

R&D COMPUTER CO., LTD.

3924

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

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■ Summary

Is strengthening the high-growth service lines through M&A and business partnerships

R&D COMPUTER CO., LTD. <3924> (hereafter, also “the Company”) is an independent, medium-sized systems integrator that celebrated the 50th anniversary of its foundation in January 2021. Unusually for the information services industry, it originates from an educational corporation, and it has positioned the new digital fields (the cloud, IoT, and AI) and package customization and add-on development in package-based SI services as growth businesses.

1. Strengthening the high-growth lines

Even during FY3/21, in which the external environment deteriorated due to the COVID-19 pandemic, the Company's net sales were strong, increasing 40.2% year-on-year (YoY) for Salesforce business-related, which is a cloud field centered on the promotion of digital transformation (DX). This was due to the increase in orders for large-scale development projects carried out in multiple business departments following the establishment of the Salesforce Business Promotion Office in April 2020 and the encouragement to acquire qualifications for Salesforce business-related among engineers other than those working on package-based SI services. The Japan Digital Agency is scheduled to be established in September 2021, and cloud-business demand is forecast to further increase in the public sector, including the education area.

Also, in FY3/21 the ratio of net sales from direct users was 27% (based on the annual transaction result), and the Company is strengthening package-based SI services in order to raise-up this ratio to 33%. As an example of this, it was awarded the Certified Consultant Award in the SuperStream Partner Award 2021. This is awarded each year by the developer, SuperStream Inc., to partner companies that have increased sales of SuperStream products and worked hard on business development, and it was awarded to the partner that has the best results for the SuperStream-NX engineer certification exam.

Meanwhile, in April 2021 the Company made a consolidated subsidiary of infree Corp.(below, infree), which is strong in the areas of consulting for introductions of SAP R/3, an SAP <SAP> enterprise resource planning (ERP) package, and add-on software development. Going forward, both engineers acquiring qualifications and business opportunities are expected to increase from the Company's engineers utilizing infree's in-house education system.

In the AI field, in May 2021 the Company concluded a business partnership agreement with STANDARD,Inc. (below, STANDARD), which has a track record of supporting the promotion of DX in more than 450 companies, centered on its AI technologies. The Company will be involved in the DX promotion business as STANDARD's sales partner, and its policy is to support customers, from organizing issues and proposing solutions, through to realizing DX.

Summary

2. Results trends

In the FY3/21 results, net sales decreased 2.4% YoY to ¥8,877mn and operating profit declined 12.6% to ¥620mn. Despite the impact of reactionary decreases from the previous year when there were development projects in conjunction with a law revision and Windows 10 upgrade-related business, sales grew in the cloud business of package-based SI services, the main pillar of the growth strategy. In profits, the Company focused on ending a large-scale unprofitable project that occurred in the 2Q and responding in the form of significantly reinforcing personnel, so it incurred large personnel costs and outsourcing costs and profits declined. The large-scale unprofitable project finished at the end of the 4Q, and going forward no new loss is expected to be incurred. The Company is aiming to improve earnings by working assiduously to verifying the causes of unprofitable projects and to prevent their reoccurrence.

For the FY3/22 consolidated results, the Company is forecasting new record highs for both net sales and profits, of net sales of ¥9,630mn and operating profit of ¥755mn. Together with strengthening existing technologies, based on the accurate selection of strategic domains, it will focus on building a business foundation that will lead to long-term growth. Also, to realize this growth, its policy is to progress the investment strategy continuing from the previous period. Conversely, when considering the large-scale unprofitable project that occurred in the previous period, it is raising awareness of managing development projects to prevent the occurrence of unprofitable projects, and also further strengthening projects monitoring by PMO personnel.

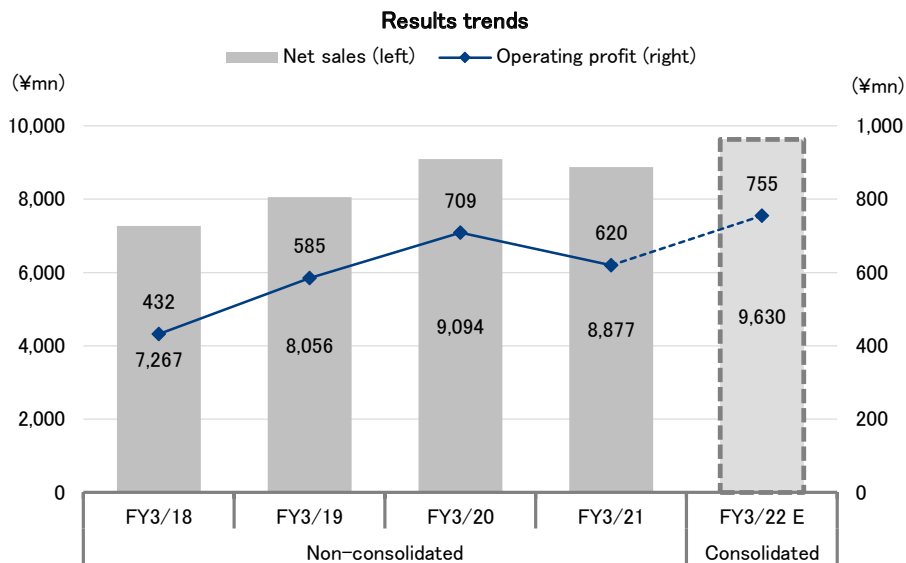
3. Shareholder return policy

The FY3/21 annual dividend per share was set at ¥25.0 (the same as in the previous period), due in part to a recovery in performance in 2H, and the Company announced a commemorative period-end dividend of ¥1.0 to mark 50 years since its foundation. In FY3/22, alongside the forecast of record high profits, it plans to increase the dividend by ¥5.0 YoY for an annual dividend of ¥30.0. Its policy is also to continue the shareholder benefits program, of awarding points according to the number of shares held and the number of years they have been held.

