COMPANY RESEARCH AND ANALYSIS REPORT

Softbrain Co., Ltd.

4779

Tokyo Stock Exchange First Section

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Index

Summary

Record-high earnings in FY12/16

Softbrain <4779> Co., Ltd. (hereafter, also "the Company"), a major player in CRM (customer relationship management) / SFA (sales force automation) software, offers sales and marketing solutions and holds a 20-30% share of the Japanese CRM/SFA market. The field marketing business, handled by one of the Company's subsidiaries, forms a second earnings pillar for Softbrain.

1. Hit new earnings record in FY12/16

In the FY12/16 consolidated financial results, net sales increased 30.9% year on year (YoY) to ¥7,719mn and operating income rose 49.5% to ¥1,014mn as the Company achieved double-digit growth in both sales and profit and posted record-high earnings. In the mainstay e-Sales Manager related business, sales of e-Sales Manager software grew a strong 78% YoY by large deal acquisitions. In addition, the field marketing business also achieved double-digit growth in sales and profit amid a continued shift to outsourcing by consumer-goods manufacturers for their field activity operations at stores.

2. Continued earnings growth expected in the e-Sales Manager related business

The Company expects continued growth in sales and profit in consolidated FY12/17, with net sales up 6.2% YoY to ¥8,200mn and operating income up 4.5% to ¥1,060mn on steady growth from its two core businesses. As more companies seek to leverage IT to improve business productivity, steady growth is expected in the number of companies installing e-Sales Manager, a sales support tool that is "No.1 for usability." In order to strengthen the functionality of its Business Intelligence (BI) tools, the Company introduced Tableau technology from Tableau Japan, a leading company in the field of BI and formed an alliance with SHANON Inc. <3976>, provider of the SHANON MARKETING PLATFORM and holder of the top market share in Japan for Marketing Automation (MA) tools. The Company expects this expansion of the range of its operations to contribute to earnings growth.

3. Continued growth in the field marketing business through utilization of housewives as a labor force

Amid a continued shift to outsourcing by consumer-goods manufacturers for their field activity operations at stores, the Company expects stable earnings growth in its field marketing business owing to its ability to mobilize its nationwide network of 63,000 housewives as a labor force.

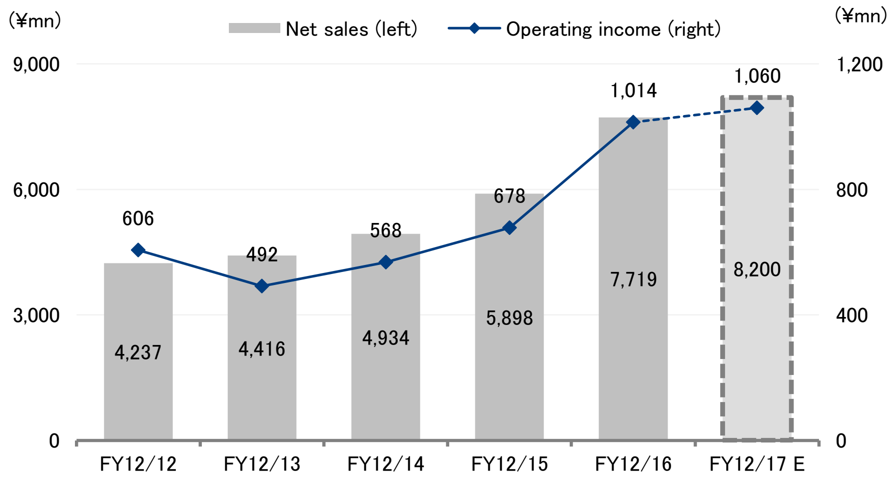
4. Paid dividend in FY12/16 for the first time in 11 years, expect dividend payout ratio of 30% going forward

On March 14, 2017, the Company announced FY12/16 dividend distributions of ¥5 per share. The Company cited record-high earnings and the accumulation of substantial internal reserves as factors behind the resumption of dividend distributions after an 11-year hiatus. The Company also announced (hitherto undecided) FY12/17 dividend distributions of ¥7 per share. In discussions with top shareholder Scala, Inc. <4845> regarding increasing of Softbrain's corporate value, it was decided that the dividend payout ratio should remain at approximately 30% after FY12/17 onward unless a particular need for capital arises. On the same date, shareholder proposals put forth by Scala (nomination of directors and auditors and allocation of surplus funds) were withdrawn and we understand Softbrain will continue to work to increase corporate value under current management.

