

# SOLXYZ Co., Ltd.

4284

Tokyo Stock Exchange First Section

30-Jun.-2017

FISCO Ltd. Analyst

**Yuzuru Sato**



FISCO Ltd.

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

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## ■ Summary

### Announced strategic alliances in automated driving and FinTech areas

SOLXYZ <4284> handles software development and digital signage businesses. Financial industry deals account for a large percentage of software development business and contributes just under 70% of parent sales. SOLXYZ is strengthening existing businesses and cultivating recurrent business with the aim of enhancing earnings stability. It is ramping up alliance strategies in automated driving, FinTech, IoT, AI, and other areas with growth potential.

#### 1. Announced three strategic alliances

SOLXYZ has announced three alliances that deserve notice since May 2017. The first is a capital and business alliance with Toyota Tsusho Corporation <8015>. It sold 134,000 treasury shares (1.0% stake) to Toyota Tsusho on June 6. The capital alliance aims to strengthen ties with eXmotion Co., Ltd., SOLXYZ's subsidiary that provides system development and design assistance consulting service, and promote the Toyota Motor Corporation <7203> Group's next-generation vehicle development. While business ties already existed with the Toyota Group, this initiative seeks to bolster the connection to accelerate development of automated driving technology. The second is cooperation in technology development for the FinTech service business being advanced by SBI Holdings, Inc. <8473>, SOLXYZ's top shareholder, with group companies. The third is capital participation with a minority investment in AXE, Inc., a venture company that provides development support for automated-driving OS Autoware and develops AI technology, announced on June 14. SOLXYZ plans to cooperate in the development of automated driving technology and utilize AI technology in Fleekdrive and Fleekform (names changed from former Cloud Shared Office on March 6), its cloud services. These alliance strategies have increased expectations of earnings contributions in automated driving and FinTech areas.

#### 2. Expecting double-digit profit growth in FY12/17

SOLXYZ reported 1Q FY12/17 (Jan-Mar 2017) consolidated results with ¥3,373mn in net sales (+6.7% YoY) and ¥99mn in recurring income (+77.1%), delivering higher sales and profits. System development deals from the financial industry proceeded smoothly, and profits climbed at subsidiaries, such as eXmotion and E.I.SOL. Orders are currently roughly on track with the plan. Full-year results are likely to proceed in line with guidance of ¥13,400mn in net sales (+0.8%) and ¥700mn in recurring income (+15.9%).

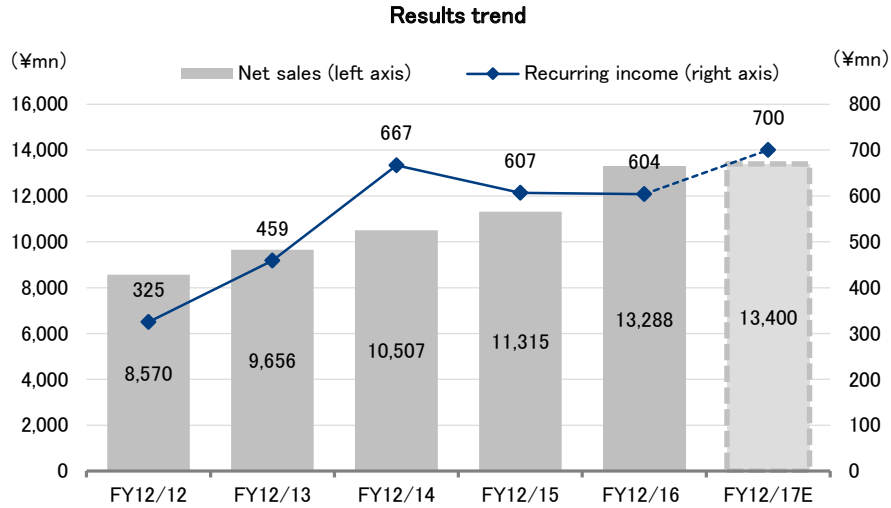
#### 3. Targeting ¥1,000mn in recurring income in FY12/19 in the three-year medium-term plan

SOLXYZ set goals in the three-year medium-term plan of ¥15,000mn in net sales and ¥1,000mn in recurring income in FY12/19. This outlook factors in accelerated growth in automated driving and FinTech areas through alliances and gains in solution services, such as Fleekdrive and Fleekform cloud services and senior monitoring Imairumo and TUNNELEYE IoT services. We will be closely watching developments in these areas.

