

COMPANY RESEARCH AND ANALYSIS REPORT

I'LL Inc.

3854

Tokyo Stock Exchange Prime Market

12-May-2025

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Summary

Forecast for record-high results in FY7/25 unchanged

I'LL Inc. <3854> (hereafter, also “the Company”) is a total system solutions company that helps mid-tier and small/medium-size companies enhance their management capabilities. Under “CROSS-OVER Synergy,” a base strategy which integrates real-world and online capabilities, the Company aims to realize value creation support through BX* that not only helps enhance efficiency through DX, but also transforms backyard operations which are becoming increasingly complex day by day.

* BX is an abbreviation of backside transformation. It is a concept in which value creation is realized through transformation from the backside based on the Company's proprietary CROSS-OVER Synergy strategy.

1. Forming a virtuous cycle spiral in which increased productivity leads to higher gross profit margin

The Company operates a System Solutions Business centered on the mission-critical operation management system Aladdin Office series, as well as an Online Solutions Business (CROSS Business and Other Online Business) focused on CROSS MALL, a cloud-based software product for integrated management of multiple e-commerce websites, and CROSS POINT, a software product for the integrated management of customer and loyalty points at both real-world stores and e-commerce sites. In order to improve profitability, the Company is working to improve productivity and expand recurring net sales through an integrated production and sales system. The strategy is to form a virtuous cycle spiral that will lead to higher gross profit margins through overall improvements in quality and productivity, such as reducing customization man-hours and preventing problems before they arise by strengthening collaboration between sales and development at the order receiving stage.

2. Record-high net sales and operating profit results in 1H FY7/25

In 1H FY7/25 consolidated results, net sales increased 7.8% year on year (YoY) to ¥9,242mn, operating profit rose 1.0% to ¥2,260mn, ordinary profit was down 0.6% to ¥2,235mn, and profit attributable to owners of parent increased 3.2% to ¥1,537mn. Although results underperformed the targets in part due to an unexpectedly large decline in sales following a surge in demand for server replacement in the previous fiscal year and also due to effects of investment in sustainable growth in areas such as human resources recruitment and wage increases, both net sales and operating profit achieved record highs in terms of 1H results due to the Company having effectively tapped into DX demand from mid-tier and small/medium-size companies. Whereas the gross profit margin declined by 1.2 percentage points (pp) due to effects of higher personnel costs and cloud-related supply-side price increases, on a quarterly basis the gross profit margin rose from 54.6% in 1Q to 56.1% in 2Q in part due to effects of having increased monthly cloud usage fees.

Summary

3. Forecast for record-high results in FY7/25 unchanged

The Company has maintained its initial forecast for its FY7/25 consolidated results, projecting both sales and profit increasing to record high results. It is forecasting net sales to increase 9.4% YoY to ¥19,150mn, operating profit to grow 12.6% to ¥4,800mn, ordinary profit to rise 12.6% to ¥4,826mn, and profit attributable to owners of parent to increase 12.8% to ¥3,257mn. Whereas the Company's rates of progress in 1H toward achieving its full-year forecasts were somewhat on the low side, we at FISCO contend that the Company is positioned to achieve its full-year forecasts and deliver favorable results upon having taken into account various factors such as those as follows. For one, the Company is subject to seasonal factors whereby its results are weighted toward 2H due to accumulation of recurring net sales and growth of the engineering team. Also, the System Solutions Business has been encountering upward momentum with respect to orders. Meanwhile, the gross profit margin started to rise in 2Q due to an increase in monthly cloud usage fees that took effect in October 2024. Furthermore, the Company revised prices charged to its existing CROSS MALL customers in March 2025.

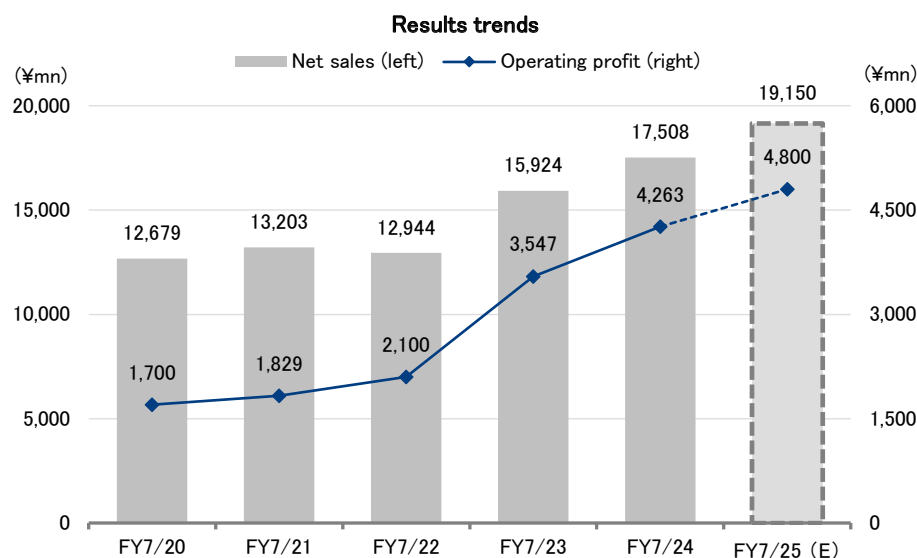
4. Aiming for an operating profit margin of over 30% in the long term

With the three-year medium-term management plan (a rolling plan encompassing FY7/25–FY7/27), formulated in September 2024, constituting the Company's third phase toward achieving its long-term target of attaining an operating profit margin exceeding 30%, the Company is promoting efforts to further strengthen its management base by accelerating investment in growth, including investments in human resources and promotions, while maintaining a double-digit annual average growth rate. The plan is premised on prospects of the Company encountering robust demand driven by multiple factors that include an order environment characterized by DX demand, a shift to open platforms with respect to office computers and other such legacy systems, and a scenario where the timing is right for system replacement given the need for contending with Japan's reduced tax rate scheme adopted in 2020 and given a surge in demand for server operating system replacement. With respect to shareholder returns, the Company has raised its dividend targets in FY7/24 with the aims of achieving a dividend payout ratio of at least 35% and dividend on equity (DOE) of at least 10%.

