

COMPANY RESEARCH AND ANALYSIS REPORT

Cybernet Systems Co., Ltd.

4312

Tokyo Stock Exchange Standard Market

26-Apr.-2022

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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* This is an English translation of a report issued on March 25, 2022.

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Summary

Aims for V-shaped recovery from FY12/23 onward through enhancement of in-house product development and expansion of the simulation domain

Cybernet Systems Co., Ltd. <4312> (hereafter, also “the Company”) is a major company for CAE (computer-aided engineering) software solution services that are used for design, R&D, and other aspects, centered on the manufacturing industry, and it also handles cloud security and other products. As a leading CAE company, it is a sales vendor for more than 35 companies, mainly of software products, while as a pioneer for CAE solutions, it has 2,600 companies and 500 universities and research institutes as its customers. It also has three overseas software development companies as its subsidiaries, and conducts a CAE solutions business in the Asian market, mainly in China and Taiwan. About 60% of net sales on a Company stand-alone basis comes from recurring revenue business (license renewals by existing customers), so earnings are also highly stable.

1. FY12/21 results overview

In the FY12/21 consolidated results, net sales increased 4.8% YoY to ¥22,697mn, while operating income decreased 1.6% YoY to ¥2,830mn. Net sales saw consecutive record highs due to recovery of engineering services and growth of overseas net sales in CAE Solution Services business as well as growth of cloud security products in IT Solution Services business. Meanwhile, operating income declined slightly due to an increase in SG&A expenses primarily centered on personnel costs in overseas subsidiaries and digital marketing costs. Furthermore, the Company’s sales distributor agreements with one of its main business-partners (Synopsys, U.S.A., <SNPS>) related to optical design analysis software was terminated on October 1, 2021 (Synopsys-related net sales were ¥4,657mn in FY12/20).

2. Outlook for FY12/22

The outlook for consolidated results in FY12/22 is for both sales and profit to decrease due to the termination of the distribution agreement with Synopsys, with net sales decreasing 11.9% YoY to ¥20,000mn and operating income down 36.4% YoY to ¥1,800mn. For optical-related solutions, the Company signed a new distributor agreement with ANSYS <ANSS> (U.S.)*, its largest business partner, on October 2, 2021, and is adding ANSYS optical CAE solutions to its lineup. Since these products are virtually on the same level as Synopsys products in terms of functionality, the Company’s strategy is to harness the experience and technologies it has accumulated over more than 35 years in the CAE field, and use its support capabilities with a high degree of customer satisfaction as a strength to gradually seize market shares. The Company has also made it a point to limit declines in results to a minimum through means such as enhancement of in-house product development and DX business as well as expansion of sales of cloud security products.

| * Globally leading CAE software company, with net sales of US\$1,906mn in FY12/21. |

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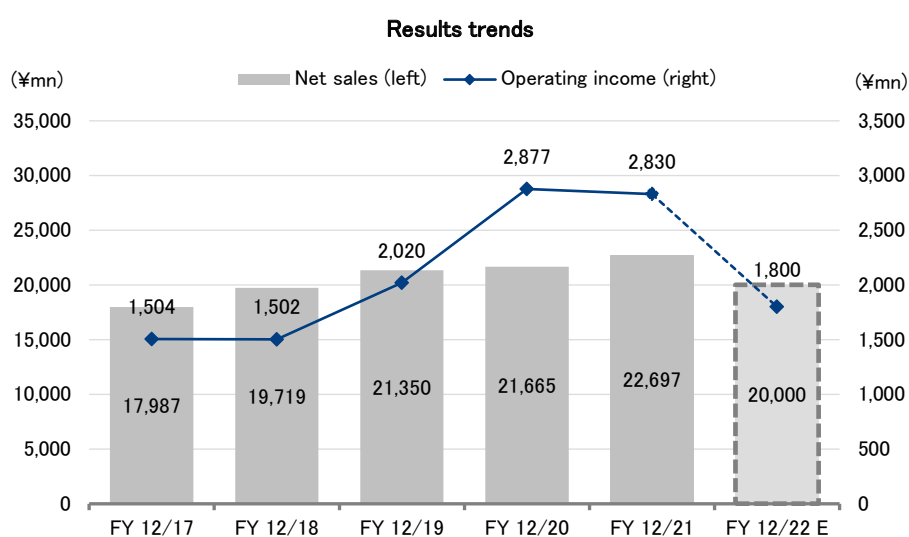
Summary

3. Summary of the medium-term business plan

The Company announced a medium-term business plan lasting five years up to FY12/26. To achieve V-shaped recovery from FY12/23 onward, it will strive for topline growth by working on initiatives such as enhancement of in-house product development, expansion of business in Asia, DX promotion of manufacturing, and utilization of simulation technology in fields such as SDGs. At the same time, it will aim for high-level profit margins while balancing enhancement of businesses with high added value and growth investment. For numerical management targets, in FY12/26, the Company will aim for net sales of ¥30,000mn (up 32.2% compared to FY12/21), EBITDA (operating income + depreciation and amortization) of ¥3,800mn (up 23.7%). The reason why the Company set a target not for operating income but EBITDA is that it has set its sights on M&A. In the long term, it also plans to raise the sales composition ratio of in-house products and services to 40.0% (24.2% in FY12/21) and overseas sales composition ratio to 25.0% (23.3%). Expanding sales of in-house products and services in particular is seen as the key to achieving the medium-term performance targets. The Company is also indicating its intention to actively conduct a shareholder return policy. In the past, it had paid dividends targeting higher indices of either a dividend payout ratio at 50% or a DOE (dividend on net assets ratio) at 3.0%. However, going forward, it will target a DOE at 6.0% with the objective of paying stable dividends even during short-term profit declines, and will make decisions about the acquisition of treasury shares flexibly while comprehensively considering factors such as cash reserves and share price levels.

Key Points

- In the CAE field, a strength is solution capabilities based on knowhow and technological capabilities accumulated over more than 35 years
- In the FY12/21 results, the Company experienced record highs for sales through expansion of overseas sales, primarily in Asia, and growth of cloud security products
- In FY12/22, the Company expects a temporary decrease of both sales and profit due to the loss of Synopsys-related business
- The Company aims for V-shaped recovery from FY12/23 onward through initiatives including enhancement of in-house product development, expansion of business in Asia, and DX promotion in manufacturing



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

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Company overview

Has supported manufacturing in Japan for more than 35 years as a leading CAE company

1. History

Cybernet Systems Co., Ltd. was established independently in April 1985 after Nihon CDC K.K., the Japanese subsidiary of Control Data Corp. (CDC), a US-based pioneer in supercomputers, spun off its cybernet services business. Cybernet is a word made up by combining “cybernetics” (cyber) and “telephone network” (net), and refers to the computer service CDC provided globally from the 1970s to 1990 that allowed people to rent remote access to a computer by the hour. At that time, computers were expensive, so companies and research institutes used this service to carry out tasks such as scientific and technological calculations and simulations.

From 1990, the performance of computers improved dramatically and they became inexpensive, so these users have come to own their own computers, in which they have installed dedicated software to conduct design development, R&D and other tasks. Due to this change in use, as demand for cybernet services declined, the Company concluded sales distributor agreements with leading overseas software vendors, and converted to a business model of conducting sales and providing installation support services for these companies, thereby expanding its business.

In 1989, the Company became a subsidiary of Kobe Steel, Ltd. <5406>, and then in 1999, FUJISOFT ABC Incorporated (currently, FUJI SOFT INCORPORATED <9749>) acquired all of its shares and made it a wholly owned subsidiary, and it is currently FUJISOFT’s subsidiary. In October 2001, the Company’s shares were listed on the JASDAQ market (currently listed on the Tokyo Stock Exchange (TSE) First Section), and since 2005, it has actively progressed an M&A strategy with the aim of expanding its business area in the CAE field. Domestically, in 2005, it made subsidiaries of KGT Inc. (has advanced visualization technologies and network-related software) and PLAMEDIA CORPORATION (specializes in a plastics CAE business) in succession, and then in 2006, it acquired the business rights of Keihin Artwork, Inc. and EDA Connect Co., Ltd. and expanded its business areas. Also, recently in January 2020, it established CYBERNET MBSE Co., Ltd., which mainly provides engineering services related to MBSE*, including outsourced analysis and consulting.

* MBSE (model-based systems engineering) refers to a method for efficiently conducting analysis, design, and verification of system requirements from various perspectives using models for systems targeted for development. Alongside the higher performance and multifunctional nature of systems, the process from requirement definitions through to design and verification has become increasingly complex, and MBSE makes possible efficient development through the modelling of these elements.

