COMPANY RESEARCH AND ANALYSIS REPORT

# System Integrator

## 3826

Tokyo Stock Exchange First Section

23-Jun.-2021


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# Summary

## The FY2/22 outlook is for double-digit increases in sales and profits due to the expansion of orders in the E-Commerce Business and the ERP Business

System Integrator <3826> (hereafter, also "the Company") is an independent software developer that develops and sells software and services for improvement of corporate productivity with a slogan of "We consistently create software that creates time rather than consumes time." It operates the Object Browser Business, including the database development support tool SI Object Browser and integrated project management tool SI Object Browser PM (below, OBPM), the E-Commerce Business, and the ERP/AI Business. Furthermore, it actively promotes work-style reforms, child-rearing assistance, and other measures and has a low employee turnover rate in the IT industry at around 5%. System Integrator has a reputation of being highly respected by employees.

**1. FY2/21 results**

In FY2/21, sales and profits decreased for the first time in four periods, with net sales declining 6.5% year-on-year (YoY) to ¥4,258mn and ordinary profit falling 36.2% to ¥423mn. The main factors were that although the E-Commerce Business performed strongly, benefitting from the growth of the EC market, in the ERP Business, there occurred unprofitable projects and a provision for loss on order received of ¥231mn was recorded, and also that due to the impact of the novel coronavirus pandemic (hereafter, COVID-19), Object Browser demand cooled-down. For the unprofitable projects in the ERP Business, all of the loss that is expected to be incurred will be recorded in FY2/21, and it is considered that there is no risk of additional costs being incurred.

**2. FY2/22 forecasts**

The forecasts for the FY2/22 results are for sales and profits to increase, with net sales rising 13.9% YoY to ¥4,850mn and ordinary profit growing 50.1% to ¥636mn. The factors behind the higher earnings are that in the E-Commerce Business and the ERP Business, the demand is so strong that there is a shortage of human resources, and double-digit increases in sales are expected, and also that the impact of the provision for loss on order received recorded in the previous period will end. In the Object Browser Business, earnings are expected to decrease due to the increase in software depreciation and as it will be the transition period to shift OBPM to a cloud service. Also, for the new business of AISI∀-AD (an abnormality detection system using image recognition technology), the outlook is that it will transition from the proof-of-concept stage to the practical-application stage, and 2 deployments are scheduled for the 2H. Conversely, in the previous period, COVID-19 had an impact, and TOPSIC (a programming skills evaluation service), whose number of contracts decreased slightly, added a service to evaluate practical SQL* skills, so the number of contracts is expected to increase. These new businesses are still in their upfront investment stages, and the outlook is that they will contribute to earnings from FY2/23 at the earliest.

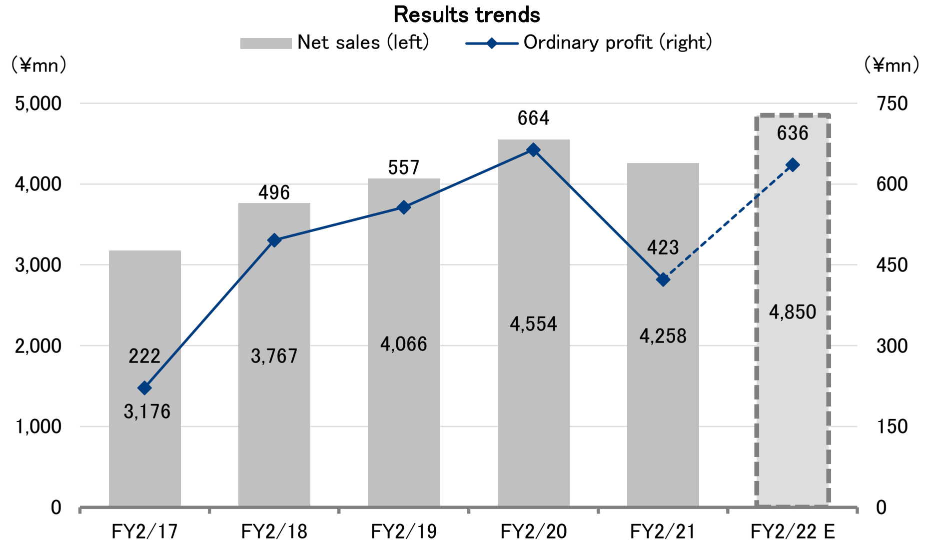
* SQL is a language to operate data in a relational database (RDB).

### 3. Medium-term business plan

The Company recently announced SDGs Mind 2021, its new three-year medium-term business plan. Its basic policies are to grow existing businesses, establish overseas development bases, develop and make profitable new businesses, improve employee skills, and promote streamlining of business operations. The numerical targets for FY2/24, which is the plan's final fiscal year, are net sales of ¥6,200mn and ordinary profit of ¥966mn. The three-year compound annual growth rates (CAGR) are 13.3% for net sales and 31.6% for ordinary profit (13.8% if excluding the impact of the provision for loss on order received). In the mainstay businesses, the E-Commerce Business and the ERP Business are forecast to achieve double-digit annual growth rates, while the Object Browser Business is also expected to perform strongly. In addition, for the overseas development bases, the Company plans to establish a subsidiary in Vietnam in the spring of 2022. Moreover, it has set "reduce unsuccessful projects" as the top priority issue for management, and the managing director who demonstrated excellent capabilities to transform the E-Commerce Business into a profitable business has been selected to be the director responsible for supervising development, and expertise will be shared across all the business departments. At FISCO, we think that because domestic IT investment remains strong, the Company can achieve the results targets if it is able to recruit and train human resources who are able to respond to demand and to secure outsourcing partners.

### Key Points

- An independent software development company that "consistently creates software that creates time rather than consumes time"
- The E-Commerce Business and the ERP Business have inquiries exceeding capabilities, and the earnings environment continues to be excellent
- In the new medium-term business plan, is aiming for net sales of ¥6,200mn and ordinary profit of ¥966mn in FY2/24




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

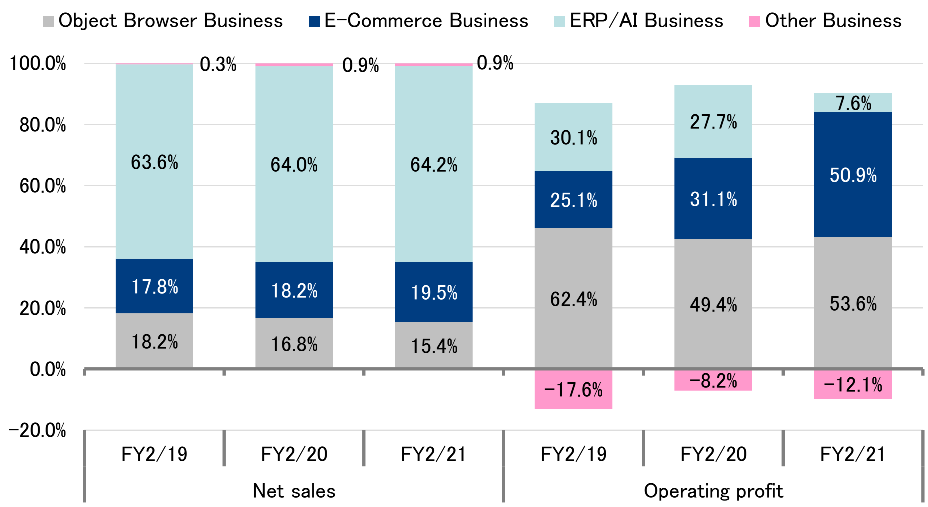
# Business overview

## An independent software development company that "consistently creates software that creates time rather than consumes time"

Founded in 1995, System Integrator is an independent software development company. In addition to the sales of packaged software developed in-house, the Company also provides maintenance service and cloud services (SaaS). The Company is mainly looking to develop new products that can be offered as a cloud service. Mainstay existing products include database development support tool SI Object Browser and integrated project management tool OBPM, and package software such as SI Web Shopping for constructing EC websites and GRANDIT Web-ERP package. Business segments are Object Browser Business, E-Commerce Business, ERP/AI Business, and Other Business for reporting the results of new businesses.

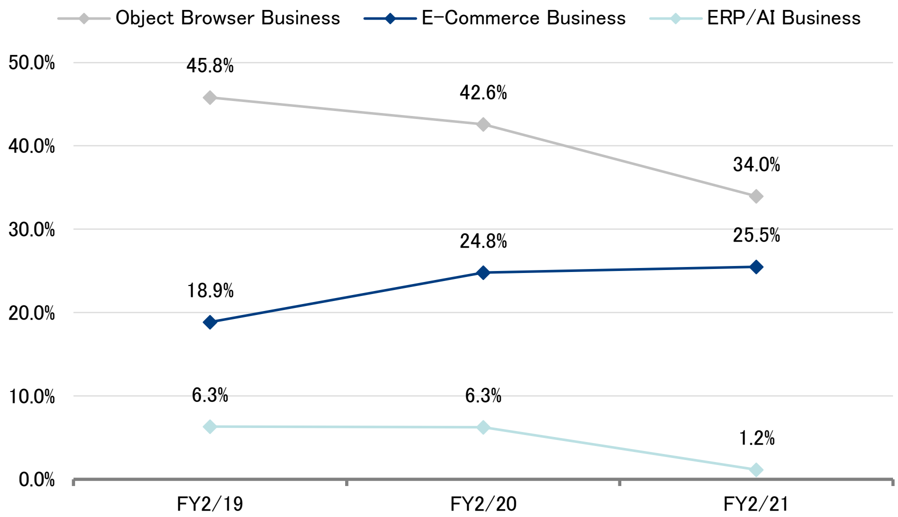
Looking at how the percentages of total results have trended by business segment in the most recent three years, the ERP/AI Business provided slightly more than 60% of total net sales, and the remainder was divided between the Object Browser Business and the E-Commerce Business. Looking at operating profit, around 50% of the total was provided by the Object Browser Business and it is a stable source of earnings, while the remainder was earned by the E-Commerce Business and the ERP/AI Business. Also, as the new businesses are still in their upfront investment stages, they continue to record losses. The profit margin in the Object Browser Business fell from around 40% to around 30% in FY2/21. This was mainly because highly profitable Object Browser sales declined due to COVID-19 and also as the profit margin temporarily decreased in the context of the transition of the OBPM business model from a simple sales (license sales) model to a monthly fee (cloud service) model. Also, the segment profit margin of the ERP/AI Business is low in percentage terms, accounting for just a few percent, but this is primarily because it includes the upfront investment costs of the AI Business. The decline of the profit margin in FY2/21 was because of the recording of a provision for loss on order received of ¥231mn due to unprofitable projects, and if excluding this factor, the profit margin in the ERP/AI Business was 9.6%. Results by business segment are described below.

