COMPANY RESEARCH AND ANALYSIS REPORT

NSW

9739

Tokyo Stock Exchange Prime Market

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FISCO Ltd. Analyst

Nozomu Kunishige

FISCO

FISCO Ltd.

https://www.fisco.co.jp

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Summary

FY3/23 results set new record highs. Aiming for further growth based on the “DX FIRST” and “co-creation” concepts in the medium-term management plan

NSW Inc. <9739> (hereafter, also “the Company”) is an independent IT solutions provider listed on the Prime Market of the Tokyo Stock Exchange (hereafter, TSE) and an engineering group in which engineers account for nearly 90% of all employees. It is strengthening and expanding all of its businesses, and also with a view to business development in the future. From FY3/23, it has changed its four business categories to the following segments; Enterprise Solutions, Service Solutions, Embedded Solutions, and Device Solutions. Centered on digital technologies such as IoT*1 and AI that utilize the synergies between its businesses, it is working on co-creating customer value through realizing DX*2. Expecting a major leap forward to a new stage, it changed its company name to NSW Inc. on August 3, 2022.

*1 Abbreviation of Internet of Things. It refers to various objects, including home electronic appliances and sensors, being connected on a network to not only collect information, but also to carry out remote monitoring and control. It is utilized for product development and marketing.
*2 Abbreviation of Digital Transformation. This refers to initiatives by companies for business transformation to create business models and transform business processes by utilizing new digital technologies.

1. Summary of the FY3/23 results

In the FY3/23 consolidated results, net sales were ¥46,188mn (up 6.3% year on year (YoY)), and operating profit was ¥5,387mn (up 9.5%), setting new record highs and moreover recording increased sales and profits for the 11th consecutive period. The results exceeded the initial forecasts, with net sales 2.6% higher than forecast, and operating profit 7.8% higher than the initial forecast. There were no large unprofitable projects, and the operating profit margin was 11.7% (up 0.3pp), improving even further. The order backlog, which will lead to future increases in net sales, grew strongly to ¥17,645mn (up 17.2%). By segment, in Enterprise Solutions, sales declined slightly due to the recoil drop from subsidy projects in the previous fiscal year, but profit increased due to the contribution from highly-profitable projects. In Service Solutions, sales increased due to strong performance in the cloud and data management areas, but profit declined due to the impact of unprofitable projects. In Embedded Solutions, each area, including the automotive field, performed well, while in Device Solutions, excelled in the semiconductor design field, resulting in significant increases in both sales and profits for these two segments. Based on the above, the equity ratio was 73.5% (up 1.4pp versus the end of the previous year), which is significantly higher than the average among telecommunications industry companies listed on the TSE 1st Section, and the Company continues to maintain an extremely high level of financial soundness. Also, ROE was 14.5% (up 0.7pp) and ROA was 14.0% (down 0.4pp), both of which were higher than the industry average, and the Company can be evaluated as having an extremely high level of profitability. Reflecting its strong results, the Company increased the dividend per share by ¥5 YoY from its initial forecast to ¥55, and is paying adequate consideration to returning profits to shareholders.

2. FY3/24 results forecasts

For the consolidated results in FY3/24, the Company is forecasting net sales of ¥48,500mn (up 5.0% YoY) and operating profit of ¥5,600mn (up 3.9%), and expects new record highs for both net sales and operating profit for the 12th consecutive fiscal year. This forecast is cautious in comparison to the growth rate for results in FY3/23, but this is because the Company has factored in uncertainty in the business environment as well as an increase in personnel costs. By segment, the Company expects Enterprise Solutions to recover from the previous year's decline in sales, but is expecting a decline profit as it will be difficult to maintain the high profit margin achieved up until this point. In Service Solutions, the Company is expecting solid sales and a large increase in profit as a result of recovering the impact of unprofitable projects in the previous fiscal year. In Embedded Solutions and Device Solutions, the Company believes it will be difficult to achieve an increase in sales on par with the previous year, depending on the trends in the semiconductor market, and is also anticipating a decline in profit margin, so it is forecasting small increases in both sales and profit. Based on the above, the Company plans to pay an annual dividend per share of ¥55, the same as for the previous fiscal year. The Company has a strong tendency to initially announce conservative forecasts, so at FISCO we think there is a high likelihood that the Company will achieve its forecasts.

3. Medium-term management plan

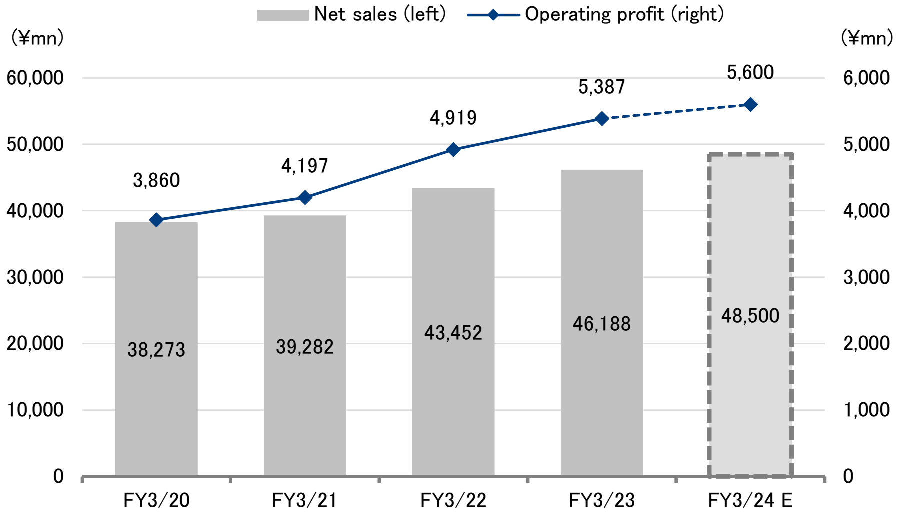
In the medium-term management plan (FY3/23 to FY3/25), its fundamental policy is to achieve the sustainable growth of both society and companies through digital transformation – evolving to become a SIer* that co-creates business with customers through technologies and knowledge, and based on the “DX FIRST” and “co-creation” concepts, it has set the priority strategies of pursuing customer value through realizing DX, strengthening profitability through selection and concentration, and conducting strategic investment for growth in the future. The plan's results targets include net sales of ¥50,000mn (compound annual growth rate (CAGR) of an increase of 4.8%) and an operating profit margin of 11%. It intends to achieve higher sales and profits by progressing the business policies for the four-business segment structure it has newly started and the measures for “DX FIRST.” Looking at the rate of sales growth and the profit margin in FY3/23 (Year 1) and the expected rate of sales growth and the profit margin in FY3/24 (Year 2), the Company is making progress at a pace exceeding the results forecast and things are going smoothly. The Company will also emphasize measures for sustainability. Going forward, we will pay attention to the progress the Company makes on its medium-term management plan.

* SI is short for System Integration. An Sier is a service business that contracts a client's system development and/or management, etc.

Key Points

- With an eye to business development in the future, changed its business categories to four segments or the business promotion structure in FY3/23, and toward taking a leap forward to a new stage, has changed the company name to NSW Inc.
- In FY3/23, the Company saw increases in both net sales and profit, and achieved its initial forecasts, as well as set new record-high results. The Company increased its dividend, and is forward-looking with respect to shareholder returns
- For FY3/24, the Company is forecasting small increases in both net sales and profit, but expects a decline in profit margin. Still, the Company tends to have conservative results forecasts
- In the medium-term management plan, has set the priority strategies of pursuing customer value through realizing DX, strengthening profitability through selection and concentration, and conducting strategic investment for growth in the future, and it is aiming for net sales of ¥50,000mn and an operating profit margin of 11% in FY3/25. Looking at the rate of sales growth and the profit margin in FY3/23 (Year 1) and the expected rate of sales growth and the profit margin in FY3/24 (Year 2), the Company is making progress at a pace exceeding the results forecast and things are going smoothly.

Results trends



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

Company profile

Aims to create and provide excellent systems to enrich society

1. Company profile

In the Company Group, based on its "Humanware By Systemware" corporate philosophy that expresses its desire to leverage to the greatest possible extent the individuality, sensibility, and creativity of each and every employee to create excellent systems that will enrich society, the Company has set the "NSW Way" as its code of conduct, which involves always seeing ahead of the times, customer-centric business concepts, ideas for utilizing human resources that leverage their potential to the greatest extent, a spirit of self-reliance and a polite, humble and sincere corporate culture, and a corporate vision that contributes to society.

