

## Panasonic Information Systems (4283)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2012		36,373	4,254	4,293	2,227	209.0	65.0	2,145
FY03/2013		35,178	4,424	4,411	2,701	253.6	65.0	2,331
FY03/2014CoE		36,000	4,450	4,450	2,720	255.3	65.0	-
FY03/2013		YoY (3.3%)	4.0%	2.7%	21.3%	-	-	-
FY03/2014CoE		YoY 2.3%	0.6%	0.9%	0.7%	-	-	-
Consolidated Half Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2013		16,864	2,023	2,033	1,234	-	-	-
Q3 to Q4 FY03/2013		18,314	2,401	2,378	1,467	-	-	-
Q1 to Q2 FY03/2014		17,062	2,520	2,529	1,554	-	-	-
Q3 to Q4 FY03/2014CoE		18,938	1,930	1,921	1,166	-	-	-
Q1 to Q2 FY03/2014		YoY 1.2%	24.6%	24.4%	25.9%	-	-	-
Q3 to Q4 FY03/2014CoE		YoY 3.4%	(19.6%)	(19.2%)	(20.5%)	-	-	-

Source: Company Data, WRJ Calculation

### 1.0 Executive Summary (15 November 2013)

#### Decreasing Exposure to Panasonic

Panasonic Information Systems, running developments and operations for business systems, is steadily cultivating the general market. At the moment, the Company is heavily involved with those for housing-related businesses with the Panasonic Group, but most recently sales associated with “Information Technology as A Service” in the general market, relating to customer base other than the Panasonic Group, are starting to pick up nicely. More specifically, cloud services to offer pay-as-you-go operations for business systems on the cloud, are showing expanding trends in the number of projects and proceeds. The Company is aiming at long-term growth by aggressively beefing up sales in the general market through appointing some full-time system engineers as own sales forces, etc. According to the Company, the gap, stemming from the appointments, is supposed to be filled by outside engineers.


In Q1 to Q2 FY03/2014, sales came in at ¥17,062m (up 1.2% YoY), operating profit ¥2,520m (up 24.6%) and operating profit margin 14.8% (up 2.8% points). Initial Company forecasts, made on 23 April 2013, were exceeded in earnings, in particular. This has a lot to do with personnel expenses which were lower than initially expected, as a result of cost cutting efforts. More importantly, it is noteworthy for sales of operations for business systems in the general market to have grown favorably. In our estimates, sales here increased more than 20% from the same period in the previous year. Operations for business systems associated with those of own developments over the past years have been accumulated as stock to persistently generate sales, while the Company has been aggressively making corporate efforts to take in projects of operations for business systems, developed by peers. To date, the Company has started to see results from here in short-term business performance, cloud services in particular.

The Company's midterm management plan (FY03/2014 to FY03/2016) goes for prospective sales ¥38,000m, operating profit ¥4,600m and operating profit margin 12.1% in the last year, i.e., FY03/2016. They came in at ¥35,178m, ¥4,424m and 12.6%, respectively, in FY03/2013. It is suggested that sales are to be enhanced by ongoing cultivations on the general market side, while avoiding downward swing of operating profit margin through strict controls of development costs to prevent any cost overruns. Nevertheless, it appears that a potential upside for prospective earnings, stemming from aforementioned cloud services in the general market, has been hardly incorporated in here.

IR Representatives: Takashi Yamasaki (+81 6 6377 0100 [yamasaki.takashi@is-c.jp.panasonic.com](mailto:yamasaki.takashi@is-c.jp.panasonic.com))  
 Atsuko Nakamoto (+81 6 6377 0100 [nakamoto.atsuko@is-c.jp.panasonic.com](mailto:nakamoto.atsuko@is-c.jp.panasonic.com))

## 2.0 Company Profile

### User-Related Information Service Company

<b>Company Name</b>	Panasonic Information Systems Co., Ltd. <a href="#">Company website</a> <a href="#">IR Information</a> <a href="#">Share Price</a> 
<b>Established</b>	22 February 1999
<b>Listing</b>	12 July 2001 :Tokyo Stock Exchange 1 <sup>st</sup> Section (Ticker: 4283)
<b>Capital</b>	¥1,040m (As of the end of September 2013)
<b>No. of Shares</b>	10,656,000 shares, including 372 treasury shares (As of the end of September 2013)
<b>Main Features</b>	<ul style="list-style-type: none"> <li>● 80.4% of sales, associated with the Panasonic Group (Q1 to Q2 FY03/2014)</li> <li>● Great room to cultivate in the general market (19.6% of sales)</li> <li>● Cloud services to contribute to earnings</li> </ul>
<b>Businesses</b>	I . System Services II . System Solutions
<b>Top Management</b>	President: Kazuhiro Maegawa
<b>Shareholders</b>	Panasonic Corporation 63.69%, BHH FOR FIDELITY LOW-PRICED STOCK FUND 5.16%, ESOP 2.39% (As of the end of September 2013)
<b>Headquarters</b>	Kita-ku, Osaka JAPAN
<b>No. of Employees</b>	Consolidated : 681, Unconsolidated : 628, Outside Engineers: 986 (As of the end of September 2013)

Source: Company Data

## 3.0 Recent Trading & Prospects

### Q1 to Q2 FY03/2014 Results

In Q1 to Q2 FY03/2014, sales came in at ¥17,062m (up 1.2% YoY), operating profit ¥2,520m (up 24.6%), recurring profit ¥2,529m (up 24.4%) and net profit ¥1,554m (up 25.9%). Initial Company forecasts, made on 23 April 2013, were exceeded 1.0% in sales, 22.9% in operating profit, 23.4% in recurring profit and 24.3% in net profit. To date, full-year initial Company forecasts have remained unchanged and this may suggest that prospective earnings in H2 have been downgraded, but the Company mentions that prospects for H2 have not been changed a lot. Just an issue is that a part of sales to be booked at some stage in H2 has been frontloaded by the end of Q2 for booking and thus sales and earnings in H2 may fall short as much as the impacts from here.