Key Points

- A total system solutions company supporting the enterprise capability of mid-tier and small/medium-size companies
- Record-high net sales and operating profit results in 1H FY7/25
- Forecast for record-high results in FY7/25 unchanged
- Aiming for an operating profit margin of over 30% in the long term and strengthening shareholder return
- Recognized for upward trend in profitability

Summary



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

Company profile

A total system solutions company supporting customers' enterprise capability

1. Company profile

The Company is a total system solutions company that supports the enterprise capability of mid-tier and small/medium-size companies, which are its main customers, through various types of internally developed systems. Under CROSS-OVER Synergy, a base strategy which integrates real-world and online capabilities, the Company aims to realize value creation through BX that not only enhances efficiency through DX, but also transforms backside (back office, backyard) operations which are becoming increasingly complex day by day.

At the end of 1H FY7/25, the Company had total assets of ¥13,818mn, net assets of ¥7,354mn, an equity ratio of 53.2%, and the total number of issued shares was 25,042,528 (including 994,739 treasury shares). The Company's headquarters are located in Kita-ku, Osaka, and its offices include the Osaka Headquarters, Tokyo Headquarters (Minato-ku, Tokyo), and Nagoya Branch (Naka-ku, Nagoya). It also has research and development operations at the I'LL Matsue Laboratory (R&D center in Matsue, Shimane Prefecture). The Company also operates ICC (I'LL Career Colleges) in Osaka and Tokyo that offer individual and corporate training. The Group comprises the Company and one consolidated subsidiary (web-base. co.). Also, in June 2017, the Company invested in Sivira Inc. (additional investment made in June 2021) and concluded a capital and business alliance.

2. History

The Company was established as a sales company for office computers in February 1991, and subsequently expanded into proprietary software development and sales. It released Aladdin Office, a proprietary sales management software, in October 2004, CROSS MALL, a software product for integrated management of multiple e-commerce websites, in March 2009, and in April 2013, it released CROSS POINT, a software product for the integrated management of customers and loyalty points at both real-world stores and e-commerce sites, and in October 2022, it released BACKYARD™, a backyard platform. In terms of stocks, the Company went public with a listing on the Osaka Securities Exchange (OSE) Hercules Market in June 2007, and subsequently was listed on the OSE JASDAQ Market accompanying a merger of OSE markets in October 2010 and then on the Tokyo Stock Exchange (TSE) JASDAQ Growth Market accompanying a merger of OSE and TSE markets in July 2013. It changed to the TSE Second Section in June 2018 and moved to the TSE First Section in July 2019. In April 2022, it was moved to the TSE Prime Market as part of the TSE's market restructuring.

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Company profile

Company history

Dates	Main items
February 1991	Founded with the aim of selling office computers and developing computer software (Fukushima-ku, Osaka)
September 1993	Moved the headquarters to Noda (Fukushima-ku, Osaka)
April 1996	Started the PC school business
September 2000	Started the @VAL job openings and job seeker information site
July 2001	Opened the Tokyo Headquarters in Shimbashi (Minato-ku, Tokyo)
April 2002	Moved the headquarters to Kita-ku (Osaka)
January 2003	Started the digital business design (DBD) business
November 2003	Entered the online business
September 2004	Acquired privacy mark certification
October 2004	Released proprietary sales management software Aladdin Office
August 2005	Started the web doctor business
June 2007	Listed shares on the Osaka Securities Exchange's Hercules Market
August 2008	Opened the Nagoya Branch in Sakae (Naka-ku, Nagoya)
March 2009	Released CROSS MALL, an ASP service for integrated management of multiple e-commerce websites
October 2010	Listed shares on the Osaka Securities Exchange's JASDAQ Market accompanying a market merger by the Osaka Securities Exchange
December 2010	Moved the Tokyo Headquarters to Shibakoen (Minato-ku, Tokyo)
August 2011	Moved the Nagoya Branch to Nishiki (Naka-ku, Nagoya) Acquired web-base. co. as a subsidiary with the purchase of all shares
September 2012	Opened the Fukuoka Branch in Hakata-ku (Fukuoka) and the Sendai Branch in Aoba-ku (Sendai)
April 2013	Released CROSS POINT, a software product for integrated management of real-world stores and e-commerce customers and loyalty points
July 2013	Listed shares on the Tokyo Stock Exchange's JASDAQ Growth Market accompanying the Osaka Securities Exchange and Tokyo Stock Exchange merger
August 2015	Moved the Nagoya Branch to the Urban net Fushimi Building in Nishiki (Naka-ku, Nagoya)
November 2015	Mission-critical system Aladdin Office for Foods won the 45th Food Industrial Technical Award
March 2016	Moved the Osaka Headquarters to Grand Front Osaka Tower B in Kita-ku (Osaka)
September 2016	Mission-critical system Aladdin Office for Foods won the 19th Excellent Food Machine and Materials Prize
September 2016	Obtained ISO 27001 (ISMS) certification
May 2017	Ranked No.1 in Toyo Keizai Online's White 500 Companies Best for Female Recruits
June 2017	Invested in Sivira Inc. and concluded a capital and business alliance
October 2017	Opened I'LL Matsue Laboratory in Matsue (Shimane Prefecture) as a next-generation cloud R&D development office
June 2018	Changed the stock listing to the Tokyo Stock Exchange's Second Section
July 2019	Changed the stock listing to the Tokyo Stock Exchange's First Section
November 2019	Ended service by the @VAL job openings and job seeker information site
March 2020	Introduced in the METI Kansai Bureau of Economy, Trade and Industry's Interesting Kansai Company Examples – New Signs from Company Visits – KIZASHI
December 2020	Obtained Shopify Experts certification as a Shopify partner
June 2021	Made additional investment in Sivira
April 2022	Moved to the Tokyo Stock Exchange Prime Market as part of the TSE's market restructure
December 2022	Launched BACKYARD™, the industry's first backyard platform
March 2023	Strengthened the document approval feature of Aladdin Office, released as the optional function Aladdin Workflow
October 2023	Opened Kanda Showroom in Chiyoda-ku, Tokyo
February 2024	Received a Management level B- score in the climate change questionnaire of the CDP, an international NGO
May 2024	I'LL services approved as tools covered by METI's IT introduction subsidy 2024 (for five consecutive years since FY2020)
January 2025	CROSS MALL selected as the first certified service under the SSP Program of eBay Japan Inc.

