
 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, 10th Floor, 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
¥2,341	14,859,600 shares		¥34,786million	12.8%	100shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥7.50	0.3%	¥33.66	69.5x	¥259.69	9.0x

*The share price is the closing price on September 29. Shares Outstanding, DPS and EPS are from the earning result of the second quarter for FY 1/21. ROE and BPS are 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	700	720	500	33.66	7.50

*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 Second quarter of Fiscal Year ending January 2021 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 2021 were 2,621 million yen, up 68.6% year on year. The growth of cloud services and the reorganization of Pro-SPIRE Inc. into a subsidiary contributed to the sales growth. Operating income was 569 million yen, up 64.9% year on year. The sales growth offset the augmentation of costs for cloud services, and the increases in costs, personnel expenses, and R&D expenditure of Pro-SPIRE. 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 earnings forecasts for the term ending January 2021 have been revised upwardly. The estimate of sales has not been revised, and sales are projected to grow 42.4% year on year to 5,331 million yen, hitting a record high for the 9th consecutive term. The performance in the first half was in line with the initial assumption, despite the readjustment of conventional marketing activities and restrictions on execution of services. In the second half, the sales of cloud services in the software business are estimated to remain healthy, but the sales of products may be affected by the restrictions on marketing activities in the first half. In addition, it is unclear whether the company will make transactions as initially forecasted in the system development service business.
- Operating income is estimated to be 700 million yen. It was first estimated to drop 20% year on year, but it is now projected to be unchanged from the previous term. In the first half, the budgets for advertisement and sales promotion were not spent as initially planned, due to the cancellation of exhibitions, restrictions on marketing activities, the delay in the full-scale business operation of overseas subsidiaries, etc. Accordingly, profit exceeded the estimate in the first half. In the second half, tools for new workstyles, including remote work, are attracting more attention due to COVID-19, so annual profit is expected to be at the same level as that in the previous term.
- In this situation, the company will conduct upfront investment for sustainable growth, including “fortification of the corporate structure,” “enhancement of popularity and brand power,” “investment in human resources,” and “cultivation of new business fields.”
- The dividend is to be 7.50 yen/share, unchanged from the previous year. The estimated payout ratio is 22.3%.
- The full-year forecasts have been revised upwardly. Profit was first estimated to decline, but it is now forecasted to recover to the level in the previous term. However, share price plummeted on the day following the announcement of the revised earnings forecasts. The profit in the first half exceeded the estimate, but it seems that the market did not like the fact that this was because expenses fell below the estimate due to COVID-19. The company plans to use the funds saved in the first half for upfront investment actively. We would like to pay attention to how their investment will bear fruit in the medium term. In the short term, the environment will remain uncertain. We would like to see whether the company can maintain the top line from the third quarter.

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 4.3 million (as of the end of August 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 6 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

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.

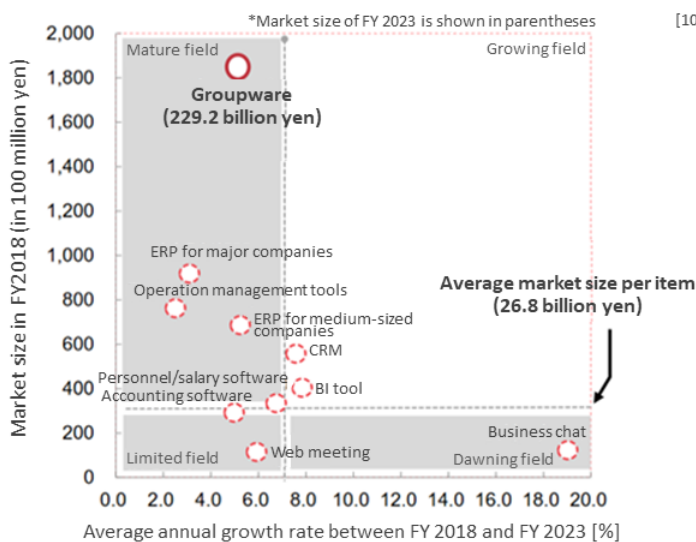
The groupware market will grow to 229.2 billion yen by fiscal 2023, with an annual growth rate estimated at 4.9%.

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.

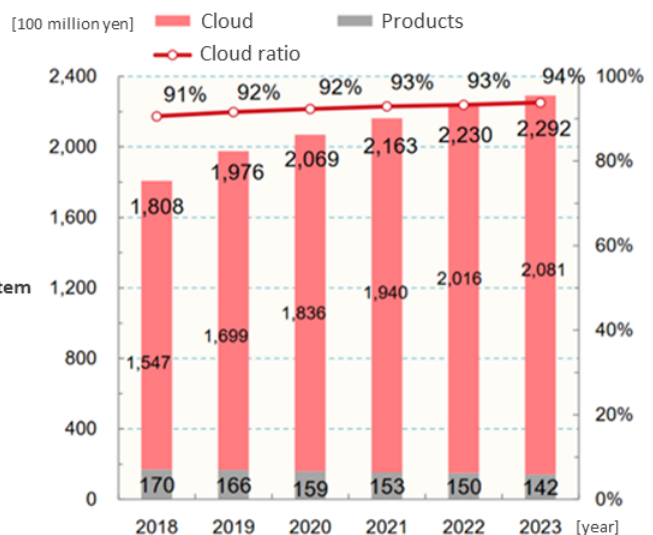
From **180.8** billion yen in 2018 to **229.2** billion yen in 2023

⇒ 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).

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.”

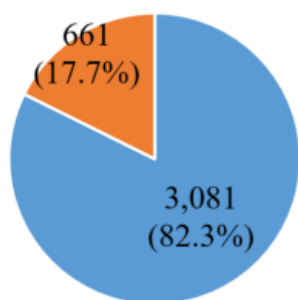
(Excerpt from NEOJAPAN’s reference material; Source: Fuji Chimera Research Institute, Inc.)

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.

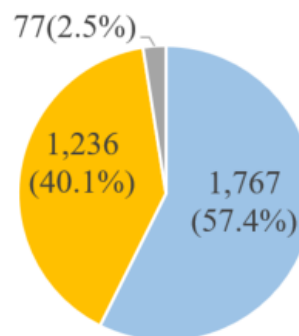
Sales composition by segment



■ 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.

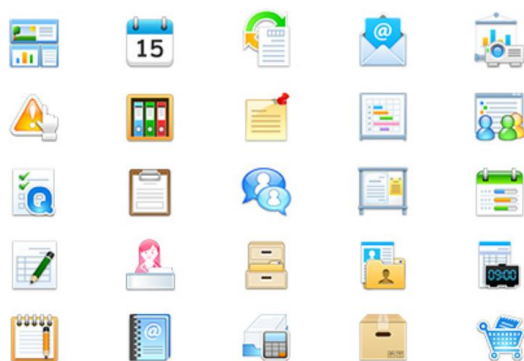
Users can use the groupware without stress on multiple kinds of devices, such as smartphones and tablets.

***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 4.3 million (as of the end of August 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.

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 to 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.

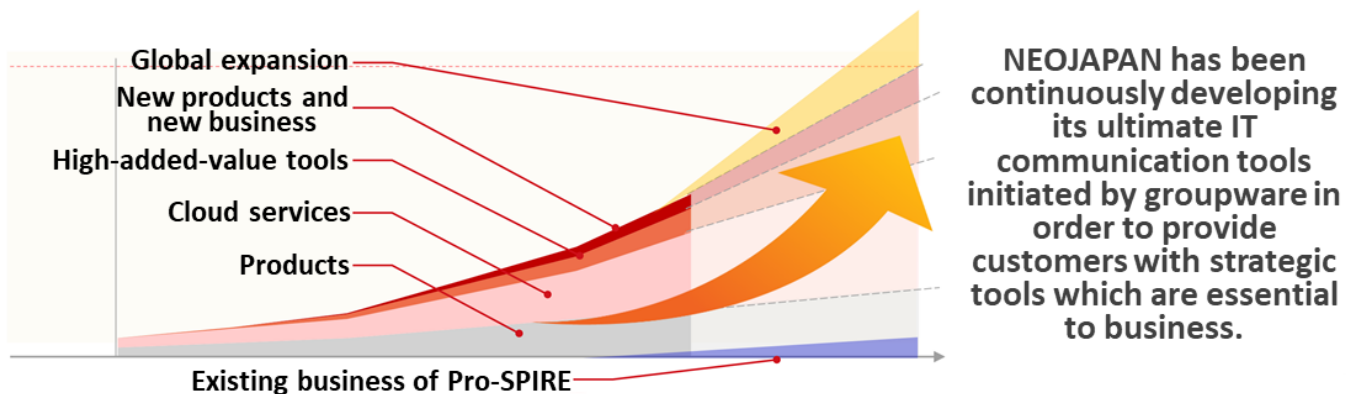
In detail, the company will cultivate new sales channels while considering the sales expansion in Southeast Asia, including Thailand and Vietnam in addition to Malaysia, and make efforts to enrich cloud services, including desknet’s NEO and fortify support systems.

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.

Strengthening of the sale of groupware, and business expansion overseas	<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>
Development and proposal of communication tools that are strategic for companies in an effort to further differentiate NEOJAPAN from competitors	<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>



(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

① Great customers' and sales partners' satisfaction

According to the survey “Customer satisfaction level survey 2020-2021” conducted by Nikkei Computer, NEOJAPAN Inc. won the highest rating in the groupware/business chat section for 6 years in a row.

The company took first place in all of the items: cost, performance & function, support, operability, and reliability.

It has also been well received by its sales partners, and the high reputation of both customers and sales partners is a strong competitive advantage for the company's products.

In “Survey on satisfaction level of IT systems for municipalities 2020-2021” of Nikkei BP Government Technology, the company ranked as the number one in the groupware/business chat section for three consecutive years, and took first place in four items: “performance & function,” “reliability,” “operability,” and “cost” out of five survey items.

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.

② Competitive 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.

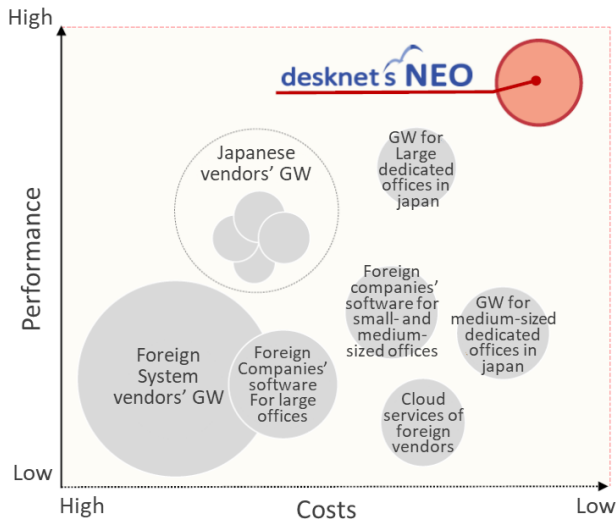
- As for functions, products of Japanese vendors have garnered higher reputation than those of foreign companies because support provided by foreign companies, such as localization (systems supporting Japanese, and commercial and business practices in Japan), is not satisfactory.

- 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)

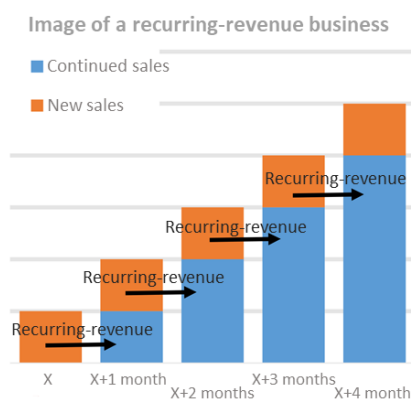
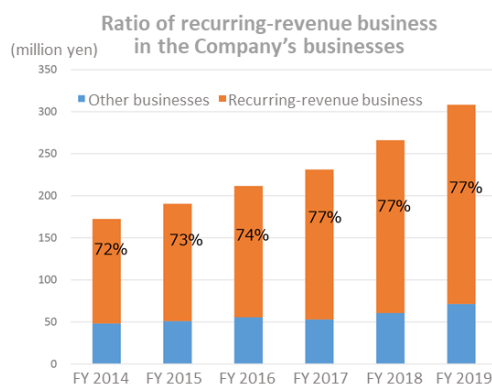
③ Business model that realizes stable earnings

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. Second quarter of Fiscal Year ending January 2021 Earnings Results

2-1 Earnings Results

	FY 1/20 2Q	Ratio to sales	FY 1/21 2Q	Ratio to sales	YoY
Sales	1,554	100.0%	2,621	100.0%	+68.6%
Gross profit	1,082	69.6%	1,366	52.1%	+26.3%
SG&A	736	47.4%	797	30.4%	+8.2%
Operating Income	345	22.2%	569	21.7%	+64.9%
Ordinary Income	354	22.8%	585	22.3%	+65.4%
Net Income	242	15.6%	397	15.2%	+64.3%

*Unit: million yen

* FY 1/20 2Q is non-consolidated. Net income for FY 1/21 2Q is net income attributable to shareholders of the parent company. Year on year comparisons are for reference. Calculated by Investment Bridge Co., Ltd.

Sales and profit increased.

The sales for the second quarter of the term ending January 2021 were 2,621 million yen, up 68.6% year on year. The growth of cloud services and the reorganization of Pro-SPIRE Inc. into a subsidiary contributed to the sales growth. Operating income was 569 million yen, up 64.9% year on year. The sales growth offset the augmentation of costs for cloud services, and the increases in costs, personnel expenses, and R&D expenditure of Pro-SPIRE. 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.

2-2 Sales trend by segment

	FY 1/20 2Q	Ratio to sales	FY 1/21 2Q	Ratio to sales	YoY
Sales					
Software business	1,554	100.0%	1,699	64.8%	+9.3%
System development service business	-	-	933	35.6%	-
Adjustment	-	-	-11	-	-
Total Sales	1,554	100.0%	2,621	100.0%	+68.6%
Operating income					
Software business	345	22.2%	472	27.8%	+36.8%
System development service business	-	-	96	10.4%	-
Total Operating income	345	22.2%	569	21.7%	+64.9%

(Unit: million yen)

*Ratio to sales for operating income is operating income to sales.

① Software business

The sales of cloud services grew by double digits year on year. Operating income increased 36.8% year on year. In parallel with the growth of cloud services, costs and personnel expenses augmented, but the advertisement budget was not spent, so profit exceeded the estimate. Operating income ratio rose 5.6 points, too.

◎Sales trends by segment

	FY 1/20 2Q	FY 1/21 2Q	YoY
Cloud service business	846	1,015	+20.0%
Product business	654	650	-0.6%
Technological development business	53	33	-38.4%
Software Business Total Sales	1,554	1,699	+9.3%

(Unit: million yen)

***Cloud service business**

Sales increased. The number of users became 338,000 as of the end of August 2020.

The number of users of “desknet’s NEO cloud version” exhibited a steady increase.

The sales were 818 million yen, up 21.9% year on year.

The ratio of sales of AppSuite cloud version to entire cloud service was low, but the sales grew 87.9% year on year to 23 million yen, and the sales for ASPs also rose 58.5% year on year to 36 million yen.

***Product business**

Sales decreased.

The sales of the desknet’s NEO Small License for the products targeted at small and medium-sized users shrank 8.7% year on year to 36 million yen. It is expected to decrease in the long term as the use of cloud services is becoming common.

The sales of the desknet’s NEO Enterprise License targeted at large-scale users decreased 7.6% year on year to 99 million yen. As for Enterprise, the sales quantity to clients with a relatively small number of users decreased year on year.

The sales of the ChatLuck license were 22 million yen, up 72.1% year on year. It was adopted by municipalities on a large scale.

The sales of the support services of desknet's NEO (including old products) grew steadily to 301 million yen, up 6.9% year on year.

The sales of customization were unchanged from the previous year.

Sales from services dropped 19.2% year on year to 47 million yen. Due to COVID-19, the number of orders received declined from April to June.

The sales from resale of ID integrated management software, which is linked to the company’s products, etc. decreased 40.1% to 24 million yen.

***Technological development business**

As the company has no policy of actively undertaking development, sales decreased 38.4% year on year to 33 million yen.

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. 20	End of Jul. 20		End of Jan. 20	End of Jul. 20
Current Assets	3,730	3,922	Current liabilities	1,362	1,396
Cash	2,996	3,195	Payables	154	140
Receivables	538	582	Unearned revenue	533	622
Noncurrent Assets	2,057	2,218	Noncurrent liabilities	569	580
Tangible Assets	57	57	Total Liabilities	1,931	1,976
Intangible Assets	322	321	Net Assets	3,856	4,163
Investment, Others	1,676	1,839	Total liabilities and net assets	5,788	6,140
Total assets	5,788	6,140			

*Unit: million yen

Cash Flow

	FY 1/20 2Q	FY 1/21 2Q	Increase/decrease
Operating Cash Flow	306	456	+149
Investing Cash Flow	-183	-129	+53
Free Cash Flow	123	326	+202
Financing Cash Flow	-84	-137	-53
Term End Cash and Equivalents	2,646	2,993	+347

*Unit: million yen

*FY 1/20 2Q is non-consolidated. Increase/decrease is for reference. Calculated by Investment Bridge Co., Ltd.

The surpluses of operating CF and free CF increased. The cash position improved.

2-4 Topics

① Promotion of strengthening of products

The company engaged in “maintenance of a competitive edge with functions” and “improvement of user experience” set as concrete measures of growth strategies.

* The English interface was added to AppSuite, a tool for producing business operation apps. Users became possible to establish global workflow.

* On August 25, the company released the updated version of the app for business chat “ChatLuck” improving the UI and UX.

3. Fiscal Year ending January 2021 Earnings Forecasts

3-1 Forecasts of Consolidated Business Results

	FY Jan. 20	Ratio to sales	FY Jan. 21 Est.	Ratio to sales	YoY	Revised rate
Sales	3,742	100.0%	5,331	100.0%	+42.5%	0.0%
Operating Income	699	18.7%	700	13.1%	+0.1%	+29.6%
Ordinary Income	717	19.2%	720	13.5%	+0.4%	+28.6%
Net Income	495	13.2%	500	9.4%	+1.0%	+42.0%

*Unit: million yen

* Estimates are those of the Company.

The earning forecasts have been revised upwardly. Ninth consecutive year of sales growth. Operating income is expected to be at the same level as that in the previous term.

The earnings forecasts for the term ending January 2021 have been revised upwardly. The estimate of sales has not been revised, and sales are projected to grow 42.4% year on year to 5,331 million yen, hitting a record high for the 9th consecutive term. The performance in the first half was in line with the initial assumption, despite the readjustment of conventional marketing activities and restrictions on execution of services. In the second half, the sales of cloud services in the software business are estimated to remain healthy, but the sales of products may be affected by the restrictions on marketing activities in the first half. In addition, it is unclear whether the company will make transactions as initially forecasted in the system development service business.

Operating income is estimated to be 700 million yen. It was first estimated to drop 20% year on year, but it is now projected to be unchanged from the previous term. In the first half, the budgets for advertisement and sales promotion were not spent as initially planned, due to the cancellation of exhibitions, restrictions on marketing activities, the delay in the full-scale business operation of overseas subsidiaries, etc. Accordingly, profit exceeded the estimate in the first half. In the second half, tools for new workstyles, including remote work, are attracting more attention due to COVID-19, so annual profit is expected to be at the same level as that in the previous term.

Under these circumstances, the company will carry out upfront investment for sustainable growth.

* While taking SDGs into account, the company will fortify its corporate structure and establish the foundation as an entity trusted by the society.

* The company will work on activities for enhancing popularity and brand power from new point of view.

* The company will actively promote “investment in human resources,” including the development of employees’ abilities and recruitment of competent personnel, and “cultivation of new business fields” inside and outside Japan.

The dividend is to be 7.50 yen/share, unchanged from the previous year. The estimated payout ratio is 22.3%.

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

The new sales caused by consolidation of Pro-SPIRE Inc. will fully contribute to business performance from this term. To maintain and expand system integration services, and utilize the know-how for mission-critical (SoR) and information (SoE) systems.

4. Conclusions

The full-year forecasts have been revised upwardly. Profit was first estimated to decline, but it is now forecasted to recover to the level in the previous term. However, share price plummeted on the day following the announcement of the revised earnings forecasts. The profit in the first half exceeded the estimate, but it seems that the market did not like the fact that this was because expenses fell below the estimate due to COVID-19. The company plans to use the funds saved in the first half for upfront investment actively. We would like to pay attention to how their investment will bear fruit in the medium term. In the short term, the environment will remain uncertain. We would like to see whether the company can maintain the top line from the third quarter.

<Reference: Regarding Corporate Governance>

◎Organization type, and the composition of directors and auditors

Organization type	Company with board of company auditors
Directors	7directors, including 3 to outside ones
Auditors	3directors, including 3 to outside ones

Corporate Governance Report

Last update date: April 27, 2020

<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 non-Japanese shareholders is as low as 5%. Considering costs, etc., we do not disclose information in English. From now on, considering the increase in the shareholding ratios of non-Japanese shareholders, we will discuss the disclosure of information in English.
“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

	<p>Management Office will take a leading role in summarizing numerical values and holding discussion, including report to the board of directors.</p> <p>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.</p>
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<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 marketing management section and the strategic planning division 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</p> <p>Individual meetings with major institutional investors and investors who have submitted requests for dialogue will be held mainly by the marketing management section and the strategic planning division 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 marketing management section and the strategic planning division 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>

BRIDGE REPORT



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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