COMPANY RESEARCH AND ANALYSIS REPORT

Softbrain Co., Ltd.

4779

Tokyo Stock Exchange First Section

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Index

Summary

Aiming for consolidated operating income of ¥1.5bn in FY12/20, and expects to enter a high-growth stage from 2021 onwards

The mainstay businesses of Softbrain <4779> Co., Ltd. (hereafter, also “the Company”) are the sales innovation business* that is centered on sales of “e-Sales Manager,” which is a sales support system (customer relationship management (CRM) and sales force automation (SFA)) to resolve and support the resolution of companies’ sales problems, and the field marketing business of its subsidiary. “e-Sales Manager,” which is No.1 for usability, holds the leading market share among domestic vendors as a sales support tool, and in total it has been introduced by more than 4,500 companies.

* From FY12/18, the name of the e-Sales Manager-related business was changed to the sales innovation business. As the business content is the same, in this report, the sales innovation business name is used as the name for the former business.

1. Higher sales but lower profits in the FY12/17 results

In the FY12/17 consolidated results, the Company achieved higher sales but lower profits, with net sales increasing 4.8% year-on-year (YoY) to ¥8,091mn and operating income decreasing 6.4% to ¥949mn. In the field marketing business, sales and profits decreased due to a fall in orders and the strengthening of the structure for business expansion. However, within the situation of companies actively implementing measures toward improving their sales productivity, the sales innovation business maintained its double-digit increases in sales and profits and achieved record high net sales.

2. Outlook for the FY12/18 results is double-digit increases in sales and profit

The outlook for the FY12/18 results is double-digit increases in sales and profits, with net sales to increase 10.0% YoY to ¥8,900mn and operating income to rise 21.1% to ¥1,150mn. The sales innovation business will continue to perform strongly, while sales and profits are also expected to increase in the field marketing business through the growth in ordered projects from the strengthening of the sales structure. Therefore, the Company is aiming for record high results for the first time in two fiscal years.

3. Announced medium-term management plan

The Company announced its 3-year medium-term management plan in January 2018. It is positioning these 3 years as a preparation period toward rapid growth from 2021 onwards, while reforming its earnings structure from a flow-type to a stock-type earnings model. In the sales innovation business, while continuing to strengthen its existing businesses, in order to expand the customer base, for the self-serve-type* “e-Sales Manager Remix MS,” which is intended for medium-sized companies and small- and medium-sized enterprises (SMEs), it is developing products tailored to industry characteristics for regulated industries and for specific industries that have special operations. The medium-term management plan does not incorporate the contributions to earnings of these new products, and the plan is for annual sales growth of 16% only from strengthening existing products. On the other hand, in the field marketing business, the Company is making maximum use of its field support staff, who are mainly housewives located throughout the country, to capture outsourcing demand from consumer-goods manufacturers. It is also planning annual sales growth of 7% from expanding its business area into other outsourcing markets. The results targets for FY12/20, which is the plans final year, are net sales of ¥11,250mn and operating income of ¥1,530mn.

* A system that enables the customers themselves to simply change the input and output settings to fit their company’s sale process, and to upload data.

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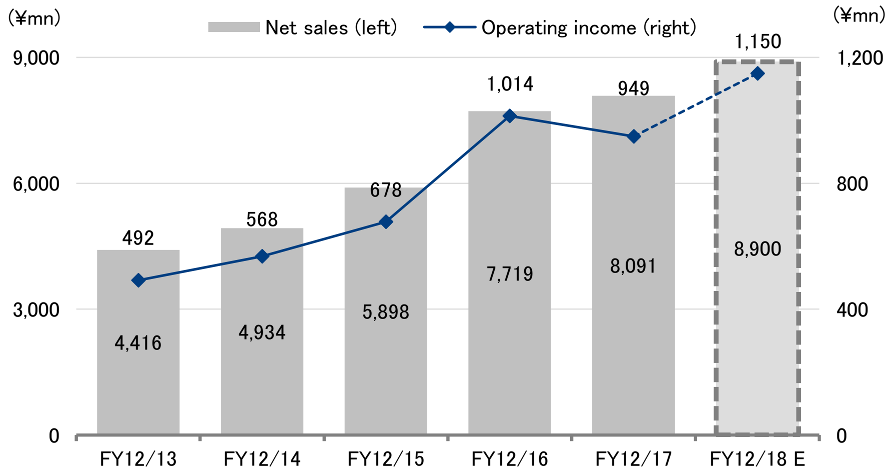
4. Pays dividends aiming for a dividend payout ratio of 30%

The Company's dividends policy is to continuously pay dividends aiming for a dividend payout ratio of 30%, unless it has special demands for funds. For FY12/18, it plans to increase the dividend per share by ¥1.0 YoY to ¥8.0 (dividend payout ratio, 31.3%). We can expect dividend growth in the future also, if earnings continue to expand.

Key Points

- Outlook for FY12/18 is for the field marketing business to recover and profits to increase
- Intends to expand the customer base for "e-Sales Manager" by launching new products
- For FY12/20, is aiming for consolidated operating income of ¥1.5bn

Results trends



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

Company profile

The two earnings pillars are the sales innovation business and the field marketing business

1. Company History

Softbrain was founded in 1992 as a software development company and, developed e-Sales Manager software in 1999 to help companies improve the business productivity. Its mainstay business has been the development and sale of e-Sales Manager.

In addition, from 2004 to 2006, the Company established a number of subsidiaries to expand. In 2004, Softbrain Field Co., Ltd. was established to handle the layout of storefront and field marketing support such as data collection. In the same year Softbrain Service Co., Ltd. was established to conduct consulting and skill training focused on issues related to sales and marketing. In 2005, Softbrain Offshore Co., Ltd. was established to handle offshore software development and product management. In the same year, Diamond Business Planning Inc., which publishes and sells magazines and books on sales and sales promotion, was acquired and the company was converted into a subsidiary of Softbrain. In 2006, Softbrain Integration Co., Ltd. was established to handle consulting related to the integration of tablets and smartphones into sales systems.