Conversely, alongside the entry into Asia of Japanese companies and the growth of Asian companies, centered on China, the Company has also been establishing sales subsidiaries in various Asian countries. In 2004, it established CCA ENGINEERING SIMULATION SOFTWARE (Shanghai) CO., LTD. in order to prepare an environment to provide technological services in China at the same level as in Japan, and it began providing technological services relating to CAE, including consulting, outsourced analysis, and education. Next, in 2008, it established CYBERNET SYSTEMS TAIWAN Co., Ltd. in Taiwan to provide CAE Solution Services, including those related to optical, control, and formula processing. Then in 2017, it established CYFEM Inc. in South Korea, which provides optical-related CAE solution services, and in 2018, CYBERNET SYSTEMS MALAYSIA SDN. BHD. in Malaysia which provides machinery- and optical-related CAE solution services. In these ways, the Company has been strengthening its business development in the Asia region. Based on the termination of the distributor agreements with Synopsys (dated October 1, 2021), the Company dissolved CYFEM in South Korea on December 31, 2021.

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Also, in June 2009, the Company's sales distributor agreement with The MathWorks, Inc. of the US, which was the main customer providing more than 30% of total net sales, ended (due to The MathWorks establishing a Japanese subsidiary). The Company also strengthened its in-house products by dealing directly with the risks inherent to the distributor business, such as significant decreases in earnings. Specifically, in 2009, it made subsidiaries of Sigmetrix, LLC of the US (hereafter, Sigmetrix; development and sales of tolerance*1 analysis software and consulting) and Waterloo Maple Inc. of Canada (hereafter, Maplesoft; development, sales, consulting and online services for formula analysis software, etc.). Then in 2010, it made a subsidiary of Noesis Solutions NV of Belgium (hereafter, Noesis; development, sales, and technological support for PIDO*2 tools).

*1 Tolerance: The allowable range of variation of the dimensions set at the time of design.

*2 PIDO (Process Integration and Design Optimization): A solutions tool for overall optimization that contributes to improving quality, shortening the development period, and reducing development costs through the automation, integration, and optimization of the product development process utilizing CAD/CAE.

History

Date	Event
April 1985	Control Data Corp. (CDC) of the US separated its cybernet services business and established Cybernet Systems Co., Ltd.
April 1989	Kobe Steel, Ltd. <5406> acquired all of the Company's issued shares.
October 1999	FUJISOFT ABC Incorporated (currently, FUJI SOFT INCORPORATED <9749>) acquired all of the Company's issued shares and made it a wholly owned subsidiary.
October 2001	Listed on the JASDAQ market and increased capital to ¥995mn.
August 2003	Listed on the TSE Second Section.
September 2004	Listed on the TSE First Section.
December 2004	Established subsidiary CCA ENGINEERING SIMULATION SOFTWARE (Shanghai) CO., LTD. in Shanghai, China.
April 2005	KGT Inc. made a subsidiary through acquisition of all shares.
August 2005	PLAMEDIA CORPORATION made a subsidiary through acquisition of 95% of shares.
May 2006	Took over operation of Keihin Artwork Co., Ltd. and EDA Connect Co., Ltd.
August 2006	Established Cybernet CAE Systems (Shanghai) Co., Ltd. (currently, CYBERNET SYSTEMS (SHANGHAI) CO.,LTD.) in Shanghai, China.
July 2008	Established CYBERNET SYSTEMS TAIWAN Co., Ltd. in Hsinchu City, Taiwan.
July 2009	Made Sigmetrix, LLC a wholly owned subsidiary.
August 2009	Merged with PLAMEDIA CORPORATION.
September 2009	Made Waterloo Maple Inc. (Maplesoft) a wholly owned subsidiary.
May 2010	Merged with KGT Inc.
July 2010	Made Noesis Solutions NV a wholly owned subsidiary.
March 2012	Established CYBERNET SYSTEMS KOREA CO., LTD. in Seoul, South Korea (closed in 2015).
September 2017	Established subsidiary CYFEM Inc. in Seoul, Korea.
November 2018	Established subsidiary CYBERNET SYSTEMS MALAYSIA SDN. BHD. in Malaysia.
January 2020	Established CYBERNET MBSE Co., Ltd.

Source: Prepared by FISCO from the Company's website

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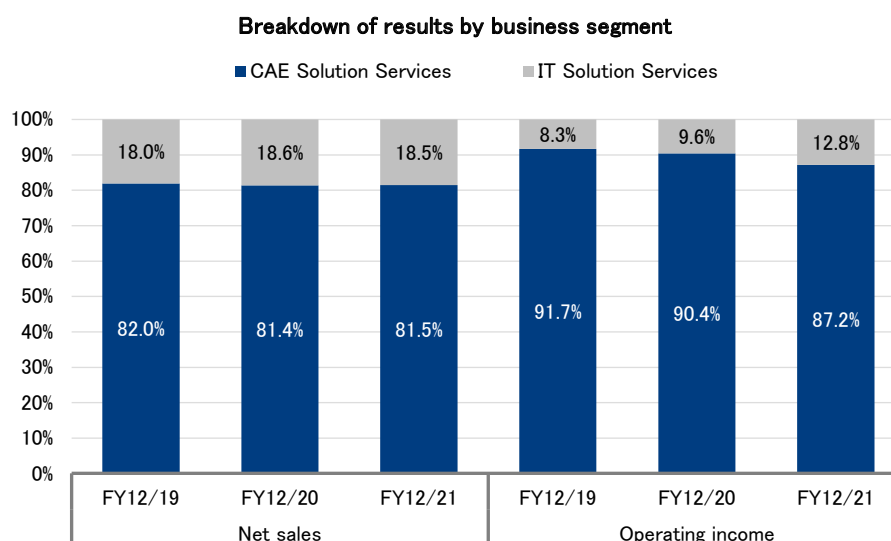
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Company overview

Developing the CAE Solution Services business and IT Solution Services business

2. Business description

The Cybernet Group develops solution services businesses in Japan and overseas through software and technology services (technological support, consulting, etc.). As the fields targeted by these businesses are different, it discloses information on two business segments, the CAE Solution Services and IT Solution Services. The CAE Solution Services business is conducted by the Company and CYBERNET MBSE, and overseas by Maplesoft, Sigmetrix, Noesis, and the three sales subsidiaries in Asia (in China, Taiwan, and Malaysia) for the development and sales of products developed in-house. The IT Solution Services business is conducted only by the Company. Looking at the breakdown of results by business segment in the most recent three years, we see that the CAE Solution Services business is the main business contributing more than 80% of net sales and around 90% of segment income. At the end of December 2021, there were 573 employees on a consolidated basis and 350 employees on a Company stand-alone basis, while approximately 45% of consolidated employees were engineers.



Note: Calculations for operating income do not include adjustments
Source: Prepared by FISCO from the Company's financial results

(1) Business model

To simply explain the business model, the Group has concluded sales distributor agreements with leading software vendors in Japan and overseas, and it sells software products (including in-house Group products) to customers such as companies, universities, and research institutes. Also, when conducting sales, it provides solution services with added value that meet customer needs, including technological support so customers can skillfully use the products, operations support consulting, and engineering services. In addition, it contributes to improving product capabilities by providing feedback on customer needs to vendors, which are the developers.

Company overview

In particular, as a pioneering company in the CAE solutions field in Japan, it has accumulated an abundance of experience and technologies across 36 years, and it has solution capabilities to guide customers to the solutions to their various problems. Therefore, it has built strong relationships of trust with them, and at the same time, it has acquired an excellent reputation among vendors, which are the developers. For example, ANSYS, Inc. of the US, which is currently its main business-partner vendor, certified the Company as an ANSYS Elite Channel Partner*1 for seven consecutive years from 2015. In addition, it has received high praise in the Asian region, where, for instance, it won two awards*2 in 2020 in recognition of its activity record and digital shift amid the spread of the COVID-19 pandemic.

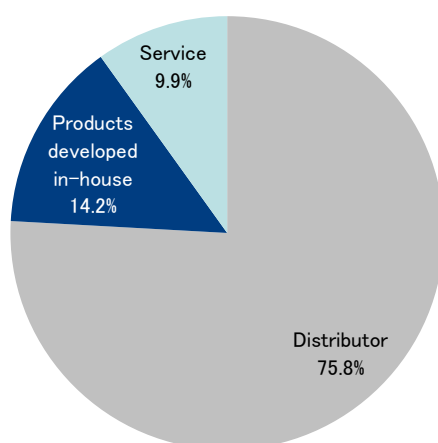
*1 ANSYS Elite Channel Partner is a title granted to organizations recognized for making the most significant contribution to sales activities for ANSYS software. The Company was certified for the first time among domestic distributors for seven consecutive years from 2015. It has met the stringent conditions for certification, and has been evaluated for achieving the highest level of customer satisfaction.

