COMPANY RESEARCH AND ANALYSIS REPORT

NIPPON SYSTEMWARE CO., LTD.

9739

Tokyo Stock Exchange Prime Market

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Summary

FY3/22 results set new record highs. Aiming for further growth based on the “DX FIRST” and “co-creation” concepts in the new medium-term management plan

NIPPON SYSTEMWARE Co., Ltd., <9739> (hereafter, also “the Company”) is an independent IT solutions provider listed on the Prime Market of the Tokyo Stock Exchange (hereafter, TSE) and an engineering group in which engineers account for nearly 90% of all employees. It is strengthening and expanding all of its businesses, and also with a view to business development in the future. From FY3/23, it has changed its four business categories to the following segments; Enterprise Solutions, Service Solutions, Embedded Solutions, and Device Solutions. Centered on digital technologies such as IoT*1 and AI that utilize the synergies between its businesses, it is working on co-creating customer value through realizing DX*2. Toward taking a major leap forward to a new stage, it plans to change its company name to NSW Inc. on August 3, 2022.

*1 Abbreviation of Internet of Things. It refers to various objects, including home electronic appliances and sensors, being connected on a network to not only collect information, but also to carry out remote monitoring and control. It is utilized for product development and marketing.
*2 Abbreviation of Digital Transformation. This refers to initiatives by companies for business transformation to create business models and transform business processes by utilizing new digital technologies.

1. Summary of the FY3/22 results

In the FY3/22 consolidated results, net sales were ¥43,452mn (up 10.6% year on year (YoY)), and operating profit was ¥4,919mn (up 17.2%), setting new record highs and moreover recording increased sales and profits for the 10th consecutive period. The strong results were also higher than the initial forecasts, with net sales up by 3.5% and operating profit up by 14.4%. In particular, in the IT Solutions business, there were multiple orders from national and local governments for subsidy application systems projects, which contributed greatly to the results. In Product Solutions, higher sales and profits were secured mainly in the communication and equipment fields in the embedded development business, and the high profit margin was maintained. Conversely, in Service Solutions, sales increased significantly, mainly of cloud infrastructure services, but profits declined mainly due to the upfront investment to strengthen the structure toward business expansion and responses to unprofitable projects. ROA was 14.5% (up 1.1 percentage points (pp)) and the equity ratio was 72.0% (down 0.3pp), which are significantly higher than the averages of the telecommunication industry companies listed on the TSE 1st section, and the Company continues to maintain extremely high profitability and financial soundness. It increased the dividend per share by ¥10 YoY for an annual dividend of ¥50 (interim dividend of ¥20, period-end dividend of ¥30) and is paying full consideration to returning profits to shareholders.

2. FY3/23 results forecasts

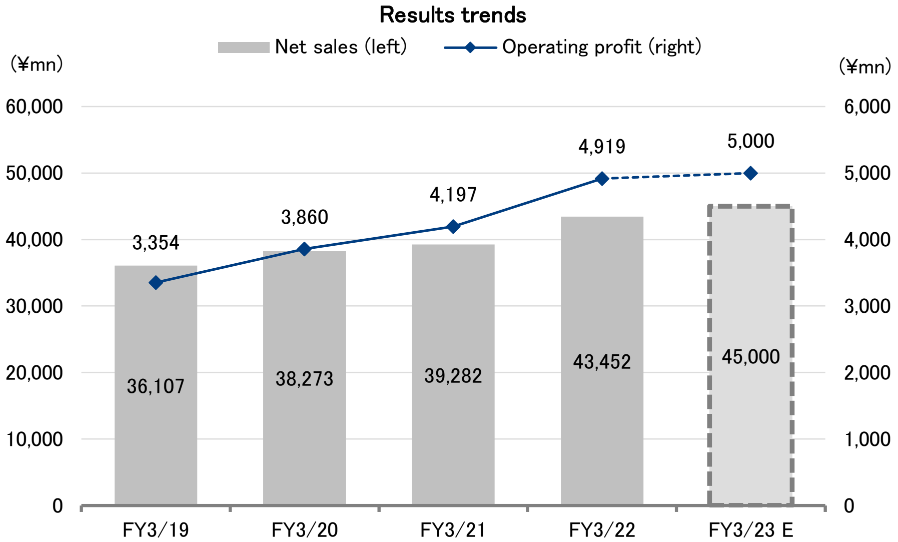
For the consolidated results in FY3/23, which is the first fiscal year of the new medium-term management plan, the Company is forecasting net sales of ¥45,000mn (up 3.6% YoY) and operating profit of ¥5,000mn (up 1.6%) and expects new record highs for both net sales and operating profit. But operating profit is forecast to increase by only a small amount because of the absence of the special demand for subsidy application systems projects in the previous period and also as it will continue to conduct strategic investment. Profits are forecast to increase significantly in Service Solutions and to be basically unchanged YoY in Embedded Solutions and Device Solutions, but to decrease slightly in Enterprise Solutions. Based on the above, the Company plans to pay an annual dividend per share of ¥50 (interim dividend of ¥25, period-end dividend of ¥25), the same as in the previous fiscal year. However, the Company has a strong tendency to initially announce conservative forecasts, so at FISCO we think that ultimately profits may increase more than forecast.

3. Medium-term management plan

In the previous medium-term management plan (FY3/20 to FY3/22), the Company set numerical goals for FY3/22 including net sales of ¥43bn, operating profit of ¥4bn, an operating profit margin of 9.3%, and DX-related net sales of ¥10bn, and it achieved every goal. In the new medium-term management plan (FY3/23 to FY3/25), its fundamental policy is to achieve the sustainable growth of both society and companies through digital transformation – evolving to become a SIer that co-creates business with customers through technologies and knowledge, and based on the “DX FIRST” and “co-creation” concepts, it has set the priority strategies of pursuing customer value through realizing DX, strengthening profitability through selection and concentration, and conducting strategic investment for growth in the future. The plan’s management goals include net sales of ¥50,000mn (compound annual growth rate (CAGR) of an increase of 4.8%) and an operating profit margin of 11%. It intends to achieve higher sales and profits by progressing the business policies for the four business segment structure it has newly started and the measures for “DX FIRST.” In conjunction with this, it will also prioritize measures for sustainability as it has done in the past. Going forward, attention shall be given to the progress it makes for the medium-term management plan.

Key Points

- With an eye to business development in the future, has changed its business categories to four segments for the business promotion structure, and toward taking a leap forward to a new stage, plans to change the company name to NSW Inc.
- In FY3/22, orders for various subsidy application systems project contributed and the results set new record highs, with sales and profits increasing for the 10th consecutive period
- Forecasting higher sales and profits in FY3/23 as well, but in a typical year tends to set conservative initial forecasts
- In the new medium-term management plan, has set the priority strategies of pursuing customer value through realizing DX, strengthening profitability through selection and concentration, and conducting strategic investment for growth in the future, and it is aiming for net sales of ¥50,000mn and an operating profit margin of 11% in FY3/25



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

In the Company Group, based on its "Humanware By Systemware" corporate philosophy that expresses its desire to leverage to the greatest possible extent the individuality, sensibility, and creativity of each and every employee to create excellent systems that will enrich society, the Company has set the "NSW Way" as its code of conduct, which involves always seeing ahead of the times, customer-centric business concepts, ideas for utilizing human resources that leverage their potential to the greatest extent, a spirit of self-reliance and a polite, humble and sincere corporate culture, and a corporate vision that contributes to 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 development; and NSW WITH Co., Ltd., a special subsidiary for the employment of people with disabilities that provides general agency services and support services.

