

# Management Solutions co., ltd.

7033

Tokyo Stock Exchange Prime Market

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

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## Summary

### Due to the strong demand for DX-related PMO support, the Company intends to review the medium-term results targets

Management Solutions co., Ltd. <7033> (hereafter, also “the Company” or “MSOL”) is a consulting firm whose business is focused on supporting project management office execution (hereafter, PMO support). In the field of strategy execution-type project management support, it provides PMO support services for a wide range of corporate organizational levels, from the management level through to worksites, including for IT projects and operations and organizational improvement projects. It also develops and sells the ProEver project management tool, and additionally provides training programs for project management. At the end of April 2022, the number of consultants had increased by 219 (year-on-year) (YoY) to 638 people.

#### 1. In FY10/22 1H results, sales increases exceeded the Company forecast

In the FY10/22 1H (November 2021 to April 2022) consolidated results, net sales increased 59.1% YoY to ¥5,204mn and operating profit decreased 24.6% to ¥219mn. Compared to the Company forecasts, net sales were 13.3% higher but operating profit was 9.4% lower. Operating profit fell short of the forecast mainly due to an increase in recruitment and training expenses (up ¥395mn YoY to ¥624mn) because the number of recruited mid-career consultants exceeded the plan by 186 people. In the Company’s case, the number of consultants is a leading indicator of sales, so the current decline in profits can be viewed as a temporary decline in anticipation of future growth. The main reasons why net sales were higher than forecast included that, against the backdrop of companies more actively investing in DX, the Company made progress in obtaining continuous orders from existing customers and acquiring new customers, and also that it recruited more consultants than planned. In November 2021, it made a subsidiary of TETRA communications Inc., which provides DX support to life insurance companies. This was the main factor behind a net sales increase of approximately ¥300mn (its effect at the operating profit stage was minimal as it included amortization of goodwill of ¥26mn).

#### 2. Forecasts double-digit increases in sales and profits to continue in FY10/22 results

For the FY10/22 consolidated results, the Company has left the initial forecasts unchanged, with net sales set to increase 56.3% YoY to ¥11,500mn and operating profit to rise 30.1% to ¥1,200mn. It has also upwardly revised the number of mid-career consultants hired from the initial forecast of 260 people to more than 300. Since the recent status of orders received continues to be favorable, the Company has increased the number of hired consultants more than it planned, so it is highly likely that the full fiscal period net sales will also exceed the Company forecast. Operating profit is expected to rise in the 2H as well, partly because there will not be drastic increases in recruitment and training expenses and advertising expenses, so the Company is aiming to achieve its full fiscal year operating profit forecast.

## Summary

**3. Intends to review the medium-term results targets and accelerate growth**

The Company is currently making steady progress toward achieving the medium-term results targets that it announced in December 2019 (net sales of ¥23bn, operating profit of ¥5bn, an operating profit margin of 20%, and more than 1,000 employees in FY10/25). Based on this, it plans to announce revised targets at the financial results briefing to be held in December 2022. Amid an increase in the number of companies working on digitally transforming management, the outlook is that needs for PMO support services will continue to increase in the future. In response to this, the Company's policy is to accelerate sales growth by continuing to actively recruit consultants while expanding PMO Online, which provides part-time PMO support services in a telework environment, and the software business (ProEver). Also, the profit margin forecast is that it will change direction and increase from FY10/23 onwards, partially by increasing the project unit price, keeping down recruitment costs by strengthening referrals recruitment, and expanding the software business. Potential demand for PMO support in Japan remains large, so the Company intends to realize high growth by providing high-quality services. Recently, the number of competitor companies, including unlisted companies, has started to increase, but the Company can be expected to maintain high growth in the future by utilizing its strengths, including the knowledge and expertise it has accumulated up to the present time and its proprietary education system.

**4. For shareholder returns, has abolished the shareholder benefits program from the viewpoint of fairness and is considering paying a dividend**

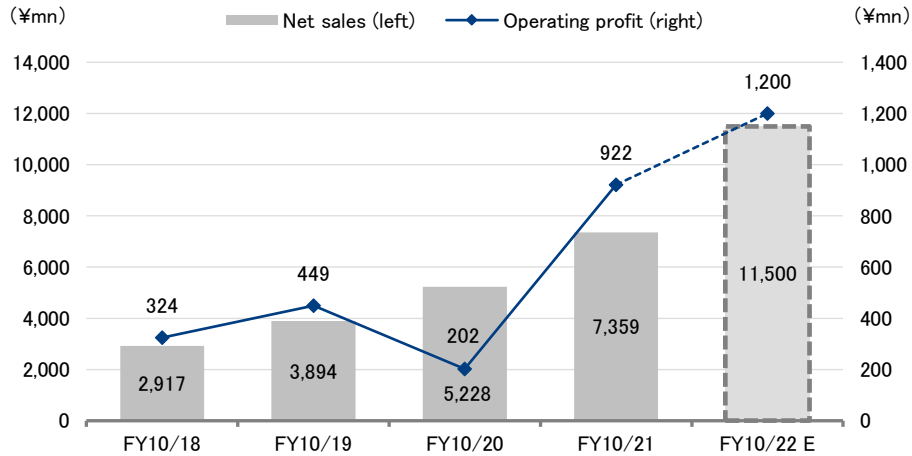
In June 2022, the Company announced that it had abolished the shareholder benefits program. As a result of much thoughtful deliberation on a fair way to return profits to shareholders, it concluded that abolishing the program would lead to the fair return of profits to shareholders with the aim of improving enterprise value by conducting investment for business expansion in the medium- to long-term. It also announced that it had acquired treasury shares and that it was considering paying a dividend to return profits to shareholders.

**Key Points**

- Aiming for growth on the three axes of expanding the existing business, diversifying the existing business, and expanding the software business.
- Specific actions have already been taken for diversifying the existing business and developing software
- The Company plans to announce revised medium-term results in December 2022

Summary

Trends in net sales and operating profit



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

## Company overview

### Established in 2005 to provide project management consulting

#### 1. History

The Company was established in July 2005 in Naka Ward, Yokohama City, by Mr. Shinya Takahashi, the current President, CEO, and Representative Director. Mr. Takahashi had previously worked in several global consulting firms, starting with Andersen Consulting (currently, Accenture Japan Ltd.), and then Ernst & Young Consulting (subsequently Capgemini, currently QUNIE CORPORATION), where he acquired experience in performance management consulting, including implementing KPI. Subsequently, at Sony Global Solutions, he accumulated a wide range of experiences, such as being a PMO\*leader for global systems development and involvement in offshore development in India. In particular, his experience on both the order receiving side and the ordering side became the foundation for the Company's current business model. Based on this experience, he decided that there were tremendous growth opportunities in Japan based on the fact that the introductions of project management and PMO have been lagging behind those in the United States and other countries, which led him to establish the Company with the mission of "Contribute to society's happiness through management."

\* PMO: Abbreviation of Project Management Office. It refers to a specialist organization and role to support the decision-making of the project manager and project owner, with the aim of facilitating the smooth execution of the project.

Company overview

In the first six to seven years following its establishment, the Company worked to expand its business scale, with PMO support as the core business (the PMO solutions construction period). Starting with a large project for Hitachi Software Engineering, it received a series of orders for large-scale PMO projects from customers including major auditing corporations and NEC <6701>, and thereby expanded its business scale. From June 2007, Mr. Takahashi began the serialized publication of “Utilizing PMO” articles in IPro, published by Nikkei Business Publications, Inc. These serialized articles have attracted attention, and have been accessed thousands of times since they were first published. The serialization continued until January 2013 (100 times), helping to improve the Company’s name recognition and expand its business.

