COMPANY RESEARCH AND ANALYSIS REPORT

JUST PLANNING INC.

4287

TSE JASDAQ

14-Jun.-2018

FISCO Ltd. Analyst

Yuzuru Sato

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary 01

1. FY1/18 sales and profits dropped on sluggishness in subscriber stores 01
2. Forecast to record sales and earnings growth in FY1/19 01
3. Possibility of fostering Putmenu business into a second major income source 02

Business overview 03

1. ASP Business 03
2. System Solution Business 06
3. Logistics Solution Business 06
4. Solar Power Generation Business 06
5. Other Business 06

Results trends 07

1. Review of FY1/18 results 07
2. Performance trends by business segment 08
3. Financial condition and key financial indicators 12

Outlook 13

1. FY1/19 outlook 13
2. Rollout of the Putmenu business 15
3. Target business indicator 17

Shareholder return policy 17

Information security 18

Summary

Fostering "Putmenu," a tool for improving restaurant orders placement and payment efficiency, as a new income source

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 4,881 subscribing restaurants as of the end of January 2018. 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. FY1/18 sales and profits dropped on sluggishness in subscriber stores

The Company reported declines in sales and profits in FY1/18 consolidated results with net sales at ¥2,390mn (-2.4% YoY) and operating income at ¥394mn (-3.8%). Period-end subscriber stores for Makasete Net service stalled during the period with a decline of 10 sites from the end of the previous period to 4,881 sites. The primary setback came from a 1.3% decline in mainstay ASP* Business sales. Nevertheless, results from measures to expand subscriber stores, including roughly doubling the number of new subscriber stores and sharply reducing the number of stores that cancel service, are beginning to appear. Higher personnel costs also contributed to profit decline, along with lower sales.

* 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. Forecast to record sales and earnings growth in FY1/19

In FY1/19, the Company aims to increase sales for the first time in two fiscal years and profits for the first time in three fiscal years with a 13.8% YoY rise in net sales to ¥2,720mn and 19.2% gain in operating profit to ¥470mn. It also hopes to increase period-end subscriber stores in the ASP Business by 12.7% YoY to 5,500 sites. This involves expansion of new contracts through adding more sales staff and reinforcing the distributor network as well as continued curtailment of cancellations by strengthening customer support operations. In attendance and shift management service, the Company began deployments at pachinko halls from April 2018 via partner SUNCORPORATION <6736>. It also plans to put efforts into expanding sales of Putmenu, an IoT solution for restaurants (improves orders placement and payment efficiency). This is a new business.

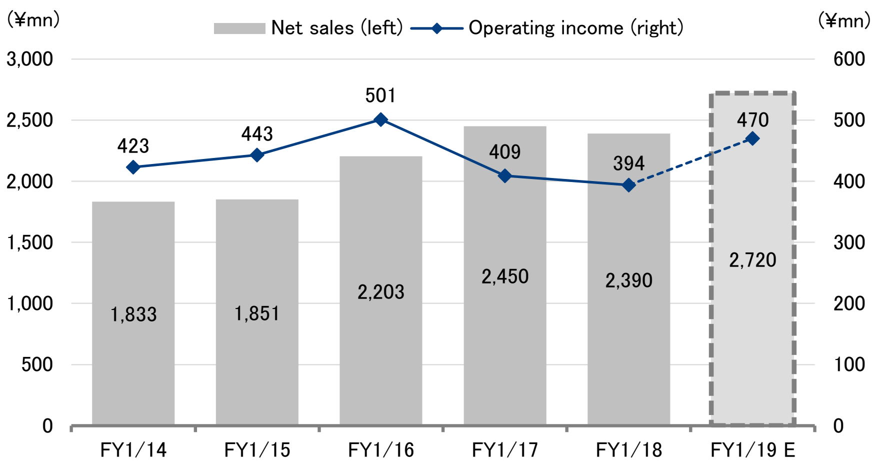
3. Possibility of fostering Putmenu business into a second major income source

Putmenu service handles restaurant orders placement and accounting over the Internet using a smartphone app. It enhances orders placement and payment efficiency for restaurants and boosts customer satisfaction. The app can also help recruit demand from foreign tourists visiting Japan because of its support for multiple languages and numerous payment services, such as Alipay and Paypal. In February 2018, the Company jointly established Putmenu Co., Ltd. (it owns a 70% stake) with app developers Boxyz, inc. and TAGCAST, INC. and launched this business. It deployed the app at a food court at AEONMALL Corporation’s <8905> Makuhari Shintoshin location in January 2018 and plans to steadily increase the number of sites utilizing this service. Manpower shortages in the restaurant industry have been worsening. This creates significant latent demand for Putmenu as a service that improves the efficiency of orders placement and accounting tasks. For the time being, the Company intends to focus on deployments at shopping mall and outlet mall food courts. It also expects demand from fast-food restaurants, airport stores, and event and concert halls. We think the Company might expand this business to an income level on par with the ASP Business, its current core income source, within a few years.

Key Points

- Major supplier of store management systems to the restaurant industry; approaching 5,000 subscriber stores
- Aims to restore sales and profit growth in FY1/19 with emphasis on expanding ASP Business and promoting new businesses
- Likely to enter a high-growth phase with renewed gains in ASP Business and income contributions from Putmenu business

Results trends



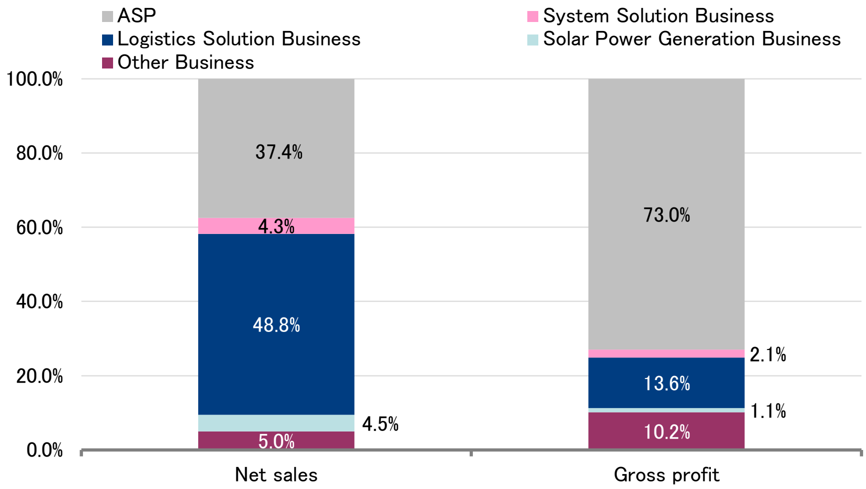
Source: Prepared by FISCO from the Company's financial results

Business overview

Major supplier of store management systems to the restaurant industry; approaching 5,000 subscriber stores

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 FY1/18 segment breakdown, the ASP Business and Logistics Solutions Business accounted for over 80% of sales at 37.4% and 48.8% respectively. However, the ASP Business dominates overall earnings at 73.0% of gross profit. We review segment content below.

Business segment composition (FY1/18)



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

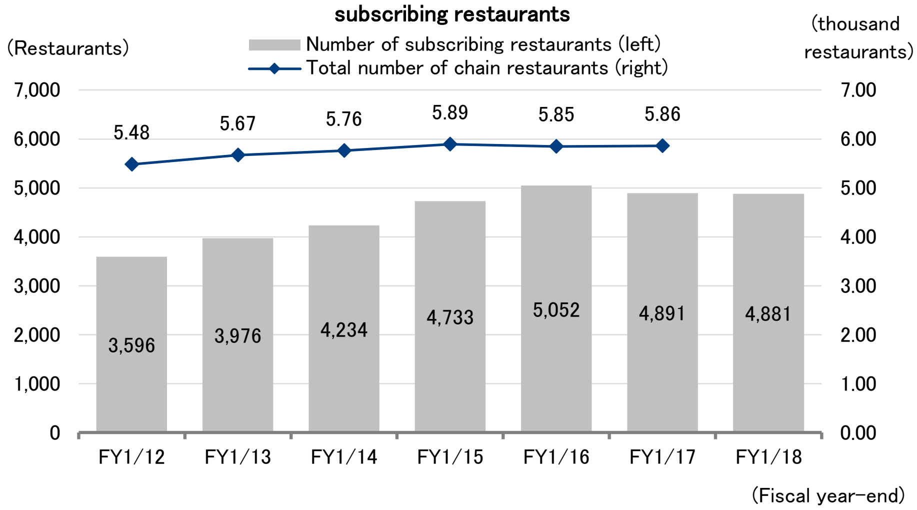
1. ASP Business

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 the Makasete Net monthly fee varies depending on the service used, it averages in the lower ¥20,000 range per store (full service costs about ¥40,000). This seems expensive compared to the services from many rivals supplied in the range of about ¥10,000 per month. However, the difference can be attributed to the Company's free provision of customized support that requires additional charges at other companies (though the Company charges extra fees in the case of large-scale changes to specifications).

The number of restaurants subscribing Makasete Net at the end of FY1/18 dropped by 10 (increased by 11 in terms of corporate subscribers) from the end of the previous fiscal year to 4,881 (237 corporate subscribers). According to the Japan Franchise Association, the number of chain restaurants in Japan is approximately 58,600. 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.

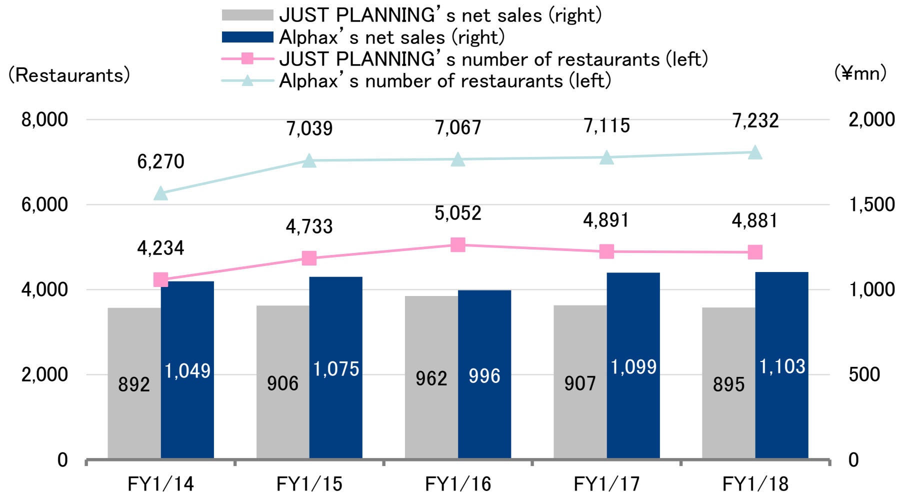
Number of chain restaurants in Japan and JUST PLANNING's subscribing restaurants



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

Looking at the Company's competitors, there are 5-6 rival companies of a similar size, including ALPHAX FOOD SYSTEM CO., LTD. <3814>, Hitachi Systems, Ltd., and ASPIT CO., LTD. ALPHAX FOOD SYSTEM reported 7,232 subscriber stores at the end of September 2017 (273 subscriber companies), making it the industry leader with about 1.5 times more subscribers than the Company. In sales, however, the gap narrows to about 1.2 times because ARPU (average revenue per store) is lower than the Company's 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 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. The Company has launched a variety of services through business alliances with other companies and is responding to diverse customer needs, including the Makasete Touch cloud-based POS ordering service, public fee optimization diagnosis service, and Pre Order POS (real-time sales transmission calculator app) as well as extended warranty service with property damage coverage for POS systems and related equipment, salary prepayment service, and foreign student dispatching agent and management service in 2017.

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. 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.

The Company has more than 100 subscriber stores. While the growth pace has been more gradual than initially expected, the service is steadily adding more stores. Contracts are increasing with new customers too, besides stores that have already deployed Makasete Net.

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.

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 100.0% 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. With an aim of raising profitability, the Company is pursuing increased sales of Logi Logi System, an ASP service for a logistics total management system (store orders placement, warehouse management, inventory management, etc.) developed by itself (this service currently has about 400 subscriber stores).

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. 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

Other Business covers restaurants run under subsidiary JP Power as sites for employee training to learn store operation knowhow and test marketing of new systems. It had a total of four stores at the end of FY1/18 with three izakaya pubs, including one located near the Company’s headquarters (opened in December 2017), and a golf bar (Fukuoka Prefecture; transferred in October 2014).

Results trends

Sales and profits fell in FY1/18, though restored profit gains from 3Q

1. Review of FY1/18 results

The Company reported declines in sales and profits in FY1/18 consolidated results with net sales at ¥2,390mn (-2.4% YoY), operating income at ¥394mn (-3.8%), recurring income at ¥393mn (-2.5%), and net income attributable to parent shareholders at ¥263mn (-0.3%). Sales dropped for the first time in six fiscal years due to declines in subscriber volume in the ASP business and logistics solution business. Gross margin was flat YoY thanks to improved profitability in ASP Business. However, operating income slipped in a second straight fiscal year because of a 2.9% YoY rise in SG&A expenses, mainly on higher personnel costs from strengthening sales operations. At the quarterly level, operating income restored YoY gains from 3Q and sustained this trend in two straight quarters. Income has shifted to a recovery trend, albeit at a moderate pace.

The Company missed period-start targets by 8.1% in sales and 21.1% in operating income mainly because Makasete Net and other subscriber store volume was less than in period-start guidance (5,000 stores) at 4,881 stores.

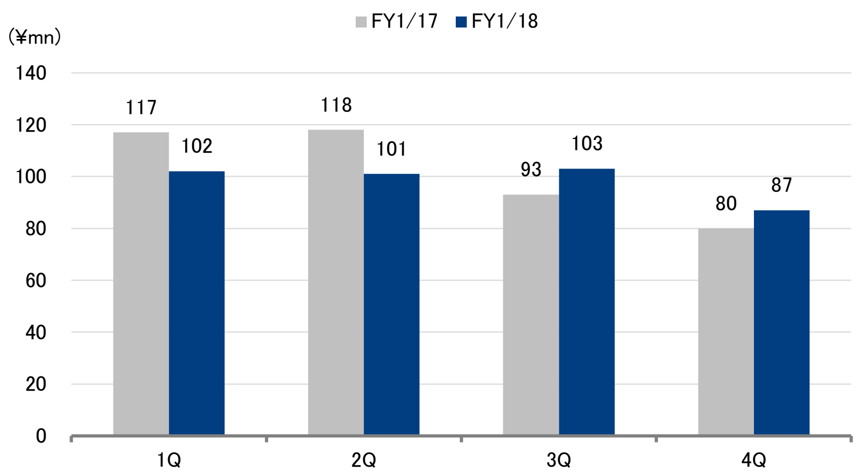
Consolidated financial results for FY1/18

(¥mn)

	FY1/17		FY1/18				
	Results	% of sales	Plan	Results	% of sales	YoY	% of forecast
Net sales	2,450	-	2,600	2,390	-	-2.4%	-8.1%
Gross profit	949	38.8%	-	949	39.7%	0.0%	-
SG&A expenses	540	22.0%	-	555	23.2%	2.9%	-
Operating income	409	16.7%	500	394	16.5%	-3.8%	-21.1%
Ordinary income	403	16.5%	500	393	16.4%	-2.5%	-21.4%
Profit attributable to owners of parent	264	10.8%	300	263	11.0%	-0.3%	-12.2%

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

Quarterly operating income trends



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

ASP Business returned to profit from 3Q and is recovering

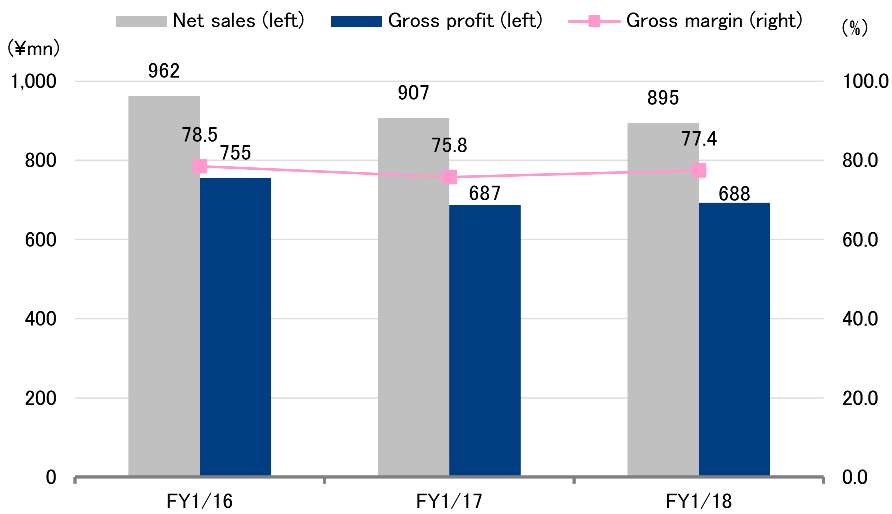
2. Performance trends by business segment

(1) ASP Business

In ASP Business, sales dropped 1.3% YoY to ¥895mn and gross profit rose 0.2% to ¥688mn. While the Company steadily increased new contracts for its mainstay Makasete Net service, there continued to be an impact from large cancellations in the previous fiscal year* and period-end subscriber volume was down by 10 stores YoY to 4,881 stores. This sluggishness led to the decline in sales. However, the monthly usage fee per store (average monthly sales ÷ average number of subscriber stores during the period) slightly increased from ¥15,300 in the previous period to ¥15,400, including support from expansion of Makasete Touch sales, and gross margin recovered from 75.8% a year earlier to 77.4%.

* The Company had cancellations by large customers with 100 or more stores each in March and July 2016.

Results of the ASP Business



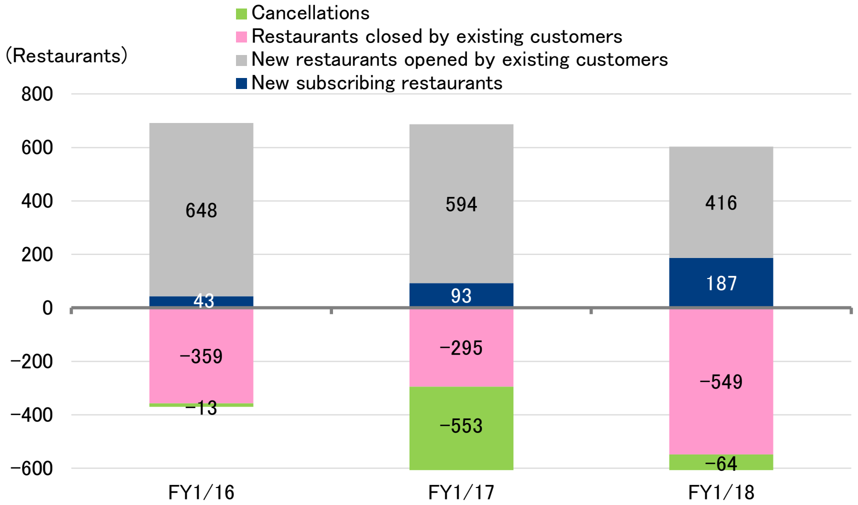
Source: Prepared by FISCO from the Company's financial results

The breakdown of changes in subscriber store volume in FY1/18 shows 187 new subscriber stores (vs. 93 stores in the previous year), 416 new stores from existing subscribers (vs. 594 stores), 549 closures by existing customers (vs. 295 closures), and cancellations for 64 stores (vs. 553 stores). The Company added 26 new subscribers in FY1/18, acquiring subscribers at a pace of two companies per month and more than 100 stores for the first time in three fiscal years (it added 249 stores in FY1/15). These results benefited from the Company's reinforcement of sales operations and adoption of a program for performance-based compensation aimed at recruiting new customers. The number of cancellations, meanwhile, dropped sharply from the year-ago level thanks to initiatives to improve customer satisfaction, such as periodically contacting existing customers.

Closures at existing customers rose significantly from 295 stores in the previous year to 549 stores. This happened because of relatively large cancellations for Logi Logi System, an ASP service for a logistics system provided by subsidiary SuccessWay (about 400 subscriber stores). Since SuccessWay is a direct customer from the Company's perspective, the Company counts these cancellations as store closures by existing customers. Nevertheless, there was not much impact on sales because of the low service fee.

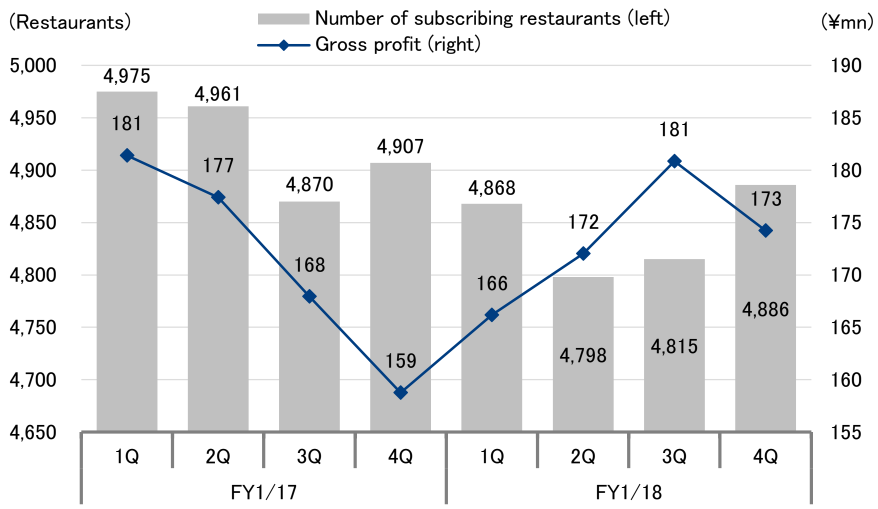
Looking at subscriber store volume and gross profit trends by quarter, subscriber store volume switched to a recovery after a bottom in 2Q and gross profit started increasing YoY from 3Q.

Breakdown of changes in the number of subscribing restaurants



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

Subscribing store volume and gross profit



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

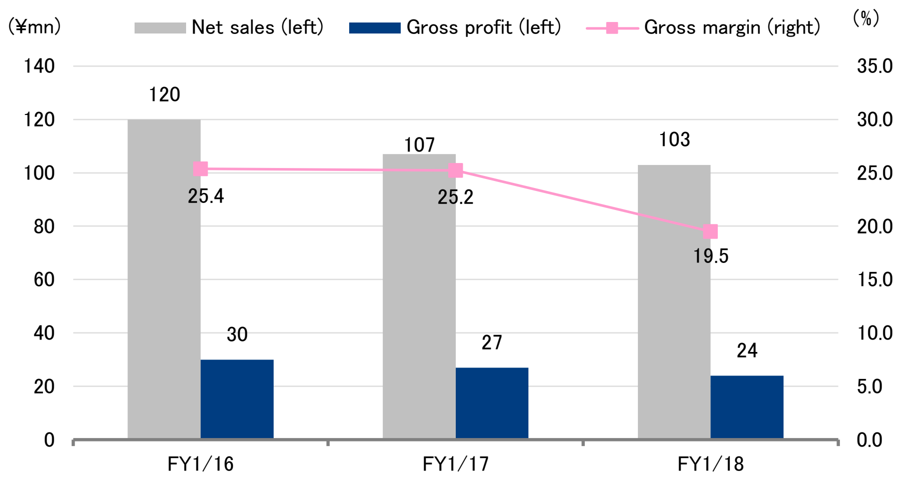
Given less demand than expected for proposals of new value-added services promoted in FY1/18 (extended warranty service with property damage coverage, salary prepayment service, and foreign student dispatching agent and management service), the Company intends to primarily allocate human resources to the new Putmenu business explained below. Similarly, only a few customers adopted its "soba and udon" business package, which was developed as an industry-specific service, and the Company plans to let a partner handle sales.

In OEM supply of attendance and shift management service, meanwhile, the Company began test deployments at pachinko halls in April 2018 via partner SUNCORPORATION. It has opportunities to expand sales in this business.

(2) System Solution Business

The System Solution Business incurred a second straight year of sales and profit decline with sales down 3.2% to ¥103mn and gross profit off 8.3% to ¥24mn due to slower capital investments in the restaurant industry and falling prices for POS systems and related equipment.

Results of the System Solution Business

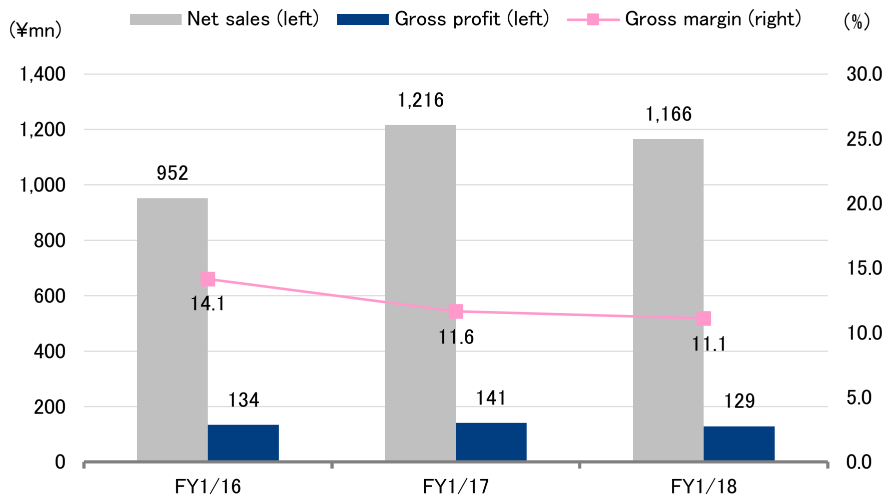


Source: Prepared by FISCO from the Company's financial results

(3) Logistics Solution Business

Logistics Solution Business reported ¥1,166mn in sales (-4.1% YoY) and ¥129mn in gross profit (-8.6%). Profit declined for the first time in six periods. The restaurant industry continues to move forward in outsourcing of logistics operations because of chronic manpower shortages. While this trend support rising sales and profits in the past few years, cancellations by major Logi Logi System customers with relatively large scale occurred from 2Q and led to the sales and profit declines. These cancellations finished in February 2018. Logi Logi System monthly fees hence are likely to recover after a bottom in March.

Results of the Logistics Solution Business

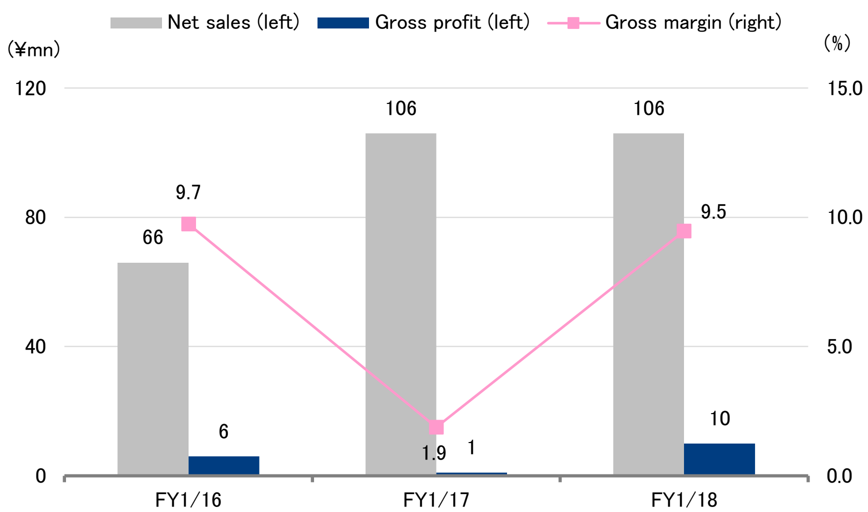


Source: Prepared by FISCO from the Company's financial results

(4) Solar Power Generation Business

Solar Power Generation Business booked ¥106mn in sales (+0.6% YoY) and ¥10mn in gross profit (+406.6%). While power output was roughly flat, profit increased thanks to reduction of fixed costs, mainly depreciation costs.

Results of the Solar Power Generation Business

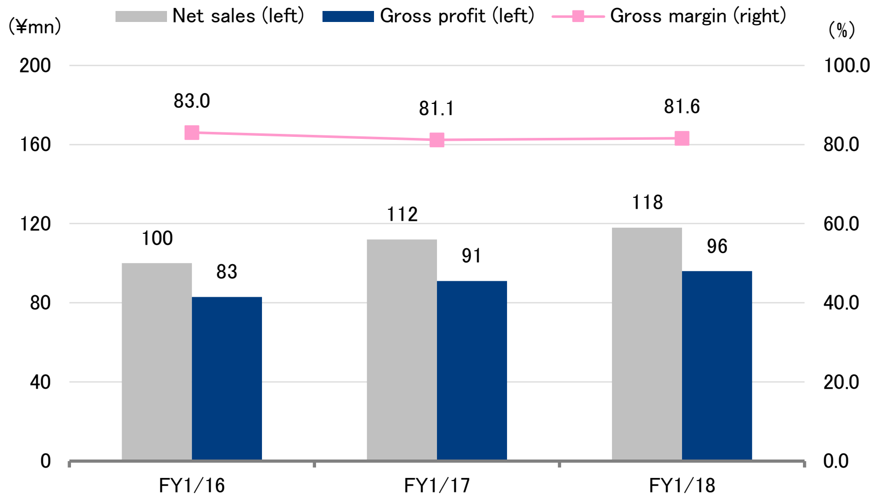


Source: Prepared by FISCO from the Company's financial results

(5) Other Business

Sales of the Other Business climbed 5.0% YoY to ¥118mn and gross profit gained 5.6% to ¥96mn. Izakaya pub and golf bar operations were healthy, and the izakaya pub opened in December 2017 also contributed to sales.

Results of the Other Business



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

Healthy financial content with debt-free operations; sustaining high profitability and stability with a stock-type business model

3. Financial condition and key financial indicators

Looking at financial conditions at the end of FY1/18, total assets rose by ¥150mn from the end of the previous fiscal year to ¥3,437mn. Main changes were a ¥192mn increase in cash and deposits under current assets and a ¥27mn decrease in accounts receivable. In fixed assets, tangible fixed assets dropped by ¥58mn due to advances in depreciation of solar power equipment, while software assets increased by ¥82mn.

Total liabilities declined ¥47mn from the end of the previous fiscal year to ¥289mn. Looking at major changes, unpaid corporate taxes rose by ¥24mn, while accounts payables were down by ¥62mn. Net assets increased ¥198mn YoY to ¥3,147mn. The Company booked ¥263mn in net income attributable to parent shareholders and paid ¥75mn in dividends.

The Company retired all of its treasury shares (31.5% of total outstanding shares) in September 2017. It acquired most of these shares in a purchase to dissolve an alliance with a past capital and business alliance partner and had retained them for potential use in M&A deals. However, it decided to retire them at this point. The Company explained that it will consider share buybacks at an appropriate time in light of the share price, capital demand, and other factors.

In business indicators, the capital ratio, which reflects corporate soundness, is over 80% and the Company conducts debt-free management. These points demonstrate that it is sufficiently maintaining financial health. Despite slight declines YoY in ROA, ROE, and operating margin under profitability, operating margin and ROA are both still at 10% or more. ASP Business, which involves a stock-type business model, is the main business, and helps maintain stable, high profitability. In growth potential, average growth rates for the most recent three years are sales at +8.9%, thanks to gains in the logistics solutions business, but operating income at -3.9%, a sluggish trend due to decline in ARPU for ASP Business. The Company wants to restore earnings growth through implementation of growth strategies in ASP Business and cultivation of a new business that can serve as a new income source.

Consolidated balance sheet

(¥mn)

	FY1/15	FY1/16	FY1/17	FY1/18	Change
Current assets	1,715	2,341	2,408	2,532	+123
(Cash and deposits)	1,311	2,001	2,060	2,253	+192
Non-current assets	1,119	820	878	905	+26
Total assets	2,834	3,161	3,287	3,437	+150
Total liabilities	349	407	337	289	-47
(Interest-bearing debt)	-	-	-	-	-
Total net assets	2,485	2,754	2,949	3,147	+198
(Retained earnings)	3,231	3,505	3,694	2,417	-1,276
(Treasury shares)	-1,463	-1,463	-1,463	-	+1,463
Key financial indicators					
(Stability)					
Equity ratio	86.2%	85.5%	87.9%	89.6%	+1.7pt
Interest-bearing debt ratio	-	-	-	-	-
(Profitability)					
ROA (return on assets)	14.1%	16.9%	12.5%	11.7%	-0.8pt
ROE (return on equity)	9.4%	13.6%	9.4%	8.8%	-0.6pt
Operating margin	24.0%	22.7%	16.7%	16.5%	-0.2pt

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

Outlook

Targeting a return to sales and profit increases in FY1/19 by focusing on expansion of ASP Business and promotion of new business

1. FY1/19 outlook

The Company's outlook for consolidated FY1/18 projects a turnaround to higher sales and profits with ¥2,720mn in net sales (up 13.8% YoY), ¥470mn in operating income (up 19.2%), ¥470mn in ordinary income (up 19.6%), and ¥282mn in profit attributable to owners of parent (up 7.1%).

FY1/19 consolidated outlook

(¥mn)

	FY1/18		FY1/19			
	Full-year results	YoY	1H forecast	YoY	Full-year forecast	YoY
Net sales	2,390	-2.4%	1,300	6.6%	2,720	13.8%
Operating income	394	-3.8%	225	10.3%	470	19.2%
Ordinary income	393	-2.5%	225	11.8%	470	19.6%
Profit attributable to owners of parent	263	-0.3%	135	-1.0%	282	7.1%
Earnings per share (¥)	62.44		32.00		66.84	

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

During FY1/19, the Company intends to promote the new Putmenu business, which is described below, and to expand ASP Business as its top-priority mission. It is also targeting all-time highs for the first time in three fiscal years in ASP Business with a 12.7% YoY increase in period-end subscriber stores to 5,500 stores and an 8.2% rise in monthly usage fees to ¥80mn by the final month of the period (January 2019). For subscriber store volume, it is seeking to develop new customers with additions to sales staff (doubling members in charge of customer recruitment from three people at the end of FY1/18) and broadening of the sales distributor network. It also wants to prevent cancellations through enhanced customer satisfaction by bolstering customer support operations and raising system stability via a transfer to cloud servers (complete transfer planned during FY2018).

Additionally, the Company aims to efficiently move forward with efforts to expand sales in added-value services promoted since FY1/18 through more selectivity and focus. It expects to grow business in OEM supply of attendance and shift management service with pachinko halls via business partner SUNCORPORATION, which has installed business management systems at about 2,000 pachinko halls. The Company hopes to achieve sales to these customers in the near term. It started service deployment at two halls in May 2018 and will be targeting replacement opportunities at the renewal timing of existing systems if things go smoothly.

In deal collaboration with SUNCORPORATION, the Company announced in February 2018 that Kozosushi Co., Ltd. <9973>, its customer, deployed the “iToGo” 020 solution from SUNCORPORATION. The Kozosushi app developed by SUNCORPORATION enables customers to place advance orders for take-out products with timing instructions. Customers hence can receive products without having to line up or wait. They also receive the app’s own coupons. The Company will be supporting rollout and operation of the Kozosushi app. While this business should not have much direct impact on income, increased revenue at Kozosushi due to the app rollout might lead to expansion of service usage fees (Makasete Net and other added-value service contracts).

The Company hopes to increase sales and profits in ASP Business through these initiatives. It is also targeting higher sales and profits in logistics solution business, despite lingering impact from Logi Logi System cancellations, through acquisition of new customers. Guidance projects a weaker growth rate in net income than in ordinary income because it factors in costs for ramping up the Putmenu company that will handle rollout of the new Putmenu business.

Intends to foster new Putmenu service, which significantly improves order placement and payment efficiency at restaurants, as a second major income source

2. Rollout of the Putmenu business

The Company intends to promote full-fledged expansion of sales for Putmenu IoT solution service, which enhances the efficiency of orders placement and payment tasks at restaurants, during 2018 as a second major income source after Makasete Net. Putmenu is a service that utilizes IoT and was developed by Boxyz about three years ago. It enables online orders placement and payment using the Putmenu smartphone app. The app can also help recruit demand from foreign tourists visiting Japan because of its support for 12 languages and numerous payment services, including mobile carrier payments and LINE Pay, Apple Pay, Paypal, and Alipay.

While a number of other similar services exist too, the Putmenu system* places a beacon in the store premise or by individual tables to facilitate confirmation of the user presence in the area before proceeding with orders and payments. From a store perspective, Putmenu deployment allows for safe and reliable promotion of efficiency in orders placement and accounting tasks and thereby genuinely contributes to resolving the management issue of manpower shortages. The service also supports effective marketing through collection of orders big data and questionnaire implementation via the app. For users, meanwhile, this is a highly convenient service that reduces time required for orders placement and payments.

* TAGCAST, a Boxyz subsidiary, holds patents in Japan, the United States, China, and Korea for check-in systems using beacons.

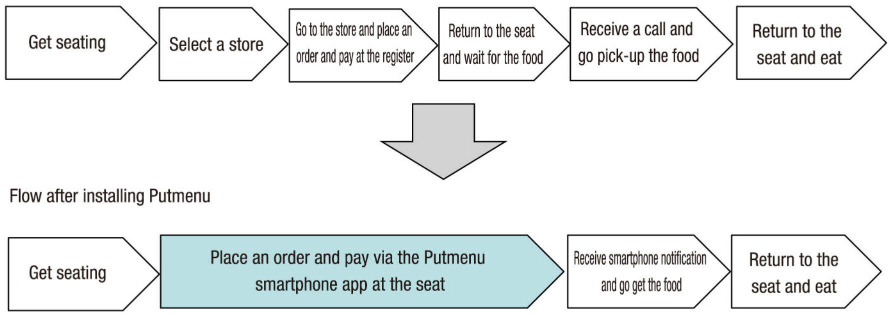
Putmenu business

Source: From the Company's results briefing materials

Putmenu received a finalist award in Microsoft Innovation Award 2016 held in April 2016 and a Minister of Internal Affairs & Communications Award at a Mobile Computing Promotion Consortium event in November 2017. These awards reflect favorable assessment in the industry. Developer Boxyz and the Company, which possesses a customer base in the restaurant industry, have teamed up to expand this business. The Company acquired Putmenu commercialization rights from Boxyz and will be developing this business through subsidiary Putmenu. Initially, the Company plans to handle sales and customer support with Boxyz in charge of development and system operation. Once the number of installations has expanded to a certain level, Putmenu will directly conduct sales activities.

The Company's sales targets are food-court stores at shopping malls and outlet malls. Food courts often get so crowded on holidays that it is difficult to find seats. This situation creates strong need to improve the efficiency of orders placement and payment tasks on store and user sides. The first installation was at Ohitsu Gohan Shirokujichu located at the food court in AEONMALL Makuhari Shintoshin in January 2018. The Company intends to arrange deployments at other stores and promote sales activities with large developers running shopping malls and outlet malls.

Service flow at food courts



Source: Prepared by FISCO from interviews

There is also progress in deployment at sites other than food courts. The Company announced an installation at Henn-na Hotel located in the HUIS TEN BOSCH theme park operated by HUIS TEN BOSCH Co., Ltd. in March 2018. While Sausage Waag, a restaurant at HUIS TEN BOSCH, already adopted Putmenu in February 2018, the latter deployment uses Putmenu to handle orders placement and payment service for order-made T-shirts sold to hotel guests. The hotel prints T-shirts used a specialized printer after confirming the order, notifies users on their smartphones once the T-shirts are ready, and then gives the products to users when they arrive. Orders placement and payment tasks take place entirely within the app. This means foreigners visiting Japan can also easily place orders. Stores utilizing this app have opportunity to improve business efficiency and also boost sales. Furthermore, the Company announced that KFC Holdings Japan, Ltd. <9873> deployed Putmenu service at two Kentucky Fried Chicken stores that it operates in April 2018. The app primarily targets housewives in the 30s-50s age bracket, the main customers at Kentucky Fried Chicken stores. Customers can make menu choices from home before leaving or other locations on their smartphones or place orders at their own pace in customer seating and receive the product when it is ready after getting a notice on their smartphone. The Company announced that "Ringer Hut TOKYO PREMIUM Hibiya Chanter" operated by Ringer Hut Co., Ltd. <8200> will be deploying Putmenu service in June 2018. The deployment is part of the HIBIYA 2018 event at Hibiya Chanter with a Godzilla attraction using mixed reality (MR) and futuristic stores that provide an experience with AI and IoT functionality.

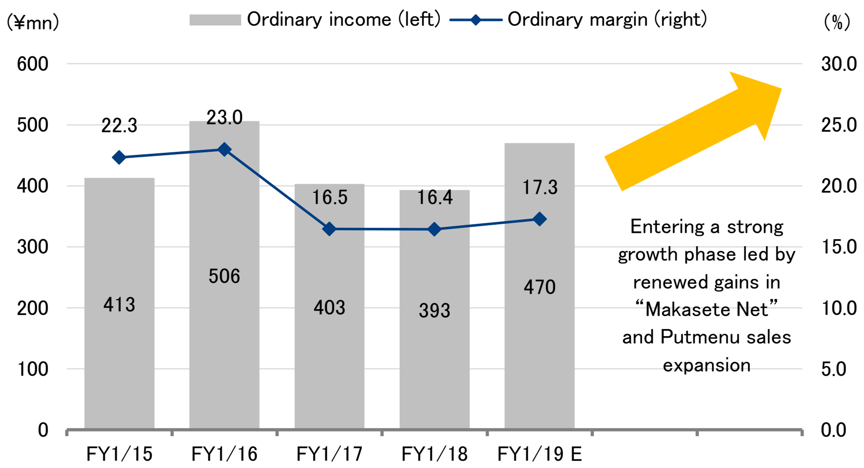
Other locations that can capitalize on these Putmenu features besides fast food stores, izakaya pubs, and other restaurants are airport stores and goods stores at highway service areas and events and concert halls. We think this business has large growth potential. In fact, McDonald's Holdings (Japan), Ltd. <2702> has disclosed a plan to install an orders placement and payment service via a smartphone app during FY2018. The Company is receiving inquiries from others in the industry as well. It also plans to strengthen the sales distributor policy in order to promptly recruit these customers amid extensive latent demand. Additionally, the Company sees opportunities to deploy Putmenu at shopping malls and other commercial facilities that Japanese developers will be opening in Asia in future years.

Likely to enter a high-growth phase with renewed gains in ASP Business and income contributions from Putmenu business

3. Target business indicator

The Company targets 35% ordinary profit margin as a business indicator. While margin has been trending lower due to changes in sales composition (expansion of logistics solution business) over the past few years and was 16.4% in FY1/18, we expect margin to improve on renewed growth in ASP business with strong profitability and the start of profit contributions from Putmenu business. Growth potential has also stalled in recent years, but we think the addition of Putmenu business should restore a high-growth stage of double-digit annual growth.

Ordinary income and ordinary margin



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

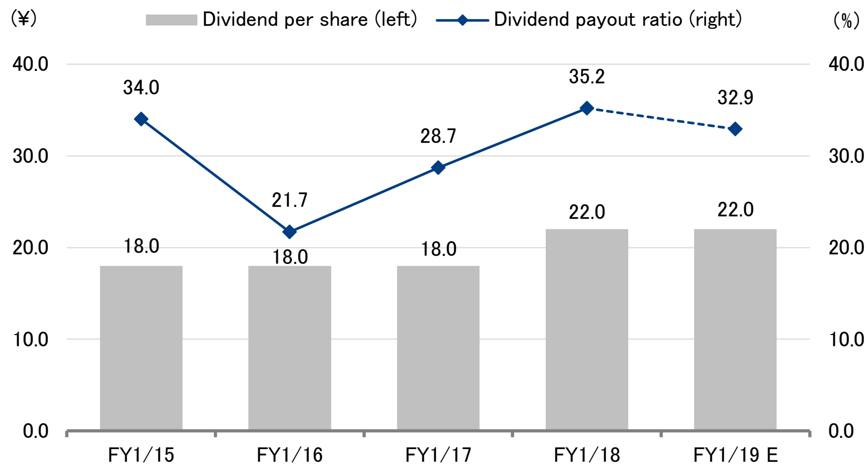
Shareholder return policy

Adhering to a stable dividend for the time being, though ultimately aims to provide return with emphasis on dividend payout

The Company had followed a basic policy in shareholder return of sustaining a steady dividend, while retaining profits in order to develop future business and bolster management standing, but raised the dividend by ¥4.0 YoY to ¥22.0 in FY1/18 with the aim of strengthening profit return to shareholders. This was the first increase of the regular dividend in 10 fiscal years since FY1/08*. We think the Company’s awareness of shareholder return has risen, including its retirement of treasury shares. In FY1/19, the Company plans to pay a ¥22.0 dividend (32.9% payout ratio), on par with the previous year. Nevertheless, it is likely to consider a dividend hike that takes into account dividend payout (approximately 30%) if profit growth continues.

* It paid a ¥2.0 commemorative dividend in FY1/14.

Dividend and dividend payout ratio



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

Information security

As information security actions, the Company implements various measures, such as computer virus detection in information infrastructure equipment, building firewalls to remove viruses, and use of anti-virus software. In server policy, it started a transition from running its own servers to cloud-based servers in FY1/17 and plans to complete the transition to cloud operations in FY1/19. Improved safety and efficiency with cloud service should contribute to stable operation and cost efficiencies in Makasete Net business.

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.

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

FISCO Ltd.