Key Points

- An independent systems integrator that celebrated 50 years since its foundation in January 2021
- For the FY3/22 consolidated results, is forecasting record highs for both net sales and profits and plans to increase the dividend by ¥5.0 YoY for an annual dividend of ¥30.0
- Is strengthening the high-growth service lines, including by M&A and business partnerships

Summary



Company profile

An independent systems integrator with a business history of close to half a century

The Company has a long history as an independent systems integrator, celebrating 50 years since its foundation in January 2021. Unusually for the information services industry, it originates from an educational corporation. “With all our heart” as the company creed, it conducts business based on its three corporate philosophies of “1) Create value for customers and pursue customer satisfaction to increase corporate value, 2) As a group of professionals, open up a path for the next generation and become an information technologies leading company, and 3) Always be maintaining and continuing an innovative corporate culture. As it was established from an educational corporation, one of its features is its passion for educating employees. It encourages employees to acquire not only IT-related qualifications, but other business-related qualifications as well, and on average each employee holds three or more qualifications. Employees having skills and knowledge both in IT and in customers’ businesses makes it possible to develop systems that provide high levels of customer satisfaction.

1. History

The Company’s history can be divided into three stages: 1) from the foundation period to the period to establish the management infrastructure 2) the period of growth and structural reforms, and 3) the period after the reforms. Following its foundation 1971, it began transactions for systems development with FUJITSU LIMITED <6702> and the Bank of Tokyo, Ltd. (currently MUFG Bank, Ltd.), and it expanded its business scale centered on outsourced systems development, including for financial systems such as banking and insurance. In December 1987, it entered into the credit card systems field via Toyo Information Systems Co., Ltd. (currently TIS Inc. <3626>), while in July 1990, it also entered into the field of distribution systems for department stores through concluding a work outsourcing basic agreement with Takashimaya Co., Ltd. <8233>, thereby expanding its user base.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Company profile

The Company began collaborating with Salesforce (Salesforce.com, Inc. <CRM>) of the US in April 2020 and started providing cloud computing services. Also, in systems integration services, it has started working on introducing package systems and developing add-ons as package-based SI services.

The Company was listed on the Tokyo Stock Exchange (TSE) Second Section in December 2015, and then its listing was upgraded to the TSE First Section in May 2018.

2. Business description

In the percentages of total net sales by service line in FY3/21, systems integration services provided 62.2%, infrastructure solutions services 15.5%, and package-based SI services 22.3%. Breaking down net sales in the systems integration services according to customers' industries, finance provided 32.0% (banks 19.8%, insurance and securities 3.0%, and credit cards 9.1%), industry and distribution 22.4%, the public sector 2.1%, and medical care 5.7%.

Trends in net sales by service line and by industry

	Net sales				% of net sales				Changes (%) Three years
	FY3/18	FY3/19	FY3/20	FY3/21	FY3/18	FY3/19	FY3/20	FY3/21	
Systems integration	5,097	5,615	5,940	5,524	70.1%	69.7%	65.3%	62.2%	-7.9pt
Finance	2,257	2,360	2,786	2,841	31.1%	29.3%	30.6%	32.0%	0.9pt
(of which, banks)	1,357	1,481	1,741	1,761	18.7%	18.4%	19.2%	19.8%	1.2pt
(of which, insurance and securities)	278	224	298	268	3.8%	2.8%	3.3%	3.0%	-0.8pt
(of which, credit cards)	621	654	746	811	8.6%	8.1%	8.2%	9.1%	0.6pt
Industry and distribution	2,146	2,421	2,177	1,990	29.5%	30.1%	23.9%	22.4%	-7.1pt
Public sector	97	210	300	185	1.3%	2.6%	3.3%	2.1%	0.7pt
Medical care	595	623	675	507	8.2%	7.7%	7.4%	5.7%	-2.5pt
Infrastructure solutions	1,085	1,263	1,516	1,375	14.9%	15.7%	16.7%	15.5%	0.6pt
Package-based SI	1,084	1,177	1,637	1,976	14.9%	14.6%	18.0%	22.3%	7.3pt
Total	7,267	8,056	9,094	8,877	100.0%	100.0%	100.0%	100.0%	-
Operating profit	432	585	709	620	6.0%	7.3%	7.8%	7.0%	1.0pt

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

Financial institutions are the biggest customers for the IT services industry. In the case of the Company, its prime contractors include FUJITSU and Hitachi, Ltd. <6501>, in which it is positioned as a collaborating company.

The Company's customer base includes major systems integrators with which it has maintained excellent business relations for many years. These are mainly manufacturers headed by FUJITSU, the Hitachi Group, centered on Hitachi, Ltd., and Hitachi Solutions, Ltd., the NTT Group centered on NTT DATA Corporation <9613>, and NS Solutions Corporation <2327>. In addition, main users with which it conducts direct transactions include Mitsubishi Research Institute DCS Co., Ltd., Sumitomo Mitsui Trust Systems & Services Co., Ltd., Idemitsu Kosan Co., Ltd. <5019>, OPTAGE Inc., and NOMURA HOLDINGS, INC. <8604>, and these users are increasing. This customer base can be said to be the result of the high evaluations from customers of the Company's technological capabilities, its business knowledge in areas such as finance and distribution, and its track record in terms of quality.

Company profile

The Company's main customers are major system integrators. In particular, it has had close business relations with the FUJITSU Group since immediately after its foundation and FUJITSU is its core partner. In FUJITSU's FY2019 PQI (Partner Quality Improvement) skill level certification, the Company's acquired the GOLD skill level for all three steps of the first step (quality records), second step (quality evaluation) and third step (quality plan) for the fourth consecutive year. The extent of sales reliance on the main customer in FY3/21 was 26.1% for FUJITSU (25.9% in the previous period), while the extent of the reliance on the FUJITSU Group was approximately 40%. While maintaining excellent relations with FUJITSU, the Company is also aiming to increase the volume of transactions with other systems integrators such as Hitachi and NTT DATA, and in FY3/21, the number of direct-user transaction customers was 148 companies (based on the annual transaction result, 1.6 times compared to 10 periods earlier) and their percentage of total net sales reached 27%. Going forward, it is aiming to expand transactions with direct users and to increase their percentage of total net sales to one third.

