

COMPANY RESEARCH AND ANALYSIS REPORT

OPTiM Corporation

3694

Tokyo Stock Exchange First Section

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

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Summary

In the 1H FY3/2021 results, sales rose and profits increased significantly, while the mainstay Optimal Biz license income grew due to the increased demand to promote DX because of the coronavirus pandemic. The full fiscal year forecasts are for new record highs. In AI solutions, the Company leads industry reforms in the fields of agriculture, construction, and healthcare

OPTiM Corporation <3694> ("the Company") is a venture company specializing in AI and IoT technologies which was established by current President and Representative Director Shunji Sugaya and friends in 2000 when he was a student at Saga University. With "We make the Internet as simple as breathing" as its mission statement, it is aiming to be a leading company in the Fourth Industrial Revolution by making its OPTiM Cloud IoT OS the de facto standard. It has 275 employees (as of April 2020), around 80% of whom are engineers. From the start, it developed technologies with a focus on creating never-before-seen services, and owns a number of patents related to these technologies. The Company has many major companies among its partners, and its 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 upgraded to the TSE 1st Section in 2015.

Optimal Biz, a management platform compatible with multiple devices, has the top share of the device management market. The Company evolved the device management platform and developed OPTiM Cloud IoT OS, a new AI and IoT platform. Since 2015, it has made fully fledged its "〇〇 x IT (enter the industry name in 〇〇)" 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 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 of crops, including rice and soybeans. The line-up of 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 due to the Company's success in reducing the hurdles for customers to introduce it.

1. Content of business

The Company's operations can be divided into existing business, which is mainly Optimal Biz, and new business, which constitutes businesses and products that use the OPTiM Cloud IoT OS. Since its founding, the Company has constantly provided innovative services and developed new markets with support from abundant technological capabilities founded on an intellectual property strategy and business creation capabilities. It has services of No. 1 shares in the Japanese market and possesses a business model with strong licensing income. Additionally, it has been promoting powerful business development with top players in various industries in recent years as a market leader in AI, IoT, and Big Data.

Summary

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. The Company is maintaining a No.1 share in the growing domestic Mobile Device Management (MDM) market. 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.

The Company announced OPTiM Cloud IoT OS in March 2016 and has rolled out software that serves as the foundation of the IoT era. It operates on existing Cloud services and is equipped with various functions needed in IoT services as standard features. Robust image analysis and AI functions are key points too. During the four years since the original announcement, OPTiM Cloud IoT OS has technologically evolved to the level of offering functions required to form an eco-system as an AI and IoT platform.

2. Results trends

In the 1H FY3/2021 results, net sales increased 3.9% year-on-year (YoY) to ¥3,051mn, operating profit rose 1,672.2% to ¥325mn, ordinary profit grew 4,295.4% to ¥514mn, and profit attributable to owners of parent was ¥321mn (compared to a loss of ¥32mn in the same period in the previous fiscal year). The Company had positioned FY3/2021 as "the period in which to begin recouping the investment in R&D," and just as it publicly pledged, profits increased significantly from the 1H. Steady progress was also made for sales toward achieving record high net sales for the full fiscal year for the 21st consecutive period since its foundation. Sales grew in the subscription business, which provides around 80% of Company-wide sales, mainly through sales of Optimal Biz corporate licenses, as they benefited from the promotion of DX due to the novel coronavirus pandemic (hereafter, the coronavirus pandemic) in corporation and fields education. In this sort of environment, the main reason why the Company-wide sales growth rate was sluggish was that some new licensing and customization* projects were delayed due to the impact of the coronavirus pandemic, although they began to recover leading up to 2H. In relation to the new service field of OPTiM Cloud IoT OS, the Company is continuing to build collaborative structures with leading companies and organizations in various industries, including agriculture, construction, healthcare, and finance, and has achieved a series of results, such as launching products and building business models. Also, package services like OPTiM AI Camera and OPTiM AI Camera Mobile, which are services that allow for easier utilization of AI and IoT, are being used to communicate congestion information about commercial facilities and public transportation.

* Licensing and customization ...Refers to the customized development based on the license of the Company. This development leads to the issuing of licenses in the future.

Summary

3. Outlook

Due to uncertainty about the impact of coronavirus pandemic, the Company presents forecast ranges for sales and profits in the FY3/2021 results outlook with net sales at ¥7,407mn–¥8,080mn (+10.1%–20.1%), operating profit at ¥712mn–¥1,526mn (+177.4%–493.9%), ordinary profit at ¥802mn–¥1,616mn (+209.4%–522.9%), and profit attributable to owners of parent at ¥501mn–¥1,028mn (+327.6%–777.3%). It aims to achieve record high sales for the 21st straight year since its founding. The net sales forecast projects an increase of 20.1% YoY as a case of growth at cruising speed and an increase of 10.1% as a case of growth that is impacted by the coronavirus pandemic. In 1H FY3/2021, the mainstay Optimal Biz license income grew even though some projects were delayed due to the impact of the coronavirus pandemic, while in the 2H, licensing and customization sales are expected to recover. In terms of profit, with FY3/2021 designated in its strategy as the year “in which it starts booking profits,” it targets 20.0% ordinary profit margin (upper end of the forecast range with ordinary profit at ¥1,616mn) while sustaining high R&D investments. Conversely, if the coronavirus has an impact (reducing sales by 10%) the ordinary profit margin will be 10.8% (ordinary profit of ¥802mn, the lower limit of the forecast). At FISCO, due to the strong results in the 1H FY3/2021 of ¥514mn in ordinary profit and an ordinary profit margin of 16.9%, and also because sales will accelerate in the 2H, we think that for the full fiscal year, ordinary profit will reach a level of around ¥1,251mn (assuming the lower limit of net sales of ¥7,407mn x the 1H ordinary profit margin of 16.9%).