In addition to the Company itself, the Company's Group consists of three wholly-owned consolidated subsidiaries; NSS, Inc. (former NSW Techno Services Co., Ltd.) , which conducts businesses including system development and infrastructure construction; in China, NSW China Co., Ltd., which conducts businesses including embedded development; and NSA, Inc.(former NSW WITH Co., Ltd.), a special subsidiary for the employment of people with disabilities that provides general agency services and support services.

The Company's business base is located to the west of Tokyo, but it has customers throughout the country, including government offices and public organizations, and also many major companies, such as in the manufacturing and distribution industries. When it was first established, an overwhelmingly large percentage of transactions were with the NEC Corporation <6701> Group, but alongside the expansion of the customer base, this percentage has fallen to 12.4% of net sales in FY3/23, and the scope of customers for transactions has widened. The Chinese subsidiary mainly covers Japanese companies that are entering the local Chinese market. Additionally, it opened the Taiwan office (representative office) in April 2018, and this office seeks to recruit customers and conducts local surveys in the Taiwanese market, a global site for semiconductor production, assembly, and testing.

The Company Group is an engineering group with a total of 2,371 employees and nearly 90% of its workforce comprising of engineers as of the end of FY3/23. Mr. Shoji Tada has served as the President and Representative Director since April 2013.

2. History

The Company started in 1966 as an independent software house, with a software development business and an outsourced computing business. Subsequently, in 1968 it started an operation management services business, and in 1978, a development business for firmware and logic circuits. Alongside the evolution of IT technologies, its business areas have expanded, including that it started a systems integration business in 1990, a data center business in 1998, a cloud service business in 2009, and an IoT/M2M business in 2013.

During this period, the Company changed its name to NIPPON SYSTEMWARE CO., LTD., in 1982. It began the over-the-counter trading of its shares in 1996 and opened the Yamanashi IT Center in August 1998 with the funds obtained from the market. It was listed on the TSE 2nd Section in April 1999, its listing was upgraded to the TSE 1st Section in March 2000, and it celebrated the 50th anniversary of its establishment in FY3/16. In April 2022, its listing was changed to the Prime Market following the TSE's reorganization of market categories. Moreover, toward taking a leap forward to a new stage, it changed its company name to NSW in August 2022. Similarly, in January 2023, it changed the names of the three consolidated subsidiaries. In the medium-term management plan it is currently pursuing, the Company is aiming to achieve the sustainable growth of both society and companies through digital transformation.

History

August 1966	Established the Business Computing Center in Minato Ward, Tokyo. Commenced software development and outsourced computing activities
October 1968	Commenced operation management service activities
December 1975	Acquired own building (present site of Head Office)
February 1976	Became a member of Japan Software Industrial Association (now Japan Information Technology Service Industry Association)
June 1978	Commenced development activities related to firmware and logic circuits
June 1980	Launched a business for the sale of office computers and office-automation equipment
March 1982	Changed the company name to NIPPON SYSTEMWARE CO., LTD.
March 1986	Established the Osaka Branch (now the Osaka Office) in Osaka City. Strengthened regional development.
September 1986	Started construction of the new Head Office building
February 1990	Started the systems integration business
August 1990	Established Nippon Technowave Co., Ltd., as a wholly owned subsidiary
April 1996	Stock registered as over-the-counter with the Securities Dealers Association of Japan
October 1997	Obtained ISO 9001 certification, an international assurance of quality
August 1998	Established the Yamanashi IT Center. Launched the datacenter business
April 1999	The Company is listed on the TSE 2nd Section.
March 2000	The Company is designated to the TSE 1st Section.
July 2002	The outsourcing business to manage and control customers' information systems achieved the requirements to be certified in the ISMS (Information Security Management Systems) assessment scheme.
September 2002	Established NSW SALES CO., LTD.
February 2005	Obtained ISO 14001 certification, an international environmental management standard
March 2007	Obtained ISO/IEC27001, an international standard for Information Security Management Systems
April 2007	Certified by the Ministry of Health, Labour and Welfare as a corporation promoting measures to support the development of the next generation
October 2007	Obtained ISO/IEC20000, an international standard for IT service management systems
September 2009	Launched the Cloud service business
October 2009	Established NSW WITH CO., LTD. (currently a wholly-owned consolidated subsidiary)
April 2010	Established NSW China Co., Ltd. (currently, a wholly-owned consolidated subsidiary)
May 2013	Launched the IoT/M2M business
July 2013	Changed the name of NIPPON TECHNOWAVE CO., LTD., to NSW TECHNOSERVICES CO., LTD., after the merger with NSW SALES CO., LTD.
January 2018	Acquired all the shares of NIHON SOFTWARE ENGINEERING Co., Ltd., and made it a subsidiary
April 2018	Established the Taiwan Office in Taiwan.
April 2020	Absorbed NIHON SOFTWARE ENGINEERING Co., Ltd.
August 2021	Acquired all the shares of Kohwa System Corporation and made it a subsidiary (currently, a wholly-owned consolidated subsidiary)
April 2022	Absorption merger of Kohwa System Corporation Listing changed to the TSE Prime Market following the TSE's market reorganization
August 2022	Changed name to NSW, Inc.
January 2023	Changed the names of the three consolidated companies (NSW TECHNOSERVICES Co., Ltd. → NSS, Inc.; NSW China Co., Ltd. → NSW China Co., Ltd.; NSW WITH Co., Ltd. → NSA, Inc.). (The company name of NSW China Co., Ltd. was changed in Chinese, while its English name was unchanged.)

Source: Prepared by FISCO from the Company's website

Business overview

While leveraging the Company's features to the greatest possible extent, aims for further development in the four business areas and the DX-related business

1. The Company's features

The Company conducts four solutions businesses – Enterprise Solutions, Services Solutions, Embedded Solutions, and Device Solutions and it is aiming to expand DX-related business that leverages the technological synergies from these businesses. Its major strength is that it has technologies and expertise for both software and for hardware.

The Company's strengths include its accumulated industry and business expertise and systems-construction capabilities that it has cultivated in the Enterprise Solutions business in various industrial fields; service coordination capabilities and a foundation to provide infrastructure and platforms such as cloud environments in the Services Solutions business; product development capabilities, including for embedded software and LSI* design and image processing technologies, in the Embedded Solutions and the Device Solutions business. The Company's major strength is that it has a core structure that enables it to support the DX sought by customers, centered on digital technology such as IoT and AI that leverages those synergies, and its policy is to utilize all these strengths for growth in the future.

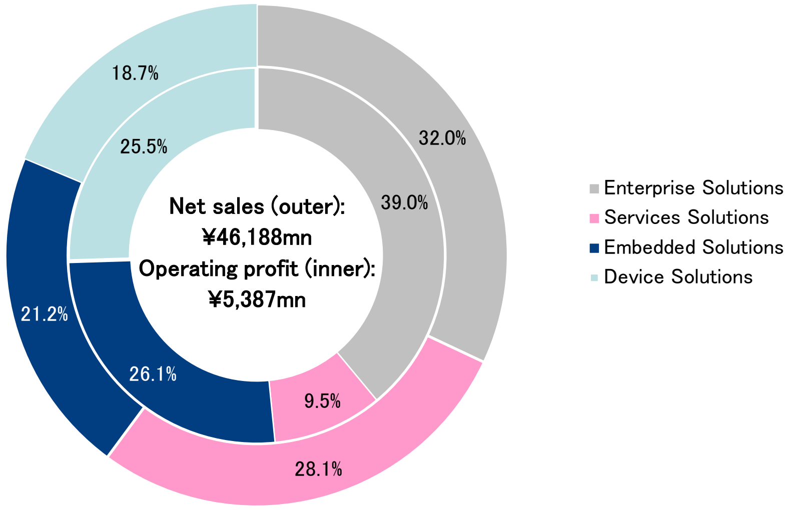
* Abbreviation of Large-Scale Integration. It refers to a large-scale integrated circuit that incorporates many electronic components, such as transistors, diodes, resistors, and capacitors, into one semiconductor chip.

2. Business description

In order to strengthen and expand each business and also with an eye to business development in the future, in FY3/23 the Company reorganized its business promotion structure, changing from the former three business segments to four segments. Also, the name of the former IT Solutions was changed to Enterprise Solutions, while Product Solutions was divided into Embedded Solutions and Device Solutions. Both the category and name of Service Solutions remained unchanged.

Looking at net sales and operating profit by segment in FY3/23, the Enterprise Solutions business provided 32.0% of net sales and 39.0% of operating profit; these figures are 28.1% and 9.5% for the Service Solutions business, 21.2% and 26.1% for the Embedded Solutions business, and 18.7% and 25.5% for the Device Solutions business, respectively. It is considered that the reasons why the Embedded Solutions business and the Device Solutions business provide comparatively high profit margins is that the technological barriers to enter these businesses are high and there are few independent companies of the same size as the Company conducting these businesses. Also, in the Enterprise Solutions business, various initiatives, including improving profitability and limiting unprofitable projects, are proving successful and the profit margin has improved significantly. Conversely, it seems that the reason for the comparably low profit margin in the Service Solutions business is that it became an independent segment starting from FY3/20 and the business is currently undertaking efforts to bolster its structure and upfront investment for developing new services.

