to ROE, considering that goodwill is also net assets, it is 2.7%, because the addition of Yumeshin's incomes

is only for 3 months this year. 5.2% to adjusted net income. This is the fact that financial indicators after the integration are considerably distorted.

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Our approach to financial strategy naturally calls for optimal capital and financial policies that will support our sustainable growth in order to increase corporate value over the long term. The first thing we should put forward is the viewpoints of capital efficiency. Our primary goal is to raise ROE above 10% over the medium term as since it decreased as a result of integration, with an awareness of the cost of capital. When I explain this in English, I say “in a few years” , so I am planning to do so within two to three years.

For this reason, we will not only improve the profitability of our businesses, but will also intend to buy back our own shares over several years. This will be incorporated into the medium-term plan announced in August. Obviously, the buy back of own shares is a matter of resolution for the board of directors, so I decided not to write about how much we would do here today, but I have my own idea. From the viewpoints of capital efficiency, both former Yumeshin and BeNext were very active in M&A, but we will think the hurdle rate of the investment criteria for M&A as a target of WACC 8%. Of course, this is on the horizon, so there will be a slight upward and downward movement, but we will try to establish such a discipline.

The second major viewpoints is the financial soundness. This is, in other words, a financial discipline. If we do not establish solid financial discipline, the integrated company will often change, so I would like to firmly establish it. Capital, including goodwill, will be considerably heavy, so I would like to prioritize debt for the time being in financing. Consequently, WACC also declines. With regard to borrowing, after recognizing goodwill as a risky asset, the company aims for a debt-to-equity ratio of around 1.0 times. Of course, we may go up or down slightly depending on M&A deals, but I would like to firmly establish such a goal and discipline.

Considering this, capital will be allocated in the growth investment, firstly. Growth investments include M&A as well as investments in human resources. Then stable dividends. We aim for a dividend payout ratio of 50% in the medium term, and our basic policy is to increase dividends every year definitely. We plan to pay 44 yen this year and paid 40 yen last year, so we would like to disclose at least 44 yen next fiscal year at the time of the announcement of this financial results in August.

The reason why we establish a framework for several years regarding the share buy back is that because there are either M&A implementation or non-implementation, or fluctuations due to business performance, depending on the year. Therefore, we will decide and announce what we will do this year.

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Finally, as there is no longer a place to announce, I will explain slightly the results of the former Yumeshin Holdings during January-March of Q2.

This is a summary. On IFRS basis, revenue was 29.1 billion yen and operating income was 1.9 billion for the full 6 months, which is a significant decrease from the previous fiscal year. There was a reason. This was discussed in the integration discussions, but from my perspective, I have stated that there were about 2 companies, within Yumeshin Group, that must naturally be impaired. The impairment loss was 1 billion yen, because we did so before the integration.

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In other areas, due to the impact of the COVID-19, the number of employees in the construction field in particular declined. Despite receiving employment adjustment subsidies, profits declined.

With this as a starting point, we will create a new BeNext-Yumeshin Group.

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Regarding the results of former Yumeshin Holdings by division and segment, segment profit in the construction field is just under 16%, so we have secured extremely high profitability. On the other hand, in regards to engineer dispatch, we think we will be able to make a little more effort yet. In other businesses, this is an education business, but it is in the red. The biggest challenge for the BeNext-Yumeshin Group is the integration of this IT and engineer business. As a new company, we are currently considering a variety of issues, and I am already seeing ways of improving ourselves. At the heart of this discussion is how far we can incorporate these factors into the plans for the new fiscal year and how far we can achieve results in our medium-term targets. I will announce it in August, so I would like you to wait a little longer.

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Finally, please refer to this page on KPIs, which I explained earlier. My explanation was a little longer this time, but that is all. Thank you for your attention.