COMPANY RESEARCH AND ANALYSIS REPORT

Softbrain Co., Ltd.

4779

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst

Yuzuru Sato

FISCO Ltd.

http://www.fisco.co.jp

Index

Summary

Large growth potential for e-Sales Manager that improves productivity of sales departments

The mainstay businesses of Softbrain Co., Ltd. <4779> (hereafter, also “the Company”) are the sales innovation business that is centered on development and sales of “e-Sales Manager,” which is a sales support system (customer relationship management (CRM) and sales force automation (SFA)) to resolve and support the resolution of companies’ sales problems, and the field marketing business of its subsidiary. e-Sales Manager, which is No.1 in the overall satisfaction rating, holds the leading market share among domestic vendors as a sales support tool, and in total it has been introduced by more than 5,000 companies.

1. FY12/19 results

The Company reported FY12/19 consolidated results with ¥9,894mn in net sales (+7.7% YoY) and ¥1,166mn in operating income (-5.5%). Sales increased in an eighth straight year with gains in sales innovation and field marketing businesses. However, the Company slightly missed period-start guidance (¥9,930mn in net sales, ¥1,320mn in operating income) because profit dropped in the sales innovation business on higher development expenses and headquarters move costs and a steep decline in printing business sales due to a sales slump.

2. FY12/20 outlook

Regarding FY12/20 consolidated results, the Company withdrew guidance disclosed on January 30, 2020 and took an undecided stance in the “notification of revisions to our results and dividend outlook” issued on April 30, 2020. It explained that COVID-19 impact has resulted in continued stagnation of corporate economic activities and significant revisions to investment decisions and these conditions are primarily affecting mainstay sales innovation and fielding marketing businesses. It also indicated it cannot prepare a reasonable forecast at this point because of many uncertainties capable of impacting results.

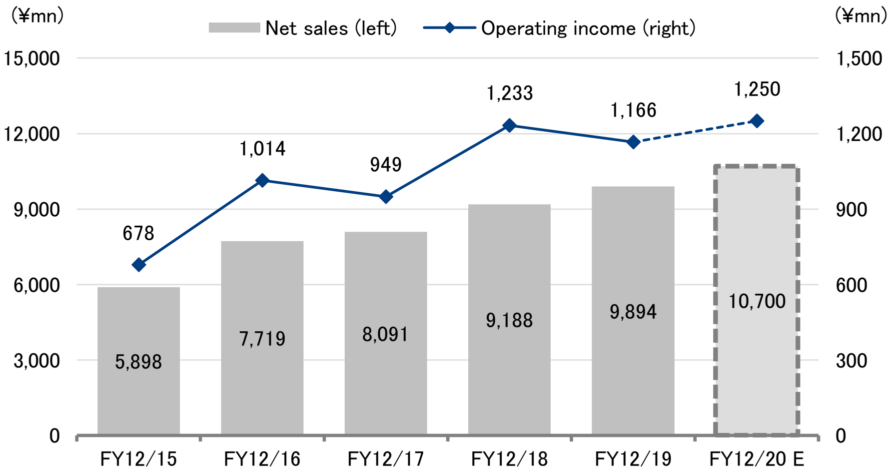
3. Growth strategy

The Company has pursued "a shift from a flow type to a stock type income model" in the three-year Medium-Term Management Plan that started in FY12/18 and positions the three years as a structural reform period to facilitate accelerated growth from FY12/21. Sales innovation business steadily raised its recurring income ratio from 47% in FY12/18 to 54%, successfully strengthening the income foundation. Additionally, use of Web sales discussions is increasing in sales activities as telework makes inroads broadly due to COVID-19 impact. The Company hopes to contribute to better sales productivity and expand orders further through visualization of these sales process changes with e-Sales Manager. We think the Company still has significant growth room through development of new customers considering that the CRM/SFA corporate deployment rate is only about 14%. In field marketing business, meanwhile, the Company wants to achieve further growth by broadening activities from store rounders to field (sales) business at B-to-B companies. The Point of Buy® (provision of data on purchasing reasons) service deserves notice too. This is marketing service that collects and compiles a database of receipts received by consumers at stores with purchase reasons and sells the database to companies. It aims to collect 3mn data samples per month in 2020 and build one of the largest domestic databases. Alliances with companies that have many members are a key point in reaching the goal, and we will be closely monitoring progress because the business is likely to have a path to monetization if this is achieved.

Key Points

- Realized an eighth straight year of sales increase in FY12/19, though profit slipped on higher development costs and printing business weakness
- Transitioning from a flow type to a stock type earnings structure, and the pace of growth will accelerate from FY12/21 onwards
- Withdrew FY12/20 guidance and took an undecided stance due to COVID-19 impact

Results trends



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

Company profile

The two earnings pillars are the sales innovation business and the field marketing business

1. Company history

Softbrain was founded in 1992 as a software development company and, developed e-Sales Manager software in 1999 to help companies improve the business productivity. Its mainstay business has been the development and sale of e-Sales Manager. In addition, the Company has established a number of subsidiaries to expand. In 2004, Softbrain Field Co., Ltd. was established to handle the layout of storefront and field marketing support such as data collection. In the same year Softbrain Service Co., Ltd. was established to conduct consulting and skill training focused on issues related to sales and marketing. In 2005, Softbrain Offshore Co., Ltd. was established to handle offshore software development and project management. In the same year, Diamond Business Planning Inc., which publishes and sells magazines and books on sales and sales promotion, was acquired and the company was converted into a subsidiary of Softbrain. In 2006, Softbrain Integration Co., Ltd. was established to handle consulting related to the integration of tablets and smartphones into sales systems for companies. Currently, the Company and these 5 subsidiaries comprise the Softbrain Group with a total of 263 employees on a consolidated basis as of December 31, 2019.

