

 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/en/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
¥1,355	14,850,000 shares		¥20,121million	12.8%	100shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥7.50	0.6%	¥23.72	57.1x	¥259.69	5.2x

*The share price is the closing price on June 4. Each number was taken from the financial report for FY 1/20

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Jan. 2017 Act.	2,116	391	428	296	20.64	8.50
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 Act.	3,742	699	717	495	33.38	7.50
Jan. 2021 Est.	5,331	540	560	352	23.72	7.50

*Unit: million yen, yen

*The forecasted values were provided by NEOJAPAN Inc. Consolidated accounting started in the term ended January 2020, so the net income from the term ended January 2020 means the profit attributable to owners of parent. 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 Fiscal Year ended January 2020 Earnings Results and other information about NEOJAPAN Inc.

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Key Points

- The sales for the term ended January 2020 were 3,742 million yen, up 40.6% year on year. The growth of sales from cloud services and products as well as the reorganization of Pro-SPIRE into a subsidiary contributed. Operating income was 699 million yen, up 32.3% year on year. The sales growth offset the augmentation of costs for cloud services, Pro-SPIRE, human resources, and R&D. The profitability of the system development service business is lower than that of the software business, so gross profit rates and other profit rates declined. The dividend was 7.5 yen/share, 1 yen/share larger than the estimate 6.5 yen/share.
- The sales for the term ending January 2021 are estimated to be 5,331 million yen, up 42.4% year on year. Cloud services will keep growing, and Pro-SPIRE will contribute to the annual performance. Sales are expected to grow for the 9th consecutive term, hitting a record high. Operating income is projected to be 540 million yen, down 22.6% year on year. The investment in human resources and overseas businesses will increase. The dividend is to be 7.5 yen/share, unchanged from the previous term. The estimated payout ratio is 31.6%.
- Due to the novel coronavirus, the share prices of many companies nosedived, and their earnings forecasts are still to be determined. Meanwhile, the share price of NEOJAPAN, which helps reform workstyles, including remote work, has been rebounding rapidly after plummeting. This term, the performance of Pro-SPIRE, which became a subsidiary, will contribute to consolidated results, increasing sales considerably, but profit is estimated to decline due to the investment for growth. We would like to pay attention to how much the worsening of revenues of client enterprises will affect the business of NEOJAPAN in the short term, and synergetic effects of PMI of Pro-SPIRE and the progress of their overseas business in the medium term.

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 4.15 million (as of the end of January 2020). A multitude of aspects of “desknet’s,” such as the price, reliability, and operability, have been well reputed, gaining the greatest satisfaction rating from customers for 5 years in a row (in the groupware/business chat 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. In 2018, the company was listed in the first section of Tokyo Stock Exchange.

1-2 Managerial and Corporate philosophy

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

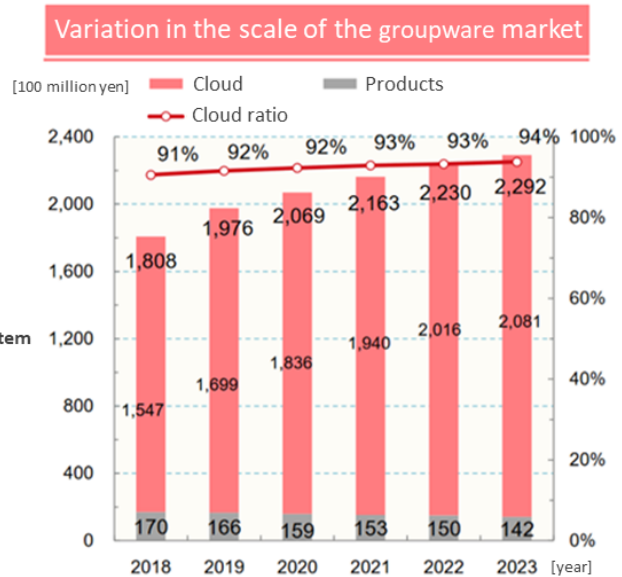
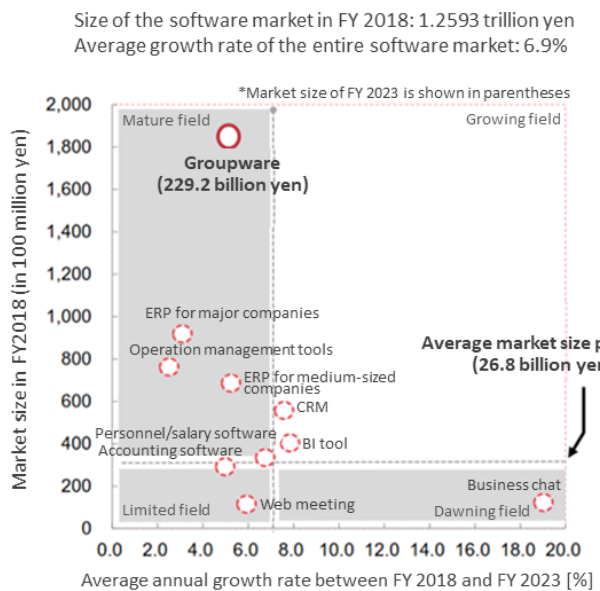
The groupware market in Japan was worth 180.8 billion-yen, accounting for 14% of the Japanese software market worth around 1.2 trillion yen in the fiscal 2018 and creating a relatively large market.

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



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).

① Package 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.)

② Cloud 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."

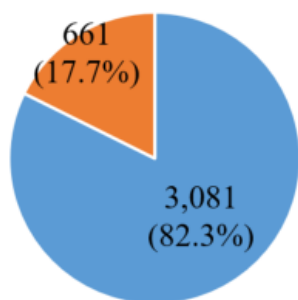
(Excerpt from NEOJAPAN's reference material; Source: Fuji Chimera Research Institute, Inc.)

1-4 Business content

The business segments to be reported are the software business and the system development service business.

Until the term before the previous term, the business segment was only the software business, but the system development service business was added from the previous term, as Pro-SPIRE became a subsidiary in Sep. 2019.

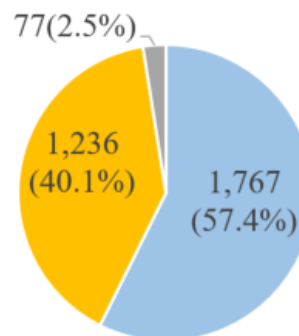
Sales composition by segment



■ Software business ■ System development service business

*FY 1/20, Sales to external customers, Unit: million yen

Sales composition in the software business



■ Cloud services ■ Products ■ Technological development

*FY 1/20, Unit: million yen

(1) Software business

This business is operated by NEOJAPAN. In this business, the company mainly develops and sells business chat systems, online databases, web mail systems for enterprises, heavy file transmission systems, marketing management systems, customer information management systems, etc. while handling its mainstay groupware “desknet’s NEO.” The business can be divided into three sections: “cloud services” for offering groupware and related products through the Internet, “products” for selling licenses regarding groupware and related products, and “technological development” for undertaking software development.

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.

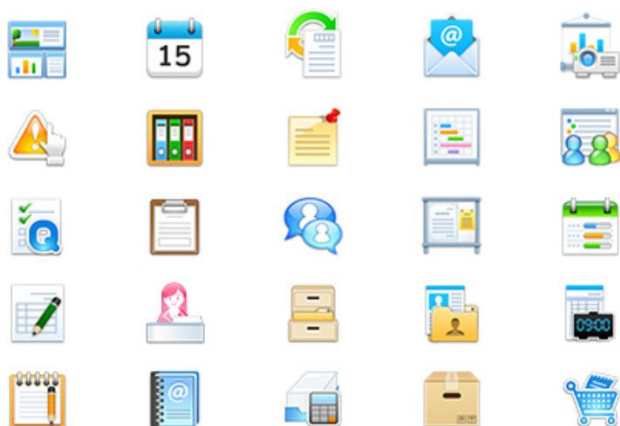
The “user-friendliness” and “simplicity” of “desknet’s NEO” improve the situations of the working sites and supports work. Users can use the groupware without stress on multiple kinds of devices, such as smartphones and tablets.

*High performance

In addition to basic functions, including schedules, information, and online e-mail, 27 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.

*27 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 Japan.(Source: NEOJAPAN Inc.)

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 960 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 4.15 million (as of the end of January 2020).

(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.

②Sales 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.

(2) System development service business

This business is operated by the subsidiary Pro-SPIRE. Based on the accumulated know-how for cloud integration and system integration, they develop engineers, and provide mainly system engineering services for meeting customer needs by utilizing cutting-edge technologies.

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 27 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”

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.

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

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.

“Improvement of market awareness and branding”

As the Company has focused its management resources on technological development, the “desknet’s” products have held a relatively weak presence in the market. NEOJAPAN will endeavor not only to increase its corporate creditworthiness but also to boost market awareness of its brand. Health-oriented management and ESG-oriented business administration, too, are considered as important issues.

② Synergy through the acquisition of Pro-SPIRE

Pro-SPIRE, which became a subsidiary in Aug. 2019, offers comprehensive IT services, including the design, development, and operation of corporate information systems and software, in the fields of financial systems, embedded systems, and solution systems, in the system/cloud integration business.

In web marketing business, it doesn't only propose and operate advertisements but also offers a variety of marketing measures for reeling in customers, attending to them, and promoting them to revisit them.

Through the acquisition of Pro-SPIRE, two synergetic effects are expected to be exerted.

***Creation of large projects, SI, customization, operation and maintenance**

By utilizing Pro-SPIRE's many engineers, NEOJAPAN will expand the number of desknet's NEO commissioned projects, expand flexible support for customization requirements, and provide not only development but also stable service operations to clients.

In addition, the company expects to increase its unit price and business profit margin.

***Securing technical development personnel for the expansion strategy**

NEOJAPAN believes that it can actively engage in new technology elements through the recruitment and training of personnel with technical potential, the appropriate allocation of resources to product development and contracted projects, and the establishment of a stable technology development team for the future.

③ Overseas business expansion

***Establishment of DELCUI Inc.**

In June 2019, the company founded DELCUI Inc., a 100% subsidiary, in the U.S. as a liaison among the U.S., Japan, and Southeast Asia to establish a global network.

By establishing DELCUI, NEOJAPAN will distribute products and technologies nurtured in the U.S. in Japanese and Southeast Asian markets, develop a business that will become a new pillar for the NEOJAPAN Group, and acquire resources and build networks for planning, developing, and selling products targeted at the global market.

In order to attain the above goals, the following strategies will be implemented.

***Fostering of relations in the U.S. through alliance activities**

(Increase of alliance transactions and technical/sales partners and mentors)

***The company will conduct up-selling toward existing business users, approach partners, and develop businesses in Japan and Southeast Asia efficiently without waste.**

***The company will plan and develop products by utilizing the business and technological know-how obtained through alliance activities.**

***Start of the foray from Malaysia to ASEAN countries**

In December 2019, the company established a subsidiary "NEOREKA ASIA Sdn. Bhd." as a joint venture with the Malaysian company "Tazaki Holdings Sdn. Bhd." (REKA means a new design/way of thinking in Malay.)

(Background for establishment)

NEOJAPAN planned to sell its products in the Southeast Asian market as the first step for global business operation. In 2018, it launched "Malaysia Project," and carried out test marketing in the Southeast Asian market by enlisting cooperation from business partners.

As a result, the company saw a good response, as the products were highly evaluated by the enterprises that installed desknet's NEO. In addition, receiving advice from competitive partners engaging in software sales, the company conducted marketing further and had discussions many times, and established a joint venture with TAZAKI Holdings Sdn. Bhd. Then, it agreed to launch a new software sales business based on DaaS*. Capital contribution ratio is 70% for NEOJAPAN, and 30% for Tazaki Holdings.

*DaaS: A service of offering a desktop operation window to a remote terminal via a network. Without installing a full-featured PC for each user, it is possible to realize a desktop environment by using a simple terminal or the like.

(Future developments)

By offering one-stop cloud services, it will contribute to the business operations of Southeast Asian enterprises, and make new endeavors as a foothold for overseas business operation of NEOJAPAN.

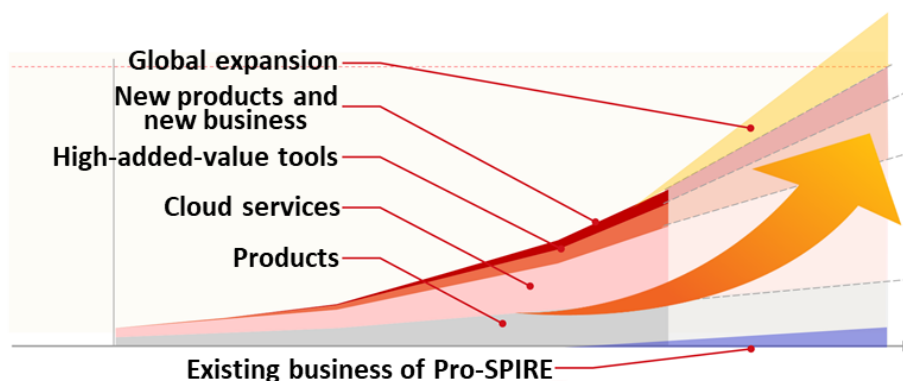
In detail, the company will cultivate new sales channels while considering the sales expansion in Southeast Asia, including Thailand and Vietnam in addition to Malaysia, and make efforts to enrich cloud services, including desknet's NEO and fortify support systems.

Furthermore, the company will establish routes of recruitment from outside Japan with the aim of securing excellent engineers from Southeast Asia.

(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.

<p>Strengthening of the sale of groupware, and business expansion overseas</p>	<p>To upgrade existing groupware and enhance its functions, and expand the sales of cloud services by differentiating them in the aspect of security based on advanced technologies.</p> <p>For products and cloud services, the company will expand marketing bases and improve sales and marketing capabilities, to expand the market share further, cement the position in the industry, and become No.1 in the groupware market.</p> <p>Through the alliance with overseas partners, the company will make inroads into the Southeast Asian market and start sales activities based in Malaysia.</p>
<p>Development and proposal of communication tools that are strategic for companies in an effort to further differentiate NEOJAPAN from competitors</p>	<p>The company will evolve the existing groupware into a tool with higher added value while looking ahead to the future society, business forms, and trends.</p> <p>The company will not only actualize streamlining, but also offer new IT communication tools that are indispensable for business strategies, and develop businesses. By doing so, the company will further differentiate its business from competitors'.</p> <p>By accelerating overseas business operation, the company aims to establish a de facto standard in the Southeast Asian communication market, which is expected to grow.</p>



NEOJAPAN has been continuously developing its ultimate IT communication tools 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.”

In addition, the company ranked first for two consecutive years in “Survey on the satisfaction level of IT systems for municipalities in fiscal 2019” conducted by Nikkei BP Government Technology, and ranked first in the items of costs, reliability, operability, performance, and functions.

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.

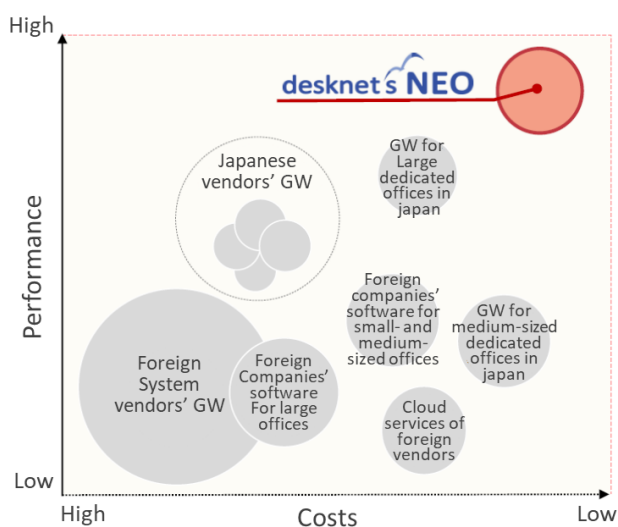
- As for functions, products of Japanese vendors have garnered higher reputation than those of foreign companies because support provided by foreign companies, such as localization (systems supporting Japanese, and commercial and business practices in Japan), is not satisfactory.

- 27 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)

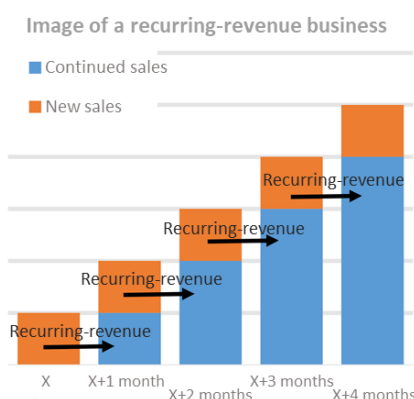
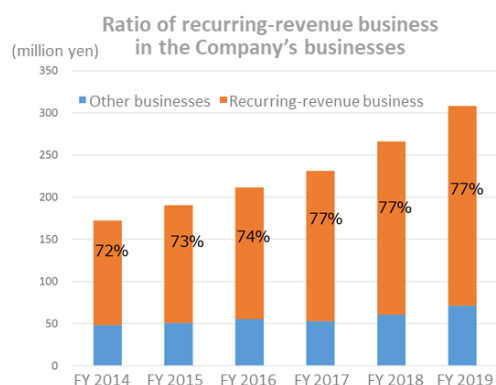
③ Business model that realizes stable earnings

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 2020.



(Source: the company)

④ Pursuit of a continuous growth through synergies among each business

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.

The company plans to improve its system engineering service by reorganizing Pro-SPIRE into a subsidiary, and accelerate growth rate.

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.

As a result of these efforts, the company was certified as one of “Excellent Corporations for Health-oriented Management 2020 (section of large corporations),” for which the Ministry of Economy, Trade and Industry designed systems in March 2020 and Nippon Kenko Kaigi certifies excellent corporations. From now on, the company will aim to be listed in “Stocks of companies that conduct health-oriented management,” which will be selected and announced jointly by the Ministry of Economy, Trade and Industry 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	FY Jan 20
ROE (%)	11.2	11.1	10.9	11.7	12.8
Net income margin (%)	12.93	14.01	14.02	14.36	13.23
Total asset turnover [times]	0.63	0.59	0.59	0.62	0.65
Leverage [times]	1.38	1.33	1.31	1.32	1.50

*Since consolidated accounting started in the term ended January 2020, term-end equity capital and term-end total assets were used for calculation.

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

2. Fiscal Year ended January 2020 Earnings Results

2-1 Earnings Results

	FY Jan. 19	Ratio to sales	FY Jan. 20	Ratio to sales	YoY
Sales	2,661	100.0%	3,742	100.0%	+40.6%
Gross profit	1,785	67.1%	2,223	59.4%	+24.6%
SG&A	1,256	47.2%	1,524	40.7%	+21.3%
Operating Income	528	19.8%	699	18.7%	+32.3%
Ordinary Income	547	20.6%	717	19.2%	+31.0%
Net Income	382	14.4%	495	13.2%	+29.5%

*Unit: million yen

*FY 1/19 is non-consolidated. Net income for FY 1/20 is net income attributable to shareholders of the parent company. Year on year comparisons are for reference.

Double-digit increase in sales and profit

The sales for the term ended January 2020 were 3,742 million yen, up 40.6% year on year. The growth of sales from cloud services and products as well as the reorganization of Pro-SPIRE into a subsidiary contributed.

Operating income was 699 million yen, up 32.3% year on year. The sales growth offset the augmentation of costs for cloud services, Pro-SPIRE, human resources, and R&D. The profitability of the system development service business is lower than that of the software business, so gross profit rates and other profit rates declined. The dividend was 7.5 yen/share, 1 yen/share larger than the estimate 6.5 yen/share.

2-2 Sales trend by segment

① Software business

The sales of cloud services and products grew by double digits. As cloud services grew, costs, personnel expenses, R&D costs, etc. augmented, but operating income rose 22.0%.

◎Sales trends by segment

	FY Jan. 19	FY Jan. 20	YoY	Ratio to forecasts
Cloud service business	1,497	1,767	+18.0%	+5.2%
Product business	1,054	1,236	+17.2%	+4.9%
Technological development business	109	77	-29.0%	-4.9%
Total Sales	2,661	3,081	+15.8%	+4.8%

(Unit: million yen)

*Cloud service business

The number of users of “desknet’s NEO cloud version” exhibited a steady increase. The number of users increased by about 60,000 in the previous term, and became over 300,000 as of the end of January 2020.

The sales were 1,416 million yen, up 21.1% year on year.

The ratio of sales of ChatLuck cloud version to entire cloud service was low, but the sales grew 67.6% year on year to 48 million yen, and the sales for ASPs also rose 2.5% year on year to 126 million yen.

*Product business

The sales of the Small License for the products targeted at small and medium-sized users shrank 10.5% year on year to 67 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 1.9% year on year to 198 million yen. 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 46 million yen, up 20.2% year on year.

The sales of customization improved by 70.9% to 106 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 572 million yen, up 5.9% year on year.

The sales from resale of ID integrated management software, which is linked to the company's products, etc. increased 150.0% to 56 million yen, but it is due to temporary factors.

*Technological development business

Since the company does not plan to actively undertake development, it dealt with continuous projects related to EC sites and the system maintenance entrusted in the previous years.

② System development service business

In addition to the maintenance of system integration services and the expansion of its scale, the company gave proposals and engaged in activities for receiving orders by utilizing the know-how for both mission-critical (SoR) and information (SoE) systems, for developing systems in the life and non-life insurance fields, and made efforts to improve profitability and productivity.

The results for 4 months from October 1, 2019 to January 31, 2020.

2-3 Financial standing and cash flows

Main BS

	End of Jan. 19	End of Jan. 20		End of Jan. 19	End of Jan. 20
Current Assets	2,939	3,730	Current liabilities	846	1,362
Cash	2,599	2,996	Payables	23	154
Receivables	285	538	Unearned revenue	469	533
Noncurrent Assets	1,601	2,057	Noncurrent liabilities	265	569
Tangible Assets	51	57	Total Liabilities	1,112	1,931
Intangible Assets	91	322	Net Assets	3,429	3,856
Investment, Others	1,458	1,676	Total liabilities and net assets	4,541	5,788
Total assets	4,541	5,788			

*Unit: million yen

*End of January, 2019 is non-consolidated.

Cash Flow

	FY Jan. 19	FY Jan. 20	Increase/decrease
Operating Cash Flow	696	764	+68
Investing Cash Flow	-566	-464	+101
Free Cash Flow	129	299	+170
Financing Cash Flow	-79	-101	-21
Term End Cash and Equivalents	2,606	2,804	+198

*Unit: million yen

*FY 1/19 is non-consolidated.

2-4 Topics

① Establishment of a subsidiary as a joint venture in Malaysia

As mentioned above, the company established a subsidiary "NEOREKA ASIA Sdn. Bhd." as a joint venture with the Malaysian company "Tazaki Holdings Sdn. Bhd." in Malaysia in December 2019.

It will make new endeavors as a foothold for overseas business expansion of NEOJAPAN.

In detail, the company will cultivate new sales channels while considering the sales expansion in Southeast Asia, which is expected to grow considerably, and make efforts to enrich cloud services and fortify support systems.

Furthermore, the company will establish routes of recruitment with the aim of securing excellent engineers from Southeast Asia.

② Release of “Health Support Plus,” which helps workers manage their health conditions with the groupware “desknet’s NEO”

In February 2020, the company released “Health Support Plus,” a service for helping workers manage their health conditions, for promoting “health-oriented management,” which is a prerequisite for improving the work-life balance and reforming ways of working, in cooperation with Otsuka Pharmaceutical Co., Ltd.

◎ Outline of Health Support Plus

This was developed with reference to the knowledge of Otsuka Pharmaceutical. It is a service operated with the “health support” function of desknet’s NEO.

The company started operating a “sleep improvement program” for facilitating the improvement of sleeping habits, which affect labor productivity significantly. At the end of the program, the results of the one-month program will be summarized in two kinds of reports, to give feedback.

Reports for individuals can be used for improving participants’ health literacy and lifestyles, while reports for employers are utilized for grasping employees’ health conditions and improving labor environments and business administration.

In addition, the health-oriented management of enterprises will be supported based on useful advice for improving lifestyles, information on labor and health, etc. written in reports.

Contents of the sleep improvement program (1 cycle)

1. Intake of “The Wise Man’s Sleep Solution,” a functionality-indicated food product of Otsuka Pharmaceutical (28 days)
2. Distribution of content for sleep-learning (4 times in total)
3. Questionnaire regarding the situation of sleep (3 times in total)
4. Feedback with two kinds of reports on results for individuals and employers

③ Charge-free provision of the cloud versions of “desknet’s NEO” and “ChatLuck” for a limited period of time, in response to the spread of COVID-19

In March 2020, the company started offering the cloud versions of the groupware “desknet’s NEO” and the business chat “ChatLuck” based on the cloud of I-Net Corporation (1st section of TSE; 9600) free of charge for a limited period of time until June 30, 2020, in order to promote and support telework, etc. in response to the spread of COVID-19 and the government’s declaration of a state of emergency.

(It was targeted at corporations, groups, educational institutions, etc. that were thinking of adopting telework. Applications were accepted until May 31, 2020.)

3. Fiscal Year ending January 2021 Earnings Forecasts

3-1 Consolidated Business Results

	FY Jan. 20	Ratio to sales	FY Jan. 21 Est.	Ratio to sales	YoY
Sales	3,742	100.0%	5,331	100.0%	+42.4%
Operating Income	699	18.7%	540	10.1%	-22.6%
Ordinary Income	717	19.2%	560	10.5%	-21.9%
Net Income	495	13.2%	352	6.6%	-28.8%

*Unit: million yen

* Estimates are those of the Company.

Ninth consecutive year of sales growth, but profit is expected to decline due to increased investment

The sales for the term ending January 2021 are estimated to be 5,331 million yen, up 42.4% year on year. Cloud services will keep growing, and Pro-SPIRE will contribute to the annual performance. Sales are expected to grow for the 9th consecutive term, hitting a record high. Operating income is projected to be 540 million yen, down 22.6% year on year. The investment in human resources and overseas businesses will increase. The dividend is to be 7.5 yen/share, unchanged from the previous term. The estimated payout ratio is 31.6%.

3-2 Sales trend by segment

	FY Jan. 20	FY Jan. 21 Est.	YoY
Cloud services	1,767	2,073	+17.3%
Products	1,236	1,222	-1.1%
Technological development	77	67	-13.0%
System development service	661	1,927	+191.5%

(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

The steady orders for enterprise licenses and maintenance services are expected.

*System development service

To maintain and expand system integration services, and utilize the know-how for mission-critical (SoR) and information (SoE) 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.

*The company aims to build track records, including the start of overseas business based in Malaysia and the cultivation of the Southeast Asian market with cloud services.

4. Conclusions

Due to the novel coronavirus, the share prices of many companies nosedived, and their earnings forecasts are still to be determined. Meanwhile, the share price of NEOJAPAN, which helps reform workstyles, including remote work, has been rebounding rapidly after plummeting.

This term, the performance of Pro-SPIRE, which became a subsidiary, will contribute to consolidated results, increasing sales considerably, but profit is estimated to decline due to the investment for growth. We would like to pay attention to how much the worsening of revenues of client enterprises will affect the business of NEOJAPAN in the short term, and synergetic effects of PMI of Pro-SPIRE and the progress of their overseas business in the medium term.

<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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