

JBCC Holdings Inc.

9889

Tokyo Stock Exchange First Section

15-Aug.-2018

FISCO Ltd. Analyst

Takayuki Uchiyama



FISCO Ltd.

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

■ Index

■ Summary	01
1. Business overview	01
2. FY3/18 results	01
3. Outlook	01
■ Company profile	03
1. Company profile	03
2. History	03
3. Business description	05
4. Main customers	06
■ Business overview	08
1. The previous medium-term management plan, Innovate2016	08
2. The new medium-term management plan, Transform2020	10
■ The market environment and strengths	14
1. The market environment	14
2. Strengths	15
■ Business performance	15
1. FY3/18 results	15
2. Financial condition	17
■ Outlook	18
1. FY3/19 forecast	18
2. Medium- to long-term growth strategy	19
■ Shareholder return policy	19

■ Summary

Achieved the forecasts for net sales and operating income announced for FY3/18, the first fiscal year of the medium-term management plan. Is working to improve profitability and is riding the wave of digital transformation.

JBCC HOLDINGS Inc. <9889> (hereafter, also “the Company”) is a pure holding company of independent solutions providers that has a business history of more than 50 years, and its Group has a track record of supporting IT utilization by more than 20,000 companies. The 11 business companies in the Group utilize each of their respective strengths to provide one-stop solutions for IT utilization by customers in a wide range of industries. The Group has a strong relationship with IBM Japan, Ltd., including that it has leading shares for hardware and software product transactions with IBM Japan, and five companies in the Company’s Group have the technological capabilities to be designated “premier level,” which is IBM Japan’s highest level of business partner.

1. Business overview

The Company Group develops its business in two business fields, Information Solutions and Product Development and Manufacturing. In Information Solutions, it provides total support for IT utilization, from consulting through to systems development, construction, operations, and maintenance. In Product Development and Manufacturing, in addition to the Company Group’s proprietary software, it is developing products not only for hardware, such as printers, but also intended to integrate software and hardware.

2. FY3/18 results

In the FY3/18 results, net sales were ¥63,107mn (down 24.2% year-on-year (YoY), up 0.2% compared to forecast), operating income was ¥2,060mn (up 11.1% YoY, up 8.5% compared to forecast), ordinary income was ¥2,034mn (up 5.3% YoY, up 4.4% compared to forecast), and profit attributable to owners of the parent was ¥1,186mn (down 6.5% YoY, down 5.1% compared to forecast). In order to optimize Group management, at the end of June 2017, the Company sold all the shares it held in IGUAZU Corporation, which was responsible for the Distribution business, so overall sales declined. However, it is steadily improving profitability and the fields it is focusing on are solid. Consequently, it still increased profits in spite of sales declining, more than 20%.

3. Outlook

The FY3/19 forecasts are based on the medium-term management plan Transform2020. Due to the transfer of the Distribution business, net sales will be ¥57,300mn (down 9.2% YoY) and below the previous fiscal year. But due to the continuous measures to improve profits, the forecasts are for increases in operating income to ¥2,100mn (up 1.9%), ordinary income to ¥2,150mn (up 5.7%), and profit attributable to owners of the parent to ¥1,300mn (up 9.5%).

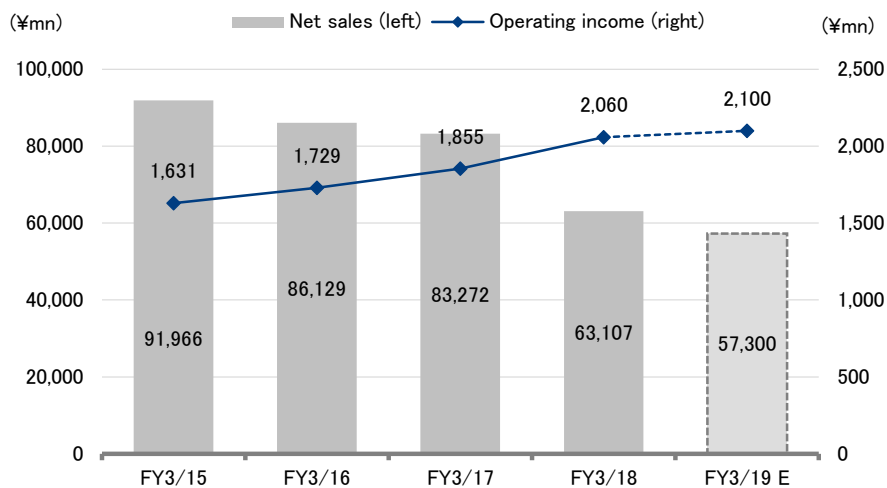
Summary

From the measures in the medium-term management plan Innovate2016, which ran from FY3/15 to FY3/17, the Company established a foundation for growth and progressed reforms toward a strong corporate constitution, and profitability improved. Based on this achievement and also the external environment, in which IT investment is active and the growth in the use of ICT is expected, it started Transform2020 as the new medium-term management plan to run from FY3/18 to FY3/21. Transform2020 advances its support for “digital transformation,” in which technologies will reform the existing business processes for the more than 20,000 client companies of the Company. Specifically, it plans to further strengthen and expand the seven growth businesses of WILD7 (Cloud services, New SI (new systems development), security services, JB software (original solutions), healthcare, 3D business, human resources and development services). Through these efforts, the Company intends to strengthen profitability, from results of net sales of ¥83,272mn and profit attributable to owners of the parent of ¥1,269mn in FY3/17, to net sales of ¥60,000mn and profit attributable to owners of the parent of ¥1,800mn in FY3/21, and to further optimize Group management.