List of partnerships and main customers

Partnerships	Main customers
FUJITSU core partner PQI skill level GOLD certification (GOLD certification for all the steps, of the first, second, and third steps)	FUJITSU LIMITED and FUJITSU Group companies
Hitachi Solutions Excellent partner	Hitachi, Ltd. and Hitachi Group companies
Salesforce.com	NEC Corporation and NEC Group companies
Consulting partner	NTT DATA KANSAI Corporation, TIS Inc.
Application partner	INTEC Inc., OPTAGE Inc.
TIS Excellent partner	NS Solutions Corporation, ITOCHU Techno-Solutions Corporation
Microsoft Partner	Saison Information Systems Co., Ltd., Joho-Tech Company Limited
Gold Data Analytics	Salesforce.com, Inc.
Application Development	IBM Japan, Ltd.
Silver Collaboration and Content	NOMURA HOLDINGS, INC., Nikko Systems Solutions, Ltd.
Silver Datacenter	Mitsubishi Research Institute DCS Co., Ltd., Mizuho Research & Technologies, Ltd., The Japan Research Institute, Limited
Silver Messaging	Sumitomo Mitsui Trust Systems & Services Co., Ltd.
AWS Partner Network (APN) select consulting partner	JCB Co., Ltd.
SuperStream-NX solutions partner	Idemitsu Kosan Co., Ltd., Bando Chemical Industries, Ltd.
Oracle PartnerNetwork Silver	JR East Information Systems Company
OBC Alliance Partnership Gold Partner	Kikkoman Business Services Co.
Ruby Association Certified System Integrator Gold	TBS Holdings, INC.
MAJOR FLOW Z	NTV IT Produce Corporation, Nippon Television Music Corporation
Sales partner /development partner	

Source: Prepared by FISCO from the Company's website

(1) Systems integration services

The mainstay systems integration services cover a wide range of fields, including the finance field, industry and distribution field, public sector field, and medical care field. It mainly conducts outsourced development for customers such as end users, domestic manufacturers, and major systems integrators. The Company has in place a system to provide total services covering all processes, from planning and system construction through to system management.

Banks are investing in IT in order to reduce workload and to save labor, and demand is expected to be at a high level in the medium to long term. There are also many projects for online banks and distribution-related financial subsidiaries. In the public sector field, which for the Company is a target field equivalent to the finance industry, there are many IT investment projects in administration departments such as e-governments to reform productivity, improve convenience and strengthen security.

Company profile

(2) Infrastructure solutions services

Infrastructure solutions services involves introducing hardware, such as servers, and constructing networks that become customers' IT system infrastructure, and also constructing systems infrastructure, including databases and application infrastructure. After this as well, it covers a series of services from management through to maintenance. After surveying and analyzing the IT systems infrastructure environments of various customers, including general companies, universities and other educational facilities, hospitals, and government ministries and agencies, it provides infrastructure solutions services that are tailored to meet the customer's needs. Specifically, in addition to infrastructure solutions services such as network construction, it provides total, one-stop services through combining systems integration services.

(3) Package-based SI services

As the main pillar of the growth fields, the Company forms alliances with system and package vendors and in some cases is provided with packages, and it offers a total service, from support for customers' introductions of software package products (Salesforce, COMPANY, SuperStream, etc.), through to customization, add-on development, maintenance, and management. The percentage of total net sales provided by this service line increased from 9.0% in FY3/16 to 22.3% in FY3/21.

The Company started a business with Salesforce in April 2010 and concluded a sales partner agreement with it in November 2016. It is currently a Salesforce Gold consulting partner and application partner and has a track record of more than 2,000 projects for around 500 companies. It uses its business findings on many industries and on many types of businesses, and knowledge on a wide range of products (Sales Cloud, Service Cloud, Community Cloud, Lightning Platform, Einstein Analytics, Field Service Lightning, Heroku, and Pardot) to propose optimal solutions. In terms of industries, it has a track record of projects including for non-life insurance, insurance agencies, universities, vocational schools and cram and preparatory schools, the manufacturing industry (food, equipment, parts, software, etc.), restaurants, wholesale businesses, retail businesses, specialty trading companies, apparel, print and publishing businesses, real estate, dispatches of human resources, internet services, legal offices, and facility management.

Main packages handled and alliances

Company name	Main package	Partnership
Salesforce.com	Salesforce	Consulting partner Application partner
SuperStream	SuperStream-NX	SuperStream-NX solutions partner
OBIC business consultant	Strategic mission-critical system Bugyo V ERP 10	OBC Alliance Partnership Gold Partner
Microsoft Corporation	Microsoft Dynamics CRM	Microsoft Partner Gold Data Analytics Silver Application Development
Works Human Intelligence	COMPANY personnel and salary	

Note: The names of the companies, products, and services are each respective companies' trade name, trade mark, and registered product. The TM mark and ® mark are not shown in the text or diagram.

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

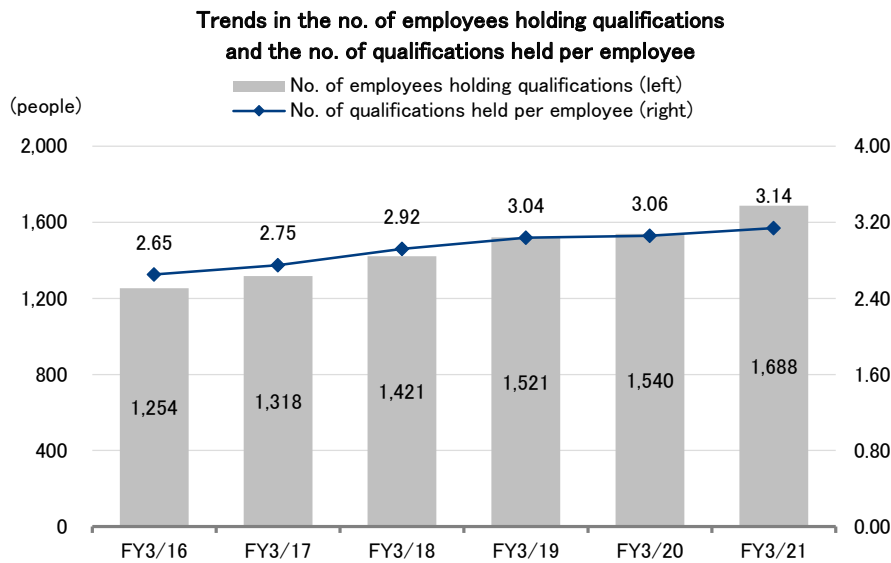
The Company was awarded the Certified Consultant Award in the SuperStream Partner Award 2021. This is awarded each year by the developer, SuperStream, to partner companies that have increased sales of SuperStream products and worked hard on business development, and it is awarded to the partner that has the best results for the SuperStream-NX engineer certification exam.