Net sales and operating profit by segment(FY3/23)



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

The Enterprise Solutions business provides operations-related solutions. Utilizing the business expertise cultivated over many years, such as for the manufacturing, distribution, finance and insurance industries, and for government offices, the Company provides optimized solutions for its customers, from consulting through to systems design, development, maintenance, and operations.

Service Solutions provides IT services and IoT & AI services. IT services are a variety of services that support customers' systems, from servers and network designs that maximize systems' performance and the construction of secure environments, through to highly reliable management and monitoring by urban- and suburban-type data centers. Also, the IoT & AI services utilize their strength of enabling total coordination, from devices through to the cloud, and based on the Toami IoT cloud platform, support customers' creation of new business value, from collecting data through to its analysis and utilization.

Embedded Solutions develops embedded systems and provides edge device solutions. In embedded systems development, the Company responds to demand for product diversification, increased efficiency and improved design quality and for smart products by using the embedded technologies it has cultivated for app, middleware and driver development as a result of developing a wide range of products for the automotive and industrial sectors, amongst others. In addition, in edge device solutions, it proposes optimal IoT environments to customers that keep down costs from small starts through its abundant design and development capabilities that enables it to respond in-house, for from embedded apps through to LSI, and through alliances with various sensor and device vendors.

Device Solutions develops LSI and FPGA (integrated circuits in which the purchasers and designers can set the configuration after manufacturing). It provides solutions according to requirements, including for high-level designs, logic designs and verification, logical synthesis, layout designs, manufacturing, and testing. It is responding for lower-power consumption designs and advanced processes in various fields, such as for image processing and communication controls.

The business field that holds significant expectations to become a new pillar of earnings by combining its expertise in the above-described four segments is the DX-related business that focuses on digital technologies such as IoT and AI. It currently conducts business in such a way that earnings from DX-related business are included in the earnings of each existing segment. For the IoT & AI services in the Service Solutions business, it is utilizing its strength of enabling total coordination, from devices through to the cloud, and centered on the Toami IoT cloud platform, it is supporting customers' creation of new business value, from collecting data through to its analysis and utilization.

The Company's Toami has a track record of introductions into more than 100 companies in total, mainly for the realization of IoT-accessible products. The number of alliance partners has also grown to more than 30 companies and it provides it in more than 30 countries worldwide. Inquires for related services, such as for an analysis service to effectively utilize the data collected through IoT, are also strong. Toami is being utilized by companies including Panasonic Holdings Corporation <6752>, Nipron Co., Ltd., EXEO Group <1951>, Tohoku Energy Service Co, Inc., Watanabe Electric Industry Co., Ltd., Renesas Electronics Corporation <6723>, NEC Networks & System Integration Corporation <1973>, RION Co., Ltd. <6823>, and Japan Radio Co., Ltd.

Results trends

In FY3/23, results set new record highs, and sales and profits increased for the 11th consecutive period

1. Summary of the FY3/23 results

In FY3/23, the Japanese economy continued to face an uncertain environment in which there were concerns about an economic slowdown, such as the turmoil in Ukraine, credit instability accompanying bank failures in Europe and the United States, the yen's depreciation risk in currency markets, and global inflationary pressure. However, on the other hand, there were also some positive factors. These included the normalization of social and economic activities following the COVID-19 pandemic, which led to improvements in the business performance of companies with a significant impact. This recovery was particularly notable in the dining out sector and inbound consumption. Amid this, in the information services industry, the situation remained solid, including DX-related investment with business model reforms, as well as efforts towards green transformation (GX) aiming to achieve carbon neutrality.

Against the backdrop of this environment, in its medium-term management plan, the Company group established a basic policy to achieve the sustainable growth of both society and companies through digital transformation – evolving to become a SIer that co-creates business with customers through technologies and knowledge The Company group is actively working to expand its role from a technology provider to a partner that actively pursues corporate reforms alongside client companies. By doing so, they aim to accelerate business growth and reforms, ultimately moving towards the realization of a sustainable society.

As a result, in the Company's FY3/23 consolidated results, net sales were ¥46,188mn (up 6.3% YoY), operating profit was ¥5,387mn (up 9.5%), ordinary profit was ¥5,442mn (up 8.3%), and profit attributable to owners of parent was ¥4,090mn (up 17.9%). So, sales and profits grew significantly to set new record highs, and moreover sales and profits increased for the11th consecutive period. In FY3/22, both net sales and profits increased significantly due to special demand for subsidy application system projects, but from the start of FY3/23 this special demand settled down, so the sales and profit growth rates declined a bit. Meanwhile, both net sales and operating profit exceeded the initial forecasts by 2.6% and 7.8%, respectively, so the Company is achieving its forecasts without issue. Also, the operating profit margin further improved to 11.7% (up 0.3pp). Additionally, the reason for the high YoY growth rate in profit attributable to owners of parent was the tax effect in conjunction with the disposition of assets.

FY3/23 consolidated results

(¥mn)

	FY3/22		FY3/23			YoY		Vs. forecast	
	Results	% of net sales	Forecast	Results	% of net sales	Increase (decrease)	% change	Increase (decrease)	% change
Net sales	43,452	100.0%	45,000	46,188	100.0%	2,736	6.3%	1,188	2.6%
Operating profit	4,919	11.3%	5,000	5,387	11.7%	468	9.5%	387	7.8%
Ordinary profit	5,025	11.6%	5,040	5,442	11.8%	417	8.3%	402	8.0%
Profit attributable to owners of parent	3,469	8.0%	3,450	4,090	8.9%	620	17.9%	640	18.6%

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

In terms of net sales, overall net sales increased due to strong sales in the Service Solutions, Embedded Solutions, and Device Solutions businesses, despite the small decline in net sales in the Enterprise Solutions business due to the recoil decline following the surge in subsidy projects in the previous fiscal year. Operating profit increased as a result of the improvement in gross profit margin due to the increase in sales, despite the rise in SG&A expenses due to personnel costs, rent, and other expenses. The increase in rents was a temporary event in conjunction with the office reorganization in the Shibuya area. Also, supported by the solid demand in the IT industry as a whole, the Company saw a large increase in the order backlog to ¥17,645mn (up 17.2% YoY), which will lead to future increase in sales. Due to its broad range of customers, the Company can be said to be realizing stable growth regardless of the industry environment.

Strong performance in both Embedded Solutions and Device Solutions

2. Overview by segment

The following section reviews results by business segments.

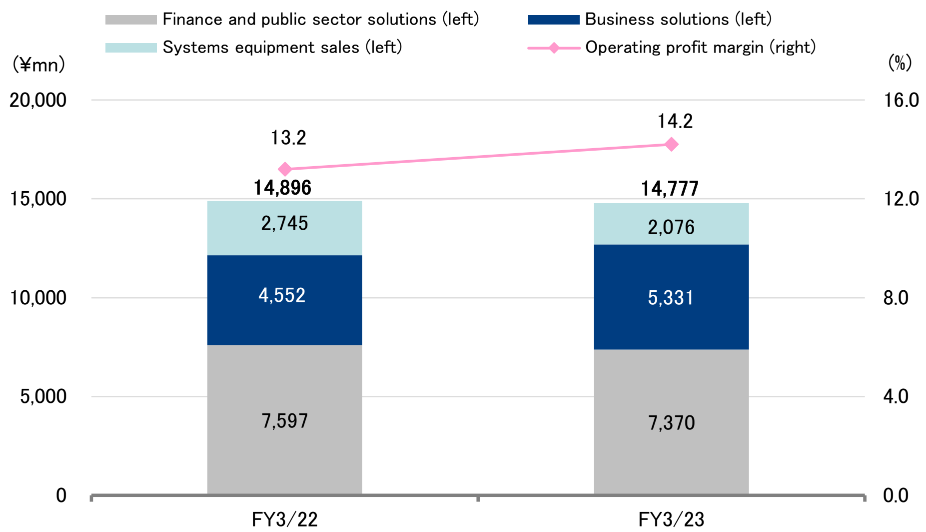
(1) Enterprise Solutions business

In the Enterprise Solutions business, net sales were ¥14,777mn (down 0.8% YoY), operating profit was ¥2,099mn (up 6.7%), and the operating profit margin was 14.2% (up 1.0pp). Net sales trended strongly for systems development for the retail sector and for government offices and public organizations, but sales fell slightly due to the recoil decline from the strong sales for subsidy projects in the previous fiscal year as well as the drop in system equipment sales. Operating profit increased as there were no large unprofitable projects and from the contribution of a highly profitable project. Compared to the forecasts, net sales were 3.4% below the forecast and operating profit exceeded the forecast by a significant 11.7%. Meanwhile, orders received increased 29.0% to ¥6,265mn, as there were many inquiries about ERP* packages, and so the Company can be expected to enjoy a recovery in sales going forward.

