

COMPANY RESEARCH AND ANALYSIS REPORT

LTS, Inc.

6560

Tokyo Stock Exchange First Section

9-Sept.-2020

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

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Summary

Benefiting from the growth of corporate DX investment, the outlook is for results' high growth to continue

LTS, Inc. <6560> (hereafter, also “the Company”) utilizes business process management (BPM) *1 and advanced technologies such as robotics (RPA*2) and AI*3, to provide support services, including for corporate transformations, workstyle reforms, and digital transformations (DX*4).

*1 Abbreviation of business process management. The management of business processes within a company.

*2 Abbreviation of robotic process automation. A term expressing the automation of work using robots, which mainly undertake white-collar work in back-office operations.

*3 Abbreviation of artificial intelligence. It refers to the attempt to artificially realize intelligence equivalent to that of humans, such as of computers, or the series of basic technologies for this.

*4 Abbreviation of digital transformation. It is a concept advocated by Professor Erik Stolterman of Umea University of Sweden in 2004, that “the spread of IT will change every aspect of people's lives for the better.” It refers to value creation through new products, services and new business models and the establishment of competitive advantages through utilizing digital technologies, IoT, AI (artificial intelligence), big data, and analytics.

Also, the subsidiary Assign Navi, Inc. conducts a platform business to match IT human resources and projects. The Company has actively conducted M&A for growth since FY12/19, making a subsidiary of software development company WAKUTO, Inc., in September 2019, following which it made a subsidiary of IoT Japan Inc., which supports business creation (including introducing solution-provider companies) by utilizing IoT, in January 2020. In July 2020, the Company's listing was upgraded from the Tokyo Stock Exchange (TSE) Mothers market to the TSE First Section.

1. Summary of the 1Q FY12/20 results

In the 1Q FY12/20 consolidated results, sales and profits increased by double digits, with net sales rising 59.6% year-on-year (YoY) to ¥1,373mn and operating profit growing 38.2% to ¥160mn, and the Company made a smooth start to the fiscal year. It actively worked on measures for the DX of management, mainly for large companies, and results were strong in the professional services business, which includes digital utilization services. In the platform business as well, sales and profits grew from the increase in IT consultant referral projects, which have a high unit price, and the results in both businesses were new record highs on a quarterly basis. Sales and profits grew by double digits, including from the effects of the addition of the results of WAKUTO, which entered the scope of consolidation from 4Q FY12/19.

Summary

2. FY12/20 results outlook

The outlook for the FY12/20 consolidated results is for new record highs, with net sales to increase 31.9% YoY to ¥5,000mn and operating profit to rise 30.0% to ¥400mn. The rates of progress in the 1Q for the full fiscal year results forecasts were 27.5% for net sales and 40.1% for operating profit, exceeding the average rates of progress for the last 3 years (24.1% for net sales and 31.8% for operating profit). Going forward, the Company's forecasts seem fully achievable if economic activities do not slow down due to a second wave of the novel coronavirus. It is progressing its operations in a remote working environment without any problems, so the impact of the coronavirus on results is thought to be minimal. In the professional services business, 35% of net sales are provided by business process management, which is recurring-type revenue, while for project orders also, results are expected to grow steadily from the 2Q onwards as DX-related orders are solid. Meanwhile, in the platform business, a new service, CS Clip, which is a service to match business companies and DX companies, is scheduled to be released in July 2020, while from August, the plan is to review one part of the Assign Navi earnings model. So earnings are expected to grow even more due to these measures.

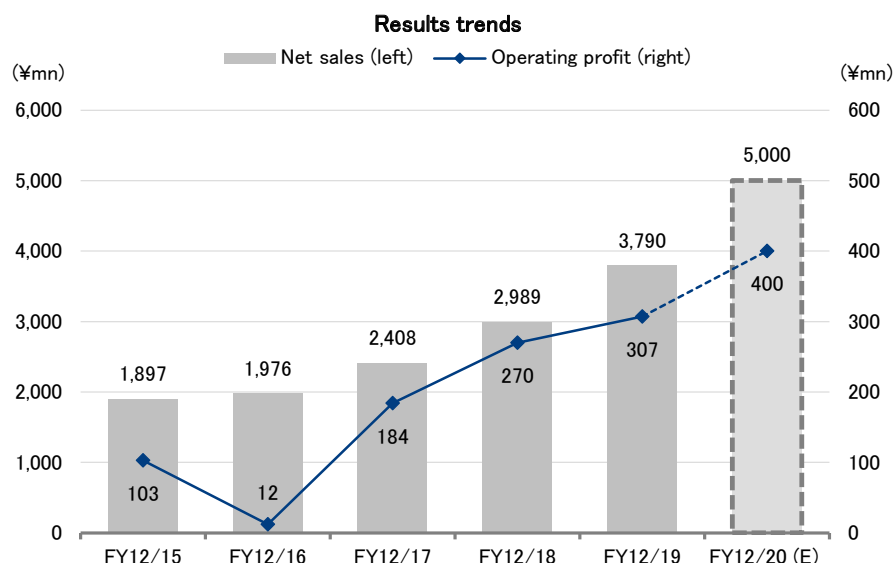
3. Medium-term results targets

At the present time, the Company's results targets are net sales of ¥8,000mn and operating profit of ¥1,200mn in FY12/23. It intends to achieve them through the organic growth of its existing businesses, so they do not incorporate the effects of new M&A. Looking at the four-year average annual growth rates with the FY12/19 results as the starting point, high growth is expected, of 20.5% for net sales and 40.5% for operating profit. For the professional services business, the Company is focusing on increasing orders for comprehensive support services for DX projects through securing engineer human resources, including by the M&A conducted in FY12/19, and net sales will increase from the FY12/20 forecast of ¥4,800mn to in the region of ¥7bn. Conversely, the platform business is benefiting from the growth in demand for and the increased mobility of IT human resources, and also the increase in demand in the DX field, so the target is for net sales to rise from the FY12/20 forecast of ¥280mn to in a range of ¥700mn to ¥1bn. In the long term as well, the Company is targeting increasing the scale of sales to tens of billions of yen and growing to be a consulting firm that conducts its business globally through actively progressing the M&A strategy and business development in the Asia market

Key Points

- A consulting firm providing corporate digital utilization services support and conducting business process management
- The impact of the novel coronavirus is minimal and the outlook for FY12/20 is again for high growth from the active investment in DX
- Excluding the effects of M&A, is targeting net sales of ¥8,000mn and operating profit of ¥1,200mn in FY12/23

Summary



Source: prepared by FISCO from the Company's financial results and securities registration statement

Company overview

A consulting firm providing corporate digital utilization services support and conducting business process management

1. Company history

The Company is a consulting firm founded in 2002 by five members who met in an IT venture company, centered on President and CEO Hiroaki Kabashima. It lacked a sales network in the five to six years after its foundation, so for customer acquisition it obtained referrals from major overseas companies and also invited people with experience as CIO (Chief Information Officer) in major companies to serve as advisers, and in this way it acquired customers through utilizing a network of contacts.

An opportunity to further expand business scale was provided when the Company joining the Japan Users Association of Information Systems* in 2011. In this Association, the Company has been able to improve the quality of its consulting services and build a network of the CIO/CTO (the highest-level technology officers) in each of the member companies through engaging in a variety of surveys and research activities on the theme of management and IT. It is progressing customer acquisition in this situation.

* Established in 1962 with the aims of promoting the improved utilization of IT and contributing to the development of the industrial economy, including through conducting surveys and research on the advanced use of IT (including management reforms) in industrial activities, awareness-raising and introductions of such IT, and collecting and providing information. As of July 2020, 4,157 companies were corporate members (including associate members).

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Company overview

In 2008, Key Pride, Inc. (currently Assign Navi, Inc.) was established as a consolidated subsidiary to refer and provide the core human resources to progress corporate transformation projects, thereby expanding the Group's business scope to outside of consulting. In 2014, this subsidiary launched Assign Navi, which is an online platform service to match IT engineers active in companies and as freelancers with companies searching for IT human resources. In addition, in 2016 it began providing Consultant Job, which is a project-referral service for IT consultants, an M&A support service specializing in the IT industry, and a data analyst training support service for individual members of Assign Navi.

In December 2017, the Company was listed on the TSE Mothers market (its listing was upgraded to the TSE First Section market in July 2020), and it has been utilizing the funds acquired in the listing to invest in human resources, M&A, and other elements to expand its business. For M&A, it made subsidiaries of WAKUTO, a software development company, in September 2019, and of IoTol Japan, which provides IoT business-creation support consulting, in January 2020. Also, in July 2019 it established FPT CONSULTING JAPAN CO., LTD. as a joint venture with FPT Japan Holdings Co., Ltd., which is a group company of FPT Corporation, Vietnam's largest ICT company.

Company history

Date	Main events
March 2002	LT Solutions, Inc. was established in Nanpeidai, Shibuya Ward, Tokyo (changed company name to LTS, Inc., in April 2008)
April 2003	Fully fledged launch of professional services in the reforms-support area to support workplace reforms at customer sites (since then, has expanded the areas to personnel and organization consulting, IT consulting, and business consulting)
March 2008	Through a new-establishment corporate split, established Key Pride, Inc., as a consolidated subsidiary to refer and supply core human resources to progress corporate transformation projects (changed company name to Assign Navi, Inc., in April 2014)
January 2009	Fully fledged launch of services for the IT upstream area and business process management /process implementation
January 2011	Established the Overseas Business Promotion Office and increased ability to respond to overseas projects, and also started preparations for business development in China and the Asia region
March 2013	Established consolidated subsidiary LTS ASIA CO., LIMITED in the Hong Kong Special Administrative Region of the People's Republic of China
April 2013	Started data analytics support
July 2014	Consolidated subsidiary Assign Navi started providing the Assign Navi platform service, which became able to introduce companies, individuals, and products in the IT industry quickly and at low cost
January 2016	Assign Navi, Inc. launched a project referral service for consultants
May 2016	Assign Navi, Inc. launched an M&A support service specializing in the IT industry
July 2016	Launch of data analyst training support for Assign Navi members
November 2016	Started providing RPA (Robotic Process Automation) and AI services
December 2017	Listed on the Tokyo Stock Exchange Mothers market
August 2018	Assign Navi, Inc. launched Consultant Job, a projects referral and consultation service for freelance consultants
August 2018	Launched the Digital Shift Accelerator Program, a capital and business alliance with a technology start-up company
July 2019	Established FPT CONSULTING JAPAN CO., LTD., as a joint venture with FTP Japan Holdings Co., Ltd. (investment ratio 20%, an equity-method affiliate)
September 2019	Made a consolidated subsidiary of WAKUTO, Inc. (investment ratio 100%)
January 2020	Made a consolidated subsidiary of IoTol Japan, Inc. (investment ratio 75%)
July 2020	Listing upgraded to the TSE First Section market

Source: prepared by FISCO from the Company's website

Status of affiliated companies

Company name	Investment ratio	Description of main business
Consolidated subsidiary		
Assign Navi, Inc.	100.0%	Platform business
LTS ASIA CO., LIMITED	100.0%	Professional services business
WAKUTO, Inc.	100.0%	Professional services business
IoTol Japan, Inc.	75.0%	Professional services business
Equity-method affiliate		
FPT CONSULTING JAPAN CO., LTD.	20.0%	Professional services business

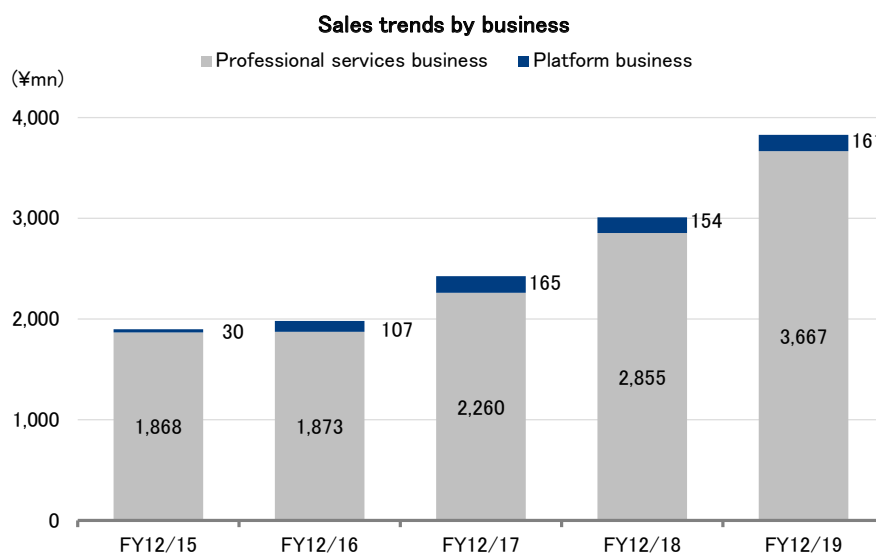
Source: prepared by FISCO from the Company's securities report, etc.

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Developing the professional services business and the platform business

2. Business description

The Company Group provides consulting services to reform and grow the businesses of customer companies through business process management, which is the method to support the “implementation of reforms” that are essential for a company to grow. The Group consists of the Company, four consolidated subsidiaries, and one equity-method affiliate, and it discloses information on two business segments, the professional services business and the platform business. Looking at the percentages of net sales in FY12/19, the professional services business provided more than 90% of the total. But going forward, in addition to growing this business, the Company’s strategy is to accelerate earnings growth by developing the platform business, which has a high marginal profit ratio.



Source: prepared by FISCO from the Company’s financial results and securities registration statement

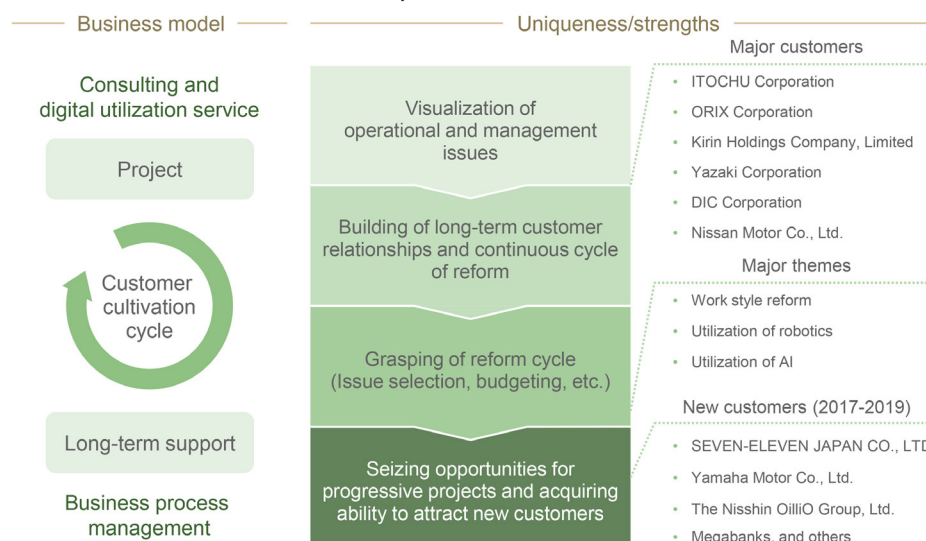
(1) Professional services business

The professional services business provides three services; long-term, support-type business process management, project-type consulting, and digital utilization services. In the percentages of total net sales in FY12/19, business process management provided 35%, consulting 47%, and digital utilization services 18%. This business builds relationships with customers through project support and enters into contracts with them on the unit of years, which in turn leads to business process management, a recurring-type business.

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Company overview

Features of the professional services business



Source: the Company's financial briefing materials

Business process management is a service to support customer companies' business structures as business processes, from making visible and analyzing the processes through to creating, implementing and fixing in place optimization methods. Currently, the Company's customers range from major companies in the automotive and financial industries through to venture companies, and they are mainly companies conducting advanced management through IT. For each type of customer, it has more than 10 years of experience of conducting transactions.

Consulting services are services to support customer companies as they build a growth strategy, develop business and conduct management reforms, of business and organizational reforms. Taking the position of the customer, they encompass customer operations support after the introduction of a new business from the planning and conception stages, through IT platform construction and establishment and operations support to the human resources training required by customer companies. Also, digital utilization services provide support to improve business efficiency and business optimization through formulating methods of utilizing research and technologies that are tailored to customers' businesses. They are utilized to reform companies' workstyle reforms and to implement DX, to improve the value chain through analysis, including by using IoT and marketing data, and to introduce AI, RPA, and other technologies.

Frequently, these project-type services are provided while collaborating as necessary with overseas consulting firms and development companies, such as of ERP, AI and RPA tools, and the Company plans the projects from the position of the customer. In many cases, customer companies lack IT literacy or related aspects, so the Company plays the role of filling-in the literacy gap between customers and consulting firms/IT-tool vendors to maximize the effects of projects to introduce IT. Therefore, it is building collaborative relationships with these consulting firms and tool vendors, rather than competitive relationships.

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Company overview

Services menu in the professional services business

Service description	% of sales (FY12/19)	Services menu
Business process management	35%	Making visible and improving business processes, utilizing BPO/SS ^{*1} , implementing advanced business processes Business process operations support and IT operations support, business analyst training
Consulting	47%	Business consulting (building a growth strategy, business development, investigating M&A, PMI ^{*2} , constructing a management foundation) IT consulting (formulating basic IT concepts; systems planning and selection; introducing, fixing in place, and operating IT systems from the customer's perspective) Personnel and organizational consulting (workstyle reforms, resource and cost management, organizational reforms, human resources training)
Digital utilization services	18%	Conducting technologies research, formulating digital business concepts, utilizing data analytics and AI, cloud integration RPA, customer-channel reforms, digital marketing, technology-utilization human resources training

^{*1} BPO (Business Process Outsourcing)/SS (Shared Service): BPO refers to the outsourcing to external companies of a part of a company's own operations. SS is a management method that aims to improve efficiency by consolidating into another company (or another division) operations shared between companies (or divisions).

^{*2} PMI (Post Merger Integration): the integration process after the completion of an M&A.

Source: prepared by FISCO from interviews and the Company's securities report

(2) The platform business

The platform business, which is conducted by the subsidiary Assign Navi, consists of the Assign Navi platform service, which solves the problems facing customer companies by matching technologies companies, which have the methods to resolve problems but lack opportunities for projects to fully utilize their in-house IT human resources as they are unable to meet customer companies, with customer companies that lack the IT human resources to enable them to fully utilize their abundant IT investment. This business also includes Consultant Job, which is a projects referral service for freelance IT consultants. In the percentages of net sales in FY12/19, Assign Navi provided approximately 40% and Consultant Job around 60%.

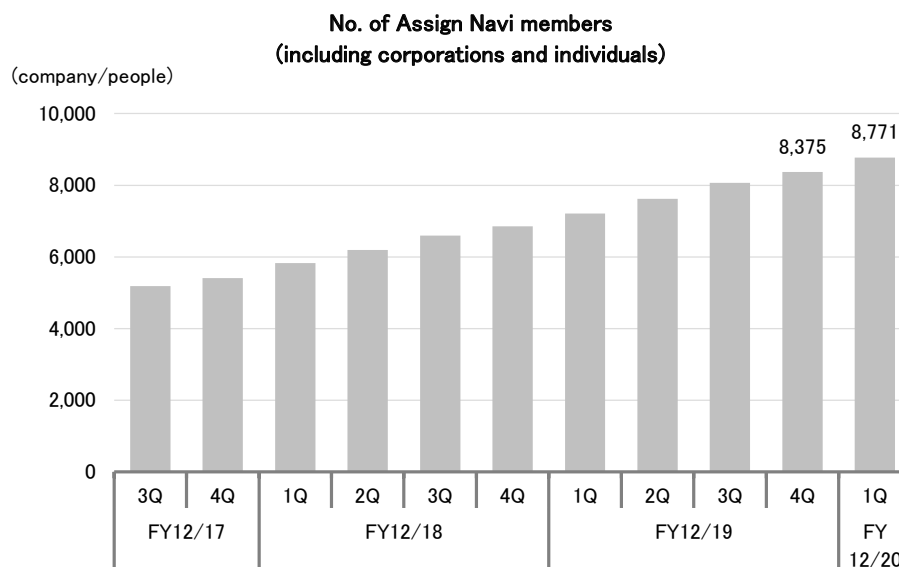
As of March 2020, Assign Navi had registered a total of 8,771 companies and individuals as members (including non-fee-paying members), comprised of 3,728 companies as corporate members and 5,043 individual members, and member numbers continue to trend upward. It is said that among IT companies in Japan, around 5,000 to 8,000 companies are members, and its name recognition is high as a website for human resources and project referrals for medium-sized and SME IT companies. The sales forms are annual membership fees from fee-paying members* and participation fees for the exchange-meeting events and training services held and provided by Assign Navi. In the case of a non-fee-paying member, should a project be ordered, the Company collects a project listing fee and a contract fee from the ordering company at the time that the contract is entered into. Currently, over two hundred companies are fee-paying members.

* In the standard plan, the joining fee is ¥100,000 and the annual membership fee is ¥300,000. Members can list projects and use the scout mail and various types of services (utilization support, company referrals, and safe transactions), while they also receive discounts on the various events. In addition, in the case of entering-into a contract from a project order, the contract fees become non-fee-paying.

Consultant Job is a referral service for freelance IT consultant for projects with high unit prices, of from ¥1.6mn to ¥1.9mn a month. For sales, it uses a results-based remuneration model, of collecting contracting fees from the ordering company at the time that the project-referral contract is entered-into. The ordering parties are major consulting firms and major SIers, and this service utilizes the network that the Company has cultivated over many years. There are many other matching services for IT human resources, but there are few services that specialize in IT consultants with high unit prices, and this is a growth area.

Company overview

The Company is also a member of Assign Navi, and should it lack resources when providing services to its professional services business customers, it supplements them by using this service.



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

Results trends

Made a smooth start in 1Q FY12/20, with sales and profits increasing significantly

1. 1Q FY12/20 results summary

In the 1Q FY12/20 consolidated results, net sales increased 59.6% YoY to ¥1,373mn, operating profit rose 38.2% to ¥160mn, ordinary profit grew 32.2% to ¥153mn, and profit attributable to owners of parent climbed 32.7% to ¥101mn. So the Company made a smooth start to the fiscal year, with sales and profits increasing by double digits for new record highs on a quarterly basis.

Customer companies have become increasingly cost conscious due to the deterioration of business confidence, but their interest in implementing DX for management is rising. Against this backdrop, companies have been responding to the changing market environment, including by introducing AI/RPA tools and digital marketing methods that utilize big data, with the aim of improving business efficiency. Therefore, strategic IT investment to improve competitiveness continues to trend strongly. In the Company also, results are steadily increasing against the backdrop of the growth of the professional services business, centered on the digital utilization services field, and also as the platform business is benefiting from the lack of IT human resources.

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Results trends

The Company made a subsidiary of WAKUTO in September 2019, and this was factor behind the higher sales and profits. But even on excluding this factor, sales and profits grew by double digits. Also, the effect on the consolidated results of IoTol Japan, which was made a subsidiary in January 2020, was minimal. The operating profit margin fell 1.8 percentage points (pp) from 11.7% in the same period in the previous fiscal year, but this was mainly because the gross profit margin declined 6.2pp due to WAKUTO being made a subsidiary. The results of WAKUTO itself were solid. The business model for the outsourcing business is for business expansion, so it contributed greatly to the increase in sales. However, its gross profit margin is low compared to that of the Company on a standalone basis, so it was a factor pushing down the profit margin. On the other hand, SG&A expenses increased 35.6% YoY, mainly personnel expenses, but the SG&A expenses ratio fell 4.3pp due to the effects of the higher sales. Following WAKUTO and IoTol Japan being made subsidiaries, amortization of goodwill of ¥5mn was recorded in SG&A expenses. Therefore, EBITDA (operating profit before depreciation and amortization) increased 41.6% YoY to ¥171mn. The main reason why non-operating expenses worsened slightly YoY was the recording of an equity-method investment loss of ¥8mn. This was because the equity-method affiliate FPT CONSULTING JAPAN is progressing upfront investment in human resources, including to recruit IT consultants.

1Q FY12/20 consolidated results

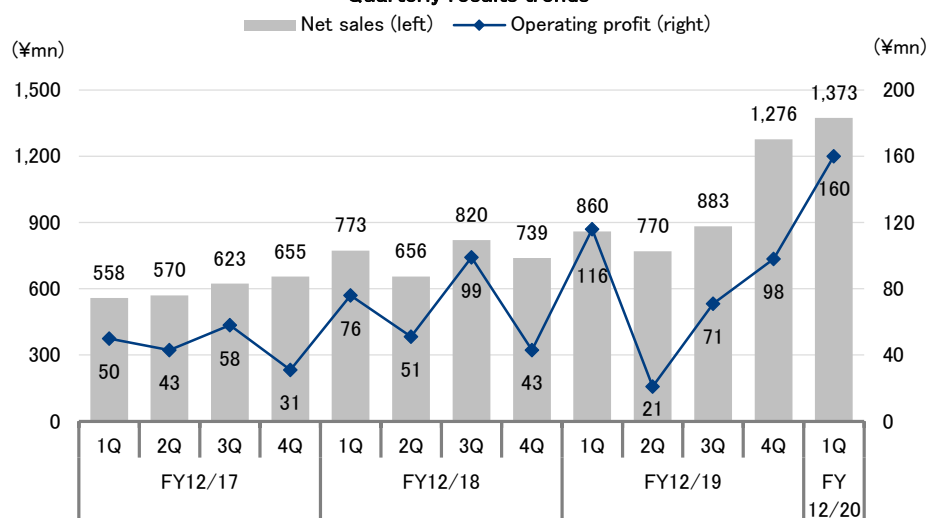
(unit:¥mn)

	1Q FY12/19		1Q FY12/20		YoY
	Result	Sales ratio	Result	Sales ratio	
Net sales	860	-	1,373	-	59.6%
Gross profit	364	42.4%	497	36.2%	36.4%
SG&A expenses	248	28.9%	337	24.6%	35.6%
Operating profit	116	13.5%	160	11.7%	38.2%
Ordinary profit	115	13.5%	153	11.2%	32.2%
Profit attributable to owners of parent	76	8.9%	101	7.4%	32.7%
EBITDA	121	14.1%	171	12.5%	41.6%

Note: EBITDA = operating profit + depreciation + amortization of goodwill

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

Quarterly results trends



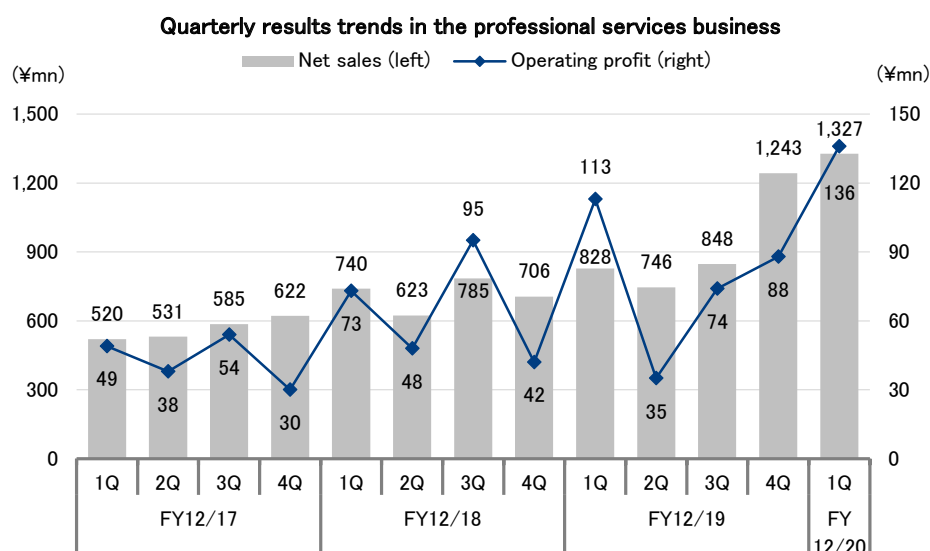
Source: prepared by FISCO from the Company's financial briefing materials

Results trends

(1) Professional services business

In the professional services business, net sales increased 60.1% YoY to ¥1,326mn and operating profit rose 20.2% to ¥136mn. An increasing number of companies are utilizing IT to implement DT for management, and in this situation, results were strong for digital utilization services. Results also trended favorably for business process management and conventional-type consulting services. WAKUTO being made a subsidiary was also a factor behind the higher sales and profits.

In the professional services business, a seasonal factor is that profits tend to be concentrated in the 1Q and the 3Q. This is because in the 2Q, the Company incurs training costs for more than 20 new employees, including new graduates and mid-career hires, while it also allocates excellent consultants within the Company to serve as lecturers, and as an effect of this, its sales capabilities tend to fall temporarily. Also, in the 4Q, although it depends on the progress made for results, if it has excess capacity it allocates time for the consultants to improve their skills, including the consultants themselves writing journal papers and participating in overseas global technology conferences. As a result, costs related to this increase. But looking for a different viewpoint, it can be said that 4Q profits are to a certain extent in a controllable state from the intention of management.



Source: prepared by FISCO from the Company's financial briefing materials

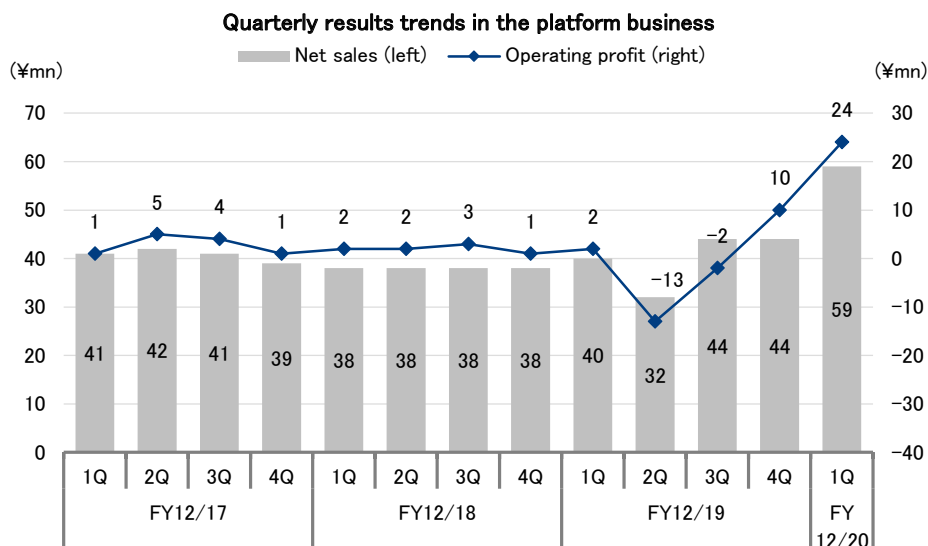
(2) Platform business

In the platform business, net sales increased 46.4% YoY to ¥58mn and operating profit rose 947.6% to ¥23mn. At the end of March 2020, the number of Assign Navi members had increased by 396 on the end of the previous fiscal period to 8,771 members, as the total of corporate and individual members, and the number continues to steadily grow. The matching service from Consultant Job performed particularly well. Due to the growth of results-based remuneration services, the profit margin also increased greatly, from 5.6% in the same period in the previous fiscal year to 40.1%.

However, in the Company it seems that the sense is that earnings should have grown even more. This is because due to the impact of the novel coronavirus pandemic, in March 2020 the number of Assign Navi users increased quickly and doubled, but despite this, sales growth remained limited. Therefore, it plans to review some of the functions for non-fee-paying members from August 2020.

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Results trends



Source: prepared by FISCO from the Company's financial briefing materials

The equity ratio is sound at more than 50%, and has used borrowing to raise funds for growth, including for M&A

2. Financial position and management indicators

At the end of 1Q FY12/20, total assets were up ¥95mn on the end of the previous fiscal year to ¥2,547mn. In current assets, accounts receivable increased ¥98mn, while in non-current assets, goodwill rose ¥15mn.

Total liabilities were up ¥94mn on the end of the previous fiscal year to ¥998mn. There were increases in interest-bearing debt and the provision for bonuses of ¥42mn and ¥43mn, respectively. Also, net assets rose ¥0mn to ¥1,504mn, remaining unchanged YoY. Retained earnings increased ¥101mn due the recording of profit attributable to owners of parent, but on the other hand, ¥111mn was spent to acquire treasury shares (a decrease factor). Also, following IoTol Japan being made a subsidiary (investment ratio 75.0%), non-controlling interests of ¥10mn was recorded.

Looking at the management indicators, the equity ratio is 58.6% and the interest-bearing debt ratio is 8.8%, so the Company's financial position can be judged to be sound. That said, retained earnings are still low at the level of ¥725mn, so going forward the policy is to grow earnings while aiming to supplement growth investment and internal reserves. Therefore, in April 2020 the Company newly conducted long-term borrowing of ¥800mn, while it has also concluded a commitment line agreement with a financial institution for ¥200mn. It plans to allocate the funds raised to business growth in the medium- to long-term, including for M&A, with aims including expanding its business areas and securing excellent human resources.

Results trends

Consolidated balance sheet

(unit: ¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20 1Q	Change
Current assets	1,622	1,766	2,161	2,242	80
(cash and deposits)	1,147	1,283	1,385	1,382	-2
Non-current assets	83	125	290	305	14
(goodwill)	-	-	83	98	15
Total assets	1,706	1,892	2,451	2,547	95
Current liabilities	605	515	894	998	104
Non-current liabilities	51	30	54	44	-9
Total liabilities	657	546	948	1,043	94
(Interest-bearing debt)	79	51	88	130	42
Total net assets	1,049	1,346	1,503	1,504	0
Management Indicators					
(stability)					
Equity ratio	61.5%	71.1%	61.3%	58.6%	-2.7pt
Interest-bearing debt ratio	7.6%	3.8%	5.9%	8.8%	2.9pt
(profitability)					
ROA	13.2%	15.0%	13.7%		
ROE	15.3%	15.4%	14.2%		
Operating profit margin	7.7%	9.0%	8.1%		

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

Business outlook

The impact of the novel coronavirus is minimal and the outlook for FY12/20 is for the high growth to continue from the active investment in DX

1. Impact of and response to the novel coronavirus

(1) Business management conditions

The novel coronavirus pandemic had practically no impact on results up to the 2Q FY12/20, and rather, it appears that the Company's productivity actually improved in a remote working environment. Looking at its responses in this environment, in February 2020 it established the Response Headquarters and employees began working from home, in principle. Also, up to March, on the one hand it moved online sales discussions, recruitment, and the provision of services and worked to enhance the remote working environment, while on the other hand it suspended domestic and overseas business trips and long-distance travel.

Also, from April onwards the Company has conducted new employee training online for the 19 new graduate employees, while it is also conducting measures including moving online contract and ordering procedures and supporting the introduction of remote working at existing customers. The reason why the Company has been able to smoothly transition to a remote working environment is that, when it conducted a project on the theme of workstyle reforms around 2015, it researched and analyzed the introduction of remote working as one business process, so it has been able to utilize its experience from that time.

Business outlook

(2) Impact on the FY12/20 results

As previously stated, the Company made an excellent start to FY12/20 in 1Q. From April onwards also, postponements and losses of projects have been limited, and it is receiving inquiries for DX support from existing and new customers. In addition, a factor supporting the professional services business is that business process management, which provides recurring-type revenue, contributes 35% of net sales. This service encompasses aspects like project planning and management and is a support service that makes it possible to quickly perceive customers' investment policies and to ascertain trends in customers.

Conversely, the Company's policy for organizational management is for the time being, to keep down non-essential and non-urgent expenses, and to implement it flexibility while observing how results trend.

(3) Impact on business growth in the medium term

For the professional services business, new living styles and social styles will be required in the post-coronavirus period, and in this situation, companies will aim to maintain and improve their competitiveness. It seems that investment in DX will be essential for this, so opportunities for growth are expected to increase for the Company, which has expertise in this field. In particular, it has greatly strengthened its structure in the digital utilization services field, because in September 2019 it made a subsidiary of WAKUTO and in July it established FPT CONSULTING JAPAN as a joint venture, so its ability to accept orders has increased and growth may accelerate. An anticipated negative impact is the concern that orders from customer companies will decrease due to their deterioration of earnings. But as its response to this, the Company is aiming to strengthen and enhance its customer base, mainly by acquiring new customers, while supporting customer companies, and it is thought that this will cover for any negative aspect.

In the platform business, the positive factors include that holding exhibitions continues to be suspended, so it is possible that demand for online matching will further increase. In July 2020, the Company plans to release CS Clip (a matching service for business companies and DX companies) as a new service, while from August, it intends to review one part of the Assign Navi earnings model. Business companies' interest in implementing DX is rising, but exhibitions remain suspended, and in this situation, CS Clip is attracting attention as an effective tool to search for the optimal DX companies. The various real seminars and training services provided by the subsidiary Assign Navi have been postponed, but the effect of this on results will be minimal.

Other than the above, it is possible that due to the economic downturn, opportunities for M&A will increase and the degree of difficulty to recruit excellent human resources will lower, while the Company has already completed the fund raising that will enable it to respond flexibly to M&A opportunities. A negative factor is that its business development in Asia may be delayed by the prolonging of restrictions on overseas travel.

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Business outlook

The impact of and the responses to the novel coronavirus

		Impact (anticipated)	Response
Professional services business	Positive factor	Expansion of the Companies' DX demand (digitalization of work, business-process reforms, creation of new businesses and the utilization of advanced technologies to realize these aspects, etc.)	Constitutes a major growth opportunity for the Company, which has a track record of results for advanced companies / advanced themes, and it will accelerate comprehensive support for companies' DX based on the structure built in FY12/19.
	Negative factor	There is the concern that among its existing customers, some are facing severe business environments.	Will keep a close watch on these customer companies while supporting them. Is aiming to strengthen and enhance the customer base.
Platform business	Positive factor	It is currently exceedingly difficult to hold exhibitions, etc., and in this situation, demand for online matching is increasing.	Will review the earnings model of Assign Navi, the use of which has been rapidly increasing since March 2020. Will release and develop CS Clip (matching of business companies and DX companies) at an early stage
	Negative factor	Demand from companies to utilize freelance consultants will decline in the short term.	For Consultant Job, is preparing for the demand-recovery period and focusing on enhancing the members base.
Shared factors	Positive factor	Increased opportunities for M&A. Lower degree of difficulty to recruit excellent human resources.	Is actively strengthening the Group structure. Therefore, has already built a financial foundation. (April 2020, additional borrowing of ¥800mn, established a commitment line of ¥200mn)
	Negative factor	Restrictions on overseas travel may be prolonged.	Will steadily advance business development in Asia from a medium-term perspective.

Source: prepared by FISCO from the Company's financial briefing materials

The outlook for FY12/20 is for the high growth to continue and for results to once again be new record highs

2. FY12/20 results outlook

The outlook for the FY12/20 results is that net sales will increase 31.9% to ¥5,000mn, operating profit will rise 30.0% to ¥400mn, ordinary profit will grow 17.4% to ¥350mn, and profit attributable to owners of parent will climb 19.0% to ¥240mn. The Company has not changed its initial forecasts, which are for new record highs, with net sales to increase for the ninth consecutive period and every profit item to increase for the fourth consecutive period.

The rates of progress in the 1Q for the full fiscal year results forecasts were 27.5% for net sales and 40.1% for operating profit, exceeding the average rates of progress for the last three years, of 24.1% for net sales and 31.8% for operating profit. As previously stated, the impact of the novel coronavirus has been limited and steady progress has been made from the 2Q as well. So at FISCO, we think that the forecasts are achievable as long as economic activities do not further cool down due to a second wave of the novel coronavirus.

FY12/20 consolidated results outlook

(unit:¥mn)

	FY12/19		FY12/20			1Q rate of progress	Average rate of progress from FY12/17 to FY12/19
	Result	Sales ratio	Company forecast	Sales ratio	YoY		
Net sales	3,790	-	5,000	-	31.9%	27.5%	24.1%
Operating profit	307	8.1%	400	8.0%	30.0%	40.1%	31.8%
Ordinary profit	298	7.9%	350	7.0%	17.4%	43.8%	36.2%
Profit attributable to owners of parent	201	5.3%	240	4.8%	19.0%	42.3%	35.6%
EBITDA	335	8.9%	440	8.8%	31.1%	39.0%	

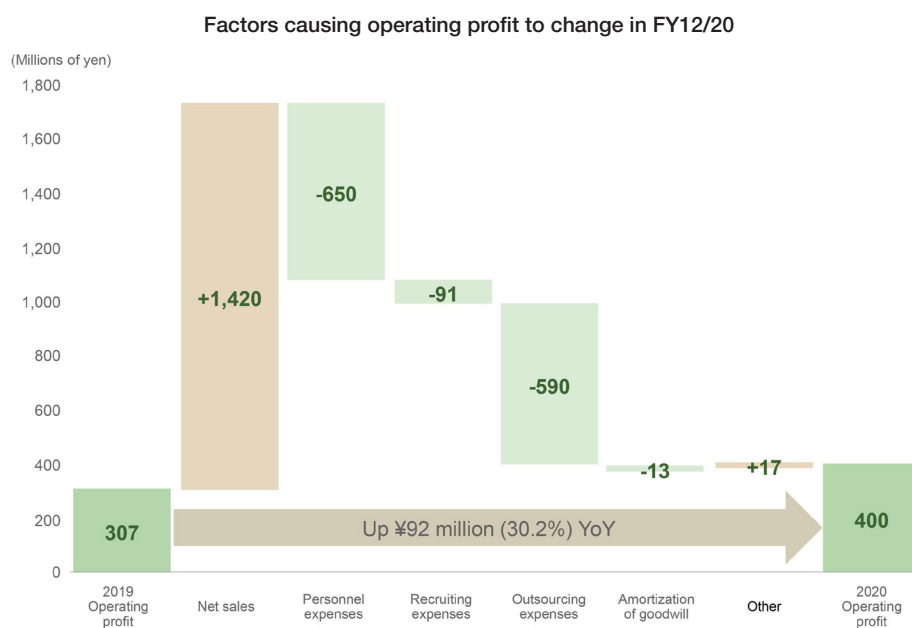
Note: EBITDA = operating profit + depreciation + amortization of goodwill

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

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Looking at the factors causing operating profit to change, costs-increase factors are personnel expenses of ¥650mn, recruitment expenses of ¥91mn, outsourcing expenses of ¥590mn, and amortization of goodwill of ¥13mn (WAKUTO only), but these increases will be absorbed by the effects of the higher sales. Around 40% of the increase in personnel expenses is due to the increase from the full fiscal year contribution of WAKUTO, and most of the remainder is from the Company's salary revisions and the rise in the number of personnel. Also, the majority of the increase in outsourcing expenses is from WAKUTO. WAKUTO has approximately 50 employees, most of who are engineers, while IoTol Japan has two consultants and two indirect staff.

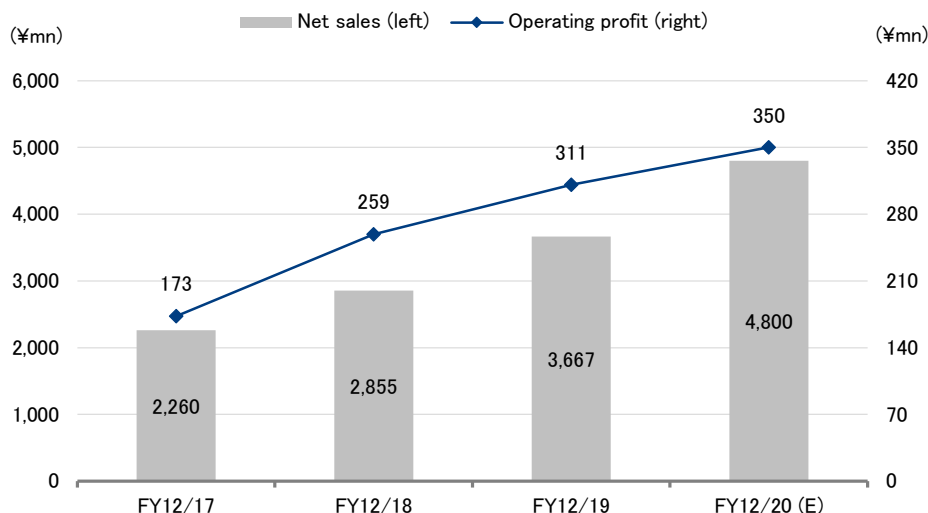


Source: the Company's financial briefing materials

(1) Professional services business

In the professional services business, the outlook is that net sales will increase 30.9% YoY to ¥4,800mn and operating profit will rise 12.2% to ¥350mn. Net sales will be greatly affected by the full fiscal year contribution of WAKUTO. But due to the investment in human resources, including salary revisions, and office-related investment, the profit growth rate is expected to be slightly sluggish compared to in the previous fiscal period.

Business outlook

Results trends in the professional services business


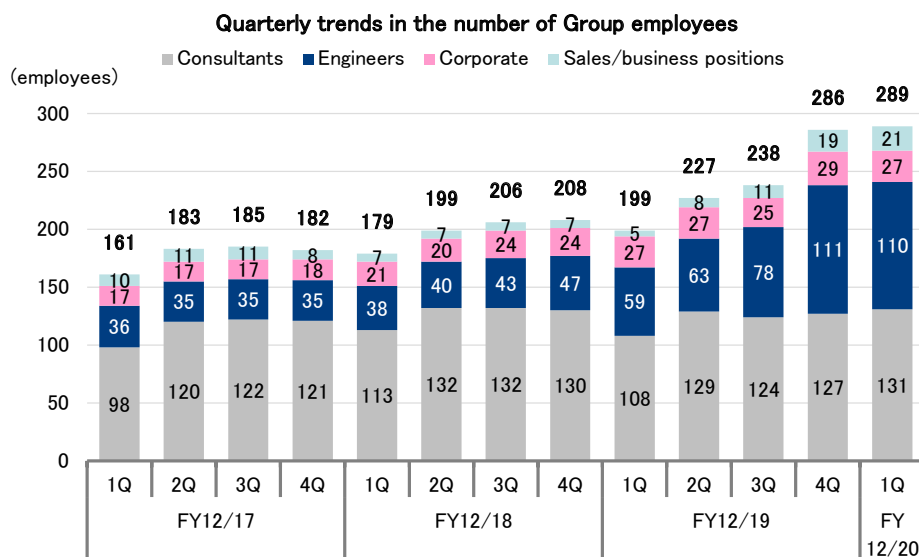
Source: prepared by FISCO from the Company's financial results and financial briefing materials

Looking at the FY12/20 priority policies, for the customer base the Company's policies are to further strengthen its relationship building with its main customers (advanced digital companies) and also to work to acquire new customers (companies at the stages of prior to or during full digital utilization). Also, for its human resources and organizational foundation, it is aiming to increase the total number of employees in the Group at a pace of approximately 50 employees a year. Its policy is to increase employees while maintaining around the same ratio of consultants to engineers. In the last few years, the number of consultants has remained around the same level, and this is one management issue for the Company. However, the number of employees is expected to increase, as it is implementing a new personnel system to improve its recruitment capabilities and to enhance its educational measures.

In the consulting industry, the consultant turnover rate is high, in a range of 15% to 19%, but in the Company's case, it is at the low level of 5% to 8%. In overseas major consulting companies, in many cases the criteria for evaluating consultants is only results, but the Company regularly evaluates them not only based on results, but also on what kind of value they were able to provide to customer companies and have they been able to return this value to within the Company. It has also established an environment enabling each individual consultant to improve their skills. It seems that these efforts have led to the low turnover rate within the Company. There are cases of consultants who left the Company to join an overseas consulting company subsequently rejoining the Company. For consulting companies, human resources are their most important asset to achieve growth, and we shall be paying attention to developments in this area in the future.

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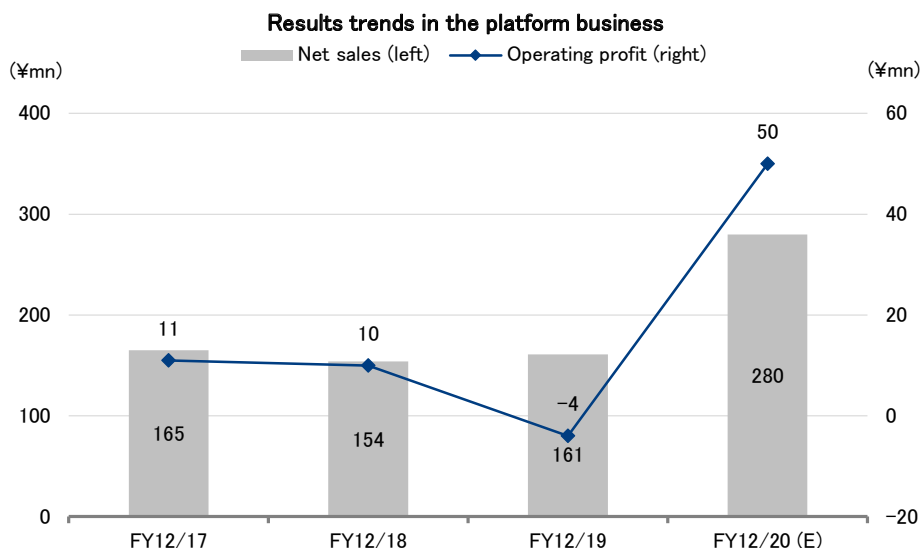


Note: consultants include data scientists

Source: prepared by FISCO from the Company's financial briefing materials

(2) Platform business

In the platform business, the forecasts are for major increases in sales and profits, with net sales to rise 73.4% YoY to ¥280mn and operating profit of ¥50mn (compared to a loss of ¥4mn in the previous period). For net sales, contributions are expected from the growth of Consultant Job, and also from the review of services for Assign Navi non-fee-paying members and from CS Clip, which is a new service scheduled to be released in July 2020. For profits, although investment in new services will increase, this will be covered by the higher sales, so the forecast is that this business will be profitable for the first time in two fiscal periods.

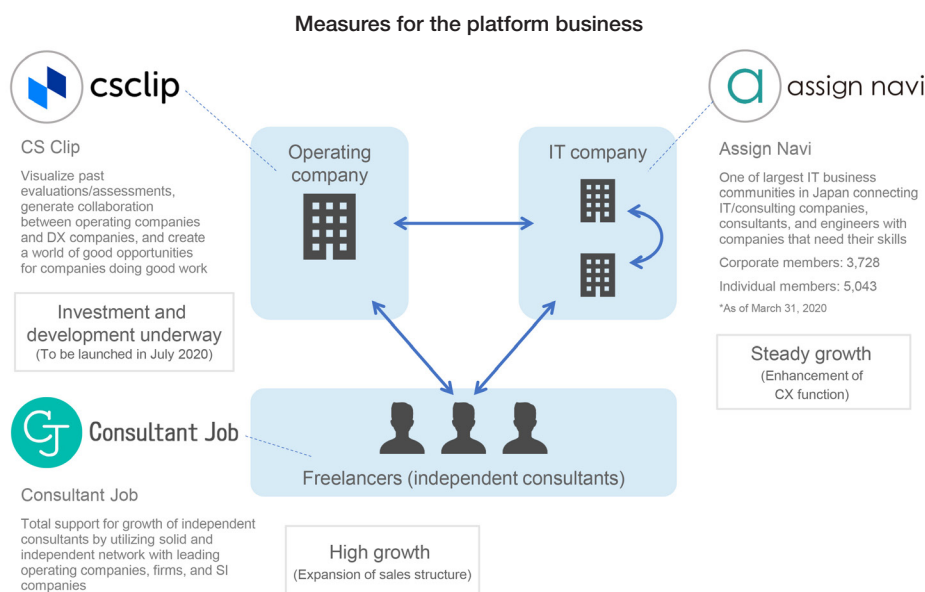


Source: prepared by FISCO from the Company's financial results and financial briefing materials

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The CS Clip service will be provided in a model that combines monthly fixed fees for DX companies and results-based commission according to the number of inquiries. If looking at the companies involved in DX, there are many companies providing tools like AI/RPA, and the situation is that it is difficult to select the most appropriate products and services. To eliminate this concern, this service collects and makes visible judgments and evaluations on DX companies' products and services to enable companies to select the optimal products and services. This service will be free of charge when it is initially launched, with the aim of making it a fee-based service from the spring of next year onwards. The Company anticipates around 50 to 100 DX companies will register as members, rising to 500 companies to 1,000 companies after one year. It plans to announce an annual net sales target in the future.



Source: the Company's financial briefing materials

Excluding the effects of M&A, is targeting net sales of ¥8,000mn and operating profit of ¥1,200mn in FY12/23

3. The medium-term results targets

At the present time, the Company's results targets are net sales of ¥8,000mn and operating profit of ¥1,200mn in FY12/23. It intends to achieve them through the organic growth of its existing businesses, so they do not incorporate the effects of new M&A. Looking at the four-year average annual growth rates with the FY12/19 results as the starting point, high growth is expected, of 20.5% for net sales and 40.5% for operating profit. When considering that investment in DX will become even more active in the future, at FISCO we think that these medium-term results targets are fully achievable.

Results targets

(unit:¥mn)

	FY12/19 results	FY12/20 forecasts	FY12/23 targets	CAGR (FY12/19 to FY12/23)
Net sales	3,790	5,000	8,000	20.5%
Operating profit	307	400	1,200	40.5%
Operating profit margin	8.1%	8.0%	15.0%	

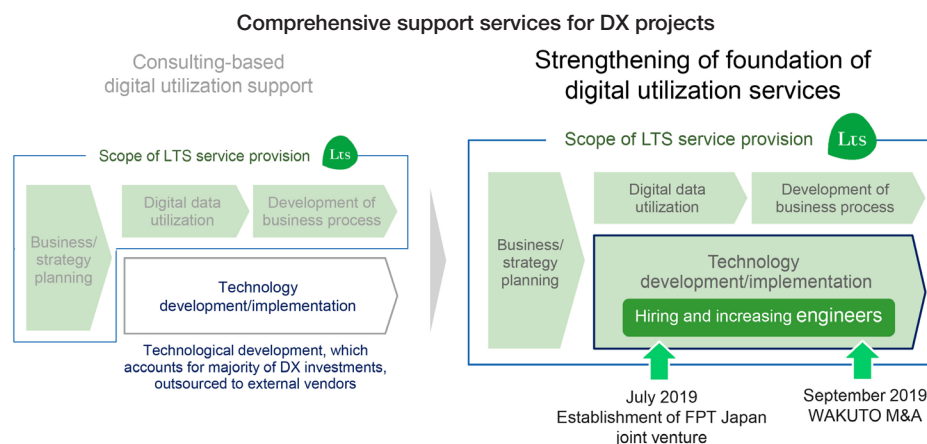
Source: prepared by FISCO from the Company's financial briefing materials

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Business outlook

(1) Professional services business

For the FY12/23 results in the professional services business, the targets are net sales of around ¥7bn and an operating profit margin of 15%. Companies' measures to implement DX are expected to become more active in the future, and in this situation, the Company's strategy is to expand its comprehensive support services for DX projects by using its business foundation for digital utilization services that it built up to FY12/19 (making a subsidiary of WAKUTO and establishing FPT CONSULTING JAPAN), and further investing in human resources.



Since the past in the digital utilization services field, the Company has mainly provided consulting services, including strategy planning, digital and data utilization support, and building business processes, and it has outsourced most of the development and introduction of the various IT systems, such as ERP and AI tools, to external vendors (in which the relevant outsourced part is a separate contract from the ordered contract). But currently, by making a subsidiary of WAKUTO and establishing FPT CONSULTING JAPAN, it is building a structure to include within the Group development resources, thereby incorporating into the Group those parts that it previously outsourced. Its strategy is to actively develop these parts as comprehensive support services. In the professional services business, the percentage of sales provided by digital utilization services is 18%, but this percentage is forecast to rise in the medium-term.

WAKUTO has ongoing development projects for its existing customers, so currently only a few of its engineers are participating in the Company's projects, but the policy is to transfer these resources in stages. Alongside this, profitability is expected to improve. This is because when comparing these existing projects and the Company's projects, the order unit price per engineer rises (depending on the project, in some cases a rise of more than 1.6 times). Obtaining orders for comprehensive services, from consulting through to the development and introduction of IT systems, is considered to be a factor behind collecting significant added-value revenue.

WAKUTO's operating profit margin before it was made a subsidiary trended at around the 1% level*. But in 1Q FY12/20, its net sales were more than ¥300mn and operating profit was ¥24mn, so the operating profit margin improved to around the 7% to 8% level. It seems that one factor behind this is that the Company's projects have started to contribute to sales. Going forward, if the percentage of sales from the Company's projects increases, its profitability is expected to further improve.

* The FY3/19 results were net sales of ¥1,126mn and operating profit of ¥18mn. After it was made a subsidiary, the fiscal period changed to ending in December.

Business outlook

For IT systems development, there have been cases of unprofitable projects due to project postponements and other reasons. But at FISCO, we consider that the risk of this is low in the Company's case. This is because the reason why unprofitable projects occur is often because the requirement definitions are changed during the development period and the development schedule is delayed, and in many cases, a project is started without having fully confirmed these elements through meetings with the customer company. But in the Company's case, customer companies participate in the project from the conception and formulation stages, and it fully ascertains the effects that the customer companies want to achieve from introducing the IT system. Therefore, we think that the likelihood of this sort of mismatch occurring is extremely low.

FPT CONSULTING JAPAN, which was established as a joint venture with FPT Japan in July 2019, is currently recruiting mid-career consultants, while it is also aiming for a lineup of around 20 employees, including by targeting engineers looking to change careers. Sales are being conducted respectively by the Company and FPT Japan, and the plan is to utilize their development projects, centered on DX projects. If it makes steady progress, it is forecast to become profitable and to contribute to earnings in the form of equity-method investment income in FY12/21. This joint venture is targeting increasing its personnel structure to around 100 to 200 employees in three years' time and building a structure that can take on large-scale DX projects (on a scale of billions of yen per project). Going forward, the Company plans to maintain its investment ratio at 20%.

Also, through the collaboration with IoTol Japan, which was made a subsidiary in January 2020, the Company is strengthening its consulting services for IoT business creation. IoTol Japan employs two consultants with high levels of consulting expertise specializing in the initial phase of IoT business development, and in just two years since its foundation, it has established a track record of supporting the IoT business development of a number of major companies. By making IoTol Japan a member of the Group, the plan is that IoTol Japan will provide companies that are considering developing an IoT-related business with support in the initial phase, and then after they have decided to create a fully-fledged business, the Company will provide them with comprehensive support, from formulating a strategy through to developing and introducing the IT infrastructure and building the business processes. But even if at the stage of the initial phase, the customer company changes its mind and decides not to create a business, this can still lead to referrals to undertake projects through the Assign Navi platform. IoTol Japan is currently progressing projects ordered by a major chemical manufacturer and a major consumer goods manufacturer. If it makes steady progress with these projects, the plan is for their specific content to be clarified by FY12/21, at which time orders for projects with the Company are expected.

The target for the operating profit margin in the professional services business in FY12/23 is 15%, and at FISCO, we think that achieving this is fully possible. Looking at the current earnings structure of this business, the gross profit margin is approximately 40%, the SG&A expenses ratio is around 30%, and the operating profit margin is approximately 10%. We think it is achievable because going forward, the outlook is that the gross profit margin will be kept in the 40% range (50% for project-type services), and if the scale of sales increases, the SG&A expenses ratio will decrease to around 25%. Approximately 85% of this business' net sales are provided by existing customers and their group companies. In the future, the Company is aiming to further spread the use of digital utilization services centered on these existing customers, and its strategy is to grow the scale of sales by raising the sales unit price per customer. For new customer acquisition as well, referral projects are generated within the CIO/CTO network that it has already built, so another of the Company's strengths can be said to be that it incurs hardly any customer-acquisition costs.

(2) Platform business

For the FY12/23 results in the platform business, the Company is aiming for net sales of ¥700mn to ¥1bn and an operating profit margin of more than 30%. Implementing DX for management will be an important issue in the post-coronavirus environment, so demand for IT investment and IT human resources is forecast to continue to trend strongly. In addition to the continuing growth of existing services such as Assign Navi and Consultant Job, growth is expected for CS Clip, a new service. As this is a business model with a high marginal profit ratio, if the scale of sales increases, then the profit margin will also rise.

In addition to organic growth, is aiming for dramatic growth through progressing M&A and business development in the Asia market

4. Image of medium- to long-term growth

In order to strengthen growth from FY12/24 onwards, during FY12/20 the Company plans to formulate a new medium-term management plan (FY12/21 to FY12/24). Toward growth from FY12/24 onwards, it will increase the pace of recruiting employees (depending on the pros and cons and feasibility of this), give shape to the M&A strategy, and consolidate the investment plan for Asia business development and office relocations.

Also, as the image of long-term sales growth up to FY12/30, the Company is targeting growing to become a Japanese consulting firm that conducts business globally. It will achieve this by continuing to realize double-digit annual organic growth in the existing businesses and expanding the scale of sales to tens of billions of yen through progressing M&A and business development for the Asia market.

Looking at the scale of the consulting market by country, it is worth ¥10tn in the United States and ¥1tn in Germany, but only ¥400bn in Japan. In terms of the reason for this, it is said to be an effect of the fact the Europe and the US have job-type employment, whereas Japan has membership-type employment. Job-type employment is an approach of allocating people according to the work, and the aim of companies in Europe and the US is to create businesses with high growth opportunities while utilizing consulting companies, or to grow while utilizing M&A. On the other hand, membership-type employment is an approach of recruiting the people in advance and then allocating the work, and it is adopted by many Japanese companies that are premised on a lifetime employment system. Problems with membership-type employment are that it is difficult to carry out bold management reforms if there are surplus personnel, and that it takes time. Therefore, the awareness that consulting services are one part of growth investment is weak in Japan, which is a factor behind its market scale being small compared to in Europe and the US. However, the novel coronavirus pandemic has once again highlighted the problems with membership-type employment, and the situation is that it has been re-recognized that implementing DX for management is absolutely essential in order to solve these problems. Therefore, while DX investment had previously only been conducted by companies conducting advanced management, going forward, it is expected to be taken on by many companies that are aiming to maintain or improve their competitiveness. In order for companies to optimally progress the implementation of DX for management, it is thought that they will need to use a consulting company with high IT literacy and expertise in business process management, like the Company. Therefore, it seems that growth opportunities in Japan will increase in the future.

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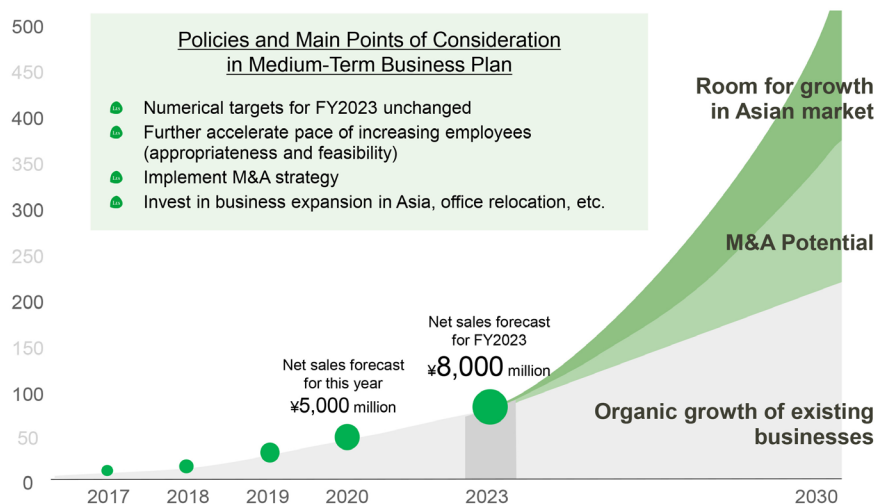
In order to steadily capture growth opportunities, it is necessary to supplement insufficient resources through M&A. Going forward, the Company's policy is to consider the main targets for M&A with the aim of securing engineers. As the M&A method, the sequence is that it first builds a collaborative relationship, then it enters into negotiations at the stage at which it judges there to be no problems, and then makes the company in question a subsidiary. Therefore, the risk of loss through an M&A is low. Also, the subsidiary Assign Navi provides an M&A intermediary service, so the Company is able to acquire M&A information. In addition, CS Clip collects data, including on evaluations and judgments of DX companies, which enables it to search within the Group for high quality M&A projects. It is thought that these will be positive factors for progressing the M&A strategy in the future.

The Company's strategy is to progress business development in Asia through its collaboration with FPT, which is Vietnam's largest IT development company. The FPT Group in Vietnam has approximately 35,000 engineers, and it is one of the leading IT companies in Asia, if excluding the major companies in China and India. It mainly focuses on dispatches of engineers, and around 50% of its customers are Japanese companies. The Company has set out a business strategy of developing in Asia the same business model as in Japan and expanding its businesses by combining FPT's development resources with the Company's consultancy services. For the consultant unit price, in the manager class it is already the same level in Asia as in Japan (¥2.5mn to ¥3mn a month), so it seems it will be fully able to compete in terms of cost competitiveness. It has already started one project in collaboration with FPT, and in the future, the aim is to grow the overseas business while accumulating success case studies.

Medium- to long-term growth image

Medium-Term Business Plan (2021-2024) to be established this year
to ensure strong growth continues in 2024 and beyond

(Hundred millions of yen)



Source: the Company's financial briefing materials

Shareholder return policy

Plans to clarify its approach for returns to shareholders at the time of the FY12/20 results announcement

The Company is currently in a growth process, so it considers that aiming to supplement internal reserves while stabilizing the management base and conducting investment towards business growth and improving business efficiency will increase its enterprise value, which in turn will lead to the maximization of returns to shareholders. Therefore, for the time being it is prioritizing securing internal reserves and its basic policy is not to pay a dividend. However, it plans to investigate dividend payments in the future at the stage when results have grown to a certain scale and it has secured financial stability. Discussions are currently being progressed within the Company on the approach to take for returns to shareholders, and it intends to once again clarify this approach at the time of the FY12/20 results announcement.

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■ For inquiry, please contact: ■

FISCO Ltd.

5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (Financial information Dept.)

Email: support@fisco.co.jp