

KEYWARE TIMES

Annual Report 2020

55th Term Business Report
Year Ended March 31, 2020

Special Feature

Interview with Director

highlighting the path toward

“workstyle innovations” which allow

both employees and the Company to grow



IT can create it.

Message from the President



We will support client's digital transformation in order to achieve sustainable growth and further improve corporate value.

President & CEO

Masahiro Iwata

Dear Stakeholders,

During the fiscal year ended March 31, 2020, the Keyware Group took efforts to secure large outsourcing project orders and expand in the area of digital transformation (DX) as we moved toward improved profitability and the expansion of our foundational businesses*. Furthermore, we undertook initiatives to strategically secure personnel resources in order to construct a system which could meet the demands of our customers. In our new businesses, we continued our efforts in the agriculture ICT, medical, and healthcare areas and proactively strove to make proposals for IT system construction and RPA implementation aimed at workstyle innovations. Internally, we took efforts to establish a workplace environment in which each employee can exercise their talents and maintain a proper work-life balance.

As a result of these initiatives, for the consolidated fiscal year ended March 31, 2020, the Keyware Group was able to bring in orders of ¥19,584 million (up ¥1,945 million or 11.0% from the previous fiscal year) and to achieve net sales of ¥18,428 million (up ¥866 million or 4.9%), operating income of ¥433 million (up ¥113 million or 35.6%), and net profit attributable to parent shareholders of ¥347 million (up ¥3 million or 1.0%).

For the fiscal year ending March 31, 2021, while there are concerns about declining interest in IT investments among companies due to the impact of the novel coronavirus pandemic, we expect demand to rise for core system renovations as the Ministry of Economy, Trade and Industry is urging companies to update old and deteriorating core operations systems by 2025 in order to achieve corporate digital transformation. We also expect companies to continue making IT investments to maintain and improve corporate competitiveness.

In this type of business environment, the Keyware Group is proceeding with efforts in

our core strategy, namely expanding our foundational businesses and raising profitability, generating and developing new businesses, and improving the rewarding nature of work for employees. In the IT Platform Construction Division, which was established in April, 2020, we provide total solutions, including in the infrastructure realm, from consulting to system development/implementation in order to meet the demand for large scale core systems renovations. We have also concentrated on expanding services to produce digital transformation for our customers, primarily in the IoT & Cloud System Division, which was newly established last year. Such services include providing IoT related solutions which utilize monitoring control technologies, a strength for our company. In addition to continuing efforts to develop new businesses, we will take measures for health management and workstyle innovations which support the growth and performance of our employees.

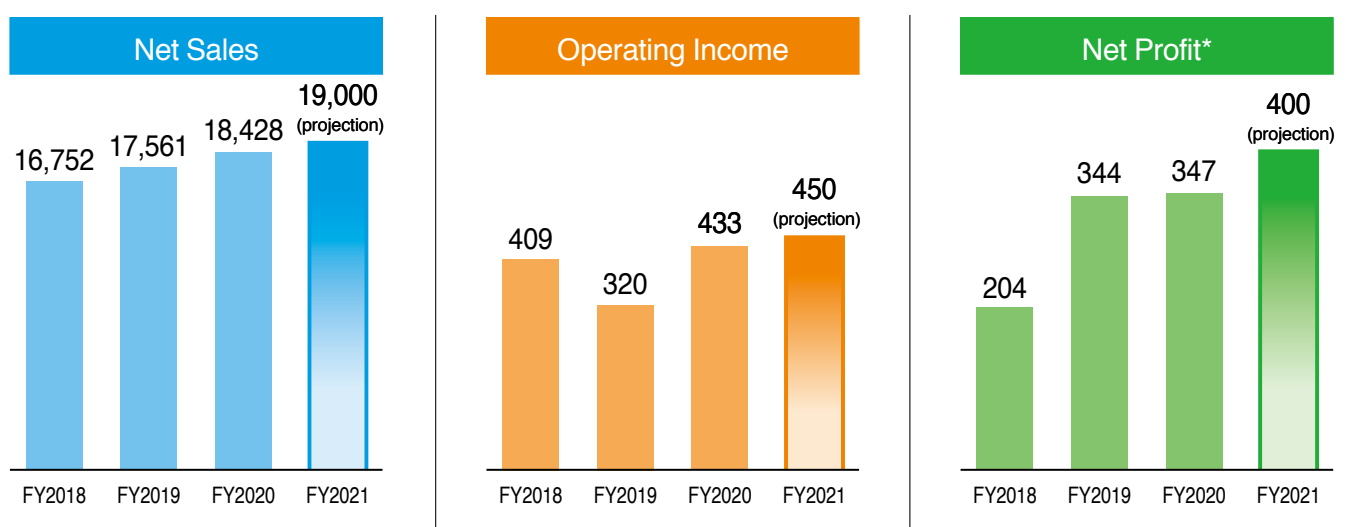
We currently expect that the impact of the novel coronavirus pandemic on the businesses of the Keyware Group will be minor, despite some influence on demand trends among some customers.

For these efforts, we would like to request the continued support of our shareholders and investors.

*The System Development and System Integration Business, which comprises most of the sales in the Keyware Group, is positioned as a foundational business.

Highlights of consolidated business performance

(Unit: million yen, rounded down)



* Refers to net profit attributable to parent shareholders.

Interview with Director highlighting the path toward “workstyle innovations” which allow both employees and the Company to grow

Aiming for further growth and business expansion of the Company through promoting “workstyle innovation”

Q Please tell us the reasons for undergoing workstyle innovations.

The most important resource for IT companies such as ours is “people.” Therefore, we believe that it is absolutely vital to develop a workplace environment so that each employee, with their diverse strengths, can work comfortably and exercise their talents. By establishing this sort of environment, we believe that all employees will be able to perform fully, leading to the growth and business expansion of the Company.

Q Please tell us about the specific initiatives.

We hope to support employees so that anyone can utilize their unique strengths, be motivated to perform to their best level, and expand their own potential.

In an effort to support the performance of our employees, we have divided the career path and developed a system in which employees, based on their wishes and aptitudes, may select either the path of a “management role,” in which they will deploy company-wide strategies while managing and supervising organizations, or the “specialist role,” in which they will gain expert knowledge, efficiently and effectively execute specialist tasks in each department, and produce added value.

Furthermore, we have enhanced our training system by enacting training sessions



Director and Corporate Officer in charge of Corporate Staff

Toshikazu Ogawa

based on experience and role, and establishing programs for employees to learn communication skills, management skills, and other skills required of systems engineers. We provide funding for employees to earn specific qualifications and are creating a system in which employees can increase their ability and expand their potential.

We are also focusing efforts to support employees juggling work and home life and the advancement of female employees. Twenty percent of our work force

is currently female; however, this number rises each year, with approximately half of the hires of new graduates being women in fiscal 2020. As workstyle continues to become more diverse, we are conducting “Female Advancement Promotion Seminars” which delve into the topic of career shape. As a measure to support employees with small children, we have expanded the period employees can take childcare shortened work hours from the month the child enters elementary school to the end of the child’s third year in elementary school. In 2019, we received certification as a “Childcare Support Company” from the Ministry of Health, Labor and Welfare and acquired the “Kurumin” certification mark.



Female Advancement Promotion Seminar

We are also conducting other initiatives so that employees can work happily. From this fiscal year, we have introduced a system in which employees can take paid leave on an hourly basis and began encouraging business casual on Fridays as a dress code free day. Nearly 100% of our employees take health examinations. We have established a system in collaboration with industrial physicians for employees who work long hours or who need special attention as a result of these examinations to receive a visit from a public health nurse.

Furthermore, in fiscal 2019, we introduced telecommuting in order to promote a flexible workstyle, unencumbered by time and place. In addition to allowing employees work efficiently when out of the office or in transit, it also makes it possible for them to work from home when childcare or nursing of elderly relatives makes it difficult to come to the office. Due to the current circumstances of the novel coronavirus pandemic, we are currently requiring all employees, in principle, to work from home in order to mitigate the risks of spreading the virus and ensure the safety of employees and their families*.

Q Please tell us about future initiatives.

We aim to develop a workplace environment in which each employee wants to continue working at this company. We will continue to earnestly listen to employee opinions and implement their ideas as much as possible. We are confident that there are still many ways in which IT can contribute to our society. In order to acquire excellent personnel, we aim to further strengthen hiring, train and secure employees, concentrate the power of various personnel, and generate new innovation.

* In principle, required telecommuting between April 9 and May 31, 2020 (as of May 20, 2020)

Introducing business expansion and initiatives of the Keyware Group



Group Company Introduction Vol.2

Keyware Kyushu Inc.



President & CEO **Masaru Wakiya**

Company Profile

Location : Hakata-ku, Fukuoka
City, Fukuoka Prefecture
Net sales : 839 million yen
(Year ended March 31, 2020)
Employees : 53 (as of April 1, 2020)

Main Businesses

- Private demand solutions
- Foundation/Control solutions
- Medical solutions

The Company operates a system development business and comprehensive IT services business based in the Kyushu region. We have built a relationship of trust with local major companies and provide diverse IT solutions, such as online reservation systems development for rail companies, security systems development for public facilities, and the implementation of electronic medical records and medical administrative systems for medical institutions. The Company's strengths are our development capabilities and teamwork which make it possible to handle all-in-one large projects. In recent years, we have shifted from a technology support model to an all-in-one contracting model to expand revenues. In fiscal 2019, our all-in-one contracted projects made up more than 50% of all our projects.

It is important to create an open environment in order to increase teamwork. As part of this effort, we have held various internal events. We also conducted a complete renewal of the office last year. We expanded the floor 1.5 times and implemented a free seating system which allowed employees to freely choose where they wanted to work. As a result, the office was reborn into a place where communication will naturally occur. This open and free environment produces innovation and leads to further business growth.



Communication space

CSR activities -Blood donation activities-

From fiscal 2018, our Company has cooperated with blood donation activities of the Japanese Red Cross Society as a part of our CSR activities. Every December, we conduct blood donations at our main offices because it is more difficult for the organization to secure donations during the winter. In fiscal 2019, 56 people donated blood, surpassing the previous year. In response, the Tokyo City Red Cross Blood Center expressed their thanks to our company. We plan to continue contributing to society through blood donation activities in the future.



Blood donation activities



Keyware issues the “CSR Report” every year. Please view this report from the Company website

▶ <https://www.keyware.co.jp/about/csr/report-index.html>

Know and Learn!

Activating skills for the ICT era 20

Free Wi-Fi “00000JAPAN” helps people gather information during disasters

“00000JAPAN (Five Zero Japan)” is Wi-Fi which can be used free of charge during major disasters, such as earthquakes or floods, by the people in the affected area. This allows people to confirm their safety and gather information through e-mail or SNS online even if their mobile phones cannot connect, making it a source of comfort as a communications tool in case the worst happens. If you turn on the Wi-Fi on your smartphone settings and select “00000JAPAN” from the Network selection screen, you can connect to the Internet. However, since an ID and password is not necessary so that people can quickly connect during emergencies, we recommend avoiding transmitting personal information because it does not have sufficient security measures.



Financial Statements (Summary)

Unit: million yen, rounded down

Consolidated Balance Sheet

	Previous fiscal year ended March 31, 2019	Current fiscal year ended March 31, 2020
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(Assets)

Current assets	6,432	6,277
Fixed assets	3,342	2,991
Tangible fixed assets	99	99
Intangible fixed assets	393	253
Investments and other assets	2,849	2,639
Total assets	9,774	9,269

POINT: Assets

While cash and deposits and works in progress increased, assets were ¥9,269 million, down ¥505 million year over year due to decreases in accounts receivable, investment securities, and intangible fixed assets stemming from depreciation.

(Liabilities)

Current liabilities	3,049	2,700
Fixed liabilities	428	238
Total liabilities	3,478	2,938

POINT: Liabilities

Liabilities were ¥2,938 million, down ¥539 million year over year due to decreases in short term loans payable and long term loans payable.

(Net assets)

Shareholders' equity	6,286	6,365
Accumulated other comprehensive income	9	-34
Total net assets	6,296	6,330
Total liabilities and net assets	9,774	9,269

POINT: Net assets

While the Company booked the equivalent equity interest of Company stock acquired by equity-method affiliate HBA as a result of a capital business alliance agreement in its treasury stock, net assets were ¥6,330 million, up ¥33 million year over year due to increases in retained earnings. As a result, shareholders equity ratio became 68.3%.

Consolidated Income Statements

	Previous fiscal year April 1, 2018 to March 31, 2019	Current fiscal year April 1, 2019 to March 31, 2020
Net sales	17,561	18,428
Cost of sales	14,833	15,466
Gross profit	2,727	2,961
Selling, general and administrative expenses	2,407	2,527
Operating income	320	433
Ordinary income	399	540
Net profit attributable to parent shareholders	344	347

POINT: Net sales

Net sales were ¥18,428 million, up ¥866 million year over year due to strong performance for ERP and distribution.

POINT: Operating income

Despite some unprofitable projects, operating income was ¥433 million, up ¥113 million year over year due to higher net sales and improved GPM.

Consolidated Statement of Cash Flows

	Previous fiscal year April 1, 2018 to March 31, 2019	Current fiscal year April 1, 2019 to March 31, 2020
Cash flows from operating activities	102	723
Cash flows from investing activities	-126	-51
Cash flows from financing activities	-392	-628
Decrease or increase in cash and cash equivalents	-416	43
Balance of cash and cash equivalents at the beginning of year	1,590	1,174
Balance of cash and cash equivalents at the end of year	1,174	1,218

POINT: Consolidated cash flow

In operating activities, there was a positive cash flow of ¥723 million due to booking a profit in net income before income taxes and a decrease in accounts receivable. In investment activities, there was a negative cash flow of ¥51 million due to such factors as acquisition of fixed assets and investment securities. In financing activities, there was a negative cash flow of ¥628 million due to the decrease of loans payable. As a result, the balance of cash and cash equivalents at the end of the fiscal year became ¥1,218 million.

Stock Information (as of March 31, 2020) *Stock Information*

Stock Information

Authorized shares	36,440,000
Outstanding shares	9,110,000
Shareholders	3,662

● Major shareholders

HBA Corporation	Tecnos Data Science Engineering Inc.
NEC Corporation	Sumitomo Life Insurance Company
JR East Information Systems Company	Sumitomo Mitsui Banking Corporation

Notes for Shareholders

Fiscal year	April 1 to March 31
Date of general meeting of the shareholders	Every June
Shareholder registration date	Regular general meeting of the shareholders and fiscal year-end dividend: Every March 31 Interim dividend: Every September 30 If another date is necessary, the prescribed date notified in advance.
Shareholder's register manager and administrator of special account	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Shareholder's register manager administration office	Stock Transfer Agency Department Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
[Contact and postal address]	2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan Stock Transfer Agency Department Sumitomo Mitsui Trust Bank, Limited
[Phone]	(Toll-free in Japan) 0120-782-031
[Internet website URL]	https://www.smtb.jp/personal/agency/index.html
Method of public notice	Electronic public notice on Keyware website
Listing exchange	Tokyo Stock Exchange, Second Section

Procedures concerning shares of stock

- **Notification and inquiry for address change**
Please contact the securities company which you use. Shareholders who do not use a securities company account should contact the phone number listed above for Sumitomo Mitsui Trust Bank.
- **Receipt of dividends payable**
Please apply to Sumitomo Mitsui Trust Bank, which is the administrator of the shareholder register.

Company Profile

Trade name	Keyware Solutions Inc.
Address	5-37-18, Kamikitazawa, Setagaya-ku, Tokyo 156-8588, Japan
Date of establishment	May 1965
Capital	1,737 million yen
Sales	18,428 million yen (Consolidated, year ended March 31, 2020)
Employees	1,096 (Consolidated, as of March 31, 2020)
Certifications	Registered as a Quality Management Systems Company Firm Permitted to use the JIPDEC Privacy Mark Registered as an Information Security Management Systems Company Registered as an Environmental Management Systems Company

Executives

President & CEO	Masahiro Mita
Director	Shinichi Arakawa
Director	Seiichi Takao
Director	Nobuyuki Sawada
Director	Hiroaki Yamamoto
Director	Toshikazu Ogawa
Director	Katsutoshi Okada
Director	Tomomi Iwasaki
Director	Makiko Noda

Auditor	Takao Shimada
Auditor	Shigeo Sasahara
Auditor	Hiroshi Takita
Auditor	Kenji Endo

* Directors Katsutoshi Okada, Tomomi Iwasaki and Makiko Noda are Outside Directors as provided in Article 2 Clause 15 of the Companies Act.

* Auditors Hiroshi Takita and Kenji Endo are Outside Auditors as provided in Article 2 Clause 16 of the Companies Act.

* Directors Katsutoshi Okada, Makiko Noda and Auditor Hiroshi Takita are independent director/auditor who do not have the potential to cause conflicts of interest against general shareholders, the designation of which is required by the Tokyo Stock Exchange.

■ Internet IR Information

Keyware Solutions aims to distribute timely and easy-to-follow information to shareholders and investors, and endeavors to improve its IR activities by enriching its company website.

Keyware IR english

Search

<https://www.keyware.co.jp/english/ir/index.html>

English language site

In English language site, information is provided in order to generate a deeper understanding of the operations of Keyware Group.



<https://www.keyware.co.jp/english/index.html>

IR Information



<https://www.keyware.co.jp/english/ir/index.html>

Results briefing (video dissemination)

A video of the results briefing is disseminated together with the results briefing documentation. The information contains explanations concerning the business report and future strategies of Keyware.



https://www.cmstream.com/pir/?conts=keyware_202005_aV61

Keyware Solutions Inc.

5-37-18, Kamikitazawa, Setagaya-ku, Tokyo 156-8588, Japan
Corporate Planning Division, Public Relations & Investor Relations Office
<https://www.keyware.co.jp>



JUSE-RA-034
QMS, EMS, ISMS JUSE-EG-266
Registrations JUSE-IR-001

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