COMPANY RESEARCH AND ANALYSIS REPORT

NIPPON SYSTEMWARE CO., LTD.

9739

Tokyo Stock Exchange First Section

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Index

Summary

Sales and profits increased in a ninth straight year in FY3/21, promotes DX in the medium-term management plan and is roughly on track to reaching goals

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. The Company hopes to fully leverage these strengths to achieve the growth strategy.

1. Summary of the FY3/21 results

In FY3/21 consolidated results, the Company booked ¥39,282mn in net sales (+2.6% YoY) and ¥4,197mn in operating profit (+8.7%) despite a difficult business environment affected by the COVID-19 pandemic. This was a very upbeat outcome with operating profit exceeding guidance by 19.9%. The Product Solutions business delivered higher sales and profits with healthy momentum in the devices development business amid growth in the semiconductor market. The IT Solutions business, meanwhile, incurred a decline in sales because of a lull in the development phase in some projects and opportunity losses stemming from money-losing projects in the previous fiscal year, though profit improved on decline in money-losing projects. The Services Solutions business increased sales mainly in digital solutions business but posted lower profit due to reinforcement of operations aimed at expanding business and other outlays. The equity ratio climbed to 72.3% (vs. 70.0% at the end of FY3/20), which is significantly higher than the average for the telecommunications industry on the TSE 1st Section (33.7% average at the end of March 2020). The Company continues to maintain extremely sound finances. It raised the dividend from ¥30 in FY3/20 to ¥40 (with a ¥20 interim dividend and ¥20 period-end dividend). FISCO has a favorable view of management's stance of bolstering shareholder return, even in a difficult business environment, while also carrying out growth strategies and sustaining healthy finances.

2. FY3/22 results forecasts

In FY3/22 consolidated guidance, the Company targets ¥42,000mn in net sales (+6.9% YoY) and ¥4,300mn in operating profit (+2.4%). With tailwind from ongoing expansion of demand driven by DX advances and new workstyle and business activities that rapidly took hold due to COVID-19 impact, it intends to continue strategic investments with the aim of being the best partner for customers in DX efforts and also strengthen the business foundation for achieving future growth. FISCO expects the Company to ultimately increase profit more than planned because it typically discloses conservative guidance at the start of the fiscal year. The Company plans to pay a ¥40 dividend on par with the previous year.

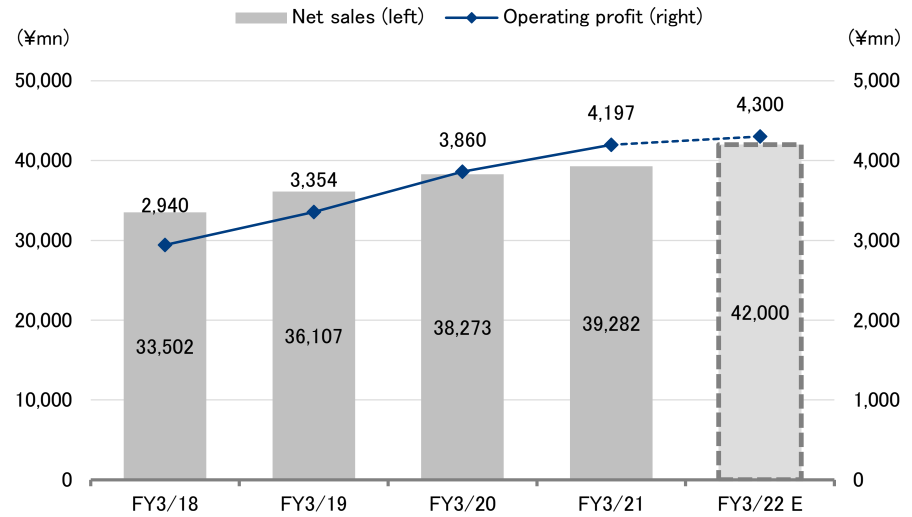
3. Medium-term management plan

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." As priority measures in FY3/22, the final fiscal year, the Company aims to promote full-self and semi-self checkouts and electronic shelf tags solutions in the IT Solutions business, DX solutions and services utilizing the latest technologies in the Services Solutions business, and 5G (5th-generation mobile communication systems) and local 5G technology in the Product Solutions business. Initial numerical goals in the plan were ¥43bn in net sales and ¥4bn in operating profit, including expansion of DX-related sales to ¥10bn. In FY3/22 guidance, meanwhile, the Company targets ¥42bn in net sales, which is slightly less than the medium-term management plan's goal, but upside in operating profit. DX-related sales rose from about ¥2.8bn in FY3/20 to roughly ¥4bn in FY3/21, and the Company hopes to book ¥10bn in FY3/22 on higher sales of DX services and reinforcement of DX partners.

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
- Sales and profits rose in a ninth straight fiscal year and operating profit beat guidance by 19.9%, despite a difficult business environment with the COVID-19 pandemic, in FY3/21
- Forecasts higher sales and profits in FY3/22, though takes a conservative stance, due to continuation of strategic investments and reinforcement of the business foundation toward further growth
- Targets ¥42bn in sales (including ¥10bn in DX-related sales) and ¥4bn in operating profit in FY3/22 with a slogan of DX FIRST in the medium-term management plan, expects to roughly achieve the goals through promotion of priority measures

Results trends



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."

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. Additionally, it opened the Taiwan office (representative office) in April 2018, and this office seeks to recruit customers and conducts local surveys in the Taiwanese market, a global site for semiconductor production, assembly, and testing.

The Company Group is an engineering group with a total of 2,290 employees and nearly 90% of its workforce comprising of engineers as of the end of March 2021. 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 in 1998 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. The Company's stock is likely to move to the Prime Market in April 2022 accompanying revisions to TSE market categories.

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

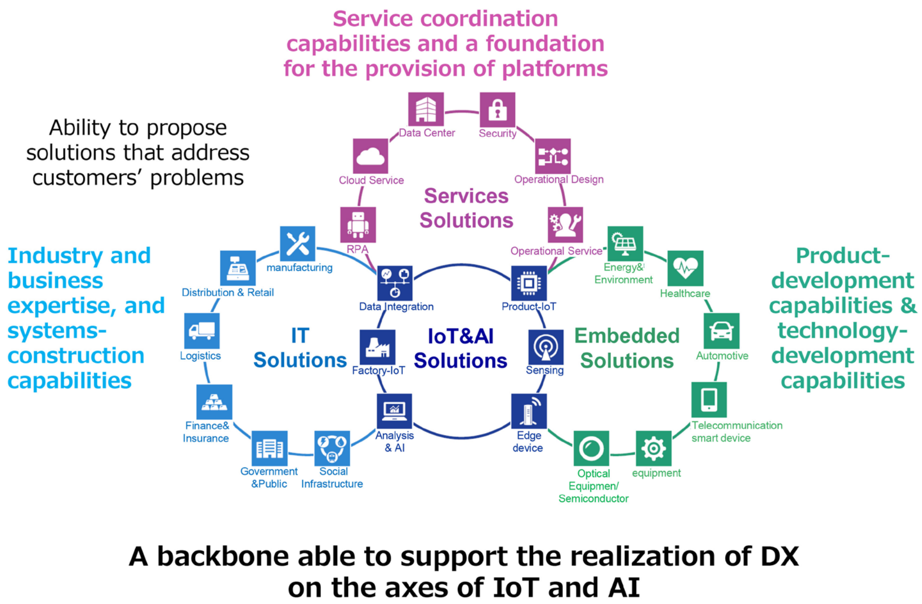
IT Solutions, Services Solutions, and Product Solutions as core businesses and aims to create an innovative future with IoT and AI leveraging these technology synergies

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.

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 that its customers want that leverage these technologies' synergies on the axes of IoT and AT, and its policy is to utilize all these strengths for growth in the future.

The Company's strengths

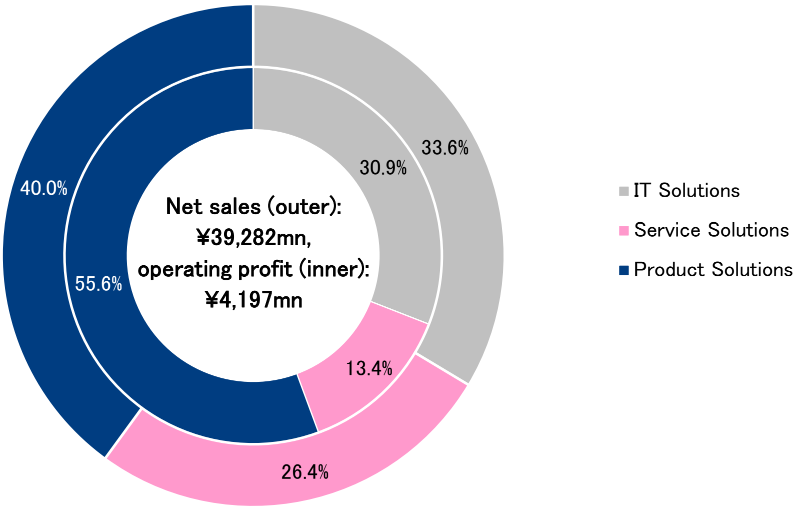


Source: Reprinted from the Company's results briefing materials

2. Business Description

Looking at net sales and operating profit by segment in FY3/21, the IT Solutions business provided 33.6% of net sales and 30.9% of operating profit, the Services Solutions business 26.4% of net sales and 13.4% of operating profit, and the Product Solutions business 40.0% of net sales and 55.6% of operating profit. Key reasons for the large presence of the Product Solutions business and its relatively high profitability are significant technological barriers to entry and the small number of companies in this business as an independent firm at the Company's scale. 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.

Net sales and operating profit by segment (FY3/21)



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.

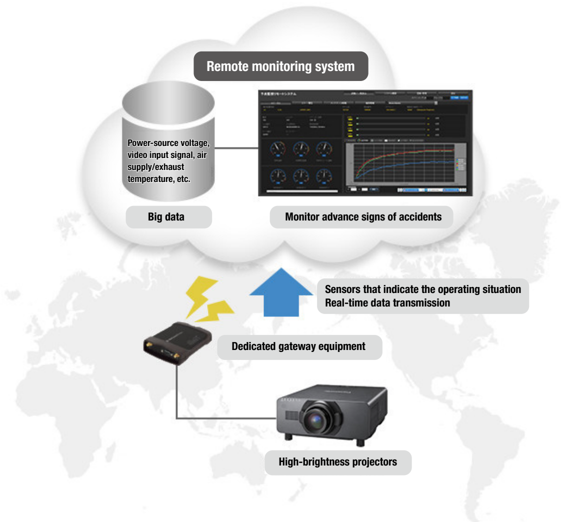
The Services Solutions business was previously under the IT Solutions business, and the Company converted it to an autonomous segment at the start of the current medium-term management plan in FY3/20. The content of this business is the provision of IT services, and it is comprised mainly of the digital solutions and Cloud infrastructure service businesses. The Company supports customer systems with a wide range of services, such as IoT and AI services, Web site and EC construction, and other common solutions for all industries, public-cloud and private-cloud environment building services (delivering data and software to users over the network), housing services at its own data center (the Company houses servers from customers, which basically means housing computers that provide a service), hosting services (renting servers that it owns to customers), and comprehensive management services that handle from operation design to construction and management of customer information systems.

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.

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-related 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. An example of Toami deployment is Panasonic's <6752> IoT for real-time monitoring of commercial projector operations, early discovery of issues, and improvement of service quality with maintenance at suitable timing. Remote monitoring of commercial projectors provides real-time data on operating conditions and issues. Positive effects of this monitoring are early discovery of decline in display quality due to equipment problems and operational trouble, replacement of consumables at suitable timing in accordance with operating conditions, improved quality in maintenance through real-time monitoring, and collection and accumulation of information that contributes to better product quality. Other customers utilizing Toami are NTT DOCOMO, INC., Nipron Co., Ltd., Tohoku Energy Service Co., Inc., Watanabe Electric Industry Co., Ltd., NEC Networks & System Integration Corporation <1973>, RION Co., Ltd. <6823>, and Japan Radio Co., Ltd.

Toami deployment example: Panasonic system conceptual image



Source: The company's web site

Results trends

Posted higher sales and profits beating period-start guidance, even with COVID-19 impact on some projects, in FY3/21

1. Summary of the FY3/21 results

The Japan economy faced uncertain conditions in FY3/21 amid rising prospect of needing time to bring COVID-19 under control due to multiple waves of COVID-19 infection spread. In the information services industry, the Company's sector, despite some cautiousness such as corporate delays and curtailments of IT investments related to economic downturn, demand for services and solutions that support "With Corona" and "After Corona" conditions rapidly increased and DX initiatives that substantially alter business and work processes utilizing IoT, AI, 5G (5th-generation mobile communications system; supports fast, high-capacity communication and simultaneous connections by many devices)/local 5G, and other digital technologies have been accelerating.

Amid these conditions, based on the medium-term management plan (FY3/20 to FY3/22), the Group sought to expand business and improve profitability by integrating knowledge and knowhow from a wide range of industries and business areas that it accumulated over many years with the latest digital technologies and contribute to customer business model innovation and work process reforms.

Thanks to these efforts, in FY3/21 consolidated results, the Company booked ¥39,282mn in net sales (+2.6% YoY), ¥4,197mn in operating profit (+8.7%), ¥4,240mn in ordinary profit (+8.8%), and ¥2,765mn in profit attributable to owners of the parent (+3.6%), a ninth straight year of sales and profit gains, and also lifted operating profit margin to 10.7% (+0.6ppt). In particular, it substantially beat period-start targets by 19.9% in operating profit and 1.6ppt in operating profit margin. Even though orders activity stalled in 1H because of COVID-19 impact, sales still improved for the year with a recovery in 2H. Operating profit increased on higher sales, reduction of money-losing projects, and lower SG&A expenses, including cutback in transportation costs during the COVID-19 pandemic. FISCO has a favorable view of the Company's achievement of higher sales and profits, despite difficult business conditions, aided by its broad customer base.

FY3/21 consolidated results

(¥mn)

	FY3/20		FY3/21			YoY		Vs. forecast	
	Results	% of net sales	Forecast	Results	% of net sales	Increase (decrease)	% change	Increase (decrease)	% change
Net sales	38,273	100.0%	38,500	39,282	100.0%	1,009	2.6%	782	2.0%
Operating profit	3,860	10.1%	3,500	4,197	10.7%	337	8.7%	697	19.9%
Ordinary profit	3,898	10.2%	3,540	4,240	10.8%	342	8.8%	700	19.8%
Profit attributable to owners of parent	2,668	7.0%	2,400	2,765	7.0%	97	3.6%	365	15.2%

Note: FY3/21 plan targets from disclosure on July 27, 2020
Source: Prepared by FISCO from the Company's financial results

Achieved profit gains in IT Solutions and Product Solutions businesses

2. Segment overview

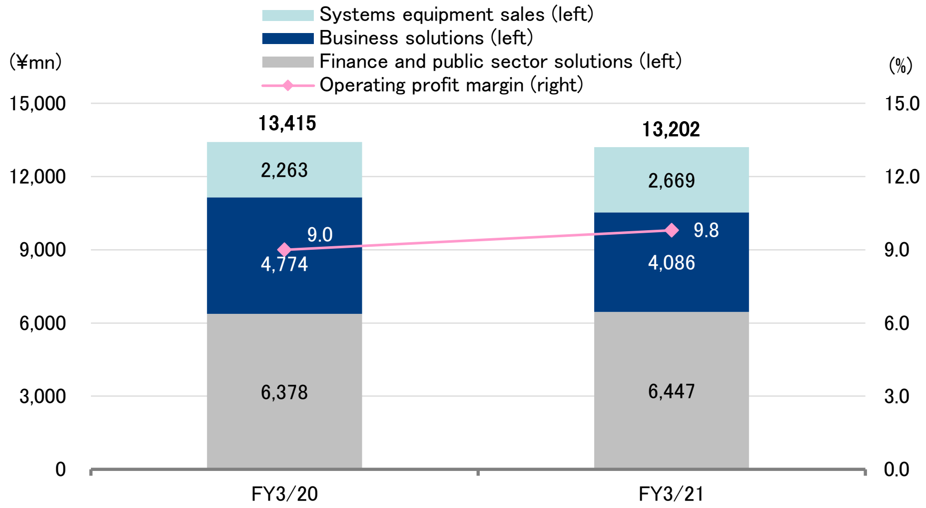
The following section reviews results by business segments.

(1) IT Solutions business

The IT Solutions business posted ¥13,202mn in net sales (-1.6% YoY), ¥1,298mn in operating profit (+7.7%), and 9.8% operating profit margin (+0.8ppt). It incurred a decline in sales because of a lull in the development phase in some projects and opportunity losses stemming from money-losing projects in the previous fiscal year, though profit improved on decline in money-losing projects and other factors. Segment results overshot guidance by 2.3% in net sales and 23.6% in operating profit. Profit improvement in this segment contributed significantly to healthy earnings, similar to the Product Solutions business.

In the sales breakdown, financial and public sector solutions recorded ¥6,447mn in sales (+1.1% YoY). Despite decline in government ministry and agency and public organization sales on backlash from major projects in the previous fiscal year, financial and insurance industry sales rose on system transition projects and an automobile insurance-related system development project. Business solutions booked ¥4,086mn in sales (-14.4%). While manufacturing sales strengthened mainly on package-related and existing customer projects, retail and logistics sales weakened because of opportunity losses from impact of money-losing projects (stalled operating activities, etc.) in the previous fiscal year and a lull in development on some other projects. The Company largely dealt with money-losing projects during the previous fiscal year. Furthermore, system equipment sales had ¥2,669mn in sales (+17.9%) on increase in semi-self checkouts for retailers (with these checkout systems, store staff handle product scanning and customers pay using a payment machine located next to the scanning register).

Net sales and operating profit margin trends in the IT Solutions business



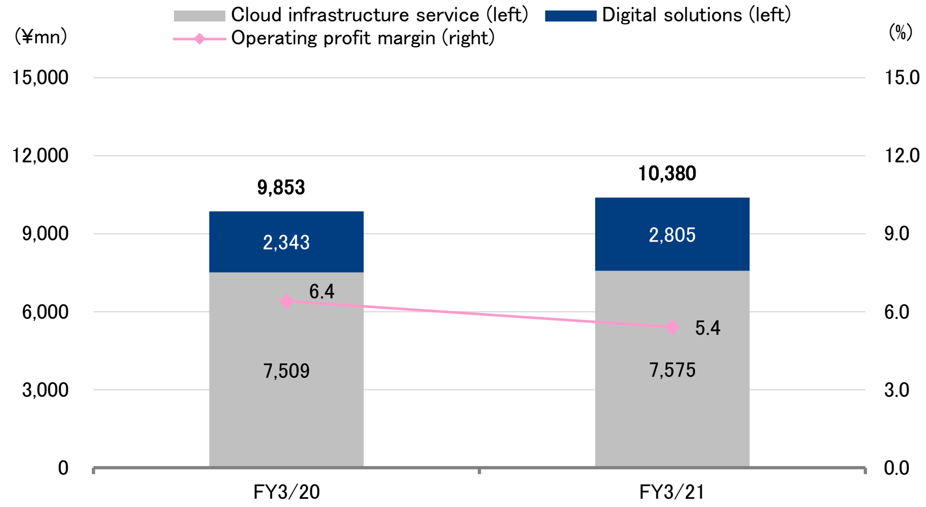
Source: Prepared by FISCO from the Company's results briefing materials

(2) Services Solutions business

The Services Solutions business reported ¥10,380mn in net sales (+5.4% YoY), ¥564mn in operating profit (-10.5%), and 5.4% operating margin (-1.0ppt). In sales, digital solutions business expanded with IoT & AI, RealWear, and other new services as drivers. Profit slipped on spending to strengthen operations for business expansion and other outlays. Segment results were roughly on track with guidance with upside of 1.8% in net sales and 2.6% in operating profit. While the Company made this an autonomous segment in FY3/20, the Services Solutions business has successfully ramped up new businesses and expanded into a segment that supports overall results.

In the sales breakdown, cloud infrastructure service business sales totaled ¥7,575mn (+0.9% YoY). While housing projects and infrastructure building projects declined in infrastructure and data center business, cloud business had an increase in public cloud (provision of servers and other cloud computing environment over the Internet) transition projects and other related business and other services benefited from healthy data-related services. Digital solutions sales totaled ¥2,805mn (+19.7%), an upbeat result, thanks to expansion of IoT and AI business led by IoT system building projects and robust demand for RealWear industrial smart glasses. Web and EC-related business sustained overall scale, despite backlash from large projects in the previous fiscal year, mainly by deepening activities at existing customers.

Net sales and operating profit margin trends in the Services Solutions business



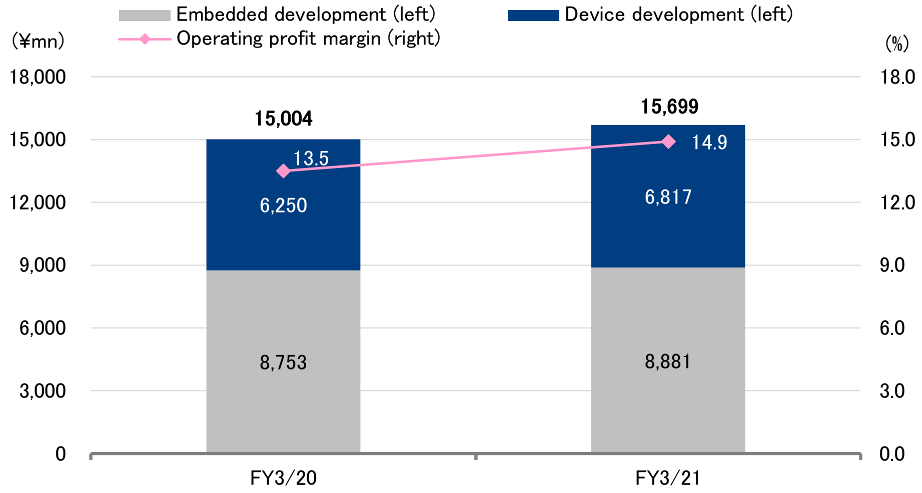
Source: Prepared by FISCO from the Company's results briefing materials

(3) Product Solutions business

The Product Solutions business posted ¥15,699mn in net sales (+4.6% YoY), ¥2,335mn in operating profit (+15.4%), and 14.9% operating profit margin (+1.4ppt). In sales, devices development business was upbeat amid growth in the semiconductor market. Profit increased mainly on the earnings boost from higher sales. Embedded development delivered a profit gain on improvement in automotive margin after a setback in FY3/21. Segment results overshot guidance by 1.9% in net sales and 22.9% in operating profit, and this segment fueled overall healthy momentum. The Product Solutions business maintained the highest profitability primarily due to significant technological barriers to entry and the small number of companies in this business as an independent firm at the Company's scale, as mentioned earlier.