4. Growth strategies and topics

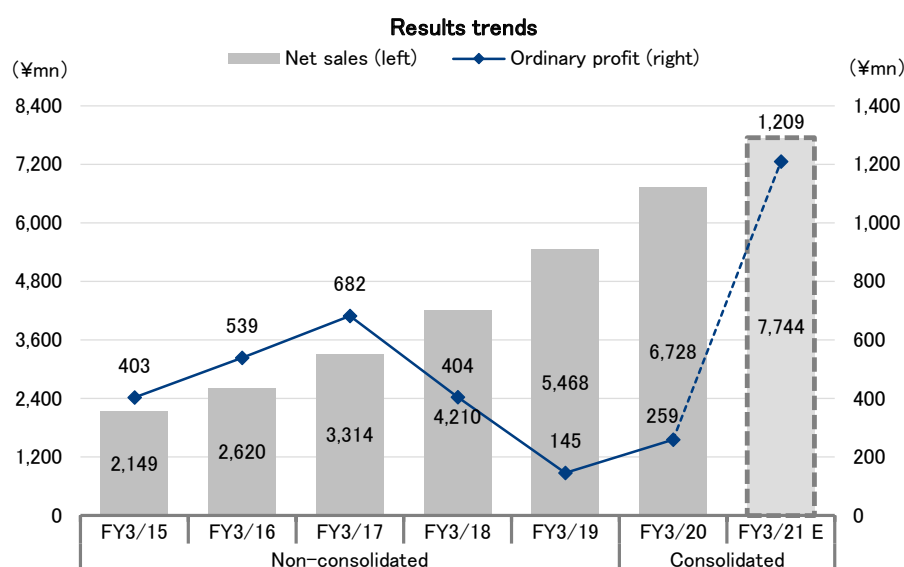
For Construction × IT, the Company has begun to provide OPTiM Land Scan ahead of the rest of the world. This is an application that can acquire highly precise 3D data by scanning objects to be measured, such as earth structures, on a tablet with attached LiDAR* sensors. It is assumed that it will be used in small-scale worksites where the use of devices such as drones and laser scanners is difficult, and can reduce the measurement time by a maximum of 60% compared to conventional light wave measurements. In addition, specialized knowledge is not necessary for the measurements and they can be easily carried out by a single person, helping to eliminate the problem of the shortages of workers and engineers. Also, for Agriculture × IT, in August 2020 the Company succeeded in conducting a demonstration experiment in cooperation with the Ministry of Agriculture, Forestry and Fisheries in Shiroishi Town, Kishima District, Saga Prefecture, for a non-assisted non-visual flight to realize Level 3 of the Aerial Industrial Revolution (a visual observation flight in an area without people). In the agriculture field, the shortage of personnel at work sites has become a serious problem, so utilizing drones for non-assisted non-visual flight is a pressing issue from viewpoints such as saving labor and improving productivity for agricultural work. The Company is participating in the non-assisted non-visual flight demonstration in the agricultural field under the framework of the public-private council for the spread of agricultural drones in the Ministry of Agriculture, Forestry and Fisheries, and conducted the first demonstration as a case study in the agriculture field in Japan. OPTiM Hawk, which is the fixed-wing drone used for the demonstration, was developed by the Company and was completely produced in Japan. It has a flight range of more than 100 km, can be airborne for more than 1 hour, and achieves digital scanning over a wide area for a long period of time. The Company, together with Shiroishi Town, Saga Prefecture, conducted an initiative to utilize the data from the drone to confirm planting, the results of which showed it realized approximately 96% operating efficiency.

* LiDAR stands for Light Detection and Ranging. It uses laser light, and is one type of sensor technology that can accurately determine the distance to the targeted object, as well as its position and shape.

Summary

Key Points

- Six technology and business model strengths are the source of strong corporate value, holds the most shares in the MDM and AI solutions (four segment) markets
- In the 1H FY3/2021 results, sales rose and profits increased significantly. The mainstay Optimal Biz license income grew due to the increased demand to promote DX because of the coronavirus pandemic
- For FY3/2021, the forecasts are for higher sales for the 21st consecutive period since its foundation and significantly higher profits
- In Construction × IT, started providing the OPTiM Land Scan β -version. In Agriculture × IT, realized Level 3 of the Aerial Industrial Revolution for the first time in Japan



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 which was established by current President and Representative Director Shunji Sugaya and friends in 2000 when he was a student at Saga University. With “We make the Internet as simple as breathing” as its mission statement, it is aiming to be a leading company in the Fourth Industrial Revolution by making its OPTiM Cloud IoT OS the de facto standard. It has 275 employees (as of April 2020), around 80% of whom are engineers.

Company overview

Although the Company's main business was initially Internet video advertising services, it concluded a technology-license agreement with Nippon Telegraph and Telephone East Corporation ("NTT East") in 2006, 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 trend to shift from PCs to mobile throughout the world, the Company developed a management platform compatible with multiple devices, including smartphones and other devices. It is currently promoting OPTiM Cloud IoT OS, which expands and evolves this platform, to make it the de facto standard. From 2013, it entered into the area of unlimited-usage services for software and content, and 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 2020, for the first time in the world, it started providing OPTiM Land Scan, which is an app that anyone can easily use with an iPad Pro to make highly precise 3D measurements. 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 of crops, including rice and soybeans. In addition, it has started the "OO x IT" initiative in various other industries, including healthcare, electric power utility, 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 due to the Company's success in reducing the hurdles for customers to introduce it.

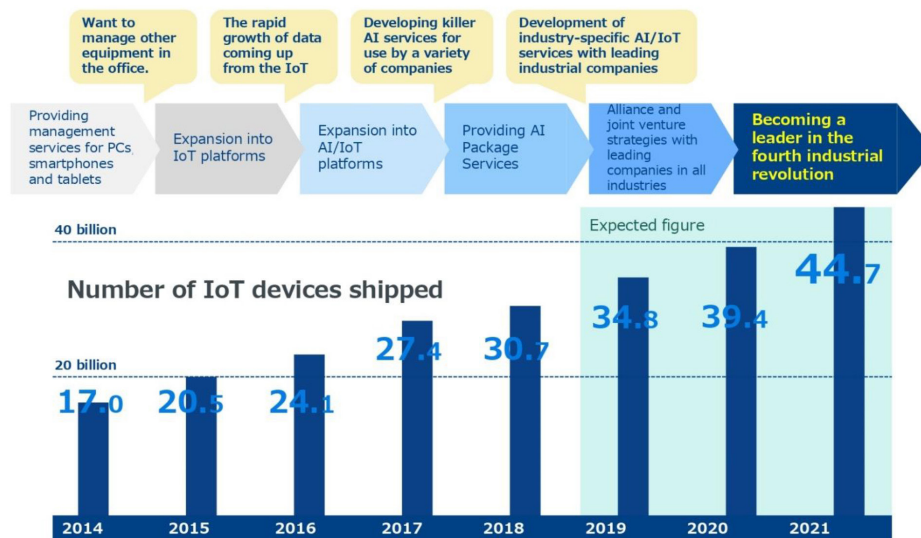
In 2014, the Company was listed on the TSE Mothers market, and then in 2015, its listing was rapidly upgraded to the TSE 1st Section. It has many major companies as partners and its technological capabilities and potential have been highly evaluated both inside and outside of Japan.

In 2020, the Company established and launched business for OPTiM Bank Technologies Corp. as a joint venture company with the Bank of Saga Ltd., with aims including the planning and sales of solutions that utilize AI and IoT.

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Company overview

The Company's history, from PC and mobile management to AI/IoT platform builder



Source: Ministry of Internal Affairs and Communications 2019 White Paper on Information and Communications, Information and Communications White Paper, Part 1, Section 2, Trends in ICT Supporting the Digital Economy, and (2) Rapid Spread of IoT Devices, Figure 1-2-1-3: Trends and Forecasts for the Number of IoT Devices in the World. - <https://www.soumu.go.jp/shotosuitoken/whitpaper/ja/r01/html/rd112120.html>

Source: The Company's results briefing materials

History

Year	Major event
2000	Founded OPTiM Corporation
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 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
2015	Announced "Remote Experience Sharing," OPTiM's remote technology strategy for the IoT/wearables era 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 Announced "SkySight," the world's first Big Data analysis platform that supports drones Concluded a three-party agreement for IT Agriculture with Saga University and Saga Prefectural Government Strengthened Capital Alliance with Fuji Xerox Jointly developed "Pocket Doctor," a remote medical and health assistance service Moved to the First Section of the Tokyo Stock Exchange
2016	Pocket Doctor won the Grand Prize in the Japan Healthcare Business Contest 2016 held by the Ministry of Economy, Trade and Industry Announced a new version of OPTiM Cloud IoT OS, an OS optimized for the AI and IoT age 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 OPTiM Corporation and Microsoft entered-into a technology alliance in the AI and IoT fields

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Company overview

Year	Major event
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 head office to within a national university (Saga University), the first listed company to do so 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 β-version, 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>
2020	<p>Started provision of OPTiM services at no charge as assistance in dealing with the COVID-19 outbreak</p> <p>Announced Optimal Biz Telework that harnesses AI to enhance work management, motivation, physical well-being, and productivity in telework</p> <p>Sysmex Corporation and OPTiM Corporation jointly established D'PULA Medical Solutions Corporation to plan, develop, and operate a medical AI and IoT open platform and digital transformation solutions</p> <p>For the first time in the world, started providing, free of charge, OPTiM Land Scan β-version, which is an app that anyone can easily use with an iPad Pro to make highly accurate 3D measurements</p> <p>For the first time in Japan in the agriculture field, conducted a demonstration experiment for a non-assisted non-visual flight using a fixed-wing drone to realize Level 3 of the Aerial Industrial Revolution</p> <p>Established the DX Fund with the Bank of Saga</p> <p>Established OPTiM Bank Technologies Corp. as a joint venture with the Bank of Saga</p>

Source: Prepared by FISCO Inc. from the Company's web page and releases

2. Content of business

The Company's main services consist of IoT Platform Services, which provide 79.4% of total net sales (FY3/2020). 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. Industry-specific initiatives utilizing OPTiM Cloud IoT OS, the AI and IoT platform, and package services, such as OPTiM AI camera, belong to this segment.

Remote Management Services provide 11.2% of total net sales (FY3/2020). 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.

Support services contribute 2.2% of total net sales (FY3/2020). Sales are trending downward alongside the slow-down 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.

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Company overview

Other services are at 7.2% of total net sales (FY3/2020). This segment delivers unlimited-usage services for software and content, including Unlimited Software for individuals and Unlimited Business Software and Unlimited Tablet for reading popular magazines, for companies and mainly utilizes a fixed monthly fee model.

Business content and sales breakdown by services

	Business description	Sales breakdown (FY3/2020)
IoT Platform Services	Main service is Optimal Biz used to manage smartphones, tablets, and other devices on the cloud, manage operations within organizations and assets, and conduct security policy settings. In OPTiM Cloud IoT OS (AI and IoT platform) business, OPTiM AI Camera, a service used to resolve unique issues in various industries with AI image analysis technology, deployments are increasing.	79.4%
Remote Management Services	Optimal Second Sight, a remote task assistance service in remote management service, is gaining acceptance for not only frontline task assistance, but also as equipment that aids smooth relief efforts during a disaster and confirmation of frontline conditions in disaster measures.	11.2%
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.	2.2%
Other Services	This business delivers the unlimited-usage services for software and content, including Unlimited Software, Unlimited Business Software and Unlimited Tablet.	7.2%

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

Total net sales can be divided into stock-sales license income and flow-sales customization income, and their percentages are roughly 70% from license income and 30% from customization income (However, it was 80%:20% in 1H FY3/2021).

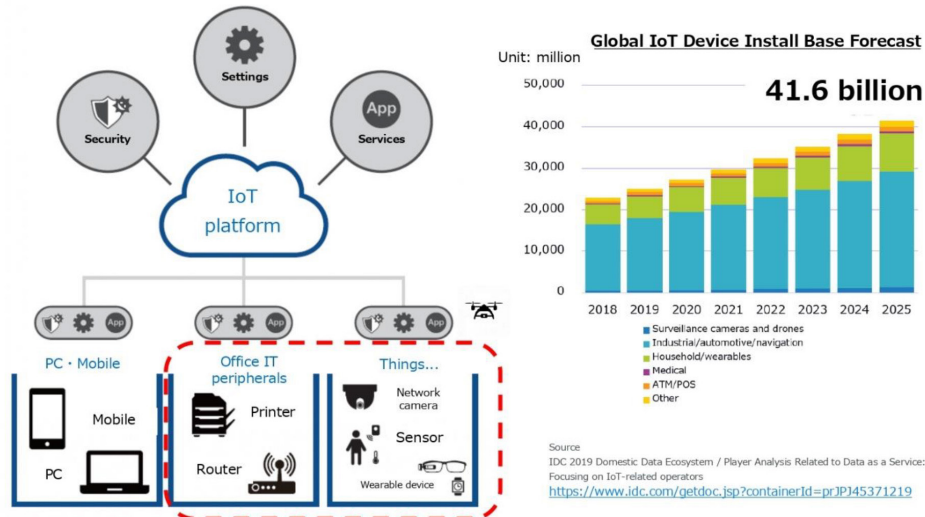
3. Market trends and the Company's business areas

The Company's growth is supported by the development of the Fourth Industrial Revolution*. In recent years, the use of IoT (Internet of Things), which includes network cameras, sensors, and wearable devices in addition to PCs and mobile devices, has been rapidly spreading. Alongside this, the volume of data created has increased explosively, and it is estimated that by 2025, the volume of data created by IoT devices in the world will have reached 79.4 trillion GB (approximately 4 times the volume in 2020). The accelerating increase in Big Data is being supported by the use of AI to guide users to the useful information within. It can be said that one of the Company's strengths is its provision of solutions that hold the key to advancing the Fourth Industrial Revolution. These include Optimal Biz that manages IoT devices and the OPTiM Cloud IoT OS platform to use IoT and AI.

* The major changes to the industrial structure and the creation of new economic value through the development of information communication technologies, including IoT, AI, and Big Data.

Company overview

Provision of an IoT (Internet of Things) platform

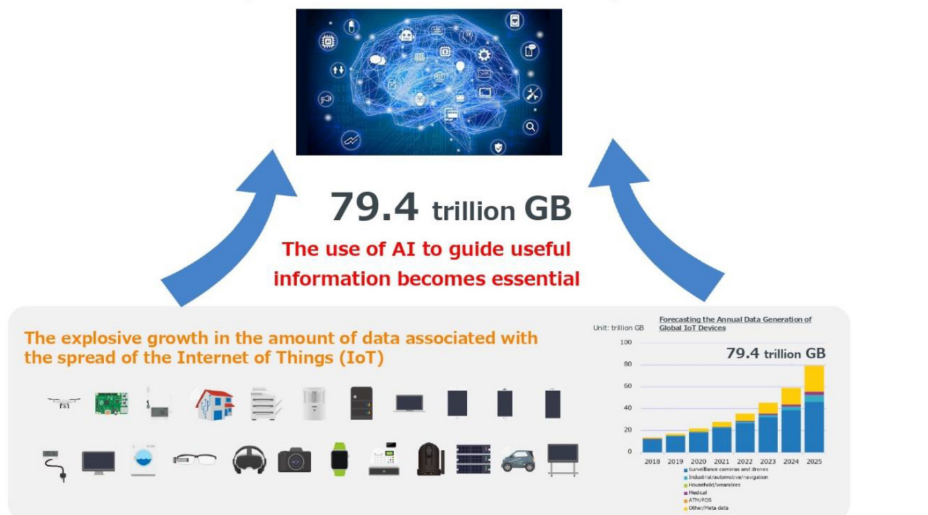


IoT (Internet of Things) is expanding rapidly

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

From providing an IoT platform to providing an AI/IoT platform

41.6 billion IoT devices generate **about 80ZB of data**, IDC predicts 2025
(ZB = about 1 trillion times 1GB)



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

Business overview

Six technology and business model strengths are the source of strong corporate value, holds No.1 shares in the MDM and AI solutions (four segment) markets

The Company has constantly provided innovative services and developed new markets with support from abundant technological capabilities founded on an intellectual property strategy and business creation capabilities. It has services of No. 1 shares in the Japanese market and built a business model with extensive licensing income. Additionally, it has been promoting powerful business development with top players in various industries in recent years as a market leader in AI, IoT, and Big Data. The Company's strengths are 1) robust technology innovation capabilities, 2) advanced technology capabilities, 3) service planning, development, and operation capabilities, 4) strong licensing income, 5) consulting capabilities, and 6) business creation capabilities.

The Company's strengths

Characteristics (strengths)	Content
1 Robust technology innovation capabilities	Development of functions, products, services, and business models based on patents realized first in Japan and in the world. (The Company's President Sugaya ranked first for the scale of patents assets held by individuals in the field of data communications*.)
2 Advanced technological capabilities	Realizes new concepts with advanced technological capabilities in AI, IoT, Cloud Security, and Robotics areas acquired through R&D investments in next-generation IT technology
3 Service planning, development, and operation capabilities	Possesses planning capabilities for generalized provision of innovative products as package services and is also capable of planning and designing services with functions, pricing, and service models that fit customer needs as well as developing and operating such services
4 Strong licensing income	Generates strong licensing income from a subscription business model led by Optimal Biz, an MDM service with the top market share in Japan, and Optimal Remote, which has the largest number of users in Japan
5 Consulting capabilities	Possesses high-level consulting capabilities for understanding market environments of partner companies and innovating and creating new services that leverage its technology together with partner companies
6 Business creation capabilities	Offers business creation capabilities for developing businesses for new products and services through alliances with many types of partners, including various industry leaders, telecom carriers, and printer manufacturers, and deploying businesses on a large scale

* Survey by Patent Result (as of the end of January 2015)

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

1. Robust technology innovation capabilities

The quality and quantity of the Company's intellectual property is clear evidence of its robust technology innovation capabilities. The Company has been developing technology with the aim of creating industry-first services in Japan and worldwide since its founding and adopted a strategy of acquiring and owning intellectual property. One example of this is its device identification technology called Tiger, which was patented in Japan and 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.

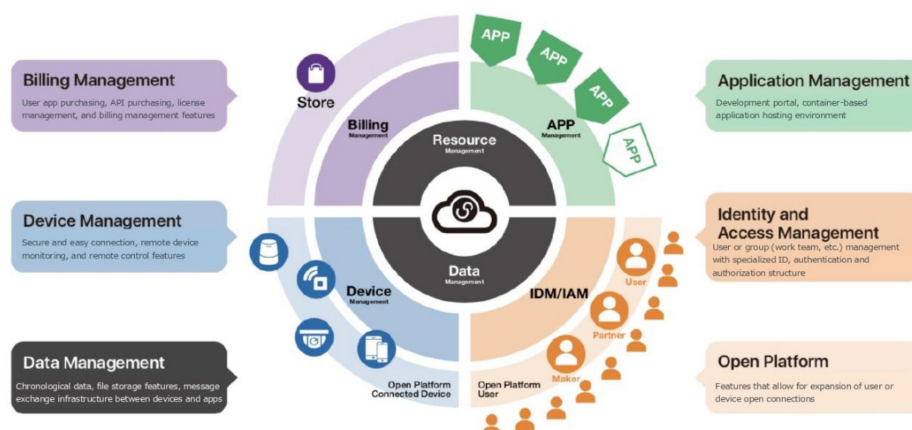
Business overview

2. Advanced technological capabilities

With 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 analyzing Big Data obtained from devices, including by AI technologies, in overall collection flow. 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. In the four years since the announcement, OPTiM Cloud IoT OS has technologically evolved to incorporate functions that enable formation of an eco-system as an AI and IoT platform. These functions are essential for platform business companies in various fields to build platforms, including 1) application management, 2) ID and access management, 3) an open platform, 4) data management, 5) device management, and 6) billing management.

R&D investments are necessary to sustain advanced technology. In a ranking of “NEXT 1000” mid-sized listed companies with less than ¥10bn in sales by the three-year average ratio of R&D expenses to sales conducted by Nikkei, the Company held the No. 1 spot at 37.8%. With the second-ranked company at 21.9%, it is clear that the Company’s R&D investments are overwhelmingly higher.

Platform for players who want to do platform business Equipped with functions to make an AI/IoT Platform Ecosystem



Source: The Company's results briefing materials

3. Service planning, development, and operation capabilities

As service planning, development, and operation capabilities, the Company possesses planning capabilities for generalized provision of innovative products as package services and is also capable of designing, developing, and operating services with functions, pricing, and service models that fit customer needs. An example is OPTiM AI Camera, a strategic product released in FY3/2019, and derivative services. The Company developed a subscription service that facilitates easy deployment of AI that has already completed learning in response to feedback of “wanting to use AI and IoT but having concerns about data accumulation and upfront equipment purchase for deployment.” OPTiM AI Camera is equipped with a menu of over 300 types of pre-learned models for specific industries, such as retail, rail and public transportation, healthcare facilities, food and drink, airports, manufacturing, office buildings, public facilities, banks, schools, and collective housing and condominiums. This package service supports efficient handling of security, marketing, and business tasks. Customers significantly reduce time and costs due to elimination of a learning phase. The OPTiM AI Camera Mobile, which debuted in January 2020, allows users to analyze video from the target location just by installing the app in a smartphone or tablet and setting the device. This is a revolutionary format that analyzes video obtained from a handset camera and does not require any external equipment, such as a surveillance camera or analysis terminal. The monthly price of ¥1,950 is highly attractive to retail stores, restaurants, and other locations in analyzing data points such as customer attributes (age group, gender) and number of people. The Company also launched OPTiM AI Camera for “With COVID-19” conditions in June 2020, demonstrating its strength in steadily creating new package services.

4. Strong licensing income

The Company’s main business model is subscription business (in which customers receive service for a certain period by paying fees) and supports strong licensing income based on steady accumulation. Optimal Biz, which holds a No. 1 share in the domestic MDM market, is a leading example. The total number of IoT devices worldwide was at 16.56bn units in 2015. This number increased to 25.35bn units in 2019, and is projected to increase to 34.83bn units in 2022*. From the standpoint of the division managing corporate IT assets, increase in units means more work and also greater risk. Mainstay Optimal Biz provides security measures for smartphones, tablets, PCs, IT equipment, and other equipment to companies and is a vital service in the area of batch settings. More than 180,000 companies have deployed this service nationwide. One example is East Japan Railway Company <9020> (below, JR-East) that uses the service for 37,000 tablets utilized in frontline operations, such as station staff, train staff, track maintenance, electric facilities, civil work, and construction. Optimal Biz supports management tasks for this massive number of terminals. JR East favorably assesses the service’s fulfillment of strict security criteria, cost advantages, and rapid, detailed support.

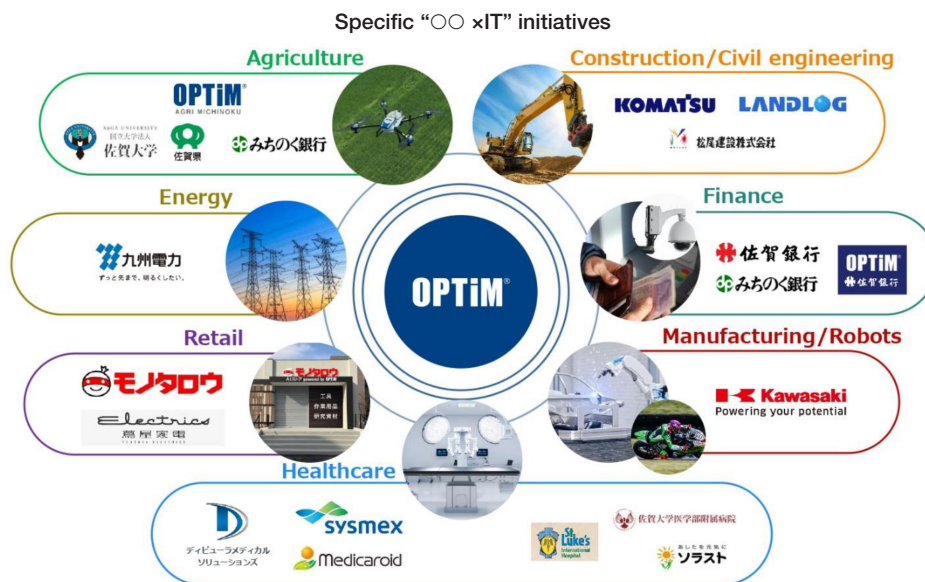
| * Source: White Paper Information and Communications in Japan FY2020 (Ministry of Internal Affairs & Communications) |

Business overview

5. Consulting capabilities

The Company possesses high-level consulting capabilities for understanding market environments of partner companies and innovating and creating new services that leverage its technology together with partner companies. It has steadily created services that use OPTiM Cloud IoT OS, an OS for IoT and AI platform users in every industry. This initiative known as “〇〇 xIT” begins with verification tests and cultivates official businesses and services for designated 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.” In addition, it is also being applied to “Robot x IT,” “Transportation x IT,” “Finance x IT,” “Retail x IT,” “Police x IT,” and “Electric Power x IT,” and the Company is progressing demonstration experiments and other initiatives for these industries. Partner companies include leading corporations such as Komatsu Ltd. <6301> in the field of construction, Sysmex Corporation <6869> in healthcare, and Kawasaki Heavy Industries <7012> in robots. On taking an overview of these efforts, for the companies and organizations 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.”

In the latest market survey by MIC Research Institute, 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.



Source: The Company's results briefing materials

6. Business creation capabilities

The Company offers business creation capabilities for developing businesses with new products and services through alliances with many types of partners, including various industry leaders, telecom carriers, and printer manufacturers, and deploying businesses on a large scale. It specializes in business creation and development and partner companies handle marketing and sales. This approach generates synergies.

Results trends

In the 1H FY3/2021 results, the Company achieved solid sales and a significant profit increase. The mainstay Optimal Biz license income grew more than expected due to the increased demand to promote DX because of the coronavirus pandemic

1. Overview of the 1H FY3/2021 results

In the 1H FY3/2021 results, net sales increased 3.9% YoY to ¥3,051mn, operating profit rose 1,672.2% to ¥325mn, ordinary profit grew 4,295.4% to ¥514mn, and profit attributable to owners of parent was ¥321mn (compared to a loss of ¥32mn in the same period in the previous fiscal year). The Company positioned FY3/2021 as “the period in which to begin recouping the investment in R&D,” and just as it publicly pledged, profits increased significantly from the 1H.

Sales continued to be strong toward achieving record high net sales for the full fiscal year for the 21st consecutive year since its foundation. In the subscription business, which provides around 80% of Company-wide sales, sales grew at a pace higher than in the same period in the previous fiscal year, mainly through sales of Optimal Biz corporate licenses, as they benefited from the promotion of DX due to the coronavirus pandemic, including in corporations and fields such as education (public schools, private schools and cram schools). The market for Optimal Biz, which is the focus of sales, continues to expand, and the Company is firmly maintaining its first place in shares of the MDM and PC management services markets at 42.3% (FY2019, MIC Research Institute). Also, demand is growing for Optimal Second Sight, a remote work support service, and for Smart Field, a remote worksite support service, for applications such as conducting work at remote locations that up to now had to be conducted on-site. In this sort of environment, the main reason why the Company-wide sales growth rate was sluggish was that some new licensing and customization projects were delayed due to the impact of the coronavirus pandemic, although they began to recover leading up to the 2H. In relation to the new service field of OPTiM Cloud IoT OS, the Company is building collaborative structures with leading companies and organizations in various industries, including agriculture, construction, healthcare, and finance, and has achieved a series of results, such as launching products and building business models. Particularly in the construction industry, where it is taking the lead, it is making remarkable progress for the use of OPTiM Cloud IoT OS, such as customization and building environments. To give one example, it has started providing OPTiM Land Scan, which is an application that can acquire highly precise 3D data by scanning the objects to be measured, such as earth structures, on a tablet with attached LiDAR sensors. Also, package services like OPTiM AI Camera and OPTiM AI Camera Mobile, which are services that allow for easier utilization of AI and IoT, are being used to communicate congestion information (to avoid the Three Cs of closed spaces, crowded places, and close contact) about commercial facilities and public transportation.

Conversely, the cost of sales declined 1.9% YoY, while SG&A expenses decreased 9.7%, and the Company invested around the same as in the same period in the previous fiscal year. The main reasons for the increase in profits were the effects of the higher sales, the improvement to the license-sales ratio, and moreover the start of recording of software assets, mainly OPTiM Cloud IoT OS (the profitability of projects has increased from FY3/2021). The difference between operating profit and ordinary profit (mainly non-operating income) was caused by the settlement date for financial subsidies, etc. from the government being pushed back to 2H FY3/2021 and the recording of gains on investment in investing partnership operation.

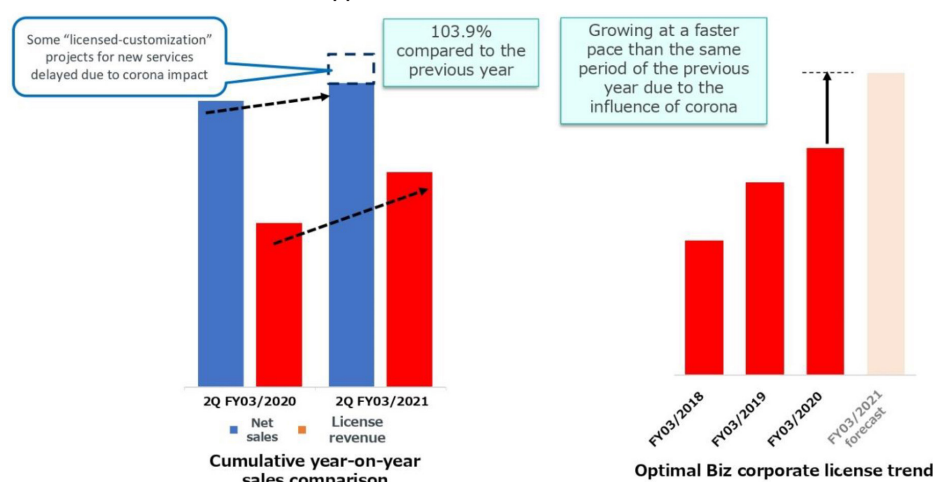
Results trends

1H FY3/2021 results (consolidated)

	1H FY3/2020		1H FY3/2021		YoY
	Results	Vs. net sales	Results	Vs. net sales	
Net sales	2,935	100.0%	3,051	100.0%	3.9%
Cost of sales	1,167	39.8%	1,145	37.5%	-1.9%
Gross profit	1,768	60.2%	1,905	62.5%	7.8%
SG&A expenses	1,749	59.6%	1,579	51.8%	-9.7%
Operating profit (loss)	18	0.6%	325	10.7%	1,672.2%
Ordinary profit (loss)	11	0.4%	514	16.9%	4,295.4%
Profit (loss) attributable to owners of parent	-32	-1.1%	321	10.5%	-

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

Supplement on 1H FY3/2021 sales



Source: The Company's results briefing materials

Equity ratio is 71.9% and financial stability is extremely high due to debt-free management

2. Financial condition and management indicators

At the end of 1H FY3/2021, total assets had decreased by ¥29mn to ¥4,574mn compared the end of previous fiscal year. Out of this amount, current assets were down ¥343mn to ¥2,603mn, with the main items being a ¥203mn increase in cash and deposits and a ¥588mn decrease in notes and accounts receivable-trade. Non-current assets rose ¥314mn to ¥1,971mn, mainly because of a ¥297mn increase in intangible assets increased. The balance of cash and deposits was ¥1,467mn.

Total liabilities had decreased by ¥372mn to ¥1,192mn compared to the end of previous fiscal year. The main decrease factor was a ¥372mn decrease in current liabilities, mainly due to decreases in notes and accounts payable-trade and income taxes payable. The Company has no interest-bearing debt and practices debt free management. Total net assets increased ¥342mn to ¥3,382mn, mainly because retained earnings rose ¥321mn.

In the management indicators of stability (at the end of FY3/2021), the current ratio was 230.3%, while the equity ratio was also high at 71.9%. Therefore, the Company's financial stability is extremely high.

Results trends

Consolidated balance sheets and management indicators

	End of FY3/2020	End of 1H FY3/2021	Change
(¥mn)			
Current assets	2,947	2,603	-343
Cash and deposits	1,263	1,467	203
Notes and accounts receivable-trade	1,552	963	-588
Non-current assets	1,657	1,971	314
(Intangible assets)	29	327	297
Total assets	4,604	4,574	-29
Total current liabilities	1,503	1,130	-372
Non-current liabilities	61	61	0
Total liabilities	1,565	1,192	-372
Total net assets	3,039	3,382	342
Total liabilities and net assets	4,604	4,574	-29
<Stability>			
Current ratio (current assets ÷ current liabilities)	196.1%	230.3%	-
Equity ratio (shareholders' equity ÷ total assets)	64.5%	71.9%	-

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

Outlook

The FY3/2021 forecasts are for higher sales for the 21st consecutive period since its foundation and significantly higher profits

Due to uncertainty about the impact of the coronavirus pandemic, the Company presents forecast ranges for sales and profits in the FY3/2021 results outlook with net sales at ¥7,407mn–¥8,080mn (+10.1%–20.1%), operating profit at ¥712mn–¥1,526mn (+177.4%–493.9%), ordinary profit at ¥802mn–¥1,616mn (+209.4%–522.9%), and profit attributable to owners of parent at ¥501mn–¥1,028mn (+327.6%–777.3%). It positions this fiscal year as “the period to start to recoup the investment in R&D” and expects significant profit increases to continue in 2H and for the full year as well.

The Company is aiming to achieve record high sales for the 21st consecutive year since its foundation. In the sales forecast, it projects 20.1% YoY increase for a scenario of growth at a cruising speed and an increase of 10.1% as a case of growth that is impacted by the coronavirus pandemic. It has sustained a pace of over 20% gains in recent years (22.3% in FY3/2020, 29.9% in FY3/2019, and 27.0% in FY3/2018). Since existing services, which provide between 70% to 80% of overall sales, mainly acquire stock-sales (subscription) licensing fees, the income outlook is stable. Also, the remaining 20% to 30% is generated from new services (AI/IoT services), and the Company's primary business model is licensing and customization based on OPTiM Cloud IoT OS for platform builders in various industries. In 1H FY3/2021, while the coronavirus pandemic had some impact, the mainstay Optimal Biz license income grew more than expected in the context of the spread of aspects such as teleworking and online support. Conversely, while the coronavirus pandemic had negative effects, including delaying some projects, sales from licensing and customization are expected to recover in 2H. The progress rate of net sales for 1H against the full fiscal year was 44.7%, so sales were concentrated in the 2H. We at FISCO think that sales are likely to be concentrated in the 2H in FY3/2021 as well.

Outlook

With FY3/2021 positioned in its strategy as the year “in which it starts booking profits,” the Company wants to book record high profits. Incidentally, its former record high for ordinary profit was ¥682mn in FY3/2017. It has spent aggressively in AI, IoT, and Robotics areas over the past three years with the aim of becoming a central player in the Fourth Industrial Revolution and achieved No. 1 market shares in multiple AI and IoT areas. Results from past investments are showing up in income. It targets 20.0% ordinary profit margin (upper end of the forecast range with ordinary profit at ¥1,616mn) while sustaining high R&D investments. Meanwhile, even in the scenario of COVID-19 impact (lowering sales by 10%), it intends to continue investing in R&D and projects 10.8% ordinary profit margin (lower end of the forecast range with ordinary profit at ¥802mn). At FISCO, due to the strong results in 1H FY3/2021 with ¥514mn in ordinary profit and an ordinary profit margin of 16.9%, and also as sales will accelerate in the 2H, we think that for the full fiscal year, ordinary profit at a level of around ¥1,251mn will be achieved (assuming the lower limit of net sales of ¥7,407mn x the 1H ordinary profit margin of 16.9%).

FY3/2021 results outlook

	FY3/2020		FY3/2021		
	Results	Vs. net sales	Forecast	Vs. net sales	YoY
Net sales	6,728	100.0%	7,407~8,080	100.0%	10.1~20.1%
Operating profit	256	3.82%	712~1,526	9.6~18.9%	177.4~493.9%
Ordinary profit	259	3.86%	802~1,616	10.8~20.0%	209.4~522.9%
Profit attributable to owners of parent	117	1.74%	501~1,028	6.8~12.7%	327.6~777.3%

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

Growth strategies and topics

**In Construction × IT, started providing OPTiM Land Scan β-version.
In Agriculture × IT, realized Level 3 of the Aerial Industrial Revolution
for the first time in Japan**

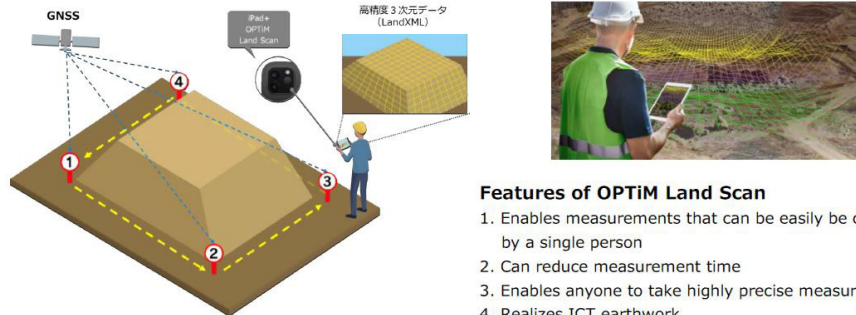
1. Construction x IT

The Company has begun to provide, OPTiM Land Scan ahead of the rest of the world. This is an application that can acquire highly precise 3D data by scanning objects to be measured, such as earth structures, on a tablet with attached LiDAR* sensors. It is assumed that it will be used for small-scale worksites where the use of devices such as drones and laser scanners is difficult, and can reduce the measurement time by a maximum of 60% compared to conventional light wave measurements. Also, specialist knowledge is not necessary for the measurements and they can be easily carried out by a single person, helping to eliminate the problem of shortages of workers and engineers. According to the Company, small-scale worksites in which the use of devices such as drones and laser scanners is difficult account for around 70% of the total construction worksites in Japan, so high demand is expected. Development is being conducting as part of a series of initiatives in the Construction x IT Strategic Comprehensive Partnership with Kyushu's largest general contractor Matsuo Construction Inc. The Company started providing the β-version free of charge in August 2020.

Also, in October 2020, the Company established Landlog Marketing Corporation to progress construction DX and ICT (information communication technology) construction work.

Growth strategies and topics

OPTiM Land Scan



Source: The Company's results briefing materials

Features of OPTiM Land Scan

1. Enables measurements that can be easily be carried out by a single person
2. Can reduce measurement time
3. Enables anyone to take highly precise measurements
4. Realizes ICT earthwork

2. Agriculture x IT

In August 2020, the Company succeeded in conducting a demonstration experiment in cooperation with the Ministry of Agriculture, Forestry and Fisheries in Shiroishi Town, Kishima District, Saga Prefecture, for a non-assisted non-visual flight to realize Level 3 of the Aerial Industrial Revolution (a visual observation flight in an area without people).

In the agriculture field, the shortage of personnel at work sites has become a serious problem, so utilizing drones for non-assisted non-visual flight is a pressing issue from viewpoints such as saving labor and improving productivity for agricultural work. The Company is participating in the non-assisted non-visual flight demonstration in the agricultural field under the framework of the public-private council for the spread of agricultural drones in the Ministry of Agriculture, Forestry and Fisheries, and conducted the first demonstration as a case study in the agriculture field in Japan. OPTiM Hawk, which is the fixed-wing drone used for the demonstration, was developed by the Company and was completely produced in Japan. It has a flight range of more than 100 km and can be airborne for more than 1 hour, and achieves digital scanning over a wide area and a long period of time. The Company, together with Shiroishi Town, Saga Prefecture, conducted an initiative to utilize the data from the drone to confirm planting. Specifically, it demonstrated that actual conditions can be confirmed efficiently by analyzing images in Agri Field Manager, which is a service to manage information on agriculture fields from arial images. The results of the demonstration showed that the time required for a visual confirmation at a local site (a total of around 118 hours) can be reduced to around 5 hours, as using a fixed-wing drone makes it possible to confirm actual conditions without having to go to the actual site, achieving approximately 96% operating efficiency.

Growth strategies and topics

The OPTiM Hawk fixed-wing drone



Source: Image from the Company's release

A case study of improving the efficiency of planting confirmation work by using a fixed-wing drone

1. Digitalization using a drone



2. Improving the efficiency of planting confirmation work using AI



Source: Image from the Company's release

3. Healthcare x IT

In October 2020, the Company, Mediaroid Corporation and Sysmex Corporation announced that it had jointly developed, MINS: Mediaroid Intelligent Network System, a network support system platform. It was developed to support the management of the hinotori™ Surgical Robot System, which is a surgical-support robot system that acquired manufacturing and sales approval in August 2020, to support safe and efficient operating rooms, and to support the passing down of surgical techniques.

Growth strategies and topics

Hinotori is the first surgical support robot developed and manufactured in Japan by Medicaroid (a joint venture between Kawasaki Heavy Industries and Sysmex). MINS is an open platform on which information including from the various sensors installed in hinotori, endoscopic videos, and videos of the entire operating room, is collected, analyzed, and provided in real time. It was developed based on the Company's OPTiM Cloud IoT OS. As the first phase of the service, MINS will enable (1) the collection and accumulation of log data, (2) video distribution and browsing, and (3) the reproduction of robot movements. The information obtained via this platform will be made into a database, which will make it possible to add new services, including AI analysis and simulations. One could say that the Company has reached a stage where expectations toward further improvements to functionality and establishment of a business model are growing.

4. Finance x IT

In the finance field as well, the Company has established a structure for OO x IT initiatives. In July 2020, it established and launched business for OPTiM Bank Technologies Corp., as a joint venture company with the Bank of Saga, with aims including the planning and sales of solutions that utilize AI and IoT. Its business content is (1) regional bank DX (development of finance solutions, etc., sales to nationwide financial institutions, etc.), (2) regional DX (sales of OPTiM's AI/IoT solutions and services), (3) an education business (educating human resources by utilizing AI/IoT, including the education of managers and entrepreneurs), and (4) a fund business (fund management, including support for business start-ups by utilizing OPTiM's intellectual property, and support for applications-development companies by utilizing the Company's various types of platforms).

Continuing from this, in September 2020, the Digital Transformation Fund Investment Limited Partnership No.1 was jointly established by the Company, the Bank of Saga, Sagin Capital & Consulting Co., Ltd., and OPTiM Bank Technologies. This fund will promote the growth and development mainly of SMEs and medium-sized companies through promoting DX and initiatives to develop and utilize advanced AI/IoT, and it will also support companies developing applications that make use of various platforms, including OPTiM Cloud IoT OS. The fund's total scale is approximately ¥300mn and the investment amount per project is expected to be in the range of ¥10mn to ¥30mn.

Initiatives for Finance x IT



Started business of "OPTiM Bank Technologies Co., Ltd.", a joint venture that promotes regional banks and regional DX with Saga Bank.

<Business description>

1. Regional Bank DX: Develop financial solutions and sell them to financial institutions nationwide
2. Regional DX: Sales of OPTiM's AI / IoT solutions and services
3. Education business: Human resources education utilizing AI / IoT (including management / entrepreneurship education)
4. Fund business: Fund management to support start-ups utilizing OPTiM's intellectual property and support application development companies utilizing OPTiM's various platforms

OPTiM and Saga Bank set up DX Fund

Driving Digital Transformation in Various Industries through Investment in Companies



Source: The Company's results briefing materials

ESG initiatives

The Company has focused on the term ESG (Environment, Social, Governance) since before, and it works on ESG initiatives through its business while always thinking about having a positive influence on society. Some examples of these initiatives are described below.

(1) Environment

a) Agriculture × IT: Pinpoint pesticide spraying technology

- Image analysis of crops is performed by AI and unnecessary pesticides are not sprayed, achieving cultivation with reduced amounts of pesticide

b) Agriculture × IT: Smart Agri-food Project (smart rice)

- A future-oriented agricultural project to produce rice and vegetables that consumers can eat with peace of mind through utilizing AI, IoT, and robotics, including the use of pinpoint pesticide spraying and fertilization technologies

(2) Social

a) Healthcare × IT: online healthcare services

- The Company is addressing the issues of regional differences in healthcare, work and child care, and loss of opportunity due to hospital visits from physical conditions, etc. by enabling continuous medical consultations through remote consultations on a smartphone or tablet. This will lead to preventative healthcare and reduce the numbers of patients with lifestyle-related diseases and nurses. For doctors also, it will reduce the time spent on home visits and the economic burden of such visits

b) Provides services free of charge

- From the perspective of contributing to society, the Company provides relevant services free of charge in the event of a natural disaster, such as during the Great East Japan Earthquake, the 2016 Kumamoto Earthquake, the 2018 Hokkaido Eastern Iburi Earthquake, the July 2018 torrential rains, and the novel coronavirus pandemic

(3) Governance

a) Establishing a management advisory committee

- The Company invites to join the committee (as executive advisors) leading people in the agriculture, construction, and healthcare fields, which are the fields that it is working on. Based on findings backed by their experience, it obtains their advice not only on the respective industry fields in which they participate, but also from the viewpoint of strengthening corporate government in order to maximize enterprise value, with the aim of securing transparent and sound management

Shareholder return policy

Putting priority on investing in the future, has not decided the dividend outlook

The Company puts priority on investing in growth and has not decided the dividend outlook at this point. 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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