

Scala, Inc.

4845

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Summary

Major increases in sales and profits on making Softbrain a subsidiary, while existing businesses are also heading toward regrowth from FY6/18 following the launches of new services

Scala, Inc. <4845> (hereafter, also “the Company”), is a leading provider of website search, FAQ service, and other services for corporate websites. It provides a wide range of services using the latest technologies related to the Internet of Things (IoT) and Big Data, mainly a SaaS/ASP service* that is a business model with recurring income. It leverages contacts with customers from direct sales to reflect their needs in development activities and has steadily expanded its service line-up to achieve steady growth. It also actively uses M&A to expand its business area and purchased the shares of Softbrain Co., Ltd. <4779>, a major supplier of sales assistance software, in July 2016 and made it a consolidated subsidiary (it held 50.23% of voting rights as of March 2, 2017). From FY6/16, the Company adopted IFRS accounting, which is being promoted by the Tokyo Stock Exchange (TSE).

* Service that supplies application software functionality to customers over a network

1. Sales and profits greatly increased in the FY6/17 1H results on Softbrain being made a subsidiary

In the FY6/17 1H (July to December 2016) consolidated results, sales revenue increased 316.8% year on year (YoY) to ¥5,286mn and operating profit rose 1,021.3% to ¥3,391mn. Sales and profits each increased significantly due to the consolidation of Softbrain and the recording of a gain of ¥2,633mn relating to the staged acquisition of Softbrain shares. Operating profit according to non-GAAP standards, which excludes temporary profits to more accurately express the actual situation, increased 143.1% to ¥735mn. Results slumped in the SaaS/ASP business, an existing business, and operating profit declined 53.7% due to factors including the focus on developing new services that are expected to be much profitable in the future, the increase in personnel costs, and the higher rent following the relocation of the Head Office in the previous fiscal period. However, the earnings from Softbrain contributed to results.

2. Will launch new services and existing businesses' results will improve from the current 2H onwards

For FY6/17, the Company has upwardly revised its initial forecasts, to sales revenue to increase 297.2% YoY to ¥10,700mn and operating profit to rise 564.6% to ¥4,100mn, mainly because Softbrain's earnings have been trending positively above initial expectations. Results in existing businesses trended somewhat weakly up to Q2, but earnings are expected to improve from 2H onwards following the launches of new services. In new services, the Company has developed “i-livechat,” which is a Web chat system for which demand for call centers is expected. Already there have been many inquiries for it, including that a leading credit card company will introduce it in April 2017. In addition, it is progressing the development of “i-assist,” which is an automated response system using a language processing engine originally developed by the Company, which it is aiming to launch around the summer of 2017. Both are expected to grow in the future as customer assistance-related services that will help to improve productivity.

Summary

3. Continuing a growth strategy using M&A and business alliances

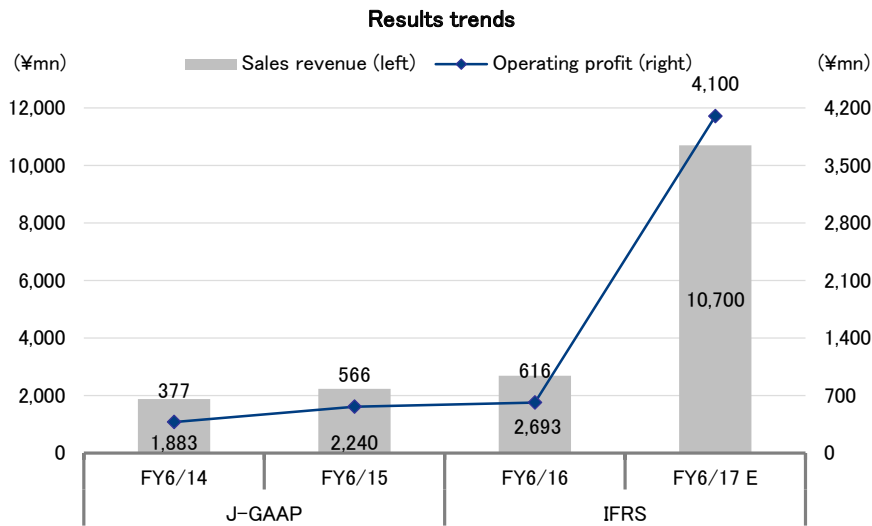
The Company's policy is to continue to pursue a growth strategy of expanding its business area in the future through M&A and business alliances, in addition to expanding its existing businesses. It is considering entering-into the robot, EC, and AI fields as new fields. In the FY6/18 results, profits are forecast to decline based on IFRS on the end of a temporary profit factor, but if based on non-GAAP standards, at FISCO we think that sales and profits will continue to increase from the expansion in the results of the SaaS/ASP business following the launches of new services, and the higher earnings from Softbrain.

4. Will continue to increase dividends, assuming earnings growth

The Company's basic dividend policy is to stably and continuously pay dividends while retaining the internal reserves necessary to strengthen its financial structure and to develop its businesses in the future. In FY6/17, it plays to pay a dividend per share of ¥18, up ¥4 YoY, for the eighth consecutive fiscal year of higher dividends. It is also considered that it will continue to increase the dividend in the future alongside the growth in earnings.

Key Points

- The corporate Cloud service is its core business and it is expanding business scale through an M&A strategy
- Set to greatly improve record highs in the FY6/17 consolidated results, while the SaaS/ASP business results will also improve from 2H onwards
- In FY6/17, it plays to pay a dividend per share of ¥18, up ¥4 YoY, for the eighth consecutive fiscal year of higher dividends



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

■ Company profile

The corporate Cloud service is its core business and it is expanding business scale through an M&A strategy

1. History

Current Representative Director and Chairman Kenzo Tamura and Director Hideki Shimazu founded the Company in December 1991 with an initial start as a sales distributor of database systems. It realized significant growth in 1999 by inheriting support services, including customers, for the Model 204* mainframe database management system license from Mitsui Knowledge Industry Co., Ltd. In May 2001, it was listed on the Osaka Securities Exchange's NASDAQ Japan market (now TSE's JASDAQ; it is currently listed on the TSE First Section).

* DBMS from US-based Computer Corporation of America and Sirius Software (now, Rocket Software), whose major customers in Japan have included Bank of Japan <8301> and Tokyo Electric Power Company Holdings, Incorporated <9501>.

The Company determined that it needed to change its business structure to continue growth amid migration by corporate information systems from mainframes to small-scale open servers, and it started acquiring information service firms through M&As utilizing funds obtained from the IPO. It began with the purchase of PatentManager, a patent management software business from Interscience in 2003, and then acquired dbecs software with the aim of entering the CRM field, Bodamedia with the goal of entering the interactive voice response (IVR) field, the news distribution service provider NewsWatch, the website developer TriAx Corp., and others as subsidiaries. The Company is steadily expanding its SaaS/ASP business as its core operations and bolstering its recruitment of system engineers to enhance its own service development capabilities. More recently, in July 2016 it acquired a 45.57% stake in Softbrain, a leading supplier of sales assistance software (as of March 2, 2017, it owned 50.23% of its voting rights) made it a consolidated subsidiary under IFRS.

The Company switched to a holding company organization in 2004 to conduct more flexible management. In December 2016, it changed its trade name from Fusion Partners Co. to Scala Inc. to strengthen its brand power, and at the same time the consolidated subsidiary Digi-Ana Communications Inc., became Scala Communications Inc. Also, in October 2016, it unified the trade names of its subsidiaries (except for the Softbrain Group), including the newly established Scala Services Inc., which is responsible for the Solutions Business. The Company currently has 7 consolidated subsidiaries, including the Softbrain Group (5 companies).

Company profile

History

Date	Major event
February 1987	Digital Communications was established
December 1991	Trade name changed to Database Communications
January 1999	Formed sales distribution contracts for the Japanese market with US-based Computer Corporation of America and Sirius (now, Rocket Software) and started Model 204 support
May 2001	Listed on the Osaka Securities Exchange's NASDAQ Japan market (now, Tokyo Stock Exchange JASDAQ (Standard))
April 2003	Acquired Interscience's patent management software with the aim of entering the intellectual property system field
October 2003	Acquired dbecs as a subsidiary to enter the CRM market
April 2004	Acquired Bodamedia as a subsidiary with the aim of entering the IVR (interactive voice response) field
September 2004	Renamed as Fusion Partners Co. in the transition to a holding company structure and established Database Communications as a new company and transferred its business
June 2006	Merged subsidiaries Bodamedia and dbecs and changed the company name to Digi-Ana Communications Inc.
November 2010	Acquired NewsWatch as a subsidiary
April 2012	Merged subsidiaries Digi-Ana Communications and NewsWatch
May 2014	Listing transferred to the TSE Second Section
December 2014	Listing transferred to the TSE First Section
November 2015	Acquired TriAx Corp. as a subsidiary
January 2016	Renamed subsidiary Database Communications as PAREL, Inc.
July 2016	Acquired Softbrain Co., Ltd. as a subsidiary
October 2016	Established Scala Services Inc. as a subsidiary
December 2016	Changed trade name to Scala Inc.
December 2016	Merged the subsidiaries Digi-Ana Communications and TriAx Corp. and changed the trade name to Scala Communications Inc.

Source: Prepared by FISCO from securities reports

Has the leading shares in the domestic market, including for “i-search,” a website internal search service, and “i-ask,” a FAQ service

2. Business description

The Company's mainstay businesses can be broadly divided into its existing businesses of SaaS/ASP services, which enhance convenience for visitors to corporate websites, and the Softbrain Group's businesses (e-Sales Manager related business, field marketing business, and other businesses).

(1) The SaaS/ASP business

The Company provides SaaS/ASP services as its core businesses. The main services are the i-search website search service, the i-ask FAQ service, the interactive voice response (IVR) service, and the news distribution service for websites.

It launched the i-search service in 2007 and it currently holds the leading market share at around 15% with more than 360 customers, particularly large enterprises. While the Company has over 10 competitors, its i-search service is able to improve visibility by displaying images in search results and provides effective guidance to users. The average usage fee per month is ¥100,000 to ¥150,000.

The Company launched the i-ask service in around 2008 and it is used by about 160 companies, mainly in the financial and insurance industries. This service lets users resolve issues on their own by listing frequently asked questions and related answers on their corporate sites. It helps to lower costs by reducing accesses to call centers and can also improve customer satisfaction. The Company holds a roughly 15% market share, ranked second after OKWAVE <3808>. The average usage fee per month is ¥200,000 to ¥300,000.

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

Company profile

IVR is a system for voice-based automated responses at corporate phone help desks, and the Company's service stands out for being provided in the SaaS format. Companies previously incurred large investment costs for IVR, including the need to install a PBX system. However, the SaaS format enables them to access the service inexpensively and to use it during limited periods, such as campaigns.

Besides SaaS/ASP services, the Company offers a news distribution service for companies, and planning, development, production, and maintenance and operation services for websites that meet customer needs. It has an extensive line-up of services and does not rely on a specific service area.

Service content

Type	Product name	Description
Site assistance service	i-search	Site internal search engine
	i-linkcheck	Link-loss detection system
	i-print	Site print service
	i-linkplus	Related link display service
	i-pediaplus	Online encyclopedia provision service
CMS service	i-ask	FAQ system
	i-catalog	Product site management system
	i-learning	e-learning service
	i-flow	Progress management and approval system
CRM service	LaCoon	Web system building platform
	i-entry	Comprehensive questionnaire CRM service
Telephone-system service	dbecs	Shared email management service
News distribution service	SaaS-type IVR	24-hour, 365-day automated voice response service
Intellectual property management solutions	Corporate news service	Service to delivery user-specified business information
Site operations business	PatentManager6	Latest patent management system
Other Web services	Fresheye	Search portal site
	-	Developed individually

Source: Prepared by FISCO from the Company's materials

(2) The Softbrain Group's businesses

The Softbrain Group's businesses can be divided into the e-Sales Manager related business, the field marketing business, and other businesses. The e-Sales Manager related business is mainly the development and sales of "e-Sales Manager," which is sales-assistance software, but also includes a consulting service to solve sales issues, skills training, and a service to support the introduction of smart devices into companies.

The customers in the field marketing business are mainly consumer goods manufacturers, and it involves conducting field activities, market research, and other activities in stores utilizing registered staff, who are mainly housewives aged in their 30s to 50s. The Company has approximately 63,000 registered staff nationwide who cover more than 120,000 stores, and it is deploying this business on the largest scale within Japan. It is also developing businesses for the dispatch and referral of representatives who conduct field activities.

Other businesses include a systems development business and a publishing business.

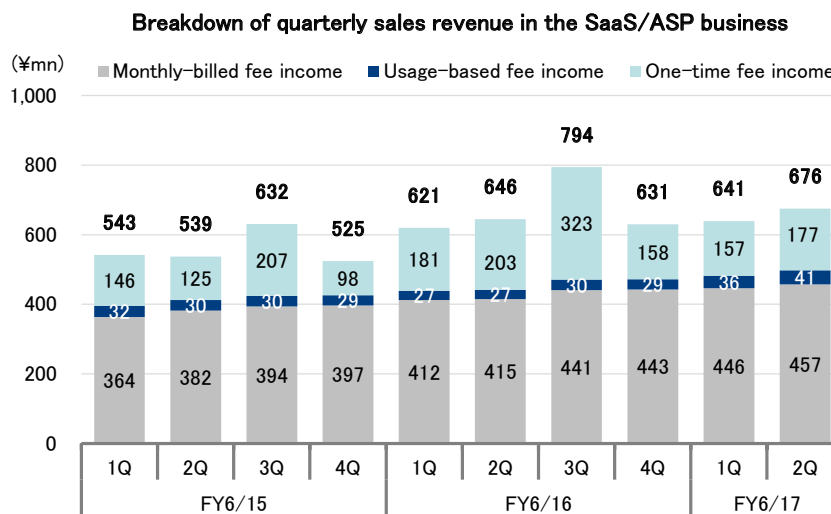
Aims to differentiate itself from competitors by increasing convenience through developments from the customer’s perspective and providing a rich service menu

3. The Company’s strengths

One of the Company’s strengths in the SaaS/ASP business is that it develops services from the customer’s perspective. It handles most its business as direct sales and 80% of sales revenue is from direct salesforces. It improves service functions and develops new services by listening closely to customer needs and feeding this information back to its development team, and its development policy is to meet 100% of customer requests. The Company developed its core i-search and i-ask services thanks to this approach of meeting customer requests and its services are characterized specially by their ease-of-use, and this has also enabled it to make smooth progress in rolling-out sales to other customers.

Another strength is that its extensive line-up of services developed in this manner differentiates it from its competitors. While many competitors offer SaaS/ASP services for corporate websites, most of these companies only supply standalone services and few can provide multiple services as the Company does. The ability to propose multiple services as a package enables it to meet diverse customer needs, and this helps to raise the average price per customer and customer satisfaction. Another characteristic is that it develops services tailored to individual customers, and its horizontal rollout of services that it develops based on customer requirements as general services contributes to lower development costs. The gross profit margin of each service is stood out at the high level of around 80% (it is lower in the news distribution service, at around 70%, due to the costs to purchase content).

The Company generates about 70% of its sales revenue as monthly income from SaaS/ASP services, and it has built a stable income base of recurring income. It strives to provide these services at fixed monthly rates and to avoid usage-based billing as much as possible. It obtains one-time sales from website development and other individual development projects, and opportunities for orders on large development projects have been growing alongside the increasing awareness of the Company’s robust development and customer support capabilities.



*IFRS from FY6/16

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

Results trends

Significant increases in sales and profits in FY6/17 1H following the consolidation of Softbrain

1. Summary of the FY6/17 1H results

In the FY6/17 1H consolidated results (based on IFRS), both sales and profits grew significantly, with sales revenue increasing 316.8% YoY to ¥5,286mn, operating profit rising 1,021.3% to ¥3,391mn, pretax profit climbing 939.2% to ¥3,388mn, and net income attributable to the owners of the parent increasing 1,195.0% to ¥2,921mn. In addition to the consolidation of Softbrain in this fiscal period, the main factor behind the improved results was the recording in operating profit of a gain* of ¥2,633mn relating to the staged acquisition of Softbrain shares. Both sales and profits exceeded their initial forecasts, which was mainly due to the better-than-expected results at Softbrain.

* The gain on the difference between the market value of the relevant subsidiary at the time it entered the scope of consolidation and the acquisition cost of the shares

Looking at the results according to non-GAAP standards that exclude temporary profits, operating profit increased 143.1% YoY to ¥735mn, pretax profit rose 124.6% to ¥732mn, and net income attributable to the owners of the parent grew 20.7% to ¥272mn. There is a gap between the rates of increase of pretax profit and net income, which is due to the deduction of ¥226mn as Softbrain's net income attributable to non-controlling interests (same when based on IFRS). The amounts that Softbrain's results increased the consolidated results were sales revenue by ¥3,969mn and operating profit by ¥618mn.

FY6/17 1H results (consolidated)

	FY6/16 1H		Company target (IFRS)	FY6/17 1H				
	Result (IFRS)	Ratio to sales		Result (IFRS)	YoY	vs target	Result (Non-GAAP)	YoY
Sales revenue	1,268	-	5,000	5,286	+316.8%	+5.7%	5,286	+316.8%
Operating profit	302	23.8%	2,900	3,391	+1021.3%	+17.0%	735	+143.1%
Pretax profit	326	25.7%	2,900	3,388	+939.2%	+16.9%	732	+124.6%
Net income	225	17.8%	2,600	2,921	+1195.0%	+12.4%	272	+20.7%

Note: Net income (net income attributable to the owners of the parent)
 Source: Prepared by FISCO from the Company's financial results

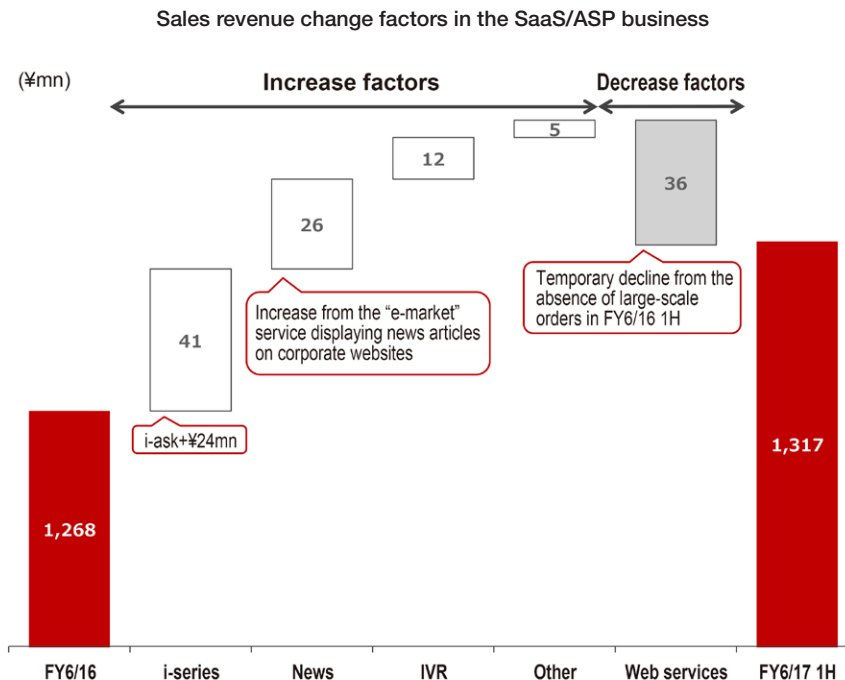
Profits declined temporarily in the SaaS/ASP business as a reaction to the recording of large-scale orders in the previous fiscal year and an increase in SG&A expenses

2. Trends by business segment

(1) The SaaS/ASP business

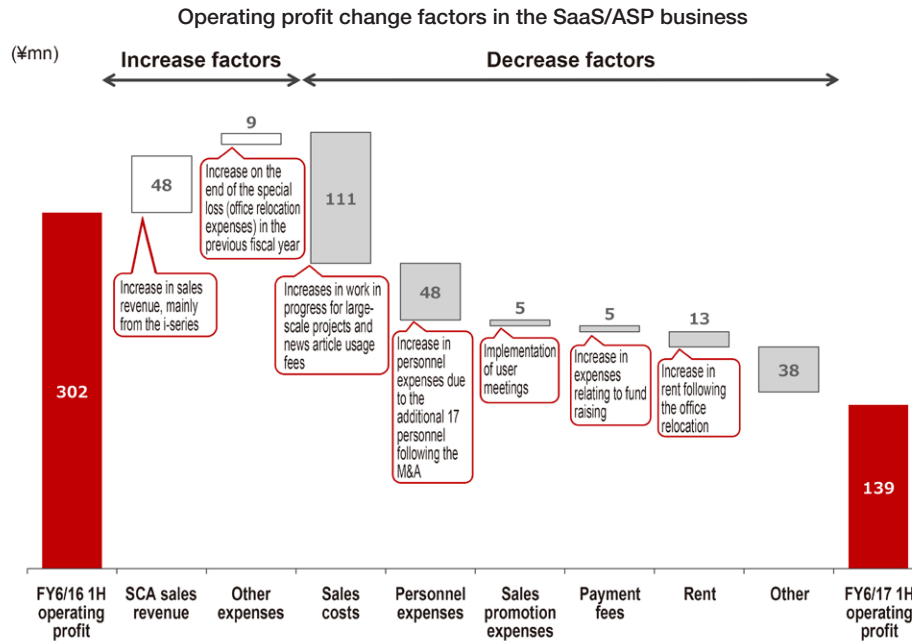
Sales increased but profits decreased in this business, with sales revenue rising 3.8% YoY to ¥1,317mn, but segment income falling 53.7% to ¥139mn.

Looking at the factors causing sales revenue to change, sales increased ¥41mn YoY from the “i-series,” particularly from i-search and i-ask, ¥26mn from the news distribution service, ¥12mn from IVR, and ¥5mn from others, but declined ¥36mn from Web services. The main reasons for the higher sales were the steady progress made in developing new customers for the i-series, and in the news distribution service, from the increase in contracts for the “e-market” service that has a high unit price. Conversely, Web service sales declined as the reaction to the recording of multiple large-scale projects in the same period in the previous fiscal year. The initial forecast was for sales revenue of ¥1,400mn, but the Company put on hold activities to acquire orders for individual development projects for Web services to focus on the development of the new i-series-related services, which is why the result was below the forecast. Also, looking at sales revenue by type, monthly-billed stock revenue increased steadily by 9% to ¥903mn and usage-based sales revenue rose 43% to ¥77mn, but one-time sales revenue declined 13% to ¥334mn.



Results trends

Looking at the factors causing operating profit to change, it increased by ¥48mn from the higher sales revenue and by ¥9mn from the end of the special loss posted in the previous fiscal period (office relocation costs), but declined by ¥111mn due to the increases in work in progress for large-scale projects and news article usage fees, by ¥48mn from the rise in personnel expenses following the M&A conducted in 2H in the previous fiscal year, by ¥13mn from the increase in rent on the relocation of the head office in the previous fiscal year, and by ¥48mn due to higher promotions expenses, payment fees, and other expenses.



*Figures are based on non-GAAP
 Source: Prepared by FISCO from the Company's results briefing materials

(2) The e-Sales Manager related business

In this business, sales revenue was ¥1,919mn and segment income was ¥456mn. Sales of “e-sales manager,” which is a tool that contributes to improved productivity in sales departments, are steadily increasing. In addition, orders rose for consulting services and skills training that maximize the effects for the companies introducing this tool, and sales and profits are continuing to rise in this business.

(3) The field marketing business

In this business, sales revenue was ¥1,628mn and segment income was ¥151mn. Within the continuing trend for the outsourcing of field activities at stores by consumer goods manufacturers, the Company is leveraging its strength of business deployment on a nationwide scale to acquire orders from major companies, and this business is steadily expanding.

(4) Other businesses

In other businesses, sales revenue was ¥420mn and segment income was ¥10mn. Sales revenue in the systems development business was ¥288mn from the thorough efforts to deepen sales and manage projects at existing customers. In addition, sales revenue in the publishing business was ¥132mn.

Is maintaining financial soundness even on the increase in total assets following the consolidation of Softbrain

3. Financial condition and business indicators

Looking at the financial condition at the end of December 2016, total assets were up ¥6,390mn on the end of the previous fiscal year to ¥16,024mn, which was mainly due to the consolidation of Softbrain. In current assets, cash and deposits increased ¥1,362mn, while business receivables and other receivables rose ¥1,464mn. In non-current assets, goodwill increased ¥5,569mn following the consolidation of Softbrain, but investment accounted for under the equity method declined ¥2,800mn on the sale of shares in Azia <2352>.

Liabilities were up ¥1,566mn on the end of the previous fiscal year to ¥7,287mn, mainly because the ¥2,055mn increase in interest-bearing debt exceeded the ¥635mn decrease in business liabilities and other liabilities. Equity rose ¥4,823mn to ¥8,736mn, with the main change factors being an increase of ¥2,921mn from the recording of net income attributable to the owners of the parent, and also that non-controlling interest income rose ¥2,006mn.

Looking at the business indicators, we see that even though interest-bearing debt rose, due to the increase in shareholders' equity of ¥2,816mn on the end of the previous fiscal year because of the M&A, the equity ratio improved from 40.6% to 42.0% and the interest-bearing debt ratio also improved from 84.3% to 79.6%, and the Company's financial position can be judged to be sound. However, goodwill (¥6,108mn) constitutes approximately 38% of total assets, most of which is from Softbrain, so it is necessary to be aware that should Softbrain's revenue deteriorate in the future, there is a risk that the financial structure will deteriorate due to it declaring impairment. The Company has indicated that it will gradually reduce interest-bearing debt in the future.

Consolidated balance sheet

	(¥mn)			
	FY6/15	FY6/16	FY6/17 2Q	Change
Current assets	1,843	5,470	8,500	+3,029
(Cash and deposits)	1,430	5,060	6,422	+1,362
Non-current assets	1,686	4,163	7,524	+3,360
Total assets	3,529	9,633	16,024	+6,390
Current liabilities	1,513	5,684	3,152	-2,531
Non-current liabilities	20	36	4,135	+4,098
(Interest-bearing debt)	350	3,300	5,355	+2,055
Total liabilities	1,534	5,720	7,287	+1,566
Total equity	1,994	3,913	8,736	+4,823
Business indicators				
Equity ratio (shareholders' equity ÷ total assets)	56.5%	40.6%	42.0%	
Interest-bearing debt ratio (interest-bearing debt ÷ shareholders' equity)	17.5%	84.3%	79.6%	

Note: Based on IFRS

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

■ Outlook for the future

Expects to achieve significantly improved record highs in the FY6/17 consolidated results, with SaaS/ASP business results to also improve from 2H onwards

1. Outlook for the FY6/17 results

The outlook for the FY6/17 consolidated results is for sales revenue to increase 297.2% YoY to ¥10,700mn, operating profit to rise 564.6% to ¥4,100mn, pretax profit to grow 242.8% to ¥4,100mn, and net income attributable to the owners of the parent to increase 282.7% to ¥3,180mn. Compared to the initial forecasts, the forecasts have been upwardly revised by ¥500mn for sales revenue and by ¥400mn for operating profit, which is mainly because Softbrain results are trending at a better-than-expected level. If based on non-GAAP standards, the forecasts are for operating profit to increase 159.4% to ¥1,600mn, pretax profit to rise 139.5% to ¥1,600mn, and net income attributable to the owners of the parent to climb 57.3% to ¥730mn.

On excluding the forecasts for Softbrain's results in the same period, the outlook is for higher sales but lower profits, of sales revenue of ¥2,824mn and operating profit of ¥574mn. The main decrease factors will be the decline in large-scale development projects, the change in the sales composition ratio (an increase in the ratio of sales from the news distribution service), and higher personnel expenses and rent. Compared to 1H, in 2H no new additional expenses will be incurred and sales revenue is set to increase, mainly from monthly-billed stock revenue, and if looking only at 2H, the outlook is also for profits to increase YoY. It is considered that there will be no change to the current trend in Softbrain's results and they will continue to be steady.

Outlook for the FY6/17 consolidated results

	FY6/16 results		FY6/17 forecasts			Softbrain forecasts for the same period	(¥mn)
	IFRS	Non-GAAP	IFRS	YoY	Non-GAAP		YoY
Sales revenue	2,693	2,693	10,700	297.2%	10,700	297.2%	7,876
Operating profit	616	616	4,100	564.6%	1,600	159.4%	1,026
Pretax profit	1,196	668	4,100	242.8%	1,600	139.5%	1,028
Net income	830	464	3,180	282.7%	730	57.3%	665

Note: The net income (net income attributable to the owners of the parent); forecast is the Company's forecast

Note: The Softbrain forecasts are the totals of the FY12/16 2H results and the FY12/17 1H forecasts

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

Is steadily developing two new services, i-livechat and i-assist

2. New services

The Company is focusing on developing new services to increase monthly-billed stock revenue. In October 2016, it started to develop two services, the Web chat system i-livechat and the virtual assistance service i-assist. Demand is expected for both as services that will improve productivity in companies' CRM departments, such as call centers, and lead to higher levels of customer satisfaction for services.

(1) The Web chat service i-livechat

i-livechat is a service that enables the operator, such as in a customer support center, to guide the user to solve the problem he or she is facing through a real-time chat on their question or concern. By linking i-search and i-ask it also becomes possible for the operator to respond while confirming the user's contents on the chat-response screen. There have been many inquiries for this service and a major credit card company has already decided to introduce it in April 2017, and the number of contracts is expected to increase in the future. It is anticipated that it will be mainly introduced into call centers, with the minimum monthly-billed usage fee expected to be from ¥150,000 to ¥200,000.

In terms of other Web chat systems, U.S. Zendesk's "Zopim Chat" has already been introduced by more than 40,000 companies worldwide (it was launched in Japan in 2012). Within Japan, "Chamo" from Chamo Co., Ltd has been introduced by more than 2,000 companies, so the Company is a latecomer. But at FISCO, we think that there is sufficient room for it to expand its market share, as in addition to being able to link i-search, i-ask, and other services, the Company is making progressing in enhancing functions that offer high levels of convenience.

(2) The virtual assistance service i-assist

i-assist is a customer-assistance service that uses the language processing engine developed originally by the Company to understand the content of text-based inquiries from users and provide automated text-based responses. Features of its functions include a site concierge function that determines the page that the user is currently viewing and guides him or her to related pages, and a function to analyze the Web content of customer companies and automatically collect words for which assistance can be provided. It also has a dictionary function that enables an expansion in the words that can be responded to.

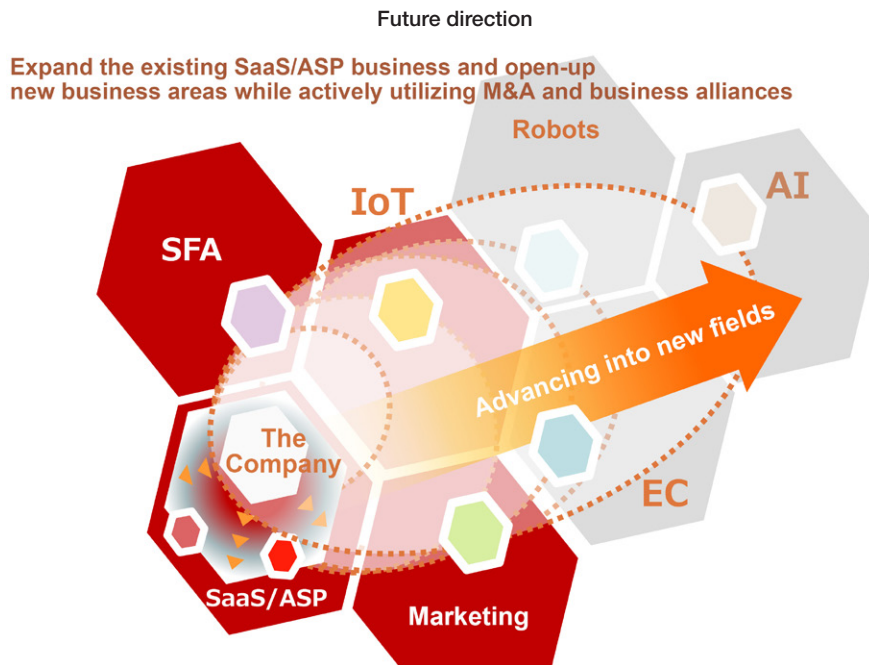
For the companies introducing it, this service will automatically respond to inquiries from users, which will not only lead to cost reductions at call centers and for Web staff, but will also contribute to improving levels of customer satisfaction because their inquiries will be responded promptly. A similar service is being provided by several other companies within Japan, including Oracle Corporation Japan <4716>, but there are customers strongly calling for a service that is highly convenient, and based on the voices of these customers, the Company is presently developing a service that is easier to use. At the current time, it has received inquiries from dozens of companies and it can expect annual sales in the region of tens of millions of yen, as the monthly-billed usage fees will be from ¥200,000 to ¥300,000. It seems that the Company will launch the service in the summer of 2017 at the earliest, so it can be expected to contribute to results from FY6/18 onwards.

■ The medium- to long-term growth strategy

Is aiming for further growth by expanding existing businesses while opening-up new business areas

1. The growth strategy

As its medium- to long-term growth strategy, the Company is aiming to realize further growth by stably growing its existing SaaS/ASP business (Cloud service), and moreover based on this service, to open-up new business areas that facilitate communication between people and between companies (including the areas of robots, EC, and AI), while actively utilizing M&A and business alliances.



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

The medium- to long-term growth strategy

The targets for the M&A and business alliances can be summarized into the following four types of companies. The first type are companies with the expertise and technologies to develop new services, the second type are companies with a customer base that will lead to expansions in market share for the Company's existing services, the third type are companies that will enhance its service lineup and that have expertise and technologies it does not possess and so will contribute to the evolution of its existing services and improved competitiveness, and the fourth type are companies with many excellent engineers who will strengthen its development capabilities.

With regards to existing Cloud services also, the Company is aiming to realize steady upward growth by using its mainstay services, such as i-search, i-ask, and "IVR," for which it is building the leading market shares in the industry, to play a hook role and then raise the unit price per customer by adding other services, while also developing new customers.

There is also expected to be new demand for Web services using IoT solutions, for which there are many customized development projects. The Company is utilizing the expertise acquired since 2015 from providing Smiling Road, which is a safe driving assistance service for Sompo Japan Nipponkoa Insurance Inc., and from the development and operation of the Portable Smiling Road service, which is a smartphone app. For Sompo Japan Nipponkoa Insurance, the plan is to release a product within 2017 that measures the driver's driving skills and then discounts insurance premiums for those policyholders that drive safely, and it expects to acquire orders for this system's development. Management and operations services using IoT solutions can be developed for various uses, and it is thought that the Company is also aiming to acquire new orders in this area. For example, demand for fire insurance products is expected from the insurance industry.

The outlook for the SaaS/ASP business in FY6/17 is for a temporary decline in profits because of factors including the decline in sales as a reaction to the large-scale Web service development projects recorded in the previous fiscal year, and increases in personnel expenses and rent. However, this business is forecast to once again achieve increasing sales and profits in FY6/18 from the fully-fledged launches of new services, of i-livechat and i-assist, and also the expected contribution of the new development projects in Web services.

The outlook for the FY6/18 consolidated results is for profits to decline on an IFRS basis following the end of the gain of ¥2,633mn from the staged acquisition of Softbrain shares, but for the higher sales and profits to continue if based on non-GAAP standards.

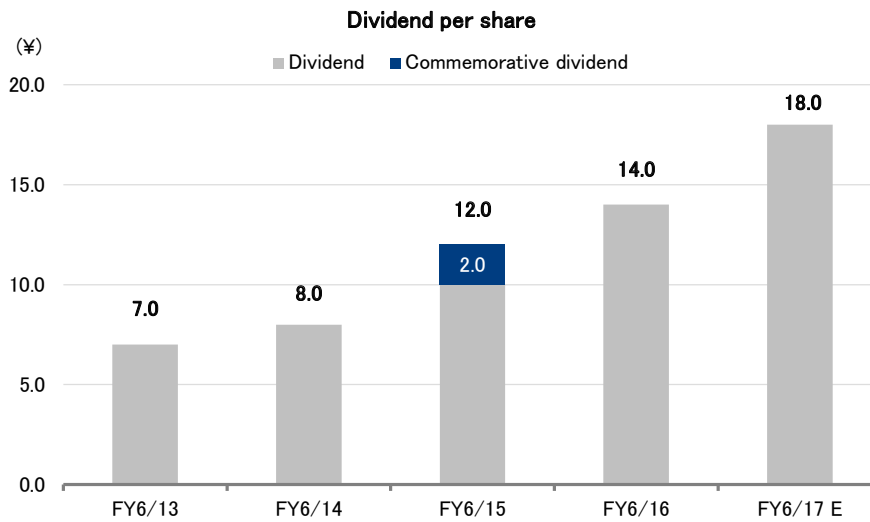
2. Relations with Softbrain

On March 14, 2017, the Company announced that it had withdrawn the two shareholder proposals it had submitted to Softbrain (one on the nomination of directors and corporate auditors, and another on the disposal of the surplus). The background to this is that within the discussions between the two companies on improving the enterprise value of Softbrain, Softbrain proposed that in the event of implementing a capital policy that would reduce the Company's holding ratio of Softbrain shares, it would give the Company the opportunity to maintain its shareholding ratio with the same conditions, and also, in terms of the plan to dispose of the surplus at Softbrain for FY12/16, in addition to proposing a dividend of ¥5.0 per share, from FY12/17 onwards it offered to continuously pay dividends with a targeted payout ratio of 30%, as long as it had no special requirements for funds. Based on these proposed plans, the Company decided not to submit any new shareholder proposals to Softbrain when these plans are realized to secure the conditions in which it can conduct stable management that will contribute to improving its enterprise value over the medium- to long-term.

Shareholder return policy

Plans to increase the FY6/17 dividend per share by ¥4 YoY to ¥18, and its policy is to continuously increase dividends

The Company's basic policy on returning profits to shareholders is to stably and continuously pay a dividend while also retaining the internal reserves necessary to strengthen its financial structure and to develop its businesses in the future. In FY6/17, it plans to increase the dividend per share by ¥4 YoY to ¥18, for the eighth consecutive fiscal year of higher dividends. It has also indicated its intention to continuously increase dividends from FY6/18 onwards, if profits continue to grow.



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



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