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 established, an overwhelming large percentage of transactions were with the NEC <6701> Group, but alongside the expansion of the customer base, this percentage has fallen to just around 15% of net sales in FY3/21, and every year the scope of customers for transactions is widening, including that the Sony Group <6758> accounts for more than 10%. 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 2,337 employees and nearly 90% of its workforce comprising of engineers as of the end of FY3/22. Mr. Shoji Tada has served as the President and Representative Director since April 2013.

2. History

The Company 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, its business areas have expanded, including that it started a systems integration business in 1990, a data center business in 1998, a cloud service business in 2009, and an IoT/M2M business in 2013.

During this period, the Company changed its name to NIPPON SYSTEMWARE CO., LTD., in 1982. It began the over-the-counter trading of its shares in 1996 and opened the Yamanashi IT Center in August 1998 with the funds obtained from the market. It was listed on the TSE 2nd Section in April 1999, its listing was upgraded to the TSE 1st Section in March 2000, and it celebrated the 50th anniversary of its establishment in FY3/16. In April 2022, its listing was changed to the Prime Market following the TSE's reorganization of market categories. Moreover, toward taking a leap forward to a new stage, it plans to change its company name to NSW in August 2022. In the newly started medium-term management plan, it is aiming to achieve the sustainable growth of both society and companies through digital transformation.

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.
August 2021	Acquired all the shares of Kohwa System Corporation and made it a subsidiary (currently, a wholly-owned consolidated subsidiary)
April 2022	Absorption merger of Kohwa System Corporation Listing changed to the TSE Prime Market following the TSE's market reorganization

Source: Prepared by FISCO from the Company's website

Business overview

While leveraging the Company's features to the greatest possible extent, aims for further development in the four business areas and the DX-related business

1. The Company's features

The Company conducts four solutions businesses– Enterprise Solutions, Services Solutions, Embedded Solutions, and Device Solutions and it is aiming to expand DX-related business that leverages the technological synergies from these businesses. Its major strength is that it has technologies and expertise for both software and for hardware.

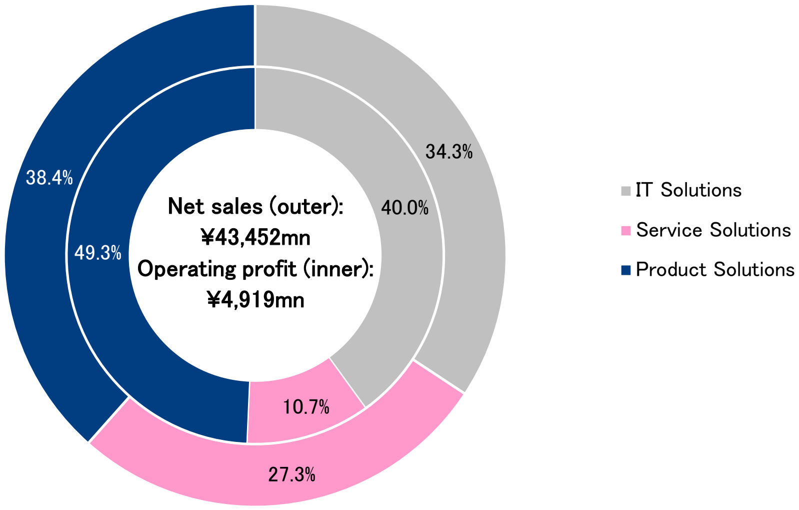
The Company's strengths include its accumulated industry and business expertise and systems-construction capabilities that it has cultivated in the Enterprise Solutions business in various industrial fields; service coordination capabilities and a foundation to provide infrastructure and platforms such as cloud environments in the Services Solutions business; product development capabilities, including for embedded software and LSI* design and image processing technologies, in the Embedded Solutions and the Device Solutions business. The Company's major strength is that it has a core structure that enables it to support the DX sought by customers, centered on digital technology such as IoT and AI that leverages those synergies, and its policy is to utilize all these strengths for growth in the future.

* Abbreviation of Large-Scale Integration. It refers to a large-scale integrated circuit that incorporates many electronic components, such as transistors, diodes, resistors, and capacitors, into one semiconductor chip.

2. Business description

Looking at net sales and operating profit by segment in FY3/22, the IT Solutions business provided 34.3% of net sales and 40.0% of operating profit; these figures are 27.3% and 10.7% for the Service Solutions business, and 38.4% and 49.3% for the Product Solutions business, respectively. It is considered that the reasons why the Product Solutions business provides the highest percentages of net sales and operating profit and has a relatively high profit margin is that the technological barriers to enter this business are high and that there are few independent companies of the same size as the Company conducting this business. Also, in the IT Solutions business, in addition to the effects of the higher sales, the Company's various initiatives, including improving profitability and limiting unprofitable projects, are proving successful and it is working to improve profits. Conversely, it seems the reason why the profit margin in the Service Solutions business is relatively low is that it became an independent segment from FY3/20 and is conducting upfront investment, including strengthening the structure toward business expansion and developing new services.

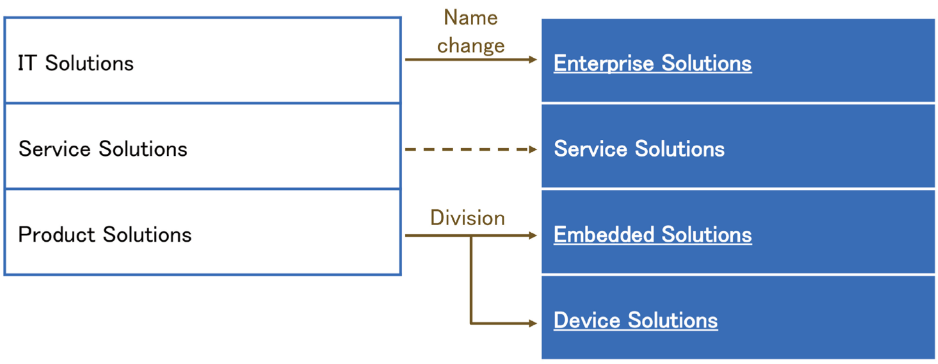
Net sales and operating profit by segment (FY3/22)



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

In order to strengthen and expand each business and also with an eye to business development in the future, in April 2022 the Company reorganized its business promotion structure, changing from the former three business segments to four segments. Also, the name of the former IT Solutions was changed to Enterprise Solutions, while Product Solutions was divided into Embedded Solutions and Device Solutions. Both the category and name of Service Solutions remained unchanged.

Changes to the reporting segments



Source: The Company's results briefing materials

The Enterprise Solutions business provides operations-related solutions. Utilizing 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.

Service Solutions provides IT services and IoT & AI services. IT services are a variety of services that support customers' systems, from servers and network designs that maximize systems' performance and the construction of secure environments, through to highly reliable management and monitoring by urban- and suburban-type data centers. Also, the IoT & AI services utilize their strength of enabling total coordination, from devices through to the cloud, and based on the Toami IoT cloud platform, support customers' creation of new business value, from collecting data through to its analysis and utilization.

