

## New Medium-term Management Plan

# ISID X<sub>(Cross)</sub> Innovation 2021 (FY2019–FY2021)

February 8, 2019

Information Services International-Dentsu, Ltd.

# **Review of Previous Medium-term Management Plan (FY2016–FY2018)**

# Outline of Previous Medium-term Management Plan

## ISiD Open Innovation 2018 “Joint Value Creation”

Help resolve the issues our customers and society face by generating new, forward-looking value through collaboration with a wide range of partners

### Basic Policies

- 1) Pursue Competitive Advantages
- 2) Develop New Business Fields
- 3) Enhance Human Resources

### Quantitative Goals (consolidated)

|                                      | CY2015<br>(from January 1, 2015<br>to December 31, 2015) | FY2018 | Compound annual<br>growth rate(CAGR) |
|--------------------------------------|--|--------|--------------------------------------|
| Net sales<br>(billion yen)           | 81.2   | 100.0  | 7.2%                                 |
| Operating<br>income<br>(billion yen) | 5.5  | 8.0    | 13.3%                                |
| Operating<br>margin                  | 6.8%   | 8.0%   |                                      |

### Capital Policies

|                              |                                     |
|------------------------------|-------------------------------------|
| ROE                          | 10.0% or more                       |
| Consolidated<br>payout ratio | 35–40%                              |
| M&A<br>Investment<br>budget  | ¥10.0 billion<br>(three-year total) |

### Strategic Domains

「Global」 「IoT/Big Data」 「2020 & Beyond」

# Summary 1. Performance Evaluation

- Net sales target not achieved. Main factors were inability to achieve inorganic growth and changes in the Financial Solutions business environment.
- At the same time, profitability increased, with all profit target items achieved.

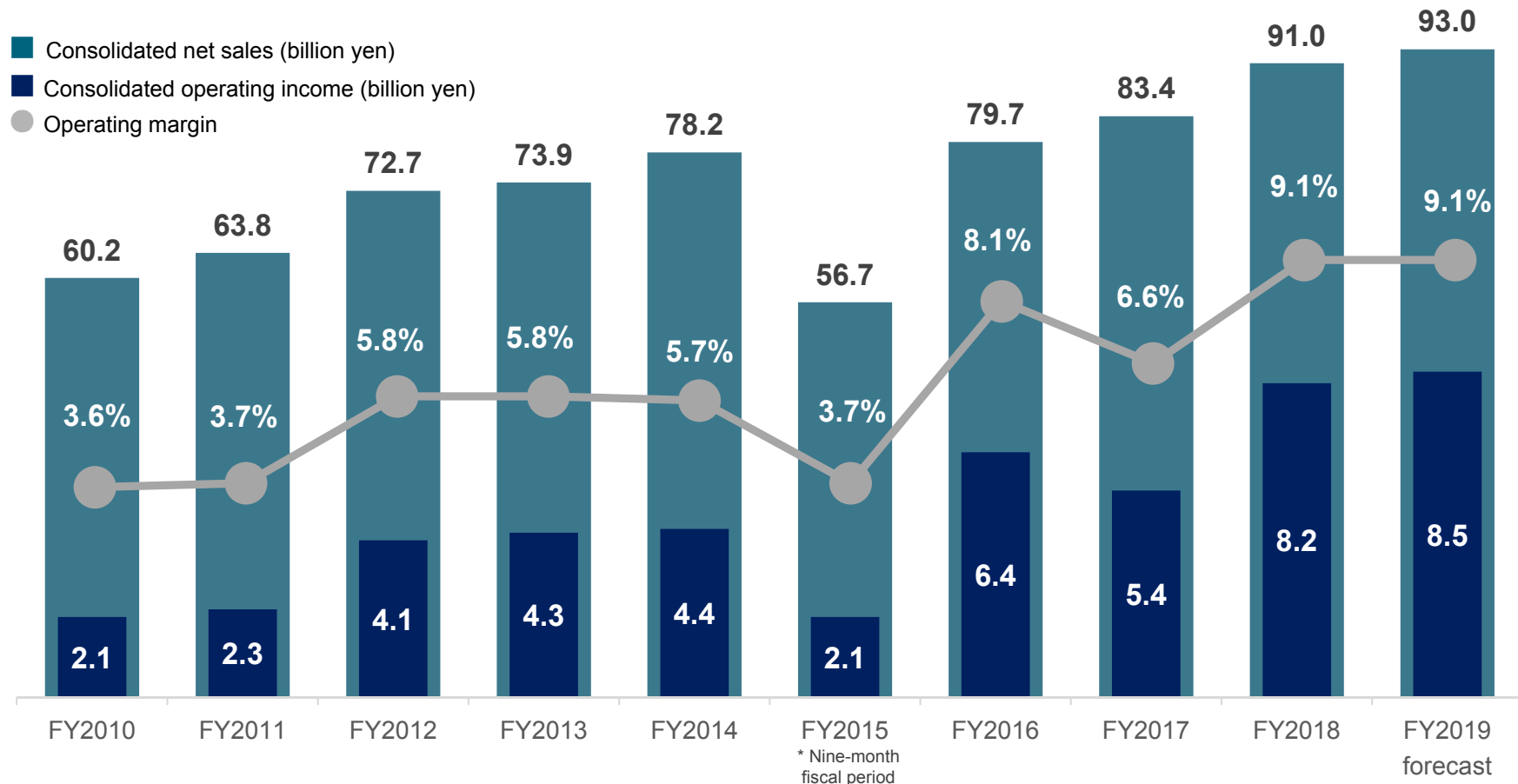
|                                   | Plan targets | FY2018 actual | Difference | Evaluation |
|-----------------------------------|--------------|---------------|------------|------------|
| Net sales<br>(billion yen)        | 100.0        | 91.0          | -9.0       | ×          |
| Operating income<br>(billion yen) | 8.0          | 8.2           | +0.2       | ○          |
| Operating margin                  | 8.0%         | 9.1%          | +1.1p      | ○          |
| ROE                               | 10.0%        | 10.5%         | +0.5p      | ○          |

# Summary 2. Performance Evaluation by Business Segment

|  | (billion yen)        | Plan targets | FY2018 actual | Difference | Reasons for difference  |
|--|----------------------|--------------|---------------|------------|---|
| <b>Financial Solutions</b>                               | Net sales            | 27.7         | 23.2          | -4.5       | <ul style="list-style-type: none"> <li>● Unachieved due to impact from restrained investment among financial institutions amid negative interest rate environment.</li> <li>● At the same time, new projects were acquired in the government and financial institution sectors, providing traction for recovery. Business also grew in the FinTech domain.</li> </ul> |
|  | Operating income     | 3.0          | 1.7           | -1.3       |   |
|  | Operating margin (%) | 10.8         | 7.7           | -3.0p      |   |
| <b>Business Solutions</b>                                | Net sales            | 17.4         | 16.8          | -0.6       | <ul style="list-style-type: none"> <li>● Proprietary products POSITIVE and STRAVIS performed well, however, we fell slightly short of targets due to fewer SI projects.</li> <li>● Expanded proprietary product lineup through promotion of R&amp;D.</li> </ul>   |
|  | Operating income     | 0.9          | 0.7           | -0.2       |   |
|  | Operating margin (%) | 5.2          | 4.2           | -1.0p      |   |
| <b>Manufacturing Solutions</b><br>(Formerly Engineering) | Net sales            | 29.0         | 29.2          | +0.2       | <ul style="list-style-type: none"> <li>● Seized upon massive IT investment appetite in the manufacturing industry, achieving sales and profit targets.</li> <li>● In addition to expansion in the design domain centered on CAD/PLM, the MBD/MBSE business domain also expanded. IoT, Smart Factory and other businesses also grew.</li> </ul>                        |
|  | Operating income     | 1.4          | 2.2           | +0.8       |   |
|  | Operating margin (%) | 4.8          | 7.6           | +2.8p      |   |
| <b>Communication IT</b>                                  | Net sales            | 20.0         | 21.7          | +1.7       | <ul style="list-style-type: none"> <li>● Substantially surpassed targets through support for work environment reforms of Dentsu and expanded collaboration with the Dentsu Group.</li> <li>● Expanded RPA business started first for the Dentsu Group into the financial and manufacturing industries.</li> </ul>   |
|  | Operating income     | 2.1          | 3.5           | +1.4       |   |
|  | Operating margin (%) | 10.5         | 16.2          | +5.7p      |   |
| <b>Inorganic (M&amp;A)</b>                               | Net sales            | 6.0          | 0.0           | -6.0       | <ul style="list-style-type: none"> <li>● Invested a total of ¥3.3 billion over three years in startups and funds with advanced technologies and unique solutions.</li> <li>● However, these investments only acquired minority stakes, thus inorganic growth remained unrealized.</li> </ul>  |
|  | Operating income     | 0.5          | 0.0           | -0.5       |   |
|  | Operating margin (%) | —            | —             | —          |   |

# For the New Medium-term Management Plan

- Realized stable growth since the fiscal year ended March 2011.
- Aiming for the next stage of growth, we are bringing in a new generation of management and plan to make further leaps forward.



| Dividend per share | 20 yen | 20 yen | 20 yen | 22 yen | 26 yen | 32 yen | 50 yen | 52 yen | 63 yen | 70 yen |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|

# **New Medium-term Management Plan (FY2019–FY2021)**

# Business Environment Awareness

1

Although we have grown steadily through the past three medium-term plans, **the business environment is changing rapidly** amid the advance of technology.

2

To sustain and increase growth, we ourselves must change to **accelerate opportunities through the start of innovation** on the back of solid performance.

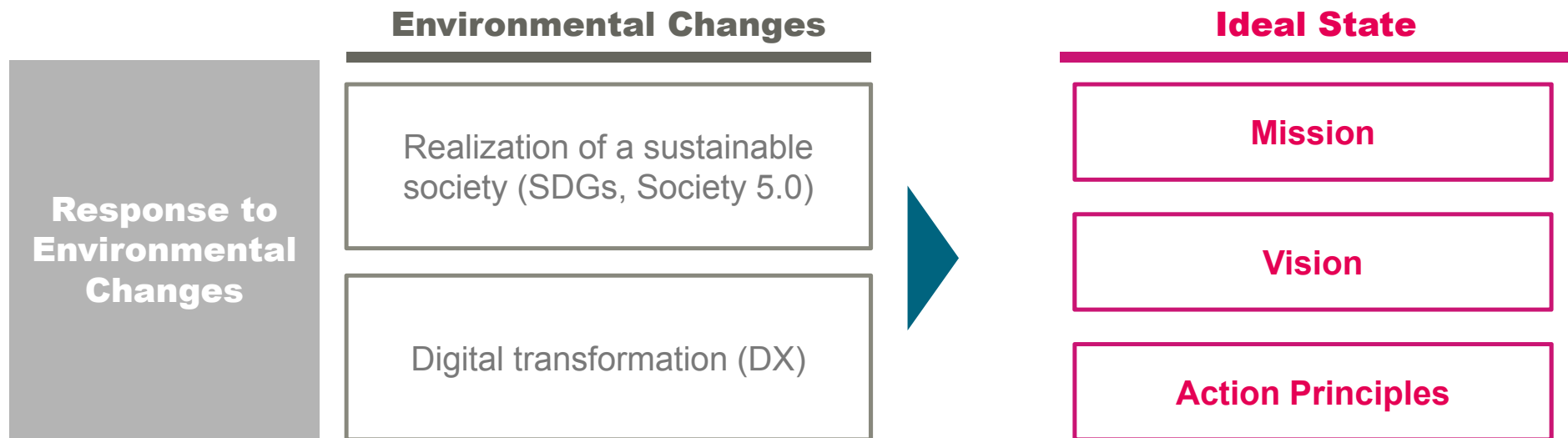
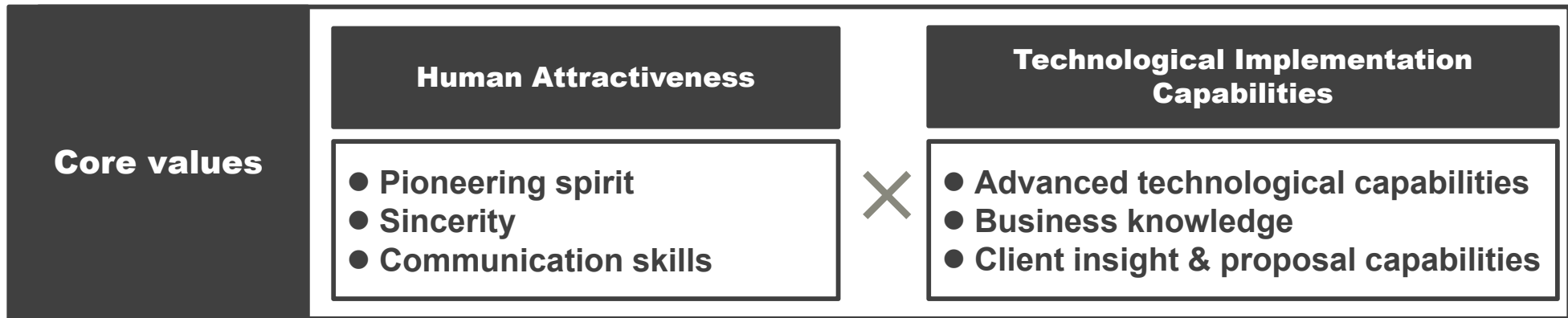
3

Create a new growth scenario based on **our updated corporate philosophy** to share the right direction and our values.



# Aims of Updated Corporate Philosophy

- To head in the right direction (toward our idea state) and **share our values (strengths, core values)**.
- Based on this new Corporate Philosophy, **respond to environmental changes** and accelerate innovations to achieve further growth.



# New Corporate Philosophy

## Mission

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Acting with sincerity, we contribute to progress and harmony among our customers, consumers, and society by exploring the unlimited potential of technology.

## Vision

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### Humanology for the future

Bringing people and technology together to shape the future.

Understanding human trends, anticipating society's evolution and exploring the full potential of technology, ISID Group is creating a better tomorrow through harmony between people and technology.

## Action Principles

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### AHEAD

Be a pioneer.

#### Agile

Try it first.

#### Humor

Win through personality.

#### Explore

Venture into the unknown.

#### Ambitious

Have a dream.

#### Dialogue

Communicate ideas thoroughly.

# New Medium-term Management Plan (FY2019–FY2021)

## ISiD X(Cross) Innovation 2021

Aim to create new value through collaboration with a wide range of partners and realize our corporate philosophy through the promotion of “X Innovation” going beyond technologies, industries, companies, organizations and regions.

Basic  
Policies

**1. Core business evolution**

**2. New business creation**

**3. Business foundation innovations**

Strengthen human  
resources

Accelerate advanced  
technological initiatives

Improve added value  
capabilities of business  
support departments

# Key Measures by Business Segment 1

## Financial Solutions

### Core business evolution:

- Maintain and expand businesses for core clients.
- Drive new clients in the life and non-life insurance, securities, leasing business and other industries.
- Enhance and expand proprietary software products such as BANK·R and Lamp.

### New business creation:

- Provide services supporting financial institution structural reforms.
- Cross border business in different industries, such as enterprises aiming to enter financial services.
- Creating new value with “Financial x ○○” leading integration of financial domain with different fields.

## Business Solutions

### Core business evolution:

- Expand functionality of proprietary products (POSITIVE, STRAVIS).
- Strengthen ERP, Group management administration solutions.

### New business creation:

- Deploy enterprise application Ci\*X.
- Launch BPO business in the Human Capital Management (HCM) sector.

# Key Measures by Business Segment 2

## Manufacturing Solutions

### Core business evolution:

- Expand and link digital solutions supporting the manufacturing industry value chain.
- Promote and establish Model Based Systems Engineering (MBSE) through the strengthening and global deployment of iQUAVIS.

### New business creation:

- Support digital transformation in the manufacturing industry.
- Promote the “kotozukuri(value creation/story creation)” (as a Service) through the expansion of solutions in the Connected, Autonomous, Shared and Electric (CASE) domain.

## Communication IT

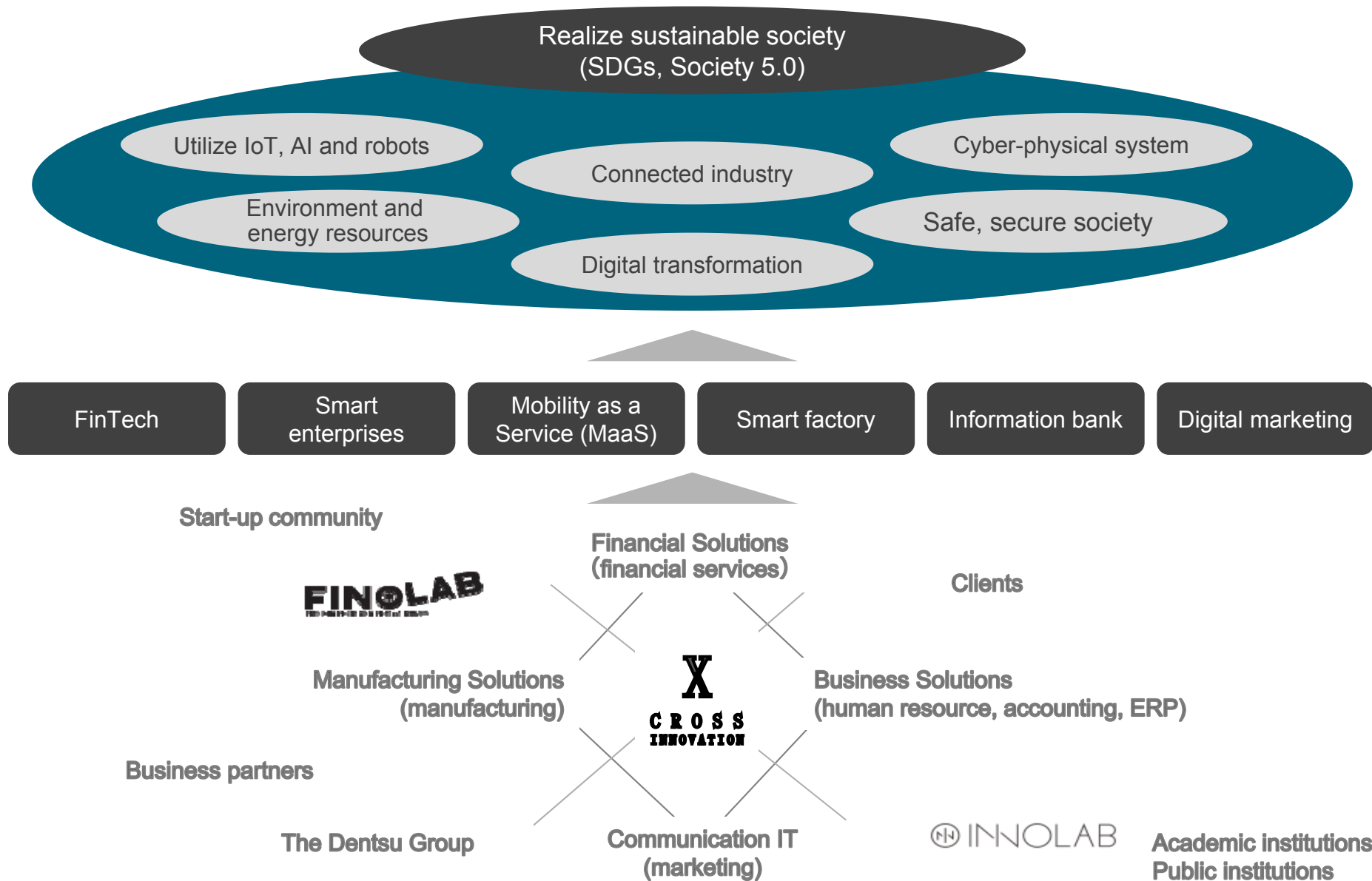
### Core business evolution:

- Support the advance of the Dentsu Group IT platforms.
- Accelerate collaborations within the Dentsu Group.

### New business creation:

- Develop business using marketing technologies.
- Create new businesses for the post-2020, including regional revitalization, sports technology and tourism.

# New Business Creation through X Innovation



# Business Foundation Innovations

## Strengthen human resources

- Strengthen the quality and quantity of our human resource capabilities—the source of our strengths—aiming to **employ more than 300 talents** by 2021.
- Strengthen recruitment and education skills.
- Promote diversity and workstyle innovations.

## Accelerate advanced technological initiatives

- Strengthen the collaboration between business segments and R&D divisions.
- Strengthen **advanced technology implementation** capabilities through strategic initiatives in focus areas including AI, IoT, robots and data analysis.

## Improve added value capabilities of business support departments

- Establish a **lean, compact** and agile business support structure and management administration system.

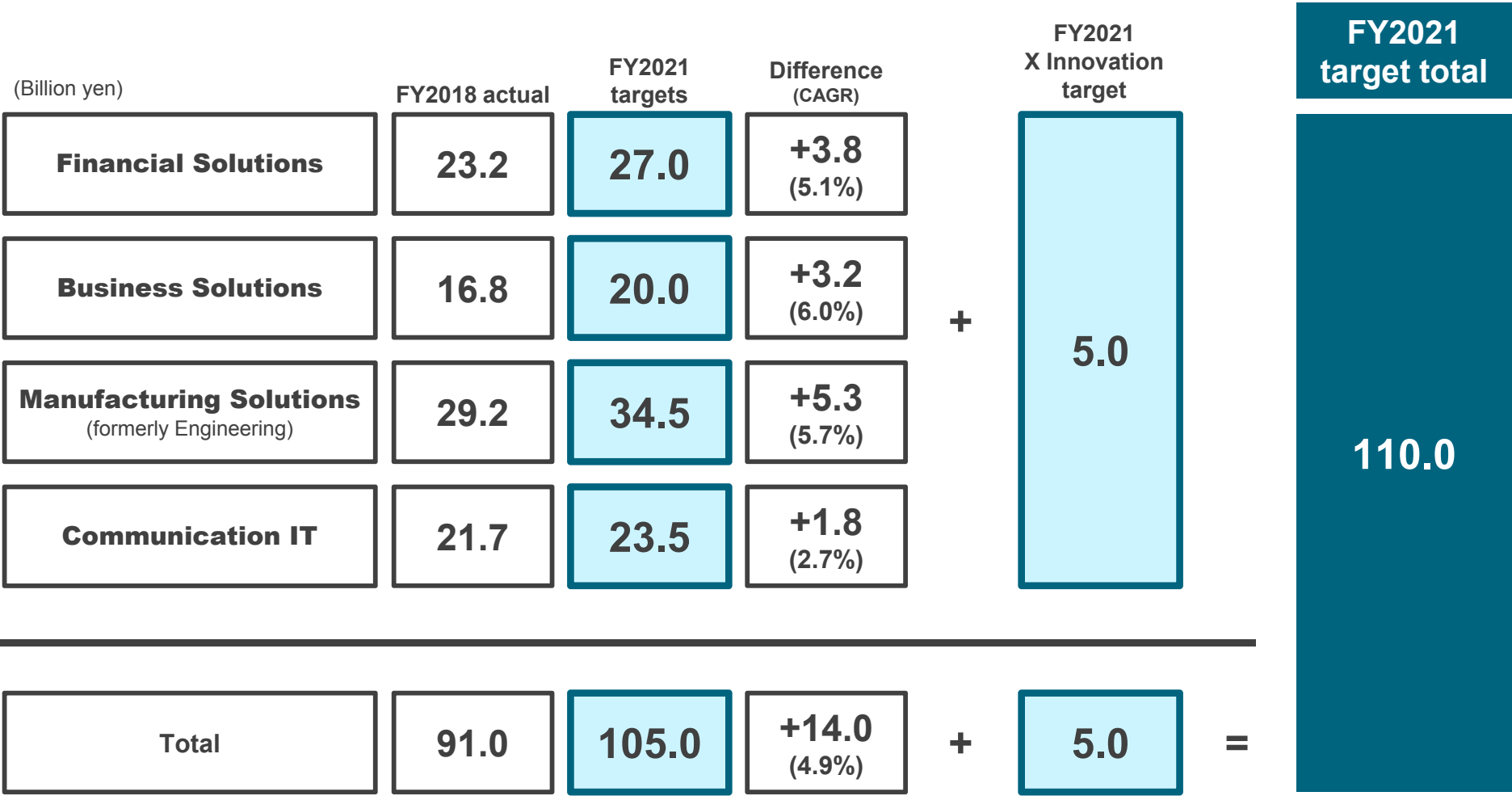
# Quantitative Goals (consolidated)

|                                   | FY2018 actual | FY2021 targets | Difference | CAGR  |
|-----------------------------------|---------------|----------------|------------|-------|
| Net sales<br>(billion yen)        | 91.0          | 110.0          | +19.0      | 6.5%  |
| Operating income<br>(billion yen) | 8.2           | 11.0           | +2.8       | 10.3% |
| Operating margin                  | 9.1%          | 10.0%          | +0.9p      |       |
| ROE                               | 10.5%         | 12.5%          | +2.0p      |       |



# Quantitative Goals: Net sales by Business Segment

- In addition to growth in each segment, create new X Innovation businesses.

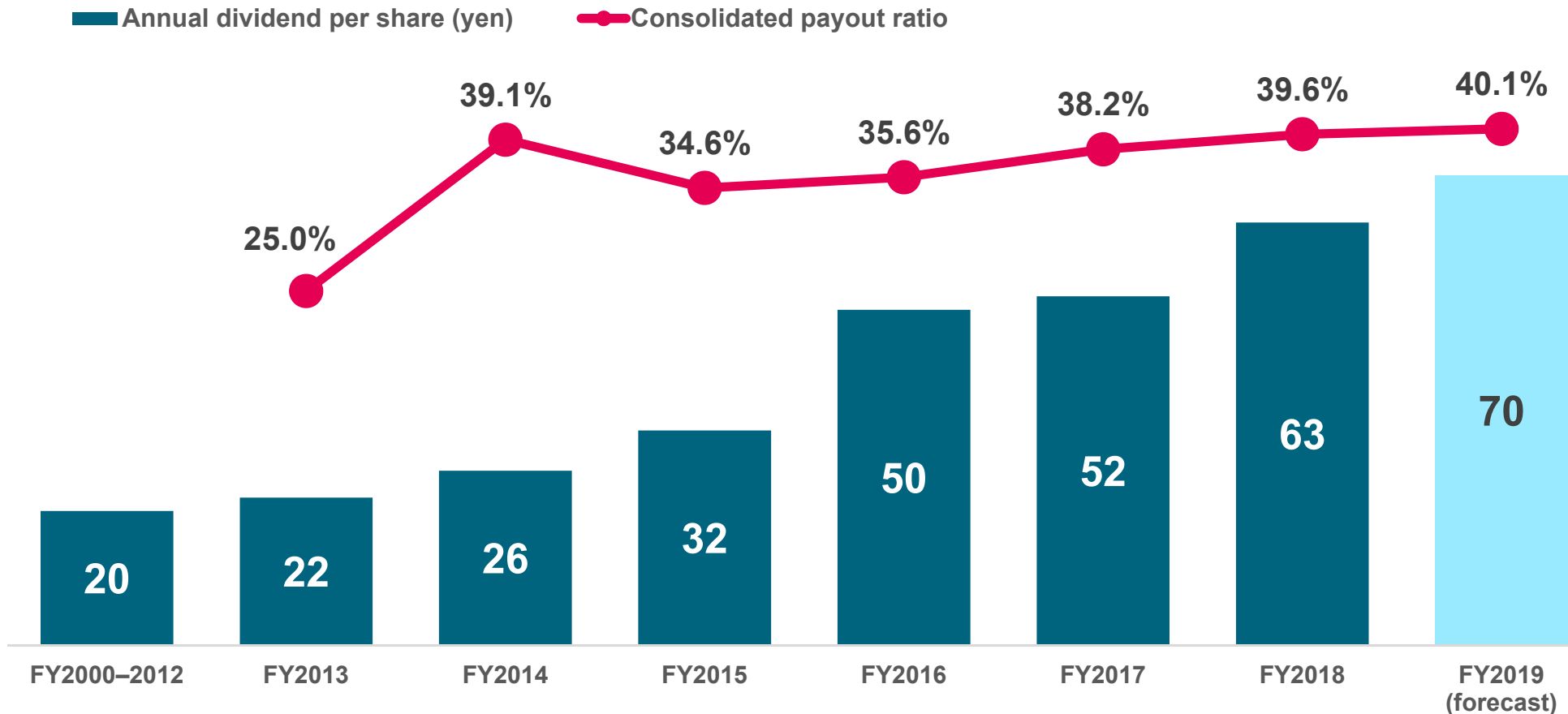


# Growth Investments

| (Billion yen)          | Performance for the three-year period between 2016–2018 | Targets for the three-year period between 2019–2021 | Objective   |
|------------------------|---|---|---|
| <b>Human resources</b> | –   | <b>+12.0</b>  | <p>Improve human resource capabilities, increase employee numbers.</p> <p>(investment amounts increased for the education, recruiting and remuneration from previous medium-term management plan)</p> |
| <b>R&amp;D</b>         | 5.9   | <b>10.0</b>   | <p>Strengthen and expand solutions, enhance implementation of cutting-edge technologies.</p> <p>(expenses: ¥6.0 billion, assets: ¥4.0 billion)</p>  |
| <b>M&amp;A</b>         | 3.3   | <b>10.0</b>   | <p>Expand business domain, increase speed of growth.</p>  |

# Returning Profits to Shareholders

- To further strengthen the return of profit to shareholders, change the consolidated payout ratio from the “35%–40%” to “40% or more.”
- Going forward, maintain internal reserves for realizing sustainable growth, provide shareholder return under the basic policy of paying appropriate and stable dividends.



# Humanology for the future