The Company's businesses comprise System Solutions, having accounted for 34.5% of sales with the Company in Q1 to Q2 and System Services the remaining 65.5%. While the former includes developments for business systems, trading of equipment, etc., the latter operations of business systems, etc. Basically, the Company's business model relates to developments for business systems and being in charge of operations for them as well. At the same time, the core of the businesses is to run these developments and operations for housing-related businesses with the Panasonic Group, headed by Panasonic Corporation.

Sales here came in at ¥13,721m (up 1.2%) and accounted for 80.4% of sales with the Company. The other thing here is that sales of System Services, stemming from developments over the past years, accounted for some 70% in here in our estimates, although persistently suffering from pricing pressure. In fact, recent trading is not growing favorably, but it appears to a large extent is the pricing pressure here compensated for by ongoing developments of technology to consistently make progress in rationalization. The remaining some 30% of sales here came from System Solutions, where a part of sales to be booked at some stage in H2 has been frontloaded by the end of Q2 for booking, according to the Company.

The remaining 19.6% of sales with the Company was accounted for by those for the general market ¥3,340m (up 1.2%). The Company here also runs System Solutions and System Services, respectively accounting for below 50% and above 50% of sales here in our estimates. As mentioned earlier, the former includes developments for business systems, trading of equipment, etc., while the Company is intentionally reducing its exposure to trading of equipment on a standalone basis, which is a major negative factor to sales in here. Nevertheless, the latter, including operations for business systems, etc. saw sales up more than 20% from the same period in the previous year. Cloud services, to offer pay-as-you-go operations for business systems on the cloud, are showing expanding trends in the number of projects and proceeds, which is the key driver in here.

Compared with those based on the existing charging scheme to initially collect all the fees but for maintenance, sales booking of cloud services is inevitably delayed in a short-term view. Nonetheless, sales of cloud services are starting to contribute to short-term sales and thus it appears that the services have grown to a certain level. Meanwhile, the Company would like to be increasingly eager to cultivate new customers here, trying to ensure long-term steady growth. This is because cumulative proceeds from cloud services

have a high potential to exceed those of the existing charging scheme in a long-term view. On top of this, future increases in the usages of the services should lead to increases in the proceeds and are likely to lead to meaningful benefits from high marginal profit ratio, at the end of the day.

For a major manufacturer, based in Kyoto while running businesses on a global basis, has the Company been in charge of offering cloud services since 2011. To date, the Company has been seeing sequentially increasing proceeds from here in line with increasing usages of the services and it appears that the Company has been enjoying improving profit margin for some time, in fact.

### Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	YoY
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	Net Chg.
<b>Sales</b>	<b>7,843</b>	<b>16,864</b>	<b>24,962</b>	<b>35,178</b>	<b>8,309</b>	<b>17,062</b>	-	-	<b>+198</b>
CoGS	6,334	13,358	19,604	27,804	6,346	13,116	-	-	(242)
Gross Profit	1,509	3,505	5,358	7,374	1,962	3,945	-	-	+440
SG&A	789	1,482	2,222	2,949	702	1,424	-	-	(58)
<b>Operating Profit</b>	<b>719</b>	<b>2,023</b>	<b>3,135</b>	<b>4,424</b>	<b>1,259</b>	<b>2,520</b>	-	-	<b>+497</b>
Non Operating Balance	6	10	11	(13)	3	9	-	-	(1)
<b>Recurring Profit</b>	<b>725</b>	<b>2,033</b>	<b>3,146</b>	<b>4,411</b>	<b>1,262</b>	<b>2,529</b>	-	-	<b>+496</b>
Extraordinary Balance	-	-	-	-	-	-	-	-	-
Pretax Profit	725	2,033	3,146	4,411	1,262	2,529	-	-	+496
Tax Charges etc.	286	798	1,240	1,709	473	974	-	-	+176
<b>Net Profit</b>	<b>438</b>	<b>1,234</b>	<b>1,906</b>	<b>2,701</b>	<b>789</b>	<b>1,554</b>	-	-	<b>+320</b>
Sales YoY	(5.4%)	(7.4%)	(6.2%)	(3.3%)	+5.9%	+1.2%	-	-	-
Operating Profit YoY	(16.4%)	+1.3%	+12.7%	+4.0%	+75.0%	+24.6%	-	-	-
Recurring Profit YoY	(17.4%)	+0.2%	+11.3%	+2.7%	+74.0%	+24.4%	-	-	-
Net Profit YoY	(16.3%)	+3.9%	+18.5%	+21.3%	+79.8%	+25.9%	-	-	-
Gross Profit Margin	19.2%	20.8%	21.5%	21.0%	23.6%	23.1%	-	-	+2.3%
SG&A / Sales	10.1%	8.8%	8.9%	8.4%	8.4%	8.3%	-	-	(0.4%)
Operating Profit Margin	9.2%	12.0%	12.6%	12.6%	15.2%	14.8%	-	-	+2.8%
Recurring Profit Margin	9.3%	12.1%	12.6%	12.5%	15.2%	14.8%	-	-	+2.7%
Net Profit Margin	5.6%	7.3%	7.6%	7.7%	9.5%	9.1%	-	-	+1.8%
Tax Charges etc. / Pretax Profit	39.4%	39.3%	39.4%	38.7%	37.5%	38.5%	-	-	(0.7%)
Income Statement	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	YoY
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	Net Chg.
<b>Sales</b>	<b>7,843</b>	<b>9,020</b>	<b>8,098</b>	<b>10,215</b>	<b>8,309</b>	<b>8,752</b>	-	-	<b>(268)</b>
CoGS	6,334	7,024	6,246	8,200	6,346	6,770	-	-	(254)
Gross Profit	1,509	1,996	1,853	2,016	1,962	1,983	-	-	(13)
SG&A	789	693	740	727	702	722	-	-	+29
<b>Operating Profit</b>	<b>719</b>	<b>1,303</b>	<b>1,112</b>	<b>1,289</b>	<b>1,259</b>	<b>1,260</b>	-	-	<b>(43)</b>
Non Operating Balance	6	4	1	(24)	3	6	-	-	+2
<b>Recurring Profit</b>	<b>725</b>	<b>1,308</b>	<b>1,113</b>	<b>1,264</b>	<b>1,262</b>	<b>1,266</b>	-	-	<b>(42)</b>
Extraordinary Balance	-	-	-	-	-	-	-	-	-
Pretax Profit	725	1,308	1,113	1,265	1,262	1,267	-	-	(41)
Tax Charges etc.	286	512	442	469	473	501	-	-	(11)
<b>Net Profit</b>	<b>438</b>	<b>795</b>	<b>671</b>	<b>795</b>	<b>789</b>	<b>765</b>	-	-	<b>(30)</b>
Sales YoY	(5.4%)	(9.1%)	(3.6%)	+4.7%	+5.9%	(3.0%)	-	-	-
Operating Profit YoY	(16.4%)	+14.7%	+41.8%	(12.5%)	+75.0%	(3.3%)	-	-	-
Recurring Profit YoY	(17.4%)	+13.7%	+39.6%	(13.8%)	+74.0%	(3.2%)	-	-	-
Net Profit YoY	(16.3%)	+19.8%	+60.0%	+28.6%	+79.8%	(3.9%)	-	-	-
Gross Profit Margin	19.2%	22.1%	22.9%	19.7%	23.6%	22.7%	-	-	+0.5%
SG&A / Sales	10.1%	7.7%	9.1%	7.1%	8.4%	8.2%	-	-	+0.6%
Operating Profit Margin	9.2%	14.5%	13.7%	12.6%	15.2%	14.4%	-	-	(0.1%)
Recurring Profit Margin	9.2%	14.5%	13.7%	12.4%	15.2%	14.5%	-	-	(0.0%)
Net Profit Margin	5.6%	8.8%	8.3%	7.8%	9.5%	8.7%	-	-	(0.1%)
Tax Charges etc. / Pretax Profit	39.4%	39.1%	39.7%	37.1%	37.5%	39.5%	-	-	+0.4%

Source: Company Data, WRJ Calculation

### Performance by Segment (Cumulative, Quarterly)

Performance by Segment	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	Cons.Act Q1	Cons.Act Q1 to Q2	Cons.Act Q1 to Q3	Cons.Act Q1 to Q4	YoY Net Chg.
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	
System Services	5,454	10,870	16,347	22,008	5,624	11,169	-	-	+299
System Solutions	2,389	5,994	8,615	13,169	2,684	5,893	-	-	(101)
<b>Sales</b>	<b>7,843</b>	<b>16,864</b>	<b>24,962</b>	<b>35,178</b>	<b>8,309</b>	<b>17,062</b>	-	-	<b>+198</b>
System Services	-	-	-	-	+3.1%	+2.8%	-	-	-
System Solutions	-	-	-	-	+12.3%	(1.7%)	-	-	-
<b>Sales (YoY)</b>	<b>(5.4%)</b>	<b>(7.4%)</b>	<b>(6.2%)</b>	<b>(3.3%)</b>	<b>+5.9%</b>	<b>+1.2%</b>	-	-	-
System Services	69.5%	64.5%	65.5%	62.6%	67.7%	65.5%	-	-	-
System Solutions	30.5%	35.5%	34.5%	37.4%	32.3%	34.5%	-	-	-
<b>Sales (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-
System Services	20.2%	23.1%	23.2%	23.2%	26.2%	25.2%	-	-	+2.1%
System Solutions	17.0%	16.6%	18.2%	17.2%	18.3%	19.1%	-	-	+2.5%
<b>Gross Profit Margin</b>	<b>19.2%</b>	<b>20.8%</b>	<b>21.5%</b>	<b>21.0%</b>	<b>23.6%</b>	<b>23.1%</b>	-	-	<b>+2.3%</b>

Performance by Segment	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	YoY Net Chg.
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	
System Services	5,454	5,416	5,477	5,661	5,624	5,544	-	-	+128
System Solutions	2,389	3,604	2,620	4,554	2,684	3,208	-	-	(396)
<b>Sales</b>	<b>7,843</b>	<b>9,021</b>	<b>8,098</b>	<b>10,216</b>	<b>8,309</b>	<b>8,753</b>	-	-	<b>(268)</b>
System Services	-	-	-	-	+3.1%	+2.4%	-	-	-
System Solutions	-	-	-	-	+12.3%	(11.0%)	-	-	-
<b>Sales (YoY)</b>	<b>(5.4%)</b>	<b>(9.1%)</b>	<b>(3.6%)</b>	<b>+4.7%</b>	<b>+5.9%</b>	<b>(3.0%)</b>	-	-	-
System Services	69.5%	60.0%	67.6%	55.4%	67.7%	63.3%	-	-	-
System Solutions	30.5%	40.0%	32.4%	44.6%	32.3%	36.7%	-	-	-
<b>Sales (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-
System Services	20.2%	26.0%	23.4%	23.3%	26.2%	24.3%	-	-	(1.7%)
System Solutions	17.0%	16.3%	21.7%	15.3%	18.3%	19.8%	-	-	+3.5%
<b>Gross Profit Margin</b>	<b>19.2%</b>	<b>22.1%</b>	<b>22.9%</b>	<b>19.7%</b>	<b>23.6%</b>	<b>22.6%</b>	-	-	<b>+0.5%</b>

Source: Company Data, WRJ Calculation

### Order Backlog (Quarterly)

Order Backlog	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	Cons.Act Q1	Cons.Act Q2	Cons.Act Q3	Cons.Act Q4	YoY Net Chg.
(Million Yen)	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	
System Services	736	731	634	629	701	700	-	-	(31)
System Solutions	2,142	4,048	3,827	1,967	2,122	2,957	-	-	(1,091)
<b>Order Backlog</b>	<b>2,878</b>	<b>4,779</b>	<b>4,462</b>	<b>2,597</b>	<b>2,824</b>	<b>3,657</b>	-	-	<b>(1,122)</b>
System Services	25.6%	15.3%	14.2%	24.2%	24.8%	19.1%	-	-	-
System Solutions	74.4%	84.7%	85.8%	75.7%	75.1%	80.9%	-	-	-
<b>Order Backlog (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-

Source: Company Data, WRJ Calculation

### Capital Expenditure & Depreciation (Cumulative, Quarterly)

Capital Expenditure & Depreciation	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	03/2014	
Capital Expenditure	144	453	649	893	259	555	-	-	-	+102
Depreciation	410	849	1,327	1,817	466	960	-	-	-	+111

Capital Expenditure & Depreciation	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	03/2014	
Capital Expenditure	144	308	190	249	259	296	-	-	-	(12)
Depreciation	410	438	478	489	466	494	-	-	-	+56

Source: Company Data, WRJ Calculation

### Sales by Customer Domain (Cumulative, Quarterly)

Sales by Customer Domain	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	03/2014	
The Panasonic Group	6,489	13,563	20,322	28,338	6,861	13,721	-	-	-	+158
The General Market	1,354	3,300	4,640	6,839	1,447	3,340	-	-	-	+40
<b>Sales</b>	<b>7,843</b>	<b>16,863</b>	<b>24,963</b>	<b>35,178</b>	<b>8,309</b>	<b>17,062</b>	-	-	-	<b>+199</b>
The Panasonic Group	(4.7%)	(6.7%)	(6.1%)	(2.3%)	+5.7%	+1.2%	-	-	-	-
The General Market	(8.4%)	(10.2%)	(6.7%)	(7.0%)	+6.9%	+1.2%	-	-	-	-
<b>Sales (YoY)</b>	<b>(5.4%)</b>	<b>(7.4%)</b>	<b>(6.2%)</b>	<b>(3.3%)</b>	<b>+5.9%</b>	<b>+1.2%</b>	-	-	-	-
The Panasonic Group	82.7%	80.4%	81.4%	81.0%	82.6%	80.4%	-	-	-	-
The General Market	17.3%	19.6%	18.6%	19.0%	17.4%	19.6%	-	-	-	-
<b>Sales (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-	-

Sales by Customer Domain	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	Net Chg.
	03/2013	03/2013	03/2013	03/2013	03/2014	03/2014	03/2014	03/2014	03/2014	
The Panasonic Group	6,489	7,074	6,758	8,016	6,861	6,859	-	-	-	(215)
The General Market	1,354	1,946	1,339	2,199	1,447	1,893	-	-	-	(53)
<b>Sales</b>	<b>7,843</b>	<b>9,020</b>	<b>8,100</b>	<b>10,215</b>	<b>8,309</b>	<b>8,753</b>	-	-	-	<b>(267)</b>
The Panasonic Group	(4.7%)	(8.5%)	(4.8%)	+8.6%	+5.7%	(3.0%)	-	-	-	-
The General Market	(8.4%)	(11.3%)	+2.9%	(7.6%)	+6.9%	(2.7%)	-	-	-	-
<b>Sales (YoY)</b>	<b>(5.4%)</b>	<b>(9.1%)</b>	<b>(3.6%)</b>	<b>+4.7%</b>	<b>+5.9%</b>	<b>(3.0%)</b>	-	-	-	-
The Panasonic Group	82.7%	78.4%	83.5%	78.5%	82.6%	78.4%	-	-	-	-
The General Market	17.3%	21.6%	16.5%	21.5%	17.4%	21.6%	-	-	-	-
<b>Sales (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-	-

Source: Company Data, WRJ Calculation

## Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2013	Q2 03/2013	Q3 03/2013	Q4 03/2013	Q1 03/2014	Q2 03/2014	Q3 03/2014	Q4 03/2014		
Cash & Deposit	137	153	128	268	121	83	-	-	-	(70)
Accounts Receivables	3,731	4,284	3,293	6,750	3,583	4,257	-	-	-	(27)
Inventory	272	206	423	382	272	489	-	-	-	+283
Deposit	14,914	15,439	15,129	16,236	17,760	17,896	-	-	-	+2,457
Other	2,410	2,869	3,080	2,094	2,597	2,826	-	-	-	(43)
<b>Current Assets</b>	<b>21,464</b>	<b>22,951</b>	<b>22,053</b>	<b>25,730</b>	<b>24,333</b>	<b>25,551</b>	-	-	-	<b>+2,600</b>
Tangible Assets	3,800	3,724	3,505	3,305	3,126	2,968	-	-	-	(756)
Intangible Assets	679	623	554	514	482	442	-	-	-	(181)
LT Investment Securities etc.	1,804	1,744	1,711	1,805	1,800	1,872	-	-	-	+128
<b>Fixed Assets</b>	<b>6,284</b>	<b>6,092</b>	<b>5,771</b>	<b>5,624</b>	<b>5,409</b>	<b>5,282</b>	-	-	-	<b>(810)</b>
<b>Total Assets</b>	<b>27,748</b>	<b>29,044</b>	<b>27,825</b>	<b>31,355</b>	<b>29,743</b>	<b>30,833</b>	-	-	-	<b>+1,789</b>
Accounts Payable	1,677	1,583	1,337	2,253	1,552	1,561	-	-	-	(22)
Short Term Debt	-	-	-	-	-	-	-	-	-	-
Other	2,782	3,439	2,185	4,042	2,733	3,029	-	-	-	(410)
<b>Current Liabilities</b>	<b>4,459</b>	<b>5,022</b>	<b>3,522</b>	<b>6,295</b>	<b>4,285</b>	<b>4,590</b>	-	-	-	<b>(432)</b>
Long Term Debt	-	-	-	-	-	-	-	-	-	-
Other	367	316	269	221	174	148	-	-	-	(168)
<b>Fixed Liabilities</b>	<b>367</b>	<b>316</b>	<b>269</b>	<b>221</b>	<b>174</b>	<b>148</b>	-	-	-	<b>(168)</b>
<b>Total Liabilities</b>	<b>4,826</b>	<b>5,338</b>	<b>3,791</b>	<b>6,517</b>	<b>4,459</b>	<b>4,739</b>	-	-	-	<b>(599)</b>
<b>Shareholders' Equity</b>	<b>22,893</b>	<b>23,689</b>	<b>24,014</b>	<b>24,810</b>	<b>25,253</b>	<b>26,018</b>	-	-	-	<b>+2,329</b>
Other	28	15	18	28	30	75	-	-	-	+60
<b>Net Assets</b>	<b>22,922</b>	<b>23,705</b>	<b>24,033</b>	<b>24,838</b>	<b>25,283</b>	<b>26,094</b>	-	-	-	<b>+2,389</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>27,748</b>	<b>29,044</b>	<b>27,825</b>	<b>31,355</b>	<b>29,743</b>	<b>30,833</b>	-	-	-	<b>+1,789</b>
Equity Capital	22,922	23,705	24,033	24,838	25,283	26,094	-	-	-	+2,389
Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-
Net Debt	(15,051)	(15,592)	(15,257)	(16,504)	(17,881)	(17,979)	-	-	-	(2,387)
Equity Capital Ratio	82.6%	81.6%	86.4%	79.2%	85.0%	84.6%	-	-	-	+3.0%
Net Debt Equity Ratio	(65.7%)	(65.8%)	(63.5%)	(66.4%)	(70.7%)	(68.9%)	-	-	-	(3.1%)
ROE (Net Profit / Equity Capital)	7.7%	10.6%	10.8%	11.3%	12.6%	12.2%	-	-	-	+1.6%
ROA (Recurring Profit / Total Assets)	10.2%	14.0%	14.8%	14.6%	16.5%	16.3%	-	-	-	+2.3%
Quick Ratio	87%	88%	97%	111%	86%	95%	-	-	-	-
Current Ratio	481%	457%	626%	409%	568%	557%	-	-	-	-

Source: Company Data, WRJ Calculation

## Cash Flow Statement (Cumulative)

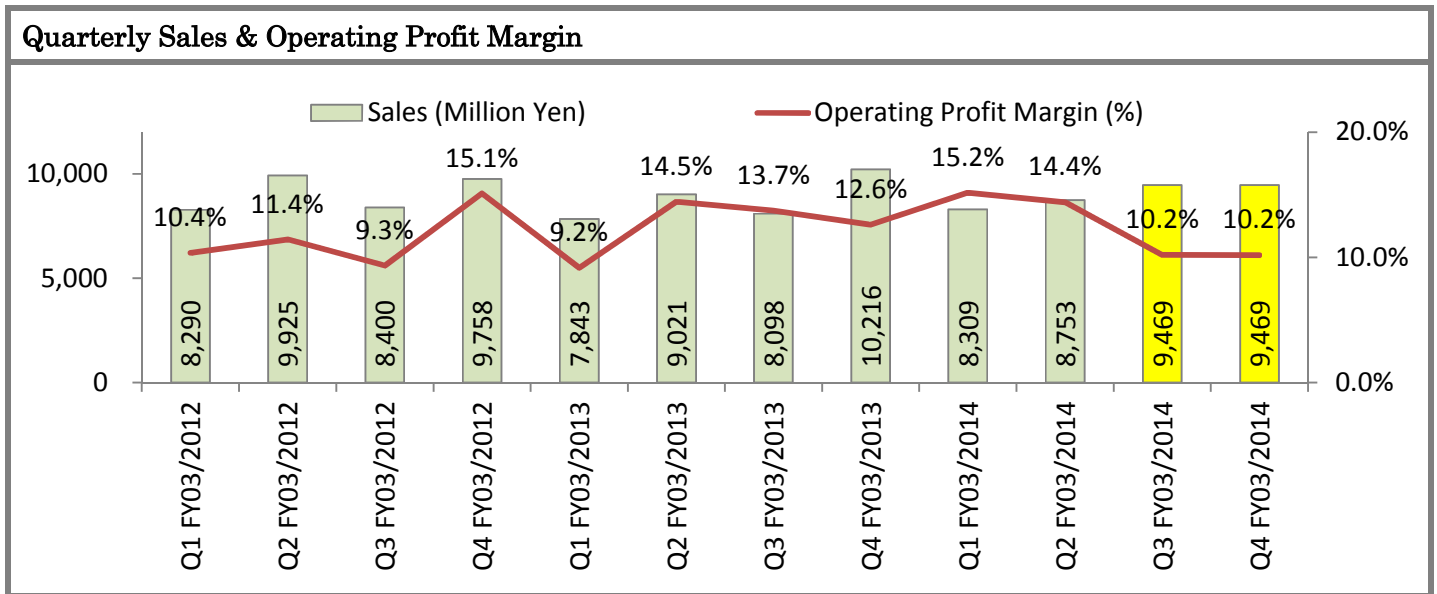
Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2013	Q1 to Q2 03/2013	Q1 to Q3 03/2013	Q1 to Q4 03/2013	Q1 03/2014	Q1 to Q2 03/2014	Q1 to Q3 03/2014	Q1 to Q4 03/2014		
Operating Cash Flow	-	2,727	-	4,669	-	2,416	-	-	-	(311)
Investing Cash Flow	-	(10,936)	-	(12,298)	-	(2,497)	-	-	-	+8,439
<b>Operating CF + Investing CF</b>	<b>-</b>	<b>(8,208)</b>	<b>-</b>	<b>(7,629)</b>	<b>-</b>	<b>(80)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>+8,128</b>
Financing Cash Flow	-	(473)	-	(940)	-	(445)	-	-	-	+28

Source: Company Data, WRJ Calculation



## FY03/2014 Company Forecasts

FY03/2014 Company forecasts, made on 23 April 2013, have remained unchanged, calling for prospective sales ¥36,000m (up 2.3% YoY), operating profit ¥4,450m (up 0.6%), recurring profit ¥4,450m (up 0.9%) and net profit ¥2,720m (up 0.7%). Prospective dividend per share has also remained unchanged at ¥65.0, implying payout ratio 25.5%. Nevertheless, the Company suggests it is a must for itself to achieve better-than-expected operating profit and thus recurring and net profit, to an extent of benefits from decreases in personnel expenses it enjoys unexpectedly.



Source: Company Data, WRJ Calculation (Q3 and Q4 forecasts in FY03/2014: half year Company forecasts pro rata)

Looking at the Company's businesses by customer domain, the Company is aiming at keeping on providing the Panasonic Group with perfect IT environment, while applying expertise on developments and operations as a user-related information service company, earned in services for the Panasonic Group, in cultivating the general market. On the other hand, knowhow to pursue rationalization and efficiency, earned in the general market, are supposed to be applied in services for the Panasonic Group.

This will also be the case in FY03/2014. In reality, however, it appears that the Company is basically looking to cultivations on the general market side. While the Company holds some decent shares in providing the Panasonic Group with services, upside potential for the shares in the general market is so huge. In other words, prospective earnings with the Company heavily hinge on whether the Company successfully applies expertise, earned in services for the Panasonic Group, in cultivations on the general market side or not.

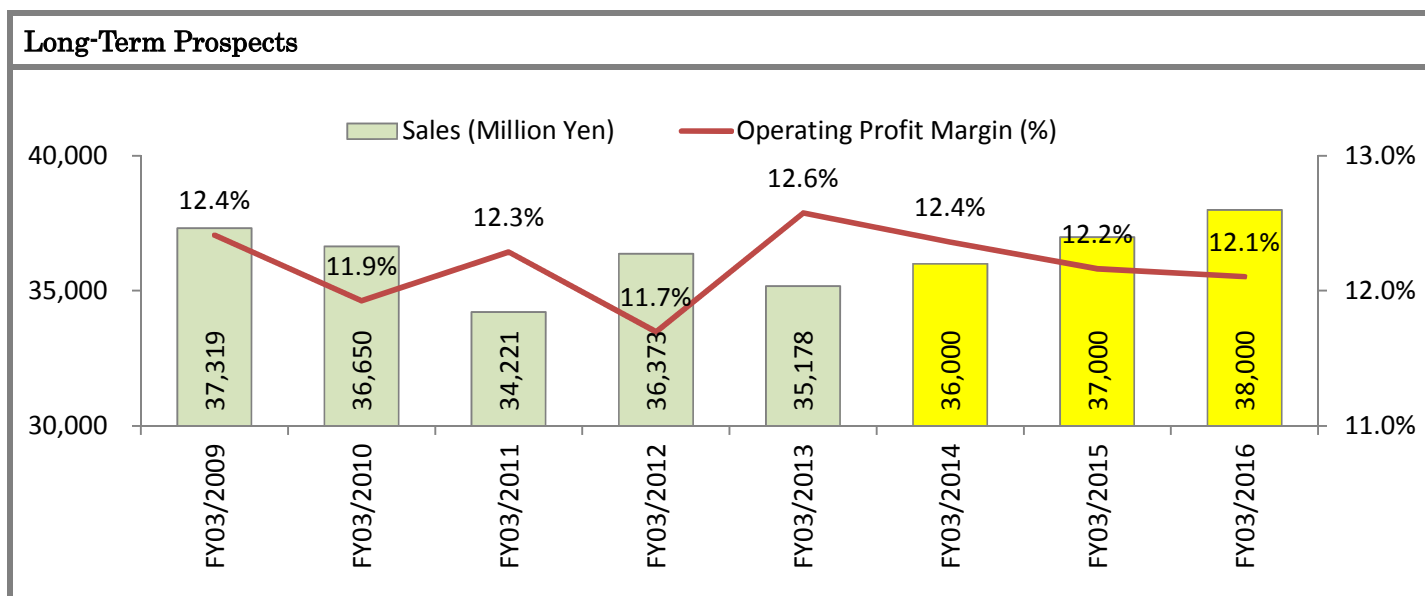
Potential expansion of cloud services will be the key driver for market share increases on the general market side. Going forward, the market for the services is likely to grow nicely and thus no doubt inviting peers to fiercely compete each other. The strengths of the Company to be adopted here come from the capability to develop and operate business systems as a user-related company. That is to say, the Company is to focus its resources on aggressively proposing to customer domains where these strengths are highly appreciated, while not being exposed to customer domains where price-oriented competition is the key issue. Nevertheless, the Company is also trying to get at being involved with middle-ranged customer domains between the two as a new target, where the Company is to propose to adopt the services, incorporating high



reliability at reasonable costs.

### Long-Term Prospects

On 23 April 2013, the Company came up with the current midterm management plan (FY03/2014 to FY03/2016). The Company goes for prospective sales ¥38,000m, operating profit ¥4,600m and operating profit margin 12.1% in the last year, i.e., FY03/2016. Over the past three years, sales with the Company came down 4.0% on a cumulative basis, while the plan calls for increases 8.0% over the next three years. It appears that the plan assumes steady increases of sales on the general market side, going forward.



Source: Company Data, WRJ Calculation

Meanwhile, prospective operating profit margin ranges from 12.1% to 12.4% over the next three years versus 11.7% to 12.6% over the past three years. As far as we can gather, the Company intends to keep operating profit margin away from swinging downward by means of avoiding cost overruns through strict controls of development costs. Over the past three years, operating profit margin bottomed at 11.7% in FY03/2012 while peaked at 12.6% in FY03/2013, basically attributable to occurrences of cost overruns and their eliminations.

In the previous midterm management plan (FY03/2011 to FY03/2013), sales ¥40,000m, operating profit ¥4,900m and operating profit margin 12.3% were expected in the last year, i.e., FY03/2013. In reality, operating profit margin came in at 12.6%, having exceeded the plan, but sales fell short no less than 12.1%. Given this, the current midterm management plan may be conservative in prospective sales, in particular, and also in prospective operating profit margin where marginal corrections are expected to persist.

The other thing is that midterm management plan appears to hardly have incorporated future positive impacts associated with cloud services in the general market, although there are decent opportunities for the Company to see positive impacts to sales and profit margin in line with increasing proceeds from here, driven by future increases in the number of projects and the usages of the services.

## 4.0 Business Model

### User-Related Information Service Company

Panasonic Corporation is the Company's parent company which holds 63.69% of the shares outstanding with the Company as of the end of Q2 FY03/2014. The Company was established, in February 1999, as "Matsushita Electric Works Information Systems Co., Ltd.", a 100% subsidiary of Matsushita Electric Works, Ltd. This issue, effectively, related to a spin-off for information service division of Matsushita Electric Works, Ltd. (subsequently called as Panasonic Electric Works Co., Ltd.).

#### Data Centers, Support Center and Thin Client

##### Osaka Central Data Center (External Appearance)



Data center, based in Nishi-ku, Osaka-city, dedicated to customers on the general market side: high convenience of geographical access while apart from Tokyo metropolitan area, geographically

##### Osaka IDC (Introspection)



Data center, based in Kadoma-city, Osaka-pref., dedicated to customers of the Panasonic Group: coping with risk diversification and high convenience of access at a time as in Osaka Central Data Center

##### Support Center (Osaka IDC)



Providing customers with solutions by coping with enquiries from them through telephone calls, etc., 24 hours a day, 365 days a year: contributing to high quality of System Services

##### Thin Client: Adopted in University PC Class



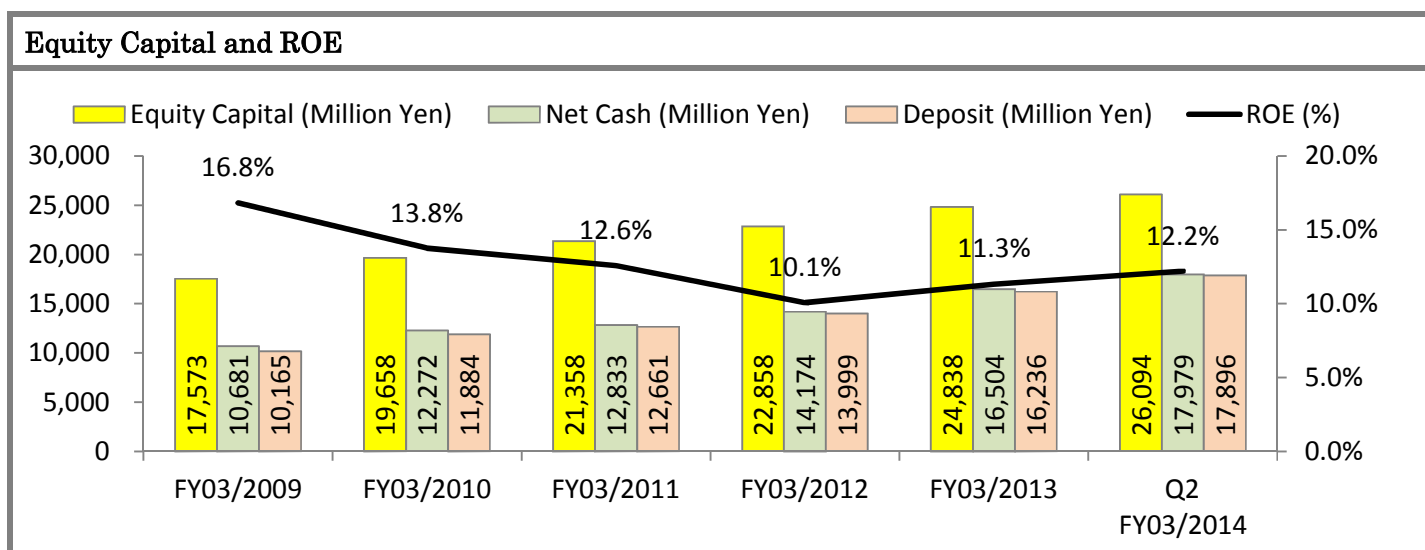
While client terminals are equipped with the minimal processing capability, data storage, etc. are concentrated on the server side, for improvements of security and for efficiency of maintenance

Source: Company Data

In July 2001, the Company's shares were listed on the over-the-counter market (JASDAQ), followed by the listing on second section of Tokyo Stock Exchange in December 2003 and that of first section in November 2004. Meanwhile, the corporate name was changed to "Panasonic Electric Works Information Systems Co., Ltd." as a result of change in the corporate identity with the current Panasonic Corporation. Eventually, the Company has been called "Panasonic Information Systems Co., Ltd." since July 2012, after reorganization of the Panasonic Group.

The Panasonic Group, in the context of the Company's customer, basically relates to Eco Solutions Company, which is one of the Group companies. Simply speaking, the customer is an entity that basically succeeds Panasonic Electric Works Co., Ltd. That is to say, the customer is involved with development, manufacture and sale for lighting, wiring, housing equipment and environmental air quality control equipment as well as providing own customers with comprehensive solutions associated with all those aforementioned items.

Thus, Eco Solutions Company is mainly exposed to final demand associated with domestic housing starts, and there will be no major adjustments in needs for developments and operations for business systems in a long-term view, although sales are likely to gradually come down in the foreseeable future when based on a conservative view. Still, the Company is trying to make this business a stable source of earnings in a long-term view, by means of applying own expertise to pursue efficiency and rationalization, acquired in line with cultivations of the general market.



Source: Company Data, WRJ Calculation

The other thing to be spotted is that the Company's earnings have a high stability, supported by piling up stock to persistently generate sales, created by System Services to persistently offer services to be in charge of operations for business systems. This enables the Company to see stability also in terms of operating cash flow, while capital expenditure basically relates to purchases of equipment for own developments and operations for business systems only, effectively materializing persistent and stable net inflow in terms of free cash flow. As a result, net cash with the Company increased steadily over the past five years and then reached ¥17,896m as of the end of Q2 FY03/2014.

At the same time, persistent and stable increases are also true of equity capital due to the same backgrounds, suggesting difficulty for the Company to pursue sequential ROE improvements. ROE came down to 10.1% from 16.8% through FY03/2009 and FY03/2012, while ROE has been recovering to date but up to no more than 12.2% in Q1 to Q2 FY03/2014. While equity capital or denominator for ROE keeps on steadily increasing, short-term earnings or molecule have not grown sharply.

In regards to balance sheets, the Company has unique characteristics that 99.5% of net cash or ¥17,896m as of the end of Q2 FY03/2014 is entrusted to Panasonic Corporation, etc., described as deposit on the balance sheets. This relates to management of assets, currently unnecessary to hold for prospective investments to continue and/or expand own businesses in the foreseeable future, having accounted for no less than 68.6% of equity capital, most recently. It could be presumed, based on this fact, that the Company runs its businesses taking advantage of only one third of equity capital on the balance sheets and that the Company sees effectively three times larger ROE than superficially computed in a sense.

For some time, the Company has been pondering near-term mergers and acquisitions where the Company should be able to pursue synergy as well as delivery of increased dividend with shareholders in order to efficiently utilize persistently and stably increasing equity capital for years, but it has not decided exactly what to do yet. On the other hand, as mentioned earlier, the entrustment or the deposit exists genuinely because of lacks of needs for investments in the foreseeable future and thus it is taken for granted that the entrustment or the deposit will be available to be utilized as own funds for investments and anything else with no problems when the Company fixes details of the projects.

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## Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

Company name: Walden Research Japan Incorporated

Headquarters : #1110 4-12-4 Hatchobori, Chuo-ku, Tokyo 104-0032, JAPAN

URL: [www.walden.co.jp](http://www.walden.co.jp)

E-mail: [info@walden.co.jp](mailto:info@walden.co.jp)

Phone : +81 3 3553 3769