Embedded Solutions develops embedded systems and provides edge device solutions. In embedded systems development, the Company responds to demand for product diversification, increased efficiency and improved design quality and for smart products by using the 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. In addition, in edge device solutions, it proposes optimal IoT environments to customers that keep down costs from small starts through its abundant design and development capabilities that enables it to respond in-house, for from embedded apps through to LSI, and through alliances with various sensor and device vendors.

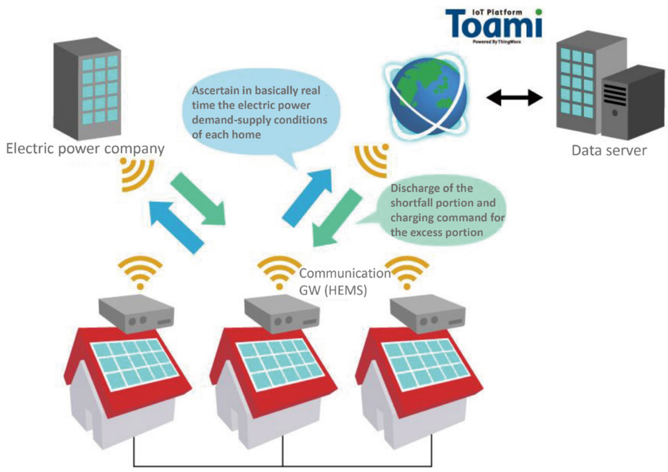
Device Solutions develops LSI and FPGA (integrated circuits in which the purchasers and designers can set the configuration after manufacturing). It provides solutions according to requirements, including for high-level designs, logic designs and verification, logical synthesis, layout designs, manufacturing, and testing. It is responding for lower-power consumption designs and advanced processes in various fields, such as for image processing and communication controls.

The Company conducts business by combining its expertise in the above-described four segments. The business field for which there are major expectations to become a new pillar of earnings is the DX-related business that is centered on digital technologies, such as IoT and AI. It currently conducts business in such a way that earnings from DX-related business are included in the earnings of each existing segment. For the IoT & AI services in the Service Solutions business, it is utilizing its strength of enabling total coordination, from devices through to the cloud, and centered on the Toami IoT cloud platform, it is supporting customers' creation of new business value, from collecting data through to its analysis and utilization.

The Company's Toami has a track record of introductions into more than 100 companies in total, mainly for the realization of IoT-accessible products. The number of alliance partners has also grown to more than 30 companies and it provides it in more than 30 countries worldwide. Inquires for related services, such as for an analysis service to effectively utilize the data collected through IoT, are also strong. Toami is being utilized by companies including Panasonic Holdings Corporation <6752>, Nipron Co., Ltd., EXEO Group <1951>, Tohoku Energy Service Co, Inc., Watanabe Electric Industry Co., Ltd., Renesas Electronics Corporation <6723>, NEC Networks & System Integration Corporation <1973>, RION Co., Ltd. <6823>, and Japan Radio Co., Ltd.

Another example of the utilization of DX are projects to realize remote monitoring of installed equipment and to improve end user convenience. For companies that are manufacturing solar panels and storage batteries nationwide, the Company has installed remote monitoring support systems, which allows end users that are using solar panels and storage batteries to monitor information on installed equipment via the cloud (remote operations are also partially possible). Additionally, users can control the storage batteries automatically based on weather information, and use them efficiently. This remote information monitoring is confirmed not only by the services users, but by the companies as well, which leads to opportunities to investigate methods of further effectively utilizing equipment and operation methods. Other examples include an information and communication company that has reduced the work time to less than one-tenth of the previous work time through the automation of a reimbursement system, a major cosmetics manufacturer that has automated its inspection work through image analysis using AI, and a major home appliance manufacturer that has realized smooth maintenance by using sensor data to detect signs of equipment failure.

Realizing the remote monitoring of installed equipment



Source: The Company's website

Results trends

In FY3/22, results set new record highs, and sales and profits increased for the 10th consecutive period

1. Summary of the FY3/22 results

In FY3/22, although the severe conditions partially remained in the Japanese economy due to the impact of the COVID-19 pandemic, a movement toward a recovery could be seen alongside the restart of economic activities. However, the future remains uncertain because of new waves of COVID-19 caused by virus variants, and also due to the supply shortages of semiconductors and electronic parts, the rising prices of raw materials and crude oil, and the occurrence of new causes for concern such as the Ukraine situation. On the other hand, companies are being required to implement growth strategies not seen before, including reforming business models and optimizing value chains, and in the information services industry, demand for IT investment, centered on DX, has been trending solidly.

In this sort of environment, the Company entered into the final year of its medium-term management plan that set forth the "DX FIRST" concept, and by utilizing to the greatest extent the features of its three businesses, of IT Solutions, Service Solutions, and Product Solutions and strengthening coordination between each of the businesses and developing services that utilize digital technologies such as IoT, AI, 5G/local 5G, it focused on business development that supports companies' digital transformation, including reforming these companies' business models and optimizing their management cycles.

As a result, in the Company's FY3/22 consolidated results, net sales were ¥43,452mn (up 10.6% YoY), operating profit was ¥4,919mn (up 17.2%), ordinary profit was ¥5,025mn (up 18.5%), and profit attributable to owners of parent was ¥3,469mn (up 25.5%). So sales and profits grew significantly to set new record highs, and moreover sales and profits increased for the 10th consecutive period. The strong results were also higher than the initial forecasts, net sales by 3.5% and operating profit by 14.4%, In particular, in the IT Solutions business and the Service Solutions business, multiple orders from national and local governments for subsidy application systems projects contributed to the results. This can be said to be a result of the Company's horizontal development of various subsidy application systems that utilize the track record and expertise it has accumulated over the last seven or eight years, including for manufacturing subsidy application systems. The reason why the increase rate of profit attributable to owners of parent was particularly high was a rebound to the elimination of loss on compensation for damage that was recorded under extraordinary losses in the previous period. Overall, supported by the demand that has been solid in the IT industry as a whole, the Company succeeded in securing a wide range of customers and can be highly evaluated for achieving significant increases in sales and profits.

FY3/22 consolidated results

(¥mn)

	FY3/21		FY3/22			YoY		Vs. forecast	
	Results	% of net sales	Forecast	Results	% of net sales	Increase (decrease)	% change	Increase (decrease)	% change
Net sales	39,282	100.0%	42,000	43,452	100.0%	4,169	10.6%	1,452	3.5%
Operating profit	4,197	10.7%	4,300	4,919	11.3%	721	17.2%	619	14.4%
Ordinary profit	4,240	10.8%	4,340	5,025	11.6%	784	18.5%	685	15.8%
Profit attributable to owners of parent	2,765	7.0%	2,950	3,469	8.0%	704	25.5%	519	17.6%

Note: FY3/22 plan targets are from initial forecast announced on May 10, 2021
Source: Prepared by FISCO from the Company's financial results, results briefing materials, and results supplemental materials

IT Solutions business contributed greatly to the strong results

2. Overview by segment

The following section reviews results by business segments.

