

IBC Co., Ltd.

3920

Tokyo Stock Exchange First Section

14-Feb.-2019

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Summary

Forecasts are for major increases in sales and profits in FY9/19 from the fully-fledged sales of the new product, G3, while in the medium term also, there are expectations for a security service for IoT devices

IBC Co., Ltd. <3920> (hereafter, also “the Company”) is the leading company for network systems information management and performance monitoring tools (software) for monitoring the operating conditions of various manufacturers’ network devices and systems, and providing warning signs for the occurrence of failures. Its strengths include that it has developed in-house information management and performance monitoring tools that are compliant with more than 100 multi-vendor devices and its lineup is unparalleled in the world, and that it provides a one-stop service, from evaluations of current conditions through to performance monitoring and operations support. In July 2017, it released System Answer G3 as a new product. It had 63 employees at the end of FY9/18, so it is still small scale, but led by the President and Representative Director Hiroyuki Kato, it is a group of professionals who are extremely knowledgeable about network infrastructure.

1. In the FY9/18 results, sales and profits increased and sales were a new record high for the 11th consecutive fiscal year

In the FY9/18 results (non-consolidated), net sales increased 6.1% year-on-year (YoY) to ¥1,290mn, operating profit rose 8.2% to ¥202mn, ordinary profit grew 21.5% to ¥205mn, and profit increased 23.3% to ¥141mn. So sales and profits increased, including from the contribution of the large-scale project System Answer G3, a new product. Compared to the forecast, net sales were slightly sluggish, as the former product System Answer G2, and the new product, System Answer G3, were both sold and customers held back from making purchases, mainly for small-scale projects. However, sales were still a record high for the 11th consecutive fiscal year. In profits, SG&A expenses were less than forecast, which contributed to results, and the operating profit margin was maintained at the high level of around 15%. The equity ratio is 87.9%, and the Company’s finances are highly sound.

2. The forecasts for the FY9/19 results are for major increases in sales and profits toward a new growth stage

The forecasts for the FY9/19 consolidated results (the subsidiary iChain Inc., was newly consolidated and the Company has transitioned to consolidated financial statements) are for net sales of ¥1,837mn, operating profit of ¥277mn, ordinary profit of ¥276mn, and profit attributable to owners of parent of ¥186mn. Compared to the FY9/18 non-consolidated results, the forecasts are for net sales to increase 42.4%, operating profit to rise 37.1%, ordinary profit to grow 34.6%, and profit attributable to owners of parent to increase 31.9%. Sales of the new product, System Answer G3, will become fully fledged, so net sales are expected to achieve a record high for the 12th consecutive fiscal year. The effects of the organizational reforms to strengthen sales and the management improvements will also contribute. In SG&A expenses, the upfront investment will continue, including to recruit human resources and to launch new services, but every profit item is forecast to increase significantly from the topline growth. The Company prioritized building systems from FY9/16 to FY9/18, so there is the sense that results stagnated a little in this period. But it is expected to enter a new growth stage, including from the effects of the organizational reforms and human-resources education.

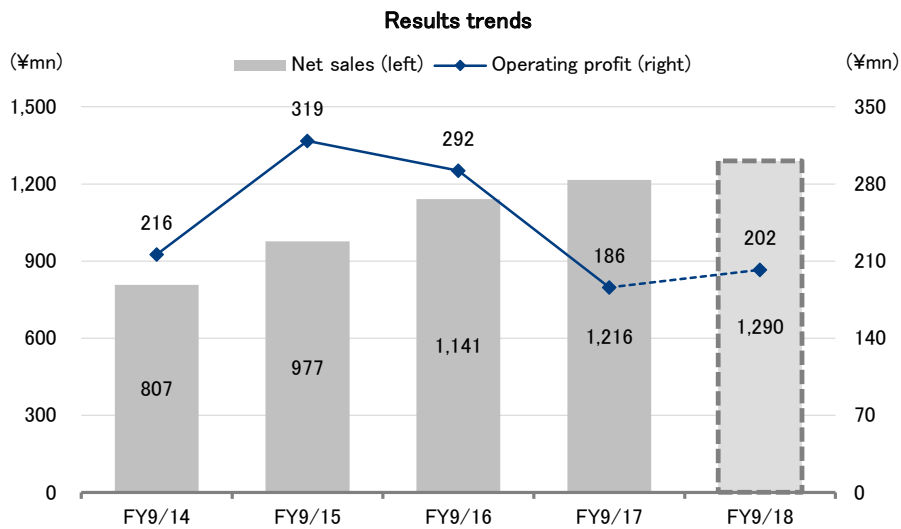
Summary

3. In the medium term, there are also expectations for developments for IT services and a security service for IoT devices

The Company's medium-term growth strategy is to enter-into growth fields, to expand its service areas, and to launch new products. In a business environment that will be excellent in the medium term, it is aiming to grow from being the leading company for network systems information management and performance monitoring into being a comprehensive IT services provider. It will achieve this through expanding IBC solutions (expanding the service areas, shifting to a one-stop solution, and providing new services in response to market changes), centered on the continually evolving System Answer series. Also, in growth fields, in the medium-term expectations are also rising for kusabi™, which is a security service for IoT devices that uses blockchain technology.

