COMPANY RESEARCH AND ANALYSIS REPORT

Tecnos Japan Inc.

3666

Tokyo Stock Exchange First Section

26-Sept.-2019

FISCO Ltd. Analyst

Ikuo Shibata

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary ——— 01

1. Company overview ······ 01
2. The FY3/19 consolidated results ······ 01
3. The FY3/20 consolidated results forecasts ······ 01
4. The growth strategy ······ 02

Company overview ——— 03

1. Business overview ······ 03
2. The Group's business structure ······ 05
3. History ······ 05

The Company's features ——— 06

1. The foresight to read the future ······ 06
2. Utilizing its unique templates with an abundant track record of ERP implementation ······ 06
3. Human resources who support the high-quality consulting capabilities ······ 07
4. Realizing high profitability while also conducting upfront investment for the future ······ 07
5. A structure for the comprehensive support of big data management ······ 07

Results trends ——— 07

1. FY3/19 results overview ······ 07
2. Past results trends ······ 09

Results of the main activities ——— 10

1. In North America, Lirik, which conducts a Cloud integration business, joined the Group ······ 10
2. TDSE is newly listed (removed from the scope of consolidation of the Group) ······ 11

Results outlook ——— 11

The industry environment ——— 12

The growth strategy ——— 13

1. Constructing a platform business ······ 13
2. Progressing the global business ······ 13
3. Investment in human resources and organizations ······ 14

Shareholder returns policy ——— 14

Summary

Due to the strong willingness to invest, results are currently setting new record highs.
With a focus on developing the global business and constructing a unique platform

1. Company overview

TECNOS JAPAN INCORPORATED <3666> (hereafter, also "the Company") is an independent, ICT systems services company that is focusing on a business to support the implementation of ERP (Enterprise Resource Planning, a core work system; hereafter, the ERP-related business), while it is also focusing on expanding its global business, mainly through its digital transformation (DX) promotion business (hereafter, the DX promotion business), which includes the utilization of big data, IoT, and blockchain. Its strengths include its high-quality consulting capabilities, technological capabilities, and the utilization of its proprietary templates, and the Company has a track record of supporting the implementation of ERP, on the axis of SAP, for more than 200 companies, mainly in the manufacturing industries. Amid the acceleration of digitization, it is working to construct industry-optimized, collaborative-creation platforms by combining ERP (company optimization) and DX (inter-company collaborations), and utilizing the data accumulated from this to provide value (reforming customers' businesses).

In June 2018, the Company acquired US company Lirik, Inc. (conducts a system integration (SI) business, mainly in the US) and thereby established a structure to expand business in the North American market and to actively utilize IT human resources in India. On the other hand, it sold some of its shares in TDSE (Tecnos Data Science Engineering <7046>) following this company's listing on the Tokyo Stock Exchange (TSE) 2nd Section in December 2018, and as a result, TDSE was removed from the scope of the Group companies (however, there has been no change to their relationship in terms of business strategy).

2. The FY3/19 consolidated results

In the FY3/19 consolidated results, sales and profits increased to set new record highs, with net sales rising 28.6% year-on-year (YoY) to ¥6,975mn and operating income growing 5.4% to ¥782mn. Despite being impacted by TDSE's removal from the scope of equity method affiliates, sales steadily grew in the ERP-related business for the manufacturing industries, trading companies and retail industry on the back of a strong willingness to invest. The consolidation of Lirik also contributed to the higher sales. In profits, even though the operating income margin declined slightly due to the rise in outsourcing expenses, etc., an increase in operating income was secured from the higher sales.

3. The FY3/20 consolidated results forecasts

For the FY3/20 consolidated results, the Company is forecasting higher sales and profits, with net sales rising 17.6% YoY to ¥8,200mn and operating income growing 6.1% to ¥830mn, and the outlook is for new record highs for both net sales and operating income. For sales, needs for IT investment are rising in response to the advance of work style reforms and the labor shortage, while the market environment continues to be favorable on the back of the progress made in ICT technologies, including AI and IoT, so it is anticipated that sales in the ERP-related business will continue to grow significantly. The Company will also work to expand overseas sales, including from the effects of Lirik's consolidation. In profits, the profit margins will decline slightly due to the high outsourcing expenses and the upfront investment in the DX promotion business (such as construction of the Company's unique platform), but the outlook is still for an increase in operating income to be secured from the effects of the higher sales.

4. The growth strategy

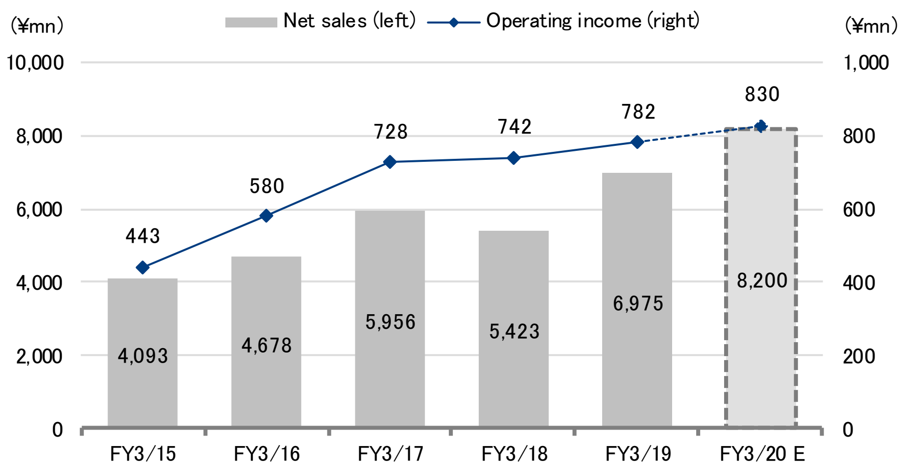
Having commemorated the 25th anniversary of its establishment and with a view to factors such as environmental changes in the future, the Company has newly redefined its mission and vision. Based on its mission of "Contributing to the development of society by connecting organizations, people, and data." its direction (vision) is to aim to "LEAD THE CONNECTED SOCIETY TO THE FUTURE." In other words, in addition to the conventional type of ERP (a company optimization core system through unifying management information), it is strongly creating an industry optimization-type platform business (contributing to the standardization of work, the establishment of superiority, etc.) that connects data between companies through DX. It has also set three points for the future investment areas towards growth, such as the "platform business," the "global business" and "human resources and organizations."

At FISCO, we consider it highly likely that the Company will achieve sustainable growth from both external factors and internal factors. In particular, in a situation in which the domestic economy is approaching maturity, we can judge its strategy of aiming to establish new growth axes by expanding the global business, centered on North America, and constructing a proprietary platform with an eye toward the full-scale development of DX as rational. Going forward, we will also be focusing on the creation of synergies with Lirik and the specific progress made for its unique platform, and developments alongside this, such as changes to the earnings structure.

Key Points

- In the FY3/19 results, sales and profits increased and were new record highs on the back of a strong willingness to invest
- Achieved a certain level of results, including the acquisition of a US company and the listing of a Group company
- For the FY3/20 results, sales and profits are also expected to continue to increase
- Having commemorated the 25th anniversary of its establishment, the Company has newly redefined its mission and vision. With an eye toward the full-scale development of DX, it is accelerating the promotion of DX by combining ERP (company optimization) and its proprietary collaborative-creation platform (industry optimization).

Results trends



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

Company overview

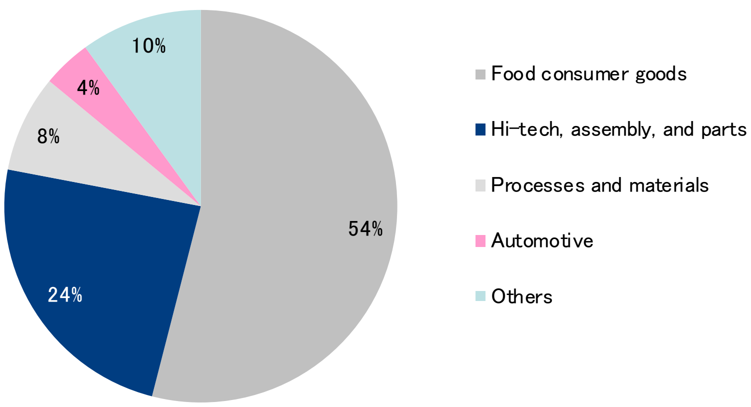
Focusing on supporting the implementation of ERP and promoting digital transformation (DX)

1. Business overview

The Company is an independent ICT systems services company that is focusing on growing its ERP-related business, while also focusing on expanding the DX promotion business, which includes the utilization of elements such as big data, IoT, and blockchain, and the global business. It provides a series of services, from information systems planning and drafting (consulting) through to analysis and design, development and implementation, and maintenance. Its strengths include its high-quality consulting capabilities and technological capabilities and that it utilizes its proprietary templates, and it has a track record of supporting the implementation of ERP, on the axis of SAP, to more than 200 companies, mainly in the manufacturing industries. Amid the acceleration of digitization on a global scale, it has set a new Group mission of “Contributing to the development of society by connecting organizations, people, and data.” and it is working to construct industry-optimized collaborative-creation platforms by combining ERP (company optimization) and DX (inter-company collaborations), and utilizing the data accumulated from this to provide value (reforming customers’ businesses)

The composition of total net sales by industry (FY3/19 results) was 54% for food consumer goods; 24% for high-tech, assembly, and parts; 8% for processes and materials; 4% for automotive; and 10% for others. At the current point in time, it is focusing on measures for the manufacturing industries to improve the efficiency of production work (including smart factories).

Composition of total net sales by industry (FY3/19)



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

The Company has only one business segment, “information systems solutions services,” but in terms of the content of the services provided, it is divided into “core work systems and peripheral solutions” and “others.” Moreover, the former is broadly divided into the mainstay ERP-related business and the new focus field of the DX promotion business. “Information systems solutions services” provides 99.2% of total consolidated net sales.

