

System Support Inc.

4396

Tokyo Stock Exchange Prime Market

21-Apr.-2022

FISCO Ltd. Analyst

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FISCO Ltd.

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

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* This is an English translation of a report issued on March 24, 2022.

Summary

Aiming for double-digit growth with cloud integration as a key field

System Support Inc. <4396> (hereinafter, “the Company”) is an independent IT company that is continuously delivering growth centered on the Solutions Business, which includes deployment and support for the use of cloud systems, ERP and databases, based on technological capabilities at the highest level of the industry. The Company is headquartered in Ishikawa Prefecture, Japan. However, Tokyo, Nagoya, and Osaka are the primary hubs of the Company’s business activities. Also, the Company has a subsidiary in Silicon Valley in the US. Beyond the Solutions Business, the Company conducts recurring-revenue businesses such as the Outsourcing Business, which revolves around data center management, and the Product Business, which is mainly focused on providing cloud (SaaS) services. The Company will transition to the Prime Market, one of the new market segments of the Tokyo Stock Exchange that will be launched in April 2022.

1. Outline of results for 1H FY6/22

In 1H FY6/22, the Company set a new record high for results, with net sales increasing 12.6% YoY to ¥7,790mn and operating profit rising 15.6% YoY to ¥587mn. Results also surpassed the Company’s forecasts (net sales of ¥7,742mn and operating profit of ¥582mn). This was mainly because the mainstay Solutions Business performed favorably against the backdrop of robust DX investment by companies. Notably, profit was driven by high profit margin ServiceNow*-related net sales, which rose by 38.7% YoY, marking sustained high growth, along with projects involving the migration and usage support for public clouds, which increased substantially by 33.8%, indicating substantial growth. In the Outsourcing Business, profit decreased slightly owing to an increased depreciation burden associated with facilities expansion. Meanwhile, in the Product Business, net sales and profit both rose atop a steady increase in the number of companies deploying products.

* “ServiceNow” is a cloud platform that standardizes and automates business processes and supports improved productivity by employees and organizations. It is provided by ServiceNow, Inc. of the US. Over the past few years, it has started to rapidly become widely used as a DX solution not only in the US and Europe, but also in Japan. The Company was one of the first Japanese companies to enter into a partner agreement with ServiceNow in 2015, and has a top-tier track record for deploying the service in Japan.

2. FY6/22 forecasts

For FY6/22, the Company is forecasting net sales of ¥15,962mn, up 10.6% YoY, and operating profit of ¥1,080mn, up 16.0%, keeping its initial forecasts unchanged. While the COVID-19 pandemic is ongoing, there has been no change in orders received primarily in the Solutions Business, and the Company expects to continue posting strong results in 2H FY6/22. In particular, it seems that the Company has continued to receive more customer inquiries related to ServiceNow than its capacity to receive orders, so it will seek to drive growth in net sales by enhancing internal personnel development and expanding external partners. In public cloud-related business, Google Cloud projects have been increasing recently, in addition to Microsoft Azure and AWS projects. In response, the Company is focusing on recruitment and training of engineers. Similarly, cloud migration has been progressing in Oracle database-related business. Therefore, the Company plans to capture such demand by developing certified developers.

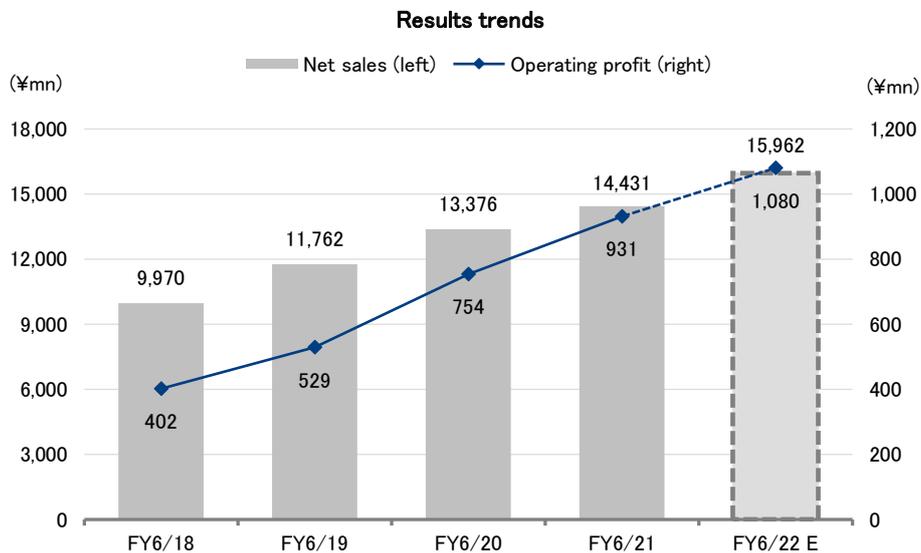
Summary

3. Growth strategy

The Company is aiming for double-digit annual growth over the medium term. Its strategy is to drive revenue growth by meeting surging demand through continuous investment in the key field of cloud integration (ServiceNow-related, public cloud-related services). In the cloud integration field, the key to capturing orders lies in the number and quality of engineers who carry out service deployment and provide usage support services. Therefore, it will be crucial for the Company to enhance its internal training system in addition to mid-career hiring of professional engineers. The Company will continue to develop external partners with a target of just over 30% as the appropriate level for the ratio of external partners. With the cloud service market expected to continue to experience double-digit annual growth, the Company will capture market growth by harnessing its engineering capabilities as a strategy for differentiating itself. Moreover, the Company is forecasting continued steady growth in the Outsourcing Business, which includes data center operation, as it is a recurring-revenue business. In the Product Business, although double-digit annual growth is anticipated, the business still accounts for only a small share of overall revenue. For this reason, the Company will pursue business expansion while keeping an eye on M&A opportunities.

Key Points

- An independent IT company that continues to grow by undertaking many projects involving Microsoft Azure, AWS (Amazon Web Services), ServiceNow, SAP and Oracle
- In 1H FY6/22, the Company achieved double-digit growth and set a new record high for results
- Cloud and DX-related investment remains robust, and the Company is expected to achieve its forecasts for FY6/22
- Aiming for double-digit growth by continuously investing in the growing cloud integration area



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

■ Company profile

An independent IT company that continues to grow by undertaking many projects involving Microsoft Azure, AWS, ServiceNow, SAP and Oracle

1. History

The Company was founded in 1980 in Kanazawa, Ishikawa Prefecture to provide data entry services and system development services. In the 1980s, business performance continued to grow steadily against the backdrop of favorable economic conditions. However, business results started to deteriorate following the collapse of Japan's bubble economy in the 1990s, putting the Company's survival at risk. In 1994, management was transferred from the Company's founder to the current Representative Director Ryoji Koshimizu. Under Mr. Koshimizu's leadership, the Company worked to rationalize management. As a result, four years later, its business results had recovered to the point where profitability was restored. Subsequently, the Company developed its technological capabilities, which are said to be at the highest level of the industry for an independent enterprise, into a core strength. In addition, the Company developed many certified engineers specialized in the products and services of global IT companies, such as Microsoft Azure, AWS, SAP and Oracle. By doing so, the Company has captured orders for deployment and usage support projects involving those products and services and has continuously increased its business performance.

Looking at business expansion initiatives since 2000, the Company founded eNet Solutions Co., Ltd., a subsidiary that conducts data center services, in 2000. In 2004, the Company entered into an Oracle EBS Technical Partner contract with Oracle Corporation Japan <4716>. With this contract, the Company would go on to proactively undertake system integration and deployment projects for Oracle products. In addition, the Company launched the Product Business to sell internally developed software products as a new income-generating business following systems development and data center services. As its first such product, the Company commenced sales of Tate Yakusha, a construction work information management system, in 2005.