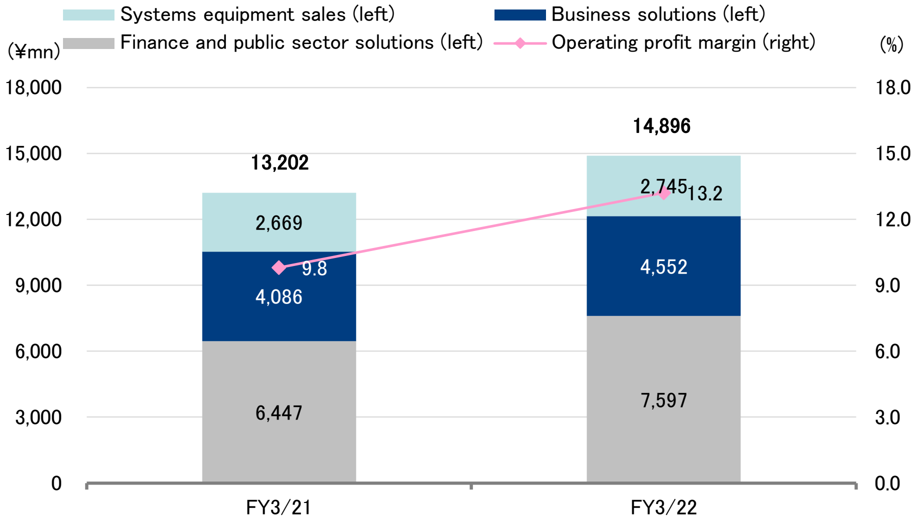
(1) IT Solutions business

In the IT Solutions business, net sales were ¥14,896mn (up 12.8% YoY), operating profit was ¥1,968mn (up 51.6%), and the operating profit margin was 13.2% (up 3.4pp). Net sales trended strongly for systems development for government offices and public organizations and equipment sales for the retail industry. Operating profit increased greatly alongside the increase in sales and also from the contribution of a highly profitable project. Compared to the forecasts, net sales were 4.9% and operating profit was 40.6% higher than forecast, and this segment's excellent results contributed significantly to the Company's strong results.

Breaking down net sales, business solutions' net sales were ¥4,552mn (up 11.4% YoY). For the manufacturing and logistics industries, the Company progressed business conversion toward business expansion, and sales of ERP*1 and PLM*2-related businesses trended firmly. In addition, sales for the retail industry increased, mainly of store-related systems. In finance and public sector solutions, net sales were ¥7,597mn (up 17.8%). Sales increased including from subsidy application systems projects for government offices and public organizations and the expansion of existing customers' projects. For the finance and insurance industries, sales increased including of vehicle insurance-related systems development for non-life insurers. In systems equipment sales, sales increased of semi-self-checkout systems and POS-related for the retail industry, mainly in 1H, and as a result, net sales were ¥2,745mn (up 2.9%).

*1 Systems that centralize companies' management resources and utilize them for management decision making in real time.
*2 Management of the product lifecycle.

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



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

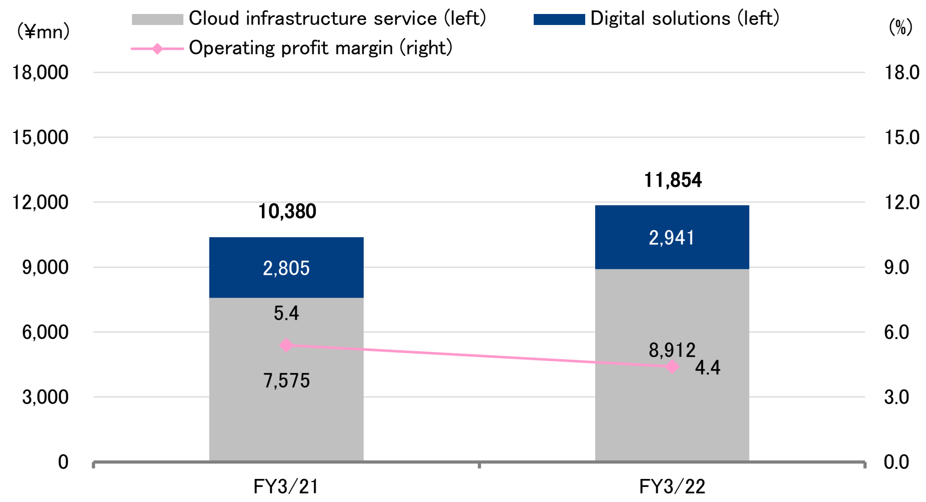
(2) Services Solutions business

In the Service Solutions business, net sales were ¥11,854mn (up 14.2% YoY), operating profit was ¥525mn (down 6.8%), and the operating profit margin was 4.4% (down 1.0pp). Net sales increased in sales of the cloud environment building service and the BPO* service. Conversely, operating profit decreased because of the upfront investment to strengthen the structure toward business expansion, and also due to unprofitable projects, such as some projects that required more personnel than was expected and so cost of sales increased. As a result, compared to the forecasts, net sales were 4.9% higher than forecast but operating profit was 19.1% lower than forecast. This segment was made an independent business segment in FY3/20, so it appears that a little time will be needed before it gets on track and contributes to the Company's total results.

* Abbreviation of Business Process Outsourcing. Refers to outsourcing some business processes as a batch to a specialist.

Breaking down net sales, digital solutions' net sales were ¥2,941mn (up 4.9%). For web and e-commerce, orders trended strongly, mainly from existing customers, but sales decreased because of the impact of the sales deceases of some projects. For IoT and AI, on the one hand IoT-related license sales were strong, but an opportunity loss occurred in order to respond to some unprofitable projects. Net sales of the cloud infrastructure service were ¥8,912mn (up 17.7% YoY). For the cloud, sales of subsidy application help desk projects and cloud migration projects were strong, while for infrastructure and other services, sales of data linkage and BPO services were excellent.

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



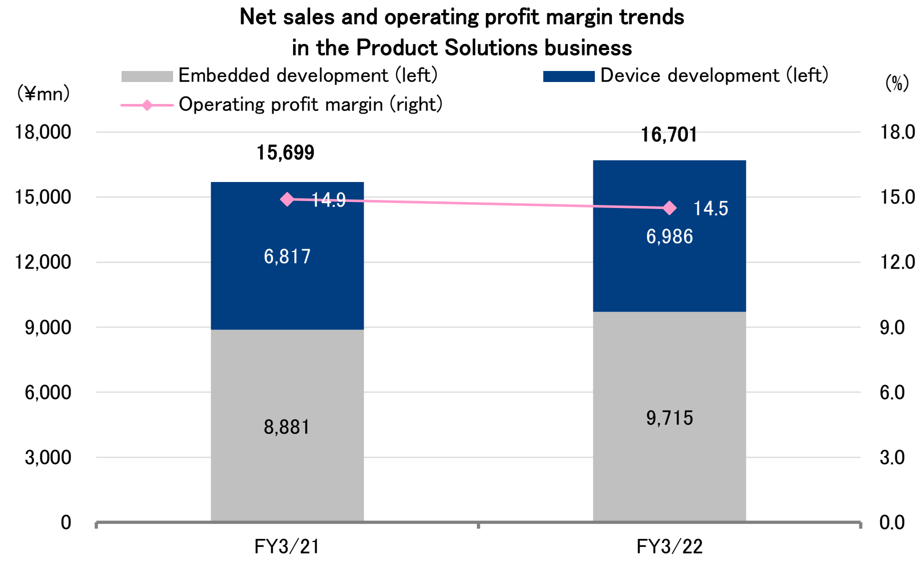
Source: Prepared by FISCO from the Company's results briefing materials

(3) Product Solutions business

In the Product Solutions business, net sales were ¥16,701mn (up 6.4% YoY), operating profit was ¥2,425mn (up 3.8%), and the operating profit margin was 14.5% (down 0.4pp). Net sales increased mainly because of the growth in the communication and equipment fields in the embedded development business. Operating profit, while being maintained a high level, increased only slightly, mainly due to a rebound to a highly profitable project in the previous period. Compared to the forecasts, net sales were 1.2% and operating profit was 7.8% higher than forecast. This segment continues to maintain the highest profit margin, which as previously explained is considered to be because the technological barriers to enter this business are high and there are few independent companies of the same size as the Company conducting it.

