

KEYWARE TIMES

Annual Report 2021

56th Term Business Report

Year Ended March 31, 2021

Special Feature **Straight from the Key Persons**
Current initiatives and
future strategies in System
Development Business



IT can create it.

Message from the President



We will strengthen our support for our customers to achieve digital transformation and aim for further business expansion.

President & CEO

A handwritten signature in black ink that reads "Masahiro Iwata". The signature is written in a cursive, flowing style.

Dear Stakeholders,

In the fiscal year ended March 31, 2021, the Keyware Group proceeded 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 our foundational businesses, we strengthened our organizational structure to meet demand for large outsourcing projects aimed at achieving digital transformation (DX) and core systems renovations for our customers. We also took efforts to secure orders by building a development structure that had stronger cooperation between business divisions and the Group. Further, we began providing new solutions utilizing the ERP package “Biz J,” which aims to strengthen the core operational solutions of our company. On the other hand, while some customers postponed orders or reduced the scope due to the impact of the COVID-19 pandemic on their business activities, we strove to increase orders by expanding existing projects and deepening relationships with existing customers while taking efforts to limit selling, general and administrative expenses. In addition to continuing efforts to develop new businesses, we took measures for health management and workstyle innovations which support the growth and performance of our employees.

As a result of these initiatives, for the consolidated fiscal year ended March 31, 2021, the Keyware Group was able to bring in orders of ¥18,498 million (down ¥1,086 million or 5.5% from the previous fiscal year) and to achieve net sales of ¥18,627 million (up ¥199 million or 1.1%), operating income of ¥635 million (up ¥201 million or 46.4%), and net profit attributable to owners of parent of ¥685 million (up ¥338 million or 97.4%).

For the fiscal year ending March 31, 2022, while there continue to be concerns about the impact of the COVID-19 pandemic, there have been signs of recovery in certain industries and the demand for IT investment is expected to continue to grow in the future as more companies take on DX and the government heads towards digitalization.

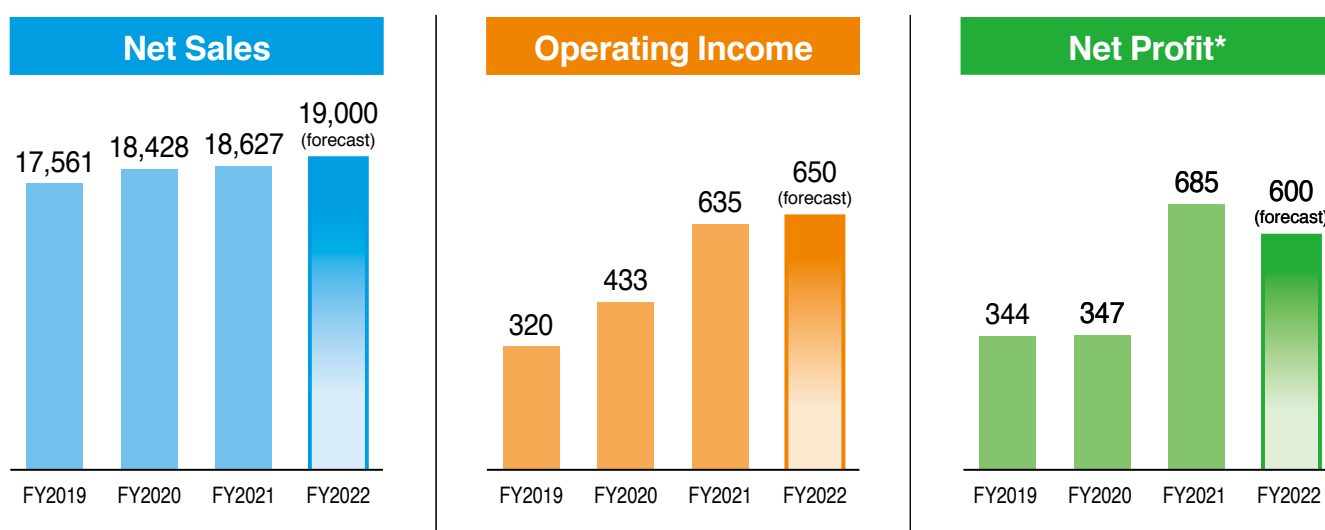
In these circumstances, the Keyware Group will aim to expand orders for large outsourcing projects and primary outsourcing projects through proactive order activities that closely monitor customer movements. We will also take proactive efforts to utilize new technology, products, and solutions as we aim to be the best partner to support our customers' DX. Further, in May 2021, we entered a capital and business alliance with Kanematsu Electronics Ltd. and Canon Marketing Japan Inc. We aim to further expand our revenue by strengthening our cooperation with these two companies and expanding our business area and customer base.

