COMPANY RESEARCH AND ANALYSIS REPORT

System Support Inc.

4396

Tokyo Stock Exchange First Section

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Index

Summary

An independent IT company continuously delivering high growth based on sophisticated technological capabilities in the cloud, ERP and database sectors

System Support Inc. <4396> (hereinafter “the Company”) is an independent IT company that is continuously delivering growth centered on the Solutions Business, which includes support for the use of cloud, ERP and databases, based on technological capabilities at the highest level of the industry. The Company is headquartered in Ishikawa Prefecture, Japan. However, Tokyo, Nagoya, and Osaka are the primary hubs of the Company’s business activities. The Company has a subsidiary in Silicon Valley in the United States. Besides the Solutions Business, the Company also conducts recurring businesses such as the Outsourcing Business, which revolves around data center management, and the Product Business, which is mainly focused on providing cloud (SaaS) services. In the Solutions Business, the Company provides individual contract-based systems development, along with carrying the products and services of global IT companies, specifically Microsoft Azure, Amazon Web Services (AWS), ServiceNow in cloud-related business, SAP in ERP-related business, and Oracle in database-related business. The Company has been rated highly for its high quality and extensive track record. Through customer referrals from those companies, the Company has captured stable orders without incurring marketing costs.

1. Outline of results for 1H FY6/21

Looking at consolidated results for 1H FY6/21 (July-December 2020), the Company achieved higher sales and profits, with net sales of ¥6,917mn, up 5.2% YoY, and operating profit of ¥508mn, up 25.1%. On the basis of profits, it resulted in surplus over its initial forecasts (net sales of ¥7,004mn and operating profit of ¥410mn). The impact of the spread of COVID-19 (hereinafter, “the COVID-19 crisis”) remained mostly within the anticipated range, and net sales progressed largely in line with the forecast. Meanwhile, on the profit front, profits were above forecast mainly because high profit-margin ServiceNow-related sales increased by 80% YoY, marking substantial growth, and progress was made on improving the cost-of-sales ratio and reducing SG&A expenses owing to the adoption of a work-from-home framework. By business segment, while the Product Business posted a slight decline in sales and profits, the mainstay Solutions Business and the Outsourcing Business experienced steady growth, posting higher sales and profits.

2. FY6/21 forecasts

For FY6/21, the Company has kept its initial forecasts unchanged. Net sales are forecast at ¥14,342mn, up 7.2% YoY, while operating profit is forecast at ¥798mn, up 5.8% YoY.* Although there are no specific concerns about the outlook at this time in 2H FY6/21, the Company has cited the continuing uncertainty of the impact of the COVID-19 crisis as the reason for keeping its forecasts unchanged. That said, net sales are expected to remain firm in 2H FY6/21, mainly led by the Solutions Business, and there is no specific reason to expect an increase in costs in 2H. Based on these factors, FISCO believes that the Company is highly likely to outperform its forecasts on the basis of profits.

* The FY6/21 forecast is based on information available as of April 15, 2021, the date the Japanese version of the report was issued.

3. Growth strategy

The Company's medium- and long-term growth strategy is to drive stable growth in the mainstay Solutions Business and accelerate growth in the Outsourcing Business and Product Business further, with the aim of expanding business performance and improving earnings capabilities. In the Solutions Business, the Company will recruit and train human resources with sophisticated technological capabilities, in order to expand sales in cloud, ERP and database-related businesses, for which demand is surging. Notably, the Company has earned certification as an "Elite Partner," the highest level of partnership, by ServiceNow. ServiceNow is a cloud-based platform solution for which demand is rapidly growing because it is a tool that will realize the digital transformation (DX) of companies. In ServiceNow-related business, the Company intends to continue to proactively expand sales by leveraging the strengths of its extensive track record. With high profit margins, ServiceNow-related business is expected to help improve overall earnings capabilities, too. Meanwhile, in the Outsourcing Business, the Company plans to capture demand for the use of data centers as backup capacity for customers' BCP measures, with the main target being companies building private clouds. Additionally, in the Product Business, the Company internally develops and supplies various cloud services that contribute to improved operating efficiency. The Company plans to upgrade and expand its sales agencies and strengthen web marketing, with the aim of increasing the number of subscribers and achieving sales growth. Moreover, M&As are also viewed as a growth strategy in the Product Business.

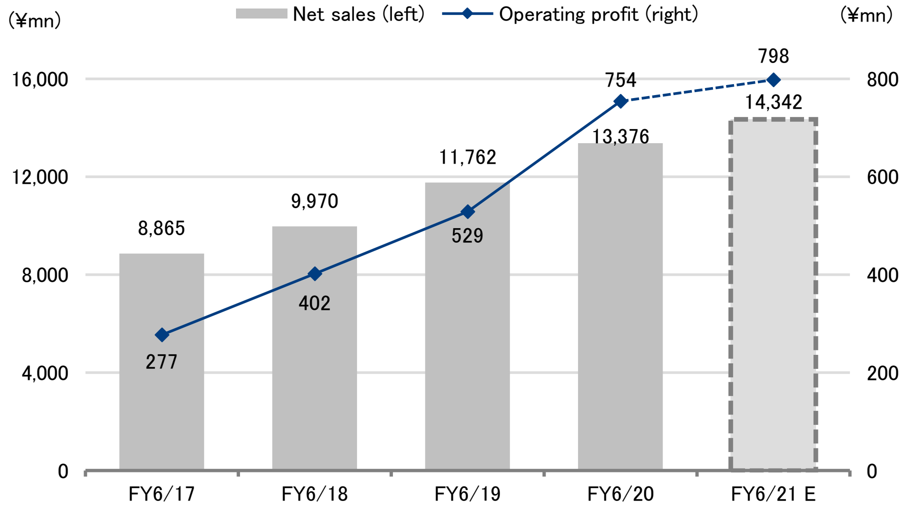
4. Shareholder return policy

With regard to shareholder returns, the Company has indicated that it will distribute profits by continuing to pay stable dividends while ensuring adequate internal reserves and striving to improve dividend levels according to business results and profit levels. Looking at dividends per share for FY6/21, the Company has announced that it will increase the dividend from the initial forecast of ¥10.0 to ¥20.0. This will bring the dividend payout ratio to the level of nearly 40%. Ultimately, however, FISCO expects the dividend payout ratio to settle down in the lower 30% range as profits surpass forecasts.

Key Points

- An independent IT company that continues to grow by undertaking many projects involving the products and services of global IT companies, such as Microsoft Azure, AWS, ServiceNow, SAP and Oracle
- The Company has kept its initial forecasts for FY6/21 results unchanged, but there is a high probability that results will finish above forecasts due to surging demand
- Based on its sophisticated technological capabilities, the Company aims to achieve high growth and improve earnings capabilities by capturing orders for cloud- and ERP-related projects for which demand is surging, and by building up recurring business

Results trends



Note: The FY6/21 forecast is based on information available as of April 15, 2021, the date the Japanese version of the report was issued.
Source: Prepared by FISCO from the Company's financial results

Company profile

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

1. History

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

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

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

History

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

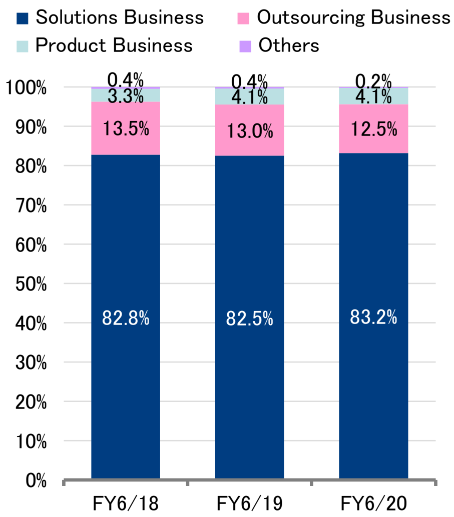
Source: Prepared by FISCO from the Company’s website and securities reports

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

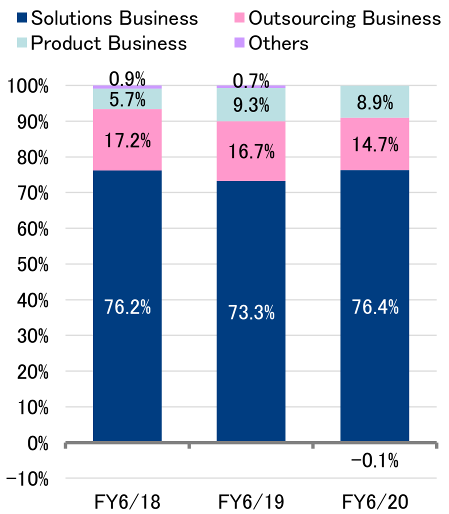
2. Business description

The System Support Group comprises the Company and its six consolidated subsidiaries. The Group provides disclosure through three segments, specifically the Solutions Business, Outsourcing Business and Product Business. Looking at the trend in the business segment composition over the past three years, the Solutions Business has been the Company's mainstay business with its sales accounting for more than 80% of net sales and its profits accounting for more than 70% of segment profit (gross profit).

Percentages of net sales by business segment



Percentages of profit by business segment



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

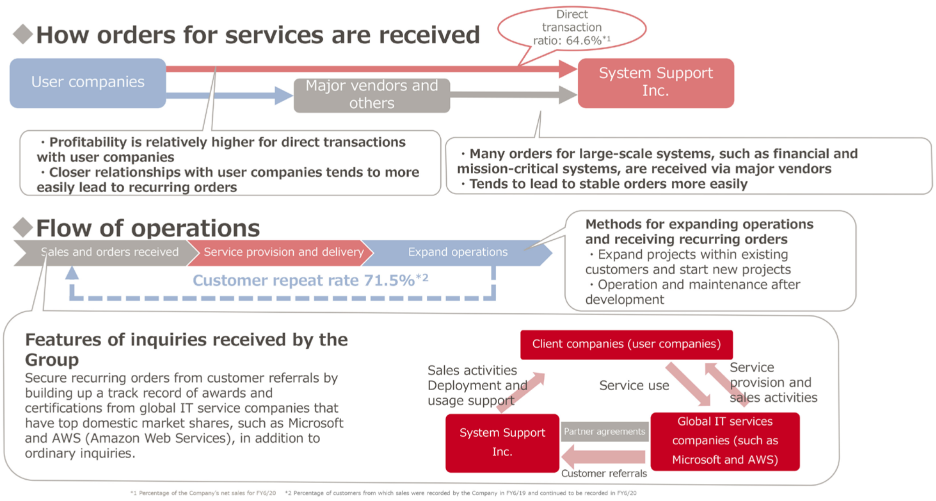
(1) Business description for each business segment

a) Solutions Business

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

In terms of the sales composition ratio for FY6/20, contract development of IT systems represented nearly 50% of sales. The remainder was split mostly evenly among three components, namely (1) cloud-related services (deployment and migration support for cloud services such as Microsoft Azure, AWS, ServiceNow), (2) ERP-related services (such as deployment of SAP ERP and maintenance and operation), and (3) database-related services (design, construction, and maintenance and operation of Oracle databases). In addition, direct transactions with customers represented just over 60% of the orders received by the Company, with the remainder comprising subcontracted orders received via major SI vendors and other partners. Projects undertaken through direct transactions with customers have a relatively high profitability and tend to lead to recurring orders more easily as closer relationships are developed with customers through such projects. Meanwhile, subcontracted projects have the feature of tending to lead to stable orders more easily. This is because these projects often cover longer periods of time as they primarily involve large-scale projects, such as systems for financial institutions and mission-critical systems.

Main features of the order-receipt scheme in the Solutions Business



Source: The Company's results briefing materials

Moreover, one of the features of the Company is that it is a group of technology professionals, with engineers representing more than 80% of personnel in the Solutions Business. The Company needs only a relatively small number of sales personnel because it receives many customer-referred projects from Microsoft, AWS and Oracle. These projects are referred to the Company based on its abundance of personnel with sophisticated technological capabilities and its extensive development track record in cloud-, database-related and other projects.

Track record of main certifications and awards

<table>
<tr><th>Microsoft Azure</th><th>AWS</th></tr>
<tr><td rowspan="3">• Obtained Gold Cloud Platform Competency Certification
Certified as a partner with an outstanding track record in expanding Microsoft Azure
• Obtained Advanced Specialization*1
Obtained certification as a partner with sophisticated expertise in specific solution fields
• Received three consecutive MVP awards
Received consecutive awards in the data platform field since 2017*2</td><td>• Obtained Oracle Competency in the AWS Competency Program*3
• Received the APN Partner Award "Rising Star of the Year" (FY2014)</td></tr>
<tr><th>Oracle</th></tr>
<tr><td>• Received Oracle Database-related awards for 14 consecutive years*4
Received Oracle Certification Award 2020 and other awards from Oracle Corporation Japan</td></tr>
</table>

*1 Obtained in the field of migration of Windows Server and SQL Server to Microsoft Azure.
*2 Award received by the Company's employees
*3 A program to identify, validate, and promote Advanced and Premier tier partners in the AWS Partner Network (APN) with demonstrated technical expertise and proven customer success pertaining to AWS.
*4 As of December 31, 2020
Source: Prepared by FISCO from the Company's results briefing materials

b) Outsourcing Business

In the Outsourcing Business, data centers managed by subsidiary eNet Solutions Co., Ltd. at four locations in Japan (in Tokyo and Kanazawa) account for around 70% of net sales from management services. These services are used as infrastructure for the private clouds of companies and for BCP measures and data backup management. Moreover, in 2017 the Company began providing a service that allows customers to easily use IBM Japan, Ltd.'s IBM Watson Explorer (an AI-driven search and analysis platform) with a monthly charge plan. This is offered as a value-added service that acts as a hook for acquiring data center customers. Since 2006, the Company has also been providing Safetylink24, an emergency notification and safety confirmation service that automatically distributes safety confirmation messages linked to earthquake information (currently around 800 companies are subscribed to this service). Furthermore, the Company started offering ActionPassport, an electronic work flow system, in 2010. Demand for Action Passport has been increasing amid the COVID-19 crisis. The number of subscribers to Action Passport has reached around 300 companies. These services have a recurring business model based on monthly fees, so revenue increases in line with growth in the number of subscribers. As of December 2020, the number of customers using the Company's data centers amounted to approximately 1,000 companies.

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

c) Product Business

In the Product Business, the Group conducts the development and sales of products (software). It also customizes products according to customer needs. Many products are sold via sales agencies, in addition to direct sales to customers. The Product Business' current main product is "Tate Yakusha" for the construction industry, which represents just over 40% of net sales, followed by the "MOS" mobile order receipt and placement system, which represents around 30% of net sales. Most sales in the Product Business are generated by monthly fees from cloud (SaaS) services. Therefore, this business has a recurring business model where revenue increases in line with growth in the number of subscribers.

Outline of major products

Name	Provider	Description	Number of subscribing companies*
Tate Yakusha	System Support Inc.	A construction work information management system. The monthly charge for the basic version is ¥36,000 per 5 users (initial cost ¥240,000). The professional version is offered at a monthly charge of ¥39,800 per 5 users (initial cost: ¥480,000)	607
MOS	ACROSS Solutions, Inc.	A mobile order receipt and placement system. The full version is offered at an initial cost starting at ¥350,000 with options starting at ¥100,000, and a monthly charge starting from ¥20,000. (The exact amounts will depend on the number of accounts of the party placing orders.)	409
SHIFTEE	System Support Inc.	A cloud-based shift management system. The monthly charge for the full version is ¥400 per user (separate charges apply for customization).	73
Shugyo Yakusha	System Support Inc.	An attendance/work management system. The monthly charge for the cloud version is ¥200 per user (separate charges apply for the on-premise version.)	52

* As of December 31, 2020
Source: Prepared by FISCO from the Company's website and results briefing materials

(2) Group companies and the number of employees

The Company's subsidiaries specialize in different functions and business sectors so that they can constantly provide new solutions to customers with proactivity and speed in each company's specialty area. In addition, the number of employees was 1,039 on a consolidated basis as of the end of June 2020. The Group's workforce has increased every year in step with growth in the size of its business. Of the total, the number of employees of the Company on a non-consolidated basis was 870, representing more than 80% of Group-wide employees.

Description of main businesses and number of employees of Group companies

Name of company	Solutions Business	Outsourcing Business	Product Business	Number of employees
System Support Inc.	System development, infrastructure construction support, cloud service deployment support	System operation and maintenance, data entry services	Development and sales of "Tate Yakusha", a construction work information management system, and other products	870
eNet Solutions Co., Ltd.	Deployment of various solutions	Data centers and related platform services	-	60
T4C Co., Ltd.	ERP product deployment consulting	-	-	70
STS Medic Inc.	Sale and installation of medical devices and other items	-	Sales and deployment support for "T-File," medical image filing system	11
ACROSS Solutions, Inc.	-	-	Development and sale of "MOS" Mobile order receipt and placement system	19
STS Innovation, Inc.	-	Outsourcing service for management operations	-	6
STS Innovation Canada Inc.	-	Outsourcing services for management operations	-	3

* Other businesses (overseas information provision service, overseas media business, staff referral business, etc.) are conducted by STS Innovation, Inc. The number of employees is as of June 30, 2020.
Source: Prepared by FISCO from the Company's securities reports

Results trends

In its results for 1H FY6/21, the Company delivered double-digit earnings growth by improving the cost-of-sales ratio and curtailing SG&A expenses

1. Outline of results for 1H FY6/21

Looking at consolidated results for 1H FY6/21 (July-December 2020), the Company posted net sales of ¥6,917mn, up 5.2% YoY, operating profit of ¥508mn, up 25.1%, ordinary profit of ¥517mn, up 38.4%, and profit attributable to shareowners of parent of ¥344mn, up 43.6%. The impact of the COVID-19 crisis on net sales remained mostly within the anticipated range, and net sales progressed largely in line with the Company's forecast. The sales growth trend continued, as growth in sales in the Solutions Business and Outsourcing Business covered a slight decrease in sales in the Product Business.

Meanwhile, on the profit front, the cost-of-sales ratio decreased from 74.5% in 1H FY6/20 to 73.8%, owing mainly to an improved product mix and decreased fixed costs associated with working from home. The SG&A expenses ratio decreased from 19.3% to 18.9%, due mainly to the cancellation of trade exhibitions and the introduction of online sales. These factors helped to push up the operating profit margin. Non-operating profitability improved primarily because of the non-recurrence of listing expenses of ¥17mn recorded in the same period of the previous fiscal year for the Company's listing on the Tokyo Stock Exchange First Section, and an increase of ¥20mn in subsidy income.

Results for 1H FY6/21

(¥mn)

	1H FY6/20		1H FY6/21				
	Results	vs. sales	Initial plan	Results	vs. sales	YoY	vs. plan
Net sales	6,573	-	7,004	6,917	-	5.2%	-1.2%
Cost of sales	4,899	74.5%	-	5,103	73.8%	4.2%	-
SG&A expenses	1,267	19.3%	-	1,305	18.9%	3.0%	-
Operating profit	406	6.2%	410	508	7.4%	25.1%	24.0%
Ordinary profit	373	5.7%	405	517	7.5%	38.4%	27.8%
Profit attributable to owners of parent	239	3.6%	268	344	5.0%	43.6%	28.4%

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

The Solutions Business posted a large increase in sales related to ServiceNow, a cloud service for companies

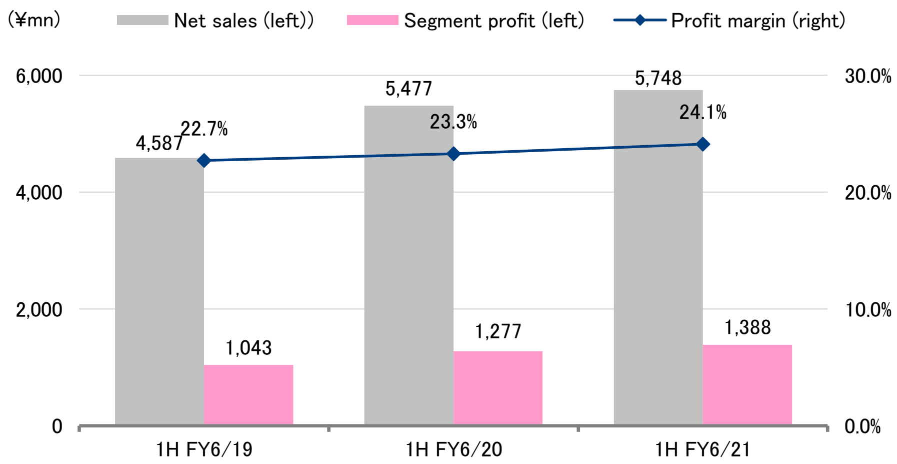
2. Trends by business segment

(1) Solutions Business

In the Solutions Business, net sales rose 4.9% YoY to ¥5,748mn, and segment profit increased 8.6% YoY to ¥1,388mn. The main drivers of the higher sales were large growth in sales related to "ServiceNow"*, a cloud service provided by ServiceNow, in addition to solid trends in ERP deployment projects and cloud migration support projects. On the profit front, the main drivers of higher profits were an increase in high profit margin "ServiceNow" sales, and a decrease in fixed costs associated with working from home. The profit margin rose from 23.3% in 1H FY6/20 to 24.1%. In "ServiceNow" related business, net sales increased by around 80% YoY to just over ¥500mn, growing substantially. This sales growth was supported by the tailwind of increasingly active digital transformation (DX) investments by companies.

* "ServiceNow" is a cloud service for standardizing business processes. It is provided by ServiceNow of the United States. Looking at examples of usage, the information system departments of companies use the service when they need to integrate the management of assets, work flows, incidents and so forth for the purpose of streamlining operations. The Company was one of the earliest Japanese companies to enter into a partner contract with ServiceNow in 2015. The Company has a top-tier track record in the deployment of ServiceNow in Japan.

Performance trends in the Solutions Business

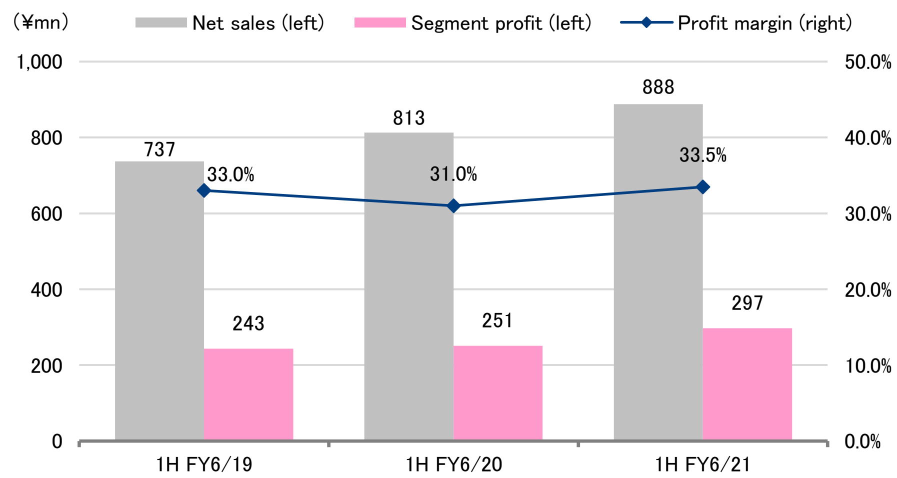


Source: Prepared by FISCO from the Company's results briefing materials

(2) Outsourcing Business

In the Outsourcing Business, net sales were ¥888mn, up 9.3% YoY, and segment profit of ¥297mn, up 18.2%. Sales from data center services, including AI-related services, increased steadily. The segment profit margin also rose from 31.0% in 1H FY6/20 to 33.5%, owing to the positive effects of increased net sales.

Performance trend in the Outsourcing Business

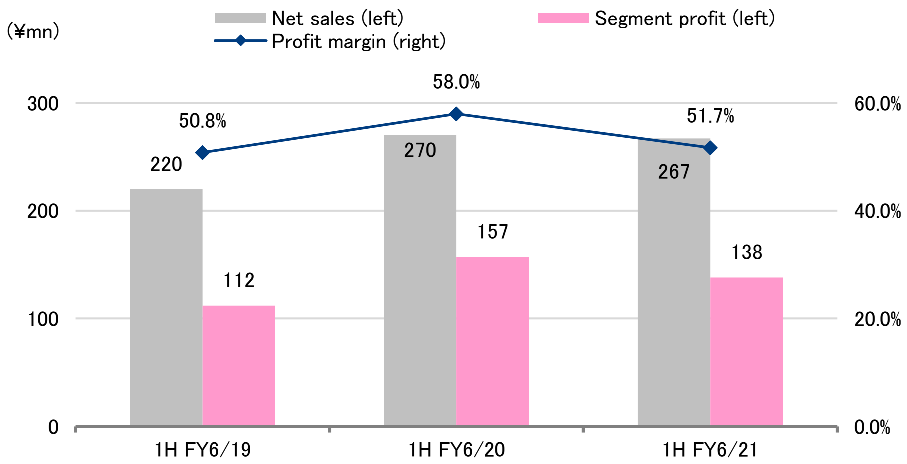


Source: Prepared by FISCO from the Company's results briefing materials

(3) Product Business

In the Product Business, net sales were ¥267mn, down 1.1% YoY, and segment profit was ¥138mn, down 11.8%. The main factor behind the decrease in net sales was a decline in orders received for customized projects for “Tate Yakusha”, although a build-up in the number of subscribers to “MOS”, “Shugyo Yakusha”, and “SHIFTEE”, helped to increase net sales. On the profit front, earnings decreased due to the non-recurrence of a large customized project with a high profit margin for “Tate Yakusha” in 1H FY6/20. The segment profit margin decreased from 58.0% to 51.7%, too. The Company is regaining lost ground in orders for “Tate Yakusha” by strengthening web sales. The number of subscribers by major product as of December 31, 2020 was 607 companies for “Tate Yakusha”, (up 24 companies YoY), 409 companies for “MOS” (up 98 companies), 73 companies for “SHIFTEE”, (up 21 companies) and 52 companies for “Shugyo Yakusha” (up 39 companies). The main revenue drivers are “Tate Yakusha” and “MOS”. The Company will also seek to monetize “SHIFTEE” and “Shugyo Yakusha”, which is in its third year since sales commenced, by spurring growth in the number of subscribers going forward.

Performance trends in the Product Business



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

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

3. Financial condition and business indicators

Looking at the Company’s financial condition as of end-1H FY6/21, total assets were ¥6,198mn, an increase of ¥250mn from end-FY6/20. In terms of the main factors behind this change, under current assets, cash and deposits decreased by ¥62mn, while notes and accounts receivable – trade increased by ¥263mn. Under non-current assets, software included in intangible assets increased by ¥33mn.

Total liabilities were ¥3,535mn, a decrease of ¥4mn from end-FY6/20. While interest-bearing debt increased by ¥469mn, accrued expenses and accrued consumption taxes decreased by ¥420mn and ¥106mn, respectively. Total net assets were ¥2,662mn, an increase of ¥254mn from end-FY6/20. Retained earnings increased by ¥243mn, primarily due to the recording of profit attributable to shareowners of parent and the payment of dividends.

Looking at business indicators, the equity ratio, which indicates financial soundness, rose from 40.5% as of end-FY6/20 to 43.0% in step with earnings growth. Meanwhile, the interest-bearing debt ratio rose from 42.1% to 55.7% due to an increase in short-term borrowings. Net cash (cash and deposits – interest-bearing debt) was a positive ¥839mn. Based on these factors, the Company's financial position is judged to be sound.

Regarding profitability, the ratio of operating margin to net sales has remained on an upward trend, rising from 4.0% in FY6/18 to 7.4% in 1H FY6/21. This is mainly because the Company has eliminated almost all unprofitable projects as it has strengthened its internal project management system; the profitability of the Solutions Business has been improving due partly to changes in the sales composition ratio; and the composition ratio of the highly profitable Products Business has been rising. The Company has maintained high profitability with an ROA and ROE marking more than 10%.

Consolidated balance sheet

(¥mn)

	FY6/18	FY6/19	FY6/20	1H FY6/21	vs. prior fiscal year-end
Current assets	3,103	4,223	4,631	4,856	225
(Cash and deposits)	1,436	1,881	2,387	2,324	-62
Non-current assets	1,063	1,141	1,316	1,341	24
Net assets	4,166	5,365	5,947	6,198	250
Total liabilities	3,608	3,387	3,540	3,535	-4
(Interest-bearing debt)	1,499	1,145	1,015	1,484	469
Total net assets	558	1,977	2,407	2,662	254
(Security)					
Equity ratio	13.4%	36.9%	40.5%	43.0%	
Interest-bearing debt ratio	246.1%	58.0%	42.1%	55.7%	
(Profitability)					
ROA	9.4%	10.6%	12.6%	-	
ROE	48.4%	27.2%	20.5%	-	
Operating margin	4.0%	4.5%	5.6%	7.4%	

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

Outlook

The Company has kept its initial forecasts for FY6/21 results unchanged, but there is a high probability that results will finish above forecasts due to surging demand

1. Outlook for FY6/21

For its FY6/21 consolidated results, the Company has kept its initial forecasts unchanged. It is forecasting net sales of ¥14,342mn, up 7.2% YoY, operating profit of ¥798mn, up 5.8%, ordinary profit of ¥785mn, up 10.3%, and profit attributable to shareowners of parent of ¥518mn, up 15.3%.* Although there are no specific concerns about the outlook at this time, the Company has not changed its forecasts because the impact of COVID-19 crisis remains uncertain.

* The FY6/21 forecast is based on information available as of April 15, 2021, the date the Japanese version of the report was issued.

The achievement rates against full-year forecasts through to the end of 1H FY6/21 were 48.2% for net sales and 63.7% for operating profit. The average achievement rates over the past two years were 48.3% for net sales and 52.9% for operating profit. For 1H, progress was made at mostly same pace for net sales, whereas progress was faster than the past average for profits. The reduction in fixed costs due to the introduction of working from home was one of the main reasons for profit surpassing forecast in 1H FY6/21. Fixed costs should continue to decrease similarly in 2H FY6/21. Accordingly, FISCO believes the Company is highly likely to outperform its forecasts on the basis of profits.

Consolidated outlook for FY6/21

(¥mn)

	FY6/20		FY6/21			Average achievement rate through 1H	Average achievement rate through 1H for the past 2 years
	Results	% of net sales	Initial forecast*	% of net sales	YoY		
Net sales	13,376	-	14,342	-	7.2%	48.2%	48.3%
Operating profit	754	5.6%	798	5.6%	5.8%	63.7%	52.9%
Ordinary profit	712	5.3%	785	5.5%	10.3%	65.9%	51.5%
Profit attributable to owners of parent	450	3.4%	518	3.6%	15.3%	66.4%	50.4%

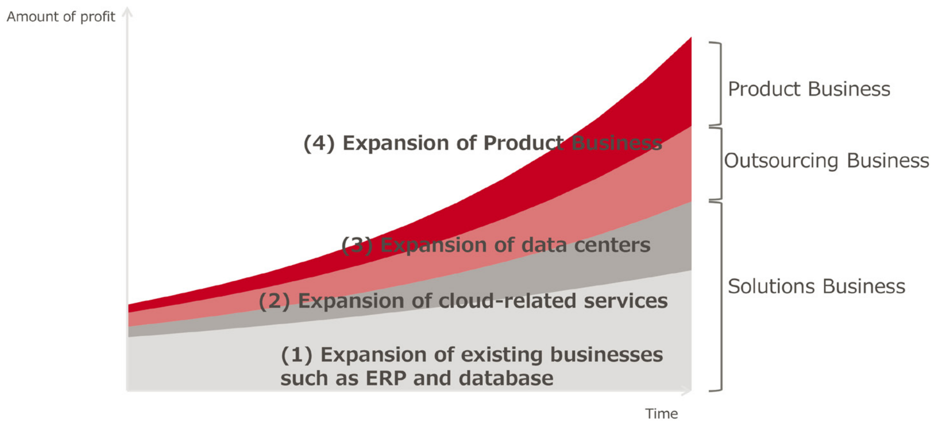
* The FY6/21 forecast is based on information available as of April 15, 2021, the date the Japanese version of the report was issued.
Source: Prepared by FISCO from the Company's financial results

Based on its sophisticated technological capabilities, the Company aims to achieve high growth by capturing orders for cloud deployment and migration and ERP projects for which demand is surging, and by building up recurring business

2. Growth strategy

The Company's growth strategy for the future is to accelerate revenue growth by working to expand cloud-, ERP-, and database-related existing businesses in the Solutions Business and to grow operations that will become recurring businesses, specifically the Outsourcing Business, which includes data center services, and the Product Business. As for human resources to support this growth strategy, the Company plans to recruit at a pace of around 60 new graduates and 90 mid-career employees year-round on a Group-wide basis. The Company recruited locally in Tokyo, Osaka, Nagoya, and Kanazawa, where its offices are located. In spring 2021, the Company recruited 32 new graduates in Tokyo, 7 in Nagoya, 10 in Osaka and 11 in Kanazawa. The priority measures in each business are described below.

Business growth diagram



Source: The Company's results briefing materials

(1) Solutions Business

In the Solutions Business, the Company aims to achieve growth by implementing three main measures. First, it will strengthen orders received for projects to construct database on cloud platforms. In the past few years, companies have stepped up activity to migrate from existing IT systems to cloud platforms, particularly cloud infrastructure supplied by global IT companies, such as Microsoft Azure and Amazon Web Services (AWS). The Company will capture orders for consulting, platform construction, and migration support from such customers, and at the same time it will develop and provide account resale and option services for each cloud platform. Through these measures, the Company's strategy is to accumulate revenue from recurring business.

The Company has developed technological capabilities over many years in the database field. Leveraging these capabilities as its strengths, the Company has worked on numerous projects related to cloud-based database and data analytics platforms, which are highly specialized fields with high barriers to entry. In 2014, the Company became first in Japan to be certified for Oracle Competency*, an APN partner program of AWS. In database-related business, the Company plans to continue working to capture orders, including cloud migration projects, as a stable source of revenue. In addition, the Company will continue to proactively invest in the recruitment and training of technology professionals and strengthen ties with cloud vendors that have top domestic shares, such as AWS and Microsoft. By doing so, the Company will continuously secure orders through customer referrals without incurring marketing costs, with the aim of achieving growth.

* Oracle Competency is a program where AWS evaluates and certifies partners that have the technologies and track record needed to provide total support for the design, deployment, management and operation of Oracle-based work loads implemented on the AWS cloud. As of March 2021, 5 companies have earned this certification in Japan.

The second priority measure is to strengthen deployment and usage support services for ServiceNow, which has continued to grow rapidly. As described earlier, this service is fitted with a wide range of functions that contribute to the standardization and automation of corporate business processes. In the past few years, ServiceNow has continued to experience rapid growth globally. In 2020, the COVID-19 crisis accelerated initiatives by companies to address digital transformation even in Japan. In this environment, ServiceNow can easily realize work flows and visualization premised on contact-free processes. This functionality has attracted significant interest, leading to accelerated growth.

The Company gathers information on the latest local IT trends through its North American subsidiary. In the process, the Company focused on the growth potential of ServiceNow at an early stage. In 2015, it entered into a partner agreement with ServiceNow, and it has worked to proactively expand sales. In recognition of this track record, the Company became the first Japanese company to be certified as a Bronze Services Partner*. In addition, the Company was certified as an Elite Partner* in 2019. Looking ahead, the Company plans to address surging demand by working to develop technology professionals and build a framework that can provide stable services. The Company's competitors are Accenture Japan Ltd. and Hitachi Solutions, Ltd., among others. Net sales have increased from around ¥200mn in FY6/18 to around ¥400mn in FY6/19 and ¥700mn in FY6/20. Net sales are growing fast enough to surpass ¥1,000mn in FY6/21. Profitability is also relatively high. The growth of the ServiceNow business has the potential to push up the profitability of the Solutions Business even further, so future trends will need to be watched closely.

* Criteria for certification under the ServiceNow partner program include factors such as customer satisfaction, and track record of sales and deployment. The Company is ranked in second place as of December 31, 2020 in terms of the number of ServiceNow development certifications it has obtained.

As the third priority measure, the Company will work to expand ERP-related orders centered on SAP ERP. A decision has been made to terminate product maintenance support for SAP ERP in 2027. Currently, demand is increasing for migration from SAP ERP, which is the current system, to the next-generation solution SAP S/4 HANA. In addition, considering that some companies intend to continue using SAP ERP for the time being, demand is coming from both of these sources. Moreover, SAP S/4 HANA is provided as an on-premise version and a cloud (SaaS) version. The on-premise version can be used with AWS, Google's public cloud, SAP's private cloud and other platforms, so there have been many cloud migration support projects. ERP-related demand is predicted to continue growing by around 10% per annum through to the expiration of the maintenance period in 2027. With regard to SAP ERP, the Company and its subsidiary T4C have approximately 170 technology professionals combined, providing support for development in main areas and all levels (infrastructure, middleware, application). Moreover, the Company and T4C possess technologies and expertise in ERP products other than SAP. One of their strengths is that they can provide a broad range of stable services according to customer needs. To address increasing demand in the run-up to 2027, the Company plans to target steady growth by continuing to work to increase and train technology professionals while building a framework for providing nearshore support related to the maintenance of existing systems in the Hokuriku area. There is significant competition for ERP usage support services. For large-scale projects, the Company often does not directly receive orders for such projects in consideration of the risks involved. In many cases, Nomura Research Institute, Ltd. (NRI) <4307> and Accenture Japan Ltd. become the primary contractors for such large-scale projects and the Company advances such projects together with these partners.

(2) Outsourcing Business

In the Outsourcing Business, the Company will continue to focus on building up data center services, which will be a recurring business. The Company has established data centers in two locations in Kanazawa, an area with a low risk of earthquake activity. It can expect growth in demand for the use of these data centers as backup capacity for BCP measures. The targeted customers are companies building private clouds. The Company will provide proprietary value-added services to these customers as a hook to achieve further growth. It still has more than enough processing capacity at its data centers. By ramping up processing capacity at existing data centers as needed, the Company can achieve sales growth. As of December 2020, monthly and annual sales of data center services, excluding initial costs, are around ¥88mn on a monthly basis, and monthly sales have been continuously achieving growth in 10% range in comparison to the same months of the previous year. Growth is expected to continue at a similar pace going forward.

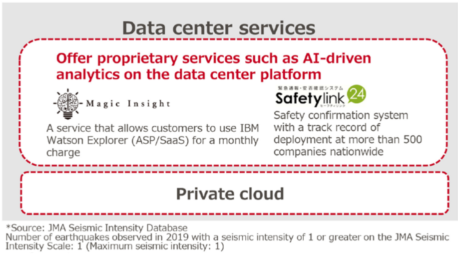
Priority measures: Data centers

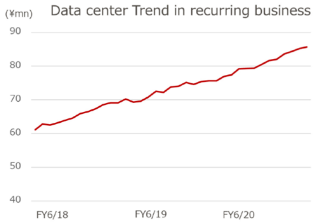
◆**Outline**

・The Group has established its own data centers in Kanazawa and Tokyo and provides private cloud services from these data centers.
・Recurring revenue can be generated based on the assumption of long-term use of data centers.

◆**Features of the Group**

・Data centers can also be used for BCP measures by locating them in Kanazawa, where there are few earthquakes.
・Targeting a different customer segment than for public clouds.
・Efforts will be made to increase the utilization rate of data centers by offering services with proprietary added value on data center platforms, along with using these services as a hook to attract customers.



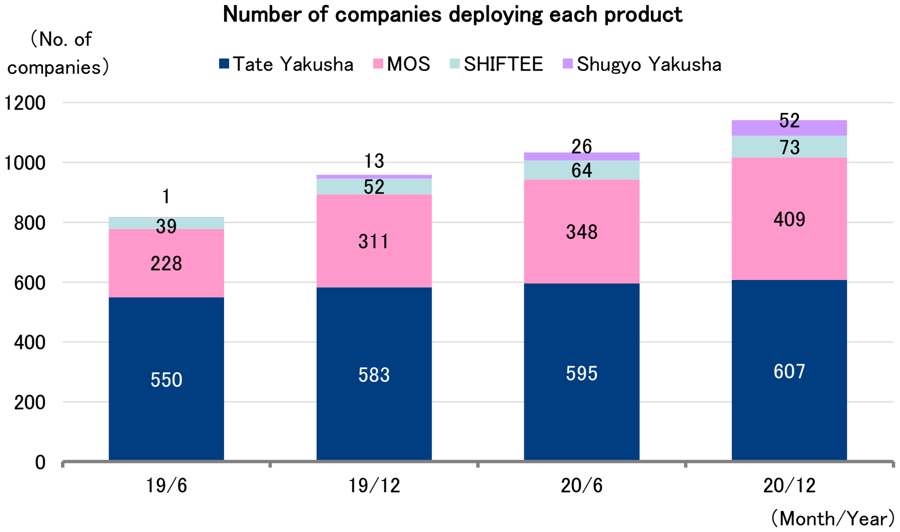


Source: The Company's results briefing materials

(3) Product Business

The Company's strategy for the Product Business is to drive revenue growth by increasing the number of subscribers. To this end, the Company will implement measures such as improving the functionality of each product, strengthening sales via agencies, and conducting web marketing. It will also work to customize products according to customer needs. "Tate Yakusha" and "MOS" have already become profitable. From here on, any increase in sales of these products will start to directly filter through to increases in profit, excluding development costs incurred to strengthen product functionality. Moreover, inquiries for "MOS" and "Shugyo Yakusha" have been increasing in response to tailwinds such as wider adoption of work style reforms and working from home. The Company will need to determine how to increase the number of subscribers by enhancing web marketing and sales channels, and this will hold the key to future revenue growth. In the Product Business, the Company intends to consider M&As as a strategic option for the future.

Number of companies deploying each product



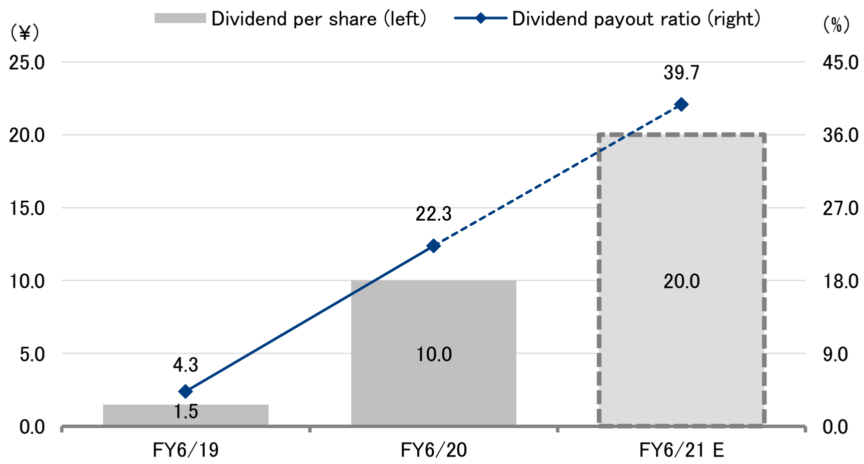
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Policy calls for maintaining stable dividends based on consideration of factors such as earnings levels

The Company regards the return of profits to shareholders as an important management issue. The Company has indicated that its policy on the distribution of profits is to provide stable dividends based on consideration of factors such as earnings levels, while ensuring adequate internal reserves needed for future business expansion and strengthening the management structure. It will also strive to improve the level of dividends according to business results and profit levels. The Company revised and announced its dividend forecast on the same day that it announced 1H FY6/21 results, indicating that it will increase dividends per share for FY6/21 from the initial forecast of ¥10.0 to ¥20.0. The dividend payout ratio is estimated to be 39.7%. However, given that business results are progressing at a faster pace than planned, FISCO believes the dividend payout ratio will ultimately settle down somewhere in the low 30% range.

Dividend per share and dividend payout ratio



Note: The Company conducted two-for-one stock splits in April 2019 and June 2020. Figures for FY6/19 have been retrospectively adjusted to reflect those stock splits.
Source: Prepared by FISCO from the Company's financial results

FISCO

Disclaimer

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