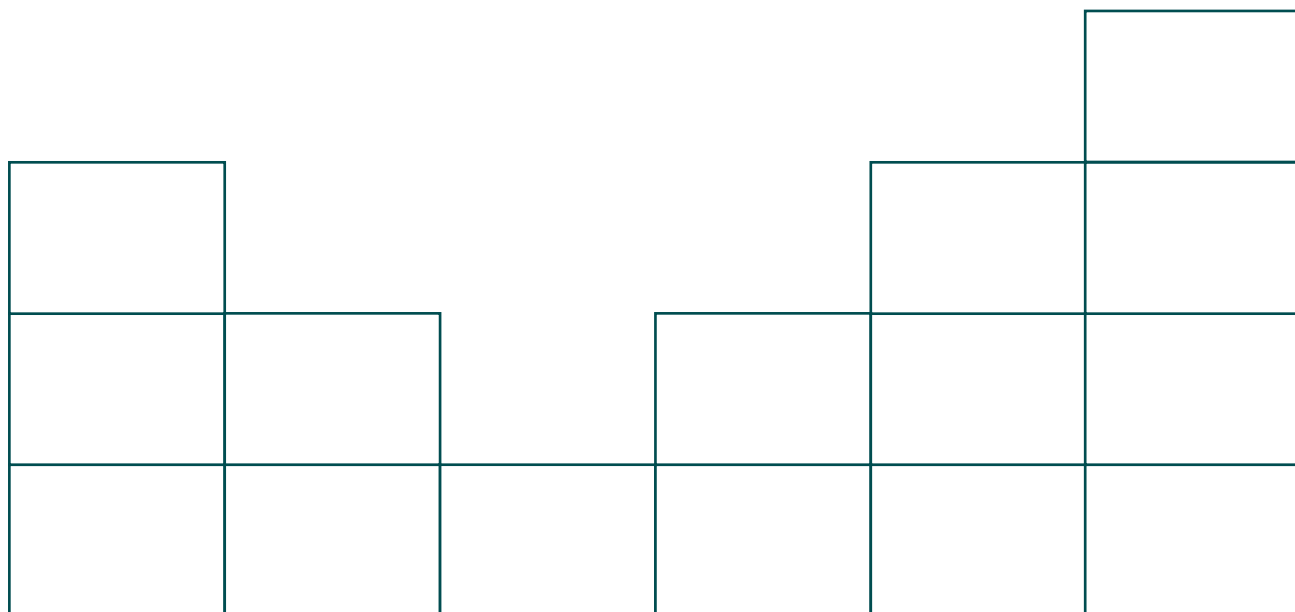


# 2021 Interim Broadleaf Report

January 1<sup>st</sup>, 2021 > June 30<sup>th</sup>, 2021



# Top Message

We would like to express our sincere gratitude to our shareholders for their continued support. We would also like to express our deepest sympathies to people affected by COVID-19 and show sincere gratitude to medical workers and others who are supporting the infrastructure of daily life.

Based on our corporate philosophy of “Gratitude and Happiness,” Broadleaf Group (“the Group”) continuously works to contribute to our clients and to their business continuity and creation.

In the first six months of the fiscal year ending December 31, 2021 (from January 1, 2021 to June 30, 2021), an increasing number of clients promoted DX (digital transformation<sup>\*1</sup>), triggered by teleworking and other new ways of working which spread as countermeasures against COVID-19. Accordingly, the Group expanded provision of DX solutions<sup>\*2</sup> to support clients’ initiatives to promote DX, in addition to the sales of business software. Moreover, in order to realize medium to long-term stability and growth in revenue, the Group started a transition to a monthly subscription contract in software sales and raised the ratio of monthly subscription contracts in the sales of current software. This is part of our initiatives to realize a smooth and early transition when launching sales of new software to general clients. With the transition to monthly subscription contracts, sales recognition will change from lump sum sales to monthly sales. Although it will be a factor for short-term declines in revenue, the Group will continue to promote this initiative, since it is an important measure that will contribute to the improvement of corporate value over the medium to long terms.

We would like to ask our shareholders for continued support.

\*1: Business innovation through digital technology

\*2: IT tools and frameworks that are useful for realizing DX



Representative Director and President  
Kenji Oyama

# Financial Highlights

(Millions of yen)

PL, CF, Interim dividend	FY2019 1H	FY2020 1H	FY2021 1H
Revenue	11,072	10,232	9,937
Operating profit	2,080	1,628	1,243
Profit attributable to owners of parent	1,361	1,066	795
Cash flow from operating activities	898	1,100	1,080
Cash flow from investing activities	-2,039	-1,284	-1,564
Cash flow from financing activities	-1,324	-23	537
Dividend per share (yen)	6.5 yen	6.6 yen	4.0 yen

BS	FY2019	FY2020	FY2021 1H
Total assets	31,689	32,274	33,216
Total liabilities	8,469	7,671	8,237
Total equity	23,220	24,602	24,979

Results forecast, Dividend forecast	FY2019	FY2020	FY2021 Forecast
Revenue	22,586	21,162	20,350
Operating profit	4,525	4,135	2,600
Profit attributable to owners of parent	3,093	2,465	1,640
Dividend per share (yen)	13.0 yen	13.2 yen	8.0 yen

## Overview of Business Results for the First Six Months of FY2021

Both revenue and profits were higher than initial forecast, making steady progress toward the full-year forecast. Regarding the business software sales, both revenue and profits declined year on year, due to the impact of increase in the ratio of monthly subscription contracts. On the other hand, the number of clients using business software increased year on year, due to favorable condition in acquisition of new clients. As a result, monthly revenue from network fees, user support fees, etc. increased, contributing to growth in stock revenue.

# About Subscription Services

Video streaming services and various other subscription services have become available in recent years. Conventionally, “subscription” merely meant regular purchase, but the new subscription services have additional advantages other than that. Main advantages include the following:

## Advantages for subscribers

### 1. Multiple choice with flat-rate

Subscribers can choose content from multiple choices. For example, a subscriber can freely choose which magazine to read from the list provided by the new service, compared to the conventional service in which a subscriber can read only a magazine he/she subscribes to. The new subscription service offers multiple choices of content at a flat rate.

### 2. Unlimited use with flat-rate

Basically, subscribers can use the service as much as they want. Un-metered plans are common for services related to digital content, so subscribers can use them without any hesitation. Exceptionally, if the services is related to goods, there may be upper limit for use because of purchasing and delivery costs, etc.

## Advantages for service providers

### 1. Stable revenue and growth

Service providers can benefit from stable revenue. The providers can receive continuous revenue stream as long as users continue using the services. Therefore, they will become revenue sources that are resilient to changes in external environment.

Moreover, monthly fee systems and low initial costs for users make the acquisition of new users easier for service providers. Increase in users will be beneficial for revenue growth.

# Software as Subscription Services

Business software is the core product of Broadleaf. As sales from business software tends to be unstable, software companies can benefit from transition to subscription services. Conventionally, license fees account for a majority of the revenue at business software companies, so that the number of license sales had a great impact on revenue. Since software licenses generally do not have expiration date, license sales can be attained only once, so revenue tended to be unstable unless new products were launched. If subscription services are introduced, companies will be able to receive monthly fees and stabilize their revenue.

In the case of Broadleaf, licenses expire in every multiple years (six years for many cases), so clients need to repurchase their licenses before they expire. Moreover, Broadleaf receives monthly basic fees as service fees to maintain and update its unique database, while annual software maintenance fee, which many of software companies receive, are included in software license fee. Accordingly, it is one of Broadleaf’s strengths that the revenue is more stable than others.

However, since Broadleaf has the same revenue structure in which the number of license sales has a great impact on revenue, its initiative to introduce the new subscription service will ensure more stable revenue.

**Fee system and sales stability  
before and after transition to subscription service**

Frequency of payment	Before transition	After transition
Per several years (normally 6 years)	License fee (software maintenance included)	None
Per month	Basic fees	Service fee
Sales stability	○	◎

# Topics

Broadleaf started distribution of Google Workspace™ with the aim of expanding DX solutions. Also, we were selected as a constituent of the “JPX-Nikkei Mid and Small Cap Index” for the year of 2021.

## **Started distribution of and linkage with Google Workspace (February 16, 2021)**

Due to the impact of COVID-19, there are escalating needs for digitalization, such as paperless offices and online business negotiations, in the industries to which our clients belong.

In response, Broadleaf started distribution of Google Workspace and seamlessly linked it with our services in order to support our clients improve their operational efficiency and reform their working practices.

### What is Google Workspace?

It is an integrated workspace that uses Google Cloud™. It includes all easy-to-use productivity applications, such as Gmail™, Google Calendar™, Google Drive™, Google Document™, Google Spreadsheet™, Google Slide™ and Google Meet™.

Google Cloud, Google Workspace, Gmail, Google Calendar, Google Drive, Google Document, Google Spreadsheet, Google Slide and Google Meet are trademarks of Google LLC

## **Selected as a Constituent of “JPX-Nikkei Mid and Small Cap Index” (August 10, 2021)**

Broadleaf was selected as a constituent of the JPX-Nikkei Mid and Small Cap Index for the year of 2021 (August 31, 2021 – August 30, 2022), which is jointly calculated by Tokyo Stock Exchange, Inc. and Nikkei Inc. 200 constituents are selected through screening based on market capitalization, evaluation based on quantitative indicators including 3-year average ROE, and evaluation based on qualitative factors including appointment of independent outside directors.

### What is the JPX-Nikkei Mid and Small Cap Index ?

The index applies the concept of the JPX-Nikkei Index 400, which is an index comprising highly attractive listed companies, to mid and small cap equities by selecting companies that focus on capital efficiency and investor-oriented management.

# Questions and Answers ①

Below are frequently asked questions in questionnaires conducted in the past.

## **What can you do with Broadleaf's software?**

Broadleaf's software has functions necessary for clients to conduct their business operations efficiently. The type of software and its functions vary according to clients' industry. For example, business software for auto maintenance shops has the functions for preparing maintenance sheets, managing reception and reservations, tracking sales performance, managing sales, and managing customers and vehicles, etc. In this manner, Broadleaf offers software with specialized functions to meet the needs of each industry, in order to support our clients' business continuity and creation.

## **What are the strengths of Broadleaf's software?**

By using Broadleaf's software, clients can access to our unique database that contains enormous volumes of information. Information on vehicles and auto parts, etc. are collected and accumulated for about 40 years, and it is categorized and managed in our database by using unique management system. In addition, by collecting, analyzing and learning the record data entered by customers, the software can simplify its operations. The database and learning results are updated on a daily basis, which is enhancing the competitive advantage of the software.

# Questions and Answers ②

Below are frequently asked questions in questionnaires conducted in the past.

## What are Broadleaf’s activities that lead to achievements of SDGs?

As a company providing IT infrastructure to clients, Broadleaf is working on following activities which contribute to the solution of social issues.

### 1. Contribution to the creation of mobility society where any person can live a secure and comfortable life

We offer high quality IT services that are necessary for proper maintenance of evolving automobiles

Related SDGs:



### 2. Construction of a sustainable and recycling-oriented society

We implement measures to promote recycling, including management of marketplace that handle used auto parts

Related SDGs:



### 3. Realization of a society in which emphasis is placed on equality and diversity

We develop an environment in which employees, business partners, and others with whom we interact can trust each other.

Related SDGs:





# Counter-measures against COVID-19

Since March 2020, Broadleaf has been taking a number of steps against the COVID-19. Major measures are as follows.

## 1. Establishment and operation of COVID-19 Headquarter

Meetings are held whenever matters that need to be discussed arise and on Thursdays. There, we hold cross-sectional discussions based on the latest information on COVID-19 and quickly respond to changing situations.

## 2. Implementation of teleworking and maintenance of environment

We have set a target for teleworking at 80% for non-target areas of a state of emergency (100% for target area of a state of emergency) and are promoting new working styles through the development of an environment for teleworking and the use of groupware and online meeting. As a result, the rate of teleworking has been approximately 80% at workplaces where teleworking is possible.

### Disclaimer

The statements regarding results forecasts and future forecasts contained in this material are forecasts based on information available at the time of preparation of the materials and include potential risks and uncertainties. Accordingly, please note that actual business results may differ from these results forecasts due to various factors.

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