Key Points

- A long-established IT solutions provider with more than 50 years of business history and a track record of introductions in more than 20,000 companies
- Achieved the forecasts for net sales and operating income announced for FY3/18, the first fiscal year of the medium-term management plan.
- Is focusing on highly profitable businesses and aiming to optimize Group management and promote its customers' digital transformations

Results trends



Note: Does not include the Distribution business from FY3/18 Q2 onwards
 Source: Prepared by FISCO from the Company's financial results

■ Company profile

A long-established IT solutions provider with more than 50 years of business history and a track record of introductions in more than 20,000 companies

1. Company profile

The Company, which was established in 1964, is a pure holding company for independent IT solutions providers, while the Group has a track record of supporting IT utilization by more than 20,000 companies. The 11 business companies within the Group each utilize their respective strengths to provide one-stop solutions for IT utilization by their customers from a wide range of industries. The Group has a strong relationship with IBM Japan, Ltd., including that it has leading shares for hardware and software product transactions with IBM Japan, and five companies in the Company's Group have the technological capabilities to be designated "premier level," which is IBM Japan's highest level of business partner. With the aim of promoting shift from products to services in its business portfolio, the Company sold all the shares it held in IGUAZU at the end of June 2017, and now has two business fields, Information Solutions and Product Development and Manufacturing.

2. History

The Company was founded in 1964 as Japan Business Computer Corporation (JBCC) and it has a history of more than 50 years. Its history is divided into three large phases. In the Initial phase, the Company developed, manufactured, and sold original products, including JBC System-1 Kanji, Japan's first office computer able to process kanji, and C-200, Japan's first network distributed processing system, and it worked to establish its own brand. Continuing to the Second phase, it aimed to strengthen its business foundation, including by establishing a capital and business alliance with IBM Japan. In 1999, it was listed on the Tokyo Stock Exchange (TSE) Second Section, and then in 2000, its listing was upgraded to the TSE First Section. In the Third phase from 2006, it transitioned to a holding company structure and it has been aiming to achieve additional growth and further expand its businesses. In 2017 it sold IGUAZU, which carried out the Distribution business, and it is now focusing on highly profitable businesses.

Company profile

History

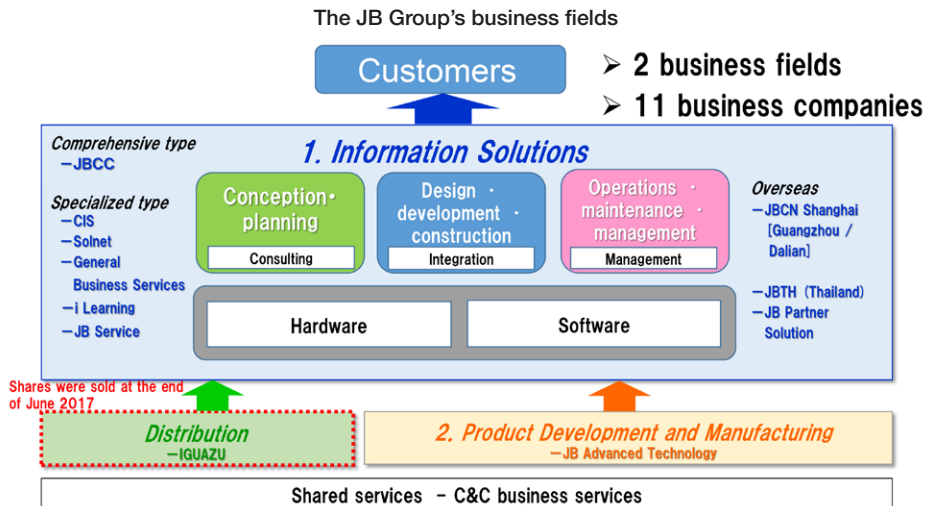
*Initial phase (extract)	
1964	Japan Business Computer Corporation founded. Developed and marketed "TOSBAC-1100D," which set a precedent for microcomputers.
1978	Developed and started marketing Japan's first kanji processing system, "JBC System-1 KANJI."
1982	Introduced corporate identity and adopted the new brand name "JBCC." Developed and marketed a decision support system, "JUSMATE Series."
1983	Established a marketing alliance with IBM Japan, Ltd., and started marketing of "IBM Multi-station 5550." Developed and marketed Japan's first network distributed processing system, "C-200."
* Second phase (extract)	
1983	Established a capital and business partnership with IBM Japan, Ltd.
1988	Started marketing of IBM AS/400.
1990	Registered its shares as over-the-counter stock.
1999	Opened an operations center (SMAC). Listed on the Second Section of the Tokyo Stock Exchange.
2000	Listed on the First Section of the Tokyo Stock Exchange.
2004	Obtained ISO140001 (Yokohama office). Founded JBCC Healthcare Consortium (JBHC).
* Third phase	
2006	JBCC Holdings Inc. was started as a pure holding company.
2008	Started globalization by establishing a business base in Dalian, China.
2009	Opened Cloud Integration Center ("CLIC" verification center).
2011	Open a BtoB EC website "Suppliesbank.com" specialized in printer supplies.
2014	Celebrated 50th year since foundation.
2015	Founded a consortium named "ORENO (My) Cloud Club" to provide the most suitable cloud services to customers.
2016	Changed company structure to have an Audit and Supervisory Committee from a Board of Company Auditors.
2017	Transferred all the shares of IGUAZU Corporation to a fund.

Source: Prepared by FISCO from the Company Profile and the Company's website

Company profile

3. Business description

The Company's business structure since July 2017 is as shown below. With the aims of change in its business portfolio, concentrating management resources, and improving profits, it sold IGUAZU (Distribution business) to IG Holdings PLC at the end of June 2017. This means it now has two business fields, Information Solutions and Product Development and Manufacturing.



Source: reprinted from the Company's introduction booklet

Information Solutions provides total services for IT utilization (including consulting, application development, systems development, operations, maintenance, monitoring, and outsourcing). Product Development and Manufacturing entails developments that only the Company's Group is capable of, including for software solutions, printing systems, and systems-cooperation solutions, and it also provides hardware that is optimized to meet customers' requests. In Shared Service, the aim is to avoid duplicated staff work within the Group and to realize highly efficient operations, and it brings together various tasks, such as personnel and general affairs, accounting and finance, information systems, and work services (support and management), thereby supporting each Group company.

