

OPTiM Corporation

3694

Tokyo Stock Exchange First Section

24-Apr.-2020

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■ Summary

The Company's AI solutions have the No.1 market share in four segments. In the FY3/2020 full year, it made good progress with new businesses, including OPTiM AI Camera. Continues to actively invest to establish a structure toward growing sales

OPTiM Corporation <3694> (hereafter, also "the Company") is a venture company specializing in AI and IoT technologies established by current President and Representative Director Shunji Sugaya and others in 2000 when they were students at Saga University. It has "We make the Internet as simple as breathing" as its mission, and through making its OPTiM Cloud IoT OS the de facto standard, it is aiming to be a leading company in the Fourth Industrial Revolution. It has 229 employees (as of April 2019), of who around 80% are engineers. From the start, it developed technologies keeping in mind creating services never seen in the world before, and it owns a number of patents related to these technologies. Many of its partners are major companies, and the Company's technological capabilities and potential have been highly evaluated both inside and outside of Japan. In 2014, it was listed on the Tokyo Stock Exchange (TSE) Mothers market, and in 2015, its listing was upgraded to the TSE 1st Section.

Optimal Biz, a management platform compliant with multiple devices, has the top share of the device management market. The Company evolved the device management platform and completed OPTiM Cloud IoT OS, a new AI and IoT platform. Since 2015, it has made fully fledged its "OO x IT (enter the industry name in OO)" initiative to use IT to bring about reforms in industry. The industry where the results of this have been realized the most is the construction industry. In 2017, four companies, including Komatsu Ltd. <6301>, started LANDLOG, a new platform for the construction production process, and its partner companies and customers continue to increase. In the agriculture, forestry and fisheries industry, in 2016 the Company succeeded with a demonstration experiment for pest control using drones in the agriculture field. In 2018, the Smart Agriculture Alliance, which is led by the Company, grew to a nationwide scale and carried out full scale harvesting, including of rice and soybean. The OPTiM AI Camera pre-trained package service is a monthly billing product that enables users to easily utilize AI and IoT, and its use is spreading from the Company's success in reducing the hurdles for customers to introduce it.

1. Content of business

The Company's businesses can be divided into existing businesses, which is mainly Optimal Biz, and new businesses, which are businesses and products utilizing OPTiM Cloud IoT OS. In conducting these businesses, it has five strengths: "an intellectual property strategy," "No.1 market share in Japan in the MDM field," "OS for IoT and AI platform users in every industry," "vendor free," and "a stock-sales business model," and they enable the Company to differentiate itself and stand out. These five strengths, while mutually linking with each other, enhance customer satisfaction, increase enterprise value and brand value, and make it possible for the Company to collaborate with major partners, and they are the driving force behind its high growth.

Optimal Biz, which is the Company's main service, is an essential service in the fields of security countermeasures and batch settings for companies, such as for smartphones, tablets, PCs, and IT equipment. In FY2018, the MDM (Mobile Device Management) market in Japan was estimated to be worth from ¥8bn to ¥10bn, and the Company's Optimal Biz had the No.1 share, of 30% to 40% of the shipment monetary value. Up to the present time, it has achieved a growth rate exceeding the market's growth rate and succeeded in becoming the de facto standard. This business has a stock-sales business model, and its stable earnings support the Company's investment in development.

Summary

A feature of OPTiM Cloud IoT OS, which brings together the Company's technologies, is vendor free. This OS does not choose the software, for which aspects like AI are evolving on a daily basis, or the hardware, such as the various IoT devices. As a result, it is the optimal system for customers who can obtain it at a reasonable price. The Company owns the basic patents for the technologies to realize OPTiM Cloud IoT OS's core functions. One is for an automated selection technology for optimal AI (Artificial Intelligence) and cloud services (API) based on predetermined conditions, which makes possible the definitive differentiation of this OS (Patent No. 6404529).

More than three years have passed since the launch of OPTiM Cloud IoT OS, and the Company has continuously created services that utilize it through collaborations with partner companies in various fields. This initiative, which is generally referred to as "○○ (industry name) x IT," started from a demonstration experiment, and it is currently at the stage of its partial provision as an official business and service for specific customer companies. In terms of the industries it has been applied to first, businesses have already been launched for "Construction x IT," "Agriculture x IT," and "Healthcare x IT". For companies and organizations in each industry that are orientated toward being a next generation AI and IoT platform-user strategy, it can be said that the Company is "providing the tools that are the key to its success and playing a role toward its realization."

2. Results trends

In the 1H FY3/2020 results, sales increased significantly and the previous operating loss recovered to an operating profit, with net sales increasing 25.2% year-on-year (YoY) to ¥2,935mn, operating profit of ¥18mn (a loss of ¥437mn in the same period in the previous fiscal year), ordinary profit of ¥11mn (a loss of ¥427mn), and a loss attributable to owners of parent of ¥32mn (a loss of ¥311mn). Net sales once again achieved a record high for a 1H. Sales are centered on Optimal Biz, and its number of licenses steadily grew and it continues to maintain the No.1 market share, according to the reports of various market research organizations. In relation to the new field of OPTiM Cloud IoT OS, in various industries the Company is building collaborative structures with companies and organizations that lead their respective industries, such as agriculture, construction, and healthcare, and it is achieving one result after another, including market launching products and constructing business models. Alongside this, there are occurring developments like customization for use with OPTiM Cloud IoT OS and the construction of environments, which are leading to spot sales for the Company. A service worthy of note is the OPTiM AI Camera package service released in FY3/2019. This service uses AI image-analysis technologies to solve problems specific to various industries, and it enables customers to easily use AI and IoT, so the number of licenses is expected to steadily grow. While on the one hand each profit item returned to profitability from 1H FY3/2020, on the other hand the Company continued to conduct strategic R&D investment. It has positioned FY3/2020 as a period "to establish a structure toward growing sales, while continuing to conduct investment," and it continues to invest in accordance with its pledge to do so, and as a result, in the 1H it recorded the minimum profits.

Summary

3. Outlook

For the FY3/2020 full year results outlook, the Company is forecasting a significant increase in sales, with net sales rising 20.0% YoY to ¥6,563mn. For the profit items, the same as in FY3/2019, it has set forecast ranges, of operating profit of ¥1 to ¥1,313mn, ordinary profit of ¥1 to ¥1,313mn, and profit attributable to owners of parent of ¥0 to ¥814mn. These values are unchanged from the initial forecasts. It is aiming for record high net sales for the 20th consecutive period since its establishment. The rate of progress in the 1H toward achieving the full fiscal year net sales forecast was strong at 44.7, exceeding the rate of 42.9% in 1H FY3/2019. The Company's business model has a lot of accumulating-type (subscription-type) license billing, so it tends to record more sales in the 2H than in the 1H. In addition, it is making steady progress with introducing new businesses and services, including the OPTiM AI Camera package service, and it is forecasting that their results will accumulate. Based on the Company's strategy, FY3/2020 is a year in which "to establish a structure toward growing sales, while continuing to conduct investment," so profits will depend upon investment. In a range in which ordinary profit for the full fiscal year does not become negative, the lower limit of the forecast (ordinary profit ¥1mn) is in the event of drastic investment in development. Conversely, the upper limit (operating profit ¥1,313mn) is the Company's earnings at cruising speed, and it is estimated that profits will be around 20% of sales. At FISCO, we expect the profit level to be closer to the lower limit as in FY3/2020 also, the Company will invest in R&D and in establishing a structure to grow sales.

4. Growth strategies and topics

The strategic product OPTiM AI Camera, which was released in FY3/2019, and the services derived from it, are performing well. With this product, the Company responded to voices saying that "We want to utilize AI and IoT, but it is hard for us to accumulate the data and buy all the devices at once when introducing them." It is a subscription-type package service in which users can easily introduce pre-trained AI. OPTiM AI Camera currently targets 11 industries. It has a pre-trained model application menu for more than 300 models, and it can be effectively applied in areas such as security, marketing, and operating efficiency. In October 2019, the Company collaborated with several major video management system companies inside and outside of Japan, and it is establishing a structure toward growing sales.

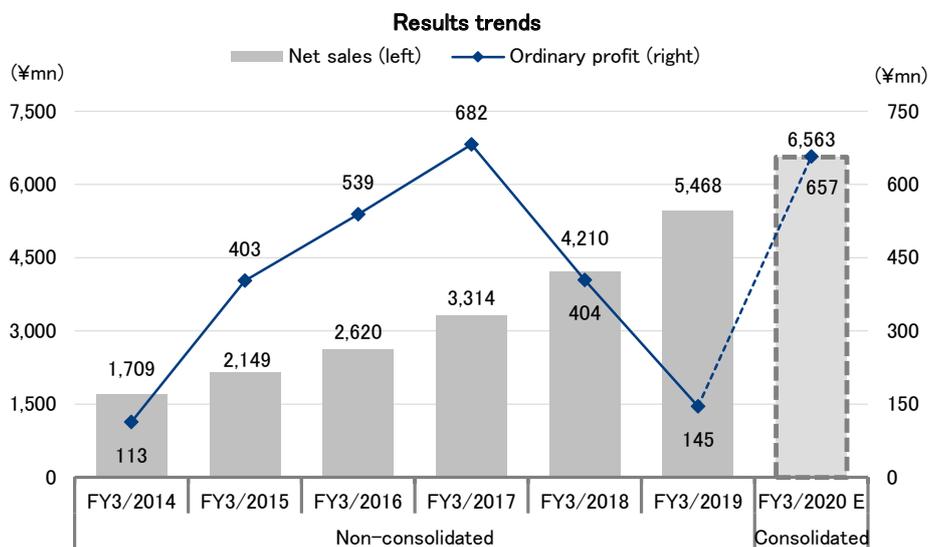
In October 2019, the Company announced OPTiM AI Camera Mobile and OPTiM AI Camera Lite OPTiM AI Creator as new services that can be easily introduced. Of them, the focus is particularly on OPTiM AI Camera Mobile. Users can analyze video on site simply by installing a dedicated app onto smartphones and tablet devices. It is revolutionary because it analyzes photographs taken with a device's camera, so it completely eliminates the need for external equipment like surveillance cameras and analysis devices. It can carry out various analyses, including customer attribute analysis (age and gender), such as in retail stores and restaurants, and analysis of the number of people, and its price is also appealing at ¥1,980 a month per function.

In November 2019, the Company opened a new base, OPTiM KOBE, in Kobe City, Hyogo Prefecture. OPTiM KOBE not only has office functions, it has also been established as a showroom enabling visitors to actually experience the Company's initiatives utilizing AI, IoT, and robotics that it is working on, so it can deepen understanding about its services and initiatives. It seems that it is intended for OPTiM KOBE to progress areas including "Healthcare x IT," "Robots x IT," and "Agriculture x IT" as a base for activities in the Kansai area. In particular, it will play a major role in progressing the business alliance with Sysmex <6869> (head office:Kobe City, Hyogo Prefecture) toward developing healthcare IT solutions. In November 2019, Sysmex and Kawasaki Heavy Industries <7012> established a joint venture, Mediaroid Corporation (head office:Kobe City, Hyogo Prefecture) and concluded a business alliance to apply IT to the next generation of healthcare-use robots, and they are jointly developing a next generation surgical support robot system that applies advanced AI and IoT technologies.

Summary

Key Points

- The Company's five strengths are the source of its enterprise value. Its AI solutions have the No.1 market share in four segments
- In the 1H FY3/2020 results, sales increased more than 25% YoY, and the existing business, Optimal Biz, performed solidly. In new businesses, sales of OPTiM Cloud IoT OS-related customizations grew
- For the FY3/2020 full year, based on the strong results of the OPTiM AI Camera product group, it is highly possible that sales will exceed the forecast. The Company continues to actively invest to build a structure to grow sales
- The strategic product OPTiM AI Camera has made a strong start. OPTiM KOBE was newly opened



Note: As the FY3/2020 results forecasts were disclosed as ranges, the median values are shown.
 Source: Prepared by FISCO from the Company's financial results

Company overview

A venture company attracting attention as a pioneer in AI and IoT platforms and aiming to have a central presence in the Fourth Industrial Revolution

1. Company overview and history

The Company is a venture company specializing in AI and IoT technologies established by current President Shunji Sugaya and others in 2000 when they were students at Saga University. It has "We make the Internet as simple as breathing" as its mission, and it is aiming to be a leading company in the Fourth Industrial Revolution through making its OPTiM Cloud IoT OS the de facto standard. It has 229 employees (as of April 2019), of who around 80% are engineers.

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Company overview

Initially, the Company's main business was Internet video advertising services, and then in 2006, it concluded a technology-license agreement with Nippon Telegraph and Telephone East Corporation ("NTT East"), and used this opportunity of providing automated Internet connection tools that utilize AI to convert to an optimal business (its coined term for a business that aims to make the Internet as simple as breathing and optimize the world of tomorrow). In 2009, it started to provide the Optimal Biz management platform for PCs.

From around 2011, to respond to the shift from PCs to mobile throughout the world, the Company developed a management platform compliant with multiple devices, include smartphones and other devices. It is currently aiming to make OPTiM Cloud IoT OS, which expands and evolves this platform, the de facto standard. From 2013, it entered into the area of unlimited-usage services for software and content, and it broadened the scope of its business model.

In 2015, the Company made fully fledged its "OO x IT (enter the industry name into OO)" initiative to use IT to bring about reforms in industry. It started projects with its partner companies and organizations in fields including construction and agriculture. The industry where the results have been realized the most is the construction industry. In 2017, four companies, including Komatsu, started LANDLOG, a new platform for the construction production process, and its partner companies and customers are continuing to increase. In the agriculture, forestry and fisheries industries, in 2016 the Company succeeded with a demonstration experiment for pest control using drones in the agriculture field. In 2018, the Smart Agriculture Alliance, which is led by the Company, grew to a nationwide scale and carried out full scale harvesting, including of rice and soybean. In addition, it has started the "OO x IT" initiative in various other industries, including healthcare, electric power utility, the police, retail, finance and transportation. Further, the OPTiM AI Camera pre-trained package service is a monthly billing product enable users to easily utilize AI and IoT, and its use is spreading from the Company's success in reducing the hurdles for customers to introduce it.

In 2014, the Company was listed on the TSE Mothers market, and then in 2015, its listing was rapidly upgraded to the TSE 1st Section. It has many major companies as partners and its technological capabilities and potential have been highly evaluated both inside and outside of Japan.

History

Year	Major event
2000	OPTiM Corporation was founded
2001	Established Tokyo Office
2006	Started providing an e-mail/router auto-setup tool, "Optimal Setup"
2007	Started providing a screensharing product for PC, "Optimal Remote"
2008	Increased capital through third-party allocation (NTT East)
2009	Made business alliance with NIPPON TELEGRAPH AND TELEPHONE CORPORATION to promote Home ICT Started providing a PC management platform, "Optimal Biz"
2010	Started providing the world's first remote support product for Android devices, "Optimal Remote Mobile"
2011	Started providing a mobile device management platform, "Optimal Biz for Mobile" Acquired a patent for device identification technology, "Tiger"
2012	Recognized and took 9th place in the "Ranking of Patent Asset Scale in Information Communication Industry, 2011-2012"
2013	Started providing "Unlimited Software powered by OPTiM"
2014	Started providing "Unlimited Business Software powered by OPTiM" Listed on TSE's (Tokyo Stock Exchange's) Mothers market Achieved three straight years of No.1 MDM service share in Japan by "Optimal Biz" Started sales of "Unlimited Tablet powered by OPTiM", the world's first comprehensive tablet service Acquired the 1st place of Emerging Market Company Ranking of Patent Asset Scale in the Information Communication Industry issued by Patent Result Co., Ltd. Announced "Optimal Remote for Lollipop," realizing global first remote support of every Android™ smartphone and tablet in the world

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Company overview

Year	Major event
2015	<p>Announced "Remote Experience Sharing," OPTiM's remote technology strategy for the IoT/wearables era</p> <p>Formed a business alliance with Komatsu for Remote Technology, with its first collaboration involving "Optimal Second Sight," a Visual Remote Support service, in which it provides its Smart Construction ICT solutions to construction sites</p> <p>Announced "SkySight," the world's first big data analysis platform that supports drones</p> <p>Concluded a three-party agreement for IT Agriculture with Saga University and Saga Prefectural Government</p> <p>Strengthened Capital Alliance with Fuji Xerox</p> <p>Jointly developed "Pocket Doctor," a remote medical and health assistance service</p> <p>Moved to the First Section of the Tokyo Stock Exchange</p>
2016	<p>Pocket Doctor won the Grand Prize in the Japan Healthcare Business Contest 2016 held by the Ministry of Economy, Trade and Industry</p> <p>Announced a new version of OPTiM Cloud IoT OS, an OS optimized for the AI and IoT age</p> <p>Saga University's Faculty of Agriculture, Saga Prefecture's Agriculture, Forestry and Fisheries Department, and OPTiM Corporation were the first in the world to successfully conduct a demonstration experiment to utilize a drone equipped with pest-killing functions in order to conduct pesticide-free pest control at night</p> <p>OPTiM Corporation and Microsoft entered-into a technology alliance in the AI and IoT fields</p>
2017	<p>Concluded a comprehensive partnership agreement with Saga Prefecture to promote the utilization of AI and IoT toward realizing the Fourth Industrial Revolution</p> <p>Four companies, including Komatsu, decided on the joint planning and management of LANDLOG, a new platform that connects to the construction production process as a whole</p> <p>Relocated a listed company's head office to within a national university (Saga University) for the first time in Japan</p> <p>Made a subsidiary of Telepathy Global Co., Ltd., which has development capabilities for IoT hardware</p> <p>Started the Smart Agriculture Alliance to utilize AI, IoT, and Big Data to realize "Fun, Cool and Profitable Agriculture"</p>
2018	<p>Won the Intellectual Property Achievement Award, which recognizes companies that have contributed to the development of the intellectual property rights system</p> <p>The Company and MonotaRo opened the MonotaRo AI Store</p> <p>Started providing Smart Home Medical Care for healthcare facilities nationwide</p> <p>Opened SMART AGRI, an IT and agriculture future media</p> <p>Announced AGRI EARTH, an AI, IoT, and robot platform for the agriculture, forestry and fisheries, distribution processing, and food industries</p> <p>Announced two new products: OPTiM AI Camera, which has a pre-trained model application menu for more than 300 models, and OPTiM AI Prediction, a prediction service based on quantitative data analyses</p> <p>Announced it holds the basic patent relating to a technology for pinpoint pesticide spraying and fertilization</p> <p>Started DRONE CONNECT βversion, a drone pilot sharing service</p>
2019	<p>Concluded a basic agreement for a business alliance with Sysmex in the field of "cutting edge healthcare x AI and IoT"</p> <p>The number of organizations participating in the Smart Agriculture Alliance exceeded 1,000</p> <p>Obtained approval for second-class healthcare equipment manufacturing and sales business</p> <p>Established OPTiM AGRI MICHINOKU Co., Ltd., Japan's first smart agriculture regional trading company, with Michinoku Bank</p> <p>Started providing AMIAS, a healthcare diagnostic imaging AI integrated open platform</p> <p>Opened OPTiM KOBE as a new base in Kobe City</p> <p>Kawasaki Heavy industries and OPTiM Corporation entered-into a business alliance to utilize AI and IoT in the fields of precision machinery and robots</p> <p>Entered-into a business alliance with VNPT, Vietnam's state-run major communications group, in the fields of AI services and smart agriculture</p>

Source: Prepared by FISCO from the Company's website

2. Content of business

The Company's main services are IoT Platform Services, which provide 72.9% of total net sales (FY3/2019). Their main focus is Optimal Biz, whose functions include operations management within an organization, and settings for asset management and security policy by managing various devices such as smartphones and tablets on the Cloud. Its commercial distribution includes sales by partner companies and OEM supply, and the Company receives licenses fees according to the number of devices.

Remote Management Services provide 14.2% of total net sales (FY3/2019). Among them, Optimal Second Sight, which is a remote work support service, not only supports work in the field, it has also been adopted as support equipment for disaster countermeasures to facilitate smooth relief activities and to ascertain conditions in the field during a disaster. Its core technologies are remote screen sharing and remote operations. The Company receives licenses fees according to the number of devices it is installed in by the customer companies.

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Company overview

Support Services provide 2.8% of total sales (FY3/2019), but sales are trending downward alongside the slowdown in the growth of the PC market. The Company provides Optimal Diagnosis & Repair, which automatically detects and repairs problems on devices like smartphones and tablets on networks, and Optimal Setup, which makes it possible to automatically set up routers, and it receives customization fees for functions added at the time of installations and license fees.

Other Services provide 10.0% of total net sales (FY3/2019). The Company provides the Unlimited-usage Series, including unlimited-usage business software for corporations, and unlimited usage of tablets (Tabuho service) for individuals. The image is a monthly fixed-fees model.

Business description and results by service

	Business description	Percentage of total net sales (FY3/2019)
IoT Platform Services	Their main focus is Optimal Biz, whose functions include operations management within an organization, and settings for asset management and security policy by managing various devices such as smartphones and tablets on the Cloud. The commercial distribution includes sales by partner companies and OEM supply. The Company receives licenses fees according to the number of devices.	72.9%
Remote Management Services	Optimal Remote, which is a remote management service for corporations and individuals, not only shares various OS remotely on a screen and supports operations, it also provides an environment for users to share experiences. Its core technologies are remote screen sharing and remote operations. The Company receives licenses fees according to the number of devices.	14.2%
Support Services	Provides Optimal Diagnosis & Repair, which automatically detects and repairs problems on devices such as smartphones and tablets on networks, and Optimal Setup, which makes it possible to automatically setup routers, and it receives customization fees for functions added at the time of installations and license fees.	2.8%
Other Services	Provides the Unlimited-usage Series, which are various types of content management services for corporations and individuals. They have monthly fixed fees.	10.0%
Total		100.0%

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

Total net sales can be divided into stock-sales license income and flow-sales customization income, and their percentages are roughly 80% from license income and 20% from customization income.

Business overview

The Company's five strengths are the source of its enterprise value. Its AI solutions have the No.1 market share in four segments

The Company's businesses can be divided into existing businesses, which is mainly Optimal Biz, and new businesses, which are businesses and products utilizing OPTiM Cloud IoT OS. In conducting these businesses, it has five strengths, of "an intellectual property strategy," "No.1 market share in Japan in the MDM field," "OS for IoT and AI platform users in every industry," "vendor free," and "a stock-sales business model," and they enable the Company to differentiate itself and stand out. The five strengths, while mutually linking with each other, enhance customer satisfaction, increase enterprise value and brand value, and enable the Company to collaborate with major partners, and they are the driving force behind its high growth.

Business overview

The Company's strengths

Strengths	Application field examples
1. Intellectual property strategy	Development of functions, products, services, and business models based on patents realized first in Japan and in the world
2. Optimal Biz has the No.1 market share in Japan in the MDM field	Optimal Biz has acquired the No.1 market share, according to the reports of several market research companies
3. OPTiM Cloud IoT OS, an OS for IoT and AI platform users in every industry	OPTiM Cloud IoT OS and the technologies peripheral to it make possible an AI and IoT platform-user strategy for major companies in various industries Is accelerating the OOX IT initiative in various industries, including construction, agriculture, healthcare, and transportation
4. Growth potential	Sales growth of more than 20% each year Is investing a lot of revenue in R&S and has opened an office in Silicon Valley (the United States)
5. Vendor free	On the one hand, the Company is developing its own AI, IoT, and robotics technologies, while on the other hand, it does not only offer its own products, as do major IT vendors in Japan and overseas, which means it can provide a combination of services with a high degree of flexibility without being limited to specific IT vendors or technologies
6. Stock-sales business model	Basically, the Company receives monthly license fees for each of Optimal Biz, OPTiM Cloud IoT OS, and OPTiM AI Camera This is a stock-sales (subscription-sales) business model, and once fixed costs are recovered, it can obtain substantial profits
7. A unique position in the ICT industry	While utilizing open source and also the technologies of other companies, the Company is able to flexibly propose and provide combinations of its own products and the products of other companies

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

1. Intellectual Property Strategy

Since its establishment, the Company has developed technologies while keeping in mind creating services never seen in the world before, and it has adopted a strategy of acquiring and holding intellectual properties. One example of this is its device identification technology called Tiger, which it patented in the United States in 2011, that dramatically improves the accuracy of identifying devices. Most recently, in 2019, the patent it holds for a pinpoint pesticide application technology was awarded the Prize of the Minister of Education, Culture, Sports, Science and Technology in the 2019 Kyushu Invention Awards. In 2012, in the scale of patent assets announced by Patent Result Co., Ltd, it ranked 9th in Japan (in the information and communication field), and in asset scale per patent, it ranked first in Japan (in the same field). The Company's President and Representative Director Sugaya ranked first for the scale of patents assets held by individuals (according to Patent Result, as of the end of January 2015). These intellectual properties mainly build barriers to entry in new business fields, but in addition to this, they give peace of mind to major companies, enabling the Company to build partnerships with them, and looking to the future also, they are likely to be advantageous when advancing its global business development.

2. No.1 market share in Japan in the MDM field: Optimal Biz

In 2012, the number devices connected to the Internet was one device per person, but it is estimated that by 2020, this has grown to around 150 devices per person. Looking from the standpoint of a department managing its company's IT assets, alongside this increase in the number of devices, the volume of work and the risks have also risen. Optimal Biz, which is the Company's main service, is an essential service in the fields of security countermeasures and batch settings for companies, such as for smartphones, tablets, PCs, and IT equipment.

In FY2018, the MDM (Mobile Device Management) market in Japan was estimated to be worth from ¥8bn to ¥10bn, and the Company's Optimal Biz had the No.1 share, of 30% to 40% share of the shipment monetary value. Up to the present time, it has achieved a growth rate exceeding the market's growth rate and succeeded in becoming the de facto standard. The growth of the MDM market in Japan is expected to slow down slightly from FY2018 onwards, but it is still forecast to stably grow at an annual rate of around 11% to 13%.

Business overview

Optimal Biz has been introduced by more than 180,000 companies nationwide. To give one example, East Japan Railway Company <9020> (hereafter, “JR East Japan”) uses around 37,000 tablet devices at its work sites, such as by its station staff and train drivers, and staff involved in line maintenance, electrical equipment, engineering works, and construction work. It has introduced Optimal Biz to support the work to manage this enormous number of devices. JR East Japan highly evaluated the Company for aspects such as satisfying its strict security requirements, its cost superiority, and its rapid and attentive support.

3. OS for IoT and AI platform users in every industry:OPTiM Cloud IoT OS

On the arrival of the IoT age, devices are no longer limited to PCs, mobile devices, and office IT equipment, as their scope has broadened to include devices like network cameras, various types of sensors, wearable devices, and drones. Moreover, an age has arrived of a series of events to analyze the Big Data obtained from devices, including by AI technologies.

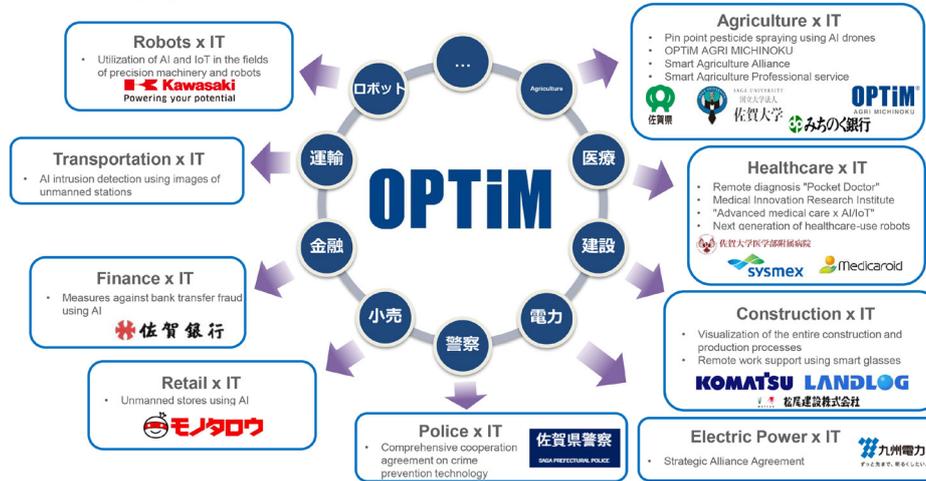
In March 2016, the Company announced OPTiM Cloud IoT OS, software it developed to be the foundation of the IoT age. Its key points are that it can operate on existing cloud services, that it has various functions installed as standard that are essential to IoT services, and that it has enhanced image analysis and AI functions. Specifically, it comes installed with 6 standard applications: 1) device management, 2) data analysis, 3) geographic information mapping, 4) camera video analysis, 5) a dedicated IoT services store, 6) and an integrated development environment. By providing a high-quality OS, the Company is leading the age that has changed from “creating” to “using” for the various IoT software and services.

More than three years have passed since the launch of OPTiM Cloud IoT OS, and the Company has continuously created services that utilize OPTiM Cloud IoT OS through collaborations with partner companies in various fields. This initiative, which is generally referred to as “○○ (industry name) x IT,” started from a demonstration experiment, and it is currently at the stage of its partial provision as an official business and service for specific customers companies. In terms of the industries it has been applied to first, businesses have already been launched for “Construction x IT,” “Agriculture x IT,” and “Healthcare x IT.” In addition, it is also being applied to “Transportation x IT,” “Finance x IT,” “Retail x IT,” “The Police x IT,” and “Electric Power x IT,” and the Company is progressing demonstration experiments and other initiatives for these industries. In OPTiM INNOVATION 2019, which was the Company’s first independent platform show in October 2019, a total of 215 partner companies and organizations exhibited in 52 booths, actively exchanging information and conducting sales negotiations. For this, we can understand the appeal that the Company has to attract partners. On taking an overview of these efforts, for the companies and organization in each industry that are orientated toward a next generation AI and IoT platform-user strategy, it can be said that the Company is “providing the tools that are the key to its success and playing a role toward its realization.”

Business overview

Specific efforts for ○○ x IT

We are developing a wide range of businesses that integrate cutting-edge technologies such as AI, IoT, and Robotics with various industries to create new value and solve problems.



Source: The Company's results briefing materials

In the latest market survey, the Company's AI solutions held the No.1 market share in four segments (sales trends by industry in the "agriculture, forestry and fisheries industries," "the healthcare" segment, "The sales trend segment for users with less than 300 employees" for users with less than 300 employees, and the "measurements, observations, and search vendor share" segment, of the trend in the measurements, observations, and search market). Of these, "measurements, observations, and search vendor share" includes camera solutions, and OPTiM AI Camera is the corresponding product.

OPTiM Cloud IoT OS/AI Services

OPTiM Corporation's AI solutions have the No.1 market share in four segments

~ From the research report published by MIC Research Institute Ltd. ~

OPTiM AI Industry



OPTiM's AI solutions have acquired the No.1^{※1} market share in four segments in the net sales trends by industry of "the agriculture, forestry and fisheries industries," "the healthcare" segment, "the sales trend segment of users with less than 300 employees," in the sales trend by the user's employee scale, and "the measurements, observations, and search vendor share" in the trend in the measurements, observations, and search market.

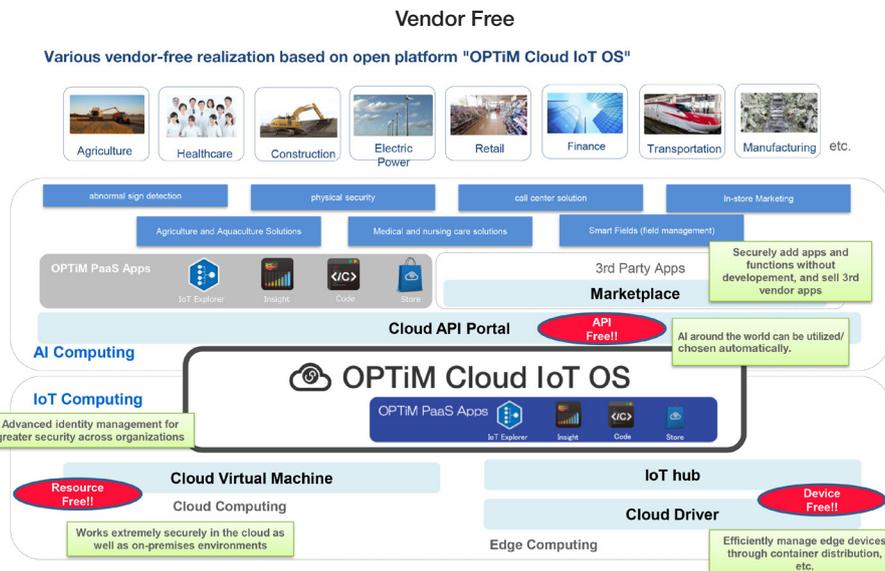
※1 Source: from "The present and future of the image recognition solutions market utilizing AI (deep learning), 2019 edition", published by the MIC Research Institute on September 17, 2019

Source: The Company's results briefing materials

Business overview

4. Vendor free

A feature of OPTiM Cloud IoT OS, which brings together the Company's technologies, is vendor free. For example, various companies such as Google (Alphabet <GOOG>), Microsoft <MSFT>, Amazon <AMZN>, and IBM <IBM> are involved in the development of AI tools, and they are evolving on a daily basis. Various manufacturers are also developing IoT equipment, from surveillance cameras through to drones. The Company's OS does not choose any of these software and hardware and lets the user choose. Also, the Company does not focus only on its own technologies and believes in building solutions while utilizing open source and the technologies of other companies. As a result, customers are able to obtain the optimal system at a reasonable price. The Company holds the basic patents for the technologies to realize OPTiM Cloud IoT OS's core functions. One is for an automated selection technology for optimal AI and cloud services based on predetermined conditions, which makes possible the definitive differentiation of this OS.



Source: The Company's results briefing materials

5. Stock-sales business model

A common point for the Company's businesses (IoT Platform Services business, Remote Management Services business, Support Services business, and Other Services business) is that basically they have usage-fee billing, so they have high repeatability and sales tend to accumulate. Also, another of their features is that, as they are built as Cloud-based systems, once users exceed a certain number and fixed costs are recovered, their profit margins increase rapidly. Approximately 80% of net sales in 1H FY3/2020 were from the stock-sales businesses.

Results trends

In the 1H FY3/2020 results, sales increased by more than 25% YoY. The existing business, Optimal Biz, performed solidly. In new businesses, sales grew of OPTiM Cloud IoT OS-related customizations

1. Overview of the 1H FY3/2020 results

In the 1H FY3/2020 results, sales grew significantly and the previous operating loss recovered to operating profit, with net sales increasing 25.2% to ¥2,935mn, operating profit of ¥18mn (a loss of ¥437mn in the same period in the previous fiscal year), ordinary profit of ¥11mn (a loss of ¥427mn), and a loss attributable to owners of parent of ¥32mn (a loss of ¥311mn). From the start, the Company pledged to strategically invest in development, and these results are a consequence of it fulfilling this pledge.

Net sales once again achieved a new record high for a 1H. Sales are centered on Optimal Biz, and its number of licenses steadily grew and it continues to maintain the No.1 market share according to the reports of various market research organizations. Moreover, the Company is pursuing even greater convenience for users, including quickly responding to the latest OS (iOS 13, iPadOS, and Android 10). In the new field of OPTiM Cloud IoT OS-related, in various industries the Company is building collaborative structures with companies and organizations that lead their respective industries, such as agriculture, construction, healthcare, and it is achieving one result after another, including market launching products and constructing business models. Alongside this, there are occurring developments such as customization for use with OPTiM Cloud IoT OS and the construction of environments, which are leading to spot sales for the Company. A service worthy of note is the OPTiM AI Camera package service released in FY3/2019. This service uses AI image-analysis technologies to solve problems specific to various industries, and it enables customers to easily use AI and IoT, so its number of licenses is expected to steadily grow.

While on the one hand each profit item returned to profitability from 1H FY3/2020, on the other hand the Company continued to conduct strategic R&D investment. It has positioned FY3/2020 as a period “to establish a structure toward growing sales, while continuing to conduct investment,” and it continues to invest in accordance with its pledge to do so, and as a result, in the 1H it recorded the minimum profits.

1H FY3/2020 results

	1H FY3/2019 (non-consolidated)		1H FY3/2020 (consolidated)		
	Results	Vs. net sales	Results	Vs. net sales	YoY
Net sales	2,345	100.0%	2,935	100.0%	25.2%
Cost of sales	881	37.6%	1,167	39.8%	32.4%
Gross profit	1,463	62.4%	1,768	60.2%	20.8%
Selling, general and administrative expenses	1,901	81.1%	1,749	59.6%	-7.9%
Operating profit (loss)	-437	-18.7%	18	0.6%	-
Ordinary profit (loss)	-427	-18.2%	11	0.4%	-
Profit (loss) attributable to owners of parent	-311	-13.3%	-32	-1.1%	-

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

Results trends

The equity ratio is 70.6%. Is maintaining an extremely stable financial structure by practicing debt-free management

2. Financial condition and management indicators

At the end of 1H FY3/2020, total assets were up ¥267mn on the end of the previous fiscal period to ¥3,993mn. Within this amount, current assets decreased ¥37mn to ¥2,424mn, with the main factors being that notes and accounts receivable-trade decreased ¥79mn and cash and deposits increased ¥89mn. Non-current assets rose ¥305mn to ¥1,568mn, mainly because investments and other assets increased ¥237mn. The balance of cash and cash equivalents was ¥1,217mn.

Liabilities were up ¥236mn on the end of the previous fiscal period to ¥1,104mn, with the main factor being that current liabilities increased ¥213mn, mainly because notes and accounts payable-trade rose ¥157mn. The Company has no interest-bearing debt and continues to practice debt-free management.

In the management indicators of stability (at the end of 1H FY3/2020), the current ratio was 230.4%, exceeding the benchmark for stability of 200%, while the equity ratio was also high at 70.6%. Therefore, the Company's financial stability is extremely high as it practices debt-free management.

Consolidated balance sheets and management indicators

	End- FY3/2019	End- 1H FY3/2020	Change
	(¥mn)		
Current assets	2,461	2,424	-37
Cash and deposits	1,127	1,217	89
Notes and accounts receivable-trade	1,174	1,094	-79
Non-current assets	1,263	1,568	305
Investments and other assets	1,003	1,240	237
Total assets	3,725	3,993	267
Total current liabilities	838	1,052	213
Non-current liabilities	29	52	22
Total liabilities	868	1,104	236
Total net assets	2,857	2,888	31
Total liabilities and net assets	3,725	3,993	267
<Stability>			
Current ratio (current assets ÷ current liabilities)	293.5%	230.4%	-
Equity ratio (shareholders' equity ÷ total assets)	76.7%	70.6%	-

Note: end of FY3/2019 is non-consolidated and end of 1H FY3/2020 is consolidated

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

■ Outlook

New businesses, including OPTiM AI Camera, are making excellent progress for the FY3/2020 full fiscal year. The Company continues to actively invest to establish a structure toward growing sales

For the FY3/2020 full year results outlook, the Company is forecasting a significant increase in sales, with net sales rising 20.0% YoY to ¥6,563mn. For the profit items, the same as in FY3/2019, it has set forecast ranges, of operating profit of ¥1 to ¥1,313mn, ordinary profit of ¥1 to ¥1,313mn, and profit attributable to owners of parent of ¥0 to ¥814mn. The values are unchanged from the initial forecasts.

The Company is aiming for record high net sales for the 20th consecutive period since its establishment. Net sales are expected to increase 20.0% YoY, so the forecast is for moderate growth compared to the most recent results (increases of 29.9% in FY3/2019 and 27.0% in FY3/2018). However, the rate of progress in the 1H toward achieving the full fiscal year net sales forecast was strong at 44.7%, exceeding the rate of 42.9% in 1H FY3/2019. The Company's business model has a lot of accumulating-sales (subscription-sales) license billing, so it tends to record more sales in the 2H than in the 1H. It is also making progress with introducing new businesses and services, including the OPTiM AI Camera package service, and it is forecasting that their results will accumulate.

Based on the Company's strategy, FY3/2020 is a year in which "to establish a structure toward growing sales, while continuing to conduct investment," so profits will depend upon investment. In order to be a leading company in the Fourth Industrial Revolution, its basic policy is to flexibly and actively invest in the AI, IoT, and robotics fields, and it is in the middle of drastic upfront investment in order to maintain its technological lead and to quickly achieve business launches as a pioneer in these fields. As a result, it has acquired the No.1 market shares in several AI and IoT fields, which demonstrates the effectiveness of its previous investment. In a range in which the full fiscal year ordinary profit does not become negative, the lower limit of the forecast (ordinary profit of ¥1mn) is in the event of drastic investment in development. Conversely, the upper limit (operating profit of ¥1,313mn) is the Company's earnings at cruising speed, and it is estimated that profits will be around 20% vs. net sales. At FISCO, we expect the profit level to be closer to the lower limit as in FY3/2020, since the Company will invest in R&D and in establishing a structure to grow sales.

FY3/2020 results outlook

	FY3/2019 (non-consolidated)		FY3/2020 (consolidated)			
	Results	Vs. net sales	Forecast	Vs. net sales	YoY	1H progress rate
Net sales	5,468	100.0%	6,563	100.0%	20.0%	44.7%
Operating profit	96	1.8%	1~1,313	0.0~20.0%	-99.0~1260.7%	
Ordinary profit	145	2.7%	1~1,313	0.0~20.0%	-99.3~802.2%	
Profit attributable to owners of parent	11	0.2%	0~814	0.0~12.4%	-94.5~7115.5%	

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

Growth strategies and topics

The strategic product OPTiM AI Camera has made a strong start. OPTiM KOBE has been newly opened

1. The strategic product OPTiM AI Camera has made a strong start, while sales of the services derived from it, including Mobile, are also increasing

The strategic product OPTiM AI Camera, which was released in FY3/2019, and the services derived from it, are performing well. With this product, the Company responded to voices saying that “We want to utilize AI and IoT, but it is hard for us to accumulate the data and buy all the devices at once when introducing them.” It is a subscription-type package service in which users can easily introduced pre-trained AI. OPTiM AI Camera currently targets a diverse range of 11 industries, of Retail, Rail Transport, Healthcare, Restaurants, Airports, Manufacturing, Office Buildings, Public Places, Banking & Finance, School facilities and Housing Complexes. OPTiM AI Camera has a pre-trained model application menu for more than 300 models, and it is a package service that can be effectively applied in areas such as security, marketing, and operating efficiency. In previous similar services, a training period was required for the analyses, which was a problem for customers as it required time and costs. In October 2019, the Company collaborated with several major video management system companies inside and outside of Japan, and it is establishing a structure toward growing sales. Specifically, it is collaborating with and can utilize the services of Genetec Security Center (No.1 share in the world), Safie (No.1 share in Japan for cloud recording services), and ArgosView (No.1 share of the video management system market in Japan). A feature of the AI Unlimited-usage Pack is its reasonable price, of ¥15,000 a month per camera.

In October 2019, the Company announced OPTiM AI Camera Mobile and OPTiM AI Camera Lite OPTiM AI Creator as new services that can be easily introduced. Of them, the focus is particularly on OPTiM AI Camera Mobile. Users can analyze video on site simply by installing a dedicated app onto smartphones and tablet devices. It is revolutionary because it analyzes photographs taken with a device’s camera, so it completely eliminates the need for external equipment like surveillance cameras and analysis devices. It can carry out various analyses, including customer attribute analysis (age and gender), such as in retail stores and restaurants, and analysis of the number of people, and its price is also appealing at ¥1,980 a month per function. AI and IoT are very familiar fields to the Company, whose vision is “We make the Internet as simple as breathing” and “Becoming the world's No. 1 company that practically realizes AI.”

Image of the OPTiM AI Camera Mobile service



Source: The Company's results briefing materials

Growth strategies and topics

2. OPTiM KOBE (Kobe City) has been newly opened

In November 2019, the Company opened a new base, OPTiM KOBE, in Kobe City, Hyogo Prefecture*. OPTiM KOBE not only has office functions, it has also been established as a showroom enabling visitors to actually experience the Company's initiatives utilizing AI, IoT, and robotics that it is working on, so it can deepen understanding about its services and initiatives. It seems that OPTiM KOBE intends to progress areas including "Healthcare x IT," "Robots x IT," and "Agriculture x IT" as a base for activities in the Kansai area.

* OPTiM KOBE's address: NISSAY Sannomiya Eki-mae Building 11th floor, Onoedori 7-chome 1-1, Chuo Ward, Kobe City, Hyogo Prefecture

In particular, it will play a major role in progressing the business alliance with Sysmex toward developing healthcare IT solutions. In November 2019, Sysmex and Kawasaki Heavy Industries established a joint venture, Medicaroid Corporation, and concluded a business alliance for applying IT to the next generation of healthcare-use robots, and they are jointly developing a next generation surgical support robot system that applies advanced AI and IoT technologies.



Source: The Company's results briefing materials

3. Progress made for Agriculture x IT

The Company's initiatives for smart agriculture are evolving on a daily basis. In October 2019, it launched the Smart Agriculture Professional service. This is a service that combines hardware, software, and services for smart agriculture to address the problems faced by production corporations and large-scale companies and a consulting service that utilizes the Company's expertise in the agriculture area, and the aim is for it to be a one-stop service to solve problems. It takes the stance specific to the Company on the point of being vendor free and providing the hardware and software of other companies. It has already been introduced by one third of prefectures nationwide, which suggests that interest in smart agriculture is increasing. In November 2019, the Company entered-into a business alliance with Vietnam's state-run company in the field of smart agriculture. Specifically, this is a business alliance in the AI services and smart agriculture fields in Vietnam with the state-run Vietnam Posts and Telecommunications Group (VNPT), which is the largest telecommunications group in Vietnam. The Company's smart agriculture technologies are among the most advanced in the world, and this alliance has the potential to become a stepping stone for its global business development.

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Growth strategies and topics

Concrete Measures for Agriculture x IT

Announcement date	Contents	Partners
August 2015	Concluded tripartite pact in IT Agriculture: Saga Prefecture begins efforts to become the world's No. 1 in IT agriculture with the aim of realizing "Fun, Cool and Profitable Agriculture"	Faculty of Agriculture, Saga University, and Saga Prefectural Production Promotion Department
December 2017	Succeeded in cultivating soybeans by world's first pinpoint pesticide scattering technology utilizing AI, IoT and Drone: Less than one-tenth of pesticides used, no residual pesticides detected, and equal yield quality	
December 2017	Established a "Smart Agriculture Alliance" led by producers: Free provision of smart agricultural solutions such as drones and AI, and distribution of profits to producers by purchasing the entire harvest	
July 2018	Held the Optimum Smart Agriculture Alliance Results Presentation Meeting for future-oriented producers using AI, IoT and drones: Smart agriculture is being promoted in 18 prefectures with 18 products (participated by one-third of Japan's prefectures)	
July 2018	Implemented first drone sowing verification project in Japan: A fixed-wing drone "OPTiM Hawk" and field management service "Agri Field Manager" were used to scan the world's largest area of 8,500 hectares, excluding mountainous areas, to verify the sowing of wheat	Shiraishi-machi, Kishima-gun, Saga Prefecture
July 2018	Announced AI, IoT and Robot Platform "AGRI EARTH" for Agriculture, Forestry, Fisheries, Distribution, Processing and Food Industry: Promoting the use of agricultural big data. Working with WAGRI to Create Value through AI and IoT	Agricultural Data Alliance Council
August 2018	Launched Beta of Drone Pilot Sharing Service "DRONE CONNECT"	
October 2018	Announced basic patents on pinpoint pesticide application and fertilization technology	
November 2018	Started sales of safe and secure "smart rice," which uses AI and drones to reduce the amount of agricultural chemicals used	
November 2018	Established "Smart Agriculture Promotion Consortium" with Kyushu Economic Federation, Fukuoka Prefecture, and Oita Prefecture.	Kyushu Economic Federation, Fukuoka Prefecture, Oita Prefecture
January 2019	Established "OPTiM AGRI MICHINOKU Co., Ltd." Japan's first Smart Agriculture Regional Trading Company with Michinoku Bank	Michinoku Bank
February 2019	"Undetected" produced by pinpoint pesticide spraying technology, and it obtained inspection results of pesticide residue "smart rice" by a third-party inspection organization.	
February 2019	Released "Smart brown rice," which does not detect pesticide residue produced by pinpoint pesticide spraying technology, started.	
February 2019	"Smart Agriculture Alliance" with Future-Oriented Producers Tackles 1,000 Groups	
June 2019	Started sales of "Aromatic Soy Tea" and "Aromatic Black Bean Tea," which are additive-free, coloring-free, and caffeine-zero teas	
July 2019	Implemented a joint business to strengthening production capabilities for specific products by utilizing smart agriculture	Tamba Citizens Bureau, Hyogo Prefecture
July 2019	Started a demonstration experiment to use AI and drones to support planting-confirmation work	Goto City, Nagasaki Prefecture
October 2019	Announced a collaboration using AI, IoT and drones in the smart agriculture field	Enroute Co., Ltd.
October 2019	Launched the Smart Agriculture Professional service, a one-stop support service to use smart agriculture to solve problems	
November 2019	Entered-into a business alliance with VNPT, Vietnam's state-run major telecommunications group, in the AI services and smart agriculture fields	Vietnam Posts and Telecommunications Group (VNPT)

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

Shareholder return policy

Is prioritizing investment for the future so there is no dividend forecast

The Company's policy is to prioritize investment for growth, so presently it does not plan to pay a dividend. As a venture company in Japan with rare technological capabilities and imagination, a medium- to long-term perspective will be necessary for investment.

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