COMPANY RESEARCH AND ANALYSIS REPORT

Softbrain Co., Ltd.

4779

Tokyo Stock Exchange First Section

26-Apr.-2019

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Index

Summary

The outlook is for the higher sales and profits to continue from the ongoing strong performance of sales support software e-Sales Manager

The mainstay businesses of Softbrain Co., Ltd. <4779> (hereafter, also "the Company") are the sales innovation business* that is centered on development and sales of "e-Sales Manager," which is a sales support system (customer relationship management (CRM) and sales force automation (SFA)) to resolve and support the resolution of companies' sales problems, and the field marketing business of its subsidiary. e-Sales Manager, which is No.1 in the overall satisfaction rating, holds the leading market share among domestic vendors as a sales support tool, and in total it has been introduced by more than 5,000 companies.

* From FY12/18, the name of the e-Sales Manager-related business was changed to the sales innovation business. As the business content is the same, in this report, the sales innovation business name is used as the name for the former business.

1. FY12/18 results

In the FY12/18 consolidated results, net sales increased 13.6% year on year (YoY) to ¥9,188mn and operating income rose 30.0% to ¥1,233mn, with both results exceeding the Company forecasts (net sales of ¥8,900mn and operating income ¥1,150mn) and achieving new record highs. The two mainstay businesses both achieved double-digit increases in sales and profits, which drove the results. The sales innovation business is benefitting from the expansion of IT investment by companies, and sales of e-Sales Manager, particularly the cloud type, maintained its YoY double-digit increase in sales and high growth. In the field marketing business also, orders for spot projects increased as the Company focused on acquiring new customers.

2. FY12/19 outlook

The targets for the FY12/19 consolidated earnings in the medium-term management plan announced 1 year ago, of net sales to increase 8.1% YoY to ¥9,930mn and operating income to rise 7.0% to ¥1,320mn, have been left unchanged for the forecasts. However, the order situation is trending steadily, with the two mainstay businesses continuing their strong performances from the previous fiscal year, and at FISCO we think it is highly possible that the results will exceed the forecasts. Meanwhile, the Company is positioning the current period as a structural reform phase in order to transition the existing businesses from a flow-type to a stock-type business model, and it has indicated its intention to actively allocate earnings to investment toward realizing growth in the future (including in development and human resources).

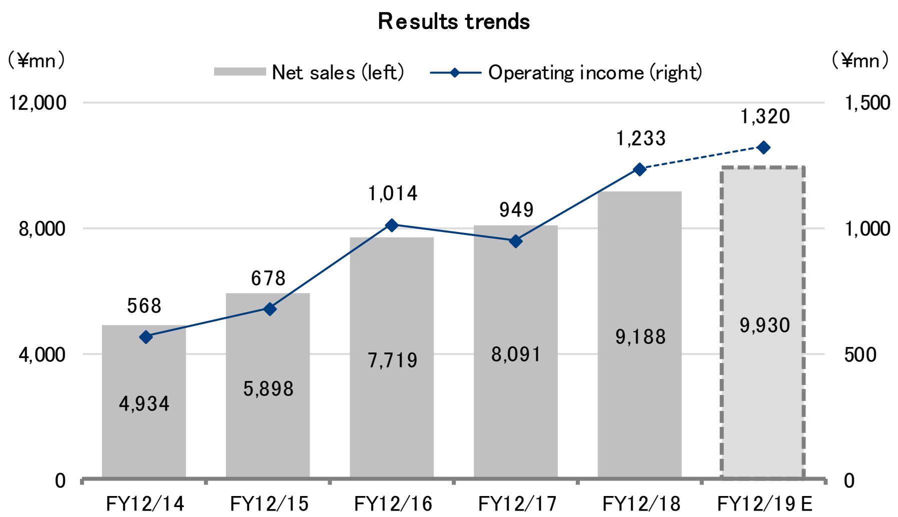
3. Growth strategy

In the three-year medium-term management plan, which has FY12/20 as its final fiscal year, annual sales growth of 12% is expected from the growth of the existing businesses, and the outlook is for annual growth to accelerate to 20% to 30% from FY12/21 onwards, when the Company will transition to a growth phase. In the sales innovation business, in addition to from the expansion of the functions of e-Sales Manager, the Company will increase sales of the self-serve type* e-Sales Manager Remix MS targeting medium-sized companies and SMEs, which it has not approached before. In addition, it plans to horizontally develop products customized for specific industries (including finance and pharmaceuticals). The percentage of companies installing a sales support system is still low, at around 14%, so going forward, there is still plenty of room for growth through acquiring new customers. In the field marketing business, the Company is capturing outsourcing demand from consumer goods manufacturers through its approximately 90,000 field support staff, mainly housewives, who are located throughout the country. The Company's policy is also to focus on developing customers from among B-to-B companies in the field (sales) market. It has already started sales agency projects, such as for hotels, Japanese inns and vehicle-related worksites for device maintenance. Attention is also focusing on the Point of Buy® service, in which it accumulates consumers' point-of-buy information (the reason for a purchase) from receipts collected at stores, creates a database of this information, and then sells it to companies. By 2020, it is aiming to have built a database that will be the largest in the country, with 3 million data collected each month. If it realizes this, it will lead to an increase in sales in this business, so will be paying attention to how it develops in the future.

* A system that enables customers themselves to easily change the settings for inputs and outputs that have been tailored to it by the Company and to upload data. The Company has acquired a patent for a program that prepares a system environment that is automatically tailored to operations based on the results of the customer questionnaire.

Key Points

- e-Sales Manager ranks No.1 in the overall satisfaction rating and has the top market share among domestic vendors
- For the FY12/19 results forecasts, the targets in the medium-term management plan have been left unchanged, but there is room for results to increase above the forecasts
- Transitioning from a flow type to a stock type earnings model, and the pace of growth will accelerate from 2021 onwards



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

Company profile

The two earnings pillars are the sales innovation business and the field marketing business

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. Its mainstay business has been the development and sale of e-Sales Manager. In addition, the Company has 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

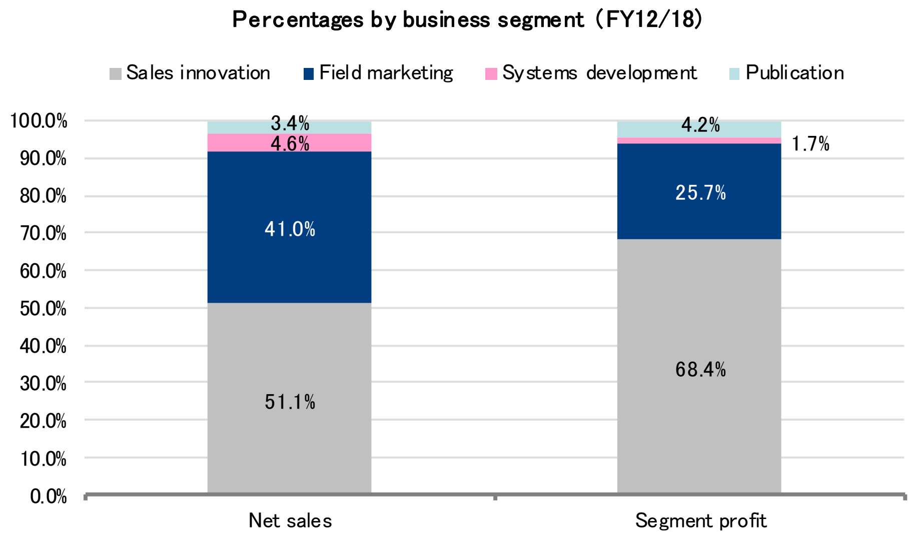
Date	History
June 1992	Softbrain Ltd. established in Sapporo City (relocated to Tokyo in 1998) to develop and sell software for the civil engineering industry
November 1992	Changed to joint-stock company structure
August 1999	Sales support system e-Sales Manager (CRM/SFA software) launched
December 2000	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 information gathering and contracting services at retail stores and service sites
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 subsidiary Diamond Business Planning Inc.) to handle publishing and sales of books and magazines related to sales and marketing promotion 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.
December 2017	Launched sales of CRM/SFA “e-Sales Manager Remix MS” for SMEs

