



Q1 FY02/21 Financial Summary

2020.3.1 – 2020.5.31

Serverworks Co., Ltd. (Securities code: 4434)

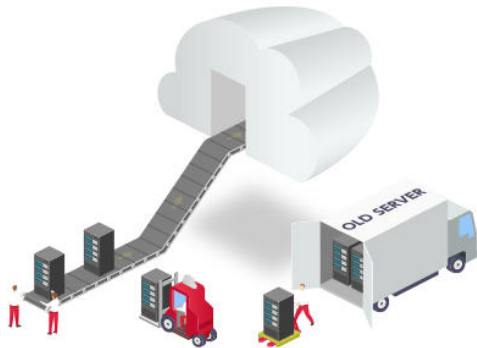
Q1 FY02/21 Financial Highlights

Net sales of **1,922** million yen (+34% YoY), operating profit of **69** million yen (-31% YoY)

Net sales increased amid expansion in the cloud market and operating profit fell due to accelerated hiring and other factors.

Cloud Integration

- YoY increases in no. of customers and no. of projects
- Project unit price down 20% from Q4 FY02/20 due to increase in small and medium-sized projects



Sales of 106 million yen (-38% YoY)

Resale

- Growth in no. of AWS accounts
- Increase in ARPU



Sales of 1,580 million yen (+46% YoY)

MSP

- Expansion in business with large-scale customers whose needs cannot be met with standard services



Sales of 226 million yen (+33% YoY)

Financial Results

FY02/21 Earning Forecasts

We are continuing to tap further into the public cloud market.

* Forecasts compiled based on conservative outlook that factors in COVID-19 impact.

(Unit: million yen)

	FY02/20 results		Composition (%)	FY02/21 forecasts	Composition (%)	% of year-earlier level
Net sales	6,811		100.0	8,003	100.0	117.5
Gross profit	1,086		15.9	1,200	15.0	110.5
Operating profit	417		6.1	417	5.2	100.0
Ordinary profit	421		6.2	426	5.3	101.2
Profit	333		4.9	306	3.8	91.9

* There are no changes to the full-year forecasts included in the "Summary of Non-Consolidated Financial Results for the Year Ended February 29, 2020," released on April 14, 2020.

Q1 FY02/21 Results

Net sales rose 34% YoY supported by successful efforts to expand sales in the Resale business.

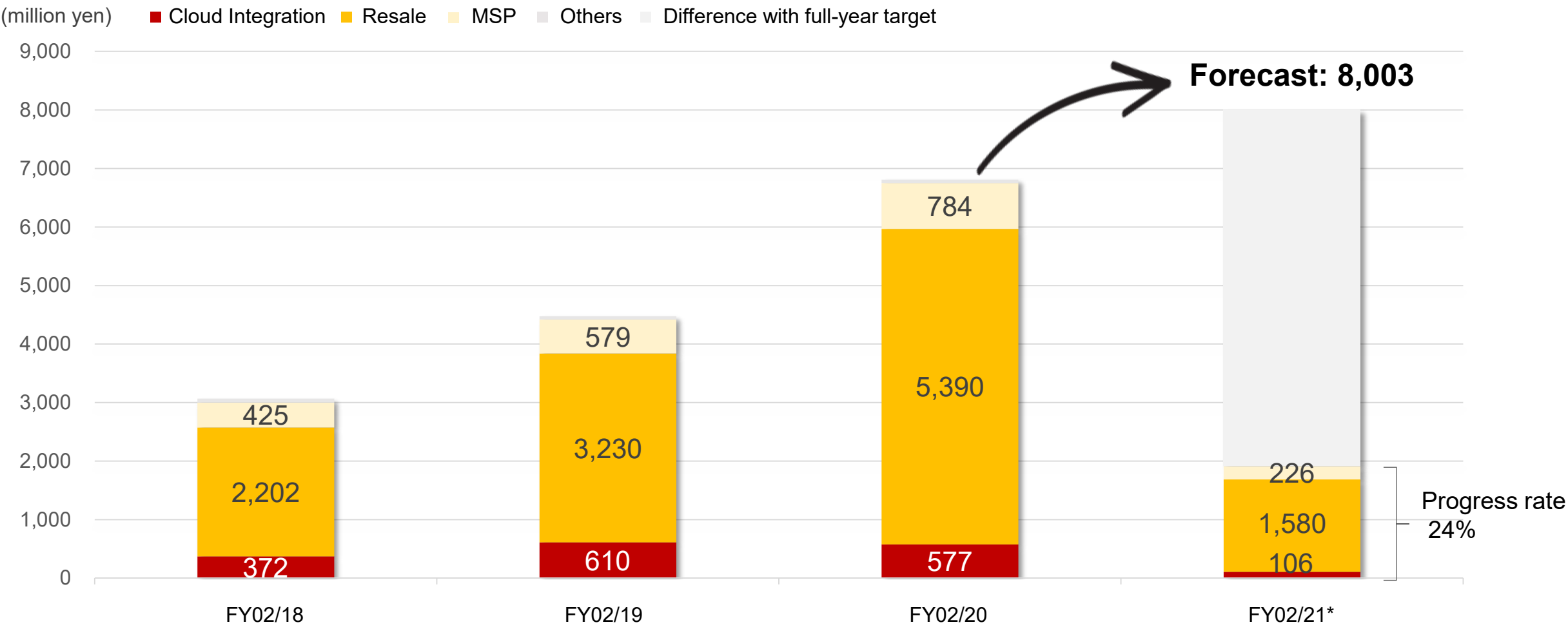
However, due to the low gross margin nature of the Resale business, the profit is not growing as much as the sales growth. In addition, the cost of sales and selling, general, and administrative expenses increased due to the growing labor costs resulting from hiring reinforcement so that the operating profit declined 30% YoY to 69 million yen.

(Unit: million yen)

	Q1 FY02/20 results		Composition (%)	Q1 FY02/21 results		Composition (%)	% of year-earlier level
Net sales	1,440		100.0	1,922		100.0	133.5
Gross profit	243		16.9	244		12.7	100.3
Operating profit	100		7.0	69		3.6	69.5
Ordinary profit	92		6.4	76		4.0	83.2
Profit	93		6.5	55		2.9	59.1
EBITDA	117			89			

Business Trends: Net Sales

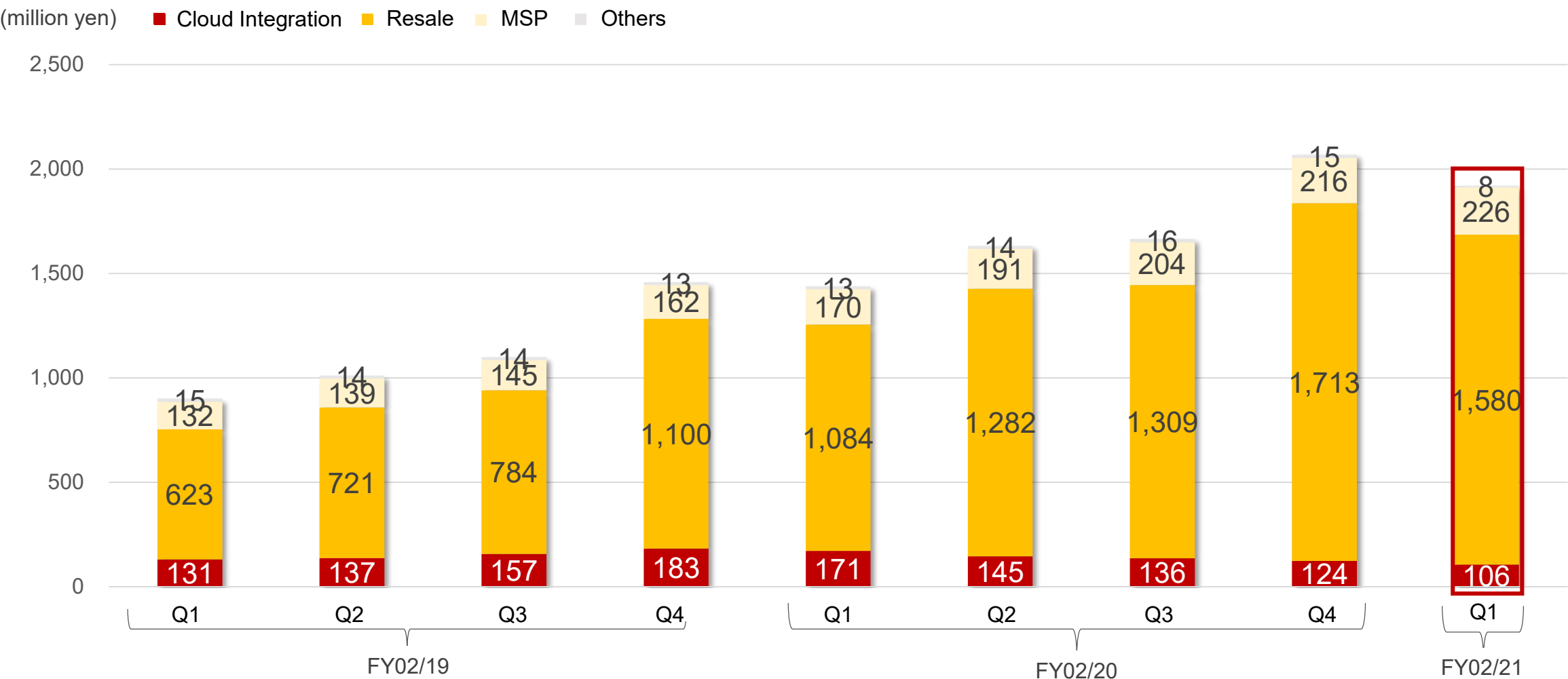
Net sales in Q1 FY02/21 reached roughly 24% of our full-year forecast.



* FY02/21 figures reflect results from March to end-May 2020.

Business Trends: Quarterly Net Sales

Cloud Integration down 37.6% YoY, but AWS Resale up 46% YoY and MSP up 33% YoY.

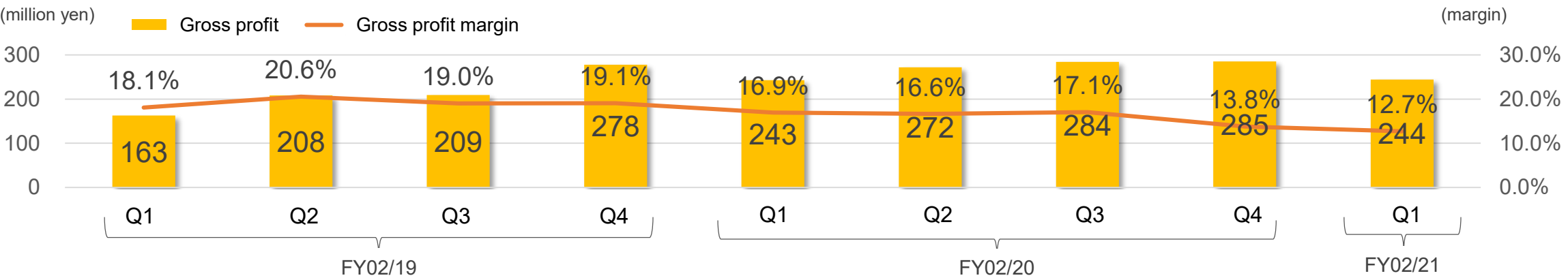


* Due to the nature of AWS Resale transactions, total usage fees are recorded as net sales.

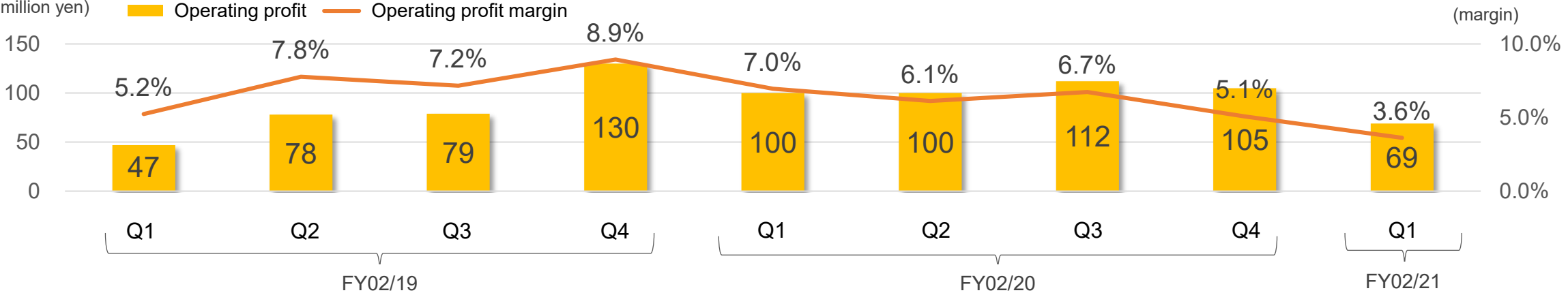
Business Trends: Profit Margins

Gross profit margin and operating profit margin have both declined due to increase in the AWS Resale business as well as the increases in cost of sales and selling, general, and administrative expenses driven by growing labor costs resulting from reinforced hiring.

Gross profit/gross profit margin



Operating profit/operating profit margin



Q1 FY02/21 Sales by Product/Service Segment

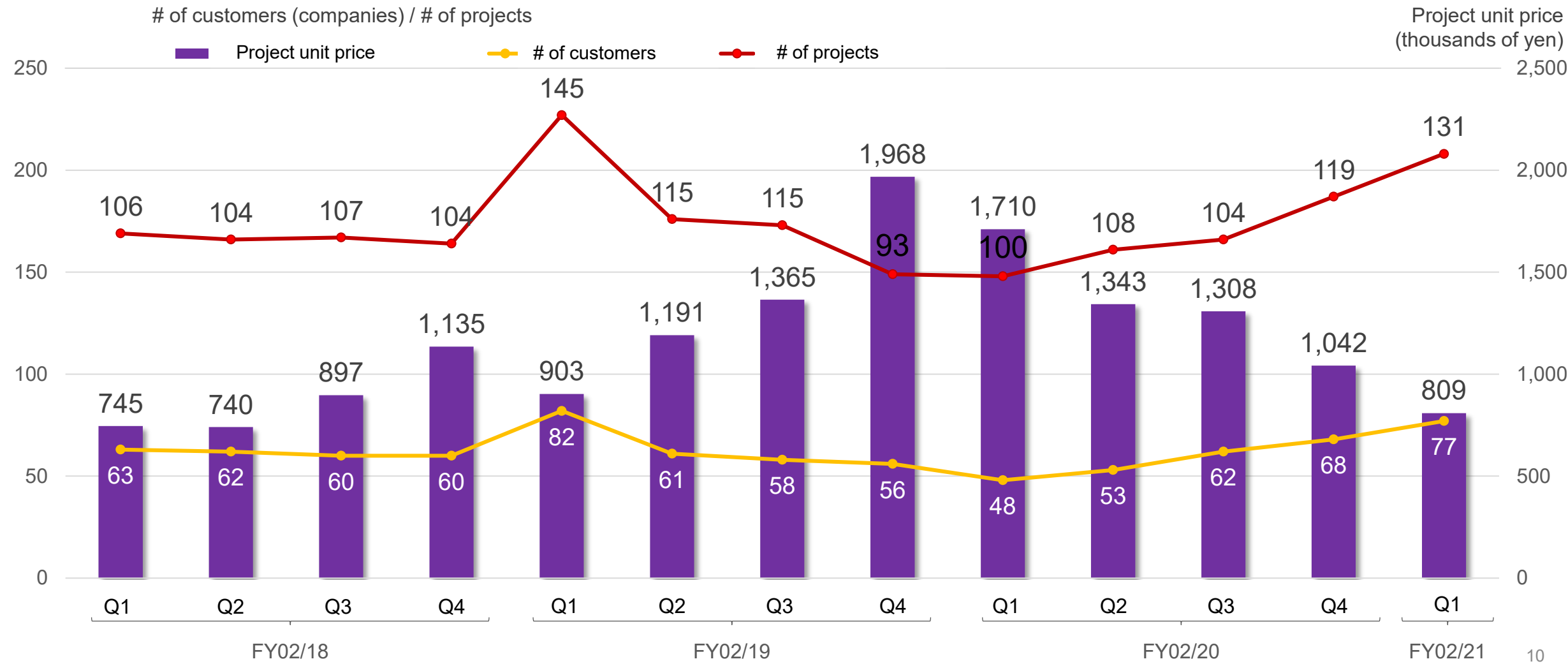
Overall net sales continued to exhibit strong growth, rising 34% YoY driven especially by increase in the AWS Resale business. Although unit price of the Cloud Integration business was declined due to an increase of small to medium sized projects, the number of customers and projects rose.