Breaking down net sales, embedded development net sales were ¥9,715mn (up 9.4% YoY). In equipment and devices, sales increased of broadcasting-related and payment terminals-related; in communications, sales grew of 5G/local 5G, and next-generation communication-related development and evaluation work; and in mobile, sales increased including of app development for carriers. However, in automotive, although sales increased in the new areas, including CASE*1 and ADAS*2 related, they decreased in the existing area of IVI-related (next-generation in-vehicle infotainment systems). Conversely, device development net sales were ¥6,986mn (up 2.5%). Despite the global semiconductor supply shortage, sales of LSI design and development were strong.

*1 Acronym of Connected, Autonomous, Shared, and Electric. It refers to next-generation vehicle technologies and new services.
*2 Abbreviation of advanced driver-assistance systems. It is the collective term for systems that support the driver's driving, such as vehicle collision detection and position judgment systems.



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

Extremely financially sound and profitable

3. Financial condition and management indicators

At the end of FY3/22, total assets increased ¥4,152mn on the end of the previous period to ¥36,813mn. This was mainly due to increases of cash and deposits, notes and accounts receivable-trade, and work in process despite a decrease in merchandise. Total liabilities increased ¥1,254mn to ¥10,296mn, with the main items being increases in accrued consumption taxes, accounts payable-trade, and provision for bonuses. Total net assets increased ¥2,898mn to ¥26,516mn following the recording of profit attributable to owners of parent.

As a result of the above, the current ratio (current assets / current liabilities) rose 1.4pp on the end of the previous period to 366.8%, and the Company's short-term solvency is extremely high. Also, the fixed ratio (fixed assets / equity capital) declined 3.3pp to 33.5%. The procurement of fixed assets (such as equipment investment) is fully covered by shareholders' equity with no repayment deadlines, and the Company does not have any debt and continues to practice debt-free management. The equity ratio declined 0.3pp to 72.0% but is still greatly higher than the average of the telecommunications industry companies on the TSE 1st section (average of 31.4% at the end of March 2021), and the Company can be evaluated as being highly financially sound. Also, ROE rose 1.5pp to 13.8%. As the Company has a high equity ratio, this is below the average of the telecommunications industry companies on the TSE 1st section of 24.3%, but ROA rose 1.1pp to 14.5% and is significantly higher than the average of telecommunications industry companies on the TSE 1st section of 9.9%, so it can be said that its profitability is also extremely high.

Consolidated balance sheets and management indicators

(¥mn)

	End of FY3/21	End of FY3/22	Increase (decrease)
Current assets	23,980	27,924	3,943
Cash and deposits	12,383	15,176	2,793
Notes and accounts receivable-trade and electronically recorded monetary claims - operating	9,762	10,922	1,160
Work in process	731	1,183	451
Fixed assets	8,680	8,888	208
Property, plant and equipment	6,168	6,058	-110
Intangible assets	101	263	161
Investments and other assets	2,409	2,567	157
Total assets	32,660	36,813	4,152
Current liabilities	6,563	7,613	1,049
Noncurrent liabilities	2,478	2,683	204
(Interest-bearing debt)	-	-	-
Total liabilities	9,042	10,296	1,254
Total net assets	23,618	26,516	2,898
Stability			
Current ratio (current assets / current liabilities)	365.4%	366.8%	1.4pt
Fixed ratio (fixed assets / equity capital)	36.8%	33.5%	-3.3pt
Equity ratio	72.3%	72.0%	-0.3pt
Profitability			
ROE (return on equity)	12.3%	13.8%	1.5pt
ROA (return on assets)	13.4%	14.5%	1.1pt

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

At the end of FY3/22, the balance of cash and deposits increased ¥2,793mn at the end of the previous fiscal year to ¥15,176mn. This was because expenditure, such as for acquisitions of property, plant and equipment and the payment of dividends, was covered by the funds obtained from operating activities.

Looking at the cash flow conditions, net cash provided by operating activities was ¥3,732mn (an increase in income of ¥1,733mn YoY). While the Company booked profit before income taxes, there were increases in notes and accounts receivable - trade, depreciation, and accounts payable - trade, as well as recording of income taxes paid. Conversely, net cash used in investing activities was ¥344mn (a decrease in expenditure of ¥239mn), with the main items of purchase of shares of subsidiaries resulting in change in scope of consolidation. Net cash used in financing activities was ¥607mn (an increase in expenditure of ¥86mn), which was mainly due to dividends paid.

Consolidated cash flow statements

(¥mn)

	FY3/21	FY3/22	Increase (decrease)
Cash flow from operating activities	1,998	3,732	1,733
Cash flow from investing activities	-583	-344	239
Cash flow from financing activities	-520	-607	-86
Cash and cash equivalents at the end of the fiscal period	12,383	15,176	2,793

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

Outlook

Outlook for FY3/23, the first fiscal year of the new medium-term management plan, is for record high net sales and operating profit

● FY3/23 results forecasts

In FY3/23 in the information services industry, DX that utilizes IT for management and business model reforms will be progressed in various industries and businesses, and in this situation, IT investment demand is expected to continue to increase. The NIPPON SYSTEMWARE Group has formulated a new three-year medium-term management plan with FY3/23 as its first fiscal year. In accordance with this medium-term management plan, it is expected to accelerate business growth and reforms and work toward the realization of a sustainable society.

Based on the above, for the FY3/23 consolidated results, the Company is forecasting net sales of ¥45,000mn (up 3.6% YoY), operating profit of ¥5,000mn (up 1.6%), ordinary profit of ¥5,040mn (up 0.3%), and profit attributable to owners of parent of ¥3,450mn (down 0.6%). Net sales and operating profit are expected to set new record highs, but operating profit is forecast to increase by only a small margin, while the operating profit margin is expected to decline 0.2pp to 11.1%. This is because of the absence of the special demand that was recorded in the previous period for subsidy application systems projects, and its plans to continue to conduct strategic investment for growth in the future. Looking by segment, the forecasts are for profits to increase significantly in Service Solutions and to be basically unchanged YoY in Embedded Solutions and Device Solutions, but to decrease slightly in Enterprise Solutions. However, the Company has a strong tendency to initially announce conservative forecasts, and at FISCO we think that ultimately profits may increase more than forecast.

FY3/23 consolidated results outlook

(¥mn)

	FY3/22		FY3/23		YoY	
	Results	% of net sales	Forecast	% of net sales	Increase (decrease)	% change
Net sales	43,452	100.0%	45,000	100.0%	1,547	3.6%
Operating profit	4,919	11.3%	5,000	11.1%	80	1.6%
Ordinary profit	5,025	11.6%	5,040	11.2%	14	0.3%
Profit attributable to owners of parent	3,469	8.0%	3,450	7.7%	-19	-0.6%

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

Medium- to long-term growth strategy

Aiming to achieve the sustainable growth of both society and companies through digital transformation

1. Reflecting on the former medium-term management plan

When formulating the former medium-term management plan (FY3/20 to FY3/22), the Company held the following assumptions about the business environment. For the domestic economy, concerns about a slowdown from the impact of overseas conditions, the consumption tax hike, and other factors are growing stronger, and it also believes that efforts to improve productivity will become an urgent task against the backdrop of the promotion of workstyle reforms and the decline of the working-age population. On the one hand, it expected the stable growth of the IT industry, but on the other hand, its awareness was that the shortage of engineers was becoming even more serious due to the strong demand and that it was essential to both respond to DX and to secure human resources. Based on these assumptions, the Company aimed to become a strong value-creation-type company that was resilient to economic ups and downs, and it focused on building a solid business foundation and achieving business growth, while at the same time, it worked to establish more autonomous, recurring revenue businesses that do not rely on human resources. Therefore, under the “DX FIRST” slogan, it set the policy of transforming the Company itself into a value-creation company by contributing to its customers’ realization of DX.

Based on the above fundamental policy and priority strategies, the Company’s management goals for FY3/22 were for net sales and operating profit to grow to ¥43bn and ¥4bn respectively, and for DX-related net sales on a scale of ¥10bn. At the time it formulated the plan, it did not anticipate the business environment in FY3/21, of an economic downturn due to COVID-19, but it still managed to achieve every goal for FY3/22, the plan’s final fiscal year, including net sales of ¥43.4bn and operating profit of ¥4.9bn. Among them, for sales of DX-related that the Company is focusing, sales increased to the target of ¥10bn, through replacements of core systems for customers’ DX promotion and installations of unmanned systems for the retail industry. This was supported by the rise in the awareness and utilization of DX in every industry and business and the acceleration of the shift to DX, and at FISCO, we think that the changes to the business environment due to COVID-19 have become an opportunity to accelerate the realization of DX.

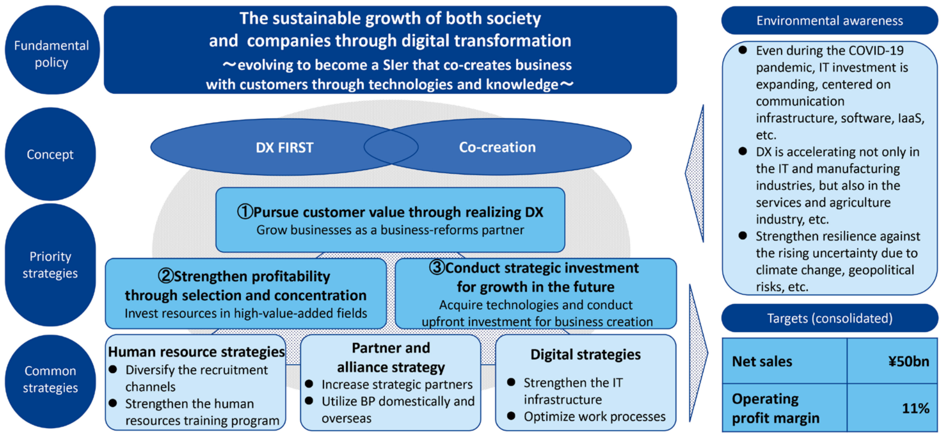
2. Summary of the new medium-term management plan and priority measures

In May 2022, the Company formulated a new medium-term management plan to run for three years from April 2022 to March 2025. For the business environment in the future that served as the assumption for the forecasts, spurred by COVID-19, the Company expects the domestic IT market to grow steadily from the rising needs for digitalization and business reforms. Even within this situation, in terms of company size, DX will accelerate not only in major companies but also in medium-sized companies and SMEs, and for industries, it will accelerate not only in the manufacturing industry, but also in a wide range of other fields including the services and agriculture industries. In the future also, DX is expected to drive market growth, and the Company’s business as well are expected to have business environments that will enable them to grow even more, centered on DX. In addition, in order to respond to a society in which uncertainty is rising, such as due to climate change and geopolitical risks, the Company has established contributing to social issues, including sustainability, as an important theme.

In the new medium-term management plan, based on the fundamental policy of achieving the sustainable growth of both society and companies through digital transformation – evolving to become a SIer that co-creates business with customers through technologies and knowledge, the Company intends to expand its business area from the former area of being a partner providing DX technologies to customers to a partner that promotes company reforms together with customers and to accelerate business growth and reforms, while it also intends to work toward the realization of a sustainable society. In order to realize this fundamental policy, the Company aims to combine its customers' business transformations, alliance partners and digital technology with the knowledge it possesses about devices, embedded technology, cloud and infrastructure technology, industries, and operations and promote the concepts of "DX FIRST" and "co-creation" (meaning companies collaborating with their various stakeholders to create new value together).

The specific priority strategies toward achieving the goals in the medium-term management plan are pursuing customer value through realizing DX, strengthening profitability through selection and concentration, and conducting strategic investment for growth in the future. Also, the common strategies that will serve as the foundation on which to progress the priority strategies are a human resources strategy, a partner and alliance strategy, and a digital strategy.

Overview of the medium-term management plan



Source: The Company's results briefing materials

Below is a summary of the priority strategies that the Company is progressing.

(1) Pursue customer value through realizing DX

The Company is aiming for business expansion as a business-reforms partner, and in the digital area for which there are major expectations for growth, it is creating a business that works together with customers to realize their business reforms. A DX movement is advancing in customer companies, and in this situation, the Company is being required to not only provide solutions and technologies, but also to play the role of being partner that progresses and realizes reforms together with the customer. Therefore, it is further strengthening and deepening its digital technologies, starting with the IoT and AI services it has worked on up to the present time, while it also intends to expand the areas it responds to and to work on the co-creation of customer value through realizing DX.

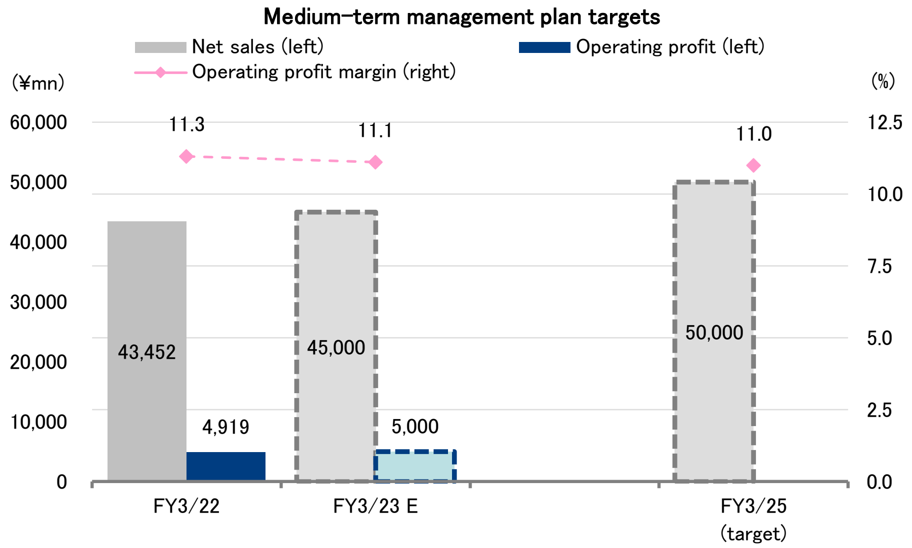
(2) Strengthen profitability through selection and concentration

The Company plans to strengthen its business foundation by concentrating its resources into highly profitable fields. Customers' needs for IT services are diversifying and becoming more sophisticated, and in addition to utilizing IT in order to increase work efficiency, needs are changing to strategic IT investment to increase a company's competitiveness. In order to respond accurately to these sorts of changes in the business environment and to further solidify its business foundation, the Company is further expanding and developing the technologies and expertise it has cultivated up to the present time and further growing its strengths. At the same time, it plans to concentrate its resources into fields that are expected to grow in the future and that are highly profitable and to work on establishing a new stable earnings foundation toward the next stage of growth.

(3) Conduct strategic investment for growth in the future

The Company is acquiring technologies and conducting upfront investment in order to create new solutions and services. Toward creating new solutions and service, it intends to actively invest in strategies such as acquiring technologies and accumulating knowledge, securing and training human resources with the vitality to continuously compete for new value creation, and conducting M&A and forming alliances with other companies for business expansion in the future and to strengthen its business foundation.

By progressing the above priority strategies, in FY3/23, which is the plan's first year, the Company is aiming for net sales of ¥45,000mn (up 3.6% YoY), operating profit of ¥5,000mn (up 1.6%), ordinary profit of ¥5,040mn (up 0.3%), and profit attributable to owners of parent of ¥3,450mn (down 0.6%). The management goals for the plan's final fiscal year of FY3/25 are net sales of ¥50,000mn (up 15.1% compared to FY3/22, CAGR of an increase of 4.8%) and an operating profit margin of 11%. Under the four-segment structure it started in FY3/23, it expects to achieve higher sales and profits through continuing to increase sales and maintaining the operating profit margin at about the same level as in FY3/22. But these are considered to be conservative forecasts showing the absolute minimum goals that the Company is aiming for after three years, so attention shall be given to the progress it makes in the future.



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

3. Plans by segment

The plans by segment are described below.

(1) Enterprise Solutions

The Company will utilize its expertise in various industries to advance DX applications. It plans to promote services for ESL, defective product detection, customer services, deliveries, and e-commerce sales linkage for the distribution industry; ERP, digital production support, distribution reforms, and AI drawings for the manufacturing industry; AI deliveries, image identification, robotics, and SCM for wholesalers for the logistics industry; cloud shift and modernization for the finance industry; and responding to digital government policies for the public sector. Through these measures, in FY3/25 it is targeting net sales of ¥17,000mn (up 14.1% compared to FY3/22) and an operating profit margin of 13% (13.2% in FY3/22).

(2) Services Solutions

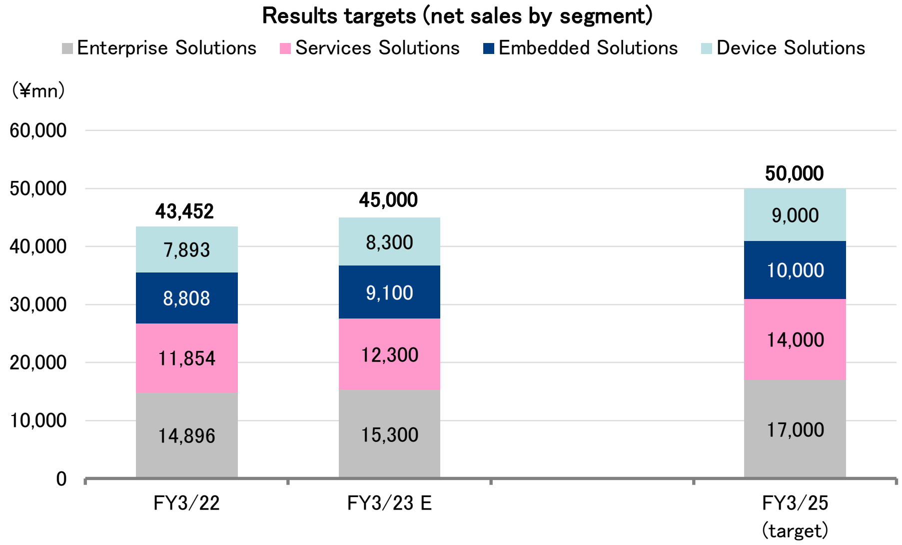
The Company will strengthen approaches to customers' DX departments and support the promotion of DX, and also progress measures including expanding the areas it can respond to in the business model reforms business, strengthening its response to cloud native, and expanding its data management areas. Through these measures, in FY3/25 it is targeting net sales of ¥14,000mn (up 18.1% compared to FY3/22) and an operating profit margin of 7% (4.4% in FY3/22). The costs used to strengthen structures and the unprofitable projects will cease to have an impact, so the outlook going forward is for profits to improve, while the operating profit margin is also expected to rise.

(3) Embedded Solutions

The Company's plans include creating services that utilize its existing embedded technologies, progressing initiatives for the edge computing field, and strengthening efforts and expanding the businesses for growth fields such as automated driving and 5G/6G. Through these measures, in FY3/25 it is targeting net sales of ¥10,000mn (up 13.5% compared to FY3/22) and an operating profit margin of 13.5% (13.8% in FY3/22).

(4) Device Solutions

The Company's plans include expanding design services that are based on LSI development technologies, conducting development for the cloud design service businesses, and progressing the business with Deep Learning as the core. Through these measures, in FY3/25 it is targeting net sales of ¥9,000mn (up 14.0% compared to FY3/22) and an operating profit margin of 14.5% (15.3% in in FY3/22). Although the operating profit margin is forecast to decline, the profit margin is expected to be maintained at a high level.



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

4. Initiatives for "DX FIRST"

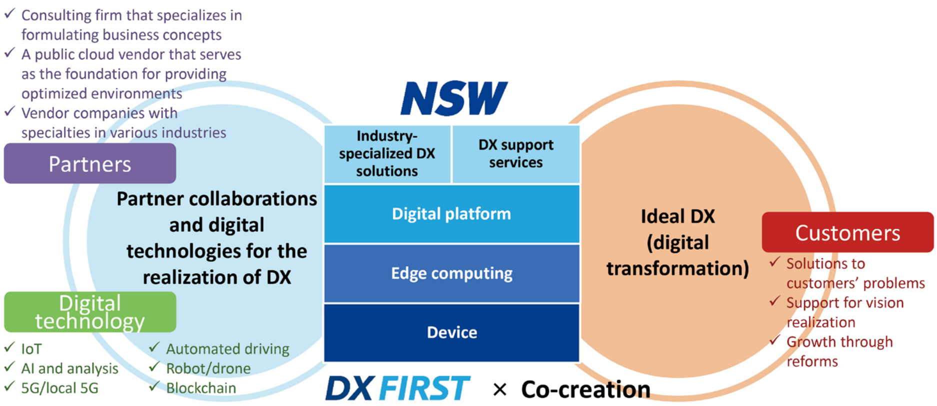
Based on its "DX FIRST" slogan, the Company is aiming to be a pioneering company for realizing customers' DX, and one of the priority strategies in the medium-term management plan is to pursue customer value through realizing DX. For this DX, the Company has stated that it will utilize its digital technologies for customers' business models and business processes and work to create new value. In other words, by combining the work expertise and technological capabilities it has accumulated up to the present time with various methods to realize DX, it will provide solutions and services that support the realization of DX and will work on progressing customers' business model reforms and work process reforms together with customers.

