

Toyokumo, Inc.

4058

Tokyo Stock Exchange Growth Market

19-Dec.-2022

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

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Summary

A high ratio of stock-business sales and business management with controls on indirect expenses led to continued high profit growth

Toyokumo, Inc. <4058> (hereafter, also “the Company”) is a Software as a Service (SaaS) company providing cloud services to corporations. Provided services include a Safety confirmation service, cloud services that link with the “kintone” service of Cybozu, Inc. <4776>, and a group scheduler that makes it easy to adjust daily schedules.

1. Outline of results for 1Q FY12/22

In the Company’s non-consolidated results for 1Q FY12/22, net sales increased 42.1% year on year (YoY; comparing values for the same period of the previous fiscal year converted to the new revenue standard) to ¥439mn, operating profit increased 43.4% to ¥208mn, ordinary profit increased 43.3% to ¥208mn, and net profit increased 41.1% to ¥142mn. Net sales reflected favorable performance from the Safety confirmation service and kintone-linked services. The significant increase in operating profit reflected the impact of curbing advertising and promotion expenses growth to a greater degree than the Company expected. In terms of the progress rates of 1Q FY12/22 results against the Company’s full-year plan for FY12/22, all of the profit stages made good progress, with net sales at 23.2%, operating profit at 39.4%, ordinary profit at 39.4%, and net profit at 39.6%. The Company’s net sales comprise 99.9% stock-business (recurring) sales, and net sales are therefore expected to trend steadily upward. The progress rate of 1Q net sales was 23.2%, but we at FISCO do not think this necessitates a negative view.

2. Forecast for FY12/22

The Company’s forecast for operating results in FY12/22 is for net sales to increase 29.4% YoY (compared with previous year’s figures converted to a new revenue standard) to ¥1,890mn, gross profit to increase 29.1% to ¥1,810mn, operating profit to increase 26.6% to ¥530mn, ordinary profit to increase 25.7% to ¥530mn, and net profit to increase 25.5% to ¥360mn. In net sales, the Company expects to see growth in the number of paid contracts for its Safety confirmation service and kintone-linked services. The gross profit margin is projected to be in line with the previous fiscal year at 95.8%, while the operating profit margin is expected to be 28.0% and the Company is planning advertising investments targeting an operating profit margin of 30%.

3. Medium-term growth strategy

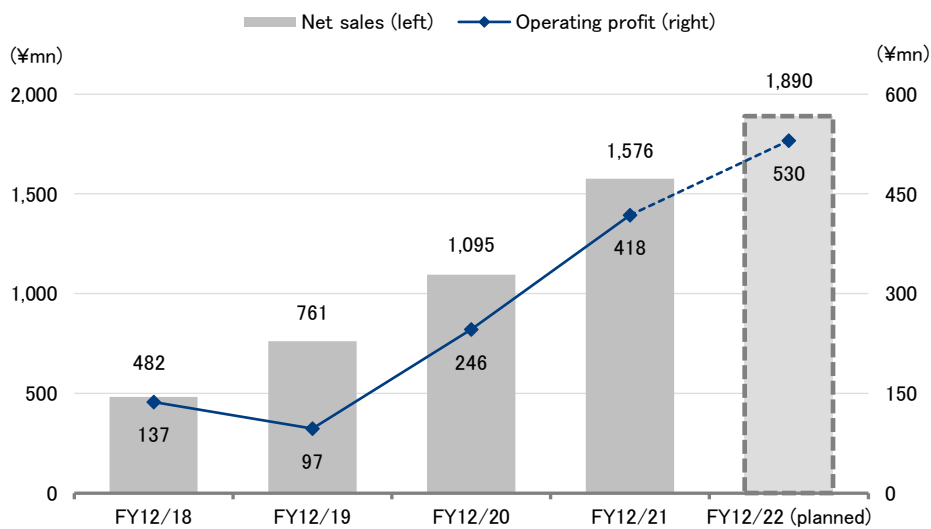
The Company aims to realize “popularization of IT” by providing services that are easy, simple, and intuitive even for IT beginners to use. Its strategy is to thoroughly explore its current cloud-based business model and continue to refine it to achieve significant medium-term growth. In Safety confirmation services, continuation in addition to the existing model of confirming the safety of a company’s own employees, the Company is widening the scope of use to cover the entire supply chain, including suppliers, in order to consider continuation of a company’s business activities during a disaster. With respect to kintone-linked services, the Company will continue to increase sales unit price per customer through cross selling. In addition, the Company has positioned its new service, “TOYOKUMO Scheduler,” as a service for deployment not only in Japan, but also overseas, and its future development will be a subject of focus.

Summary

Key Points

- Provision of easy, simple, and intuitive cloud-services for corporations, aiming to realize popularization of IT
- In FY12/22, the Company plans to make investments in advertising to raise its recognition level, while securing profits
- High profit growth continues with business management that emphasizes the number of paid contracts, churn rate, and LTV, while keeping a high ratio of stock-business sales and curbing indirect expenses

Results trends



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

Company profile

Provision of cloud-services for corporations, with an emphasis on “easy, simple, and intuitive”

1. Management policy

The Company is a SaaS company providing cloud services to corporations. Provided services include a Safety confirmation service, cloud services that link with the “kintone” service of Cybozu, and a group scheduler that makes it easy to adjust daily schedules.

Company profile

The Company's corporate philosophy is "Contribute to abundant social activity around the world through information services," and its management philosophy is "Constantly take on challenges and create new value." The Company's aim is not to provide the kind of services that have a boom, but rather to continually strive to provide the kind of services that become a corporate culture. By keeping ahead of the constantly changing times, the Company's intention is to anticipate products and services that customers will wish for and prepare them in advance. Furthermore, by focusing on points that have been conventionally absent in services: easy operation, simple functionality, and intuitive user interfaces, and providing services that can be used with confidence even by IT beginners unaccustomed to daily use of PCs and smartphones, the Company aims to support companies taking their first step towards the adoption of IT.

Established as a wholly-owned subsidiary of Cybozu, transitioned to an independent management structure through an MBO, and changed its corporate name to Toyokumo

2. History

The Company was established as Cybozu StartUps Inc. in Bunkyo Ward, Tokyo in August 2010, by Cybozu, Inc. as a wholly-owned subsidiary to develop new cloud services. Subsequently, it was judged that shifting the Company to an independent management structure would be beneficial for both companies, and a management buyout (MBO) was agreed upon. The Company was excluded from Cybozu's scope of consolidation in March 2014 and transitioned to an independent management structure. In July 2019, to clarify the independence of the management structure from Cybozu, the Company changed its name to "Toyokumo."

The origin of the Company name expresses the Company's desire to spread cloud computing all over the world, just as the Japanese god Toyokumo-no-kami is said to have created clouds and brought rain to the land at the time of creation, thereby enabling agriculture. Toyokumo-no-kami refers to a cloud of abundance that appears in Japan's oldest chronicle, the Kojiki, and is considered to have been a deified cloud.

Company profile

History

| Date | Event |
|----------------|--|
| August 2010 | Established as a wholly-owned subsidiary of Cybozu, Inc., specifically for starting up new business |
| April 2011 | Released a composite photograph service, "DrCrop" for smartphones |
| November 2011 | Terminated provision of "DrCrop" service |
| December 2011 | Released "Safety confirmation service" |
| February 2012 | Released "Sales Report Service" conducted using smartphones |
| March 2012 | Released social task management product "ToDous" |
| July 2012 | Released the Cybozu kintone-linked service, "FormCreator" |
| September 2012 | Released "Interview Support Service" for smartphones |
| January 2013 | Released "BYOD Service" for managing employee smartphones |
| May 2013 | Released "Dedicated Device Conversion Service" to convert Android devices for into dedicated work devices |
| December 2013 | Released the cloud service account management product, "Cloudum" |
| March 2014 | MBO conducted by management, acquiring 70% of shares from Cybozu, Inc. |
| April 2014 | Conducted a third-party allocation to raise capital, mainly allocating to management |
| June 2014 | Released "DigitalSignage" conducted using smartphone Released Cybozu kintone-linked service, "PrintCreator" Terminated provision of "BYOD Service" |
| August 2014 | Terminated provision of "Cloudum" service |
| September 2014 | Released Cybozu kintone-linked service, "kViewer" |
| November 2014 | Released Cybozu kintone-linked service, "kBackup" |
| December 2014 | Terminated provision of "Sales Report Service" |
| March 2015 | Terminated provision of "Digital Signage" service Terminated provision of "Dedicated Device Conversion Service" |
| April 2015 | Conducted a third-party allocation to venture capital and others Relocated head office to Shiba, Minato Ward, Tokyo Transferred "ToDous" business |
| February 2016 | Terminated provision of "Interview Support Service" |
| March 2016 | Released Cybozu kintone-linked service, "TimeStamp" |
| January 2017 | Relocated head office to Nishi Gotanda, Shinagawa Ward, Tokyo |
| July 2017 | Released the Cybozu kintone-linked service, "FormBridge" |
| January 2018 | Released Cybozu kintone-linked service, "kMailer" |
| July 2019 | Changed company name to Toyokumo, Inc. |
| March 2020 | Released the Cybozu kintone-linked service, "DataCollect" |
| June 2020 | Terminated provision of Cybozu kintone-linked service, "FormCreator" |
| September 2020 | Listed on the Mothers market of the Tokyo Stock Exchange |
| June 2021 | Terminated provision of Cybozu kintone-linked service, "TimeStamp" |
| September 2021 | Relocated head office to Osaki, Shinagawa Ward, Tokyo |
| November 2021 | Released "TOYOKUMO Scheduler" |

Source: Created by FISCO based on the Company's website

Business overview

Cloud service business for corporations forms the Company's sole segment

1. Business activities

The Company's business comprises a single segment, the Corporate Cloud Services Business. The main services are the Safety confirmation service, kintone-linked services, and TOYOKUMO Scheduler.

(1) Safety confirmation service

Companies are required to provide countermeasures to minimize confusion in the event of a natural disaster or disaster caused by phenomena such as abnormal weather and continuously provide customer services. The Company provides Safety confirmation service, a cloud service for confirming the safety of employees and others when disasters occur using their mobile phone, smartphone, or PC. The service features functions for accurately grasping the status of damage when a disaster occurs, and rapidly giving directions to employees and others. Furthermore, the service can also be used as a tool for sharing information during emergencies such as pandemics and for conducting emergency communications when the company's internal network is experiencing a fault.

Main functions of the Safety confirmation service

| Function | Outline |
|-------------------------------------|---|
| Safety confirmation function | Enables user to send out bulk messages to preregistered contacts in the event of a major disaster such as an earthquake or tsunami |
| Information collection function | Enables users in roles such as crisis management officer to confirm the status of contacts on a list |
| Countermeasure instruction function | Enables users to engage in three different communication functions: a message function for discussing countermeasures with the most suitable team member, a message board function for notifying transitional processes, and a bulk notification function for communicating the results |
| Prior preparation function | Enables user information, region, and department information to be all stored in a single CSV file |

Source: Prepared by FISCO from annual securities reports

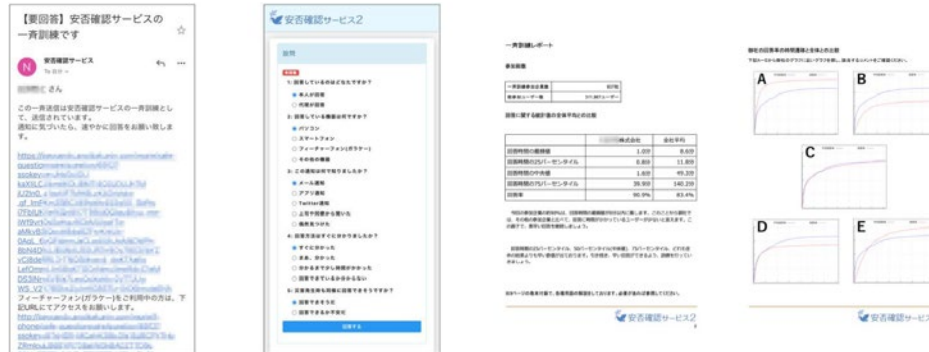
The Company's Safety confirmation service is a cloud-based system, enabling the servers to be expanded flexibly, and it has functions that can respond automatically to an increase in access during disasters. Specifically, with early reports of earthquakes announced by the Japan Meteorological Agency, the function can automatically expand servers before opening up access to users. Thereby, even if access to the Company's system increases rapidly during a disaster, the system can operate stably. On the other hand, due to the nature of Safety confirmation services, they have little opportunity for use during normal times, and the Company therefore enters server contracts according to the status of access. For this reason, the Company is always able to operate with an appropriate cost burden, enabling it to provide services at a competitive price.

The Company conducted a nationwide joint training for 311,987 users at 937 companies among the contracted customers for the Safety confirmation service on Disaster Prevention Day on September 1, 2021. Through this training, the Company confirmed that its systems operate even under access loaded situations, such as during a disaster. In the area of safety confirmation services, a common reason given by companies for changing to another company's service is that while their current system may work during their own training, it stopped in an actual disaster due to over concentration of access. For this reason, at FISCO we think that the large-scale safety confirmation training run by the Company is very significant. The Company's Safety confirmation service is likely to be the subject of increasing focus going forward, and we believe that demand will continue to be solid, including switch overs from other companies.

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

Business overview

Notification of joint training and training report



Source: From the "Matters concerning business plan and growth potential"

(2) kintone-linked services

kintone is a cloud service provided by Cybozu. It is able to generate applications necessary for business operations, such as sales management and customer management. The application design and various operational settings do not need to be programmed by the users themselves as the service can be used simply by operating a mouse. While kintone can be used with various applications, there are some functions that cannot be achieved with the basic function alone, and the Company supports customers' in making more convenient use of kintone by supplying kintone-linked services, also known as extension functions.

The Company's kintone-linked services include the PrintCreator service, which uses data registered in kintone to output forms such as estimates and invoices; FormBridge, a web-form generator service that generates questionnaire survey forms and application forms, etc., and can directly register data to kintone, as well as services that can protect or externally publish data recorded on kintone, as well as collate and calculate it. Moreover, customers who use kintone-linked services purchase their kintone licenses via the Company, enabling them to make just one payment to the Company for what would normally be two separate payments.

Main kintone-linked services

| Service name | Outline |
|--------------|---|
| PrintCreator | A service that uses data registered in kintone to output forms such as estimates and invoices |
| FormBridge | A web-form generator service that generates questionnaire survey forms and application forms, etc., and can directly register data to kintone |
| kBackup | A service for protecting data in case data registered on kintone is inadvertently deleted |
| kViewer | A service for externally disclosing data registered on kintone |
| kMailer | A service that can send emails while quoting data registered on kintone |
| DataCollect | A service that collects and calculates data inside kintone |

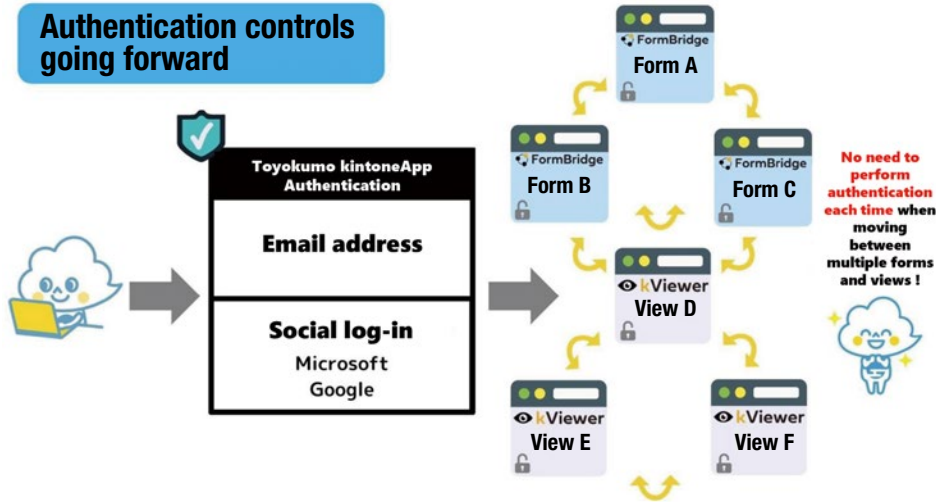
Source: Prepared by FISCO from annual securities reports

The Company added a new user management function called "Toyokumo kintoneApp Authentication" to the FormBridge and KViewer kintone-linked services from February 1, 2022. Toyokumo kintoneApp Authentication is an authentication system that can be set up across kintone-linked services. This eliminates the previous need for simple authentication for each kintone-linked service, enabling users to move back and forth between multiple forms and views once they have logged in using their email address.

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Business overview

Schematic diagram of Toyokumo kintoneApp Authentication



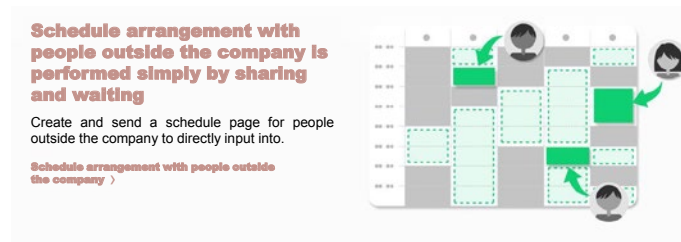
Source: From the Company's financial results presentation

Previously in kintone user management, employees with accounts conducted operations as kintone users, and suppliers and collaboration partners conducted operations as guest users. When using Toyokumo kintoneApp Authentication, it is possible to easily share information with others who could not be communicated with online previously. For example, the service enables the building of membership systems for apparel shops, fan clubs, and email magazines, as well as the building of low-cost systems for information sharing and communication between cram schools and their students, engineering firms and their clients, schools and guardians, and other such relationships. Toyokumo kintoneApp Authentication is expected to enable the evolution of kintone into an external information sharing platform and the expansion of kintone-linked services provided by the Company going forward.

(3) TOYOKUMO Scheduler

TOYOKUMO Scheduler is a new service released by the Company in November 2021. This schedule has a new concept of enabling schedule arrangement with people outside the Company in addition to the internal schedule arrangement function of the previous group scheduler. When a plan is created, the service eliminates the process of manual entry through links with kintone provided by Cyboze or cybozu.com, as well as enabling one-click issuance of web meeting URLs. Since this service is intended to perform schedule arrangement, it can be used by companies of any industry or scale, offering a wide user base. In addition, the Company has earmarked this service for overseas expansion, and its future development will be a focus point.

TOYOKUMO Scheduler (schematic diagram of schedule arrangement function with outside parties)



Source: From the "Matters concerning business plan and growth potential"

Emphasizing the number of paid contracts, churn rate, and LTV

2. Business model

The Company's services are known as cloud services. Customers complete all stages of the service, from application to usage, online. This means that the customers can install the services themselves without a visit from the Company sales representatives. The Company focuses on providing services that are "easy" and "convenient" for customers to use, offering companies who make inquires a free trial period, and coming up with ways for the customer's personnel to master operation of the services themselves during the period. To this end, the Company has made it possible for users to implement the services themselves, simply by using telephone support and website FAQs as needed, rather than the Company's representatives visiting the customer to give an explanation. In addition, since the services are not individually customized, the burden of support on the Company is low. Through efficient business operations where indirect costs are kept to a minimum, the Company is able to provide services at a low price.

The Company's services employ a business model where charges are incurred based on usage period. That is to say, it is a stock-based (recurring income) business model, in which earnings increase continuously as the number of paid contracts increases. Moreover, the Company's services are inherently unaffected by trends and are likely to be used continuously, giving them a distinctively low churn rate (annual average cancellation rate).

Sales of services are mainly in the form of direct sales to customers who apply directly to the Company. However, some sales are conducted through sales partners such as agents.

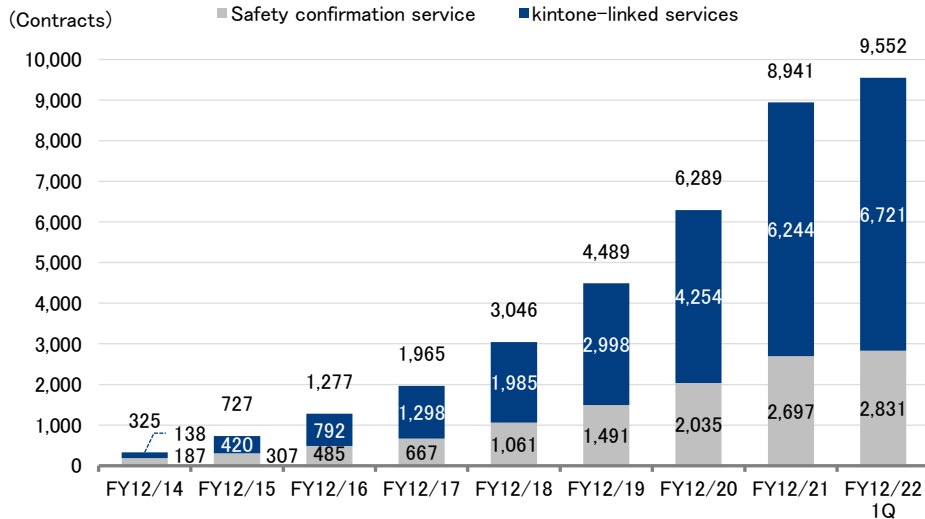
The Company's key indicators are "number of paid contracts," "churn rate," and "LTV."

(1) Number of paid contracts

The number of paid contracts at the end of FY12/21 was up 42.2% YoY to 8,941. By service, Safety confirmation service contracts were up 32.5% YoY to 2,697, and kintone-linked service contracts were up 46.8% YoY to 6,244. In Safety confirmation service, some customers had switched over from other companies. In kintone-linked services, there was also an increase in the number of customers using multiple services, which contributed to significant growth. The number of paid contracts at the end of 1Q FY12/22 stood at 9,552, up 611 from the previous fiscal year-end. Safety confirmation service contracts increased by 134 to 2,831, while kintone-linked service contracts performed steadily, increasing by 477 to 6,721. The number of simultaneous purchases of kintone-linked services increased slightly from 1.59 contracts/company at the end of FY12/21 to 1.60 contracts/company at the end of 1Q FY12/22. There appears to be an increasing number of cases of customers combining FormBridge, which can generate survey questionnaire forms and application forms, etc. and register data directly on kintone, and kViewer, which is for externally disclosing data registered on kintone.

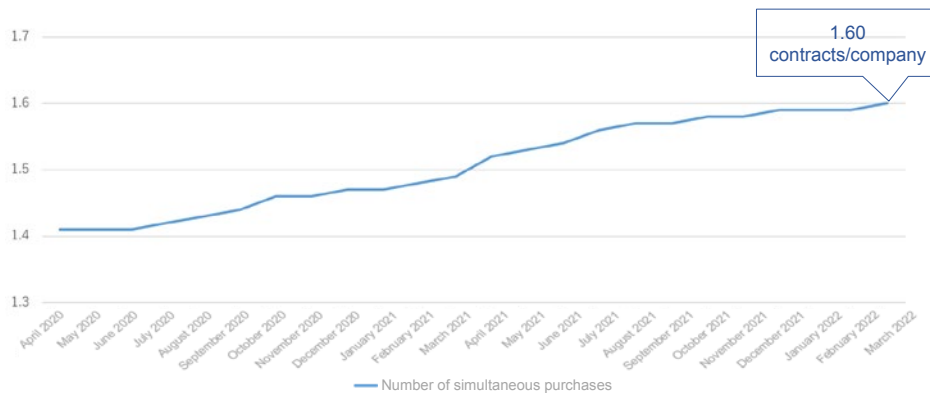
Business overview

Paid contracts for the Company's services



Source: Prepared by FISCO from annual securities reports and financial results presentations

Number of simultaneous contracts for kintone-linked services



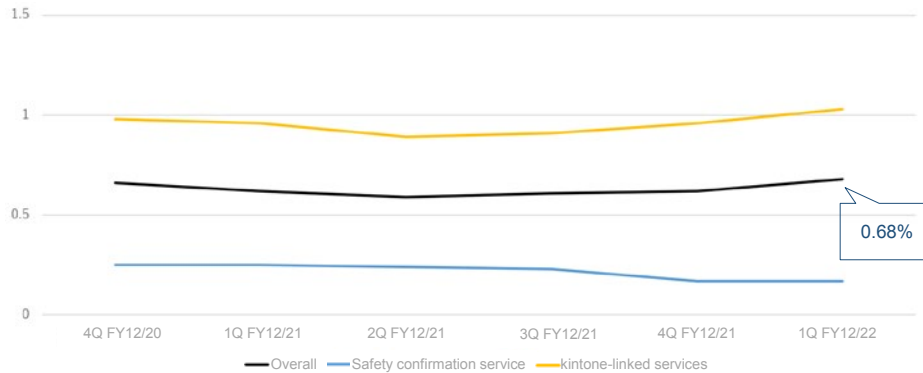
Source: From the Company's financial results presentation

(2) Churn rate

The Company's overall churn rate as of the end of FY12/21 on a monetary amount basis remand at a low level of 0.62%. Breaking this down, Safety confirmation services were around 0.2% and kintone-linked services were around 1.0%. kintone-linked services have a stable churn rate overall, although some variation is seen due to spot projects from local governments and so forth. As of the end of 1Q FY12/22 the overall churn rate on a monetary amount basis was 0.68%.

Business overview

Churn rate



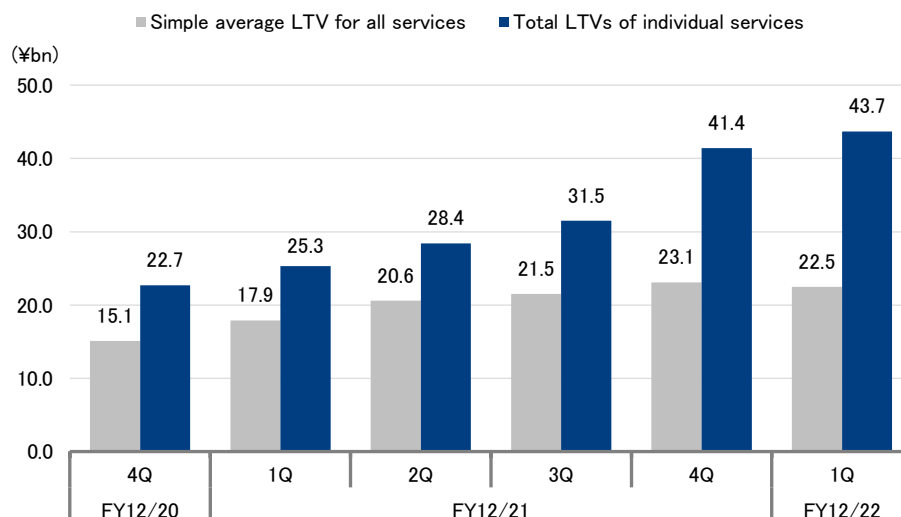
Source: From the Company's financial results presentation

(3) LTV

The Company has set customer Life Time Value (LTV) as an important indicator. LTV is earnings to be received from customers in the future, calculated by dividing Monthly Recurring Revenue (MRR) by the churn rate (monetary amount basis).

Looking at LTV as the simple average for all services on a quarterly basis, it shows a gradually expanding underlying trend, from ¥15.1bn in 4Q FY12/20 to ¥22.5bn in 1Q FY12/22. The sum of LTVs of individual services (Safety confirmation service LTV and kintone-linked services LTV) is expanding at an accelerating pace, from ¥22.7bn in 4Q FY12/20 to ¥43.7bn in 1Q FY12/22. The number of contracts is growing for both services, and it is our view that the Safety confirmation service, which has a low churn rate, is pushing up the total LTV value for individual services.

LTV



Source: Prepared by FISCO from financial results presentation

Strengths are the high ratio of stock-business sales and efficient sales structure

3. Strengths

The Company's strengths are the "high ratio of stock business sales" and its "efficient sales structure." The Company's net sales comprise 99.9% stock-business sales, an extremely high ratio. This business model ultimately strengthens the Company's management foundation as it is expected to produce continuous sales. The sales structure is mainly direct sales via the internet, which make up 64% of overall sales. Since the Company provides non-customized software and does not conduct proposal sales, the acquisition cost per contact appears to be kept low. Under this flow, new customer leads are often identified through online promotions, advertising, and displays at events. After that, prospective customers visit the Company's website to have a free trial of the services before concluding a contract. After sales support once the contract is made can be conducted efficiently due to a full-complement of information on the website and efficient communication via phone or email.

Results trends

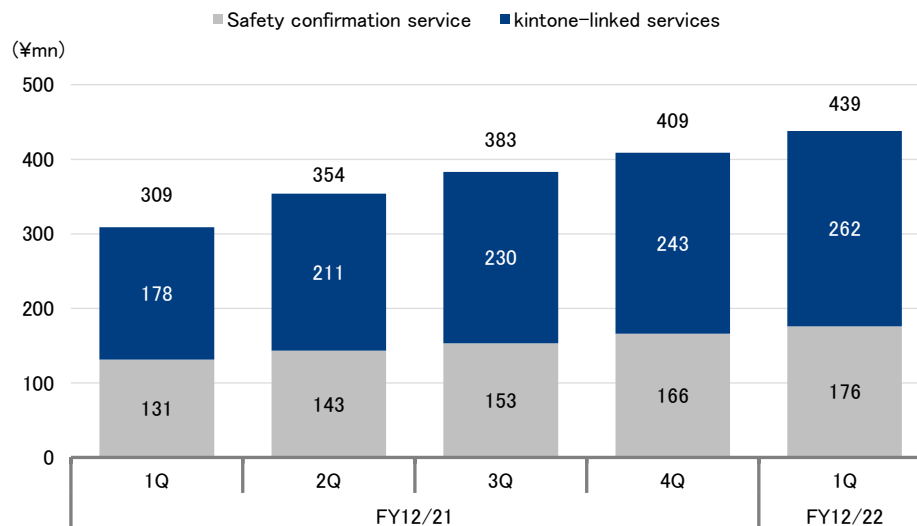
1Q FY12/22 saw a significant increase in operating profit due to suppression of advertising expenses

In the Company's non-consolidated results for 1Q FY12/22, net sales increased 42.1% YoY* to ¥439mn, operating profit increased 43.3% to ¥208mn, ordinary profit increased 43.3% to ¥208mn, and net profit increased 41.1% to ¥142mn. Net sales reflected favorable performance from the Safety confirmation service and kintone-linked services. The significant increase in operating profit reflected the impact of curbing advertising and promotion expenses growth to a greater degree than the Company expected.

* The Company has applied "Accounting Standard for Revenue Recognition (ASBJ Standard No. 29, March 31, 2020)," etc., from the start of 1Q FY12/22. YoY comparisons for net sales are against the amount of 1Q FY12/21 net sales converted to the new standard, which is ¥309mn.

Net sales for 1Q FY12/22 continued to grow strongly, increasing by 42.1% YoY (comparing values for the same period of the previous fiscal year converted to the new revenue standard) to ¥439mn. By service, both services performed favorably, with sales of Safety confirmation service increasing 34.4% to ¥176mn, while sales of kintone-linked services increased by 47.2% to ¥262mn. Gross profit increased 44.7% to ¥427mn, and the Company maintained a high gross profit margin of 97.4% (95.5% in same period of the previous fiscal year). Cost of sales was kept low YoY, as procurement costs related to kintone-linked services decreased with the application of the revenue recognition standard. Operating profit increased 43.3% to ¥208mn, with the operating margin at 47.5% (46.9% in same period of the previous fiscal year). The operating profit margin decreased due to increases in personnel expenses and advertising expenses, but as the increase in profits was greater than that of net sales, we view this as a favorable financial result.

Results trends

Net sales by quarter


Note: All periods calculated based on the new revenue standard
 Source: Prepared by FISCO from financial results presentation

The Company's advertising budget for FY12/22 is ¥500mn (actual expenses of ¥368mn in the previous fiscal year). The plan for weighting of this budget by quarter is 1Q: 2Q: 3Q: 4Q = 20%:20%:30%:30%. The actual advertising expense for 1Q was ¥60mn, a budget usage rate of just 12%. The result reflects a lack of progress on securing advertising slots due to factors such as the impact of the Winter Olympics, as well as the impact of Russia's invasion of Ukraine.

The Company made steady progress on all of its key performance indicators. Paid contracts at the end of 1Q FY12/22 stood at 9,522 (up by 611 compared with the previous fiscal year-end). Looking at the number of paid contracts by service, both grew steadily, with Safety confirmation services at 2,831 contracts (up 134), and kintone-linked services at 6,721 contracts (up 477). The number of simultaneous purchases of kintone-linked services continued its increasing trend at 1.60 contracts/company; and there appears to be an increasing number of cases where multiple services are purchased simultaneously. The churn rate was 0.68%, maintaining a low level despite the impact of certain spot contracts for kintone-linked services terminating. Looking at LTV, the simple average of LTV for all services was ¥22.5bn (¥23.1bn at the previous fiscal year-end), reflecting factors such as the termination of contracts, etc. LTV for individual services was ¥43.7bn (¥41.4bn), continuing to trend upward thanks to steady expansion of Safety confirmation services.

In terms of the progress rates of 1Q FY12/22 results against the Company's full-year plan for FY12/22, all of the profit stages made good progress, with net sales at 23.2%, operating profit at 39.4%, ordinary profit at 39.4%, and net profit at 39.6%. The Company's net sales comprise 99.9% stock-business (recurring) sales, and net sales are therefore expected to trend steadily upward. The progress rate of 1Q net sales was 23.2%, but we at FISCO do not think this necessitates a negative view.

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Results trends

Outline of results for 1Q FY12/22

| | 1Q FY12/21 | | 1Q FY12/22 | | | Progress rate | FY12/22 Company plan |
|--|------------|-----------|------------|-----------|--------|---------------|----------------------|
| | Result | Vs. sales | Result | Vs. sales | YoY | | |
| Net sales | 309 | 100.0% | 439 | 100.0% | 42.1% | 23.2% | 1,890 |
| (Sales under the previous standard) | 337 | - | - | - | - | - | - |
| Gross profit | 295 | 95.5% | 427 | 97.4% | 44.7% | 23.6% | 1,810 |
| Selling, general and administrative expenses | 149 | 48.2% | 218 | 49.8% | 46.1% | 17.1% | 1,280 |
| Advertising expenses | 27 | 8.7% | 60 | 13.9% | 123.5% | 12.2% | 500 |
| Operating profit | 145 | 46.9% | 208 | 47.5% | 43.3% | 39.4% | 530 |
| Ordinary profit | 145 | 46.9% | 208 | 47.5% | 43.3% | 39.4% | 530 |
| Net profit | 100 | 32.4% | 142 | 32.5% | 41.1% | 39.6% | 360 |

Source: Prepared by FISCO from financial results and financial results presentation

The Company discloses its preliminary sales figures report around the 15th of each month. Cumulative monthly sales for FY12/21 continued to increase by around 140% year on year, accumulating steadily. Figures for June 2021 include short-term interest options for increasing system performance (approximately ¥8mn), resulting in significant month-on-month sales growth. It is necessary to consider the absence of the effect of these options when looking at June 2022 sales.

FY12/22 Monthly Sales (Up to May 2022)

| | (¥mn) | | | | |
|------------------|---------|----------|-------|-------|------|
| | January | February | March | April | May |
| Monthly sales | 142 | 146 | 149 | 153 | 156 |
| YoY | 143% | 142% | 140% | 138% | 135% |
| Cumulative sales | 142 | 289 | 439 | 592 | 748 |
| YoY | 143% | 143% | 142% | 141% | 140% |

Source: Prepared by FISCO from the preliminary monthly sales reports

<Reference> FY12/21 Monthly Sales*

| | (¥mn) | | | | | | | | | | | |
|------------------|---------|----------|-------|-------|------|------|------|--------|-----------|---------|----------|----------|
| | January | February | March | April | May | June | July | August | September | October | November | December |
| Monthly sales | 99 | 102 | 106 | 111 | 116 | 126 | 124 | 128 | 131 | 133 | 137 | 138 |
| YoY | 144% | 145% | 146% | 146% | 146% | 157% | 150% | 149% | 149% | 146% | 145% | 143% |
| Cumulative sales | 99 | 202 | 309 | 420 | 536 | 663 | 787 | 915 | 1,047 | 1,180 | 1,317 | 1,456 |
| YoY | 144% | 144% | 145% | 145% | 145% | 147% | 148% | 148% | 148% | 148% | 147% | 147% |

* Converted to the new revenue recognition standard

Source: Prepared by FISCO from the preliminary monthly sales reports

Business outlook

Operating results continue to grow, assisted by a tailwind from DX. For FY12/22, the Company plans to invest in advertising while securing profits

1. Outlook for FY12/22

The Company operates in the cloud services market, where digital transformation (DX) is becoming increasingly important for driving operational efficiency and productivity gains. Moreover, under the impact of the COVID-19 pandemic, the popularization of diverse workstyle such as remote work has increased demand for cloud services that can be used anytime, anywhere. At FISCO, we expect corporate investment in IT to increase in this environment, and expect to see high growth in the cloud services market in particular.

The Company's forecast for operating results in FY12/22 is for net sales to increase 29.4% YoY (compared with previous year's figures converted to a new revenue standard) to ¥1,890mn, gross profit to increase 29.1% to ¥1,810mn, operating profit to increase 26.6% to ¥530mn, ordinary profit to increase 25.7% to ¥530mn, and net profit to increase 25.5% to ¥360mn. Net sales are expected to increase, as the Company expects to see growth in the number of paid contracts for its safety confirmation service and kintone-linked services. The gross profit margin is projected to be in line with the previous fiscal year at 95.8%, while the operating profit margin is expected to be 28.0% and the Company is planning advertising investments targeting an operating profit margin of 30%. Specifically, the Company plans to take measures including mass media advertising such as TV commercials aimed at increase recognition the Company and its services, as well as posting web advertising and exhibiting at trade fairs to promote the spread of TOYOKUMO Scheduler.

Outlook for FY12/22

| | FY12/21 | | FY12/22 | | |
|--|---------|-----------|--------------|-----------|-------|
| | Result | Vs. sales | Company plan | Vs. sales | YoY |
| Net sales | 1,461 | 100.0% | 1,890 | 100.0% | 29.4% |
| (Sales under the previous standard) | 1,576 | - | - | - | - |
| Gross profit | 1,402 | 96.0% | 1,810 | 95.8% | 29.1% |
| Selling, general and administrative expenses | 984 | 67.4% | 1,280 | 67.7% | 30.1% |
| Advertising expenses | 368 | 25.2% | 500 | 26.5% | 35.9% |
| Operating profit | 418 | 28.6% | 530 | 28.0% | 26.6% |
| Ordinary profit | 421 | 28.8% | 530 | 28.0% | 25.7% |
| Net profit | 286 | 19.6% | 360 | 19.0% | 25.5% |

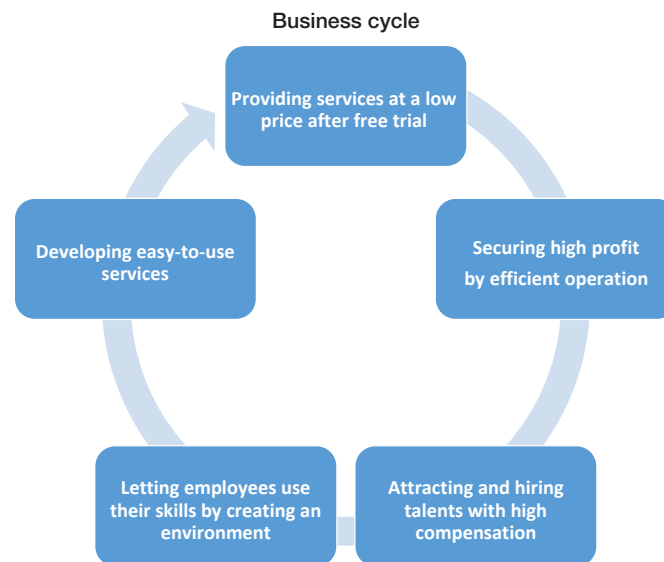
Note: Net sales of ¥1,461mn for FY12/21 is converted to the new revenue standard
 Source: Prepared by FISCO from financial results and financial results presentation

Refining the business model and aiming for “popularization of IT”

2. Medium-term growth strategy

(1) Management strategy

The Company aims to realize “popularization of IT” by providing services that are easy, simple, and intuitive even for IT beginners to use. Its strategy is to thoroughly explore its current cloud-based business model and continue to refine it to achieve significant medium-term growth. Specifically, the Company’s daily activities continue with an awareness of the business cycle (provide services at low price for a trial model → secure high earnings through efficient operations → increase salaries to recruit high-quality talent → provide an environment where personnel can leverage their abilities → create easy, convenient services).



Source: From the Company’s financial results presentation

(2) Business strategy

a) Safety confirmation service

Previously, safety confirmation was thought of as something to be conducted for a company’s own employees; however, in order to consider the continuation of a company’s business activities during a disaster, it is necessary for safety confirmation to cover the entire supply chain, including suppliers. The Company’s services can be used in any kind of application. The Company will not only capture demand for new methods of use, but also appeal to example cases of companies already implementing the service as it aims to expand.

b) kintone-linked services

The Company provides several kintone-linked services. By linking these services to one another, it is possible to use them with greater convenience. Through measures such as providing simple introduction of examples where services are used by linking them together, the Company is expected to continue to increase sales unit price per customer through cross-selling.

c) TOYOKUMO Scheduler

This scheduler is based on a new concept that allows plans to be adjusted with persons outside the company as well. The Company has earmarked this service for overseas expansion. Going forward, the development of the service both in Japan and overseas will be a focus point.

Business outlook

(3) Product development

The Company has developed various software for corporations since its foundation. At the time of its foundation, the software covered a large number of categories, but subsequently the Company narrowed its focus. In 1Q FY12/22, the number of categories was three (Safety confirmation service, kintone-linked services, and scheduler), and the number of services was eight. The Company does not intend to launch a new service in FY12/22. However, going forward, it seems likely to continue expanding its services in line with its policy of providing cloud services that are easy, simple, and intuitive to corporations.

Number of services provided

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 (Planned) |
|------------------------|------|------|------|------|------|------|------|------|------|------|-------------------|
| Number of categories | 5 | 7 | 5 | 3 | 2 | 2 | 2 | 2 | 2 | 3 | 3 |
| Number of services | 5 | 8 | 8 | 6 | 6 | 8 | 9 | 9 | 8 | 8 | 8 |
| Number of new services | 4 | 3 | 3 | 0 | 1 | 2 | 1 | 0 | 1 | 1 | 0 |
| Terminated services | 0 | 0 | 3 | 2 | 1 | 0 | 0 | 0 | 2 | 1 | 0 |

Source: Prepared by FISCO from financial results presentation

Shareholder return policy

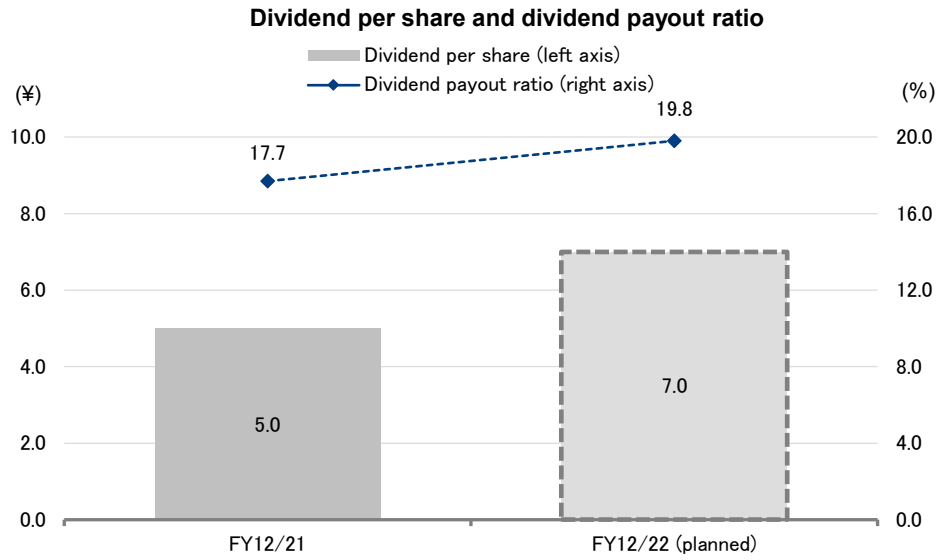
Policy of returning profits continuously with a dividend payout ratio standard of 20%

The Company has not made any dividend payments since its establishment as it prioritizes enhancing the necessary internal reserves for future business expansion in order to strengthen its financial position and secure the competitiveness of its businesses. However, while there is no change to its direction of prioritizing growth investment and aiming for business expansion, the Company recognizes that returning profit to shareholders is an important management task. The Company has therefore decided to pay dividends from FY12/21.

The Company's dividend policy is to conduct continuous return of profits to shareholders, with a dividend payout ratio standard of around 20% of net profit for the period. Going forward, the Company will revise the policy appropriately, giving overall consideration to factors such as its earnings, business environment, financial position, and future business development. Moreover, the deciding body for the Company's dividend of surplus is the General Meeting of Shareholders for the year-end dividend and the Board of Directors for the interim dividend. In addition, the Company has stipulated in its Articles of Incorporation that it may pay an interim dividend.

The dividend per share for FY12/21 was ¥5.0 (year-end dividend). The Company plans to increase the dividend per share for FY12/22 by ¥2 to ¥7.0 (year-end dividend).

Shareholder return policy



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

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