Results by business segment




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

Profit margin by business segment



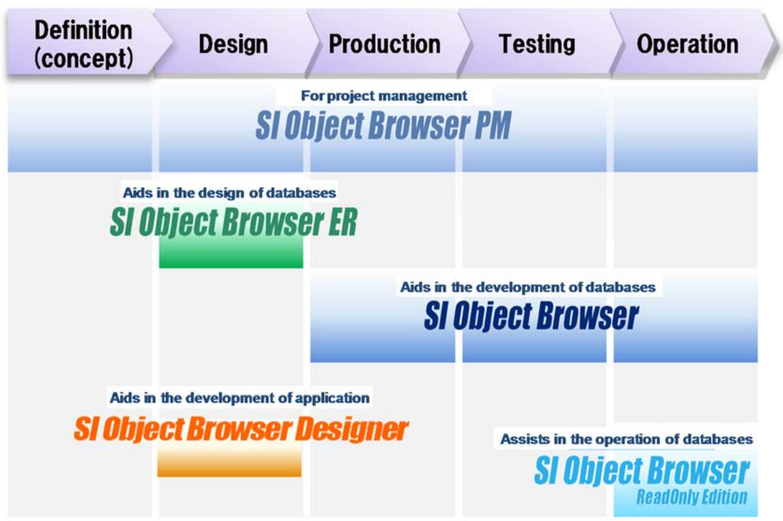

Source: Prepared by FISCO from the Company's financial results

### 1. Object Browser Business

The Object Browser Business handles development and sales of software products, including the database development support tool SI Object Browser and database design support tool SI Object Browser ER (below, SI Object Browser series) as well as integrated project management tool OBPM and application design support tool SI Object Browser Designer (below, OBDZ). The Object Browser series were previously sold only via package sales (license sales + maintenance service), but from February 2021, sales were launched through a subscription model* also. OBPM and OBDZ are provided as cloud services.

> * The contract periods are 1 year, 2 years, or 3 years (includes maintenance fees). Upgrades to the latest versions are free. For Oracle only.

The software development process and SI products




Source: The Company's website

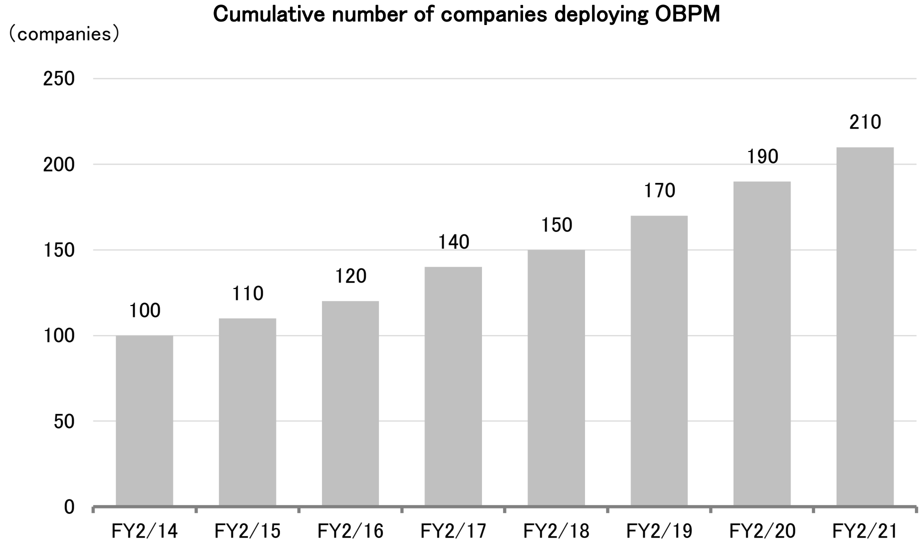
In the percentages of total net sales, the Object Browser series provides slightly more than 40% and OBPM slightly less than 60%, and OBPM's percentage has been rising year by year. Since the launch of sales of the Object Browser series in 1997, it has a deployment track record of 19,000 companies and 450,000 licenses, and it is the de-facto standard within Japan. Currently, more than 30% of its sales are recurring income, such as from maintenance support, and its sales are stable. Its brand power is strong and it has hardly any sales costs, so it is a highly profitable product with a gross profit margin of approximately 90%. Free software have appeared as competitor products, but it is not being directly affected by this due to the differences in their functions.

Conversely, OBPM prevents the occurrence of unprofitable projects before they occur through comprehensively managing the progress conditions of development projects (management of the schedule, costs, personnel, quality, profitability, etc.), and it is a tool to support the improved productivity of development departments. Domestically, it is the only product compliant with PMBOK*, and since its sales launch in 2008, the number of companies deploying it has been steadily increasing. Since the end of February 2021, more than 210 companies have deployed it, mainly medium-sized IT companies. Major IT companies tend to produce project management tools in-house, but in recent years, OBPM's name recognition has improved and it has been evaluated to be high quality, so an increasing number of companies are considering deploying it within their departments. Conversely, many SMEs use commercially available software such as Excel or free software.

* PMBOK (Project Management Body of Knowledge): A set of standard terminology and guidelines (i.e., a body of knowledge) for project management. "A Guide to the Project Management Body of Knowledge" was first published in 1987 by the non-profit Project Management Institute (PMI). PMBOK has evolved over time and is now accepted as the industry standard around the world.

OBPM was launched as a cloud service in 2010, and then in March 2021 its name was changed to OBPM Neo as a new brand, and it is currently provided as a cloud service for all new contracts. As OBPM has hardly any competitor products, its gross profit margin is high at around 70%. But it does incur some costs, including advertising costs and deployment-support costs, and therefore its operating profit margin is low compared to the Object Browser series. The full web-based version of OBPM Neo was developed over two years, so it is recorded in software assets and will generate depreciation from FY2/22.

Cumulative number of companies deploying OBPM




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

OBDZ is a support tool that enhances productivity and quality of the design process through systemization of basic design and detailed design, which are upstream processes in software development, and promoting of streamlining and standardization. It could be called CAD for the software development field (the Company already obtained a patent). Previously, engineers had to create design documents individually in Excel and Word, so when the specifications or other items were changed, maintenance and change management would become difficult, and development delays could occur due to human error. But OBDZ solves these problems by integrating the management of design documents. Therefore, in terms of how it is used, it can be said to be a product suitable for large-scale, waterfall-type system* development, including for mission-critical business systems. Since its release in 2013, the Company has repeatedly improved its functions, and in June 2019, it conducted a full model change to the new version in web-based technologies and released a greatly improved product whose performance speed is 1.5 times that of the previous version. The number of companies deploying it is still small, but it is being steadily deployed by companies ranging from small- and medium-sized companies through to major IT companies.

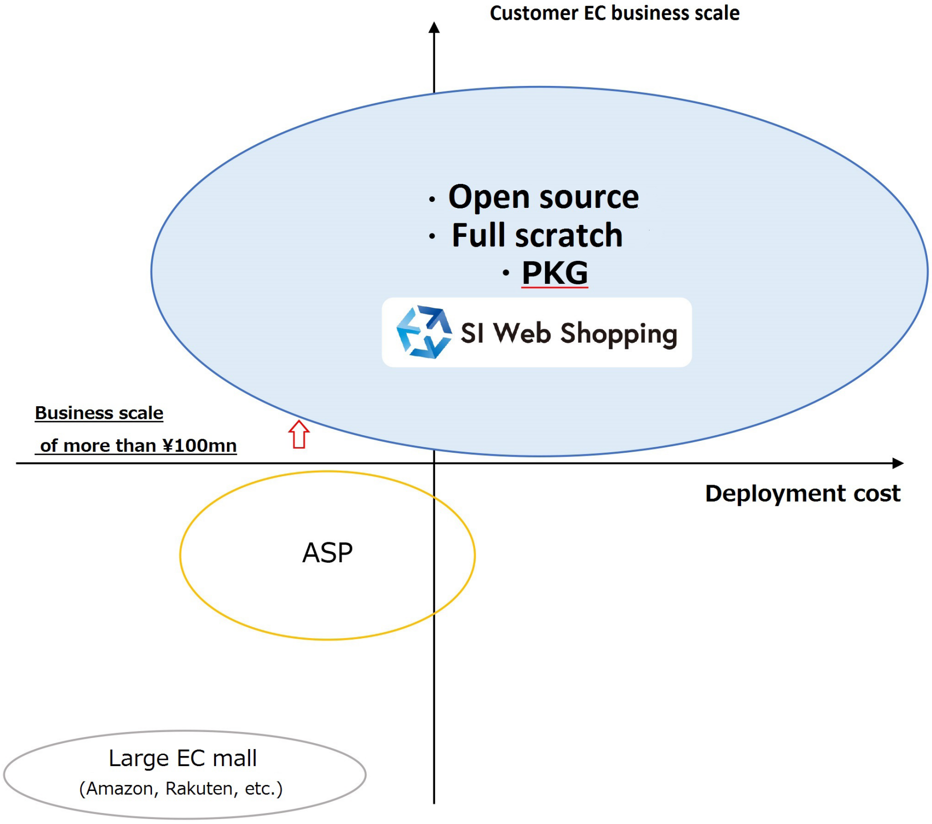
* Waterfall-type system refers to the development methodology of developing systems by moving through a series of processes – basic plan, external design, internal design, program design, programming, and tests. Since this assumes not returning to previous processes, it is similar to a “waterfall” in which water does not return from downstream to upstream.