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 net 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 owners of parent.

Straight from the Key Persons Current initiatives and future strategies in System Development Business

We interviewed Director Saito, supervisor of the System Development Business, and Mr. Mizuta, Division Manager of the IoT & Cloud System Division.

Q Please tell us the business area and characteristics of the System Development Business.

Saito: It is a core business that comprises approximately 70% of the Group sales. It primarily develops core systems that support social infrastructure, such as government agencies, transportation, communications, media, finance, and medical care. In addition to a wealth of industry and operational know-how and technological capabilities, our strength lies in our advanced management capabilities that allow us to complete large-scale systems development. Based on this, we have built a relationship of trust over many years with major IT companies such as the NEC Group, NTT Group, and the JR Group Information Company, as well as major systems integrators, and have received stable orders.

Q Please tell us Keyware's initiatives to respond to customer needs in the System Development Business.

Saito: There have been some industries that postponed IT investment plans due to the COVID-19 pandemic. However, there are still industries that desire to pursue such plans. Public institutions that aim to secure safety and peace of mind of the public are one such area where we have witnessed continued demand to build large-scale systems.

However, even if there are many inquiries from customers, we cannot receive orders without first preparing our development structure. Therefore, we have proceeded with building a structure that can respond to these projects, such as assembling engineers across divisions rather than limiting them to a single division. Further, we are taking efforts to develop project managers with high management capabilities.

In terms of technology, we are focusing on expanding project orders and developing



Director and Corporate Officer in charge of System
Development Business

Ikuo Saito

engineers since we are accelerating the transition to systems development on the cloud. We are also taking efforts to expand our business area by utilizing more advanced IT technology. The IoT & Cloud System Division, which we newly established two years ago, takes a central role in those efforts.

Q Please tell us about the role and initiatives of the IoT & Cloud System Division.



Division Manager of the IoT & Cloud System Division
Takayuki Mizuta

Mizuta: This division is proceeding with initiatives to utilize our strengths and contribute to a society in which various objects are able to interact and connect with the Internet (IoT). Specifically, we are acquiring new technology that is essential to expand our business in the future, such as IoT and cloud, and building development know-how. By deploying these across the company, we are striving for each division to be able to utilize their unique operational know-how and expand the realm of their support.

Currently, many companies have confirmed the need to implement IoT and are taking efforts to gather and visualize a massive amount of data on operations. However, as of now, they are faced with this crucial question: “How do we use this gathered information to improve operations and productivity?” For example, a certain automobile manufacturer is gathering real-time data from all the parts that make up its cars to identify which manufacturing plant or supplier provided a part that has a defect. By creating these successful examples of a company using gathered data to improve the quality of its products, we are demonstrating the technological and developmental capabilities of the Group as we aim to form a business.

Q Please tell us about the future of this division.

Saito: As companies that are utilizing digital technology to transform are increasing, we are aiming to expand large project orders and improve results by precisely understanding the goals of our customers and proposing solutions to fit them. In order to achieve this, we will further strengthen employee skills and the cooperation within the Group, proactively cooperate with external partners who have strengths that differ from our own, and grow our business area and customer base.

