COMPANY RESEARCH AND ANALYSIS REPORT

Scala, Inc.

4845

Tokyo Stock Exchange First Section

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Summary

Aiming to speed up growth by expanding existing businesses, M&A and new business development

Scala, Inc. <4845> (hereafter, "the Company") is a holding company that is aiming to create value and solve social problems through its portfolio of businesses centered on the fields of IT/AI/IoT/DX. In FY6/21, it reorganized its business segments into the IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business. It is working to achieve the results target (revenue of ¥500bn in FY6/30) set out in COMMIT5000, its mid-term management plan.

1. Overview of FY6/21 results

In FY6/21 in the ongoing businesses*1, revenue increased 14.6% compared to in the same period in the previous fiscal year (year on year (YoY)) to ¥8,734mn, while operating profit decreased 3.0% to ¥220mn. Although revenue was aided by the full-year contribution from the HR & Education Business of Grit Group Holdings Co., Ltd.*2, which became a consolidated subsidiary from 4Q of the previous fiscal year, as well as strong performance in the EC Business, revenue growth in the IT/AI/IoT/DX Business was very minor due to the impacts of the COVID-19 pandemic while the Customer Support Business recorded a double-digit decline in revenue. Although profit increased in the EC Business, profit declined in the IT/AI/IoT/DX Business, while the other businesses each posted a loss. One reason for the weak performance was the fact that the Company positioned FY6/21 as a period to build the service "models" in order to realize strong future growth, and it reinforced the platforms of each business. However, stemming from matchings in the public-private co-creation platform "*Gyaku Propo*" (which literally means reverse solicitation proposal) released in November 2020, the Company has started to see some buds of growth, such as incoming orders for system development from local governments.

*1 Following the sale of shares of consolidated subsidiary SOFTBRAIN Co., Ltd. in November 2020, the businesses of this company and its subsidiaries were classified as discontinued businesses, and revenue and operating profit show amounts based on ongoing businesses and exclude discontinued businesses.

*2 Grit Group Holdings and its subsidiaries conduct business including a human resources services business, daycare and preschool facilities, and a sports education services for children.

2. Outlook for FY6/22

For FY6/22 results, the Company is forecasting revenue from ¥12,000mn to ¥20,000mn (up 37.4% - 129.0% YoY) and operating profit from ¥450mn to ¥1,200mn (up 104.2% - 444.6%). The forecasts are given in ranges considering the impacts of M&A activity on results. On an existing businesses basis, the Company is expecting both revenue and operating profit to increase by double digits, while the effects of M&A would come on top of this. Even the low-end forecasts seem to include some impacts from M&A, and with ample cash on hand as well as bank borrowings, the Company is planning to aggressively pursue M&A. In existing businesses, the Company is expecting double-digit growth in the IT/AI/IoT/DX Business and the EC Business. In the Customer Support Business, the Company will work to transform the earnings structure, so it expects an improvement in profit while aiming to maintain the current level of revenue.

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3. Mid-term management plan and growth initiatives

Based on the mid-term management plan COMMIT5000, the Company is advancing three businesses—the value creation support business, IT/AI/IoT/-related business, and social issue-solving business—targeting revenue of ¥500bn and operating profit of ¥50bn in FY6/30 (revenue of ¥100bn and operating profit of ¥10bn in FY6/25). In FY6/21, the Company built solution services, and its strategy is to horizontally expand these services widely to listed companies and local governments from FY6/22 onwards and thereby accelerate the pace of growth. In the IT/AI/IoT/DX Business, the Company is focusing on winning orders for high-unit-price development projects, while it will strive for growth in the HR business by increasing the number of registrations by job seekers, while likewise aiming for growth in the education business by developing contracted operations and developing educational content, and seek growth in the EC Business by increasing membership and developing new services. In addition, the Company hopes to advance M&A and business and capital tie-ups at a pace of about 10 per year, including co-creation and collaboration. At FISCO, we first want to focus on developments in FY6/22.

Key Points

- In FY6/21, revenue increased due to the effects of M&A, but operating profit declined due to the execution of investment targeting growth
- In FY6/22, the Company expects a significant increase in both revenue and profit due to the expansion of existing businesses and M&A execution
- The Company's mid-term management plan targets revenue of ¥500bn and operating profit of ¥50bn in FY6/30

Note: FY6/21 results are figures for ongoing businesses excluding SOFTBRAIN and its subsidiaries. FY6/22 results forecasts show median values of disclosed ranges.
Source: Prepared by FISCO from the Company's financial results

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Company profile

With IT/AI/IoT as its core technologies, is integrating its consulting capabilities, including for value creation management support

1. History

The Company was founded in December 1991 with an initial start as a sales distributor of database systems. It realized significant growth in 1999 by inheriting support services, including customers, for the Model 204* mainframe database management system license from Mitsui Knowledge Industry Co., Ltd.

> * Developed by US-based Computer Corporation of America and Sirius Software (now, Rocket Software). Major customers were large companies in Japan such as the Bank of Japan <8301> and Tokyo Electric Power Company Holdings, Inc. <9501>. Demand for it ceased due to changes in the market environment, and the service was ended in the fall of 2016.

In 2000, the Company determined that it needed to change its business structure to continue growing amid the migration of corporate information systems from mainframes to distributed processing (client/servers), and it started expanding its business through M&A utilizing funds obtained from its IPO in 2001. Looking at developments over the past few years, in 2017 the Company made plube Co., Ltd. (ownership ratio: 100.0%, currently Scala PLAYce, Inc.), an EC website management company, a subsidiary in order to enter the EC Business. In 2018, the Company made Leoconnect, Inc. (ownership ratio: 66.0%), which provides customer support consulting for the brands and products of the HIKARI TSUSHIN <9435> Group, a subsidiary, and also made Connect Agency, Inc. (ownership ratio: 51.0%), which provides a cloud PBX service to companies and call centers making outbound calls for such customers as the HIKARI TSUSHIN Group, a subsidiary. Also, in 2018, as part of the preparations toward strengthening development capabilities and deploying the overseas business, subsidiary Scala Next Inc. established a Mandalay branch in Myanmar to act as a base for offshore development and has started to recruit local engineers.

As measures toward building a value co-creation platform under mid-term management plan COMMIT5000 starting in 2019, the Company established Scala Partners, Inc. in July of the same year, and then made wholly owned subsidiaries of J-Phoenix Research Inc., which provides management consulting and IR support, in October and Grit Group Holdings, which provides HR & Education Business, in April 2020. The Company is also intensifying efforts toward growth, such as by actively making capital and business alliances. In November 2020, the Company sold its shares in SOFTBRAIN, a major sales support software group that was made a subsidiary in July 2016, to an investment fund, and removed from the scope of consolidation.