### 2. E-Commerce Business

The E-Commerce Business mainly develops and sells the Company’s mainstay product of SI Web Shopping, which is Japan’s first EC sites construction package. A feature of SI Web Shopping is its strength in large-scale EC sites. More specifically, if possesses scalability, being able to process large-volume transactions for sales amounts of several tens of billions of yen; high-level security functions; mobile-compliance functions, including for its use with smartphones; and is also compliant with multiple languages, such as English and Chinese, while it is also possible to customize it by adding functions to meet the needs of other customers, and to connect to existing systems such as ERP. The Company has built EC sites at more than 1,100 companies since the release in 1996 (active sites are just under 10%). It possesses robust development knowhow and advanced technology capabilities as strengths.

Looking at positions in the EC site-building package industry, while the Company, SOFTCREATE HOLDINGS CORP.<3371> subsidiary ecbeing Corp. (with a record of building for over 1,300 companies), and Estore Corporation <4304> subsidiary Commerce21 Corporation (with a record of building for over 300 companies) dominate products supplied to large operators, competition with system integrators (SIers) has been increasing recently. Needs are increasing to add to EC website-build packages functions to link with other business systems. So although the unit price per order was previously on a scale of several tens of millions of year, recently it has have grown in scale to around ¥100mn to ¥200mn. The percentage of total sales provided by recurring revenue is 18.1% (FY2/21 result), which is relatively low within the Company, although the earnings period tends to fluctuate due to increases or decreases in development projects and depending on productivity.

SI Web Shopping target range

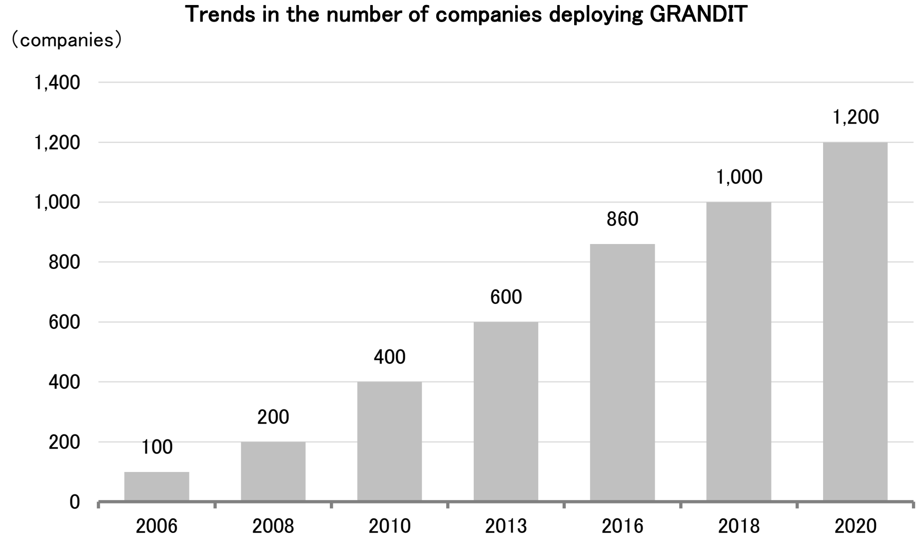



Source: The Company's results briefing materials

### 3. ERP/AI Business

The ERP/AI Business develops and sells (installs) the GRANDIT full Web-based ERP packaged software. This software is sold by a consortium of 13 IT companies. Since this consortium was established in 2004, the Company has been involved in planning and developing a new software product and has contributed to the market diffusion of this product. The GRANDIT Web-ERP packaged software is targeted to medium-sized companies with a few ten billion yen in annual sales, but recently deployments for major companies have also started to increase, and it has been sold to more than 1,200 companies by the consortium. A distinctive feature of the GRANDIT software is that it is an ERP that is completely based on the Web. Therefore, customers can easily upgrade their software without maintenance. The software can also be used on smart devices. As the software is independent of hardware, it can be used anywhere in the environment where the Web operates. Because the GRANDIT software is jointly developed by the consortium of 13 companies, it offers a highly competitive performance. GRANDIT 3.1, the latest version released in June 2020, provides API functions as standard, and it continues to evolve daily, including realizing mutual linkage with SFA and other sales support systems.

Trends in the number of companies deploying GRANDIT




Source: Prepared by FISCO from the GRANDIT CORPORATION's materials

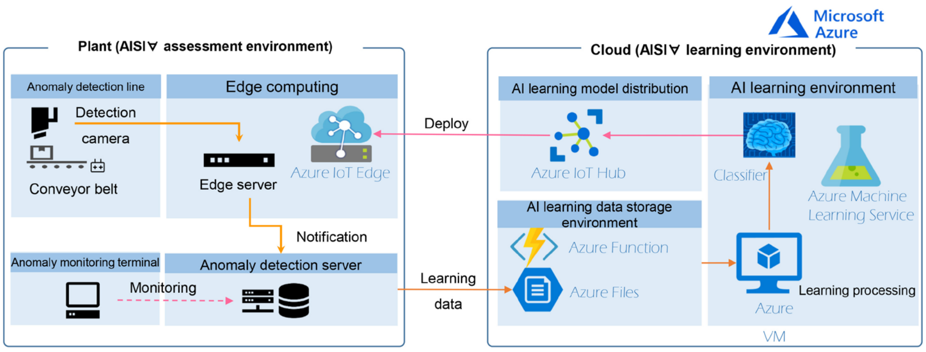
The Company has the leading track record of deployments among the members of the consortium, having deployed it into hundreds of companies, and it received the GRANDIT AWARD Prime Partner of the Year, as the leading sales company, six times during the 12 years that the Awards were held from 2008 to 2019. Its strengths include its in-house developments, including the "production management add-on module" and the "continuous transaction management add-on module" as an add-on module to supplement GRANDIT's basic functions for the manufacturing industry, and the "project management template (IT template)" that coordinates with OBPM for the software industry, and also that it has development capabilities enabling it to respond with a wide range of solutions. Its other strengths include that it is able to provide proposals for business automation through combining RPA and AI, and that it can provide integrated services based on the public Cloud, such as AWS and Microsoft Azure.

The scale of the domestic ERP market continued on an expansion trend with more than ¥120bn in FY2020, a growth of 6% on the previous fiscal year. In the background to this growth is that, as part of their digital transformation measures, companies are continuously working to rebuild mission-critical systems, and also that the movement to migrate from on-premises to the Cloud is becoming increasing active. Going forward, SAP <SAP>, which is the largest ERP company, announced that it will end support for the maintenance of existing systems in FY2027, and companies, particularly major companies, are shifting from their existing systems to next-generation ERP. In addition, as the trend to switch to other ERP continues, it is forecast that the market will continue to grow by close to 10% a year.

ERP vendors are being segregated according to the scale of their customers, and SAP and Oracle <ORCL> are strong for major companies. The Company's target customers are mainly medium-sized companies, which means that its competitor products include GLOVIA of Fujitsu <6702> and OBIC7 of OBIC <4684>. Also, alongside the diversification of customer needs in recent year, there has been a trend for ordered projects to become larger in scale, of around ¥300mn to ¥500mn per project. It is not possible to generalize about the gross profit margin as it varies depending on the product configuration and specifications, but on average, it ranges from 25% to 29%, while the operating profit margin is trending in the upper single-digit range, if excluding unprofitable projects. GRANDIT has been provided through a subscription model since March 2019, and while its track record is still small, its percentage of sales from recurring income is around 20%, including from maintenance services.

As the AI business, in October 2018, the Company released AISI∀-AD (Anomaly Detection), a system that uses image-recognition technologies and deep learning to detect anomalies. AISI∀-AD is a system that uses deep learning technologies to automate what were previously visual inspection processes conducted by people on manufacturing lines. The system configuration is that for the deep learning, it uses Microsoft's AzureCloud, which establishes the optimal environment for learning, and for anomaly detection processing, it uses an edge computer that is able to make high-speed determinations in real time. The targets of the detection and the required accuracy differ according to the customer, so it is necessary to establish specifications for each individual project. On deploying a system, partner companies sell the hardware, like cameras and computers, while the Company incurs costs for the AISI∀-AD verification tests, and it records deployment and management-support fees in sales. For the deployment fees, it is targeting around ¥5mn per line. The Company's ERP products have a track record of many deployments for the manufacturing industry, and its strategy is to utilize the business knowledge it has accumulated through ERP deployments to progress customer acquisitions.