Keyware Up Close

Introducing business expansion and initiatives of the Keyware Group

>>> Brand-New Business

■ Entered a capital and business alliance with two companies

The Company entered a capital and business alliance with Kanematsu Electronics Ltd. and Canon Marketing Japan Inc.

Through this agreement, we aim to strengthen support for the realization of our customers' digital transformation (DX). We are also aiming to build a mid-to-long-term relationship of cooperation with both companies and further expand our customer base and business area.

■ Kanematsu Electronics Ltd.

Representative	Representative Director, President & CEO Akira Watanabe	Consolidated net sales	¥65,542 million (Fiscal year ended March 31, 2021)
Description of Business	Kanematsu Electronics Ltd. (KEL) designs and implements information systems and provides operation and consulting services for businesses based on KEL's expertise in information technologies. KEL retails, leases, maintains, develops IT system products and software, and also sends loan engineers.		

■ Canon Marketing Japan Inc.

Representative	President & Representative Director Masachika Adachi	Consolidated net sales	¥545,060 million (Fiscal year ended December 31, 2020)
Description of Business	Domestic marketing of Canon products and related solutions		

>>> Brand-New Business

■ Began providing solutions to support digitalization of hand-written documents and DX

Provided with OEM from Nippon Telegraph and Telephone East Corporation, Keyware began providing “AI-OCR KeyRex with AI inside” solutions to read hand-written documents and registers with OCR and convert to digital data using AI. In order to support the DX of companies, we are providing solutions to automatize operations using RPA*. Depending on the company, the data to insert into RPA is hand-written paper documents, so automatizing this task has become a major issue. By digitalizing this data and combining with RPA, it becomes possible to seamlessly automatize the process from data system entry to compilation and utilization. We are more powerfully supporting the DX promotion of our customers by providing these solutions.



*RPA (Robotic Process Automation): Automation of operations through robots

>>> Brand-New Business

■ Began providing core operations solutions to IT companies through a collaboration of three companies

Keyware began providing the core operations solution for IT businesses, “Project Budget Management/Service Procurement Integration Template for Biz ∫.” Based on the ERP software “Biz ∫[®] (Biz Integral),” provided by NTT DATA Biz Integral Corporation, this is a specialized operations template that integrates Keyware's “Project Budget Management Template” and Japan Novel Corporation's online procurement/purchasing system “EPCUS[®].” This solution will support operational improvement and digitalization for IT companies by boosting profitability of projects and allowing service procurement operations to be conducted online. Our company will continue to provide solutions based on the core operational systems renovations needs of our customers by utilizing ERP.



CSR Activities - Blood donation activities -

Keyware is participating in Japanese Red Cross Society blood donation activities as part of our CSR activities. Due to the COVID-19 pandemic, fewer group blood donation events have taken place in universities and companies, making it difficult to secure the needed blood supply. In these circumstances, we had more people apply to donate blood than we were seeking at the company blood donation event held in December of last year at the company head office. We will continue to contribute to society through such as 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>



Financial Statements (Summary)

Unit: million yen, rounded down

Consolidated Balance Sheet

	Previous fiscal year As of March 31, 2020	Current fiscal year As of March 31, 2021
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(Assets)

Current assets	6,277	7,074
Non-current assets	2,991	3,236
Property, plant and equipment	99	94
Intangible assets	253	257
Investments and other assets	2,639	2,883
Total assets	9,269	10,310

POINT: Assets

While cash and deposits decreased, assets were ¥10,310 million, up ¥1,041 million year over year due to increased notes and accounts receivable - trade, investment securities.

(Liabilities)

Current liabilities	2,700	4,148
Non-current liabilities	238	113
Total liabilities	2,938	4,261

POINT: Liabilities

While long-term borrowings decreased, liabilities were ¥4,261 million, up ¥1,323 million year over year due to increases in accounts payable - trade, short-term borrowings.

(Net assets)

Shareholders' equity	6,365	5,931
Accumulated other comprehensive income	-34	117
Total net assets	6,330	6,048
Total liabilities and net assets	9,269	10,310

POINT: Net assets

While retained earnings increased, net assets were ¥6,048 million, down ¥281 million year over year due to a purchase of treasury shares. As a result, shareholders equity ratio became 58.7%.

Consolidated Income Statements

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021
Net sales	18,428	18,627
Cost of sales	15,466	15,650
Gross profit	2,961	2,977
Selling, general and administrative expenses	2,527	2,342
Operating income	433	635
Ordinary income	540	755
Profit attributable to owners of parent	347	685

POINT: Net sales

While projects for logistics and hotels decreased as a result of the COVID-19 pandemic, net sales were ¥18,627 million, up ¥199 million year over year due to transportation and ERP-related large projects as well as an increase in existing projects for government agencies.

POINT: Operating income

Despite the impact of unprofitable projects and increased slow work periods due to the impact of COVID-19, operating income was ¥635 million, up ¥201 million year over year due to higher net sales and limiting selling, general and administrative expenses.

Consolidated Statement of Cash Flows

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021
Cash flows from operating activities	723	-193
Cash flows from investing activities	-51	-82
Cash flows from financing activities	-628	153
Net increase (decrease) in cash and cash equivalents	43	-122
Balance of cash and cash equivalents at the beginning of year	1,174	1,218
Balance of cash and cash equivalents at the end of the fiscal year	1,218	1,095

POINT: Consolidated cash flow

In operating activities, there was a negative cash flow of ¥193 million due to increased accounts receivable, despite booking a profit in net income before income taxes and increased accounts payable - trade. In investment activities, there was a negative cash flow of ¥82 million due to such factors as acquisition of intangible assets. In financing activities, there was a positive cash flow of ¥153 million due to an increase in short-term borrowings, despite the purchase of treasury shares. As a result, the balance of cash and cash equivalents at the end of the fiscal year became ¥1,095 million.

Stock Information (as of March 31, 2021) *Stock Information*

Stock Information

Authorized shares	36,440,000
Outstanding shares	9,110,000
Shareholders	4,626

• Major shareholders

HBA Corporation	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]	Stock Transfer Agency Department Sumitomo Mitsui Trust Bank, Limited 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan
[Phone]	(Toll-free in Japan) 0120-782-031
[Internet website URL]	https://www.smtb.jp/personal/agency/index.html
Method of public notice	The Company provides electronic public notices. However, notices shall be provided by publication in the Nihon Keizai Shimbun if an accident or other unavoidable circumstances prevent the use of electronic public notices.
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
Sales	¥18,627 million (Consolidated, fiscal year ended March 31, 2021)
Employees	1,123 (Consolidated, as of March 31, 2021)
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	Auditor	Shigeo Sasahara
Director	Shinichi Arakawa	Auditor	Nobuyuki Sawada
Director	Toshikazu Ogawa	Auditor	Hiroshi Takita
Director	Ikuo Saito	Auditor	Kenichi Ota
Director	Tetsuro Kato		
Director	Katsutoshi Okada		
Director	Makiko Noda		
Director	Stefan Gustafsson		

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

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

* Directors Katsutoshi Okada, Makiko Noda, and Stefan Gustafsson, and Auditors Hiroshi Takita and Kenichi Ota are independent directors/auditors 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>

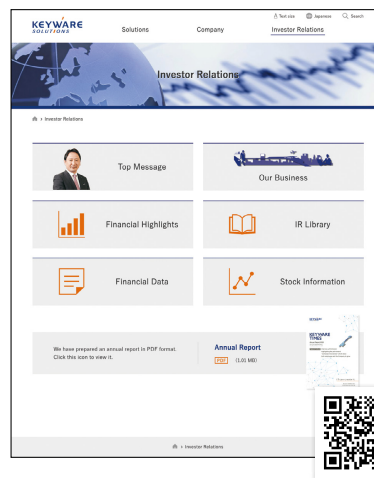
English language site

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_202105_Af9p

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/english/>



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