To conduct more flexible management, the Company switched to a holding company organization in 2004, and in FY6/16, it changed its accounting standards to IFRS to disclose its results.

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History

Date	Major event
December 1991	Founded Database Communications (now, Scala, Inc.)
January 1999	Formed sales distribution contracts for the Japanese market with US-based Computer Corporation of America and Sirius and started Model 204 support
May 2001	Listed on the Osaka Securities Exchange's NASDAQ Japan market (now, TSE JASDAQ (Standard))
April 2003	Acquired Interscience's patent management software (product name: PatentManager) with the aim of entering the intellectual property system field
October 2003	Acquired Dbecs Co., Ltd. as a subsidiary to enter the CRM field
April 2004	Acquired Vodamedia Inc. as a subsidiary with the aim of entering the IVR (interactive voice response) field
September 2004	Renamed as Fusion Partners Co. in the transition to a holding company structure and established Database Communications (now, Scala Services Inc.) as a new company and transferred its business
June 2006	Merged subsidiaries Vodamedia and Dbecs and changed the company name to Digi-Ana Communications Inc. (now, Scala Communications Inc.)
November 2010	Acquired NewsWatch Inc. as a subsidiary
April 2012	Merged subsidiaries Digi-Ana Communications and NewsWatch (now, Scala Communications Inc.)
May 2014	Listing transferred to the TSE Second Section
December 2014	Shares elevated to the TSE First Section
November 2015	Acquired TriAx Corp. as a subsidiary
January 2016	Renamed subsidiary Database Communications as PAREL, Inc.
July 2016	Acquired SOFTBRAIN Co., Ltd. as a subsidiary
December 2016	Changed trade name to Scala, Inc.
December 2016	Merged the subsidiaries Digi-Ana Communications and TriAx Corp. and changed the trade name to Scala Communications Inc.
August 2017	Acquired plube Co., Ltd. as a subsidiary
March 2018	Acquired Leoconnect, Inc. as a subsidiary
October 2018	Acquired Connect Agency Inc. as a subsidiary
November 2018	Established Scala Next, Inc.
December 2018	Established the Scala Next, Inc., Mandalay branch (Myanmar)
July 2019	Established Scala Partners Inc.
October 2019	Made a subsidiary of J-Phoenix Research Inc.
November 2019	Established SCL Capital LLC.
April 2020	Made a subsidiary of Grit Group Holdings Co., Ltd.
June 2020	Invested in MyanCare, a health-tech company in Myanmar that provides remote medical services
August 2020	Established Scala Ace Co., Ltd. as a joint venture with ACE Data Systems Ltd., a major IT company in Myanmar (ownership ratio: 35%)
September 2020	Established Social Studio Inc. as a joint venture with Branding Technology Inc. in order to promote DX to the national and local governments (ownership ratio: 51%)
November 2020	Developed the reverse public offering proposal service called "*Gyaku Propo*" specializing in SDGs for companies' new business development

Source: Prepared by FISCO from the Company's website and the companies' press releases

In FY6/21, reorganized the business segments into five segments: the IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business

2. Business description

Following the removal of the SOFTBRAIN Group from the scope of consolidation, the Company reorganized the business segments into the IT/AI/IoT/DX Business (formerly the SaaS/ASP business), Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business in FY6/21.

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On looking at the Group companies responsible for each business segment, the IT/AI/IoT/DX Business is comprised of six companies, centered on Scala Communications, Inc. Of these, Retool, Inc. plans, develops and sells cloud management tools that visualize the various processes in corporate activities, however, its track record of introductions is still small and its effects on results is negligible. Also, Social Studio Inc. is a subsidiary established in September 2020 as a joint venture with Branding Technology Inc. <7067> in order to support the promotion of DX and SDGs to the national and local governments.

In addition to the above, Leoconnect, Inc. is engaged in the Customer Support Business, while the three companies of Athlete Planning, Inc., Sports Stories, Inc. and FourHands, Inc. comprise the HR & Education Business. The EC Business is conducted by Scala PLAYce, Inc., while the Incubation & Investment Business are conducted by J-Phoenix Research, Inc., Scala Partners, Inc., SCL Capital LLC, and the SCSV-1 Investment Limited Partnership. The Group also includes the Company itself as the holding company.

Subsidiaries by business segment and business content

Business segment	Subsidiary	Ownership ratio (%)	Main business
IT/AI/IoT/DX Business	Scala Communications, Inc.	100.0	Provision of SaaS/ASP services
	Scala Service, Inc.	100.0	
	Scala Next Inc.	100.0	Development of SaaS/ASP services, offshore development
	Connect Agency, Inc.	51.0	Cloud-based PBX services
	Retool, Inc.	100.0	Planning, development, and sales of cloud activity management tools
	Social Studio Inc.	51.0	Promotion of DX and SDGs to the national and local governments (joint venture with Branding Technology Inc.)
Customer Support Business	Leoconnect, Inc.	66.0	Customer support consulting (call center operations, etc.)
HR & Education Business	Athlete Planning, Inc.	100.0	HR recruiting (new graduate recruiting, mid-career recruiting) support, etc.
	Sports Stories, Inc.	100.0	Exercise education, sports school operation, etc.
	FourHands, Inc.	100.0	Infant education, community development support, etc.
EC Business	Scala PLAYce, Inc.	100.0	Management of an EC site for the buying and selling of battletype trading cards
Incubation & Investment Business	Scala, Inc.	-	Group head office, holding company functions, investment business
	Scala Partners, Inc.	100.0	Innovation, incubation, investment
	J-Phoenix Research Inc.	100.0	Value creation management support (creation of analyst and integrated reports, fund management support)
	SCL Capital LLC	100.0	Investment fund management
	SCSV-1 Investment Limited Partnership	71.4	Investment fund

Note: As of the end of June 2021
Source: Prepared by FISCO from the companies' securities reports, results briefing materials, and business briefing materials

Looking at the composition of sales by business segment in FY6/21, the IT/AI/IoT/DX Business provided 47.5%, Customer Support Business 21.0%, HR & Education Business 15.5%, EC Business 15.0%, and Incubation & Investment Business 1.0%. In terms of profits by segment, the IT/AI/IoT/DX Business is the main pillar of profits.

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

(1) IT/AI/IoT/DX Business

The main services in the IT/AI/IoT/DX Business include various types of ASP services such as i-search, a search service that uses companies' websites, and i-ask, an FAQ service. They also include IVR, an interactive voice response system, and a news distribution service. The i-search service was launched in 2007, and it currently holds the leading market share at around 15% with more than 400 customers, particularly large enterprises. More than 10 companies have entered this market, but the Company's service has been highly evaluated by customers for its convenience, including that users can be accurately guided to the target page using thumbnails displayed in search results. The average usage fee per month is ¥100,000 to ¥150,000.

