

RAKUS Co., Ltd.

（Mothers:3923）

Earnings Results for the fiscal year March 2019

Key points

Earnings results for March 2019

- Active investment for growth led to a significant year-on-year sales increase, surpassing the initial plan announced at the beginning of the fiscal year.
- Net income exceeded 1 billion yen for the first time.

Cloud Business

- The 5 major services continued to produce high growth due to active investment.
- The email distribution business experienced over 50% sales growth due to the M&A conducted in March 2018.

IT Outsourcing Business

- The number of engineers increased due to a change in the HR framework, which accelerated growth.

Guidance for the Fiscal Year March 2020

- Stronger needs for business operational efficiency and cloud services have expanded business opportunities.
- We are determined to capture business opportunities by strengthening investment despite a year-on-year profit decline in March 2020.
- Guidance is disclosed quarterly because different strategies are implemented in each quarter with PDCA cycles accelerated.
- Dividends are up by 2 yen per share, which sees a growth in dividends for 8 consecutive years.

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Summary of Consolidated Results for March 2019

Active investment led to a significant sale increase with net income exceeding 1 billion yen for the first time.

		Year on Year
Sales	¥8,743M	Up 36.4%
Operating Profit	¥1,468M	Up 18.3%
Ordinary Profit	¥1,474M	Up 18.2%
EBITDA	¥1,809M	Up 33.3%
Profit attributable to owners of parent	¥1,018M	Up 16.4%

EBITDA＝pretax net income + extraordinary profits/losses + depreciation + goodwill amortization + interest payment

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Consolidated results for the fiscal year March 2019

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Outline of the Consolidated Results for March 2019

Active investment for growth led to a significant year-on-year sales increase, surpassing the initial plan announced at the beginning of the fiscal year.

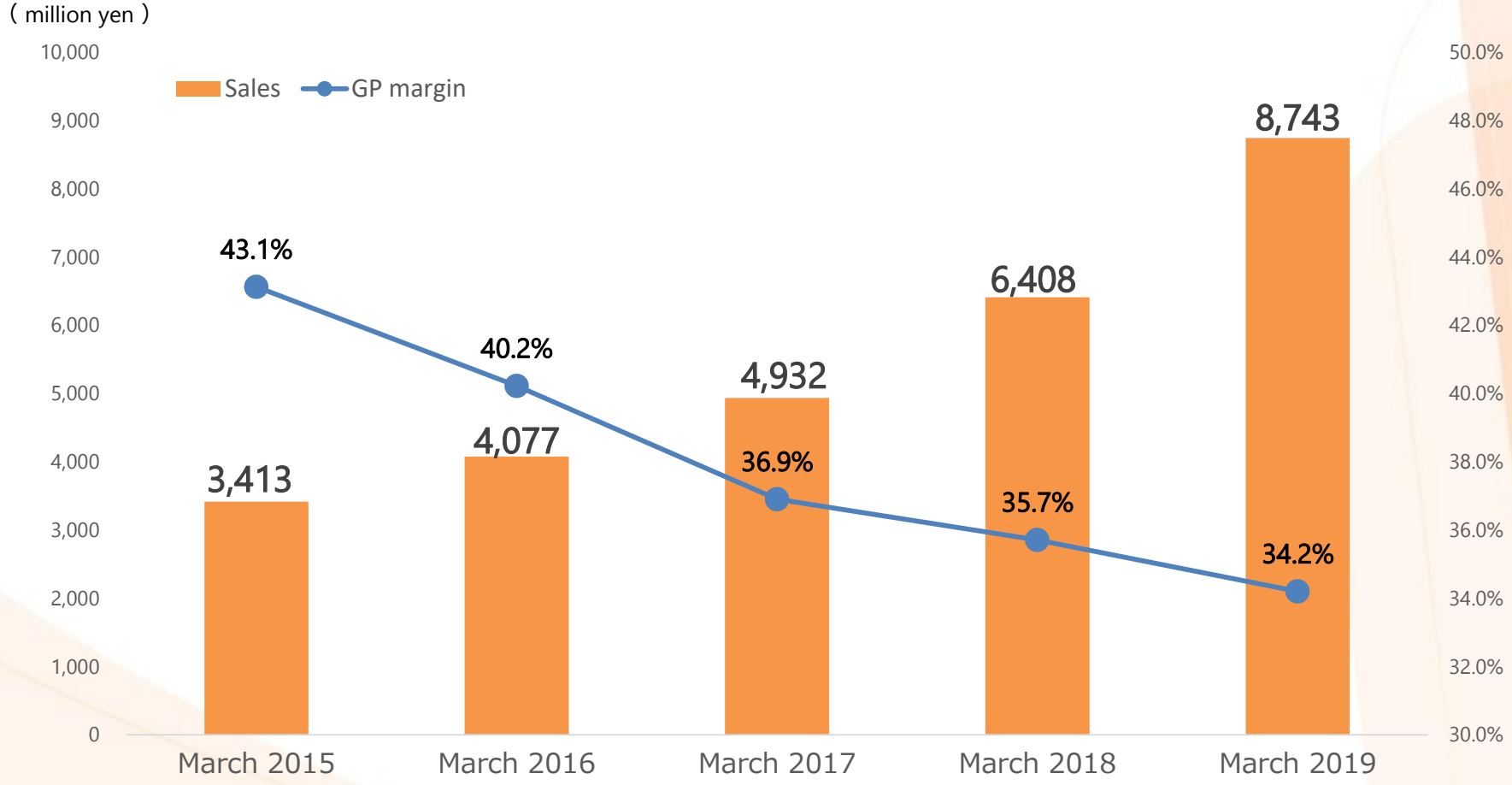
(million yen)

	Full year of March 2018 (actual)	Full year of March 2019 (original guidance)	Full year of March 2019 (actual)	Versus the original guidance	Year on Year
Sales	**6,408**	**8,430**	**8,743**	**103.7%**	**136.4%**
Cost of sales	2,285	2,858	2,989	104.6%	130.8%
Gross profit	4,123	5,572	5,753	103.3%	139.5%
(GP margin)	(64.3%)	(66.1%)	(65.8%)		
SG&A	2,882	4,195	4,285	102.2%	148.7%
Operating profit	**1,241**	**1,376**	**1,468**	**106.7%**	**118.3%**
(OP margin)	(19.4%)	(16.3%)	(16.8%)		
Ordinary profit	**1,247**	**1,376**	**1,474**	**107.2%**	**118.2%**
(Ordinary profit margin)	(19.5%)	(16.3%)	(16.9%)		
EBITDA	**1,357**	**1,703**	**1,809**	**106.3%**	**133.3%**
(EBITDA margin)	(21.2%)	(20.2%)	(20.7%)		
Income tax	372	485	455		
(Tax rate)	(29.9%)	(35.3%)	(30.9%)		
Profit attributable to owners of parent	**874**	**890**	**1,018**	**114.4%**	**116.4%**

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Trends for consolidated sales and cost ratios

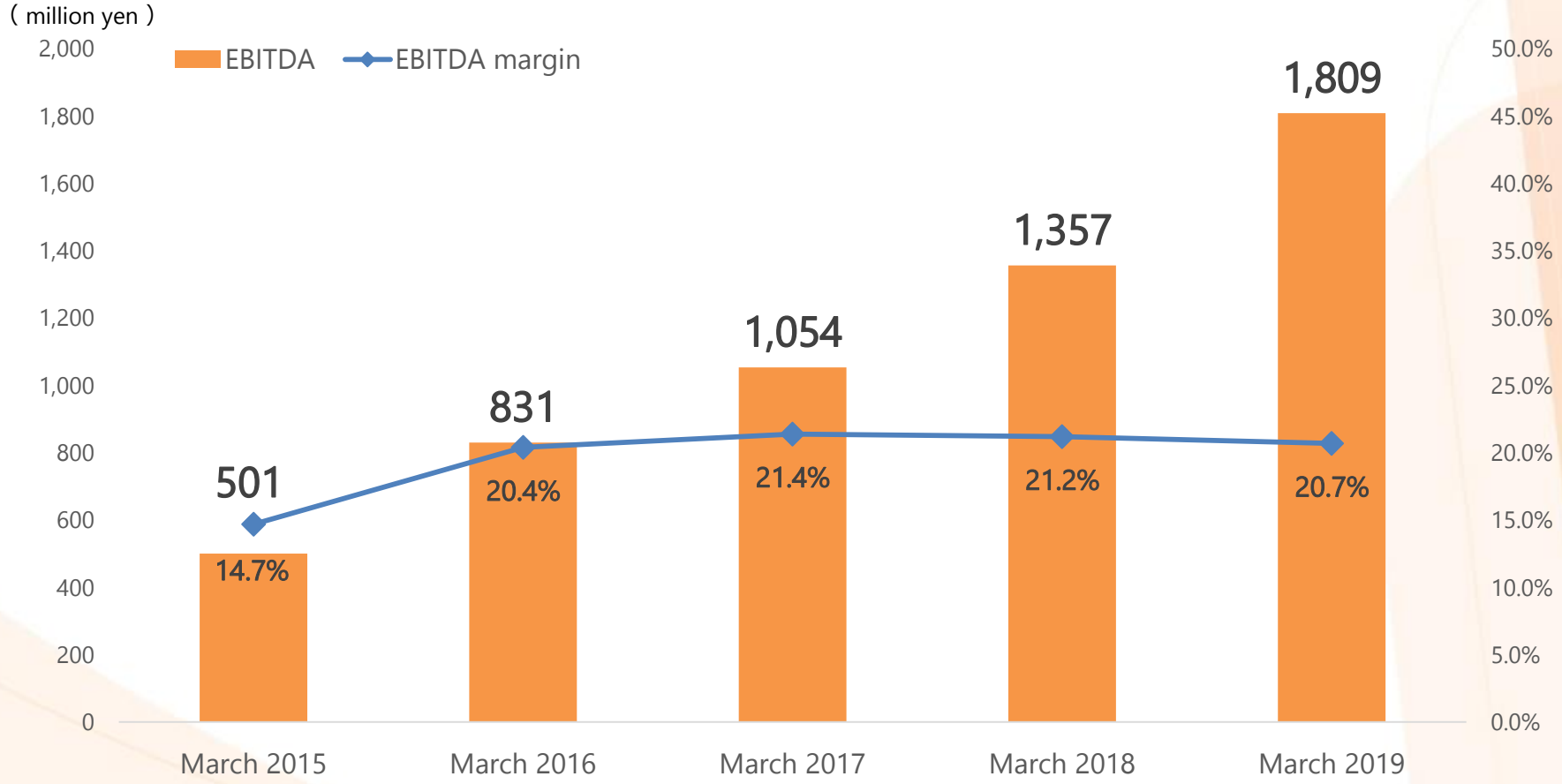
Cost ratios declined in accordance with sales increases, which is a feature of the business model.



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Trends for EBITDA and EBITDA margins

EBIDA steadily grew even though EBIDA margins declined due to increased investment.

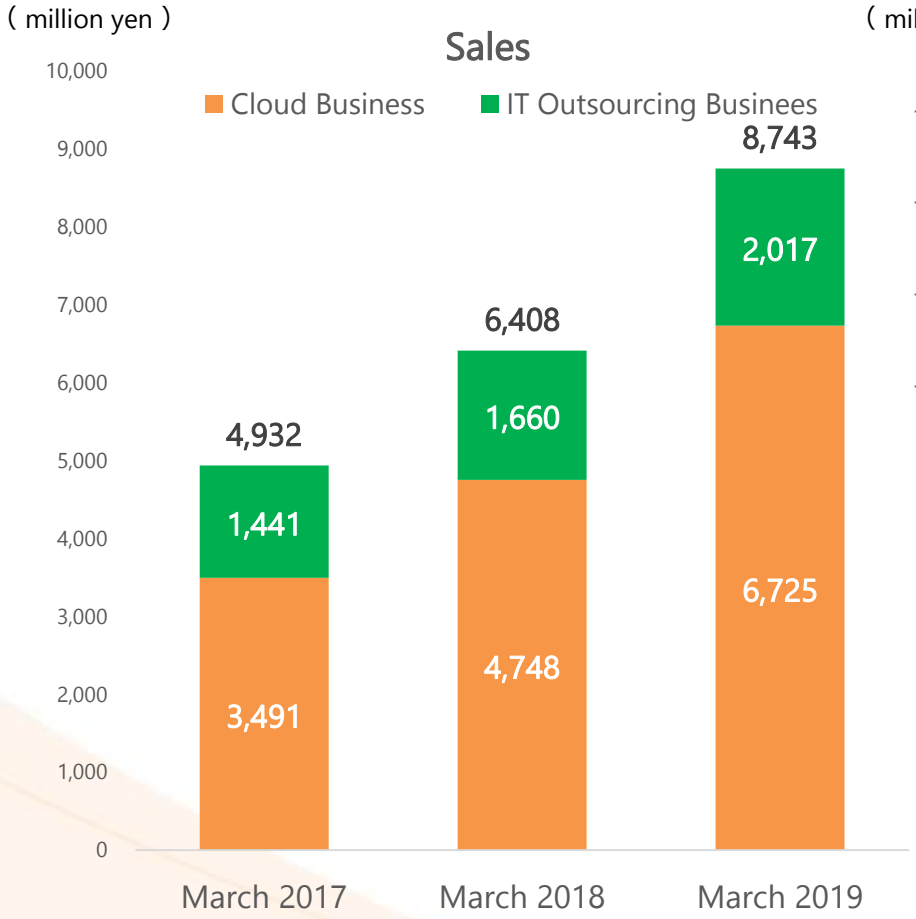


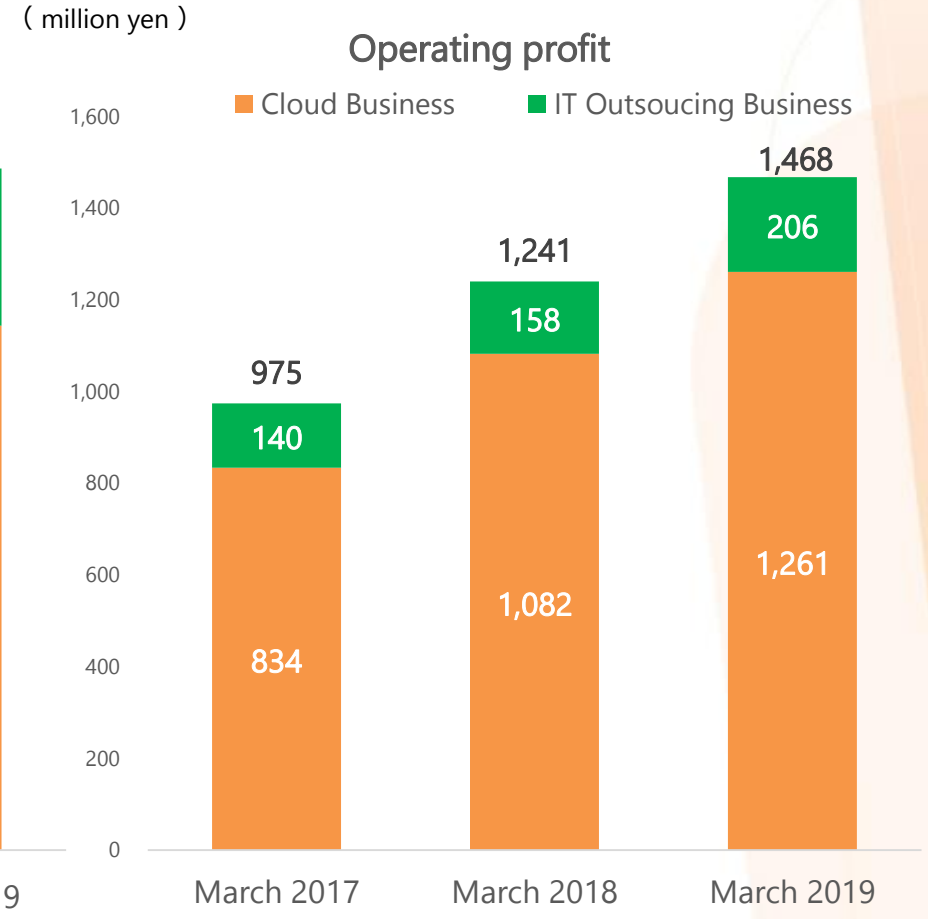
EBITDA＝pretax net income + extraordinary profits/losses + depreciation + goodwill amortization + interest payment

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Performance by Business Segment

The cloud business had a 41.7% sales increase due to increased investment and M&A.



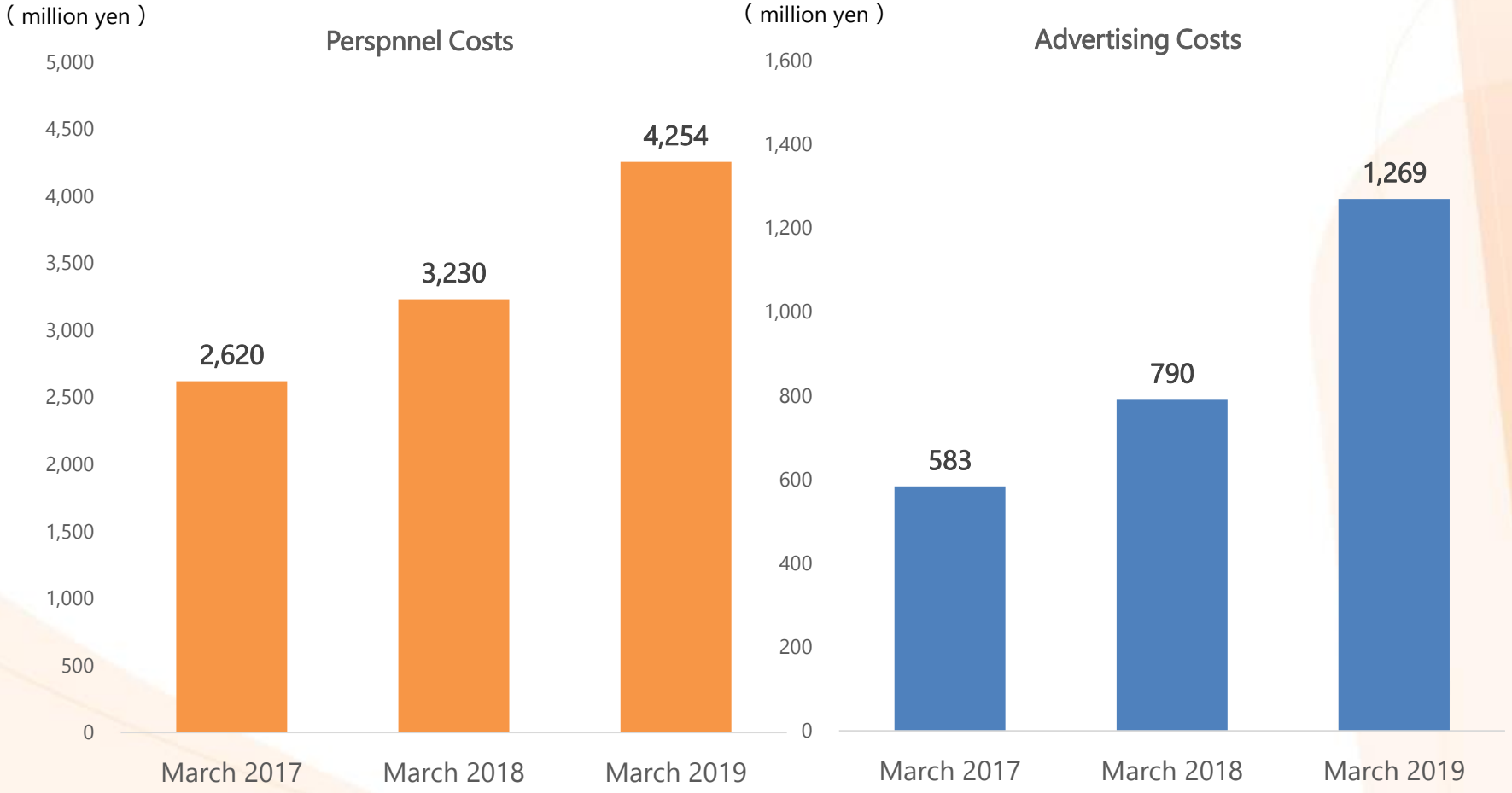


※The criteria for overhead cost allocation were revised retroactive to the beginning of the fiscal year ending March 2019.

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Trends for Personnel and Advertising Costs (Business performance for the full year)

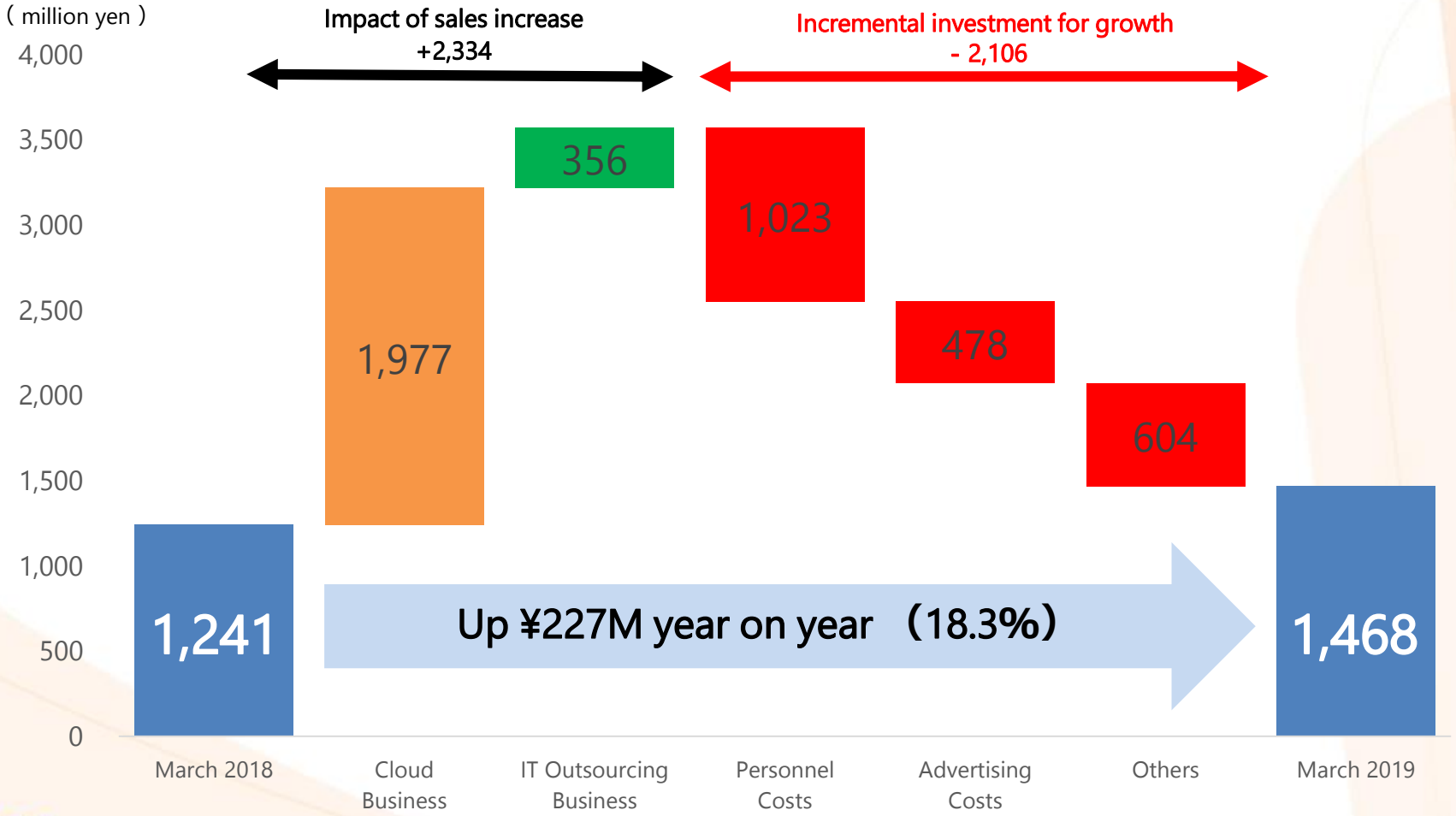
Personnel costs and advertising costs increased significantly due to active investment.



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Factors for Changes in Consolidated Operating Profits in March 2019

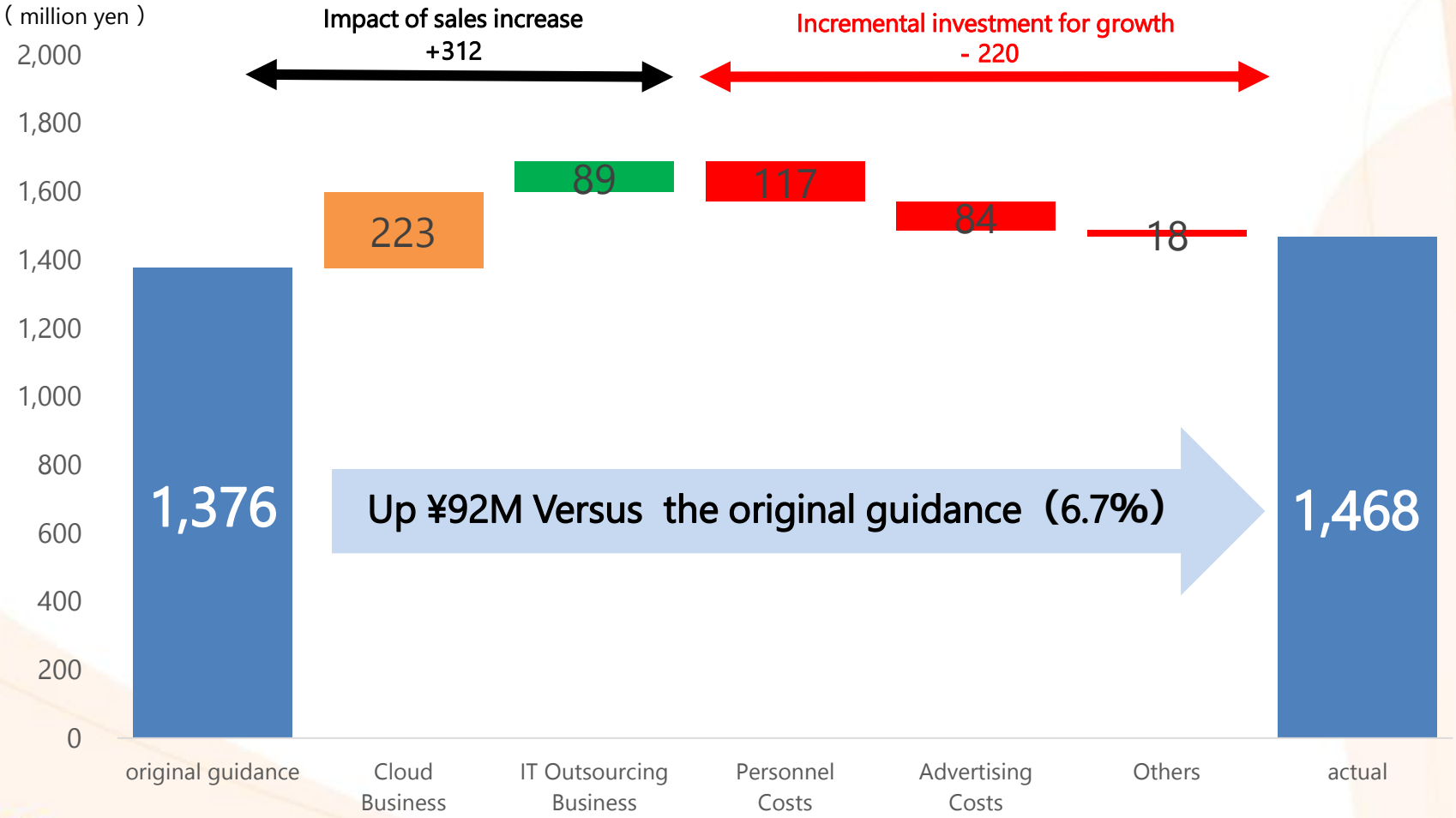
Personnel costs increased by 1,023 million yen because of the recruitment of extra staff necessary for growth.



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Factors for Changes in Consolidated Operating Profits in March 2019 (Versus the original guidance)

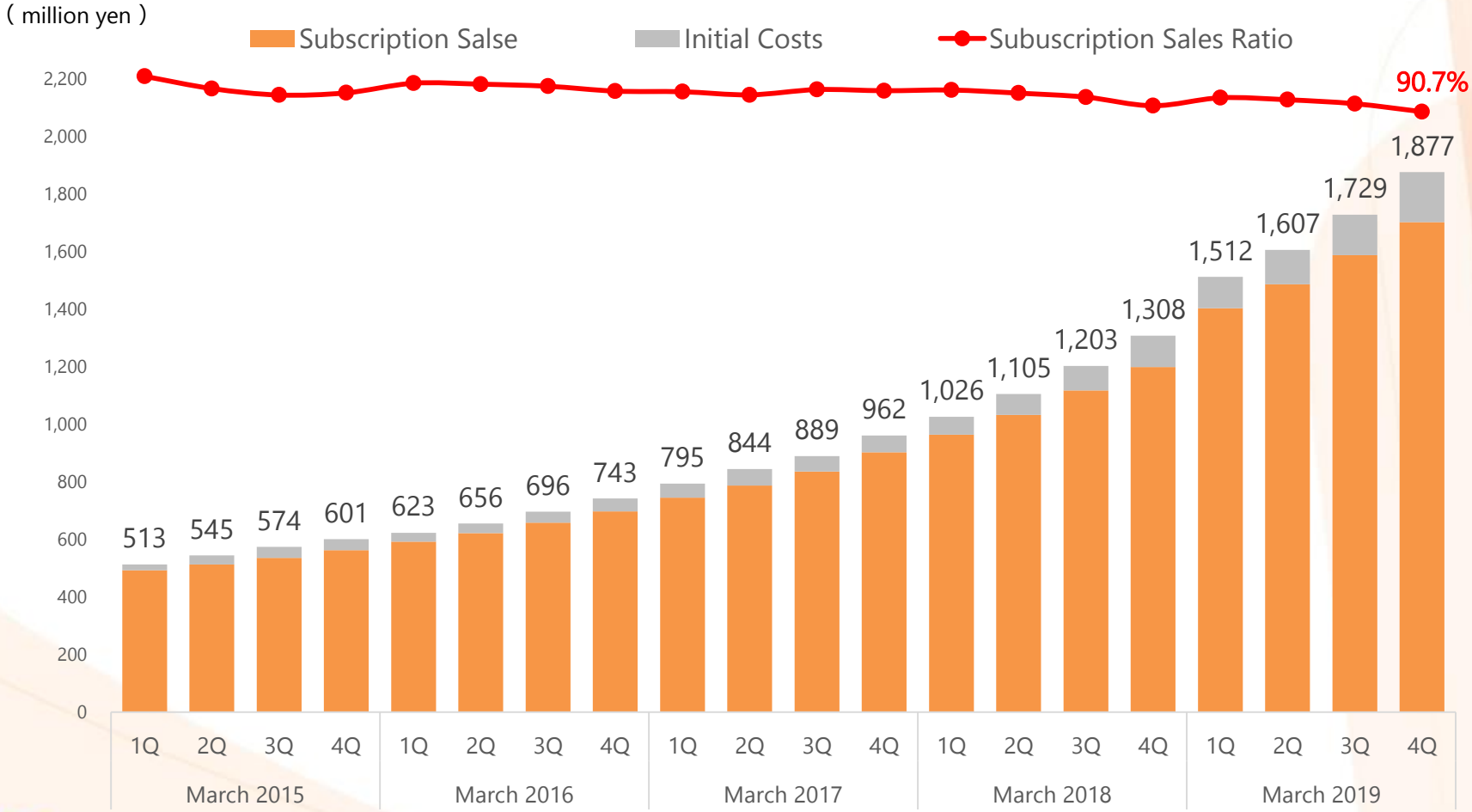
Part of sales exceeding the guidance was actively invested to achieve continuous high growth.



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Trends for Subscription Sales of the Cloud Business

The subscription sales ratio continued to be high as monthly ordinary profit built up.

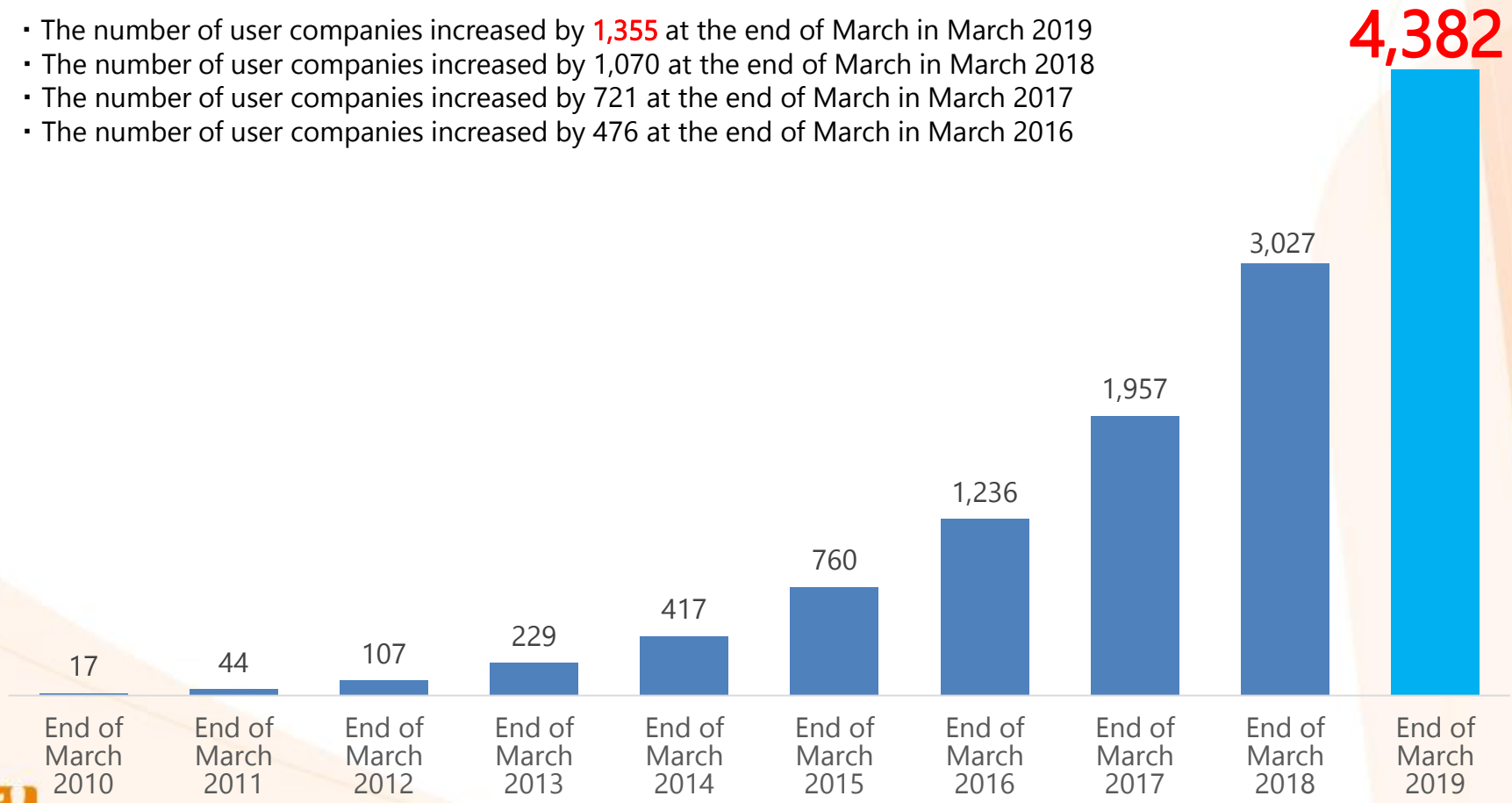


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Trends for the Cumulative Number of Corporations Using Raku Raku Seisan

The number of corporate users grew significantly, exceeding 4,000.

- The number of user companies increased by 1,355 at the end of March in March 2019
- The number of user companies increased by 1,070 at the end of March in March 2018
- The number of user companies increased by 721 at the end of March in March 2017
- The number of user companies increased by 476 at the end of March in March 2016



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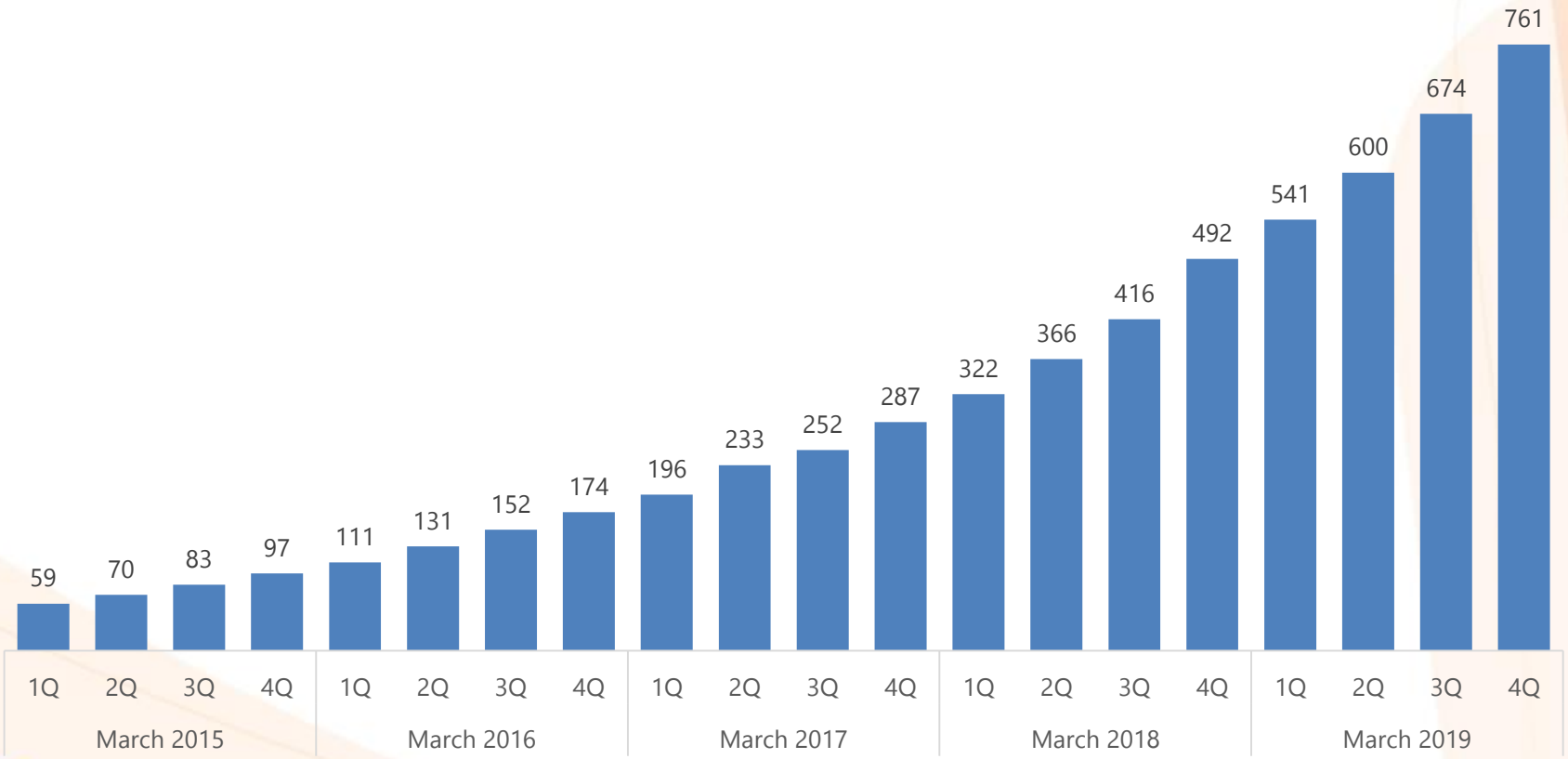
Sales Trends for Raku Raku Seisan

High growth was maintained due to brisk new orders derived from active investments in marketing.

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* Sales of cloud services alone are described below.

(million yen)



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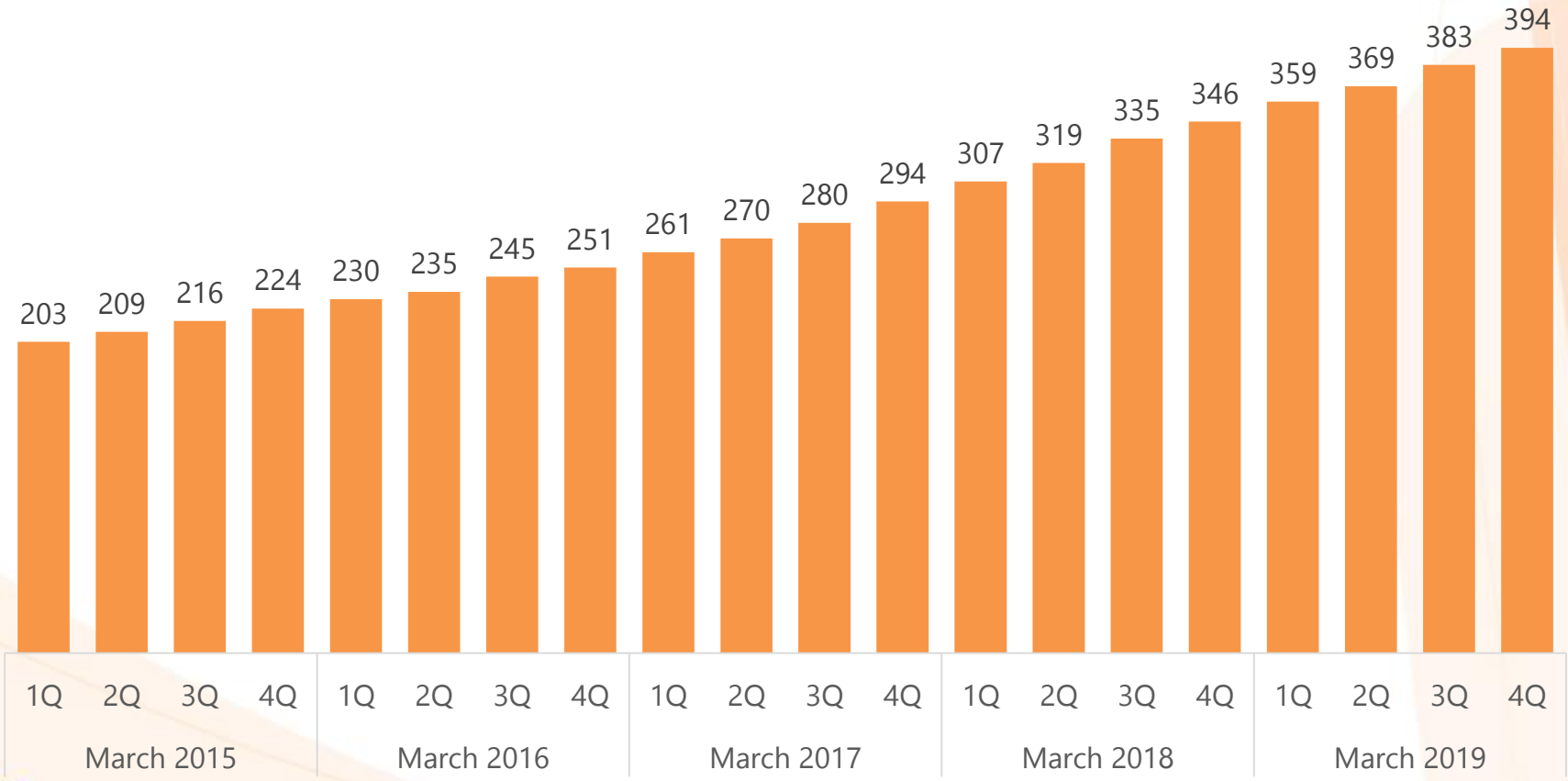
Sales trends for Mail Dealer

Over 70% of market share was maintained as steady growth continued.

メールディーラー Mail Dealer

* Sales of cloud services alone are described below.

(million yen)



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Sales of the Cloud Business by Service

The email distribution business experienced over 50% sales growth due to the M&A conducted in March 2018.

(million yen)		March 2017	March 2018	March 2019
Raku Raku Seisan	Sales	978	1,601	2,579
	Year on Year	69.9%	63.8%	61.1%
Mail Dealer	Sales	1,141	1,339	1,538
	Year on Year	14.1%	17.3%	14.9%
Email distribution services	Sales	657	939	1,410
	Year on Year	25.1%	42.8%	50.2%
Hataraku DB	Sales	343	445	598
	Year on Year	28.5%	29.8%	34.4%
Raku Raku Meisai	Sales	70	150	326
	Year on Year	413.1%	114.6%	118.4%
Others	Sales	302	274	273
	Year on Year	-9.7%	-9.2%	-0.4%
Total of the Cloud Business	Sales	3,491	4,748	6,725
	Year on Year	28.5%	36.0%	41.7%

* The figure for email distribution services is the sum of Hai Hai Mail, Curumeru and blastmail. (The figure for March 18 includes 2 months of blastmail.)
* On-premises sales are included in the chart above.

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Quarterly sales of the cloud business by service

The 5 major services continued to produce high growth due to active investment.

(million yen)

	Sales from January to March in 2019	Quarter on Quarter	Year on Year
Raku Raku Seisan	761	12.9%	54.6%
Mail Dealer	400	0.7%	13.4%
Email distribution services	376	8.7%	14.8%
Hataraku DB	171	10.9%	41.3%
Raku Raku Meisai	96	10.8%	89.9%
Others	69	1.8%	3.7%
Total of the Cloud Business	1,876	8.5%	32.8%

* The figure for email distribution services is the sum of Hai Hai Mail, Curumeru and blastmail.
* On-premises sales are included in the chart above.

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Balance Sheet

(million yen)

	End of March 2018	End of March 2019	Difference
Current assets	2,802	3,668	866
Non-current assets	2,427	2,474	47
Total assets	**5,229**	**6,142**	**913**
Current liabilities	1,418	1,436	18
Non-current liabilities	104	113	8
Total liabilities	**1,522**	**1,549**	**26**
Shareholders' equity	3,709	4,596	887
Accumulated other comprehensive income	-2	-2	0
Total equity	**3,706**	**4,593**	**886**
Total liabilities and equities	**5,229**	**6,142**	**913**
Equity ratio	**70.9%**	**74.8%**	

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Cash flow statement

(million yen)

	March 2018	March 2019	Difference
Cash flow from operating activities	1,042	1,120	77
Cash flow from investing activities	-1,523	-463	1,059
Free cash flow	-480	656	1,137
Chas flow from financing activities	-113	-141	-28
Cash and cash equivalent at the end of the fiscal year	1,719	2,236	516
Depreciation	82 ※1	171 ※2	89
Amortization of goodwill	27	163	136

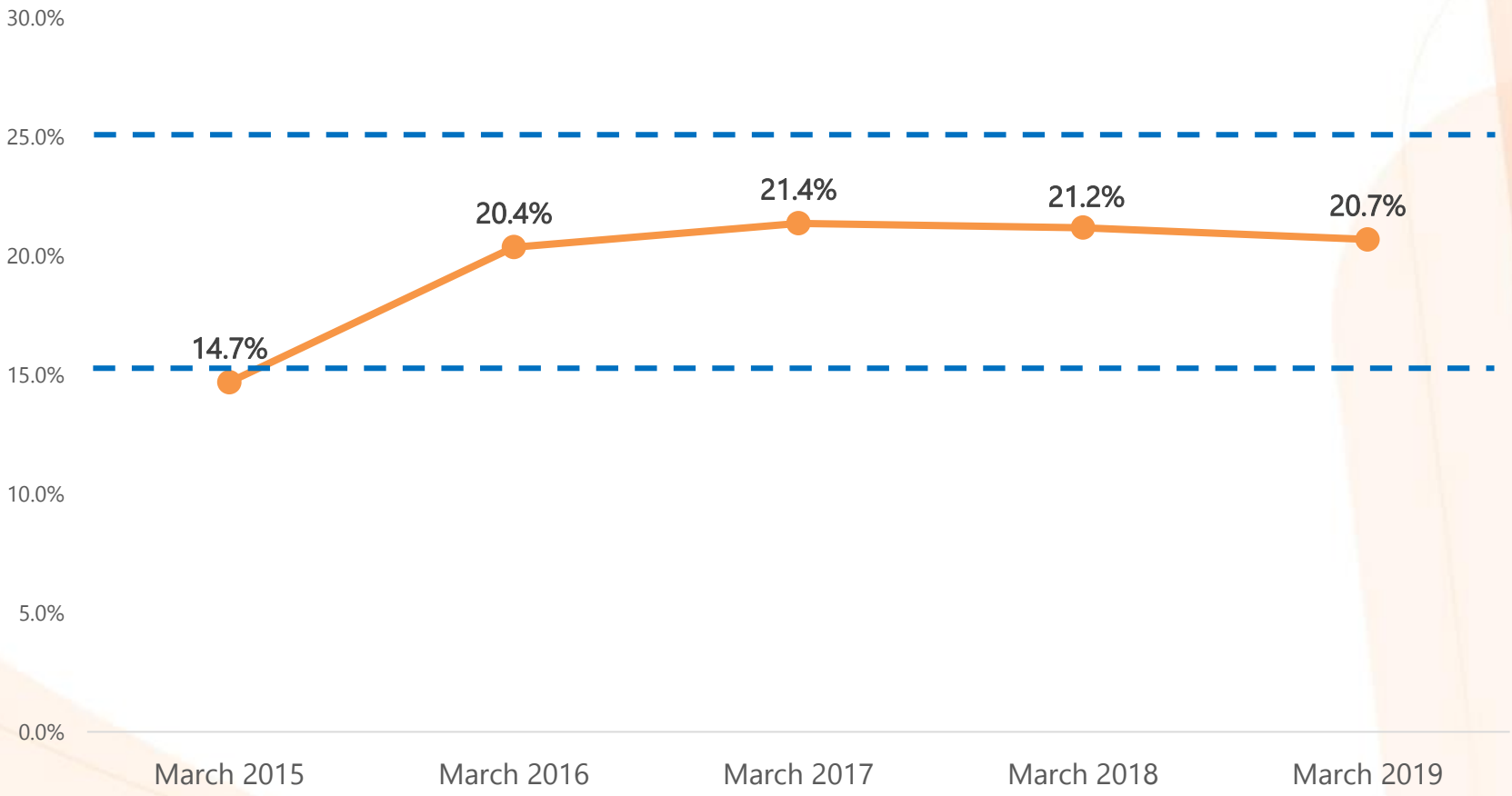
※ 82 million yen of depreciation includes 12 million yen of amortization of customers' assets acquired through M&A.

※ 171 million yen of depreciation includes 73 million yen of amortization of customers' assets acquired through M&A.

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【KPIs】Trends for EBITDA Margins

Investing for growth while keeping 15 – 25% EBITDA margin.

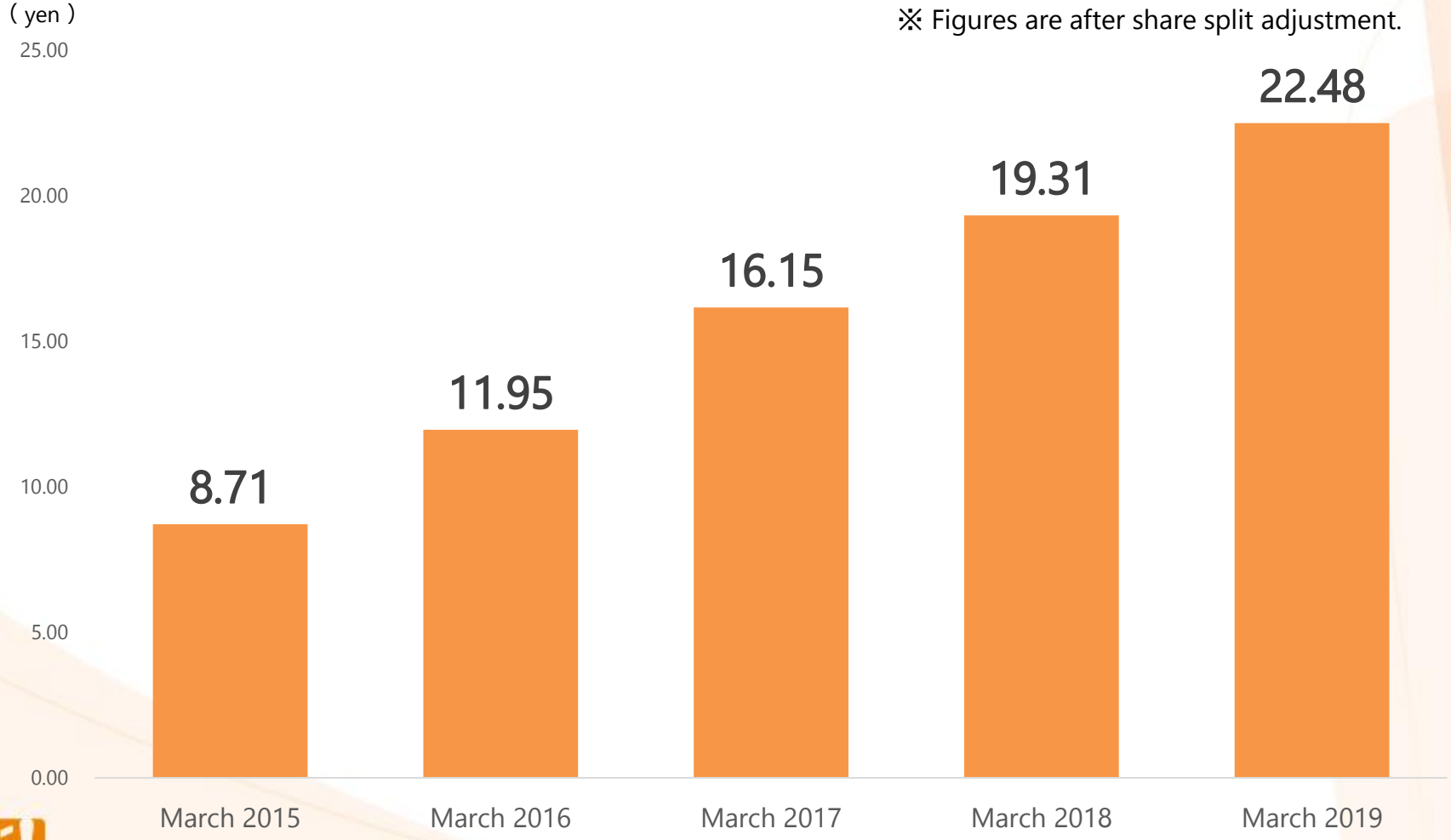


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【KPIs】Trends for EPS

EPS steadily grew absorbing the impact of goodwill amortization and taxes.

※ Figures are after share split adjustment.



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Consolidated Guidance for Q1 of the Fiscal Year March 2020

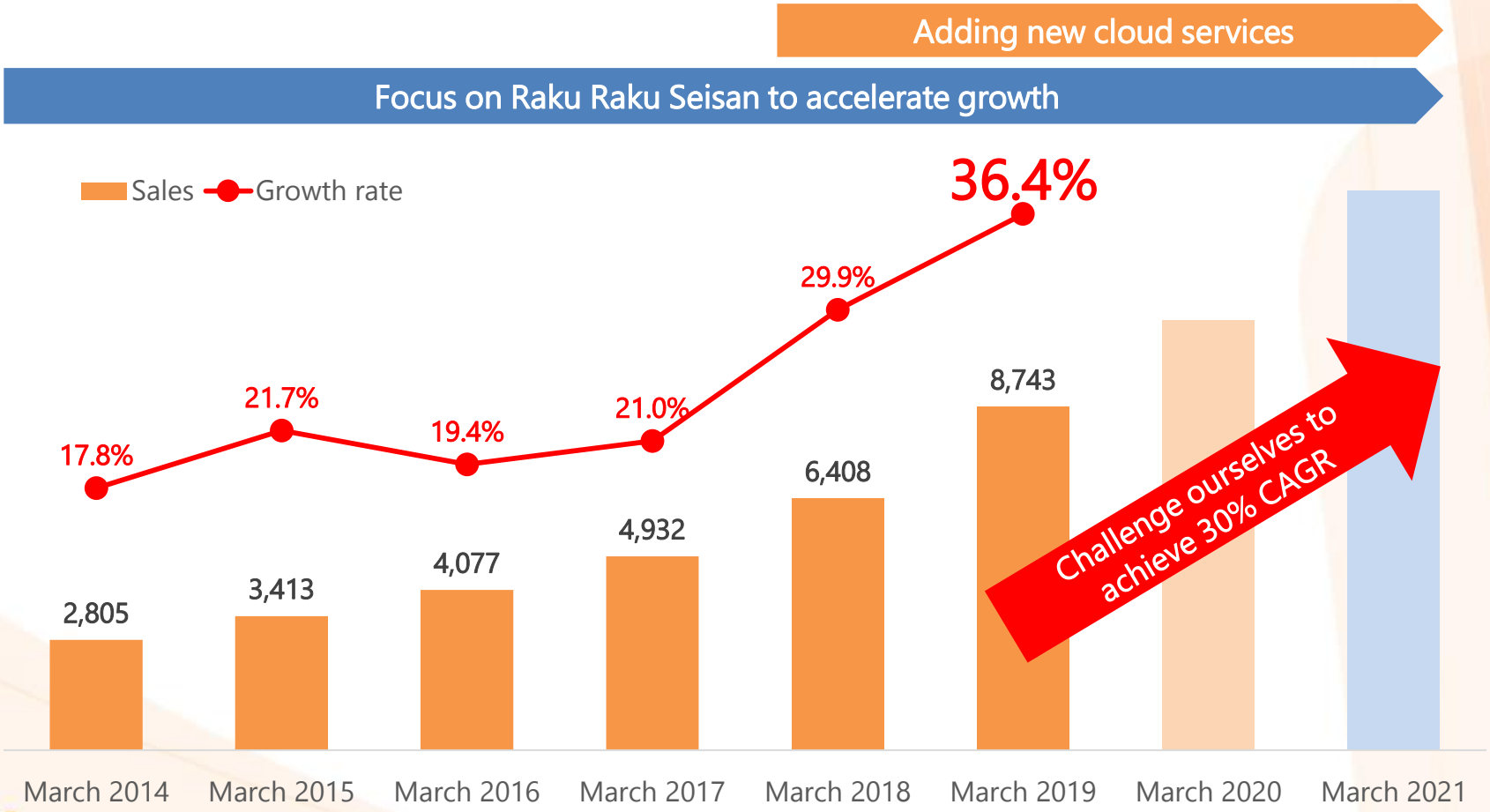
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Management Policies and Growth Strategy

A successful start was made with active investment achieving 30% CAGR.

※We aim to achieve 30% of CAGR over 3 years from March 2019 to March 2021, with a baseline of March 2018.

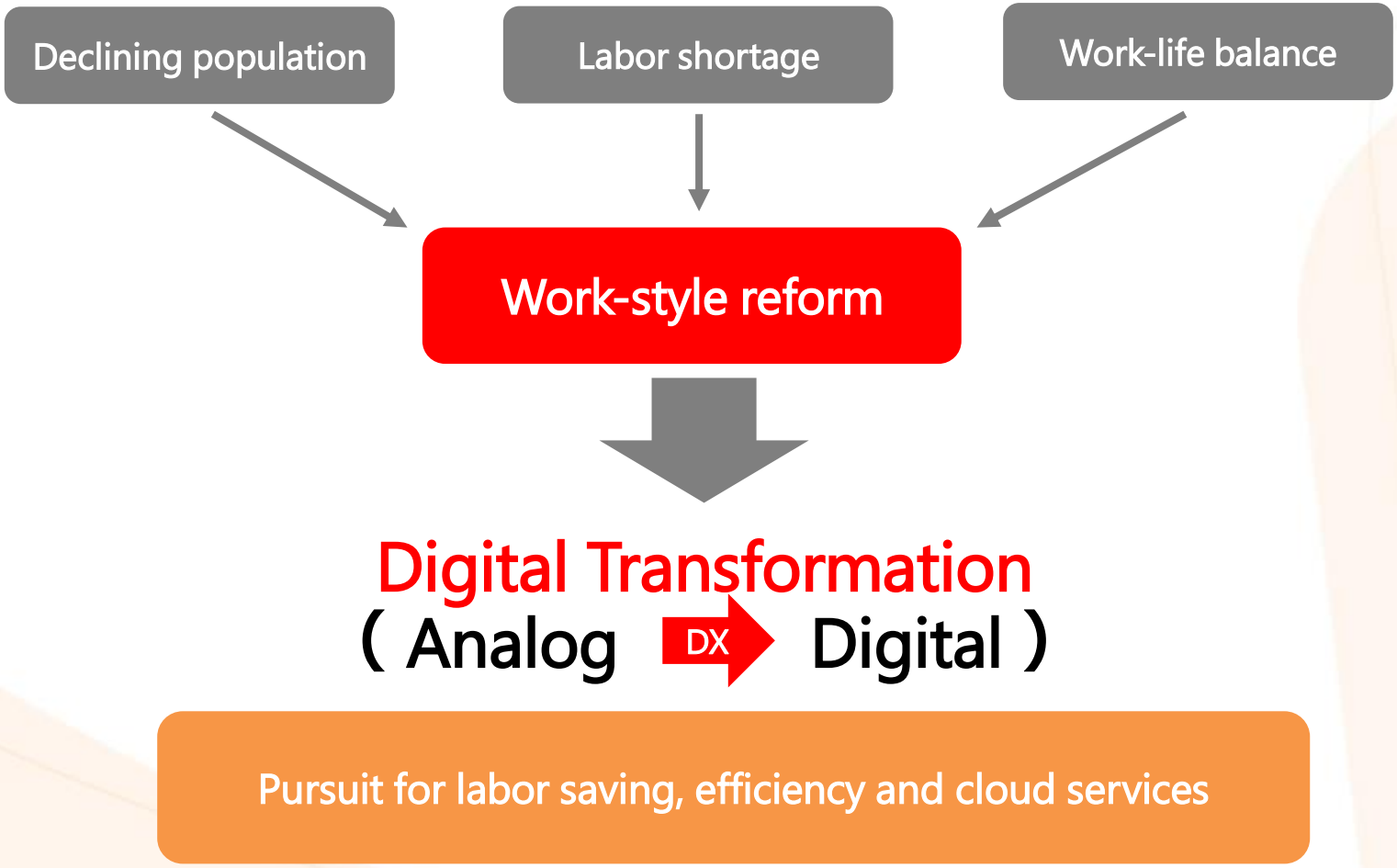
(million yen)



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Business environment

Stronger needs for business operational efficiency and cloud services have expanded business opportunities.

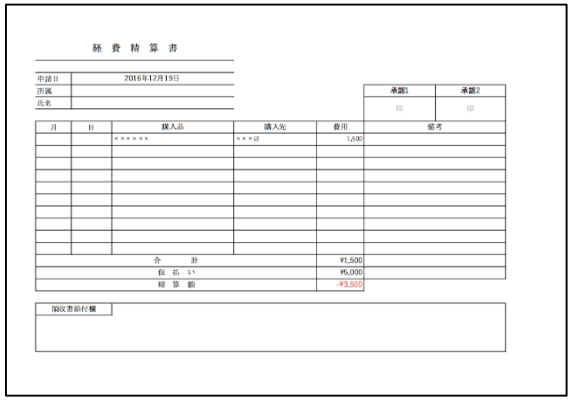


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Examples of Digital Transformation (DX)

Helping users improve operational efficiency by promoting cloud services which replace paper work

Digitizing expense management



DX

Raku Raku Seisan

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Reducing operational time by 80% and expense management costs by 65%

Digitizing documentation such as bills and delivery statements



DX

Raku Raku Meisai

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70% cost cutting with zero work for printing, enveloping and sending postal letters.

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Forecast disclosure policy for the fiscal year ending March 2020

We are determined to capture business opportunities by strengthening investment despite a year-on-year profit decline in March 2020.

In March 2020, quarterly guidance will be disclosed in each quarter instead of disclosing the full yearly forecast at the beginning of the year.

The external business environment has tailwinds to enjoy benefits from work-style reforms, DX and a stronger appetite for cloud services.

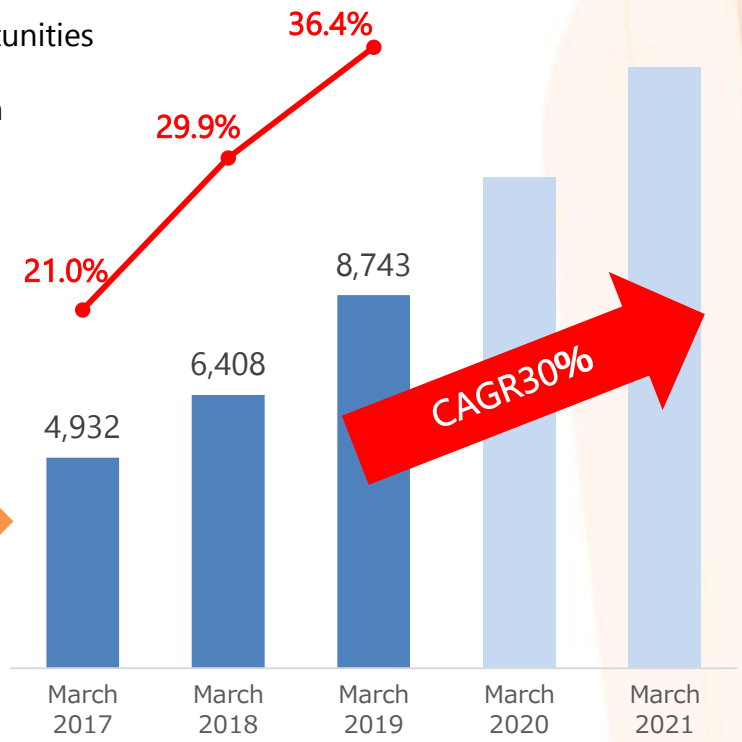
Strengthening investment for growth to capture business opportunities
- Accelerating the PDCA cycle for marketing strategies
- Hiring more people who will contribute to our future growth

Guidance is crafted on a quarterly basis

※This applies to only March 2020.



Strengthening investment for growth



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Consolidated Guidance for Q1 of the fiscal March 2020

Plans for positive growth investment to seize opportunities given the tailwind of the business environment.

(million yen)	Q1 of March 2019 (actual)	Q1 of March 2020 (guidance)	Year on Year
Sales	**1,986**	**2,560**	**128.9%**
Cost of sales	669	873	130.5%
Gross profit	1,316	1,686	128.1%
(GP margin)	(66.3%)	(65.9%)	
SG&A	852	1,216	142.7%
Operating profit	**463**	**470**	**101.3%**
(OP margin)	(23.3%)	(18.4%)	
Ordinary profit	**464**	**470**	**101.1%**
(Ordinary profit margin)	(23.4%)	(18.4%)	
EBITDA	**544**	**558**	**102.7%**
(EBITDA margin)	(27.4%)	(21.8%)	
Income tax	166	165	
(Tax rate)	(35.7%)	(35.1%)	
Profit attributable to owners of parent	**298**	**305**	**102.1%**

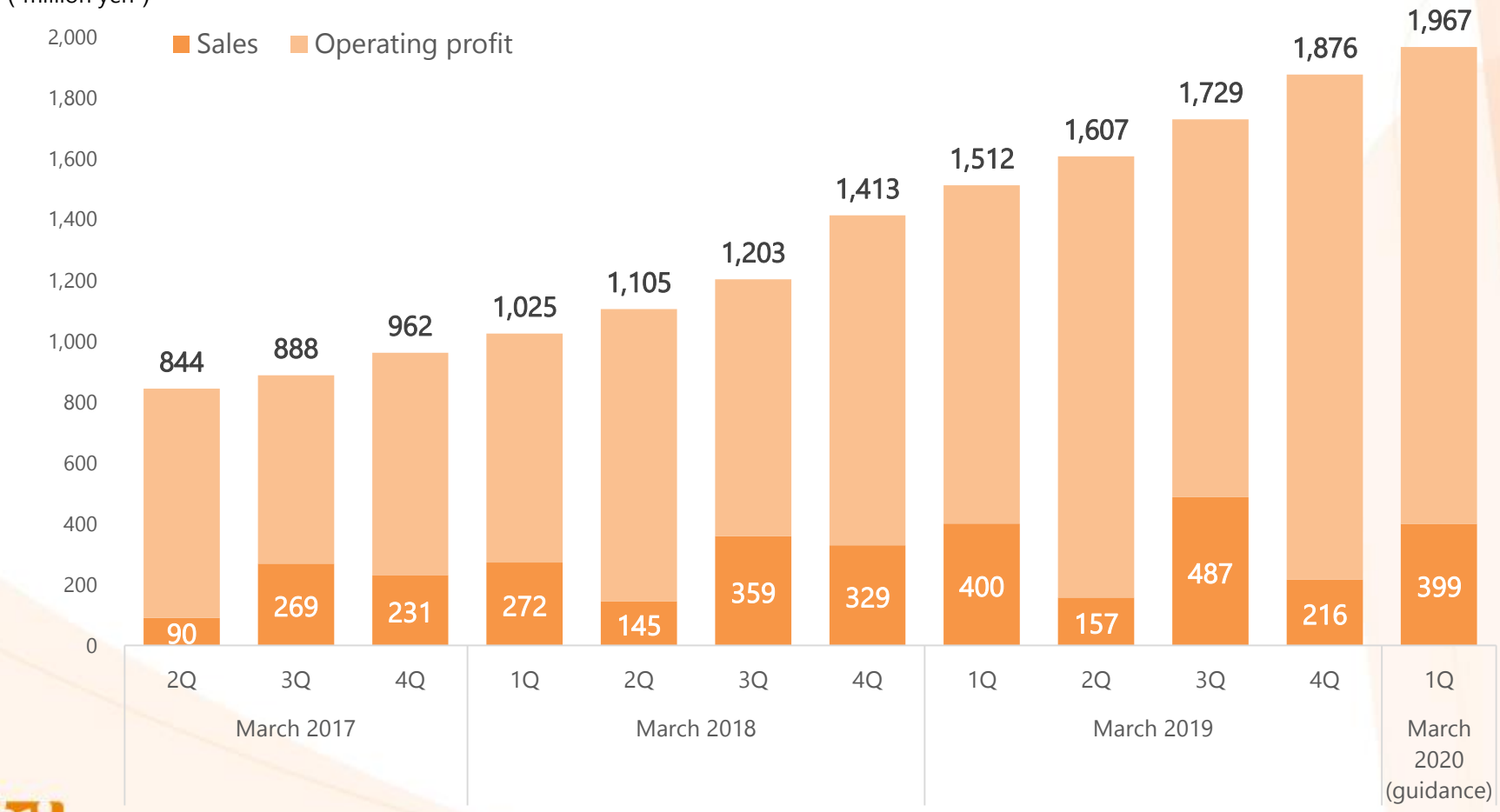
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Quarterly trends for the cloud business

Earnings will slightly decline year on year due to plans for active investment.

※The criteria for overhead cost allocation were revised retroactive to the beginning of the fiscal year ending March 2019.

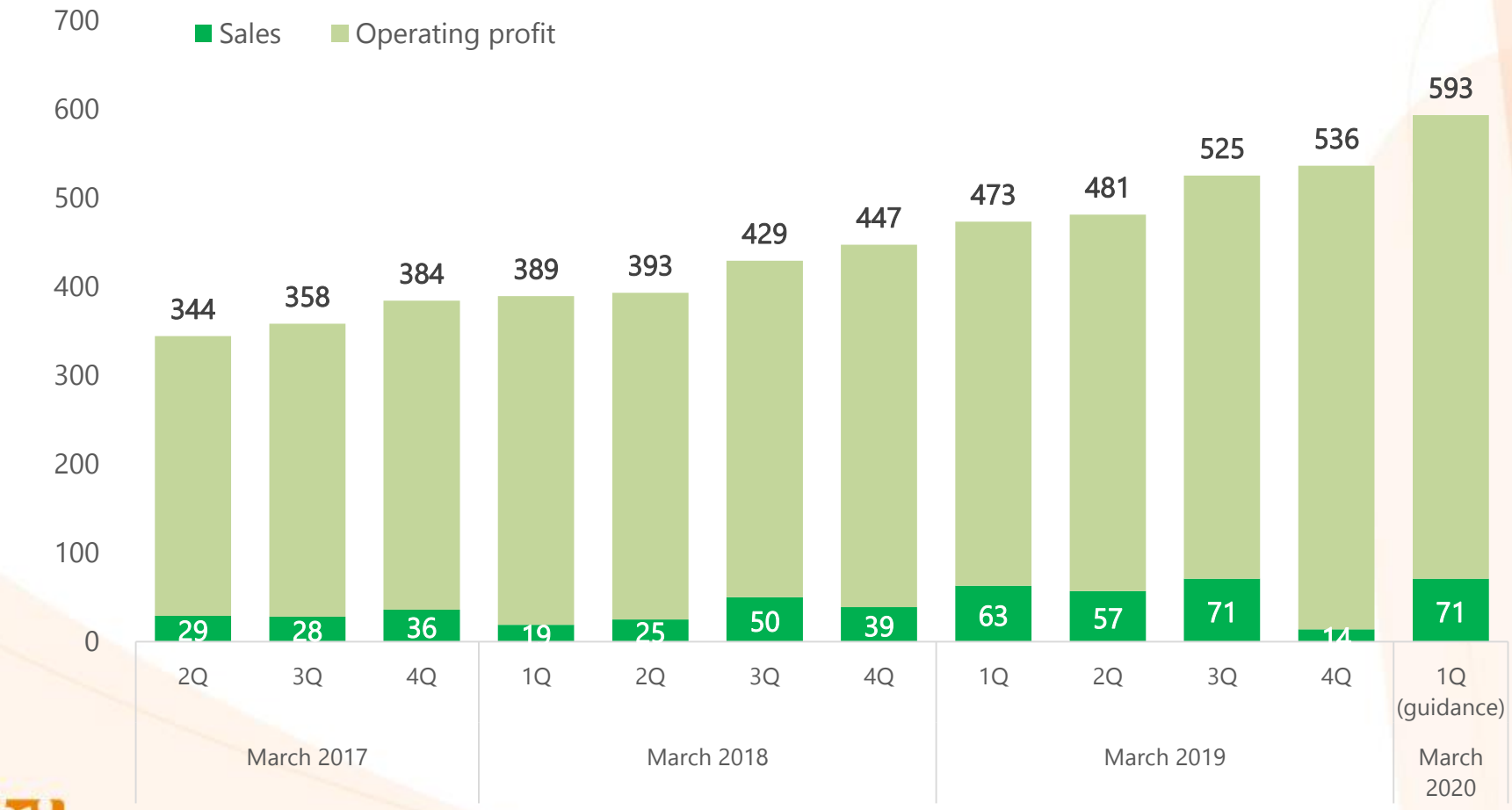


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Quarterly trends for the IT outsourcing business

The number of engineers increased due to a change in the HR framework, which accelerated growth.

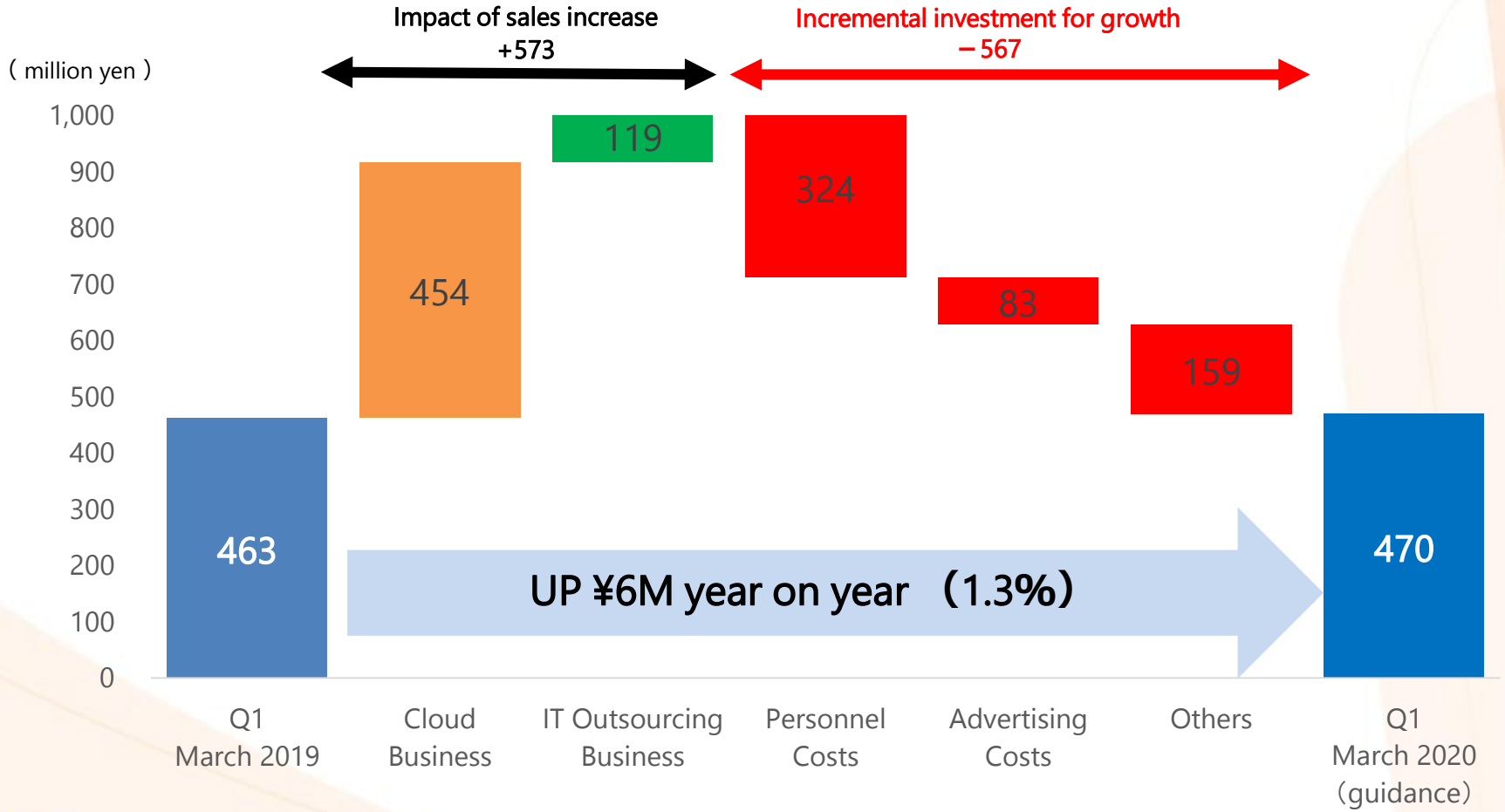
※The criteria for overhead cost allocation were revised retroactive to the beginning of the fiscal year ending March 2019.



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Factors for Changes in Consolidated Operating Profits

Plan aggressive growth investments to achieve high growth

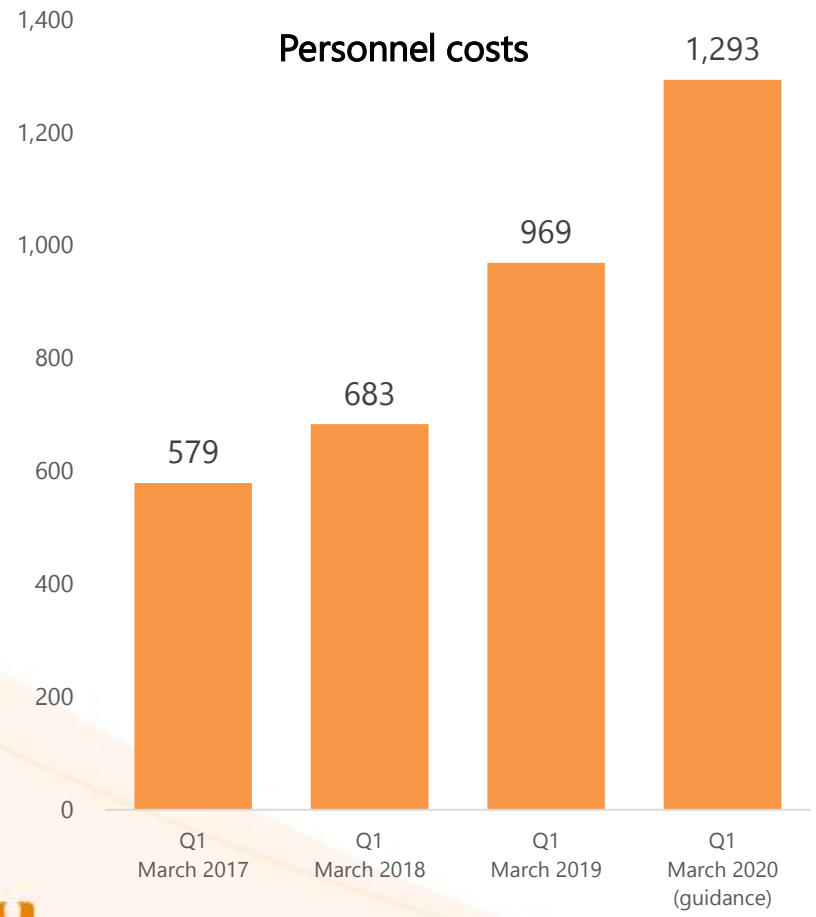


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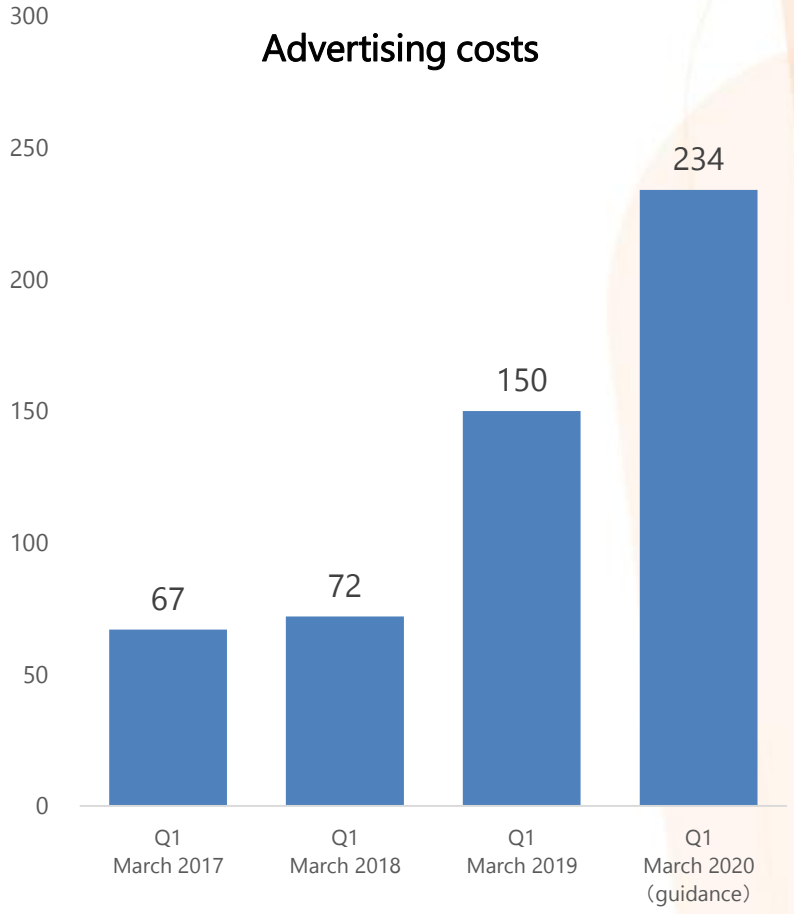
Guidance of Personnel and Advertising Costs

Personnel costs will increase significantly due to a plan to hire more people for continuous growth.

(million yen)



(million yen)



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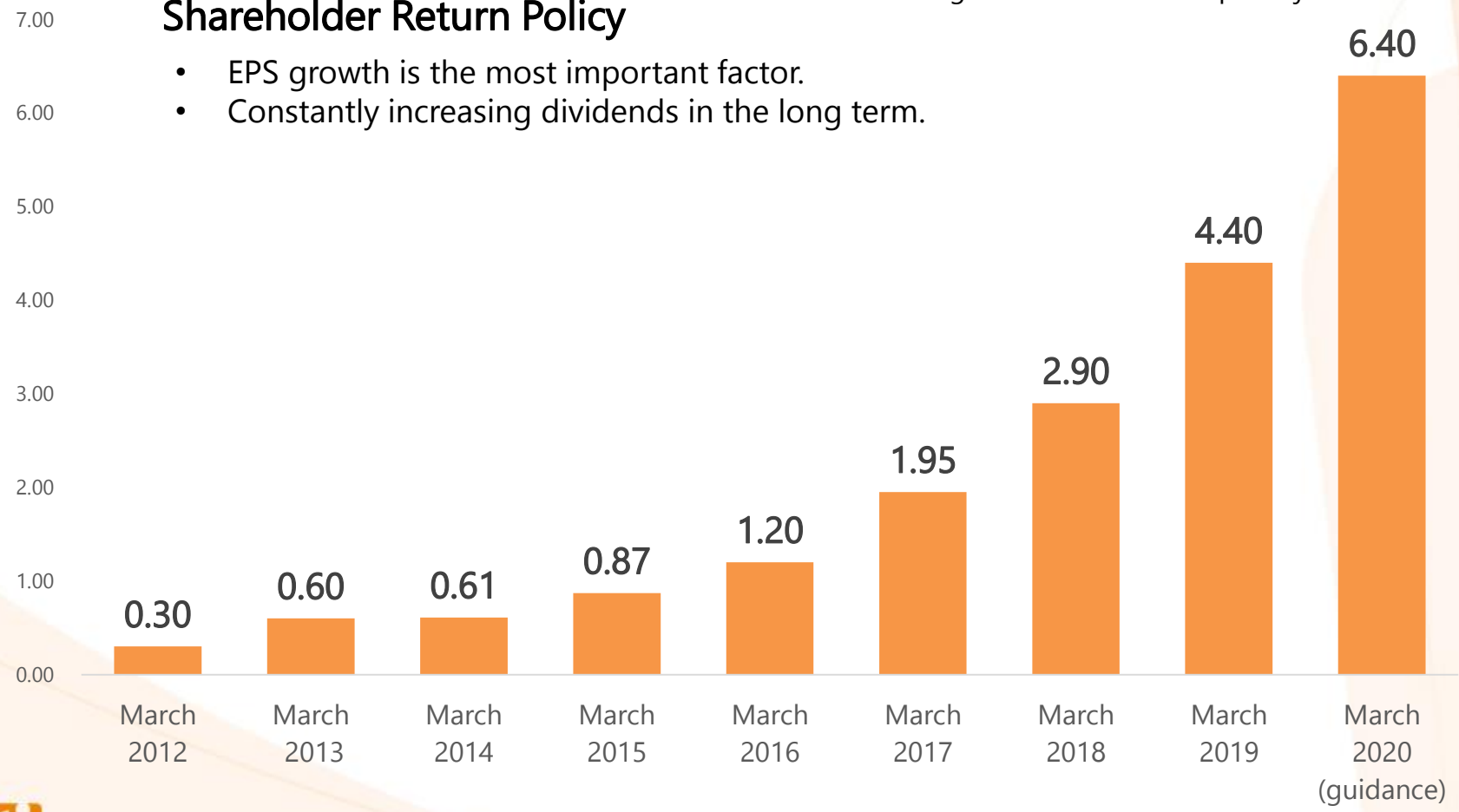
【KPIs】Shareholder Return

Dividends are up by 2 yen per share, which sees a growth in dividends for 8 consecutive years.

Shareholder Return Policy

- EPS growth is the most important factor.
- Constantly increasing dividends in the long term.

* Figures are after share split adjustment.

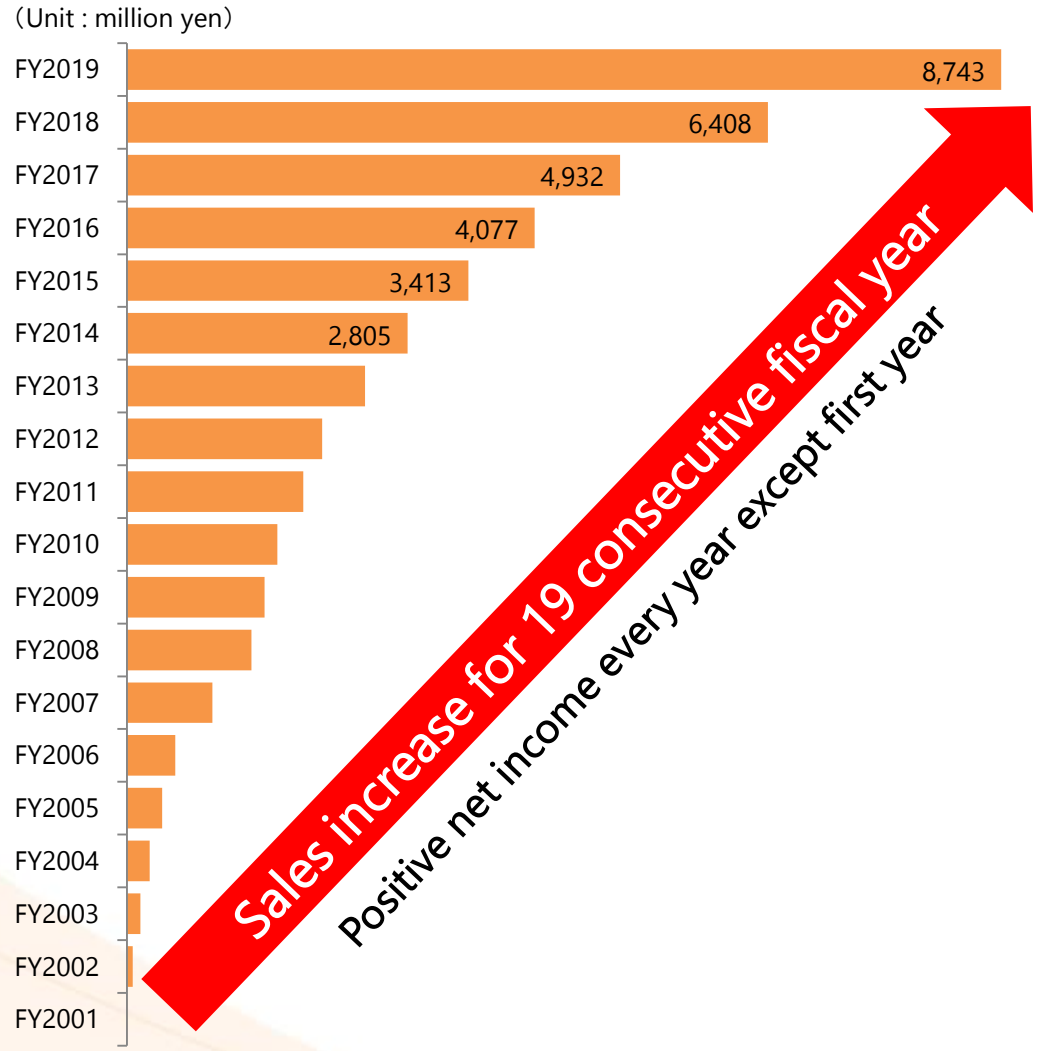


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Appendix

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History



Blaynmail consolidated as subsidiary

Listed on Mothers
Sell US subsidiary
Subsidiary established in Vietnam

Rakuraku meisai launched

subsidiary established in the US

Raku Raku Seisan launched
Corporate name changed
Hataraku Database launched
Shut down engineer school
Hai-Hai mail launched

Merged Xbit

Xbit consolidated as subsidiary

Cloud business started（Mail Dealer launched）
IT engineering school business started
IT Boost established (later known as RAKUS)

Consolidated results from FY 2014
The company was not audited from 2001 to 2013.

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Raku Raku Seisan

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Product outline：A system for settlement of travel & other expenses

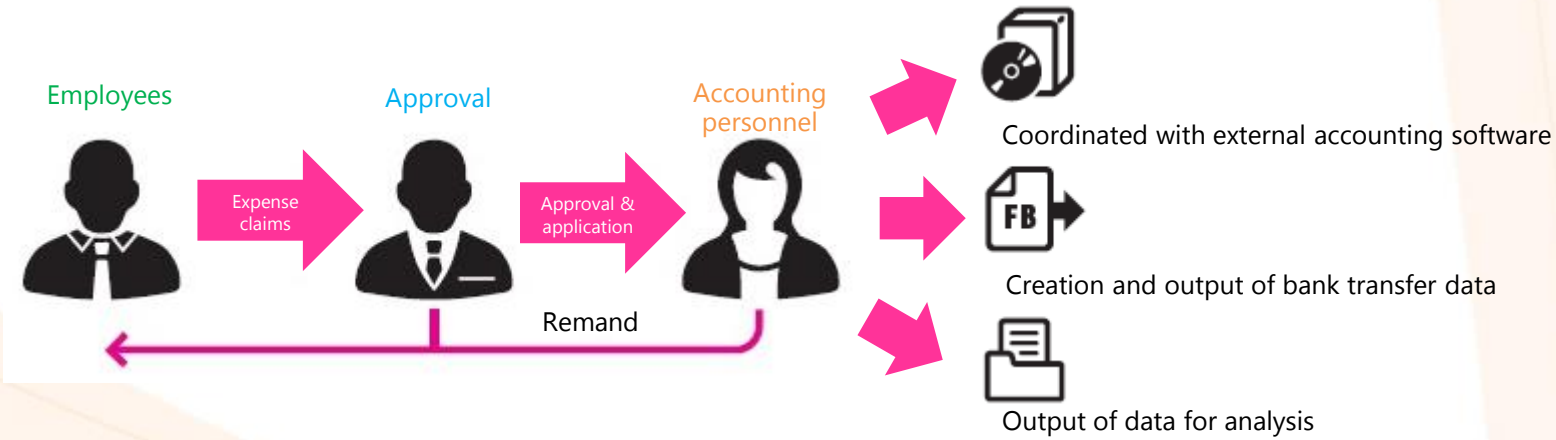
Main customers：Companies with 50 to 1,000 employees（all industries）

Addressed to：Accounting departments

Usage：To improve efficiency of settlement for travel & other expenses

Fee structure：Based on the number of users + option fees

Launched：July 2009



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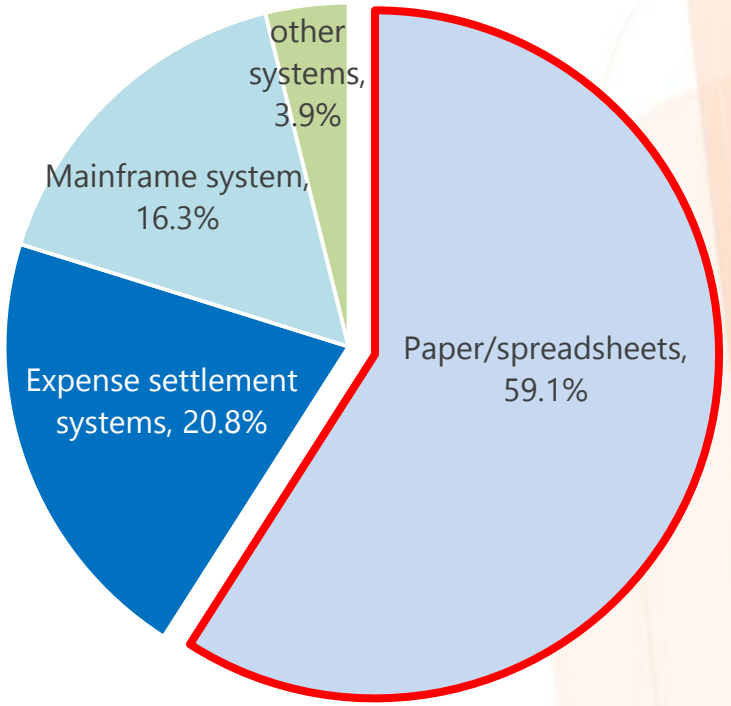
Target Market for the Cloud-based Expense Settlement Systems

The target market is 100,000 companies valued at 70 billion yen.

We aim to acquire at least 20,000 corporate customers out of those 100,000.

There are 4 million SEMs in Japan. Of those, Raku Raku Seisan's target customers are 100,000 companies which have 50 to 1,000 employees.

We recommend that you use Raku Raku Seisan for 59.1% companies, 59,000 companies that settle paper and spreadsheet costs.



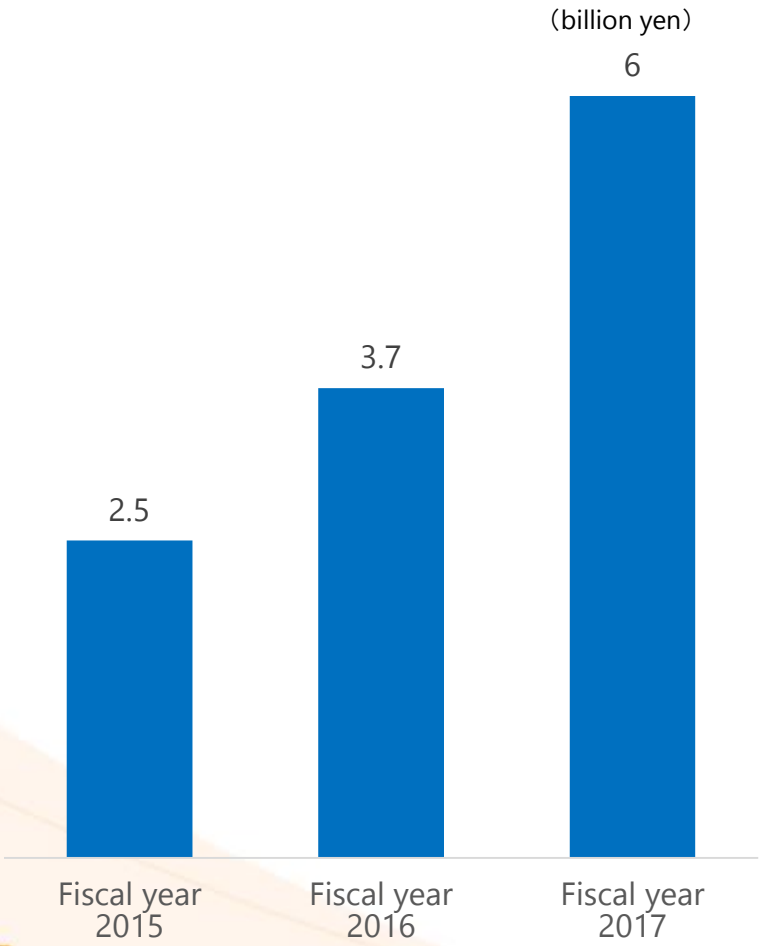
Source：Questionnaire filled out by accounting department staff in February, 2019.

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The Market for Cloud-based Expense Settlement Systems

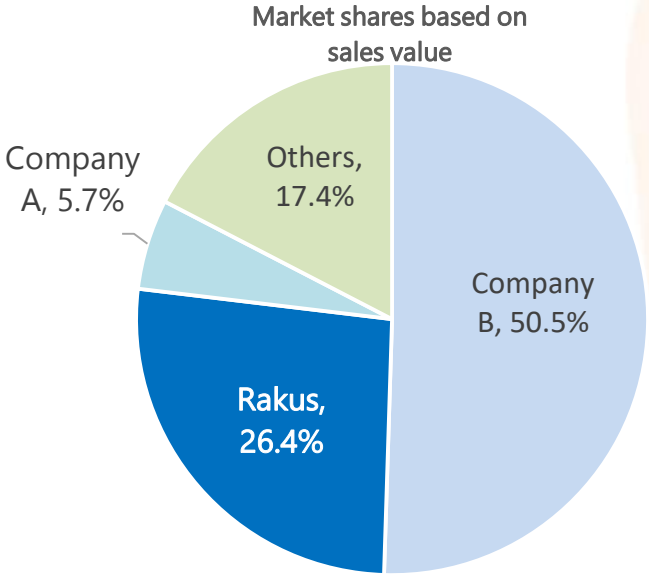
※Source：Our own survey based on various data

The market for cloud-based expense settlement in Japan



Ranking of cloud-based expense settlement （Fiscal year 2017）

Number 1	Rakus 楽楽精算	2,661 companies
Number 2	Company A	1,000 companies
Number 3	Company B	710 companies
Number 4	Company C	590 companies
Number 5	Company D	200 companies



※ Company B has a large market share based on sales value because they target large companies selling services at a higher unit price.

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Mail Dealer

メールディーラー Mail Dealer

Product outline：A system to share and manage inquiry emails among staff within a company

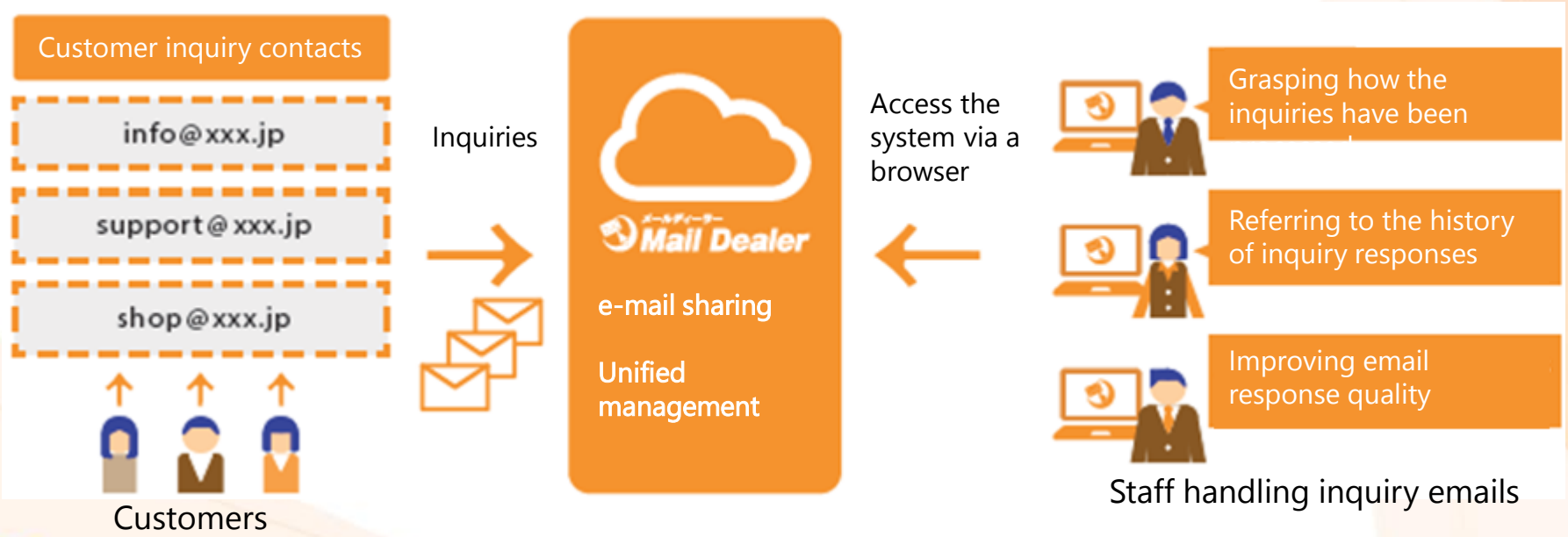
Main customers：E commerce businesses, call centers, and other B to C businesses

Addressed to：Customer support divisions

Usage：To improve quality and efficiency of response to inquiry emails

Fee structure：Based on the number of emails stored in the system + option fees

Launched：April 2001



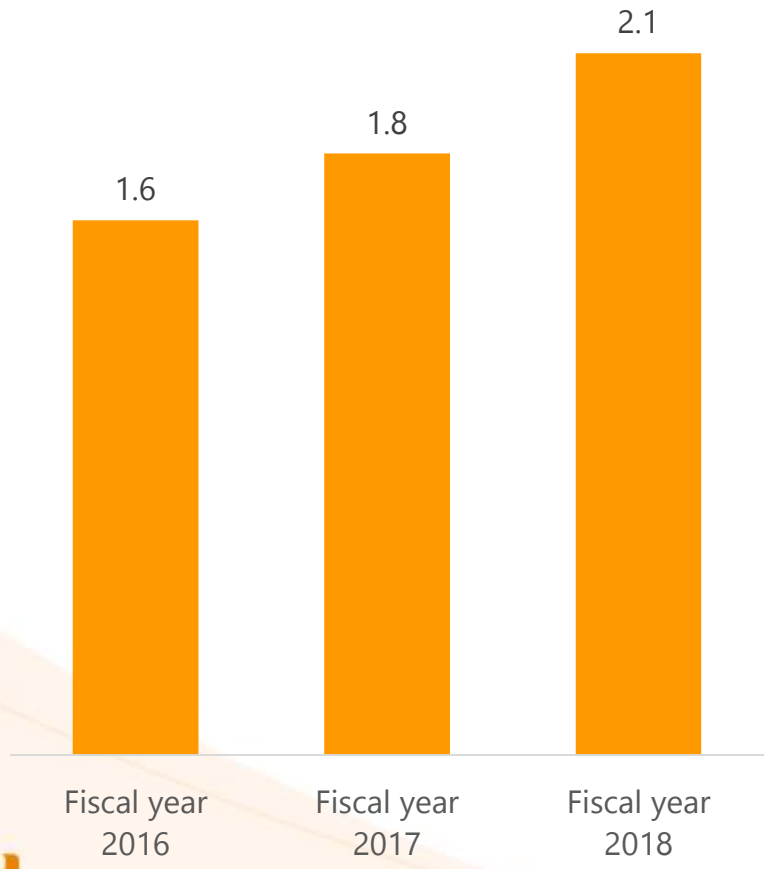
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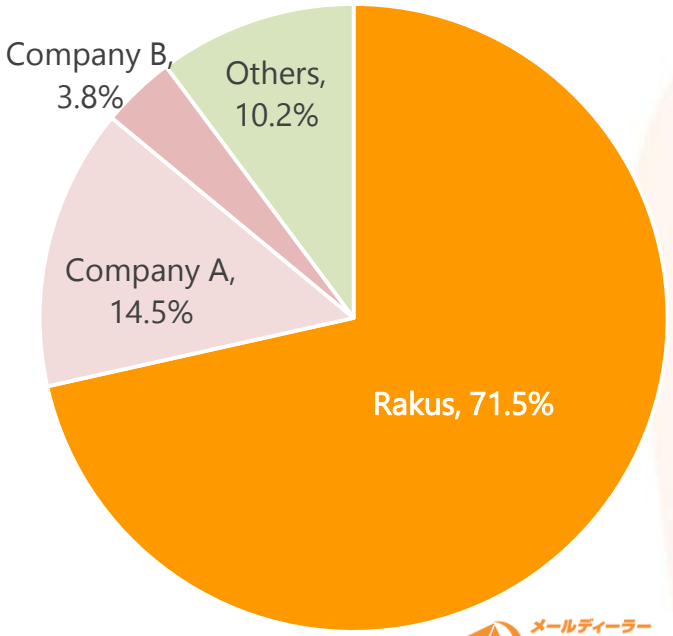
The market for cloud-based Mail processing

* Source：Our own survey based on various data（As of March 2019）

The market for cloud-based Mail processing in Japan （billion yen）



Market shares based on sales value



メールディーラー Mail Dealer

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Other services 1

Hai Hai Mail

Product outline：Email distribution system

Main customers：B to C & B to B businesses which distribute a massive amount of emails

Addressed to：Sales division and Marketing division

Usage：To improve efficiency for distribution of sale promotion emails and mail magazines

Fee structure：Based on the number of registered addresses + option fees

Launched：May 2007

Curumeru

Product outline：A system to distribute emails in conjunction with the corporate customer's backbone system (email distribution engine)

Main customers：Businesses which distribute a massive amount of emails in conjunction with their customer database.

Addressed to：Sales division and Marketing division

Usage：To improve efficiency for distribution of sale promotion emails and mail magazines

Fee structure：Based on the number of emails distributed + option fees

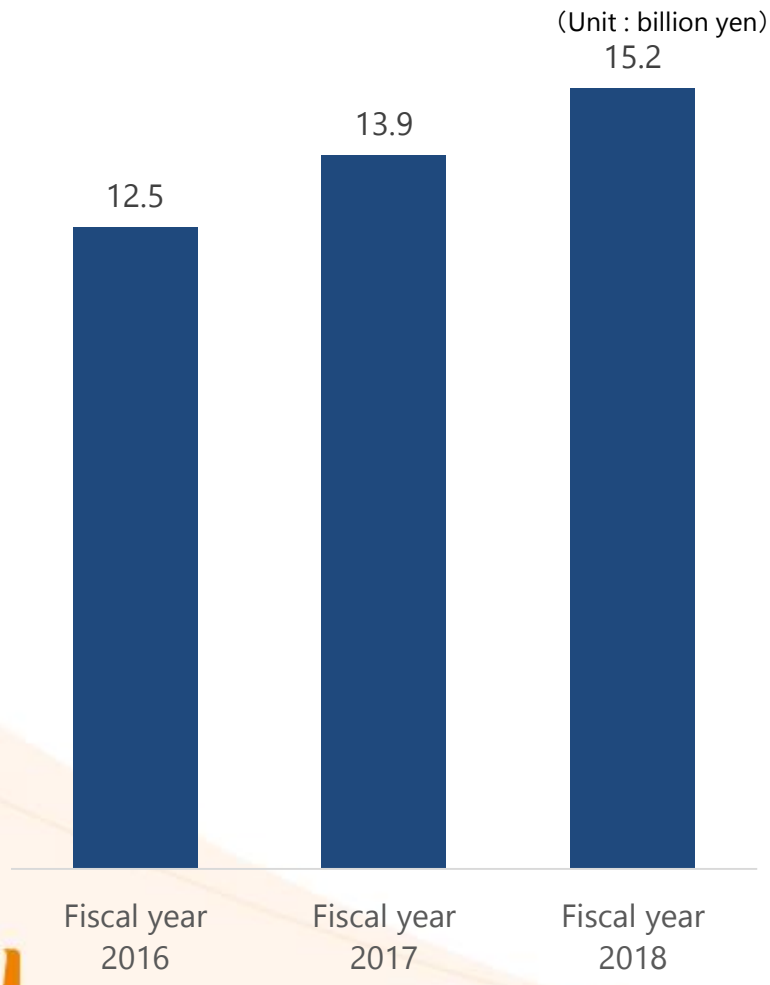
Launched：June 2011

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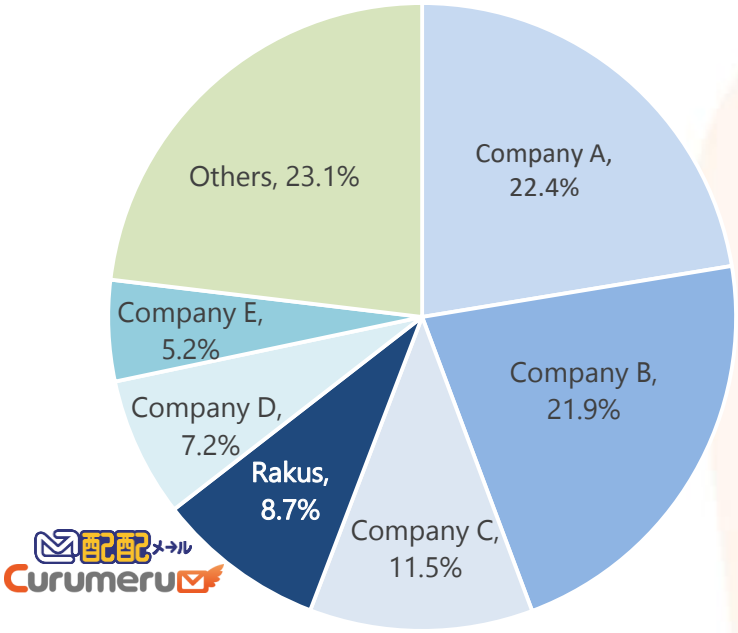
The Market for Cloud-based Email Distribution Systems

* Source：Our own survey based on various data（As of March 2019）

The Market for Cloud-based Email Distribution Systems in Japan



Market shares based on sales value



* RAKUS' market share consists of Hai Hai Mail, Curumeru and Blaynmail combined

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Other services 2

働くDB Hatadaku DB

Product outline：Web database system which can automate clerical procedures and data processing

Main customers：All industries

Addressed to：All divisions

Usage：To improve efficiency for management of sales, customers, processes and projects

Fee structure： Number of users and number of databases + option fees

Launched：October 2008

楽楽明細 Raku Raku Meisai

Product outline：A system to issue digital documentation

Main customers： All industries

Addressed to： Accounting departments

Usage：To improve efficiency of procedures to issue bills, receipts, delivery statements, payment statements, etc.

Fee structure： Number of slips issued + option fees

Launched：August 2013

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【IT outsourcing business】business model

Hiring inexperienced personnel

Training them to be IT engineers

Dispatching these engineers to customers



IT outsourcing business superiority

- Inexperienced person engineer appropriateness judgment know-how
- Expertise on education

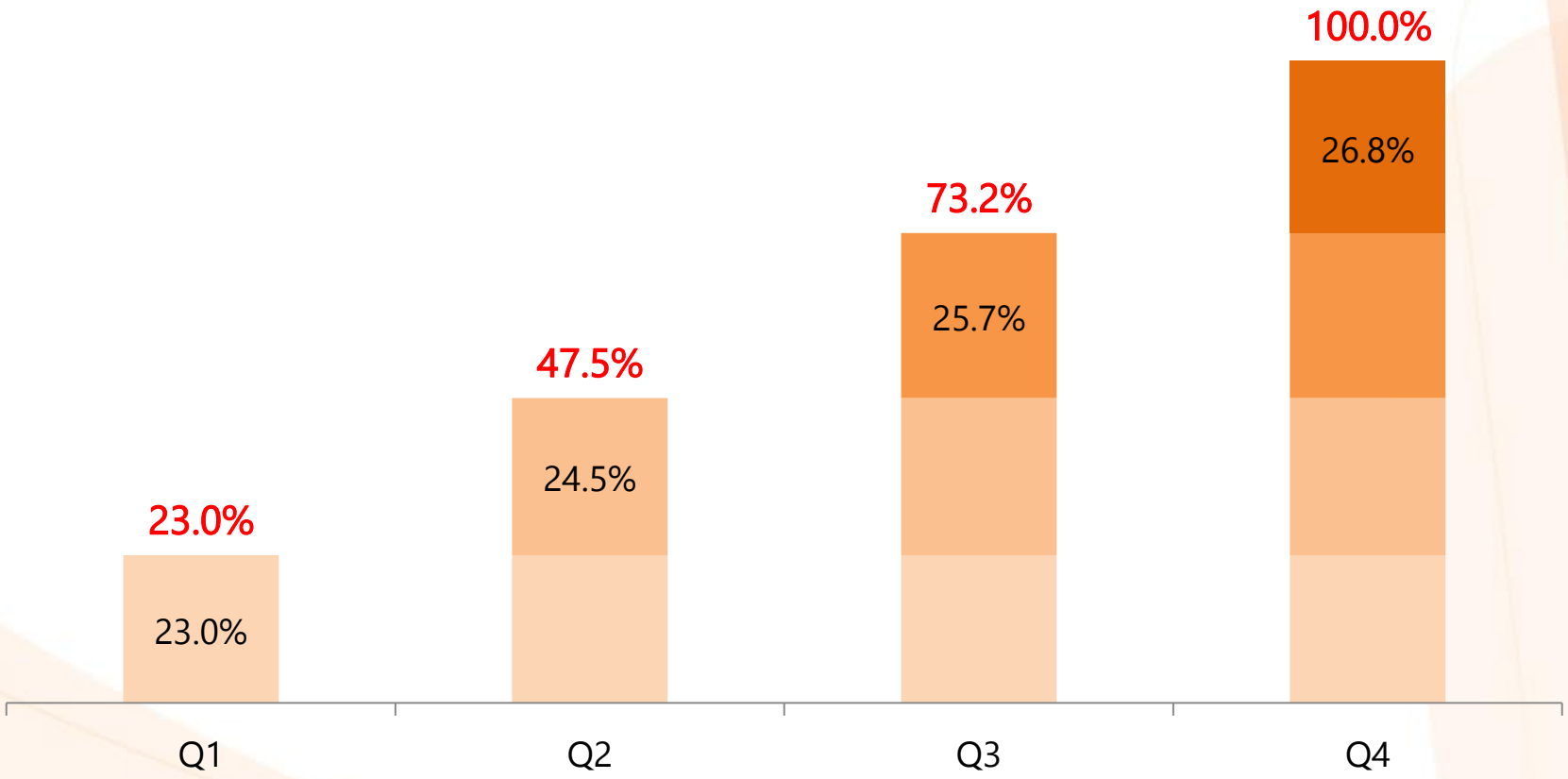
Technological domains

- Java programmers
- Infrastructure engineers

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【Cloud business】 Concept Image of Sales Generated throughout a Year

The contribution in Q4 is the largest because the business is based on a subscription model.



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