Key Points

- The Company is the leading company for network systems information management and performance monitoring tools
- In FY9/18 (non-consolidated), sales and profits increased and sales were a record high for the 11th consecutive fiscal year
- The forecasts for FY9/19 (transitioning to consolidated results) are for major increases in sales and profits toward a new growth stage
- In the medium term, there are also expectations for developments for IT services and a security service for IoT devices



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

■ Company profile

The leading company for network systems information management and performance monitoring tools

1. Company profile

The Company was established in October 2002, it was listed on the Tokyo Stock Exchange (TSE) Mothers market in September 2015, and its listing was upgraded to the TSE 1st Section in November 2016. The corporate name of IBC is an abbreviation of Internetworking & Broadband Consulting. At the end of FY9/18, it had capital of ¥438mn and a total number of issued shares (including 61 treasury shares) of 5,691,600 shares. On November 15, 2018, it acquired 190,000 treasury shares through an off-auction-hours transaction to purchase treasury shares (on ToSTNeT-3).

It is the leading company for the provision of network systems information management and performance monitoring tools (software) for monitoring the operating conditions of information and communication network devices and systems, and providing warning signs for the occurrence of failures. These tools make it possible to easily visualize information on network systems as a whole and the performance conditions.

The Company's main activities and services are the development, sales, and support for the introduction of information management and performance monitoring tools that analyze the operations and performance of the overall complex network systems comprised of multi-vendor devices; an analysis and performance evaluation service to extract problems and issues within customers' network systems and to present optimal improvement measures; a consulting service for the design, construction, and operations support of network systems; and sales of various types of devices and software.

The Company's subsidiary, iChain, Inc. (established in April 2016 from the merger of Skeed Co., Ltd. and iBeed. Inc. It was made a wholly-owned subsidiary in July 2016, its corporate name was changed to iChain in May 2018, and it entered the scope of consolidation from FY9/19) is developing its business with a focus on InsurTech (a word made from combining insurance and technology).

It had 63 employees at the end of FY9/18, so it is still small scale, but led by the President and Representative Director Hiroyuki Kato, it is a group of professionals who are extremely knowledgeable about network infrastructure.

Since its establishment in 2002, the Company has continuously and consistently focused on network systems performance monitoring under the slogan of "visualization of network infrastructure." Aiming to be "A company that has long relations with customers as an analysis services company," it has three management philosophies; "Become a company that brings happiness to our customers through network infrastructure," "Become a group of professionals with ethics befitting professionals and with execution capabilities," and "Become a company that can contribute to society through being held in high regard by customers and by nurturing excellent human resources."

Company profile

The Company’s logo mark expresses a stable connection between “network systems” and people,” and the three crosses symbolize the connections between the keywords in its corporate philosophy, of “society,” “companies” and “human resources.” Blue and green are the Company’s symbol colors, with blue representing “trust” and “honesty” and green representing “safety” and stability.

The Company’s logo mark



Source: Company materials

The Company is also expanding into the IoT security and the InsurTech fields

2. History

The Company released the network monitoring appliance BT monitor series in June 2003, the network monitoring appliance BT monitor V2 series in May 2007, the network performance monitoring appliance System Answer series in December 2008, and the network performance monitoring software System Answer G2 series in July 2011. It is continuously expanding functions, and in July 2017, it released a new product, System Answer G3, which is a network systems information management and performance monitoring tool.

It is aiming to grow from being the leading company for network systems information management and performance monitoring into being a comprehensive IT services provider through expanding IBC solutions (expanding the service areas, shifting to a one-stop solution, and providing new services in response to market changes), centered on the continually evolving System Answer series. In August 2017, it launched SAMS (Speedy Action Management Services) as next generation MSP services (Managed Service Provider; businesses that conduct IT systems management, monitoring, maintenance, etc.) In August 2018, it started a cloud-based service for System Answer G3.

The Company is also entering-into growth fields that use blockchain technology, of the IoT (Internet of Things) security field and the InsurTech field. In December 2017, it began a demonstration experiment for kusabi™, which is a security service for IoT devices. Also, in May 2018, its subsidiary iChain started to distribute the iChain Insurance Wallet, which is an insurance portfolio management smartphone app, and in December, it began a service collaboration between the iChain Insurance Wallet and Customers’ Web Service provided by Mitsui Sumitomo Insurance Company, Limited.

Company profile

History

Date	Main event
October 2002	IBC Co., Ltd. was established
June 2003	Released BT monitor, a network monitoring appliance
May 2007	Released BT monitor V2, a network monitoring appliance
December 2008	Released System Answer, a network monitoring appliance
July 2011	Released System Answer G2 Datacenter Ware, network monitoring software for datacenters
October 2012	Released System Answer G2 Enterprise Ware, network monitoring software for medium- to small-scale users
June 2014	Started providing System Answer RS Global Baseline, a service to publish performance monitoring information
September 2015	Newly listed on the TSE Mothers Market
March 2016	Started providing System Answer G2 Log Option, a product that integrates and manages performance information and log information
April 2016	Established iBeed. Inc. from a merger with Skeed Co., Ltd.
April 2016	Started providing System Answer G2 Quality Analyzer Option, a product to manage network quality
July 2016	Made iBeed. Inc. a wholly-owned subsidiary
August 2016	Entered-into a business alliance with Consensus Base Inc. in the blockchain field
November 2016	Started providing SCI, a specialized cloud integration service
November 2016	Listing was upgraded to the TSE 1st Section
April 2017	Invested in netforce Co., Ltd.
June 2017	Entered into a business alliance with Pactera Consulting Japan Co., Ltd. in the blockchain field
July 2017	Released System Answer G3, systems information monitoring software
August 2017	Started providing SAMS (Speedy Action Management Services), next generation MSP services
December 2017	Started a demonstration experiment for kusabi™, a security service for IoT devices
February 2018	Established the kusabi Consortium™, a consortium for standardization for IoT security
March 2018	Started selling partner licenses for kusabi™, a security service for IoT devices
May 2018	Changed the company name of the subsidiary iBeed. Inc. to iChain, Inc.
May 2018	Acquired two technology patents for kusabi™, a security service for IoT devices
May 2018	Started distribution of the iChain Insurance Wallet, an insurance portfolio management smartphone app
August 2018	Started providing a cloud-based service for System Answer G3, network systems information management and performance monitoring software

Source: Prepared by FISCO from Company materials

Business overview

Provides a one-stop service, centered on network systems information management and performance monitoring tools

Network systems information management and performance monitoring tools are those tools (software) that comprehensively and in detail collect information on the operating conditions of network systems that are comprised of various manufacturers' network devices on a virtual server, and display, analyze, and notify users of this information. They monitor the operating conditions of network systems, and provide warning signs for the occurrence of failures and prevent it before it occurs. The tools make it possible to maintain and improve performance and reduce costs.

Business overview

Today's IT (Information Technology) industry is characterized by the utilization of cloud computing and Big Data and the spread in the technology for virtualizing resources and other technologies. In this situation, due to changes in the systems environment because of the increase in the volume of data and the diversification of network environments and devices, a problem has emerged, that identifying problem warning signs has become difficult and complicated. Such problems can become major obstacles for societal activities, like the suspension of services and delays in communication via network systems. Therefore, for network systems that are becoming more sophisticated, complex, and black boxed, the importance of information management and performance monitoring tools that can realize stable performance and improved quality is increasing more and more.

The Company also provides comprehensive monitoring for the hybrid Cloud, which is a combination of a cloud environment and an on-premises environment, which the use has increased significantly in recent years. It is the leading company for network systems information management and performance monitoring tools for this environment.

The Company's main activities and services are the development, sales, and support for the introduction of information management and performance monitoring tools that analyze the operations and performance of the overall complex network systems that are comprised of multi-vendor devices; an analysis and performance evaluation service to extract problems and issues within customers' network systems and to present optimal improvement measures; a consulting service for the design, construction, and operations support of network systems; and sales of various types of devices and software.

1. Strengths include multi-vendor compliance and a one-stop service

Initially, the Company focused on sales of appliances that incorporated software into hardware. But from FY9/13, it began sales of System Answer G2 licenses (software-usage rights), which created the high earnings structure described below.

A feature of the System Answer series, the Company's main product, is that its method differs from the conventional method (of compliance with single-vendor devices, and detection of problems after they have occurred and post-occurrence measures to deal with them), in that it is compliant with the multi-vendor devices that comprise network systems, and it implements preventive measures, in that it detects the warning signs of problems and failures at an early stage to prevent them before they occur. It also replaces data (numerical values) with information that can be handled by anyone, even non-experts, by presenting information in a visualized state, such as judgment criteria, potential problems, and improvement measures. Even in network systems environments that have become more sophisticated, complex, and black boxed, the Company can contribute to maintaining and improving network infrastructure performance and reducing costs through providing safe and stable services.

Its strengths include that it has developed in-house information management and performance monitoring tools that are compliant with more than 100 multi-vendor devices and its lineup is unparalleled in the world, and that it provides a one-stop service, from evaluations of current conditions through to performance monitoring and operations support. The Company has accumulated statistical information on multi-vendor environments and also independent expertise by collecting data on systems' operating conditions in various environments and analyzing this data. With this, the Company is eyeing the possibility of utilizing it as big data for network infrastructure in the future.

Business overview

In terms of the track record of the introduction of the System Answer series, as of the end of FY9/18, it had been introduced into more than 1,400 systems, mainly by major, blue-chip companies. Due to its advantages of being multi-vendor compliant and providing a one-stop service, it is being widely adopted by customers regardless of their industry, business, or scale, including by national and local governments and industries such as education; medical and welfare; finance, insurance and securities; construction and real estate; manufacturing; wholesale and retail; and information and communications. Moreover, the continuous usage rate for these customers is at the high level of more than 90%.

Examples of introductions of the System Answer series (as of the end of FY9/18)

Field	Main customers
Public affairs, education, medical, and welfare	Chiyoda Ward Office, Hino City, Tokyo, Shirayuri University, College of Humanities and Sciences, Nihon University, Shizuoka General Hospital
Finance and insurance	H.S. SECURITIES CO., LTD., Okasan Information Systems Co., Ltd., Tokyo Stock Exchange, Inc., Rakuten Life Insurance Co., Ltd., YJFX, Inc.
Construction and real estate	Odakyu Real Estate Co., Ltd., Kumagai Gumi Co., Ltd., TEKKEN CORPORATION
Manufacturing	NOK CORPORATION, CALPIS Co., Ltd., NIPPON STEEL & SUMIKIN CHEMICAL CO., LTD., SEKISUI CHEMICAL CO., LTD., Mazda Motor Corporation, Mitsubishi Heavy Industries, Ltd., Mitsubishi Hitachi Power Systems, Ltd.
Wholesale and retail	COOP KINKI JIGYO RENGU, COOPERATIVE UNION, BOOKOFF GROUP HOLDINGS LIMITED, Lawson, Inc.
Information and communications	NTT COMWARE CORPORATION, KDDI CORPORATION, GREE, Inc., Jupiter Telecommunications Co., Ltd., Sony Corporation, TIS Inc., TOKYO SHOKO RESEARCH, LTD., TOPPAN PRINTING CO., LTD., NISSEICOM, LIMITED, Nomura Research Institute, Ltd., HIKARI TSUSHIN, INC., Hitachi Systems, Ltd., YAMATO SYSTEM DEVELOPMENT CO., LTD.

Source: Prepared by FISCO from Company materials

Moreover, in an aim to expand IBC solutions (expanding the service areas, shifting to a one-stop solution, and providing new services in response to market changes), in August 2017, it released SAMS as next generation MSP services. Further, in August 2018, it began a cloud-based service for System Answer G3.

2. Characterized by a high earnings structure from license sales of in-house developed products

The Company has only one reporting segment, the network systems monitoring-related business. However, the sales categories by business are license sales (software-usage rights) for in-house developed products relating to network systems performance monitoring software; sales from service provision, including support for the introduction of in-house developed products and consulting on constructing network systems; and other sales (including sales of information and communication devices manufactured by other companies).

In net sales by business in FY9/18, license sales were ¥906mn (percentage of total sales, 70.2%), sales from service provision were ¥181mn (14.1%), and other sales were ¥203mn (15.7%). So license sales of in-house developed products are the main pillar of earnings. Basically, the Company sells yearly licenses, although it will sell licenses for multiple years, for example following a request from a customer.

Breakdown of sales

	(¥mn)				
	FY9/14	FY9/15	FY9/16	FY9/17	FY9/18
License sales	664	801	921	878	906
Sales from service provision	76	119	121	184	181
Other sales	66	56	98	153	203
Total	807	977	1,141	1,216	1,290

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

Business overview

Also, from September 2013, the Company shifted to license sales (software-usage rights) for System Answer G2, creating its characteristic of having a high earnings structure. In FY7/19 and FY9/18, the overall gross profit margin declined slightly due to a rise in the percentage of total sales from the sales of products with low profit margins. But as the main earnings pillar is license sales with a high profit margin, gross profit margin has remained at the high level of around 80%.

3. Characterized by high percentages of earnings in Q2 and Q4

A characteristic of the fiscal-quarter results is that they are affected by customers' implementation of IT investment budgets and inspection periods. The recording of sales is concentrated in March and September, but conversely, basically a fixed amount of SG&A expenses is generated each month. Therefore, a characteristic of the quarterly operating profit is that it is seasonal, with high percentages of it being recorded in Q2 (January to March) and Q4 (July to September).

Net sales and operating profit by fiscal quarter and percentages of the full fiscal year amounts

Fiscal year		1Q (Oct.-Dec.)		2Q (Jan.-Mar.)		3Q (Apr.-June)		4Q (July-Sept.)		Full year	
		Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
FY9/14	Net sales	154	19.2	234	29.0	128	15.9	289	35.8	807	100.0
	Operating profit	25	11.6	84	39.2	3	1.8	102	47.4	216	100.0
FY9/15	Net sales	186	19.1	272	27.9	191	19.6	326	33.4	977	100.0
	Operating profit	50	15.9	116	36.4	44	13.8	108	33.9	319	100.0
FY9/16	Net sales	171	15.0	315	27.7	225	19.7	429	37.6	1,141	100.0
	Operating profit	-11	-3.8	129	44.3	26	9.1	147	50.3	292	100.0
FY9/17	Net sales	238	19.6	399	32.8	161	13.3	416	34.2	1,216	100.0
	Operating profit	-58	-31.1	142	76.1	-66	-35.4	168	90.3	186	100.0
FY9/18	Net sales	305	23.7	409	31.8	198	15.4	376	29.2	1,290	100.0
	Operating profit	34	17.2	126	62.5	-50	-25	91	45.3	202	100.0
Five-year average	Net sales	211	19.5	326	30.0	181	16.7	367	33.8	1,086	100.0
	Operating profit	8	3.4	119	49.2	-8	-3.4	123	50.8	243	100.0

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

As the measures and the medium-term growth strategy for an earnings structure characterized by seasonality, the Company is expanding its IBC solutions (expanding the service areas, shifting to a one-stop solution, and providing new services in response to market changes). Specifically, it is creating a monthly-fee license service for the new product System Answer G3; expanding consulting services, such as support for constructing and management that occur alongside the license sales; and enhancing monthly-fee billing services, including for the SAMS operations management services that were launched in August 2017 and the System Answer G3 cloud-based service that was launched in August 2018.

It is forecast that corporate IT-related investment will trend at a high level in the medium- to long-term. But in the event that a movement strengthens among companies toward temporarily postponing investment, such as due to an economic slowdown, this may impact the Company's results and is a risk factor.

Results trends

In the FY9/18 results, sales and profits increased and sales were a new record high for the 11th consecutive fiscal year

In the FY9/18 results (non-consolidated), net sales increased 6.1% year-on-year (YoY) to ¥1,290mn, operating profit rose 8.2% to ¥202mn, ordinary profit grew 21.5% to ¥205mn, and profit increased 23.3% to ¥141mn. In addition to the steady accumulation of renewal projects, the multiple orders for new, large-scale projects for System Answer G3, a new product released in July 2017, contributed to results, and sales and profits increased.

Compared to the forecast, net sales were slightly sluggish, as the former product System Answer G2, and the new product, System Answer G3 were both sold and customers held back from making purchases more than expected, mainly for small-scale projects. However, sales were still a record high for the 11th consecutive fiscal year. In profits, SG&A expenses were slightly less than forecast, which also contributed to results.

In net sales by business, license sales increased 3.1% YoY to ¥906mn (percentage of total net sales, 70.2%), sales from service provision decreased 1.4% to ¥181mn (14.1%), and other product sales rose 32.3% to ¥203mn (15.7%).

As the percentage of total net sales from product sales rose, the gross profit margin fell by 4.2 percentage points (PP) YoY to 78.5%, but it is continuing to be maintained at a high level. Also, in SG&A expenses, recruitment and education expenses increased, but in-house systems expenses and equipment expenses decreased, and therefore in total, it was lower than forecast. As a result, the operating profit margin rose 0.3 of a PP to 15.7% and is also being maintained at a high level. Ordinary profit and profit both increased significantly due to the improvement in non-operating profit/loss, including due to an increase in commissions received and the end of listing-related expenses.

Overview of FY9/18 results

	(¥mn, %)		
	FY9/17	FY9/18	% change
Net sales	1,216	1,290	6.1
License sales	878	906	3.1
Sales from service provision	184	181	-1.4
Other sales	153	203	32.3
Gross profit	1,006	1,013	0.7
Gross profit margin	82.7	78.5	-4.2pt
SG&A expenses	819	811	-1.0
Operating profit	186	202	8.2
Operating profit margin	15.4	15.7	0.3pt
Ordinary profit	169	205	21.5
Profit	115	141	23.3

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

Results trends

The equity ratio is at a high level and finances are highly sound

The Company's finances are highly sound. At the end of FY9/18, the equity ratio had declined by 2.6 of a PP on the end of the previous fiscal year, but it was still being maintained at the high level of 87.9%. Features of the Company are that its customers are mainly major, blue-chip companies, and it has no history of bad debts. Due to the steady accumulation of profit, the book value per share (BPS) increased ¥25.73 to ¥297.20. Moreover, ROE rose by 0.9 of a PP to 8.9%, and capital efficiency is also improving.

Key performance indicators

Item	FY9/14	FY9/15	FY9/16	FY9/17	FY9/18
Net sales	807	977	1,141	1,216	1,290
Cost of sales	118	102	174	210	277
Gross profit	688	874	967	1,006	1,013
Gross profit margin (%)	85.4	89.5	84.7	82.7	78.5
SG&A expenses	472	554	675	819	811
Operating profit	216	319	292	186	202
Operating profit margin (%)	26.8	32.7	25.6	15.4	15.7
Non-operating profit	11	0	46	1	4
Non-operating expenses	4	17	5	19	0
Ordinary profit	223	301	333	169	205
Ordinary profit margin (%)	27.7	30.9	29.2	13.9	15.9
Extraordinary profit	3	-	-	-	0
Extraordinary loss	8	0	25	2	1
Income before income taxes	219	301	308	167	204
Income taxes	85	118	113	52	62
Profit	133	182	195	115	141
Profit margin (%)	16.6	18.7	17.1	9.5	11.0
Total assets	703	1,482	1,668	1,660	1,924
(Current assets)	594	1,380	1,476	1,431	1,615
(Noncurrent assets)	108	101	191	228	309
Total liabilities	340	314	302	157	232
(Current liabilities)	226	274	255	125	208
(Noncurrent liabilities)	113	39	46	31	24
Net assets	362	1,168	1,366	1,503	1,692
(Shareholders' equity)	362	1,168	1,366	1,502	1,691
Capital	91	402	404	414	438
Total number of issued shares, excluding treasury shares	1,830	1,349,400	5,465,600	5,533,600	5,691,539
Earnings per share (¥)	36.59	46.04	36.15	20.97	25.20
Net assets per share (¥)	99.11	216.41	250.06	271.47	297.20
Dividends per share (¥)	-	-	-	-	-
Equity ratio (%)	51.6	78.8	81.9	90.5	87.9
ROE (%)	44.9	23.9	15.4	8.0	8.9
Cash flow from operating activities	105	123	90	-44	189
Cash flow from investing activities	-13	-12	-69	-57	-80
Cash flow from financing activities	24	535	-31	-37	32
Cash and cash equivalents at the end of the period	225	872	862	723	864
Number of employees	34	47	57	57	63

Note: Per shares values have been retroactively adjusted to reflect the 500-for-1 stock split conducted on May 28, 2015, and the 4-for-1 stock split conducted on December 1, 2015

Source: Prepared by FISCO from Company materials

■ Outlook

Forecasts for FY9/19 are for major increases in sales and profits toward a new growth stage

The forecasts for the FY9/19 consolidated results (the subsidiary iChain was newly consolidated and the Company is transitioning to consolidated financial statements) are for net sales of ¥1,837mn, operating profit of ¥277mn, ordinary profit of ¥276mn, and profit attributable to owners of parent of ¥186mn. Compared to the FY9/18 non-consolidated results, the forecasts are for net sales to increase 42.4%, operating profit to rise 37.2%, ordinary profit to grow 34.6%, and profit attributable to owners of parent to increase 31.1%.

Sales of the new product, System Answer G3, will become fully fledged, and net sales are expected to achieve a record high for the 12th consecutive fiscal year. The effects of the organizational reforms to strengthen sales and the management improvements will also contribute. In SG&A expenses, upfront investment will continue, including to recruit human resources and to launch new services. But every profit item is forecast to increase significantly, by more than 30%, from the topline growth.

The FY9/18 results of newly consolidated iChain were net sales ¥19mn and an operating loss of ¥35mn. But going forward, it intends to develop its business focused on the InsurTech field in advance of other companies, and it is aiming to become profitable in FY9/19 through expanding its consulting business.

From FY9/16 to FY9/18, the Company prioritized building systems including strengthening internal management system associated with its listing on the stock market and conducted upfront investment for further growth, including recruiting and educating human resources and increasing the Head Office's floor space, so there is the sense that results stagnated a little during this period. But from FY9/19, it is expected to enter a new growth stage, including from the effects of the organizational reforms and human-resources education.

Results trends

(¥mn, ¥, %)

Fiscal year	Net sales	% change	Operating profit	Change	Ordinary profit	% change	Profit	% change	EPS	Dividend	BPS
FY9/14	807	-	216	-	223	-	133	-	36.59	0.00	99.11
FY9/15	977	21.1	319	47.8	301	35.0	182	36.4	46.04	0.00	216.41
FY9/16	1,141	16.8	292	-8.5	333	10.5	195	6.8	36.15	0.00	250.06
FY9/17	1,216	6.6	186	-36.1	169	-49.2	115	-41.0	20.97	0.00	271.47
FY9/18	1,290	6.1	202	8.2	205	21.5	141	23.3	25.20	0.00	297.20
FY9/19 (consolidated) E	1,837	42.4	277	37.2	276	34.6	186	31.1	32.70	Undetermined	-

Note 1: Non-consolidated results up to FY9/18 and consolidated results from FY9/19, and the % change is the comparison against the FY9/18 non-consolidated results

Note 2: Per shares values have been retroactively adjusted to reflect the 500-for-1 stock split conducted on May 28, 2015, and the 4-for-1 stock split conducted on December 1, 2015

Source: Prepared by FISCO from Company materials

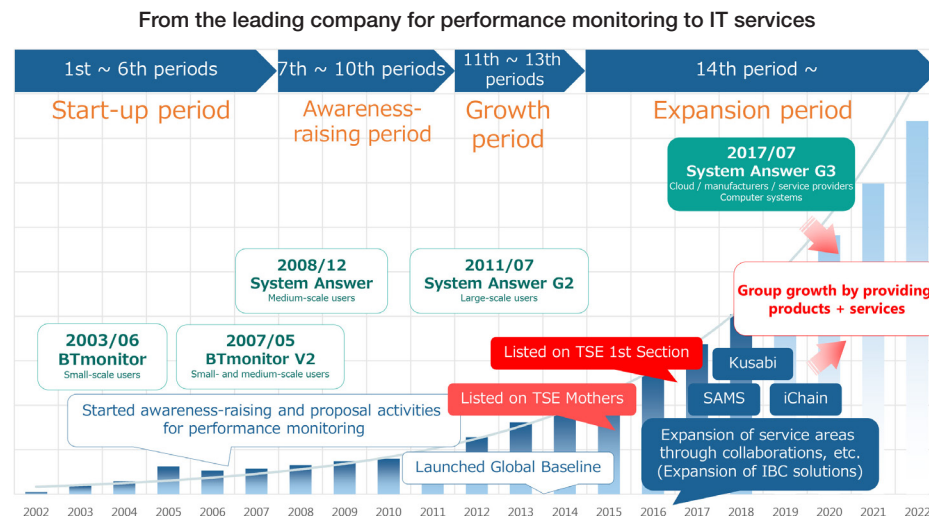
■ Medium- to long-term growth strategy

Expansion of IBC solutions and developments for IT services

In an era in which all devices are becoming connected, from tools we are familiar with like PCs and mobile phones, to high performance servers and large-scale data centers, and recently even our homes and cars, monitoring the correct operation and preventing failure before they occur in network systems has become an extremely important crisis management action for all organizations including companies and government agencies. Against this backdrop, it is forecast that the scale of the Japanese market for systems performance and operations monitoring software will expand. So in the medium term, the business environment will be excellent.

The Company's medium-term growth strategies are to enter-into growth fields, to expand service areas, and to launch new products. In a business environment which will be excellent in the medium term and based on the technologies that it has cultivated up to the present time, it is aiming to grow from being the leading company for network systems information management and performance monitoring into being a comprehensive IT services provider through expanding IBC solutions (expanding the service areas, shifting to a one-stop solution, and providing new services in response to market changes), centered on the continually evolving System Answer series.

It is also entering-into growth fields that use blockchain technology, of the IoT security field and the InsurTech field.



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

Medium- to long-term growth strategy

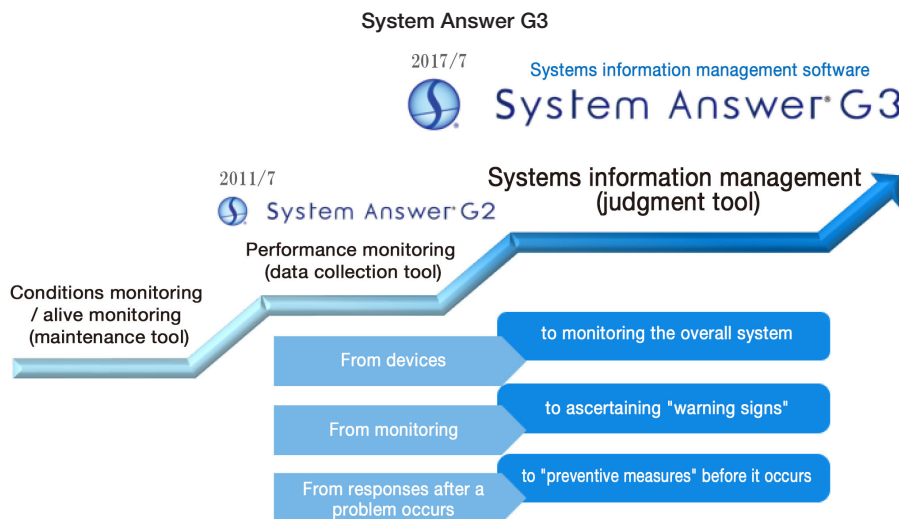
1. Launching new products

In July 2017, the Company released a new product, System Answer G3, which is a network systems information management and performance monitoring tool.