From 2012, the Company started working to expand its business scope, including through overseas business development, new businesses, and M&A. Overseas, it successively established subsidiaries in the United States in 2013, Taiwan in 2015, and China in 2018. The United States subsidiary was temporarily liquidated in 2017, but was once again established in order to restart operations in the region in February 2022. Also, as a new business, it launched sales of the ProViz5\*project management tool in May 2012. For M&A, in November 2021, it made a subsidiary of TETRA communications Inc. (an investment ratio of 80.0%), which provides DX support to life insurance companies.

\* The Company subsequently worked to expand the functions of ProViz5 and in September 2019, it relaunched it under the name ProEver as PM comprehensive support software.

During this period, the Company actively recruited consultants responsible for providing the PMO support, and at the end of April 2022, the number of consultants had rapidly grown to 638 people, which is nearly five times the number of people at the end of October 2017 (130). On the stock market, it was listed on the Tokyo Stock Exchange (TSE) Mothers Market in July 2018, and then roughly one year later in October 2019, its listing was upgraded to the TSE 1st Section. It is currently listed on the Prime Market following the TSE’s reorganization of its market categories in April 2022.

History

July 2005	Management Solutions co., Ltd., established in Naka Ward, Yokohama City, to provide project management consulting
December 2006	Established Ocean Medical Solutions to provide consulting to medical facilities (liquidation completed in May 2008)
June 2007	Established iSakura Technologies Japan in Minato Ward, Tokyo, to conduct systems development (liquidation completed in September 2016)
September 2008	Entered into a business tie-up with Intelligence (currently, Persol Career Co., Ltd.)
March 2010	Started sales of e-learning for project management
April 2011	Entered into a capital tie-up with Intelligence
May 2012	Started sales of the ProViz5 project management tool
November 2013	Established MSOL Inc. as its U.S. subsidiary (liquidation completed in October 2017)
November 2015	Established MSOL-TW in Taiwan to provide support for the execution of project management (currently a consolidated subsidiary)
November 2015	Established ProEver, Inc., in Minato Ward, Tokyo, to develop ProEver, a knowledge and talent management system (merger by absorption in October 2017)
October 2016	Acquired all the shares of Kitazoe & Co. and made it a wholly owned subsidiary (sold all shares in October 2017)
February 2017	Started sales of the ProEver knowledge and talent management system
February 2018	Headquarters relocated to Minato Ward, Tokyo
July 2018	Listed on Tokyo Stock Exchange Mothers market
November 2018	Established Management Solutions (Shanghai) Co., Ltd.
September 2019	Launched sales of the PROEVER PMO comprehensive support software
October 2019	Listing was upgraded to the TSE 1st Section
November 2021	Acquired shares of TETRA communications Inc. and made it a consolidated subsidiary
February 2022	Established MSOL Inc. in the United States
April 2022	Listing was changed to the TSE Prime Market

Source: Prepared by FISCO from the Company’s securities registration statement and results briefing materials

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

## As a specialist project management support company with many excellent customers, mainly major companies, realizing stable and efficient business management

### 2. Business description

#### (1) Support services for project management execution

The Management Solutions Group is comprised of four companies: the Company and its consolidated subsidiaries of TETRA communications, Management Solutions (Shanghai) Co., Ltd. in China, and MSOL-TW in Taiwan, and its main business is providing project management execution support services (hereafter, PMO support services). These are support services in which consultants are dispatched to companies that are working on various in-house projects so that they can make smooth progress and achieve their initial objectives.

As its targeted areas, the greatest number of projects are IT projects, following by work and organization improvement projects, followed by new business and management reform projects, and so on. Also, the scale of the projects it supports are varied, ranging from company-wide horizontally implemented projects to projects within business departments and at worksites.

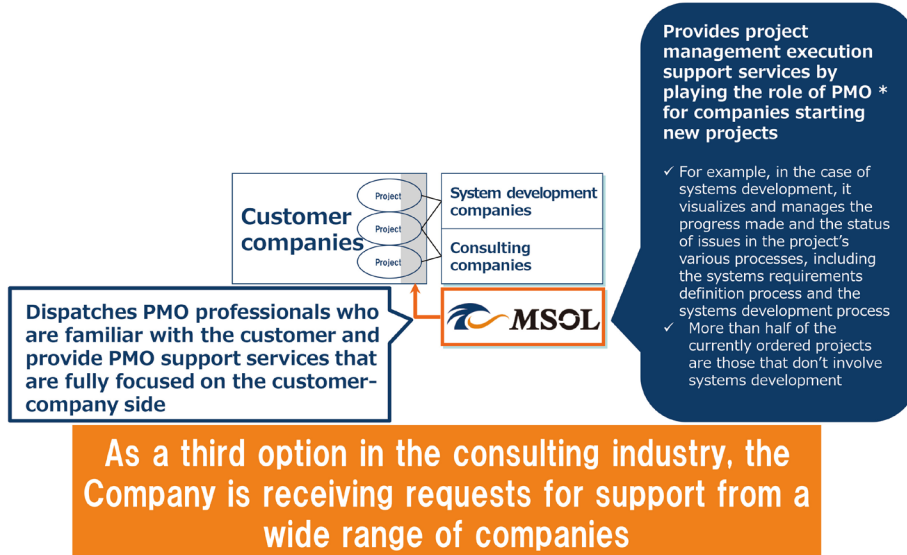
In order to understand the Company's PMO support services, it is necessary to have an image of a project and the specific way it is advanced in a company (the Company's main customers are major companies with thousands to tens of thousands of regular employees). In addition to their day-to-day work duties (such as production activities for the main products if in factories or other production sites, or human resources management and accounting operations in the administrative departments), companies launch various projects to respond to environmental changes or in the pursuit of further growth, and they work to execute these projects.

A project usually has a project manager as the responsible person and leader. The size of the project depends on the setting of the level in which the project is placed (the level within the company, such as the company-wide level, the business division level, or the department and section level) and its goal, and it is not unusual for a project to have 50 to 100 project members. Assuming a project has 50 members, the project manager is like the president of a company with 50 employees and annual sales of ¥500mn to ¥1bn. In such a company, it is unlikely that the president alone will conduct the various operations, such as sales, human resources affairs, general affairs, and accounting. So, just as there are various departments within a company, within a project, an organization will be established to support the project manager. This organization is what is called PMO. For Japanese people, this might be better understood as the "secretariat."

PMO is an organization installed under the supervision of a project manager that visualizes the progress made and the issues for the project as a whole and provides support for the project manager's decision making, and the Company provides consulting and execution support services for PMO. Services are provided by various companies, such as by systems development companies in the case of IT projects and consulting firms in the case of management and business strategy projects, but the Company's approach is to take the position of the ordering party (a company) and guide the project to success by making sure that the project progresses smoothly overall, such as through progress management and risk analysis.

Company overview

Business description



(\*) Abbreviation of Project Management Office. It refers to a specialist organization and role to support the decision-making of the project manager and project owner, with the aim of facilitating the smooth execution of the project.

Source: Materials provided by the Company

Data on PMO shows that 95% of U.S. major companies have established PMO within their company to execute projects. In Japan as well, an increasing number of companies have been establishing PMO and using PMO support services in the last few years, but results still lagging compared to overseas, so there is no doubt still plenty of room for the Company to grow.