(1) The ERP-related business

Based on a Best of Breed* strategy to realize optimal solutions for customer companies, the Company supports the implementation of ERP packages (core work systems) provided by various ERP vendors that distribute on a global scale. Specifically, it accurately ascertains in a timely manner the flow of goods in the logistics management work (purchasing, production, and sales) of customer companies, and also ascertains results in a timely manner and future forecasts for accounting management work (financial accounting and management accounting), and it provides integrated services for the results management of globalized corporate groups, from the upstream (consulting) through to the downstream (maintenance and improvements). The ERP packages which the Company handles are centered on SAP ERP of SAP Japan, Co., Ltd., and also include mcframe by Toyo Business Engineering Corporation <4828>, which is strong in production management; Infor LN by Infor Japan Co., Ltd.; and JDE by Oracle Corporation Japan <4716>.

* An approach of selecting the best hardware and software in each field and constructing systems by combining them.

For SAP ERP, which is the axis, in September 1996 the Company concluded a partner agreement with SAP Japan (started handling products at the time of establishment in 1994), and it has a track record of supporting its implementation into more than 200 companies. The Company is also focusing its efforts into overseas-related projects, supporting roll-in and roll-out (implementation to the overseas local subsidiaries of Japanese companies and the Japanese corporations of foreign companies). Furthermore, by using the templates* it has created based on its previous experience of implementation; it is able to complete an implementation with a short delivery time and low cost, and to provide new added value.

* Refers to new packages with settings and additional functions that other companies deem necessary being created by the Company based on its track record of implementing ERP packages and other software. By combining these settings and functions with the ERP package, it is possible to reduce the time required for implementation and costs when making new implementation.

Alongside the implementation of ERP packages, there is a growing need for even more evolved total solutions (demand forecasts, marketing related, etc.) through combining peripheral technologies. In response to this, the Company is working on products including EPM*1/BI*2, EAI*3, etc.

*1 Abbreviation of Enterprise Performance Management (the management of a company's results). It refers to concepts and tools that enable a company to manage its results and create initiatives based on a strategy.
*2 Abbreviation of Business Intelligence. It refers to concepts and tools for the accumulation, classification, search, analysis, and processing of data inside and outside of a company and making this useful for business decision making.
*3 Abbreviation of Enterprise Application Integration. It entails the coordination of multiple systems to integrate data and processes.

(2) The DX promotion business

Amid the acceleration of digitization on a global scale, the Company is also working to create added value through combination with DX (not only in-company optimization but also connecting data between companies for industry optimization) while responding to needs to switch to DX-compliant ERP*1. In particular, it is actively investing in constructing its unique platform (CBP)*2 that utilizes technologies including IoT and blockchain and developing various services to be provided on this platform. It will promote business reforms to its customers by using AI and other technologies to utilize to the greatest possible extent the big data accumulated on the platform, which will also enable the Company to secure a stable source of earnings.

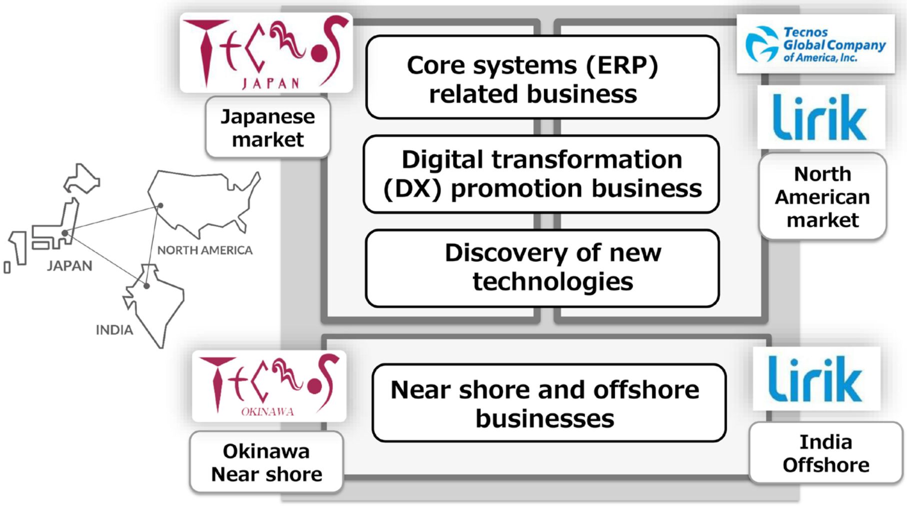
*1 SAP has shown a positive stance toward DX-compliant ERP and has announced that it intends to discontinue support for conventional ERP by 2025.
*2 Abbreviation of Connected Business Platform. It is a new business platform that goes beyond inter-company frameworks and optimizes its entire business.