#### Key Points

- Possibility of accelerated expansion in automated driving and FinTech areas
- Smooth start toward realizing FY12/17 guidance
- Aiming for ¥1,000mn in consolidated recurring income in FY12/19

Summary



Source: FISCO Inc. from abbreviated financial statements

## Business overview

### Mainly operates software development business for the financial industry

SOLXYZ handles SI/consignment development and related outsourcing business, package software development and sales and other solutions business, and information equipment sales business for financial, ICT, and other industries. A key feature is that the financial industry accounts for a large portion of overall business at around 70% of parent sales and about 60% of consolidated sales.

Consolidated subsidiaries consist of nine companies in software development business and one company in digital signage business. The Company has subsidiaries for each business field in software development. Major ones are FFSOL Co., Ltd. as a supplier of consignment development services to banks and Core Next Co., Ltd. as a business system development and maintenance firm for the securities buy side. Additionally, ASWare Co., Ltd. handles ICT infrastructure planning, building, and maintenance, and E.I.SOL delivers solutions in embedded, control, and measurement areas. These subsidiaries have transactions with the Company in development. Subsidiaries running businesses autonomously from SOLXYZ, meanwhile, are eXmotion, which provides consulting services for software development, Neumann Co., Ltd. the industry leader in education materials and information systems for the driving centers, and Interdimensions Co., Ltd. that provides design, installation and maintenance of digital signage and security systems for commercial facilities and amusement centers.

## Business overview

## Related companies (business content, ownership stake)

Consolidated subsidiaries	Ownership stake (%)	Business content
<b>Software development business</b>		
FFSOL Co., Ltd.	95.5	Specialized software development for banks
E.I.SOL Co., Ltd.	100.0	Software development for embedded, control, and measurement applications
Infinite Consulting Co., Ltd.	100.0	Consulting for the upstream process in system development
teco Co., Ltd.	100.0	Web marketing, development, operation and maintenance, and consulting
Neumann Co., Ltd.	100.0	Driver training center system, e-learning service
eXmotion Co., Ltd.	96.8	Consulting and educational services for system development sites
Core Next Co., Ltd.	100.0	Development and maintenance of securities buy-side business systems
ASWare Co., Ltd.	100.0	ICT infrastructure planning, construction, and maintenance business
ASEAN Driving School Network Co., Ltd.	67.7	Operation of driver training centers in Vietnam
<b>Digital signage business</b>		
Interdimensions Co., Ltd.	100.0	Design, installation, and maintenance of audiovisual and security systems and digital signage and video contents creation

Source: FISCO Inc. from company materials

## Recent topics

### Possibility of accelerated expansion in automated driving and FinTech areas

In the medium-term growth strategy, SOLXYZ presented a policy of growth in existing businesses plus focus on the four growth areas of automated driving, FinTech, IoT, and AI. It announced three strategic alliances related to automated driving, FinTech, and AI that deserve notice.

#### 1. Capital and business alliance with Toyota Tsusho in development of automated driving and other next-generation onboard systems

SOLXYZ concluded a capital and business alliance with Toyota Tsusho on May 17. It sold 134,000 treasury shares (1.0% stake) on June 6. The capital alliance aims to strengthen ties with eXmotion, SOLXYZ's subsidiary that provides system design consulting service, and promote the Toyota Group's next-generation vehicle development. While eXmotion already had business ties with the Toyota Group, this initiative seeks to bolster the connection to accelerate the development pace amid global acceleration of development in automated driving technology.

eXmotion provides consulting services related to design and development of embedded systems in the upstream process portion of system development. Its roughly 25 consultants supply design and development support in the development divisions at major automakers and their group companies. Primary customers are major Japanese auto firms, such as Toyota Group, Honda Motor Co., Ltd. <7267>, and Nissan Motor Co., Ltd. <7201>. It posted ¥620mn in sales and roughly 20% operating margin in FY12/16 and is one of the most attractive subsidiaries with high profitability in the group.