In the sales breakdown, embedded development had ¥8,881mn in sales (+1.5% YoY), despite a flat trend in facility equipment like medical equipment and decline in mobile business, thanks to increases in CASE (a made-up term referring to next-generation technology and new services), ADAS (advanced driving assistance system), and mobility in automotive and 5G/local 5G-related development and assessment in communications. Device development sales rose substantially to ¥6,817mn (+9.1%) on increase mainly in image processing, the Company's strength, with expansion of development operations amid growth in the semiconductor market.

Net sales and operating profit margin trends
in the Product Solutions business



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 ¥2,143mn YoY to ¥32,660mn at the end of FY3/21. While work in process declined, cash and deposits, notes and accounts receivable-trade, and products increased. Liabilities totaled ¥9,042mn, dropping by ¥101mn. Despite increases in accounts payable-trade, retirement benefit liability, and provision for bonuses, provision for loss on construction contracts, advances received under other current liabilities, and accrued consumption taxes declined. Net assets totaled ¥23,618mn, an increase of ¥2,245mn, with support from booking profit attributable to owners of the parent.

As a result of the above, the current ratio (current assets / current liabilities) increased by 44.1 percentage points (PP) on the end of the previous fiscal year to 365.4%, and the Company's short-term solvency is extremely high. Also, the fixed ratio (fixed assets / equity capital) was 36.8%, down 3.9 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 72.3% (70.0% in the previous fiscal year), which greatly exceeds the average for issues in the telecommunications industry on the TSE 1st Section (33.7% in the end of March 2020), and the Company can be evaluated as being extremely financially sound. Furthermore, the Company realizes high profitability as seen in indicators with ROE at 12.3% and ROA at 13.4%, significantly surpassing averages in the telecommunications industry on the TSE 1st Section of 5.7% and 7.3%.

Consolidated balance sheets and management indicators

(¥mn)

	End of FY3/20	End of FY3/21	Increase (decrease)
Current assets	21,815	23,980	2,164
Cash and deposits	11,488	12,383	895
Notes and accounts receivable-trade	8,844	9,651	806
Work in process	837	731	-105
Fixed assets	8,701	8,680	-20
Property, plant and equipment	6,241	6,168	-73
Intangible assets	117	101	-15
Investments and other assets	2,341	2,409	67
Total assets	30,516	32,660	2,143
Current liabilities	6,789	6,563	-226
Noncurrent liabilities	2,354	2,478	124
(Interest-bearing debt)	-	-	-
Total liabilities	9,144	9,042	-101
Total net assets	21,372	23,618	2,245
Stability			
Current ratio (current assets/ current liabilities)	321.3%	365.4%	44.1pt
Fixed ratio (fixed assets / equity capital)	40.7%	36.8%	-3.9pt
Equity ratio	70.0%	72.3%	2.3pt
Profitability			
ROE (return on equity)	13.2%	12.3%	-0.9pt
ROA (return on assets)	13.3%	13.4%	0.1pt

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

At the end of FY3/21, the balance of cash and deposits had increased ¥895mn at the end of the previous fiscal year to ¥12,383mn. This was because expenditure, such as the payment of dividends and to acquire property, plant and equipment, was covered by the funds obtained from operating activities.

In cash flow trends, cash flow from operating activities was ¥1,998mn (decline of ¥1,888mn YoY). While the Company booked a profit before income taxes, it also had increases depreciation and trade receivables, higher inventory assets, and income taxes paid. Net cash used in investing activities, meanwhile, was ¥583mn (an increase of ¥277mn YoY). This mainly reflected purchase of property, plant and equipment and payments of leasehold and guarantee deposits. Net cash used in financing activities totaled ¥520mn (up ¥28mn YoY) with dividend paid as the main item.

Cash flow statements

(¥mn)

	FY3/20	FY3/21	Increase (decrease)
Cash flow from operating activities	3,887	1,998	-1,888
Cash flow from investing activities	-306	-583	-277
Cash flow from financing activities	-492	-520	-28
Cash and cash equivalents at the end of the fiscal period	11,488	12,383	895

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

Outlook for the future

Forecasts higher sales and profits in FY3/22 amid continuation of strategic investments

● **FY3/22 results forecasts**

In the information services industry in FY3/22, despite cautiousness such as corporate delays and curtailments of IT investments at some companies in the near term, demand is likely to continue expanding for DX that uses IT in management and business model reforms and also new workstyle and business activities that rapidly took hold due to COVID-19 impact. With tailwind from these changes in the business environment, the Group intends to accelerate and strengthen business growth and reforms and implement initiatives as needed to address changes in conditions with the aim of being the best partner for customers in DX efforts.

In FY3/22 consolidated guidance, the Company targets ¥42,000mn in net sales (+6.9% YoY), ¥4,300mn in operating profit (+2.4%), ¥4,340mn in ordinary profit (+2.4%), and ¥2,950mn in profit attributable to owners of the parent (+6.7%). It targets higher sales and profits by continuing strategic investments to address anticipated changes in business conditions and strengthening the business foundation for achievement of growth. In operating profit margin, meanwhile, it projects a 0.5ppt YoY decline to 10.2% due to increase in SG&A expenses, including transportation costs related to resumption of operating activities and advertising and promotion costs. FISCO expects results to exceed FY3/22 results to beat guidance, similar to FY3/21, considering disclosure of conservative period-start targets.

FY3/22 consolidated results outlook

(¥mn)

	FY3/21		FY3/22		YoY	
	Results	% of net sales	Forecast	% of net sales	Increase (decrease)	% change
Net sales	39,282	100.0%	42,000	100.0%	2,718	6.9%
Operating profit	4,197	10.7%	4,300	10.2%	102	2.4%
Ordinary profit	4,240	10.8%	4,340	10.3%	100	2.4%
Profit attributable to owners of parent	2,765	7.0%	2,950	7.0%	185	6.7%

Source: Prepared by FISCO from the Company’s financial results and results briefing materials

Medium- to long-term growth strategy

Aiming to be a company that guides customers to realizing DX

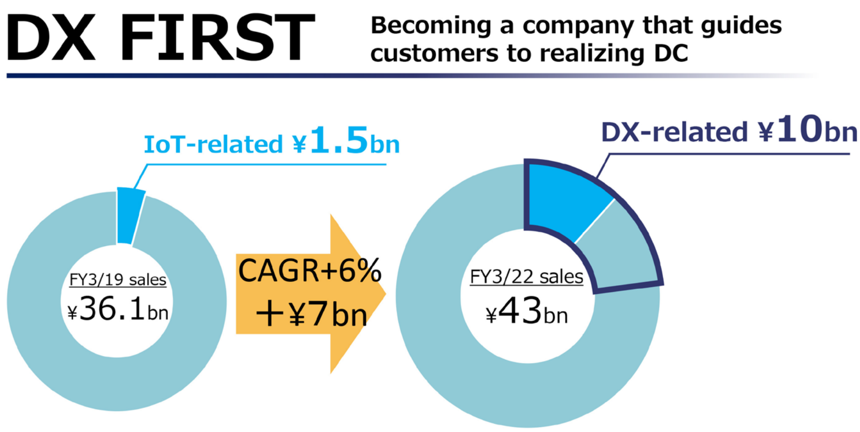
1. Medium-term management plan goals and strategies

The Company used the following assumptions for the business environment in formulation of the medium-term management plan (FY3/20 to FY3/22). For the domestic economy, it projected slowdown from impact of overseas conditions, the consumption tax hike, and other factors. It also noted the importance of efforts to improve productivity through promotion of workstyle reforms and decline in the working-age population. 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.

Based on this outlook, the Group seeks to become a strong value-creating entity that is affected as little as possible by fluctuations in the economy. 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. During the plan's three years, the Company intends to transform the Company itself into "a value-creation company" by contributing to its customers' realization of DX with a slogan of "DX FIRST."

With this fundamental policy and in light of priority strategies, the Group's initial plan goals were raising net sales from ¥36.1bn in FY3/19 to ¥43bn in FY3/22, the final fiscal year, and operating profit from ¥3.3bn to ¥4bn. 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 ¥7bn 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.

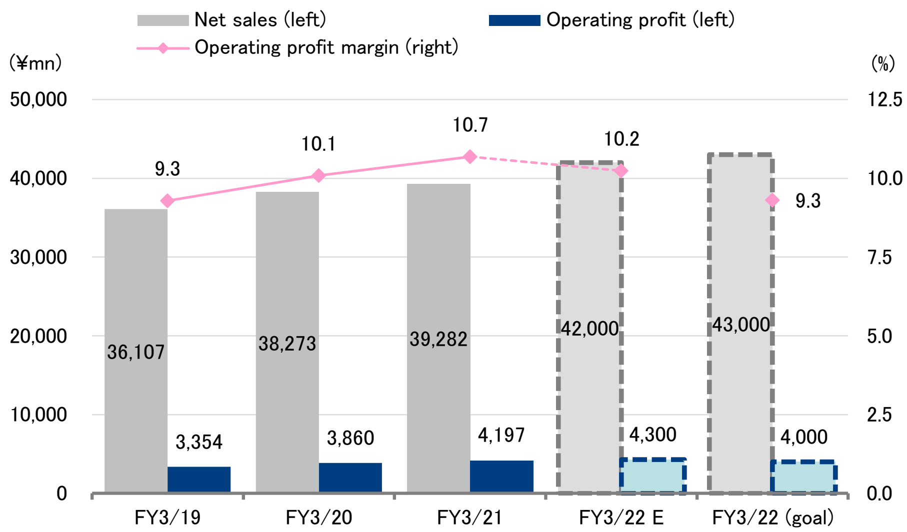
Summary of the new medium-term management plan



Source: Reprinted from the Company's results briefing materials

In FY3/21, despite a business environment not expected at the time of plan formulation of economic setback from the COVID-19 pandemic, the Company sustained sales and profit gains in the two years through FY3/21 and operating profit margin moved upward as well. Thanks to this outcome, the Company's guidance for FY3/22, the final fiscal year of the medium-term management plan, only expects modest shortfall versus the plan goal in net sales at ¥42bn and forecasts upside in operating profit at ¥4.3bn (vs. ¥4bn) and operating profit margin at 10.2% (vs. 9.3%). FISCO thinks change in the business environment from COVID-19 might provide a catalyst for the acceleration of DX business promoted by the Group.

Net sales and operating profit trends and goals



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2. Priority measures for the final fiscal year of the medium-term management plan

The Company plans to implement the following priority measures for the business segments in the final fiscal year of the medium-term management plan.

(1) IT Solutions business

In the IT Solutions business, it plans to deploy full-self and semi-self checkouts and electronic shelf tag solutions that address labor-saving and contactless needs in the distribution industry, expansion of ERP (system that centrally manages corporate business resources and contributes to management decisions in real time) sales and promotion of PLM and PDM (product information management system that centrally manages data related to products and designs) deployment consulting, response to legacy-system modernization and migration in the financial and insurance industry, and participation in digital government projects from public ministries and agencies.

Electronic shelf tagging is a solution that automates updating of prices on store shelves. Large companies have started rollouts, and this content is likely to exhibit market expansion. The Company supports significant gains in labor savings, automation, and efficiency in customer store management by linking the POS system and online shopping. For customers, this solution greatly alleviates tag switching burden and facilitates immediate price changes, reduces operational mistakes, such as tagging mistakes, and helps in dealing with manpower shortages.

Electronic tags

Source: Reprinted from the Company's results briefing materials

Digital government refers to revisions of administrative services and reforms to the administration format itself utilizing digital technologies based on collaboration between public and private sectors. This is one of the government's core initiatives that addresses the national issue of an aging population and shrinkage in the working-age population. The government plans to establish a Digital Agency as the command center for promoting digitalization in the various agencies and ministries by fall 2021.

Through implementation of these measures, the Company aims to expand mainly distribution and manufacturing business with FY3/22 targets of ¥14,200mn in net sales (+7.6% YoY), ¥1,400mn in operating profit (+7.8%), and 9.9% operating profit margin (+0.1ppt).

(2) Services Solutions business

The Services Solutions business is the main segment in promotion of DX in strategic areas. In FY3/22, it is reorganizing technology provision divisions with the aim of further acceleration of DX-related business. In particular, it aims to develop the fast-growing market for utilization of corporate internal data and provide new value by connecting a variety of data, including the customer value chain. The Company also wants to expand overall business by building a platform to realize this capability on the cloud and bolstering app development, infrastructure building, and other services.

As rollout of a DX solution, the Company concluded a sales agent contract with US-based RealWear in August 2019 and started sales of RealWear industrial smart glasses as a first-tier platinum partner. RealWear displays manuals and camera video on a compact monitor by the eyes and is also equipped with a voice recognition feature that realizes total hands-free operation through voice instructions. It can provide applications suited to customers too. The Company's data centers already implemented remote operation and monitoring services. Through use of RealWear, the Company added remote task assistance service in which its staff handles tasks based on instructions from remotely located customers and AI-driven automated operation service even during the COVID-19 pandemic. It is actively making DX proposals for customer system operation work based on the track record of DX utilization at its own data centers.

RealWear

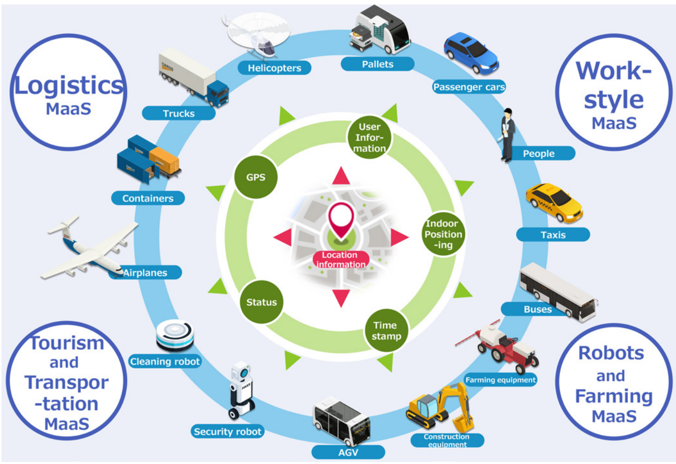
Source: Reprinted from the Company's results briefing materials

Due to these initiatives, the Company targets ¥11,300mn in net sales (+8.9% YoY), ¥650mn in operating profit (+15.2%), and 5.8% operating margin (+0.4ppt) in FY3/22.

(3) Product Solutions business

Deployment of 5G and local 5G technology is a key for the embedded and devices development businesses in FY3/22. Main opportunities are 5G/6G support in the communications area and local 5G as equipment in plant and farming areas. In the automotive area, it can be developed in the CASE domain for applications such as automated driving, while in the mobile area, it aims for promotion of MaaS (Mobility as a Service). Devices development business aims to broaden business scope through collaboration and cooperation with domestic and overseas partners and pursuit of catch-up in cutting-edge technologies.

Promotion of MaaS



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Based on implementing these measures, the Company targets ¥16,500mn in net sales (+5.1% YoY), ¥2,250mn in operating profit (-3.7%), and 13.6% operating margin (-0.7ppt) in FY3/22. This appears to be a cautious plan because it factors in higher spending from resumption of sales activities and considering high profitability in FY3/21.

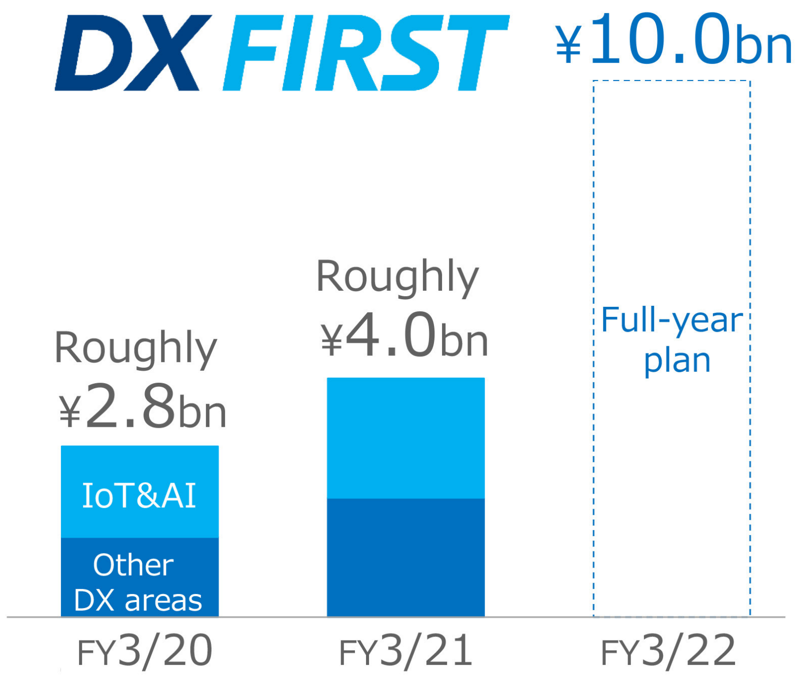
(4) DX-related business

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.

In DX-related initiatives, the Company focused in FY3/21, the second year of the plan, on expansion of IoT and AI-related services for manufacturing and construction industries and creation of new services that combine RealWear industrial smart glass and existing solutions. In 1H, sales stalled because of temporary suspension of projects and inspection delays due to COVID-19 pandemic. Steady resumption of economic activities in 2H, however, supported expansion to about ¥4bn in full-year sales, roughly on track with the plan. In FY3/22, the final fiscal year, the Company targets ¥10bn in sales on accelerated gains through reinforcement of IoT and AI services focused on certain industries and strengthening local 5G-related business.

As specific DX service initiatives, the Company promotes a MaaS platform that centrally manages equipment and user locations and states using mobile location information in Product Solutions and collaboration of the "digicell" cell production assistance system, an existing solution, and RealWear industrial smart glasses in IT Solutions. Furthermore, in Services Solutions, which promotes the Company's DX-related business, it plans to realize customer DX by strengthening collaboration with partners that possess highly specialized technology capabilities in various areas to broaden DX partners and providing optimal solutions for customer needs.

DX-related results and goals



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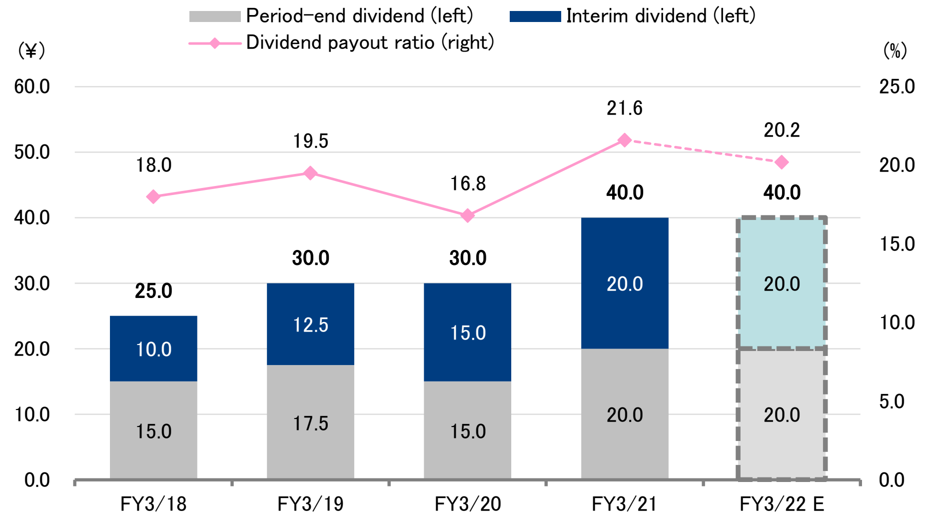
Shareholder Returns Policy

Raised the dividend in FY3/21 while striving to achieve a financial strategy that addresses growth and 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.

In FY3/21, the Company lifted the dividend to ¥40 (interim ¥20, period-end ¥20) and dividend payout to 21.6%, versus FY3/20's ¥30 and 16.8%. In FY3/22, it guides for a ¥40 dividend (interim ¥20, period-end ¥20), the same level as the previous year, and 20.2% dividend payout. The Company wants to broaden business scope further in pursuit of ¥50bn in net sales. Since this process might involve fund outlays on M&A deals or alliances with other companies, it is putting priority on business expansion for the future and efforts to maintain and enhance competitiveness over a hefty dividend hike. Meanwhile, FISCO favorably assesses the Company's FY3/21 dividend hike as a decision that factored in shareholder return amid a difficult business environment.

Trends in the dividend and the dividend payout ratio



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

The Company has focused on corporate governance for some time and acknowledges quick and suitable decisions and enhancing management transparency toward shareholders and investors as important corporate issues. It hence suitably revises systems, such as adjusting the number of directors on the board, adopting an executive director framework, and selecting outside directors. FISCO also positively assesses sustained efforts to reflect shareholder and investor views in management through ongoing disclosure and IR activities.

The Company earnestly engages in environmental and social activities too. Based on a corporate motto of "Humanware By Systemware," it provides meaningful systems, continuously promotes corporate activities that contribute to realization of a sustainable society and environmental conservation, and pursues sustainable development goals (SDGs) advocated by the United Nations in business activities. Specifically, it contributes to customer business activities and a sustainable society through provision of IT systems and services, promotes reduction of environment burden in data centers and its own office and environmental conservation activities, sponsors sports, music, and other areas, and engages in local and societal activities including cleaning and blood donations. ESG investment, which selects stocks with emphasis on corporate initiatives in Environment, Social, and Governance areas, is growing in importance globally and has considerable room to expand in Japan. FISCO expects interest in the Company from this perspective as well because of its active contributions in environmental and social areas.

While the Company's stock is listed on the TSE 1st Section, it is likely to move to the Prime Market in April 2022 accompanying TSE's revisions to market categories.

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.

FISCO

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