Moreover, in 2009, the Company founded STS Medic Inc., a subsidiary engaged in the development and sales of specialized software for the medical industry. Thereafter, the Company built a solid business foundation by making use of M&As. For example, T4C Co., Ltd., a service partner of the major ERP provider SAP, and ACROSS Solutions, Inc., which had been providing system solutions to the distribution industry, were successively converted into subsidiaries of the Company in 2010 and 2012, respectively. The Company has also entered overseas markets. Notably, in 2013, the Company established a subsidiary in the US for the purpose of gathering information and supplying IT services in the country. Additionally, in 2016, it set up a subsidiary in Canada to provide outsourcing services (such as accounting services) to Japanese companies in North America. These initiatives have led to the Group structure in place today. In August 2018, the Company was listed on the Tokyo Stock Exchange Mothers Market. In August 2019, one year later, the Company achieved the listing of its shares on the Tokyo Stock Exchange First Section. Moreover, the Company is scheduled to transition to the Prime Market, one of the new market segments of the Tokyo Stock Exchange that will be launched in April 2022.

Company profile

History

Date	Major event
January 1980	Founded in Kanazawa, Ishikawa Prefecture, providing data entry and system development services.
November 2000	Financed and founded eNet Solutions Co., Ltd.
January 2004	Entered into an Oracle EBS Technical Partner contract with Oracle Corporation Japan <4716>
February 2005	Commenced sales of "Tate Yakusha," a construction work information management system
March 2009	Financed and founded STS Medic Inc.
May 2010	Acquired shares of T4C Co., Ltd. and made it a subsidiary
June 2011	Entered into an SAP Service Partner contract with SAP Japan Co., Ltd.
March 2012	Acquired shares of ACROSS Solutions, Inc. and made it a subsidiary
April 2012	Began providing services for Cloud Koubou powered by Amazon Web Services, a cloud support service
July 2013	Financed and founded STS Innovation, Inc. in the United States
August 2013	Began providing services for PinMap, a customer data mapping service
October 2013	Entered into an APN Consulting Partner contract with Amazon Japan K.K.
March 2015	Acquired additional shares of T4C Co., Ltd. and ACROSS Solutions, Inc. and made them wholly owned subsidiaries STS Innovation financed and founded FrontLine International, Inc. in the United States (absorbed through a merger in April 2017)
September 2015	Entered into a PartnerNow Master Terms with ServiceNow Nederland B.V.
January 2016	Financed and founded STS Innovation Canada, Inc. in Canada
February 2016	Commenced sales of the cloud-based shift management system "SHIFTEE"
August 2018	Listed on the Tokyo Stock Exchange Mothers Market
August 2018	Commenced sales of the attendance/work management system "Shugyo Yakusha"
August 2019	Listed market changed to the Tokyo Stock Exchange First Section
April 2020	Entered into a Google Cloud & Google for Education Commercial Partner Program Agreement with Google Cloud Japan G.K.
January 2021	Entered into a Subcontractor Agreement with Automation Anywhere, Inc.

Source: Prepared by FISCO from the Company's website and securities reports

Focusing on the Solutions Business as the mainstay business, while expanding into the Outsourcing Business and Product Business, which will be recurring-revenue businesses

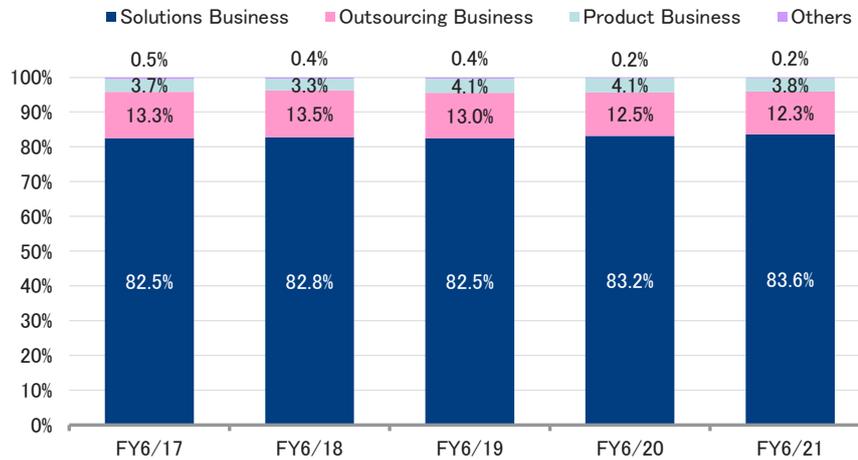
2. Business description

The System Support Group comprises the Company and its six consolidated subsidiaries. The Group discloses information based on three segments, specifically the Solutions Business, Outsourcing Business and Product Business. Looking at the ratio of sales in each segment over the past five years, the composition has been generally stable with the Solutions Business accounting for approximately 83% of sales, the Outsourcing business 13%, and the Product Business 4%. During this period, overall net sales have grown by roughly 1.6 times, indicating well-balanced growth among the three business segments.

Looking at the profit margin (gross profit margin) for each segment, the mainstay Solutions Business and the Outsourcing Business have steadily remained in the low 20% range and the low 30% range, respectively, while the Product Business has had relatively high gross profit margins in the 50% range. Among these, the stability of the Solutions Business is what is receiving attention. In the system development industry, many companies are experiencing unstable profitability due to projects being drawn out or defects emerging, but the Company has been able to maintain a certain level of profitability. This is proof that the Company possesses strong technological and project management capabilities, and we at FISCO view these as the Company's strengths.

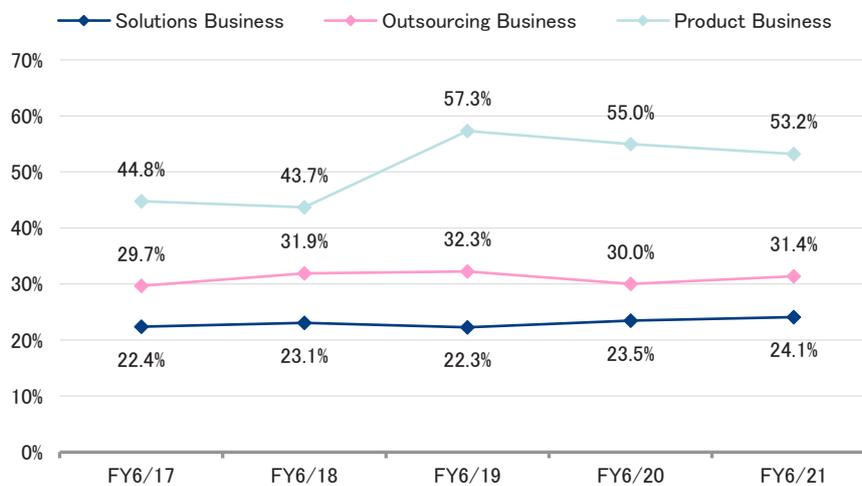
Company profile

Composition of net sales by business segment



Note: Percentages are calculated using pre-adjusted figures
 Source: Prepared by FISCO from the Company's financial results

Gross profit margin by business segment



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

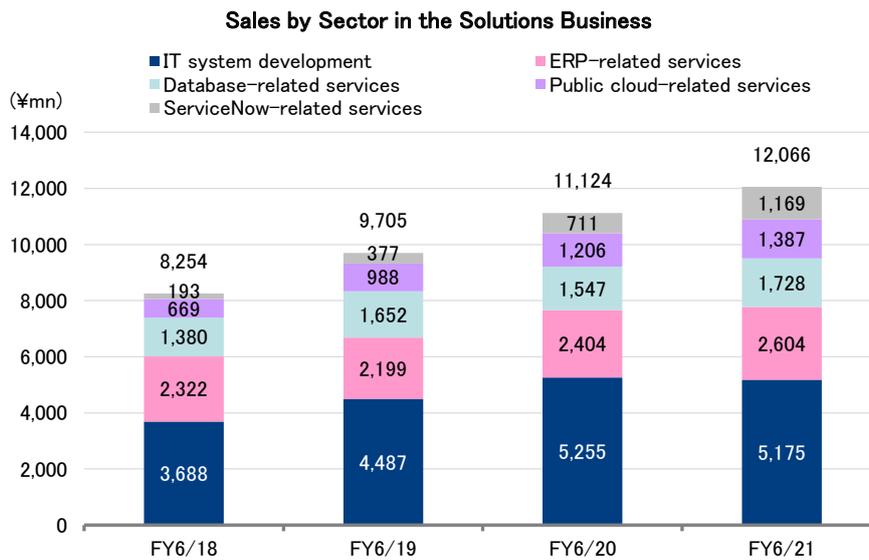
(1) Business description for each business segment

a) Solutions Business

In the Solutions Business, as an independent IT company, the Company provides technological support related to usage and deployment of cloud services and ERP packages and building databases and other infrastructure, centered on consulting, design, development, and operation and maintenance of IT systems for client companies. Its strengths lie in its wide range of customers across all manner of business sectors and operations, and its ability to support a complete spectrum of development processes on a one-stop basis.