The Company launched the i-ask service around 2008 which is used by about 200 companies, mainly in the financial and insurance industries. This service lets users resolve issues on their own by listing frequently asked questions and related answers on corporate sites. It helps to lower costs by reducing inquiries to call centers and can improve customer satisfaction. The Company holds a roughly 15% market share, ranked second after OKWAVE, Inc. <3808>. The average usage fee per month is ¥200,000 to ¥300,000.

IVR is a system for voice-based automated responses at corporate phone help desks, and the Company's service stands out for being provided in the SaaS format. Companies previously incurred large investment costs for IVR, including the need to install a PBX (private branch exchange) system. However, the SaaS format enables them to access the service inexpensively and use it during limited periods, such as campaigns. Therefore, IVR is steadily introduced by many companies as a service that is highly convenient.

Other than these businesses, various other services are offered, including a news distribution service for corporations and a service for the planning, development, production, maintenance, and management of websites according to customer needs, and thus the Company features a rich service lineup and does not rely on a specific service. They also include services such as the cloud PBX service provided by Connect Agency and the Retool cloud activity management tool provided by Retool.

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It also develops systems and provides services related to IoT and big data as customized development projects. Examples of this are Smiling Road, a safe-driving assistance service (for corporations)*1 sold by Sompo Japan Insurance Inc., and Portable Smiling Road, a smartphone app (for individuals)*2. In these services, big data, such as driving-related data sent from the users' dashboard cameras, is received by the server of Scala Communications and is operated and managed by the web system developed by the Company.

*1 A service that contributes to the promotion of continuous safe driving and accident prevention. It does so by using a website or smartphone app to provide various functions to facilitate safe driving, for example, processing of driving data collected from dashboard cameras utilizing IoT technologies, providing safe driving analysis for drivers and administrators, granting points to drivers rated highly in the driving evaluation system, and enabling them to apply for prizes.

*2 A service that provides "peace of mind" functions such as reporting accidents with the single push of a button in the event that the driver has an accident, "safety" functions useful for accident prevention such as driving analysis and provision of information in real time, and "comfortability" functions such as GPS, all using a smartphone app.

Description of the IT/AI/IoT/DX Business services

Type	Product name	Description
Information searches	i-search	Internal search engine for websites
Content management	i-ask	FAQ system
	i-catalog	Product site management system
	i-linkcheck	Link-loss detection system
	i-flow	Progress management and approval system
	Hosting services	Hosting services
Content delivery	i-print	Web page printing system
	i-linkplus	Service for displaying links to related pages
	i-gift	Digital gift service
	Fresheye	Search portal site
	Corporate news	Monitoring important business information
Various types of reception	SaaS-type IVR	24-hour, 365-day automated voice response
	i-shopnavi	Store reservation support system
	Campaign website construction	Campaign website construction and reception
Inquiry management	i-assist	Web chatbot system
	i-livechat	Web chat system
Member management	i-point	Point systems compatible with EC sites
Data management	PatentManager6	Latest patent management system
	GripManager	Contract operations management system
IoT, big data	Safe driving analysis	Processing and management of big data

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

(2) Customer Support Business

The Customer Support Business conducted by Leoconnect provides consulting operations for the management of inbound call centers (24 bases nationwide), ranging from receiving inquiries about customer companies' services and products to follow-up after the response, and its main customers include the HIKARI TSUSHIN Group and its agencies. In addition to launching technologies such as i-livechat, i-assist, and IVR at each call center, the Company is aiming to improve call center productivity by introducing C7, a new core system jointly developed with Scala Communications that reflects customer needs (launched in November 2019). Going forward, the Company's strategy is to build its own call center and acquire customers outside the HIKARI TSUSHIN Group, and thereby work to grow the business scale and improve profitability.

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(3) HR & Education Business

In the HR & Education Business, 65% of sales come from the HR business and 35% of sales come from the education business. In the HR business, Athlete Planning provides services including a comprehensive employment support system for physical education students, a job hunt support service specifically for female students, a second career support service for professional athletes. Currently, the source of earnings is the planning and management of corporate joint briefing meetings to recruit new graduates. This service starts selling exhibition booths to companies in June every year for events scheduled to be held from December to March of the following year, presenting a seasonal factor for results with earnings concentrated in 3Q. However, amid the COVID-19 pandemic it has been difficult to hold joint briefing meetings in person, so the Company has been holding events online.

In the education business, FourHands provides educational services with high added value targeting infants to elementary school students. Its services include the *Minna no Hoikuen* nursery schools, Universal Kids international combination day care centers and preschool, UK Academy for cultivating an international sensibility among schoolchildren, and Largo KIDS day services, such as after-school activities specializing in exercise. Also, Sports Stories provides sports classes, including the Fine'z baseball schools for children, the BEAUT soccer school, the Dunkers basketball schools and Ballschule schools. A feature of these businesses is that they emphasize not only athletic ability, but also emotional growth.

(4) EC Business

In the EC Business, Scala PLAYce buys and sells trading cards for battle-type games, and operates Card Shop Yuyu-Tei, a reuse EC site with the functions of a capture site. The site has high name recognition in the gaming industry and is influential to the extent that it is used as a reference indicator for the pricing of used cards, and so it is known as the industry's No. 1 EC shop. Many of the purchases on the site are made by overseas users, and starting in FY6/20, users will be able to purchase from overseas users as well.

(5) Incubation & Investment Business

The Incubation & Investment Business consists of business investment conducted by the Company and regional revitalization-related services in collaboration with local governments. It also includes engagement in value creation management support by J-Phoenix Research, new business development by Scala Partners, and regional revitalization-related services centered on the management of the KomfortaWorkation website to introduce workation facilities. Furthermore, it involves the SCSV-1 Investment Limited Partnership, the value co-creation engagement fund operated by SCL Capital LLC, and improving the value related to its investments, engagements, etc.

The value co-creation engagement fund invests in listed companies with market capitalization up to ¥10.0bn for which ROIC of at least 15% is expected. The amount invested per company is in the ¥100-¥150mn range, and after making an investment the shares are sold at the stage when the corporate value has reached the expected level. The proceeds from the sale are then used to acquire shares in the next portfolio company.

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Aims to differentiate itself from competitors by increasing convenience through developments from the customer's perspective and providing a rich service lineup

3. The Company's strengths

One of the Company's strengths in the IT/AI/IoT/DX Business is that it develops services from the customer's perspective. It handles most of its business as direct sales and 80% of revenue is from direct salesforces. It improves service functions and develops new services by listening closely to customer needs and feeding this information back to its development team, and its development policy is to meet 100% of customer requests. The Company developed its core i-search and i-ask services thanks to this approach of meeting customer requests and its services are characterized specially by their ease of use, and this has also enabled it to make smooth progress in expanding sales to new customers.

Another strength is that the extensive lineup of services developed in this manner differentiates it from its competitors. The ability to propose multiple services in packages enables the Company to satisfy diverse customer needs, and this cross-selling helps to raise the average price per customer, boost customer satisfaction, and prevent cancellations. The Company has done business with over 1,000 companies, including 400 listed companies.

The features of the IT/AI/IoT/DX Business revenue structure are that monthly billing revenue accounts for approximately 60% of revenue, and it has a recurring income-type business model in which monthly revenue builds up in accordance with the accumulation of service contracts. The Company's basic policy is to avoid usage-based billing as much as possible and to provide services only from fixed monthly billing (With usage-based billing included, this business accounts for over 70% of net sales). Also, the main services are maintaining high gross profit margins at around 80%. A reason for this is that the Company initially develops services customized to customer needs, and then develops them horizontally as general services, which enables it to keep development costs down as a result.

In the Company, these strengths are ascertained as three capabilities: "the capability to determine real issues" (accurately understanding customer needs in direct sales), "the capability to discover the hidden value of resources" (focusing only on functions that meet needs and developments that create and customize the value of IT resources), and "the capability to maximize value by proposing and executing the optimal combination of issues and resources" (optimization, including of the cloud environment, and dispatching project managers as necessary who will contribute to maximizing the satisfaction of stakeholders). Its strategy is to further strengthen these three capabilities, and as the value co-creation platform, to realize high growth through developing businesses over a wide range of fields including not only companies but local governments and overseas markets as well.

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Results trends

In FY6/21, revenue increased due to the effects of M&A, but operating profit declined due to the execution of investment targeting growth

1. Overview of FY6/21 results

In the FY6/21 consolidated results, revenue increased but profits decreased, with revenue rising 14.6% YoY to ¥8,734mn, operating profit declining 3.0% to ¥220mn, and profit before tax falling 7.2% to ¥188mn. Profit attributable to owners of parent increased 854.4% to ¥3,065mn due to the posting of a ¥2,770mn gain on the sale of SOFTBRAIN's shares.

FY6/21 consolidated results (IFRS)

(¥mn)

	FY6/20		FY6/21			
	Results	vs. revenue	Company forecast	Results	vs. revenue	YoY
Revenue	7,624	-	9,000~12,000	8,734	-	14.6%
Cost of sales	4,757	62.4%	-	5,098	58.4%	7.2%
SG&A expenses	2,603	34.1%	-	3,505	40.1%	34.7%
Other income/expenses	-36	-0.5%	-	90	1.0%	-
Operating profit	227	3.0%	100~500	220	2.5%	-3.0%
Profit before tax	203	2.7%	100~500	188	2.2%	-7.2%
Profit attributable to owners of parent	321	4.2%	2,700~3,100	3,065	35.1%	854.4%

Note: FY6/20 results are results for ongoing businesses and exclude SOFTBRAIN and its subsidiaries
Source: Prepared by FISCO from the Company's financial results

The main factors for the increase in revenue were the HR & Education Business, which was added to the consolidated scope from FY6/20 4Q, having an impact of adding ¥1,137mn of revenue, while the EC Business, which operates the trading card game trading site performed well with a positive ¥325mn effect. Meanwhile, the mainstay IT/AI/IoT/DX Business saw only a minor increase in revenue due to the impacts of the COVID-19 pandemic. For operating profit, although profits increased in the EC Business, all of the other business segments saw a decline in profit or a loss. Each business is establishing a platform targeting the construction of a growth foundation, and the increase in upfront investment costs was the factor for the Company-wide decline in profit. Although revenue fell slightly short of the low end of the Company's forecast range, each profit line was within the Company's forecasted ranges.

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Results trends

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

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Strong performance in the EC Business with double-digit increases in both revenue and profits, while the core IT/AI/IoT/DX Business posted higher revenue but lower profit due to proactive investment

2. Trends by business segment

(1) IT/AI/IoT/DX Business

In the IT/AI/IoT/DX Business, revenue increased 0.6% YoY to ¥4,146mn and operating profit declined 9.1% to ¥756mn. Due to the COVID-19 pandemic, companies reduced costs, contracted contact center operations, and suspended or postponed marketing campaigns, which led to cancellations of some related services. As a result, revenue declined through 2Q. However, from 3Q onward, the rise in demand for operating efficiency improvements using DX resulted in firm performance by mainstay services, and the Company posted sales for a number of other projects, including the development of digital platforms using the "xID" app linked to My Number Card, a contract for the annual management of "Yell-Lab Ehime," the DX promotion platform in Ehime Prefecture, and the partial completion of the additional development of a driving safety support service for Sompo Japan Insurance. As a result, the business achieved an increase in revenue for the full fiscal year.

Looking at revenue by type, monthly billing revenue declined slightly by 2% YoY due to cancellations of some related services caused by the COVID-19 pandemic. Meanwhile, revenue from usage-based billing increased 11% YoY due to the increase in the use of "i-gift" and revenue from system development projects, which is recorded in temporary revenue, increased 3%. It can be said that despite the COVID-19 pandemic, revenue from monthly billing and revenue and usage-based billing were stable. However, major companies continued to newly introduce mainstay services such as i-ask, i-assist, and i-livechat.

Profits declined due to a variety of aggressive investments targeting business expansion (securing human resources for launching new businesses, obtaining young, entrepreneurial human resources and promoting communication with young venture companies).

New initiatives include the launch and start of operations of "Local Government DX Workshop" to share knowledge and technologies with the aim of solving issues faced by local governments through DX, as well as tackling the corporate value creation of client companies through combining DX support with the know-how related to value co-creation management support, including investor relations.

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Results trends

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

Main new customers for IT/AI/IoT/DX Business services (Total for FY6/21)

Type	Product	Description	Customers
Information searches	i-search	Internal search engine for websites	Tokio Marine Nichido Anshin Life Insurance Co., Ltd., Meiji Yasuda Asset Management Company Ltd., Sunstar Inc., KAJIMA CORPORATION, ipet Holdings, Inc., Sunplanet Co., Ltd., KING RECORD Co., Ltd., Chitose City, Atsugi City
Content management	i-ask	FAQ system	ROHTO Pharmaceutical Co., Ltd., MEGMILK SNOW BRAND Co., Ltd., SANYO DENKI CO., LTD., DIAMOND, Inc., JAPAN POST BANK Co., Ltd., Joshin Denki Co., Ltd., TOSHIBA LIFESTYLE PRODUCTS & SERVICE CORPORATION, The Bank of Okinawa, Ltd., Toppan Inc., KOIKE-YA Inc., NH Foods Ltd.
Inquiries management	i-assist	Web chatbot system	NIHON L'ORÉAL K.K., Sumitomo Life Insurance Company
	i-livechat	Web chat system	Chubu Electric Power Miraiz Company, Incorporated, The Bank of Okinawa, Ltd., Toppan Inc.

Source: Prepared by FISCO from the Company's results briefing materials and the companies' press releases

(2) Customer Support Business

In the Customer Support Business, revenue decreased 18.8% YoY to ¥1,837mn and operating loss was ¥12mn (operating profit of ¥29mn in previous fiscal year). The factors causing revenue and profit to fall were that during the COVID-19 pandemic, which has become prolonged, conventional call center operations for sales of new products of companies in the HIKARI TSUSHIN Group declined, and the Company struggled to acquire new customers.

The Company has positioned the FY6/21-FY6/22 period as the transition period for transforming the earnings structure, and it is advancing an expansion strategy. Specifically, the Company is working to make its services in the customer support domain high value-added services, such as building a call center with a high profit margin. In addition, it is aiming to strengthen profitability by incorporating the highly price-competitive BPO service for people with disabilities developed by its capital and business partner VALT JAPAN CO., LTD. into its call center management operations.

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

(3) HR & Education Business

In the HR & Education Business, revenue was ¥1,353mn and operating loss was ¥144mn. In the HR business, conditions remained challenging as the COVID-19 pandemic made it challenging to hold in-person new graduate recruiting events, including joint briefing sessions held from winter through spring. However, the Company kept the impact to a minimum with online-based alternatives and other means, while also engaging in new sales activities augmenting its sales framework, which helped to blunt the negative impacts. Meanwhile, in the education business, although the *Minna no Hoikuen* nursery school and the international combined daycare center and preschool Universal Kids performed well, some educational services were impacted by the COVID-19 pandemic. However, efforts to prop up sales and strengthen human resources referrals helped to turn results to an operating profit in 4Q, and earnings are otherwise on a recovery trend.

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

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(4) EC Business

Results were strong in the EC Business, with revenue increasing 33.0% to ¥1,311mn YoY and operating profit growing 71.3% to ¥162mn. In addition to the expansion of online trading needs supported by stay-at-home demand amid the COVID-19 pandemic, efforts including increasing the usability and convenience of the EC site and optimizing it for mobile phones had positive impacts. Regarding profits, in addition to the effects of the higher sales, an AI image processing system for automating card identification and pricing was introduced, contributing to the increased efficiency of back-end operations and improvements in profitability.

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

(5) Incubation & Investment Business

Incubation & Investment Business revenue increased 127.6% YoY to ¥84mn, while operating loss was ¥387mn (operating loss of ¥383mn in previous fiscal year).

Revenue grew alongside steady increases in sales for value creation management support and DX support projects by J-Phoenix Research, and Scala Partners' workation service*1 also contributed. In addition, as the first investment by the SCSV-1 Investment Limited Partnership, in December 2020 it invested in ARCHITECTS STUDIO JAPAN INC. <6085> (hereafter, ASJ) which operates an architect matching service*2. J-Phoenix Research is providing ASJ with value co-creation-type management support, including to promote DX, and IR strategy support. At the same time, it is working to improve its enterprise value, such as by building a DX platform for optimal matching, providing online marketing tools, and jointly developing CRM solutions that utilize IT for architects, construction stores, construction material manufacturers, and owners of facilities.

*1 A service to provide experiences that connect regions and people through excellent worksites and new work, and it mainly entails managing the KomfortaWorkation website that introduces workation facilities.
*2 Total investment amount of ¥98mn, 108,000 shares acquired, 6.2% of voting rights, ¥913 per share.

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Results trends

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

As a measure to support the DX of local governments, the Company released a reverse public offering proposal service called "*Gyaku Propo*", which is a public-private co-creation platform service co-created with Public dots & Company, and two projects have already been adopted, while four local governments are advancing initiatives with the platform. *Gyaku Propo* is a service private-sector companies, such as large or start-up companies, can use when they want to speedily implement measures, such as ascertaining demand trends and verifying hypotheses, for a new business that solves social issues. In a conventional public offering proposal, a company aiming to win a project submits a project plan to a soliciting local government with a budget, and a third party evaluates and selects a winner. Conversely, in *Gyaku Propo*, a company openly solicits local governments who may want to participate in the theme for solving social issues that the company plans while shouldering the costs itself. Local governments that can participate prepare and submit proposal documents, such as demonstration experiments, in accordance with the theme. As multiple local governments may be selected, companies can also conduct many demonstration experiments. Budgets for the projects will be paid to selected local governments by companies participating in the public offering in the form of "donations."

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Differences between reverse public offering and conventional public offering proposals

Source: Reprinted from the Company's press release

As the first *Gyaku Propo* project, five local governments entered an open call for participants for a project on the theme of "Realizing a safer transportation environment and society" brought forth by E.design Insurance Co., Ltd. After considering the applicants, Kobe City and Hino Town, Shiga Prefecture, were selected. Going forward, Kobe City is advancing a project on the theme of "Building a framework to disseminate information toward eliminating traffic congestion at Kikuseidai, Mt. Mayasan," while Hino Town is working on a project on the theme of "Promoting the safe use of bicycles through safety classrooms and cycling events." E.design Insurance used *Gyaku Propo* in order to advance specific initiatives to "realize a safer traffic environment and society" together with local governments as part of its CSR initiatives. The open call for the second project has been completed, and two local governments have been selected. As of August 2021, proposals for three projects have been received.

Revenue from *Gyaku Propo* is limited, but there are possibilities related to developing systems used by projects, while the Company's strategy is to grow revenue by increasing cases in which the Company acquires opportunities to receive orders for other system development projects from the participating local governments. In fact, thanks to matchings through *Gyaku Propo*, the Company has received an order to develop a COVID-19 vaccination registration system and to carry out a demonstration experiment on a vaccination reservation system using the My Number Card for Hino Town, Shiga Prefecture.

Plans to actively invest the funds from the sale of SOFTBRAIN shares

3. Financial condition and business indicators

Looking at the financial condition at the end of FY6/21, total assets were down ¥4,582mn compared to the end of the previous fiscal year to ¥20,330mn. In current assets, mainly due to the classification of SOFTBRAIN as a discontinued business, cash and cash equivalents increased ¥1,986mn and trade and other receivables declined ¥2,043mn. In non-current assets, SOFTBRAIN-related goodwill decreased ¥5,136mn, while right-of-use assets increased ¥816mn. In addition, securities related to investment business increased ¥202mn due to securities investment by the Incubation & Investment Business.

