

Management Solutions co., ltd.

7033

TSE Mothers

9-Oct.-2019

FISCO Ltd. Analyst

Hiroyuki Asakawa



FISCO Ltd.

<http://www.fisco.co.jp>

■ Index

■ Summary	01
1. In FY10/19 Q2, the Company posted a significant increase in both sales and profits based on robust demand for PMO support	01
2. The Company will disclose the details of its growth strategy in its medium-term management plan which it plans to release along with FY10/19 financial results	01
3. Initiatives targeting medium- to long-term growth are already underway. Significant progress has been made on diversifying the existing business and in software	01
4. Operating performance in FY10/19 2H is also progressing smoothly. We will pay more attention to up-front investment targeting the medium- to long-term than on short-term operating results	02
■ Company overview	03
1. History	03
2. Business overview	04
3. The competition situation, and strengths and features	08
■ Results trends	10
● Summary of FY10/19 Q2 results	10
■ Medium- to long-term growth strategy and its progress	12
1. Overview of the medium- to long-term growth strategy	12
2. Status of progress with expanding the existing business	13
3. Status of progress with diversification of the existing business	14
4. Status of progress on overseas business development & software	16
■ Outlook	17
● Forecast for FY10/19	17
■ Shareholder returns	19

Summary

Continues to grow steadily with robust demand for PMO support. Solid progress with actions targeting medium- to long-term growth

Management Solutions co., Ltd. <7033> (hereafter, also “the Company” or “MSOL”) is a consulting firm whose business is focused on supporting project management execution. It provides project management office (PMO) support for a wide range of corporate organizational levels, from the management level through to work sites, in the field of strategy execution-type management consulting, while it also provides human resources development training and software.

1. In FY10/19 Q2, the Company posted a significant increase in both sales and profits based on robust demand for PMO support

In FY10/19 Q2 results, the Company posted a year-on-year increase in both net sales and operating profit, as net sales were ¥1,785mn (up 30.0% year on year), and operating profit was ¥163mn (+67.1%). Both results were higher than the Company’s initial forecasts. Amid strong demand for PMO support, sales increased significantly as the Company leveraged its strength as a specialist PMO support company and the steady recruitment of human resources to increase orders received. In terms of profit, although human resources expenses as well as recruitment and training expenses increased, these increases were absorbed by the increase in gross profit accompanying the increase in sales, and the Company achieved a significant increase in operating profit.

2. The Company will disclose the details of its growth strategy in its medium-term management plan which it plans to release along with FY10/19 financial results

The Company is undertaking its medium- to long-term growth strategy on three axes: expanding the existing business, diversifying the existing business, and overseas business development & software. The Company plans to formulate a detailed growth strategy based on this as a medium-term management plan, and is expected to announce this when it releases its FY10/19 results. The detailed numerical targets will be announced in the medium-term management plan, but thus far the Company has indicated that it is aiming for net sales of ¥20.0bn, more than 1,000 employees, and market capitalization of ¥50.0bn in the FY10/25, which will be the Company’s 20th anniversary.

3. Initiatives targeting medium- to long-term growth are already underway. Significant progress has been made on diversifying the existing business and in software

Efforts targeting medium- to long-term growth have already gotten underway. Regarding the diversification of the existing business, along with the MSOL Consulting, MSOL Digital, and Shared PMO service brands, the Company has been recruiting core human resources, making detailed considerations of business models, and receiving actual orders, along with other activities. There is also progress in software, and the Company’s in-house developed PROEVER software that comprehensively incorporates PMO support know-how was released in September 2019.

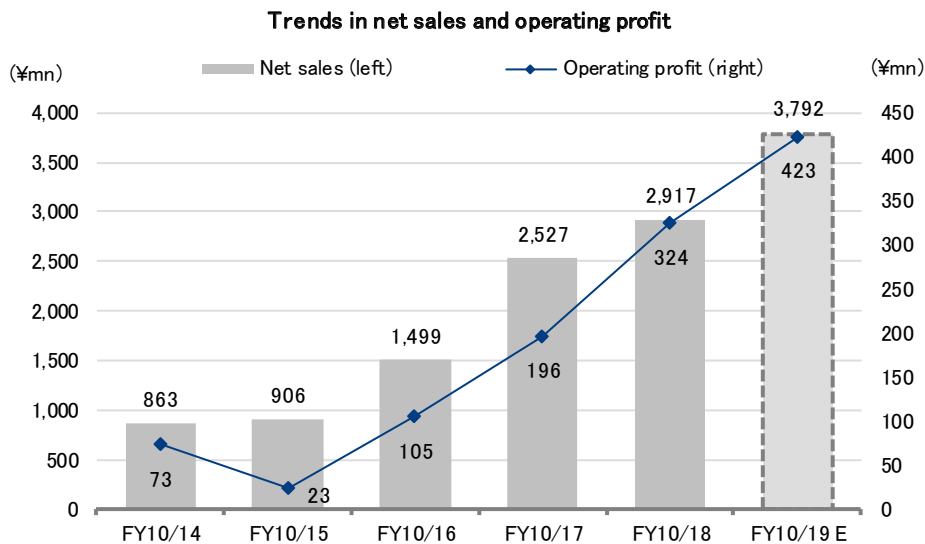
Summary

4. Operating performance in FY10/19 2H is also progressing smoothly. We will pay more attention to up-front investment targeting the medium- to long-term than on short-term operating results

For FY10/19, the Company is forecasting net sales of ¥3,792mn (+30.0% year on year), and operating profit of ¥423mn (+30.4%), both of which are unchanged from the Company's full-year forecasts made at the start of the fiscal year. Due to the steady progress made in FY10/19 Q2 results, particularly the strength in the hiring of human resources, the likelihood of the Company achieving its FY10/19 forecasts has increased substantially. However, the Company's strategy is to aggressively invest in medium- to long-term growth, and we will keep a closer watch on the details of up-front investments than on upward revisions to results forecast in the near term.