(Unit: million yen)

	Q1 FY02/20 results	Composition (%)	Q1 FY02/21 results	Composition (%)	% of year-earlier level
Cloud Integration	171	11.9	106	5.5	62.4
Resale	1,084	75.3	1,580	82.2	145.7
MSP (Managed Service Provider)	170	11.9	226	11.8	132.6
Other	13	0.9	8	0.5	64.7
Total	1,440	100.0	1,922	100.0	133.5

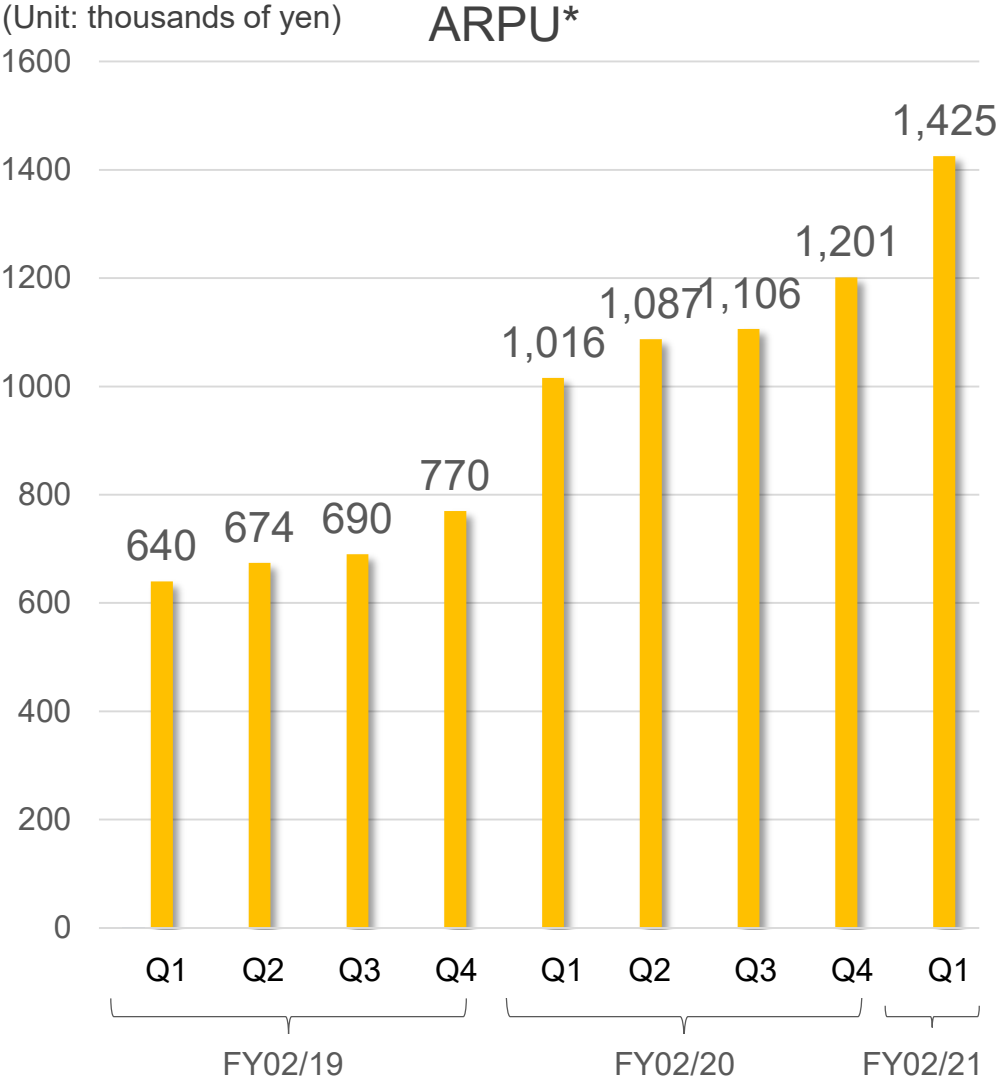
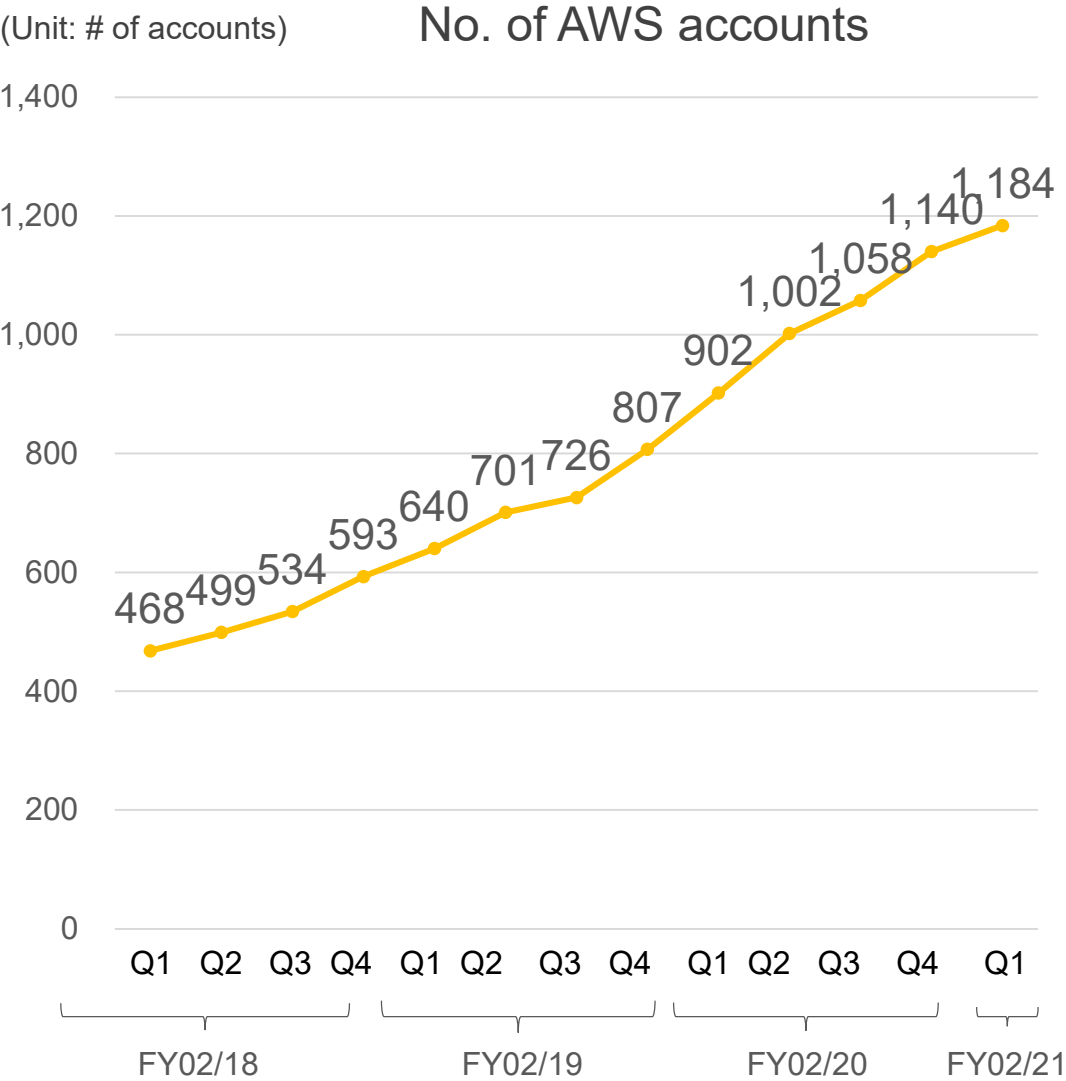
Business Trends: Cloud Integration

Large-scale projects have declined YoY, but an increase in small and medium-sized projects has driven up the number of customers and projects.



Business Trends: Number of AWS Accounts, ARPU

The number of AWS accounts as well as ARPU have both increased steadily, contributing to a continuous growth in sales in the Resale business.

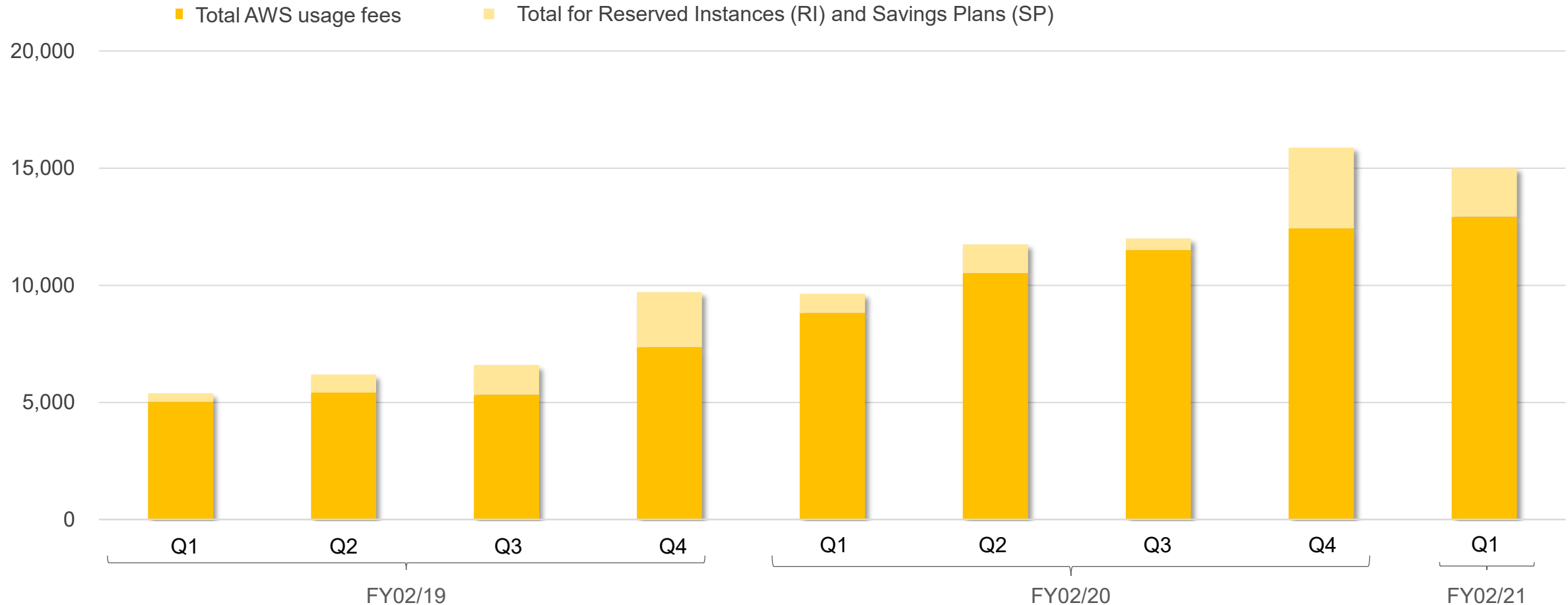


* Obtained by dividing AWS usage fees, including Reserved Instances, by number of customers.

Business Trends: Reserved Instances, Saving Plans*

Increase in number of customers looking to optimize costs by realizing significant discounts offered in exchange for committing to a long-term AWS usage.

