

# **R&D COMPUTER CO., LTD.**

**3924**

Tokyo Stock Exchange Prime Market

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

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## Summary

### Business in the Company's growth area of package-based SI services has escalated and now accounts for one-third of its net sales

R&D COMPUTER CO., LTD. <3924> (hereafter, also "the Company") is an independent, medium-sized systems integrator that celebrated the 50th anniversary of its foundation in January 2021. The Company's proactive approach to M&A has prompted rapid expansion with respect to what it considers the growth area of package-based SI services, in addition to its stable business foundations of systems integration services and infrastructure solutions services.

#### 1. Results trends

The FY3/23 1H consolidated results were favorable. Net sales increased 21.1% year-on-year (YoY) to ¥5,404mn and operating profit increased 52.0% YoY to ¥449mn. Meanwhile, net sales and operating profit exceeded initial projections by 8.1% and 45.2%, respectively. Whereas each of the service lines made gains, package-based SI services, in which proactive M&A is being undertaken, encountered particularly significant growth with its results having come to account for one-third of the Company's net sales. In terms of profit, the Company achieved steady progress in generating earnings from high-value-added projects mainly in the industry and distribution field of its systems integration services, and attained higher sales and profits particularly from its high-value-added SAP-related business amid Company-wide development of Salesforce-related business centered on promoting digital transformation (DX) in the realm of package-based SI services, the main pillar of the Company's growth strategy.

The FY3/23 consolidated results forecast remains unchanged relative to initial projections which call for net sales to increase 11.5% YoY to ¥10,700mn and operating profit to increase 8.9% YoY to ¥950mn. The Company accordingly anticipates record sales and profit for a second consecutive year. The uncertain economic outlook due to factors such as the COVID-19 pandemic and the worldwide shortage of semiconductors were cited by the Company as reasons for leaving the full-year forecast unchanged. In addition, management expects to incur expenses that include those associated with relocating the offices of its subsidiary NESCO SUPER SOLUTION Co., Ltd. (renamed Technigate Co., Ltd. as of January 1, 2023) and those associated with integrating the Kansai Office of the Company and Technigate. However, FISCO deems it highly likely that the Company will not only achieve its full-year forecasts but will even upwardly revise its forecasts in part given that results for FY3/23 1H exceeded projections and also given that operating profit tends to be highest in 4Q (January-March) given the concentration of sales booked in that quarter.

## Summary

## 2. M&A policy

Having adopted an aggressive M&A strategy beginning in FY3/22, the Company accordingly targets companies involved with package-based SI-related services, which it has positioned as a growth business offering potential for leveraging group synergies. As part of this policy, the Company made infree Corp. a wholly-owned subsidiary in April 2021. Making infree a subsidiary culminated in a substantial increase in SAP sales from ¥69mn in FY3/21 to ¥483mn in FY3/22, with such growth persisting in FY3/23 as well. The Company has been proceeding with reforms that include integration of offices to leverage such synergies, and furthermore seeks to expand its SAP-related business across the entire group by sharing resources such as education tools developed by infree within the Group. The Company also made NESCO SUPER SOLUTION Co., Ltd. a wholly-owned subsidiary in April 2022. Meanwhile, Technigate engages in direct transactions with customers primarily consisting of major corporations, and has introduced systems to 600 companies, cumulatively. It can be expected that sharing the knowledge possessed by Technigate will enable the Company to further expand direct transactions with users which it is promoting.

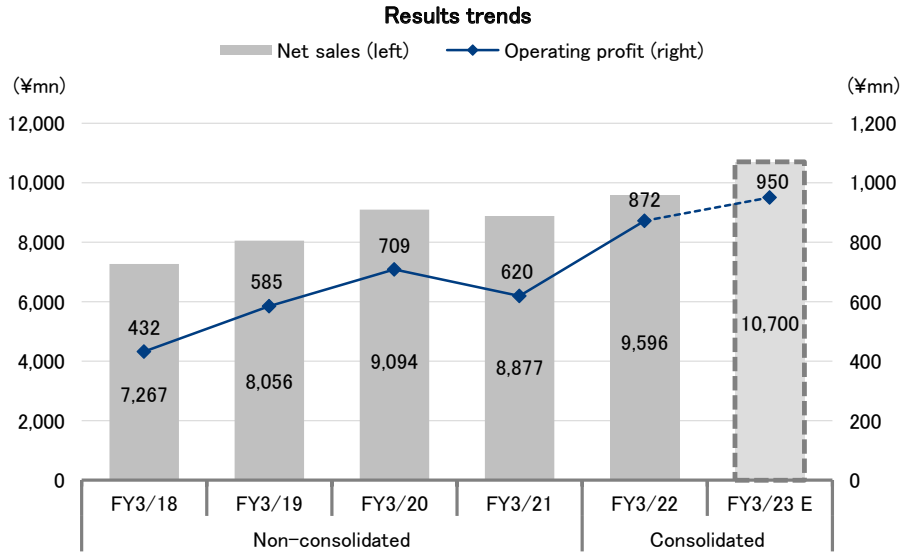
## 3. Growth strategy

The Company's policy is to build on the foundation of the system integration services and infrastructure solutions services, both steady growth businesses, while accelerating growth by expanding the package-based SI services which it has positioned as a growth business. A notable recent development in that regard is that the Company entered into a software development partnership agreement with GeneXus Japan Inc. in September 2022. The Company facilitates DX initiatives of its client companies by using the GeneXus low-code software development tool. The GeneXus software development tool has been adopted by over 8,700 companies located in more than 50 countries worldwide. The software development tool automatically generates software applications after requirements have been declared. This makes it possible for users to significantly reduce development costs and shorten timelines, while lowering the occurrence rate of coding bugs and curbing the likelihood of system obsolescence. The tool offers the distinctive advantage of enabling development of systems that are not prone to obsolescence because it provides for substantial maintainability and does not rely on infrastructure. The Company plans to increase its headcount of low-code software development professionals with qualifications from 11 individuals as of end-FY3/23 1H to 100 professionals as of end-FY3/25. The DX Promotion Headquarters is taking steps to establish standard approaches to low-code development and agile development with respect to R&D enlisting cloud-native development.

### Key Points

- Operating profit for FY3/23 1H significantly exceeded projections. Package-based SI services account for one-third of the Company's net sales
- Whereas initial projections for FY3/23 have been left unchanged, upward revision is highly likely
- The Company entered into a software development partnership agreement to facilitate use of a low-code software development tool

Summary



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

## Company profile

### An independent systems integrator with 50 years of solid business results

The Company has a long history as an independent systems integrator, celebrating 50 years since its foundation in January 2021. It was established by an educational institute, which is unusual for the information services industry “With all our heart” as the Company creed, it conducts business based on its three corporate philosophies of 1) Create value for customers and pursue customer satisfaction to increase corporate value, 2) As a group of professionals, open up a path for the next generation and become a leading information technologies company, and 3) Always maintain and uphold an innovative corporate culture.

Since it was established by an educational institute, one of its features is its passion for educating employees. It encourages employees to acquire not only IT-related qualifications, but other business-related qualifications as well, and on average each employee holds three or more qualifications. Employees having skills and knowledge both in IT and customers’ businesses makes it possible to develop systems that provide high levels of customer satisfaction.

Company profile

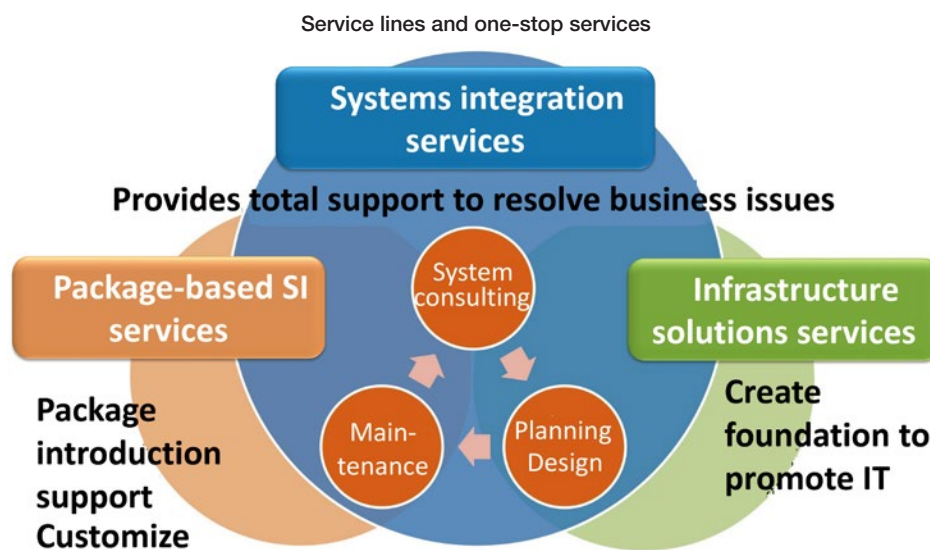
**1. History**

At the time of its foundation in 1971, the Company began transactions with FUJITSU <6702> in the development of a banking system, which led to expansion of its business scope centering around the outsourced development of financial systems for banks and insurance companies. In December 1987, the Company entered the credit card systems field via Toyo Information Systems Co., Ltd. (currently TIS Inc. <3626>), and in October 1990, entered the field of distribution systems for department stores by concluding a work outsourcing basic agreement with Takashimaya Co., Ltd. <8233>, thereby expanding its user base. In 2006, it started infrastructure-related services for systems integration services as the infrastructure solutions services. The Company began collaborating with Salesforce (Salesforce.com, Inc. <CRM>) of the US in April 2010, and started providing cloud computing services. Furthermore, in systems integration services, it has started working on introducing package systems and developing add-ons as package-based SI services.

The Company was listed on the Tokyo Stock Exchange (TSE) Second Section in December 2015, and subsequently upgraded to the TSE First Section in May 2018. It then moved to the Prime Market following the TSE's restructuring of its market segments in April 2022.

**2. Business description**

The Company operates the three service lines of systems integration services, infrastructure solutions services, and package-based SI services, and is structured to provide total system support to resolve business issues.

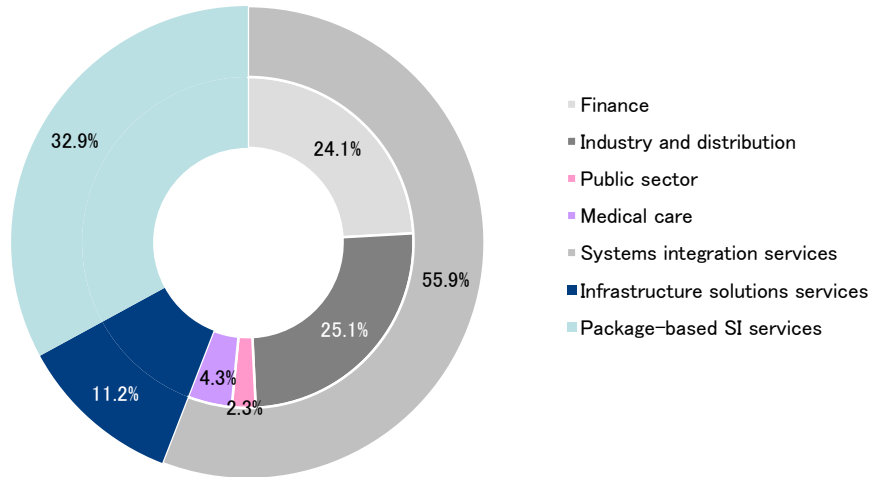


Source: The Company's results briefing materials

According to the composition of total net sales by service line in FY3/23 1H, systems integration services provided 55.9%, infrastructure solutions services 11.2%, and package-based SI services 32.9%. Breaking down net sales in systems integration services according to industry, finance provided 24.1% (banks 13.1%, insurance and securities 2.1%, and credit cards 8.9%), industry and distribution 25.1%, public sector 2.3%, and medical care 4.3%.

Company profile

Ratio of net sales by industry (FY3/23 1H)



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

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

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

The Company's main customers are major systems integrators. In particular, close business relations with the FUJITSU Group formed immediately after founding, and it has become a core partner. In FUJITSU's FY2021 PQI (Partner Quality Improvement) skill level certification, the Company ranked GOLD for all three steps of the skill levels, including the first step (quality records), second step (quality evaluation), and third step (quality plan), for the sixth consecutive year. The extent of sales reliance on this main customer in FY3/22 was 26.9%, and the extent of reliance on the FUJITSU Group was 36.7%. While maintaining excellent relations with FUJITSU, the Company is also aiming to increase the volume of transactions with other systems integrators such as Hitachi and NTT DATA KANSAI. The ratio of total net sales of direct transactions with customers was roughly one-quarter in FY3/22, and the Company aims to increase that ratio to one-third by expanding direct transactions with customers going forward.

Company profile

List of partnerships and main customers

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

Source: Prepared by FISCO from the Company's website

**(1) Systems integration services**

The mainstay systems integration services cover a wide range of fields, including finance, industry and distribution, public sector, and medical care. It mainly conducts outsourced development for customers such as end users, domestic manufacturers, and major systems integrators. The Company has in place a system to provide total services covering all processes, from planning and system construction through to system management. Banks are investing in IT in order to reduce workloads and to save labor, and demand is expected to be at a high level in the medium to long term. There are also many projects for online banks and distribution-related financial subsidiaries.

**(2) Infrastructure solutions services**

Infrastructure solutions services covers an array of services including introducing the hardware, such as servers, that form customers' IT system infrastructure; constructing networks and systems infrastructure, including databases and application infrastructure; and performing subsequent management and maintenance. It has also recently established a new office for cloud business, and focuses on cloud-related services. After surveying and analyzing the IT systems infrastructure environments of various customers, including general companies, universities and other educational facilities, hospitals, and government ministries and agencies, it provides infrastructure solutions services that are tailored to meet their needs. Specifically, in addition to infrastructure solutions services such as network construction, it provides total, one-stop services by combining systems integration services.

**(3) Package-based SI services**

As the main pillar of the growth fields, the Company forms alliances with system and package vendors and in some cases is provided with packages, and offers a total service to customers, from support for introducing software package products (Salesforce, COMPANY, SuperStream, SAP, etc.) to customization, add-on development, maintenance, and management.



Company profile

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

By making infree a subsidiary, SAP was added to the main package alliance. Furthermore, this service line's sales greatly increased from 9.0% in FY3/16, when the Salesforce sales partner agreement began, to 32.9% in FY3/23 1H.

**Main package alliances handled**

Company name	Main package	Partnership
Salesforce	Salesforce	Consulting partner Application partner
SuperStream	SuperStream-NX	SuperStream-NX solutions partner
OBIC business consultants	Strategic mission-critical system Bugyo V ERP 10	OBC Alliance Partnership Gold Partner
Microsoft Corporation	Microsoft Dynamics CRM Online	
Works Human Intelligence	COMPANY	
SAP	SAP R/3	SAP PartnerEdge Service partner (infree)

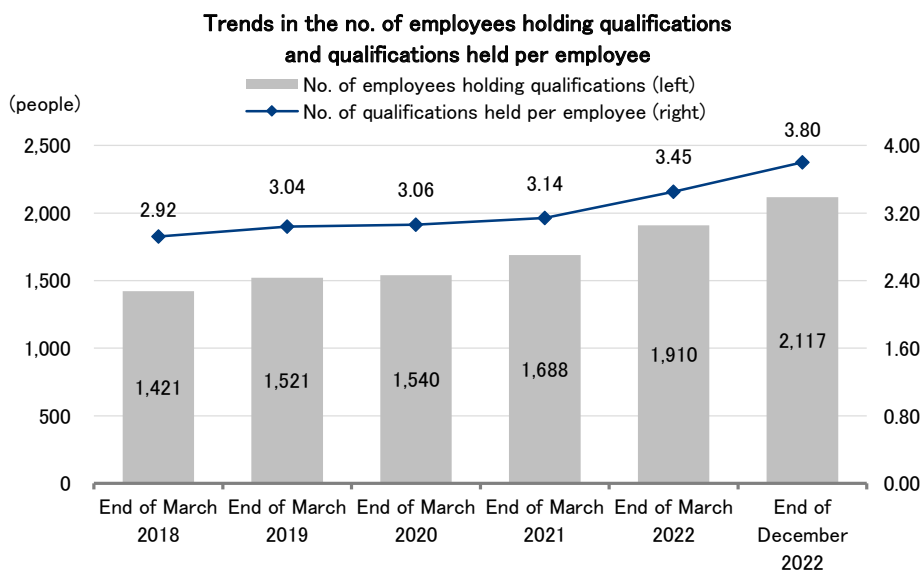
Note: Names of companies, products, and services are trade names, trademarks, and registered products of the respective companies. The TM and ® marks are not shown  
 Source: Prepared by FISCO from the Company's materials

**3. IT-related and business-related qualifications**

**(1) Number of employees holding qualifications**

One of the Company's strengths is that it has a group of excellent engineers. It actively encourages employees to acquire qualifications not only related to IT, but also business-related qualifications to deepen their understanding of customers' businesses, such as finance, industry and distribution, and medical care. At the end of March 2022, 1,910 employees in total held IT-related and business-related qualifications (breaking this down, 1,665 employees held IT-related qualifications and 245 employees held business-related qualifications) for an average number of qualifications held per employee of 3.45. However, as of the end of December 2022, IT-related and business-related qualifications were held by a total of 2,117 employees, increasing the average number of qualifications held per employee to 3.80. At infree, a total of 59 employees have acquired SAP-certified consultant qualification and/or other SAP-certified qualifications.

Company profile



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

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

**Company's no. of employees with IT-related and business-related qualifications  
 (total number of employees, end of December 2022)**

Qualifications by industry		(people)
		No. of employees with qualifications
<b>IT-related qualifications</b>		1,855
Information Processing Engineers		450
Vendor qualifications	Salesforce Certification	146
<b>Business-related qualifications</b>		262
Finance	Banking Proficiency Test	29
	Finance business proficiency test	21
	Securities Broker Representative License	8
Industry and distribution	Retail Marketing License	30
Medical care	Health Information Managers	8
	Healthcare Information Technologists proficiency test	18
Common to industries	PMP (Project Management Professional) qualifications	42
	Bookkeeping test	93

Source: Prepared by FISCO from the Company's materials

Company profile

**(2) New employee training**

The Company also focuses on educating new employees. Prior to joining the Company, employees complete an e-learning course to prepare for the basic information processing test, and after joining spend three months receiving training to become members of society and on basic technologies. Furthermore, during the new employee training period, they are prompted to take on the challenges of acquiring vendor qualifications relating to open-source databases (OSS-DB) and Java programming. In the spring of 2022, 29 new graduates joined the Company and undertook new employee training. Despite training being cut to two months and made into a combination of group training and studying online at home due to the COVID-19 pandemic, all the new employees passed the prescribed vendor exams, as was also the case in the previous year. Employees who acquired qualifications during new employee training have contributed to the Company's track record in receiving awards (recognized in two consecutive years as a top-ranking company in terms of the number of employees with OSS-DB certification, recipient of first place in the Top Technology Company category of the 2022 Fujitsu Software Master Award, etc.). Following the three-month new employee training after joining the Company, new employees then transition to OJT for their assigned positions. There, they receive support from senior colleagues who are their trainers. Core cooperating company employees are also allowed to participate in new employee training.

**New employee training**

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- 1. Training before joining the Company**  
e-learning (measures for the basic information processing test)

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  - 2. Training to become members of society**
    - Training to become members of society, presentation training, mental health training

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  - 3. Basic technology education**
    - Information processing fundamentals, Java fundamentals, Java applications, system design fundamentals, algorithm fundamentals, database fundamentals, network fundamentals
    - Exam preparation course (OSS-DB Silver professional certification, ORACLE Java SE7 Bronze and Silver, Python 3 Basic Examination)

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  - 4. OJT training**  
Department-specific language acquisition, business training, qualification acquisition (senior colleagues serve as trainers and provide support after assignment of employee)

Source: Prepared by FISCO from the Company's website

When recruiting, the Company seeks graduates and postgraduates from both the sciences and humanities. As it has in place a complete education system, it seems that it prioritizes recruits with “the ability to think logically,” “a willingness to learn” and “a passion for the IT industry and SE,” and recruits people who have the aptitude to use its system positively and want to grow. In April 2022, 29 people, including recent graduates looking to change jobs, joined the Company, and it plans to recruit around 30 new graduates in the spring of 2023.

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

Company profile

#### 4. M&A policy

Having adopted an aggressive M&A strategy beginning in FY3/22, the Company accordingly targets companies involved with package-based SI-related services, which it has positioned as a growth business offering potential for leveraging group synergies. The Company seeks to build on the foundation of its system integration services and infrastructure solutions services, both steady growth businesses, while accelerating growth by expanding the package-based SI services which it has positioned as a growth business. In package-based SI services, the Company seeks to expand direct transactions with customers, and gain sustained business and repeat orders such as maintenance.

## Results trends

### Operating profit for FY3/23 1H significantly exceeded projections

#### 1. Outline of results for FY3/23 1H

In FY3/23 1H consolidated results, net sales increased 21.1% YoY to ¥5,404mn, operating profit increased 52.0% YoY to ¥449mn, ordinary profit grew 53.4% YoY to ¥459mn, and profit attributable to owners of parent rose 39.1% to ¥269mn. Meanwhile, results substantially exceeded forecasts, with net sales having exceeded initial projections by 8.1%, operating profit by 45.2%, ordinary profit by 45.9%, and profit attributable to owners of parent by 34.5%. The Company now has two consolidated subsidiaries upon having added a subsidiary in FY3/22 and another at the start of FY3/23. Moreover, the Company recorded ¥114mn as subsidiary acquisition costs and goodwill amortization, up from ¥26mn in FY3/22 1H.

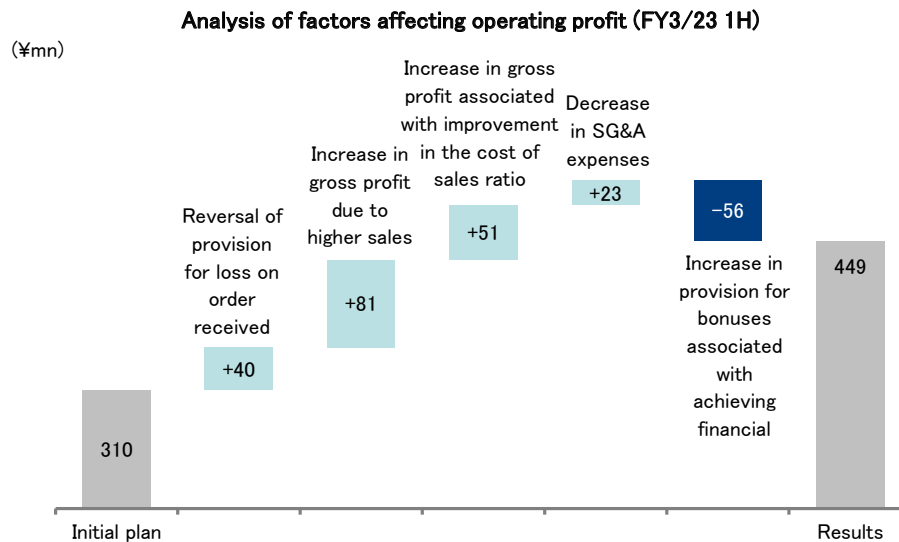
#### FY3/23 1H consolidated results

	FY3/22 1H		FY3/23 1H			Change		vs. plan
	Results	% of net sales	Plan	Results	% of net sales	Amount	%	
Net sales	4,463	100.0%	5,000	5,404	100.0%	940	21.1%	8.1%
Gross profit	785	17.6%	-	1,094	20.2%	308	39.3%	-
SG&A expenses	489	11.0%	-	644	11.9%	154	31.7%	-
Operating profit	296	6.6%	310	449	8.3%	153	52.0%	45.2%
Ordinary profit	299	6.7%	315	459	8.5%	159	53.4%	45.9%
Profit attributable to owners of parent	193	4.3%	200	269	5.0%	75	39.1%	34.5%

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

Operating profit was ¥139mn higher than initial projections. In terms of the analysis of operating profit results relative to initial projections, positive factors included an increase in gross profit due to higher sales (¥81mn), an increase in gross profit associated with improvement in the cost of sales ratio (¥51mn), reversal of provision for loss on orders received (¥40mn), and a decline in SG&A expenses (¥23mn). Meanwhile, negative factors were an increase (¥56mn) in provision for bonuses associated with achieving financial targets.

## Results trends



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

## Package-based SI services account for one-third of the Company's net sales

### 2. Trends by service line

Looking at net sales by service line, net sales were up by 11.8% YoY to ¥3,020mn in systems integration services, up by 9.0% YoY to ¥603mn in infrastructure solutions services, and up by 47.4% YoY to ¥1,780mn in package-based SI services. Whereas each of the three service lines achieved growth, package-based SI services, in which proactive M&A is being undertaken, encountered particularly significant growth with its results having come to account for one-third of the Company's net sales.

#### Consolidated net sales by service line in FY3/23 1H

	FY3/22 1H		FY3/23 1H		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Systems integration	2,702	60.5%	3,020	55.9%	318	11.8%
Finance	1,334	29.9%	1,303	24.1%	-31	-2.3%
(of which, banks)	772	17.3%	707	13.1%	-64	-8.4%
(of which, insurance and securities)	126	2.8%	111	2.1%	-14	-11.4%
(of which, credit cards)	435	9.8%	483	8.9%	47	11.0%
Industry and distribution	985	22.1%	1,357	25.1%	372	37.8%
Public sector	109	2.8%	125	2.3%	15	14.3%
Medical care	272	6.1%	233	4.3%	-38	-14.2%
Infrastructure solutions	553	12.4%	603	11.2%	50	9.0%
Package-based SI	1,208	27.1%	1,780	32.9%	572	47.4%
Total	4,463	100.0%	5,404	100.0%	940	21.1%

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

Results trends

### (1) Systems integration services

By industry, net sales decreased 2.3% YoY to ¥1,303mn in the finance field, which provides the highest ratio of sales on a per-industry basis. Whereas sales in the credit card field increased 11.0% YoY, sales to banks declined 8.4% YoY, which was due to factors including completion of large development projects entailing development of systems for financial institutions and extended projects. Sales in the realm of insurance and securities decreased 11.4% YoY. Sales to the industry and distribution field increased 37.8% YoY to ¥1,357mn. Following on from FY3/22, the industry and distribution field encountered higher sales particularly with respect to projects involving development of systems for the telecommunications industry, projects involving outsourced development for the energy sector, and projects involving construction of mission-critical systems for the distribution field. In the public sector, sales rose 14.3% YoY, aided by large projects for which orders were placed in FY3/22. Sales to the medical care industry fell by 14.2% YoY partially due to the COVID-19 pandemic.

### (2) Infrastructure solutions services

Orders for cloud development projects increased and orders for infrastructure design and deployment projects also gained momentum as effects of the semiconductor shortage gradually eased up.

### (3) Package-based SI services

Package-based SI services accounted for one-third of the Company's total net sales, with the service line's ratio of total sales having climbed to 32.9% from 27.1% in FY3/22 1H. In the Salesforce-related business, which is subject to focus as a Company-wide initiative, net sales increased 31.5% YoY to ¥825mn and SAP net sales gained by 39.1% YoY to ¥318mn. Whereas the Company's initiative to make infree a wholly-owned subsidiary in FY3/22 1H served as a contributing factor, the ability to leverage group synergies has enabled persisting growth. Sales of accounting packages, which includes SuperStream, rose 166.9% YoY to ¥375mn due to the addition of sales posted by NESCO SUPER SOLUTION (currently Technigate), which was made a wholly-owned subsidiary in April 2022.

In the SuperStream Partner Award 2021, the Company was awarded the Certified Consultant Award. This is awarded each year by the developer, SuperStream Inc., to partner companies that have increased sales of SuperStream products and worked hard on business development, and it was awarded to the partner that has the best results for the SuperStream-NX engineer certification exam. In FY2021, NESCO SUPER SOLUTION (currently Technigate) was awarded the Sales Award by SuperStream.

#### Package-based SI services net sales by industry

(¥mn)

	FY3/22 1H		FY3/23 1H		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Salesforce-related business	627	51.9%	825	46.3%	197	31.5%
SAP	229	19.0%	318	17.9%	89	39.1%
Accounting packages (SuperStream, Bugyo)	140	11.6%	375	21.1%	234	166.9%
Personnel salary packages (COMPANY, SuperStream)	182	15.1%	204	11.5%	22	12.5%
Other (DynamicsCRM, others)	28	2.3%	56	3.1%	28	99.2%
<b>Total</b>	<b>1,208</b>	<b>100.0%</b>	<b>1,780</b>	<b>100.0%</b>	<b>572</b>	<b>47.4%</b>

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

## Results trends

**3. Financial condition and management indicators**

At the end of FY3/23 1H, total assets were up ¥221mn from the end of FY3/22 to ¥6,721mn. Current assets were down ¥321mn to ¥5,502mn and non-current assets were up ¥542mn to ¥1,218mn. Whereas cash and deposits as well as securities decreased by a combined total of ¥242mn, the goodwill component of intangible assets increased ¥495mn due to the Company having made Technigate a wholly-owned subsidiary. The Company practices debt-free management, and has a current ratio of 322.1% and an equity ratio of 66.4%, so its financial stability is extremely high.

**Balance sheet**

	End of FY3/20 (Non-consolidated)	End of FY3/21 (Non-consolidated)	End of FY3/22 (Consolidated)	End of FY3/23 1H (Consolidated)	Change
	(¥mn)				
<b>Current assets</b>	4,969	5,187	5,823	5,502	-321
(Cash and deposits)	2,167	2,384	2,906	2,764	-142
<b>Non-current assets</b>	528	559	676	1,218	542
Property, plant and equipment	85	75	64	58	-6
Intangible assets	9	6	121	655	534
Goodwill			114	609	495
Investments and other assets	433	476	489	504	14
<b>Total asset</b>	5,498	5,746	6,500	6,721	221
<b>Current liabilities</b>	1,404	1,317	1,625	1,708	83
<b>Non-current liabilities</b>	466	482	508	536	28
<b>Total liabilities</b>	1,871	1,800	2,133	2,244	111
(Interest-bearing debt)	0	0	0	0	
<b>Total net assets</b>	3,626	3,946	4,366	4,476	109
[Stability]					
Current ratio	353.9%	393.8%	358.3%	322.1%	-36.2pt
Equity ratio	66.0%	68.7%	67.2%	66.4%	-0.8pt

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

## ■ Outlook

### Whereas initial projections for FY3/23 have been left unchanged, upward revision is highly likely

**● Outlook for FY3/23**

The Company has left its initial projections for FY3/23 consolidated results unchanged. It accordingly anticipates record net sales and profit for a second consecutive year, with net sales up 11.5% YoY to ¥10,700mn, operating profit up 8.9% YoY to ¥950mn, and ordinary profit up 9.2% YoY to ¥960mn. The Company forecasts a 1.2% YoY decrease in profit attributable to owners of parent to ¥620mn, due to factors such as the absence of extraordinary income of ¥70mn (¥59mn from gain on sale of investment securities and ¥10mn compensation income) recorded in FY3/22.

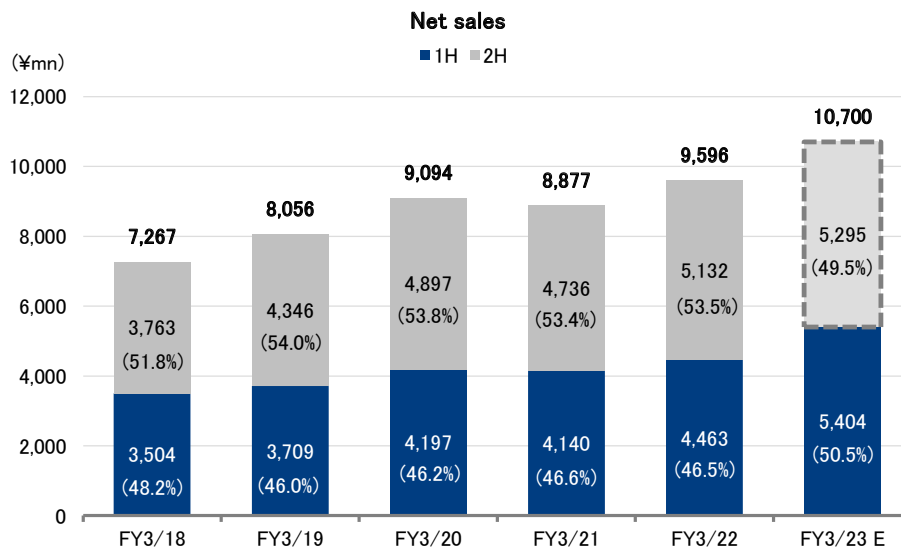
## Outlook

## Consolidated outlook for FY3/23

	FY3/22		FY3/23		Change	
	Results	% of net sales	Forecasts	% of net sales	Amount	Percentage
Net sales	9,596	-	10,700	-	1,104	11.5%
Systems integration	5,613	58.5%	5,900	55.1%	287	5.1%
Infrastructure solutions	1,312	13.7%	1,400	13.1%	88	6.7%
Package-based SI	2,670	27.8%	3,400	31.8%	730	27.3%
Operating profit	872	9.1%	950	8.9%	78	8.9%
Ordinary profit	879	9.2%	960	9.0%	81	9.2%
Profit attributable to owners of parent	627	6.5%	620	5.8%	-7	-1.2%

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

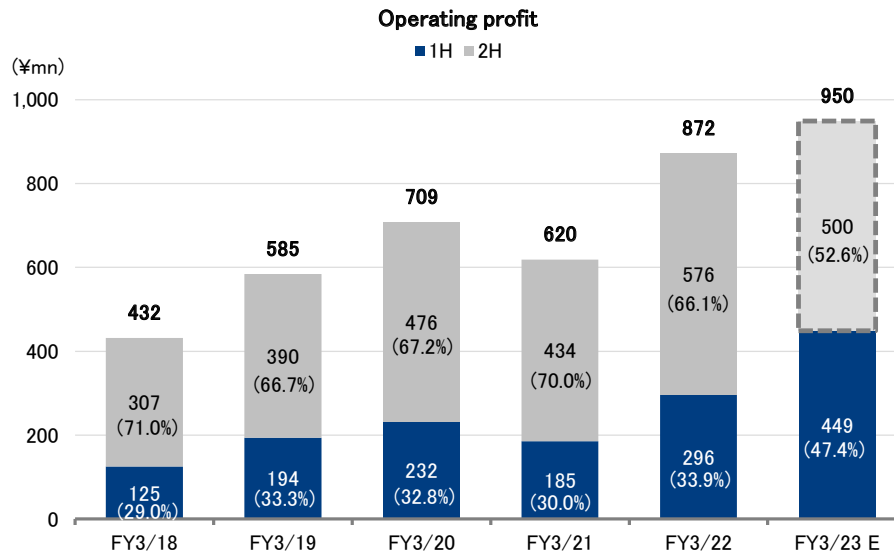
With respect to Company's results, operating profit tends to be highest in 2Q (July-September) and 4Q (January-March) given the concentration of sales booked in those quarters due to the balance between the timing of budget execution by client companies and work periods on development systems. Given that results tend to be particularly skewed toward 4Q, the average breakdown of net sales for 1H (April to September) and 2H (October to March) over the past five fiscal years was 46.7% and 53.3%, respectively, and the breakdown of operating profit was 31.8% and 68.2%, respectively. In contrast, initial projections for FY3/23 have been calculated under assumptions of seasonality at similar historical averages with the net sales breakdown for 1H and 2H of 46.7% and 53.3%, respectively, and that of operating profit of 32.6% and 67.4%, respectively. Nevertheless, because the Company left its full-year forecasts unchanged even though FY3/23 1H results have exceeded projections, at this point in time, the net sales breakdown for 1H and 2H is 50.5% and 49.5%, respectively, and that of operating profit is 47.4% and 52.6%, respectively. As such, FISCO deems it highly likely that the Company will not only achieve its full-year forecasts but will even upwardly revise its forecasts.



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



## Outlook



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

Meanwhile, the Company has cited the uncertain economic outlook due to factors such as the COVID-19 pandemic and the worldwide shortage of semiconductors as reasons for having left its initial projections unchanged. In addition, management expects to incur expenses that include those associated with relocating offices of subsidiary Technigate and those associated with integrating the Kansai Office of the Company and Technigate. However, we expect that the Company will upwardly revise its forecasts for 3Q onward given that it has revised its full-year forecasts after disclosing 3Q results in each of the past three fiscal years.

## Medium-term growth strategy

**Aiming for FY3/24 net sales of ¥12,300mn, operating profit of ¥1,250mn, and an operating profit margin of 10.2%**

### 1. Numerical targets

The Company has remained in the black for 50 years. In addition to a stable business foundation through strong relations of trust with its existing customers, it has expanded its customer base and diversified its service lines. Amid these circumstances, the Company has set Attack 100 as its future growth strategy, and is aiming to achieve net sales of ¥10bn at an early stage, and an operating margin of 10% in the medium to long term. The Company has set forth a medium-term management plan (VISION2023) targeting net sales of ¥12,300mn, operating profit of ¥1,250mn, ordinary profit of ¥1,270mn, profit attributable to owners of parent of ¥830mn in FY3/24, a twofold increase in operating profit relative to FY3/21 results (non-consolidated), and a profit margin of 10.2%.

Medium-term growth strategy

**Medium-term management plan (VISION2023)**

(¥mn)

	FY3/21 (non-consolidated)		FY3/22 (consolidated)			FY3/23 (consolidated)		FY3/24 (consolidated)		Three-year CAGR
	Results	% of net sales	Plan	Results	% of net sales	Plan	% of net sales	Plan	% of net sales	
Net sales	8,877	100.0%	9,630	9,596	100.0%	10,700	100.0%	12,300	100.0%	11.5%
Systems integration services	5,524	62.2%	-	5,613	58.5%	5,900	55.1%	6,700	54.5%	6.6%
Infrastructure solutions services	1,375	15.5%	-	1,312	13.7%	1,400	13.1%	1,600	13.0%	5.2%
Package-based SI services	1,976	22.3%	-	2,670	27.8%	3,400	31.8%	4,000	32.5%	26.5%
Operating profit	620	7.0%	755	872	9.1%	950	8.9%	1,250	10.2%	26.3%
Ordinary profit	650	7.3%	760	879	9.2%	960	9.0%	1,270	10.3%	25.0%
Profit attributable to owners of parent	430	4.9%	500	627	6.5%	620	5.8%	830	6.7%	24.5%

Note: Three-year CAGR represents reference values compared to non-consolidated figures

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

## Growth strategy entailing promotion of proactive M&A

### 2. Growth initiatives

The Company's growth initiatives are; promotion of proactive M&A, further strengthen teamwork with business partners, promote the DX business, expand direct transactions with customers and bolster areas of strength, and further improve sales in existing SI areas.

#### (1) Promotion of proactive M&A

Having positioned package-based SI services as a growth area, the Company accordingly engaged in M&A initiatives involving such services again for the second consecutive fiscal year, after having done so previously in FY3/22. It seeks to expand the Group's overall business scale by investing in existing service providers.

##### a) infree

The Company acquired all the shares in infree and made it a wholly-owned subsidiary in April 2021. This was its first ever M&A acquisition. Since its foundation in 2001, infree has wielded strengths both in consulting to facilitate adoption of the SAP R/3 package of SAP enterprise resource planning solutions and in developing add-on software. It was certified as an SAP PartnerEdge Service partner in January 2022. Its net sales increased to ¥397mn in FY3/22 from net sales of ¥330mn in FY7/20 prior to having been made a subsidiary of the Company. Meanwhile, the Company's SAP sales increased substantially from ¥69mn in FY3/21 to ¥483mn in FY3/22, with such growth persisting in FY3/23 as well. In seeking to leverage synergies, the Company has been proceeding with reforms that include integration of offices and having its executives serve as representative directors. Moreover, the Company seeks to expand its SAP-related business across the entire group by sharing resources such as education tools developed by infree within the group.

##### b) Technigate

The Company made NESCO SUPER SOLUTION a wholly-owned subsidiary in April 2022, changed its trade name to Technigate in January 2023, and integrated their offices to facilitate sharing of business resources in December 2022. Technigate was founded in 2006 following the split of the SuperStream business of NESCO CO., LTD. It posted net sales of ¥586mn in FY3/21 prior to becoming a subsidiary of the Company. Technigate has been taking action in response to adoption of an electronic invoice system under Japan's Act concerning Preservation of Electronic Books with FY3/23 serving as a transitional phase. As such, Technigate may temporarily incur deteriorating financial results, but in FY3/24 is likely to encounter demand from those updating to software packages compatible with the new requirements.

Medium-term growth strategy

Technigate has knowledge and advanced technological capabilities in the accounting package SuperStream business as a SuperStream-NX partner. It engages in direct transactions with customers primarily consisting of major corporations, and has introduced systems to a total of 600 companies. The Company seeks to fulfill its aim of engaging in more direct transactions with customers by drawing on knowledge possessed by Technigate. Meanwhile, Technigate has been providing the SuperStream/400 package that operates on the IBM i operating system (formerly AS400) based on SuperStream-CORE since October 2001. The Company intends to provide higher value-added next generation services through the integration of its package-based SI services.

## Conclusion of software development partnership agreement pertaining to a low-code software development tool

### (2) Promote the DX business

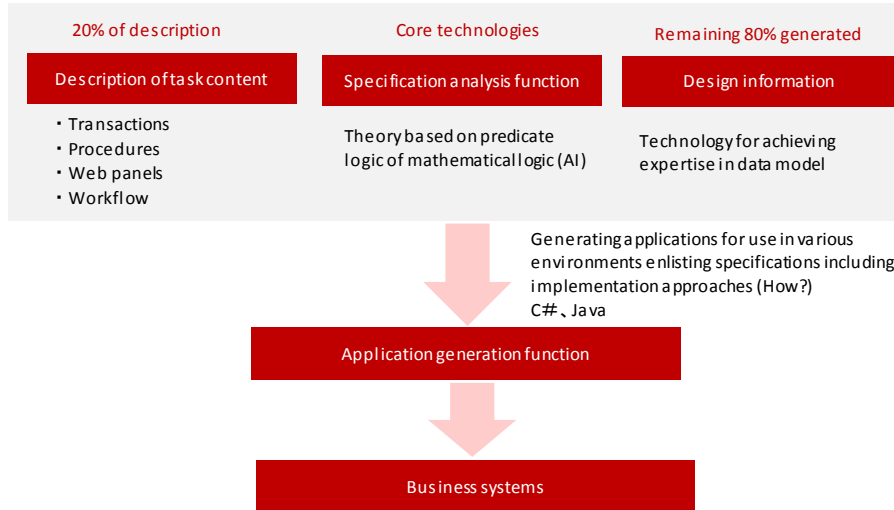
To promote the DX business, the Company will focus on the expansion of “cloud and package-based SI,” and “low-code development and R&D agile development.” A notable recent development in that regard is that of the Company having entered into a software development partnership agreement with GeneXus Japan Inc. in September 2022. The Company facilitates DX initiatives of its client companies by using the GeneXus low-code software development tool.

Professor Breogán Gonda of the University of the Republic, Uruguay developed GeneXus in 1989 to serve as a tool for generating source code by applying mathematical logic and knowledge engineering. GeneXus has been addressing various changes in IT technology over the past three decades. It is used by more than 130,000 technical experts in over 8,700 companies located in more than 50 countries worldwide. In Japan, GeneXus has 8 corporate Business Partners, 22 corporate Software Development Partners including NTT Data Tokai Corporation, Fujitsu Engineering Technologies Limited, and the Company, and 4 corporate Alliance Partners.

The GeneXus software development tool significantly shortens development timelines by as much as 80% by enabling developers to automatically generate applications and databases simply by entering task requirements. Once the requirements have been declared, developers are able to share a functional prototype of the application or database, thereby making it easier to pinpoint issues at the preliminary stage. In addition, the software development tool automatically generates software applications after requirements have been declared. This makes it possible for users to significantly reduce development costs and shorten timelines, while lowering the occurrence rate of coding bugs and curbing the likelihood of system obsolescence. The tool offers the distinctive advantage of enabling development of systems that are not prone to obsolescence because it provides for substantial maintainability and does not rely on infrastructure.

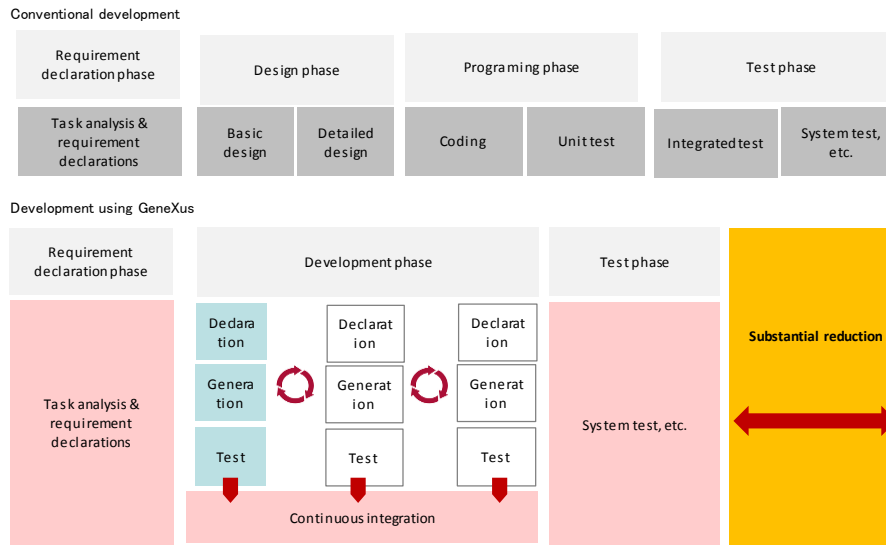
Medium-term growth strategy

Development framework



Source: Prepared by FISCO from GeneXus Japan's website

Differences between conventional development and development using GeneXus



Source: Prepared by FISCO from GeneXus Japan's website

Meanwhile, many managers in Japan recognize that DX is necessary in order to achieve future growth and enhance competitive strengths. However, given that existing systems are designed to be business unit-specific, it is often not possible to make use of data laterally on a company-wide basis. In some cases, moreover, excessive customization culminates in systems that are overly complex and closed off. Approximately 70% of Japanese companies apparently determined that legacy systems are an impediment to their DX initiatives amid a shortage of IT professionals. Japan's Ministry of Economy, Trade and Industry (METI) has consequently sounded the alarm regarding risks and challenges posed by existing legacy systems in terms of the issue of encountering the "2025 Digital Cliff" with respect to IT systems.

Medium-term growth strategy

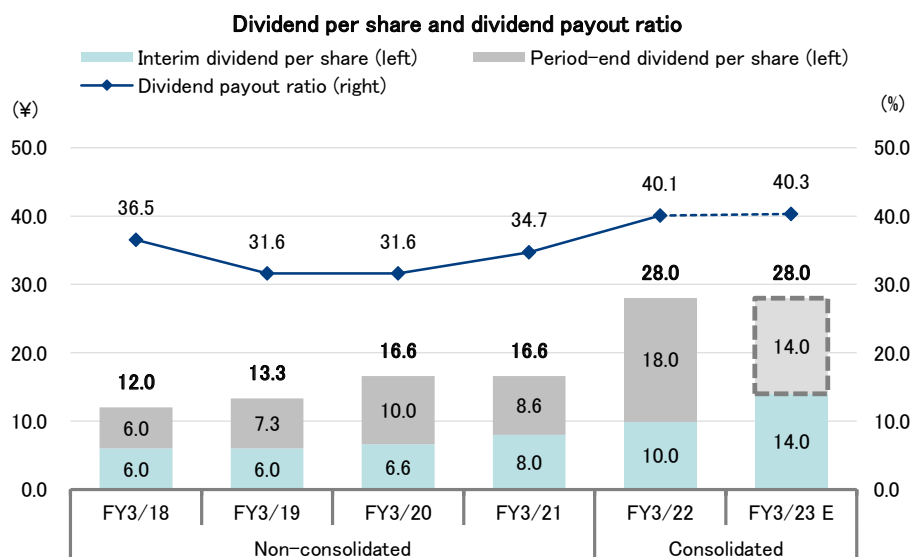
The Company has been placing focus on its highly profitable package-based SI services offering hands-off solutions. However, the Company’s system integration services account for more than 50% of its overall sales, which is in alignment with market trends. The Company seeks to swiftly train and educate agile development and low-code development professionals so that it will be able to tap into business opportunities involving low-code development and agile development with respect to R&D when it comes to data migration in addressing DX needs of companies opting for development of order-made software. The Company accordingly plans to increase its headcount of low-code software development professionals with qualifications from 11 individuals as of end FY3/23 1H to 100 professionals as of end-FY3/25. The DX Promotion Headquarters is taking steps to establish standard approaches to low-code development and agile development with respect to R&D enlisting cloud-native development.

## Shareholder return policy

### FY3/23 dividend forecast of ¥28.0 per share, unchanged YoY

#### 1. Dividend policy

The Company considers returning profits to shareholders to be one of its more important management issues, and its basic policy is to continuously and stably return profits to shareholders after considering supplementing internal reserves as necessary to strengthen the management structure and for business development in the future. In November 2021, the Company changed its dividend policy, shifting from a dividend payout ratio of at least 30% to a consolidated dividend payout ratio of at least 40%. On October 1, 2021, the Company also conducted a 1.5 to 1 stock split in order to lower the amount of each trading unit of its stock and thereby increase the liquidity of its shares, as well as to broaden its investor base. As a result of these changes, the Company increased the FY3/22 year-end dividend per share by ¥11.4 to ¥28.0, resulting in the dividend payout ratio rising to 40.1%. For FY3/23, the Company forecasts an annual dividend of ¥28.0 (interim ¥14.0, year-end ¥14.0), the same as FY3/22, with a dividend payout ratio of 40.3%.



Note: Retroactively revised following the 1.5 to 1 stock split conducted on October 1, 2021  
 Source: Prepared by FISCO from the Company's results briefing materials

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

Shareholder return policy

**2. Shareholder benefits program**

The Company conducts a shareholders benefit program for the purpose of increasing the number of shareholders who hold its stock over the medium to long term. It comprehensively revised the dividend policy and the shareholders benefit program, and in November 2021, partially changed the thresholds for awarding points under the shareholders benefits program. Points are awarded to shareholders who hold at least 300 shares at the end of March each year, with the number of points awarded dependent on the number of shares held and the length of time they have been held. For example, shareholders who hold 300 to 399 shares will be awarded 3,000 points in the first year and 3,300 points in the second year, after which the points will increase by 10% to 3,300 points. Shareholders holding 1,000 to 1,999 or more shares will be awarded 15,000 points in the first year and 16,500 points in the second and subsequent years. Therefore, it is a scheme that rewards shareholders the longer they hold their shares. The awarded points can be exchanged for more than 1,000 kinds of products, including food, electrical goods, gifts and travel and experiences, on the R&D COMPUTER Benefits Club website created specifically for the Company's shareholders.

**Shareholder benefits program**

No. of shares held	No. of points awarded	
	First year	Second and subsequent years
300 to 399 shares	3,000 points	3,300 points
400 to 499 shares	4,000 points	4,400 points
500 to 599 shares	5,000 points	5,500 points
600 to 699 shares	6,000 points	6,600 points
700 to 799 shares	8,000 points	8,800 points
800 to 899 shares	10,000 points	11,000 points
900 to 999 shares	12,000 points	13,200 points
1,000 to 1,999 shares	15,000 points	16,500 points
2,000 or more	20,000 points	22,000 points

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

## Sustainability











The Company views employees' health as an important management policy, and is working to maintain and improve health as well as increase productivity. In recognition of these efforts, it was recognized as a 2021 Certified Health & Productivity Management Outstanding Organization (large enterprise category), as a company that has excellent health and productivity management.

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

Sustainability

In addition, the Company is advancing initiatives with respect to the Sustainable Development Goals (SDGs), and it has newly declared five key goals. The Company has established specific targets for each of the five goals of “Education/technological innovation,” “Rewarding work/equality,” “Responsibility” “Partnerships,” and “Health/equality.”

Five key goals

01	Education/ technological innovation	Contribute to the realization of sustainable social infrastructure by providing optimal system solutions from a group of talented engineers.	  
02	Rewarding work/ equality	Aim to respect the human rights and diversity of all people, and establish an environment that allows each person to demonstrate his/her talent to the fullest.	  
03	Responsibility	Aim to be a company trusted by stakeholders through the provision of high-quality, reliable, and safe services.	
04	Partnerships	Contribute to the achievement of the SDGs through the building of long-term cooperative relationships with business partners.	
05	Health/equality	Aim to create a workplace in which every employee can be both mentally and physically healthy and can work vibrantly and enthusiastically.	 

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



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