

VINX CORP.

3784

Tokyo Stock Exchange First Section

28-Jul.-2021

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

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Summary

IT services company with a leading role in retail DX

VINX CORP. (3784) is an IT services company with a leading role in retail DX (digital transformation). It aims to realize business growth in the global market and stable earnings by leveraging development capabilities, technology know-how, and service capabilities rooted in a thorough understanding of the distribution and retail industry.

1. Stable earnings base from continuous transactions with the distribution and retail industry

The Company delivers information-related services (outsourcing, solutions, products, and other IT-related areas) mainly for the distribution and retail industry. It has a stable earnings base from continuous transactions in solutions and outsourcing areas. In competition, it does not face many companies with an in-depth understanding of the distribution and retail industry and also capable of handling system development and equipment procurement. Furthermore, customers trust its past results in terms of quality. Another competitive advantage is manufacturer neutrality whereby the Company is capable of selecting and proposing equipment from manufacturers worldwide.

2. Modest sales and profit increases on track with the plan in 1Q FY12/21

The Company reported 1Q FY12/21 consolidated results with ¥7,514mn in net sales (+0.2% YoY), ¥790mn in operating profit (+4.6%), ¥780mn in ordinary profit (+0.8%), and ¥506mn in net profit attributable to owners of the parent (+1.3%), posting modestly higher sales and profits roughly on track with the plan. While overseas sales fell due to the impact of the COVID-19 pandemic, the Company benefited from higher demand on increased DX needs in the domestic retail industry as well as deepening business with existing customers and improving efficiency.

3. Possibility of beating FY12/21 forecast despite retaining modest sales and profit increase targets

The Company's FY12/21 consolidated forecast targets ¥28,000mn in net sales (+1.0% YoY), ¥2,150mn in operating profit (+1.0%), ¥2,115mn in ordinary profit (+0.9%), and ¥1,235mn in net profit attributable to owners of the parent (+1.0%). Despite strong uncertainty due to COVID-19 impact, it expects to realize the earnings outlook driven by solutions and products areas against a backdrop of heightened DX needs in the domestic retail industry. The stance of retaining the existing outlook for modest sales and profit increases seems conservative. Operating profit reached 36.8% of the full-year target in 1Q FY12/21, a robust level even considering the seasonal factor of moderately higher income shares in 1Q because of inspection timing. The Company is likely to beat full-year targets, in our opinion.

4. Expanding income as an IT services company with a leading role in retail DX

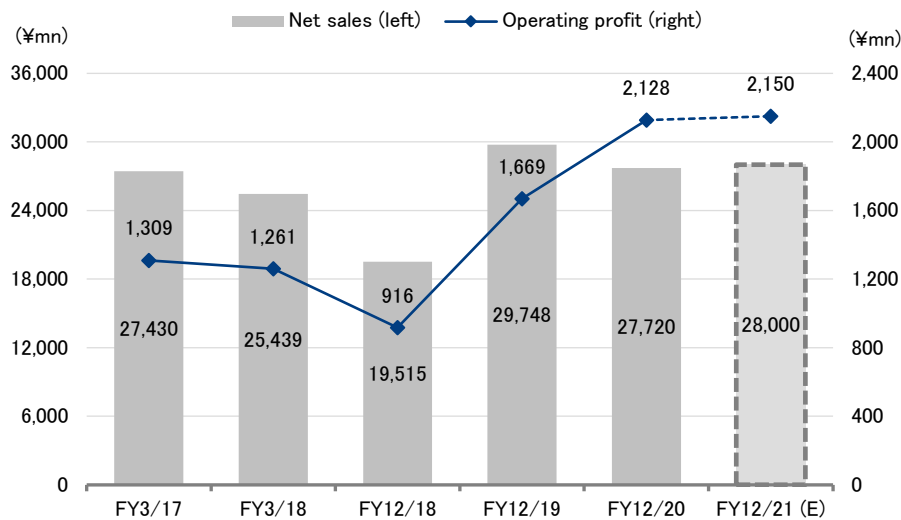
In the medium-term management plan, the Company presents a management vision to “become a leading retail IT company in Asia” with FY12/23 goals of ¥33,000mn in net sales and ¥2,540mn in operating profit. As priority measures in enhancing existing business and shaping new retail business, it promotes new retail strategy, specific customer business developing strategy, product business reinforcement strategy, retail solution expansion strategy, global market expansion strategy, card business reinforcement strategy, and strengthening the management base. It has substantial room to expand market share with competitive advantages from potent development capabilities, technology know-how, and service capabilities rooted in a thorough understanding of the distribution and retail industry and manufacturer neutrality. The Company should expand income over the long term as an IT services company with a leading role in retail DX.

Summary

Key Points

- Implements information-related services business mainly in the distribution and retail industry
- Possibility of upside in FY12/21 results despite retention of the existing outlook for modest sales and profit increases
- Likely to expand income as an IT services company with a leading role in retail DX

Results trends



Note: Due to fiscal year change, there were nine months in FY12/18
 Source: Prepared by FISCO from the Company's financial results

Company profile

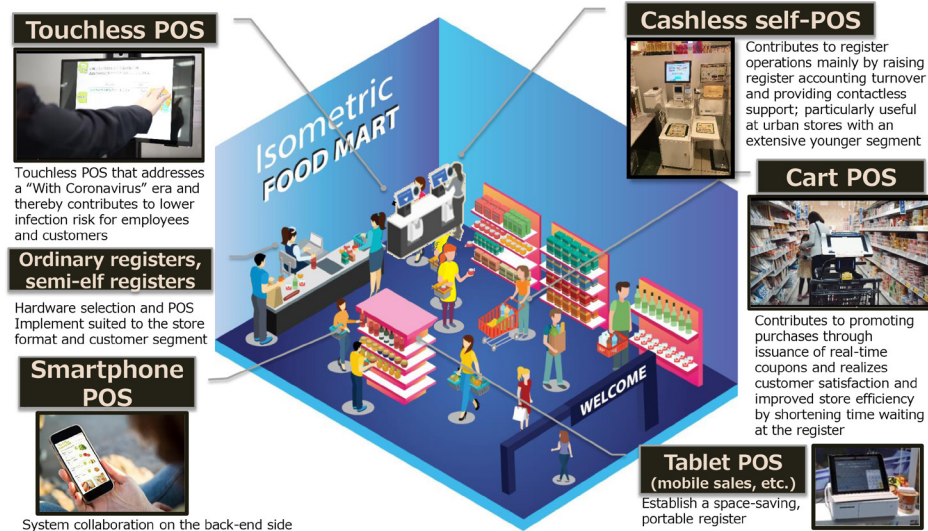
Implements IT services focused on the distribution and retail industry within the Fuji Soft Group

1. Company profile

The Company is an IT services company with a leading role in retail DX. With a management philosophy of “contribute to the realization of a prosperous society by connecting people’s lives and business activities of distribution companies with information system technology,” it provides package products, solution services, and other services mainly to the distribution and retail industry. It aims to realize business growth in the global market and stable earnings by leveraging development capabilities, technology know-how, and service capabilities rooted in a thorough understanding of the distribution and retail industry.