Company history

Date	History
June 1992	Softbrain Ltd. established in Sapporo City (relocated to Tokyo in 1998) to develop and sell software
November 1992	Changed to joint-stock company structure
August 1999	Sales support system e-Sales Manager (CRM/SFA software) launched
December 2000	Listed on TSE Mothers section (relisted on First Section in 2005)
June 2001	Withdrew from original business (science solutions) and switched focus to current mainstay sales and marketing business
July 2004	Established subsidiary Softbrain Field Co., Ltd. to handle information gathering and contracting services at retail stores and service sites
August 2004	Established subsidiary Softbrain Service Co., Ltd. to handle service sales and support for small and medium-sized companies
September 2005	Acquired Diamond Sales Editing Planning (now subsidiary Diamond Business Planning Inc.) to handle publishing and sales of books and magazines related to sales and marketing promotion Established subsidiary Softbrain Offshore Co., Ltd. to handle offshore software development and product management
February 2006	Established subsidiary Softbrain Integration Co., Ltd. to handle system integration
June 2010	Launch of multi-cloud compatible e-Sales Manager Remix Cloud as an upgrade to mainstay product e-Sales Manager software
February 2013	Softbrain Field Co., Ltd. launched reason-for-purchase data provision service
February 2014	Released major upgrade of e-Sales Manager Remix Cloud with the target of becoming the “No.1 for usability” sales support (CRM/SFA) tool. Launched Revision 5 with new and improved design and user interface
July 2014	Softbrain Integration Co., Ltd. received certification from Apple Inc. <APPL> and joined Apple Consultants Network
April 2016	Launched e-Reception Manager
September 2016	Announced partnership with SHANON Inc.
January 2017	Released Revision 6, which includes e-Sales Manager Remix Analytics, a BI service based on Tableau BI tool technology from Tableau Japan.
December 2017	Launched sales of CRM/SFA “e-Sales Manager Remix MS” for SMEs

Source: Prepared by FISCO from the Company’s securities report and website

Group companies and business descriptions

Company name	Ownership ratio	Description of main business
Sales innovation business		
Softbrain Co., Ltd.	-	License sales of CRM/SFA, cloud services, customized development, sales consulting, and sales skills training
Softbrain Service Co., Ltd.	98.7%	
Softbrain Integration Co., Ltd.	100.0%	Business consulting and training utilizing tablets, smartphones, etc.
Field Marketing business		
Softbrain Field Co., Ltd.	85.6%	Field activities operations, market research
Systems development business		
Softbrain Offshore Co., Ltd.	100.0%	Outsourced software development
Publication business		
Diamond Business Planning Inc.	70.0%	Planning, editing, and publishing of business books

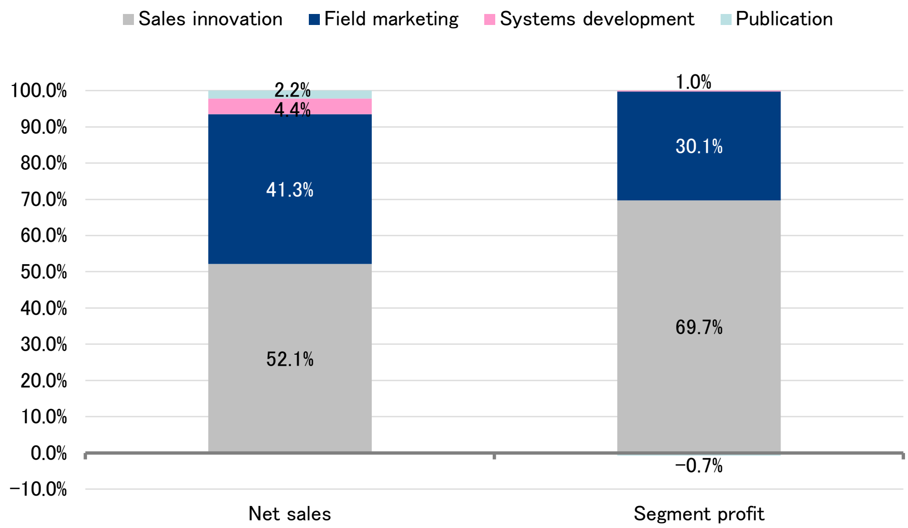
Source: Prepared by FISCO from Company materials

e-Sales Manager ranks No.1 in the overall customer satisfaction rating and has top market share among domestic vendors

2. Business outline

The Company provides a one-stop service to support companies' sales, IT, and marketing from its four businesses, of the mainstay sales innovation business and field marketing business, and also the systems development business and the publishing business. Looking at FY12/19 results, 52.1% of net sales and 69.7% of segment profit were provided by the sales innovation business, and 41.3% of net sales and 30.1% by the field marketing business, both of which accounted for most of the Company's earnings. The outline of each business is provided below.

Percentages by business segment (FY12/19)



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

(1) Sales innovation business

The sales innovation business includes license selling and providing services through cloud environment and support e-Sales Manager, CRM/SFA software. In addition, it includes customized development, sales consulting, skills training, and also support and training services for the introduction of smart devices, such as smart phones and tablets.

The Company conducts sales of e-Sales Manager and smart devices, and also provides support services for their introduction, toward framework building (sales information devices that utilize IT) that will solve the sales issues facing companies. Also, while collaborating with its subsidiaries, it is progressing measures to effectively improve sales departments' productivity by providing consulting and training that focuses on sales issues for model building and improves skills of its employees. In 2014, the subsidiary Softbrain Integration received certification from Apple <AAPL> of the United States and joined its Apple Consultants Network, and it provides consulting to support introductions of iOS devices (iPhone and iPad). Also, from January 2018, it launched a new service, iOS Devices Management Agency Service AMC (Apple device Management Center) for the management of and technical support for companies' iOS devices.

e-Sales Manager is a sales support tool that helps enhance the productivity of sales departments (reducing labor hours and increasing sales) by enabling users to grasp the situation quantitatively by allowing them to visualize each process within sales activities. The number of companies introducing this product is also increasing in a situation of the spread of the use of cloud services, which has made it possible to use it at an initial low cost, and also the increasing awareness of it as a tool to realize “reforms to ways of working” in sales departments. This business has three sales formats – on-premises (license sale of the software and direct ownership and management of servers and other equipment by the customer), cloud services (customer does not own hardware and service is provided for monthly charges), and managed services (license sale of the software and use of a hosting service for the server). While a growing number of companies are utilizing cloud service and managed service that do not require facility burden recently, companies that need high security and certain others continue to use the on-premise format.

As for the cloud-type, in addition to “e-Sales Manager Remix Cloud” (from ¥6,000 per month per ID), the Company has released a simplified version of “e-Sales Manager nano” (¥1,000 per month per ID) targeting individual proprietors and SMEs (one to several employees), and also in December 2017, “e-Sales Manager Remix MS” (from ¥3,500 per month per ID) targeting SMEs (with a sales force of 5 to 20 sales people). e-Sales Manager Remix MS is a self-serve-type service that allows the customers themselves to configure the various settings online from its introduction, and its features include that basically the same functions as “Remix Cloud” can be used for a low fee. The Company has been improving functions, UI, and other aspects while listening to user requests since the release and plans to conduct full-fledged promotional activities from version 2.0 slated for release in summer 2020.

