



eSOL Co., Ltd.

Reports FY2021 Results

February 14, 2022

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1. Summary of FY2021

Summary of financial results for the fiscal ended December 2021

1. On September 13, 2021, we announced earnings revisions that fell short of the initial plans for both sales and profits, primarily due to the followings:
 - We appropriated more fund for R&D investment than the initial plans, intending to use it for the products to be sold in on-board software markets, our main target.
 - We allocated a part of Sales for R&D investment.
2. Full-year results fell short of earnings revisions in Sales because a part of sales in Embedded Software Business was deferred to fiscal 2022 due to customers' progress in development. However, stage profits below operating income exceeded earnings revisions due to a part of initial R&D investment plan being deferred to fiscal 2022 and selling, general and administrative expenses being less than planned.

Summary of FY2021 results

1/ "FY2021 Plan" is the plan announced on September 13, 2021

Results by segment : P6, Sales by segments of customers : P8

(JPY mil.)

	FY 2020	FY 2021	YoY	FY2021 Plan /1	Achievement
Sales	9,042	8,937	▲1.2%	9,123	98.0%
Cost of goods sold	5,845	6,142	+5.1%	—	—
Revision up	328	704	+114.6%	—	—
Gross profit	3,197	2,795	▲12.6%	—	—
SG&A	2,514	2,722	+8.3%	—	—
R&D expenses	860	1,125	+30.8%	—	—
Operating income	682	72	▲89.4%	18	392.3%
Income from continuing operations before tax	909	330	▲63.7%	269	122.7%
Net income	676	200	▲70.3%	176	114.0%

Walk of operating income (YoY): P7

R&D investment: P11&12

- Sales decreased YoY primarily due to the decrease of sales to consumer electronics.
- Operating income fell due to the increased R&D investment. Selling, general and administrative expenses excluding R&D expenses was reduced due to cost reductions.
- The subsidy from NEDO* was allocated to other income, which was provided by R&D for a new development.

*New Energy and Industrial Technology Development Organization

Results by segment - summary

(JPY mil.)

	FY 2020	FY 2021	YoY
Sales	9,042	8,937	▲1.2%
Embedded Software Business	8,358	8,255	▲1.2%
Embedded Software Products	1,981	1,823	▲8.0%
Engineering Services	6,377	6,432	+0.9%
Sensing Solution Business	676	692	+2.3%
Adjustments for consolidation	6	▲9	—
Gross profit	3,197	2,795	▲12.6%
Embedded Software Business	2,906	2,538	▲12.7%
Sensing Solution Business	271	252	▲7.0%
Adjustments for consolidation	19	4	—
Operating income	682	72	▲89.4%
Embedded Software Business	638	40	▲93.6%
Sensing Solution Business	24	27	+11.1%
Adjustments for consolidation	19	4	—

■ Embedded Software Business

Sales to automotive industries fell in Embedded Software Business due to the temporary event that software products were transferred to AUBASS CO., LTD. in the previous fiscal.

<https://ssl4.eir-parts.net/doc/4420/tdnet/1905323/00.pdf>

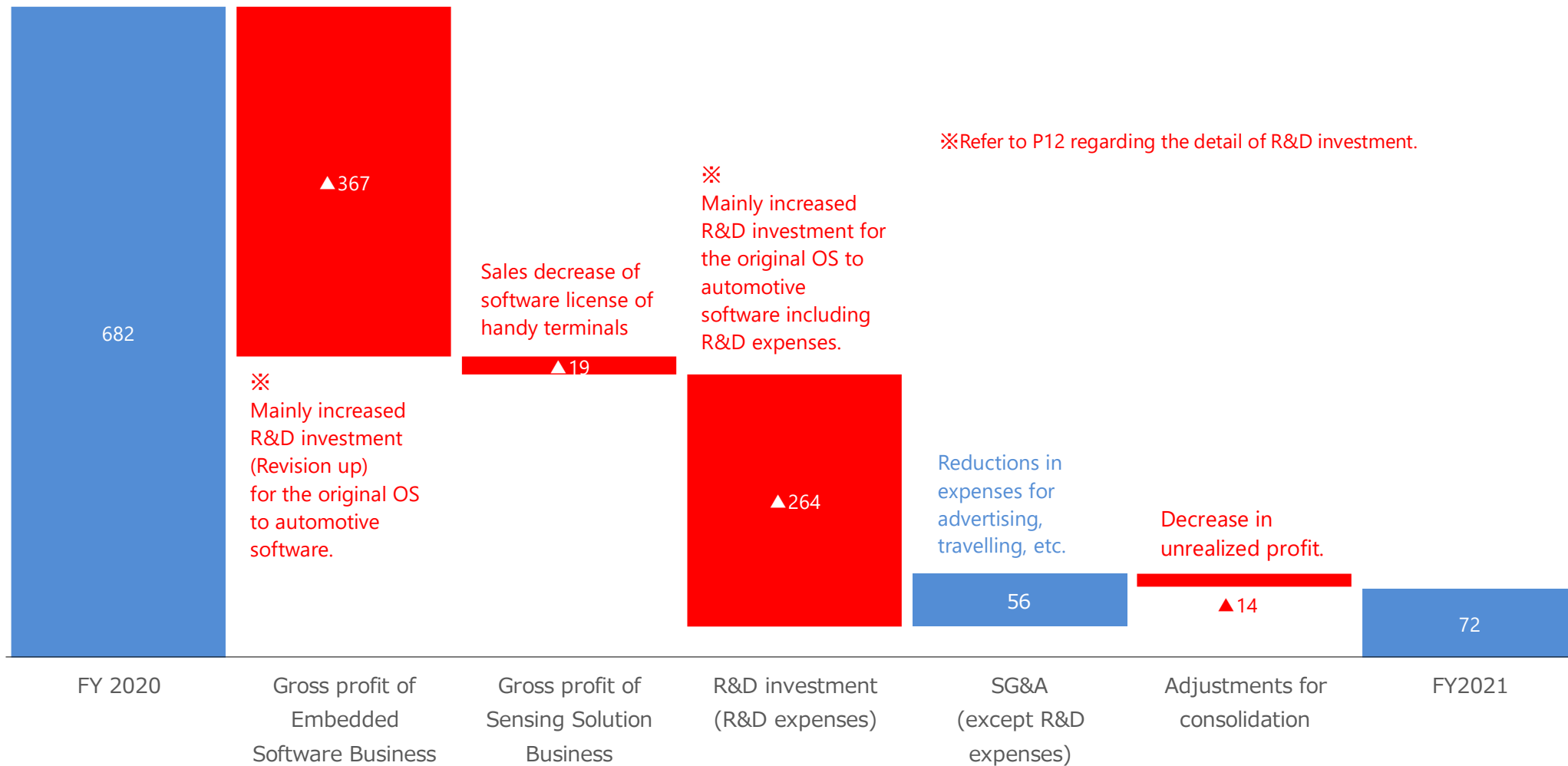
However, in engineering services, sales to automotive industries increased due to growing services along with the above products. Sales to consumer electronics fell, but still, we forecast its recovery in this fiscal.