*2 The Company received two awards. One was the "Marketing Excellence & Agility in 2020," which is presented to partners who produced remarkable results in marketing based on a quick digital shift amid the COVID-19 pandemic. The other award was the "TOP Renewal Performers in 2020," which is presented to distributors who achieve high contract renewal rates by providing a highly-satisfying technological support to existing customers.

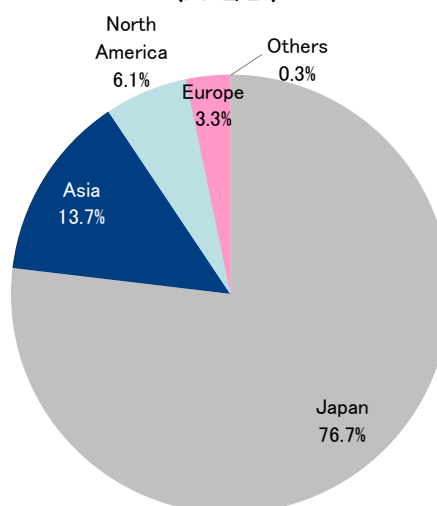
(2) Net sales by business type and region

Net sales can be broken down into three business types: distributor sales for products developed by vendors, sales of products developed in-house, and sales of various types of solution services (engineering services, education and training services, etc.). In FY12/21 consolidated results, distributor sales contributed 75.8% of net sales, products developed in-house 14.2%, and services 9.9%. Also, looking at the breakdown of net sales by region, Japan contributed 76.7%, Asia 13.7%, North America 6.1%, and Europe 3.3%, from which we understand that the domestic distributor business is the main business. Going forward, the Company's strategy is to aim for further growth by increasing sales of products developed in-house and services and overseas sales, such as in Asia.

**Breakdown of net sales by business type
(FY12/21)**



**Breakdown of net sales by region
(FY12/21)**



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

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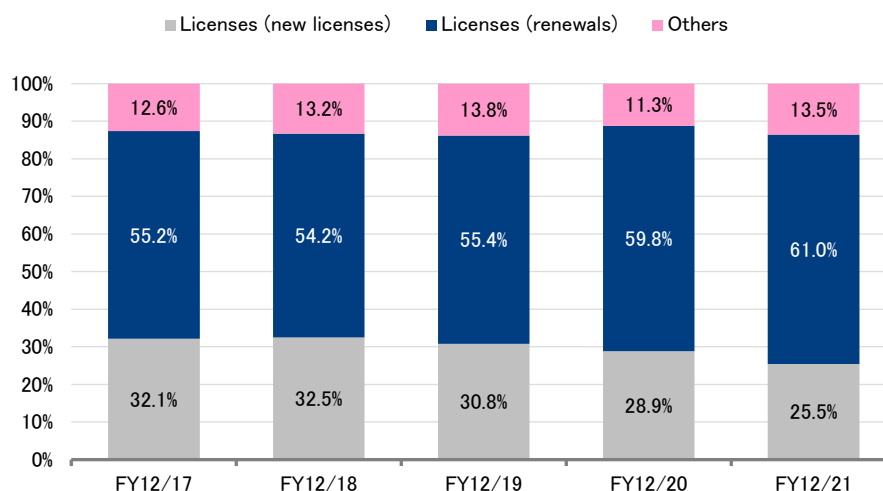
(3) Net sales by contract type and industry

Net sales can be broken down by contract type into licenses and others. Furthermore, licenses are divided into new license fees when installing a new software product (initial installation fee and one-year usage fee + maintenance fee) and renewal fees from the second year onwards (one-year usage fee + maintenance fee). It works by adding various optional services in line with customers' needs. Conversely, sales other than from licenses include those from engineering services* and education and training services.

* Consulting services in order for customers to effectively use the software, including software installation support, technological support, and outsourced analysis.

Looking at how sales have trended in the last five years on a Company stand-alone basis, license renewals have contributed more than 50%, followed by new licenses at around 30%, and others at around 10%. Major companies, universities, and research institutes constitute more than half of the Company's customers. Once one of the main CAE software products is installed, there are hardly any cases of it being replaced with another company's product from the viewpoint of continuity, and except for situations in which a customer company no longer needs the CAE software, such as due to withdrawing from a business, nearly all companies renew. Therefore, within the Company, renewals are positioned as recurring revenue business and a stable earnings foundation. The termination of the distributor agreements with Synopsys is thought to be a contributing factor to the decline in the rate of new licenses from 28.9% in the previous fiscal year to 25.5% in FY12/21.

Breakdown of net sales by contract type (stand-alone)



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

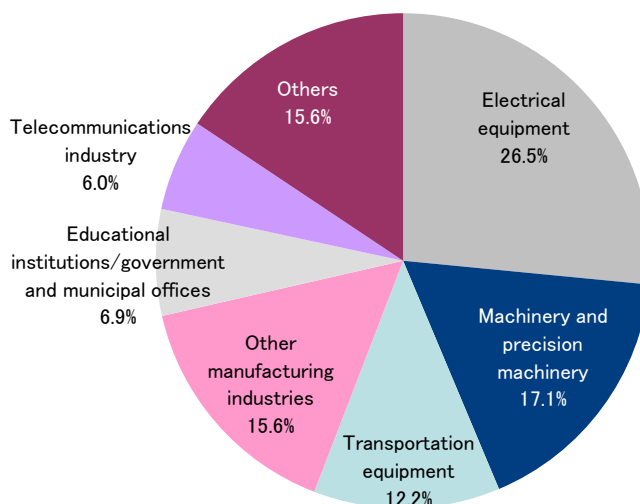
Also, looking at the breakdown of net sales by industry in FY12/21 on a Company stand-alone basis, the highest was electrical equipment at 26.5%, followed by machinery and precision machinery at 17.1%, other manufacturing industries at 15.6% and transportation equipment at 12.2%. Net sales to the manufacturing industry was more than 70% of overall sales. However, in the last few years, net sales to non-manufacturing industries have been growing annually due to the growth in the simulation utilization domain, and their share of net sales on an upward trend.

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Breakdown of net sales by industry (stand-alone; FY12/21)



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

In CAE solutions, ANSYS products, the world leader in the CAE sector, are the mainstay products

3. Business segments

(1) CAE Solution Services

The mainstay CAE Solution Services business provides various simulation software products according to each field, including those related to machinery, optical, electrical and electronic, and control. CAE is the name for technologies to simulate and analyze in virtual models created on computers aspects such as tests and experiments that have been conventionally carried out using a prototype in the R&D process for manufacturing. Using CAE software dramatically reduces the number of prototype tests and experiments, and makes it possible to conduct simulations under physical conditions that cannot actually be created in the real world. It can be said that this software not only improves development efficiency, but also contributes to realizing manufacturing that is considerate of the environment by leading to reduction of waste and other materials created in prototype testing. The scope of application is wide, ranging from fields like automotive, electronic equipment and devices to machinery and precision machinery, telecommunications, medical and construction fields.

Mainstay products consist of multi-physics analysis tools from ANSYS, which is the world's largest company in the machine-related CAE field, and serve as the general-purpose analysis tools that make every type of analysis possible, including structure, heat transfer, electromagnetic field, piezoelectric, acoustic, heat fluid, and dropping analyses. Also, for the optical field, the Group mainly handled the products of Synopsys, but the distributor agreements with Synopsys terminated on October 1, 2021, so the Company concluded new distributor agreements for ANSYS's optical-related solution products on October 2, 2021. Other than these, the Group also handles the products of the leading development vendors in their respective industries and in-house products developed by Group companies. It proposes solutions that are optimized to meet customer needs.