2. The Group's business structure

In addition to the Company, the Group is comprised of 6 consolidated subsidiaries (as of July 2019). The consolidated subsidiaries are Okinawa Tecnos Incorporated, established as a near shore base; Tecnos Global Company (hereinafter, TGC), which is positioned as the control tower for the international bases; Tecnos Global Company of America, Inc. (TGCA)*, and also Lirik, which was acquired via TGCA in June 2018, and its subsidiaries, Lirik Infotech Private Limited (an Indian global delivery center) and Lirik Software Services Canada Ltd. Therefore, the Group's business structure is that it is developing businesses in the Japanese and North America markets and also utilizing Okinawa (near shore) and India (offshore) for IT human resources. TDSE, which was previously an equity method affiliate, was removed from the scope of the Group because the Company sold some of its shares in TDSE following the company's listing on the TSE Mothers Market in December 2018.

* TGCA changed its name from Tecnos Research of America, Inc. (hereafter, TRA) in November 2017.

Image of the Tecnos Group as a whole



Source: The Company's financial results briefing materials

3. History

The Company was established in April 1994 with the aim of providing high-quality SI services using a small number of highly talented personnel. Since then, it has partnered with several ERP vendors, starting with SAP Japan but also including Toyo Business Engineering, Oracle Japan, and Infor Japan. It has expanded its business scale while establishing and enhancing its business to support the implementation of ERP. Based on a business management structure that does not rely on the products of specific vendors, it has acquired an excellent reputation among both vendors and users for its high-quality consulting capabilities, technological capabilities, and project-management capabilities, generating growth in results. It was listed on the Osaka Stock Exchange JASDAQ (standard) market in December 2012 (following the change of this market in June 2015 to the TSE 2nd Section, it was listed on this market, and its listing was then upgraded to the TSE 1st Section in September of the same year).

Following its listing on JASDAQ in 2012, the Company developed a strategy to make the big data business its second business pillar after the ERP business. In September 2013, it established TRA with the aims of collecting information and discovering venture companies in the United States. Then in October of the same year, it established TDSE* (current name) as a group of data scientists responsible for the big data business and started to construct the foundations of a new business. In 2015, it launched sales of artificial intelligence products and also concluded a series of business partnership agreements with salesforce.com <CRM> and Microsoft Japan Co., Ltd., and it accelerated the strategy aimed at strengthening foundations toward expanding the big data business. Also, in 2018 it established a structure toward business expansion in the North America market through acquiring Lirik, a US company. Conversely, it sold some of its share in TDSE following this company's listing on the TSE Mothers Market, and as a result, it was removed from the scope of the Group.

* Its company name when it was first established was Tecnos Data Science Marketing Co., Ltd., (TDSM). It changed its name to its current name, TDSE, in April 2016.

The Company's features

Strengths include that it utilizes its unique templates and its consulting capabilities. Building a comprehensive support structure by integrating ERP and big data

1. The foresight to read the future

The sources of the Company's strength can be said to be its ability to forecast future trends and the foresight to act ahead of other companies. It predicated the potential of ERP in the mid-1990s, when it was still not in widespread use. Within the industry, it was the first to quickly focus on establishing a foundation for and expanding ERP-related business, starting with SAP. Therefore, the Company has accumulated an abundance of results and expertise. For the DX promotion business, amid the acceleration of digitization and with an eye to companies' business reforms, the Company has also been working to construct a unique platform business by utilizing new technologies, including IoT, blockchain, and AI.

2. Utilizing its unique templates with an abundant track record of ERP implementation

As previously explained, the Company has accumulated a track record for many ERP implementation by acting ahead of other companies. It has implemented it into more than 200 companies, mainly in the manufacturing industries, such as electrical and electronic equipment, precision, machinery, and chemistry. It has also accumulated expertise from this abundant track record and experience, which it has consolidated into the Fact Series, its unique templates customized to industry and work task. It uses these templates to provide functions with no waste that are tailored to meet the needs of each industry at low risk, in a short period, and at low cost, which is a factor that significantly differentiates it from other companies. The templates also function as a bridge between ERP and big data for peripheral solutions, and they go beyond the boundaries of ERP and generate various effects, such as improving work efficiency, speeding up processes and reducing costs. It can be said that this has led to its excellent results. For example, the Company has continually received awards from major vendors.

3. Human resources who support the high-quality consulting capabilities

For the human resources who support the Company's consulting capabilities, which is another of its strengths, it focuses on developing multitalented employees who are fluent in other languages, have a global mindset, and are able to multitask, as well as always keeping in mind global business development (supporting the overseas business development of customer companies) in addition to providing high-quality services. It is also maintaining the number of staff who hold certifications from various vendors at an extremely high level.

4. Realizing high profitability while also conducting upfront investment for the future

The Company's previously described utilization of its unique templates and its high-quality consulting capabilities are connecting to improvements to its productivity and added value, even while it conducts upfront investment for the future, including to strengthen in the big data and peripheral fields and to construct the proprietary platform. Therefore, the Company is realizing profit margins that greatly exceed the industry averages, with an operating income margin of 11.2% and an ordinary income margin of 12.2%. In other words, its high profitability is the source of the funds for the developments that will be the next earnings drivers, and it is establishing an ecosystem toward realizing sustainable growth.

