



President Hiroyuki Watanabe

eXmotion Co., Ltd. (4394)



## Corporate Information

Market	TSE Mothers
Industry	Information and communications
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Year-end	November
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## Stock Information

Share Price	Shares Outstanding (Treasury stock excluded)		Total Market Cap	ROE (Act.)	Trading Unit
¥1,300	2,822,371 shares		¥3,669 million	10.6%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥15.00	1.2%	¥34.65	37.5x	¥489.64	2.7x

\*The share price is the closing price on July 22. The number of shares outstanding is calculated based on those at the end of the latest quarter excluding the number of treasury stock. ROE is the values as of the end of the term FY ended Nov.2019.

## Non-consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Nov. 2016 (Act.)	622	123	123	80	43.93	1,330.00
Nov. 2017 (Act.)	694	125	125	85	45.84	1,400.00
Nov. 2018 (Act.)	834	145	146	99	45.58	28.00
Nov. 2019 (Act.)	976	187	190	140	52.42	15.00
Nov. 2020 (Est.)	1,035	152	153	96	34.65	15.00

\* The estimated values are based on the forecasts made by the Company.

\*Unit: million yen, yen

This Bridge Report reports eXmotion Co., Ltd.'s financial results for the first half of Fiscal Year ending November 2020 and future outlooks.

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## Key Points

- **In the first half of the term ending Nov. 2020, sales decreased 9.0% year on year, and operating income went down 56.8% year on year. The company was affected by the spread of COVID-19, through the suspension of projects by some customers, consulting staff staying at home, and the postponement of holding of training services. Furthermore, eXmotion curbed immediate mid-career recruitment (switching to careful recruitment) in preparation for the economic downturn due to the spread of COVID-19. This caused sales to fall below the initial estimate. However, the number of orders is recovering after bottoming out in second quarter (from March to May), and although there are cautions against the second wave of COVID-19, the current situation is steady.**
- **There is no change in the full-year forecast, with a 6.0% increase in sales and an 18.9% decrease in operating income year on year. From the beginning, the term ending Nov. 2020 was considered by the company to be the resting place for further growth. The full-year forecast includes a temporary slowdown in sales due to investments in existing and new domains and an increase in costs centered on labor and personnel costs. The company plans to pay a year-end dividend of 15 yen per share (estimated payout ratio: 43.3%).**
- **The automobile industry is in the midst of a once-in-a-century revolution brought about by "CASE," including electric and autonomous, and the sophistication of software technology is progressing also in various fields other than automobiles. The company is in a position to enjoy such a business environment. However, it believes that sustainable growth requires not only consulting services by highly-skilled human resources, but also the fostering of an external sales business by digitizing core assets. Thus, eXmotion is undertaking initiatives to achieve this. Sales and profits decreased in the first half due to the spread of COVID-19, but the efforts are progressing smoothly, and some services have the prospect of starting in the FY 11/21. We would like to pay attention to their future developments.**

## 1. Company Overview

The company offers consulting services specializing in the support for development of embedded software, services and tools for educating and training personnel, etc. The company possesses plenty of experience in the automobile field, where there emerged sudden demand for development of advanced embedded software for the shift from analog to fully digitized systems, automatic driving, EV development, etc. The company sees itself as the “engineering strategist” required for developing software in the automatic driving age. Its business partners are increasing, including two-wheeled vehicles, robots, and medical apparatus.

The corporate name “eXmotion” is a term coined by combining “emotion” and “X (maximum or multiple),” with the hope of “sharing emotional moments with clients by offering services.”

SOLXYZ Co., Ltd. (securities code: 4284), which engages in software development, etc., holds 56.69% of shares outstanding. It contributes to the revenue of the corporate group, but there are no business transactions between eXmotion and SOLXYZ. The business administration of eXmotion is totally independent of SOLXYZ.

**【Corporate ethos: We will contribute to the actualization of a new society with “high-quality software” in the age in which IT will become more important.】**

The sections for developing embedded systems are busy with responding to the shift to large-scale, complex systems, and are required to develop efficient embedded systems.

The company set the mission (raison d'etre) to “support each client’s reform and help them achieve success,” and helps client companies reform embedded system development under the value and code of conduct: “successful experiences in practice and sensations from them enable reform” and the visions (envisaged ideal states): “to share clients’ experiences of reform and success” and “members (employees) can grow together.”

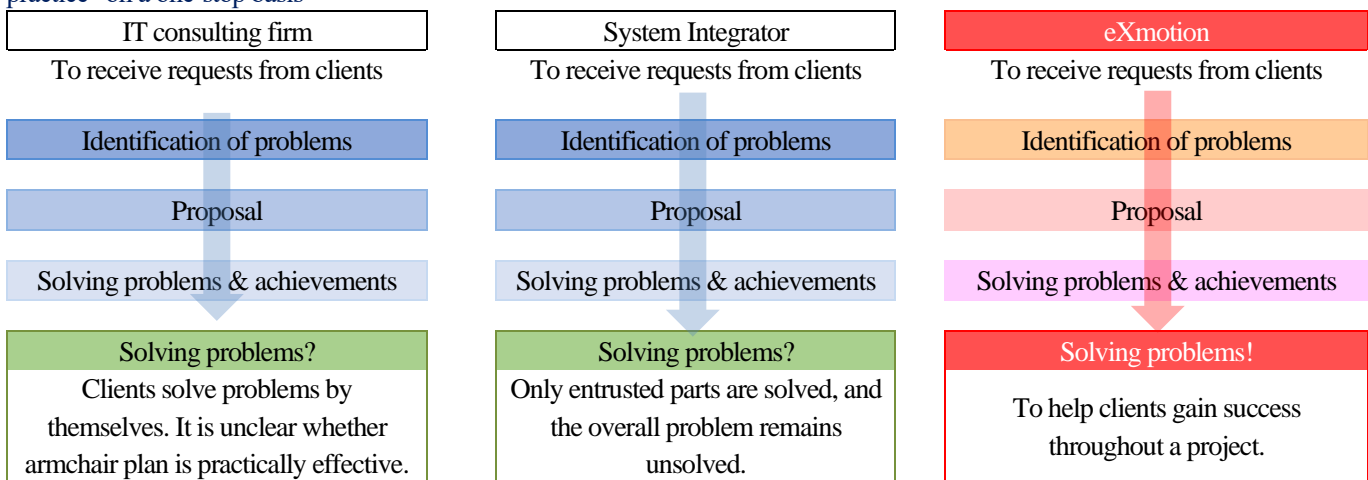
**【Business description】**

Its business segment is only consulting, but the company engages in education, personnel development, development and sales of tools centered around consulting.

**Consulting**

The company offers consulting services specializing in the improvement in the quality of “embedded software,” which is installed in products, such as automobiles, robots, and digital devices. The consulting service of the company is characterized by the practical one-stop style in which the company demonstrates the solutions it has proposed by itself, directly solving problems, rather than just giving proposals in a conventional way.

Specializing in the practical consulting style for “identifying problems, giving proposals, solving problems, and putting proposals into practice” on a one-stop basis



(Produced with reference to the reference material of the company)

**Consulting focused on fields where manufacturers face difficulty (software engineering)**

The company excels at effective technologies for developing embedded software, with a focus on modeling technologies, and has plenty of experience introducing and implementing model-based development and supporting functional safety, etc. for automobile manufacturers and suppliers in Japan in the automobile field (which accounts for about 90% of total sales) where demand became evident early on for digitization, automatic driving, and development of electric vehicles.

Modeling means a technique to develop a system for abstracting workflow, structures, etc. and grasping the entire picture. The model-based development utilizing the modeling technique is one of the methods for improving the processes of embedded system development.

For example, when it comes to automatic driving, automobile manufacturers are good at developing sensor fusion for automatic driving (which sensor is used to detect an object and how, etc.), but lack the technologies and know-how to develop software for actualizing such functions. Moreover, as processors and memories became highly functional, software became large-scale and complex, and development needs to be conducted while considering what kind of development could tolerate future addition of functions and reduce the number of tests for adding functions, and appropriate consulting (software engineering) is indispensable. Consulting of the company provides support focused on what manufacturers are not good at not only in the automobile field.

### Education and training of personnel

As for engineering methods used by the company for consulting, the company creates original teaching materials for acquiring skills in-house, utilizes them for introducing techniques at the time of consulting, and sells them to clients as training services for personnel development. In addition, the company offers seminars and training services.

### Provision of tools (development and sale)

Some solutions that proved to be effective in consulting are provided as tools so that outside engineers, too, can use them at low cost. At present, the company provides three tools such as “eXquto,” a tool for gauging quality for the C language, which evaluates the quality of design and installation of software, “MODEL EVALUATOR,” a tool for gauging the quality of the MATLAB/Simulink model (quantification and visualization), and “mtrip,” a tool for converting between the architecture design model and the detailed design model.

## 2. First half of the Fiscal Year ending November 2020 Earnings Results

### 2-1 Non-consolidated Earnings Results

	First half of FY 11/19	Ratio to sales	First half of FY 11/20	Ratio to sales	YoY	Initial forecast	Ratio to forecast
Sales	467	100.0%	425	100.0%	-9.0%	491	-13.5%
Gross Profit	220	47.1%	174	41.1%	-20.7%	213	-18.3%
SG&A	123	26.4%	132	31.2%	+7.7%	148	-10.8%
Operating income	97	20.8%	41	9.9%	-56.8%	64	-35.4%
Ordinary income	98	21.1%	43	10.2%	-55.9%	66	-34.6%
Net income	67	14.5%	29	6.9%	-56.6%	43	-31.9%

\*Unit: million yen.

### Sales decreased 9.0% year on year, and operating income declined 56.8% year on year

Sales fell 9.0% year on year to 425 million yen. The company was affected by the spread of COVID-19, through the suspension of projects for some customers, consulting staff staying at home, and the postponement of holding of training services. Furthermore, it curbed mid-career recruitment (switching to careful recruitment) in preparation for the economic downturn due to the spread of COVID-19. This caused sales to decline.

Operating income fell 56.8% to 41 million yen. Although telecommuting and voluntary restraint on business activities under the declaration of an emergency curtailed expenses such as transportation expenses, gross profit decreased 20.7% year on year due to an increase in cost ratio caused by the decline in sales. SG&A expenses fell short of the budget due to factors such as the unfulfilled costs of recruitment (fees paid to agents upon success in hiring). However, SG&A expenses increased 7.7% year on year due to factors such as securing personnel for launching new businesses.

### Factors in the difference from the initial forecast

Net sales and gross profit dropped due to the failure to achieve the recruitment plan due to the spread of COVID-19 and careful recruitment. Although SG&A expenses were lower than initially expected due to the unfulfilled hiring costs caused by the failure to meet the recruitment plan, the decline in gross profit could not be covered.

**Transition of quarterly financial results**

	18/11-1Q	2Q	3Q	4Q	19/11-1Q	2Q	3Q	4Q	20/11-1Q	2Q
Sales	200	192	205	236	205	262	237	271	214	210
Gross Profit	89	90	92	100	95	124	110	99	96	78
SG&A	42	51	77	56	62	61	58	60	63	69
Operating income	47	39	14	43	33	63	51	38	32	9
Ordinary income	48	40	15	41	33	64	52	38	32	10
Net income	31	26	12	28	22	44	36	35	22	7

\*Unit: million yen.

**2-2 Financial position and cash flow (CF)****Financial position**

	Nov. 2019	May. 2020		Nov. 2019	May. 2020
Cash and deposits	1,272	1,305	Liabilities	122	88
Current Assets	1,421	1,381	Net Assets	1,391	1,382
Noncurrent assets	92	89	Total Liabilities, Net Assets	1,513	1,471

\*Unit: million yen.

The total assets at the end of the first half were 1,471 million yen. The company has a simple financial standing composed of mainly cash and net assets. It has excellent liquidity and financial stability, with a liquidity ratio of 15 months and an equity ratio of 93.9%.

**Cash flow (CF)**

	First half of FY11/19	First half of FY11/20	YoY Change	
Operating CF (A)	67	78	+11	+16.9%
Investing CF (B)	-14	-7	+7	-
Free CF(A+B)	52	71	+19	+36.2%
Financing CF	-35	-38	-2	-
Cash and Equivalents at Term End	1,179	1,305	+126	+10.7%

\*Unit: million yen.

The operating cash flow of 78 million yen was secured through net income before taxes of 43 million yen (98 million yen in the same period of the previous year), a decrease in trade receivables of 78 million yen (3 million yen in the same period of the previous year), and income taxes paid of 25 million yen (27 million in the same period of the previous year). Investing cash flow is mainly due to the acquisition of tangible and intangible fixed assets, and financing CF is primarily due to the payment of dividends.

**2-3 Order receipt status**

Although some major customers in the automotive field suspended projects due to budget cuts in the upfront investments, the number of orders has been gradually recovering since June. Recently, the projects that had been suspended have been restarted, and the company returned to its condition before the spread of COVID-19. Excluding these exceptional cases, the automobile sector as a whole still has active development investments. Moreover, new projects are increasing even though some small projects were stopped. Additionally, online training released as part of the "new normal" support also contributed to the recovery of the number of orders, and the company has been successful in receiving orders from companies that are working on development while taking infection prevention measures. The order backlog at the end of the second quarter was 230 million yen, down 23.9% year on year, but contract renewals in the period from July to September are progressing smoothly. At the end of June, the full-year order forecast (764 million yen) was 74% of the full-year sales forecast (1,035 million yen).

## 2-4 Progress of existing business

The earnings for the second quarter were affected by the spread of COVID-19 substantially, but the impact varied among business partners, as the sales of two of the top four business partners exceeded the estimates. Both consulting and education businesses have been recovering since June.

### Consulting business

In the automobile field, the demand for CASE-related assistance for the next generation is growing steadily, and the demand for MBSE (model-based system engineering) assistance is great not only in the automobile sector, but also in the non-automotive sector. Under such circumstances, the company has improved the productivity of consulting personnel through efforts such as establishing an online consulting system enabling it to provide efficient support to distant customers.

### Education business

Almost all of the face-to-face training was temporarily suspended due to its postponement, which was caused by the spread of COVID-19. However, the company released online training (In April, eXmotion started discussing a service lineup to prevent the spread of COVID-19 infections.), and the actual services were launched in June one after another. Customers praised their enriched functions, such as being able to participate from their own offices or homes and a group work (workshop) function.

## 2-5 Progress of investment activities

The company is investing in existing and new domains. In existing domains, the company is working on the digitization of core assets and the transformation of the consulting business into a recurring-revenue one. In new domains, it is working on creating content to foster new businesses and to develop human resources that can utilize the latest technology. Efforts in both domains progressed more than expected because the company used the personnel from the projects suspended due to the impact of COVID-19 and because work efficiency improved by telework.

### Investment activities in existing domains

Investment activities in existing domains are aimed at "expanding the consulting business by digitizing core assets and earning recurring revenues from them." The digitization of core assets means enabling the sharing of internal knowledge by digitizing the core consulting assets (education, teaching materials, and tools) to improve further consulting. eXmotion is currently constructing a digital content library of videos, tools, etc. as it has completed the selection of core assets during this term and starting internal operations within the year.

On the other hand, to earn recurring revenues from core assets means to sell part of the digitized core assets externally to create a recurring-revenue business. Although the company provides high-value-added consulting services, consulting is limited to human resources due to its nature. Also, in order to expand the customer base to include small and medium-sized development companies, it is necessary to line up services that can be used at low prices. To that end, the company believes that it is important to not only provide consulting services by highly-skilled personnel, but also to earn recurring revenues from core assets, in other words, to foster an external sales business by digitizing core assets. Efforts are progressing smoothly, and there is a prospect of releasing part of the digital content library to the public for a fee as early as FY 11/21.

### Investment activities in new domains

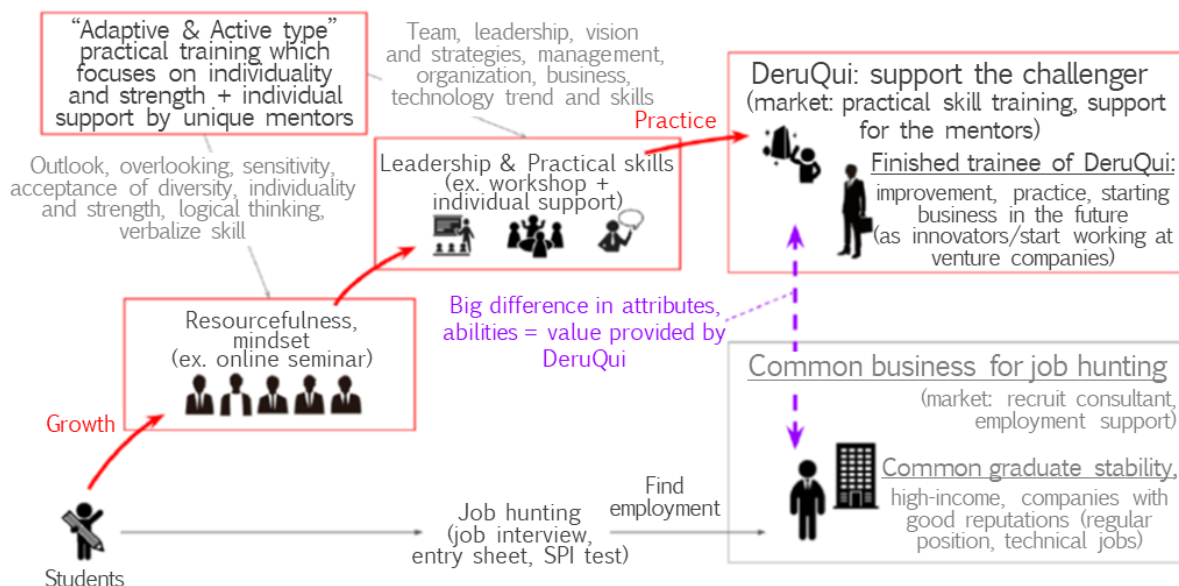
Investing activities in new domains are aimed at "making a new entry into the business & technology domains." As for entering the business domain, on June 1, eXmotion started a trial experiment of "DeruQui," a "novice entrepreneur" discovering and training program targeting students and young engineers who are interested in entrepreneurship. "DeruQui" is a program offering support from the stage of discovering and training innovators to the finish line (internal/external entrepreneurship). The program achieves its goal using enriched content provided through collaboration between many companies and experts, and generous support through individual guidance. As a business, eXmotion will recruit sponsor companies and earn profits from them.

With regard to entering the technology domain, the company is developing content to train human resources that can utilize the latest technology. This content is viewed as a "manual" that explains information starting from the basic knowledge to know and master the latest technology to the vital points. In June, eXmotion released the introductory edition (5 books) for the company and is currently reflecting on the feedback. The company is scheduled to release the practical edition during this term and plans to start using it for human

resource development within the company. eXmotion is making similar efforts to earn recurring revenues from core assets, and there is a prospect for external disclosure in the next term.

### The human resource model of DeruQui (concept)

**Production of “human resources which find problems by themselves and challenge” through improvement of resourcefulness (online seminar) and acquisition of practical skills (workshop+ individually support)**



**We aim for producing human resource value in innovation field through finding and supporting for Challenger (10%), not through introduction by workers (90%)**

(Taken from the reference material of the company)

### 2-6 Recruitment status

Since the company conservatively estimated the trend of the economy due to the spread of COVID-19 infections and switched to careful recruitment, the number of mid-career engineers who are ready to work immediately was limited to five and the number of consulting staff at the end of the second quarter was 52 (up 5 year on year), which seems to be slightly below the estimate.

As for the recruitment of new graduates (engineers to join in April 2021), there were many applications mainly from IT studying students, and among them, job offers were given to four people, and the recruiting activity was virtually completed at the end of May. In addition to the effect of switching to online recruiting activities from an early stage, and conducting online discussions and interviews, improving brand awareness by listing the stock had a substantial impact on recruitment.

## 3. Fiscal Year ending November 2020 Earnings Forecasts

### 3-1 Non-consolidated full year Earnings

	FY 11/19 (Act.)	Ratio to sales	FY 11/20 (forecast)	Ratio to sales	YOY
Sales	976	100.0%	1,035	100.0%	+6.0%
Gross Profit	430	44.1%	436	42.2%	+1.3%
SG&A	242	24.9%	284	27.4%	+17.1%
Operating income	187	19.2%	152	14.7%	-18.9%
Ordinary income	190	19.5%	153	14.8%	-19.0%
Net income	140	14.4%	96	9.3%	-30.9%

\*Unit: million yen.

### No change in the full-year forecast, a 6.0% increase in sales and an 18.9% decrease in operating income

The company is planning to invest in the digitization of the consulting business and its transformation into a recurring-revenue one and business operation in new fields. Thus, sales will slow down temporarily due to allocating part of the consulting staff to tasks for digitization and earning recurring revenues. As for profits, while gross profit margin will decrease due to a decline in the utilization rate of some consulting personnel associated with investments for digitization and earning recurring revenues, SG&A expenses will increase due to investment in staff aimed at expanding into new areas. This is expected to lead to a decrease in operating income.

eXmotion plans to pay a year-end dividend of 15 yen per share (estimated payout ratio: 43.3%).

### 3-2 Return to the growth track in FY 11/21, and further leap in FY 11/22

	11/20 forecast		11/21 forecast		11/22 forecast	
	No investment	With investment	No investment	With investment	No investment	With investment
Sales	1,021	1,035	1,200	1,300	1,400	1,650
Operating income	205	152	240	240	330	450
Sales growth	+4.6%	+6.0%	+17.5%	+25.6%	+16.7%	+26.9%
Profit growth	+9.6%	-18.7%	+17.1%	+57.9%	+37.5%	+87.5%

\*Unit: million yen.

Profit is expected to decrease in FY 11/20 due to investment activities in existing domains and new domains. However, from FY 11/21 onward, the results of investment activities will materialize in existing domains, and both sales and profits are expected to grow significantly. In FY 11/20, the company plans to increase the number of consulting staff by nine. Sales and profits for FY 11/21 and FY 11/22 rely on continuous recruitment at the same pace.

## 4. Conclusions

The progress rate toward the full-year forecast is 41.1% for sales (47.8% based on full-year results for the same period of the previous year), 27.6% for operating income (51.7%), 28.4% for ordinary income (51.9%), and 30.7% for net income (48.4%). Progress is delayed due to slowing down in the second quarter because of the spread of COVID-19. The number of orders is recovering at the moment, and there are factors that could turn around the situation in the second half, such as the improvement of productivity of consulting staff by establishing an online consulting system. However, the second wave of COVID-19 infections is becoming more realistic, and it is difficult to foresee precisely the business results.

In other words, the company cannot deny the possibility that full-year earnings will fall, but medium/long-term business environment remains good. The automobile field is in the midst of a major revolution that happens once every 100 years brought about by "CASE" such as electric and autonomous, and the sophistication of software technology continues in various fields other than automobiles. The company is in a position to enjoy such a business environment and intends to meet needs with two business models: consulting by highly skilled human resources and digitization of core assets to earn recurring revenues. We look forward to seeing future developments as the novice entrepreneur discovery and training program "DeruQui" progresses.



## <Reference: Regarding Corporate Governance>

### ◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	8 directors, including 3 external one
Auditors	0 auditors, including 0 external ones

### ◎ Corporate Governance Report (last updated on July 13, 2020)

#### Basic Concept

Our company recognizes that it is important to improve our corporate governance in order to increase our corporate value sustainably, and strive to secure the efficiency and soundness of business administration and disclose information timely and appropriately.

Our company transformed into a company with the board of directors, an audit committee, and comptrollers, through the resolution at the annual meeting of shareholders held in February 2017. From the viewpoints of securing management efficiency and maintaining responsible management, we consider that the above-mentioned system is the most appropriate for the scale and business of our company.

With the audit committee in which outside directors occupy the majority, the function to oversee business administration from the objective, neutral viewpoint can be exerted, and with the participation of outside directors, the function to supervise business operation of the board of directors can be strengthened, to secure the soundness of business administration.

#### <Reasons for Non-compliance with the Principles of the Corporate Governance Code>

Our company follows all of the basic principles of the Corporate Governance Code.

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