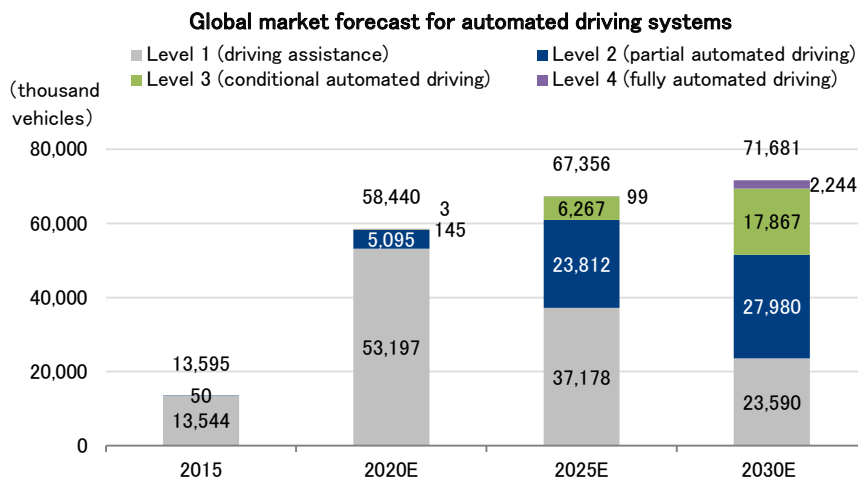
Recent topics

Development difficulty has been rising at onboard system development sites in recent years amid growing inroads by advanced driver assistance systems (ADAS)\* and accelerating efforts to realize automated driving technology. These conditions have increased demand for consulting services. eXmotion receives many inquiries due to its industry-leading consulting capabilities and cannot accommodate all demand. We think the latest business and capital alliance had a goal of speeding up the development pace by securing consulting resources.

\* Advanced driver assistance systems (ADAS) refer to systems that have functions such as activating automated brakes and stopping vehicles prior to impact with other vehicles or obstacles, following a vehicle located ahead at a certain interval, and controlling steering to keep the vehicle from veering out of the lane. These systems obtain information from camera sensors, laser radar, and other devices, process this information with semiconductor and software technologies, and conduct brake and steering control.

eXmotion is bolstering hiring activities to increase the number of consultants and training personnel with the aim of accommodating vibrant demand. It is likely to contribute to the expansion of SOLXYZ's consolidated results given the prospect of further growth in the automotive business and consulting demand related to the development of automated driving in construction machinery and other mobile equipment.

Group subsidiary E.I.SOL might receive orders for design and development of onboard systems due to the capital and business alliance with Toyota Tsusho. This is because it handles system development for embedded, control, and measurement applications and has a track record of assisting in the development of ADAS-related products at major automakers.



Source: FISCO Inc. from various materials

**2. Announcement of technology cooperation with SBI Holdings in the FinTech area**

SOLXYZ announced an agreement on technology cooperation for system development being promoted by SBI Group in the FinTech field with SBI Holdings, its leading shareholder, on May 24.

It will cooperate on building a system for blockchain deployment the 42 banks (regional banks, Internet-only banks, and others; as of October 2016) that participate in the "consortium reviewing domestic and overseas forex integration utilizing blockchain technology, etc." launched jointly by SBI Holdings with SBI Ripple Asia Co., Ltd., SBI Sumishin Net Bank, Ltd., and others in October 2016.

## Recent topics

Specifically, SOLXYZ will provide development assistance when SBI Ripple Asia and SBI FinTech Incubation install a domestic and overseas fund transfer system utilizing blockchain, distributed ledger technology, and other capabilities at regional banks and other firms. SOLXYZ and subsidiary FFSOL have already started collaborating through participation in SBI Ripple Asia and SBI FinTech Incubation projects and should be obtaining orders. Other financial subsidiaries in the SBI Group, such as SBI Securities Co., Ltd, SBI Card Co., Ltd. and SBI Insurance Co., Ltd., might also deploy FinTech services. We expect further orders recruitment opportunities if this happens. Major project developments in the financial industry have arrived at a peak and there had been concern about demand easing from 2018. We think the start of collaboration in the FinTech area this time increases the likelihood of sales continuing at a high level from 2018 too.

### 3. Investment in a development support company for automated-driving OS Autoware

SOLXYZ announced the acquisition of a 14% stake in AXE on June 14. AXE is a venture company that has provided proprietary OS to digital cameras and mobile phones, mainly involving UNIX and network technology development, since its establishment in 1992. Recently it has been offering development support and consulting for automated-driving OS Autoware and developing AI technology that it is vital for automated driving and other capabilities.

Autoware is an open-source software for automated driving systems based on Linux and ROS\* that was developed in 2015 as part of joint results from research by Nagoya University, Nagasaki University, and the National Institute of Advanced Industrial Science and Technology. AXE was involved in the development process with support for refactoring, debugging, and other tasks. Tier IV, a venture company founded by Nagoya University, is currently proceeding with Autoware development and promotional activities aimed at realization of fully automated driving. ZMP Inc, which has attracted attention for automated driving technology, has a track record of development using Autoware. Additionally, Tier IV announced in May 2017 that it will work with Axell Corporation <6730>, a fabless semiconductor manufacturer, to jointly develop specialty semiconductors with functions required by automated driving. AXE president Shozo Takeoka also serves as president of Tier IV. A professor from Nagoya University held this position when Tier IV was founded, but switched to director in charge of technology development due to his move to the University of Tokyo and Mr. Takeoka replaced him as the top executive.

\* This stands for Robot Operating System, an amalgamation of software used to develop robots. It is fundamentally developed as an open-source system.

AXE has about ¥300mn in annual sales with Toyota Tsusho and Nagoya University as its main customers. While it still incurs losses as a company in the investment stage, it possesses growth potential in the field of developing automated driving systems. SOLXYZ decided to acquire a stake because of likely synergies with its efforts to provide design assistance and system development in the automated driving field through a subsidiary. AXE is also conducting R&D on deep learning and other AI technology that SOLXYZ might utilize in its mainstay Fleekdrive and Fleekform cloud services to improve service functions.

## Results trends

### Smooth start toward realizing FY12/17 guidance

#### 1. Review of 1Q FY12/17 results

SOLXYZ reported 1Q FY12/17 consolidated results with ¥3,373mn in net sales (+6.7% YoY), ¥91mn in operating income (+18.4%), ¥99mn in recurring income (+77.1%), and ¥42mn in net income attributable to parent owners (vs. a ¥13mn loss in the previous year). Demand for system development from the financial industry was vibrant, continuing the trend from FY12/16, and sales and profits increased mainly at subsidiaries Neumann, eXmotion, E.I.SOL, and ASWare. The larger rise in recurring income primarily reflects improved derivative valuation income because of the forex shift to a weaker yen.

Both net sales and operating income surpassed 50% fulfillment of 1H targets thanks to accelerated sales recognition using the project progress standard for large deals with the financial industry. SOLXYZ prepared guidance that was skewed toward 2H at the period-start stage because it expected project inspections in 2H. The 1H results are also likely to exceed guidance based on the project progress standard. Orders are proceeding on track with initial guidance at this point.

#### 1Q FY12/17 results and full-year outlook

	FY12/16		FY12/17					
	Full-year results	YoY change	1Q results	YoY change	1H plan	YoY change	Full-year plan	YoY change
Net sales	13,288	17.4%	3,373	6.7%	6,300	0.2%	13,400	0.8%
Software development business	12,964	19.7%	3,335	7.5%	6,052	-1.5%	12,985	0.2%
Digital signage business	324	-33.0%	38	-37.4%	248	67.2%	415	28.0%
COGS	10,831	19.7%	2,774	5.4%	5,100	-0.1%	10,700	-1.2%
SG&A expenses	1,843	10.2%	507	12.3%	1,040	14.2%	2,000	8.5%
Operating income	613	3.3%	91	18.4%	160	-41.2%	700	14.2%
Recurring income	604	-0.5%	99	77.1%	160	-28.9%	700	15.9%
Net income attributable to parent owners	363	20.8%	42	-	70	-29.3%	400	10.2%

Source: FISCO Inc. from company materials

#### 2. FY12/17 guidance

SOLXYZ guides for FY12/17 consolidated results of ¥13,400mn in net sales (+0.8% YoY), ¥700mn in operating income (+14.2%), ¥700mn in recurring income (+15.9%), and ¥400mn in net income attributable to parent owners (+10.2%). Segment sales targets are software development at ¥12,985mn (+0.2% YoY) and digital signage at ¥415mn (+28.0%). Software development consists of ¥11,109mn from SI/consignment business (-5.4%) and ¥1,876mn (+54.2%) from solutions business. For the SI/consignment business, SOLXYZ expects slight sales decline, even after adjusting for a drop in equipment sales that rose substantially in the previous year, because of peaking out of some major deals for the financial industry and promotion of orders activity that emphasizes profitability. SOLXYZ hence only forecasts a minor rise in FY12/17 sales, but double-digit earnings growth. Below we review initiatives in major businesses.



Results trends

**(1) Fleekdrive and Fleekform cloud services**

SOLXYZ changed the brand name for corporate cloud services to Fleekdrive and Fleekform in March. It adjusted the billing plan to volume-based fees plus ID count for new customers, in addition to the existing volume-based fees. Customer volume was almost entirely unchanged from the end-FY12/16 level in 1Q at around 160 companies because of changes to the brand name and billing plan slated in March. SOLXYZ has ramped up sales activities since 2Q and is targeting 200 customers and about ¥300mn in sales, a 50% YoY increase, in FY12/17.

**(2) “Imairumo” IoT solution**

SOLXYZ is focusing on sales of a home monitoring system for seniors using a sensor as an IoT solution. While it is still continuing real-world tests with multiple local governments, including Aichi Prefecture, new product and service development is advancing too. SOLXYZ announced “Imairumo PaPeRO i” service, which combines the “PaPeRO i” communications robot developed by NEC Corporation <6701> and its own system, and began sales in May. It also started provision of the “Imairumo Kids Okaeri” smartphone app in June. It developed this app as a solution service for IoT devices that support Project Linking\*, a project ramped up by NTT DOCOMO, Inc. <9437> and other major domestic firms and envisions utilization as a monitoring service for children. We will be closely monitoring progress with this service.

\* This is a project involving collaboration by NTT DOCOMO and multiple other domestic IT firms aimed at IoT expansion and advancement. It proposes a variety of uses that combine applications and devices.

**(3) “TUNNEL EYE” IoT solution**

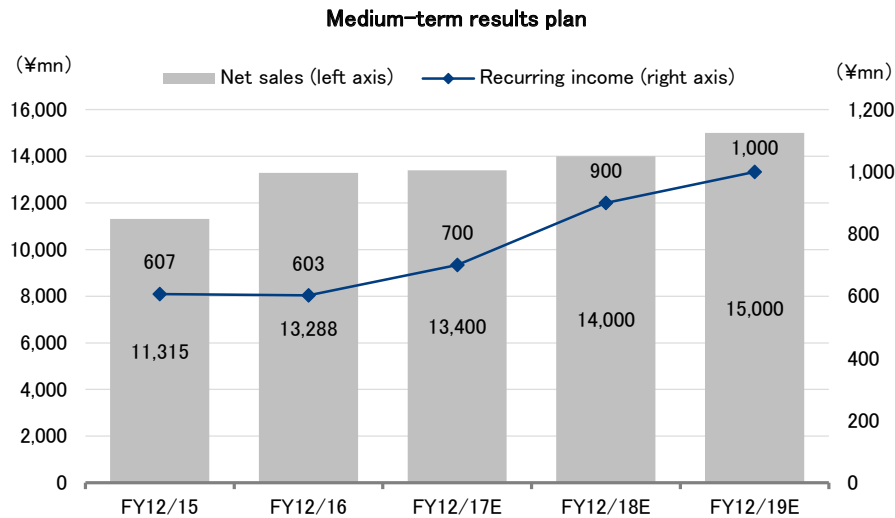
The “TUNNEL EYE” energy management system is an IoT solution system developed by subsidiary E.I.SOL in 2016. This system utilizes equipment that collect a variety of information at mountain tunneling project sites (sensors that detect people and vehicles, densitometers that measure the working environment, and wattmeters that monitor the operating state of lighting, ventilation fans, dust collectors, and other electric equipment), gathers the information over the Internet, provides warning notices to secure safety from outside the tunnel, and conducts automated control of energy savings. Installation of this system improves safety at project sites and has the potential to lower electricity costs. SOLXYZ had been promoting the system since April 2016 and received an order from one construction firm in 1Q. It intends to broaden “TUNNEL EYE” functionality and demand might increase if the system is applied to mountain tunnel work related to building the linear Shinkansen infrastructure.

## Aiming for ¥1,000mn in consolidated recurring income in FY12/19

### 3. Three-year medium-term plan

SOLXYZ updates the three-year medium-term plan annually. It sets final-year goals in the latest plan of ¥15,000mn in net sales and ¥1,000mn in recurring income in FY12/19. Average annual growth rates work out to 4.1% in sales and 18.3% in recurring income. The plan also factors in an increase in recurring margin from 4.5% in FY12/16 to 6.7%.

## Results trends



Source: FISCO Inc. from company materials

SOLXYZ plans to promote the following four initiatives as its core policies for the medium-term plan.

**(1) Strengthening the management base**

It intends to reassess existing businesses and promote the concentration of business resources in growth areas and rebuilding of money-losing divisions. In growth areas, it will aggressively advance and bolster activities while conducting feasibility studies and confirming synergies within the group. Reinforcement is primarily targeting automated driving, FinTech, IoT, and AI at this point.

**(2) Improving competitiveness in the mainstay SI business**

It will continue to pursue specialization by industry and business area and strengthen non-price competitiveness. Additionally, it will bolster cost competitiveness by actively utilizing offshore and near-shore development and promote sharing of low-cost benefits with customers.

**(3) Reinforcing and expanding recurrent business**

It will reinforce and expand Fleekdrive and Fleekform, Imairumo, TUNNEL EYE, MyColle Keeper (personal ID number solution), and other existing recurrent businesses and seek to strengthen the business foundation and stabilize earnings. It hopes to raise recurrent business to 50% of overall earnings in the future. Additionally, it plans to focus on the development of new cloud services using group solutions in response to expansion of the cloud market.

**(4) Expanding the overseas market**

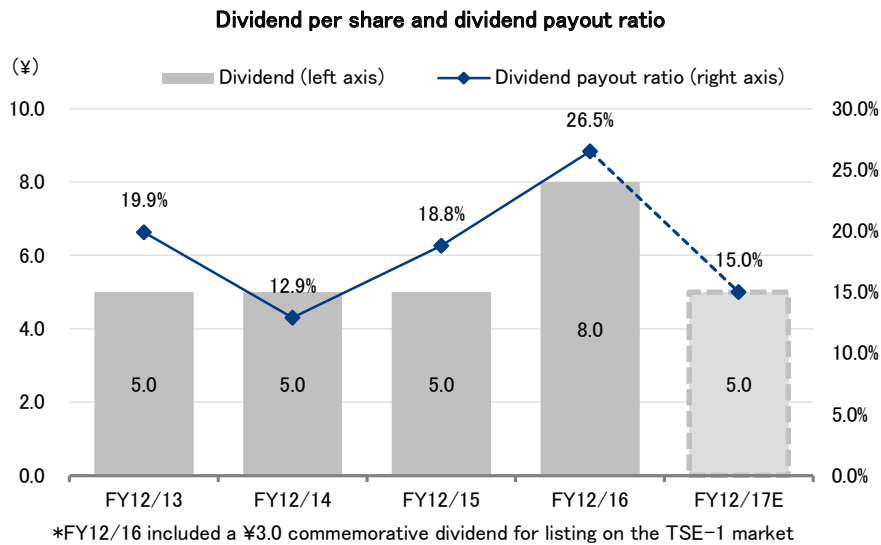
It is actively and rapidly deploying excellent products and services from inside and outside the group in the Chinese market and Southeast Asian market and aims to expand in these regions as new markets for recurring business. It also intends to similarly roll out products and services in the North American market at some point.

Key management issues are hiring and training system engineers that are chronically in short supply and expanding the network of cooperating firms. We think SOLXYZ is capable of attaining medium-term plan goals if it resolves these issues.

## Shareholder return measures

### Committed to the continuation of a stable dividend as the main policy

SOLXYZ pays dividends as shareholder return. Its dividend policy calls for “continuing stable dividends as much as possible while taking into account the dividend payout ratio and having dividends adjust to earnings.” It plans to pay a ¥5.0 dividend in FY12/17 (FY12/16’s ¥8.0 dividend included ¥3.0 as a commemorative dividend for the TSE-1 listing). Furthermore, it introduced a shareholder gift program that gives domestic Koshihikari rice in amounts tied to stocks owned to shareholders as of end-June and end-December (2kg for 200 or more shares, 5kg for 1,000 or more shares, and 10kg for 10,000 or more shares).



Source: FISCO Inc. from abbreviated financial statements



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