* Abbreviation of Enterprise Resource Planning. Systems that centralize companies' management resources and utilize them for management decision making in real time.

Breaking down net sales, business solutions net sales were ¥5,331mn (up 17.1% YoY). For the manufacturing and logistics industries, the Company's business expanded, centered on large projects for providing ERP packages, while sales to the retail industry increased as a result of effectively capturing of large store-related systems. In finance and public sector solutions, net sales were ¥7,370mn (down 3.0%). Sales to the finance and insurance industries declined due to a contraction in projects despite an expansion in the credit card payment domain. For government offices and public organizations, although projects for existing clients were solid, there was a recoil decline in sales of subsidy application systems projects. In systems equipment sales, net sales declined 24.4% YoY to ¥2,076mn, due to the recoil decline in equipment sales to the retail industry (semi-self-checkout systems and POS-related).

Net sales and operating profit margin trends in the Enterprise Solutions business



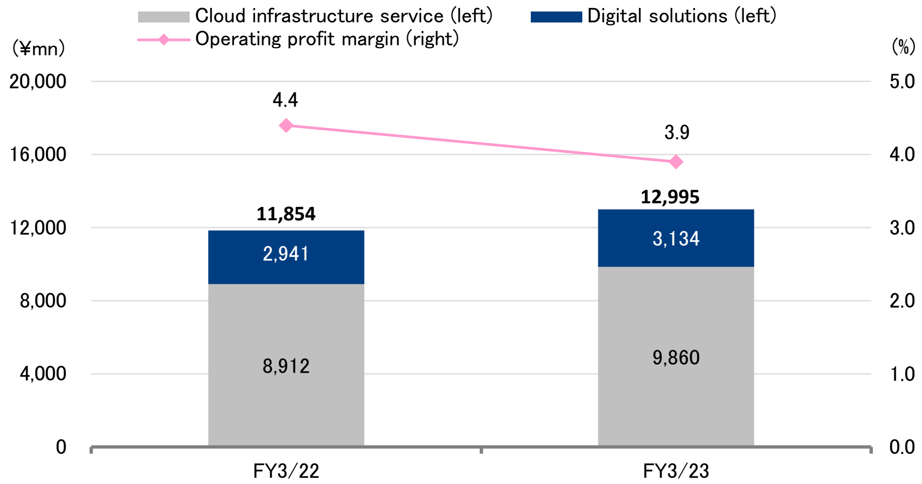
Source: Prepared by FISCO from the Company's results briefing materials

(2) Services Solutions business

In the Service Solutions business, net sales were ¥12,995mn (up 9.6% YoY), operating profit was ¥509mn (down 3.1%), and the operating profit margin was 3.9% (down 0.5pp). Sales increased as a result of a large number of inquiries related to DX, but profit declined due to the impact of certain low-profitability projects and efforts to bolster the structure as well as strategic investments aimed at business expansion. Net sales were 5.7% higher than the forecast, but operating profit was 26.2% lower than the forecast. The reason why the operating profit was much lower than the forecast was the occurrence of several small unprofitable projects, which took up the Company's resources and resulted in opportunity losses. It can be said that this is the aftermath of the relatively large unprofitable project that occurred in the previous fiscal year. As mentioned above, this segment became an independent segment starting from FY3/20, and the operating profit margin was lower than other segments due to the impact of efforts to strengthen the structure targeting business expansion along with upfront investments to develop new services. It seems that it will take a little more time for the business to get on track and contribute to the overall performance of the company. Meanwhile, the order backlog is strong at ¥6,333mn (up 14.7%), and sales are expected to grow in the future.

Looking at a breakdown of net sales, net of sales of the cloud infrastructure service were ¥9,860mn (up 10.6%). For the cloud services, sales increased in infrastructure-related development linked with cloud construction and the data management domain. In infrastructure and other services, sales in the data management field were strong, and business expanded. Net sales of digital solutions were ¥3,134mn (up 6.6%). For IoT and AI, while there was an increase in strategic initiatives aimed at DX promotion, an opportunity loss occurred in order to address unprofitable projects. For web and e-commerce, sales were strong, centered on website construction projects.

Net sales and operating profit margin trends
in the Services Solutions business



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

(3) Embedded Solutions business

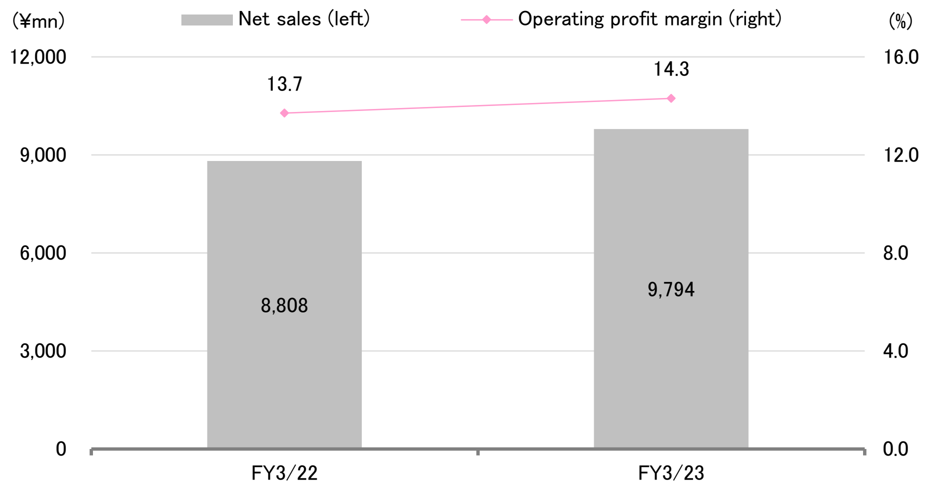
Net sales were ¥9,794mn (up 11.2% YoY), operating profit was ¥1,404mn (up 16.4%), and the operating profit margin was 14.3% (up 0.6pp). Net sales were strong, mainly in the automotive/mobility field and the communication/equipment and devices field. The market environment was favorable, and overall, there were many business inquiries. Profit increased due to the rise in gross profit in conjunction with the increase in sales. Net sales were 7.6% higher than the initial forecast, while operating profit was 15.2% higher than the initial forecast. The market was solid, and in embedded development the Company has been able to grow both sales and profit. Productivity improved due to the efforts to develop more business with existing customers, and the profit margin increased. The Company continues to maintain a high profit margin. As noted above, this is thought to be because the technological barriers to enter this business are high and there are very few independent companies of the same size as the Company engaging in this business. The order backlog was just ¥2,346mn (down 1.5%). It appears that some customers are beginning to constrict their investment in conjunction with the outlook for an economic slowdown both in Japan and overseas.

Looking at a breakdown of net sales, in automotive, an area of strength for the Company, in addition to maintaining its performance in existing domains such as IVI*1, the Company also expanded its business related to ADAS*2. In mobile, sales increased including for financial app development for carriers. In equipment and devices, sales were strong for broadcasting equipment and related app development, as well as strong for payment device-related development. In communications, sales were strong for 5G-related projects and software development operations for communications equipment.

*1 Abbreviation of in-vehicle infotainment system. This refers to next-generation on-board information communications systems

*2 Abbreviation of advanced driver-assistance systems. It is the collective term for systems that support the driver's driving, such as vehicle collision detection and position judgment systems.

Net sales and operating profit margin trends in the Embedded Solutions business



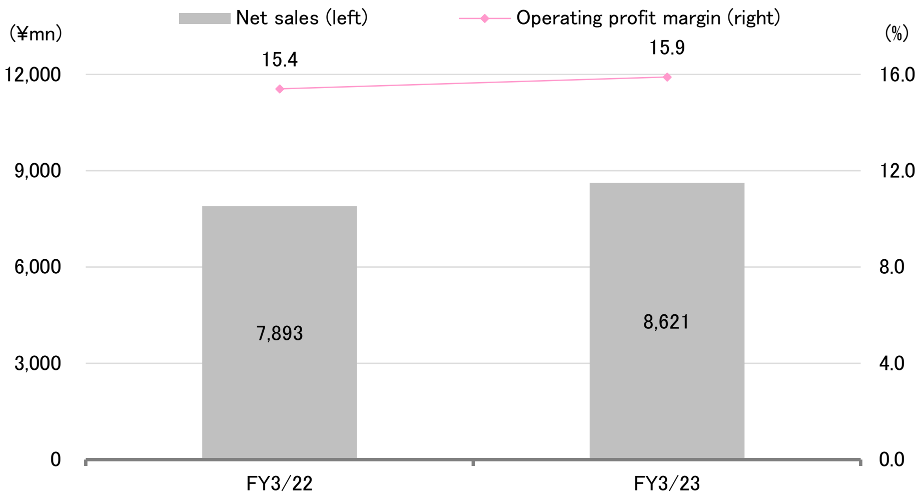
Source: Prepared by FISCO from the Company's results briefing materials

(4) Device Solutions business

In the Device Solutions business, net sales were ¥8,621mn (up 9.2% YoY), operating profit was ¥1,373mn (up 12.8%), and the operating profit margin was 15.9% (up 0.5pp). Net sales increased due to strong sales in the semiconductor design and development field. Demand from existing customers was high, and this led to an increase in transactions. Profit increased due to the increase in gross profit accompanying the increase in sales. Net sales were 3.9% higher than the forecast, while operating profit exceeded the forecast by 13.6%. Similar to Embedded Solutions, productivity improved as a result of efforts to win more business from existing customers, and the operating profit margin rose. In addition, the technological barriers to enter this business are high and there are very few independent companies of the same size as the Company engaging in this business, so the Company continued to maintain a high profit margin. The order backlog is solid at ¥2,700mn (up 17.6%). In the semiconductor market, there are media reports of inventory adjustments and other developments, but the Company has strength not in general use areas, but in individual fields, so as always it is performing well in the semiconductor domain. Still, the Company plans to keep a close watch on market developments.

Looking at the breakdown of net sales, a high level of demand continued in the semiconductor design field, and business with key customers increased, resulting in strong performance, and business was solid and expanded in the LSI design, development and assessment business as well, which is an area of strength for the Company. Also, as a measure to address the industry's overall chronic shortage of resources, the Company utilized overseas resources more and expanded partnerships.

Net sales and operating profit margin trends in the Device Solutions business



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

Extremely financially sound and profitable

3. Financial condition and management indicators

At the end of FY3/23, total assets increased ¥3,850mn on the end of the previous period to ¥40,663mn. This was mainly due to increases in notes and accounts receivable-trade, merchandise, leasehold and guarantee deposits deferred tax assets, and cash and deposits. Total liabilities increased ¥487mn to ¥10,784mn, with the main items being decreases in income taxes payable, accrued consumption taxes, and provision for bonuses, while there were increases in accounts payable-trade, accounts payable-other, and other items. The increase in accounts payable-trade and accounts payable-others is a result of the expansion of business activities. Total net assets increased ¥3,362mn to ¥29,878mn in conjunction with the booking of profit attributable to owners of parent.

As a result of the above, the current ratio (current assets/current liabilities) rose 17.8pp on the end of the previous fiscal year to 384.6%, and the Company's short-term solvency is extremely high. Also, the fixed ratio (fixed assets/ equity capital) declined 0.1pp to 33.4%. The procurement of fixed assets (such as equipment investment) is fully covered by shareholders' equity with no repayment deadlines, and the Company continues to practice debt-free management. The equity ratio rose 1.4pp to 73.5%, and is still much higher than the average of the telecommunications industry companies on the TSE 1st section (average of 31.4% at the end of March 2022), so the Company can be evaluated as being highly financially sound. Also, ROE is 14.5% and ROA is 14.0%, which are a significant 5.0% and 3.9% higher than the average of the telecommunications industry companies on the TSE 1st section, so it can be said that its profitability is also extremely high.

Consolidated balance sheets and management indicators

(¥mn)

	End of FY3/22	End of FY3/23	Increase (decrease)
Current assets	27,924	30,669	2,745
Cash and deposits	15,176	15,352	175
Notes and accounts receivable-trade and electronically recorded monetary claims - operating	10,922	12,689	1,767
Work in process	1,183	1,278	95
Fixed assets	8,888	9,993	1,104
Property, plant and equipment	6,058	6,205	146
Intangible assets	263	301	38
Investments and other assets	2,567	3,486	918
Total assets	36,813	40,663	3,850
Current liabilities	7,613	7,974	361
Noncurrent liabilities	2,683	2,809	126
Total liabilities	10,296	10,784	487
(Interest-bearing debt)	-	-	-
Total net assets	26,516	29,878	3,362
Stability			
Current ratio (current assets / current liabilities)	366.8%	384.6%	+17.8pt
Fixed ratio (fixed assets / equity capital)	33.5%	33.4%	-0.1pt
Equity ratio	72.0%	73.5%	+1.4pt
Profitability			
ROE (return on equity)	13.8%	14.5%	+0.7pt
ROA (return on assets)	14.5%	14.0%	-0.4pt

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

At the end of FY3/23, the balance of cash and cash equivalents increased ¥175mn from the end of the previous fiscal year to ¥15,352mn. This was because expenditure, such as for acquisitions of property, plant and equipment and the payment of dividends, was covered by the funds obtained from operating activities.

Looking at the cash flow conditions, net cash provided by operating activities was ¥1,998mn (a decrease in income of ¥1,734mn YoY). While the Company booked profit before income taxes, there were increases in notes and accounts receivable-trade, inventories, and trade payables, as well as recording of income taxes paid. Conversely, net cash used in investing activities was ¥1,010mn (an increase in expenditure of ¥666mn). This was mainly due to expenditures such as the acquisitions of property, plant and equipment, payments of leasehold and guarantee deposits, and the purchase of long-term prepaid expenses. Net cash used in financing activities was ¥818mn (an increase in expenditure of ¥210mn), which was mainly due to dividends paid.

Consolidated cash flow statements

(¥mn)

	FY3/22	FY3/23	Increase (decrease)
Cash flow from operating activities	3,732	1,998	-1,734
Cash flow from investing activities	-344	-1,010	-666
Cash flow from financing activities	-607	-818	-210
Cash and cash equivalents at the end of the fiscal period	15,176	15,352	175

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

Outlook

Outlook for FY3/24, the second year of the medium-term management plan, is for record high net sales and operating profit, despite a conservative forecast

● FY3/24 results forecasts

In FY3/24, the information services industry is expected to see firm demand driven by further acceleration in DX in conjunction with the evolution of AI and an increase in initiatives aimed at decarbonization. Meanwhile, there are still factors that cannot be seen optimistically, such as global inventory adjustments in semiconductors, the strengthening of export management, and constraints of new investment arising from concerns about an economic slowdown due soaring materials prices and inflation. Amid this situation, the Company group plans to promote the medium-term management plan and accelerate business growth and reforms, as well as work towards realizing a sustainable society.

Based on the above, for the FY3/24 consolidated results, the Company is forecasting net sales of ¥48,500mn (up 5.0% YoY), operating profit of ¥5,600mn (up 3.9%), ordinary profit of ¥5,650mn (up 3.8%), and profit attributable to owners of parent of ¥3,950mn (down 3.4%). Net sales and operating profit are expected to increase for the 12th consecutive fiscal year. The forecast is on the conservative side compared to the actual rate of increase of both net sales and profit in FY3/23, but this is because the Company has cautiously factored in the uncertainty in the business environment and increases in personnel costs. As a result, the operating profit margin is expected to decline 0.1pp YoY to 11.5%. Also, the forecast for a decline in net profit is due to a recoil decline because of the non-recurrence of the tax effect in the previous fiscal year.

Looking by segment, in Enterprise Solutions, the Company is forecasting net sales to increase 7.6% YoY to ¥15,900mn, operating profit to decline 4.3% to ¥2,010mn, and for an operating profit margin of 12.6% (down 1.6pp). The Company expects an increase in sales by recouping the decline in sales in the previous fiscal year, but is forecasting a decline in profits as it predicts that it will be difficult to maintain the high profit margin that it saw until the previous fiscal year. In Service Solutions, the Company is forecasting net sales to increase 3.1% YoY to ¥13,400mn, operating profit to increase 53.2% to ¥780mn, and an operating profit margin of 5.8% (up 1.9pp). The Company expects sales to be solid, and is forecasting a big increase in profit based on recovering from the impact of unprofitable projects in the previous fiscal year and returning to a normal situation. In Embedded Solutions, the Company is forecasting net sales to increase 3.1% YoY to ¥10,100mn, operating profit to increase 1.8% to ¥1,430mn, and an operating profit margin of 14.2% (down 0.2pp). In Device Solutions, the Company is forecasting net sales to increase 5.5% YoY to ¥9,100mn, operating profit to increase 0.4% to ¥1,380mn, and an operating profit margin of 15.2% (down 0.8pp). The results in both of these segments will depend on market trends, but the Company is forecasting small increases in both net sales and profit, expecting that growth will not be as high as in the previous year and also anticipating a decline in the profit margin due to an increase in labor costs and other factors.

The Company has a strong tendency to initially announce conservative forecasts, so at FISCO we think there is a high likelihood that the Company will achieve its results forecasts in FY3/24.

FY3/24 consolidated results outlook

(¥mn)

	FY3/23		FY3/24		YoY	
	Results	% of net sales	Forecast	% of net sales	Increase (decrease)	% change
Net sales	46,188	100.0%	48,500	100.0%	2,311	5.0%
Operating profit	5,387	11.7%	5,600	11.5%	212	3.9%
Ordinary profit	5,442	11.8%	5,650	11.6%	207	3.8%
Profit attributable to owners of parent	4,090	8.9%	3,950	8.1%	-140	-3.4%

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

Medium- to long-term growth strategy

Aiming to achieve the sustainable growth of both society and companies through digital transformation

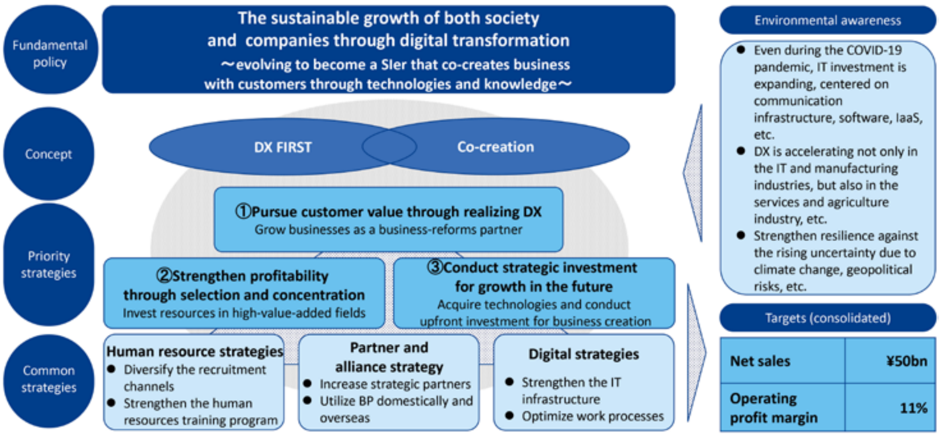
1. Overview of medium-term management plan and priority strategies

The Company achieved all its management targets for the previous medium-term management plan (FY3/20 – FY3/22), and in May 2022 the Company announced a new medium-term management plan to run for three years from April 2022 through March 2025. For the future business environment that served as the assumption for the forecasts, the Company expects the domestic IT market to grow steadily based on the rising needs for digitalization and business reforms spurred by COVID-19. Even within this situation, in terms of company size, DX will accelerate not only in major companies but also in medium-sized companies and SMEs, and for industries, it will accelerate not only in the manufacturing industry, but also in a wide range of other fields including the services and agriculture industries. In the future also, DX is expected to drive market growth, and the Company's businesses as well are expected to have business environments that will enable them to grow even more, centered on DX. In addition, in order to respond to a society in which uncertainty is rising, such as due to climate change and geopolitical risks, the Company has established contributing to social issues, including sustainability, as an important theme.

In the medium-term management plan, based on the fundamental policy of achieving the sustainable growth of both society and companies through digital transformation – evolving to become a SIer that co-creates business with customers through technologies and knowledge, the Company intends to expand its business area from the former area of being a partner providing DX technologies to customers to a partner that promotes company reforms together with customers and to accelerate business growth and reforms, while it also intends to work toward the realization of a sustainable society. In order to realize this fundamental policy, the Company aims to combine its customers' business transformations, alliance partners and digital technology with the knowledge it possesses about devices, embedded technology, cloud and infrastructure technology, industries, and operations and promote the concepts of "DX FIRST" and "co-creation" (meaning companies collaborating with their various stakeholders to create new value together).

The specific priority strategies toward achieving the goals in the medium-term management plan are pursuing customer value through realizing DX, strengthening profitability through selection and concentration, and conducting strategic investment for growth in the future. Also, the common strategies that will serve as the foundation on which to progress the priority strategies are a human resources strategy, a partner and alliance strategy, and a digital strategy.

Overview of the medium-term management plan



Source: The Company's results briefing materials

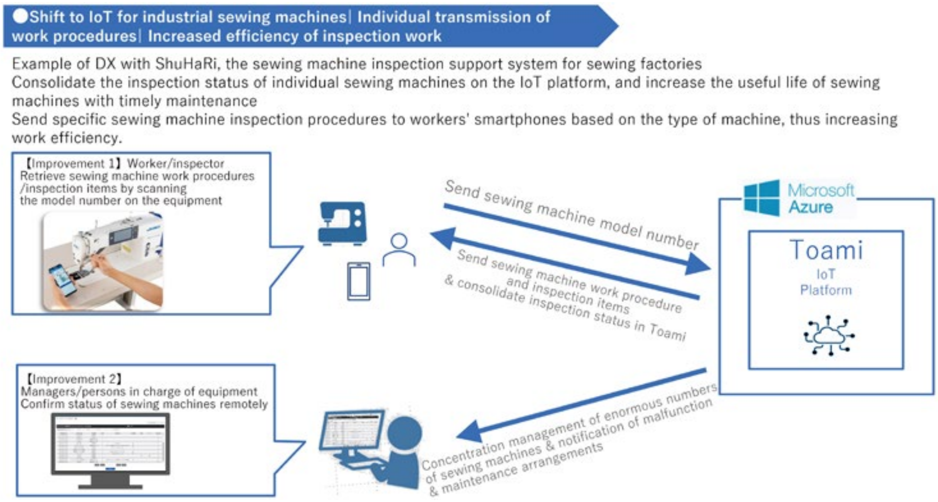
Below is a summary of the priority strategies that the Company is promoting under the medium-term management plan.

(1) Pursue customer value through realizing DX

The Company is aiming for business expansion as a business-reforms partner, and in the digital area for which there are major expectations for growth, it is creating a business that works together with customers to realize their business reforms. A DX movement is advancing in customer companies, and in this situation, the Company is being required to not only provide solutions and technologies, but also to play the role of being partner that progresses and realizes reforms together with the customer. Therefore, it is further strengthening and deepening its digital technologies, starting with the IoT and AI services it has worked on up to the present time, while it also intends to expand the areas it responds to and to work on the co-creation of customer value through realizing DX.

As an example of a customer's product transformation through the realization of DX, Toami was adopted for the sewing machine inspection system by JUKI CORPORATION <6440> in August 2022. The inspection and maintenance support operations became more efficient at JUKI using Toami to simplify input work by automatically recognizing the model number from the nameplate label of the sewing machine read via smartphone, inspection work procedures matching the model number registered in advance on the cloud are displayed. In addition, by accumulating the results of inspections on the cloud, it became easier to make arrangements for the maintenance parts necessary for sewing machines and to grasp the status of replacements. Furthermore, the addition of QR code-based model number recognition and analysis capabilities has further improved user convenience, contributing to the reduction of production line stoppages due to sewing machine problems at sewing factories, who are the users of JUKI's sewing machines.

Example of customer's product transformation



Source: The Company's results briefing materials

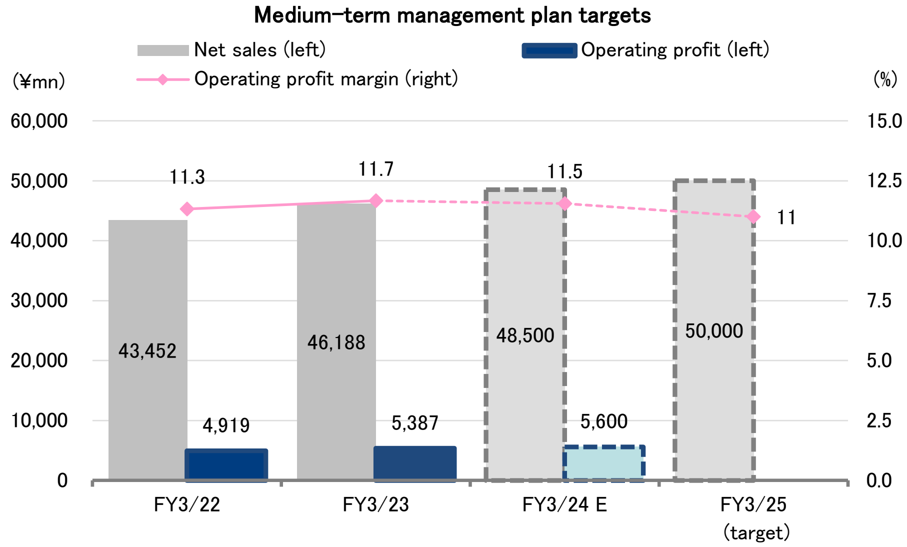
(2) Strengthen profitability through selection and concentration

The Company plans to strengthen its business foundation by concentrating its resources into highly profitable fields. Customers' needs for IT services are diversifying and becoming more sophisticated, and in addition to utilizing IT in order to increase work efficiency, needs are changing to strategic IT investment to increase a company's competitiveness. In order to respond accurately to these sorts of changes in the business environment and to further solidify its business foundation, the Company is further expanding and developing the technologies and expertise it has cultivated up to the present time and further growing its strengths. At the same time, it plans to concentrate its resources into fields that are expected to grow in the future and that are highly profitable and to work on establishing a new stable earnings foundation toward the next stage of growth.

(3) Conduct strategic investment for growth in the future

The Company is acquiring technologies and conducting upfront investment in order to create new solutions and services. Toward creating new solutions and service, it intends to actively invest in strategies such as acquiring technologies and accumulating knowledge, securing and training human resources with the vitality to continuously compete for new value creation, and conducting M&A and forming alliances with other companies for business expansion in the future and to strengthen its business foundation. With respect to securing human resources, in response to the shortage of engineers in Japan, from FY3/23 the Company plans to secure foreign nationals as human resources, centered on Southeast Asia. In order to bolster the ability to respond for the semiconductor business, in August 2022 the Company began operating an ODC (outsourcing system/software development work to overseas companies/institutions) with a Vietnamese partner company, and this has already yielded results.

By advancing the above priority strategies, in FY3/25, the plan's final year, the Company is aiming for net sales of ¥50,000mn (up 15.1% versus FY3/22, CAGR of 4.8%), and an operating profit margin of 11%. Under the four-segment structure it started in FY3/23, it expects to achieve higher sales and profits through continuing to increase sales and maintain the operating profit margin at about the same level as in FY3/22. These are considered conservative forecasts showing the absolute minimum goals that the Company is aiming for in three years. In fact, looking at the results for FY3/23 (Year 1) and the expected rate of sales growth and the profit margin in FY3/24 (Year 2), the Company is making progress at a pace exceeding the results forecast. We will pay close attention to the Company's future progress.



Source: Prepared by FISCO from the Company's results briefing materials and medium-term management plan materials

2. Plans by segment

The business plans for each segment aiming towards realizing the medium-term management plan are described below.

(1) Enterprise Solutions

The Company will utilize its expertise in various industries to advance DX applications. It plans to promote services for ESL, defective product detection, customer services, deliveries, and e-commerce sales linkage for the distribution industry; ERP, digital production support, distribution reforms, and AI drawings for the manufacturing industry; AI deliveries, image identification, robotics, and SCM for wholesalers for the logistics industry; cloud shift and modernization for the finance industry; and responding to digital government policies for the public sector. Through these measures, in FY3/25 it is targeting net sales of ¥17,000mn (up 14.1% compared to FY3/22) and an operating profit margin of 13% (13.2% in FY3/22). In FY3/23, the first year, there was a slight decline in net sales, but the increase in profit resulted in profit margin exceeding the forecast.

(2) Services Solutions

The Company will strengthen approaches to customers' DX departments and support the promotion of DX, and also progress measures including expanding the areas it can respond to in the business model reforms business, strengthening its response to cloud native, and expanding its data management areas. Through these measures, in FY3/25 it is targeting net sales of ¥14,000mn (up 18.1% compared to FY3/22) and an operating profit margin of 7% (4.4% in FY3/22). The costs used to strengthen structures and the unprofitable projects will cease to have an impact, so the outlook going forward is for profits to improve, while the operating profit margin is also expected to rise. Looking at the results for FY3/23, net sales increased while profit decreased, so results fell short of the forecast. The challenge is to eliminate unprofitable projects and improve profits.

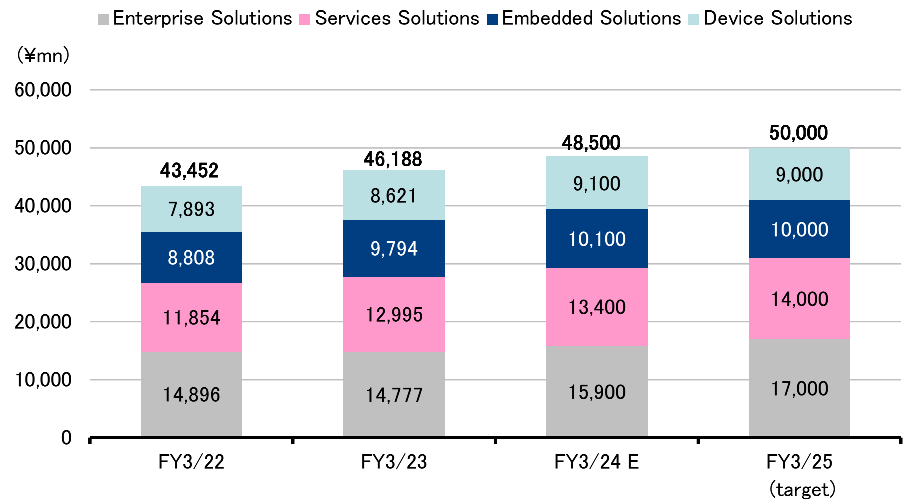
(3) Embedded Solutions

The Company's plans include creating services that utilize its existing embedded technologies, progressing initiatives for the edge computing field, and strengthening efforts and expanding the businesses for growth fields such as automated driving and 5G/6G. Through these measures, in FY3/25 it is targeting net sales of ¥10,000mn (up 13.5% compared to FY3/22) and an operating profit margin of 13.5% (13.8% in FY3/22). In FY3/23, net sales and profit increased more than forecast, as the segment maintained its strong performance.

(4) Device Solutions

The Company's plans include expanding design services that are based on LSI development technologies, conducting development for the cloud design service businesses, and progressing the business with Deep Learning as the core. Through these measures, in FY3/25 it is targeting net sales of ¥9,000mn (up 14.0% compared to FY3/22) and an operating profit margin of 14.5% (15.3% in FY3/22). Although the operating profit margin is forecast to decline, the profit margin is expected to be maintained at a high level. In FY3/23, net sales and profit increased more than forecast, as the segment maintained its strong performance.

Results targets (net sales by segment)



Source: Prepared by FISCO from the Company's results briefing materials and medium-term management plan materials

3. Initiatives for "DX FIRST"

Based on its "DX FIRST" slogan, the Company is aiming to be a pioneering company for realizing customers' DX, and one of the priority strategies in the medium-term management plan is to pursue customer value through realizing DX. For this DX, the Company has stated that it will utilize its digital technologies for customers' business models and business processes and work to create new value. In other words, by combining the work expertise and technological capabilities it has accumulated up to the present time with various methods to realize DX, it will provide solutions and services that support the realization of DX and will work on progressing customers' business model reforms and work process reforms together with customers.

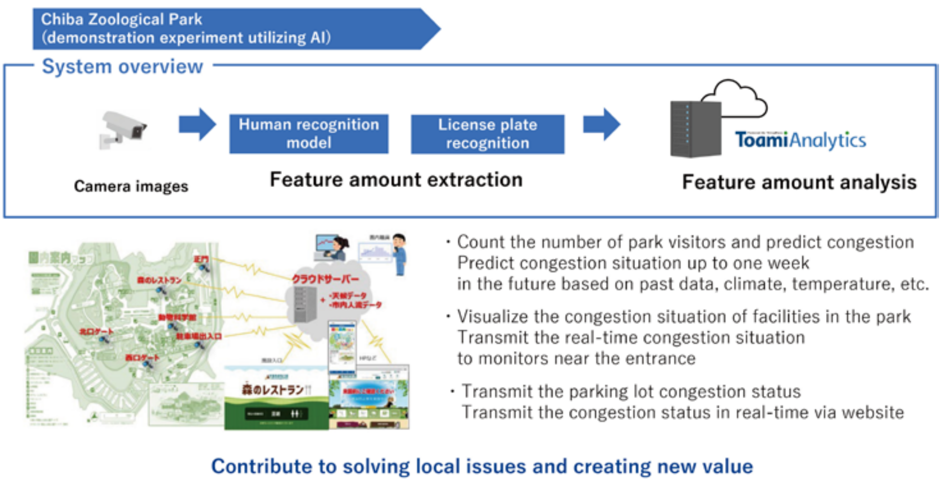
To support customers' realization of DX even during the COVID-19 pandemic, based on its digital technologies of IoT, AI, and XR*, the Company has been providing various services and solutions through new developments and collaborations with partners. In particular, in the XR field, non-face-to-face and contactless operations are rapidly growing, and as a result, in regard to the target customers for the provision of DX services, the Company has also entered into the construction industry, while centering on the manufacturing industries, and the number of customer companies has grown rapidly by around three times since FY3/19 (average annual growth rate of around 45%).

* Abbreviation for Cross reality. It is the collective term for technologies that enable things not in the real world to be perceived by integrating the real world and the virtual world.

The Company has previously focused on providing digital technologies, but in the future, it will not only provide digital technologies, but also work on "DX FIRST" through "co-creation" by creating new value and business models together with customers. The Company is looking to respond to customers' problems and business-reform needs by combining the Company's strengths, including the expertise, technologies, and knowledge it possesses, with the knowledge of its partners and external digital technologies, as it aims to take a big leap forward as a reform co-creation company.

One example of co-creation with a partner via realizing DX is conducting a demonstration project involving congestion prediction transmission for the Chiba Zoological Park with Intel Corporation, from July 2022 through February 2023. In addition to using AI to count the number of visitors from camera images attached to each entry/exit gate (three locations), facilities in the park that are frequently used, and the parking lot's entrance and exit, the project also provides real-time congestion prediction information on the website and elsewhere. This contributes to solving regional issues and creating new value. As another example of co-creation, in March 2023, the Company started joint research with Keio University to develop an air environment management solution. The Company and Keio University will form hypotheses from various perspectives on the air environment regarding the effectiveness of efforts to eliminate food loss at the storage and distribution stages, and will verify the hypotheses through joint research and demonstration experiments. This project aims to realize a sustainable society by contributing to solving a social issue. More concrete results are expected going forward.

Example of co-creation with a partner



Source: The Company's results briefing materials

4. Initiatives for sustainability

The Company has been working on resolving the various social issues that change alongside the times through its business activities that are based on its corporate philosophy of “Humanware By Systemware.” In the new medium-term management plan as well, it is aiming to both grow as a company and to solve social issues, and its policy is to progress sustainability management (the realization of a sustainable society), including for ESG.

As its initiatives for the environment, in April 2013 the Company announced its environment policy in which it aims to reduce the environmental burden by providing solutions to increase efficiency and to save labor, while it also working on other initiatives such as energy saving and resource-saving activities in offices. To give an example, based on the projection to realize a low-carbon society formulated by the Japan Information Technology Services Industry Association (JISA), it has set goals such as a 37.7% reduction in specific energy consumption in fiscal 2030 for office buildings (compared to fiscal 2006), and a 7.8% reduction (same) for data centers. Also, in February 2005, it acquired the Environment Management Systems ISO14001 certification from JSA Solutions Co., Ltd., and every year since FY2010, it has published the report on measures for global warming based on a Tokyo Government ordinance.

In relation to social issues, the Company is progressing diversity. Since its establishment, it values “humanware,” which means aspects such as individuality, sensibility, and creativity, and it places importance on the diversity, personality, and individuality of its employees. It also works to build environments that are safe and comfortable to work in and has implemented various measures to support a work-life balance for employees and to establish various systems (establishing a flex-time system and other work-related systems, a system for the use of expired paid leave, and a re-employment system for employees who left the company due to childbirth or other reasons). These activities have been highly evaluated and since 2007, it has received the Kurumin certification that is based on the Act on Advancement of Measures to Support Raising Next Generation of Children. It also actively employs people with disabilities through its special subsidiary NSA, and it is carrying out various work including office-work support, technology support, facility-management support, and in-company massages.

The Company has focused on corporate governance in the past and acknowledges quick and suitable decisions and enhancing management transparency toward shareholders and investors as important corporate issues. It hence appropriately revises systems as needed, such as adjusting the number of directors on the board, adopting an executive director system, and selecting outside directors. The Company also sustained efforts to reflect shareholder and investor opinions in management through ongoing disclosure and IR activities.

In recent years, there has been a global trend of focusing on Environment, Social, and Governance (ESG) investment, which involves selecting the issues of companies that prioritize initiatives toward ESG for investment, and in Japan as well, it seems there is plenty of room for growth in this area. In this sense, at FISCO, we think it is highly likely that attention will be focused on the Company that is actively working on environmental and social contribution activities.

Shareholder returns policy

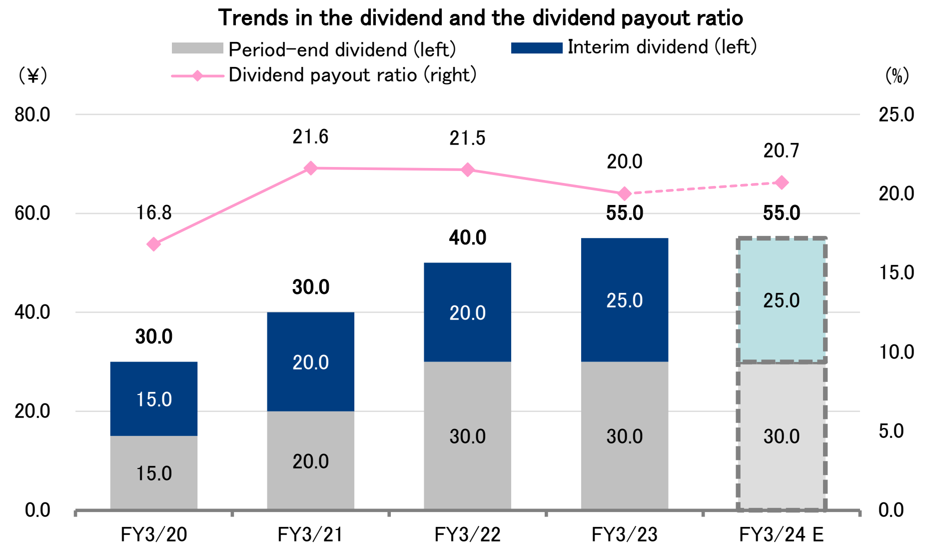
Stably continues to pay a dividend while striving to achieve a financial strategy that addresses growth and financial soundness

The Company aims to achieve sustainable growth through realizing a financial strategy that addresses growth and financial soundness. It intends to maintain a healthy capital level and plans to continue making necessary investments in future growth and to invest in R&D, M&A and alliances, personnel training, and other areas. In shareholder return, meanwhile, the Company's basic policy is paying stable and continuous dividends that reflect its financial condition and earnings.

In FY3/23, the Company increased the dividend per share by ¥5 YoY and paid an annual dividend of ¥55 (interim dividend of ¥25, period-end dividend of ¥30), and the dividend payout ratio was 20.0%. In FY3/24, the Company is planning to pay an annual dividend per share of ¥55, the same as the previous year (interim dividend of ¥25, period-end dividend of ¥30), and expects a dividend payout ratio of 20.7%. In FY3/22, the average dividend payout ratio of the telecommunications industry companies on the TSE 1st section was 84.0%, which was a significant increase from the 18.8% in FY3/21, but this was largely due to the impact of the 76.6% YoY decline in net income. Meanwhile, the Company continues to pay a dividend based on a stable dividend payout ratio, and continues to increase its dividend in conjunction with the upward trend in both net sales and profit.

The Company is aiming to further expand its business scope to reach net sales on a scale of ¥50bn, and in this process, it may invest funds in M&A and alliances with other companies. Therefore, rather than significantly increasing the dividend, it is looking to prioritize business expansion for the future and is aiming to maintain and improve its competitiveness. On the other hand, it has continued to stably pay a dividend even amid the harsh business environment, so it can be evaluated for its managerial decision to consider profit returns to shareholders. The Company's FY3/24 dividend forecast is based on its conservative results outlook, so at FISCO, we think it may increase the dividend depending on the final results.

In April 2022, the Company's listing was transferred to the Prime Market in accordance with the TSE's new market categories. It intends to continue to strengthen governance and enhance information disclosure, and to work to achieve sustainable corporate growth and to improve corporate value.



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

Information security policy

Implements measures based on the Information Security Basic Policy

The Company has defined the Information Security Basic Policy in April 2009 to ensure the confidentiality, completeness, and availability of the information assets that it holds and maintains in the course of conducting its businesses, and to satisfy the trust placed in it by society. It is working to construct, maintain and improve a more advanced information security management system.

In conducting its businesses, the Company Group handles a lot of customer data, so it pays close attention to data management. In particular, its data centers, which accept systems and other assets from many customers, have acquired ISMS (Information Security Management Systems) certification and conduct highly reliable and safe operations. In addition, they are continuously implementing a range of measures such as PC encryption, unauthorized access monitoring, e-learning education for employees, and training for targeted attacks. The policy is to continue to further strengthen measures to prevent data from leaking out in the event of an unauthorized access.

Disclaimer

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp