
	Forval Corporation (8275)
	

President Masanori Nakajima

Company Information

Exchange	TSE 1st Section
Industry	Wholesale (Commerce)
President	Masanori Nakajima
Address	14F AOYAMA Oval Bldg. 5-52-2 Jingu-mae, Shibuya-ku, Tokyo
Year-end	March
URL	https://www.forval.co.jp/english/

Stock Information

Share Price	Shares Outstanding		Total Market Cap	ROE (Actual)	Trading Unit
¥856	25,575,427 shares		¥21,893 million	11.7%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥26.00	3.0%	¥74.29	11.5 times	¥484.87	1.8 times

* The share price is the closing price on June 16. The number of shares issued was obtained by subtracting the number of treasury shares from the number of outstanding shares as of the end of the latest quarter. ROE and BPS are the actual values for FY3/2021.

* DPS and EPS are estimates for FY3/2022.

Earnings Trend

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2018 (Actual)	51,351	2,854	2,960	1,743	68.67	21.00
March 2019 (Actual)	57,520	3,221	3,308	2,064	82.30	25.00
March 2020 (Actual)	49,731	3,229	3,324	1,067	42.48	26.00
March 2021 (Actual)	49,788	2,616	2,483	1,357	53.34	26.00
March 2022 (Estimate)	50,000	3,000	3,000	1,900	74.29	26.00

* The estimated values were provided by the company.

* Unit: million yen.

We will report on the results of Forval for the fiscal year ended March 2021 through this Bridge Report.

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Key Points

- In the term ended March 2021, sales increased 0.1% year on year and ordinary income shrank 25.3% year on year. The three companies that Forval Corporation has newly acquired as its consolidated subsidiaries contributed to sales although the voluntary restraint from sales activities and the absence of some of the employees as they were forced to take leave in the wake of the spread of COVID-19 had an impact to a certain extent. The quantity of equipment sold decreased due to the voluntary restraint from sales activities amid the COVID-19 pandemic and the purchase price of electricity shot up temporarily, affecting profit. Meanwhile, the recurring revenue-based business, such as the icon services, expanded steadily.
- For the term ending March 2022, sales and ordinary income are forecasted to increase 0.4% and 20.8% year on year, respectively. While profitability is expected to be boosted through an accelerated shift toward recurring revenue-based business, such as the icon services, the rate of sales growth will be low because the company is focusing on shifting from selling hardware to providing services more suitable to the new era.
- In Yorozu Management Consultancy, the company is receiving a growing number of requests for advice on how to improve business efficiency. The increase in the number of requests for advice in Yorozu Management Consultancy can often be a leading indicator of future sales of the icon services. Forval Corporation has recently been giving an increased focus on releasing services that cater to small- and medium-sized companies (SMEs) adopting new work styles, and we would like to pay attention to how the approach will affect sales of the icon services.

1. Company Overview

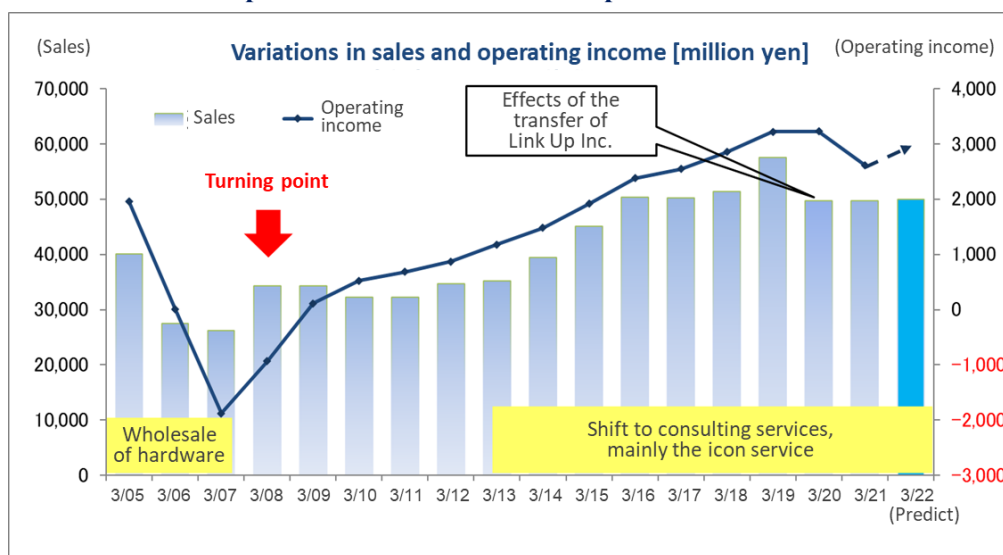
Forval Corporation aims to become a next-generation management consulting company specializing in 5 fields: “information and telecommunication,” “overseas market,” “environmental protection,” “personnel and education,” and “start-up and succession of business.” For advancing and streamlining business administration based on IT, the company offers telecommunication/Internet-related services, including IP phone services, which are compatible with optical fibers for offices, FMC services (that fused fixed-line telecommunication and mobile one), and IP integration solutions, which combined them with network security; and other services, including the sale and installation of office automation/network devices, the production of websites, the sale and installation of solar power systems and all-electric products. The corporate name “FORVAL” is derived from “For Social Value,” and infused with the management ethos: “We aim to become an enterprise that can create social value.”

The business of Forval is classified into 4 segments: (1) the Forval Business Group, which sells office automation and network devices for small and medium-sized enterprises, undertakes services, offers consulting services, and so on mainly via Forval Corporation, (2) the Forval Telecom Business Group, which operates telecommunication services for VoIP, mobile devices, etc., Internet-related services, ordinary printing, insurance services, etc. mainly via FORVAL TELECOM, Inc., (3) the Mobile Device Shop Business Group, in which Link Up Inc. handles mobile terminals, etc. at mobile device shops, and (4) the General Environment Consulting Business Group, in which APPLE TREE Co Ltd., which was acquired as a subsidiary in the term ended March 2014, wholesales and installs all-electric and eco-friendly housing equipment. In addition, the other business segment, which is not to be reported, includes IT education services, the development of IT engineers and administrators, and ITEC Inc., which introduces would-be executives and international students in Southeast Asia. Through share transfer, Link Up Inc. was excluded from the scope of consolidation, so from the term ended March 2020, the 4 segments were changed to the 3 segments: “the Forval Business Group,” “the Forval Telecom Business Group,” and “the General Environment Consulting Business Group.”

As the added value of hardware sale has recently declined, the company is shifting to consulting services, which can be differentiated from competitors and have high added value. The mainstay is icon, an IT consulting service launched in April 2008. In addition, as part of consulting services, the company assists small and medium-sized enterprises in installing information systems and business operations in ASEAN countries. For information systems, the company offers IP integration solutions. For business operations in ASEAN countries, the company established FORVAL (CAMBODIA) CO., LTD. in May 2010, PT FORVAL INDONESIA (Jakarta, Indonesia) in July 2011, FORVAL VIETNAM CO., LTD. (Ho Chi Minh, Vietnam) in August 2011, and opened a representative office in Yangon, Myanmar in March 2012 and then incorporated the office naming it FORVAL MYANMAR CO., LTD. in February 2013, to expand the network in ASEAN countries.

The stock exchange for the company was changed from JASDAQ (standard) of Tokyo Stock Exchange (TSE) to the second section of TSE on Jan. 24, 2014, and then to the first section of TSE on October 2, 2014.

Variation in business performance of the Forval Group



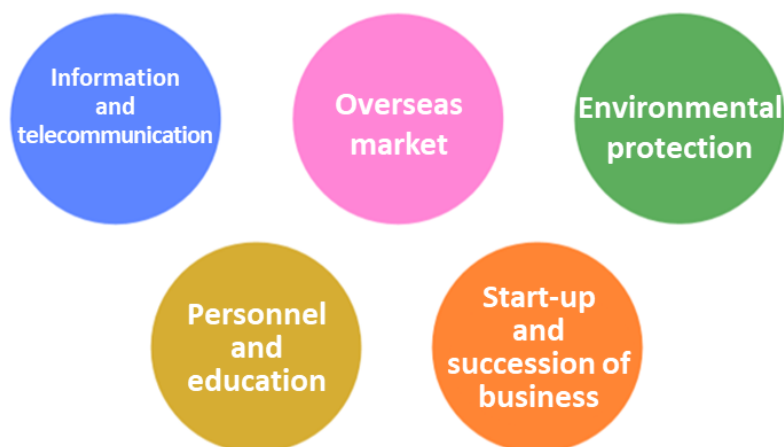
We can see the outcomes of their efforts to improve the skills of employees by educating them about the IT field and encouraging them to obtain qualifications and the shift from wholesale of hardware to consultancy offering icon services.

2. Growth Strategy

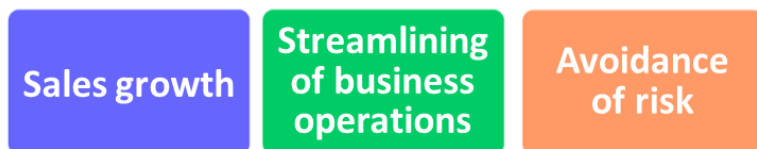
The mid-term vision of the Forval Group is to realize “next-generation management consultancy” for supporting the permanent growth and business succession of small and medium-sized enterprises, which underpin the Japanese economy. By utilizing APPLE TREE Co Ltd., which was acquired in 2013, in addition to the knowledge and technology about information and telecommunication, which are the existing business domains, and the knowhow to make inroads into overseas markets, it becomes possible to offer management consulting services considering how to address environmental issues, whose importance is growing, operate business, and contribute to the environment. Furthermore, the company developed a system for educating employees of client enterprises about the fields of information and telecommunication, overseas markets, and the environmental protection in a one-stop manner. ITEC Inc., which was acquired in 2013, joined the Forval Group, enriching the lineup of services regarding human resources and education for client enterprises. In addition, the company will strive to strengthen the domains of start-up and succession of business. In these five domains, the company will offer consulting services for expanding sales, streamlining business operations, and avoiding risks, and contribute to the profits of small and medium-sized enterprises.

Characteristics of the next-generation management consultancy of the Forval Group

Focused on 5 fields!



Three approaches!



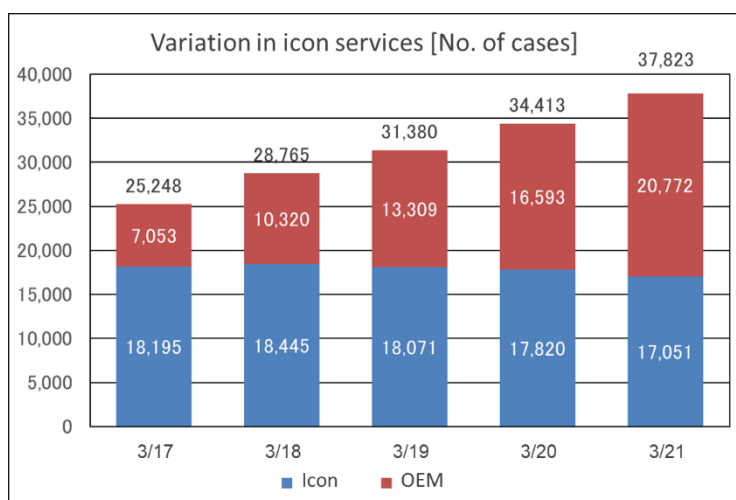
(Taken from the reference material for the financial results of Forval Corporation for the term ended March 2021)

(1) Expansion of the domain of information & telecommunication—Expansion of icon services

Developments of icon services

Variation in the number of cases in which icon services were adopted based on OEM

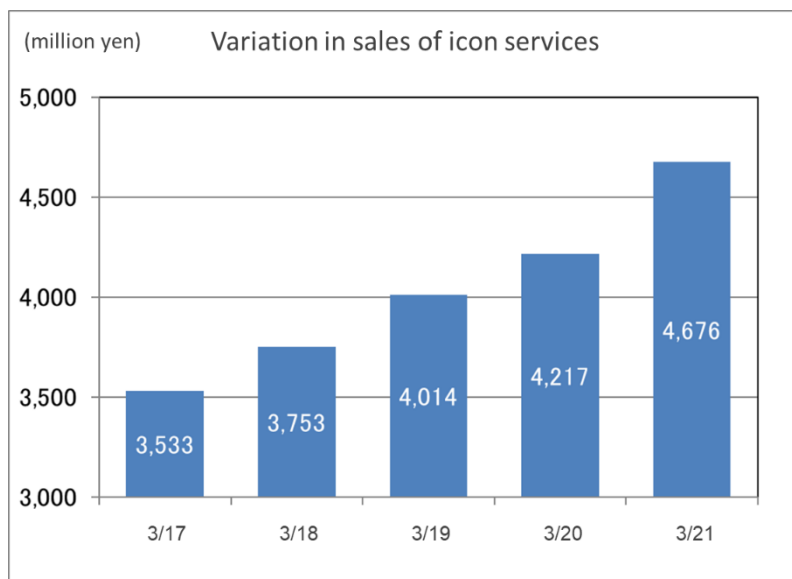
The company focuses on the development of networks based on the OEM of icon services for further expanding and strengthening the icon business. By offering the know-how of new business models that have been differentiated, the company aims to increase the number of business partners and the number of icon users. In the term ended March 2021, the number of cases in which icon services were adopted was 37,823, up 9.9% year on year. Especially, the number of cases in which icon services were adopted based on OEM in the term ended March 2021 was 20,772, up 25.2% year on year. This is the growth driver in the number of cases of adoption of icon services. The reason the number of cases in which the company’s own icon services were adopted grew only slowly, is that the company is specializing in offering higher-quality services to clients who are in a dire predicament due to the COVID-19 outbreak.



Variation in sales of icon services

For the term ended March 2021, the sales of icon services grew 10.9% year on year, indicating steady performance. The steady increase is attributed to a rise of the average spending per customer, which resulted from the company’s concentrated efforts to provide high-quality and high-value-added icon services. The company aims to expand the sales of icon services, which are profitable, by releasing new services and promoting OEM actively.

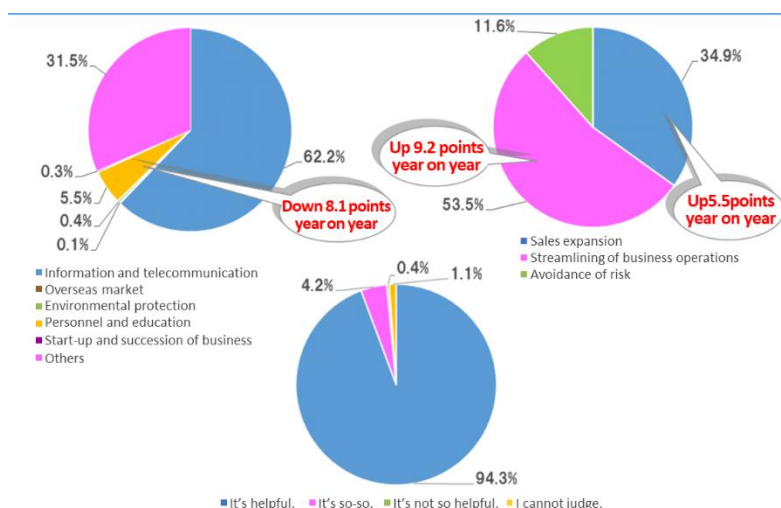
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Details of the clients’ consultation and satisfaction in Yorozu Management Consultancy

In Yorozu Management Consultancy, consultants visit clients regularly and give support for solving troubles in business administration. This business supports a broad range of fields, including sales growth, the increase of sales channels, the increase of new clients, business matchmaking, recruitment, cash management, and business succession. The consultants give advice about solutions, while enlisting cooperation from not only the company, but also the entire corporate group and business partners. According to the interview survey targeted at clients (FY 3/21), 94.3% of clients answered that Yorozu Management Consultancy was helpful. The number of transactions of high-quality Yorozu Management Consultancy is expected to keep growing. Increasing number of clients are pondering over how to change their strategies for expanding sales and improve the business efficiency amid the coronavirus crisis. From now on, the excellence of consultancy of the company is expected to generate various business chances.

Details of the clients’ consultation and customer satisfaction in Yorozu Management Consultancy (FY March 2021)



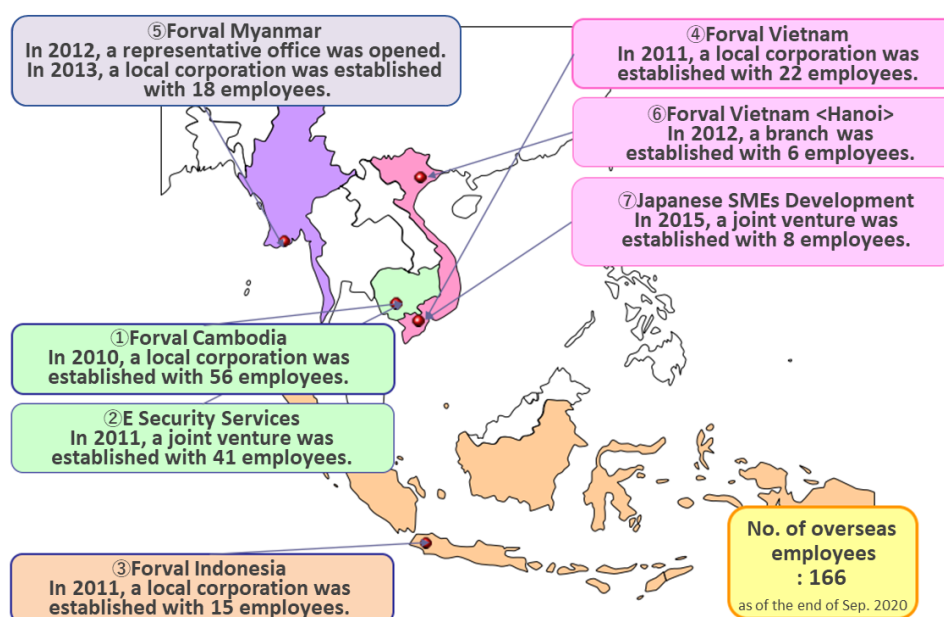
(Taken from the reference material for the financial results of Forval Corporation for the term ended March 2021)

(2) Expansion of the overseas domain—Growth of the business of supporting overseas business expansion

The chairperson Okubo of the company has engaged in a broad range of supportive activities, ranging from the development of educational infrastructure to the education of personnel, in Cambodia, where there are no sufficient opportunities of education, through CIESF, a public interest incorporated foundation established and directed by himself.

In the business of supporting the entry to the ASEAN market, the experience and personnel connections nurtured in such CIESF activities are useful. Under the recognition that “it is important to take advantage of the growth of Asian regions, in order to realize the growth of the Forval Group and its clients, that is, small and medium-sized enterprises,” the company has already established overseas corporations in Cambodia (May 2010), Indonesia (July 2011), and Vietnam (August 2011), and the representative office in Myanmar in March 2012.

Furthermore, in order to enrich and strengthen local supportive systems, the company started full-scale business activities in April 2014, in Myanmar, where the company obtained the approval for establishment of a corporation in February 2013 and went ahead with preparation. As of the end of March 2021, the number of employees at 7 overseas footholds (overseas subsidiaries and affiliates) was 166.



(Taken from the reference material for the financial results of Forval Corporation for the term ended March 2021)

The “global icon service,” which is the business of supporting business expansion in ASEAN countries, is a business model for assisting enterprises in solving various problems and removing obstacles before and after entering an overseas market in a one-stop manner. At present, the company offers this service in 4 countries: Cambodia, Vietnam, Indonesia, and Myanmar. By offering information, supporting FS, establishing a local corporation on behalf of each client, supporting the recruitment and education of personnel, the development of back-office systems, the establishment of a network environment, the search for local business partners, etc. comprehensively, the company provides clients with comfortable office spaces comparable to those in Japan, based on the information and telecommunication technologies at which the company excels the most. The company offers comprehensive support in Japan and foreign countries.

In addition, the company finds and increases prospective clients of “global icon services” by actively forming alliances with Japanese administrative organs, local financial institutions, overseas central governments, administrative organs, industrial parks, etc.

Details of global icon services

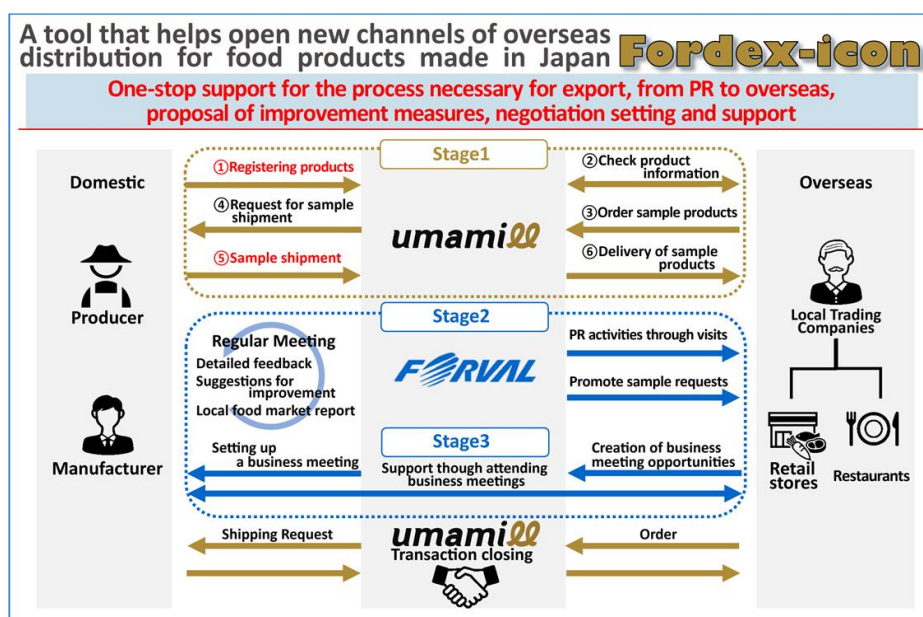
G-icon B (Before)	
1 Type S	Comprehensive support for preparation for the entry to an overseas market To support the preparation in a one-stop manner
2 Type OS	To support the design of business plans, negotiations with counterparts, and conclusion of contracts
3 Type R	Comprehensive support for surveys Dedicated staff support surveys in accordance with survey plans
G-icon O (Outsource)	
1 Type M	To find outsourcers of production To assist clients in choosing business partners with the enriched local network
2 Type D	To find sales partners To assist clients in choosing the best partner for promoting the sales of products
3 Type RP	To investigate the feasibility of business for applying for the support for overseas business operation by public institutions, such as JICA

(Taken from the reference material for the financial results of Forval Corporation for the term ended March 2021)

In global icon, the company can support clients in 6 ways: (1) comprehensive support for preparation for the entry to an overseas market, (2) support for the design of business plans and negotiations with counterparts, (3) comprehensive support for surveys, (4) finding outsourcers of production, (5) finding sales partners, and (6) investigating the feasibility of business for applying for the support for overseas business operation by public institutions, such as JICA.

Release of new global icon services

The company released Fordex-icon; a tool that helps open new channels for overseas distribution of food products made in Japan. The service is designed for food-related business operators that aim to export food items produced in Japan to overseas countries, helping them in a variety of aspects, including promoting their products and collecting feedback on their sample items in target countries, proposing improvement measures on the basis of product evaluations, and offering opportunities for business talks that could lead to actual transactions, after the food-related business operators deliver their sample items to overseas food buyers via Umamill, a platform for exporting Japanese food products. The company is currently offering the tool in Singapore, Hong Kong, and Cambodia, and intends to also begin providing the service in other nations one by one.



(Taken from the reference material for the financial results of Forval Corporation for the term ended March 2021)

Results of orders received from municipalities

Fiscal year	Local government	Project title	Subject
2020	Sapporo City	Overseas coordination of food products (ASEAN region)	Company in Sapporo City
2020	Miyagi Pref.	FY2020 Miyagi Pref. ASEAN business advisory services	Company in Miyagi Pref.
2020	Fukui Pref.	ASEAN 3 countries buyer invitation business meeting (Online business meeting)	Company in Fukui Pref.
2020	Fukui Pref.	FY2020 Overseas marketing for food products on behalf of clients (Taiwan, HK, Macau)	Company in Fukui Pref.
2020	Fukui Pref.	Southeast Asia business advisory services	Company in Fukui Pref.
2020	Ibaraki Pref.	Global Business Promotion Project	Company in Ibaraki Pref.
2020	Ibaraki Pref.	FY2020 Expansion of Bar sales channels for local alcoholic beverages (Taiwan)	Company in Ibaraki Pref.
2020	Ibaraki Pref.	FY2020 Expansion of Bar sales channels for local alcoholic beverages (Singapore)	Company in Ibaraki Pref.
2020	Ibaraki Pref.	Support for the development of the processed food for Hong Kong business	Company in Ibaraki Pref.
2020	Tochigi Pref.	Overseas sales channel development challenge support project (Agricultural products)	Company in Tochigi Pref.
2020	Ehime Pref.	Support for the rebuilding overseas sales channels of manufacturing companies	Company in Ehime Pref.
2020	Tokushima Pref.	Project for supporting manufacturers in overseas business	Company in Tokushima Pref.
2020	Tokushima Pref.	Business matching in the Singapore market	Company in Tokushima Pref.
2020	Oita City.	Remote business meeting for Vietnamese companies co-hosted by Oita City and Oita Bank	Company in Oita City.

(Taken from the reference material for the financial results of Forval Corporation for the term ended March 2021)

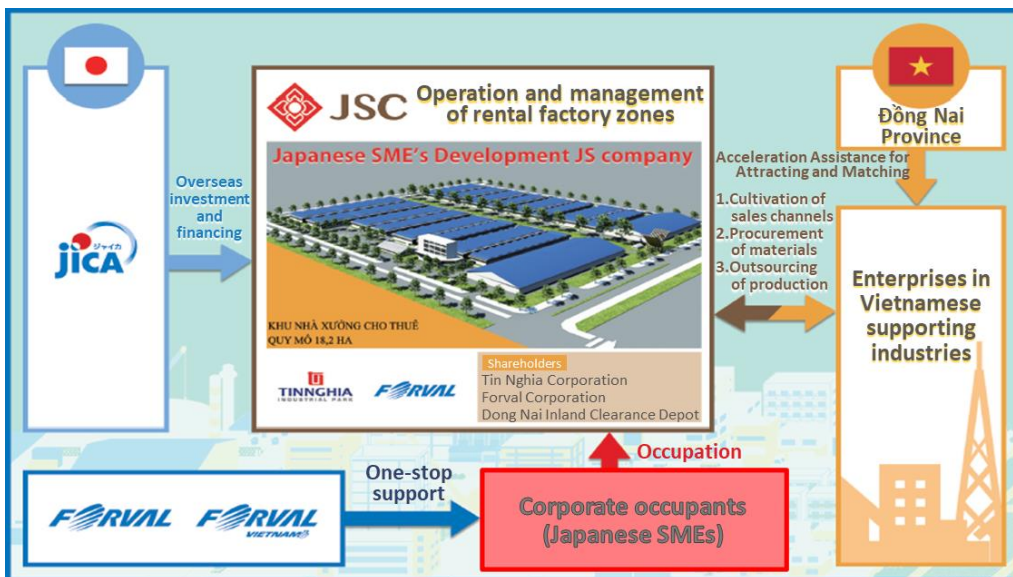
The collaboration with municipalities and governmental agencies gave the company business opportunities of helping multiple municipalities break into markets in Southeast Asia this term as well as it did in the previous term.

Example of characteristic projects for supporting overseas business expansion: Rental factory in Vietnam

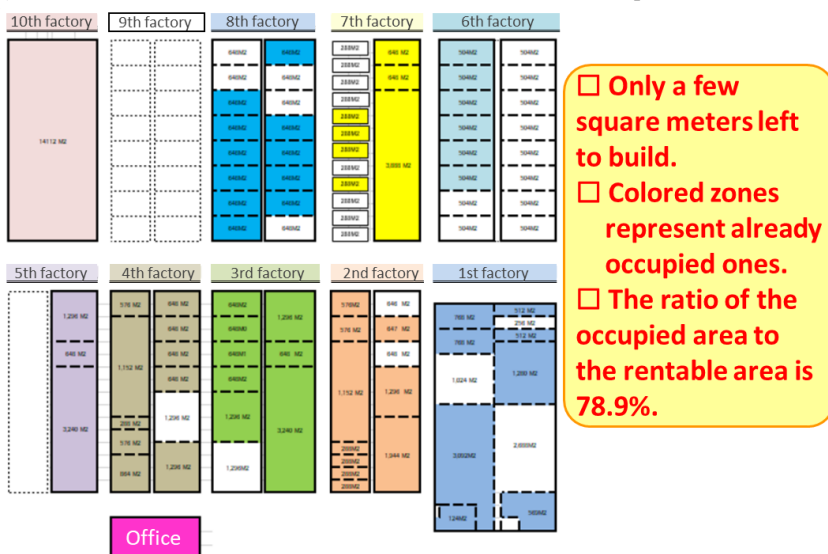
Forval Corporation engages in the operation of rental factories in Vietnam as part of supportive business that is more advanced than the conventional consultancy for supporting overseas business expansion. In this business, the company constructs rental factories exclusively for Japanese small and medium-sized enterprises (SMEs) in the Nhon Trach III Industrial Park in southern Vietnam. In the premises with an area of 18 ha, the company developed a space for housing about 100 enterprises, and this is expected to become a leading hub of Japanese SMEs. Since development requires a lot of money, the company utilizes the overseas investment/financing system of Japan International Cooperation Agency (JICA), and conducts continuous monitoring surveys for checking what kinds of support and services are needed for Japanese enterprises entering overseas markets. The company is expected to obtain the competitive know-how to make inroads into markets in other countries and regions.

In addition, more clients introduced by alliance partners, including 42 Japanese financial institutions and 4 leading tax accountant corporations, plan to enter overseas markets. They have strong interests in the rental factories in Vietnam, and 100 districts are already to be reserved for alliance partners.

The number of users of the rental factory zones is rising on a steady basis and 78.9% of the area available for rent has been occupied, making the remaining area available for constructing factories small.

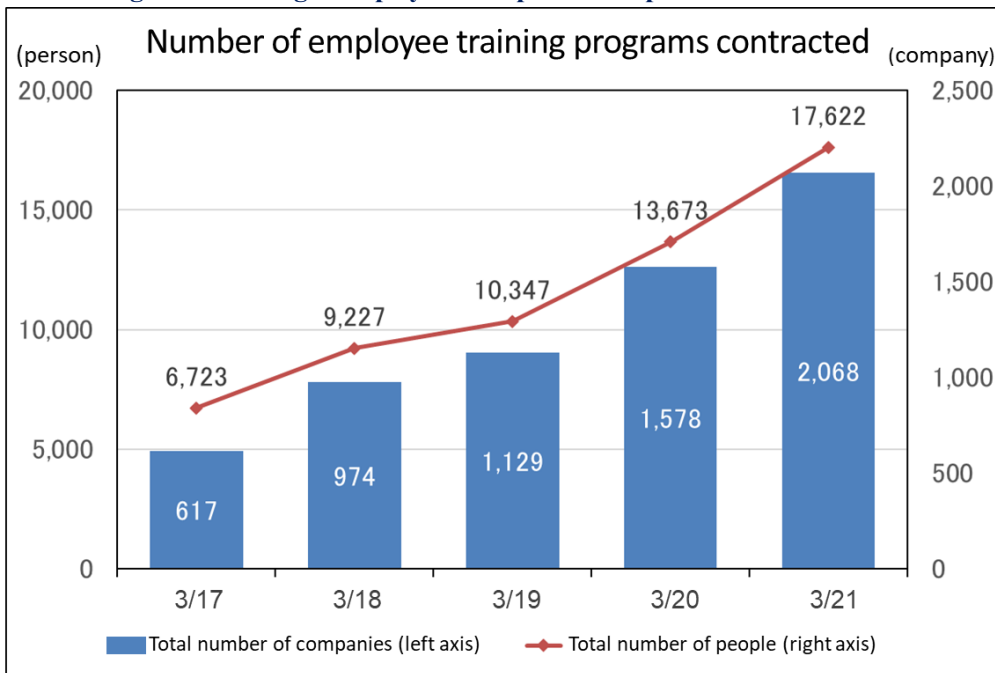


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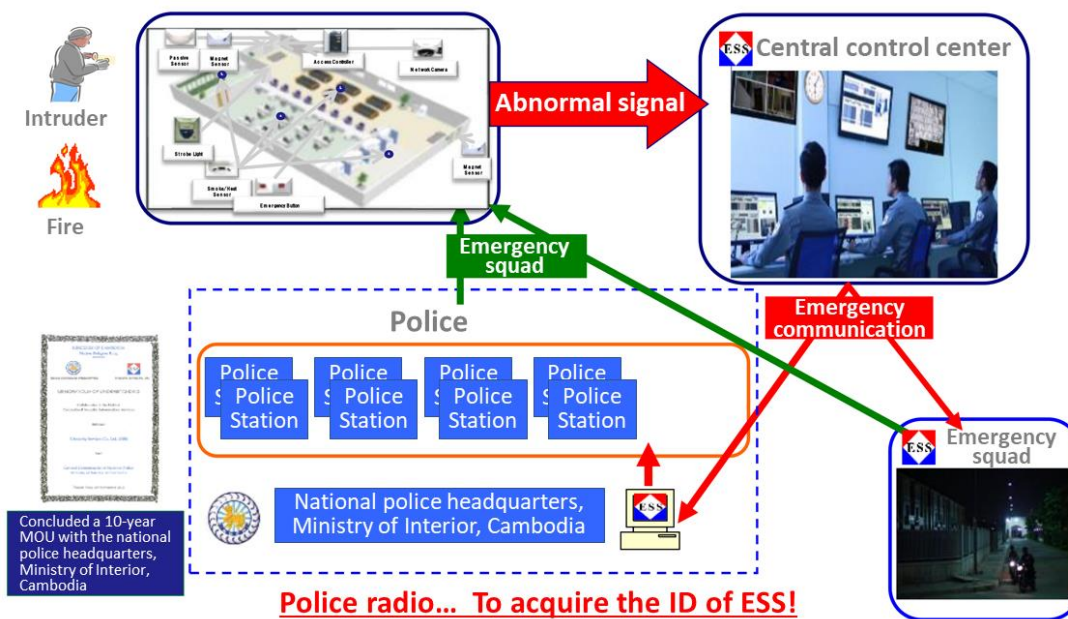
(Taken from the reference material for the financial results of Forval Corporation for the term ended March 2021)

Undertaking of the training of employees of Japanese companies



Forval Corporation has been entrusted by a total of 2,068 enterprises, up 31.1% YoY, with the training of a total of 17,622 employees, up 28.9% YoY, in 4 countries: Cambodia, Vietnam, Indonesia, and Myanmar. In addition, the company introduces foreign skilled workers to Japanese enterprises, but the number of workers who received a job offer dropped from 48 to 19 between the term ended March 2020 and the term ended March 2021. This is because the number of jobs available significantly dropped due to the spread of COVID-19.

Situation of security services

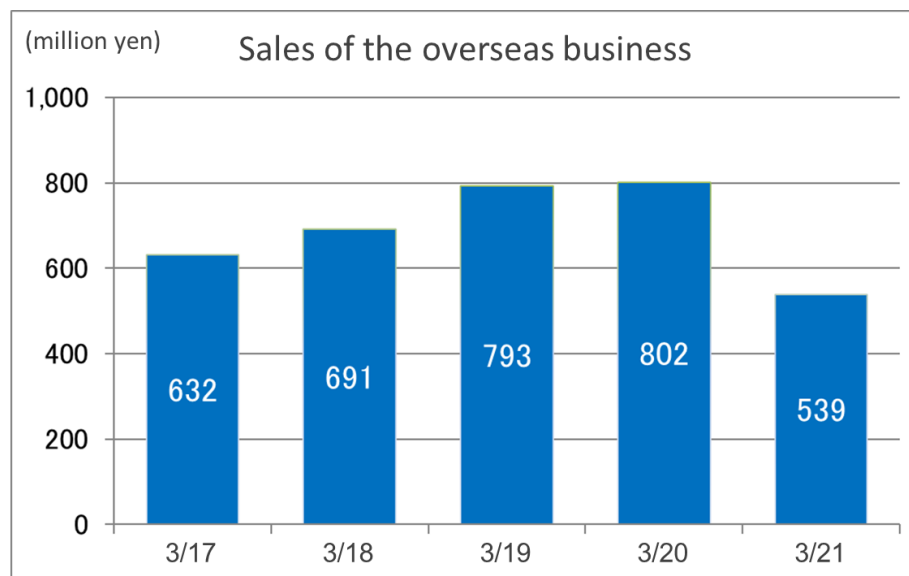


(Taken from the reference material for the financial results of Forval Corporation for the term ended March 2021)

The company signed a 10-year MOU (memorandum of understanding) with the national police headquarters, Ministry of Interior, Cambodia, and offers security services in Cambodia. The number of contracts in a charging basis in the term ended March 2021 was 619, up 4.7% year on year.

Variation in the sales of the overseas business

The sales of the overseas business are subject to the equity method, and not included in consolidated sales, but they are expanding as a result of the expansion of overseas bases. However, sales in the overseas market in the term ended March 2021 shrank 32.8% year on year to 539 million yen (which stood at 802 million yen in the previous term) due to the restrictions imposed on the cross-border movement of people amid the COVID-19 pandemic.



*Including the overseas business-related sales not included in consolidated sales

3. Fiscal Year Ended March 2021 Earnings Results

(1) Consolidated Business Result for FY3/21

	FY3/20	Ratio to sales	FY3/21	Ratio to sales	YoY
Net sales	49,731	100.0%	49,788	100.0%	+0.1%
Gross profit	18,820	37.8%	17,859	35.9%	-5.1%
SG&A expenses	15,591	31.4%	15,242	30.6%	-2.2%
Operating income	3,229	6.5%	2,616	5.3%	-19.0%
Ordinary income	3,324	6.7%	2,483	5.0%	-25.3%
Profit attributable to owners of parent	1,067	2.1%	1,357	2.7%	+27.2%

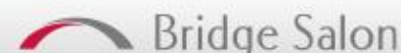
*Unit: million yen.

Sales increased 0.1% year on year and ordinary income dropped 25.3% year on year.

Sales rose 0.1% year on year to 49,788 million yen. Ordinary income stood at 2,483 million yen, down 25.3% year on year. Sales increased only 57 million yen year on year due to the voluntary restraint from sales activities and the absence of some of the employees as they were forced to take leave in the wake of the spread of COVID-19, while the acquisition of three new consolidated subsidiaries resulted in a sales growth amounting to 2,677 million yen. Sales grew in the Forval Business Group owing to the acquisition of the new consolidated subsidiaries and an increase in sales from the icon services, the Forval Telecom Business Group in which sales from new electricity service and insurance service rose while sales of the Internal service provider (ISP) service decreased, and the Other Business Group, to which a newly acquired subsidiary, KAELUNETWORKS Inc., contributed. Meanwhile, sales dropped in the General Environment Consulting Business Group, in which sales mainly from solar power generation systems shrank.

Operating income was 2,616 million yen, down 19.0% year on year. While the recurring revenue-based business, such as the icon services, expanded steadily, the quantity of equipment sold decreased because the company refrained voluntarily from marketing activities amid the COVID-19 crisis and the purchase price of electricity soared temporarily, negatively affecting profit. Although SG&A

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expenses were cut by 2.2% year on year because expenditures were reduced through the company's efforts to shift to a new work style at an accelerated rate during the COVID-19 pandemic, segment profit decreased in all the business groups but the Other Business Group to which the consolidated subsidiary newly acquired contributed. Gross profit margin went down 1.9 points year on year to 35.9% and the SG&A ratio to sales shrank 0.8 points year on year to 30.6%, but operating income margin stood at 5.3%, down 1.2 points year on year. Of the 1.9-point year-on-year decrease of the gross profit margin, 0.7 points were due to the temporary surge of the purchase price of electricity.

In addition, the company recorded a provision of allowance for doubtful accounts amounting to 218 million yen (which was 66 million yen in the previous term), causing ordinary income to drop 25.3% year on year, whose rate of decline exceeded that of operating income. Profit attributable to owners of the parent increased 27.2% year on year because the company recorded no provision of allowance for doubtful accounts this term, which was 2,244 million yen in the previous term following the decision reached by one of the major clients of Forval Telecom to start the bankruptcy proceedings.

*The amounts were rounded down, and the ratios were rounded off.

Selling, general and administrative expenses

	FY3/20	FY3/21	YoY		Factor
			The amount of increase/decrease	The rate of increase/decrease	
Selling costs	717	504	-213	-29.7%	Some expenses, such as sales incentive fees and sales promotion expenses, decreased.
Labor costs	9,693	10,006	+313	+3.2%	The effect from the acquisition of three new consolidated subsidiaries, etc.
Expenses	5,180	4,731	-448	-8.7%	The depreciation cost of prepaid expenses decreased.
Total	15,591	15,242	-348	-2.2%	

*Unit: million yen.

SG&A expenses declined 2.2% year on year because the company cut down on expenditures through its efforts to shift to a new work style at an accelerated rate amid the COVID-19 pandemic.

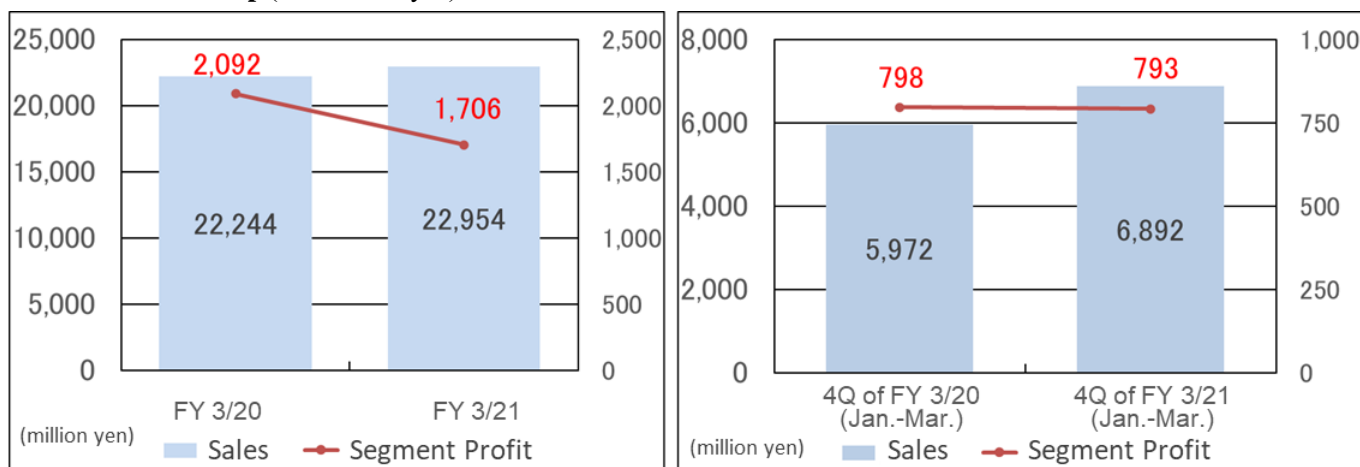
Sales and profit of each segment

	FY 3/20	Composition ratio	FY 3/21	Composition ratio	YoY
Forval Business Group	22,244	44.7%	22,954	46.1%	+3.2%
Forval Telecom Business Group	20,727	41.7%	21,265	42.7%	+2.6%
General Environment Consulting Business Group	5,467	11.0%	4,052	8.1%	-25.9%
Other Business Group	1,292	2.6%	1,516	3.0%	+17.3%
Consolidated sales	49,731	100.0%	49,788	100.0%	+0.1%
Forval Business Group	2,092	64.5%	1,706	63.0%	-18.4%
Forval Telecom Business Group	1,003	30.9%	846	31.3%	-15.6%
General Environment Consulting Business Group	74	2.3%	-0	0.0%	-
Other Business Group	74	2.3%	154	5.7%	+108.2%
Consolidated adjustment, etc.	-14	-	-91	-	-
Consolidated operating income	3,229	-	2,616	-	-19.0%

*Unit: million yen.

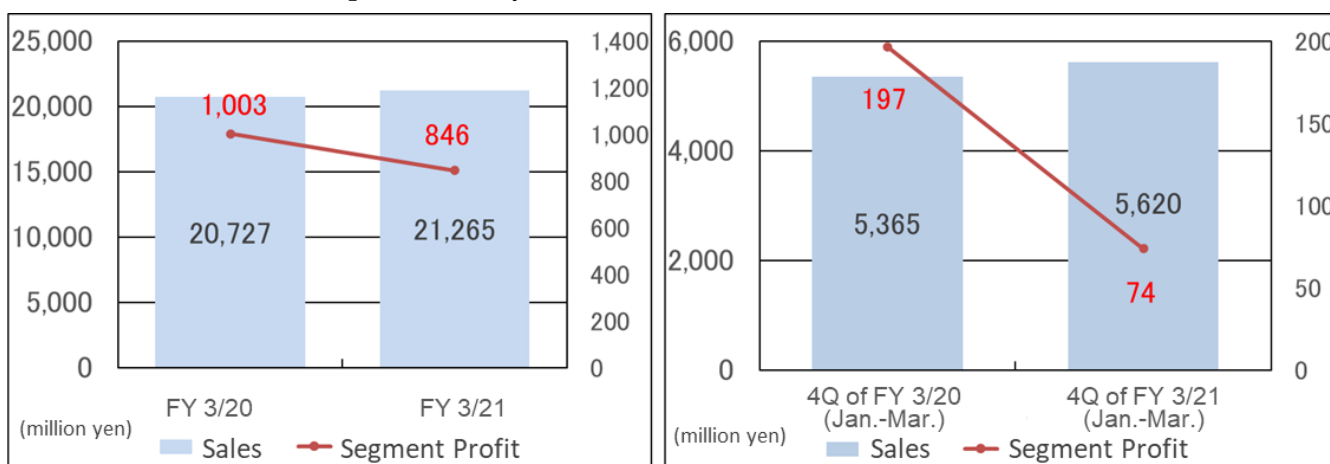
*Sales refer to sales to external customers.

Forval Business Group (unit: million yen)



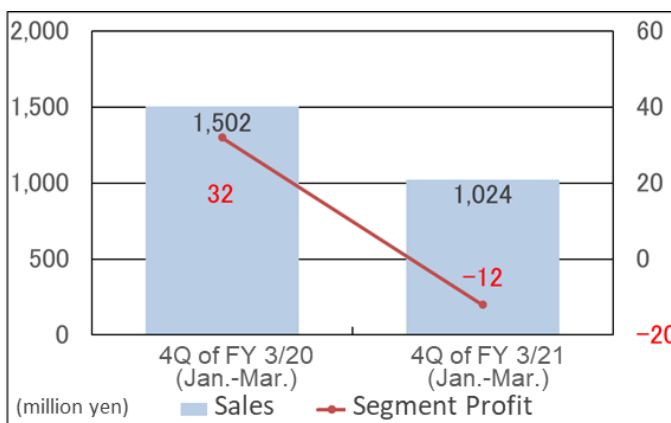
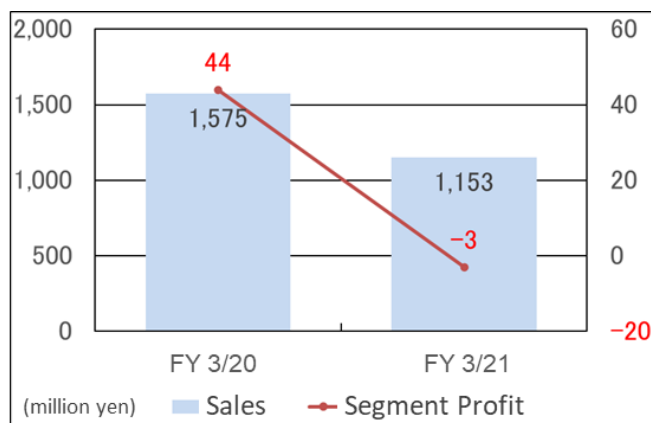
In the Forval Business Group, sales stood at 22,954 million yen (up 3.2% year on year) and segment profit was 1,706 million yen (down 18.4% year on year) in the term ended March 2021 because the quantity of equipment sold, such as servers, decreased while the acquisition of MIYOSHI and ESUMI Co., Ltd. as consolidated subsidiaries contributed and sales from the icon services showed a steady growth. For the fourth quarter (January to March) alone, sales increased and profit declined from the same period of the previous term.

Forval Telecom Business Group (unit: million yen)



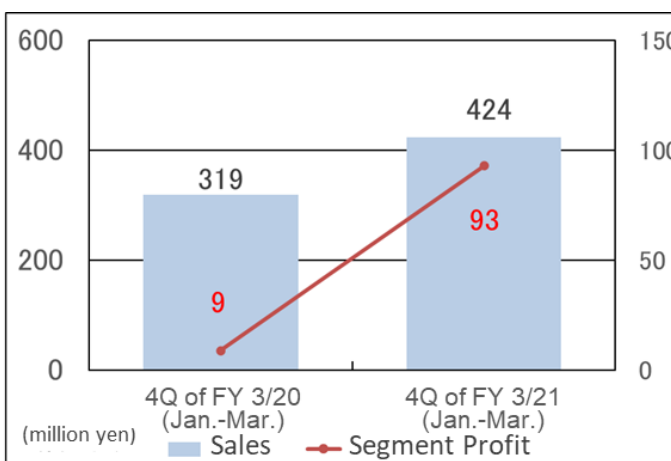
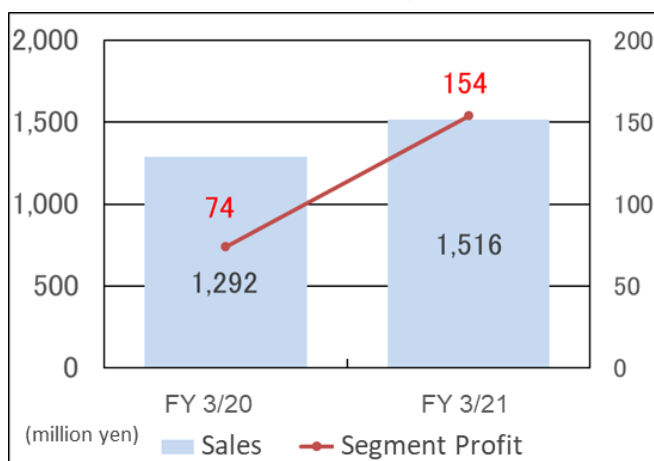
In the Forval Telecom Business Group, in the term ended March 2021, sales were 21,265 million yen (up 2.6% year on year) because sales from the new electricity service and insurance service rose while sales from the ISP service shrank, and segment profit stood at 846 million yen (down 15.6% year on year) because the purchase price of electricity shot up temporarily. For the fourth quarter (January to March) alone, sales increased, and profit shrank from the same period of the previous term.

Comprehensive Environment Consulting Business Group (unit: million yen)



In the General Environment Consulting Business Group, a decrease in sales mainly from photovoltaic power generation systems resulted in sales of 4,052 million yen (down 25.9% year on year) and segment loss of 0 million yen (which was profit of 74 million yen in the previous term) in the term ended March 2021. For the fourth quarter (January to March) alone, sales dropped, but segment loss was reduced year on year.

Other Business Group (unit: million yen)

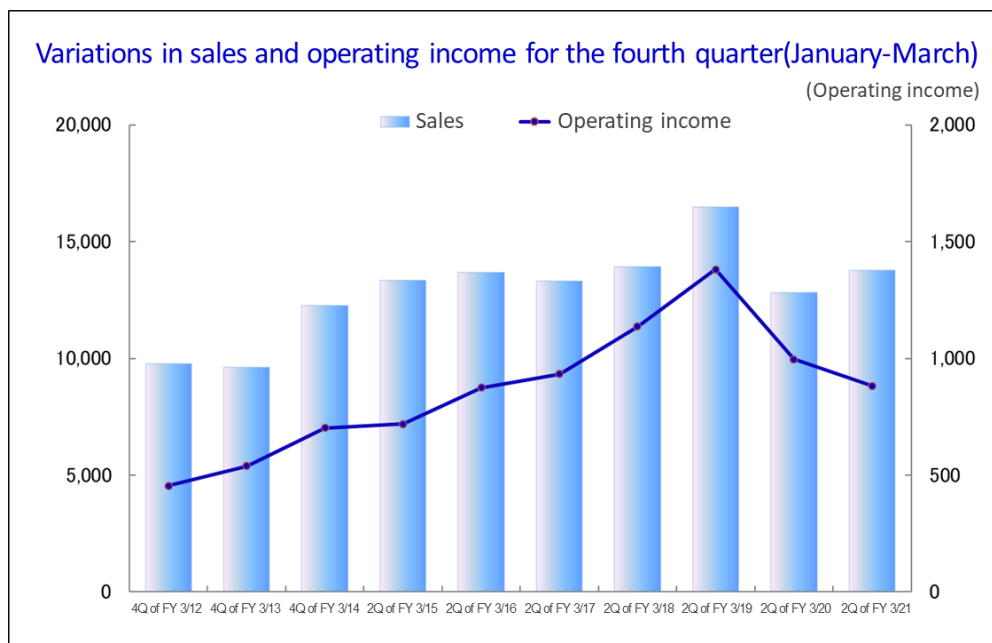


In the Other Business Group, the acquisition of KAELUNETWORKS Inc. as a consolidated subsidiary contributed, resulting in sales of 1,516 million yen (up 17.3% year on year) and a segment profit of 154 million yen (up 108.2% year on year) in the term ended March 2021. For the fourth quarter (January to March) alone, both sales and profit increased from the same period of the previous term.

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Variations in results for the quarters



Although the spread of the COVID-19 infection affected the company's financial results of this term, sales rose in the fourth quarter (January to March) of the term ended March 2021 by 7.3% from the same period of the previous term.

*Unit: million yen.

Total of sales	FY3/20	FY3/21	YoY
1Q	11,789	10,995	-6.7%
2Q	13,013	12,460	-4.3%
3Q	12,104	12,569	+3.8%
4Q	12,824	13,764	+7.3%
Total of sales	49,731	49,788	+0.1%
Operating income	FY3/20	FY3/21	YoY
1Q	492	282	-42.6%
2Q	1,047	741	-29.2%
3Q	693	708	+2.2%
4Q	995	883	-11.2%
Total of operating income	3,229	2,616	-19.0%

Turning its focus into business growth again in the second half of the current term while putting forth efforts against COVID-19, the company made an accelerated shift to recurring revenue-based business, such as the icon services.

(2) Financial Conditions and Cash Flows (CF)

Financial Conditions

	March 2020	March 2021		March 2020	March 2021
Cash and deposits	9,742	10,963	Trade payables	5,215	5,478
Trade receivables	6,529	6,852	Short-term loans payable	3,956	3,912
Inventories	646	925	Other payables	2,683	2,788
Current assets	20,842	22,335	Long-term loans payable	90	140
Property, plant, and equipment	785	920	Liabilities	17,703	18,369
Intangible assets	1,117	1,846	Net assets	11,400	13,040
Investments and others	6,358	6,307	Total liabilities and net assets	29,103	31,410
Noncurrent assets	8,261	9,074	Total interest-bearing liabilities	4,046	4,053

*Unit: million yen.

*interest-bearing liabilities = borrowing + lease debt

Total assets at the end of March 2021 stood at 31,410 million yen, up 2,306 million yen from the end of the previous term owing to the impact of the acquisition of three new consolidated subsidiaries. The major factors behind the increase include cash and deposits, trade receivables, property, plant, and equipment, and goodwill. Liabilities and net assets rose mainly due to trade payables, accrued expenses, other payables, retained earnings generated from recording of profit attributable to owners of the parent, disposition of treasury stock, and valuation difference on available-for-sale securities. Capital-to-asset ratio was 39.5%, up 2.3 points from the end of the previous term. Interest-bearing liabilities stood at 4,053 million yen, almost unchanged from the end of the previous term.

Cash Flow

*Unit: million yen.

	FY 3/20	FY 3/21	YoY	
Operating Cash Flow (A)	1,361	2,716	1,355	+99.5%
Investing Cash Flow (B)	472	-712	-1,184	-
Free Cash Flow (A + B)	1,833	2,004	170	+9.3%
Financing Cash Flow	-946	-845	101	-10.7%
Cash and Equivalents at Term End	9,742	10,905	1,162	+11.9%

Operating CF rose further owing primarily to growth of income before income taxes and depreciation costs, and a decline in prepaid expenses. While investing CF went into the red due to an increase of purchase of intangible fixed assets and purchase of shares of subsidiaries resulting in change in scope of consolidation, free CF grew further. The deficit of financing CF narrowed because of a rise in long-term debts. Consequently, the cash position at the end of the term increased 11.9% from the end of the previous term.

(3) Recent topics

Certified as a DX Certification System certified business operator

On March 1, 2021, the company was certified by the Ministry of Economy, Trade and Industry (METI) as a DX Certification System certified business operator. The DX Certification System is designed to allow METI to certify businesses that have already formulated a vision, developed strategies and systems, and are ready to promote DX (DX-Ready). As of the end of March 2021, there were only 25 businesses certified under the DX Certification System. In the course of the company's daily consulting activities for SMEs throughout Japan, it obtains a great deal of management information, organizes, and centrally manages this information, and builds a management analysis information platform for its utilization. By establishing an information infrastructure that will serve as a big data bank for SMEs, the company aims to revolutionize the business models of both the company and its client SMEs, and co-create new value. In recognition of these efforts, the company was certified as a DX Certification System certified business operator.

Recognized as an Excellent Corporation for Health Management 2021 (Large-Scale Corporation Category (White 500))

The company has been certified as an Excellent Health Management Corporation 2021 (Large Corporation Category (White 500)) by the Nippon Kenko Kaigi (Japan Health Council). This is a system that honors corporations with particularly excellent health management practices, based on their efforts to address local health issues and health promotion efforts promoted by the Nippon Kenko Kaigi. The company considers health management to be an important management issue and is constantly strengthening its efforts to extend healthy life expectancy to create a place where employees can exercise their abilities with a peace of mind, as stated in one of its company principles. While continuing to work on the optimization of working hours, the company has been proactively working on dealing with the priority issues, with a particular focus on the flexible working styles and the prevention of stress-related diseases such as mental health and lifestyle-related diseases. The company will continue to actively promote measures to create a place where employees can exercise their abilities with a peace of mind.

Certified as a Management Innovation Support Organization

The company has been certified by the government as a Management Innovation Support Organization, which means that it has a certain level of expertise and experience in tax affairs, finance, and corporate finance. With this approval, it is possible to use the subsidizing projects that involve the Management Innovation Support Organization such as: (1) business restructuring subsidies, which support SMEs that are willing to restructure their business by operating business in new fields or changing business categories, and require a written confirmation from the Management Innovation Support Organization; (2) the Act on Special Measures for Productivity Improvement, which allows business operators to apply for approval of a plan to install advanced equipment, etc. to a municipality after receiving confirmation from the Management Innovation Support Agency and reduce fixed asset taxes for installed equipment for three years; (3) business succession subsidies, which cover the expenses required for capital investment, expansion of sales channels, and closure of existing businesses, and are provided to SMEs engaging in management innovation and business transformation with the help of the Management Innovation Support Organization at the time of business succession or change in generations; (4) Loan Program for Enhancing the Management Capabilities of SMEs, in which Japan Finance Corporation provides loans to SMEs that are endeavoring to conduct new business activities by starting a new business, diversifying or changing their business, etc., and are supported by the Management Innovation Support Organization; and (5) the Program for Guaranteeing the Enhancement of Management Capabilities, in which credit guarantee fees are reduced when SMEs work to improve their management with the help of the Management Innovation Support Organization.

Formed a business alliance with Angliss Singapore Pte Ltd.

The company has agreed to cooperate with Angliss Singapore Pte Ltd. (headquartered in Singapore; hereinafter “Angliss Singapore”) in expanding exports and sales of Japanese food, food ingredients, beverages, and other products to Singapore, and has formed a business alliance with the company. Angliss Singapore is a trading company headquartered in Hong Kong with offices (subsidiaries) in Singapore, China, Hong Kong, and Macau, and is engaged in the import, wholesale, and retail sales of food products from around the world, as well as exports to Southeast Asia (Vietnam, Malaysia, etc.). Particularly, in Singapore, the company operates Live Commerce: Angliss Market Place as its own D2C (Direct to Consumer) business in Singapore, and has already achieved trading, sales, and export of products for Fordex-icon users. Through this business alliance, the food-related businesses nationwide supported by the company will be able to take advantage of Angliss Singapore’s live commerce and other sales networks, which is expected to add value to the support provided by the company.

4. Fiscal Year Ending March 2022 Earnings Forecasts

(1) Full-year Consolidated Earnings Forecast

	FY 3/21 Results	Ratio to sales	FY 3/22 Estimates	Ratio to sales	YoY
Net sales	49,788	100.0%	50,000	100.0%	+0.4%
Operating income	2,616	5.3%	3,000	6.0%	+14.6%
Ordinary income	2,483	5.0%	3,000	6.0%	+20.8%
Profit attributable to owners of parent	1,357	2.7%	1,900	3.8%	+39.9%

*Unit: million yen.

Sales and ordinary income are expected to increase 0.4% and 20.8% YoY respectively

Forval Corporation strives to become a group that can support business administration as a next-generation management consultant, cement the relations with clients by contributing to the profits of SMEs, establish a firm position as a business partner, and shift its business model to a recurring-revenue structure. Especially, the company aims to differentiate its services from competitors' in the five fields: "management consulting services utilizing the knowledge and technology of information and telecommunication (Information and Telecommunication)," "management consulting services for entering overseas markets with original know-how (Overseas Market)," "cutting-edge management consulting services caring for the environment (Environmental Protection)," "management consulting services for developing personnel required for next-generation management (Personnel and Education)," and "management consulting services tailored to the lifecycle of each enterprise (Start-up and Succession of Business)" and contribute to the profits of SMEs mainly from the viewpoints of "sales expansion," "streamlining of business operations," and "avoidance of risks."

The company estimates sales and ordinary income will be at 50 billion yen and 3 billion yen, up 0.4% and 20.8% year on year, respectively, for the term ending March 2022. Regarding sales, the spread of COVID-19 is changing ways of working at an accelerated rate, and the company will proactively make proposals according to the new workstyle environment, such as working from home and promoting a paperless offices. While profitability is expected to be boosted through a further accelerated shift to recurring revenue-based business, such as the icon services, the rate of sales growth will be low because the company is currently focusing on providing services suited to the new era rather than on selling hardware.

Operating income is projected to rise 14.6% year on year to 3 billion yen. Sales increases in recurring revenue-based business, such as the highly profitable icon services, will contribute to profit. In addition, the company will revise the conditions for purchasing electricity at Forval Telecom in hopes of contributing to improving profitability by avoiding risks posed by price fluctuations. Operating income on sales is forecasted to grow 0.7 points year on year to 6.0%.

As for dividends, the initially estimated annual dividend of 26 yen/share will be unchanged. The payout ratio will be 35.0%.

(2)Future growth strategy

Enhancement of the icon services - Release of services that cater to SMEs with new work styles

The work-style reform laws enforced in April 2019 have required companies to take a number of measures, such as to make sure that their employees use paid leave, ensure the effectiveness of their approaches to understanding the situation surrounding working hours at their companies, enrich their flextime systems, fulfill obligations to make efforts at the work-shift interval system, adopt the highly professional system, set an upper limit on overtime work hours, and abolish the measures that give SMEs grace to apply a premium overtime rate for overtime work, which requires improving the time efficiency in accordance with the stricter working hour standards. Companies need to precisely grasp how many hours their employees are working and analyze and improve the way that the employees use their time working; however, many SMEs are falling behind in doing so. Under these circumstances, Forval Corporation plans to contribute to promoting work-style reform at SMEs, which are its clients, by proactively releasing services that can cater to its client companies adopting new work styles.

【IEYASU Powered by FORVAL, cloud-based attendance management system】

The company released “IEYASU Powered by FORVAL,” a cloud-based attendance management system, which is a new icon service for responding to the workstyle reform of SMEs, in June 2019. By adopting “IEYASU Powered by FORVAL” and reforming workstyles appropriately, it is possible to reduce excessive work of employees, increase their private time, and improve their physical and mental health. In addition, productivity will be improved as employees will work efficiently within limited working hours, and the turnover rate of employees will decrease, and new personnel will be attracted, as a comfortable working environment will be developed.

Basic function of IEYASU Powered by FORVAL

PPLS

In October 2020, the company released PPLS, a consulting service for streamlining business operations by reviewing workflow and producing manuals. PPLS allows Forval Corporation’s client companies, when they adopt it, to reduce waste through reconstruction of their business flows and promotion of paperless offices, and achieve standardization through preparation of manuals, which will help raise productivity and deliver uniform quality. The service also enables client companies to make a shift to a working environment in which documents are stored and shared in electronic format through the sorting and categorization of paper documents, which have traditionally been stored in large quantity and taken up vast space in offices. Workers will be able to get the documents that they want instantly, and large space will no longer be required to store documents.

【SIM Work, an electronic contract conclusion service】

In December 2020, Management Information Inc., one of the subsidiaries of Forval Corporation, began offering SIM Work, an electronic contract conclusion service that performs all contract-related operations on the computer, which have traditionally been done using paper and stamps, in order to reduce the time, effort, and cost of managing paper contracts and enhance business efficiency. SIM Work prepares contracts in electronic format with proof that identity of the parties concerned has been confirmed and the contract is not falsified by giving them electronic certificates issued by third parties and concludes the contracts online. Moreover, use of electronic contracts will reduce the time, effort, and cost of managing paper contracts and cutting the number of days and processes required before the conclusion of contracts, which will boost business efficiency. The service will draw the interest of myriad companies because users can sign contracts even if the other party involved has not employed SIM Work and is offered at price friendly to the budgets that can be spent by SMEs.

Growth cycle through the strengthening of icon services

The sales of icon services are highly correlated with the operating income of the company. The growth rate of consolidated operating income is about 1.5 times that of sales of icon services. It can be said that it is indispensable to expand the sales of icon services, in order to achieve profit growth.

The company plans to actively allocate the profits earned through the expansion of icon services to the increase of employees, the development of new services, and M&A. New investments are expected to increase the icon services and average spending per customer, inducing the growth cycle of the sales of icon services and the overall operating income of the company.

5. Conclusions

While the company's financial results for the previous term were affected by the spread of COVID-19, it was a year in which companies, including SMEs, were required to work harder than ever before to create a new workstyle environment, including measures to work from home and promote paperless offices. The company is receiving a growing number of requests for advice on how to improve business efficiency in Yorozu Management Consultancy. We would like to pay attention in this regard because the increasing number of requests for advice in Yorozu Management Consultancy can often be a leading indicator of future sales of the icon services. Under these circumstances, the company proactively releases new services and enhances its icon services to help SMEs with work-style reform, in which they are falling behind. We would like to keep an eye on how the services that the company has recently released, such as IEYASU Powered by FORVAL which is a cloud-based attendance management system, PPLS that revises business flows and prepares manuals in order to increase business efficiency through promotion of paperless offices and standardization, and SIM Work, an electronic contract conclusion service, will make synergetic effect to the sales of the icon services.

Sales of an electricity service, Elenova, are skyrocketing in the Forval Telecom Business Group. Although sales from the service were affected by the temporary surge in the purchase price of electricity in the previous term, profitability is expected to be boosted this term because the company intends to stabilize the purchase price by increasing the relative power ratio to 100%. In addition, Forval Corporation will have no longer need to be concerned about the impact of the bankruptcy proceedings started by one of its major clients, and it is expected that acquisition of new clients for the ISP service will allow the company to produce stronger business performance. We would also like to direct attention to the trend of the business results in the Forval Telecom Business Group.

Furthermore, the fact that the amount of cash and deposits at the end of the term exceeded 10 billion yen is noteworthy. We expect that the company will use the fund for offering new services and enriching the options of the global icon services with the aim of enhancing its icon services. We would like to watch closely for how effectively the company uses retained earnings, including the possibility of merger and acquisition.

<Reference: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors (excluding audit and supervisory committee)	8 directors, including 2 outside ones
Audit and supervisory committee	3 members, including 2 outside ones

◎ Corporate Governance Report

The submission date of the corporate governance report after the application of the corporate governance code: June 3, 2021

<Basic Policy>

Our company recognizes that it is important to tighten corporate governance, in order to achieve growth with profit amid the rapidly changing business environment, set the following as the basic policies, and is making efforts to actualize them:

1. To secure the transparency and soundness of business administration,
2. To realize swift decision making and business execution,
3. To clarify accountability
4. To disclose information swiftly, properly, and fairly.

We will discuss systems suited for our company in response to changes in the social environment, legal systems, etc. and conduct necessary reform for tightening corporate governance.

<Regarding the observance of the principles of the corporate governance code>

Codes we do not follow: Major principles we do not follow, and reasons for not following them

Principles	Reason for not following the principle
【Principle 1-2 Exercise of rights at general meetings of shareholders】 【Supplementary Principle 1-2-4】	Our company recognizes the importance of the development of an environment where overseas investors can exercise their voting rights easily, for example, by providing them with information in English, and will have comprehensive discussions about English translation, etc. while considering appropriate costs, timing, etc.
【Principle 3-1 Improvement in information disclosure】	(1) Our company's ideal state (management philosophy, etc.), management strategy and plan Our company's ideal state (management philosophy, etc.) is as described in "Corporate ethos" in Corporate Information of our website. Under the basic philosophy of "aiming to distribute happiness to everyone by creating social value while going with employees, family members, customers, shareholders, and business partners," we designed our management strategy and plan. However, the management situation in our business environment is changing rapidly, so we do not announce concrete figures or the like in the current management strategy and plan, which would make us stick to concrete numerical goals and hinder our flexible response.
【Supplementary Principle 3-1-2】	Our company recognizes the usefulness of information in English for overseas investors, and will discuss it while considering the shareholder composition, etc.
【Principle 4-1 Roles and duties of the board of directors (1)】 【Supplementary Principle 4-1-2】	Our company's ideal state (management philosophy, etc.) is as described in "Corporate ethos" in Corporate Information of our website. Under the basic philosophy of "aiming to distribute happiness to everyone by creating social value while going with employees, family members, customers, shareholders, and business partners," we designed our management strategy and plan. However, the management situation in our business environment is changing rapidly, so we do not announce concrete figures or the like in the current management strategy and plan, which would make us stick to concrete numerical goals and hinder our flexible response. However, we analyze the results compared with the goals in each mid-term management plan and reflect the analysis results in the plan for the following term.

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<p>【Principle 4-2 Roles and duties of the board of directors (2)】 【Supplementary Principle 4-2-1】</p>	<p>At the 36th annual meeting of shareholders, a new budget for remunerations for adopting the system for giving remunerations to executives in the form of shares with restrictions on share transfer was approved, and we give remunerations to 4 directors in the form of shares with restrictions on share transfer in order to share value with shareholders.</p>
<p>【Principle 4-10 Utilization of an arbitrary system】 【Supplementary Principle 4-10-1】</p>	<p>The board of directors of our company is composed of as few as 8 members, including 2 independent outside directors. We believe that with the current system, we can receive appropriate involvement and advice from independent outside directors in the deliberation of important matters regarding nomination, remuneration, etc.</p>
<p>【Principle 5-2 Formulation and announcement of management strategy and plan】</p>	<p>We have formulated a mid-term management plan. However, the management situation in our business environment is changing rapidly, so we do not announce concrete figures or the like in the current management strategy and plan, which would make us stick to concrete numerical goals and hinder our flexible response.</p>

<Major principles we disclose>

Principles	Major principles we disclose
<p>【Principle 1-4 Strategically held shares】</p>	<p>Our company does not hold any listed shares as strategically held shares. We have no plan to hold such shares, but if it is judged that it is meaningful to hold such shares after considering the business relationships with business partners, etc., the board of directors will discuss it. If we hold such shares and exercise voting rights, we will examine each bill and judge whether or not it will contribute to the improvement in corporate value of our company and the invested enterprise.</p>
<p>【Principle 2-6 Exertion of functions as an asset owner of corporate pensions】</p>	<p>Our company does not have a corporate pension fund system.</p>
<p>【Principle 4-11 Prerequisites for securing the effectiveness of the board of directors and the audit committee】 【Supplementary Principle 4-11-1】</p>	<p>Our company considers that the board of directors is needed to be composed of members who possess diverse knowledge, experience, and skills. Namely, we believe that it is indispensable to secure the diversity of the board of directors with such members in order to oversee business execution and make decisions about important items. In addition, from the viewpoints of holding sufficient discussions and making decisions swiftly in the board of directors, we think that the board of directors should be composed of up to 15 members, including up to 10 directors (excluding directors belonging to the audit committee) and up to 5 directors who belong to the audit committee. The procedures were discussed under the above policy and approved by the board of directors.</p>
<p>【Supplementary Principle 4-11-2】</p>	<p>Our company discloses the important concurrent posts of directors and outside directors in other listed companies through our business reports and reference material for general meetings of shareholders.</p>
<p>【Supplementary Principle 4-11-3】</p>	<p>In order to evaluate the effectiveness of the board of directors, our company conducted “a self-assessment questionnaire survey for evaluating the board of directors” targeting all directors, and then analyzed and evaluated their answers. As a result, we confirmed that the board of directors holds meetings properly, secures the balance between knowledge, experience, and abilities, and deliberates each bill to a sufficient degree. We will keep striving to enhance the effectiveness of the board of directors while reflecting the evaluation results in the activities in the following fiscal year.</p>

【Principle 5-1 Policy for constructive dialogues with shareholders】

Our company holds voluntary, effective dialogues with shareholders and investors, mainly via the representative director. In addition to holding a briefing session for shareholders after each general meeting of shareholder, we upload the reference material and videos of the financial results briefing session, which is held every six months for mainly analysts and institutional investors from the viewpoint of fairness, to our website.

When necessary, the director in charge of IR and the section in charge of IR give assistance, and the section in charge of IR takes the initiative in coordinating related divisions in order to realize smooth dialogues with shareholders and investors, and their opinions obtained through the dialogues are shared by the board of directors when necessary, to improve our corporate value.

During the dialogues with shareholders and investors, we make efforts to prevent the leakage of insider information in accordance with the regulations for managing inside information.

Our policies for systems and activities for promoting constructive dialogues with shareholders are as follows:

- (1) The director in charge of IR manages the dialogues with shareholders and investors, and we strive to realize voluntary, constructive dialogues.
- (2) The section in charge of IR takes the initiative in coordinating related divisions, for example, by sharing necessary information for producing reference material in order to hold smooth dialogues with shareholders and investors.
- (3) The section in charge of IR listens to the requests from shareholders and investors, holds individual interviews between them and the representative director, the director in charge of IR, or the section in charge of IR, and organizes a session in which the representative director reports financial results and a briefing session for shareholders after each general meeting of shareholders.
- (4) Our company feeds back opinions that we have gotten through dialogue with our shareholders and investors to the top executives as necessary to share and utilize information.
- (5) Pursuant to the regulations for internal information management, our company takes measures to prevent insider information from being leaked out during dialogue with the shareholders and investors.
(Currently, we temporarily refrain from holding financial results briefings to prevent the further spread of COVID-19.)

This report is intended solely for information purposes, and is not intended as a solicitation for investment. The information and opinions contained within this report are made by our company based on data made publicly available, and the information within this report comes from sources that we judge to be reliable. However, we cannot wholly 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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