

 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	<a href="https://www.neo.co.jp/en/">https://www.neo.co.jp/en/</a>

## Stock Information

Share Price	Shares Outstanding	Total market cap	ROE Act.	Trading Unit	
¥1,701	14,892,000 shares	¥25,331million	16.4%	100shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥12.00	0.7%	¥45.62	37.3x	¥296.83	5.7x

\*The share price is the closing price on April 5. All figures are from the earning results for FY 1/21.。

## Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 Act.	5,325	920	948	677	45.58	11.00
Jan. 2022 Est.	5,717	948	980	679	45.62	12.00

\*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 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 2021 Earnings Results and other information about NEOJAPAN Inc.

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## Key Points

- For the term ended January 2021, sales increased 42.3% year on year to 5,325 million yen. The growth of sales from cloud services and the acquisition of Pro-SPIRE Inc. as a subsidiary contributed to this increase. Operating income rose 31.7% year on year to 920 million yen. The increase in sales absorbed the rise in cloud service costs, Pro-SPIRE costs, labor costs, and the augmented R&D costs. Gross profit margin significantly dropped 8.0 points because the system development service business is less profitable than the software business. Nevertheless, both sales and profits exceeded forecasts.
- For the term ending January 2022, sales are expected to increase 7.4% year on year to 5,717 million yen, and operating income is projected to rise 3.0% to 948 million yen.  
In the software business, the number of cloud service users is forecasted to remain stable, and overall cloud service sales are expected to increase about 15%. In the products business, sales of enterprise licenses are expected to increase, but the rise in overall sales is estimated to be slight due to a decrease in the sales of small licenses. The sales of the system development service business are projected to augment slightly. The overseas business sales are forecasted to be about 30 million yen. Operating income margin is expected to decrease 0.7 points from the previous fiscal year to 16.6% because of the rise in personnel expenses due to an increase in personnel and R&D expenses. The dividend is to be 12.00 yen/share, up 1.00 yen/share from the previous year's dividend. The expected payout ratio is 26.3%.
- With the spread and diffusion of remote work due to the novel coronavirus crisis, the movement toward establishing work style reforms is in full swing in companies of all sizes. Against this backdrop, in theory, the company's stock should be one of the most timely one. But, instead, its stock price has fallen from the highest price recorded since the listing in August last year to nearly half the price and has been stagnant ever since. Cybozu (4776, First Section of the Tokyo Stock Exchange), a company that resembles NEOJAPAN the most and one of the representative brands of groupware from the investor's point of view, has been in the same way, and both stocks have been in the adjustment phase after the sharp rise in the first half of 2020.
- The company's PER is not as high as Cybozu's, which is close to 1,000, but we are wondering how we should evaluate the company's PER being 37, as it forecasts "an operating income growth rate of 3% for this term." Also, we would like to pay attention to whether the company will be able to set a clearer and more concrete roadmap toward its goals of becoming the "top domestic brand of groupware," "holding the No. 1 market share, and recording a cumulative number of users of 10 million and annual group sales of 10 billion yen" by 2030.

## 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 NEO” product stands at 4.38 million (as of the end of January 2021). A multitude of aspects of “desknet’s, NEO” 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 198 billion-yen, accounting for 14% of the Japanese software market worth around 1.4 trillion yen in the fiscal 2019 and creating a relatively large market.

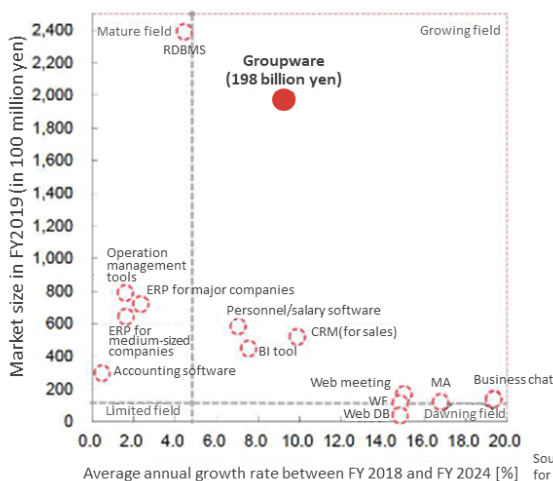
The groupware market will grow to 314.4 billion yen by fiscal 2024, with an annual growth rate estimated at 9.7%.

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.

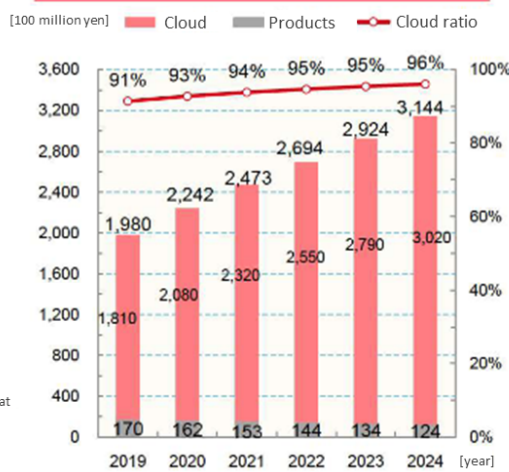
From **198 billion yen** in 2019 to **314.4 billion yen** in 2024

⇒ Annual growth rate of **9.7%** expected (Saas **10.8%**)

Size of the software market in FY 2019: 1.3717 trillion yen  
Average growth rate of the entire software market: 7.7%



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 NEOJAPAN’s reference material).

### ① Cloud market

Other companies are ending the provision of free groupware services and turning to fee-charging cloud services.

NEOJAPAN steadily expanded SaaS sales in fiscal 2019 through installations in major companies by highlighting the services' multifunctionality and low cost. The company aims to increase sales further in fiscal 2020 by continuing to focus on new installations in major companies.

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

### ② 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.

Sales grew steadily in fiscal 2019 through installations in major companies by emphasizing the services' good cost performance. The company aspires to expand sales further in fiscal 2020 by focusing on new installations in major companies that are seeking services with good cost performance.

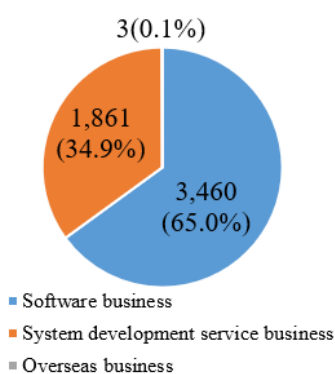
(Excerpt from NEOJAPAN's reference material; Source: Fuji Chimera Research Institute, Inc.)

## 1-4 Business content

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

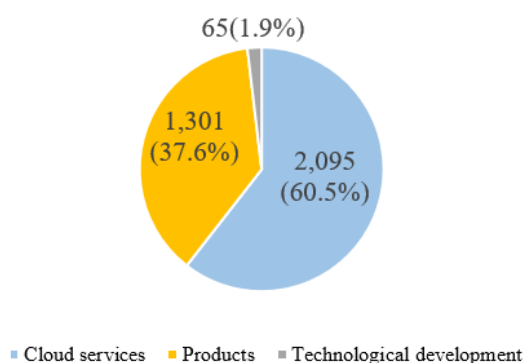
As NEOREKA ASIA Sdn. Bhd. was included in the scope of consolidation; the company added "overseas business" to the reporting segments in the third quarter of the term ended January 2021.

Sales composition by segment



\*FY 1/21, Sales to external customers, Unit: million yen

Sales composition in the software business



\*FY 1/21, 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.

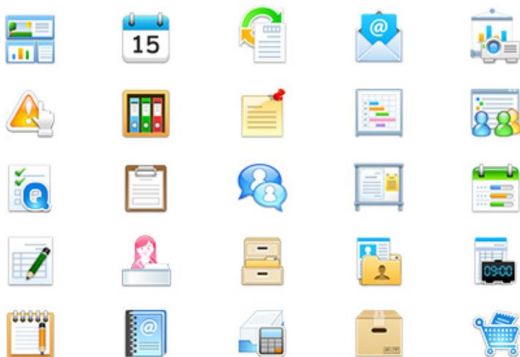
Users can use the groupware without stress on multiple kinds of devices, such as smartphones and tablets.

**\*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 1,000 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 4.38 million (as of the end of January 2021).

#### (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 440 yen(tax included), 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	(desknet's NEO licenses) ¥43,780 for 5 users to ¥1,097,800 for 300 users  (AppSuite licenses) ¥34,100 for 5 users to ¥877,800 for 300 users	(desknet's NEO licenses) ¥451,000 for 100 users to ¥14,300,000 for the unlimited number of users  (AppSuite licenses) ¥360,800 for 100 users to ¥11,440,000 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. (desknet's NEO licenses) ¥11,000 for 5 users to ¥165,000 for 300 users  (AppSuite licenses) ¥8,800 for 5 users to ¥132,000 for 300 users	Support services must be purchased for the first and subsequent years (mandatory). (desknet's NEO licenses) ¥99,000 for 100 users to ¥2,574,000 for the unlimited number of users  (AppSuite licenses) ¥79,200 for 100 users to ¥2,059,200 for the unlimited number of users

\*The price indicates the gross price (tax included).

### 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.

#### (3) Overseas business

It is a business operated by the company's overseas subsidiaries. It sells the company's products and services mainly in the ASEAN region.



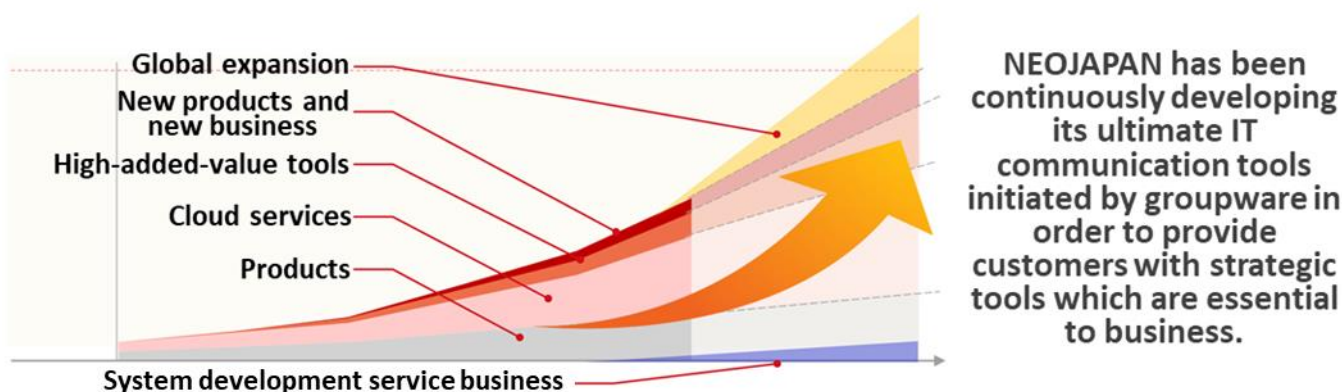
**【1-5 Medium- to Long-Term Outlook】**

**(1) 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.

The concrete measures are as follows.

High added value and product cooperation	* Evolve into higher value-added tools centered on groupware.
Cloud service products	* Continue to upgrade existing groupware and enhance its functions.  * The company will expand marketing bases and improve sales and marketing capabilities, and become No.1 in the groupware market.
New products and new businesses	* The company will offer new IT communication tools that are indispensable for business strategies, and develop businesses.
System development service business	* Steady operation of SES business, monetization through rationalization within the group, and participation of engineers in product development.
Overseas operations	* Expanding to the Southeast Asian markets starting with Malaysia and Thailand and launching sales through alliances with overseas partners.



(Source: the company)

**(2) The management vision in the medium- to long-term plans**

**① Market position and external evaluation (Part 1)**

The company aims to become "the top domestic brand of groupware," "hold the largest market share, and achieve cumulative sales of 10 million users and annual group sales of 10 billion yen" by 2030.

As for external evaluation, the company aspires to be No.1 in each fiscal year based on customer satisfaction surveys and partner satisfaction surveys as an index of external assessment.

To that goal, the company will take rapid steps to put reliable high technology and advanced IT into practical use to become the company that possesses Japan's leading software technologies.

**② Market position and external evaluation (Part 2)**

Furthermore, upon the reorganization of the TSE, the company aims to further improve corporate value through selecting the prime market to attract investments from domestic and foreign investors.

In order to shift to the prime market, it is necessary to meet the criteria of "market capitalization of stocks in circulation of 10 billion yen or more." However, at present, the company faces the issue of a low ratio of stocks in circulation.

Therefore, the company intends to strategically sell shares of directors, who are major shareholders, to raise the ratio of shares in circulation and achieve the criteria for transition to the prime market.

## 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 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.

"desknet's NEO" received the "ITreview Grid Award" for eight consecutive terms in the groupware and workflow categories. Also, "ChatLuck" won the same award for two successive terms in the business chat category. "ITreview Grid Award" is an award that recognizes products that have been endorsed by users once each fiscal quarter based on reviews posted on "IT review," a review platform for BtoB IT products and cloud services.

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.

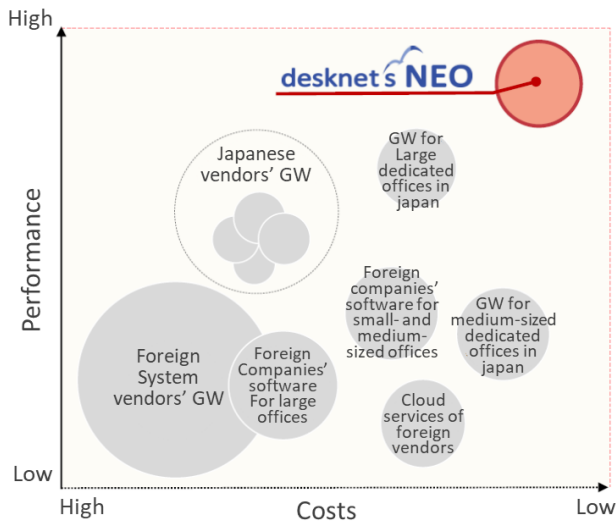
- As for functions, products of Japanese vendors have garnered higher reputation than those of foreign companies because support provided by foreign companies, such as localization (systems supporting Japanese, and commercial and business practices in Japan), is not satisfactory.

- 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)

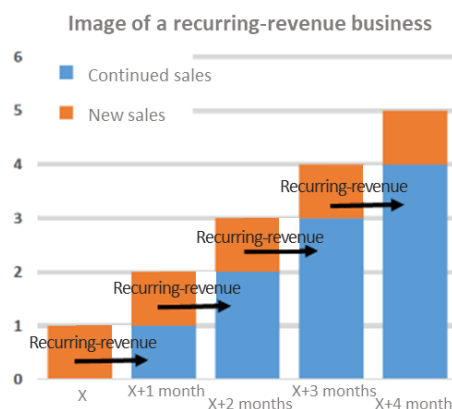
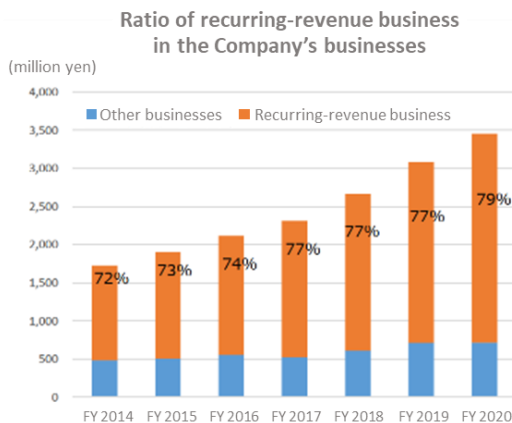
**③ Business model that realizes stable earnings**

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 79% 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 2021 (section of large corporations),” for which the Ministry of Economy, Trade and Industry designed systems 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	FY Jan 21
<b>ROE (%)</b>	<b>11.2</b>	<b>11.1</b>	<b>10.9</b>	<b>11.7</b>	<b>12.8</b>	<b>16.4</b>
Net income margin (%)	12.93	14.01	14.02	14.36	13.23	12.72
Total asset turnover [times]	0.63	0.59	0.59	0.62	0.65	0.85
Leverage [times]	1.38	1.33	1.31	1.32	1.50	1.51

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

ROE increased due to improved asset efficiency.

**1-9 ESG and SDGs**

The company has formulated nine materiality items (management issues) to solve social issues and increase corporate value over the long term through business.

Materiality items	SDGs
① Promoting a healthy and productive work style ② Empowerment of customers and local economy through digital transformation ③ Continuity risk mitigation of customer ④ Response to climate change risk	Social issues that the company is focusing on    
⑤ Business development through open innovation utilizing digital technology	Business creation as a solution to problems  
⑥ Fostering and diversifying digital human resources unique to our company	Sustainable supply chain    
⑦ Pursuit of a healthy and productive work style	
⑧ Providing safe and secure products	
⑨ Building a sustainable management base	Sustainable management base  

## 2. Fiscal Year ended January 2021 Earnings Results

### 2-1 Earnings Results

	FY 1/20	Ratio to sales	FY 1/21	Ratio to sales	YoY	Initial forecast ratio	Revised forecast ratio
Sales	3,742	100.0%	5,325	100.0%	+42.3%	-0.1%	-0.1%
Gross profit	2,223	59.4%	2,736	51.4%	+23.1%	-	-
SG&A	1,524	40.7%	1,815	34.1%	+19.1%	-	-
Operating Income	699	18.7%	920	17.3%	+31.7%	+70.5%	+2.3%
Ordinary Income	717	19.2%	948	17.8%	+32.3%	+69.4%	+3.1%
Net Income	495	13.2%	677	12.7%	+36.8%	+92.4%	+6.1%

\*Unit: million yen

\*Net income is net income attributable to shareholders of the parent company.

### Sales and profit increased and exceeded forecasts.

The sales were 53,25 million yen, up 42.3% 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 920 million yen, up 31.7% 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. Gross profit rates and other profit rates declined significantly by 8.0 points, because the profitability of the system development service business is lower than that of the software business.

### 2-2 Sales trend by segment

	FY 1/20	Ratio to sales	FY 1/21	Ratio to sales	YoY
Sales					
Software business	3,081	82.3%	3462	65.0%	+12.3%
System development service business	661	17.7%	1,884	35.4%	+185.1%
Overseas business	-	-	3	0.1%	-
Adjustment	-0	-	-26	-	-
<b>Total Sales</b>	3,742	100.0%	5,325	100.0%	+42.3%
Operating income					
Software business	639	20.7%	771	22.3%	+20.6%
System development service business	59	9.0%	161	8.7%	+171.4%
Overseas business	-	-	-12	-	-
Adjustment	-	-	-0	-	-
<b>Total Operating income</b>	699	18.7%	920	17.3%	+31.7%

\* Unit: million yen

\*Ratio to sales for operating income is operating income to sales. From the third quarter of FY 1/21, NEOREKA ASIA Sdn. Bhd. was included in the scope of consolidation, and "Overseas business" was added to the reportable segments.

#### ① Software business

Sales increased 12.3% year on year due to the expansion of cloud services sales. Operating income rose 20.6% year on year.

### ◎Sales trends by segment

	FY 1/20	FY 1/21	YoY	Ratio to forecasts
Cloud service business	1,767	2,095	+18.5%	+1.1%
Product business	1,236	1,301	+5.3%	+6.5%
Technological development business	77	65	-16.4%	-3.0%
<b>Software Business Total Sales</b>	3,081	3,462	+12.3%	+3.0%

(Unit: million yen)

#### \*Cloud service business

Sales increased. The number of users became 338,000 as of the end of January 2021, an increase of 80,000 from the end of the previous fiscal year.

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

The sales were 1,715 million yen, up 21.1% year on year.

The ratio of sales of AppSuite cloud version to entire cloud service was low, but the sales grew 66.0% year on year to 52 million yen, and the sales for ASPs also rose 41.5% year on year to 59 million yen.

#### \*Product business

Sales increased.

The sales of the desknet’s NEO Small License for the products targeted at small and medium-sized users shrank 11.0% year on year to 59 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 18.1% year on year to 162 million yen. The number of unlimited licenses sold to users with large unit prices decreased.

The sales of the AppSuite license was 65 million yen, up 39.7% 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 601 million yen, up 6.9% year on year.

Sales from services dropped 8.6% year on year to 97 million yen. Due to COVID-19, the number of cases declined.

The sales from resale of ID integrated management software, which is linked to the company’s products, etc. decreased 11.5% to 49 million yen.

#### \*Technological development business

As the company has no policy of actively undertaking development, sales decreased 16.4% year on year to 65 million yen.

### ② System development service business

Sales increased significantly due to the full-year contribution of the subsidiary Pro-SPIRE Inc. (a four-month contribution in the previous fiscal year.)

### ③Overseas business

The company sold desknet’s NEO licenses mainly to Japanese companies overseas. The investments will exceed the sales for the time being.

## 2-3 Financial standing and cash flows

### ◎Main BS

	End of Jan. 20	End of Jan. 21		End of Jan. 20	End of Jan. 21
<b>Current Assets</b>	3,730	4,457	<b>Current liabilities</b>	1,362	1,721
<b>Cash</b>	2,996	3,385	<b>Payables</b>	154	152
<b>Receivables</b>	538	723	<b>Unearned revenue</b>	533	570
<b>Noncurrent Assets</b>	2,057	2,285	<b>Noncurrent liabilities</b>	569	590
<b>Tangible Assets</b>	57	56	<b>Total Liabilities</b>	1,931	2,311
<b>Intangible Assets</b>	322	369	<b>Net Assets</b>	3,856	4,431
<b>Investment, Others</b>	1,676	1,860	<b>Total liabilities and net assets</b>	5,788	6,742
<b>Total assets</b>	5,788	6,742			

\*Unit: million yen

With the acquisition of Pro-SPIRE Inc. as a subsidiary, total assets, total liabilities, and net assets increased. Equity ratio was 65.6%, down 1.0 points from the end of the previous fiscal year.

### ◎Cash Flow

	FY 1/20	FY 1/21	Increase/decrease
<b>Operating Cash Flow</b>	764	989	+225
<b>Investing Cash Flow</b>	-464	-227	+236
<b>Free Cash Flow</b>	299	762	+462
<b>Financing Cash Flow</b>	-101	-142	-40
<b>Term End Cash and Equivalents</b>	2,804	3,418	+613

\*Unit: million yen

\*In the second quarter of FY 1/20, it was not consolidated. The increase and decrease in the values are reference values. Values are 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.

#### \* Upgrade of desknet's NEO

The company released an application for smartphones and tablets. "desknet's NEO Schedule Application" was launched, making real-time push notifications possible.

Also, it was linked with AppSuite. The application form created with AppSuite can now be used as it is in the workflow of desknet's NEO, enabling the full usage of the workflow function.

#### \* Upgrade of ChatLuck

The company has made ChatLuck more convenient by embedding desknet's NEO in the portal. Also, the addition of the "read later" function has made it possible to prevent forgetting to respond to messages and oversights.

### ② Develop a web marketing strategy

The company increased the number of online seminars 2.6 times from the previous year as it became difficult to hold face-to-face events due to the influence of the novel coronavirus crisis. As a result, the number of prospective customers acquired increased 1.8 times.



### ③ Overseas operations

In February 2021, NEO THAI ASIA Co., Ltd. was established in Thailand. This is the second subsidiary the company has established in Asia after Malaysia.

Thailand is promoting digital transformation for small and medium-sized enterprises as a national policy to improve operations and productivity by utilizing applications instead of using conventional hardware-centered IT tools. The company believes that this presents a great business opportunity as the company's products can be used as a solution tool for the challenges Thai companies are facing.

In addition, many of the company's existing customers are expanding into Thailand. Thus, the company plans to increase sales not only to local companies and government offices but also to Japanese companies.

The establishment of a Thai subsidiary will further speed up the development of the Southeast Asian market, which has long been regarded as a priority strategy.

### ④ Corporate brand development

The company has developed brand development measures by holding in-house events and utilizing mass advertising.

### ⑤ Market evaluation

In addition to the previously mentioned Nikkei Computer, Nikkei Government Technology, and ITreview, the company was selected as one of the "100 Telework Pioneers" by the Ministry of Internal Affairs and Communications. Also, it received the Telework Promotion Award (Telework Promotion Category) Encouragement Award from the Japan Telework Association.

## 3. Fiscal Year ending January 2022 Earnings Forecasts

### 3-1 Forecasts of Consolidated Business Results

	FY Jan. 21	Ratio to sales	FY Jan. 22 Est.	Ratio to sales	YoY
Sales	5,325	100.0%	5,717	100.0%	+7.4%
Operating Income	920	17.3%	948	16.6%	+3.0%
Ordinary Income	948	17.8%	980	17.1%	+3.3%
Net Income	677	12.7%	679	11.9%	+0.3%

\*Unit: million yen

\* Estimates are those of the Company.

### Sales and profit are expected to increase.

The estimate of sales are projected to grow 7.4% year on year to 5,717 million yen and operating income by 3.0% year on year to 948 million yen.

(Sales)

\* Software business

The number of cloud service users is expected to remain stable, and overall cloud service sales are estimated to rise about 15%. As for products, sales of enterprise licenses are forecasted to rise because a certain amount of demand is expected, mainly from government offices and large users. Nonetheless, sales of products as a whole will only increase slightly due to a decrease in the sales of small licenses.

\* System development service business

Although sales were smaller than the initial estimate in the previous fiscal year, the impact of the spread of the novel coronavirus infection is limited, so sales are expected to increase this fiscal year slightly.

\*Overseas business

Restrictions on sales activities due to the effects of the spread of the novel coronavirus are unclear, as the activity restriction order was issued again in February 2021 in Malaysia. Sales are expected to be about 30 million yen, as the company is improving the system of sales activities.

(Costs)

R&D expenses are projected to augment, and also personnel expenses are forecasted to rise due to the increase of personnel. Advertising expenses are planned to be at the same level as the previous fiscal year.

Assuming that the activities of overseas subsidiaries go into full swing, SG&A expenses are expected to increase by approximately 80 million yen in relation to overseas businesses.

As a result, operating income margin will fall 0.7 points from the previous fiscal year to 16.6%.

The dividend is to be 12.00 yen/share, up 1.00 yen/share from the previous year's dividend. The expected payout ratio is 26.3%.

#### 4. Conclusions

With the spread and diffusion of remote work due to the novel coronavirus crisis, the movement toward establishing work style reforms is in full swing in companies of all sizes. Against this backdrop, in theory, the company's stock should be one of the most timely one. But, instead, its stock price has fallen from the highest price recorded since the listing in August last year to nearly half the price and has been stagnant ever since. Cybozu (4776, First Section of the Tokyo Stock Exchange), a company that resembles NEOJAPAN the most and one of the representative brands of groupware from the investor's point of view, has been in the same way, and both stocks have been in the adjustment phase after the sharp rise in the first half of 2020.

The company's PER is not as high as Cybozu's, which is close to 1,000, but we are wondering how we should evaluate the company's PER being 37, as it forecasts "an operating income growth rate of 3% for this term." Also, we would like to pay attention to whether the company will be able to set a clearer and more concrete roadmap toward its goals of becoming the "top domestic brand of groupware," "holding the No. 1 market share, and recording a cumulative number of users of 10 million and annual group sales of 10 billion yen" by 2030.

## <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 Management 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.

## &lt;Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)&gt;

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. 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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