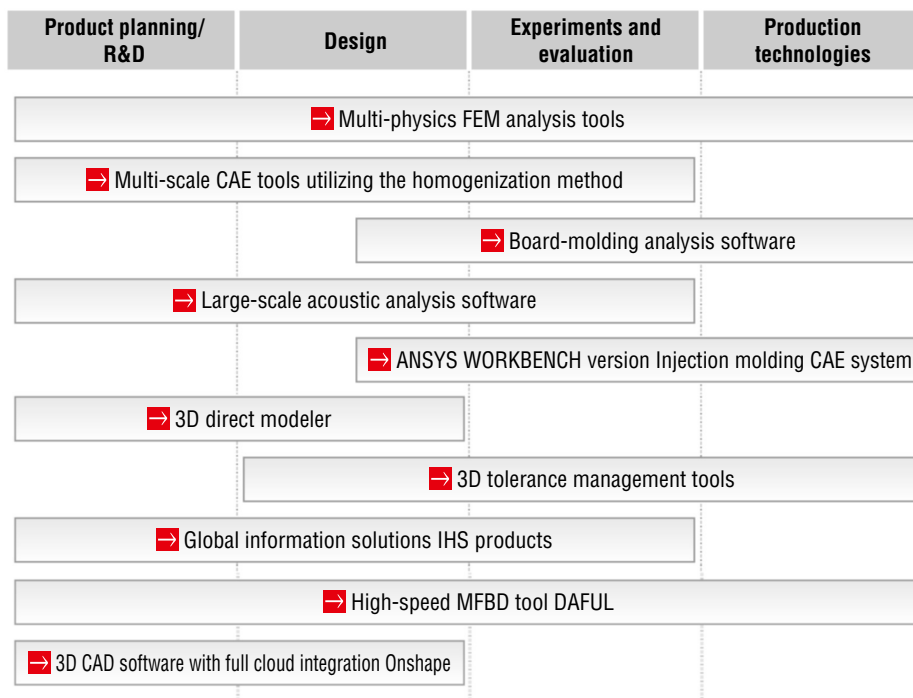
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Company overview

List of machinery-related CAE



Source: The Company's website

Furthermore, beginning in FY12/21, the Company transferred DX business that was originally included in IT Solution Services business to CAE Solution Services business. DX business refers to advanced solution services that have strong affinity for simulations such as AR/VR solutions, big data visualization software, IoT platform implementation support, digital twin construction support, and AI system construction services. Although the sales of DX business in FY12/21 is still small, the Company views it as a focus domain in which future growth can be expected.

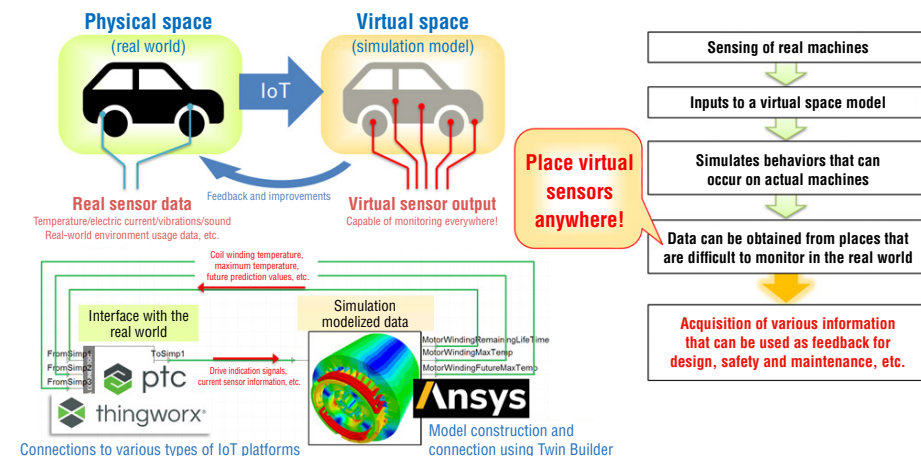
IoT/digital twin refers to a development method in which a model of physical equipment actually operating at a manufacturing development site is created in a virtual space (on a computer). In this method, evaluations of the physical equipment's current state are made and various simulation tests are conducted by accumulating information about the equipment in real time through IoT sensors and transmitting it to the virtual space. Combining verification data from the real world and simulation data from the virtual space creates solutions that increase the sophistication and optimization of the manufacturing process.

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Company overview

Example of the utilization of IoT/digital twin



Source: The Company's website

(2) IT Solution Services

In IT Solution Services business, sales of various IT security software products, including cloud security and end-point security, make up the majority of net sales, and the main business-partner vendor is Broadcom Inc. (formerly, Symantec Corporation). Other solutions include medical image diagnosis software such as the EndoBRAIN® series, which is software to support diagnosis in colorectal endoscopy using artificial intelligence.

In the CAE field, a strength is solution capabilities based on knowhow and technological capabilities accumulated more than 35 years

4. Strengths and business risks

The Company's strengths can be summarized as the following three points.

(1) Sophisticated know-how backed up by experience

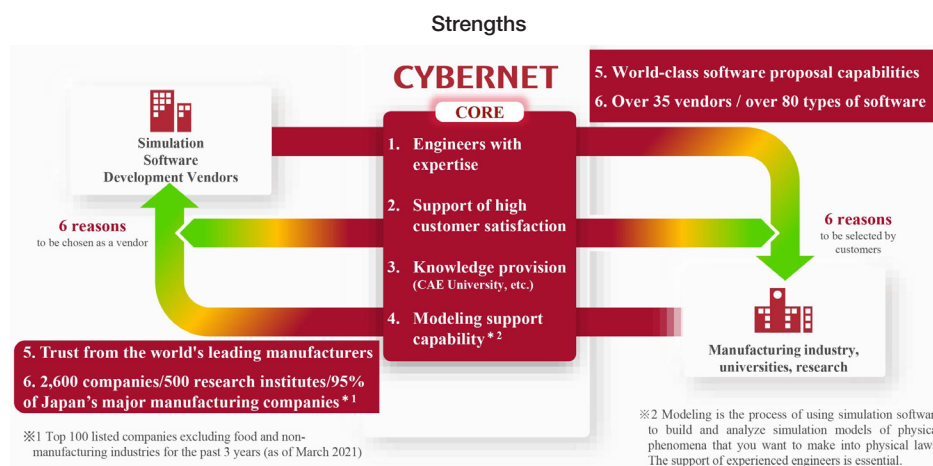
It has accumulated a rich track record from more than 35 years of providing support for manufacturing R&D and design development through CAE simulation technologies. The know-how and extensive and advanced technological capabilities it has accumulated are its assets, and a strength is being able to provide solutions that other companies cannot imitate.

(2) Extensive specialty and global partner network and customer base

Leading with ANSYS, the largest CAE software company, the Company collaborates with more than 35 leading vendors in Japan and overseas, and conducts sales and support for more than 80 types of products. Therefore, a strength is its ability to provide optimized solutions to address customers' various issues by combining multiple software and know-how. It also communicates feedback from customers to vendors, which are the developers, and they use that feedback for product improvements. So another strength can be said to be that it is building strong relations with both customers and vendors.

Company overview

The Company has developed 14 consolidated subsidiaries within Japan and overseas, and provides products and services to approximately 2,600 companies, primarily international ones, and 500 universities and research institutes. The fact that the Company is building a wide customer base could be another one of its strengths.



Source: The Company's supplemental results briefing materials

(3) Highly stable earnings structure and industry environment

The majority of the Company's sales are provided by license renewal fees from existing customers, so its earnings are highly stable. Moreover, there are relatively few competitors in the CAE industry, so a feature of the industry environment is that price competition is unlikely to occur. For companies, R&D is a source of their competitiveness, so demand will not cool down significantly even if economic conditions deteriorate somewhat. It is considered that this situation leads to the Company's highly stable earnings.

Competitor companies in the CAE software distributor business include IDAJ Co., LTD. and ITOCHU Techno-Solutions Corporation <4739>, which are ANSYS sales distributors; ARGO GRAPHICS Inc. <7595>, which is a sales distributor of Dassault of France; and Information Services International-Dentsu, Ltd. (ISID) <4812>, which handles products including those of Siemens of Germany.

(4) Risk factors

A risk factor is that the sales distributor business contributes more than 70% of net sales. In principle, sales distributor agreements with development vendors are non-exclusive, short term and subject to renewal. For this reason, changes at the developers, such as a change of sales strategy due to an M&A or a change to the management team, will have a negative impact on results if it causes the distributor agreements to be terminated. In actuality, the distributor agreements with Synopsys, which was the Company's second largest supplier after ANSYS and made up nearly 20% of net sales, were terminated on October 1, 2021. The reason was that Synopsys switched its sales style from distributor sales to direct sales on a global basis.

In order to reduce these business risks, the Company plans to develop its in-house developed products as well as its solution services including engineering services. With respect to the distributor business, the Company's strategy is to continue to search for promising development vendors and expand its product lineup, as well as continue to build strong relationships with development vendors and customers. Moreover, ANSYS, which is the Company's main business partner, is establishing its own Japanese corporations, and in this situation, it has positioned the Company as an excellent sales partner and has built strong business relations with it. So at the current time, we at FISCO view the risk of cancelling the agreement seems as extremely low.

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Results trends

In FY12/21, net sales hit a record high due to the expansion of overseas sales, especially in Asia, and growth in the cloud security business

1. Overview of FY12/21 results

In the FY12/21 consolidated results, net sales increased for the eighth consecutive year, hitting a record high and operating income decreased slightly, with net sales rising 4.8% YoY to ¥22,697mn, operating income falling 1.6% to ¥2,830mn, ordinary income decreasing 0.6% to ¥2,822mn, and profit attributable to owners of parent increasing 14.4% to ¥1,786mn.