Company profile

Store operation system



Source: The Company's results briefing materials

The Company has its headquarters in Osaka's Kita Ward and other business sites are the Tokyo office (Sumida-ku, Tokyo), Makuhari office (Mihama-ku, Chiba), Sendai office (Miyagino-ku, Sendai), Nagoya office (Naka-ku, Nagoya), Matsuyama office (Matsuyama City, Ehime), Osaki office (Shinagawa-ku, Tokyo), Data Center (Kita-ku, Osaka), and Toda Monitoring Center (Toda City, Saitama).

At the end of FY12/20, the Company had ¥596mn in the capital, a 46.4% capital ratio, ¥518.24 in net asset value per share, and 17,718,000 outstanding shares (including 900,572 treasury shares).

The Company's Group at the end of FY12/20 consisted of the Company, three domestic consolidated subsidiaries, and four overseas consolidated subsidiaries. Consolidated subsidiaries are 4U Applications, Inc., The AREA Co., Ltd., and Ui2 Corporation in Japan and entities in China, Malaysia, Vietnam, and Thailand outside of Japan. The overseas subsidiaries are Vinx China Co., Ltd. (Hangzhou), Vinx Malaysia Sdn.Bhd., VINX VIETNAM COMPANY LIMITED, and VINX SYSTEM SERVICE (Thailand) Co., Ltd. The Company has 1,458 employees on a consolidated basis.

The Company is a consolidated subsidiary of Fuji Soft Incorporated (9749; Fuji Soft owns 61.44% of the Company's voting rights as of end-FY12/20). It focuses on the distribution and services industry, and particularly the provision of information services to the retail industry, within the Fuji Soft Group, a comprehensive provider of information services, and implements business while seeking to establish its unique business model. Income reliance on the parent company is small at just ¥193mn in total transactions with the parent in FY12/20. The Company does not have jointly serving officers and retains its management autonomy.

2. History

The Company was established as Mycal Systems,INC., a subsidiary of former Mycal Corp. (now, AEON RETAIL Co., Ltd.), in February 1991, and FUJI SOFT INCORPORATED became the parent company through former Mycal's transfer of shares to FUJISOFT ABC Incorporated (now, Fuji Soft) and changed the company name to Vinculum Japan Corporation in March 2002.

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Company profile

The Company listed shares on the JASDAQ Securities Exchange (now TSE JASDAQ) in December 2005 and renamed itself VINX CORP. after absorbing Fuji Soft Group's former Daiei-affiliate VIXUS INCORPORATED in April 2013. It changed the share listing to the TSE Second Section (TSE-2) in May 2016 and then to the TSE First Section (TSE-1) in October 2017.

History

Date	Items
February 1991	Established as Mycal Systems,INC., a subsidiary of former Mycal Corp. (now, AEON RETAIL Co., Ltd.)
November 2000	Acquired privacy mark certification
March 2002	Became a wholly-owned subsidiary of FUJISOFT ABC Incorporated (now, FUJI SOFT INCORPORATED) through a share transfer by Mycal and changed the company name to Vinculum Japan Corporation
January 2003	Acquired e-coupon business from IMCOS, Inc.
March 2005	Obtained ISMS Accreditation Criteria (Ver.2.0) certification
December 2005	Listed shares on the JASDAQ Stock Exchange (now, TSE JASDAQ)
May 2006	Established 4U Applications, Inc. as a consolidated subsidiary via the in-house venture program
October 2007	Formed a business alliance with Agentrics AP, Inc. (now, GridAgent, Inc.)
June 2008	Obtained ISO20000 (International Standard) certification for IT service management
June 2008	Opened a liaison office in China
January 2009	Established Vinx China (Hangzhou) in Hangzhou (Zhejiang, China) as a joint venture with Totyu Soft Co., Ltd. (now, Totyu Co., Ltd.)
February 2009	Acquired a stake in Totyu Soft Co., Ltd. (now, Totyu Co., Ltd.)
August 2009	Acquired SFI, Inc. as a consolidated subsidiary
April 2011	Established Shanghai Vinculum Co.,Ltd. (China)
December 2011	Established FMS Solution Co., LTD. as a joint venture with AEON DELIGHT CO., LTD.
June 2012	Established Vinculum Malaysia Sdn.Bhd (now, Vinx Malaysia Sdn.Bhd) in Malaysia as a consolidated subsidiary
April 2013	Renamed VINX CORP. after absorbing Fuji Soft Group's former Daiei-affiliate VIXUS INCORPORATED
January 2014	Established VINX VIETNAM COMPANY LIMITED in Vietnam as a local entity
September 2015	Transferred all shares of Shanghai Xinyu System Integration
October 2015	Absorbed Systems Formulations and Integrations Incorporated
March 2016	Transferred all shares of FMS Solution Co., LTD.
May 2016	Changed the share listing to the TSE Second Section (TSE-2)
January 2017	Invested in Holon Co., Ltd.
April 2017	Invested in Colorful Board Inc. (now, SENSY Inc.)
June 2017	Established joint investee GRIT WORKS, Inc. with SATUDORA HOLDINGS CO., LTD.
July 2017	Made The AREA Co., Ltd. a consolidated subsidiary
October 2017	Changed the share listing to the TSE First Section (TSE-1)
February 2018	Established VINX SYSTEM SERVICE (Thailand) Co., Ltd. in Thailand as a local entity
March 2019	Established joint investee Retail SHIFT Inc. with Trial Holdings, Inc.
November 2019	Collaborated with salesforce.com <CRM>
January 2020	MadeUi2 Corporation a consolidated subsidiary
May 2020	Formed a comprehensive business alliance with Wiredbeans Inc.

