



President Akinori Saito

NEOJAPAN Inc. (3921)



Company Information

Market	TSE 1st Section
Industry	Information and communications technology
President	Akinori Saito
HQ Address	Yokohama Landmark Tower, 2-2-1 Minatomirai, Nishi-ku, Yokohama-shi
Year-end	End of January
Homepage	https://www.neo.co.jp/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
1,025	14,841,600 shares		15,212 million	11.7%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
6.50	0.6%	27.02	37.9 x	231.48	4.4 x

*The share price is the closing price on October 4. The number of shares issued, DPS and EPS are values from the financial report of the 2Q of FY 1/20. ROE and BPS are based on previous term's results.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Jan. 2016 Act.	1,904	366	386	246	19.95	2.00
Jan. 2017 Act.	2,116	391	428	296	20.64	2.13
Jan. 2018 Act.	2,312	432	451	324	22.05	5.50
Jan. 2019 Act.	2,661	528	547	382	25.81	6.00
Jan. 2020 Est.	2,939	561	576	400	27.02	6.50

*The forecasted values were provided by NEOJAPAN Inc. The Company split shares at ratios of 3 for 1 as of Feb. 1, 2016, 2 for 1 as of July 1, 2017, and 2 for 1 as of Nov. 16, 2017. EPS as well as DPS has been recalculated retroactively. The commemorative dividends of 1.00 yen per share were included in the dividends paid in the term ended Jan. 2018.

We present this Bridge Report reviewing the First Half of the Fiscal Year ending January 2020 Earnings Results and other information about NEOJAPAN Inc.

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Key Points

- The sales for the second quarter of the term ending January 2020 were 1,554 million yen, up 18.1% year on year. The businesses of cloud services and products achieved a two-digit growth in sales. The usage fee for data centers, licenses, etc. rose due to the increase of cloud services, but gross profit and gross profit rate improved due to the decrease in software depreciation. Operating income grew 12.3% year on year to 345 million yen. R&D, advertising, personnel and recruiting, and business outsourcing costs augmented, but were absorbed by the increased gross profit.
- The forecast for the full fiscal year remains unchanged. The sales for the term ending January 2020 are estimated to be 2.9 billion yen, up 10.4% year on year. Cloud services will continue to be the main driver. Operating income is estimated to increase 6.2% year on year and reach 561 million yen. Sales and profit are estimated to hit a record high and maintain an increase in sales and profit for 8 consecutive terms. The dividend amount is estimated to be 6.50 yen/share, up 0.5 yen/share from the previous term. Payout ratio is estimated to be 24.1%.
- The business performance is growing steadily with progress rates of slightly more than 50% for sales and 60% for profit in the first half, which are higher than usual. Also, the first half saw many topics that the company must pay attention to for the future growth. For example, reorganizing Pro-SPIRE, which has sales of 2 billion yen and an ordinary income of 55 million yen, into a subsidiary is expected to have a great impact on NEOJAPAN, which forecasts its sales to reach 2.9 billion yen for this term, from the perspective of its business scale.
- However, it is well-known that human resource management plays a significant role for a system development company for which M&A depends on PMI (Post Merger Integration) skills, especially HR (Human Resource). We would like to pay attention to if the company is able to expand its scale by going beyond a simple addition of business areas from a medium-term perspective.

1. Company Overview

With the managerial philosophy: “Contribute to the formation of an abundant society through real IT communications,” NEOJAPAN Inc. is assisting companies in improving operational efficiency and cutting down on costs through development and sale of “groupware (*),” an online technology-based business communication tool, and provision of cloud services. The cumulative total number of users of its major “desknet’s” product stands at 4.0 million (as of the end of July 2019). A multitude of aspects of “desknet’s,” such as the price, functions, reliability, and support system, have been well reputed, gaining the greatest satisfaction rating from customers for 5 years in a row (in the groupware category; according to the magazine Nikkei Computer). The Company has embarked on entering overseas markets, aiming at further growth.

(What is groupware?)

Groupware is software developed for information sharing using the network of a company.

On the server of the network set by an administrator, the members of a group can share information, manage schedules, and share document information databases.

For example, when a schedule for a meeting needs to be arranged, groupware enables its users to grasp the schedules of group members at a glance, easily register dates when each of them is available in a timetable, send and receive e-mails about various matters and decisions, and share documents.

The number of companies and organizations that are propelling introduction of groupware keeps going up these days because of its useful aspects, including improvement of operational efficiency, cost reduction, speed-up of decision-making, and cross-departmental information sharing.

1-1 Corporate history

Mr. Akinori Saito (current Representative Director and President of NEOJAPAN Inc.), who engaged in research into optical communication systems with extensive know-how of communication technology for which he was highly acclaimed at Nippon Telegraph and Telephone Public Corporation (Current NIPPON TELEGRAPH AND TELEPHONE CORPORATION), transferred to a medium-sized software company in Japan, and then participated in a communications and infrastructure project led by Tokyo Electric Power Company Holdings, Inc. (TEPCO) and served as chief technology officer.

At that time, Mr. Saito, who was among the first to take interest in the Internet that was barely understood and wholly new, was attracted to the possibility that he might be able to make a massive change in the society with the Internet. In 1992, therefore, after the abovementioned project was completed, he founded NEOJAPAN Inc. at the age of 29.

At the beginning, NEOJAPAN conducted development entrusted by TEPCO and other electric power companies. Then, President Saito by himself developed a calendar system, which is one of the functions of groupware, in order to manage schedules of outsourced work. The calendar was very practical, and he received requests from outside companies for permission to use the calendar system.

In those days, although groupware had already been developed, it was designed only for large companies and available at a high price; however, thinking that it was possible to develop groupware at the cost of one-tenth of such expensive software and, more than anything else, that groupware was truly convenient and, therefore, a number of small- and medium-sized companies would be willing to use groupware if one was offered at a low price, President Saito started to sell NEOJAPAN’s original groupware “iOffice2000” in 1999 and, in 2002, released its successor model, “desknet’s.”

Issuance of the license and downloading of the software were conducted via the Internet, which is taken for granted today but was an epoch-making sales method around that time.

The Company successfully took in the needs of companies that were reluctant to adopt the software as expected, and its business expanded rapidly. NEOJAPAN began offering “desknet’s NEO,” its current major product, in 2012 and released the cloud version in 2013.

The cumulative number of users has exceeded 3 million. Considering that it is necessary to strive for corporate management that is healthier than ever before in order to fulfill the social responsibility towards numerous users, NEOJAPAN got listed on TSE Mothers in 2015.

1-2 Managerial and Corporate philosophy

Management Philosophy Contribute to the formation of an abundant society through real IT communications

NEOJAPAN Inc. engages in business with the aim of supporting all workers and contributing to social prosperity through development and sale of online technology-based business communication tools.

With ideas that overthrow the established theories and attentiveness unique to Japanese companies, the Company is endeavoring to continuously provide high-quality products and services to society.

(Origin of the Company’s name)

The Company has been named “NEOJAPAN (which means a new Japan)” in hopes of bringing advantages of superior information technology (IT) not only to some advanced companies but also to all companies, and changing communication between Japanese companies and the society using the power of computers.

1-3 Market environment

(1) Trend in the groupware market

The groupware market in Japan was worth 180.8 billion-yen, accounting for 14% of the Japanese software market worth around 1.2 trillion yen in the fiscal 2018 and creating a relatively large market.

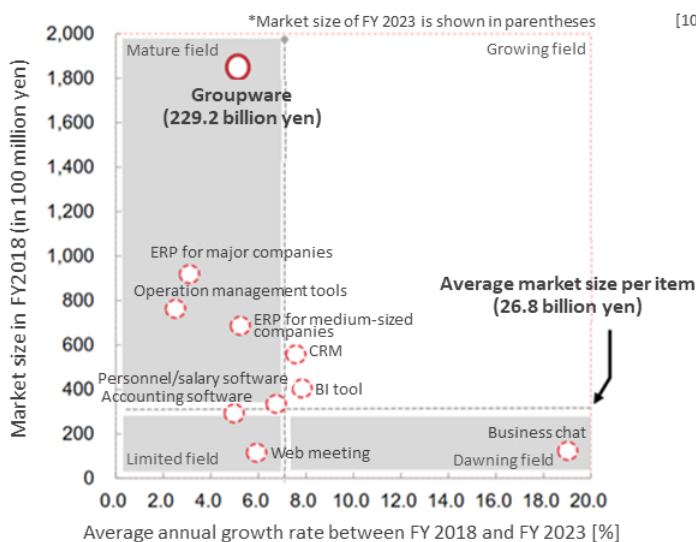
The groupware market will grow to 229.2 billion yen by fiscal 2023, with an annual growth rate estimated at 4.9%.

While it is projected that sales of the product version, which requires the installation of a server by each company, will decrease, sales of the cloud version, which does not require any initial costs and is easy to install, are expected to grow.

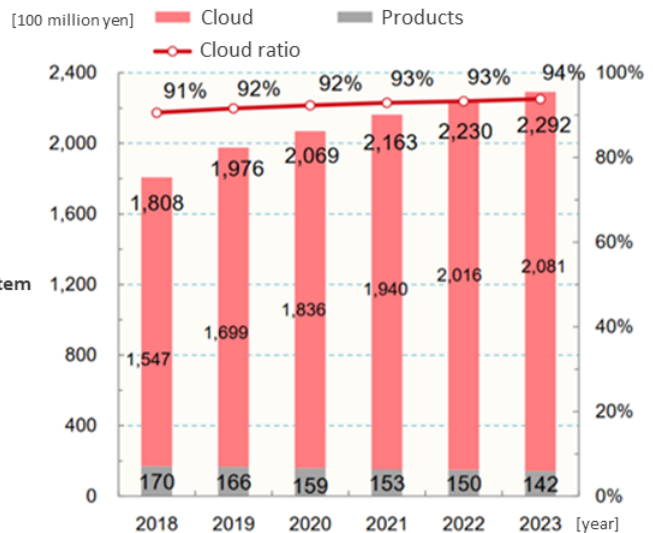
From **180.8 billion yen** in 2018 to **229.2 billion yen** in 2023

⇒ Annual growth rate of **4.9%** expected

Size of the software market in FY 2018: 1.2593 trillion yen
Average growth rate of the entire software market: 6.9%



Variation in the scale of the groupware market



Source: Fuji Chimera Research Institute, Inc. New Market in Software Business 2019 Edition: for Software Market

(Source: the company)

(2) The Company’s positioning

While leading vendors including foreign ones have a higher share in the groupware market, NEOJAPAN considers that it has its competitive edge with “desknet’s NEO” in terms of functions, costs, etc., including localization.

The Company plans to use these advantages to increase its share in both package and cloud markets.

(The following is the comment by Fuji Chimera Research Institute, Inc. stated in the Company’s reference material).

①Package market

The Company has been holding the largest share since 2017 in terms of the number of new IDs in the market of packages for large-scale organizations.

It has been installing packages mainly in major companies, but it is expected to achieve a steady growth in sales through increased installation in public institutions (public agencies and local governments) by emphasizing the product’s multifunctional and low-cost aspects.

(Excerpt from NEOJAPAN’s reference material; Source: Fuji Chimera Research Institute, Inc.)

②Cloud market

In April 2019, an increased number of vendors ended free groupware services and started providing fee-charging cloud services, as they aimed for sales expansion by approaching companies for replacement.

NEOJAPAN expanded sales of SaaS by highlighting the services’ multifunctionality and low usage fee, and successfully achieved a two-digit growth in sales from the previous term through installation in small and medium-sized enterprises, and acquisition of replacement orders from major companies.

The company aims to expand sales by emphasizing the functions different from those of the existing groupware by cross-selling with a group of products that complements the functions of “desknet’s NEO.”

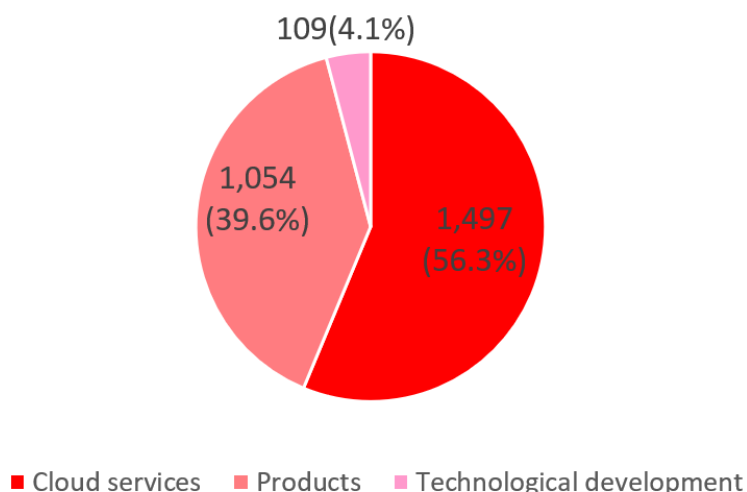
(Excerpt from NEOJAPAN’s reference material; Source: Fuji Chimera Research Institute, Inc.)

1-4 Business content

With a focus on its major groupware product, “desknet’s NEO,” NEOJAPAN develops and sells various products and services, including business chat, online databases, online e-mail systems for companies, systems for sending and receiving large-capacity files, sales management systems, and customer information management systems.

Sales are made up by the following 3 segments; the “cloud service business” that provides groupware and related products via the Internet, the “product business” that sells the license for the groupware and related products, and the “technological development business” that develops software as commissioned by other companies.

Sales Composition (for the term ended Jan. 2019; unit: million yen)



(1) “desknet’s NEO,” the major product

As mentioned in 1-1 Corporate History, NEOJAPAN has thrived by developing and selling groupware, and what will grow its business further is the groupware product, “desknet’s NEO.”



“desknet’s NEO” is one of the groupware developed independently by NEOJAPAN that consistently follows a thorough “hands-on approach.” The software has incorporated design features suited to the work styles and commercial practices in Japan, aiming to contribute to the revitalization of companies as well as boosting daily operational efficiency, and possesses the following characteristics:

(Characteristics)

***Usability**

The simple and consistent screen design has established an interface that is easy to see and use by anyone, including those who are new to the groupware.

The “user-friendliness” and “simplicity” of “desknet’s NEO” improve the situations of the working sites and supports work.

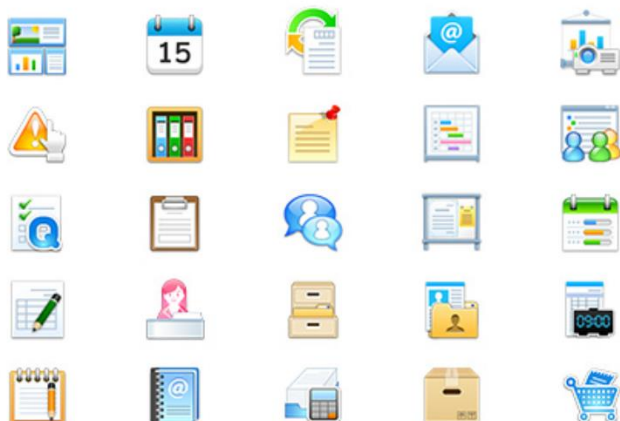
Users can use the groupware without stress on multiple kinds of devices, such as smartphones and tablets.

***High performance**

In addition to basic functions, including schedules, information, and online e-mail, 25 full-fledged applications which are capable of dealing with workflow, internal SNS, and global design have been installed by default. The applications are coordinated with each other. “desknet’s NEO” not only possesses various functions, such as schedules, booking of meeting rooms, and e-mails but also, outside the scope of groupware, offers solutions to issues confronted in working sites.

***25 applications installed by default**

Furthermore, use of “AppSuite,” a tool with which custom-made business apps can be created, enables users to build apps in 4 steps based on a wide range of on-site operations. Apps so developed can be used as one of the functions of “desknet’s NEO,” and therefore, on-site business processing can be further streamlined according to the situations of each company’s work sites.



(Source: the company)

*Equipped with the function to link up with amazon Business

Its version was upgraded to link up with “amazon Business” in July 2019, and a purchase management function was incorporated. The linkage between the groupware and “amazon Business,” which is targeted at corporations, is taking place for the first time in the world.

Users can considerably cut down on man-hours and costs incurred for internal procedures for business purchases, through automation of all the processes involved in product selection, sending of an internal decision request and placement of orders.

From now on, the Company will take initiatives in telemarketing and holding events jointly with amazon Business in order to expand sales.

*Adoption cases

A multitude of companies and organizations, including over 920 public agencies and local governments in 47 prefectures in Japan, have installed the groupware, regardless of industries, business types, and scales. The cumulative total number of users (accounts) have reached about 3.9 million (as of the end of January 2019).

(Form of providing the groupware)

The groupware has been offered in 2 forms: the cloud version and the package version. Lately, however, the cloud version of the software is showing a significant growth, following the soring needs by companies, such as “unwillingness to spend time and effort in installing groupware,” “unavailability of dedicated administrators due to a lack of staff who have extensive knowledge and experience regarding IT,” “desire to operate in a reliable security environment,” and “desire to cut down on initial expenses and operational costs as much as possible.”

(Sales structure)

NEOJAPAN itself sells its products and services; however, the Company specializes, in principle, in development and its products have been sold mainly via a total of about 600 agencies and Application Software Providers (ASPs) (*), who are referred to as partners.

(* Application Software Providers (ASPs))

An Application Software Provider (ASP) is an operator that engages in the business of providing functions of application software as services to customers via networks.

(2) Sales segment

1) Cloud services business

NEOJAPAN offers the groupware products and services developed by itself, with “desknet’s NEO” deemed its major product, and related products on demand at a low price and in a highly reliable cloud environment.

As long as an Internet environment is available, users can use the services without any special investment in systems, such as servers, or knowledge about systems.

It is based on a “subscription model,” where customers are required only to pay a monthly fee or an annual fee for the number of users who will use the services, and they need not pay any initial expenses.

The minimum number of users for subscription is 5, and no upper limit has been set.

The monthly fee per user is 400 yen, which is the lowest in the cloud services industry.

2) Products business

The Company sells the licenses for its groupware products and services, including the major product “desknet’s NEO,” and related products. It also provides incidental services, such as customization, labor services, and support services.

Customers purchase the licenses and then install the groupware products and services in relevant internal servers, virtual environment, rental servers, and cloud environment.

The “Small License” and the “Enterprise License” are available to small- and medium-sized customers with 5 – 300 users and large-sized customers with over 300 users, respectively.

	Small License	Enterprise License
Outline	The Small License is targeted at small- and medium-sized customers and available at a low price.	The Enterprise License is designed for large-sized customers and can deal with large-scale and highly available configurations.
Price	¥39,800 for 5 users to ¥998,000 for 300 users	¥410,000 for 100 users to ¥13,000,000 for the unlimited number of users
No. of users	5 – 300 users	Over 100 users
Annual support services	Support services are available for free for the first year, and it is optional to purchase support services from the second year onwards. ¥10,000 for 5 users to ¥150,000 for 300 users	Support services must be purchased for the first and subsequent years (mandatory). ¥90,000 for 100 users to ¥2,340,000 for the unlimited number of users

3) Technological development business

The Company engages in development of individual business applications related to the Internet and Intranet as outsourced by other companies, comprehensively offering a variety of system-related services, ranging from consulting to planning, designing, development, and network infrastructure establishment regarding application systems.

With the aim of cultivating techniques, the Company accepts orders mainly for development projects that are expected to lead to development of products and services for the “cloud services” and “products” segments.

1-5 Future Growth strategy

(1) Growth Strategy

NEOJAPAN has cited the following 3 points as its future growth strategy:

① Further expansion of share in the groupware market

The Company aims to expand its market share by enhancing its sales capabilities and improving added value through higher performance. It sets two targets, i.e., “to acquire a cumulative total of 10 million users” and “to secure the largest share in the domestic market.”

(Future market environment)

As already mentioned in the section “Market environment,” NEOJAPAN considers that “desknet’s NEO” has a competitive edge with its products in terms of functions, costs, etc. and so it will use these advantages in order to grow its market share in both the package and cloud markets.

(Concrete measures)

“Maintenance of a competitive edge with functions”

In addition to 25 basic functions of “desknet’s NEO,” the Company will accurately deal with localization (systems supporting Japanese, and the commercial and business practices in Japan), which foreign companies face difficulties handling.

“Improvement of user experience”

The Company will brush up intuitive usability, which is one of the characteristics of “desknet’s NEO.”

“Expansion of linkage with other services and products”

As it will be mentioned below, the Company will add functions through incorporation of the latest communications tools and middleware, aiming to differentiate its products from those of other companies.

It will enhance the linkage of the groupware “desknet’s NEO” with other services and products to make them more user-friendly.

“Improvement of market awareness”

As the Company has focused its management resources on technological development, the “desknet’s” products have held a relatively weak presence in the market. Following the realization of transfer to the first section of TSE from the Mothers market, NEOJAPAN will endeavor not only to increase its corporate creditworthiness but also to boost market awareness of its brand.

“Enhancement of sales structure/organization of local business bases”

Using the funds raised through the stock listing, the Company will strengthen its sales structure. It will open offices in various major cities in an effort to attract local partners.

It opened an office in Nagoya in May 2019. It also set up a pre-opening office in Fukuoka.

②Improvement of added value through expansion of product lineup

Besides the existing 25 default applications, the Company will add functions through incorporation of the latest communication tools and middleware, aiming to differentiate its products and services from those of other companies.

- Means of business communication are undergoing rapid evolution and change from the conventional e-mail to a multitude of means, such as SNSs and real-time communication of chat.

The Company will in earnest enter the field of real-time communication based on Web Real-Time Communication (WebRTC) and opportunely strengthen functions in order to provide products and services in anticipation of user needs.

-Based on its advanced technological development capabilities, the Company will establish a secure position as a leading company in the industry by continuously proposing and providing new services, ahead of any other competitor.

- In addition to the existing 25 functions and update of additional functions, the Company has added a business chat function, “ChatLuck.” Furthermore, it is considering adding a broad range of other functions, besides provision of the 26th function, “AppSuite,” a tool for creating operational applications enable customers to easily build necessary operational applications on their own.

- The Company will offer system administrators a portal function that can be customized. By allowing existing internal systems to have a portal function, the Company aims to realize the further unity of systems and improvement of user-friendliness.

It will strive to take in customer demand for services associated with peripheral functions by taking advantage of the experience of the introduction of “desknet’s NEO.”

③Overseas business expansion

As of now, the Company plans to expand its overseas business mainly in the U.S. and Malaysia.

The Company established DELCUI Inc., a wholly-owned subsidiary, in the U.S. in June 2019 to promote global marketing and global alliance in order to enter into the global market as mentioned below.

In addition, the plan to enter the groupware market in Southeast Asia, starting off with Malaysia, is also progressing steadily.

It is expected that the real GDP of various Southeast Asian countries will grow at a rate of 3 to 6% toward 2020 and the ICT-related markets will boom greatly. The Company has considered that there is room for entering the groupware market in Southeast Asia because of the similarity between the business practices in Japan and those in Southeast Asia (such as the ring decision-making system (requests circulated for approval and methods for information sharing).

As for localization, the Company has already produced some language versions, and plans to sell its products and services in Southeast Asia, starting off with Malaysia.

It sent some staff over to the local partner company in October 2018, and conducted a feasibility study related with the local market development, and sales activities through the partner company.

The groupware “desknet’s NEO,” which is the Company’s core product, takes a certain amount of time for installation as a proper explanation is necessary, but it was rated high and was also able to obtain requests for new features different from the Japanese market.

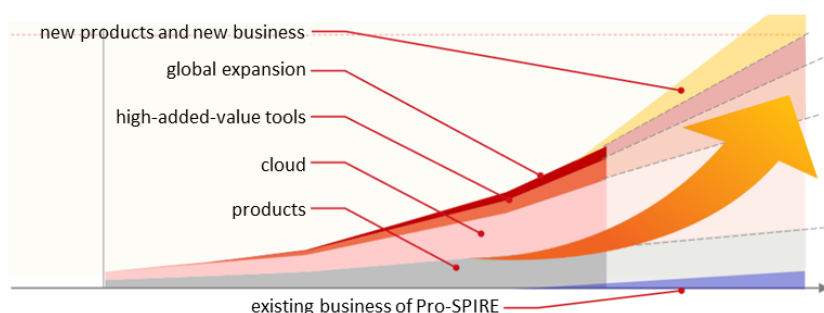
Moreover, the Company received many requests for linkage with peripheral services such as the attendance management system, and thus, considers that there are needs for a middle-scale SI service in the local market.

From now on, the company will enhance its efforts while recognizing Malaysia as its central base with the highest priority in preparation for entering the ASEAN market, considering that the country “is pro-Japanese, has a preferential treatment system for foreign companies, is taking initiatives for expansion of the IT industry, and is expected to produce high-skilled personnel in the future.”

(2) Growth Image

With a focus on the existing groupware, the Company aims to develop communication tools essential for business and continue to provide products and services that lead the industry at all times.

Strengthening of the sale of groupware, and business expansion overseas	Continue to upgrade the existing groupware products and enhance their functions, and in the cloud field, differentiate the products and services from those of other companies in terms of security which is ensured based on the high technological capabilities Further expand market share and gain a secure position in the industry by strengthening sales and marketing capabilities Start to enter the market in Southeast Asia, which has followed business practices similar to those of Japan, by offering products and services in multiple languages and prospecting for overseas partners
Development and proposal of communication tools that are strategic for companies in an effort to further differentiate NEOJAPAN from competitors	Evolve the existing groupware products as a core so that they become a tool developed in anticipation of the future society, forms of companies, and business trends with higher added value Move ahead further with differentiation from other companies not only by realizing improved efficiency for companies but also by providing IT communication tools essential for business strategies Accelerate business expansion overseas, and aim at a de facto standard in the immature groupware market in Southeast Asia



The company has been continuously developing its ultimate communication products initiated by groupware in order to provide customers with strategic tools which are essential to business.

(Source: the company)

(3) Challenges

In order to grow the business through the abovementioned strategies, the Company has to complete two tasks., i.e., “to increase the number of users through improvement of product value” and “to expand the customer market by offering new products and services.”

As for the former, a proposal for work style reform, demonstration of increased productivity and improvement of the value of groupware by using big data are necessary. For the latter, acquisition of new technology for developing new products, promotion of new alliances and business tie-ups and endeavors to enter new markets (overseas, etc.) must be carried out.

The Company considers acquisition and training of human resources and business alliance important for realizing the above, therefore, it plans to invest actively for strengthening recruitment of new graduates, M&A and personnel-system reform.

1-6 Characteristics and strengths

①Great customers’ and sales partners’ satisfaction

According to the survey “Customer satisfaction level survey 2019-2020” conducted by Nikkei Computer, NEOJAPAN Inc. won the highest rating in the groupware/business chat section for 5 years in a row.

It was ranked top in the items “cost,” “reliability” and “serviceability,” and recognized as above average in the items “performance & function” and “support.”

The Company was also highly regarded by its sales partners. The high evaluation from both customers and sales partners has become a strong competitive advantage of the Company’s products.

The Company has taken a considerable lead in the industry with not only its outstanding technological abilities realized by the fact that about 60% of its employees are working in development-related departments, but also its comprehensive capabilities, including the user-friendliness and support structure.

②Competitive edge with services and costs

Considering the main players in the groupware market, leading vendors, including foreign companies, have held a large market share; however, NEOJAPAN has a competitive edge with services and costs, which has led to the abovementioned satisfaction rating.

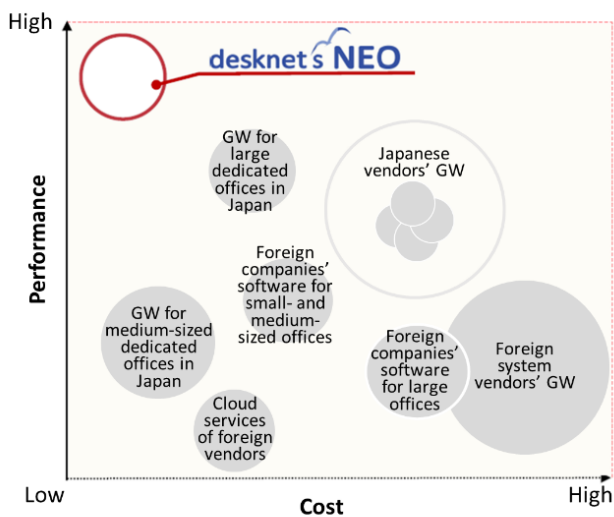
- As for functions, products of Japanese vendors have garnered higher reputation than those of foreign companies because support provided by foreign companies, such as localization (systems supporting Japanese, and commercial and business practices in Japan), is not satisfactory.

- Twenty-five basic applications have been installed in the systems of NEOJAPAN by default, which has topped the number of functions in services offered by other Japanese vendors.

- Installation cost and cost per unit of foreign vendors’ products and services tend to be expensive because they are targeted chiefly at large companies.

The introduction and operating costs of NEOJAPAN’s systems are the lowest in the industry, with the monthly fee for the cloud services being about one-half and that for the products (installation basis, including on-site hardware services) also being approximately one-half of other Japanese vendors’ systems.

Comparison of Performance and Costs of a Variety of Groupware (GW)



Source: Produced by our company based on various companies’ materials

(Source: the company)

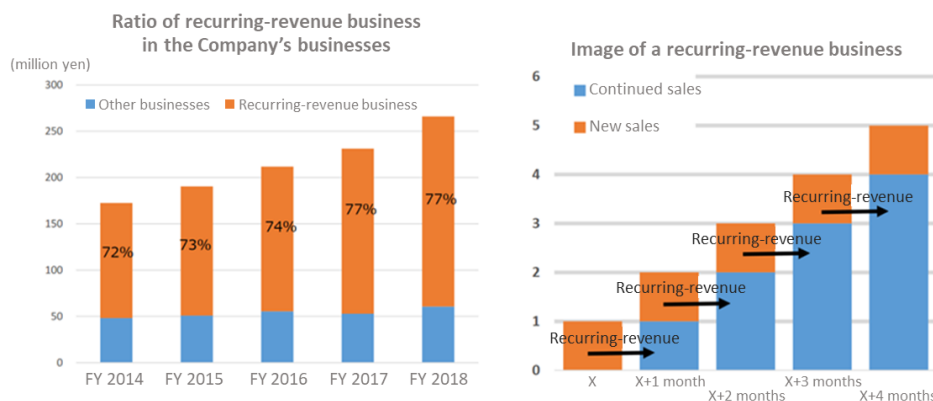
③ Business model that realizes stable earnings

The Company's main services, i.e., cloud services adopted a "subscription model" in which sales rise every month on a cumulative basis through monthly billing.

In addition, it is possible to upgrade the version of products for free on a continuous basis by providing support services after the purchase of packages, so the Company recognizes these two as a "recurring-revenue business."

Another notable characteristic of NEOJAPAN is that it established a business model that realizes stable earnings as it sells its products through its partners because of which the fixed costs are low, and also through the fact that once the Company's products have been adopted, multifarious customers continue to use them because of the user-friendliness and low cost.

The ratio of recurring-revenue business is increasing each year, and it was 77% in the term ended January 2019.



(Source: the company)

④ Pursuit of a continuous growth through synergies among 3 businesses

The Company pursues growth through a cycle of acquiring new, innovative technology in the technological development business utilizing the feedback from the market of cloud services, commodifying or upgrading the new technology in the product business, and enhancing its earning capacity, while expanding the market by adopting a subscription model for its core cloud services.

⑤ Increased efforts in health management

NEOJAPAN Inc. offers groupware as its main product that contributes to "Work Style Reform" of the companies that have installed that groupware, for example, by improving their work efficiency and productivity. This company itself is increasing awareness of health management.

"Health management" means to think about employees' healthcare from a management perspective and practice it strategically. Based on the corporate philosophy, it is expected that investing in employees' health will lead to revitalization of the organization including better vitality of employees and productivity, resulting in improvement in business performance as well as stock price (taken from the Ministry of Economy, Trade and Industry's website).

President Saito, who likes sports, has always spoken to staff members about "the importance of exercise and meals", "balance between work and dream (personal life)", etc., but as mentioned in the top message on the Company's website for stockholders and investors, he has made a commitment to practice and promote health management in the future.

"In order to practice the management philosophy and realize operations considering global expansion of the Company, we will improve the work environment, where everyone is sound in mind and body and is able to demonstrate his or her ability to the fullest, and promote health management." (Taken from the Company's website. Some parts have been modified by the writer.)

To be more specific, the Company strives to obtain the certification of "Corporation that is excellent in health management", which is designed by the Ministry of Economy, Trade and Industry (METI) and recognized by Nippon Kenko Kaigi, and to be accepted as the "Health management brand", which is selected and announced jointly by METI and Tokyo Stock Exchange.

1-7 Shareholder return

NEOJAPAN has deemed shareholder return as an important business challenge and raised the rough indication of the dividend payout ratio to over 20%.

In addition, the Company carries out a shareholder benefit program, in which it presents quo cards worth 500 yen to shareholders holding 100 shares or more but less than 200 shares, and 1,000 yen's worth of quo cards to shareholders who hold over 200 shares as of the end of an interim period and the end of each term, respectively.

1-8 ROE analysis

	FY Jan. 16	FY Jan. 17	FY Jan. 18	FY Jan. 19
ROE (%)	11.2	11.1	10.9	11.7
Net income margin (%)	12.93	14.01	14.02	14.36
Total asset turnover [times]	0.63	0.59	0.59	0.62
Leverage [times]	1.38	1.33	1.31	1.32

ROE has been double-digit. Further improvements can be expected if asset efficiency is raised.

2. First Half of the Fiscal Year ending January 2020 Earnings Results

2-1 Earnings Results

	1H of FY Jan. 19	Ratio to sales	1H of FY Jan. 20	Ratio to sales	YoY
Sales	1,316	100.0%	1,554	100.0%	+18.1%
Gross profit	877	66.6%	1,082	69.6%	+23.4%
SG&A	569	43.3%	736	47.4%	+29.4%
Operating Income	307	23.4%	345	22.2%	+12.3%
Ordinary Income	317	24.1%	354	22.8%	+11.6%
Net Income	211	16.1%	242	15.6%	+14.3%

(Unit: million yen)

Double-digit increase in sales and profit

Sales were 1,554 million yen, up 18.1% year on year. Cloud services and products achieved a two-digit growth in sales.

The usage fee for data centers, licenses, etc. rose due to the increase of cloud services, but gross profit and gross profit margin improved due to the decrease in software depreciation.

Operating income grew 12.3% year on year to 345 million yen. R&D, advertising, personnel and recruiting, and business outsourcing costs augmented, but were absorbed by the increased gross profit.

2-2 Sales trend by segment

	1H of FY Jan. 19	1H of FY Jan. 20	YoY
Cloud service business	729	846	+16.0%
Product business	514	654	+27.2%
Technological development business	72	53	-25.6%
Total Sales	1,316	1,554	+18.1%

(Unit: million yen)

BRIDGE REPORT

***Cloud service business**

The number of users of “desknet’s NEO cloud version” exhibited a steady increase, exceeding 270,000 as of the end of July 2019. The sales were 671 million yen, up 19.9% year on year. From the term ended January 2015, average annual growth rate has been 16.5%. The ratio of sales of ChatLuck cloud version to entire cloud service was low, but the sales grew 87.3% year on year to 22 million yen, and the sales for ASPs also rose 1.5% year on year to 63 million yen.

***Product business**

The sales of the Small License for the products targeted at small and medium-sized users shrank 6.6% year on year to 39 million yen. It is expected to decrease in the long term as the use of cloud services is becoming common.

The sales of the Enterprise License targeted at large-scale users increased 11.6% year on year to 107 million yen, almost as initially forecasted. Since most of large-scale users have a fine environment including operation staff, the larger a user company grows, the greater the benefit in terms of average user spending is than using the cloud version. Therefore, the Company does not expect the demand for the Enterprise License to drop considerably.

The sales of AppSuite, which was released in October 2017, were 29 million yen, up 20.7% year on year.

The sales of customization improved by 411.3% to 54 million yen, as there were relatively large-scale projects.

The sales of the support services of desknet's NEO (including old products) grew steadily to 281 million yen, up 6.4% year on year.

***Technological development business**

The company undertook development projects related to electronic commerce site, etc., and maintenance of the system entrusted in past fiscal years.

2-3 Financial standing and cash flows**Main BS**

	End of Jan. 19	End of Jul. 19		End of Jan. 19	End of Jul. 19
Current Assets	2,939	3,177	Current liabilities	846	922
Cash	2,599	2,633	Payables	23	35
Receivables	285	351	Unearned revenue	469	537
Noncurrent Assets	1,601	1,621	Noncurrent liabilities	265	274
Tangible Assets	51	49	Total Liabilities	1,112	1,196
Intangible Assets	91	103	Net Assets	3,429	3,603
Investment, Others	1,458	1,468	Retained earnings	2,792	2,946
Total assets	4,541	4,799	Total liabilities and net assets	4,541	4,799

(Unit: million yen)

Total assets rose 258 million yen from the end of the previous term to 4,799 million yen, mainly due to the increase in current assets. Total liabilities went up by 84 million yen from the end of the previous term to 1,196 million yen because of the rise in deferred revenue, etc.

The increase in retained earnings grew net assets to 3,603 million yen, up 173 million yen from the end of the previous term.

As a result, capital-to-asset ratio was 75.1%, down 0.4% from 75.5% at the end of the previous term.

Cash Flow

	1H of FY Jan. 19	1H of FY Jan. 20	Increase/decrease
Operating Cash Flow	343	306	-36
Investing Cash Flow	-217	-183	+33
Free Cash Flow	126	123	-2
Financing Cash Flow	-80	-84	-4
Term End Cash and Equivalents	2,603	2,646	+42

(Unit: million yen)

There were no major changes in any CF or the cash position from the same period of the previous term.

2-4 Topics

① Opening Nagoya office and strengthening local sales

In May 2019, the Company opened an office in Nagoya in order to enhance and streamline sales activities further for expanding sales and business support services for sales partners and agents in four prefectures in the Tokai region (Aichi, Gifu, Mie and Shizuoka), mainly in Nagoya.

② Establishing an overseas subsidiary

In June 2019, the Company established DELCUI Inc., a wholly-owned subsidiary, in the U.S. to promote global marketing and global alliance in preparation for entering the global market.

<Goal>

In addition to the sale and support of NEOJAPAN's products and Japanese products in the U.S. market, the Company will strengthen its alliance with the subsidiary and present the overseas advanced technology and business models in the markets in Japan and Southeast Asia. Also, it will acquire resources necessary to develop global-standard products.

<Strategy>

In order to achieve the above targets, the Company promotes the following strategies.

- * Establishment of relationships within the U.S. through alliance
(acquisition of a mentor, candidates for alliance projects and partners)
- * Advertisement of NEOJAPAN's products on the network created through alliance
- * Apart from upselling for the existing business users and approaching partners, the Company will carry out business development efficiently in Japan and Southeast Asia.

③ Acquiring and reorganizing Pro-SPIRE into a subsidiary

In August 2019, the Company acquired the shares of Pro-SPIRE, which conducts system integration & cloud integration and web marketing businesses, and made it a wholly-owned subsidiary.

The acquisition cost was approx. 527 million yen.

In the system integration & cloud integration business, Pro-SPIRE provides a comprehensive IT service including designing, development and operation of firms' information system and software in the fields of financial systems, embedded systems and solution systems.

Also, in the web marketing business, it strives to contribute to business expansion of its customers by not only proposing and running advertisements, but also making proposals for marketing policies to attract and handle customers and encourage revisits, and offering value-added services.

Its sales for the term ended June 2019 were 2 billion-yen, ordinary income was 55 million-yen, net income was 25 million yen and net assets amounted to 293 million yen.

NEOJAPAN made Pro-SPIRE into its subsidiary as it considers that taking in all the businesses of Pro-SPIRE will accelerate the acquisition of development projects of peripheral systems related to the incorporation of desknet's NEO and the Company's efforts for new businesses.

(Anticipated synergy effects)

- * Creation, SI, customization, operation and maintenance of large-scale projects
The Company will expand entrusted projects of desknet's NEO, ensure a flexible response to customized requirements, and develop and operate stable services for customers by utilizing many engineers of Pro-SPIRE.
Furthermore, it expects a rise in average spending of clients and profit rate.

- * Securing personnel for technological development to implement expansion strategies

The Company considers that it can take active efforts for new technological elements only through acquisition and education of personnel with technical skills, appropriate distribution of resources for product development and entrusted projects, and establishment of a stable technological development team.

3. Fiscal Year ending January 2020 Earnings Forecasts

3-1 Non-consolidated Business Results

	FY Jan. 19	Ratio to sales	FY Jan. 20 Est.	Ratio to sales	YoY	Progress rate
Sales	2,661	100.0%	2,939	100.0%	+10.4%	52.9%
Operating Income	528	19.8%	561	19.1%	+6.2%	61.5%
Ordinary Income	547	20.6%	576	19.6%	+5.2%	61.5%
Net Income	382	14.4%	400	13.6%	+4.7%	60.5%

(Unit: million yen)

* Estimates are those of the Company. The forecast consolidated with Pro-SPIRE will be publicized separately after its calculation.

The earnings forecast remains unchanged. Sales and revenue are estimated to increase for 8 consecutive terms, hitting a record high.

The earnings forecast remains unchanged. Sales is expected to be 2.9 billion, up 10.4% from the previous term. Each of three fields are planned to rise.

Operating income will grow to 561 million, up 6.3%, year on year, and sales and profit are expected to rise for the 8th consecutive term. The amounts of dividends are scheduled to be 6.50 yen per share, up 0.50 yen per share. The payout ratio is to be 24.1%

3-2 Sales trend by segment

	FY Jan. 19	FY Jan. 20 Est.	YoY	Progress rate
Cloud services	1,497	1,679	+12.2%	50.4%
Products	1,054	1,178	+11.7%	55.5%
Technological development	109	81	-25.6%	65.0%
Total Sales	2,661	2,939	+10.4%	52.9%

(Unit: million yen)

*Cloud services

Along with the expansion of sales of “desknet’s NEO,” it is projected that sales of AppSuite and ChatLuck will grow through cross-selling. Orders for large-scale projects are expected as well.

*Products

Sales from public agencies and local governments will exhibit a healthy growth. It is also anticipated that sales of AppSuite will increase through cross-selling.

*Technological development

The Company predicts sales from outsourced projects for which the Company has already received orders and maintenance projects for existing systems.

3-3 Management policies and measures

*The company will continue to reinforce the development of its mainstay products, “AppSuite” and “ChatLuck,” while enriching the functions of existing products.

*The company will steadily grow a stable profitability model by expanding its market share of its specialty, products for enterprise uses, and the recurring-revenue business model of cloud services and support services. Particularly, it is going to develop and reinforce an operation structure that enables stable service provision as cloud services grow.

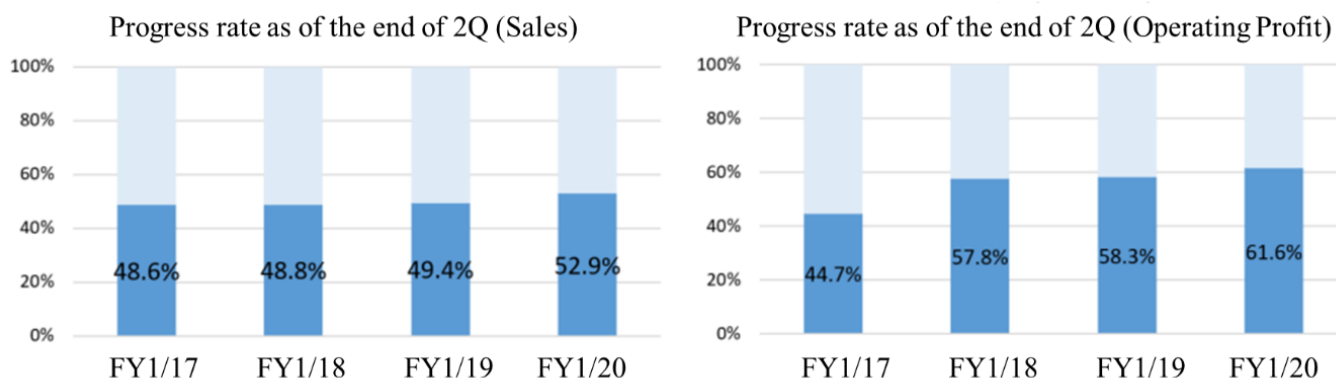
*The company will make strategic investments in products and alliances that are expected to enhance its integration capability, achieve system integration with a focus on its products, and make synergy with its products, and aim to establish a new revenue model.

*It will strive to secure and train human assets who have robust product development capability and are ready to work on the new profitability model as a core theme, while especially focusing on training engineers and strengthening its marketing capabilities.

4. Conclusions

The business performance is growing steadily with progress rates of slightly more than 50% for sales and 60% for profit in the first half, which are higher than usual. Also, the first half saw many topics that the company must pay attention to for the future growth. For example, reorganizing Pro-SPIRE, which has sales of 2 billion yen and an ordinary income of 55 million yen, into a subsidiary is expected to have a great impact on NEOJAPAN, which forecasts its sales to reach 2.9 billion yen for this term, from the perspective of business scale.

However, it is well-known that human resource management plays a significant role for a system development company for which M&A depends on PMI (Post Merger Integration) skills, especially HR (Human Resource). We would like to pay attention to if the company is able to expand its scale by going beyond a simple addition of business areas from a medium-term perspective.



*First half composition ratio to the full-year results

*Progress rate to full-year forecast is shown as for FY 1/20

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	7directors, including 3 to outside ones
Auditors	3directors, including 3 to outside ones

Corporate Governance Report

Last update date: April 25, 2019

<Basic Concept>

NEOJAPAN's managerial philosophy is to "contribute to the formation of an abundant society through real IT communications." Under the managerial philosophy, all the directors and employees of NEOJAPAN will comply with laws and articles of incorporation, fulfill their respective duties based on healthy social norms, and engage in corporate activities.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
“Supplementary Principle 3-1-2 Disclosure and provision of information in English”	Currently, the ratio of foreign shareholders is as low as 2%, therefore, considering costs, etc., we don't disclose information in English. In the future, we will reconsider disclosing information in English according to the increase in the ratio of foreign shareholders.
“Supplementary Principle 3-1-2 Disclosure and provision of information in English”	Currently, the ratio of foreign shareholders is as low as 2%, therefore, considering costs, etc., we don't disclose information in English. In the future, we will reconsider disclosing information in English according to the increase in the ratio of foreign shareholders.
“Supplementary Principle 4-1-2 Disclosure of mid-term managerial plan”	Although our company draws a mid-term managerial plan each term, we have not disclosed any plans for the ICT-related and groupware markets in which our company has engaged in business because the business environment and technology change rapidly and, thus, there is a great possibility that plans and forecasts diverge; provided, however, that, every month, the board of directors analyzes divergence between forecasts and actual results for the relevant fiscal year and, if forecasts for the fiscal year have not been achieved, the board performs thorough analysis and detailed discussion regarding causes and measures to take. We do not analyze divergence between forecasts and results for the following and subsequent years, but the Corporate Planning Office will take a leading role in summarizing numerical values and holding discussion, including report to the board of directors. Furthermore, taking into consideration the results of analysis of forecasts for the fiscal year as mentioned above, we conduct rolling planning every term in order to produce mid-term managerial plans. In the present circumstances, we have not scheduled to disclose any mid-term managerial plan so created; however, we would like to consider disclosing managerial plans in response to requests from shareholders.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
<p>“Principle 1-4 Explaining the purpose of strategic shareholding and establishment of standards for exercising voting rights”</p>	<p>Our company doesn't own any cross-held stocks, however, in case the Board of Directors determines that it will contribute to increasing the corporate value in the medium to long term, and leads to strengthening the management strategy and establishing relationships with our clients, there will be a possibility of strategically holding other companies' stocks.</p> <p>The Board of Directors will annually examine the rationality of the continuous holding of listed shares that were decided to be cross-held, in light of the purpose for which it was held, while considering its risks and return for the medium to long term.</p> <p>Regarding exercising voting rights, we are yet to establish a uniform standard, since a qualitative and a comprehensive judgment based on the relationship with the issuing corporate of each share is required.</p>
<p>“Supplementary Principle 4-11-3: Ensuring the effectiveness of the Board of Directors and the Board of Auditors”</p>	<p>Since the term ended January 2018, we've been distributing questionnaires to each Board Member, collecting answers, and evaluating and analyzing the results to survey the effectiveness of the Board of Directors overall. Additionally, we will disclose the outline of the results in a timely and appropriate manner.</p>
<p>“Principle 5-1 Policy on constructive dialogue with shareholders”</p>	<p>Our company takes a positive action toward requests by shareholders for dialogue. In our company, the Corporate Planning Office has been designated as a department in charge of dealing with dialogue (interview) with shareholders and will organically coordinate with personnel in charge of accounting and marketing. Individual meetings with major institutional investors and investors who have submitted requests for dialogue will be held mainly by the Corporate Planning Office after disclosing the business performance.</p> <p>In addition, in view of the shareholder composition, we currently have not hosted any regular individual meetings with overseas institutional investors, but the Corporate Planning Office holds telephone conferences with overseas institutional investors who have made requests for dialogue, in an effort to foster understanding of our company and our products.</p> <p>Furthermore, we are paying heed to insider information management by holding dialogue with shareholders based on disclosed contents.</p>

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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