

Softcreate Holdings3371 Tokyo Stock Exchange
First Section

30-Jan.-15

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Hiroyuki Asakawa**■ Driving faster growth by capturing synergies between e-commerce support and Internet advertising**

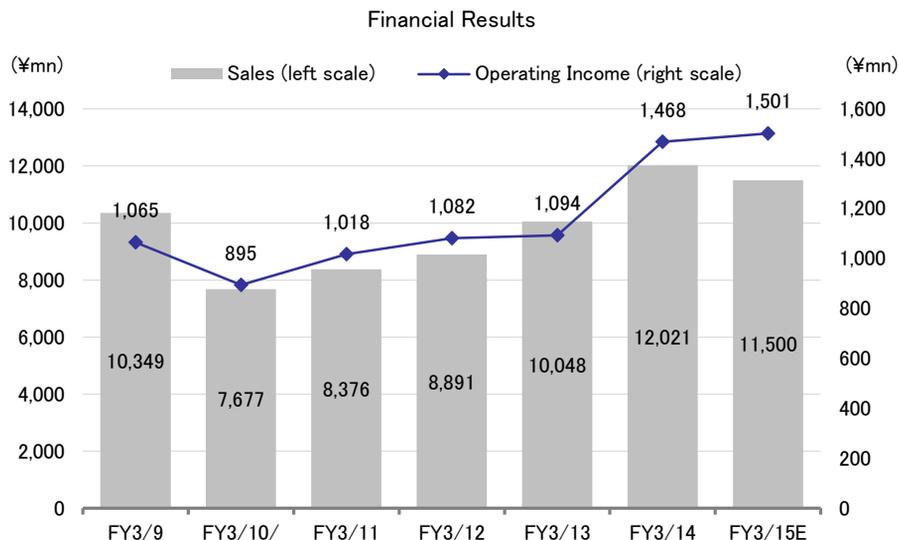
Softcreate Holdings Corp. <3371> positions the e-commerce (EC) solutions business as its core operation – a business that provides EC support services to corporate customers that range from medium-sized to large companies. More than 800 corporate customers have used these services on a cumulative basis, with the company expecting that number to increase to over 900 by the end of March 2015. Softcreate Holdings commands a share of over 40% of the domestic market for EC support services, making it the market-share leader in this service sector.

The EC solutions business' services are centered on the construction, operation and maintenance of EC websites. However, the company is also focusing on Internet advertising agency services (the digital marketing business). It intends to drive faster growth by capturing synergies from undertaking both e-commerce support and Internet advertising services simultaneously. Initially, the company won a considerable amount of Internet advertising contracts by providing its EC solutions services customers with Internet advertising as an additional service. However, Internet advertising services are now gradually helping the company to win EC solutions services contracts in an increasing number of instances.

Management of Softcreate Holdings has emphasized increasing profitability while distancing from low-margin and high-risk businesses. Until now, this strategy has delivered the intended results. The company has a high return on equity (ROE) and provided generous shareholder returns. Looking ahead, the company is expected to remain on a growth trajectory driven by the synergistic effect of the two businesses. Growth in the digital marketing business should ripple out to the EC solutions business, which should, in turn, catalyze expansion in the digital marketing business. We believe that new contracts received in the EC solutions business and the digital marketing business should be watched closely as the key performance indicators (KPIs) of Softcreate Holdings' business and performance growth.

■ Check Point

- The company has strengthened software programs developed in-house in the course of providing consigned development services.
- The company commands a top share of the EC website support industry, while taking a selective approach to customers.
- Higher sales and earnings were posted in 1H FY3/15, with sales and all earnings items surpassing initial forecasts



■ Company Outline

The company has strengthened software programs developed in-house in the course of providing consigned development services.

(1) Company History

In August 1969, the predecessor of Softcreate Holdings, Shirozaka Sangyo Co., was established as a private company with limited liability. In May 1983, the company reinvented itself as an information and communications enterprise from the real estate business with the opening of its first Soft Create personal computer shop. It has remained active in the information and communications sector to this day.

In its early years as an information and communications enterprise, Softcreate Holdings initially saw the operation of personal computer shops as its core business and sought to develop a chain of such shops. However, as the trend toward the commoditization of personal computers took hold, the company stopped retailing personal computers in shops. It dramatically shifted course to Internet sales and cultivating corporate demand for services. The company's successful experiences from this time and the expertise it amassed has formed the basis for the company's current EC solutions business.

Another major thread in the company's history is the systems integration (SI) business. The company began developing its own software alongside the operation of personal computer shops. In 1985, it launched services to develop computer systems on a consigned basis. In the process, the company also strengthened its software programs developed in-house, a business that continues to this day.

In 2005, the company listed its shares on the Hercules market of the Osaka Securities Exchange. In 2008, it listed its shares on the Second Section of the Tokyo Stock Exchange, and in 2011, its shares were listed on the First Section of the Tokyo Stock Exchange, where they remain listed today.



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Company History

Aug. 1969	Established as Shirozaka Sangyo Co. in Yokohama City to engage in the real estate business
May 1983	Opened the company's first personal computer shop, called Soft Create, in Shibuya, Tokyo
Apr. 1985	Started offering SI services on a consigned development basis
Sep. 1986	Established a division to sell systems integration services
Apr. 1993	Launched services to build and maintain computer networks
Jan. 1999	Launched the Tokka COM Internet shopping site and began Internet sales business
Oct. 1999	Released the ec-shop package for constructing EC websites
Mar. 2000	Built a server center and began offering a hosting service
Apr. 2003	Released the X-point web form work flow system
Apr. 2005	Listed shares on the Hercules market of the Osaka Securities Exchange (now: JASDAQ Standard market of the Tokyo Stock Exchange)
Nov. 2005	Released the L2Blocker for detecting and blocking personal computers not authorized to connect to a system
Apr. 2007	Established subsidiary Atled Co., Ltd.
Dec. 2008	Listed shares on the Second Section of the Tokyo Stock Exchange
Apr. 2009	Sold the Tokka COM Internet shopping site business to Stream Co., Ltd.
Mar. 2011	Listed shares on the First Section of the Tokyo Stock Exchange
Oct. 2012	Reorganized as a holding company, changing the company name to Softcreate Holdings Corp., establishing ecbeing Corp. and Softcreate Corp. as operating companies of the group

Systems integration business contributes to earnings growth

(2) Outline of Businesses

In October 2012, Softcreate Holdings reorganized as a holding company. Under this framework, the group has three core operating companies: ecbeing Corp., Softcreate Corp., and Atled Co., Ltd.

Softcreate Holdings has three main businesses: (1) the EC solutions business, which provides EC support services to corporate customers; (2) the systems integration business, which provides network construction services to corporate customers and sells software programs developed in-house; and (3) the product sales business, which procures and sells hardware and software.

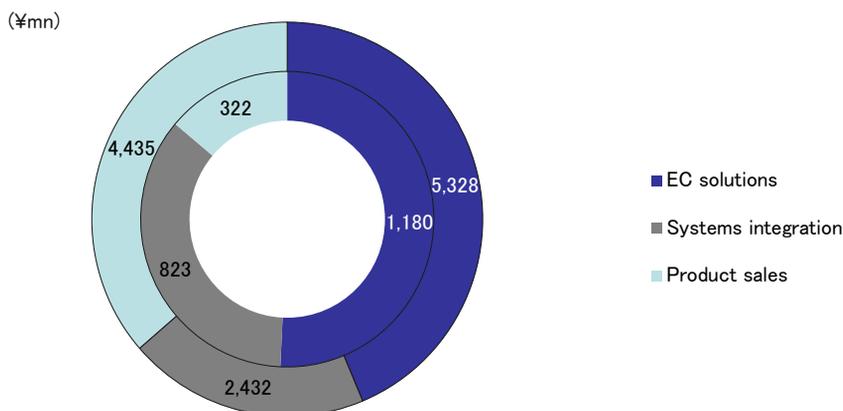
The EC solutions business is conducted by ecbeing. Services are offered under the name "ecbeing," the same name as the company. In the SI business, Softcreate builds networks and sells proprietary software, while Atled specializes in the development and sale of work flow software (internal clerical automation and information sharing systems). In product sales, Softcreate primarily sells hardware and third-party software in the course of developing the systems integration business.

Operating Companies, Businesses and Core Products

Segment	Subsidiary	Business	Products and services	
EC solutions	ecbeing Corp.	EC solutions	"ecbeing" and optional services	
Systems integration	Softcreate Corp.	SI Business	Networks / Cloud computing	SC Cloud series/ IDCMax series
			Business applications	"X-point"
			Security/ Business continuity planning	"L2Blocker"
	Atled Co., Ltd.	Work flow business	"X-point" "AgileWorks"	
Product Sales	Softcreate Corp.	Sale	Personal computers/servers, software (third party), peripheral equipment, etc.	

The following pie graph shows the composition of consolidated sales and recurring profit for FY3/14. Particularly noteworthy is the high share of the systems integration business in the profit mix. The core EC solutions business has also achieved a high recurring profit margin. In contrast, the product sales business has a low margin and contributes only a small share of profits as it deals with third-party products (hardware, software, etc.)

Composition of Sales and Recurring Profit by Segment (FY3/14)



Note: Sales and recurring profit are both shown before adjustments.

■ Description of business and status in the 1H FY3/15

The company commands a top share of the EC website support industry, while taking a selective approach to customers.

(1) EC Solutions Business

(A) Description of Business

The EC solutions business supports the e-commerce businesses (i.e., direct sales over the Internet) of corporate customers. Services are provided by subsidiary ecbeing Corp. under the ecbeing brand name. The EC solutions business provides a one-stop service primarily for construction, operating and maintaining EC websites and for supplying marketing support for these websites.

E-commerce is undertaken by an extremely wide range of business operators, from proprietorships to large corporations. For this reason, many businesses other than Softcreate Holdings also provide EC support services. Setting Softcreate Holdings apart is that it sets the following two criteria for winning customers:

The first criterion is that the corporate customer or product itself must have already established a brand and a business platform to a certain extent. This means that Softcreate Holdings does not target companies that specialize only in e-commerce. Based on past experience, Softcreate Holdings believes that it is crucial for the company to demonstrate its strengths by integrating its customers' physical operations and products with e-commerce.

The second criterion used by Softcreate Holdings to target customers is that the corporate customer or product must generate annual revenues of between ¥100mn and ¥10bn. This means that Softcreate Holdings does not target proprietorships or newly formed startups. Softcreate Holdings must charge a fairly high fee to provide services that will take full advantage of its strengths. Therefore, corporate customers must have a business large enough to afford the services provided by the company. Softcreate Holdings' typical contractual fee structure consists of an initial EC website construction cost of around ¥15mn and a maintenance and support cost of around ¥300,000 per month thereafter.

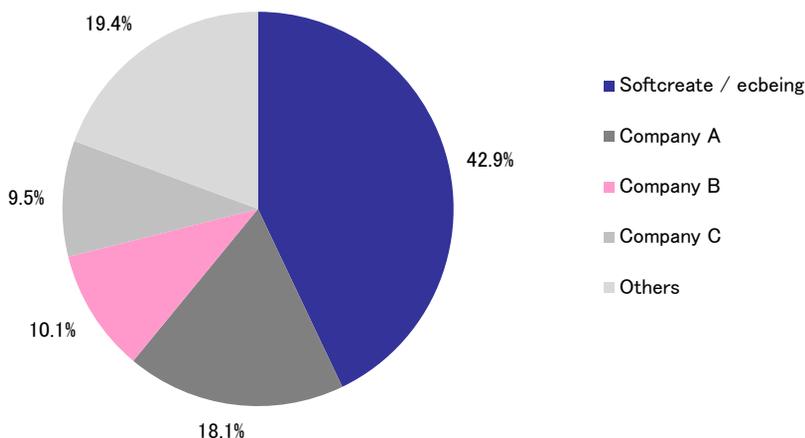
There are many competitors in Softcreate Holdings’ core market. The three main competitors are System Integrator <3826>, S-cubism Inc. <unlisted> and Commerce21 Corp. <unlisted>. In this competitive landscape, Softcreate Holdings has maintained the top share of the Japanese market for EC solutions services, with a customer base of more than 826 companies on a cumulative basis (as of March 31, 2014).

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Share of the Japanese Market for EC Solutions



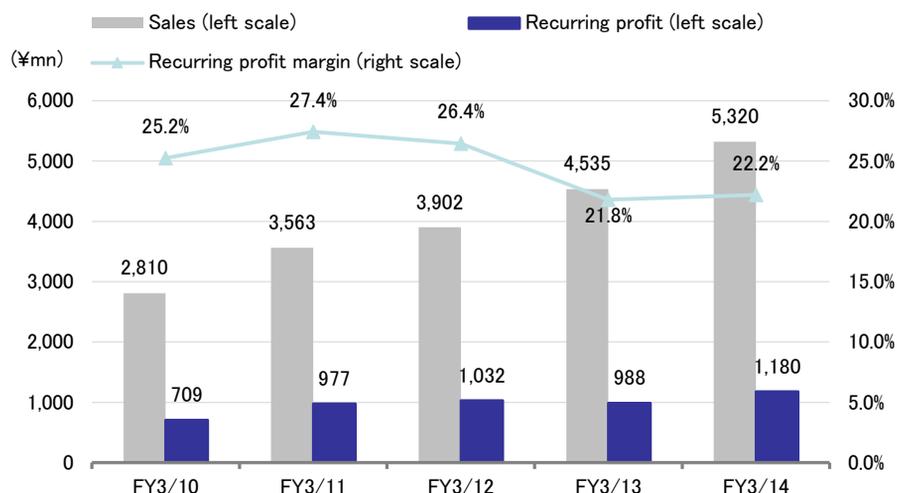
Main EC Support Service Customers



(B) Business performance trend

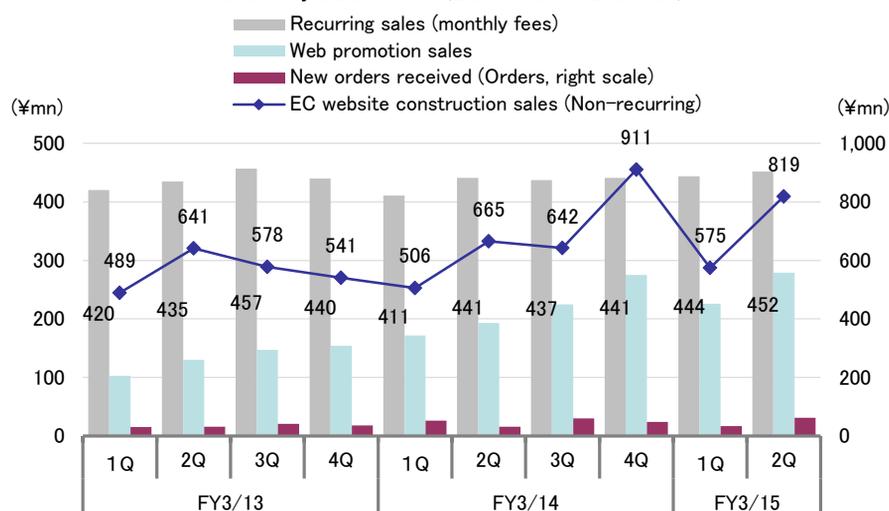
The EC solutions business has continued to experience steady growth in sales and profits. In terms of sales, the EC solutions business delivered compound annual sales growth of 17.3% in the five fiscal years from FY3/10 to FY3/14 and compound annual growth of 13.6% in recurring profit over the same period. EC system sales (the sum of sales from EC website construction and recurring sales from maintenance, support and operation) is the primary source of sales and earnings. However, one notable recent trend has been growth in Web promotion sales. Web promotion refers to a relatively new business that the company calls the “digital marketing business.” In essence, it refers to the so-called Internet advertising business.

Sales and Recurring Profit Trend (EC Solutions Business)



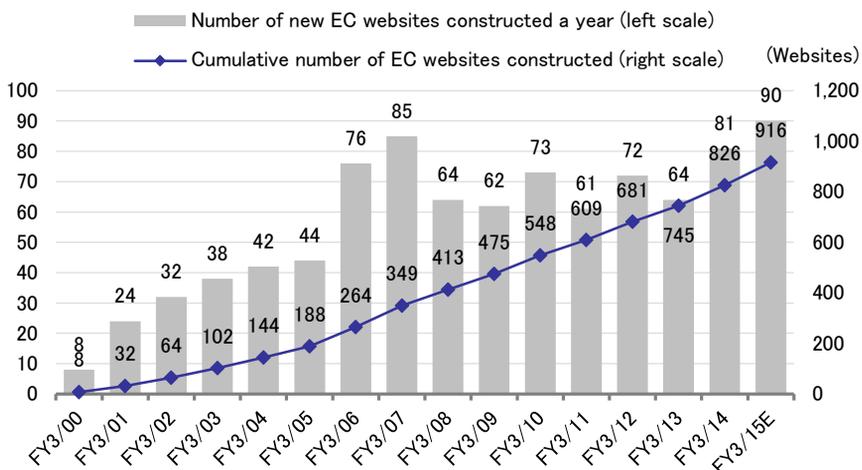
In 1H FY3/15 (April to September 2014), the EC solutions business posted steady growth with EC website construction sales of ¥1,394mn, up 19.0% year on year, and recurring sales of ¥896mn, up 5.2%, as a result of 48 new orders received, up 14.3%. Web promotion sales continued to grow rapidly by 38.4% to ¥505mn. The cumulative number of Web promotion customers increased steadily to approximately 70 companies as of September 30, 2014. Consequently, external sales for the EC solutions business as a whole rose 17.0% year on year to ¥2,794mn.

Quarterly Sales Trend (EC Solutions Business)



The number of EC websites constructed (cumulative), a KPI of the EC solutions business, was well over 800 as of September 2014, and is expected to surpass 900 by March 31, 2015. Looking at the yearly trend, the number of new EC websites constructed per year had remained at around 60 after peaking out in FY3/07, but has started to pick up pace since FY3/13. We believe that synergies captured between EC website construction and Web promotion are behind this trend.

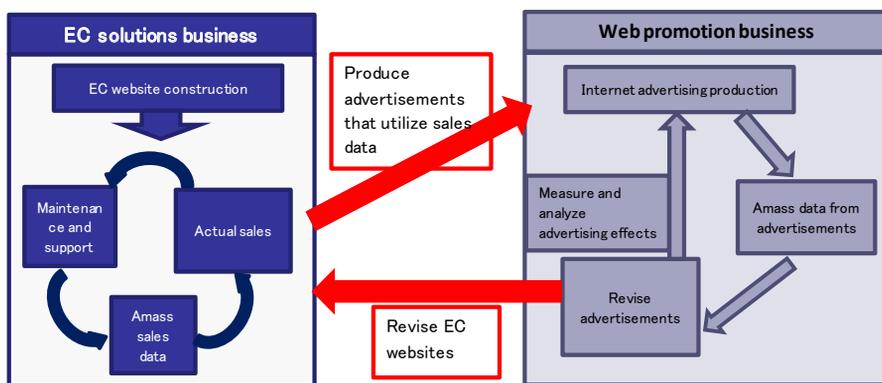
Trend in the Number of EC Websites Constructed



(C) Outline of Web Promotion Business

The Web promotion business refers to the so-called Internet advertising business, and is what the company calls the “digital marketing business.” This business model seeks to provide Internet advertising services as an additional service to customers of the company’s ebeing service. Softcreate Holdings entered this business based on the belief that by entering the Internet advertising field with the top share of the EC support services market, it can set itself apart from specialist companies in each of these fields, and generate the synergies needed to expand business. In other words, the effective use of both data obtained from EC website operation, and data from Internet advertising will enable the company to run more effective advertisements or conversely, to modify EC websites based on analysis of the advertising effects. By engaging in both fields, the company be able to provide these services more efficiently and speedily. The company is steadily garnering customer support for services that integrate EC solutions and Web promotions, and earnings are expanding rapidly in this field.

Integration of EC Solutions and Web Promotion

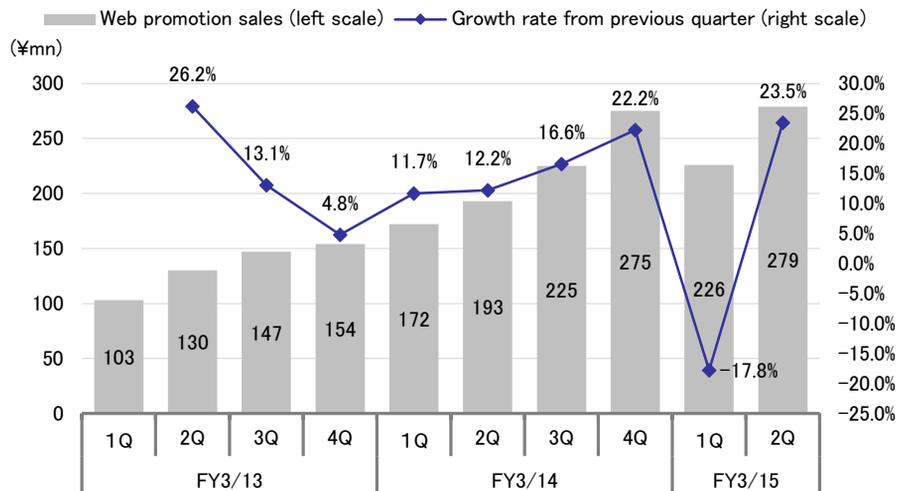




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Quarterly Sales Trend (Web Promotion Business)



The Web promotion business is essentially an advertisement agency business. This business involves the same kinds of activities as those of specialized Internet advertising agency businesses, such as procuring and selling advertising space, and providing managed advertisements and affiliate advertisements. Because Web promotion staff require a different set of skills than EC solutions staff, the Web promotion business requires specialized staff. (approx. 50 specialized staff were in place as of September 30, 2014.) That said, the company plans to gradually increase staff in line with work volume going forward. Because it is an advertising agency business, the margins of the Web promotion business are confined to those of a specialized Internet advertising business. We estimate the gross margin of the EC solutions business is around 30%. This compares with a gross margin of around 15–20% for a conventional Internet advertising agency. We believe the company can fully justify the existence of the Web promotion business, despite its low profitability, because synergies with the EC solutions business will lead to tangible benefits such as winning new contracts and increasing the loyalty of existing customers.

Currently, there are virtually no other companies like Softcreate Holdings, which operates both an EC support business and an Internet advertising agency business. Estore Corporation <4304> and System Integrator <3826> are companies that specialize in the e-commerce support business, while SEPTENI HOLDINGS CO., LTD. <4293> and OPT, Inc. <2389> specialize in the Internet advertising agency business. Estore is thought to be pursuing the same direction as the Softcreate Group by setting out to strengthen its marketing support business. However, we believe that Estore cannot yet be counted as a competitor of Softcreate Holdings based on Estore’s business scale and marketing support techniques (advertising agency techniques), among other factors. In this context, we believe that transcosmos inc. <9715> has considerable overlap with Softcreate Holdings, in terms of its customer base and other aspects. The main business of transcosmos is to provide sales promotion support mainly by placing outbound calls to e-commerce users from a call center; it does not provide Internet advertising agency services. However, in the sense that both companies can be expected to deliver similar benefits from the standpoint of customers, transcosmos is arguably the closest to being a competitor of Softcreate Holdings.

(D) Softcreate Group’s Strengths in the EC Solutions Business

The strengths of Softcreate Holdings, the market share leader in Japan’s EC solutions industry, are summarized below.

○ Fulfilling customer needs through rigorous customization

The company believes the core value of EC solutions lies in these solutions being able to fulfill a multitude of customer demands to the fullest extent possible. Based on this belief, the company fulfills customer needs by customizing basic software. Although this approach pushes up costs, the company reflects the higher costs in its fees. To ensure its customers are able to embrace this sort of fee structure, the company only targets corporate customers that generate annual revenues between ¥100mn and ¥10bn.

○ Omni Channel Capability

The company previously sold personal computers both in shops and over the Internet. Leveraging this experience and its cumulative customer base of over 800 companies, the company is able to provide high-level EC solutions in response to the Omni Channel trend, which facilitates the use of e-commerce via many different channels, such as PCs and smartphones.

○ Marketing Support Capabilities

Marketing support capabilities refer to the integration of Web promotion and EC solutions. There are considerable advantages for customers in having a single company provide these two service elements, which have different business characteristics but common aims. The existence of the Web promotion business has already started helping the company to win certain new EC solutions contracts. With this in mind, the company continues to offer strong prospects for realizing synergistic benefits at a faster pace.

○ Cost competitiveness

The company also provides data center usage services using a third-party data center. Furthermore, it has entered into a comprehensive agreement with LAC Co., Ltd. <3857> on ensuring security in connection with the use of this data center. The effective use of third-party services in this manner allows the company to provide an environment that facilitates access to highly secure e-commerce at low cost.

Maintaining high profits by expanding sales of ready-made work flow software**(2) Systems Integration (SI) Business****(A) Description of Business**

The company's SI business can be broadly divided into two areas: the construction of information networks and the sale of software developed in-house. The company conducted conventional SI business activities, so to speak, in the form of consigned development activities through 1H FY3/14 (through September 30, 2013). However, it has now withdrawn from this field.

The company's basic approach to the SI business is to supply ready-made services and products (software) without using customized elements. In network construction, the company strictly adheres to the approach of utilizing proprietary and third-party software without modification to fulfill customer needs.

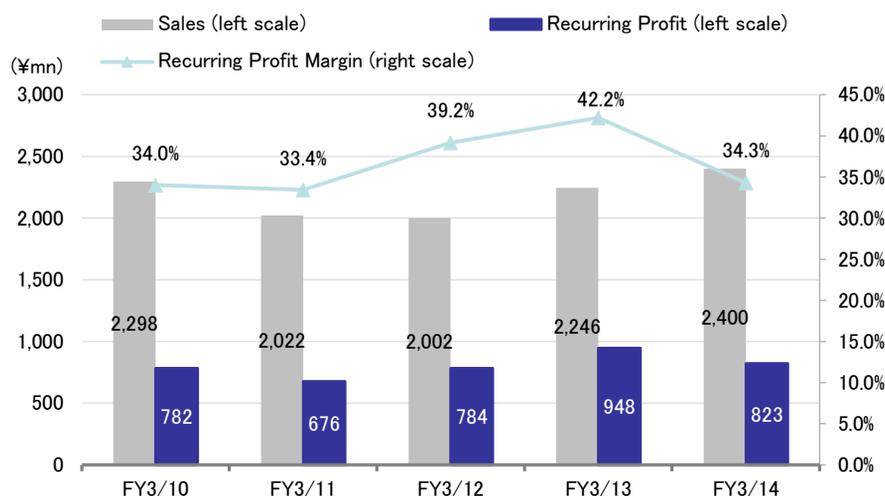
The main software programs developed in-house are the X-point and AgileWorks work flow programs developed by subsidiary Atled Co., Ltd. The X-point program is sold to companies with up to 300 employees, while AgileWorks programs are sold to larger companies with a greater number of employees. Despite numerous market entrants, the X-point program commands a top share of about 30% of the market for work flow software programs. In addition to direct sales by the company, a considerable amount of sales are generated via major systems integrators, which incorporate the company's products into business application software in the course of constructing systems.

In this manner, the SI business has thoroughly removed customized elements from its business model. As a result, this business is characterized by an extremely high gross profit margin of between 40% and 50%. This is also true for both network construction and proprietary software sales.

(B) Business Performance Trend

It is difficult to describe the SI business as a so-called growth business, as it is susceptible to the impact of economic fluctuations. However, because Softcreate Holdings' business model specializes in ready-made products and services, the SI business is notable for its high profit margins and its high contribution to profit. Looking at trends in recurring profit by business segment over the past few years, the SI business has consistently achieved a recurring profit margin of over 30%.

Sales and Recurring Profit Trend (SI Business)



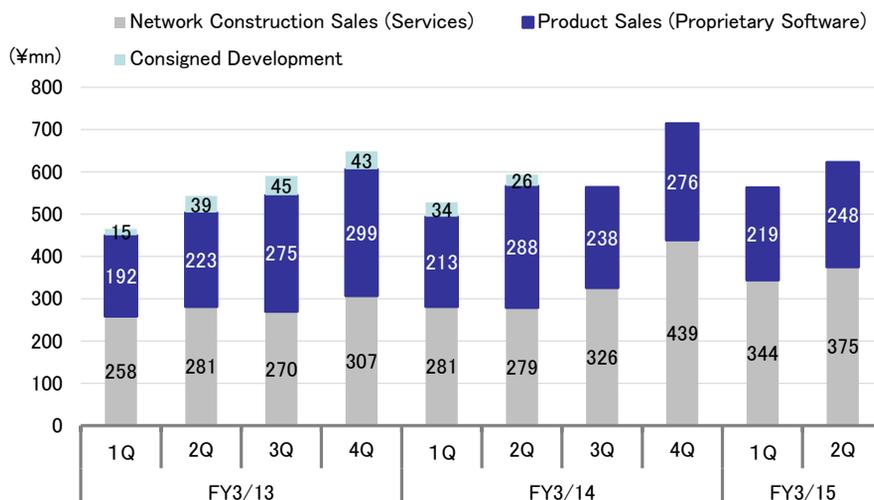
In 1H FY3/15 (April to September 2014), external sales for the SI business as a whole rose 5.7% year on year to ¥1,185mn. These sales break down into network construction sales of ¥719mn, up 28.4% year on year, and product (proprietary software) sales of ¥467mn, down 6.8% year on year. Sales trended largely in line with the company's business plan. Notably, sales of the company's L2Blocker security software were strong in 2Q FY3/15 (July to September 2014), due to major customer data leak incidents at numerous companies. L2Blocker has a function that prevents PCs brought into a company from the outside from connecting to networks.



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Quarterly Sales Trend (SI Business)



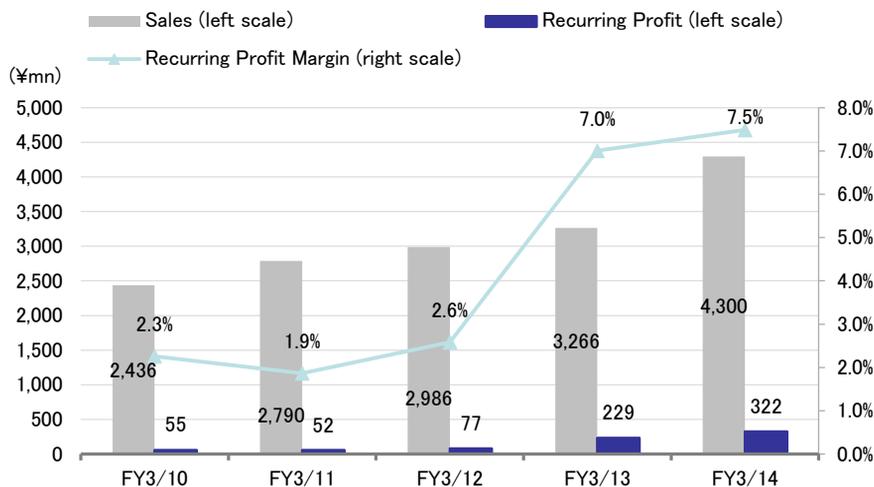
Targeting Stable Growth Through Product Sales

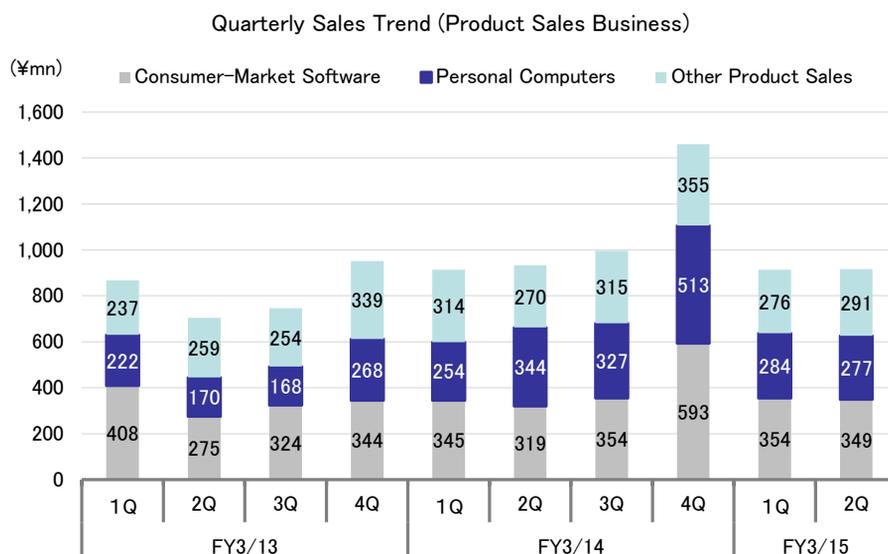
(3) Product Sales Business

The product sales business consists of the sale of PCs, peripheral equipment and third-party software products. These sales are incidental to orders for network construction projects in the SI business. Replacement demand for both hardware and software is expected to emerge in step with an increase in the number of customers of the Softcreate Holdings Group as a whole. For this reason, the product sales business is expected to grow moderately over the medium term. That said, the sale of third-party products means that profitability is lower than in other business segments.

In 1H FY3/15 (April to September 2014), product sales were ¥1,830mn, down 0.8% year on year. The impact of the consumption tax hike was a concern, but it did not have any impact due to solid growth in new orders in the SI business.

Sales and Recurring Profit Trend (Product Sales Business)





■ Financial Analysis

The company will be able to maintain its high ROE through steady sales growth and enhanced profitability

Softcreate Holdings' return on equity (ROE) reached 14.2% in FY3/14. Considering that an ROE of 15% is seen as a target for multinational companies, the company has a strong ROE.

That said, we estimate the company's ROE will decline to 13.5% in FY3/15. Analyzing the component factors of ROE, the main factors behind the lower ROE estimate were decreases in financial leverage from 1.55 to 1.52 times from FY3/14 to FY3/15, and a decline in the asset turnover rate from 1.44 to 1.28 times, despite an increase in the net profit margin from 6.3% to 7.0%.

We are paying close attention to the net profit margin. Sales are forecast to decrease in FY3/15. This means the higher net profit margin is a reflection of lower sales rather than growth in net profit. Looking at this from a different perspective, the increase in shareholders' equity of 9.4% is greater than the increase in net profit of 4.8%, resulting in a lower ROE.

The situation in FY3/15 is such that Softcreate Holdings remains a growth company despite possibly appearing to have excess capital that has temporarily entered a phase of contraction.

One means of breaking the impasse would be to curb the growth in shareholders' equity by increasing dividends. However, since the company aims to pay a stable dividend with a dividend payout ratio target of 30%, we believe temporarily increasing the dividend drastically would be difficult for it to achieve. Hence, the only way forward as a growth company is to achieve solid earnings growth through increased sales growth and enhanced profitability. Taking into account the company's business model, its competitiveness in the industry and other factors, we believe that the company is well positioned to attain this growth.



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Financial Analysis

		FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15E	Remarks	
Major indicators	Sales	¥mn	7,677	8,376	8,891	10,048	12,021	11,500	Company forecast
	SG&A expenses	¥mn	1,530	1,603	1,787	2,072	2,170	2,076	Ratio of SG&A expenses to sales mostly unchanged from FY3/14
	Operating profit	¥mn	895	1,018	1,082	1,094	1,468	1,501	Company forecast
	Recurring profit	¥mn	902	1,004	1,113	1,252	1,501	1,510	Company forecast
	Net profit	¥mn	436	525	553	645	763	800	Company forecast
	Total assets	¥mn	5,768	6,260	6,815	7,719	8,964	9,006	Mostly unchanged from Sept. 30, 2014
	Shareholders' equity	¥mn	3,835	4,181	4,610	5,149	5,641	6,172	Calculated assuming only dividends are outflows
Profitability and efficiency	Shareholders' equity ratio	%	11.4%	13.1%	12.6%	13.2%	14.2%	13.5%	
	Net profit margin	%	5.7%	6.3%	6.2%	6.4%	6.3%	7.0%	
	Financial leverage	times	1.52	1.50	1.49	1.49	1.55	1.52	Total assets / shareholders' equity
	Asset turnover rate	times/year	1.35	1.39	1.36	1.38	1.44	1.28	
	Recurring profit / total assets	%	15.9%	16.7%	17.0%	17.2%	18.0%	16.8%	
	Recurring profit margin	%	11.8%	12.0%	12.5%	12.5%	12.5%	13.1%	
	Gross profit margin	%	31.6%	31.3%	32.3%	31.5%	30.3%	31.1%	
	SG&A expenses / sales	%	19.9%	19.1%	20.1%	20.6%	18.1%	18.1%	
	Operating profit margin	%	11.7%	12.2%	12.2%	10.9%	12.2%	13.1%	
Growth rates	Sales CAGR	%	-	-	-	-	3.0%	8.4%	Compound annual growth rate for the past 5 years
	SG&A expenses CAGR	%	-	-	-	-	0.2%	6.3%	Compound annual growth rate for the past 5 years
	Operating profit CAGR	%	-	-	-	-	6.6%	10.9%	Compound annual growth rate for the past 5 years
	Recurring profit CAGR	%	-	-	-	-	6.9%	10.8%	Compound annual growth rate for the past 5 years
	Net income CAGR	%	-	-	-	-	18.5%	12.9%	Compound annual growth rate for the past 5 years

Business Performance Trend

Higher sales and profits in 1H FY3/15 with sales and profit items above initial forecasts

(1) 1H FY3/15 Business Results

In 1H FY3/15 (April to September 2014), Softcreate Holdings reported consolidated sales of ¥5,811 million, up 8.5% year on year, operating profit of ¥667mn, up 8.9% year on year, recurring profit of ¥701mn, up 10.6% year on year, and net profit of ¥463mn, up 58.8% year on year. Sales and profit items were above initial forecasts.

The EC solutions business expanded steadily, posting segment sales of ¥2,794mn, up 17.0% year on year from 1H FY3/14, and segment profit of ¥549mn, up 2.4% year on year. This reflected expansion in the e-commerce market, along with efforts to strengthen the Web promotion business (Internet advertising agency business). Heightened customer requirements for e-commerce services are making systems increasingly complex. Softcreate Holdings endeavored to win contracts by prioritizing developing businesses that maximize its system construction capabilities in areas where it excels. For this reason, several business negotiations ultimately did not come to fruition. Nevertheless, new contracts received grew steadily to 48 by September 30, 2014 (April to September 2014).

In the SI business, there were concerns that network construction sales would be affected by the pull-back in demand from the consumption tax hike. However, network construction sales grew steadily, along with brisk sales of the L2Blocker security software developed in-house. Sales of L2Blocker were driven by heightened awareness of security among companies following major data leak incidents. The product sales business delivered a solid performance in line with the strong showing by the SI business.

Business Performance Trend (By Segment)

	FY3/12	FY3/13			FY3/14					FY3/15			
		1H	2H	Full year	1H	Year on year	2H	Year on year	Full year	Year on year	1H	Year on year	
Sales	EC solutions	3,902	2,217	2,317	4,535	2,388	7.7%	2,932	26.5%	5,320	17.3%	2,794	17.0%
	Systems integration	2,002	1,008	1,237	2,246	1,121	11.2%	1,278	3.3%	2,400	6.9%	1,185	5.7%
	Product sales	2,986	1,570	1,696	3,266	1,844	17.5%	2,456	44.8%	4,300	31.7%	1,830	-0.8%
	Total sales	8,891	4,796	5,251	10,048	5,354	11.6%	6,666	26.9%	12,021	19.6%	5,811	8.5%
Recurring profit	EC solutions	1,032	636	352	988	536	-15.7%	644	83.0%	1,180	19.4%	549	2.4%
	Systems integration	784	289	659	948	369	27.9%	453	-31.2%	823	-13.2%	426	15.3%
	Product sales	77	23	206	229	67	190.7%	255	23.9%	322	40.7%	38	-42.2%
	Recurring profit	1,113	588	664	1,252	634	7.8%	867	30.5%	1,501	19.8%	701	10.6%

Stable growth continues, with strong prospects for business expansion from FY3/16

(2) Business outlook

For FY3/15, Softcreate Holdings is forecasting sales of ¥11,500mn, down 4.3% year on year, operating profit of ¥1,501mn, up 2.2% year on year, recurring profit of ¥1,510mn, up 0.6% year on year, and net profit of ¥800mn, up 4.8% year on year. The company has not revised its initial forecasts.

Business results for 1H FY3/15 surpassed the company's forecasts. Therefore, assuming performance in 2H FY3.15 tracks initial forecasts, full-year sales are expected to be around ¥200mn above forecast, and profits are also expected to surpass forecasts in line with sales.

Currently, the business environment in 2H FY3/15 is largely unchanged from 1H FY3/15, and there are no special factors that could alter the company's business performance. That said, the possible negative impact on the company of the decision to postpone the consumption tax hike must be taken into consideration. The reason is that consumption tax rate revisions will create new demand for system modifications, software updates and other services from companies, and so will provide business opportunities for the company's SI business and other businesses. However, given that the initially planned timeframe for the consumption tax hike was October 2015, we believe that the postponement of the consumption tax hike will have only a negligible impact on the company's business results for FY3/15.

Business results are expected to remain mostly flat in FY3/15. However, we believe that earnings growth will start to pick up again from FY3/16. This outlook is based on steady growth in the Web promotion business within the EC solutions business, which will serve as a major earnings driver. Currently, the company's EC solutions business has approximately 600 active customers. Softcreate Holdings sees around 40% of these companies (approximately 240 companies) as potential customers of the Web promotion business. Therefore, sales in the Web promotion business have the potential to triple or even quadruple from the current level. Because Softcreate Holdings adheres to a basic management policy focused on profitability, we believe it will be sufficient to monitor Web promotion sales and new contracts received in EC solutions as the company's two KPIs.

Consolidated Income Statements

	(¥mn)					
	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15E
Sales	7,677	8,376	8,891	10,048	12,021	11,500
Year on year	-25.8%	9.1%	6.1%	13.0%	19.6%	-4.3%
Gross profit	2,425	2,622	2,869	3,167	3,639	-
Gross profit margin	31.6%	31.3%	32.3%	31.5%	30.3%	-
SG&A expenses	1,530	1,603	1,787	2,072	2,170	-
SG&A expenses/sales	19.9%	19.1%	20.1%	20.6%	18.1%	-
Operating profit	895	1,018	1,082	1,094	1,468	1,501
Year on year	-16.0%	13.8%	6.3%	1.1%	34.1%	2.2%
Operating profit margin	11.7%	12.2%	12.2%	10.9%	12.2%	13.1%
Recurring profit	902	1,004	1,113	1,252	1,501	1,510
Year on year	-16.1%	11.3%	10.8%	12.6%	19.8%	0.6%
Net profit	436	525	553	645	763	800
Year on year	33.8%	20.4%	5.3%	16.6%	18.3%	4.8%
Basic EPS (¥)	102.98	125.09	131.19	151.97	56.80	59.55
Basic DPS (¥)	30.00	50.00	40.00	45.00	17.00	20.00
Basic BPS (¥)	913.04	994.50	1,088.29	1,204.64	419.95	-
Adjusted EPS (¥)	34.32	41.69	43.73	50.66	-	-
Adjusted DPS (¥)	10.00	16.67	13.33	15.00	-	-
Adjusted BPS (¥)	304.35	331.50	362.76	401.55	-	-

Balance Sheets

	(¥mn)					
	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15 Q2
Current assets	4,242	4,541	5,628	5,080	6,083	6,042
Cash and deposits	2,478	2,524	3,537	2,617	3,131	3,382
Trade receivables	1,453	1,669	1,666	1,884	2,271	2,048
Inventories	33	75	109	155	156	88
Others	276	273	314	423	524	523
Noncurrent assets	1,525	1,718	1,187	2,638	2,881	2,964
Tangible noncurrent assets	218	207	198	315	241	247
Intangible noncurrent assets	242	243	336	410	418	402
Investment and other assets	1,063	1,266	652	1,913	2,221	2,314
Total assets	5,768	6,260	6,815	7,719	8,964	9,006
Current liabilities	1,632	1,722	1,813	2,106	2,560	2,084
Trade payables	845	808	877	954	1,296	808
Short-term borrowings	-	-	-	-	-	-
Others	786	914	935	1,151	1,263	1,275
Noncurrent liabilities	218	246	260	302	568	612
Long-term borrowings	-	-	-	-	-	-
Others	218	246	260	302	568	612
Shareholders' equity	3,862	4,242	4,610	5,106	5,726	6,117
Capital stock	842	843	844	848	854	854
Capital surplus	900	901	902	905	972	936
Retained earnings	2,439	2,817	3,160	3,636	4,176	4,544
Treasury stock	-319	-319	-296	-283	-277	-218
Others	-27	-60	0	42	-84	-8
Subscription rights to shares	7	18	17	23	41	50
Minority shareholders' interests	74	90	113	137	152	150
Total net assets	3,917	4,291	4,741	5,310	5,835	6,309
Total liabilities and net assets	5,768	6,260	6,815	7,719	8,964	9,006

Cash Flow Statements

	(¥mn)					
	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15 Q2
Net cash provided by operating activities	908	651	1,015	839	1,245	472
Net cash provided by (used in) investing activities	-777	-560	-461	301	-532	-141
Net cash used in financing activities	-317	-145	-190	-150	-165	-108
Effect of exchange rate change on cash and cash equivalents	-	-	-	141	-5	-0
Net increase (decrease) in cash and cash equivalents	-186	-54	363	1,130	541	222
Cash and cash equivalents at beginning of period	1,365	1,178	1,124	1,487	2,618	3,160
Cash and cash equivalents at end of period	1,178	1,124	1,487	2,618	3,160	3,382

Shareholder Returns

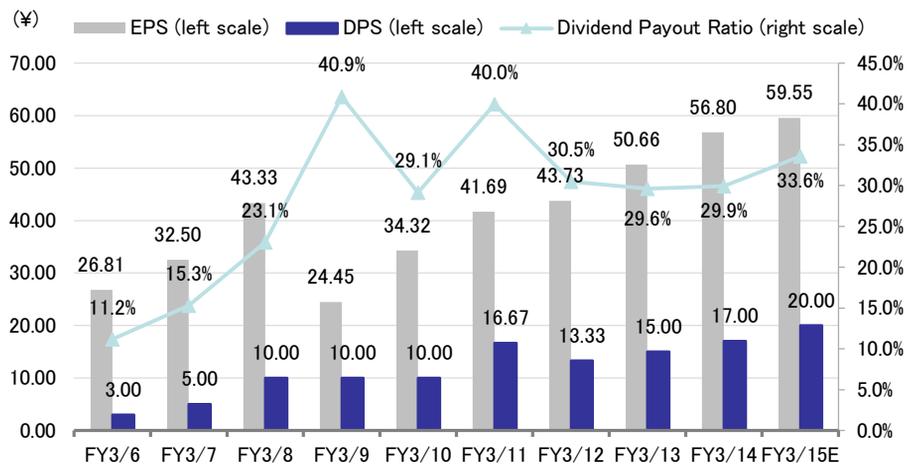
Annual dividend of ¥20 per share for FY3/15, up ¥3 per share from FY3.14

The management of Softcreate Holdings is positive about rewarding company shareholders. Dividends are the primary means of returning profits to shareholders. It has also introduced a shareholder benefit program.

The company emphasizes stable dividend payments, with a dividend payout ratio target of 30%. Management has raised dividends when profits were higher than expected, but it has never cut dividends when profits were lower than expected. As for dividends for FY3/15, the company initially forecast an annual dividend of ¥18 per share, an increase of ¥1 from the previous fiscal year (FY3/14). However, at the earnings announcement for 1H FY3/15, the company announced that it will raise the annual dividend to ¥20 per share, an increase of ¥3 from the previous fiscal year.

Shareholder benefits are intended to convey a message of gratitude from the company to its individual shareholders. Individual shareholders are eligible to receive original QUO cards worth between ¥1,000 to ¥6,000 every year according to the number of shares held. Based on the share price as of January 14, the investment yield on 100 shares held, including shareholder benefits, would have been 3.3%.

EPS and DPS Trend



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