

OPTiM Corporation

3694

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Summary

Net sales rose 23.0% YOY in FY3/20 full year results, new services (AI/IoT services) reached roughly 30% of total net sales on a 90% gain and upbeat orders

OPTiM Corporation <3694> (hereafter, also “the Company”) is a venture company specializing in AI and IoT technologies established by current President and Representative Director Shunji Sugaya and friends in 2000 when he was a student at Saga University. It has “We make the Internet as simple as breathing” as its mission, and through making its OPTiM Cloud IoT OS the de facto standard, it is aiming to be a leading company in the Fourth Industrial Revolution. It has 275 employees (as of April 2020), of who around 80% are engineers. From the start, it developed technologies focusing on creating services never seen in the world before, and it owns a number of patents related to these technologies. Many of its partners are major companies, and the Company’s technological capabilities and potential have been highly evaluated both inside and outside of Japan. In 2014, it was listed on the Tokyo Stock Exchange (TSE) Mothers market, and in 2015, its listing was upgraded to the TSE 1st Section.

Optimal Biz, a management platform compatible with multiple devices, has the top share of the device management market. The Company evolved the device management platform and developed OPTiM Cloud IoT OS, a new AI and IoT platform. Since 2015, it has made fully fledged its “○○ x IT (enter the industry name in ○○)” initiative to use IT to bring about reforms in industry. The industry where the results of this have been realized the most is the construction industry. In 2017, four companies, including Komatsu Ltd. <6301>, started LANDLOG, a new platform for the construction production process, and its partner companies and customers continue to increase. In the agriculture, forestry and fisheries industry, in 2016 the Company succeeded with a demonstration experiment for pest control using drones in the agriculture field. In 2018, the Smart Agriculture Alliance, which is led by the Company, grew to a nationwide scale and carried out full-scale harvesting of crops, including rice and soybeans. The line-up of OPTiM AI Camera pre-trained package service is a monthly billing product that enables users to easily utilize AI and IoT, and its use is spreading due to the Company’s success in reducing the hurdles for customers to introduce it.

1. Content of business

The Company’s operations can be divided into existing business, which is mainly Optimal Biz, and new business, which constitutes businesses and products that use the OPTiM Cloud IoT OS. Since its founding, the Company has constantly provided innovative services and developed new markets with support from abundant technological capabilities founded on an intellectual property strategy and business creation capabilities. It has services with No. 1 shares in Japan and possesses a business model with strong licensing income. Additionally, it has been promoting powerful business development with top players in various industries in recent years as a market leader in AI, IoT, and Big Data.

Optimal Biz, which is the Company’s main service, is an essential service in the fields of security countermeasures and batch settings for companies, such as for smartphones, tablets, PCs, and IT equipment. The Company is maintaining a No.1 share in the growing domestic Mobile Device Management (MDM) market. Up to the present time, it has achieved a growth rate exceeding the market’s growth rate and succeeded in becoming the de facto standard. This business has a stock-sales business model, and its stable earnings support the Company’s investment in development.

Summary

The Company announced OPTiM Cloud IoT OS in March 2016 and has rolled out software that serves as the foundation of the IoT era. It operates on existing Cloud services and is equipped with various functions needed in IoT services as standard features. Robust image analysis and AI functions are key points too. During the four years since the original announcement, OPTiM Cloud IoT OS has technologically evolved to the level of offering functions required to form an eco-system as an AI and IoT platform.

2. Results trends

In FY3/2020 results, sales increased by more than 20% and profits climbed sharply, with net sales at ¥6,728mn (up 23.0% YoY*), operating profit at ¥256mn (+166.3%), ordinary profit at ¥259mn (+78.3%), and profit attributable to owners of parent at ¥117mn (+939.1%). Net sales recorded an all-time high for a 20th straight fiscal year since the Company's founding. Existing services, which account for about 70% of total net sales, steadily grew with accumulation of license volume. Optimal Biz, the main source of sales, received industry assessment of holding the top share in domestic MDM and EMM markets in a fourth straight year as these markets continue to expand. Orders were upbeat in new services (AI/IoT services) too. The Company's sales from new services rose by more than 90% YoY and reached about 30% of total net sales. Customization for OPTiM Cloud IoT OS usage, environment set-up, and other services in the construction industry, where the Company has a leading position, fueled rapid sales growth. In the line-up of OPTiM AI Camera package services, the Company rolled out services that improve the usability of AI and IoT, including OPTiM AI Camera Lite and OPTiM AI Camera Mobile, supporting inroads in the market. The Company continued to make strategic R&D investments, as promised, and spent a much larger amount on R&D investments (more than ¥1.9bn) than others with comparable scale. Even with considerable spending seen in increases of 33.5% YoY in cost of sales and 13.0% in SG&A expenses, the Company attained significant profit increases thanks to an even stronger effect from higher sales.

* Year-on-year values are just reference points because the Company switched to consolidated financial statements in FY3/2020.

3. Outlook

Due to uncertainty about the impact of coronavirus disease 2019 (COVID-19), the Company presents forecast ranges for sales and profits in the FY3/2021 results outlook with net sales at ¥7,407mn–¥8,080mn (+10.1%–20.1%), operating profit at ¥712mn–¥1,526mn (+177.4%–493.9%), ordinary profit at ¥802mn–¥1,616mn (+209.4%–522.9%), and profit attributable to owners of parent at ¥501mn–¥1,028mn (+327.6%–777.3%). It positions this fiscal year as “the one in which it starts recouping R&D investments” and aims to achieve all-time high sales in a 21st straight year since its founding. In the sales forecast, it projects 20.1% YoY increase for a scenario of growth at a cruising speed and 10.1% increase for a scenario of impact from COVID-19. Since there might be risk that has not materialized at the start of the period, the Company added sales decline of as much as roughly 10% to address this risk. With FY3/2021 earmarked in its strategy as the year “in which it starts booking profits,” the Company wants to book all-time high profits. It targets 20.0% ordinary profit margin (upper end of the forecast range with ordinary profit at ¥1,616mn) while sustaining high R&D investments. Meanwhile, it intends to continue investing in R&D even in the scenario of COVID-19 impact (lowering sales by 10%), and projects 10.8% ordinary profit margin (lower end of the forecast range with ordinary profit at ¥802mn). FISCO thinks sales and profits are likely to be close to the upper end of forecast ranges considering that some aspects of COVID-19 impact should provide tailwinds, such as wider use of remote work.