FY12/21 consolidated results

	FY12/20			FY12/21			
	Results	% of sales	Company forecasts*	Results	% of sales	YoY	Compared to forecasts
Net sales	21,665	-	22,500	22,697	-	4.8%	0.9%
Cost of sales	12,616	58.2%	-	13,168	58.0%	4.4%	-
SG&A expenses	6,170	28.5%	-	6,698	29.5%	8.6%	-
Operating income	2,877	13.3%	2,700	2,830	12.5%	-1.6%	4.8%
Ordinary income	2,840	13.1%	2,700	2,822	12.4%	-0.6%	4.5%
Extraordinary loss (income)	-425	-	-	125	-	-	-
Profit attributable to owners of parent	1,561	7.2%	1,800	1,786	7.9%	14.4%	-0.7%

* Figures announced in November 2021.

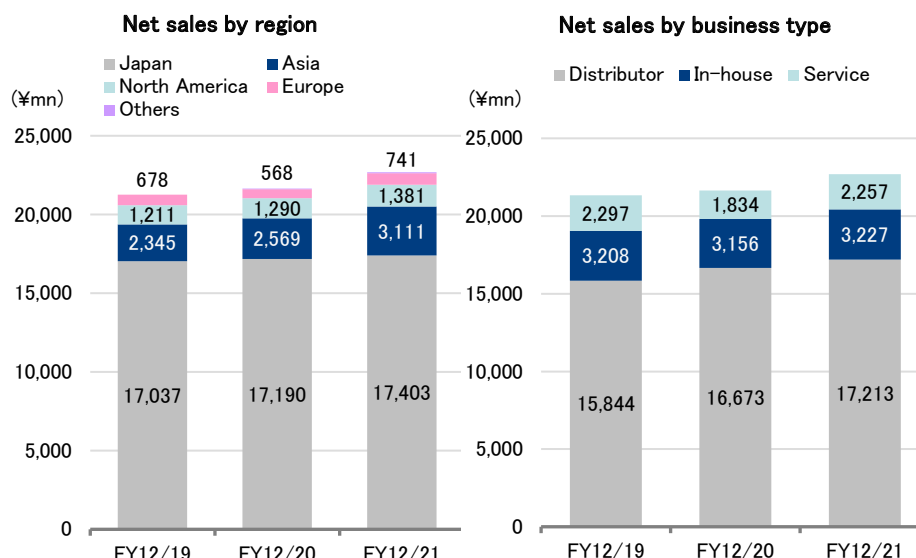
Source: Prepared by FISCO from the Company's financial results

Net sales increased due to efforts toward the expansion of core businesses (increases of products handled and sales in the Asian region), expansion of DX business, expansion in the simulation utilization domain, and strengthening of the cloud security business, amid recovery in willingness to invest in corporate research and development. By region, net sales grew steadily in Japan by 1.2% YoY to ¥17,403mn, and also grew in all regions, by 21.1% to ¥3,111mn in Asia, 7.0% to ¥1,381mn in North America, and 30.6% to ¥741mn in Europe, resulting in record highs both in Japan and Asia. By business type, net sales increased by 3.2% YoY to ¥17,213mn in the distributor business, 2.2% to ¥3,227mn for in-house developed products, and 23.0% to ¥2,257mn in services. The increase in sales of services was mainly due to the recovery in engineering services in the CAE Solution Services business which had slumped in the previous fiscal year due to the impact of the COVID-19 pandemic.

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Results trends



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

Looking at factors affecting operating income, gross profit increased ¥480mn YoY as a result of the decline in the cost-of-sales ratio caused by increased sales and an improvement in the sales mix. Meanwhile, an increase in SG&A expenses of ¥527mn was the primary factor behind a decrease in profit. Main factors behind the increase in SG&A expenses include increases in personnel costs at overseas subsidiaries and digital marketing costs. At Maplesoft, marketing investment was conducted by releasing several new products, including a mobile app for students. Furthermore, in contrast to extraordinary loss of ¥425mn including a provision of allowance for subsidy repayment posted in FY12/20, the Company secured an increase in profit attributable to owners of parent due to the recording of extraordinary income of ¥188mn including reversal of allowance for doubtful accounts in the current fiscal year. As losses related to the termination of the distributor agreements with Synopsys, the Company posted an impairment loss of ¥47mn for assets for which investment recovery was determined to be difficult, and ¥8mn for loss on liquidation of business under extraordinary loss in conjunction with the liquidation of its South Korean subsidiary.

(1) Results trends by segments

a) CAE Solution Services

In CAE Solution Services, although net sales increased 5.0% YoY to ¥18,503mn, segment income decreased 2.0% to ¥4,056mn due to an increase in personnel costs and digital marketing costs.

In domestic net sales, although sales of new licenses for multi-physics analysis tools, a mainstay product, were weak, license renewals were strong and engineering services as well as DX business did well, leading to a slight increase in sales. With regard to engineering services, sales increased mainly due to recovery of sales for the automotive, machinery and precision machinery industries, which had slumped in the previous fiscal year due to the impact of the COVID-19 pandemic, and the acquisition of large orders from the construction sector. Although the scale of sales in DX business is still small at a few tens of millions of yen, the business is growing steadily, as the Company worked to increase products such as simulation-linked AI software and AR development platforms, thereby achieving a sales growth rate of 21.8% YoY.

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At overseas sales subsidiaries, sales were strong of multi-physics and optical-related analysis tools, etc., particularly for China. In the development subsidiaries also, earnings were boosted by sales of in-house products and technological support services, including Maplesoft's STEM* computing platform, Sigmetrix's tolerance analysis management tools, and Noesis's optimal design support tools. In the previous year, sales activities were restricted due to the lockdowns caused by the COVID-19 pandemic, but since the start of FY12/21, Maplesoft, Sigmetrix and Noesis have seen an increase in sales due to the return of normal sales activities.

| * STEM is the general name for the comprehensive field comprised of Science, Technology, Engineering and Mathematics. |

b) IT Solution Services

In IT Solution Services, net sales increased 3.9% YoY to ¥4,194mn, while segment income grew 35.4% to ¥594mn. As new work styles such as working from home become commonplace amid the COVID-19 pandemic, demand for IT security countermeasures increased, and sales of Netscope (a security solution for cloud environments) and OneLogin (cloud-based single sign-on/access control solution) (IDaaS) expanded. For end-point security products as well, sales of cloud-based products grew, leading to a 64.1% YoY sales increase in cloud and security services.

Sales of the EndoBRAIN® series (software to support diagnosis in colorectal endoscopy using artificial intelligence), which are products developed in-house for the healthcare sector, were firm due to efforts to enhance the functions (bolster the user interface, improve precision). EndoBRAIN®-EYE is software that uses artificial intelligence to analyze endoscopic images captured by general purpose endoscopes manufactured by Olympus <7733>, and assists doctors in detecting lesions by alerting when it detects a lesion. This product was approved as managed medical equipment (class II) in 2020, and is being sold to medical institutions as a set along with endoscopes manufactured by Olympus.

Net sales by segment

	(¥mn)				
	FY12/18	FY12/19	FY12/20	FY12/21	YoY
CAE Solution Services	16,791	17,497	17,627	18,503	5.0%
IT Solution Services	2,927	3,853	4,037	4,194	3.9%
Total	19,719	21,350	21,665	22,697	4.8%

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

Profits by segment

	(¥mn)				
	FY12/18	FY12/19	FY12/20	FY12/21	YoY
CAE Solution Services	2,535	3,285	4,139	4,056	-2.0%
IT Solution Services	105	296	438	594	35.4%
Adjustments	-1,139	-1,562	-1,700	-1,820	-
Total	1,502	2,020	2,877	2,830	-1.6%

* In FY12/21, the Company transferred DX business from IT Solution Services to CAE Solution Services, and FY12/20 has also been calculated under the new category.

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

Results trends

(2) Sales trends by industry and contract type (stand-alone basis)

On a stand-alone basis, net sales increased 0.9% YoY to ¥17,261mn. Looking at how sales trended by industry, sales decreased by 4.8% YoY for electrical equipment as the decline trend continued. Meanwhile, there was a 2.4% increase in machinery and precision machinery, a 9.0% increase in transportation equipment, and 0.8% growth in other manufacturing industries. Also, although net sales for educational institutions /government and municipal offices declined 5.5% YoY, they rose 13.5% for telecommunications, and 2.5% for other industries. A trend toward expansion continued, as net sales increased 2.5% for the total of non-manufacturing industries. The sales composition ratio also increased, from 27.5% in FY12/18 to 28.6%.

Looking at the main factors behind the changes by industry, with regard to electrical equipment, sales decreased due to the impact of the termination of the distributor agreements with Synopsys. On the other hand, sales related to machinery, precision machinery, and transportation equipment increased mainly due to recovery of engineering services. Sales related to education/government and municipal offices decreased as rebound to receiving large-scale licenses for ANSYS products in the previous fiscal year. Sales for telecommunications and others industries increased mainly due to the expansion of sales of cloud security products.