Source: Prepared by FISCO from the Company's annual securities reports, website, and releases

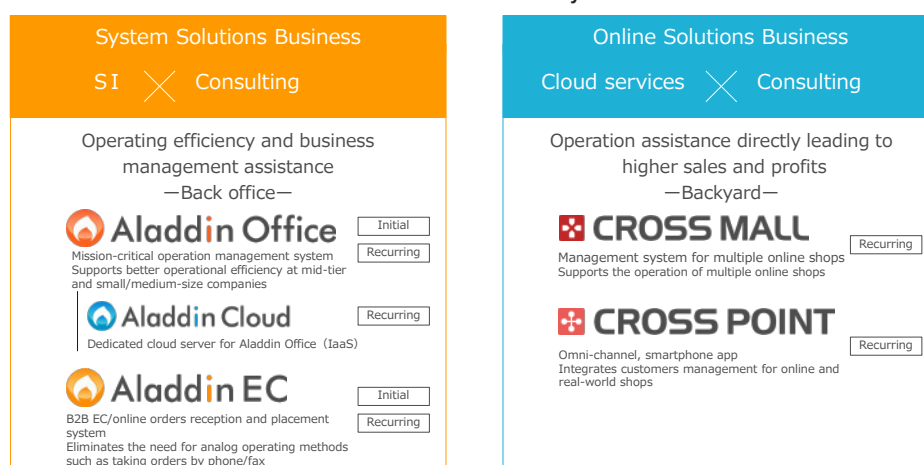
Business overview

Supporting BX through the integration of real-world and online capabilities

1. Overview of services

The Company operates the System Solutions Business with mainstay Aladdin Office series, a mission-critical operation management system series, and the Online Solutions Business (CROSS Business and Other Online Business) with its mainstay services CROSS MALL, a cloud-based software product for integrated management of multiple e-commerce websites, and CROSS POINT, a software product for integrated management of real-world store and e-commerce customers and loyalty points. It advances BX by integrating real-world and online capabilities in a way that supports the transformation of the business processes of client companies.

Main solutions and services by business



Source: The Company Information Material

(1) System Solutions Business

The System Solutions Business designs and develops mission-critical systems and handles hardware maintenance, system operation support, network construction, and security management for customer companies almost entirely on its own. It primarily supplies the mainstay Aladdin Office series, with deployments at more than 5,000 companies and offers Aladdin Shop, a store management system for the fashion industry, Aladdin EC, a B2B e-commerce platform specifically for transactions between companies, and Aladdin Cloud, a data center-based IaaS* solution. The Company also operates the ICC Osaka School and Tokyo School.

* An acronym for Infrastructure as a Service. A service that provides infrastructure such as virtual servers and networks through the internet. In Aladdin Cloud operations, Aladdin Office is carried out at a data center instead of on the client's premises, which is the conventional way.

Business overview

The Company aims to secure competitive advantages, including by developing systems that are tailored to the industries and business formats of its customer companies, conducting flexible customization, and enhancing product variations specialized for each industry. For after-sales as well, it is focusing on the recurring business that acquires recurring revenue on an ongoing basis from maintenance and operations support. In 2006, it was the first IT company to be recognized as a supporting member of the Fasteners Cooperative association of Kansai and utilizes this connection to conduct sales activities.

(2) Online Solutions Business

The Online Solutions Business comprises the CROSS Business and Other Online Business. The CROSS Business is focused on CROSS MALL and CROSS POINT. It started offering the backyard platform BACKYARD™ in November 2023.

The Other Online Business provides CROSS STAFF, a cloud-based staff management system for temporary staffing agencies (launched in 2016), B2C e-commerce platform assistance, and online marketing assistance (corporate website production and operation assistance, e-commerce websites construction assistance, customer business analysis and strategy consulting, promotions, and updates and revisions based on log analysis results after website production).

