

NIPPON SYSTEMWARE CO., LTD.

9739

Tokyo Stock Exchange First Section

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Summary

Aiming to be a company that guides its customers to realizing DX

NIPPON SYSTEMWARE Co., Ltd., <9739> (hereafter, also “the Company”) is an independent IT solutions provider founded in 1966, and it is in an engineering group in which engineers account for nearly 90% of all employees. It conducts three solutions businesses; IT Solutions, Services Solutions, and Product Solutions. The Company’s biggest strength is its backbone to support the realization of Digital Transformation (DX), which is a business transformation measure to create business models and to change business processes by using new digital technologies. It does so through utilization of synergy between its three businesses on the axes of AI and the Internet of Things (IoT), which connects items such as home appliances and sensors over a network as a way to undertake not only data collection, but also remote monitoring and control and use in product development and marketing. Its policy is to utilize this strength for its growth strategy for the future.

1. Summary of the FY3/20 results

The Company reported sharply higher sales and profits at ¥38.2bn in net sales (+6.0% YoY) and ¥3.86bn in operating profit (+15.1%) in FY3/20, setting consecutive all-time highs. Both sales and profits continue to steadily rise. This was an upbeat outcome with upside versus initial forecast of 0.7% in net sales and 10.3% in operating profit. Operating profit margin climbed from 9.3% in FY3/19 to 10.1% as SG&A expenses only rose 5.9% versus a 10.6% increase in gross profit.

In the IT Solutions business, while net sales increased 6.8% YoY on gains in system equipment sales to retailers and infrastructure projects for government agencies and organizations, operating profit fell 1.8% because of multiple unprofitable deals. In the Services Solutions business, net sales were up 7.0% on higher sales in Cloud infrastructure service and digital solutions, and operating profit expanded 114.3%, significantly beating the forecast, thanks to improved profitability with growth in business that provides higher value-added services. In the Product Solutions business, net sales rose 4.6% on stronger business in facilities and communications equipment for embedded development and also device development, and operating profit increased 10.5% on higher profitability for some device development projects. Based on these results, the capital ratio rose to 70.0%, putting it well above the TSE-1 information and communications industry average (40.2% in FY3/19). We think the Company possesses very strong financial health. The Company paid a ¥30 dividend, on par with the previous fiscal year which worked out to a 16.8% payout ratio.

2. FY3/21 results forecasts

The Company has not decided FY3/21 forecast yet due to uncertainty about the impact of the COVID-19 outbreak on business activities and overall results and difficulty preparing suitable and rational projections at this point. It intends to promptly disclose FY3/21 forecast once it can make reasonable estimates.

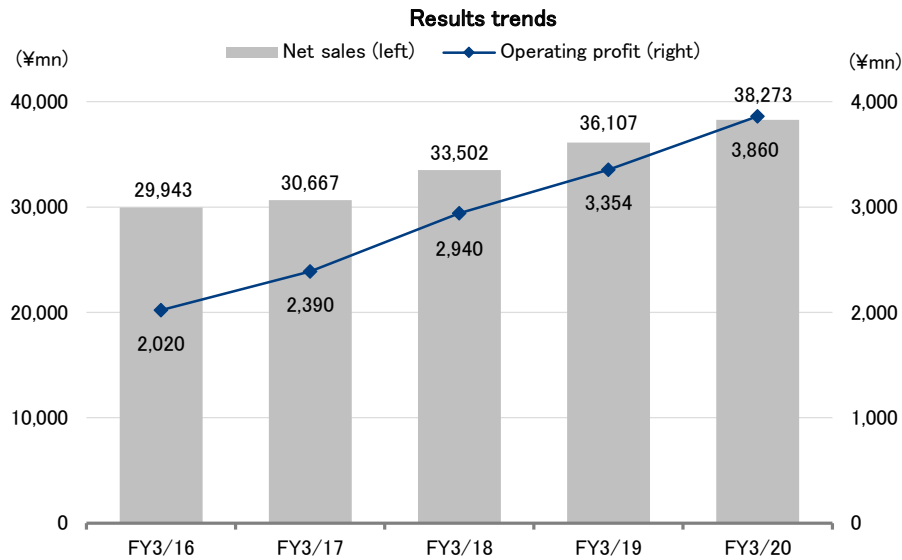
3. Medium-term management plan

In the medium-term management plan (FY3/20 to FY3/22), under the slogan “DX FIRST,” the policy is to transform the Company itself into “a value-creation company.” The targets for the plan’s final fiscal year are net sales of ¥43bn and operating profit of ¥4.0bn, within which, DX-related net sales are forecast to grow to ¥10bn. The key to achieving these ambitious targets will be coordinating the three businesses to respond to DX. In FY3/20, the first fiscal year, DX-related business had a healthy start at roughly ¥2.8bn in sales aided by manifestation of results in its initiatives.

Summary

Key Points

- Is developing three solutions business, and its strength is that it has a backbone that can support customers' realization of DX through utilizing the synergies from these businesses, on the axes of IoT and AI
- Sustained steady growth in FY3/20 with upbeat results that substantially exceeded its initial forecast with increases (YoY) of 6.0% in net sales and 15.1% in operating profit
- In the medium-term management plan under the slogan of "DX FIRST," the targets for the plan's final fiscal year of FY3/22 are net sales of ¥43bn and operating profit of ¥4bn. DX-related business sales expanded smoothly in the first fiscal year on manifestation of initiative results



Source: Prepared by FISCO from the Company's financial results

Company Profile

Aims to create and provide excellent systems to enrich society

1. Company Profile

The Company Group's basic management policy is to "Realize a highly profitable corporate structure" based on its corporate philosophy of "Humanware By Systemware," which expresses its desire to "create and provide excellent systems to enrich society."

Company Profile

In addition to the Company itself, the Company's Group consists of three wholly-owned consolidated subsidiaries; NSW TECHNOSERVICES Co., Ltd., which conducts businesses including system development and infrastructure construction; in China, NSW China Co., Ltd., which conducts businesses including embedded software development; and NSW WITH Co., Ltd., a special subsidiary for the employment of people with disabilities that provides general agency services and support services. In January 2018, NIHON SOFTWARE ENGINEERING Co., Ltd., which conducts a systems integration business and other businesses, was made a subsidiary. The Company absorbed this entity and brought it under the Services Solutions business in April 2020.

The Company's business base is located to the west of Tokyo, but it has customers throughout the country, including government offices and public organizations, and also many major companies, such as in the manufacturing and distribution industries. When it was first establishment, an overwhelming large percentage of transactions were with the NEC <6701> Group, but alongside the expansion of the customer base in recent years, this percentage has fallen to just under 20% of net sales, and every year the scope of customers for transactions is widening. The Chinese subsidiary mainly covers Japanese companies that are entering-into the local Chinese market. Also, in April 2018, the Company opened an office in Taiwan (representative office), from which it plans to conduct customer development and field surveys for the market in Taiwan, which is a global base for the manufacture, assembly, and testing of semiconductors.

The Company Group is an engineering group with a total of 2,218 employees and nearly 90% of its workforce comprising of engineers as of the end of March 2020. Mr. Shoji Tada has served as the President and Representative Director since April 2013.

2. History

The Company Group started in 1966 as an independent software house, with a software development business and an outsourced computing business. Subsequently, in 1968 it started an operation management services business, and in 1978, a development business for firmware and logic circuits, which led to its current Product Solutions business. Alongside the evolution of IT technologies, it started a systems integration business in 1990, a datacenter business in 1998, a Cloud service business in 2009, and an IoT/M2M business in 2013, and its business areas have expanded.

