

Softbrain Co., Ltd.4779 Tokyo Stock Exchange
First Section

17-Oct.-16

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Yuzuru Sato**■ FY12/16 Q2 results: Steadily undertaking various strategic steps to expand results in the medium term**

Softbrain <4779> (hereafter, also “the Company”) is a major player in CRM (customer relationship management) / SFA (sales force automation) software, offers the solution for Marketing & Sales, and it holds a 20-30% share of the domestic CRM/SFA market. The field marketing business operated by Softbrain Field is growing to its second main revenue stream.

In the FY12/16 1H (January to June 2016) consolidated results, net sales increased 27.7% year over year (y/y) to ¥3,642mn and operating income rose 10.7% to ¥408mn, exceeding the initial Company targets (net sales of ¥3,400mn and operating income of ¥380mn). The driving forces behind these results were that sales trended steadily in e-Sales Manager related business, while in the field marketing business, sales greatly increased by 68.8% y/y following the acquisition of major projects from consumer-goods manufacturers.

For the FY12/16 full fiscal year results, the company expect that, net sales are to increase 18.7% y/y to ¥7,000mn and operating income to rise 3.2% to ¥700mn. This is because while at the present time order conditions are continuing to trend smoothly, the developments in Q4, which is the demand season, tend to be fluid. However, the domestic penetration rate for CRM/SFA remains in the region of only 2%, so there is still considerable room to increase the number of customers. The Company's policy is to work to increase the penetration rate by expanding functions that are frequently requested by customers and link with other solutions. In addition, in January 2016 it launched e-Reception Manager, which is a reception system utilizing Pepper, a humanoid robot, and further in the fall of 2016 it plans to link it to IBM's Watson (an artificial intelligence) in order to evolve it to become a futuristic reception system compliant with natural language processing. We will be paying attention to this development.

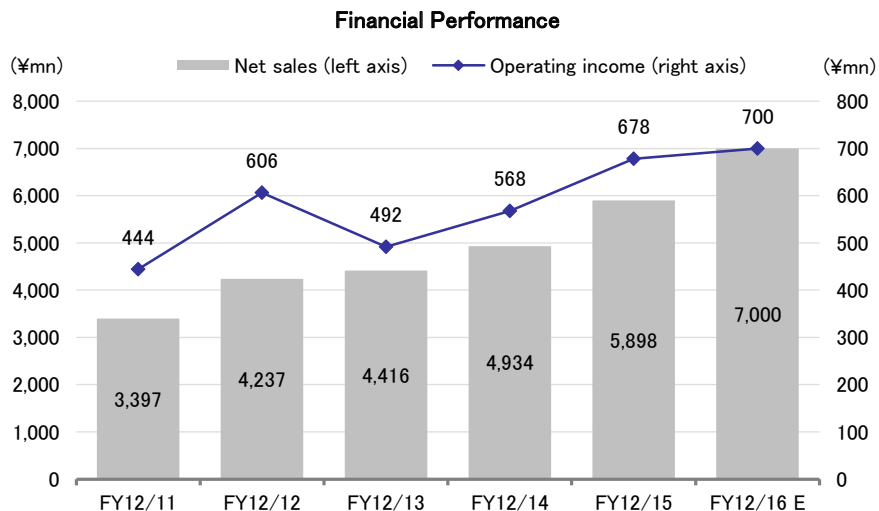
Demand in the field marketing business is also expanding in the context of consumer-goods manufacturers' efforts to increase efficiency for marketing costs at retail stores. We shall also be paying attention to medium-term developments in terms of the Company's effective utilization of housewives as a labor force, which is part of its business model.

The impression is that it is steadily undertaking various strategic steps toward the expansion of results in the medium term.

Fusion Partners, Co. <4845> acquired 43% of the Company's shares and became its largest shareholder. Going forward, the two companies started to discuss for business tie-up. While they operate in different fields, as they both provide corporate solution services utilizing the Internet, in the future, they may cooperate such as cross selling.

■ Check Point

- The e-Sales Manager related business and the field marketing business are its main revenue streams
- Outlook for the full fiscal year is an increase in sales and profits, with results trending steadily in both of the main businesses
- It is steadily undertaking various strategic steps toward expanding results in the medium term



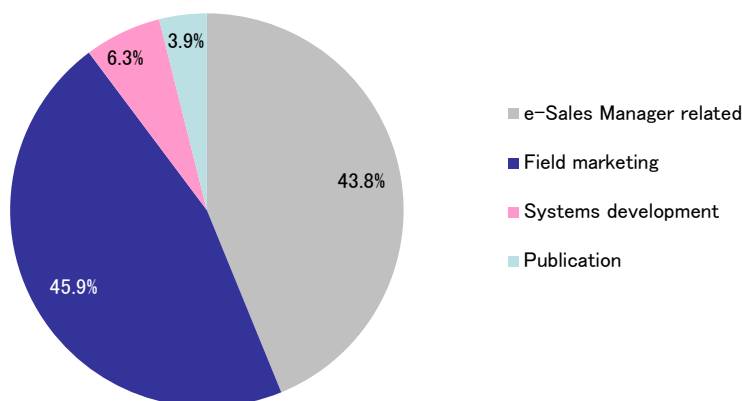
* For the figures from FY12/15 onwards, the net sales and cost of sales for the field marketing business have been modified to a net presentation

■ Business Outline

The e-Sales Manager related business and the field marketing business are its main revenue streams

The Company's operations are classified into 4 business segments; the e-Sales Manager related business, the field marketing business, the systems development business, and the publication business. The majority of both sales and profits come from the e-Sales Manager related and the field marketing businesses, which are the two main revenue streams. It had 5 consolidated subsidiaries as of the end of June 2016.

Percentages by business segment (FY12/16 1H)



Group companies and business descriptions

Company name	Ownership ratio	Description of main business
e-Sales Manager related business		
Softbrain Co., Ltd.	-	License sales of sales-support systems, cloud services, customized development
Softbrain Service Co., Ltd.	98.7%	Sales consulting, sales skills training
Softbrain Integration Co., Ltd.	100.0%	Business consulting and training utilizing the iPad, etc.
Field Marketing business		
Softbrain Field Co., Ltd.	85.6%	Field activities operations, market research
Systems development business		
Softbrain Offshore Co., Ltd.	100.0%	Outsourced software development
Publication business		
Diamond Business Planning Inc.	70.0%	Planning, editing, and publishing of business books

○ **e-Sales Manager related business**

This business includes sales of licenses for the CRM/SFA software “e-Sales Manager,” cloud services, customized development, sales consulting, skills training, and also support and training services for the introduction of smart devices, such as the iPad and iPhone.

“e-Sales Manager” is a software tool that helps identify areas for improvement and enhance sales efficiency by enabling users to grasp the situation quantitatively by allowing them to visualize each process within sales activities when carrying out the process management of sales activities.

Sales for e-Sales Manager can be divided into two types; the license-type, of revenue from sales of software licenses, and the cloud type in which is monthly subscription model. In the license type, there is also an on-premises type, of building a physical environment, including servers, within a company, and a hosting type. In recent years, the number of customer using hosting services, which do not require capital investment for servers or other equipment, has been trending upwards. For the cloud type, the Company provides e-Sales Manager Remix Cloud (¥6,000-/month per ID) as well as e-Sales Manager nano (¥1,000/month per ID), which has simplified functions and is intended for use by SMEs with 10 employees or less.

The scale of the domestic CRM/SFA (sales force automation) market is approximately ¥5-¥8 billion, of which the Company’s share is thought to be 20 to 30%. Competitors include NI Consulting CO., LTD. (unlisted), and Salesforce.com Inc. (cloud type only). Salesforce.com holds the top share, of more than 40%, of the cloud-type CRM/SFA market.

In total, more than 4,000 companies have installed e-Sales Manager, and they consist of a broad range of companies from manufacturers to service providers and from enterprise companies to SMEs. The strengths of the Company’s product include its usability, such as user-friendliness and processing speed; its compatibility with both the on-premises and cloud-sales types; and that it is fully supported by services, such as consulting and educational services, which helps to improve the outcome of an installation.



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Example of companies that have installed e-Sales Manager



○Field Marketing business

This business, which is developed by the subsidiary Softbrain Field Co., Ltd., mainly consists of carrying out field activities at stores and field survey using the Company's “cast” (registered staff members), who are mostly housewives. It also provides the staffing service for rounder, which is a service for the temporary staffing of and referrals for “rounders” (field merchandisers), who carry out the field activities.

Field activities mainly consist of business negotiations for the relevant products, the layout of sales floors, and the installation of point-of-purchase ads at retail stores when consumer-goods manufacturers launch new products, such as food items and daily commodities. Although these activities used to be carried out by the employees of the manufacturer, the outsourcing of these activities has become more common toward improving the cost efficiency of sales promotions. The Company has more than 350 corporate customers, including from its results in the past, and they belong to a broad range of industries, although they are mainly manufacturers of food and beverage and healthcare-related products. As of recently, it was utilizing more than 61,000 people as its “cast,” and the more than 110,000 stores that they cover nationwide include various types of businesses, such as drug stores, convenience stores, and specialty stores.

○Systems development business

Outsourced software development is undertaken by the subsidiary Softbrain Offshore Co., Ltd. The Company sold its development subsidiary in China in September 2013 as a part of its business structural reforms, though it presently maintains a business relationship with it as a subcontractor. It also continues to utilize its Vietnamese and domestic near-shore bases.

○Publication business

This business is comprised of the planning, publishing, and sales of books, mainly relating to sales promotions, and it is conducted by the subsidiary Diamond Business Planning Inc. Utilizing its joint-venture cooperation with DIAMOND, Inc., it carries out corporate marketing, IR, and branding through publishing, and it is creating new value not only from the usual business books, but also from the openings provided by its publishing of corporate histories that tell “new” stories about the histories of companies.

Financial results and business trends

Achieved favorable results of increases in sales and profits in FY12/16 1H that exceeded the initial Company targets

(1) Summary FY12/16 1H results

The FY12/16 1H consolidated results announced on July 28 were strong and each item exceeded the initial Company target. Specifically, net sales increased 27.7% y/y to ¥3,642mn, operating income rose 10.7% to ¥408mn, ordinary income climbed 9.4% to ¥405mn, and net profit attributable to owners of parent increased 19.1% to ¥242mn.

Net sales increased in all of the business segments, mainly business, e-Sales Manager related business and field marketing business, and they were a record high on a fiscal half-year basis. The cost of sales ratio rose by 5.9 percentage points y/y, but the SG&A expenses ratio fell by 4.2 percentage points due to the progress made in optimizing expenses, including sales promotions and advertising expenses, and the operating income margin was 11.2%. Also, while the net income growth rate was high on a quarterly basis, this was due to a reduction of the effective tax rate.

FY12/16 1H consolidated results

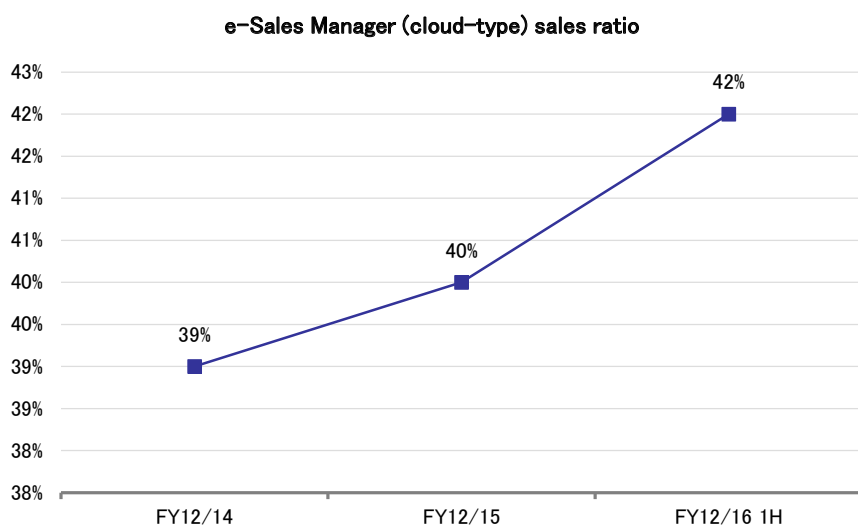
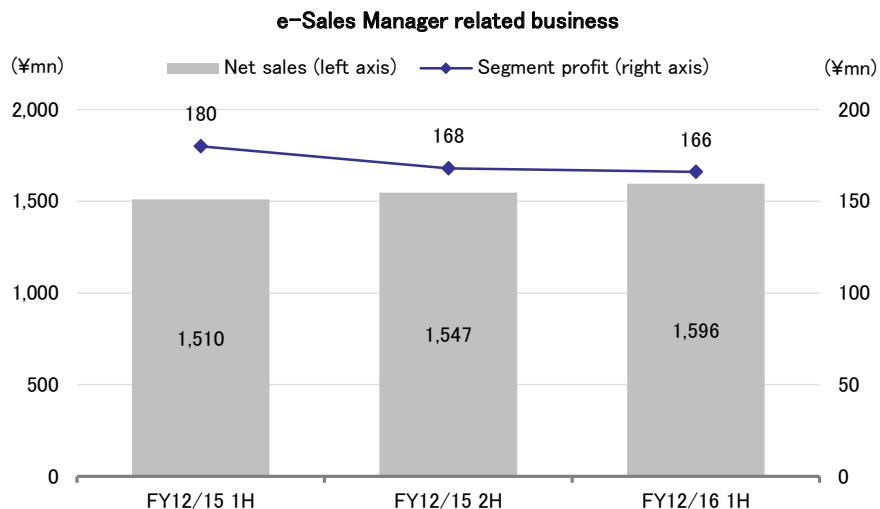
	FY12/15 1H		FY12/16 1H				
	Result	Relative to sales	Initial target	Result	Relative to sales	y/y	vs. target
Net sales	2,851	-	3,400	3,642	-	27.7%	7.1%
Cost of sales	1,677	58.8%	-	2,357	64.7%	40.6%	
SG&A expenses	806	28.3%	-	876	24.1%	8.7%	
Operating income	368	12.9%	380	408	11.2%	10.7%	7.5%
Ordinary income	370	13.0%	380	405	11.1%	9.4%	6.7%
Corporate income taxes	144	5.1%	-	141	3.9%	-1.8%	
Profit attributable to owners of parent	203	7.1%	205	242	6.7%	19.1%	18.2%

*From this fiscal period, net sales and costs of sales in the field marketing business were changed to a net presentation, and the figures in the previous fiscal years have been retroactively corrected.

○e-Sales Manager related business

For the results in this business, net sales (for external customers, same below) increased 5.7% y/y to ¥1,596mn, but segment profit decreased 7.5% to ¥166mn. Sales of e-Sales Manager Remix Cloud steadily increased, while results from sales consulting and sales of skills training, consulting and introduction of smart devices trended favorably. Within the e-Sales Manager sales, the percentage of sales provided by cloud services rose to as high as 42%, and its sales continue to grow stably alongside the increase in the number of subscribing companies.

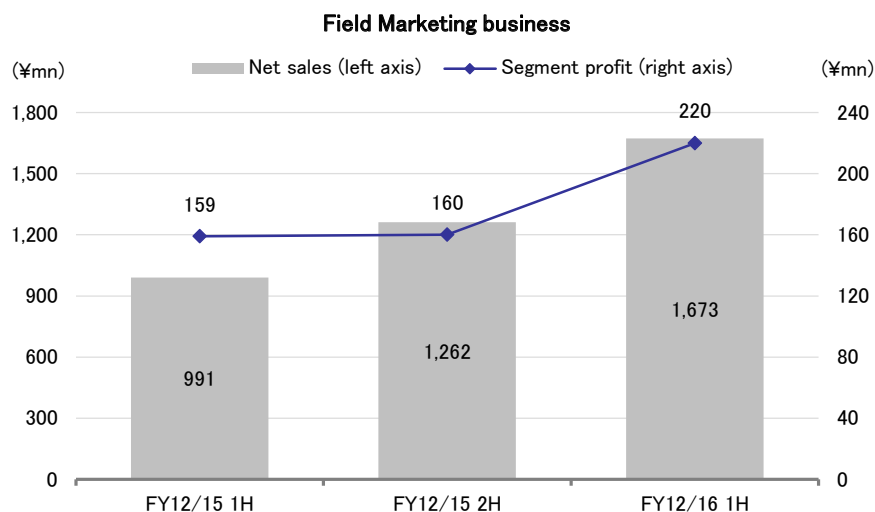
Segment profit declined, but this was due to the recording in the same period in the previous fiscal year of ¥21mn as a gain on the reversal of restitution cost of head quarter amortization costs relating to the recovery of conditions at the head office. With this factor excluded, underlying profit growth was 4%. Personnel costs increased following the expansion of our staff with an eye toward growth in the future, while in actual terms, profits increased from the effects of the higher sales and the optimization of promotions and advertising costs.



○Field Marketing business

Record highs were achieved in the results for this business segment, with net sales increasing 68.8% y/y to ¥1,673mn and segment profit rising 38.2% to ¥220mn. Within the shift to outsourcing by consumer-goods manufacturers for their field activity operations at stores, the Company's services have excellent reputations among these manufacturers and this has enabled it to acquire the large-scale projects that led to the increases in sales and profits in this segment. A feature of the Company's services is that it charges on a per-visit basis, which clarifies costs for customers, and also one of its strengths is that it is able to provide a variety of services, including temporary staffing services, that are tailored to meet customer needs.

The profit margin fell slightly, but this was because of the expansion of its temporary staffing business, which has relatively low profitability, and also as it opened branch offices in Kyushu and Chubu and expanded the size of its Tokyo head office toward business growth in the future. Another factor behind this fall was that it conducted prior investment, including for the active recruitment of personnel, mainly for management-level employees.



○ **Systems development business**

In this business, net sales increased 1.2% y/y to ¥230mn and segment profit rose by 20 times to ¥8mn. The recovery trend for IT investment within Japan is continuing, but in the context of its limited human resources, the Company is prioritizing securing stable earnings and in the current fiscal period it achieved profitability, if only slightly.

○ **Publication business**

Sales increased but profits decreased in this business. Net sales rising 16.7% y/y to ¥142mn and segment profit falling 52.2% to ¥13mn. Although net sales trended steadily, the reason for the decline in profits were the higher personnel and sales promotions costs.

(2) Financial position and management indicators

Looking at the financial position at the end of June 2016, total assets increased by ¥354mn compared to the end of the previous fiscal year to ¥4,755mn. Current assets rose ¥352mn, mainly due to the increases in notes and accounts receivable of ¥155mn, cash and deposits of ¥89mn, and inventories of ¥86mn.

Total liabilities increased ¥90mn compared to the end of the previous fiscal year to ¥1,624mn. The main factors were that interest-bearing debt decreased ¥28mn, but accounts payable increased ¥64mn and advances received rose ¥88mn. Net assets grew ¥263mn to ¥3,131mn, primarily due to the recording of profit attributable to owners of parent.

Looking at the main management indicators, the shareholders' equity ratio was 62.7% and it is trending stably in the 60% range, while the interest-bearing debt ratio was also trending at the low level of 10.9%, and the Company can be judged to be highly financially sound.

Consolidated balance sheet

	(¥mn)				
	FY12/13	FY12/14	FY12/15	FY12/16 Q2	Change
Current assets	3,061	3,589	3,903	4,256	352
(Cash and deposits)	2,058	2,677	2,687	2,776	89
Non current assets	606	555	497	499	1
Total assets	3,667	4,145	4,401	4,755	354
Total liabilities	944	1,134	1,533	1,624	90
(Interest-bearing debt)	150	180	352	324	-28
Net assets	2,722	3,011	2,867	3,131	263
Main management indicators (Stability)					
Shareholders' equity ratio	64.4%	63.0%	62.2%	62.7%	
Interest-bearing debt ratio	6.4%	6.9%	12.9%	10.9%	

■ Future outlook: Steadily undertaking various strategic steps toward the expansion of results in the medium term

The outlook for the full fiscal year is increases in sales and profits and presently, results in the 2 main businesses are trending steadily

The outlook for the FY12/16 consolidated results are that net sales will increase 18.7% y/y to ¥7,000mn, operating income to rise 3.2% to ¥700mn, ordinary income to climb 3.1% ¥700mn, and profit attributable to owners of parent to increase 1.8% to ¥380mn. This is because while up to Q2 results have trended above targets, developments in Q4, which is the demand season, tend to be fluid. But at least at the present time orders in the two main businesses are trending steadily, and as long as there are no major changes to the market environment, at FISCO we think it is highly likely that results will exceed the targets.

FY12/16 consolidated results outlook

	FY12/15		FY12/16			Progress rate up to Q2
	Result	Relative to sales	Company target	Relative to sales	y/y	
Net sales	5,898	-	7,000	-	18.7%	52.0%
Operating income	678	11.1%	700	10.0%	3.2%	58.4%
Ordinary income	679	11.1%	700	10.0%	3.1%	57.9%
Profit attributable to owners of parent	373	6.1%	380	5.4%	1.8%	63.7%

*From this fiscal period, net sales and costs of sales in the field marketing business were changed to a net presentation, and the figures in the previous fiscal years have been retroactively restated.

○e-Sales Manager related business

The Company continues to enhance the functions of e-Sales Manager as a sales support tool that is “No.1 for usability,” and its sales will continue to grow steadily in this fiscal period. Recently, the number of company has increased aiming to improve sales efficiency by using smart devices such as tablets, and this is proving to be a tail wind for the Company. According to the Company’s estimate, the potential number of customers within Japan, including SMEs, is about 1.5 million companies. But the usage rate of CRM/SFA is still at the low level of around 2%, so there remains considerable room to acquire more customers. According to a forecast by a market research company, the CRM market is set to grow from being worth ¥80.1 billion in 2015 to ¥103.9 billion in 2020, so the Company’s sales will also be expected to grow stably.

As the plan for the future development of e-Sales Manager, the Company intends to link other solution tools, including IoT and Marketing Automation tools, and BI tools. In terms of functions, the Company is strengthening its functions for increasing management efficiency and for seminar reception and reporting, and alongside the coordination with other solutions tools, it has already dropped these functions into its development planning. For “e-Sales Manager nano,” which is intended for SMEs, it is presently at the stage of reviewing its functions and other aspects toward increasing the number of subscribers.

We shall also be paying attention to the development of the “e-Reception Manager” service launched in this fiscal period, which is a reception system that utilizes Pepper, a humanoid robot developed by SoftBank Robotics Corp. Because the service will be to link it to IBM’s Watson artificial intelligence in the fall of 2016 in order to evolve it to be a reception system able to process natural language. Currently, the reception system responds to visitor inquiries by merely recognizing their speech and converting it into patterns, but by linking it to Watson, the Company’s system will be able to respond to inquiries flexibly according to various types of situations. The aim is to evolve the system so in the future it becomes a service with functions to provide customers with the optimum proposal and then to hand over discussions to salespeople depending on their responses. At the present stage, it has only been introduced by a few companies so its impact on the Company’s financial results is negligible, but going forward it is expected to be introduced by more companies as a reception system of the near future.



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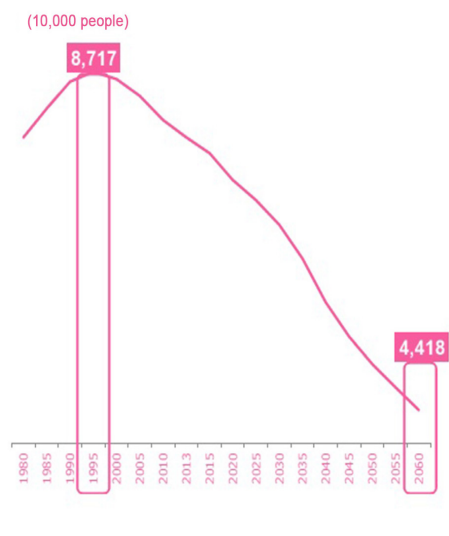
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○Field Marketing business

Net sales in the field marketing business are forecast to continue to grow by double digits in this fiscal period from the contribution of large-scale orders. Profits are also expected to increase, although the profit margin will fall due to the increase in costs from strengthening the personnel system and to open business offices. Field support operations, for example to set up sales floors within retail stores, are labor intensive, so the trend toward outsourcing them is set to continue in the future in the context of the chronic labor shortage. The Company deploys a “cast” (registered staff members) of around 61,000 people across the country and it is leveraging its strength of being able to respond to a wide range of customer needs, and the scale of this business is forecast to expand in the future.

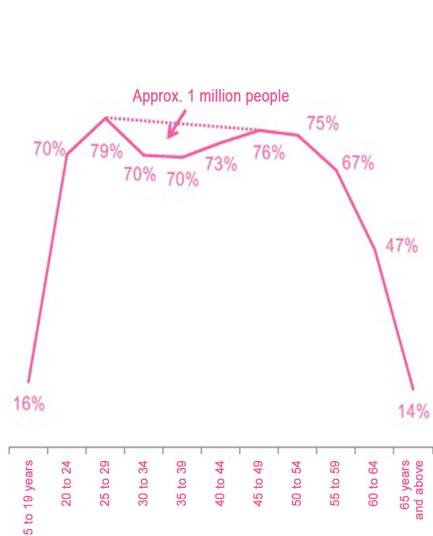
The business model for the field marketing business is also worthy of attention from a medium-term viewpoint. It is considered with some certainty that Japan’s labor force in 2060 will be 44.18 million people, which is roughly half the number at its peak (87.17 million people in 1995). In this situation, there are expectations for the activities of housewives. Among the housewives that in recent times have not attempted to be re-employed full-time despite being willing to work, there are quite a few women who, during a period of hard times for job seekers, were recruited as new graduates and rigorously trained by companies. We will be paying attention to medium-term developments for the Company’s effective utilization of housewives as a labor force, which is part of its business model.

Outlook for the labor-force population



Source: Ministry of Internal Affairs and Communications, “White Paper: Information and Communications in Japan,” fiscal 2016 edition

Female employment rate



Source: Ministry of Internal Affairs and Communications, “Labour Force Survey,” (2013 average)

Looking at the above, the impression is that the Company is steadily undertaking various strategic steps toward expanding results in the medium term.

In July, it was announced that Fusion Partners had acquired 42% of the Company’s shares and had become its largest shareholder. Going forward, the two companies started to discuss for business tie-up. While they operate in different fields, as they both provide corporate solution services utilizing the Internet, it may be possible they will cooperate in the future in areas such as cross selling.

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