2. Main products

Below is a list of the Company's main products and leading customer deployment examples. In May 2024, the services provided by the Company were certified as tools eligible for the IT introduction subsidy 2024 provided by the Ministry of Economy, Trade and Industry (for five consecutive years since FY2020).

The mission-critical operation management system Aladdin Office series for mid-tier and small/medium-size companies supports digitalization of operation management, including sales, inventory, production, and store management, and has improved management capabilities by promoting workstyle reforms with better operational efficiency and strengthening internal compliance. Leading deployment examples include shirt and necktie firm Maker's Shirt Kamakura Co., Ltd., stocking and socks firm Fukuske Corporation, ladies' fashion firm ANAP Holdings <3189>, high-end leather shoes firm Madras Inc., functional food ingredient development and sales company Pharma Foods International <2929>, long-standing restaurant and bento box/side dish supplier NADAMAN CO., LTD., water dispenser and rental equipment delivery service operator NAC <9788>, school lunch ingredient provision organization Osaka School Lunch Association, steel trading specialist FUJIWARA STEEL MATERIALS CO.,LTD., metal processing and precision machinery component supplier SATAKE Precision Technology Co., Ltd., and specialist trader in power tools and other professional tools Into Sangyo Co., Ltd.

The Aladdin EC B2B e-commerce and online order receiving platform supports digitalization of orders reception and placement operation management between companies and internally and stronger sales through workstyle reforms with better operational efficiency and differentiation from other companies. Leading deployment examples are food trading firm PRECO GROUP (group led by PRECO FOODS CORPORATION), alcohol and alcohol-related product sales firm SUNTORY MARKETING&COMMERCE LIMITED, furniture and interiors manufacturer FRANCE BED CO.,LTD., producer and distributor of steamed chicken and other processed foods AMATAKE Co., Ltd. commissioned meal service and foodstuff distributor HITOWA Food Service Co., Ltd., cosmetics and beauty and health devices and goods firm Comfort Japan Inc., hair care product company Techno-Eight, dairy product and Western confectionery firm Kurokawa Co., Ltd., bicycle firm RITEWAY (Riteway Products Japan), men's and ladies' apparel company GUEST LIST Co., Ltd., medical equipment seller SHEEN MAN CO., LTD.

Business overview

The CROSS MALL software product for integrated management of multiple e-commerce websites handles integrated management of multiple online shops, including online marketplaces and e-commerce platforms, and boosts sales through workstyle reforms with better operational efficiency and reinforced e-commerce initiatives. Leading deployment examples are craft beer production and sales firm YOHO Brewing Company, sporting goods sales firm Murasaki Sports Co., Ltd., sneaker shop atmos, men's fashion e-commerce business P.B.I. Co., Ltd. with the Silver Bullet brand, eco-friendly product importer and wholesale firm E.OCT Inc., and Maruhisa Co., Ltd., operator of e-commerce kimono wholesaler "Kimono Kyokomachi."

The CROSS POINT software product for the integrated management of customers and loyalty points at both real-world stores and e-commerce websites supports integrated management of real-world stores and e-commerce customers and loyalty points through development of a real-world store and e-commerce omni-channel and use of a smartphone app, etc., as well as improved sales via the omni-channel and expansion of the fan segment through enhanced branding. Leading deployment examples are shoe manufacturer and distributor REGAL CORPORATION <7938>, shirt and necktie firm Maker's Shirt Kamakura, stocking and socks firm Fukuske, babies', kids', and mothers' clothing firm BRANSHES Co., Ltd., casual ladies' clothing brand "w closet" (WEARS INC.), ladies' fashion e-commerce "flower" operator Sola Of Tokyo Co., Ltd., and bag and other apparel planning, production, and sales firm COO COMPANY LIMITED.

The backyard platform BACKYARD™ is a cloud service for supporting backyard operations, which are becoming increasingly complex day by day, across business formats such as wholesale, retail, and e-commerce, and realizes BX by not only improving operational efficiency but also by transforming from the backside (the Company started offering this service in November 2023). It has management and collaboration functions that support borderless and multiple channels, efficiency gains through automatic processing, and data fusion to achieve unified management of all backyard operations, covering not only online shops but also including all business formats. It comprises five management functions (CROSS/collaboration management, ORDER/order management, ITEM/product management, STOCK/inventory management, COMMUNICATION/customer service support), and is equipped with functions in the themes of automation, visualization, customization, and communication. By promoting communication with backyard teams and customers, it enables the realization of "ONE by 1."*

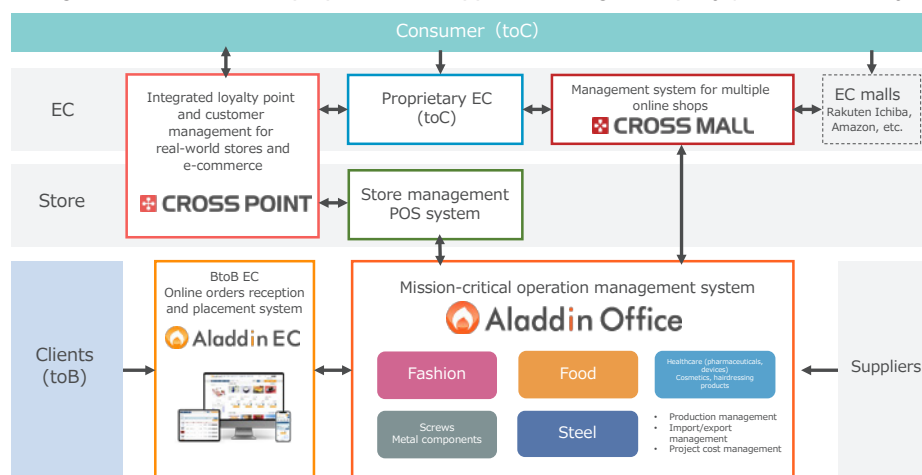
* The vision that BACKYARD™ intends to become the new standard: "Achieving a one-of-a-kind shop experience on one borderless platform."

BACKYARD™ was originally positioned as a next-generation service for CROSS MALL, but in order to respond to changes in e-commerce consumer behavior and diversifying needs, the Company is considering developing the service to cater for a wider range of industries and types of business, including large companies. Specifically, in addition to expanding the scope of companies targeted by the service from e-commerce businesses to online shop management for the online shops of retail, wholesale and manufacturing businesses, it will also work to realize borderless operational management that meets market needs by continuously expanding functions, including real-world store management for retail businesses, order receipt and placement management and sales management for wholesale businesses, and the management of customer support enquiries.

3. CROSS-OVER Synergy strategy

The Company is advancing the CROSS-OVER Synergy strategy which aims to enhance the enterprise capability of mid-tier and small/medium-size companies that require effective IT usage by developing and proposing solutions to the management challenges faced by these customers from both real-world and online perspectives. This strategy seeks realization of an “all one-stop” service that proposes a combination of mission-critical operation systems from the System Solutions Business (real-world) that support better operation efficiency and services from the Online Solutions Business (online environments) that assists reinforcement of sales capabilities and creation of stronger synergy effect. This CROSS-OVER Synergy strategy is driving an increase in customers. In FY7/24, the Company had 7,449 client companies (5,152 in the System Solutions Business and 2,297 in the Online Solutions Business). This represents an increase of approximately 17% in four fiscal years from 6,342 in FY7/20 (4,591 in the System Solutions Business and 1,751 in the Online Solutions Business). This increase is driving the growth of recurring net sales, including maintenance fees and cloud service usage fees.

Providing real-world and online proposals and support as a single company (CROSS-OVER Synergy)



Source: The Company Information Material

4. Features and strengths

The Company's main features and strengths are: (1) specialization in the mid-tier and small/medium-size company markets; (2) designated industry emphasis strategy; (3) strong sales and inventory management know-how; (4) product ecosystem strategy that realizes total solutions; (5) operations with engineers making up about 70% of employees; (6) ability to accommodate individual customization; (7) omni-channel strategy in retail business; (8) high proprietary product and service ratios; and (9) partner strategy.

(1) Specialization in mid-tier and small/medium-size company markets

The Company has delivered proprietary services that specialize in mid-tier and small/medium-size company markets since its founding. Small/medium-size companies with less than ¥5.0bn in annual sales account for roughly 90% of customer volume. In recognition of these efforts, the Company received the Special Award (Commerce and Information Policy Bureau Director-General's Award) in METI's "IT Management Awards for Small and Medium Enterprises 2011" in 2011. As a result of the strengthening of (9) partner strategy, there is an increasing trend in orders from major customers based on introductions from banks and other partners (details in later section).

(2) Designated industry emphasis strategy

Another strength is the Company's designated industry emphasis which places a heavy focus on industries with many mid-tier and small/medium-size companies in wholesale, retail, and manufacturing sectors. It forms operations with robust service and sales capabilities, including development of industry-specific systems and establishment of expert teams for individual industries, and thereby boosts new customer acquisition capabilities. Specifically, it positions apparel/fashion, food, medical/cosmetics/beauty products, screws and metal parts, and steel industries as the five main industries. It seeks to deepen market coverage with industry-specialized package software Aladdin Office series and other products. This has gone beyond the five main industries in recent years during which time there has been an increase in the number of enterprises with operations that extend to undertaking construction work in addition to engaging in sales of building materials and other such products. As a result, the Company has been attracting more orders with respect to optional project management functions of Aladdin Office for such enterprises, which became available upon upgrade of the software version in September 2022. In the future, it will also promote sales expansion to enterprises in these business categories.

(3) Strong sales and inventory management know-how

Since its founding, the Company has consistently provided sales and inventory management software that requires understanding of customer operations. It has extensive deployments and know-how in real-world and online environments for manufacturing, wholesale, retail, and other business formats and industries and sales and inventory management with different management methods for each firm.

(4) Product ecosystem strategy that realizes total solutions

The product ecosystem strategy that consists of multiple product groups is also a strength. The Company develops proprietary products and services that cover the online field of building online shops and related management assistance services, the real-world store and headquarter field of store sales management and backside inventory management, and the real-world and online integration field of integrated management of inventories and loyalty points in real-world and e-commerce operations. It also makes hybrid proposals that combine various products and realizes total solutions for customers.

(5) Operations with engineers making up about 70% of employees

As of the end of FY7/24, the composition of the Company's 921 employees (up 69 employees from the end of the previous fiscal year) on a non-consolidated basis was engineers at 73%, salespeople at 17%, and general staff at 9%. The Company places emphasis on post-system provision support too with an operation in which roughly 70% of employees are engineers. It intends to continue strengthening technology division personnel with the aim of having an organization that promotes cultivation of human resources who handle three roles (industry and operation knowhow, mission-critical systems, and online) and reinforcement of technology capabilities. Meanwhile, the Company is also promoting an environment and product development to overcome labor-intensive production.

(6) Ability to accommodate individual customization

Given differences in operation implementation methods by industries and individual cases at mid-tier and small/medium-size companies, the Company adheres to a fundamental strategy of supporting individual customization of software that meets diverse needs. Meanwhile, the number of companies capable of handling individual customization of software has been trending lower in the software development market in recent years. This shift has lowered order competition and is boosting profit margin. To further improve productivity and profit margin, the Company is also striving to minimize the amount of individual customization and provide it as an optional feature.

(7) Omni-channel strategy in retail business

In recent years, the retail industry has seen an increase in the popularity of an omni-channel strategy that integrates real-world stores and online stores and realizes an environment and distribution paths in which customers can purchase products in the same way from all channels (sales channels and customer contact points). Since the Company has commercialized integration of real-world and online environments from its founding and accumulated business know-how and a track record that was not achieved in a short period of time, FISCO thinks it possesses an advantage in advancement of omni-channel strategy in the retail industry that cannot be copied by other firms.

(8) High proprietary product and service ratios

The Company promotes sales expansion mainly for its own products and services as an important aspect of the management policy of building an income structure that does not depend on sales of other company products, such as hardware, which is readily affected by price fluctuations and has low profit margins. Its own products and services (software, operation, maintenance, membership fees, etc.) hence have a large presence at about 70% of net sales.

(9) Partner strategy

A feature of the Company is that it is also highly trusted by partners in new deal introductions and sales cooperation (banks, system integrators, IT equipment manufacturers, consultants, accounting offices, etc.). Deals introduced by partners represented 45.3% (2.6pp higher than the previous fiscal year) among new orders received by sales channel (on a value basis, FY7/24) in the System Solutions Business. In addition, inquiries via the Company's website accounted for 35.8% (2.3pp lower) of new orders, while acquisitions through internal sales were 18.9% (0.3pp lower). An increase in the percentage of pull-type sales, including inquiries through partner referrals, is leading to more efficient sales activities. There is also an increasing trend in orders received from major customers based on introductions from banks and other partners, which has led to an overall rise in unit sales prices on orders received.

As a result of these business consulting capabilities based on thorough knowledge of different industries and types of work, as well as the partner strategy, the System Solutions Business's competitive tender victory rate of FY7/24 was 85.7% and the repeat customer rate was 98.4%, which can be said to show the height of its competitive advantages. Additionally, the Company has been making progress in differentiating itself from its competitors amid an increase in volume of business involving the requirements definition phase brought about by shifting from functional proposals of conventional system integrators to consultative proposals.

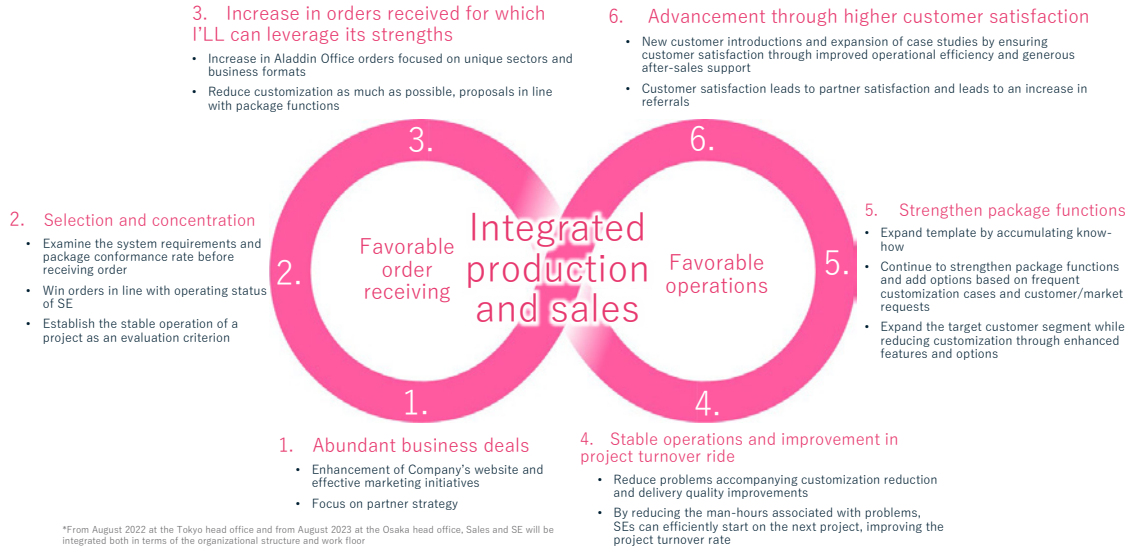
5. Forming a virtuous cycle spiral in which increased productivity leads to higher gross profit margin

In an aim to improve profitability, the Company is working to improve productivity and expand recurring revenue sales through an integrated production and sales system (integration of sales team and systems engineers). The strategy is to form a virtuous cycle spiral that will lead to higher gross profit margins through comprehensive improvements in quality and productivity, including efforts to reduce customization man-hours and prevent problems ahead of time through reinforced collaboration between sales and development teams at the orders stage. Also, in addition to enhancing collaboration through the integration of sales and support (system sales and system support), the Company is supporting individual customization as a fundamental strategy, while at the same time continually improving its gross profit margin through measures such as expanding orders by strengthening packaged functions and adding options, and shortening lead times with enhanced quality and productivity.

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Business overview

Profit improvement for continuous growth and virtuous cycle spiral



Source: The Company Information Material

As a result of the above, net sales are on an increasing trend, while the gross profit margin has also been rising. In comparison to FY7/20, in FY7/24 net sales increased 38.1%, while the gross profit margin rose 11.1pp from 44.7% to 55.8%. Notably, the gross profit margin of the System Solutions Business increased 12.2pp from 44.3% to 56.5%, which drove the overall increase in the gross profit margin. Within the Online Solutions Business, the gross profit margin of the CROSS Business remained mostly flat, rising from 57.8% to 58.0%. This was due to increased development-related costs for BACKYARD™. Going forward, the Company expects the gross profit margin to increase in tandem with the expansion of recurring net sales.

Recurring net sales rose 72.9%, while gross profit from recurring business increased by 81.1%. As a result, the coverage ratio for SG&A expenses against gross profit from recurring business increased from 59.4% to 77.4%, which means that the Company now has a profit structure that can cover about 80% of SG&A expenses with gross profit from recurring business. Going forward, the Company is aiming for a 100% coverage ratio for SG&A expenses against gross profit from recurring business. The ratio of recurring net sales and the ratio of gross profit from recurring business declined in FY7/23, but this was due to a temporary factor in the System Solutions Business, which was the emergency demand for hardware devices accompanying the termination of server maintenance by manufacturers. The overall gross profit margin is continuing to rise as the Company seeks to uncover demand for software modifications and updates and proposes migration to cloud services. Furthermore, the gross profit margin on recurring business is in the high 50% range.

Business overview

Results trends by business

	FY7/20	FY7/21	FY7/22	FY7/23	FY7/24
(¥mn)					
Net sales	12,679	13,203	12,944	15,924	17,508
System Solutions Business	11,167	11,505	11,036	13,857	15,339
Online Solutions Business	1,512	1,698	1,907	2,067	2,168
CROSS Business	984	1,186	1,385	1,521	1,634
Other Online Business	527	512	522	546	534
Gross profit	5,664	6,137	6,738	8,682	9,773
System Solutions Business	4,951	5,298	5,775	7,659	8,659
Online Solutions Business	713	838	962	1,022	1,113
CROSS Business	569	667	792	849	948
Other Online Business	143	171	170	172	165
Gross profit margin	44.7%	46.5%	52.1%	54.5%	55.8%
System Solutions Business	44.3%	46.1%	52.3%	55.3%	56.5%
Online Solutions Business	47.2%	49.4%	50.4%	49.4%	51.3%
CROSS Business	57.8%	56.2%	57.2%	55.8%	58.0%
Other Online Business	27.1%	33.4%	32.6%	31.5%	30.9%
Recurring net sales	4,172	4,803	5,576	6,290	7,212
Ratio of recurring net sales	32.9%	36.4%	43.1%	39.5%	41.2%
Gross profit from recurring business	2,354	2,791	3,304	3,682	4,264
Ratio of gross profit from recurring business	41.6%	45.5%	49.0%	42.4%	43.6%
Gross profit margin from recurring business	56.4%	58.1%	59.3%	58.5%	59.1%
SG&A expenses	3,964	4,307	4,637	5,134	5,509
Coverage ratio for SG&A expenses against gross profit from recurring business	59.4%	64.8%	71.3%	71.7%	77.4%

Note: Results for FY7/21 and prior periods have been retrospectively adjusted due to a change in accounting standards from FY7/22. There has been no change to net sales and gross profit

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

6. Strengthening collaborations with business partners

The Company is pushing ahead in strengthening collaborations with business partners across various fields as an initiative to drive sales growth and profit expansion. Collaborations in FY7/25 were as follows. In January 2025, CROSS MALL was selected as one of the first three certified services under the Selected Service Provider Program (SSP Program) launched on December 13, 2024, by eBay Japan Inc., to furnish support to Japanese sellers (vendors) involved in cross-border e-commerce (overseas sales) on the eBay platform, the world's largest online marketplace. In March 2025, CROSS MALL embarked on collaborations involving information on orders, shipments, and inventories with JAL Mall, which serves as the official comprehensive online shopping mall operated by JALUX Inc.

7. Risk factors as well as issues and countermeasures

General risks in the information systems and services industry include competition for orders, longer development periods accompanying increasingly larger projects, individual projects becoming unprofitable, delays in addressing technological innovations, securing human resources, and other factors. In the Company's case, however, since it mainly develops and sells package software, there is less risk of incurring losses on individual projects compared to system development companies that primarily handle consigned development work. On the other hand, the Company encounters profit margin setbacks from increases in process steps for customization because it pursues differentiation from rivals through the provision of flexible customization suited to customers. It is addressing this challenge by promoting productivity improvement through an integrated production and sales system.

Results trends

Record-high net sales and operating profit results in 1H FY7/25

1. Overview of consolidated results for 1H FY7/25

In the 1H FY7/25 consolidated results, net sales increased 7.8% YoY to ¥9,242mn, operating profit rose 1.0% to ¥2,260mn, ordinary profit was down 0.6% to ¥2,235mn, and profit attributable to owners of parent increased 3.2% to ¥1,537mn. Although results underperformed the targets (initial targets released on September 6, 2024: net sales of ¥9,333mn, operating profit of ¥2,356mn, ordinary profit of ¥2,367mn, and profit attributable to owners of parent of ¥1,595mn) in part due to an unexpectedly large decline in sales following a surge in demand for server replacement in the previous fiscal year and also due to effects of investment in sustainable growth in areas such as human resources recruitment and wage increases, both net sales and operating profit achieved record highs in terms of 1H results as a result of the Company having effectively tapped into DX demand from mid-tier and small/medium-size companies. Recurring net sales rose 14.9% to ¥4,015mn, gross profit from recurring business increased 12.2% to ¥2,337mn, gross profit margin on recurring business decreased 1.4pp to 58.2%, and the coverage ratio for SG&A expenses against gross profit from recurring business increased 2.1pp to 81.8%. Despite gross profit margin on recurring business having edged down slightly, the coverage ratio for SG&A expenses against gross profit from recurring business exceeded 80% due to higher monthly maintenance fees associated with a shift to larger systems projects and greater adoption of cloud products in the System Solutions Business, and due to stable growth of the CROSS Business.