During this time, in 1982 the Company changed its name to its current name of NIPPON SYSTEMWARE Co., Ltd. It began the over-the-counter trading of its shares in 1996 and opened the Yamanashi IT Center with the funds obtained from the market. In 1999 it was listed on the TSE 2nd Section, in 2000 its listing was upgraded to the TSE 1st Section, and in FY3/16 it celebrated the 50th anniversary of its establishment. The Company is targeting further advances through its role as a leader in realizing customer DX in the current medium-term management plan.

Company Profile

History

August 1966	Established the Business Computing Center in Minato Ward, Tokyo. Commenced software development and outsourced computing activities
October 1968	Commenced operation management service activities
December 1975	Acquired own building (present site of Head Office)
February 1976	Became a member of Japan Software Industrial Association (now Japan Information Technology Service Industry Association)
June 1978	Commenced development activities related to firmware and logic circuits
June 1980	Launched a business for the sale of office computers and office-automation equipment
March 1982	Changed the company name to NIPPON SYSTEMWARE CO., LTD.
March 1986	Established the Osaka Branch (now the Osaka Office) in Osaka City. Strengthened regional development.
September 1986	Started construction of the new Head Office building
February 1990	Started the systems integration business
August 1990	Established Nippon Technowave Co., Ltd., as a wholly owned subsidiary
April 1996	Stock registered as over-the-counter with the Securities Dealers Association of Japan
October 1997	Obtained ISO 9001 certification, an international assurance of quality
August 1998	Established the Yamanashi IT Center. Launched the datacenter business
April 1999	The Company is listed on the TSE 2nd Section.
March 2000	The Company is designated to the TSE 1st Section.
July 2002	The outsourcing business to manage and control customers' information systems achieved the requirements to be certified in the ISMS (Information Security Management Systems) assessment scheme.
September 2002	Established NSW SALES CO., LTD.
February 2005	Obtained ISO 14001 certification, an international environmental management standard
March 2007	Obtained ISO/IEC27001, an international standard for Information Security Management Systems
April 2007	Certified by the Ministry of Health, Labour and Welfare as a corporation promoting measures to support the development of the next generation
October 2007	Obtained ISO/IEC20000, an international standard for IT service management systems
September 2009	Launched the Cloud service business
October 2009	Established NSW WITH CO., LTD. (currently a wholly-owned consolidated subsidiary)
April 2010	Established NSW China Co., Ltd. (currently, a wholly-owned consolidated subsidiary)
May 2013	Launched the IoT/M2M business
July 2013	Changed the name of NIPPON TECHNOWAVE CO., LTD., to NSW TECHNOSERVICES CO., LTD., after the merger with NSW SALES CO., LTD.
January 2018	Acquired all the shares of NIHON SOFTWARE ENGINEERING Co., Ltd., and made it a subsidiary
April 2018	Established the Taiwan Office in Taiwan.
April 2020	Absorbed NIHON SOFTWARE ENGINEERING Co., Ltd.

Source: Prepared by FISCO from the Company's website

Business overview

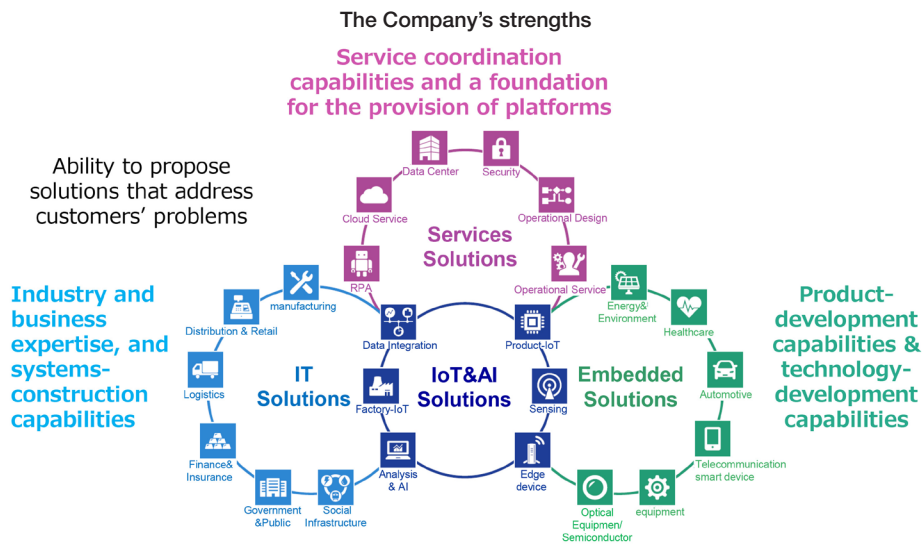
Core businesses are IT Solutions, Services Solutions, and Product Solutions. Is aiming to create an innovative future with IoT and AI that leverage the technological synergies from these businesses

1. The Company's strengths

The Company Group conducts three solutions businesses—IT Solutions, Services Solutions, and Product Solutions—and it is aiming to create an innovative future with IoT and AI that leverage the technological synergies from these businesses. Its major strength is that it has technological expertise for both software and for hardware.

Business overview

The Company's strengths include its accumulated industry and business expertise and systems-construction capabilities that it has cultivated in the IT Solutions business in various industrial fields; a foundation for the provision of infrastructure and platforms, such as service coordination capabilities in the Services Solutions business and for the Cloud environment; product development capabilities, including for embedded software and LSI design in the Product Solutions business; and technological development capabilities, such as for image processing. The Company's major strength is that it has a backbone that can support the realization of DX (Digital Transformation) that its customers want that leverage these technologies' synergies on the axes of IoT and AI, and its policy is to utilize all these strengths for growth in the future.



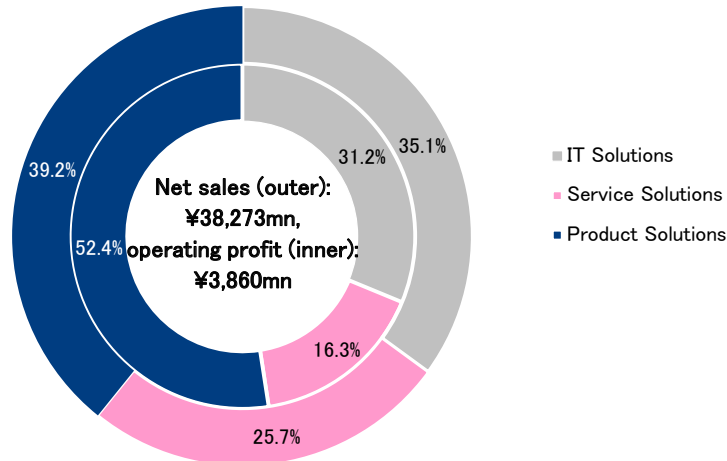
Source: Reprinted from the Company's results briefing materials

2. Business Description

Looking at net sales and operating profit by segment in FY3/20, the IT Solutions business provided 35.1% of net sales and 31.2% of operating profit, the Services Solutions business 25.7% of net sales and 16.3% of operating profit, and the Product Solutions business 39.2% of net sales and 52.4% of operating profit. The profit margin in the Product Solutions business is relatively high, which is considered to be due to its high technological barrier to entry and that there are few companies of a similar size to the Company, which is independent, conducting this business. On the other hand, the profit margins in the IT Solutions business and the Services Solutions business are relatively low due to the impact of reducing dependency on designated industries and operations in order to suppress the effects of economic conditions to a minimum, and the handling of business across different industries and operations. Nevertheless, profit margin has risen more than previously in the IT Solutions business on improved profitability mainly in large projects and increased sales in package deals. The Services Solutions business is also seeing ramp-up in new businesses and higher profitability.

Business overview

Net sales and operating profit by segment (FY3/20)



Source: Prepared by FISCO from the Company's results briefing materials

The IT Solutions business, which provides operations-related solutions, is comprised mainly of business solutions, finance and public sector solutions, and systems equipment sales. Based on the business expertise cultivated over many years, such as for the manufacturing, distribution, finance and insurance industries, and for government offices, the Company provides optimized solutions for its customers, from consulting through to systems design, development, maintenance, and operations.