Source: Prepared by FISCO from the Company’s securities report and website

e-Sales Manager ranks No.1 in the overall satisfaction rating and has top market share among domestic vendors

2. Business outline

The Company provides a one-stop service to support companies' sales, IT, and marketing from its four businesses, of the mainstay sales innovation business and field marketing business, and also the systems development business and the publishing business. Looking at the FY12/18 results, 92.0% of sales and 94.1% of profits were provided by the sales innovation business and the field marketing business. It has five consolidated subsidiaries. The outline of each business is provided below.



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

Group companies and business descriptions

Company name	Ownership ratio	Description of main business
Sales innovation business		
Softbrain Co., Ltd.	-	License sales of sales support systems, cloud services, customized development, sales consulting, and sales skills training
Softbrain Service Co., Ltd.	98.7%	
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: Prepared by FISCO from Company materials

(1) Sales innovation business

The sales innovation business includes license selling and providing services 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.

The Company conducts sales of e-Sales Manager and smart devices, and also provides consulting for their introduction, toward framework building (sales information devices that utilize IT) that will solve the sales issues facing companies. Also, while collaborating with its subsidiaries, it is progressing measures to effectively improve sales productivity by providing consulting and training that focuses on sales issues for model building. In 2014, the subsidiary Softbrain Integration received certification from Apple (<AAPL>) of the United States and joined its Apple Consultants Network, and it provides consulting to support introductions of iOS devices (iPhone and iPad). Also, from January 2018, it launched a new service, iOS Devices Management Agency Service AMC (Apple device Management Center) for the management of and technical support for companies' iOS devices

e-Sales Manager is a sales support tool that helps enhance the productivity of sales departments (reducing labor hours and increasing sales) by enabling users to grasp the situation quantitatively by allowing them to visualize each process within sales activities. The number of companies introducing this product is also increasing in a situation of the spread of the use of cloud services, which has made it possible to use it at an initial low cost, and also the increasing awareness of it as a tool to realize "reforms to ways of working." The sales types are divided into the license type, which the Company obtains from sales of software licenses, and the cloud type, in which it collects monthly usage fees, with both providing approximately 50% of sales. In addition, the license type is further divided into the on-premises type, in which the physical environment, such as the server, is built within the customer company, and the hosting type that does not need a server. Recently, an increasing number of customers are using the hosting service that does not require the burden of maintenance, such as for the server.

As the cloud-type, in addition to "e-Sales Manager Remix Cloud" (from ¥6,000 per month per ID) launched in 2010, the Company has released a simplified version of "e-Sales Manager nano" (¥1,000 per month per ID) targeting individual proprietors and SMEs (one to several employees), and also in December 2017, "e-Sales Manager Remix MS" (from ¥3,500 per month per ID) targeting SMEs (with a sales force of 5 to 20 people). e-Sales Manager Remix MS is a self-serve-type service that allows the customers themselves to configure the various settings online from its introduction, and its features include that basically the same functions as "Remix Cloud" can be used for a low fee. Currently, the Company is at the stage of improving it, such as its functions and UI, while listening to customer requests, and it is not yet at the stage of conducting fully-fledged marketing activities.

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
Disadvantages	· High costs over the long term	· As the e-Sales Manager license becomes the customer's asset, it takes time to amortize	· Initial costs higher than cloud type · Labor costs for system operation and maintenance
Target customers	· For trial 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	· For trial use in certain departments/branches only · 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)		Main option licenses	
Plan	Price	Plan	Price
Standard	¥6,000/month/user	Map license	¥1,000/month/user
Knowledge sharing (read only)	¥2,000/month/user	Business card digitization	Initial cost: ¥60,000 ¥35/card
Schedule sharing (groupware only)	¥1,000/month/user	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 Company has three major strengths. The first is that its product has the best reputation in the industry for "usability." In the User Survey on CRM/SFA* conducted by the research company ESP Research Institute Inc., in May 2018, it was announced that e-Sales Manager ranked No.1 for overall satisfaction. In the total of 38 survey items on CRM/SFA usability and the effects for improving operations, installation effects, service content, and system use, it ranked first in 30 items. This is the result of the fact that the Company has been working on the development concept of "The No.1 CRM/SFA for usability" since its sales were launched in 1999.

* For the products of 5 companies, of Salesforce.com (CRM), Oracle (ORCL), Microsoft (MSFT), Sap (SAP), and Softbrain, an online questionnaire survey was conducted among a total of 300 company managers and sales representatives who are actually using the products (a total of 60 people per product).

Summary of the results of the user survey on CRM/SFA

Category	Main items rated highly
Usability	Easy to understand interface, easy to use even with smart devices
Operations-improvement effects	Need for daily reports has been eliminated and the customers who need to be visited have been clarified
Installation effects	Reduced the number of meetings and increased the projects acquired
Service content	Fast replies from support staff, and good advice and support for establishing the product
System usage	Want to use it continuously in the company and department, and it is a system to recommend to other companies and departments

Source: Prepared by FISCO from the Company's materials

The Company's second strength is that its service type can be the cloud type, hosting type, or on-premises type, so it is able to meet all customer needs. Large companies frequently, require customized specifications, but the Company also has the flexible design and development capabilities to be able to respond to these needs. In an increasing number of cases, companies using the cloud service of a competitor are deciding to switch to the Company's service because these competitor services' usability is poor.

The Company's third strength is that, together with its subsidiaries, it is building a structure that can provide a total solutions service that is not limited to the installations of products, but also includes aspects such as education and training to enhance the effects of installations, and support services to establish the product after its installation. Regardless of the size of the industry or company, the Company has installed products into more than 5,000 companies in total, and the expertise it has accumulated from this enables it to propose solutions optimized to resolve the problems specific to each customer. It also provides thorough support, from when a system is installed until it becomes established (including support from activities consultations through customer visits, training services, an online activities support website, and a help desk). As a result, it is achieving an extremely high customer-retention rate of 96%.

Its sales support system (CRM/SFA) competitors include NI Consulting Co., Ltd., Salesforce.com Inc. (cloud–type only), and Oracle Corporation Japan <4716>, as well as Knowledge Suite <3999> for medium-sized companies and SMEs. Looking only at the cloud market, Salesforce.com has the top share, but the Company is the largest player among the domestic vendors.