Company profile

3. IT-related and business-related qualifications

(1) The number of employees holding qualifications

One of the Company’s strengths is that it is a group of excellent engineers. It actively progresses employees’ acquisitions of qualifications not only for IT-related, but also for business-related to deepen their understanding of customers’ businesses, such as finance, industry and distribution, and medical care. At the end of March 2021, in total 1,688 employees held IT-related and business-related qualifications (breaking this down, 1,403 employees held IT-related qualifications and 285 employees held business-related qualifications). Compared to 5 years’ ago, the number of employees holding qualifications has grown to 34.6%, and the average number of qualifications held per employee has increased from 2.65 to 3.14.



Source: Prepared by FISCO from the Company’s website

By actively promoting acquisitions of business-related qualifications, the Company’s engineers are able to provide systems solutions and services from the customer’s viewpoint. As a result, customer satisfaction is increasing, which becomes the driving force behind building strong relations of trust.

Company profile

No. of employees acquiring IT-related and business-related qualifications (end of FY3/21)

Qualifications by industry		(people) No. of employees acquiring qualifications
IT-related qualifications		1,403
Information Processing Engineers		417
Vendor qualifications	Salesforce Certification	112
Business-related qualifications		285
Finance	Banking Proficiency Test	26
	Finance business proficiency test	19
	Securities Broker Representative License	10
Industry and distribution	Retail Marketing	27
Medical care	Health Information Managers	8
	Healthcare Information Technologists	21
Common to industries	PMP (Project Management Professional)	40
	Bookkeeping	62

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

(2) Training new employees

The Company also focuses on educating new employees. After they join the Company, they spend three months in group training. The content is an enhanced human resources training program, including training to master the latest technologies, management training, human skills training, managerial training, security training, and mental health training. Also, during the new employee education period, they are set the challenge of acquiring two vendor qualifications relating to the Oracle <ORCL> database and Java programming. 39 new graduates joined the Company in the spring of 2020, and despite the fact that they had to study online at home for three months because of the impact of COVID-19, all the new employees passed the prescribed vendor exams. As it has its origins in an educational corporation, this was made possible by the Company's expertise in employee education.

When recruiting, the Company recruits both from the sciences and the humanities and graduates and postgraduates. As it has in place a complete education system, it seems that it prioritizes recruits with "the ability to think logically," "a willingness to learn" and "a passion for the IT industry and SE," and it recruits people who have the aptitude to use its system positively and who want to grow. It recruited 25 new graduates in the spring of 2021 and plans to recruit 30 new graduates in the spring of 2022.

New employee training

1. **Training before joining the company**
e-learning (measures for the basic information processing test)
2. **Training to become members of society**
 - Member-of-society training, presentation training, mental health training
3. **Basic technologies education**
 - Information processing fundamentals, Java fundamentals, Java applications, system design fundamentals, algorithm fundamentals, database fundamentals, network fundamentals
 - Exam preparation course (ORACLE MASTER Bronze Oracle Database 12C, ORACLE Java SE7 Bronze)

Source: Prepared by FISCO from the Company's website

The Company has systemized its training structure, and it covers various training including IT-related technologies training, human skill training, training according to work position, management training, project management training, quality control training, training to acquire qualifications, and study sessions on new technologies. Recently, it has been working on initiatives including training on Python, which is a programming language used for development in cutting-edge fields such as AI, and on agile development that utilizes new digital technologies like low-code development to realize systems development in an extremely short period of time by using the visual operations of the Graphical User Interface (GUI), centered on the DX Promotion Headquarters.

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Company profile

4. Health management and promoting diversity

The Company considers the health of its employees to be one important management issue, and it works to maintain and improve employee health, as well as to improve their productivity. These initiatives have been highly evaluated and it has been certified as an excellent health management corporation 2020 (large-scale corporation section), as a corporation that practices excellent health management. In terms of the specific details of its initiatives, they include 1) improving health awareness and activating workplaces, 2) measures for mental health, 3) promoting a work-life balance, and 4) promoting physical health. Some examples include a 100% rate of employees receiving a health checkup, conducting a stress check for employees, holding nursing care seminars in the work-life balance area, and implementing measures to prevent flu infections and other infections in the area of promoting physical health.

The Company has also issued its diversity promotion declaration. Through this declaration, it is aiming to establish an environment in which the rights of all are respected, in which there is no discrimination, and in which each and every person can demonstrate their capabilities. It is also aiming to establish workplace environments in which employees can demonstrate their individual capabilities to the greatest possible extent through enhancing the work-life balance and promoting gender equality. It is promoting respect for the diversity of each and every person and reasonable consideration for people with disabilities and people who require support.

Results trends

In the FY3/21 results, sales grew in the cloud business of package-based SI services, which is the main pillar of the growth strategy

1. Outline of results for FY3/21

In the FY3/21 results, net sales decreased 2.4% YoY to ¥8,877mn, operating profit declined 12.6% to ¥620mn, ordinary profit fell 10.2% to ¥650mn, and profit attributable to owners of parent decreased 9.2% to ¥430mn. Despite the impact of reactionary decreases from the previous year when there were development projects in conjunction with a law revision and Windows 10 upgrade-related business, sales grew in the cloud business of package-based SI services, the main pillar of the growth strategy. In profits, the Company focused on ending a large-scale unprofitable project that occurred in the 2Q and responding in the form of significantly reinforcing personnel, so it incurred large personnel costs and outsourcing costs and profits declined. The large-scale unprofitable project finished at the end of the 4Q, and going forward no new loss is expected to be incurred. The Company is aiming to improve earnings by working assiduously to verifying the causes of unprofitable projects and to prevent their reoccurrence.