The Services Solutions business was formerly included in the IT Solutions business, but at the start of the current medium-term management plan, it was made an independent segment. The content of this business is the provision of IT services, and it is comprised mainly of the digital solutions and Cloud infrastructure service businesses. The Company delivers common solutions, such as IoT and AI services and Web site and EC construction, and offers comprehensive management services that cover operational design of customer information systems as well as system construction and management. It also provides other services, including housing services by its own datacenters (a service in which the Company is entrusted with a server from the customer, or the computer with which to provide the service), hosting services (the Company lends to the customer the server it has prepared) and Cloud services (services that provided data and software to users via a network). In such ways, it is supporting customers' systems through providing a variety of services.

In the Product Solutions business, the Company develops the embedded systems that are installed in electronic devices and other equipment, and also develops LSI and FPGA, and this business is comprised of the embedded development and device development businesses. In embedded systems development, the Company responds to demand for product diversification, increased efficiency and improved design quality by using embedded technologies it has cultivated for app, middleware and driver development as a result of developing a wide range of products for the automotive and industrial sectors amongst others. It also provides various solutions for the transition to smart products. In addition, in LSI and FPGA development, it designs LSI (Large Scale Integration: integrated circuits into which many electronic components such as transistors, resistors, and capacitors are integrated into one semiconductor chip), including for image processing and communications-related, and boards (the design of electronic circuit boards). It provides high-level designs, logic designs and verification, logic integration, layout design, and solutions according to customer's requirements, from manufacturing through to testing. It can also respond to requests for low-power designs and advanced processes in every field.

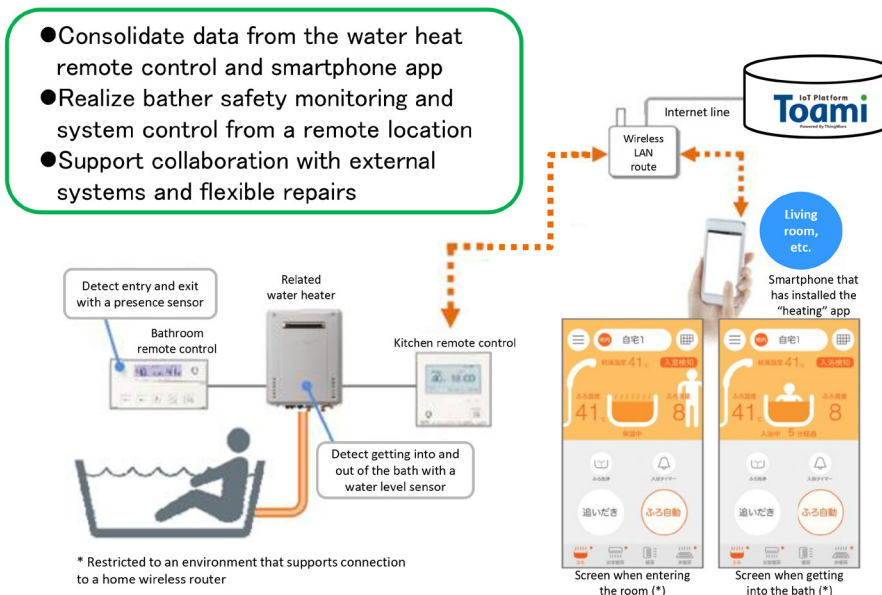
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Business overview

There are high expectations that DX business based on IoT & AI solutions will become the Company's new pillar of earnings by integrating expertise in the three existing businesses. It is a business to provide IoT & AI services and edge devices solutions in a new field that only started in 2013. Therefore, it has not yet reached the stage of recording earnings as an independent segment, and the current situation is that its earnings are included in the existing businesses. In IoT & AI services, the Company utilizes its strength of being able to provide total coordination, from devices through to the Cloud, to supports its customers' creation of new business value, from the accumulation of data through to analysis and utilization, based on Toami, its IoT Cloud platform. Also, in edge device solutions, the Company proposes an IoT environment that is optimized for each customer from a small start that keeps costs down, using its abundance of designs that are compliant not only with its own embedded applications but also with LSI, and also its development capabilities and alliances with vendors of various types of sensors and devices. The Company Group is promoting new services based on these IoT & AI solutions and working to expand DX business under the existing medium-term management plan.

The Company's Toami solution is steadily gaining in market recognition mainly for "realization of IoT-accessible products." More than 100 companies cumulatively have adopted this solution, and alliance partners have expanded to over 30 companies. This solution is available in over 30 countries worldwide. Inquiries for related services, such as analysis service that makes more effective use of data collected through IoT, have risen too recently. Noritz Corporation <5943> has been using the Toami solution in its remote monitoring system for commercial gas water heaters since 2015 and broadened coverage scope to household water heaters in September 2018 with aims of reducing bathroom accidents and boosting convenience. Through consolidation of water heater remote control and smartphone app data in real time, the solution monitors conditions in the bathroom and facilitates remote control, such as running a bath, from a remote location. HORIBA, Ltd. <6856> adopted Toami in a comprehensive maintenance service assistance system for medical equipment and has offered commercial service since 2016. It provides 24-hour monitoring of medical equipment, shares trouble information, and makes suitable assessments and support responses. These capabilities resolve troubleshooting issues that had previously relied on skills of trained personnel and aid product quality control and improvements based on various types of collected data. Other companies utilizing the Toami solution include Tabuchi Electric Co., Ltd., Panasonic Corporation <6752>, Maintech Co., Ltd., Choshu Industry Co., Ltd., Okiden System Co., Ltd., Japan Radio Co., Ltd., and RION Co., Ltd. <6823>.

Noritsu's Toami deployment case



Source: Reprinted from the Company's financial results briefing materials

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Results trends

Upbeat start with the new medium-term management plan as sales and profits significantly exceed initial forecast

1. Summary of the FY3/20 results

The Japanese economy sustained a moderate recovery trend against a backdrop of improved employment and income conditions in FY3/20. However, uncertainty has risen about future prospects on concerns about trade friction between the U.S. and China and heavy impact on domestic and overseas economic activity and social practices with the COVID-19 outbreak. In the information services industry, meanwhile, corporate IT investments are vibrant and initiatives in DX, work style reforms, and other areas aimed at flexibly altering business processes and work processes utilizing IoT, AI, 5G, and other digital technologies have picked up.

The Company Group started a new medium-term management plan (April 2019 through March 2022) in FY3/20 amid these conditions. With a slogan of “DX FIRST,” it hopes to contribute to customer business model transformations and work process reforms and accelerate business growth as a leader in realizing DX at customers by combining work process knowhow and technology capabilities and various realization methods cultivated over many years. Key aims are expansion of DX business based on existing IoT and AI services and business evolution that shifts from consignment to proposal-style deals and from development to solutions and services in order to further solidify the earnings foundation.

Thanks to these efforts, the Company reported sharply higher sales and profits at ¥38,273mn in net sales (+6.0% YoY), ¥3,860mn in operating profit (+15.1%), ¥3,898mn in ordinary profit (+14.4%), and ¥2,668mn in profit attributable to owners of parent (+16.7%) in FY3/20, setting consecutive all-time highs. This was an upbeat outcome with upside versus initial forecast of 0.7% in net sales and 10.3% in operating profit. Net sales increased in all three segments, and profit overshoot on higher sales and improved profitability with enhanced deal proficiency and shift to high-margin deals. Operating profit margin climbed from 9.3% in FY3/19 to 10.1% as SG&A expenses only rose 5.9% versus a 10.6% increase in gross profit.