(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, and the Point of Buy® service, in which it collects and aggregates receipts of products purchased by consumers and sells this data to companies.

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 and helping to overcome labor shortages. 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 December 2018, it had built one of Japan's largest networks, utilizing more than 90,000 people (an increase of 15,000 compared to the previous fiscal year) as its "cast," and the more than 160,000 stores that they cover nationwide include various types of businesses, such as drugstores, convenience stores, and specialty stores.

No. of stores covered by business type

Business type	As of December 31, 2017	As of June 30, 2018	As of December 31, 2018
Drugstores	23,257	24,409	25,013
GSM/SM	21,517	22,037	22,542
Convenience stores	36,505	44,189	44,243
Bookstores	9,182	9,182	9,182
Home centers	4,713	4,784	4,811
Discount stores	2,767	2,840	2,867
Electronic retail stores	3,814	3,829	3,830
Specialist stores	26,726	34,408	34,968
Others	17,563	20,479	22,480
Total	146,044	166,157	169,934

Source: Prepared by FISCO from the Company's website

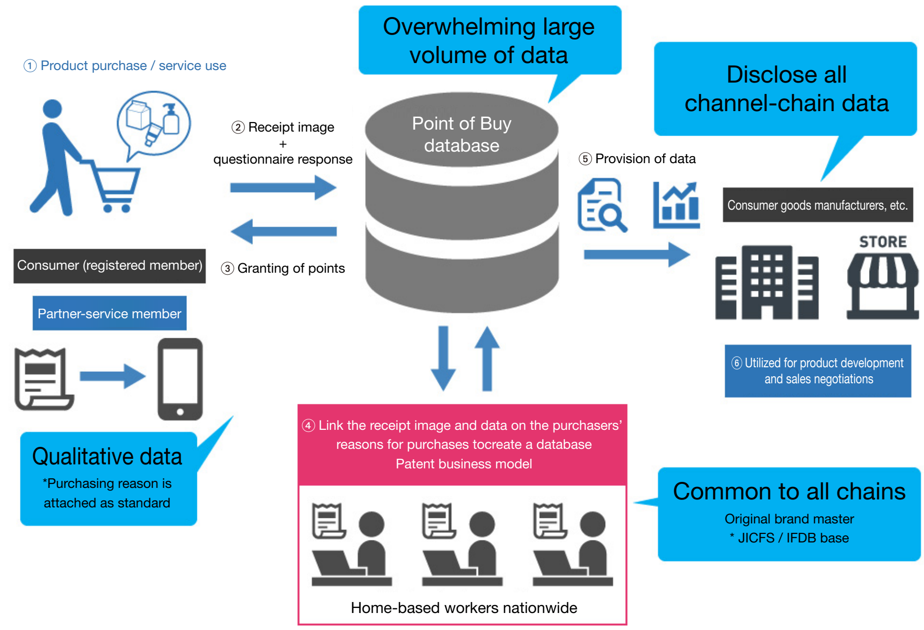
In the Point of Buy® service (a service to provide data on the reasons for purchases), which was launched in 2013, the products and services that are the targets of the survey are 68 categories of consumer goods, approximately 6,000 brand products, 10 foods- and drinks-use categories, and around 200 chains (as of January 2018). It is a service in which the Company collects images of receipts that indicate the reasons for purchases from members via the Internet, creates a database of this information, and then regularly provides it to customers, mainly consumer goods manufacturers. Companies can use this data for marketing analyses of products and services and to create sales-promotions plans.

The channels to collect the questionnaire surveys include the members of Credit Saison's <8253> "a-q-f.com" (approximately 13 million people); the members of Tocotoco Mile (approximately 10,000 people), which is a smartphone app managed by Microad Inc., from a collaboration started in June 2017; and members of Ponta (approximately 84 million people) managed by Loyalty Marketing from a collaboration started in February 2018. In addition, Softbrain Field has a registered cast (approximately 90,000 people), and among them, as of the end of December 2018, 256,000 were questionnaire members (up 19.6% YoY).

In terms of the service flow, the questionnaire survey respondents are given points or miles, and the images of the collected receipts and the questionnaires (such as on the reasons for purchases) are linked and turned into a database, which is then sold to the customer companies. These customer companies can conduct various analyses from the data using BI tools. Softbrain Field bears the cost of giving points and miles to the survey respondents. Currently the volume of data is small as it is still at the upfront-investment stage, but going forward, the plan is to raise the value of the data and monetize it by increasing the number of questionnaire members through finding more partners and increasing the number of data collected each month. The Company has acquired a business model patent* for Point of Buy®.

* The content of the patent is "A framework to create a marketing database of 'data by product and service, including on reasons for purchases,' in which image data of the receipts registered by consumers from input devices is received, the consumer's response data and the receipt image data are displayed on the checker terminal used by the checker, and the consistency of the response data and the question data is determined using the receipt image.

The Point of Buy® service model



Source: The Company's website

(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 business, 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.

3. Management vision

The Company’s management vision is to aim to be a leading company that reforms ways of working in Japan through “Process management x IT.” Also, its management mission is to “maximize the productivity of customers,” and in terms of the two ways of realizing this as value, it is continuing to provide “framework building” centered on e-Sales Manager at the same time as providing “model building” operations through consulting based on process management. It is considered that contributing to its customers’ improved productivity and sales growth will lead to the growth of the Company itself.

Financial result and business trends

Two mainstay businesses are driving the results, and the Company achieved record high in FY12/18

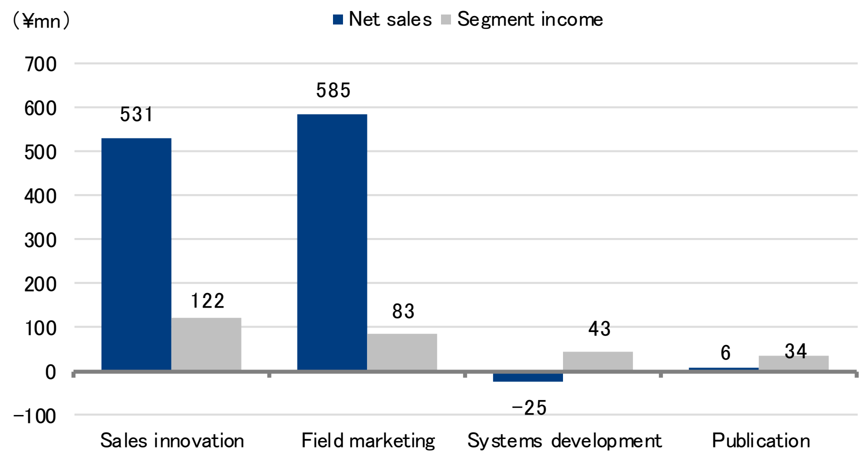
1. Overview of the FY12/18 results

In the FY12/18 consolidated results, net sales increased 13.6% YoY to ¥9,188mn, operating income increased 30.0% to ¥1,233mn, ordinary income rose 30.2% to ¥1,240mn, and net income attributable to the owners of the parent rose 25.2% to a record ¥796mn. Net sales have increased for seven consecutive years, but it was the first time in two years that income rose.