**(2) Earnings model**

A typical case of project management support operations involves the outsourcing of PMO operations. Even if a company intends to launch a project and establish PMO, in many cases, it will not have the human resources in-house who are able to execute it (particularly in the IT field), especially because employees have their own daily work duties to take care of. Also, PMO is essentially indirect work, and such indirect costs have quickly come to be directed toward outsourcing and a business model constructed for it that is different from the conventional consulting model. For this outsourcing need, the Company provides support after clarifying its fees according to the service level based on the service model that it itself constructed. The fees express the unit price per consultant per month. In the Company's case, the job type is divided into four levels\* according to the role, and the unit price is different for each level, but currently the average for the Company as a whole is ¥1.6 million per consultant a month. One of the major features of the Company is that it conducts transparent accounting in which it clarifies the unit price of its consultants.

\* PMC (carrying out planning for the future as PM staff, reports for management, inter-organizational adjustments, PM human resources development, etc.), PMA (carrying out PM consultations, promoting project planning, visualization of projects, analyses, report creation, and risk management), PJC (carrying out PM process formulation, introductions-establishments-improvements, progressing problem solving, facilitating various meetings, etc.), and PJA (systems diagrams, master schedules, meeting preparations, management of various documents, establishing an environment including PCs, etc.)



#### Company overview

Excluding the PMO Online business, in many cases, one consultant is allocated to concentrate on one project (in exceptional cases, employees at the highest management level are allocated to multiple projects at the same time). Therefore, the Company's net sales are a function of the number of consultants, the average unit price, and the consultant mobilization rate, so the number of consultants is extremely significant in terms of the growth strategy (details are provided below).

When the number of project members is on a scale of 100 people, the Company usually sends about three consultants for the PMO. The project period differs depending on the project, but it appears to take approximately one year on average. It is common within many major companies for multiple projects to be executed at the same time, and also when one project finishes, for the next one to be started straight away. Based on this situation, in many cases a single consultant will be transferred to a separately contracted project within the same customer company. The percentage of this is called the repeat rate, and it has been trending at a high rate above 90%. It is closely related to the sales system and sales efficiency described below.

### (3) Sales system

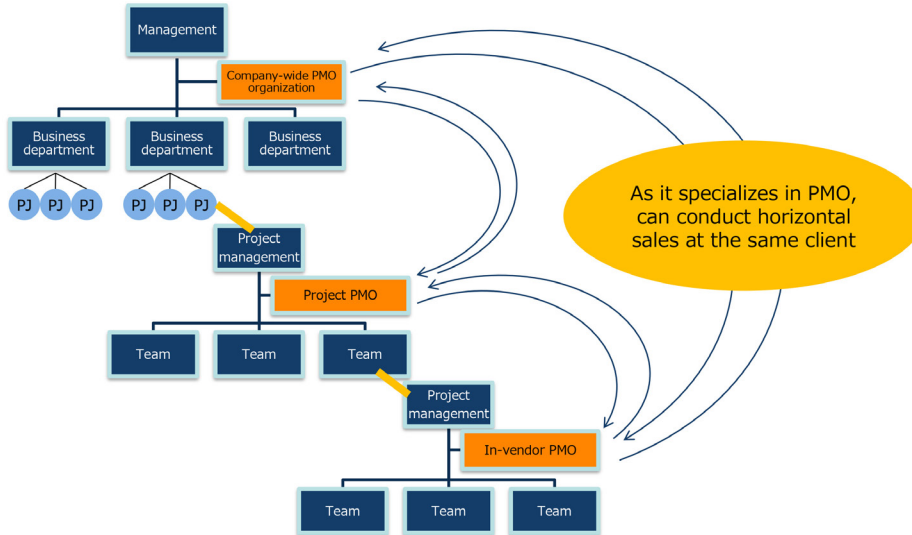
It is necessary to look at sales from two perspectives; acquiring new customers as well as maintaining and strengthening relations with existing customers. The Company has a strength in common for both new customers and existing customers; namely, its positioning of being a specialist PMO support company. The players for PMO support operations are currently mainly consulting firms, and they provide post-process PMO support as an ancillary service to their pre-process consulting (planning and proposals, such as for business strategies). In contrast to this, as a specialist in PMO, the Company provides PMO support services that are fully focused on the customer-company side. At FISCO, we think that the steady progress the Company is making in acquiring new customers and the high repeat rate for existing companies demonstrates the power of its unique business model and positioning.

Currently, in the 17th year since its establishment, the Company has steadily accumulated customers and conducts transactions with around 130 customer companies. As before, it acquires many new customers from inquiries via emails sent through the homepage and referrals from existing customers, and it has increased customer numbers through this so-called pull-type sales. But from the prospect of being able to secure consultants alongside the strengthening of its recruitment capabilities following its listing, in 2021, it newly established a sales department to acquire customers and also launched push-type sales. It seems that the Company currently acquires around 30% or 40% of new customers (two or three companies a month) through push-type sales.

After a new customer concludes a contract, an important point is how long will it maintain a relationship with the Company. Major companies are normally advancing multiple projects simultaneously and always have needs for PMO support. Capturing these needs and maintaining long relationships is extremely important in order to increase sales efficiency and contributes greatly to the stabilization of management. One indicator that clearly expresses this situation is the repeat rate, and the Company is achieving an extremely high repeat rate of over around 90%. This can be said to be the result of providing services with high levels of customer satisfaction, and its strengths include the large body of knowledge and expertise it has accumulated up to the present day as a PMO support specialist company and the strong relationships of trust it has built with customers.

Company overview

The model of efficient sales from the same client



Source: The Company's results briefing materials

On receiving an order, the basic work form is a direct contract with the customer companies and it does not handle subcontracting work. As the stage prior to support for PMO execution, which is the Company's business domain, there exists consulting, including for business strategy and IT strategy. It is conceivable that (in the future) the Company will form a business alliance with a management consulting company and IT consulting company in which they will handle the pre-process part, while the Company will be responsible for the post-process PMO support work. However, even in such a case, it is the Company's policy to stick to direct contracts with client companies rather than subcontracting from consulting companies.

In many cases, the target customers are listed companies or major companies equivalent to them. The main reason for this is that major companies will normally be proceeding with multiple projects at the same time, so will have many needs for PMO support. From FISCO's perspective, there is also a more pragmatic issue in the background, in which utilizing a consulting firm generally costs a significant amount of money, thus it is necessary for companies to be capable of bearing those costs as much as possible.

At the end of April 2022, the Group had approximately 130 customer companies for its PMO support services (of these, around 40 companies are listed on the TSE Prime Market and many others are their group companies, while 90% of its customers are listed companies), a threefold increase in the most recent three years, and it was involved in approximately 250 projects. Alongside its business growth, the number of consultants had also increased to 638 people (compared to 227 people in October 2019).

## Growing from its strengths, which are its abundance of knowledge, expertise, and human resources cultivated as a PMO support specialist company

### 3. Status of competition and strengths and features

A feature and strength of the Company is its strategic positioning established by leveraging its unique business model, of being a specialist PMO support company.

In Japan, companies that are exclusively developing a PMO support business have appeared in recent years, such as unlisted companies, but none are a threat to the Company. Also, listed companies conducting a PMO support business include SHIFT <3697> and SIGMAXYZ Holdings <6088>, but they are not currently considered competitors at the worksite level. It appears that this situation is largely due to the Company's solid brand power that it has constructed through its abundant track record using its highly unique business model that it has developed since the popularization period of PMO. Potential competitors also include consulting firms, system integrators, and customer companies themselves, but whatever the case, there is a major difference between a specialist business and a business conducting such work concurrently with other work, and at FISCO, we think the risk of them becoming a threat is low.