Results for FY3/21

	FY3/20		Revised forecasts	FY3/21		YoY		vs. plan Changes (%)
	Results	% of net sales		Results	% of net sales	Changes	Changes (%)	
Net sales	9,094	100.0%	8,700	8,877	100.0%	-217	-2.4%	2.0%
Gross profit	1,652	18.2%	-	1,493	16.8%	-158	-9.6%	-
SG&A expenses	942	10.3%	-	873	9.8%	-69	-7.3%	-
Operating profit	709	7.8%	514	620	7.0%	-89	-12.6%	20.6%
Ordinary profit	724	8.0%	534	650	7.3%	-73	-10.2%	21.9%
Profit attributable to owners of parent	474	5.2%	350	430	4.9%	-43	-9.2%	23.1%

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

Results trends

(1) Trends by service line

In net sales by service line, they decreased 7.0% YoY to ¥5,524mn in the mainstay systems integration services and declined 9.3% to ¥1,375mn in infrastructure solutions services. However, they increased by double digits, up 20.7% to ¥1,976mn, in package-based SI services.

a) Systems integration services

Net sales in the finance field, which provides the highest percentage of sales by industry, increased 2.0% YoY and its percentage of total net sales was 32.0%. This was mainly due to the increase in sales of projects for online banks and next-generation accounting system projects for regional banks and other financial institutions, and also the increase in sales from existing projects in the credit cards field. Conversely, sales in the industry and distribution field declined 8.6%. In the social infrastructure field, orders increased for systems development projects for telecommunication providers, but there was the impact of a reactionary decrease from the previous year when there had been development projects in conjunction with a law revision. In the public sector field, sales decreased 38.4% because of the decline in newly ordered projects, while in the medical care field also, they fell 24.9% due to COVID-19.

b) Infrastructure solutions services

In addition to the increase in orders for server and network construction projects in the public sector and education, and medical care fields, orders grew for power systems projects in the Chubu region. On the other hand, due to the restrictions because of COVID-19 on face-to-face sales and work to respond to customers, sales of infrastructure construction projects declined greatly. There was also the impact of reactionary decreases from the previous year when there had been development projects in a Windows 10 upgrade-related business.

c) Package-based SI services

Net sales in the Salesforce business-related cloud field, which is a core part of DX promotion, increased 42.5% YoY and provided 65.4% of sales in package-based SI services. This was because the Company established the Salesforce Business Promotion Office in April 2020 and encouraged engineers other than those working on package-based SI services to acquire Salesforce business-related qualifications, and as a result, orders increased for large-scale development project due to developments in multiple business departments. In addition to this, projects for large-scale companies for app construction, provision, and monitoring, and for utilizing the Heroku cloud platform that is useful for scaling, also contributed. These increases covered for the decreased sales from accounting packages and personnel salary packages, which have slumped due to COVID-19.

Net sales by service line in FY3/21

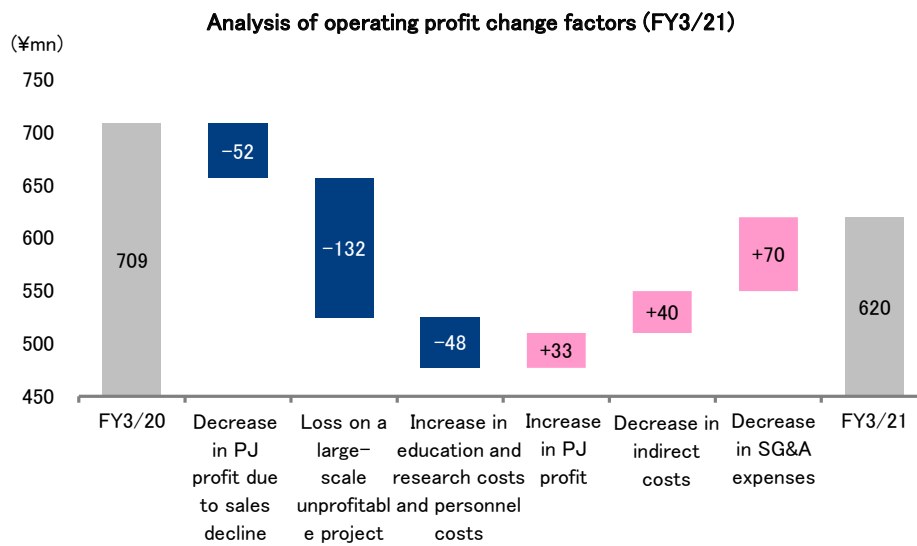
	FY3/20		FY3/21		YoY	
	Amount	% of net sales	Amount	% of net sales	Changes	Changes (%)
Systems integration	5,940	65.3%	5,524	62.2%	-415	-7.0%
Finance	2,786	30.6%	2,841	32.0%	55	2.0%
Banks	1,741	19.2%	1,761	19.8%	19	1.1%
Insurance and securities	298	3.3%	268	3.0%	-29	-10.0%
Credit cards	746	8.2%	811	9.1%	65	8.8%
Industry and distribution	2,177	23.9%	1,990	22.4%	-187	-8.6%
Public sector	300	3.3%	185	2.1%	-115	-38.4%
Medical care	675	7.4%	507	5.7%	-168	-24.9%
Infrastructure solutions	1,516	16.7%	1,375	15.5%	-140	-9.3%
Package-based SI	1,637	18.0%	1,976	22.3%	338	20.7%
Total	9,094	100.0%	8,877	100.0%	-217	-2.4%

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

Results trends

(2) Analysis of the factors causing operating profit change

The factors causing operating profit to increase were a rise in project profits, including due to improved productivity (¥33mn) and decreases in indirect costs (¥40mn) and SG&A expenses (¥70mn). Most of the decreases in indirect costs and SG&A expenses was due to the declines in various costs due to COVID-19, including because of the self-restraint on activities. The decrease factors were a fall in project profits due to the decline in sales (¥52mn), a loss from a large-scale unprofitable project (¥132mn), and increases in education and research costs and personnel costs (¥48mn) in DX promotion. The increases in education and research costs and personnel costs in DX promotion strongly have the sense of being upfront investment.



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

2. Financial condition and financial ratios

At the end of FY3/21, total assets were up ¥248mn on the end of the previous period to ¥5,746mn, mainly due to an increase in cash and deposits (¥217mn). There were no major changes to any other items.

The Company practices debt free management and is highly financially stable, with a current ratio of 393.7% and an equity ratio of 68.7%. Return on Equity (ROE), which is a comprehensive ratio, is 11.4% (down 2.4 percentage points YoY), so is at a high level of above 10%.

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Results trends

Balance sheet and financial ratios

	(¥mn)				
	FY3/18	FY3/19	FY3/20	FY3/21	Changes
Current assets	3,998	4,503	4,969	5,187	218
(Cash and deposits, securities)	1,933	2,355	2,467	2,684	217
(Notes and accounts receivable – trade)	1,937	2,030	2,339	2,321	-18
Other current assets	32	20	9	6	-2
Non-current assets	511	530	528	559	30
Property, plant and equipment	96	85	85	75	-9
Intangible assets	32	20	9	6	-2
Investments and other assets	383	424	433	476	42
Total asset	4,509	5,033	5,498	5,746	248
Current liabilities	1,067	1,303	1,404	1,317	-87
Non-current liabilities	466	468	466	482	15
(Interest-bearing debt)	-	-	-	-	
Total liabilities	1,534	1,772	1,871	1,800	-71
Total net assets	2,975	3,261	3,626	3,946	320
[Stability]					
Current ratio	386.5%	345.7%	353.7%	393.7%	40.0pt
Equity ratio	66.0%	64.8%	66.0%	68.7%	2.7pt
[Profitability]					
Operating profit margin	6.0%	7.3%	7.8%	7.0%	-0.8pt
ROA (a x c)	10.2%	12.3%	13.8%	11.6%	-2.2pt
ROE (b x c x d)	10.3%	12.1%	13.8%	11.4%	-2.4pt
a Ordinary profit margin	6.1%	7.3%	8.0%	7.3%	-0.7pt
b Net profit margin	4.1%	4.7%	5.2%	4.9%	-0.3pt
c Total assets turnover ratio (times)	1.67	1.69	1.73	1.58	-0.15
d Financial leverage (times)	1.52	1.54	1.52	1.48	-0.04

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

3. Cash flows

At the end of FY3/21, cash and cash equivalents had increased ¥211mn YoY to ¥2,367mn. This was because net cash provided by operating activities (¥398mn) exceeded net cash used in investing activities (¥25mn) and net cash used in financing activities (¥161mn). Also, net cash used in financing activities included dividends paid of ¥161mn.

Statement of cash flows

	(¥mn)			
	FY3/18	FY3/19	FY3/20	FY3/21
Net cash provided by (used in) operating activities	378	580	266	398
Net cash provided by (used in) investing activities	-25	-42	-36	-25
Net cash provided by (used in) financing activities	-107	-121	-123	-161
Cash and cash equivalents at end of period	1,632	2,048	2,155	2,367

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

■ Outlook

In FY3/22, forecasts are for both net sales and profits to be new record highs

1. Outlook for FY3/22

For the FY3/22 consolidated results, the Company is forecasting new record highs for both net sales and profits, of net sales of ¥9,630mn and operating profit of ¥755mn, ordinary profit of ¥760mn, and profit attributable to owners of parent of ¥500mn. infree, which was made a subsidiary in April 2021, will enter the scope of consolidation from the start of the period. The difference between the non- consolidated and consolidated results forecasts for FY3/22 is only ¥300mn for net sales, and the profit forecasts are for the same amounts. The results of infree in FY7/20, the period directly before it was acquired, were net sales of ¥330mn and operating profit of ¥21mn, so it is estimated that the amortization of goodwill due to this acquisition is basically the same amount as its operating profit.

In FY3/22, together with strengthening existing technologies, based on the accurate selection of strategic domains, the Company will focus on building a business foundation that will lead to long-term growth. Also, to realize this growth, its policy is to progress the investment strategy continuing from the previous period. Conversely, when considering the large-scale unprofitable project that occurred in the previous period, it is increasing awareness of managing development projects to prevent the occurrence of unprofitable projects, and also further strengthening projects monitoring by PMO personnel.

Consolidated outlook for FY3/22

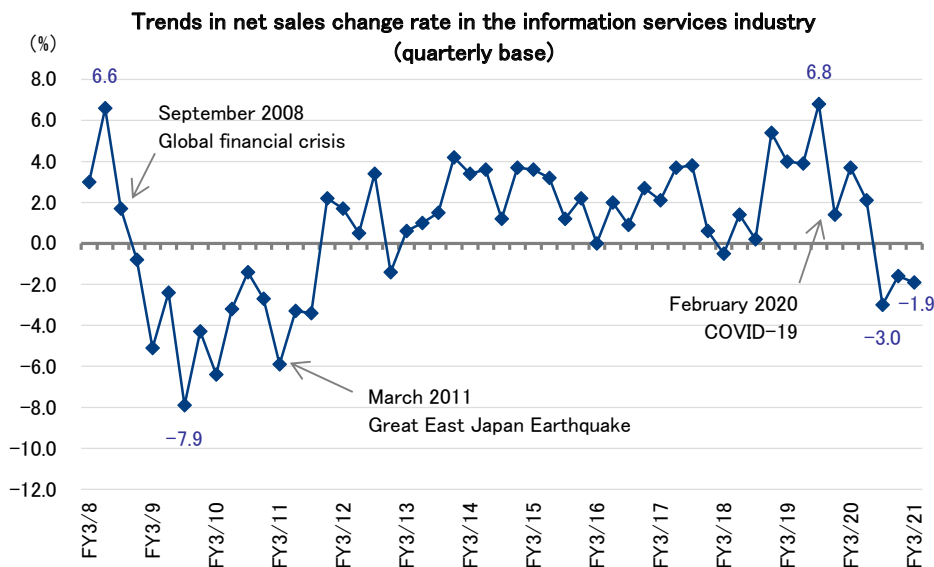
	(¥mn)			
	FY3/21 (Non-consolidated)		FY3/22 (Consolidated)	
	Results	% of net sales	Forecasts	% of net sales
Net sales	8,877	100.0%	9,630	100.0%
Operating profit	620	7.0%	755	7.8%
Ordinary profit	650	7.3%	760	7.9%
Profit attributable to owners of parent	430	4.9%	500	5.2%

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

The Japanese economy is forecast to realize a K-shaped, bi-polar recovery with major differences depending on the industry, business form, and company. In the information services industry to which the Company belongs, demand will continue, including due to the spread of cutting-edge technologies, rising needs for improved work efficiency, and the progress of DX (Digital Transformation). However, because of the rapid deterioration of the business environment, a general trend for companies to keep down IT-investment is unavoidable in the short term. But there will also be a strong tendency for results to recover and to grow in companies that can respond to the “with COVID-19” and “post-COVID-19” periods and quickly overcome the COVID-19 crisis. Specific responses will include workstyle reforms (to improve work efficiency and introduce teleworking), advancing the shift to the cloud, IoT (Internet of Things), FinTech (IT innovation for finance services), AI (Artificial Intelligence) and RPA (Robot Process Automation), using IT in such ways as raising productivity and addressing labor shortages through labor saving and automation and without structural changes, and the Company forecasts continued expansion of investment in the medium to long term.

Outlook

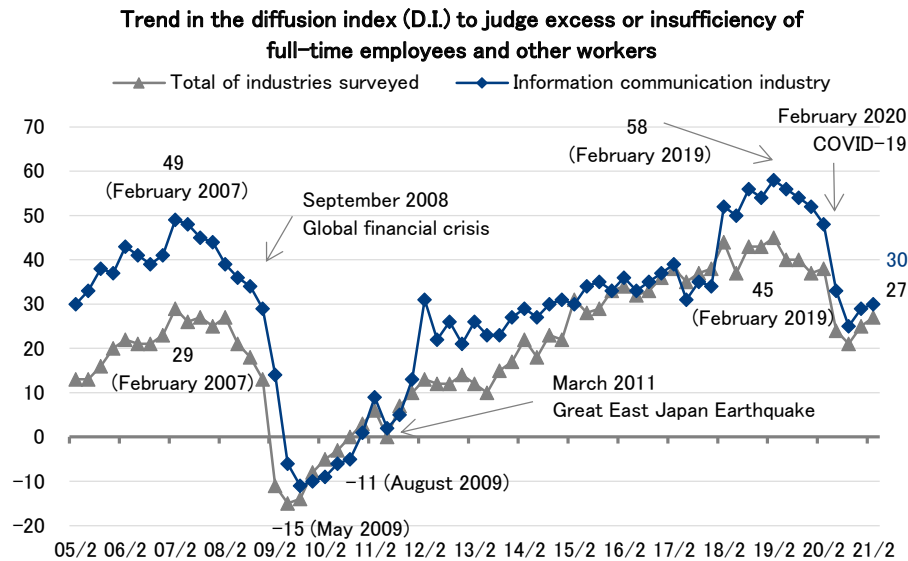
As measures to prevent the spread of COVID-19, there are requirements in Japan to avoid “the Three Cs” (closed spaces, crowded places, and close-contact settings) and to reduce contact with people by 80%, while cross-border movement is also being restricted. In addition, the promotion of the abolition the use of “face-to-face meetings, paper, and seals (used instead of signatures) by the Japanese government and others is being pushed-forward significantly because of the COVID-19 pandemic. The government, which has been seen to lag behind in digitalization in COVID-19 countermeasures, formulated the basic policy for reforms to realize a digital society in December 2020, and it plans to establish the Digital Agency in September 2021, and it is progressing digital reforms as its basic policy for FY2021. However, the most pressing issues in industries in which restrictions have been imposed on working hours and customer numbers due to COVID-19 are raising funds and maintaining employment for the time being, and they have not yet reached the stage of considering DX investment that is expected in the post COVID-19 period. From these conditions, it is not assumed that the Company’s sales for industries that are being greatly impacted by COVID-19 will recover significantly by FY3/22 2H.



Source: Prepared by FISCO from the Survey of Selected Service Industries (Ministry of Economy, Trade and Industry)

Also, in the diffusion index (D.I.) to judge the excess or insufficiency of full-time employees and other workers by industry, as shown in the Survey on Labour Economy Trend by the Ministry of Health, Labour and Welfare (= insufficiency – excess, D.I.), we can compare the index for the information communications industry, to which the Company belongs, at the time of the 2008 global financial crisis and the current COVID-19 pandemic. In the survey conducted in February 2007, which was immediately before the global financial crisis in September 2008, the index was 49, which was its most severe degree of labor insufficiency. The economy had gone into recession following the collapse of the bubble economy, and the D.I. fell to -6 in the May 2009 survey and continued to trend negatively for 6 quarters. Compared to this, before and after COVID-19, the peak labor insufficiency in the information communications industry was in the February 2019 survey at 58. It fell to as far as 25 in the August 2020 survey, but it had returned to 30 in the February 2021 survey, so it did not fall into the negative as it had done after the global financial crisis. From this, it seems that the most important management issues for the IT services industry continue to be securing and training human resources.

Outlook



Source: Prepared by FISCO from the Survey on Labour Economy Trend by the Ministry of Health, Labour and Welfare

2. Growth strategy for the future

(1) The Attack 100 medium- to long-term growth strategy

In the Attack 100 medium- to long-term growth strategy, the Company is aiming to achieve net sales of ¥10bn at an early stage, and also to achieve an operating profit margin of 10% in the medium to long term. The outlook for net sales in FY3/22 is ¥9.63bn, so it can be said to be close to achieving this target.

(2) The growth strategy common to all the service lines

As the growth strategy common to all the service lines, the Company is focusing on “the cloud” “IoT,” and “AI” whose markets are expected to grow and to contribute to results from the social digitalization trend, centered on the DX Promotion Headquarters that it newly established in April 2020. Within the DX Promotion Headquarters, it has also established the Salesforce Business Promotion Office and the Cloud Business Office. Of these, the Salesforce Business Promotion Office is progressing the company-wide development of Salesforce cloud, the effects of which were seen immediately in FY3/21. In addition to these strategies, its policy is also to actively work on M&A and business partnerships.

a) The cloud

For the cloud, government-related demand is expected to grow. In June 2018, the Japanese government announced its basic policy on the use of cloud services in government information systems, which sets out its cloud-by-default principle. This principle means that when any government ministry is constructing a government information system, it should consider the use of cloud services as the first candidate. We can see business opportunities for the public sector not only from the conventional route, of business via prime contractors, but also for package-based SI services in Salesforce business-related, such as in the education field.

Outlook

Although there are expectations for the Digital Agency, it has not yet been established so the Company has not considered it for its FY3/22 budget. In February 2021, the 6 digital reform-related bills, including the Bill to Launch Digital Agency, which provides for the Digital Agency's organization and range of jurisdiction, was submitted to the Japanese Diet and was resolved on by the Cabinet, and the Digital Agency is scheduled to be established in September 2021. The Digital Agency will conduct supervision and monitoring of information systems, including for national and local government organizations in the public sector and the quasi-public sector departments, and establish important systems, by preparing the government's digital plan. By thoroughly taking the perspective of citizens to create services, utilize data, and to promote DX in society as whole, it will work toward realizing a society in which all citizens can benefit from digitalization. Therefore, the wave of digitalization is expected to spread to the private sector as well.

b) M&A

On April 1, 2021, the Company acquired all of the shares of infree and made it a subsidiary. infree, which was founded in August 2021, has since its foundation been strong in the areas of consulting to introduce SAP R/3, which is an SAP enterprise resource planning (ERP) package, and in add-on software development. SAP R/3 has been introduced by more than 10,000 major companies around the world and has the largest share of the global ERP market.

The Company and infree share a corporate culture of being passionate about employee education and encouraging employees to acquire qualifications. The initiatives that infree is conducting to improve work-related knowledge and to strengthen development capabilities include 1) thoroughly conducting in-house education, 2) creating a database of expertise acquired in development projects, and 3) sharing information and conducting detailed follow-ups. Going forward, both engineers acquiring certification and business opportunities are expected to increase from the Company's engineers utilizing infree's in-house education system. Also, in terms of the synergies for both companies, integrating infree's SAP-related expertise with the Company's package-based SI services will contribute to the provision of next-generation services with higher value-added. As the Post Merger Integration (PMI), in July 2021 infree's office is scheduled to be relocated to the building in which the Company is located, with the aim of reducing costs, including by integrating indirect departments.

c) AI

In the AI field, in May 2021 the Company concluded a business partnership agreement with STANDARD. STANDARD was founded in August 2017 from a community to conduct R&D on AI called the University of Tokyo artificial intelligence development student group HAIT. It has a track record of supporting the promotion of DX in more than 450 companies, centered on AI technologies. It has 52 employees, included those on work consignment contracts, and it is utilizing its network that includes the HAIT Lab, to which 800 student AI engineers belong, mainly from the University of Tokyo, Waseda University, and Keio University, to carry out industry-academia collaborative projects. To achieve its mission of "Making digital reforms that have people as the starting point as the STANDARD," it has defined three walls to companies' DX, of "the human resources wall," "the strategy wall", and the "technologies wall," and as the measures to overcome these walls, it strives to propose and provide three services of "literacy education" "consulting," and "support for technological development" in a form optimized to respond to customers' situations and issues. By progressing the development of solutions and services that utilize STANDARD's abundance of knowledge and expertise on DX promotion and the Company's expertise, technologies and human resources for various industries and businesses, the Company will contribute as joint-creation partners. Through this business partnership, the Company will conduct a DX promotion business as STANDARD's sales partner, and its policy is to support customers, from arranging and proposing solutions to their problems through to realizing DX.

Outlook

Expansion of new areas

AI	<ul style="list-style-type: none"> On May 17, 2021 entered into a business partnership with STANDARD, which conducts a DX support business and is strong in training AI human resources To contribute as a co-creation partner for customers' DX promotion, has started to provide DX support services, including to support the training of DX human resources
IoT	Will continue to participate in the IoT projects of manufacturers of industrial machinery (strengthen training of IoT engineers)
M&A	<ul style="list-style-type: none"> On April 1, 2021, made infree a subsidiary In the future also, will actively work on M&A and business partnerships

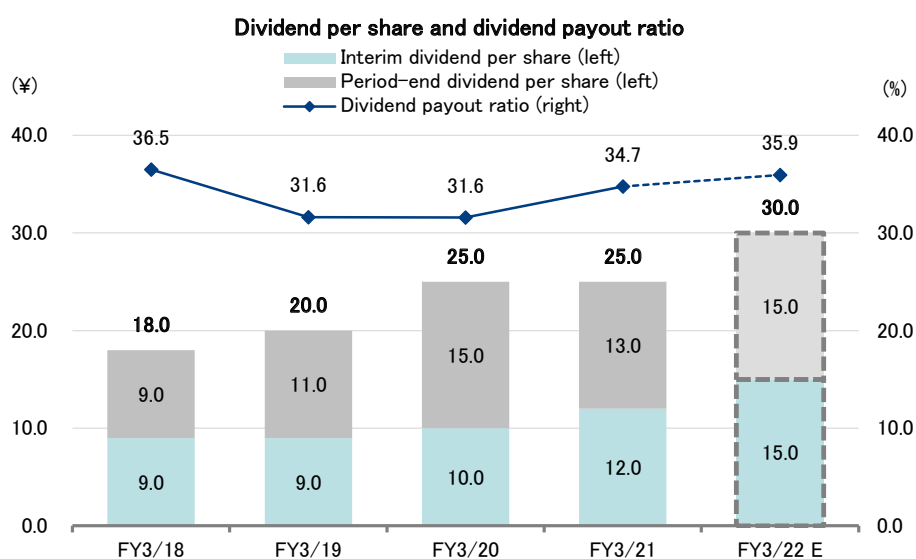
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

From the forecast of record-high profits in FY3/22, plans to increase the annual dividend by ¥5.0 YoY to ¥30.0

1. Dividend policy

The Company considers returning profits to shareholders to be one of its most important management issues, and its basic policy is to continuously and stably return profits to shareholders after considering supplementing internal reserves as necessary to strengthen the management structure and for business development in the future. It targets a dividend payout ratio of at least 30%. In FY3/21, it had planned to pay an annual dividend per share of ¥24.0, but results recovered in the 2H and it announced a commemorative period-end dividend of ¥1.0 to mark 50 years since its foundation, so it paid an annual dividend of ¥25.0 (the same as in the previous period). For FY3/22, alongside the forecast of record high profits, it plans to increase the dividend by ¥5.0 YoY for an annual dividend of ¥30.0 (interim dividend of ¥15.0, period-end dividend of ¥15.0), for a forecast dividend payout ratio of 35.9%.



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

Shareholder return policy

2. Shareholder benefits program

The Company also conducts a shareholder benefits program, awarding points to shareholders registered at the end of March. The number of points is determined by the number of shares held and the length of time they have been held. For example, shareholders who hold from 100 shares to 399 shares will be awarded 2,500 points in the first year and 2,750 points in the second and subsequent years. Shareholders holding 1,000 or more shares will be awarded 15,000 points in the first year and 16,500 points in the second and subsequent years. So it is a scheme that rewards shareholders the longer they hold their shares. The awarded points can be exchanged for more than 1,000 products on the R&D COMPUTER Benefits Club website created specifically for the Company’s shareholders, including of foods, electrical goods, gifts and travel and experiences.

Shareholder benefits program

No. of shares held	No. of points awarded	
	First year	Second and subsequent years
100 shares to 399 shares	2,500 points	2,750 points
400 shares to 699 shares	5,000 points	5,500 points
700 shares to 999 shares	7,500 points	8,250 points
1,000 shares or more	15,000 points	16,500 points

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



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