To support customers' realization of DX even during the COVID-19 pandemic, based on its digital technologies of IoT, AI, and XR*, the Company has been providing various services and solutions through new developments and collaborations with partners. In particular, in the XR field, non-face-to-face and contactless operations are rapidly growing, and as a result, in regard to the target customers for the provision of DX services, the Company has also entered into the construction industry, while centering on the manufacturing industries, and the number of customer companies has grown rapidly by around three times since FY3/19 (average annual growth rate of around 45%).

> * Cross reality. It is the collective term for technologies that enable things not in the real world to be perceived by integrating the real world and the virtual world.

The Company has previously focused on providing digital technologies, but in the future, it will not only provide digital technologies, but also work on "DX FIRST" through "co-creation" by creating new value and business models together with customers. Its policy is to respond to customers' problems and business-reform needs by combining the Company's strengths, including the expertise, technologies, and knowledge it possesses, with the knowledge of its partners and external digital technologies. Therefore, even more concrete results are expected going forward.

Realizing DX through the Company's strengths and "co-creation"



Source: The Company's results briefing materials

(5) Initiatives for sustainability

The Company has been working on resolving the various social issues that change alongside the times through its business activities that are based on its corporate philosophy of "Humanware By Systemware." In the new medium-term management plan as well, it is aiming to both grow as a company and to solve social issues, and its policy is to progress sustainability management (the realization of a sustainable society), including for ESG.

As its initiatives for the environment, in April 2013 the Company announced its environment policy in which it aims to reduce the environmental burden by providing solutions to increase efficiency and to save labor, while it also working on other initiatives such as energy saving and resource-saving activities in offices. To give an example, based on the projection to realize a low-carbon society formulated by the Japan Information Technology Services Industry Association (JISA), it has set goals such as a 37.7% reduction in specific energy consumption in fiscal 2030 for office buildings (compared to fiscal 2006), and a 7.8% reduction (same) for data centers. Also, in February 2005, it acquired the Environment Management Systems ISO14001 certification from JSA Solutions Co., Ltd., and every year since FY2010, it has published the report on measures for global warming based on a Tokyo Government ordinance.

In relation to social issues, the Company is progressing diversity. Since its establishment, it values "humanware," which means aspects such as individuality, sensibility, and creativity, and it places importance on the diversity, personality, and individuality of its employees. It also works to build environments that are safe and comfortable to work in and has implemented various measures to support a work-life balance for employees and to establish various systems (establishing a flex-time system and other work-related systems, a system for the use of expired paid leave, and a re-employment system for employees who left the company due to childbirth or other reasons). These activities have been highly evaluated and since 2007, it has received the Kurumin certification that is based on the Act on Advancement of Measures to Support Raising Next Generation of Children. It also actively employs people with disabilities through its special subsidiary NSW WITH, and it is carrying out various work including office-work support, technology support, facility-management support, and in-company massages.

The Company has focused on corporate governance in the past and acknowledges quick and suitable decisions and enhancing management transparency toward shareholders and investors as important corporate issues. It hence appropriately revises systems as needed, such as adjusting the number of directors on the board, adopting an executive director system, and selecting outside directors. The Company also sustained efforts to reflect shareholder and investor opinions in management through ongoing disclosure and IR activities.

In recent years, there has been a global trend of focusing on Environment, Social, and Governance (ESG) investment, which involves selecting the issues of companies that prioritize initiatives toward ESG for investment, and in Japan as well, it seems there is plenty of room for growth in this area. In this sense, at FISCO we think it is highly likely that attention will be focused on the Company that is actively working on environmental and social contribution activities.

Shareholder returns policy

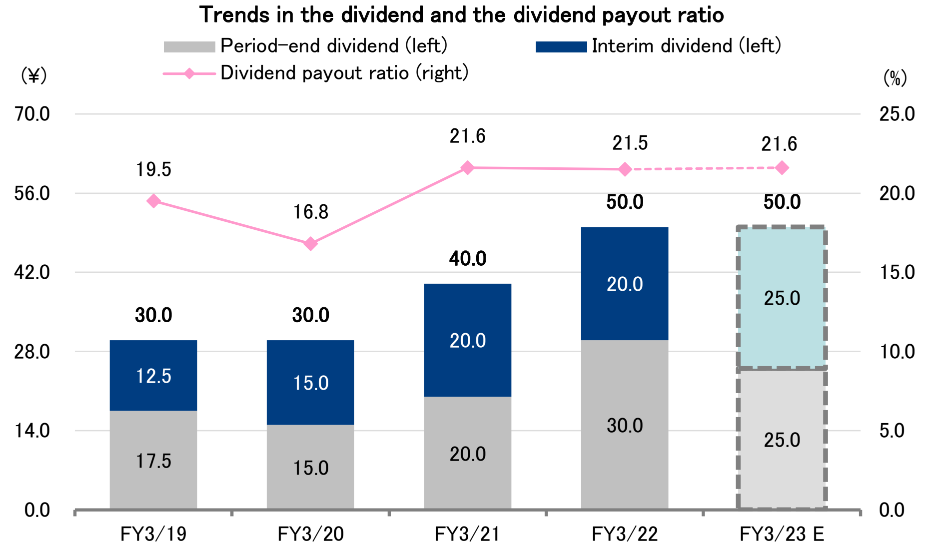
Stably continues to pay a dividend while striving to achieve a financial strategy that addresses growth and financial soundness

The Company aims to achieve sustainable growth through realizing a financial strategy that addresses growth and financial soundness. It intends to maintain a healthy capital level and 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 condition and earnings.

In FY3/22, the Company increased the dividend per share by ¥10 YoY and paid an annual dividend of ¥50 (interim dividend of ¥20, period-end dividend of ¥30). The dividend payout ratio was 21.5%, which was higher than the average of the telecommunications industry companies on the TSE 1st section in FY3/21 of 18.8%. It is aiming to further expand its business scope to net sales on a scale of ¥50bn, and in this process, it may invest funds in M&A and alliances with other companies. Therefore, rather than significantly increasing the dividend, it is thought to be prioritizing business expansion for the future and aiming to maintain and improve its competitiveness. On the other hand, it has continued to stably pay a dividend even within the harsh business environment, so it can be evaluated for its managerial decision to consider profit returns to shareholders.

For the FY3/23 dividend per share, the Company plans to pay an annual dividend of ¥50 (interim dividend of ¥25, period-end dividend of ¥25), the same as in the previous fiscal year, for a forecast dividend payout ratio of 21.6%. However, this dividend forecast is based on the conservative results forecasts, so at FISCO we think it may increase the dividend depending on the final results.

In April 2022, the Company's listing was transferred to the Prime Market in accordance with the TSE's new market categories. It intends to continue to strengthen governance and enhance information disclosure, and also to work to achieve sustainable corporate growth and to improve corporate value.



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

Information security policy

Implements measures based on the Information Security Basic Policy

The Company has defined the Information Security Basic Policy in April 2009 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 data centers, 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 training for targeted attacks. The policy is to continue to further strengthen measures to prevent data from leaking out in the event of an unauthorized access.

FISCO

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