5. A structure for the comprehensive support of big data management

It is said that the key to the successful use of big data, which will determine the success or failure of companies in the future, is linking it to ERP. Therefore, the Company's many achievements and expertise in the ERP field are considered to be a major advantage for it in terms of the utilization of big data and the development of the DX promotion business. In particular, the Company is one of only a very few companies in the industry in Japan to have established a comprehensive support structure by integrating the ERP and big data fields. Starting with smart factories* and industry-optimization platforms (CBP), it is highly likely that this will be a differentiation factor toward business expansion for the Company in the future.

* By connecting all machines within the factory to the internet, it is possible to ascertain the operating conditions of machines and other details, such as product quality, and realize efficient operations throughout the entire factory, creating an environment to maximize profits.

Results trends

Results in FY3/19 were new record highs
The ERP-related business steadily expanded on the back of a strong willingness to invest

1. FY3/19 results overview

In the FY3/19 consolidated results, sales and profits increased to set new record highs (for the fifth consecutive period for operating income and ordinary income), with net sales rising 28.6% YoY to ¥6,975mn, operating income growing 5.4% to ¥782mn, ordinary income climbing 8.6% to ¥848mn, and net income attributable to owners of the parent increasing 236.4% to ¥1,411mn. The results also exceeded the revised forecasts (announced on December 21, 2018).

Despite being impacted by TDSE's removal from the scope of equity method affiliates (a factor decreasing sales by approximately ¥400mn), sales steadily grew in the ERP-related business for the manufacturing industries, trading companies, and retail industry on the back of a strong willingness to invest. Lirik joined the Group in June 2018, which also contributed to the higher sales (estimated to be a factor adding around ¥300mn to sales).

In profits, even though the operating income margin declined slightly following the worsening of the cost-of-sales ratio, due to the rise in outsourcing expenses, etc., an increase in operating income was still secured from the higher sales. Meanwhile, the significant increase in net income attributable to owners of the parent was due to recording a gain on the sale of some of the shares held in TDSE following its listing (extraordinary income), so it is necessary to be aware that this is a temporary factor.

For the Company's financial condition, shareholders' equity increased 65.5% on the end of the previous fiscal year to ¥5,329mn due to the accumulation of internal reserves. Total assets also grew significantly, up 76.2% to ¥7,383mn, because of the effects of the revaluation of "investment securities" following the listing of TSDE and the acquisition of Lirik. Therefore, the equity ratio declined slightly to 72.2% (76.8% at the end of the previous fiscal period). Also, ROE, which indicates capital efficiency, increased greatly to 33.1% (12.6% in the previous fiscal period) due to the previous mentioned temporary factor (the recording of a gain on the sale of the shares of an affiliate). But even after excluding this factor, the Company's financial condition continues to be excellent.

* Following the acquisition of Lirik, items including "goodwill" of ¥136mn and "customer-related assets" of ¥193mn were recorded in non-current assets.

Overview of the FY3/19 results

(¥mn)

	FY3/18		FY3/19		Change		FY3/19 revised forecasts (announced on December 21, 2018)		Achievement rate
	Results	Composition ratio	Results	Composition ratio		% of change		Composition ratio	
Net sales	5,423		6,975		1,551	28.6%	6,900		101.1%
Cost of sales	3,687	68.0%	5,203	74.6%	1,515	41.1%	-	-	-
SG&A expenses	993	18.3%	988	14.2%	-4	-0.4%	-	-	-
Operating income	742	13.7%	782	11.2%	39	5.4%	775	11.2%	101.0%
Ordinary income	781	14.4%	848	12.2%	67	8.6%	845	12.2%	100.4%
Net income attributable to owners of the parent	419	7.7%	1,411	20.2%	991	236.4%	1,147	16.6%	123.1%
Total assets	4,189		7,383		3,194	76.2%			
Shareholders' equity	3,218		5,329		2,111	65.6%			
Equity ratio	76.8%		72.2%		-4.6pt	-			

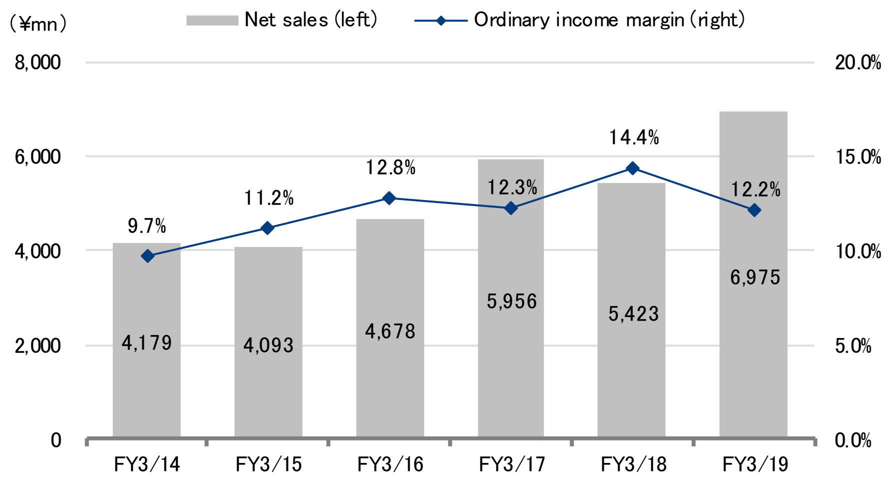
Source: prepared by FISCO from the Company's financial results report, financial results briefing materials, and press releases

Operating and ordinary income were new record highs for the fifth consecutive period
The profit margins are also trending at levels above the industry standard

2. Past results trends

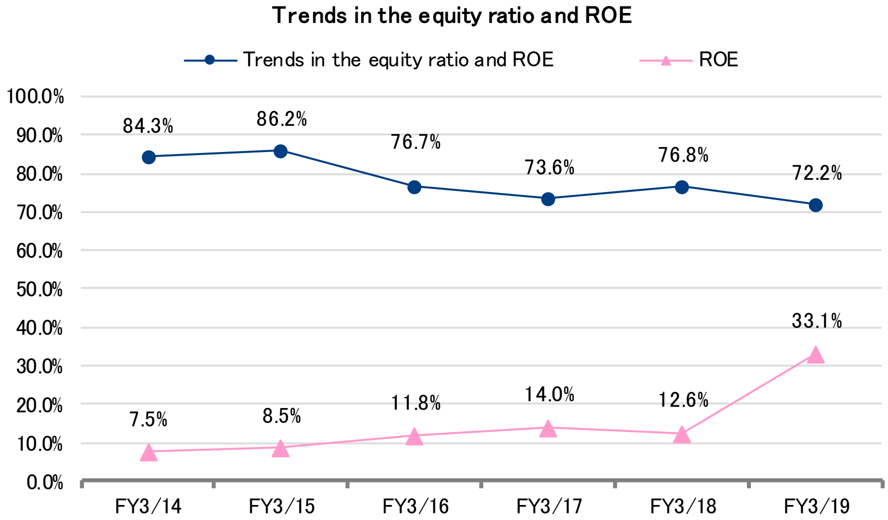
Looking back on how the consolidated results have trended in the past, the Company prioritized establishing a structure for the future from FY3/14 to FY3/15. That did not help grow sales, which started accelerating with the launch of the big data business and the expansion of overseas sales from FY3/16. As previously mentioned, sales declined temporarily in FY3/18 because TDSE was removed from the scope of consolidation. But sales started to increase significantly in FY3/19 due to the expansion of the ERP-related business on the back of the Company's strong willingness to invest. So, the Company's results can be evaluated as steadily growing. In profits also, both operating income and ordinary income were new record highs for the fifth consecutive fiscal period, while the profit margins are also being maintained at levels greatly above industry standards.

Trends in consolidated net sales and the ordinary income margin



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

For the Company's financial condition, the equity ratio, which indicates the stability of the financial base, is trending at a high level. Meanwhile, ROE, which shows capital efficiency, is also being maintained at a level above 10%. So, it can be said that its financial condition is extremely excellent. ROE increased significantly in FY3/19 due to the previously explained temporary factor (a gain on the sale of shares of an affiliate), but it was still at a high level even after excluding this factor.



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

Results of the main activities

Achieved a certain level of results for growth in the future, including the expansion of the global business

1. In North America, Lirik, which conducts a Cloud integration business, joined the Group

In June 2018, the Company, through its US subsidiary TGCA, acquired 95% of the outstanding shares of Lirik*, which conducts an SI business, mainly in the United States. Through this acquisition, Lirik became the Company's consolidated subsidiary (the subsidiary of a subsidiary).

* Alongside this, TGCA received an increase in capital (approximately ¥0.04bn), and it was added to the scope of consolidation.

Lirik began its business in Silicon Valley and has been growing its business, which is mainly an ERP and CRM Cloud integration business. In North America, which drives the global IT and AI markets, it will advance an ERP x CRM x AI business, as well as utilizing Lirik's human resources and network in Silicon Valley with the aim of enhancing its discovery of the latest technologies and services, including in startups. In particular, it can be said that the acquisition of Lirik brought merits to the Company. For example, the acquisition enabled the Company to approach Lirik's customer base, especially on the West Coast of the United States, and also to strengthen in the CRM field on the axis of salesforce*. For Lirik also, it is considered that its aims include supplementing its credit and acquiring a foothold to enter into the Japanese market. Moreover, the Company also plans to utilize Lirik's development base in India for securing IT and AI human resources, which are expected to be in even shorter supply in the future.

* A Cloud-based CRM (customer management) application that has an excellent track record of implementation throughout the world.

Also, in June 2019, Lirik's wholly owned subsidiary started fully fledged sales operations in Vancouver, Canada. This has been positioned as the first step toward acquiring customers within Canada and establishing a business foundation there, as well as for business expansion throughout North America.

2. TDSE is newly listed (removed from the scope of consolidation of the Group)

In December 2018, TDSE, a Group company (equity-method affiliate), listed on the TSE Mothers Market, and alongside this, the Company sold some of the shares it held in it, and therefore TDSE was removed from the scope of the Group (the Company's equity ratio after the sale was approximately 18.5%, as of the end of March 2019). However, there has been no change to their relationship in terms of business strategy. As a business partner with many data scientists, the Company intends even further collaborations with TDSE going forward. TDSE's main business includes big data analysis services and AI and IoT. These markets are in high-growth phases and it is forecast there will be a shortage of data scientists in the future. Therefore, it seems it was listed with the aims of securing the funds and human resources in order to accelerate the speed of business expansion. It also can be said that the growth of an important business partner will greatly support business expansion for the Company in the future. In addition, the Company can effectively utilize the funds procured through this sale of shares for the sake of growth in the future, including to expand the global business and to construct a unique platform.

Results outlook

Forecasting new record highs, as sales and profits will continue to increase despite upfront investments

For the FY3/20 consolidated results, the Company is forecasting that the higher sales and operating (ordinary) income will continue, with net sales rising 17.6% YoY to ¥8,200mn, operating income growing 6.1% to ¥830mn, ordinary income climbing 0.2% to ¥850mn, and net income attributable to owners of the parent decreasing 60.3% to ¥560mn. The outlook is for new record highs for both net sales and operating (ordinary) income.

For sales, it is anticipated that sales in the ERP-related business will continue to grow significantly as the needs for IT investment are rising in response to the advance in work style reforms and the labor shortage, while the market environment continues to be favorable due to the progress made in ICT technologies, including AI and IoT. The Company is also working to expand overseas sales, including from the effects of Lirik's consolidation.

In profits, the profit margins are anticipated to decline slightly due to the high outsourcing expenses and the upfront investment in the DX promotion business (such as for constructing its unique platform). But an increase in operating (and ordinary) income is still expected to be secured from the effects of the higher sales. Net income attributable to owners of the parent will fall greatly, but this can be attributed to a special factor that occurred in the previous fiscal year (a gain on sales of shares of an affiliate).

At FISCO, we think it is fully possible for the Company to achieve its results forecasts. This is because companies' investment needs are solid in the Company's ERP and peripheral fields in addition to the effects of Lirik's consolidation and the growing overseas sales.

FY3/20 forecast

(¥mn)

	FY3/19		FY3/20		Change	
	Results	Ratio	Forecast	Ratio		YoY
Net sales	6,975		8,200		1,224	17.6%
Operating income	782	11.2%	830	10.1%	47	6.1%
Ordinary income	848	12.2%	850	10.4%	1	0.2%
Net income attributable to owners of parent	1,411	20.2%	560	6.8%	-851	-60.3%

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

The industry environment

Focusing on responding to ERP switching needs and creating added value as the full-scale development of DX is expected

According to a market research company, the ERP market in Japan is growing strongly on the back of steady investment in core systems, mainly by major companies. Investment in ERP continues to be stable. In particular, Cloud ERP, of its provision on the Cloud (SaaS) or package operations (IaaS), is growing rapidly. Speaking of a focal point in the future, there is the 2025 problem. In other words, while the shortage in IT human resources in Japan will increase to approximately 430,000 people, full-scale development of DX is expected alongside the acceleration of digitization, and ERP will also shift to comply with DX and utilize big data. In particular, SAP, which is the largest ERP company, plans to end its support for conventional ERP in 2025. Closely watched trends in the industry include responding to ERP switching needs, for which the Company has accumulated expertise up until now, and creating new added value through DX.

The growth strategy

Progressing digital transformation through combing ERP and its unique collaborative-creation platform
Actively working to expand the global business as well

Having commemorated the 25th anniversary of its establishment and with a view to factors such as environmental changes in the future, the Company has newly redefined its mission and vision. Based on its mission of “Contributing to the development of society by connecting organizations, people, and data.” its direction (vision) is to aim to “LEAD THE CONNECTED SOCIETY TO THE FUTURE.” In other words, in addition to implementation of and switching to the ERP that utilizes the expertise it has acquired since its establishment (a company optimization core system through unifying management information), it is strongly creating an industry optimization-type platform business (contributing to the standardization of work, the establishment of superiority, etc.) that connects data between companies through collaborative creation with venture companies and companies that are already using ERP. It will combine ERP with its proprietary platform, and this will be the form of the digital transformation that the Company will progress. It has also set three points for the future investment areas towards growth, of “the platform business,” “the global business,” and “human resources and organizations.”

1. Constructing a platform business

The Company is actively investing in constructing its unique platform (CBP), and also developing various services on this platform through collaborative creation, including with customer companies. Furthermore, it plans to promote business reforms at its customers by using AI and other technologies to utilize to the greatest possible extent the big data accumulated on this platform. First of all, the Company plans to provide a B-to-B orders and payment service, through which participating companies can expect effects including the simplification of work from ordering through to billing, improved supply chain efficiency, and flexible responses to payment methods. Meanwhile, through providing that service, the Company will have the advantage of being able to acquire a broad customer base and to secure a stable source of stock-type earnings.

2. Progressing the global business

The Company will accelerate business development for the North America market, based on the recently acquired business of Lirik. In particular, it intends to expand the commercial zone of this business from the current zone, which is focused on the West Coast of the United States. Conversely, it has established the Global Promotion Headquarters as the promotion organization at the Japanese base for the global business. Its intention is to bring together the Company’s and Lirik’s strengths to expand the ERP x CRM x AI business, while coordinating between Japan and North America. It will also acquire IT and AI human resources through strengthening Lirik’s offshore base (India), while aiming to continue to discover and develop Silicon Valley’s latest technologies.

3. Investment in human resources and organizations

The problem of the shortage of human resources in its industry is become increasingly severe, and in this situation the Company intends to actively recruit overseas human resources. Of the 30 new graduates recruited in the spring of 2019, 13 were foreign nationals. The Company intends to accumulate a track record of recruitment that will lead to results, while utilizing the Group's networks and various cultures in India and the North America. On the other hand, it is also focusing on training employees. In particular, it is working to develop global human resources, including sending its Japanese employees to the overseas bases it has acquired (in North American and India). In April 2019, it newly established the Innovation Center in Tokyo (Nihonbashi). In addition to securing excellent human resources, its aims include developing human resources, establishing an environment to promote innovation, and progressing teleworking.

At FISCO, we consider it highly likely that the Company will achieve sustainable growth based on both external factors and internal factors. In particular, in a situation in which the domestic economy is reaching maturity, we can evaluate its strategy of aiming to establish new growth axes by expanding the global business, centered on North America, and constructing a proprietary platform with an eye toward the full-scale development of DX as rational. Going forward, we will be focusing on its creation of synergies with Lirik and the specific progress made for its unique platform, as well as developments alongside this, such as changes to the earnings structure. Conversely, for the shortage of human resources, a bottleneck concern, the key points would seem to be that the Company is progressing measures to both secure and develop global human resources, including by utilizing its development bases (in Okinawa and India).

Shareholder returns policy

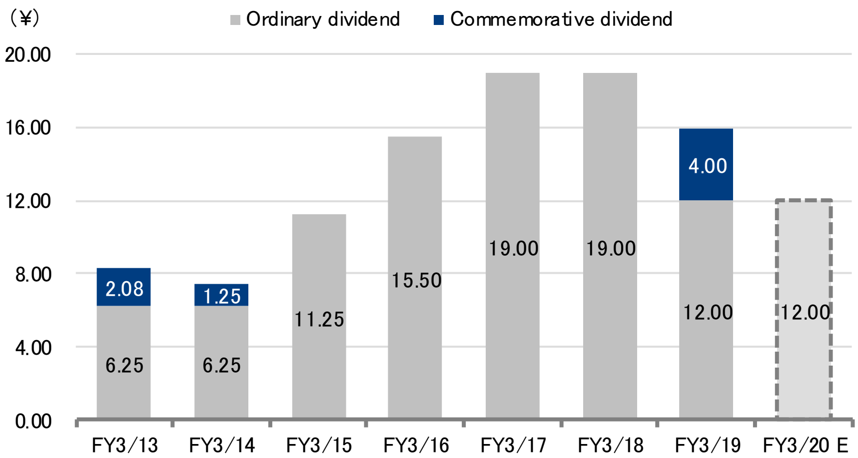
Policy is to increase the allocation to growth investment while also returning profits to shareholders by considering profits-linked factors

The environment surrounding the Company's industry is changing greatly. In such a situation, its policy for the future is to increase the allocation of funds to growth investment while also returning profits to shareholders by considering profits-linked factors. Specifically, as the dividend to stably return profits to shareholders, it has set a target of 35% or above of the "deemed dividend resource (deemed net income)" of consolidated ordinary income adjusted by the effective tax rate. In addition, it has positioned the acquisition of treasury shares as a measure to supplement the dividend to return profits to shareholders, and it is flexibly acquiring them according to cash flow conditions and other factors.

* The deemed dividend resource (deemed net income) = consolidated ordinary income x (1–effective tax rate).

For the FY3/19 dividend per share, the Company paid a total dividend of ¥16, which was comprised of an ordinary dividend, based on the above policy, of ¥12, and a commemorative dividend of ¥4 for the 25th anniversary of its establishment and the listing of an affiliate. For FY3/20, it plans to pay an ordinary dividend per share of ¥12.

Trend in the dividend per share



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

Disclaimer

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

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

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

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

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

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

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

■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp