

Important disclosures and disclaimers appear at the back of this document.

FISCO Ltd. Analyst  
Yuzuru Sato

## ■ With record-high profits in FY2/13, company targets share price of ¥2,700

System Integrator is an independent software developer. Its main products are package software for building electronic commerce (EC) sites, enterprise resource planning (ERP) package software, and tools that support the development of databases. It is strong in developing creative software that satisfies current and future requirements. With no debt, its balance sheet is solid.

In the fiscal year through February 2013, i.e., in FY2/13, the company increased its consolidated sales by 28.7% year-on-year (y-o-y), to ¥2,657mn and its consolidated operating profit by 36.4% to ¥406mn. Both figures hit record highs for the second year in a row. Reflecting the growth of electronic commerce, there was strong replacement demand for package software for the construction of electronic commerce sites. Maintenance and support sales of the highly profitable tool that supports the development of databases, SI Object Browser, also grew.

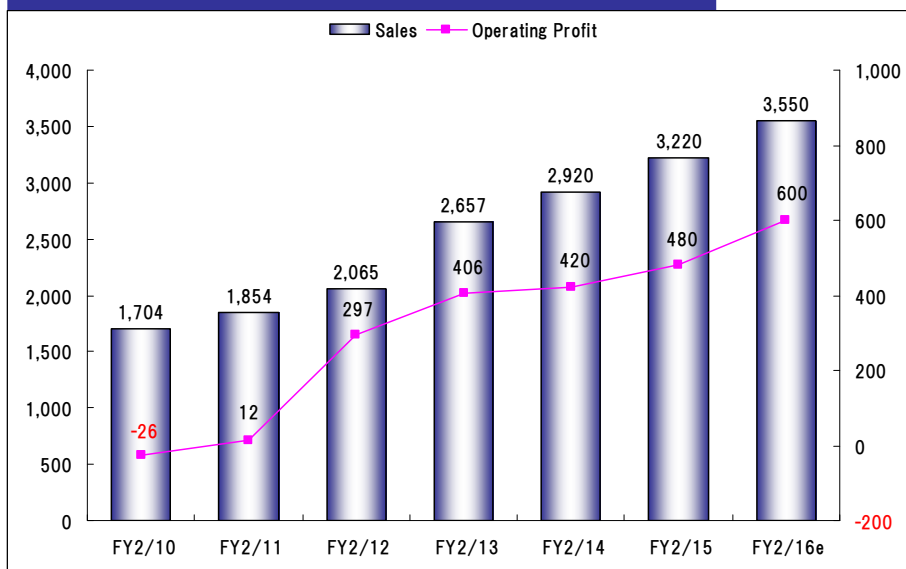
In March 2013, the company announced a new medium-term plan called Progress 2013, which targets sales of ¥3,550mn and operating profit of ¥600mn for FY2/16 and aims to achieve these targets by pursuing a growth strategy and by maintaining a high-profit organizational structure. The company will strive for 10% average annual sales growth over the next three fiscal years. It intends to improve the functionality of its current products, expand sales in China, and promote the sale of the online to offline (O2O) marketing tool, SI Mobile Portal for Shop (Mobapota as a Japanese abbreviation), a product it released in December 2012, and of a new product it plans to market in June 2013. It also intends to increase the sales weighting of services offered for a fixed period of time, such as maintenance and cloud computing services, from 15.5% in FY2/13 to 20.0% in FY2/16, thereby stabilizing profits and raising profitability.

The management of System Integrator is becoming more concerned with rewarding shareholders. It pays dividends reflecting company profits and hopes to reach a dividend payout ratio of 30% over the long term. In FY2/13, the company introduced a shareholder award program, giving koshihikari rice grown in Niigata Prefecture to the holders of a set number of shares for a designated period. Management is attempting to increase the enterprise value of System Integrator with the aim of lifting the company's share price to ¥2,700, which would put its PER on a par for software development companies in Japan.

## ■ Check Points

- Company develops innovative package software
- In FY2/13, company achieved record-high sales and profits for the second year running
- Company hopes to list its shares on the Second Section of the Tokyo Stock Exchange in FY2/15

Consolidated Sales and Operating Profit (¥mn),  
FY2/10-FY2/16 plan



## ■ Company Outline

### Innovative developer of package software

#### (1) History

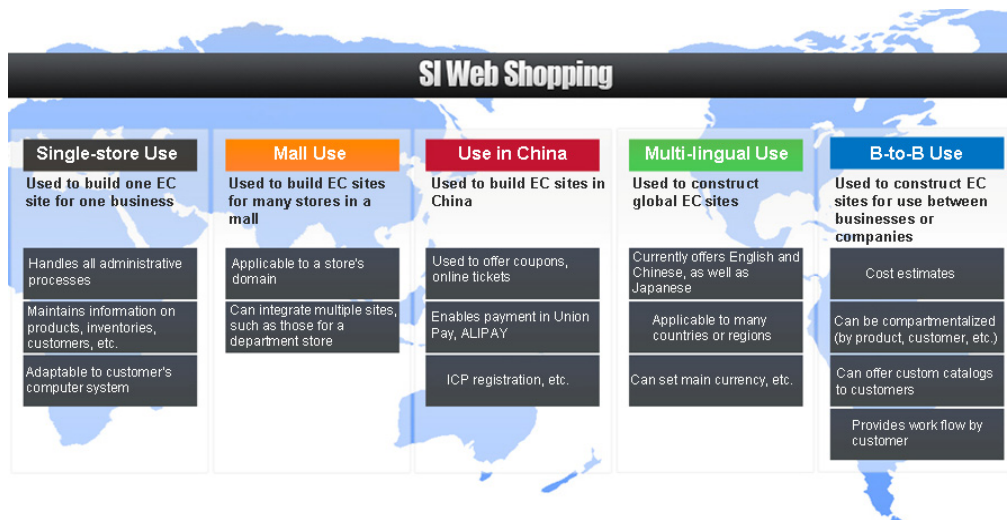
Founded in 1995 by current president Umeda, System Integrator is an independent developer of software. Upon graduating from a university, Mr. Umeda entered Toshiba Corp. (6502) as an engineer. Subsequently, he moved to Sumisho Computer Service Co., now SCSK (9719). In 1993, while at Sumisho Computer Service, Mr. Umeda and colleagues planned and developed Japan's first enterprise resource planning (ERP) package software for client/server systems, called ProActive, which remains a hit product. At about the same time, the German company SAP developed its SAP R3 (ERP) package software for client/server systems, and SAP has led the industry in selling such software worldwide. System Integrator senior managing director Usui was a member of the team that developed the ProActive ERP package software and was a co-founder of System Integrator. He is the largest shareholder in the company, with a 24.7% stake.

Since its establishment, the company has planned to "continue to develop innovative software suitable for contemporary requirements" and in 2012, it adopted the slogan "continuing to develop software that provides time, not consume it". In fact, the company's products have matched these goals, and many of its products were the first released in each category in Japan.

## Company Outline

In 1996, the company launched Japan's first package software for the construction of electronic commerce sites. This product was called SI Web Shopping. At that time, the electronic commerce market in Japan was in its infancy, attesting to the foresight of the company.

### Variations of SI Web Shopping Program



Source: Company

In 1997, the company released SI Object Browser, the first tool to support the development of databases marketed in Japan. This was the first such tool to use graphical user interface\* (GUI), and it significantly increased the productivity of software developers, allowing them to produce more in shorter periods of time. The initial version of this tool was applicable only to Oracle databases, but the company developed subsequent versions applicable to databases of Microsoft, IBM, Hitachi, Fujitsu, and other leading Japanese vendors. Today, the SI Object Browser is the de facto standard tool to support the development of databases.

Note: A graphical user interface is an environment that displays graphic images, such as windows, icons, and buttons, on a computer screen and enables computer users to select an image with a pointing device, such as a mouse, to activate a program or process.

In 2004, a consortium of 11 software development companies that intended to develop a range of enterprise resource planning package software, including System Integrator, commercialized Japan's first enterprise resource planning package software applied on the Web, called GRANDIT. By then, ERP software was in common use by companies, but with the advance of the Internet environment and the spread of distributed information processing, the members of the consortium foresaw demand for ERP package software usable on the Web and planned to develop such software jointly, the first such undertaking in Japan. The partners funded the development, and the consortium, which now comprises 13 companies, sells it. All members of the consortium are free to develop and sell independent add-on modules for the GRANDIT program. In December 2011, System Integrator started selling an add-on module for the management of production, and in July 2012, it started selling an add-on module to manage continuous transactions. Both modules have been selling well to manufacturers, and the company also distributes them to other members of the consortium.

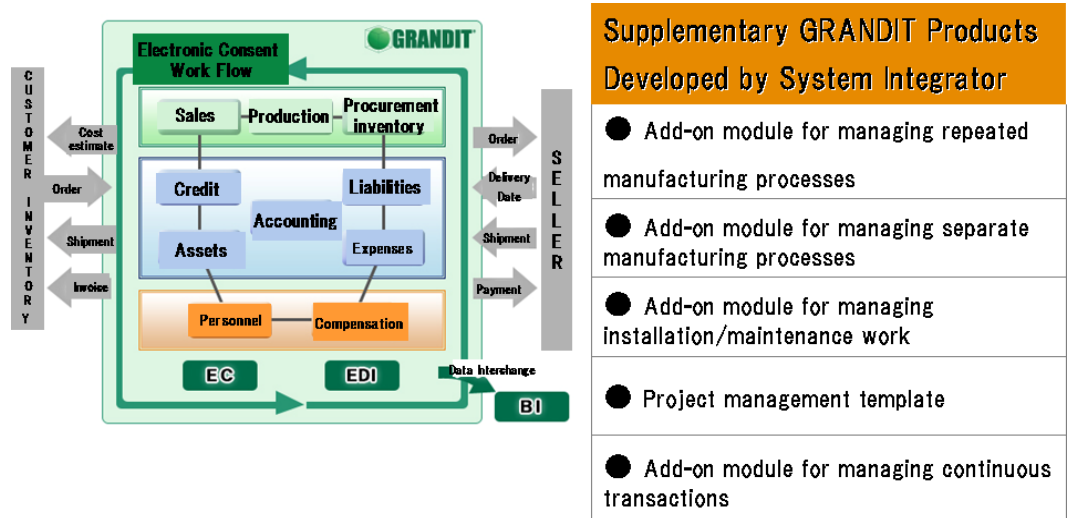
■ Company Outline

### Current Members of the Consortium Selling the GRANDIT Program

Infocom	Sojitz Systems	Panasonic Information Systems
AJS	DACS	Benic Solution
NEC Nexsolutions	Toyobo Information System Create	Miroku Jyoho Service
Ogis-RI	Nissho Electronics	
System Integrator	Nittetsu Hitachi Systems Engineering	

Source: Company

### GRANDIT Functions and System Integrator Products for the Program



Source: Company

In 2008, System Integrator launched sales of the SI Object Browser PM (project management) package software program, part of the SI Object Browser series. This program, which the company abbreviates as OBPM, enables developers to visualize the status of their development projects, the extent of work progress, the cost of development to date, product quality, etc. System Integrator uses this program internally in developing software for customers, enabling it to terminate unprofitable projects and raise overall profitability. Initially, this program was sold as an on-premises product, but since April 2010, it has also been sold as a cloud computing service for a monthly fee.

## SI Object Browser Series of Tools for Aiding Software Development

# SI Object Browser



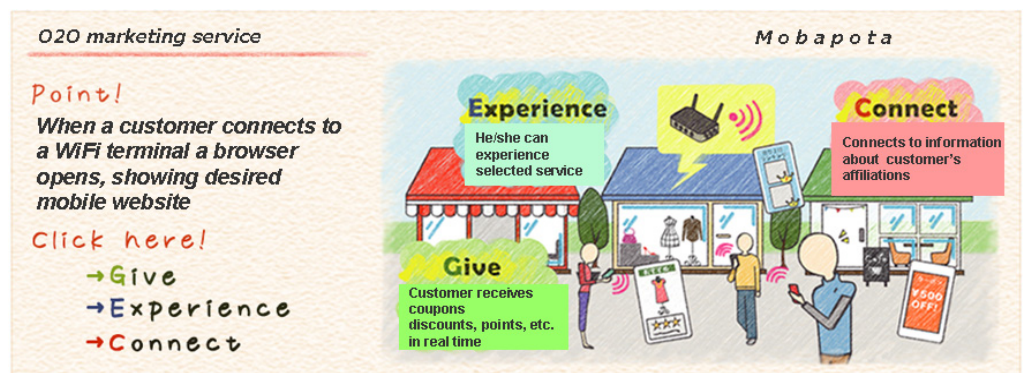
# SI Object Browser PM

Source: Company

In December 2012, System Integrator started selling an online to offline\* (O2O) marketing tool, the SI Mobile Portal (Mobapota) cloud computing service for building WiFi portals. The company expects an increase in demand for this tool, which can be used to attract more potential customers to shopping malls, aquariums, art museums, amusement parks, and other venues.

Note: Online to Offline is a marketing strategy of providing information or incentives to consumers through the Internet or other online transmission avenue to induce them to visit a store or other offline facility. For example, a user of a smartphone might obtain a discount ticket online, then travel to the store or restaurant where he or she could use the ticket.

### O2O Marketing Tool SI Mobile Portal (Mobapota)



Source: Company

In 2008, System Integrator started selling its products in China, beginning with the SI Object Browser, and continuing with the SI Web Shopping program and the OBPM program. In 2010, the company entered a business agreement with a Chinese company for the promotion of sales in China. In April 2013, the company signed Dalian PreSoft Co., Ltd. as a new sales agent.

In December 2006, System Integrator listed its shares on the Mothers market of the Tokyo Stock Exchange.

## Company History

Date	Company History
Mar-95	Established in Urawa City, Saitama Prefecture with capital of ¥10mn
Mar-96	Released SI Web Shopping package software program for building electronic commerce sites
Aug-97	Released SI Object Browser package software program for supporting the development of databases
May-04	Released GRANDIT enterprise resource planning package software program developed by a consortium that included the company
Jul-06	Established the Osaka branch office in Chuo Ward, Osaka City
Dec-06	Listed shares on the Mothers market of the Tokyo Stock Exchange
Feb-08	Launched Chinese sales of SI Object Browser and SI Object Browser ER programs in the Chinese language
Jul-08	Launched Chinese sales of SI Web Shopping program in the Chinese language
Nov-08	Released SI Object Browser PM package software program for project management
Jun-09	Launched Chinese sales of SI Object Browser PM program
Apr-10	Started selling SI Object Browser PM program as a cloud computing service
Oct-10	Concluded business agreement with Kousen System & Software (Shanghai) Co., Ltd.
Dec-11	Released add-on module to GRANDIT program for production management
Jul-12	Released add-on module to GRANDIT program for management of continuous transactions
Sep-12	Made a 200-for-1 common stock split, set a minimum lot of 100 shares for stock transactions
Dec-12	Released SI Mobile Portal (Mobapota) program for constructing WiFi portals as a cloud computing service
Feb-13	Introduced a shareholder award program
Apr-13	Concluded a business agreement with Dalian PreSoft Co., Ltd. as a new agent for sales of the Chinese language SI Object Browser series of programs

Source: Company

## Package software development, sales, maintenance, and consulting

### (2) Businesses

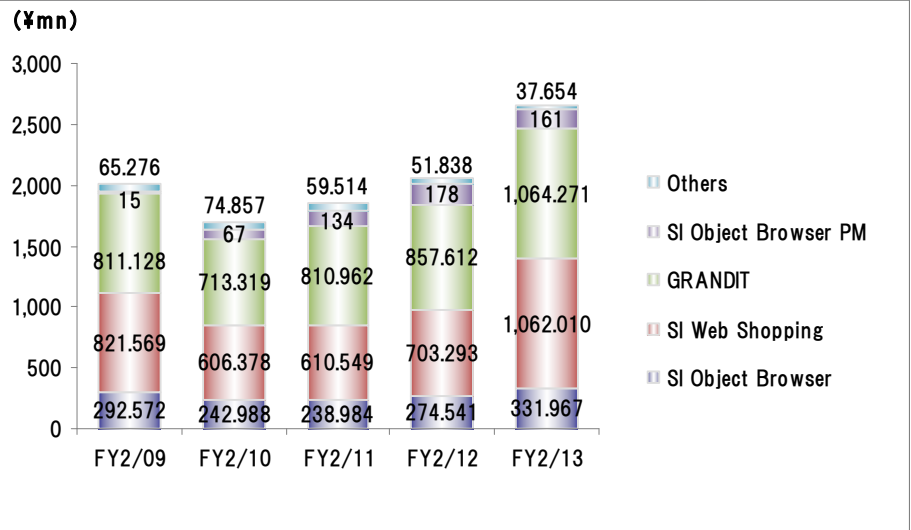
System Integrator develops and sells package software, maintains it, and offers consulting service in its use. Its four main products, described above, are the SI Web Shopping, SI Object Browser, OBPM and GRANDIT programs. In December 2012, it launched the SI Mobile Portal (Mobapota) cloud computing service for building WiFi portals.

In FY2/13, as shown in the chart below, the SI Web Shopping program supplied 40% of the company's total consolidated sales, the GRANDIT program provided 40%, the SI Object Browser program contributed 12%, and the OBPM program accounted for 6%. However, the SI Object Browser program contributed 33% of total gross profit, the SI Web Shopping program produced 32%, the GRANDIT program, 27%, and the OBPM program, 7%. The gross profit margin on the SI Object Browser program was an extremely high 91.7%, for two reasons. For one, as stated previously, this program has become the de facto standard, so there is no real competitor in this kind of software. Second, these programs are not customized. The gross profit margin on the OBPM program was 43.3%, that on the SI Web Shopping program was 27.8%, and the margin on the GRANDIT program was 23.4%. The gross profit margins on the SI Web Shopping program and the GRANDIT program were lower than the margins on the other programs because both programs are often customized. Still, their margins were higher than the gross profit margins on similar software development.

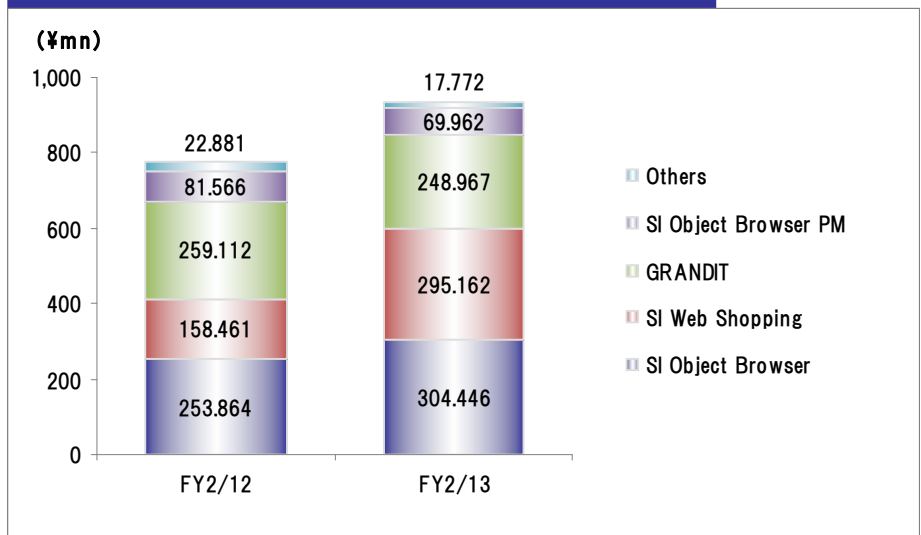


Company Outline

Breakdown of Sales (¥mn) by Product, FY2/09-FY2/13



Breakdown of Gross Profit (¥mn) by Product, FY2/12-FY2/13



## ■ Company Outline

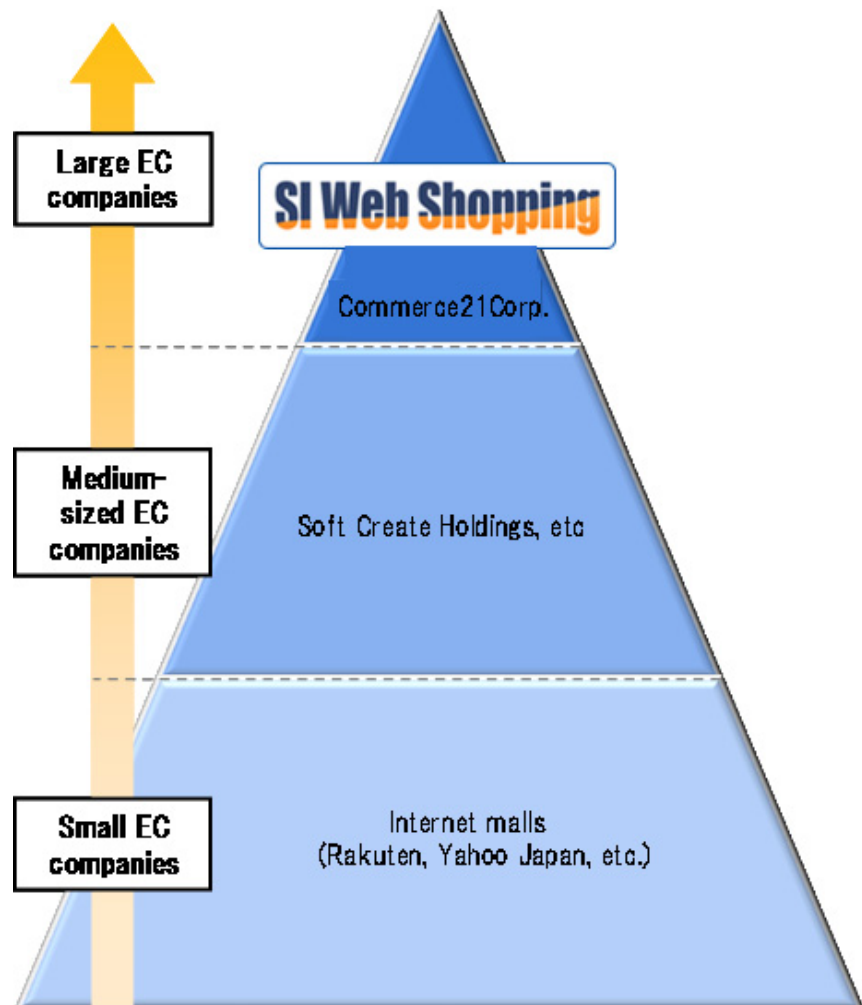
The distinguishing characteristics and market positions of each product are described below.

### SI Web Shopping

The SI Web Shopping package software program for building electronic commerce sites is scalable, so it can handle large transactions of several tens of billions of yen. The software is very secure and uses open source code, so customers can develop additional software to match the SI Web Shopping program with their computer systems. The program can facilitate electronic commerce with mobile devices, such as smartphones, and it is available in many languages, including English and Chinese.

The SI Web Shopping package software program has already been used to build more than 1,100 electronic commerce sites since its release. Large users of the program include TMD Corp., Nojima Corp., UCC Holdings, Gunze Ltd. (3002), Kenko.com, Inc. (3325), Peach John Co., All Nippon Airways Trading Co., Sumisho E-commerce Shanghai, Ltd., and Hearst Fujingaho Co., Ltd.

### Market Segments Targeted by SI Web Shopping and Competitors



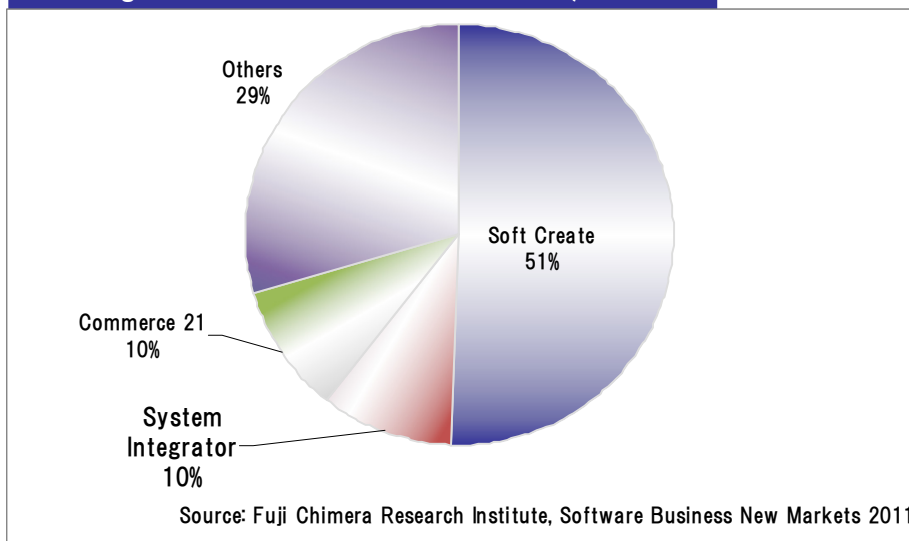
Source: Company



## ■ Company Outline

The Japanese market for package software for building electronic commerce sites is difficult to measure because some large companies develop their sites in-house. The leading Japanese developer of this software is Soft Create (3371), and System Integrator and Commerce21 share the second position. Soft Create has gained the largest share of this market by developing for large and medium-sized companies, while System Integrator and Commerce 21 target large companies primarily. Most large and medium-sized companies that use electronic commerce sites require custom-made software to build these sites. As user companies have become more concerned with increasing transaction size, maintaining secure transactions, and transacting with mobile devices, they have replaced old electronic commerce sites made by generalist software developers with new versions made by specialist software developers, such as System Integrator. This replacement demand has driven sales growth for the top three developers in recent years.

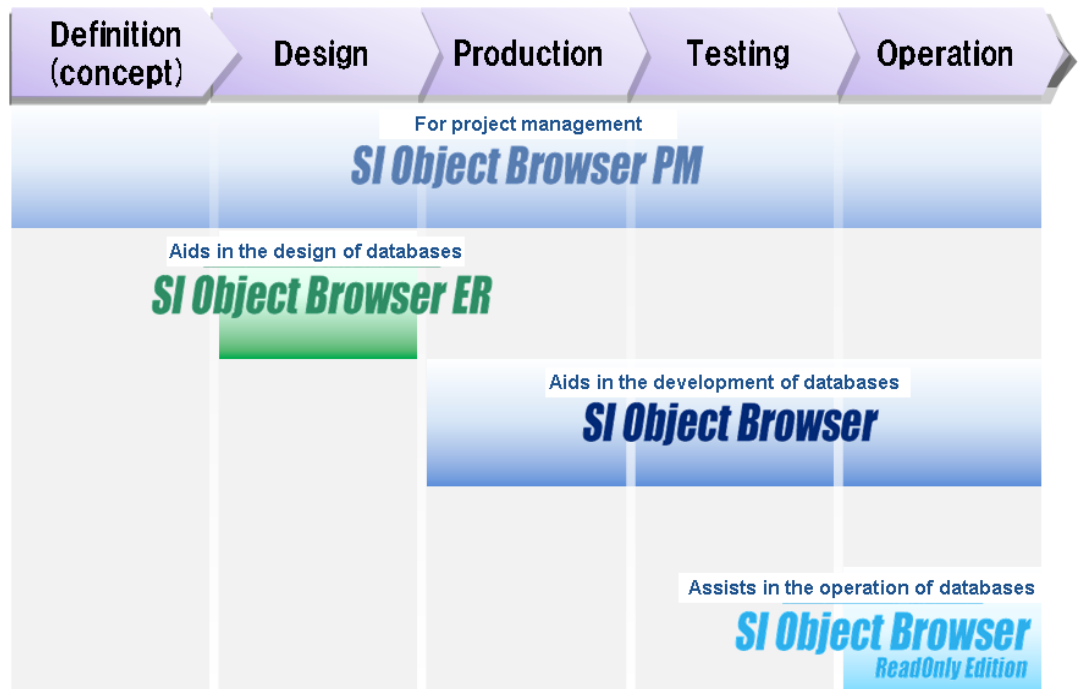
Japanese Market for Package Software for Building Electronic Commerce Sites in FY3/10



### SI Object Browser series

There are four series of SI Object Browser package software programs. As described previously, the original SI Object Browser series aids in the development of databases, and the OBPM series is for project management. The SI Object Browser ER (OBER) series aids in the design of databases, and the SI Object Browser ReadOnly Edition series assists in the operation and maintenance of databases. As shown in the diagram below, these series are used in every phase of software development. Since being launched, the SI Object Browser series and the OBER series have accumulated 230,000 licenses, making them the de facto standard products in Japan. In the four years it has been on the market, the OBPM series has been shipped to 60 companies.

## SI Object Browser Series Use in Software Development and Application



Source: Company

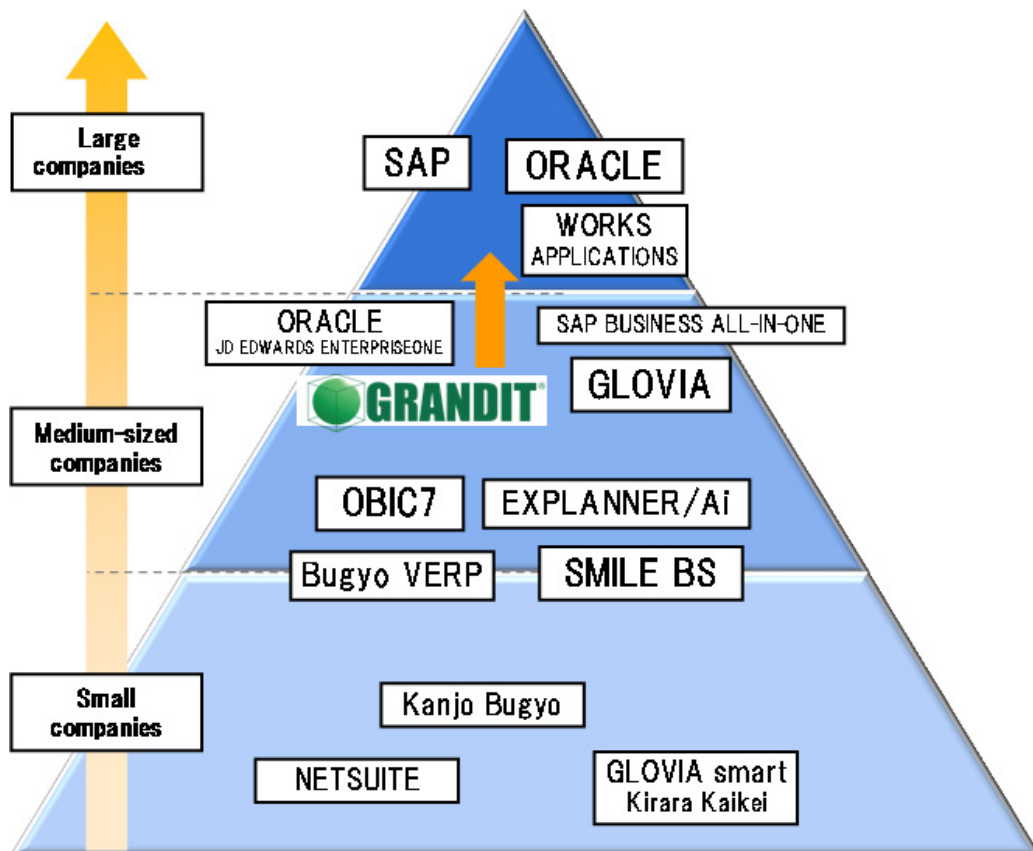
## GRANDIT

The GRANDIT enterprise resource planning package software is easy to use through an Internet browser, and additional modules are readily available for this software to enable the development of original ERP software. The 13 software development companies in the consortium that sells this software have sold it to about 600 companies so far, and they report an increase in orders from large companies recently. The GRANDIT enterprise resource planning package software can be customized and made more sophisticated with the development of add-on modules, but the consortium members have many business affiliations, so System Integrator is probably better able to provide these services than the other members of the group. In April 2013, sales of a multi-lingual version of the GRANDIT ERP package software program were launched. This version is expected to be popular at companies developing or expanding operations overseas.

The Japanese market for ERP software is estimated to be worth ¥100bn per year and is segregated by user size. Large Japanese companies select ERP software from SAP, Oracle, Fujitsu (6702), Works Applications Co. (4329), and other leading providers. Medium-sized companies select from Obic (4684), Otsuka Corp. (4768), NEC (6701), and Fujitsu, as well as the GRANDIT program.

■ Company Outline

### Market Segments Targeted by GRANDIT and Competitors



Source: Company

## ■ Business Trends

### Innovative developer of package software

#### (1) FY2/13 Results

In FY2/13, the company increased its consolidated sales by 28.7% y-o-y to ¥2,657mn, its consolidated operating profit, by 36.4% to ¥406mn, its recurring profit, by 41.2% to ¥407mn, and its net profit, by 51.8% to ¥248mn. Sales and profits hit record highs for the second year in a row.

This growth was led by the SI Web Shopping package software program for building electronic commerce sites, as the company received more orders for programs to build large electronic commerce sites and net super sites, i.e., sites for online sales by supermarkets. Sales of the SI Web Shopping program grew 51.0% y-o-y to ¥1,062mn, and gross profit on these sales increased 86.3% to ¥295mn. The company applied its OBPM program to manage all its in-house development projects, thereby maintaining high profitability. A summary of results by main product series follows.



## ■ Business Trends

**SI Web Shopping**

As mentioned previously, the demand for customized package software programs to construct electronic commerce sites has grown as older programs have proven unable to conveniently handle large transaction volumes, insure secure transactions, or transact with mobile equipment. Therefore, the company received more orders for programs to build large electronic commerce sites and sites for online sales by supermarkets. Sales of the SI Web Shopping program grew 51.0% y-o-y to ¥1,062mn, and gross profit on these sales increased 86.3% to ¥295mn.

**GRANDIT**

The Japanese market for ERP software was adversely affected by the global financial crisis of 2008-2009, but it has been recovering since then. In 2011, System Integrator developed an add-on module for the GRANDIT program enabling the management of individual manufacturing processes, and in 2012, it released another module for managing repeated manufacturing processes. Japanese manufacturers have been buying more of these modules. For these reasons, the company's sales of the GRANDIT program and related software grew 24.1% y-o-y in FY2/13 to ¥1,064mn. However, gross profit on these sales fell 3.9% to ¥248mn because the company incurred additional costs to make this software multi-lingual, a required capability for sales to many large companies. This development process will be completed in FY2/14, so the company expects the profitability of the GRANDIT program to return to a normal level.

**SI Object Browser**

The SI Object Browser series and the OBER series are included in this category. As stated previously, the SI Object Browser program initially assisted the construction of only databases for Oracle, but it is now applicable to databases of all the software companies, including Microsoft, IBM, Hitachi, Fujitsu, and other large Japanese vendors. The number of licenses shipped for this program is growing, as are sales for its maintenance and support. Therefore, in FY2/13, sales of the SI Object Browser series and the OBER series increased 20.9% y-o-y to ¥331mn and gross profit in this category rose 19.9% to ¥304mn.

**SI Object Browser PM**

Sales of OBPM declined 9.1% y-o-y to ¥161mn, and gross profit from these sales fell 14.2% to ¥69mn, the first declines since this program was first marketed. However, the company has verified the effectiveness of this program in-house, and the program has no competitors at this moment. Therefore, the company anticipates an increase in unit sales of the program and expects it to become the de facto standard system for project management.



## ■ Business Trends

### Breakdown of Consolidated Sales and Gross Profit (¥mn) by Product, FY2/09-FY2/13

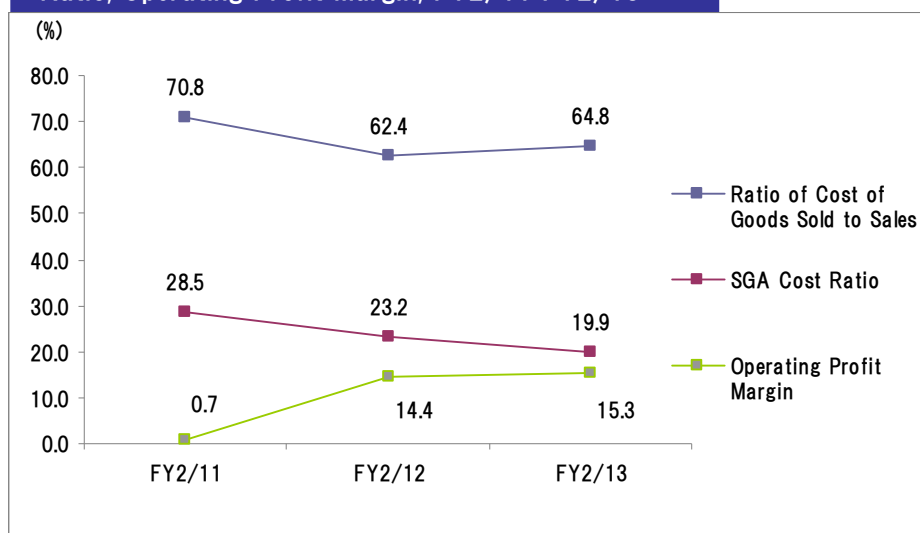
Sales	FY2/09	FY2/10	FY2/11	FY2/12	FY2/13	YOY
SI Object Browser	293	243	239	275	332	20.9%
SI Web Shopping	822	606	611	703	1,062	51.0%
GRANDIT	811	713	811	858	1,064	24.1%
SI Object Browser PM	15	67	134	178	161	-9.2%
Other	65	75	60	52	38	-27.4%
<b>Total</b>	<b>2,005</b>	<b>1,704</b>	<b>1,854</b>	<b>2,065</b>	<b>2,657</b>	<b>28.7%</b>
<b>Sales Weighting</b>						
SI Object Browser	14.6%	14.3%	12.9%	13.3%	12.5%	
SI Web Shopping	41.0%	35.6%	32.9%	34.1%	40.0%	
GRANDIT	40.4%	41.9%	43.7%	41.5%	40.1%	
SI Object Browser PM	0.7%	3.9%	7.2%	8.6%	6.1%	
Other	3.3%	4.4%	3.2%	2.5%	1.4%	
<b>Total</b>						
<b>Gross Profit</b>						
SI Object Browser				253	304	19.9%
SI Web Shopping				158	295	86.3%
GRANDIT				259	249	-3.9%
SI Object Browser PM				82	70	-14.2%
Other				23	18	-22.3%
<b>Total</b>				<b>776</b>	<b>936</b>	<b>20.7%</b>
<b>Gross Profit Margin</b>						
SI Object Browser				92.5%	91.7%	
SI Web Shopping				22.5%	27.8%	
GRANDIT				30.2%	23.4%	
SI Object Browser PM				45.9%	43.4%	
Other				44.1%	47.2%	
<b>Total</b>				<b>37.6%</b>	<b>35.2%</b>	

Notes: Gross profit shown only from FY2/12. Yen figures are rounded.

Source: Company

System Integrator's ratio of cost of goods sold to sales rose 2.4 pts in FY2/13 to 64.8% because sales of the SI Web Shopping program increased more than sales of other programs, and this program is less profitable than the company's other programs. SGA costs increased by ¥52mn, mainly for R&D, but sales growth offset this increase, and the ratio of SGA costs to sales fell by 3.3 pts y-o-y to 19.9%. Therefore, the operating profit margin rose to 15.3%, the highest level in 10 years.

#### Ratio of Cost of Goods Sold to Sales, SGA Cost Ratio, Operating Profit Margin, FY2/11-FY2/13



## ■ Business Trends

### Breakdown of Consolidated Sales and Gross Profit (¥mn) by Product, FY2/09-FY2/13

	FY3/11	FY3/12	FY3/13 3Q	Contributing factor
Current assets	4,778	5,874	6,506	Advance payments rose by ¥409mn accompanying increase in guarantee balance
Cash and deposits	4,293	4,617	4,742	
Fixed assets	782	757	1,018	Investment securities rose by ¥330mn
<b>Total assets</b>	<b>5,561</b>	<b>6,631</b>	<b>7,525</b>	
Current liabilities	2,385	2,282	2,409	
Advances received	1,795	1,833	1,829	
Fixed liabilities	63	65	312	
Interest-bearing debt	0	0	296	Acquired to establish employee stock option plan
<b>Total liabilities</b>	<b>2,449</b>	<b>2,348</b>	<b>2,721</b>	
Shareholders' Equity	2,540	3,667	3,738	
Common stock	1,048	1,418	1,432	
Additional paid-in capital	458	828	842	
Retained earnings	1,033	1,421	1,748	Net profit increased
Treasury stock	0	-0	-284	Acquired for employee stock option plan
<b>Appraisal of securities</b>				
Minority interest and equity warrants	571	615	1,065	Minority interest rose by ¥451mn with capital increase
<b>Total equity</b>	<b>3,112</b>	<b>4,283</b>	<b>4,804</b>	
<b>Total liabilities and equity</b>	<b>5,561</b>	<b>6,631</b>	<b>7,525</b>	
<b>Financial Security Ratios</b>				
Current ratio	200.3%	257.4%	270.1%	
Equity ratio	45.7%	55.3%	49.7%	
Debt-equity ratio	-	-	7.9%	
<b>Profitability Ratios</b>				
Return on assets	14.3%	14.0%	-	
Return on equity	18.2%	15.1%	-	
Operating profit margin	22.2%	24.7%	30.1%	

Notes: ROA and ROE for Q3 FY3/13 have been omitted

There were few large changes in the company's balance sheet in FY2/13, but on the asset side, sales receivables increased accompanying the rise in sales and intangible fixed assets grew accompanying the recording of software development assets. On the liabilities side, accounts payable grew with the rise in sales and retained earnings increased due to the net profit earned.

Ratios of management competence remained steady in FY2/13. Measures of liquidity, such as the current ratio and the equity ratio, stayed very high. The company has been debt-free since it was founded. Ratios of profitability, such as ROA, ROE and the operating profit margin, rose.



## ■ Business Trends

### Summary Balance Sheet (¥mn) at end of FY2/12 and FY2/13 and Important Financial Ratios

	FY2/12	FY2/13	Absolute Change	Factors
Current assets	1,678	1,891	213	Sales receivables grew with an increase in sales
(Cash and deposits)	1,071	1,047	△24	
(Sales receivable)	455	640	184	
Tangible fixed assets	10	11	0	Software development assets grew
Intangible fixed assets	90	134	45	
Investments, etc.	27	60	33	
<b>Total Assets</b>	<b>1,805</b>	<b>2,096</b>	<b>292</b>	
Current liabilities	443	495	53	Accounts payable grew with sales growth
Fixed liabilities	-	4	4	
(Interest-bearing debt)	0	0	0	
<b>Total liabilities</b>	<b>443</b>	<b>499</b>	<b>57</b>	
Shareholders' equity	1,362	1,588	226	Net profit increased retained earnings
Common stock	358	364	5	
Additional paid-in capital	348	354	5	
Retained earnings	655	871	216	
<b>Total equity</b>	<b>1,362</b>	<b>1,597</b>	<b>235</b>	
<b>Total liabilities &amp; equity</b>	<b>1,805</b>	<b>2,096</b>	<b>292</b>	
<b>Ratios of Financial Safety</b>				
Current ratio	379.1%	382.0%		
Equity ratio	75.5%	75.8%		
Debt/Equity ratio	0.0%	0.0%		
<b>(Ratios of Profitability)</b>				
ROA	16.5%	19.4%		
ROE	12.0%	15.6%		
Operating profit margin	14.4%	15.3%		

Note: yen figures are rounded

Source: Company

## Higher sales and profits despite 30% increase in workforce

### (2) Company Forecasts for FY2/14

For FY2/14, System Integrator forecasts a 9.9% y-o-y rise in consolidated sales to ¥2,920mn, a 3.4% increase in operating profit to ¥420mn, a 3.3% upturn in recurring profit to ¥421mn, and a 5.5% advance in net profit to ¥262mn. Based on these forecasts, the operating profit margin would drop by 0.9pt to 14.4%.

The decline in profitability projected by the company reflects one of the goals of its new medium-term plan, which is to increase the number of employees and to train them thoroughly. For FY2/14, the company plans to hire about 30 new employees. As it had only 114 employees at the end of FY2/13, 30 new employees would be an increase of almost 30%. Furthermore, the company expects to increase its operating costs to market the SI Mobile Portal (Mobapota) program and a new program to be launched in June 2013.

However, the company's orders remain brisk, so it should be able to increase sales and profits in FY2/14. The SI Mobile Portal (Mobapota) program is a cloud computing service to assist in building portal sites for smartphones. In other words, it is an online to offline marketing tool, for which the company projects demand growth. As a tool for attracting customers to stores, shopping malls, and amusement parks, this program has substantial growth potential. Stores that use this tool pay a monthly fee of ¥30,000.



## ■ Medium-term Plan

### Company hopes to list its shares on the Second Section of the Tokyo Stock Exchange in FY2/15

In March 2013, System Integrator announced a new medium-term plan called Progress 2013 which aims to promote sale growth and to list the company's shares on the Second Section of the Tokyo Stock Exchange in FY2/15. For FY2/16, this plan targets consolidated sales of ¥3,550mn and consolidated operating profit of ¥600mn, for an operating profit margin of 16.9%. Assuming that the company's effective tax rate in FY2/16 is the same as it was in FY2/13, these targets imply EPS of about ¥138 for FY2/16. To achieve these targets, the company will increase the sales, strengthen the R&D and production structure, and put more reliance on services offered for a fixed period of time, such as maintenance and cloud computing.

One objective of System Integrator's previous medium-term plan, called Athlete 2010, was to become a muscular company. The company achieved this objective and intends to remain muscular while promoting double-digit sales growth for its four main products. It expects sales of the SI Web Shopping program to be supported by the growth of the Japanese market for electronic commerce, it foresees greater sales of the GRANDIT program to large companies, and it plans to sell its SI Object Browser series of programs in China. In April 2013, the company signed a contract with Dalian PreSoft Co., Ltd. giving that company the right to sell this series in China.

Over the three fiscal years through FY2/15, System Integrator plans to increase its workforce by about 60 people, most of whom will be R&D engineers. The company will also establish more partnerships with other companies that can support its expansion. For example, it might form ties with companies with strong sales capabilities and with companies developing business in China.

To stabilize its profits, as well as increase them, System Integrator has been promoting the expansion of services offered for a fixed period of time since 2010, when it started charging for its maintenance and support services for the SI Object Browser series of programs and started offering the OBPM program as a cloud computing service. Its new SI Mobile Portal (Mobapota) program is a cloud computing service, and all subsequent programs the company will develop will be cloud computing services. Therefore, the company aims to obtain 20% of its total sales from services offered for a fixed period of time in FY2/16, up from 15.5% in FY2/13.

#### Consolidated Results (¥mn), FY2/10-FY2/16E

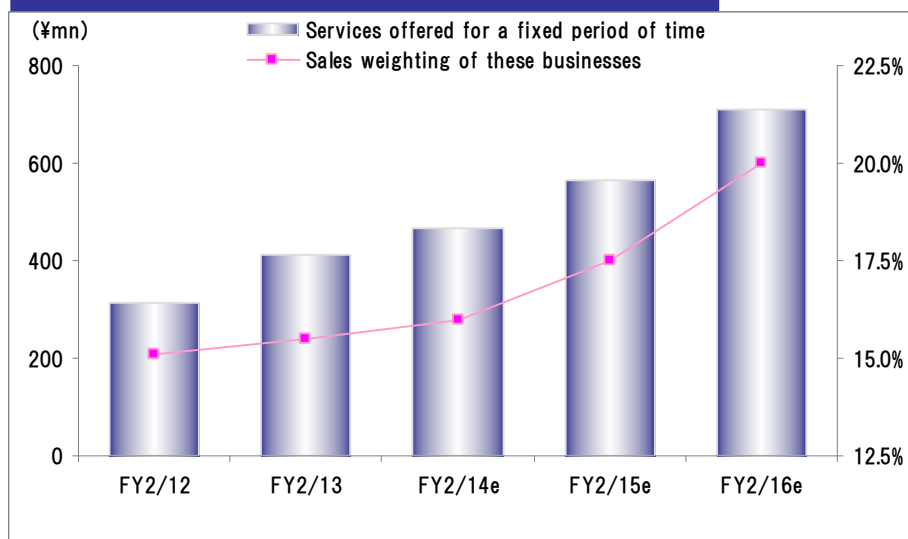
Reporting Date	Sales	YOY	OP	YOY	RP	YOY	NP	YOY	EPS	DPS
FY2/10	1,704	-15.0%	-26	-	-28	-	-19	-	-1,509.76	-
FY2/11	1,854	8.8%	12	-	13	-	6	-	484.00	0.00
FY2/12	2,065	11.4%	297	-	288	-	163	-	62.23	2500.00
FY2/13	2,657	28.7%	406	36.4%	407	41.2%	248	51.8%	94.37	20.00
FY2/14E	2,920	9.9%	420	3.4%	421	3.3%	262	5.5%	96.69	22.00
FY2/15E	3,220	10.3%	480	14.3%	-	-	-	-	-	-
FY2/16E	3,550	10.2%	600	25.0%	-	-	-	-	-	-

Note: On September 1, 2012, the company made a 200-for-1 stock split



## ■ Medium-term Plan

Sales (¥mn) from Services Offered for a Fixed Period of time and Sales Weighting of These Businesses, FY2/12-FY2/16E



## ■ Shareholder Return Policy and Share Price Target

**Dividends based on profits, company aims to raise dividend payout ratio from 21% to 30%**

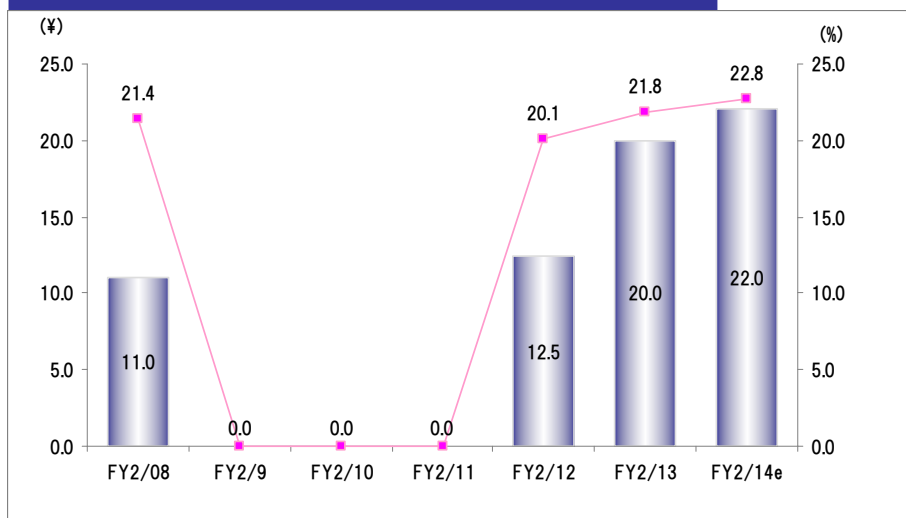
### (1) Shareholder Return Policy

To raise its enterprise value, System Integrator has begun to expand its shareholder returns. In FY2/13, its dividend payout ratio was 21.2%, but the company aims to raise this ratio by 1pt per year until it reaches 30%.

In FY2/13, System Integrator started awarding to holders of its shares for six months or more newly harvested koshihikari rice grown in Niigata, Japan using reduced levels of fertilizers, insecticides and herbicides. Holders of 100-999 shares received 2kg of this rice, holders of 1,000-3,999 shares received 5kg, and holders of 4,000 shares or more received 10kg. From FY2/14, this award will be made to holders of shares for a year or more.

■ Shareholder Return Policy and Share Price Target

Dividend (¥) and Dividend Payout Ratio, FY2/08-FY2/14E

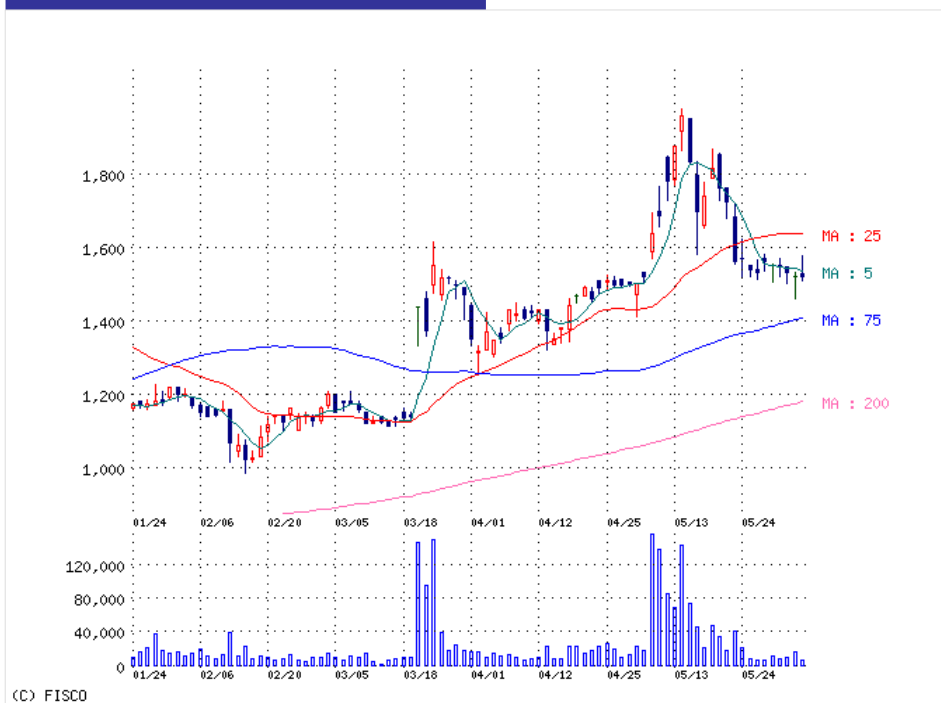


**Price of ¥2,700 would put shares on average PER for Japanese software developers**

**(2) Share Price Target**

System Integrator’s president Umeda believes that senior management is responsible for a company’s enterprise value, as well as its growth. Therefore, he announces a share price target for the company, a rare practice among listed Japanese companies. The current share price target is ¥2,700. This target was established by applying the average PER for Japan’s software companies, of 29.2x based on closing share prices as of March 21, 2013, to the company’s EPS for FY2/13, of ¥94.37. This target seems reasonable, given the company’s record-high profits and growth prospects.

Share Price Trends (Weekly Trend)



#### Disclaimer

FISCO Ltd. (the terms “ FISCO ” , “ we ” , mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Securities Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “ JASDAQ INDEX ” are the intellectual properties of the Osaka Securities Exchange, and therefore all rights to them belong to the Osaka Securities Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.