Softbrain

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Company Research and Analysis Report
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■Achieved first rise in both sales and operating profit in five years in FY12/12; appears poised for a new growth stage, supported by new businesses

Softbrain is a leading Japanese producer of software for sales force automation and customer relationship management. The company has twenty to thirty percent of market share in field of sales force automation. Through subsidiaries, it also engages in field marketing, such as conducting surveys of stores and promoting store sales, and in systems development, or the offshore development of software on consignment.

In the fiscal year through December 2012, i.e., in FY12/12, Softbrain's consolidated sales grew by 24.7% year-on-year (y-o-y) to ¥4,237mn and its consolidated operating profit rose by 36.3% to ¥606mn. In the e-Sales Manager business division, sales of the e-Sales Manager Remix Cloud software program were brisk, reflecting the diffusion of smartphones among Japanese sales forces. Sales in the field marketing division increased notably due to strong demand for sales promotions at stores.

For FY12/13, Softbrain projects an 8.6% y-o-y rise in consolidated sales to ¥4,600mn and a 7.2% upturn in operating profit to ¥650mn. However, we consider the company's forecasts to be conservative. The e-Sales Manager business and the field marketing business are growing, and we foresee greater sales spending by Japanese companies in the second half of FY12/13, before Japan's consumption tax is raised. Therefore, we project a 15.6% y-o-y rise in consolidated sales to ¥4,900mn and a 36.1% increase in operating profit to ¥825mn.

In FY12/13, Softbrain is entering the business of supporting medical treatment services at home. The company has developed a new software program called e-Care Manager, which is a tool for making home medical treatment more efficient by sharing information about such treatment. Softbrain is already marketing this software program to medical institutions. Also, in coordination with Credit Saison (8253), Japan's largest credit card company affiliated with a distributor, in February 2013, Softbrain will start a new service of providing data on reasons for purchases. These two new businesses are likely to support the company's sales and profit growth in coming years.

■Check Points

- We foresee a record-high consolidated operating profit for FY12/13, eclipsing the record set eight years ago
- Large contract won in November 2012 should contribute fully to growth in FY12/13
- If profits exceed the company's forecasts, the company may consider to resume dividend payments

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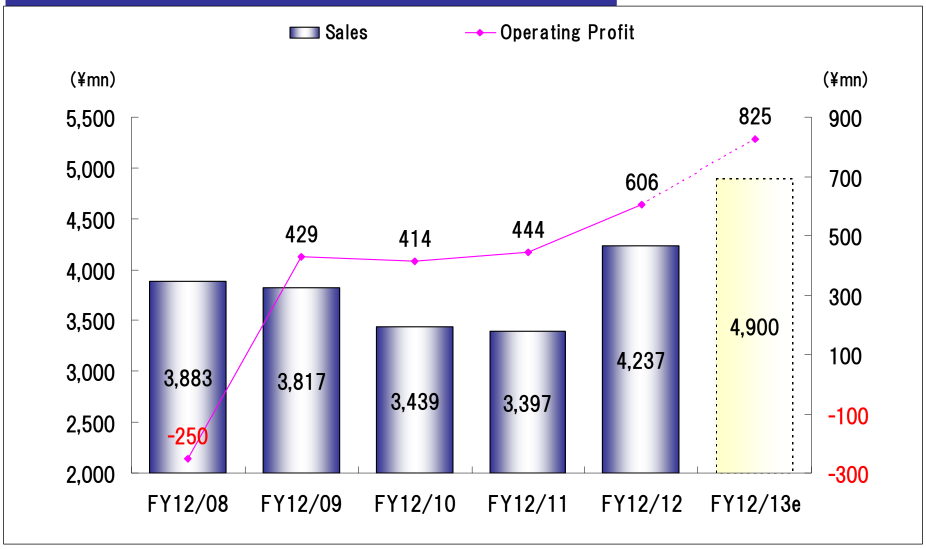
Softbrain's Consolidated Sales and Operating Profit (¥mn), FY12/08 – FY12/13e



Note: Estimates for FY12/13 are by Fisco

■Business Results in FY12/12

Operating profit grew by 36.3% y-o-y and operating profit margin rose by 1.2 points to 14.3%

On January 30, 2013, Softbrain announced its business performance in FY12/12. Consolidated sales increased by 24.7% y-o-y to ¥4,237mn, operating profit rose by 36.3% to ¥606mn, recurring profit advanced by 37.0% to 622mn, and net profit grew by 32.4% to ¥458mn. These results were significantly better than the company's latest forecasts, released in October 2012, as detailed in the table below.

Softbrain's Consolidated Results (¥mn, ¥) in FY12/12 Compared with its Most Recent Forecasts

	Sales	y-o-y	Operating Profit	y-o-y	Recurring Profit	y-o-y	Net Profit	y-o-y	EPS
Most recent forecasts (Oct. 2012)	4,000	17.7	520	16.9	530	16.6	335	-3.2	1,145.1
Results in FY12/12	4,237	24.7	606	36.3	622	37.0	458	32.4	1,566.6

Strong growth was achieved in FY12/12 primarily because of brisk business in the two main divisions, the e-Sales Manager business and field marketing. In the e-Sales Manager business, outright sales of the e-Sales Manager software program for the in-house (on premises) use by companies increased from November, contributing to profit growth in the division. Although personnel costs and other fixed costs grew, sales expanded enough to lift the operating profit margin by 1.2 points y-o-y, to 14.3%. A review of results by division follows.

Large business deal negotiated in conjunction with the Amazon Web Services

(1) e-Sales Manager business

In FY12/12, sales in the e-Sales Manager business declined by 3.9% y-o-y to ¥2,165mn while division operating profit rose by 15.5% to ¥352mn. Sales declined because the system development business, which had been part of the e-Sales Manager business through FY12/11, was made an independent segment in FY12/12. The e-Sales Manager Remix Cloud software program, operated through Softbrain's cloud computing service, sold well, reflecting the diffusion of smartphones and tablet devices in the sales activities of Japanese companies. Furthermore, the division increased the usefulness of its software programs by adding functions to them. In March 2012, it added a function for calculating transportation costs. In May, it added a Web conference function, and in July it added a function for producing digital business cards and another function for tracking work flow. These improvements supported sales growth.

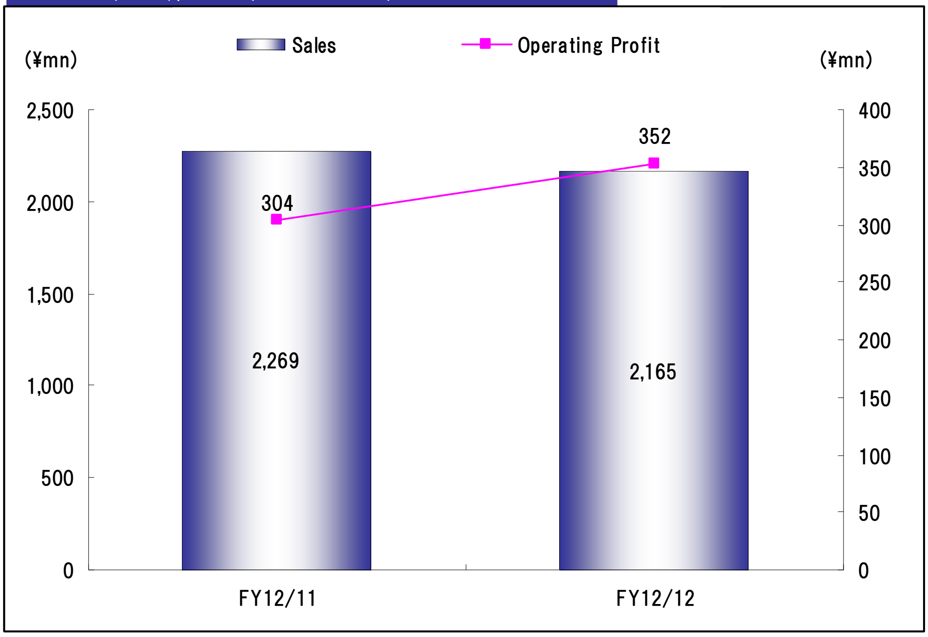
The demand for the e-Sales Manager Remix Cloud software program, paid for on a monthly contract basis, was strong throughout FY12/12, but the demand for the e-Sales Manager software program, licensed at a fixed cost, was weak until November, when Misawa Home (1722), a leading home builder, placed a large order for the e-Sales Manager software program to be used in conjunction with cloud computing offered by the Amazon Web Services. This combination extends the benefits of both cloud computing and in-house (on premises) software programs and minimizes the investment cost for users. Users of the Amazon Web Services in conjunction with the e-Sales Manager software program obtain a low-cost, highly secure, expandable system which can be customized to meet their needs.

Softbrain expects an increase in demand for this sort of combination of customized e-Sales Manager software program and public cloud computing service. Thus, Softbrain should be able to maintain a viable business in sales force automation software used by companies on their in-house (on premises) servers, as well as expanding sales of its sales force automation software used on its cloud computing service. With these dual strengths, Softbrain should be able to distinguish itself from the leading maker of sales force automation software in Japan, Salesforce.com (CRM US), which sells only such software for use on cloud computing services.

The e-Sales Manager business also provides training to customers when they introduce one of the business's software programs and consulting service after the introduction of a program to maximize the use of the program. Sales of both services grew in FY12/12, supporting an increase in the rate at which customers renewed their contracts.

■Business Results in FY12/12

e-Sales Manager Business Sales and Operating Profit (¥mn), FY12/11 – FY12/12



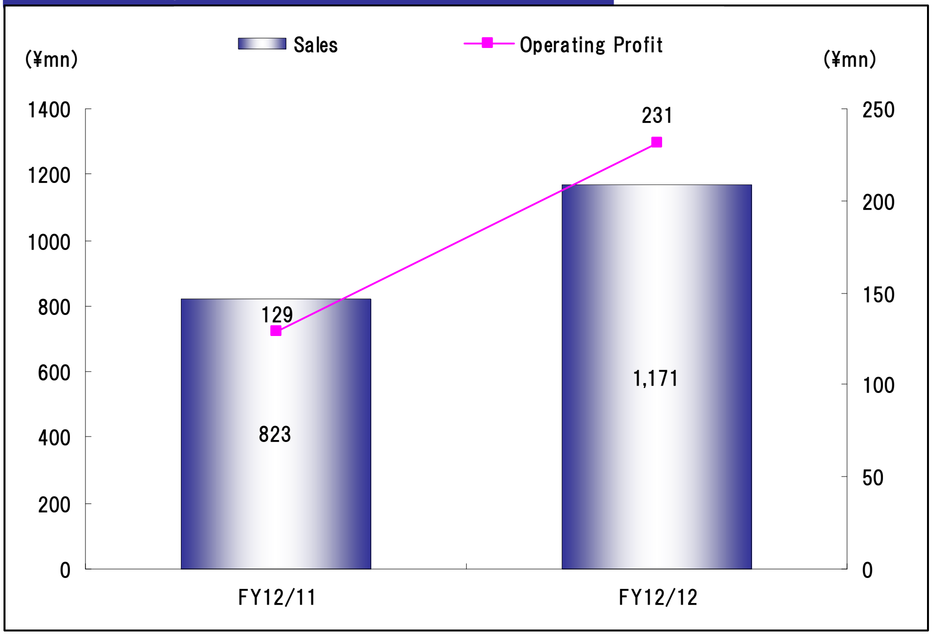
Rise in the proportion of repeat business contributes to rapid growth

(2) Field marketing

Subsidiary Softbrain Field derives most of its sales from field marketing, or in-store sales support such as presenting sales talks, structuring sales areas, and positioning point-of-purchase advertisements for new products. In FY12/12, total sales generated by Softbrain Field increased by 54.5% y-o-y to ¥1,171mn and the company's operating profit rose by 78.9% to ¥231mn. This impressive growth was on account of three main factors: 1) a growing proportion of Japanese companies is relying on in-store sales support because it is highly effective and improves the impact of their advertising and sales promotion expenditures, 2) among the companies relying on in-store sales support, more companies are outsourcing such support to reduce costs, and 3) a growing proportion of customers is ordering repeat service, reflecting the success of Softbrain Field in improving the quality of its service.

■Business Results in FY12/12

Field Marketing Business Sales and Operating Profit (¥mn), FY12/11 - FY12/12



Sales to external customers rose

(3) Systems development

The systems development business is carried out by subsidiaries Softbrain Offshore and Softbrain Offshore (Qingdao), which is headquartered in Qingdao, China. This became an independent division in FY12/12, having previously been part of the e-Sales Manager business. In FY12/12, the systems development business generated sales of ¥420mn and suffered an operating loss of ¥55mn, the only division to suffer such a loss. In FY12/11, this business derived about half of its sales from other segments of Softbrain, primarily the e-Sales Manager business. In FY12/12, sales by this business to other divisions of Softbrain declined, but sales to external customers rose to the reported figure of ¥420mn, while internal sales came to ¥111mn. In the final quarter of FY12/12, a defect was discovered in one of the business's products. Thus, sales of this product were not recorded in FY12/12, but the costs incurred to rectify the problem were recorded. These costs were the main factor causing the operating loss. The sales foregone in FY12/12 will be recorded in Q1 FY12/13, but this segment will probably remain slightly unprofitable at the operating level in Q1 FY12/13.

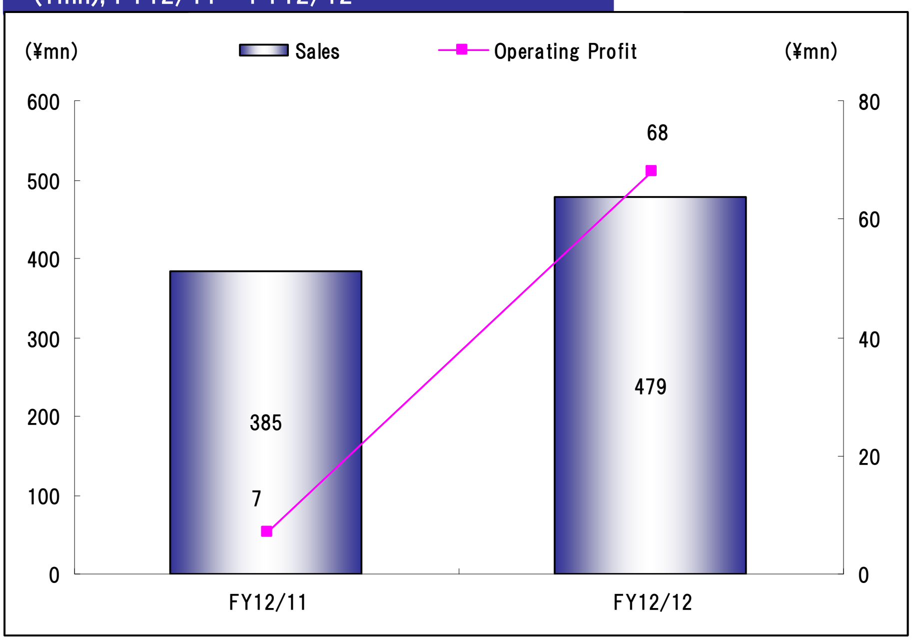
■Business Results in FY12/12

Mobile virtual network operator business and book publishing business grew

(4) Other businesses

Softbrain's two main other businesses are operating mobile virtual networks and publishing books, conducted by separate divisons. In FY12/12, the other businesses segment increased its sales by 24.5% y-o-y to ¥479mn and raised its operating profit by 758.6% to ¥68mn. The mobile virtual network operator (MVNO) business saw a strong increase in the demand for its consulting service to assist customer companies to use smartphones and tablet devices effectively to promote and execute their sales. The book publishing business thrived from a trend by Japanese companies to publish books as part of their marketing activity.

Other Businesses Sales and Operating Profit (¥mn), FY12/11 – FY12/12



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Forecasts for FY12/13

We foresee a record-high consolidated operating profit, eclipsing the previous high set eight years ago

As detailed in the table below, Softbrain projects y-o-y growth in its consolidated sales and operating profit for FY12/13. However, we believe that the company's forecasts for FY12/13 are conservative, just as its forecasts for FY12/12 were. Thus, we project a 15.6% y-o-y rise in consolidated sales to ¥4,900mn and a 36.1% increase in consolidated operating profit to ¥825mn, which would exceed the previous high of ¥817mn, earned in FY12/05.

Forecasts (¥mn, ¥) for FY12/13 by Softbrain and FISCO

	Sales	y-o-y	Operating Profit	y-o-y	Recurring Profit	y-o-y	Net Profit	y-o-y	EPS
Softbrain forecasts	4,600	8.6	650	7.2	650	4.4	400	-12.7	1,367.3
FISCO forecasts	4,900	15.6	825	36.1	825	32.6	510	11.4	1,743.3

Divisional Breakdown of Sales, Operating Profit (¥mn), and Operating Profit Margin (%) in FY12/11 – FY12/12 and of FISCO Forecasts for FY12/13

Sales	FY12/11	FY12/12	FY12/13e	y-o-y
e-Sales Manager business	2,253	2,165	2,510	15.9%
Field marketing	758	1,171	1,400	19.6%
Systems development	-	420	460	9.5%
Other businesses	385	479	530	10.6%
Total	3,397	4,237	4,900	15.6%
Operating Profit				
e-Sales Manager business	304	352	460	30.7%
Field marketing	129	231	280	21.2%
Systems development	-	-55	0	-
Other businesses	7	68	76	11.8%
Company-wide operating costs	2	9	9	0.0%
Total	444	606	825	36.1%
Operating Profit Margin				
e-Sales Manager business	13.4%	16.2%	18.3%	
Field marketing	17.0%	19.7%	20.0%	
Systems development	-	-	-	
Other businesses	1.8%	14.1%	14.3%	
Total	13.1%	14.3%	16.8%	

Notes: Forecasts for FY12/13 are by FISCO, Systems development became an independent division in FY12/12

■Forecasts for FY12/13

Large order received in November 2012 to contribute fully in FY12/13

(1) e-Sales Manager business

In the e-Sales Manager business, we forecast a 15.9% rise in sales in FY12/13 to ¥2,510mn and a 30.7% increase in operating profit to ¥460mn. We anticipate growth in the Japanese market for software for sales force automation as more companies adopt new mobile devices, such as smartphones and tablet devices, for their sales activity.

In 2014, the Japanese government plans to raise the national consumption tax from 5% to 8%. Undoubtedly, Japanese consumers and organizations will increase their purchases in 2013 to avoid the higher consumption tax rate in 2014. To maximize their sales and profits from this rush in demand, Japanese companies are likely to install software for sales force automation or to strengthen such software if it is already in use. In recent years, the managements of Japanese companies have placed the greatest emphasis on expanding their sales and market shares. Thus, they have stressed an improvement of their sales and marketing strategies. We expect Softbrain's e-Sales Manager business to continue to benefit from these trends in FY12/13.

Softbrain sells its software for sales force automation two ways: 1) for a fixed fee, it licenses this software to companies for their use in-house (on premises), and 2) for a monthly fee, it allows the software to be used on Softbrain's cloud computing service. Customers can choose the sales method that best fits their needs. Softbrain plans to add functions to its software and to extend current functions to improve the operability and convenience of the software and thereby promote its sales. In November 2012, Softbrain received a large order for its software for use on premises from leading Japanese house builder Misawa Home, which has about 3,000 sales personnel. By the end of 2012, the software had been delivered to only a few hundred of these personnel. The remaining personnel will receive the software in FY12/13, contributing to sales growth.

The e-Sales Manager business also provides training to customers when they first adopt the e-Sales Manager program, customizes this program, and offers consulting service to companies that have introduced the program to enable them to use the program effectively and efficiently. The business has been improving these services for the past two years, and this has helped to raise the proportion of customers who repeat their orders and overall sales growth.

In FY12/13, Softbrain plans to increase the number of its employees in the e-Sales Manager business by about 10%, which will increase division costs by a few tens of millions. However, we expect the business to expand its sales enough to more than offset this cost increase and project that the business will lift its operating profit margin by 2.1 points y-o-y in FY12/13 to 18.3%.

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■Forecasts for FY12/13

In FY12/12, the e-Sales Manager business started selling a new product targeted towards smaller companies, the e-Sales Manager nano software program. Customer companies apply this program using mainly smartphones or tablet devices and the cloud computing service offered by Softbrain. The monthly fee for this program is only ¥500 per user, whereas the monthly fee for the e-Sales Manager Remix Cloud program, targeted towards large companies, is ¥11,000 per user. Because of its low fee, the e-Sales Manager nano software program will probably not contribute much to sales in FY12/13. However, this program is sold only through the Internet, so its sales cost is low. Once the sales volume of this program exceeds the break-even level, the program should contribute steadily to profit growth.

The e-Sales Manager nano software program may also help the e-Sales Manager business to expand in the future by attracting customers who cannot afford a more expensive program currently. If such customer companies grow, they could well purchase more expensive programs a few years from now.

Softbrain estimates that only about 10,000 of the roughly 3 million companies in Japan are using software for sales force automation, including the approximately 2,000 companies now using Softbrain products. Softbrain estimates that another 100,000-200,000 companies could adopt such software. These potential customers could be enticed by low-cost products such as the e-Sales Manager nano software program.

Double-digit growth of sales and operating profit to be supported by market expansion

(2) Field marketing

The field marketing business grew significantly in FY12/12, and we expect the Japanese market for field marketing services to expand in FY12/13. Thus, we foresee a 19.6% y-o-y rise in sales to ¥1,400mn and a 21.2% increase in operating profit to ¥280mn in this business for FY12/13.

We expect this business to garner more orders this year, reflecting an increase in in-store sales support by Japanese companies and an increase in outsourcing such support. As mentioned previously, companies are likely to increase their sales support to exploit the strong demand for goods and services that is likely before Japan's consumption tax is raised in 2014.

This business has more than 350 corporate customers, encompassing almost every industry. It has 45,000 employees who work at more than 100,000 stores, and the company plans to increase this number of employees. The following table shows a breakdown of the number of stores covered, by type, as of October 2012.

■Forecasts for FY12/13

Number of Stores Covered by Softbrain Field's Field Marketing Service

Type of Store	Number of Stores
Drugstore	16,789
General merchandise store, shopping mall	15,703
Convenience store	15,636
Book store	8,274
Home center	3,524
Discount store	1,965
Mass retailer of electrical/electronic products	1,543
Specialty store	20,971
Other kind of store	16,194
Total	100,599

Note: as of end of October 2012
Source: Company's website

Cost rise in FY12/12 to disappear in FY12/13

(3) Systems development

In the systems development business, we project a 9.5% y-o-y upturn in sales to ¥460mn and break-even at the operating profit level for FY12/13. Sales foregone in Q4 FY12/12 because of some defective products will probably be recorded in Q1 FY12/13, when the cost of correcting the defective products is also likely to be offset.

Orders for systems integration likely to increase with greater use of smartphones in sales

(4) Other businesses

For the other businesses, we forecast a 10.6% y-o-y advance in sales to ¥530mn and an 11.8% rise in operating profit to ¥76mn for FY12/13. The divison that operates mobile virtual networks is likely to receive more orders for systems integration as more companies adopt smartphones for their sales activity. And corporate demand for publishing books is strong, and the subsidiary that publishes books has a large order backlog, Thus, the other businesses segment should achieve increases in both sales and profit in FY12/13.

New Businesses

Medical and healthcare field holds huge growth potential

(1) e-Care Manager program to assist medical treatment in the home

Japan's population is aging rapidly, and the need for medical treatment in the home is growing each year. Therefore, Softbrain has modified its e-Sales Manager software program to apply it to medical treatment. The modified program, called e-Care Manager, assists medical practitioners who make house calls to perform their work more effectively. The company has already begun to market this new program to medical facilities in Japan.

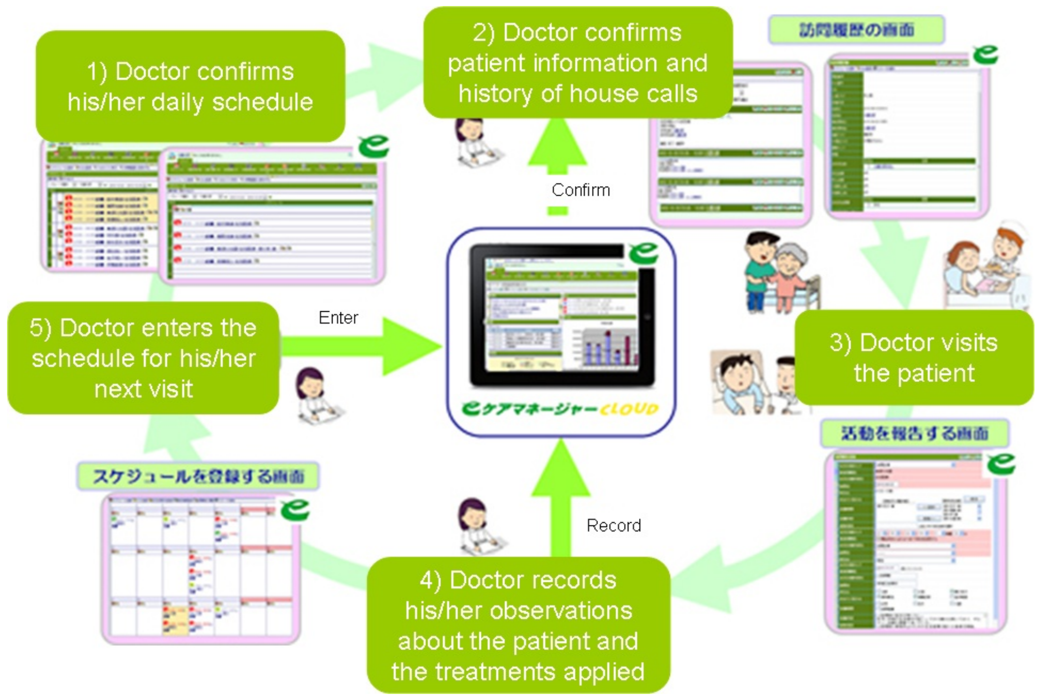
Japan's Ministry of Health, Labor and Welfare has projected that 290,000 Japanese will require medical care at home by 2025, about 120,000 more than currently require such care. Even now, home medical care is inadequate for several reasons: a chronic shortage of doctors, insufficient nursing care facilities and facilities that dispatch nursing care staff to homes, and the high cost to families of such care. These problems are expected to become more serious over the next decade or so. Providers of home medical care need a software product accessible through mobile devices which allows them to easily share patient information with other relevant parties, such as nurses, care managers and helpers, and to easily schedule treatments. Softbrain developed the e-Care Manager program to address this need.

Using the e-Care Manager program, a doctor making a house call can easily review the patient's history of treatment and the daily flow of tasks among members of the health care team, including nurses, care managers and helpers. Thus, the quality of care provided can be improved and treatment accidents can be avoided. The program also allows the confirmation of schedules for health care providers, simplifying the scheduling of treatments and making efficient use of time.

The e-Care Manager program is Softbrain's first product in the field of medical and healthcare. The company has already presented this program to several medical institutions and regional medical associations with the aim of acquiring five orders for the program in FY12/13. The program will probably not contribute significantly to sales and profits for some time, but it has large growth potential over the longer term.

■New Businesses

Flow Diagram of the Daily Schedule of a Doctor's House Calls Using the e-Care Manager Program



Source: Company's website

Providing data on reasons for purchases in cooperation with Credit Saison

(2) May become the largest database on reasons for purchases in Japan

In December 2012, Softbrain Field and Credit Saison (8253), the largest credit card company in Japan affiliated with distributors, concluded a business agreement to establish a new service of providing data on reasons for consumer purchases to makers of consumer goods. The partners began marketing this service in February 2013.

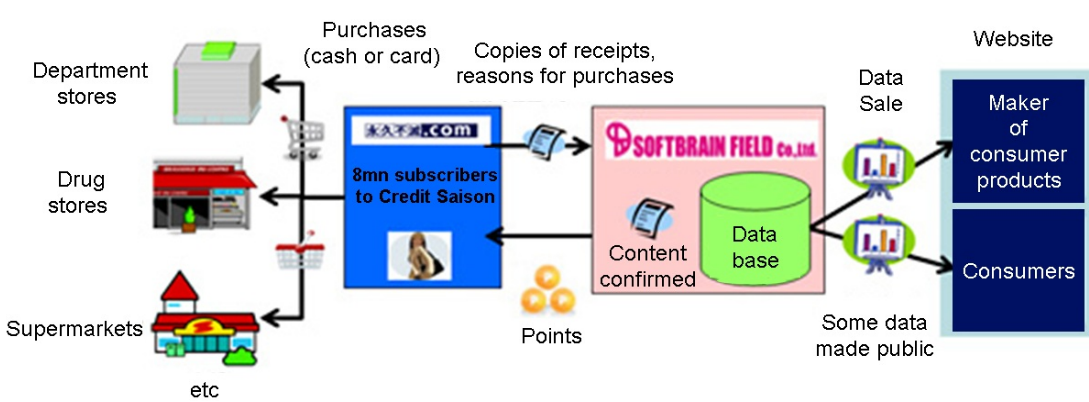
The partners conduct surveys of reasons for consumer purchases and analyze this data, providing the conclusions to the makers of consumer products. This gives the makers an objective assessment of their products, allowing them to maximize sales opportunities and to develop new products that appeal to consumers. Customer surveys have been conducted for some time in Japan, but they have not always been useful to producers for some reason. Some surveys have used a sample size that was too small to yield meaningful results. Others have failed to verify that the consumers surveyed had actually purchased the products made by the companies receiving the results of the survey.

■New Businesses

Therefore, Softbrain Field and Credit Saison came up with the concept for their new service, as illustrated in the figure below. Approximately 8 million consumers subscribe to Credit Saison's Internet service, the largest number of subscribers to any such service in Japan. These consumers will be encouraged to register for the Save with Receipts service offered through Credit Saison's on-line shopping mall, Eikyufumetsu.com. For many product categories, the consumers send a copy of their receipts for purchases and enter their reasons for the purchases into the Save with Receipts service. After doing so, the consumers receive Eikyufumetsu ("never expire") points that can be used to buy goods or services through Eikyufumetsu.com. Softbrain Field then organizes and analyzes the responses and transmits the results of its analyses to customer companies through a designated website. The service began with 30 product categories.

This new service requires consumers to submit copies of their receipts, allowing confirmation of purchases and making the service much more credible than other services. Theoretically, all 8 million consumers subscribing to Credit Saison's Internet service could participate in this service, which would make it the largest such service in Japan. From the receipt copies, Softbrain Field can obtain the date of purchase and use this information for detailed analyses, such as correlations between purchases and weekly point-of-sale data. These characteristics make the new service a unique tool for marketing support.

Flow Diagram of New Service Offering Data on Reasons for Purchases



Source: Company's website

■Financial Condition and Shareholder Return Policy

Interest-bearing debt has been reduced substantially while cash has grown

(1) Financial Condition

Since suffering losses in FY12/08, Softbrain has steadily expanded its profits and used them to greatly reduce its interest-bearing debt while amassing larger amounts of cash and cash equivalents. Thus, its operating profit margin and measures of financial stability have improved notably. Its return on equity (ROE) has trended lower, reflecting increases in equity capital and in tax payments. However, the ROE remains comfortably above 20%, which is high for a listed Japanese company.

Main Balance Sheet Accounts (¥mn) and Managerial Measures (%), FY12/08 – FY12/12

	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12
Current Assets	1,623	1,653	1,728	2,085	2,706
Cash & cash equivalents	1,035	945	1,082	1,267	1,751
Fixed Assets	571	543	431	369	500
Total Assets	2,194	2,196	2,159	2,454	3,206
Current Liabilities	1,574	1,175	824	694	924
Interest-bearing debt	1,037	558	227	150	150
Fixed Liabilities	18	8	0	0	0
Shareholders' Equity	601	1,012	1,335	1,759	2,281
Common stock	489	827	1,158	1,504	1,963
Minority holdings	129	186	182	260	318
Total Liabilities & Shareholders' Equity	2,194	2,196	2,159	2,454	3,206
Managerial Measures					
Measures of financial stability					
Current ratio	103.1%	140.6%	209.7%	300.4%	292.8%
Equity ratio	21.5%	37.6%	53.4%	61.1%	61.2%
Debt-equity ratio	212.0%	67.4%	19.6%	9.9%	7.6%
Measures of profitability					
ROA	-8.8%	19.0%	19.2%	19.7%	22.0%
ROE	-111.3%	48.1%	33.5%	26.1%	26.5%
Operating profit margin	-6.5%	11.2%	12.1%	13.1%	14.3%

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■Financial Condition and Shareholder Return Policy

Company may resume dividend payments this year, depending on its profit growth

(2) Shareholder Return Policy

Softbrain's basic policy is to pay dividends during periods of growth based on its profits while accumulating enough funds internally to strengthen the company and develop new businesses. The company has not paid a dividend since FY12/05, but based on its past dividend policy and its earnings prospects, it may resume dividend payments in FY12/13. On the other hand, the company may decide to devote its profits to business development to reinforce its recent growth trend.

Softbrain's share price has been rising, reflecting the upturn in its earnings. However, its PER is less than 10x based on its current share price and our EPS forecast for FY12/13. This is not a high multiple, particularly given the growth of its current businesses and its aggressive development of new businesses.

Income Statement (¥mn) and Corporate Data, FY12/08 – FY12/13e

	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13e
Sales	3,883	3,817	3,439	3,397	4,237	4,900
y-o-y	-14.6	-1.7	-9.9	-1.2	24.7	15.6
Cost of sales	2,168	1,874	1,715	1,714	2,163	-
ratio to sales	55.8	49.1	49.9	50.5	51.0	-
SGA costs	1,966	1,514	1,307	1,234	1,460	-
ratio to sales	50.6	39.7	38	36.4	34.4	-
Operating profit	-250	429	414	444	606	825
y-o-y	-	-	-3.4	7.3	36.3	36.1
ratio to sales	-6.5	11.2	12.1	13.1	14.3	16.8
Recurring profit	-243	417	415	454	622	825
y-o-y	-	-	-0.5	9.5	37.0	32.1
ratio to sales	-6.3	10.9	12.1	13.4	14.6	16.8
Extraordinary gains	23	54	-	2	0	-
Extraordinary losses	641	215	9	9	8	-
Pretax profit	-861	256	406	447	614	825
y-o-y	-	-	58.2	10.3	37.3	34.3
ratio to sales	-22.2	6.7	11.8	13.2	14.4	16.8
Income and other taxes	393	-116	39	21	103	-
effective tax rate	-45.7	-45.4	9.8	4.7	16.8	-
Minority interests	-7	61	34	80	52	-
Net profit	-1,247	311	331	346	458	510
y-o-y	-	-	6.2	4.5	32.3	11.3
ratio to sales	-32.1	8.2	9.6	10.2	10.8	10.4
Shares outstanding (000)	310	310	310	310	-	-
EPS (¥)	-4,265.5	1,066.3	1,132.8	1,183.4	1,566.6	-
DPS (¥)	0	0	0	0	0	-
BPS (¥)	1,613.0	2,824.0	3,939.7	5,123.3	6,710.8	-
Dividend payout ratio (%)	0	0	0	0	0	-
ROE (%)	-111.3	48.1	33.5	26.1	26.5	-
Number of employees	355	221	200	211	-	-

Notes: Forecasts for FY12/13 are by FISCO,