Summary

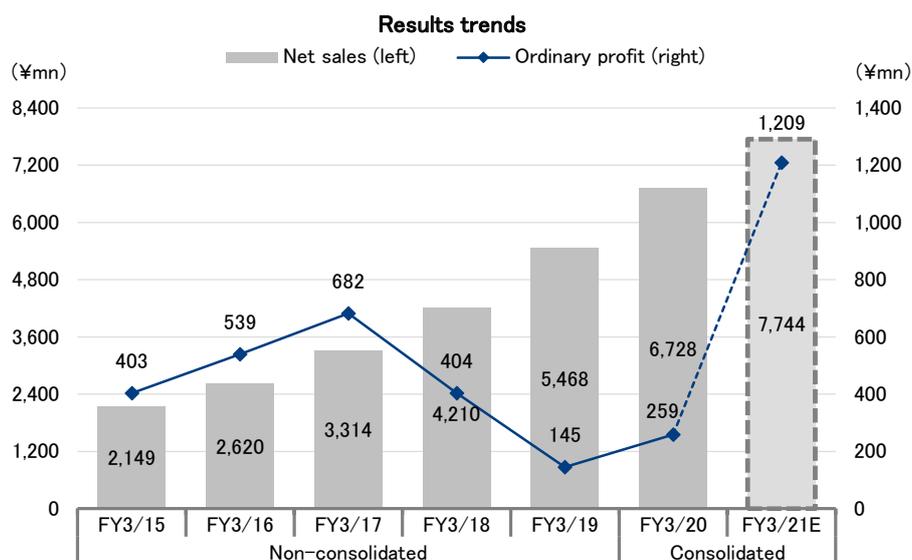
4. Growth strategies and topics

COVID-19 has affected the Company's business in various ways. FISCO sees positive and negative aspects at this point (late June 2020), though negative ones have not materialized and positive ones are likely to be more influential. In product trends, growing use of remote work should boost demand for Optimal Biz (MDM), Optimal Remote, remote task assistance, and other existing services, and inquiries have risen too. In frontline-type AI services (such as OPTiM AI Camera), the Company moved promptly in releasing an OPTiM AI Camera solution for the "With COVID-19" environment and supported reopening of restaurants, retail stores, and other locations where people congregate.

Systemex Corporation <6869> and the Company jointly founded D'PULA Medical Solutions Corporation, which handles planning, development, and operation of solution services that utilize an open platform and applications related to digital medicine, and started activities. The new company's name reflects the aim of supplying solutions to serve as a bridge between individuals and medical care using digital technology and medical data, and this business targets development and operation of a medical AI and IoT platform to seamlessly connect medical information that had been disjointed and digital medical solutions with a scientific foundation. The medical AI and IoT platform at the core of this business is an open platform, seeking collaboration with a wide range of vendors and user companies and facilitating development and deployment of treatment application. The project has already started prototype development of the medical AI and IoT platform and plans to ramp up discussions of collaboration with drug companies and medical equipment manufacturers.

Key Points

- Six technology and business model strengths are the source of strong corporate value, holds No.1 shares in the MDM and AI solutions (four segment) markets
- Net sales rose 23.0% YoY in FY3/2020 results, new services (AI/IoT services) reached roughly 30% of total net sales on a 90% gain and upbeat orders
- Targets 20.0% ordinary profit margin (upper-end scenario) in FY3/2021 as the fiscal year to begin booking profits while sustaining R&D investments
- Stronger positive effect from COVID-19 driven by increased demand for remote work and services addressing COVID-19 is possible. Established a joint venture with Sysmex in the Healthcare x IT field



Note: As the FY3/2021 results forecasts were disclosed as ranges, the median values are shown.
 Source: Prepared by FISCO from the Company's financial results

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■ Company overview

A venture company attracting attention as a pioneer in AI and IoT platforms and aiming to have a central presence in the Fourth Industrial Revolution

1. Company overview and history

The Company is a venture company specializing in AI and IoT technologies established by current President and Representative Director Shunji Sugaya and friends in 2000 when he was a student at Saga University. It has “We make the Internet as simple as breathing” as its mission, and it is aiming to be a leading company in the Fourth Industrial Revolution through making its OPTiM Cloud IoT OS the de facto standard. It has 275 employees (as of April 2020), of who around 80% are engineers.

Initially, the Company's main business was Internet video advertising services, and then in 2006, it concluded a technology-license agreement with Nippon Telegraph and Telephone East Corporation (“NTT East”), and used this opportunity of providing automated Internet connection tools that utilize AI to convert to an optimal business (its coined term for a business that aims to make the Internet as simple as breathing and optimize the world of tomorrow). In 2009, it started to provide the Optimal Biz management platform for PCs.

From around 2011, to respond to the trend to shift from PCs to mobile throughout the world, the Company developed a management platform compatible with multiple devices, including smartphones and other devices. It is currently aiming to make OPTiM Cloud IoT OS, which expands and evolves this platform, the de facto standard. From 2013, it entered into the area of unlimited-usage services for software and content, and it broadened the scope of its business model.

