Cybernet Systems Co., Ltd.

4312

Tokyo Stock Exchange Standard Market

26-Apr.-2023

FISCO Ltd. Analyst
Yuzuru Sato

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■ Summary

Earnings to resume growth trajectory in FY12/23

Cybernet Systems Co., Ltd. <4312> (hereafter, also "the Company") is a major company for CAE (computer-aided engineering) software solution services that are used for design, R&D, and other aspects, centered on the manufacturing industry, and it also handles cloud security and other products. As a leading CAE company, it is a software product sales vendor for more than 35 companies, centered on products from Ansys<ANSS>, the world's leading company in CAE products with an approximately 38% share of the global market, while as a pioneer for CAE solutions, it has about 2,400 companies and 350 universities and research institutes as its customers. In addition, it has three software development companies as its subsidiaries in Europe and the US, and also conducts a CAE solutions business in the Asian market, mainly in China and Taiwan. Just under 60.0% of net sales on a Company stand-alone basis comes from recurring revenue business (license renewals by existing customers), so earnings are also highly stable.

1. FY12/22 results overview

In the FY12/22 consolidated results, net sales decreased 12.2% YoY to ¥19,936mn and operating income decreased 37.9% to ¥1,757mn. Sales and profit decreased due to the termination of the distributor agreement with Synopsys (U.S.A., <SNPS>) in October 2021. However, sales rose on an existing business basis, owing to strong momentum for Ansys multi-physics analysis tools* (a mainstay product), engineering services, and sales of security products. By region, sales in Japan and Asia declined 12.4% and 30.8% YoY, respectively, due to the impact of the termination of the distributorship agreement. In Asia, the impact of the lockdown in China was also a factor in the sales decline. However, yen depreciation contributed to a 22.5% YoY sales increase in North America and 7.6% rise in Europe, with both regions maintaining sales growth. Net sales and operating income both turned positive in 4Q (October to December 2022), increasing 7.4% YoY and 342.1% YoY, respectively, because the impact of the termination of the distributor agreement with Synopsys was limited.

> * Tools used in R&D settings to obtain a more accurate understanding of phenomena by analyzing combinations of multiple physical phenomena. In the real world, multiple physical phenomena (structure, magnetic field, electrical current, fluid, heat transfer, etc.) interact simultaneously. When those physical phenomena are analyzed separately, it may not be possible to accurately predict the behavior of the development subject.

2. Outlook for FY12/23

For consolidated results in FY12/23, the Company forecasts sales and profit growth, targeting net sales of ¥22,000mn (up 10.4% YoY) and operating income of ¥1,850mn (up 5.2%). For several reasons, we at FISCO think sales and profit growth is possible despite concerns that companies may become cautious about capital investment due to weaker earnings. Its business areas of R&D and IT security are high priority, and thus less likely to suffer budget cuts. As well, license renewal fees, which provide recurring revenue, account for slightly less than 60% of net sales on a stand-alone basis, and the number of companies and research institutes adopting the Company's AI and AR/VR solutions is on the rise. Recent order trends have been firm, showing a steady start to the fiscal year. The Company expects profit margins to drop due to an increase in personnel expenses, including recruitment and education costs, and plans an increase in depreciation accompanying the start of operation of its new core system.

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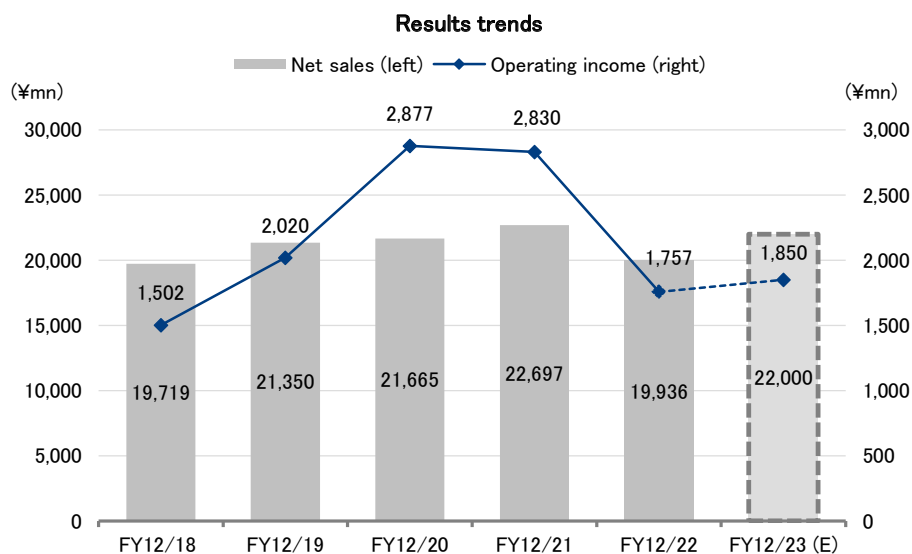
Summary

3. Medium-term business plan

The Company started a medium-term business plan lasting five years from FY12/22 to FY12/26. As a growth strategy, it will strive for topline growth by working on initiatives such as enhancement of in-house product development, expansion of business in Asia, DX promotion of manufacturing, and utilization of simulation technology in fields such as SDGs. At the same time, it will aim for high-level profit margins while balancing enhancement of businesses with high added value and growth investment. For numerical management targets, in FY12/26, the Company will aim for net sales of ¥30,000mn (up 50.5% compared to FY12/22), EBITDA (operating income + depreciation and amortization) of ¥3,800mn (up 23.7%). In-house developed products and services hold the key to attaining targets; the Company plans to increase the net sales share of these products and services from 30% in FY12/22 to 40% in FY12/26. To this end, the Company plans an aggressive M&A strategy in Japan and overseas. With ample financial assets (cash and deposits + short-term investment securities + short-term loans receivable) of ¥15.3bn at end-December 2022, there are no financial concerns.

4. Shareholder return policy

Regarding a shareholder return policy, the Company targets a DOE (Dividends on Equity) at 6.0% with the objective of paying stable dividends even during short-term profit declines, based on the principle of being within the scope of profit attributable to owners of parent. In FY12/23, the Company plans to pay a dividend per share of ¥29.0, unchanged from the previous fiscal year. It also intends to implement flexible treasury share acquisitions, comprehensively taking into account cash reserves, stock price levels, and other factors.

Key Points

- Has supported manufacturing in Japan for more than 37 years as a leading CAE company
- In FY12/22, sales and profit declined due to the termination of the distributor agreement with Synopsys, but both turned positive in 4Q
- Forecasts sales and profit growth while investing for growth in FY12/23
- The Company aims for net sales of ¥30,000mn and EBITDA of ¥3,800mn in FY12/26 by leveraging M&A to grow in-house developed products and services and business in Asia

Results trends

Net sales (left) ◆ Operating income (right)

	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23 (E)
Net sales (¥mn)	19,719	21,350	21,665	22,697	19,936	22,000
Operating income (¥mn)	1,502	2,020	2,877	2,830	1,757	1,850

Source: Prepared by FISCO from the Company's financial results

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■ Company overview

Has supported manufacturing in Japan for more than 37 years as a leading CAE company

1. History

Cybernet Systems Co., Ltd. was established independently in April 1985 after Nihon CDC K.K., the Japanese subsidiary of Control Data Corp. (hereafter, CDC), a US-based pioneer in supercomputers, spun off its cybernet services business. Cybernet is a word made up by combining "cybernetics" (cyber) and "telephone network" (net), and refers to the computer service CDC provided globally from the 1970s to 1990 that allowed people to rent remote access to a computer by the hour. At that time, computers were expensive, so companies and research institutes used this service to carry out tasks such as scientific and technological calculations and simulations.

From 1990, the performance of computers improved dramatically and they became inexpensive, so these users have come to own their own computers, in which they have installed dedicated software to conduct design development, R&D and other tasks. Due to this change in use, as demand for cybernet services declined, the Company concluded sales distributor agreements with leading overseas software vendors, and converted to a business model of conducting sales and providing installation support services for these companies, thereby expanding its business.

In 1989, the Company became a subsidiary of Kobe Steel, Ltd. <5406>, and then in 1999, FUJISOFT ABC Incorporated (currently, FUJI SOFT INCORPORATED <9749>) acquired all of its shares and made it a wholly owned subsidiary, and it is currently FUJISOFT's subsidiary. In October 2001, the Company's shares were listed on the JASDAQ market (currently listed on the Tokyo Stock Exchange (TSE) Standard Market), and since 2005, it has actively progressed an M&A strategy with the aim of expanding its business area in the CAE field. Domestically, in 2005, it made subsidiaries of KGT Inc. (has advanced visualization technologies and network-related software) and PLAMEDIA CORPORATION (specializes in a plastics CAE business) in succession, and then in 2006, it acquired the business rights of Keihin Artwork, Inc. and EDA Connect Co., Ltd. and expanded its business areas. Also, recently in January 2020, it established CYBERNET MBSE Co., Ltd., which mainly provides engineering services related to MBSE*, including outsourced analysis and consulting.

> * MBSE (Model-Based Systems Engineering) refers to a method for efficiently conducting analysis, design, and verification of system requirements from various perspectives using models for systems targeted for development. Alongside the high-functionality, and multi-functionality of systems, the process from requirement definitions through to design and verification has become increasingly complex, and MBSE makes possible efficient development through the modelling of these elements. MBSE is mainly used at development sites in the automobile industry.