Image of AISI∀-Anomaly Detection in use




Source: The Company's results briefing materials

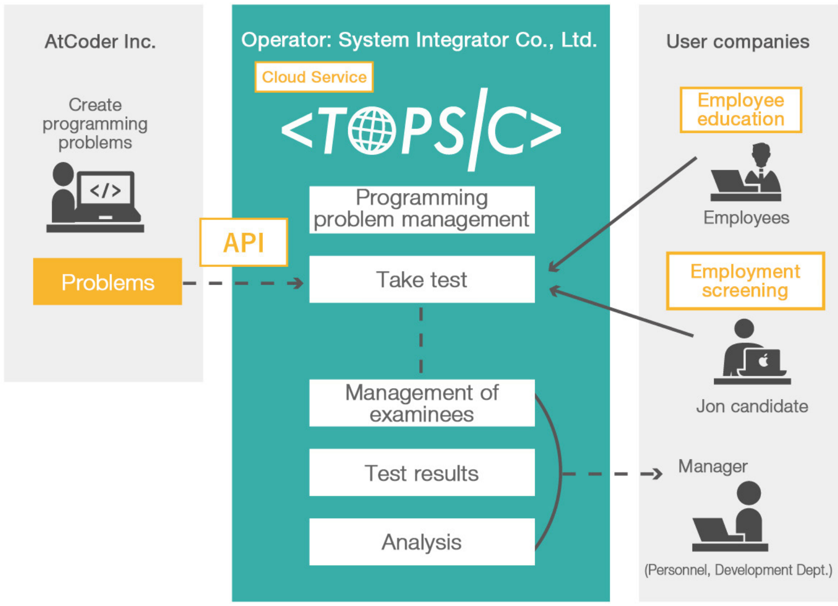
### 4. Other Business

The Other Business includes new businesses. TOPSIC, the programming skill evaluation service launched in January 2018, is a service that is already contributing to sales. This service checks the skill level of the test taker by issuing problems and evaluating the ability of the algorithm, a common skill that does not rely on the programming language, in an online format with a combination of six difficulty stages. Applications include screening in the process of hiring engineers, use as an educational and training tool for employees, and use as a skill check for selection of outsourcing companies. Furthermore, since it supports multiple languages, TOPSIC can be applied to hiring foreign engineers and selection of offshore companies. The Company provides this service to more than 130 companies (including schools) as of end-February 2021.

The fee plans are divided into a usage system (billing according to the number of times) and a fixed fee system (billing according to the number of people). In the case of the usage system, the standard plan is an annual basic fee of ¥38,000 and a fee per exam taken of ¥19,000. In the case of the fixed fee system, the standard plan is an annual basic fee of ¥300,00, to which is added an annual usage fee according to the number of persons using it (the standard plan is provided at a 10% discount for schools). The competitor to this programming skills evaluation service is "track" from Givery Inc. Its main differences with the Company's service are that it has a broader range that covers the upstream design area to the programming area, and that it is equipped not only with test functions, but with learning functions as well. Therefore, its service fee has been set to be slightly more expensive than the Company's service, while the Company's service is considered to be superior in terms of ease of use when customers want to simply check the programming skills of engineers.

Alongside the improvement in the name awareness of TOPSIC, since 2018 the Company has been holding PG Battle, a tournament in which companies and schools compete against each other in programming battles using TOPSIC. One team is comprised of 3 people, and they write 4 programs in 90 minutes to solve the submitted problems and then submit their solutions online, and the teams compete on the basis of their total scores and the times required for the 3 team members. In the first tournament, a total of 260 teams of both companies and schools, and 780 people participated. In the third tournament held in October 2020, 459 teams and 1,377 people participated, and it is growing larger in scale year by year.

TOPSIC service




Source: The Company's website

# Results trends

## In FY2/21, sales and profits decreased due to the occurrence of unprofitable projects and the impact of COVID-19

### 1. Overview of FY2/21 results

In FY2/21, sales and profits decreased for the first time in four fiscal periods, with net sales decreasing 6.5% YoY to ¥4,258mn, operating profit declining 37.0% to ¥416mn, ordinary profit falling 36.2% to ¥423mn, and net profit decreasing 36.1% to ¥293mn. In the E-Commerce Business and the ERP Business, the ordering environments were strong even during the COVID-19 pandemic. But the main reasons for the declines in earnings were that sales slumped in the Object Browser Business and that in the ERP Business, comparatively large-scale unprofitable projects occurred and the Company allocated human resources in order to deal with them.

FY2/21 results

(¥mn)

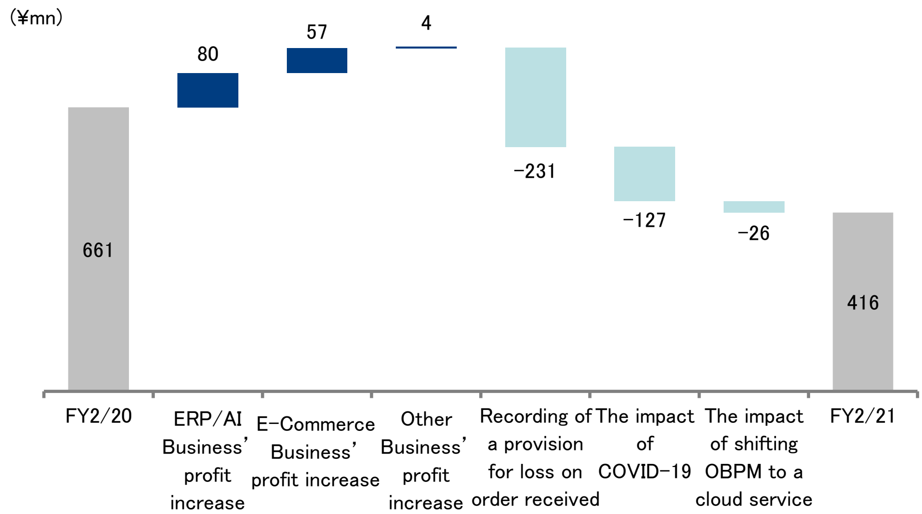
| | FY2/20 | | FY2/21 | | | | |
|---|---|---|---|---|---|---|---|
| | Result | % of sales | Company forecasts | Result | % of sales | YoY | Vs. forecast |
| Net sales | 4,554 | - | 4,400 | 4,258 | - | -6.5% | -3.2% |
| Gross profit | 1,755 | 38.6% | - | 1,409 | 33.1% | -19.7% | - |
| SG&A expenses | 1,094 | 24.0% | - | 993 | 23.3% | -9.3% | - |
| Operating profit | 661 | 14.5% | 500 | 416 | 9.8% | -37.0% | -16.7% |
| Ordinary profit | 664 | 14.6% | 503 | 423 | 10.0% | -36.2% | -15.7% |
| Net profit | 458 | 10.1% | 347 | 293 | 6.9% | -36.1% | -15.5% |

Note: FY2/21 Company forecasts are those announced in August 2020.
Source: Prepared by FISCO from the Company's financial results

Looking at the factors causing operating profit to increase and decrease, the increase factors were ¥80mn in the ERP/AI Business (excluding the provision for loss on order received), ¥57mn in the E-Commerce Business, and ¥4mn in the Other Business, while the decrease factors were the recording of a provision for loss on order received of ¥231mn due to the occurrence of unprofitable projects, a sales decrease of ¥127mn, mainly in the Object Browser Business, due to COVID-19, and ¥26mn as the effect of shifting OBPM to a cloud service. If excluding the impact of unprofitable projects, operating profit decreased only slightly, down 2.0% YoY. SG&A expenses declined ¥101mn, but this was mainly due to a reduction in R&D costs and in various other costs following the shift to a teleworking system.

Looking at the comparison with the Company forecasts announced in August 2020, net sales were 3.2% below and operating profit was 16.7% below their respective forecasts. Against the backdrop of the active conditions in the EC market, results in the E-Commerce Business were higher than forecast, but in the ERP/AI Business, both sales and profits were lower than forecast. The main reasons why profits were less than forecast were that some time was required to deal with the unprofitable projects, and within the results, the provision for loss on order received increased from the initially expected amount of ¥127mn to ¥231mn. The Company has already dealt with the unprofitable projects and plans to record sales in FY2/22, and moreover it seems that there is no risk of additional costs being incurred.

Operating profit increase/decrease factors




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

## The E-Commerce Business was the only business to secure higher sales and profits, and sales and profits decreased in the other two businesses

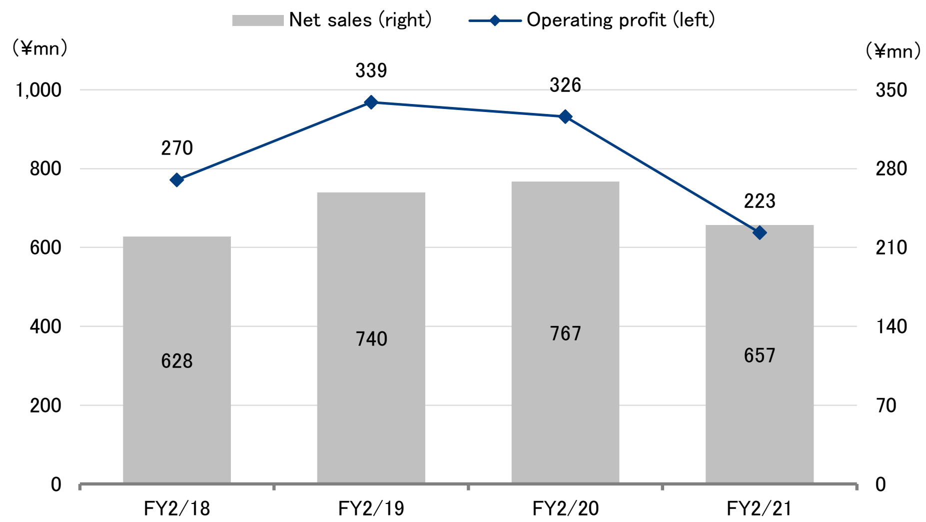
### 2. Results by business segment

#### (1) Object Browser Business

In the Object Browser Business, net sales decreased 14.4% YoY to ¥657mn and operating profit declined 31.7% to ¥223mn. The main factors behind the decrease in sales and profits were that during the COVID-19 pandemic, companies' consumer interest declined, and therefore sales of the mainstay Object Browser series fell greatly by 20% YoY. For OBPM also, net sales fell temporarily due to the effects* of the transition of the sales model, from the license sales model to the cloud-service model.

* From FY2/21, it has conducted only cloud-type sales for projects with 200 or fewer licenses, and conducts sales activities mainly for the cloud-type for projects with more than 200 licenses as well. Also, all sales will be for the cloud-type from FY2/22 onwards.

Object Browser Business




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

In April and May following the Japanese government's declaration of a state of emergency, sales of the Object Browser series fell by a level of approximately 50% compared to the same months in the previous year, although from June onwards a moderate recovery was seen. However, alongside the arrival of the pandemic's third wave in the fall, the extent of the sales decrease grew once again. As its measures to recover sales, the Company acquired certification as products eligible for IT deployment subsidies from the government, while it is also focusing on digital marketing, such as online advertisements and holding online seminars, and the effects of these measures have started to appear. In addition, in February 2021 it started providing products through a subscription model and the plan is to accelerate the increase in the percentage of sales from recurring income in the future.

The OBPM sales model has been shifted to a cloud service model, which led to the decline in sales. But it seems sales were around the same level YoY if excluding this factor. As one sales measures, in July 2020 the Company launched sales of Bugyo API Linkage Option that links to the ERP product Kanjo Bugyo Cloud*, and it worked to increase sales to SMEs. However, its contribution to sales was limited.

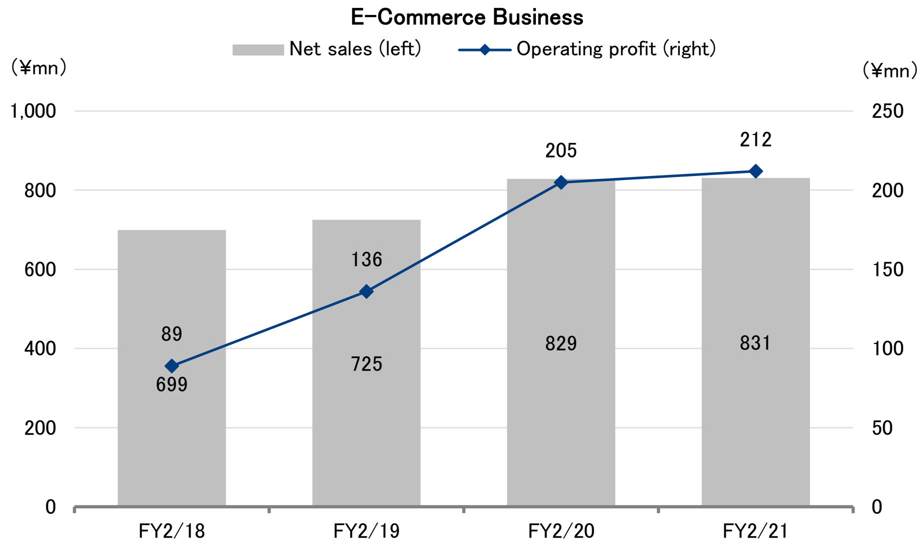
* Among the ERP products of OBIC Business Consultants Co., Ltd. <4733>, the cloud accounting system that has the No.1 share for ERP deployments in medium-to-large and medium-scale companies.

For OBDZ, which is an application design tool, since the release of the completely web-based version (monthly fee model) with significantly improved performance in June 2019, the number of companies deploying it has steadily increased. However, the pace of this increase has slowed due to the impact of COVID-19, so achieving the initial target of 100 companies has been pushed-back until FY2/22 or later.

**(2) E-Commerce Business**

The E-Commerce Business was able to secure an increases in sales and profits, if only slightly, with net sales rising 0.2% YoY to ¥831mn and operating profit growing 3.0% to ¥212mn. In the 1H, due to the impact of COVID-19 the speed of customer decision-making slowed and the timing of contracts for new projects was postponed, so sales declined. However, from the 3Q onwards, these postponements were recovered and both sales and profits increased compared to the same period in the previous fiscal year. The profit margin also continues to trend upward due to the success of the measures to review the development method and improve operations that started being implemented two years ago.

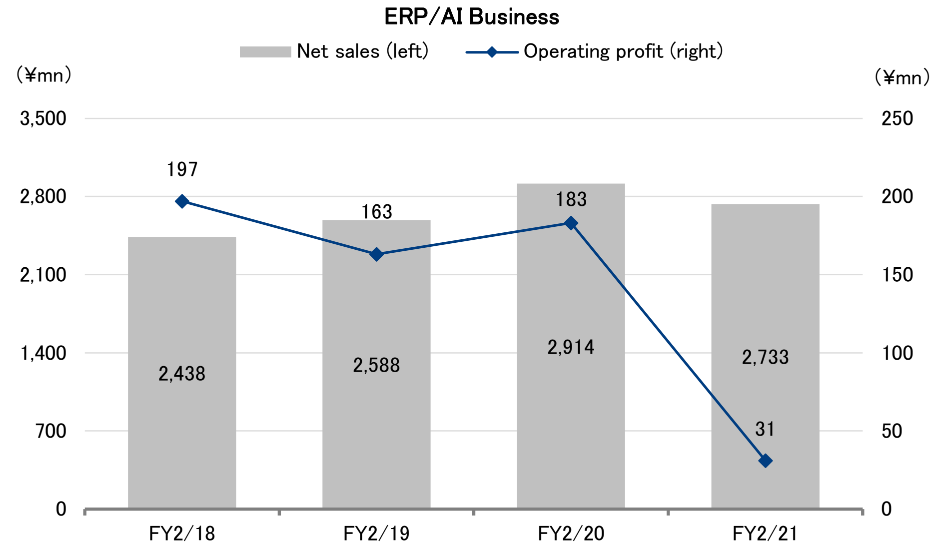
In order to strengthen the product's competitiveness, in June 2020 the Company released SI Web Shopping Ver.12.8 based on a security diagnosis by a third-party evaluating institution, which further bolstered the "robust security" that is a strength of this product. In addition, in September of the same year, it released a version with a function to link to PayPay as standard for compliance with this cashless payment service, and in such ways, it has worked to expand functions.



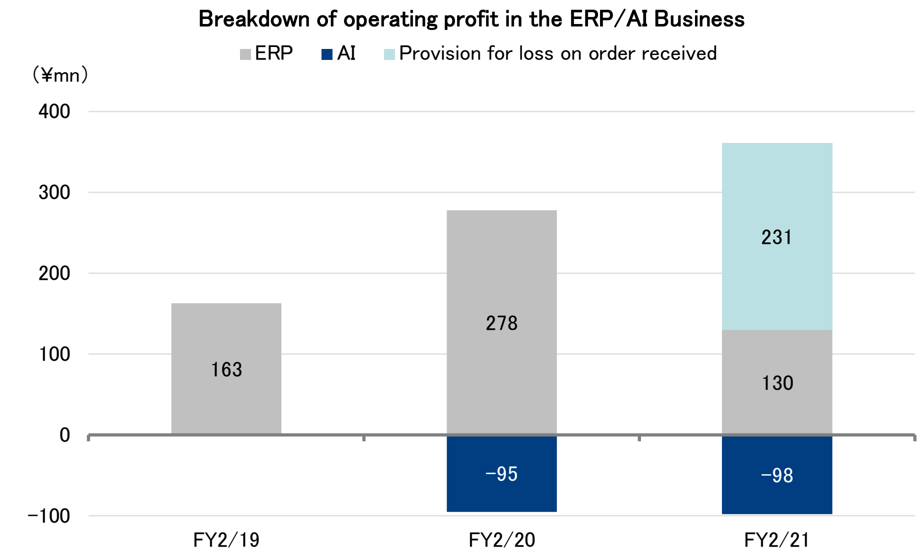

Source: Prepared by FISCO from the Company's financial results

### (3) ERP/AI Business

In the ERP/AI Business, net sales decreased 6.2% YoY to ¥2,733mn and operating profit declined 82.6% to ¥31mn. Within these results, sales and profits declined in the ERP Business, with net sales decreasing 6.2% to ¥2,724mn and operating profit declining 53.1% to ¥130mn. The ERP market continues to grow even during the COVID-19 pandemic, but as previously stated, the occurrence of unprofitable projects was the main factor behind the decreases. If excluding the impact of the provision for loss on order received of ¥231mn (portion for the increase in development costs), operating profit increased 30%, and the profitability of the development projects other than the unprofitable projects improved greatly compared to in the previous fiscal period.




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

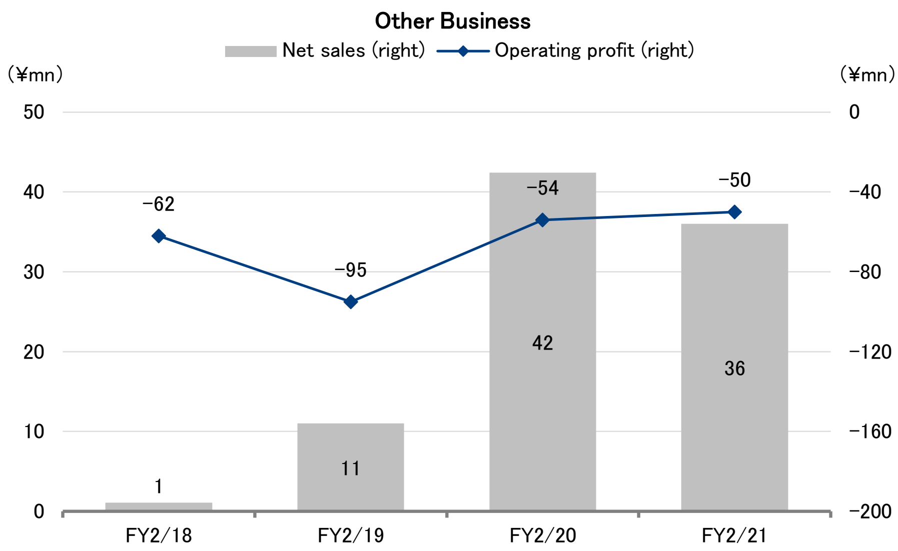



Note: FY12/19 values are the totals for the ERP Business and the AI Business
Source: Prepared by FISCO from the Company's financial results and results briefing materials

In the AI Business, net sales decreased 4.4% YoY to ¥8mn and the operating loss was ¥98mn (a loss of ¥95mn in the previous system). For AISI∀-AD (a deep-learning anomaly detection system), there have been many inquiries from companies for its use in the visual inspection process in factories (the verification targets include transportation-equipment parts, PET bottle caps, electrical-equipment materials, and film products). The Company is accumulating expertise while conducting proof-of-concepts and other measures, and it is working to strengthen this product and to improve its solution capabilities. The initial target for net sales was ¥100mn, which assumed the contribution of a practical-application project, but the practical-application period has been pushed-back until the 2H of FY2/22, which is the main reason why sales have not reached this target. Various projects are being progressed under a structure of a three person sales team and a seven to eight person development team, so it is being positioned as still in the investment phase.

**(4) Other Business**

In the Other Business, net sales decreased 13.2% YoY to ¥36mn and the operating loss was ¥50mn (a loss of ¥54mn in the previous period). Due to the impact of COVID-19, the number of companies cancelling their contracts for TOPSIC, a programming skills evaluation service, increased, so the growth in the number of contracts was sluggish and net sales also declined ¥5mn YoY. Of this amount, ¥3mn was from the reduction in sponsor fees for the PG Battle programming contest.




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

## Has an excellent financial position with debt-free management

**3. Financial position and management indicators**

At the end of FY2/21, total assets had increased ¥209mn on the end of the previous fiscal year to ¥3,498mn. Looking at the main increase and decrease factors, in current assets, there were increases in cash and deposits of ¥177mn and work in process of ¥194mn, while accounts receivable–trade decreased ¥381mn. In non-current assets, there were increases in software (including software in progress) of ¥167mn, property, plant and equipment of ¥22mn, and investment and other assets of ¥65mn. Software increased following the developments of in-house products, including OBPM Neo.

Total liabilities increased ¥42mn on the end of the previous fiscal period to ¥1,066mn. This was because while there were declines in accounts payable–trade of ¥102mn and income taxes payable of ¥46mn, the provision for loss on order received increased ¥231mn. Also, net assets increased ¥167mn to ¥2,431mn. Retained earnings rose ¥149mn due to the recording of net profit of ¥293mn and dividends paid of ¥143mn.

Looking at the management indicators, the equity ratio rose from 68.9% at the end of the previous period to 69.5%, and it continues to be maintained at a high level. The current ratio is also at a level of above 200% and the Company has no interest-bearing debt, so its financial condition can be judged to be excellent. For the indicators of profitability, both the operating profit margin and ROE declined, mainly due to the occurrence of unprofitable projects. But these declines were because of temporary factors and they are forecast to once again rise once the unprofitable projects are dealt with.

Balance sheet and financial indicators

(¥mn)

| | FY2/18 | FY2/19 | FY2/20 | FY2/21 | Change |
|---|---|---|---|---|---|
| Current assets | 2,789 | 2,094 | 2,589 | 2,544 | -45 |
| (Cash and deposits) | 917 | 1,319 | 1,296 | 1,473 | 177 |
| (Work in process) | 1,104 | 49 | 134 | 329 | 194 |
| Non-current assets | 399 | 672 | 698 | 953 | 254 |
| Total assets | 3,189 | 2,766 | 3,288 | 3,498 | 209 |
| Total liabilities | 1,619 | 734 | 1,024 | 1,066 | 42 |
| (Provision for loss on order received) | 982 | 6 | 0 | 231 | 231 |
| (Interest-bearing debt) | - | - | - | - | - |
| Total net assets | 1,570 | 2,031 | 2,264 | 2,431 | 167 |
| (Retained earnings) | 781 | 1,255 | 1,536 | 1,686 | 149 |
| Financial indicators | | | | | |
| (Stability) | | | | | |
| Current ratio | 174.4% | 285.0% | 255.7% | 238.5% | -17.2pt |
| Equity ratio | 49.2% | 73.4% | 68.9% | 69.5% | 0.6pt |
| (Profitability) | | | | | |
| ROE | 24.5% | 32.2% | 21.3% | 12.5% | -8.8pt |
| Operating profit margin | 13.1% | 13.4% | 14.5% | 9.8% | -4.7pt |

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

# Outlook

## The outlook for FY2/22 is for sales and profits to increase by double digits, driven by the ERP Business and the E-Commerce Business

### 1. Forecasts for FY2/22

The forecasts for the FY2/22 results are for sales and profits to increase by double digits, with net sales increasing 13.9% YoY to ¥4,850mn, operating profit rising 51.2% to ¥630mn, ordinary profit growing 50.1% to ¥636mn, and net profit increasing 51.8% to ¥445mn. In the Object Browser Business, the negative effect of shifting OBPM to a cloud service will continue, so earnings are forecast to decline. But earnings will recover dramatically in the ERP/AI Business following the end of the impact of the provision for loss on order received, while sales and profits will continue to increase in the E-Commerce Business, and these businesses will drive earnings.

At the present time, the ordering environments are excellent in both the ERP Business and the E-Commerce Business, and the situation seems to be that the Company cannot respond to all the inquiries due to the issue of human resources. Therefore, it seems that the risk of sales being less than forecast is small. For profits also, we at FISCO think it is highly likely to achieve the forecasts as long as there are no unprofitable projects as in the previous period. In order to "reduce unsuccessful projects," the Company has selected Managing Director Usui, who demonstrated his capabilities to transform the E-Commerce Business into a profitable business, to be responsible for supervising development, and the organizational structure is being improved by sharing expertise across all business departments, which is leading to improved profitability on a company-wide basis. The number of new graduates recruited in the spring of 2021 was 6, half the number in the previous year, including due to COVID-19, but the plan is to recruit more than 20 people in 2022. Recruiting mid-career hires becomes more difficult each year, so the plan is to strengthen development resources by increasing the recruitment of new graduates more than up to the present time.

### Forecasts for FY2/22

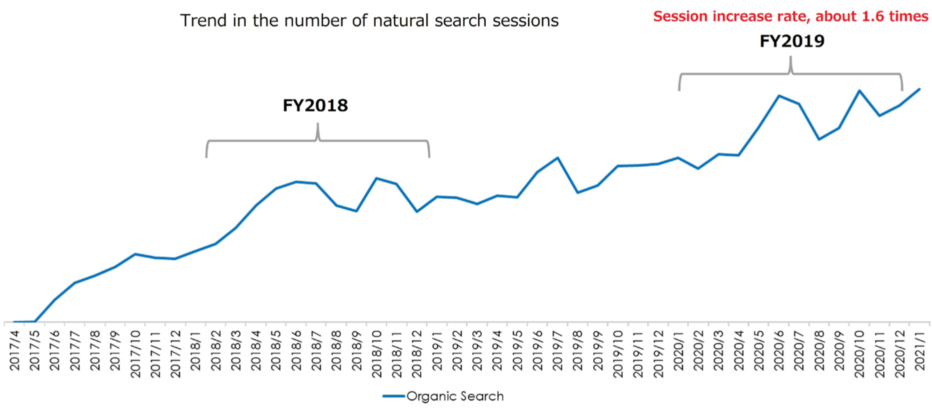
(¥mn)

| | FY2/21 | | FY2/22 | | | |
|---|---|---|---|---|---|---|
| | Full-year result | YoY | 1H forecast | YoY | Full-year forecast | YoY |
| Net sales | 4,258 | -6.5% | 2,262 | 5.1% | 4,850 | 13.9% |
| Operating profit | 416 | -37.0% | 252 | 80.0% | 630 | 51.2% |
| Ordinary profit | 423 | -36.2% | 253 | 73.7% | 636 | 50.1% |
| Net profit | 293 | -36.1% | 177 | 77.4% | 445 | 51.8% |
| Earnings per share (¥) | 26.62 | | 16.07 | | 40.40 | |

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

Also, during the ongoing COVID-19 pandemic, the Company is continuing with the teleworking system, while for sales, it is focusing on digital marketing, including online seminars and Internet advertisements. Deploying tools such as MA (marketing automation) and SFA (Salesforce) and progressing the content marketing strategy has led to the number of inflows by natural searches to the Company's homepage increasing by 1.6 times in two years, and this is contributing to acquisitions of new projects. It is considered that in FY2/22 as well, progressing the same measures will lead to an increase in orders.

### Strengthening digital marketing




Source: The Company's results briefing materials

## The E-Commerce Business and the ERP Business have inquiries exceeding capabilities, and the earnings environment continues to be excellent

### 2. Outlook by business segment

Outlook by business segment

(¥mn)

| | FY2/18 | FY2/19 | FY2/20 | FY2/21 | FY2/22 E | YoY |
|---|---|---|---|---|---|---|
| Net sales | 3,767 | 4,066 | 4,554 | 4,258 | 4,850 | 13.9% |
| Object Browser Business | 628 | 740 | 767 | 657 | 710 | 8.1% |
| E-Commerce Business | 699 | 725 | 829 | 831 | 1,000 | 20.3% |
| ERP/AI Business | 2,438 | 2,588 | 2,914 | 2,733 | 3,080 | 12.7% |
| Other Business | 1 | 11 | 42 | 36 | 60 | 63.0% |
| Operating profit | 494 | 544 | 661 | 416 | 630 | 51.2% |
| Object Browser Business | 270 | 339 | 326 | 223 | 180 | -19.4% |
| E-Commerce Business | 89 | 136 | 205 | 212 | 250 | 17.9% |
| ERP/AI Business | 197 | 163 | 183 | 31 | 292 | 819.5% |
| Other Business | -62 | -95 | -54 | -50 | -92 | - |
| Operating profit margin | 13.1% | 13.4% | 14.5% | 9.8% | 13.0% | |
| Object Browser Business | 43.0% | 45.8% | 42.6% | 34.0% | 25.4% | |
| E-Commerce Business | 12.8% | 18.9% | 24.8% | 25.5% | 25.0% | |
| ERP/AI Business | 8.1% | 6.3% | 6.3% | 1.2% | 9.5% | |
| Other Business | - | - | - | - | - | |

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

#### (1) Object Browser Business

In the Object Browser Business, the forecasts are for an increase in sales but a decrease in profits, with net sales to rise 8.1% YoY to ¥710mn and operating profit to fall 19.4% to ¥180mn. Due to the impact of COVID-19, Object Browser sales are expected to be at the same level as in the previous fiscal year, and instead, OBPM will drive the sales growth. The rebranded OBPM Neo cloud service, a completely web-based version of OBPM, was launched in March 2021. OBPM Neo does not rely on a client environment and can be used by project members anytime and anywhere. In the IT industry, DX projects linked to overseas bases are increasing, while this product can also now respond to a teleworking system, and the Company's policy is to increase its sales as an integration-type project management tool in remote environments. For new customers, it intends to provide all services through a subscription model, while for existing customers as well, it is sequentially switching them to the subscription model.

The main reason for the forecast of a decrease in profits despite the higher sales is the increase in depreciation expenses for OBPM Neo, which was developed over two years. Also, the temporarily sluggish profit growth due to the transition to the subscription model will continue up to FY2/23, but it is forecast to contribute to an increase in profits and improved profitability from FY2/24 onwards. In the last two years, the Company has focused on developing OBPM Neo, so it was not able to allocate resources to enhancing functions, but its policy going forward is to acquire customers while working to enhance functions. It appears that OBPM Neo is being highly evaluated by customers, so further growth is expected in the future.

For OBDZ, the Company works to improve functions at any time through feedback from users, and it is working to increasing the number of companies deploying it by further strengthening the product's capabilities. It is considered that potential demand for it is large as a tool that contributes to improving productivity and quality through standardizing the design process and to reducing maintenance costs, so sales are expected to grow in the future.

**(2) E-Commerce Business**

The forecasts in the E-Commerce Business are for double-digit growth, with net sales to increase 20.3% YoY to ¥1,000mn and operating profit to rise 17.9% to ¥250mn. Against the backdrop of the expansion of the EC market, inquiries are increasing for projects to build large-scale EC websites, and the current situation is that the Company is so busy that it has to select orders according to its capabilities. Therefore, is seems that the Company forecasts can be achieved as long as there are no delays to development projects in the future. The reasons for the forecast of a slight decline in the profit margin include that there were some highly profitable projects in the previous period, and at FISCO, we view it as a conservative forecast.

An issue in the future will be expanding development resources in order to be able to respond to the strong demand. In addition to finding outsourcing partners, the Company plans to utilize overseas resources as well, including newly establishing a development base in Vietnam from 2022 or later.

**(3) ERP/AI Business**

The outlook for the ERP/AI Business is for higher sales and profits, with net sales to increase 12.7% YoY to ¥3,080mn and operating profit to rise 819.5% to ¥292mn. Of these amounts, in the ERP Business, net sales are expected to increase 10.1% to ¥3,000mn and operating profit to rise 179.2% to ¥365mn. Profits are calculated to increase by 1% if excluding the provision for loss on order received of ¥231mn that was recorded in the previous period. Alongside the increase in companies' DX investment, ERP development demand is also strong, and at the present time the ordering environment is excellent to the extent that the Company cannot respond to all order requests. Together with expanding development resources, it intends to strengthen the project management system, and at FISCO we think it is highly likely to achieve the forecasts as long as there are no unprofitable projects as in the previous period.

Conversely, in the AI Business, the forecasts are for net sales to increase 816.7% YoY to ¥80mn and an operating loss of ¥73mn (a loss of ¥98mn in the previous period). A project for the practical application of AISI∀-AD at a manufacturing site is expected in the 2H, and net sales are forecast to increase from ¥11mn in the 1H to ¥69mn in the 2H. The Company has conducted proof-of-concepts for multiple companies up to the previous period, and of these, two companies plan to deploy it at manufacturing sites. Of these companies, one deployment is for a film manufacturer, and it will be a highly accurate automated inspection system such as to detect scratches and dirt on film on high-speed lines, through the use of cameras, AI, edge computers, and other technologies. With this project as a success case study, it is conducting horizontal development for the film industry in parallel with progressing proof-of-concepts and related activities for other manufacturing industries, with the intention of accumulating a track record of developments. Therefore, at the current time it is being positioned as in the upfront investment stage.

**(4) Other Business**

The forecasts for TOPSIC are for net sales to increase 63.0% YoY to ¥60mn and an operating loss of ¥92mn (a loss of ¥50mn in the previous period). The loss is forecast to increase because it incorporates new product development costs of ¥34mn. Currently, two products are being developed, including a CRM support tool, and the aim is to complete them during FY2/22 after first utilizing them in-company.

The Company plans to acquire customers for TOPSIC by enhancing the services menu. In February 2021, it released TOPSIC-SQL for SQL, which is a database-related language frequently used in business systems, and it is progressing customer acquisition for IT companies. Previously, only TOPSIC-PG checked algorithm capabilities, which is the foundation of programming, so by enhancing the services menu, the number of contracts is forecast to increase. The programming contest PG Battle is scheduled to be held in 2021 also, with the aim of further improving name awareness through this event.

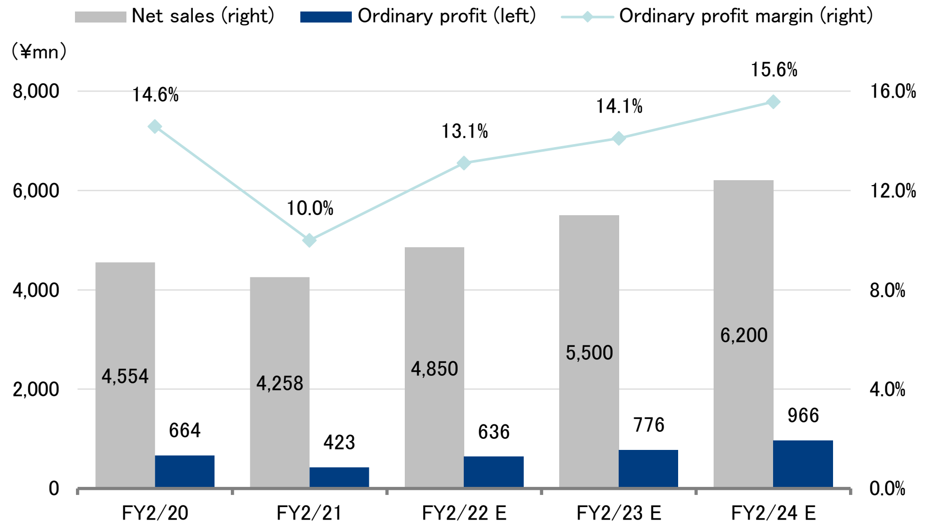
## In the new medium-term business plan, is aiming for net sales of ¥6,200mn and ordinary profit of ¥966mn in FY2/24

### 3. Medium-term business plan

The Company has announced SDGs Mind 2021, its new medium-term business plan. The reason for including SDGs in the plan's name is that the Company's two philosophies are consistent with the concept behind the SDGs. The first philosophy is that "We consistently create software that creates time rather than consumes times", while the second philosophy, as the meaning for the Company's existence (shared with employees), is "We aim to not merely survive, but to continuously provide value to society."

The plan's numerical targets for FY2/24 are net sales of ¥6,200mn and ordinary profit of ¥966mn. The outlook is for new record high results in FY2/23, while the ordinary profit margin will also reach the record high level of 15.6% in FY2/24. In addition, it is aiming for double-digit annual growth rates for the three-year CAGR, of net sales of 13.3% and ordinary profit of 31.6% (13.8% if excluding the provision for loss on order received). In the mainstay E-Commerce Business and ERP Business, the Company expects double-digit annual growth rates with continued favorable market environments. In the Object Browser Business, net sales are forecast to be strong. The reason why the ordinary profit margin will rise to the 15% range in FY2/24 is that the negative impact on earnings of OBPM being made a cloud service will have ended and that the start of its positive contribution will be significant. In order to continue the double-digit annual growth rates, it will be necessary to supplement human resources, so the Company's policy is to supplement them including by strengthening recruitment of new graduates and by establishing overseas development bases.