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Total liabilities were down ¥4,710mn compared to the end of the previous fiscal period to ¥9,859mn. Mainly due to classifying SOFTBRAIN as a discontinued business, trade and other payables fell ¥1,622mn, while interest-bearing debt declined ¥2,658mn. Total equity increased ¥127mn to ¥10,470mn. While non-controlling interests decreased ¥2,631mn, equity attributable to owners of parent increased ¥2,759mn.

Looking at management indicators, the ratio of ownership attributable to owners of parent increased significantly from 29.7% at the end of the previous fiscal year to 50.0%, while the interest-bearing debt ratio fell from 116.6% to 58.8%. Net cash (cash and cash equivalents – interest-bearing debt) turned positive for the first time in two years, improving significantly by ¥4,645mn from the end of the previous fiscal year to ¥3,835mn. The Company plans to utilize the funds acquired from the sale of SOFTBRAIN shares for new investment and to allocate some of it to repay borrowings. Although profitability is at a low level, this is because the Company has positioned it as a period for upfront investment targeting mid-term growth, and over the medium to long term the Company is aiming for an operating margin of 10%.

Consolidated statement of financial position (IFRS)

(¥mn)

	FY6/18	FY6/19	FY6/20	FY6/21	Change
Current assets	8,120	10,165	11,780	12,991	1,210
(Cash and cash equivalents)	4,950	6,393	7,822	9,809	1,986
(Trade and other receivables)	2,840	3,251	3,456	1,412	-2,043
Non-current assets	8,112	8,529	13,132	7,338	-5,793
(Goodwill)	5,787	6,192	7,086	1,949	-5,136
Total assets	16,233	18,694	24,912	20,330	-4,582
Total liabilities	7,587	9,086	14,569	9,859	-4,710
(Interest-bearing debt)	4,793	5,978	8,632	5,973	-2,658
Total equity	8,645	9,608	10,343	10,470	127
(Equity attributable to owners of parent)	6,448	7,010	7,402	10,162	2,759
(Non-controlling interests)	2,196	2,597	2,940	308	-2,631
Indicators					
(Stability)					
Ownership ratio attributable to owners of parent	39.7%	37.5%	29.7%	50.0%	20.3pt
Interest-bearing debt ratio	74.3%	85.3%	116.6%	58.8%	-57.8pt
(Profitability)					
ROE	11.4%	14.1%	4.5%	34.9%	30.4pt
ROA	9.9%	12.2%	0.9%	0.8%	-0.1pt
Operating margin	12.1%	12.6%	3.0%	2.5%	-0.5pt

Note: FY6/20 and FY6/21 management indicators are on an ongoing business basis
Source: Prepared by FISCO from the Company's financial results

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Outlook

The outlook for FY6/22 is for both revenue and profits to increase significantly due to the expansion of existing businesses and the execution of M&A

1. Outlook for FY6/22

For the FY6/22 results outlook, the Company has announced forecasts with ranges based on the fact that the Company is considering carrying out M&A. For FY6/22 results, the Company is forecasting a large increase in both revenue and profits, expecting revenue from ¥12,000mn to ¥20,000mn (up 37.4% - 129.0% YoY), operating profit from ¥450mn to ¥1,200mn (up 102.4% - 444.6%), and profit before tax from ¥400mn to ¥1,150mn (up 112.1% to 509.8%). The Company is forecasting profit attributable to owners of parent of ¥300mn to ¥800mn (down 90.2% - 73.9%), with the YoY decline resulting from the fact that a gain on the sale of SOFTBRAIN shares was booked in the previous fiscal year.

Concerning existing businesses, the Company is expecting double-digit YoY increases in both revenue and profit by blooming the seeds of the growth strategy that the Company worked on through FY6/21. In addition, the Company plans to accelerate the earnings growth through M&A. The Company has not disclosed the monetary impact of M&A on earnings, but it appears that the bottom end of the range values includes some degree of M&A impact. The targets of M&A and business and capital alliances will be discovered and narrowed down through internal and external networks and independent surveys, and will be advanced at a pace of about 10 deals per year, including co-creation and collaboration. Specific examples include IT companies that have technological capabilities for which synergies are expected to be generated, and companies that are expected to increase their corporate value by utilizing the technological capabilities of the Company.

FY6/22 consolidated results forecast (IFRS)

(¥mn)

	FY6/21 Results	FY6/22	
		Company forecast	YoY
Revenue	8,734	12,000~20,000	37.4%~129.0%
Operating profit	220	450~1,200	104.2%~444.6%
Profit before tax	188	400~1,150	112.1%~509.8%
Profit attributable to owners of parent	3,065	300~800	-90.2%~-73.9%
Basic earnings per share (¥)	174.62	17.05~45.46	

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

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Outlook

The plans for initiatives in each business segment going forward are as follows.

(1) IT/AI/IoT/DX Business

In the IT/AI/IoT/DX Business, the Company is aiming for double-digit annualized growth with new services and acquiring new contracts stemming from other businesses to increase recurring revenue, as well as by capturing large projects in contracted development and by acquiring projects in consigned development that will lead to new businesses. Looking at the number of contracts by service, the Company expects the number of contracts for the i-series, which accounts for approximately 70% of current revenue, to increase 6.2% YoY to 2,550 contracts. Meanwhile, the Company expects enterprise contracts (custom projects) which are somewhat high in unit price to increase 15.2% to 190 contracts, and co-creation projects and other large projects to increase 29.6% to 35 projects. For co-creation projects, multiple deliveries are scheduled in the ongoing safe driving assistance project for Sompo Japan Insurance. Also, the "Real Estate Trust DX Platform," an electronic contract platform using ID verification utilizing "xID" which the Company has started to develop jointly through a business partnership with Shinoken Group <8909> in FY6/21 will contribute to revenue. In July 2021, the Company started applying it from "contract" procedures, and going forward the Company will partner with financial institutions to make it possible to complete financing applications on the platform, and in the future the Company plans to add functions for settlement and registration related to real estate transactions.

As the number of companies working to improve operational efficiency and customer service through DX is increasing, the Company plans to capture this demand. In co-creation projects, the unit price per customer is expected to increase by not only contracting for system development, but also by proposing the introduction of the i-series in marketing and CRM. Also, in the future, the Company plans to provide its own services in the field of health management. Regarding the IT/AI/IoT/DX Business, the Company expects an annual growth rate of about 15% in the medium term due to continued strong DX needs from companies and local governments, as well as the Company's efforts to enhance its services.

Number of contracts by service

	Price	Cancellation rate	FY6/21 Results	FY6/22		FY6/25	
				Forecast	YoY	Forecast	vs. FY6/21
i-series	Approx. ¥100,000/month	Under 7%	2,401	2,550	6.2%	3,000	24.9%
Enterprise	Approx. ¥300,000/month	Under 2%	165	190	15.2%	250	51.5%
Co-creation	Over 2 million/month	0%	27	35	29.6%	100	270.4%

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

(2) Customer Support Business

In the Customer Support Business, the Company will work to increase added value to its services in the customer support domain. Specifically, the Company will strive to enhance convenience and improve productivity, and aim to grow the business scale and improve profitability by reducing low-profit projects and building high profit margin call centers and combining it with the Group's products and services.

With respect to FY6/22, the Company will continue to review projects with low profitability, so while the Company aims to maintain its current level of revenue, it expects operating profit to become positive on a monthly basis, and be around the breakeven point for the full fiscal year. Looking at the number of call center seats, while the number of call center seats for handling traditional consulting will decline from 300 seats in FY6/21 to 200 seats in FY6/22 and 100 seats in FY6/25, the in-house call center that the Company will newly launch will be expanded from 50 seats in FY6/22 to 500 seats in FY6/25. As a result, the Company aims to increase the total number of seats from 300 in FY6/21 to 600 seats in FY6/25, and aims to increase the number of contracts from 250 to 500.

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Number of call center seats and contracts

	FY6/21 Results	FY6/22		FY6/25	
		Forecast	YoY	Forecast	vs. FY6/21
Number of call center seats for consulting	300	200	-33.3%	100	-66.7%
Number of in-house call center seats	0	50	-	500	-
Number of customer support contracts acquired	250	300	20.0%	500	100.0%

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

(3) HR & Education Business

Among the HR & Education Business, in the HR business the Company will work to increase the number of registered job seekers by new graduate recruiting and human resources referral service. The Company plans for the number of physical education to increase from 17,000 in FY6/21 to 18,000 in FY6/22, for the number of new graduate women students to increase from 13,000 to 14,000 students, and for the number of job seekers via human resources referral to increase from 7,000 to 8,000 people. The Company will work to increase the number of people registered by getting more placement requests from companies with strong brand power. Also, the number of hiring-related events, which was struggling due to the COVID-19 pandemic, is expected to recover from 72 in FY6/21 to 80 in FY6/22 while continuing to hold online events.

Through these initiatives, the Company expects growth to continue in the HR business which the Company has been focusing on since FY6/21 2H, and forecasts higher revenue and a turn to positive operating profit in FY6/22. Heading towards FY6/25, the Company plans to focus on increasing the number of people registered among new female graduates and job seekers through personnel referrals. Meanwhile, the Company expects stable growth in physical education students due to the fact that the registration rate is already at a high level.

Number of registered job seekers and number of hiring-related events held

	FY6/21 Results	FY6/22		FY6/25	
		Forecast	YoY	Forecast	Vs. FY6/21
Number of job seeker registrations (new graduates of physical education schools)	17,000	18,000	5.9%	21,000	23.5%
Number of job seeker registrations (new female graduates)	13,000	14,000	7.7%	22,000	69.2%
Number of job seeker registrations (human resources referral)	7,000	8,000	14.3%	14,000	100.0%
Number of hiring-related events held	72	80	11.1%	110	52.8%

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

Meanwhile, in the education business, the Company will expand the business scale and increase the stability of earnings by not only operating its own day care centers and preschools, but also by leveraging its know-how to operate day care centers and preschools for customers on a contract basis. For the daycare centers and preschools that it operates itself, the Company plans to increase the number of facilities from six facilities in FY6/21 to seven facilities in FY6/22. Also, one facility will outsource operations to the Company, and it appears that the Company has received multiple inquiries from other interested parties. Via real estate developers, the Company is seeing in increase in demand from real estate owners who want to utilize tenant space in condominiums for day care centers and preschools. In addition, the Company plans to make progress on developing and selling educational content as well as providing licenses, and the Company's strategy is to steadily grow the business scale while partnering with regional co-creation-related services.

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Number of daycare centers and preschools operated by the Company and number of facilities operated on a contract basis

	FY6/21 Results	FY6/22		FY6/25	
		Forecast	YoY	Forecast	vs. FY6/21
Number of daycare centers and preschools operated by the Company	6	7	16.7%	8	33.3%
Number of facilities operated on a contract basis	0	1	-	5	-

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

(4) EC Business

In the EC Business, the Company expects both revenue and profits to grow by double digits again in FY6/22. The Company will work to increase the number of members and the number of cards sold through ongoing improvements to the EC site "Yuyu-Tei" and by bolstering marketing. Also, the Company will improve profitability by improving fulfillment operations. In terms of the number of members, the Company aims to increase membership from 140,000 people in FY6/21 to 180,000 people in FY6/22, and then to 230,000 people in FY6/25, as the Company strives for additional growth as Japan's largest trading card game EC shop.

The Company is also considering opening physical stores targeting business scale expansion. Because physical stores will be able to purchase trading cards directly from manufacturers, the Company expects that this will enhance the product lineup and increase sales opportunities. For the future, the Company is also looking into the possibility of producing card games related to the Group's educational content.

Number of members of EC site Card Shop – Yuyu-Tei

	FY6/21 Results	FY6/22		FY6/25	
		Forecast	YoY	Forecast	vs. FY6/21
Members	140,000	180,000	28.6%	230,000	64.3%

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

(5) Incubation & Investment Business

J-Phoenix Research is approaching around 200 companies per year on an ongoing basis, and the Company will work to acquire value creation management support projects and DX support projects, as well as carry out M&A and capital and business tie-ups.

Meanwhile, there is an extremely high level of interest in *Gyaku Propo* among companies engaging in new business development and local governments, and the Company expects to obtain more projects. In FY6/22, the Company plans to turn these projects profitable as well as obtain system development projects stemming from matchings. In FY6/21, there were two projects for *Gyaku Propo* that led to matching contracts, and the Company aims to increase this to 15 projects in FY6/22 and 30 projects in FY6/25. Likewise, the Company expects the number of system development projects stemming from matchings to increase from one project in FY6/21 to 30 projects in FY6/25.

Track record of matching through *Gyaku Propo* and forecast

	FY6/21 Results	FY6/22		FY6/25	
		Forecast	YoY	Forecast	vs. FY6/21
Number of matches	2 projects	15 projects	7.5x	30 projects	15x
Number of matched local public entities (total)	4 entities	15 entities	3.75x	100 entities	25x
Development projects stemming from matching	1 project	3 projects	3x	30 projects	30x

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

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Examples of *Gyaku Propo*

Proposing company	Objective	Theme	Status
E.design Insurance Co., Ltd.	New business development, CSR/CSV	"Realizing a safer transportation environment and society"	Open call concluded
WirelessGate, Inc.	New business development	Gap between "ideal" public services and the "current situation"	Open call concluded
DoctorMate Inc.	New business development	Creating new systems in local governments/hospitals/nursing care facilities in order to realize an "appropriate nighttime emergency transport model"	Open call concluded
FamiOne, Inc.	New business development	Creating towns and cities that are conducive to living and working in from the perspective of "Trying to conceive x urban development"	Open call concluded
Information Services International-Dentsu, Ltd.	New business development	About "urban development measures using social scores" with the purpose of generating related population	Open call concluded

Source: Prepared by FISCO from *Gyaku Propo* website

In the mid-term management plan, is targeting revenue of ¥500bn and operating profit of ¥50bn in FY6/30

2. Mid-term management plan

In the Company's COMMIT5000 mid-term management plan running up to 2030 which it announced in August 2019, the basic policy is to utilize the Company's strengths, which are its three capabilities of "determining real issues" (the value creation support business), "discovering the hidden value of resources," (the AI/IoT/IT-related business), and "maximizing value by proposing and executing the optimal combination of issues and resources," (the social issue-solving business), and the strategy is to aim for mid- to long-term growth while linking these capabilities together. In terms of numerical targets, the Company projects revenue of ¥100bn and operating profit of ¥10bn for FY6/25, while it projects revenue of ¥500bn and operating profit of ¥50bn in FY6/30.

Considering the FY6/21 revenue of ¥8,734mn and operating profit of ¥220mn, these may seem to be lofty targets. However, the Company's aim is to grow and deepen existing businesses through its growth model of working with joint-development partners to build "models" for "value creation management support + DX support" and then horizontally developing this model. In addition, the Company's strategy is to accelerate growth by proactively advancing M&A as well as new business development. In addition, growth factors will be the acquisitions of capital gains from the investment fund and the accumulation of recurring-type income from building IT systems for the companies it invests in and the provision of various services. The Company is positioning the provision of services to local governments lagging behind in DX as a growth field, and plans to accumulate orders while building a network through *Gyaku Propo*. In order to execute these growth strategies, the Company has been investing proactively since 2020, and expects the benefits of these efforts to emerge in FY6/22 and thereafter.

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Outlook

Key investments made

Portfolio company	Business description	Reason for investment	Investment details
VALT JAPAN Co., Ltd.	BPO business specializing in persons with disabilities, support for hiring persons with disabilities, etc.	To develop a social issue-solving business related to work by persons with disabilities	Invested ¥22mn through capital increase via third-party allotment
xID Inc.	Digital ID solutions using My Number Card, etc.	In order to develop business related to digitalization of government administration and regional areas	Acquired shares through capital increase via third-party allotment (Feb. 2020)
MyanCare Co., Ltd.	Remote healthcare service in Southeast Asia, etc.	In order to develop a social issue-solving business related to healthcare in Southeast Asia	Investment through capital increase via third-party allotment (June 2020)
Branding Technology Inc.	Branding support, digital marketing business, etc.	In order to develop regional revitalization through the branding of regional companies	Established Social Studio Inc. as a joint venture (Sept. 2020, ownership ratio: 51%)
ARCHITECTS STUDIO JAPAN INC.	Networking connecting architects and member construction companies, etc.	In order to develop new businesses through co-creation	Acquired 6.23% of shares for ¥98mn through capital increase via third-party allotment (Dec. 2020)
TRUVA Group Holdings, Inc.	Movable property valuation and other ABL-related services, M&A/business support, agriculture, etc.	Engaged in regional revitalization via regional financial institutions, deeply cultivating IoT needs especially in the agriculture and livestock industries	Established Scala Truva, Inc. as a joint venture (May 2021, ownership ratio: 70%)
AGBIOTECH Co., Ltd.	Natural cultivation-related business, system development, etc.	In order to develop a social issue-solving business related to agriculture	-
Cookbiz Co., Ltd.	Fee-based work referrals specializing in the food-related industry, operation of job posting site, training, etc.	In order to develop new businesses through co-creation	Acquired 1.06% of shares for ¥30mn through capital increase via third-party allotment (Aug. 2021)
readytowork Co., Ltd.	Web system planning, development and operation	Has a development base in Nepal. Will strengthen the Group development framework and turn this into a subsidiary anticipating IT services development in Nepal.	Acquired all shares and converted into a subsidiary (Aug. 2021)

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

Also, given the fact that it is a growth field, competition with respect to the Company's IT/AI/IoT/DX Business is fierce, but by integrating the Group's comprehensive IT/AI/IoT capabilities, the consulting know-how of J-Phoenix Research which is an expert in value creation for listed companies, and the resources of Public dots & Company which is an expert in value creation for local governments, the Company thinks that it can differentiate itself from its competitors, and is aiming for significant growth over the next 10 years. The policy for the overseas market is to proceed with caution given the increasing uncertainty in the global situation, but the plan is to continue to develop the social issue-solving business, focusing on Southeast Asia, on the themes of medical and health, agriculture and food, and education fields.

Overview of mid-term management plan COMMIT5000

Source: The Company's results briefing materials

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Shareholder return policy

Emphasizes returning profits to shareholders, aims to keep increasing dividends going forward

The Company's basic shareholder return policy is to stably and continuously pay dividends while also securing the internal reserves necessary to strengthen its financial structure and develop its businesses in the future, and the Company aims to continually increase dividends under this policy. For FY6/21, the Company paid a year-end dividend of ¥16.0 and an additional dividend increase of ¥2.0, as the Company commemorated the 30th anniversary of its founding and returned a portion of the profits earned from investments. With this, the FY6/21 annual dividend increased ¥6.0 YoY to ¥34.0. For FY6/22, the Company expects to increase the dividend ¥2.0 YoY to ¥36.0 per share, which will mark the 13th consecutive period it has increased the dividend.

With respect to the Tokyo Stock Exchange's new market segments, which will go into effect from April 2022, the Company has chosen to switch to the Prime Market in order to realize its mid-term management plan and meet the high expectations and demands of the capital market. After confirming that it was in compliance with the Prime Market's listing maintenance criteria, the Company submitted its application in September 2021. In addition, in order to strengthen its governance system, the Company plans to pass a resolution at the general meeting of shareholders scheduled to be held in September 2021 to transition from a company with audit and supervisory board members to a company with a three committees (nomination, audit and remuneration).

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

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Information security measure

The Company's mainstay business is SaaS/ASP services that utilize the internet, so information security is one of its most important management issues. In terms of specific measures, all Group companies have obtained and will continue to maintain ISO/IEC27001 certification, which is the international standard for information security, and to implement information security measures incorporating a global-standard third-party perspective. They also strive to thoroughly manage the information assets owned by the Group based on an internal management system. They use in-house servers and some private clouds for the information system, while also constructing backup systems.

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