COMPANY RESEARCH AND ANALYSIS REPORT

R&D COMPUTER CO., LTD.

3924

Tokyo Stock Exchange Prime Market

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Summary

Improving revenue structure through strategic investment in human capital

R&D COMPUTER CO., LTD. <3924> (hereafter, also “the Company”) is an independent, medium-sized systems integrator that celebrated the 50th anniversary of its foundation in January 2021. The Company’s proactive approach to M&A has prompted rapid expansion with respect to what it considers the growth area of package-based SI services, in addition to its stable business foundations of systems integration services and infrastructure solutions services.

1. Results trends - FY3/24 forecast to be a third consecutive year of record high profit

In FY3/23, consolidated net sales increased 20.7% year-on-year (YoY) to ¥11,578mn, operating profit increased 40.2% to ¥1,222mn, and the Company achieved its long-held target of an operating profit margin above 10%. Growth was driven by package-based SI services, and a second consecutive year of M&A meant that sales of these services was 2.4 times the volume recorded three years previously and the proportion of total net sales that they account for rose from 18.0% to 33.5%. The aim of this M&A is not simply to grow in scale. The Company’s management strategy is to acquire targets that offer functions which can be used to realize synergies within the Group. In its FY3/24 forecast, the Company is expected to achieve record high net sales and operating profit for a third consecutive year.

2. Strategic investment in human capital

For an IT services company, engineers are a key business resource, so strategic investment in human capital is a way to realize growth and to sustainably raise corporate value. There is booming demand for digital transformation (DX), in which business processes and models are transformed using digital technology, and cloud-first investment, which is mainly focused on the use of cloud services. FUJITSU <6702>, the Company’s biggest customer, awarded the Company with its Top Technology Company Award in FY2021 in recognition of its leading position among FUJITSU partner companies in proactively cultivating DX human resources. The Company focuses on educating employees in anticipation of change, as well as establishing its own standards for agile development toward DX business promotion. As of the end of FY2022, the Company had 16 engineers holding low-code development qualifications. It plans to raise this to 50 by the end of FY2023. In FY2022, it also won the Cloud Business Award from SuperStream Inc., a developer of accounting packages. In January 2024, the two-year grace period for Japan’s revised Electronic Books Preservation Act will end and it will no longer be permitted to save information from electronic transactions in hard format, making the preservation of electronic data mandatory. Additionally, the Invoice System will also be introduced in October 2023. The previous fiscal year was a period of preparation and in this fiscal year it will begin to bear fruit.

The Company’s engineers are acquiring even more advanced qualifications using education tools that are the main business of a subsidiary that the Company acquired through an M&A. These efforts to improve the skills of employees through strategic investment and inhouse education have resulted in increases in service fees (unit prices) and added value. Employees are rewarded for this in terms of compensation, which has a ripple effect of increasing motivation for learning within the Company.

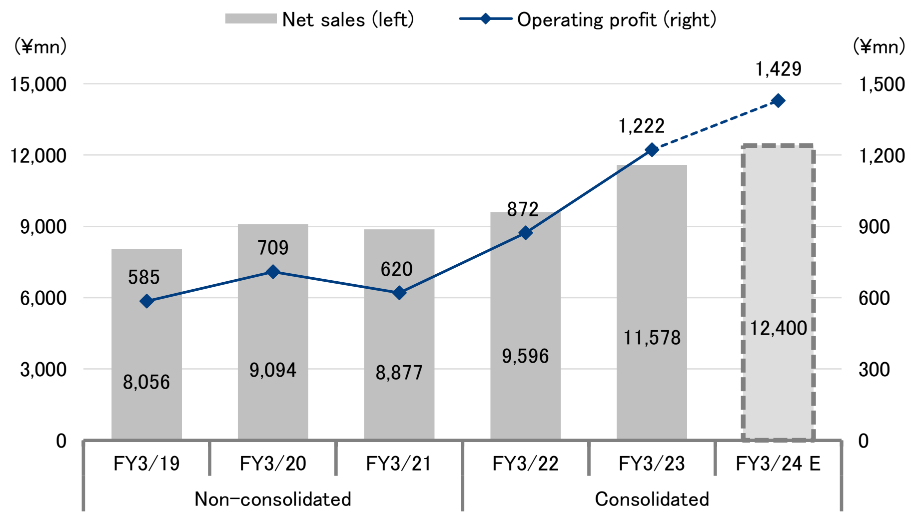
3. Dividend policy

The Company is enhancing its shareholder returns. In November 2021, it raised its standard dividend payout ratio from at least 30% to at least 40% and on October 1, 2021, it also conducted a 1.5 to 1 stock split. The continuing trend of profit increases has been reflected in dividends per share, which has risen from ¥16.6 (after adjustment to reflect the stock split) in FY3/21 to ¥35 in FY3/23, an increase of more than double. For FY3/24, the Company forecasts an annual dividend of ¥40 (interim ¥20, year-end ¥20), with a dividend payout ratio of 40.3%. As the Company has a debt-free financial standing due to an asset-light management style which is common in the IT services industry, achieves ROE of over 15% through high profits, and has adopted a growth strategy that incorporates growth opportunities such as DX and cloud-first, it is still keeping dividend yields at high levels through dividend increases.

Key Points

- FY3/24 forecast to be a third consecutive year of record high profit
- Strategic investment in human capital is sustainably raising corporate value
- Plan to raise annual dividend per share to ¥40 in FY3/24

Results trends



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

Company profile and business description

An independent systems integrator established by an educational institute

The Company has a long history as an independent systems integrator, celebrating 50 years since its foundation in January 2021. It was established by an educational institute, which is unusual for the information services industry "With all our heart" as the Company creed, it conducts business based on its three corporate philosophies of 1) Create value for customers and pursue customer satisfaction to increase corporate value, 2) As a group of professionals, open up a path for the next generation and become a leading information technologies company, and 3) Always maintain and uphold an innovative corporate culture.

Since it was established by an educational institute, one of its features is its passion for educating employees. It encourages employees to acquire not only IT-related qualifications, but other business-related qualifications as well, and on average each employee holds three or more qualifications. Employees having skills and knowledge both in IT and customers' businesses makes it possible to develop systems that provide high levels of customer satisfaction.

1. History

At the time of its foundation in 1971, the Company began transactions with FUJITSU in the development of a banking system, which led to expansion of its business scope centering around the outsourced development of financial systems for banks and insurance companies. In 2006, it started infrastructure-related services for systems integration services as the infrastructure solutions services. The Company began collaborating with Salesforce.com, Inc. (currently Salesforce Japan Co., Ltd.) in April 2010, and started providing cloud computing services. Furthermore, in systems integration services, it has started working on introducing package systems and developing add-ons as package-based SI services.

In April 2020, it carried out organizational restructuring in response to accelerating trends in DX. It established the DX Promotion Headquarters and made it directly responsible for the Salesforce Promotional Office and the newly established Cloud Strategy Office. Currently, the new DX Promotion Headquarters is central to efforts to strengthen the Company's pool of employees proficient in new digital technologies, such as low-code and agile development, and the Company is shifting toward cloud-based business.

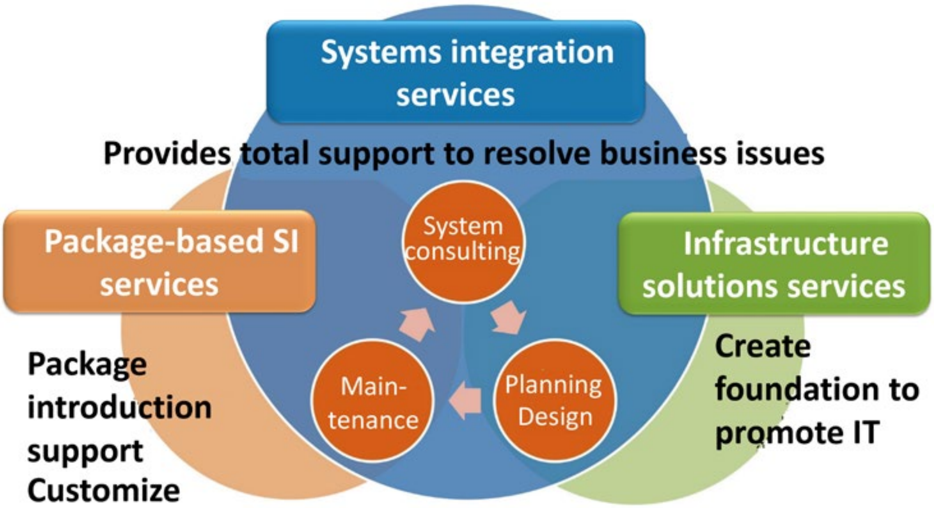
The Company was listed on the Tokyo Stock Exchange (TSE) Second Section in December 2015, and subsequently upgraded to the TSE First Section in May 2018. It then moved to the Prime Market following the TSE's restructuring of its market segments in April 2022.

Growth of package-based SI services greater than forecast

2. Business description

The Company operates the three service lines of systems integration services, infrastructure solutions services, and package-based SI services, and is structured to provide total system support to resolve business issues.

Service lines and one-stop services

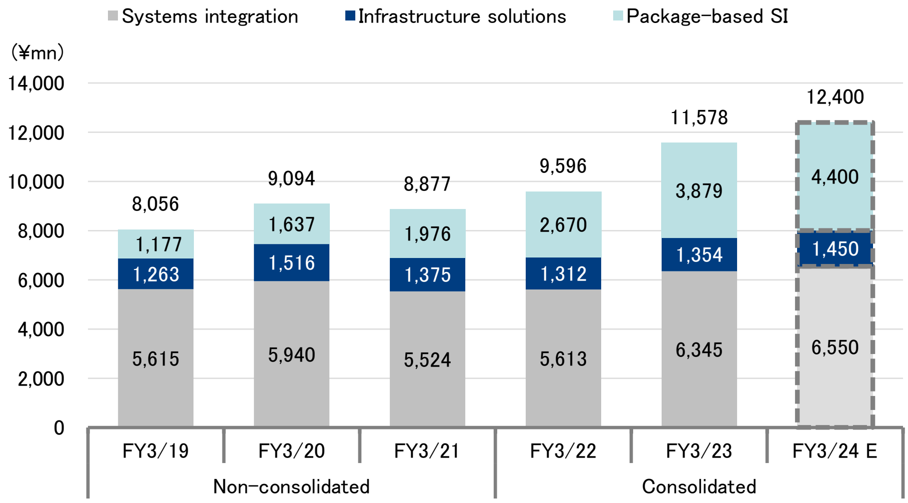


Source: The Company's results briefing materials

According to the composition of consolidated net sales by service line in FY3/23, systems integration services provided 54.8%, infrastructure solutions services 11.7%, and package-based SI services 33.5%. Breaking down net sales in systems integration services according to customer industry, finance provided 23.5% (banks 13.0%, insurance and securities 1.9%, and credit cards 8.7%), industry and distribution 23.0%, public sector 3.5%, and medical care 4.7%. The Company has positioned system integration services and infrastructure solutions services as steady growth businesses and package-based SI services as a high growth business.

Regarding annual average sales growth rates for the three fiscal years up to FY3/23, the overall rate was 9.3%, the rate for system integration services was 4.7%, the rate for infrastructure solutions services was -0.5%, and the rate for package-based SI services was 25.2%. The infrastructure solutions services business was the most severely impacted by the COVID-19 pandemic. The package-based SI services business is flourishing due to an expanding market and the Company's focused growth strategy. As a result, it has achieved extremely high growth and it is contributing to overall profitability.

Trends in net sales by service line



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

(1) Systems integration services

The mainstay systems integration services cover a wide range of fields, including finance, industry and distribution, public sector, and medical care. It mainly conducts outsourced development for customers such as end users, domestic manufacturers, and major systems integrators. The Company has in place a system to provide total services covering all processes, from planning and system construction through to system management. Banks are investing in IT in order to reduce workloads and to save labor, and demand is expected to be at a high level in the medium to long term. There are also many projects for online banks and distribution-related financial subsidiaries.

Financial institutions are the biggest customers for the IT services industry. In the case of the Company, it serves prime contractors include FUJITSU and Hitachi, Ltd. <6501> as a collaborating company. For many years, it has maintained excellent business relations with major systems integrators including FUJITSU at the top of the list, followed by the Hitachi Group centered on Hitachi, Ltd. and Hitachi Solutions, Ltd., the NTT DATA Group centered on NTT DATA KANSAI Corporation, and NS Solutions Corporation <2327>. The Company's strategy for growing transactions with manufacturing-based systems integrators, which are its largest customer base, is to expand package orders and pursue quality.

Close business relations with the FUJITSU Group formed immediately after founding, and it has become a core partner. In FY3/23, the degree of dependency on FUJITSU for sales was 27.0%. In FUJITSU's FY2021 PQI (Partner Quality Improvement) skill level certification, the Company ranked GOLD for all three steps of the skill levels, including the first step (quality records), second step (quality evaluation), and third step (quality plan), for the sixth consecutive year. In fiscal 2021, in the Fujitsu Software Master Award 2022, which recognizes the efforts of companies that are cultivating large numbers of engineers, the Company was the recipient of first place in the Top Technology Company category due to its cultivation of high-level engineers. FUJITSU is advancing DX business and the Company is actively working to cultivate DX personnel.

Direct user transactions have been positioned as a high growth area, even within systems integration services. The Company is leveraging its customer base to win repeat orders and using package-based SI services as a hook to cultivate new customers. It is advancing highly productive development by focusing on fields where it has expertise and new strategic fields. Main users include Mitsubishi Research Institute DCS Co., Ltd., Sumitomo Mitsui Trust Systems & Services Co., Ltd., Idemitsu Kosan Co., Ltd. <5019>, OPTAGE Inc., and NOMURA HOLDINGS, INC. <8604>. This customer base can be said to be the result of high evaluations from customers of the Company's technological capabilities, its business knowledge in areas such as finance and distribution, and its track record in terms of quality.

(2) Infrastructure solutions services

Infrastructure solutions services covers an array of services including installing the hardware, such as servers, that form customers' IT system infrastructure; constructing networks and systems infrastructure, including databases and application infrastructure; and performing subsequent management and maintenance. It has also recently established a new office for cloud business, and focuses on cloud-related services. After surveying and analyzing the IT systems infrastructure environments of various customers, including general companies, universities and other educational facilities, hospitals, and government ministries and agencies, it provides infrastructure solutions services that are tailored to meet their needs. Specifically, in addition to infrastructure solutions services such as network construction, it provides total, one-stop services by combining systems integration services.

Since FY3/21, the Company has been impacted by negative changes in the external environment. Due to the restrictions because of COVID-19 on face-to-face sales and work to respond to customers, sales of infrastructure construction projects declined greatly. There was also the impact of reactionary decreases from the special demand in a Windows 10 upgrade-related business that occurred in FY3/20. Semiconductor shortages have delayed the supply of servers, and steep rises in product prices by manufacturers have led to the prolonging of projects.

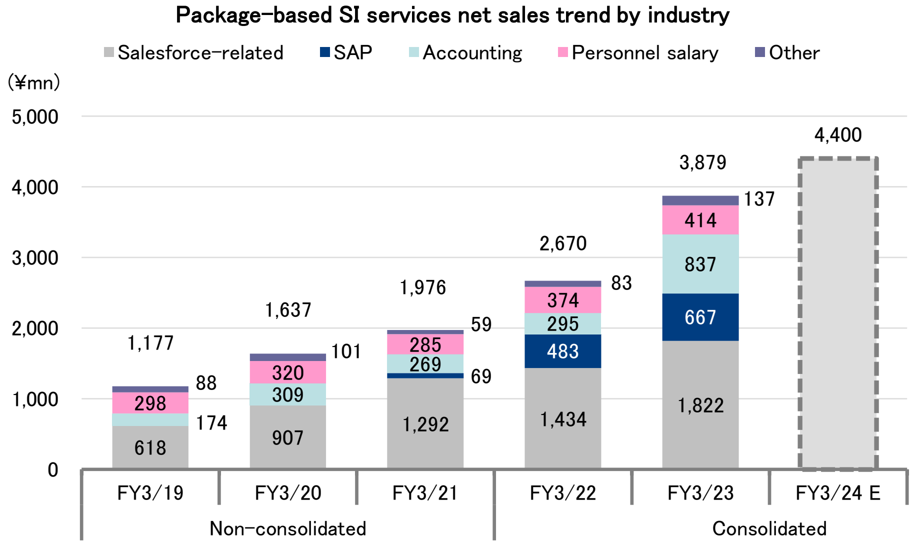
(3) Package-based SI services

As the main pillar of the growth fields, the Company forms alliances with system and package vendors and in some cases is provided with packages, and offers a total service to customers, from support for introducing software package products (Salesforce, SAP, SuperStream, COMPANY, etc.) to customization, add-on development, maintenance, and management. Net sales of package-based SI services in FY3/23 were ¥3,879mn. The ratio of net sales by business type was 47% for Salesforce, 17% for SAP, 22% for accounting packages, 11% for personnel salary packages, and 3% for other types.

Main package alliances handled by the Group

Company name	Main package	Partnership
Salesforce.com	Salesforce	Consulting partner Application partner
SAP	SAP R/3 SAP HANA	SAP PartnerEdge Service partner (infree Corp.)
SuperStream	SuperStream-NX	SuperStream-NX solutions partner
OBIC business consultant	Bugyo Cloud Bugyo 11 Series	OBC Alliance Partnership Gold Partner
Works Human Intelligence	COMPANY personnel and salary	
Microsoft Corporation	Microsoft Dynamics 365 CRM Microsoft 365	

Note: Names of companies, products, and services are trade names, trademarks, and registered products of the respective companies.
The TM and ® marks are not shown
Source: Prepared by FISCO from the Company's website



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

a) Salesforce - cloud-based SFA/CRM applications

US-based Salesforce, Inc. provides a platform that enables users to access combinations of multiple functions, with a focus on the cloud-based business applications Sales Force Automation (SFA) and Customer Relationship Management (CRM). It is the world's biggest platform in its field and has been introduced by over 150,000 companies globally. It established a Japanese subsidiary in 2000. The Company started a business with Salesforce in April 2010 and concluded a sales partner agreement in November 2016. In 2019, it was awarded Innovation Partner of the Year in the Chubu regional category. It is currently a Salesforce certified consulting partner (Gold) and application partner, with a track record of more than 2,000 projects for around 500 companies. It uses its business findings in many industries and many types of businesses and knowledge of a wide range of products to propose optimal solutions. In terms of industries, it has a track record of projects including for non-life insurance, insurance agencies, universities, vocational schools and cram and preparatory schools, the manufacturing industry (food, equipment, parts, software, etc.), restaurants, wholesale businesses, retail businesses, specialty trading companies, apparel, print and publishing businesses, real estate, dispatches of human resources, internet services, legal offices, and facility management. In April 2020, it established the Salesforce Promotion Department to launch Salesforce cloud services not only for business divisions, but also for company-wide applications, and this is leading to sustainable growth for the business. It is also used in information systems for financial institutions.

The Company is also developing R&Driver as a series of own-brand original products related to package services. For Salesforce-related products, it is developing and supplying necote for Salesforce, which makes invoicing and payment receipt operations more efficient through integrated support for sales management operations, including customer management, business negotiation management, and the management of invoices, received payments, and accounts receivable.

b) SAP - enterprise resource planning package

German-based SAP was established in 1972 and is the world's leading company in the enterprise resource planning (ERP) systems package field. In April 2021, in the Company's first ever M&A acquisition, it acquired all shares of infree Corp. and made it a wholly-owned subsidiary. Since its foundation in 2001, infree has wielded strengths both in consulting to facilitate adoption of the SAP R/3 package of SAP enterprise resource planning solutions and in developing add-on software. It was certified as an SAP PartnerEdge Service partner in January 2022. Its net sales were ¥330mn in FY7/20, prior to becoming a subsidiary of the Company. The Group's SAP sales were ¥69mn in FY3/21 and the M&A contributed to a substantial increase to ¥483mn in FY3/22. In FY3/23, the second year after the M&A, performance was still strong with sales of ¥667mn. Seeking to leverage synergies, the Company carried out reforms that include integration of offices and having its executives serve as representative directors of infree. Moreover, the Company has successfully grown sales in SAP-related business on a Group-wide basis by sharing resources, such as education tools developed by infree, within the Group.

c) SuperStream - accounting package

SuperStream Inc. was established in 1986, when it launched GL, a mainframe compatible general accounting system. In March 2022, the cumulative number of companies that had installed its SuperStream accounting package passed the 10,000 mark. In April 2022, the Company acquired the specialist company NESCO SUPER SOLUTION Co., Ltd. and made it a wholly-owned subsidiary. NESCO SUPER SOLUTION was founded in 2008 when NESCO Co., Ltd split off its SuperStream business and established it as a new company. The Company changed the subsidiary's trade name to Technigate Co., Ltd. in January 2023. In December 2022, it integrated its Tokyo and Osaka offices to quickly realize synergies through the unification of parent company and subsidiary and the sharing of business resources. It recorded net sales of ¥586mn in FY3/21 prior to becoming a subsidiary of the Company. The Group's consolidated sales of accounting packages, including SuperStream, were ¥269mn in FY3/21 and ¥295mn in FY3/22, and the effects of the acquisition led to a substantial increase to ¥837mn in FY3/23. Technigate has been taking action in response to the adoption of electronic invoice systems in accordance with Japan's Electronic Books Preservation Act, with FY3/23 serving as a transitional phase. Demand for software packages compatible with the new requirements is forecast in FY3/24.

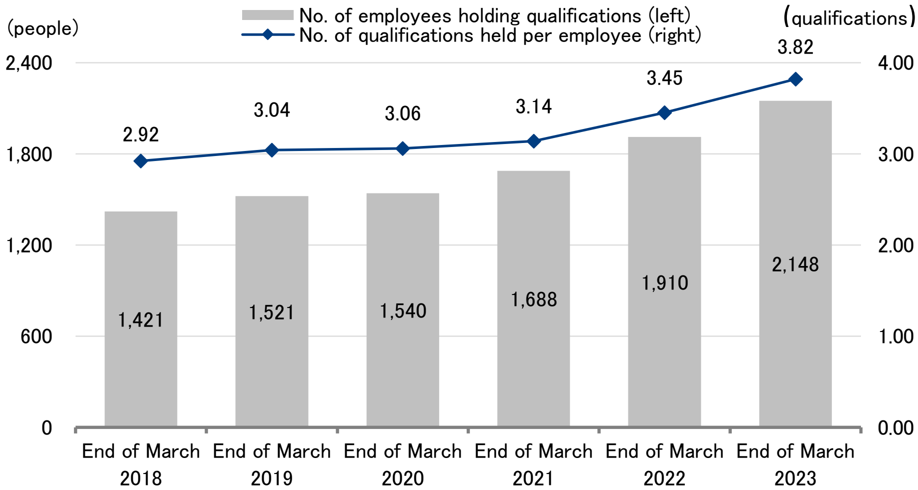
Looking at the situation concerning tax payers complying with the Electronic Books Preservation Act, as of October 2020 it was 72.7% of 33,000 major companies, 4.8% of 3,099,000 small to medium enterprises, and 1.2% of 5,251,000 sole proprietors. Revisions to the act in January 2022 forbid the saving of information from electronic transactions in hard format, making the preservation of electronic data mandatory for all businesses. A two-year grace period has been enacted up to December 2023, but from January 2024, electronic records must be preserved. The main purposes of the revisions are to promote paperless accounting operations, strengthen security, and encourage workstyle reforms and DX. Points covered by the revisions other than the mandatory preservation of electronic transaction information include the abolition of the pre-approval system, relaxation of timestamp and search function requirements, abolition of appropriate administrative processing requirements, and stronger penalties for falsification. While the relaxation of requirements will make it easier to introduce electronic book preservation, penalties for falsification are more severe.

3. IT-related and business-related qualifications

(1) Number of employees holding qualifications

One of the Company's strengths is that it is a group of excellent engineers. It actively progresses employees' acquisitions of qualifications not only for IT-related, qualifications but also for business-related to deepen their understanding of customers' businesses, such as finance, industry and distribution, and medical care. At the end of March 2023, a total of 2,148 employees held IT-related and business-related qualifications (breaking this down, 1,886 employees held IT-related qualifications and 262 employees held business-related qualifications) and the average number of qualifications held per employee was 3.82. Compared to three years' ago, the number of employees holding qualifications has grown by 39.5%, and the average number of qualifications held per employee has increased by 0.76.

Trends in the no. of employees holding qualifications and qualifications held per employee



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

By actively promoting acquisitions of business-related qualifications, the Company's engineers are able to provide systems integration services from the customer's viewpoint. As a result, customer satisfaction is increasing, which becomes the driving force behind building strong relations of trust.

Company's no. of employees with IT-related and business-related qualifications
(total number of employees, end of March 2023)

(people)

Qualifications by industry			No. of employees with qualifications
IT-related qualifications			1,886
	Information Processing Engineers		
	Vendor qualifications	Salesforce Certification	
Business-related qualifications			262
	Finance	Banking Proficiency Test	29
		Finance business proficiency test	21
		Securities Broker Representative License	8
	Industry and distribution	Retail Marketing License	30
	Medical care	Health Information Managers	8
		Healthcare Information Technologists proficiency test	18
Common to industries		PMP (Project Management Professional) qualifications	42
		Bookkeeping test	93

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

(2) New employee training

The Company also focuses on educating new employees. Prior to joining the Company, employees complete an e-learning course to prepare for the basic information processing test, and after joining spend three months receiving training to become members of society and on basic technologies. During this training period, trainees learn basic program development knowledge, programming languages, and systems design. The curriculum includes an introduction to Java programming, Java programming fundamentals, Java programming applications (DB access), Java application development fundamentals, introduction to Java DB access application development, web application development fundamentals, web application building practice, and a results presentation. It is high level training that not only teaches simple program building, but also challenges trainees to acquire two vendor certifications during the new employee training period. Employees from core collaborating companies can also join the training, and in 2023, 50 people participated, including 30 employees from the Company. Following the new employee training, new employees then transition to OJT for their assigned positions. There, they receive support from senior colleagues who are their trainers.

New employee training

1. Training before joining the Company
e-learning (measures for the basic information processing test)
2. Training to become members of society
Training to become members of society, presentation training, mental health training
3. Basic technology education
• Computer fundamentals
(Five major components, OS logic operation, databases, networks, algorithms and flowcharts, quality assurance, systems development fundamentals, software testing)
• Exam preparation course
(Database vendor (ORACLE) exam, Java programming vendor exam)
4. OJT training
Department-specific language acquisition, business training, qualification acquisition (senior colleagues serve as trainers and provide support after assignment of employee)

Source: Prepared by FISCO from the Company's website

When recruiting, the Company seeks graduates and postgraduates from both the sciences and humanities. As it has in place a complete education system, it seems that it prioritizes recruits with “the ability to think logically,” “a willingness to learn” and “a passion for the IT industry and SE,” and recruits people who have the aptitude to use its system positively and want to grow. In April 2023, 30 people, including recent graduates looking to change jobs, joined the Company, and it plans to recruit 35-40 new graduates in the spring of 2024.

The Company has systemized its training structure, and it covers various training related to IT technologies, interpersonal skills, work positions, management, project management, quality control, acquiring qualifications, and study sessions on new technologies. Agile development that utilizes new digital technologies like low-code development to realize systems development in an extremely short period of time by using the visual operations of the Graphical User Interface (GUI), centered on the DX Promotion Headquarters. Regarding the acquisition of cloud-based skills, rather than only focusing on the infrastructure solutions services business, it is looking to take a Company-wide approach.

Results trends

FY3/23 was a second consecutive year of record profit

1. Outline of consolidated results for FY3/23

Although the impact of the COVID-19 pandemic forced downturns in sales and profit in FY 3/21, these recovered in FY3/22, leading to record business results. In FY3/23, the Company captured demand for investment in areas such as DX and cloud services, substantially increasing sales and profit and achieving record high results. Consolidated net sales increased 20.7% year-on-year (YoY) to ¥11,578mn, operating profit increased 40.2% to ¥1,222mn, ordinary profit grew 40.8% to ¥1,238mn, and profit attributable to owners of parent rose 23.1% to ¥772mn. Net sales exceeded the plan by 1.1%, operating profit by 10.1%, ordinary profit by 10.6%, and profit attributable to owners of parent by 11.9%. In continuation of the previous fiscal year, the company purchased at the start of the fiscal year was added to consolidate results, bringing the number of consolidated subsidiaries to two. This has realized a substantial increase in profit that has digested increases in M&A-related costs and goodwill amortization.

FY3/23 consolidated results

(¥mn)

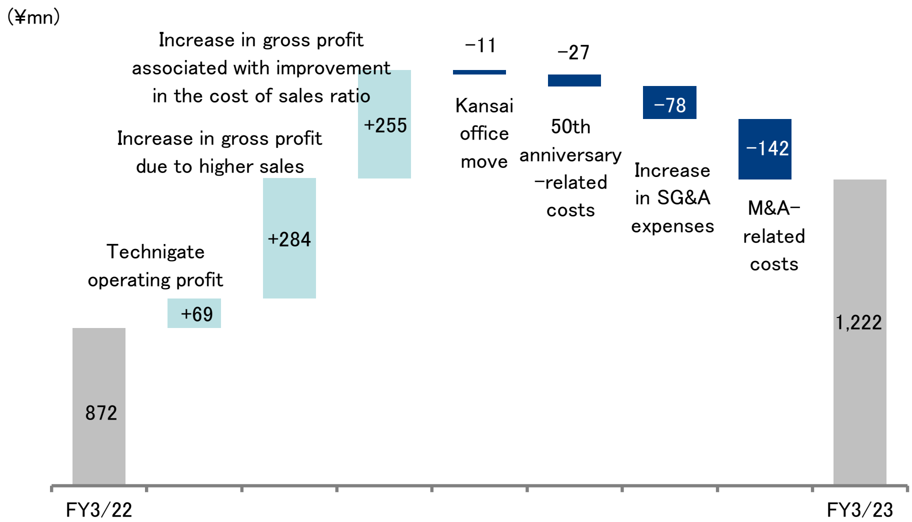
	FY3/22		FY3/23			Change		vs. plan
	Results	% of net sales	Plan	Results	% of net sales	Amount	%	
Net sales	9,596	100.0%	11,450	11,578	100.0%	1,982	20.7%	1.1%
Gross profit	1,827	19.0%	-	2,505	21.6%	678	37.1%	-
SG&A expenses	955	10.0%	-	1,283	11.1%	328	34.4%	-
Operating profit	872	9.1%	1,110	1,222	10.6%	350	40.2%	10.1%
Ordinary profit	879	9.2%	1,120	1,238	10.7%	358	40.8%	10.6%
Profit attributable to owners of parent	627	6.5%	690	772	6.7%	144	23.1%	11.9%

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

In the information services industry, there is dynamic movement regarding, DX and cloud-first and the Company is focusing its business resources in these areas to capture growth opportunities. Additionally, the importance of information security measures to protect against threats such as cyberattacks, most notably targeted attacks, is rising. In its VISION 2023 medium-term management plan, the Company is planning to substantially increase revenue through key measures including advancing M&A, strengthening relationships with alliance partners, promoting DX business, growing direct user transactions, and further strengthening in its areas of expertise. It is shifting focus onto highly profitable projects through a process of selection and concentration, which has increased gross margin ratio by 2.6 percentage points YoY to 21.6%. Although the growth rate of SG&A expenses is higher than the rate of sales growth, operating profit margin also increased by 1.5 points to 10.6%, realizing the Company's long-held target of surpassing 10%.

Operating profit increased ¥350mn YoY. Positive factors included an increase of ¥284mn in gross profit due to higher sales, an increase of ¥255mn in gross profit associated with improvement in the cost of sales ratio, and operating profit of ¥69mn contributed by Group subsidiary Technigate. Negative factors included ¥142mn in M&A-related costs including goodwill amortization, an increase of ¥78mn in SG&A expenses, ¥27mn in costs related to commemorating the Company's 50th anniversary, and the ¥11mn cost of moving the Kansai office. Goodwill amortization totaled ¥28mn in FY3/22 (associated with infree) and ¥71mn in FY3/23 (associated with infree and Technigate). The remaining goodwill amortization periods are five years for infree and six years for Technigate.

Analysis of operating profit change factors (FY3/23)



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

Package-based SI services account for one-third of the Company's net sales

2. Trends by service line

Looking at net sales by service line, net sales were up by 13.0% YoY to ¥6,345mn in systems integration services, up by 3.2% YoY to ¥1,354mn in infrastructure solutions services, and up by 45.3% YoY to ¥3,879mn in package-based SI services. Whereas each of the three service lines achieved growth, package-based SI services, in which proactive M&A is being undertaken, encountered particularly significant growth with its results having come to account for one-third of the Company's net sales at 33.5%.

Consolidated net sales by service line in FY3/23

(¥mn)

	FY3/22		FY3/23		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Systems integration	5,613	58.5%	6,345	54.8%	731	13.0%
Finance	2,619	27.3%	2,725	23.5%	105	4.0%
(of which, banks)	1,460	15.2%	1,501	13.0%	40	2.8%
(of which, insurance and securities)	275	2.9%	221	1.9%	-54	-19.7%
(of which, credit cards)	884	9.2%	1,003	8.7%	119	13.5%
Industry and distribution	2,154	22.4%	2,668	23.0%	514	23.9%
Public sector	262	2.7%	402	3.5%	139	53.0%
Medical care	576	6.0%	549	4.7%	-26	-4.7%
Infrastructure solutions	1,312	13.7%	1,354	11.7%	42	3.2%
Package-based SI	2,670	27.8%	3,879	33.5%	1,208	45.3%
Total	9,596	100.0%	11,578	100.0%	1,982	20.7%

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

(1) Systems integration services

Looking at systems integration service net sales by industry, sales rose 4.0% YoY to ¥2,725mn in the finance field, which provides the highest ratio of sales on a per-industry basis. Within this, the completion of large development projects impacted sales to banks, which saw a slight rise of 2.8%. Sales in the realm of insurance and securities decreased 19.7%. Sales in the credit card field increased 13.5%, which included integration projects. Sales to the industry and distribution field were strong, increasing 23.9% to ¥2,668mn. Following on from FY3/22, the industry and distribution field encountered higher sales particularly with respect to projects involving development of systems for the telecommunications industry, projects involving outsourced development for the energy sector, and projects involving construction of mission-critical systems for the distribution field. In the public sector, sales rose 53.0%, aided by large projects for which orders were placed in FY3/22. Sales to the medical care industry fell by 4.7%, partially due to the COVID-19 pandemic.

(2) Infrastructure solutions services

Orders for cloud development projects increased and orders for infrastructure design and deployment projects also gained momentum as effects of the semiconductor shortage gradually eased up.

(3) Package-based SI services

Package-based SI services accounted for one-third of the Company's total net sales, with the service line's ratio of total sales having climbed to 33.5% from 27.8% in FY3/22. In the Salesforce-related business, which is subject to focus as a Company-wide initiative, net sales increased 27.1% YoY to ¥1,822mn. SAP net sales increased by 38.0% to ¥667mn. Whereas the Company's initiative to make infree a wholly-owned subsidiary served as a contributing factor in FY3/22, in this second year of consolidation, the manifestation of group synergies drove strong growth. Sales of accounting packages, which includes SuperStream, rose 183.8% YoY to ¥837mn due to the addition of sales posted by Technigate, which was made a wholly-owned subsidiary in April 2022.

Package-based SI services consolidated net sales by industry

(¥mn)

	FY3/22		FY3/23		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Salesforce-related business	1,434	53.7%	1,822	47.0%	388	27.1%
SAP	483	18.1%	667	17.2%	183	38.0%
Accounting packages (SuperStream, Bugyo)	295	11.0%	837	21.6%	542	183.8%
Personnel salary packages (COMPANY, SuperStream)	374	14.0%	414	10.7%	39	10.6%
Other (DynamicsCRM, others)	83	3.1%	137	3.5%	54	65.6%
Total	2,670	100.0%	3,879	100.0%	1,208	45.3%

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

Regarding the SuperStream accounting package, after winning the Certified Consultant Award in the SuperStream Partner Awards 2021 two years prior in FY2022 it won the Cloud Business Award. In 2021, it received the award as the partner that has the best results for the SuperStream-NX engineer certification exam. This time round, it was recognized for cultivating cloud projects of many sizes with many types of business and for its license sales results, amid the progressing trend toward cloud-first. Additionally, in the previous year, Technigate was awarded the Sales Award by SuperStream.

3. Financial condition, management indicators and statement of cash flows

(1) Consolidated balance sheets and management indicators

At the end of FY3/23, total assets were up ¥1,002mn from the end of FY3/22 to ¥7,502mn. Current assets were up ¥316mn to ¥6,139mn and non-current assets were up ¥686mn to ¥1,362mn. Cash and deposits increased ¥156mn and accounts receivable – trade and contract assets increased ¥221mn. In intangible assets, goodwill increased ¥230mn to ¥345mn following the acquisition of Technigate. The Company practices debt-free management, and has a current ratio of 304.9% and an equity ratio of 64.7%, so its financial stability is extremely high. As it has ample liquidity on hand, it can take an agile approach to M&A. Its overall management indicators were also at high levels, with ROE at 16.7% and ROA at 17.7%.

Results trends

Balance sheet

(¥mn)

	FY3/19 (non-consolidated)	FY3/20 (non-consolidated)	FY3/21 (non-consolidated)	FY3/22 (consolidated)	FY3/23 (consolidated)	Change
Current assets	4,503	4,969	5,187	5,823	6,139	316
(Cash and deposits)	2,055	2,167	2,384	2,906	3,062	156
(Accounts receivable – trade and contract assets)	2,030	2,339	2,321	2,428	2,649	221
Non-current assets	530	528	559	676	1,362	686
Property, plant and equipment	85	85	75	64	113	48
Intangible assets	20	9	6	121	727	605
Goodwill				114	345	230
Investments and other assets	424	433	476	489	522	32
Total asset	5,033	5,498	5,746	6,500	7,502	1,002
Current liabilities	1,303	1,404	1,317	1,625	2,013	388
Non-current liabilities	468	466	482	508	623	115
Total liabilities	1,772	1,871	1,800	2,133	2,637	503
Total net assets	3,261	3,626	3,946	4,366	4,865	499

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

Financial ratios

	FY3/19 (non-consolidated)	FY3/20 (non-consolidated)	FY3/21 (non-consolidated)	FY3/22 (consolidated)	FY3/23 (consolidated)	Change (%)
[Stability]						
Current ratio	345.6%	353.9%	393.8%	358.3%	304.9%	-53.4%
Equity ratio	64.8%	66.0%	68.7%	67.2%	64.7%	-2.5%
[Profitability]						
Operating profit margin	7.3%	7.8%	7.0%	9.1%	10.6%	1.5%
ROA (a x c)	12.3%	13.8%	11.6%	14.4%	17.7%	3.3%
ROE (b x c x d)	12.1%	13.8%	11.4%	15.1%	16.7%	1.6%
a Ordinary profit margin	7.3%	8.0%	7.3%	9.2%	10.7%	1.5%
b Net profit margin	4.7%	5.2%	4.9%	6.5%	6.7%	0.2%
c Total assets turnover ratio (times)	1.6	1.7	1.5	1.5	1.5	0pt
d Financial leverage (times)	1.5	1.5	1.5	1.5	1.5	0pt

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

(2) Consolidated statement of cash flows

As of the end of FY3/23, the balance of cash and cash equivalents at end of period increased ¥50mn compared to the end of FY3/22 to ¥2,934mn. Net cash provided by operating activities increased from ¥793mn in FY3/22 to ¥981mn. The main factors were profit before income taxes (up ¥1,238mn) and depreciation (up ¥112mn). On the other hand, the Company had an outflow of ¥141mn from an increase in trade receivables. Net cash used in investing activities was ¥644mn. Outflow on the purchase of shares of subsidiaries resulting in change in scope of consolidation increased from ¥161mn in FY3/22 to ¥790mn. Net cash provided by operating activities surpassed net cash used in investing activities, and net cash used in financing activities was ¥286mn.

Statement of cash flows

(¥mn)

	FY3/19 (non-consolidated)	FY3/20 (non-consolidated)	FY3/21 (non-consolidated)	FY3/22 (consolidated)	FY3/23 (consolidated)	Change
Net cash provided by (used in) operating activities	580	266	398	793	981	187
Net cash provided by (used in) investing activities	-42	-36	-25	-106	-644	-537
Net cash provided by (used in) financing activities	-121	-123	-161	-170	-286	-115
Cash and cash equivalents at end of period	2,048	2,155	2,367	2,883	2,934	50

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

Outlook

FY3/24 results forecast to exceed medium-term management plan targets

1. Outlook for FY3/24

In its FY3/24 consolidated results, the Company forecasts net sales to increase 7.1% YoY to ¥12,400mn, operating profit to increase 17.0% to ¥1,429mn, ordinary profit to increase 16.9% to ¥1,447mn, and profit attributable to owners of parent to increase 16.5% to ¥900mn.

Consolidated outlook for FY3/24

(¥mn)

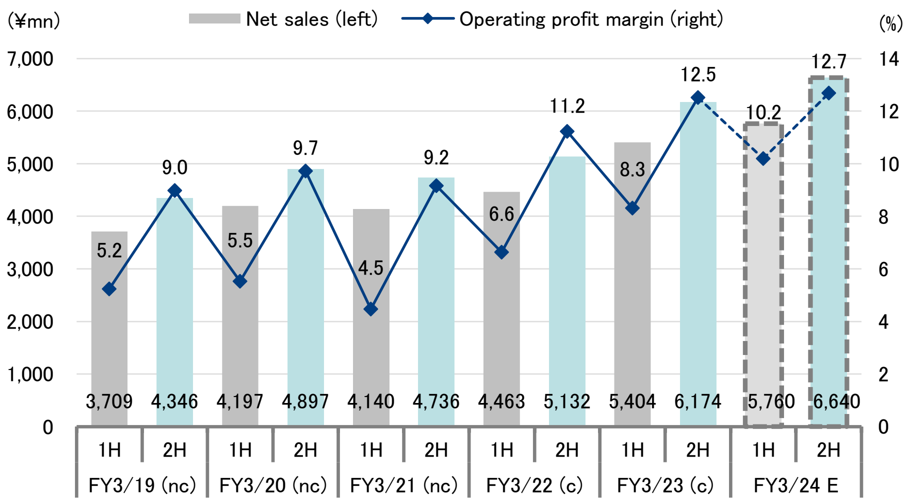
	FY3/23		FY3/24			YoY	
	Results	% of net sales	Plan	Forecasts	% of net sales	Change	Change (%)
Net sales	11,578	100.0	12,300	12,400	100.0	821	7.1%
Systems integration	6,345	54.8%	6,700	6,550	52.8%	204	3.2%
Infrastructure solutions	1,354	11.7%	1,600	1,450	11.7%	95	7.1%
Package-based SI	3,879	33.5%	4,000	4,400	35.5%	520	13.4%
Operating profit	1,222	10.6%	1,250	1,429	11.5%	206	17.0%
Ordinary profit	1,238	10.7%	1,270	1,447	11.7%	208	16.9%
Profit attributable to owners of parent	772	6.7%	830	900	7.3%	127	16.5%

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

Looking at net sales by service line, net sales are expected to increase by 3.2% YoY to ¥6,550mn in systems integration services, 7.1% to ¥1,450mn in infrastructure solutions services, and 13.4% to ¥4,400mn in package-based SI services. This will increase the portion of total net sales accounted for by package-based SI services to 35.5%.

With respect to Company's results, operating profit tends to be highest in 2Q (July-September) and 4Q (January-March) given the concentration of sales booked in those quarters due to the balance between the timing of budget execution by client companies and work periods on development systems. The average breakdown of net sales for 1H (April to September) and 2H (October to March) over the past five fiscal years was 46.4% and 53.6%, respectively, and the breakdown of operating profit was 33.4% and 66.6%, respectively. In contrast, projections for FY3/24 of net sales breakdown for 1H and 2H of 46.5% and 53.5%, respectively, and that of operating profit of 41.1% and 58.9%, respectively. Looking at operating profit margin by half, in 2H of FY3/22 and FY3/23 it surpassed 10% but in 1H of both years it failed to reach double figures. The FY3/24 forecast for operating profit margin is 10.2% in 1H and 12.7% in 2H. Changes in the Company's revenue structure are expected to improve margins.

Net sales and operating profit margin by half



Note: (nc) stands for non-consolidated
(c) stands for consolidated
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Medium-term management plan (VISION2023)

In VISION 2023, the Company's medium-term management plan covering the three years up to FY3/24, the key strategies are 1) proactively advance M&A, 2) further strengthen relationships with alliance partners, 3) promote DX business, 4) grow direct user transactions and strengthen in areas of expertise, and 5) further grow sales in existing SI fields. By boldly implementing these strategies, it is revising the plan's final year targets upward by 0.8% for net sales and 14.3% for operating profit. Regarding net sales by service line, the FY3/24 forecasts for systems integration services and infrastructure solutions services have been revised downward by ¥150mn each in comparison to the values in the medium-term management plan, but the forecast for package-based SI services has been revised upward by ¥400mn.

Strategic investment in human capital is sustainably raising corporate value

3. Growth strategy and strategic investment in human capital

For an IT services company, human capital is a key business resource for value creation. Strategic investment in human capital is a way to realize growth and to sustainably raise corporate value. The Company works to place the right person in the right position in order to meet customers' expectations. In anticipation of changes in user needs and to build a competitive position in the future, the Company is dynamically engaged in reskilling its employees to enhance agile development capabilities.

Conventional development is required for systems that can accurately and efficiently record, collect, and use large volumes of data and the focus is on quality. Existing systems are becoming outdated, complex, and black box, and modernization is required to avoid the 2025 Digital Cliff that Japan's Ministry of Economy, Trade and Industry is warning about. Migrating COBOL assets to languages like Java requires engineers with many years of systems development experience who know older programming languages. For cost-focused customers, the Company provides combinations of package and cloud services. For customers who are focused on development speed, it proposes DX-based development.

Characteristics of conventional and DX-based development

Type	Characteristics
Conventional development	Systems that can accurately and efficiently record, collect, and use large volumes of data • Focus on quality: development from scratch, waterfall development • Focus on cost: Packages, cloud, joint development
DX-based development	Systems that provide services in short time frames and repeatedly improve • Focus on speed: Agile development, low-code development, cloud

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

According to the Ministry of Economy, Trade and Industry's Survey on Selected Service Industries, net sales in the information services industry grew 6.1% to ¥16,254.6bn in fiscal 2022. The amount when software development, program creation, and game software sales are removed is ¥10,742.5bn. Within this number, order-made software accounts for 90.1% (almost two thirds of which is systems integration) and software products (excluding game software) accounts for 9.9%. The scope of what is included in theses statistics was revised in July 2020, creating discontinuity in the figures, so the growth rate cannot be accurately calculated using past data. However, looking at the ratio of order-made software to software products, it was 90.4%:9.6% in fiscal 2012 and 90.8%:9.2% in fiscal 2017, so the latest figures show no major changes compared to five or even ten years ago. The Company will use order-made software development to overcome the 2025 Digital Cliff and provide solutions for users aiming for management transformation through DX, so it is pursuing agile development.

In order to strengthen its agile development capabilities, the Company entered into a software development partnership agreement with GeneXus Japan Inc. in September 2022. The GeneXus low-code software development tool has been adopted by over 8,700 companies located in more than 50 countries worldwide and used by more than 130,000 technical experts. The GeneXus software development tool significantly shortens development timelines by as much as 80% by enabling developers to automatically generate applications and databases simply by entering task requirements. Once the requirements have been declared, developers are able to share a functional prototype of the application or database, thereby making it easier to pinpoint issues at the preliminary stage. In addition, the software development tool automatically generates software applications after requirements have been declared. This makes it possible for users to significantly reduce development costs and shorten timelines, while lowering the occurrence rate of coding bugs and curbing the likelihood of system obsolescence. The tool offers the distinctive advantage of enabling development of systems that are not prone to obsolescence because it provides for substantial maintainability and does not rely on infrastructure.

As of the end of FY3/23, the Company had 16 engineers holding low-code development qualifications. It plans to raise this to 50 by the end of FY3/24. The DX Promotion Headquarters is taking steps to establish standard approaches to low-code development and agile development with respect to cloud-native development.

The Company has been placing focus on its highly profitable package-based SI services offering hands-off solutions. Within this, in the SAP business, its efforts to improve the skills of employees through strategic investment and inhouse education have resulted in increases in service fees (unit prices) and added value. Employees are rewarded for this in terms of compensation, which has a ripple effect of increasing motivation for learning within the Company. Its strategic investment was acquiring infree and making it into a subsidiary. The infree corporate culture has points in common with the Company's in that it is passionate about employee education and encourages the acquisition of certifications. infree's main business includes the development of an inhouse education system specializing in SAP. The Company's engineers have also been using this system to successfully acquire higher level certifications.

Another company that has joined the Group is Technigate. As a SuperStream NX partner, it has knowledge and strong technical capabilities concerning the SuperStream accounting package business. It cultivates direct user transactions with a focus on major companies and to date, it has installed the package at a total of 727 companies. The Company is sharing the knowledge possessed by its subsidiary and using it to grow its own direct user transaction business. It also plans to integrate Technigate's customer base into its package-based SI services business so that it can provide them with next-generation services that offer even greater added value.

The Company has launched a new business handling ServiceNow. US-based ServiceNow, Inc. was established in 2004 and provides a cloud-based operations platform for raising worker productivity in an SaaS format. It established a Japanese subsidiary in 2013. Its cloud services encourage workstyle reforms and greater productivity among employees by simplifying and automating a company's routine workflow processes in areas from IT asset management to security, human resources, and customer service.

Risk factors in the IT services industry include an increase in inhouse systems engineering (SE) and the introduction of ChatGPT. Enterprises that are currently adopting new technologies, products, and services are thought to be at the Innovator stage. In the Diffusion of Innovation Theory, the overall market can be divided into five groups. Innovators are those who adopt new products and services at an early stage and they account for 2.5% of the entire market. The next group is Early Adopters, who are sensitive to trends and make decisions based on their own information gathering. These account for 13.5% of the market. Next come the Early Majority and then the Late Majority, who comprise 34% each, and at the end are the Laggards who account for 16%.

In Japan, there are only a limited number of companies that have high-level human resources, such as DX data analysts, and that can continuously provide these employees with opportunities to perform that are commensurate with high levels of compensation and high unit prices for services. The transition to job-based employment means there are few companies that have clearly outlined compensation structures for each role that employees will accept. The trend of companies moving to increase the number of inhouse SE personnel is also gaining media coverage. The disadvantage of inhouse SE is that opportunities to perform are obviously limited to within the company. Also, depending on the company, negatives can include inhouse assessments by assessors who are not proficient in IT, limited opportunities to acquire new skills, and difficulty maintaining motivation due to reskilling and projects handled having no bearing on compensation.

ChatGPT has started being used for peripheral operations at companies including megabanks that offer high salaries. The major cloud-service providers Microsoft and Google have started incorporating into search engines and the Microsoft365 operating software. It is likely that research and development on industry-specific generative AI will be advanced going forward. A major IT company in Japan has also commented that the impact of generative AI will be comparable with the rise of the internet. This means it could create a paradigm shift in not only the IT services industry, but in the fabric of society itself, including in the education field, so future developments need to be watched closely.

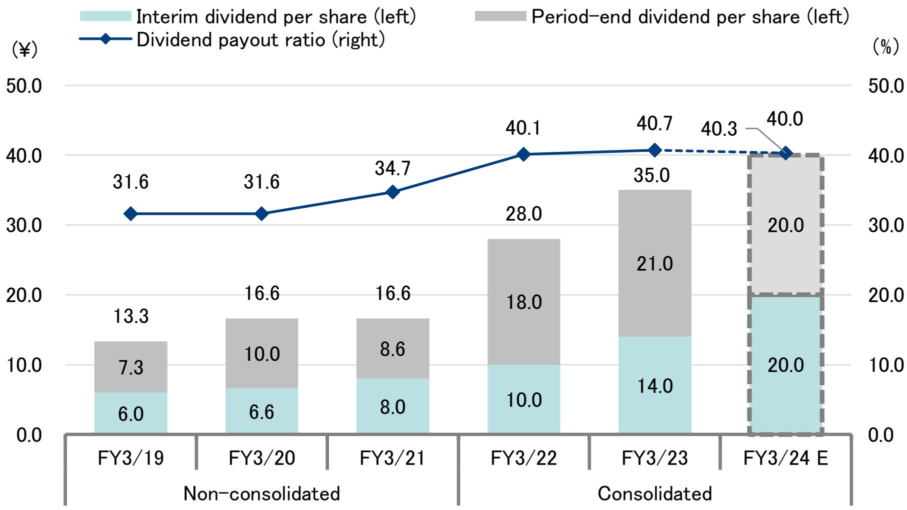
Shareholder return policy

Plan to raise annual dividend per share to ¥40 in FY3/24

1. Dividend policy

The Company considers returning profits to shareholders to be one of its more important management issues, and its basic policy is to continuously and stably return profits to shareholders after considering supplementing internal reserves as necessary to strengthen the management structure and for business development in the future. In November 2021, the Company changed its dividend policy and raised the consolidated dividend payout ratio from 30% to at least 40%. On October 1, 2021, the Company also conducted a 1.5 to 1 stock split in order to lower the amount of each trading unit of its stock and thereby increase the liquidity of its shares, as well as to broaden its investor base. As a result, the Company increased the FY3/22 dividend per share to ¥28.0 from ¥16.6 (after an adjustment for the stock split) in FY3/21. In FY3/23, the Company raised its year-end dividend from ¥14 to ¥21 to reflect good financial results, resulting in an annual dividend of ¥35. For FY3/24, the Company plans to pay an annual dividend of ¥40 (interim ¥20, year-end ¥20), with a dividend payout ratio of 40.3%.

Dividend per share and dividend payout ratio



Note: Retroactively revised following the 1.5 to 1 stock split conducted on October 1, 2021
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Shareholder benefits program

The Company conducts a shareholder benefit program for the purpose of increasing the number of shareholders who hold its stock over the medium to long term. It comprehensively revised the dividend policy and the shareholders benefit program, and in November 2021, partially changed the thresholds for awarding points under the shareholders benefits program. Points are awarded to shareholders who hold at least 300 shares at the end of March each year, with the number of points awarded dependent on the number of shares held and the length of time they have been held. For example, shareholders who hold 300 to 399 shares will be awarded 3,000 points in the first year and 3,300 points in the second year, after which the points will increase by 10% to 3,300 points. Shareholders holding 1,000 to 1,999 or more shares will be awarded 15,000 points in the first year and 16,500 points in the second and subsequent years. Therefore, it is a scheme that rewards shareholders the longer they hold their shares. The awarded points can be exchanged for more than 5,000 kinds of products, including food, electrical goods, gifts and travel and experiences, on the R&D COMPUTER Benefits Club website created specifically for the Company's shareholders.

Sustainability

The Company views employees' health as an important management policy, and is working to maintain and improve health as well as increase productivity. In recognition of these efforts, it was recognized as a 2021 Certified Health & Productivity Management Outstanding Organization (large enterprise category), as a company that has excellent health and productivity management.

In addition, the Company has also issued its diversity promotion declaration. Through this declaration, it is aiming to establish an environment in which the rights of all are respected, there is no discrimination, and each and every person can demonstrate their capabilities. It is also aiming to establish workplace environments in which employees can demonstrate their individual capabilities to the greatest possible extent through enhancing work-life balance and promoting gender equality. It is promoting respect for the diversity of each and every person and reasonable consideration for people with disabilities and people who require support.

In addition, the Company is advancing initiatives with respect to the Sustainable Development Goals (SDGs), and it has newly declared five key goals. The Company has established specific targets for each of the five goals of "Education/technological innovation," "Rewarding work/equality," "Responsibility" "Partnerships," and "Health/equality."

Five key goals

01	Education/ technological innovation	Contribute to the realization of sustainable social infrastructure by providing optimal system solutions from a group of talented engineers.	4, 9, 11
02	Rewarding work/ equality	Aim to respect the human rights and diversity of all people, and establish an environment that allows each person to demonstrate his/her talent to the fullest.	5, 8, 10
03	Responsibility	Aim to be a company trusted by stakeholders through the provision of high-quality, reliable, and safe services.	12
04	Partnerships	Contribute to the achievement of the SDGs through the building of long-term cooperative relationships with business partners.	17
05	Health/equality	Aim to create a workplace in which every employee can be both mentally and physically healthy and can work vibrantly and enthusiastically.	3, 8

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

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