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On October 15, 2020, Serverworks Co., Ltd. announced earnings results for 1H FY02/21.

Cumulative (JPYmn)	FY02/19				FY02/20				FY02/21		FY02/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Revenue	902	1,916	3,018	4,478	1,440	3,075	4,741	6,811	1,923	3,778	47.2%	8,003
YoY	32.8%	38.5%	41.4%	46.0%	59.7%	60.5%	57.1%	52.1%	33.5%	22.9%		17.5%
Gross profit	163	371	581	860	244	516	800	1,086	245	527	44.3%	1,190
YoY	-	-	-	71.3%	49.6%	39.1%	37.6%	26.3%	0.3%	2.1%		9.6%
Gross profit margin	18.1%	19.4%	19.3%	19.2%	16.9%	16.8%	16.9%	15.9%	12.7%	13.9%		14.9%
SG&A expenses	116	245	376	524	144	316	488	668	175	368	46.1%	798
YoY	-	-	-	16.7%	23.8%	28.8%	29.6%	27.5%	21.9%	16.5%		19.4%
SG&A ratio	12.9%	12.8%	12.5%	11.7%	10.0%	10.3%	10.3%	9.8%	9.1%	9.7%		10.0%
Operating profit	47	126	205	336	100	200	312	418	70	159	40.6%	392
YoY	-	-	-	533.2%	113.2%	59.0%	52.4%	24.4%	-30.5%	-20.6%		-6.1%
Operating profit margin	5.2%	6.6%	6.8%	7.5%	7.0%	6.5%	6.6%	6.1%	3.6%	4.2%		4.9%
Recurring profit	46	123	212	336	92	190	315	421	77	146	38.7%	377
YoY	-	-	-	769.9%	100.0%	54.5%	48.8%	25.5%	-16.6%	-23.2%		-10.5%
Recurring profit margin	5.1%	6.4%	7.0%	7.5%	6.4%	6.2%	6.6%	6.2%	4.0%	3.9%		4.7%
Net income	33	97	310	357	94	164	250	333	55	282	62.9%	448
YoY	-	-	-	99.0%	184.3%	69.2%	-19.2%	-6.5%	-40.9%	71.6%		34.4%
Net margin	3.7%	5.1%	10.3%	8.0%	6.5%	5.3%	5.3%	4.9%	2.9%	7.5%		5.6%

Quarterly (JPYmn)	FY02/19				FY02/20				FY02/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	902	1,014	1,102	1,459	1,440	1,634	1,666	2,070	1,923	1,855
YoY	32.8%	44.0%	46.6%	56.7%	59.7%	61.2%	51.1%	41.9%	33.5%	13.5%
Gross profit	163	208	210	279	244	272	284	286	245	282
YoY	-	-	-	-	49.6%	30.8%	35.1%	2.6%	0.3%	3.7%
Gross profit margin	18.1%	20.5%	19.1%	19.1%	16.9%	16.6%	17.1%	13.8%	12.7%	15.2%
SG&A expenses	116	129	131	148	144	172	172	181	175	193
YoY	-	-	-	-	23.8%	33.3%	31.1%	22.2%	21.9%	12.0%
SG&A ratio	12.9%	12.7%	11.9%	10.1%	10.0%	10.5%	10.3%	8.7%	9.1%	10.4%
Operating profit	47	79	79	131	100	100	112	105	70	89
YoY	-	-	-	-	113.2%	26.7%	41.8%	-19.5%	-30.5%	-10.6%
Operating profit margin	5.2%	7.8%	7.2%	8.9%	7.0%	6.1%	6.7%	5.1%	3.6%	4.8%
Recurring profit	46	77	89	124	92	98	125	106	77	69
YoY	-	-	-	-	100.0%	27.3%	40.9%	-14.3%	-16.6%	-29.4%
Recurring profit margin	5.1%	7.6%	8.1%	8.5%	6.4%	6.0%	7.5%	5.1%	4.0%	3.7%
Net income	33	64	213	47	94	70	86	83	55	226
YoY	-	-	-	-	184.3%	9.8%	-59.5%	77.8%	-40.9%	221.9%
Net margin	3.7%	6.3%	19.3%	3.2%	6.5%	4.3%	5.2%	4.0%	2.9%	12.2%

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

By product Quarterly (JPYmn)	FY02/19				FY02/20				FY02/21		FY02/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of Est.	FY Est.
Revenue	902	1,014	1,102	1,459	1,440	1,634	1,666	2,070	1,923	1,855	47.2%	8,003
YoY	32.8%	44.0%	46.6%	56.7%	59.7%	61.2%	51.1%	41.9%	33.5%	13.5%		17.5%
Cloud Integration	131	138	158	183	171	146	136	124	107	69		
YoY	65.8%	79.2%	64.6%	52.3%	30.6%	5.7%	-13.8%	-32.1%	-37.6%	-52.8%		
Resale	623	722	785	1,100	1,085	1,282	1,310	1,714	1,581	1,549		
YoY	26.9%	40.5%	48.4%	64.6%	74.1%	77.6%	66.8%	55.7%	45.7%	20.8%		
MSP	132	140	145	163	171	192	205	217	227	233		
YoY	43.5%	45.8%	30.6%	28.8%	29.5%	36.9%	41.1%	33.3%	32.6%	21.8%		
Other	15	14	14	14	14	15	16	15	9	3		
YoY	-11.8%	-17.6%	-12.5%	-10.0%	-9.0%	5.2%	14.3%	6.9%	-35.3%	-78.0%		

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

Recurring-revenue business Quarterly (JPYmn)	FY02/19				FY02/20				FY02/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	902	1,014	1,102	1,459	1,440	1,634	1,666	2,070	1,923	1,855
YoY	32.8%	44.0%	46.6%	56.7%	59.7%	61.2%	51.1%	41.9%	33.5%	13.5%
Recurring-revenue business	758	862	926	1,270	1,253	1,471	1,516	1,925	1,808	1,781
YoY	29.8%	40.7%	44.9%	58.6%	65.4%	70.7%	63.7%	51.6%	44.2%	21.0%
% of total	84%	85%	84%	87%	87%	90%	91%	93%	94%	96%
One-time revenue business	144	152	176	190	187	163	150	145	115	74
YoY	51.8%	66.2%	56.4%	45.5%	29.7%	7.5%	-15.0%	-23.6%	-38.4%	-54.6%
% of total	16%	15%	16%	13%	13%	10%	9%	7%	6%	4%

Source: Shared Research based on company data
 Note: Figures collected by Serverworks. Amounts for recurring-revenue business are totals for the Resale and MSP businesses. One-time revenue business figures are revenue from the Cloud Integration business.

1H FY02/21 results (announced October 15, 2020)

Overview

In 1H FY02/21, revenue was JPY3.8bn (+22.9% YoY), operating profit was JPY159mn (-20.6% YoY), recurring profit was JPY146mn (-23.2% YoY), and net income was JPY282mn (+71.6% YoY). The main drivers of revenue growth were Resale services (+32.2% YoY) and Managed Service Provider (MSP) services (+26.9% YoY). These offset a revenue decline in Cloud Integration services (-44.6% YoY). Operating profit declined YoY due to higher procurement costs due to the growth in Resale services, and personnel expenses and recruitment costs as the company targets future growth.

In Q2 FY02/21, revenue was JPY1.9bn (+13.5% YoY), operating profit was JPY89mn (-10.6% YoY), recurring profit was JPY69mn (-29.4 % YoY), and net income was JPY226mn (×3.2 growth from net income in Q2 FY02/20). Cloud Integration services sales declined sharply (-52.8% YoY) but there was solid growth in Resale services (+20.8% YoY) and in MSP (+21.8% YoY). In Q2 FY02/21, the company recorded an extraordinary gain of JPY246mn on the partial sale of investment securities (listed shares in one company).

The company revised its FY02/21 earnings forecasts (announced on October 9, 2020): revenue of JPY8.0bn (+17.5% YoY; initial forecast of JPY8.0bn), operating profit of JPY392mn (-6.1% YoY; JPY417mn), recurring profit of JPY377mn (-10.5% YoY; JPY426mn), net income of JPY448mn (+34.4% YoY; JPY306mn), and EPS of JPY62.0 (initial forecast of JPY45.4). The main reasons for the revisions are: 1) although sales in Resale services have been consistently higher than originally expected, there have been project postponements and reductions to the size of orders in the Cloud Integration business due to COVID-19; 2) incorporation of expenses related to the issuance of the No. 5 Series of moving-strike warrants (announced on June 8) and expenses related to the change of listing to the First Section of the Tokyo Stock Exchange; 3) the posting of an extraordinary gain from the sale of investment securities.

Cloud Integration

In Cloud Integration, Q2 revenue was JPY69mn (-52.8% YoY). The number of projects decreased to 88 (-18.5%), revenue per project decreased to JPY773,000 (-42.4% YoY), and the number of customer companies fell to 50 (-5.7% YoY). Immediately after the declaration of a state of emergency in Japan, the stagnation in economic activity meant that there were no large orders, and the restraint in corporate IT investment (project cancellations and postponements) also had an impact. However, there has been a trend toward recovery since Q2. In fact, work in progress on the balance sheet decreased from HPY49mn at end-FY02/20 to JPY35mn at end-Q1 FY02/21, but there was a turnaround as the figure increased to JPY64mn at end-Q2 FY02/21, and Shared Research takes the view that orders may be recovering.

Cloud Integration KPIs

Cloud Integration Quarterly (JPYmn)	FY02/19				FY02/20				FY02/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	131	138	158	183	171	146	136	124	107	69
YoY	65.8%	79.2%	64.6%	52.3%	30.6%	5.7%	-13.8%	-32.1%	-37.6%	-52.8%
Number of projects	145	115	115	93	100	108	104	119	131	88
YoY	36.8%	10.6%	7.5%	-10.6%	-31.0%	-6.1%	-9.6%	28.0%	31.0%	-18.5%
Revenue per project (JPY'000)	903	1,191	1,365	1,968	1,710	1,343	1,308	1,042	809	773
YoY	21.2%	60.9%	52.2%	73.4%	89.4%	12.8%	-4.2%	-47.1%	-52.7%	-42.4%
Number of customers	82	61	58	56	48	53	62	68	77	50
YoY	30.2%	-1.6%	-3.3%	-6.7%	-41.5%	-13.1%	6.9%	21.4%	60.4%	-5.7%

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

Resale

Revenue of Resale services amounted to JPY1.5bn (+20.8% YoY) in Q2 FY02/21, continuing to drive the company's sales growth. ARPU (AWS fees per company) was USD12,163 (+20.4% YoY). Increasing AWS usage volume per customer drove revenue growth. Ongoing orders from existing customers, higher usage fees for large customers, and new customers that had come on board also added to sales. The number of AWS accounts (individual companies may have multiple accounts) came to 1,273 (+27.0% YoY). Revenue fell slightly from Q1 to Q2, but this is because the yen became stronger in Q2 and Q1 saw higher revenue from reservations for future use (such as from Reserved Instance and Saving Plans). Shared Research does not consider this to be a concern, as dollar denominated ARPU has been increasing.

AWS Resale Quarterly (JPYmn)	FY02/19				FY02/20				FY02/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	623	722	785	1,100	1,085	1,282	1,310	1,714	1,581	1,549
YoY	26.9%	40.5%	48.4%	64.6%	74.1%	77.6%	66.8%	55.7%	45.7%	20.8%
Number of AWS accounts	640	701	726	807	902	1,002	1,058	1,140	1,184	1,273
YoY	36.8%	40.5%	36.0%	36.1%	40.9%	42.9%	45.7%	41.3%	31.3%	27.0%
ARPU (USD)	5,523	5,825	5,477	7,293	8,648	10,101	10,976	11,886	12,046	12,163
YoY	-	-	-	-	56.6%	73.4%	100.4%	63.0%	39.3%	20.4%

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

MSP

MSP revenue was JPY233mn (+21.8% YoY) in Q2 FY02/21. Ongoing orders from existing customers contributed to revenue growth. To cope with burgeoning Site Reliability Engineering services (SRE; ways to improve performance, availability, extensibility, and security to ensure the reliability of IT systems), the company put together dedicated teams to handle specific large customers and projects and meet emerging demand, which also contributed to sales growth.

Cost management

Cost of revenue was JPY1.6bn (+15.4%, or +JPY210mn YoY) in Q2 FY02/21. Although there was a JPY216mn rise in procurement costs (mainly payments to AWS), in line with higher Resale services revenue, and labor costs increased by JPY54mn, outsourcing costs decreased by JPY20mn. Gross profit was JPY282mn (+3.7% YoY), and GPM 15.2% (16.6% in Q2 FY02/20).

SG&A expenses were JPY193mn (up 12.0%, +JPY21mn YoY). The main increases were from personnel expenses (+JPY23mn YoY) and tax (+JPY18mn YoY). On the other hand, advertising expenses were down by JPY13mn YoY, and travel expenses were also curbed. There were 158 employees at end-Q2 (including eight directors), an increase of 17 from end-FY02/20, with 96 (up by six) in the manufacturing department and 54 (up by 11) in the sales department.

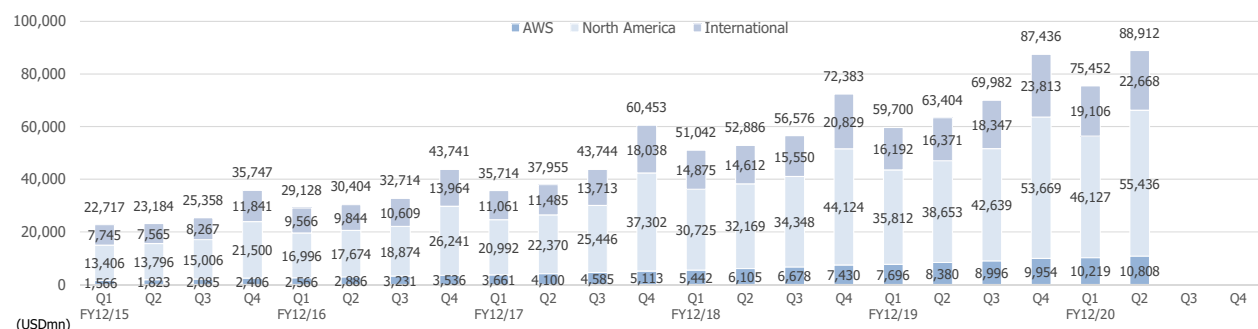
Reference: People with AWS certifications

AWS Certified Cloud Practitioners (number of people)	FY02/19				FY02/20				FY02/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Solutions Architect - Professional	-	-	-	29	28	29	34	38	38	49
DevOps Engineer - Professional	-	-	-	17	17	18	21	22	24	28
Solution Architect Associate	-	-	-	55	57	66	72	85	85	89
Developer Associate	-	-	-	27	26	29	33	39	39	45
SysOps Associate	-	-	-	32	33	37	43	48	48	52
Security Specialty	-	-	-	-	-	8	16	22	22	23
Big Data Specialty	-	-	-	-	-	2	11	15	15	13
Advanced Networking Specialty	-	-	-	-	-	5	9	14	15	18
Machine Learning Specialty	-	-	-	-	-	-	1	4	5	7
Alexa Skill Builder Specialty	-	-	-	-	-	-	7	10	12	14
Database Specialty	-	-	-	-	-	-	-	-	6	8
Data Analytics Specialty	-	-	-	-	-	-	-	-	-	2

Source: Shared Research based on company data
 Note: Includes engineers who hold multiple certifications

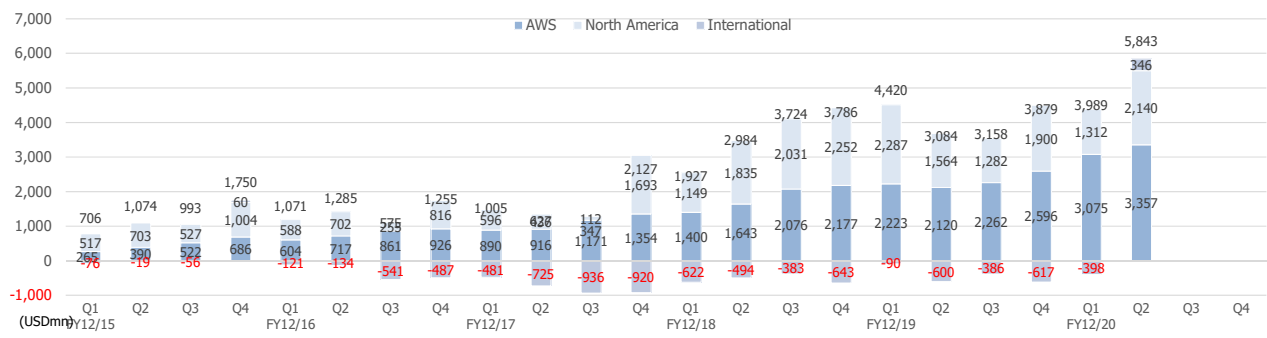
Reference: Performance at Amazon.com, Inc. (NASDAQ: AMZN)

Amazon's sales by segment



Source: Shared Research based on Amazon's materials

Amazon's operating profit by segment



Source: Shared Research based on Amazon's materials

Company forecast for FY02/21

(JPYmn)	FY02/19			FY02/20			FY02/21			
	1H	2H	FY	1H	2H	FY	1H Act.	2H Est.	FY Est.	Init. Est.
Revenue	1,916	2,562	4,478	3,075	3,737	6,811	3,778	4,225	8,003	8,003
YoY	38.5%	52.2%	46.0%	60.5%	45.9%	52.1%	22.9%	13.1%	17.5%	17.5%
Cost of revenue	1,545	2,073	3,618	2,559	3,167	5,725	3,251	3,562	6,813	6,803
Gross profit	371	489	860	516	570	1,086	527	663	1,190	1,200
YoY	-	-2.6%	71.3%	39.1%	16.6%	26.3%	2.1%	16.3%	9.6%	10.5%
Gross profit margin	19.4%	19.1%	19.2%	16.8%	15.3%	15.9%	13.9%	15.7%	14.9%	15.0%
SG&A expenses	245	279	524	316	353	668	368	430	798	783
YoY	-	-37.8%	16.7%	28.8%	26.3%	27.5%	16.5%	21.9%	19.4%	17.1%
SG&A ratio	12.8%	10.9%	11.7%	10.3%	9.4%	9.8%	9.7%	10.2%	10.0%	9.8%
Operating profit	126	210	336	200	217	418	159	233	392	417
YoY	-	295.5%	533.2%	59.0%	3.6%	24.4%	-20.6%	7.2%	-6.1%	-0.1%
Operating profit margin	6.6%	8.2%	7.5%	6.5%	5.8%	6.1%	4.2%	5.5%	4.9%	5.2%
Recurring profit	123	213	336	190	231	421	146	231	377	426
YoY	-	451.1%	769.9%	54.5%	8.7%	25.5%	-23.2%	0.0%	-10.5%	1.1%
Recurring profit margin	6.4%	8.3%	7.5%	6.2%	6.2%	6.2%	3.9%	5.5%	4.7%	5.3%
Net income	97	260	357	164	169	333	282	166	448	306
YoY	-	44.9%	99.0%	69.2%	-34.8%	-6.5%	71.6%	-1.7%	34.4%	-8.2%
Net margin	5.1%	10.1%	8.0%	5.3%	4.5%	4.9%	7.5%	3.9%	5.6%	3.8%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

This note is the most recent addition to the [full report](#).

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