Conversely, alongside the entry into Asia of Japanese companies and the growth of Asian companies, centered on China, the Company has also been establishing sales subsidiaries in various Asian countries. In 2004, it established CCA ENGINEERING SIMULATION SOFTWARE (Shanghai) CO., LTD. in order to prepare an environment to provide technological services in China at the same level as in Japan, and it began providing technological services relating to CAE, including consulting, outsourced analysis, and education. Next, in 2008, it established CYBERNET SYSTEMS TAIWAN Co., Ltd. in Taiwan to provide CAE Solution Services, including those related to optical, control, and formula processing. Then in 2017, it established CYFEM Inc. in South Korea, which provides optical-related CAE solution services, and in 2018, CYBERNET SYSTEMS MALAYSIA SDN. BHD. in Malaysia which provides machinery- and optical-related CAE solution services. In these ways, the Company has been strengthening its business development in the Asia region. Based on the termination of the distributor agreement with Synopsys (dated October 1, 2021), the Company dissolved CYFEM in South Korea on December 31, 2021.

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Also, in June 2009, the Company's sales distributor agreement with The MathWorks, Inc. of the US, which was the main customer providing more than 30.0% of total net sales, ended (due to The MathWorks establishing a Japanese subsidiary). The Company also strengthened its in-house products by dealing directly with the risks inherent to the distributor business, such as significant decreases in earnings. Specifically, in 2009, it made subsidiaries of Sigmetrix, LLC of the US (hereafter, Sigmetrix; development and sales of tolerance[1] analysis software and consulting) and Waterloo Maple Inc. of Canada (hereafter, Maplesoft; development, sales, consulting and online services for formula analysis software, etc.). Then in 2010, it made a subsidiary of Noesis Solutions NV of Belgium (hereafter, Noesis; development, sales, and technological support for PIDO[2] tools).

[1] Tolerance: The allowable range of variation of the dimensions set at the time of design.
[2] PIDO (Process Integration and Design Optimization): A solutions tool for overall optimization that contributes to improving quality, shortening the development period, and reducing development costs through the automation, integration, and optimization of the product development process utilizing CAD/CAE.

History

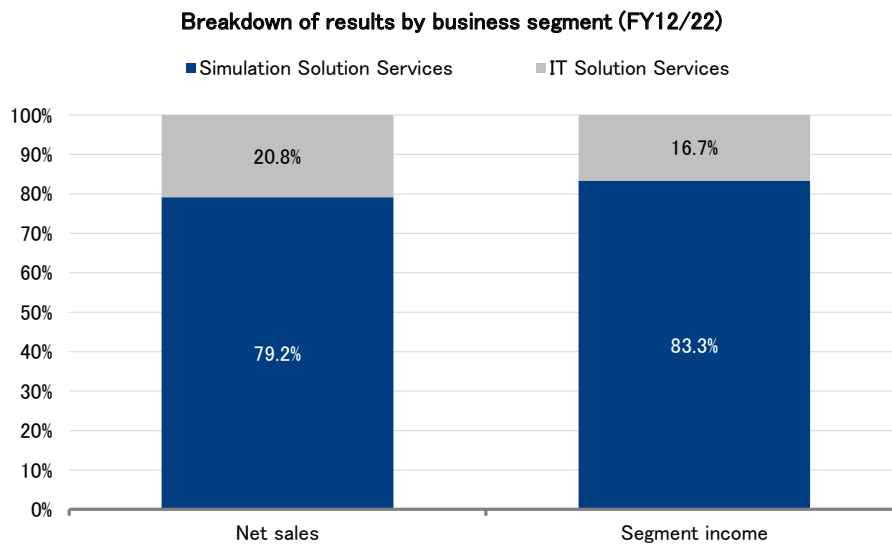| Date	Event
April 1985	Control Data Corp. (CDC) of the US separated its cybernet services business and established Cybernet Systems Co., Ltd.
April 1989	Kobe Steel, Ltd. <5406> acquired all of the Company's issued shares.
October 1999	FUJISOFT ABC Incorporated (currently, FUJI SOFT INCORPORATED <9749>) acquired all of the Company's issued shares and made it a wholly owned subsidiary.
October 2001	Listed on the JASDAQ market and increased capital to ¥995mn.
August 2003	Listed on the TSE Second Section.
September 2004	Listed on the TSE First Section.
December 2004	Established subsidiary CCA ENGINEERING SIMULATION SOFTWARE (Shanghai) CO., LTD. in Shanghai, China.
April 2005	KGT Inc. made a subsidiary through acquisition of all shares.
August 2005	PLAMEDIA CORPORATION made a subsidiary through acquisition of 95% of shares.
May 2006	Took over operation of Keihin Artwork Co., Ltd. and EDA Connect Co., Ltd.
August 2006	Established Cybernet CAE Systems (Shanghai) Co., Ltd. (currently, CYBERNET SYSTEMS (SHANGHAI) CO.,LTD.) in Shanghai, China.
July 2008	Established CYBERNET SYSTEMS TAIWAN Co., Ltd. in Hsinchu City, Taiwan.
July 2009	Made Sigmetrix, LLC a wholly owned subsidiary.
August 2009	Merged with PLAMEDIA CORPORATION.
September 2009	Made Waterloo Maple Inc. (Maplesoft) a wholly owned subsidiary.
May 2010	Merged with KGT Inc.
July 2010	Made Noesis Solutions NV a wholly owned subsidiary.
March 2012	Established CYBERNET SYSTEMS KOREA CO., LTD. in Seoul, South Korea (closed in 2015).
September 2017	Established subsidiary CYFEM Inc. in Seoul, Korea.
November 2018	Established subsidiary CYBERNET SYSTEMS MALAYSIA SDN. BHD. in Malaysia.
January 2020	Established CYBERNET MBSE Co., Ltd.
April 2022	Moved to the TSE Standard Market.

Source: Prepared by FISCO from the Company's website

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Company overview

Developing the Simulation Solution Services business and IT Solution Services business

2. Business description

The Cybernet Group develops solution services businesses in Japan and overseas through software and technology services (technological support, consulting, etc.). As these businesses areas are different, it discloses information on two business segments, the Simulation Solution Services and IT Solution Services. The Simulation Solution Services business is conducted by the Company and CYBERNET MBSE, and overseas by Maplesoft, Sigmetrix, Noesis, and the three sales subsidiaries in Asia (in China, Taiwan, and Malaysia) for the development and sales of products developed in-house. The IT Solution Services business is conducted only by the Company. At the end of December 2022, there were 571 employees on a consolidated basis and 335 employees on a Company stand-alone basis, while approximately 45% of consolidated employees were engineers.

Looking at the breakdown of results by business segment in the FY12/22, we see that the Simulation Solution Services business is the main business contributing 79.2% of net sales and 83.3% of segment income. The Company divided its operations into the CAE Solution Services business and the IT Solution Services business through FY12/21. However, it has renamed the CAE Solution Services business the Simulation Solution Services business to disclose more accurately the nature of the business amid expansion of the domains in which simulation technology are utilized. In addition, it transferred medical imaging software, previously included in the IT Solution Services business, to the Simulation Solution Services business. In this report, net sales by segment for FY12/21 are also presented as the figures reclassified into the new segments.

Breakdown of results by business segment (FY12/22)

■ Simulation Solution Services   ■ IT Solution Services

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Company overview

(1) Business model

To simply explain the business model, the Group has concluded sales distributor agreements with leading software vendors in Japan and overseas, and it sells software products (including in-house Group products) to customers such as companies, universities, and research institutes. Also, when conducting sales, it provides solution services that meet customer needs, including engineering services* so that customers can skillfully use the products. In addition, it contributes to improving product capabilities by providing feedback on customer needs to vendors, which are the developers.

> * Consulting services in order for customers to effectively use the software, including software installation support, technological support, and outsourced analysis.

In particular, as a pioneering company in the simulation solutions field in Japan, it has accumulated an abundance of experience and technologies across 37 years, and it has solution capabilities to guide customers to the solutions to their various challenges. Therefore, it has built strong relationships of trust with them, and at the same time, it has acquired an excellent reputation among vendors, which are the developers. For example, Ansys, Inc. of the US, which is currently its main business-partner vendor, certified the Company as an Ansys Elite Channel Partner* for eight consecutive years from 2015, and the top rated in the Asia region. In addition, the Company is the only agency in the world to receive the Top Renewal Performer in 2021 award, which is given to agencies with a high renewal rate of customers. As well, its Chinese subsidiary won the Ansys 2022 Asia Pacific Partner of the Year award for the first time for its sales performance and customer support capabilities.
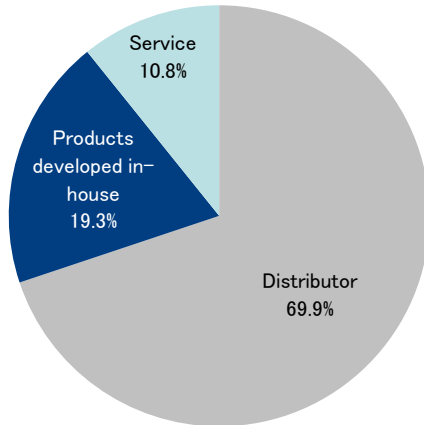
> * Ansys Elite Channel Partner is a title granted to organizations recognized for making the most significant contribution to sales activities for Ansys software. The Company was certified for the first time among domestic distributors for eight consecutive years from 2015. It has met the stringent conditions for certification, and has been evaluated for achieving the highest level of customer satisfaction.

(2) Net sales by business type and region

Net sales can be broken down into three business types: distributor sales for products developed by vendors, sales of products developed in-house, and sales of various types of solution services (engineering services, education and training services, etc.). In FY12/22 consolidated results, distributor sales contributed 69.9% of net sales, products developed in-house 19.3%, and services 10.8%. Also, looking at the breakdown of net sales by region, Japan contributed 76.5%, Asia 10.8%, North America 8.5%, and Europe 4.0%, from which we understand that the domestic distributor business is the main business. Going forward, however, the Company's strategy is to aim for further growth by increasing sales of products developed in-house and services, and overseas sales such as in Asia.

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Breakdown of net sales by business type
(FY12/22)

Breakdown of sales by region
(FY12/22)
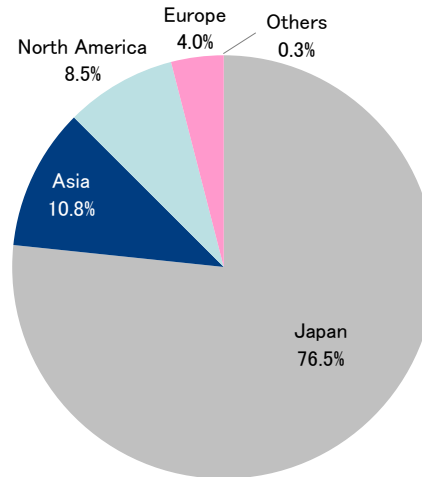
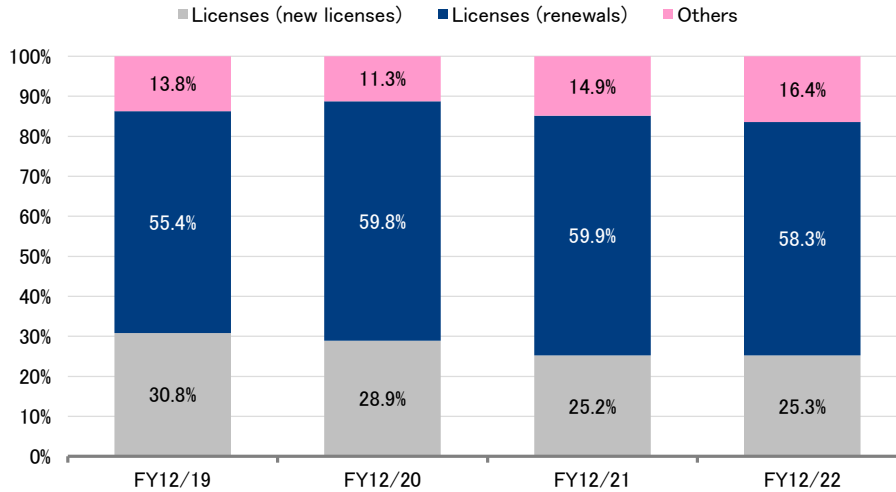Source: Prepared by FISCO from the Company's supplemental results briefing materials

(3) Net sales by contract type and industry

Net sales can be broken down by contract type into licenses and others. Furthermore, licenses are divided into new license fees when installing a new software product (initial installation fee and one-year usage fee + maintenance fee) and renewal fees from the second year onwards (one-year usage fee + maintenance fee). It works by adding various optional services in line with customers' needs. Conversely, sales other than from licenses include those from engineering services and education and training services.

Looking at the breakdown of net sales in FY12/22 on a Company stand-alone basis, license renewals contributed 58.3%, new licenses 25.3%, and others 16.4%. License renewals' share is the highest, representing a stable earnings source for the Company. This is because the majority of the company's customers are major companies, universities, and research institutes, and once one of the mainstay CAE software products is installed, there are hardly any cases of it being replaced with another company's product from the viewpoint of continuity.
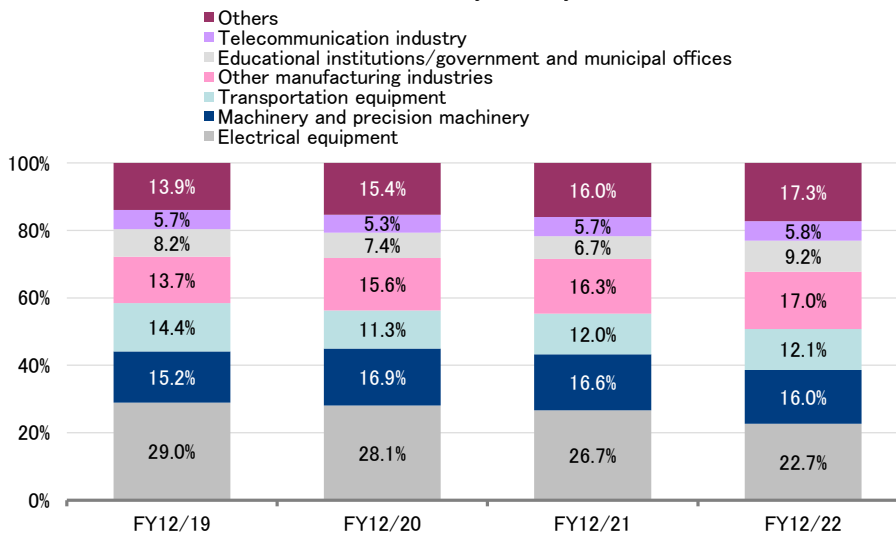
Company overview

Breakdown of net sales by contract type (stand-alone)

■ Licenses (new licenses) ■ Licenses (renewals) ■ Others

Source: Prepared by FISCO from the Company's supplemental results briefing materials

Looking at the breakdown of net sales by industry in FY12/22 on a Company stand-alone basis, the highest was electrical equipment at 22.7%, followed by machinery and precision machinery at 16.0%, and transportation equipment at 12.1%. Net sales to the manufacturing industry were more than 67.7% of overall sales. However, in the last few years, the proportion of net sales to non-manufacturing industries has been growing gradually due to the growth of the simulation utilization domain to a wider range of fields, including telecommunications, healthcare, and construction. (FY12/19 27.8%→FY12/22 32.2%)

Breakdown of net sales by industry (stand-alone)

■ Others
■ Telecommunication industry
■ Educational institutions/government and municipal offices
■ Other manufacturing industries
■ Transportation equipment
■ Machinery and precision machinery
■ Electrical equipment

Source: Prepared by FISCO from the Company's supplemental results briefing materials

Company overview

In Simulation Solution Services business, Ansys products, the world leader in the CAE sector, are the mainstay products
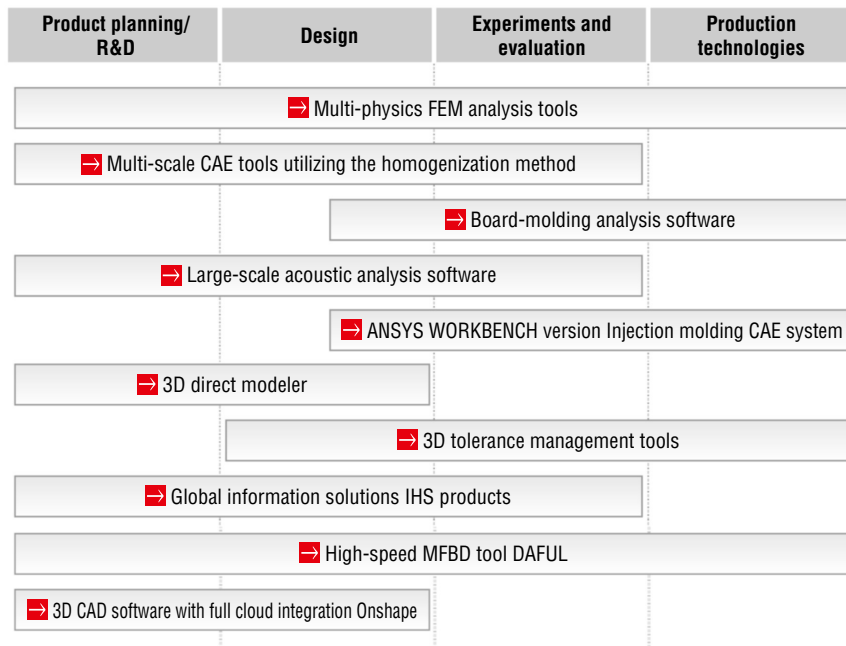
3. Business segments

(1) Simulation Solution Services

The mainstay Simulation Solution Services business provides various CAE software products according to each field, including those related to machinery, optical, electrical and electronic, and control. CAE is the name for technologies to simulate and analyze in virtual models created on computers aspects such as tests and experiments that have been conventionally carried out using a prototype in the R&D process for manufacturing. Using CAE software dramatically reduces the number of prototype tests and experiments, and makes it possible to conduct simulations under physical conditions that cannot actually be created in the real world. It can be said that this software not only improves development efficiency, but also contributes to realizing manufacturing that is considerate of the environment by leading to reduction of waste and other materials created in prototype testing. The scope of application is wide, ranging from fields like automotive, electronic equipment and devices to machinery and precision machinery, telecommunications, medical and construction fields.

Mainstay products consist of multi-physics analysis tools from Ansys, which is the world's largest company in the machine-related CAE field with an approximately 38% share of the global market, and is used by many companies and research institutes in Japan as the general-purpose analysis tools that make every type of analysis possible, including structure, heat transfer, electromagnetic field, piezoelectric, acoustic, heat fluid, and dropping analyses. Also, for the optical field, the distributor agreement with Synopsys terminated on October 1, 2021, so the Company concluded new distributor agreement for Ansys's optical-related solution products on October 2, 2021, and the Company started selling the products. Other than these, the Group also handles the products of the leading development vendors in their respective industries and in-house products developed by Group companies. It proposes solutions that are optimized to meet customer needs.

List of machinery-related CAE

Product planning/ R&D	Design	Experiments and evaluation	Production technologies
➡ Multi-physics FEM analysis tools			
➡ Multi-scale CAE tools utilizing the homogenization method			
		➡ Board-molding analysis software	
➡ Large-scale acoustic analysis software			
		➡ ANSYS WORKBENCH version Injection molding CAE system	
➡ 3D direct modeler			
	➡ 3D tolerance management tools		
➡ Global information solutions IHS products			
➡ High-speed MFBD tool DAFUL			
➡ 3D CAD software with full cloud integration Onshape			

Source: The Company's website

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Furthermore, the Company is concentrating on DX business utilizing advanced digital technology such as AR/VR solutions, big data visualization tool, IoT platform implementation support, digital twin construction support, and AI system construction services. Although the scale of sales is still small, DX business is being spotlighted as a domain where future rapid growth can be expected as advanced solution services that improve customer productivity and also have a strong affinity with simulation technology.

For example, IoT/digital twin refers to a development method in which a model of physical equipment actually operating at a manufacturing development site is created in a virtual space (on a computer). In this method, evaluations of the physical equipment's current state are made and various simulation tests are conducted by accumulating information about the equipment in real time through IoT sensors and transmitting it to the virtual space. Combining verification data from the real world and simulation data from the virtual space realizes the sophistication and optimization of the manufacturing process. Because of this, it is expected to grow in demand in the automotive and other industries.

Example of the utilization of IoT/digital twin
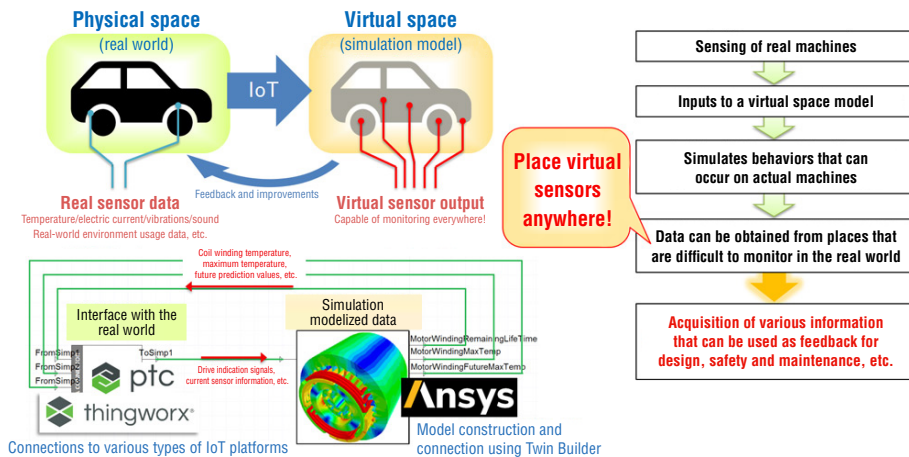
Source: The Company's website

AI system construction services improve operational efficiency by harnessing artificial intelligence, which dramatically speeds up calculations in CAE. It uses Neural Concept Shape, a data-driven AI system construction method that uses deep learning to construct surrogate AI systems. Demand for these services is increasing in fields that require CAE analysis for design parameters.

(2) IT Solution Services
In IT Solution Services business, sales of various IT software products, including cloud security and end-point security, make up the majority of net sales. The Company provides optimal solutions that fulfill customers' needs by selecting products from multiple vendors such as Broadcom Inc. (previously Symantec Corporation).

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In the CAE field, a strength is solution capabilities based on know-how and technological capabilities accumulated more than 37 years

4. Strengths and business risks

The Company's strengths can be summarized as the following three points.
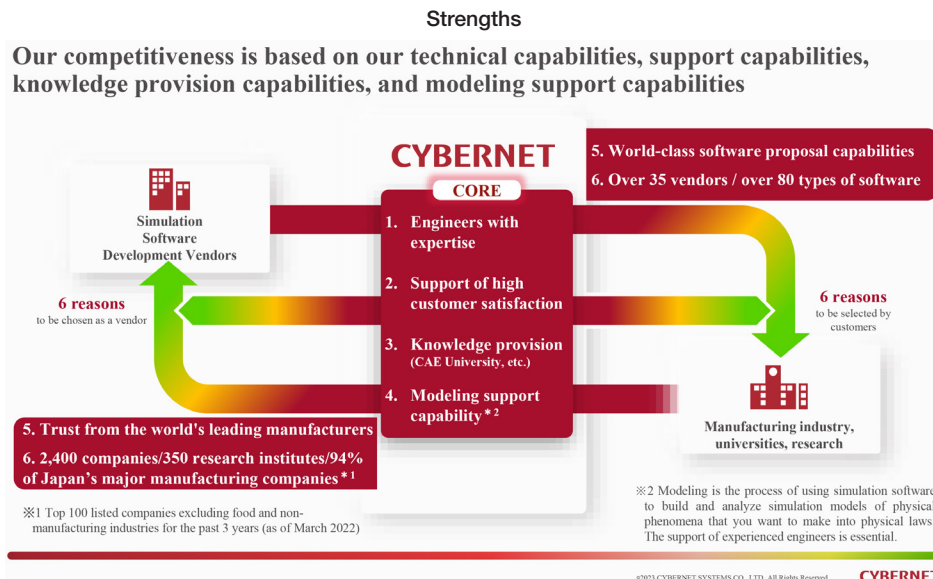
(1) Sophisticated know-how backed up by experience
It has accumulated a rich track record from more than 37 years of providing support for manufacturing R&D and design development through CAE simulation technologies. The know-how and extensive and advanced technological capabilities it has accumulated are its assets, and a strength is being able to provide solutions that other companies cannot imitate.

(2) Extensive specialty and global partner network and customer base
Leading with Ansys, the largest CAE software company, the Company collaborates with more than 35 leading vendors in Japan and overseas, and conducts sales and support for more than 80 types of products. Therefore, a strength is its ability to provide optimized solutions to address customers' various challenges by combining multiple software and know-how. It also communicates feedback from customers to vendors, which are the developers, and they use that feedback for product improvements. So, another strength can be said to be that it is building strong relations with both customers and vendors.

By leveraging these strengths, the Company has developed 14 consolidated subsidiaries within Japan and overseas, and provides products and services to approximately 2,400 companies, primarily international ones, and 350 universities and research institutes. The fact that the Company is building a wide customer base could be another one of its strengths. In Japan, more than 90% of Japan's top 100 listed companies in terms of net sales (excluding food and non-manufacturing sectors) are the Company's customers.

Strengths

Source: The Company's supplemental results briefing materials

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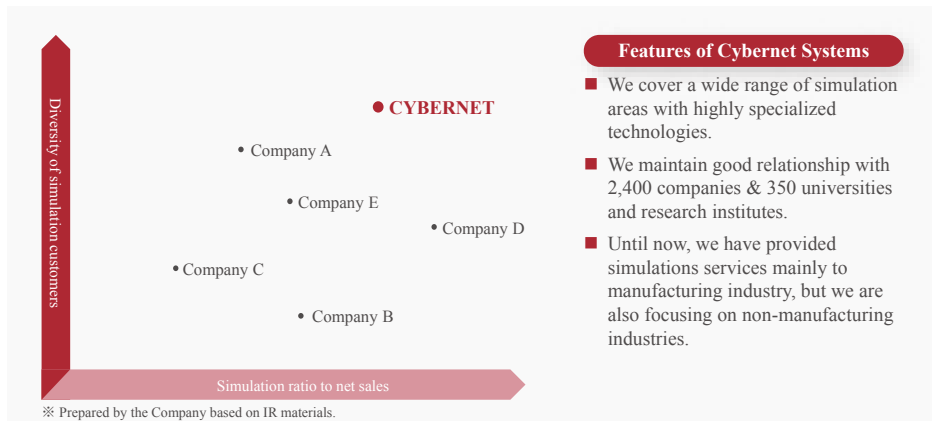
Company overview

(3) Highly stable earnings structure and industry environment

One of the Company's strengths is its earnings stability. Contributing factors are the large share of net sales (over 50%) of license renewal fees from existing customers and high renewal rate, small risk of price wars in the CAE business due to limited competition, and that R&D budgets are less likely to be cut in an economic downturn, because R&D is the source of companies' competitiveness.

Competitor companies in the CAE software distributor business include IDAJ Co., LTD. and ITOCHU Techno-Solutions Corporation <4739>, which are Ansys's sales distributors; ARGO GRAPHICS Inc. <7595>, which is a sales distributor of Dassault of France; and Information Services International-Dentsu, Ltd. (ISID) <4812>, which handles products including those of Siemens of Germany. The Company differentiates itself by being a simulation solutions specialist and having customers in diverse business sectors.

Company features

Features of Cybernet Systems
- We cover a wide range of simulation areas with highly specialized technologies.
- We maintain good relationship with 2,400 companies & 350 universities and research institutes.
- Until now, we have provided simulations services mainly to manufacturing industry, but we are also focusing on non-manufacturing industries.

※ Prepared by the Company based on IR materials.

Source: Prepared by FISCO from the Company's supplemental results briefing materials

(4) Risk factors

A risk factor is that the sales distributor business contributes more than 70% of net sales, so results would be negatively affected if main distributor agreements were to be terminated. In actuality, FY12/22 sales and profit declined due to the termination of the distributor agreement with Synopsys on October 1, 2021. In principle, sales distributor agreements with development vendors are non-exclusive, short term and subject to renewal. As for cases where agreements end up being terminated, changes in developers' sales strategies due to M&A, changes in management, and so forth are among possible scenarios. The reason for the termination of the distributor agreement with Synopsys was that Synopsys switched its sales style from distributor sales to direct sales on a global basis.

In order to reduce these business risks, the Company plans to develop its in-house developed products as well as its solution services including engineering services. With respect to the sales distributor business, the Company's strategy is to continue searching for promising development vendors and expand its product lineup. Moreover, Ansys, which is the Company's main business partner, is establishing its own Japanese corporations, and in this situation, it has positioned the Company as an excellent sales partner and has built strong business relations with it. So, at the current time, we at FISCO view the risk of cancelling the agreement as extremely low.

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■ Results trends

In FY12/22, sales and profits decreased due to the termination of the distributor agreement with Synopsys, but both turned positive in 4Q

1. Overview of FY12/22 results

In the FY12/22 consolidated results, sales and profits decreased, with net sales decreasing 12.2% YoY to ¥19,936mn, operating income decreasing 37.9% to ¥1,757mn, ordinary income decreasing 40.0% to ¥1,693mn, and profit attributable to owners of parent falling 44.0% to ¥999mn. However, net sales and operating income both turned positive in 4Q, increasing 7.4% YoY to ¥5,530mn and rising 342.1% YoY to ¥562mn, respectively, because the impact of the termination of the distributor agreement with Synopsys had faded. The Company has applied the Accounting Standard for Revenue Recognition, etc. since FY12/22, which reduces net sales by ¥198mn, the cost of sales by ¥109mn, and operating income and ordinary income each by ¥89mn*.
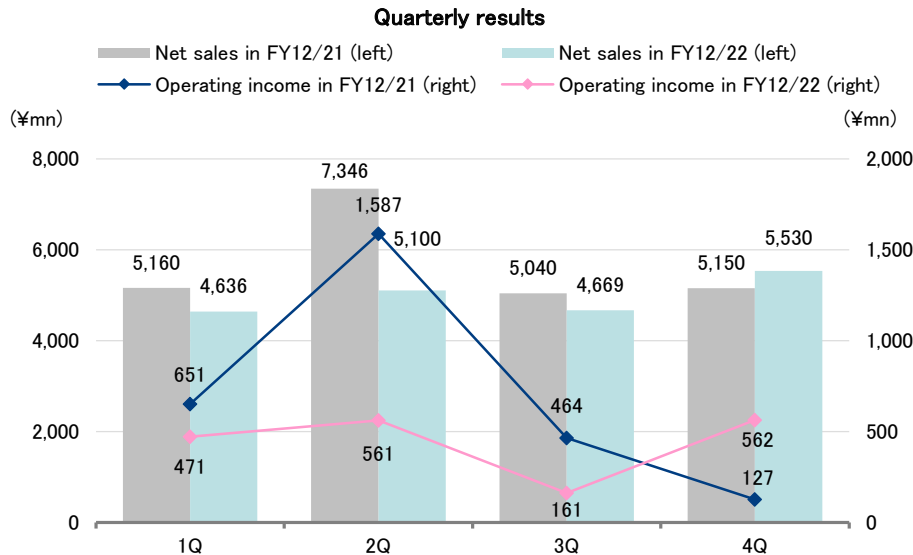
> * Net sales and the cost of sales for software maintenance services in the distributor business (part of the amount from new contracts and the amount for contract renewals) were mainly recognized as a lump sum at the start of the contract under the previous accounting standard, but have changed to recognition over the period of the contract due to the application of the Accounting Standard for Revenue Recognition, etc. Calculated based on the previous accounting standard, net sales declined 11.3% YoY, operating income fell 34.7%, and ordinary income decreased 36.8%.

FY12/22 consolidated results

(¥mn)

	FY12/21		FY12/22				
	Results (Previous accounting standard)	% of sales	Company forecasts	Results (New accounting standard)	% of sales	YoY	Compared to forecasts
Net sales	22,697	-	20,000	19,936	-	-12.2%	-0.3%
Cost of sales	13,168	58.0%	-	11,813	59.3%	-10.3%	-
SG&A expenses	6,698	29.5%	-	6,364	31.9%	-5.0%	-
Operating income	2,830	12.5%	1,800	1,757	8.8%	-37.9%	-2.3%
Ordinary income	2,822	12.4%	1,800	1,693	8.5%	-40.0%	-5.9%
Extraordinary loss (income)	125	-	-	-1	-	-	-
Profit attributable to owners of parent	1,786	7.9%	1,150	999	5.0%	-44.0%	-13.1%
EBITDA	3,072	13.5%	2,100	2,014	10.1%	-34.4%	-4.1%

Source: Prepared by FISCO from the Company's financial results

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Results trends

Quarterly results

- Net sales in FY12/21 (left)
- Net sales in FY12/22 (left)
- Operating income in FY12/21 (right)
- Operating income in FY12/22 (right)

Source: Prepared by FISCO from the Company's financial results

Sales declined due to the termination of the distributor agreement with Synopsys (a major business partner) in October 2021. Sales increased when adjusted for this factor. Mainstay Ansys multi-physics analysis tools were brisk, and sales of engineering services and security products were strong, resulting in sales more or less in line with the Company's forecast. By region, sales fell 12.4% YoY in Japan to ¥15,242mn, down 30.8% in Asia to ¥2,153mn, up 22.5% YoY to ¥1,691mn in North America, and rose 7.6% in Europe to ¥798mn.

The dropout of Synopsys product sales was the reason for lower sales in Japan and Asia. Another negative factor for sales in Asia was restrictions on sales activities amid lockdowns to prevent the spread of COVID-19 in China. However, sales of Ansys products increased YoY, including sales of the newly added optical-related solutions. In Taiwan, sales of automotive and communications (5G) solutions were brisk.

In North America, sales (including sales of OEM partners) were strong as a result of Sigmetrix releasing the latest functionally enhanced version of the 3D tolerance analysis software CETOL 6σ. For medical devices and other products to be approved for sale in the US, an appropriate verification result using tolerance analysis is required. Demand for the software has therefore increased among customers applying for sales approval. Maplesoft, on the other hand, was put in a tough situation because investment was somewhat stalled in the education industry, a mainstay market, and sales were weak in the enterprise market. That being said, sales likely increased YoY on a yen basis, because the yen depreciated around 20% against the US dollar in FY12/22. European Noesis's sales to Asia grew, but sales to Europe were weak on a local currency basis due to the slump in orders from automakers, which are its main customers.

Results trends

Net sales by region (consolidated)

(¥mn)

	FY12/19	FY12/20	FY12/21	FY12/22	YoY
Japan	17,037	17,190	17,403	15,242	-12.4%
Asia	2,345	2,569	3,111	2,153	-30.8%
North America	1,211	1,290	1,381	1,691	22.5%
Europe	678	568	741	798	7.6%
Others	78	45	59	51	-12.9%
Total	21,350	21,665	22,697	19,936	-12.2%

Source: Prepared by FISCO from the Company's supplemental results briefing materials

The cost of sales ratio increased 1.3 percentage points YoY to 59.3% owing to the dropout of sales of Synopsys products and rising purchase costs of overseas products in the IT Solutions business due to yen depreciation. The Company has been revising prices to reflect cost increases, but could not keep up with the sharp depreciation of the yen. The ratio of SG&A expenses rose 2.4 percentage points YoY to 31.9%, but the amount of SG&A expenses decreased 5.0%, because the Company invested in a new IT system and paid special bonuses in 4Q FY12/21. The non-operating profit/loss worsened by ¥56mn YoY, mainly due to a ¥21mn increase in foreign exchange losses and booking ¥23mn in sales tax payments for the previous fiscal year*.

* US sales tax rates vary between states depending on the way software is provided. After a detailed review, the Company found a shortfall in sales tax paid on sales in the previous fiscal year and recorded it accordingly.

(1) Results trends by segments
a) Simulation Solution Services

In Simulation Solution Services, net sales decreased 15.5% YoY to ¥15,784mn and segment income declined 35.6% to ¥2,628mn. Looking at the breakdown of net sales, distributor sales declined a sharp 24.4% YoY to ¥10,380mn, whereas sales of products developed in-house increased 8.1% to ¥3,512mn and sales of services rose steadily by 11.1% to ¥1,891mn.

Distributor sales decreased since there were no longer Synopsys-related products, but maintenance contract renewals were strong for multi-physics analysis tools, a mainstay product. Furthermore, products developed in-house performed well, mainly overseas subsidiary products, partly due to the effect of yen depreciation. Sales of the EndoBRAIN®-EYE[1] software to support diagnosis in colorectal endoscopy using artificial intelligence developed by the Company turned down from large shipments in FY12/21, but the software was newly approved by pharmaceutical authorities in South Korea as well as being approved for the Improvement Design with Approval for Timely Evaluation and Notice (IDATEN) system[2] under the amended Pharmaceuticals and Medical Devices Act in May 2022. This will likely facilitate product sales going forward. However, sales are still slight, and getting the product covered by insurance in Japan and overseas will be important for full-fledged expansion. As for service revenue, strong momentum for engineering services related to analysis support for design work and consulting to support the promotion of DX contributed to double-digit growth in net sales. In particular, the DX business such as AR/VR solutions and AI system construction services showed robust growth.

[1] A software that assists doctors in detecting polyps, etc. by alerting when it detects a lesion, using AI to analyze images taken by a colonoscope. This product was approved in Japan as managed medical equipment (class II) in 2020, and is being sold to medical institutions as a set along with endoscopes manufactured by Olympus.
[2] The Improvement Design with Approval for Timely Evaluation and Notice (IDATEN) system was established in 2020 as a system that approves the improvement plan for medical devices for which the modifications of features (upgrades) are expected. Obtaining approval for the IDATEN system means that partial modification approvals (which were required for every modification under the previous system) are no longer required, and manufacturers can sell upgraded versions of approved products by submitting a notification.

We encourage readers to review our complete legal statement on "Disclaimer" page.

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Results trends

Application of the Accounting Standard for Revenue Recognition, etc. reduced net sales by ¥170mn and segment income by ¥93mn compared with the figures based on the previous accounting standard. Calculated based on the previous accounting standard, net sales declined 14.6% YoY to ¥15,955mn and segment income decreased 33.3% to ¥2,722mn.

b) IT Solution Services

In IT Solution Services, net sales increased 3.5% YoY to ¥4,152mn and segment income decreased 8.3% to ¥525mn. However, the application of the Accounting Standard for Revenue Recognition, etc. had a negative impact of ¥27mn on net sales and positive impact of ¥4mn on segment income. Calculated based on the previous accounting standard, net sales increased 4.2% YoY to ¥4,179mn and segment income declined 9.2% to ¥520mn.

Distributor sales increased 2.0% YoY to ¥3,548mn, sales of products developed in-house rose 4.3% to ¥343mn, and service revenue grew 26.8% to ¥259mn. Sales of, and services to introduce Deep Instinct, a next-generation endpoint security product that harnesses deep learning and is provided as a cloud service, performed strongly. Sales of cloud security solutions were also brisk, although the growth rate slowed. Segment income declined, however, because price revisions could not keep pace with the purchase cost increase amid sharp yen depreciation.

(2) Sales trends by industry and contract type (stand-alone basis)

On a stand-alone basis, net sales were ¥15,124mn, down 10.2% compared to the same period of the previous fiscal year when it is converted to the new accounting standard. Looking at the YoY growth rate of sales by industry, sales increased only for educational institutions/government and municipal offices, rising 23.4%. Sales decreased for all private-sector industries, with declines of 23.8% for electrical equipment—a key market, 13.6% for machinery and precision machinery, 9.0% for transportation equipment, and 9.8% for telecommunications. For educational institutions/government and municipal offices, the introduction of Ansys heat transfer analysis and heat fluid analysis tools progressed among research institutes and sales of AR/VR solutions to government and municipal offices increased. The termination of the distributor agreement with Synopsys negatively affected sales for all other industries, with larger rates of decline for the electrical equipment and machinery and precision instruments for which Synopsys-related transaction amounts had been especially large. However, net sales turned positive overall in 4Q, up 9.6% YoY, with increases of 2.0% for electrical equipment and 42.2% for machinery and precision machinery.

Looking at trends in net sales by contract type, sales from licenses decreased 11.8% YoY, with declines of 10.1% for new licenses and 12.6% for renewals. Net sales other than those from licenses inched down 0.7% YoY. Net sales turned up in 4Q, with increases of 14.3% YoY for renewals and 17.9% for sales other than those from licenses, but new licenses continued to decline, falling 5.3%, partly due to some customers postponing budget spending. Worsening business confidence may have played a part.

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Results trends

Net sales by industry (stand-alone)

(¥mn)

	New accounting standard		
	FY12/21	FY12/22	YoY
Electrical equipment	4,493	3,426	-23.8%
Machinery and precision machinery	2,797	2,416	-13.6%
Transportation equipment	2,014	1,832	-9.0%
Other manufacturing industries	2,744	2,571	-6.3%
Educational institutions/ government and municipal offices	1,126	1,391	23.4%
Telecommunications industry	964	869	-9.8%
Others	2,695	2,617	-2.9%
Total	16,837	15,124	-10.2%

Source: Prepared by FISCO from the Company's supplemental results briefing materials

Net sales by contract type (stand-alone)

(¥mn)

	New accounting standard		
	FY12/21	FY12/22	YoY
Licenses	14,333	12,637	-11.8%
New licenses	4,249	3,821	-10.1%
Renewals	10,083	8,816	-12.6%
Others	2,503	2,487	-0.7%
Total	16,837	15,124	-10.2%

Source: Prepared by FISCO from the Company's supplemental results briefing materials

Has ample financial assets exceeding ¥15bn under debt-free management, plans to use for M&A and other growth investments and investor returns

2. Financial condition

Looking at the financial condition at the end of FY12/22, total assets were up ¥884mn compared to the end of the previous fiscal year to ¥24,155mn. The main influencing factors in current assets included a decrease of ¥3,579mn in short-term loans receivable due to the recovery of loans receivable (transactions from the cash management system) to the parent company FUJISOFT. Meanwhile, cash and deposits increased by ¥918mn, and short-term investment securities increased by ¥2,000mn, such that financial assets were down ¥661mn compared to the end of the previous fiscal year to ¥15,348mn. Also, notes and accounts receivable-trade and contract assets decreased by ¥967mn, while advance payments to suppliers increased by ¥1,951mn in connection with the application of the Accounting Standard for Revenue Recognition, etc. In noncurrent assets, intangible assets increased ¥201mn in conjunction with the deployment of a core operating system. The Company had planned to bring the new core operating system online in 2H FY12/23.

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Results trends

Total liabilities were up ¥1,867mn compared to the end of the previous fiscal year to ¥9,405mn. In current liabilities, accounts payable-trade decreased by ¥116mn, income taxes payable decreased ¥570mn, and provision for bonuses decreased ¥272mn, while advances received increased by ¥3,171mn in connection with the application of the Accounting Standard for Revenue Recognition, etc. In noncurrent liabilities, retirement benefit liability decreased ¥56mn. Total net assets were down ¥982mn compared to the end of the previous fiscal year to ¥14,749mn. Although profit attributable to owners of parent of ¥999mn was posted, a downward adjustment of ¥911mn to retained earnings in connection with the application of the Accounting Standard for Revenue Recognition, etc., dividend payments ¥966mn, and share buybacks ¥209mn contributed to the decline in total net assets.

Looking at management indicators, the capital adequacy ratio was 60.3%, down 6.0 percentage points from the end of the previous fiscal year. However, the Company has ample financial assets exceeding ¥15bn under debt-free management, so its finances can be judged to be very sound. With regard to profitability, as noted earlier, the operating income margin, ROE, and ROA all dropped from around 12% in FY12/21 to single digits. With ample cash on hand, the Company plans to invest for growth, such as through M&A, and reward shareholders.

Consolidated balance sheet

(¥mn)

	FY12/19	FY12/20	FY12/21	FY12/22	Change
Current assets	19,022	20,205	21,526	22,231	705
(Financial assets)	13,379	14,888	16,009	15,348	-661
Noncurrent assets	1,799	2,037	1,744	1,924	179
Total assets	20,821	22,242	23,270	24,155	884
Current liabilities	5,925	6,488	6,472	8,359	1,887
Noncurrent liabilities	1,259	1,273	1,065	1,046	-19
Total liabilities	7,185	7,762	7,538	9,405	1,867
(Interest-bearing debt)	-	-	-	-	-
Total net assets	13,636	14,480	15,732	14,749	-982
(Stability)					
Capital adequacy ratio	64.7%	64.2%	66.3%	60.3%	-6.0pt
Interest-bearing debt ratio	-	-	-	-	-
(Profitability)					
ROA	10.7%	13.2%	12.4%	7.1%	-5.3pt
ROE	9.6%	11.3%	12.0%	6.7%	-5.3pt
Operating income margin	9.5%	13.3%	12.5%	8.8%	-3.7pt

Note: Financial assets = cash and deposits + short-term investment securities + short-term loans receivable
Source: Prepared by FISCO from the Company's financial results

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Results trends

Target net sales and profit growth in FY12/23 while investing for growth

3. Outlook for FY12/23

For consolidated results in FY12/23, the Company expects net sales and profit to turn positive, with net sales increasing 10.4% YoY to ¥22,000mn, operating income up 5.2% to ¥1,850mn, ordinary income up 9.2% to ¥1,850mn, and profit attributable to owners of parent up 5.0% to ¥1,050mn. The Company targets double-digit growth in net sales by strengthening products developed in-house and expansion of business in Asia, as set out in its medium-term business plan. Although the operating income margin is forecast to decline 0.4 percentage points YoY, this is due to factoring in more active investment in human resources accompanied by an increase in personnel, recruitment, and education costs and a ¥75mn increase in depreciation accompanying the start of operation of the new core system in 2H. The Company has hired 15 new graduates starting in April 2023 and will continue aggressive recruitment, including hiring mid-career employees.

FY12/23 consolidated results outlook

(¥mn)

	FY12/22		FY12/23		
	Results	% of sales	Company forecast	% of sales	YoY
Net sales	19,936	-	22,000	-	10.4%
Operating income	1,757	8.8%	1,850	8.4%	5.2%
Ordinary income	1,693	8.5%	1,850	8.4%	9.2%
Profit attributable to owners of parent	999	5.0%	1,050	4.8%	5.0%
EBITDA	2,014	10.1%	2,170	9.9%	7.7%
Net income per share (yen)	32.31		33.99		
ROE	6.7%		7.2%		

Source: Prepared by FISCO from the Company's financial results

In Japan, the Company expects continued robust growth of the DX business (including AR/VR solutions and AI system construction services) and growth of MBSE and other engineering services for the automobile industry. After concluding a distributor agreement with developer ISID in February 2023, the Company began sales of iQUAVIS, which can visualize the processes required for MBSE from system modeling to quality/risk analysis and project plan creation. The scope of work has increased amid the spread of automated vehicle technologies and IoT, which has led to greater scale and complexity of development projects for automobiles and precision machinery. The Company believes iQUAVIS will help increase sales of MBSE, because the software will likely streamline and improve the quality of MBSE operations by visualizing development.

Moreover, the Company signed a distributor agreement with Ansys on October 2, 2021 for an optical solution to replace Synopsys products, and launched sales of three-dimensional optical analysis software Ansys Speos®, VR solution Ansys VRXPERIENCE™, and photonics analysis software Ansys Lumerical. In addition, in February 2022, the Company launched sales of optic design software OpticStudio®, a product of Zemax LLC of the US, which is a group company of Ansys.

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Results trends

Generally, it is difficult to replace development tools with other companies' products unless there are clear differences in terms of performance and functionality. However, using CAE software effectively requires a certain level of knowledge and experience, and technical support is also needed from distributors like the Company, which has a vast amount of know-how and information on the latest technologies. The Company's strategy is to use its ability to provide such support that delivers high customer satisfaction to expand Ansys products' share. Specifically, its strategy is that if a customer signs 10 licenses for Synopsys products, then it will have customers convert one to two licenses to Ansys products on a trial basis, and the Company will increase the number of licenses while strengthening customer support. Although the performance and functionality of Ansys products is virtually on a par with Synopsys products, their selling point is that they work better with other Ansys CAE products, because they are supplied by the same vendor. These Ansys products have been on sale for over a year, with a gradual increase in the number of user companies and licenses. We at FISCO see potential for expansion of Ansys' products' share in the optical solution field. The Company's Chinese subsidiary has started handling Ansys optical-related CAE products, building a solid track record in the number of new users. Although business in China was impacted by lockdowns in FY12/21, strong growth is forecast in FY12/23 as the Chinese government moves away from its Zero-COVID policy.

For products developed in-house, the Company forecasts sales growth of software products of its subsidiaries in Europe and North America. Steady growth is forecast for Sigmetrix, continuing the trend of FY12/22. Investment trends of academic institutions and sales growth in the enterprise market (a key focus) are the main challenges for Maplesoft. Similarly, how well European automakers' motivation to invest recovers after the slump in FY12/22 is key to Noesis' earnings. Further, the Company plans to grow sales of its big data visualization tool BIGDAT@Analysis in Japan and in Asia, where many Japanese-owned manufacturing plant are located. The product uses IoT sensors to monitor the status of production lines and equipment at plants and is a predictive maintenance tool that visualizes equipment failures and other problems.

In the IT Solution Services business, sales growth centered on the next-generation endpoint security product is forecast amid the growing sophistication of cyber-attacks on businesses. Although yen depreciation was a factor behind the profit decline in FY12/22, the Company is gradually making progress with cost pass-throughs and forecasts higher net sales and profits in FY12/23. The Company's forex rate assumption for FY12/23 is similar to FY12/22.
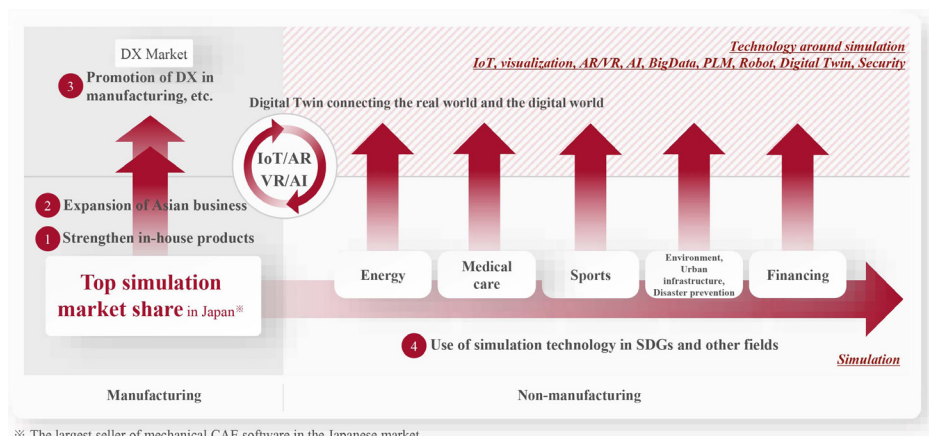
■ Medium-term business plan

Aims for net sales of ¥30,000mn and EBITDA of ¥3,800mn in FY12/26 by leveraging M&A to grow in-house developed products and services and business in Asia

1. Progress of the medium-term business plan

In February 2022, the Company announced a medium-term business plan for the five years from FY12/22 to FY12/26 in order to achieve enhanced corporate value from a long-term perspective. In addition to its core simulation technology, the Company will use peripheral technologies such as IoT, AR, VR and AI to enable DX support for manufacturing. The Company has also announced plans to strengthen its business development in areas outside of manufacturing such as energy, medical care, sports, environment and disaster prevention, and finance, aiming to grow as a company that contributes to solving various social challenges through simulation technology.

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Medium-term business plan

The Company's DX support

※ The largest seller of mechanical CAE software in the Japanese market.

Source: The Company's supplemental results briefing materials

For numerical management targets for FY12/26, the Company has set goals for net sales of ¥30,000mn (up 32.2% compared to FY12/21), EBITDA of ¥3,800mn (up 23.7%), profit attributable to owners of parent of ¥2,200mn (up 23.1%) and ROE of 12.0%. A numerical target has been set for EBITDA rather than operating income because the Company has leveraging M&A in its sights. As for M&A targets, the Company is mainly considering companies in Japan and overseas that provide technical consulting and engineering services, regardless of size or location, including distributors with a different customer base from its own and software development companies that it does business with. Moreover, as KPI, the Company will raise the ratio of in-house products and services development from 24.2% in FY12/21 to 40.0% in FY12/26, and the ratio of overseas sales from 23.3% to 25.0% in the same period. In addition, as a long-term goal (for roughly 2030) for the business portfolio, the Company's policy will be to move forward on business development with a ratio of sales of in-house products and services of 50.0%, overseas sales of 40.0% and sales from non-manufacturing (stand-alone) of 50.0% (compared to 28.6% in FY12/21) as its targets.

Although net sales in the first year (FY12/22) were more or less as expected, EBITDA was below target due to higher purchase costs and overseas subsidiaries' SG&A expenses stemming from yen depreciation. However, the ratio of in-house product and services development and overseas sales improved YoY to 30.1% and 23.5%, respectively. The Company plans to attain plan targets by focusing on expanding these businesses.

Medium-term business plan numerical targets

(¥mn)

	FY12/21 results	FY12/22 forecasts	FY12/22 results	FY12/22 forecasts gap	FY12/23 forecasts	FY12/24 targets	FY12/26 targets
Net sales	22,697	20,000	19,936	-63	22,000	24,500	30,000
EBITDA*	3,072	2,100	2,014	-85	2,170	2,800	3,800
EBITDA margin	13.5	10.5	10.1	-0.4pt	9.9	11.4	12.7
Profit attributable to owners of parent	1,786	1,150	999	-150	1,050	1,600	2,200
ROE	12.0%	7.4%	6.7%	-0.7pt	7.2%	9.5%	12.0%
KPI							
Sales composition ratio of in-house product and services	24.2%	-	30.1%	-	-	35.0%	40.0%
Overseas net sales composition ratio	23.3%	-	23.5%	-	-	23.0%	25.0%

* EBITDA = operating income + depreciation and amortization
Source: Prepared by FISCO from the Company's supplemental results briefing materials and financial results

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Medium-term business plan
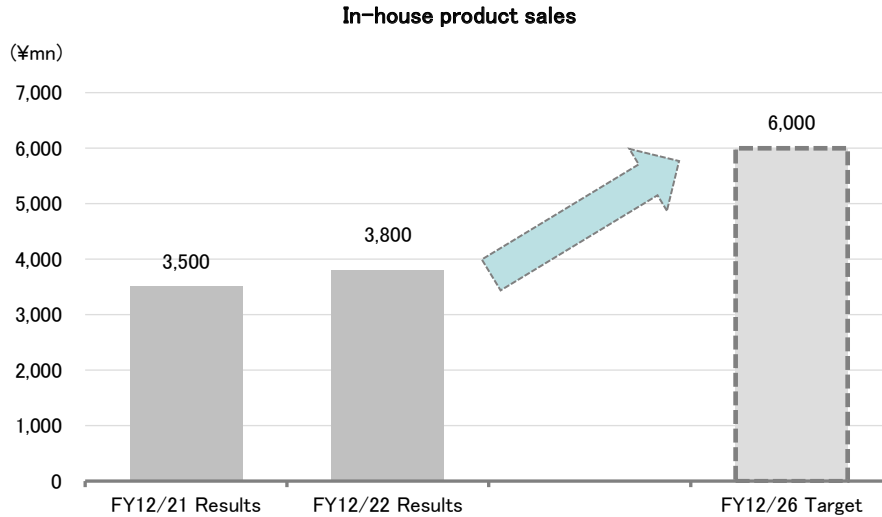
2. Growth strategy

The Company will work on three areas for the long-term enhancement of corporate value: topline growth, high profit margins and proactive shareholder return. For topline growth, the Company targets 30% net sales growth in five years by leveraging investment in human resources and M&A to strengthen products developed in-house, expanding business in Asia, promoting DX in manufacturing, and promoting the use of simulation technology in SDGs and other fields. It plans to raise its EBITDA margin from 10.1% in FY12/22 to 12.7% in FY12/26 by maintaining a balance between high added-value businesses and growth investment. Regarding shareholder return policies, the Company is committed to stable dividends, with a targeted DOE of 6.0%, and intends to proactively engage in treasury share buybacks, depending on the share price level. The Company has defined the following four areas as priority strategies for topline growth.

(1) Strengthen in-house products

The Company has seen some of the risks of the sales distributor business surface and it aims to increase the proportion of net sales from in-house products and services to counter the risk of losing sales distributor business and to improve profitability. Sales of in-house products totaled ¥3,800mn in FY12/22 versus the target of ¥3,500mn, which was more or less in line with forecast adjusted for yen depreciation. The Company targets sales of in-house products of ¥6,000mn in FY12/26 by strengthening overseas software development subsidiaries and development structure in Japan to promote differentiation by enhancing its product lineups and bolstering functionality from FY12/23 onward.

Among overseas subsidiaries, Maplesoft plans to enhance functionality of its educational support software for the education market and strengthen sales activities to cultivate demand from companies for Maple Flow (a design calculation support software for engineering). Sigmetrix will strengthen the functionalities of 3D tolerance analysis tools, and Noesis will provide the Optimus process integration and design optimization software platform and engineering services to corporate customers in Europe and China, in addition to developing new products, with the aim of sales growth. For in-house products, the Company plans to expand sales of its big data visualization tool, which provides an IoT solution, and expects growth of software to support diagnosis in colorectal endoscopy using artificial intelligence. This software is dependent on sales activities by Olympus, but is approved for sale in Hong Kong, India, Thailand, Vietnam, and South Korea as well as Japan. Demand could expand rapidly once the product is covered by insurance.

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Medium-term business plan

In-house product sales

(¥mn)

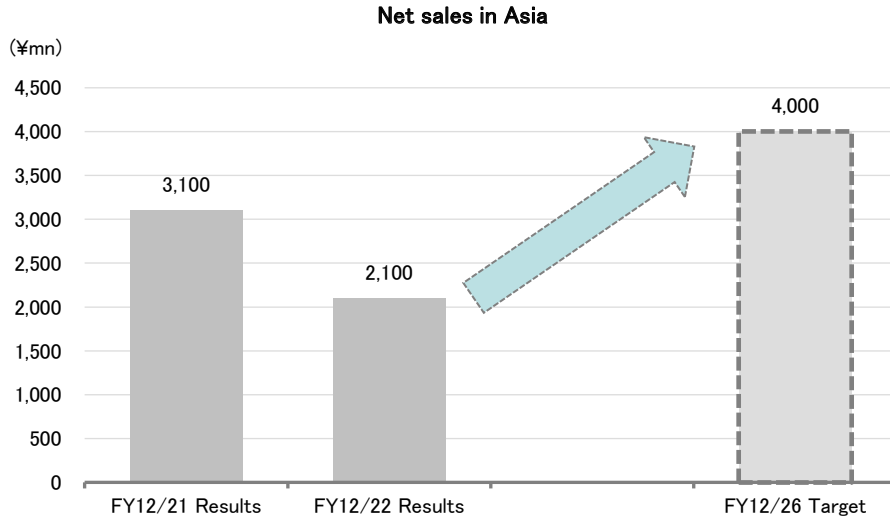|	FY12/21 Results	FY12/22 Results	FY12/26 Target
	3,500	3,800	6,000

Source: Prepared by FISCO from the Company's supplemental results briefing materials

(2) Expand business in Asia

The Company will move ahead on expanding business in Asia by leveraging its experience in providing simulation technologies to major manufacturers in Japan. As Synopsys products will no longer be included in sales in Asia, sales dropped in FY12/22 by 30.8% YoY to ¥2,100mn, but reached the Company's initial forecast. Growth in sales of Ansys products mainly in China are expected in FY12/23 onward. As well, the Company seeks to expand sales through the DX business (mainly IoT solutions) and IT Solution Services business, targeting net sales in Asia of ¥4,000mn in FY12/26.

In the Asian region, it is expected that the manufacturing industry will continue to develop going forward and demand for simulation tools and engineering services related to product design and development will increase. The Company's policy is to leverage its strength of advanced solution services to seek out new customers in local companies, centering on sales bases in China, Taiwan and Malaysia.

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Medium-term business plan

Net sales in Asia

Source: Prepared by FISCO from the Company's supplemental results briefing materials

(3) Promote DX in manufacturing

The Company will support promotion of DX in manufacturing through its core technology of simulation and MBSE, the latest development method, and advanced technologies such as IoT, AI, and AR/VR. The Company's strength lies in its technologies, including AI, digital twin, big data analysis, and others that have a strong affinity for simulation, and in its ability to provide high value-added solutions combining these technologies. The Company expects high growth in related sales in the future.

The Company aims to enhance new products and solutions that counter cyber-attacks to grow the IT Solution Services business. Recently, it began sales and technical support of Okta Workforce Identity Cloud, a cloud-based identity management and authentication service developed by Okta, in January 2023. The service, which is highly rated by users*, has grown sharply in the past few years and is used by 17,000 companies, mainly multinationals. Major Japanese companies have been introducing this service, which is likely to contribute to the Company's earnings going forward.

> * In IT research company Gartner's "Voice of the Customer" report published in May 2022, 92% of reviewers said they recommended the product, with 60% awarding it the top 5-star ranking (30% of reviewers work for companies with annual net sales of $1.0 billion–$10.0 billion).

(4) Utilizing simulation technology in fields such as SDGs

Through its business activities, the Company is working to contribute to fields that tackle the SDGs, such as the realization of a decarbonized society, solving environmental issues, and promoting health by harnessing the simulation technologies and know-how it has acquired.

Specific examples of installation cases include designing turbines for power generation facilities such as power plants using heat fluid solutions, thereby improving thermal efficiency and contributing to reduced CO_2 emissions, and the use of multi-physics analysis tools in the development of smaller inverters and motors with improved performance to lower the cost of EVs. Multi-physics analysis tools improve development efficiency by combining multiple parameters for simulation.

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Medium-term business plan

The Company sees huge potential to utilize simulation technologies in non-manufacturing industries as well, such as supporting efficient operation of urban infrastructure and financial institutions' compliance work using big data analysis and simulation technologies. Its strategy for long-term growth is aggressive cultivation of this demand.

■ Shareholder return policy

The Company's policy is to emphasize stable dividends and aim for a DOE of 6.0%

The Company revised its shareholder return policy in FY12/22. It has ample funds to invest for growth, having accumulated financial assets of approx. ¥15.0bn, which gives it financial security and secures a capital adequacy ratio of over 60.0%. Its dividend policy to a DOE of 6.0% based on the principle of being within the scope of profit attributable to owners of parent so that dividend increases can be maintained even in periods of short-term decreases in profits in consideration of maintaining capital levels to raise capital efficiency, including future ROE (under the previous policy, the higher of a 50% dividend payout ratio and DOE of 3.0%). In FY12/23, based on this policy, the Company plans to pay a dividend per share of ¥29.0, unchanged from the previous fiscal year. A dividend increase can be expected if net assets increase as a result of earnings expansion.

The Company intends to implement flexible treasury share acquisitions from the viewpoint of capital efficiency, depending on the share price. In fact, the Company acquired 320,000 shares for ¥209 million with a buyback period of February 15 to March 18, 2022.

Dividends per share and DOE
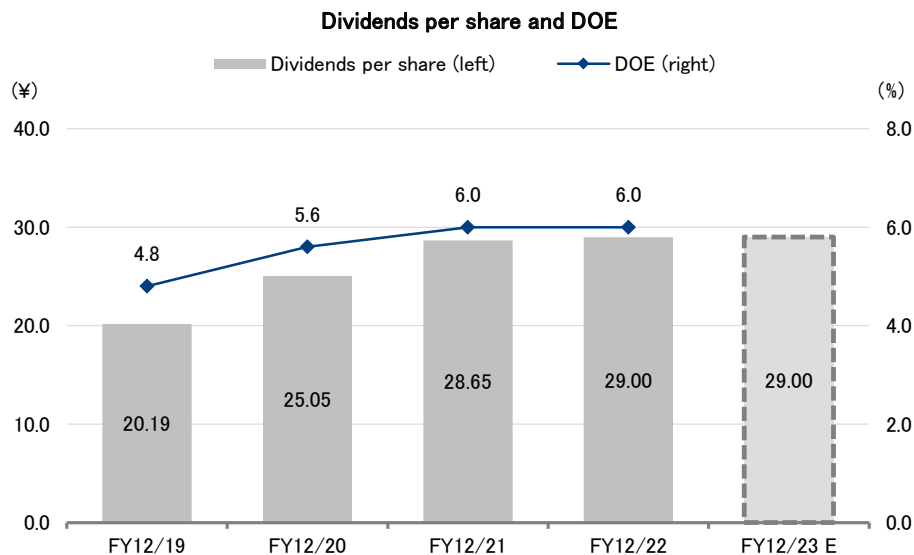
Source: Prepared by FISCO from the Company's supplemental results briefing materials

Shareholder return policy

The Company published its first integrated report in July 2022, and disclosed it on the investor relations section of its website. The report wraps up a message from the CEO, the Group's management policies, value creation process, growth strategies, sustainability initiatives, and more. It aims to further deepen stakeholders' understanding of initiatives to continuously enhance the Group's corporate value. It identifies materiality (key issues) for realizing a sustainable society, and summarizes ESG initiatives. Going forward, the Company plans to set and announce numerical targets related to these initiatives.