System Integrator
3826 Tokyo Stock Exchange First Section

23-Jun.-14

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With new record highs set in earnings, this fiscal year to focus on preparations and development toward making great strides

System Integrator (3826) is an independent software developer, with main products including package software for building electronic commerce (EC) sites, enterprise resource planning (ERP) package software and tools that increase productivity of software development.

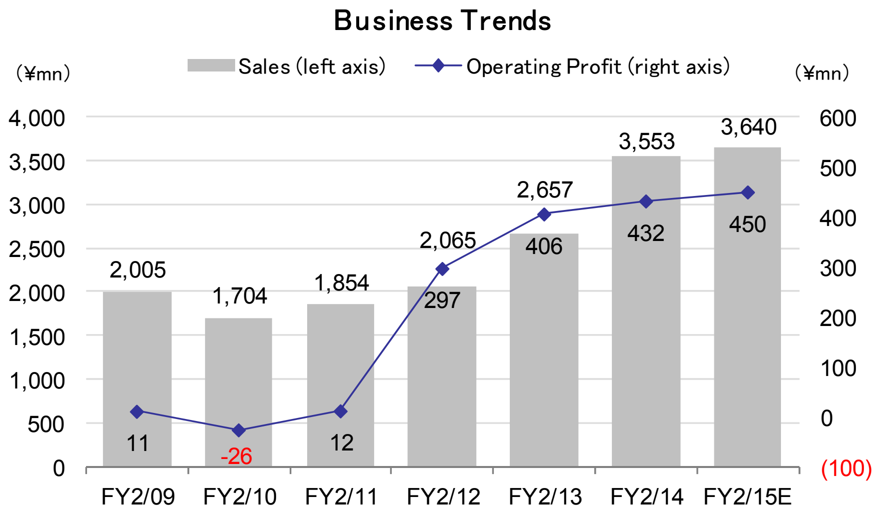
In the results for the fiscal year through February 2014, i.e., in FY2/14, which was announced on April 11, the company increased its sales by 33.7% year-on-year (y-o-y) to ¥3,553mn and its operating profit by 6.4% y-o-y to ¥432mn, setting record highs for the third year in a row. While an unprofitable project materialized in package software for building EC sites, the tailwind from the recovery in corporate IT investments kept sales of ERP and package software program for project management at a healthy pace.

In FY2/15, which coincides with the second year of the three-year medium-term plan, growth is temporarily expected to slow, with sales projected to rise 2.4% y-o-y and operating profit by 4.2% y-o-y. That said, this is because this year has been positioned as one that is to focus on preparing a development and production structure as well as developing new products toward the company making great strides in FY2/15 and beyond. The market environment continues to be solid centered on ERP package software. In FY2/16, earnings are expected to reaccelerate, with double-digit growth in both sales and profits as a result of gradual contributions to profits from new products, such as tools for aiding application designs and an online-to-offline (O2O) cloud computing service launched in or before the previous fiscal year and an omni-channel product scheduled for launch in the second half of the fiscal year, in addition to growth in existing products.

Regarding shareholder return policy, the standard dividend payout ratio has been set at 30%, and a hike in dividends is expected going forward along with expansion in profitability. Also, the company introduced a shareholder reward program, which rewards Koshihikari rice from Niigata Prefecture. Profitability is high, including the fact that the debt-free management is realizing continued levels of over 10% in both the operating profit margin and the ROE, highlighting the company as one of the small- to medium-sized growth companies that is proactive with shareholder returns.

Check Point

- Three companies including System Integrator have a large shares in Industry for package software for building electronic commerce (EC) sites on which the company focuses.
- Record highs reached for three fiscal years in a row and above the company plan
- Proactive shareholder returns being implemented and expectations for dividend increase associated with earnings expansion starting next fiscal year



Businesses

With four major products, and new products are basically moving toward cloud services

(1) Distinguishing characteristics and position in the industry of major products

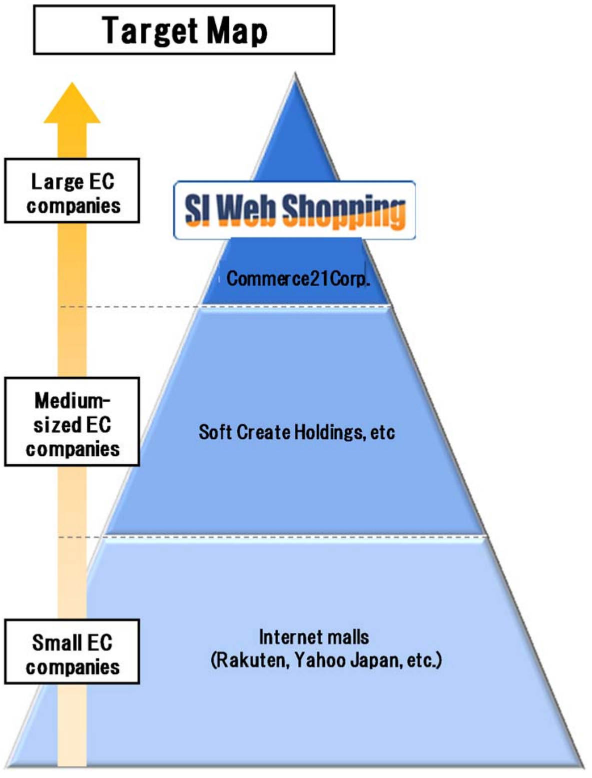
System Integrator is an independent software development company that mainly develops, sells and maintains package software programs and offers consulting services for their use. Regarding new products, its business is basically moving toward cloud services. The following are currently the main products: SI Web Shopping, SI Object Browser, SI Object Browser PM (OBPM) and GRANDIT. Regarding new products, SI Mobile Portal (Mobapota) was added in December 2012 and SI Object Browser Designer (OBDZ) in June 2013.

○ SI Web ShoppingIts

Its strength in large-scale EC sites is a distinguishing characteristic of SI Web Shopping package software program for building electronic commerce sites. Specifically, it features scalability that can handle large transactions of several tens of billions of yen as well as high-level security functions. It also has functions that enable mobile communications, such as with smartphones, and multiple languages including English and Chinese. It has a track record of having been used to build over 1,100 EC sites since its sales launch, with Nojima Corp. (7419), Gunze Ltd. (3002) and Kenko.com Inc. (3325) among the main companies that have used it.

The major companies of the industry for package software for building electronic commerce (EC) sites is considering those that cater to large-scale operators – consisting of System Integrator, ecbeing Corp. [a subsidiary of Softcreate Holdings Corp. (3371)] and Commerce21 Corporation. There are cases in which some of the large corporations have these services in-house.

Positioning of SI Web Shopping Products

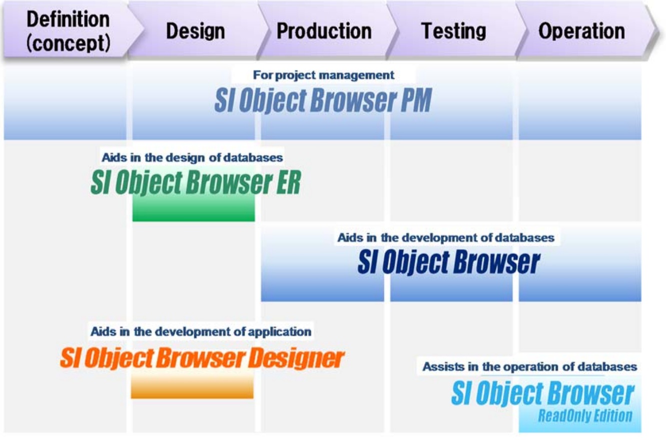


Source: Presentation materials

○ SI Object Browser series

In the field of software development, the series consists of a line-up of OBPM, a comprehensive project management system, and SI Object Brower, which aids in the development of databases, as well as SI Object Browser ER (OBER), a tool that aids in database design; SI Object Browser ReadOnly Edition, which assists in the operation of databases; and SI Object Browser Designer (OBDZ), a tool that aids in application design that was released in June 2013. As shown in the diagram, these products are used in each phase of software development.

SI Object Browser series products by development phase



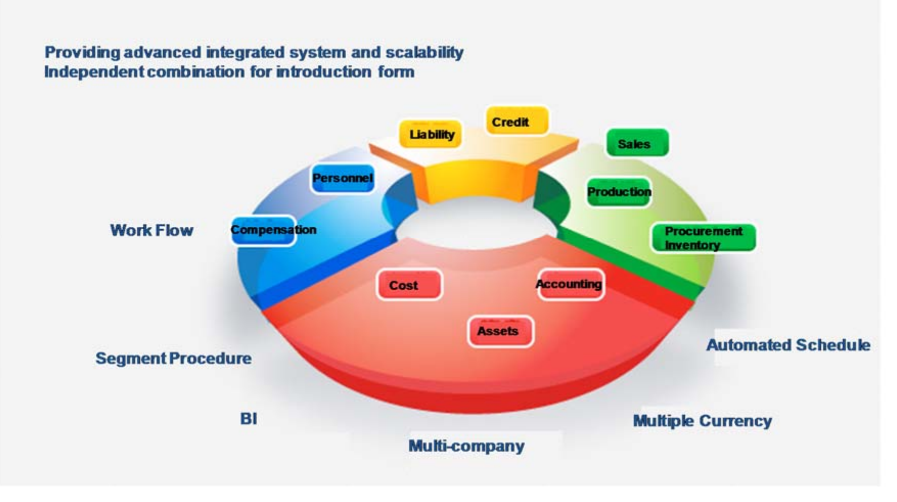
Source: Presentation materials

The SI Object Browser and the OBER have been de facto standards (the actual standard) in Japan since they were launched for sale, showing actual shipping records of deliveries to 13,000 companies, along with 240,000 licenses. Regarding OBPM, since its sales launch in April 2010, it has been adopted by more than 80 companies, showing that it continues to be popularized. OBPM is a tool that enables the management of progress made in software development projects, prevents unprofitable projects from occurring ahead of time, and contributes to improved productivity within a development division. System Integrator itself adopted OBPM in FY4/12 and consequently has been able to reduce the number of non-profitable projects. The target customer base for OBPM is currently centered on IT companies, but the plan is to expand into other industries, such as the manufacturing industry, at some point in the future.

○ GRANDIT

ERP package GRANDIT is being operated by a consortium of 13 companies. System Integrator was the organizer. Each company has developed and respectively sell associated add-on modules. Since its launch in 2004, its market share has grown primarily by targeting medium-sized companies as customers and it has grown to claim a certain market share today. The entire consortium has managed to ship to around 660 companies and has delivered over 2,870 modules. System Integrator has a top record of delivering among the consortium companies.

An image of GRANDIT's format upon adoption



Source: Culled from the office GRANDIT website

The domestic ERP market is estimated to be worth around ¥100bn overall and is segregated by user size. SAP and Oracle are overwhelming strong among those catering to large corporations, but for medium-sized companies, other companies are entering the market by developing products that are appropriate from a cost perspective because products by major vendors involve high implementation costs. GLOVIA of Fujitsu (6702), and OBIC7 of OBIC (4684) are among the company's competitors.

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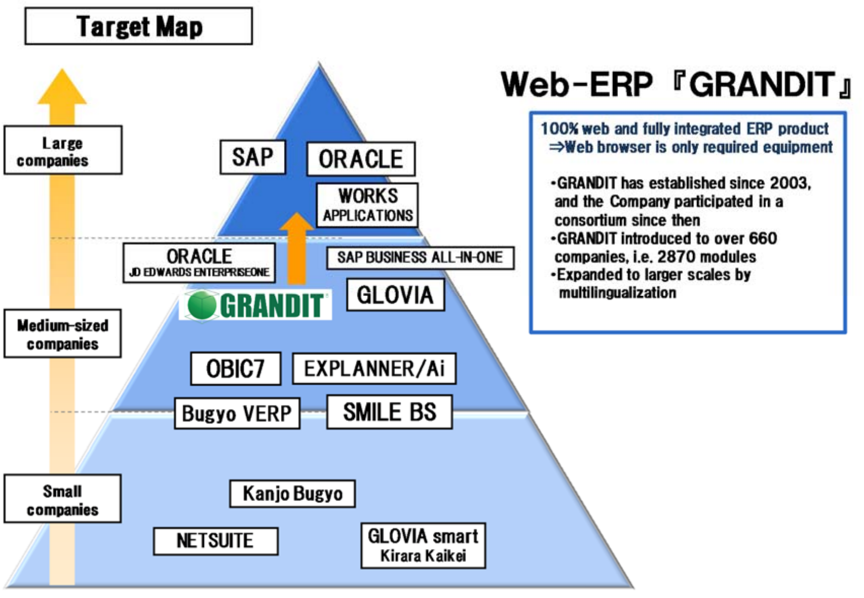
GRANDIT's market position



Source: Presentation material

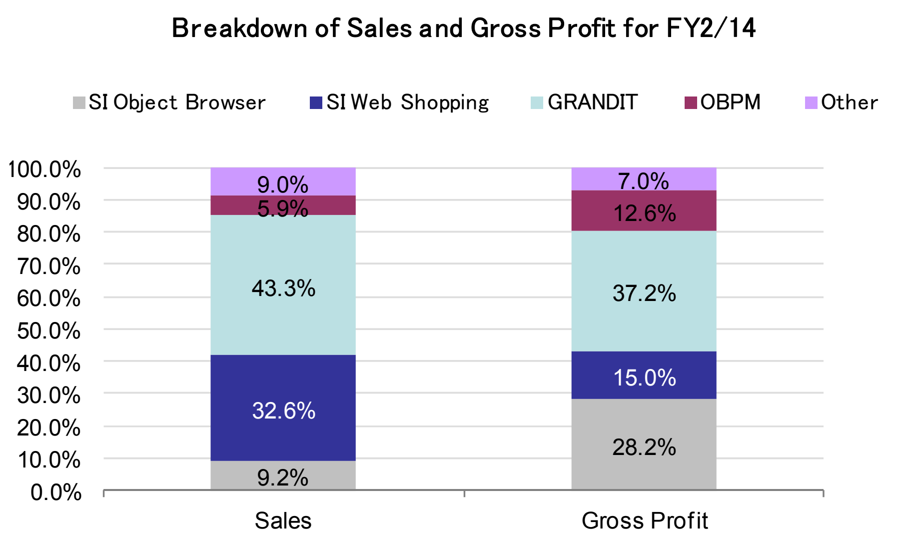
GRANDIT's most distinguishing characteristic is that it is a web-based ERP package that can be used solely with a browser (IE). Many of the competing products are used in C/S environment, which is an ERP that depend on hardware environment. Since GRANDIT does not depend on hardware, the system can be used anywhere only in the environment of IE running. Also, since software updates can be completed on the Internet, installation to hardware becomes unnecessary. This advantage can bring out its superiority after the spring of 2014 when support for Windows XP is to end.

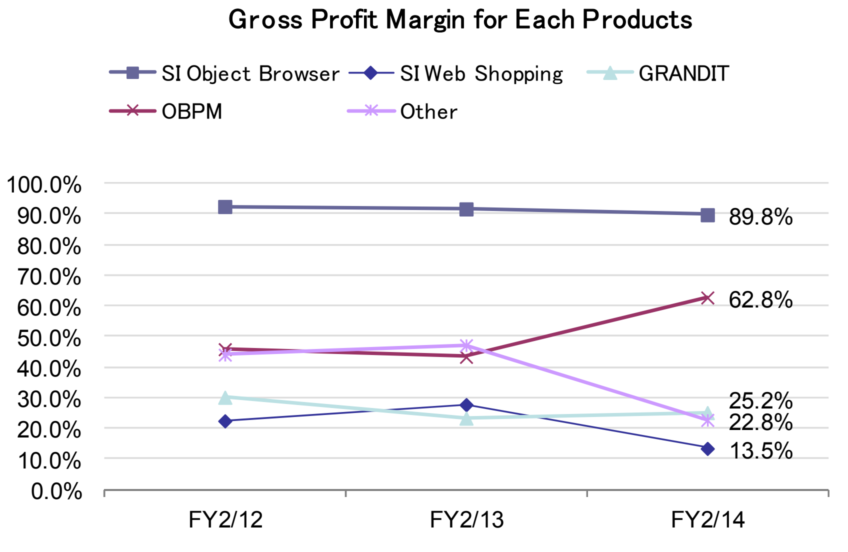
GRANDIT and SI Web Shopping contributing over 75% to sales and a balanced structure for gross profit

(2) Sales and gross profit by product

The percentage breakdown of sales and gross profit by product for FY2/14 is as shown in the diagram below. For sales weighting, GRANDIT is at 43.3%, SI Web Shopping 32.6%, showing that the two products comprise over 75% of the total. Looking at gross profit alone shows that the weightings of SI Object Browser and OBPM are also high.

A look at gross profit margin by product shows that SI Object Browser and OBPM have registered high profit margins. This stems from factors including the aforementioned reason that these products have become de facto standards with virtually no competition, in addition to the virtual absence of new development costs. Further, this business model allows Company to hedge the risks while delivering four products.





Business trends

Record highs reached for three fiscal years in a row and above the company plan

(1) FY2/14 results

In the results for FY2/14, which was announced on April 11, the company increased its sales by 33.7% y-o-y to ¥3.553mn, operating profit by 6.4% y-o-y to ¥432mn, recurring profit by 6.7% y-o-y to ¥434mn and its net profit by 9.6% y-o-y to ¥272mn, setting record highs in earnings for the third year in a row. Both sales and profit were slightly above the company's most recent forecasts which were disclosed on April 1.

Sales increased substantially, centered on GRANDIT and OBPM, on the back of recovery in corporate IT investments. Meanwhile, operating profit growth was relatively more moderate than that for sales mainly because of an unprofitable project materializing in package software for building EC sites, and for this reason, the ratio of cost of goods sold to sales stood at 70.6%, up 5.8 points from the previous fiscal year. The ratio of SGA costs to sales fell by 2.7 points from the previous fiscal year to 17.2% due to sales increase, and as a result, the operating profit margin fell by 3.1 points from the previous fiscal year to 12.2%, but continued to show high profitability at a level above 10%.

FY2/14 Results

(unit: ¥mn)

	FY2/13		FY2/14				
	Actual	Sales ratios	Company forecast	Actual	Sales ratios	YOY	vs forecast
Sales	2,657	-	3,300	3,553	-	33.7%	7.7%
Cost of goods sold	1,720	64.8%	-	2,509	70.6%	45.8%	-
SGA cost	530	19.9%	-	611	17.2%	15.3%	-
Operating profit	406	15.3%	420	432	12.2%	6.4%	2.9%
Recurring profit	407	15.3%	421	434	12.2%	6.7%	3.2%
Extraordinary profit/loss	0	-	-	2	-		-
Net profit	248	9.3%	262	272	7.7%	9.6%	3.9%

*Company forecasts as of Junuary 2014

Major rise in sales and profit with popularization advancing in the markets for GRANDIT and OBPM

(2) Sales and profit by product

○ SI Object Browser (tool that aids software development)

Sales of the SI Object Browser series fell by 1.4% y-o-y to ¥327mn, with gross profit falling 3.4% y-o-y to ¥294mn. These are reactionary declines after sales grew during the previous fiscal year due to the impact of launching new products. As for SI Object Browser and OBER, their popularization has run its course for now since they have already become the industry's de facto standards. With little growth potential in Japan, their annual sales have stayed at round ¥300mn the past several years. That said, their gross profit margin is around 90%, showing that the products are highly profitable and thus are positioned as a stable source of profits for the company. Also, the new product OBDZ is currently in the process of being improved and is expected to contribute to sales starting in FY2/15.

○ SI Web Shopping (software package for building electronic commerce sites)

Sales of the SI Web Shopping program for the fiscal year increased by 9.1% y-o-y to ¥1,158mn, but gross profit plunged by 46.9% to ¥156mn. As mentioned earlier, the cause was due to an unprofitable project. The deficit from the project seems to have been around ¥60mn. Installation is already complete, so it will not have an effect on profits in or after FY2/15.

○ GRANDIT (Web-ERP package)

The GRANDIT program and related software posted major sales and profit growth, with sales for the fiscal year rising by 44.6% y-o-y to ¥1,538mn and gross profit increasing by 56.0% y-o-y to ¥388mn. In addition to a recovery in IT investments among domestic companies, a major reason is that GRANDIT's visibility is steadily improving.

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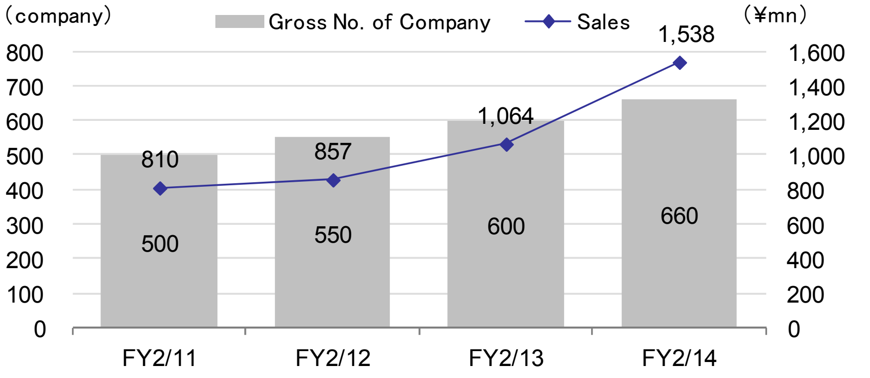
Sales and Number of Companies Installed GRANDIT



*Number of comapnies are sum of all GRANDIT installation (13 providers)

GRANDIT was formed by a consortium of 13 companies, and among all the companies, System Integrator received the Prime Partner of the Year GRANDIT AWARD 2013 for the first time in two years for contributing the most to sales of GRANDIT in 2013. Also, another main reason is that demand strengthened along with profit recovery within the manufacturing industry and the fact that System Integrator has a lineup of numerous add-on modules for manufacturers centered on those related to production management, such as a GRANDIT program that enables the management of Make-to-Order manufacturing processes and one that manages repetitive manufacturing processes.

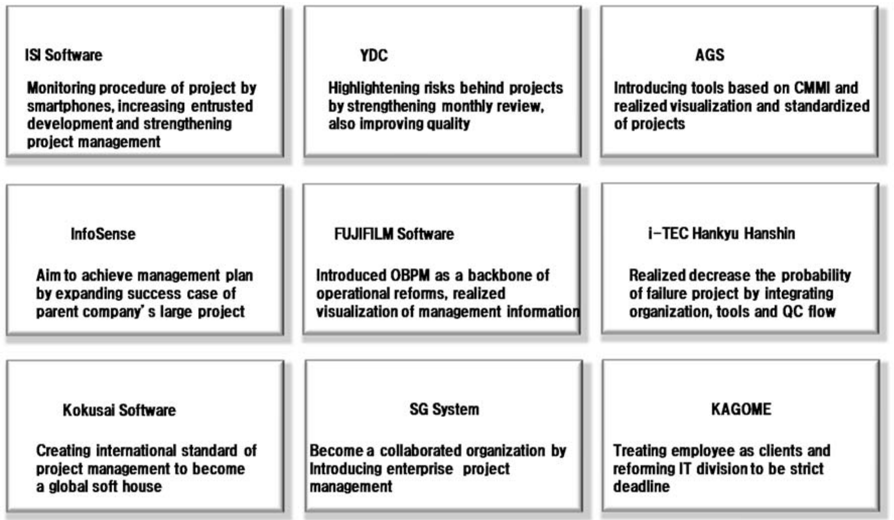
Further, inquiries regarding a combination of GRANDIT and OBPM for IT-related companies are robust. Sales proposals, including the impact of their own use, have proceeded smoothly because System Integrator already uses GRANDIT and OBPM as an internal system. In addition, when installing GRANDIT at a customer site, project management is done with OBPM, so customers have given high praise to experiencing better success rates of installation projects compared with rival companies. This, as a result, appears to have led to an expansion in orders.

○ OBPM (project management package)

Sales of OBPM for the fiscal year increased by 29.5% y-o-y to ¥208mn and gross profit surged by 87.7% y-o-y to ¥131mn, showing major sales and profit increases. Popularization is steadily taking root in the market, with a cumulative total of around 80 companies (70 companies during the previous fiscal year) having installed it since the release in November 2008.

OBPM's strong point is that it is a management tool that integrates 9 management areas (quality management, schedule management, cost management, etc.) in PMBOK (*) – a world standard for project management tools – in an ideal format. In a sense, it is like an ERP version of a project management package and there are no competing product (numerous products that handle individual management areas do exist). For this reason, profitability is high and it can be seen as a product that creates steady profitability along with the SI Object Browser.

Usage examples of the SI Object Browser PM



Source: Presentation material

○ Other packages

Sharp increases were seen in other packages for the fiscal year, with sales skyrocketing by 749.4% y-o-y to ¥319mn and gross profit jumping 309.5% y-o-y to ¥72mn. The reason for this was due to sales being posted from replacing systems among specific customers who have been in place since the company' s establishment. Since this system gets replaced every five to six years, a part of this is also expected to materialize in sales for FY2/15.

Sales and gross profit by product

(unit: ¥mn)

	12/2 期	13/2 期	14/2 期	伸び率
Sales				
SI Object Browser	274	331	327	-1.4%
SI Web Shopping	703	1,062	1,158	9.1%
GRANDIT	857	1,064	1,538	44.6%
OBPM	177	161	208	29.5%
Other	51	37	319	749.4%
Total	2,065	2,657	3,553	33.7%
Gross profit				
SI Object Browser	253	304	294	-3.4%
SI Web Shopping	158	295	156	-46.9%
GRANDIT	259	248	388	56.0%
OBPM	81	69	131	87.7%
Other	22	17	72	309.5%
Total	775	936	1,043	11.4%
Gross profit margin				
SI Object Browser	92.5%	91.7%	89.8%	
SI Web Shopping	22.5%	27.8%	13.5%	
GRANDIT	30.2%	23.4%	25.2%	
OBPM	45.9%	43.4%	62.8%	
Other	44.1%	47.2%	22.8%	
Total	37.6%	35.2%	29.4%	

* PMBOK refers to Project Management Body of Knowledge created by the Project Management Institute. PMBOK systematically summarizes process-based approaches applicable to a wide range of projects including construction, manufacturing, and software development. As an approach to effectively achieving project management, it summarizes the processes required, dividing them into five basic process groups and 10 management areas (previously, there were nine management areas, but after the 10th revision in 2013, it became 10 management areas).

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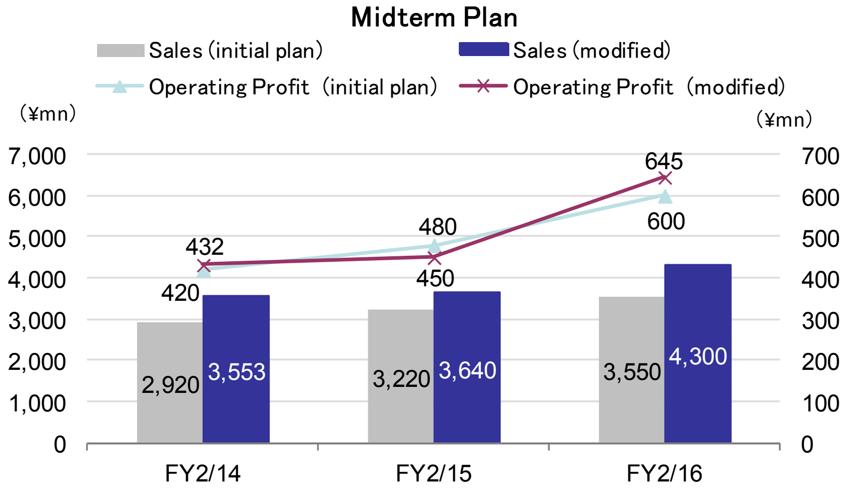
Future Outlook

The ongoing medium-term plan was achieved two years earlier than initially expected. The company will aim for further growth through the revision of the targets.

(1) Medium-term plan

System Integrator is pursuing the medium-term plan Progress 2013, the final year of which is FY2/16. System Integrator has recently revised and announced its planned targets, because the targeted sales were achieved two years earlier than initially expected with GRANDIT and OBPM as driving forces. There is no change in its policy of aiming for further growth by focusing on four key measures: sales expansion, reinforcement of the development and production systems, business development in China, and the further increase of services offered for a fixed period of time.



The growth rate slowed temporarily in FY2/15 as an investment period looking ahead to future growth.

(2) Outlook of results for FY2/15

The outlook of the results for FY2/15 shows that sales will increase 2.4% from the previous year, to ¥3640mn, operating profit will rise 4.2%, to ¥450mn, recurring profit will grow 3.8%, to ¥451mn, and net profit will increase 2.9%, to ¥280mn, marking record-high results for four consecutive years. However, the growth rate is expected to slow temporarily. While the market environments have continued to be favorable, the reinforcement of the development and production systems has become an issue. The company will focus on increasing the number of employees and creating environments for development, and will concentrate on the development of new products. The fiscal year under review will be positioned as an investment period looking ahead to future growth.

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Forecast for FY2/15

(unit: ¥mn)

	FY2/14		FY2/15 forecast			
	Full year	YPY	1H	YOY	Full year	YOY
Sales	3,553	33.7%	1,750	8.6%	3,640	2.4%
Cost of goods sold	2,509	45.8%	-	-	-	-
SGA cost	611	15.3%	-	-	-	-
Operating profit	432	6.4%	182	-18.7%	450	4.2%
Recurring profit	434	6.7%	183	-18.7%	451	3.8%
Extraordinary profit/ loss	2	-	-	-	-	-
Net profit	272	9.6%	113	-19.4%	280	2.9%
EPS	49.5	-	20.4	-	50.6	-
DPS	15.0	-	0.0	-	16.0	-

○ Reinforcement of the development and production systems

Looking at the development and production systems, in FY2/14 the company increased the number of its development staff to around 90 (an increase of 13.7 from the previous year on a yearly average basis), which accounted for 80% of all employees, and the number of partner companies to 52 (an increase of 11 from the previous year), and it will increase these further in the fiscal year under review against the backdrop of the current strong demand. In particular, there have been a lot of GRANDIT-related inquiries. The working ratio of development staff has reached a level of close to 100%.

Accordingly, the company plans to increase the number of employees by around 20 in the fiscal year under review. In the software industry, the number of engineers has continued to be insufficient during the past several years, and the employment environments have become difficult. However, the company moved to the first section of the Tokyo Stock Exchange from the TSE's Mothers market in January 2014. This had the effect of facilitating the company's employment. In actuality, the company had already hired six mid-career employees from March onward, and increased the number of employees by 12, including six new graduate employees hired in April. The company plans to increase the number of development staff by recruiting mid-career employees in the future.

Meanwhile, as to partner companies, the company will maintain the current partners and increase the transaction volume with each partner company in the fiscal year under review. In particular, the company plans to make the best use of Dalian PreSoft Co., Ltd. of China, with which it entered into a business tie-up in 2013, in the fiscal year under review. In the Chinese offshore market, the cost advantage has decreased due to a rise in personnel expenses. However, personnel expenses are kept at less than half of Japanese personnel expenses. We judge that its technological capabilities and communication abilities are kept at a sufficient level as a partner company. The company will start with small deals with Dalian PreSoft Co., Ltd. for the time being, and gradually increase the transaction volume.

In addition, the company has advanced the creation of the development environments in the fiscal year under review. The company already relocated its head office in April 2014, and increased its floor space by half. In addition, the company plans to move the Osaka branch office in August. The working space per person, which had become narrow, has been made wider. This is expected to improve productivity. Part of the cost required for the relocation was already recorded as extraordinary loss (¥2mn) in FY2/14. The cost required in FY2/15 will be limited.

○ Development of new products

In terms of new products, the company began selling Mobapota, a service for the construction of portal sites for smartphones, as an O2O marketing tool from December 2012, and OBDZ, a tool for supporting design applications, from June 2013. In the fiscal year under review, the company plans to provide products for the omni-channel as a cloud service in the EC area around the second half of the fiscal year. As to SI Web Shopping, the company plans to introduce products with improved functions around the second half of the fiscal year. The company has a policy of allocating its human resources mainly to the development of such new products in the fiscal year under review.

○ Forecast of sales by product

According to the forecast of sales by product for FY2/15, GRANDIT-related sales will increase 15% from the previous year, and OBPM-related sales will rise 30%, becoming driving forces for the company's results, as in FY2/14. SI Object Browser-related sales are expected to increase slightly from the previous year thanks to a rise in sales of OBDZ, the new product. Meanwhile, SI Web Shopping-related sales are expected to decline, because large deals will disappear and new products with improved functions are planned to be introduced in the fourth quarter. However, gross profit is expected to rise from the previous year due to the absence of loss-making deals made in FY2/14. Other sales are forecast to decrease from the previous year, while a portion of system development deals for specified customers will be recorded as sales, as mentioned above. It appears that sales of GRANDIT and OBPM from March onward remained brisk.

○ Conditions of OBDZ and Mobapota

As to OBDZ, sales are expected to increase in the future because version 2.1 was released this April, and the degree of its completeness as a product became higher. The department in charge of marketing for OBDZ is same as that for OBPM. Current demand for OBPM is strong. As a result, insufficient marketing resources have become a problem. To resolve this situation, the company is making an approach to officially adopt OBDZ within the GRANDIT consortium. If it is decided to undertake adoption within the consortium, the speed of the spread is expected to be increased. Attention should be paid to future movements.

The characteristic of OBDZ is that the process from the preparation of design drawings to output was automated in the process of application design for software development. Productivity is expected to improve by about half from previously. The shortage of human resources has become chronic in the software industry. Accordingly, potential demand for OBDZ is considered to be significant. Sales of OBDZ are expected to grow to a level commensurate with OBPM at some time in the future.

Meanwhile, with respect to Mobapota, several companies used it on a trial basis. The company promoted the improvement of products by repeating one trial and error after another, such as the analysis of contents that have a considerable impact in terms of customer attraction and increased sales. Finally, the company appears to have reached a stage where an official agreement is expected to be entered into in the first half of the fiscal year under review. Mobapota is a cloud service, and its contribution to sales is small. However, while importance is attached to the O2O marketing strategy, its target market is broad, including not only commercial facilities such as retail stores and shopping malls but also amusement facilities and public facilities. The growth potential of Mobapota is said to be high. However, competition is fierce due to the growth market. The strengthening of sales capabilities including the gaining of recognition and sales tie-ups will become a future issue.

Scope of application of Mobapota

Source: Presentation material

The earnings growth rate is expected to be re-accelerated in FY2/16, the final year of the medium-term plan.

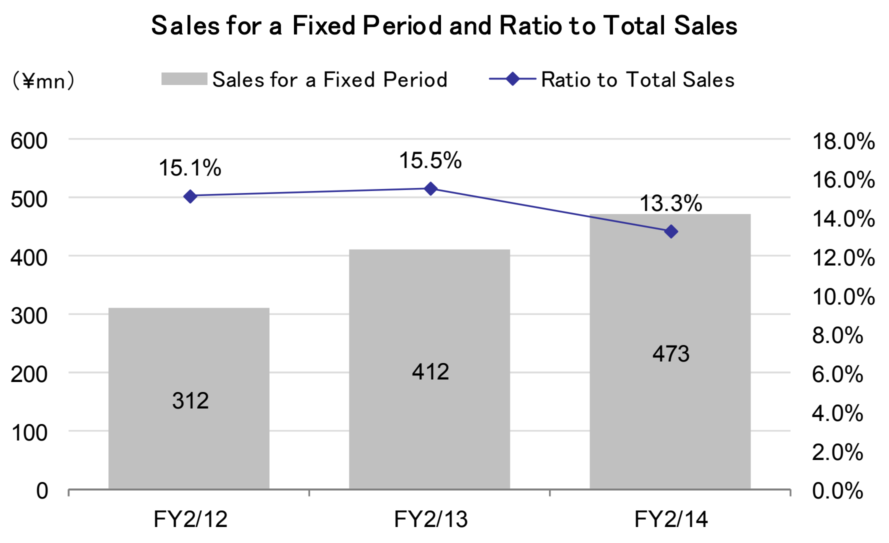
(3) Outlook for FY2/16

As to the results for FY2/16, the final year of the medium-term plan, the company is targeting sales of ¥4,300mn, a rise of 18.1% from the sales expected for the fiscal year under review, and operating profit of ¥645mn, an increase of 43.3% from the fiscal year under review. The earnings growth rate is expected to be re-accelerated. Given the company's effective tax rate, which is same as the previous year, the profit per share will be around ¥72.

Sales of existing products centered on GRANDIT and OBPM are expected to continue to grow. New products such as OBDZ and Mobapota will begin making a full-scale contribution to sales. The operating profit margin is expected to increase from 12.4% forecast for the fiscal year under review to 15.0%, reflecting the impact of the sales increase and changes in the product mix.

○ Strengthening of business of services offered for a fixed period of time

The company specified an increase in sales from services offered for a fixed period of time as an important measure to enhance the stability of earnings in its medium-term plan. The services offered for a fixed period of time include maintenance services for existing products and the cloud service provided by new products after OBPM. The ratio of sales from services offered for a fixed period of time to total sales for FY2/14 declined 2.2% points from the previous year, to 13.3%, reflecting a sharp rise in sales of flow-type existing products such as GRANDIT. Sales from services offered for a fixed period of time rose 14.8% from the previous year, continuously enjoying double-digit growth. New products will basically be provided through the cloud service. As a result, the ratio of sales from services offered for a fixed period of time is expected to increase steadily in the future. The company has a target of 20% as the ratio of sales from services offered for a fixed period of time for the time being.



○ Business development in China

The company continues to open up the Chinese market, not only as a sales base but also as a offshore development base. The company has commenced sales of SI Object Browser and SI Object Browser ER, appointing Dalian PreSoft Co., Ltd. as the sales agent, with which the company entered into a business tie-up in 2013. In addition, the company has started to use it as an offshore development base.

However, the company appears to be having a harder time than initially expected with regard to sales. As to the SI Object Browser, it is chiefly attributable to the copied product of a competing database development support tool that is available free of charge. Meanwhile, as to the SI Object Browser ER, which is a database design support tool, it seems that there is room for development because of the lack of copies appearing on the market. Nevertheless, many copies will appear on the Chinese market. It therefore seems that sales of SI Object Browser ER are not reflected in the medium-term plan.

■ Financial conditions and management indices

The company has continued to have no debt, and its financial position has continued to remain at a favorable level.

The company's financial conditions and management indexes as of the end of February 2014 are as shown in the table. Total assets increased ¥439mn from the end of the previous year, to ¥2,535mn. As a major factor in the change in current assets, sales receivable and cash and deposits increased ¥211mn and ¥83mn respectively from the end of the previous year, reflecting a rise in sales toward the end of the fiscal year under review. In intangible fixed assets, software assets rose ¥47mn, reflecting the development of new products. In investments, etc., investment securities increased ¥25mn from the end of the previous year, and security deposits and guarantee money rose ¥52mn, reflecting the relocation of the head office.

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Meanwhile, liabilities increased ¥194mn from the end of the previous year, to ¥693mn. Accounts payable grew ¥89mn, and advances received increased ¥40mn from the end of the previous year, reflecting an increase in orders received toward the end of the fiscal year under review. Income tax payable rose ¥22mn due to a rise in profits. Shareholders' equity increased ¥244mn from the end of the previous year, to ¥1,841mn, thanks to a rise in profits.

As a result, the equity ratio declined 3.6% points from the end of the previous year, to 72.6%. However, the company continued to have no debt. Its current ratio exceeded 300%. The company's financial position continued to remain at a favorable level. As to the ratios of profitability, ROE and the operating profit margin remained at a level exceeding 10%, although they declined from the previous year. It is evident that the company is maintaining high profitability ratios.

Balance sheet

(unit: ¥mn)

	End of FY2/12	End of FY2/13	End of FY2/14	Increase or decrease
Current asset	1,677	1,891	2,212	321
(Cash and deposit)	1,070	1,047	1,130	83
(Sales receivable)	455	639	851	211
Tangible fixed assets	10	10	6	-4
Intangible fixed assets	89	134	178	44
Investments, etc	27	60	138	78
Total assets	1,804	2,096	2,535	439
Current liabilities	443	495	683	188
Fixed liabilities	-	4	10	6
(Interest-bearing liabilities)	0	0	0	0
Total liabilities	442	499	693	194
Total shareholder's equity	1,362	1,597	1,841	244
(Ratios of financial safety)				
Current ratio	379.1%	382.0%	323.8%	-
Equity ratio	75.5%	76.2%	72.6%	-
(Ratio of profitability)				
ROE	12.8%	16.8%	16.0%	-
Operating profit margin	14.4%	15.3%	12.2%	-

Shareholder return policy

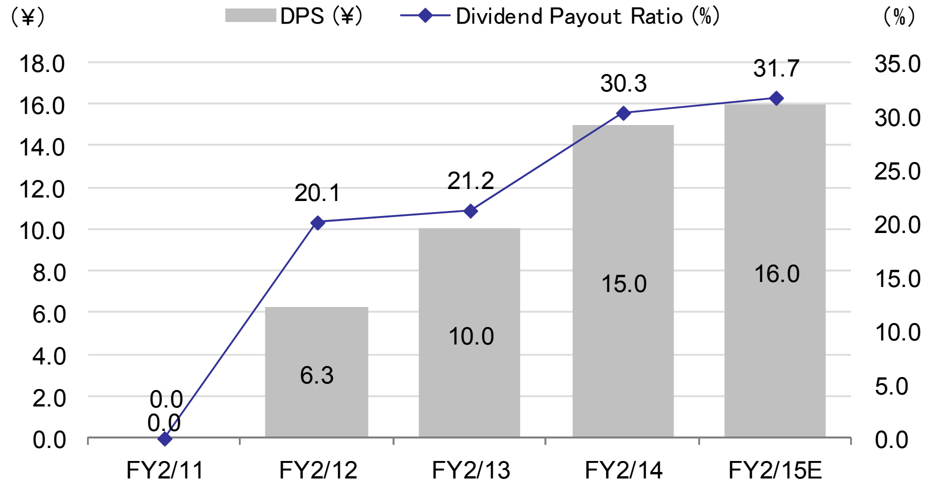
The company actively returned profits to shareholders. A rise in dividends is expected thanks to an improvement in results from the next fiscal year.

To raise its enterprise value, System Integrator has actively worked on the expansion of shareholder returns. Its dividend policy is performance-based dividends, and its standard payout ratio is 30%. The company continued to increase its dividends after the resumption of dividends in FY2/12, and it plans an increase in dividends of one yen per share to ¥16 per share for FY2/15. The level of the payout ratio will become 31.7%. An increase in dividends is expected from the next fiscal year if results continue to improve.

■Shareholder return policy

System Integrator has introduced an awards system for the holders of its shares. It awards newly harvested Koshihikari rice grown in Niigata, Japan using reduced levels of fertilizers, insecticides and herbicides according to the number of shares held. Holders of 100 – 1,999 shares will receive 2kg of this rice, holders of 2,000 – 7,999 shares will receive 5kg and holders of 8,000 shares or more will receive 10kg. The shareholders who will receive the awards will be the shareholders stated in the shareholders' list as of the end of every February and the shareholders' list as of the end of August of the same year with the same number. Accordingly, if a person becomes a new shareholder in May 2014, that person needs to continue to hold shares until the end of August 2015 to acquire the right to receive an award for shareholders.

Dividend par Share and Dividend payout Ratio



*The company conducted a 200-for-1 stock split in September 2012, and a 2-for-1 stock split in August 2013. Figures per share are caluculated by taking the stock splits into account

Trend o results and mediu-term plan

(unit: ¥mn, %)

Fiscal Year	Sa;es	YOY	Operating profit	YOY	Recurring profit	YOY	Net profit	YOY	EPS (¥)	DPS (¥)
FY2/10	1,704	-15.0%	-26	-	-28	-	-19	-	-3.77	0.00
FY2/11	1,854	8.8%	12	-	13	-	6	-	1.21	0.00
FY2/12	2,065	11.4%	297	-	288	-	163	-	31.11	6.25
FY2/13	2,657	28.7%	406	36.4%	407	41.2%	248	51.8%	47.18	10.00
FY2/14	3,553	33.7%	432	6.4%	434	6.7%	272	9.6%	49.47	15.00
FY2/15 E	3,640	2.4%	450	4.2%	451	3.8%	280	2.9%	50.55	16.00
FY2/16 E	4,300	18.1%	600	43.3%	-	-	-	-	-	-

*The company conducted a 200-for-1 stock split in September 2012, and a 2-for-1 stock split in August 2013. Figures per share are caluculated by taking the stock splits into account

Disclaimer