Results target



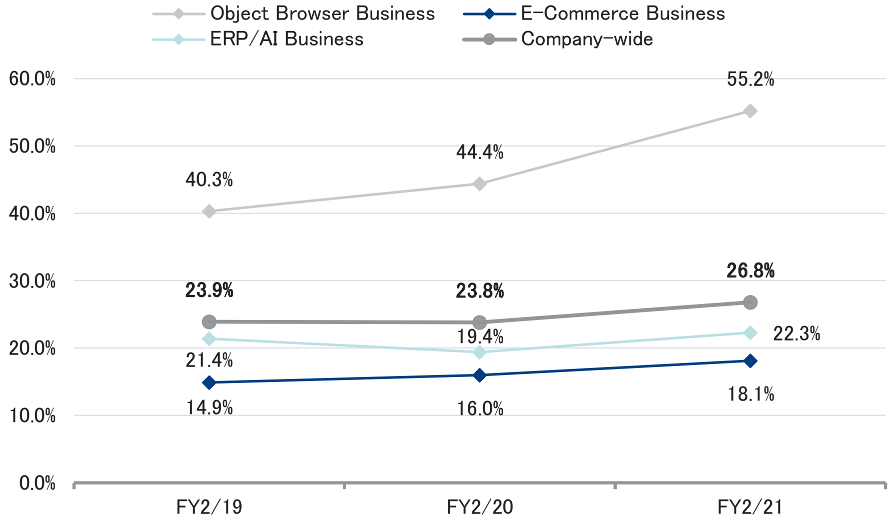

Source: Prepared by FISCO from the Company's results briefing materials

As the priority measures to achieve the numerical targets, the Company is working on the following five measures.

**(1) Existing businesses**

In the existing businesses, the Company is aiming for double-digit annual growth rates for net sales through increasing the number of customers by improving brand power and by launching new services. It is also increasing the ratio of net sales provided by recurring income through expanding cloud services, and it is building a stable earnings foundation. On a company-wide basis in FY2/21, the recurring income ratio rose from 23.8% in the previous period to 26.8%, and the recurring income ratio is forecast to rise even further through the provision of cloud services for new products that will be launched in the future.

Ratio of recurring-revenue businesses




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

**(2) Overseas development**

In the spring of 2022, the Company will establish a development subsidiary in Vietnam with the aim of growing sales by expanding overseas resources. It will send four Vietnamese nationals currently working at the head office to the Vietnamese subsidiary and start with a scale of around 10 employees, although it has in its sights expanding this to a scale of around 100 people eventually. Personnel costs for engineers are inexpensive in Vietnam, so it is expected to contribute to improving cost competitiveness. However, in addition to local companies, many overseas IT companies have entered-into Vietnam, and the key to success will be whether or not recruitment proceeds as planned. In addition, the Company is aiming to develop products and services such as OBPM Neo for the overseas markets.

**(3) New businesses**

In the AI Business, the Company is transitioning AISI∀-AD from the proof-of-concepts stage to the practical-application stage and accumulating the number of deployments. It is expected to become profitable from FY2/25 onwards, so the period up to FY2/24 is being positioned as the investment stage. Conversely, for TOPSIC, it is aiming to increase the number of customers and for it to become profitable by expanding the services menu. Other than these, for new services as well, it plans to actively develop products, including the two previously described products.

**(4) Raise the skill level of employees**

In the last few years, the scale of projects has become larger and more complicated, so in the ERP Business and the E-Commerce Business, the Company is aiming to improve its ability to deal with orders and to improve profitability. Therefore, it has positioned raising the skill level of employees to be an important issue. It continues to focus on engineer training and education, while it is also working to develop projects managers.

**(5) A leading "streamlined company" in Asia**

It is aiming to be a leading streamlined company in Asia through developing and providing various tools that contribute to improving engineers' productivity, as well as utilizing them within the Company.

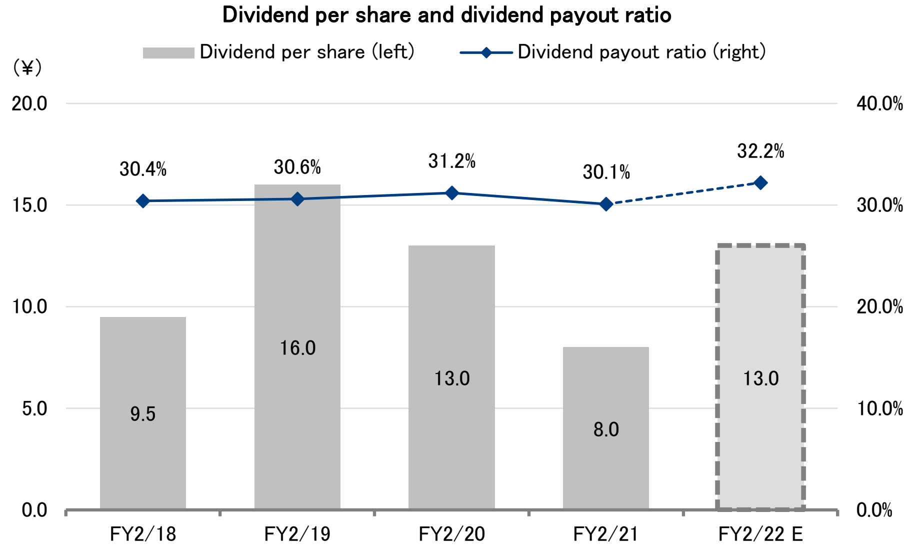
# Shareholder return policy and SDGs initiatives

## Standard dividend payout ratio is 30% based on performance and a gift of Koshihikari rice through shareholder rewards program

**1. Shareholder return policy**

The Company actively works to return profits to shareholders in order to improve its enterprise value. Its dividend policy is to link the dividend to results, with a dividend payout ratio of 30% as the standard. In FY2/21, profits declined but it maintained the dividend payout ratio, and therefore the dividend per share decreased ¥5.0 YoY to ¥8.0 (dividend payout ratio, 30.1%). In contrast to this, results are expected to recover in FY2/22, so it plans to increase the dividend per share by ¥5.0 to ¥13.0 (dividend payout ratio, 32.2%). If the dividend payout ratio falls below 30% due to the recovery of results, we can expect the dividend to be increased.

The Company has also introduced a shareholder rewards program with the objective of cultivating stable shareholders who hold their shares for the medium-to long-term. The program is for shareholders who hold at least 200 shares and who are listed under the same shareholder number in the shareholder ledger at the end of August and end of February in each year. The Company rewards newly harvested Koshihikari rice grown in Niigata, using reduced levels of fertilizers and agrochemicals. Shareholders holding from 200 to 999 shares receive a 1kg bag, those holding 1,000 to 3,999 receive a 2kg bag, those holding 4,000 to 15,999 receive a 5kg bag, and those holding 16,000 shares or more receive a 10kg bag, with the gift being delivered each fall after the harvest.




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

## Launch of the SDGs Working Group to progress initiatives for SDGs

### 2. SDGs initiatives

The SDGs Working Group has been newly launched in order to progress initiatives for SDGs, and it is collecting, arranging, and systemizing the opinions of every employee on what the Company can contribute. Through providing products and services, such as in the ERP Business and the Object Browser Business, it is improving work efficiency and creating environments that are easy to work in. In addition, by providing the TOPSIC service, it is contributing to improving the skills of engineers both domestically and overseas. Also, toward improving employees' work environments, it is actively working on measures to promote diversity, including building a system to enable women to work easily, and recruiting people with disabilities and from overseas. In addition, in 2007 it introduced a work-from-home system for employees needing childcare or nursing care, and it recommends that male employees take childcare leave and work from home for childcare. The percentage of female employees who return to work after taking childcare leave is 100%, the percentage of employees taking paid leave is 65.2%, and the employee retention rate is 93.1%, which are all high. Also, the number of non-statutory average overtime hours is low, at 7.1 hours per month (FY2/21). It has been highly evaluated for these initiatives and in 2012, it acquired the gold certification as "a company practicing diverse workstyles" from Saitama Prefecture, while in 2017, it was certified by the Ministry of Health, Labour and Welfare as a "company realizing both work and nursing care (Tomonin) and then in 2019 as a "company supporting parenting (Platinum Kurumin)".

Also, in 2017 the Company was selected as one of the "100 Teleworking Pioneers" by the Ministry of Internal Affairs and Communications, as a company that is actively promoting teleworking. Its teleworking utilization rate is 100%, and even during the COVID-19 pandemic, no particular negative impact on productivity has been seen. It would appear that the Company has also been highly evaluated by students and others for these efforts, and within the IT industry, where the labor shortage has become serious, it is able to recruit excellent human resources comparatively smoothly.

### Initiatives for SDGs

| Global targets | Value provided to society by the Company's products | The Company's initiatives |
|---|---|---|
| 3 | Products, such as ERP, OBPM, and development-support tools, contribute to society by helping people live healthy lives through shortening working hours and eliminating overtime | Creates environments that are easy to work in and realized 7.1 hours per month for the number of non-statutory overtime working hours, an annual rate of taking paid leave of 65.2%, and an employee retention rate of 93.1% |
| 4 | Contribute to improving the skills of engineers domestically and overseas through the TOPSIC service | Enhanced a high-quality education system based on its education policy |
| 5 | ERP, OBPM, and other products contribute to reducing energy consumption by shortening working hours and eliminating overtime | Enhanced the childcare support system, and realized a rate of taking childcare leave of 100% and a return-to-work rate of 100%. Has been certified as "Platinum Kurumin" and "Tomonin" as a company that supports childcare and nursing care. Moreover, it has been highly praised for its activities for female employees and acquired the "Ogino Ginko Award" |
| 7 | Abnormality detection system using AI frees people from conducting visual inspection work that is not suitable for humans | Realized a reduction in working hours and saving energy that is consumed during the night and on holidays |
| 8 | Replaces work previously done manually with AI, thereby contributing to DX | Ranked at the top of the "Ranking of listed companies that are pleasant to work at for a long time" and achieved both worthiness of work and economic growth. Promoted teleworking from an early stage, including being selected as a "Teleworking Pioneer" in 2017 |
| 9 | | Uses its own innovative products in-house and is a model company that practices top-class streamlining in Japan |
| 10 | | Prioritizes diversity and in addition to female employees, it actively recruits people with disabilities and from overseas |

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

## Disclaimer

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