

# **NIPPON SYSTEMWARE CO., LTD.**

**9739**

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst

**Nozomu Kunishige**



FISCO Ltd.

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

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## Summary

### Aiming to be a company that guides its customers to realizing DX

#### 1. Has a backbone that can support the realization of DX that customers want

NIPPON SYSTEMWARE Co., Ltd., <9739> (hereafter, also “the Company”) is an independent IT solutions provider founded in 1966, and it is in an engineering group in which engineers account for nearly 90% of all employees. It conducts three solutions businesses; IT Solutions, Services Solutions, and Product Solutions. The Company’s biggest strength is its backbone to support the realization of Digital Transformation (DX), which is a business transformation measure to create business models and to change business processes by using new digital technologies. It does so through utilization of synergy between its three businesses on the axes of AI and the Internet of Things (IoT), which connects items such as home appliances and sensors over a network as a way to undertake not only data collection, but also remote monitoring and control and use in product development and marketing. Its policy is to utilize this strength for its growth strategy for the future.

#### 2. Results in FY3/19 exceeded the initial forecasts and achieved all of the targets in the previous medium-term management plan

In the FY3/19 results, sales and profits increased, with net sales of ¥36,107mn (up 7.8% year-on-year (YoY)) and operating income of ¥3,354mn (up 14.1%). Net sales and operating income were both above the Company’s initial forecasts for new record highs, and moreover, all the targets in the previous medium-term management plan were achieved. While gross profit increased 9.7% YoY, SG&A expenses only rose 5.6%, so the operating income ratio climbed from 8.8% to 9.3%. In the IT Solutions business (which includes the Services Solutions business), sales were strong from solutions, and net sales increased 10.6% and operating income rose 35.3%. Also, in the Product Solutions business, embedded software development performed well, and net sales increased 3.7% and operating income rose 0.9%. The equity ratio was 68.0%, greatly exceeding the average for the issues in the telecommunications industry on the Tokyo Stock Exchange (TSE) 1st Section (39.4% in FY3/18), and the Company’s financial condition can be said to be extremely sound. Reflecting these strong results, it increased the period-end dividend by ¥5 for an annual dividend of ¥30.

#### 3. Started a new medium-term management plan from FY3/20, and the higher sales and profits are forecast to continue

For FY3/20, the Company is forecasting that the higher sales and profits will continue, with net sales of ¥38,000mn (up 5.2% YoY) and operating income of ¥3,500mn (up 4.3%). For the first fiscal year of the new medium-term management plan, the outlook is once again for record high sales and profits. The annual dividend is scheduled to be the same as in the previous fiscal year (¥30), for a forecast dividend payout ratio of 18.5%.

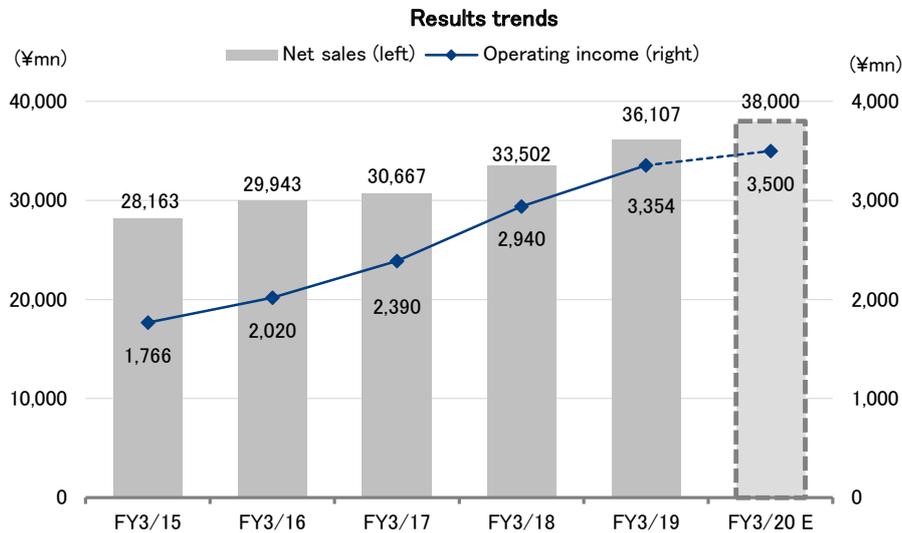
#### 4. In the new medium-term management plan, aims to be a company that guides customers to realizing the DX that they want

In the new medium-term management plan (FY3/20 to FY3/22), under the slogan “DX FIRST,” the policy is to transform the Company itself into “a value-creation company.” The targets for the plan’s final fiscal year are net sales of ¥43,000mn and operating income of ¥4,000mn, within which, DX-related net sales are forecast to grow to ¥10,000mn. The key to achieving these ambitious targets will be coordinating the three businesses to respond to DX.

Summary

**Key Points**

- Is developing three solutions business, and its strength is that it has a backbone that can support customers' realization of DX through utilizing the synergies from these businesses, on the axes of IoT and AI
- In FY3/19, net sales increased 7.8% YoY and operating income rose 14.1%, with both exceeding the initial forecasts, and moreover all the targets in the previous medium-term management plan were achieved. The equity ratio is 68.0% and the Company is extremely financially sound. Against the backdrop of these strong results, it raised the annual dividend to ¥30.
- In FY3/20, which is the new medium-term management plan's first fiscal year, the forecasts are once again for record high earnings, of net sales of ¥38,000mn (up 5.2% YoY), and operating income of ¥3,500mn (up 9.2%). The annual dividend is scheduled to be unchanged YoY at ¥30.
- In the new medium-term management plan under the slogan of "DX FIRST," the targets for the plan's final fiscal year of FY3/22 are net sales of ¥43,000mn and operating income of ¥4,000mn. The key to achieving these targets will be coordinating the three businesses to respond to DX.



Source: Prepared by FISCO from the Company's summary financial report

## ■ Company Profile

### Aims to create and provide excellent systems to enrich society

#### 1. Company Profile

The Company Group's basic management policy is to "Realize a highly profitable corporate structure" based on its corporate philosophy of "Humanware By Systemware," which expresses its desire to "create and provide excellent systems to enrich society."

In addition to the Company itself, the Company's Group consists of four wholly-owned consolidated subsidiaries; NSW TECHNOSERVICES Co., Ltd., which conducts businesses including system development and infrastructure construction; in China, NSW China Co., Ltd., which conducts businesses including embedded software development; and NSW WITH Co., Ltd., a special subsidiary for the employment of people with disabilities that provides general agency services and support services. In addition, in January 2018, NIHON SOFTWARE ENGINEERING Co., Ltd., which conducts a systems integration business and other businesses, was made a subsidiary.

The Company's business base is located to the west of Tokyo, but it has customers throughout the country, including government offices and public organizations, and also many major companies, such as in the manufacturing and distribution industries. When it was first establishment, an overwhelming large percentage of transactions were with the NEC <6701> Group, but alongside the expansion of the customer base in recent years, this percentage has fallen to close to 20% of net sales, and every year the scope of customers for transactions is widening. The Chinese subsidiary mainly covers Japanese companies that are entering-into the local Chinese market. Also, in April 2018, the Company opened an office in Taiwan (representative office), from which it plans to conduct customer development and field surveys for the market in Taiwan, which is a global base for the manufacture, assembly, and testing of semiconductors.

The Company Group is an engineering group with a total of 2,153 employees and nearly 90% of its workforce comprising of engineers as of the end of March 2019. Mr. Shoji Tada has served as the President and Representative Director since April 2013.

#### 2. History

The Company Group started in 1966 as an independent software house, with a software development business and an outsourced computing business. Subsequently, in 1968 it started an operation management services business, and in 1978, a development business for firmware and logic circuits, which led to its current Product Solutions business. Alongside the evolution of IT technologies, it started a systems integration business in 1990, a datacenter business in 1998, a Cloud service business in 2009, and an IoT/M2M business in 2013, and its business areas have expanded.

During this time, in 1982 the Company changed its name to its current name of NIPPON SYSTEMWARE Co., Ltd. It began the over-the-counter trading of its shares in 1996 and opened the Yamanashi IT Center with the funds obtained from the market. In 1999 it was listed on the TSE 2nd Section, in 2000 its listing was upgraded to the TSE 1st Section, and in FY3/16 it celebrated the 50th anniversary of its establishment.

Company Profile

**History**

August 1966	Established the Business Computing Center in Minato Ward, Tokyo. Commenced software development and outsourced computing activities
October 1968	Commenced operation management service activities
December 1975	Acquired own building (present site of Head Office)
February 1976	Became a member of Japan Software Industrial Association (now Japan Information Technology Service Industry Association)
June 1978	Commenced development activities related to firmware and logic circuits
June 1980	Launched a business for the sale of office computers and office-automation equipment
March 1982	Changed the company name to NIPPON SYSTEMWARE CO., LTD.
March 1986	Established the Osaka Branch (now the Osaka Office) in Osaka City. Strengthened regional development.
September 1986	Started construction of the new Head Office building
February 1990	Started the systems integration business
August 1990	Established Nippon Technowave Co., Ltd., as a wholly owned subsidiary
April 1996	Stock registered as over-the-counter with the Securities Dealers Association of Japan
October 1997	Obtained ISO 9001 certification, an international assurance of quality
August 1998	Established the Yamanashi IT Center. Launched the datacenter business
April 1999	The Company is listed on the TSE 2nd Section.
March 2000	The Company is designated to the TSE 1st Section.
July 2002	The outsourcing business to manage and control customers' information systems achieved the requirements to be certified in the ISMS (Information Security Management Systems) assessment scheme.
September 2002	Established NSW SALES CO., LTD.
February 2005	Obtained ISO 14001 certification, an international environmental management standard
March 2007	Obtained ISO/IEC27001, an international standard for Information Security Management Systems
April 2007	Certified by the Ministry of Health, Labour and Welfare as a corporation promoting measures to support the development of the next generation
October 2007	Obtained ISO/IEC20000, an international standard for IT service management systems
September 2009	Launched the Cloud service business
October 2009	Established NSW WITH CO., LTD. (currently a wholly-owned consolidated subsidiary)
April 2010	Established NSW China Co., Ltd. (currently, a wholly-owned consolidated subsidiary)
May 2013	Launched the IoT/M2M business
July 2013	Changed the name of NIPPON TECHNOWAVE CO., LTD., to NSW TECHNOSERVICES CO., LTD., after the merger with NSW SALES CO., LTD.
January 2018	Acquired all the shares of NIHON SOFTWARE ENGINEERING Co., Ltd., and made it a subsidiary
April 2018	Established the Taiwan Office in Taiwan.

Source: Prepared by FISCO from the Company's website

## Business overview

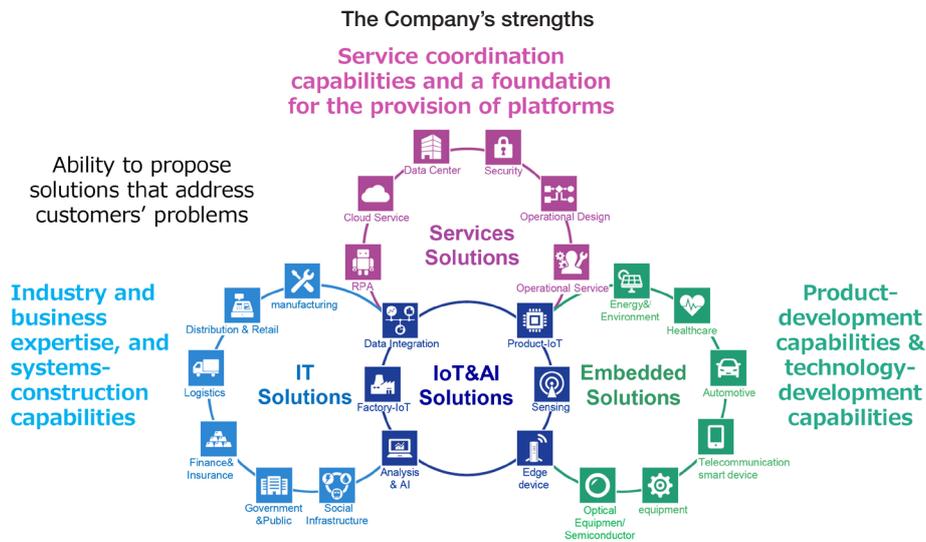
**Core businesses are IT Solutions, Services Solutions, and Product Solutions. Is aiming to create an innovative future with IoT and AI that leverage the technological synergies from these businesses.**

### 1. The Company's strengths

The Company Group conducts three solutions businesses—IT Solutions, Services Solutions, and Product Solutions—and it is aiming to create an innovative future with IoT and AI that leverage the technological synergies from these businesses. Its major strength is that it has technological expertise for both software and for hardware.

Business overview

The Company's strengths include its accumulated industry and business expertise and systems-construction capabilities that it has cultivated in the IT Solutions business in various industrial fields; a foundation for the provision of infrastructure and platforms, such as service coordination capabilities in the Services Solutions business and for the Cloud environment; product development capabilities, including for embedded software and LSI design in the Product Solutions business; and technological development capabilities, such as for image processing. The Company's strength is that it has a backbone that can support the realization of DX (Digital Transformation) that its customers want that leverage these technologies' synergies on the axes of IoT and AI, and its policy is to utilize all these strengths for growth in the future.



**A backbone able to support the realization of DX on the axes of IoT and AI**

Source: Reprinted from the Company's results briefing materials

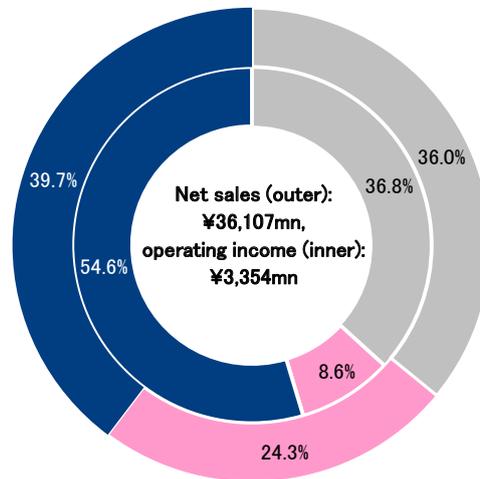
2. Business Description

Looking at net sales and operating income by segment in FY3/19, the IT Solutions business provided 36.0% of net sales and 36.8% of operating income, the Services Solutions business 24.3% of net sales and 8.6% of operating income, and the Product Solutions business 39.7% of net sales and 54.6% of operating income. The profit margin in the Product Solutions business is relatively high, which is considered to be due to its high technological barrier to entry and that there are few companies of a similar size to the Company, which is independent, conducting this business. On the other hand, the profit margins in the IT Solutions business and the Services Solutions business are relatively low due to the impact of reducing dependency on designated industries and operations in order to suppress the effects of economic conditions to a minimum, and the handling of business across different industries and operations.

Business overview

**Net sales and operating income by segment (FY3/19)**

■ IT Solutions   ■ Service Solutions   ■ Product Solutions



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

The IT Solutions business, which provides operations-related solutions, is comprised mainly of business solutions, finance and public sector solutions, and systems equipment sales. Based on the business expertise cultivated over many years, such as for the manufacturing, distribution, finance and insurance industries, and for government offices, the Company provides optimized solutions for its customers, from consulting through to systems design, development, maintenance, and operations.

The Services Solutions business was formerly included in the IT Solutions business, but at the start of the new medium-term management plan, it was made an independent segment. The content of this business is the provision of IT services, and it is comprised mainly of the digital solutions and Cloud solutions businesses. The Company supports the reduction of the operations workloads of customers and also provides various services, from management design through to infrastructure construction, operations management, and maintenance services, in order to maximize the performance of systems. It also provides other services, including housing services by its own datacenters (a service in which the Company is entrusted with a server from the customer, or the computer with which to provide the service), hosting services (the Company lends to the customer the server it has prepared) and Cloud services (services that provided data and software to users via a network). In such ways, it is supporting customers' systems through providing a variety of services.

In the Product Solutions business, the Company develops the embedded systems that are installed in electronic devices and other equipment, and also develops LSI and FPGA, and this business is comprised of the embedded development and device development businesses. In embedded systems development, the Company responds to demand for product diversification, increased efficiency and improved design quality by using embedded technologies it has cultivated for app, middleware and driver development as a result of developing a wide range of products for the automotive and industrial sectors amongst others. It also provides various solutions for the transition to smart products. In addition, in LSI and FPGA development, it designs LSI (Large Scale Integration: integrated circuits into which many electronic components such as transistors, resistors, and capacitors are integrated into one semiconductor chip), including for image processing and communications-related, and boards (the design of electronic circuit boards). It provides high-level designs, logic designs and verification, logic integration, layout design, and solutions according to customer's requirements, from manufacturing through to testing. It can also respond to requests for low-power designs and advanced processes in every field.

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#### Business overview

There are high expectations that the IoT & AI Solutions business will become the Company's new pillar of earnings by integrating its expertise in the three existing businesses. It is a business to provide IoT & AI services and edge devices solutions in a new field that only started in 2013. Therefore, it has not yet reached the stage of recording earnings as an independent segment, and the current situation is that its earnings are included in the existing businesses. In IoT & AI services, the Company utilizes its strength of being able to provide total coordination, from devices through to the Cloud, to support its customers' creation of new business value, from the accumulation of data through to analysis and utilization, based on Toami, its IoT Cloud platform. Also, in edge device solutions, the Company proposes an IoT environment that is optimized for each customer from a small start that keeps costs down, using its abundance of designs that are compliant not only with its own embedded applications but also with LSI, and also its development capabilities and alliances with vendors of various types of sensors and devices.

### 3. An example of a recent measure

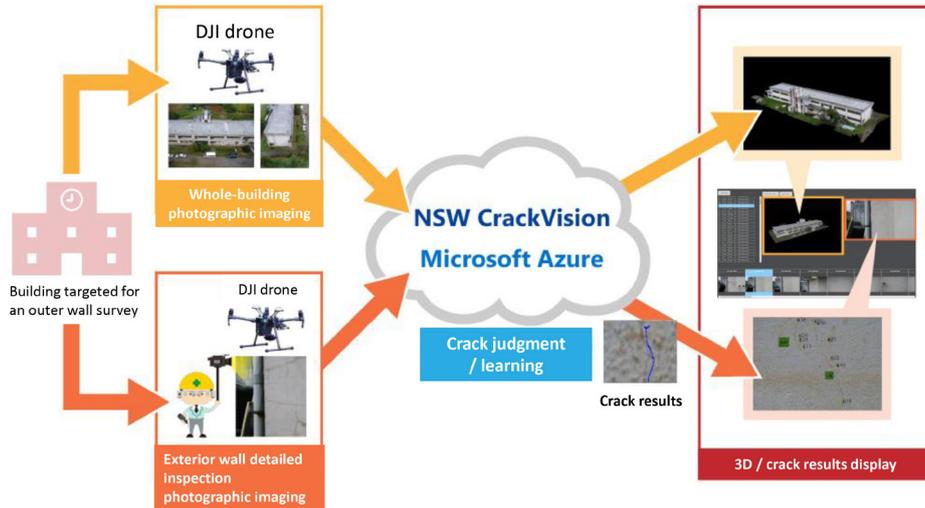
An example of a recent measure is an alliance with DJI JAPAN Co., Ltd., and Microsoft Japan Co., Ltd., through which the Company has been developing a maintenance service that utilizes drones and AI. This alliance leverages the strengths of these three companies, with the Company's AI solutions that utilize DeepLearning, DJI's drone and aerial-photography technological capabilities, and Microsoft Japan's Cloud platform, to develop a service with the aim of improving the efficiency of exterior-wall surveys of buildings.

The three companies have already conducted demonstration experiments of this service, in which they conducted 3D modelling of the entire image of a building photographed by a drone. They are constructing and verifying a system that creates a building-damage map, in which an AI automatically extracts the locations of cracks superimposed on a 3D model. In the results of the experiments, it was possible to detect crack locations equivalent to a 0.2mm width, which is so said to be the generally tolerable range of cracks, from the photographs taken by the drone. The experiments have demonstrated that these crack-detection technologies and drone photography and control technologies can withstand practical use, and in the future, improvements will be made so that the system can be applied to very large buildings.

Currently, in the surveys of buildings' exterior walls, inspections are conducted through visual inspections and percussion tests by engineers with expert knowledge. However, while on the one hand the labor shortage is becoming more serious due to the aging of currently working engineers and the declining birthrate, on the other hand, it is expected that the percentage of infrastructure and facility buildings that will become obsolete due to aging will increase more and more. Constructing a system to inspect buildings safely and efficiently and to use it for maintenance is an important issue, so the early commercialization of this service is expected.

Business overview

A measure for a building maintenance service that utilizes AI



Source: Reprinted from the Company's financial results briefing materials

## Results trends

### Higher sales and profits that greatly exceeded the forecasts for new record highs

#### 1. Summary of the FY3/19 results

In the information services industry, companies' IT investment is trending solidly, and measures for DX that utilize digital technologies, such as IoT, AI, and 5G, and that flexibly change business processes and operations processes – or in other words, measures such as digital transformation and workstyle reforms – have become fully fledged. Based on this situation, in its medium-term management plan (April 2016 to March 2019) under the slogan “Drive Innovation” to accelerate business reforms, the Company Group is working on “business expansion in the IoT field” and to “strengthen the custom base for the core businesses and to create high added value.” Through the Group's comprehensive strengths and integration of technologies, it has strived to become a corporate group that achieves sustainable growth as its customers' value-creation partners that bring about innovation in their businesses.

As a result of these efforts, sales and profits increased significantly in the FY3/19 results, with net sales of ¥36,107mn (up 7.8% YoY), operating income of ¥3,354mn (up 14.1%), ordinary income of ¥3,407mn (up 14.5%), and net income of ¥2,286mn (up 10.7%). The results were strong compared to the Company's initial forecasts, with net sales 3.2% above forecast and each profit item more than 10% above forecast. Net sales were a record high for the first time in 11 fiscal years, while profits were a record high for the third consecutive fiscal year. As a result, all of the targets in the medium-term management plan were achieved. While gross profit increased 9.7% YoY, SG&A expenses rose only 5.6%, so the operating income ratio climbed from 8.8% to 9.3%.

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## Results trends

## FY3/19 consolidated results

	FY3/18		FY3/19		YoY		Vs. forecast		
	Results	% of net sales	Forecast	Results	% of net sales	Increase (decrease)	% change	Increase (decrease)	% change
Net sales	33,502	100.0%	35,000	36,107	100.0%	2,604	7.8%	1,107	3.2%
Gross profit	6,004	17.9%	-	6,587	18.2%	583	9.7%	-	-
SG&A expenses	3,063	9.1%	-	3,233	9.0%	170	5.6%	-	-
Operating income	2,940	8.8%	3,000	3,354	9.3%	413	14.1%	354	11.8%
Ordinary income	2,975	8.9%	3,020	3,407	9.4%	432	14.5%	387	12.8%
Net income	2,065	6.2%	2,070	2,286	6.3%	220	10.7%	216	10.5%

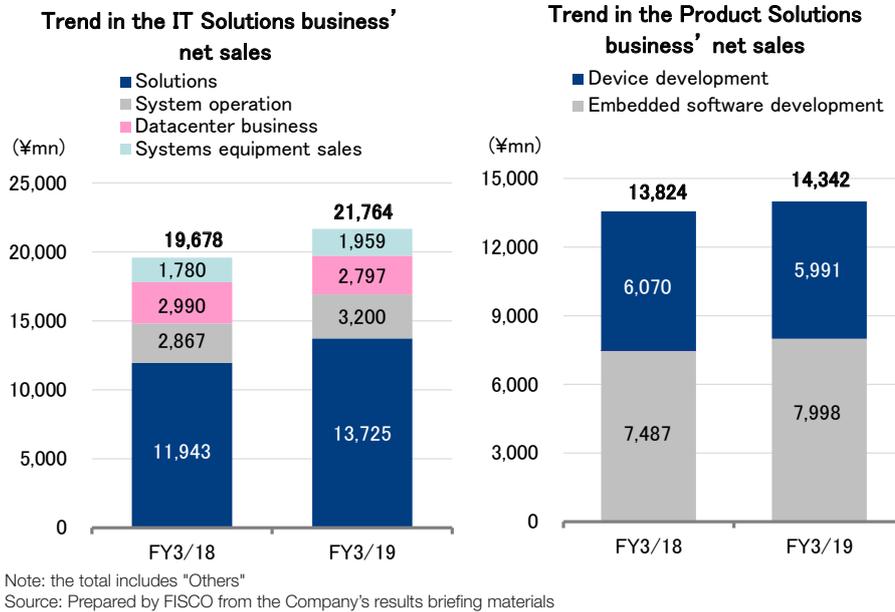
Note: the forecasts are the initial forecasts at the time of the FY3/18 results announcement

Source: Prepared by FISCO from the Company's summary financial report

Looking at the results by segment, in the IT Solutions business (including the Services Solutions business), sales from solutions, which provide 60% of total sales, trended strongly and increased 14.9% YoY, including to government offices and public organizations, and also for the telecommunications, retail, and finance and insurance industries. Also, in system operation business, sales rose 11.6%, including from the higher sales for data-linkage services and remote operations. Systems equipment sales also rose 10.0%, mainly from the increase in sales to the retail industry. On the other hand, in the datacenter business, sales declined 6.5%, primarily because housing and hosting struggled. As a result of the above, in the IT Solutions business, net sales increased 10.6% YoY to ¥21,764mn and operating income rose 35.3% to ¥1,522mn. The operating income ratio was 7.0%, rising from 5.7% in the previous fiscal year.

Also, in the Product Solutions business, net sales increased 6.8% YoY for embedded software development, mainly from the higher sales in the automotive and the equipment and devices fields. In device development, net sales were maintained at around the same level YoY, declining 1.3%, as although some projects for existing customers declined, the Company developed this business horizontally in the fields in which it excels. As a result of the above, in the Product Solutions business, net sales increased 3.7% YoY to ¥14,342mn, operating income rose 0.9% to ¥1,831mn, and the operating income ratio continued to be maintained at a high level, at 12.8%. The profit margin in the Product Solutions business is relatively high, which is considered to be because, as previously explained, it has a high technological barrier to entry and as there are few companies of a similar size to the Company, which is independent, conducting this business.

Results trends



## Is extremely financially sound

### 2. Financial condition and management indicators

Looking at the Company's financial condition, at the end of FY3/19, total assets were up ¥2,842mn on the end of the previous fiscal year to ¥28,211mn. This was mainly due to the increase in cash and deposits (up ¥1,808mn) and notes and accounts receivable-trade (up ¥729mn). Total liabilities were up ¥959mn on the end of the previous fiscal year to ¥9,015mn, primarily because of the increase in current liabilities (up ¥862mn), including accrued income taxes, provision for bonuses, accounts payable-trade, and advances received. In accordance with an increase of retained earnings, total net assets were ¥19,196mn (up ¥1,883mn).

As a result of the above, although the current ratio (current assets / current liabilities) decreased by 1.3 percentage points (PP) on the end of the previous fiscal year to 286.1%, the Company's short-term solvency is extremely high. Also, the fixed ratio (fixed assets / equity capital) was 45.9%, down 2.4 PP, and the procurement of fixed assets (such as equipment investment) is fully covered by shareholders' equity with no repayment deadlines, and the Company Group does not have any debt and continues to practice debt-free management. Moreover, the equity ratio is 68.0%, which greatly exceeds the average for issues in the telecommunications industry on the TSE 1st Section (39.4% in FY3/18), and the Company can be evaluated as being extremely financially sound.

## Results trends

## Consolidated Balance Sheets

	(¥mn)		
	End of FY3/18	End of FY3/19	Increase (decrease)
<b>Current assets</b>	16,587	19,395	2,808
Cash and deposits	6,601	8,410	1,808
Notes and accounts receivable-trade	8,919	9,648	729
Work in process	687	748	61
<b>Fixed assets</b>	8,782	8,816	34
Property, plant and equipment	6,544	6,407	-136
Intangible assets	156	135	-20
Investments and other assets	2,080	2,273	192
<b>Total assets</b>	25,369	28,211	2,842
<b>Current liabilities</b>	5,917	6,779	862
<b>Noncurrent liabilities</b>	2,138	2,235	97
(Interest-bearing debt)	-	-	-
<b>Total liabilities</b>	8,056	9,015	959
<b>Total net assets</b>	17,312	19,196	1,883

Source: Prepared by FISCO from the Company's summary financial report

## Management indicators

	FY3/18	FY3/19	Increase (decrease)
<b>Stability</b>			
Current ratio (current assets/ current liabilities)	287.4%	286.1%	-1.3pt
Fixed ratio (fixed assets / equity capital)	48.3%	45.9%	-2.4pt
Equity ratio	68.2%	68.0%	-0.2pt
<b>Profitability</b>			
Operating profit ratio	8.8%	9.3%	0.5pt
ROA (Return on assets)	12.4%	12.7%	0.3pt
ROE (Return on equity)	12.6%	12.5%	-0.1pt

Source: Prepared by FISCO from the Company's summary financial report

At the end of FY3/19, the balance of cash and deposits had increased ¥1,808mn at the end of the previous fiscal year to ¥8,402mn. This was because expenditure, such as the payment of dividends and to acquire tangible fixed assets, was covered by the funds obtained from operating activities.

Looking at the various cash flow conditions, cash flow from operating activities was ¥2,657mn (an increase in revenue of ¥368mn YoY). This was mainly because income before income taxes, depreciation and amortization, and the provision for bonuses exceeded the decreases in notes and accounts receivable-trade and inventories. On the other hand, cash flow used in investing activities was ¥424mn (an increase in expenditure of ¥170mn), primarily due to expenditure to acquire tangible fixed assets and intangible fixed assets. Moreover, cash flow used in financing activities was ¥419mn (an increase in expenditure of ¥121mn), which was due to the payment of dividends.

## Cash flow statements

	(¥mn)		
	FY3/18	FY3/19	Increase (decrease)
<b>Cash flow from operating activities</b>	2,289	2,657	368
<b>Cash flow from investing activities</b>	-253	-424	-170
<b>Cash flow from financing activities</b>	-298	-419	-121
<b>Cash and cash equivalents at the end of the fiscal period</b>	6,593	8,402	1,808

Source: Prepared by FISCO from the Company's summary financial report

## Outlook for the future

### Forecasts are for the higher sales and profits to continue in FY3/20

#### ● FY3/20 results forecasts

In the information services industry, companies' IT investment is trending solidly, and demand is expected to increase, mainly for DX (digital transformation), which is the utilization of IT to transform management and business models, to advance workstyle reforms, and to respond to the labor shortage. Based on this situation, the Company has announced its new medium-term management plan for the three-year period from April 2019 to March 2022.

For FY3/20, which is the first year for the new medium-term management plan, the Company is forecasting net sales of ¥38,000mn (up 5.2% YoY), operating income of ¥3,500mn (up 4.3%), ordinary income of ¥3,540mn (up 3.9%), and net income of ¥2,400mn (up 5.0%). It is once again aiming to achieve record high sales and profits.

#### FY3/20 consolidated results forecasts

	FY3/19		FY3/20		YoY	
	Results	% of net sales	Forecast	% of net sales	Increase (decrease)	% change
	(¥mn)					
Net sales	36,107	100.0%	38,000	100.0%	1,893	5.2%
Operating income	3,354	9.3%	3,500	9.2%	146	4.3%
Ordinary income	3,407	9.4%	3,540	9.3%	133	3.9%
Net income	2,286	6.3%	2,400	6.3%	114	5.0%

Source: Prepared by FISCO from the Company's summary financial report

## Medium- to long-term growth strategy

### Aiming to be a company that guides customers to realizing DX

#### 1. Summary of the previous medium-term management plan

In the previous medium-term management plan (FY3/17 to FY3/19), under the slogan of "Drive Innovation" toward transforming the business structure, the Company worked to achieve the plan's targets of "net sales ¥35bn or more and operating income of ¥2.5bn or more." As previously stated, it achieved the target for net sales, which was a new record high for the first time in 11 fiscal years. For the profit items also, it achieved the operating income target of ¥2.5bn one year ahead of schedule, and in FY3/19, it recorded record high profits for the third consecutive fiscal year. Moreover, ROE was 12.5%, meaning the Company achieved all of the quantitative targets it initially set.

## Medium- to long-term growth strategy

For the “further expansion of the IoT services business,” which is one of the Company’s key strategies, the name recognition in the market of Toami, its IoT platform, is rising year by year, and centered on the “shift to IoT for products,” it has been installed by more than 100 customer companies in total. In addition, the number of alliance partners has increased to more than 30 companies. Recently, there has been a rise in the number of inquiries for related services, such as analysis services to make more effective use of the data collected using IoT. This is steadily leading to improved results, and the IoT-related business has grown by 50% a year in the last three years, while its net sales have increased to around ¥1.5bn.

Another key strategy is “strengthening the customer base for the existing core businesses and creating high added value,” and for this, the Company has expanded IT Solutions for the distribution, life insurance, and social security fields, while for Services Solutions, it has worked to strengthen Cloud services and to improve profitability through shifting operations services to upstream. Also, for embedded development in Product Solutions, in addition to achieving steady growth in the in-vehicle and automotive fields, in the facilities and precision equipment fields as well, it has made progress in opening-up new fields, such as medical devices. Device development has driven the Company’s results in the last few years and has contributed significantly to the strengthening of its earnings foundation. The situation for securing human resources remains severe, but despite this, the Company has achieved steady expansion and growth in every field.

## 2. Targets in the new medium-term management plan

In terms of the business environment assumed for the new medium-term management plan (FY3/20 to FY3/22), there are increasing concerns about an economic slowdown in Japan, including due to the impact of conditions overseas and the hike in the consumption tax. Also, against the backdrop of the promotion of workstyle reforms and the decline in the working age population, measures to improve productivity are urgently needed. With these kinds of environmental changes in the background, customer companies’ measures for DX (digital transformation) have become fully fledged, and stable growth is forecast for the IT industry. On the other hand, alongside the solid demand, the shortage of engineers is becoming even more serious, and there is awareness that it will be necessary to both respond to DX and to secure human resources.

In this sort of environment, the Company Group is aiming to transform in the future to become strong value-creation companies that as much as possible are not affected by economic fluctuations. Toward this, it is first aiming for net sales of around ¥50bn and to build a solid business foundation. Also, for the time being it is focusing on achieving business growth, while also working on establishing more autonomous, stock-type businesses that do not rely on human resources. In the next three years, under the slogan of “DX FIRST,” the policy is to transform the Company itself into “a value-creation company” by contributing to its customers’ realization of DX.

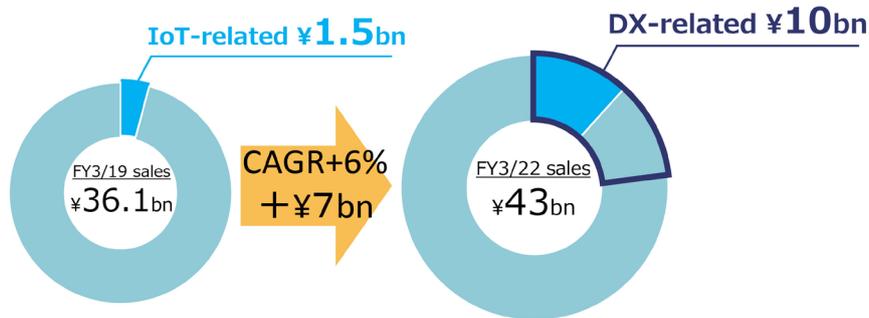
Based on the above basic policy and the key strategies, the Group’s management targets are first to increase net sales from ¥36,107mn in FY3/19 to ¥43,000mn in FY3/22, which is the plan’s final fiscal year, and similarly, to increase operating income from ¥3,354mn to ¥4,000mn. Within these amounts, DX-related net sales, as the total for the three business segments, are expected to increase by ¥8,500mn, from ¥1,500mn to around ¥10,000mn. Overall, net sales are forecast to increase ¥6,893mn over the three years, so it can be said that key to achieving the targets in the new medium-term management plan will be growing the DX-related businesses in the near future.

Medium- to long-term growth strategy

Summary of the new medium-term management plan

# DX FIRST

Becoming a company that guides customers to realizing DC



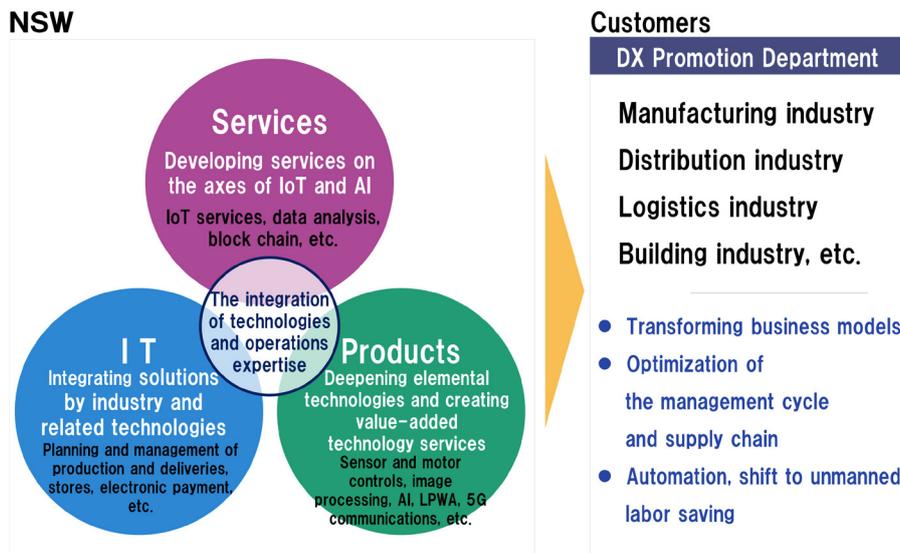
Source: Reprinted from the Company's results briefing materials

### 3. The plan by business

For the DX-related business, which forms the core of this plan, the digital transformation that each company is working on is understood to be “companies’ measures for business transformation, of creating business models and changing business process by utilizing new digital technologies.” The policy is to define the DX-related business in the Company as “providing solutions and service businesses that support the realization of DX based on new digital technologies, such as IoT, AI,” and as a “business involving DX-related product development and technological development, such as edge computing.” It intends to contribute to transforming customers’ business models and operations processes through combining the operations expertise and technological capabilities that it has accumulated up to the present time with the various methods of realizing DX.

Specifically, it plans to provide solutions proposals and services through coordinating the three business segments to integrate its technologies and operations expertise. For this, it will target as customers various manufacturing companies, and also companies in industries such as distribution, logistics, and construction.

#### Coordinating the three businesses to respond to DX

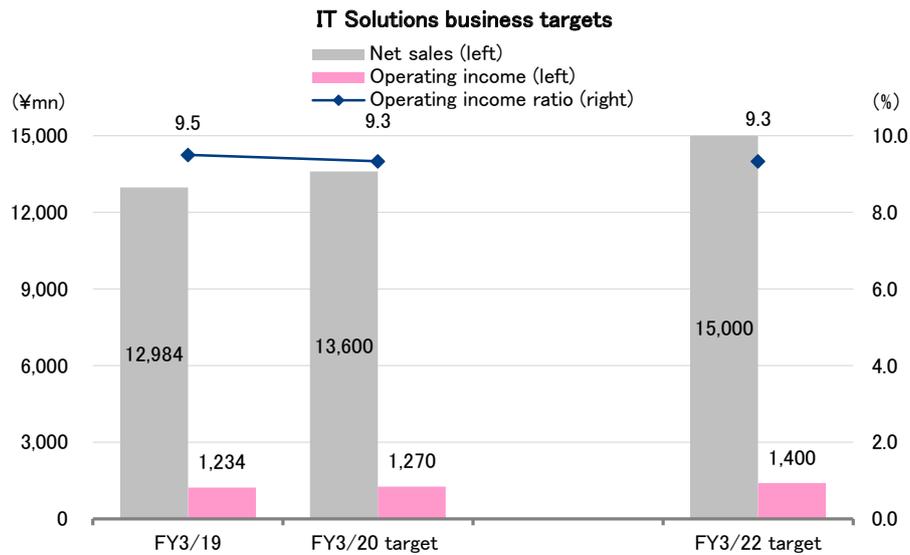


Source: The Company's results briefing materials

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Medium- to long-term growth strategy

In IT Solutions, the Company provides DX solutions that utilize its operations expertise in various industries, including manufacturing, logistics, and distribution, and in related technologies, such as IoT, AI, and RPA. In addition, in its existing businesses, as stable sources of earnings it will work to expand systems-construction projects in the life and non-life insurance and social security fields. The numerical targets for FY3/20 are net sales of ¥13,600mn and operating income ¥1,270mn, and for FY3/22, which is the plan's final fiscal year, net sales of ¥15,000mn and operating income of ¥1,400mn.

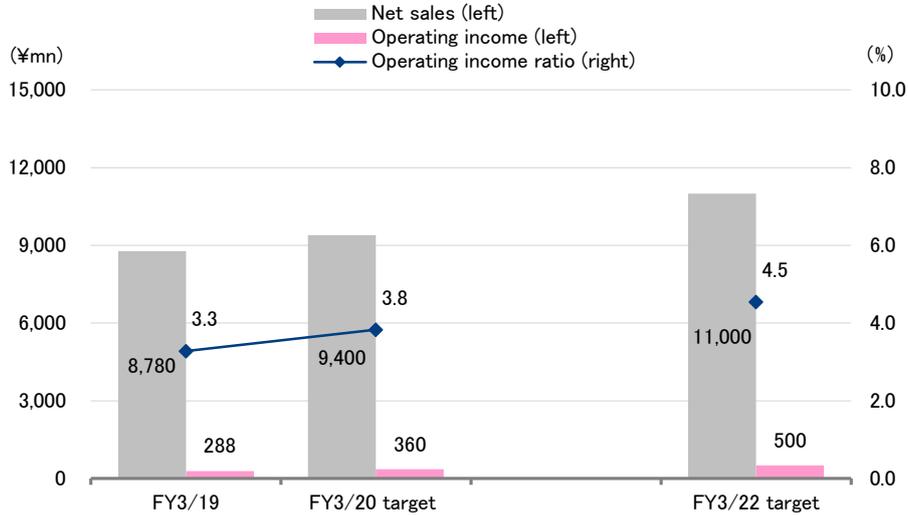


Source: Prepared by FISCO from the Company's results briefing materials

As the team to drive DX for the Company as a whole, Services Solutions undertakes initiatives to expand business related to DX that are centered on IoT and AI, and enhance Cloud services that utilize the Company's datacenters. In conjunction with this, in the operations business also, it intends to increase added value, such as from data-linkage services, and to strengthen the earnings foundations. The numerical targets are net sales of ¥9,400mn and operating income of ¥360mn in FY3/20, and net sales of ¥11,000mn and operating income of ¥500mn in FY3/22.

Medium- to long-term growth strategy

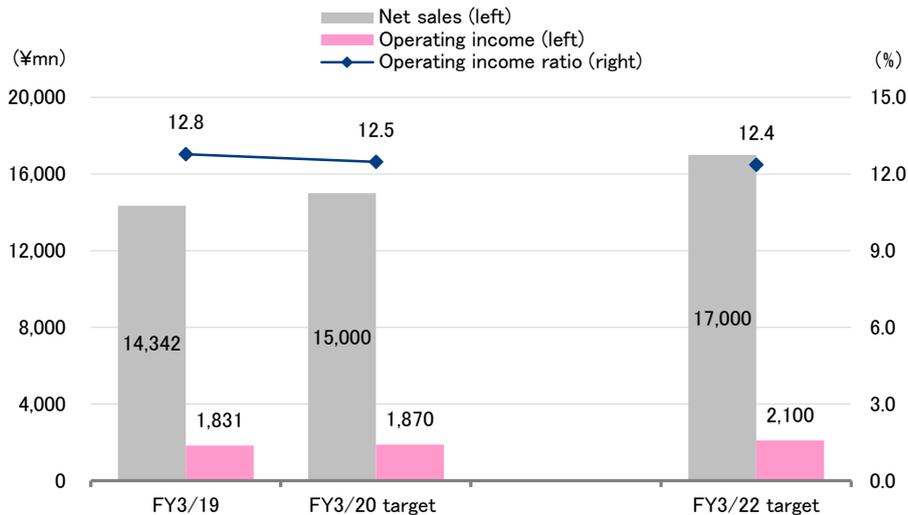
**Services Solutions business targets**



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

In Product Solutions, the Company intends to accumulate core technologies for which it is taking a long-term viewpoint for both the fields of embedded development and device development, and to establish technological superiority in the existing fields. At the same time, for high value-added technologies as well, the policy is to create products and services to generate new sources of earnings. The numerical targets are net sales of ¥15,000mn and operating income of ¥1,870mn in FY3/20, and net sales of ¥17,000mn and operating income of ¥2,100mn in FY3/22.

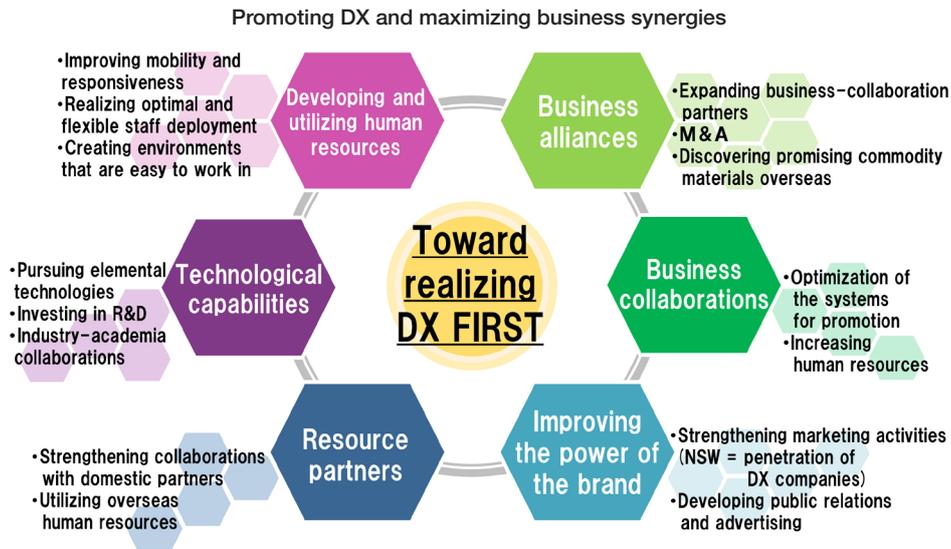
**Product Solutions business targets**



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

Medium- to long-term growth strategy

In order to maximize the synergies from the above three business segments, the Company has set six priority fields, which include “developing and utilizing human resources” with a view to securing human resources overseas, forming business alliances with domestic and overseas companies and “expanding M&A and other business alliances” and “improving the power of the brand.” It intends to work toward realizing DX FIRST in these fields.



Source: Reprinted from the Company's financial results briefing materials

## Shareholder Returns Policy

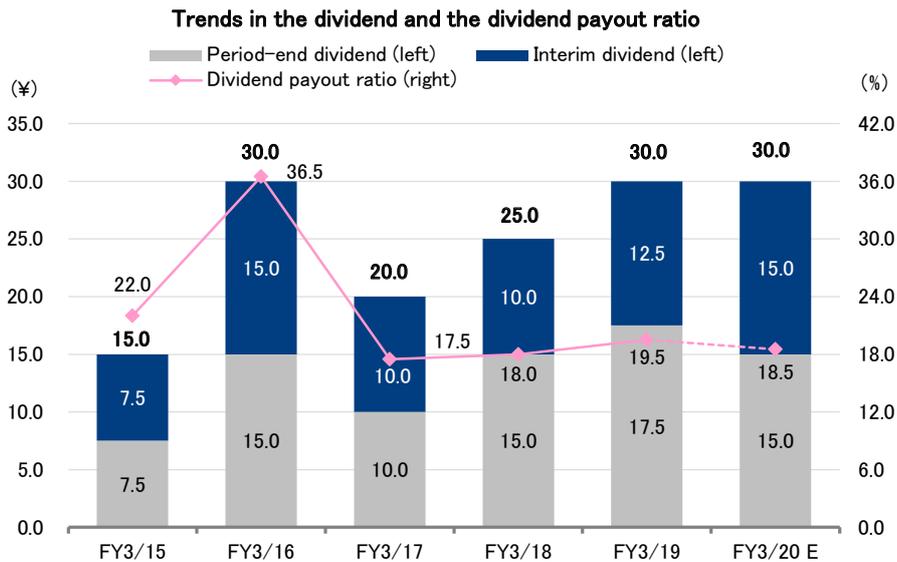
### Realizing a financial strategy that combines a growth strategy with financial soundness

The Company positions returning profits to shareholders as one of its most important management policies, and its basic policy is to pay dividends stably and continuously. It is thought that it determines the dividend from surplus based on a comprehensive consideration of factors such as the profit level for that period, the dividend payout ratio, and how results will trend in the future, while also supplementing internal reserves. With regards to internal reserves, it intends to work to maintain and improve its competitiveness in preparation for expanding its businesses in the future and to strengthen the management foundation.

The Company aims to maintain equity capital at a sound level and achieve sustainable growth of ROE of 12% or above. It also intends to continue to invest as necessary to grow as a company in the future, including in R&D, M&A and alliances, and in developing human resources. For returns to shareholders, its basic policy is to stably pay dividends, while it considers the dividend level with an awareness of linking it further to results.

Shareholder Returns Policy

Reflecting the strong results in FY3/19, the Company changed the period-end dividend from ¥12.5 to ¥17.5 and thereby increased the annual dividend to ¥30. In FY3/20, it plans to pay an interim dividend of ¥15 and a period-end dividend of ¥15 for an annual dividend of ¥30, for a forecast dividend payout ratio of 18.5%. It is aiming to further expand its business scope toward realizing net sales of around ¥50bn, and in this process, it may require funds for M&A. Therefore, for the time being it would seem to be prioritizing business expansion with an eye to the future, while aiming to maintain and improve its competitiveness.



Source: Prepared by FISCO from the Company's summary financial report

## Information Security Policy

### Implements measures based on the Information Security Basic Policy

The Company has defined the Information Security Basic Policy to ensure the confidentiality, completeness, and availability of the information assets that it holds and maintains in the course of conducting its businesses, and to satisfy the trust placed in it by society. It is working to construct, maintain and improve a more advanced information security management system.

In conducting its businesses, the Company Group handles a lot of customer data, so it pays close attention to data management. In particular, its datacenters, which accept systems and other assets from many customers, have acquired ISMS (Information Security Management Systems) certification and conduct highly reliable and safe operations. In addition, they are continuously implementing a range of measures such as PC encryption, unauthorized access monitoring, e-learning education for employees, and targeted training drills. Going forward, the policy is to further strengthen measures to prevent data from leaking out, should an unauthorized access occur.



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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](mailto:support@fisco.co.jp)