COMPANY RESEARCH AND ANALYSIS REPORT

IID, Inc.

6038

Tokyo Stock Exchange Growth Market

12-Oct.-2023

FISCO Ltd. Analyst
Yuzuru Sato

FISCO Ltd.
https://www.fisco.co.jp

Index

Summary

Seeking to achieve a double-digit annual rate of growth through a media portfolio strategy and revenue diversification

IID, Inc. <6038> (hereinafter "the Company") operates two business segments: the Creator Platform Business (CP Business), which involves managing online media content, and the Creator Solutions Business (CS Business), which involves providing research and e-commerce solutions. The CP Business accounts for approximately 90% of the Company's net sales and encompasses operations that include online advertising, data and content delivery (including e-commerce merchandise sales), media and systems, and publishing business. The Company operates 79 online media websites spanning a diverse range of 21 content categories that include automotive, IT, entertainment, and lifestyles (as of June 30, 2023). It also turns to mergers and acquisitions in promoting its media portfolio strategy of seeking not to rely on specific forms of media and its 360-degree business approach of diversifying revenue rather than relying solely on online advertising income.

1. Outline of results for FY6/23

In FY6/23 consolidated results, net sales increased 8.9% year on year (YoY) to ¥6,072mn, while operating profit decreased 10.8% to ¥568mn. The Company's net sales set consecutive all-time highs as a result of its efforts to actively promote M&A, which have included taking ownership of multiple specialized media channels in addition to having made FIT Pacific, Inc. (FIT Pacific)*, which engages in the automotive-related business, a consolidated subsidiary following acquisition of its shares in November 2022. Despite operating profit having decreased due to a downturn in online advertising income as well as the Company's recording of M&A-related expenses and other such outlays, EBITDA has continued to increase, having gained 0.5% YoY and the outlook envisioning an ongoing trend of revenue growth occurring over the last several years remains unchanged. The Company warrants positive assessment in terms of its M&A initiatives having resulted in it relying less on online advertising (online advertising has decreased to 27.3% of the sales mix from 31.5% in the previous fiscal year) and its diversification of revenue.

* FIT Pacific engages in business related to vehicle crash testing, cable and facility management business, etc. Meanwhile, it recorded net sales of ¥686mn and operating profit of ¥58mn in FY3/22. The Company holds a 90.1% ownership stake in FIT Pacific as of June 30, 2023.

2. Outlook for FY6/24

For FY6/24 results, the Company aims to achieve a new all-time high in operating profit for the first time in two fiscal years backed by double-digit growth in both sales and profits with net sales up 10.3% YoY to ¥6,700mn and operating profit up 14.3% to ¥650mn. Although the Company may endure sluggish growth amid a slump in online advertising in 1H FY6/24, distinct signs of recovery are likely to become apparent in 2H. In addition to FIT Pacific's financial results contributing to earnings performance throughout the entire year, the Company is also poised to encounter ongoing growth in subscriptions services such as those of the Response, which is Japan's largest automotive information media platform, and its investment information media platforms. The growth in both sales and profits is also expected to draw support from the Company's subsidiaries such as en Factory, Inc., which operates the Fukugyo Ryugagu intercompany learning service for enterprises, and SAVAWAY Corp., which engages in e-commerce support business. The Company also expects to encounter positive effects of productivity gains achieved by making use of generative AI particularly in content production and editing processes.