Key Points

- Aiming for growth on the three axes of expanding the existing business, diversifying the existing business, and overseas business development & software
- Specific actions have already been taken for diversifying the existing business and developing software
- The Company plans to announce its medium-term management plan containing details at the end of FY10/19



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

■ Company overview

Established in 2005 to provide project management consulting

1. History

The Company was established in July 2005 in Naka Ward, Yokohama City, by Mr. Shinya Takahashi, the current President, CEO, and Representative Director. Mr. Takahashi had previously worked in several global consulting firms, starting with Andersen Consulting (currently, Accenture Japan Ltd), and he has accumulated extensive experience, including as the leader of PMO* global system development and in off-shore development in India. Based on this experience, he decided that the opportunities in Japan were great based on its current situation, in which the introduction of PMO has been lagging behind that in the United States and other countries, which led him to establish the Company.

* PMO: Abbreviation of Project Management Office. It refers to a specialist organization and role to support the decision-making of the project manager and project owner, with the aim of facilitating the smooth execution of the project.

In the first six to seven years following its establishment, the Company worked to expand its business scale, with PMO support as the core business (the PMO solutions construction period). Starting with a large project for Hitachi Software Engineering, it received a series of orders for large-scale PMO projects from customers including major auditing corporations and NEC <6701>, and thereby expanded its business scale. From June 2007, Mr. Takahashi began the serialized publication of “Utilizing PMO” articles in ITPro published by Nikkei Business Publications, Inc. Since they were first published, these serialized articles have been accessed thousands of times and the number of consecutive serialized articles reached 100 and continued until January 2013, contributing to improving the Company’s name recognition and expanding its business.

The Company positioned the period from 2012 to 2015 as the diversification-preparation period, and in addition to PMO support, it progressed the development and sales of software and overseas business development. In May 2012, it started selling ProViz5, a project management tool, and in 2013, it established a U.S. subsidiary. It also established a Chubu branch office in Japan. In 2015, it established its current consolidated subsidiary, MSOL-TW, in Taiwan.

The Company positioned the period from 2016 as the expansion period, and while working to further expand the core business of PMO support, in 2016 it made a subsidiary of Kitazoe & Co. It also established ProEver, Inc., to develop a knowledge and talent management system, and subsequently in February 2017, ProEver started sales of a knowledge and talent management system with the same name as the company.

During this period, the number of regular employees has been steadily increasing, including PMO professionals (equivalent to consultants in a consulting firm). At the end of FY10/19, the Company is projected to have over 250 employees on a consolidated basis.

The Company was listed on the Tokyo Stock Exchange Mothers market in July 2018, where it is currently listed.

Company overview

History

July 2005	Management Solutions co., Ltd., established in Naka Ward, Yokohama City, to provide project management consulting
December 2006	Established Ocean Medical Solutions to provide consulting to medical facilities (liquidation completed in May 2008)
June 2007	Established iSakura Technologies Japan in Minato Ward, Tokyo, to conduct systems development (liquidation completed in September 2016)
September 2008	Entered into a business tie-up with Intelligence (currently, Persol Career Co., Ltd.)
March 2010	Started sales of e-learning for project management
April 2011	Entered into a capital tie-up with Intelligence
May 2012	Started sales of the ProViz5 project management tool
November 2013	Established MSOL Inc. as its U.S. subsidiary (liquidation completed in October 2017)
November 2015	Established MSOL-TW in Taiwan to provide support for the execution of project management (currently a consolidated subsidiary)
November 2015	Established ProEver, Inc., in Minato Ward, Tokyo, to develop ProEver, a knowledge and talent management system (merger by absorption in October 2017)
October 2016	Acquired all the shares of Kitazoe & Co. and made it a wholly owned subsidiary (sold all shares in October 2017)
February 2017	Started sales of the ProEver knowledge and talent management system
February 2018	Headquarters relocated to Minato Ward, Tokyo
July 2018	Listed on Tokyo Stock Exchange Mothers market
November 2018	Established Management Solutions (Shanghai) Co., Ltd.
September 2019	Launched sales of the PROEVER PMO comprehensive support software

Source: Prepared by FISCO from the Company's securities registration statement and results briefing materials

As a specialist project management support company with many excellent customers, mainly major companies, realizing stable and efficient business management

2. Business overview

(1) Description of project management support operations

The Company only has one business segment, the consulting business. But even when speaking of consulting, it has various categories depending on what it targets and its content. Further, it is unclear what constitutes its boundaries and it is difficult to bring all its various aspects together.

One method of dividing consulting is into two categories; "strategy consulting" and "operations consulting." Strategy consulting mainly supports top management and deals with company-wide issues. In contrast, operations consulting deals with the issues facing each department within a company. Also, categories based on the area being targeted include "IT consulting," "human resources consulting," and "marketing consulting," and these can also be ascertained to be types of operations consulting.

In the post-war period in Japan, overseas consulting firms, mainly U.S. companies, provided strategy consulting in Japan. After that in the 1990s, IT consulting came to attract attention alongside the development of computer technologies. If these two periods are called the first wave and the second wave of consulting, from the 2010s, the importance of strategy execution-type management attracted attention, and needs increased for consulting for this. This constitutes the third wave, and it includes the Company's business domain, of support for project management execution.

Management Solutions co., Ltd.

9-Oct.-2019

7033 TSE Mothers

<https://www.msols.com/en/>

Company overview

In order to understand the Company's business of support for project management execution, it is necessary to have an image of a project and the specific way it is progressed in a company (the Company's main customers are major companies with thousands to tens of thousands of regular employees). In addition to their day-to-day work duties (such as production activities for the main products if in factories or other production sites, or human resources management and accounting operations if in the administrative departments), companies launch various projects to respond to environmental changes or in the pursuit of further growth, and they work to execute these projects.

A project usually has a project manager as the responsible person and leader. The size of the project depends on the setting of the level in which the project is placed (the level within the company, such as the company-wide level, the business division level, or the department and section level) and its goal, and it is not unusual for a project to have 50 to 100 project members. Assuming a project has 50 members, the project manager is like the president of a company with 50 employees and annual sales of ¥500mn to ¥1bn. In such a company, it is unlikely that the president alone will conduct the various operations, such as sales, human resources affairs, general affairs, and accounting. So just as there are various departments within a company, within a project, an organization will be established to support the project manager. This is PMO. For Japanese people, this might be better understood as the "secretariat." The Company's main business, of project management support operations, contains the support for the areas around PMO and the provision of various services.

There is data on PMO, that 95% of U.S. major companies have established PMO within their company to execute projects. But the current situation is that Japan lags behind this. In Japanese society, the "secretariat" has been utilized for many years, and so there is an awareness of the need for a function like PMO, but it seems that PMO is one step ahead in terms of the completeness and the efficiency of this function. In the case of the "secretariat," we can imagine that in many cases it depends largely on the competence of the individual who is responsible for that role, and actually, many people have this sort of experience. The Company's PMO support operations (regardless of whether the name used is PMO or secretariat) involve the diagnosis and analysis (PMO consulting) of PMO operations and consignment of PMO operation outsourcing.

(2) Earnings model

A typical case of project management support operations involves the outsourcing of PMO operations. Even if a company intends to launch a project and establish PMO, in many cases it will not have the human resources in-house who are able to execute it, especially because employees have their own daily work duties to take care of. For this outsourcing need, the Company dispatches PMO professionals (meaning employees with specialist skills to provide PMO support. It does not mean holders of the PMP® qualification certified by PMI® of the United States), and in return receives remuneration. This remuneration expresses the unit price per employee per month. The unit price depends on the skill level of the employee, but current the average for the Company as a whole would seem to be ¥1.5 million per employee per month. One of the major features of the Company is that it conducts "transparent accounting," in which it clarifies the unit price of each of its PMO professionals.

One PMO professional will concentrate solely on the single project for which he or she is responsible (there are exceptions, of cases in which a senior management-level employee will be responsible for multiple projects at the same time, but this is because the content of such work is the management and supervision of the PMO professionals dispersed over multiple locations, rather than being the work of providing support for PMO execution). Therefore, the Company's net sales can be said to be the function of the number of PMO professionals, the average unit price, and the mobilization rate. This means that for its growth strategy, the number of employees who are PMO professionals is extremely significant (the details are given below).

Management Solutions co., Ltd.

9-Oct.-2019

7033 TSE Mothers

<https://www.msols.com/en/>

Company overview

When the number of project members is on a scale of 100 people, the Company usually sends 3 to 5 PMO professionals for the PMO. The project period will differ depending on the project, but it seems that on average they take one to two years. It is common within many major companies for multiple projects to be executed at the same time, and also when one project finishes, for the next one to be started straight away. Based on this situation, in many cases a single PMO professional will be transferred to a separately contracted project within the same customer company. The percentage of this is called the repeat rate, and it is closely related to the sales system and sales efficiency described below.

(3) The sales system

It is necessary to look at sales from two perspectives; acquiring new customers as well as maintaining and strengthening relations with existing customers. The Company has a strength in common for both new customers and existing customers; namely, its positioning of being a specialist PMO support company. The players for PMO support operations are currently mainly consulting firms, and they provide post-process PMO support as an ancillary service to their pre-process consulting (planning and proposals, such as for business strategies). In contrast to this, as a specialist in PMO, the Company provides PMO support services that are fully focused on the customer-company side. At FISCO, we think that the steady progress the Company is making in acquiring new customers and the high repeat rate for existing companies demonstrates the power of its unique business model and positioning.

Although the Company has been steadily accumulating customer numbers in the 14 years since its establishment, each year several companies drop out (terminate their contract). Therefore, the acquisition of new customers is an important issue, and it has a sales department that works to acquire new customers. The sales style does not involve cold calling, but mainly focuses on responding to inquiries from customers and to introductions from existing customers and others.

On receiving an order, the basic work form is a direct contract with the customer companies and it does not handle subcontracting work. As the stage prior to support for PMO execution, which is the Company's business domain, there exists consulting, including for business strategy and IT strategy. It is conceivable that (in the future) the Company will form a business alliance with a management consulting company and IT consulting company in which they will handle the pre-process part, while the Company will be responsible for the post-process PMO support work. However, even in such a case, it is the Company's policy to stick to direct contracts with client companies rather than subcontracting from consulting companies (with regards to this point, concrete moves are in fact being made, as will be described later in the section on the medium- to long-term growth strategy).

In many cases, the target customers are listed companies or major companies equivalent to them. The main reason for this is that major companies will normally be proceeding with multiple projects at the same time, so will have many needs for PMO support. From FISCO's perspective, there is also a more pragmatic issue in the background, in which utilizing a consulting firm generally costs a significant amount of money, thus it is necessary for companies to be capable of bearing those costs as much as possible.

As its track record since its establishment, the Company has conducted direct transactions with more than 70 companies even only among those listed on the TSE First Section. Moreover, it has provided support for more than 500 projects. Currently, it has in excess of 220 PMO professionals and is providing PMO support services to 45 customer companies (as of July 2019).