Net sales were strong and increased by double digits in both the mainstay businesses, of the sales innovation business and the field marketing business. Moreover, operating income grew in all of the business segments. The ratio of sales costs to sales rose by 0.5 of a percentage point (PP) YoY to 62.8%, but this was due to the increase in the percentage of sales provided by the field marketing business. Despite the increases in investment in human resources and in rent due to the relocation of the head office, the SG&A expenses ratio fell 2.2 PP YoY from the effects of the higher sales. As a result, the operating income margin rose 1.7 PP to 13.4%.

Compared to the initial Company forecasts, net sales were 3.2% and operating income 7.3% above forecast. Net sales in the field marketing business exceeded the forecast due to the strong orders for spot projects, while operating income was higher than forecast mainly in the sales innovation business and the field marketing business.

Changes to results (YoY) by business segment



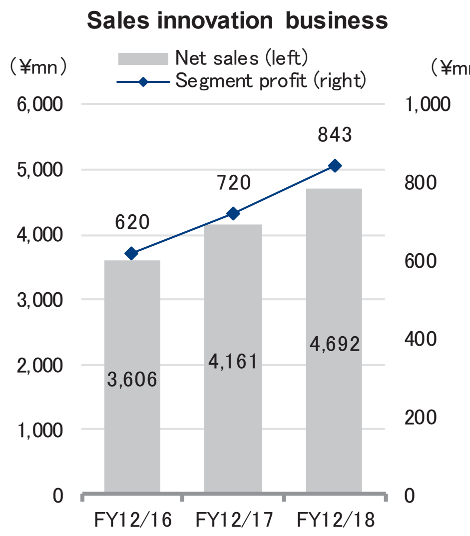
Source: Prepared by FISCO from the Company's financial results

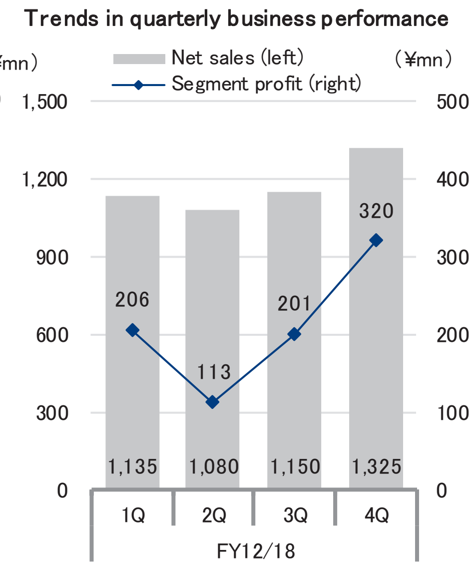
e-Sales Manager's double-digit growth will continue, mainly of the cloud type, from the increase in customer numbers and the rise in the average sales unit price per company

2. Trends by business segment

(1) Sales innovation business

The sales innovation business achieved double-digit increases in sales and profits, with net sales (for external customers, same below) rising 12.8% YoY to ¥4,692mn, and segment income growing 17.0% to ¥843mn. Net sales increased for the sixth consecutive period and segment income for the fourth consecutive period, and this business continued to achieved record high results. This was mainly due to the strong sales of e-Sales Manager that provides more than 80% of total net sales, particularly of the cloud type. The segment income margin was 18.0%, which was also a new record high. Looking by fiscal quarter, results grew significantly in Q4, with net sales increasing 16.8% YoY to ¥1,325mn and segment income rising 62.2% to ¥320mn, which was due to the recording in sales of several large-scale projects, including the license type.





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

Looking at sales by type, of the stock type (which includes cloud services, hosting services, and support and maintenance services) and the flow type (which includes licenses, consulting on installations, customization, education and training), stock-type sales increased 24.9% YoY and flow-type sales rose 5.2%, so stock-type services drove the increase in sales. But flow-type earnings are also steadily growing, and it would seem that the transition of the earnings structure, from flow type to stock type, being advanced by the Company is progressing in the ideal way.

The percentage of total net sales provided by the stock type rose from slightly more than 40% in the previous fiscal period to a little less than 50%. The factors behind this high growth are the increase in the number of companies contracting to cloud and hosting services, for which the initial investment is small, and also the rise in the average sales unit price per company for the cloud service alongside the enhancement of functions and the increase in the number of user IDs. The total number of customers that have installed e-Sales Manager rose from more than 4,500 at the end of the previous fiscal period to more than 5,000 at the end of the current period.

CRM/SFA tools for improving sales productivity lead to "reforms to ways of working," and the number of companies installing them is increasing year by year. But even among these tools, is seems that an increasing number of companies are selecting e-Sales Manager, for which the Company provides a one-stop service, from product installation and establishment through to total support, and it has been highly evaluated as "No.1 for overall satisfaction." This high evaluation is the result of the Company's continuous focus on enhancing the product's functions and improving the service, and in FY12/18 also, it is implementing the following measures for the three areas of product, service, and team.

a) Product

In order to strengthen the competitiveness of the e-Sales Manager product, the Company is actively working to enhance its functions, including through collaborations with other companies, and to improve its usability. In particular, for "the function that can manage the status of multiple products from a single input," and the "function to support the continuous maintenance of points-of-contact at companies and to discover business opportunities," which were added in October 2018, it is considered that the needs for these functions are high among companies with regular visit-type sales that are specific to Japan, and companies with many products, and these functions are a factor differentiating e-Sales Manager from its competitor products.

* A function to automatically list the products as the time for a business negotiation approaches based on products proposed in the past and product data already input. This makes it possible to automatically add products that are close to their re-proposal period or close to their replacement period onto the responsible salesperson's business-negotiations list, and to conduct sales negotiations in a planned way on the optimal timing.

Measures to enhance e-Sales Manager's functions

Announcement date	Description
January 2018	Linked to "moconavi," a secure MAM* service provided by recomot Inc.
March 2018	Adopted the ATLED Work Platform of ATLED CORP. <3969> as the development foundation to strengthen workflow functions
October 2018	Installed a function to respond to the regular visits / continuous proposal types of sales that are specific to Japan (a function to manage the status of multiple products from a single input)
November 2018	Installed a collaboration function that enables the real-time sharing of information with stakeholders inside and outside of the company
December 2018	Installed a support function to continuously maintain companies' points-of-contact and to discover business opportunities

*MAM (Mobile Application Management): the general term for tools to manage mobile applications used within companies
Source: Prepared by FISCO from the Company's materials

Also, for e-Sales Manager Remix MS, which is a service specifically for medium-sized companies and SMEs that was released at the end of 2017, the Company is at the stage of collecting information on customer needs through inside sales (such as by telephone and email) and increasing the degree of completeness of the product, while reviewing its functions. This service is a self-serve type framework, in which the customers themselves install it online, and it builds a framework in which installation is not difficult for even companies that do not have IT human resources and it can be easily introduced, including changing elements such as the UI. Also, functions that are frequently requested are added and support for utilizing it, such as for renewals, is provided. In 2018, the Company acquired a business patent for this self-serve type framework (a program that prepares a systems environment that is automatically tailored to the customer's operations based on the results of a questionnaire), which may be a differentiating factor in the future.

b) Services

In services, for e-Sales Manager's consulting menu, the Company upgraded the service system with the goal of realizing customer success, and it began providing it in October 2018. Specifically, in addition to the previous start-up type consulting, it has newly established a follow-up consulting menu to be used according to the stage that the customer is at after the installation, and a department-expansion consulting menu to apply case studies of successes by specific departments to other departments and operations.

Also, in support services, the Company has worked to enhance content, including by strengthening the search function and preparing video content on the previous activities-support website. It has also launched new services, including a customer-advisor service, in which the responsible advisor provides advice to the customer through an individual consultation by phone or email, and also group training for existing customers that aims to improve their levels of proficiency with the system.

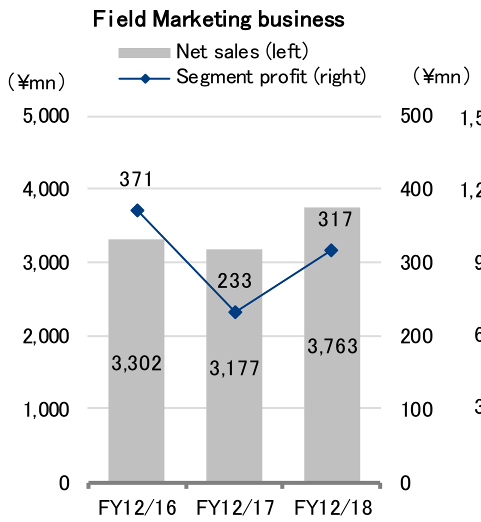
c) Team

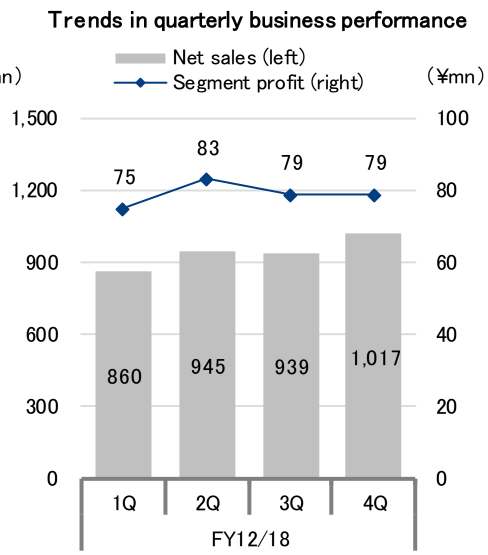
The Company is also strategically progressing the strengthening of organizational capabilities needed for growth in the future. Specifically, it is actively conducting investment, including in education and training and recruiting human resources, in order to strengthen the development structure.

(2) Field marketing business

The field marketing business achieved higher sales and profits for the first time in 2 fiscal periods, with net sales increasing 18.4% YoY to ¥3,763mn and segment income rising 35.6% to ¥317mn. In the previous fiscal period, sales and profits decreased due to the impact of the decline in orders for spot projects. But in this period, the re-strengthening measures to review the sales structure and to acquire new customers, and orders for short-term spot projects bore fruit. Specifically, the system of responsibilities was changed, with the sales department becoming the new customer acquisition specialist organization and the business department becoming responsible for existing customers. Also, satellite offices were opened in Hokkaido and Hiroshima, and in addition, the Kyushu branch expanded its sales bases through a business expansion, including by relocating to a location with more floor space, and the focus was placed on acquiring new customers, particularly consumer goods manufacturers. As a result, stock-business orders, including batch outsourcing of field activities, steadily increased, and at the same time, orders for spot projects, such as for store construction, rapidly recovered.

Other than the above, although the sales scale is still small, results for business agency services for B-to-B companies are also starting to increase. Specifically, for regional hotels and Japanese inns, there are orders for business agency services for proposals for postings on travel information websites and for device maintenance at bus- and other vehicle-related worksites. The content of the business operations is simple and the places to visit are determined, so the Company's registered staff are able to respond to requests. There is a lot of demand for outsourcing in the field marketing field even from B-to-B companies, which are suffering from a shortage of human resources, so growth is expected in the future.





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

(3) Systems development business

In the systems development business, net sales decreased 5.8% YoY to ¥419mn and segment income was ¥20mn (compared to a loss of ¥22mn in the same period in the previous fiscal year). Net sales decreased alongside the decline in the transaction scale of some large-scale projects. But in profits, profitability improved and profits were achieved for the first time in two fiscal periods as a result of thorough project management and measures to control costs. The policy for the systems development business is not to pursue an expansion of scale and instead to prioritize stable earnings.

(4) Publication business

In the publishing business, sales increased for the fourth consecutive fiscal period and profits for the third consecutive period, with net sales rising 2.1% YoY to ¥313mn and segment income growing 198.1% to ¥52mn. The main reasons for the higher sales and profits were that companies' intention to publish trended strongly and in the 2H, there were orders for increased print runs, and also from the measures to control costs.

Continued strengthening of financial position and rising profitability

3. Financial position and management indicators

Looking at the financial condition at the end of FY12/18, total assets were up ¥1,025mn on the end of the previous fiscal year to ¥6,861mn. The main changes factors were that in current assets, cash and deposits increased ¥874mn from the higher earnings, and notes and accounts receivable rose ¥110mn, while in non-current assets, software increased ¥64mn.

Total liabilities were up ¥398mn on the end of the previous fiscal year to ¥2,149mn. This was mainly because although interest-bearing debt decreased ¥56mn, advances received and income tax payable increased ¥133mn and ¥77mn respectively. Net assets were up ¥627mn on the end of the previous fiscal year to ¥4,712mn, as although the Company spent ¥213mn on dividend payments, it recorded ¥796mn as net income attributable to the owners of the parent.

Looking at the main management indicators, the equity ratio was 65.4%, falling 1.3 PP from the end of the previous fiscal period. But in actuality, equity capital is continuing to rise because advances received, which indicate earnings in the future, increased. Interest-bearing debt is also being reduced year by year, and on looking at net cash (cash and deposits - interest-bearing debt), we see that it increased by ¥930mn on the end of the previous fiscal year to ¥3,826mn. In such ways, it seems that the Company is making steady progress in enhancing its financial foundation. In the immediate future, it will not require large investment funds, so its financial condition is expected to further improve going forward, alongside the growth in earnings

Each of the profitability indicators also rose YoY, the operating income margin by 13.4%, ROA by 19.5%, and ROE by 19.0%. This was because the profit margins rose in all the business segments, but mainly in the highly profitable sales innovation business. The Company has positioned the time up to FY12/20 as a period to reform the earnings structure, and in the future also, if it has the funds available, it intends to actively invest toward realizing growth, including in development and human resources, while maintaining the current profitability situation.

Consolidated balance sheet

(¥mn)

	FY12/15	FY12/16	FY12/17	FY12/18	Change
Current assets	3,903	4,858	5,070	6,052	+981
(Cash and deposits)	2,687	3,177	3,135	4,010	+874
Non-current assets	497	496	765	809	+44
Total assets	4,401	5,355	5,836	6,861	+1,025
Total liabilities	1,533	1,786	1,751	2,149	+398
(Interest-bearing debt)	352	296	240	184	-56
Net assets	2,867	3,568	4,084	4,712	+627
Main management indicators					
(Stability)					
Shareholders' equity ratio	62.2%	63.5%	66.7%	65.4%	-1.3pt
Interest-bearing debt ratio	12.9%	8.7%	6.2%	4.1%	-2.1pt
(Profitability)					
ROA (return on assets)	15.9%	20.8%	17.0%	19.5%	+2.5pt
ROE (return on equity)	14.0%	21.4%	17.4%	19.0%	+1.6pt
Operating income margin	11.5%	13.1%	11.7%	13.4%	+1.7pt

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

For the FY12/19 forecasts, the targets in the medium-term management plan have been left unchanged, but there is room for results to exceed the forecasts

4. FY12/19 consolidated earnings outlook

The outlook for the FY12/19 consolidated results is for the higher sales and profits to continue, with net sales to increase 8.1% YoY to ¥9,930mn, operating income to rise 7.0% to ¥1,320mn, ordinary income to grow 6.4% to ¥1,320mn, and net income attributable to the owners of the parent to increase 5.4% to ¥840mn. These forecasts are the same as the results targets in the medium-term management plan announced in January 2018. But sales and profits were higher than forecast in FY12/18, and orders at the present time continue to trend strongly. Therefore, at FISCO we think that in FY12/19 also, both sales and profits may slightly exceed their forecasts, as long as there are no major changes to the market environment in the near future.

FY12/19 earnings results outlook

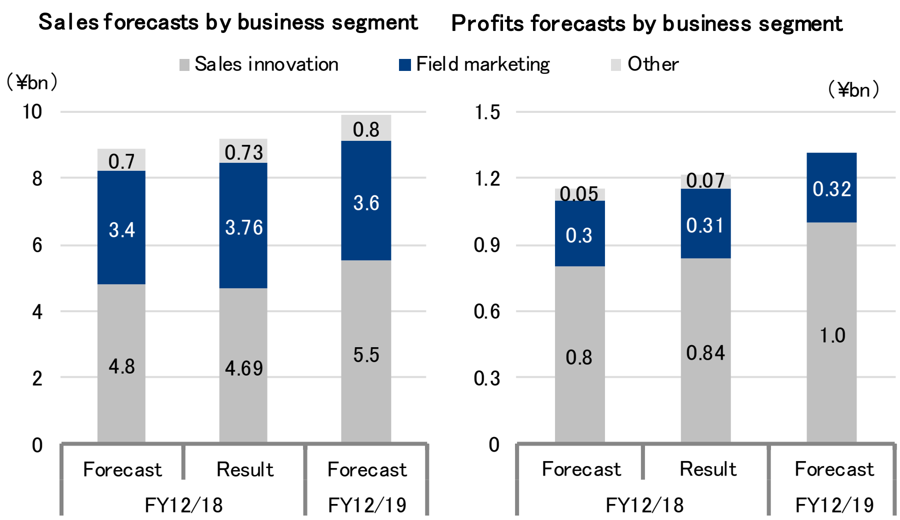
(¥mn)

	FY12/18		FY12/19		
	Result	% of sales	Forecast	% of sales	YoY
Net sales	9,188	-	9,930	-	+8.1%
Operating income	1,233	13.4%	1,320	13.3%	+7.0%
Ordinary income	1,240	13.5%	1,320	13.3%	+6.4%
Profit attributable to owners of parent	796	8.7%	840	8.5%	+5.4%
Earnings per share (¥)	27.18		28.64		

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

Looking at the FY12/19 results forecasts for the sales innovation business and the field marketing business at the time of formulating the medium-term management plan, the forecasts for the sales innovation business were for net sales to increase 17% YoY to ¥5.5bn and segment income to rise 19% to ¥1bn, and for the field marketing business, net sales to decrease 4% to ¥3.6bn and segment income to increase 1% to ¥320mn. But as the results in the field marketing business in the previous fiscal period were higher than forecast, looking at the growth rates, the calculations are for net sales to decrease and segment income to slightly increase. But the current order situation continues to be strong, so at FISCO, we think it is highly possible that results will exceed the forecasts for this fiscal period also. On the other hand, results in the sales innovation business in the previous fiscal period were basically as forecast, and in 2019, companies' willingness to invest in IT toward improving sales productivity remains strong. So for FY12/19, the increases in sales and profits are expected to continue at basically the same pace as the Company forecasts.

The Company has positioned the time up to FY12/20 as a period to reform the earnings structure, and it intends to actively conduct investment toward realizing growth (including in development and human resources) while maintaining profitability. Therefore, the operating income margin is forecast to be maintained at the same level as the previous fiscal period, of around 13%.



Source: Prepared by FISCO from the Company's medium-term management plan materials and financial results

Medium-term management plan

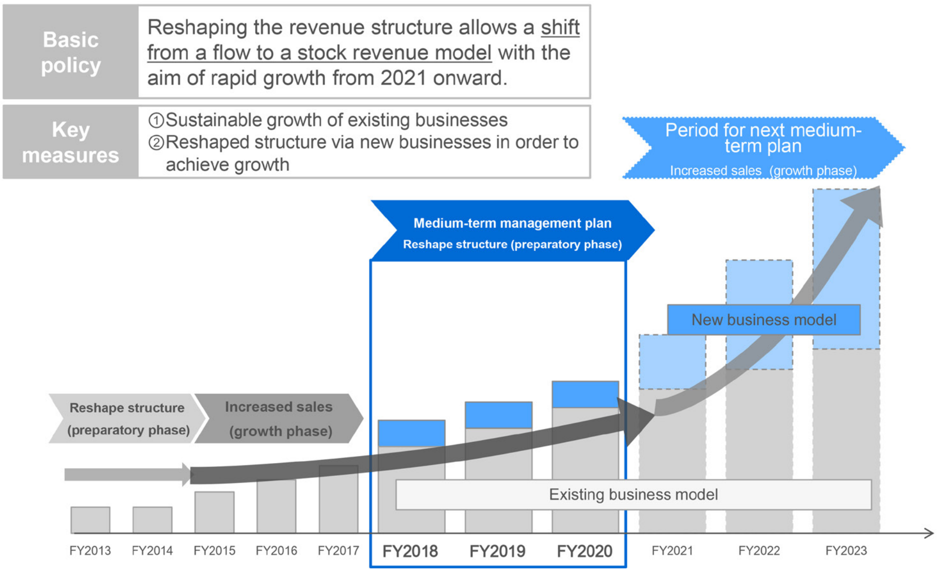
Is transitioning from a flow type to stock type earnings model, and the pace of growth will accelerate from 2021 onwards

1. The basic policy and management numerical targets

In January 2018, the Company announced a three-year medium-term management plan with FY12/20 as its final fiscal year. The plan's basic policy is to implement structural reforms to "change the earnings model from a flow type to a stock type" to realize rapid growth from 2021 onward. It also sets-out the structural reforms that will be progressed as the priority measures for the continued growth of the existing businesses and the growth of the new businesses.