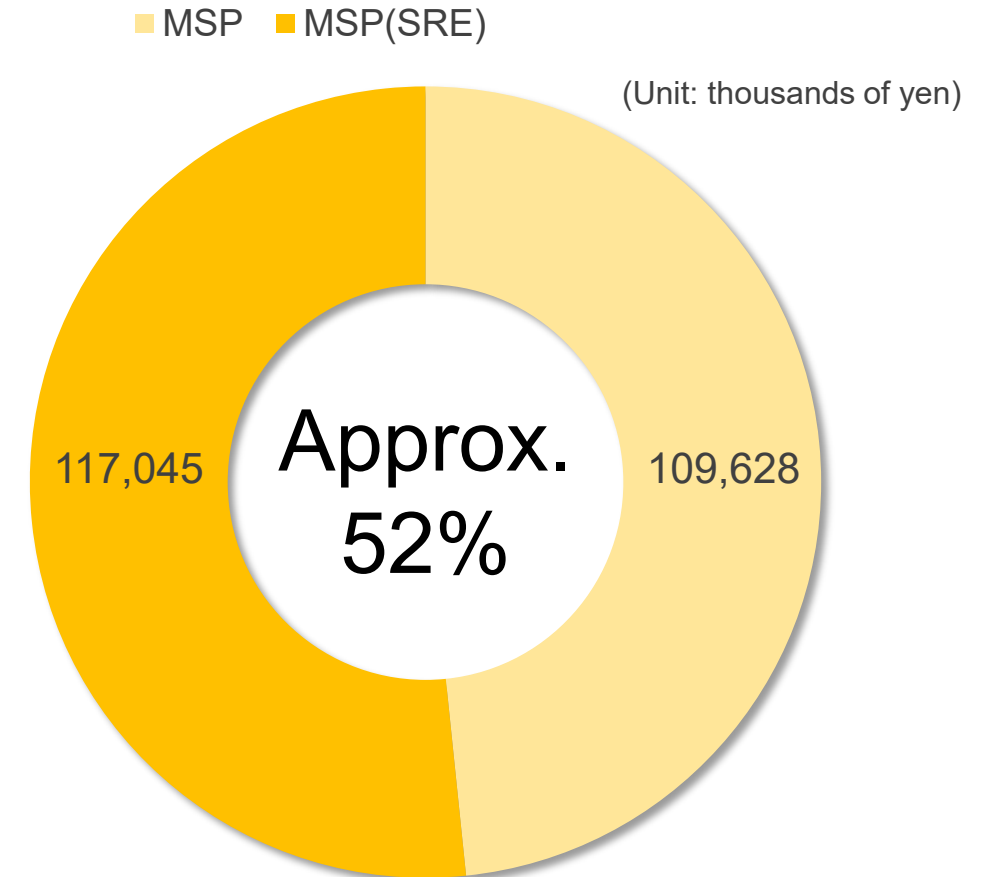
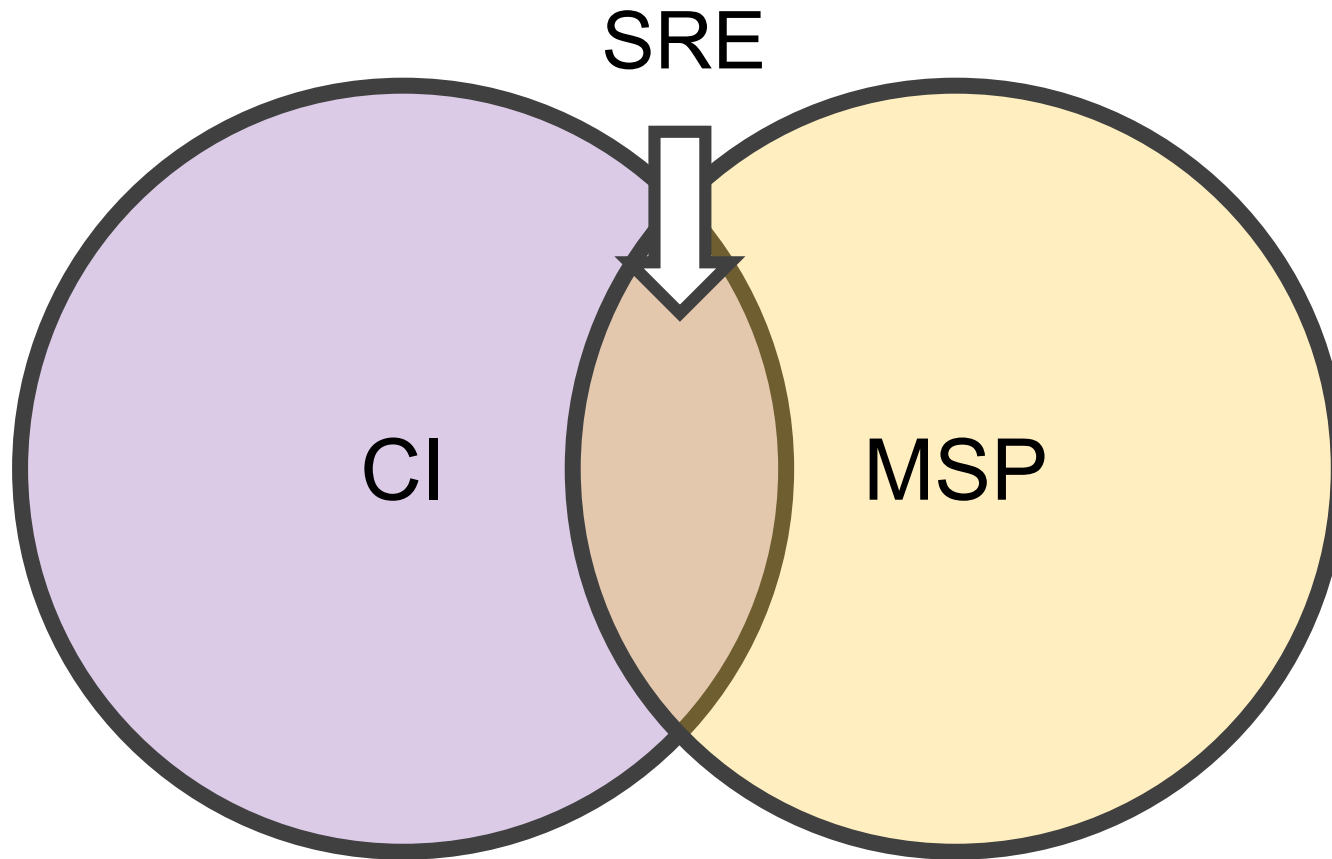
(Unit: thousands of dollars)



* AWS service under which substantial discounts are offered to customers who pay a fixed reservation fee and commit to AWS usage for a certain period.

Business Trends: SRE(*) portion of MSP

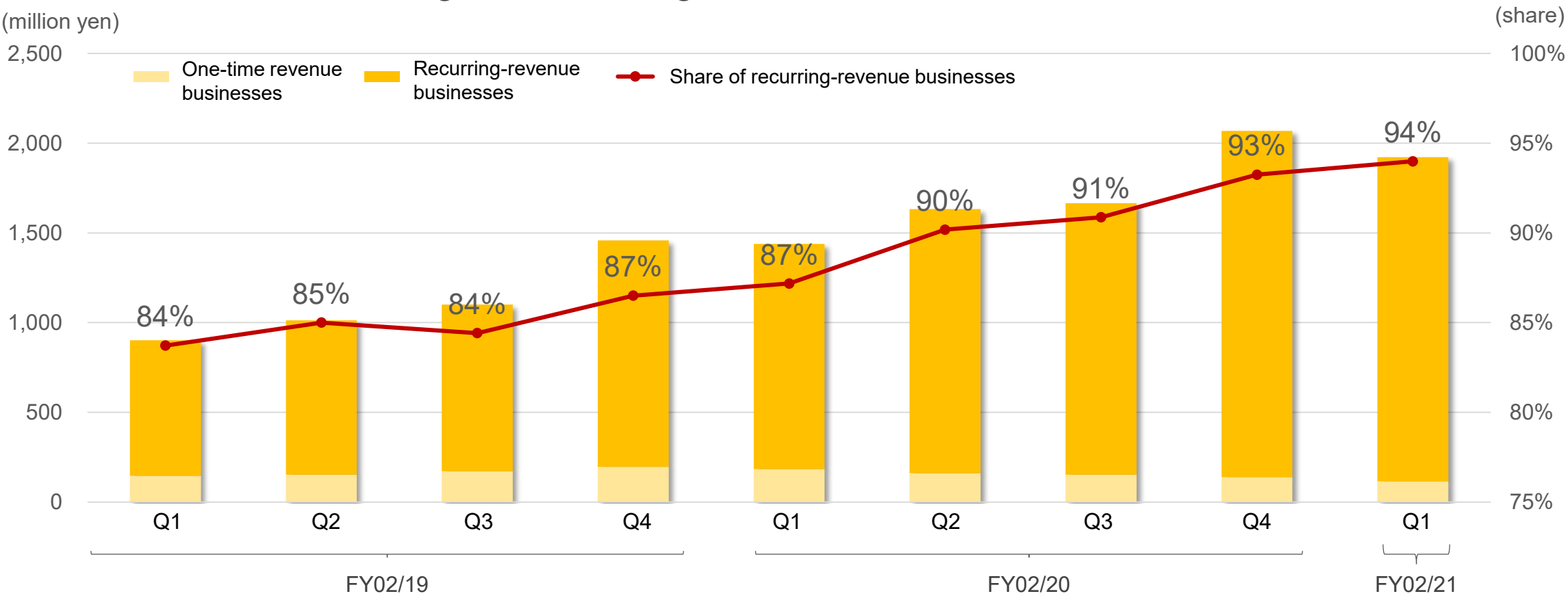
The portion of SRE, the dedicated team that supports unique customer needs by providing services ranging from system construction to operation and maintenance in the process leading up to a stable system operation, is expanding.



* SRE : Site Reliability Engineering

Business Trends: Stock Business(*)

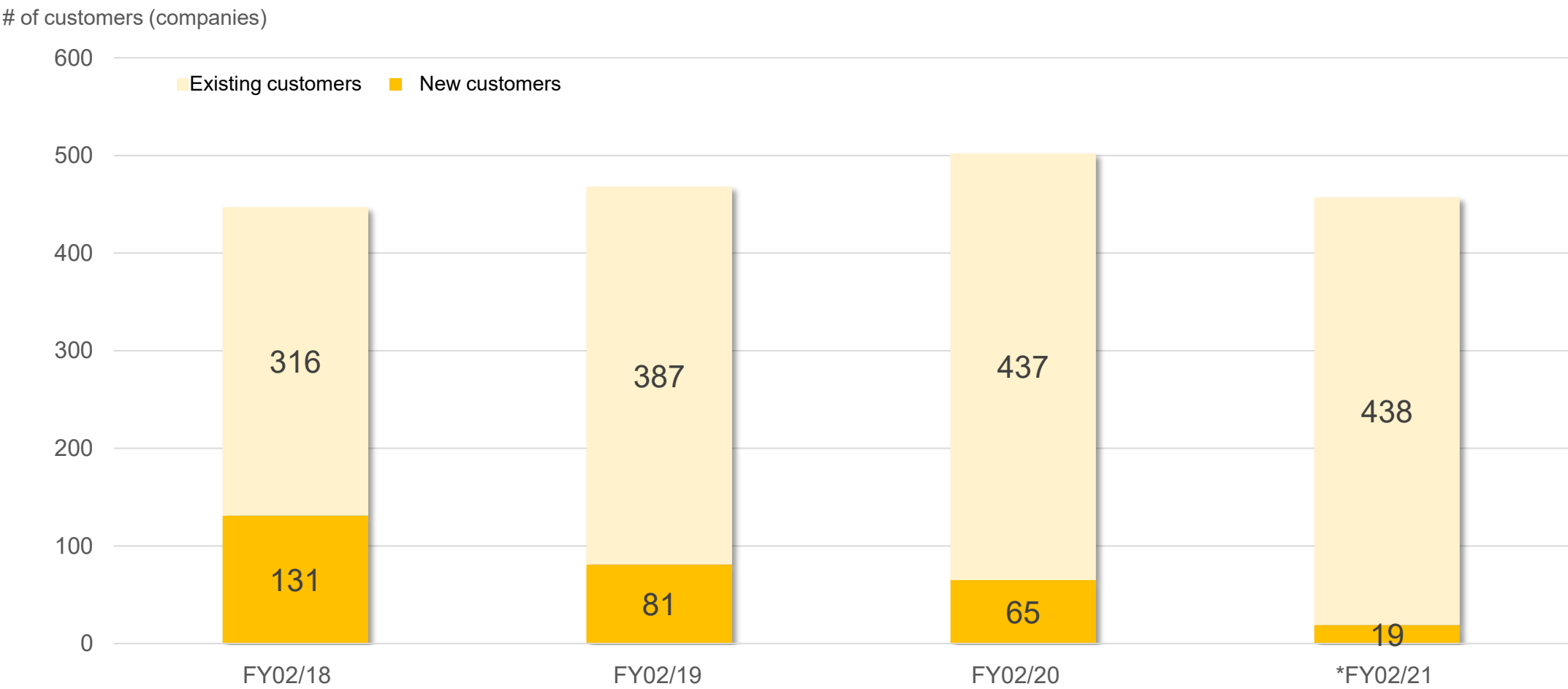
Sales in Stock businesses, including AWS Resale, MSP, and proprietary services, are increasing every year. Going forward, we plan to strategically strengthen stock businesses, which are expected to contribute to stable earnings over the long term.



* One-time sales from Cloud Integration, where sales are recorded at the time of customer acceptance, positioned as one-time revenue, is specified as “Flow Business”. Recurring sales from AWS monthly usage fees, monthly charges for proprietary services such as Cloud Automator, licensing fees for continued use of third-party software services, and MSP usage fees and maintenance fees for AWS server monitoring and backup services (all of which entail continued AWS usage by companies) are specified as “Stock Business”.

Business Trends: Number of New and Existing Customers (Entire Cloud Business)

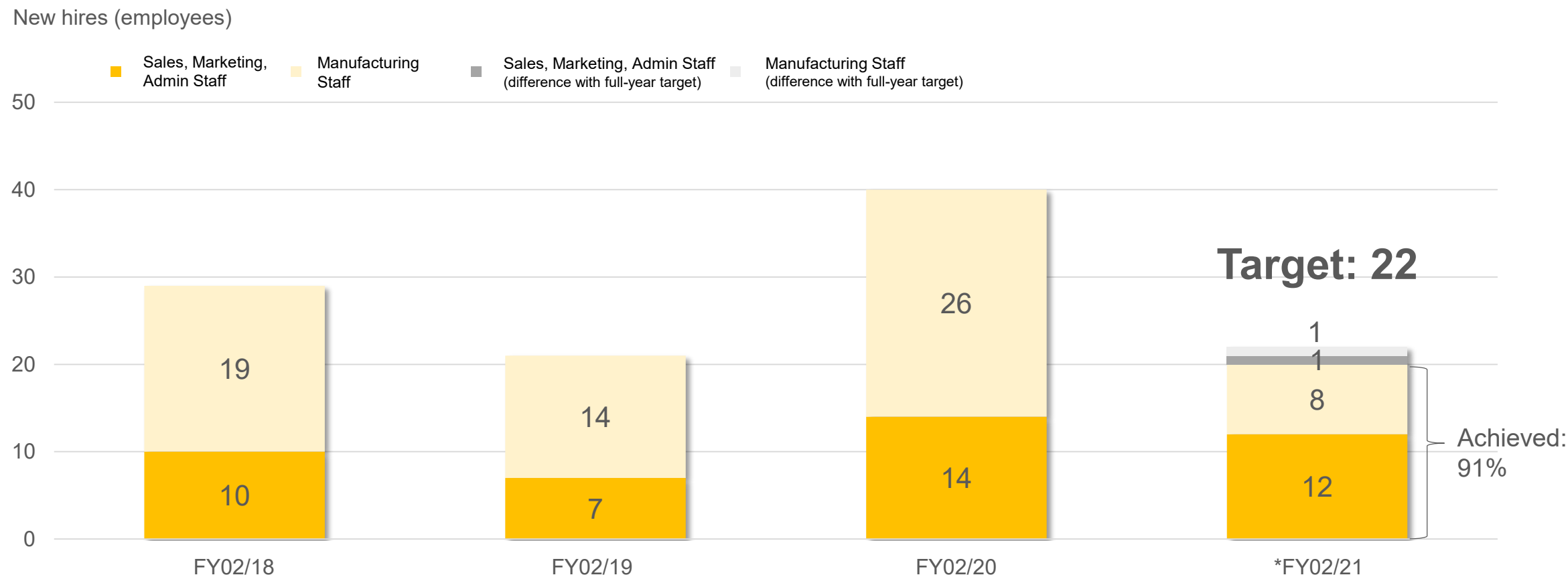
The number of customers opting for a lift-and-shift approach, gradually migrating systems to the cloud and subsequently reconfiguring systems to ensure optimization in the cloud, is increasing.



* FY02/21 figures reflect results from March to end-May 2020.

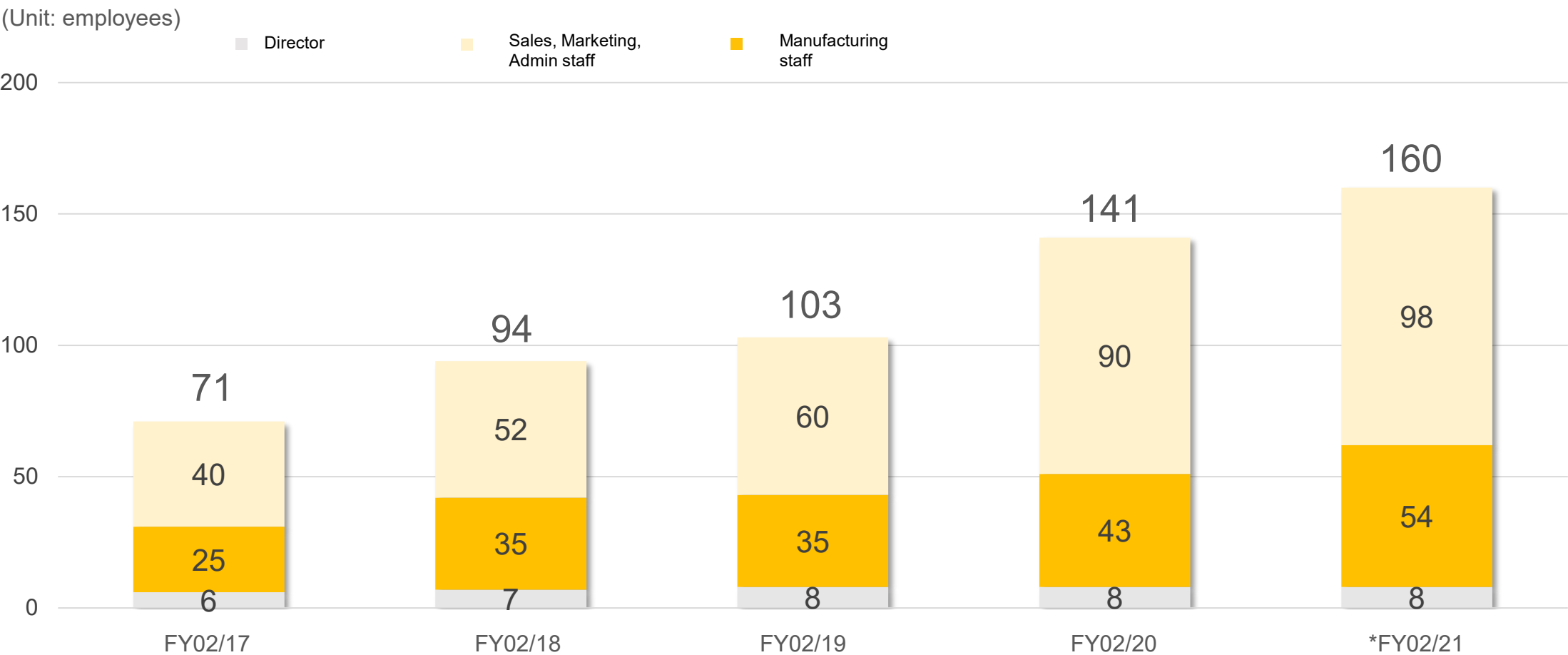
Increase in New Hires

We carefully planned new hires while factoring in the COVID-19 impact. However, since we continued to strengthen hiring, we nearly achieved the annual target within Q1. We will examine the appropriate timing to resume hiring based on the market trends going forward.



Number of Employee Trend

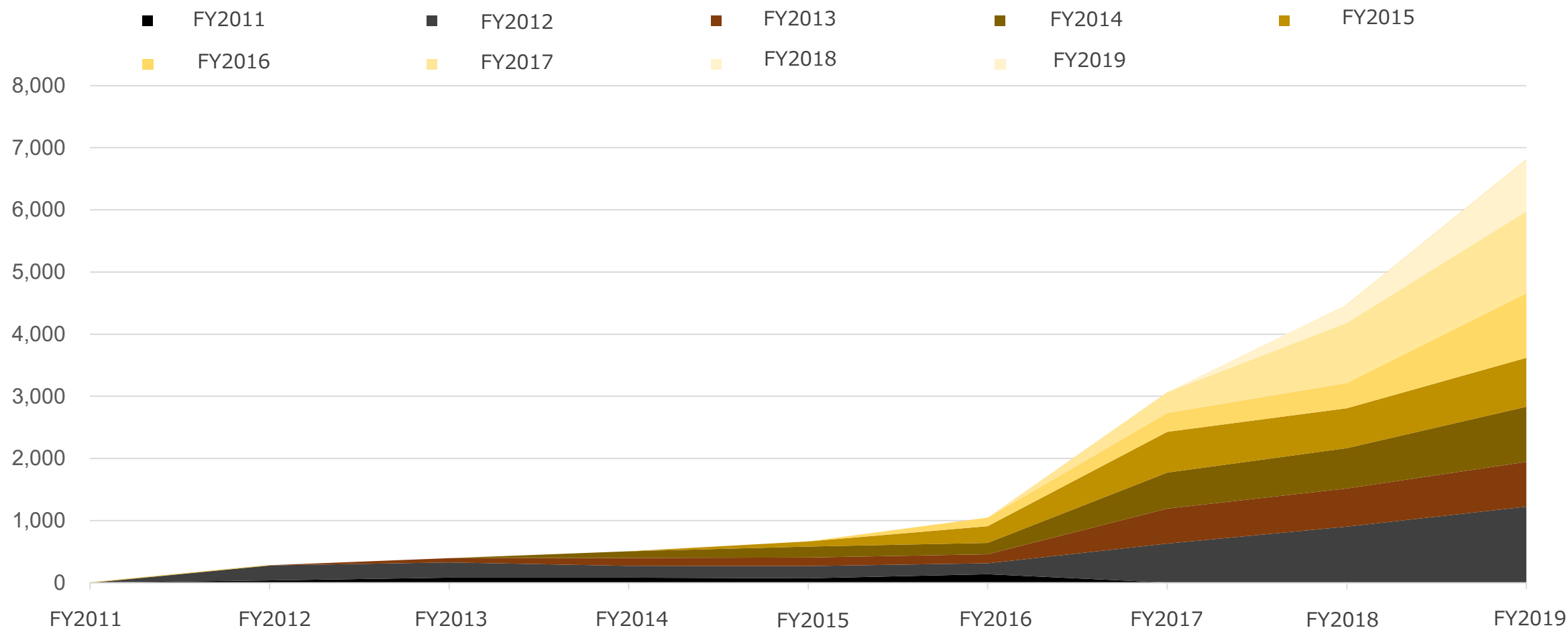
We continue to strengthen our workforce, particularly manufacturing staff, in tandem with business growth.



* FY02/21 figures reflect results from March to end-May 2020.

Business Trend : Life Time Value

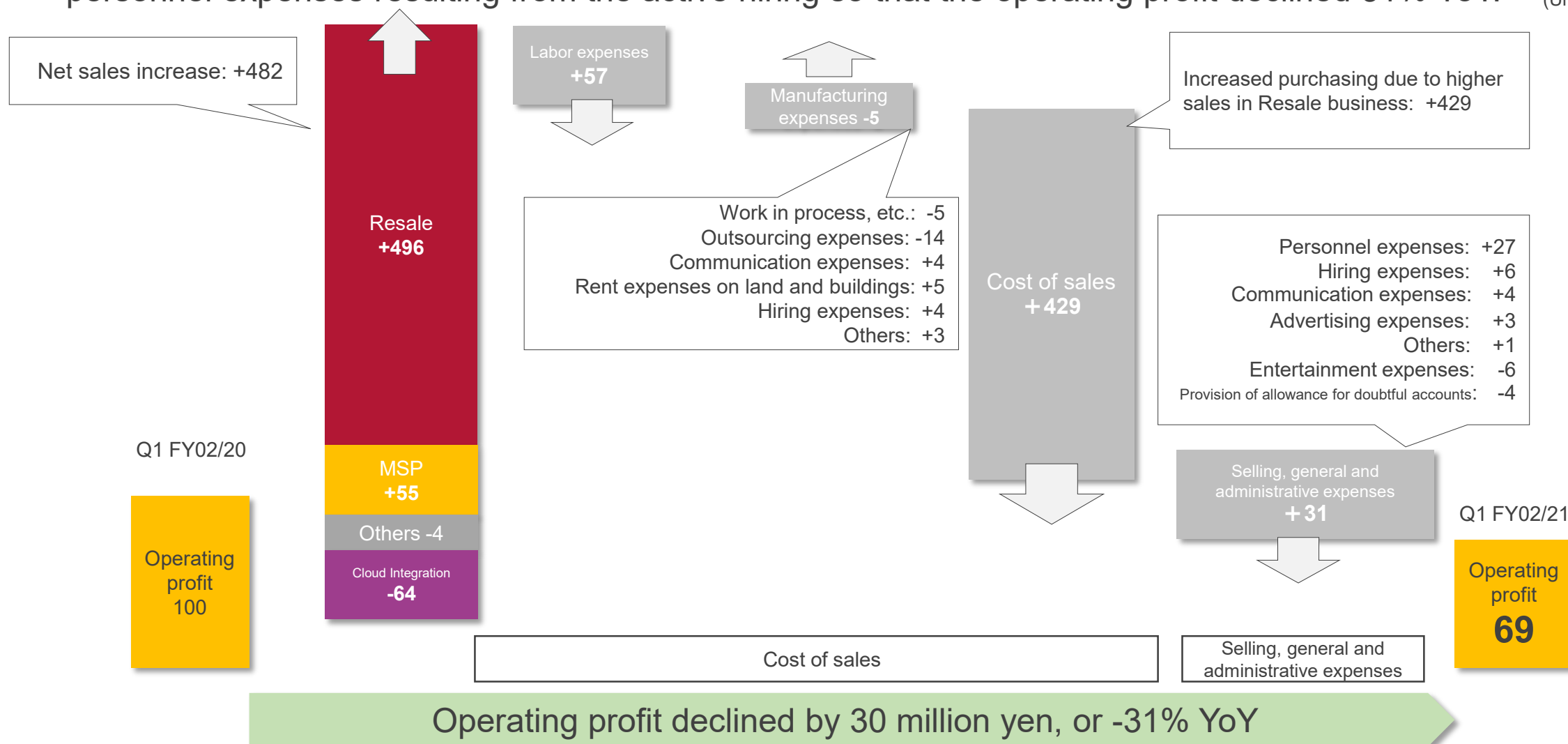
The existing customers, who had been contracted with us, have a trend to increase our sales revenue (total of CI, Resale, MSP) over the years



* The sales revenue before FY2017 is an estimated value based on re-calculated AWS resale revenue using recent results

Analysis of Factors Affecting Operating Profit in Q1 FY02/21

Due to the low gross margin nature of the Resale business, the profit is not growing as much as the sales growth and the cost of sales and selling, general, and administrative expenses increased due to an increase in labor and personnel expenses resulting from the active hiring so that the operating profit declined 31% YoY. (Unit: million yen)



Q1 FY02/21 Financial Condition: Balance Sheet (Summary)

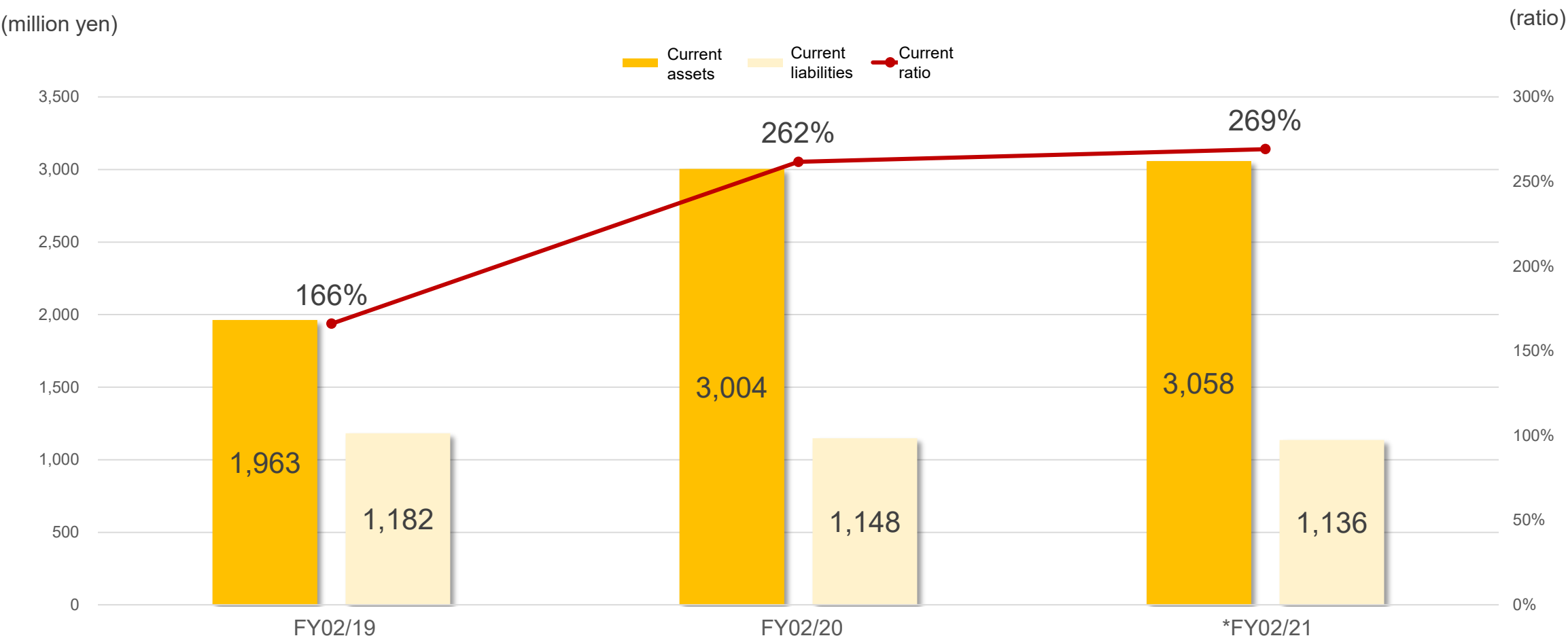
Investments and other assets and net assets increased due to a rise in accounts receivable based on sales increase and a valuation gain on investment securities. Retained earnings also increased steadily.

(Unit: million yen)

	FY02/19	FY02/20	Change
Current assets	3,004	3,058	54
Non-current assets	1,467	1,569	101
Property, plant and equipment	69	66	-2
Intangible assets	100	95	-5
Investments and other assets	1,297	1,407	109
Total assets	4,472	4,628	155
Total liabilities	1,437	1,454	17
Current liabilities	1,148	1,136	-11
Non-current liabilities	288	318	29
Total net assets	3,035	3,173	138
Total liabilities and net assets	4,472	4,628	155

Current Ratio

Current ratio above 200%; ample on-hand liquidity



* FY02/21 figures reflect results from March to end-May 2020.

Company Profile

Company Profile

*as of 5/31/2020

Company Name	Serverworks Co., Ltd.
Business Domain	System Planning/Development/Operation utilizing Cloud Computing
Founded	February, 2000
Capital	617,675,725 yen
Headquater	Agebacho 1-21, Shinjuku-ku, Tokyo, Japan
Office	Osaka, Fukuoka, Sendai, Nagoya, USA(California)
Number of Employees	152
Management	Ryo Oishi CEO Takashi Hashiba Senior Vice President Hiroyuki Oshio Senior Vice Presidnet & CAO Ichiro Terajima Outside Director Mikiya Inoue Audit & Supervisory Board member Tsutomu Toyao Audit & Supervisory Board member Akihito Mochizuki Audit & Supervisory Board member Shigetoshi Heiho Audit & Supervisory Board member
Affiliated company	Sky365 Co., Ltd.
Major Shareholders	Board Members, TerraSky Inc., NTT Communications Corporation, NTT Data Corporation
Certification	APN Premier Consulting Partner AWS Migration Competency Partner AWS End User Computing Competency AWS Managed Service Provider Program AWS Well-Architected Partner Program ISO /IEC 27001 (JIS Q 27001)

Management Introduction



President & CEO

Ryo Oishi

Oishi graduated from Tohoku University, majored in Economics, and joined Marubeni Corporation, which is one of the biggest “Sogo-Shosha”. He engaged in establishing communication network related subsidiary as well as planning internet related business and sales. In February 2000, he founded the company. After he started AWS business in 2009, Oishi became one of the first Cloud Evangelists in Japan and continue to evangelize Japanese market to use Cloud.



Senior VP

Takashi Hashiba

Hashiba graduated from Tokyo University of Agriculture, majored in Agriculture, and joined wholesale process food company, experiencing sales role. After joining our company in April 2006, he became head of sales and technical department and engaged in a large number of system installations. After starting AWS business, he continued engaging in numerous projects as well and provide huge contribute to expand our business. He became Senior VP in October 2013.



Senior VP & CAO

Hiroyuki Oshio

Oshio graduated Kobe University, majored in Economics, and joined Marubeni Corporation. He engaged in planning and installation of Internet enabled systems. Then, he joined software venture company and became SVP at subsidiary company in abroad as well as General Manager of Marketing. After joined our company in October 2013, he served as a head of Business Development as well as back office team. Oshio became Senior VP in August 2014.



Outside Director

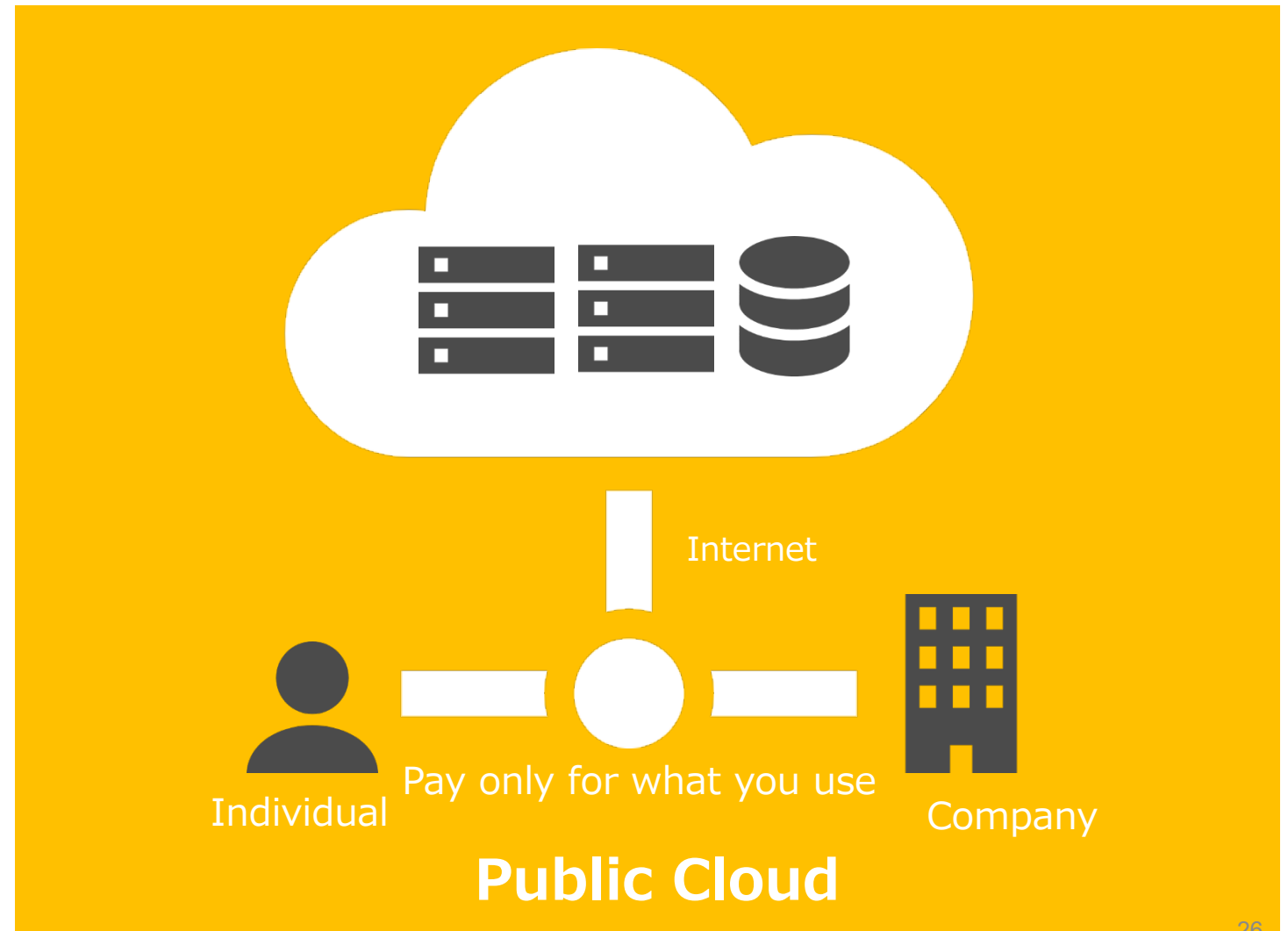
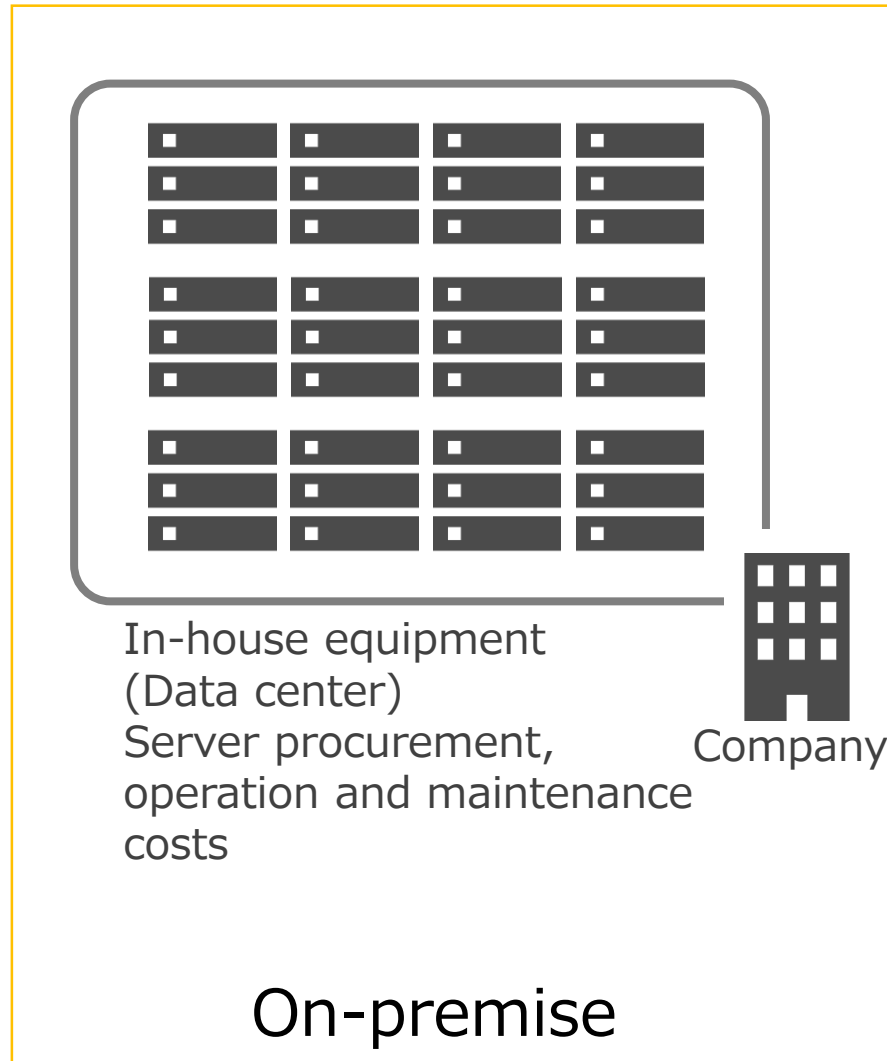
Ichiro Terajima

Terajima graduated Tokyo University, majored in Engineering, and joined Sekisui Chemical Co., Ltd. He also studied at MIT and established AI venture company inside of the company, experienced wide variety of business roles. He became General Manager of Information Systems Dept. and served as a Chief of Information system group. He Joined TERRANET as a company representative. Terajima joined our company as Outside Director in November 2017.

About Amazon Web Services(AWS)

Market environment : About Public Cloud

A method of using software/Database/Server storage and other functions as a service via internet



Market environment : Public Cloud Classification

SaaS : Software as a Service

Provide software package via internet

Example : Salesforce, Kaonavi,
TeamSpirit, sansan etc...

IaaS : Infrastructure as a Service

Provide hardware and ICT infrastructure via internet

Example : AWS、Microsoft Azure

Market Environment: AWS Continues to Lead

AWS selected as “leader” that excels in vision and execution for ninth consecutive year in global market, and for third consecutive year in Japan. (Gartner’s Magic Quadrant, IaaS field)

Figure 1. Magic Quadrant for Cloud Infrastructure as a Service, Worldwide



Source: <https://aws.amazon.com/jp/blogs/news/aws-named-as-a-leader-in-gartners-infrastructure-as-a-service-iaas-magic-quadrant-for-the-9th-consecutive-year/>

Source: https://pages.awscloud.com/jp_gc_2019-Gartner-MQ-for-Infrastructure-as-a-Service-JP-Report.html?sc_channel=em&sc_campaign=JP-LN-2019-Gartner-MQ&sc_medium=em_194990&sc_content=in_in_ot&sc_detail=gc900&sc_geo=japn&sc_country=jp&sc_outcome=in&sc_publisher=other&trk=em_GC-900_gartner_mq_jp&trkcampaign=GC-900_gartner_mq_jp

Market Environment: AWS Market Share

In Q1 2019, AWS retained its leading share in the global cloud market.

Public Cloud Leadership – APAC Region

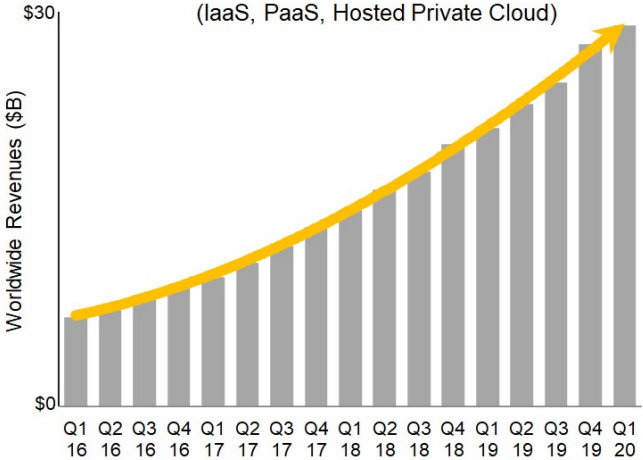
Rank	Total APAC Region	China	Japan	Rest of Region
Leader	Amazon	Alibaba	Amazon	Amazon
#2	Alibaba	Tencent	Microsoft	Microsoft
#3	Microsoft	Baidu	Fujitsu	Google
#4	Google	Sinnet-AWS	Google	Alibaba
#5	Tencent	China Telecom	NTT	IBM
#6	Baidu	China Unicom	Softbank	Naver

Based on public IaaS and PaaS revenues in Q4 2019

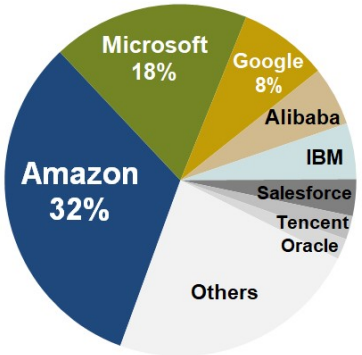
Source: Synergy Research Group

Source: <https://www.srgresearch.com/articles/chinese-companies-control-local-public-cloud-market-aws-and-microsoft-lead-rest-apac>

Cloud Infrastructure Services Market (IaaS, PaaS, Hosted Private Cloud)



Source: <https://www.srgresearch.com/articles/covid-19-fails-dent-aggressive-growth-cloud-spending-half-q1-market-belongs-amazon-microsoft>



Market Share Q1 2020

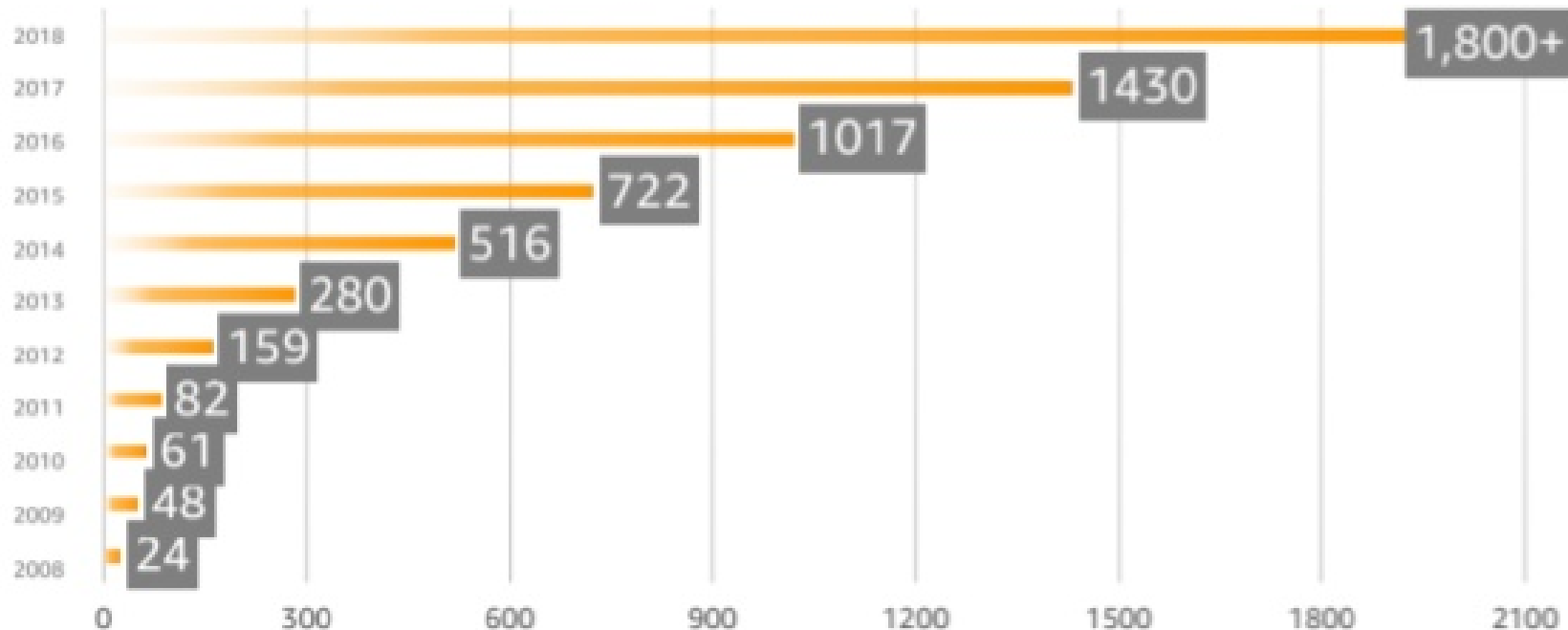
Source: Synergy Research Group

Market Environment: Amazon Web Services (AWS)

Leader in cloud computing that boasts top global market share. Continues to provide new services and functional improvements based on customer feedback.