#### (1) Consulting firms

Consulting firms, which are one of the Company's main competitors, are centered on careers as consultants, and it is not necessarily the case that they have an abundance of experience in the area of support for PMO execution. The attributes and skills required of consultants and PMO professionals are different. As a result, there is a lack (or insufficient) PMO support human resources in consulting firms. Also, as stated in the sales system section, the Company's operations as a specialist PMO support company focus solely on performing those tasks for the customer company, while consulting firms tend to position it at the end of the consulting process. Therefore, at FISCO, we believe it is quite possible that this will bring about a difference in perception for PMO support, which will no doubt be a strength to a company that specializes in PMO support.

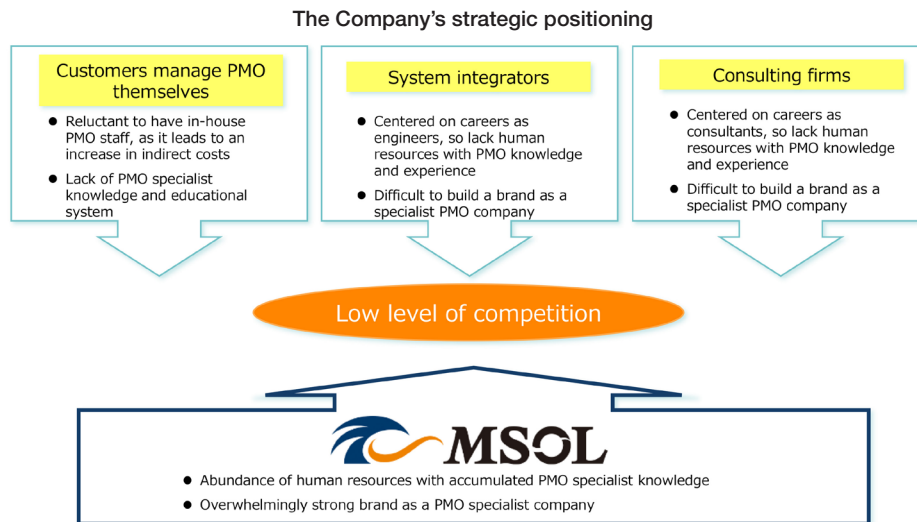
#### (2) System integrators

There are many projects in companies relating to the development and introduction of IT systems. Competitors in this field are system integrators. This is because in many cases, it makes sense to obtain consulting for an IT system not just for the proposal, but also for when the system actually begins operating. On this point, competition is the same as with consulting firms. In the system integrator industry, careers are mainly as engineers, and human resources with an abundance of knowledge and experience in PMO are limited. In terms of this relationship with the IT area, the Company has started to take actions in the form of MSOL Digital, as will be described later in the section covering the medium-term growth strategy.

Company overview

**(3) Customer companies**

Cases in which the customer companies themselves manage PMO can be competitive relations, on the point that they reduce opportunities for the Company's business. If customer companies manage PMO in-house, this would seem to lead directly to cost reductions, so it can be sufficiently expected that this trend is increasing. But in general, as human resources equivalent to the head of a department or the head of a section are assigned to the position of a project manager, it is not hard to imagine that members of departments and sections will be placed in the position of the secretariat that plays the PMO role. However, these employees also have daily work duties and cannot devote themselves to PMO, and there are many cases in which their knowledge and skills for PMO are low compared to those of a PMO professional dispatched from a specialist PMO business. Also, the choice of having in-house specialist PMO support staff may cause costs to increase above the costs of outsourcing to a specialist company, such as the Company, which is why it is thought to be unlikely. In the United States, the market for PMO outsourcing is trending toward expansion.



Source: The Company's results briefing materials

## Results trends

### Steadily advancing consultant recruitment and in FY10/22 1H, net sales increases significantly exceeded the forecast

#### 1. Summary of FY10/22 1H results

In the FY10/22 1H results, sales increased but profits decreased, as net sales increased 59.1% YoY to ¥5,204mn, operating profit decreased 24.6% to ¥219mn, ordinary profit declined 22.8% to ¥228mn, and net profit attributable to the owners of the parent fell 30.6% to ¥138mn.

## Results trends

## Summary of FY10/22 1H results

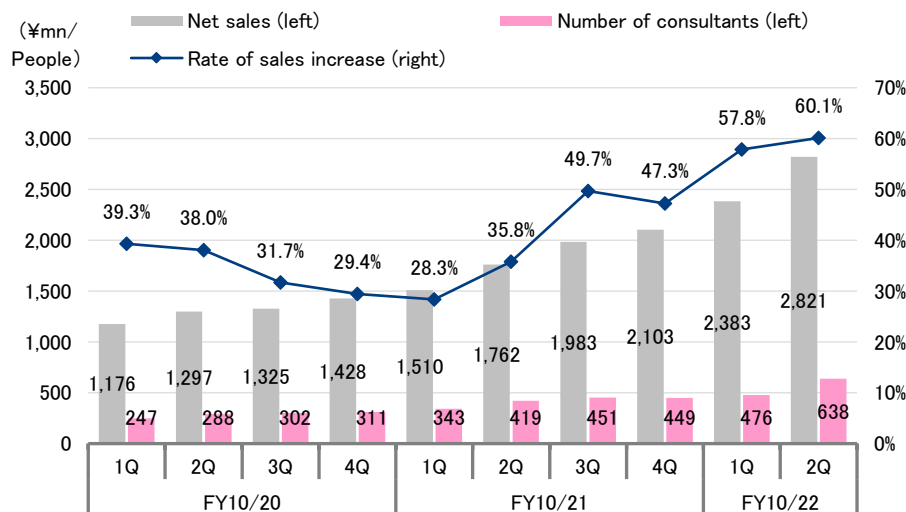
	FY10/21 1H		FY10/22 1H			
	results	vs. sales	results	vs. sales	YoY	vs. forecast
Net sales	3,272	-	5,204	-	59.1%	13.3%
Gross profit	1,232	37.7%	1,970	37.9%	59.9%	-
SG&A expenses	940	28.8%	1,750	33.6%	86.1%	-
Operating profit	291	8.9%	219	4.2%	-24.6%	-9.4%
Ordinary profit	296	9.1%	228	4.4%	-22.8%	-
Net profit attributable to the owners of the parent	199	6.1%	138	2.7%	-30.6%	-
Number of consultants (end of 1H, people)	419		638		52.3%	-

(¥mn)

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

Net sales increased greatly and reached a new record high through the progress made in acquiring continuous orders from existing customers and new customers, mainly for DX-related projects, in addition to the active recruitment of consultants (186 mid-career consultants recruited). Moreover, net sales exceeded the Company forecast by 13.3% at more than ¥610mn. Looking at how sales trended on a fiscal-quarterly basis, they trended upward due to the increase in the number of consultants, increasing 60.1% YoY to ¥2,821mn in Q2, and the sales-increase rate also accelerated. The PMO support average sales unit price (per person per month) was approximately ¥1.60mn, increasing slightly from the result in the previous period of ¥1.575mn. It seems that there were no major changes to the composition ratio of consultants by job type and that the average unit price increased for each job type.

## Trends in net sales, number of consultants, the rate of sales increase



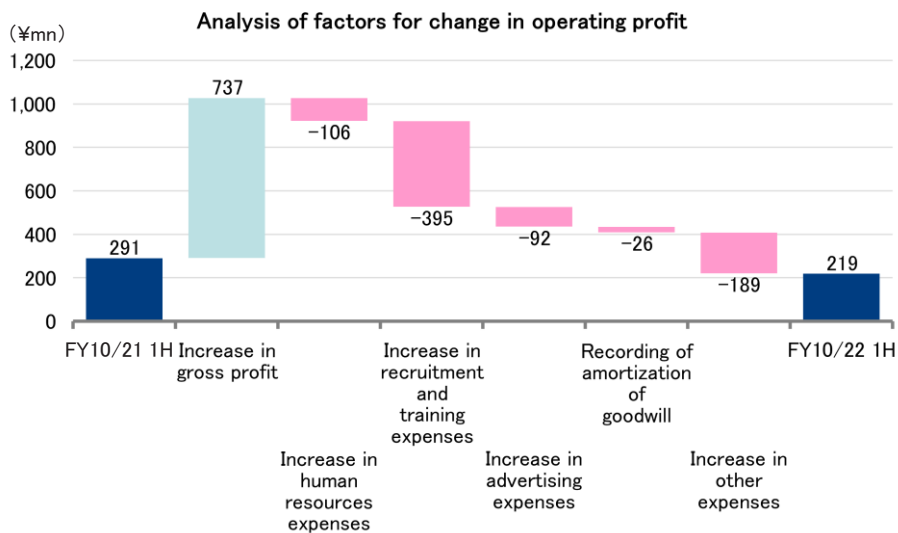
Note: Number of consultants does not include TETRA communications  
 Source: Prepared by FISCO from the Company's results briefing materials

Results trends

At the end of Q2, the number of consultants had increased greatly to 638 people\*, an increase of 52.3% YoY and also an increase of 34.0% from Q1. In terms of the planned recruitment of mid-career consultants, although the initial forecast for FY10/22 was 260 people (141 in the previous period), 186 people, or approximately 70% of the forecast, had already been recruited by Q2. It seems that the reasons for recruitment being more than planned included the accumulation of recruitment expenses and also an emerging trend among major overseas consulting firms to hold back on recruiting. In addition, the Company increased the recruitment of new graduate consultants from 27 people in the previous year to 45, which contributed to the rise in the number of consultants. In the Company's case, the training period from when consultants join the Company until they are deployed to worksites is one week for mid-career hires and two months for new-graduate hires, and one of its strengths is that it has built a framework to train new employees so that they can be deployed to worksites in a short period of time.

\* Excluding TETRA communications.

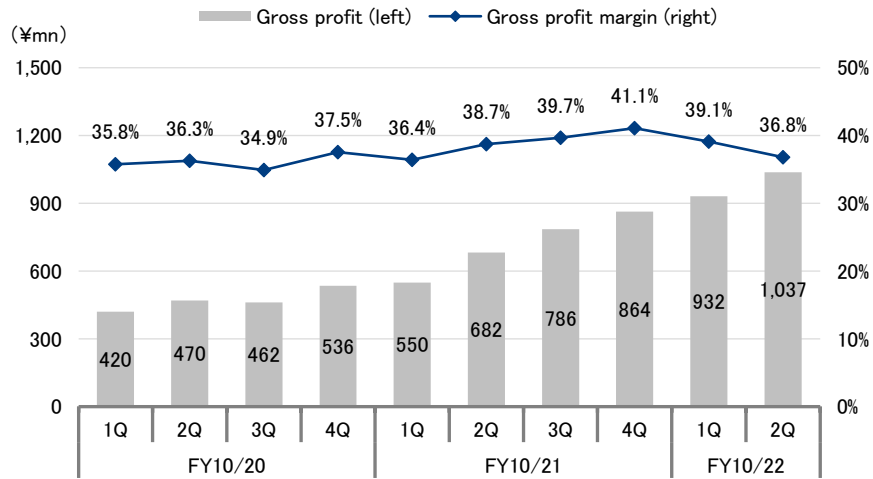
The main reason why operating profit decreased and fell short of the Company forecast (¥23mn below forecast), despite the fact the net sales increased significantly, was that the number of mid-career hires was more than planned, so recruitment and training expenses increased (up ¥395mn YoY to ¥624mn). The gross profit margin was maintained at a high level, rising from 37.7% in the previous period to 37.9%, while gross profit also grew significantly, up 59.9%, but SG&A expenses increased ¥809mn. Breaking down this increase in SG&A expenses, nearly half was from the rise in recruitment and training expenses, followed by the increases in human resources expenses of ¥106mn, advertising expenses of ¥92mn, and amortization of goodwill of ¥26mn. The factors behind the increase in advertising expenses included the implementation of TV commercials and online advertisements to grow sales of the ProEver project management tool. However, when considering that these are upfront investment expenses to increase sales, the current decline in profits can be viewed positively in anticipation of future growth.



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

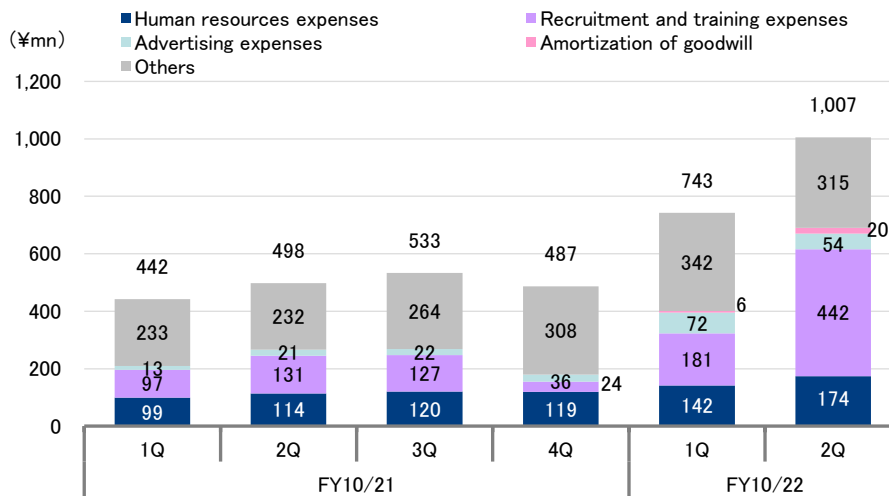
Results trends

Trends in gross profit and gross profit margin



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

Breakdown of SG&A expenses



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

## Results trends

Although making TETRA communications into a subsidiary largely helped to increase net sales by around ¥300mn, it seems that its effect on operating profit was minimal due to the recording of amortization of goodwill of ¥26mn. TETRA communications handles businesses including operations and systems consulting for life insurance companies and systems development, management, and maintenance, and at the end of FY10/22 Q2, it had 59 full-time employees. Its achievements include business deals with more than 40% of life insurance companies in Japan, and it has extensive knowledge of the insurance industry and advanced technological capabilities for systems development. Making TETRA communications a Group company has enhanced the Group's lineup of industry-specific consulting services, enabling it to heighten its presence even further. Also, the strategy for TETRA communications is to aim for further growth by developing businesses and establishing footholds in industries other than the life insurance industry. The balance of goodwill at the end of Q2 was ¥539mn and will be amortized by a fixed amount (¥80mn a year) over seven years.