3. Mid-term targets

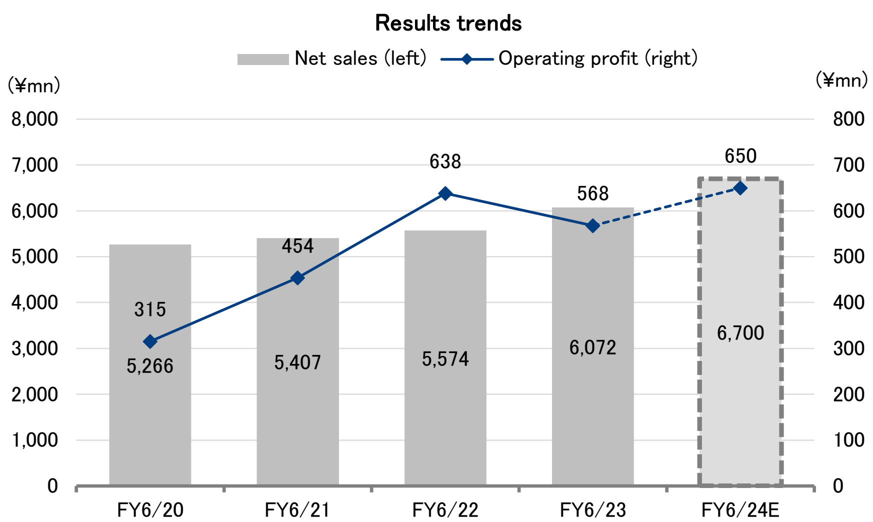
The Company has set mid-term results targets for net sales of ¥10.0bn and EBITDA (operating profit + depreciation + amortization of goodwill) of ¥1.2bn in FY6/26 (FY6/23 results of ¥717mn). As the online media market becomes increasingly diverse in line with evolution of the internet, the Company has established a strategy of accelerating growth in that market by promoting M&A strategies and revenue diversification. The Company's priority content categories consist of the education, finance and entertainment domains, in addition to the automotive domain where new business opportunities are expected to emerge due to growth of the MaaS*1 market and proliferation of EV, autonomous driving and other technologies. In the entertainment domain, future prospects have been drawing interest as the Company is beginning to see an increase in business involving its Entame Print service*2, which can be applied to new approaches for entertainment promotions.

*1 Mobility as a Service (MaaS) refers to services that optimally combine multiple forms of public transportation and other mobility services aligned with mobility needs on a trip-by-trip basis for individual community residents and travelers in providing them with a range of features that include performing searches, arranging bookings, and making payments. Such services are integrated with destination-specific services beyond those involving transportation, including tourism and healthcare services, thereby making such services an important means of enhancing mobility convenience and addressing locally-based challenges.

*2 The Entame Print service, available through the use of multifunction copy machines installed at convenience stores, enables users to purchase and print various types of content including photo cards featuring anime characters, voice actors, and video game images. The service can be used as a promotional tool for products involving intellectual property including picture cards bundled with advance-purchase movie tickets.

Key Points

- In FY6/23, net sales set a new all-time high, yet profit decreased amid factors that include a downturn in online advertising income and recording of M&A-related expenses
- In FY6/24, aims for double-digit growth in both sales and profits by promoting revenue diversification
- Seeks to achieve net sales of ¥10.0bn and EBITDA of ¥1.2bn in FY6/26 amid an ongoing double-digit annual rate of growth
- Dividends paid consistently on an ongoing basis at a rate of 1.5% of consolidated shareholders' equity while option of stock buybacks considered as appropriate



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

Business description

Expansion of both the CP Business focused on managing online media content and the CS Business of providing research and e-commerce solution services

1. Company profile

The Company operates two business segments: one of which is the Creator Platform Business (CP Business), which entails offering various services including online advertising and e-commerce merchandise sales with a focus on operating its own media platforms in seeking to produce a world where everyone is able to engage with media; and the other of which is the Creator Solutions Business (CS Business), which entails providing research and e-commerce solutions. Since its establishment in 2000, the Company has been expanding its business operations while promoting its M&A strategy. As of the end of FY6/23, the Company has five consolidated subsidiaries (en Factory, Inc., Onlineshop Labo, Inc., Michael Inc., SAVAWAY Corp., FIT Pacific, Inc.) with a combined workforce of 276 employees (including temporary workers).

2. Business description

(1) Creator Platform Business (CP Business)

The CP Business segment primarily generates net sales from online advertising streamed through online media platforms operated by the Company, media content, and data billing and sales (including e-commerce merchandise sales). For this reason, the extent to which the segment is able to efficiently improve media value of the online media platforms in terms of numbers of unique users (UU) serves as the key to the segment increasing its revenues. The segment also encompasses operations that include developing and providing systems related to media and e-commerce, engaging in the publishing business, as well as the automotive and IT-related businesses of FIT Pacific, which became a subsidiary in November 2022.

The portfolio of online media platforms operated by the Company has been expanding year after year, with the segment operating 79 websites spanning 21 content categories as of June 30, 2023, which is an increase of 4 websites compared to the end of FY6/22. A distinguishing aspect of the segment is that it operates websites encompassing a wide range of content categories including the automotive and IT, entertainment, lifestyles, and the e-commerce domains. One such website is the Response online media platform in the automotive domain, which is Japan's largest comprehensive automotive news media platform and holds a central position among the online media platforms operated by the Company. The segment's publishing business primarily involves issuing magazines in the puzzle and anime domains and coordinating with online media.

(2) Creator Solutions Business (CS Business)

In its CS Business, the Company offers research solutions and e-commerce solutions. Sales to the automotive and telecommunications sectors account for the bulk of sales related to research solutions. Meanwhile in the realm of e-commerce solutions, the segment offers the marbleASP e-commerce website development system to e-commerce providers. Characterized by their low cost, short lead times, and high scalability, these services are suitable for e-commerce websites with membership counts ranging from hundreds of thousands of users.

Strengths derived from system developed in-house for efficiently managing online media content

3. Features and strengths

(1) IID-CMP

A key strength of the Company derives from its in-house development of its IID-CMP platform (IID content marketing platform) for efficiently managing the many online media platforms and high volume of content handled in the CP Business. The IID-CMP platform makes it possible for users to monetize online media in the early stages, enlisting the platform's four key features as follows. The IID-CMP platform enables: 1) achievement of higher sales using tools for generating substantial website engagement (SEO strategies, SNS compatibility, prompt web page rendering, optimal usability and user experience for smartphones and other devices, etc.), 2) cost optimization through low-cost operations (shared system usage and CPU resource distribution, standardization of formats in which news articles are furnished to portal websites, joint operation of optimal network advertising and affiliate advertising, etc.), 3) database storage and management (big data management enlisting data acquired from website content), and 4) streamlined editing enlisting content management functions (posting of news articles and photos online, content proofing and similarity assessment).

(2) M&A Strategy

The Company is actively proceeding with efforts to acquire online media content through M&A. This entails ongoing consideration of around five websites as potential M&A opportunities using the personal networks of the Company's management team when it comes to primary channels for gaining information. When making a business acquisition, management draws up a plan consisting of a target investment payback period of approximately five years. Meanwhile, the prospect of achieving profitability within two years post-acquisition serves as a key benchmark for assessing business continuity. As of June 2023, the Company has acquired a total of 73 online media content websites by means including capital investment. Some 74% of those websites remain in operation given that 19 of the websites have been discontinued. The total acquisition cost of the websites, including the discontinued websites, amounts to ¥2,164mn, which equates to an average acquisition cost of ¥29mn per website. Moreover, the Company has 42 websites that were developed in-house (of which 17 have been discontinued). Use of the IID-CMP platform has enabled the Company to lower costs, increase sales, and monetize nearly all of the websites in which it is involved. The Company has been encountering an increasing number of instances where a counterparty expresses interest in initiating sales negotiations thanks to the Company's track record of over 20 years of managing online media platforms and successfully arranging mergers and acquisitions. Accordingly, the Company's strengths lie in its expertise for identifying promising media platforms among potential opportunities and being able to determine suitable sales prices.

In addition, the Company has also been engaging in strategic investment with the aim of forming business alliances in new fields of business. The investments have included note inc. <5243>, which operates a platform called "note" for creators, Campingcar Inc., which develops sharing economy services in the MaaS domain, and Jigowatts Inc., which engages in business involving virtual keys. In June 2022, the Company invested in Arriba Studio PTE. LTD. (Singapore), an accelerator that supports startups in the Web3/NFT domain. Going forward, the Company intends to spur growth of its own media platforms by collecting cutting-edge information through Arriba Studio and concurrently seeking business alliances with prominent Web3 startups within Japan and abroad.