List of the business companies by field

(as of April 2018)

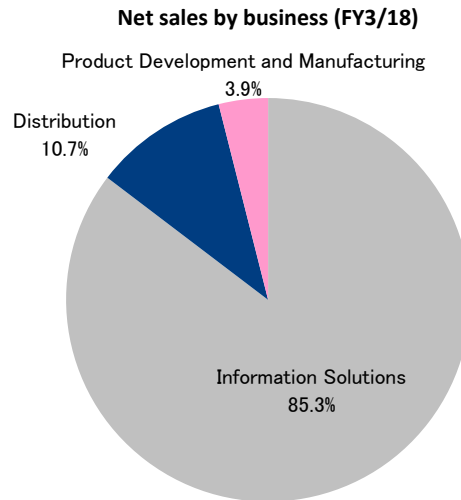
Business field		Business company
Information Solutions	Comprehensive	JBCC [JBCC]
	Specialized-type	Central Information Systems [CIS]
		SOLNET [SOLNET]
		General Business Services [GBS]
		i-Learning [i-Learning]
		JB Service [JBS]
	Overseas	JBCN (Shanghai) Information Technology [JBCN]
		JBCC (Thailand) [JBTH]
		JB Partner Solution [JBPS]
	Product Development and Manufacturing	JB Advanced Technology [JBAT]
Shared Service	C&C Business Service [C&CBS]	

*Distribution: IGUAZU → Sold shares at end of June 2017

Source: The Company's results briefing materials

Company profile

The percentages of total net sales by business in FY3/18 were that Information Solutions provided 85.4%, Distribution 10.7%, and Product Development and Manufacturing 3.9%. Distribution only recorded net sales in Q1 and did not record sales from FY3/18 Q2 onwards, as this business was sold.



Source: The Company's results briefing materials

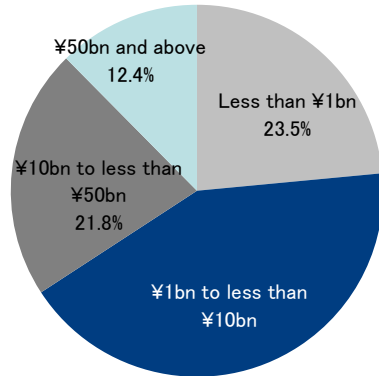
4. Main customers

Looking at the customers in FY3/17 of JBCC Corporation, which is the Company Group's core business company, about 50% of customer companies had fewer than 100 employees, and around 70% had net sales of less than ¥10bn, so medium-sized companies are the Group's main customers. Also, looking at the industries it covers, it provides solutions to companies in a diverse range of industries, including manufacturing, wholesale and retail, eating and drinking establishments, and services, from which we can understand the strength of its problem-solving abilities and the breadth of the solutions it proposes.

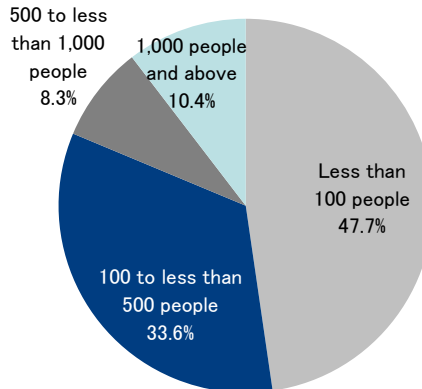
Company profile

JBCC's customer categories (FY3/17)

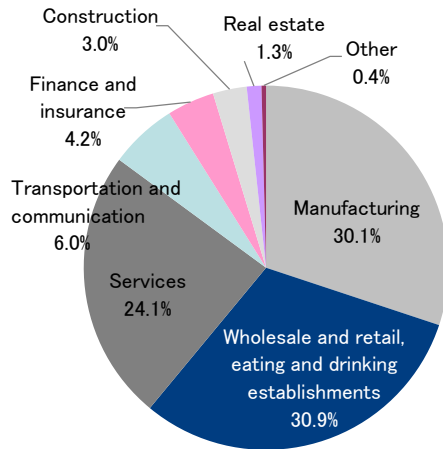
Percentages of customer numbers by annual sales (FY3/17)



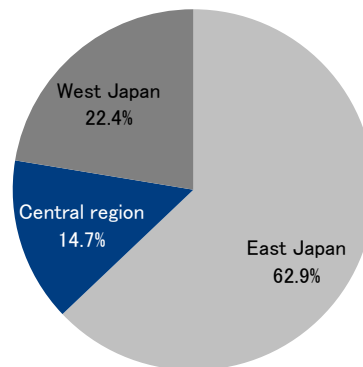
Percentages of customer numbers by number of employees (FY3/17)



Percentages of customer numbers by industry (FY3/17)



Percentages of customer numbers by region (FY3/17)



Source: created by FISCO from the Data Book

Business overview

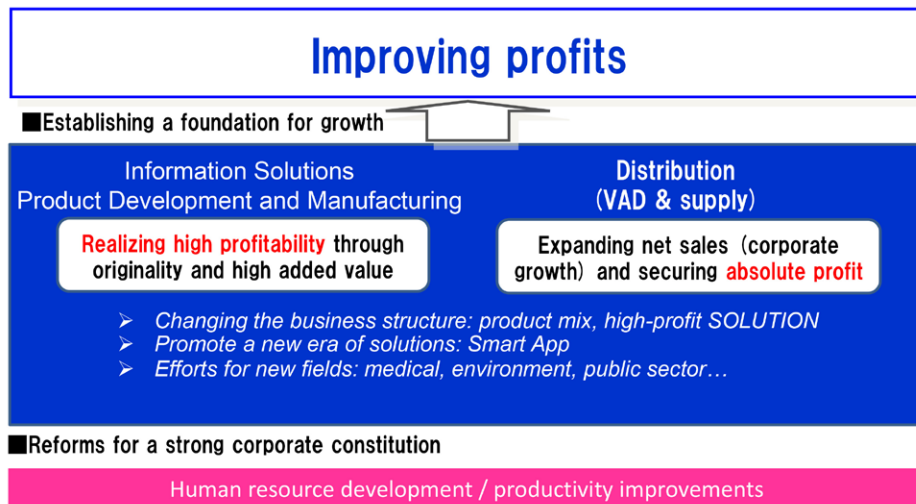
Aiming to reform the business structure and focus on growth fields

The Company Group has been aiming to reform its business structure in consecutive medium-term management plans from FY3/15, one of three year's length and the other of four. The flow of these reforms is explained below, followed by an explanation of the business fields it is newly focusing on.

1. The previous medium-term management plan, Innovate2016

The main point of Innovate2016, the plan implemented from FY3/15 to FY3/17, was that the Company aimed to improve profitability through reforms to establish a foundation for growth and to strengthen the corporate constitution.

The main point for the previous medium-term management plan, Innovate2016



Source: reprinted from the medium-term management plan materials

(1) Establishing a foundation for growth

In terms of the measures to establish a foundation for growth, in order to create originality and high added value, the Company worked on accelerating the shift to Cloud services and on reforming the SI (systems development) business.

With regards to the Cloud, it expanded ORENO (My) Cloud*1 cloud services, which are the cloud Ecosystem services*2, and accelerated the track record of introductions up to a cumulative total of 20,000 users (as of August 2017).

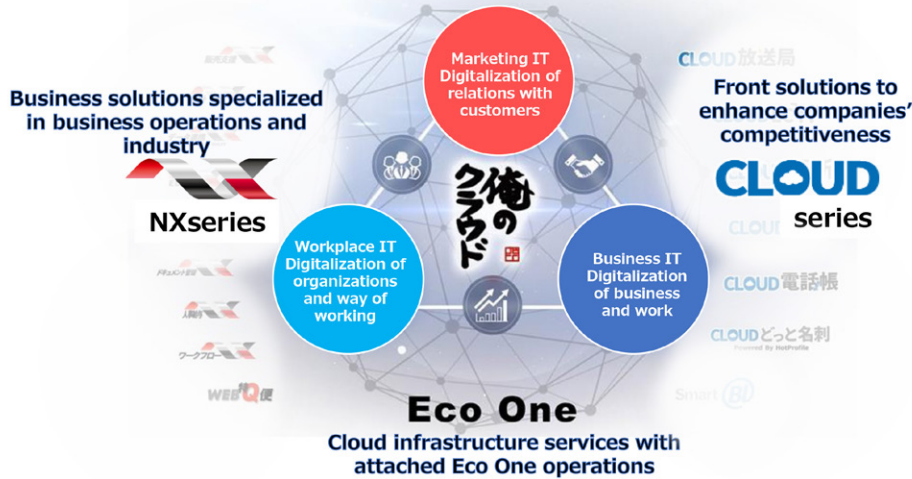
*1 ORENO (My) Cloud: the general name for the Company Group's Cloud services.

*2 Ecosystem: a structure in which companies form partnerships, cooperate to utilize each other's technologies, and provide and mutually develop services of value.

Business overview

ORENO (My) Cloud

Enhancing the Ecosystem Cloud services ORENO(My) Cloud, which has more than 20,000 users (as of August 2017)

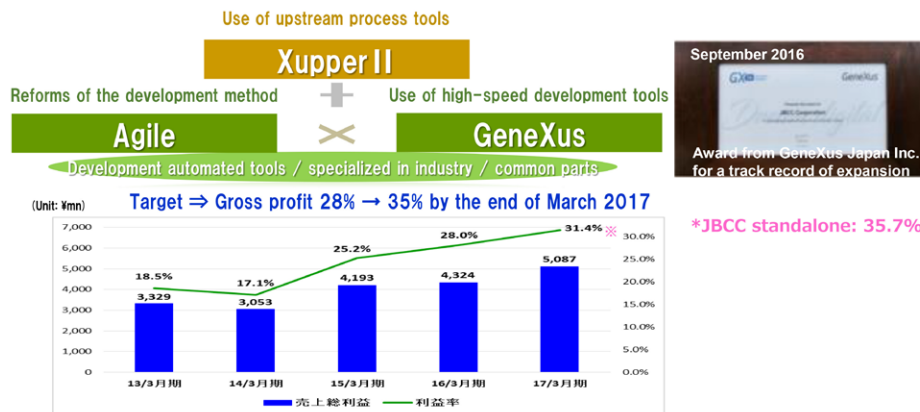


Source: reprinted from the Company's leaflet

Also, with regards to the reforms to the SI (systems development) business, through the utilization of upstream process tools and high-speed development tools, and the use of the development method called agile*, it has surely and quickly conducted confirmations at the time of systems development with customers, and by eliminating rework arising from inconsistencies in specifications, it has worked to shorten development periods and to reduce unprofitable projects. Through these efforts, in the SI (systems development) business, the gross profit margin rose from 17.1% in FY3/14 to 31.4% in FY3/17, and profitability has greatly improved.

* Agile : in the IT industry, it refers to a flexible information system that can respond quickly to changes in the management environment, and to an efficient systems development method

Image of the Company's SI business reforms



Source: reprinted from the medium-term management plan materials

Business overview

(2) Reforms for a strong corporate constitution

Accelerating the shift to the Cloud and reforming the SI business also required changing the sales style and development style. In order to respond to such changes, the Company has been working on developing human resources and changing the evaluation system, and it has tried to also reform employee awareness. At the same time, it has worked to improve productivity by consolidating services in the Staff Department.

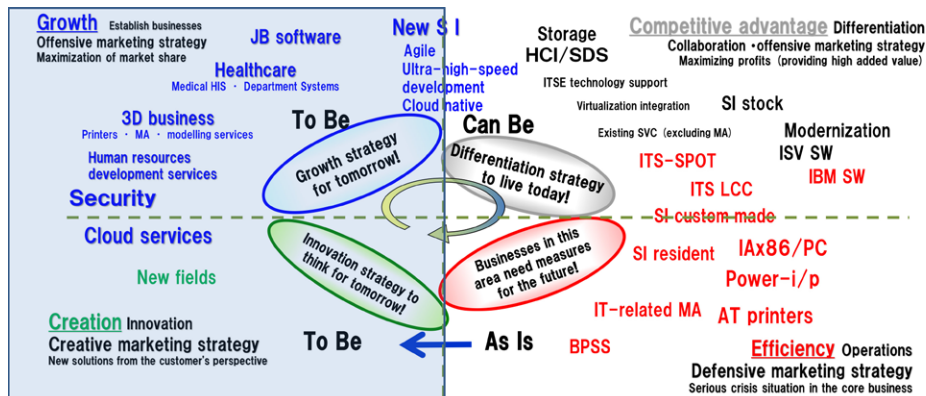
2. The new medium-term management plan, Transform2020

Based on the results of the previous medium-term management plan Innovate2016, the Company is implementing the new medium-term management plan Transform2020 for the four fiscal years from FY3/18 to FY3/21, toward realizing its customers' digital transformations*.