## Interest-bearing debt is increasing due to the M&A, but the Company maintains financial soundness with an equity ratio of around 50%

### 2. Financial condition

At the end of FY10/22 Q2, total assets had increased ¥1,129mn from the end of the previous period to ¥4,937mn. The main factors behind this increase include respective increases of ¥177mn in cash and deposits and ¥262mn in notes and accounts receivable among current assets. In non-current assets, there were increases of property, plant and equipment of ¥36mn, intangible assets of ¥560mn, and investments and other assets of ¥40mn. Goodwill of TETRA communications of ¥539mn was the main factor behind the increase in intangible assets.

Total liabilities increased ¥891mn from the end of the previous period to ¥2,395mn. Income taxes payable, decreased ¥145mn, but other current liabilities increased, including interest-bearing debt, which was up by ¥679mn and accounts payable – trade, which rose by ¥83mn. The increase in interest-bearing debt was mainly due to an increase following the consolidation of TETRA communications. Net assets rose ¥238mn from the end of the previous period to ¥2,542mn. Retained earnings grew ¥138mn, while capital stock and the capital surplus both increased ¥30mn.

Looking at management indicators, the equity ratio fell from 60.0% at the end of the previous period to 50.4%, while the interest-bearing debt ratio rose from 21.7% to 47.2%. The main factors were the implementation of long-term borrowing, including for M&A funds, and also the addition of interest-bearing debt from TETRA communications. However, the Company can be judged as maintaining its financial soundness with an equity ratio that is still in the 50% range. Also, its results are forecast to achieve high growth from FY10/23 onwards and at FISCO, we expect its financial foundation to be furthered strengthened alongside the growth of net assets. It is not planning any new M&A for the time being, and even if such M&A were conducted, it would most likely be in 2024 at the earliest.



## Results trends

## Balance sheet

	FY10/19	FY10/20	FY10/21	FY10/22 1H	(¥mn) Change amount
Current assets	1,796	2,040	3,082	3,574	492
(cash and deposits)	1,226	1,313	1,917	2,094	177
Non-current assets	529	755	725	1,362	637
(goodwill)	-	-	-	539	539
<b>Total assets</b>	<b>2,325</b>	<b>2,795</b>	<b>3,807</b>	<b>4,937</b>	<b>1,129</b>
Current liabilities	440	722	1,199	1,600	400
Non-current liabilities	205	496	304	795	491
<b>Total liabilities</b>	<b>645</b>	<b>1,218</b>	<b>1,504</b>	<b>2,395</b>	<b>891</b>
(interest-bearing debt)	284	686	495	1,174	679
<b>Total net assets</b>	<b>1,679</b>	<b>1,577</b>	<b>2,303</b>	<b>2,542</b>	<b>238</b>
(stability)					
Equity ratio	71.8%	56.1%	60.0%	50.4%	-9.6pt
Interest-bearing debt ratio	17.1%	43.8%	21.7%	47.2%	25.5pt

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

## Statement of cash flows

	FY10/19	FY10/20	FY10/21	(¥mn) FY10/22 1H
Operating cash flows	149	312	878	122
Investing cash flows	-662	-246	-80	-180
Free cash flows	-513	66	797	-58
Financing cash flows	-69	300	-188	228
<b>Balance of cash and cash equivalents</b>	<b>844</b>	<b>1,211</b>	<b>1,827</b>	<b>2,007</b>

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

## With recent status of orders received being favorable, the Company forecasts significant increases in sales and profits will continue for the FY10/22 results

### 3. Forecast for FY10/22

For the FY10/22 consolidated results, the Company has left the initial forecasts unchanged, with net sales set to increase 56.3% YoY to ¥11,500mn, operating profit to rise 30.1% to ¥1,200mn, ordinary profit to grow 29.8% to ¥1,210mn, and net profit attributable to owners of parent to increase 22.8% to ¥832mn. The progress rates for the forecasts up to Q2 were 45.3% for net sales and 18.3% for operating profit, so the profit progress rate was low. In Q3 as well, orders received, mainly those related to DX, will be favorable, while the number of consultants is also increasing at a pace higher than anticipated, so it is highly likely that net sales will exceed the Company forecast. For profits, recruitment and training expenses and advertising expenses are expected to decrease in the 2H compared to 1H, so the outlook is that profits will improve from Q3 onwards and the Company is aiming to achieve the full fiscal year profit forecasts.

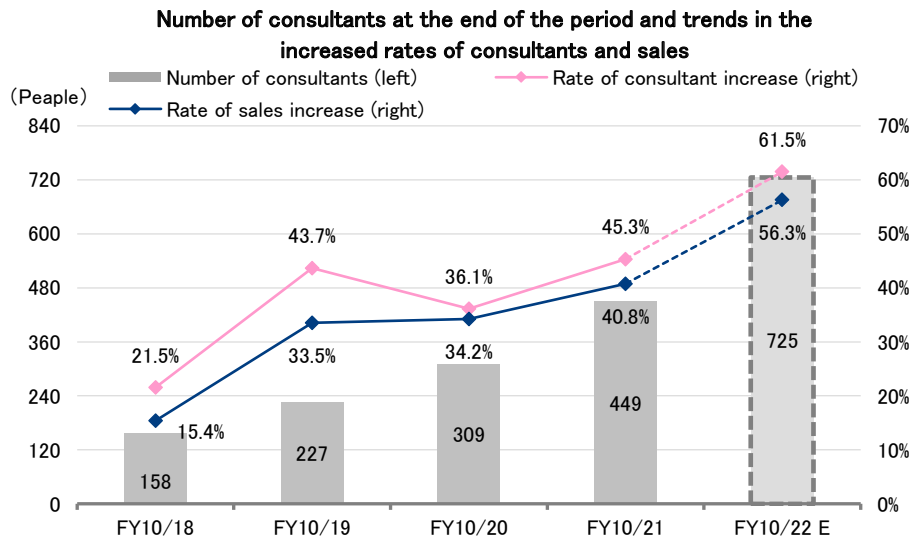
Results trends

Consolidated forecasts for FY10/22

	FY10/21		FY10/22			Q2 progress rate
	Results	vs. sales	Company forecast	vs. sales	YoY	
Net sales	7,359	-	11,500	-	56.3%	45.3%
Operating profit	922	12.5%	1,200	10.4%	30.1%	18.3%
Ordinary profit	932	12.7%	1,210	10.5%	29.8%	18.9%
Net profit attributable to the owners of the parent	678	9.2%	832	7.2%	22.8%	16.6%
Earnings per share (¥)	40.85		50.08			

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

Although the initial forecast for the recruitment of mid-career consultants called for 260 people, the Company had advanced recruitment at a pace higher than planned and has raised the number to more than 300 people by Q2. When considering factors such as the recent employee turnover rate (9.3% in FY10/21), at the end of the period, the number of consultants is forecast to increase from 449 people at the end of the previous period to between 700 and 750. If the consultant mobilization rate trends at around 90% in the 2H as well, then the sales forecast will be fully achievable. The outlook is that the sales from the contribution of the consolidation of TETRA communications will help increase sales by more than ¥700mn, but that its effect on operating profit will be minimal due to the recording of amortization of goodwill of ¥66mn.



Note: Number of consultants at the end of FY10/22 was calculated by FISCO based on factors such as the planned number of recruits, and the employee turnover rate. It does not include figures from TETRA communications.

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

## ■ Medium-term management plan and growth strategy

**The Company is steadily making progress in its growth strategy, so it intends to announce revised medium-term results targets in December 2022**

### 1. Overview of the medium-term management plan “MSOL Vision2025”

In December 2019, the Company announced MSOL Vision2025 (hereafter, the medium-term management plan), its six-year medium term management plan that will continue to FY10/25. The plan's targets for FY10/25 are net sales of ¥23bn, operating profit of ¥5bn, operating profit margin of 20%, and more than 1,000 full-time employees. It will achieve these targets by expanding the PMO support services business through actively recruiting consultants, and also by measures including developing the PMO online service and the ProEver project management tool so that they match various workstyles, and developing businesses for overseas markets.

The outlook for FY10/22, which is the third year of the medium-term management plan, is that operating profit margin will temporarily fall due to the active recruitment of consultants and M&A, but that the PMO support market environment itself will continue to be excellent. The reasoning behind this is that since the Company formulated the medium-term management plan, companies have started to work more actively on the digital transformation of management, due in part to social changes to as a result of the novel coronavirus pandemic (hereafter, COVID-19). The Company is currently responding to the strong demand by increasing the number of consultants, and plans to continue recruitment of mid-career hires at a pace of more than 200 people per year in the next two to three years. For the recruitment of new graduates as well, in 2023, it plans to recruit 70 people, an increase of 25 people from the previous year. Going forward, alongside the increase in the new graduate recruitment rate, for the recruitment of mid-career hires as well, it will keep down recruitment costs per person by increasing referrals recruitment (recruitment from referrals by employees and others). Therefore, if the number of employees exceeds 1,000 people quickly, it could achieve the targets even in FY10/23, so based on this situation, the Company has clarified its intention of reviewing the medium-term results targets.

The specific details will be announced at the financial results briefing scheduled to be held in December 2022. Compared to the initial results targets, we at FISCO think it is highly likely that net sales in FY10/25 will be higher than the initial target due to the increase in the number of consultants and the addition of one consolidated subsidiary through an M&A. The Company plans to raise the operating profit margin to around 20% by keeping down recruitment costs through referrals recruitment and by increasing software sales. However, this may change depending on factors such as the status of implementing these measures in the future and developments at the consolidated subsidiaries. That said, as net sales are expected to grow at a pace higher than the initial forecast, operating profit is also expected to reach ¥5bn or more.

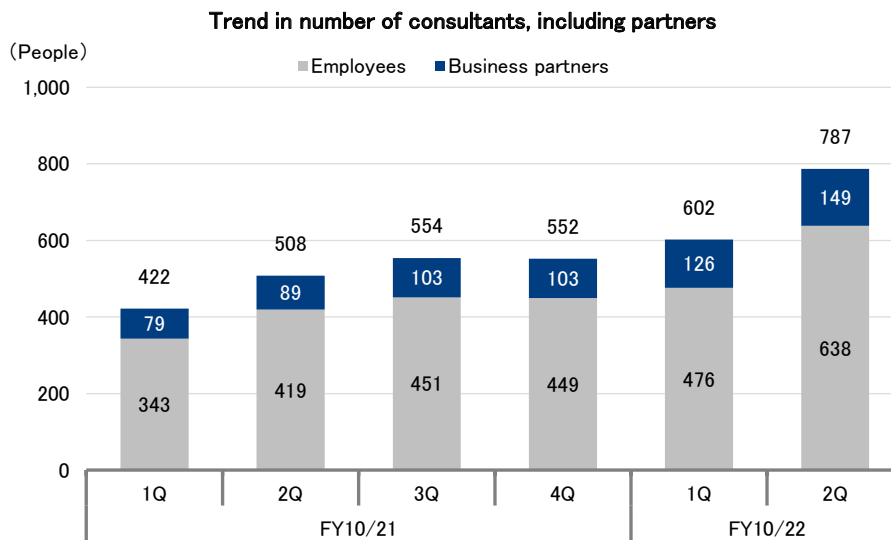
## Aiming for high growth through the further expansion of the PMO support services business, business diversification, and the expansion of the software business

### 2. Growth strategy

The Company has set out three growth strategies in the medium-term management plan; 1) expanding the existing business, 2) diversifying the existing business, and 3) expanding the software business.

#### (1) Expanding the existing business

Expanding the existing business refers to expanding the PMO support services business, which is a core business. Aspects such as the market environment of PMO support services and the Company's position within the industry and its strengths have already been explained, and at FISCO, we think that particularly within Japan, PMO outsourcing will grow even more in the future. In order to respond to this demand, the Company's strategy going forward will be to actively recruit consultants while simultaneously expanding the business and utilizing business partners. Within sales of PMO support services, business partners' sales have trended at around 20% in recent years, and their gross profit margin has trended at around slightly less than 20%, which is somewhat low compared to the Company-wide average. But in the event of a shortage of in-house resources, they play the role of filling this shortage, and the Company's policy is to continue to collaborate with business partners in the future for business expansion. From among its business partners, the Company assigns the required personnel to each project, and the number of partner companies is increasing year by year.



Note: Values exclude TETRA communications  
Source: Prepared by FISCO from the Company's results briefing materials

#### (2) Diversifying the existing business

To diversifying the existing business, the Company is working on expanding the PMO Online service, management consulting, and the DX consulting field.

Medium-term management plan and growth strategy

**a) PMO Online service**

The PMO Online service is a part-time PMO support service which the Company provides online while utilizing ProEver. PMO Online has three lineups: the remote type, the partial-visit type, and the hybrid type. When the service was first launched in 2018, it was called the Shared PMO service, but its name was changed so that it would be easier to have a clear picture of the service content.

In the usual PMO support service, the service is provided by one or multiple full-time consultants to one company (one project). In contrast, in the PMO Online service, the service is provided by one part-time consultant according to the contract details, and the same consultant can be simultaneously responsible for multiple projects. There are needs required by diverse workstyles, and the Company's service was created from within this situation of workstyle reforms.

While this service's sales scale is still small, demand is trending strongly in conjunction with the spread of teleworking during the COVID-19 pandemic, while it is also contributing to the maintenance and improvement of the consultant mobilization rate. In addition, a feature of this service is that it can keep down costs as the contract is not full time. Therefore, for the targeted customers, demand is expected not only from major companies, but from medium-sized companies as well. As PMO outsourcing is increasing, it has been gaining attention as a service for which sales growth can be expected in the future.

**b) MSOL Consulting (management consulting)**

The entry into the management consulting domain takes the form of a PMO support specialist entering an upstream process, which is the exact opposite of major consulting firms moving into the downstream business of PMO support in order to provide the complete range of services. We at FISCO believe the Company's entry into the management consulting domain is likely more of a part of branding and marketing in order to expand the PMO support business, rather than to pose a challenge to consulting firms specializing in management consulting.

This point may be easy to understand when considering the differences in the counterparties (responding parties) among the respective customer companies of management consulting and PMO support. The counterparties for PMO support are the people response for executing projects at worksites, most of whom are in charge departments or divisions (although they could be directors or executive officers in some cases, depending on the size of the company or the project). On the other hand, the counterparties for management consulting are members of top management. This is the true intention of beginning to provide management consulting, and it is thought that the Company is aiming to increase opportunities to acquire new orders for PMO support projects by building connections with top management.

**c) MSOL Digital**

MSOL Digital is a service to provide solutions proposals and to construct digital services in collaboration with IT consulting firms and others in order to support customer companies' execution of DX projects. Currently, as its IT consulting human resources and expertise are insufficient, the Company's strategy is to build Win-Win relations and to increase orders for DX-related project by forming partnerships with IT consulting firms.

TETRA communications, which has newly been made a subsidiary, is an IT consulting firm specializing in the insurance industry, so it seems that synergies will be created while collaborating with it in the future.

Medium-term management plan and growth strategy

Examples of DX promotion projects

Categories	Specific example	Target
Agile introduction	Support for the development and introduction of a virtual currency service Support for the introduction of agile & DevOps Agile training and coaching Support for agile & work improvements	Major infrastructure companies, major system integrators, etc. Major financial companies Major infrastructure companies, major system integrators, etc. Major financial companies
Promoting work visualization and improvements	Support for in-house business management process analyses and improvements	Major vehicle manufacturers Major logistics companies Major consulting companies
New business plans	Ideation and workshop support  New mobility service planning support	IT subsidiaries of major infrastructure companies Major facility services companies Mobility NW services companies
Introduction of external-sales DX solutions	Support for the introduction and establishment of DX solutions	Major information and communication system integrators (major construction companies) Major retail services businesses
Large-scale systems reconstruction promotion	Backbone system reconstruction support (WF-type development integrated support) Examples: systems management design and integration support, information analysis introduction support, systems risk management introduction support, PRA introductions and support for in-house manufacturing Support for the formulation of production management systems reconstruction execution plans (ERP introduction support)	Major distribution retail businesses  Major manufacturing businesses
IT governance and management promotion	Support for backbone systems reconstruction and the formulation and execution of work reforms execution plans	Food product subsidiaries of major trading companies

Source: Prepared by FISCO from the Company's homepage

**(3) Expanding the software business**

For the software business, the Company is increasing sales of the ProEver project management tool. At the end of October 2021, it had been introduced by 14 companies and the number of user IDs had more than doubled YoY to 525. The number of users is forecast to increase even more, including from the effects of the TV commercials broadcast during FY10/22. As it has a monthly fees model\*, its sales scale is still small, but going forward it is expected to contribute to results as a stable source of earnings through the increase in the number of IDs.

\* The fee system is a monthly fees subscription model in which multiple fee plans have been prepared. The average fee seems to be around ¥10,000 per month per ID.

In addition to the normal project management tool functions, a feature of ProEver is that it is equipped with other functions such as a project's success rate prediction, risk analysis and management, and skills diagnosis. These were created based on data on project results and other information that the Company has accumulated over many years, while also utilizing technologies such as AI.

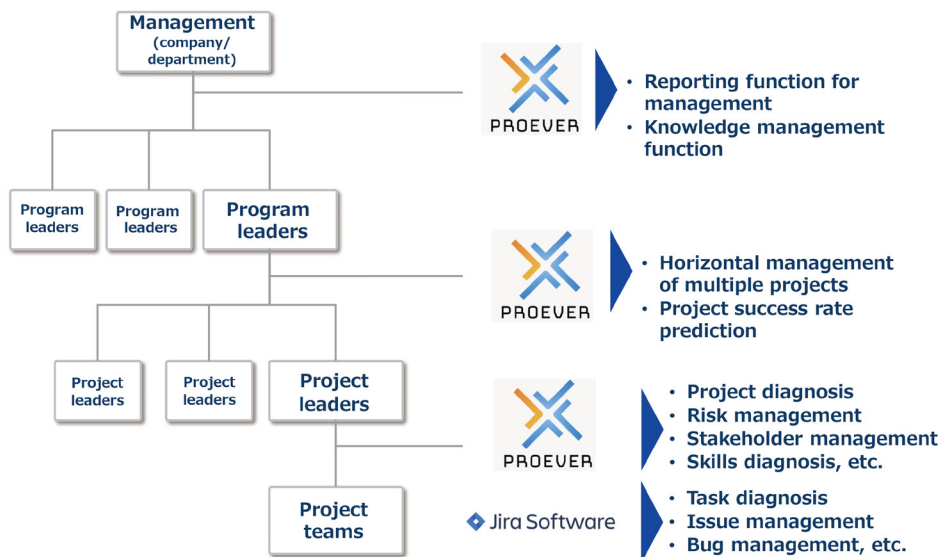
The success rate prediction function checks for potential issues by calculating the predicted success rate before the start of the project, and it can also be utilized for improvements after the project has started. In addition, it can be used to check the predicted success rate once the project is underway, which makes it possible to increase the probability of success. Also, the risk analysis function analyzes and makes visible risks based on the past track record through calculating the probability of a risk occurring x its degree of impact (on the schedule, cost, and quality), and it guides the project to success through enabling measures to be taken in advance to deal with serious risks. The skills diagnosis function ascertains the management skills of project members and continuously improves them. The skill levels, the type of human resource, and the stress level of each member can be easily ascertained through having them answer questions.

Medium-term management plan and growth strategy

In the long term, the Company anticipates that customer companies will set up their own PMO and that PMO services will also be provided by competitor companies, and its strategy is to expand sales of ProEver by positioning it as a support tool for customer companies to progress their own efforts. In the future as well, its policy is to work to strengthen the product's competitiveness by enhancing its functions, including an information security function and an API collaboration function.

As one part of its strategy to increase sales, in May 2022 the Company announced a collaboration with Ricksoft Co., Ltd. <4429>. The details of the collaboration are that it will enable the functions of ProEver to be linked to the user interface (UI) of Jira Software (hereafter, Jira), which is a software development and management tool handled by Ricksoft as an agency. Jira is software developed by Atlassian of Australia, and it is mainly used for bug tracking, issue management, and task management. It has been introduced by more than 25,000 companies in 122 countries around the world, and is one of the most representative products as a project management tool used at the worksites level. It has been introduced by many companies in Japan as well, mainly major companies. ProEver is also a project management tool, but functionally it is segregated from Jira, and going forward, it is anticipated that there will be cases of companies that have introduced Jira introducing the additional functions of ProEver, so attention will be given to this collaboration as an initiative that will lead to an increase in the number of companies introducing it.

Segregation of ProEver and JIRA



Source: The Company's results briefing materials

## ■ Shareholder returns

### Has abolished the shareholder benefits program and is considering paying a dividend

The Company has not yet paid a dividend as it has been conducting investment toward business expansion in the future and strengthening its financial structure so that it can respond quickly for this investment. On the other hand, in 2019, it introduced and implemented a shareholder benefits program (the Management Solutions Premium Benefits Club) in order to meet the standard at that time for the number of shareholders to be listed on the TSE 1st Section. But as a result of much thoughtful deliberation on a fair way to return profits to shareholders, in June 2022, it announced that it would abolish the shareholder benefits program, as it had concluded that abolishing it would lead to the fair return of profits to shareholders with the aim of improving enterprise value by conducting investment for business expansion in the medium- to long-term. The benefit points allocated up to the previous standard date (end of October 2021) can be exchanged during the period from around the middle of January 2023 to the end of May 2023. By abolishing the shareholder benefits program, the allowance for shareholder benefits (¥35mn in FY10/21), which was previously recorded in SG&A expenses, will also be eliminated.

The Company is considering paying a dividend, and after considering factors such as strengthening the management foundation, management performance, and demand for funds, it is expected to start paying a dividend in the not-to-distant future. As its dividend policy, it has indicated its intention to stably pay a dividend that is in line with earnings growth. In addition, recently the Company has acquired treasury shares as part of its shareholder returns and capital measures. Specifically, during the period from June 24 to July 21, 2022, it purchased 117,000 shares on the market for ¥299mn. Based on the FY10/22 1H results announced on June 14, its share price fell significantly from the ¥3,000 range to less than ¥2,000, but it has been recovering since the announcement of the buyback of treasury shares.





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