In 2015, the Company made fully fledged its “○○ x IT (enter the industry name into ○○)” initiative to use IT to bring about reforms in industry. It started projects with its partner companies and organizations in fields including construction and agriculture. The industry where the results have been realized the most is the construction industry. In 2017, four companies, including Komatsu, started LANDLOG, a new platform for the construction production process, and its partner companies and customers are continuing to increase. In the agriculture, forestry and fisheries industries, in 2016 the Company succeeded with a demonstration experiment for pest control using drones in the agriculture field. In 2018, the Smart Agriculture Alliance, which is led by the Company, grew to a nationwide scale and carried out full-scale harvesting of crops, including rice and soybeans. In addition, it has started the “○○ x IT” initiative in various other industries, including healthcare, electric power utility, police, retail, finance and transportation. Further, the OPTiM AI Camera pre-trained package service is a monthly billing product enable users to easily utilize AI and IoT, and its use is spreading due to the Company's success in reducing the hurdles for customers to introduce it.

In 2014, the Company was listed on the TSE Mothers market, and then in 2015, its listing was rapidly upgraded to the TSE 1st Section. It has many major companies as partners and its technological capabilities and potential have been highly evaluated both inside and outside of Japan.

Company overview

History

Year	Major event
2000	OPTiM Corporation was founded
2001	Established Tokyo Office
2006	Started providing an e-mail/router auto-setup tool, "Optimal Setup"
2007	Started providing a screensharing product for PC, "Optimal Remote"
2008	Increased capital through third-party allocation (NTT East)
2009	Made business alliance with NIPPON TELEGRAPH AND TELEPHONE CORPORATION to promote Home ICT Started providing a PC management platform, "Optimal Biz"
2010	Started providing the world's first remote support product for Android devices, "Optimal Remote Mobile"
2011	Started providing a mobile device management platform, "Optimal Biz for Mobile" Acquired a patent for device identification technology, "Tiger"
2012	Recognized and took 9th place in the "Ranking of Patent Asset Scale in Information Communication Industry, 2011-2012"
2013	Started providing "Unlimited Software powered by OPTiM"
2014	Started providing "Unlimited Business Software powered by OPTiM" Listed on TSE's (Tokyo Stock Exchange's) Mothers market Achieved three straight years of No.1 MDM service share in Japan by "Optimal Biz" Started sales of "Unlimited Tablet powered by OPTiM", the world's first comprehensive tablet service Acquired the 1st place of Emerging Market Company Ranking of Patent Asset Scale in the Information Communication Industry issued by Patent Result Co., Ltd. Announced "Optimal Remote for Lollipop," realizing global first remote support of every Android™ smartphone and tablet in the world
2015	Announced "Remote Experience Sharing," OPTiM's remote technology strategy for the IoT/wearables era Formed a business alliance with Komatsu for Remote Technology, with its first collaboration involving "Optimal Second Sight," a Visual Remote Support service, in which it provides its Smart Construction ICT solutions to construction sites Announced "SkySight," the world's first big data analysis platform that supports drones Concluded a three-party agreement for IT Agriculture with Saga University and Saga Prefectural Government Strengthened Capital Alliance with Fuji Xerox Jointly developed "Pocket Doctor," a remote medical and health assistance service Moved to the First Section of the Tokyo Stock Exchange
2016	Pocket Doctor won the Grand Prize in the Japan Healthcare Business Contest 2016 held by the Ministry of Economy, Trade and Industry Announced a new version of OPTiM Cloud IoT OS, an OS optimized for the AI and IoT age Saga University's Faculty of Agriculture, Saga Prefecture's Agriculture, Forestry and Fisheries Department, and OPTiM Corporation were the first in the world to successfully conduct a demonstration experiment to utilize a drone equipped with pest-killing functions in order to conduct pesticide-free pest control at night OPTiM Corporation and Microsoft entered-into a technology alliance in the AI and IoT fields
2017	Concluded a comprehensive partnership agreement with Saga Prefecture to promote the utilization of AI and IoT toward realizing the Fourth Industrial Revolution Four companies, including Komatsu, decided on the joint planning and management of LANDLOG, a new platform that connects to the construction production process as a whole Relocated head office to within a national university (Saga University), the first listed company to do so in Japan Made a subsidiary of Telepathy Global Co., Ltd., which has development capabilities for IoT hardware Started the Smart Agriculture Alliance to utilize AI, IoT, and Big Data to realize "Fun, Cool and Profitable Agriculture"
2018	Won the Intellectual Property Achievement Award, which recognizes companies that have contributed to the development of the intellectual property rights system The Company and MonotaRo opened the MonotaRo AI Store Started providing Smart Home Medical Care for healthcare facilities nationwide Opened SMART AGRI, an IT and agriculture future media Announced AGRI EARTH, an AI, IoT, and robot platform for the agriculture, forestry and fisheries, distribution processing, and food industries Announced two new products: OPTiM AI Camera, which has a pre-trained model application menu for more than 300 models, and OPTiM AI Prediction, a prediction service based on quantitative data analyses Announced it holds the basic patent relating to a technology for pinpoint pesticide spraying and fertilization Started DRONE CONNECT βversion, a drone pilot sharing service
2019	Concluded a basic agreement for a business alliance with Sysmex in the field of "cutting edge healthcare x AI and IoT" The number of organizations participating in the Smart Agriculture Alliance exceeded 1,000 Obtained approval for second-class healthcare equipment manufacturing and sales business Established OPTiM AGRI MICHINOKU Co., Ltd., Japan's first smart agriculture regional trading company, with Michinoku Bank Started providing AMIAS, a healthcare diagnostic imaging AI integrated open platform Opened OPTiM KOBE as a new base in Kobe City Kawasaki Heavy Industries and OPTiM Corporation entered-into a business alliance to utilize AI and IoT in the fields of precision machinery and robots Entered-into a business alliance with VNPT, Vietnam's state-run major communications group, in the fields of AI services and smart agriculture
2020	Started provision of OPTiM services at no charge as assistance in dealing with the COVID-19 outbreak Announced Optimal Biz Telework that harnesses AI to enhance work management, motivation, physical well-being, and productivity in telework Sysmex Corporation and OPTiM Corporation jointly established a company to plan, develop, and operate a medical AI and IoT open platform and digital transformation solutions

Source: FISCO Inc. from the Company's web page and releases

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Company overview

2. Content of business

The Company's main services are IoT Platform Services, which provide 79.4% of total net sales (FY3/2020). Their main focus is Optimal Biz, whose functions include operations management within an organization, and settings for asset management and security policy by managing various devices such as smartphones and tablets on the Cloud. Its commercial distribution includes sales by partner companies and OEM supply, and the Company receives licenses fees according to the number of devices. Industry-specific initiatives utilizing OPTiM Cloud IoT OS, the AI and IoT platform, and package services, such as OPTiM AI camera, belong to this segment.

Remote Management Services provide 11.2% of total net sales (FY3/2020). Among them, Optimal Second Sight, which is a remote work support service, not only supports work in the field, it has also been adopted as support equipment for disaster countermeasures to facilitate smooth relief activities and to ascertain conditions in the field during a disaster. Its core technologies are remote screen sharing and remote operations. The Company receives licenses fees according to the number of devices it is installed in by the customer companies.

Support services contribute 2.2% of total net sales (FY3/2020). Sales are trending downward alongside the slow-down in the growth of the PC market. The Company provides Optimal Diagnosis & Repair, which automatically detects and repairs problems on devices like smartphones and tablets on networks, and Optimal Setup, which makes it possible to automatically set up routers, and it receives customization fees for functions added at the time of installations and license fees.

Other services are at 7.2% of total net sales (FY3/2020). This segment delivers unlimited-usage services for software and content, including Unlimited Software for individuals and Unlimited Business Software and Unlimited Tablet for reading popular magazines, for companies and mainly utilizes a fixed monthly fee model.

Business content and sales breakdown by services

	Business description	Sales breakdown (FY3/2020)
IoT Platform Services	Main service is Optimal Biz used to manage smartphones, tablets, and other devices on the cloud, manage operations within organizations and assets, and conduct security policy settings. In OPTiM Cloud IoT OS (AI and IoT platform) business, OPTiM AI Camera, a service used to resolve unique issues in various industries with AI image analysis technology, deployments are increasing.	79.4%
Remote Management Services	Optimal Second Sight, a remote task assistance service in remote management service, is gaining acceptance for not only frontline task assistance, but also as equipment that aids smooth relief efforts during a disaster and confirmation of frontline conditions in disaster measures.	11.2%
Support Services	Provides Optimal Diagnosis & Repair, which automatically detects and repairs problems on devices such as smartphones and tablets on networks, and Optimal Setup, which makes it possible to automatically setup routers.	2.2%
Other Services	This business delivers the unlimited-usage services for software and content, including Unlimited Software, Unlimited Business Software and Unlimited Tablet.	7.2%

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

Total net sales can be divided into stock-sales license income and flow-sales customization income, and their percentages are roughly 70% from license income and 30% from customization income.

Business overview

Six technology and business model strengths are the source of strong corporate value, holds No.1 shares in the MDM and AI solutions (four segment) markets

The Company has constantly provided innovative services and developed new markets with support from abundant technological capabilities founded on an intellectual property strategy and business creation capabilities. It has services with No. 1 shares in Japan and built a business model with extensive licensing income. Additionally, it has been promoting powerful business development with top players in various industries in recent years as a market leader in AI, IoT, and Big Data. The Company's strengths are 1) robust technology innovation capabilities, 2) advanced technology capabilities, 3) service planning, development, and operation capabilities, 4) strong licensing income, 5) consulting capabilities, and 6) business creation capabilities.

The Company's strengths

Characteristics (strengths)	Content
1 Robust technology innovation	Development of functions, products, services, and business models based on patents realized first in Japan and in the world. (The Company's President Sugaya ranked first for the scale of patents assets held by individuals in the field of data communications*.)
2 Advanced technological capabilities	Realizes new concepts with advanced technological capabilities in AI, IoT, Cloud Security, and Robotics areas acquired through R&D investments in next-generation IT technology
3 Service planning, development, and operation capabilities	Possesses planning capabilities for generalized provision of innovative products as package services and is also capable of planning and designing services with functions, pricing, and service models that fit customer needs as well as developing and operating such services
4 Strong licensing income	Generates strong licensing income from a subscription business model led by Optimal Biz, an MDM service with the top market share in Japan, and Optimal Remote, which has the largest number of users in Japan
5 Consulting capabilities	Possesses high-level consulting capabilities for understanding market environments of partner companies and innovating and creating new services that leverage its technology together with partner companies
6 Business creation capabilities	Offers business creation capabilities for developing businesses for new products and services through alliances with many types of partners, including various industry leaders, telecom carriers, and printer manufacturers, and deploying businesses on a large scale

* Survey by Patent Result (as of the end of January 2015)
 Source: Prepared by FISCO from the Company's results briefing materials

1. Robust technology innovation capabilities

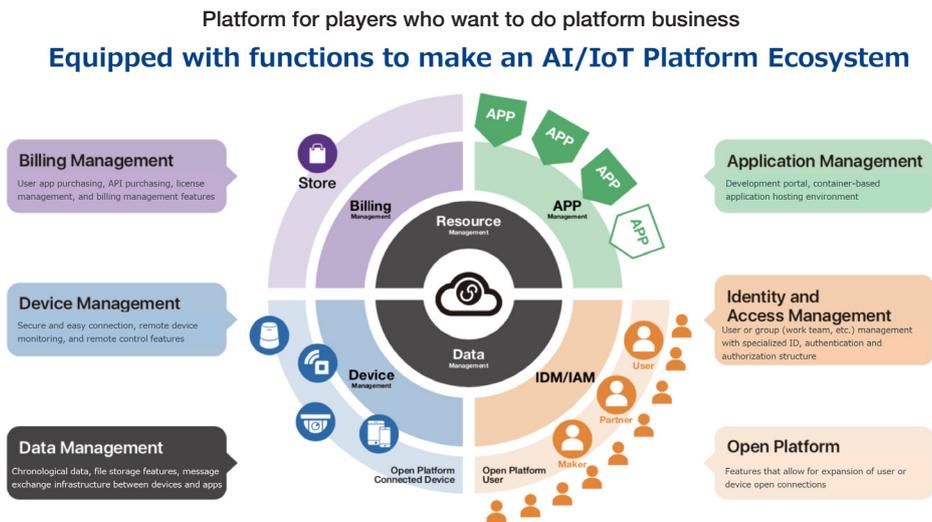
The quality and quantity of the Company's intellectual property is clear evidence of its robust technology innovation capabilities. The Company has been developing technology with the aim of creating industry-first services in Japan and worldwide since its founding and adopted a strategy of acquiring and owning intellectual property. One example of this is its device identification technology called Tiger, which was patented in Japan and the United States in 2011, that dramatically improves the accuracy of identifying devices. Most recently, in 2019, the patent it holds for a pinpoint pesticide application technology was awarded the Prize of the Minister of Education, Culture, Sports, Science and Technology in the 2019 Kyushu Invention Awards. In 2012, in the scale of patent assets announced by Patent Result Co., Ltd, it ranked 9th in Japan (in the information and communication field), and in asset scale per patent, it ranked first in Japan (in the same field). The Company's President and Representative Director Sugaya ranked first for the scale of patents assets held by individuals (according to Patent Result, as of the end of January 2015). These intellectual properties mainly build barriers to entry in new business fields, but in addition to this, they give peace of mind to major companies, enabling the Company to build partnerships with them, and looking to the future also, they are likely to be advantageous when advancing its global business development.

Business overview

2. Advanced technological capabilities

With the arrival of the IoT age, devices are no longer limited to PCs, mobile devices, and office IT equipment, as their scope has broadened to include devices like network cameras, various types of sensors, wearable devices, and drones. Moreover, an age has arrived of analyzing Big Data obtained from devices, including by AI technologies, in overall collection flow. In March 2016, the Company announced OPTiM Cloud IoT OS, software it developed to be the foundation of the IoT age. Its key points are that it can operate on existing cloud services, that it has various functions installed as standard that are essential to IoT services, and that it has enhanced image analysis and AI functions. In the four years since the announcement, OPTiM Cloud IoT OS has technologically evolved to incorporate functions that enable formation of an eco-system as an AI and IoT platform. These functions are essential for platform business companies in various fields to build platforms, including 1) application management, 2) ID and access management, 3) an open platform, 4) data management, 5) device management, and 6) billing management.

R&D investments are necessary to sustain advanced technology. In a ranking of “NEXT 1000” mid-sized listed companies with less than ¥10bn in sales by the three-year average ratio of R&D expenses to sales conducted by Nikkei, the Company held the No. 1 spot at 37.8%. With the second-ranked company at 21.9%, it is clear that the Company’s R&D investments are overwhelmingly higher.



Source: The Company’s results briefing materials

Business overview

3. Service planning, development, and operation capabilities

As service planning, development, and operation capabilities, the Company possesses planning capabilities for generalized provision of innovative products as package services and is also capable of designing, developing, and operating services with functions, pricing, and service models that fit customer needs. An example is OPTiM AI Camera, a strategic product released in FY3/2019, and derivative services. The Company developed a subscription service that facilitates easy deployment of AI that has already completed learning in response to feedback of “wanting to use AI and IoT but having concerns about data accumulation and upfront equipment purchase for deployment.” OPTiM AI Camera is equipped with a menu of over 300 types of pre-learned models for specific industries, such as retail, rail and public transportation, healthcare facilities, food and drink, airports, manufacturing, office buildings, public facilities, banks, schools, and collective housing and condominiums. This package service supports efficient handling of security, marketing, and business tasks. Customers significantly reduce time and costs due to elimination of a learning phase. The Company released OPTiM AI Camera Mobile, which allows for even easier rollout, in January 2020. Users can analyze video from the target location just by installing the app in a smartphone or tablet and positioning the device. This is a revolutionary format that analyzes video obtained from a handset camera and does not require any external equipment, such as a surveillance camera or analysis terminal. The monthly price of ¥1,950 is highly attractive to retail stores, restaurants, and other locations in analyzing data points such as customer attributes (age group, gender) and number of people. The Company also launched OPTiM AI Camera for “With COVID-19” conditions in June 2020, demonstrating its strength in steadily creating new package services.

4. Strong licensing income

The Company’s main business model is subscription business (in which customers receive service for a certain period by paying fees) and supports strong licensing income based on steady accumulation. Optimal Biz, which holds a No. 1 share in the domestic MDM market, is a leading example. The total number of devices connected to the Internet was at 17.07bn units worldwide in 2014, increased to 30.71bn units in 2018, and is projected to increase to 44.79bn units in 2021*. From the standpoint of the division managing corporate IT assets, increase in units means more work and also greater risk. Mainstay Optimal Biz provides security measures for smartphones, tablets, PCs, IT equipment, and other equipment to companies and is a vital service in the area of batch settings. More than 180,000 companies have deployed this service nationwide. One example is East Japan Railway Company <9020> (below, JR-East) that uses the service for 37,000 tablets utilized in frontline operations, such as station staff, train staff, track maintenance, electric facilities, civil work, and construction. Optimal Biz supports management tasks for this massive number of terminals. JR East favorably assesses the service’s fulfillment of strict security criteria, cost advantages, and rapid, detailed support.

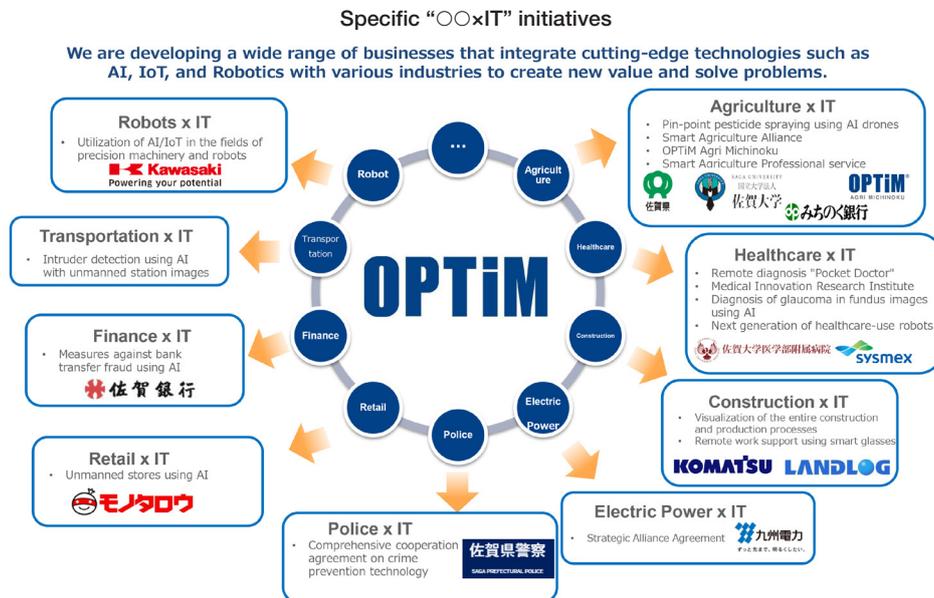
| * Source: White Paper Information and Communications in Japan FY2019 (Ministry of Internal Affairs & Communications) |

Business overview

5. Consulting capabilities

The Company possesses high-level consulting capabilities for understanding market environments of partner companies and innovating and creating new services that leverage its technology together with partner companies. It has steadily created services that use OPTiM Cloud IoT OS, an OS for IoT and AI platform users in every industry. This initiative known as “〇〇xIT” begins with verification tests and cultivates official businesses and services for designated customer companies. In terms of the industries it has been applied to first, businesses have already been launched for “Construction x IT,” “Agriculture x IT,” and “Healthcare x IT.” In addition, it is also being applied to “Robot x IT,” “Transportation x IT,” “Finance x IT,” “Retail x IT,” “Police x IT,” and “Electric Power x IT,” and the Company is progressing demonstration experiments and other initiatives for these industries. Partner companies include leading corporations such as Komatsu Ltd. <6301> in the field of construction, Sysmex Corporation <6869> in healthcare, and Kawasaki Heavy Industries <7012> in robots. In OPTiM INNOVATION 2019, which was the Company’s first independent platform show in October 2019, a total of 215 partner companies and organizations exhibited in 52 booths, actively exchanging information and conducting sales negotiations. For this, we can understand the appeal that the Company has to attract partners. On taking an overview of these efforts, for the companies and organizations in each industry that are orientated toward a next generation AI and IoT platform-user strategy, it can be said that the Company is “providing the tools that are the key to its success and playing a role toward its realization.”

In the latest market survey, the Company’s AI solutions held the No.1 market share in four segments (sales trends by industry in the “agriculture, forestry and fisheries industries,” “the healthcare” segment, “The sales trend segment for users with less than 300 employees” for users with less than 300 employees, and the “measurements, observations, and search vendor share” segment, of the trend in the measurements, observations, and search market). Of these, “measurements, observations, and search vendor share” includes camera solutions, and OPTiM AI Camera is the corresponding product.



Source: The Company’s results briefing materials

6. Business creation capabilities

The Company offers business creation capabilities for developing businesses with new products and services through alliances with many types of partners, including various industry leaders, telecom carriers, and printer manufacturers, and deploying businesses on a large scale. It specializes in business creation and development and partner companies handle marketing and sales. This approach generates synergies.

Results trends

Net sales rose 23.0% YoY in FY3/2020 results, new services (AI/IoT services) reached roughly 30% of total net sales on a 90% gain and upbeat orders

1. Overview of the FY3/2020 results

In FY3/2020 results, sales increased by more than 20% and profits climbed sharply, with net sales at ¥6,728mn (+23.0% YoY), operating profit at ¥256mn (+166.3%), ordinary profit at ¥259mn (+78.3%), and profit attributable to owners of parent at ¥117mn (+939.1%). From the start, the Company pledged to strategically invest in R&D, and these results are an outcome of it fulfilling this pledge.

Net sales recorded an all-time high for a 20th straight fiscal year since the Company's founding. Existing services, which account for about 70% of total net sales, steadily grew with accumulation of license volume. Optimal Biz, the main source of sales, secured assessment of holding the top share in domestic MDM and EMM markets in a fourth straight year as these markets continue to expand. Orders were upbeat in new services (AI/IoT services) too. The Company's sales from new services rose by more than 90% YoY and reached about 30% of total net sales. In OPTiM Cloud IoT OS, a new service area, the Company achieved progress in building cooperative operations with leading companies and organizations in various industries, such as agriculture, construction, healthcare, and robotics, and posted results in product releases and establishment of business models. Customization for OPTiM Cloud IoT OS usage, environment set-up, and other services in the construction industry, where the Company has a leading position, fueled rapid spot sales growth. In the line-up of OPTiM AI Camera package services, the Company rolled out services that improve the usability of AI and IoT, including OPTiM AI Camera Lite and OPTiM AI Camera Mobile, boosting licenses and customization sales.

The Company continued to make strategic R&D investments, as promised, and spent a much larger amount on R&D investments (more than ¥1.9bn) than others with comparable scale. Even with considerable spending seen in increases of 33.5% YoY in cost of sales and 13.0% in SG&A expenses, the Company attained significant profit increases thanks to an even stronger effect from higher sales.

Results trends

FY3/2020 results

	FY3/2019 (non-consolidated)		FY3/2020 (consolidated)		
	Results	Vs. net sales	Results	Vs. net sales	YoY
Net sales	5,468	100.0%	6,728	100.0%	23.0%
Cost of sales	1,965	35.9%	2,623	39.0%	33.5%
Gross profit	3,503	64.1%	4,105	61.0%	17.2%
SG&A expenses	3,406	62.3%	3,848	57.2%	13.0%
Operating profit (loss)	96	1.8%	256	3.8%	166.3%
Ordinary profit (loss)	145	2.7%	259	3.9%	78.3%
Profit (loss) attributable to owners of parent	11	0.2%	117	1.7%	939.1%

Note: Year-on-year values are just reference points because the Company switched to consolidated financial statements in FY3/2020.
 Source: Prepared by FISCO from the Company's financial results

Maintains a highly stable financial structure with debt-free management, broader business scope is expanding asset scale

2. Financial condition and management indicators

At the end of FY3/2020, total assets were up ¥878mn on the end of the previous fiscal period to ¥4,604mn. Within this amount, current assets increased ¥485mn to ¥2,947mn, with the main factors being that notes and accounts receivable-trade increased ¥378mn and cash and deposits increased ¥136mn. Non-current assets rose ¥393mn to ¥1,657mn, mainly because investments and other assets increased ¥319mn. The balance of cash and cash equivalents was ¥1,263mn.

Liabilities were up ¥696mn on the end of the previous fiscal period to ¥1,565mn, with the main factor being that current liabilities increased ¥664mn, mainly on higher levels of notes and accounts payable-trade and unpaid corporate taxes. The Company has no interest-bearing debt and continues to practice debt-free management. Total net assets rose ¥181mn to ¥3,039mn, and there is sufficient surplus profit.

In the management indicators of stability (at the end of FY3/2020), the current ratio was 196.1%, while the equity ratio was also high at 64.5%. Therefore, the Company's financial stability is extremely high.

Consolidated balance sheets and management indicators

	End- FY3/2019 (non-consolidated)	End- FY3/2020 (consolidated)	Change
(¥mn)			
Current assets	2,461	2,947	485
Cash and deposits	1,127	1,263	136
Notes and accounts receivable-trade	1,174	1,552	378
Non-current assets	1,263	1,657	393
Investments and other assets	1,003	1,322	319
Total assets	3,725	4,604	878
Total current liabilities	838	1,503	664
Non-current liabilities	29	61	32
Total liabilities	868	1,565	696
Total net assets	2,857	3,039	181
Total liabilities and net assets	3,725	4,604	878
<Stability>			
Current ratio (current assets ÷ current liabilities)	293.5%	196.1%	-
Equity ratio (shareholders' equity ÷ total assets)	76.7%	64.5%	-

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

■ Outlook

Targets 20.0% ordinary profit margin (upper-end scenario) in FY3/2021 as the fiscal year to begin booking profits while sustaining R&D investments

Due to uncertainty about COVID-19 impact, the Company presents forecast ranges for sales and profits in the FY3/2021 results outlook with net sales at ¥7,407mn–8,080mn (+10.1%–20.1%), operating profit at ¥712mn–¥1,526mn (+177.4%–493.9%), ordinary profit at ¥802mn–¥1,616mn (+209.4%–522.9%), and profit attributable to owners of parent at ¥501mn–¥1,028mn (+327.6%–777.3%). It positions this fiscal year as “the one in which it starts recouping R&D investments” and expects significant profit increases.

The Company aims to achieve all-time high sales in a 21st straight year since its founding. In the sales forecast, it projects 20.1% YoY increase for a scenario of growth at a cruising speed. It has sustained a pace of over 20% gains in recent years (23.0% in FY3/2020, 29.9% in FY3/2019, and 27.0% in FY3/2018). Since existing services, which provide about 70% of overall sales, mainly acquire stock-sales (subscription) licensing fees, the income outlook is stable. In new services (AI/IoT services), the Company’s primary business model is customization for players who want to do platform business in various industries based on OPTiM Cloud IoT OS. Customization sales are also a high percentage of sales in the package service OPTiM AI Camera product line-up because of the service rollout timing. Stock-sales licensing fee income is likely to expand in new services too over time. Meanwhile, the Company projects a 10.1% increase for a scenario of impact from COVID-19. Since there might be risk that has not materialized at the start of the period, it added sales decline of as much as roughly 10% to address this risk.

With FY3/2021 earmarked in its strategy as the year “in which it starts booking profits,” the Company wants to book all-time high profits. It has spent aggressively in AI, IoT, and Robotics areas over the past three years with the aim of becoming a central player in the Fourth Industrial Revolution and achieved No. 1 market shares in multiple AI and IoT areas. Results from past investments are showing up in income. It targets 20.0% ordinary profit margin (upper end of the forecast range with ordinary profit at ¥1,616mn) while sustaining high R&D investments. Meanwhile, even in the scenario of COVID-19 impact (lowering sales by 10%), it intends to continue investing in R&D and projects 10.8% ordinary profit margin (lower end of the forecast range with ordinary profit at ¥802mn). FISCO thinks sales and profits are likely to be close to the upper end of forecast ranges considering that some aspects of COVID-19 impact should provide tailwinds, such as wider use of remote work.

FY3/2020 results outlook

	FY3/2020		FY3/2021		
	Results	Vs. net sales	Forecast	Vs. net sales	YoY
Net sales	6,728	100.0%	7,407–8,080	100.0%	10.1–20.1%
Operating profit	256	3.8%	712–1,526	9.6–18.9%	177.4–493.9%
Ordinary profit	259	3.9%	802–1,616	10.8–20.0%	209.4–522.9%
Profit attributable to owners of parent	117	1.7%	501–1,028	6.8–12.7%	327.6–777.3%

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

Growth strategies and topics

Stronger positive effect from COVID-19 driven by increased demand for remote work and services addressing COVID-19 is possible. Established a joint venture with Sysmex in the “Healthcare x IT” field

1. COVID-19 impact

COVID-19 is affecting the Company’s business in various ways. FISCO sees positive and negative aspects at this point (late June 2020), though negative ones have not materialized and positive ones are likely to be more influential. In product trends, growing use of remote work should boost demand for Optimal Biz (MDM), Optimal Remote, remote task assistance, and other existing services, and inquiries have risen too. In remote medical consultation, authorities eased restrictions on online medical consultation for a limited period as a special case in April 2020 and such services might make inroads (the Company started no-charge provision of its Pocket Doctor product). In frontline-type AI services (such as OPTiM AI Camera), the Company moved promptly in releasing an OPTiM AI Camera solution for the “With COVID-19” environment and supported reopening of restaurants, retail stores, and other locations where people congregate. New features include a check of visits to the sanitizing and handwashing area, display of congestion levels by area, and crowding alerts. However, OPTiM AI Camera also might see diminished use for marketing and other purposes. While it is difficult to forecast changes in customer industries at this point, there is no evidence of significant negative impact on the Company’s business and services as of end-June 2020. Yet risk of delays, reduced scale, and suspension of AI and IoT projects with partners who are easily affected by the COVID-19 outbreak exists.

COVID-19 impact on the Company (positives, negatives)

Related products and customers	Positives (including no impact)	Negatives	
Product trends	Remote work	Rising demand for OptimalBiz (MDM), Optimal Remote, remote task assistance, and other services driven by widening use of remote work	
	Remote medical consultation	Eased restrictions on online medical consultation for a limited period as a special case in April 2020 (the Company started no-charge provision of its Pocket Doctor product)	
	Frontline AI (OPTiM AI Camera, etc.)	Increased demand for frontline AI related to COVID-19 measures (health management purpose, etc.)	Reduced demand for frontline AI not related to COVID-19 measures (marketing purpose, etc.)
Changes in customer industries	Construction industry	No evidence of significant negative impact on the Company’s business and services as of end-June 2020	Risk of delays, diminished scale, and suspension of AI and IoT projects with partners who are easily affected by the COVID-19 outbreak
	Medical industry		
	Agriculture, forestry and fisheries industries		
	Other industries		

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

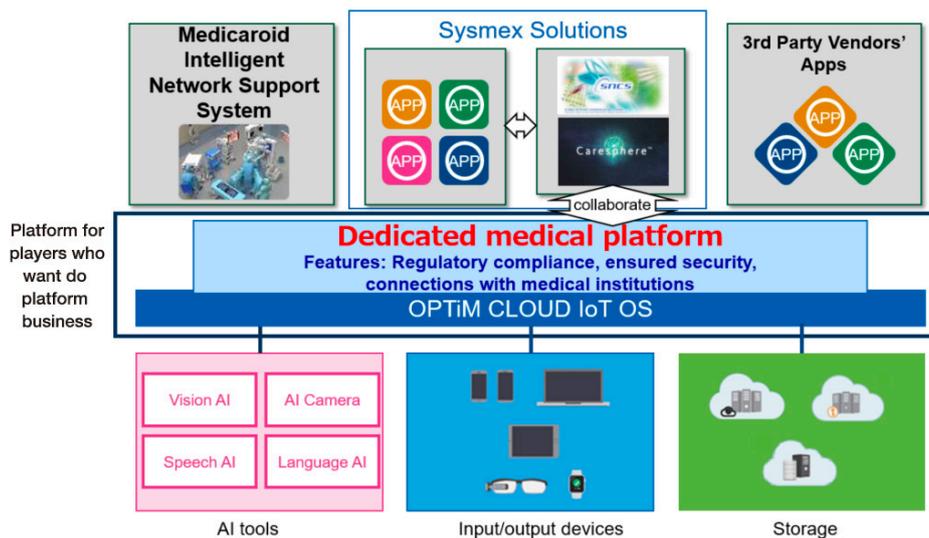
2. Jointly founded a company to plan, develop, and manage a medical AI and IoT open platform and other services, with Sysmex

Sysmex Corporation and the Company jointly founded D’PULA Medical Solutions Corporation, which handles planning, development, and operation of solution services that utilize an open platform and applications related to digital medicine in June 2020, and started activities.

Growth strategies and topics

Digital transformation based on analysis and utilization of a wide range of medical-related data is closely tied to personalized medicine that delivers optimal medical care to individual patients and supports suitable assistance at various stages with comprehensive management of information from when patients are healthy through testing, diagnosis, treatment, and prevention of recurrence and serious outcome after illness begins, and the final stage. The new company’s name reflects the aim of supplying solutions to serve as a bridge between individuals and medical care using digital technology and medical data, and this business targets development and operation of a medical AI and IoT platform to seamlessly connect medical information that had been disjointed and digital medical solutions with a scientific foundation. The medical AI and IoT platform at the core of this business is an open platform, seeking collaboration with a wide range of vendors and user companies and facilitating development and deployment of treatment applications. Another service is provision of assistance to acquire approvals, such as pharmaceutical affairs approval, for developed applications. The project has already started prototype development of the medical AI and IoT platform and plans to ramp up discussions of collaboration with drug companies and medical equipment manufacturers. The Company has experience building industry AI and IoT platforms in construction, agriculture, and other industries and is beginning work on a full-fledged industry platform in the medical industry too.

Image of the Sysmex x OPTiM platform



Source: Image from the Company's release

Shareholder return policy

Putting priority on investing in the future, has not decided the dividend outlook

The Company puts priority on investing in growth and has not decided the dividend outlook at this point. As a venture company in Japan with rare technological capabilities and imagination, a medium- to long-term perspective will be necessary for investment.



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