* Digital transformation: transforming (changing, converting) everything with digital technology as the starting point, or by fully utilizing it. Based on the premise of digital technology, it entails fully reconsidering the ways of thinking on existing businesses and organizations, the ways of progressing work, the ways of gathering information and learning, and the ways of living.

On implementing the measures in Transform2020, at the end of June 2017 the Company sold all of its shares in IGUAZU with the aims of concentrating management resources and improving profits. Then, in the Group's business lifecycle by field, it named the fields that are expected to grow in the future as WILD7 and it is now focusing on them.

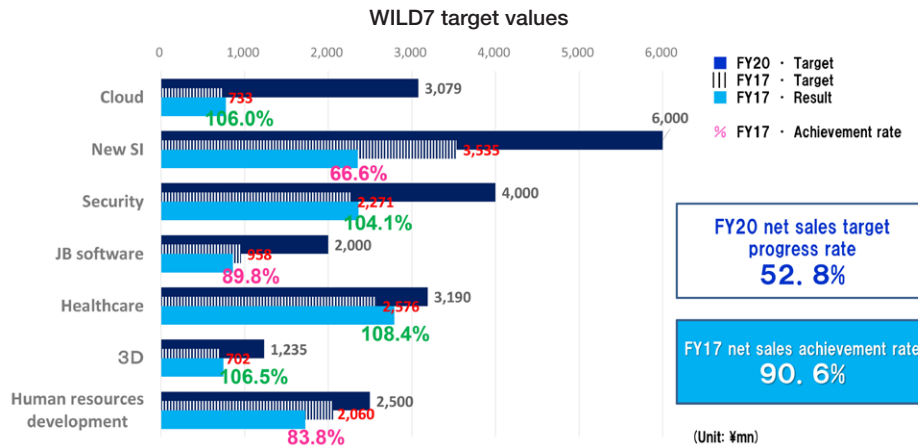
The new medium-term management plan: Transform2020



Source: reprinted from the medium-term management plan materials

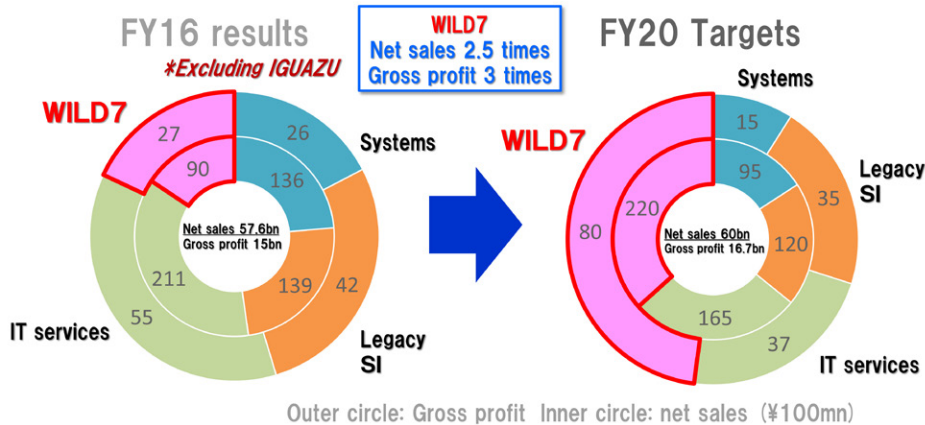
In these seven fields, the Group is aiming to increase net sales by 2.5 times and total profit by 3 times between FY3/17 and FY3/21 by developing not only existing customers with who it already has relations, but new customers also.

Business overview



Source: reprinted from the medium-term management plan materials

Business structural reforms



Source: reprinted from the medium-term management plan materials

Below, the WILD7 businesses are explained.

(1) Cloud services

Under the general name of ORENO (My) Cloud, the Company is operating and providing solutions in a Cloud environment that forms the base for customers' business. It also established the consortium ORENO (My) Cloud Club in October 2015 to provide optimal Cloud services for customers. One of the features unique to the Company is that it is able to provide customers with optimal Cloud services by coordinating on the Ecosystem with the solutions specialized in industry and operations, and with the solutions of partner companies that have knowledge of Cloud security. It also supports the utilization of core systems on the Cloud.

The Company provides optimal services on the Cloud by coordinating on the Ecosystem for its own Group's solutions and the solutions of each partner company that specialize in a certain industry and operations. By utilizing the comprehensive power of the Group, it is supporting digitization by companies in various ways, including for work and businesses centered on the Cloud, and for ways of working.

Business overview

(2) Security

On the one hand, the utilization of the Cloud and mobile devices are progressing and needs are rising for convenience in companies' systems operations and ways of working. But the other hand, the security domain is expanding and the required measures are diversifying, and the reality is that it is getting harder for customers to respond to this situation by themselves. At the Company's management center SMAC (Solution Management and Access Center), it monitors customers' IT environments 24 hours a day and 365 days a year, and it also works to enhance SOC* functions and to strengthen security technologies, while its specialist engineers support customers' safe and secure systems operations.

| * SOC: security operations center |

The Company Group's security integrated brand OPTi Secure provides operations monitoring services, and in addition, offers a variety of security services based on the five steps that form the basis for security measures (identification, defense, detection, response, and recovery). This enables it to provide the optimal combination of security measures as a service for each customer. As well as monitoring and operations services, the Company's strengths include that it is able to understand customers' server environments and network environments and reduce the work load on customers, and it is highly capable of analyzing and responding to logs from its track record with many customers. In addition, it plans to grow results by aiming to conduct reforms, from sales and construction through to operations services, and by advancing the creation of stock businesses.

(3) New SI (new systems development)

The Company Group is combining new technologies and various Cloud services and advancing measures to develop systems that can respond rapidly and flexibly to customers' requests. Based on actually operating systems, it is advancing developments in a short cycle while discussing and confirming with customers. It is also coordinating with tools for upstream process management and automatic program generation to realize quality improvements and speedy development.

In terms of its track record in ultra-high-speed development, it has an achievement of realizing a service in just one and a half years for a project that another company proposed a period of four years. The Company is further improving its proprietary JBCC Agile Development and aiming to expand more and more by increasing unit prices by combining it with Cloud and other elements.

In addition to the fact that it already has a plentiful customer base, the Company plans to grow results by utilizing its competitive advantages over other companies, including that it is unlikely to be dragged into price competition, while also ascertaining the operations at these customers and maintaining relations of trust.

(4) JB software (original solutions)

The Company is bringing together hardware and software development technologies to develop and provide its Group's proprietary solutions. It reflects the voices of customers to continuously strengthen and improve functions, and it works together with customers to provide them with products and services that are tailored to their needs. Also, based on the Cloud, it is working on advanced technologies including IoT, AI (artificial intelligence) and robots, and it is also actively moving ahead on consideration of utilizing them for new-technology businesses.

Business overview

(5) Healthcare

In 2013, the Company entered-into a business alliance with Kameda Healthcare Informatics Corp., which specializes in medical information, including electronic medical records, and it began the fully fledged development of solutions that connects patients to communities and to hospitals. Kameda Healthcare Informatics, which is strong in electronic medical records, works together with JBCC Corporation, the Company's Group company that is able to provide products and IT services including IT infrastructure as a one-stop solution, and they are coordinating with various companies that are partners of the JBCC Healthcare Consortium. This is enabling it to develop various solutions toward realizing "community integrated care systems" not just for the core product of electronic medical records, but also for various other products and services, from prevention through to nursing.

(6) 3D business

Due to the improvements to the technologies and their accuracy and the diversification of materials that can be used for modelling, the fields in which 3D printers are utilized are expanding, from the previous use of by R&D facilities for the purposes of verification and prototyping, to production machinery to create the final product. Centered on JB Service, the Company Group is not only selling and maintaining 3D printers, it is also utilizing the expertise it has acquired over many years to provide total services, focused on 3D printers. It is utilizing its strength of being able to provide support through a one-stop service, from the selection of the optimal machinery model through to support for its introduction, operations and maintenance, the construction of systems utilizing 3D data, the provision of new solutions, the education and development of engineers, and agency molding services. In addition, it is promoting multi-vendor* maintenance through its advanced technological capabilities and thereby aiming to grow results.

* Multi-vendor: handles the products not only of a single manufacturer, but of multiple manufacturers.

(7) Human resources development

i-Learning Co., Ltd., provides these services. As a company that supports the development of the next generation of human resources, it offers high quality training solutions tailored to customers' needs, from the training of new employees through to management training, and IT training from upstream through to downstream.

Its strengths include that it can provide an abundance of training services in various fields, from planning through to development and implementation, and from individual skills training through to comprehensive capabilities development, including for human resources development training, sales training, IT training, PM training, and IBM product training.

Recently, in addition to business skills, employees are required to have digital skills. So this company is also promoting its digital business school and offering micro-learning*, in which students can learn according to their own schedules.

* Micro-learning: a learning method in which digital teaching materials are provided frequently so that the student can learn even in a short period of time.

The market environment and strengths

IT budgets are trending upward

1. The market environment

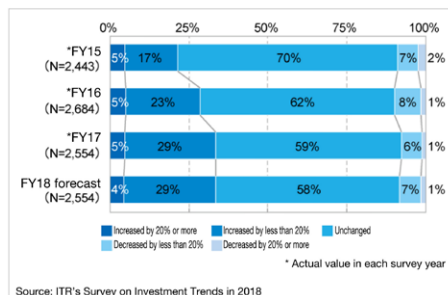
According to the Survey on Investment Trends in 2018 by the market research company ITR, in FY17 (April 2017 to March 2018), more than 30% of companies increased their IT budgets. In FY18 (April 2018 to March 2019), the pace of this increase is slowing slightly, but the upward trend is continuing. On indexing this increase or decrease trend in IT budgets, we find that FY17 had the highest value in the last 10 years. The positive trend is expected to continue in FY18 also, so it is thought that companies are increasing their IT budgets.

The IT budgets of companies conducting IT investment within Japan will continue to trend upward in FY18 also.

Companies' IT budgets are continuing to increase in FY18

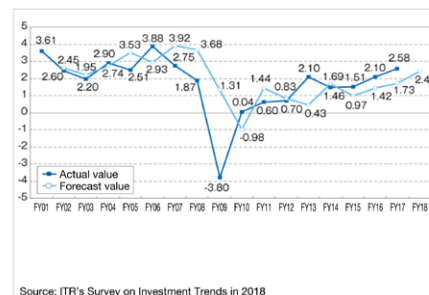
Change over time in the increase/decrease trend of IT budgets

- More than 30% of companies increased their IT budgets in FY17
- In FY18, although the rate of increase will decline slightly, it will continue to increase



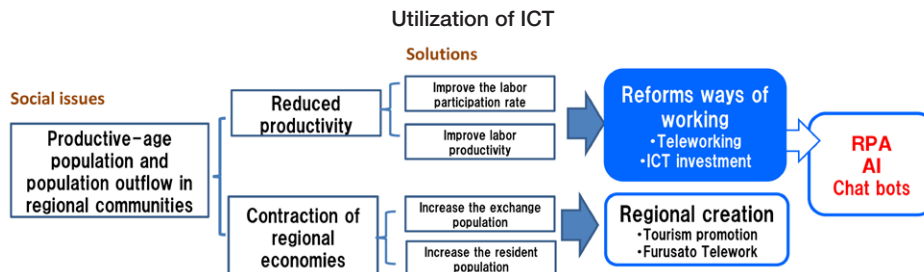
Change over time of the IT investment increase / decrease index

- When indexing changes in IT investment, the value in FY17 rose higher than in the previous year and was the highest in the past 10 years.



Source: The Company's results briefing materials

On the other hand, the contraction of the economy alongside the decline in the productive-age population is a problem, and it is especially noticeable in regional communities. Going forward, it is considered that ICT will be greatly utilized to reform ways of working and in regional revitalization, which will be necessary in order to solve this problem.



Note: RPA: Robotics Process Automation technology to automate the simple, indirect work of white-collar workers
Chat bots: automated conversation programs that utilize artificial intelligence
Source: The Company's results briefing materials

2. Strengths

The Company's strengths in its business history of more than 50 years include its track record of supporting the IT utilization of more than 20,000 companies, the expertise and solutions it has acquired from this experience, and also the relations that it has built with many customers and partner companies during this time.

By having relations of trust with customers, competition with other companies is unlikely to occur, so it can also avoid getting dragged into price competition. As its understanding of its customers' specifications is high, it is able to respond over a short period of time and over a wide range of areas through preparing skills and mechanisms capable of high-speed development and providing an abundance of solutions, including those of partner companies. In addition to this sort of stable customer base, it is considered that the Company's strengths include that it can combine its highly profitable development mechanism with an extremely detailed service structure and is thereby able to provide total support and services.

Business performance

Achieved the forecasts for net sales and operating income announced for FY3/18, the first fiscal year of the new medium-term management plan

1. FY3/18 results

For FY3/18, which is the first fiscal year of the medium-term management plan Transform2020, the Company set "changing the business structure," "clarifying the fields to focus on," and "new initiatives" as the basis for management, and it is strengthening the seven WILD7 growth businesses as the pillars to support its customers' digital transformations. Net sales declined YoY, mainly because at the end of June 2017, it sold all of its shares in the consolidated subsidiary IGUAZU, and also because of a decline in hardware sales, and therefore also in maintenance sales, due to the acceleration of the shift to the Cloud. However, profitability improved through the growth of the Cloud business and the reforms to the SI (systems development) business, while SG&A expenses were reduced from the sharing of services by the Staff Department. Due to these and other efforts to improve profitability, the Company was able to increase profits despite a decline in sales of more than 20%, and it seems that it is making steady progress in its efforts to strengthen profitability.

In the FY3/18 results, net sales were ¥63,107mn (down 24.2% YoY, up 0.2% compared to forecast), operating income was ¥2,060mn (up 11.1% YoY, up 8.5% compared to forecast), ordinary income was ¥2,034mn (up 5.3% YoY, up 4.4% compared to forecast), and profit attributable to owners of the parent was ¥1,186mn (down 6.5% YoY, down 5.1% compared to forecast).

Business performance

FY3/18 results

	FY3/17		Forecast	FY3/18			
	Result	Ratio to net sales		Result	Ratio to net sales	YoY	vs. forecast
Net sales	83,272	100.0%	63,000	63,107	100.0%	-24.2%	0.2%
Cost of sales	65,334	78.5%	-	46,906	74.3%	-	-
SG&A expenses	16,082	19.3%	-	14,140	22.4%	-12.1%	-
Operating income	1,855	2.2%	1,900	2,060	3.3%	11.1%	8.5%
Ordinary income	1,932	2.3%	1,950	2,034	3.2%	5.3%	4.4%
Profit attributable to owners of the parent	1,269	1.5%	1,250	1,186	1.9%	-6.5%	-5.1%

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

Looking by business, in the Information Solutions field, which includes the construction of companies' information services and the provision of operations and maintenance services, in the services business, security services grew from the strengthening of introduction services and measures for customers' security. In systems, net sales declined slightly YoY due to the shift to the Cloud, even though businesses such as the provision of next-generation virtualization solutions that integrate servers and storage performed solidly, and that the number of IoT and AI business projects increased greatly.

Sales declined in systems development due to the fall in large projects. In the Product Development and Manufacturing field, which involves the development, manufacture and sale of the Company Group's proprietary software and information devices such as printers, sales from introductions and development of the production management system R-PiCS increased. In JB software, sales grew of information-coordination support solutions, which increase the efficiency of linkages between systems inside and outside of companies and realize the utilization of information. For hardware, in the 2H there were sales from large orders for Optimized PC 2.0*, but sales of the mainstay impact printers declined due to the contraction of demand.

* A client terminal, and also its environment, that combines the characteristics of both existing PCs and thin clients. It offers convenience and confidentiality and it is optimized for the customer's form of usage.

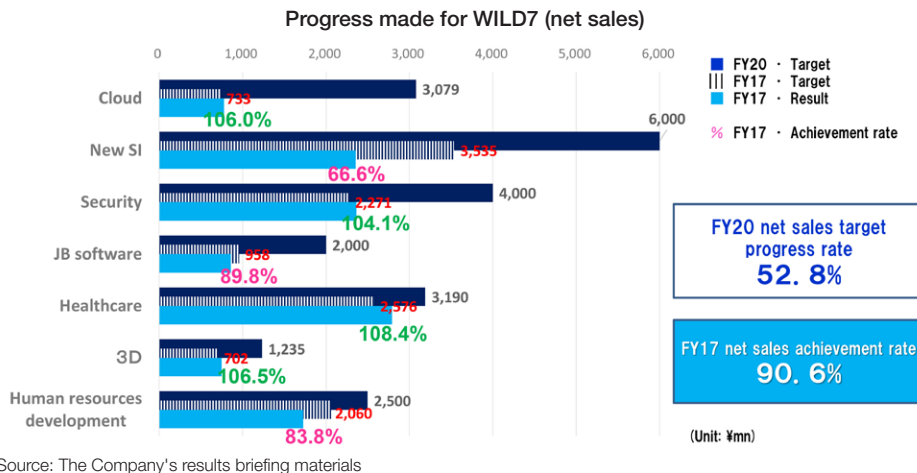
FY3/18 results trends by business

	FY3/17 result	FY3/18	
		Result	YoY
Net sales	83,272	63,107	-24.2%
Information solutions	55,183	53,861	-2.4%
Distribution	25,679	6,758	-73.7%
Product development and manufacturing	2,409	2,488	3.3%
Gross profit	17,938	16,201	-9.7%
Information solution	13,899	14,250	2.5%
Distribution	2,928	698	-76.2%
Product development and manufacturing	1,110	1,252	12.8%

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

Business performance

Looking at the progress made for WILD7, the FY3/18 net sales target achievement rate was 90.6%. The achievement rate for the New SI domain, of 66.6%, stands out as being particularly low. The reasons for this were that sales slumped as although there were many projects, most of them were small on the scale of only a few million yen. Going forward, the Company plans to recover the unit price per contract by increasing the number of engineers within the Company capable of responding to the New SI Cloud native development, thereby increasing the number of projects that they can respond to, and also through combination proposals, including for the shift to Cloud of core systems, AI, and Cloud.



Source: The Company's results briefing materials

2. Financial condition

At the end of FY3/18, total assets were ¥30,956mn (down ¥7,394mn on the end of the previous fiscal year). This was because although investment securities increased ¥935mn, there were decreases of notes and accounts receivable of ¥4,441mn, goods and products of ¥1,091mn, prepaid expenses of ¥997mn, other receivables included in current assets of ¥473mn, and deferred tax assets of ¥480mn.

Total liabilities were ¥16,071mn (down ¥8,413mn on the end of the previous fiscal year). This was mainly due to decreases in notes and accounts payable of ¥4,254mn, accrued expenses of ¥244mn, income taxes payable of ¥323mn, advances received of ¥615mn, and liabilities related to retirement benefits of ¥2,767mn. Total net assets were ¥14,884mn (up ¥1,019mn on the end of the previous fiscal year). The main factors were increases in profit attributable to owners of the parent of ¥1,186mn and unrealized gain on other marketable securities of ¥293mn, and a decrease in dividends paid of ¥478mn. The current ratio and the shareholders' equity ratio both increased, and the Company's financial stability was further strengthened.

Business performance

Consolidated Balance Sheet and Key Management Indicators

	FY3/17	FY3/18	Change
	(¥mn)		
Current assets	29,679	22,198	-7,480
(Cash and deposits)	7,293	7,232	-61
Non-current assets	8,671	8,758	86
Total assets	38,350	30,956	-7,394
Current liabilities	17,152	11,519	-5,632
Non-current liabilities	7,332	4,551	-2,781
Interest-bearing debt	450	370	-80
Total liabilities	24,485	16,071	-8,413
Net assets	13,865	14,884	1,019
(Stability)			
Current ratio	173.0%	192.7%	19.7pt
Equity ratio	35.9%	48.0%	12.1pt

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

■ Outlook

Is focusing on highly profitable businesses, aiming to optimize Group management, and advancing customers' digital transformations

1. FY3/19 forecast

From FY3/19 onwards, the economy is expected to continue its moderate recovery, and it is also forecast that IT investment by medium-sized companies, which are the Company's main customers, will improve even further.

Based on the medium-term management plan, for FY3/19 the Company intends to focus on highly profitable businesses. It has sold the Distribution business, so net sales are set to decline to ¥57,300mn (down 9.2% YoY). But the forecasts are for operating income of ¥2,100mn (up 1.9%), ordinary income of ¥2,150mn (up 5.7%), and profit attributable to owners of the parent of ¥1,300mn (up 9.5%). It will aim to achieve the plan's targets by continue to support its customers' digital transformations and pursuing the further strengthening and expansion of the WILD7 growth businesses.

FY3/19 forecast

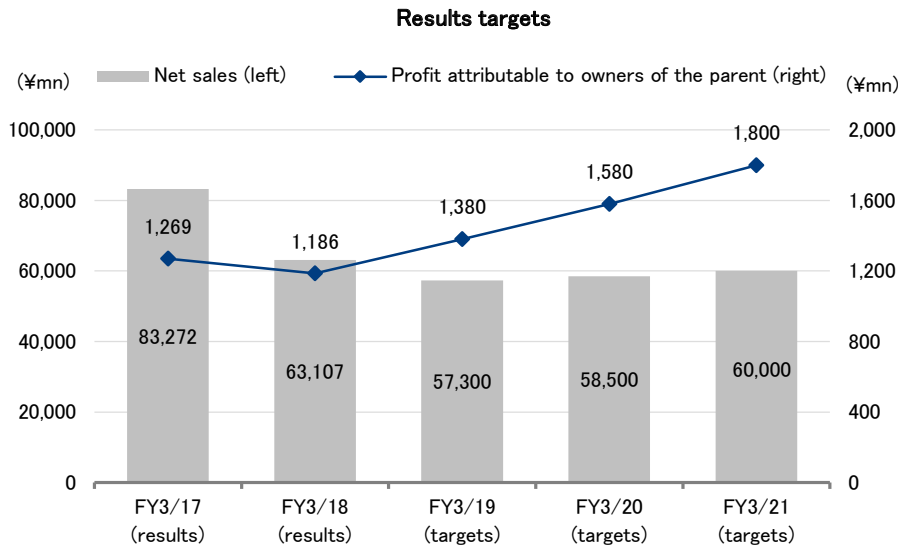
	FY3/18 results	FY3/19	
		Forecast	YoY
Net sales	63,107	57,300	-9.2%
Information solution	53,861	54,700	1.6%
Distribution	6,758	-	-
Product development and manufacturing	2,488	2,600	4.5%
Gross profit	16,201	15,750	-2.8%
Information solution	14,250	14,450	1.4%
Distribution	698	-	-
Product development and manufacturing	1,252	1,300	3.8%

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

Outlook

2. Medium- to long-term growth strategy

In Transform2020, by focusing on highly profitable businesses, the aim is to strengthen profitability, from results of net sales of ¥83,272mn and profit attributable to owners of the parent of ¥1,269mn in FY3/17, to net sales of ¥60,000mn and profit attributable to the owners of ¥1,800mn in FY3/21, and to optimize Group management.



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

A point of concern is that a large part will depend upon the growth of WILD7. If the speed of the declines in the existing businesses is faster than the Company anticipated, and should there be delays in the launches of WILD7, it is possible that the expected results will not be obtained. As the measures to address this, it will launch WILD7 and implement measures for them at an early stage by securing the human resources to support its growth and cooperating with external companies. The Company is also working to create new businesses and aiming to realize them at an early stage to steadily achieve the targets in the medium-term management plan.

Shareholder return policy

The dividend per share at the end of FY3/18 was increased by ¥4, from ¥14 to ¥18, for a full-year dividend of ¥32. This was based on a comprehensive consideration of factors including that profits exceeded the targets in the first fiscal year of the medium-term management plan, the financial condition, and the dividend payout ratio. The forecast for FY3/19 is an annual dividend of ¥36.



Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.