**Medium-term Management Plan**

# ISID Open Innovation 2018
# "Joint Value Creation"

**Setsuo Kamai**

President and CEO
Information Services International-Dentsu, Ltd.

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**1** We have taken the change in our fiscal year-end as an opportunity to reassess the dramatically changing business environment and formulate a three-year medium-term management plan (fiscal 2016–2018).

**2** For the ISID Group, which celebrated its 40th anniversary of establishment in December 2015, these three years mark the first step in creating a new decade of operations.

**3** While continuing with the basic policies outlined in our previous medium-term management plan, we will set the stage for a growth scenario through 2020 and beyond.

## ISID Open Innovation 2016 "Joint Value Creation"

| Period covered | Quantitative goals |
|---|---|

### April 2014～March 2017

Note: Taking advantage of the change in our fiscal year-end, we transitioned to new medium-term management plan in January 2016.

### Basic policies

(1) Pursue Competitive Advantages

(2) Develop New Business Fields

(3) Enhance Human Resources

### FY2016

(ending March 2017)

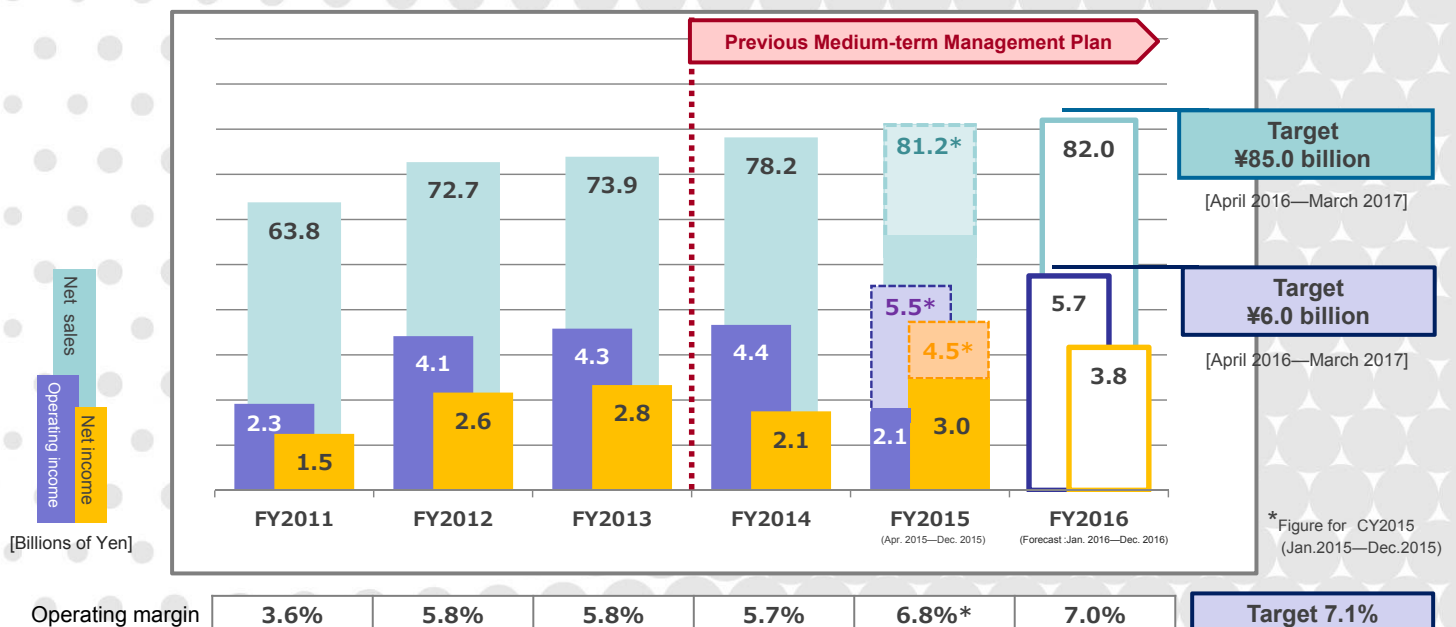Net sales ¥ 85.0 billion

Operating income ¥ 6.0 billion

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**Results**

● **Fiscal period ended in December 2015 (nine months)**
We substantially outpaced our forecasts. Net sales during the April–December period were our highest to date. Consolidated net sales grew for the fifth consecutive fiscal period, and profits rose for the sixth straight period.

● **Reference: Performance during January–December 2015**
Net sales and operating income both surpassed historic record levels.

Previous Medium-term Management Plan

| | Net sales | Operating income | Net income |
|---|---|---|---|
| FY2011 | 63.8 | 2.3 | 1.5 |
| FY2012 | 72.7 | 4.1 | 2.6 |
| FY2013 | 73.9 | 4.3 | 2.8 |
| FY2014 | 78.2 | 4.4 | 2.1 |
| FY2015 (Apr. 2015—Dec. 2015) | 81.2* / 2.1 | 5.5* / 3.0 | 4.5* |
| FY2016 (Forecast: Jan. 2016—Dec. 2016) | 82.0 | 5.7 | 3.8 |

Target ¥85.0 billion [April 2016—March 2017]

Target ¥6.0 billion [April 2016—March 2017]

*Figure for CY2015 (Jan.2015—Dec.2015)

[Billions of Yen]

| Operating margin | 3.6% | 5.8% | 5.8% | 5.7% | 6.8%* | 7.0% | Target 7.1% |
|---|---|---|---|---|---|---|---|

**Main achievements 1**

## (1) Pursue Competitive Advantages   (2) Develop New Business Fields

**Net sales** (Billions of yen)

**Financial Solutions Segment**

- Business grew, centered on megabanks expanding their operations overseas and responding to market regulations.
- Orders increased from regional banks and leading financial institutions for BANK·R, our next-generation financing solution.
- We also cultivated FinTech and other new fields of business.

| | | | Target |
|---|---|---|---|
| 22.2 | 24.0 | 24.6 | 25.0 |
| FY2013 (Apr.2013—Mar.2014) | FY2014 | CY2015 (Jan.—Dec.2015) | FY2016 |

**Business Solutions Segment**

- Sales grew steadily for in-house products, such as POSITIVE, human resources management solution and our STRAVIS, consolidated accounting solution.
- We were also entrusted large-scale projects for core system development services.
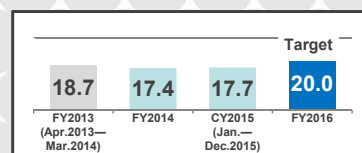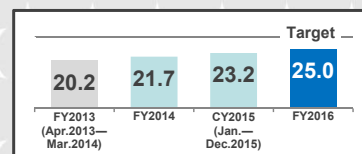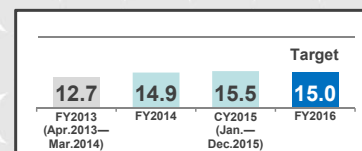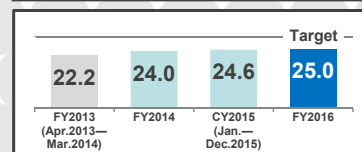
| | | | Target |
|---|---|---|---|
| 12.7 | 14.9 | 15.5 | 15.0 |
| FY2013 (Apr.2013—Mar.2014) | FY2014 | CY2015 (Jan.—Dec.2015) | FY2016 |

**Engineering Solutions Segment**

- Centering on the iQUAVIS, conceptual design solution, we enhanced our MBD solutions to the automotive industry, obtaining a leading position.
- We also made steady progress in predictive maintenance solutions utilizing manufacturing big data.

| | | | Target |
|---|---|---|---|
| 20.2 | 21.7 | 23.2 | 25.0 |
| FY2013 (Apr.2013—Mar.2014) | FY2014 | CY2015 (Jan.—Dec.2015) | FY2016 |

**Communications IT Segment**

- Sales expanded due to a large-scale core system upgrade for Dentsu and by promoting collaboration with Dentsu.
- We promoted the development of marketing products, such as iPLAss, marketing platform and +fooop! Connect, an online-to-offline platform.

| | | | Target |
|---|---|---|---|
| 18.7 | 17.4 | 17.7 | 20.0 |
| FY2013 (Apr.2013—Mar.2014) | FY2014 | CY2015 (Jan.—Dec.2015) | FY2016 |

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**Main achievements 2**

## (2) Develop New Business Fields

**Net sales** (Billions of yen)

**Developing Global Markets**

- We proactively cultivated new business through joint efforts between our business segments and local subsidiaries.
- We embarked on local market cultivation by the newly established Global Business Development Division.

| | | | Target |
|---|---|---|---|
| 9.1 | 9.4 | 10.4 | 12.7 |
| FY2013 (Apr.2013—Mar.2014) | FY2014 | CY2015 (Jan.—Dec.2015) | FY2016 |

**Application of Leading-Edge Technologies**

- The Open Innovation Laboratory merged its organization with the 2020 Technology & Business Development Office in order to accelerate activities.
- We increased the number of proposal-making opportunities by collaborating with Dentsu in the urban development, tourism, mobility and sports domains.

**Utilize Big Data to Generate New Business**

- We established a new promotion department in the big data domain and reinforced our customer response capabilities. We are steadily building up a track record in this field.
- We began developing unique services and solutions.
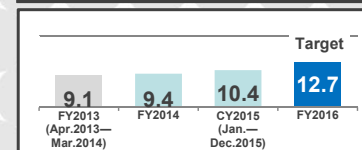
## (3) Enhance Human Resources

**Enhance Human Resources**

- We augmented measures to secure and cultivate global human resources.
- We commenced efforts to promote diversity (improved work-life balance, extended teleworking, etc.).

**New Medium-term Management Plan**

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# 3. Basic Objectives

**Pursue Competitive Advantages**
—Reinforce our strengths—

**Develop New Business Fields**
—Aiming for future growth—

**Enhance Human Resources**
—The key to value creation—

# 4. Quantitative Goals

| (Consolidated) | CY2015 (Jan.~Dec.) | FY2018 (Jan.~Dec.) | CAGR Compound Average Growth Rate |
|---|---|---|---|
| Net sales | ¥81.2billion | ¥100.0billion * | 7.2% |
| Operating income | ¥5.5billion | ¥8.0billion * | 13.3% |
| Operating margin | 6.8% | 8.0% | |

*Includes organic growth outside the segment

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# 5. Capital Policies

We will implement capital policies aimed at ensuring sustainable increases in corporate value.

| Augment Capital Efficiency | Enhance Shareholder Returns | Strategic M&A |
|---|---|---|
| We aim to augment capital efficiency and increase ROE. | We will pursue proactive shareholder returns while maintaining our primary focus on stable dividends. | We will actively promote M&A, centered on "strategic domains." |
| **Return on equity (ROE) of 10.0% or more** | **Aim consolidated payout ratio of 35–40%** | **M&A investment budget of ¥10.0 billion (three-year total)** |

# 6. External Business Environment

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*IT Solution Innovator*

| **Recent trends** | **Long-term trends** |
|---|---|

Technological evolution and adoption, including cloud, mobile and sensing

↓

**● FinTech**
Increasingly active financial service innovation utilizing IT

**● Industry4.0**
Manufacturing innovations using IT to improve development, production and logistics is fully in progress

**● Digital Marketing**
Penetration of marketing making use of SNS, location-based information and other factors

Asia to continue driving the world economy
→
**● Economic Growth in Emerging Markets**
Accelerating global economic shift toward emerging markets and full-scale integration of the Japanese and other Asian economies

Increasingly vigorous business innovation due to the adoption of IoT/big data and achievements in artificial intelligence/robotics
→
**● Connected World**
The coming of a "world connected throughout society," with connections between people, companies and countries, as well as things

Leading up to 2020, large-scale urban development and more vigorous new business creation
→
**● 2020 and Beyond**
Growing global attention on technological innovation in Japan, a technology superpower

Japan faced prior to many other countries issues affecting the entire world: a decreasing population, falling birthrate and aging population, as well as energy issues
→
**● Becoming an Advanced Nation that Resolves Issues**
Japan working to address social problems ahead of the rest of the world, aiming for a new growth path

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# 7. Strategic Domains

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| **Individual segment initiatives** | **Initiatives encompassing all segments** |
|---|---|

**Financial Solutions Segment**

| **FinTech** | **Global** |
|---|---|

**Business Solutions Segment**
**Engineering Solutions Segment**

| **Digital Enterprises** | **IoT/Big Data** |
|---|---|

**Communications IT Segment**

| **Collaboration with Dentsu** | **2020&Beyond** |
|---|---|

# 8-1. Financial Solutions Segment

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**Vision of segment**

## "SHINKA" for changes in the future

Display *shinka* (true value), taking major changes in the financial business as an opportunity.
Building *shinka* (deeper relations) with customers, make *shinka* (evolution) in solutions and *shinka* (modernization) in business.

**Net sales** (Billions of yen)

24.6 → 27.7
CAGR 4.0%

CY2015 (Jan.—Dec.) | FY2016 | FY2017 | FY2018
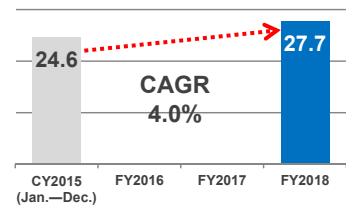
**Pursue Competitive Advantages**

- Strengthen support for major financial institutions developing their business overseas
- Respond precisely to increasingly strict market regulations and changing systems
- Enhance solutions to cultivate new customers

BANK R
Lamp
Stream-R

**Develop New Business Fields**

- Create new businesses, including through collaboration with startup companies participated in FinTech
- Support efforts by financial institutions to foster innovation

FINOLAB
Liquid
MFS

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# 8-2. Business Solutions Segment

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**Vision of segment**

## "Reinvention"
### —the challenge of new value creation

By realizing digital enterprises, we will provide new value to customers and markets through our redefining of own in-house and third-party products and services.

**Net sales** (Billions of yen)

15.5 → 17.4
CAGR 3.9%

CY2015 (Jan.—Dec.) | FY2016 | FY2017 | FY2018
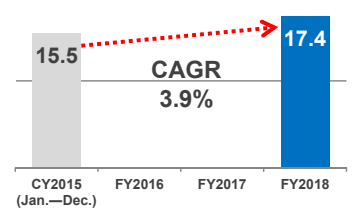
**Pursue Competitive Advantages**

- In the HCM (HRM) field, strengthen alliances to expand sales
- Enhance accounting and cost/production management solutions

統合HCMソリューション
POSITIVE®
STRAVIS

**Develop New Business Fields**

- Begin developing next-generation enterprise IT platforms
- Create a business model utilizing IoT that supports efforts to turn manufacturing industries into services
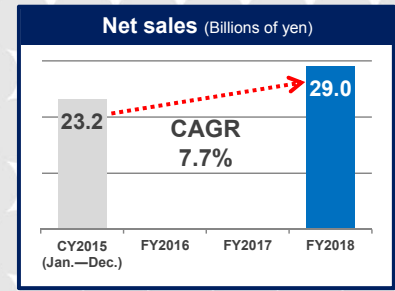
# 8-3. Engineering Solutions Segment

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**Vision of segment**

**"Toward a connected future"**
—realization of the digital enterprise

In addition to innovation in manufacturing, take the lead in accelerating innovation of customers to create items which is required in the IoT era

**Net sales** (Billions of yen)

23.2 → 29.0
CAGR 7.7%

CY2015 (Jan.—Dec.) | FY2016 | FY2017 | FY2018
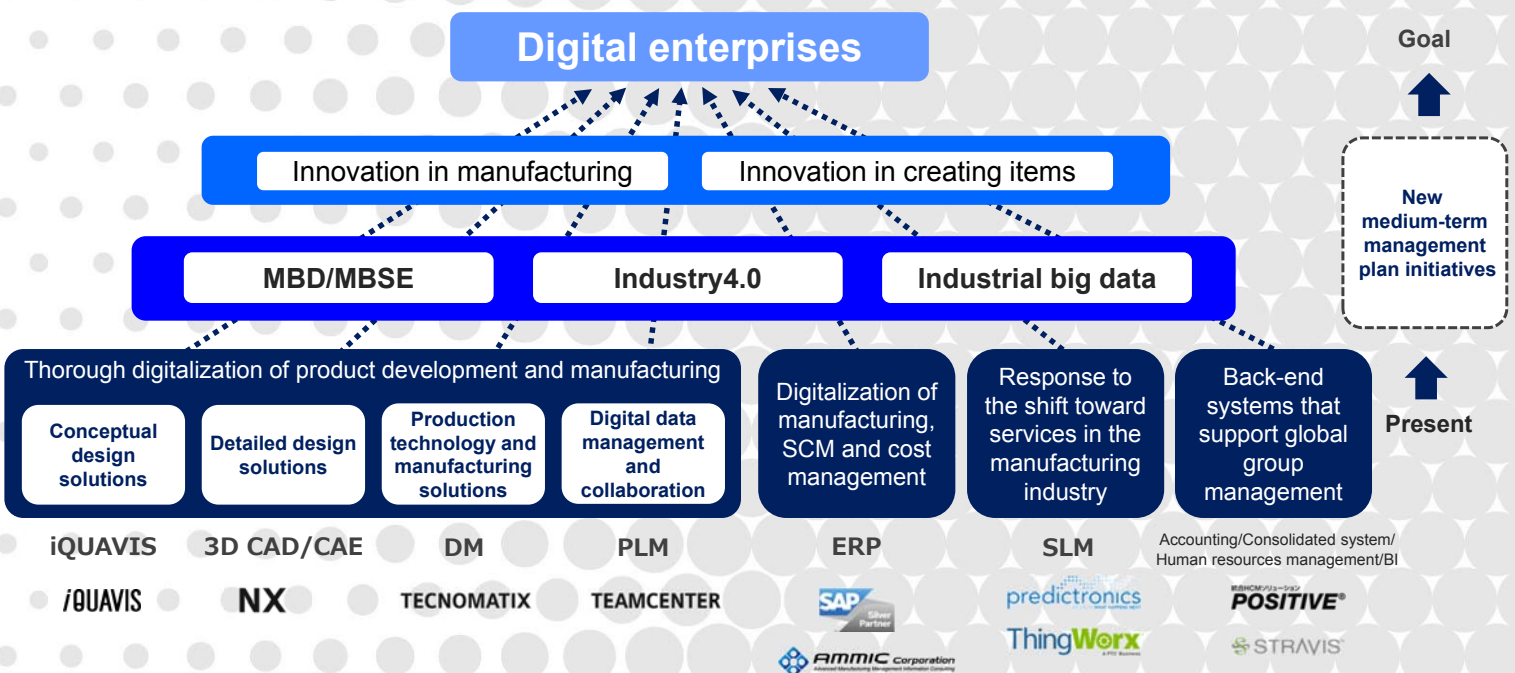
**Pursue Competitive Advantages**

- Expand business further as a pioneer in model-based development (MBD)
- As a leading provider of engineering solutions, drive the digitalization and efficiency in the manufacturing industry

iQUAVIS

**Develop New Business Fields**

- Strengthen liaisons with partners in Japan and overseas, and promote customers' manufacturing innovation (such as Industry 4.0)
- Expand business in the "industrial big data" domain

predictronics

ThingWorx

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# Reference: Digital Enterprises

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Throughout the engineering chain, realize seamless connections between systems and information, including the back end

**Goal**

**Digital enterprises**

Innovation in manufacturing | Innovation in creating items

**MBD/MBSE** | **Industry4.0** | **Industrial big data**

**New medium-term management plan initiatives**

Thorough digitalization of product development and manufacturing

| Conceptual design solutions | Detailed design solutions | Production technology and manufacturing solutions | Digital data management and collaboration | Digitalization of manufacturing, SCM and cost management | Response to the shift toward services in the manufacturing industry | Back-end systems that support global group management |

**Present**

| iQUAVIS | 3D CAD/CAE | DM | PLM | ERP | SLM | Accounting/Consolidated system/ Human resources management/BI |

iQUAVIS | NX | TECNOMATIX | TEAMCENTER | SAP Silver Partner | predictronics ThingWorx | POSITIVE STRAVIS
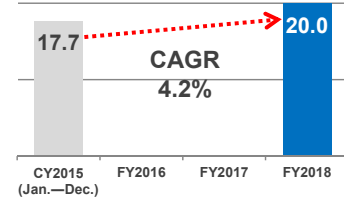
AMMIC Corporation

# 8-4. Communications IT Segment

**Vision of segment**

### The Growth Engine for Dentsu Group

From IT aspect, drive the Dentsu Group who places digitalization as a pillar of growth

**Net sales** (Billions of yen)

| | |
|---|---|
| 17.7 | 20.0 |
| CAGR 4.2% | |
| CY2015 (Jan.—Dec.) FY2016 FY2017 FY2018 | |

**Pursue Competitive Advantages**

- Expand collaboration with Dentsu in digital marketing area
- Support further sophistication of the Dentsu Group's core systems

**Develop New Business Fields**

- Cultivate new domains through collaboration with Dentsu
  — New business in relation to 2020, regional revitalization and inbound tourist demand, etc
- Cultivate global business by collaborating with the Dentsu Group's overseas bases

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# 8-5. Enhance Human Resources

**Basic objectives**

**Invest proactively in human resources, the source of "joint value creation," to increase "the value of human resources"**

**Action plan**

- Promote diversity
  — Creating an environment that makes use of diverse human resources, regardless of age, gender, nationality and other factors
- Promote working style reforms
  — Reforms including that with IT utilization, of office and of regulations
- Secure and cultivate human resources
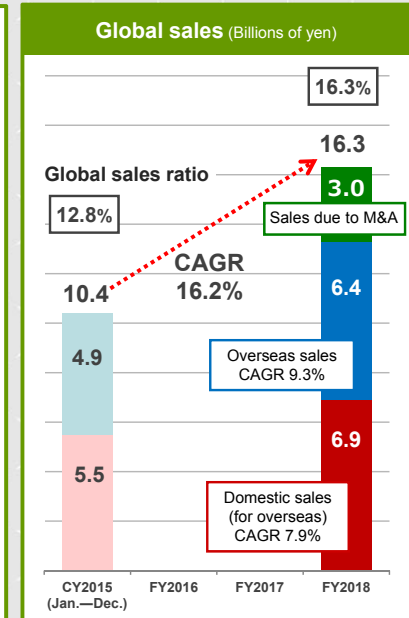  — Recruit diverse human resources, nurture global human resources, cultivate next-generation leaders

**Basic objectives**

## Increase the global sales ratio

・ Update Asian economic growth initiatives

・ Generate new sales through inorganic growth

**Action plan**

- Support efforts by Japanese megabanks to develop business overseas and engage in the full-fledged expansion of Lamp sales to non-Japanese financial institutions

- Expand services for the manufacturing industry, centered on Asia (DM, CAE, iQUAVIS, big data, etc.)

- In IoT domain, enhance collaboration in Silicon Valley and Germany

- Expand digital marketing services, centered on the Data Intelligence Center in Singapore

- Promote alliance and M&A activities

**Global sales** (Billions of yen)

16.3%

16.3

Global sales ratio

12.8%

3.0
Sales due to M&A

CAGR
16.2%

10.4

6.4

4.9

Overseas sales
CAGR 9.3%

6.9

5.5

Domestic sales
(for overseas)
CAGR 7.9%

CY2015 (Jan.—Dec.) | FY2016 | FY2017 | FY2018

**Basic objectives**

**In the IoT era, where everything is connected over the Internet, leverage big data, artificial intelligence (AI) and robotics to support customers' business transformations**

**Action plan**

- Innovation in manufacturing and creating items
  — Utilize "industrial big data" to support the shift of the manufacturing industry to digital enterprises

  predictronics
  ThingWorx

- Marketing innovation
  — Centering on collaboration with Dentsu, create increasingly sophisticated marketing solutions in the digital domain and support marketing innovation

  i-PLASS
  fooop! CONNECT

- Financial service innovation
  — Support financial service innovation with a view to the FinTech field

  FINOLAB
  Liquid  MFS
  LIVEPERSON LiveEngage

| Basic objectives | We aim to create new business with a view to 2020 and later years. |
|---|---|

| Action plan | ● Collaborate with Dentsu, the exclusive marketing agent of the Organizing Committee of the Tokyo Olympic and Paralympic Games<br><br>● New business creation for year 2020 and after by Open Innovation Laboratory    INNOLAB<br>  —Innovation in sports experience: Collaboration with the Rekimoto Lab at the University of Tokyo<br>  —Innovation in data analysis: Collaboration with Sony Computer Science Laboratories<br>  —Innovation in regional revitalization: Collaboration with various group of people in the Japanese national and municipal governments |
|---|---|

# 10. Measures to Prevent Unprofitable Projects

**iSiD**

**IT Solution Innovator**
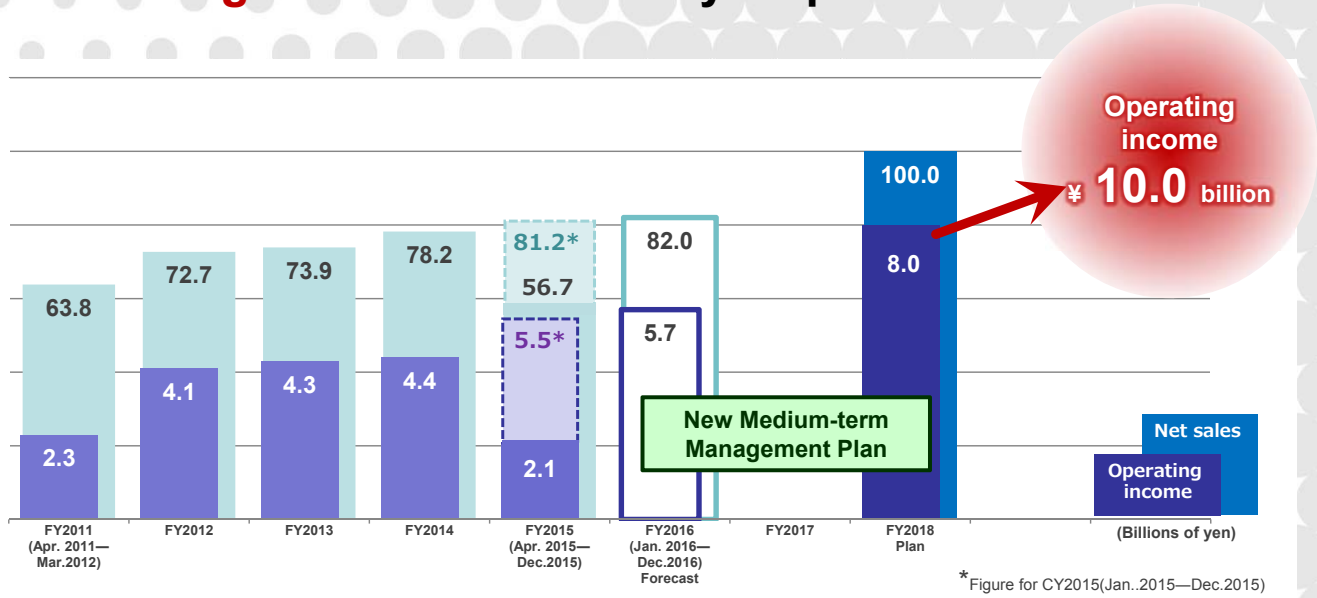
| Measures | [Initiatives already undertaken]<br>  ・Standardization of CMMI-compilant development process<br>  ・Order screening process by the PMO Committee (independent from business segments)<br><br>In addition to the above, strengthened measures to prevent recurrence<br>● Further tighten order screening<br>  ・Introduction of digital risk judgment criteria based on an analysis of past projects<br>  ・Enhance PMO Committee's authority on terms and conditions of agreements<br><br>● Thorough enhancement of quality of upstream processes<br>  ・Dedicated department to conduct third-party quality assessments of upstream processes<br>  ・Introduction of case study-type course in PM training program |
|---|---|

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IT Solution Innovator

**The ISID Group will continuously strive to deliver unique values and aim to achieve operating income exceeding ¥10.0 billion as early as possible.**



Operating income
¥ **10.0** billion

100.0

63.8  72.7  73.9  78.2  81.2*  82.0

56.7

5.5*

8.0

5.7

2.3  4.1  4.3  4.4  2.1

New Medium-term Management Plan

Net sales
Operating income

FY2011 (Apr. 2011—Mar.2012) | FY2012 | FY2013 | FY2014 | FY2015 (Apr. 2015—Dec.2015) | FY2016 (Jan. 2016—Dec.2016) Forecast | FY2017 | FY2018 Plan

(Billions of yen)

*Figure for CY2015(Jan..2015—Dec.2015)

- 23 -

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IT Solution Innovator

# Further Accelerate Open Innovation

We have entered an era in which collaborative innovation centered on IT is demanded to resolve increasingly complex social and customer issues. The ISID Group will take the lead in resolving these issues by proactively advancing in "joint value creation" as an IT company.

**Social and customer issues**



ISID

Business firm
Municipal governments
Educational institution
NPO/NGO

Open Innovation
Accelerator

Startup companies
Consulting firm
Design firm
IT vender

Other related organization

**"Joint Value Creation" Open Innovation** | (1) Collaborate with a variety of partners
(2) Take the lead in creating social value

- 24 -

| P23,31 | BANK·R<br>(Developer: ISID) | A solutions package for regional financial institutions that provides integrated support for lending and sales operations. |
|---|---|---|
| P23,32 | POSITIVE<br>(Developer : ISID) | An integrated human resource solutions package, entirely Web-compliant, that in addition to personnel, payroll and recruiting management handles such broad-ranging functions as human resource support and talent management and group company management. |
| P23,32 | STRAVIS<br>(Developer: ISID) | A consolidated accounting solution developed on the core concept of truly integrating system consolidated accounting and managerial consolidated accounting. |
| P23,33,34,37 | iQUAVIS<br>(Developer: ISID) | A tool developed by ISID to support the realization of MBD/MBSE. Visualizes the concepts of engineers involved in product development, and enables to considers functions to be achieved and the means for physically realizing them. Creates ideal technology scenarios for achievement of requirements and supports the formulation of operational plans for realizing these scenarios. |
| P23,33,34 | MBD | Acronym for model based development. Avoiding as much as possible production of actual first stage prototypes, MBD utilizes statistical data from experiments, and mathematical formulae describing physical phenomena to construct virtual "models" that can be used in product development. |
| P23 | Predictive maintenance | A type of maintenance involving monitoring and analyzing data from sensors attached to a host of equipment to enable the early detection of anomalies and prediction of failure. |
| P23,38 | iPLAss<br>(Developer: ISID) | Marketing platform service designed to support sales operations and customer management, and reduce the time required for a business to get up and running. |
| P23,38 | +fooop! Connect<br>(Developer: ISID) | A service that uses +fooop! as a base to provide, in a compact package, all the functionality necessary to enable O2O (online to offline) marketing strategies to link urban districts with individuals. |
| P29,33,34 | Industry4.0 | A strategic project by the German government aiming for increased sophistication in manufacturing through joint efforts by industry, the government and academia. By making factories smart and connecting them, it creates the most flexible and efficient production processes. As a result, it enables highly diversified small-lot production and large-scale production of high-value-added products (mass customization). |
| P31 | Stream-R<br>(Developer:ISID) | A settlement management system compatible with real-time gross settlement (RTGS) by BOJ-NET, a large-scale settlement system operated by the Bank of Japan. |
| P31,37 | Lamp<br>(Developer: ISID Shanghai) | Core system for overseas operations of leasing companies. |
| P31,38 | Liquid | A promising venture company in the FinTech domain. Has particular strengths in image processing technology focused on biometric authentication and big data analysis technology that makes use of machine learning. |
| P31,38 | MFS | A promising venture company in the FinTech domain. Specializes in the area of residential loans. With its Moge Check smartphone app, enables simple checks of the benefits of refinancing mortgage loans offered by 120 banks throughout Japan. |
| P32 | HCM | Acronym for human capital management. A human resource management method that considers employee capabilities to be important management resources for a company, takes an integrated approach to looking at the successes of individual employees' business activities and augmenting skills through human resource development and maximizing employee potential, thereby facilitating ongoing human resource development. |
| P33,34,38 | Industrial big data | Big data related primarily to the engineering domain. |

| P33,34,38 | Predictronics<br>(Developer: ISID) | An American venture business that uses highly advanced data analysis technology to deliver intelligent software solutions and services, based on the concept of "Intelligent Maintenance." |
|---|---|---|
| P33,34,38 | ThingWorx<br>(Developer:PTC) | Name of an IoT platform from PTC. Dramatically improves productivity when developing innovative applications compatible with IoT, reducing the amount of time, cost and risk related to their development. |
| P34 | MBSE | Highly efficient model-based system engineering. INCOSE* defines SE as "an interdisciplinary approach and means to enable the realization of successful systems."<br>*INCOSE: Acronym for the International Council on Systems Engineering |
| P34,37 | DM | Acronym for digital manufacturing. Uses computer-based 2D or 3D models to depict production facilities and products, allowing for the prediction and evaluation of manufacturing facility layouts prior to physical layout to facilitate efficient assembly and manufacturing. |
| P34 | PLM | Refers to the management of a variety of product-related data throughout a product's lifecycle, as well as computer tools that perform this management. |
| P34 | SLM | Acronym for service lifecycle management. By managing the lifecycle of a service, from planning and performing services to analyzing results and making improvements, realizes further growth and heightened profitability in service businesses. |
| P34 | BI | Acronym for business intelligence. A method for storing, analyzing and processing the massive quantities of data within a company to aid corporate decision-making. |
| P34 | NX<br>(Provider: Siemens) | An integrated 3D CAD/CAM/CAE system developed by Siemens. |
| P34 | Tecnomatix<br>(Provider：Siemens) | The brand name of a family of software by Siemens for realizing digital manufacturing. |
| P34 | Teamcenter<br>(Provider：Siemens) | A PDM/PLM tool developed by Siemens. |
| P34 | SAP | A German software manufacturer that supplies ERP and other packages. Strong in packaged software for large companies. |
| P34 | AMMIC<br>(Provider: AMMIC) | A hybrid production and cost management package compatible with types and methods of production in a variety of business categories. Developed by AMMIC Corporation. |
| P35 | Digitalization | Trend describing the connection of information about people, physical items and non-physical items over the Internet and the technologies for realizing this trend. In a narrow sense, a separate concept from enterprise IT (IT systems handled by IT departments). |
| P38 | LiveEngage<br>(Provider: LivePerson) | An SaaS-type cloud service aimed at fostering Internet "hospitality" by enabling visitors to a website to reach their destination smoothly. Monitors users' website activity to determine trends such as moving back and forth multiple times between pages or remaining on the same page. Provides response screens to enable dialog with operators and displays personalized content. |
| P40 | CMMI | Acronym for capability maturity model integration. A type of capability maturity model serving as a guideline for process improvements by organizations involved in system development. |
| P40 | PMO | Acronym for project management office. A department or system that provides horizontal support for individual project management within an organization. |