Net sales by industry (stand-alone)

	FY12/18	FY12/19	FY12/20	FY12/21	YoY
Electrical equipment	4,680	4,962	4,809	4,579	-4.8%
Machinery and precision machinery	2,419	2,599	2,887	2,957	2.4%
Transportation equipment	2,295	2,462	1,930	2,103	9.0%
Other manufacturing industries	2,014	2,338	2,666	2,687	0.8%
Educational institutions/government and municipal offices	1,356	1,409	1,269	1,199	-5.5%
Telecommunications industry	876	974	911	1,034	13.5%
Others	2,086	2,388	2,632	2,699	2.5%
Total	15,729	17,134	17,109	17,261	0.9%
(Non-manufacturing industries)	4,318	4,771	4,812	4,932	2.5%
(Percentage of non-manufacturing industries)	27.5%	27.8%	28.1%	28.6%	

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

Looking at trends in net sales by contract type on a Company stand-alone basis, among licenses, new licenses decreased 11.0% YoY to ¥4,399mn. The main factors behind the decrease were a decline in rebound to large-scale contracts in the previous fiscal year in addition to the impact of the termination of the distributor agreements with Synopsys. Meanwhile, renewals were steady, increasing 2.9% to ¥10,532mn. It appears that the negative impact was minor, in FY12/21 since renewals of Synopsys products are skewed towards 1H. Net sales other than those from licenses recovered to pre-COVID-19 pandemic levels, increasing 20.7% YoY to ¥2,329mn. The main factor behind this was recovery of engineering services.

Net sales by contract type (stand-alone)

	FY12/18	FY12/19	FY12/20	FY12/21	YoY
Licenses	13,646	14,778	15,179	14,932	-1.6%
New licenses	5,118	5,281	4,941	4,399	-11.0%
Renewals	8,527	9,496	10,237	10,532	2.9%
Others	2,083	2,356	1,929	2,329	20.7%
Total	15,729	17,134	17,109	17,261	0.9%
(Recurring revenue business sales ratio)	54.2%	55.4%	59.8%	61.0%	

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

Under debt-free management, has financial assets of approximately ¥16bn and a solid financial foundation, and has set its sight on an M&A strategy

2. Financial condition

Looking at the financial condition at the end of FY12/21, total assets were up ¥1,027mn compared to the end of the previous fiscal year to ¥23,270mn. The main influencing factors in current assets included a decrease of ¥890mn in short-term loans receivable (transactions from the cash management system) to the parent company FUJISOFT and a decrease of ¥1,000mn in short-term investment securities, as well as an increase of ¥3,010mn in cash and deposits. Financial assets including the total of these were up ¥1,120mn compared to the end of the previous fiscal year to ¥16,009mn, rising to a record high level. In noncurrent assets, intangible assets increased ¥87mn in conjunction with the deployment of a core operating system, while investments and other assets decreased ¥340mn.

Total liabilities were down ¥224mn compared to the end of the previous fiscal year to ¥7,538mn. In current liabilities, accounts payable-trade decreased by ¥171mn, while income taxes payable increased ¥184mn and advances received increased ¥264mn. In noncurrent liabilities, retirement benefit liability decreased ¥191mn. Total net assets were up ¥1,252 compared to the end of the previous fiscal year to ¥15,732mn. Retained earnings increased by ¥946mn due to the posting of profit attributable to owners of parent, while foreign currency translation adjustment increased ¥204mn in conjunction with the depreciation of the yen.

Looking at the management indicators, the capital adequacy ratio was 66.3% and is trending at a level above 60%. Also, under the Company's debt-free management, financial assets are at a level of ¥16bn, from which its finances can be judged to be in extremely good condition. Meanwhile, in terms of profitability, ROA, ROE, and operating income margin all continued in the 10% range, with ROA at 12.4%, ROE at 12.0%, operating income margin at 12.5%, so it can be said that the Company is building a highly profitable structure. However, due to the termination of the distributor agreements with Synopsys, profitability is projected to temporarily decline in FY12/22. The Company intends to work on building a system aimed at V-shaped recovery from FY12/23 onward, and is positioning M&A using its plentiful financial assets as one growth strategy.

Consolidated balance sheet

	(¥mn)				
	FY12/18	FY12/19	FY12/20	FY12/21	Change
Current assets	17,440	19,022	20,205	21,526	1,320
(Financial assets*)	11,554	13,379	14,888	16,009	1,120
Noncurrent assets	1,775	1,799	2,037	1,744	-293
Total assets	19,215	20,821	22,242	23,270	1,027
Current liabilities	4,972	5,925	6,488	6,472	-16
Noncurrent liabilities	1,375	1,259	1,273	1,065	-208
Total liabilities	6,348	7,185	7,762	7,538	-224
(Interest-bearing debt)	-	-	-	-	-
Total net assets	12,867	13,636	14,480	15,732	1,252
(Stability)					
Capital adequacy ratio	66.3%	64.7%	64.2%	66.3%	2.2pt
Interest-bearing debt ratio	-	-	-	-	-
(Profitability)					
ROA	8.4%	10.7%	13.2%	12.4%	-0.8pt
ROE	-4.9%	9.6%	11.3%	12.0%	0.7pt
Operating income margin	7.6%	9.5%	13.3%	12.5%	-0.8pt

* Financial assets = cash and deposits + short-term investment securities + short-term loans receivable
Source: Prepared by FISCO from the Company's financial results

In FY12/22, expects a temporary decrease of both sales and profit due to the loss of Synopsys-related business

3. Outlook for FY12/22

The outlook for the FY12/22 consolidated results is for sales and profit to decrease, with net sales decreasing 11.9% YoY to ¥20,000mn, operating income decreasing 36.4% to ¥1,800mn, ordinary income falling 36.2% to ¥1,800mn, and profit attributable to owners of parent decreasing 35.6% to ¥1,150mn. The main factor behind these decreases is the loss of sales related to Synopsys as a result of the termination of distributor agreements.

FY12/21 consolidated results outlook

	FY12/21		FY12/22		
	Results	% of sales	Company forecast	% of sales	YoY
Net sales	22,697	-	20,000	-	-11.9%
Operating income	2,830	12.5%	1,800	9.0%	-36.4%
Ordinary income	2,822	12.4%	1,800	9.0%	-36.2%
Profit attributable to owners of parent	1,786	7.9%	1,150	5.8%	-35.6%
Net income per share (yen)	57.29		36.87		

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

Net sales (in Japan and Asia) of Synopsys products and associated hardware were ¥4,657mn in FY12/20, and it appears that the profit margin was at a level higher than the Company-wide average. Although it appears that the termination of the distributor agreements will be a main factor behind a decrease in sales in FY12/22, the Company intends to limit declines in results to a minimum through in-house products and the DX business and increased sales in IT Solution Services business.

As for optical-related solution products, the Company signed a distributor agreement with ANSYS on October 2, 2021, and launched sales of three-dimensional optical analytics software ANSYS Speos®, VR solution ANSYS VRXPERIENCE™, and photonics analytics software ANSYS Lumerical. In addition, the Company is expanding its lineup by, for instance, launching sales of optic design software OpticStudio, a product of Zemax LLC of the US which is a group company of ANSYS in February 2022. The performance and function of these products is virtually on par with Synopsys products, but generally it is difficult to replace current CAE software from other companies' products unless there are clear differences in terms of performance and function. However, using CAE effectively requires knowledge and experience. We at Fisco see a possibility that the Company will expand its market share while gradually accumulating a track record of product installation, using its support capabilities with a high degree of customer satisfaction that harness the know-how it has built up over many years. The Company's thought process is that if, for instance, a customer signs 10 licenses for Synopsys products, then it will have customers convert 1 to 2 licenses to ANSYS products on a trial basis, and the Company will increase the number of licenses while strengthening customer support. There have already been several cases of successful installation. In addition, the Company has heard some users of Synopsys products express concern about being unable to receive the Company's support, and this will become an opportunity for the Company.

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With regard to in-house product development, the Company forecasts sales expansion of its European and US subsidiaries' software products, as well as growth of the EndoBRAIN® series. This product is sold through Olympus, but it is expected that demand will grow in Japan if it becomes covered by insurance. In addition to launching sales in overseas markets such as India, there are plans to launch sales in South Korea as well. It is also projected that the product will be sold in Europe once it is approved by regulatory authorities. In DX business, it is expected that demand for solutions utilizing advanced digital technology such as AR/VR solutions and IoT platform construction solutions, will increase. Furthermore, in the IT security field, which grew tremendously in the previous fiscal year, the Company has worked to expand its lineup of cloud security solutions as a countermeasure against cyberattacks which are growing more elaborate every year, and plans to increase net sales.