AWS' Pace of Innovation

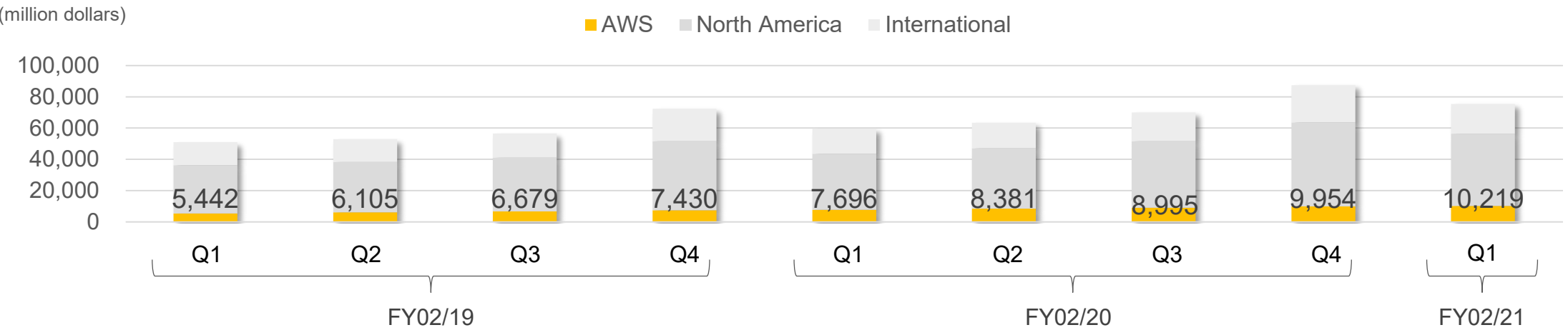
90%+ of those new features were a direct result of feedback from our customers and invent on behalf of customers



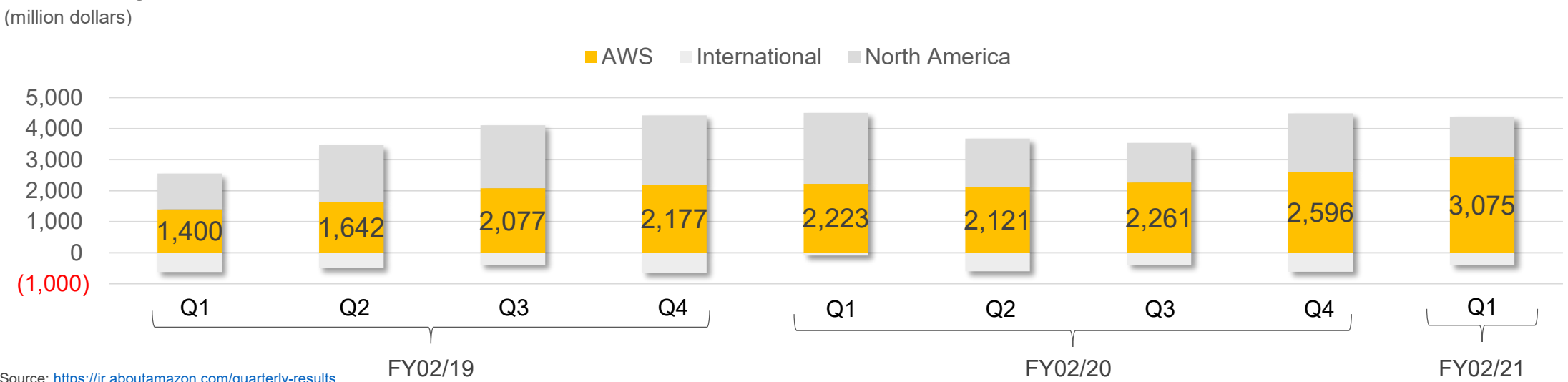
Market Environment: AWS Growth and Profitability at Amazon

AWS continues to grow, and now generates roughly 77% of operating profit at Amazon.

Net sales



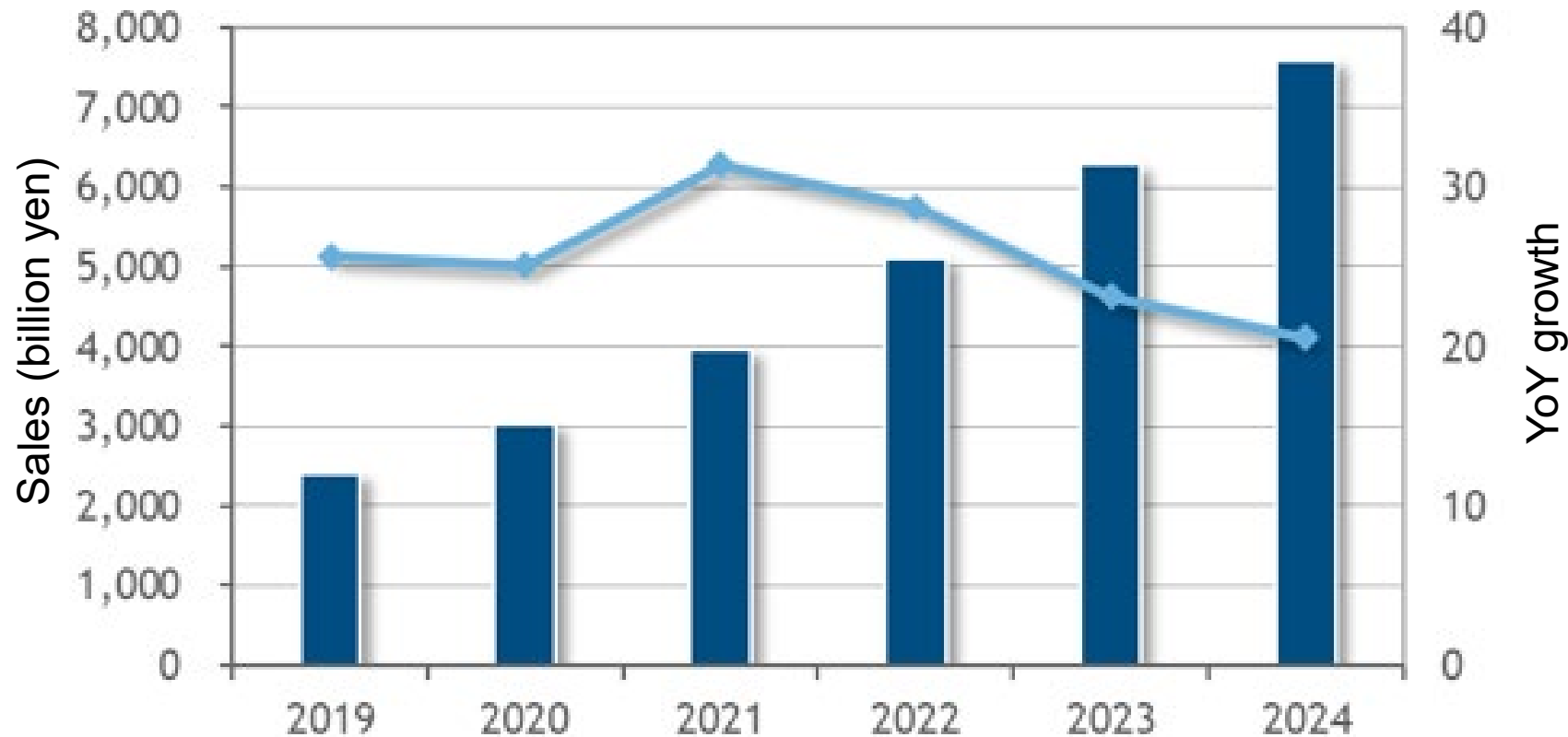
Operating profit



Source: <https://ir.aboutamazon.com/quarterly-results>

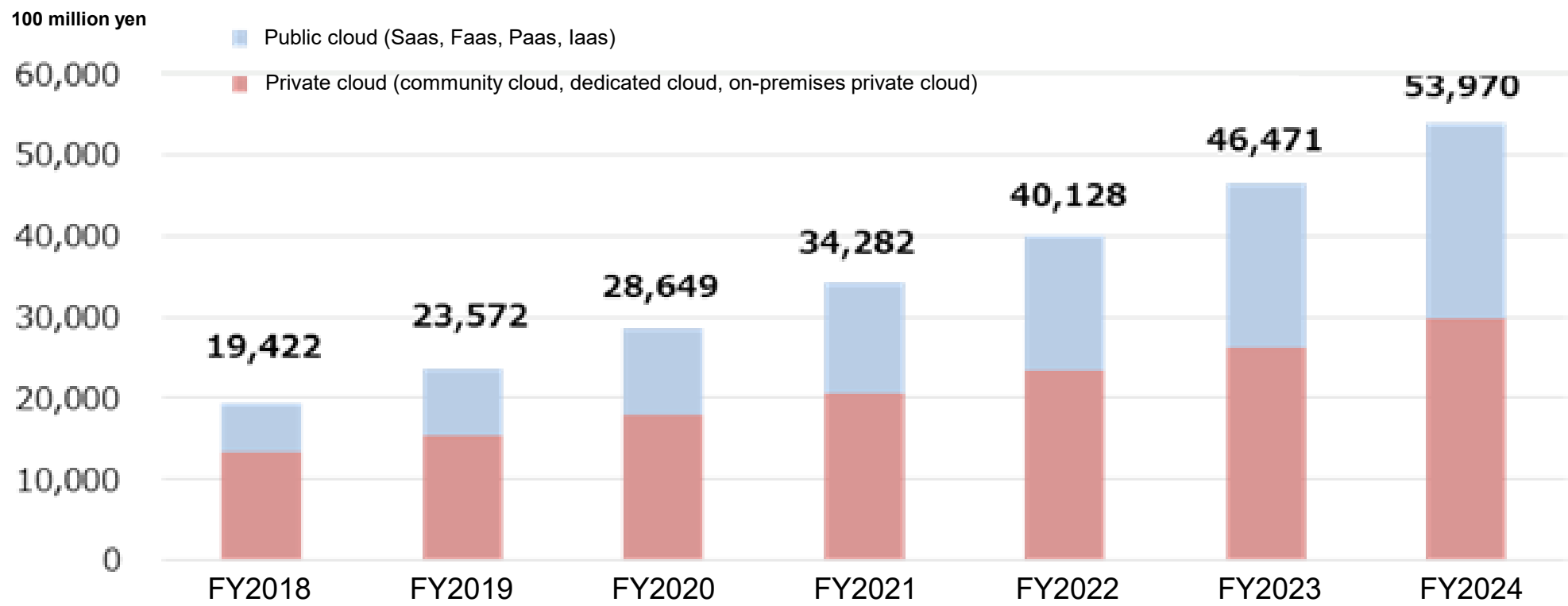
Market Environment: Size of Japanese Enterprise IT market

The Japanese enterprise IT market was valued at 10.8 trillion yen (+4.4% YoY) in 2019. In 2020, the market is projected to 10.8 trillion yen as active investment in cloud solutions to resolve pressing issues offsets reductions in IT investment due to COVID-19 impact. Sales of cloud solutions are expected to account for over 50% of the market by 2023, and the market is projected to grow to 12.8 trillion yen by 2024 (CAGR of 3.4%).



Market Environment: Size of Japanese Cloud Service Market

The Japanese cloud service market was valued at 2.4 trillion yen (+21.4% YoY) in FY2019, with the public cloud market accounting for 812.1 billion yen (+34.1% YoY). The growth momentum is projected to continue in FY2020 and beyond, and the public cloud market is projected to expand to roughly 2.4 trillion by FY2024 (CAGR of 24.4%).



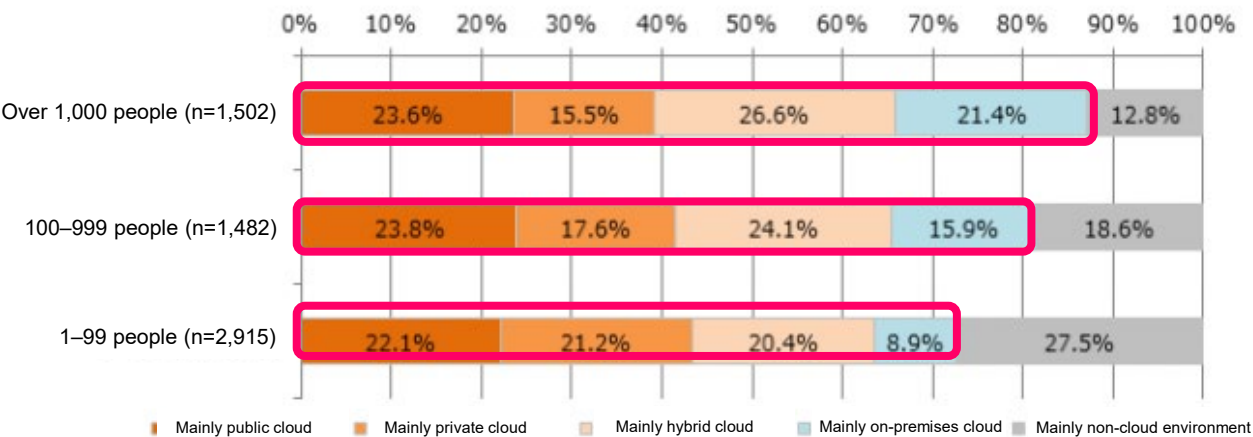
Source: <https://www.m2ri.jp/release/detail.html?id=434>

Market Environment: Size of Japanese Cloud Service Market (continued)

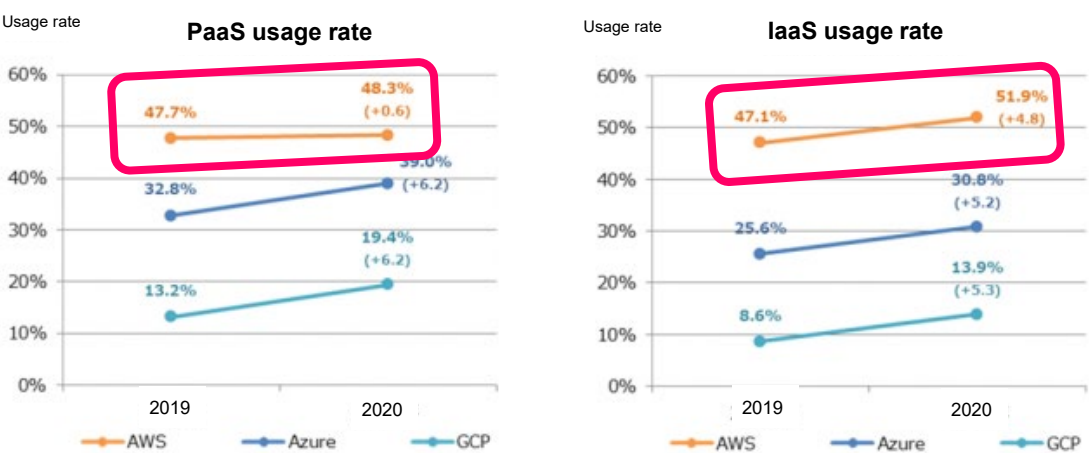
The three leading cloud companies (AWS, Microsoft Azure, and GCP) continue to see growth in service usage. AWS remains the leader in the PaaS and IaaS markets.

In the IaaS market, which offers solutions often used by companies migrating from an on-premises environment, AWS leads with a usage rate of 51.9% (+4.8% YoY), and over half of the Japanese companies adopting an IaaS solution opt for AWS.

[Configuration policy for new systems]



[Service usage rates for AWS, Microsoft Azure, and GCP]

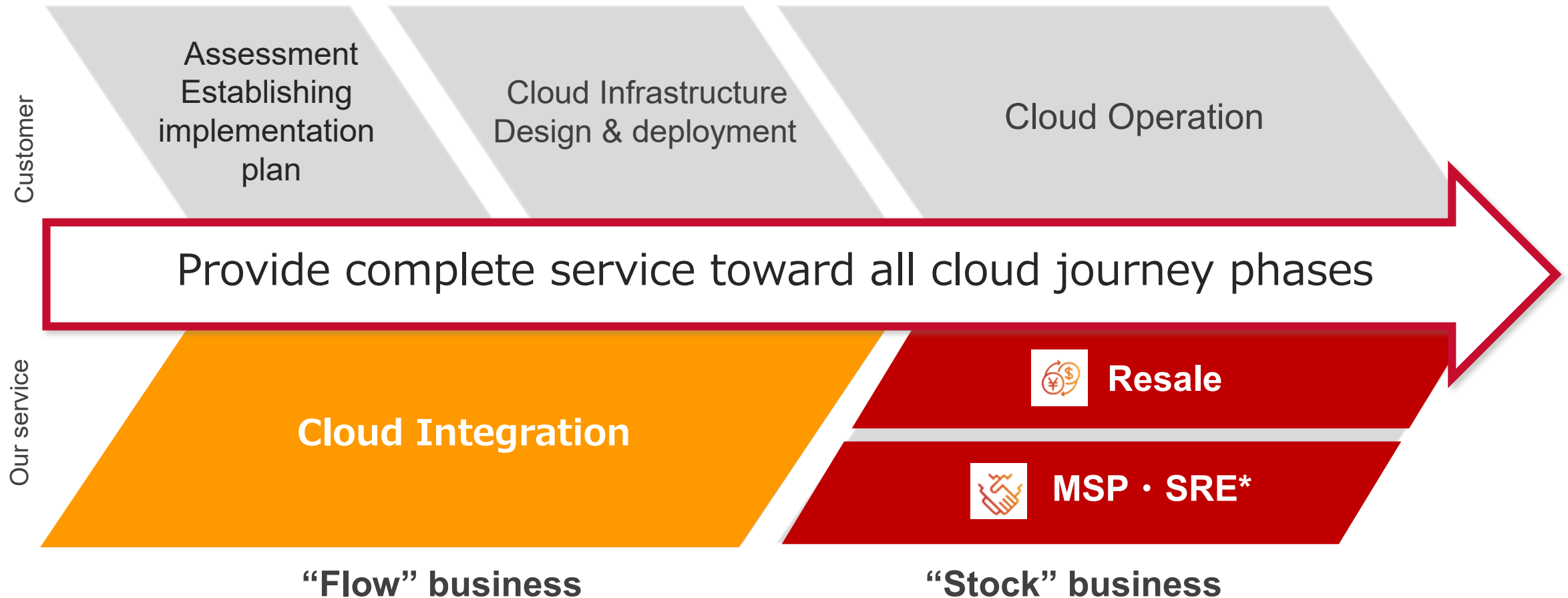


Source: <https://www.m2ri.jp/release/detail.html?id=434>

Our Business Model

Business Model

Provide complete services for cloud journey, from Cloud strategy consultation to actual deployment and migration as well as post-migration operating services



*SRE: Site Reliability Engineering. A concept advocated by Google Inc. in 2003 to operate an expanding large-scale IT system. The mission is to improve performance, availability, elasticity, security, etc. in order to secure the reliability of the IT system and build a system that can be continuously improved by introducing various tools and strengthening collaboration with customers.

Difference between SRE and conventional MSP

For specific large customers, we set up a dedicated team to support customer needs which cannot be handled by the standard MSP service and provide service from system construction to operation and maintenance.

SRE



CI

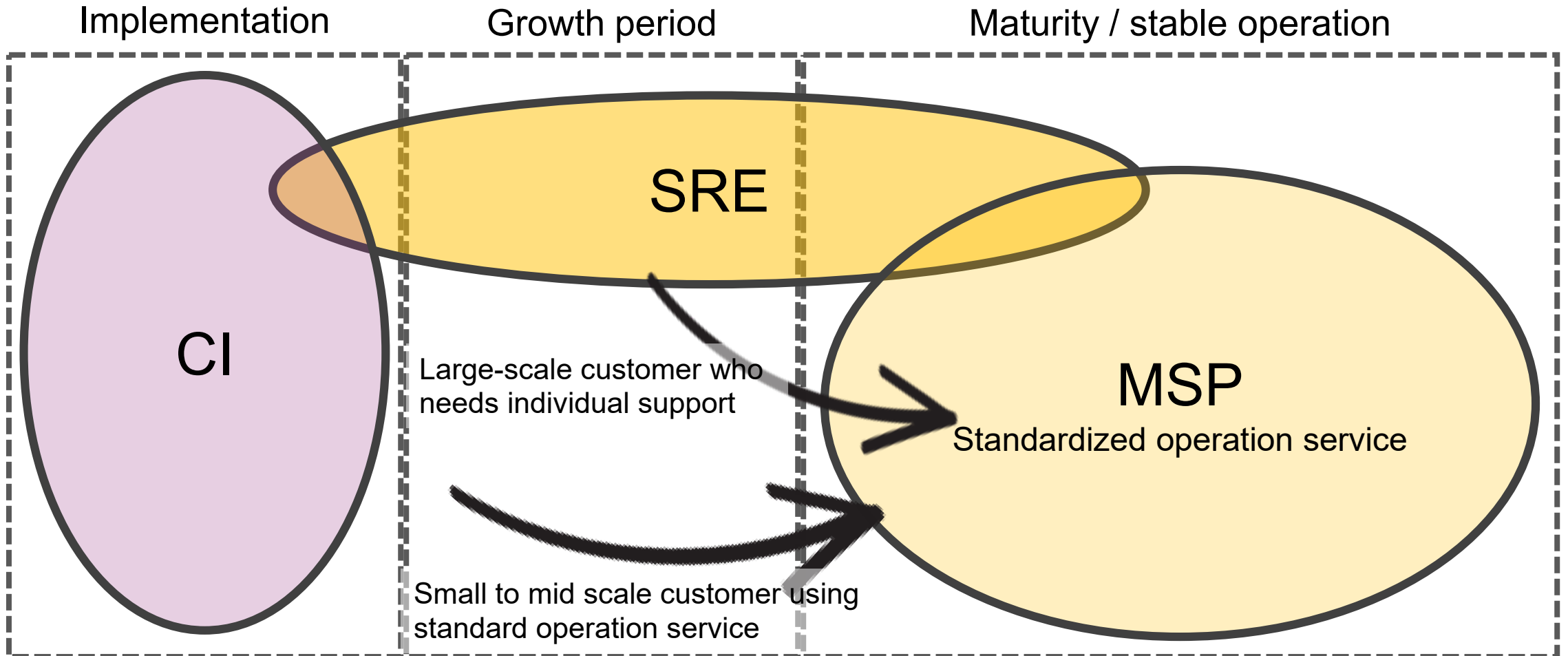
MSP

- Mainly provide support for migrating from on-premise environments to the Cloud, regardless of new/existing customers.
- After completing the cloud migration, our MSP will take after the customer, when customer ask us to provide operation/maintenance services.

- The standard operation service specialized for the Cloud environment, which we have been providing to customers

Cloud migration lifetime

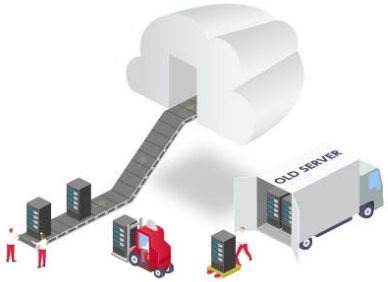
In the process from initial implementation(migration) to stable operation, the importance of SRE*, which supports customers unique needs, is increasing.



* SRE : Site Reliability Engineering

Core Service overview

Providing variety of services around AWS



Cloud Integration

Providing service to create Cloud migration strategy for migrating the system, which has been managed in on-premise environment, to cloud environment, as well as Infrastructure design, Establishment/deployment support services. We provide optimum design for customers from setting business objectives using Cloud, to actual migration, operation planning after cloud implementation.



Re-sale

We are reselling AWS centered cloud services to our customers as a solution which we add our unique values.

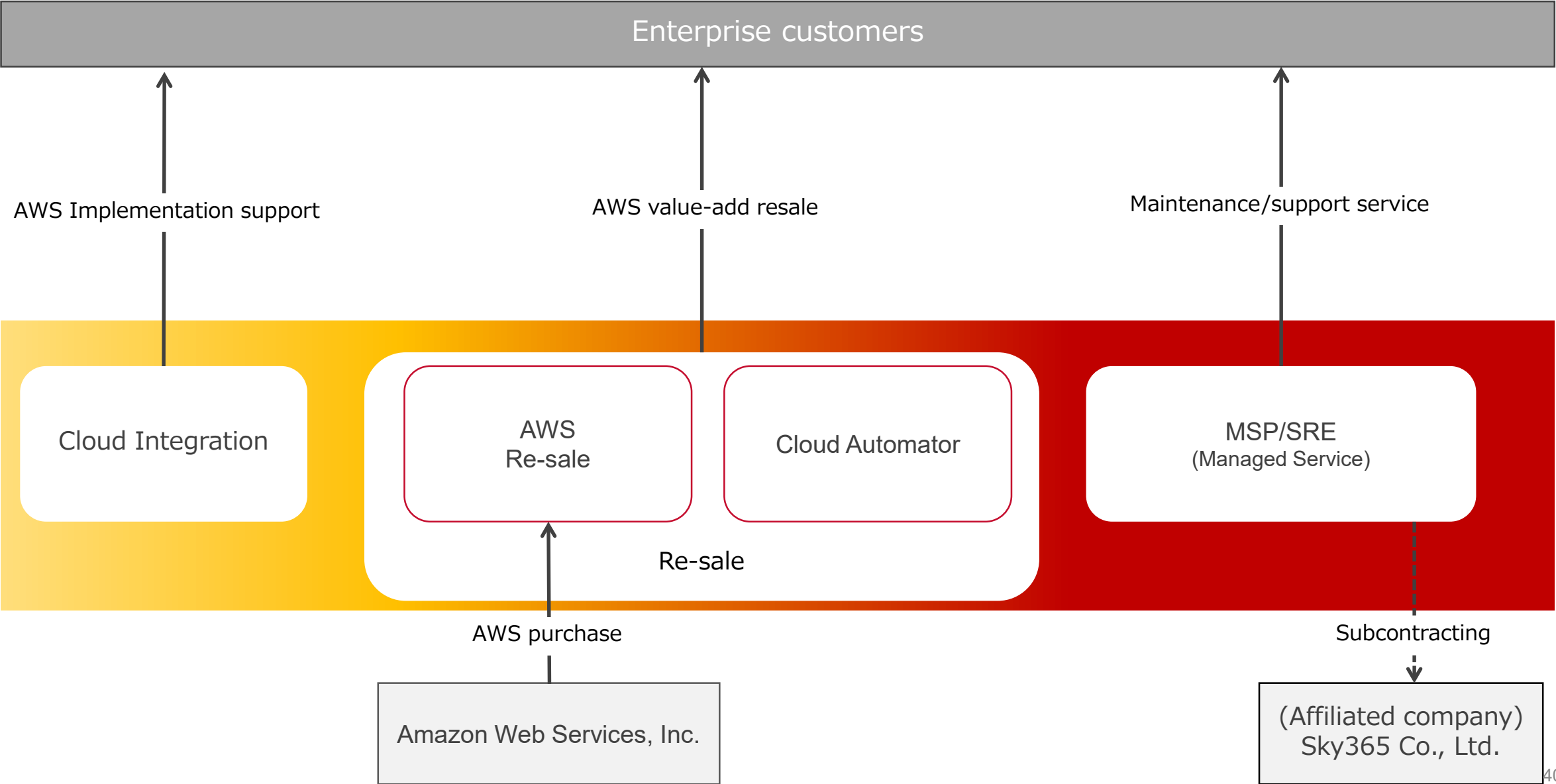
Especially, we develop and provide our unique application, “Cloud Automator”, a service that automates AWS operations, to our customers. By combining these solutions with AWS, we maximize the benefit of AWS to our customers.

MSP (Managed Service Provider)

We provide 24x7 operation services, such as system performance monitoring, failure monitoring, recovery operation in the event of a failure, back-up operation for quick recovery from the failure, and security patches application for AWS infrastructure to middleware level.

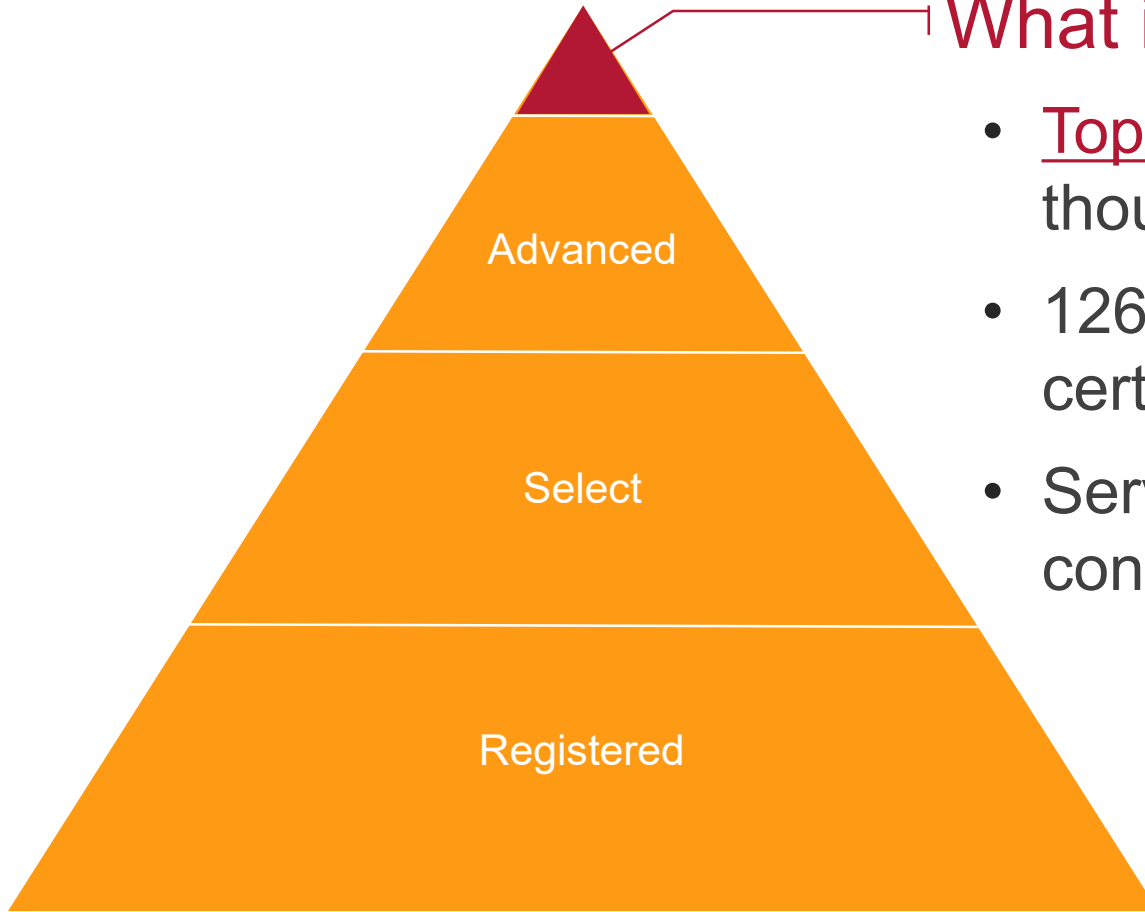


Business model diagram



Our Strength

Unique Strengths ①: AWS Certified Top Tier Partner



What is a Premier Consulting Partner?

- Top-tier partner certified among tens of thousands of AWS partners
- 126 partners worldwide, only 10 companies certified in Japan
- Serverworks has retained certification consistently since 2014

Unique Strengths ②: Advanced Technical Capabilities

Employing many highly skilled engineers with advanced expertise backed by AWS certifications

- Solution Architect Professionals	38
- DevOps Engineer Professionals	24
- Solution Architect Associates	85
- Developer Associates	39
- SysOps Associates	48
- Security Specialty	22
- Big Data Specialty	15
- Advanced Networking Specialty	15
- Machine Learning Specialty	5
- Alexa Skill Builder Specialty	12
- Database Specialty	6

Unique Strengths ②: Advanced Technical Capabilities

Receive various certifications from AWS for our high technical skills and our achievement in specific fields

AWS Managed Service (MSP) Partner

The partner who can provide total AWS cloud services from planning/designing to actual building/migrating as well as operation and optimization as a business solution to customers. We received MSP partner certification in 2014 as a 1st partner in Japan to receive this certification and we have been continuously receiving the certification.

AWS Migration Delivery Partner

The partner who can assist customers at each stage of migrating existing applications to AWS and provide staff, tools and education as part of professional services.

AWS End-User Computing Navigate

The guideline for acquiring expertise in AWS desktop & application streaming solution and a partner can be only certified by succeeding to pass the 5 phased requirements. We are the 1st partner in Japan to achieve completion of the program.

AWS Well-Architected Partner Program

The partner who can appropriately evaluate customer's AWS architecture by actively using AWS Well-Architected framework backed by in-depth knowledge related to AWS implementation support as well as numerous actual project experiences.



Unique Strengths ③: Solid Track Record

Track record of over 8,300 projects for over 800 companies*, mainly medium-sized and large companies



J.フロントリテイリング



みずほ銀行



* As of June 30, 2020

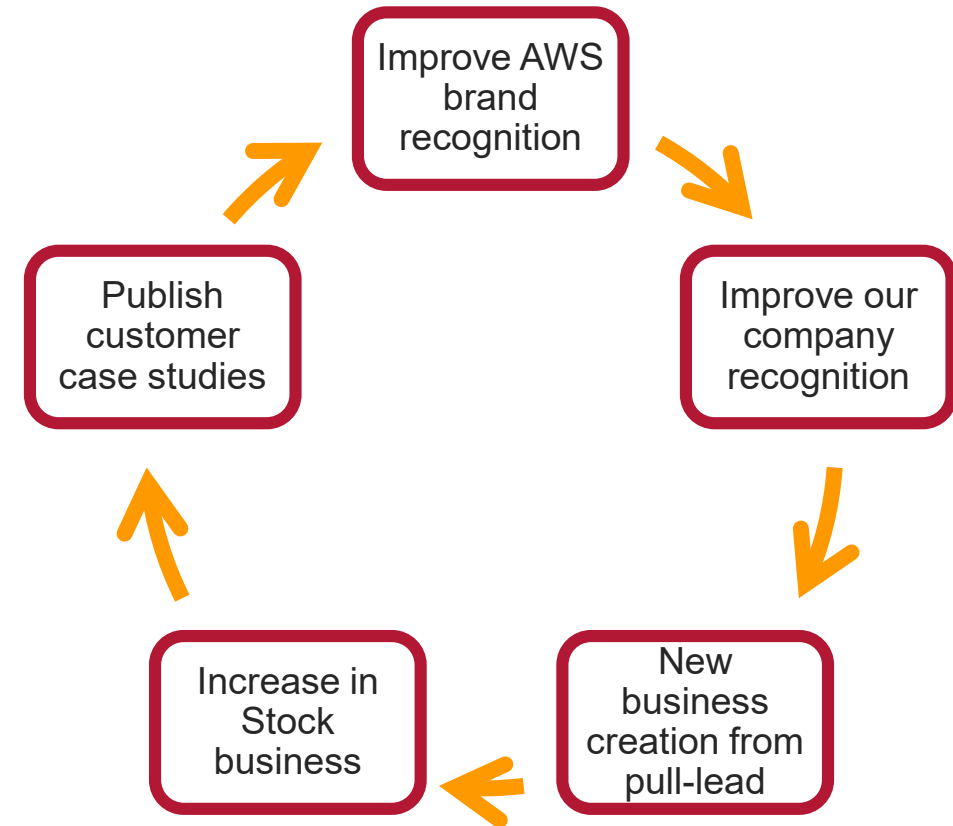
Unique Strengths ④: Front Runner advantage

Maintaining and expanding the growth cycle of increasing stock businesses by leveraging our name recognition in the AWS industry as a leading company

A virtuous cycle has been created in which our business growth is further accelerated by cooperation with AWS.

As AWS, led by a powerful Amazon brand, has grown by 40+% compared to last year, our company recognition as the highest ranked AWS partner has been continuously improving as well. This situation leads to create pull-lead^(*) for receiving AWS implementation support project orders and leading to grow our stock businesses.

We publish more than 10 of these cases annually and this creates virtuous cycle that further raises AWS visibility in the enterprise market.



* 1 : The situation that customers are coming to us, instead of aggressively reaching out to customers from us

Unique Strengths ⑤: Our original service “Cloud Automator”

Based on our depth knowledge in AWS constructions and operations, we develop original AWS operation automation service and provide it to our customers.

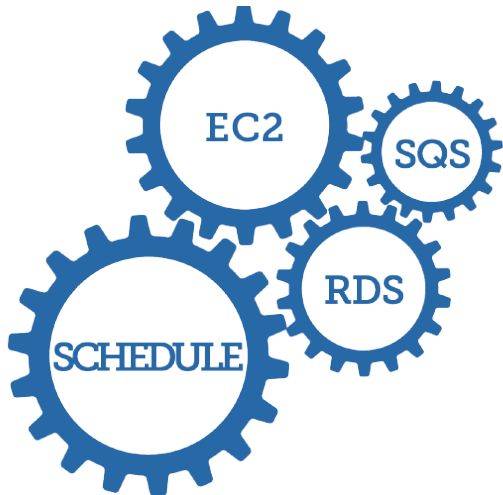
Contribute to both low-cost & high-quality operations and increase in Cloud Integration project orders



Feature 1

(Job Automation feature)

Automate AWS Operation



Automate AWS essential operations such as back-up, Instance start/stop, etc...

Feature 2

(Configuration review feature)

Automatic AWS Config check



Periodically review AWS resources to check whether it is configured based on designated rules

Unique Strengths ⑤: Our original service “Cloud Automator”

AGC

We have a track record of evolving services and specifications in response to changes in AWS as well as user demands. We transfer our know-how and experiences to internal resources

IDOM Inc.

Implement Cloud Automator for addressing automation, standardization, simplification, efficiency, and risk elimination of AWS operations

Marubeni

To improve IT governance, we decided for full adoption of AWS. By combination of using Cloud Automator, it enables to achieve both operation automation and operation efficiency at the same time

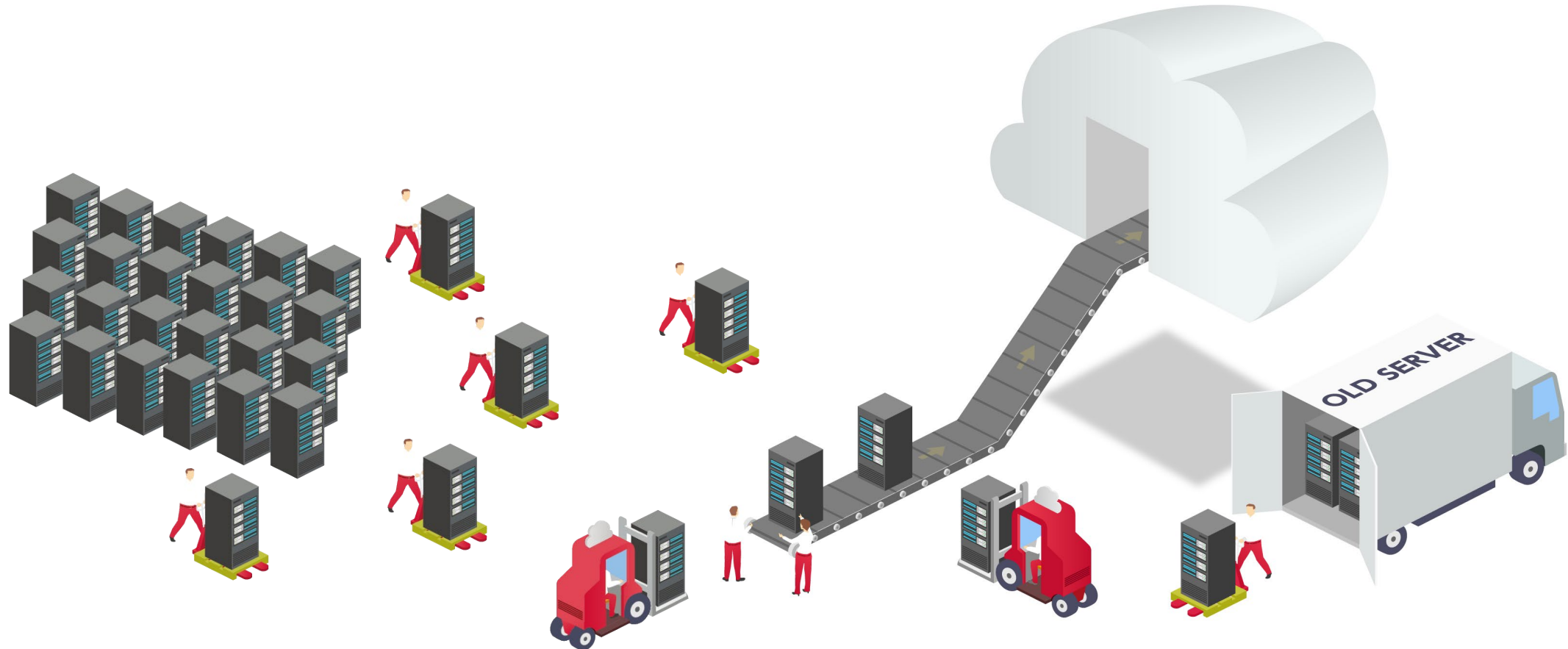
YOKOGAWA 

Optimizes costs by automatically switching to the DR site by automatically launching instances, only when needed, by using Cloud Automator

Growth Strategy

Growth Strategy: Winning Large migration projects

In Japanese market, more than half of the companies still do not use Cloud. We will continue to accelerate growth by acquiring large-scale cloud migration projects that have not yet been cultivated.

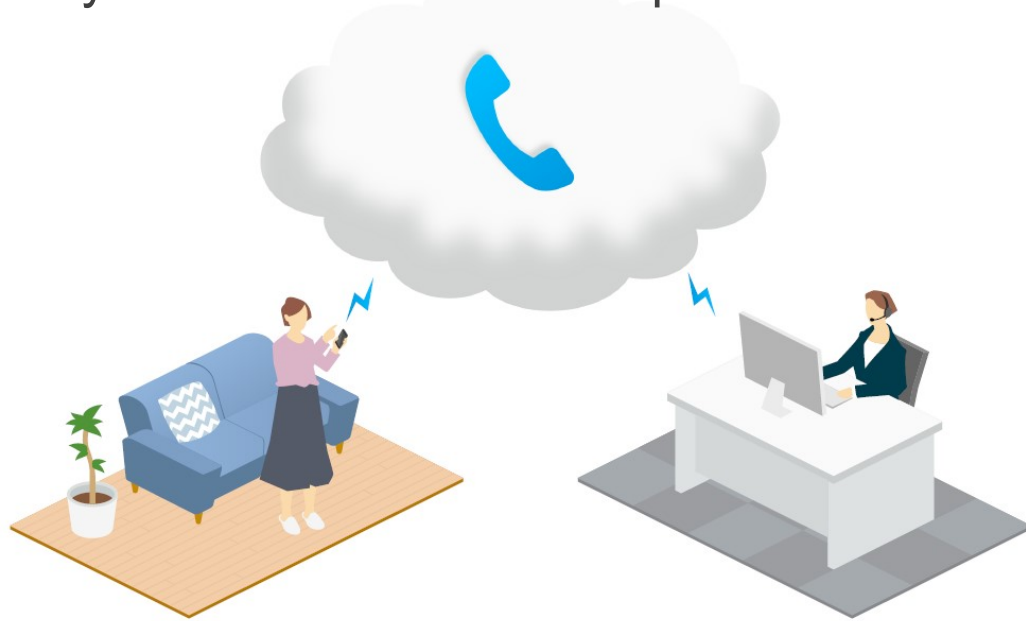


Growth Strategy: Support New Work Styles under “New Normal”

We will contribute to promote new work styles by leveraging cloud solutions such as Amazon Connect (cloud-based call center service) and Amazon Workspaces (virtual desktop service) provided by AWS.

pal*system

Palsystem Consumers' Co-operative Union



Established automated telephone order system using Amazon Connect. It significantly contributes to support automation of the telephone orders, which have increased rapidly due to government requests to refrain from going out during the COVID-19 pandemic.

JFR J.フロントリテイリング

J. Front Retailing Co., Ltd.



Deployed roughly 1,000 virtual desktops using Amazon Workspaces. It is realizing an environment in which employees can always work securely regardless of their locations.

Caution for forward-looking statements

The materials and information provided in this announcement include so-called “forward-looking statements”. These are based on current expectations, projections and risky assumptions, and include uncertainties that could result in different result from these statements.

These risks and uncertainties include general industry and market conditions, and general domestic and international economic conditions such as interest rate and currency exchange fluctuations.

In the future, even if there is a new information and/or a future event, we are not obligated to update or modify the “forecast information” including in this announcement.



Serverworks