FY3/20 consolidated results

	FY3/19		FY3/20		YoY		Vs. forecast		
	Results	% of net sales	Forecast	Results	% of net sales	Increase (decrease)	% change	Increase (decrease)	% change
	(¥mn)								
Net sales	36,107	100.0%	38,000	38,273	100.0%	2,166	6.0%	273	0.7%
Gross profit	6,587	18.2%	-	7,285	19.0%	698	10.6%	-	-
SG&A expenses	3,233	9.0%	-	3,425	8.9%	192	5.9%	-	-
Operating profit	3,354	9.3%	3,500	3,860	10.1%	506	15.1%	360	10.3%
Ordinary profit	3,407	9.4%	3,540	3,898	10.2%	491	14.4%	358	10.1%
Profit attributable to owners of parent	2,286	6.3%	2,400	2,668	7.0%	382	16.7%	268	11.2%

Note: the FY3/20 forecasts are the initial forecasts at the time of the FY3/19 results announcement

Source: Prepared by FISCO from the Company's financial results

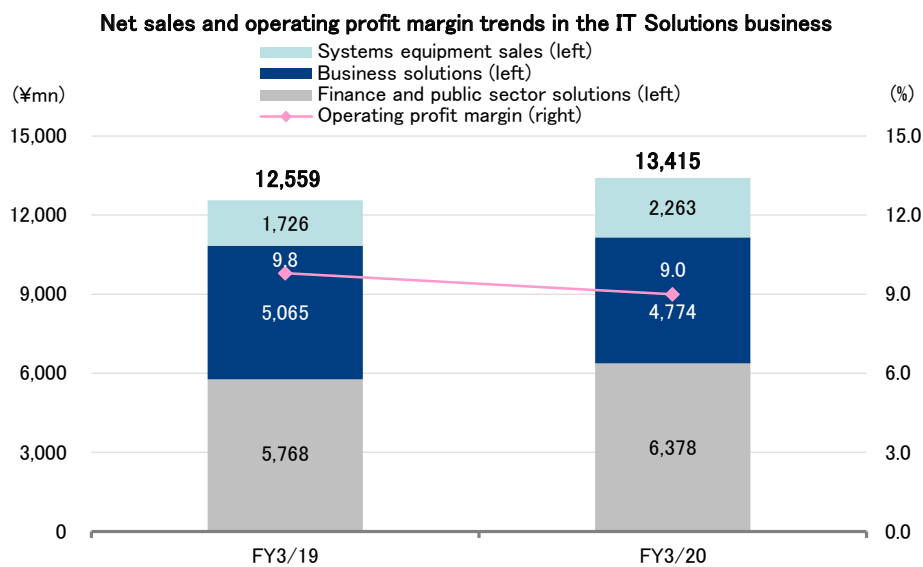
Results trends

The Product Solutions and Services Solutions businesses contributed to the profit increase

2. Segment overview

IT Solutions business sales reached ¥13,415mn (+6.8% YoY) on gains in system equipment sales to retailers and infrastructure projects for government agencies and organizations. Operating profit, however, fell 1.8% to ¥1,205mn, even with boosts from higher sales and improved profitability on some large projects, because of multiple unprofitable projects (totaling ¥500mn in losses). While sales beat initial forecast by 1.6%, operating profit missed by 3.5% and margin dropped from 9.8% in the previous fiscal year to 9.0%.

In the sales breakdown, financial and public solutions climbed to ¥6,378mn (+10.6% YoY) on large increases in system development and infrastructure projects for government agencies and organizations. Additionally, system equipment rose substantially to ¥2,263mn (+31.1%) mainly on POS system replacement at existing retail industry customers. This activity reflected rush demand prior to the consumption tax hike in October 2019 and demand aimed at achieving labor savings and automation to counter manpower shortages, primarily in the retail industry. Business solutions, meanwhile, eased to ¥4,774mn (-5.7%) on diminished manufacturing and retail industry activity as backlash to major consignment projects from the previous fiscal year and unprofitable projects in logistics and other system development businesses. The Company already booked provision for loss on construction contracts for unprofitable projects.

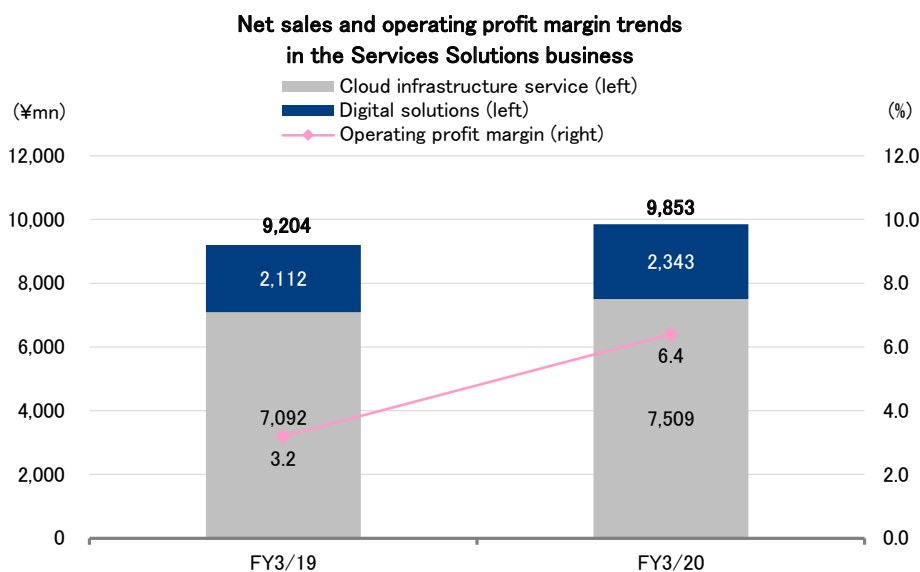


Source: Prepared by FISCO from the Company's results briefing materials

The Services Solutions business posted higher sales and profits with ¥9,853mn in sales (+7.0% YoY), on increases in Cloud infrastructure service and digital solutions, and ¥630mn in operating profit (+114.3%) thanks to extra profit from the sales gain and improved profitability with growth in business that provides higher value-added services. Due to these trends, sales beat initial forecast by 0.5% and operating profit overshoot by a hefty 66.0%. Operating margin hence improved significantly from 3.2% in FY3/19 to 6.4%. While this is a new segment and the large profit growth rate is partially attributable to the small denominator, profitability clearly increased and new businesses have taken off.

Results trends

In the sales breakdown, Cloud infrastructure service rose to ¥7,509mn (+5.9% YoY) with increase in cloud services sales mainly on cloud conversions in existing customer projects and also stronger other services sales driven by data collaboration service and Windows10 upgrades. Cloud infrastructure service profitability improved because of savings in data center operating costs and expansion of business that provides higher value-added services. Digital solutions strengthened to ¥2,343mn (+11.0%) with healthy increase in IoT and AI activity (particularly provision of IoT accessibility in products) and Web and EC services. This business also received extensive AI inquiries and had an increase in PoC (Proof of Concept; verification and demonstration aimed at proving new concepts, theories, and ideas) projects.