Results trends

In FY6/23, net sales set a new all-time high, yet profit decreased amid factors that include a downturn in online advertising income and recording of M&A-related expenses

1. Outline of results for FY6/23

In FY6/23 consolidated results, net sales increased 8.9% YoY to ¥6,072mn, operating profit decreased 10.8% to ¥568mn, ordinary profit decreased 11.3% to ¥566mn, and profit attributable to owners of parent decreased 37.8% to ¥280mn. Net sales reached an all-time high again in FY6/23 due to an increase in sales in the CP Business along with the effects of M&A, which offset the decline in sales of the CS Business. The results were bolstered by the addition of FIT Pacific as a subsidiary in November 2022 and other M&A results, in addition to the onset of the results of initiatives involving the Company's media portfolio strategy of not relying on specific forms of media and its 360-degree business approach of diversifying revenue rather than sole reliance on online advertising income. Despite the decrease in operating profit, EBITDA once again marked an all-time high with an increase of 0.5% to ¥717mn, which was primarily attributable to factors that include the Company having recorded ¥39mn in advisory expenses related to its acquisition of FIT Pacific and it having incurred higher amounts for depreciation and amortization of goodwill (increase of ¥72mn YoY). The EBITDA margin decreased mainly due to a change in the sales mix partially as a result of the Company having made FIT Pacific a subsidiary. The substantial decrease in profit attributable to owners of parent on a percentage basis was due to effects of the Company having recorded an ¥84mn impairment loss related to its managed media platforms under extraordinary loss.

Consolidated results for FY6/23

(¥mn)

	FY6/21			FY6/22			FY6/23		
	Results	YoY	% of sales	Results	YoY	% of sales	Results	YoY	% of sales
Net sales	5,407	2.7%		5,574	3.1%		6,072	8.9%	
Operating profit	454	44.1%	8.4%	638	40.4%	11.4%	568	-10.8%	9.4%
Ordinary profit	464	67.2%	8.4%	638	37.6%	11.5%	566	-11.3%	9.3%
Profit attributable to owners of parent	464	346.5%	8.6%	450	-3.0%	8.1%	280	-37.8%	4.6%
EBITDA*	550	28.4%	10.2%	713	29.7%	12.8%	717	0.5%	11.8%

* EBITDA = operating profit + depreciation + amortization of goodwill
Source: Prepared by FISCO from the Company's financial results

(1) CP Business

Net sales of the CP Business increased 13.2% YoY to ¥5,431mn, while operating profit decreased 8.8% to ¥440mn. As of the end of FY FY6/23, the Company operates 79 websites, which constitutes an increase of 4 websites relative to the end of FY6/22 upon the Company having launched operations of two websites as a result of its business development efforts in addition to business acquisitions of multiple websites including the new IRnote.com media platform for business professionals. In addition, the Company made FIT Pacific a subsidiary in November 2022. Sales of FIT Pacific amount to somewhere between ¥600mn and ¥700mn annually, of which approximately 50% are attributable to the vehicle crash testing services business provided at the Tsukuba Technical Center owned by FIT Pacific. FIT Pacific also engages in the cable and facility management business, which involves providing, operating, and maintaining data center equipment and management systems with respect to power sources and networks.

Since becoming a part of the IID Group, FIT Pacific now seeks to develop new customers by enhancing its ability to disseminate information in serving as a “Labo” unit that conducts its own testing and evaluations of safety, security, and comfort in terms of suitability with respect to the new mobility environment in the CASE and MaaS era. Moreover, it seems likely that FIT Pacific will be able increase the size of its business in part by providing services that entail evaluating the safety and reliability of overseas EV manufacturers seeking to enter the Japanese market. Going forward, FIT Pacific is likely to upgrade its data center facilities in Japan and may also pursue expansion of its cable and facility management business.

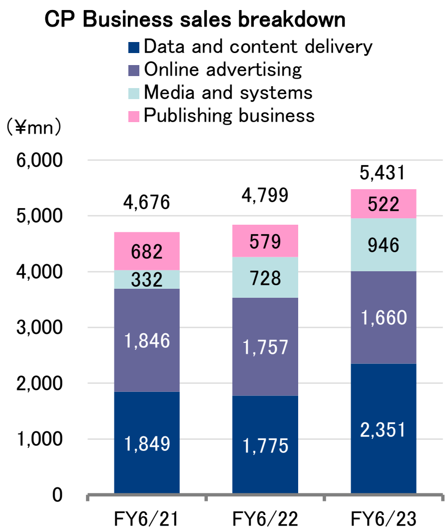
Turning to the breakdown of net sales in the CP Business, the segment’s online advertising sales decreased 5.5% YoY to ¥1,660mn due to factors that include various regulations imposed on programmatic advertising and a downturn in per-unit rates for advertising. Sales in data and content delivery increased significantly by 32.5% to ¥2,351mn. The primary factors attributable to this increase include synergies achieved upon having made FIT Pacific a subsidiary as well as steady growth in paid subscription services, such that include the Response comprehensive automotive news website with its over 15,000 registered members (including free memberships), and the IRnote.com media platform. Annual recurring revenue (ARR) from subscription services as of June 2023 appears to have achieved growth of around 40% YoY. A contributing factor underpinning the growth in ARR is that en Factory has gained an increasing number of mainly large corporate clients who use its Fukugyo Ryugagu intercompany training service*1, although the amount of sales in that regard is modest. Sales in media and systems increased 29.9% to ¥946mn. The gain in sales is partially attributable to a situation where SAVAWAY made progress in expanding its network of partners*2 with respect to its TEMPOSTAR system that allows for centralized management of multiple e-commerce shops, and also attributable to the cable and facility management business of FIT Pacific. Publishing business sales decreased 9.8% to ¥522mn amid adverse effects of high costs along with an ongoing scenario of recoiling stay-at-home demand.

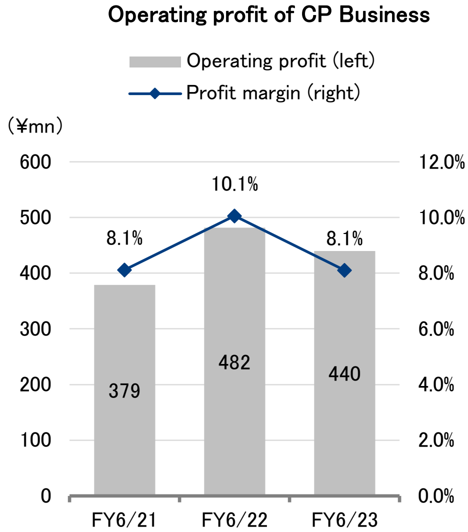
*1 The Fukugyo Ryugagu intercompany learning service involves placing company employees within venture enterprise host companies for a period of around two to three months for the purpose of enabling such employees to gain experience through secondary employment or training at such venture enterprises with the aims of employee reskilling and other forms of professional development, providing them with growth opportunities, and encouraging self-sufficiency. The service enlists the Teamlancer Enterprise intercompany platform to create a continuous cycle of learning by sharing details of participant activities with their organizations. The service offers potential benefits not only to participating employees but also to enterprises hosting such employees in that, by making use of external talent, these enterprises may be able to pinpoint solutions to its challenges. So far, a cumulative total of 120 employees from 25 companies have enrolled in the Fukugyo Ryugagu service, which has more than 250 registered venture enterprises.

*2 SAVAWAY embarked on service partnerships with the d shopping services of NTT DOCOMO, INC.in October 2022, with ebismart and other services of Interfactory, Inc. <4057> in December 2022, and the BASE service of BASE, Inc. <4477> in April 2023.

Operating profit in the CP Business decreased primarily due to factors that include a downturn in online advertising sales, recording of advisory expenses incurred in the course of carrying out M&A initiatives, and increases in depreciation and amortization of goodwill. The operating margin consequently fell 8.1% from 10.1% in the previous fiscal year. EBITDA increased again by 5.5% YoY to ¥575mn.

Results trends

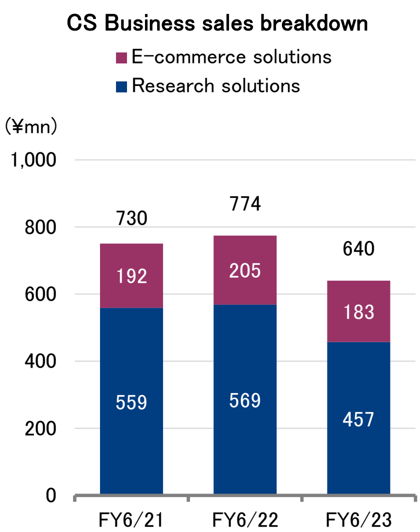


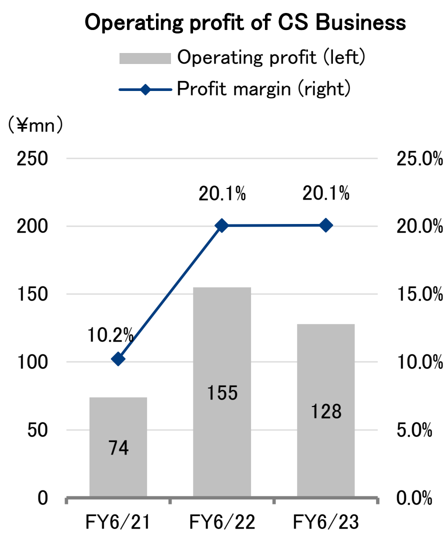


Note: Excludes intra-segment transactions
Source: Prepared by FISCO from the Company's earnings presentation materials

(2) CS Business

Net sales of the CS Business decreased 17.3% YoY to ¥640mn and operating profit decreased 17.2% to ¥128mn. Turning to a breakdown of net sales in the CS Business, the segment's research solutions sales decreased 19.7% to ¥457mn and its e-commerce solutions sales decreased 10.7% to ¥183mn. Whereas the Company seeks orders with a focus on profitability in the CS Business, the segment incurred a decrease in both sales and profits due to having received fewer orders involving major business than in the previous fiscal year. However, the Company aims to keep the profit margin at its current level of 20.1% going forward, which is on par with the previous fiscal year.





Note: Excludes intra-segment transactions
Source: Prepared by FISCO from the Company's earnings presentation materials

In FY6/24, aims for double-digit growth in both sales and profits by promoting revenue diversification

2. Outlook for FY6/24

For FY6/24 result, the Company aims to achieve new all-time highs in terms of net sales, operating profit, and ordinary profit (the forecasts do not account for effects of M&A initiatives to be carried out during the fiscal year). It accordingly forecasts double-digit growth in both sales and profits, with net sales of ¥6,700mn for an increase of 10.3% YoY, operating profit of ¥650mn for a gain of 14.3%, ordinary profit of ¥650mn up 14.7%, and profit attributable to owners of parent of ¥410mn for an improvement of 46.3%.

Outlook for FY6/24

(¥mn)

	FY6/23 results	FY6/24	
		Forecast	YoY
Net sales	6,072	6,700	10.3%
Operating profit	568	650	14.3%
Ordinary profit	566	650	14.7%
Profit attributable to owners of parent	280	410	46.3%

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

The Company seeks expansion with respect to its fields of business by actively engaging in M&A and developing its businesses amid ongoing uncertainties ahead in the market environment characterized by slowing consumption due to rising prices, tensions between the U.S. and China, and the invasion of Ukraine. The Company aims to achieve consistent and sustained growth by diversifying the business models in each of its fields of business. In its mainstay CP Business, the Company foresees challenging circumstances in online advertising and deems that publishing business sales will remain at a level on par with that of the previous fiscal year. Nevertheless, the Company anticipates growth in both sales and profits due to factors that include operations of FIT Pacific contributing to financial results throughout the year, gains in subscription services, and growth of its subsidiaries such as SAVAWAY and en Factory. In the CS Business, the Company aims to secure higher profits through ongoing efforts to bring in orders with a focus on profitability.

The Company launched its new IID AIrticle Lab AI-focused team in FY6/24, with specialist engineers having been assigned to the team as it embarks on initiatives related to applying generative AI in business operations. Specifically, the team has started applying generative AI to tasks that include news information gathering, content creation, and editing processes. It is also optimizing advertising placement and streaming. In particular, the adoption of generative AI in content creation and editing processes will hopefully lead to increased productivity. Some 29% of the Company's workforce is employed in the content creation and editing units.

The Company is engaging in initiatives to diversify revenue enlisting the 360-degree business approach. In the automotive domain, this entails promoting media partnerships both with the Response business information website and with CARTUNE, Japan's largest automotive community website. In the education domain, this entails addressing increasing preferences for private schools by holding in-person academic advising events and has been strengthening its partnerships with the ReseMom education information website for parents and guardians and with the ReseEd education information website for education professionals. In the entertainment domain, this entails redoubling efforts involving the Entame Print service which can be applied as a promotional strategy enlisting intellectual property. In the gaming domain, the Company has started serving as a publisher in offering remastered versions of older titles and has plans to make more even titles available going forward.