Company overview

Examples of the Company's customer companies

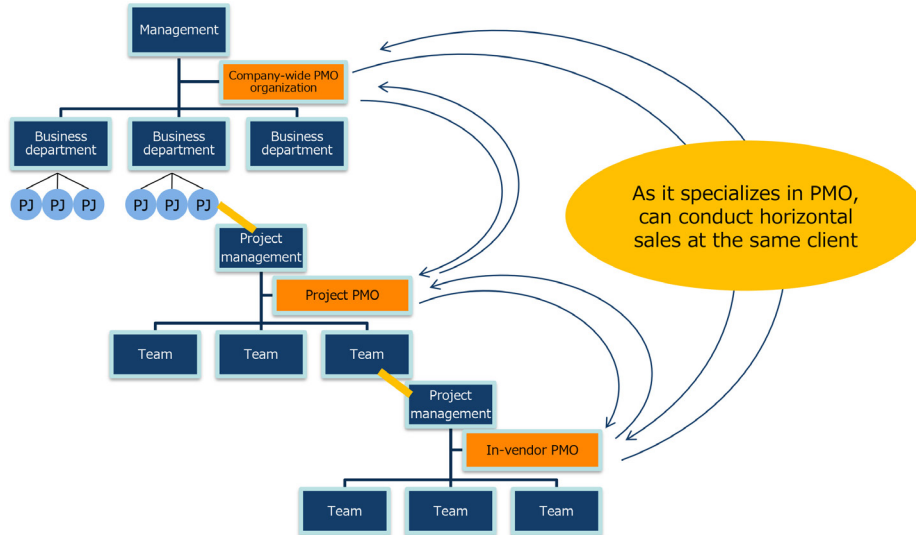


Source: The Company's results briefing materials

The important point after it has entered into a contract with a new customer is how long it can continue this relationship. Major companies will normally be progressing multiple projects, so they will always need PMO support. Steadily capturing this demand and continuing long-term relationships is extremely important in raising sales efficiency and will contribute greatly to the stabilization of management. One of the indicators that succinctly expresses this situation is the repeat rate, and the Company is realizing a high repeat rate. This suggests that it is able to provide customers with high levels of satisfaction and has high sales efficiency. By establishing a flow, in which the track record and trust it accumulates as a specialist PMO support company leads to the next order from the same customer, indicates that the Company is an extremely highly efficient organization.

Company overview

The model of efficient sales from the same client



Source: The Company's results briefing materials

Source of its strength is its strategic positioning established by leveraging its unique business model, of being a specialist PMO support company

3. The competition situation, and strengths and features

A feature and strength of the Company is its strategic positioning established by leveraging its unique business model, of being a specialist PMO support company.

In Japan, there are hardly any companies conducting a business specializing in PMO support, and the Company can be said to be the only one conducting such a business among listed companies or in terms of its strong presence in the industry. In other words, its business model is highly unique. Based on this, it is succeeding in achieving smooth growth from competition being kept down at a low level by making full use of its enhanced team of PMO professionals and its brand power established from its abundant track record. Specifically, the following competitors actually exist or can be assumed to exist. But in whichever the case, there are major differences between a specialist business and a business conducting multiple operations, so it has no clear-cut competitive relations.

(1) Consulting firms

Consulting firms, which are one of the Company's main competitors, are centered on careers as consultants, and it is not necessarily the case that they have an abundance of experience in the area of support for PMO execution. The attributes and skills required of consultants and PMO professionals are different. As a result, there is a lack (or insufficient) PMO support human resources in consulting firms. Also, as stated in the sales system section, the Company's operations as a specialist PMO support company focus solely on performing those tasks for the customer company, while consulting firms tend to position it at the end of the consulting process. Therefore at FISCO, we believe it is quite possible that this will bring about a difference in perception for PMO support, which will in turn lead to differences in brand power in the PMO support industry.

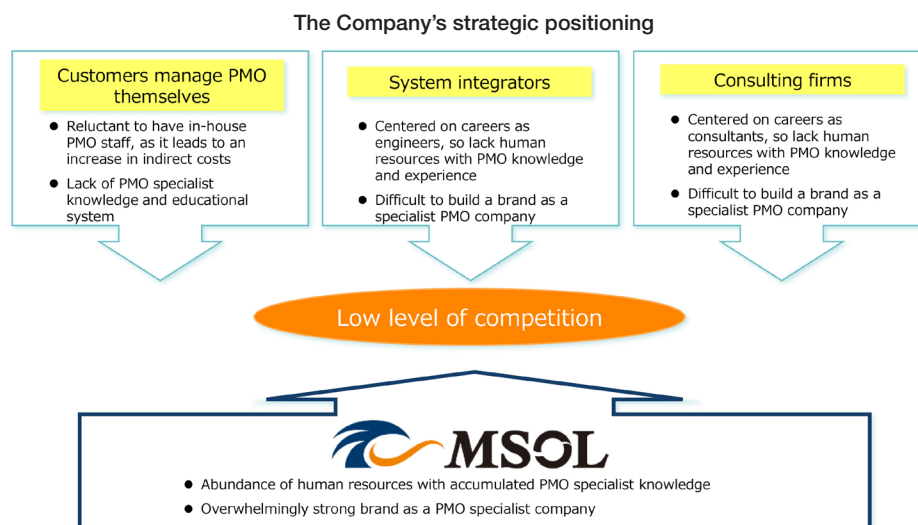
Company overview

(2) System integrators

There are many projects in companies relating to the development and introduction of IT systems. Competitors in this field are system integrators. This is because in many cases, it makes sense to obtain consulting for an IT system not just for the proposal, but also for when the system is introduced. On this point, competition is the same as with consulting firms. In the system integrator industry, careers are mainly as engineers, and human resources with an abundance of knowledge and experience in PMO are limited. In terms of this relationship with the IT area, the Company has started to take actions in the form of MSOL Digital, as will be described later in the section covering the medium-term growth strategy.

(3) Customer companies

Cases in which the customer companies themselves manage PMO can be competitive relations, on the point that they reduce opportunities for the Company's business. If customer companies manage PMO in-house, this would seem to lead directly to cost reductions, so it can be sufficiently expected that this trend is increasing. But in general, as human resources of a class of a head of a department or a head of a section are assigned to the position of a project manager, it is not hard to imagine that members of departments and sections will be placed in the position of the secretariat that plays the PMO role. But these employees also have daily work duties and cannot devote themselves to PMO, and it is likely that in practically every case, their knowledge and skills for PMO are low compared to those of a PMO professional dispatched from a specialist PMO business. Also, the choice of having in-house specialist PMO support staff may cause costs to increase above the costs of outsourcing to a specialist company, such as the Company.



Source: The Company's results briefing materials

Results trends

With a backdrop of robust demand for PMO support, the Company posted a significant year-on-year increase in both sales and profits, and exceeded its own forecasts.

● Summary of FY10/19 Q2 results

In FY10/19 Q2 results, the Company posted a significant year-on-year increase in both sales and profits, as net sales were ¥1,785mn (up 30.0% year on year), operating profit was ¥163mn (+67.1%), ordinary profit was ¥161mn (+65.9%), and net profit attributable to the owners of the parent company was ¥106mn (+78.6%).

Compared to the initial forecasts (in its operating results reports, the Company only discloses forecasts on a full-year basis, but the Company does formulate internal plans for 1H, and those figures are noted in the Company's financial results briefing materials), net sales were only 3% above the forecast, but operating profit and other profit lines all exceeded the forecast values by more than 20%.

Progress toward full-year forecasts is 47.1% for net sales and less than 40% for each profit line item. With regard to this, the Company's results have a seasonal tendency in which earnings tend to concentrate in 2H, so the Company's progress rate of nearly 40% for profit line items can be viewed as sufficiently high and progress can be seen as steady.

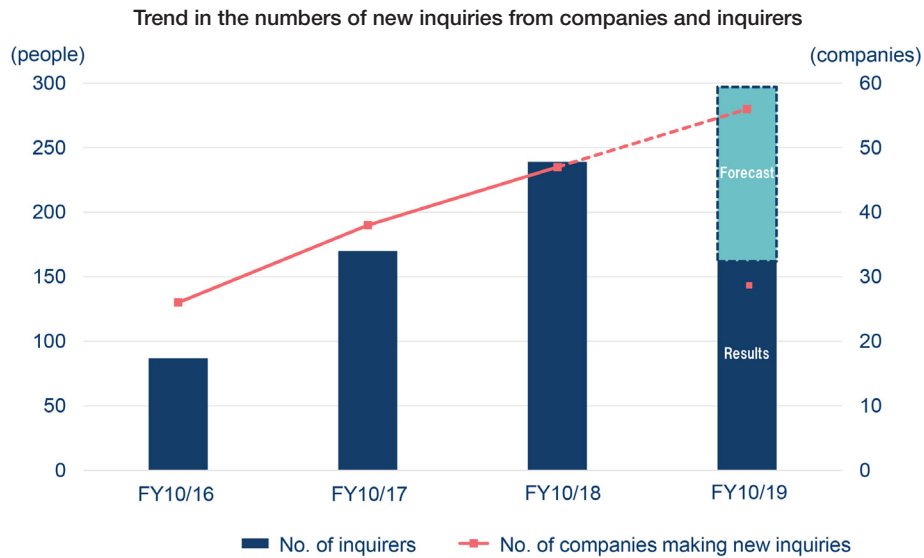
Summary of FY10/19 Q2 results

	FY10/18			FY10/19			
	1H results	1H (forecast)	1H results	YoY	vs. forecast	Progress rate	Full year (forecast)
Net sales	1,373	1,736	1,785	30.0%	2.8%	47.1%	3,792
Gross profit	481	-	686	42.7%	-	-	-
SG&A expenses	383	-	523	36.4%	-	-	-
Operating profit	97	130	163	67.1%	25.6%	38.6%	423
Operating margin	7.1%	7.5%	9.1%	-	-	-	11.2%
Ordinary profit	97	128	161	65.9%	25.9%	38.4%	420
Net profit attributable to the owners of the parent	59	88	106	78.6%	21.5%	36.8%	291
Earnings per share after the adjustment for the share split (¥)	15.14	-	19.51	28.8%	-	0.0%	160.50

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

The field of project management is relatively new in Japan, and demand for PMO support continues to grow. In such a business environment, the Company, which specializes in PMO support, has a relatively dominant position, and there were abundant inquiries regarding business.

Results trends



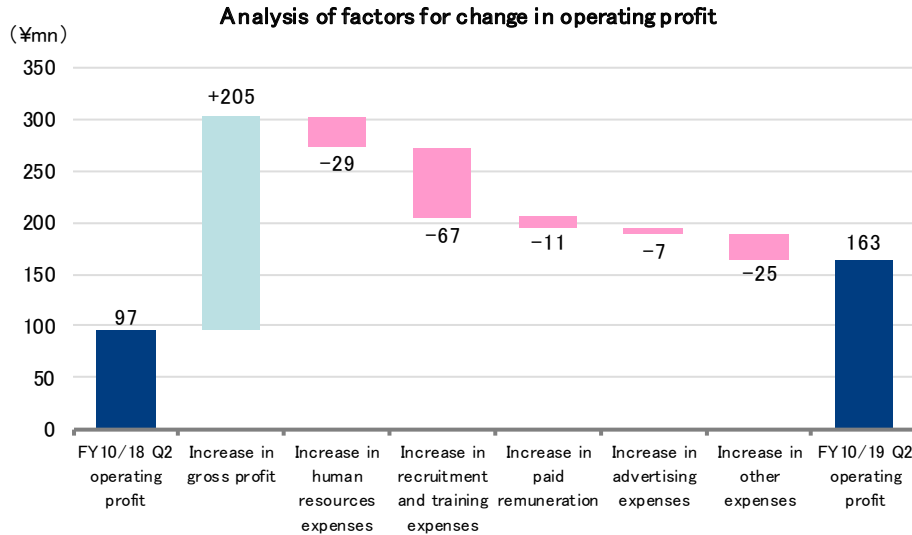
Source: The Company's results briefing materials

In 1H, the Company hired 59 mid-career employees possessing experience, as well as four new graduates. The annual plan for FY10/19 is to hire 70 people (the total of experienced staff and new graduates), so this figure was almost reached in 1H alone. The Company has said that its stock market listing in July 2018 contributed significantly to the steady progress vis-à-vis its hiring plan.

In the consulting industry, to which the Company belongs, revenue is a function of the number of consultants, unit prices and the utilization rate. Even if the unit price and utilization rate fluctuate somewhat, the impact is relatively small, while the number of consultants has the most impact on revenue. As mentioned above, the acquisition of human resources progressed smoothly in 1H, allowing the Company to steadily capture the robust demand for PMO support, which led to the aforementioned year-on-year increase in revenue as well as higher-than-forecast revenue.

In terms of profits, operating profit increased by ¥65mn (67.1%) YoY. The increases in human resources expenses (+¥29mn YoY), recruitment and training (+¥67mn), paid remuneration (+¥11mn), and other expense increases were absorbed by the ¥205mn YoY increase in gross profit in conjunction with the rise in net sales, resulting in the increase in operating profit.

Results trends



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

Medium- to long-term growth strategy and its progress

Aiming for medium- to long-term growth on the three axes of expanding the existing business, diversifying the existing business, and overseas business development & software. The Company plans to announce its medium-term management plan containing details at the end of FY10/19.

1. Overview of the medium- to long-term growth strategy

The Company already had a clear image of its goals and strategies for medium- to long-term growth, but from its July 2018 IPO until today, it has been doing everything it can to solidify its earnings so that it did not reach its peak at the time of the IPO and then slow down thereafter. In FY10/18, the first fiscal year of the listing, the Company posted higher year-on-year sales and profits, and exceeded its initial forecasts. FY10/19 Q2 results were also strong, so as initially planned, the Company is currently preparing its medium-term management plan and planning to release it along with its announcement of FY10/19 results (scheduled for mid-December 2019).

Details of the Company's medium- to long-term growth strategy are expected to be discussed in detail in its medium-term management plan, but the basic idea has already been indicated in the three points: 1) expansion of the existing business; 2) diversification of the existing business; and 3) overseas business development & software. The Company's plan is to seek medium- to long-term growth based on these three axes.

Medium- to long-term growth strategy and its progress

Detailed numerical targets are expected to be included in the medium-term management plan, but as an outline the Company has indicated that it is aiming for net sales of ¥20.0bn in FY10/25, which will be the Company's 20th anniversary. At that time, the Company is hoping to have more than 1,000 employees, and a market capitalization of ¥50.0bn.

Direction for growth

Expansion of the existing business	Brand name (provisional)	Net sales target
<ul style="list-style-type: none"> Formation of overwhelming brand power Expansion of sales, benefiting from changes in the automotive and energy industries 	MSOL PMO MSOL Partners MSOL Training/University	¥10.0bn–¥15.0bn
Diversification of the existing business <ul style="list-style-type: none"> Expansion into the management consulting area Launch of a shared PMO business Diversification through M&A 	Shared PMO MSOL Consulting MSOL Digital	¥500mn–¥3.0bn
Overseas business development & software <ul style="list-style-type: none"> Expansion of the Taiwanese subsidiary Expansion of the Chinese subsidiary In-house development and sales of project management tools 	MSOL Taiwan MSOL China ProEver	¥500mn–¥2.0bn

Source: The Company's results briefing materials

As mentioned briefly in the previous report (dated November 13, 2018), assuming the current earnings model for the PMO support business remains in effect, net sales will be close to ¥13.0bn if the number of PMO professionals increases to 800. If we add software revenue, overseas business sales, and revenue from diversified businesses such as shared PMO and MSOL Digital which will be described later, we feel that the Company's targeted net sales of ¥20.0bn is well within reach. Depending on the operating margin and the stock price valuation at that time, we think that a market capitalization of ¥50bn is not necessarily an unattainable target.

Steady progress in hiring both mid-career professionals and new hires aided by the increase in credibility following the IPO

2. Status of progress with expanding the existing business

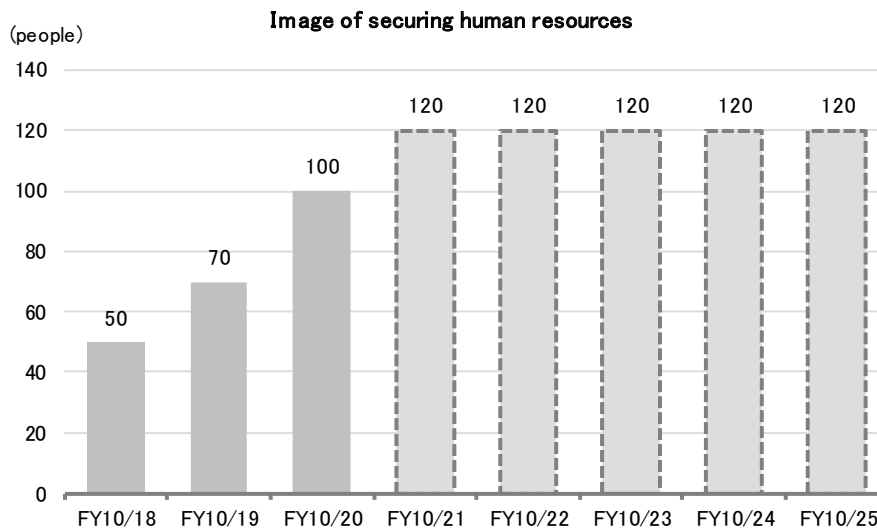
Expanding the existing business refers to the expansion of the PMO support business, which is the company's core business. The market environment surrounding the PMO support business, the Company's positioning within the industry, its strengths, business structure, and profit model are as described in the Company overview section. Again, the key point is that the PMO support market in Japan is at the stage where robust demand has begun to manifest itself, and the Company is in a position to fully enjoy the tailwinds of the market expansion by taking advantage of its characteristics and strengths as a specialist company.

Specifically, human resources are the "sail" that catches the tailwind in the Company's business model, and the biggest point of the growth strategy is how the Company will be able to secure PMO professionals. In this regard, as mentioned above, in FY10/19 Q2, the Company hired 59 experienced professionals and four new graduates. The recruitment plan for FY10/19 is 70 hires, and the Company was able to hire 90% of this figure in 1H (Q2 cumulative period) alone, so progress has been extremely good. The Company's own analysis is that its credibility and name recognition increased as a result of its stock listing, which in turn greatly helped with recruitment.

Medium- to long-term growth strategy and its progress

When it comes to the human resources acquisition plan going forward, as mentioned above, the Company is aiming to have more than 1,000 people in FY10/25, so based on a reverse calculation, we estimate that the Company will continue to hire 100 to 120 people per year.

The detailed hiring plan is expected to be included in the medium-term management plan which will likely be announced in December 2019.



Source: Prepared by FISCO based on interviews

The Company has already started specific initiatives based on MSOL Consulting, Shared PMO, and MSOL Digital branding

3. Status of progress with diversification of the existing business

In terms of the diversification of the existing business, examples include expanding into the management consulting domain, launching the shared PMO business, and diversification through M&A. In addition, detailed service brands (including some provisional names) include MSOL Consulting, Shared PMO, and MSOL Digital, as specific initiatives have already been launched.

(1) MSOL Consulting (management consulting)

The entry into the management consulting domain takes the form of a PMO support specialist entering an upstream business, which is the exact opposite of management consulting companies moving into the downstream business of PMO support in order to provide the complete range of services. The Company's entry into the management consulting domain is likely more of a part of branding and marketing in order to expand the PMO support business, rather than to pose a challenge to management consulting companies specializing in management consulting.

Management Solutions co., Ltd.

9-Oct.-2019

7033 TSE Mothers

<https://www.msols.com/en/>

Medium- to long-term growth strategy and its progress

This point is easy to understand if you consider the difference in counterparties (customers) when it comes to management consulting and PMO support, respectively. The counterparties for PMO support are the people in charge of executing projects, most of whom are department general managers or team managers (although depending on the size of the company or the project, they could be directors or executive officers in some cases). On the other hand, the counterparties for management consulting are CEOs and other senior executives. This is the real aim behind the Company getting into management consulting. Although the details and methods of the business development will be revealed going forward, there is no need for the Company to limit itself to receiving orders for management consulting. We think that one such example is the publication of management consulting-related publications. If a publication becomes a big hit, it will be a powerful means of showing the Company's presence. The Company has already acquired core human resources to develop the management consulting field, and plans to start full-fledged activities from FY10/20.

(2) Shared PMO

Shared PMO is a derivative form of service provision of the PMO support business. With regular PMO support, one PMO professional (sometimes more) provides services to one company (one project) on a full-time basis. On the other hand, in shared PMO, one PMO professional provides services on a part-time basis to a project and covers multiple projects at one time. A professional might cover five companies (five projects) at the rate of one day a week.

The Company initially chose to introduce shared PMO due to internal circumstances, such as having human resources who were unable to work full-time due to various circumstances, and as a way to respond to workstyle reform. With the development of IT and increased societal understanding of remote work and part-time work, shared PMO has become accepted, and this framework, which functions effectively, is being fully integrated in modern Japanese society.

At the same time, we believe that shared PMO is also effective from the perspective of business expansion and from the user's perspective. As mentioned above, the company's customers are mainly large companies. However, in shared PMO, medium-sized companies with less financial resources can be customers. It is like having a cabbage that sells for ¥200, but then cutting it into four pieces and having each of those four pieces sell for ¥100 each. As illustrated in the pricing example, shared PMO may also outperform regular PMO support in terms of profitability as well.

The Company launched the shared PMO business in FY10/18 and this business reported net sales of ¥10mn in FY10/19 Q2 cumulative results with six clients. This business is still in the trial and error stage, and it seems that the business model, including the fee table, service provision details, time allocation, and target customer groups, is being hashed out with the aim of achieving further business expansion while already operating. Because expectations are high over the medium- to long-term, it is important for the Company to take its time to establish an optimal business model and fee table. We believe that specific figures for shared PMO will be disclosed when the medium-term management plan is announced.

(3) MSOL Digital

MSOL Digital, like the aforementioned MSOL Consulting, is a part of the movement to expand the business domain to surrounding fields outside of PMO support. More specifically, it refers to entering the IT consulting domain. Unlike MSOL Consulting, whose main purpose is branding and marketing, MSOL Digital is an inevitable movement arising from the practical needs of PMO support, and the aim behind MSOL Digital is for this business to directly increase profits.

Management Solutions co., Ltd.

7033 TSE Mothers

9-Oct.-2019

<https://www.msols.com/en/>

Medium- to long-term growth strategy and its progress

In terms of the background behind embarking on MSOL Digital, the projects of customers to whom the Company provides PMO support often seek to improve operational efficiency, and in today's world this basically means enhancing IT. Based on the reality that PMO support operations are very close to IT consulting, MSOL Digital represents the Company's effort to capture IT consulting needs as its own business.

Currently, the Company has a shortage of IT consulting personnel. The Company also realizes that it does not possess sufficient know-how in this domain. Therefore, the Company is considering a system to partner with IT consulting companies and take advantage of their respective strengths to work on projects. Details of the business model are currently being considered and are expected to be announced when the medium-term management plan is released.

We view MSOL Digital as a very interesting initiative. This is only a hypothesis, as the details of the business model have not been decided, but if the Company becomes the primary contractor for a project, revenue per project will double (PMO support + IT consulting), and this will greatly contribute to the Company achieving its net sales target of ¥20.0bn in FY10/25. On the other hand, incorporating IT consulting increases the business risk compared to a business model focused only on PMO support (for example, the risk that a project for which an order was received will result in a loss). This point needs to be watched. We want to wait for a detailed announcement from the Company, including the identification of business risks.

The Company developed the PMO support integrated software PROEVER in house and launched sales in September

4. Status of progress on overseas business development & software

With respect to overseas business development & software, in FY10/19 Q2 the Company made significant progress on software.

In September 2019, the Company released PROEVER, a software product developed in house that comprehensively covers the PMO support domain. The Company has been focusing on system development and software development at an early stage since its establishment, and has already released the project management tool ProViz. In addition, the Company has already released ProEver, a knowledge management system. PROEVER not only includes the functions of the software previously released, but also adds risk management (risk evaluation and analysis, etc.), making it a collection of the Company's PMO support know-how. It is therefore quite different than the Company's prior software products.

PROEVER has two service provision formats: a cloud version and an on-premise version (operating on the company's own server). The billing framework appears to be about ¥10,000 per month per employee (if there are 100 people involved in a project, revenue will be ¥1 mn/month). The details and the medium-term sales forecast for the software division are expected to be announced in the medium-term management plan.

■ Outlook

The Company is making steady progress with respect to FY10/19 full-year results due to the steady acquisition of human resources

● Forecast for FY10/19

In terms of its outlook for FY10/19 full-year results, the Company is forecasting both top and bottom line growth, with forecasted net sales of ¥3,792mn (+30.0% YoY), operating profit of ¥423mn (+30.4%), ordinary profit of ¥420mn (+34.2%) and net profit attributable to the owners of the parent company of ¥291mn (+33.4%). The Company made no changes to its initial forecasts for full-year results following FY10/19 Q2 results.

Overview of FY10/19 full-year results forecast

	FY10/18			FY10/19				
	1H results	2H results	Full-year results	1H results	2H forecast	YoY	Full-year forecast	YoY
Net sales	1,373	1,543	2,917	1,785	2,006	30.0%	3,792	30.0%
Operating profit	97	226	324	163	259	14.4%	423	30.4%
Operating margin	7.1%	14.7%	11.1%	9.1%	12.9%	-	11.2%	-
Ordinary profit	97	216	313	161	258	19.8%	420	34.2%
Net profit attributable to the owners of the parent company	59	158	218	106	184	16.0%	291	33.4%
Earnings per share after the adjustment for the share split (¥)	15.14	135.47	150.61	19.51	140.99	28.9%	160.50	6.6%

Note: FY10/19 2H forecasts were obtained by subtracting FY10/19 1H results from the FY10/19 full-year forecasts, and are not figures forecasted by the Company

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

As discussed above, progress in FY10/19 Q2 exceeded expectations in terms of results. As a result, the 2H earnings hurdles to achieving the full-year results forecasts are low. Taking operating profit as an example, the Company only needs operating profit of ¥259mn (+14.4 YoY) to reach its forecast.

The Company's actual situation is exactly the opposite. As mentioned above, in FY10/19 1H (Q2 cumulative period) the Company hired 63 people (59 mid-career hires, four new graduates), which is 90% of the planned number of hires (70 people). These new employees will begin being utilized after a certain amount of training, and it is expected that almost all 63 employees will be utilized in 2H. The Company's earnings tend to be concentrated in 2H based on when these human resources start contributing (not when they join the Company). In FY10/19, progress on recruitment was implemented ahead of the plan in 1H, so the possibility that 2H results will exceed the initial forecasts has increased.

On the other hand, we believe we should avoid expecting an upward revision to the Company's full-year results. Although there is no doubt that the Company's results are progressing well, there is a lack of material to judge the extent of the progress. The Company is also aiming for medium- to long-term growth and will continue to aggressively hire human resources. In 2H, there is a possibility that hiring human resources for the following fiscal year and beyond will be carried out ahead of schedule. Furthermore, the Company might bolster up-front investment to implement the measures discussed above in the section concerning the medium- to long-term growth strategy. For this reason, with respect to FY10/19 full-year earnings, we believe it is safer now to keep a watch on progress based on current expectations.

Management Solutions co., Ltd. | 9-Oct.-2019
 7033 TSE Mothers | <https://www.msols.com/en/>

Outlook

Simplified income statement

	FY10/15	FY10/16	FY10/17	FY10/18	FY10/19	
					1H	Full year (forecast)
Net sales	906	1,499	2,527	2,917	1,785	3,792
YoY	5.0%	65.3%	68.6%	15.4%	30.0%	30.0%
Gross profit	395	543	830	1,108	686	-
Gross profit margin	43.6%	36.2%	32.9%	38.0%	38.5%	-
SG&A expenses	371	438	634	783	523	-
SG&A expenses ratio	40.9%	29.2%	25.1%	26.9%	29.3%	-
Operating profit	23	105	196	324	163	423
YoY	-68.5%	356.9%	86.8%	65.4%	67.1%	30.4%
Operating margin	2.5%	7.0%	7.8%	11.1%	9.1%	11.2%
Ordinary profit	20	100	189	313	161	420
YoY	-71.7%	398.6%	89.2%	65.5%	65.9%	34.2%
Net profit attributable to the owners of the parent company	-62	90	108	218	106	291
YoY	-	-	20.4%	101.6%	78.6%	33.4%
(after the adjustment for the share split)						
Earnings per share (¥)	-58.76	84.43	82.23	150.61	19.51	60.50
Dividend per share (¥)	-	-	-	-	-	-
Net assets per share (¥)	1.47	4.42	107.35	757.05	-	-

Source: Prepared by FISCO from the Company's financial results and securities registration statement

Simplified balance sheet

	FY10/16	FY10/17	FY10/18	FY10/19 Q2
				(¥mn)
Current assets	519	778	1,785	1,624
Cash and deposits	319	515	1,466	1,251
Accounts receivable	191	233	305	358
Non-current assets	122	151	251	525
Property, plant and equipment	19	10	57	64
Intangible assets	9	1	42	125
Investment, other	94	139	151	336
Total assets	641	930	2,037	2,150
Current liabilities	355	330	375	408
Accounts payable - trade	44	45	51	61
Short-term loans payable	118	121	84	84
Non-current liabilities	143	349	286	245
Long-term loans payable, bonds payable	143	349	284	244
Shareholders' equity	143	250	1,374	1,487
Capital stock	156	156	609	611
Capital surplus	25	25	478	480
Retained earnings	-37	69	287	394
Shareholder equity	-	-	-	-
Total net assets	142	250	1,374	1,496
Total liabilities and net assets	641	930	2,037	2,150

Source: Prepared by FISCO from the Company's financial results and securities registration statement

Outlook

Statement of cash flows

	(¥mn)		
	FY10/17	FY10/18	FY10/19 Q2
Cash flows from operating activities	88	261	97
Cash flows from investing activities	-91	-114	-605
Cash flows from financing activities	202	799	-25
Effect of exchange rate change on cash and deposits	1	-0	0
Net increase (decrease) in cash and deposits	201	945	-534
Cash and deposits at beginning of period	284	484	1,430
Cash and deposits at end of period	484	1,430	896

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

Shareholder returns

With prioritizing growth investment, no dividend policy is expected to continue for the time being

The Company does not currently pay a dividend, as it is expanding its business for the future and strengthening its financial structure so that it can respond quickly for this. However, it is firmly aware of the importance of returning profits to shareholders, and its policy is to consider stably and continuously paying dividends to shareholders at the stage when it has made progress in strengthening its earnings capability and stabilized its management foundation. As stated in the section on the growth strategy, in the next few years the Company intends to rapidly grow, so it would seem that for the time being it is prioritizing growth investment.

It is estimated that the current market scale of the industry, of support for project management execution services, is only around 10% of its potential market scale, so it is considered that it has extremely large growth potential. Therefore, at FISCO we think that the Company is fully justified in its management decision of prioritizing growth investment and not paying a dividend at the present time, as in the medium- to long-term, this will contribute to maximizing returns to shareholders.



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (Financial information Dept.)

Email: support@fisco.co.jp