Since its establishment, it has developed its products from being maintenance tools monitoring whether or not a system is performing correctly, and should a problem occur, to conduct alive monitoring to detect and ascertain where and when it occurred and to monitor its condition, to being data collection tools for performance monitoring that analyze whether or not there is a performance-related problem to detect a failure before it occurs, and to implement appropriate measures in response. Moreover, in an anticipation of future demand for products that have information monitoring functions that can be used as judgement tools providing the grounds for the maintenance and improvement of computers and network systems, the Company developed System Answer G3 as a new product that is able to carry out information monitoring.

Information monitoring is a monitoring method to quickly ascertain the information and grounds to make an accurate judgment when various problems occur during the operations of computers and network systems. Specifically, its functions include managing a device's history, ascertaining the degree of effect during periods of heavy load, preventing monitoring oversights, aggregating derived alerts, automating monitoring, strengthening the virtualization monitoring function, and providing API functions (automatic reporting function and a function to link to external programs).

System Answer G3 is a tool that automatically carries out the majority of the information monitoring work, and its advantages include that it is able to solve problems such as eliminating information-collection omissions that tend to be a problem with general monitoring systems, insufficient analysis expertise, and the increasingly large burden of monitoring work, and moreover, it is compliant with large-scale systems. Going forward, the Company intends to continuously enhance its optional functions.



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

Medium- to long-term growth strategy

2. Expanding service areas

To expand the service areas, the Company is aiming to develop its business for IT services as a whole, and also to expand its monthly-fee earnings business from monitoring, maintenance, and analysis support, and for Cloud services.

In August 2017, it started providing SAMS as next generation MSP services. It provides support for securing systems' stable operations, responding to failures, identifying their causes, and conducting analysis, through a 24 hours-a-day, 365 days-a-year manned monitoring system that fully utilizes its expertise in performance analysis. This will be a new collaborative business within the systems management business with netforce, in which the Company has invested. Moreover, in August 2018, it started providing System Answer G3 on SAMS as a System Answer G3 cloud-based service.

The Company is also strengthening its measures for the public and education fields. In addition to strengthening proposal activities for the 4th LGWAN (the integrated, government administration network) business, in December 2017, it began a monitoring solutions services for SINET (a science information network) with NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION and Microsoft Japan Co., Ltd.

3. Expanding into the InsurTech field

In August 2016, the Company entered into a business alliance with Consensus Base, which is a company specializing in blockchain technology. In June 2017, the Company entered into a business alliance with Pactera Consulting Japan, which has many customers in the insurance industry. In May 2018, in a collaboration with the Knowledge Solutions Group, the Company began a commercialization verification of blockchain technology toward realizing an insurance business platform.

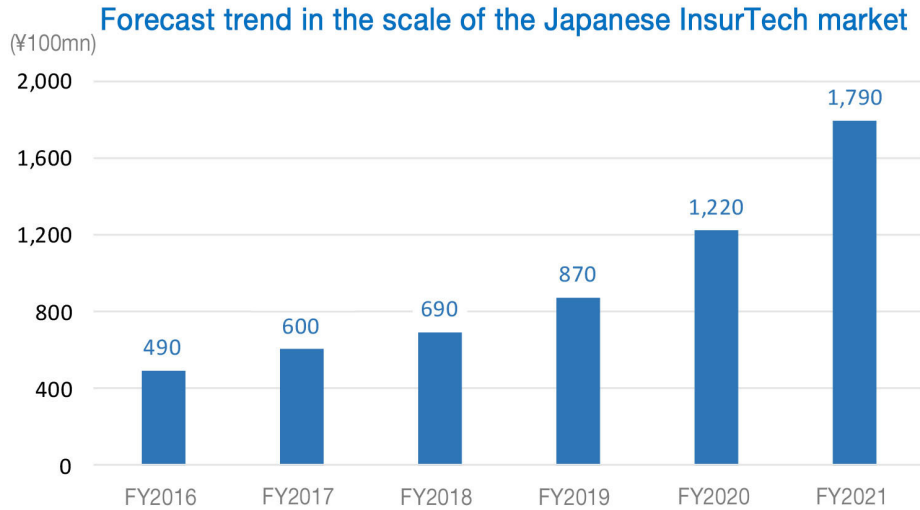
Also, in May 2018, iChain began the free distribution of iChain Insurance Wallet, which is an insurance portfolio management smartphone app. Users can register and view basic information, like the name of their insurance product, the subscribers, the people covered by the insurance, the insurance premiums, and the insurance period, and this information can be shared on the smartphones of family members. Then in December 2018, it started a service collaboration between iChain Insurance Wallet and Customers' Web Service provided by Mitsui Sumitomo Insurance.

In the future, iChain intends to develop its business that is focused on the InsurTech field in advance of other companies, and it is aiming to become profitable in FY9/19 through expanding its consulting business.

The scale of the Japanese InsurTech market in FY18 is estimated to be ¥69bn. In the future, it is forecast that by FY21, it will have grown to a market scale of ¥179bn from the progress made in business automation in insurance payment work and underwriting reviews through the utilization of AI (artificial intelligence) and robots. So based on this market expansion, we can expect this business to fully contribute to earnings.

Medium- to long-term growth strategy

Forecast trend in the scale of the Japanese InsurTech market



Note: The FY18 value is an estimate, while the values from FY19 onwards are forecasts, based on the sales of the business participants
 Source: Prepared by FISCO from the Company's results briefing material

4. In the medium term, there are also expectations for a security service for IoT devices

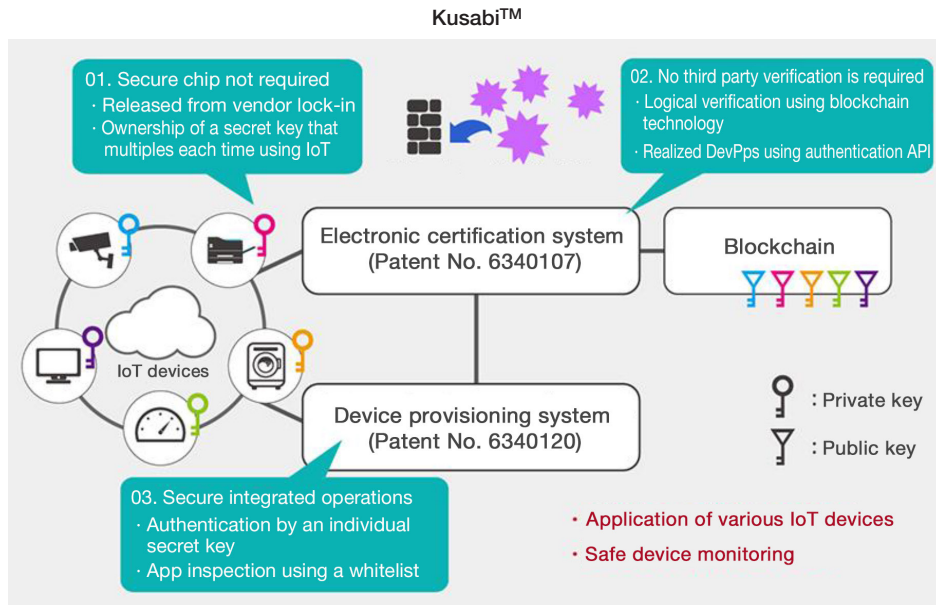
In the growth fields, a demonstration experiment started for kusabi™, a security service for IoT devices, in December 2017 and expectations are also rising for it in the medium term.

The IoT market is expected to rapidly expand to be worth approximately ¥365 trillion with 30 billion devices by 2020. Therefore, security measures for operating such a huge number of IoT devices on networks has become an urgent issue.

kusabi™, which is a security service for IoT devices that uses blockchain technology, is an IoT security infrastructure service that provides an integrated series of security measures, from IoT design and development through to mass production and operations. It makes three elements (certificate authority registration, specialized chips, and malware countermeasures) unnecessary through an electronic certification system using blockchain technology, and a unique device provisioning system technology. It is a revolutionary service that realizes IoT security solely from software.

In February 2018, the Company established the kusabi Consortium™, a consortium for the standardization of IoT security, and in March 2018, it began sales of kusabi™ partner licenses (development licenses and sales licenses). Then in May 2018, it acquired patents for the two core technologies, of the electronic certification system and the device provisioning system. This has stimulated the activities of the Company's partners and the kusabi Consortium™, and expectations for its performance in the medium term are rising.

Medium- to long-term growth strategy



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

Shareholder return policy

Determines the dividend after comprehensively taking into consideration various factors

The Company's basic policy for the distribution of profits is "We recognize that returning profits to shareholders is an important management issue, and together with a medium- to long-term increase in the share price, including through business growth and improved capital efficiency, our policy is to determine the dividend based on factors such as how results will trend in the future and the financial condition after taking comprehensively into consideration various factors, including retained earnings for future business development."

Recognizing it is currently in a growth process, to acquire business funds, the Company decided not to pay a dividend in FY9/18 in order to supplement funds for new investment. As of the current time, it has not decided on a dividend forecast for FY9/19.

■ Information security measures

Compliance with the information security basic regulations and the privacy policy

Problems such as unauthorized access and illegal usage are increasing due to large-scale cyber-attacks on companies, so interest in corporate information security measures is rising.

For the handling of information, the Company considers information security and information protection to be one of its most important management issues. Therefore, it has established basic regulations for information security and it is doing everything it can to protect and manage systems and data, including by strengthening its security structure and educating employees.

Also, in the privacy policy, as a basic policy for the protection of personal information, the Company states that “We recognize the importance of personal information and consider the appropriate handling and management of it be one of our most important social responsibilities. In order to sufficiently fulfill this responsibility and to continue to be a company that is trusted by customers, we will continuously and resolutely implement various company-wide measures in accordance with our basic policy and strive to protect personal information.” To ensure the security of personal information, President and Representative Director Hiroyuki Kato has been appointed as the person with the highest management responsibility and the Company implements various measures to protect the relevant information, and at the same time, strictly manages access to personal information through setting severe access rights.



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