Source: Prepared by FISCO from the Company's web page, securities reports, and press releases

Business overview

Offers information-related services to the distribution and retail industry

1. Service overview

The Company provides package products and solution services related to POS (Point of Sale information management) systems, CRM (Customer Relationship Management), and MD (Merchandising) mainly to the distribution and services industry, and particularly to distribution and retail chains. While the information-related services business is the only reporting segment, areas covered in this segment are outsourcing, solutions, products, and other IT.

Trends in net sales and operating profit by business areas over the past five years (though FY12/18 was a nine-month abnormal period because of a change in the fiscal year) are shown below. The Company's main business areas are outsourcing and solutions. In recent years, the product business area has expanded too and is becoming an income pillar. The other IT business area has a slightly lower profit margin because it mainly consists of hardware procurement and sales business. In FY12/20, COVID-19 pandemic impact weakened usage-fee service sales in outsourcing business due to customer store suspensions and other disruptions mainly in overseas markets and lagging orders primarily for hardware sales in other IT businesses. In the solutions business, despite inspection delays and lagging orders, results exceeded the FY3/20 level thanks to extensive orders backlog. POS-related business has been expanding in the product business area.

Net sales and operating profit by business areas

	FY3/17	FY3/18	FY12/18	FY12/19	FY12/20
	(¥mn)				
Net sales	27,430	25,439	19,515	29,748	27,720
Outsourcing	12,837	10,876	8,025	9,609	8,741
Solution	7,122	8,525	6,677	10,615	10,938
Product	1,427	2,229	1,865	2,868	3,613
Other ICT area	6,042	3,808	2,947	6,655	4,426
Operating profit	1,309	1,261	916	1,669	2,128
Outsourcing	734	708	360	629	606
Solution	458	701	401	799	1,059
Product	46	-261	98	153	323
Other ICT area	69	112	55	87	137

Note: FY12/18 was a nine-month abnormal period because of a change in the fiscal-year timing
 Source: Prepared by FISCO from the Company's results briefing materials

Consolidated subsidiaries are The AREA Co., Ltd. and Ui2 Corporation for solution business in Japan, 4U Applications, Inc. for products business in Japan, and the four overseas subsidiaries (Vinx China Co., Ltd., Vinx Malaysia Sdn.Bhd., VINX VIETNAM COMPANY LIMITED, and VINX SYSTEM SERVICE (Thailand) Co., Ltd.) in outsourcing.

2. Outsourcing business area

In outsourcing business, the Company receives consignments for various services (including system operation and management service, software maintenance service, help desk service, and ASP (Application Service Provider) service) to realize the efficient and stable operation of information system infrastructure at customer companies. This is a recurring business and a stable income source from continuous service provision.

3. Solution business area

The Company plans and develops business systems that address the needs of customer companies in distribution and services industries, including mission-critical system solutions for distribution and services industries (sales management, product management, logistics management, and other core business systems in distribution and services industries), credit card system solutions (mission-critical systems for credit card systems), and Internet business solutions (Web solutions mainly for building EC operations). Fundamentally, it receives direct orders for system development from customer companies in the distribution and services industries.

4. Product business area

The Company develops and sells a variety of package software products based on technologies and know-how related to systems in the distribution and services industries. It also customizes software to address the needs of customer companies. As sales routes, the Company sells through hardware manufacturers, system developers, and other partners and also conducts direct sales. The main package software products are described below.

(1) Open POS software package “ANY-CUBE”

This is a POS package software that complies with OLE-POS specifications (standard specification for POS software advocated and mainly formulated by Microsoft (MSFT) to achieve common POS technology) and operates on POS devices, tablets, and other hardware. The Company sells this software to the drugstores, supermarkets, specialty stores, volume resellers, and other customers with a wide range of businesses and formats as a core product. One reason for support of this product is the ease with which customers can deploy it after an M&A deal without replacing hardware.

(2) Hybrid Satisfia – CRM packages for the distribution and services industry

This is a CRM package software with customer management, point management, customer analysis, and other functions for EC and real-world stores. The Company provides it in collaboration with the ANY-CUBE open POS package and Web systems.

(3) MDware – MD mission-critical system for the distribution industry

This is an MD package software that seamlessly connects “stores, headquarters, and business partners” for retail chain stores. It realizes total business operations from product master management to orders placement and inventory management. Demand has risen for an automated orders placement function recently, and a growing number of customers are implementing just this capability rather than the full mission-critical system.

(4) Next-generation integrated operating solution “Hybrid Series”

This is a next-generation integrated management product series with a track record of over 3,000 licenses in cumulative shipments domestically that supports Power System running IBMi.

(5) VI-Series – Next-generation operation product

The VI-Series consolidates detection and monitoring other than system operation monitoring using AI and IoT, including body temperature detection, substance abnormal temperature detection, crime prevention, and face authentication and achieves efficient management.

(6) Integrated Viewer for ZABBIX – Integrated operation and viewing tool

This is a server operation monitoring tool for centralized monitoring of all environments, including Windows, Linux, UNIX, IBMi, virtual environments, cloud environments, and integrated servers.

5. Other IT business area

This area covers hardware sales as part of system building in solution and product business areas. It also handles the installation of store system equipment at chain store outlets and education and other services.

Development capabilities, technology know-how, and service capabilities rooted in a thorough understanding of the distribution and retail industry are the main features and strengths

6. Characteristics and strengths

The Company was established as the information systems subsidiary of a major distribution and retail company and developed customers and broadened its scope as a specialist in the distribution and retail industry. Its main features and strengths hence are development capabilities and technology know-how rooted in a thorough understanding of the distribution and retail industry and service capabilities that respond to individual customer needs. Neutrality toward manufacturers also stands out, and this enables the Company to select and propose equipment from any manufacturers worldwide.

The Company mainly targets distribution and retail chains and its stable earnings base from continuous transactions in solution and outsourcing business areas is also a feature. In customer development, it acquires new customers mainly in the product business area and develops relationships to obtain business in solution and outsourcing business areas. This strategy pursues the expansion of business transactions and conversion to a stable customer.

Competitive advantage in accelerated DX investments by distribution and retail companies

7. Risks/income characteristics and issues and measures

General risks that affect income in the information-related services industry are corporate curtailment of IT investments due to economic slowdown, weakening of orders terms because of tougher competition, unprofitable individual projects, delayed responses to technology innovation, information security management and system disruptions, human resource acquisition and training, an upswing in outsourcing costs, and legal regulations.

Despite some delays in corporate IT investments due to the COVID-19 pandemic, investments should remain at a high level amid the DX trend. Distribution and retail chains, the Company's main targets, have arrived at the most significant innovation period since POS inroads in the 1980s, including format changes through the integration of the Internet and realworld and conversion to smart stores. Companies are accelerating DX investments in POS systems, CRM, MD, and other areas to realize store operations that utilize "new retail" technologies. Demand hence is not a major concern.

Business overview

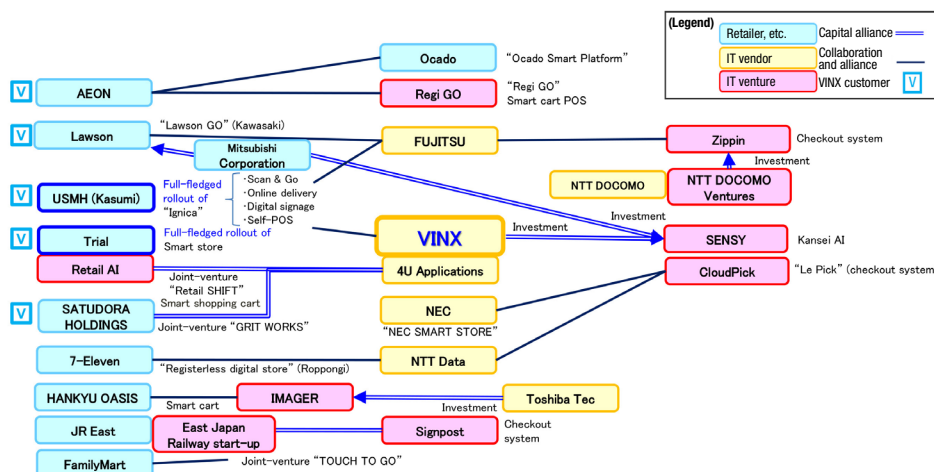
Examples of new retail innovations in the retail industry

Automation and labor savings	Integration of net and real	Smart store
<p>(1) Amazon's unmanned store "Amazon Go"</p> <p>(2) Unmanned convenience store – Kokubu Grocers Chain's "SmaPit"</p> <p>Ministop's "Ministop Pocket"</p> <p>(3) Automated ordering Accelerated implement of automated ordering and AI demand forecasts</p> <p>(4) Aeon's implement of automated logistics "Ocado" ...Next-generation Internet supermarket</p>	<p>(1) Alibaba Group food supermarket Hema Fresh stores Real-world store function + EC and logistics function On-site cooking and delivery within 30 minutes</p> <p>(2) Marui "Store that does not sell things" Stores offering customer experiences Support D2C activities (Direct to Consumer: Direct sales from production to consumers)</p>	<p>(1) Trial Group Utilize extensive IT capabilities throughout the store Media conversion of stores, pursuit of efficiency and sales promotions Smart shopping cart Sales promotion coupon issuance, walk-through payment Retail AI camera Out-of-stock detection, customer behavior analysis Digital signage Optimized sales promotions</p> <p>(2) USMH (Kasumi, Maruestu, MV Kanto) Ignica Creation of future retail formats Digital service implementation platform Media conversion of stores • Scan & Go • Online delivery • Digital signage • Self-POS</p>

Source: The Company's results briefing materials

In competition, the Company mainly targets distribution and retail chains with many stores over a wide area and does not face many competing companies with an in-depth understanding of the distribution and retail industry and also capable of handling system development and equipment procurement and delivering total support that includes a help desk and non-stop operation and maintenance (24 hours a year, 365 days a year). Furthermore, customers trust its past results in terms of quality. Although it competes with manufacturer affiliates in some cases, another competitive advantage is manufacturer neutrality whereby the Company is capable of selecting and proposing equipment from manufacturers worldwide.

Initiatives aimed at technology verification in Japan



Source: Press release and company web pages (unofficial names in some cases)

Source: From materials provided by the Company

Regarding profitability of individual projects, the Company prevents losses by improving estimate precision at estimate review meetings before submission and thoroughly managing projects at management review meetings after booking orders.

Business overview

As seasonality, 1Q (Jan-Mar) results have modestly larger shares of full-year values as the fiscal year-end and corporate financial reporting period because of system inspection timing.

Results trends

Modest sales and profit increases on track with the plan in 1Q FY12/21

1. Overview of 1Q FY12/21 consolidated results

The Company reported 1Q FY12/21 consolidated results with ¥7,514mn in net sales (+0.2% YoY), ¥790mn in operating profit (+4.6%), ¥780mn in ordinary profit (+0.8%), and ¥506mn in net profit attributable to owners of the parent (+1.3%), posting modestly higher sales and profits roughly on track with the plan.

Overview of 1Q FY12/21 consolidated results

	FY12/20 1Q	FY12/21 1Q	Changes (YoY)
	(¥mn)		
Net sales	7,502	7,514	0.2%
Gross profit	1,902	1,840	-3.2%
SG&A expenses	1,146	1,049	-8.4%
Operating profit	755	790	4.6%
Ordinary profit	774	780	0.8%
Profit attributable to owners of parent	500	506	1.3%

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

While overseas sales fell due to the impact of the COVID-19 pandemic, the Company benefited from higher demand on increased DX needs in the domestic retail industry as well as deepening business with existing customers and improving efficiency. Gross profit dropped 3.2%, and gross margin declined by 0.9ppt to 24.5%. SG&A expenses were down 8.4%, and the SG&A expenses ratio eased by 1.3ppt to 14.0%.

2. Trends by business areas

Business area trends are explained below.

Net sales and operating profit by business areas in 1Q FY12/21

	FY12/20 1Q	FY12/21 1Q	Changes (YoY)
	(¥mn)		
Net sales	7,502	7,514	0.2%
Outsourcing	2,306	2,066	-10.4%
Solution	2,967	3,058	3.1%
Product	888	957	7.7%
Other ICT area	1,340	1,431	6.8%
Operating profit	755	790	4.6%
Outsourcing	218	172	-20.9%
Solution	364	423	16.1%
Product	120	133	10.5%
Other ICT area	51	60	17.3%

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

Results trends

(1) Outsourcing business area

Outsourcing business results were ¥2,066mn in net sales (-10.4%) and ¥172mn in operating profit (-20.9%). Sales and profits declined because of store suspensions at customer companies mainly in other countries and changes in service content in the pandemic environment.

(2) Solution business area

Solution business results were ¥3,058mn in net sales (+3.1%) and ¥423mn in operating profit (+16.1%). Sales and profits increased against a backdrop of extensive orders backlog (¥4,608mn in orders backlog at end-FY12/20 (+14.7% YoY)) with contributions from smart POS system development projects utilizing self-POS systems and smartphones, replacement projects for mission-critical systems related to store operations, and credit card system construction projects.

(3) Product business area

Product business results were ¥957mn in net sales (+7.7%) and ¥133mn in operating profit (+10.5%). Sales and profits improved on the continued expansion of POS system and point system support and robust orders backlog (¥1,426mn in orders backlog at end-FY12/20 (+76.0% YoY)).

(4) Other IT business

Other IT business results were ¥1,431mn in net sales (+6.8%) and ¥60mn in operating profit (+17.3%). Sales and profits increased on responses to store tablet terminals, change machines, and electronic shelf equipment.

3. Financial status

In finances, asset value totaled ¥18,909mn (+¥141mn vs. end-FY12/20) and liabilities value totaled ¥8,937mn (-¥404mn) at end-1Q FY12/21. Increases in notes and accounts receivable led a rise in asset value. While accounts payable climbed, unpaid corporate taxes and bonus allowances declined in liabilities value. Total net assets increased by ¥545mn to ¥9,972mn, and the capital ratio rose by 2.2ppt to 48.6%. The Company hence is financially sound.

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Results trends

Financial statements

	(¥mn)				
	FY3/18	FY12/18	FY12/19	FY12/20	FY12/21 1Q
Net sales	25,439	19,515	29,748	27,720	7,514
Gross profit	5,271	4,009	6,491	6,775	1,840
Gross margin (%)	20.7%	20.5%	21.8%	24.4%	24.5%
SG&A expenses	4,010	3,092	4,821	4,647	1,049
SG&A expenses ratio (%)	15.8%	15.8%	16.2%	16.8%	14.0%
Operating profit	1,261	916	1,669	2,128	790
Operating profit margin (%)	5.0%	4.7%	5.6%	7.7%	10.5%
Non-operating income	82	39	70	78	24
Non-operating expenses	78	62	87	111	34
Ordinary profit	1,266	893	1,652	2,095	780
Ordinary profit margin (%)	5.0%	4.6%	5.6%	7.6%	10.4%
Extraordinary income	-	-	146	-	-
Extraordinary losses	35	164	131	12	-
Profit before income taxes	1,230	729	1,666	2,082	780
Total income taxes	398	221	529	817	270
Profit attributable to owners of parent	753	464	1,099	1,222	506
Net (quarterly) profit margin (%)	3.0%	2.4%	3.7%	4.4%	6.7%
Comprehensive income	849	440	1,129	1,284	609
Total assets	17,409	16,108	16,913	18,768	18,909
(Current assets)	11,596	10,487	10,832	13,437	13,956
(Non-current assets)	5,812	5,621	6,081	5,331	4,953
Total liabilities	8,894	7,810	8,799	9,341	8,937
(Current liabilities)	6,244	5,465	5,960	6,330	6,111
(Non-current liabilities)	2,650	2,344	2,838	3,011	2,826
Total net assets	8,514	8,298	8,114	9,426	9,972
(Shareholders' equity)	7,868	8,013	7,717	8,695	9,076
(Share capital)	596	596	596	596	596
Total number of outstanding shares at period-end excluding treasury shares (shares)	17,717,514	17,717,466	16,817,428	16,817,428	16,817,428
Net profit per share (¥)	42.55	26.23	63.92	72.69	-
Net asset value per share (¥)	448.26	452.78	458.92	518.24	-
Dividend per share (¥)	10.00	7.50	13.00	14.00	-
Equity ratio (%)	45.6%	49.8%	45.6%	46.4%	48.6%
Return on equity (net profit) (%)	9.9%	5.8%	14.0%	14.9%	-
Net cash provided by operating activities	808	914	3,096	2,491	-
Net cash provided by investing activities	-2,101	-957	-1,459	-736	-
Net cash provided by financing activities	238	-898	-1,456	731	-
Cash and cash equivalents at beginning of period	4,992	4,081	4,246	6,730	-

Note 1: FY12/18 is a nine-month abnormal year due to a change in the fiscal-year timing

Note 2: After conversion for the 1-to-2 stock split implemented on March 1, 2018

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

■ Outlook

Possibility of upside in FY12/21 results despite retention of the existing outlook for modest sales and profit increases

1. Overview of FY12/21 consolidated results forecast

The Company's FY12/21 consolidated forecast is for ¥28,000mn in net sales (+1.0% YoY), ¥2,150mn in operating profit (+1.0%), ¥2,115mn in ordinary profit (+0.9%), and ¥1,235mn in net profit attributable to owners of the parent (+1.0%), projecting modest sales and profit gains. Despite strong uncertainty due to COVID-19 impact, it expects to realize the earnings outlook driven by solutions and products areas against a backdrop of heightened DX needs in domestic retail industry.

At the half-year level, 1H targets are ¥14,200mn in net sales, ¥1,135mn in operating profit, ¥1,130mn in ordinary profit, and ¥700mn in net profit attributable to owners of the parent, and 2H targets are ¥13,800mn in net sales, ¥1,015mn in operating profit, ¥985mn in ordinary profit, and ¥535mn in net profit attributable to owners of the parent. Results are slightly skewed toward 1H because of seasonality for modestly higher 1Q shares related to inspection timing.

The stance of retaining the existing outlook for modest sales and profit increases seems conservative. Operating profit reached a progress rate of 36.8% of the full-year target in 1Q FY12/21, a robust level even considering the seasonal factor of moderately higher income shares in 1Q because of inspection timing. The Company is likely to beat full-year targets, in our opinion.

Overview of FY12/21 consolidated results forecast

	FY12/20 Result	FY12/21 (E)					
		Forecast	YoY	1Q results	1Q progress ratios	1H outlook	2H outlook
Net sales	27,720	28,000	1.0%	7,514	26.8%	14,200	13,800
Outsourcing	8,741	8,479	-3.0%	2,066	24.4%	4,194	4,285
Solution	10,938	11,337	3.6%	3,058	27.0%	5,778	5,558
Product	3,613	3,951	9.3%	957	24.2%	1,995	1,955
Other ICT area	4,426	4,232	-4.4%	1,431	33.8%	2,231	2,000
Operating profit	2,128	2,150	1.0%	790	36.7%	1,135	1,015
Ordinary profit	2,095	2,115	0.9%	780	36.9%	1,130	985
Profit attributable to owners of parent	1,222	1,235	1.0%	506	41.0%	700	535
EPS (¥)	72.69	73.44	-	-	-	-	-
BPS (¥)	518.24	-	-	-	-	-	-
Dividend per share (¥)	14.00	14.00	-	-	-	-	-

Source: Prepared by FISCO from the results briefing supplemental materials

Outlook

2. Priority measures

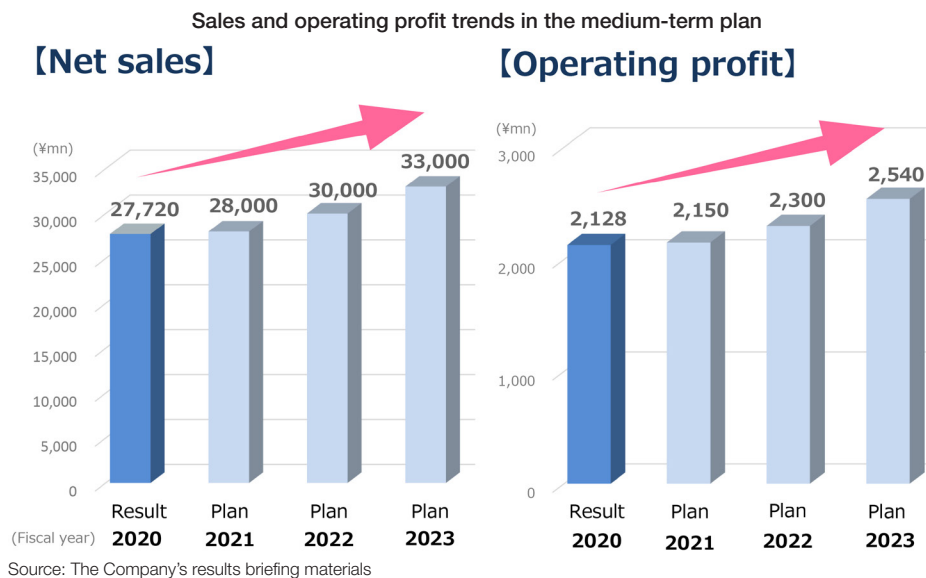
As priority measures in enhancing existing business and shaping new retail business highlighted in the medium-term growth strategy (explained below), the Company emphasizes higher sales of POS and MD systems and other existing core products, expansion of maintenance service and other recurring business, closer relationships with existing designated customers and reinforcement of sales and development operations to convert new customers to designated customers, expansion of EC and specialty store business, strengthening operations for existing designated customers in the ASEAN region, increased efficiency in outsourcing services, reinforced product line-up, and higher sales of next-generation solutions such as cart-type POS, unmanned stores, and cashless service.

Growth strategy

Management Vision - Become a leading retail IT company in Asia

1. FY12/23 goals of ¥33,000mn in net sales and ¥2,540mn in operating profit

In the medium-term management plan, the Company presents a management vision of “become a leading retail IT company in Asia” and advocates “expand business by leading the transformation of retail IT” for priority measures with FY12/23 goals of ¥33,000mn in net sales and ¥2,540mn in operating profit.



2. Priority strategies

For enhancing existing business and shaping new retail business, the Company promotes (1) new retail strategy, (2) specific customer business developing strategy, (3) product business reinforcement strategy, (4) retail solution expansion strategy, (5) global market expansion strategy, (6) card business reinforcement strategy, and (7) strengthen the management base.

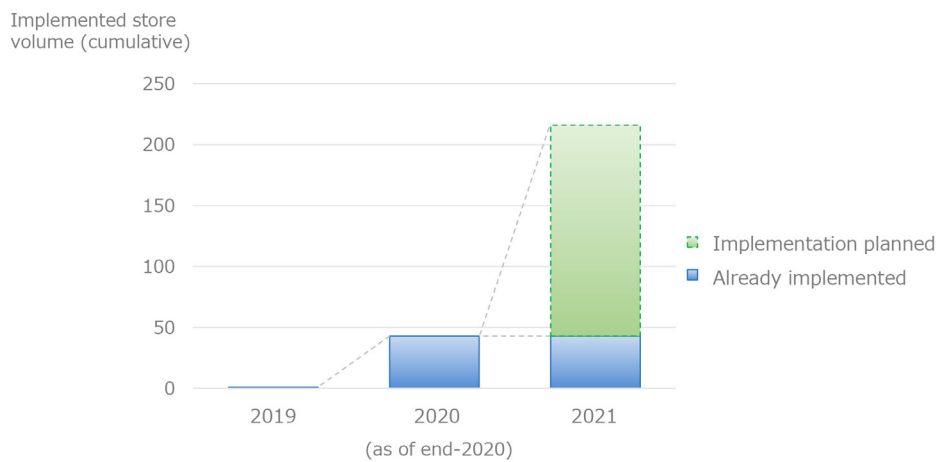
Growth strategy

(1) New retail strategy

In response to the deployment of smart stores by retailers, the Company is strengthening plan development in the new retail segment, expanding sales of next-generation solutions, such as cart-type POS, unmanned stores, and cashless service, and bolstering utilization of smart shelves and other promotion services using IT.

In FY12/20, a major Japanese cosmetic brand decided to install smart shelves at 80 stores in Thailand. In 1Q FY12/21, the Company received an order for expanded implementation of a smart POS system, which utilizes a next-generation cashless and self-POS system, smartphone POS, and other functions, from a leading supermarket that mainly operates stores in the Kanto area.

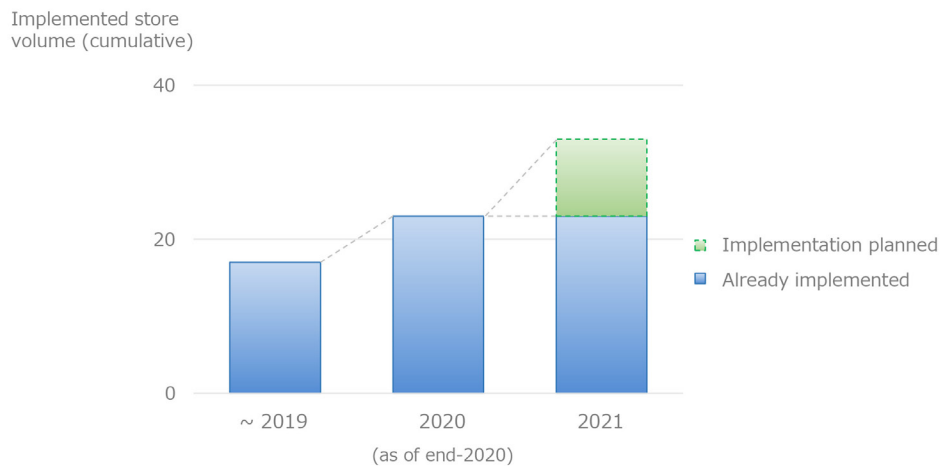
Smart store initiative (cashless and self-POS)



Source: The Company's results briefing materials

Smart store initiative (cart-type POS)

POS platforms supplied by VINX Group



Source: The Company's results briefing materials

Growth strategy

(2) Specific customer business developing strategy

To expand business scale by harnessing the wave of business innovation in the distribution and retail industry, the Company is strengthening relationships with existing designated customers, reinforcing sales and development operations to convert new customers to designated customers, improving efficiency of IT full outsourcing service business that includes maintenance and operation for designated customers, and building a common foundation for the expansion of integrated help desk service and other recurring business.

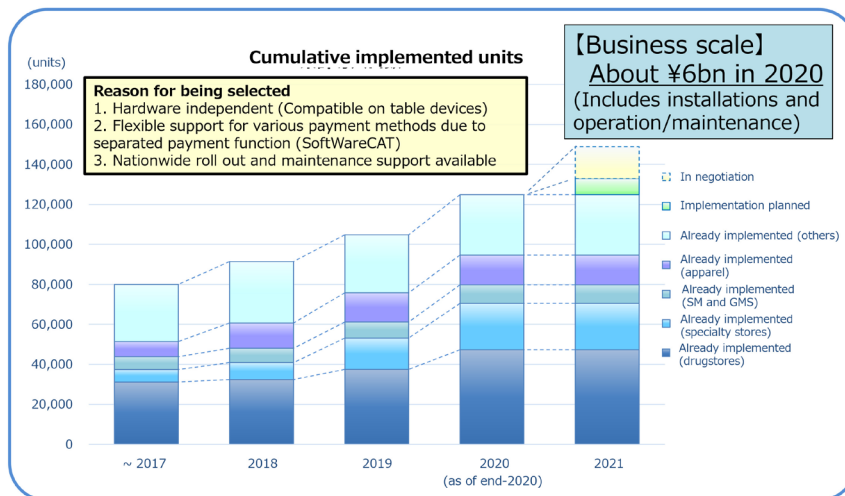
In FY12/20, the Company booked orders for mission-critical system support related to group reorganization at a major retail group, development of a mission-critical system at a major apparel company, overseas cashless payment support at a developer with shopping malls nationwide, building a mission-critical system related to facilities at a major retailer group, and replacement of a processing center at a major supermarket with operations mainly in the Kanto area. In 1Q FY12/21, the Company booked orders for replacement of a mission-critical system related to store operations at a major retailer group, support building a mission-critical system at a major supermarket group with operations mainly in the Kanto area, and integration of logistics centers from a major discount store group with operations mainly in the Kanto area.

(3) Product business reinforcement strategy

The Company is expanding the line-up of products, bolstering the competitiveness of existing core products such as the ANY-CUBE series of open POS packages and MDware, an MD mission-critical system for the distribution industry, improving existing products through utilization of new-retail technologies such as AI, robotics, smart stores, and cashless service, developing new products, and actively using AI, automated recognition technology, and other excellent core technologies.

In FY12/20, the Company booked implementation orders for MDware automatic ordering, an MD mission-critical system for the distribution industry, from the Co-Op group in Kansai, a food supermarket operating mainly in Tokyo and Kanagawa, a food supermarket operating mainly in Hyogo, and a food supermarket in the Kanto area that is an affiliate of a cooperative buying entity, Hybrid Satisfia, a comprehensive solution for customer point programs, from a food supermarket operating mainly in the Kanto area as a new sales promotion function development project, and for MDware, a mission-critical system, from a food supermarket operating mainly in the Shikoku area. In 1Q FY12/21, the Company booked an implementation order for MDware automatic ordering from the Co-Op Group in the Kinki area.

Performance status of major products <POS related area>

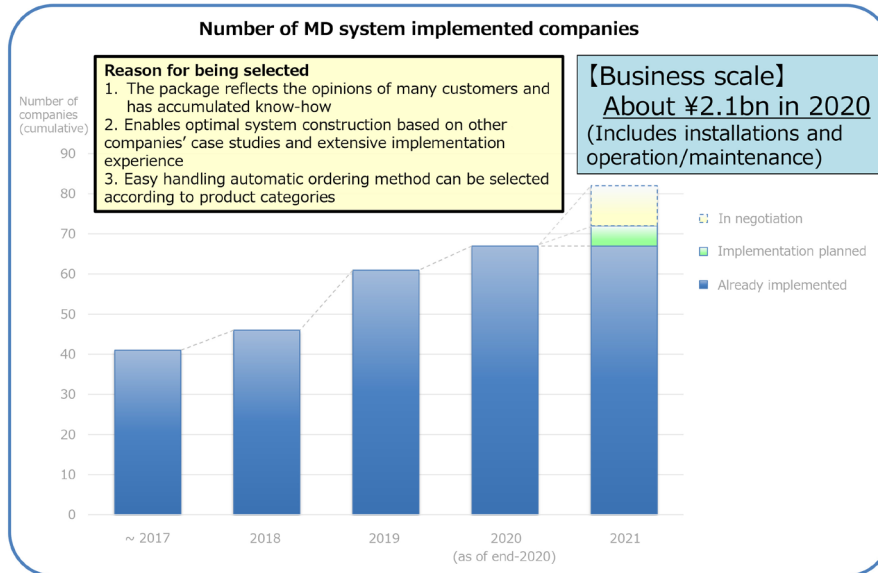


Source: The Company's results briefing materials

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Growth strategy

Performance status of major products <MD・ Automatic order>



Source: The Company's results briefing materials

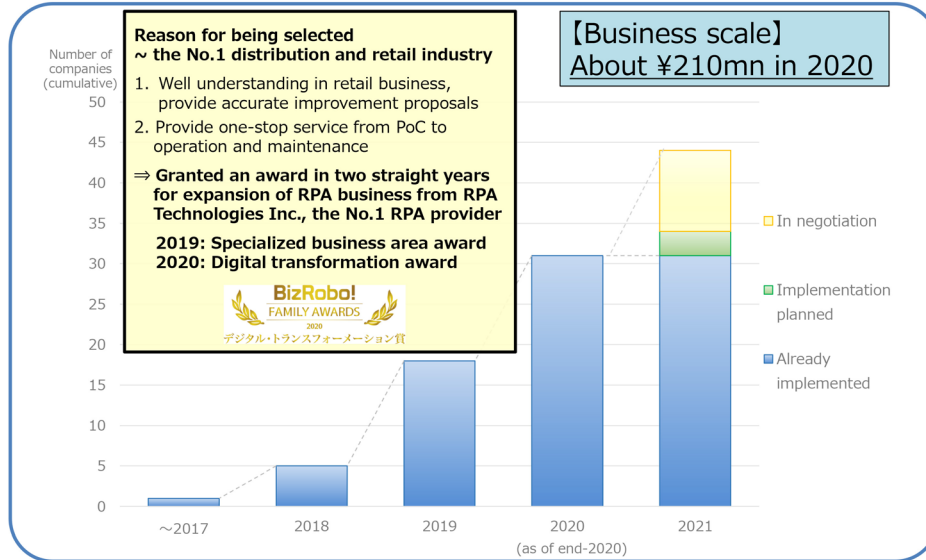
(4) Retail solution expansion strategy

The Company is bolstering proposal capabilities that leverage its strength of neutrality toward manufacturers as well as building operations capable of achieving a significant expansion of business, increasing sales of POS and MD systems and other existing core products, expanding maintenance service and other recurring business, and expanding EC and specialty store business.

In FY12/20, the Company received implementation orders for next-generation POS system development projects from a major Hokkaido-based drugstore chain that is rolling out stores nationwide, a major home center that mainly operates in eastern Japan, and an airport management company, for mission-critical system construction projects from a major home center based in Kita-Kanto that is rolling out stores nationwide and a food supermarket that mainly operates in western Tokyo, for a member integrated foundation construction project from a major broadline sports product manufacturer, for a point program project from a major drugstore chain operating nationally, and for a Robotic Process Automation (RPA) implementation from 13 retailers and wholesale firms. It also won a partner award at BizRobo! Family Awards 2020 sponsored by RPA Technologies related to RPA implementation in a second straight year. In 1Q FY12/21, the Company received orders for a cashless service project from a major fast-food chain operating nationwide and RPA deployment projects from three companies, including a supermarket and apparel firm.

Growth strategy

PRA implement status



Source: The Company's results briefing materials

(5) Global market expansion strategy

With the aim of “being a leading company in retail IT in Asia,” the Company is strengthening operations for existing designated customers in the ASEAN region, bolstering alliances with overseas partners, and reinforcing sales, development, and service operations to expand global product sales.

In FY12/20, the Company received orders from a major drugstore chain operating nationally to roll out operations in the ASEAN region, a major Thai corporate group for a POS system implementation at café bakery stores, and from a major reuse shop to roll out operations in the ASEAN region. In 1Q FY12/21, it received an order from a major Malaysian corporate group for a hotel check-in system deployment project.

(6) Card business reinforcement strategy

The Company is pursuing business expansion as a major IT vendor by strengthening development operations and building new relationships with customers.

(7) Strengthen management base

The Company views recurring service business as a stable foundation (with a goal of increasing this business to over 50% of total sales) and wants to change the business structure from reliance on consigned development projects. To realize this goal, it is expanding orders through reinforcement of DX and sales operations, improving the efficiency of operation services and other activities, expanding the business base through business alliances, capital and business alliances, and M&A, strengthening quality control and project management, and improving employee morale and motivation through workstyle reform.

Growth strategy

Expanding income as an IT services company that leads retail DX

3. Expanding income

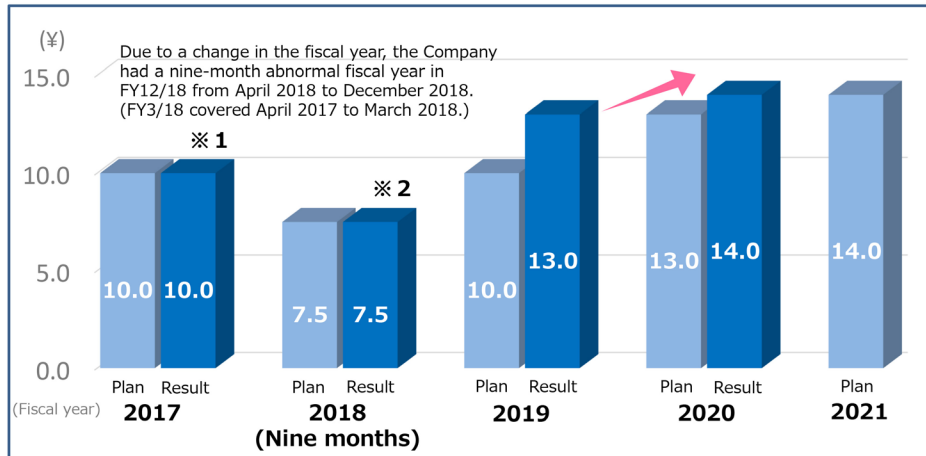
The Company is accelerating DX investments to realize store operations that utilize “new retail” technologies in the distribution and retail industry. It has substantial room to expand market share with competitive advantages from well-informed development capabilities, technology know-how, and service capabilities rooted in a thorough understanding of the distribution and retail industry and manufacturer neutrality. The Company should expand income over the medium- to long-term as an IT services company with a leading role in retail DX.

Shareholder return policy

In shareholder return, the Company sees the improvement of enterprise value and taking steps to maintain this level as returning profit to shareholders and believes this is an important management issue.

Based on this policy, it plans to pay a ¥14 dividend in FY12/21 (¥7 at end-2Q and ¥7 at period-end), the same level as in FY12/20. It also hopes to further enhance shareholder return accompanying profit growth over the longer term.

Dividend trend



***1 Regarding FY3/18 results**

The Company implemented a 1-to-2 share split in March 2018. While the FY3/18 dividend prior to the split was ¥20.0, it is shown at the post-split level (converted to half of the original amount).

***2 Regarding FY12/18 results**

Since FY12/18 was a nine-month period, the period-end dividend worked out to ¥2.5 for three months.

Source: The Company's results briefing materials

■ ESG initiatives

As an SDGs initiative, the Company adheres to its management philosophy of “contributing to the realization of a prosperous society by connecting people’s lives and business activities of distribution companies with information system technology.” It promotes ESG management with emphasis on SDGs from the standpoint of making consumers more prosperous by contributing to innovations and advancements in the distribution and retail industry in Japan and abroad.



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