Sales structure of e-Sales Manager related business

	On-premises	Cloud services	Managed services
Overview	· Customers install servers on site, and set up and operate their own systems	· Monthly subscription model wherein the service environment is leased out and no hardware is installed by the customer	· Customers purchase software licenses and operate on cloud service infrastructure
Advantages	· Low costs over the long term · Flexible customization including integration with existing systems and added functionality	· Initial costs lower than setting up server · No system operation (security, etc.) costs	· No server setup costs · No system operation (security, etc.) costs · Running costs lower than cloud type
Disadvantages	· Initial costs higher than cloud type · Labor costs for system operation and maintenance	· High costs over the long term	· As the license becomes the customer's asset, it takes time to amortize
Target customers	· Customers with 50 or more users · Customers with multiple existing systems · Customers that cannot allow offsite data flow for security reasons · Customers wishing to keep running costs low · Customers wishing to post expenses as leasing costs	· For trial use in certain departments/ branches only · Customers with no systems support staff · Customers wishing to keep initial costs low · Customers not wishing to add assets to their balance sheets	· For trial use in certain departments/ branches only · Customers with no systems support staff · Customers wishing to keep running costs low

Source: Prepared by FISCO from the Company's website

e-Sales Manager Remix cloud-type fees

Basic license (cloud type)		Main option licenses	
Plan	Price	Plan	Price
Standard	¥6,000/month/user	Map license	¥1,000/month/user
Knowledge sharing (read only)	¥2,000/month/user	Business card digitization	Initial cost: ¥60,000 ¥35/card
Schedule sharing (groupware only)	¥1,000/month/user	Analytics	¥3,500/month/user
		Analytics Desktop	¥9,500/month/device
		Fee for remote data connection environment (cloud or hosting type)	¥12,000/month/device

Source: Prepared by FISCO from the Company's website

e-Sales Manager has three major strengths. The first is that its product has the best reputation in the industry for "usability." In the User Survey on CRM/SFA (sales support system)* conducted by the research company ESP Research Institute Inc., in May 2019, it was announced that e-Sales Manager ranked No.1 for overall satisfaction for 2 straight years after the start of the survey. In a survey on satisfaction in tool usability, the effects for improving operations, service content, and system use, as well as installation effects, the Company ranked first in 37 of the 38 items examined (in the previous survey, it ranked first in 30 out of the total 38 items. This is the result of the fact that the Company has been working on the development concept of "The No.1 CRM/SFA for usability" since its sales were launched in 1999.

* For the products of 5 companies, of Salesforce.com <CRM>, Oracle <ORCL>, Microsoft <MSFT>, SAP <SAP>, and Softbrain, an online questionnaire survey was conducted among a total of 300 company managers and sales representatives who are actually using the products (a total of 60 people per product).

Summary of the results of the user survey on CRM/SFA

Category	Main items rated highly
Usability	Easy to understand interface, easy to use even with smart devices
Operations-improvement effects	Need for daily reports has been eliminated and the customers who need to be visited have been clarified
Installation effects	Reduced the number of meetings and increased the projects acquired
Service content	Fast replies from support staff, and good advice and support for establishing the product
System usage	Want to use it continuously in the company and department, and it is a system to recommend to other companies and departments

Source: Prepared by FISCO from the Company's materials

The Company's second strength is that its sales type can be the cloud service type, managed service type, or on-premises type, so it is able to meet all customer needs. Large companies frequently, require customized specifications for usability, but the Company also has the flexible design and development capabilities to be able to respond to these needs. In an increasing number of cases, companies using the cloud service of a competitor are deciding to switch to the Company's service because of its excellent usability.

The Company's third strength is that it is building a structure that can provide a total solutions service that is not limited to the installations of products and services, but also provides consulting to enhance the effects of installations, and skill up training at its subsidiaries. Regardless of the size of the industry or company, the Company has installed products into more than 5,000 companies in total, and the expertise it has accumulated from this enables it to propose solutions optimized to resolve the problems specific to each customer. It also provides thorough support, from when a system is installed until it becomes established (including support from activities consultations through customer visits, training services, an online activities support website, and a help desk). As a result, it is achieving an extremely high customer-retention rate of 95% (updated in 2018).

CRM/SFA competitors include Salesforce.com Inc. (cloud-type only), Oracle Corporation Japan <4716>, and Microsoft as well as Knowledge Suite <3999> for SMEs. Looking only at the cloud services, Salesforce.com has the top share, but the Company is the largest player among the domestic vendors.

(2) Field marketing business

This business, which managed by the subsidiary Softbrain Field Co., Ltd., mainly consists of carrying out field activities at storefronts and field survey using "cast" (registered staff members), who are mostly housewives in their 30s to 50s. It also provides the staffing service for rounder, which is a service for the temporary staffing of and referrals for "rounders" (field merchandisers), who carry out the field activities, and the Point of Buy® service, in which it collects and aggregates receipts of products purchased by consumers and sells this data to companies.

Field activities mainly consist of business negotiations for the relevant products, the layout of sales floors, and the installation of point-of-purchase ads at retail stores when consumer-goods manufacturers launch new products, such as food items and daily commodities. Although these activities used to be carried out by the employees of the manufacturer, the outsourcing of these activities has become more common toward improving the cost efficiency of sales promotions and helping to overcome labor shortages. The Company has more than 350 corporate customers, including from its results in the past, and they belong to a broad range of industries, although they are mainly manufacturers of food and beverage and healthcare-related products. Asahi Soft Drinks is a major customer that contributes just over 30% of sales in this business.

As of December 2019, it had built one of Japan's largest networks, utilizing more than 92,000 people (90,000 as of December 31, 2018) as its "cast," and they cover more than 180,000 stores nationwide including convenience stores, drugstores, general merchandise stores (GMS) and supermarkets (SM), which are increasing year by year. Looking over the past year, other business types have risen sharply because of the start of active pursuit of field services besides store field work as a new initiative. Some examples of growing areas include sales agent service for equipment maintenance to vehicle-related business locations and proposals on registering with travel information apps to regional hotels, inns, and other facilities.

