

Toyokumo, Inc.

4058

Tokyo Stock Exchange Growth Market

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

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Summary

A high ratio of stock-business sales and business management with controls on indirect expenses led to continued high profit growth

Toyokumo, Inc. <4058> (hereafter, also “the Company”) is a Software as a Service (SaaS) company providing cloud services to corporations. Provided services include a Safety confirmation service, cloud services that link with the “kintone” service of Cybozu, Inc. <4776>, and a group scheduler that makes it easy to adjust daily schedules.

1. Outline of results for FY12/22

In the Company’s non-consolidated results* for FY12/22, net sales increased 32.6% year on year (YoY) to ¥1,937mn, operating profit increased 52.8% to ¥639mn, ordinary profit increased 51.5% to ¥638mn, and net profit increased 48.9% to ¥427mn. In the Company’s initial plan, released in February 2022, it targeted net sales of ¥1,890mn and operating profit of ¥530mn. However, in its 3Q results, released in November 2022, these were revised upward to net sales of ¥1,930mn and operating profit of ¥600mn. The Company has largely achieved these upwardly revised targets. Net sales reflected favorable performance from both the Safety confirmation service and kintone-linked services. The reasons for operating profit surpassing initial targets are that growth in net sales exceeded the Company’s expectations, and that the increase in personnel expenses was kept low. Also, the Company’s net sales comprise 99.9% stock-business (recurring) sales, so we at FISCO expect net sales to trend steadily upward in the future.

* The Company has applied “Accounting Standard for Revenue Recognition (ASBJ Standard No. 29, March 31, 2020),” etc., from the start of 1Q FY12/22.

2. Forecast for FY12/23

The Company’s forecast for operating results in FY12/23 is for net sales to increase 20.3% YoY to ¥2,330mn, gross profit to increase 20.4% to ¥2,260mn, operating profit to increase 12.6% to ¥720mn, ordinary profit to increase 12.7% to ¥720mn, and net profit to increase 14.7% to ¥490mn. In net sales, the Company expects to see growth in the number of paid contracts for its Safety confirmation service and kintone-linked services. The gross profit margin is projected to be 97.0%, which is largely on par with figure of 96.9% recorded in the previous fiscal year, while the operating profit margin is expected to be 30.9%, a slight decrease from the figure of 33.0% recorded in the previous fiscal year. This is a rebound from the high level of operating profit margin recorded in the previous fiscal year due to the number of new employees recruited being less than the number forecast in the initial plan. The Company plans to maintain high sales growth while balancing personnel expenses of roughly 30% of sales with advertising investments targeting an operating profit margin of 30%, so that it can maintain an operating profit margin of over 30% in the medium to long term. Furthermore, the Company has been fairly conservative in its initial plan, so based on recent monthly sales trends, it can be expected to make smooth progress on the plan.

Summary

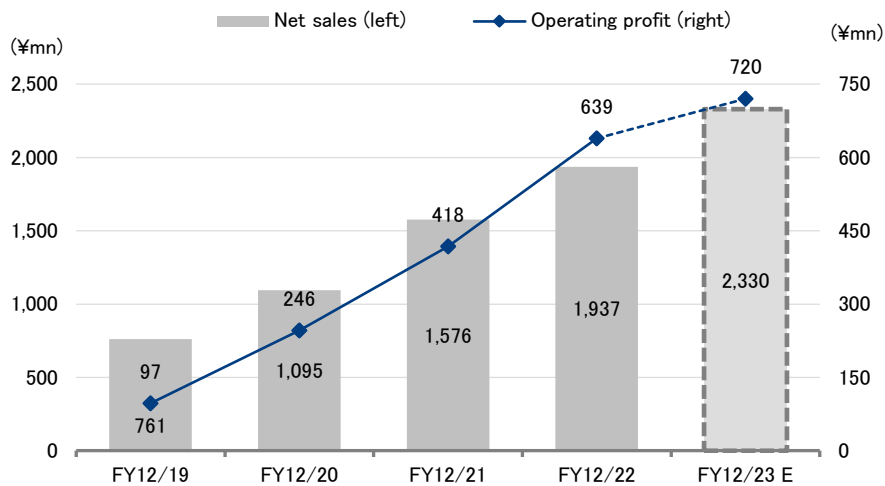
3. Medium-term growth strategy

The Company aims to realize “popularization of IT” by providing services that are easy, simple, and intuitive even for IT beginners to use. Its strategy is to thoroughly explore its current cloud-based business model and continue to refine it to achieve significant medium-term growth. In Safety confirmation services, continuation in addition to the existing model of confirming the safety of a company’s own employees, the Company is widening the scope of use to cover the entire supply chain, including suppliers, in order to consider continuation of a company’s business activities during a disaster. With respect to kintone-linked services, the Company will continue to increase sales unit price per customer through cross selling. It has also positioned its new service, “TOYOKUMO Scheduler,” as a service for deployment not only in Japan, but also overseas, and its future development will be a subject of focus. Furthermore, starting in FY12/23, the Company is planning to develop a new business targeting enterprises such as local governments and large companies, which will be worth keeping an eye on.

Key Points

- Provision of easy, simple, and intuitive cloud-services for corporations, aiming to realize popularization of IT
- In FY12/23, the Company plans to make investments in advertising to raise its recognition level, while securing profits. It also plans the full-scale launch of an enterprise business.
- High profit growth expected to continue with business management that emphasizes the number of paid contracts, churn rate, and LTV, while keeping a high ratio of stock-business sales and curbing indirect expenses

Results trends



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

■ Company profile

Provision of cloud-services for corporations, with an emphasis on “easy, simple, and intuitive”

1. Management policy

The Company is a SaaS company providing cloud services to corporations. Provided services include a Safety confirmation service, cloud services that link with the “kintone” service of Cybozu, and a group scheduler that makes it easy to adjust daily schedules.

The Company’s mission is “Freeing all people from inefficient work” and its corporate philosophy is “Contribute to abundant social activity around the world through information services.” The Company’s aim is not to provide the kind of services that have a boom, but rather to continually strive to provide the kind of services that become a corporate culture. By keeping ahead of the constantly changing times, it intends to anticipate products and services that customers will wish for and prepare them in advance. Furthermore, by focusing on points that have been conventionally absent in services: easy operation, simple functionality, and intuitive user interfaces, and providing services that can be used with confidence even by IT beginners unaccustomed to daily use of PCs and smartphones, the Company aims to support companies taking their first step towards the adoption of IT.

Established as a wholly-owned subsidiary of Cybozu, transitioned to an independent management structure through an MBO, and changed its corporate name to Toyokumo

2. History

The Company was established as Cybozu StartUps Inc. in Bunkyo Ward, Tokyo in August 2010, by Cybozu, Inc. as a wholly-owned subsidiary to develop new cloud services. Subsequently, it was judged that shifting the Company to an independent management structure would be beneficial for both companies, and a management buyout (MBO) was agreed upon. The Company was excluded from Cybozu’s scope of consolidation in March 2014 and transitioned to an independent management structure. In July 2019, to clarify the independence of the management structure from Cybozu, the Company changed its name to “Toyokumo.”

The origin of the Company name expresses the Company’s desire to spread cloud computing all over the world, just as the Japanese god Toyokumo-no-kami is said to have created clouds and brought rain to the land at the time of creation, thereby enabling agriculture. Toyokumo-no-kami refers to a cloud of abundance that appears in Japan’s oldest chronicle, the Kojiki, and is considered to have been a deified cloud.

Company profile

History

Date	Event
August 2010	Established as a wholly-owned subsidiary of Cybozu, Inc., specifically for starting up new business
April 2011	Released a composite photograph service, "DrCrop" for smartphones
November 2011	Terminated provision of "DrCrop" service
December 2011	Released "Safety confirmation service"
February 2012	Released "Sales Report Service" conducted using smartphones
March 2012	Released social task management product "ToDous"
July 2012	Released the Cybozu kintone-linked service, "FormCreator"
September 2012	Released "Interview Support Service" for smartphones
January 2013	Released "BYOD Service" for managing employee smartphones
May 2013	Released "Dedicated Device Conversion Service" to convert Android devices for into dedicated work devices
December 2013	Released the cloud service account management product, "Cloudum"
March 2014	MBO conducted by management, acquiring 70% of shares from Cybozu, Inc.
April 2014	Conducted a third-party allocation to raise capital, mainly allocating to management
June 2014	Released "DigitalSignage" conducted using smartphone Released Cybozu kintone-linked service, "PrintCreator" Terminated provision of "BYOD Service"
August 2014	Terminated provision of "Cloudum" service
September 2014	Released Cybozu kintone-linked service, "kViewer"
November 2014	Released Cybozu kintone-linked service, "kBackup"
December 2014	Terminated provision of "Sales Report Service"
March 2015	Terminated provision of "Digital Signage" service Terminated provision of "Dedicated Device Conversion Service"
April 2015	Conducted a third-party allocation to venture capital and others Relocated head office to Shiba, Minato Ward, Tokyo Transferred "ToDous" business
February 2016	Terminated provision of "Interview Support Service"
March 2016	Released Cybozu kintone-linked service, "TimeStamp"
January 2017	Relocated head office to Nishi Gotanda, Shinagawa Ward, Tokyo
July 2017	Released the Cybozu kintone-linked service, "FormBridge"
January 2018	Released Cybozu kintone-linked service, "kMailer"
July 2019	Changed company name to Toyokumo, Inc.
March 2020	Released the Cybozu kintone-linked service, "DataCollect"
June 2020	Terminated provision of Cybozu kintone-linked service, "FormCreator"
September 2020	Listed on the Mothers market of the Tokyo Stock Exchange
June 2021	Terminated provision of Cybozu kintone-linked service, "TimeStamp"
September 2021	Relocated head office to Osaki, Shinagawa Ward, Tokyo
November 2021	Released "TOYOKUMO Scheduler"
April 2022	Transferred from the TSE's Mothers Market to the Growth Market

Source: Created by FISCO based on the Company's website

Business overview

Cloud service business for corporations forms the Company's sole segment

1. Business activities

The Company's business comprises a single segment, the Corporate Cloud Services Business. The main services are the Safety confirmation service, kintone-linked services, and TOYOKUMO Scheduler.

(1) Safety confirmation service

Companies are required to provide countermeasures to minimize confusion in the event of a natural disaster or disaster caused by phenomena such as abnormal weather and continuously provide customer services. The Company provides Safety confirmation service, a cloud service for confirming the safety of employees and others when disasters occur using their mobile phone, smartphone, or PC. The service features functions for accurately grasping the status of damage when a disaster occurs, and rapidly giving directions to employees and others. Furthermore, the service can also be used as a tool for sharing information during emergencies such as pandemics and for conducting emergency communications when the company's internal network is experiencing a fault.

Main functions of the Safety confirmation service

Function	Outline
Safety confirmation function	Enables user to send out bulk messages to preregistered contacts in the event of a major disaster such as an earthquake or tsunami
Information collection function	Enables users in roles such as crisis management officer to confirm the status of contacts on a list
Countermeasure instruction function	Enables users to engage in three different communication functions: a message function for discussing countermeasures with the most suitable team member, a message board function for notifying transitional processes, and a bulk notification function for communicating the results
Prior preparation function	Enables user information, region, and department information to be all stored in a single CSV file

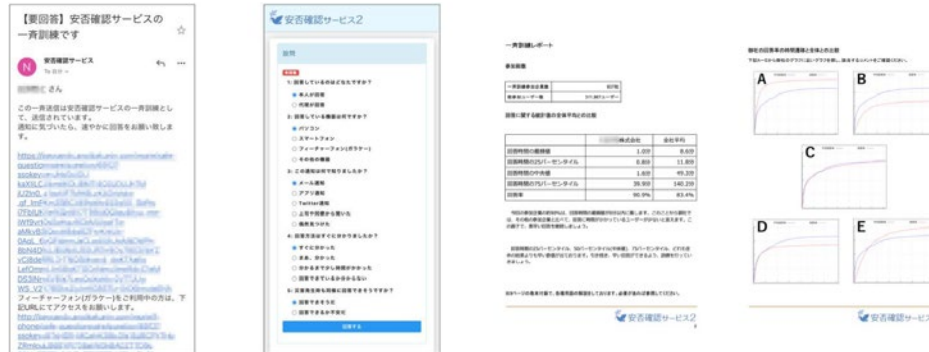
Source: Prepared by FISCO from annual securities reports

The Company's Safety confirmation service is a cloud-based system, enabling the servers to be expanded flexibly, and it has functions that can respond automatically to an increase in access during disasters. Specifically, based on early reports of earthquakes announced by the Japan Meteorological Agency, the function can automatically expand servers before opening access to users. Thereby, even if access to the Company's system increases rapidly during a disaster, the system can operate stably. On the other hand, due to the nature of Safety confirmation services, there is little opportunity for use during normal times, and the Company therefore enters server contracts according to the status of access. For this reason, the Company is always able to operate with an appropriate cost burden, enabling it to provide services at a competitive price.

The Company conducted nationwide joint training for 441,292 users at 1,248 companies among the contracted customers for the Safety confirmation service on Disaster Prevention Day on September 1, 2022. Through this training, the Company confirmed that its systems operate even under access loaded situations, such as during a disaster. In the area of safety confirmation services, a common reason given by companies for changing to another company's service is that while their current system may work during their own training, it stopped in an actual disaster due to over concentration of access. For this reason, at FISCO we think that the large-scale safety confirmation training run by the Company is very significant. The Company's Safety confirmation service is likely to be the subject of increasing focus going forward, and we believe that demand will continue to be solid, including switch overs from other companies.

Business overview

Notification of joint training and training report



Source: From the "Matters concerning business plan and growth potential"

(2) kintone-linked services

kintone is a cloud service provided by Cybozu. It is able to generate applications necessary for business operations, such as sales management and customer management. The application design and various operational settings do not need to be programmed by the users themselves as the service can be used simply by operating a mouse. While kintone can be used with various applications, there are some functions that cannot be achieved with the basic function alone, and the Company supports customers' in making more convenient use of kintone by supplying kintone-linked services, also known as extension functions.

The Company's kintone-linked services include the PrintCreator service, which uses data registered in kintone to output forms such as estimates and invoices; FormBridge, a web-form generator service that generates questionnaire survey forms and application forms, etc., and can directly register data to kintone, as well as services that can protect or externally publish data recorded on kintone, as well as collate and calculate it. Moreover, customers who use kintone-linked services purchase their kintone licenses via the Company, enabling them to make just one payment to the Company for what would normally be two separate payments.

Main kintone-linked services

Service name	Outline
PrintCreator	A service that uses data registered in kintone to output forms such as estimates and invoices
FormBridge	A web-form generator service that generates questionnaire survey forms and application forms, etc., and can directly register data to kintone
kBackup	A service for protecting data in case data registered on kintone is inadvertently deleted
kViewer	A service for externally disclosing data registered on kintone
kMailer	A service that can send emails while quoting data registered on kintone
DataCollect	A service that collects and calculates data inside kintone

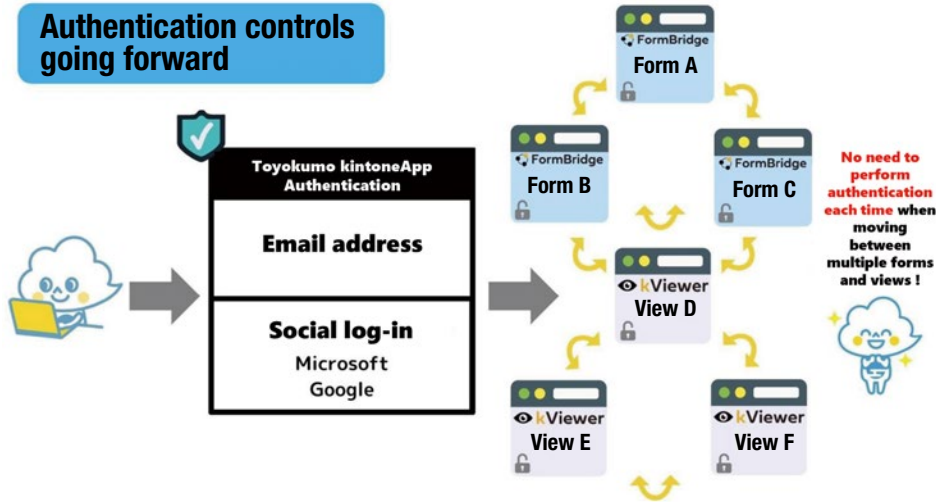
Source: Prepared by FISCO from annual securities reports

The Company added a new user management function called "Toyokumo kintoneApp Authentication" to the FormBridge and KViewer kintone-linked services from February 1, 2022. Toyokumo kintoneApp Authentication is an authentication system that can be set up across kintone-linked services. This eliminates the previous need for simple authentication for each kintone-linked service, enabling users to move back and forth between multiple forms and views once they have logged in using their email address.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business overview

Schematic diagram of Toyokumo kintoneApp Authentication



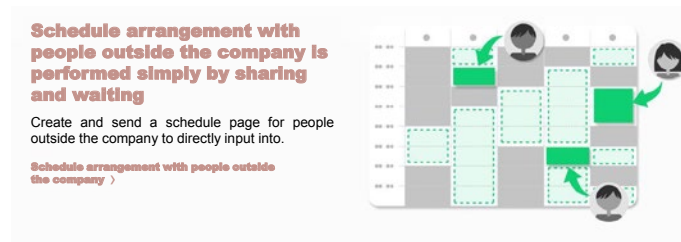
Source: From the Company's financial results presentation

Previously in kintone user management, employees with accounts conducted operations as kintone users, and suppliers and collaboration partners conducted operations as guest users. When using Toyokumo kintoneApp Authentication, it is possible to easily share information with others who could not be communicated with online previously. For example, the service enables the building of membership systems for apparel shops, fan clubs, and email magazines, as well as the building of low-cost systems for information sharing and communication between cram schools and their students, engineering firms and their clients, schools and guardians, and other such relationships. Toyokumo kintoneApp Authentication is expected to enable the evolution of kintone into an external information sharing platform and the expansion of kintone-linked services provided by the Company going forward.

(3) TOYOKUMO Scheduler

TOYOKUMO Scheduler is a new service released by the Company in November 2021. This schedule has a new concept of enabling schedule arrangement with people outside the Company in addition to the internal schedule arrangement function of the previous group scheduler. When a plan is created, the service eliminates the process of manual entry through links with kintone provided by Cyboze or cybozu.com, as well as enabling one-click issuance of web meeting URLs. Since this service is intended to perform schedule arrangement, it can be used by companies of any industry or scale, offering a wide user base. In addition, the Company has earmarked this service for overseas expansion, and its future development will be a focus point.

TOYOKUMO Scheduler (schematic diagram of schedule arrangement function with outside parties)



Source: From the "Matters concerning business plan and growth potential"

Emphasizing the number of paid contracts, churn rate, and LTV

2. Business model

The Company's services are cloud services. All stages of the service from application to usage are completed online, which means that the service can be installed without a visit from the Company sales representatives. The Company focuses on providing services that are "easy" and "convenient" for customers to use, offering companies who make inquiries a free trial period, and coming up with ways for the customer's personnel to master operation of the services themselves during the period. To this end, the Company has made it possible for users to implement the services themselves, simply by using telephone support and website FAQs as needed, rather than the Company's representatives visiting the customer to give an explanation. In addition, since the services are not individually customized, the burden of support on the Company is low. Through efficient business operations where indirect costs are kept to a minimum, the Company is able to provide services at a low price.

The Company's services employ a business model where charges are incurred based on usage period. In other words, it is a stock-based (recurring income) business model, in which earnings increase continuously as the number of paid contracts increases. Moreover, the Company's services are inherently unaffected by trends and are likely to be used continuously, giving them a distinctively low churn rate (annual average cancellation rate). Sales of services are mainly in the form of direct sales to customers who apply directly to the Company. However, some sales are conducted through sales partners such as agents.

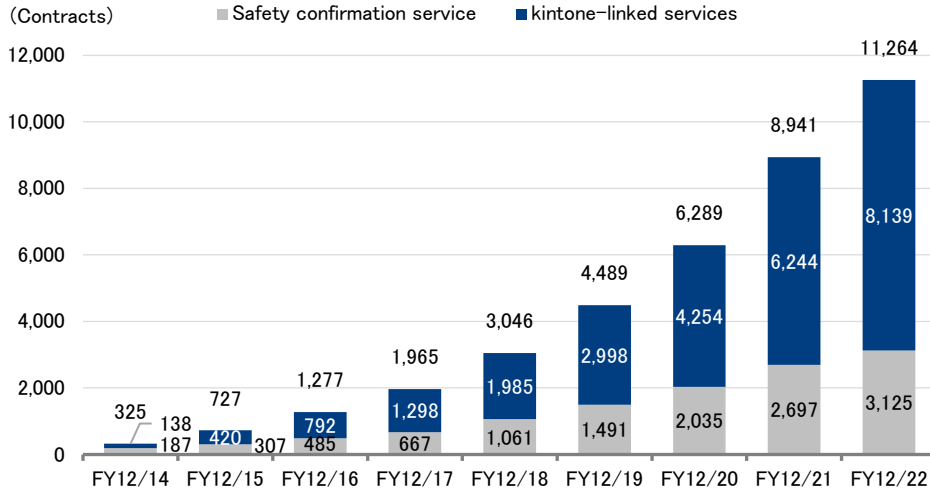
The Company's key indicators are "number of paid contracts," "churn rate," and "LTV."

(1) Number of paid contracts

The number of paid contracts at the end of FY12/22 was up 26.0% YoY to 11,264. By service, Safety confirmation service contracts were up 15.9% YoY to 3,125, and kintone-linked service contracts were up 30.3% YoY to 8,139. In Safety confirmation service, some customers had switched over from other companies. In kintone-linked services, there was also an increase in the number of customers using multiple services, which contributed to significant growth. However, the rate of growth in paid contracts has been slowing, at just 26.0% in FY12/22, compared to 47.4% in FY12/19, 40.1% in FY12/20, and 42.2% in FY12/21. Since a slowdown in the rate of growth in paid contracts will lead directly to a downturn in the rate of sales growth in the future, the Company is launching new initiatives to reignite sales growth, including more efficient uses of advertising expenses and personnel hiring, and providing a solutions pack targeting enterprises such as local governments and large companies. This enterprise business will be a particular point to watch going forward, although currently the time of launch has not been specified.

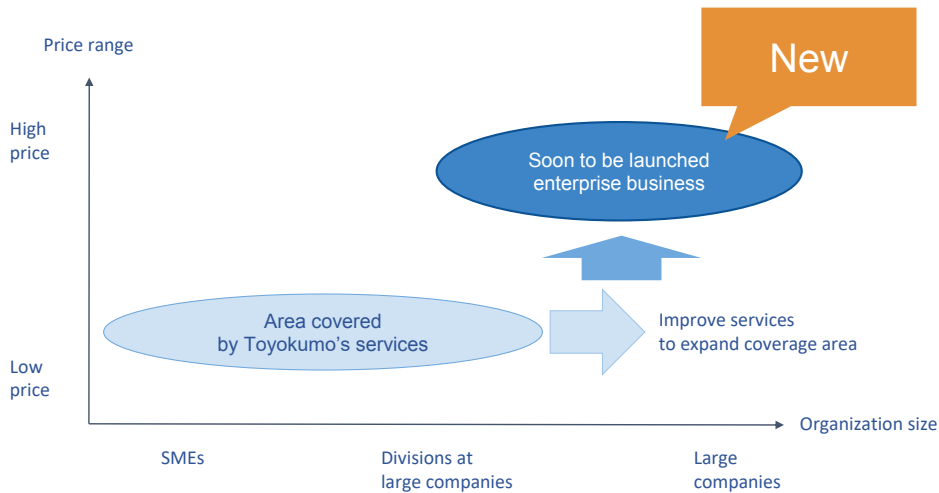
Business overview

Paid contracts for the Company's services



Source: Prepared by FISCO from annual securities reports and financial results presentations

Future Business Development



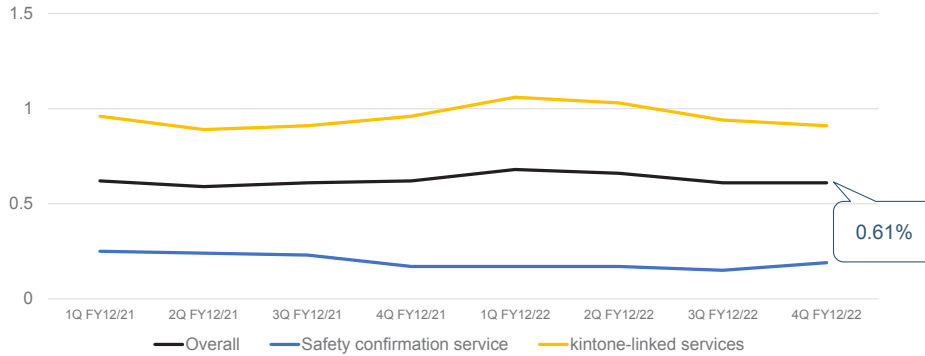
Source: From the Company's financial results presentation

(2) Churn rate

The Company's overall churn rate as of the end of FY12/22 on a monetary amount basis remained at a low level of 0.61%. Breaking this down, Safety confirmation services were around 0.2% and kintone-linked services were around 0.9%. kintone-linked services have a stable churn rate overall, although some variation is seen due to spot projects from local governments and so forth.

Business overview

Churn rate



Source: From the Company's financial results presentation

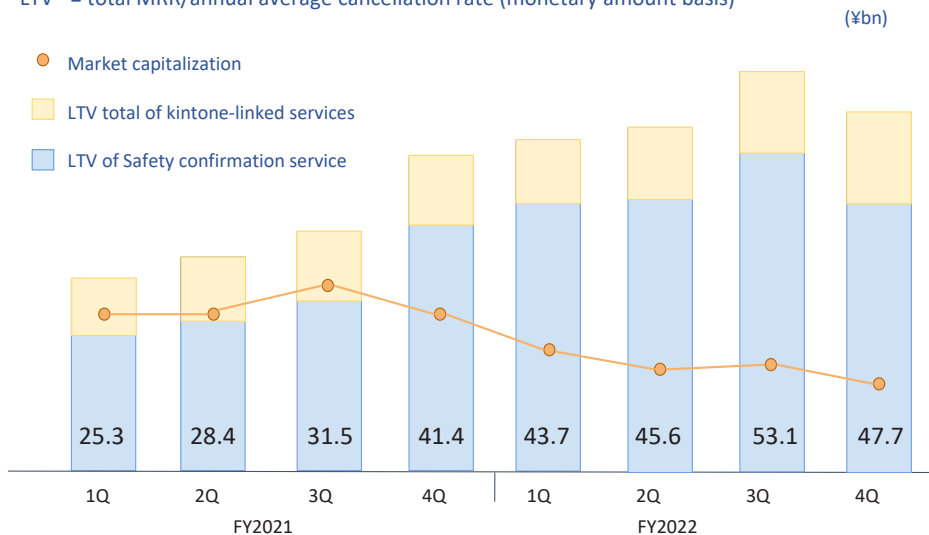
(3) LTV

The Company has set customer Life Time Value (LTV) as an important indicator. LTV is earnings to be received from customers in the future, calculated by dividing Monthly Recurring Revenue (MRR) by the churn rate (monetary amount basis).

The sum of LTVs of individual services (Safety confirmation service LTV and kintone-linked services LTV) continued to grow steadily from ¥25.3bn in 1Q FY12/21 to ¥53.1bn in 3Q FY12/22, but in 4Q of that same year, it shrank to ¥47.7bn. As contract numbers for both services are rising, the churn rate in 4Q deteriorated by 0.22%, which had a negative effect on LTV. As the Company has always maintained extremely low churn rates of 1% or below, we must consider that even a slight change in churn rate will have a large impact on LTV. The Company is forecasting that its churn rate will remain stable at a low level going forward, so there is no serious cause for concern.

LTV and market capitalization

LTV* = total MRR/annual average cancellation rate (monetary amount basis)



Source: From the Company's financial results presentation

Strengths are the high ratio of stock-business sales and efficient sales structure

3. Strengths

The Company's strengths are the "high ratio of stock business sales" and its "efficient sales structure." The Company's net sales comprise 99.9% stock-business sales, an extremely high ratio. This business model ultimately strengthens the Company's management foundation as it is expected to produce continuous sales. The sales structure is mainly direct sales via the internet, which make up 62% of overall sales. Since the Company provides non-customized software and does not conduct proposal sales, the acquisition cost per contact was kept low. Under this flow, new customer leads are often identified through online promotions, advertising, and displays at events. After that, prospective customers visit the Company's website to have a free trial of the services before concluding a contract. After sales support once the contract is made can be conducted efficiently due to a full-complement of information on the website and efficient communication via phone or email.

Results trends

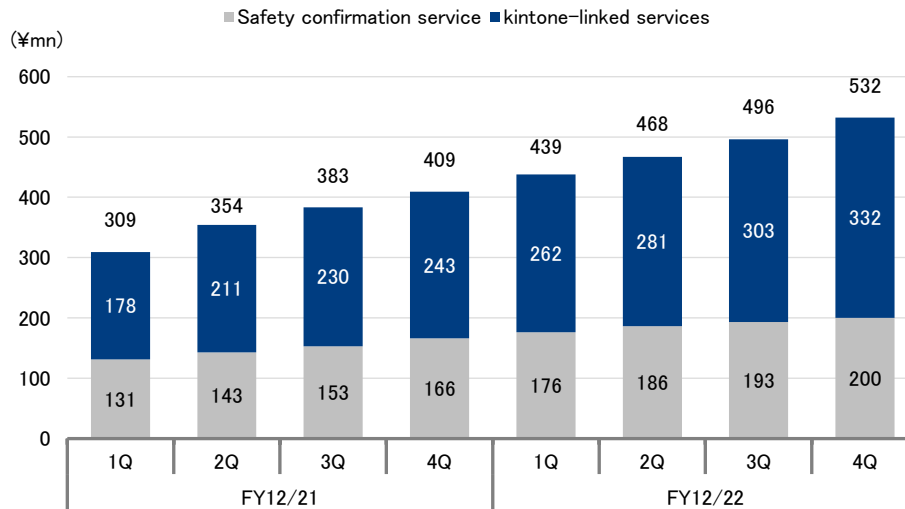
In FY12/22, results steadily surpassed initial plans

In the Company's non-consolidated results for FY12/22, net sales increased 32.6% YoY (comparing values for the same period of the previous fiscal year converted to the new revenue standard) to ¥1,937mn, operating profit increased 52.8% to ¥639mn, ordinary profit increased 51.5% to ¥638mn, and net profit increased 48.9% to ¥427mn. In the Company's initial plan, released in February 2022, it targeted net sales of ¥1,890mn and operating profit of ¥530mn. However, in its 3Q results, released in November 2022, these were revised upward to net sales of ¥1,930mn and operating profit of ¥600mn. The Company has largely achieved these upwardly revised targets. Net sales reflected favorable performance from both the Safety confirmation service and kintone-linked services. The reasons for operating profit surpassing initial targets are that growth in net sales exceeded the Company's expectations, and that the increase in personnel expenses was kept low.

Net sales for FY12/22 showed continued double-digit growth, despite the growth rate slowing in comparison to the past few years. By service, both services performed favorably, with sales of Safety confirmation service increasing 27.3% to ¥755mn, while sales of kintone-linked services increased by 36.7% to ¥1,178mn. Gross profit increased 33.9% to ¥1,877mn, and the Company maintained a high gross profit margin of 96.9%. Cost of sales was kept low YoY, as procurement costs related to kintone-linked services decreased with the application of the revenue recognition standard. Operating margin was 33.0%. Although personnel expenses and advertising expenses continued to rise, net sales and profits also continued to grow significantly, so we at FISCO view this as a favorable financial result.

Results trends

Net sales by quarter



Note: All periods calculated based on the new revenue standard
 Source: Prepared by FISCO from financial results presentation

The Company's initial advertising budget for FY12/22 is ¥500mn (actual expenses of ¥368mn in the previous fiscal year). The plan for weighting of this budget by quarter was 1Q: 2Q: 3Q: 4Q = 20%:20%:30%:30%. Actual advertising expenses for FY12/22 were ¥509mn, so the budget is being used as planned. However, the Company is thinking that it needs to reconsider the content it makes for mass media channels, such as TV commercials. To date, efforts have been focused on promoting the Company's brand through TV commercials but going forward, there are plans to steer toward marketing strategy that will directly contribute to increases in product sales.

Regarding the Company's key performance indicators, paid contracts at the end of FY12/22 stood at 11,264 (up by 2,323 compared with the previous fiscal year-end). Looking at the number of paid contracts by service, both grew steadily, with Safety confirmation services at 3,125 contracts (up 428), and kintone-linked services at 8,139 contracts (up 1,895). The growth rate for paid contracts in FY12/22 was 26.0%. As a slowdown in the rate of growth in paid contracts will lead directly to a downturn in the rate of sales growth in the future, the Company is launching new initiatives to reignite sales growth. The churn rate was 0.61%, maintaining a low level despite the impact of certain spot contracts for kintone-linked services terminating. The sum of LTVs of individual services continued to grow steadily from ¥25.3bn in 1Q FY12/21 to ¥53.1bn in 3Q FY12/22, but in 4Q of that same year, it shrank to ¥47.7bn. A deterioration in churn rate is one of the factors behind the decrease in the sum of LTVs, but as the Company has always maintained extremely low churn rates of 1% or below, it is forecast that the churn rate will remain stable at a low level going forward.

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Results trends

Outline of results for FY12/22

	FY12/21		FY12/22			
	Result	Vs. sales	Initial plan	Result	Vs. sales	YoY
Net sales	1,461	100.0%	1,890	1,937	100.0%	32.6%
(Sales under the previous standard)	1,576	-	-	-	-	-
Gross profit	1,402	96.0%	1,810	1,877	96.9%	33.9%
Selling, general and administrative expenses	984	67.4%	1,280	1,238	63.9%	25.8%
Advertising expenses	368	25.2%	500	509	26.3%	38.3%
Operating profit	418	28.6%	530	639	33.0%	52.8%
Ordinary profit	421	28.8%	530	638	33.0%	51.5%
Net profit	286	19.6%	360	427	22.0%	48.9%

Note: Vs. sales value for net sales in FY12/21 applies to net sales under the new revenue recognition standard
 Source: Prepared by FISCO from financial results and financial results presentation

The Company discloses its preliminary sales figures report around the 15th of each month. Cumulative monthly sales from 2021 to around March 2022 showed continuously high sales growth of over 40%, but following this, the sales growth rate declined, decreasing to 27% in January 2023 and 26% in February. However, the Company's sales growth rate forecast for FY12/23 is 20.3%, so it could be said that it has made a smooth start to its plan.

Monthly Sales

	2023											
	January	February	March	April	May	June	July	August	September	October	November	December
Monthly sales	181	184										
YoY	127%	126%										
Cumulative sales	181	366										
YoY	127%	127%										

	2022											
	January	February	March	April	May	June	July	August	September	October	November	December
Monthly sales	142	146	149	153	156	158	161	164	170	172	174	178
YoY	143%	142%	140%	138%	135%	125%	130%	128%	130%	129%	127%	128%
Cumulative sales	142	289	439	592	748	907	1,068	1,233	1,404	1,576	1,751	1,929
YoY	143%	143%	142%	141%	140%	137%	136%	135%	134%	134%	133%	132%

Source: Prepared by FISCO from the preliminary monthly sales reports

<Reference> FY12/21 Monthly Sales

	2021											
	January	February	March	April	May	June	July	August	September	October	November	December
Monthly sales	99	102	106	111	116	126	124	128	131	133	137	138
YoY	144%	145%	146%	146%	146%	157%	150%	149%	149%	146%	145%	143%
Cumulative sales	99	202	309	420	536	663	787	915	1,047	1,180	1,317	1,456
YoY	144%	144%	145%	145%	145%	147%	148%	148%	148%	148%	147%	147%

Note: Converted to the new revenue recognition standard
 Source: Prepared by FISCO from the preliminary monthly sales reports

Business outlook

Operating results continue to grow, assisted by a tailwind from DX. A new enterprise business will create interest going forward

1. Forecast for FY12/23

The Company operates in the cloud services market, where digital transformation (DX) is becoming increasingly important for driving operational efficiency and productivity gains. Moreover, under the impact of the COVID-19 pandemic, the popularization of diverse workstyle such as remote work has increased demand for cloud services that can be used anytime, anywhere. At FISCO, we expect corporate investment in IT to increase in this environment, and expect to see high growth, particularly in the cloud services market.

The Company's forecast for operating results in FY12/23 is for net sales to increase 20.3% YoY to ¥2,330mn, gross profit to increase 20.4% to ¥2,260mn, operating profit to increase 12.6% to ¥720mn, ordinary profit to increase 12.7% to ¥720mn, and net profit to increase 14.7% to ¥490mn. Net sales are expected to increase, as the Company expects to see growth in the number of paid contracts for its safety confirmation service and kintone-linked services. The gross profit margin is projected to be 97.0%, which is largely on par with figure of 96.9% recorded in the previous fiscal year, while the operating profit margin is expected to be 30.9%, a slight decrease from the figure of 33.0% recorded in the previous fiscal year. This is a rebound from the high level of operating profit margin recorded in the previous fiscal year due to the number of new employees recruited being less than the number forecast in the initial plan. The Company plans to maintain high sales growth while balancing personnel expenses of roughly 30% of sales with advertising investments targeting an operating profit margin of 30%, so that it can maintain an operating profit margin of over 30% in the medium to long term. Furthermore, the Company has been fairly conservative in its initial plan, so based on recent monthly sales trends, we at FISCO expect it to make smooth progress on the plan.

One point to focus on in FY12/23 is the Company's plans to start providing a solutions pack targeting enterprises such as local governments and large companies. This will involve creating a package of solutions made up of multiple cloud services, primarily the Company's own services, and then speedily releasing it as a service. Its strength will lie in its structure, which enables not only the Company's cloud services, but also support spanning from proposal to build, research and verification, and even operational support. The business model is also different than the ones for existing services at the Company and includes the consideration of aspects such as deployment at other companies, so announcements regarding specific operations and the service launch are eagerly awaited. The introduction of this enterprise business is expected to create synergies with kintone-linked services, so we at FISCO think there is a strong possibility of a collaboration with Cybozu, a company with deep links to the Company. Note that the enterprise business is not included in results forecasts for FY12/23.

Forecast for FY12/23

	FY12/22		FY12/23		
	Result	Vs. sales	Company plan	Vs. sales	YoY
Net sales	1,937	100.0%	2,330	100.0%	20.3%
Gross profit	1,877	96.9%	2,260	97.0%	20.4%
Selling, general and administrative expenses	1,238	63.9%	1,540	66.1%	24.4%
Advertising expenses	509	26.3%	600	25.8%	17.7%
Operating profit	639	33.0%	720	30.9%	12.6%
Ordinary profit	638	33.0%	720	30.9%	12.7%
Net profit	427	22.0%	490	21.0%	14.7%

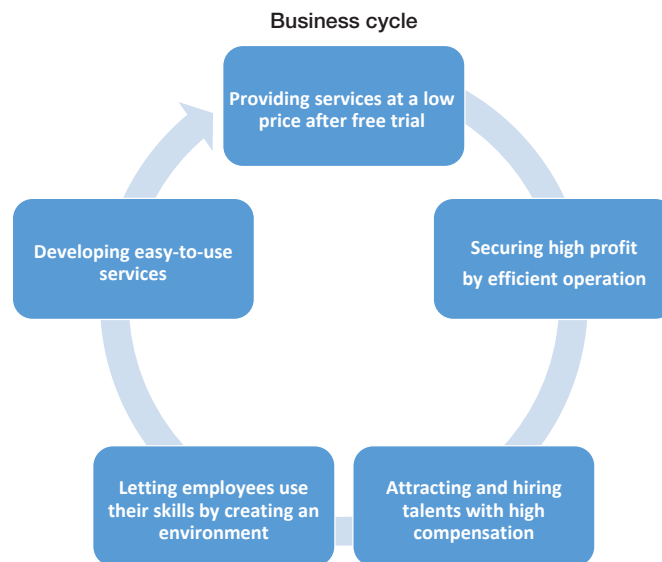
Source: Prepared by FISCO from financial results and financial results presentation

Refining the business model and aiming for “popularization of IT”

2. Medium-term growth strategy

(1) Management strategy

The Company aims to realize “popularization of IT” by providing services that are easy, simple, and intuitive even for IT beginners to use. Its strategy is to thoroughly explore its current cloud-based business model and continue to refine it to achieve significant medium-term growth. Specifically, the Company’s daily activities continue with an awareness of the business cycle (provide services at low price for a trial model → secure high earnings through efficient operations → increase salaries to recruit high-quality talent → provide an environment where personnel can leverage their abilities → create easy, convenient services).



Source: From the Company’s financial results presentation

(2) Business strategy

a) Safety confirmation service

Previously, safety confirmation was thought of as something to be conducted for a company’s own employees; however, in order to consider the continuation of a company’s business activities during a disaster, it is necessary for safety confirmation to cover the entire supply chain, including suppliers. The Company’s services can be used in any kind of application within safety confirmation, so it will aim to capture demand by appealing to entire supply chains through example cases of companies already implementing the service as new methods of use.

b) kintone-linked services

The Company provides several kintone-linked services. Since these services can be used easily by linking them to one another, the Company will continue to increase sales unit price per customer through cross-selling by providing simple introductions of examples where services are used by linking them together.

c) TOYOKUMO Scheduler

This scheduler is based on a new concept that allows plans to be adjusted with persons outside the company as well. The Company has earmarked this service for overseas expansion. Going forward, the development of the service both in Japan and overseas will be a focus point.

Business outlook

(3) Product development

The Company has developed various software for corporations since its foundation. At the time of its foundation, the software covered many categories, but subsequently the Company narrowed its focus. In FY12/22, the number of categories was three (Safety confirmation service, kintone-linked services, and TOYOKUMO Scheduler), and the number of services was eight. The Company does not intend to launch a new service in FY12/23. However, going forward, it seems likely to continue expanding its services in line with its policy of providing cloud services that are easy, simple, and intuitive to corporations.

Number of services provided

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 E
Number of categories	7	5	3	2	2	2	2	2	3	3	3
Number of services	8	8	6	6	8	9	9	8	8	8	8
Number of new services	3	3	0	1	2	1	0	1	1	0	0
Terminated services	0	3	2	1	0	0	0	2	1	0	0

Source: Prepared by FISCO from financial results presentation

Shareholder return policy

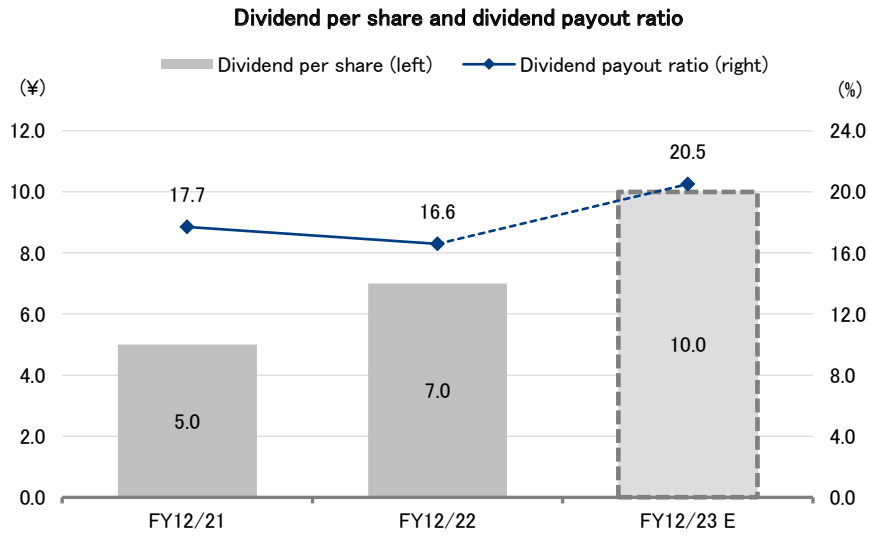
Policy of returning profits continuously with a dividend payout ratio standard of 20%

The Company has not made any dividend payments since its establishment as it prioritizes enhancing the necessary internal reserves for future business expansion in order to strengthen its financial position and secure the competitiveness of its businesses. However, while there is no change to its direction of prioritizing growth investment and aiming for business expansion, the Company recognizes that returning profit to shareholders is an important management task. The Company has therefore decided to pay dividends from FY12/21.

The Company's dividend policy is to conduct continuous return of profits to shareholders, with a dividend payout ratio standard of around 20% of net profit for the period. Going forward, the Company will revise the policy appropriately in consideration of factors such as its earnings, business environment, financial position, and future business development. Moreover, the deciding body for the Company's dividend of surplus is the General Meeting of Shareholders for the year-end dividend and the Board of Directors for the interim dividend. In addition, the Company has stipulated in its Articles of Incorporation that it may pay an interim dividend.

The dividend per share for FY12/21 was ¥5.0 (year-end dividend) which the Company increased in FY12/22 by ¥2 to ¥7.0 (year-end dividend). Although the Company's results surpassed initial forecasts, the dividend amount remained as initially planned. The Company plans to increase the dividend per share for FY12/23 by ¥3 to ¥10.0. The dividend payout ratio for FY12/23 is forecast to be 20.5%, compared to 16.6% in FY12/22 and 17.7% in FY 12/21.

Shareholder return policy



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

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