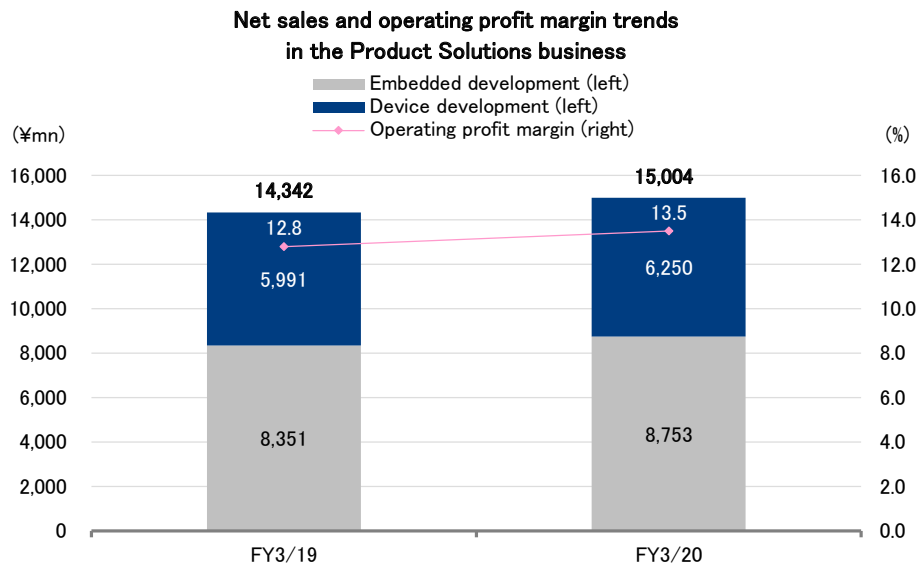


Source: Prepared by FISCO from the Company's results briefing materials

The Product Solutions business reported ¥15,004mn in sales (+4.6% YoY) on stronger business in facilities and communications equipment for embedded development and also device development and ¥2,023mn in operating profit (+10.5%) on the boost from increased sales and higher profitability for some projects in device development. Compared to the initial forecast, sales were on track, while operating profit overshot by 8.2%. Operating margin improved from 12.8% in FY3/19 to 13.5%. This segment sustained its position of having the highest profitability. We attribute upbeat profitability to a tough technology entry barrier as explained above and few independent rivals in this business with the Company's scale.

In the sales breakdown, embedded development rose to ¥8,753mn (+4.8%), despite decline in automotive and mobile areas, on gains in industrial facilities, medical equipment, and other industrial facility areas as well as communications equipment with 5G-related projects. Device development advanced to ¥6,250mn (+4.3%) mainly on stronger business in image processing, which is the Company's specialty.

Results trends



Source: Prepared by FISCO from the Company's results briefing materials

Is extremely financially sound

3. Financial condition and management indicators

Looking at financial conditions, total assets expanded ¥2,305mn YoY to ¥30,516mn at the end of FY3/20. This was due to an increase in cash and deposits that offset the declines in notes and accounts receivable - trade and property, plant and equipment. Total liabilities were up ¥128mn YoY to ¥9,144mn due to higher non-current liabilities with a rise in retirement benefit liability. Total net assets rose ¥2,176mn to ¥21,372mn primarily due to booking profit.

As a result of the above, the current ratio (current assets / current liabilities) increased by 35.2 percentage points (PP) on the end of the previous fiscal year to 321.3%, and the Company's short-term solvency is extremely high. Also, the fixed ratio (fixed assets / equity capital) was 40.7%, down 5.2 PP, and the procurement of fixed assets (such as equipment investment) is fully covered by shareholders' equity with no repayment deadlines, and the Company Group does not have any debt and continues to practice debt-free management. Moreover, the equity ratio climbed to 70.0%, which greatly exceeds the average for issues in the telecommunications industry on the TSE 1st Section (40.2% in FY3/19), and the Company can be evaluated as being extremely financially sound.

Results trends

Consolidated balance sheets and management indicators

	End of FY3/19	End of FY3/20	Increase (decrease)
	(¥mn)		
Current assets	19,395	21,815	2,420
Cash and deposits	8,410	11,488	3,078
Notes and accounts receivable-trade	9,409	8,844	-565
Work in process	748	837	89
Fixed assets	8,816	8,701	-115
Property, plant and equipment	6,407	6,241	-166
Intangible assets	135	117	-18
Investments and other assets	2,273	2,341	68
Total assets	28,211	30,516	2,305
Current liabilities	6,779	6,789	9
Noncurrent liabilities	2,235	2,354	118
(Interest-bearing debt)	-	-	-
Total liabilities	9,015	9,144	128
Total net assets	19,196	21,372	2,176
Stability			
Current ratio (current assets/ current liabilities)	286.1%	321.3%	35.2pt
Fixed ratio (fixed assets / equity capital)	45.9%	40.7%	-5.2pt
Equity ratio	68.0%	70.0%	2.0pt

Source: Prepared by FISCO from the Company's financial results

At the end of FY3/20, the balance of cash and deposits had increased ¥3,085mn at the end of the previous fiscal year to ¥11,488mn. This was because expenditure, such as the payment of dividends and to acquire tangible fixed assets, was covered by the funds obtained from operating activities.

Looking at cash flow trends, net cash provided by operating activities was ¥3,887 (up ¥1,229mn YoY) largely due to a decline in provision for bonuses, increase in provision for loss on construction contracts, decline in trade receivables, and income taxes paid, in spite of recording a profit before income taxes. Net cash used in investing activities, meanwhile, eased to ¥306mn (down ¥117mn YoY). This mainly reflected purchase of property, plant and equipment and payments of leasehold and guarantee deposits. Net cash used in financing activities totaled ¥492mn (up ¥73mn YoY) with dividend paid as the main item.

Cash flow statements

	FY3/19	FY3/20	Increase (decrease)
	(¥mn)		
Cash flow from operating activities	2,657	3,887	1,229
Cash flow from investing activities	-424	-306	117
Cash flow from financing activities	-419	-492	-73
Cash and cash equivalents at the end of the fiscal period	8,402	11,488	3,085

Source: Prepared by FISCO from the Company's summary financial report

■ Outlook for the future

FY3/21 forecast undecided because of uncertainty about impact by the COVID-19 outbreak

● FY3/21 results forecasts

The information services industry is headed toward growing demand for DX, which utilizes IT to implement management and business model innovations, promotion of work style reforms, and response to manpower shortages. Amid these trends, the Company Group is accelerating business growth and innovations as a leader in realizing customer DX under a “DX FIRST” slogan presented in the new medium-term management plan covering three years from April 2019 through March 2022.

Meanwhile, companies might be more cautious in IT investments due to the COVID-19 outbreak impact. The Company Group intends to closely monitor trends at major customers in manufacturing, retail, and other industries in which it has large sales exposure and flexibly conduct initiatives to address changing conditions. The Company has not decided FY3/21 forecast yet due to uncertainty about the impact of the COVID-19 outbreak on business activities and overall results and difficulty preparing suitable and rational projections at this point. It intends to promptly disclose FY3/21 forecast once it can make reliable estimates.

■ Medium- to long-term growth strategy

Aiming to be a company that guides customers to realizing DX

1. Targets in the medium-term management plan

In terms of the business environment assumed for the medium-term management plan (FY3/20 to FY3/22), there are increasing concerns about an economic slowdown in Japan, including due to the impact of conditions overseas and the hike in the consumption tax. Also, against the backdrop of the promotion of workstyle reforms and the decline in the working age population, measures to improve productivity are urgently needed. With these kinds of environmental changes in the background, customer /companies’ measures for DX have become fully fledged, and stable growth is forecast for the IT industry. On the other hand, alongside the solid demand, the shortage of engineers is becoming even more serious, and the Company is aware that it will be necessary to both respond to DX and to secure human resources.

In this sort of environment, the Company Group is aiming to transform in the future to become strong value-creation companies that as much as possible are not affected by economic fluctuations. Toward this, it is first aiming for net sales of around ¥50bn and to build a solid business foundation. Also, for the time being it is focusing on achieving business growth, while also working on establishing more autonomous, stock-type businesses that do not rely on human resources. In the next three years, under the slogan of “DX FIRST,” the policy is to transform the Company itself into “a value-creation company” by contributing to its customers’ realization of DX.

