

COMPANY RESEARCH AND ANALYSIS REPORT

Ascentech K.K.

3565

Tokyo Stock Exchange First Section

20-May-2021

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<https://www.fisco.co.jp>

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Summary

A VDI comprehensive solutions vendor that is focusing on developing proprietary products that accurately meet customers' needs

Ascentech K.K. <3565> (hereafter, also “the Company”) mainly conducts a VDI (virtual desktop infrastructure) business, while it also conducts virtual infrastructure and storage business, professional services business, and cloud services business. It provides one-stop solutions for IT infrastructure of servers and storage through to construction support, in addition to hardware, virtualization software, and security solutions. A feature of VDI is that the applications and data are not placed within a local terminal, and instead these elements are consolidated on a server, making possible operations from remote locations. Compared to a conventional PC environment, its major advantages include a high level of security and a reduction of the operational management burden. Further, as an authorized distributor (sales agency) of Citrix Systems Japan, Inc., which is a VDI global company, the Company is working on business workstyles reforms in companies.

1. Overview of the FY1/21 results

In the FY1/21 results, net sales were ¥5,982mn (up 0.8% year-on-year (YoY)), operating profit was ¥607mn (up 33.1%), ordinary profit was ¥631mn (up 40.0%), and profit was ¥422mn (up 29.7%). Due to the impact of the novel coronavirus pandemic (hereafter, “COVID-19”), including that some projects were delayed, net sales did not reach the initial forecast set at the start of the period. However, sales and profits still increased for the fifth consecutive period to set new record highs in profits for the third consecutive period. Also, in “growth of continuous income business,” the fully fledged start of in-company products following the complete transition to a subscription model contributed and the profit margin improved.

2. FY1/22 results outlook

For the FY1/22 results, the Company forecasts net sales to increase 8.6% YoY to ¥6,500mn, operating profit to rise 15.3% to ¥700mn, ordinary profit to grow 10.8% to ¥700mn, and profit to climb 14.8% to ¥485mn, and the results are once again expected to be new record highs. There is the risk of an economic downturn associated with COVID-19, but in the IT field, which is the Company's strength, investment in VDI in particular is expected to continue to grow.

3. Business strategies for growth

As R&D toward expanding in-company products, the Company is developing the software-based thin client Resalio Lynx. Its track record as a VDI access terminal is steadily growing, including that it is being adopted by megabanks and other financial institutions and public organizations. The IT environment is transforming to 5G + the cloud, and the Company is responding to this situation through a hybrid of VDI and zero trust network access and progressing the R&D of Zero Trust Thin Client OS, which is a secure client product that supports digital transformation (DX). Also, in order to achieve further profit growth and to construct a robust corporate foundation, it is aiming to grow continuous income business, and toward this, in addition to transitioning to a subscription model for Resalio Lynx, it is expanding the self-managed maintenance lineup and premium support & services and developing cloud services.

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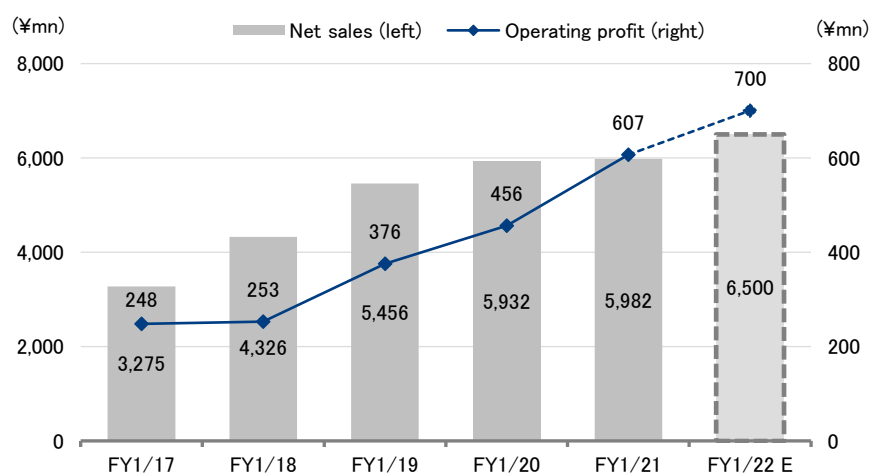
https://www.ascentech.co.jp/corp/co_index_en.html

Summary

Key Points

- In FY1/21, achieved higher sales and profits for the fifth consecutive period and record highs in profits for the third consecutive period
- For the FY1/22 full year, expects to once again achieve new record-high results
- Is progressing the R&D of Zero Trust Thin Client OS that supports DX
- In addition to transitioning to a subscription model for Resilio Lynx, is aiming to grow continuous income business by expanding the self-managed maintenance lineup and premium support & services and developing cloud services

Results trend



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

■ Company overview

Focuses on developing proprietary products that accurately meet customers' needs

Regarding VDI solutions, which are its area of expertise, the Company is focusing on developing proprietary products at lower costs to solve problems, including initial costs. It is actively developing a business to accurately ascertain its customers' needs in Japan and then provide them with its own original solutions. Remote PC Array, developed in-company, is a solution that can be introduced at low cost, and so far, the Company has delivered 7,700 units to SECOM Trust Systems Co., Ltd., which is a member of the SECOM Group <9735> that always demands the highest levels of security for its data management. In January 2019, it released Remote PC Array 200, which realizes a high level of consolidation of 1.5 times that of the previous model, and for which the initial installation cost is reduced by a maximum of 50%. This product makes it possible to greatly reduce the cost of introducing a virtual desktop system, and moreover its market scale is expanding, including its new adoption as an RPA platform. In July of the same year, the Company announced the new 4.2 version of Resalio Lynx 300, which is a USB key-type thin client device. This new version of Resalio Lynx makes possible remote access in a high-security environment to support the realization of teleworking by adding a firewall function and officially supporting the VPN client of Pulse Secure, LLC.

Also, the Company has acquired a patent for the functions installed in Resalio Lynx 700, which is a software-defined thin client that can transition at low cost a Windows PC to a thin client (a system in which the processing on the terminal used by the user is kept to the absolute minimum and which practically all of the processing is concentrated on the server side). In April 2020, MUFG Bank, Ltd. adopted Resalio Lynx 700. The Company has set "in-company product development and deployment" as an important strategy, and Resalio Lynx is one of the key technologies supporting this strategy.

Business domains

Business is comprised of three domains, centered on the VDI business

The Company's business is comprised of three business domains: the main VDI (virtual desktop infrastructure) business, which is one type of security solution, and also the cloud infrastructure business and the cloud services business.

(1) VDI (virtual desktop infrastructure)

VDI is a solution in which the desktop environment is consolidated into the server side, the desktop screen image is transmitted via a network, and the user utilizes devices such as a thin client terminal (which performs the absolute minimum of processing), PC, smartphone, or tablet. In other words, the information on the PC screen that is being used for work is not obtained from the PC being used, but rather from the server side into which that information has been consolidated. Therefore, for companies, it has the advantage of a high level of security, such as to avoid information leakages through loss, theft, or other such acts of information extraction, while also reducing the operational management burden by consolidating information into the server side. For users as well, it has the advantages of not restricting them to a particular location or terminal, enabling them to change to a more flexible workstyle. Even in the event of a disaster, users can carry on working as they are not restricted to a particular location or terminal.

(2) Cloud infrastructure

For VDI solutions, which are the Company's area of expertise, the Company is focusing on developing proprietary products at lower costs to solve problems, including initial costs. Within Japan, it is accurately ascertaining customer needs and actively developing its proprietary original solutions, including Remote PC Array. Also, the Company provides various solutions using flash storage, software storage, and cloud storage. Storage refers to an auxiliary storage device to keep data on a computer. Companies are having to respond to the explosive increase in the volume of data and the high-performance requirements of corporate systems, at the same time as facing the need for severe budget cuts. They face the issues of deterioration of performance due to the increase in the volume of data, higher storage capacity, and the increased complexity of data management, so flash storage products, which have higher performance and longer lives than HDD (hard disk drive) products, are attracting attention. Also, data can be stored and shared on the cloud, and demand is growing for cloud storage that is essential for groupwork and other work.

(3) Cloud services

Through the improvement of networks and technological innovations, the cloud "wave" is spreading to the desktop environment. In this situation, the Company provides Resilio DaaS, which is a virtual desktop service intended for medium-sized businesses and SMEs. It provides internally developed management tools, system design, and support as a one-stop service and utilizes ConoHa, which is GMO's internet cloud infrastructure. Up to the present time, it has been difficult for medium-sized businesses and SMEs to introduce virtual desktops, even if they are considering doing so, due to their costs and complexity. But now, even they can introduce and manage them easily at low cost, so their market is expected to grow in the future.

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Business trends

Achieved higher sales and profits for the fifth consecutive period and sales of in-company products were strong, and also improved the profit margin by completely transitioning to a subscription model

1. FY1/21 results

In the FY1/21 results, net sales were ¥5,982mn (up 0.8% year on year (YoY)), operating profit was ¥607mn (up 33.1%), ordinary profit was ¥631mn (up 40.0%), and profit was ¥422mn (up 29.7%). Due to the impact of COVID-19, including that some projects were delayed, net sales did not reach the initial forecast set at the start of the period. However, sales and profits still increased for the fifth consecutive period to set new record highs in profits for the third consecutive period. In the VDI business, sales rapidly grew of the VDI software products of Citrix Systems and of Resalio Lynx, an in-company product, and in addition, sales trended solidly of Remote PC Array, another in-company product. Therefore, sales increased above the forecast that was upwardly revised in August. Also, in “growth of continuous income business,” the fully fledged start of in-company products following the complete transition to a subscription model contributed and the profit margin improved, which was also a factor behind the higher profits.

FY1/21 results YoY and rates of achievement of forecasts

	FY1/20 Results	FY1/21 Forecast	FY1/21 Revised forecast	FY1/21 Results	YoY	Achievement rate vs. forecast
Net sales	5,932	6,200	6,200	5,982	0.8%	96.5%
Operating profit	456	505	568	607	33.1%	106.9%
Ordinary profit	451	505	588	631	40.0%	107.5%
Profit	325	350	407	422	29.7%	103.8%
Earnings per share (¥)	24.25	25.86	30.07	31.21	-	-

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

For “in-company product development and deployment,” which is one business strategy, MUFG Bank has adopted in-company product Resalio Lynx 700. In addition, for the “growth of continuous income business,” another business strategy, the continuous income businesses are continuing to grow, including Resalio Lynx, an in-company product that has completely transitioned to a subscription model, and self-managed maintenance services. Also, as a new measure toward business expansion, the Company has started handling Google Cloud Platform, which is Google's suite of cloud services. Through this, it has started providing teleworking solutions that combine Google Cloud with its own VDI products. Moreover, in December 2020, it concluded a distributor agreement with Pulse Secure, which globally deploys a wide range of security products. Through this agreement, it has started to provide zero trust solutions, which are an advanced security model. The compound annual growth rate (CAGR) of net sales (2017 to 2021) was 16.2%, while ordinary profit's CAGR was 30.5%.

The highly profitable VDI business performed well. The cloud services business grew significantly

2. Results trends by business domain

In the VDI business, sales were strong of virtualization software (Citrix, VMware, etc.), thin client terminals (Atrust, Dell, etc.), and VDI products, including the Resalio Lynx series, and net sales increased 17.6% YoY to ¥4,364mn. Conversely, in the cloud infrastructure business, net sales fell 27.6% to ¥1,596mn. This was mainly due to a shift by entities such as data centers to reduce investment in servers other than VDI (HPE, Dell, Lenovo, etc.) and storage, etc. (HPE Nimble) due to COVID-19. However, the VDI business handles highly profitable products, and therefore even though the fall in sales in the cloud infrastructure business cancelled out the strong sales in the VDI business, profits still increased due the growth of highly profitable products. The sales scale of the cloud services business was small in monetary terms at ¥22mn but grew significantly, up 37.5% YoY.

■ Outlook

Investment in VDI is continuing to grow

1. FY1/22 results outlook

For the FY1/22 results, the Company forecasts net sales to increase 8.6% YoY to ¥6,500mn, operating profit to rise 15.3% to ¥700mn, ordinary profit to grow 10.8% to ¥700mn, and profit to climb 14.8% to ¥485mn, and the results are once again expected to be new record highs. There is the risk of an economic downturn associated with COVID-19, but in the IT field, which is the Company's strength, investment in VDI in particular is expected to continue to grow. VDI solutions, which is the main business, is considered to be able to solve three problems, particularly those that have become social problems recently: 1) information security problems, including information leaks and thefts; 2) business continuity problems, such as the loss of data during a disaster; and 3) problems relating to workstyle reforms to promote teleworking and working from home. Based on this sort of business environment, sales are expected to increase in the IT infrastructure business, as the Company is expanding the product lineups in the business areas of VDI, virtual infrastructure and storage, and cloud services, while it is also working to grow continuous income business and to strengthen the development of in-company products.

FY1/22 results outlook

	FY1/22 (forecast)	YoY change (%)	FY1/22 1H (forecast)	FY1/22 2H (forecast)
	(¥mn)			
Net sales	6,500	8.6%	3,350	3,150
Operating profit	700	15.3%	353	347
Ordinary profit	700	10.8%	353	347
Profit	485	14.8%	245	240
Earnings per share (¥)	35.84	-	18.10	17.74

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

2. Business strategies for growth

(1) R&D toward the expansion of in-company products

Regarding R&D toward the expansion of in-company products, the Company is strengthening development of the software-based thin client Resalio Lynx. Against the backdrop of the strengthened development of Resalio Lynx, through the spread of 5G, work applications are being consolidated on the cloud and at data centers, and therefore security measures are becoming an even more important theme. The aims include capturing the abundant demand for teleworking in the context of “workstyle reforms,” and also responding to the need to reduce the work burden placed on information system administrators because of the increasing complexity of terminal management alongside the rise in the number of teleworking employees. The introduction of Resalio Lynx makes it possible to change the methodology of the endpoint, process Windows applications on the cloud using screen transfers and safely use browser-based applications and file processing.

a) R&D of Zero Trust Thin Client OS

The IT environment is transforming to 5G + the cloud, and the Company is responding to this situation through a hybrid of VDI and zero trust network access and progressing the R&D of Zero Trust Thin Client OS, which is a secure client product that supports DX. Zero trust refers to an advanced security model based on the approach of “do not trust anything, not only outside the network boundaries, but also inside.” In December 2020, the Company concluded a distributor agreement with Pulse Secure, and it is progressing the development of a new endpoint system combined with Pulse Zero Trust Access (PZTA), which is a zero trust solution provided by Pulse Secure.

In addition, the Company intends to develop thin client software compliant with ZTNA (zero trust network access) provided by security vendors. ZTNA is the latest security solution that is based on the approach of not trusting any access, whether it be from inside or outside a company’s network. In addition to VDI connections, it will conduct the ZTNA business through zero trust thin client products installed with high-security functions as SaaS access terminals.

In April 2020, MUFG Bank announced that it had introduced Resalio Lynx 700, which is an OS developed by the Company to transition existing PCs to thin clients. In 2010, ahead of its industry peers, MUFG Bank constructed a large-scale system that utilizes VDI and thin clients. This time, in order to further realize working from home and teleworking while maintaining a high level of security, it introduced the PAPRIKA terminal, a proprietary new endpoint system. As a result of its products being introduced by a megabank, which requires a high level of security, we at FISCO think trust placed in the Company will increase, and alongside this, demand can be expected to grow in the future.

b) Adoptions of Remote PC Array are progressing and projects are becoming larger in scale

Projects for both VDI and RPA are becoming larger in scale. Remote PC Array, which responds to this development, is a one-stop solution that provides the CPU, memory, storage (SSD), network switch, and management software necessary for VDI, including consolidating tens of small PCs into a 1U server array. Its advantages include that it can lower costs on the infrastructure side, which had been barriers to introducing VDI up to the present time, and greatly reduce design and construction periods. Since the announcement of the model equipped with an Intel Core i5, target users have expanded to include groups such as knowledge workers, and projects have increased in scale. Remote PC Array 100 (a model equipped with 20 PC units) is used for general purpose VDI and is also compliant with online meetings in a teleworking environment, such as Teams/Zoom. Remote PC Array 50 (a model equipped with 5 PC 5 units) is suitable for use with major RPAs (WinActor, UiPath, Automation Anywhere, Asirrera, etc.) and improves robot processing capabilities. The number of shipments of Remote PC Array increased by 180 units in FY1/21, while the target for FY1/22 is an increase of 400 units.

Outlook

(2) Growth of continuous income business

To achieve further profit growth and to build a robust corporate infrastructure, the Company is aiming to grow continuous income business. In addition to transitioning to subscriptions for Resalio Lynx, it intends to expand the self-managed maintenance lineup, enhance premium support & services and develop cloud services. The targets for FY1/22 are for continuous income to increase by 26% on an orders basis and by 25% on a sales basis.

(3) Strategic investment for business expansion

In order to achieve further growth, the Company is aiming to grow each of the VDI business, cloud infrastructure business, and cloud services business, based on the idea that strategic alliances are necessary both for alliances with technology partners and alliances with sales partners. It plans to conduct strategic investment including for these capital and business alliances with partners. Measures implemented by the Company in FY1/21 are described below.

In January 2021, the Company agreed to underwrite an issue of new shares through a third-party allotment scheduled to be implemented by Atrust Computer Corp. (hereafter, "Atrust") and resolved to invest in it. Atrust develops and manufactures products including Remote PC Array, a product it developed in collaboration with the Company, thin client products, and management software, and it is an important technological partner. The Company's capital participation in Atrust will further strengthen their relationship, and in particular, for the development of new Remote PC Array products in the future, it is considered that they will be able to provide products and services with superior competitiveness by incorporating customer needs in product development in a timely manner.

In December 2020, the Company concluded a distributor agreement with Pulse Secure of the U.S. As a leading secure access vendor, Pulse Secure globally deploys a wide range of security products, from VPN to zero trust solutions, and the Company has become able to provide Pulse Secure's wide range of solutions. Alongside the migration of applications to the cloud and the spread of the 5G network, the IT environment is advancing toward a completely cloud-based business workstyle, centered on SaaS. In this situation, Pulse Secure's products are considered to be next-generation key technologies, and the aim is to provide zero trust total solutions through linking them with Resalio Lynx, an in-company product.

In September 2020, toward providing Asirrera, which is an RPA solution produced in Japan, the Company started an alliance with Panasonic Information Systems Co., Ltd. Robo Operator, an RPA solution from Asirrera Inc., is a desktop-based RPA solution entirely produced in Japan that does not require IT knowledge, is simple to operate, and allows users to easily create robots. Panasonic Information Systems will provide solutions that combine Robo Operator and Remote PC Array as an RPA that operates stably for working from home and teleworking as well. As it makes it possible to carry out other work while operating RPA, even in an office work environment, it is not necessary to prepare separate PCs to operate RPA, and it can be expected to reduce both costs and space requirements.

In September 2020, the Company acquired certification as a Google Cloud partner and started to handle Google Cloud Platform, which is a suite of cloud services provided on the Google infrastructure. It is making full use of its VDI experience and expertise cultivated over many years as a Citrix Systems distributor, and it has become able to provide an optimized teleworking environment that utilizes Google Cloud and Citrix Cloud.

Outlook

In May 2020, the Company entered into a business partnership with PBsystems, Inc., which is accelerating a teleworking-related business, in a wide range of fields in IT to realize workstyle reforms, from product and service planning through to sales. Utilizing the expertise in VDI that both companies have accumulated over many years, and their sales and technological capabilities, they will plan VDI solutions incidental to the Company's products, including Remote PC Array and the USB-type thin client Resalio Lynx, and provide high-quality and safe VDI total solutions to the domestic market. The two companies have also established a collaborative sales scheme to find excellent, general purpose software and IT services produced overseas, with PBsystems leading sales domestically as the top-ranked alliance partner.

■ Business environment

VDI is an advanced and effective technology that can solve three societal problems

In the IT infrastructure field, which is the Company's strength, demand for VDI is expected to continue to increase as a cybersecurity measure. For teleworking, the spread of which has accelerated during the current COVID-19 pandemic, there are many VPN (virtual private network) connections. However, VPN connections have problems in terms of security and operations. Companies are projected to make capital investments to address these issues as the next phase amid the establishment of teleworking as a workstyle after the COVID-19 pandemic has settled down. Against this backdrop, at FISCO, we expect adoption of Remote PC Array to spread and lead to a growth period for Zero Trust Thin Clients, a secure client product that is being developed as an advanced security model.

Until now, security has mainly been thought of as preventing unauthorized access, malware, and other such attempts from invading from the outside. However, VPN takes the form of PCs used at locations outside a company, such as at home or remote working bases, being introduced into a company's network, so an infection on a home PC can be used as a stepping stone to easily invading the corporate network. Against this background in which security measures have become essential from a wide range of perspectives due to this risk, at FISCO, we think that demand for Resalio Lynx 300/700 and other such products will increase even more in the future.

The Company is strongly progressing product development, centered on Resalio Lynx in order to realize DX with a high level of security. In addition, alongside the increase in VDI projects, it is strengthening its recruitment and training of engineers. It is also accelerating its response in terms of building a sales structure to respond to the increase in demand for Remote PC Array and to the rapid expansion of sales partners. In the IT industry, there is severe competition for human resources and securing human resources is extremely difficult. However, the Company's policy is not to increase human resources too quickly and instead to ascertain their qualities, such as their aptitudes, and to train these human resources so that they have the ability to work in the field over the long term. So rather than striving to capture order opportunities, it considers providing products that can be trusted to be its first priority. It would seem that this approach by the Company is leading to the adoption of its products by megabanks, which require high levels of security. Therefore, we at FISCO think that rather than growing rapidly in short bursts in response to rising demand, the Company will continue to grow stably over the long term.

Business environment

Also, the Company has a track record of introducing six Remote PC Array 200 units (corresponding to 180 terminals) at Onagawa Town Hall, Miyagi Prefecture, and the aim is to respond to rebuilding the internal information system in consideration of the roadmap for the future, including the strengthening of information security measures by the Ministry of Internal Affairs and Communication and the review of the “three-level measures” based on the needs for the new age, such as teleworking. At Onagawa Town Hall, from April 2020, the Company started phase 1 of a project to rebuild services, including screen transfers and file exchanges on a shared virtual platform, and started providing the new services in September of the same year. Introducing in-company products has made it possible to safely access the town hall’s internal LGWAN network via the internet from PCs, and it was able to transition to the new system in a short period of time and at low costs. Currently, the adoption of Remote PC Array by local governments is accelerating, and at FISCO, we think there is a high likelihood this movement to improve the environment in local governments will continue to spread in the future.

CSR

Not only solves information security problems, but also solves problems related to business continuity, such as the loss of data during a disaster, and to workstyle reforms to promote working from home and recruitment of human resources

The features of VDI include that the OS or applications are not placed within a local terminal (physical desktop = fat client), but are instead consolidated in a server, making possible operations from remote locations. As data is centrally managed at data centers and in server rooms and not located on local terminals, this is a technology that can solve problems related to business continuity such as data loss in the event of a disaster and issues related to workstyle reforms such as promoting teleworking and recruiting human resources, in addition to addressing information security problems such as information leakages and theft, which have become societal issues. Also, Resilio Lynx is a solution to transition existing PCs to thin clients, so existing PCs do not have to be disposed of and can be reused as thin client. In other words, the Company is fully capable of handling recycled PCs as well, and its products will play an important role from the perspective of environmental resources.

Shareholder return policy

In FY1/22, plans to pay a period-end dividend of ¥3.50, the same as in the previous fiscal year

In FY1/22, the Company plans to pay a period-end dividend of ¥3.50, the same as in the previous fiscal year. It is aiming for a dividend payout ratio of 20% in accordance with its basic policy of distributing profits in line with business results. On considering that results are strong at the current time, it seems possible to expect that the dividend amount will be upwardly revised.

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