COMPANY RESEARCH AND ANALYSIS REPORT

LTS, Inc.

6560

Tokyo Stock Exchange First Section

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Index

Summary

Expecting continued high growth over the medium term as consulting demand for management DX remains robust

LTS, Inc. <6560> (hereafter, "the Company") utilizes business process management (BPM) *1 and advanced technologies such as robotics (RPA*2) and AI*3 to provide support services, including for corporate transformations, workstyle reforms, and digital transformations (DX*4). In addition, its subsidiary Assign Navi, Inc. conducts a platform business to match IT human resources and projects. Since FY12/19, the Company has actively conducted M&A for growth by making companies into subsidiaries one after the other, beginning with software development company WAKUTO, Inc., in September 2019. This was followed by IoToI Japan Inc., which supports business creation (including introducing solution-provider companies) by utilizing IoT, in January 2020 and then SOFTEC Co., Ltd., which conducts development, maintenance and operation of systems, in December of the same year.

*1 Abbreviation of business process management. The management of business processes within a company.
*2 Abbreviation of robotic process automation. A term expressing the automation of work using robots, which mainly undertake white-collar work in back-office operations.
*3 Abbreviation of artificial intelligence. This refers to the attempt to artificially realize intelligence equivalent to that of humans, such as through computers, or the series of basic technologies used in this effort.
*4 Abbreviation of digital transformation, a concept advocated by Professor Erik Stolterman of Umea University of Sweden in 2004 which states that "the spread of IT will change every aspect of people's lives for the better." It refers to value creation through new products, services and new business models and the establishment of competitive advantages by utilizing digital technologies such as IoT, AI (artificial intelligence), big data, and analytics.

1. Summary of FY12/20 results

The Company reported higher sales and profits for the fourth straight fiscal year in FY12/20 consolidated results with ¥5,555mn in net sales (+46.6% YoY) and ¥478mn in operating profit (+55.5%), beating initial forecasts (which called for ¥5,000mn in net sales and ¥400mn in operating profit). Inquiries in the mainstay professional services business were vibrant throughout the period with almost no adverse impact by the spread of COVID-19 and instead reconfirmation of the importance of management DX. This business posted large gains, including the positive effect of adding WAKUTO to the consolidated scope from 4Q FY12/19, with increases of 46.3% in net sales and 38.8% in operating profit. Platform business also improved with upturns in introduced projects from IT consultants with higher unit pricing, delivering a 47.1% rise in net sales and restoring operating profit at ¥45mn (vs. a ¥4mn loss in the previous fiscal year).

2. FY12/21 results outlook

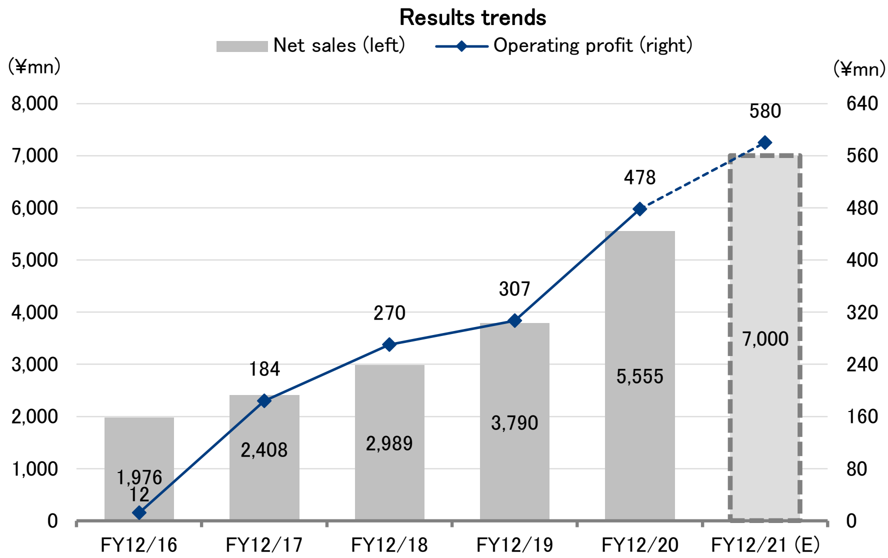
As for FY12/21 consolidated results, the Company projects ¥7,000mn in net sales (+26.0% YoY) and ¥580mn in operating profit (+21.2%). The outlook adds ¥680mn in net sales from new consolidated subsidiary SOFTEC. Even without this portion, however, it expects double-digit sales and profit increases. Because the Company will continue to make upfront investments in conjunction with the launch of new services in the platform business in addition to proactively investing in personnel, it anticipates a modestly lower profit margin in FY12/21. However, it tends to present a conservative initial forecast and has continuously revised guidance upward since becoming listed on the stock market in December 2017. Furthermore, DX assistance inquiries have remained vibrant since January 2021 as well, and the Company is still in a position to selectively book orders. Based on these points, FISCO expects results to exceed the initial forecast.

3. Medium-term management plan

The Company announced a medium-term management plan up to FY12/24. As the best partner supporting corporate DX, it aims to deliver annual sales growth of over 20% with a combination of proactively investing in personnel and conducting M&A. Numerical goals for FY12/24 are ¥12,000mn in net sales, ¥1,800mn in operating profit, and 15.0% operating profit margin. As long-term goals for FY12/30, it forecasts ¥36bn in net sales via organic growth (with annual sales growth of 20%) and ¥50bn in net sales if it achieves a major M&A deal. In personnel, it plans to add people with net increases of 100 people a year (including M&A). As for its sales strategy, it intends to strengthen relationships with cutting-edge companies in DX and actively expand business through recruitment of new customers by broadening sales areas and providing services to local government entities and small- and medium-sized businesses. For the platform business, it expects to shift from the investment phase planned through FY12/22 to a phase of gradual profit increase and contributions to profitability gains from FY12/23 onward. FISCO thinks the Company has tremendous growth potential because many Japanese companies either have not implemented DX yet or have not obtained actual benefits despite pursuing DX measures.

Key Points

- Posted higher sales and profits exceeding the initial forecast with tailwind from robust DX demand in FY12/20
- Aims to increase sales and profits again in FY12/21 with professional services business as the driver
- Plans to focus on investing in personnel and expanding customers in pursuit of FY12/24 goals of ¥12,000mn in net sales and ¥1,800mn in operating profit



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

Company overview

A consulting firm providing support services for corporate digital utilization and conducting business process management

1. Company history

The Company is a consulting firm founded in 2002 by five members who met in an IT venture company, centered on President and CEO Hiroaki Kabashima. It lacked a sales network in the five to six years after its foundation, so for customer acquisition it obtained referrals from major overseas companies and also invited people with experience as CIO (Chief Information Officer) in major companies to serve as advisers, and used that network of connects to acquire customers. An opportunity to further expand business scale was provided when the Company joining the Japan Users Association of Information Systems* in 2011. In this association, the Company has been able to improve the quality of its consulting services and build a network of CIO/CTO (the highest-level technology officers) in each of the member companies through engaging in a variety of surveys and research activities based on the themes of management and IT. Amid these conditions, it has moved ahead with customer acquisition.

* Established in 1962 with the aims of promoting the improved utilization of IT and contributing to the development of the industrial economy by conducting surveys and research on the advanced use of IT (including management reforms) in industrial activities, awareness-raising and introductions of such IT, and collecting and providing information. As of March 1, 2021, 4,358 companies were corporate members (including associate members).

In 2008, Keeppride, Inc. (currently Assign Navi, Inc.) was established as a consolidated subsidiary to refer and provide core human resources to advance corporate transformation projects, thereby expanding the Group's scope to businesses outside of consulting. In 2014, this subsidiary launched Assign Navi, which is an online platform service to match IT engineers active in companies and as freelancers with companies searching for IT human resources. In addition, in 2016 it began providing Consultant Job, which is a project-referral service for IT consultants, an M&A support service specializing in the IT industry, and a data analyst training support service for individual members of Assign Navi.

In December 2017, the Company was listed on the TSE Mothers market (its listing was upgraded to the TSE First Section market in July 2020), and it has been utilizing the funds acquired in the listing to actively carry out human resource investment, M&A, and other elements to expand its business. For M&A, it made subsidiaries of WAKUTO, a software development company, in September 2019, and IoToI Japan, which provides IoT business-creation support consulting, in January 2020, followed by SOFTEC, which conducts development, maintenance and operation of IT systems, in December of the same year. Also, in July 2019 it established FPT CONSULTING JAPAN CO., LTD. as a joint venture with FPT Japan Holdings Co., Ltd., which is a group company of FPT Corporation, Vietnam's largest ICT company.

Company history

Date	Main events
March 2002	LT Solutions, Inc. was established in Nanpeidai, Shibuya Ward, Tokyo (changed company name to LTS, Inc., in April 2008)
April 2003	Fully fledged launch of professional services in the reforms-support area to support workplace reforms at customer sites (since then, has expanded the areas to personnel and organization consulting, IT consulting, and business consulting)
March 2008	Through a new-establishment corporate split, established Keeppride, Inc., as a consolidated subsidiary to refer and supply core human resources to advance corporate transformation projects (changed company name to Assign Navi, Inc., in April 2014)
January 2009	Fully fledged launch of services for the IT upstream area and business process management /process implementation
January 2011	Established the Overseas Business Promotion Office and increased ability to respond to overseas projects, and also started preparations for business development in China and the Asia region
March 2013	Established consolidated subsidiary LTS ASIA CO., LIMITED in the Hong Kong Special Administrative Region of the People's Republic of China
April 2013	Started data analytics support
July 2014	Consolidated subsidiary Assign Navi started providing the Assign Navi platform service, which is able to introduce companies, individuals, and products in the IT industry quickly and at low cost
January 2016	Assign Navi, Inc. launched a project referral service for consultants
May 2016	Assign Navi, Inc. launched an M&A support service specializing in the IT industry
July 2016	Launch of data analyst training support for Assign Navi members
November 2016	Started providing RPA (Robotic Process Automation) and AI services
December 2017	Listed on the Tokyo Stock Exchange Mothers market
August 2018	Assign Navi, Inc. launched Consultant Job, a projects referral and consultation service for freelance consultants
August 2018	Launched the Digital Shift Accelerator Program, a capital and business alliance with a tech start-up
July 2019	Established FPT CONSULTING JAPAN CO., LTD., as a joint venture with FTP Japan Holdings Co., Ltd. (an equity-method affiliate with an investment ratio of 20%,)
September 2019	Made a consolidated subsidiary of WAKUTO, Inc. (Investment ratio: 100%)
January 2020	Made a consolidated subsidiary of IoTol Japan, Inc. (Investment ratio: 75%)
July 2020	Listing upgraded to the TSE First Section market
December 2020	Acquired SOFTEC Co., Ltd. as a wholly-owned subsidiary (Investment ratio: 100%)

Source: Prepared by FISCO from the Company's website

Status of affiliated companies

Company name	Investment ratio	Description of main business
Consolidated subsidiary		
Assign Navi, Inc.	100.0%	Platform business
LTS ASIA CO., LIMITED	100.0%	Professional services business
WAKUTO, Inc.	100.0%	Professional services business
IoTol Japan, Inc.	75.0%	Professional services business
SOFTEC Co., Ltd.	100.0%	Professional services business
Equity-method affiliate		
FPT CONSULTING JAPAN CO., LTD.	20.0%	Professional services business

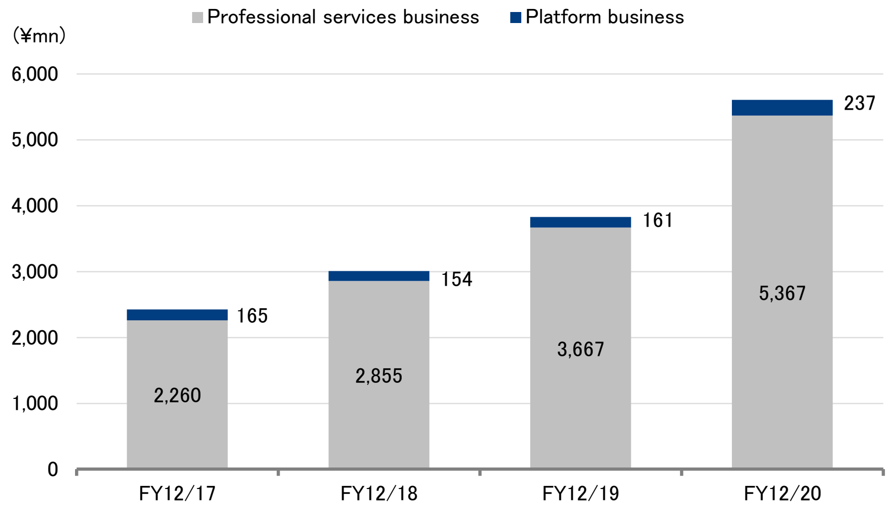
Source: Prepared by FISCO from the Company's securities report, etc.

Developing the professional services business and the platform business

2. Business description

The Company Group provides consulting services to reform and grow the businesses of customer companies through business process management, which is the method to support the "implementation of reforms" that are essential for a company to grow. The Group consists of the Company, five consolidated subsidiaries, and one equity-method affiliate, and it discloses information on two business segments: the professional services business and the platform business. Looking at the distribution of net sales in FY12/20, the professional services business provided more than 90% of the total. But going forward, in addition to growing this business, the Company's strategy is to accelerate earnings growth by developing the platform business, which has a high marginal profit ratio.

Sales trends by business

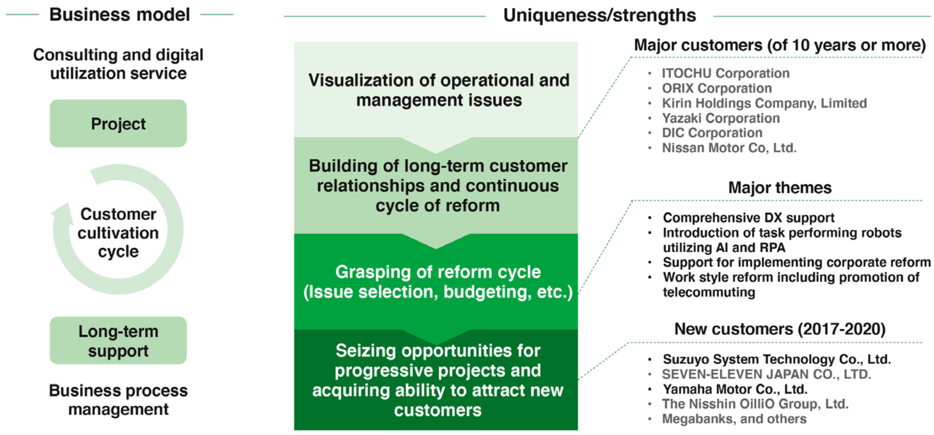


Source: Prepared by FISCO from the Company's financial results

(1) Professional services business

The professional services business provides three services: long-term, support-type business process management, project-type consulting, and digital utilization services. The distribution of total net sales in FY12/20 was 29% for business process management, 53% for consulting, and 18% for digital utilization services. This business builds relationships with customers through project support and enters into contracts with them on a yearly basis, which in turn leads to business process management, a recurring-type business.

Features of the professional services business



Source: The Company's financial briefing materials

Business process management is a service to support customer companies' business structures as business processes, from making visible and analyzing the processes through to creating, implementing and fixing in place optimization methods. Currently, the Company's customers range from major companies in the automotive, trading and financial industries and their group companies to venture companies, and mainly consist of proactive companies conducting leading-edge management through IT. It has more than 10 years of experience of conducting business with each type of customer.

Consulting services are services to support customer companies to build a growth strategy, develop business and conduct managerial reforms such as for operations and organizations. The Company offers a wide range of services from the customer's perspective including operational support from the planning and conception stages or after the introduction of a new business, construction of or establishment and operational support of IT infrastructure, as well as the human resources training required by customer companies. In addition, digital utilization services cover things such as formulating methods of utilizing research and technologies that are tailored to customers' businesses, improving value chains through IoT and analysis of marketing data, etc., and supporting business efficiency and business optimization by introducing AI, RPA, and other technologies in order to achieve corporate work reforms or a digital transformation of management.

Frequently, these project-type services are provided by collaborating as necessary with overseas consulting firms and companies that develop things like ERP, AI and RPA tools, and the Company participates in the projects from the customer's perspective. In many cases, customer companies lack IT literacy or related aspects, so the Company plays the role of filling-in the literacy gap between customers and consulting firms/IT-tool vendors to maximize the results of projects. Therefore, it builds collaborative rather than competitive relationships with these consulting firms and tool vendors.

Services menu in the professional services business

Service description	% of sales (FY12/20)	Service menu
Business process management	29%	Visualizing and improving business processes, utilizing BPO/SS*1, implementing advanced business processes, supporting business process operations and IT operations, and training business analysts
Consulting	53%	Business consulting (building a growth strategy, business development, investigating M&A, PMI*2, constructing a management foundation) IT consulting (formulating basic IT concepts; systems planning and selection; introducing, establishing, and operating IT systems from the customer's perspective) Personnel and organizational consulting (workstyle reforms, resource and cost management, organizational reforms, human resources training)
Digital utilization services	18%	Conducting technological research, formulating digital business concepts, utilizing data analytics and AI, cloud integration, RPA, customer-channel reforms, digital marketing, training human resources for utilization of technology

*1 BPO (Business Process Outsourcing)/SS (Shared Service): BPO refers to the partial outsourcing of a company's own operations to external companies. SS is a management method that aims to improve efficiency by consolidating operations shared between companies (or divisions) into another company (or another division).
*2 PMI (Post Merger Integration): The integration process after the completion of an M&A.
Source: Prepared by FISCO from the Company's securities report and interviews

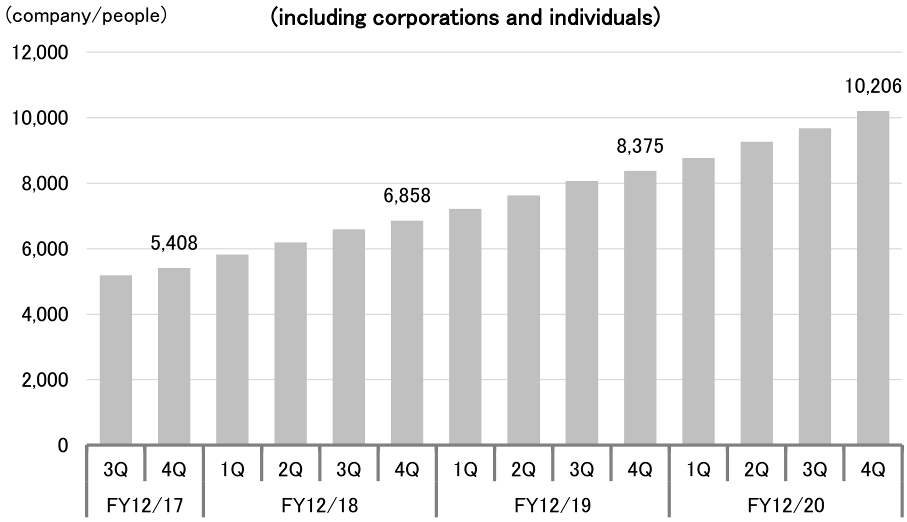
(2) The platform business

In the platform business, which is developed at its subsidiary Assign Navi, the Company offers a platform service which is used for matching to solve problems such as the following: an inability to match customers who have problems with tech companies that have the solutions; a lack of IT personnel in response to large-scale IT investment by customer companies; and a lack of opportunities for projects to fully utilize companies' own IT personnel. This business also includes Consultant Job, which is a projects referral service for freelance IT consultants. Additionally, as a new service, it released the beta version of CS Clip, a matching website for businesses that want to implement DX and DX-related companies, in July 2020 and is currently at the stage of building up the number of registered members. The distribution of sales in FY12/20 was just under 40% for Assign Navi and just over 60% for Consultant Job.

As of December 2020, Assign Navi had a total of 10,206 companies and individuals (4,159 corporate members and 6,047 individual members) as registered members (including non-paying members), a number which continues to increase. It is estimated that Japan has 5,000 to 8,000 IT companies, among which this service is widely known as a personnel and project introduction site for small- and medium-sized IT businesses. The Company changed the fee plan in August 2020 with the introduction of a ticket system. In specific terms, users need a ticket for project registration, scouting, applying, and other activities, but instead are not charged a contract conclusion fee. Tickets have an expiration date of one month. Although non-paying members (registered under the light plan) receive three tickets a month, they must purchase a ticket pack (¥20,000 for 10 tickets, ¥50,000 for 30 tickets, etc.) if they utilize the service any further. For paid members, the standard plan provides 360 tickets/year at a cost of ¥100,000 to join and a ¥300,000 annual fee. The individual ticket fee is therefore cheaper than for non-paying members. The premium plan, meanwhile, offers unlimited usage by paying ¥100,000 to join and a ¥600,000 annual fee. While the Company previously had difficulty generating sales from non-paying members because of a self-reporting system, fee revisions implemented this time have resolved this issue. The Company currently has about 170-180 companies as paid members, with the majority of corporate members also registered as non-paying members.

Consultant Job is a referral service for freelance IT consultants for projects with high unit prices from ¥1.6mn to ¥1.9mn a month. For sales, it uses a results-based remuneration model of collecting contract conclusion fees from the ordering company when the project-referral contract is concluded. The ordering parties are major consulting firms and major SIers, and this service utilizes the network that the Company has cultivated over many years. Although there are many other matching services for IT human resources, there are few services that specialize in IT consultants with high unit prices, making this a growth area. The Company itself utilizes this service to cover shortages in personnel resources when providing services to customers in the professional services business.

Number of Assign Navi members
(including corporations and individuals)



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

Results trends

Posted higher sales and profits exceeding initial forecast in FY12/20 with tailwind from robust DX demand

1. FY12/20 results summary

The Company reported higher sales and profits for the fourth straight fiscal year and beat initial forecast by over 10% in net sales and each profit item in FY12/20 consolidated results with ¥5,555mn in net sales (+46.6% YoY), ¥478mn in operating profit (+55.5%), ¥447mn in ordinary profit (+50.0%), and ¥270mn in profit attributable to owners of parent (+34.0%). In contrast to concerns about weakening of the market environment caused by the COVID-19 pandemic, inquiries for consulting based on DX, digital utilization service, and other business areas covered by the Company were active throughout the year. The reason behind this was heightened awareness of the importance of DX in building management systems whose business activities are unaffected even amid the COVID-19 pandemic.

FY12/20 consolidated results

(unit: ¥mn)

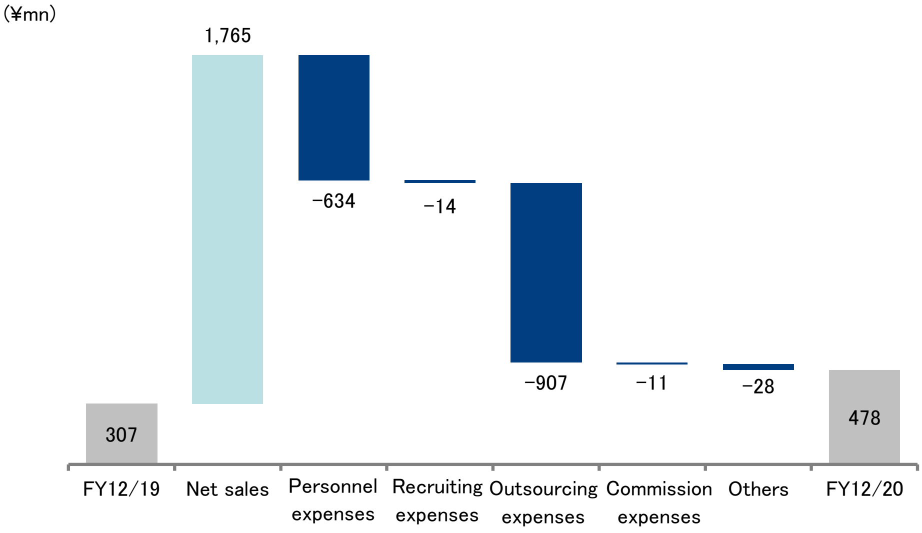
	FY12/19		FY12/20				
	Result	Vs. net sales	Initial plan	Result	Vs. net sales	YoY	Vs. the plan
Net sales	3,790	-	5,000	5,555	-	46.6%	11.1%
Gross profit	1,493	39.4%	-	2,046	36.8%	37.1%	-
SG&A expenses	1,185	31.3%	-	1,568	28.2%	32.3%	-
Operating profit	307	8.1%	400	478	8.6%	55.5%	19.7%
Ordinary profit	298	7.9%	350	447	8.0%	50.0%	27.8%
Extraordinary income	-	-	-	-18	-	-	-
Profit attributable to owners of parent	201	5.3%	240	270	4.9%	34.0%	12.6%
EBITDA	335	8.9%	440	527	9.5%	57.2%	19.9%

Note: EBITDA = operating profit + depreciation + amortization of goodwill
Source: Prepared by FISCO from the Company's financial results and financial briefing materials

While the steep sales increase was largely due to a full-year contribution by net sales at WAKUTO, which it acquired as a subsidiary in 4Q FY12/19, both sales and profits had double-digit gains even without this factor. The gross profit margin slipped from 39.4% in the previous fiscal year to 36.8% mainly due to the consolidation of WAKUTO which had a low level of operating profit margin around the 1% range. Nevertheless, WAKUTO's profit margin is improving through collaboration on projects with high unit pricing booked as orders by the Company. In fact, gross profit margin rose by 2.6ppt from 34.9% in 4Q FY12/19 right after consolidation to 37.5% in 4Q FY12/20. The primary source of improvement was an increase in the Company's collaborative projects to about 10-20% of WAKUTO's business. The Company intends to boost WAKUTO's profitability even more by lifting the collaborative project ratio to the 30-40% level.

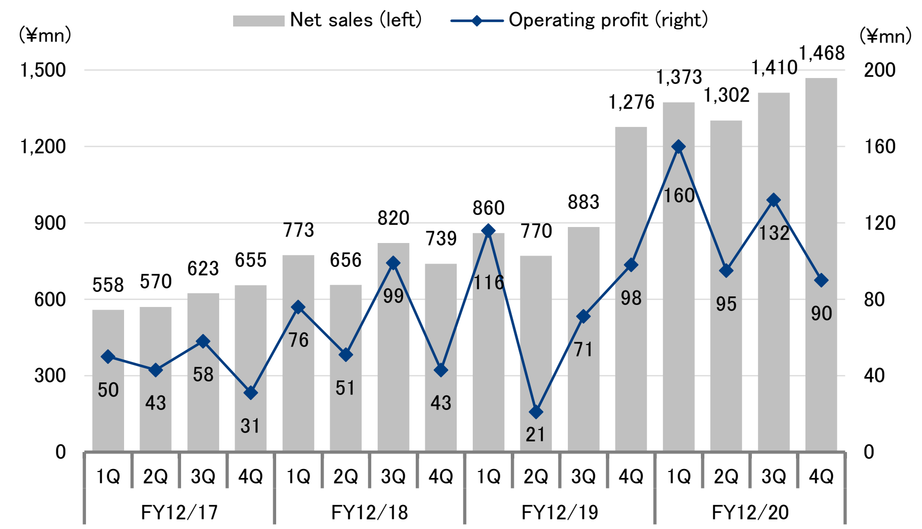
Looking at the factors behind changes in operating profit, despite increases of ¥634mn YoY in personnel expenses due to personnel additions, salary revisions, and other items, ¥907mn in outsourcing expenses, ¥14mn in recruiting expenses, ¥11mn in commission expenses, and ¥28mn in other expenses including amortization of goodwill, the positive effect of higher sales made up for these expenses. At the quarterly level, the Company booked higher net sales at ¥1,468mn (+15.1% YoY), but slipped to ¥90mn in operating profit (-8.1%) in 4Q FY12/20. Since it booked SOFTEC M&A costs in December (¥6mn in 3Q, ¥27mn in 4Q), however, profit increased 19.3% in real terms excluding this impact. When results steadily outpace guidance, the Company typically boosts education and training costs aimed at improving employee skills in 4Q.

Factors behind changes in operating profit



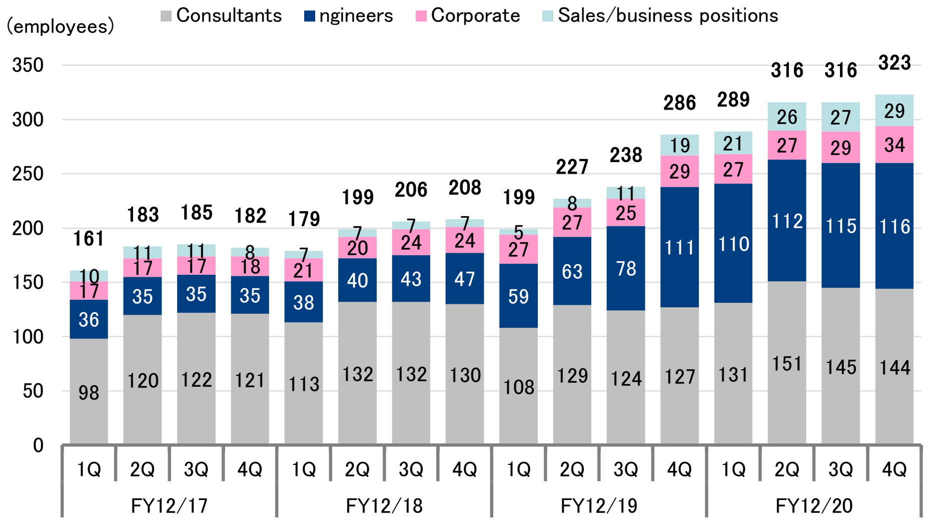
Source: Prepared by FISCO from the Company's financial briefing materials

Quarterly results trends



Note: Operating profit is the value excluding acquisition-related costs for business combination
Source: Prepared by FISCO from the Company's financial briefing materials

Quarterly trends in the number of Group employees



Note: Consultants include data scientists
Added SOFTEC to consolidation from 1Q FY12/21
Source: Prepared by FISCO from the Company's financial briefing materials

(1) Professional services business

Professional services business posted ¥5,367mn in net sales (+46.3% YoY) and ¥432mn in operating profit (+38.8%). This segment achieved sharply higher sales and profits through utilization of resources at WAKUTO, which was acquired as a subsidiary in 4Q FY12/19, to meet robust demand amid pick-up in initiatives for corporate DX, such as introducing telework systems, spurred by the COVID-19 pandemic.

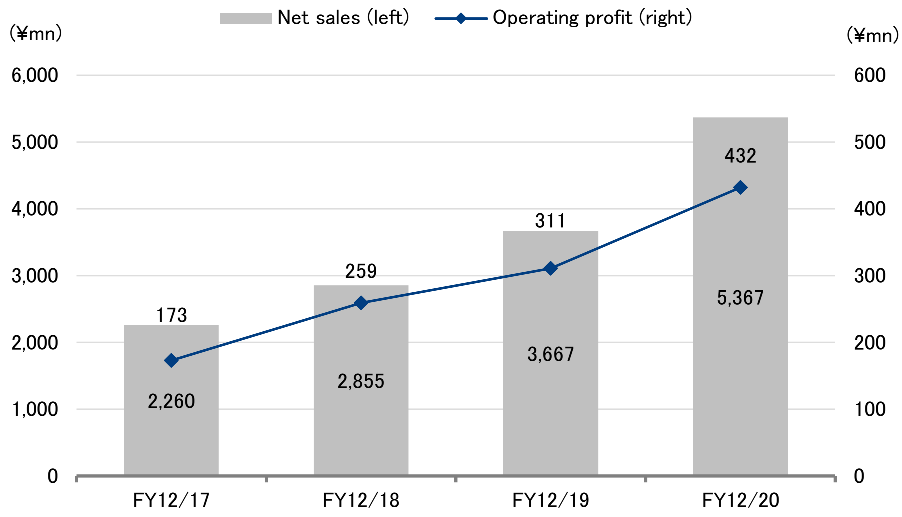
Specifically, sales to major customers steadily expanded, while there was also a tremendous volume of inquiries from new customers. The rise in inquiries was not only from companies newly adopting management DX, but also from companies that have not obtained the anticipated results from existing DX initiatives. It is not enough to simply introduce RPA tools and various IT services individually. Formulating a strategy and promoting projects based on analysis of a company's overall business processes and IT systems are key to obtaining the benefits of DX. The Company has been receiving more inquiries because it possesses extensive knowledge in this area.

IoTol Japan, which the Company acquired as a subsidiary in January 2020, did not contribute to income in FY12/20 because two IoT-related projects it was handling with major manufacturers of consumer goods were postponed due to the COVID-19 pandemic. Depending on customer plans, some results may be seen in 1H FY12/22.

Profits in professional services business tend to be concentrated 1Q and 3Q largely due to seasonal factors. In 2Q, the segment incurs training costs for over 20 new employees, including new graduates and mid-career employees, in addition to facing temporary reduction in sales capacity due to assigning talented in-house consultants as instructors. In 4Q, though it depends on earnings progress, time is allocated to enhance consultants' skills, such as writing papers and attending global technology conferences, when there is leeway, which contribute to higher associated costs. From a different perspective, the Company is able to control 4Q profits according to management's intent to some extent. Operating profit in 4Q FY12/20 dropped 11.6% YoY to ¥77mn on booking M&A costs related to acquiring SOFTEC as a subsidiary in December 2020. Excluding this factor, profit increased 19.0%.

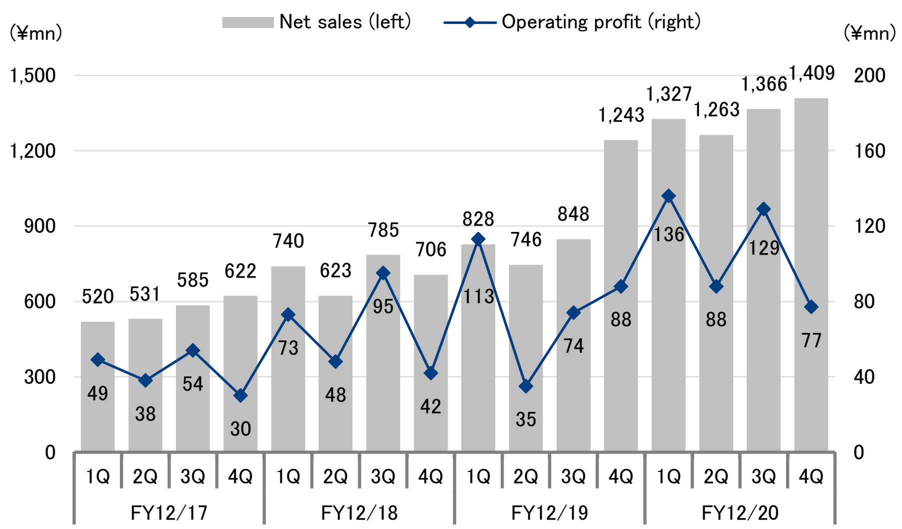
SOFTEC is an IT company with a base of operations in Shizuoka Prefecture that handles system development, operation, and maintenance and has a long history after being founded in 1993. Major customers include a leading manufacturer of automotive parts, and SOFTEC also has a wide range of other customers. It mainly delivers BPO services, such as maintenance and operation, and FY6/20 results were ¥684mn in net sales and ¥40mn in operating profit. These values have been stable in recent years. It also has about 70 system engineers. Through the acquisition of SOFTEC as a subsidiary, the Company hopes to bolster operations and expand business in Shizuoka and Tokai areas that have many large to medium-sized manufacturers. It is also promoting a strategy to boost SOFTEC's profitability and enhance synergies via collaboration with SOFTEC on projects with higher unit pricing. SOFTEC income will appear in the Company's consolidated results from FY12/21.

Results trends in the professional services business



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

Quarterly results trends in the professional services business

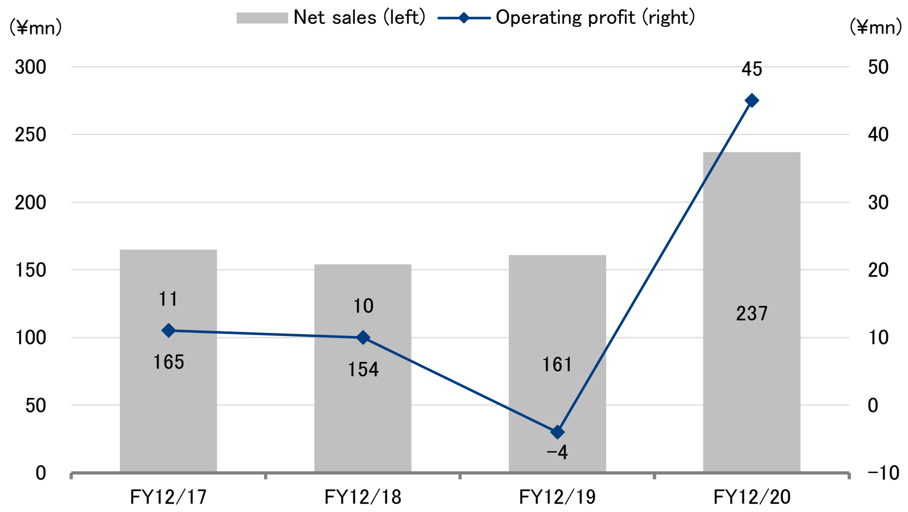


Source: Prepared by FISCO from the Company's financial briefing materials

(2) Platform business

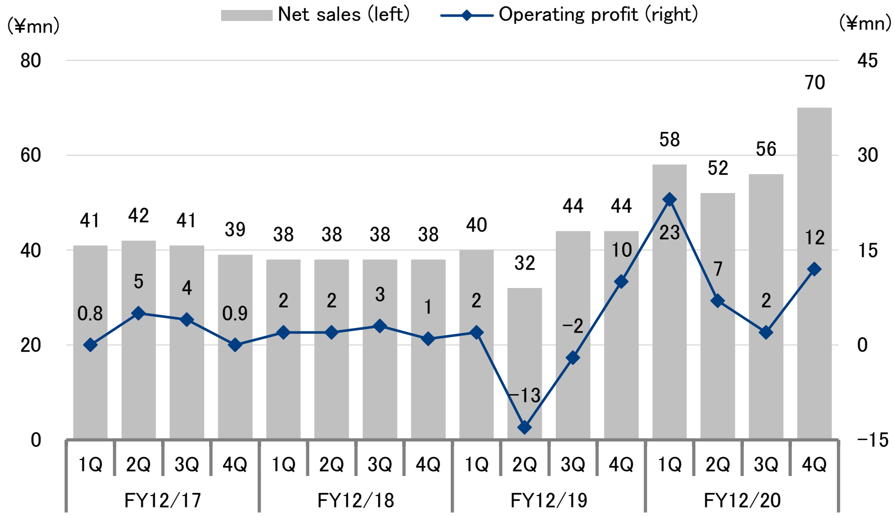
The platform business recorded ¥237mn in net sales (+47.1% YoY) and ¥45mn in operating profit (vs. a ¥4mn loss in the previous fiscal year). Assign Navi membership volume expanded at a healthy pace with combined corporate and individual members increasing by 1,831 members versus the previous fiscal year-end to 10,206 members at end-December 2020 (with 4,159 corporate members and 6,047 individual members). Sales rose in Assign Navi and Consultant Job businesses. Consultant Job, a matching service for IT consultants with high skill levels, achieved a robust sales increase of 50% YoY due in part to the effects of reinforcing operations in the previous fiscal year. Additionally, the Company promoted initiatives for future expansion of earnings, including the release of a beta version of CS Clip, a new service, in July 2020, and revisions to the billing framework for Assign Navi aimed at boosting profitability in August 2020. Segment net sales climbed 58.8% YoY to ¥70mn in 4Q FY12/20, reaching an all-time quarterly high. The effects of billing framework revisions for Assign Navi service appear to be contributing to the gain, and future growth is expected.

Results trends in the platform business



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

Quarterly results trends in the platform business



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

Despite procuring M&A and other growth investment funds through borrowings, profit expansion is boosting net cash

2. Financial position and management indicators

At the end of FY12/20, total assets were up by ¥1,845mn compared to the end of the previous fiscal year to ¥4,297mn. The main changes were increases of ¥1,297mn in cash and deposits and ¥211mn in accounts receivable in current assets and a rise of ¥121mn in goodwill related to the acquisition of SOFTEC as a subsidiary in non-current assets.

Total liabilities increased by ¥1,617mn YoY to ¥2,565mn, including a ¥1,100mn increase in interest-bearing debt to acquire funds for M&A and other growth investments and increases of ¥140mn in accounts payable - other, ¥98mn in accounts payable - trade, and ¥61mn in income taxes payable. Furthermore, net assets increased by ¥228mn YoY to ¥1,732mn. While retained earnings increased ¥265mn due to booking profit attributable to owners of parent and other items, treasury shares increased by ¥58mn (a main factor behind the reduction).

Among management indicators, stability trends indicate that financial conditions remain healthy, despite decline in the equity ratio from 61.3% at the end of the previous fiscal year to 40.2% due to increase in the interest-bearing debt ratio from 5.9% to 68.7% due to the rise in interest-bearing debt, considering steady upturn in net cash (cash and deposits – interest-bearing debt) with a gain of ¥197mn YoY to ¥1,493mn. Profitability trends exhibit stability with ROA and ROE in the 10% range. Operating profit margin is holding at a solid level of 8.6% even amid aggressive investments, including M&A deals, in just over the past year.

Consolidated balance sheet and management indicators

(unit: ¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20	Change
Current assets	1,622	1,766	2,161	3,707	1,545
(cash and deposits)	1,147	1,283	1,385	2,682	1,297
Non-current assets	83	125	290	590	300
(goodwill)	-	-	83	204	121
Total assets	1,706	1,892	2,451	4,297	1,845
Current liabilities	605	515	894	1,581	687
Non-current liabilities	51	30	54	983	929
Total liabilities	657	546	948	2,565	1,617
(Interest-bearing debt)	79	51	88	1,188	1,100
Total net assets	1,049	1,346	1,503	1,732	228
Management indicators					
(stability)					
Equity ratio	61.5%	71.1%	61.3%	40.2%	-21.1pt
Interest-bearing debt ratio	7.6%	3.8%	5.9%	68.7%	62.8pt
Net cash	1,068	1,232	1,296	1,493	197
(profitability)					
ROA	13.2%	15.0%	13.7%	13.3%	-0.4pt
ROE	15.3%	15.4%	14.2%	16.7%	2.5pt
Operating profit margin	7.7%	9.0%	8.1%	8.6%	0.5pt

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

Business outlook

Targeting sales and profit growth driven by professional services business in FY12/21 as well

1. FY12/21 results outlook

In FY12/21 consolidated results, the Company guides for higher sales and profits in a fifth straight year at ¥7,000mn in net sales (+26.0% YoY), ¥580mn in operating profit (+21.2%), ¥530mn in ordinary profit (+18.5%), and ¥341mn in profit attributable to owners of parent (+26.1%). If SOFTEC results stay at the previous-year level, this business should add ¥680mn in net sales and ¥16mn in operating profit after amortization of goodwill. Existing businesses excluding the SOFTEC factor work out to increases of 14% in net sales and 18% in operating profit.

Since sales increased 15.1% YoY in 4Q FY12/20 and the Company continues to accept orders selectively amid heavy flow of DX assistance inquiries from existing customers and new customers from January 2021 and plans to ramp up hiring and expand sales capacity further in FY12/21, FISCO thinks the initial plan is fairly conservative and expects upticks in earnings similar to the previous period.

FY12/21 consolidated results outlook

(unit: ¥mn)

	FY12/20		FY12/21		
	Result	Vs. net sales	Initial plan	Vs. net sales	YoY
Net sales	5,555	-	7,000	-	26.0%
Operating profit	478	8.6%	580	8.3%	21.2%
Ordinary profit	447	8.0%	530	7.6%	18.5%
Profit attributable to owners of parent	270	4.9%	341	4.9%	26.1%
EBITDA	527	9.5%	656	9.4%	24.3%
Net profit per share (¥)	66.47		82.97		

Note: EBITDA = operating profit + depreciation + amortization of goodwill
Source: Prepared by FISCO from the Company's financial results and financial briefing materials

The operating profit outlook factors in cost increases of ¥741mn in personnel expenses, ¥35mn in recruiting expenses, ¥449mn in outsourcing expenses, ¥24mn in amortization of goodwill, and ¥93mn in other expenses (including ¥43mn in education and training costs). These expenses will be offset by ¥1,444mn in increase of net sales.

In personnel expenses, the Company aims for a net increase of 100 employees annually in the Group by bolstering hiring. While the Company previously utilized Consultant Job to cover shortages in human resources, it has outlined a policy to proactively hire and train personnel given the Company's improved hiring capabilities along with improved name recognition and progress in building a foundation for training personnel. The Company also intends to continue proceeding with M&A deals that offer synergies.

At the segment level, professional services business targets are ¥6,750mn in net sales (+25.8% YoY) and ¥530mn in operating profit (+22.4%). This outlook assumes continued expansion of demand for digital transformation of management, including the spread of telework environments and new office formats in the post-COVID period as well. In particular, many of the Group's customers are actively promoting DX initiatives. The Company aims to expand earnings by utilizing the business foundation built up to now and promoting collaboration with not only Group subsidiaries but also IT companies that employ engineers. In February 2021, the Company announced a business alliance for initiatives to help improve corporate value utilizing the Loglass next-generation business management cloud with Loglass Inc, a provider of services that support business management DX using cloud technology. This alliance is expected to broaden solutions for promoting DX in customer back-office operations and contribute to increased orders.

Platform business targets are ¥300mn in net sales (+26.3% YoY) and ¥50mn in operating profit (+9.6%), reflecting full-fledged contributions from changes in the Assign Navi billing framework and steady growth in Consultant Job business. In the new CS Clip service, the Company is still in an investment phase and intends to continue development-related investments to bolster platform functionality while at the same time focus on acquiring more registered companies. The platform offers introductions of DX-related companies and access to reviews from users who have deployed systems and provides a matching service for companies considering DX investments and listed companies. According to the Company's plan, it aims to begin paid service in 2022 and achieve profitability in 2023.

Results outlook by segments

(unit: ¥mn)

	FY12/18	FY12/19	FY12/20	FY12/21 (E)
Net sales	2,989	3,790	5,555	7,000
Professional services business	2,855	3,667	5,367	6,750
Platform business	154	161	237	300
Adjustment value	20	38	48	50
Operating profit	270	307	478	580
Professional services business	259	311	432	530
Platform business	10	-4	45	50
Operating profit margin	9.0%	8.1%	8.6%	8.3%
Professional services business	9.1%	8.5%	8.1%	7.9%
Platform business	7.0%	-2.6%	19.2%	16.7%

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

Focus on personnel investments and expansion of the customer base, targeting ¥12,000mn in net sales and ¥1,800mn in operating profit in FY12/24

2. Medium-term management plan

(1) Overview of the medium-term management plan

The Company announced a medium-term management up to FY12/24 in which it declares its vision for FY12/24 to become the "best partner in the digital era." Since its founding, the Company has emphasized fostering organizational capabilities that enable customers to implement reforms on their own for the purpose of realizing DX in a digital era as the value provided by its services. As measures to achieve this goal, it assists customer reforms in a variety of areas from strategy consulting to IT and business design, utilization of digital technology, and engineering and facilitates network-like collaboration among these teams to realize provision of value in a timely manner as a comprehensive team. The Company seeks to support DX as a "best partner" and to grow along with its customers.

The plan's numerical goals are ¥12,000mn in net sales and ¥1,800mn in operating profit in FY12/24, working out to four-year average annual growth rate of 21.2% in net sales and 39.3% in operating profit, based on organic growth without M&A. Considering the continual strong market demand for digital transformation of management, a growth rate of over 20% annually seems attainable. The main issue is whether the Company is capable of hiring and training human resources to support the strong growth pace as anticipated. Nevertheless, even if hiring does not proceed as anticipated, FISCO believes the Company should be capable of attaining the goals through utilization of M&A and Consultant Job service as supplements.

Numerical goals

(unit: ¥mn)

	FY12/20 results	FY12/21 forecasts	FY12/23 targets	FY12/24 targets	CAGR (FY12/20 to FY12/24)
Net sales	5,555	7,000	10,000	12,000	21.2%
Operating profit	478	580	1,200	1,800	39.3%
Operating profit margin	8.6%	8.3%	12.0%	15.0%	

Source: Prepared by FISCO from the Company's financial results and medium-term management plan materials

(2) Priority measures

a) Human resources strategy

The Company aims to bolster hiring and training of human resources and promote knowledge collaboration within the Group as measures to continue future earnings growth.

In human resources, it aims for a net increase of 100 employees annually in the Group and is working to supplement possible shortages through M&A. On a parent basis, it hired about 40 people in 2020 and plans to increase hires to 70 people in 2021 (22 new graduates) and 100 people (40-50 new graduates) from 2022 onward. It is also steadily hiring people at equity-method affiliate FPT Consulting Japan (it hired 70 people as of January 2021), a joint venture established with FPT Japan Holdings in 2019, with a projection of 120-130 people in January 2022. These additions should expand project processing capabilities and contribute to equity-method investment income.

In training, the Company intends to reinforce the Group educational framework and on-site educational measures and promote enhancement of individual skills by ramping up human resource interaction among Group companies and creating opportunities to experience reform sites through on-the-job training from a variety of perspectives. It also plans to expand opportunities for career changes among consultants and engineers and increase human resources with consulting and engineering skills.

In knowledge collaboration, it seeks to bolster Group competitiveness by setting up specialty organizations to foster knowledge sharing in the Group, reorganizing knowledge, and redesigning the educational system.

b) Customer strategy

As a customer strategy, the Company aims to continue strengthening relationships with cutting-edge companies actively promoting DX and pursue expansion of sales areas and customer segments (local governments, small- and medium-sized businesses, etc.)

In expansion of sales areas, it intends to strengthen operations in Chubu (Shizuoka, Aichi) and Kansai (Osaka, Kyoto) and broaden area scope. Human resources in the Chubu area were bolstered by the acquisition of SOFTEC as a subsidiary. These areas have a concentration of manufacturing businesses, mainly centered around the automotive industry. The structure of industry, particularly within the automotive industry, is expected to change drastically in the future due to the shift from gasoline-powered vehicles to EVs and other eco-friendly vehicles. This environment should boost consulting needs for management DX and provide the Company with business opportunities.

The Company plans to deploy services not only within Japan but globally, particularly in Asia. While it stopped these efforts in FY12/20 due to the impact of the COVID-19 pandemic, they will resume after the COVID-19 situation settles down. The Company's strategy is to progress business development in Asia through its collaboration with FPT, which is Vietnam's largest ICT company. The FPT Group in Vietnam has approximately 35,000 engineers, and it is one of the leading IT companies in Asia, if excluding the major companies in China and India. It mainly focuses on dispatches of engineers, and around 50% of its customers are Japanese companies. The Company has set out a business strategy of developing in Asia the same business model as in Japan and expanding its businesses by combining FPT's development resources with the Company's consulting services. For the consultant unit price, in the manager class it is already the same level in Asia as in Japan (¥2.5mn to ¥3mn a month), so it seems it will be fully able to compete in terms of cost competitiveness.

c) Broadening customer segments

The Company previously focused on large companies and their group companies as customers, but plans to broaden the scope of customer segments to further boost corporate scale. Specifically, it intends to formulate strategies for projects that involve collaboration between industry and academia, provide consulting services, and actively offer services to local governments and small- and medium-sized businesses. In local government business, it has started accumulating some results, such as an order for management and operations of AI/IoT demonstration platform business (new normal proposal) as a consignment business from Hiroshima Prefecture in December 2020 at its subsidiary WAKUTO. DX-related initiatives are likely to pick up at local governments, which offers the Company a good opportunity to expand business on its own or through collaboration with major SIers and others.

d) Group management

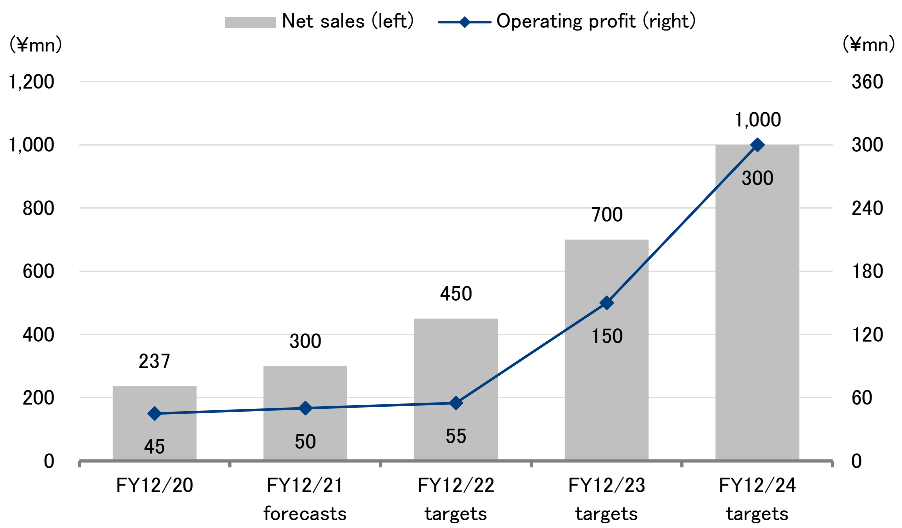
The Company is promoting improved value and streamlining in its various businesses by strengthening group management. It continues to optimize sales personnel, raise unit pricing, and broaden assistance themes through customer development and acquisition of projects utilizing Group company assets. It plans to enhance Group profitability by increasing project delivery across the Group and promoting value provision as a comprehensive team.

Furthermore, the Company aims to enhance functionality and optimize costs by establishing shared management functions for Group companies. To accomplish this, it will move the office and consolidate group companies in 1H FY12/22. This initiative seeks to improve productivity by sharing the Group IT foundation and establishing a new workstyle.

e) Platform business

For the platform business, the Company positions the period through FY12/22 as the investment phase and expects to shift to a phase of gradual profit increase and contributions to profitability gains from FY12/23 as development investments and other outlays ease. Through expansion of this business, it should become capable of providing references for M&A candidates utilizing the membership base and various data, in addition to “provision of freelance consultants” and “provision of information on talented IT and DX companies” to the professional services business, and thereby enhance business synergies.

Platform business – results targets



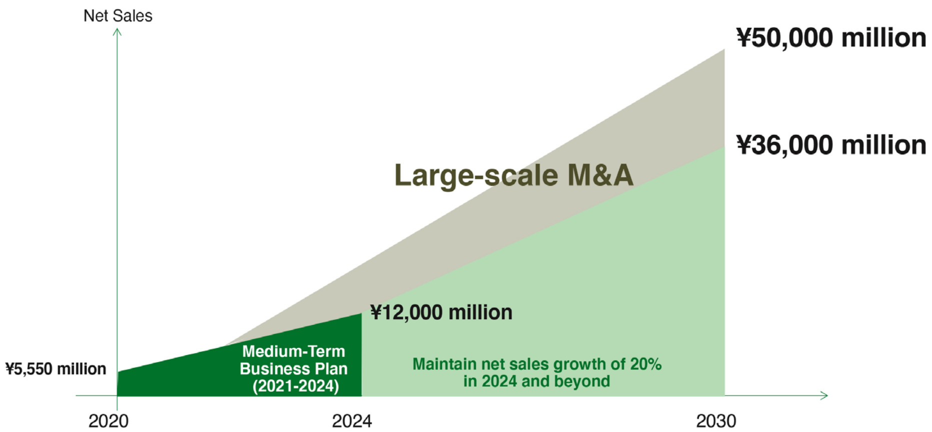
Source: Prepared by FISCO from medium-term management plan materials

(3) Long-term goals

The Company is reviewing growth investments for achieving long-term goals while securely implementing the medium-term management plan. Aside from the goal of ¥36bn in FY12/30 net sales via organic growth, it has also presented a goal of raising sales to ¥50bn through large M&A deals. The latter currently envisions unlisted companies with a few hundred system engineers and M&A financing with borrowings from financial institutions.

Looking at the scale of the consulting market by country, it is worth ¥10tn in the US and ¥1tn in Germany, but only ¥400bn in Japan. It is said that the main factor behind has to do with the fact the Europe and the US have job-type employment, whereas Japan has membership-type employment. Job-type employment is an approach of allocating people according to the work. The aim of companies in Europe and the US is to create businesses with high growth opportunities while utilizing consulting companies, or to grow while utilizing M&A. On the other hand, membership-type employment is an approach of recruiting the people in advance and then allocating the work, and it is adopted by many Japanese companies that are premised on a lifetime employment system. Problems with membership-type employment are that it is difficult to carry out bold management reforms if there are surplus personnel, and that it takes time. Therefore, the awareness that consulting services are one part of growth investment is weak in Japan, which is a factor behind its market scale being small compared to in Europe and the US. However, the COVID-19 pandemic has once again highlighted the problems with membership-type employment, and the situation is that it has been re-recognized that implementing DX for management is absolutely essential in order to solve these problems. Recently the number of large companies promoting “job-type employment” initiatives has started rising, and the environment in the domestic consulting market is changing. FISCO expects tailwinds for the Company over the longer term and continuation of high earnings growth.

Measures aimed at further growth



Source: The Company’s medium-term management plan materials

Shareholder return policy

Priority on investments in business growth aimed at becoming a company assessed by the Prime market

The Company is currently in the process of growth, so it intends to prioritize growth investing toward expansion and optimization of its business while aiming to supplement internal reserves and stabilize the management base. Therefore, it has disclosed a policy of not paying dividends in principle until profits grow to a certain level and enter a stable growth trajectory. Instead, it is pursuing a policy of boosting enterprise value through expansion of corporate scale, improvement in profitability, and earnings growth via proactive investments in growth areas. Furthermore, it aims to maximize shareholder profits by raising total yield * from the standpoint of balancing strategic growth investments and shareholder return. Nevertheless, if the Company expands to the level of income goals in the medium-term management plan of "¥12,000mn in consolidated net sales and ¥1,800mn in consolidated operating profit in 2024" and stabilizes growth, it might start paying dividends.

* Shareholder total yield = (Dividend per share + increase in the share price)/initial share price

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