



## Shikigaku / 7049

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## Executive summary

### Business overview

- Shikigaku\* was established in March 2015 as an organizational consulting company. The company provides one-on-one training to top management (mainly of SMEs; see the fourth bullet point in this section). The training is based on a proprietary organizational management theory, *shikigaku*. The focus is on eliminating factors that hold back productivity. The company has grown by standardizing the *shikigaku* theory, increasing its number of consultants, and cultivating a new niche in organizational management, in which the company does not compete with consulting firms.
- Kenji Fukutomi (head of Shikigaku Research Institute) coined *shikigaku* from the Japanese phrase for a course of study called “structure of consciousness,” for which he advocates. The company’s president, Kodai Ando, redefined the term and templated a teaching method to explain it with graphic illustrations. The method is designed to help top management learn about organizational management quickly and systematically. Top management learns that differences in perception among individuals within an organization hinder the organization’s productivity. The training presents theories in three key areas: clarification and creation of rules regarding roles, authorities, and responsibilities; the pyramid as the ideal shape for an organizational structure; and logical and objective organizational management methods. The company’s business model is to provide one-on-one training to top management. In doing so, the company teaches that “productivity stalls when management prioritizes emotion.” Shikigaku encourages top management to take the initiative in changing their own behavior and organizations. According to the company, top management first experience the positive changes within their organizations as they apply what they learned from their three-month courses. The knowledge then filters down throughout the organization, as client companies apply *shikigaku* to provide additional training to middle- and lower-level managers.
- In FY02/20, revenue was JPY1.7bn (CAGR of 75.6% over the past three years), and OPM was 16.5%. The company’s main service is providing Master Training. Fees vary by consultant ranking, from JPY1.2mn to JPY4.8mn (12 one-hour lessons over a three-month period). To date, 1,519 companies have adopted *shikigaku* (as of end-FY02/20).
- Companies with 200 or fewer employees account for 86.3% of Shikigaku’s clients (FY02/19). Shared Research estimates the number of small and medium-sized companies in Japan at 138,000. To date, 1,519 companies have adopted *shikigaku*, or 1.1% of the potential market, leaving ample room for expansion. The company boosts sales by standardizing the *shikigaku* theory and providing a consistent and homogenous service, which differs from consulting firms’ customized approach. The company’s one-on-one approach gives it more pricing flexibility than would be possible with classroom lecture-type training. Companies that conduct corporate training typically take a bottom-up approach, offering hierarchical, group-based training at the lower echelons of a company. By contrast, Shikigaku trains top management and executives, instilling its approach from the top echelon downward. Shikigaku also works to expand sales through introductions to business associates of other companies that have adopted *shikigaku*. Referrals from existing clients account for around 70% of new clients.
- The number of consultants is a key performance indicator. In Management Consulting Services, revenue equates to unit sales per consultant times the number of consultants. As of end-FY02/20, the company had 31 consultants on staff (excluding two executives who are consultants), and monthly revenue per consultant was JPY4.0mn (Management Consulting Services revenue [excluding revenue from executives who are consultants and consultants at partner companies] + Platform Services revenue) ÷ number of consultants (excluding executives who are consultants and consultants at partner companies). Advertising expenses were equivalent to 14.3% of revenue, which Shared Research thinks is likely to become fixed as the company continuously seeks to increase its brand recognition.
- Under its medium-term strategy, the company aims to 1) increase its number of consultants to 100 by FY02/23, boosting the number by 25 per year, 2) expand recurring revenue by building Platform Services; and 3) expand performance in new businesses (utilizing the Shikigaku Fund and Shikigaku Career).

\*Shikigaku vs. *shikigaku*

Throughout this report, *shikigaku* (lower case and italic) is used when referring to the management theory. The upper-case, non-italic Shikigaku refers to the company.

## Earnings trends

- In FY02/21, the company reported consolidated revenue of JPY2.5bn (+45.7% YoY, 100.0% of forecast revised as of March 11, 2021), operating profit of JPY137mn (-51.5%, 110.0%), recurring profit of JPY199mn (-29.3% YoY, 108.4%), and net loss of JPY42mn (versus net profit of JPY179mn in FY02/20). The narrower YoY decline at the recurring profit level (-29.3%) reflected a JPY71 mn gain on the sale of investment securities at the time of the listing of Geocode Co., Ltd. on the JASDAQ Standard market under the Tokyo Stock Exchange.
- For FY02/22, Shikigaku projects full-year consolidated revenue of JPY3.8bn (+51.6% YoY), operating profit of JPY400mn (+191.0% YoY), recurring profit of JPY353mn (+77.1% YoY), net income of JPY153mn (versus a net loss of JPY42mn in FY02/21), and EBITDA of JPY470mn (+136.2% YoY).
- On March 17, 2021, the company announced its medium-term management plan. The company targets revenue of JPY6.3bn and operating profit of JPY1.6bn in FY02/24. Its vision for the final year of the plan period (FY02/24) is as follows: 1) solidify the positioning of *shikigaku* as essential to corporate management and running an organization; and 2) satisfying the market cap, earnings, and governance structure requirements for a listing change to Tokyo Stock Exchange Prime market. Growth strategies to attain these goals are to establish a solid position in the Organizational Consulting business and expand business areas.

## Strengths and weaknesses

- Shared Research thinks the company's strengths are: 1) cultivation of a niche market (one-on-one training for top management) that allows the company to set its own prices and generate profits, 2) top-down marketing that begins with top management, and 3) a first-mover advantage gained by building the Shikigaku brand.
- We believe its weaknesses are: 1) the *shikigaku* theory is largely complete, leaving little room for improvement in quality and little leeway for unit sales prices to rise, 2) hard to prevent imitators from entering the market and maintain its competitive advantage, and 3) advertising expenses putting pressure on profits, as the company strives to build and sustain a dominant market share.

## Key financial data

Income statement (JPYmn)	FY02/17 Parent	FY02/18 Parent	FY02/19 Parent	FY02/20 Cons.	FY02/21 Cons.	FY02/22 Cons. Est.
<b>Revenue</b>	<b>318</b>	<b>755</b>	<b>1,252</b>	<b>1,720</b>	<b>2,506</b>	<b>3,798</b>
YoY	165.7%	137.5%	65.8%	37.5%	45.7%	51.6%
<b>Gross profit</b>	<b>279</b>	<b>672</b>	<b>1,100</b>	<b>1,486</b>	<b>1,867</b>	
YoY	-	141.1%	63.6%	35.2%	25.6%	
Gross profit margin	87.7%	89.0%	87.8%	86.4%	74.5%	
<b>Operating profit</b>	<b>-6</b>	<b>68</b>	<b>247</b>	<b>283</b>	<b>137</b>	<b>400</b>
YoY	-	-	261.3%	14.6%	-51.5%	191.0%
Operating profit margin	-	9.1%	19.8%	16.5%	5.5%	10.5%
<b>Recurring profit</b>	<b>-8</b>	<b>69</b>	<b>234</b>	<b>282</b>	<b>199</b>	<b>353</b>
YoY	-	-	237.4%	20.6%	-29.3%	77.1%
Recurring profit margin	-	9.2%	18.7%	16.4%	8.0%	9.3%
<b>Net income</b>	<b>-7</b>	<b>42</b>	<b>163</b>	<b>179</b>	<b>-42</b>	<b>153</b>
YoY	-	-	285.0%	10.0%	-	-
Net margin	-	5.6%	13.0%	10.4%	-	4.0%
<b>EBITDA</b>	<b>-</b>	<b>-</b>	<b>253</b>	<b>322</b>	<b>199</b>	<b>470</b>
YoY	-	-		27.3%	-38.2%	136.2%
<b>Per-share data (split-adjusted; JPY)</b>						
Shares issued (year-end; '000)	6,600	6,600	7,320	7,475	7,535	
EPS	-1.0	6.5	24.7	24.0	-5.6	20.3
EPS (fully diluted)	-	-	23.8	23.3	-	
Dividend per share	-	-	-	-	-	-
Book value per share	21	36	284	128	120	
<b>Balance sheet (JPYmn)</b>						
Cash and cash equivalents	132	279	874	1,006	1,243	
<b>Total current assets</b>	<b>160</b>	<b>335</b>	<b>973</b>	<b>1,152</b>	<b>1,668</b>	
Tangible fixed assets	3	12	9	64	81	
Investments and other assets	9	24	27	184	450	
Intangible fixed assets	-	-	-	202	194	
<b>Total assets</b>	<b>173</b>	<b>371</b>	<b>1,009</b>	<b>1,602</b>	<b>2,392</b>	
Short-term debt	17	21	4	114	245	
<b>Total current liabilities</b>	<b>73</b>	<b>243</b>	<b>309</b>	<b>416</b>	<b>869</b>	
Long-term debt	54	50	7	197	385	
<b>Total fixed liabilities</b>	<b>54</b>	<b>50</b>	<b>7</b>	<b>197</b>	<b>385</b>	
<b>Total liabilities</b>	<b>127</b>	<b>294</b>	<b>316</b>	<b>614</b>	<b>1,254</b>	
Shareholders' equity	46	77	693	954	897	
<b>Total net assets</b>	<b>46</b>	<b>77</b>	<b>693</b>	<b>988</b>	<b>1,139</b>	
<b>Total liabilities and net assets</b>	<b>173</b>	<b>371</b>	<b>1,009</b>	<b>1,602</b>	<b>2,392</b>	
Total interest-bearing debt	71	72	11	312	630	
<b>Cash flow statement (JPYmn)</b>						
Cash flows from operating activities	22	178	218	172	181	
Cash flows from investing activities	-13	-20	-2	-459	-298	
Cash flows from financing activities	112	-11	384	419	315	
<b>Financial ratios</b>						
ROA (RP-based)	-7.5%	25.5%	33.9%	17.6%	8.3%	
ROE	-27.8%	68.9%	42.3%	18.7%	-4.6%	
Equity ratio	26.5%	20.8%	68.7%	59.6%	37.5%	
Total asset turnover	314.8%	278.0%	181.4%	131.8%	125.5%	
Net margin	-2.1%	5.6%	13.0%	10.4%	-1.7%	

Source: Shared Research based on company data; per-share data adjusted for stock splits

## Recent updates

### Highlights

On April 14, 2021, Shikigaku Co., Ltd. announced earnings results for full-year FY02/21; see the results section for details.

On April 6, 2021, the company announced monthly revenue figures for March (FY02/22).

#### Platform Services monthly revenue in FY02/22

(JPYmn)	FY02/22											
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Monthly revenue	67	74										
YoY	194%	209%										
Cumulative	67	141										
YoY	194%	202%										

Source: Shared Research based on company data

Note: Figures for April are preliminary figures, and they may change at the time of disclosure of next month's figures.

#### Platform Services monthly client numbers in FY02/22

(number of clients)	FY02/22											
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Shikigaku Cloud	212	198										
Shikigaku Members Service	451	428										
Shikigaku Basic Service	213	252										

Source: Shared Research based on company data

Note: Figures for April are preliminary figures, and they may change at the time of disclosure of next month's figures.

On March 17, 2021, the company announced its medium-term management plan (2022–2024).

The company's vision for the final year of the plan period (FY02/24) is as follows: 1) solidify the positioning of *shikigaku* as essential to corporate management and running an organization; and 2) satisfying the market cap, earnings, and governance structure requirements for a listing change to Tokyo Stock Exchange Prime market.

Growth strategies to attain these goals are to establish a solid position in the Organizational Consulting business (expand the business with a target 100 consultants) and expand business areas (promote new businesses to enhance growth potential).

Numerical targets are revenue of JPY6.3bn and operating profit of JPY1.6bn in FY02/24. The company noted that its outlook is conservative other than for revenue of the Organizational Consulting business. That being said, it sees further upside on solidifying its earnings base by expanding business areas.

#### Numerical targets

(JPYmn)	FY02/20 FY Act.	FY02/21 Revised Est.	FY02/22 FY Targets	FY02/23 FY Targets	FY02/24 FY Targets
<b>Revenue</b>	<b>1,720</b>	<b>2,505</b>	<b>3,798</b>	<b>5,110</b>	<b>6,300</b>
YoY	37.5%	45.3%	51.9%	34.6%	23.4%
<b>Operating profit</b>	<b>283</b>	<b>125</b>	<b>400</b>	<b>980</b>	<b>1,560</b>
YoY	14.6%	-55.9%	220.0%	145.0%	59.2%
Operating profit margin	16.5%	5.0%	10.5%	19.8%	24.9%
<b>Recurring profit</b>	<b>282</b>	<b>184</b>	<b>353</b>	<b>972</b>	<b>1,527</b>
YoY	20.6%	-34.8%	91.8%	175.4%	57.1%
<b>Net income</b>	<b>179</b>	<b>-44</b>	<b>153</b>	<b>645</b>	<b>1,049</b>
YoY	10.0%	-	-	321.6%	62.6%
<b>ROE</b>	<b>18.7%</b>	<b>-</b>	<b>5%</b>	<b>19%</b>	<b>25%</b>

Source: Shared Research based on company data

On the same day, the company announced the issue of the 4th share subscription rights with exercise price revision clause by third-party allotment and the conclusion of a facility agreement.

The company announced that it had resolved to issue share subscription rights with SMBC Nikko Securities Inc. as the planned allottee and conclude a facility agreement after notification of the share subscription rights required under the Financial Instruments and Exchange Act takes effect.

#### Overview of financing

- Financing amount: JPY2,063,450,000 to be raised from the issue of share subscription rights; JPY2,056,450,000 net of estimated issue expenses of JPY7mn
- Number of share subscription rights to be issued: 8,800 (of which 2,000 will be subject to a target price clause)
- Issue price: JPY883 per share subscription right (total amount: JPY7,770,400)
- Exercise period: Two years
- Maximum dilution: 880,000 latent shares (100 shares per share subscription right); 11.78% of total shares outstanding as of February 28, 2021
- Allottee: SMBC Nikko Securities Inc. (by third-party allotment)

#### Usage of funds and spending schedule

- Investment in Shikigaku Hands-On Support Fund: JPY1.0bn (April 2021–February 2024)
- Hiring and personnel expenses to establish team of 100 consultants: JPY781mn (April 2021–February 2024)
- Advertising expenses to attract new clients: JPY275mn (April 2021–February 2024)

On March 11, 2021, the company announced a notice regarding extraordinary losses it would be booking in FY02/21.

The company previously issued a notice regarding extraordinary losses booked in connection with Fukushima Sports Entertainment on July 13, 2020. In this latest notice, the company said it was booking additional extraordinary losses in connection with this subsidiary in Q4 FY02/21.

Fukushima Sports Entertainment is still insolvent as of end-FY02/21. The extraordinary losses Shikigaku is booking in Q4 reflect an addition of JPY67mn to provision of allowance to cover anticipated losses on credit extended to Fukushima Sports Entertainment and an addition of JPY14mn to provision for loss on business of subsidiaries and affiliates. Because these charges are booked at the parent company level, then netted out at the group level when accounts are consolidated, there will be no impact on consolidated earnings for FY02/21.

On the same day, the company announced revisions to its full-year FY02/21 earnings forecast.

(JPYmn)	FY02/20			FY Rev. Est.	FY02/21			YoY FY Est.
	1H Act.	2H Act.	FY Act.		FY Est.	Change	Rate	
<b>Revenue</b>	<b>780</b>	<b>941</b>	<b>1,720</b>	<b>2,505</b>	<b>2,500</b>	<b>5</b>	<b>0.2%</b>	<b>45.6%</b>
Cost of revenue	120	114	234					
<b>Gross profit</b>	<b>660</b>	<b>826</b>	<b>1,486</b>					
Gross profit margin	84.6%	87.8%	86.4%					
SG&A expenses	526	677	1,203					
SG&A ratio	67.4%	72.0%	69.9%					
<b>Operating profit</b>	<b>134</b>	<b>149</b>	<b>283</b>	<b>125</b>	<b>115</b>	<b>9</b>	<b>8.5%</b>	<b>-55.9%</b>
Operating profit margin	17.2%	15.9%	16.5%	5.0%	4.6%			
<b>Recurring profit</b>	<b>134</b>	<b>149</b>	<b>282</b>	<b>184</b>	<b>111</b>	<b>73</b>	<b>65.3%</b>	<b>-34.8%</b>
Recurring profit margin	17.1%	15.8%	16.4%	7.3%	4.4%			
<b>Net income</b>	<b>75</b>	<b>104</b>	<b>179</b>	<b>-44</b>	<b>-47</b>	<b>3</b>	<b>-</b>	<b>-</b>
Net margin	9.6%	11.0%	10.4%	-1.8%	-1.9%			
<b>EBITDA</b>	<b>146</b>	<b>176</b>	<b>322</b>	<b>185</b>	<b>180</b>	<b>4</b>	<b>2.4%</b>	<b>-42.5%</b>

Source: Shared Research based on company data

Having issued a revised forecast for FY02/21 results on March 11, 2021, Shikigaku now projects full-year consolidated revenue of JPY2.5bn (+45.6% YoY), operating profit of JPY125mn (-55.9% YoY), recurring profit of JPY184mn (-34.8% YoY), a net loss of JPY44mn (versus net income of JPY179mn in FY02/20), and EBITDA of JPY185mn (-42.5% YoY). The revised forecast for top-line revenues is higher than the company's initial estimate. The new forecast for the bottom-line is also ahead of the company's initial estimate due mainly to a gain of JPY71mn booked on the sale of investment securities at the time of the listing of Geocode Co., Ltd. on the JASDAQ Standard market under the Tokyo Stock Exchange.

On March 4, 2021, the company announced monthly revenue figures for February (FY02/21).

On February 26, 2021, Shared Research updated the report following interviews with the company.

On February 22, 2021, the company announced that it would invest in WhiteSeed Inc. for Shikigaku Fund No. 1 as the fund's fifth investment project.

The company announced that its subsidiary, Shikigaku No. 1 Limited Investment Partnership (Shikigaku Fund No. 1) will invest in WhiteSeed Inc. via a third-party allotment of shares. WhiteSeed operates store outlets that provide car wash, polishing, and coating services. It also runs a franchising business and an e-commerce business primarily for mail order. Shikigaku has determined that although WhiteSeed's car wash, polishing, and coating technology is unique, it can grow its business through increasing the number of staff, directly operated outlets, and franchise stores since the services it provides are highly scalable if a service manual is used. Shikigaku Fund No.1 owns approximately 9% of WhiteSeed. The company expects the impact of the investment on its earnings and financial position to be minimal.

On February 4, 2021, the company announced monthly revenue figures for January (FY02/21).

**For previous releases and developments, please refer to the "News and topics" section.**



## Trends and outlook

### Quarterly trends and results

Cumulative (JPYmn)	FY02/20				FY02/21				FY02/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Revenue	365	780	1,252	1,720	426	967	1,696	2,506	100.0%	2,505
YoY	46.6%	38.2%	38.1%	37.5%	16.6%	24.0%	35.4%	45.7%		45.6%
Gross profit	309	660	1,078	1,486	359	779	1,302	1,867		
YoY	38.9%	28.5%	34.0%	35.2%	16.0%	18.1%	20.8%	25.6%		
Gross profit margin	84.6%	84.6%	86.1%	86.4%	84.2%	80.6%	76.8%	74.5%		
SG&A expenses	256	526	858	1,203	391	803	1,266	1,729		
YoY	41.7%	31.1%	42.8%	41.1%	53.0%	52.8%	47.5%	43.7%		
SG&A ratio	70.0%	67.4%	68.5%	69.9%	91.9%	83.1%	74.6%	69.0%		
Operating profit	53	134	220	283	-33	-24	37	137	110.0%	125
YoY	26.7%	19.0%	8.1%	14.6%	-	-	-83.3%	-51.5%		-55.9%
Operating profit margin	14.6%	17.2%	17.6%	16.5%	-	-	2.2%	5.5%		5.0%
Recurring profit	54	134	220	282	-33	-26	112	199	108.4%	184
YoY	28.3%	19.4%	8.8%	20.6%	-	-	-48.9%	-29.3%		-34.8%
Recurring profit margin	14.7%	17.1%	17.6%	16.4%	-	-	6.6%	8.0%		7.3%
Net income	37	75	129	179	-99	-105	-79	-42	-	-44
YoY	37.4%	7.1%	1.7%	10.0%	-	-	-	-		-
Net margin	10.0%	9.6%	10.3%	10.4%	-	-	-	-		-
EBITDA	57	146	246	322	-18	3	81	199	107.6%	185
YoY	32.6%	27.4%	18.8%	27.3%	-	-97.9%	-67.1%	-38.2%		-42.5%

Quarterly (JPYmn)	FY02/20				FY02/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	365	414	473	468	426	541	729	810
YoY	46.6%	31.6%	38.0%	35.6%	16.6%	30.4%	54.4%	73.0%
Gross profit	309	351	418	408	359	420	523	564
YoY	38.9%	20.5%	43.8%	38.3%	16.0%	19.8%	25.1%	38.3%
Gross profit margin	84.6%	84.6%	88.5%	87.2%	84.2%	77.7%	71.7%	69.7%
SG&A expenses	256	270	332	345	391	412	462	464
YoY	41.7%	22.5%	66.1%	37.2%	53.0%	52.5%	39.1%	34.5%
SG&A ratio	70.0%	65.2%	70.3%	73.6%	91.9%	76.2%	63.4%	57.2%
Operating profit	53	81	86	63	-33	8	61	101
YoY	26.7%	14.3%	-5.3%	44.3%	-	-89.8%	-28.9%	59.0%
Operating profit margin	14.6%	19.4%	18.2%	13.5%	-	1.5%	8.4%	12.5%
Recurring profit	54	80	87	62	-33	7	138	87
YoY	28.3%	14.1%	-4.4%	96.3%	-	-91.0%	59.9%	40.0%
Recurring profit margin	14.7%	19.3%	18.3%	13.3%	-	1.3%	19.0%	10.7%
Net income	37	39	54	50	-99	-6	26	-
YoY	37.4%	-11.4%	-5.1%	39.2%	-	-	-51.8%	-
Net margin	10.0%	9.3%	11.4%	10.7%	-	-	3.5%	-
EBITDA	57	89	100	76	-18	21	78	118
YoY	32.6%	24.3%	8.2%	65.2%	-	-75.5%	-22.1%	55.3%

Source: Shared Research based on company data

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

Percentages are not shown when YoY change exceeds 1,000%. YoY change rates for FY02/19 are based on quarterly results for FY02/18. Please note that quarterly results for FY02/18 have not been audited by an auditing firm.

The company transitioned to consolidated accounting in Q2 FY02/20. Figures through Q1 FY02/20 are non-consolidated.

## Segment performance

By service		FY02/20				FY02/21				FY02/21	
Cumulative (JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Total revenue		365	780	1,252	1,720	426	967	1,696	2,506	100.0%	2,505
YoY		46.6%	38.2%	38.1%	37.5%	16.6%	24.0%	35.4%	45.7%		45.6%
Organizational Consulting		365	780	1,252	1,720	426	941	1,581	2,222	100.2%	2,218
YoY		46.6%	38.2%	38.1%	37.5%	16.6%	20.7%	26.2%	29.1%		28.9%
% of total revenue		100.0%	100.0%	100.0%	100.0%	100.0%	97.4%	93.2%	88.6%		88.5%
Management Consulting Services		339	720	1,151	1,563	356	784	1,296	1,768		
YoY		38.4%	31.1%	31.2%	29.8%	5.0%	8.9%	12.6%	13.1%		
% of total revenue		92.7%	92.4%	91.9%	90.8%	83.5%	81.1%	76.4%	70.5%		
Ratio of revenue by directors		11.5%	15.9%	14.2%	11.7%	6.9%	NA	NA	NA		
Platform Services		27	60	101	157	70	157	285	454		
YoY		512.9%	301.9%	246.0%	230.2%	164.8%	163.4%	182.0%	188.1%		
% of total revenue		7.3%	7.6%	8.1%	9.2%	16.5%	16.2%	16.8%	18.1%		
Sports Entertainment		-	-	-	-	-	25	73	192	99.6%	193
YoY		-	-	-	-	-	-	-	-		-
% of total revenue		-	-	-	-	-	2.6%	4.3%	7.7%		7.7%
Contract Development		-	-	-	-	-	-	42	92	100.3%	92
YoY		-	-	-	-	-	-	-	-		-
% of total revenue		-	-	-	-	-	-	2.5%	3.7%		3.7%
Operating profit		53	134	220	283	-33	-24	37	137	110.0%	125
YoY		26.7%	19.0%	8.1%	14.6%	-	-	-83.3%	-51.5%		-55.9%
Organizational Consulting		53	134	220	283	-33	7	111	229		
YoY		-	-	-	-	-	-94.6%	-49.7%	-19.2%		
Sports Entertainment		-	-	-	-	-	-33	-84	-91		
YoY		-	-	-	-	-	-	-	-		
Contract Development		-	-	-	-	-	-	-2	-6		
YoY		-	-	-	-	-	-	-	-		

By service		FY02/20				FY02/21			
Quarterly (JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total revenue		365	414	473	468	426	541	729	810
YoY		46.6%	31.6%	38.0%	35.6%	16.6%	30.4%	54.4%	73.0%
Organizational Consulting		365	414	473	468	426	515	640	641
YoY		46.6%	31.6%	38.0%	35.6%	16.6%	24.3%	35.4%	36.9%
Management Consulting Services		339	381	431	412	356	429	512	472
YoY		38.4%	25.3%	31.4%	26.0%	5.0%	12.4%	18.7%	14.7%
% of total revenue		92.7%	92.0%	91.2%	88.0%	83.5%	79.3%	70.1%	58.3%
Platform Services		27	33	41	56	70	87	128	169
YoY		512.9%	214.6%	188.4%	205.3%	164.8%	162.2%	208.7%	199.0%
% of total revenue		7.3%	8.0%	8.8%	12.0%	16.5%	16.0%	17.5%	20.8%
Sports Entertainment		-	-	-	-	-	25	48	119
YoY		-	-	-	-	-	-	-	-
Contract Development		-	-	-	-	-	-	42	92
YoY		-	-	-	-	-	-	-	-
Operating profit		53	81	86	63	-33	8	61	101
YoY		26.7%	14.3%	-5.3%	44.3%	-	-89.8%	-28.9%	59.0%
Organizational Consulting		53	81	86	63	-33	40	103	118
YoY		-	-	-	-	-161.1%	-50.6%	20.4%	86.5%
Sports Entertainment		-	-	-	-	-	-33	-51	-6
YoY		-	-	-	-	-	-	-	-
Contract Development		-	-	-	-	-	-	-2	-4
YoY		-	-	-	-	-	-	-	-

Source: Shared Research based on company data

## Full-year FY02/21 results

### Summary

- ▷ Revenue: JPY2.5bn (+45.7% YoY, 100.0% of company's revised full-year forecast)
- ▷ Operating profit: JPY137mn (-51.5% YoY, 110.0%)
- ▷ Recurring profit: JPY199mn (-29.3% YoY, 108.4%)
- ▷ Net loss: JPY42mn (versus net income of JPY179mn in FY02/20 and revised forecast of net loss of JPY44mn)
- ▷ EBITDA: JPY199mn (-38.2% YoY)

As of April 1, 2020, the company acquired shares in Fukushima Sports Entertainment, making it a consolidated subsidiary from Q1 FY02/21. In addition, with the addition of MAGES.Lab as a consolidated subsidiary, the Contract Development segment was added as a consolidated reporting segment as of Q2.

- ▷ Revenue increased 45.7% YoY despite effects from the COVID-19 pandemic. The platform services business performed well, accounting for more than 20% of sales in Q4 FY02/21.
- ▷ Operating profit fell 51.5% YoY to JPY137mn, clearing both the company's initial forecast of JPY115mn and its revised forecast of JPY125mn. The narrower YoY decline at the recurring profit level (-29.3% YoY) reflected the recording of a gain on sales of investment securities of JPY72mn as non-operating profit. This is due to the sale of investment securities as Geocode Co., Ltd. listed on the TSE JASDAQ market. Geocode Co., Ltd. is an investee of Shikigaku No. 1 Investment Business Limited Liability Partnership, which is a consolidated subsidiary of the company.

### Organizational Consulting business

- ▷ External revenue: JPY2.2bn (+29.1% YoY)
- ▷ Operating profit: JPY229mn (-19.2% YoY)

### Management Consulting and Platform Services

- ▷ Number of employees as at end-FY02/21: 114 (54 consultants and four consultant candidates)
- ▷ Number of companies under contract (Management Consulting Services): 2,187 (versus 1,519 at end-FY02/20)
- ▷ Number of companies under Shikigaku Cloud contract (Platform Services): 229 (244)
- ▷ Number of companies under Shikigaku Members Service contract (Platform Services): 479 (270)
- ▷ Number of companies under Shikigaku Basic Service contract (Platform Services): 167 (versus 84 at end-Q3).

### Shikigaku Career

- ▷ Number of job listings: 219
- ▷ New registrations: 3,310
- ▷ Number of referrals: 252

### Shikigaku Fund

- ▷ Through Q4 FY02/21: Decisions made on five investments. Since March 2021: Considering eight investments.
- ▷ Decision on fifth investment, in White Seed Co., Ltd., made in February 2021.

## Sports Entertainment business

- ▷ Sponsorship revenue improved markedly thanks to contracts stemming from the corporate version of the hometown tax scheme, and events commemorating the 10th anniversary of the March 2011 Great East Japan Earthquake.
- ▷ Operating loss: JPY6mn

**For details on previous quarterly and annual results, please refer to the Historical financial statements section.**

## Full-year FY02/22 company forecast

(JPYmn)	FY02/20			FY02/21			FY02/22	YoY
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	FY Est.	FY Est.
<b>Revenue</b>	<b>780</b>	<b>941</b>	<b>1,720</b>	<b>967</b>	<b>1,539</b>	<b>2,506</b>	<b>3,798</b>	<b>51.6%</b>
Cost of revenue	120	114	234	188	452	639		
<b>Gross profit</b>	<b>660</b>	<b>826</b>	<b>1,486</b>	<b>779</b>	<b>1,088</b>	<b>1,867</b>		
Gross profit margin	84.6%	87.8%	86.4%	80.6%	70.6%	74.5%		
SG&A expenses	526	677	1,203	803	926	1,729		
SG&A ratio	67.4%	72.0%	69.9%	83.1%	60.1%	69.0%		
<b>Operating profit</b>	<b>134</b>	<b>149</b>	<b>283</b>	<b>-24</b>	<b>162</b>	<b>137</b>	<b>400</b>	<b>191.0%</b>
Operating profit margin	17.2%	15.9%	16.5%	-2.5%	10.5%	5.5%	10.5%	
<b>Recurring profit</b>	<b>134</b>	<b>149</b>	<b>282</b>	<b>-26</b>	<b>225</b>	<b>199</b>	<b>353</b>	<b>77.1%</b>
Recurring profit margin	17.1%	15.8%	16.4%	-2.7%	14.6%	8.0%	9.3%	
<b>Net income</b>	<b>75</b>	<b>104</b>	<b>179</b>	<b>-105</b>	<b>64</b>	<b>-42</b>	<b>153</b>	<b>-</b>
Net margin	9.6%	11.0%	10.4%	-10.9%	4.1%	-1.7%	4.0%	-
<b>EBITDA</b>	<b>146</b>	<b>176</b>	<b>322</b>	<b>3</b>	<b>196</b>	<b>199</b>	<b>470</b>	<b>136.2%</b>

Source: Shared Research based on company data

For FY02/22, Shikigaku projects full-year consolidated revenue of JPY3.8bn (+51.6% YoY), operating profit of JPY400mn (+191.0% YoY), recurring profit of JPY353mn (+77.1% YoY), net income of JPY153mn (versus net loss of JPY42mn in FY02/21), and EBITDA of JPY470mn (+136.2% YoY).

The following information is as of March 11, 2021. Shared Research plans to update the report following interviews with the company.

Having issued a revised forecast for FY02/21 results on March 11, 2021, Shikigaku now projects full-year consolidated revenue of JPY2.5bn (+45.6% YoY), operating profit of JPY125mn (-55.9% YoY), recurring profit of JPY184mn (-34.8% YoY), a net loss of JPY44mn (versus net income of JPY179mn in FY02/20), and EBITDA of JPY185mn (-42.5% YoY). The revised forecast for top-line revenues is higher than the company's initial estimate. The new forecast for the bottom-line is also ahead of the company's initial estimate due mainly to a gain of JPY71mn booked on the sale of investment securities at the time of the listing of Geocode Co., Ltd. on the JASDAQ Standard market under the Tokyo Stock Exchange.

Shikigaku released its full-year FY02/21 earnings forecasts alongside the announcement of Q1 FY02/21 results. The company previously postponed issuing FY02/21 earnings forecasts as it could not make reasonable forecasts given the COVID-19 outbreak.

### Monthly trends

The company disclosed monthly revenue data during the period it refrained from issuing FY02/21 guidance. With the announcement of its FY02/21 forecasts, the company discontinued the disclosure of monthly revenue from July. The following table shows monthly revenues from March to June 2020.

#### Monthly revenues and breakdown of service rendering methods

(JPYmn)	Mar 2020	Apr 2020	May 2020	Jun 2020
Revenue (current year)	150,646	135,994	138,742	179,124
Revenue (prev. year)	119,666	128,422	117,260	127,929
YoY	25.9%	5.9%	18.3%	40.0%

#### Breakdown of services provided to clients (by type)

	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020
Online meeting	10.9%	15.4%	74.1%	70.0%	63.8%
Visit to clients	78.8%	75.4%	23.5%	27.7%	31.7%
Clients' visit to Shikigaku	10.3%	9.2%	2.4%	2.3%	4.5%

Source: Shared Research based on company data

The company relaunched its services on September 1, 2020. This featured Shikigaku Basic Service, provided on a monthly fee basis. It also started disclosing monthly revenue figures along with the launch of the new service. Note: February 2021 data are preliminary figures as of the date of the release.

**Platform Services monthly revenue in FY02/21**

(JPYmn)	FY02/21											
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Monthly revenue	23	24	23	26	28	31	36	43	48	51	57	59
YoY	197%	173%	133%	165%	161%	159%	178%	218%	229%	216%	201%	183%
Cumulative	23	47	70	96	125	157	193	236	284	336	393	453
YoY	197%	184%	165%	165%	164%	163%	166%	174%	182%	187%	189%	188%

Source: Shared Research based on company data

**Platform Services monthly client numbers in FY02/21**

(number of clients)	FY02/21											
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Shikigaku Cloud	246	247	238	237	263	275	286	277	269	252	239	229
Shikigaku Members Service	314	347	372	423	473	510	543	558	552	539	502	485
Shikigaku Basic Service						5	17	52	84	107	143	163

Source: Shared Research based on company data

**Existing businesses**

The company has postponed the disclosure of its full-year earnings forecast, but Shared Research thinks that it has not made any large changes to the logical processes it applies when formulating its forecast outlined below.

**Management Consulting Services**

- ▷ Revenue equates to revenue per consultant times the number of consultants.
- ▷ In FY02/20, the company recorded monthly revenue per consultant (with eight or more months of employment with the company) of JPY4.2mn.
- ▷ As of end-FY02/20, the company had 31 consultants on staff (plus eight consultant candidates), and the company aims to increase this number to 50–55 in FY02/21 by hiring 20–25 new consultants.

**Platform Services**

Revenue in Platform Services is the sum of fee income from Shikigaku Cloud and membership fee income from the Shikigaku Members Service. Each service generates JPY30,000 a month per client. The company thus forecasts recurring revenue for these businesses by calculating the number of client companies x JPY30,000 x 12 months. The company says Shikigaku Cloud clients numbered 244 as of end-FY02/20, and clients of Shikigaku Members Service 270. It will encourage companies utilizing its management consulting services to become Shikigaku Members Service clients and will create opportunities to acquire new orders through regular visits and seminars.

The company launched Shikigaku Basic Service in September 2020. Shared Research will be watching its impact on earnings from 2H FY02/21 onward because it aims at boosting prices.

**New businesses**
**Shikigaku Career**

The company plans to acquire job seekers by effectively utilizing its customer base of 1,519 contracted clients and the LINE social messaging app while also holding seminars. One month after launching this service, the company apparently had more than 40 clients under contract and had booked more than 60 recruitment projects. The company collects revenue for this HR matchmaking service through contingency fees equivalent to 30–35% of the annual salaries of human resources that successfully obtain employment.

**Formation of the Shikigaku No. 1 Limited Investment Partnership (Shikigaku Fund No. 1) and subsequent investment**

The company started the Shikigaku Fund No. 1 on October 1, 2019. The 10-year fund will have total investment of JPY1.0bn, and as the general partner the company has invested JPY50mn. Management fees are set at 3% through year four and 2% from year

five onward. Performance fees are 20–40%. The Fund expects to invest in 20–30 companies with estimated investment amount of JPY20–50mn each. Shikigaku believes that if it can exit from investments in a certain number of companies over five years (through IPOs or M&A deals) or if these companies improve their performance, this would attest to the effectiveness of the *shikigaku* method. For the time being, the company expects annual revenue of JPY30mn from management fees.

In March 2020, the Fund invested in Surpass Co., Ltd. as its first investee. As of April 2020, the Fund was considering investments in three companies.

### Participation in the management of Fukushima Sports Entertainment (Fukushima SE)

In March 2020, the company accepted a third-party allocation of shares from Fukushima SE and resolved to make Fukushima SE a subsidiary. To build an organization aimed at achieving growth, the company plans to dispatch its consultants as executives to improve organizations and teams within Fukushima SE. With the aim of achieving a profitable structure, the company will set its sights on expanding sponsorship revenue in FY02/21 by establishing a sales framework and recruiting new staff.

Shared Research thinks revitalization of sports organizations is an area of the company's forte. In 2019, the company dispatched consultants to Rikkyo University's rugby team, which was subsequently promoted to a Group A team. It also provided support related to individual and organizational consciousness reform as Waseda University's rugby team went on to its nationwide tournament win.

Under the corporate version of Japanese government's "hometown tax" scheme, if a local government contracts Fukushima Sports Entertainment to carry out some projects, a portion of corporate donations may be booked as revenue.

## Medium-term outlook

- ▷ On March 17, 2021, the company announced its medium-term management plan (2022–2024).
- ▷ Its vision for the final year of the plan period (FY02/24) is as follows: 1) solidify the positioning of *shikigaku* as essential to corporate management and running an organization; and 2) satisfying the market cap, earnings, and governance structure requirements for a listing change to Tokyo Stock Exchange Prime market.
- ▷ Growth strategies to attain these goals are to establish a solid position in the Organizational Consulting business (expand the business with a target 100 consultants) and expand business areas (promote new businesses to enhance growth potential).
- ▷ Numerical targets are revenue of JPY6.3bn and operating profit of JPY1.6bn in FY02/24. The company noted that its outlook is conservative other than for revenue of the Organizational Consulting business. That being said, it sees further upside on solidifying its earnings base by expanding business areas.

## Numerical targets

(JPYmn)	FY02/20 FY Act.	FY02/21 Revised Est.	FY02/22 FY Targets	FY02/23 FY Targets	FY02/24 FY Targets
<b>Revenue</b>	<b>1,720</b>	<b>2,505</b>	<b>3,798</b>	<b>5,110</b>	<b>6,300</b>
YoY	37.5%	45.3%	51.9%	34.6%	23.4%
<b>Operating profit</b>	<b>283</b>	<b>125</b>	<b>400</b>	<b>980</b>	<b>1,560</b>
YoY	14.6%	-55.9%	220.0%	145.0%	59.2%
Operating profit margin	16.5%	5.0%	10.5%	19.8%	24.9%
<b>Recurring profit</b>	<b>282</b>	<b>184</b>	<b>353</b>	<b>972</b>	<b>1,527</b>
YoY	20.6%	-34.8%	91.8%	175.4%	57.1%
<b>Net income</b>	<b>179</b>	<b>-44</b>	<b>153</b>	<b>645</b>	<b>1,049</b>
YoY	10.0%	-	-	321.6%	62.6%
<b>ROE</b>	<b>18.7%</b>	<b>-</b>	<b>5%</b>	<b>19%</b>	<b>25%</b>

The following information is as of the announcement of 1H FY02/20 results. Shared Research plans to update the report following interviews with the company.

As the company does not disclose a medium-term management plan, this discussion of medium- to long-term strategies is based on the 1H FY02/20 briefing materials disclosed at the time of the company's IPO.

## Medium- to long-term vision

The company aims to build its brand by positioning *shikigaku* as an essential element of corporate/organizational management.

The company is pursuing three core strategies:

- 1) Achieve further growth in management consulting by enhancing recognition and increasing the cadre of consultants to 100.
- 2) Strengthen the Platform Services business as a stable foundation for recurring-revenue businesses.
- 3) Leverage new businesses (M&A and Shikigaku Fund) to boost performance at investees and demonstrate the effectiveness of the *shikigaku* method.

As part of the first strategy, the company plans to boost awareness through aggressive marketing and by holding seminars. Additionally, the company aims to raise recognition of *shikigaku* by forming business alliances with other firms offering productivity-enhancement services. In September 2018, Shikigaku formed a business and capital alliance with Change Inc. (TSE1: 3962). Change's business focuses on helping Japanese companies boost business productivity.

For the second strategy, the company plans to build a stable base for recurring-revenue businesses by strengthening and promoting Shikigaku Cloud and Shikigaku Members Service. Shikigaku Cloud launched as a free service in July 2017 and has been a paid service since March 2018.

Under the third strategy, in September 2019, the company decided to establish and invest in the Shikigaku No. 1 Limited Investment Partnership (Shikigaku Fund No. 1). Its stated aims are to focus on "organizational capabilities" and "transition to growth organization" (discussed further below). By applying its formula (implement *shikigaku* theory → achieve business growth and enhance corporate value) to multiple companies, Shikigaku thinks it can demonstrate the effectiveness of the *shikigaku* theory.

## Management Consulting Services

### Building a team of 100 consultants

As of end-FY02/20, the company had 31 consultants (excluding two executive consultants) and eight consultant candidates. As of April 2020, the company had 41 consultants on staff (including nine consultant candidates and four would-be consultants with whom it had reached informal employment agreements). The company aims to increase this number to 50–55 by FY02/21 by recruiting 20–25 new consultants. In FY02/22, the company plans to further expand this number to 75–80 before finally bringing it up to 100 by FY02/23. The company currently generates revenue per consultant (with at least eight months of employment) of JPY4.2mn/month (JPY50.4mn per consultant per year). If it maintains this level, 100 consultants would generate annual revenue of about JPY5.0bn.

## Platform Services

### Shikigaku Cloud

As of end-FY02/20, the company had Shikigaku Cloud contracts in place with 244 clients. (The company does not disclose the mid-contract cancellation rate.) The service is priced at JPY30,000 or more/month, so if all current clients were to continue to use this service over the next year, they would generate annual revenue of JPY87.8mn/year (244 companies x JPY30,000 x 12 months).

### Shikigaku Members Service

As of end-FY02/20, the company had Shikigaku Members Service contracts in place with 270 clients. (The company does not disclose the mid-contract cancellation rate.) The service is priced at JPY30,000 or more/month, so if all current clients were to continue to use this service over the next year, they would generate annual revenue of JPY97.2mn/year (270 companies x JPY30,000 x 12 months).



## New services

### M&A training for top management (former M&A advisory services)

Shikigaku entered this field in June 2019, when it acquired the business from TIAGLA. When it took over, the business was rendering M&A advisory services to nine companies. As of end-February 2020, clients under contract had increased to 28 (to increase brand recognition, the company changed the name of this service to “M&A training for top management”). This service generates a monthly retainer of JPY300,000 per company.

### Shikigaku Fund

Shikigaku formed this fund to demonstrate the effectiveness of the *shikigaku* method through increased operating performance at investee companies. Through the fund, Shikigaku plans to raise funds of JPY20–50mn from investors for each company that has adopted or is considering adoption of the *shikigaku* method. The company expects the fund to be in place for 10 years and reach total investment of JPY1.0bn. As a general partner, Shikigaku has invested JPY50mn.

Target investees will include unlisted companies that have already adopted the *shikigaku* method. For companies that have not yet done so, adopting *shikigaku* will be a condition of investment. (However, the company plans to offer its services at half price.) The company thinks higher business performance at companies that have adopted *shikigaku* will help demonstrate the method's effectiveness. Through the fund, the company will generate management fees and performance fees. Management fees are scheduled to be 3% for the first four years and 2% from year five onward, and the company anticipates management fees of around JPY30mn/year. The company forecasts performance fees of 20% to 40% of the fund's total value.

### An eye to the corporate revitalization business

Assuming the number of consultants increases to 100 as anticipated (by FY02/23), the company is considering private equity investments, dispatching around 10 consultants to companies in which it would invest with the aim of corporate revitalization. Shikigaku notes that this might also provide an alternative career path for consultants. Shared Research thinks that the company is also looking to achieve business revitalization over the long term through its participation in the management of Fukushima Sports Entertainment (Fukushima SE).

## Business

### Business model

#### Background to establishment

Kodai Ando, the company's current CEO, established the company in March 2015 as an organizational consulting business. Shikigaku provides consulting services, mainly to small and medium-sized companies, centered on its own theory of organizational management (called "*shikigaku*"). The company's services emphasize enhancing organizational productivity.

The company's core theory, *shikigaku*, is a coined word stemming from the Japanese phrase for a course of study called the "structure of consciousness." Kenji Fukutomi (currently the head of Shikigaku Research Institute) proposed this organizational management theory more than 20 years ago. The theory evolved from Mr. Fukutomi's search for the answer to why some organizations succeed in enhancing productivity while others do not and how any organization can improve productivity.

After an acquaintance introduced Mr. Ando to the concept of *shikigaku* in 2012, he sought out Mr. Fukutomi to master the concept. In March 2015, Mr. Ando established the eponymous company to introduce *shikigaku* more broadly throughout the world. Through the company, Mr. Ando has sought to systemize the underlying theory of *shikigaku*. The company registered *shikigaku* as a trademark in August 2015 (registered trademark number 5789097).

#### The structure of consciousness as a course of study:

Courses of study refer to knowledge and methods that have been systematized on the basis of specific theories (source: *Kojien*). Courses are generally organized by academic societies, being backed by exchanges of knowledge among researchers. The Directory of Academic Societies, maintained by the Science Council of Japan, the Japan Science Foundation, and the Japan Science and Technology Agency, lists 2,042 academic societies as of October 5, 2019. However, Shared Research was unable to find any academic society focused on "structure of consciousness." We were also unable to find any related academic papers on CiNii or Google Scholar.

#### Business overview and performance

The company's main business centers on *shikigaku*, the core theory it developed. Based on this theory, the company provides organizational consulting that involves gaining an understanding of client companies and their states in order to enhance their organizational productivity, making improvements, and providing services that help maintain these improvements. The company offers two core services: Management Consulting Services and Platform Services. The former generates one-time revenues, while the latter category comprises recurring-revenue services that generate monthly fee income. The company has a single segment so it does not disclose earnings by segment.

#### Management Consulting Services (FY02/20: 90.8% of revenue)

Management Consulting Services comprise Master Training and other services that are based on the *shikigaku* method and aimed at enhancing organizational productivity through its application. These services target top management, and the company provides consultants to conduct one-on-one training. At the start of training, consultants create a "patient chart" to determine the management's mental habits. Fees start at JPY1.2mn for general consultants (12 one-hour sessions over a three-month training period, equating to JPY100,000 per session). For President Ando's instruction, fees start at JPY4.8mn (JPY400,000 per session).

#### Platform Services (FY02/20: 9.2% of revenue)

In Platform Services, the company provides cloud-based online support to help customers put *shikigaku* into practice. In this category, the company offers two services: Shikigaku Cloud and Shikigaku Members Service. Each is priced at JPY30,000 per company per month. As of FY02/20, the company had contracts in place with 244 Shikigaku Cloud clients and 270 Shikigaku Members Service clients.

- 1) With the Shikigaku Cloud service, the company analyzes and produces reports on a client's status and provides access to e-learning concerning the *shikigaku* theory. The service also provides functionality in terms of management, assessment, and routine business.
- 2) With Shikigaku Members Service, a designated consultant conducts periodic training. The service may involve study sessions with the president, vice president, and senior consultants; the sharing of case studies about companies that have adopted *shikigaku*; and the chance to attend informal events with top management of member companies.

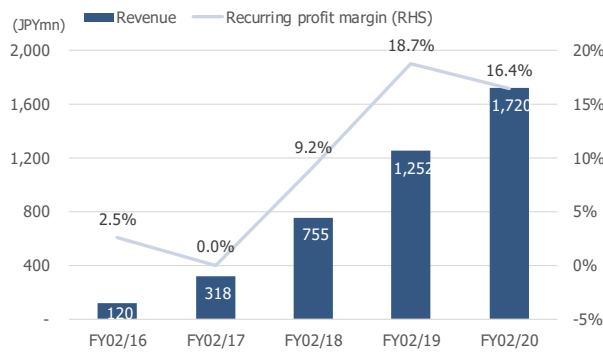
## Service overview

Type	Description	Period	Charge (excluding tax; JPY'000) by level of consultant			
			General	Senior	Principal	
<b>Management Consulting Services</b>						
Master Training (one-on-one)	<ul style="list-style-type: none"> <li>Introduce the <i>shikigaku</i> theory to top management, achieve highly productive organization</li> <li>Use interview format to provide basic training on <i>shikigaku</i></li> <li>One hour per session</li> <li>Create charts illustrating individual "thinking traps"</li> </ul>	3rd (representatives, directors, executives)	Twelve sessions in three months	1,200	1,800	2,400
		2nd (managers)	Ten sessions	800	1,200	1,600
Master Training Advance	<ul style="list-style-type: none"> <li>Extended training available only to people who have completed Master Training</li> <li>Prevent relapse into previous behavior due to passage of time</li> </ul>	Minimum three sessions in six months (charged each session)	3rd	100 per session	150 per session	200 per session
			2nd	80 per session	120 per session	160 per session
Group Training	<ul style="list-style-type: none"> <li>Level-specific group training</li> <li>Lecture-based training centering on the "position" and "result" aspects of <i>shikigaku</i></li> </ul>	Three hours per day, up to ten people		300	450	600
Shikigaku Shinto Pack	<ul style="list-style-type: none"> <li>Designed to help <i>shikigaku</i> gain traction across organizations, helping them achieve ongoing, highly productive management</li> <li>Video-based learning/testing and group training to learn Master Training theories</li> </ul>	Create charts (around 30 minutes/person), video learning and testing, group training (six times, two hours/session) of up to five people		1,500	2,250	3,000
				Shikigaku Cloud: JPY30,000 per month (standard: three months)		
Shikigaku Jissen (practice) Pack	<ul style="list-style-type: none"> <li>Management consulting using "participatory sales meeting" approach for sales departments</li> <li>Sit in on meetings with customers and provide feedback on meeting content; a total of four times, at approximately 1.5 hours each</li> </ul>	-		600	900	1,200
Advisory Service	Provide regular consultation related to all aspects of management, address individual issues	Visit periodically and hold one-on-one meetings to learn about problems and consult regarding solutions (one or two two-hour meetings per month)		-		
Evaluation System Building Service	Provide consulting to aid in building evaluation systems	An hour per session, maximum eight sessions	Up to 50 people	1,600	2,400	3,200
			51-100 people	2,400	3,600	4,800
			More than 100 people	Charged separately		
<b>Platform Services</b>						
Shikigaku Basic Service	Comprehensive package including management consultation follow-up, Shikigaku Cloud, and regular seminars. Required service for implementing <i>shikigaku</i> .	One-year contract		JPY200,000 per month		
Shikigaku Cloud	Conduct a Shikigaku Survey to clarify the state of the organization, and enhance understanding through video learning	One month or more		Charged by ID: JPY30,000 per month		
Organizational Management Diagnosis	Diagnose the state of an organization, conduct web-based questionnaire					
Video Review	Brush up on <i>shikigaku</i> theory through web-based videos, maintain understanding					
Evaluation System Operational Support	After providing the Evaluation System Building Service, offer support on practical operation of the system					
Routine Operational Support	Provide task management tools for routine management					
Shikigaku Members Service	<ul style="list-style-type: none"> <li>A community of people at executive officer or higher level who have undergone either Master Training or Shinto Pack</li> <li>Conduct periodic training, hold informal networking events for top management, offer a 30% discount on additional training</li> </ul>	Main services <ul style="list-style-type: none"> <li>Face-to-face training; one-hour session every three months</li> <li>Participate in training by president and vice president</li> <li>Participate in meetings to discuss case studies of companies that have adopted <i>shikigaku</i></li> <li>Browse various video content</li> </ul>		Monthly JPY30,000 per company		

Source: Shared Research based on company data  
 Note: Fees are as of October 2019.

In FY02/20, revenue was JPY1.3bn (+37.5% YoY), and operating profit was JPY283mn (+14.6% YoY). CAGR for revenue over the past three years has been 75.6%.

## Performance



	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
(JPYmn)	Act.	Act.	Act.	Act.	Act.
<b>Revenue</b>	<b>120</b>	<b>318</b>	<b>755</b>	<b>1,252</b>	<b>1,720</b>
YoY		165.7%	137.5%	65.8%	37.5%
Management Consulting Services	120	318	755	1,204	1,563
YoY		165.7%	137.4%	59.5%	29.8%
% of total revenue		100.0%	100.0%	96.2%	90.8%
Platform Services	-	-	-	48	157
YoY		-	-	-	-
% of total revenue		-	-	3.8%	9.2%
<b>Operating profit</b>	<b>-</b>	<b>-6</b>	<b>68</b>	<b>247</b>	<b>283</b>
YoY		-	-	261.3%	14.6%
Operating profit margin		-1.8%	9.1%	19.8%	16.5%

Source: Shared Research based on company data  
 Note: The figure at left is based on recurring profit.

## The concept of *shikigaku* (structure of consciousness)

The company's core theory of *shikigaku* holds that misunderstandings and misinterpretations between the members of an organization are the factors that hinder improvements to organizational efficiency. According to this theory, a person who understands a phenomenon accurately will naturally make correct choices and behave appropriately. Misunderstandings and misinterpretations create the risk of a person becoming unable to make a choice or taking time to do so.

According to *shikigaku*, misunderstandings and misinterpretations arise due to the structure of human consciousness. The theory systematizes the stream of consciousness, from becoming aware of a phenomenon to acting, into five elements: 1) position → 2) result → 3) change → 4) fear → 5) target ⇒ behavior. Every one of the misunderstandings and misinterpretations that occur at each of these five stages are analytically dissected. (A later section of this report outlines the structure of consciousness of elements 1) to 5) in more detail.)

As a result, it became clear that individuals' innate "mental habits" surface at each of the five stages. When individual differences in interpretation and values surface, mental habits are evoked that lead to gaps in perception (or in other words, "misunderstandings" and "misinterpretations"). Rectifying such misunderstandings and misinterpretations takes time, and this "lost time" holds back organizational productivity.

Accordingly, Shikigaku seeks to create an environment that will prevent misunderstandings and misinterpretations, eliminating lost time; in other words, creating an environment that excludes mental habits. Based on the *shikigaku* theory, the company aims to restructure organizations to eliminate the individual subjectivity and dependence that lead to "management of the emotions" (fluctuations due to emotional decision-making). Rules alone become the common language for members of restructured organizations.

Ideal organization from the perspective of *shikigaku* has three key aspects: First, rules serve as the organization's common language. Second, the most effective rule-based organization is a bureaucratic organization. Third, clear evaluation systems serve as the framework that maintains the organization. When creating rules, Shikigaku concentrates on the roles, responsibilities, and authorities of an organization's members. The company explains that bureaucratic organizations are most optimal for thorough rule application.

The *shikigaku* theory's "rules" have some leeway in enforcement, and the organization's rules and principles do not deindividualize members of the organization. Conversely, the company notes that its concept provides room to grow by enabling the organization's members to take on challenges and encouraging learning through failure, making it possible to do things that previously were not possible.

### Lost time (in conferences and meetings):

Personel Research Institute estimates that at Japanese companies, over the course of a year, general managers spend an average of 435 hours in internal conferences and meetings, section heads spend 301 hours, and other members spend 154 hours. These figures rise dramatically as employee numbers increase; time spent in meetings can be as much as 630 hours a year for employees of large companies with 10,000 employees or more. The institute

says 23.3% of regular employees find meetings to be a waste of time; the figure rises to 27.5% for their superiors. In monetary terms, the lost time spent in conferences and meetings equates to JPY208mn/year for a 1,500-person company and JPY1.5bn/year for a 10,000-person company (source: Fact-Finding Survey on Long Working Hours [First and Second Phases], Persol Research Institute and Jun Nakahara [2017–8].)

### Bureaucracy:

A bureaucracy is a system of management and control adopted by large-scale entities to prioritize regulatory compliance and the avoidance of risks. According to Max Weber (1864–1920), a proponent of bureaucracy in organizational theory, organizational control has two types: The first is control based on interests, in which control is based on gains and losses and compliance with orders is beneficial. With the second type, control is based on the authority to command and the obligation to obey. With the second type, control is more stable. Building a stable bureaucracy requires “authority that is rationally established and founded on rules-based legitimacy.” Military forces and other modern-day organizations that are rational bureaucracies have three characteristics. 1) Standardization: Duties are performed on the basis of abstract and general rules. 2) Hierarchical: The hierarchy of authority is clear. 3) Impersonal: Rulers command and subjects obey within the scope of established rules. Excessive bureaucracy, on the other hand, is dysfunctional. 1) Trained incompetence: The same behavioral patterns predominate even when conditions change. 2) Moving targets: Following the rules becomes its own end. 3) Customer dissatisfaction: Blindly following the rules and neglecting customer needs leads to higher customer dissatisfaction. 4) Innovation is obstructed. (Sources: Weber, M. [1964]: “Types of Control” [Economy and Society, fourth edition, translated by Teruhiro Sera (1970)], “Bureaucratic Structure and Personality” and “Social Theory and Social Structure,” both by Robert K. Merton [1961, original: 1949, 1957], and others.)

## Business model

### Customers

Customers for Shikigaku’s services are mainly small and medium-sized companies that are growing. Shikigaku targets companies that face issues with personnel retention as employee numbers grow rapidly.

### Attributes

According to Shikigaku’s FY02/19 briefing materials, 86.3% of its client companies have 200 or fewer employees. Of these companies, 30.1% have been established in the past five years, and 51.9% have a history spanning 20 years or more. A comparison of data in “Materials Related to Growth Potential,” a document the company disclosed at the time of its IPO, the number of companies with fewer than 50 employees is decreasing, and the number of companies with between 50 and 100 employees is on the rise. Shikigaku says the size of a typical customer has become larger since its IPO. Meanwhile, the data show an increasing degree of polarization between companies established within the past five years and those with 20+ years of history.

### Customer attributes

No. of employees	% of total (1)	% of total (2)	Years of service	% of total (1)	% of total (2)
Less than 50	55.0	28.7	Less than five	16.8	30.1
Less than 100	18.0	44.9	Less than 10	27.1	4.8
Less than 200	14.7	12.8	Less than 20	28.2	13.1
Over 200	12.2	13.7	Over 20	27.9	51.9
Total	100.0	100.0	Total	100.0	100.0

Source: Shared Research based on company data

Note: In percentages of the total, columns marked by “(1)” are from a document provided at the company’s IPO, entitled “Briefing on Growth Potential” (February 22, 2019). Figures in the “(2)” columns are from the company’s FY02/19 earnings briefing materials (June 5, 2019).

### Shikigaku’s adopters

More than 1,000 companies have adopted the *shikigaku* method in the four years since Shikigaku’s founding in March 2015. This figure stood at 1,519 companies as of end-FY02/20. Monthly adoption averaged 13 companies in FY02/17, 31 in FY02/18, 38 in FY02/19, and accelerated to 47 in FY02/20.

### Corporate adopters

	FY02/16	FY02/17	FY02/18	FY02/19				FY02/20			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total number of <i>shikigaku</i> adopters	58	214	522	609	722	864	979	1,105	1,242	1,378	1,519
YoY change	58	156	366				457	496	520	514	540
QoQ change				87	113	142	115	126	137	136	141
Monthly average	5	13	31	29	38	47	38	42	46	45	47

Source: Shared Research based on company data

**Acquisition routes**

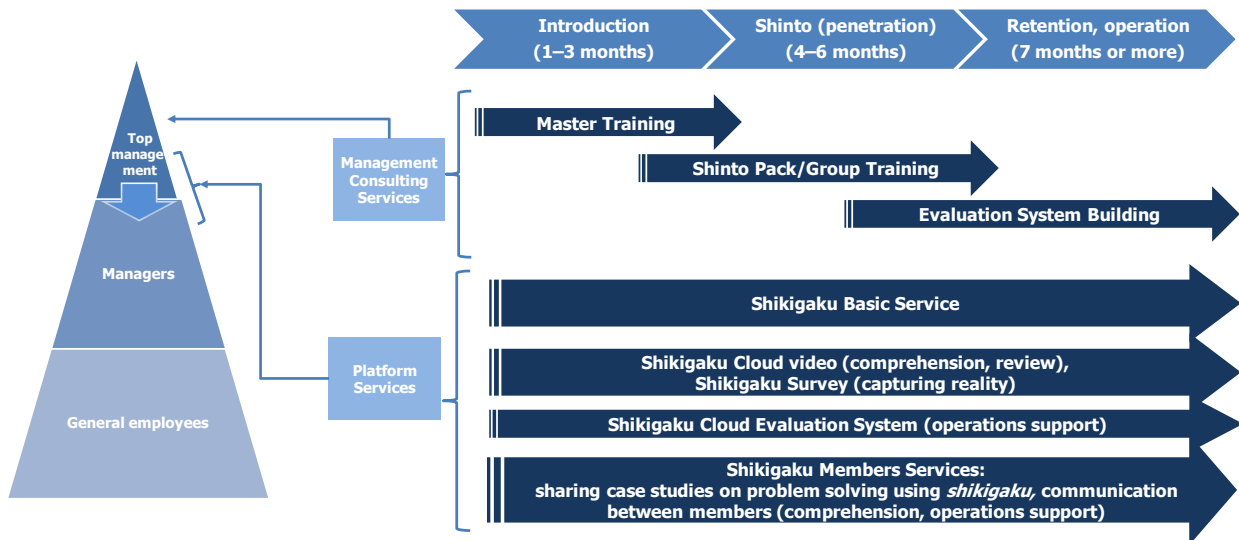
Around 50% of new customers are referred by existing clients, some 20% are through referral agencies, and the remaining 30% come through online leads. Referral agencies include organizations, such as tax accountants, to which Shikigaku pays fees for introducing corporate customers. The average contract period is between six and nine months. Typically, as shown in the chart below, Master Training is provided during the initial three-month introduction period and then Shinto (penetration) Pack/Group Training follows in months four through six. Accordingly, Shared Research is under the impression that customers with contract periods of more than six months are receiving a few services, rather than just one service.

Shared Research understands the high rate of referrals from existing clients is due largely to the focus of Shikigaku services on one-on-one training to top management of client companies. The company explains that approaching top management directly facilitates quick decisions and is efficient, as it accesses communities of top management.

**Training model**

The company’s main service, Master Training (one-on-one method) accounts for 55% of the total contract value. In addition, Shinto Pack accounts for 20% and the Evaluation System Building Service for 10%. Shikigaku Cloud and Shikigaku Members Service are part of the company’s Platform Services, which are based on ongoing monthly retainers.

**Management approach and training model**



Source: Shared Research based on company data

**Recruitment and training of consultants**

Under the company’s business model, revenue is determined by the number of consultants. Although Shikigaku considers itself an organizational management consulting company, it has no so-called “professional consultants.” Instead, consultants conduct sales activities to attract clients and provide training.

As for consultant hiring standards, the company says candidates need to have a certain educational background and level of management experience. Few candidates have experience working at consulting firms. Most of consultant candidates are able to pass the company’s internal testing and earn their consultant certification in around three months. Afterward, they take part in sales and training activities, typically becoming profitable in six to eight months. As part of its quality control efforts, the company tests consultants monthly. Consultants who earn low scores have their certification revoked. The company also uses external assessments to check that no corners are being cut in terms of quality. It employs a reference service that contacts clients at random and asks for their input. Once the revenue a consultant is able to generate exceeds a standard internal level, the consultant is promoted from general to senior consultant.

The company explains that consultants can begin work quickly because standardization facilitates the mastering of *shikigaku* and teaching capabilities. Also, consultants need not have the skills to adjust programs for individual customers. With *shikigaku*, the value provided and the value-creation process are clearly defined and standardized. This business model is the polar opposite of a typical consulting firm, where all services are customized to fit the business environments and issues of individual clients.

### Value provided

The company's management approach is to begin with Master Training based on the *shikigaku* theory. The company says even seasoned top management tends to think that personnel and organizational issues often have no "single correct" solution. However, the *shikigaku* method helps point them in the direction of "one correct" solution. Training helps top management become aware that behavior that they had thought appropriate may be contributing to misunderstandings and misinterpretations within their organization and encourages them to change. Shikigaku helps ensure that management changes flow through to changes at the employee level within three months.

Given that teaching based on the templated *shikigaku* theory is an essential part of the company's nature, the value of the service it provides is the same for all clients. As the value it provides is fixed, clients face little risk of receiving insufficient value and can therefore purchase the service with peace of mind. The company provides clients with an organizational template based on *shikigaku* theory that they can use for resolving problems. Furthermore, Shikigaku's services are priced lower than those of expensive consulting firms, which helps maximize client satisfaction.

In this sense, by providing one-on-one training to the top management of small and medium-sized companies, Shikigaku is cultivating a niche market at the low end of the consulting market.

### Revenue structure

#### Management Consulting Services

Revenue from Management Consulting Services equals revenue per consultant times the number of consultants. Accordingly, revenue per consultant equates to revenue divided by the number of consultants. Shared Research estimates that average revenue per consultant was JPY3.9mn per month in FY02/20. The company says its target is to maintain revenue at JPY50mn/year per consultant. The company plans to increase the number of consultants to 50–55 by end-FY02/21 (from 31 at end-FY02/20). By FY02/23, the company intends to have 100 consultants. Based on disclosed data, Shared Research estimates that monthly revenue per consultant was JPY3.9mn as of end-FY02/20. The company figure indicates that monthly revenue per consultant with at least eight months of employment with the company at end-FY02/20 was JPY4.2mn. Shared Research's estimate is different from the figure disclosed by the company because the company factors in inactive consultants and partner consultants when calculating this figure.

#### Platform Services

In Platform Services, revenue comes from Shikigaku Cloud user fees (JPY30,000/month times the number of client companies) and Shikigaku Members Service membership fees (JPY30,000/month times the number of client companies). As of end-FY02/20, the company had 270 clients for the Shikigaku Members Service, providing monthly revenue of JPY8.1mn. On an annual basis, the revenue figure is JPY97mn (270 companies times JPY30,000/month times 12 months).

## Revenue per consultant and revenue per company (Shared Research's estimates)

By segment (cumulative) (JPYmn)	FY02/19				FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
a Revenue (Management Consulting Service)	245	304	328	327	339	381	431	412
b Revenue earned by director consultants as % of total	34.9%	35.2%	25.6%	23.9%	11.5%	15.9%	14.2%	11.7%
c Revenue earned by consultants excl. directors as % of total	65.1%	64.8%	74.4%	76.1%	88.5%	84.1%	85.8%	88.3%
d Revenue earned by consultants excl. directors	159	197	244	249	300	321	370	364
e Number of consultants (excl. directors)	20	24	25	22	21	26	29	31
f Number of director consultants	2	2	2	2	2	2	2	2
g Revenue per consultant (excl. directors; monthly) [d / e / 3]	2.7	2.7	3.3	3.8	4.8	4.1	4.3	3.9
(Ref.) Revenue per consultant (as released by Shikigaku)	2.7	2.8	3.2	3.2	4.0	3.5	3.8	3.4
h Revenue per consultant (excl. directors; annual) [f x 12]	31.9	32.9	39.1	45.2	57.1	49.4	51.0	46.9
i Number of employees	37	38	40	43	52	55	62	69

Source: Shared Research based on company data

## Cost structure

The cost of revenue ratio has averaged 11.8% over the three years leading up to end-FY02/19. Labor costs account for 77.9% of cost of revenue. Some of the personnel handle sales activities and consultant functions. When they are working as consultants, their labor costs are categorized as consultants' personnel expenses, which is a cost of revenue. In the figure below, client acquisition cost has been estimated as the total sum of labor costs, personnel expenses, and advertising expenses. In FY02/19, the cost of acquiring a new client was JPY1.0mn. Advertising expenses alone accounted for JPY0.5mn of this amount (Shared Research estimates).

## Costs per employee

Personnel expenses per employee (JPYmn)	FY02/17	FY02/18	FY02/19
	Parent	Parent	Parent
a Labor costs	29	71	110
b Personnel expenses	44	137	196
c Advertising expenses	55	120	227
d Number of employees	14	32	43
e Number of consultants	-	17	25
f Total personnel expenses per employee ([a + b] / d)	5.23	6.53	7.11
g Labor cost per consultant (a / e)	-	4.20	4.39
h Personnel expenses per consultant (g / 50%)	-	8.40	8.79
i Expenses (consultant + advertising) (c x e + h)	-	263	446
j New acquisitions (companies)	156	308	457
k Cost per acquisition (CPA) (i / j)	-	0.85	0.98
l CPA (advertising only) (c / j)	0.36	0.39	0.50

Source: Shared Research based on company data

## Characteristics and positioning

### Differences from consulting firms

Strategy-, HR-, and IT-oriented consulting firms propose and support a variety of strategies related to corporate management. Shikigaku is also a "consulting company" in the sense that it deals in consultation regarding organizational management. However, the company differs from typical consulting firms, which offer customized services. By contrast, the company is increasing revenue by standardizing the *shikigaku* theory.

The company uses the *shikigaku* theory to define terminology and create schematic diagrams, and teaching is based on a manual. Consequently, all clients everywhere gain the same knowledge. Customer value is equalized. Because its services are not customized, Shikigaku can provide them for a relatively low price.

For this reason, the company does not compete with consulting firms for business. If consulting firms were to standardize their services, they would disrupt their own business models.



**Differences from coaching and training businesses**

The underlying principles of *shikigaku* are explained in more detail below, but the methodology has two essential elements: The first element is organizational management that involves creating and adhering strictly to rules and does not depend on individual relationships. The second element is management based on objectivity and reality rather than intuition and emotion. The objective is to help clients improve productivity by eliminating waste from their organizations.

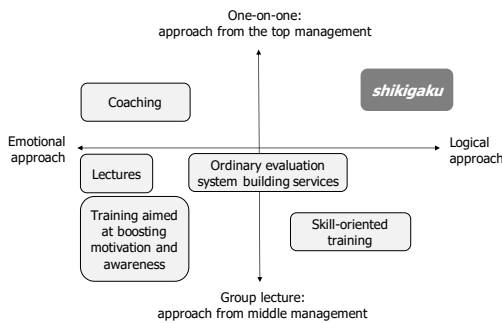
Typical training businesses, such as coaching, lecturing, or training aimed at boosting motivation/awareness, have psychological aspects or aim to stimulate emotional elements. By contrast, *shikigaku* investigates organizations based on boundless logic. Coaching, for example, seeks to “elicit the answers that other people have.” Coaching seeks to boost motivation by working with another party to identify small experiences of success, sparking a person’s potential and propelling him or her on to self-actualization.

The *shikigaku* method, on the other hand, teaches “answers that other people do not have.” Furthermore, the quality of teaching through group lectures can vary depending on the logical consistency of the content. If the content is not logically consistent, this form of teaching can result in mere methodologies that produce large numbers of passive or lethargic company members. When the content is logically consistent, on the other hand, outcomes can be self-propagating, with a sense of growth or achievement arising naturally through experience.

The essential element of Shikigaku’s training is a one-on-one approach targeting top management rather than group lectures to middle management. Changes in top management affect organizations quickly, as members of this stratum function as organizational decision makers. This makes it easy to see the results of introducing *shikigaku*. By comparison, reaching the organizational reform stage by teaching middle managers is time-consuming, and companies are slow to change as a result.

Therefore, the company does not compete with consulting firms. Nor does it compete with general training businesses, which do not share its one-on-one approach. Rather, Shared Research understands that the company is cultivating a new market.

**Shikigaku's positioning**



Point of comparison	<i>shikigaku</i>	General training
Targeted staff	Mainly top management and senior managers	Mainly for general employees
Viewpoints	Commit to the future of employees	Solving employees current source of stress
Style	One-on-one	Group
Measures to boost employee motivation	Outside the scope of management	Important
Evaluation of efforts	Outside the scope of evaluation	Important
Closeness to site of operations	Recommended to be remote	Recommended to be close

Source: Shared Research based on company data

## Shikigaku's underlying principles and case studies

### The shikigaku framework

#### Misunderstandings and misinterpretations that surface in the structure of consciousness

The *shikigaku* theory analyzes the human structure of consciousness as 1) position → 2) result → 3) change → 4) fear → 5) target ⇒ behavior. Human consciousness is thus separated into five domains or stages. People digest these stages in a split second, resulting in behavior. Organizational issues surface if misunderstandings or misinterpretations arise among members of an organization in any of these domains.

The *shikigaku* theory holds that misunderstandings and misinterpretations within an organization have two types: The first arises from gaps in mutual perception. For instance, Person A asks Person B "Have you ever been to Wimbledon?" Person A means "Have you ever been to cheer on the players at the Wimbledon Championships?" but Person B, who is a pro tennis player, perceives the question as "Have you competed at the Wimbledon Championships as a tennis player?" Person B may therefore respond "No," even if he has in fact cheered on players at Wimbledon in the past. Here, the phrase "go to Wimbledon" is the source of the gap in perception.

The second type has to do with misunderstandings and misinterpretations related to factual frameworks. For instance, a person may be asked to place the following three sentences in the correct order: "A: Receive a salary from the company." "B: Provide services to customers." "C: Receive compensation from customers." The company explains that although the correct response is B→C→A, many people place A at the beginning. This sort of misunderstanding or misinterpretation about a factual framework means that an employee may think they need to have a reason for working hard, but as they are not motivated, they cannot work hard.

The *shikigaku* method calls for eliminating these misunderstandings and misinterpretations within an organization, achieving a shared awareness, improving behavior, and achieving productivity gains as a result.

#### The five stages

The company says its explanation of *shikigaku* spans more than 100 pages of text and charts illustrated with notes. However, most of the problems client companies face are at the 1) position and 2) result stages.

##### 1) Position: Accurately recognizing your own position

In organizations where people do not recognize their "positions" accurately, the following comments may be heard: "He/She didn't follow my instructions;" "My subordinate expects the content of my instructions to be convincing;" "I am hearing critical comments about our company/organization."

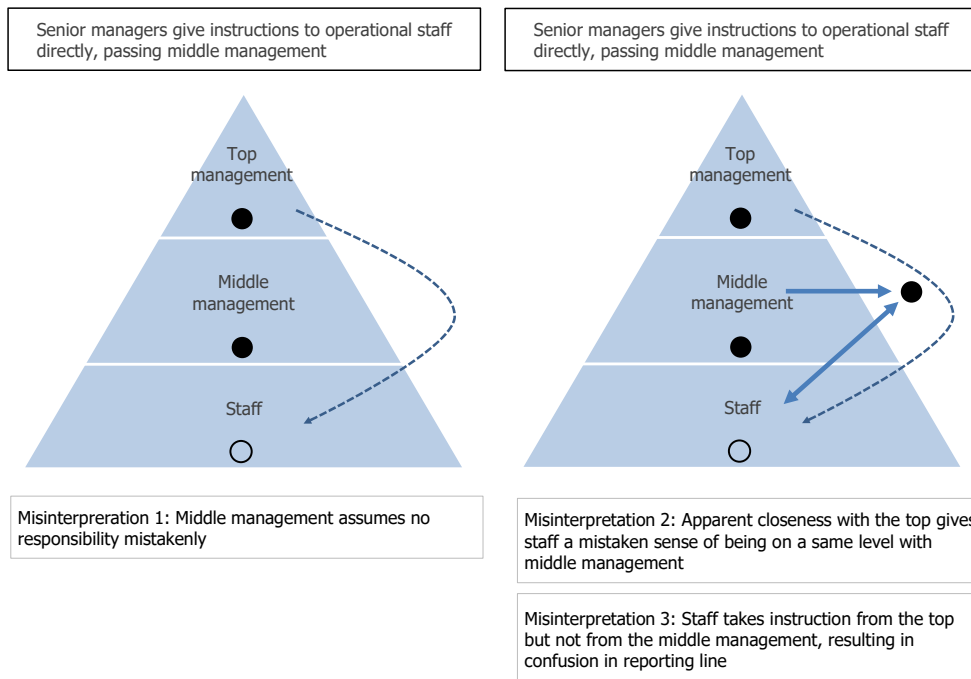
In the *shikigaku* context, "position" means that members of an organization recognize their membership in the organization and accurately understand their current rank in that organization. "Position aberration" occurs when 1) a gap in perception arises because a member of the organization seeks affiliation with a rank other than the rank to which he belongs, or 2) a member of the organization mistakenly believes himself to be outside the organization to which he belongs and criticizes his organization as if he were outside it. Stated during an informal drinking session outside the organization, statements such as "Our company is really bad at XXX" or "Mr. YYY (boss) is a real loser" from a member of that organization point to "position aberration," as the person making the statement is commenting as if he were outside the organization. (An example of "2)" above.)

Informal drinking sessions between superiors and subordinates are not necessary for a company to grow. If such sessions are frequent, the distances between superiors and subordinates may shrink as their relationships become more familiar. Excessive communication between a superior and a subordinate may result in the misunderstanding that they both enjoy an equal relationship. This may result in the superior being unduly polite to the subordinate or the subordinate thinking "I can probably get by with this much." This case is an example of "position aberration," one type of position-related misunderstanding or misinterpretation.

Shikigaku explains that to eliminate position aberration, an organization needs to clarify the positions its members occupy and who evaluates those members. Position aberration occurs when superiors and subordinates have clearly defined roles but those roles are not observed. As a result, the superior becomes unable to accurately evaluate the subordinate.

The figures below illustrate one reason for losing accuracy of position. In this example, a member of top management bypasses a middle manager and instructs a sub-subordinate directly. The middle manager who is bypassed feels devoid of responsibility (misinterpretation 1). The sub-subordinate feels a mistaken sense of closeness to the top management that resembles his or her actual relationship with the middle manager (misinterpretation 2). Also, the sub-subordinate chooses which commands to obey based on who gives them, disrupting the chain of command (misinterpretation 3).

**Position aberration: Skipping one level**



Source: Shared Research based on company data

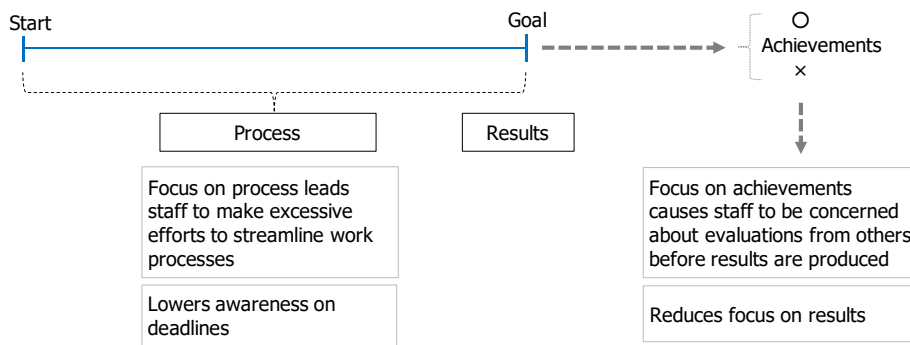
**2) Result: Determining what you need to accomplish, and by when**

The company explains that it is important for a superior to clearly indicate a desired result to his or her subordinate and to manage and assess the subordinate solely on the degree to which that result is achieved. In organizations where this process is insufficient, subordinates may feel that assessments are based on a superior's subjective feelings, and such organizations may face excessive overtime work or other issues.

In this domain, results are the most important consideration. If an employee concentrates too much on outcomes (achievements), he or she may pay excessive attention to assessments and lose focus on achieving results. At the same time, focusing on processes can cause an employee to concentrate instead on how the work is performed and retain only a dim recollection of the deadline of the desired result. For this reason, people need to be focused exclusively on the facts.

Accordingly, superiors should manage subordinates' work based solely on results (facts), not outcomes (achievements) or processes. If a superior thinks subordinates might have difficulty achieving results, he or she should conduct management based on milestones; Rather than viewing work as a progressive line, he or she should subdivide the job into discernible incremental results. The superior should take care to set these milestones, preventing subordinates from becoming confused about which steps they should take next.

**Result perspective**

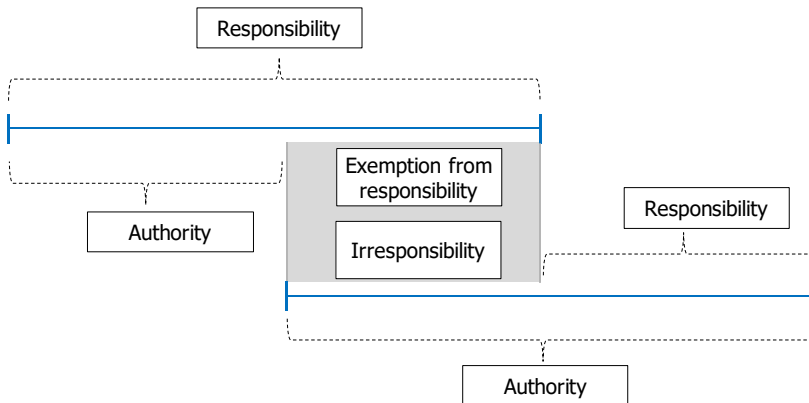


Source: Shared Research based on company data

Assessments should look at results. Focusing on progress leads to subjective assessments based on statements such as “It’s okay;” “Things are going well;” or “I’m working hard.” According to *shikigaku*, members of corporate organizations should be assessed on the basis of results because that is the metric markets use to evaluate these organizations. If results are judged as favorable, progress is also deemed favorable.

“Results” are also related to consistency between scopes of responsibility, roles, and authority. According to *shikigaku*, the scopes of roles, responsibilities, and authority need to be delineated clearly to prevent subordinates and middle managers from feeling a lack of responsibility. Not doing so leaves room for employees to blame failure to meet their responsibilities on a lack of authority. It can also enable employees to skirt their responsibilities by claiming that they needed to focus on other tasks, despite having the proper authority. (See the figure below.) Loopholes that lead to excuses occur when individual roles overlap, so roles need to be delineated clearly. The *shikigaku* theory holds that doing so eliminates these loopholes and is important in creating an environment in which excuses are not permitted.

**Loopholes arising from mismatches between responsibility and authority**



Source: Shared Research based on company data

3) Change: Recognizing what change is needed to achieve the desired result and accurately understanding the nature of that change. Important at this stage is to clarify what change is required to achieve both the desired result and essential changes in thinking. The company says many organizations that fall down at this stage either engage in frequent personnel changes or reorganizations (regardless of scale) or they entrust decisions regarding change to individuals. An organization and its individual members need to recognize what changes are necessary to achieve the desired results.

4) Fear: Digesting elements that try to hinder or avoid the necessary changes

Addressing fear of change or behavioral improvement decreases unnecessary avoidance behavior by clarifying which fears are necessary and which are not. According to *Shikigaku*, companies deficient in this area may have good atmospheres but poor

results. They may also tend to avoid (or delay) opportunities such as holding meetings or reporting. Organizations must assimilate those elements that cause them to suppress or avoid necessary changes.

#### 5) Target: Accurately understanding the target and having a clear behavioral path to achieve that target

This domain involves creating the thinking that connects the elements needed to increase target benefits and further improve results. Shikigaku notes that at companies deficient in this category, superiors and subordinates may have a different sense of whether a target has been reached. Also, employees may feel they are doing well simply because they are working hard. Important aspects of this domain are accurately understanding the nature of the target and having a clear behavioral path to achieve that target.

#### **Emphasizing the traditional design principles of the organizational structure**

Organizational structures define relationships between ranks and job functions. As a result, they make decisions regarding functions that need to be handled by subordinate organizations, the authority for allocating human resources, and reporting lines. Deciding upon organizational structures involves certain design principles. Two central principles are the “principle of authority matching responsibility” and the “unity of command principle.” (Source: “Business Management Theory,” a Reader for Accelerating Consultants’ Ratings of Small and Medium-Sized Companies,” by the TAC Publishing Group)

The unity of command principle states that to maintain order in an organization, superior/subordinate job rankings (meaning an organizational status to which authority and responsibility have been allocated in accordance with job duties) are defined in a way that ensures each member of an organization receives orders from only one specified superior. According to *shikigaku*, failure to follow the unity of command principle is one reason “position aberration” (described above) occurs.

Under the principle of authority matching responsibility, the amount of authority vested in a member of an organization corresponds to that member’s duties, and that the member must bear an equal amount of responsibility. In the above discussion of “results,” the mechanism that generated exemptions occurred because the principle of authority matching responsibility was not followed.

#### **Denying the idea of using extrinsic motivation to encourage subordinates to work**

The *shikigaku* theory says “Subordinates’ motivation should not be increased.” The study of motivation theory (the theory that investigates what drives individual behavior and through what processes) points to a balance between organizational and individual objectives.

*Shikigaku* theory, however, holds that superiors should not seek to raise or lower subordinates’ motivation, for two reasons: The first is that doing so can cause a subordinate to mistake their role. The second is that motivation is something a subordinate should control on his or her own.

As is described earlier in this report, many new employees find it easy to fall into the trap of thinking “the company pays my salary, so I work and provide services to customers.” According to *shikigaku* theory, this line of thought might naturally progress to “I need a reason to work harder than I’m being paid to work.” and “If there is no reason to work harder, I will not work harder than I am being paid to work.” The thinking is that if a superior becomes involved in this logic, he or she becomes responsible for motivating a subordinate to work harder and thus must remain conscious of a subordinate’s moods.

Instead, employees receive salaries in consideration for providing services to clients. If an employee wishes to raise his or her salary, he or she must provide higher-quality services to clients. In other words, instead of waiting for motivation to work harder than his or her salary dictates, an employee’s role should be to provide more value to clients. Therefore, if an organization or superior manages a subordinate’s motivation, the subordinate may lose sight of his or her own role, putting the organization in an unnatural condition.

Rather than denying the precepts of motivation theory, Shikigaku explains that in a healthy organization, motivation will be generated spontaneously. This will occur naturally, says the company, if the “position” and “result” domains (or the traditional

design principles described above) are understood correctly, outcomes are achieved, and targets are reached. Shikigaku believes that motivation is intrinsic, that healthy organizations provide the environments for employees to feel this motivation themselves, and that an accurate recognition of “position” and “results” provides the foundation.

## Case study 1)

Efforts to create a pleasant working environment for employees backfired.

Company	Background to introduction	Before introducing <i>shikigaku</i>		After introducing <i>shikigaku</i>				
		Employees' perspective	Superiors' perspective	Situation	Corrective action	Initiatives		Changes post-introduction
						Short term	Medium/long term	
All Connect	Core members left a department that had continued to post deficits, causing the need to rebuild the department.	If we voice our dissatisfaction to superiors, the organization will respond.	We have to manage in a way that will not dissatisfy our subordinates.	★ Misinterpretations about “position” 1) Experience at picking and choosing from superiors’ instructions, 2) Ability to assess superiors	Management needs to follow rules that do not elicit behaviors 1) and 2) indicated at left.	Forbade the previous approach of directing management in a manner that relies too heavily on employee feedback	A strict rules-based framework was introduced. The HR evaluation system was linked to the rules indicated at left. If these rules were broken, an employee’s assessment would be lowered, even if job performance was high.	The internal environment developed in such a way that each person knew what he/she should do. The working environment and performance improved.
		↓	↓	↓				

Source: Shared Research based on company data

All Connect had grown into a medium-sized distributor of telecommunication lines. Five years after establishment, employee turnover was high. Concerned about this turnover, All Connect engaged in a number of initiatives to create a more pleasant working environment. One was to encourage individual communications. Over the course of time, employees began to feel that “If I speak with the president, he will eliminate my stress.” Furthermore, as the president spoke freely about all manners of things, managers became cautious around their subordinates, as the subordinates could offer their opinions about management directly to the president. Subordinates began to question their managers’ instructions, asking “Are those instructions from the president?” As a result, managers lost their sense of authority.

According to Shikigaku’s analysis, All Connect’s initiatives were the exact opposite of what the underlying principles driving organizational functionality would dictate. The company explains that employees experience two types of stress: 1) stress from feeling as if they must strive harder in order to grow and 2) stress due to ambiguity, such as when their leaders fail to make decisions or miscommunicate. In its aim to create a more pleasant working environment, All Connect tried to ease these stresses, but in encouraging one-on-one individual connections it broke down organizational rules, ultimately leading to miscommunication.

Furthermore, because the president broke ranks and communicated directly with underlings, the management layer ceased to function, giving way to the misinterpretation that subordinates could also assess their managers. A major problem arose in the “position” domain, which calls for people to accurately understand their position; “position aberration” occurred. The table above shows how adopting the *shikigaku* approach helped All Connect correct its organizational issues.

## Case study 2)

A management perspective provided the foundation for organizational growth.

Company	Background to introduction	Before introducing <i>shikigaku</i>		After introducing <i>shikigaku</i>				
		Many employees became confused about whether they should prioritize internal tasks or customer requests, which were growing rapidly.		Situation	Corrective action	Initiatives		Changes post-introduction
		Choices	Employees' perspective			Short term	Medium/long term	
UUUM	The number of employees grew rapidly as business expanded. Founded with just a few people, the company initially had a flat structure based on mutual understanding. As it grew, the company felt the need to transition to a pyramid-shaped organizational style.	1) Prioritize customer requests over superiors' instructions.	Customers are the ultimate arbiters. Our role is to do our best to meet their needs.	★ <b>Misinterpretations about "result"</b>	What must be done to fulfill individual role?			
		2) Discuss situation with superior, and receive instructions about how to prioritize.	-					
		3) If an urgent request is received, give customer requests second priority.	Work that is requested first gets first priority. Surely it is acceptable to turn down urgent requests.	Achieve the results the assessor expects.	For the organization to function appropriately and to erase ambiguity about expected results and conditions, UUUM needs to foster an understanding about who is responsible for assessing results and what results are expected.	1) Subordinates clearly recognized who was assessing them. 2) It became clear what results superiors required of their subordinates, and subordinates recognized their responsibilities.	To make items 1) and 2) at left part of its organizational rules, the company incorporated them into its evaluation system. Shikigaku helped UUUM to build this management and operational system.	
		4) Do both to the extent possible and explain why when results fall short	I can't neglect the superior who depends on me or my customers. Surely they will see how hard I'm working.	In a company, superiors have the authority to assess their subordinates. UUUM's employees had thought authority rested with customers. As the organization grew, superiors were unable to oversee all activities, so employees started making their own decisions and had a mistaken idea about their roles.				
		Many employees chose options 1), 3) or 4).						

Source: Shared Research based on company data

UUUM (TSE Mothers: 3990) is a medium-sized company that offers web video solutions, produces movies, and runs YouTube advertisements. Founded in June 2013, the company had only five members until the beginning of its fiscal year 2014. However, this number grew as sales expanded, and one year later, the company had 50 employees. As the organization grew, it became impossible for the founding members to instruct all members. As a result, employees would respond to customers' requests rather than waiting for superiors' instructions. Subordinates were sometimes left to make their own decisions, resulting in a mistaken view of their own roles.

Shikigaku described a company organization in which superiors (assessors) were in charge of making decisions. Up to that point, some of UUUM's employees had thought customers were the decision-makers. Analyzed under *shikigaku* theory, this equates to a misinterpretation about "result." To correct this situation, UUUM clearly informed subordinates regarding who was in charge of assessing them. UUUM also clarified what outcomes superiors required of subordinates and made subordinates aware of their responsibilities for achieving those outcomes. To inscribe these two corrective actions into internal rules, UUUM incorporated them into its evaluation system. Shikigaku helped UUUM to build this management and operational system.

## Case study 3)

Top management must be the ultimate decision-makers.

Company	Background to introduction	Before introducing <i>shikigaku</i>		After introducing <i>shikigaku</i>				
		Factory workers' perspective	Factory manager's perspective	Situation	Corrective action	Initiatives		Changes post-introduction
						Short term	Medium/long term	
Hayashi Sangyo	When the current president took over the reins of management, he had the sense that the organizational balance had been disrupted. He felt the company was heading to a state of crisis, with relationships between himself and employees (particularly senior employees) breaking down and internal rules ceasing to function	<ul style="list-style-type: none"> <li>When product defects and other factory problems occurred, the factory general manager would give detailed instructions to individual subordinates. That approach was the same as under the previous president. He felt he was fulfilling his role as factory general manager by reporting to the president that "This is what we are trying to do." and "These are the instructions I have given."</li> </ul>	<ul style="list-style-type: none"> <li>From the president's perspective, however, the company was not making progress toward a fundamental solution that would prevent the trouble from occurring in the first place.</li> </ul>	<p><b>Achieve the results the assessor expects.</b></p> <p>↓</p> <p>In a company, superiors have the authority to assess their subordinates. UUUM's employees had thought authority rested with customers. As the organization grew, superiors were unable to oversee all activities, so employees started making their own decisions and had a mistaken idea about their roles.</p>	<ul style="list-style-type: none"> <li><i>shikigaku</i> theory clarified the roles associated with various positions, and ensured these do not deviate.</li> <li>Once responsibilities were associated with those roles, the need becomes clear to provide an environment in which the vesting of authority resulted in true responsibility.</li> </ul>	<ul style="list-style-type: none"> <li>1) Clarified roles and responsibilities for individual ranks               <ul style="list-style-type: none"> <li>a) Factory general manager's role: Line manufacturing? ⇒ No</li> <li>b) Factory general manager's role: Achieving defect rate of XX% or lower? ⇒ Yes</li> </ul> </li> <li>2) Established steadfast rules about roles and responsibilities               <ul style="list-style-type: none"> <li>a) Ensuring behavior to prevent the same mistakes from recurring ⇒ Factory line manager's responsibility</li> <li>b) The line manager's job is to ensure against behavior that causes mistakes at the factory to recur. The general manager is not to get involved in this task.</li> </ul> </li> <li>3) Vest the authority needed to fulfill these responsibilities</li> </ul>	<p>Each person recognized his/her roles and responsibilities. The environment changed, such that people concentrated on behaviors to achieve the required results. As a result, autonomous improvement and information-sharing became a normal part of the corporate culture.</p>	

Source: Shared Research based on company data

Hayashi Sangyo manufactures and sells polyethylene packaging materials. When the current president took over the reins of management, he had the sense that the organizational balance had been disrupted. He felt the company was heading toward a state of crisis, with relationships between himself and employees (particularly senior employees) breaking down and internal rules ceasing to function. When product defects and other factory problems occurred, the factory general manager gave detailed instructions to his subordinates. That approach was the same as under the previous president. The factory general manager felt he was fulfilling his role. However, the current president sensed that the company was not making progress toward a fundamental solution that would prevent the trouble from occurring in the first place.

Shikigaku assessed this situation as being due to a misinterpretation about the "result." In particular, Shikigaku's analysis suggested the misinterpretation was due to overlapping roles and responsibilities. Factory employees believed its general manager was responsible for everything that occurred at the factory, as did the general manager himself. For that reason, when product defects occurred, factory employees felt it was their role to receive detailed responses to questions on what to do, and that the general manager's role was to provide detailed instructions. At first glance, the system seemed complementary, with people bearing fewer individual burdens. However, Shikigaku clarified the roles of people at individual ranks. Once responsibilities were associated with those roles, the need became clear to provide an environment in which the vesting of authority resulted in true responsibility.

## Expanding Shikigaku's fields of application and business

The company's key measures for achieving growth over the medium term are to entrench the Shikigaku brand and move into the M&A domain. To do so, the company is forging sales alliances and augmenting its M&A capabilities.



## M&A training for top management (formerly “M&A advisory services”)

Shikigaku believes that even when companies position M&A as an important management strategy, seldom do they have a full comprehension and understanding of M&A. According to the company, several factors impede an understanding of M&A: there are few places a business owner can easily visit to discuss M&A, high M&A fees can cause an executive to have second thoughts, and determining the correct price of a business is difficult.

To address this situation, Shikigaku seeks to expand the M&A education business by applying its expertise in systematizing educational content and expanding sales to this new category. The company appears to have decided to enter this field because the service would target many of its clients. In June 2019, Shikigaku took over a corporate M&A consulting business based on monthly retainer fees from TIGALA, which is mainly an M&A broker. This acquisition led to Shikigaku’s launch of the M&A advisory services business in June.

With this service, Shikigaku targets companies that have potential M&A needs, providing M&A training and offering second opinions. The service has four major characteristics: First, pricing is a flat monthly amount (JPY300,000 per month per company), there are no performance fees, and clients are free to engage in consultation about M&A whenever, and as many times per month, as they wish. Second, because no performance fees are at stake, Shikigaku can adopt a neutral stance, potentially advising against an acquisition. Third, the company can provide a total of 12 training sessions to help familiarize clients with M&A. Fourth, the company applies its knowledge of *shikigaku* to help avoid some pitfalls of post-merger integration—namely, sudden personnel turnover or poor performance.

Performance fees are a major component of costs when using typical M&A brokers. Standard practice is to charge a minimum of JPY5mn and 5% of transaction amounts for deals less than JPY500mn. A company acquired for JPY300mn would therefore generate performance fees of JPY15mn. By comparison, Shikigaku’s M&A advisory service is priced at a fixed JPY300,000 per month. If a client were to make an acquisition after learning about M&A through Shikigaku for one year, the cost would be JPY3.6mn (JPY300,000/month x 12 months, and no performance fees). When proposing this advisory service to clients, the company explains how the service helps them learn about M&A, eliminate high brokerage costs, and promote knowledge and understanding of M&A.

Shikigaku’s business model occupies the low end of the high-priced consulting market. As its M&A advisory service is also centered on manual-based M&A education, Shared Research sees this service as occupying a position at the low end of the professional services (M&A brokers and financial advisors) market.

## Organizational due diligence

The company explains that many M&A projects fail and employees leave for one of five reasons: 1) an inability to conform to the new organization’s rules and environment, 2) a sense of backlash about being forced to adopt new rules and methods, 3) friction between members, 4) a paralysis of organizational functions when the acquirer speaks directly with members of the acquired organization, and 5) roles, results, and assessments become unclear. To address this situation, Shikigaku says it is necessary to make organizational functions clearly visible.

Organizational due diligence is a service Shikigaku provides to help companies succeed in post-merger integration (PMI). Shikigaku collates survey results into numerical data, which it provides as reports that clarify corporate strengths and weaknesses. It approaches these reports from two angles: a Shikigaku Survey and interviews with top management.

The Shikigaku Survey is a questionnaire containing some 80 questions about consciousness and is given to both the acquiring company and the company being acquired. This survey allows Shikigaku to present, in numerical form, individual employees’ and managers’ responses regarding how they recognize success and how they are incorporating this understanding into their work. The Shikigaku Survey has eight assessment axes, as the figure below indicates. Shikigaku surmises the state of an organization based on the number of points for each of these axes.

For example, a company that has adopted *shikigaku* might be acquiring a company, and the diagnostic result shows that the acquired company has a low score on a given assessment axis. Shikigaku would report this as a positive factor, because correcting this point would lead to future growth potential. However, a focus on the “position” and “result” domains of the structure of consciousness might yield a low score on the assessment axis associated with “position” (such as in subordinates assessing their superiors). As this situation would be difficult to rectify through PMI, Shikigaku might suggest the acquiring company reconsider the acquisition.

However, a low score on the assessment axis associated with “result” would be a positive indicator for a decision to acquire. A low “result” score suggests that targets are unclear and subordinates are confused. Setting clear targets should therefore lead to better performance by subordinates and the organization.

### Eight axes of evaluation in a Shikigaku Survey

Assessment axis	Definition	Assumed organizational condition
Self-assessment	If the respondent feels strongly that he/she personally determines his/her own value, the score is low.	Assessment criteria and standards are vague. Within the target-setting process, the process of receiving superiors' approval is weak.
Position in the organization	The stronger the indicators of superior/subordinate relationships in which superiors are above and subordinates are below, the higher is the score.	Not obeying rules and instructions can be forgiven. Superiors are assessed by subordinates.
Clarity of results	The more clearly a respondent understands what they are supposed to do, the higher is the score.	Many instructions have no deadlines. (“Do this.”) Goals are unclear. (“This looks good.”)
Success perspective	The more indicators of behavior indicating excessive concern (“What might happen if I fail?!”), the lower is the score.	People are unable to concentrate on goals due to fear of failure. Unclear what needs to be focused on now.
Exemption consciousness	The greater the number of excuses about personal responsibility, the lower is the score.	The scope of responsibility is vague and overlapping. Superiors provide instruction about progress.
Change consciousness	The stronger the desire to grow, the higher is the score.	Poor experience of growth. Not feeling a need to change. (Can continue receiving salary without changing.)
Action-priority consciousness	The stronger the indicators of a tendency to act rather than to simply think, the higher is the score.	Little awareness of the need to repeatedly act and correct behavior. Subordinates always ask for reasons to act as instructed.
Time awareness	The stronger the awareness of the need to save time, the higher is the score.	Superiors do not set deadlines. Superiors set deadlines, but those are loose deadlines for subordinates.

Source: Shared Research based on company data

## Shikigaku No. 1 Limited Investment Partnership (Shikigaku Fund No. 1)

In September 2019, the company decided to form and invest in the Shikigaku No. 1 Limited Investment Partnership (Shikigaku Fund No. 1). Its stated aims are to focus on “organizational capabilities” and “transition to a growth organization.”

The company explains that its reasons for forming the fund are threefold: First, there is a strong affinity between applying the *shikigaku* theory to help organizations grow and getting companies to the next stage, including IPOs. Second, using the *shikigaku* theory to analyze a company’s status enables Shikigaku to cultivate investees from a unique perspective. Third, the fund can help companies that are having trouble expanding their businesses do so in capital-efficient ways. By applying its formula (implement *shikigaku* theory → achieve corporate growth and enhance corporate value) to multiple companies, Shikigaku thinks it can demonstrate the effectiveness of the *shikigaku* theory.

The Shikigaku Fund No. 1 will have a total investment of JPY1.0bn and an investment of 10 years. As a general partner, Shikigaku has invested JPY50mn in the fund. The company has not disclosed information about other investors. Through the fund, Shikigaku plans to invest JPY20–50mn each in companies that have adopted or are considering adoption of the *shikigaku* method.

Through the fund, the company will generate management fees and performance fees. Management fees are scheduled to be 3% for the first four years and 2% from year five onward, and the company anticipates management fees of around JPY30mn/year. The company forecasts performance fees of 20% to 40% of the fund’s total value.

## Participation in the management of Fukushima Sports Entertainment (Fukushima SE)

In March 2020, the company accepted a third-party allocation of shares from Fukushima SE and resolved to make it a subsidiary. To build an organization aimed at achieving growth, the company plans to dispatch its consultants as executives to improve organizations and teams within Fukushima SE. With the aim of achieving a profitable structure, the company will set its sights on expanding sponsorship revenue in FY02/21 by establishing a sales framework and recruiting new staff.

The company decided to participate in the management of Fukushima SE because it thought that Fukushima SE could achieve further growth by targeting success through *shikigaku*-based organization forming techniques. The company also aims to provide evidence for the usefulness of *shikigaku* by combining it with sports and business revitalization. Shared Research sees that revitalization of sports organizations is an area of the company's strengths. In 2019, the company dispatched consultants that led Rikkyo University's rugby team to a Group A designation. The company also provided organizational and individual consciousness reform support for Waseda University's rugby team as it went on to its national tournament win. *Shikigaku* appears to be highly compatible with sports organizations.

## Expanding into the B2C domain

As awareness of *shikigaku* grows among individuals, the company anticipates a growing interest in *shikigaku* theory among people who are interested in studying organizational management. To meet this demand, the company says it would likely expand group training to corporate middle managers, veering from its practice of providing one-on-one training for top management.

## Shikigaku Management College

The company launched this college in January 2019 to provide short-term management training for people in administrative positions. The fourth term lasted from October to December 2019. The courses last three months, with classes held a total of six times (two hours every two weeks). The curriculum focuses on administrators using the *shikigaku* method to achieve success as a team.

After the first session, participants practice the new management ideas they have learned for the two weeks leading up to the next lecture. Each new session starts with feedback on application results over the previous two weeks. Lecture themes include the following:

- ▷ Reasons subordinates do not follow instructions
- ▷ Mechanisms that turn employees into bystanders, critics, and commentators
- ▷ The harms of 360-degree assessment
- ▷ The relationship between rules and communication
- ▷ The consciousness of leaders who cannot make decisions
- ▷ Reasons for a decreased sense of belonging
- ▷ Productivity-lowering mechanisms

## Shiki Zemi

The company launched Shiki Zemi in September 2019 to provide lecture courses on *shikigaku* theory to individuals. Its intent is to provide relatively inexpensive training in the theory to individuals who have taken up administrative positions, have concerns about management methods, or wish to learn about management to prepare for the future. In addition to an understanding of *shikigaku*, the company says this training fosters communication among course participants. An outline of the training is provided below:

- 1) Watch videos: Taking an e-learning format, the five aspects of the *shikigaku* theory are explained during 47 videos, and a test is provided to check knowledge.
- 2) Questionnaires are used to analyze fields of interest to participants, and case studies are provided in related fields.
- 3) Case studies are explained once each month during a one-hour online session.

- 4) Creation of a community: Social media is used to create a group community, promote networking, and share organizational issues.
- 5) Fees are JPY5,000 per person per month.

### **Shikigaku Career**

The company launched this HR matching service in November 2019. With this service, the company introduces individuals who are interested in the *shikigaku* theory to companies that have adopted *shikigaku*, providing employment opportunities. According to the company, *shikigaku*'s theoretical basis provides individuals with the basic education and state of consciousness to be successful members of an organization. For organizations, *shikigaku* helps provides an environment that nurtures individual growth. By matching the two, the company aims to create situations whereby individuals can be successful on an ongoing basis.

As background for this service, the company explains that the number of individuals showing an interest in *shikigaku* is rising steadily. At the same time, more than 1,500 companies have already adopted *shikigaku*. Through *shikigaku* education for individuals, the company believes it can provide opportunities for organizations to attract highly productive human resources.

The company plans to acquire job seekers by effectively utilizing its customer base of 1,519 contracted clients, as well as the LINE social messaging app and seminars. One month after launching this service, the company apparently had more than 40 clients under contract and had booked more than 60 recruitment projects (as of end-February 2020). The company collects revenue for this HR matchmaking service through contingency fees equivalent to 30–35% of the annual salaries of human resources that successfully obtain employment.

## Market and value chain

### Market scale and organization

#### Market for small and medium-sized companies

Shikigaku is currently targeting medium-sized companies (In manufacturing and other fields, this category refers to companies with capital of up to JPY300mn and up to 300 employees). According to the Small and Medium Enterprise Agency's "2019 White Paper on Small Enterprises in Japan," Japan had 529,000 medium-sized companies. Of customers acquired since Shikigaku's IPO, 44.9% have between 50 and 100 employees. Adding in companies with fewer than 50 employees brings the total to 73.6% of its clients.

#### Number of small and medium-sized companies, by number of full-time employees and equity

Number of employees	Capital (JPYmn)									Total
	Less than 2	2-3	3-5	5-10	10-20	20-50	50-100	100-1,000	Over 1,000	
<b>0</b>	37,113	4,921	144,410	39,626	69,556	8,940	2,357	1,008	122	308,053
<b>1-5</b>	73,132	10,080	315,445	114,040	203,640	34,377	6,768	2,237	239	759,958
<b>6-10</b>	24,540	2,292	71,080	33,969	83,778	26,142	4,508	1,448	139	247,896
<b>11-20</b>	20,493	1,395	39,633	19,846	64,840	29,676	6,045	2,052	217	184,197
<b>21-30</b>	6,354	487	12,648	6,278	26,394	15,683	4,382	1,513	164	73,903
<b>31-50</b>	4,487	283	8,271	4,367	21,664	15,737	6,166	2,141	229	63,345
<b>51-100</b>	2,753	116	3,898	2,241	14,323	13,010	7,272	3,478	425	47,516
<b>101-200</b>	1,083	21	822	615	5,467	6,156	4,401	2,647	365	21,577
<b>201-300</b>	248	2	134	99	1,304	1,739	1,537	1,276	335	6,674
<b>Total</b>	170,203	19,597	596,341	221,081	490,966	151,460	43,436	17,800	2,235	1,693,084
<b>(31-300)</b>	8,571	422	13,125	7,322	42,758	36,642	19,376	9,542	-	137,758

Source: Shared Research based on the Economic Census Baseline Survey (2014)

The chart above outlines data from the Economic Census Baseline Survey (2014), looking at the number of small and medium-sized companies, by number of full-time employees and amount of equity. Shikigaku's current client base centers on companies with 30 to 300 employees. (Small and medium-sized companies are defined as those having capital of less than JPY300mn, but for these purposes we have included companies with up to JPY1.0bn in capital.) Shared Research calculates that 138,000 companies satisfy these criteria. The contracts it has in place with 1,519 companies (as of end-FY02/20) amounts to 1.1% of that figure (1,519 companies divided by a total of 138,000).

#### Issues and organizations of growing companies

We reviewed the results of the "Fact-Finding Survey of Human Resources and Organizational Management at Successful Companies," announced on September 20, 2019 by Recruit Management Solutions (a member of the Recruit Holdings [TSE1: 6098] group) covering startup companies (50-1,000 employees). Our goal was to gain an understanding of how members of top management at small and medium-sized companies think of their organizations and their employees, as well as to understand market needs and determine the likelihood of Shikigaku's sustainable growth potential.

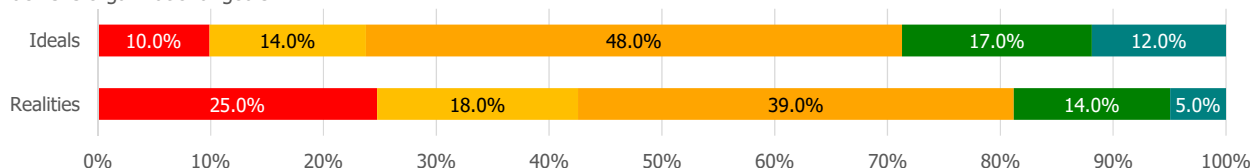
According to this survey, the HR issues growing companies face tend to be concentrated on three areas: not cultivating next-generation leaders; low brand recognition hampering efforts to recruit desired personnel; and personnel performance that fails to increase following recruitment. However, "Organizations in which some hierarchies exist, and employees succeed when they earn recognition for elevated results" (orange organizations) were highly selected both as the "ideal type of organization" and the "current type of organization." In terms of HR systems, it was clear that companies were providing opportunities for managers and employees to communicate, with around 40% responding to "events where all employees gather" and around 30% indicating "networking events with the management team."

We believe Shikigaku's belief in driving organizations through a framework that does not affect individual capabilities corresponds mainly to amber organizations, with some aspects of orange organizations being included. (Red organizations, which are structured around specific, strong leaders, were not applicable.) In this sense, more than half of growing companies

belong to the category Shikigaku is targeting. The facts, however, do also suggest a trend toward more people seeing green or teal organizations as the ideal.

### Organizational ideals and realities

- Red: Organizations structured around a specific, strong leader
- Amber: Organizations in which commands are passed between those in authority and their subordinates via strict hierarchies and rules
- Orange: Organizations that have some hierarchies but in which successful employees earn recognition and advance in the company
- Green: Organizations that retain hierarchies but respect individual diversity and have family-like ties
- Teal: Organizations that have no hierarchical chain of command, but in which all members follow unique rules and frameworks to achieve organizational goals



Source: Adapted by Shared Research from Recruit Management Solutions' "Fact-Finding Survey on Human Resources and Organizational Management at Growing Companies" (announced September 20, 2019). Organizational classifications are based on "Teal Organizations: Realizing Next-Generation Organizations That Upset the Management Norms" (Eiji Press, 2018).

### Market for corporate training services

Growing companies face the issue of training. According to the Yano Research Institute, the Japanese market for training services was worth JPY523.0bn in FY2018, up 1.2% YoY. Driving this growth, explains the institute, is a rise in demand for new employee training, as companies are aggressively recruiting new graduates. In Japan's persistently tight labor market, companies are investing actively in employee education and development. Yano Research says rank-specific training (for young or mid-level employees, next-generation leaders, middle managers, and top management candidates) remains robust. Demand is also strong for training related to "workstyle reform" initiatives, such as enhancing productivity and operational efficiency. In FY2019, Yano Research forecasts 1.1% YoY expansion in the market for corporate training services, to a value of JPY529.0bn.

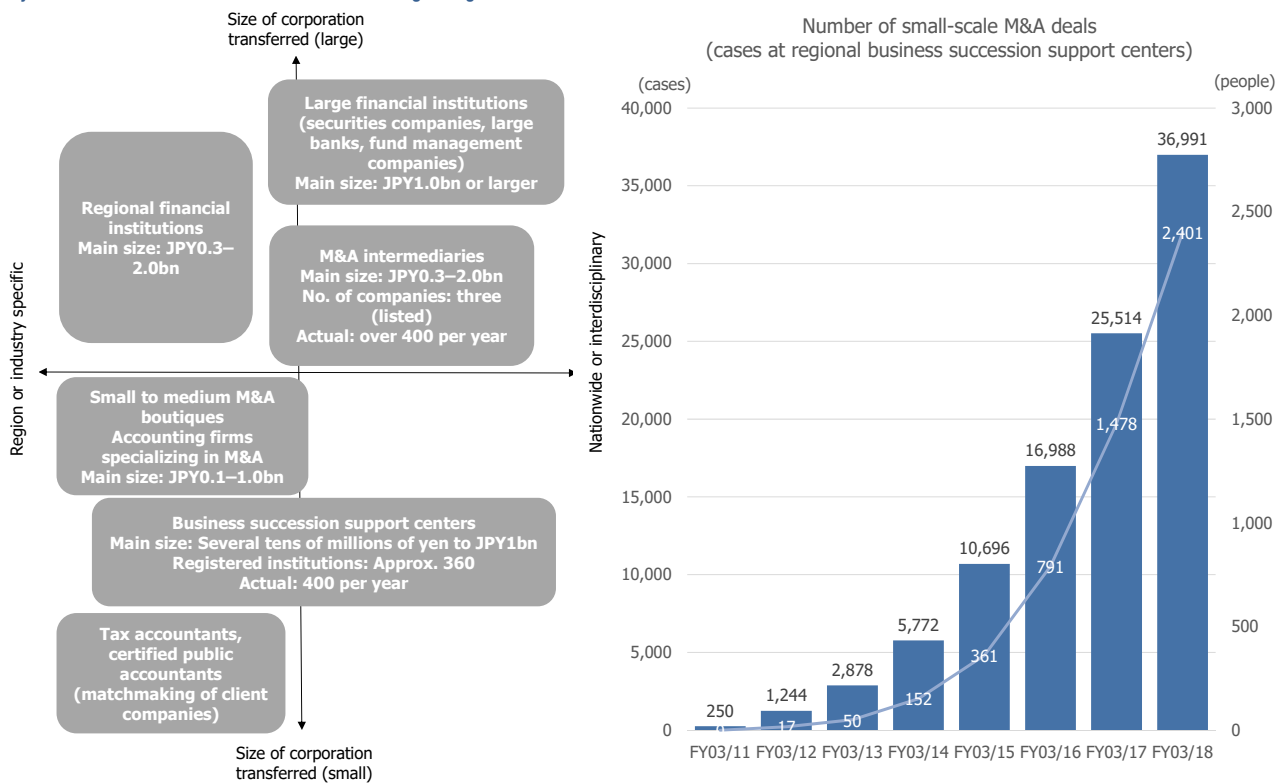
Within corporate training services, various internal rank-based training services are available. However, few provide direct face-to-face training of top management. Executive coaching is commonly provided in the form of face-to-face practice, but coaching tends to take an emotional approach. By contrast, *shikigaku* uses an opposite, logical style. Therefore, these two methods are not comparable. That is to say, Shikigaku has a unique business model.

### M&A brokerage market: Potential in organizational due diligence

Shikigaku plans to monitor trends in the M&A brokerage market, particularly involving small and medium-sized companies, as it decides whether to expand into the areas of M&A advisory services and organizational due diligence. In 2019, 4,088 Japanese companies engaged in M&A deals. This record-high figure is higher by 238 companies, or 6.2%, from the previous peak of 3,850 in 2018 (Source: Recof). The figure has continued to increase over eight consecutive years since 2012. The total value of M&A deals in 2019 was JPY18tn, down 38.5% YoY.

According to three listed companies that focus on M&A deals involving small and medium-sized companies, Nihon M&A Center (TSE1: 2127) estimates potential M&A needs in this category at 120,000 companies. M&A Capital Partners (TSE1: 6080) puts the figure at 210,000, and Strike (TSE1: 6196) estimates 190,000. As each of these three companies handles between several dozen and around 300 M&A deals per year, the potential market remains large. In fact, a growing number are obtaining support from business succession support centers (although these centers offer support to small-sized companies), which, in the opinion of Shikigaku, suggests that the potential market for its M&A advisory and organizational due diligence services will also expand.

## Players in the small/medium-sized M&A market and growing demand for business succession M&A



Source: Shared Research based on the Small and Medium Enterprise Agency's "Period of Concentration for Business Succession among Small- and Medium-Sized Companies (Five-Year Plan for Business Succession)" (July 2018) and data from the Organization for Small & Medium Enterprises and Regional Innovation

## Main competitors

### Competitive situation

Shikigaku's business centers on teaching its standardized *shikigaku* theory. Logically, therefore, the company does not compete with consulting firms, such as foreign strategic consulting companies and think tank-based consulting firms. Below, we introduce a number of comparable and reference companies.

### Link and Motivation Group

This management consulting company was established in April 2000 to focus on "motivation." Its core technology, "motivation engineering," incorporate academic disciplines such as management, social system theory, behavioral economics, and psychology, supporting corporate transformation by motivating individuals and invigorating organizations.

Motivation engineering comprises a "human perspective" and an "organizational perspective." Its "human perspective" holds that people require emotional rewards (desire for contribution, recognition, fellowship, and growth) as well as financial rewards. Its "organizational perspective" maintains that problems within organizations arise not from people but from the gaps between them, and that communication is therefore important.

Believing companies that use employee motivation as growth engines dominate markets, the group's core subsidiary, Link and Motivation, has an Organizational Development Division (31.2% of revenue), which engages in consulting and outsourcing businesses, as well as event and media businesses. The Matching Division (49.1%) seeks to match companies and individuals looking to advance in their careers through "motivation matching," which applies "motivation engineering" to the fields of recruiting, worker dispatch, and placement.

### Recruit Management Solutions

This company is a consolidated subsidiary of Recruit Holdings Co., Ltd., affiliated with the human resources section of the Media & Solutions business. This subsidiary was established in May 1989 as Human Resource Research Institute. It works to resolve

management and personnel issues and support business and strategies by focusing on “individuals and organizations” as corporate management resources. Since 2004, it has integrated its assessment, training, consulting, and coaching methods to provide professional services related to people and organizations.

Key consulting areas are organizational development (boosting productivity and organizational vigor), system configuration (organizational diagnosis, HR system design and operation, training system design and operation), and sales capability enhancement (boosting sales management skills and sales proposal-making capabilities). In 2004, Human Resource Research Institute reorganized as Institute for Organizational Behavior Research, amassing core theories and methods ranging from such academic subjects as organizational behavior and industrial organizational psychology to practical areas, such as corporate management and HR management. The company is a member of academic societies, including the Japanese Association of Industrial/Organizational Psychology, the Academic Association for Organizational Science, the US Academy of Management, the Japanese Association of Administrative Science, and the Behaviormetric Society.

### **Globis**

Yoshito Hori established the company in 1992, and began providing in-company group training in 1993. In 1996, the company launched a joint MBA program with the University of Leicester in the UK. The company then started an executive school and Graduate School of Management Globis University. In 1996, it formed the Global Incubation Fund (venture investment). To date, the company has provided corporate training services to approximately 1.1mn people at some 3,800 companies (as of March 2019).

The Globis Executive School offers training programs for people at various corporate ranks, from section head to general manager. Its Executive Management Program, targeting people ranked general manager and higher, provides school-based training in a classroom format, meeting 12 times over a three-month period. The entry fee is JPY23,000 (first student only), and tuition is JPY498,000 (JPY41,500 per session). The program aims to teach students top leadership skills, helping them acquire a top manager’s viewpoint and perspective, boost decision-making and organizational management capabilities, and nurture a sense of ambition and responsibility.

### **Insource**

This venture company focused on continuing education was established in January 2003. The company operates in a single segment, the Educational Services Business, which includes three training style categories: on-site training, open seminars, and other services. On-site training is tailored to client needs, and Insource dispatches instructors to conduct rank-based or skill-based training, as requested. The company provides training for the employees of private-sector companies and civil servants working at municipalities. Orders are placed at the organization level, and Insource bills clients according to how many times training takes place. It develops its own training programs and selects instructors with corporate or civil service experience. It dispatches instructors to organizations to conduct tailored training on-site.

The open seminar business involves online rank- and skill-based training programs. People who wish to attend can apply at the individual or corporate level. Insource’s other businesses include e-learning, assessment, and consulting services.



## Competitors and peer companies (1)

Company	Ticker	Listed	Description	Services	Fiscal year	Revenue (JPYmn)	OP (JPYmn)	OPM	Net assets (JPYmn)	Equity ratio	ROE
Shikigaku	7049	TSE Mothers	Organizational consulting. Offers <i>shikigaku</i> , a proprietary organizational theory, to senior corporate management	Organizational management, HR evaluation	FY02/20	1,720	283	16.5%	988	59.6%	18.7%
Recruit Management Solutions		Unlisted	A subsidiary of Recruit Holdings (TSE1: 6098)	HR development, organizational development, system building	FY03/19	20,300	Net income 2,316	-	8,520	54.9%	27.2%
Globis		Unlisted	The Graduate School of Management, management school, executive school, training (corporate group sessions; school type; online)	HR development, organizational strengthening, training services	-	-	-	-	-	-	-
Link and Motivation	2170	TSE1	Mainly management consulting (organizational, HR, IR); also support placement of assistant language teachers (ALTs)	Human resources consulting	FY12/19 (parent)	8,394	977	11.6%	5,171	19.3%	12.1%
Business Breakthrough	2464	TSE1	Remote management education firm lead by Mr. Ohmae; operates university and graduate school for working people	HR-related services, corporate training	FY03/19	5,361	459	8.6%	4,747	64.0%	5.1%
Insource	6200	TSE1	Operates training for human resource experts with instructors sent to corporations, and open lectures	HR-related services, corporate training	FY09/19	5,608	1,304	23.2%	3,082	62.2%	28.0%
Change	3962	TSE1	Offers IT technologies and digital HR services to companies and public agencies	HR-related services, corporate training	FY09/19	7,054	1,082	15.3%	6,267	50.9%	6.8%
Alue	7043	TSE Mothers	Operates HR training services in Japan and overseas; focuses on large corporations	HR-related services, corporate training	FY12/19	2,510	166	6.6%	1,055	82.2%	11.3%

Source: Shared Research based on company data

## Reference companies involved in workstyle reform and productivity enhancement

### Alue

This company, which provides HR development services, was established in 2003. It offers services globally via companies in four Asian locations (Shanghai, Singapore, India, and the Philippines). Focused on education (particularly results-based education) rather than training, Alue employs artificial intelligence (AI) to support HR development.

Alue's services for Japanese companies largely involve classroom-style training (77% of revenue). This training centers on providing new and young employees with rank-based training on business skills and mental training. All of its instructors are certified through a predetermined process, and many of them are seasoned outside instructors. Some 60% of client companies have 3,000 or more employees. Companies with 700 to 2,999 employees make up 29% of its client base, companies with 300 to 699 employees make up 7%, and companies with 299 or fewer employees make up 4%.

### Change

This company was established in April 2003 by a former employee of Accenture (previously Andersen Consulting). Change started out in the consulting business before moving into HR development for IT companies. The company then shifted its focus from training system engineers to the IT business ("New-IT Transformation"). The company engages in the 1) planning, design, development, and outsourced operation of mobile applications; 2) use of cloud and virtualization technologies to upgrade IT infrastructure, as well as to set and monitor security rules; 3) planning and outsourced implementation of services using IoT; and 4) planning, development, and implementation of training for New-IT personnel, as well as the sale of e-learning content.

Shikigaku entered a capital and business alliance with Change in September 2018. Through the alliance, the companies aim to provide services that systematically enhance productivity by leveraging organizational management and IT.

## Reference companies involved in M&A brokerage

The table below lists major M&A brokers in Japan. Shikigaku does not compete with these companies directly. Rather, the company needs to build positive relationships with brokers to increase business opportunities in the areas of M&A advisory and organizational due diligence. The company has entered a business alliance with Strike to promote Shikigaku's services in the M&A category (April 2019).

## Competitors and peer companies (2)

Company	Ticker	Listed	Description	Services	Fiscal year	Revenue (JPYmn)	OP (JPYmn)	OPM	Net assets (JPYmn)	Equity ratio	ROE
Nihon M&A Center	2127	TSE1	The leading M&A intermediary for SMEs; has network with nationwide regional banks and accounting firms; strong with business succession deals	Management and financial advisory	FY03/19	28,463	12,533	44.0%	27,264	76.2%	36.1%
GCA	2174	TSE1	Operates M&A advisory; handles cross-border deals in Japan, US, and Europe; strong with business succession advisory in Europe	Management and financial advisory	FY12/19	23,719	3,383	14.3%	22,038	59.4%	10.8%
Yamada Consulting Group	4792	TSE1	A leader in management consulting; strong with business revitalization and succession deals; expanding M&A deals; handles consulting deals overseas including Asia	Management and financial advisory	FY03/19	13,400	2,308	17.2%	11,602	87.0%	14.3%
M&A Capital Partners	6080	TSE1	Independent M&A intermediary firm; strong with business succession deals, strong customer base among dispensing pharmacies; acquired Recof	Management and financial advisory	FY09/19	12,592	5,855	46.5%	17,205	80.7%	26.0%
Sigmaxyz	6088	TSE1	Emerging consulting firm; supports system development through system installation; capital tie-up with Mitsubishi Corp. dissolved but business relationship remains	Management and financial advisory	FY03/19	13,330	1,269	9.5%	4,556	65.1%	21.5%
Strike	6196	TSE1	M&A intermediary mainly for certified public accountants and tax accountants; strong with unique online matchmaking structure	Management and financial advisory	FY08/19	5,077	1,886	37.1%	5,162	80.3%	27.8%
Frontier Management	7038	TSE Mothers	Established by Mr. Onishi and Mr. Matsuoka, two experts of corporate revitalization; focuses on consulting and M&A advisory; has analysts as well	Management and financial advisory	FY12/19	4,771	663	13.9%	2,185	66.8%	21.0%
Aoyama Zaisan Networks	8929	TSE2	Management and financial advisory, construction and real estate consulting	Management and financial advisory	FY12/18	19,061	1,603	8.4%	6,390	40.6%	31.1%

Source: Shared Research based on individual company data

## Strengths and weaknesses

### Strengths

- **Cultivation of a niche market (one-on-one training for top management) allows the company to set its own prices and generate profits:** The company has cultivated a niche market by standardizing its shikigaku method and providing one-on-one training directly to top management. Through standardization and by expanding sales, Shikigaku is able to offer its organizational management methods to client companies inexpensively (Master Training at JPY400,000/month, compared with JPY10–30mn/month on a project basis for large foreign consulting firms). As large consulting firms rely on customization, Shared Research believes they are unlikely to become competitors and take Shikigaku's clients. As the company has no strong competitors, and can thus set its own service prices flexibly, it earns a higher profit margin than companies involved in the corporate training business.
- **Top-down marketing that begins with top management:** Corporate training companies typically take a bottom-up approach, offering hierarchical training and skills training in a classroom format. In contrast, Shikigaku provides one-on-one training to the top management of growing companies who are concerned about organizational management. In this way, the company conducts top-down marketing, as management teams provide additional introductions to general employees. Shikigaku explains that this approach facilitates swift organizational reform through management changes and decisions. The company can also expect business expansion as members of top management introduce it to business associates. Currently, around 70% of new clients are referrals from existing ones. The number of companies adopting *shikigaku* is accelerating: from an average of five per month in FY02/16 to 31 per month in FY02/18 to 47 per month in FY02/20.
- **A first-mover advantage by building the Shikigaku brand:** Shikigaku's uniquely marketable brand has found favor with clients and enabled the company to differentiate itself as a new market participant in a niche market with no competitors. From a top management's perspective, Shikigaku is unique in three ways: it enables them to learn how to run an organization; it helps top management see their own roles and responsibilities as organizational functions in a new light; and it facilitates stable employee operations by making rules into the common language of organizations. Helping top management realize that they can affect change in an organization by changing themselves is one aspect of Shikigaku's branding. Shikigaku uses a one-on-one approach to teach top management how to run an organization in all-encompassing way that they could only partially learn through the bottom-up approach corporate training generally offers. To date, 1,519 companies have adopted *shikigaku*. We believe this result points to the company's first-mover advantage in a new market.

### Weaknesses

- **The shikigaku theory is largely complete, leaving little room for improvement in quality and little leeway for unit sales prices to rise:** According to President Ando, the *shikigaku* theory is 99.5% complete. Paradoxically, this high degree of completion leaves little room for differentiation through "Master Training" (around 55% of total contract value) before and after making quality improvements to the theoretical system. If the company is unable to demonstrate the effects of these quality improvements, Shared Research thinks the company will have difficulty in raising unit sales prices. Accordingly, the company may have to rely on cross-selling products with higher unit prices to the same customers (such as the Shikigaku Shinto Pack, which accounts for 20% of total contract value; and the Evaluation System Building Service, which accounts for 10%). However, according to Shared Research's estimate, unit sales prices among companies that have adopted *shikigaku* fell from JPY1.8mn in FY02/18 to JPY1.7mn in FY02/19.
- **Hard to prevent imitators from entering the market and maintain its competitive advantage:** The company's business model relies on preventing imitators from entering its niche market. To maintain this competitive advantage, the company needs to sustain the beneficial cycle of attracting clients, increasing the value it provides them, and attracting more clients. Building a platform would help achieve this goal, but the Platform Services business currently accounts for only 9.2% of revenue (FY02/20). Services generating recurring fees provide too little revenue to become a complementary business. (Shikigaku Cloud and the Shikigaku Members Service are each priced at JPY30,000 per month, and M&A advisory services are JPY300,000 per month, less than Master Training.) The company thus has insufficient means to maintain its competitive advantage.

- ▶ **Advertising expenses putting pressure on profits as the company strives to build and sustain a dominant market share:** Shikigaku provides a standardized, homogenous services to its customers, and therefore has no need to rely on the skills of individuals in the way a consulting firm would. However, this characteristic means the company must conduct mass marketing and capture market share to maintain its competitive advantage. To do so, the company must invest in advertising so it can dominate and build a brand in the market it has cultivated. Over the medium term, the company will need to continue this advertising expenditure—putting pressure on profits—until it can secure an insurmountable market share.

## Historical performance and financial statements

### Income statement

Income statement (JPYmn)	FY02/17 Parent	FY02/18 Parent	FY02/19 Parent	FY02/20 Cons.
<b>Revenue</b>	<b>318</b>	<b>755</b>	<b>1,252</b>	<b>1,720</b>
YoY	165.7%	137.5%	65.8%	37.5%
Cost of revenue	39	83	152	234
<b>Gross profit</b>	<b>279</b>	<b>672</b>	<b>1,100</b>	<b>1,486</b>
Gross profit margin	87.7%	89.0%	87.8%	86.4%
SG&A expenses	284	604	852	1,203
SG&A ratio	89.5%	80.0%	68.1%	69.9%
<b>Operating profit</b>	<b>-6</b>	<b>68</b>	<b>247</b>	<b>283</b>
YoY	-	-	261.3%	14.6%
Operating profit margin	-	9.1%	19.8%	16.5%
Non-operating income	0	2	0	2
Other	0	2	0	0
Non-operating expenses	2	1	13	3
Interest expenses	1	1	1	1
Share issuance expenses			1	0
Loss on investment partnerships				1
Listing-related expenses			11	
Valuation losses on golf membership	1			
<b>Recurring profit</b>	<b>-8</b>	<b>69</b>	<b>234</b>	<b>282</b>
YoY	-	-	237.4%	20.6%
Recurring profit margin	-	9.2%	18.7%	16.4%
Extraordinary gains	0	0	-	-
Extraordinary losses	0	0	-	-
Income taxes	-1	27	71	106
Implied tax rate	11.5%	39.0%	30.4%	37.4%
Net income attributable to non-controlling interests	-	-	-	-2
<b>Net income attributable to owners of the parent</b>	<b>-7</b>	<b>42</b>	<b>163</b>	<b>179</b>
YoY	-	-	285.0%	10.0%
Net margin	-	5.6%	13.0%	10.4%

Source: Shared Research based on company data

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

Cost of sales breakdown (JPYmn)	FY02/17 Parent	FY02/18 Parent	FY02/19 Parent
Cost of sales	39	83	152
Labor costs	29	71	110
Various costs	10	11	42
Royalties paid	9	-	-
Commission expenses	-	-	13
Transportation expenses	0	4	8
Rents	0	2	8
Outsourcing costs	-	2	8

SG&A expenses (JPYmn)	FY02/17 Parent	FY02/18 Parent	FY02/19 Parent
SG&A expenses	284	604	852
Directors' compensations	68	63	
Salaries and allowances	44	137	196
Outsourcing expenses	32	39	
Commission expenses	-	52	86
Advertising expenses	55	120	227
Depreciation	1	3	2
Provision for doubtful accounts	-	6	2

Source: Shared Research based on company data

- ▷ Royalty payments: In FY02/17, the company paid JPY9mn to Kenji Fukutomi (at the time, an external advisor).
- ▷ Commissions paid: The company paid commissions as part of a franchise development measure called the Shikigaku Partner System.

## Balance sheet

Balance sheet (JPYmn)	FY02/17 Parent	FY02/18 Parent	FY02/19 Parent	FY02/20 Cons.
<b>Assets</b>				
Cash and deposits	132	279	874	1,006
Notes and accounts receivable	19	34	52	88
Inventories	1	2	1	1
Deferred tax assets	1	8	9	
Other	7	18	44	65
Allowance for doubtful assets		-6	-5	-7
<b>Total current assets</b>	<b>160</b>	<b>335</b>	<b>973</b>	<b>1,152</b>
Buildings and structures	2	10	8	58
Machinery, equipment, and vehicles	1	1	1	6
Other	-	-	-	-
<b>Total tangible fixed assets</b>	<b>3</b>	<b>12</b>	<b>9</b>	<b>64</b>
<b>Total intangible assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>202</b>
Investment securities				8
Deferred tax assets		8	8	96
Other	9	16	19	80
Allowance for doubtful assets	-0	-0	-0	-0
<b>Investments and other assets</b>	<b>9</b>	<b>24</b>	<b>27</b>	<b>184</b>
<b>Total fixed assets</b>	<b>12</b>	<b>36</b>	<b>36</b>	<b>450</b>
<b>Total assets</b>	<b>173</b>	<b>371</b>	<b>1,009</b>	<b>1,602</b>
<b>Liabilities</b>				
Notes and accounts payable				
Short-term debt	17	21	4	114
Deposits	3	1	4	
Advances received	13	58	112	85
Accounts payable—other	23	48	43	
Accrued expenses	16	40	53	
Income taxes payable		42	58	55
Consumption taxes payable		32	35	
Other	-	-	-	162
<b>Total current liabilities</b>	<b>73</b>	<b>243</b>	<b>309</b>	<b>416</b>
Long-term debt	54	50	7	197
<b>Total fixed liabilities</b>	<b>54</b>	<b>50</b>	<b>7</b>	<b>197</b>
<b>Total liabilities</b>	<b>127</b>	<b>294</b>	<b>316</b>	<b>614</b>
<b>Net assets</b>				
Capital stock	26	26	224	265
Capital surplus	25	25	269	310
Retained earnings	-5	37	200	379
Treasury stock		-11		-0
Accumulated other comprehensive income	-	-	-	-
<b>Total net assets</b>	<b>46</b>	<b>77</b>	<b>693</b>	<b>988</b>
Working capital	20	36	52	88
Total interest-bearing debt	71	72	11	312
<b>Net debt</b>	<b>-60</b>	<b>-207</b>	<b>-863</b>	<b>-694</b>

Source: Shared Research based on company data

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

- ▷ Notes and accounts receivable: These amounts reflect Master Training services that are being provided but for which fees have not yet been collected. Receivables are generally collected within three months.
- ▷ Advances received: The company received some money up front as it entered into some training agreements (half at the first month of training and half at the last month). These monies are recorded as advances received, as consultants have not yet provided services at that stage. An increase in advances received points to pressure on the number of consultants.
- ▷ Net assets: Up through public offering. The company plans to make use of these funds in or after FY02/20.

## Cash flow statement

Cash flow statement (JPYmn)	FY02/17 Parent	FY02/18 Parent	FY02/19 Parent	FY02/20 Cons.
Cash flows from operating activities (1)	22	178	218	172
Pre-tax profit	-8	69	234	282
Depreciation	1	3	3	12
Listing-related expenses	-	-	11	-
Share issuance expenses	-	-	1	0
Increase (decrease) in provision for doubtful accounts	-	6	-1	2
Decrease (increase) in accounts receivable	-5	-15	-17	-36
Decrease (increase) in prepaid expenses	-5	-10	-26	-
Increase (decrease) in advances received	10	45	54	-29
Increase (decrease) in accrued expenses	16	24	13	-
Other	15	55	10	7
Interest expenses	1	-1	-1	-1
Income taxes refunded (paid)	-2	0	-63	-98
Cash flows from investing activities (2)	-13	-20	-2	-459
Payments into time deposits	-5	-5	-	-
Proceeds from withdrawal of time deposits	-	5	5	-
Purchase of tangible fixed assets	-1	-11	-	-67
Collection of loans receivable from directors	0	4	-	-
Payments for lease and guarantee deposits	-2	-13	-7	-77
Proceeds from collection of guarantee deposits	-	0	-	20
Free cash flow (1+2)	9	158	216	-287
Cash flows from financing activities	112	-11	384	419
Proceeds from long-term borrowings	75	20	-	300
Repayment of long-term borrowings	-13	-20	-61	-49
Proceeds from issuance of shares	50	-	396	82
Payment of listing expenses	-	-	-7	-
Purchase of treasury shares	-	-11	-	-0
Proceeds from disposal of treasury shares	-	-	56	-
Increase (decrease) in cash and cash equivalents	121	147	600	132

Source: Shared Research based on company data

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

### Cash flows from operating activities

Cash flows from operating activities are growing steadily, in line with business expansion.

### Cash flows from investing activities

Cash used in investing activities in FY02/20 was JPY459mn. This figure reflects JPY298mn in business acquisition payments; JPY67mn in purchase of tangible fixed assets; and JPY77mn in payments of lease and guarantee deposits.

### Cash flows from financing activities

Cash inflows comprised JPY82mn from issuance of shares, JPY300mn from long-term borrowings, and JPY50mn from short-term borrowings. Cash outflows comprised JPY49mn in repayments of long-term borrowings.

## Historical performance

### Cumulative Q3 FY02/21 results

#### Summary

- ▷ Revenue: JPY1.7bn (+35.4% YoY, 67.8% of company full-year forecast)
- ▷ Operating profit: JPY37mn (-83.3% YoY, 31.9% of company full-year forecast)
- ▷ Recurring profit: JPY112mn (-48.9% YoY, 101.3% of full-year forecast)
- ▷ Net loss: JPY79mn (versus net income of JPY129mn in cumulative Q3 FY02/20, full-year forecast is a net loss of JPY47mn)
- ▷ EBITDA: JPY81mn (-67.0% YoY)

As of April 1, 2020, the company acquired shares in Fukushima Sports Entertainment, making it a consolidated subsidiary from Q1 FY02/21. In addition, with the addition of MAGES.Lab as a consolidated subsidiary, the Contract Development segment was added as a consolidated reporting segment as of Q2.

#### Key points

- ▷ In cumulative Q3 FY02/21, revenue rose by JPY444mn YoY, of which Platform Services contributed JPY184mn YoY, Management Consulting Services JPY145mn YoY, and the Sports Entertainment segment JPY73mn YoY.
- ▷ Cumulative Q3 operating profit was JPY37mn and recurring profit was JPY112mn, both returning to profitability for the first time in two quarters. The company recorded a gain on sales of investment securities of JPY72mn as non-operating profit. This is due to the sale of investment securities as Geocode Co., Ltd. listed on the TSE JASDAQ market. Geocode is an investee of Shikigaku No. 1 Limited Investment Partnership, a consolidated subsidiary of the company.
- ▷ The Sports Entertainment segment continued to book operating losses due to upfront spending comprising the cost of athlete payrolls and team management at consolidated subsidiary Fukushima Sports Entertainment, but it turned profitable for the month of November 2020. The company aims to turn the business profitable in Q4.
- ▷ The company maintained its full-year FY02/21 earnings forecast.

#### Organizational Consulting business

- ▷ Revenue: JPY1.6bn (+26.2% YoY)
- ▷ Operating profit: JPY111mn (-49.7% YoY)

The company continued actively recruiting consultants and conducting marketing activities to expand its client base. Q3 (September–November 2020) revenue was JPY640mn (+35.4% YoY) and operating profit was JPY103mn (+20.4% YoY), both record highs on strong orders. The share of Platform Services revenue in Organizational Consulting business revenue rose to 20.0% (17.5% of consolidated revenue). The company aims to raise this to 30–35%. At end-Q3, the order backlog was high at JPY686mn, and will contribute to revenue going forward.

#### KPIs in the Organizational Consulting business

- ▷ As of end-Q3 FY02/21, the company had 112 employees (53 consultants [+3 QoQ, +24 YoY], five consultant candidates).
- ▷ In Q3 (three months), monthly average revenue per consultant was JPY3.6mn, up from JPY3.1mn in Q2. Q3 monthly average revenue per consultant with at least eight months of experience was JPY4.18mn. The company has set a minimum hurdle for monthly revenue per consultant of JPY4.0mn and aims to raise it closer to its target of JPY4.5mn.
- ▷ The number of companies under contract in Management Consulting Services was 2,015 (+46.2% or +637 YoY). The number of companies under contract in the Platform Services business (Shikigaku Basic Service, Shikigaku Members Service, and



Shikigaku Cloud) was 905, up 121.3% or 496 companies YoY. The number of companies under contract for the Shikigaku Basic Service launched in Q2 FY02/21 was 84, up 79 QoQ.

### Shikigaku Career

In Shikigaku Career, which is a recruitment service that matches companies that have adopted *shikigaku* with jobseekers, there were 165 job openings and 2,571 new registrations in cumulative Q3 FY02/21. An increasing number of jobseekers is rethinking work styles due to the COVID-19 pandemic, helping to drive registration growth. The service generates revenue for the company when a chosen applicant joins the hiring company. The company thinks that it has entered the earnings growth phase for this business. In addition, to grow earnings, the company plans to acquire job seekers by effectively utilizing its customer base of 2,015 contracted clients, as well as the LINE social messaging app, YouTube, and seminars.

### Shikigaku Fund

As a general partner of the fund, Shikigaku made its first investment in March 2020 in Surpass Co., Ltd. As of end-November 2020, it had decided to invest in three companies, and is looking into four companies from Q4 onward. Investee Geocode Co., Ltd. (TSE JASDAQ: 7357) went public in November 2020. In addition, of the 84 companies that went public in 2020, seven were companies that had adopted *shikigaku*, and the company is using this to promote the benefits of the *shikigaku* method.

Since September 2020, the company has been focusing on investing in late-stage companies with a certain level of organizational strength as well as in early-stage companies with room for growth through organizational improvements.

### Sports Entertainment business

Cumulative Q3 revenue was JPY73mn due to the withdrawal of existing sponsor companies and reduced sponsorship revenue amid the COVID-19 pandemic. Upfront spending comprising costs of athlete payrolls and team management led to an operating loss of JPY84mn. However, the business turned profitable for the month of November 2020, and the company aims to move into the black in Q4. The B. League season began in October 2020 (1H for Fukushima Sports Entertainment, which has June year-end), but the company thinks the business environment is unfavorable due to concerns over the impact of the third wave of the pandemic.

Regarding the corporate version of the hometown tax scheme, the company noted that it launched the Koriyama Sports Innovation business, and expects it to become a new source of revenue. With the approval of the Koriyama City Council, the company has already received a contract to operate the business and expects to post revenue in Q4 FY02/21.

#### Corporate version of hometown tax

Shikigaku is developing regional revitalization projects through sport in collaboration with local governments under the provisions of the corporate version of the Japanese government's "hometown tax" scheme. Under the scheme, company donations to a government-approved regional revitalization project can generate a corporate tax deduction of up to 90%. Local governments contract relevant universities and companies to take part in the project as part of project costs. If Fukushima Sports Entertainment is contracted by the local government to carry out a project, a portion of corporate donations may be booked as revenue. Donations were not normally treated as deductions, so had no tax benefits. However, if they can be treated as deductions for tax purposes, making a donation can effectively lead to tax savings.

## 1H FY02/21 consolidated results

### Summary

- ▷ Revenue: JPY967mn (+24.0% YoY, 38.7% of company full-year forecast)
- ▷ Operating loss: JPY24mn (versus operating profit of JPY134mn in 1H FY02/20, full-year forecast is JPY115mn)
- ▷ Recurring loss: JPY26mn (versus recurring profit of JPY134mn in 1H FY02/20, full-year forecast is JPY111mn)
- ▷ Net loss: JPY105mn (versus net income of JPY75mn in 1H FY02/20, full-year forecast is a net loss of JPY47mn)
- ▷ EBITDA: JPY3mn (-97.9% YoY)

As of April 1, 2020, the company acquired shares in Fukushima Sports Entertainment, making it a consolidated subsidiary from Q1 FY02/21. Accordingly, the company added Sports Entertainment as a new reportable segment to its previous single segment. In Q2 FY02/21, the company made MAGES.Lab a consolidated subsidiary and established a new reporting segment, Contract Development. The company thus has three reporting segments: Organizational Consulting, Sports Entertainment, and Contract Development.

1H revenue, operating loss, EBITDA, and progress toward full-year forecast seem to be on track, because Shikigaku assumes higher revenue and profit in 2H. The company commented that it expects combined revenue of Fukushima Sports Entertainment and MAGES.Lab of around JPY200–300mn in Q3 onward.

Despite the impact from COVID-19, services provided via web conferencing tools allowed the company to book 1H FY02/21 revenue of JPY967mn (+24.0% YoY, 38.7% of full-year forecast). The operating loss was largely the result of ongoing strategic investment, including for advertising and the hiring of consultants in the Organizational Consulting business, and Fukushima Sports Entertainment not being able to record sufficient revenue to cover the team’s operational costs due to the suspension of B. (basketball) League games amid the pandemic.

While operating profit benefitted from a JPY161mn YoY increase in revenue, it fell on a YoY basis due to YoY increases of JPY173mn in personnel and training costs, JPY26mn in rent, and JPY27mn in goodwill amortization. The Sports Entertainment business contributed JPY25mn to revenue. In light of heightened earnings uncertainty due to the COVID-19 pandemic, the company reviewed its outlook, resulting in the booking of JPY109mn in extraordinary losses on the impairment of goodwill in Q1 FY02/21. The net loss in 1H was JPY105mn.

### Organizational Consulting business (97.4% of consolidated revenue)

- ▷ Revenue: JPY941mn (+20.7% YoY)
- ▷ Operating profit: JPY7mn (-94.6% YoY)

Standalone Q2 revenue was a record JPY515mn due to strong orders and increased consultant numbers, and the segment staged a turnaround to operating profit of JPY40mn from a JPY33mn loss in Q1. At end-Q2, the order backlog was JPY611mn, up 22.2% from end-FY02/20, and will contribute to revenue going forward. Service provision to customers slowed down temporarily in August 2020 due to COVID-19 (back to normal from September).

### Management Consulting

- ▷ Revenue: JPY784mn (+8.9% YoY)

The company continued actively recruiting consultants and conducting marketing activities to expand its client base. As of end-August 2020, it had 50 consultants, up 19 from end-FY02/20. As of end-August 2020, corporate clients numbered 1,846 (+327 from end-FY02/20). In 1H FY02/21, revenue per consultant was JPY3.1mn per month ([Management Consulting Services + Platform Services revenue] ÷ number of consultants; change in calculation methodology from 1H FY02/21).

### Platform Services

- ▷ Revenue: JPY157mn (+163.1% YoY)

The company worked to expand revenue at Platform Services, which provides ongoing support for organizational management via *shikigaku* services. It had 275 Shikigaku Cloud (Platform Services) clients (244 at end-FY02/20) and 510 Shikigaku Members Service (Platform Services) clients (270). The company launched a new offering in August 2020, Shikigaku Basic Service, which had five clients at end-August and 45 at end-September.

### Shikigaku Career

This recruitment service matches companies that have adopted *shikigaku* with jobseekers. As of October 2020, it had 100 clients and more than 120 job openings. An increasing number of jobseekers is rethinking work styles due to COVID-19, helping drive

registration growth. The service generates revenue for the company when a chosen applicant joins the hiring company. Shikigaku expects it to contribute to earnings from September 2020.

## Shikigaku Fund

As a general partner of the fund, Shikigaku made its first investment in March 2020 (Surpass Co., Ltd.). As of end-August 2020, it had invested in three companies (including Surpass), was looking into eight, and had five more under examination for Q3 onward, bringing the total number of potential investees to 13. The company said it would start negotiations and make investments in potential candidates from September onward.

## Sports Entertainment business (2.6% of consolidated revenue)

▷ Revenue: JPY25mn

▷ Operating loss: JPY33mn

Revenue was just JPY25mn due to the withdrawal of company's existing sponsor company customers and reduced sponsorship revenue amid the pandemic. While Shikigaku struggled to find sponsors, it strengthened its media collaborations. The main factor in the operating loss was a JPY19mn increase in spending on team operations to boost player compensation and improve the team while B. League games were suspended. However, the B. League season began in October 2020 (1H for Fukushima Sports Entertainment, which has a June year-end). Shared Research thinks that the company is looking for revenue to improve in 2H.

## Corporate version of hometown tax

Shikigaku is developing regional revitalisation projects through sport in collaboration with local governments under the provisions of the corporate version of the Japanese government's "hometown tax" scheme. Under the scheme, company donations to a government-approved regional revitalisation project can generate a corporate tax deduction of up to 90%. Local governments contract relevant universities and companies to take part in the project as part of project costs. If Fukushima Sports Entertainment is contracted by the local government to carry out a project, a portion of corporate donations may be booked as revenue. Donations were not normally treated as deductions, so had no tax benefits. However, if they can be treated as deductions for tax purposes, making a donation can effectively lead to tax savings.

## Topics

### Making MAGES.Lab a wholly owned subsidiary

With the goal of securing engineer resources for the contract development of SaaS systems and strengthening the group's platform services, subsidiary SHIKI Lab decided to make contract developer MAGES.Lab a wholly owned subsidiary. The primary source of revenue at MAGES.Lab comes from the contracted development of games as well as e-learning and qualification course programs in the non-games domain. MAGES.Lab will become a wholly owned subsidiary through a share exchange with SHIKI Lab, with an effective date of August 31, 2020. On October 14, the company decided to merge consolidated subsidiaries SHIKI Lab and MAGES.Lab in an absorption-type merger effective December 1, 2020.

### Launched Shikigaku Basic Service

In August 2020, the company changed the concept of its Management Consulting Services to a platform service. It launched Shikigaku Basic Service in September 2020. Shared Research thinks the introduction of monthly charges under the revamped business model was aimed at stabilizing cash flow and paving the way for higher prices.

### Aim

Previously, mainstay Management Consulting Services generated earnings on a spot contract basis as its focus was to communicate the *shikigaku* organizational management logic message to customers. The company decided to change to a platform service arrangement and provide ongoing operational support to its clients in order to move from the communication phase to the *shikigaku* organizational management implementation phase.

### New arrangements

Previously, Management Consulting Services entailed a consultant responsible for the company and an employee in charge of Shikigaku Cloud following up with the client, but the relaunched services introduced a team comprising a senior or chief consultant, general consultant, and employee in charge of Shikigaku Cloud. The arrangements are designed to have clients implement the *shikigaku* approach thoroughly throughout their organization with support from the team.

## Fees

The company instituted new fee arrangements (figure following) for Shikigaku Basic Service with the changed concept and introduction of the team system.

- ▷ Shikigaku Basic Service membership: One-year contract with monthly charge depending on client employee numbers. Under the team system, up to three hours of interviews monthly, regular consultation, meeting attendance, and full use of all Shikigaku Cloud functions are made available.
- ▷ Shikigaku Basic Service members may either order services individually or choose a package plan.

## Results

Higher prices: (Example: company with fewer than 500 employees)

Previously, Master Training only incurred the annual fee of JPY1.2mn. Under the new pricing scheme, the annual fee for Master Training is JPY1.2mn if just one member of senior management receives instruction. However, if the client wants more employees to also receive instruction, it needs to join the Shikigaku Basic Service. As a result, it has to pay the fees for Master Training (JPY1.2mn) + Shikigaku Basic Service (JPY2.4mn: JPY200,000 x 12 months), or a total of JPY3.6mn. Additionally, customers can choose packaged services such as Light Package if needed.

## Locking in clients

The monthly fee system helps lock in clients.

## Team system improves skills of general consultants

A general consultant in a team with a senior or chief consultant can broaden their skills and experience, and utilization rates can be expected to increase. Hands-on involvement with client companies may also have a positive impact on skills development for Shikigaku in its role as general partner of the Shikigaku Fund.

## Package plans

Shikigaku Basic Service	For organizations with 500 people or less Monthly fee: JPY200,000	For organizations with 501 people or more Monthly fee: JPY400,000	(one-year contract)
↓			
	Maximum amount of services to be ordered	Discount rate	Annual total amount for organization with 500 people or less using maximum services
<b>Light Package</b>	JPY3.30–5.69mn	8%	Basic service fee: JPY2,400,000 <u>Service fees: JPY5,234,800 (discounted)</u> Total: JPY7,634,800 (excluding tax)
<b>Standard Package</b>	JPY8.29mn	9%	Basic service fee: JPY2,400,000 <u>Service fees: JPY7,543,900 (discounted)</u> Total: JPY9,943,900 (excluding tax)
<b>Master Package</b>	No upper limit (The annual total amount on the right assumes a service amount of JPY10mn)	10%	Basic service fee: JPY2,400,000 <u>Service fees: JPY9,900,000 (discounted)</u> Total: JPY12,300,000 (excluding tax)

**Service menu**

	Services	Length, no. of sessions, participants, etc.	Charges			
<b>Master Training</b>	Study and practice of shikigaku theory 1 hr. x 12, aimed at senior executive One-on-one training	1 hr. x 12 (1.5 hr. initial session incl. "patient chart" creation)	General consultant JPY1,200,000-	Senior consultant JPY1,800,000-	Chief consultant JPY2,400,000-	VP Kajiyama JPY3,600,000-
<b>Shinto Pack</b>	Video learning/testing/group training Employees study aspects of Master Training	"Patient chart" for max. 5 persons (approx. 30 min. each) Video learning/testing/group training (2 hr. X 6) Final feedback to senior exec.	General consultant JPY1,500,000-	Senior consultant JPY2,250,000-	Chief consultant JPY3,000,000-	VP Kajiyama JPY4,500,000-
<b>Group Training</b>	Lectures focus on positioning/results Employees study aspects of Master Training	3 hr. for max. 3 persons	General consultant JPY300,000-	Senior consultant JPY450,000-	Chief consultant JPY600,000-	VP Kajiyama JPY900,000-
<b>Implementation Pack (sales module)</b>	Package specializing on sales department results management and meetings	1.5 hr. X 4 ① Problem interview ② Report preparation ③ Meeting attendance ④ Meeting feedback	General consultant JPY600,000-	Senior consultant JPY900,000-	Chief consultant JPY1,200,000-	VP Kajiyama JPY1,800,000-
<b>Evaluation System Building</b>	Consulting on developing evaluation frameworks	1 hr. x max. 8	General consultant JPY1,600,000- JPY2,400,000- * Separate estimate provided	Senior consultant JPY2,400,000- JPY3,600,000-	Chief consultant JPY3,200,000- JPY4,800,000-	VP Kajiyama JPY4,800,000- JPY7,200,000-
<b>Consultant Training Program</b>	Training client companies' employees to become shikigaku consultants	Negotiable  Benchmark: 3-6 months		Chief consultant JPY2,400,000-		

Source: Shared Research based on company data

**Q1 FY02/21 results**
**Summary**

- ▷ Revenue: JPY426mn (+16.6% YoY, 17.0% of company full-year forecast)
- ▷ Operating loss: JPY33mn (versus operating profit of JPY53mn in Q1 FY02/20, full-year forecast is JPY115mn)
- ▷ Recurring loss: JPY33mn (versus recurring profit of JPY54mn in Q1 FY02/20, full-year forecast is JPY111mn)
- ▷ Net loss: JPY99mn (versus net income of JPY37mn in Q1 FY02/20, full-year forecast is a net loss of JPY47mn)
- ▷ EBITDA: -JPY18mn (versus EBITDA of JPY57mn in Q1 FY02/20)

Despite the impact from COVID-19, services provided via web conferencing software allowed the company to book Q1 FY02/21 revenue of JPY426mn (+16.6% YoY). Operating loss in Q1 was largely the result of ongoing strategic investment, including for advertising and the hiring of consultants. While operating profit benefitted from a JPY60mn YoY improvement in revenue, it fell on a YoY basis due to YoY increases of JPY96mn in personnel and training costs, JPY17mn in rent, and JPY10mn in goodwill amortization.

Earnings at Fukushima Sports Entertainment (in which the company acquired shares in April 2020, and which became a consolidated subsidiary from June 2020) were impacted by the cancellation of B. League (basketball) games due to the pandemic. In light of the heightened uncertainty of earnings moving forward, the company reviewed its outlook, resulting in the booking of JPY109mn in extraordinary losses on the impairment of goodwill and a net loss for the quarter of JPY99mn.

**Management Consulting Services**

Revenue in the Management Consulting Services business was JPY355mn (+4.8% YoY). The company noted that while it increased the number of consultants, the COVID-19-related downturn in revenue resulted in a temporary decline in revenue per consultant. Subtracting revenue earned by consultants who are directors (6.9% of the total), revenue earned by consultants on staff (non-director consultants) amounted to JPY331mn (93.1% of the JPY355mn total). There were 43 non-director consultants at end-Q1 FY02/21, meaning that monthly revenue per such consultant amounted to JPY2.6mn. Initially the company had expected monthly revenue per non-director consultant to average JPY3.8mn, and monthly revenue per consultant including directors to average JPY4.1mn. The coronavirus pandemic thus had the effect of reducing monthly revenue per non-director consultant by at least JPY1.2mn (JPY3.8mn minus JPY2.6mn).

**Revenue per consultant**

(JPYmn)	FY02/20				FY02/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
a Revenue (Management Consulting Service)	339	381	431	412	355			
b Revenue earned by director consultants as % of total	11.5%	15.9%	14.2%	11.7%	6.9%			
c Revenue earned by consultants excl. directors as % of total	88.5%	84.1%	85.8%	88.3%	93.1%			
d Revenue earned by consultants excl. directors	300	321	370	364	331			
e Number of consultants (excl. directors)	21	26	29	31	43			
f Number of director consultants	2	2	2	2	2			
g Revenue per consultant (excl. directors; monthly) [d / e / 3]	4.8	4.1	4.3	3.9	2.6			
(Ref.) Revenue per consultant (as released by Shikigaku)	4.0	3.5	3.8	3.4	2.5			
h Revenue per consultant (excl. directors; annual) [f x 12]	57.1	49.4	51.0	46.9	30.7			
i Number of employees	52	55	62	69	91			

Source: Shared Research based on company data

Meanwhile, the order backlog was up, reaching JPY515mn at end-Q1 FY02/21 (+0.5% from end-FY02/20). This will add to revenue once the company begins providing services. As of end-Q1, corporate clients numbered 1,656 (cumulative-basis; 1,519 companies at end-FY02/20), indicating solid progress. According to the company, average fees per company fell to around JPY1.7mn in Q1 due in part to irregular factors. In response to the COVID-19 outbreak, the company offered an exclusively web-based, 12-session training program run by new consultants. The program, offered for JPY120,000, was also intended to train the new consultants. Although the implementation of this reduced-price training weighed down the fee average, the company said that allowing new consultants to gain experience in this way has contributed to revenue from June. The company had 91 employees at the end of Q1, with 43 consultants, up from 31 at end-FY02/20. Revenue generated by a consultant with at least eight months of employment was JPY3.29mn per person.

**Platform Services**

Platform Services generated revenue of JPY70mn (+163.2% YoY). This rise reflected higher contributions from recurring-revenue businesses. These include the Shikigaku Cloud service, which the company began offering in FY02/19, and membership fee income from Shikigaku Members Service.

The company had Shikigaku Cloud contracts in place with 238 companies as of end-Q1 FY02/21 (down from 244 at end-FY02/20). Shikigaku Members Service clients stood at 372 (up from 270). The number of Shikigaku Cloud contracts declined from the end of FY02/20, likely due to cancellations triggered by fee structure revisions. The company initiated the Shikigaku Members Service in FY02/19. Under this service, members gain access to case studies of improvements attributed to the adoption of the *shikigaku* theory, securing opportunities for further learning. The Shikigaku Cloud service and Shikigaku Members Service both include the Shikigaku Survey functionality. It appears that customers receiving both services who found value in the Shikigaku Survey have taken the occasion of fee structure revisions to cancel their Shikigaku Cloud contracts and stay with the Shikigaku Members Service. Starting from the latter half of Q3 FY02/20, the company made it a requirement that new clients join the Shikigaku Members Service. It explained that this change was meant to improve the company's service quality as the Shikigaku Members Service added routine customer visits to the otherwise one-off training programs. This change also boosted growth in the membership count of Shikigaku Member Service. As of Q1 FY02/21, Platform Services revenue (on a cumulative basis) amounted to 16.5% of recurring revenue, up from 7.3% in Q1 FY02/20.

**New services**
**Shikigaku career**

Shikigaku Career, an HR matching service that pairs companies that have adopted *shikigaku* with prospective employees, had contracts with 60 companies and 80 job offer cases as of the end of July 2020. Since the earnings model is based on an uptick in revenue when the prospective employee joins the customer company, Shikigaku targets an earnings contribution from the service from September 2020.

### Fukushima Sports Entertainment

The company indicated that it was making steady progress in acquiring sponsorships with organizational improvements coming to fruition thanks to the hands-on efforts of one Shikigaku consultant. The company is working to forge tie-ups with sponsor companies, the Shikigaku customer base, and local governments as part of its effort to boost ticket sales and sponsorship revenue. Fukushima Sports Entertainment will make a nine-month contribution (from June 2020) to Shikigaku's consolidated earnings for FY02/21. Sponsorship revenue is generated through multiple sponsorship plans, fees ranging from JPY100,000 per company to JPY20mn per company.

### Making MAGES.Lab a wholly owned subsidiary

With the goal of securing engineer resources for the contract development of SaaS systems and to strengthen the group's platform services, subsidiary SHIKI Lab decided to make contract developer MAGES.Lab a wholly owned subsidiary. The primary source of revenue at MAGES.Lab comes from the contracted development of games as well as e-learning and qualification course programs in the non-games domain. MAGES.Lab will become a wholly owned subsidiary through a share exchange with SHIKI Lab, with an effective date of August 31, 2020. The acquisition price is JPY19.5mn, and MAGES.Lab has approximately 20 engineers. MAGES.Lab will have a six-months impact on Shikigaku's consolidated earnings for FY02/21.

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## Full-year FY02/20 results

### Summary

Shikigaku transitioned to consolidated accounting in 1H FY02/20. Non-consolidated figures are provided for YoY comparisons.

- ▷ Revenue: JPY1.7bn (+37.5% YoY, 98.0% of company full-year forecast)
- ▷ Operating profit: JPY283mn (+14.6% YoY, 101.2%)
- ▷ Recurring profit: JPY282mn (+20.6% YoY, 101.5%)
- ▷ Net income: JPY179mn (+10.0% YoY, 92.7%)
- ▷ EBITDA: JPY322mn (+27.3% YoY, 95.8%)

FY02/20 full-year earnings results were in line with company forecasts. Operating profit rose JPY36mn YoY to JPY283mn (+14.6% YoY). Although revenue expanded JPY469mn YoY, much of this increase was absorbed by other expenses. Growth in the number of employees (including salespeople who are also consultants) caused personnel expenses to rise JPY215mn YoY. Advertising expenses were also up JPY20mn, partner commissions were up JPY32mn, investments in development were up JPY20mn, goodwill amortization was up JPY30mn, head office relocation expenses were JPY55mn, and other expenses were up JPY58mn. Other expenses included fund and new business-related expenses of JPY27mn, including JPY5.1mn in taxes and dues (fixed costs) stemming from increased income. As of end-FY02/20, the company had 31 consultants and 69 employees.

### Management Consulting Services

Revenue in the Management Consulting Services business was JPY1.6bn (+29.8% YoY). As of end-FY02/20, corporate clients numbered 1,519 (compared with 979 companies at end-FY02/19). During FY02/20, the company acquired 42–47 clients per month. In Q4 (three months), revenue fell JPY19mn QoQ to JPY412mn. The company maintains that this decline was due in part to a low rate of actual operations at client companies during the year-end and New Year holidays and a lower number of operating days (60 days in Q3 vs. 57 days in Q4). On the other hand, order backlog (orders that have been received by the end of the fiscal year but have not been fulfilled) at end-FY02/20 amounted to JPY500mn, up 48.8% YoY from JPY336mn at end-FY02/19. Accordingly, Shared Research holds that revenue effectively rose.

### Platform Services

Platform Services generated revenue of JPY157mn (+230.2% YoY). This rise reflected higher contributions from recurring-revenue businesses. These include the Shikigaku Cloud service, which the company began offering in FY02/19, and membership fee income from Shikigaku Members Service.

The company had Shikigaku Cloud contracts in place with 244 companies at end-FY02/20 (up from 159 at end-FY02/19). Shikigaku Members Service clients numbered 270 (up from 57). The company initiated the Shikigaku Members Service in FY02/19. Under this service, members gain access to case studies of improvements attributed to the adoption of the *shikigaku* theory, securing opportunities for further learning. As of end-FY02/20, Platform Services revenue (on a cumulative basis) amounted to 9.2% of the total revenue, up from 3.8% at end-FY02/19.

## New services

### M&A training

In June 2019, the company changed the name of the former M&A advisory services to M&A training for top management to boost recognition. As of end-FY02/20, the number of clients under contract had increased to 28 (up from nine when the former M&A advisory service was started). The company indicates that it mainly acquires orders from existing clients, so it is able to receive orders without incurring acquisition costs.

### Shikigaku fund

The company, as a general partner of Shikigaku fund, selected one investee in January 2020 (it invested in Surpass Co., Ltd as its first investee in March). As of end-February 2020 the company said it was considering to invest in two companies. The company is looking at both early-stage and late-stage investments.

### Shikigaku Career

Shikigaku Career, an HR matching service that pairs companies that have adopted *shikigaku* with prospective employees, signed up 20 recruiting companies. It conducted career seminars and interviewed candidates.



## News and topics

### November 2020

On November 27, 2020, the company announced the reporting of non-operating income (gain on the sale of investment securities).

The company sold all investment securities held at consolidated subsidiary Shikigaku No. 1 Limited Investment Partnership on November 27. This gave rise to non-operating income (gain on the sale of investment securities) as set out below.

1. Reason for the sale of investment securities: To approve asset efficiency and financial position
2. Details of non-operating income:
  - Shares sold: Geocode Co., Ltd.
  - Number of shares sold: 33,200 shares
  - Non-operating income (gain on the sale of investment securities): JPY71mn
3. Date of non-operating income: November 27, 2020

The company will record the gain on the sale of investment securities described above as non-operating income in its consolidated financial statement for cumulative Q3 FY02/21.

On November 26, 2020, the company announced that Geocode Co., Ltd., an investee of Shikigaku Fund No. 1, has listed on the Tokyo Stock Exchange's JASDAQ Standard market.

On the same day, Geocode Co., Ltd. ("Geocode"), an investee of the company's consolidated subsidiary Shikigaku No. 1 Limited Investment Partnership ("Shikigaku Fund No. 1"), listed on the Tokyo Stock Exchange's JASDAQ Standard market. With this move, Shikigaku Fund No. 1 has achieved its first IPO roughly one year after its formation. At the time of this disclosure, the company had a total of 33,200 shares in Geocode (shareholding ratio of 1.34%).

Geocode profile:

- Name: Geocode Co., Ltd.
- Location: 4-1-6 Shinjuku, Shinjuku-ku, Tokyo
- Business description: Operates Web marketing and cloud businesses
- Date of establishment: February 14, 2005
- Capital: JPY72.5mn (as of October 21, 2020)

### October 2020

On October 14, the company announced an absorption-type merger between two consolidated subsidiaries (SHIKI Lab to absorb MAGES. Lab).

On October 6, 2020, the company announced monthly revenue figure for September (FY02/21).

The company redesigned its service offerings and began offering them from September 1, 2020. Prior to that, the company had primarily provided Management Consulting Services on a spot contract basis, focused on "conveying" the message of *shikigaku*. The redesigned service lineup places emphasis on thoroughly revamping organizational management through applying *shikigaku*, and hence it largely relies on a platform service model to provide continuous management support to clients. In specific, the company now offers Shikigaku Basic Service under a monthly subscription model as well as Management Consulting Services.

With the launch of the redesigned services, the company decided to disclose monthly revenue data for Platform Services from September 2020. Data for October are preliminary figures as of the date of the release.

## September 2020

On September 11, 2020, the company announced that it will make Surpass Co., Ltd. an equity-method affiliate through purchases of existing shares outstanding and newly issued shares via a private placement.

At the Board of Directors meeting held on September 11, 2020, the company resolved to make Surpass Co., Ltd. an equity-method affiliate, assuming approval at the general meeting of Surpass shareholders.

### 1. Purpose of investment in Surpass Co., Ltd.

Surpass' main client base is large companies with 200 or more employees, including some listed companies. It works with large companies to help them improve employee productivity by providing repeatable, structured formats for business activities and consistent support for business processes, thereby creating work environments that allow employees to better focus on their core duties. This gives Surpass a lot in common with Shikigaku, whose own guiding principle is improving corporate organizational structures to make both the organization and the people who work there more productive. Shikigaku's investment fund, Shikigaku Fund holds a 5.9% stake in Surpass. With the acquisition of a shares in Surpass, Shikigaku will be in a position to offer its own organizational consulting services to the large companies that are Surpass clients.

### 2. Overview of Surpass

Company name: Surpass Co., Ltd.

Business: Sales outsourcing business, support services for sales and marketing design and marketing automation tool operation, training services for corporations and women, and an employee recruiting service targeting foreign nationals with high-level skills

Capital: Roughly JPY31.54mn

Established: August 29, 2008

Main shareholders: Ryoko Ishihara (94.1%), Shikigaku No. 1 Limited Investment Partnership (5.9%)

### 3. Share transfer

Shikigaku intends to acquire 2,294 shares of 21,260 Surpass shares outstanding, from existing shareholders on October 21, 2020. On the same day, Surpass intends to issue 2,294 new shares via a private placement, all of which will be placed with Shikigaku. This will bring Shikigaku's direct holdings in Surpass to 4,588 or 19.5% of shares outstanding, at which point Surpass will become an equity-method affiliate.

### 4. Number of shares to be purchased and ownership stake before and after share purchase

Shares held by Shikigaku before purchase: -

Number of shares to be purchased: 4,588 common shares

Purchase price: JPY156.9mn

Shares held after purchase: 4,588 shares

In addition to its direct share ownership, Shikigaku No. 1 Limited Investment Partnership, a consolidated subsidiary of Shikigaku, currently owns 1,260 shares in Surpass.

### 5. Schedule for share acquisition

Following the approval of the transaction at the meeting of Shikigaku Board of Directors on September 11, 2020, the actual transfer of existing shares and the private placement of newly issued shares have both been scheduled for October 21, 2020, with the payment for both transactions to be made on the same day.

### 6. Impact on Shikigaku earnings

The acquisition of shares described above is not expected to have a material impact on consolidated results in FY02/21.

## July 2020

On July 13, 2020, the company issued notices regarding the booking of extraordinary losses and a consolidated subsidiary's share exchange with MAGES.Lab, Inc.

On July 6, 2020, the company announced monthly revenue figure for June (FY02/21).

The company disclosed monthly revenue figure for June 2020 so that stakeholders can better grasp changes in the environment surrounding the company group. In June, revenue reached a record high on a monthly revenue basis, up JPY40.4mn versus May 2020, at JPY179.1mn (+40.0% YoY).

### June 2020 monthly revenue and YoY comparison

	June 2020	June 2019	YoY Change
Revenue	JPY179.1mn	JPY127.9mn	+40.0%

Note: The above revenue figures have not been audited by an auditor and may differ slightly from the figures officially reported in the earnings announcement.

### Changes in the breakdown of services provided by method

	March 2020	April 2020	May 2020	June 2020
Web conferencing	15.4%	74.1%	70.0%	63.8%
Visits to client companies	75.4%	23.5%	27.7%	31.7%
Clients' visits to the company	9.2%	2.4%	2.3%	4.5%

The company announced that it planned to release earnings forecast for FY02/21 along with its Q1 results announcement on July 13, 2020. Accordingly, it stated that it would no longer disclose monthly revenue figures, which had thus far served as an alternative to the delayed earnings forecast announcement, with the June figure being the last.

## June 2020

On June 4, 2020, the company announced monthly revenue figure for May (FY02/21).

The company disclosed monthly revenue figure for May 2020 so that stakeholders can better grasp changes in the environment surrounding the company group. Shikigaku mainly provided services via web conferencing software in May 2020 due to the impact of COVID-19 on its business environment.

### May 2020 monthly revenue and YoY comparison

	May 2020	May 2019	YoY Change
Revenue	JPY138.7mn	JPY117.3mn	+18.3%

Note: The above revenue figures have not been audited by an auditor and may differ slightly from the figures officially reported in the earnings announcement.

### Changes in the breakdown of services provided by method

	February 2020	March 2020	April 2020	May 2020
Web conferencing	10.9%	15.4%	74.1%	70.0%
Visits to client companies	78.8%	75.4%	23.5%	27.7%
Clients' visits to the company	10.3%	9.2%	2.4%	2.3%

On the same day, the company announced its consolidated revenue (preliminary figure) in Q1 FY02/21.

### Preliminary consolidated revenue in Q1 FY02/21 (March 1, 2020–May 31, 2020)

(JPYmn)	Revenue	Operating profit	EBITDA	Recurring profit	Net income attributable to owners of the parent
Q1 FY02/2021 (preliminary)	425	-	-	-	-
Q1 FY02/20(results)	365	53	57	53	36
Change (%)	16.6%	-	-	-	-

Note: The consolidated revenue figure for Q1 FY02/21 has not been audited by an auditor and may differ from the final figure.

Note: The company is still calculating profit figures including operating profit for Q1 FY02/21. It plans to disclose figures as soon as they are finalized.

Note: EBITDA = operating profit + depreciation + amortization of goodwill + amortization of lease deposits

Note: Non-consolidated Q1 FY02/20 results added for reference

## Outlook

Shikigaku expects the environment of uncertainty surrounding the company group to improve with the lifting of the state of emergency over COVID-19. The company plans to disclose its earnings forecasts for FY02/21 at the Q1 results announcement scheduled for July 13, 2020.

## May 2020

On May 11, 2020, the company announced monthly revenue for April (FY02/21).

Since the business environment surrounding the group changes daily due to the spread of novel coronavirus disease (COVID-19), the group decided to disclose revenue on a monthly basis until the impact of COVID-19 subsides. In April, revenue was up only 5.8% YoY. The restrained revenue growth was due to delays in the timing of providing services to client companies following the Japanese government's declaration of a state of emergency over the COVID-19 outbreak on April 7, 2020.

### April 2020 monthly revenue and YoY comparison

	April 2020	April 2019	YoY Change
Revenue	JPY136.0mn	JPY128.4mn	+5.8%

Note: The above revenue figures have not been audited by an auditor and may differ slightly from the figures officially reported in the earnings announcement.

### Changes in the breakdown of services provided by method

	February 2020	March 2020	April 2020
Web conferencing	10.9%	15.4%	74.1%
Visits to client companies	78.8%	75.4%	23.5%
Clients' visits to the company	10.3%	9.2%	2.4%

## Other information

### History

Date	Description
March 2015	Established Shikigaku Co., Ltd.
February 2019	Listed shares on the Mothers markets of the Tokyo Stock Exchange
July 2019	Established SHIKI Lab Co., Ltd., a wholly owned subsidiary
September 2019	Relocated the head office to Shinagawa, Tokyo

Source: Shared Research based on company data

### Corporate governance and top management

#### Top management

##### **Kodai Ando, president and representative director**

Born November 5, 1979 in Takatsuki, Osaka

After graduating from the School of Human Sciences at Waseda University in 2002, Mr. Ando joined NTT Docomo Inc. In 2006, he moved to J-COM Holdings Co., Ltd. (now LIKE, Inc.) He became a director of a major subsidiary (now called Like Staffing, Inc.) and deputy general manager of the Tokyo head office. He encountered the *shikigaku* theory in late 2012. He set off on his own in 2013 and began working as a *shikigaku* consultant. He established the company Shikigaku in March 2015 and became its president and representative director (current post). During his student days, he was a member of the Waseda University Rugby Football Club.

#### Corporate governance

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Board
Controlling shareholder and parent company	None
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	7
Number of directors	5
Chairman of the Board of Directors	President
Number of outside directors	2
Number of independent outside directors	2
Number of members of Audit & Supervisory Board under Articles of Incorporation	5
Number of members of Audit & Supervisory Board	3
Number of outside members of Audit & Supervisory Board	3
Number of independent outside members of Audit & Supervisory Board	2
Other	
Participation in electronic voting platform	To be reviewed
Providing convocation notice in English	None
Implementation of measures regarding director incentives	Introduction of stock option system
Eligible for stock option	Internal executives and employees
Disclosure of individual director's compensation	None
Policy on determining amount of compensation and calculation methodology	In place
Corporate takeover defenses	None

Source: Shared Research based on company data

### Dividend policy

To date, the company has not paid dividends, as it has retained earnings to fund future business expansion. At the moment, the company is undecided on whether and when to begin paying dividends.

## Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Kodai Ando	2,435	32.58%
Kenji Fukutomi	1,339	17.91%
ARS Co., Ltd.	1,140	15.25%
Japan Trustee Services Bank, Ltd. (Trust account)	272	3.64%
K&P Partners Number Two Investment Limited Partnership	270	3.61%
The Master Trust Bank of Japan, Ltd. (Trust account)	131	1.76%
SMBC Nikko Securities Co., Ltd.	90	1.21%
BNY GCM CLIENT ACCOUNT JPRD AC ISG (Standing proxy: MUFG Bank, Ltd.)	67	0.90%
Team Energy Inc.	66	0.88%
Ikahata Co., Ltd.	66	0.88%
<b>SUM</b>	<b>5,877</b>	<b>78.63%</b>

Source: Shared Research based on company data  
Note: As of end-February 2020

## Employees

	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Number of employees (excl. temp. workers)	4	14	32	43	69
Temporary workers	-	-	-	3	10
Average age	-	-	-	38.3	37.6
Average years of service	-	-	-	1.6	1.6
Average annual salary (JPYmn)	-	-	-	7.45	6.14

Source: Shared Research based on company data

## Profile

<b>Company Name</b>	<b>Head Office</b>
Shikigaku Co., Ltd.	1F Osaki West City Building, 2-9-3 Osaki, Shinagawa, Tokyo, Japan
<b>Phone</b>	<b>Listed On</b>
81-3-6821-7560	Mothers Market of the Tokyo Stock Exchange
<b>Established</b>	<b>Exchange Listing</b>
March 5, 2015	February 22, 2019
<b>Website</b>	<b>Fiscal Year-End</b>
<a href="https://corp.shikigaku.jp/">https://corp.shikigaku.jp/</a>	February
<b>IR Contact</b>	<b>IR Web</b>
-	<a href="https://ir.shikigaku.jp/">https://ir.shikigaku.jp/</a>

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <https://sharedresearch.jp>.

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ADJUVANT COSME JAPAN CO., LTD.	Dream Incubator Inc.	KI-Star Real Estate Co., Ltd.	RYOHIN KEIKAKU CO., LTD.
Aeon Delight Co., Ltd.	Earth Corporation	KLab Inc.	SanBio Company Limited
Aeon Fantasy Co., Ltd.	Edion Corporation	Kodotec Inc.	SANIX INCORPORATED
Ai Holdings Corporation	Elecom Co., Ltd.	Kumiai Chemical Industry Co., Ltd.	Sanrio Company, Ltd.
AI inside Inc.	en Japan Inc.	Lasertec Corporation	SATO HOLDINGS CORPORATION
AirTrip Corp.	Estore Corporation.	Locondo, Inc.	SBS Holdings, Inc.
and factory, inc.	euglena Co., Ltd.	LUCKLAND CO., LTD.	Seikagaku Corporation
ANEST IWATA Corporation	FaithNetwork Co., Ltd.	Marumae Co., Ltd.	Seria Co.,Ltd.
AnGes Inc.	Ferrotec Holdings Corporation	MATSUI SECURITIES CO., LTD.	Serverworks Co.,Ltd.
Anicom Holdings, Inc.	FIELDS CORPORATION	Media Do Co., Ltd.	SHIFT Inc.
Anritsu Corporation	Financial Products Group Co., Ltd.	Medical System Network Co., Ltd.	Shikigaku Co., Ltd
Apaman Co., Ltd.	First Brothers Col, Ltd.	MEDINET Co., Ltd.	SHIP HEALTHCARE HOLDINGS, INC.
ARATA CORPORATION	FreeBit Co., Ltd.	MedPeer, Inc.	SIGMAXYZ Inc.
Artspark Holdings Inc.	Gamecard-Joyco Holdings, Inc.	Mercuria Investment Co., Ltd.	SMS Co., Ltd.
AS ONE CORPORATION	GameWith, Inc.	Metaps Inc.	Snow Peak, Inc.
Ateam Inc.	GCA Corporation	Micronics Japan Co., Ltd.	Solasia Pharma K.K.
Aucfan Co., Ltd.	Good Com Asset Co., Ltd.	MIRAIT Holdings Corporation	SOURCENEXT Corporation
AVANT CORPORATION	Grandy House Corporation	Monex Goup Inc.	Star Mica Holdings Co., Ltd.
Axell Corporation	Hakuto Co., Ltd.	MORINAGA MILK INDUSTRY CO., LTD.	Strike Co., Ltd.
Azbil Corporation	Hamee Corp.	Mortgage Service Japan Limited.	Symbio Pharmaceuticals Limited
AZIA CO., LTD.	Happinet Corporation	MRT Inc.	Synchro Food Co., Ltd.
AZoom, Co., Ltd.	Harmonic Drive Systems Inc.	NAGASE & CO., LTD	TAIYO HOLDINGS CO., LTD.
Base Co., Ltd	HENNGE K.K.	NAIGAI TRANS LINE LTD.	Takashimaya Company, Limited
BEENOS Inc.	Hosokawa Micron Corporation	NanoCarrier Co., Ltd.	Take and Give Needs Co., Ltd.
Bell-Park Co., Ltd.	Hope, Inc.	Net Marketing Co., Ltd.	TEAR Corporation
Benefit One Inc.	HOUSEDO Co., Ltd.	Net One Systems Co.,Ltd.	Tenpo Innovation Inc.
B-1ot Co.,Ltd.	H2O Retailing Corporation	Nichi-Iko Pharmaceutical Co., Ltd.	3-D Matrix, Ltd.
Broadleaf Co., Ltd.	IDOM Inc.	Nihon Denkei Co., Ltd.	The Hokkoku Bank,Ltd.
CarBas Co., Ltd.	IGNIS LTD.	Nippon Koei Co., Ltd.	TKC Corporation
Canon Marketing Japan Inc.	i-mobile Co.,Ltd.	NIPPON PARKING DEVELOPMENT Co., Ltd.	TKP Corporation
Career Design Center Co., Ltd.	Inabata & Co., Ltd.	NIPRO CORPORATION	Tsuzuki Denki Co., Ltd.
Carma Biosciences, Inc.	Infocom Corporation	Nishinbo Holdings Inc.	TOCALO Co., Ltd.
CARTA HOLDINGS, INC	Infomart Corporation	Nisso Corporation	TOKAI Holdings Corporation
CERES INC.	Intelligent Wave, Inc.	NS TOOL CO., LTD.	Tokyu Construction Co., Ltd.
Chiyoda Co., Ltd.	ipet Insurance CO., Ltd.	OLBA HEALTHCARE HOLDINGS,Inc.	TOYOBO CO., LTD.
Chori Co., Ltd.	Itochu Enex Co., Ltd.	OHIZUMI MFG. CO., LTD.	Toyo Ink SC Holdings Co., Ltd
Chugoku Marine Paints, Ltd.	ItoKuro Inc.	Oisix ra daichi Inc.	Toyo Tanso Co., Ltd.
cocokara fine Inc.	JAFCO Co.,Ltd.	Oki Electric Industry Co., Ltd	Tri-Stage Inc.
COMSYS Holdings Corporation	JMDC Inc.	ONO SOKKI Co., Ltd.	TSURUHA Holdings
COTA CO.,LTD.	JSB Co., Ltd.	ONWARD HOLDINGS CO.,LTD.	VISION INC.
CRE, Inc.	JTEC Corporation	Pan Pacific International Holdings Corporation	VISIONARY HOLDINGS CO., LTD.
CREEK & RIVER Co., Ltd.	J Trust Co., Ltd	PARIS MIKI HOLDINGS Inc.	World Holdings Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	Japan Best Rescue System Co., Ltd.	PIGEON CORPORATION	YELLOW HAT LTD.
Daiseki Co., Ltd.	JINS HOLDINGS Inc.	P3, inc.	YOSHINOYA HOLDINGS CO., LTD.
Demae-Can CO., LTD	JP-HOLDINGS, INC.	QB Net Holdings Co., Ltd.	ZAPPALLAS, INC.
DIC Corporation	KAMEDA SEIKA CO., LTD.	RACCOON HOLDINGS, Inc.	
Digital Arts Inc.	Kanamic Network Co.,LTD	Raysum Co., Ltd.	
Digital Garage Inc.	kaonavi, inc.	RESORTTRUST, INC.	

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