COMPANY RESEARCH AND ANALYSIS REPORT

R&D COMPUTER CO., LTD.

3924

Tokyo Stock Exchange First Section

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Summary

Bolstering high-growth service lines through M&A and business partnerships

R&D COMPUTER CO., LTD. <3924> (hereafter, also "the Company") is an independent, medium-sized systems integrator that celebrated the 50th anniversary of its foundation in January 2021. The Company's customer base includes major systems integrators with which it has maintained excellent business relations for many years. The Company's customer base includes FUJITSU LIMITED <6702>, at the top of the list, followed by Hitachi Group, NTT Group, and other manufacturers. Based on the fact that it was established by an educational corporation, one of its features is its passion for educating employees. The Company encourages employees to acquire not only IT-related qualifications, but other business-related qualifications as well, and on average each employee holds three or more qualifications. Employees having skills and knowledge both in IT and customers' businesses makes it possible to develop systems that provide high levels of customer satisfaction. In April 2021, the Company made infree Corp. (below, infree) a consolidated subsidiary. infree has been strong in the areas of consulting to introduce SAP R/3, which is an SAP enterprise resource planning (ERP) package, and add-on software development.

1. Results trends

In the FY3/22 1H results, net sales increased 7.8% year on year (YoY)* to ¥4,463mn, and operating profit increased 59.3% to ¥296mn. In addition, as a result of the strong performance in high-profit-margin package-based SI services, all profit lines in FY3/22 1H were more than 20% higher than the Company's initial forecasts.

* YoY are reference values compared to non-consolidated figures. Same for below.

For the FY3/22 consolidated results, the Company has left its initial forecasts unchanged, and is forecasting new record highs for both net sales and profits, with net sales of ¥9,630mn and operating profit of ¥755mn. infree has been included in consolidated financial results since the start of FY3/22, and the difference between the non-consolidated and consolidated results forecasts for FY3/22 is ¥300mn in net sales, and with respect to profits, it is estimated that amortization of goodwill accompanying the acquisition will be roughly the same amount as profit. However, when taking into consideration the fact that each profit line in FY3/22 1H exceeded the forecast, the strong performance in high-profit-margin package-based SI services, and prior ratios of profits between 1H and 2H, the Company's profit forecasts seem particularly conservative.

2. Medium-term growth policy

The Company has set Attack 100 as its future growth strategy, and is aiming to achieve net sales of ¥10bn at an early stage and an operating profit margin of 10% in the medium to long term. As medium-term numerical forecasts, with package-based SI services positioned as a growth business, the Company is aiming for net sales of ¥12,300mn, operating profit of ¥1,250mn, ordinary profit of ¥1,270mn, and profit attributable to owners of parent of ¥830mn in FY3/24. The Company's growth initiatives are: 1) promotion of proactive M&A, 2) further strengthen teamwork with business partners, 3) promote the DX business, and 4) expand direct transactions with customers and bolster areas of strength. With respect to the promotion of proactive M&A, synergies are being seen by sharing resources within the Group through making infree a subsidiary. In terms of promoting the DX business, these efforts are being advanced by the DX Promotion Headquarters, and the Company plans to expand "cloud and package-based SI," as well as "low-code and agile development" leveraging the Company's strengths.

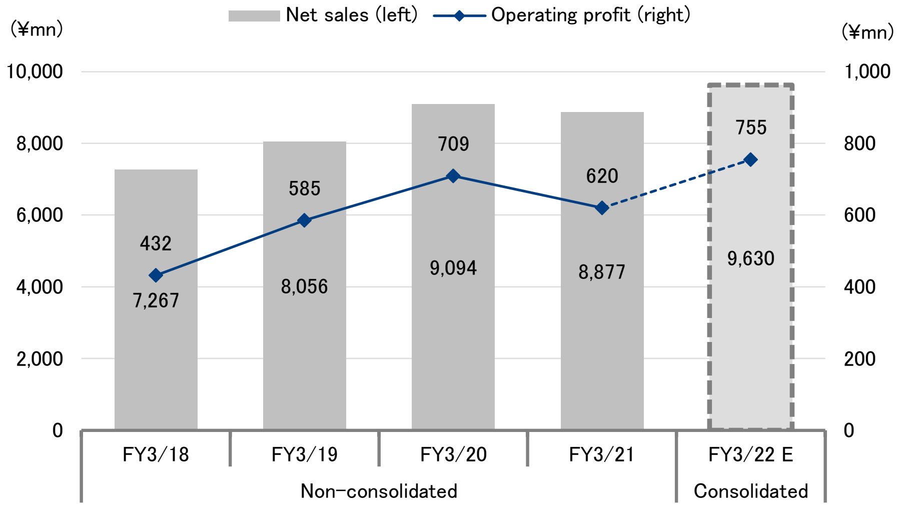
3. Shareholder return policy

In November 2021, the Company changed its dividend policy, shifting from a dividend payout ratio of at least 30% to a consolidated dividend payout ratio of at least 40%. In conjunction with this change, the Company increased the FY3/22 year-end dividend per share to ¥14.0 (¥4.0 increase versus the previous forecast), resulting in a forecast dividend payout ratio of 43.1%. With this, the annual FY3/22 dividend will increase ¥7.4 YoY to ¥24.0. Moreover, on October 1, 2021, the Company conducted a 1.5 to 1 stock split.

Key Points

- An independent systems integrator with a business history of close to half a century
- FY3/22 1H profit lines exceeded the forecasts due to strong performance in high-profit-margin package-based SI services
- The Company left its initial FY3/22 forecasts unchanged, but profit forecasts seem conservative
- Aiming for net sales of ¥12,300mn, operating profit of ¥1,250mn, and operating profit margin of 10.2% in FY3/24
- Raised the base for its consolidated dividend payout ratio to 40% and above, expects the FY3/22 per share dividend to be ¥24.0, a ¥7.4 YoY increase

Results trends



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

Company profile

An independent systems integrator with a business history of close to half a century

The Company has a long history as an independent systems integrator, celebrating 50 years since its foundation in January 2021. Unusual for the information services industry, it was established by an educational institute. “With all our heart” as the company creed, and it conducts business based on its three corporate philosophies of “1) Create value for customers and pursue customer satisfaction to increase corporate value, 2) As a group of professionals, open up a path for the next generation and become a leading information technologies company, and 3) Always maintain and uphold an innovative corporate culture.

Since it was established by an educational institute, one of its features is its passion for educating employees. It encourages employees to acquire not only IT-related qualifications, but other business-related qualifications as well, and on average each employee holds three or more qualifications. Employees having skills and knowledge both in IT and customers’ businesses makes it possible to develop systems that provide high levels of customer satisfaction.

1. History

At the time of its foundation in 1971, the Company began transactions with FUJITSU in the development of a banking system, which led to expansion of its business scope centering around the outsourced development of financial systems for banks and insurance companies. In December 1987, it entered the credit card systems field via Toyo Information Systems Co., Ltd. (currently TIS Inc. <3626>), and in July 1990, entered the field of distribution systems for department stores by concluding a work outsourcing basic agreement with Takashimaya Co., Ltd. <8233>, thereby expanding its user base.

The Company began collaborating with Salesforce (Salesforce.com, Inc. <CRM>) of the US in April 2010 and started providing cloud computing services. Furthermore, in systems integration services, it has started working on introducing package systems and developing add-ons as package-based SI services.

On April 1, 2021, the Company acquired all of the shares of infree and made it a consolidated subsidiary at the beginning of FY3/22. infree, which was founded in August 2001, has since its foundation been strong in the areas of consulting to introduce SAP R/3*, which is an SAP enterprise resource planning (ERP) package, and add-on software development.

* SAP R/3 has been introduced by more than 10,000 major companies around the world and has the largest share of the global ERP market.

The Company was listed on the Tokyo Stock Exchange (TSE) Second Section in December 2015, and subsequently upgraded to the TSE First Section in May 2018. The Company intends to seek listing on the Prime Market when the TSE restructures its market segments in April 2022.

2. Business description

According to the composition of total net sales by service line in FY3/22 1H, systems integration services provided 60.5%, infrastructure solutions services 12.4%, and package-based SI services 27.1%. Breaking down net sales in systems integration services according to customer industry, finance provided 29.9% (banks 17.3%, insurance and securities 2.8%, and credit cards 9.8%), industry and distribution 22.1%, public sector 2.5%, and medical care 6.1%. The ratio of net sales of package-based SI increased 4.8pp YoY due to the consolidation of infree.

Trends in net sales by service line and industry

(¥mn)

	Net sales					% of net sales				
	FY3/18 (Non-consolidated)	FY3/19 (Non-consolidated)	FY3/20 (Non-consolidated)	FY3/21 (Non-consolidated)	FY3/22 1H (Consolidated)	FY3/18 (Non-consolidated)	FY3/19 (Non-consolidated)	FY3/20 (Non-consolidated)	FY3/21 (Non-consolidated)	FY3/22 1H (Consolidated)
Systems integration	5,097	5,615	5,940	5,524	2,702	70.1%	69.7%	65.3%	62.2%	60.5%
Finance	2,257	2,360	2,786	2,841	1,334	31.1%	29.3%	30.6%	32.0%	29.9%
(of which, banks)	1,357	1,481	1,741	1,761	772	18.7%	18.4%	19.2%	19.8%	17.3%
(of which, insurance and securities)	278	224	298	268	126	3.8%	2.8%	3.3%	3.0%	2.8%
(of which, credit cards)	621	654	746	811	435	8.6%	8.1%	8.2%	9.1%	9.8%
Industry and distribution	2,146	2,421	2,177	1,990	985	29.5%	30.1%	23.9%	22.4%	22.1%
Public sector	97	210	300	185	109	1.3%	2.6%	3.3%	2.1%	2.5%
Medical care	595	623	675	507	272	8.2%	7.7%	7.4%	5.7%	6.1%
Infrastructure solutions	1,085	1,263	1,516	1,375	553	14.9%	15.7%	16.7%	15.5%	12.4%
Package-based SI	1,084	1,177	1,637	1,976	1,208	14.9%	14.6%	18.0%	22.3%	27.1%
Total	7,267	8,056	9,094	8,877	4,463	100.0%	100.0%	100.0%	100.0%	100.0%
Operating profit	432	585	709	620	296	6.0%	7.3%	7.8%	7.0%	6.6%

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

Financial institutions are the biggest customers for the IT services industry. In the case of the Company, it serves prime contractors include FUJITSU and Hitachi, Ltd. <6501> as a collaborating company.

The Company's customer base includes major systems integrators with which it has maintained excellent business relations for many years. The solid customer base includes FUJITSU at the top of the list, followed by the Hitachi Group centered on Hitachi, Ltd. and Hitachi Solutions, Ltd., the NTT Group centered on NTT DATA KANSAI Corporation, and NS Solutions Corporation <2327>. In addition, main users with which it conducts direct transactions include Mitsubishi Research Institute DCS Co., Ltd., Sumitomo Mitsui Trust Systems & Services Co., Ltd., Idemitsu Kosan Co., Ltd. <5019>, OPTAGE Inc., and NOMURA HOLDINGS, INC. <8604>, and these users are increasing. This customer base can be said to be the result of high evaluations from customers of the Company's technological capabilities, its business knowledge in areas such as finance and distribution, and its track record in terms of quality.

The Company's main customers are major systems integrators. In particular, close business relations with the FUJITSU Group formed immediately after founding, and it has become a core partner. In FUJITSU's FY2020 PQI (Partner Quality Improvement) skill level certification, the Company ranked GOLD for all three steps of the skill levels, including the first step (quality records), second step (quality evaluation), and third step (quality plan), for the fifth consecutive year. The extent of sales reliance on this main customer in FY3/21 was 26.1%, and the extent of reliance on the FUJITSU Group was approximately 40%. While maintaining excellent relations with FUJITSU, the Company is also aiming to increase the volume of transactions with other systems integrators such as Hitachi and NTT DATA KANSAI, and in FY3/21, the number of direct transaction customers was 148 companies (based on the annual transaction result, 1.6 times higher than 10 periods earlier) and their percentage of total net sales reached 27%. Going forward, it is aiming to expand direct transactions with customers and increase that ratio of total net sales to one-third.

List of partnerships and main customers

Partnerships	Main customers
FUJITSU core partner PQI skill level GOLD certification	FUJITSU LIMITED and FUJITSU Group companies
(GOLD certification for all steps, covering the first, second, and third steps)	Hitachi, Ltd. and Hitachi Group companies
Hitachi Solutions Excellent partner	NEC Corporation and NEC Group companies
Salesforce.com	NTT DATA KANSAI Corporation, TIS Inc.
Consulting partner	INTEC Inc., OPTAGE Inc.
Application partner	NS Solutions Corporation, ITOCHU Techno-Solutions Corporation
TIS Excellent partner	Saison Information Systems Co., Ltd., Joho-Tech Company Limited
Microsoft Partner	Salesforce Japan Co.,Ltd.
Gold Data Analytics	IBM Japan, Ltd.
Silver Application Development	NOMURA HOLDINGS, INC., Nikko Systems Solutions, Ltd.
Silver Collaboration and Content	Mitsubishi Research Institute DCS Co., Ltd., Mizuho Research & Technologies, Ltd., The Japan Research Institute, Limited
Silver Datacenter	Sumitomo Mitsui Trust Systems & Services Co., Ltd.
Silver Messaging	JCB Co., Ltd.
AWS Partner Network (APN) select consulting partner	Idemitsu Kosan Co., Ltd., Bando Chemical Industries, Ltd.
SuperStream-NX solutions partner	JR East Information Systems Company
Oracle PartnerNetwork Silver	Kikkoman Business Services Co.
OBC Alliance Partnership Gold Partner	TBS HOLDINGS, INC.
Ruby Association Certified System Integrator Gold	NTV IT Produce Corporation, Nippon Television Music Corporation
MAJOR FLOW Z	
Sales partner/development partner	

Source: Prepared by FISCO from the Company's website

(1) Systems integration services

The mainstay systems integration services cover a wide range of fields, including finance, industry and distribution, public sector, and medical care. It mainly conducts outsourced development for customers such as end users, domestic manufacturers, and major systems integrators. The Company has in place a system to provide total services covering all processes, from planning and system construction through to system management. Banks are investing in IT in order to reduce workload and to save labor, and demand is expected to be at a high level in the medium to long term. There are also many projects for online banks and distribution-related financial subsidiaries.

(2) Infrastructure solutions services

Infrastructure solutions services covers an array of services including introducing the hardware, such as servers, that form customers' IT system infrastructure; constructing networks and systems infrastructure, including databases and application infrastructure; and performing subsequent management and maintenance. After surveying and analyzing the IT systems infrastructure environments of various customers, including general companies, universities and other educational facilities, hospitals, and government ministries and agencies, it provides infrastructure solutions services that are tailored to meet the their needs. Specifically, in addition to infrastructure solutions services such as network construction, it provides total, one-stop services by combining systems integration services.

(3) Package-based SI services

As the main pillar of the growth fields, the Company forms alliances with system and package vendors and in some cases is provided with packages, and offers a total service to customers, from support for introducing software package products (Salesforce, COMPANY, SuperStream, etc.) to customization, add-on development, maintenance, and management.

The Company started a business with Salesforce in April 2010 and concluded a sales partner agreement with it in November 2016. It is currently a Salesforce Gold consulting partner and application partner and has a track record of more than 2,000 projects for around 500 companies. It uses its business findings on many industries and many types of businesses and knowledge on a wide range of products (Sales Cloud, Service Cloud, Community Cloud, Lightning Platform, Einstein Analytics, Field Service Lightning, Heroku, and Pardot) to propose optimal solutions. In terms of industries, it has a track record of projects including for non-life insurance, insurance agencies, universities, vocational schools and cram and preparatory schools, the manufacturing industry (food, equipment, parts, software, etc.), restaurants, wholesale businesses, retail businesses, specialty trading companies, apparel, print and publishing businesses, real estate, dispatches of human resources, internet services, legal offices, and facility management.

By making infree a subsidiary, SAP was added to the main package alliance. Furthermore, the consolidation of infree caused this service line's sales mix to increase from 9.0% in FY3/16, when the Salesforce sales partner agreement began, to 27.1% (FY3/22 1H).

Main package alliances handled

Company name	Main package	Partnership
Salesforce.com	Salesforce	Consulting partner Application partner
SuperStream	SuperStream-NX	SuperStream-NX solutions partner
OBIC business consultants	Strategic mission-critical system Bugyo V ERP 10	OBC Alliance Partnership Gold Partner
Microsoft Corporation	Microsoft Dynamics CRM	Microsoft Partner Gold Data Analytics Silver Application Development
Works Human Intelligence	COMPANY personnel and salary	
SAP	SAP R/3	SAP-certified consultant

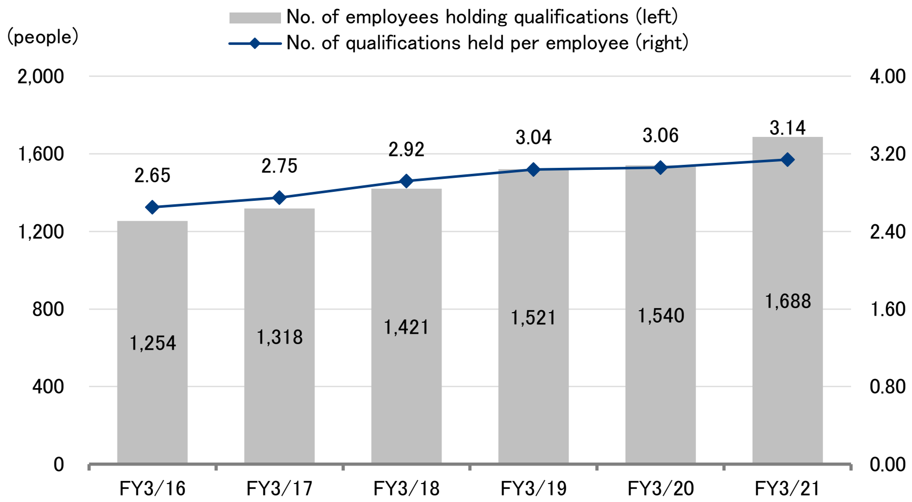
Note: Names of companies, products, and services are trade names, trademarks, and registered products of the respective companies. The TM and ® marks are not shown
Source: Prepared by FISCO from the Company's materials

3. IT-related and business-related qualifications

(1) Number of employees holding qualifications

One of the Company's strengths is that it has a group of excellent engineers. It actively encourages employees to acquire qualifications not only related to IT, but also business-related qualifications to deepen their understanding of customers' businesses, such as finance, industry and distribution, and medical care. At the end of March 2021, 1,688 employees in total held IT-related and business-related qualifications (breaking this down, 1,403 employees held IT-related qualifications and 285 employees held business-related qualifications). Compared to five years' ago, the number of employees holding qualifications has grown to 34.6%, and the average number of qualifications held per employee has increased from 2.65 to 3.14. At infree, a total of 49 employees have acquired SAP-certified consultant qualification and/or other SAP-certified qualifications.

Trends in the no. of employees holding qualifications and qualifications held per employee



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

By actively promoting acquisitions of business-related qualifications, the Company's engineers are able to provide systems solutions and services from the customer's viewpoint. As a result, customer satisfaction is increasing, which becomes the driving force behind building strong relations of trust.

No. of employees with IT-related and business-related qualifications (end of FY3/21)

(people)

Qualifications by industry			No. of employees with qualifications
IT-related qualifications			1,403
	Information Processing Engineers		417
	Vendor qualifications	Salesforce Certification	112
Business-related qualifications			285
	Finance	Banking Proficienty Test	26
		Finance business proficiency test	19
		Securities Broker Representative License	10
	Industry and distribution	Retail Marketing	27
	Medical care	Health Information Managers	8
		Healthcare Information Technologists	21
Common to industries		PMP (Project Management Professional)	40
		Bookkeeping	62

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

(2) New employee training

The Company also focuses on educating new employees. Prior to joining the Company, they complete an e-learning course to prepare for the basic information processing test, and upon joining, they spend three months receiving training to become members of society and on basic technologies. Furthermore, during the new employee training period, they are set the challenge of acquiring vendor qualifications relating to the Oracle <ORCL> database and Java programming. In the spring of 2021, 25 new graduates joined the Company and undertook new employee training. Despite training being cut to two months and made into a combination of group training and studying online at home due to COVID-19, similar to the previous year, all the new employees passed the prescribed vendor exams. Following the three-month new employee training after joining the Company, new employees then transition to OJT for their assigned position. There, they receive support from senior colleagues who are their trainers. Core cooperating company employees are also allowed to participate in new employee training.

New employee training

1. Training before joining the company e-learning (measures for the basic information processing test)
2. Training to become members of society •Training to become members of society, presentation training, mental health training
3. Basic technology education •Information processing fundamentals, Java fundamentals, Java applications, system design fundamentals, algorithm fundamentals, database fundamentals, network fundamentals •Exam preparation course (ORACLE MASTER Bronze Oracle Database 12C, ORACLE Java SE7 Bronze)
4. OJT training After being assigned to their first positions, senior colleagues serve as trainers and provide support

Source: Prepared by FISCO from the Company's website

When recruiting, the Company seeks graduates and postgraduates from both the sciences and humanities. As it has in place a complete education system, it seems that it prioritizes recruits with "the ability to think logically," "a willingness to learn" and "a passion for the IT industry and SE," and recruits people who have the aptitude to use its system positively and want to grow. It plans to recruit 28 new graduates in the spring of 2022.

The Company has systemized its training structure, and it covers various training related to IT technologies, interpersonal skills, work positions, management, project management, quality control, acquiring qualifications, and study sessions on new technologies. Recently, it has been working on initiatives including training on Python, which is a programming language used for development in cutting-edge fields such as AI, and agile development that utilizes new digital technologies like low-code development to realize systems development in an extremely short period of time by using the visual operations of the Graphical User Interface (GUI), centered on the DX Promotion Headquarters.

Results trends

In FY3/22 1H, profit lines exceeded the Company's forecasts as a result of the strong performance of high-profit-margin package-based SI services

1. Outline of results for FY3/22 1H

In the FY3/22 1H results, net sales increased 7.8% YoY to ¥4,463mn, operating profit rose 59.3% to ¥296mn, ordinary profit increased 47.1% to ¥299mn, and profit attributable to owners of parent rose 42.4% to ¥193mn. While net sales were 1.2% lower compared to the revised forecast announced in August 2021, strong results pushed operating profit 23.4% higher, ordinary profit 22.3% and profit attributable to owners of parent 21.7%, and the operating profit margin increased 2.1pp to 6.6%. In package-based SI services, the main pillar of the growth strategy, sales grew significantly as a result of making infree a subsidiary. In infrastructure solutions services, however, sales declined due to projects being drawn out as a result of the semiconductor shortage. Meanwhile, profits increased due to the growth in sales of high-profit-margin package-based SI services, as well as the decrease in unprofitable projects. The Company booked ¥26mn in subsidiary acquisition costs and amortization of goodwill, so there was no contribution to profits from infree.

FY3/22 1H consolidated results

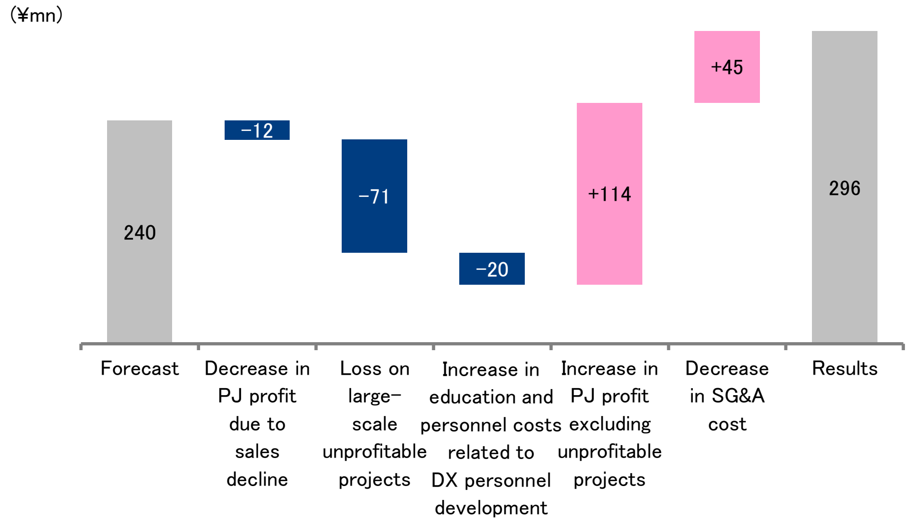
(¥mn)

	FY3/21 1H (non-consolidated)		FY3/22 1H (consolidated)				
	Results	% of net sales	Revised plan	Results	% of net sales	YoY	vs. plan
Net sales	4,140	100.0%	4,516	4,463	100.0%	7.8%	-1.2%
Gross profit	636	15.4%	-	785	17.6%	23.3%	-
SG&A expenses	450	10.9%	-	489	11.0%	8.5%	-
Operating profit	185	4.5%	240	296	6.6%	59.3%	23.4%
Ordinary profit	203	4.9%	245	299	6.7%	47.1%	22.3%
Profit attributable to owners of parent	135	3.3%	159	193	4.3%	42.4%	21.7%

Note: Revised forecasts for FY3/22 1H are the those announced in August 2021. YoY comparisons are reference values compared with the non-consolidated figures
Source: Prepared by FISCO from the Company's financial results and results briefing materials

In terms of the analysis of the change in operating profit vis-à-vis the forecast, increasing factors were an increase in project profits excluding unprofitable projects (¥114mn) and a decline in SG&A expenses due to the COVID-19 pandemic (¥45mn), while decreasing factors were a decrease in PJ profit due to sales decline (¥12mn), loss on large-scale unprofitable projects (¥71mn), and an increase in education and personnel costs related to DX personnel development (¥20mn). In order to maintain productivity while ensuring the health and safety of employees (including employees of partner companies) and customers, the Company is focusing on maintaining and continuing business activities while proactively promoting measures such as telework, staggered office hours, remote business talks, and online meetings.

Analysis of factors affecting operating profit (FY3/22 1H)



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

2. Trends by service line

Net sales by service line in FY3/22 1H

(¥mn)

	FY3/21 1H (non-consolidated)		FY3/22 1H (consolidated)		YoY	
	Results	% of net sales	Results	% of net sales	Change	Change (%)
Systems integration	2,695	65.1%	2,702	60.5%	6	0.2%
Finance	1,385	33.5%	1,334	29.9%	-51	-3.7%
(of which, banks)	857	20.7%	772	17.3%	-84	-9.9%
(of which, insurance and securities)	122	3.0%	126	2.8%	3	3.2%
(of which, credit cards)	406	9.8%	435	9.8%	29	7.1%
Industry and distribution	978	23.6%	985	22.1%	7	0.7%
Public sector	117	2.8%	109	2.5%	-7	-6.6%
Medical care	214	5.2%	272	6.1%	58	27.3%
Infrastructure solutions	572	13.8%	553	12.4%	-19	-3.3%
Package-based SI	872	21.1%	1,208	27.1%	335	38.4%
Total	4,140	100.0%	4,463	100.0%	322	7.8%

Note: YoY changes are reference values compared to non-consolidated figures
Source: Prepared by FISCO from the Company's results briefing materials

(1) Systems integration services

Net sales in the mainstay system integration services increased 0.2% YoY to ¥2,702mn. Net sales in the finance field, which provides the highest ratio of sales by industry, decreased 3.7% YoY to ¥1,334mn, and its ratio of total net sales was 29.9%. Sales to banks declined 9.9% YoY to ¥772mn, due to the fact that projects for online banks and next-generation accounting system projects for regional banks and other financial institutions in the previous fiscal year were completed. Meanwhile, sales to the medical care industry increased 27.3% YoY to ¥272mn. This was due to the contribution from package system development projects for hospitals in FY3/22 1H, despite the postponement or suspension of projects, including digital health chart projects, due to the COVID-19 pandemic. Sales to the public sector declined 6.6% to ¥109mn.

(2) Infrastructure solutions services

Net sales of infrastructure solutions services declined 3.3% YoY to ¥553mn, due to factors including projects becoming drawn out as a result of the impacts of the shortage of semiconductors. Regarding sales by industry, finance increased 7.7%, public sector grew 18.4%, and medical care jumped 27.0%, but industry and distribution declined by a significant 19.1%.

(3) Package-based SI services

Net sales of package-based SI services were strong, increasing 38.4% YoY to ¥1,208mn, with the ratio of total sales increasing from 21.1% to 27.1%. Net sales in the mainstay Salesforce-related business increased 4.8% to ¥627mn, sales of personnel salary packages increased 35.1% to ¥182mn, and sales of accounting packages rose 84.1% to ¥140mn. Additionally, with the consolidation of infree, SAP net sales increased significantly to ¥229mn (compared to ¥31mn in the year-earlier period). The FY7/20 results of infree included net sales of ¥330mn and operating profit of ¥21mn, roughly accounting for 10% of both net sales and operating profit in FY3/22 1H. Even without the contribution of infree, FY3/22 1H results saw an increase of nearly 20%.

Elsewhere, in the SuperStream Partner Award 2021, the Company was awarded the Certified Consultant Award. This is awarded each year by the developer, SuperStream Inc., to partner companies that have increased sales of SuperStream products and worked hard on business development, and it was awarded to the partner that has the best results for the SuperStream-NX engineer certification exam.

Package-based SI services net sales by industry

(¥mn)

	FY3/21 1H (Non-consolidated)	FY3/22 1H (Consolidated)	YoY	
			Change	Change (%)
Package-based SI	872	1,208	335	38.4%
Salesforce-related business	598	627	28	4.8%
SAP	31	229	197	-
Personnel salary packages (COMPANY, SuperStream)	134	182	47	35.1%
Accounting packages (SuperStream, Bugyo)	76	140	64	84.1%
Other (DynamicsCRM, others)	30	28	-2	-7.4%

Note: YoY are reference values compared to non-consolidated figures
Source: Prepared by FISCO from the Company's results briefing materials

3. Financial condition and management indicators

At the end of FY3/22 1H, total assets were up ¥173mn versus the end of FY3/21 to ¥5,920mn. Current assets totaled ¥5,170mn, reflecting the major change of a ¥254mn increase in cash and deposits. Non-current assets totaled ¥749mn, and the main factor was a ¥129mn increase in intangible assets. Amortization of goodwill of ¥14mn was booked in FY3/22 1H, and will continue every half year over the next four and a half years. The Company practices debt-free management, has a current ratio of 389.6% and an equity ratio of 69.2%, so its financial stability is extremely high.

Balance sheet

(¥mn)

	FY3/19 (Non-consolidated)	FY3/20 (Non-consolidated)	FY3/21 (Non-consolidated)	FY3/22 1H (Consolidated)	Change
Current assets	4,503	4,969	5,187	5,170	-17
(Cash and deposits, securities)	2,355	2,467	2,684	2,939	254
(Notes and accounts receivable – trade and contract assets)	2,030	2,339	2,321	1,943	-377
Non-current assets	530	528	559	749	190
Property, plant and equipment	85	85	75	66	-9
Intangible assets	20	9	6	135	129
Investments and other assets	424	433	476	546	69
Total asset	5,033	5,498	5,746	5,920	173
Current liabilities	1,303	1,404	1,317	1,327	9
Non-current liabilities	468	466	482	497	15
(Interest-bearing debt)	-	-	-	-	-
Total liabilities	1,772	1,871	1,800	1,824	24
Total net assets	3,261	3,626	3,946	4,095	148
[Stability]					
Current ratio	345.7%	353.7%	393.7%	389.6%	-4.1pt
Equity ratio	64.8%	66.0%	68.7%	69.2%	0.5pt

Note: Change represents reference values compared with non-consolidated figures
Source: Prepared by FISCO from the Company's financial results

4. Cash flows

At the end of FY3/22 1H, cash and cash equivalents were ¥2,618mn. Net cash provided by operating activities (¥496mn) exceeded net cash used in investing activities (¥205mn) and net cash used in financing activities (¥77mn). Cash flows in investing activities included ¥200mn used in the acquisition of the shares of a subsidiary accompanying changes to the scope of consolidation, while net cash used in financing activities was dividends paid of ¥77mn.

Outlook

Company kept initial forecasts for FY3/22 unchanged, but profit forecast seems conservative

● Outlook for FY3/22

For the FY3/22 consolidated results forecast, the Company has left its initial forecasts unchanged. The Company is forecasting new record highs for both net sales and profits, with net sales of ¥9,630mn, operating profit of ¥755mn, ordinary profit of ¥760mn, and profit attributable to owners of parent of ¥500mn. infree has been included in consolidated financial results since the start of FY3/22, and the gap between the non-consolidated and consolidated results forecasts for FY3/22 is only ¥300mn for net sales, and with respect to profits, it is estimated that amortization of goodwill accompanying the acquisition will be roughly the same amount as the profit. However, when taking into consideration the fact that each profit line in FY3/22 1H exceeded the forecast, the strong performance in high-profit-margin package-based SI services, and prior ratios of profits between 1H and 2H, the Company's profit forecasts seem particularly conservative.

Consolidated outlook for FY3/22

(¥mn)

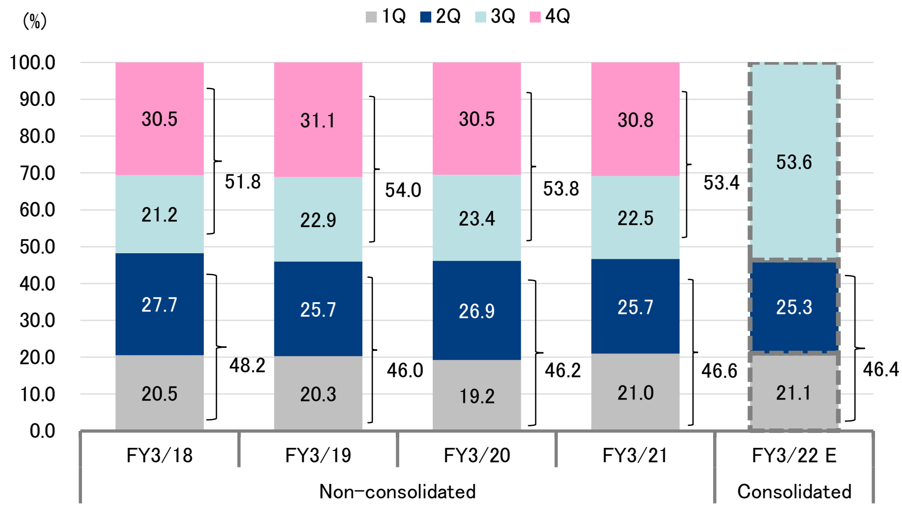
	FY3/21 (Non-consolidated)		FY3/22 (Consolidated)	
	Results	% of net sales	Forecasts	% of net sales
Net sales	8,877	100.0%	9,630	100.0%
Operating profit	620	7.0%	755	7.8%
Ordinary profit	650	7.3%	760	7.9%
Profit attributable to owners of parent	430	4.9%	500	5.2%

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

(1) Progress in 1H

The Company's results exhibit a high level of seasonality. In system integration services, the booking of sales tends to be concentrated in 2Q and 4Q due to the balance between the timing of budget execution by client companies and the work periods on development systems. Since many companies, not to mention government offices, have fiscal year-ends at the end of March, more than 30% of sales are in 4Q (January to March). The average breakdown of sales for 1H (April to September) and 2H (October to March) over the past five fiscal years was 46.9% and 53.1%, respectively. The progress rate for sales in FY3/22 1H was 46.4%, so it can be said that things are generally going well.

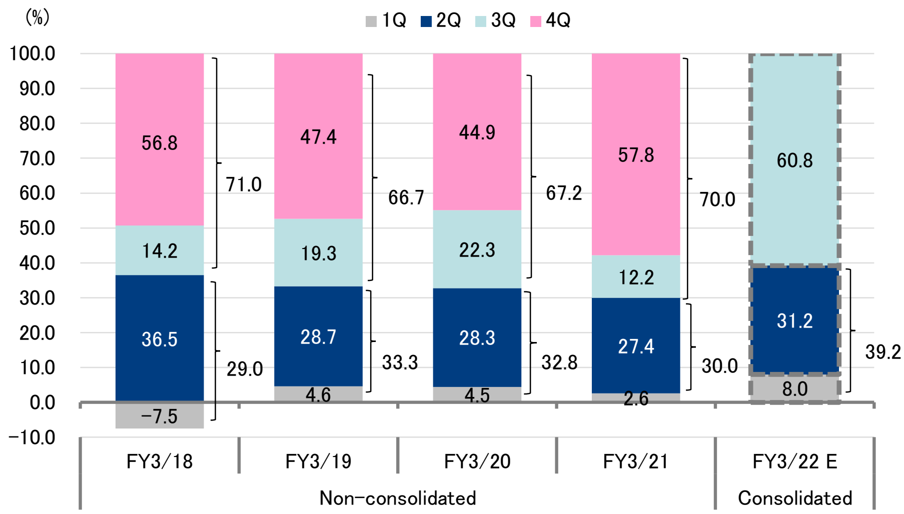
Net sales composition ratio (Quarterly)



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

Seasonality is even more evident for operating profit. Net sales tend to be highest in 4Q, but because quarterly changes in SG&A expenses are small, the operating profit margin in 4Q often exceeds 10%. Over the past five fiscal years, the average breakdown of sales for 1H (April to September) and 2H (October to March) was 33.6% and 66.4%, respectively. In FY3/22, because the Company left its full-year forecasts unchanged despite the fact that 1H results exceeded the Company's forecasts, the breakdown for 2H sales are unrealistically assumed to be lowered to 39.2% vs 60.8%. For the FY3/22 operating profit margin, the ratio will be 6.6% and 8.9%, respectively. Additionally, due to the fact that loss on large-scale unprofitable projects for 1H has already been booked as an expense, the Company's full-year profit forecasts can be said to be conservative, assuming that more unprofitable projects than usual do not arise in 2H.

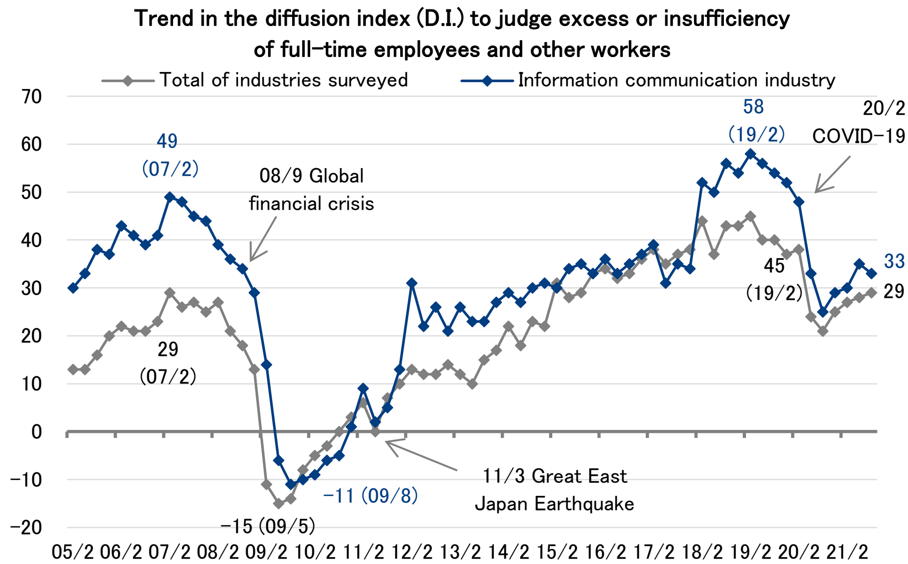
Operating profit composition ratio (Quarterly)



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

(2) Status of shortage of full-time employees and other workers in the information communications industry

When looking at the balance of excess and deficiency in regular workers perceived by various industries in the Survey on Labour Economy Trend conducted by the Ministry of Health, Labour and Welfare (MHLW), diffusion index (D.I.) is defined for each industry as the balance of shortage minus excess. In the survey conducted in August 2021, the perception of labor shortage was more severe in the Information Communications Industry, where D.I. was 33 compared to 29 for the total of industries surveyed. When comparing the current D.I. trends in COVID-19 turbulence to that in the global financial crisis in 2008, the survey conducted in February 2007, immediately before the Lehman bankruptcy in September 2008, the index for the Information Communications Industry marked a peak at 49, reflecting a severe shortage in labor perceived by the industry. From there, the economy had gone into a recession and the D.I. fell to a negative -6 in the May 2009 survey and continued to trend negatively for six consecutive quarters. On the other hand, unlike the global financial crisis in 2008, the current COVID-19 turbulence has not caused the D.I. to fall into a negative range. The current peak of D.I. is 58, which was marked in the February 2019 survey. It subsequently fell to 25 in the August 2020 Survey, but this drop was not like the one immediately following the 2008 financial crisis. This shows that securing and training human resources remains the most important management issues for the IT services industry.



Source: Prepared by FISCO from the Survey on Labour Economy Trend by the Ministry of Health, Labour and Welfare

Medium-term growth strategy

Aiming for FY3/24 net sales of ¥12,300mn, operating profit of ¥1,250mn, and an operating profit margin of 10.2%

1. Numerical targets

The Company has set Attack 100 as its future growth strategy, and is aiming to achieve net sales of ¥10bn at an early stage and an operating profit margin of 10% in the medium to long term. As medium-term numerical targets, the Company is aiming for net sales of ¥12,300mn, operating profit of ¥1,250mn, ordinary profit of ¥1,270mn, and profit attributable to owners of parent of ¥830mn in FY3/24. This plan is for operating profit to double compared to the results in FY3/21 (non-consolidated), and the Company is aiming for an operating profit margin of 10.2%.

Medium-term numerical targets

(¥mn)

	FY3/21 (Non-consolidated) Results	FY3/22 (Consolidated) Forecasts	FY3/23 (Consolidated) Plan	FY3/24 (Consolidated) Plan	3-year change (%)
Net sales	8,877	9,630	10,700	12,300	38.6%
Operating profit	620	755	950	1,250	101.6%
Operating profit margin	7.0%	7.8%	8.9%	10.2%	-
Ordinary profit	650	760	960	1,270	95.4%
Profit attributable to owners of parent	430	500	620	830	93.0%

Note: Change represents reference values compared to non-consolidated figures
Source: Prepared by FISCO from the Company's results briefing materials

2. Growth initiatives

The Company's growth initiatives are: 1) promotion of proactive M&A, 2) further strengthen teamwork with business partners, 3) promote the DX business, and 4) expand direct transactions with customers and bolster areas of strength.

Growth initiatives

1. Promotion of proactive M&A Expand the Group's overall business scale by investing in companies with businesses that will create synergies with the Company
2. Further strengthen teamwork with business partners Broaden the scope of solutions by deepening cooperation with companies possessing excellent IT products/services and proprietary technologies
3. Promote the DX business (1) Cloud, package-based SI a) Company-wide development of Salesforce-related business b) Strengthen the cloud business in the infrastructure solutions services domain c) Increase the ratio of package-based SI services, such as SAP, AWS, etc. (2) Low-code development, agile development Leverage the Company's strengths of technological capability, business knowledge, and high-quality system development capabilities to: a) Promote agile/low-code development with the right people in the right places b) Establish R&D Computer Agile Development Standard c) Quickly develop agile personnel and low-code personnel
4. Expand direct transactions with customers and bolster areas of strength (1) Expand direct transactions with customers Acquire repeat orders using client base, and leverage package-based SI services to cultivate new clients (2) Bolster areas of strength Promote high-productivity development, focusing on areas in which the Company possesses know-how and new growth areas

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

(1) Promotion of proactive M&A

In order to achieve the medium-term numerical targets, the Company will aim not only to grow its existing business organically, but also to expand its business scale by actively advancing M&A. The M&A strategy will target companies that have businesses that create synergies with the Company. For infree, while it is not expected to immediately contribute to profits due to amortization of goodwill, synergies within the Group have emerged. Net sales of SAP-related business FY3/22 1H increased significantly to ¥229mn (¥31mn in the same period of the previous year before consolidation), and by the Company's engineers utilizing infree's in-house education system, qualification holders and business opportunities are increasing.

(2) DX business promotion

In terms of DX business promotion, the Company is focusing on cloud and package-based SI as well as low-code development and agile development.

a) Cloud, package-based SI

Demand for cloud and package-based SI is expected to increase as important solutions to overcome the challenges Japan will face going forward.

Japan's Ministry of Economy, Trade and Industry (METI) published the DX Report in September 2018. The subtitle of this report was "Overcoming of the '2025 Digital Cliff' Involving IT Systems and Full-fledged Development of Efforts for Digital Transformation." As existing systems become outdated, complex, and closed off, there are concerns that there will be a "2025 Digital Cliff," which presents three issues: 1) Companies cannot make full use of data and will be unable to flexibly and quickly adjust business models in response to changes in the market, and thereby lose the digital competition; 2) Companies may face a surge of system maintenance and management costs, and current business maintenance and operation may account for more than 90% of IT budgets; and 3) With a shortage of personnel capable of maintaining the existing systems, companies may face a higher security risk. The report suggests that if companies cannot overcome the "2025 Digital Cliff," not only will companies be unable to realize DX, but Japan may suffer an economic loss of up to ¥12tn per year after 2025 (three times larger than the current loss).

The "2025 Digital Cliff" related to IT systems

Due to existing systems becoming outdated, complex, and closed off, companies
1) Cannot make full use of data and will be unable to flexibly and quickly adjust their business models in response to changes in the market, and thereby lose the digital competition
2) Will face a surge of system maintenance and management costs, which may account for more than 90% of IT budgets (technical debt*)
3) Will face a higher risk of system trouble and data loss, etc. due to cybersecurity accidents and disasters

*Technical debt: Refers to the situation of skyrocketing maintenance costs and operating costs over the long term as a result of system development based on a short-term view
Source: Prepared by FISCO from the DX Report by the Ministry of Economy, Trade and Industry in September 2018

In the DX Report, it is projected that in 2025 more than 60% of mission-critical systems being operated in Japan will have been operating for more than 21 years. Old legacy systems have a variety of problems. Approximately 70% of Japanese companies feel that outdated systems are holding back their DX. They face difficulties in data utilization across internal departments due to past priority on department-based optimization, and the systems are closed off due to the frequent use of development from scratch in line with business operations. Excessive customization has caused the systems to be overly complex. Around 80% of companies' IT-related costs are allocated to maintaining and running current businesses, and both funds and personnel are not being allocated to strategic IT investment. In addition, development based on a short-term perspective results in soaring long-term maintenance costs and operating costs.

With SAP, there is the "2027 Problem," in which the support period for the former version will end, so demand for migration to new systems is expected going forward. SAP's ERP is deployed at more than 17,000 companies worldwide, including major companies, and at approximately 2,000 companies in Japan, and it has the top global share in the ERP field. SAP's ERP was released under the name R/1 in 1972, equipped with its own database HANA in 2013, and S/4HANA was released in 2015. In 2021, "RISE with SAP," which supports companies' DX based on S/4HANA was announced. In the future, it is aiming to utilize digital technologies such as AI (artificial intelligence), IoT, and analytics. Meanwhile, for users of the older product SAP ERP 6.0 released in November 2011, the standard support period will end in 2025 for Enhanced Package (EHP) 5 and below, and in 2027 for EHP 6 and later versions. Heading towards the end of standard support, users have the options of continuing the SAP product they are currently using without standard support, switching to another company's ERP product, or migrating to SAP S/4HANA. By migrating to SAP S/4HANA, it seems that users will not only enjoy high-speed processing utilizing an in-memory database, but also the merit of slimming down their bloated system and reducing operating and management costs. In addition, based on the "Cloud by Default Principle" advocated by the Japanese government, with respect to business targeting the public sector, the Company is finding business opportunities not only via the conventional route of prime contractors, but also for package-based SI services related to the Salesforce business in the field of education and other areas. The Company intends to improve the performance of the group by sharing insights about migration work to new systems with its subsidiary infree.

In December 2021, Amazon Web Services (AWS), the world's largest cloud service company, announced that it will support the full migration of the mission-critical system operated by the NASDAQ stock market in North America to the cloud in 2022. Google has a similar contract with a major US futures exchange. In mission-critical systems that require high reliability, the full migration from companies' own servers to the cloud is progressing. Similarly, in Japan, there is a trend to switch to the cloud when migrating to a new system. The Digital Agency, which was established on September 1, 2021, will oversee and supervise information systems such as the national government, local government bodies, and the quasi-public sector by planning digital policies, and will develop and upgrade important systems. It is expected that digitalization will spread to the private sector in order to advance efforts aimed at realizing a society in which the benefits of digitalization reach all people through the promotion of DX for society as a whole.

b) Low-code development, agile development

The COVID-19 pandemic has accelerated the digitalization effort. Initially, remote work was seen as a measure to alleviate traffic congestion during the Tokyo Olympic and Paralympic Games, but it is now being used widely and over a prolonged period of time as a measure to prevent infections. Furthermore, as part of measures to combat the COVID-19 pandemic, efforts to get rid of "in-person, paper, and personal seals" are being encouraged, and it was decided to abolish 99% of the approximately 15,000 types of administrative paper-based procedures requiring personal seals. Also, due to the COVID-19 pandemic, university classes, conferences, seminars, briefings, and other events have generally been switched from in-person to online.

In addition, in October 2020, the Japanese government announced the Carbon Neutral Target to reduce greenhouse gas emissions to effectively zero by 2050. Then, in April 2021, in order to achieve the long-term target, the government raised its CO_2 emissions target to 46% below the FY2013 level by 2030, compared to the previous target of a 26% reduction. The situation has changed from a year ago, as companies are not only implementing their own initiatives, but are also asking their suppliers to reduce CO_2 emissions. In order to pursue decarbonized business management in the era of climate change, it is important for corporate executives to not only carry out improvement activities and BPR, but also to carry out drastic management reforms such as reshuffling their business portfolios.

In this way, the business environment surrounding companies is undergoing discontinuous and drastic changes over a short period of time, but since information systems that support these are indispensable for business models responding to these changes, at FISCO we think that the movement to incorporate low-code development and agile development will progress. The Company will utilize its strengths of technical capabilities, business knowledge, and high-quality system development capabilities, and while promoting agile/low-code development by having the right people working in the right places, the DX Promotion Headquarters will play the central role in establishing the R&D Computer Agile Development Standard, as well as aim to develop agile personnel and low-code personnel at an early stage.

Shareholder return policy

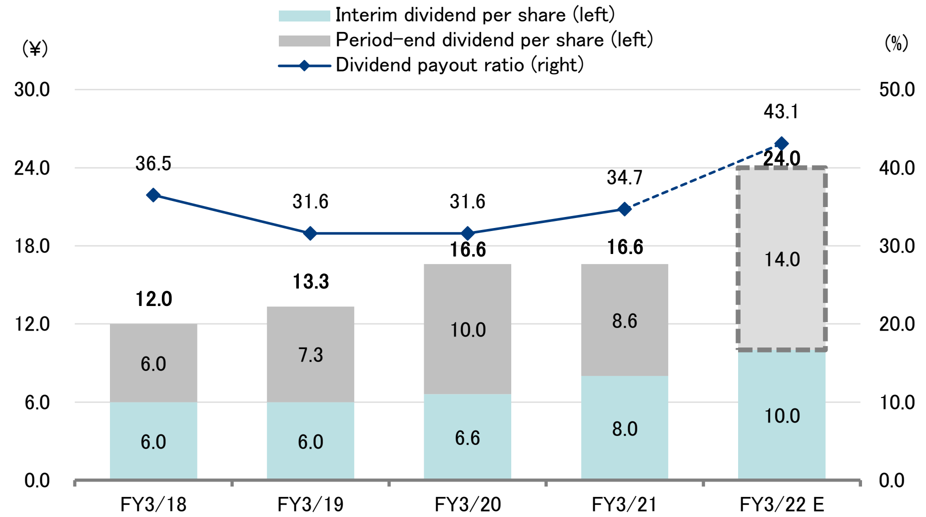
Raised consolidated dividend payout ratio target to at least 40%, FY3/22 dividend forecast is ¥24.0 per share, a ¥7.4 YoY increase

1. Dividend policy

The Company considers returning profits to shareholders to be one of its most important management issues, and its basic policy is to continuously and stably return profits to shareholders after considering supplementing internal reserves as necessary to strengthen the management structure and for business development in the future. In November 2021, the Company changed its dividend policy, shifting from a dividend payout ratio of at least 30% to a consolidated dividend payout ratio of at least 40%. In conjunction with this change, the Company increased the FY3/22 year-end dividend per share to ¥14.0 (¥4.0 increase versus the previous forecast), resulting in a forecast dividend payout ratio of 43.1%. With this, the annual FY3/22 dividend will increase ¥7.4 to ¥24.0.

On October 1, 2021, the Company conducted a 1.5 to 1 stock split in order to lower the amount of each trading unit of its stock and thereby increase the liquidity of its shares, as well as to broaden its investor base.

Dividend per share and dividend payout ratio



Note: Retroactively revised following the 1.5 to 1 stock split conducted on October 1, 2021
Source: Prepared by FISCO from the Company's results briefing materials

2. Shareholder benefits program

The Company conducts a shareholders benefit program for the purpose of increasing the number of shareholders who hold its stock over the medium to long term. It comprehensively revised the dividend policy and the shareholders benefit program, and in November 2021, partially changed the thresholds for awarding points under the shareholders benefits program. Points are awarded to shareholders who hold at least 300 shares at the end of March, with the number of points awarded dependent on the number of shares held and the length of time they have been held. For example, shareholders who hold 300 to 399 shares will be awarded 3,000 points in the first year and 3,300 points in the second year, after which the points will increase by 10% to 3,300 points. Shareholders holding 1,000 or more shares will be awarded 15,000 points in the first year and 16,500 points in the second and subsequent years. So it is a scheme that rewards shareholders the longer they hold their shares. The awarded points can be exchanged for more than 1,000 kinds of products, including food, electrical goods, gifts and travel and experiences, on the R&D COMPUTER Benefits Club website created specifically for the Company's shareholders.

Shareholder benefits program

No. of shares held	No. of points awarded	
	First year	Second and subsequent years
300 to 399 shares	3,000 points	3,300 points
400 to 499 shares	4,000 points	4,400 points
500 to 599 shares	5,000 points	5,500 points
600 to 699 shares	6,000 points	6,600 points
700 to 799 shares	8,000 points	8,800 points
800 to 899 shares	10,000 points	11,000 points
900 to 999 shares	12,000 points	13,200 points
1,000 to 1,999 shares	15,000 points	16,500 points
2,000 or more	20,000 points	22,000 points

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

Sustainability

The Company views employees' health as an important management policy, and is working to maintain and improve health as well as increase productivity. In recognition of these efforts, it was recognized as a 2021 Certified Health & Productivity Management Outstanding Organization (large enterprise category), as a company that has excellent health and productivity management.

In addition, the Company has also issued its diversity promotion declaration. Through this declaration, it is aiming to establish an environment in which the rights of all are respected, there is no discrimination, and each and every person can demonstrate their capabilities. It is also aiming to establish workplace environments in which employees can demonstrate their individual capabilities to the greatest possible extent through enhancing work-life balance and promoting gender equality. It is promoting respect for the diversity of each and every person and reasonable consideration for people with disabilities and people who require support.

In addition, the Company is advancing initiatives with respect to the Sustainable Development Goals (SDGs), and it has newly declared five key goals. The Company has established specific targets for each of the five goals of "Education/technological innovation," "Rewarding work/equality," "Responsibility" "Partnerships," and "Health/equality."

Sustainability

Five key goals

01	Education/ technological innovation	Contribute to the realization of sustainable social infrastructure by providing optimal system solutions from a group of talented engineers.	
02	Rewarding work/ equality	Aim to respect the human rights and diversity of all people, and establish an environment that allows each person to demonstrate his/her talent to the fullest.	
03	Responsibility	Aim to be a company trusted by stakeholders through the provision of high-quality, reliable, and safe services.	
04	Partnerships	Contribute to the achievement of the SDGs through the building of long-term cooperative relationships with business partners.	
05	Health/equality	Aim to create a workplace in which every employee can be both mentally and physically healthy and can work vibrantly and enthusiastically.	

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

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