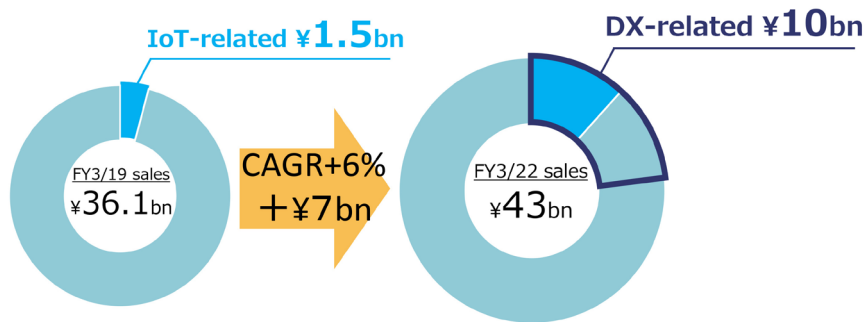
Medium- to long-term growth strategy

Based on the above basic policy and the key strategies, the Group’s management targets are first to increase net sales from ¥36.1bn in FY3/19 to ¥43.0bn in FY3/22, which is the plan’s final fiscal year, and similarly, to increase operating profit from ¥3.3bn to ¥4.0bn. Within these amounts, DX-related net sales, as the total for the three business segments, are expected to increase to around¥10bn. Overall, net sales are forecast to increase about ¥7.0bn over the three years, so it can be said that key to achieving the targets in the medium-term management plan will be growing the DX-related businesses in the near future.

While the COVID-19 outbreak is likely to adversely affect business conditions for the time being, we think changes in the business environment related to the outbreak might provide a catalyst that accelerates DX realization promoted by the Company Group as explained below.

Summary of the new medium-term management plan

DX FIRST | **Becoming a company that guides customers to realizing DC**



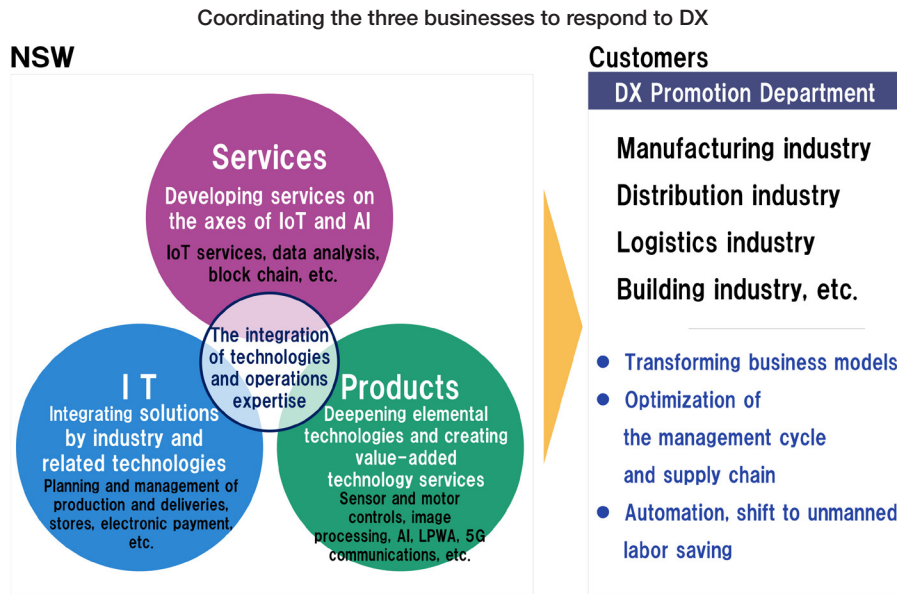
Source: Reprinted from the Company's results briefing materials

2. The plan by segment

For the DX-related business, which forms the core of this plan, the digital transformation that each company is working on is understood to be “companies’ measures for business transformation, of creating business models and changing business process by utilizing new digital technologies.” The policy is to define the DX-related business in the Company as “providing solutions and service businesses that support the realization of DX based on new digital technologies, such as IoT, AI,” and as a “business involving DX-related product development and technological development, such as edge computing.” It intends to contribute to transforming customers’ business models and operations processes through combining the operations expertise and technological capabilities that it has accumulated up to the present time with the various methods of realizing DX.

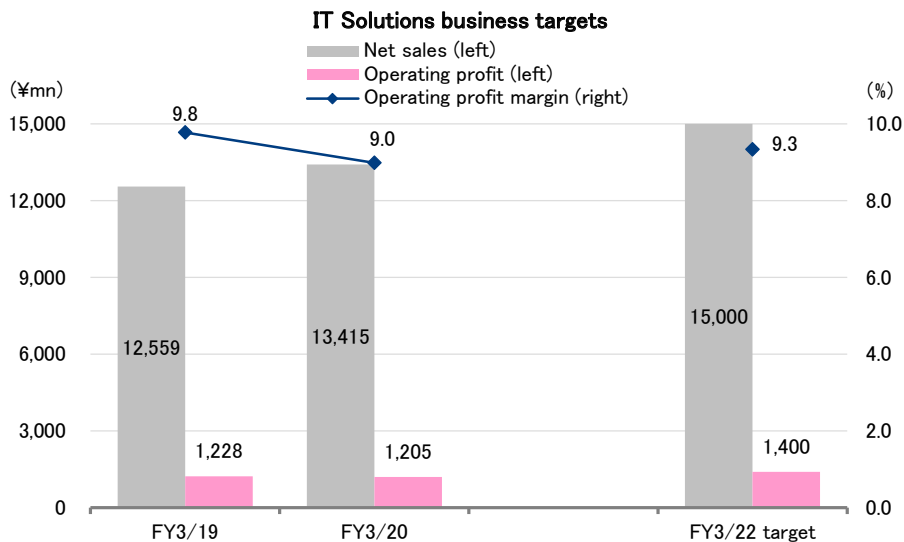
Specifically, it plans to provide solutions proposals and services through coordinating the three business segments to integrate its technologies and operations expertise. For this, it will target as customers various manufacturing companies, and also companies in industries such as distribution, logistics, and construction.

Medium- to long-term growth strategy



Source: The Company's results briefing materials

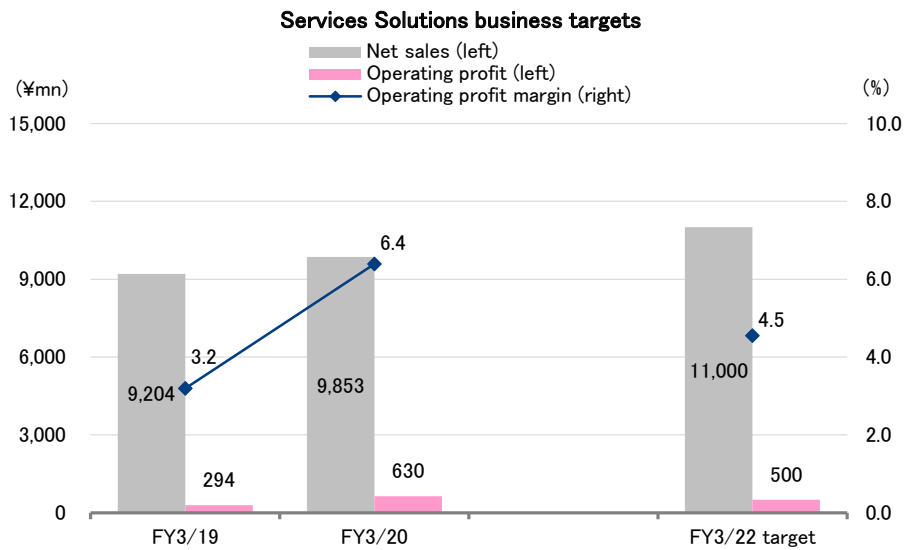
In IT Solutions, the Company provides DX solutions that utilize its operations expertise in various industries, including manufacturing, logistics, and distribution, and in related technologies, such as IoT, AI, and RPA. In addition, in its existing businesses, as stable sources of earnings it will work to expand systems-construction projects in the life and non-life insurance and social security fields. The numerical targets aim for increases from FY3/19's net sales of ¥12,559mn and operating profit of ¥1,228mn to net sales of ¥15,000mn and operating profit of ¥1,400mn in FY3/22, which is the plan's final fiscal year. Sales steadily expanded, but operating profit fell on setbacks from unprofitable projects in FY3/20.



Source: Prepared by FISCO from the Company's results briefing materials

Medium- to long-term growth strategy

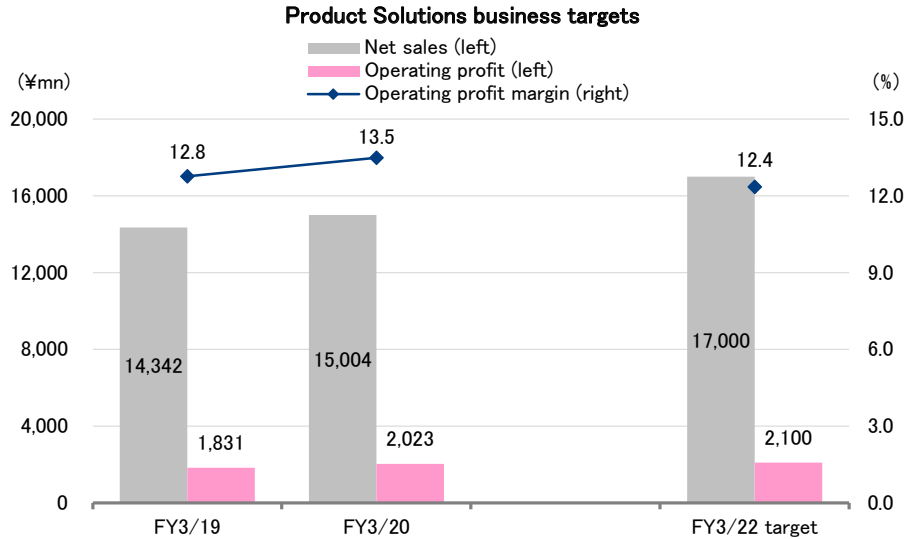
As the team to drive DX for the Company as a whole, Services Solutions undertakes initiatives to expand business related to DX that are centered on IoT and AI, and enhance Cloud services that utilize the Company's datacenters. In conjunction with this, in the operations business also, it intends to increase added value, such as from data-linkage services, and to strengthen the earnings foundations. The numerical targets aim for increases from FY3/19's net sales of ¥9,204mn and operating profit of ¥294mn to net sales of ¥11,000mn and operating profit of ¥500mn in FY3/22. Operating profit increased to ¥630mn in FY3/20 and already surpassed the plan goal.



Source: Prepared by FISCO from the Company's results briefing materials

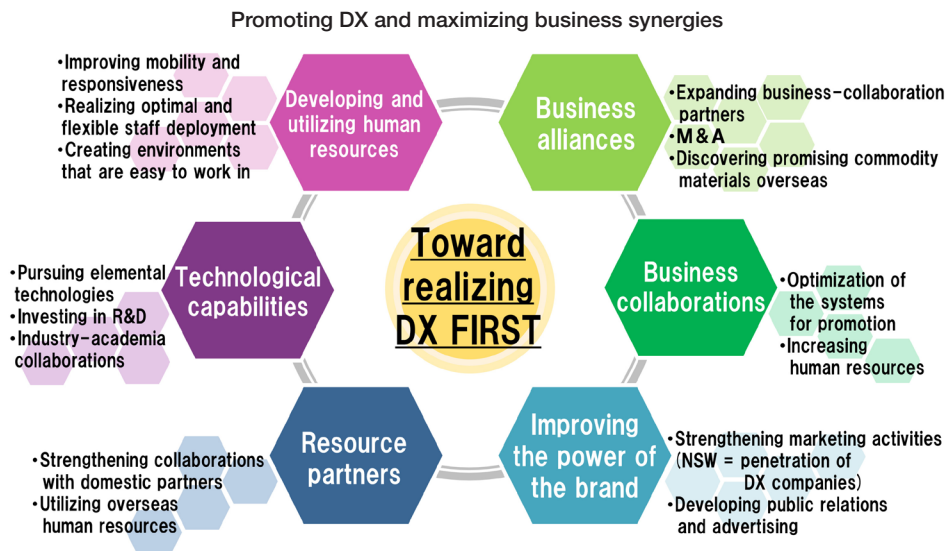
In Product Solutions, the Company intends to accumulate core technologies for which it is taking a long-term viewpoint for both the fields of embedded development and device development, and to establish technological superiority in the existing fields. At the same time, for high value-added technologies as well, the policy is to create products and services to generate new sources of earnings. Numerical targets seek increases from FY3/19's net sales of ¥14,342mn and operating profit of ¥1,831mn to net sales of ¥17,000mn and operating profit of ¥2,100mn in FY3/22. With sales and profit increases in FY3/20, this business is smoothly advancing toward realization of the plan goal.

Medium- to long-term growth strategy



Source: Prepared by FISCO from the Company's results briefing materials

In order to maximize the synergies from the above three business segments, the Company has set six priority fields, which include “developing and utilizing human resources” with a view to securing human resources overseas, forming business alliances with domestic and overseas companies and “expanding M&A and other business alliances” and “improving the power of the brand.” It intends to work toward realizing “DX FIRST” in these fields.



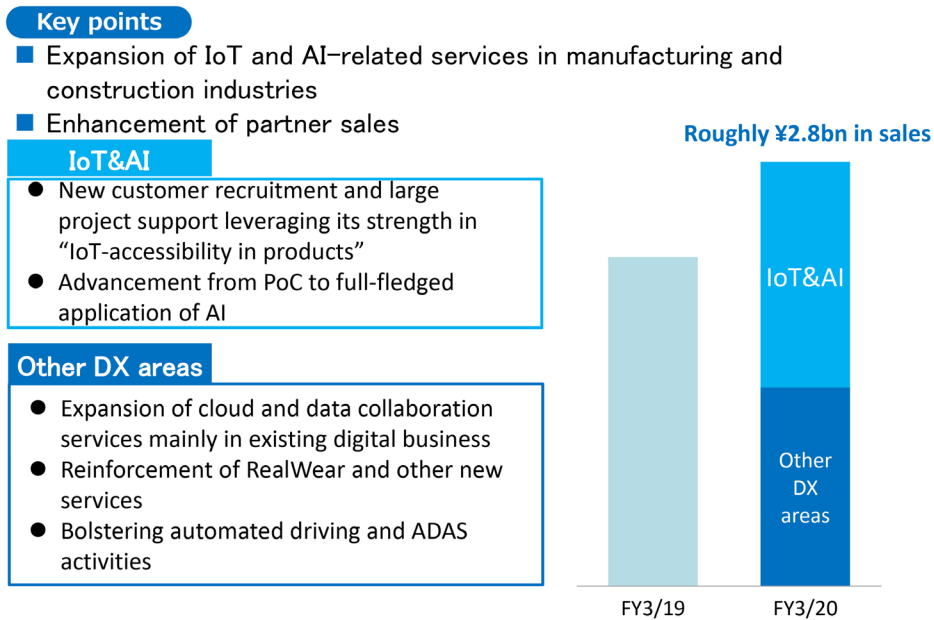
Source: Reprinted from the Company's financial results briefing materials

Medium- to long-term growth strategy

3. Initiative examples from the first fiscal year

The Company is promoting DX-related initiatives that are vital to attainment of medium-term management plan goals. In FY3/20, the first fiscal year of the plan, it focused on expansion of IoT and AI-related services in manufacturing and construction industries and enhancement of partner sales. In IoT and AI areas, the Company pursued recruitment of new customers and large project support leveraging its strength in “IoT-accessibility in products,” and advancement from PoC to full-fledged application of AI. In other DX areas, it expanded cloud and data collaboration services, mainly in existing digital business, reinforced RealWear and other new services (explained below), and bolstered activities in automated driving and ADAS (advanced driving assistance system). Thanks to these efforts, DX-related sales have been steadily rising toward the plan goal with an increase to about ¥2.8bn in FY3/20.

DX-related results in the first fiscal year (FY3/20)

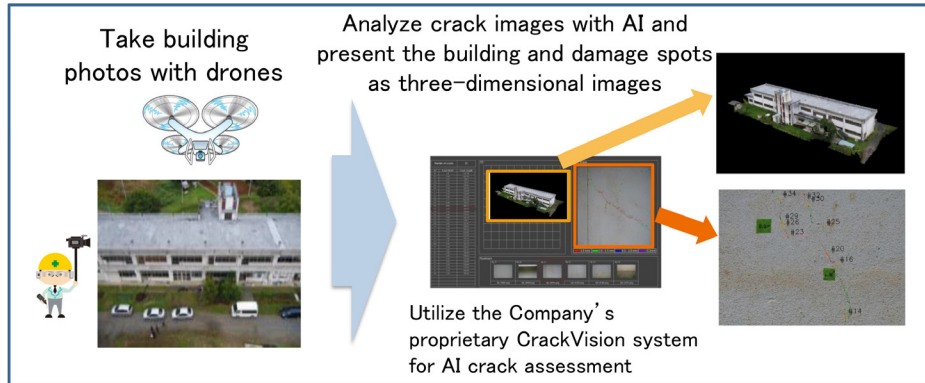


Source: Reprinted from the Company's financial results briefing materials

One of the Company's DX initiatives is realizing efficient inspections of building deterioration with drones and image processing AI. The drone takes photos of the building, analyzes crack images with AI through utilization of the proprietary CrackVision system for AI crack assessment, and presents three-dimensional images of the building and damage spots. In March 2020, the Company established the Building Inspection Consortium jointly with Building Inspection Technology Research Inc. and do Co., Ltd. to promote broader use of building inspection and survey knowhow and proper methods at a larger number of companies using AI solutions and drones and other advanced technologies.

Medium- to long-term growth strategy

DX initiative example (1)



✓ Established the Building Inspection Consortium (*) in March 2020

Promote broader use of building inspection and survey knowhow and proper methods at a larger number of companies using AI solutions and drones and other advanced technologies

* Building Inspection Technology Research Inc.'s Representative Yoshikazu Oba led the establishment with the Company as a joint research firm and do Co., Ltd. as the secretariat for consortium operations
 The Company is handling development of the AI engine and construction of the cloud system.
 Source: Reprinted from the Company's financial results briefing materials

In August 2019, the Company announced the conclusion of a sales agent contract with US-based RealWear and launch of smart glasses RealWear as a Platinum Partner (primary agent). Smart glasses add IT capabilities to eyeglasses that display information on the eyeglasses and present videos beyond eyeglass lenses. RealWear contains a voice feature too for realization of completely hands-free operation by voice. This product also provides applications tailored to customers and dramatically enhances efficiency of front-line activities in manufacturing, construction, and other industries. Amid restrictions on movement due to the COVID-19 outbreak, the Company has started remote task assistance service for data center operations using RealWear in which staff members conduct tasks in accordance with instructions given by remote customers. We expect growing utilization of RealWear at manufacturing and construction sites and in distribution and logistics task assistance following the catalyst from the COVID-19 outbreak, and the Company indicates that inquiries and requests are already trending upward.

Medium- to long-term growth strategy

DX initiative example (2)



Conclusion of a sales agent contract with US-based RealWear in August 2019

- Realizes completely hands-free operation by voice
- Provides applications tailored to customers
- Dramatically enhances efficiency of front-line activities in manufacturing, construction, and other industries

Movement restrictions due to COVID-19!

- ✓ Started remote task assistance service for data center operations using RealWear

Staff members conduct tasks in accordance with instructions given by remote customers



After-Corona opportunities at manufacturing and construction sites and in distribution and logistics task assistance

Source: Reprinted from the Company's financial results briefing materials

Shareholder Returns Policy

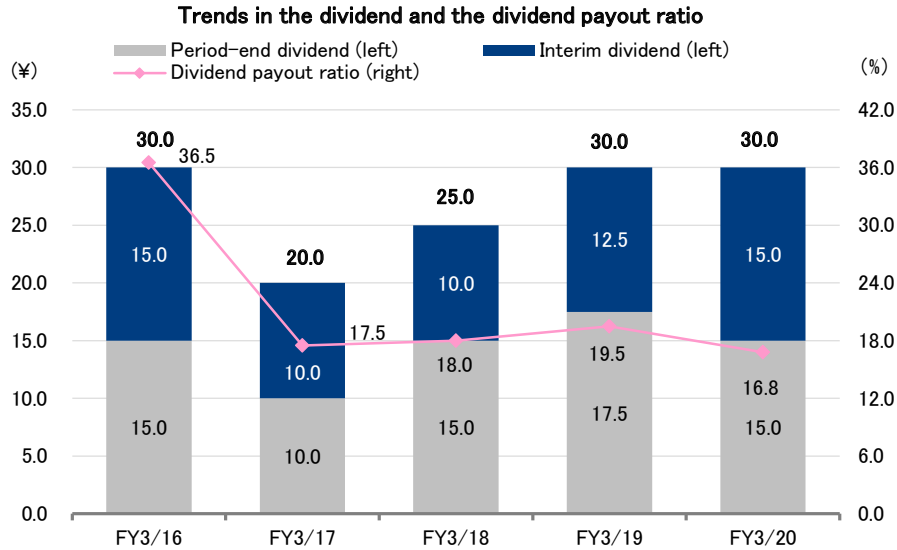
Aiming to realize a financial strategy that combines a growth strategy with financial soundness

The Company aims to realize a financial strategy that supports the growth strategy while sustaining financial soundness. It wants to maintain a healthy capital level and achieve sustainable growth with ROE at 12% or above. It also plans to continue making necessary investments in future growth and to invest in R&D, M&A and alliances, personnel training, and other areas. In shareholder return, meanwhile, the Company's basic policy is paying stable and continuous dividends that reflect its financial situation and earnings.

Reflecting the strong results in FY3/19, the Company changed the period-end dividend from the interim dividend of ¥12.5 to ¥17.5 and thereby increased the annual dividend to ¥30. In FY3/20, it also maintained an interim dividend of ¥15 and a period-end dividend of ¥15 for an annual dividend of ¥30, for a dividend payout ratio of 16.8%. It is aiming to further expand its business scope toward realizing net sales of around ¥50bn, and in this process, it may require funds for M&A. Therefore, for the time being it would seem to be prioritizing business expansion with an eye to the future, while aiming to maintain and improve its competitiveness.

For FY3/21, the Company has not finalized earnings guidance yet due to the COVID-19 outbreak and the dividend is also undecided. It intends to promptly disclose the dividend target once earnings guidance is available.

Shareholder Returns Policy



Note: FY3/16 includes ¥15.0 as a dividend commemorating the Company's 50th anniversary (¥7.5 interim, ¥7.5 period-end).
 Source: Prepared by FISCO from the Company's summary financial report

Information Security Policy

Implements measures based on the Information Security Basic Policy

The Company has defined the Information Security Basic Policy to ensure the confidentiality, completeness, and availability of the information assets that it holds and maintains in the course of conducting its businesses, and to satisfy the trust placed in it by society. It is working to construct, maintain and improve a more advanced information security management system.

In conducting its businesses, the Company Group handles a lot of customer data, so it pays close attention to data management. In particular, its datacenters, which accept systems and other assets from many customers, have acquired ISMS (Information Security Management Systems) certification and conduct highly reliable and safe operations. In addition, they are continuously implementing a range of measures such as PC encryption, unauthorized access monitoring, e-learning education for employees, and targeted training drills. Going forward, the policy is to further strengthen measures to prevent data from leaking out, should an unauthorized access occur.



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