Company history

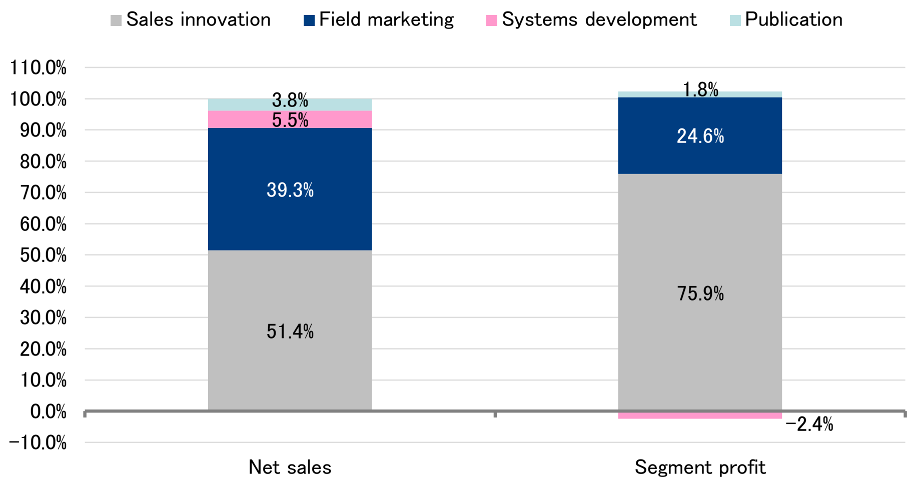
Date	History
June 1992	Softbrain Ltd. established in Sapporo City (relocated to Tokyo in 1998) to develop and sell software for the civil engineering industry
November 1992	Changed to joint-stock company structure
August 1999	Sales support system e-Sales Manager (CRM/SFA software) launched
December 2000	Listed on TSE Mothers section (relisted on First Section in 2005)
June 2001	Withdrew from original business (science solutions) and switched focus to current mainstay sales and marketing business
July 2004	Established subsidiary Softbrain Field Co., Ltd. to handle information gathering and contracting services at retail stores and service sites
August 2004	Established subsidiary Softbrain Service Co., Ltd. to handle service sales and support for small and medium-sized companies
September 2005	Acquired Diamond Sales Editing Planning (now subsidiary Diamond Business Planning Inc.) to handle publishing and sales of books and magazines related to sales and marketing promotion Established subsidiary Softbrain Offshore Co., Ltd. to handle offshore software development and product management
February 2006	Established subsidiary Softbrain Integration Co., Ltd. to handle system integration
June 2010	Launch of multi-cloud compatible e-Sales Manager Remix Cloud as an upgrade to mainstay product e-Sales Manager software
February 2013	Softbrain Field Co., Ltd. launched reason-for-purchase data service
February 2014	Released major upgrade of e-Sales Manager Remix Cloud with the target of becoming the “No.1 for usability” sales support (CRM/SFA) tool. Launched Revision 5 with new and improved design and user interface
July 2014	Softbrain Integration Co., Ltd. received certification from Apple Inc. and joined Apple Consultants Network
April 2016	Launched e-Reception Manager
September 2016	Announced partnership with SHANON Inc.
January 2017	Released Revision 6, which includes e-Sales Manager Analytics, a BI service based on Tableau BI tool technology from Tableau Japan.
December 2017	Launched sales of CRM/SFA “e-Sales Manager Remix MS” for SMEs

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

2. Business outline

The Company consists 4 business segments; the sales innovation business (formerly e-Sales Manager related business), the field marketing business, the systems development business, and the publication business. The majority of both sales and profits come from the sales innovation business and the field marketing businesses, which are the two main revenue streams. It had 5 consolidated subsidiaries as of the end of December 2017. Overviews of each business are as follows.

Percentages by business segment（FY12/17）



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

Group companies and business descriptions

Company name	Ownership ratio	Description of main business
Sales innovation business		
Softbrain Co., Ltd.	-	License sales of sales support systems, cloud services, customized development, sales consulting, and sales skills training
Softbrain Service Co., Ltd.	98.7%	
Softbrain Integration Co., Ltd.	100.0%	Business consulting and training utilizing tablets, smartphones, etc.
Field Marketing business		
Softbrain Field Co., Ltd.	85.6%	Field activities operations, market research
Systems development business		
Softbrain Offshore Co., Ltd.	100.0%	Outsourced software development
Publication business		
Diamond Business Planning Inc.	70.0%	Planning, editing, and publishing of business books

Source: Prepared by FISCO from Company materials

(1) The sales innovation business

The sales innovation business includes license selling and providing services through cloud environment and support e-Sales Manager, CRM/SFA software. In addition it includes customized development, sales consulting, skills training, and also support and training services for the introduction of smart devices, such as tablets and smart phones. This business divides two classes, “System” and “Consulting/Training”. System consists of the development and selling e-Sales Manager and consulting smart device for equipping IT solution to sales staff. Consulting/Training is education business for sales person managed by Softbrain Service. In 2014, Softbrain Integration Co., Ltd. received certification from Apple Inc, joined Apple Consultants Network, and now focuses on providing integration support services to companies using iOS devices such as iPhone and iPad.

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"e-Sales Manager" is a software tool that helps enhance sales efficiency by enabling users to grasp the situation quantitatively by allowing them to visualize each process within sales activities. The environment providing method of e-Sales Manager can be divided into the license-type, where income is obtained through software license sales, and cloud type, which is a monthly subscription model, with each model accounting for about 50% of sales. In the license type, there is also an on-premises type, of building a physical environment, including servers, within a company, and a hosting type. In recent years, the number of customer using hosting services, which do not require capital investment for servers or other equipment, has been trending upwards.

As the cloud-type, in addition to "e-Sales Manager Remix Cloud" (from ¥6,000 per month per 1 ID), the Company has released a simplified version of "e-Sales Manager nano" (¥1,000 per month per ID) targeting individual proprietors and SMEs (one to several employees), and also in December 2017, "e-Sales Manager Remix MS" (from ¥3,500 per month per ID) targeting SMEs (with a sales force of 5 to 20 people). "e-Sales Manager Remix MS" is a self-serve-type service that allows the customers themselves to configure the various settings online from its introduction, and its features include that basically the same functions as "Remix Cloud" can be used for a low fee.

Sales structure of e-Sales Manager related business

	Cloud-type	Hosting-type	On-premises type
Overview	· Monthly subscription model wherein the service environment is leased out and no hardware is installed by the customer	· Customers purchase e-Sales Manager software licenses and operate on cloud service infrastructure	· Customers install servers on site, and set up and operate their own systems
Advantages	· Initial costs lower than setting up server · No system operation (security, etc.) costs	· No server setup costs · No system operation (security, etc.) costs · Running costs lower than cloud type	· Low costs over the long term · Flexible customization including integration with existing systems and added functionality
Disadvantages	· High costs over the long term	· As the e-Sales Manager license becomes the customer's asset, it takes time to amortize	· Initial costs higher than cloud type · Labor costs for system operation and maintenance
Target customers	· For trial use in certain departments/ branches only · Customers with no systems support staff · Customers wishing to keep initial costs low · Customers not wishing to add assets to their balance sheets	· For trial use in certain departments/ branches only · Customers have no systems support staff · Customers wishing to keep running costs low	· Customers with 50 or more users · Customers with multiple existing systems · Customers that cannot allow offsite data flow for security reasons · Customers wishing to keep running costs low · Customers wishing to post expenses as leasing costs

Source: Prepared by FISCO from the Company's website

e-Sales Manager Remix cloud-type fees

Basic license (cloud type)		Main option licenses	
Plan	Price	Plan	Price
Standard	¥6,000/month/user	Map license	¥1,000/month/user
Knowledge sharing (read only)	¥2,000/month/user	Business card digitization	Initial cost: ¥60,000 ¥35/card
Schedule sharing (groupware only)	¥1,000/month/user	Analytics	¥3,500/month/user
		Analytics Desktop	¥9,500/month/device
		Fee for remote data connection environment (cloud or hosting type)	¥12,000/month/device

Source: Prepared by FISCO from the Company's website

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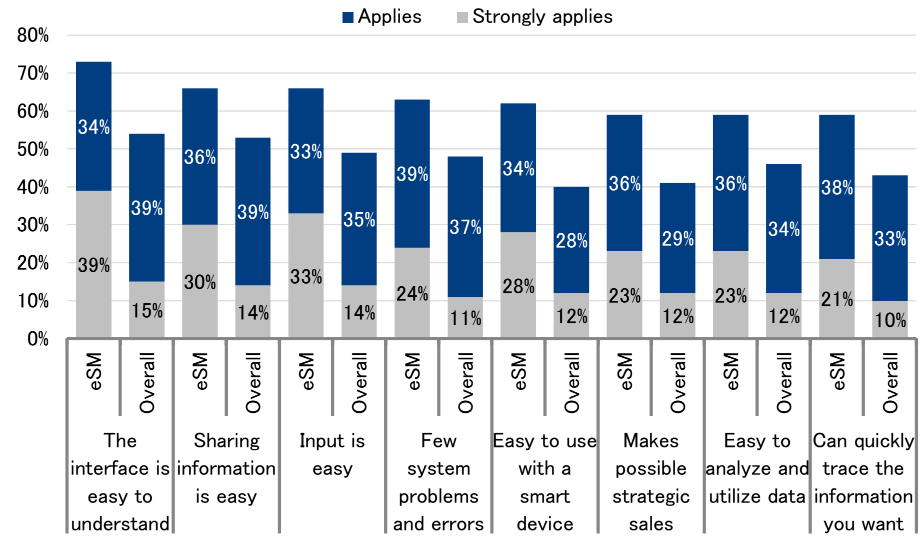
The Company has three major strengths. The first is that its product has the best reputation in the industry for "usability." According to a survey conducted among users of CRM/SFA in April 2017 by the research company Neo Marketing Inc., among the major five vendors, "e-Sales Manager" ranked top for usability for all the survey items, and it has acquired the reputation as the No.1 product for usability. Second is that the Company can respond to all customer needs in terms of type of service, whether cloud-type, hosting-type, or on premise-type. Major companies often need customized specifications, and it possesses flexible design and development capabilities to respond to these needs. An increasing number of companies using the cloud services of competitor companies are switching their projects to the Company's hosting and on-premise services due to the poor usability of the competitors' products. The third strength is that, not limited to the introduction of products, it is constructing a system that enables it to provide a total solutions service, including education to improve the effects of an introduction, and training and established support services after an introduction.

Against the background of these strengths, in total more than 4,500 companies have introduced "e-Sales Manager" since its sales were launched in 1999. The customer companies are also from a variety of industries, from manufacturing through to services, and moreover it is being introduced by a diverse range of companies, from major companies through to medium-sized companies and SMEs.

Currently, its sales support system (CRM/SFA) competitors include NI Consulting Co., Ltd., Salesforce.com Inc.<CRM> (cloud–type only), and Knowledge Suite <3999>. Looking only at the cloud market, Salesforce.com has the top share, but the Company is the largest player among the domestic vendors.

Satisfaction survey on the usability of CRM/SFA



Source: Survey by Neo Marketing Inc. (April 2017, n=400). Targets of survey: 5 sectors of e-Sales Manager, Oracle CRM, Sales Cloud, Microsoft Dynamics CRM, and SAP Digital CRM

(2) Field Marketing business

This business, which managed by the subsidiary Softbrain Field Co., Ltd., mainly consists of carrying out field activities at storefronts and field survey using "cast" (registered staff members), who are mostly housewives in their 30s to 50s. It also provides the staffing service for rounder, which is a service for the temporary staffing of and referrals for "rounders" (field merchandisers), who carry out the field activities.

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Field activities mainly consist of business negotiations for the relevant products, the layout of sales floors, and the installation of point-of-purchase ads at retail stores when consumer-goods manufacturers launch new products, such as food items and daily commodities. Although these activities used to be carried out by the employees of the manufacturer, the outsourcing of these activities has become more common toward improving the cost efficiency of sales promotions. The Company has more than 350 corporate customers, including from its results in the past, and they belong to a broad range of industries, although they are mainly manufacturers of food and beverage and healthcare-related products. As of December 2017, it had built one of Japan's largest networks, utilizing more than 74,000 people as its "cast," and the more than 140,000 stores that they cover nationwide include various types of businesses, such as drugstores, convenience stores, and specialty stores.

No. of stores covered by business type

December 2017

Business type	Total no. of stores
Drugstores	23,257
GSM/SM	21,517
Convenience stores	36,505
Bookstores	9,182
Home centers	4,713
Discount stores	2,767
Electronic retail stores	3,814
Specialist stores	26,726
Others	17,563
Total	146,044

No. of registered cast by area

December 2017

Area	No. of people
Hokkaido	9,244
Tohoku	10,672
Kitakanto	9,755
Greater Tokyo area	94,401
Koshinetsu/Hokuriku	10,415
Chubu	19,844
Kinki	31,557
Chugoku/Shikoku	11,952
Kyushu	16,653
Total	214,493
(no. of registered staff)	74,840
Women	55,199
Men	19,461
(questionnaire members)	214,493
Women	139,622
Men	74,871

Source: Prepared by FISCO from Company materials

Also, the "Point of Buy® reason-to-buy data provision service," which was launched in 2013, is a service that collects information on the reason to buy the products and services that are the target of the survey (among consumer goods, approximately 6,000 brands, and among restaurants, around 200 chains), from images of the receipts and also via the Internet, and provides information to consumer goods manufacturers and others. It enables companies to conduct in a timely manner questionnaire surveys on the reasons for a purchase from the actual buyer, including on the time and place of purchase, and they can utilize this information for marketing analysis, such as for new products, and to create sales promotions plans. The questionnaire surveys are conducted for members of Credit Saison's <8253> "a-q-f.com." In addition, from June 2017, they are also being conducted through the smartphone app Tocotoco Mile, the operations of which was launched through a business tie-up with Microad Inc., in a framework in which the survey respondents receive points or miles. As of December 2017, there were approximately 210,000 survey members. In addition, in March 2018, the Company announced a collaboration with Loyalty Marketing, which manages the "Ponta" shared-points service that has over 85 million members. They announced the launch of the new "Receipt de Ponta" service, in which respondents accumulate Ponta points when they photograph and post the receipt of a purchase and answer a questionnaire on the product they purchased.

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(3) Systems development business

Outsourced software development is undertaken by the subsidiary Softbrain Offshore Co., Ltd. The Company sold its development subsidiary in China in September 2013 as a part of its business structural reforms, though it presently maintains a business relationship with it as a subcontractor. It also continues to utilize its Vietnamese and domestic near-shore bases. In August 2016, the Company established a development base in Okinawa in partnership with TAIYO CLOUD SERVICE Co., Ltd.

(4) Publication business

This business is comprised of the planning, publishing, and sales of books, mainly relating to business, and it is conducted by the subsidiary Diamond Business Planning Inc. Utilizing its joint-venture cooperation with DIAMOND, Inc., it carries out corporate marketing, IR, and branding through publishing, and it is creating new value not only from the usual business books, but also from the openings provided by its publishing of corporate histories that tell “new” stories about the histories of companies.

3. Management vision

The Company’s management vision is to aim to be a leading company that reforms ways of working in Japan through “Process management x IT.” Also, its management mission is to “maximize the productivity of customers,” and in terms of the two ways of realizing this as value, it is continuing to provide “framework building” centered on “e-Sales Manager” at the same time as providing “model building” operations through consulting based on process management. It is considered that contributing to its customers’ improved productivity and sales growth will lead to the growth of the Company itself.

Financial result and business trends

The sales innovation business is driving the results, and it achieved record high net sales in FY12/17.

1. Overview of the FY12/17 results

In the FY12/17 consolidated results, net sales increased 4.8% YoY to ¥8,091mn, operating income decreased 6.4% to ¥949mn, ordinary income fell 6.0% to ¥952mn, and net income attributable to the owners of the parent declined 3.2% to ¥636mn. Sales and profits were down in the field marketing business due to the decline in spot projects and the increase in costs to strengthen the structure, and operating income fell for the first time in four fiscal periods. However, the Company still achieved record high net sales from the continuing strong performance of the sales innovation business. Also, while both sales and profits were slightly below the Company forecasts, this was mainly because results did not achieve their forecasts in the field marketing business.

The ratio of sales costs to sales fell by 1.4 percentage points compared to the previous fiscal year due to the change to the sales composition ratio, while the SG&A ratio rose by 2.7 percentage points from the increase in upfront investment for business expansion, mainly for the field marketing business. The operating income margin declined 1.4 percentages points to 11.7%. The fact that the extent of the rate of decrease of net income attributable to the owners of the parent was kept down was mainly because of the fall in the effective tax rate (31.4% –> 29.7%), and also that net income attributable to non-controlling interests declined ¥12mn YoY due to the lower profits at Softbrain Field.

FY12/17 consolidated results

(¥mn)

	FY12/16		FY12/17				
	Result	Relative to sales	Company targets	Result	Relative to sales	YoY	vs. target
Net sales	7,719	-	8,200	8,091	-	+4.8%	-1.3%
Cost of sales	4,908	63.6%	-	5,035	62.2%	+2.6%	-
SG&A expenses	1,795	23.3%	-	2,106	26.0%	+17.3%	-
Operating income	1,014	13.1%	1,060	949	11.7%	-6.4%	-10.4%
Ordinary income	1,013	13.1%	1,060	952	11.8%	-6.0%	-10.1%
Profit attributable to owners of parent	657	8.5%	670	636	7.9%	-3.2%	-5.0%

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

The sales innovation business continues to perform strongly

2. Trends by business segment

(1) The sales innovation business

In the sales innovation business, net sales (to external customers, same below) increased 15.4% YoY to ¥4,161mn and segment income rose 16.2% to ¥720mn. So the double-digit increases in sales and profits were maintained, and moreover the results were record highs. Sales of "e-Sales Manager," which provides more than 80% of sales, were strong, including from the acquisition of large projects, while sales of education and training services, mainly consulting focused on sales problems and skills training, also steadily grew.

Although there were increases in development costs to strengthen the functions of "e-Sales Manager" and temporary costs on the transfer of the head office (November 2017), the segment income margin still rose from 17.2% in the previous fiscal period to 17.3% due to the effects of the higher sales. Within the net sales, the percentage from stock-type earnings (cloud services, maintenance, support, etc.) remained at around the same level as the previous fiscal year. In the background to this was the fact that demand for on premise-type large projects for major companies continued to be strong. The new head office has more space than the old head office to enable the Company to respond to the increase in the number of employees that will occur in the future alongside its business expansion, and also to expand the seminars on solving sales problems that it holds.

In terms of the factors behind the strong performance of "e-Sales Manager," in the context of the steps being taken by companies to "reform ways of working," they are actively wanting to invest in sales support tools that contribute to the improved productivity of their sales departments, and within this situation, the Company's products have acquired excellent reputations as No.1 for usability. Since 2016, in particular inquiries from major companies for on premise-type large projects and for replacement projects from other companies in the same industry have been trending upward. In addition, demand and inquiries have been strong for the education and training services provided by the subsidiary Softbrain Service. There are cases of orders of these services alongside the introduction of "e-Sales Manager," and also cases of orders of "e-Sales Manager" in which these services acted as the sales hook, so it can be said that cross sales are functioning well within the Group.

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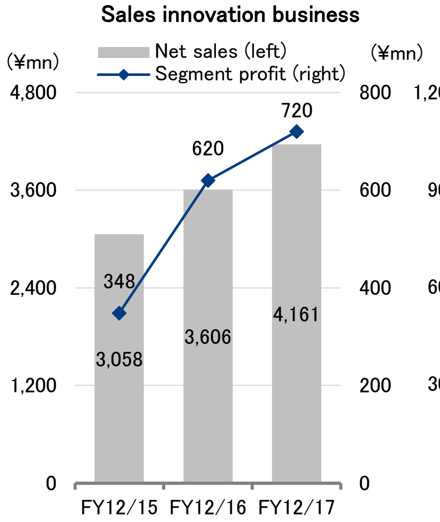
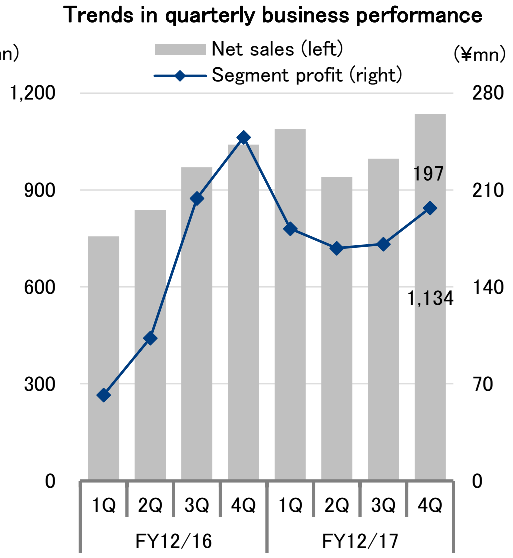


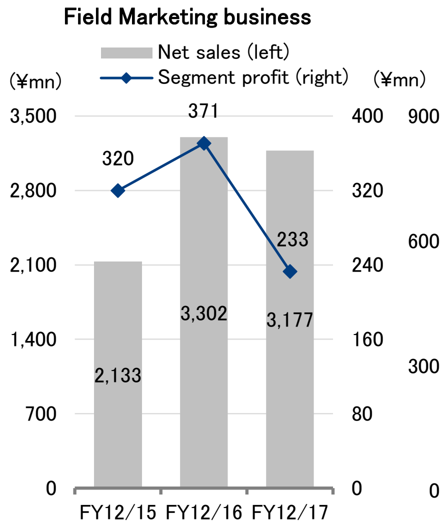


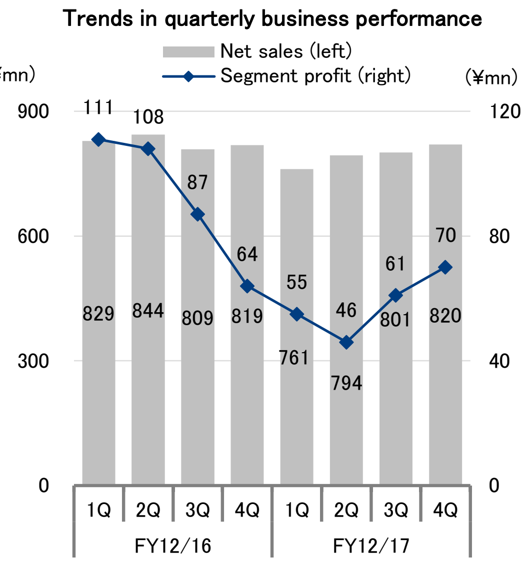
Source: Prepared by FISCO from the Company's financial results

(2) Field Marketing business

In the field marketing business, sales and profits decreased for the first time since FY12/10 when the Company started disclosing information on individual segments, with net sales decreasing 3.8% YoY to ¥3,177mn and segment income declining 37.0% to ¥233mn. Although sales for the stock businesses, including the batch outsourcing of field activities and the assignment business, trended at about the same level as the previous fiscal year, they decreased for spot projects, such as store surveys, and this was the main reason for the decline in net sales. In addition to the decline in sales, the main reason for the lower profits was that the Company actively invested in strengthening the structure toward achieving further growth (including strengthening human resources in the administrative department, renewing the corporate website, and establishing a specialist website for rounder recruitment). It also invested in new businesses, including the "Point of Buy® reason-to-buy data provision service.

The Company has continued to achieve high growth in the last few years, including due to the acquisition of large projects within the favorable market environment. But at FISCO, we think that the fact that on the one hand it focused on strengthening the organizational structure, while on the other it consequently lessened its sales activities toward acquiring new customers and new projects, led to the decline in sales in this fiscal period. However, if looking only at the results from the recent Q4 (October to December 2017), we see a recovery trend, with net sales increasing 0.1% YoY and segment income rising 10.6%.





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

(3) Systems development business

In the systems development business, net sales decreased 16.4% YoY to ¥445mn and the segment loss was ¥22mn (compared to income of ¥7mn in the previous fiscal year). Sales declined alongside the reduction in scale of some large projects. Profits fell because in addition to the lower sales, in some projects there were reviews of the prices of work in process relating to software development. In a situation in which the human resources for this business are limited, the priority policy is securing stable earnings through deepening relations with existing customers, acquiring new customers, and thoroughly managing projects.

(4) Publication business

In the publishing business, net sales increased 10.5% YoY to ¥306mn and segment income rose 16.4% to ¥17mn. Results were sluggish up to Q3, but in Q4, net sales increased significantly, up 70.7% compared to the same period in the previous fiscal year, to ¥129mn. This was the main reason for the higher sales and profits.

The outlook for FY12/18 is for the field marketing business to recover and profits to increase

3. FY12/18 consolidated results outlook

In FY12/18, the Company forecasts that consolidated net sales will rise 10.0% YoY to ¥8,900mn, operating income will increase 21.1% to ¥1,150mn, ordinary income will rise 20.7% to ¥1,150mn, and net profit attributable to owners of parent will be a double-digit increase of 17.8% to ¥750mn, with a return to increased profits projected.

In the mainstay sales innovation business, against the backdrop of the abundance of inquiries for "e-Sales Manager," the outlook is for net sales of ¥4.8bn and segment income of ¥800mn, which will be YoY growth for both of around 15%. As the Company will continue to invest in development, including for new services, the operating income margin is forecast to remain around the same level as the previous fiscal year, at 17%. Orders are expected to recover in the field marketing business, so the outlook for FY12/18 is for net sales to increase 7% YoY to ¥3.4bn and segment income to increase 28% to ¥300mn, for higher sales and profits for the first time in 2 fiscal years. The levels of earnings in the system development business and the publishing business are expected to be around the same as in the previous fiscal year.

FY12/18 consolidated results outlook

(¥mn)

	FY12/17		FY12/18		
	Result	Relative to sales	Company target	Relative to sales	YoY
Net sales	8,091	-	8,900	-	+10.0%
Operating income	949	11.7%	1,150	12.9%	+21.1%
Ordinary income	952	11.8%	1,150	12.9%	+20.7%
Profit attributable to owners of parent	636	7.9%	750	8.4%	+17.8%
Earnings per share (¥)	21.7		25.6		

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

The financial condition is sound and profitability is being maintained at a high level

4. Financial position and management indicators

Looking at the financial condition at the end of FY12/17, total assets were up ¥481mn on the end of the previous fiscal year to ¥5,836mn. In terms of the main increase and decrease factors, in current assets, there were decreases in work in process of ¥78mn and in cash and deposits of ¥41mn, but notes and accounts receivable increased ¥262mn. In non-current assets, there were increases in tangible non-current assets of ¥60mn, mainly due to the transfer to the new head office, in guarantee deposits of ¥59mn, and also in software of ¥138mn.

Total liabilities were down ¥34mn on the end of the previous fiscal year to ¥1,751mn. Advances received and income tax payable increased by ¥60mn and ¥46mn respectively, while interest-bearing debt and accounts payable-other decreased by ¥56mn and ¥7mn, respectively. Net assets were up ¥516mn on the end of the previous fiscal year to ¥4,084mn. This was because although the Company spent ¥144mn on dividend payments, it recorded ¥636mn as net income attributable to the owners of the parent.

Looking at the main management indicators, the equity ratio rose from 63.5% at the end of the previous fiscal period to 66.7%, while the interest bearing debt ratio fell from 8.7% to 6.2%, indicating that the Company is making steady progress in enhancing its financial foundation. Also, while profitability declined YoY, the operating income margin is 11.7%, ROA is 17.0%, and ROE is 17.4%, so each are above 10% and it can be judged that a high level of profitability is being maintained.

Consolidated balance sheet and management indicators

(¥mn)

	FY12/14	FY12/15	FY12/16	FY12/17	Change
Current assets	3,589	3,903	4,858	5,070	+212
(Cash and deposits)	2,677	2,687	3,177	3,135	-41
Non-current assets	555	497	496	765	+268
Total assets	4,145	4,401	5,355	5,836	+481
Total liabilities	1,134	1,533	1,786	1,751	-34
(Interest-bearing debt)	180	352	296	240	-56
Net assets	3,011	2,867	3,568	4,084	+516
Main management indicators					
(Stability)					
Shareholders' equity ratio	63.0%	62.2%	63.5%	66.7%	+3.2pt
Interest-bearing debt ratio	6.9%	12.9%	8.7%	6.2%	-2.5pt
(Profitability)					
ROA (return on assets)	14.8%	15.9%	20.8%	17.0%	-3.8pt
ROE (return on equity)	10.2%	14.0%	21.4%	17.4%	-4.0pt
Operating income margin	11.5%	11.1%	13.1%	11.7%	-1.4pt

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

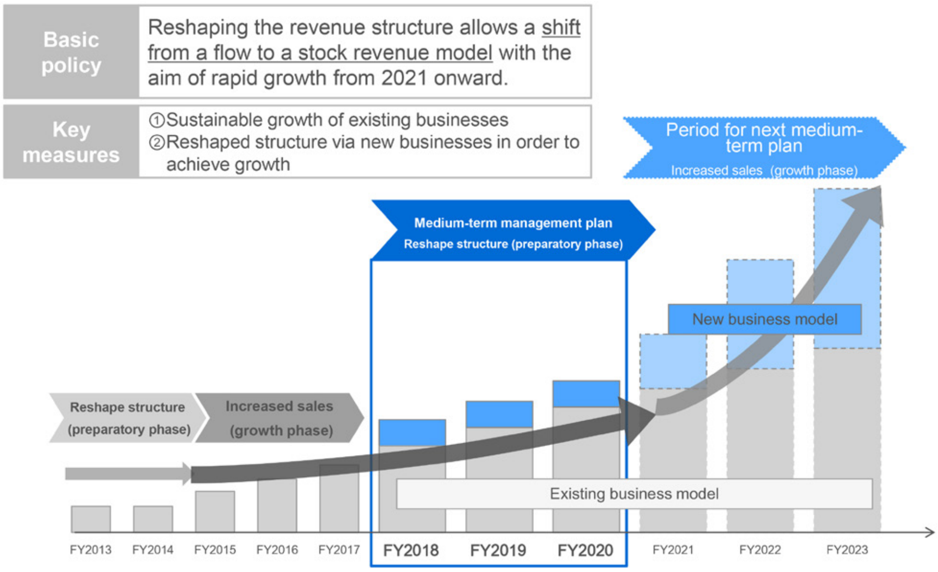
Medium-term management plan

Positioned as a preparation period for rapid growth from 2021 onwards through reforming the profit structure

1. Basic policy and key measures

In January 2018, the Company announced its 3- year medium-term management plan, with FY12/20 as the final year. As the plan's basic policy, these 3 years have been positioned as a preparation period toward growth from 2021 onwards through reforming the earnings structure to shift the footing from "a flow-type to a stock-type earnings model," and to aim for even higher growth through further strengthening the earnings foundation. In terms of the priority policies, it is working to achieve continuous growth in its existing businesses while also advancing structural reforms for growth in the new businesses.

The medium-term management plan's basic policy and priority measures



Source: Company's results briefing materials

Aiming to expand the customer base through launching new "e-Sales Manager" products

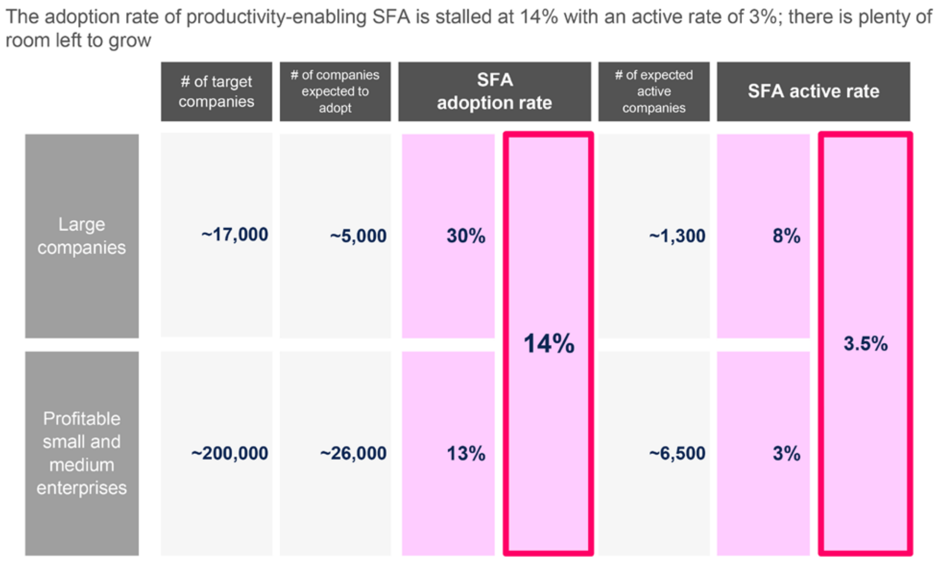
2. Growth strategies by business segments

(1) The sales innovation business

The awareness is that the business environment for the sales innovation business continues to be favorable. This is because in the context of the downward trend in the size of the working-age population in Japan, important problems for companies are "improving productivity" and "growing sales." Therefore, as the solutions to these problems, demand for the Company's "e-Sales Manager" (framework building) and sales consulting and training services (model building) is expected to increase. There are many competitors providing SFA (sales support software), but there are hardly any companies that, like the Company, can at the same time also provide model-building services, such as for consulting and training, and this is one of the Company's strengths.

The potential target market is all Japanese companies (approximately 4.1 million companies) and a total sales force of 2.6 million people. For the long term, the Company is looking toward developing globally, particularly in Asia. In the current medium-term management plan, within the above figures it is targeting approximately 220,000 companies, which are "major companies" that have the capacity to invest in IT, and "profitable medium-sized companies and SMEs," and a sales force of 1.6 million people.

The potential target market



Source: Company's results briefing materials

According to the Company's estimates, among its target of approximately 220,000 companies, the percentage of them that have introduced SFA is still low, at around 14%. Also, it seems that only 3.5% of all these companies that have introduced it are actively using its functions. This active rate is estimated by the Company from within its sales activities from the usage of other companies' products. Based on this situation, it can be said that as before, the growth potential for SFA is great. In the CRM/SFA market forecasts for Japan announced by a market research company, the outlook is that the market will continue to grow at an annual rate of 14%, from ¥28.3bn in 2015 to ¥55.2bn by 2020.

SFA introduction rate and active rate

	No. of target companies	Expected no. of introducing companies	SFA introduction rate		Expected no. of active companies	SFA active rate	
Major companies	17,000	5,000	30%		1,300	8%	
Profitable medium-sized companies and SMEs	200,000	26,000	13%	14%	6,500	3%	3.5%

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

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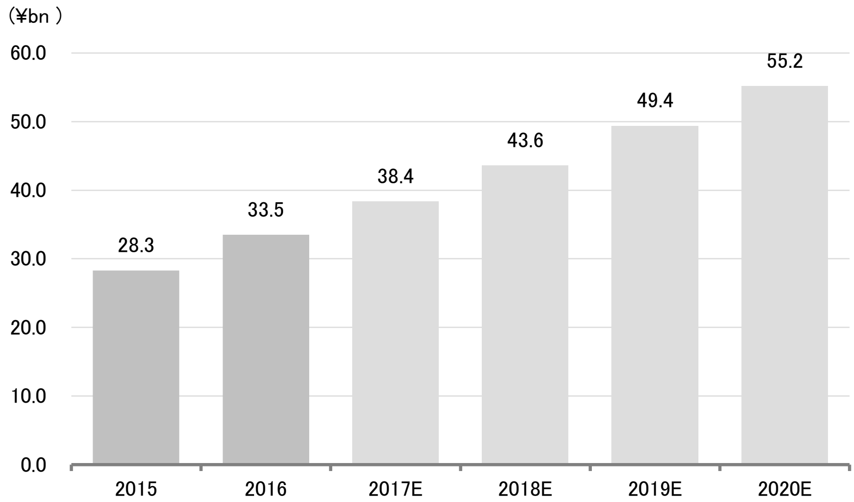
Trend in the CRM/SFA market scale



Source: Gartner, Inc. "Forecast: Enterprise Software Markets, Worldwide, 2013-2020, 2Q16 Update"

In this kind of market environment, the Company's strategy is to "strengthen the existing model" and also to acquire customers and grow earnings through developing and providing optimized products and services for "medium-sized companies and SMEs" that it has not approached in the past, and for regulated industries and "specific industries" with special operations.

In terms of the products for "medium-sized companies and SMEs," in December 2017, the Company released the self-serve-type "e-Sales Manager Remix MS." It is basically the same as the existing product in providing the main functions that are No.1 for usability, and it is a complete product in which all functions are used over the Internet, including the online collection of information and inquiries, the installation, the various settings, and the contract. It can be used for a monthly fee of around 60% of the former product (from ¥3,500 per ID). During the 30 day free trial period, users can actually experience the excellent "usability" of this product, which is considered will lead to contracts for the fee version. The Company plans to release an upgraded version in the summer of 2018 and will be conducting full-scale sales promotion activities in conjunction with this release.

Also, with regards to the products for "specific industries" the Company's strategy is, while welcoming the cooperation of industry-major companies that are already its customers, to progress development, standardization, and customer acquisition for the best SFA tools in the same industries. As it is targeting major companies, the use of not only cloud services, but also on premise-type (flow-type earnings) is possible, although it will tailor its services to the customer's requests. It has already started a number of development projects.

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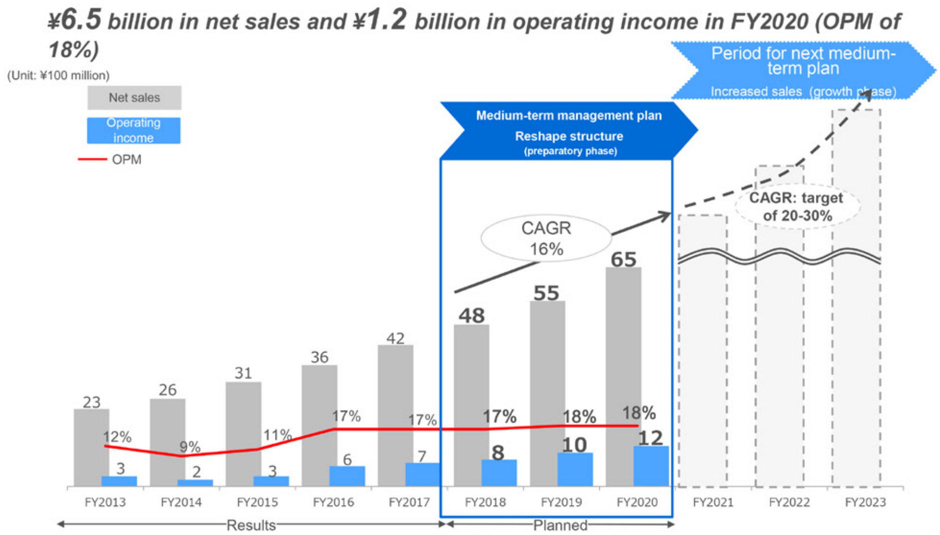
Strategy to expand the target customers

Target		Tactics
Existing model	· A sales force of more than 21 people	Thoroughly pursuing usability on the axis of "e-Sales Manager Remix" · Multi-device compliant (a framework in which it can be used anywhere and at any time) · Linked to other companies' products (BI/MA field), division-of-labor-type AI functions (replaced with AI for non-core operations) · Pursuit of "model building" through sales consulting
Specific industries	· Finance, pharmaceuticals, real estate, etc. (industries with many sales)	Collaborations with the top runners in their industries · Development of the best sales process for specific industries · Responding to the essential requirements of industries, such as to industry regulations and cooperation with industry specific-type systems · Basic designs of existing products, following the design concept
Medium-sized companies and SMEs	· Profitable medium-sized companies and SMEs with a sales force of 20 or fewer people	Opening-up the market through the self-serve-type "e-Sales Manager Remix MS" · Maintaining No.1 for usability · Providing inexpensive products · Simple introduction, setting, and utilization of the online complete product

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

The results targets in the medium-term management plan for FY12/20 are net sales of ¥6.5bn, operating income of ¥1.2bn, an operating income margin of 18%, and an average annual sales growth rate of 16%. The targets in the medium-term management plan do not incorporate the contributions to earnings of the new products for "medium-sized companies and SMEs" and for "specific industries," because they are difficult to forecast. So the Company is aiming to achieve the targets only from the growth of the existing model. Therefore, should the new products grow steadily, it is possible that these results will accumulate above the target values. The operating income margin is not expected to rise greatly because the Company will continue to actively invest in development. But it is considered that it wants to raise the percentage of sales from stock earnings from the current approximately 50% to around 70%, so the stability of earnings is expected to increase. From 2021 onwards, from the acceleration of the spread of SFA and also from the expected contribution to earnings of the new products, the Company thinks that the average annual sales growth rate will accelerate to 20% to 30% and it will enter a high-growth phase.

Sales innovation business numerical targets



Source: Company's results briefing materials

(2) Field Marketing business

The market surrounding the field marketing business is expected to continue to be favorable in the future, including due to the advances of the aging population and declining birthrate in Japan, the measures by companies to reform ways of working, and their utilization of outsourcing. In particular, the legal preparations to promote the utilization of women in the workforce, including the Act on the Promotion of Women's Participation and Advancement in the Workplace, are being progressed, and attention is focusing on housewives as a new labor force.

Changes to the business environment

Societal environment	· Full realization of a declining-birthrate, aging-population society · Societal requirements for reforms to ways of working · Momentum toward utilizing women	Legal system	· Continuous review of labor-related legislation (relaxation of regulations, such as the Dispatch Law, Labor Standards Law, etc.)
Corporate behavior	· Spread of business outsourcing · Changes to companies' marketing strategies (from mass to direct)	Competitive environment	· Emergence of a new business model in the labor market from the development of IT

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

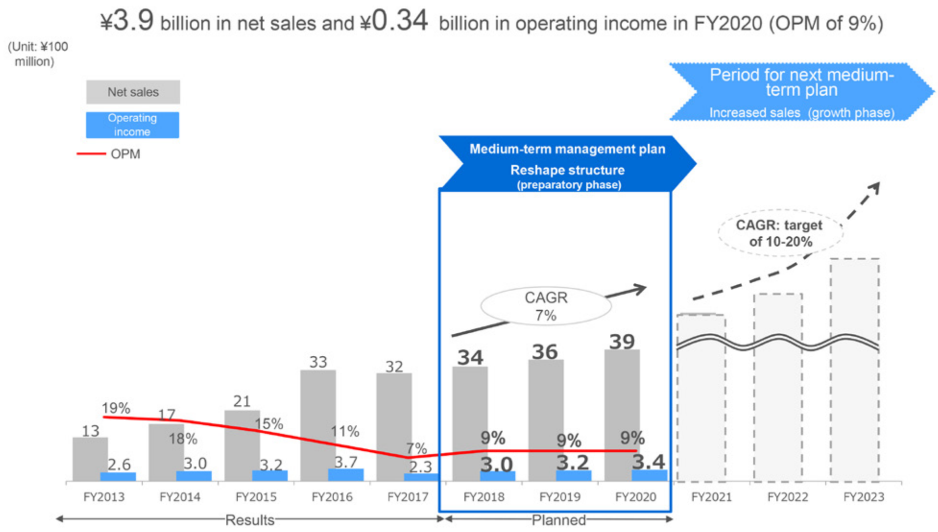
According to the Company's estimates, the market scale of consumer-goods manufacturers' store rounder operations is around ¥100bn (including potential demand), and within this amount, the Company's sales are on the scale of ¥3.2bn. In the future also, the outsourcing by consumer-goods manufacturers of their rounder operations is expected to continue, so growth solely from capturing this demand would seem possible. But the Company also plans to capture field outsourcing demand other than from consumer-goods manufacturers. Simple operations that do not require specific skills include, for example, visiting homes to check gas meters and to confirm the consent of residents at the time of changing electric power services within a condominium, and home work. Looking at this field market as a whole, it is considered to have a market scale of ¥2 trillion (estimated outsourcing rate, 10%), and it has enormous untapped potential.

Also, in the long term the Company expects to provide services that will lead to the revitalization of local communities by utilizing to the greatest possible extent the network of housewives that are located in local communities throughout the country. These services are considered to include lifestyle support for the elderly, such as shopping and housework.

Other than the above measures, the Company is continuing to strengthen the "Point of Buy® reason-to-buy data provision service" that it is working on as a new service. It is service in which various information, including the buyers' reasons for buying the product and the time it was bought, are gathered through the receipts and questionnaires, and this information is then analyzed and utilized for a company's marketing strategy. Currently, its contribution to the Company's earnings is still negligible, but the number of questionnaire members now exceeds 210,000 and it plans to monetize it by increasing the added-value of services.

The results targets in the medium-term management plan for FY12/20 are for stable growth, of net sales of ¥3.9bn, operating income of ¥340mn, an operating income margin of 9%, and an average annual sales growth rate of 7%. The Company is also aiming for sales growth in this business from 2021 onwards at an annual rate of 10% to 20% from expanding the business content.

Field Marketing business numerical targets



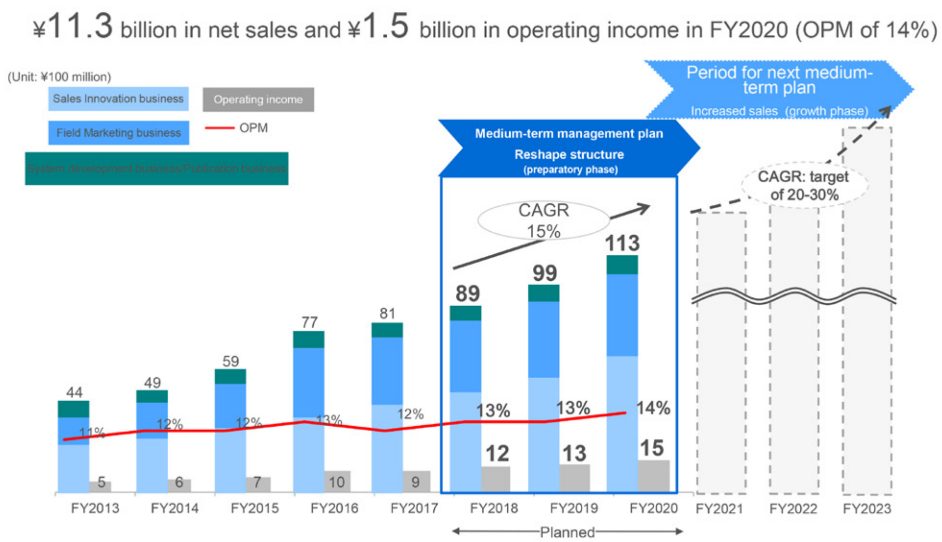
Source: Company's results briefing materials

In FY12/20, aiming for consolidated operating income of ¥1.5bn

3. Numerical business targets

The numerical business targets for FY12/20, which is the final year of the medium-term management plan, are consolidated net sales of ¥11.3bn, operating income of ¥1.5bn, and an operating income margin of 14%. Results will be driven by earnings from the mainstay sales innovation business and field marketing business, but the systems development business and the publishing business are also expected to perform strongly. The Company intends that these four businesses will realize earnings growth in the medium- to long-term by providing one-stop support for customer companies' sales, IT, and marketing activities.

Numerical Targets for Each Business Segment



Source: Company's results briefing materials

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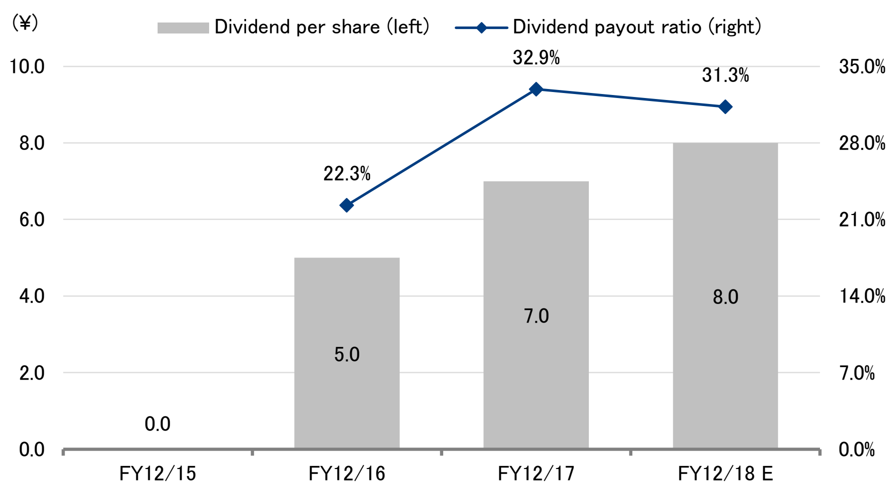
Shareholder returns policy

Plans a dividend payout ratio of 30%

In order to continuously improve enterprise value and return profits to shareholders, the Company's basic policy is to establish the business foundations to stably and continuously generate profits, to actively develop new businesses, to invest capital and take other such measures as necessary, and while taking into consideration medium- to long-term business policies, to pay dividends after considering the necessity of supplementing retained earnings and securing funds. Its aims for a dividend payout ratio of 30%, unless it has special demands for capital.

In FY12/16, the Company paid a dividend per share of ¥5, which was a resumption of dividend payments after a hiatus of 11 fiscal periods. Profits declined in FY12/17, but even so it paid a dividend of ¥7, an increase of ¥2.0 YoY (dividend payout ratio, 32.9%), and it plans to increase the dividend again in FY12/18, by ¥1.0 to ¥8.0 (dividend payout ratio, 31.3%). At FISCO, we think that if it makes steady progress in the medium-term management plan, it is highly possible that it will continue to increase the dividend in the future.

Dividend per share



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

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