■ Sensing Solution Business

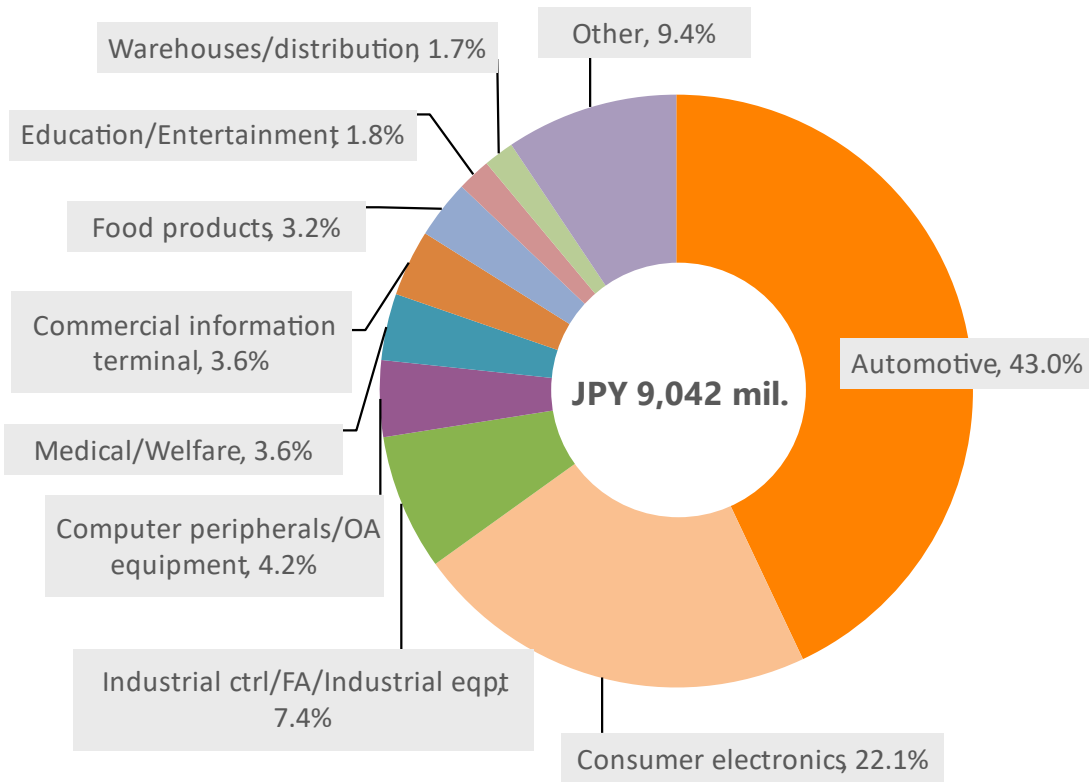
Sales increased while gross profit fell because, in selling handy terminals, the sales of software license decreased.

Walk of operating income (year-over-year)

(JPY mil.)

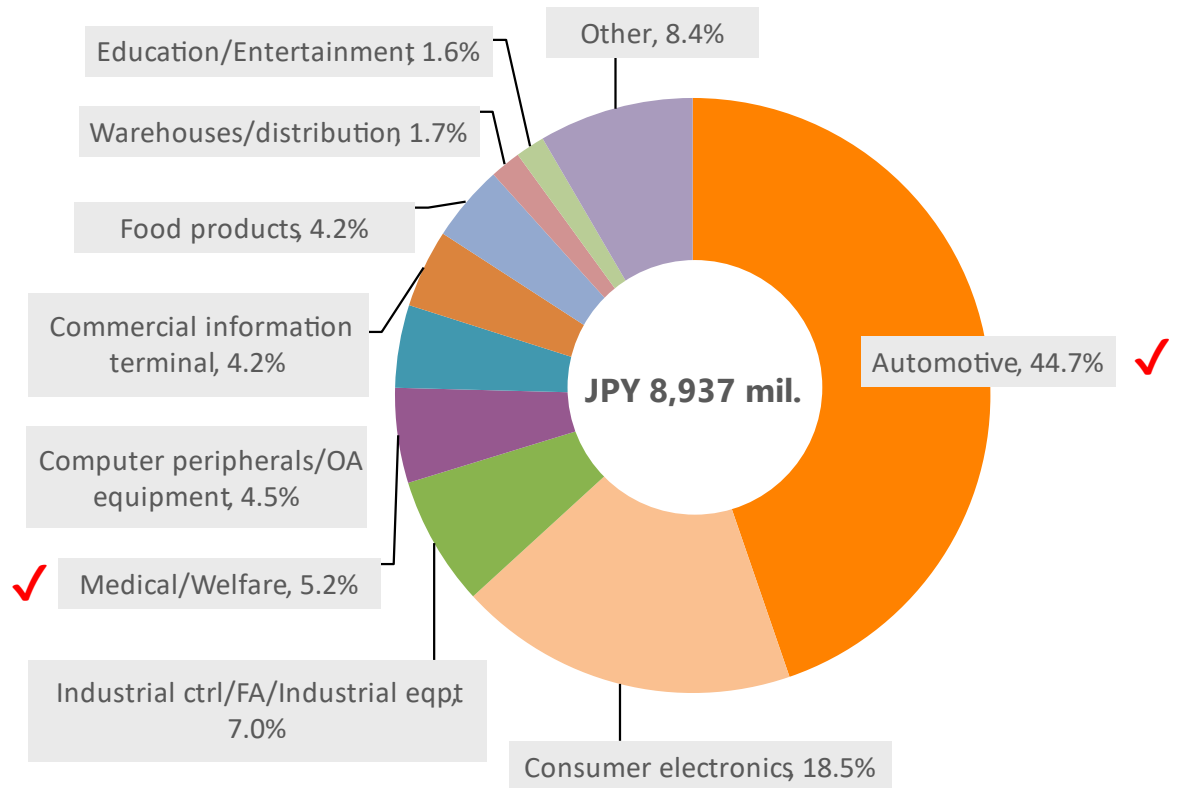


Sales by segments of customers



FY2020

✓ Automotive and Medical/Welfare grew.
 (5 years CAGR : Automotive 14.4%、 Medical/Welfare 11.4%)



FY2021

2. FY2022 Plan

Summary of FY2022 Plan

- In Embedded Software Business, we forecast a profit growth in consumer electronics.
- In Sensing Solution Business, we not only focus on sales of on-board printers and handy terminals but also we start Subscription for them. We forecast a temporally loss in the fiscal due to the implementation of Subscription.
- We enhance R&D investment to automotive industries much more than before. For details, please refer to the following pages.
- As well as fiscal 2021, we appropriate the subsidy from NEDO in other income.

(JPY mil.)

	FY2021	FY2022			
		Fist half	Second half	Full year	YoY
Sales	8,937	4,693	5,329	10,022	+12.1%
Embedded Software Business	8,255	4,418	4,923	9,341	+13.2%
Sensing Solution Business	692	274	406	680	▲1.7%
Adjustments for consolidation	▲9	—	—	—	—
Operating income	72	▲188	▲76	▲264	—
Embedded Software Business	40	▲178	▲96	▲275	—
Sensing Solution Business	27	▲9	20	10	▲59.8%
Adjustments for consolidation	4	—	—	—	—
Income from continuing operations before tax	330	▲88	▲71	▲160	—
Net income	200	▲94	▲85	▲180	—

Adjustments for consolidation are not included in this plan because they cannot be estimated.

Summary of FY2022 Plan (R&D investment)

■ Basic policy of R&D investment

We continue to invest approximately 10% of sales in R&D every fiscal year, aiming to further enhance the functionality of our products.

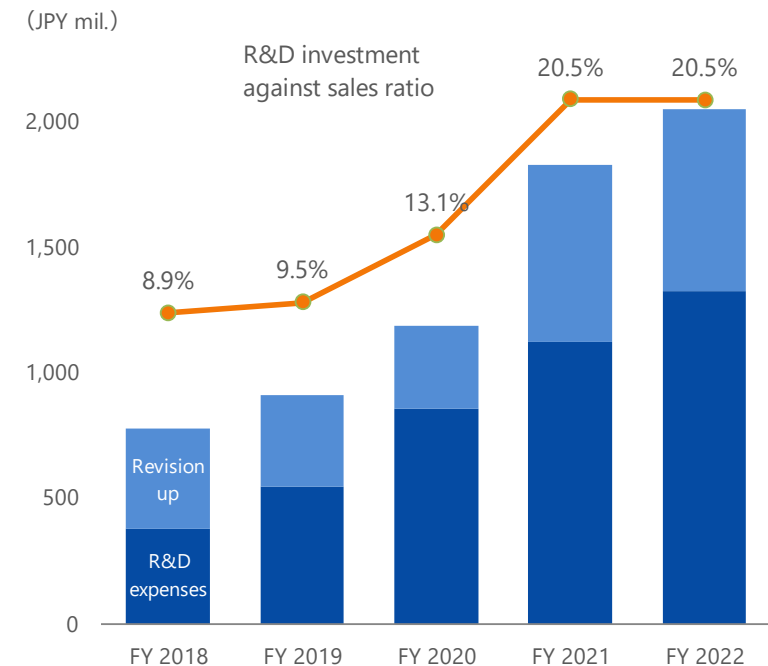
■ Policy of this FY

We continue to invest more than 10% sales in order to participate in the market, "CASE", being a mainstream of the automotive market that we is our target.

In 2035, sales of "CASE" is forecasted to grow 2.9 times as much as that of 2020. (Fuji Keizai Group)

	FY 2021	FY 2022	(JPY mil.)
			YoY
Sales	8,937	10,022	+ 12.1%
R&D investment	1,829	2,052	+ 12.2%
R&D expenses	1,125	1,328	+ 18.0%
Revision up	704	724	+ 2.8%
Investment against sales ratio	20.5%	20.5%	—

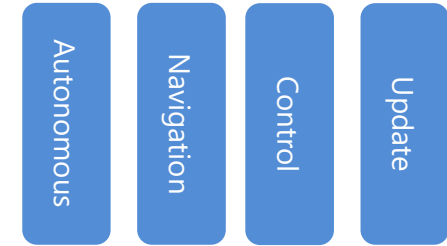
R&D expenses	- Investment in new products - Allocated to Cost of Selling
Revision up	- Investment to update existing products - Allocated to Cost of goods sold



Summary of FY2022 Plan (R&D investment for "CASE")

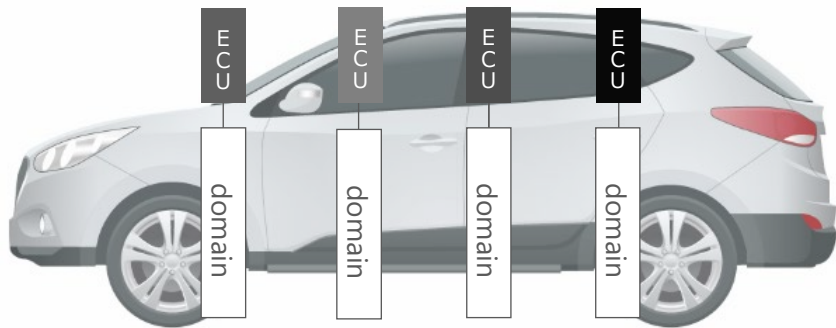
■ Trend of automotive industries – movement of "CASE"

- C**onnected
- A**utonomous
- S**hared & Service
- E**lectric

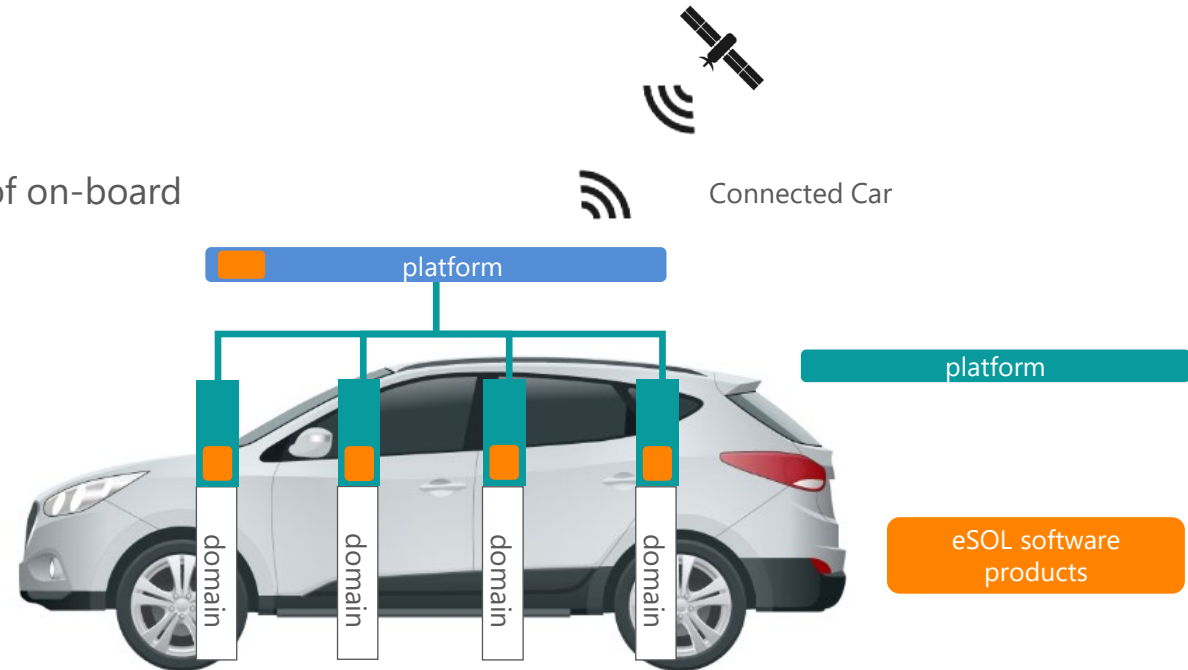


■ Details of R&D investment

- Develop the original OS for the "CASE" platform
- Enhance the collaboration with DENSO for the joint development of on-board software (released on September 13, 2021)



<On-board software evolved by domains>



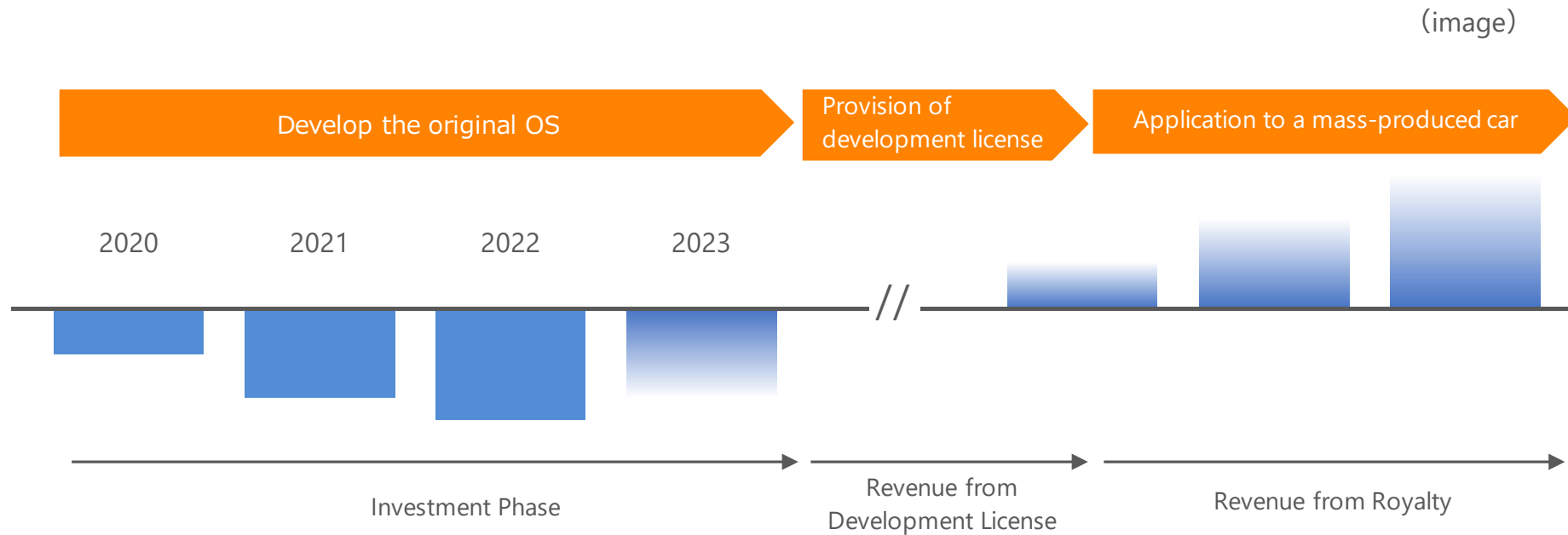
<Platform with AUTOSAR* specification>

*AUTOSAR is a worldwide development partnership in which the Company participates. 12

Summary of FY2022 Plan (Forecast of profit from R&D investment)

■ Contribution to the business by investing "CASE"

Enhance investment starting from "Investment Phase" and "Revenue from Development License" to "Revenue from Royalty"



Summary of FY2022 Plan (Shareholder Return)

eSOL will remunerate shareholders in accordance with the following policies:

■ Dividend policy

Stable financial position

Stable dividend payout ratio in accordance with performance

Investing internal reserve in enhancing corporate value (R&D, human development, etc.)

■ Dividend amount

The projection of profit for this FY is lower than the prior, reflecting the growing R&D investment for future profits; therefore, we have decided to maintain the same dividend as the prior.

	FY 2019	FY 2020	FY 2021	FY 2022
Dividend per share	*5.50yen	5.50yen	5.50yen	5.50yen
(interim dividend included)	(0.00yen)	(1.50yen)	(1.50yen)	(1.50yen)
Dividend payout ratio	17.0%	16.6%	55.8%	—

*memorial dividend of 1.50yen/shares is included

3. Management Policies and Business Strategy

eSOL's vision – Main target market (Automotive)

We grow the business mainly from sales to the automotive market.

■ Market status

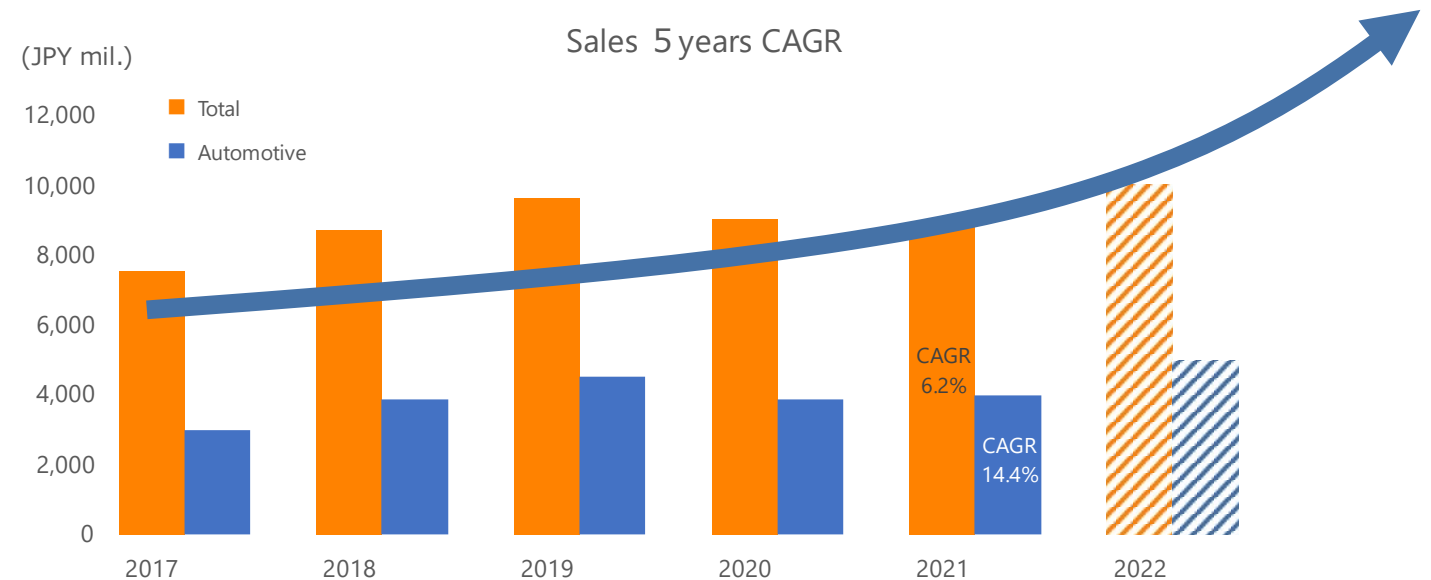
The global market for automotive software continues to expand.

The size of Japanese market for automotive software is expected to grow by 50% from 2020 to 2030.

(Yano Research Institute Ltd.)

■ Previous results of the Company

Sales for automotive industries is driving overall sales. We will continue to consider the automotive industries to be our main target and we grow the business.



eSOL's vision – Main target market (Robot market)

We will provide customers with services for ROS* which is widely used in the world in the field of robot R&D.

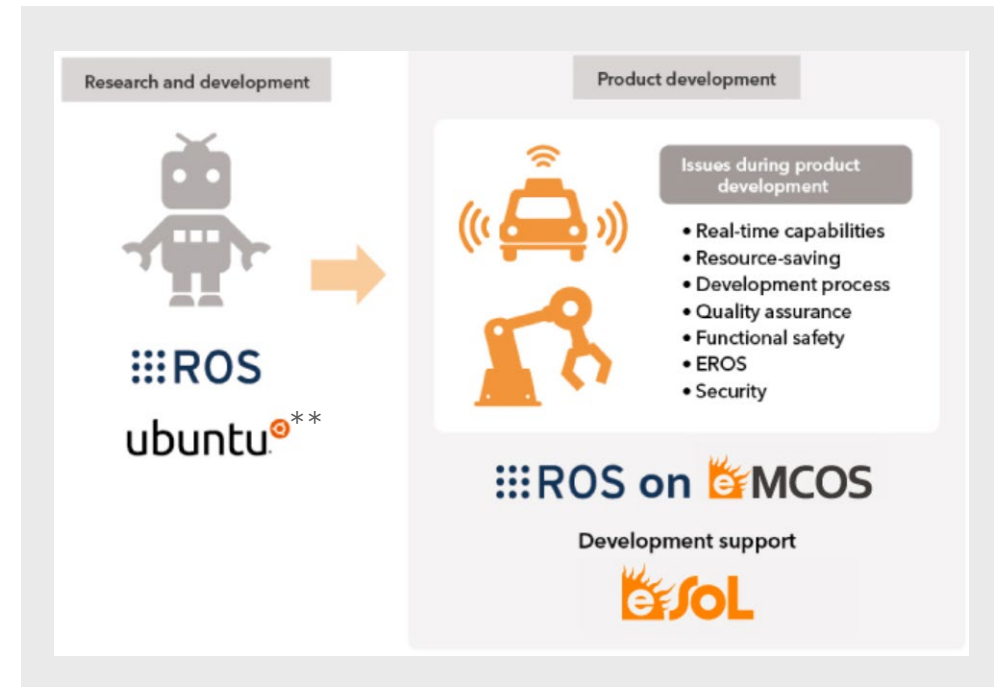
ROS (Robot Operating System) is an application framework for robots in Open Source (OSS). It is widely used in the world in the field of robot R&D.

■ Services

By providing software platform technology such as engineering services and the original OS, eMCOS, we strongly support the commercialization of highly reliable robot system including quality assurance and functional safety responses.

■ Market and customers

ROS market is expanding worldwide. The Company deals with FA, medical, automotive and industrial equipment, but in the future, we anticipate a wide range of transactions including those related to construction machinery.



eSOL's vision – Management Policies and Long-term Goal

The past

Information Society

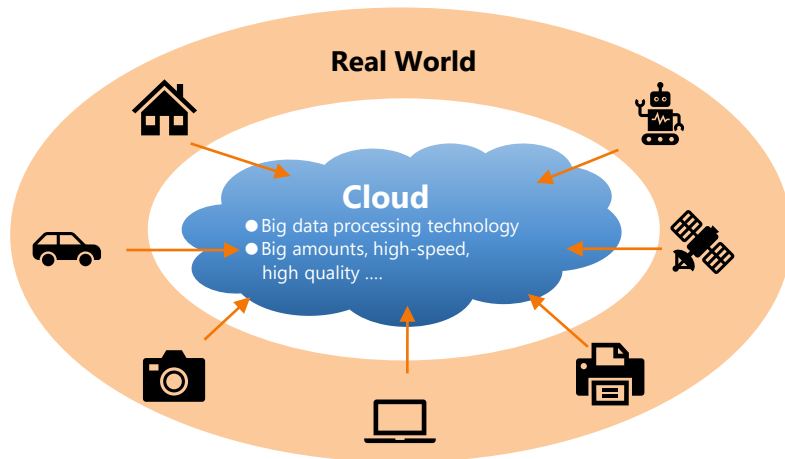
A society where an information network was built **alone** by machine, equipment or a tool.



The present

IoT Society

A society where data from each category evolves out of collection, accumulation, analysis, and integration in cloud.

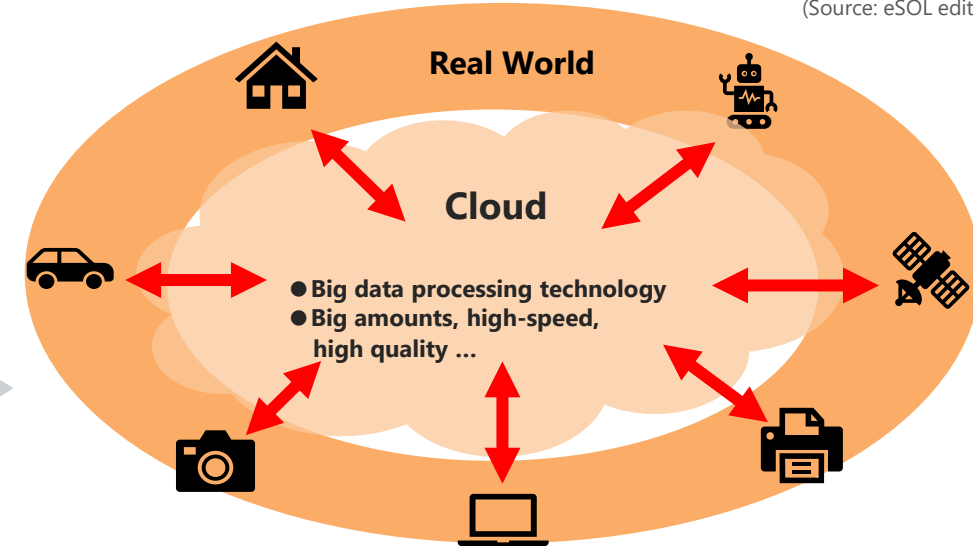


The future

Goal

(Create new values)

(Source: eSOL edited based on JEITA)



Make it a cloud-interactive world. Make the world where feedback is applied to the real society after the cloud processes information.

Starting from times where the cloud is used solely for storage and data processing, we reach the world where the cloud plays a role of providing feedback to machine control in real society and the world becomes more sound and safer.

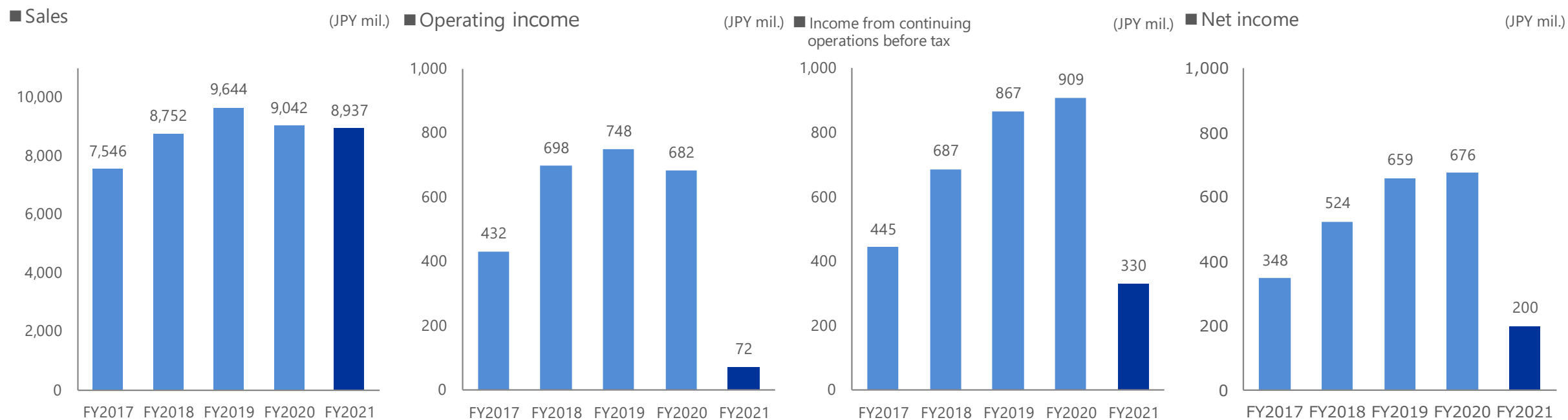
- Establish platform in which the cloud is also applicable.
- eSOL establishes OS that revitalizes industry and solves social problems based on the technology cultivated through embedded software.

eSOL's vision

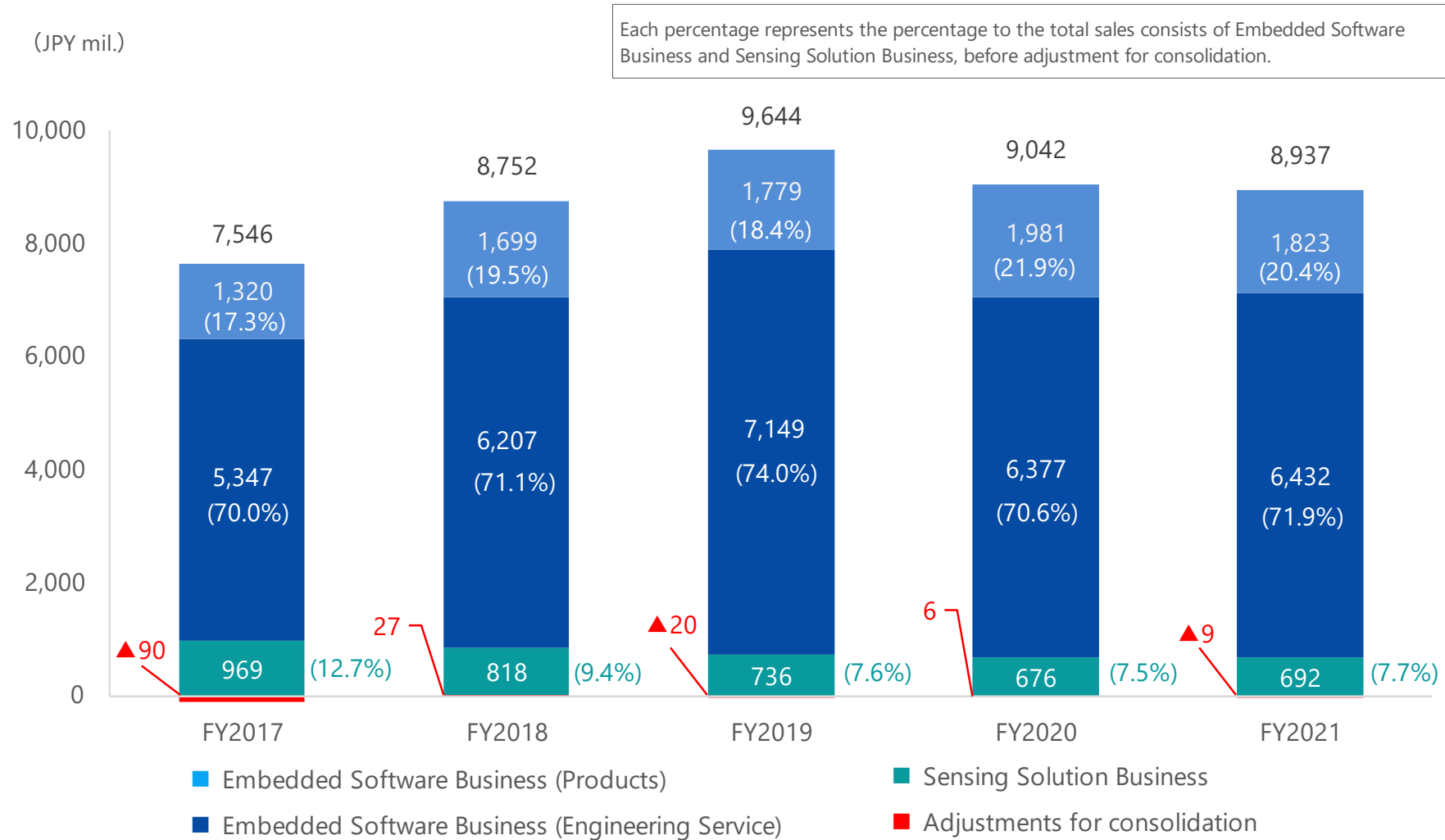
- eSOL aims to be a company that will move forward with and be supported by customers, business partners and shareholders.
- eSOL continues to expand the business as a rare and valuable company in the world that can provide a one-stop solution covering from an original embedded software development to engineering services responding to various needs in the field of embedded software.
- As a listed company, we aim to increase the value of our business partners, employees and shareholders — all stakeholders — through the business.
- For our shareholders, we aim to maximize earnings per share and increase corporate value.

Appendix

Comparison over the last five years



Comparison over the last five years (Sales by segment)



Comparison over the last five years (R&D investment)

(JPY mil.)

	FY2017	FY2018	FY2019	FY2020	FY2021
R&D expenses	363	383	551	860	1,125
Revision up	324	398	364	328	704
R&D investment	688	781	916	1,188	1,829

	FY2017	FY2018	FY2019	FY2020	FY2021
Sales	7,546	8,752	9,644	9,042	8,937
Cost of goods sold	5,460	6,148	6,649	5,845	6,142
Revision up	324	398	364	328	704
Cost of goods sold (excluding Revision up)	5,136	5,749	6,284	5,517	5,438
Gross profit	2,086	2,604	2,995	3,197	2,795
Gross profit margin ratio	27.6%	29.8%	31.1%	35.4%	31.3%
Gross profit (excluding Revision up)	2,410	3,002	3,360	3,525	3,499
Gross profit margin ratio (excluding Revision up)	31.9%	34.3%	34.8%	39.0%	39.2%
SG&A	1,653	1,905	2,246	2,514	2,722
R&D expenses	363	383	551	860	1,125
SG&A (excluding R&D expenses)	1,289	1,522	1,694	1,654	1,597
Operating income	432	698	748	682	72
Operating income margin ratio	5.7%	8.0%	7.8%	7.5%	0.8%
Operating income (excluding R&D expenses)	1,121	1,480	1,665	1,871	1,902
Operating income margin ratio (excluding R&D expenses)	14.9%	16.9%	17.3%	20.7%	21.3%
Operating income (excluding R&D expenses, including Revision up)	796	1,081	1,300	1,543	1,198
Operating income margin ratio (excluding R&D expenses, including Revision up)	10.6%	12.4%	13.5%	17.1%	13.4%

Notes on this document

Any statements contained in this document that are not historical facts are forward-looking statements based on publicly available information at the time of issuing this document, and therefore, will not guarantee such as the result of operation in the future.

All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations.

Risks and uncertainties above include but not limited to factors for economical condition in Japan or overseas and trend in the related industries.

eSOL undertakes no obligation to publicly update or revise any forward-looking statements notwithstanding new information or events.

Information other than eSOL group contained in this documents is publicly known, and also, eSOL undertakes no obligation to guarantee its accuracy or adequacy.

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