COMPANY RESEARCH AND ANALYSIS REPORT

JUST PLANNING INC.

4287

TSE JASDAQ

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Index

Summary

Aims to restore growth in the ASP business by bolstering sales capabilities through business alliances

JUST PLANNING INC. <4287> (hereafter, also the Company) is a major supplier of store management systems (sales, purchasing, attendance management) to the restaurant industry. It had 4,891 subscribing restaurants as of the end of January 2017. Main customers are smaller restaurant chains with 20-50 stores. The Company operates a stock-type business model from accumulation of monthly usage fees. Key features are strong profitability and stability and healthy financial conditions with debt-free management. The Company also engages in logistics solution, solar power generation, and other businesses through subsidiaries.

1. Profit fell on higher sales in FY1/17 due to major cancellations in the ASP Business

In FY1/17 consolidated results, net sales increased 11.2% year on year (YoY) to ¥2,450mn led by higher sales in the Logistics Solution Business, a fifth straight year of sales growth. Operating income, however, dropped 18.2% YoY to ¥409mn, the first setback in four years. Profit weakened on a decline in subscribing restaurant volume of 161 stores from the end of FY1/16 to 4,891 stores because of cancellations by two relatively large customers in the mainstay ASP (*) Business, increased hiring costs and personnel expenses related to strengthening sales operations, and higher infrastructure costs accompanying enhancements to servers.

* ASP (Application Service Provider): a business that provides customers with application software functions used on IT devices as a service via networks. ASP can also refer to this type of service itself.

2. Likely to restore double-digit earnings growth in FY1/18 on recovery in ASP Business

JUST PLANNING expects recovery to sales and earnings growth in FY1/18 with a 6.1% YoY rise in net sales to ¥2,600mn and a 22.0% increase in operating profit to ¥500mn. It factors in roughly 10% growth in monthly user fee income in the ASP Business in FY1/18 on expansion of subscribing restaurant volume driven by not only direct sales but also enhanced sales agent measures. Additionally, as new initiatives in FY1/18, the Company is starting to offer attendance management service to pachinko halls through partner SUNCORPORATION <6736> from June 2017 and beginning to supply Makasete Net customized to the soba and udon industries through partner sales distributors. These efforts have not been factored into results forecast and could provide upside depending on sales conditions. The Company is pursuing a strategy of service enhancement aimed at preventing cancellations and acquiring new contracts. Specifically, it plans to introduce added-value services of extended warranty service for damages for handy terminals, POS systems, and other equipment used at stores and attendance management service with salary advance payments. Subscribing restaurant volume in March 2017 was 4,922 stores. This was the first increase in nine months, a positive sign. We expect recovery in earnings given these trends.

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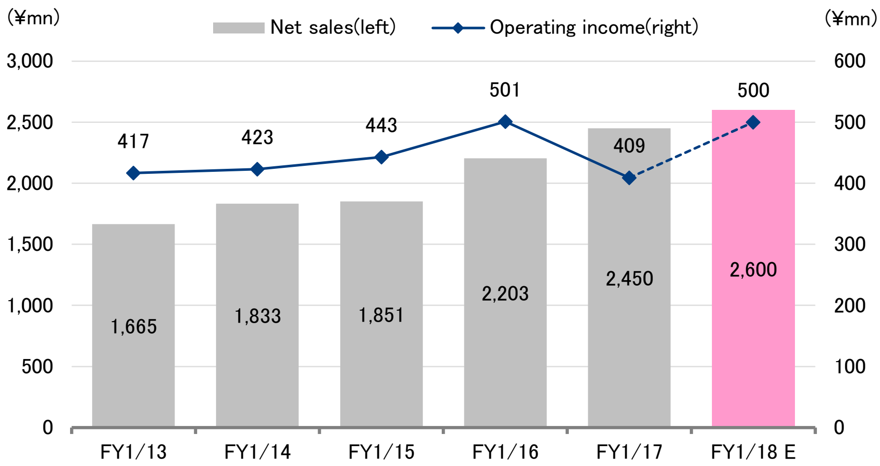
3. Aims for renewed growth by bolstering sales capabilities with aggressive business alliances

Improvement of sales capabilities has been an important management issue. Given this situation, the Company has adopted a strategy of aggressively forming sales alliances with companies that have customer bases in various industries and seeking to expand growth via provision of store management systems tailored to specific industries, including on an OEM basis. It also plans to broaden customer targets beyond just the restaurant industry to retail and other industries. The first phase of this effort is the initiative aimed at pachinko halls and the soba and udon industry from FY1/18. The Company also intends to launch a service for securing human resources amid continuation of manpower shortages mainly in restaurant and retail industries. While the Company's business results stalled in recent years, we expect a renewed growth stage if benefits from these measures materialize.

Key Points

- Forecast for recovery in ASP Business and restoration of double-digit earnings growth in FY1/18
- Strengthening sales agent measures through business alliances and entering other industries besides restaurants
- Aiming for 10-20% earnings growth over the medium term via expansion of ASP Business

Results trends



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

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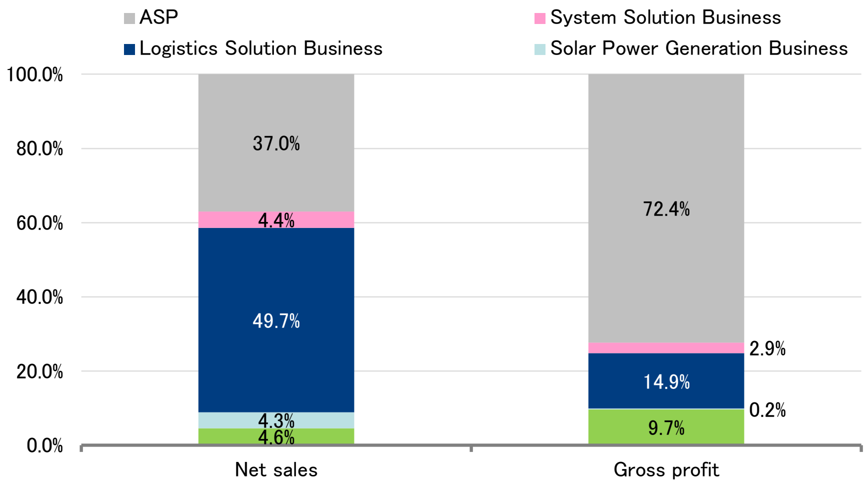
Business overview

Major supplier of store management systems to the restaurant industry

The Company's operations are classified into five business segments; the ASP Business, the System Solution Business, the Logistics Solution Business, the Solar Power Generation Business, and the Other Business. In the FY1/17 segment breakdown, the ASP Business and Logistics Solutions Business accounted for over 80% of sales at 37.0% and 49.7% respectively. However, the ASP Business dominates overall earnings at 72.4% of gross profit. We review segment content below.

Business segment composition (FY1/17)



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

1. ASP Business

In the ASP Business, the core service is Makasete Net. This service allows customers to utilize the business software they need to operate various aspects of restaurants, such as sales, purchasing, and attendance management, via the Internet. The main customers for this service are small and medium-sized restaurant companies that operate chains of between 20 to 50 restaurants. Introducing Makasete Net makes it possible for these client companies to promptly and inexpensively gather, manage, and analyze data on operating conditions at their restaurants. It is a stock-type business model in which the monthly usage fees from the subscriber restaurants provide the majority of the net sales. Its gross profit margin is also high, in the region of over 75%, and it is the Company's mainstay business.

While Makasete Net monthly fees differ depending on the content of services used, the full-service contract charges a standard fee of ¥44,000. Average monthly fee per store at this point, meanwhile, is in the ¥15,000 range because many companies only conclude contracts for certain services, such as sales management and attendance management. Nevertheless, this level is relatively high compared to monthly fees at about ¥10,000 for many rival firms. The main difference is that the Company does not charge to support customization (albeit additional fees are required to make large-scale specification changes), in contrast to extra fees at other firms.

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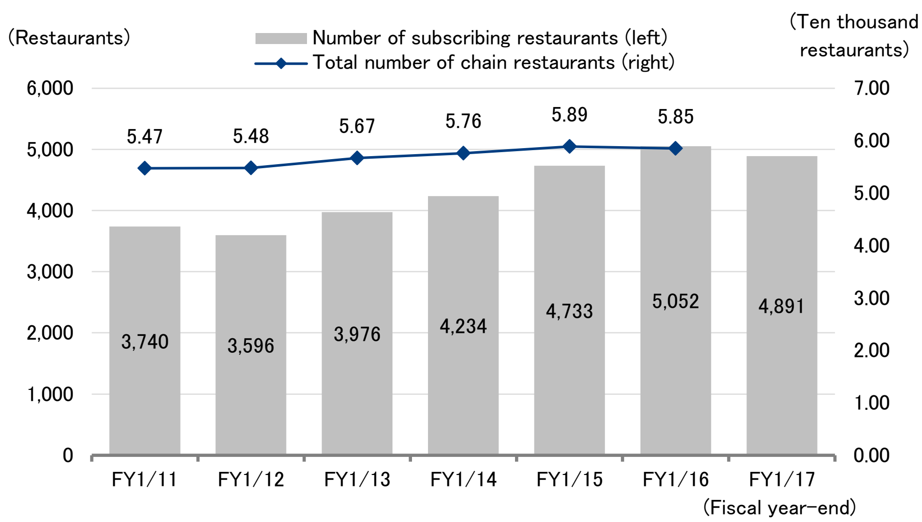
Makasete Net subscribing restaurant volume at end-FY1/17 dropped 161 stores from the end of the previous fiscal year to 4,891 stores (226 corporate subscribers). The setback reflects cancellations by two major customers with over 100 stores. The Company sustained an upward trend in contracted stores excluding these losses. Japan's restaurant chain store volume has been growing at a moderate pace since FY2012, due to increase in foreigners visiting Japan and recovery by the Japanese economy, reaching 58,500 stores at end-FY2015 (according to research by the Japan Franchise Association). While the Company's share is just under 10% in the industry, we estimate that it is just over 10% when restricted to smaller restaurant chains with 50 or fewer restaurants that are the main targets.

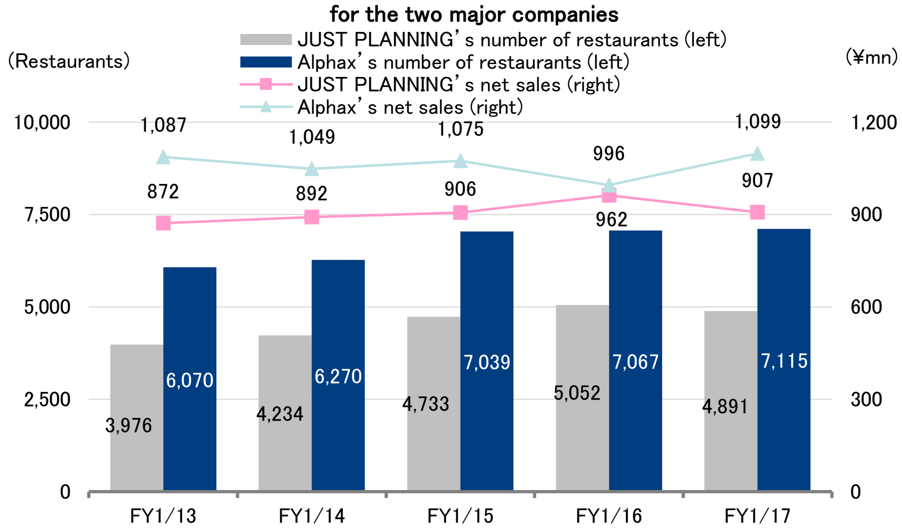
Number of chain restaurants in Japan and JUST PLANNING's subscribing restaurants



Source: Figures for the number of chain restaurants are from the Japan Franchise Association (as of the end of March)
Prepared by FISCO from the Company materials

Looking at JUST PLANNING's competitors, there are more than 10 rival companies of a similar size, including ALPHAX FOOD SYSTEM CO., LTD. <3814>, Hitachi Systems, Ltd., and ASPIT CO., LTD. Of these, Alphax Food System surpasses JUST PLANNING in terms of having the industry's largest number of subscribers, with 7,115 subscribing restaurants (276 corporate subscribers) as of the end of September 2016. But in the last few years their sales trended around the same level. Infomart Corporation <2492> also provides order receipt and placement services related to ASP services for restaurant companies, and some of its services overlap with those of JUST PLANNING. That said, Infomart Corporation is mainly focused on providing services primarily to the selling side (food wholesalers). For this reason, the two companies have established a good business relationship, by, for example, cooperating with one another on systems for shared customers.

Trends in the number of subscribing restaurants and net sales for the two major companies



Note: Net sales for the ASP Business; Alphax Food System results to end of September
Source: Prepared by FISCO from the Company materials

The Company is promoting expansion of added-value services besides Makasete Net with the aim of boosting ARPU (sales per store) or enhancing customer retention. It provides Makasete Touch, a cloud-type POS ordering service announced in fall 2012, an optimization assessment services for public utility bills, which it added in 2014, and Makasete Tsuyaku (voice interpretation service) and Pre Order POS (real-time revenue transmission calculator app), which it launched in 2015.

Makasete Touch is a service that replaces dedicated terminals used to take orders from customers at restaurants (handy terminals) with iPad, iPod touch, and other general-purpose devices. This service's main features are steep reduction of initial deployment costs (to about one-third) because of using general-purpose terminals, quick employee learning that lowers educational and training costs owing to utilization of terminals that have been widely adopted, and decline in maintenance costs. The Company hopes to broaden features including service that enables customers to directly place orders from their smartphones and service that utilizes orders information to improve customer interaction. Makasete Touch has an initial deployment cost of ¥100,000 and the monthly fee comes to ¥19,800 per store, which covers ¥9,800 for the ordering service, ¥5,000 for POS service, and ¥5,000 for maintenance service.

While multiple companies already offer POS ordering services that utilize smart devices, a key difference with these earlier participants is their provision of service through a dedicated app versus the Company's browser-based service. The dedicated app approach means that updates might be required at each change in OS specifications by Apple and Google. If revisions are not ready in time, there is risk of needing to temporarily suspend service provision. Browser-based service avoids this type of risk. Subscribing restaurant volume had been slower than anticipated initially. However, it has risen to over 100 stores recently thanks to deployments by stores using Makasete Net and new customer recruitment.

The Company's optimization assessment service for public utility bills reviews the content of electricity, gas, sewerage, and other utilities contracts and proposes optimal planning to realize lower costs. This service targets stores that have direct contracts with electricity firms, gas firms, and other service providers (roadside stores) from among existing corporate subscribers and is positioned as a way of limiting cancellations.

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Overview of Makasete Touch

Service description	• A cloud-based POS ordering service that replaces highly priced dedicated ordering devices used at restaurants with relatively inexpensive general-purpose devices.
Features	• By replacing dedicated devices, which cost more than ¥100,000 each, with relatively inexpensive smart devices such as iPod touch and iPad, the service can reduce initial deployment costs to one-third of the previous cost and reduce maintenance costs. Functional aspects are equivalent to those of dedicated devices. • Staff training time and costs can be reduced, with no need for retraining even if the devices in use are changed. • POS functions and kitchen display functions are installed in iPads. • Plans call for providing services that enhance the customer service experience using ordering information from restaurant customers. • Plans call for providing services that enable restaurant guests to download menus and place orders via their smartphones.
Targeted customers	• Restaurant chain companies and individual restaurants across Japan
Sales price (per restaurant)	• Initial cost: starting from ¥100,000 (Does not include various devices, receipt printers, a dedicated wireless LAN access point (AP), and communications links, which are required separately.) • Running cost: Monthly usage fees @ order: ¥9,800, @POS: ¥5,000, @maintenance: ¥5,000
Sales methods	• Direct sales, agency sales, and OEM supply (Provision of POS services for use in the oishino service of Seiko Solutions Inc.)

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

2. System Solution Business

The System Solution Business mainly comprises the sale of various devices and equipment, such as POS systems and order entry systems that are deployed by the restaurants of companies subscribing to ASP services, as well as related system configuration and maintenance revenues. However, net sales in the System Solution Business have a weak correlation with the ASP Business. The reason is that there is no need for customers to repurchase devices and other equipment that are already installed in a restaurant. This holds true even when customers are subscribing to the ASP service for the first time. Furthermore, the gross margin on sales of devices and other equipment is relatively low level of 20% because these items are purchased from third parties for sale to the customer.

3. Logistics Solution Business

The Logistics Solution Business is mainly being developed by SuccessWay Inc., (the Company holds a 70.0% stake) a subsidiary of JUST PLANNING. This business is mainly comprises logistic solutions and merchandising solutions for restaurant companies, along with corporate business support services. Currently, the gross margin of this business, at around 10%, partly because labor-intensive logistics-business support services account for the bulk of its net sales. The Company's strategy for the Logistics Solution Business is to enhance profitability by focusing on expanding sales of the Logi Logi System, a logistics management ASP service developed by the Company (approximately 400 restaurants subscribe to the Logi Logi System).

4. Solar Power Generation Business

Subsidiary JP Power (wholly owned) started solar power generation business in February 2015. It operated two sites in Tochigi Prefecture with a total of 1.7MWh and added a site with 1.1MWh in Miyagi Prefecture in February 2016. It plans to sell electricity from existing facilities for the time being and does not intend to make new investments. While margin is likely to remain low for the time being because of depreciation cost burden, this business has prospects of rising margin as depreciation costs decline.

5. Other Business

In the Other Business, JUST PLANNING operates two restaurants (izakaya diners) as a training venue for employees to obtain expertise on restaurant operations. In addition, in October 2014 the Company acquired one golf bar, which is operated by JP Power in Fukuoka Prefecture.

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Results trends

Profit fell for the first time in four periods in FY1/17 due to lower sales in ASP Business

1. Review of FY1/17 results

The Company reported FY1/17 consolidated results with ¥2,450mn in net sales (up 11.2% YoY), ¥409mn in operating income (down 18.2%), ¥403mn in ordinary income (down 20.4%), and ¥264mn in net profit attributable to owners of parent (down 24.6%). Net sales grew for a fifth straight year led by expansion of the Logistics Solutions Business, but operating income declined for the first time in four periods due to weaker sales in the mainstay ASP Business. While net sales beat period-start forecast by 2.1% thanks to the Logistics Solutions Business gain, profits missed by just over 20% on ASP Business contraction.

Changes in sales mix resulted in a large increase in the COGS ratio from 54.1% in FY1/16 to 61.2% in FY1/17. SG&A expenses, meanwhile, only rose 5.9% YoY, even with increased hiring costs and personnel expenses related to strengthening sales operations and higher outlays to bolster servers, thanks to efforts aimed at curtailing spending.

Consolidated financial results for FY1/17

(¥mn)

	FY1/16		FY1/17				
	Results	% of sales	Plan	Results	% of sales	YoY	% of plan
Net sales	2,203	-	2,400	2,450	-	11.2%	2.1%
Cost of sales	1,192	54.1%	-	1,500	61.2%	25.8%	-
SG&A expenses	509	23.1%	-	540	22.0%	5.9%	-
Operating income	501	22.7%	530	409	16.7%	-18.2%	-22.7%
Ordinary income	506	23.0%	530	403	16.5%	-20.4%	-23.9%
Extraordinary income	47	2.2%	-	1	0.0%	-97.9%	-
Profit attributable to owners of parent	350	15.9%	345	264	11.1%	-24.6%	20.9%

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

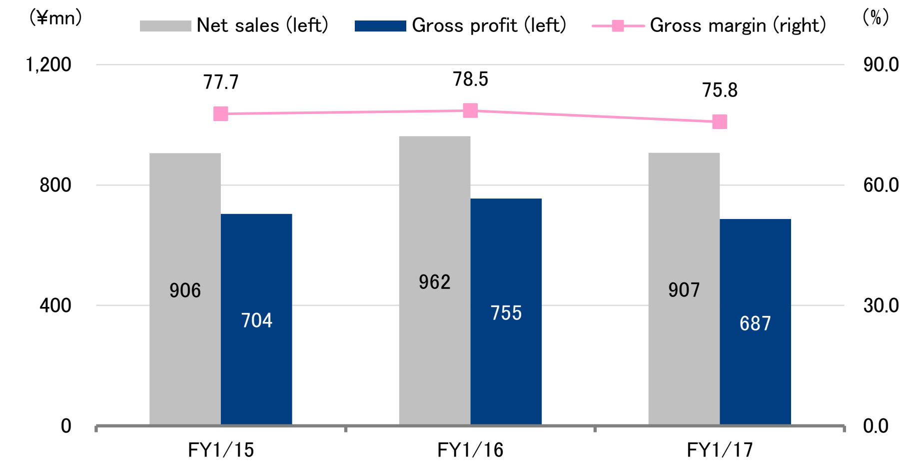
One-time factors responsible for the decline in subscribing restaurant volume, new customer recruitment continuation at a healthy pace

2. Performance trends by business segment

(1) ASP Business

The ASP Business posted ¥907mn in sales (down 5.8% YoY) and ¥687mn in gross profit (down 9.0%). Sales weakened to a decline for the first time in five periods. The main setback was a drop in subscribing restaurant volume by 161 stores from the end of FY1/16 to 4,891 stores because of cancellations by two major customers with over 100 stores each in the core Makasete Net service in the first half of the fiscal year (March and July 2016). These two customers contributed substantial sales totaling just over ¥80mn per year, and the removal had a large impact on income. The cancellations stemmed from situations on the customer side in both cases that led to a switch to in-house developed systems. One case involved system integration with the parent company's system, and the other case was related to system integration that incorporates overseas stores. This business continues to increase sales and subscribing restaurants (YoY) excluding impacts from these two customers.

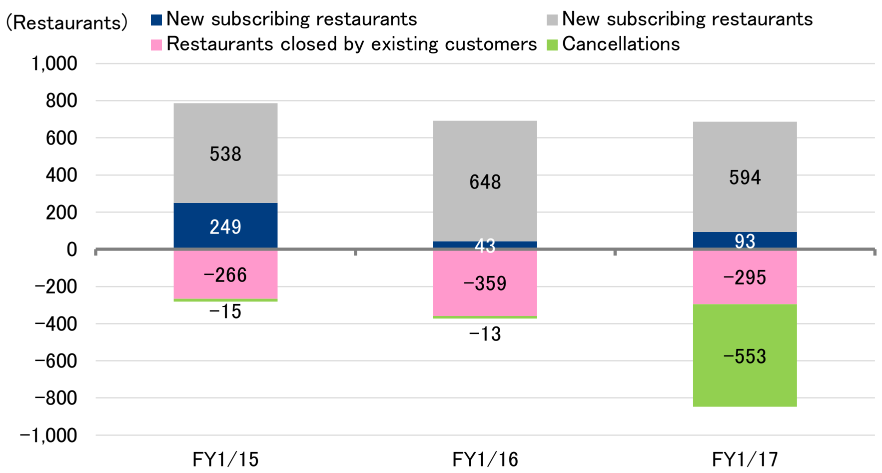
Financial results of the ASP Business



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

Change sources in subscribing restaurant volume from FY1/17 were 93 stores from new contracts (vs. 43 stores in the previous year), 594 stores from new openings by existing customers (vs. 648 stores), 295 stores from closures at existing customers (vs. 359 stores), and 553 stores from cancellations (vs. 13 stores). Cancellation-related closures climbed sharply because of cancellations by the two major customers, but new contracts are steadily growing. The Company hopes to prevent cancellations by increasing customer satisfaction with further improvements to communications with existing customers and roll out of new value-added services.

Breakdown of changes in the number of subscribing restaurants



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

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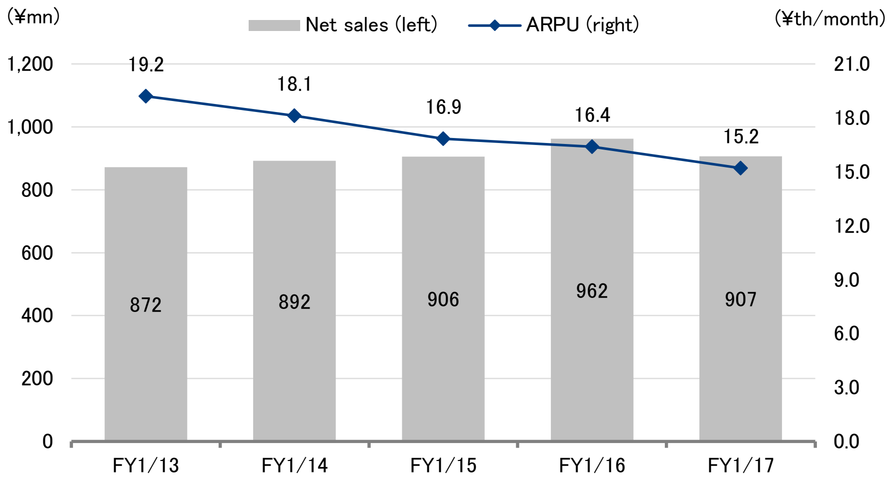
ARPU (monthly sales per store) has been moderately trending lower over the past few periods, including a ¥1,200 YoY decline to ¥15,200 in FY1/17. Main setbacks were cancellations by two major customers with high ARPU and increase in customers only using a portion of Makasete Net services. The Company is developing and supplying added-value services, such as Makasete Touch, aimed at raising ARPU, but the effect has not surfaced yet and this area remains an issue.

ASP Business net sales and ARPU



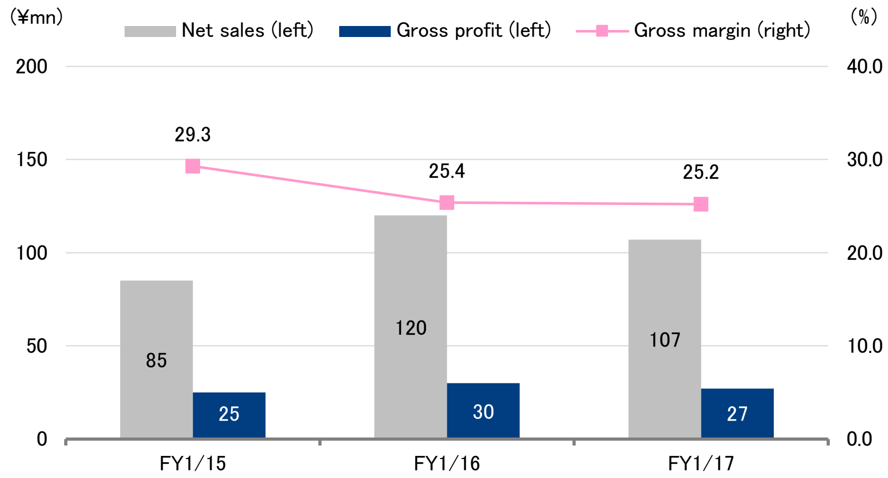
Note: ARPU = ASP Business monthly average sales ÷ ((previous period-end store volume + current period-end store volume) ÷ 2)
Source: Prepared by FISCO from the Company's results briefing materials

The Asian initiative with Makasete Net service appears to be progressing smoothly. Five Japanese restaurant firms with operations in Thailand have started deploying the system, and stores in Singapore, Hong Kong, China, Vietnam, and Myanmar have selected the service too. The Company is steadily building a track record of overseas support. It outsources support operations to local partners in each of these countries. The Company aims to leverage trust it has obtained by supplying services to these overseas stores of restaurant operators in order to acquire business at domestic stores currently using other systems when they arrive at contract renewals.

(2) System Solution Business

The Systems Solution Business booked ¥107mn in sales (down 11.1% YoY) and ¥27mn in gross profit (down 11.7%). Sales and profits slipped due to slower capital investments at customer stores in FY1/17 and price decline for POS systems and other terminal equipment.

Financial results of the System Solution Business

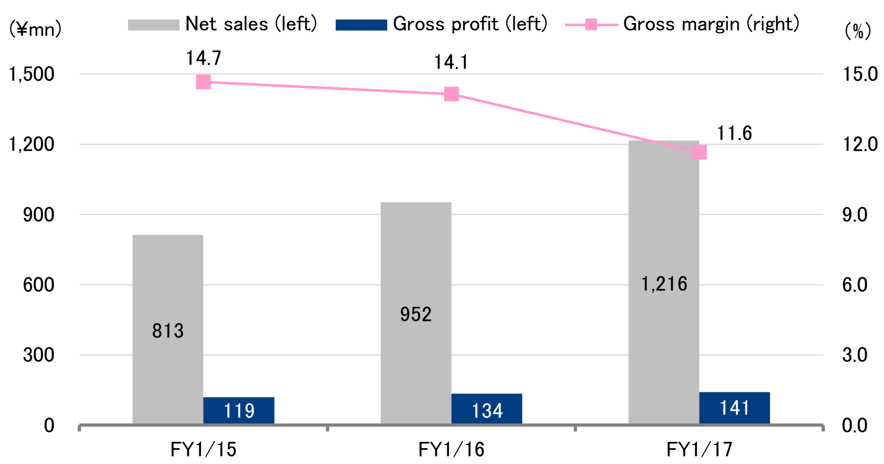


Source: Prepared by FISCO from the Company's results briefing materials

(3) Logistics Solution Business

The Logistics Solution Business reported ¥1,216mn in sales (up 27.7% YoY) and ¥141mn in gross profit (up 5.2%). Sales are expanding with help from the outsourcing trend in logistics operations as the restaurant industry contends with chronic manpower shortages. Profit growth, however, is just in single digits because of growing sales in consignment logistics business with low margin.

Financial results of the Logistics Solution Business



Source: Prepared by FISCO from the Company materials

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(4) Solar Power Generation Business

Solar Power Generation Business sales increased 59.1% YoY to ¥106mn, and gross profit declined 69.3% to ¥1mn. Profit was down on higher sales due to the start of a new power generating site in Miyagi Prefecture in February 2016 that raised depreciation costs by ¥42mn. Profit prior to depreciation costs rose 61.4% YoY to ¥100mn.

(5) Other Business

Other Business sales climbed 12.4% YoY to ¥112mn and gross profit gained 9.9% to ¥91mn. Sales and profit improved with the golf bar in Fukuoka Prefecture as a key driver.

Healthy financial conditions with debt-free operations

3. Financial condition and key financial indicators

Looking at financial conditions at the end of FY1/17, total asset value rose by ¥125mn from the end of the previous fiscal year to ¥3,287mn. Main changes were a ¥58mn increase in cash and deposits under current assets and an ¥80mn increase in property, plant and equipment, mainly from beginning operation of the solar power site, under non-current assets.

Total liabilities value declined ¥69mn from the end of the previous fiscal year to ¥337mn. Main changes were a ¥73mn rise in accounts payable and a ¥112mn decline in income taxes payable, etc. under current liabilities. Net assets increased ¥194mn YoY to ¥2,949mn, primarily due to a ¥188mn rise in retained earnings from booking net profit attributable to parent owners.

In financial indicators, the equity ratio, which demonstrates soundness, stayed at 80% or above for a third straight period. The Company also has debt-free operations. We think financial health is sufficiently robust in light of these points. Profitability indicators, meanwhile, weakened from the previous to 9.4% ROE and 16.7% operating margin. Profits have stalled in recent years. This trend highlights the need for an investment strategy targeting growth. The Company intends to maintain the 31.5% of outstanding shares that it currently holds as treasury shares for the time being.

Consolidated balance sheet

(¥mn)

	FY1/14	FY1/15	FY1/16	FY1/17	Change
Current assets	2,601	1,715	2,341	2,408	67
(Cash and deposits)	2,350	1,311	2,001	2,060	58
Non-current assets	440	1,119	820	878	58
Total assets	3,041	2,834	3,161	3,287	125
Current liabilities	747	343	400	331	-69
Non-current liabilities	6	6	6	6	0
(Interest-bearing debt)	200	-	-	-	-
Total liabilities	753	349	407	337	-69
Shareholder's equity	2,250	2,425	2,703	2,892	188
(Treasury shares)	-1,463	-1,463	-1,463	-1,463	-
Total net assets	2,288	2,485	2,754	2,949	194
(Stability)					
Equity ratio	74.0%	86.2%	85.5%	87.9%	
Interesting-bearing debt ratio	8.9%	-	-	-	
(Profitability)					
ROE (return on equity)	29.4%	9.4%	13.6%	9.4%	
Operating margin	23.1%	24.0%	22.7%	16.7%	

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

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Business outlook

Forecast for recovery in ASP Business and restoration of double-digit earnings growth in FY1/18

1. FY1/18 results outlook

The Company's outlook for consolidated results in FY1/18 projects ¥2,600mn in net sales (up 6.1% YoY), ¥500mn in operating income (up 22.0%), ¥500mn in ordinary income (up 24.0%), and ¥300mn in net profit attributable to owners of parent (up 13.6%). It expects operating income to weaken further in 1H with a 2.7% decline because of lingering impact from major customer cancellations in the previous fiscal year. However, the Company forecasts restoration of sales and earnings growth from 2H once the impact disappears.

FY1/18 consolidated outlook

(¥mn)

	FY1/17		FY1/18			
	Results	YoY	1H plan	YoY	Full year plan	YoY
Net sales	2,450	11.2%	1,250	7.9%	2,600	6.1%
Operating income	409	-18.2%	230	-2.7%	500	22.0%
Ordinary income	403	-20.4%	230	-3.1%	500	24.0%
Profit attributable to owners of parent	264	-24.6%	138	-11.9%	300	13.6%

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

The Company envisions higher sales and profits in all business segments, besides Other Business. In the mainstay ASP Business, it expects to increase subscribing restaurant volume by reinforcing added-value services and bolstering sales agent measures and rolling out services to other industries besides restaurants. In Logistics Solution Business, it anticipates continuation of rising sales and profits with support from outsourcing. In the Solar Power Generation Business, it projects ¥120mn in electricity sales revenue (vs. ¥106mn in (FY1/17) thanks to full-year contributions from the power facility in Miyagi Prefecture that started operating in February 2016. Profits should move upward because of decline in depreciation costs.

Monthly data on subscribing restaurant volume in the ASP Business shows a 0.2% YoY increase in March for the first gain in nine months. Store volume is rising again, albeit just moderately, from a bottom in September 2016, mainly on smooth progress in acquiring contracts for smaller-scale chains. The Company has not faced large-scale cancellations, along the lines of the previous fiscal year, thus far in FY1/18 and is targeting expansion of monthly fee income from ¥72mn in January 2017 to ¥80mn at end-FY1/18 and addition of 300-400 stores versus end-FY1/17.

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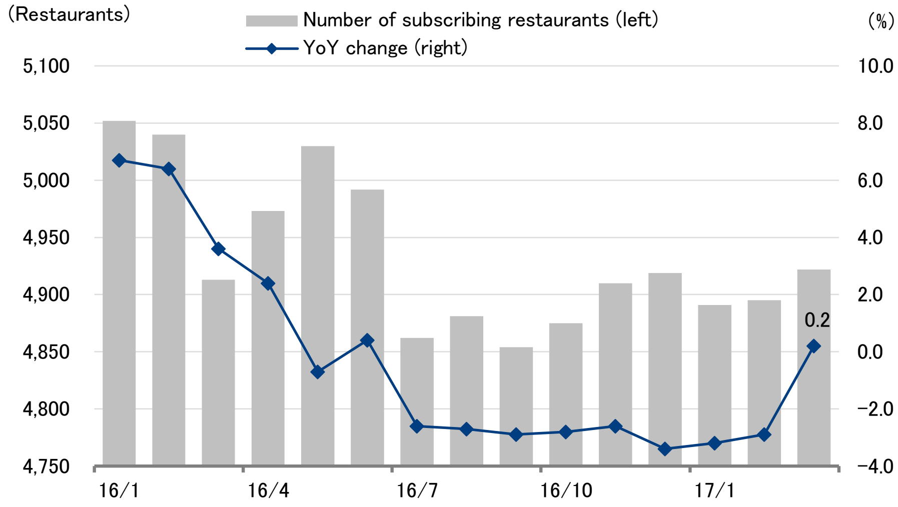
Trends in subscribing restaurant volume and YoY change



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

Strengthening sales agent measures through business alliances and entering other industries besides restaurants

2. Growth strategy for the ASP Business

The Company presented a policy of expanding the sales network through business alliances with companies that have customer networks as a growth strategy in the ASP Business. It also intends to broaden added-value services and is rolling out multiple new services in FY1/18 with aims of recruiting new customers and working against cancellations. We will be closely monitoring these trends because of the potential for related benefits to spur a renewed growth phase for the ASP Business that has been sluggish in recent years.

(1) Expansion of the sales network through business alliances

a) Launching services customized to the soba and udon industry

The Company formed an alliance with a consulting company that focused on the soba and udon industry in FY1/17 and started provision of Makasete Net and Makasete Touch services customized to this industry in April 2017. The initial plan targeted a start in 2H FY1/17, but system adjustments delayed the timing to FY1/18. The Company's exhibit of the system at the Noodle Industry Fair, an event dedicated to noodles, held in mid-April appears to have attracted very strong interest.

The partner consulting firm will handle sales activities. This consulting firm has a customer base of about 3,000 stores and will begin with sales targeting these customers. It will offer Makasete Net and Makasete Touch as a package at a monthly fee of about ¥20,000. Credit control and invoicing costs are likely to be higher because target customers are mainly stores by individuals. However, the Company intends to eliminate this cost by utilizing credit card settlements for self-run stores. It is estimated that Japan has about 50,000 soba and udon restaurants with the vast majority run by individuals. Many stores currently handle sales and attendance management manually or with Excel or other off-the-shelf software. Most also do not have ordering systems. Demand for systems that achieve labor savings is likely to expand amid chronic manpower shortages. Furthermore, contracts from this initiative will offer upside because FY1/18 forecast does not factor in contracts from the soba and udon industry.

If some success is achieved in the soba and udon industry, the Company hopes to develop customized products for coffee shops and other restaurant industry segments and utilize alliances with companies that have customer networks for these segments. This strategy seeks to expand subscribing restaurant volume by working through these partners as sales agents.

b) Starting provision of attendance management service to pachinko halls

The Company plans to broaden services to segments besides the restaurant industry too. As a first initiative, it will begin supply of an attendance management service to pachinko halls. SUNCORPORATION, its partner for this business, will handle sales. SUNCORPORATION has deployed business management systems at about 2,000 of Japan's roughly 11,000 packinko halls. This existing base is the main near-term target.

There are currently 5-6 companies that provide attendance management systems to pachinko halls. Human Technologies holds a top share with its KING OF TIME service at this point. The Company has reviewed products from rival firms and will supply a service that covers all of their features at pricing that is modestly cheaper. While Makasete Net offered monthly fees per store based on menus, the pachinko hall version will charge monthly fees by personnel using the system (ID basis; rivals charge ¥250-300 per ID) and should be profitability once it is adopted. We expect this initiative to boost subscribing restaurant volume because SUNCORPORATION will improve proposal capabilities to customers by adding attendance management to its own menu that previously lacked this feature. This service is unlikely to result in rapid contract volume growth because of the strategy of waiting for opportunities at contract renewal timing of rival products, but it should provide steady gains. The FY1/18 forecast does not factor in sales from pachinko halls.

Furthermore, the Company wants to enter the retail industry, which has a high percentage of part-time staff, with attendance management service. It will also form alliances with companies that have a customer base and pursue sales growth with an agent strategy. The Company sees room to enter this market by offering functional differentiation, such as adding a shift management feature for part-time workers based on sales fluctuations.

(2) Expansion of value-added services

The Company is promoting reinforcement of added-value services with aims of recruiting new customers and avoiding cancellations by existing customers. It already offers an optimization assessment services for public utility bills and also introduced an extended warranty service for damages in March 2017 and attendance management service with salary advance payments in April 2017. These services are supplied to customers via collaboration with alliance partner services.

a) Extended warranty service for damages

The Company has formed a business alliance with Warranty Technology, inc., which runs a product warranty service, to offer an extra service for the POS systems and handy terminals its sell that extends the warranty for damages by five years. Manufacturers normally give a warranty of about one year, but equipment problems mainly occur in the second year and beyond. Handy terminals and other related equipment is often damaged due to being dropped. While customers previously had to cover repair or replacement costs on their own, provision of this service eliminates damage-related costs for a period of five years. The Company will pay the warranty fees. It has determined that benefits of higher equipment sales, increase in subscribing restaurant volume, and cancellation prevention from supplying this service outweigh the costs.

b) Attendance management service with salary advance payments

The Company started this add-on that works with its attendance management service from April 2017 via a business alliance with Payment Technology Co., Ltd. that develops and supplies the Maebarai Dekiru Kun salary advance payment system. A growing number of companies are introducing salary advance payment service as a benefit service amid difficulty recruiting personnel in various industries. Similar needs have been strengthening in the restaurant industry too. The Company expects that its provision of this service to Makasete Net Attendance Management subscribing corporates to help these customers improve employee retention rates and job opening response rates. This is a measure aimed at preventing cancellations.

Aiming for 10-20% earnings growth over the medium term via expansion of ASP Business

3. Business goals

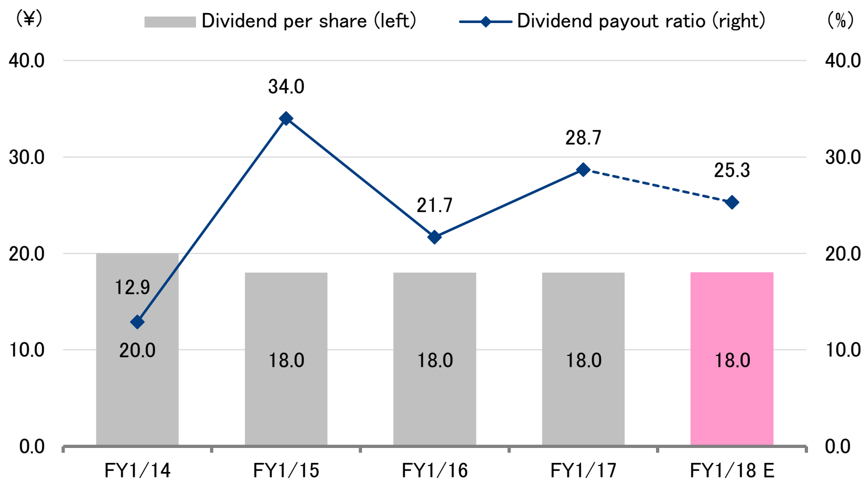
The Company is targeting 35% ordinary margin as a business goals. This margin dropped to 16.5% in FY1/17, but should improve as the ASP Business restores growth. The Company also has a goal of 10-20% earnings growth over the medium term and hopes to raise ROA and ROE at the same time. It has presented a strategy to expand ASP Business by aggressively partnering with companies that have customer bases in the various industries to build the sales network.

Shareholder return policy

Intends to sustain a stable dividend for the time being

The Company pays dividends as its shareholder return policy and has a basic stance of sustaining a stable dividend while retaining internal reserves in order to pursue future business initiatives and strengthen its financial position. It plans to pay an ¥18.0 per share dividend in FY1/18, on par with the previous fiscal year. While this comes to a payout ratio of 25.3% that slightly below the average level at listing companies (about 30%), the Company plans to raise the dividend after ordinary income exceeds the past high (¥718mn in FY1/08).

Dividend and dividend payout ratio



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

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