

Management Solutions (7033)

Consistently breaking records

Share price: ¥3,590 Mkt cap: ¥60.3bn

As MSOL delivers on its utilisation, average price & consultant number KPIs, so it continues to consistently break earnings records.

Results comment

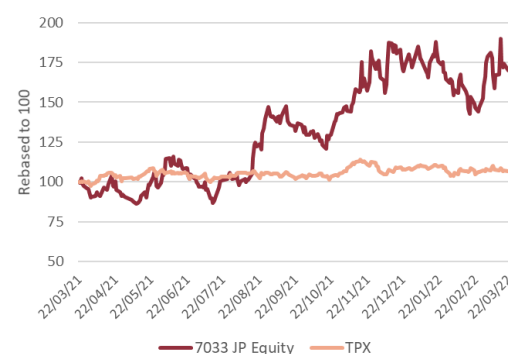
- Record quarterly sales & 1Q OP were above plan, albeit in a seasonally smaller quarter, despite the CoE assuming an acceleration in sales growth YoY.
- Factors driving growth remain consistent. They include the rising PMO order backlog resulting in utilisation of >90%, the increasing average price per consultant & the decreasing proportion of lower margin BP (Business Partner) sales.
- Recruitment remains a key growth plank & is thriving, benefiting from budget cut induced lower hiring at a global competitor as well as a major restructuring at Fujitsu, with significant numbers set to join in the 2Q.

Recruitment, training & advertising

- Notably, 1Q earnings growth was achieved despite a higher SG&A:sales ratio, reflecting sharp rises in recruitment, training & advertising costs, with MSOL remaining keen to maximise its growth opportunity.
- We expect the company to beat its FY 10/22 forecasts, albeit not by as much as 1Q figures suggest, & for the company to continue to invest in hiring & advertising to expand.
- On 72x the company's FY 10/22 estimates, in context of an impressive earnings track record & minimal sellside coverage, we conclude the stock has yet to discount MSOL's long-term growth prospects & encourage investors to register for CEO Shinya Takahashi's Storm Virtual Conference presentation on Thurs 24th Mar at 18.00 JST [here](#).

Period/Year end	10/2020	10/2021	1Q 10/22	10/2022E
Sales (¥bn)	5.23	7.36	2.38	11.5
OP (¥bn)	0.20	0.92	0.19	1.20
NP (¥bn)	-0.01	0.68	0.13	0.83
EPS (¥)	-	40.9	7.6	50.1
DPS (¥)	-	-	-	-
Sales growth YoY (%)	34.3	+40.8	+57.8	+56.3
OP growth YoY (%)	-55.0	+356.4	+76.6	+30.2
NP growth YoY (%)	-	-	+80.0	+22.7
EPS growth YoY (%)	-	-	+79.7	+22.6
PER (x)	-	87.8	n/a	71.7
EV/EBITDA (x)	72.0	52.9	n/a	52.2
EV/Sales (x)	4.4	7.5	n/a	7.2
PBR (x)	15.0	24.7	n/a	24.8
ROE (%)	-0.8	35.2	36.3	33.3
ROIC (%)	-2.8	25.9	23.8	23.8
FCF yield (%)	-	1.4	n/a	n/a
Dividend yield (%)	-	-	-	-

22nd March 2022



Source: Bloomberg

Company sector

Consulting Services
Professional Services (GICS Industry)

Stock data

Price (¥)	3,590
Mkt cap (¥bn)/(\$m)	60.3/498.2
52-week range (¥)	1,684-3,875
Shares O/S (m)	16.8
Average daily value (\$m)	4.6
Free float (%)	56.9
Foreign shareholding (%)	17.1
Ticker	7033
Exchange	Tokyo 1 st
Net Debt/Equity (x)	net cash
FFO leverage (x)	N/A

BUSINESS OVERVIEW

Management Solutions (MSOL) offers professional project management execution business services, including Project Management Office (PMO), Digital Management Office (DMO) & support, management consulting, training & software support services.

Next events

Storm Virtual Conference, 24th Mar 2022

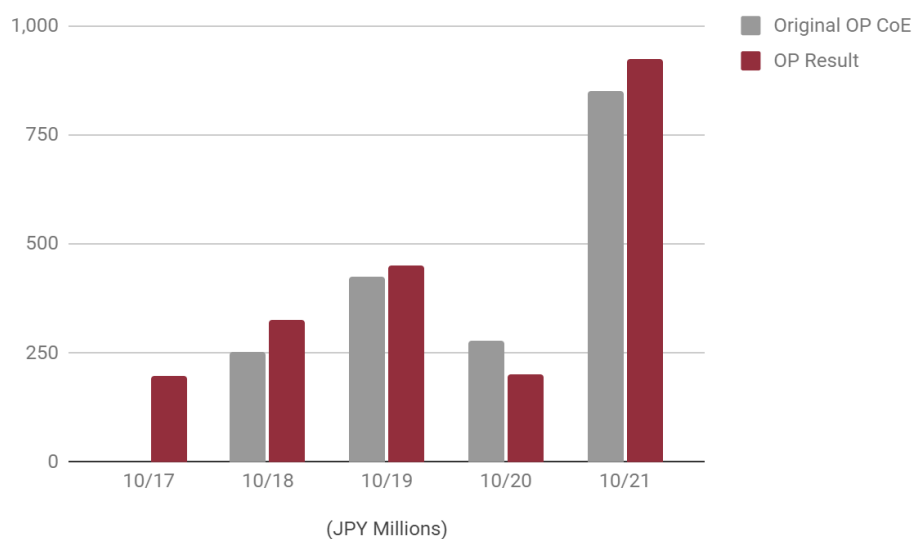
Storm Corporate: [+44 \(0\) 121 288 3402](tel:+4401212883402)

info@stormresearch.co.uk

[Storm Corporate profile page](#)

Management Solutions is a research client of Storm Research

RESULTS VERSUS FORECAST HISTORY



Source: Company (* Listed 17th October 2019)

Earnings

1Q FY 10/22 sales & OP were 12.7% & 192% above plan respectively despite assuming an acceleration in FY growth. **Demand for PMO, particularly with regard to DX solutions, has accelerated**, alongside which MSOL has secured new hires & maintained high utilisation.

We also believe the acquisition of Tetra Communications, which provides specialised system development & consulting services for life insurance companies, is positive as it enables MSOL to gain exposure to the life insurance industry, providing an additional avenue to promote MSOL's PMO & DMO related growth.

GPM

The 1Q GPM increased +2.7ppt YoY to 39%, partly due to a decline in reliance on BPs (Business Partners) but also due to the increase in average price per consultant & ongoing high utilisation. BP sales were 19.7% of 1Q sales versus 23.4% in the 1Q FY 10/21. Similarly, BP GP was 10.2% of 1Q FY 10/22 GP versus 12.4% one year earlier.

Demand for PMO from large corporates is accelerating, particularly for DX related projects, with the increasing backlog ensuring ongoing high utilisation at approx. 90%. Although MSOL does not disclose its quarterly price per consultant, it confirmed the average price per consultant continued to increase YoY.

Hiring

As of the 1Q, consultant numbers totalled 531 +69 QoQ & +188 YoY (including those consultants acquired in the Tetra Communications deal). Total employees increased +108 QoQ & +210 YoY (including Tetra staff).

On a parent basis total employees increased +47 QoQ to 519 with consultants totalling 462, figures broadly in line with plan. Hiring is progressing well & **from Feb (2Q) MSOL**

has secured 180 mid-career joiners & 48 new graduate joiners. This is positive as the business model is monthly price x consultant numbers x utilisation.

MSOL is focusing on growing its consultant numbers at sufficient speed to keep up with demand without compromising on quality. Whilst the market for consultants (particularly those with IT related knowledge) is extremely tight, **MSOL is benefiting from recruitment budget cuts at a major global competitor.** In addition, a large-scale restructuring at Fujitsu is proving beneficial for hiring mid-career workers in their 50s. These 2 factors are enabling MSOL to hire good quality consultants more easily than it had expected.

SG&A to sales

The 1Q SG&A to sales ratio increased +2.2ppt YoY to 31.2% as total SG&A increased +68%YoY to Y743m. The main rise was in hiring & training costs, which increased +86%YoY to Y181m; personnel costs also increased +41%YoY to Y142m; & advertising costs +422%YoY to Y72m. TV CMs for sales & hiring are continuing as planned, which we regard as positive for future growth.

ProEver software

Account growth for high margin ProEver software is progressing as expected, driven mainly by existing domestic MSOL customer demand for ongoing PMO in-house support.

As of Nov 2021, MSOL had installed ProEver in 14 companies with 525 users versus approx. 220 users in FY 10/20 (MSOL does not release quarterly ProEver data). It anticipates significant growth in FY 10/22 as companies introduce ProEver software on a companywide basis.

Asia

MSOL had been expecting to expand software sales into both China & the US in FY 10/22, but the roll-out has been delayed due to COVID-19 restrictions. Overseas sales remain a small percentage of the total & growth has been slower than expected due to COVID-19.

Shareholder returns

Prioritisation of the enhancement of retained earnings for investment into growth, including M&A, means MSOL is not currently paying a dividend. It intends to list on the Prime Market in April 2022.

PREVIOUS REPORTS

- 22nd December 2021: 'The PMO/consultant balance'
- 30th September 2021: 'Tetra Communications acquisition'
- 17th September 2021: 'Rising prices, record earnings'
- 16th June 2021: 'Increasing DX influence'
- 17th March 2021: 'IT related tailwind'
- 20th December 2020: 'PMO consultancy expertise'
- 18th September 2020: 'New client wins'
- 4th Aug 2020: In the News: 'COVID-19 - changes & opportunities'
- 21st July 2020: Storm Corporate initiation report: 'Project Management Office'

Company information

Company contact details

Midtown Tower 29F, 9-7-1 Akasaka, Minato-ku

Tokyo 107-6229

Japan

<https://www.msols.com/en/>

IR contact: <mailto:info@msols.com>

Key corporate timeline

July 2005:	Established company
May 2007:	Started PMO; opened Head office
May 2008:	Expansion of project management solutions
July 2010:	Published PMO Implementation Framework
November 2012:	Established US subsidiary (MSOL Inc)
May 2013:	Established Chubu branch
August 2014:	English version of PMO Implementation Framework published
November 2014:	Headquarter office relocation (Roppongi)
November 2015:	Established Taiwan subsidiary (MSOL TW)
October 2016:	PMO Introduction Framework Chinese (traditional) version published
January 2018:	Head office relocation (Midtown)
April 2018:	Chinese (simplified) version of PMO Implementation Framework published
June 2018:	Published MI SERIES Mobility Shift
July 2018:	Listed on the Tokyo Stock Exchange, Mothers index
November 2018:	Established Chinese subsidiary (Shanghai)
October 2019:	Listed on TSE 1 st Section
November 2019:	Published MI SERIES Management for Global Competitiveness
March 2020:	Headquarter relocation to Roppongi

Major shareholders	Stake %
United Trust	21.5
Shinya Takahashi (President /CEO)	12.6
FMR	6.4
Mizuho Financial Group	5.0
Junichi Fukushima	4.0
GPIF	3.7
Fidelity International	3.0
Nomura Holdings	2.3
Morgan Stanley	2.3
Miki Takahashi	2.1

Note: The Takahashi family owns a total of 36.1% of total outstanding shares.

Consolidated financial data:

	2017	2018	2019	2020	2021
Performance					
Net Sales	2,527	2,917	3,894	5,228	7,359
Operating income	196	324	449	202	922
Profit attributable to owners of parent	108	218	292	-12	678
Financial Position					
Total Assets	930	2,037	2,325	2,795	3,807
Net Assets	250	1,374	1,672	1,569	2,303
Equity	250	1,374	1,669	1,567	2,284
Equity ratio	26.9	67.5	71.8	56.1	60.0
Interest-bearing debt	470	369	284	686	495
Cash Flows					
Cash flow from operating activities	88	261	149	312	878
Cash flow from investing activities	△91	△114	△662	△246	-80
Cash flow from financing activities	201	799	△69	300	-188
Free cash flow	△3	147	-513	66	797
Key Financial Indicators					
Operating margin (%)	7.8%	11.1%	11.5%	3.9%	12.5%
Net assets per share (¥)	21.12	84.12	100.67	94.65	137.38
Net income per share (¥)	27.41	50.20	17.69	△0.78	40.65
ROE (%)	55.3	26.9	19.2	△0.8	35.2
Number of Employees(Persons)	145	178	254	351	490

Source: Company

Consolidated Balance Sheets

(百万円 ¥ Million)

	2017	2018	2019	2020	2021
(Assets)					
Current assets					
Cash and deposits	515	1,466	1,226	1,313	1,917
Account receivable-trade	233	305	535	682	1,070
Others	30	13	34	44	94
Total current assets	778	1,785	1,796	2,040	3,082
Noncurrent assets					
Property, plant and equipment					
Buildings and structures	7	42	41	231	203
Vehicle carrier	-	-	-	-	3
Tools, furniture and fixtures	3	15	21	24	30
Total property, plant and equipment	10	57	63	255	237
Intangible assets					
Goodwill	-	-	-	-	-
Software	-	9	127	100	137
Software in progress	1	33	1	61	10
Total intangible assets	1	42	129	162	148
Investments and other assets					
Investment securities	-	-	160	10	0
Long-term loans receivable	-	-	-	-	-
Long-term prepaid expenses	25	24	24	30	33
Deferred income taxes	2	78	12	18	42
Lease and guarantee deposits	96	78	101	236	216
Others	14	151	38	41	47
Allowance for doubtful accounts	-	-	-	-	-
Total investments and other assets	139	151	336	337	339
Total noncurrent assets	151	251	529	755	725
Total assets	930	2,037	2,325	2,795	3,807

Source: Company

Consolidated Balance Sheets					
	(百万円 ¥ Million)				
	2017	2018	2019	2020	2021
(Liabilities)					
Current liabilities					
Account payable	45	51	70	109	120
Short-term bank loans	-	-	-	-	-
Current portion of bonds	48	48	48	48	48
Current portion of long-term loans payable	73	36	32	143	143
Accounts payable-other	78	52	84	67	115
Accrued expenses	19	24	27	162	189
Income taxes payable	3	103	82	26	256
Accrued consumption taxes	47	46	73	114	245
Provision for directors' bonuses	-	-	-	-	-
Provision for shareholder benefit program	-	-	-	20	35
Others	14	13	21	30	45
Total current liabilities	330	375	440	722	1,199
Noncurrent liabilities					
Bonds payable	252	204	156	108	60
Long-term loans payable	97	80	48	387	243
Others	-	2	1	0	0
Total noncurrent liabilities	349	286	205	496	304
Total liabilities	679	662	645	1,218	1,504
Net assets					
Shareholders' equity					
Capital stock	156	609	611	619	621
Capital surplus	25	478	480	488	502
Retained earnings	69	287	579	567	1,245
Treasury stock	-	-	0	△105	△90
Total shareholders' equity	250	1,374	1,672	1,569	2,278
Accumulated other comprehensive income					
Foreign currency translation adjustment	0	0	△3	△2	6
Total accumulated other comprehensive income	0	0	△3	△2	6
Non-controlling interests	-	-	10	10	19
Total net assets	250	1,374	1,679	1,577	2,303
Total liabilities and net assets	930	2,037	2,325	2,795	3,807

Source: Company

Consolidated Statements of Income					
	(百万円 ¥ Million)				
	2017	2018	2019	2020	2021
Net sales	2,527	2,917	3,894	5,228	7,359
Operating expenses	1,696	1,809	2,394	3,337	4,475
Gross profit	830	1,108	1,500	1,890	2,883
Selling, general and administrative expenses	634	783	1,050	1,688	1,961
Operating income	196	324	449	202	922
Other income	1	2	2	8	13
Other expense	8	13	22	7	3
Ordinary income	189	313	429	203	932
Unusual of infrequent profit	-	-	-	-	-
Unusual of infrequent loss	17	-	19	160	10
Income before income taxes	172	313	409	43	922
Income before income taxes	33	98	119	62	260
Income before income taxes	31	△3	△3	△5	△23
Net income(loss)	65	218	292	△12	685
Net income(loss) attributable to non-controlling interests	△1	-	0	0	7
Net income attributable to owners of pare	108	218	292	△12	678

Source: Company

Cash flow statement:

	(百万円 ¥ Million)				
	2017	2018	2019	2020	2021
Cash flows from operating activities					
Income before income taxes	172	313	409	43	922
Depreciation and amortization	11	17	24	115	120
increase in provision for shareholder benefit program	-	-	-	20	14
Cash flows from operating activities	1	-	-	-	-
Interest and dividends income	0	0	0	△1	△1
Interest expenses	3	2	1	3	3
Bond issuance cost	5	-	-	-	-
Foreign exchange losses (gains)	△1	0	0	0	△3
Loss on valuation of investment securities	-	-	19	160	10
Loss (gain) on sales of stocks of subsidiaries and affiliates	14	-	-	-	-
Loss (gain) on liquidation of subsidiaries and affiliates	2	-	-	-	-
Directors' retirement benefits	-	-	-	-	-
Decrease (increase) in notes and accounts receivable-trade	△82	△72	△229	△147	△385
Decrease (increase) in other current assets	△23	14	△21	△6	△41
Increase (decrease) in notes and accounts payable-trade	21	5	18	38	10
Increase (decrease) in accounts payable-other	17	△27	27	△23	50
Decrease (increase) in consumption taxes refund receivable	14	△1	27	40	131
Increase (decrease) in other current liabilities	6	3	10	144	15
Increase (decrease) in provision for directors' bonuses	△7	-	-	-	-
Others	6	15	20	47	73
Subtotal	162	272	290	436	923
Interest and dividends income received	0	0	0	1	1
Interest expenses paid	△2	△2	△1	△3	△3
Directors' retirement benefits	-	-	-	-	-
Income taxes paid	△71	△9	△139	△121	△43
Income taxes refund	-	1	0	-	1
Net cash provided by operating activities	88	261	149	312	878
Cash flows from investing activities					
Payments into time deposits	△6	△6	△331	△38	△65
Proceeds from withdrawal of time deposits	12	-	0	318	80
Purchase of investment securities	-	-	△180	△10	△0
Purchase of property, plant and equipment	△3	△59	△21	△269	△29
Purchase of intangible assets	△1	△41	△89	△65	△61
Payments for lease deposits and guarantee deposits	△81	0	△26	△215	-
Collection of lease deposits and guarantee deposits	0	18	0	37	0
Decrease (increase) in other investments	△4	△23	△14	△3	△6
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	0	0	0	-	-
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	△6	-	-	-	-
Net cash used in investing activities	△91	△114	△662	△246	△80
Cash flows from financing activities					
Net increase (decrease) in short-term loans payable	△50	-	-	-	-
Proceeds from long-term loans payable	50	100	-	550	-
Repayment of long-term loans payable	△91	△153	△36	△100	△143
Proceeds from issuance of bonds	294	-	-	-	-
Redemption of bonds	-	△48	△48	△48	△48
Proceeds from issuance of common stock	-	898	-	-	-
Purchase of treasury shares	-	-	0	△105	△0
Proceeds from share issuance to non-controlling shareholders	-	-	10	-	-
Others	△1	2	4	3	2
Net cash used in financing activities	201	799	△69	300	△188
Effect of exchange rate changes on cash and cash equivalents	1	0	△3	0	7
Net increase (decrease) in cash and cash equivalents	200	945	△585	366	616
Cash and cash equivalents at beginning of year	284	484	1,430	844	1211
Cash and cash equivalents at end of year	484	1,430	844	1,211	1,827

Source: Company

Non-Financial data:

	2017	2018	2019	2020	2021
Number of employees	145	178	254	351	490
Among them, the number of man	103	113	161	222	326
Among them, the number of women	42	65	93	129	164
Ratio of man	71.0	63.5	63.4	63.2	66.5
Ratio of women	29.0	36.5	36.6	36.8	33.5
Average age	38.3	37.3	37.0	37.1	37.1
Under 20s	25.5	23.0	25.2	25.1	27.3
30s	37.2	35.4	34.3	32.8	30.6
40s	31.0	31.5	33.5	35.3	34.1
Over 50s	6.2	9.0	7.1	6.6	8.0
Number of consultants	130	158	227	309	449
Among them, the number of man	66.2	59.6	57.9	57.5	62.4
Among them, the number of women	23.4	29.2	31.5	30.5	29.2
Number of Corporate	15	20	27	42	41
Among them, the number of man	4.8	3.9	5.5	5.7	4.1
Among them, the number of women	5.5	7.3	5.1	6.3	4.3
The following is stand-alone information					
Recruitment Information					
number of hires	36	44	87	104	153
Among them, the number of Non-corporate	28	43	75	89	141
Among them, the number of corporate division	8	1	12	15	12
Number of new graduates hires	6	7	5	12	27
Number of Referral Hires	4	5	4	21	28
Employment rate of persons with disabilities	0.00	0.00	0.44	2.20	2.90
Job turnover rate	11.1	20.0	14.2	9.8	9.3
Average salary by age					
Under 20s	3,982	4,111	4,273	4,474	4,522
30s	6,568	6,151	6,184	6,594	6,156
40s	9,588	8,927	9,020	8,880	9,169
Over 50s	10,057	8,403	9,684	10,884	10,231
Other Information					
PMO Average Unit Price	1,437	1,470	1,489	1,451	1,575
Repeat Rate	—	—	97.2	90.4	90.0
Officers (excluding executive officers)	7	7	7	8	9
Among them, outside officers	4	4	4	5	5
Ratio of outside officers	57.0	57.0	57.0	63.0	56.0
Number of BOD held	14	19	18	16	18
Average attendance	100.0	100.0	100.0	100.0	99.0
Number of Board of Corporate Auditors	14	15	15	14	14
Average attendance	100.0	100.0	100.0	100.0	100.0
Number of male managers	15	20	28	42	52
Number of female managers	5	6	5	8	15
Number of childcare leave taken	1	1	0	4	9
Number of days paid	6.55	7.35	7.04	8.62	8.94
Health check-up rate	100.0	100.0	100.0	100.0	100.0
Number of members joining club activities	59	73	129	133	165
Number of subscribers to the shareholding	—	—	—	—	94
Number of employee training courses held	16	18	72	168	218
Percentage of taking lectures					
e-learning participation rate for information-	—	100.0	100.0	100.0	100.0
e-learning participation rate for insider trading	—	100.0	100.0	100.0	100.0
e-learning participation rate for harassment	100.0	100.0	100.0	100.0	100.0
stress check	100.0	100.0	100.0	100.0	100.0

Source: Company

DISCLAIMER

This report has been commissioned by Management Solutions & prepared & issued by Storm Corporate in consideration of a fee payable by Management Solutions. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. To the fullest extent allowed by law Storm Corporate shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained in this report. The information that we provide should not be construed in any manner whatsoever as personalised advice. The information provided by us should also not be construed by any subscriber or prospective subscriber as Storm Corporate's solicitation to effect, or attempt to effect, any transaction in a security. Storm Corporate is a unit of Storm Research. Storm Research, via its directors, employees and contractors, may have a position in any or related securities mentioned in this report, subject to its policies on personal dealing and conflicts of interest.

This report is freely available on Bloomberg, Factset, Refinitiv & S&P Capital. If you would like to subscribe directly to Storm Corporate reports, please click [here](#).