The plan's management numerical targets for FY12/20 are consolidated net sales of ¥11.3bn, operating income of ¥1.5bn, and an operating income margin of 14%. Earnings will be driven by the mainstay sales innovation business and field marketing business, but the systems development business and publishing business are also expected to perform strongly.

The medium-term management plan's basic policy and priority measures



Source: Company's results briefing materials

Growth in sales of e-Sales Manager will accelerate from 2021 onwards from the expansion of the customer base due to the launches of new products

2. Growth strategies by business segments

(1) Sales innovation business

The market environment for the sales innovation business is expected to continue to be advantageous. In the situation of the decline in the working-age population in Japan, "improving productivity" and "growing sales" have become important management issues for companies, and as the solutions to these issues, there seems to be plenty of room for growth for the Company's e-Sales Manager (framework building), and sales consulting and training services (model building). There are many competitor companies providing SFA (sales-support software), but few companies are able to propose a total solution, from pre-installation services, such as consulting, training, and support, through to post-installation services, and the ability to provide such a solution is one of the Company's strengths.

The potential target market is, among Japanese companies (approximately 4.1 million companies) with a total sale force of 2.6 million people, "large companies" with the funds to invest in IT and also "profitable, medium-sized companies and SMEs." In terms of company numbers, it is targeting approximately 220,000 such companies with a sales force of 1.6 million people. According to the Company's estimates, among its targets of approximately 220,000 companies, the percentage of them that have installed SFA is still low, at around 14%. Also, it seems that only 3.5% of all these companies that have installed it are actively using its functions. This active rate is estimated by the Company from within its sales activities from the usage of other companies' products. On considering this situation, SFA's growth potential remains large.

SFA introduction rate and active rate

	No. of target companies	Expected no. of introducing companies	SFA introduction rate		Expected no. of active companies	SFA active rate	
Major companies	17,000	5,000	30%		1,300	8%	
Profitable medium-sized companies and SMEs	200,000	26,000	13%	14%	6,500	3%	3.5%

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

In this kind of market environment, the Company's strategy is to "strengthen the existing model" and expand the customer base, grow earnings through developing and providing optimized products and services for "medium-sized companies and SMEs" that it has not previously approached, and for regulated industries and "specific industries" with special operations.

In terms of the products for medium-sized companies and SMEs, as previously stated, the Company released the self-serve-type e-Sales Manager Remix MS and plans to increase its sales in the future. It is a complete product in which all the functions are used over the Internet, from inquiries and installation through to the various settings and the contract, and it offers basically the same functions as the previous product for a monthly usage fee of approximately 60% of the price of this former product (¥3,500 per ID). This means that the barrier to installing it is low even for medium-sized companies and SMEs. During the 30-day free trial period, users can actually experience the excellent "usability" of this product, which is considered will lead to contracts for the fee version. The Company is currently at the stage of improving and enhancing its functions to reflect the requests of users, and it plans to begin fully-fledged sales-promotion activities at the stage when its degree of completeness has been increased.

Also, with regards to the products for specific industries, the Company's strategy is, while welcoming the cooperation of industry-major companies that are already its customers, to progress development, standardization, and customer acquisition within industries for the best SFA tools in these industries. It previously conducted development individually that was tailored to the needs of each customer, but its current strategy is to reduce development costs through standardization and to acquire customers by improving price competitiveness. The target industries are those with large sales forces, such as finance, pharmaceuticals, and real estate. The Company has already been conducting development individually for companies in these industries, but the time period for standardization has not yet been determined.

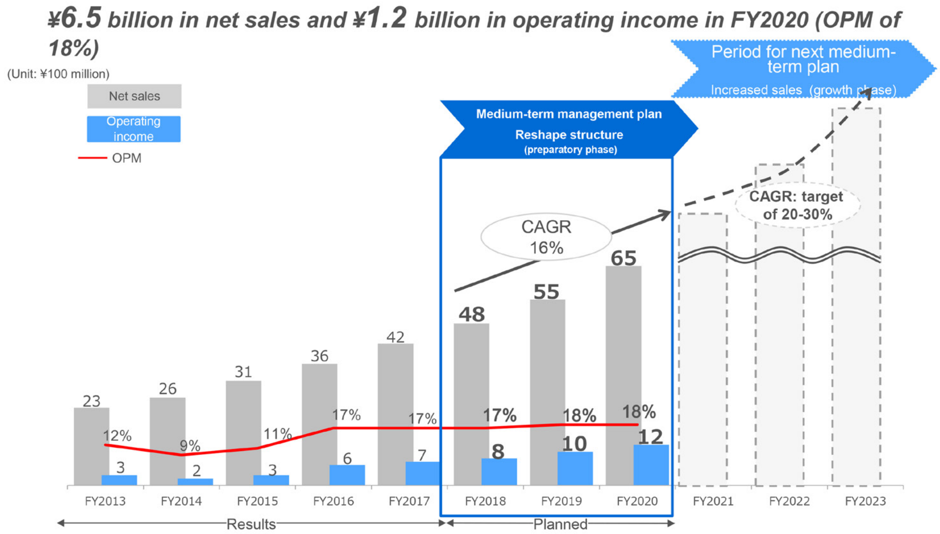
Strategy to expand the target customers

Target		Tactics
Existing model	· A sales force of more than 21 people	Thoroughly pursuing usability on the axis of "e-Sales Manager Remix" · Multi-device compliant (a framework in which it can be used anywhere and at any time) · Linked to other companies' products (BI/MA field), division-of-labor-type AI functions (replaced with AI for non-core operations) · Pursuit of "model building" through sales consulting
Specific industries	· Finance, pharmaceuticals, real estate, etc. (industries with many sales)	Collaborations with the top runners in their industries · Development of the best sales process for specific industries · Responding to the essential requirements of industries, such as to industry regulations and cooperation with industry specific-type systems · Basic designs of existing products, following the design concept
Medium-sized companies and SMEs	· Profitable medium-sized companies and SMEs with a sales force of 20 or fewer people	Opening-up the market through the self-serve-type "e-Sales Manager Remix MS" · Maintaining No.1 for usability · Providing inexpensive products · Simple introduction, setting, and utilization of the online complete product

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

In the medium-term management plan, the results targets for FY12/20 are net sales of ¥6.5bn, operating income of ¥1.2bn, and an operating income margin of 18%. But these targets do not include the contributions to earnings of the new products for medium-sized companies and SMEs and for specific industries, and they are values assuming growth from the existing model. The operating income margin is forecast to be maintained at the 18% level due to the continuous investment in development, but it is expected that the percentage of total sales provided by stock earnings will rise from the FY12/18 result of slightly less than 50%, to around 70%, so the stability of earnings will improve. From 2021 onwards, the spread in the use of SFA in companies will accelerate, while the new products are also expected to contribute to earnings. So the Company also considers that the sales growth rate will accelerate to around 20% to 30% a year and that it will enter a high-growth phase.

Sales innovation business numerical targets



Source: Company's results briefing materials

(2) Field marketing business

The market surrounding the field marketing business is expected to continue to be favorable in the future, including due to the advances of the aging population and declining birthrate in Japan, the measures by companies to reform ways of working, and their utilization of outsourcing. In particular, the legal preparations to promote the utilization of women in the workforce, including the Act on the Promotion of Women's Participation and Advancement in the Workplace, are being advanced, and utilization of housewives as a new labor force is moving forward.

Changes to the business environment

Societal environment	· Full realization of a declining-birthrate, aging-population society · Societal requirements for reforms to ways of working · Momentum toward utilizing women	Legal system	· Continuous review of labor-related legislation (relaxation of regulations, such as the Dispatch Law, Labor Standards Law, etc.)
Corporate behavior	· Spread of business outsourcing · Changes to companies' marketing strategies (from mass to direct)	Competitive environment	· Emergence of a new business model in the labor market from the development of IT

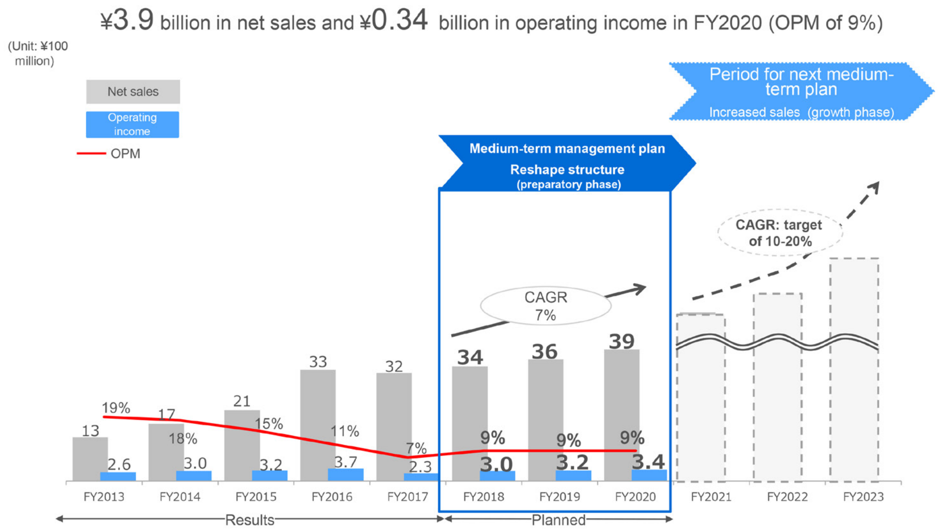
Source: Prepared by FISCO from the Company's results briefing materials

According to the Company's estimates, the market scale for shop rounders for consumer goods manufacturers is on a scale of around ¥100bn (including potential demand), and within this amount, the Company sales will be around the 3% level, of ¥3.7bn. Going forward also, as the shift to outsourcing of rounder operations for consumer goods manufacturers will continue, there remains plenty of room for growth even in this market alone. The Company expects to capture demand for outsourcing in the field (sales) market, so is aiming for further growth. As previously explained, it has already started to accumulate a track record of orders for sales agencies operations from B-to-B companies, and in the future, it intends to actively provide field marketing proposals in fields where specific skills are not required, which will lead to the acquisition of orders. The scale of this field market as a whole is estimated to be ¥2 trillion (assuming an outsourcing rate of 10%), so the potential demand is enormous. In addition, in the long term, it is also expected that its provision of services will lead to the activation of local communications by utilizing to the greatest possible extent its network of housewives who are located in local communities throughout the country. These services are considered to include life-support services for the elderly, such as for shopping and housework.

In addition, attention is also focusing on Point of Buy® (a service to provide information on reasons for purchases) that is being provided as a new service. The Company is currently at the upfront-investment stage in order to increase the volume of consumer-purchasing data. But it if it able to build a data-collection structure, this service has the potential to develop to become a pillar of earnings. In the Company's plan, it is aiming to expand the structure to collect data on the reasons for purchases from 1.8 million data per month in 2019 to 3 million data in 2020. If it is able to collect 3 million reasons-for-purchases data per month, it will be the largest volume of data in Japan, and not only will the reliability of the purchasing data using existing POS data become basically unmatched, but added-value data, of the reasons for purchases, will be added. So it is considered highly possible that it will be able to be utilized as effective data for the marketing strategies of companies. This is because, looking from the companies' side, it will be possible to analyze not only the sales trends of your own company's and competitor companies' products, but also aspects such as consumers' reasons for purchases. Therefore, the Company's policy at the present time is to progress business collaborations with companies with many members in order to increase its questionnaire members to around 256,000 people.

In the medium-term management plan, the results targets for FY12/20 are net sales of ¥3.9b, operating income of ¥340mn, and an operating income margin of 9%. But as previously stated, the FY12/18 results increased at a pace exceeding the forecasts, so it is highly possible that in the future also, results will trend at a pace above the targets set-out in the medium-term management plan. Moreover, in this business as well, the outlook for 2021 onwards is for the sales growth rate to accelerate to 10% to 20% a year from the expansion of orders from B-to-B companies and the launch and development of the Point of Buy® service.

Field Marketing business numerical targets



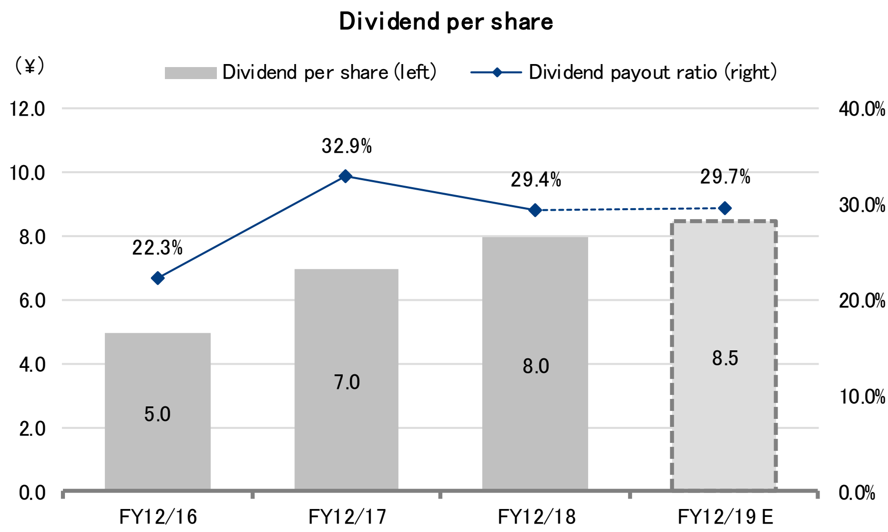
Source: Company's results briefing materials

Shareholder return policy

Plans a dividend payout ratio of 30%

In order to continuously improve enterprise value and return profits to shareholders, the Company's basic policy is to establish the business foundations to stably and continuously generate profits, to actively develop new businesses, to invest capital and take other such measures as necessary, and while taking into consideration medium- to long-term business policies, to pay dividends after considering the necessity of supplementing retained earnings and securing funds. Its aims for a dividend payout ratio of 30%, unless it has special demands for capital.

In FY12/19, the dividend per share will increase ¥0.5 YoY to ¥8.5 (dividend payout ratio, 29.7%) and the Company has continuously increased the dividend since resuming payments in FY12/16. If earnings continue to grow in the future, at FISCO we think it is highly likely that the dividend will also continue to increase.



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

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