COMPANY RESEARCH AND ANALYSIS REPORT

JUST PLANNING INC.

4287

TSE JASDAQ

27-Jun.-2019

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Index

Summary

Ramping up investments to expand Putmenu business

Just Planning <4287> operates Makasete Net service (ASP* business), a store management system (sales, deliveries, and worker attendance management) for the restaurant industry, as its core business. It is one of the industry's largest firms with 4,373 store contracts as of the end of March 2019, mainly with smaller restaurant chains that operate 20-50 stores. It achieves high profitability and stability thanks to having a recurring-income business model based on monthly fees. The Company also operates logistics solutions and solar power businesses via subsidiaries and launched Putmenu (mobile ordering and payment system that utilizes IoT technology) as a new service in FY1/19.

* 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.

1. Review of FY1/19 results

The Company reported lower consolidated sales and profits in FY1/19 with ¥2,254mn in net sales (-5.7% YoY) and ¥284mn in operating profit (-33.5%). Sales fell in a second straight fiscal year due to the impact of contract termination by a major customer in the logistics solutions business. Profits, meanwhile, mainly declined on active investment in sales costs, development expenses, and other areas related to expansion of the Putmenu business.

2. Financial forecast for FY1/20

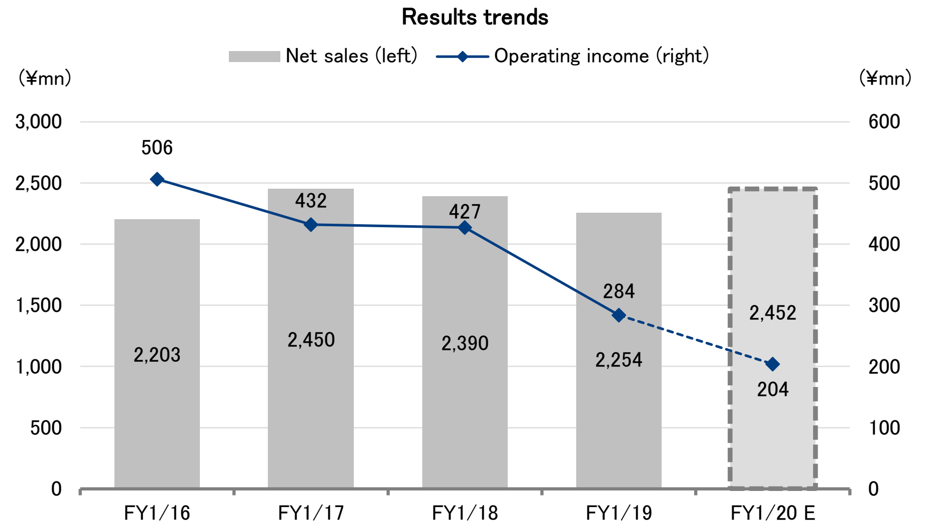
The Company guides for ¥2,452mn in sales (+8.8% YoY) and ¥204mn in operating profit (-28.2%) in FY1/20. It projects higher sales for the first time in three years on increase in contracted store volume for Makasete Net service and recovery in logistics solutions business. It is also aiming to book ¥30mn in sales from Putmenu business. Operating profit, however, is headed lower because of an investment phase targeting Putmenu sales expansion. The Company hopes to promptly restore contracted store volume for Makasete Net and other services to 5,000 stores (vs. 4,532 stores at end-FY1/19). Nevertheless, we expect delay in attaining the goal until at least FY1/21 due to modestly softer investment sentiment at customers ahead of the consumption tax hike slated for October 2019 and amid chronic manpower shortages.

3. Putmenu business update and plans

Putmenu is a cashless service that realizes “zero minute” wait time for orders placement and payment at restaurants and other venues. Customers can use the service at accommodating stores just by downloading the Putmenu app to their smartphone. This service offers potential for restaurants to expand store income by improving the efficiency of ordering and payment processes and eliminating wait time. The Company anticipates inroads at stores that often face lines at shopping mall food courts, event venues, and other locations and stores in tourist locations with many foreign customers because of the app's support for 12 languages. The ability to carry out promotional measures based on advanced data analysis, including position information, due to the system's utilization of IoT technology is an advantage versus similar services. Shopping mall food courts, arenas, tourist sites, company cafeterias, hotel rooms, and other venues have deployed Putmenu since fall 2018, and Company is starting to confirm deployment benefits, such as higher sales. While it is likely to take until at least FY1/21 for this service to contribute to earnings, we think it possesses significant growth potential, including overseas usage, and should develop into a valuable income source alongside of Makasete Net after a few years.

Key Points

- Major supplier of store management systems to the restaurant industry; exceeding 4,000 subscriber stores
- Putmenu is already being deployed in a variety of usage scenes and could develop into a valuable income source in the future
- Rising longer-term growth potential driven by renewed growth in ASP business and income contributions from Putmenu business



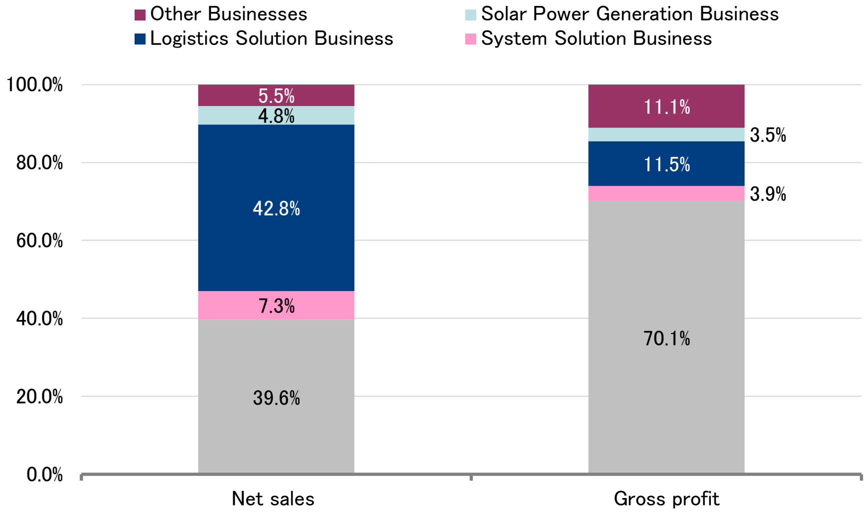
Source: Prepared by FISCO from the Company's financial results

Business overview

Major supplier of store management systems to the restaurant industry; exceeding 4,000 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 FY1/19 segment breakdown, the ASP Business and Logistics Solutions Business accounted for over 80% of sales at 39.6% and 42.8% respectively. However, the ASP Business dominates overall earnings at 70.1% of gross profit. We review segment content below.

Business segment composition (FY1/19)



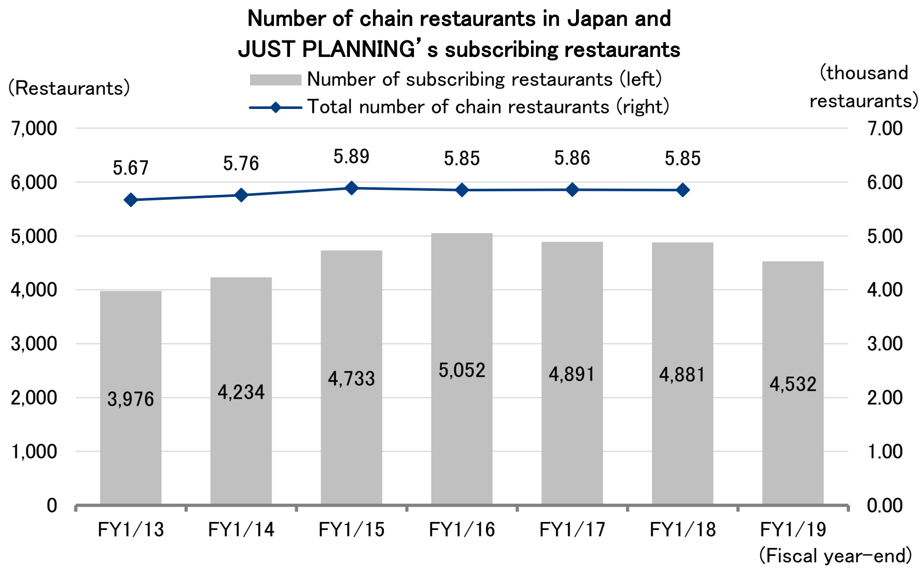
Note: Sales indicate sales to external customers
Source: Prepared by FISCO from the Company's financial results

1. ASP Business

In the ASP Business, the core service is Makasete Net (launched in 1998). 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 70%, 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).

Contracted store volume totaled 4,532 stores at end-FY1/19 (this includes 250 contracted stores for the Logi Logi logistics management system). Japan has about 58,000 restaurant chain stores (according to data from the Japan Franchise Association). While the Company's industry share is just under 10%, we estimate that it holds a share of just over 10% for smaller restaurant chains with less than 50 stores, its main target.

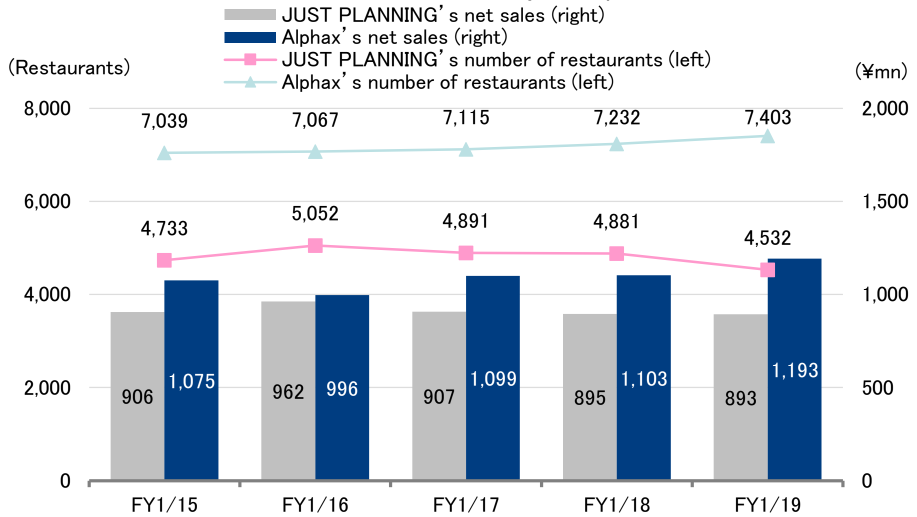


Note: Figures for the number of chain restaurants are from the Japan Franchise Association (as of the end of March)
Source: Prepared by FISCO from the Company's results briefing materials

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 7,403 subscriber stores at the end of September 2018 (276 subscriber companies), making it the industry leader with about 1.6 times more subscribers than the Company. In sales, however, the gap narrows to about 1.3 times because ARPU (average revenue per store) is lower than the Company's level and to about 1.1 times when it comes to the number of subscriber companies.

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 also promoting enhancement of added-value services besides Makasete Net with aims of raising ARPU and further solidifying relationships with customers. Makasete Touch (service started in 2014) is a service that facilitates replacement of specialized terminals (handy terminals) used in accepting orders from customers at restaurants with an iPad, iPod touch, or other general-use terminals. Service benefits include steep reduction of initial deployment costs to about one-third of utilizing a general-use terminal, cutbacks in education and training periods and costs thanks to quicker employee learning from use of terminals that are widely utilized, and savings on maintenance costs. Initial cost for deployment of Makasete Net begins at ¥100,000 and monthly charge per store totals ¥19,800 with a breakdown of ¥9,800 for the ordering service, ¥5,000 for the POS service, and ¥5,000 for the maintenance service. While the number of stores is still low at just over 100 sites, contracts from new customers are starting to increase too, rather than just getting business from stores that have already deployed Makasete Net.

Separately, the ASP business includes Putmenu as a new service. The Company established Putmenu Inc. through joint investment with Boxyz Inc. and Tagcast Inc. as a consolidated subsidiary (it holds a 70% stake) in February 2018. Boxyz is handling development of Putmenu, and sales activities involve a total of five people – the Company's president, three sales team members, and Boxyz's president. External companies are helping too with sales.

Putmenu is a mobile ordering and payment system that realizes "zero minute" order and payment wait time at restaurants and other stores by having customers utilize a smartphone app. Payment options include the three mobile carriers, LINE Pay, and various overseas payment systems, such as Apple Pay, PayPal, and Alipay. The app is also available in 12 languages and hence enables use by foreigners. It provides allergy-related information at the menu display stage, if the user has preregistered allergy substances, as well as Halal and vegan displays. This service envisioned use by foreigners from the initial design.

Furthermore, a difference with other similar services is integration with IoT technology that recognizes user location utilizing the beacon (radio wave transmitter and receiver) for Bluetooth, a close-distance wireless communication technology, and smartphone GPS function. This supports reception of orders with identification of user location information via the beacon and other means and thus provides an ability to collect and analyze data on the seat and location of orders that allows for effective marketing measures. This is an important strength of Putmenu. Tagcast has an international patent on this mechanism (it holds patents in nine countries including Japan, the US, China, Korea, the UK, Germany, and France).

As main deployment targets, the Company is promoting a strategy to expand adoption at restaurants (particularly those in food courts in retail facilities), restaurants and merchandise shops at event venues and other location that quickly attract lines, and at hotels and tourist sites with many foreign tourists. The service has two types of income models. It is available at a monthly fixed fee for restaurants and other sites operating on a regular basis and with a revenue-sharing framework that charges a certain percentage of gross purchase value handled through Putmenu for mainly event venues and tourist sites.

Features of Putmenu

Main features	Effect
1. Increase in sales contact points Orders can be received anytime because it does not use register (face-to-face) sales Supports larger sales per hour without additional investment	Larger sales, labor savings, improved customer service
2. Cashless (non face-to-face online payment) Eliminates need for register support due to payment via an app Only necessary to hand over product	Labor savings, improved customer service
3. Foreign language and allergen ingredient display Foreign visitors to Japan can conduct ordering and payment in their native language on their own smartphone Supports display of allergen ingredients and Halal and vegan dishes	Labor savings for foreign traveler support, improved customer service
4. Provision of convenience tailored to the user experience Use of spatial awareness technology prevents order placement outside of the defined area Allows for customer recruitment measures via O2O	Promotion, improved customer service

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., made a wholly-owned subsidiary of JUST PLANNING in 2005. This business mainly provides services such as 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 is pursuing increased sales of Logi Logi System, a service for a logistics total management system (store orders placement, warehouse management, inventory management, etc.) developed by itself (this service currently has about 300 subscriber stores).

4. Solar Power Generation Business

The Company operates its solar power business through subsidiary JP Power Inc. (wholly owned). It runs power plants at two sites in Tochigi Prefecture with a total of 1.7MWh (started operating in February 2015) and one location in Miyagi Prefecture with 1.1MWh (February 2016) and sells electricity to power companies. The Company intends to maintain the current level of power-generation capacity and should achieve higher margin as depreciation cost burden declines.

5. Other Business

Subsidiary JP Power operates restaurants as locations for employee training to obtain knowhow on store operations and test marketing of new systems. It had a total of four stores as of end-FY1/19 with three izakaya pubs and one golf bar (located in Fukuoka Prefecture; it acquired an existing business in October 2014).

Results trends

Sales and profits fell in FY1/19 on weakness in the logistics solutions business

1. Review of FY1/19 results

The Company reported declines in sales and profits in FY1/19 consolidated results with net sales at ¥2,254mn (-5.7% YoY), operating income at ¥284mn (-33.5%), recurring income at ¥297mn (-29.9%), and net income attributable to parent shareholders at ¥147mn (-47.6%).

Consolidated financial results for FY1/19

(¥mn)

	FY1/18		FY1/19				
	Results	% of sales	Plan	Results	% of sales	YoY	% of forecast
Net sales	2,390	-	2,200	2,254	-	-5.7%	+2.5%
Gross profit	960	40.2%	-	891	39.6%	-7.2%	-
SG&A expenses	533	22.3%	-	607	26.9%	+13.9%	-
Operating income	427	17.9%	370	284	12.6%	-33.5%	-23.1%
Ordinary income	424	17.8%	370	297	13.2%	-29.9%	-19.6%
Profit attributable to owners of parent	281	11.8%	244	147	6.6%	-47.6%	-39.5%

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

Sales dropped on sluggishness in mainstay ASP business with a 0.2% decline and a large slump in logistics solution business of 17.3%. Operating profit mainly weakened on higher investment costs to expand Putmenu business (¥20mn in personnel costs, ¥75mn in system investment costs, ¥5mn in advertising and sales promotion costs, and ¥25mn in sales promotion costs and business consignment fees at subsidiary Putmenu).

In extraordinary income, while the Company booked ¥109mn in damages compensation income from improper behavior by former representative director (Takahiro Suzuki)* as extraordinary profit, it recorded ¥92mn in special investigation expenses (investigation expenses by an investigative committee and auditing costs for revision of past fiscal year statements) and ¥68mn for the bad loan allowance (anticipated value that cannot be recovered from Mr. Suzuki) as extraordinary losses.

* Mr. Suzuki engaged in fraudulent behavior of working through an acquaintance's company to effectively circulate funds to his own account from a portion of expenses related to maintenance and operation of the solar power business handled by subsidiary JP Power from FY1/15 through the first half of 2018. While JP Power put collateral rights on 368,000 shares and certain assets owned by Mr. Suzuki in accordance with a damages compensation contract, the Company booked shortfall in collateral value as a bad credit allowance because the value of collateral rights based on the share price at the end of January 2019 was less than the damages compensation claim amount (¥303mn).

Versus the revised plan from September 2018, sales overshot by 2.5%, but operating profit missed by 23.1%. Main sources of sales upside were ¥15mn in logistic solutions and ¥14mn at JP Power. Operating profit, meanwhile, encountered pressure from increase in investment costs to expand the Putmenu business.

Contracted store volume fell in a third straight year from an increase in closures at existing customers and cancellation by a major customer in logistic solutions

2. Performance trends by business segment

(1) ASP Business

ASP business reported ¥893mn in sales (-0.2% YoY) and ¥625mn in gross profit (-9.2%). The main source of profit decline, as mentioned above, was investment in Putmenu.

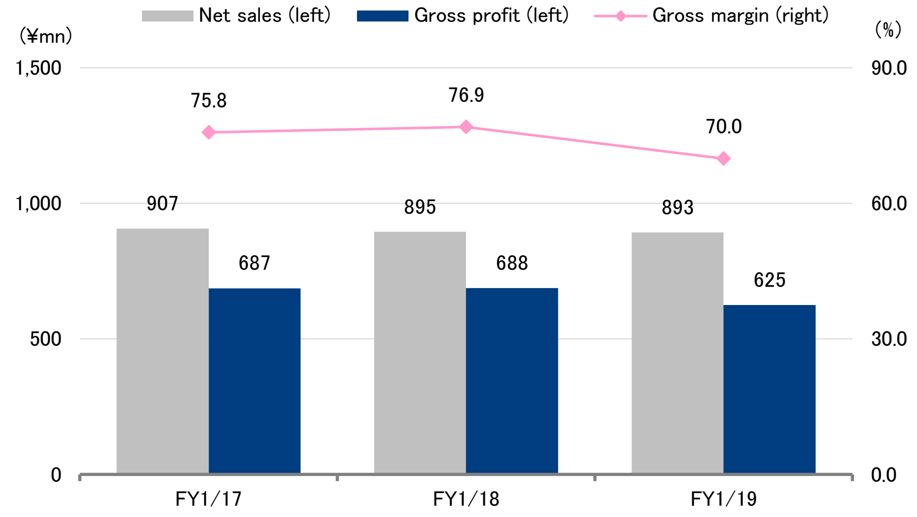
Period-end contracted store volume dropped in a third straight year by 7.2% YoY to 4,532 stores. Underlying trends were a rise in openings by new customers of 79 stores (22 companies) and addition by existing customers of 320 new stores offset by declines of 49 stores for cancellations and 690 stores from closures by existing customers. While the number of cancellations continued to trend lower because of actions to strengthen support operations, store investment appetites at existing customers abated amid chronic manpower shortages and weaker income conditions from increase in ingredient costs and this weighed on overall values. Nevertheless, a major cancellation in Logi Logi service provided by SuccessWay in February 2018 was responsible for just over 100 stores. Since SuccessWay is a direct customer for the Company, this is counted in store closures at an existing customer.

Monthly usage fees per store (monthly average sales/average number of contracted stores in the period) rose by about 3% YoY to ¥159,000 in FY1/19. While this mainly reflected the drop in the number of Logi Logi contracts with a low average usage price, average fees for mainstay Makasete Net service were healthy as well.

In the new Putmenu business, the Company has installed service at a total of over 20 stores, including a food court operated by AEON Co., Ltd. <8267> at AEON Style Sendai Oroshimachi, some stores run by a major restaurant chain, and the home arena of the professional men's basketball team Chiba Jets Funabashi (Funabashi Arena), and confirmed the deployment effect at these sites. However, the number of deployment stores is still low and there was not much impact on sales.

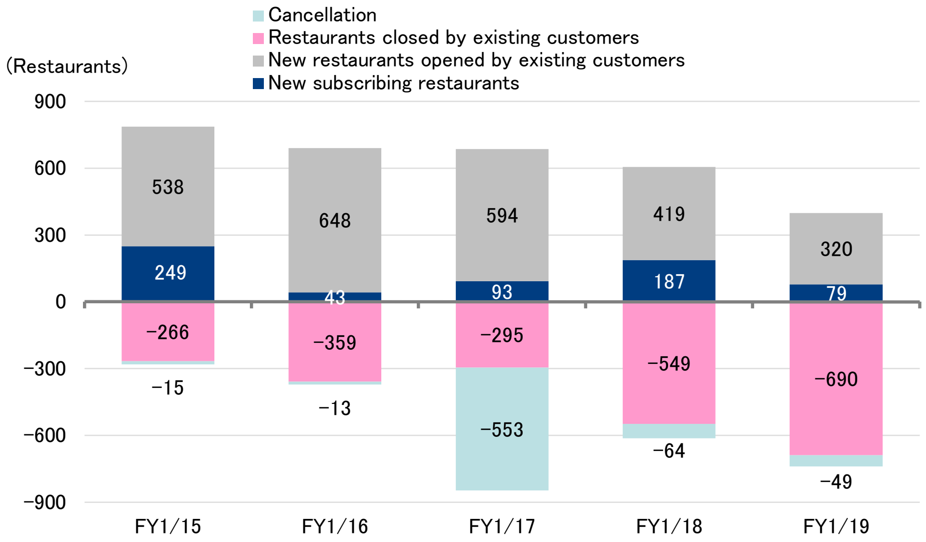
Gross margin dropped from 76.9% in the previous fiscal year to 70.0% primarily due to booking system development costs and other expenses related to Putmenu. The Company implemented system upgrades to enhance usability based on improvement requests from deployed sites, such as dish menu selection and expanded payment options.

Results of the ASP Business



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

Breakdown of changes in the number of subscribing restaurants

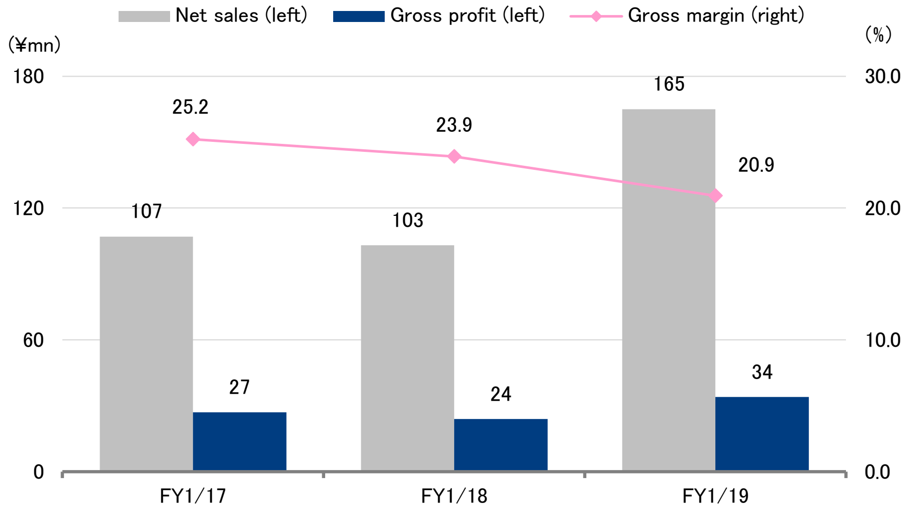


Source: Prepared by FISCO from the Company's results briefing materials

(2) Other businesses

System solutions business reported higher sales and profits for the first time in three fiscal years with ¥165mn in sales (+59.2% YoY) and ¥34mn in gross profit (+39.4%). Sales of POS systems and consumables increased to new and existing customers. However, gross margin declined by 3.0ppt YoY to 20.9%, including continuation of a downward trend in sales prices.

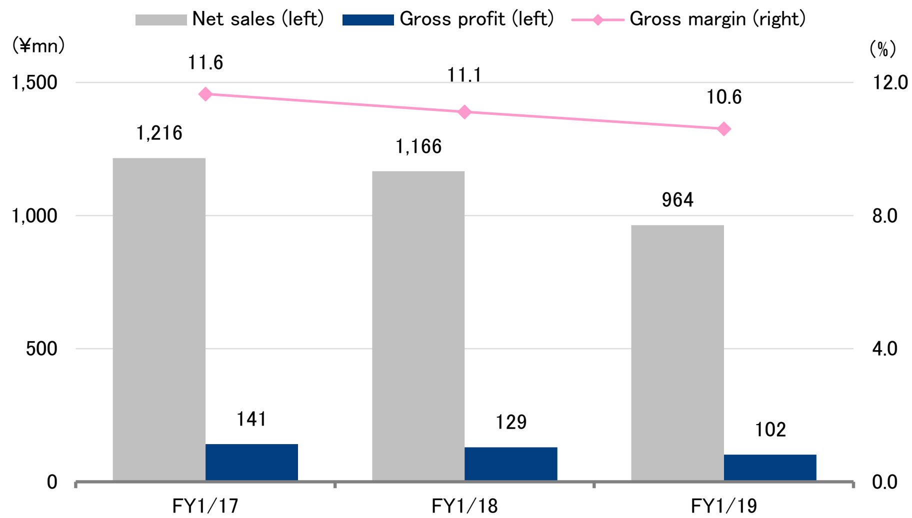
Results of the System Solution Business



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

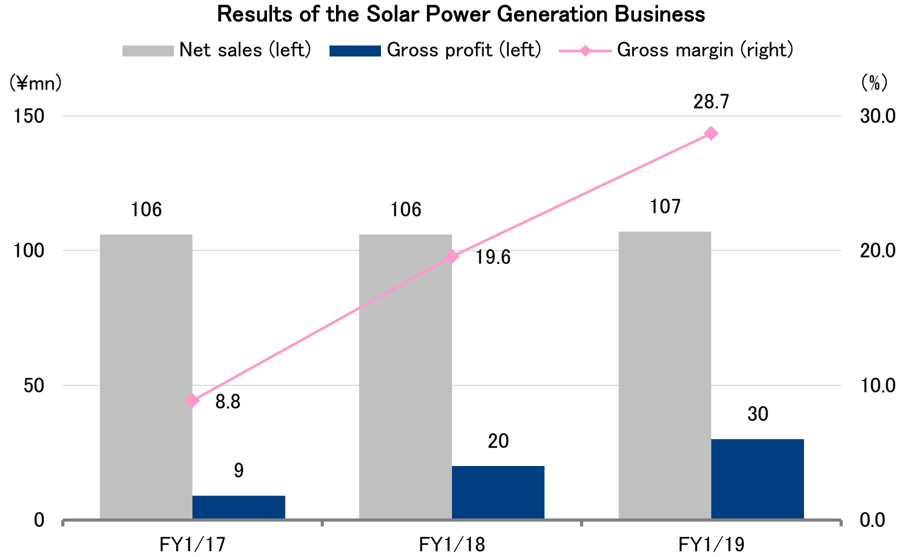
Logistics solutions business booked ¥964mn in sales (-17.3% YoY) and ¥102mn in gross profit (-21.1%). It faced an impact from cancellations by two major customers in logistics business agency service in 1H. Using a half-year analysis, meanwhile, results recovered from a bottom in 1H with sales rising from ¥429mn in 1H to ¥535mn in 2H and gross profit climbing from ¥49mn to ¥52mn.

Results of the Logistics Solution Business



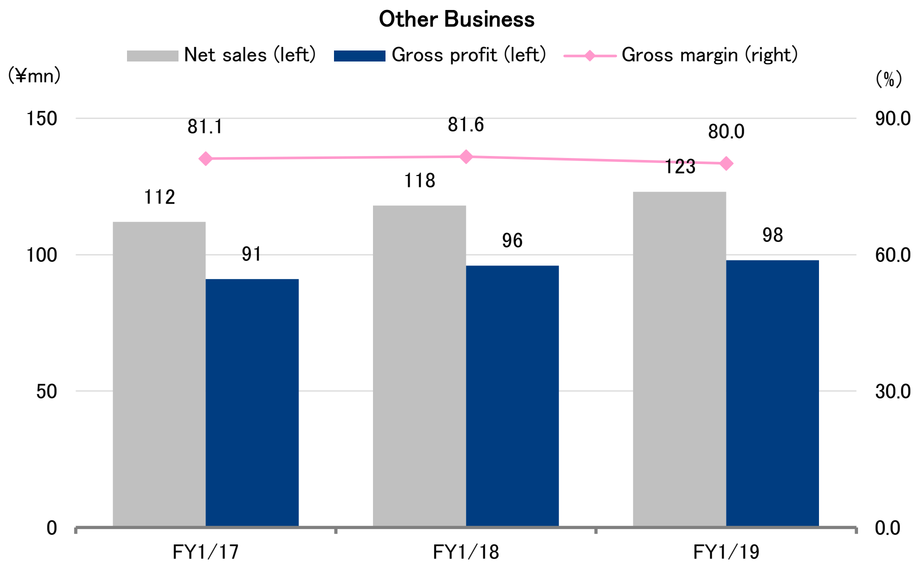
Source: Prepared by FISCO from the Company's financial results

Solar power business booked ¥107mn in sales (+0.7% YoY) and ¥30mn in gross profit (+47.8%). While sales only rose slightly because daily sunlight hours were flat, gross profit increased at a double-digit pace thanks to decline in fixed costs (mainly depreciation costs).



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

Other businesses reported ¥123mn in sales (+4.1% YoY) and ¥98mn in gross profit (+2.2%). Existing stores were healthy, and the izakaya pub opened in December 2017 added to results. While gross margin is high at 80.0% as restaurant business, the contribution to operating profit after deducting SG&A expenses was minor.



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

Maintains healthy financial standing with no-debt operations and a capital ratio of just over 90%

3. Financial condition and key financial indicators

Gross assets at end-FY1/19 were down by ¥100mn YoY to ¥3,403mn. Looking at main factors, current assets contributed positively as additions from a ¥68mn rise in the bad credit allowance and ¥303mn in short-term loans that correspond to the damages compensation request value more than offset a ¥208mn decline in cash and deposits. Fixed assets incurred a ¥71mn decline in tangible fixed assets versus increases of ¥32mn in the software and semi-finished software category and ¥20mn in investments and other assets.

Total liabilities dropped by ¥56mn YoY to ¥267mn, including a ¥38mn decline in unpaid corporate taxes and other items. Net assets fell by ¥43mn to ¥3,136mn. Even though profit surplus rose by ¥54mn, non-controlling shareholder equity and surplus capital respectively declined by ¥59mn and ¥42mn.

In management indicators, the capital ratio, which reflects management soundness, rose from 88.9% at the end of FY1/18 to 92.0%. Factors supporting the Company's high capital ratio are the prospect of stable earnings from the recurring-income business model in mainstay ASP business and continuation of debt-free operations without major capital demand. Operating margin, however, has been trending lower over the past few years, mainly due to slowdown in the ASP business and development costs, sales expenses, and other investments related to the start of Putmenu business in FY1/19. While profitability is likely to temporarily decline because of the Company's policy of robust investment in Putmenu business from FY1/20 as well aimed at increasing service inroads, management views this as necessary investment for future growth.

Consolidated balance sheet

(¥mn)

	FY1/15	FY1/16	FY1/17	FY1/18	FY1/19	Change
Current assets	1,715	2,340	2,383	2,666	2,584	-81
(Cash and deposits)	1,311	2,001	2,060	2,253	2,044	-208
Non-current assets	1,120	830	933	837	818	-18
Total assets	2,836	3,171	3,317	3,503	3,403	-100
Total liabilities	351	413	353	323	267	-56
(Interest-bearing debt)	-	-	-	-	-	-
Total net assets	2,484	2,758	2,963	3,180	3,136	-43
Key financial indictors						
(Stability)						
Equity ratio	86.1%	85.4%	87.6%	88.9%	92.0%	+3.1pt
Interest-bearing debt ratio	-	-	-	-	-	
(Profitability)						
ROA (return on assets)	14.0%	17.0%	13.1%	12.4%	8.6%	-3.8pt
ROE (return on equity)	9.4%	13.8%	9.8%	9.4%	4.7%	-4.7pt
Operating margin	24.0%	23.0%	17.6%	17.9%	12.6%	-5.3pt

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

Outlook

Projecting profit decline on higher sales in FY1/20 due to expanded investments in Putmenu business

1. FY1/20 outlook

The Company guides for profit decline on higher sales in FY1/20 with ¥2,452mn in net sales (+8.8% YoY), ¥204mn in operating profit (-28.2%), ¥205mn in ordinary profit (-31.0%), and ¥114mn in net profit attributable to parent shareholders (-22.8%). While it expects restoration of sales increase for the first time in three fiscal years on higher contract volume in mainstay Makasete Net business and recovery in logistics solutions business, the Company intends to proceed with aggressive investments to expand Putmenu business again (just as in FY1/19) and thus factors in higher system development costs, advertising and promotion costs, and work consignment costs. It employed 11 salespeople at the end of FY1/19 (including three people dedicated to Putmenu) and does not plan to make any additions in FY1/20.

FY1/20 consolidated outlook

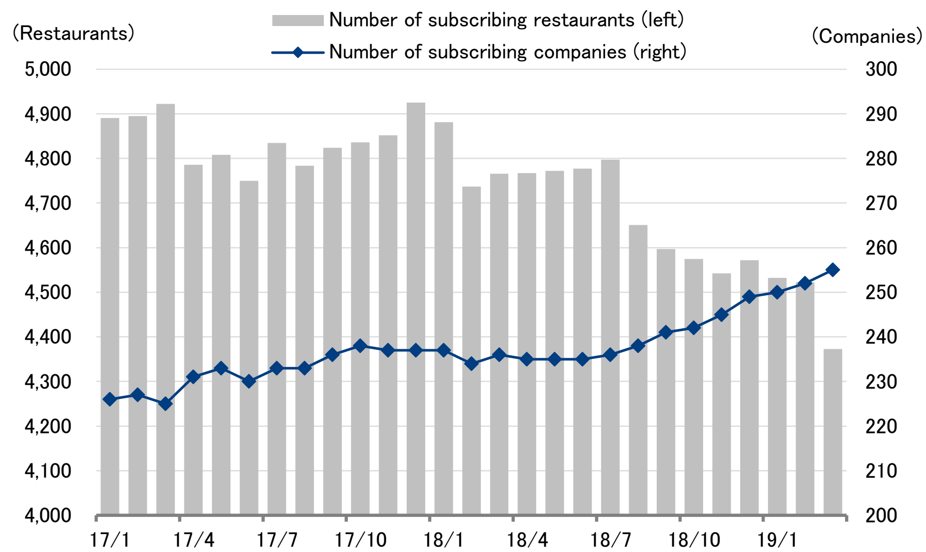
(¥mn)

	FY1/19		FY1/20			
	Full-year results	YoY	1H forecast	YoY	Full-year plan	YoY
Net sales	2,254	-5.7%	1,208	+12.3%	2,452	+8.8%
Operating income	284	-33.5%	134	-23.7%	204	-28.2%
Ordinary income	297	-29.9%	135	-23.7%	205	-31.0%
Profit attributable to owners of parent	147	-47.6%	81	-34.1%	114	-22.8%
Earnings per share (¥)	11.64		6.37		8.97	

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

The Company’s goals in Makasete Net and other services is a 10.3% YoY rise in period-end store volume to 5,000 sites and a 7% increase in period-end month January 2020) fees to ¥75mn. To expand contract volume, management aims to recruit new customers by reinforcing ties with alliance firms and taking steps to support cashless payments and inbound demand. However, we think business might remain sluggish in the near term because of decline in the priority order of investments to expand store volume and deploy new systems amid difficult conditions in the restaurant industry environment with responses to the consumption tax hike planned in October 2019 and chronic manpower shortages. In fact, contracted store volume dropped by 159 stores from the end of the previous fiscal years to 4,373 stores at end-March 2019. While contracted company volume continued to rise with an addition of five companies versus end-FY1/19 to 255 companies, we think increase in closures at existing customers is causing store decline. We think full-fledged recovery in contracted store volume will have to wait until at least November 2019.

Trends in the number of contracted stores and contracted firms



Source: Prepared by FISCO from Company materials

(1) Strengthening relationships with alliance firms

As collaboration with an alliance firm, the Company is promoting initiatives for use of the Safie cloud camera security platform supplied by Safie Inc., with which it announced a business alliance in July 2018, at its customer stores. By linking store POS registers and surveillance cameras, the service supports prevention of crimes by intruders and also prevents and curtails internal crimes. While many stores install cameras on POS registers, linking Safie to the POS register enables simple, single-click replay of time slots that need to be confirmed from the massive amount of recorded video data. While deployments at the Company's customers are still limited, we think this service offers large potential demand and expect contributions to higher ARPU. The monthly fee for Safie service varies with the recordable period, but can be started at the minimum level (one week) for ¥1,200.

The Company also began collaboration with DreamArts Corporation, which provides the Shop Run communication tool for firms operating multiple stores, in FY1/19. Shop Run delivers a cloud-based service for daily work contacts between the headquarters and stores and survey sending and responses and is utilized by over 35,000 stores and about 530,000 people mainly in the retail and restaurant industry. In the restaurant industry, Skylark Group (Skylark Holdings Co., Ltd. <3197>), which is also the Company's customer, adopted this service in June 2018. The service fits well with Makasete Net as a tool that improves work efficiency of store operations. The two companies plan to develop new customers through mutual introductions and other efforts, and introductions have already led to multiple contracts.

The Company also provides attendance and shift management services from Makasete Net on an OEM basis through collaboration with SUNCORPORATION <6736>, a business alliance partner. It conducted test deployments at a few sites from SUNCORPORATION's customer base of pachinko halls (about 2,000 stores) in FY1/19. We expect expansion of this business.

(2) Response to cashless payments and inbound activity

The Company is focusing on sales expansion efforts for Putmenu, as explained below, to address cashless payments and inbound demand. However, it also started collaboration with J-Mups, a cloud-based system that supports multiple payment types provided by Mitsubishi UFJ NICOS Co., Ltd., in FY1/19 with the aim of broadening adoption of the Makasete Touch service it supplies. Besides major domestic and foreign credit cards, J-Mups supports transportation e-money, retail e-money, and other payment methods. The Company hopes to expand sales of Makasete Touch by supporting cashless payment services.

Possibility of cultivating Putmenu into a future income source with deployment in a variety of usage scenes

2. Putmenu business update and plans

The Company is putting efforts into expansion of Putmenu service that realizes "zero minute" waits for order placement and bill payment at restaurants and other venues as a new income source besides Makasete Net. Sales targets go beyond just restaurants to food courts at shopping malls and outlet malls, shops at event halls and other venues that quickly attract lines, and at hotels and tourist sites with many foreign customers. This system can also contribute to reduction of food disposal losses at company cafeterias by facilitating advance orders placement. Potential usage scenes have broadened since the start of this business in 2018.

Putmenu deployments and alliances

Date	Description
January 2018	Deployment at the Ohitsu Gohan Shirokujichu restaurant at AEON Mall Makuhari Shintoshin Deployment at the Sausage Wharf restaurant at Huis Ten Bosch
March 2018	Adoption for the order-made T shirts order placement and sales system at Henn-na Hotel Huis Ten Bosch
April 2018	Trial deployment at two Kentucky Fried Chicken stores (Shinjuku South Exit store, Ikebukuro Sunshine Street store)
May 2018	Deployment at Ringer Hut TOKYO PREMIUM Hibiya Chanter store
August 2018	Start of collaboration with AEON Card
September 2018	Deployment at the Morino Oasis food court (700 seats) at AEON Style Sendai Oroshimachi
October 2018	Deployment at the Ootoya Gohan Dokoro Shinagawa Grand Passage store
November 2018	Adoption for Touch de Delica reservation order placement and advance payment service for prepared foods at the Beisia Niiza store Deployment at the home arena for the Chiba Jets Funabashi men's professional basketball team Announcement of collaboration on promotion of cashless payments at tourist locations with Japan Design, Inc., which runs the Onsen Sousenkyo ranking Start of collaboration with Epos Card and deployed Morera Order as a food court app for Morera Gifu shopping mall
January 2019	Announcement of a business alliance with WORLD TRIP SINGAPOLE PTE. Ltd, which supplies an experience-type social travel platform
February 2019	Collaboration with SpotTour, a digital tour app, provided by Boxyz
March 2019	Announcement of cooperation with Myoko Tourism Management (foundation) as the first cashless payment plan for an entire town Deployment at ski resorts in the Myoko area and nearby restaurants, roadside stations, lodging facilities, and transportation services Adoption for Touch de Delica reservation order placement and advance payment service for prepared foods at the Beisia Ageo Hiratsuka store
April 2019	Start of operation at "Minna-no Shain Shokudo," an employee cafeteria operated by Koyo Corporation Provision of a new payment service that handles WeChat Pay payment without using QR codes Installment on "handy" rental smartphones deployed in all guest rooms (200 rooms) at Henn-na Hotel Huis Ten Bosch
May 2019	Promotion of use at the "Sogensai" local appeal event as part of the "cashless payment initiative for Myoko town"

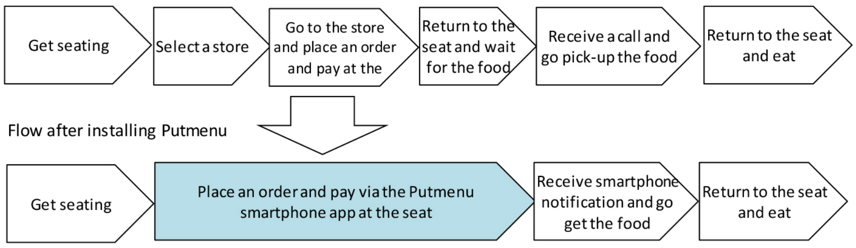
Source: Prepared by FISCO from Company materials

(1) Food courts and supermarkets

In the food court segment, the Company's initial deployment was at the Ohitsu Gohan Shirokujichu restaurant at AEON Mall Makuhari Shintoshin's food court in January 2018, and the next project rolled out service for 11 stores located at the Morino Oasis food court (700 seats) at AEON Style Sendai Oroshimachi that newly opened in September 2018. Additionally, FOOD GARDEN (four stores), the food court at Morera Gifu, a shopping mall operated by Marui Group Co., Ltd. <8252>, adopted the service as "Morera Order." The Company has begun collaboration with AEON Card and Epos Card too and aims to improve convenience.

An important effect after adopting Putmenu has been a significant rise in orders volume per hour compared to other food courts due to removal of waiting time at crowded times. The physical limit on orders processing in the past was one order per minute, and sales opportunities were lost to other stores when ordering lines formed. Use of Putmenu eliminates this problem. While it seems that there has not been much horizontal rollout at these customer companies, this stems from system revision costs for existing stores because of the need to link Putmenu service to the POS register system and management priority on measures to address the consumption tax hike and introduction of a lighter tax rate planned in October 2019. We expect increase in food court deployments once these issues have been resolved.

Service flow at food courts



Source: Prepared by FISCO form interviews

Separately, supermarket operator Beisia introduced Putmenu for its Touch de Delica reservation order placement and advance payment service for prepared foods at the Beisia Niiza store in November 2018. This service accepts orders with a specified pick-up time up to one hour before on the same day and as long as three days later. The system automatically sends a push notification to the customer smartphone at the specified time, and the user goes to the store at the time specified at orders placement and immediately receives freshly prepared food. Payment can be handled within a 20km range using the smartphone's GPS function. Stores benefit from the ability to conduct "make-to-order production" and improve forecast precision of sales volume. This should also help reduce disposal losses. Beisia deployed the system at its new Ageo Hiratsuka store that opened in March 2019. We expect continued deployments at new stores.

(2) Event venues

The Company targets event venues as key opportunities for Putmenu deployments too. The first installation was the food lounge at Funabashi Arena, which is the home arena for the Chiba Jets Funabashi men's professional basketball team, in November 2018. At basketball games, customers previously needed to wait in lines at the food lounge in order to purchase light food and drinks during the 15-minute half time (and potentially might miss the resumption of play). With Putmenu, meanwhile, customers order products from their seat and can make purchases without having to wait in lines. Food lounge sales rose by over 25% and customer satisfaction improved too after the Putmenu deployment. Benefits exceeded expectations.

While an 8% service charge is added to the normal cost for products purchased with Putmenu, the repeat usage rate is still over 80%. This highlights significant needs for the service. The arena also plans to deploy service at merchandise shops on the premise. Inquiries from other teams and other professional sports operators have risen after seeing the deployment effect. We thus expect progress with new deployments as soon as during FY1/20. Funabashi Arena has installed beacons in each of the customer seat areas and collections purchasing data by the areas. With data collection by counterpart teams, the arena hopes to improve management efficiency by raising the precision of sales forecasts and optimizing food procurement volume and staff levels.

As an income model, the Company receives fees as revenue sharing with the operating firm and increases income proportionately to gross purchase value.

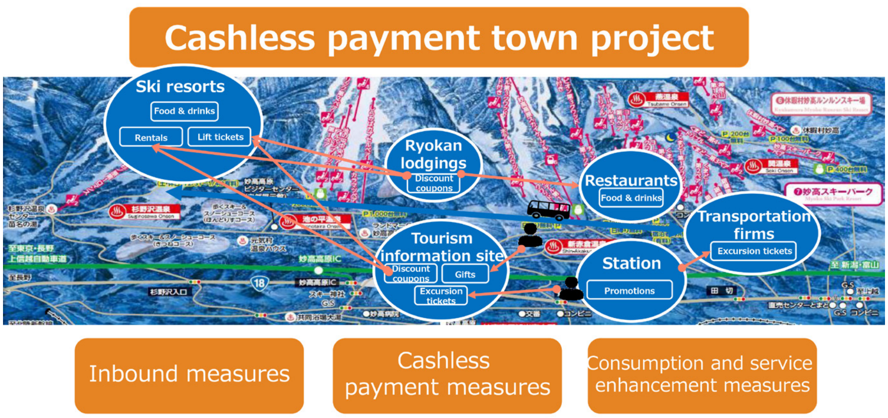
(3) Tourist sites

The Company anticipates inroads by Putmenu as a tool that realizes a "cashless payment town" at tourism sites amid increase in the number of foreigners visiting Japan. In November 2018, it announced collaboration on promoting cashless payments at tourist areas with Japan Design, which runs the "Onsen Sousenkyo ranking" that encourages tourism and has received support from five government ministries. The first major initiative is the "cashless payment town" at Myoko (Niigata).

Working with Myoko Tourism Management (foundation), which plays a leading role in local tourism management, the Company is delivering Putmenu service to domestic and foreign tourists who visit Myoko with goals of improving convenience and stimulating consumption. Specifically, visitors can place orders and make cashless payments via Putmenu at ski resorts in the Myoko area (lift tickets, rental service, and restaurants) and nearby restaurants, roadside stations, lodging facilities, and transportation services. For tourists visiting Japan, Putmenu facilitates stress-free access to accurate information and a highly satisfactory tourism experience. Service providers, such as restaurants and lodging sites, can reduce costs that had been allocated to dealing with the languages of various countries and are also likely to benefit from increased consumption aided by cashless payments. Furthermore, beacons installed around the town and GPS collect data on user experience paths and consumption activity at tourism sites. Analysis of the data can be utilized to stimulate tourism areas even more. The Company announced use of Putmenu for Sogensai*, a local appeal event implemented by Myoko in May each year, to ease congestion and encourage cashless payments, thereby enhancing user service.

* This is a festival for the arrival of spring held by Imori Pond at Ikenotaira Onsen. It attracts about 20,000 people annually. It includes traditional entertainment and other stage events, food tents, and closing fireworks against the backdrop of a large "fire" character and Mt. Myoko.

Tourism stimulation project for an entire town



Source: The Company's results briefing materials

We expect further initiatives with destination management organizations (DMOs*) in other locations in light of the increase in inquiries from other local government entities in tourist areas since the announcement of the Myoko project. The Company aims to deploy service at 100 tourist sites by the end of March 2020.

* Destination management organization (DMO): Refers to a corporate entity that plays a leading role in building a tourist area by involving a wide range of local parties and a scientific approach.

As the income model, the Company uses revenue sharing in which it receives a fixed percentage of gross purchase value at ski resorts, event venues, and other sites. It is also considering a flat monthly fee for lodging facilities and restaurants (it plans to optimize the options through data review because of differences in customer spending levels).

(4) Employee cafeterias

In April 2019, the Company announced the start of Putmenu service at operation at "Minna-no Shain Shokudo," an employee cafeteria operated by medical and welfare-related service firm Koyo Corporation. Koyo's headquarters office is located in an industrial park area with few restaurants. Isolation from lunch options was a major issue, including for neighboring companies. By introducing Putmenu service, Koyo realized fully cashless payments that reduced personnel costs related to handling cash and launched dynamic pricing with discounts for advance payment from 5pm on the previous day through the morning of the subject day that is helping to lower food waste losses. Additionally, while it initially began service just for employees, Koyo plans to make the cafeteria available to neighboring companies too and accommodate local demand once it has solidified operations. The initiative also involves use of Makasete Net for management of sales, attendance, and orders placement.

Koyo Food Service Co., Ltd., a Koyo subsidiary, handles consignment operation of restaurant facilities at hospitals and other medical/welfare facilities nationwide. The Company plans to work with Koyo to promotion deployments at these locations too.

The Company is also receiving inquiries from student cafeteria. Putmenu service is likely to support higher sales per hour by handling advance orders and cashless payments and also reduction of food disposal losses. Students should benefit from more convenience. We thus expect steady inroads in this category too.

(5) Other businesses

We also anticipate use at a variety of other locations, including highway service and parking areas, event venues, and other sites with congestion and sales conducted inside tourist buses. In April 2019, Putmenu began a collaborative service with a hotel rental smartphone service. Specifically, this project installed the Putmenu app on the free "handy" smartphone provided in all guest room (200 rooms) at Huis Ten Bosch's Henn-na Hotel. It lets lodging guests order and purchase gifts and other items sold inside the hotel using the smartphone.

"handy" is a service supplied by hi Japan Co. Ltd. Roughly 1,700 locations, which corresponds to about 30% of domestic hotels, have decided to use this service in 240,000 rooms. While the catalyst for installation of Putmenu service this time was Henn-na Hotel's existing use of Putmenu and it is unclear at this point whether it can be deployed at other hotels too, we see possible increased use of Putmenu at other hotels if this collaboration is successful (raises merchandise sales at the hotel).

The Company also has opportunities in overseas markets. It announced a business alliance with a local company in Singapore in January 2019 and is currently applying for acquisition of a beacon radio wave license. The Company is looking into possible deployment of Putmenu service at shopping malls and other retail sites run by major Japanese distribution firms in other Southeast Asian countries too.

(6) Sales and development strategy

Because of its limited sales resources, the Company is pursuing a strategy of efficient rollout and expansion by teaming up with cooperative companies that have networks in respective target markets, along the lines of collaboration with DMOs in tourist areas. It is handling developments, including feature enhancements, with Boxyz and intends to develop promotion assistance services using data collected through IoT jointly with ad-network companies and other related firms. In particular, the IoT-based data collection and utilization mechanism is a strength that is not available in similar services and offers an advantage in deployment reviews.

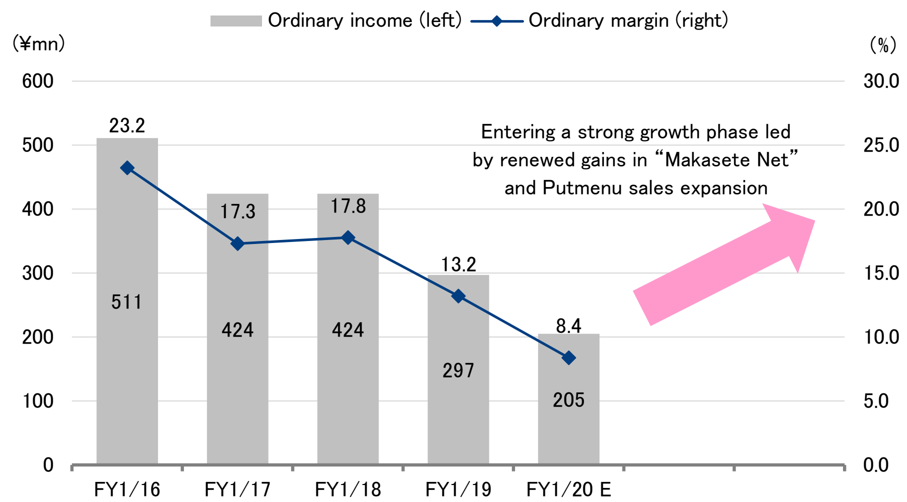
The Company sees the next year ahead of the Tokyo Olympics and Paralympics taking place in summer 2020 as a valuable opportunity to expand business and plans to make extensive investments, including advertising and promotional costs. The timing of profits therefore is likely to come in FY1/21 or later. While the Company offers fixed charge and revenue-sharing fee plans depending on the implementation site, it could generate ¥300mn in annual sales with installations at 1,000 stores and a monthly charge of ¥25,000. It needs about ¥7.5bn in gross purchase value (based on a 4% fee) to obtain the same amount of income in a revenue-sharing format. Foreigners visiting Japan spent about ¥4.5trn on consumption in 2018. We think the Company should be capable of cultivating an income source along the lines of Makasete Net in a few years if it makes inroads with Putmenu deployments in various markets.

Heightened medium-term growth potential on renewed growth in ASP business and profit contributions in Putmenu business

3. Target business indicator

The Company aims for 35% ordinary margin as a management indicator goal. While profitability has been trending lower over the past few years, including the impact of changes in sales mix, and FY1/20 guidance expects a decline to 8.4% because of higher investment burden from Putmenu business, the Company expects to improve margin with renewed growth in the ASP business (mainly Makasete Net) and profit contributions by Putmenu business. Growth potential also stalled in recent years. However, we forecast return to a high growth stage with double-digit annual growth from 2020 when Putmenu business ramps up.

Ordinary income and ordinary margin



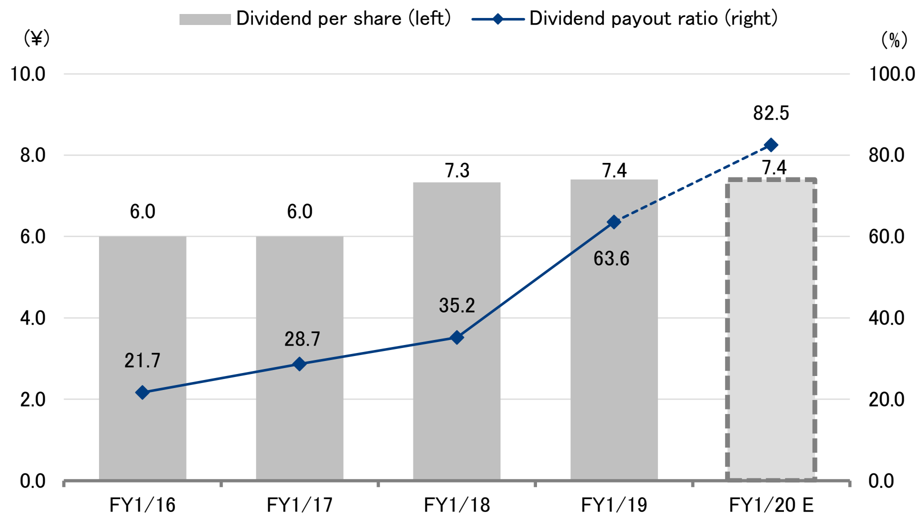
Source: Prepared by FISCO from the Company's financial results

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's core shareholder return policy calls for continuation of a stable dividend while securing retained profits to support future business initiatives and strengthen management operations. The FY1/20 dividend target is ¥7.4 (82.5% dividend payout ratio), on par with the previous year. Even with the Company's core policy of sustaining a stable dividend that factors in capital demand, we expect consideration of the dividend payout ratio too in setting the dividend.

Dividend and dividend payout ratio



Note: The Company implemented a 1:3 stock split in August 2018. We adjusted dividend values retroactively.
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 completed the transition to cloud operations in FY1/19. Moving onto the cloud is expected to contribute to stable operation and cost efficiencies in the Makasete Net business.

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