The operating income margin is forecast to decline to 9.0% from 12.5% in the previous fiscal year. The main factors behind this are a decline in gross profit caused by a decrease in sales, in addition to an increase in personnel costs caused by more active investment in human resources, and a rise in the SG&A expenses ratio due to factors including an increase in costs accompanying an overhaul of the core system.

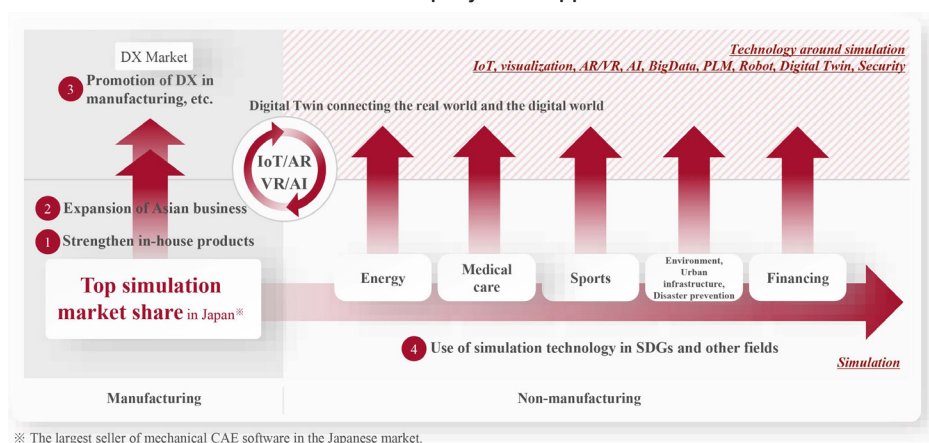
Medium-term business plan

Aims for V-shaped recovery from FY12/23 onward through initiatives including strengthening in-house product development and expansion of business in Asia

1. Summary of the medium-term business plan

The Company will respond to changes in the business environment such as the termination of sales distributor agreements with main business partners, and has formulated a medium-term business plan for the five years up to FY12/26 in order to achieve enhanced corporate value from a long-term perspective. In addition to its core simulation technology, the Company will use peripheral technologies such as IoT, AR, VR and AI to continue growth in DX support for manufacturing, move ahead in developing businesses in areas outside of manufacturing such as energy, medical care, sports, environment and disaster prevention, and finance to help solve various social issues through simulation technology.

The Company's DX support



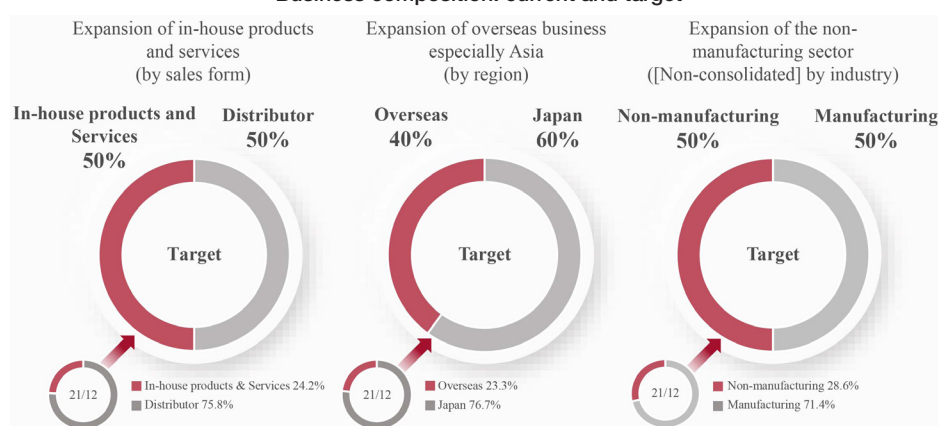
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Medium-term business plan

For numerical management targets for FY12/26, the Company has set goals for net sales of ¥30,000mn (up 32.2% compared to FY12/21), EBITDA of ¥3,800mn (up 23.7%), profit attributable to owners of parent of ¥2,200mn (up 23.1%) and ROE of 12.0%. A numerical target has been set for EBITDA rather than operating income because the Company has leveraging M&A in its sights. Moreover, as a long-term priority KPI, the Company will raise the ratio of in-house products and services development from 24.2% in FY12/21 to 40.0%, and the ratio of overseas sales from 23.3% to 25.0% in the same period. In addition, as a long-term goal (for roughly 2030) for the business portfolio, the Company's policy will be to move forward on business development with a ratio of sales of in-house products and services of 50%, overseas sales of 40% and sales from non-manufacturing (stand-alone) of 50% (compared to 28.6% in FY12/21) as its targets.

Business composition: current and target



Source: The Company's supplemental results briefing materials

Medium-term business plan numerical targets

	(¥mn)		
	FY12/21 results	FY12/24 targets	FY12/26 targets
Net sales	22,697	24,500	30,000
EBITDA*	3,072	2,800	3,800
EBITDA margin	13.5%	11.4%	12.7%
Profit attributable to owners of parent	1,786	1,600	2,200
ROE	12.0%	9.5%	12.0%
Priority KPI			
Sales composition ratio of in-house product and services	24.2%	35.0%	40.0%
Overseas net sales composition ratio	23.3%	23.0%	25.0%

* EBITDA = operating income + depreciation and amortization

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

2. Growth strategy

The Company will work on three areas for the long-term enhancement of corporate value: topline growth, high profit margins and proactive shareholder return. Going forward, the aim is to grow net sales by 30% over the next five years in such ways as investment in human resources and M&A, and aiming for earnings growth by balancing enhancement of high added-value business with growth investment while maintaining a high EBITDA margin of 12.7% (actual rate of 13.5% in FY12/21). Regarding shareholder return policies, the Company plans to continue the stable increase of dividends with a targeted dividend on net asset ratio (DOE) of 6.0%, and proactively engage in treasury share buybacks, depending on the share price level. The Company has defined the following four areas as priority strategies for topline growth.

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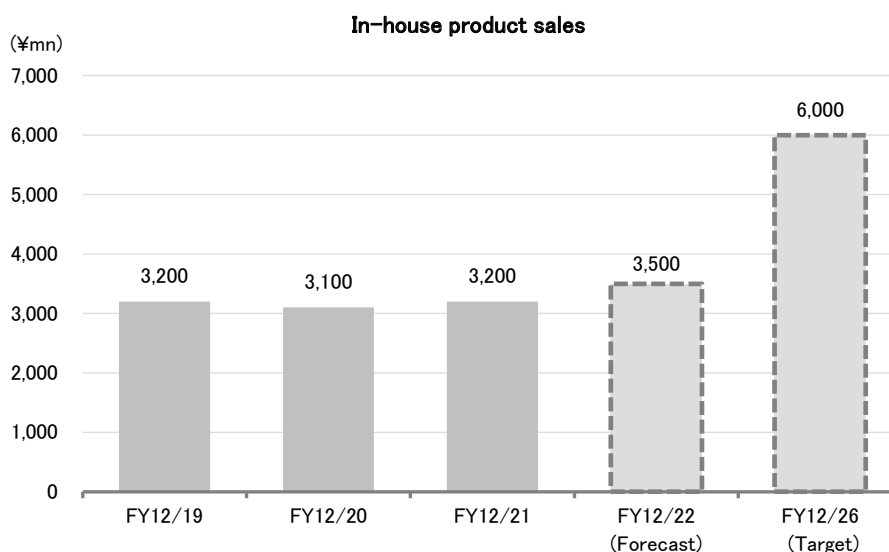
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Medium-term business plan

(1) Strengthen in-house products

The Company has seen some of the risks of the sales distributor business surface and its strategy going forward is to increase the proportion of net sales from in-house product and services to counter the risk of losing sales distributor business and to improve profitability. For in-house product development, the Company will strive to expand its product lineup and enlarge the size of sales by increasing investment in overseas software product development companies and strengthening the development structure in Japan. The sales target for in-house products is ¥6bn in FY12/26, a planned increase of approx. double the results of FY12/21.

Of these products, net sales of the EndoBRAIN® series of software to support diagnosis in colorectal endoscopy using artificial intelligence will possibly grow to a higher level if covered by insurance in Japan and approved by pharmaceutical authorities in Europe and the US. Also, Maplesoft is moving forward to expand sales not just in Europe, the US and Asia, but also in Japan, as in 2021 it released in sequence: Maple Learn, educational support software for advanced mathematics that can be used in an online environment and targets the education market; Maple Calculator, a mobile app supporting math learning; and Maple Flow, design calculation support software for engineers. The Company also plans to aim for sales growth for Sigmetrix and Noesis as well by expanding the functions of existing products and developing new products.