No. of stores covered by business type

Business type	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019
Drugstores	23,257	25,013	26,699
GMS/SM	21,517	22,542	23,506
Convenience stores	36,505	44,243	50,237
Bookstores	9,182	9,182	9,739
Home centers	4,713	4,811	4,887
Discount stores	2,767	2,867	3,010
Electronic retail stores	3,814	3,830	4,012
Specialist stores	26,726	34,968	36,274
Others	17,563	22,480	29,074
Total	146,044	169,936	187,438

Source: Prepared by FISCO from the Softbrain Field's website

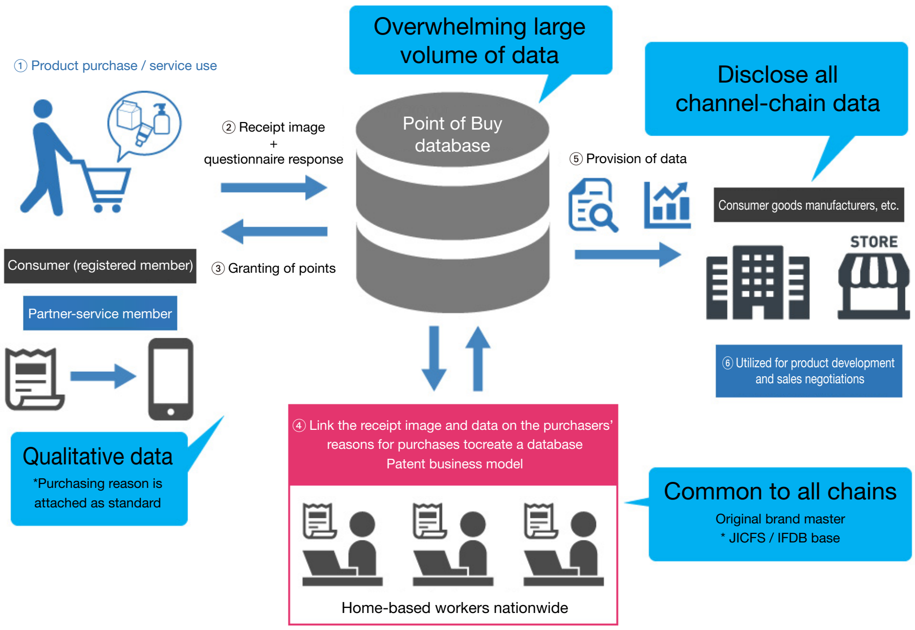
In the Point of Buy® service, which was launched in 2013, the products and services that are the targets of the survey are 68 categories of consumer goods, approximately 6,000 brand products, more than 500 retailers, 10 foods- and drinks-use categories, and over 200 chains. It is a service in which the Company collects images of receipts that indicate the reasons for purchases from members via the Internet, creates a database of this information, and then regularly provides it to customers, mainly consumer goods manufacturers. Companies can use this data for marketing analyses of products and services and to create sales-promotions plans.

The channels to collect the questionnaire surveys include the members of Credit Saison’s <8253> SAISON POINT MALL (approximately 16.8 million people); members of Ponta (approximately 91.29 million people) managed by Loyalty Marketing from a collaboration started in February 2018. In addition, Softbrain Field has a registered cast (approximately 92,000 people), and among them, as of the end of December 2019, 334,000 were questionnaire members (up 30.4% YoY).

In terms of the service flow, the questionnaire survey respondents are given points, and the images of the collected receipts and the questionnaires (such as on the reasons for purchases) are linked and turned into a database, which is then sold to the customer companies. These customer companies can conduct various analyses from the data using BI tools. Softbrain Field bears the cost of giving points to the survey respondents. While this business is still at the early investment stage because of low data volume, we think it should be capable of monetization if the service expands to 3mn data samples per month since this would give it one of the largest domestic databases on purchasing data. We believe the Company needs to arrange further alliances with companies that have numerous members in order to expand data collection volume. The Company has acquired a business model patent* for Point of Buy®.

* The content of the patent is “A framework to create a marketing database of ‘data by product and service, including on reasons for purchases,’ in which image data of the receipts registered by consumers from input devices is received, the consumer’s response data and the receipt image data are displayed on the checker terminal used by the checker, and the consistency of the response data and the question data is determined using the receipt image.

The Point of Buy® service model



Source: The Company's website

(3) Systems development business

Outsourced software development is undertaken by the subsidiary Softbrain Offshore Co., Ltd. The Company sold its development subsidiary in China in September 2013 as a part of its business structural reforms, though it presently maintains a business relationship with it as a subcontractor. It also continues to utilize its Vietnamese and domestic near-shore bases. In August 2016, the Company established a development base in Okinawa in partnership with TAIYO CLOUD SERVICE Co., Ltd.

(4) Publication business

This business is comprised of the planning, publishing, and sales of books, mainly relating to business, and it is conducted by the subsidiary Diamond Business Planning Inc. Utilizing its joint-venture cooperation with DIAMOND, Inc., it supports corporate marketing, IR, and branding activities through publishing, and it is creating new value not only from the usual business books, but also from the openings provided by its publishing of corporate histories that tell “new” stories about the histories of companies.

3. Management vision

The Company’s management vision is to aim to be a leading company that reforms ways of working in Japan through “Process management x IT.” Also, its management mission is to “maximize the productivity of customers,” and in terms of the two ways of realizing this as value, it is continuing to provide “framework building” centered on e-Sales Manager at the same time as providing “model building” operations through consulting based on process management. It is considered that contributing to its customers’ improved productivity and sales growth will lead to the growth of the Company itself.

Financial results and business trends

Realized an eighth straight year of sales increase in FY12/19, though profit slipped on higher development costs and printing business weakness

1. Overview of the FY12/19 results

The Company reported FY12/19 consolidated results with ¥9,894mn in net sales (+7.7% YoY), ¥1,166mn in operating income (-5.5%), ¥1,172mn in ordinary income (-5.5%), and ¥764mn in profit attributable to owners of parent (-4.0%). Net sales increased in an eighth straight year to an all-time high with gains in mainstay sales innovation and field marketing businesses. However, the Company's operating income slipped for the first time in two years, despite a rise in field marketing business profit, because of higher development expenses and one-time headquarters move costs in sales innovation business and a slump in printing business sales.

Net sales fell 0.4% and operating income 11.7% below the target initially planned at the start of FY12/19. Higher than initially planned development costs arising from proactive development to improve quality in the sales innovation business and sluggish book sales in the printing business caused shortfalls even though the field marketing business delivered increased sales and profits surpassing plans.

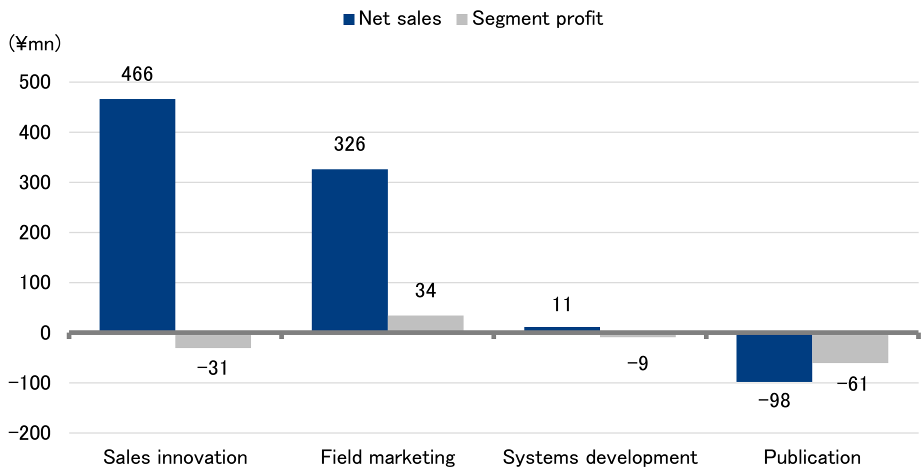
FY12/19 consolidated results

(¥mn)

	FY12/18		FY12/19				
	Result	% of sales	Forecast	Result	% of sales	YoY	vs. target
Net sales	9,188	-	9,930	9,894	-	+7.7%	-0.4%
Cost of sales	5,766	62.8%	-	6,372	64.4%	+10.5%	-
SG&A expenses	2,187	23.8%	-	2,355	23.8%	+7.7%	-
Operating income	1,233	13.4%	1,320	1,166	11.8%	-5.5%	-11.7%
Ordinary income	1,240	13.5%	1,320	1,172	11.8%	-5.5%	-11.2%
Profit attributable to owners of parent	796	8.7%	840	764	7.7%	-4.0%	-8.9%

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

Changes to results (YoY) by business segment



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

e-Sales Manager steadily increasing sales mainly driven by cloud services, healthy trend in field marketing business too led by periodic projects that provide recurring income

2. Trends by business segment

(1) Sales innovation business

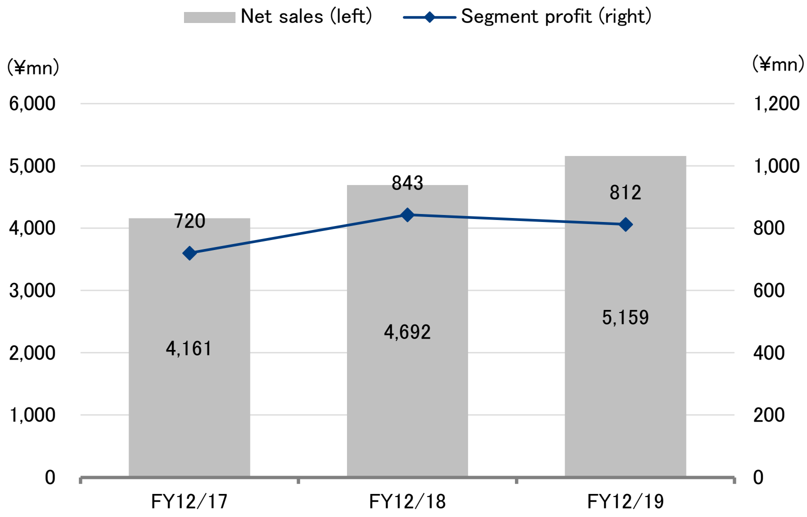
Sales innovation business booked ¥5,159mn in net sales (+9.9% YoY) and ¥812mn in segment profit (-3.7%). e-Sales Manager sales were upbeat with a roughly 10% increase, mainly in cloud-type business, and smart device and other deployment assistance services had healthy momentum too. Consulting and education and training sales declined.

The Company is making steady progress in the "shift from a flow type to a stock type income structure" presented as a priority policy in its Medium-Term Management Plan with cloud service, managed service, maintenance and support, and other recurring income climbing from 47% (FY12/18) to 54% of segment sales and surpassing 20% as a growth rate. In the market environment, Japan's enforcement of laws related to work style reforms* from April 2019 and resulting increased interest in raising the productivity of corporate sales divisions also contributed to upbeat momentum. Flow type income (licenses, deployment consulting, customization, education and training, etc.), meanwhile, fell slightly on sales declines in consulting and education and training areas.

* These laws enacted an upper limit on overtime hours, ensured use of annual paid holidays (five days a year), and other rules. The overtime restriction sets limits of 45 hours a month and 360 hours a year as a general rule and applied to large companies from April 2019 and SMEs from April 2020. They included penalty provisions too.

Increase in upfront investment costs was the main reason for profit decline on higher sales, including robust promotion of improvements in e-Sales Manager usability and performance and self-serve e-Sales Manager Remix MS development and headquarters move costs.

Sales innovation business results

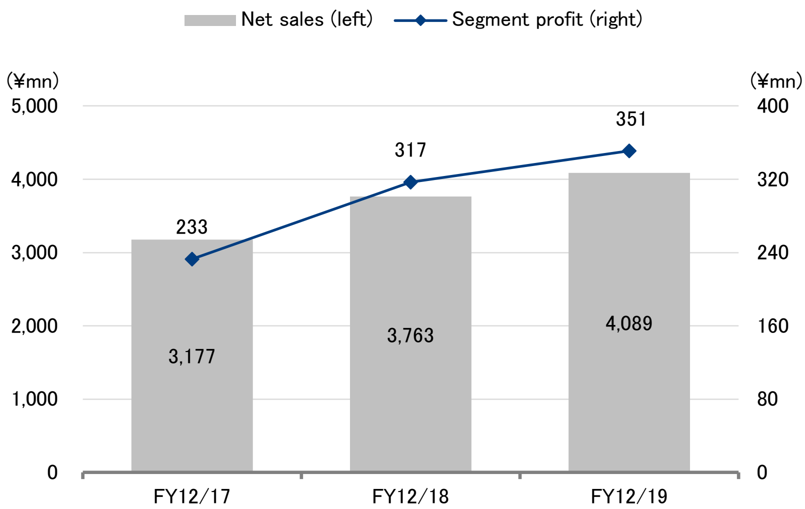


Source: Prepared by FISCO from the Company's financial results

(2) Field marketing business

Field marketing business booked higher sales and profits in a second straight year with net sales at ¥4,089mn (+8.7% YoY) and segment profit at ¥351mn (+10.8%). Healthy momentum in periodic field business, mainly on behalf of major consumer goods manufacturers, and staffing business drove sales and profit growth. In Point of Buy® service, while the number of contracts is rising, the Company is still in an upfront investment phase at this point.

Field marketing business results



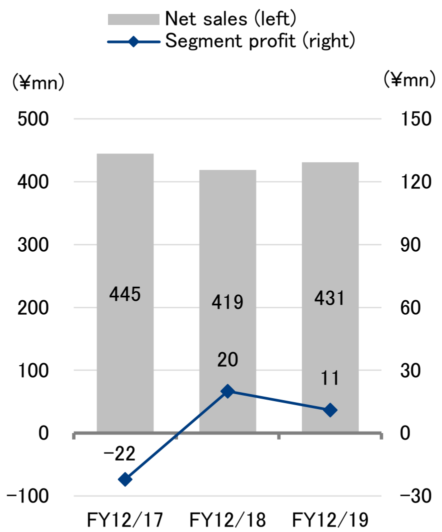
Source: Prepared by FISCO from the Company's financial results

(3) Systems development business and publication business

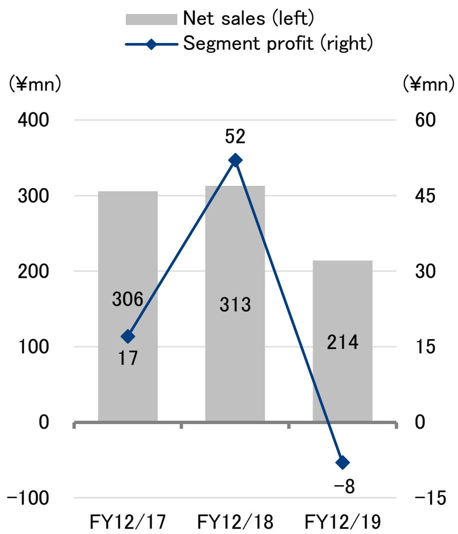
System development business reported ¥431mn in net sales (+2.7% YoY) and ¥11mn in segment profit (-45.9%). While sales were firm thanks to stronger business with existing users, profit dropped on occurrence of extra development costs for some long-term projects. The Company's main policy in system development business is arranging stable income, rather than pursuing expanded scale.

Publishing business, meanwhile, dropped to ¥214mn in net sales (-31.4% YoY) and had an ¥800mn segment loss (vs. a ¥52mn profit in the previous year). Income contracted due to the small number of new publications and large dip in sales.

Systems development business results



Publication business results



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

Strengthening the financial base along with expanded earnings

3. Financial position and management indicators

Looking at the financial condition at the end of FY12/19, total assets were up ¥416mn on the end of the previous fiscal year to ¥7,278mn. The main changes factors were that in current assets, trade receivables increased ¥96mn, while in non-current assets, tangible assets increased ¥47mn, software in progress rose ¥108mn, and guarantee deposits increased ¥52mn.

Total liabilities were down ¥95mn on the end of the previous fiscal year to ¥2,054mn. This was mainly because notes and accounts receivable increased ¥45mn and interest-bearing debt and income tax payable decreased ¥56mn and ¥108mn respectively. Net assets were up ¥511mn on the end of the previous fiscal year to ¥5,223mn. While implementing surplus dividends of ¥235mn and acquiring ¥43mn in treasury stock, profit attributable to owners of parent was ¥764mn.

In core management indicators, the capital ratio rose by 3.0ppt versus the end of FY12/18 to 68.4% with expanded earnings, and the interest-bearing debt ratio continued the downward trend in recent years to 2.6%. We think the Company has healthy financial standing. In profitability, while ROA, ROE, and operating margin modestly declined YoY, the Company sustained high profitability with all three values exceeding 10%. We expect further reinforcement of the financial base as the Company continues to expand profits given the absence of major investment demand for the time being.

Consolidated balance sheet

(¥mn)

	FY12/17	FY12/18	FY12/19	Change
Current assets	5,070	5,987	6,208	220
(Cash and deposits)	3,135	4,010	4,010	0
Non-current assets	765	874	1,070	196
Total assets	5,836	6,861	7,278	416
Total liabilities	1,751	2,149	2,054	-95
(Interest-bearing debt)	240	184	128	-56
Net assets	4,084	4,712	5,223	511
Main management indicators				
(Stability)				
Shareholders' equity ratio	66.7%	65.4%	68.4%	3.0pt
Interest-bearing debt ratio	6.2%	4.1%	2.6%	-1.5pt
(Profitability)				
ROA (return on assets)	17.0%	19.5%	16.6%	-2.9pt
ROE (return on equity)	17.4%	19.0%	16.2%	-2.8pt
Operating income margin	11.7%	13.4%	11.8%	-1.6pt

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

Future outlook

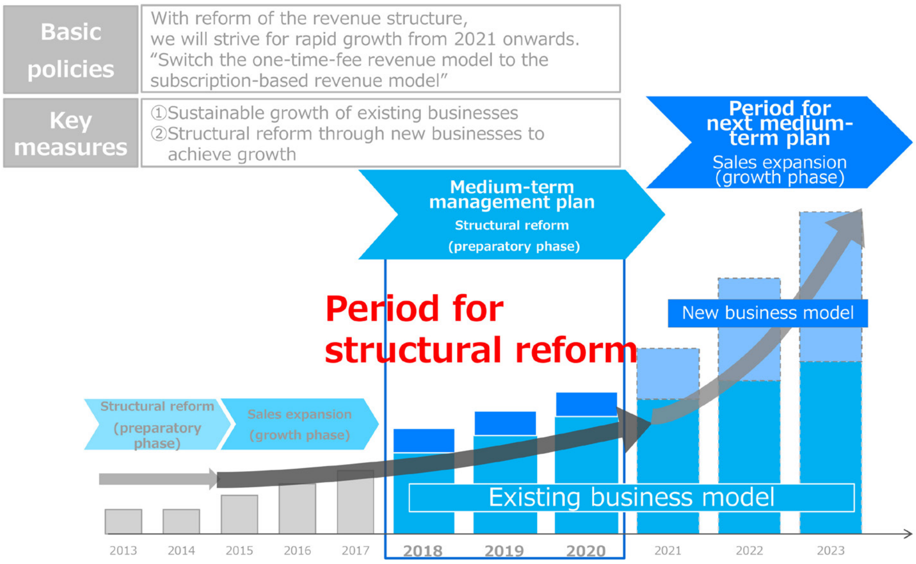
Transitioning from a flow type to a stock type earnings structure, and the pace of growth will accelerate from FY12/21 onwards

1. Overview of medium-term management plan

In January 2018, the Company announced a three-year medium-term management plan with FY12/20 as its final fiscal year. The plan's basic policy is to implement structural reforms in these three years to "change the earnings structure from a flow type to a stock type" to accelerate the pace of growth from 2021 onward. It also sets-out the structural reforms that will be progressed as the priority measures for the continued growth of the existing businesses and the investment for the growth of the new businesses.

While the Company presented FY12/20 management goals (consolidated) of ¥11.3bn in net sales, ¥1.5bn in operating income, and 14% operating margin, the recent plan taking into account FY12/19 results aims for ¥10.7bn in net sales and ¥1.25bn in operating income. Nevertheless, the Company still intends to accelerate sales growth in the next medium-term plan from 2021.

The medium-term management plan's basic policy and priority measures



Source: Prepared from the Company's results briefing materials

Aims to accelerate growth in e-Sales Manager business from 2021 through full-fledged sales expansion of new products targeting SMEs and assistance for realization of customer success

2. Growth strategies by business segments and progress

(1) Sales innovation business

The market environment for the sales innovation business is expected to continue to be advantageous. In the situation of the decline in the working-age population in Japan, "improving productivity" and "growing sales" have become important management issues for companies, and as the solutions to these issues, there seems to be plenty of room for growth of demand for the Company's e-Sales Manager (framework building), and sales consulting and training services (model building).

COVID-19 impact has changed the sales process recently with less face-to-face sales discussions and increase in Web opportunities. We think this environment is likely to boost the importance of sales force assistance (SFA) software that supports clarification of success cases and quick sharing internally. SMEs, in particular, offer large potential demand considering the slower pace of IT deployment in sales divisions than at large companies. While there is risk of downturn in IT investments due to weaker corporate profits, the Company sees changes in the market environment as a good opportunity to recruit new customers.

The SFA's target market is, among Japanese companies (approximately 4.1 million companies) with a total sale force of 2.6 million people, "large companies" with the funds to invest in IT and also "profitable, medium-sized companies and SMEs." In terms of company numbers, it is targeting approximately 220,000 such companies with a sales force of 1.6 million people. According to the Company's estimates, among its targets of approximately 220,000 companies, the percentage of them that have installed SFA is still low, at around 14%. Also, it seems that only 3.5% of all these companies that have installed it are actively using its functions. This active rate is estimated by the Company from within its sales activities from the usage of other companies' products. On considering this situation, SFA's growth potential remains large.

SFA introduction rate and active rate

	No. of target companies	Expected no. of introducing companies	SFA introduction rate		Expected no. of active companies	SFA active rate	
Major companies	17,000	5,000	30%		1,300	8%	
Profitable medium-sized companies and SMEs	200,000	26,000	13%	14%	6,500	3%	3.5%

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

We think e-Sales Manager Remix MS, which targets SMEs (with sales teams of 20 people or less) deserves notice. Since the release at the end of 2017, the Company positioned this phase as a trial deployment period to improve product completeness by collecting customer needs via inside sales (by phone, e-mail, etc.) and revising features. This service uses a self-serve format in which customers handle all steps online, including deployment, feature settings, and contract finalization. Even companies without IT staff can easily deploy and utilize this product and confirm its efficacy. The Company is currently building a framework for even simpler deployment, including user interface changes, adding highly requested features, and revamping the utilization assistance site, and plans to release version 2.0, which is close to the final format, in around summer 2020. It also intends to ramp up promotion efforts, albeit while carefully assessing the situation. The product is likely to contribute to income expansion from 2021. The Company obtained a business patent for the self-serve approach (program that automatically prepares a system environment suited to work tasks based on questionnaire responses) in 2018, and this aspect might be an important differentiating factor.

While the Company had planned a horizontal rollout within the industry as a customer expansion strategy through development of SFA tools for designated industries, such as financial and real estate while receiving cooperation from a major industry firm, it decided to postpone development of designated industry features based on a policy of concentrating resources in reinforcement of existing services and cultivation of e-Sales Manager Remix MS.

Strategy to expand the target customers

Target		Tactics
Existing model	· A sales force of more than 21 people	Thoroughly pursuing usability on the axis of "e-Sales Manager Remix" · Multi-device compliant (a framework in which it can be used anywhere and at any time) · Linked to other companies' products (BI/MA field), division-of-labor-type AI functions (replaced with AI for non-core operations) · Pursuit of "model building" through sales consulting
Specific industries	· Finance, pharmaceuticals, real estate, etc. (industries with many sales)	Collaborations with the top runners in their industries · Development of the best sales process for specific industries · Responding to the essential requirements of industries, such as to industry regulations and cooperation with industry specific-type systems · Basic designs of existing products, following the design concept
Medium-sized companies and SMEs	· Profitable medium-sized companies and SMEs with a sales force of 20 or fewer people	Opening-up the market through the self-serve-type "e-Sales Manager Remix MS" · Maintaining No.1 for usability · Providing inexpensive products · Simple introduction, setting, and utilization of the online complete product

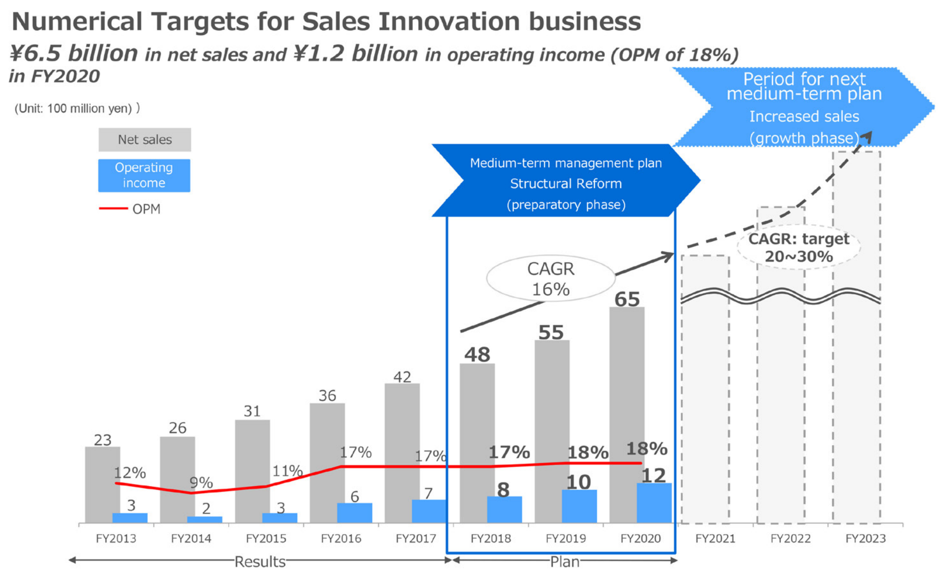
Source: Prepared by FISCO from the Company's results briefing materials

The Company also plans to bolster services from a customer standpoint to support realization of customer success (from the SFA deployment effect). Its specific initiatives are reinforcement of on-site customer adviser service * and expansion of joint user seminars and the web-based utilization support site. The Company hopes that realization of customer successes will further enhance the retention rate and help in recruiting new customers through word-of-mouth introductions.

* This strengthens existing utilization assistance service with visit follow-up and advice through web meetings, conference calls, and other methods.

While the Medium-Term Management Plan set FY12/20 goals of ¥6.5bn in net sales, ¥1.2bn in operating income, and 18% operating margin, the Company might miss these levels because of FY12/19 shortfall (vs. period-start targets) at ¥5,159mn in net sales and ¥812mn in operating income and the recent market environment. Despite weakening market conditions, the Company aims to achieve 20-30% annual sales growth from 2021 via development activities that improve usability and performance and reinforcement of product capabilities and services.

Sales innovation business numerical targets



Source: Prepared from the Company's results briefing materials

(2) Field marketing business

The market surrounding the field marketing business is expected to continue to be favorable over the medium term, including due to the advances of the aging population and declining birthrate in Japan, the measures by companies to reform ways of working, and their utilization of outsourcing. In particular, the legal preparations to promote the utilization of women in the workforce, including the Act on the Promotion of Women's Participation and Advancement in the Workplace, are being advanced, and utilization of housewives as a new labor force is moving forward.

Changes to the business environment

Societal environment	· Full realization of a declining-birthrate, aging-population society · Societal requirements for reforms to ways of working · Momentum toward utilizing women	Legal system	· Continuous review of labor-related legislation (relaxation of regulations, such as the Dispatch Law, Labor Standards Law, etc.)
Corporate behavior	· Spread of business outsourcing · Changes to companies' marketing strategies (from mass to direct)	Competitive environment	· Emergence of a new business model in the labor market from the development of IT

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

The Company estimates that the store rounder market for consumer goods manufacturers is worth about ¥100bn (including potential demand). This puts the Company at a market share of about 4% with roughly ¥4bn in FY12/19 sales. While this market alone has significant room for sales growth with the prospect of consumer goods manufacturers continuing to steadily outsource these activities, the Company has started focusing on outsourcing demand in the field (sales) market to achieve further growth.

For example, it has conducted customer satisfaction surveys accompanying periodic vehicle parts replacements at transport companies with roughly 8,000 business sites nationwide and received orders from a vehicle parts manufacturer for related product promotions and other sales activities as well as from an accommodation reservation site operator to conduct usage levels for registered facilities (hotels and inns) on the customer's reservation site and other company sites and to promote registration of campaign plans and accommodation plans. The Company wants to acquire orders by actively promoting field marketing proposals in areas that do not require specialized skills. The field market, including store rounder market, is worth ¥2trn (based on an assumed outsourcing rate of 10%). Since the bulk is latent demand that has not been outsourced yet, the Company sees significant growth potential.

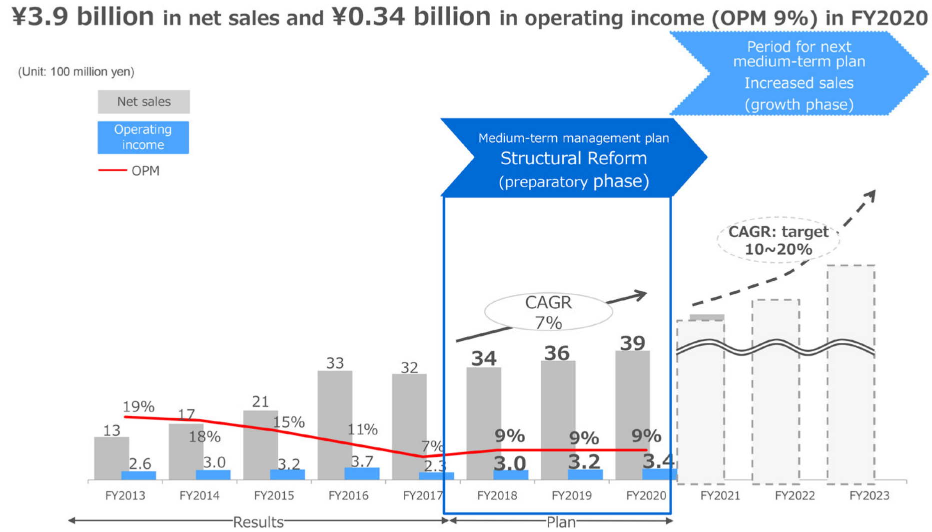
Main targets and new market development

Source: Prepared from the Company's results briefing materials

In addition, attention is also focusing on Point of Buy® (a service to provide information on reasons for purchases) that is being provided as a new service. The Company is currently at the upfront investment stage in order to increase the volume of consumer-purchasing data. But if it is able to build a data-collection structure by combining with the information collected through store rounder operations and providing service with better added value it has the potential to develop to become a pillar of earnings in the future. In the Company's plan, it is aiming to expand the structure to collect data on the reasons for purchases to 3 million data in FY12/20. If it is able to collect 3 million reasons-for-purchases data per month, it will be the largest volume of data in Japan, and not only will the reliability of the purchasing data using existing POS data become basically unmatched, but added-value data, of the reasons for purchases, will be added. So it is considered highly possible that it will be able to be utilized as effective data for the marketing strategies of companies. The main issue at this point is setting up operations to expand collection to 3mn data samples. While the Company is steadily increasing data volume through alliances with SAISON card and Ponta card members, it still needs alliances with companies that have large member levels to reach a system that generates 3mn samples. We will be looking for quick finalization of alliance negotiations currently underway.

The Medium-Term Management Plan set goals for field marketing business in FY12/20 of ¥3.9bn in net sales, ¥340mn in operating income, and 9% operating margin. The Company already exceeded these levels a year ahead of time at ¥4,089mn in net sales and ¥351mn in operating income in FY12/19, and we expect even higher values in FY12/20. From 2021, the Company aims to accelerate the sales growth rate to 10-20% annually by broadening business scope in the field market and ramping up Point of Buy® service.

Field Marketing business numerical targets



Source: Prepared from the Company's results briefing materials

Withdrew FY12/20 guidance and took an undecided stance due to COVID-19 impact

3. FY12/20 consolidated earnings outlook

Regarding FY12/20 consolidated results, the Company withdrew guidance disclosed on January 30, 2020 and took an undecided stance in the "notification of revisions to our results and dividend outlook" issued on April 30, 2020. It explained that COVID-19 impact has resulted in continued stagnation of corporate economic activities and significant revisions to investment decisions and these conditions are primarily affecting mainstay sales innovation and fielding marketing businesses. It also indicated it cannot prepare a reasonable forecast at this point because of many uncertainties capable of impacting results.

Shareholder return policy

Plans a dividend payout ratio of 30%

In order to continuously improve enterprise value and return profits to shareholders, the Company's basic policy is to establish the business foundations to stably and continuously generate profits, to actively develop new businesses, to invest capital and take other such measures as necessary, and while taking into consideration medium- to long-term business policies, to pay dividends after considering the necessity of supplementing retained earnings and securing funds. Its aims for a dividend payout ratio of 30%, unless it has special demands for capital.

The Company took an "undecided" stance for the dividend target too because it has not finalized FY12/20 guidance.

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■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp