

Consolidated Financial Results Supplementary Document Q1 FY20

August 3, 2020 / SIGMAXYZ Inc. (Stock Code: 6088)



Outline of Financial Results for Q1 FY20

Summary

(YoY change)

● Consolidated revenue	3.36 billion yen	(-12%)
● Profit before income taxes	309 million yen	(+4%)
● Profit	87 million yen	(-46%)

- Despite the growth in ERP cloud migration services, revenue declined due to the decrease in the consulting services for the aviation industry, which has been severely affected by the COVID-19 pandemic. The decline is also due to the decrease in product sales, which involved the procurement of hardware and software products for call center projects in the retail industry.
- Selling, general and administrative expenses increased by 9% due to increased costs incurred for measures taken for the COVID-19, personnel and other costs associated with recruitment, and investments for solution development and productivity improvement.
- The sale of the entire stake in Lawson Digital Innovation Inc. resulted in a 4% increase in the profit before income taxes.

Consolidated Income Statement for Q1 FY20

Unit: JPY mn	FY19 (Apr to Jun)	FY20 (Apr to Jun)	YoY change		Major changes
			Amount	Rate	
Revenue	3,804	3,366	-438	-12%	Although ERP cloud migration services are growing, revenue is impacted by the COVID-19 pandemic.
Gross profit	1,361	1,300	-60	-4%	
S, G&A expenses	1,051	1,147	+96	+9%	- Increase in costs incurred for measures taken for the COVID-19, personnel and other costs associated with recruitment, and investments for solution development and productivity improvement.
Operating profit	309	152	-156	-51%	
Ordinary profit	297	163	-134	-45%	- Profit from the sale of affiliate shares.
Profit before income taxes	297	309	+12	+4%	- The profit without considering the impact of the increase in valuation allowance and tax effects was 179 million yen, which is a decrease by 0.5% compared with the same quarter last year.
Profit	161	87	-74	-46%	

Key Performance Index (KPI)

	Q1 FY19	Q1 FY20	YoY change
Number of employees	539	564	+5%
(Number of consultants)	(479)	(498)	(+4%)
Client Satisfaction (NSI*)	95	94	-1pts
Number of projects	398	363	-9%
Number of clients	114	125	+10%
Revenue per contract (Unit: JPY mn)	9.6	9.3	-3%

*** NSI (Net Satisfaction Index): Average score from 5 possible ratings for 10 questions evaluating project satisfaction.**

- Format: Questionnaire
- Respondents: Project owners

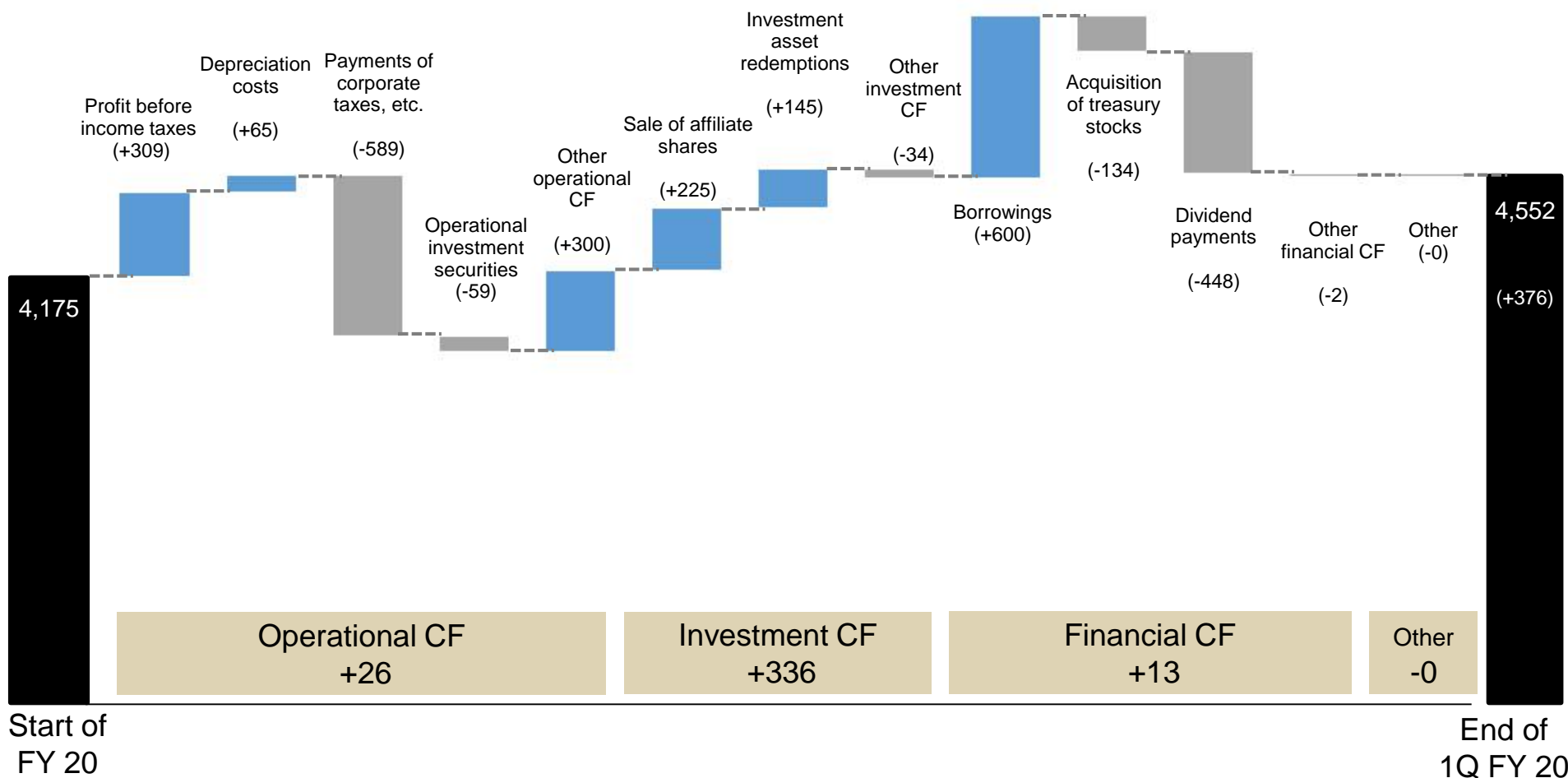
5: I really agree	100 points
4: I agree	75 points
3: I can't say either way	50 points
2: I don't agree	25 points
1: I don't agree at all	0 points

Consolidated Balance Sheet for Q1 FY20

Unit: JPY mn	End of FY19	End of Q1 FY20	YoY change (Amount)	Major changes
Current assets	6,943	6,914	-29	- Increase in cash and deposits, and decrease in accounts receivable-trade
Cash and deposits	4,175	4,552	+376	- Borrowings and dividend payments
Non-current assets	2,725	2,339	-386	
Total assets	9,669	9,253	-415	
Current liabilities	3,424	3,126	-297	- Borrowings and the reduction of income taxes payable, etc.
Non-current liabilities	1,208	1,394	+186	- Increase in provision for share-based remuneration
Total liabilities	4,632	4,520	-111	
Net assets	5,036	4,732	-304	- Reduction due to dividend payments
Equity ratio	52%	51%	-1pts	

Transitions in Consolidated Cash Flow

Unit: JPY mn



Migrating ERP to the Cloud

In readiness for the situation called the "2025 Digital Cliff," when the existing ERP maintenance support expires, SIGMAXYZ supports clients to enhance their corporate value by smoothly migrating their ERP to a cloud environment, and carries out organization/business transformation and change management, based on the growth scenarios for clients that we provide.

We are a leader in the industry, with consultants who have acquired a total of 38 certifications of the SAP S/4HANA Cloud certification (as of the end of June). This certification is a qualification for consultants who offer ERP cloud services.

Current state of IT at Japanese companies

Core IT systems

- Outdated (20% currently over 20 years old, will be 60% in 2025)
- Based on business units -> Difficult to use data across the whole company
- Excessive customization -> Complexity, black boxes

IT budgets

Maintenance operation : Value creation
= 80%:20%

IT personnel

Allocating most IT personnel to maintaining and operating the core system is hindering the acquisition of new technologies.

**Potential economic losses*
of JPY 12 trillion per annum
from 2025 onward if there is
no change**

**2025 Digital
Cliff**

Issues to be addressed

Migrate core IT systems
to the cloud
(Reform business
process)



Digital
transformation

* METI report (September 7, 2018)

Customer example



**SAP Award of Excellence 2020
"Project Award" winning project**

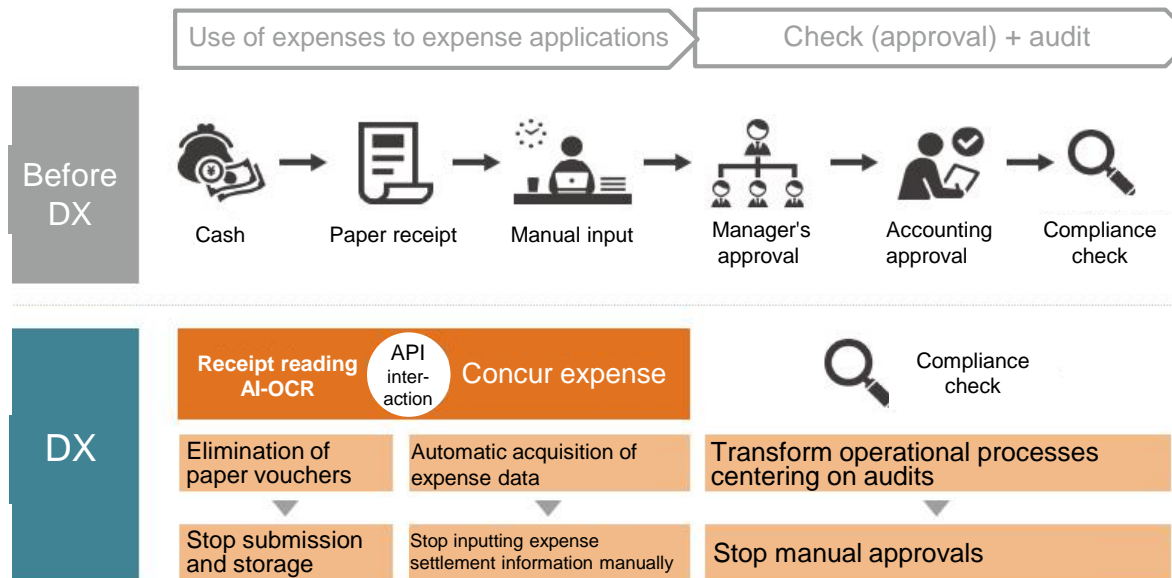
SIGMAXYZ supported the NTT Advanced Technology Corporation's core IT system reform project, and completed the migration of key systems to the cloud in about six months. The project used SAP S/4HANA Cloud's multi-tenant edition, which is SAP's next-generation cloud ERP (Enterprise Resource Planning) package. It was the first time multiple modules (financial accounting, management accounting, sales management, purchase management, and project management) were implemented all in one to go for a Japanese company's domestic operations. (As of June 2019)

Digital Transformation of Indirect Operations

SIGMAXYZ Inc. has achieved complete digitization of expense settlements and invoice management for indirect material purchases. Based on the knowledge we have gained from this, we have started providing a service for the "digital transformation of indirect operations."

In order to promote this service, we have developed solutions and partnerships, utilizing various types of SaaS, including Concur. Aiming for nationwide market expansion.

Image of process innovation with DX for expense settlement in the company



- Reduced the number of man-hours by 28% per employee
- Eliminated manager's approval process (average of 120 minutes per month)

Customer example

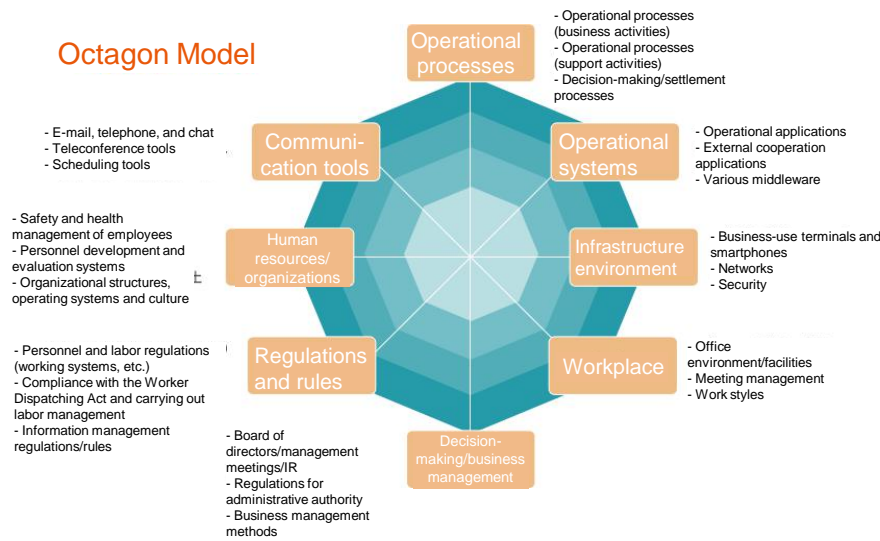
We assisted SHIONOGI & CO., LTD. in introducing an operational process and cloud services for expense settlements—both which comply with the Electronic Books Storage Act, and achieved complete digitization of the expense settlement process, including digitization of its vouchers. We completed the introduction of the new operational process and its system for all 5,000 employees in 10 months.



Nikkei Computer (issued on April 18, 2019)

Business Operations in the Era of Fully Remote Work

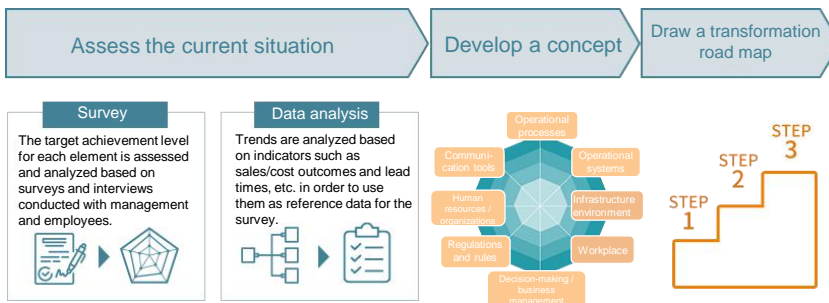
As the spread of COVID-19 significantly impacts society and the economy on a global scale, SIGMAXYZ Inc. has started to offer its own perspectives as a comprehensive package. This includes corporate business management that we put into practice ourselves in the era of COVID-19. We have modeled eight elements including operational processes and systems, various rules, and tools, which need to be designed and organized in cooperation with each other in order to ensure the stable business operation of a company, and provide mixed solutions that include each perspective.



Fully remote work environment at SIGMAXYZ Inc.

- The number of seats is 1/5 the number of employees! The office is a place for collaboration**
- Essential equipment for an "office from anywhere"**
- Morning meetings, exercises and reviews are done online. Training of fresh graduates through video conferences. Is it effective?**
- Reduced the work time of employees by 28%. "Receipt gluing" for expense settlements is no longer necessary!**
- Freedom to choose work hours and workplace. How can employees be evaluated when you do not meet them in person?**
- A yellow light indicates urgent attendance at the office. A "Management ambulance" supported by real-time business management systems.**
- All that's needed is a team with employees who are self-controlled and self-driven**
- There is one multifunctional device per floor. What is a fully paperless office really like?**

The future of "managers and employees that do not see each other"



MM, DD
Working in an office is no longer essential, and our work style has changed a great deal. Since we don't meet each other every day, we share each other's responsibilities and goals. We let team members manage their day-to-day operational progress on their own.

I used to worry when I could not see my staff and check the orders they received, etc. but because key indicators like these can now be checked in real time on the web dashboard, I no longer have these concerns.

The personnel evaluation system has also changed significantly, and a capability-based evaluation system has been introduced. I conducted year-end evaluation interviews in person or online, depending on each member's work situation. I evaluate them with a focus on their output to the goals set at the beginning of the year. One of my staff members made work improvements by introducing a new tool that no one was aware of, and reported his achievement happily. It appears that the work efficiency and motivation of my staff are increasing.

Digital Workplace Environment

Since its inception in 2008, SIGMAXYZ has developed and maintained a digital workplace environment based on strict security policies.

The aim is to provide employees with the freedom to choose the time and location that best suits their value creation activities. Through the following environment and mechanisms, we will use the digital platform in all areas related to business operations, and develop business activities that are independent of office work.

- Access to digital and mobile tools for all employees
- Digital distribution of internal information and paperless operations
- Use of collaboration tools such as web conferencing and business chat systems
- Process various internal operations such as expense settlement digitally
- Use real-time operation management system to visualize operations
- Skill-based human capital evaluation system
- Office operations via company-wide free address system



Presenting Information as a Leading Company in Food Innovation

We have participated in government-led workshops as a core member. We have also received media coverage, and provided information through lectures, contributions, and publications.

In July 2020, consultants in this field published the first food business book in Japan, "The Food-Tech Revolution", in which they thoroughly detail how "food" acts in the era of COVID-19 and post COVID-19, and the cutting-edge food business.

- ✓ "The Future of Food Tech 2019-2025" (Nikkei BP, 2018)
- ✓ "Food Tech Revolution" (Nikkei BP, 2020)



Enhancing Non-financial Value (SDGs and ESG initiatives)

We believe that the value of a company is a synthesis of financial and non-financial value, and place importance on Sustainable Development Goals (SDGs) and Environmental, Social and Governance (ESG) factors in promoting our business.

SDGs

- We strive to expand value-added activities to address social problems as well as our clients' issues.

On commencement of the project, a forum for consensus building is set up with the client concerning which items pertaining to the SDGs' 17 goals are to be achieved, and how.



SIGMAXYZ supports the SDGs



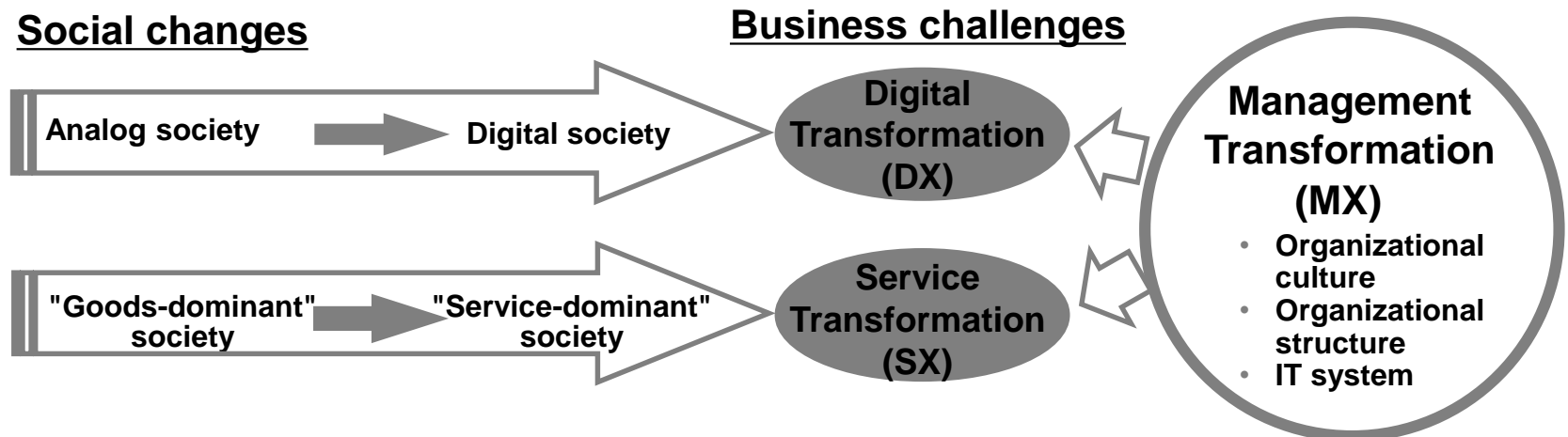
<https://www.un.org/sustainabledevelopment/>

ESG

- We have implemented paperless internal information sharing processes*, and have stopped offering beverages in PET bottles and switching clear folders made of plastic materials to paper-based ones in our business premises.
(*Monthly number of copy/print paper used per employee for the fiscal year ending March 31, 2020 : 160 sheets [12% decrease from the previous year])
- We are working on building a "social multi-sided platforms" to form an ecosystem where people in Japan and overseas who empathize with and support our initiatives gather to address social issues.
- With regard to the corporate governance system, the ratio of independent outside directors is 58%, and all of the members of the Audit & Supervisory Committee and the Compensation Committee are outside directors.

Our Digital Transformation: Three Innovations

- | | |
|-----------------------------------|---|
| 1) Digital Transformation (DX) | Streamline existing business operations |
| 2) Service Transformation (SX) | Create new value |
| 3) Management Transformation (MX) | Management platform reform |



SIGMAXYZ's Business

In response to the various business challenges that companies face, SIGMAXYZ provides consulting services in a wide range of fields, and launches and operates related forms of business.

In addition, we aim to promote value creation activities that go beyond the boundaries of a single company or industry, by forming an ecosystem through networks with a diversity of professionals and companies.

Consulting Services

Digital transformation
Program & project management
ERP cloud migration services
Business process transformation
Innovation regarding people and organizations
M&A strategy planning
Platform strategy planning
Construction of multi-sided platforms



- Expertise, knowledge
- Human resources
- Networks
- Funds

Alliance

New business development
Business investment
Establishment and management of joint ventures
Development and delivery of joint services
Incubation

Forming and operating an ecosystem

Skill Teams

Organizing projects by combining professionals with diverse skills

Industry Sherpa

Understands industry characteristics and business processes, and draws transformation scenarios

Retail	Manufacturing	Logistics
Aviation	Transportation	Communication
Consumer goods	Insurance and finance	Public and infrastructure
Pharmaceuticals	Trading companies	Media and entertainment

Heuristic Sherpa

Innovation regarding people and organizations to transform management and connect companies in order to create value

Vision Forest*
Organizational design
Multi-sided platforms

* Art-based human resources activation program

PS** Sherpa

Drives enterprise transformation with Project Management (PMO) and SaaS

Project management	Change management
Vendor management	SaaS solutions
Stakeholder management	SaaS integration
Integration management	Rapid development management

** Abbreviation for PMO & SaaS

Digital Sherpa

Implements digital technology in companies' business operations

Digital transformation	AI
Digital architecture	IoT & robotics
Digital application design	Service design
Process design	IT planning

Alliance

New business development, business investment, establishment and operation of joint ventures, development and delivery of joint services, and incubation

Alliances

We create value through collaboration with our business partners and group companies, and companies we invest in



Subsidiaries




Affiliates







Companies we invest in





Subsidiaries and Affiliates

Company name	Year of incorporation / start of business / capital participation (Joint venture partners, share of voting rights)	Business description
<p>SXA Inc.</p>	<p>2014 (100% subsidiary)</p>	<p>Providing M&A advisory services (Financial advisory / due diligence / valuation / business turnaround advisory / development of in-house M&A systems)</p>
<p>SXF Inc.</p>	<p>2019 (100% subsidiary)</p>	<p>Providing various services related to financial EDI Electronic payment agency: Director-General of the Kanto Local Finance Bureau (Electronic Payment Agency) No. 40</p>
<p> AnalySys. Inc.</p>	<p>2014 (Joint venture with Plan·Do·See Inc., 49%)</p>	<p>Providing cloud services for bridal management applications / developing and providing SIGMAXYZ solutions</p>

Companies We Invest In (1 of 2)

Company name	Year of incorporation / start of business / capital participation (Joint venture partners / main shareholders)	Business description
 invest in wonder SX Capital, Inc.	2016	Management and administration of assets for investment associations, etc. targeting privately-owned IT venture companies
 SALA Lifestyle Innovation Co., Ltd.	2017 (Joint venture with SALA CORPORATION)	Marketing and platform business in the SALA Group
 Ghelia Inc.	2018 (Sony Computer Science Laboratories, Inc., World Innovation Lab, LLC., and Mizuho FinTech Investment Limited Partnership)	AI solution business
 Monstar Lab, Inc.	2019	A digital-product development company that provides optimal resources, using IT engineers and creators all over the world

Companies We Invest In (2 of 2)

Company name	Year of incorporation / start of business / capital participation (Joint venture partners / main shareholders)	Business description
 <p>Creww Inc.</p>	2019	Managing one of the largest start-up communities in Japan, and offering a variety of services for start-up companies
 <p>JTB BENEFIT SERVICE, Inc.</p>	2019 (JTB Corp.)	Offering various solutions in the business areas of welfare, health support, life design support, and CRM support, and incentives for employees of client companies
 <p>Toletta Cats Toletta Cats Inc.</p>	2019	Pet-related services

FY20 Consolidated Earnings Forecasts

Unit: Million yen	FY 20	Increased/decreased amount to the previous fiscal year	Increased/decreased rate to the previous fiscal year
Revenue	14,500 to 15,500	-1,503 to -503	-9% to -3%
Profit before income taxes	1,750 to 2,350	-426 to +173	-20% to +8%
Profit attributable to owners of parent	1,050 to 1,520	-357 to +112	-25% to +8%

Revenue: Disclosed a range of amounts instead of a specific value because it includes product sales of hardware and software procurement services for call center projects in the retail industry.

Profit: Since capital gains and earnings from business investments, which are similar to contingency fees, may be special profits for accounting purposes, the ordinary profit will remain pending, and we will disclose a range of amounts of the profit before income taxes and profit attributable to owners of parent.

Dividend Policy

- Focus on striking a balance between shareholder returns and internal reserves, in order to strengthen the financial structure and prepare for future development of business.
- Ensure consistent and stable payment of dividends.
 - The dividend per share for FY20 : JPY 22.

About the Use of This Document

This document discusses not only the trends in the SIGMAXYZ Group's business and the industry, but also future prospects based on current plans, estimates, expectations, and forecasts.

Statements regarding these future prospects include various risks and uncertainties. It is possible that known or unknown risks, uncertainties, or other factors may lead to results that differ from the content of the statements regarding future prospects. SIGMAXYZ Inc. cannot guarantee that the statements about future prospects and forecasts are correct, and it is possible that the results may be significantly different from the future prospects.

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URL: www.sigmaxyz.com

Inquiry: info@sigmaxyz.com