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

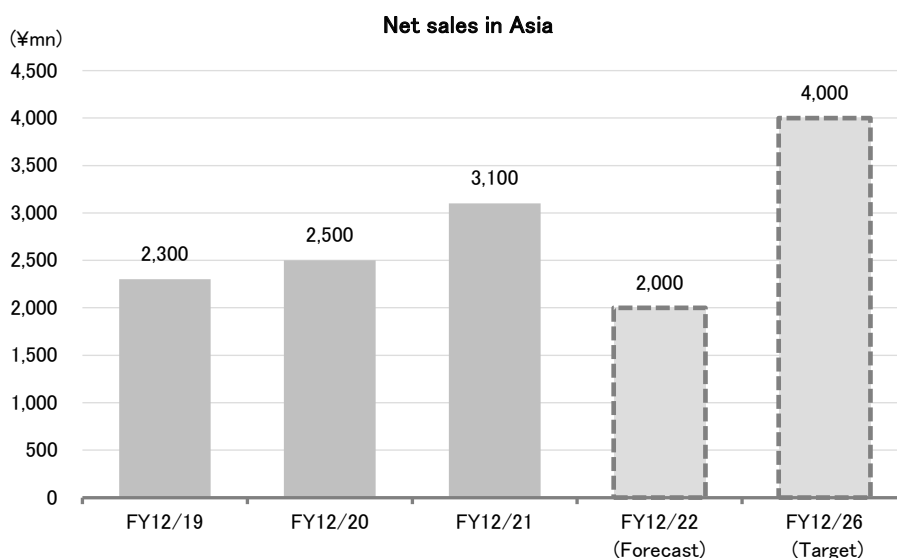
(2) Expand business in Asia

The Company will move ahead on expanding business in Asia by leveraging its experience in providing simulation technologies to major manufacturers in Japan. As Synopsis products will no longer be included in sales in Asia, there will be a one-off decrease in sales to ¥2bn in FY12/22 from ¥3.1bn in FY12/21, but the Company is targeting a doubling of sales to ¥4bn in FY12/26. In addition to expanding sales of ANSYS products, it also plans to roll out the DX business and start the IT security business currently limited to Japan.

Medium-term business plan

In the Asian region, it is expected that the manufacturing industry will continue to develop going forward and demand for CAE solutions related to product design and development will increase. The Company's policy is to leverage its strength of advanced solution services to seek out new customers in local companies, centering on sales bases in China, Taiwan and Malaysia. In November 2021, the Company also concluded a sales distributor agreement with India's DHIO RESEARCH & ENGINEERING PVT LTD. (a CAE software development and sales company) for its Multiscale.Sim multi-scale analysis* tool because of demand from local client companies, and sales are expected to grow in South Asia going forward.

* Multi-scale analysis: Coupled analysis of the physical properties and behavior of structures of different scale. Multiscale. Sim is a tool to reduce time spent on repeated physical experiments, virtual simulation and optimization, and to support improvements to the efficiency of material research and development. It is used as an add-in tool for ANSYS®, a multi-physics analysis tool.



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

(3) Promote DX in manufacturing

The Company will support promotion of DX in manufacturing through its core technology of simulation and advanced technologies such as the latest development method of MBSE* and AI and AR/VR. The Company has technologies including AI, digital twin, and big data analysis, and others that have strong affinity for simulation, and intends to provide high value-added solutions combining these technologies. Regarding MBSE, the Company launched a special organization in 2018 (and newly established a subsidiary, CYBERNET MBSE in 2020) and has become a leading company in Japan by supporting the implementation at leading manufacturers of its in-house developed MBSE tools MapleMBSE and MapleDOE. Up until now, the Company has contributed to matters including the efficiency of electric vehicle development, optimization of battery cooling systems and verification and evaluation systems for automated driving and ADAS, and will aim to grow while expanding demand going forward.

* MBSE (model-based systems engineering) refers to an approach and means of advancing systems engineering using models. It is an approach method to efficiently analyze, design and verify system requirements using models developed from various perspectives that represent the system being developed. Models include system models expressed in charts that are easily understandable visually or simulation models that verify validity/feasibility in a quantitative manner.

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Medium-term business plan

In addition, the Company launched sales of BIGDAT@Analysis, a new product for visualization of big data, from January 2022. This software monitors the maintenance of production equipment at factories and the operation status of production lines through IoT sensors and visualizes predictive maintenance. It is a software that aims to prevent production problems at factories before they occur and to make maintenance operations more efficient, and demand is expected to grow. Other moves include bolstering the lineup of IT security countermeasure products, moving ahead on overseas rollouts and aiming to increase sales by leveraging its strength of providing one-stop services from installation through to maintenance support.

(4) Utilizing simulation technology in fields such as SDGs

The Company is working to contribute to the SDGs through its business activities. As a health-related initiative, it is promoting sales of the EndoBRAIN® series of software to support diagnosis in colorectal endoscopy using artificial intelligence. As an initiative going forward, its strategy is to expand overseas sales by moving forward on development to strengthen functionality of various products and increasing the number of countries in which it has obtained approval for sales. Currently, it has approval for sale in countries and regions including India, Thailand, Vietnam and Hong Kong, while it plans to obtain approval in Taiwan, South Korea and Europe in the future.

The Company will develop solutions to support achieving a decarbonized society and resolving environmental challenges, and intends to contribute to solving social challenges for customers and society. Specific examples of installation cases include simulations to solve challenges related to the efficient storage and transport of hydrogen energy, solutions that enable design reviews without the need to create full-scale models through the use of VR (reducing waste), and solutions that help improve the performance of UV sterilization equipment. In addition, the Company intends to use big data analysis and simulation technology to support the efficient operation of urban infrastructure and financial compliance.

The Company believes that there are vast areas outside of the manufacturing industry where it can leverage its simulation technology, in which it has an advantage, and its strategy going forward is to proactively tap into this demand to achieve growth. In the future, the Company aims to have 50% of its net sales (stand-alone) in the non-manufacturing field (28.6% in FY12/21).

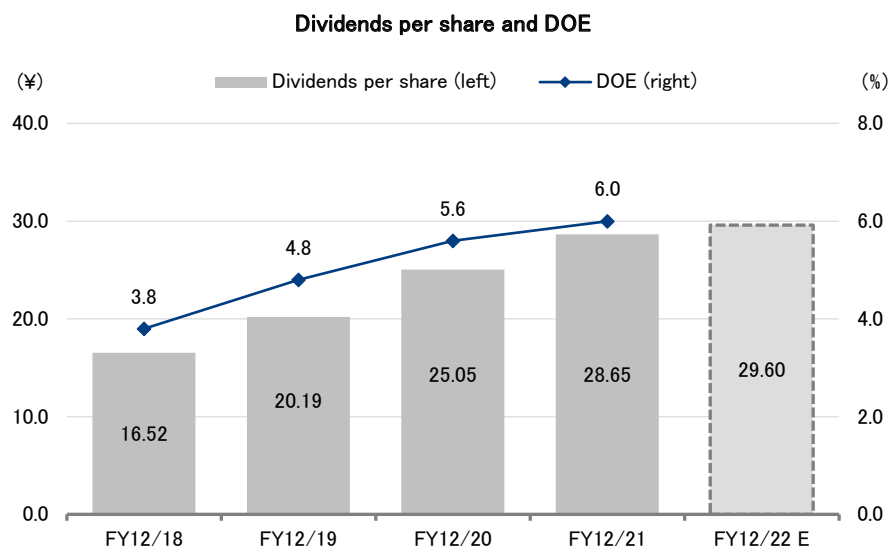
Shareholder return policy

The Company's policy is to emphasize stable dividends and aim for a dividend to net assets ratio of 6.0%

The Company has continued to increase dividends since FY12/17 until now using the higher of a dividend payout ratio of 50% or dividend on equity (DOE) of 3.0% as an indicator. However, the Company has ample funds to invest for growth, having accumulated financial assets of approx. ¥16bn, which gives it financial security and secures a capital adequacy ratio of over 60%. But it has changed its dividend policy to a DOE of 6.0% based on the principle of being within the scope of profit attributable to owners of parent so that dividend increases can be maintained even in periods of short-term decreases in profits in consideration of maintaining capital levels to raise capital efficiency, including future ROE. In FY12/22, the Company plans to pay a dividend per share of ¥29.60, an increase of ¥0.95 YoY, and will continue to increase dividends from FY12/23 onward if results grow steadily.

Shareholder return policy

The Company intends to implement flexible treasury share acquisitions, depending on the share price. It actually announced a treasury share buyback period of February 15 to March 18, 2022 (with a maximum number of shares for acquisition of 320,000 shares and maximum acquisition cost of ¥230mn).



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

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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp