

## ASJ INC.

2351

TSE Mothers

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## ■ Summary

ASJ INC. <2351> has engaged in factory automation and software businesses since it was founded in 1984, pursuing and applying the most advanced technologies. It launched ASJ Server business using proprietary technologies in 1996 and has achieved steady growth in subsequent years by broadening the scope of its Internet services.

Main businesses can be categorized as cloud services, including rental servers, and payment services. In payment services, certification management systems for chambers of commerce are a major income source. In games, Dream Baseball, a professional baseball online game approved by the Nippon Professional Baseball Organization, is well known.

ASJ has actively utilized M&A deals as well. Its group companies in Japan currently include eFUSION Co., Ltd., which covers web contents and web community production businesses, ASJ Commerce INC., which handles mail-order sales business, and ITECS Corporation, which develops and sells payroll management systems and provides SI solution services, while overseas ASUSA Corporation, a US-based subsidiary, handles Internet-related technology R&D.

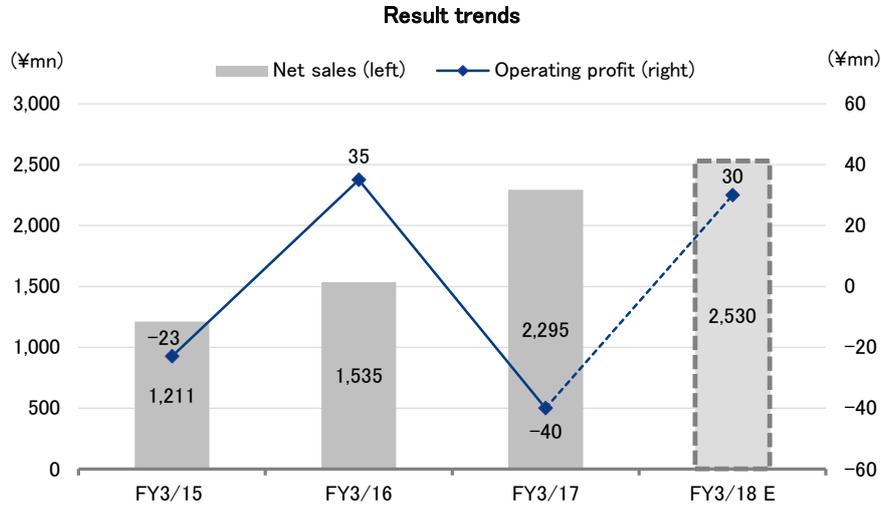
Business performance is recovering. In 1Q FY3/18 results announced on July 24, ASJ reported ¥560mn in net sales (+6.5% YoY), ¥11mn in operating profit (vs. a ¥79mn loss in the previous year), ¥9mn in ordinary profit (vs. an ¥81mn loss), and ¥4mn in net profit (vs. an ¥80mn loss). This was the first time in five years to post a 1Q profit. The FY3/18 outlook projects restoring profitability, with ¥2,530mn in net sales (+10.5% YoY), ¥30mn in operating profit (vs. a ¥40mn loss in the previous year), ¥28mn in ordinary profit (vs. a ¥41mn loss), and ¥20mn in net profit (vs. a ¥67mn loss).

A key point for ASJ's prospects is how it harnesses the proprietary Random Network Coded Distributed Data System (RNCDDS) technology in actual business. While it is currently difficult to tell when this blossom as a business, RNCDDS is a revolutionary technology with the potential to alter the ASJ's overall income structure if commercialization proceeds smoothly.

### Key Points

- Building a middle-scale properties portfolio with diversified asset types, focused on the Tokyo area
- Actively utilizes M&A to expand the service lineup
- Business performance is recovering through synergies with subsidiaries

Summary



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

## Company profile

Current representative director, chairman, and president Haruaki Maruyama established ASJ in 1984 as Admiral System Inc. He is an idea person and lifelong engineer, and these qualities help ASJ in retaining the image of a development-oriented company even after it has grown. The development of proprietary Random Network Coded Distributed Data System (RNCDDS) technology is a good example.

ASJ initially worked on package software, but the Internet started making inroads from around 1995 with the US at the forefront.

ASJ decided to pursue server opportunities at that point and enter the rental server business in 1996, revamping its business profile. It has followed a growth trajectory led by ASJ Server services (explained below) since then. ASJ supports collaboration between applications and databases and supplies a variety of services as added value, pursuing cloud potential.

### ASJ History

Early on, the server business primarily consisted of reselling in Japan products from the US, the leader in development of the Internet. Only one company besides ASJ was making its own servers in Japan. ASJ steadily expanded its rental server business thanks to an almost complete absence of rival firms. ASJ started to consider an IPO around 1999 during the IT bubble when rental servers were making healthy inroads. It listed shares on the TSE Mothers market in 2003 and had grown to a company with ¥600-700mn in annual sales at the IPO timing.

Company profile

Rental servers are a cumulative business that generates steady sales once orders are received. However, the business lacks strong growth prospects and rental server prices have been declining. In response to pricing pressure, ASJ moved in the opposite direction and advanced its business by offering stable services and raising added value with addition of applications to servers and other measures.

**History**

1984	Established as Admiral System Inc. with ¥6.6mn in capital
1996	Started ASJ Server (hosting) service
1998	Started ASJ Server Business Service, merged with Maruyama Shoji
1999	Started ASJ Server Education Pack service for schools
2000	Adopted ASJ as the company name Started ASJ Server AS Warp Mail service Started ASJ Server AS Office service Concluded a partnership agreement for multilingual domain names with Verisign Inc.
2001	Started ASJ Server AS Power service Started ASJ Server general-use JP domain registration service Started the Internet groupware business (HotBiz) Started ASJ Server AS Power ED service for schools Concluded a strategic partnership agreement with Melbourne IT (INWW)
2002	Formed an alliance with Sophos Ltd. and started e-mail virus removal service
2003	Listed shares on the Tokyo Stock Exchange Mothers section (stock code: 2351) Started ASJ Server Entry, Advanced, and Expert services
2004	Started HotBiz Tool Bar service Started ASJ Server Master service Started ASJ SSL service Acquired eFUSION Co., Ltd. as a subsidiary via a stock swap
2005	Started the Leaffi affiliate program service Started BBR (Baseball Ratings) professional baseball player rating service Started Shopper e-commerce assistance tool service Started eReserve reservation management system service
2006	Started providing Dream Baseball online baseball game Added e-mail virus removal service as a standard feature
2007	Acquired ASJ Commerce INC. as a subsidiary via a stock swap Started Shopper Plus online shop assistance tool service
2008	Started ASJ Payment service
2009	Launched the Novepro! light-novel posting site Moved the headquarters
2010	Started smartphone-version HotBiz7 cloud groupware service
2011	Started DBB World browser professional baseball game service
2012	Started certification test reception system service for chambers of commerce Started Jikuu Haoden training-type strategy simulation game service
2013	Started smartphone-version eReserve reservation management system service
2014	Launched the ASJ Games game portal site
2015	Secured a top market share in cloud-based certification management system service for chambers of commerce
2016	Acquired ITECS Corporation as a subsidiary via a stock swap

Source: Prepared by FISCO from Company materials

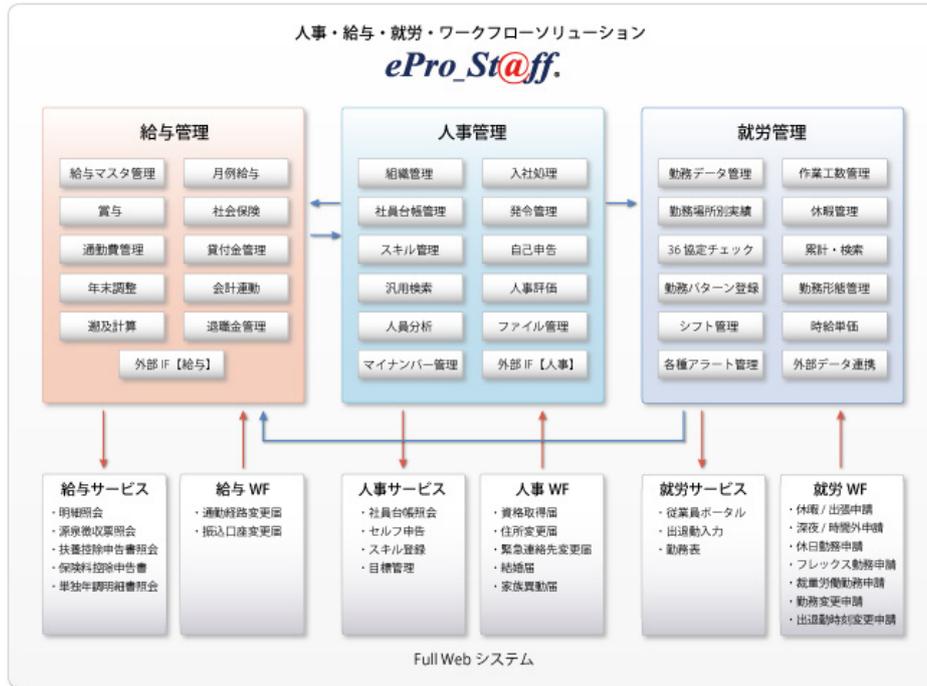
ASJ has also been putting efforts into other businesses besides servers in pursuit of strong growth. It generated significant income with Baseball Ratings (BBR) information on professional baseball players and Dream Baseball, a pro baseball online game approved by the Nippon Professional Baseball Organization that utilizes this information.

Sales and earnings peaked in 2008 with help from a major hit for Dream Baseball. Business conditions subsequently eroded in the global financial crisis triggered by the collapse of Lehman Brothers, and ASJ pursued new businesses, such as payment services, to provide growth. ASJ fundamentally develops the servers that it loads with applications and also makes the applications. The business structure devoid of reliance on outsourcing helps to stabilize services.

Company profile

Meanwhile, ASJ has focused on M&A strategy targeting growth. It added eFUSION Co., Ltd., which covers web contents and web community production businesses, in 2004 and acquired ASJ Commerce INC., which handles mail-order sales business, as a subsidiary in 2007. It also purchased NTT DATA Corporation-affiliate ITECS Corporation, which develops and sells personnel salary management systems and provides SI solution services, as a subsidiary in 2016.

ITECS services



Source: Company website

## Business overview

ASJ only has one reporting segment, but its businesses can be broadly categorized as various cloud services and payment services. It is supplying games and seeking growth in cloud and payment areas.

In cloud business, it supports collaboration of applications and databases and supplies various services as added value. Self-operated data centers are an important advantage in this effort. Also, payment service is a cumulative business and ASJ steadily boosts income by recruiting more customers.

Below we review individual businesses within these categories.

Business overview

1. Cloud services

Cloud services include ASJ Server, domain acquisition service, groupware, and games.

(1) ASJ Server

ASJ Server is the core business among various services delivered by the ASJ group. More than 20,000 companies (mainly mid-sized companies, small businesses, and owner-run businesses) subscribe to this service with the aim of expanding their respective businesses by utilizing the Internet.

ASJ Server services



Source: Company website

ASJ Server enhances service value and offers uniqueness by letting customers add tools that leverage the ASJ group's strength in application development technology in Internet servers. Primary services are Shopper, which supports mobile e-commerce, and eReserve, an online reservations and management system. ASJ intends to continue supplying new services.

(2) Domain acquisition service

ASJ supplies e-domainde.com as a domain acquisition service. This service aids smooth acquisition of and transition to domains and handles domain management procedures and renewals after the acquisition or transition via group companies.

Business overview

Domain acquisition service



Source: Company website

(3) Cloud groupware

ASJ provides HotBiz groupware as a cloud groupware that can be used over the Internet. Many companies utilize this service.

HotBiz's strengths are being an Internet-only service and with smartphone and other mobile support for most functions. It facilitates information sharing, work management, and circulated decisions, which are vital to management activities, anytime and anywhere with easy-to-use format by leveraging these strengths. Demand for HotBiz is likely to continue growing amid calls for stricter internal control.

Groupware HotBiz



Source: Company website

2. Payment services

ASJ has grown its customer base for payment services by adding a variety of services to applications. Services delivered to chambers of commerce offer significant potential.

Business overview

(1) Payment service

ASJ Payment service enables easy deployment of credit card settlements at Internet shops. This service achieves “industry top-class speed for payments” and “settlement fees in the cheapest range.” It also attracted the interest of Internet shop operators after the launch as a payment service that fully complies with PCIDSS Ver3.0 Level1.

Payment services



Source: Company website

(2) Certification test management system

ASJ’s reception system for chambers of commerce certifications is a one-stop solution available to chambers of commerce nationwide that extends from Internet applications to handling test fee payments and management of certification results for bookkeeping and other categories.

A growing number of chambers of commerce are selecting this solution as a payment system protected by robust security with full compliance to PCIDSS3.0 Level1, an ASJ strength. The ASJ system has improved overall convenience by bringing together customizations for individual chambers of commerce. ASJ holds a top industry share in this area. Chambers of commerce place orders for this type of system on their own, rather than letting the central organization handle it. ASJ has been expanding orders by making contacts among chambers of commerce.

Chambers of commerce comprise a nationwide network with a strong public profile. Advances in this business enhance ASJ’s credibility as a byproduct, besides delivery of stable income. We think the certification management system still has substantial room to expand because numerous chambers of commerce have not adopted the ASJ service yet.

Business overview

Certification test management system service

Source: Company website

3. Games

For games, ASJ operates the ASJ Games browser game portal site and is best known for Dream Baseball, which it started supplying in 2006.

Dream Baseball

Dream Baseball is a professional baseball online game approved by the Nippon Professional Baseball Organization that utilizes Baseball Ratings (BBR) information that evaluates professional baseball players. Game users assemble their own team by selecting professional baseball players they prefer and compete in rankings with other users based on points calculated by BBR information that reflects actual professional baseball game results.

Screen image from the Dream Baseball professional baseball online game



Source: Company website

Dream Baseball has been a major income source up until now. While interest in baseball is fading in comparison to past years and soccer and other sports have gained in popularity, baseball is still a highly popular sport in Japan and should continue to be embraced by game users. A detailed description of Dream Baseball contents is given below.

Business overview

### DBB World

This game's goals are bolstering your team and bringing players to peak performance through competition among players and lifting your team to the top position among 12 teams. The user can foster a stronger team in a variety of ways, such as making places easy to live for players and conducting games with other players. It is also possible to register actual professional baseball players and cultivate these players as the user prefers.

### DBB Classic

Users collect cards of actual professional baseball players and compete with their own dream team. This is an only-one original game worldwide. It utilizes real professional baseball game results and player statistics and forecasts player contributions to victories.

## Business performance

In 1Q FY3/18 results announced on July 24, ASJ reported ¥560mn in net sales (+6.5% YoY), ¥11mn in operating profit (vs. a ¥79mn loss in the previous year), ¥9mn in ordinary profit (vs. an ¥81mn loss), and ¥4mn in net profit (vs. an ¥80mn loss). This was the first time in five years to post a 1Q profit. Cloud services remained vibrant and thereby fueled sales growth. While ITECS, which ASJ acquired as a subsidiary, weighed on earnings with amortization of goodwill and other items in the previous year, it helped realize group-level profitability in 1Q thanks to stricter cost controls implemented right after the acquisition and smooth collaboration with ASJ in business.

From a financial aspect, ASJ issued MS warrants in June 2016 to reinforce its financial position. It has extensive surplus funds thanks to progress in exercise of these warrants. The balance sheet at end-1Q showed a steep rise in cash and deposits from ¥1,147mn a year earlier to ¥1,748mn. Short-term loans, meanwhile, dropped from ¥991mn to ¥523mn.

ASJ repaid all outstanding short-term loans in July right after it closed 1Q books due to further advances in MS warrant exercise. This means that it is currently running a debt-free operation. The equity ratio improved from 52.8% at end-FY3/17 to 69.0% at end-1Q. Other balance-sheet changes were a rise in capital from ¥919mn to ¥1,373mn and capital surplus from ¥778mn to ¥1,242mn. Treasury shares moved from -¥228mn to -¥42mn. These items resulted in a steep expansion of shareholders' equity from ¥2,062mn to ¥3,159mn at end-1Q.

Looking back at FY3/17 results, while net sales climbed sharply to ¥2,295mn (+49.5%), earnings slipped into the red with a ¥40mn operating loss (vs. a ¥35mn profit in the previous year), ¥41mn ordinary loss (vs. a ¥37mn profit), and a ¥67mn net loss (vs. a ¥22mn profit). ASJ benefited from economies of scale via the ITECS acquisition in February 2016, but costs and other items related to this addition caused losses. ASJ is likely to restore profits in FY3/18 owing to overcoming the negative factors and progress in ITECS structural reforms.

### Result trends

FY	Net sales	YoY	(¥mn)			
			Operating profit	Ordinary profit	Net profit	EPS (¥)
FY3/15	1,211	-12.30%	-23	-17	-39	-14.9
FY3/16	1,535	26.80%	35	37	22	3.56
FY3/17	2,295	49.50%	-40	-41	-67	-10.4
FY3/18 E	2,530	10.50%	30	28	20	2.97

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

#### Business performance

The FY3/18 outlook projects ¥2,530mn in net sales (+10.5% YoY), ¥30mn in operating profit (vs. a ¥40mn loss in the previous year), ¥28mn in ordinary profit (vs. a ¥41mn loss), and ¥20mn in net profit (vs. a ¥67mn loss), restoring profitability.

ASJ is steadily increasing customers in cloud services and payment services. We see a possibility of upside in FY3/18 earnings versus forecast in light of the profit in 1Q. This had been viewed as a tough quarter, and there is a tendency to post stronger results in 4Q based on the typical annual results trend.

In FY3/17, ASJ reported a 4Q profit that offset about half of the losses tallied through 3Q. We think FY3/18 earnings are likely to overshoot forecast given the profit in 1Q and benefits from progress in structural reforms. ASJ did not revise period-start forecast at the 1Q announcement despite the healthy outcome. We will be paying close attention to results from 2Q.

## ■ Business outlook

As explained above, ASJ is poised to implement more offensive management and has established a growth foundation by reinforcing its finances. While it has already actively engaged in M&A with purchases of eFUSION in 2004, ASJ Commerce in 2007, and ITECS in 2016, ASJ intends to conduct further M&A, without ruling anything out, as needed. Fund procurement for M&A is a key point for any company that plans to harness M&A in their business strategy. ASJ is rapidly accumulating cash as seen in business performance results. These resources should enable ASJ to make acquisitions on the scale of previous ones without worrying about funds. We will be closely monitoring this activity.

On the business front, ASJ aims to solidify existing businesses in the near term. Reinforcement of the lineup is an issue in cloud services. ASJ plans to release updated versions of its services and expand the user base through improved customer satisfaction.

We expect ASJ to continue expansion of its chambers of commerce business in payment services. It has obtained orders from 236 chambers out of the 515 chambers in Japan. ASJ secured orders from a majority of sites utilizing the Internet thus far. Its service is very well received, and there has not been a single cancellation. ASJ is also broadening to other areas besides bookkeeping, such as winning orders for regional promotion coupon systems. We think the alliance with the Japan Chamber of Commerce and Industry for the JCCI bookkeeping certification and other activities deserves attention. ASJ is likely to broadly pursue Internet-related business opportunities with individual chambers of commerce.

In games, meanwhile, ASJ is taking an approach of maintaining the status quo. This stance takes into account the risk in games business of incurring heavy losses if massive costs are allocated to development of new titles that do not become hits. ASJ intends to mainly pursue business in cloud services and payment services.

ASJ has garnered interest as a technology development-type company up to now, though marketing was a weakness. It lacks recognition as a company despite running a games business that appeals to final consumers. We think ASJ needs to devise ways to conduct marketing that takes advantage of the latest trends.

#### Business outlook

ASJ's strengths include operation of its own data center and robust security capabilities, such as acquiring ISO 27001 certification. ASJ leverages these aspects to deliver various services and should continue this style to solidify existing businesses in the near term. It is working to establish operations with enhanced team capabilities that do not rely on individuals considering persistent labor shortages and difficulty acquiring personnel in the IT industry. ASJ has a fairly low employee turnover within the industry.

## RNCDDS

Random Network Coded Distributed Data System (RNCDDS) is a vital component of ASJ's longer-term outlook. Data systems that use random network coding with robust data protection and high efficiency in data storage capacity face two major hurdles in real-world deployment - 1) the amount of time needed for encoding and decoding and 2) difficult access to encoded data.

ASJ's new technology, however, overturns this existing common sense. RNCDDS, which it developed, realizes comparable robustness with less data storage volume than Hadoop and GlusterFS, the mainstream choices in building cloud services, by using a high-speed computational library to resolve the first problem and a JavaScript program to deal with the second problem. It also enables faster data upload and download than other systems. Also, the JavaScript program allows for direct replay of encoded video data on the web browser using the HTML5 function and thereby dramatically reduces data storage volume in the cloud system and video and music streaming service networks.

This technology might enable use of things that could not be handled up to now. It has the potential to cut existing data storage volume by two-thirds and might become a core technology at some point. That alone makes the fundamental transforming ASJ's income structure a real possibility. Market interest climbed sharply immediately after ASJ issued a press release on a paper that explains the new technology in May.

Specifically, Hiroshi Nishida (Ph.D.), who serves as president of the ASJ group's local entity ASUSA Corporation, announced a paper and gave a presentation on RNCDDS, which was jointly developed with Oregon State University, at the IEEE-sponsored ICME2017 (held in Hong Kong). The IEEE is the world's largest electrical engineering and related technology academic group with headquarters in the US. It covers a very wide range of fields with communication, electronics, and information engineering that are rooted in electrical engineering and has more than 420,000 members from over 160 countries, including Japan.

ICME is a flagship multimedia international conference sponsored by the IEEE that has taken place since 2000. It attracts IT-related engineers and researchers from around the world and serves as a venue for announcements of the latest technologies in a variety of fields. This year was the 18th event, and main themes were next-generation 3D/AR/VR and multimedia clouds. The conference, which arranges various sessions and events, took place in Hong Kong in July 2017. ASJ asserted in a published research document that RNCDDS is a revolutionary technology that realizes significantly faster processing than mainstream storage servers used to build cloud services and reduces hardware capacity to as low as one-third. IEEE carried the paper in its journal because of the novelty of RNCDDS content globally and its future potential. Mr. Nishida gave a presentation under the theme of multimedia cloud and big data at the ICME in July. Global researchers expressed interest in the technology as a highly creative approach and revolutionary technology from a Japanese company.

#### RNCDDS

While market interest in ASJ rose sharply after the RNCDDS announcement in May, ASJ provided major news again less than two months later with the disclosure of its international patent application for RNCDDS in July. Specifically, it submitted an international application based on the patent cooperation treaty (PCT).

The application aims to protect the technology's intellectual property rights and envisions future collaboration with cloud service providers worldwide. ASJ hopes to lay the groundwork for building highly unique service through efficient business deployment in various countries.

Applying for the PCT international patent has very significant implications because it is equivalent to simultaneously submitting applications in all of the PCT signatory countries. The PCT had 152 signatory countries as of June 2017. An entity designated by the PCT surveys existing technologies and issues an opinion on the patentability, and patent offices of individual countries conduct their reviews using the survey results and opinions as reference. The applying company improves cost efficiency and realizes hefty savings in acquisition of patents in multiple countries. We think ASJ's decision to pursue an international patent reflects upbeat prospects for RNCDDS. Real-world adoption could generate large earnings as the source of a global technology. RNCDDS is a revolutionary technology that achieves capabilities that had been considered difficult. We see this area as an additional positive in evaluating ASJ, besides recent earnings.

A key challenge in moving forward with this impressive technology is how to harness its capabilities in actual business. ASJ is currently investigating these prospects. It does not factor RNCDDS into the near-term earnings plan due to lack of clarity in when this technology might deliver income. Nevertheless, we think subsequent developments deserve close attention because successful application in real business should dramatically change ASJ's business scope.

## ■ Shareholder returns

ASJ paid a ¥2 dividend in FY3/17 and intends to keep the dividend at ¥2 in FY3/18 too. ASJ understands that returning profits to shareholders is an important aspect of management, and we have a favorable view of its stance of sustaining a dividend since going public. ASJ has outlined a policy of reinforcement of shareholders' equity and maintenance of stable profitability over the long term along with continued payment of dividends.



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