Seeks to achieve net sales of ¥10.0bn and EBITDA of ¥1.2bn in FY6/26 amid an ongoing double-digit annual rate of growth

3. Mid-term targets

In its mid-term plan released in August 2021, the Company presented targets for achieving net sales of ¥10.0bn and EBITDA of ¥1.2bn in FY6/26, the final fiscal year of the plan. The Company projects average annual rates of growth from FY6/24 onward of 18% for net sales and 19% for EBITDA. The Company envisions a future of the internet market characterized by a growing creator economy where anyone will be able to generate income as a media content creator due to use of blockchain technology in ensuring trust within the creator economy. The Company seeks to serve this market enlisting a strategy of tapping growth opportunities by providing platforms and solutions for supporting users in their efforts to monetize media content.

Under its business strategy, the Company aims to achieve sustained growth by actively engaging in M&A initiatives and developing business centered on its CP Business. This will furthermore entail efforts for expanding its scope of business fields and diversifying its revenue structure while increasing its number of media platforms specialized in niche fields. With respect to M&A, the Company is setting its sights on larger merger and acquisition deals than it has in the past in part because it has managed to strengthen its financial base. In seeking to diversify its revenue structure, the Company is enlisting a 360-degree strategy of expanding in all directions including not only online advertising but also merchandise sales through media platforms, subscription services, consulting services for enterprises based on specialized knowledge and user research, and assistance in managing e-commerce and media operations. In so doing, the Company will develop a consistent revenue structure that is not solely reliant on online advertising.

The automotive, education, finance, and entertainment domains serve as the Company's key markets. In the automotive domain, the Company's efforts include promoting its IID 5G Mobility initiatives for facilitating the mobility revolution, which entails helping venture companies with respect to tapping business opportunities in terms of creating new businesses involving the concepts of MaaS, autonomous driving, and EVs. The Company aims to provide solutions for mobility services that are aligned with the era of EVs. This entails engaging in initiatives involving the Virtual Key, which serves as a system that turns a smartphone into a car key and was jointly developed with Jigowatts, the Company's partner since 2018. This also entails efforts to expand its electric vehicle charging station business.

In the education domain, the Company seeks to address the needs of private schools, kindergartens, daycare centers, international schools and other institutions by holding student recruitment events in conjunction with ReseMom, which has grown into one of Japan's leading education information media platforms. In the e-commerce domain, the Company seeks expansion in areas that include SAVAWAY's services which allow for centralized management of multiple e-commerce shops as well as e-commerce sales of merchandise through its managed media platforms. In the finance domain, the Company is encountering growth with respect to its online advertising and subscription services as it develops its investment-related media platforms acquired through M&A initiatives amid a prevailing trend of consumers shifting from savings to investment. The Company expects to achieve growth attributable to even greater interest with respect to investment given the introduction of new Nippon Individual Savings Account (NISA) program effective from 2024 onward. In the entertainment domain, the Company plans to develop new businesses including the Entame Print service and those that entail generating income from in-game purchases.

Shareholder return policy

Dividends paid out consistently on an ongoing basis at a rate of 1.5% of consolidated shareholders' equity while option of stock buybacks considered as appropriate

The Company paid a dividend of ¥12.0 per share according to its resolution to furnish dividends that serve as shareholder returns effective from FY6/23, based on the Company's revenue growth over the last several years and having achieved a sound financial base. The Company also enlists a policy of furnishing dividends consistently on an ongoing basis with its sights set on 1.5% dividend on equity (DOE) on a consolidated basis for the time being. As such, the Company accordingly intends to pay a dividend of ¥13.0 per share (DOE of 1.5%) in FY6/24 for an increase of ¥1.0 from the previous fiscal year.

Moreover, the Company considers the option of acquiring treasury shares as appropriate and accordingly carried out a total of three stock buybacks during the period extending from the beginning of 2023 until July (total number of shares purchased: 280,000 shares; total acquisition cost: ¥214mn). The Company considers actions to take with respect to such treasury shares from among various options that include allocating such shares to stock options, using such shares in equity swaps when carrying out M&A initiatives, or retiring such shares. Given that net assets per share amounted to ¥829 as of the end of FY6/23, one of the Company's management challenges is boosting its corporate value in terms of achieving a PBR of 1 or greater.

FISCO

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