

Management Solutions co., ltd.

7033

TSE Mothers

16-Jan.-2019

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FISCO Ltd.

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

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Summary

**Continues to grow steadily with major companies as customers, leveraging its feature of being a specialist PMO support company
Using the opportunity of its listing, expects to accelerate its growth strategy**

Management Solutions co., Ltd. <7033> (hereafter, also “the Company” or “MSOL”) is a consulting firm whose business is focused on supporting project management execution. It provides project management office (PMO) support for a wide range of corporate organizational levels, from the management level through to work sites, in the field of strategy execution-type management consulting, while it also provides human resources development training and software.

1. Source of its strength is its unique positioning, of being a specialist PMO support company

The Company has established a unique position, of being a company specializing in supporting the execution of PMO, and this is the source of its strength. Its customers include many listed and major companies, and it is steadily accumulating a track record with them and their trust. Its main competitors include consulting firms, systems companies, and client companies (self-management). But as a specialist company, it secures competitive advantages on the points of its expertise and number of human resources. It is estimated that the scale of the Japanese market is at least ¥140bn, so for the Company, which has annual sales on a scale of ¥3bn, there remains enormous room for growth.

2. Aiming for medium- to long-term growth on the three axes of expanding the existing business, diversifying the existing business, and overseas business development & software

The Company is undertaking its medium- to long-term growth strategy on three axes; expanding the existing business, diversifying the existing business, and overseas business development & software. As mentioned above, the growth potential of the existing business is derived from accelerating the acquisition of human resources. The Company is expecting to diversify the existing business through initiatives such as expanding into management consulting and creating a shared PMO business, which is a new business model. Toward realizing these goals, it intends to leverage its strength as a listed company, by actively utilizing M&A. For overseas business development, it is aiming to develop business in the Chinese market using its Taiwanese subsidiary as the base. In addition, it is developing new and competitive software, and it plans the fully fledged expansion of software sales from the next year onwards.

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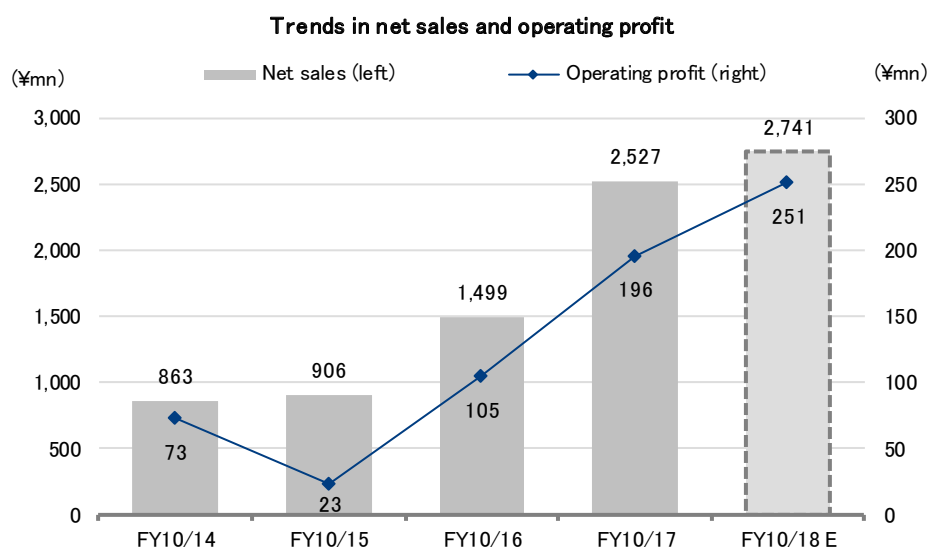
Summary

3. Results are progressing favorably and the forecasts for FY10/19 are for higher sales and profits, the same as in FY10/18

Results have been steady. In FY10/18 Q3 on an actual basis after excluding the effects of the sale of a subsidiary, net sales increased 32% year on year (YoY) and operating profit rose 12%, for higher sales and profits. Moreover, both sales and profits exceeded their forecasts. Results were trending in the same way in Q4 also, and it seems that the Company has achieved its forecasts for FY10/18. In FY10/19 as well, as there will be no major changes to its business environment and competitive conditions, sales and profits are expected to increase at the same pace as up to the present time, from the contribution to earnings of the human resources it recruited in FY10/18. The Company plans to announce its medium-term management plan in one year's time (with the announcement of the FY10/19 results), and we will be focusing on what sort of corporate image it will depict for itself to become by October 2025, which will be the 20th anniversary of its establishment.

Key Points

- Established in 2005 as a specialist project management support company
- A feature and strength is its unique positioning, of being a specialist PMO support company
- In addition to expanding the existing business, the pillars of its growth strategy are diversifying the existing business and overseas business development & software



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

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Company overview

Established in 2005 to provide project management consulting

1. History

The Company was established in July 2005 in Naka Ward, Yokohama City, by Mr. Shinya Takahashi, the current President, CEO, and Representative Director. Mr. Takahashi had previously worked in several global consulting firms, starting with Andersen Consulting (currently, Accenture Japan Ltd), and he has accumulated extensive experience, including as the leader of PMO* global system development and in off-shore development in India. Based on this experience, he decided that the opportunities in Japan were great based on its current situation, in which the introduction of PMO has been lagging behind that in the United States and other countries, which led him to establish the Company.

* PMO: Abbreviation of Project Management Office. It refers to a specialist organization and role to support the decision-making of the project manager and project owner, with the aim of facilitating the smooth execution of the project.

In the first six to seven years following its establishment, the Company worked to expand its business scale, with PMO support as the core business (the PMO solutions construction period). Starting with a large project for Hitachi Software Engineering, it received a series of orders for large-scale PMO projects from customers including major auditing corporations and NEC <6701>, and thereby expanded its business scale. From June 2007, Mr. Takahashi began the serialized publication of “Utilizing PMO” articles in ITPro published by Nikkei Business Publications, Inc. Since they were first published, these serialized articles have been accessed thousands of times and the number of consecutive serialized articles reached 100 and continued until January 2013, contributing to improving the Company’s name recognition and expanding its business.

The Company positioned the period from 2012 to 2015 as the diversification-preparation period, and in addition to PMO support, it progressed the development and sales of software and overseas business development. In May 2012, it started selling ProViz5, a project management tool, and in 2013, it established a U.S. subsidiary. It also established a Chubu branch office in Japan. In 2015, it established its current consolidated subsidiary, MSOL-TW, in Taiwan.

The Company positioned the period from 2016 as the expansion period, and while working to further expand the core business of PMO support, in 2016 it made a subsidiary of Kitazoe & Co. It also established ProEver, Inc., to develop a knowledge and talent management system, and subsequently in February 2017, ProEver started sales of a knowledge and talent management system with the same name as the company.

During this period, the number of regular employees has been steadily increasing, including PMO professionals (equivalent to consultants in a consulting firm). At the end of May 2018, the Company had 170 employees on a stand-alone basis and 175 employees on a consolidated basis (the number of regular employees includes those seconded to the Company, but does not include temporary employees). Reflecting the rapid expansion of the scale of its business, in the 1 year up to the end of May 2018, on a stand-alone basis the number of regular employees had increased by 39 people.

The Company was listed on the Tokyo Stock Exchange Mothers market in July 2018, where it is currently listed.

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Company overview

History

July 2005	Management Solutions co., Ltd., established in Naka Ward, Yokohama City, to provide project management consulting
December 2006	Established Ocean Medical Solutions to provide consulting to medical facilities (liquidation completed in May 2008)
June 2007	Established iSakura Technologies Japan in Minato Ward, Tokyo, to conduct systems development (liquidation completed in September 2016)
September 2008	Entered into a business tie-up with Intelligence (currently, Persol Career Co., Ltd.)
March 2010	Started sales of e-learning for project management
April 2011	Entered into a capital tie-up with Intelligence
May 2012	Started sales of the ProViz5 project management tool
November 2013	Established MSOL Inc. as its U.S. subsidiary (liquidation completed in October 2017)
November 2015	Established MSOL-TW in Taiwan to provide support for the execution of project management (currently a consolidated subsidiary)
November 2015	Established ProEver, Inc., in Minato Ward, Tokyo, to develop ProEver, a knowledge and talent management system (merger by absorption in October 2017)
October 2016	Acquired all the shares of Kitazoe & Co. and made it a wholly owned subsidiary (sold all shares in October 2017)
February 2017	Started sales of the ProEver knowledge and talent management system
February 2018	Headquarters relocated to Minato Ward, Tokyo
July 2018	Listed on Tokyo Stock Exchange Mothers market

Source: Prepared by FISCO from the Company's securities registration statement and results briefing materials

A specialist project management support company with many excellent customers, mainly major companies, realizing stable and efficient business management

2. Business overview

(1) Description of project management support operations

The Company only has one business segment, the consulting business. But even when speaking of consulting, it has various categories depending on what it targets and its content. Further, it is unclear what constitutes its boundaries and it is difficult to bring all its various aspects together.

One method of dividing consulting is into two categories; "strategy consulting" and "operations consulting." Strategy consulting mainly supports top management and deals with company-wide issues. In contrast, operations consulting deals with the issues facing each department within a company. Also, categories based on the area being targeted include "IT consulting," "personnel consulting," and "marketing consulting," and these can also be ascertained to be types of operations consulting.

In the post-war period in Japan, overseas consulting firms, mainly U.S. companies, provided strategy consulting in Japan. After that in the 1990s, IT consulting came to attract attention alongside the development of computer technologies. If these two periods are called the first wave and the second wave of consulting, from the 2010s, the importance of strategy execution-type management attracted attention, and needs increased for consulting for this. This constitutes the third wave, and it includes the Company's business domain, of support for project management execution.

In order to understand the Company's business of support for project management execution, it is necessary to have an image of a project and the specific way it is progressed in a company (the Company's main customers are major companies with thousands to tens of thousands of regular employees). In addition to their day-to-day work duties (such as production activities for the main products if in factories or other production sites, or personnel management and accounting operations if in the administrative departments), companies launch various projects to respond to environmental changes or in the pursuit of further growth, and they work to execute these projects.

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A project usually has a project manager as the responsible person and leader. The size of the project depends on the setting of the level in which the project is placed (the level within the company, such as the company-wide level, the business division level, or the department and section level) and its goal, and it is not unusual for a project to have 50 to 100 project members. Assuming a project has 50 members, the project manager is like the president of a company with 50 employees and annual sales of ¥500mn to ¥1bn. In such a company, it is unlikely that the president alone will conduct the various operations, such as sales, personnel affairs, general affairs, and accounting. So just as there are various departments within a company, within a project, an organization will be established to support the project manager. This is PMO. For Japanese people, this might be better understood as the “secretariat.” The Company’s main business, of project management support operations, contains the support for the areas around PMO and the provision of various services.

There is data on PMO, that 95% of U.S. major companies have established PMO within their company to execute projects. But the current situation is that Japan lags behind this. In Japanese society, the “secretariat” has been utilized for many years, and so there is an awareness of the need for a function like PMO, but it seems that PMO is one step ahead in terms of the completeness and the efficiency of this function. In the case of the “secretariat,” we can imagine that in many cases it depends largely on the competence of the individual who is responsible for that role, and actually, many people have this sort of experience. The Company’s PMO support operations (regardless of whether the name used is PMO or secretariat) involve the diagnosis and analysis (PMO consulting) of PMO operations and consignment of PMO operation outsourcing.

(2) Earnings model

A typical case of project management support operations involves the outsourcing of PMO operations. Even if a company intends to launch a project and establish PMO, in many cases it will not have the human resources in-house who are able to execute it, especially because employees have their own daily work duties to take care of. For this outsourcing need, the Company dispatches PMO professionals (meaning employees with specialist skills to provide PMO support. It does not mean holders of the PMP® qualification certified by PMI® of the United States), and in return receives remuneration. This remuneration expresses the unit price per employee per month. The unit price depends on the skill level of the employee, but current the average for the Company as a whole would seem to be ¥1.5 million per employee per month. One of the major features of the Company is that it conducts “transparent accounting,” in which it clarifies the unit price of each of its PMO professionals.

One PMO professional will concentrate solely on the single project for which he or she is responsible (there are exceptions, of cases in which a senior management-level employee will be responsible for multiple projects at the same time, but this is because the content of such work is the management and supervision of the PMO professionals dispersed over multiple locations, rather than being the work of providing support for PMO execution). Therefore, the Company’s net sales can be said to be the function of the number of PMO professionals, the average unit price, and the mobilization rate. This means that for its growth strategy, the number of employees who are PMO professionals is extremely significant (the details are given below).

When the number of project members is on a scale of 100 people, the Company usually sends 3 to 5 PMO professionals for the PMO. The project period will differ depending on the project, but it seems that on average they take one to two years. It is common within many major companies for multiple projects to be executed at the same time, and also when one project finishes, for the next one to be started straight away. Based on this situation, in many cases a single PMO professional will be transferred to a separately contracted project within the same customer company. The percentage of this is called the repeat rate, and it is closely related to the sales system and sales efficiency described below.

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(3) The sales system

It is necessary to look at sales from two perspectives; acquiring new customers and maintaining and strengthening relations with existing customers. The Company has a strength in common for both new customers and existing customers; namely, its positioning of being a specialist PMO support company. The players for PMO support operations are currently mainly consulting firms, and they provide post-process PMO support as an ancillary service to their pre-process consulting (planning and proposals, such as for business strategies). In contrast to this, as a specialist in PMO, the Company provides PMO support services that are fully focused on the customer-company side. At FISCO, we think that the steady progress the Company is making in acquiring new customers and the high repeat rate for existing companies demonstrates the power of its unique business model and positioning.

Although the Company has been steadily accumulating customer numbers in the 13 years since its establishment, each year several companies drop out (terminate their contract). Therefore, the acquisition of new customers is an important issue, and it has a sales department that works to acquire new customers. The sales style does not involve cold calling, but mainly focuses on responding to inquiries from customers and to introductions from existing customers and others.

On receiving an order, the basic work form is a direct contract with the customer companies and it does not handle subcontracting work. As the stage prior to support for PMO execution, which is the Company's business domain, there exists consulting, including for business strategy and IT strategy. Such consulting is the domain of consulting firms. Going forward, the Company may consider business tie-ups with these consulting firms, in which it will be responsible (in the future) for post-process project management support. However, even in such a case, rather than subcontracting from the consulting firm, it intends to focus on concluding direct contracts with the customer companies.

In many cases, the target customers are listed companies or major companies equivalent to them. The main reason for this is that major companies will normally be proceeding with multiple projects at the same time, so will have many needs for PMO support. From FISCO's perspective, there is also a more pragmatic issue in the background, in which utilizing a consulting firm generally costs a significant amount of money, thus it is necessary for companies to be capable of bearing those costs as much as possible.

As its track record since its establishment, the Company has conducted direct transactions with more than 70 companies even only among those listed on the TSE First Section. Moreover, it has provided support for more than 400 projects. Currently, it has in excess of 150 PMO professionals and is providing PMO support services to 39 customer companies (as of the end of FY10/18).

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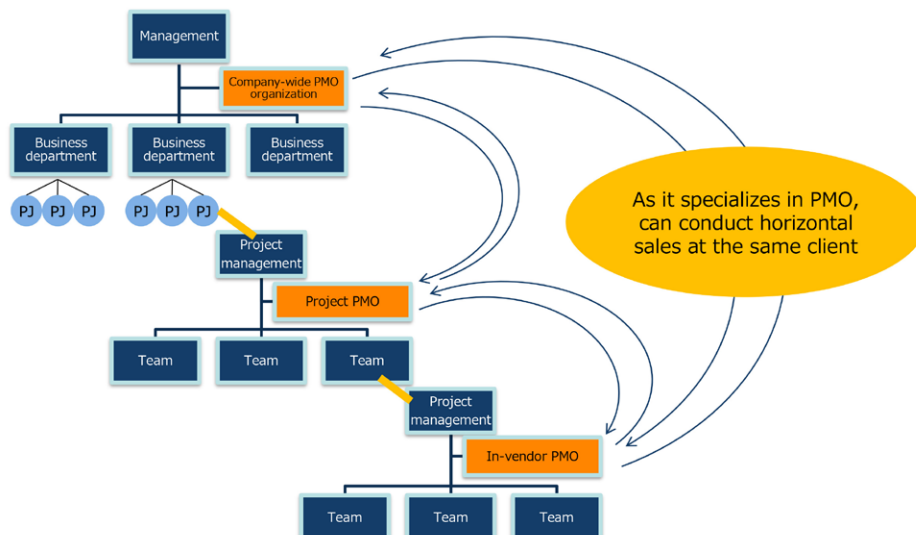
Examples of the Company's customer companies



Source: The Company's website

The important point after it has entered into a contract with a new customer is how long can it continue this relationship. Major companies will normally be progressing multiple projects, so they will always need PMO support. Steadily capturing this demand and continuing long-term relationships is extremely efficient from the point of sales efficiency and will contribute greatly to the stabilization of management. One of the indicators that succinctly expresses this situation is the repeat rate, and the Company is realizing a high repeat rate. This suggests that it is able to provide customers with high levels of satisfaction and has high sales efficiency. By establishing a flow, in which the track record and trust it accumulates as a specialist PMO support company leads to the next order from the same customer, indicates that the Company is an extremely highly efficient organization.

The model of efficient sales from the same client



Source: The Company's results briefing materials

Source of its strength is its strategic positioning established by leveraging its unique business model, of being a specialist PMO support company

3. The competition situation, and strengths and features

A feature and strength of the Company is its strategic positioning established by leveraging its unique business model, of being a specialist PMO support company.

In Japan, there are hardly any companies conducting a business specializing in PMO support, and the Company can be said to be the only one conducting such a business. In other words, its business model is highly unique. Based on this, it is succeeding in achieving smooth growth from competition being kept down at a low level by making full use of its enhanced team of PMO professionals and its brand power established from its abundant track record. Specifically, the following competitors actually exist or can be assumed to exist. But in whichever the case, there are major differences between a specialist business and a business conducting multiple operations, so it has no clear-cut competitive relations.

(1) Consulting firms

Consulting firms, which are one of the Company's main competitors, are centered on careers as consultants, and it is not necessarily the case that they have an abundance of experience in the area of support for PMO execution. The attributes and skills required of consultants and PMO professionals are different. As a result, there is a lack (or insufficient) PMO support human resources in consulting firms. Also, as stated in the sales system section, the Company's operations as a specialist PMO support company focus solely on performing those tasks for the customer company, while consulting firms tend to position it at the end of the consulting process. So at FISCO, we believe it is quite possible that this will bring about a difference in perception for PMO support, which will in turn lead to differences in brand power in the PMO support industry.

(2) System integrators

There are many projects in companies relating to the development and introduction of IT systems. Competitors in this field are system integrators. This is because in many cases, it makes sense to obtain consulting for an IT system not just for the proposal, but also for when the system is introduced. On this point, competition is the same as with consulting firms. In the system integrator industry, careers are mainly as engineers, and human resources with an abundance of knowledge and experience in PMO are limited.

(3) Customer companies

Cases in which the customer companies themselves manage PMO can be competitive relations, on the point that they reduce opportunities for the Company's business. If customer companies manage PMO in-house, this would seem to lead directly to cost reductions, so it can be sufficiently expected that this trend is increasing. But in general, in order for a project manager to deploy human resources of a class of a head of a department or a head of a section, it is not hard to imagine that members of departments and sections will be placed in the position of the secretariat that plays the PMO role. But these employees also have daily work duties and cannot devote themselves to PMO, and it is likely that in practically every case, their knowledge and skills for PMO are low compared to those of a PMO professional dispatched from a specialist PMO business. Also, the choice of having in-house specialist PMO support staff may cause costs to increase above the costs of outsourcing to a specialist company, such as the Company.

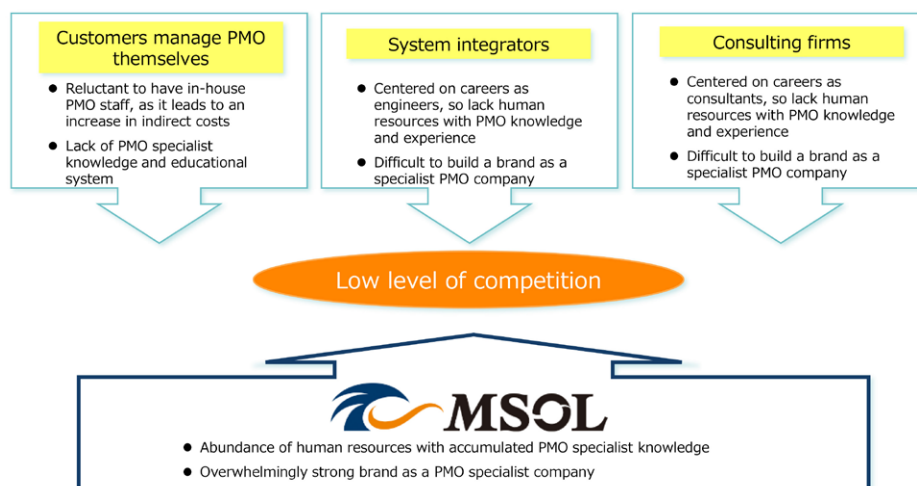
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Company overview

The Company's strategic positioning



Source: The Company's results briefing materials

Medium- to long-term growth strategy

In addition to expanding the existing business, the pillars of the growth strategy are diversifying the existing business and overseas business development & software

1. Overview of the medium- to long-term growth strategy

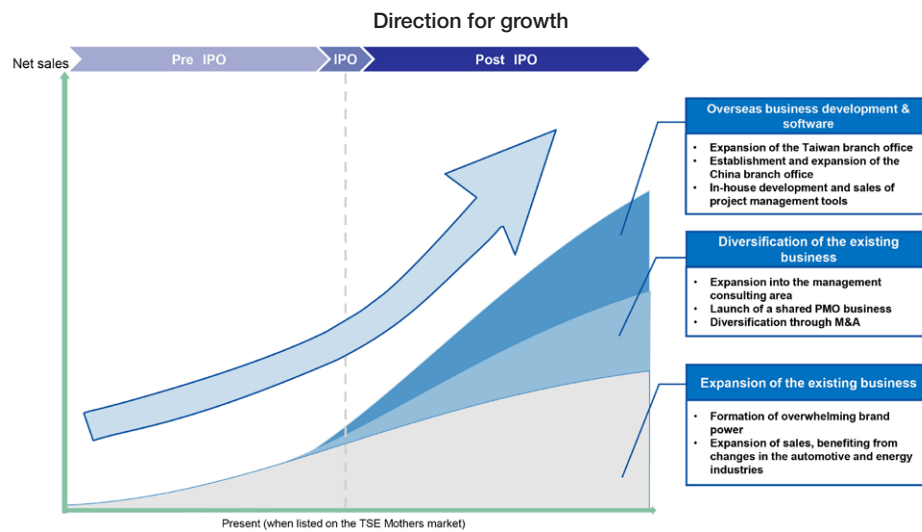
The Company has not announced a medium-term management plan, but it is advancing preparations for a plan and intends to announce it in approximately one year's time when it announces the FY10/19 results. It was established in 2005, so will celebrate the 20th anniversary of its establishment in 2025. Therefore, it is expected that the plan will indicate the image of the enterprise that it wants to be by the time of its 20th anniversary, and that it will also provide details of the path it will take toward this in the next 5 years. Whatever the case, we must wait for the Company's announcement for the details.

Due to the circumstances described above, the Company has not publically announced medium- to long-term targets, but we can fully imagine an outline of them toward realizing long-term sustainable growth. From its establishment until the IPO in July 2018, it focused on establishing a brand as a specialist business and expanding its customer base, mainly for some listed companies and major companies, with the PMO support business as its core business. The IPO symbolized the solidification of the Company's management base, and at the same time, it was positioned as the starting point of the second phase of growth. Going forward, its policy is to expand and diversify the existing business and take on the challenge of the fully fledged development of the overseas business and the software business, and to use these as the engines for growth.

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Medium- to long-term growth strategy



Source: The Company's results briefing materials

Enhancing the scope of operations for the PMO support business serves as the core strategy for existing business expansion. This point overlaps with what was stated in the section on the Company's strengths and features. Its unique positioning as a specialist PMO business in itself encompasses its growth potential.

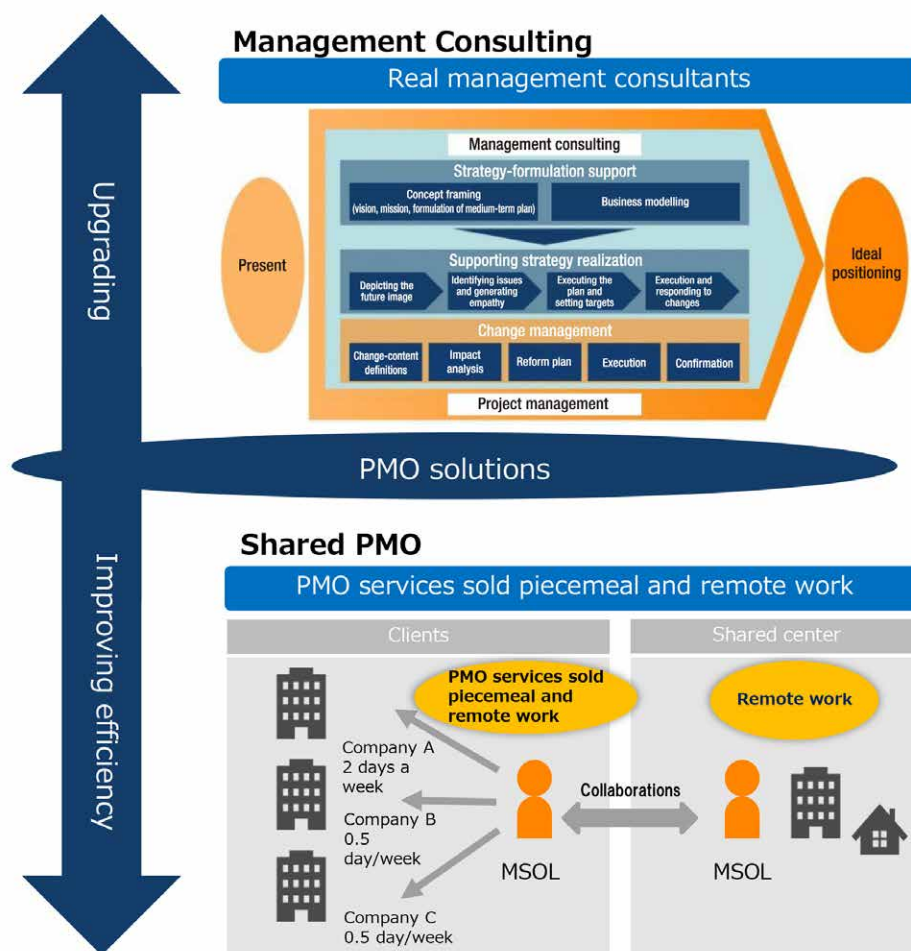
On the other hand, to diversify the existing business within the scope of working from pre-process management consulting to post-process support for PMO execution, the Company is aiming to advance into the management consulting area, which is the pre-process part of the business area (to distinguish it from the broader meaning of the term and to clarify its meaning as "proposals of business strategies, etc., to customer companies," the term "management consulting" is frequently used). In addition, for PMO support, which is the Company's core business, it is aiming to launch a "shared PMO business" as a highly efficient business model. Moreover, in order to realize these objectives, it intends to investigate actively utilizing M&A by leveraging the trust placed in it as a listed company and its fund-raising capabilities.

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Medium- to long-term growth strategy

Image of growth through diversifying the existing business



Source: The Company's briefing materials on growth potential

The strengthening of the overseas business development and the software businesses has already started, as mentioned in the history section. The details are given below, but for the overseas business, MSOL-TW is showing steady growth and a path is being created for the fully fledged development of the overseas business. For the software business, product development is being completed as planned and it is at the stage to conduct fully fledged sales in the near future.

The status of the Company's specific measures are as follows.

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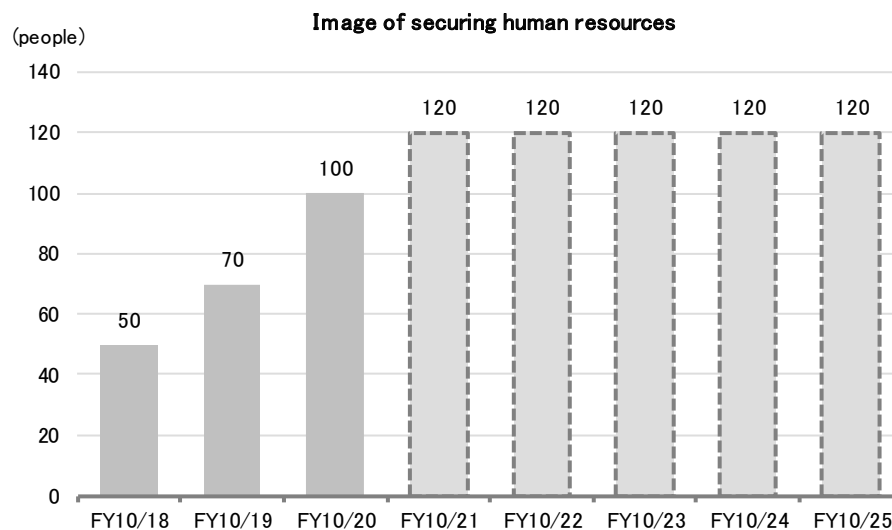
Medium- to long-term growth strategy

Actively recruiting human resources as the basis of the growth scenario and aiming to quickly realize a system to recruit 100 people a year

2. Securing human resources

As was stated in the business overview section, the Company's PMO professionals devote themselves to supporting the execution of the PMO to which they are assigned. Therefore, in order to acquire new customers and increase earnings, it is necessary to acquire human resources who would handle new projects. This is the same for "diversifying the existing business" that forms one part of the growth strategy.

The Company recruited around 50 people in FY10/18 (the net increase is different due to some employees leaving the Company). Its recruitment strategy is focused on mid-career hires, of people with operations experience who already have the practical skills to work in the field. In order to respond to the growth in demand, the Company intends to further accelerate the pace at which it acquires human resources in the future, and it is anticipating recruiting at a pace of 70 people in FY10/19 and 100 people in the following year. If it makes progress as planned for the expansion and diversification of the existing business, it may continue to recruit on a scale of 100 people a year after that as well.



Source: Prepared by FISCO based on interviews

The Company basically uses personnel placement agencies for the mid-career hires of people with experience, so it incurs considerable costs to recruit human resources (such as the payment of placement fees). Currently, its recruitment of new graduates is limited, but it intends to gradually increase their numbers. As new graduates do not require recruitment costs, such as placement fees, this is expected to contribute to improving the operating margin (but caution is required on this point, as training and related costs will be required instead).

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Medium- to long-term growth strategy

Challenging the China market by having MSOL-TW serve as the core base while coordinating with management in Japan

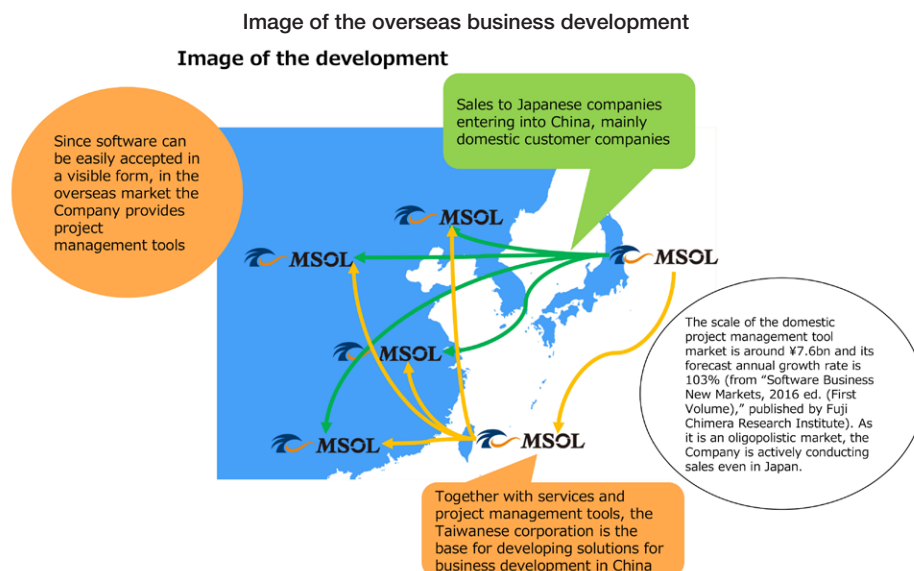
3. Overseas business development

The Company has positioned the development of its overseas business as one important growth engine. It established MSOL Inc., in the United States in November 2013 and MSOL-TW in Taiwan in November 2015.

Subsequently, the Company decided for the time being to withdraw from the U.S. in order to redirect management resources to growth in Japan, and MSOL Inc.'s liquidation was completed in October 2017. Meanwhile, MSOL-TW was established with an eye toward advancing into the Chinese mainland in the future, and it has continuously managed it as a pilot project so far. MSOL-TW's business is profitable on a stand-alone basis, while it also seems that it is involved in various other areas, including ascertaining potential needs for support for PMO execution in the Chinese market, and accumulating expertise and personal connections toward fully fledged business development.

In terms of the specific method of entering into the market, the aim is to capture demand from both sides, of from MSOL-TW and from the Company itself in Japan. As is clear from the purpose of its establishment, it is considered that the business of MSOL-TW will be developed centered on Chinese companies. The Japan side, including the Company itself, will provide solutions for the business development of Japanese companies in China.

At FISCO, we think that the details of the overseas business development plan will be included in the medium-term management plan that is scheduled to be announced in one year's time, so we should wait for this announcement.



Source: The Company's briefing materials on growth potential

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Medium- to long-term growth strategy

Initiatives for full-scale sales promotion of the project management support software ProEver

4. Software development and sales

Companies cannot avoid making full use of IT to increase the efficiency of their operations, so the importance of the software utilized for this is increasing more and more. In November 2015, the Company established ProEver as a subsidiary in order to develop a knowledge and talent management system. Subsequently, ProEver succeeded in developing the software for this and in February 2017, its sales began under the ProEver brand, which is the same name as the company. The Company conducted an absorption merger of ProEver in October 2017, and since then, the Company has been engaged in the sales of ProEver.

ProEver is not just a project management tool, but software that educates project managers and PMOs on how to improve their organization's project management maturity level. In particular, its features and strengths include that it supports organizational knowledge sharing and more effective use of human resources.

The scale of the market for this sort of project management support software is considered to be approximately ¥8bn, and the products of U.S. major software companies hold high market shares. The Company plans to embark on the fully fledged sales of ProEver from FY10/19, and the aim at present is to capture market share of 10%.

If the growth strategy progresses as imagined, it has fully in sight achieving net sales of more than ¥10bn in FY10/25

5. Impressions of medium- to long-term business scope

It is extremely difficult to ascertain the market scale of the Company's main business domain, of support for PMO execution. If the market participants consist only of specialist companies like the Company, then to a certain extent it is possible to ascertain its scale by totaling the sales of each company. But it is difficult to determine its actual scale because in the PMO industry, there are very few specialist businesses like the Company, but other than them, there are consulting firms that provide PMO support in the form of additional services. The Company estimates that the potential market scale for support for PMO execution in Japan is around ¥140bn. This is an estimate derived from the scale of the system integration (SI) market, which has been clarified to a certain extent. This figure is one major clue, but at FISCO we think that in actuality, the potential market scale may be even bigger. This is because while estimates from the SI market are based on the IT consulting market, there are many non-IT projects among all the projects, and therefore we think that there is also considerable need for support for PMO execution for these projects as well. But whichever approach is used to look at the market, there still remains plenty of room for growth compared to the current scale of the Company's sales.

As previously explained, the Company is urgently acquiring human resources toward realizing earnings growth. As of the end of May 2018, it had 170 employees, of who around 150 were PMO professionals (figures are within Japan for the Company alone). If in the future it acquires human resources on a pace of 100 people a year, it is expected to have recruited 700 people by the end of FY10/25. During this period, the net increase will be smaller than this due to employees leaving the Company, but on combining recruitment with the existing number of employees of 170 to 180 people, than a structure of 700 to 800 employees can be a realistic figure.

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Medium- to long-term growth strategy

On assuming 800 PMO professionals (period-end average basis), an average monthly unit price of ¥1.5 million, and a mobilization rate of 90%, then annual net sales can be provisionally calculated to be ¥1.5mn x 12 months x 90% x 800 people = ¥12,960mn. The actual result may differ because there are many uncertain factors, such as the number of customers and fluctuations in the unit price. But it can be understood that with a structure of 800 PMO professionals, the Company is fully able to target sales on a scale of ¥10bn.

Within the medium- to long-term strategy, other than net sales, at FISCO we will be focusing on profitability. Based on the FY10/18 full-year forecast, the operating margin will be 9.2%. This figure is not low in comparison to its industry peers, but it seems that there still remains plenty of room for the Company to improve the operating margin. Currently, human resources recruitment costs (particularly paying placement fees to personnel placement agencies) would seem to be a major factor keeping down profits. We believe the Company will not be able to improve upon this issue any time soon, as securing human resources is at the core of the growth strategy. However, we can expect the profit margin to improve if the Company can get on track with mid-career recruitment without going through employment agencies, along with steadily increasing the ratio of newly graduated recruits in the context of business scope expansion and improvements in company recognition. It also seems that the depreciation of the development costs of the ProEver software is a factor keeping down the profit margin. On this point, in addition to the passage of time, it will be absorbed by the growth in sales, so it is possible that it may improve at an early stage, depending on how sales trend. At FISCO, we think that if the Company makes steady progress in these efforts to improve the profit margin, it is fully able to stably realize an operating profit margin of 10% to 15%.

Results trend and outlook for the future

Achieved higher sales and profits in FY10/18 Q3 on an actual basis after adjusting for the sale of a subsidiary

1. Summary of the FY10/18 Q3 results

The Company's FY10/18 Q3 results were net sales of ¥2,111mn, operating profit of ¥159mn, ordinary profit of ¥148mn, and net profit attributable to the owners of the parent company of ¥97mn.

Summary of FY10/18 Q3 results

	FY10/17 Q3 cumulative*1	FY18/10					
		Q3 cumulative forecast	Q3 cumulative results	YoY	vs. forecast	Full-year forecast	Progress rate*2
Net sales	1,592	2,005	2,111	32%	5%	2,741	77%
Operating profit	142	145	159	12%	10%	251	63%
Operating margin	8.9%	7.2%	7.5%	-	-	9.2%	-
Ordinary profit	135	141	148	9%	6%	245	60%
Net profit attributable to the owners of the parent company	74	90	97	32%	8%	158	61%

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

*1: The FY10/17 Q3 cumulative figures exclude Kitazoe & Co.

*2: Progress rate indicates the Q3 cumulative fulfillment rate against the full-year forecast

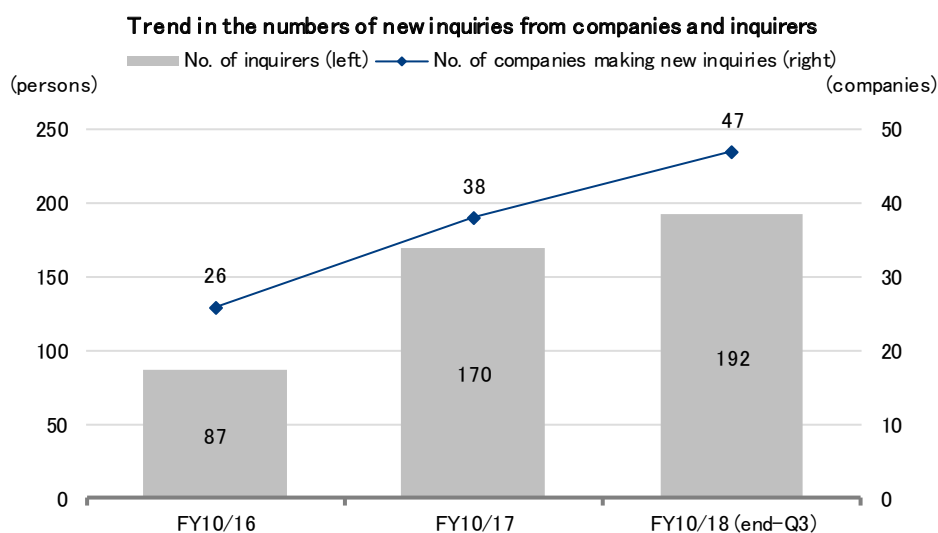
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Results trend and outlook for the future

The FY10/17 results included the results of the subsidiary Kitazoe & Co., but in October 2017 at the end of the period, the Company sold all of its shares of Kitazoe & Co., so its results are not included in the FY10/18 Q3 cumulative results. In a comparison on an actual basis excluding the effects of Kitazoe & Co., net sales increased 32% YoY and operating profit rose 12%, for higher sales and profits.

Compared to forecasts, net sales were 5% above forecast and operating profit was 10% above forecast. So both sales and profits exceeded their forecasts.

In the project management field, which is the Company's business area, demand continues to trend upwards and the number of new inquiries from customers and the number of inquirers, which are KPI (key performance indicators), are steadily increasing. Also, reflecting factors such as customers' high levels of satisfaction, the repeat rate is trending at a high level, while customer numbers are steadily rising.



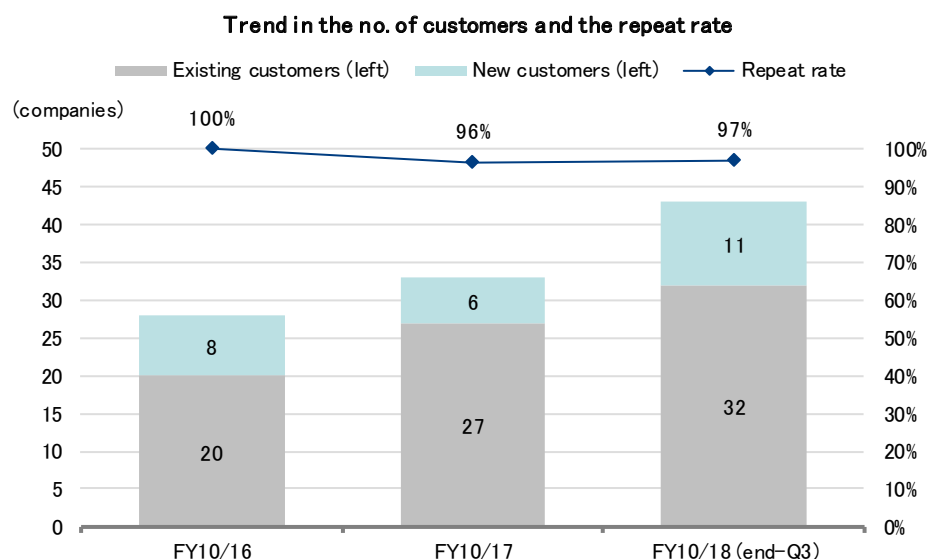
Source: Prepared by FISCO from the Company's results briefing materials and interviews

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Results trend and outlook for the future



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

The temporary costs are absent in Q4 and the Company seems to have steadily achieved its forecasts

2. Forecast for FY10/18

The Company's forecasts for the FY10/18 full year are net sales of ¥2,741mn (up 8.5% YoY), operating profit of ¥251mn (up 28.0%), ordinary profit of ¥245mn (up 29.5%), and net profit attributable to the owners of the parent company of ¥158mn (up 46.5%).

Looking at the rates of progress up to the Q3 cumulative period, the Company had achieved 77% of the net sales forecast, meaning it is making progress at a sufficient pace to achieve the full-year forecast. Conversely, the rate of progress for the operating profit forecast was 63%, below 75%. But at FISCO, we think that this point is absolutely no cause for concern. In FY10/18 up to Q3, the Company incurred temporary costs, including for the relocation of the headquarters and relating to its listing, which kept profits down. These costs were concluded in Q4, so it seems that it has achieved the full-year forecasts as initially planned.

Outlook for FY10/19 is for the increases in sales and profits to continue at the same pace as up to the present time

3. Prospects for FY10/19

We will need to wait for the FY10/18 results announcement for the details of the FY10/19 forecasts. But on considering the direction, at FISCO we think that the increases in sales and profits will continue at the same pace as in FY10/18 after excluding Kitazoe & Co., which ceased to be a consolidated subsidiary following the sale of all its shares in October 2017.

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Results trend and outlook for the future

As previously explained, the Company has a unique position, of being a company specializing in supporting PMO execution. Demand is increasing, but competition does not seem to be particularly intensifying. It is also making steady progress in recruiting PMO professionals, so we can expect that the expansion of its team will be reflected directly in earnings.

Simplified income statement

	(¥mn)				
	FY10/14	FY10/15	FY10/16	FY10/17	FY10/18 forecast
Net sales	863	906	1,499	2,527	2,741
YoY	15.0%	5.0%	65.3%	68.6%	8.5%
Gross profit	367	395	543	830	-
% of net sales	42.5%	43.6%	36.2%	32.9%	-
SG&A expenses	293	371	438	634	-
% of net sales	33.9%	40.9%	29.2%	25.1%	-
Operating profit	73	23	105	196	251
YoY	411.7%	-68.5%	356.9%	86.8%	28.0%
Operating margin	8.5%	2.5%	7.0%	7.8%	9.2%
Ordinary profit	71	20	100	189	245
YoY	426.1%	-71.7%	398.6%	89.2%	29.5%
Net profit attributable to the owners of the parent company	34	-62	90	108	158
YoY	-	-	-	20.4%	46.5%
Earnings per share after the adjustment for the share split (¥)	32.42	-58.76	84.43	82.23	109.66
Dividend per share after the adjustment for the share split (¥)	0	0	0	0	0
Net assets per share after the adjustment for the share split (¥)	63.17	4.42	107.35	190.08	-

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

Simplified balance sheet

	(¥mn)		
	FY10/16	FY10/17	FY10/18 Q3
Current assets	519	778	1,528
Cash and deposits	319	515	1,216
Accounts receivable	191	233	288
Non-current assets	122	151	214
Property, plant and equipment	19	10	59
Intangible assets	9	1	29
Other assets	94	139	125
Total assets	641	930	1,742
Current liabilities	355	330	326
Accounts payable - trade	44	45	49
Short-term loans payable	118	121	84
Non-current liabilities	143	349	296
Long-term loans payable, bonds payable	143	349	293
Shareholders' equity	143	250	1,121
Capital stock	156	156	542
Capital surplus	25	25	411
Retained earnings	-37	69	167
Total accumulated other comprehensive income	-0	0	-0
Total net assets	142	250	1,120
Total liabilities and net assets	641	930	1,742

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

■ Shareholder returns

Prioritizing growth investment, so for the time being is expected to continue to not pay a dividend

The Company does not currently pay a dividend, as it is expanding its business for the future and strengthening its financial structure so that it can respond quickly for this. However, it is firmly aware of the importance of returning profits to shareholders, and its policy is to consider stably and continuously paying dividends to shareholders at the stage when it has made progress in strengthening its earnings capability and stabilized its management foundation. As stated in the section on the medium- to long-term growth strategy, in the next few years the Company intends to rapidly grow, so it would seem that for the time being it is prioritizing growth investment.

As previously explained, it is estimated that the current market scale of the industry, of support for project management execution services, is only around 10% of its potential market scale, so it is considered that it has extremely large growth potential. Therefore, at FISCO we think that the Company is fully justified in its management decision of prioritizing growth investment and not paying a dividend at the present time, as in the medium to long term, this will contribute to maximizing returns to shareholders.

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