Company profile

In terms of the sales composition for FY6/21, ERP-related services represented 21.6%, database-related services (design, construction, and maintenance and operation of Oracle databases) were 14.3%, public cloud-related services (deployment and usage support for cloud services such as Microsoft Azure, AWS, and Google Cloud) were 11.5%, ServiceNow-related services 9.7%, and other IT system-related services (contract development) 42.9%. Against the backdrop of growth in the cloud services market, public cloud-related and ServiceNow-related services have continued to grow rapidly over the past few years. The sales composition of both fields combined increased from 10.4% in FY6/18 to 21.2% in FY6/21.

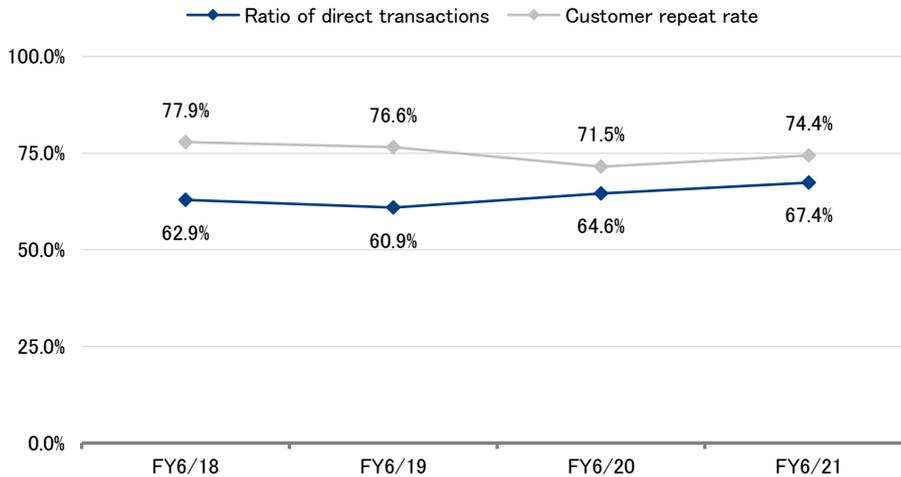


Source: Prepared by FISCO from the Company's supplemental results briefing materials

Direct transactions with end customers represented 67.4% of net sales in FY6/21, with the remainder comprising net sales from subcontracted projects received via major SI vendors and other partners. Projects undertaken through direct transactions with end customers have relatively high profit margins and tend to lead to recurring orders more easily as closer relationships are developed with customers through such projects. The repeat rate for these projects stands at 74.4%. The Company's strategy is to continue to increase the ratio of direct transactions with end customers. Meanwhile, subcontracted projects primarily involve large-scale projects, such as systems for financial institutions and mission-critical systems. These large-scale subcontracted projects have the feature of tending to lead to stable orders more easily, because they often cover longer periods of time.

Company profile

Ratio of direct transactions and repeat rate



Note: Repeat rate (among the customers from whom net sales were recognized in the previous period, the ratio of the number of customers from whom net sales were also recognized in the current period)
 Source: Prepared by FISCO from the Company's securities reports

Moreover, one of the features of the Company is that it is a group of technology professionals, with engineers representing more than 80% of personnel in the Solutions Business. This personnel mix is in place because a crucial priority for increasing the number of customer-referred projects for projects related to cloud, databases, etc. is to receive many customer-referred projects from Microsoft Azure, AWS, ServiceNow, Oracle and other platforms, and have an abundance of certified engineers on staff and a development track record of projects with high customer satisfaction in each area. For this reason, the Company is focused on developing certified engineers and has an extensive track record of awards from Microsoft Azure, AWS, Oracle and other platforms.

Track record of main certifications and awards

Microsoft Azure	AWS
<ul style="list-style-type: none"> Obtained Gold Cloud Platform Competency Certification Certified as a partner with an outstanding track record in expanding Microsoft Azure Obtained Advanced Specialization*1 Obtained certification as a partner with sophisticated expertise in specific solution fields Received four consecutive MVP awards Received consecutive awards in the data platform field since 2017*2 	<ul style="list-style-type: none"> Obtained Oracle Competency in the AWS Competency Program*3 Received the APN Partner Award "Rising Star of the Year" (FY2014)
	Oracle
	<ul style="list-style-type: none"> Received Oracle Database-related awards for 14 consecutive years*4 Received Oracle Certification Award 2020 and other awards from Oracle Corporation Japan

*1 Obtained in the field of migrating Windows Servers and SQL Servers to Microsoft Azure.

*2 Award received by the Company's employees.

*3 A program to identify, validate, and promote Advanced and Premier tier partners in the AWS Partner Network (APN) that have demonstrated technical expertise and proven customer success pertaining to AWS.

*4 Awards received from 2007 to 2020.

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

Company profile

b) Outsourcing Business

In the Outsourcing Business, data centers managed by subsidiary eNet Solutions Co., Ltd. at three locations in Japan (Tokyo and Kanazawa) account for around 70% of net sales from management services. These services are used as infrastructure for the private clouds of companies and for BCP measures and data backup management. Also, in 2006, as a value-added service that acts as a hook for acquiring data center customers, the Company began providing Safetylink24, an emergency notification and safety confirmation service that automatically distributes safety confirmation messages for employees linked to earthquake information. In 2010, the Company began offering ActionPassport, an electronic work flow system, and in 2017, the Company began providing Magic Insight, a service that allows customers to easily use IBM Japan, Ltd.'s IBM Watson Explorer (an AI-driven search and analysis platform) with a monthly charge plan. These value-added services have a recurring-revenue business model based on monthly fees, so revenue increases in line with growth in the number of subscribers. As of December 2021, the number of customers using the Company's data centers amounted to approximately 1,000 companies.

The Company also has other sources of sales, including training for client companies pertaining to systems that the Company was involved in developing in the Solutions Business and operation and maintenance of help desk services, along with data analysis and entry services.

c) Product Business

In the Product Business, the Group is engaged in the development and sales of products (software) and the supply of services. It also customizes products according to customer needs. Many products are sold through direct sales to customers (Tate Yakusha is often sold through the OEM channel), but sales agencies are also used. The Product Business's current main products are Tate Yakusha for the construction industry and the MOS mobile order receipt and placement system for the wholesale and retail sectors, both of which account for around 30% of net sales. While the Company does receive orders for large custom development projects from time to time, the majority of sales in the Product Business are generated through monthly fees from cloud (SaaS) services. Therefore, this business has a recurring-revenue business model where revenue increases in line with growth in the number of subscribers.

Outline of major products

Name	Provider	Description	Number of subscribing companies*
Tate Yakusha	System Support Inc.	A construction work information management system. The monthly charge for the basic version is ¥36,000 per 5 users (initial cost: ¥240,000). The professional version is offered at a monthly charge of ¥39,800 per 5 users (initial cost: ¥480,000).	657
MOS	ACROSS Solutions, Inc.	A mobile order receipt and placement system. For the full version, the initial cost starts at ¥350,000, options at ¥100,000, and the monthly charge at ¥20,000 (with actual figures depending on the number of accounts needed by the party placing the order).	531
SHIFTEE	System Support Inc.	A cloud-based shift management system. The monthly charge for the full version is ¥400 per user (separate charges apply for customization).	94
Shugyo Yakusha	System Support Inc.	An attendance/work management system. The monthly charge for the cloud version is ¥200 per user (separate charges apply for the on-premise version).	96

* As of December 31, 2021, on a cumulative basis

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

Company profile

(2) Group companies and the number of employees

The Company's subsidiaries specialize in different functions and business sectors so that they can constantly provide new solutions to customers with proactivity and speed in each company's specialty area. In addition, the number of employees was 1,126 on a consolidated basis as of the end of June 2021 (an increase of 87 people YoY). The Group's workforce has increased at a pace of around 10% per annum in step with growth in the size of its business. Of the total, the number of employees of the Company on a non-consolidated basis represented more than 80% of Group-wide employees.

Description of main businesses and number of employees of Group companies

Name of company	Solutions Business	Outsourcing Business	Product Business	Number of employees
System Support Inc.	System development, infrastructure construction support, cloud service deployment support	System operation and maintenance, data entry services	Development and sales of Tate Yakusha, a construction work information management system, and other products	943
eNet Solutions Co., Ltd.	Deployment of various solutions	Data centers and related platform services	-	64
T4C Co., Ltd.	ERP product deployment consulting	-	-	76
STS Medic Inc.	Sale and installation of medical devices and other items	-	Sales and deployment support for T-File, a medical image filing system	11
ACROSS Solutions, Inc.	-	-	Development and sale of MOS mobile order receipt and placement system	23
STS Innovation, Inc.	-	Outsourcing service for management operations	-	6
STS Innovation Canada Inc.	-	Outsourcing service for management operations	-	3

* The number of employees is as of June 30, 2021.

Other businesses (overseas information provision service, overseas media business, staff referral business, etc.) are conducted by STS Innovation, Inc.
 Source: Prepared by FISCO from the Company's securities reports

Results trends

In 1H FY6/22, the Company achieved double-digit growth and set a new record high for results

1. Outline of results for 1H FY6/22

In 1H FY6/22, net sales increased 12.6% YoY to ¥7,790mn, operating profit rose 15.6% to ¥587mn, ordinary profit was up 14.5% to ¥592mn and profit attributable to owners of parent was up 14.2% to ¥393mn. All these results surpassed the Company's initial forecasts, and the Company set a consecutive new record high for 1H results.

Results trends

Results for 1H FY6/22

	1H FY6/21		Company forecast	1H FY6/22		YoY	Achievement rate
	Results	% of net sales		Results	% of net sales		
Net sales	6,917	-	7,742	7,790	-	12.6%	0.6%
Cost of sales	5,103	73.8%	-	5,740	73.7%	12.5%	-
SG&A expenses	1,305	18.9%	-	1,461	18.8%	12.0%	-
Operating profit	508	7.4%	582	587	7.5%	15.6%	1.0%
Ordinary profit	517	7.5%	575	592	7.6%	14.5%	3.1%
Extraordinary gains (losses)	0	-	-	0	-	-	-
Profit attributable to owners of parent	344	5.0%	386	393	5.0%	14.2%	1.8%

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

As the COVID-19 pandemic continues, companies' DX investment and demand for transitioning information systems to the cloud were robust. Net sales increased in all business segments centered on the mainstay Solutions Business. The cost-of-sales ratio decreased 0.1 percentage point YoY to 73.7%, owing to continued strong growth in high profit margin ServiceNow-related net sales in the Solutions Business and the positive impact of higher net sales in the Product Business. Moreover, SG&A expenses increased 12.0% YoY mainly due to the rise in personnel costs, but the SG&A expenses ratio declined 0.1 percentage point to 18.8%. As a result, the operating margin rose 0.1 percentage point to 7.5%, reaching an all-time high. With net sales and profits both surpassing the Company's forecasts, the Company can be said to be making steady progress toward achieving its full-year forecasts.

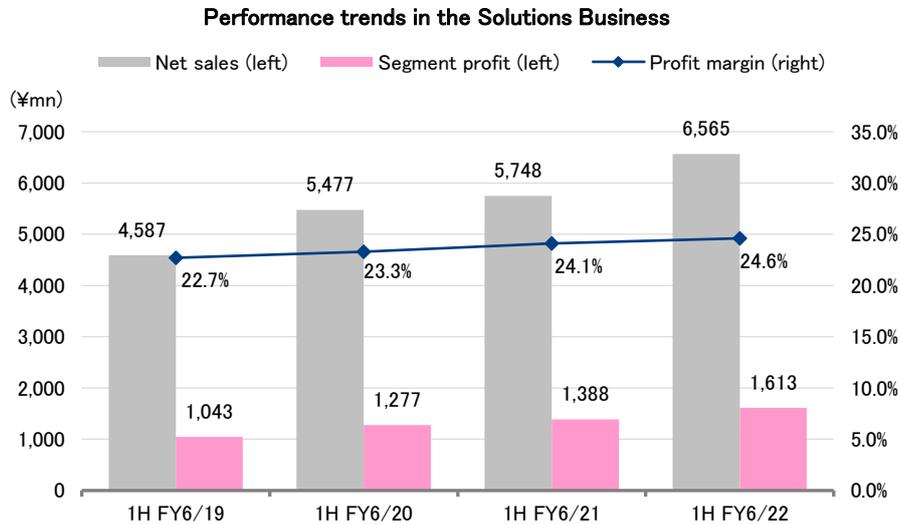
Strong growth by ServiceNow-related and Public Cloud-related services in the Solutions Business

2. Trends by business segment

(1) Solutions Business

In the Solutions Business, net sales rose 14.2% YoY to ¥6,565mn, and segment profit increased 16.2% to ¥1,613mn. Net sales reached an all-time high, supported by steady orders for ServiceNow-related projects, which serve as DX support solutions that make system maintenance and operation more efficient, and for migration and usage support projects related to public clouds, such as Microsoft Azure, AWS and Google Cloud. Other contributing factors included a solid performance by database- and ERP-related projects as well as other contract development projects and so forth. Additionally, the segment's profit margin rose 0.5 of a percentage point YoY to a record high of 24.6%, due to a substantial increase in high profit margin ServiceNow-related net sales.

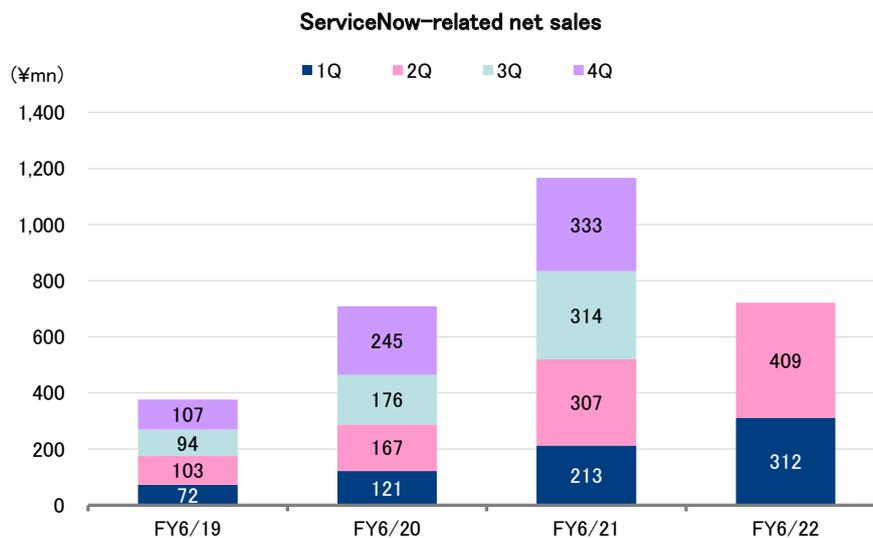
Results trends



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

Looking at net sales by field, ServiceNow-related net sales continued to grow strongly. Those net sales were up 38.7% YoY to ¥721mn. The Company's efforts to develop engineers and expand external partners to fulfill robust demand led to strong growth in net sales. The Company was ranked 2nd place in terms of the number of certified ServiceNow developers in Japan as of September 30, 2021* and remained competitive even as the number of new entrant companies increased. Previously, most of the Company's customers were companies in Tokyo and Osaka. In recent times, the number of projects in the Nagoya and Ishikawa areas has been increasing, and demand has continued to exceed the Company's capacity.

* Covers Certified Implementation Specialist / Certified Application Developer / Certified Application Specialist. Accenture Japan Ltd. was ranked first place.

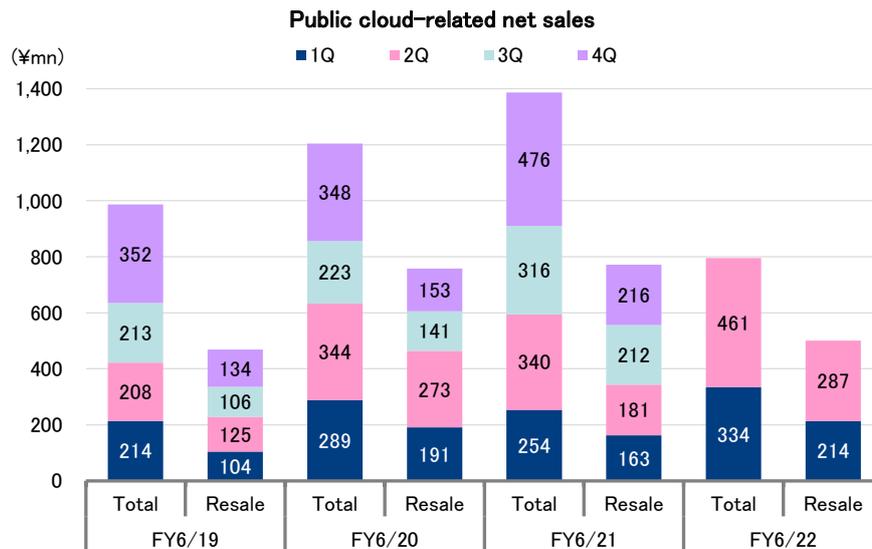


Source: Prepared by FISCO from the Company's supplementary results briefing materials

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Results trends

Public cloud-related net sales increased 33.8% YoY to ¥795mn (of which, resale business increased 45.6% to ¥501mn). There has been an increase in the number of Google Cloud projects, which the Company started undertaking in April 2020, in addition to increases in the numbers of cloud migration projects for Microsoft Azure and AWS. The Company's continued efforts to develop and increase the number of certified engineers led to favorable net sales. "Resale" refers to cloud service usage fees from customer accounts. Although resale business has a low profit margin, it provides a stable source of revenue if there are no cancellations.



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

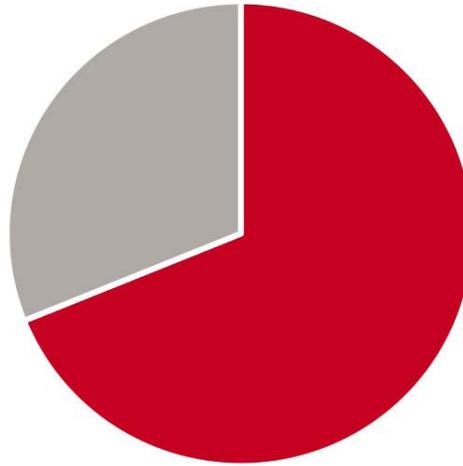
In other areas, net sales related to ERP and database each rose by more than 10% YoY, and net sales related to other IT systems (contract development) performed steadily, up 5%. In the ERP-related area, among companies deploying ERP, there continues to be a shift to migrate from existing products to SAP S/4 HANA because maintenance support for the existing SAP ERP product will terminate in 2027. Also, the Company is building a framework for providing nearshore support for ERP maintenance in the Hokuriku area, and the Company's ability to offer ERP-related consulting, development, infrastructure building, and maintenance services in a one-stop manner is a factor behind the growth in net sales. In addition, cloud migration is under way in Oracle database-related services. The Company is winning orders for projects as it works to develop certified engineers, thereby paving the way for growth in net sales.

(2) Outsourcing Business

Net sales in the Outsourcing Business increased 3.1% YoY to ¥916mn, while segment profit decreased 7.4% to ¥275mn. Sales from data center services, including AI-related services, increased steadily by 5% primarily for companies building private clouds. However, an increase in depreciation due to the Company's investments in additional servers to expand capacity was a factor behind the decline in profit. Monthly data center usage fees continued to increase during the period and have recently reached more than ¥90mn per month.

Results trends

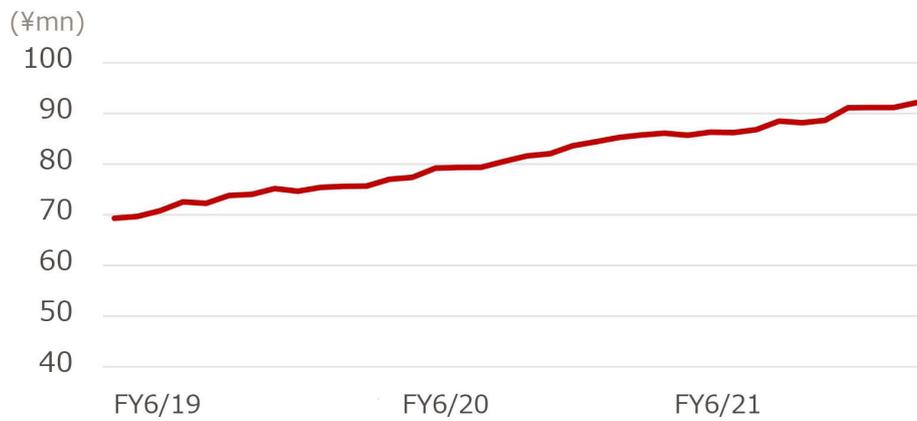
Composition of Net Sales in the Outsourcing Business (FY6/21)



■ Data centers ■ Others

Note: Net sales represents net sales to external customers.
 Source: The Company's supplemental results briefing materials

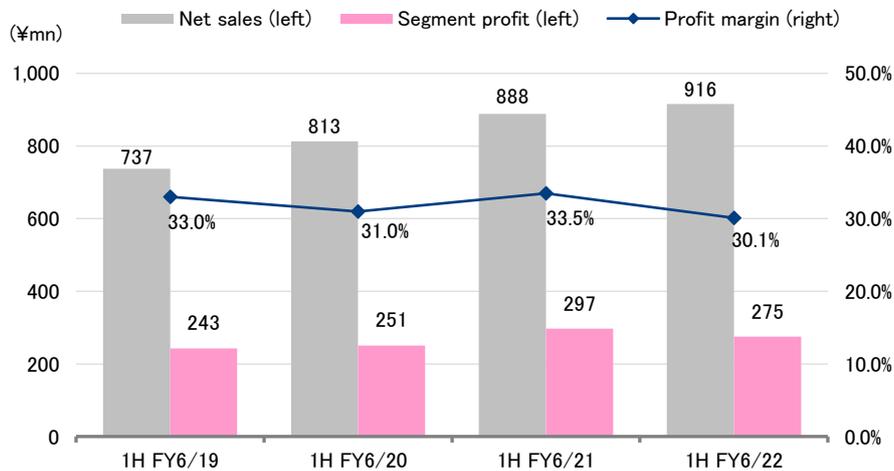
Trend in monthly recurring revenue related to data centers



Source: The Company's supplemental results briefing materials

Results trends

Performance trend in the Outsourcing Business

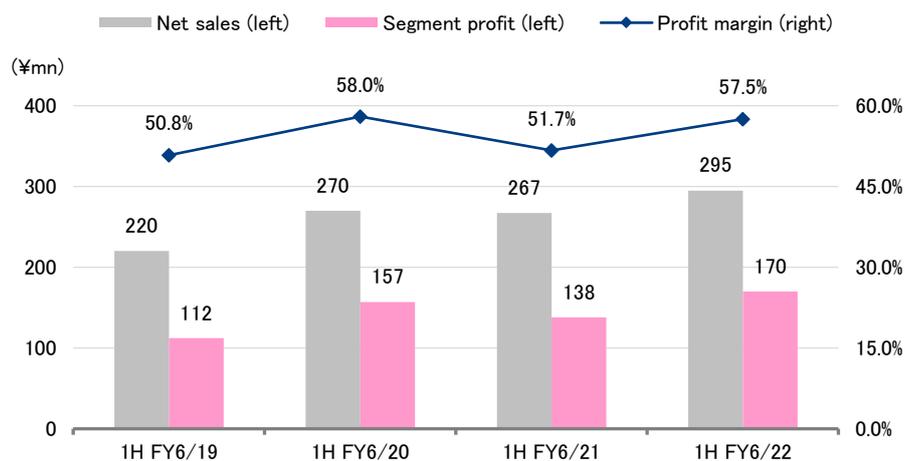


Source: Prepared by FISCO from the Company's supplemental results briefing materials

(3) Product Business

In the Product Business, net sales increased 10.4% YoY to ¥295mn, and segment profit rose 22.8% to ¥170mn, marking all-time highs for the first time in two years. Solid sales were posted for products such as MOS (a mobile order receipt and placement system), Shugyo Yakusha (an attendance/work management system), and SHIFTEE (a cloud-based shift management system). The tailwind for MOS was growth in the e-commerce market, while that for Shugyo Yakusha was an increase in the number of companies adopting diverse work styles, such as remote work. The profit margin rose from 51.7% in 1H FY6/21 to 57.5%, owing to the positive impact of higher net sales.

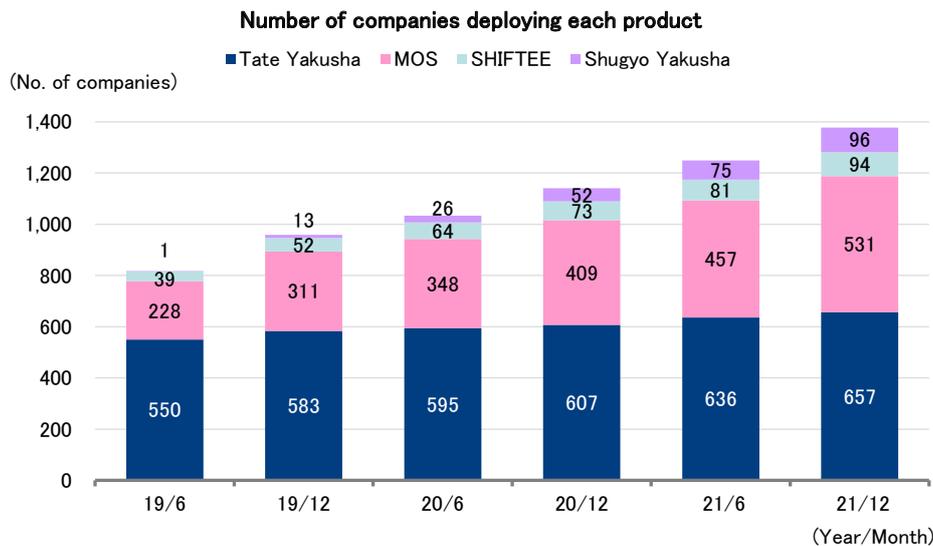
Performance trends in the Product Business



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

Results trends

The total number of companies deploying products by each major product as of December 31, 2021 was 657 companies for Tate Yakusha (up 8.2% YoY), 531 companies for MOS (up 29.8%), 94 companies for SHIFTEE (up 28.8%) and 96 companies for Shugyo Yakusha (up 84.6%). The main revenue drivers are Tate Yakusha and MOS, while SHIFTEE, which was launched in 2016, has been profitable since the previous fiscal year. It appears Shugyo Yakusha, which the Company launched in 2018, will take some time to monetize given the fact that functional upgrades and other development are still ongoing, but the number of companies deploying the product has been steadily increasing. Therefore, Shugyo Yakusha is expected to become profitable in due course.



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

The Company's financial position is sound, and the operating margin remains on an upward trend

3. Financial condition and business indicators

Looking at the Company's financial condition as of the end of 1H FY6/22, total assets were ¥7,013mn, an increase of ¥351mn from the end of FY6/21. In terms of the main factors behind this change, under current assets, cash and deposits increased by ¥143mn and notes and accounts receivable – trade and contract assets increased by ¥378mn, accompanying the expansion of business. Under non-current assets, property, plant and equipment decreased by ¥36mn and investments and other assets declined by ¥37mn.

Total liabilities were ¥3,828mn, an increase of ¥159mn from the end of FY6/21. While interest-bearing debt increased by ¥490mn, other current assets decreased. The increase in interest-bearing debt was due to seasonal factors. Compared with the end of 1H FY6/21, interest-bearing debt decreased by ¥41mn. Total net assets were ¥3,184mn, an increase of ¥191mn from the end of FY6/21. Retained earnings increased by ¥190mn, primarily due to the recording of profit attributable to owners of parent, partially offset by the payment of dividends.

Results trends

Looking at business indicators, the equity ratio remained on an uptrend, increasing from 44.9% from the end of FY6/21 to 45.4% in step with earnings growth. Meanwhile, the interest-bearing debt ratio rose from 31.8% to 45.3%, but seasonal factors had a large impact, so the interest-bearing debt ratio is expected to decrease by the end of FY6/22. For this reason, it can be judged that the Company's financial soundness has improved in line with earnings growth over the past few years.

Consolidated balance sheet

	(¥mn)				
	FY6/19	FY6/20	FY6/21	1H FY6/22	vs. prior fiscal year-end
Current assets	4,223	4,631	5,319	5,747	428
(Cash and deposits)	1,881	2,387	2,697	2,841	143
Non-current assets	1,141	1,316	1,342	1,265	-77
Total assets	5,365	5,947	6,662	7,013	351
Total liabilities	3,387	3,540	3,669	3,828	159
(Interest-bearing debt)	1,145	1,015	952	1,443	490
Total net assets	1,977	2,407	2,993	3,184	191
(Security)					
Equity ratio	36.9%	40.5%	44.9%	45.4%	0.5pt
Interest-bearing debt ratio	58.0%	42.1%	31.8%	45.3%	13.5pt

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

■ Outlook

Cloud and DX-related investment remains robust, and the Company is expected to achieve its forecasts for FY6/22

1. Outlook for FY6/22

For the FY6/22 consolidated results, the Company has kept its initial forecasts unchanged. Specifically, it is forecasting net sales of ¥15,962mn (up 10.6% YoY), operating profit of ¥1,080mn (up 16.0%), ordinary profit of ¥1,066mn (up 11.7%), and profit attributable to owners of parent of ¥745mn (up 10.5%). Although the COVID-19 pandemic has become drawn out and the domestic economic outlook remains uncertain, companies continue to have a strong appetite for investment in DX at this time, and achievement rates through 2Q FY6/22 for net sales and operating profit are 48.8% and 54.4%, respectively. Both achievement rates exceed the average achievement rates over the past 3 years (48.2% for net sales and 53.7% for operating profit). For those reasons, FISCO believes that the Company is highly likely to achieve its full-year forecasts.

Outlook

Consolidated outlook for FY6/22

	FY6/21		FY6/22		YoY	Achievement rate through 2Q	Average achievement rate for the past 3 years*
	Results	% of net sales	Company forecast	% of net sales			
Net sales	14,431	-	15,962	-	10.6%	48.8%	48.2%
Operating profit	931	6.5%	1,080	6.8%	16.0%	54.4%	53.7%
Ordinary profit	954	6.6%	1,066	6.7%	11.7%	55.6%	52.7%
Profit attributable to owners of parent	674	4.7%	745	4.7%	10.5%	52.8%	50.9%
Profit per share (¥)	65.45		71.98				

* Cumulative 1H result ÷ Cumulative full-year result for the past 3 years
 Source: Prepared by FISCO from the Company's financial results

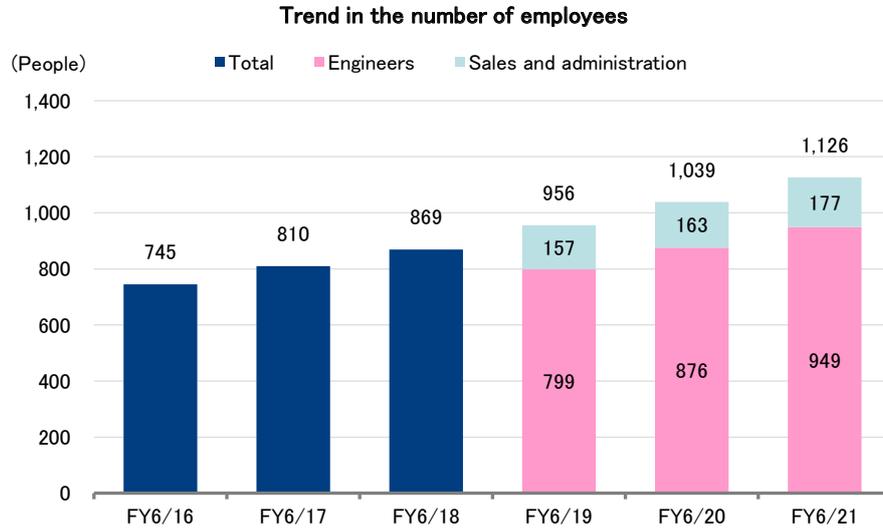
By business segment, in the mainstay Solutions Business, growth in net sales and profit of around 10% is forecast in this segment. In the Outsourcing Business, which posted a decrease in profit in 1H FY6/22, the segment is expected to return to profit growth on a full-year basis owing to the positive impact of higher net sales. In the Product Business, increases in net sales and profit are forecast based on an increase in the number of subscribers.

The Company's forecasts are based on the following assumptions about the impact of the COVID-19 pandemic on business.

- Depending on the situation with customers' business results, there is expected to be an impact on the Group's business results due to IT investment budget contractions and project postponements. However, despite this, the Group has a low level of dependence on specific customers (the net sales composition of the Group's largest customer in FY6/21 was 4.2%) and the Group's customers belong to a wide range of industries, so the impact should be minor.
- Even if a state of emergency is declared, it will be possible to continue business based on the fact that the work-from-home system is in place and business meetings and internal meetings are being held online. FISCO believes that, as in the previous fiscal year, there will be almost no impact on business.

Looking at the personnel hiring plan for FY6/22, the Company plans to hire 67 new graduates and 98 mid-career employees, both of which would be record highs. If hiring goes as planned, the number of employees is forecast to exceed 1,200 at the end of FY6/22 compared with the end of FY6/21. Most newly hired personnel will be engineers. By developing these personnel, the Company's strategy is to increase the number of certified developers and development certifications it obtains for various cloud services, thereby paving the way for growth in net sales. The Company will carry out hiring at its business offices in Tokyo, Nagoya, Osaka and Kanazawa. By working to create employee-friendly workplaces and enhance the education and training system, the Company's attrition rate remained on a downtrend, decreasing from 8.1% in FY6/19 to 5.9% in FY6/21. The Company will seek to achieve further growth going forward by focusing its efforts on the hiring and development of personnel who will become the foundation for growth.

Outlook



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

Number of personnel hired (consolidated)

	FY6/19	FY6/20	FY6/21	FY6/22 plan
New graduates hired	55	58	60	67
Mid-career professionals hired	93	97	89	98
Attrition rate	8.1%	7.7%	5.9%	-

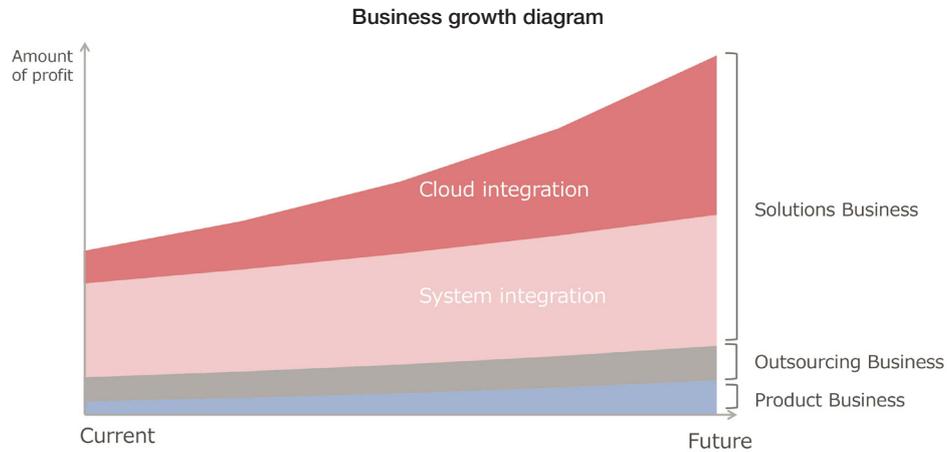
Source: Prepared by FISCO from the Company's supplemental results briefing materials

Aiming for double-digit growth by continuously investing in the growing cloud integration area

2. Growth strategy

The Company's growth strategy for the future is to position the cloud integration area (ServiceNow, public cloud-related), which continues to grow, as a key field, and continuously invest in this field, with the aim of achieving double-digit annual growth. The Company also plans to attain steady growth in the Outsourcing Business, which includes data center services, and the Product Business, both of which will become recurring-revenue businesses.

Outlook



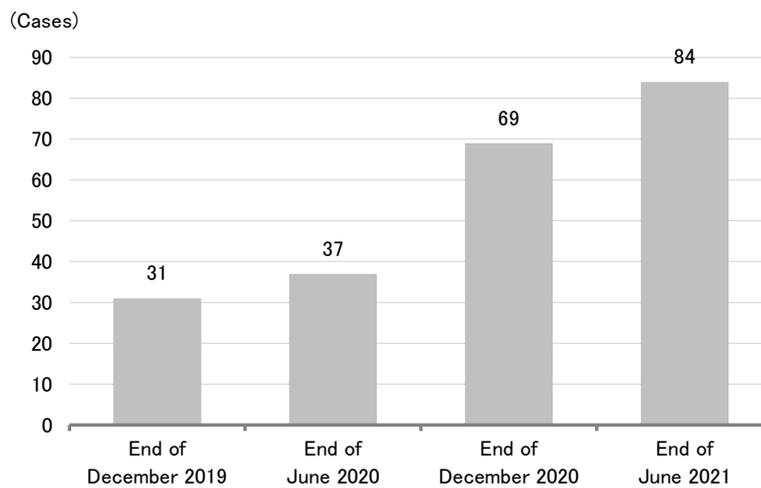
Source: The Company's supplemental results briefing materials

(1) Solutions Business

a) ServiceNow

The ServiceNow-related business is expected to continue to grow as a DX support solution for companies. To meet this growing demand, the Company plans to increase the number of certified developers through internal personnel development, as it strives to expand its external partners.

Number of ServiceNow development certifications obtained



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

According to an announcement by ServiceNow, Inc., total revenues in 2021 increased by 30% YoY to \$5,896mn (including revenues of \$593mn in Asia Pacific and Other, up 39% YoY). In 2022, ServiceNow, Inc. expects strong growth to continue in the upper 20% range. In Japan, the COVID-19 pandemic has spurred rapid growth in the market over the past 1-2 years. The Company's ServiceNow-related net sales also increased rapidly in FY6/21, up 64% YoY to ¥1,169mn, due partly to human resources development.

Outlook

In Japan, the Company entered into a partner agreement with ServiceNow at an early stage, and it has been aggressively working to expand sales. In recognition of this track record, the Company became the first Japanese company to be certified as a Bronze Services Partner* in 2017, and later as an Elite Partner* in 2019. As of February 2022, there are six Japanese companies certified as Elite Partners, and these Elite Partners and other partners are expected to develop their human resources going forward. We at FISCO believe that the key to future growth is how well the Company is able to increase the number of certified engineers. In addition, as one strategy for differentiating itself from the competition, the Company is developing applications (function to work with LINE, etc.) to complement the standard functions of ServiceNow.

* Criteria for certification under the ServiceNow partner program include factors such as customer satisfaction, and track record of sales and deployment. The Company was ranked in second place as of September 30, 2021 in terms of the number of ServiceNow development certifications it has obtained.

ServiceNow Japanese corporate partners

Category	Company name
Elite	System Support, Hitachi Solutions, Ltd., NTT Communications Corporation, NTT COMWARE CORPORATION, Fujitsu <6702>, COMTURE CORPORATION <3844>
Premier	CNS <4076>, JSOL Corporation, Japan Business Systems, Inc., EXEO Group, Inc.<1951>, Mitsubishi Research Institute DCS Co., Ltd., Rococo Co., Ltd.
Specialist	UNIADDEX, Ltd., TDC SOFT <4687>

Source: Prepared by FISCO based on the ServiceNow website (as of February 22, 2022)

b) Public cloud

In the public cloud-related business, the Company started providing deployment and usage support services for Google Cloud in 2020, in addition to providing such services for Microsoft Azure and AWS. Companies' cloud migration initiatives have served as a tailwind, allowing the Company to capture deployment and usage support projects and continue to achieve growth in net sales. In this field too, the Company's strategy is to build up recurring revenue by developing and supplying account resale and option services for each cloud, in addition to expanding its capacity to win orders by developing certified engineers and expanding external partners.

Moreover, the Company has developed solutions leveraging various cloud platforms. In January 2021, the Company started supplying the SaaS version of the data warehouse (DWH*) solution Smart DWH, which uses Microsoft Azure. In June 2021, the Company developed ADDPLAT, a next-generation data analytics platform using the Google Cloud service, and it began offering this platform. The distinctive feature of this business intelligence software is that users can perform big data analysis at a low cost and quickly, and it can be utilized in management strategies and marketing initiatives. The Company will seek to drive growth in net sales by developing and supplying such solutions.

* DWH refers to a database in which data such as transaction records generated in the course of business are stored sequentially in time. It also refers to software designed to build, operate and analyze such a system.

c) ERP and database

In ERP-related business, there is currently a rush on SAP ERP migration projects ahead of the termination of maintenance in 2027, and growth of approximately 10% is expected to continue through 2027. Currently, demand is divided between companies migrating from the current system of SAP ERP to the next-generation solution SAP S/4 HANA, and companies who will continue using SAP ERP for the time being. Moreover, SAP S/4 HANA is provided in on-premise and SaaS versions. The on-premise version can be used with AWS, Google's public cloud, SAP's private cloud and other platforms, so there have been many cloud migration support projects.

Outlook

With regard to SAP ERP, the Company and its subsidiary T4C have approximately 180 technology professionals combined, providing support for development in main areas and all levels (infrastructure, middleware, and applications). Moreover, the Company and T4C possess technologies and expertise in ERP products other than SAP. One of their strengths is that they can provide a broad range of stable services according to customer needs. To address increasing demand in the run-up to 2027, the Company plans to target steady growth by continuing to work to increase and train technology professionals while capturing demand for maintenance services for existing systems in the Hokuriku area. There is significant competition for ERP usage support services, but for large-scale projects, the Company often does not directly receive orders for such projects in consideration of the risks involved. In many cases, Nomura Research Institute, Ltd. (NRI) <4307> and Accenture Japan Ltd. are the primary contractors with which the Company works on such large-scale projects.

Meanwhile, the Company also has an extensive track record in Oracle database, having provided services for nearly 20 years. Additionally, demand for Oracle Cloud consulting, deployment, migration, and usage support services has been gradually increasing in recent times. For this reason, steady growth in these services is expected going forward. The Company plans to capture demand for cloud migration services as it nurtures certified developers and increases the number of development certifications it obtains to support Oracle Cloud.

(2) Outsourcing Business

In the Outsourcing Business, the Company will continue to focus on building up data center services, which will form a recurring-revenue business. The Company has established data centers in two locations in Kanazawa, an area with a low risk of earthquake activity, and will capture demand associated with BCP measures. The main targeted customers are companies building private clouds, and the Company's strategy is to aim to grow by acquiring new customers and increasing sales per customer, with its proprietary value-added services as a hook. There is still more than enough space to install servers in the data centers, so the Company will ramp up servers according to demand. Because data center services will form a recurring-revenue business, these services will continue to serve as a stable revenue base that underpins the Company's results.

(3) Product Business

For the Product Business, the Company's strategy is to increase the number of subscribers to drive revenue growth. To this end, the Company will improve the functionality of each product, strengthen sales via sales agencies, and conduct online marketing, as well as work to customize products to match customer needs. Tate Yakusha, MOS, and SHIFTEE have already become profitable, and from here on, any increase in sales of these products will lead directly to increases in profit, excluding the development costs incurred to strengthen product functionality.

Tate Yakusha, which accounts for around 30% of net sales, had previously experienced sluggish net sales, due partly to a downtrend in customization projects. However, the number of companies deploying Tate Yakusha is expected to increase. The Electronic Order Receipt and Placement Option, which is an optional function of Tate Yakusha, acquired Electronic Transaction Software Legal Requirement Certification in September 2021 from the Japan Image and Information Management Association (JIIMA) in accordance with the Electronic Books Preservation Act. The number of companies deploying Tate Yakusha is expected to increase because the acquisition of the certification will allow companies to deploy and use the system with peace of mind. These companies will no longer need to check each entry of data related to order receipt and placement operations undertaken via electronic transactions against requirements stipulated by the Electronic Books Preservation Act and other tax laws. As of October 2021, the Tate Yakusha Electronic Order Receipt and Placement Option was the only function that has acquired the certification among specialized software products for the construction industry.

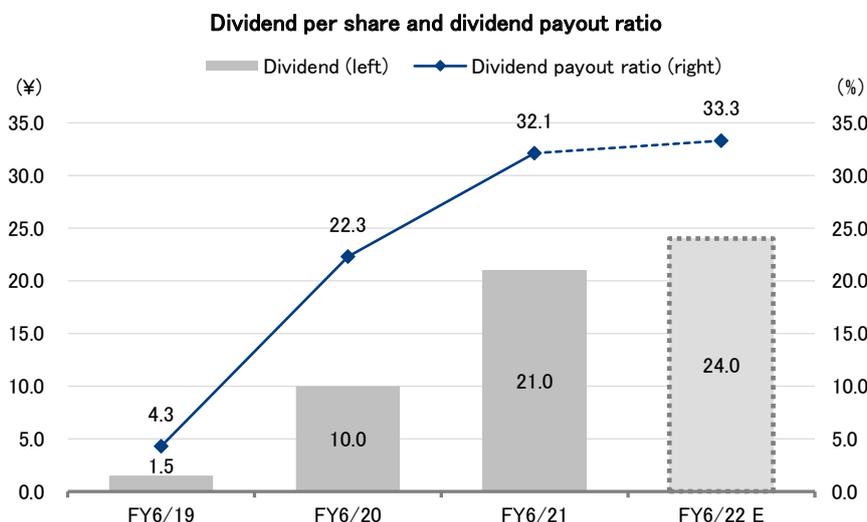
Outlook

In addition, changes in the market environment such as wide adoption of work style reforms and working from home have served as tailwinds for MOS, growth in the e-commerce market, and Shugyo Yakusha. Going forward, the number of companies deploying such products is expected to increase steadily. Compared to competing services, the strengths of the Company's services lie in their superior cost competitiveness and the ability to support customization. Meanwhile, the shortage of development personnel is an issue. The Company will aim to grow the business while taking steps to strengthen its personnel system.

Shareholder return policy

Plans call for increasing the dividend for the third consecutive year in FY6/22

The Company regards the return of profits to shareholders as an important management issue. The Company has indicated that its basic policy on distributing profits is to strive to improve dividends according to business performance and profit levels, while providing stable dividends based on consideration of earnings conditions. Concurrently, the Company will ensure adequate internal reserves needed for future business expansion and strengthening the management structure. With respect to the dividend per share for FY6/22, the Company plans to increase the dividend amount ¥3.0 YoY to ¥24.0, which would mark the third consecutive year of dividend increases since its listing on the stock market. The targeted dividend payout ratio appears to be in the low 30% range, so if the dividend payout ratio falls below 30%, we at FISCO believe that further dividend increases can be expected.



Note: The Company conducted a two-for-one stock split in June 2020. Figures for FY6/19 have been retrospectively adjusted.

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



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