Key Points

- The e-Sales Manager related business and the field marketing business are the two earnings pillars
- Record-high earnings in FY12/16
- Targeting further growth from e-Sales Manager software on enhanced functionality and new product launches

Results trends



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

Company profile

The e-Sales Manager related business and the field marketing business are the two earnings pillars

1. Company History

Softbrain was founded in 1992 as a software development company and, developed e-Sales Manager software in 1999 to help companies improve the business productivity. Since then, its mainstay business has been the development and sale of e-Sales Manager.

In addition, from 2004 to 2006, the Company established a number of subsidiaries to expand. In 2004, Softbrain Field Co., Ltd. was established to handle the layout of storefront and field marketing support such as data collection. In the same year Softbrain Service Co., Ltd. was established to conduct consulting and skill training focused on issues related to sales and marketing. In 2005, Softbrain Offshore Co., Ltd. was established to handle offshore software development and product management. In the same year, Diamond Business Planning Inc., which publishes and sells magazines and books on sales and sales promotion, was acquired and the company was converted into a subsidiary of Softbrain. In 2006, Softbrain Integration Co., Ltd. was established to handle consulting related to the integration of tablets and smartphones into sales systems.

Company History

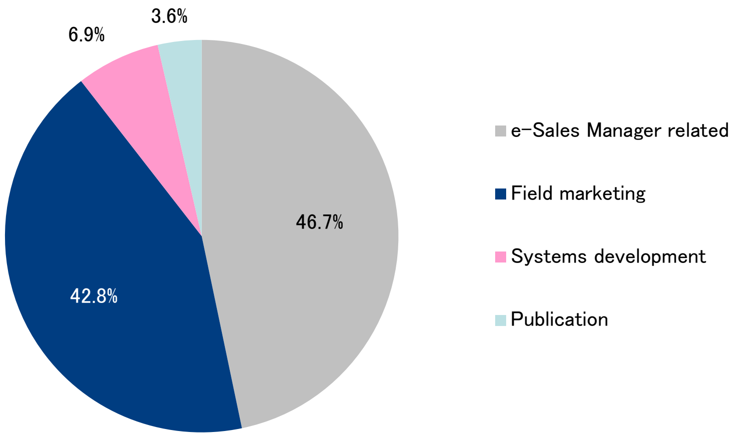
Date	History
June 1992	Softbrain Ltd. established in Sapporo City (relocated to Tokyo in 1998) to develop and sell software for the civil engineering industry
November 1992	Changed to joint-stock company structure
August 1999	e-Sales Manager (CRM/SFA software) launched
December 2000	Listed on TSE Mothers section (relisted on First Section in 2005)
June 2001	Withdrew from original business (science solutions) and switched focus to current mainstay sales and marketing business
July 2004	Established subsidiary Softbrain Field Co., Ltd. to handle service data collection and operations on retail storefront
August 2004	Established subsidiary Softbrain Service Co., Ltd. to handle service sales and support for small and medium-sized companies
September 2005	Acquired Diamond Sales Editing Planning (now Diamond Business Planning Inc.) to handle publishing and sales of books and magazines related to sales and marketing Established subsidiary Softbrain Offshore Co., Ltd. to handle offshore software development and product management
February 2006	Established subsidiary Softbrain Integration Co., Ltd. to handle system integration
June 2010	Launch of multi-cloud compatible e-Sales Manager Remix Cloud as an upgrade to mainstay product e-Sales Manager software
February 2013	Softbrain Field Co., Ltd. launched reason-for-purchase data service
February 2014	Released major upgrade of e-Sales Manager Remix Cloud with the target of becoming the “No.1 for usability” sales support (CRM/SFA) tool. Launched Revision 5 with new and improved design and user interface
July 2014	Softbrain Integration Co., Ltd. received certification from Apple Inc. and joined Apple Consultants Network
April 2016	Launched e-Reception Manager
September 2016	Announced partnership with SHANON Inc.
January 2017	Released Revision 6, which includes e-Sales Manager Analytics, a BI service based on Tableau BI tool technology from Tableau Japan.

Source: Prepared by FISCO from the company’s annual securities report and company’s homepage

2. Business outline

The Company consists 4 business segments; the e-Sales Manager related business, the field marketing business, the systems development business, and the publication business. The majority of both sales and profits come from the e-Sales Manager related business and the field marketing businesses, which are the two main revenue streams. It had 5 consolidated subsidiaries as of the end of December 2016. Overviews of each business are as follows.

Sales breakdown by business segment (FY12/16)



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

Group companies and business descriptions

Company name	Ownership ratio	Description of main business
e-Sales Manager related business		
Softbrain Co., Ltd.	-	License sales and cloud services of CRM/SFA software
Softbrain Service Co., Ltd.	98.7%	Consulting, skills training for sales person
Softbrain Integration Co., Ltd.	100.0%	Business consulting and training utilizing tablets, smartphones, etc.
Field Marketing business		
Softbrain Field Co., Ltd.	85.6%	Field activities operations, market research
Systems development business		
Softbrain Offshore Co., Ltd.	100.0%	Outsourced software development
Publication business		
Diamond Business Planning Inc.	70.0%	Planning, editing, and publishing of business books

Source: Compiled by FISCO based on Company materials

(1) e-Sales Manager related business

The e-Sales Manager related business includes license selling and provide service through cloud environment and support e-Sales manager, CRM/SFA software. In addition it includes customized development, sales consulting, skills training, and also support and training services for the introduction of smart devices, such as tablets and smart phones. This business divides two classes, “System” and “Consulting/Training”. System consists the development and selling e-Sales Manager and consulting smart device for equipping IT solution to sales staff. Consulting/Training is education business for sales person managed by Softbrain Service. In 2014, Softbrain Integration Co., Ltd. received certification from Apple Inc, joined Apple Consultants Network, and now focuses on providing integration support services to companies using iOS devices such as iPhone and iPad.

“e-Sales Manager” is a software tool that helps enhance sales efficiency by enabling users to grasp the situation quantitatively by allowing them to visualize each process within sales activities. Environment providing method of e-Sales manager can be divided into two types; the license-type, it is purchasing type, and the cloud type in which is monthly subscription model. In the license type, there is also an on-premises type, of building a physical environment, including servers, within a company, and a hosting type. In recent years, the number of customer using hosting services, which do not require capital investment for servers or other equipment, has been trending upwards. For the cloud type, the Company provides e-Sales Manager Remix Cloud (¥6,000-/month per ID) as well as e-Sales Manager nano (¥1,000/month per ID), which has simplified functions and is intended for use by SMEs with 10 employees or less.

Sales structure of e-Sales Manager related business

	Cloud-type	Hosting-type	On-premises type
Overview	• Monthly subscription model wherein the service environment is leased out and no hardware is installed by the customer.	• Customers purchase e-Sales Manager software licenses and operate on cloud service infrastructure	• Customers install servers on site, and set up and operate their own systems
Advantages	• Initial costs lower than setting up server • No system operation (security, etc.) costs	• No server setup costs • No system operation (security, etc.) costs • Running costs lower than cloud type	• Low costs over the long term • Flexible customization including integration with existing systems and added functionality
Dis-advantages	• High costs over the long term	• Initial costs higher than cloud type	• Initial costs higher than cloud type • Labor costs for system operation and maintenance
Target customers	• For use in certain departments/branches only • Customers with no systems support staff • Customers wishing to keep initial costs low • Customers not wishing to add assets to their balance sheets	• Customers with 50 or more users • Customers wishing to post expenses as leasing costs • Customers have no systems support staff • Customers wishing to keep running costs low	• Customers with 50 or more users • Customers with multiple existing systems • Customers that cannot allow offsite data flow for security reasons • Customers wishing to keep running costs low • Customers wishing to post expenses as leasing costs

Source: Prepared by FISCO from the Company's website e-Sales Manager Remix cloud-type fees

Basic license (cloud type)	
Plan	Price
Standard	¥6,000/month/user
Knowledge sharing (read only)	¥2,000/month/user
Schedule sharing (groupware only)	¥1,000/month/user

Main option licenses	
Plan	Price
Map license	¥1,000/month/user
Business card digitization	Initial cost: ¥60,000 ¥35/card
Analytics	¥3,500/month/user
Analytics Desktop	¥9,500/month/device
Fee for remote data connection environment (cloud or hosting type)	¥12,000/month/device

Source: Prepared by FISCO from the Company's website

The scale of the Japanese CRM/SFA (sales force automation) market is approximately ¥5-¥8 billion, of which the Company's share is thought to be 20 to 30%. Competitors include NI Consulting CO., LTD., and Salesforce.com Inc. of the US (cloud type only). Salesforce.com holds the top share, of more than 40%, of the cloud-type CRM/SFA market.

In total, more than 4,000 companies have introduced e-Sales Manager, and they consist of a broad range of companies from manufacturers to service providers. The strengths of e-Sales manager include its usability, such as user-friendliness and processing speed; and customer can select both the on-premises and cloud-sales types; and that it is fully supported by services, such as consulting and educational services, which helps to improve the outcome of an installation.

Example of companies that have installed e-Sales Manager

Source: Reprinted from Company materials

(2) Field Marketing business

This business, which managed by the subsidiary Softbrain Field Co., Ltd., mainly consists of carrying out field activities at storefronts and field survey using “cast” (registered staff members), who are mostly housewives in their 30s to 50s. It also provides the staffing service for rounder, which is a service for the temporary staffing of and referrals for “rounders” (field merchandisers), who carry out the field activities.

Field activities mainly consist of business negotiations for the relevant products, the layout of sales floors, and the installation of point-of-purchase ads at retail stores when consumer-goods manufacturers launch new products, such as food items and daily commodities. Although these activities used to be carried out by the employees of the manufacturer, the outsourcing of these activities has become more common toward improving the cost efficiency of sales promotions. The Company has more than 350 corporate customers, including from its results in the past, and they belong to a broad range of industries, although they are mainly manufacturers of food and beverage and healthcare-related products. As of recently, it was utilizing more than 63,000 people as its “cast,” and the more than 120,000 stores that they cover nationwide include various types of businesses, such as drug stores, convenience stores, and specialty stores.

(3) Systems development business

Outsourced software development is undertaken by the subsidiary Softbrain Offshore Co., Ltd. The Company sold its development subsidiary in China in September 2013 as a part of its business structural reforms, though it presently maintains a business relationship with it as a subcontractor. It also continues to utilize its Vietnamese and domestic near-shore bases. In August 2016, the Company established a development base in Okinawa in partnership with TAIYO CLOUD SERVICE Co., Ltd.

(4) Publication business

This business is comprised of the planning, publishing, and sales of books, mainly relating to sales promotions and PR, and it is conducted by the subsidiary Diamond Business Planning Inc. Utilizing its joint-venture cooperation with DIAMOND, Inc., it carries out corporate marketing, IR, and branding through publishing, and it is creating new value not only from the usual business books, but also from the openings provided by its publishing of corporate histories that tell “new” stories about the histories of companies.

Financial result and business trends

Record-high earnings in FY12/16

1. Overview of the FY12/16 results

On January 30, the Company announced strong growth in sales and profit in FY12/16. Consolidated net sales increased 30.9% YoY to ¥7,719mn operating income rose 49.5% to ¥1,014mn, ordinary income climbed 49.3% to ¥1,013mn, and net profit attributable to owners of parent increased 76.1% to ¥657mn. Net sales rose for a fifth consecutive year, reaching a record high for the third year in a row while operating income rose for a third consecutive year, reaching a record high for the first time in 11 years. Operating income reached ¥1,000mn for the first time in the Company’s history.

Earnings growth was due to strong performances from the Company's two mainstay businesses, the e-Sales Manager related business and the field marketing business, both of which achieved growth is sales and profits. The operating income margin improved by 1.6 percentage points to 13.1% on sales growth in the e-Sales Manager related business, which boasts a high marginal profit ratio. The net profit attributable to owners of parent rose at a faster rate than ordinary income owing to a decline in the effective tax rate.

The Company also surpassed its earnings targets, which it revised upward in October 2016. We understand this is because, in 2H, the Company secured multiple large-scale projects for e-Sales Manager and also won more orders than expected for sales-solutions-focused consulting and skills training.

FY12/16 consolidated results

(¥mn)

	FY12/15		FY12/16				
	Result	Relative to sales	Company targets	Result	Relative to sales	YoY	vs. target
Net sales	5,898	-	7,480	7,719	-	30.9%	3.2%
Cost of sales	3,573	60.6%	-	4,905	63.6%	37.3%	-
SG&A expenses	1,643	27.9%	-	1,795	23.3%	9.3%	-
Operating income	678	11.5%	820	1,014	13.1%	49.5%	23.7%
Ordinary income	679	11.5%	820	1,013	13.1%	49.3%	23.6%
Profit attributable to owners of parent	373	6.3%	495	657	8.5%	76.1%	32.9%

Note: Figures in the Company plan announced October 2016
Source: Prepared by FISCO from the Company's financial results summary

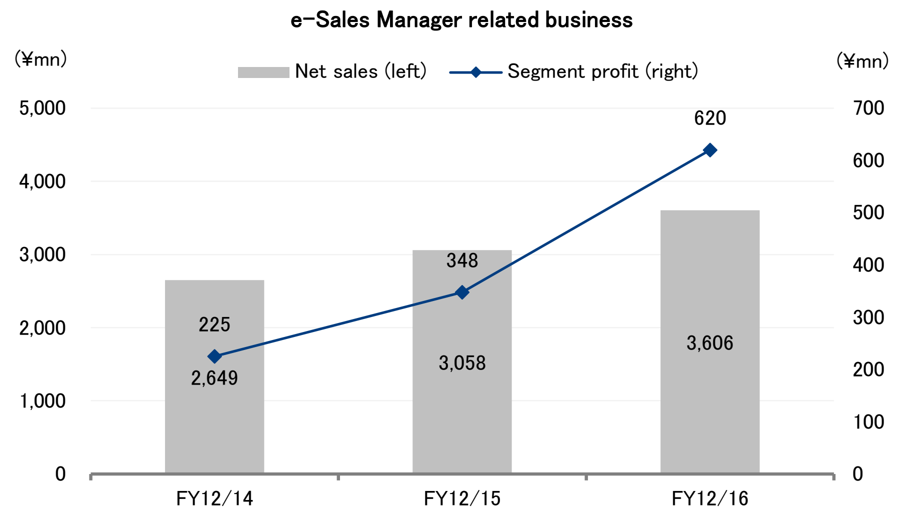
Double-digit sales and profit growth in two mainstay businesses

2. Trends by business segment

(1) e-Sales Manager related business

In the e-Sales Manager related business, net sales (for external customers, same below) increased 17.9% YoY to ¥3,606mn and segment profit rose 78.0% to ¥620mn. Sales of e-Sales Manager, which account for over 80% of segment sales, rose 24% YoY on strong sales of cloud-type and hosting-type services. Sales of consulting and skills training for sales person also rose 19% on strong demand.

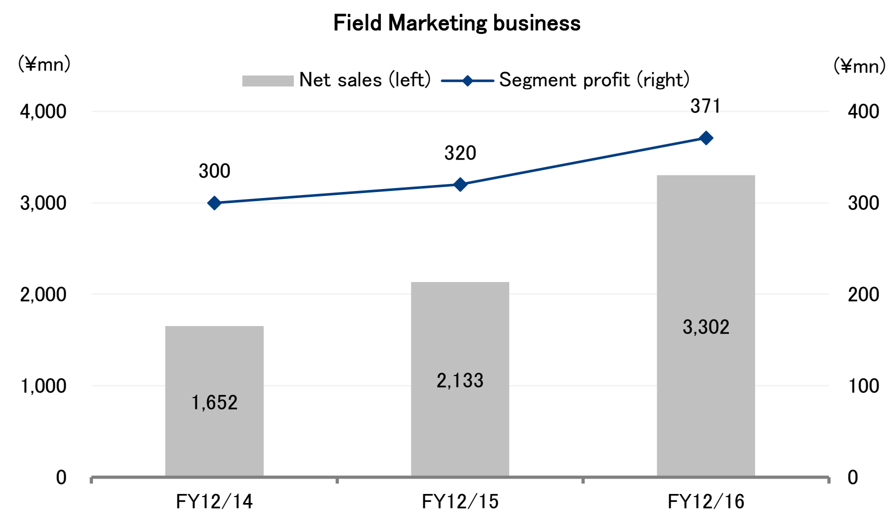
Segment profit margin showed significant improvement, rising to 17.2% from 11.4% in FY12/15 on sales growth from high-margin e-Sales Manager. Multiple large-scale projects secured in 2H contributed to this sales growth. Because of its ease of use, some customers have switched from competing products to e-Sales Manager.



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

(2) Field Marketing business

The field marketing business posted record-high earnings with net sales increasing 54.8% YoY to ¥3,302mn and segment profit rising 16.0% to ¥371mn. Amid a shift to outsourcing by consumer-goods manufacturers for their field activity operations at stores, the Company's services have earned an excellent reputation among these manufacturers and this has enabled it to acquire the large-scale projects that made a sizable contribution to the increases in sales and profits in this segment. A feature of the Company's services is that it charges on a per-visit basis, which clarifies costs for customers, furthermore one of its strengths is that it is able to provide a variety of services, including temporary staffing services, that are tailored to meet customer needs and this was also a factor behind the Company's strong earnings.



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

(3) Systems development business

In the systems development business, net sales increased 20.0% YoY to ¥533mn and segment profit rose by 2.6 times to ¥7mn. In the context of its limited human resources, the Company is prioritizing securing stable earnings through careful project management. Growth in sales and profit was achieved in FY12/16 by deepening relationships with existing clients while forging relationships with new clients amid growth in IT investment in Japan.

(4) Publication business

In the publication business, net sales increased 5.8% YoY to ¥277mn and segment profit rose by 2.5 times to ¥15mn. While the publishing industry is shrinking owing to the emergence of e-books, there is still strong demand from companies for publications used to strengthen brands or as part of their PR activities and sales in this segment continued to trend upward. Profit also rose owing to sales growth and a decline in the allowance for costs related to publication inventory.

Continued strengthening of financial position and rising profitability

3. Financial position and management indicators

Looking at the financial position at the end of December 2016, total assets increased by ¥953mn compared to the end of the previous fiscal year to ¥5,355mn. Current assets rose ¥954mn, mainly due to the increases in notes and accounts receivable of ¥409mn, cash and deposits of ¥489mn.

Total liabilities increased ¥252mn compared to the end of the previous fiscal year to ¥1,786mn. Interest-bearing debt decreased ¥56mn while accounts payable-other increased ¥139mn, advances received rose ¥44mn and income taxes payable rose ¥35mn. Net assets grew ¥701mn to ¥3,568mn, primarily due to the recording of profit attributable to owners of parent.

All of the Company's main management indicators are improving amid earnings growth. Its shareholders' equity ratio, an indicator of stability, rose to 63.5% in FY12/16 from 62.2% in FY12/15 and its interest-bearing debt ratio declined to 8.7% from 12.9%. The Company has greatly strengthened its financial position over the past few years as net cash (current deposits minus interest-bearing debt) rose to ¥2,881mn, about 1.5 times higher than three years ago (¥1,908mn). Looking at profitability indicators, operating margin, ROA, and ROE are all rising. We believe the Company has built a management base capable of generating sustainably high profitability.

Consolidated balance sheet and management indicators

(¥mn)

	FY12/13	FY12/14	FY12/15	FY12/16	Change
Current assets	3,061	3,589	3,903	4,858	954
(Cash and deposits)	2,058	2,677	2,687	3,177	489
Non-current assets	606	555	497	496	-0
Total assets	3,667	4,145	4,401	5,355	953
Total liabilities	944	1,134	1,533	1,786	252
(Interest-bearing debt)	150	180	352	296	-56
Net assets	2,722	3,011	2,867	3,568	701
Main management indicators					
(Stability)					
Shareholders' equity ratio	64.4%	63.0%	62.2%	63.5%	
Interest-bearing debt ratio	6.4%	6.9%	12.9%	8.7%	
(Profitability)					
ROA (return on assets)	14.3%	14.8%	15.9%	20.8%	
ROE (return on equity)	18.1%	10.2%	14.0%	21.4%	
Operating margin	11.2%	11.5%	11.5%	13.1%	

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

Future outlook

The Company expects continued growth in sales and profit in FY12/17, but the forecast looks conservative

1. FY12/17 consolidated results outlook

In FY12/17, the Company forecasts that consolidated net sales will rise 6.2% YoY to ¥8,200mn, operating income will increase 4.5% to ¥1,060mn, ordinary income will rise 4.5% to ¥1,060mn, and net profit attributable to owners of parent will be up 1.9% to ¥670mn. While the pace of growth is slowdown to the single-digit range, we believe the Company's forecast is conservative in that it only includes factors that the Company can estimate at present.

However, e-Sales Manager orders look strong so far in FY12/17 and, in the field marketing business, we expect a positive impact from measures taken in FY12/16 to expand business bases and strengthen the Company's organizational structure. Therefore, unless the market environment takes a turn for the worse, we believe the Company is very likely to surpass its forecast again in FY12/17.

Softbrain's consolidated earnings forecast for FY12/17 consolidated results outlook

(¥mn)

	FY12/16		FY12/17		
	Result	Relative to sales	Company target	Relative to sales	YoY
Net sales	7,719	-	8,200	-	6.2%
Operating income	1,014	13.1%	1,060	12.9%	4.5%
Ordinary income	1,013	13.1%	1,060	12.9%	4.5%
Profit attributable to owners of parent	657	8.5%	670	8.2%	1.9%

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

Targeting further growth from e-Sales Manager through enhanced functionality and new product launches

2. Trends in main businesses

(1) e-Sales Manager related business

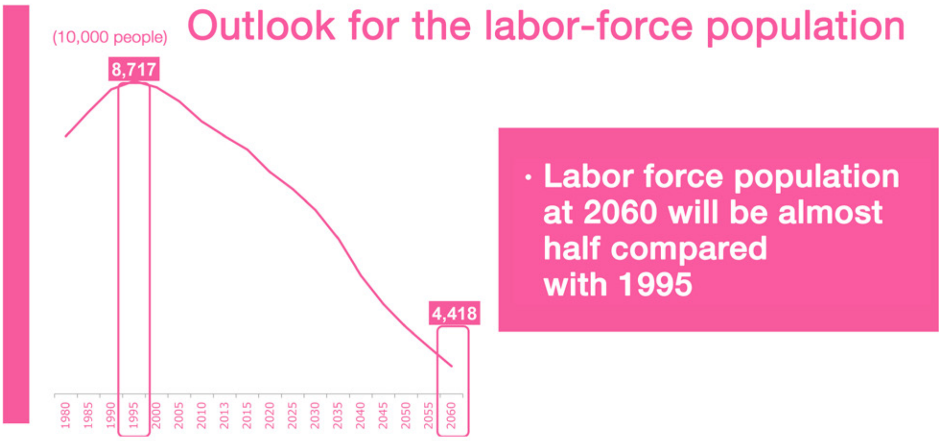
The Company continues to enhance the functions of e-Sales Manager as a sales support tool that is "No.1 for usability". We expect to continue to grow steadily in this fiscal year. In January 2017, the Company released e-Sales Manager Remix Analytics, which provides optional functions that greatly enhance BI capabilities. This function incorporates technology from Tableau Japan, a leader in the BI tools market, and features quick data visibility and an intuitive user interface (UI) wherein colorful graphs based on multifaceted data analysis can be quickly and easily displayed.

While most BI tools are capable of high-level data analysis, they also require expert operators and come with high costs in terms of time and money. In many cases, even if this tool was introduced, it cannot accelerate management decision and strategic planning. e-Sales Manager Remix Analytics meets the problems of customers because it resolves these issues, allowing anyone to conduct data analysis in real time. So we expect that the introduction needs is high.

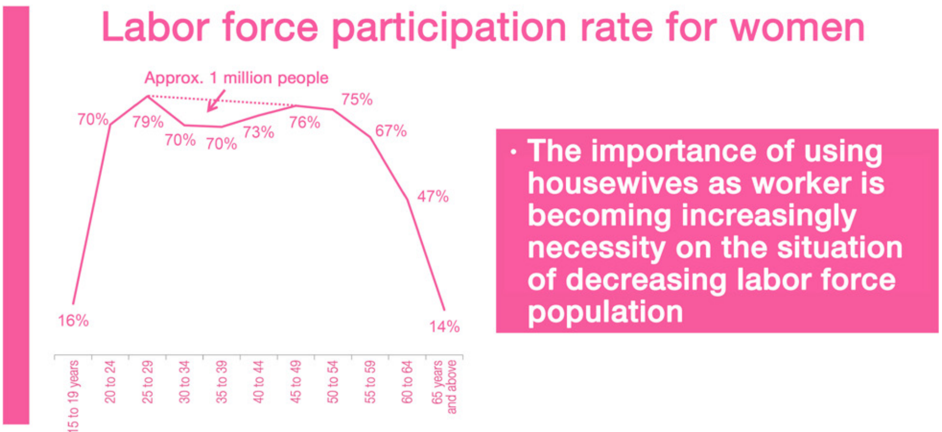
In February, the Company formed an alliance with SHANON Inc., provider of the SHANON MARKETING PLATFORM (SMP) and holder of the top market share in Japan for MA tools for the past seven consecutive years. Integrating sales departments' sales support tools and marketing departments' MA tools allows clients to secure prospective customers, identify correlations, alert the sales department of high-departure-chance customers, and make effective use of sales results when planning marketing activities. As a first step, a function was added whereby data entered in an online form generated on the SMP can be quickly registered as business card data in e-Sales Manager and SMP prospective customer data and e-Sales Manager customer and business card data can be mutually interlinked. This allows integrated management and shared use of data by sales and marketing departments, thereby allowing companies to develop more strategic sales activities. The Company plans to add more integrated functions such as an action history sharing function that allows more precise scoring through the sharing of action history data. Because of the close relationship between sales and marketing activities, we expect such integrated functions to help the Company make further progress in the area of customer development.

(2) Field Marketing business

We expect that the field marketing business will grow steadily over the medium term. As mentioned above, consumer-goods manufacturers are continuing to shift to outsourcing for their field activity operations at stores and we believe the Company's ability to respond to a wide range of customer needs by leveraging its "cast" (registered staff members) of around 63,000 people across the country will continue to be a strength. With the Japanese labor force expected to shrink year by year, housewives are expected to play a larger part in the labor market. We will be paying attention to medium-term developments for the Company's effective utilization of housewives as a labor force, which is part of its business model.



Source: Ministry of Internal Affairs and Communications, "White Paper: Information and Communications in Japan," fiscal 2016 edition



Source: Ministry of Internal Affairs and Communications, "Labour Force Survey," (2013 average)

Shareholder returns and relationship with Scala

Resumed dividend distributions in FY12/16 after an 11-year hiatus. The company indicates the dividend policy, payout ratio of roughly 30%.

1. Shareholder return policy

On March 14, 2017, the Company announced (hitherto undecided) FY12/16 dividend distributions of ¥5 per share and FY12/17 dividend distributions of ¥7 per share. The Company had halted dividend distributions in order to strengthen its financial position, which was weakened by the failure of Lehman Brothers, and prioritize investment in development. Thereafter, the Company achieved record-high earnings in FY12/16 and has accumulated sizable internal reserves. So the company determined that its financial position was strong enough to resume dividend distributions after a hiatus of 11 years. Also, in discussions with top shareholder Scala regarding increasing of Softbrain's corporate value, it was decided that the dividend payout ratio should remain at approximately 30% from FY12/17 onward unless a particular need for capital arises. Based on this dividend plan, FY12/17 dividend distributions have been set at ¥7 per share (dividend payout ratio of 30.6%). As a result, we expect dividends to increase if earnings growth continues.

2. Relationship with Scala

On December 26, 2016, the Company announced that it had terminated negotiations with top shareholder Scala regarding a business tie-up. While cross selling and joint development partnerships were initially suggested, it was determined that the two companies should pursue independent growth strategies as their customer bases (Softbrain focuses on corporate sales and marketing while Scala focuses on IT systems) and business fields are different and few synergistic benefits are therefore possible. Thereafter, the relationship between the two companies became strained as Scala submitted shareholder proposals (nomination of directors and auditors and allocation of surplus funds), but amid discussions regarding increasing of Softbrain's corporate value, it was announced on March 14 that the shareholder proposals had been withdrawn. We understand that, as a condition of this withdrawal, if Softbrain implements capital policies that would reduce the ratio of Scala's ownership, it must offer Scala an opportunity to participate in any such financing under the same conditions so as to maintain its ownership ratio. In addition, it was agreed that the dividend payout ratio should remain at approximately 30% unless a particular need for capital arises. As long as these conditions are met, we understand that Scala has agreed to submit no further shareholder proposals and Softbrain will continue to work to increase corporate value over the medium-to-long term under current management.

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