Overview of 1H FY7/25 consolidated results

	1H FY7/24		1H FY7/25		YoY		Previous forecast amount	vs. forecast	
	Amount	% of net sales	Amount	% of net sales	Change	% change		Change	Achievement rate
Net sales	8,571	100.0%	9,242	100.0%	670	7.8%	9,333	-91	-1.0%
Gross profit	4,854	56.6%	5,119	55.4%	265	5.5%	-	-	-
SG&A expenses	2,615	30.5%	2,858	30.9%	243	9.3%	-	-	-
Operating profit	2,238	26.1%	2,260	24.5%	21	1.0%	2,356	-96	-4.0%
Ordinary profit	2,249	26.2%	2,235	24.2%	-14	-0.6%	2,367	-132	-5.6%
Profit attributable to owners of parent	1,489	17.4%	1,537	16.6%	47	3.2%	1,595	-58	-3.6%
Net sales by business									
System Solutions Business	7,480	87.3%	8,124	87.9%	643	8.6%	-	-	-
Online Solutions Business	1,090	12.7%	1,117	12.1%	27	2.5%	-	-	-
CROSS Business	807	9.4%	854	9.2%	47	5.8%	-	-	-
Other Online Business	282	3.3%	263	2.8%	-19	-6.7%	-	-	-
Gross profit by business									
System Solutions Business	4,298	57.5%	4,554	56.1%	256	6.0%	-	-	-
Online Solutions Business	555	50.9%	564	50.5%	9	1.6%	-	-	-
CROSS Business	462	57.2%	487	57.0%	25	5.4%	-	-	-
Other Online Business	93	33.0%	76	28.9%	-17	-18.3%	-	-	-
Recurring net sales	3,494	40.8%	4,015	43.4%	521	14.9%	-	-	-
Gross profit from recurring business	2,083	59.6%	2,337	58.2%	254	12.2%	-	-	-
Coverage ratio for SG&A expenses against gross profit from recurring business	79.7	-	81.8	-	-	2.1pp	-	-	-

Notes: 1. Previous forecast disclosed on September 6, 2024

2. The figures for % of sales associated with gross profit by business and Company-wide gross profit from recurring business constitute the gross profit margins on the respective net sales amounts.

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

Results trends

Although gross profit increased by 5.5%, the gross profit margin decreased by 1.2pp to 55.4% due to effects of factors that include higher personnel costs and cloud-related supply-side price increases. On a quarterly basis, however, the gross profit margin rose from 54.6% in 1Q to 56.1% in 2Q in part due to effects of having increased monthly cloud usage fees effective from October 2024. SG&A expenses rose 9.3% in part due to higher personnel costs and the SG&A expenses ratio increased 0.4pp to 30.9%. As a result, the operating profit margin declined 1.6pp to 24.5%. The main factors behind the ¥21mn YoY increase in operating profit were an increase of ¥256mn in gross profit in the System Solutions Business and an increase of ¥9mn in gross profit in the Online Solutions Business, despite a decrease of ¥157mn due to an increase in personnel costs (portion associated with SG&A expenses), and a decrease of ¥86mn due to an increase in other SG&A expenses. Total personnel costs (cost of sales + SG&A expenses) increased by 11.6% (including an 15.3% increase in personnel costs in cost of sales and an 8.4% increase in personnel costs in SG&A expenses) due to ongoing revisions to human resources systems and an increase in employee headcount. In other SG&A expenses, advertising and promotional expenses increased due to TV commercials and exhibitions at trade shows, referral fees rose accompanying an increase in projects from partner companies, and hiring expenses increased as a result of efforts to strengthen recruitment activities. Ordinary profit decreased slightly due to fees incurred for the establishment of the Impact Neutralization Trust® as a one-off non-operating expense. Profit attributable to owners of parent increased due to a decrease in tax expense.

The System Solutions Business delivered sustained growth

2. Trends by business segments

(1) System Solutions Business

In the System Solutions Business, net sales increased 8.6% YoY to ¥8,124mn, gross profit rose 6.0% to ¥4,554mn, and gross profit margin declined 1.4pp to 56.1%. The System Solutions Business overall achieved increases in both sales and profit along with persisting growth, despite having fallen short of target with respect to hardware-related sales encompassing setup and other such services due to an unexpectedly large decline in sales following a surge in demand for server device replacement in the previous fiscal year accompanying termination of server maintenance by manufacturers. The positive results are attributable to system development-related sales, which largely held to the target level as a result of the Company having effectively tapped into DX demand of mid-tier and small/medium-size companies. Whereas the gross profit margin declined relative to the previous fiscal year, it improved by 2.0pp from 55.0% in 1Q to 57.0% in 2Q. These results are attributable to factors that include ongoing implementation of profit enhancement measures such as those involving the integrated production and sales system, an increase in the number of large projects due to referrals from partner companies, and a situation where rising supply-side prices were absorbed by an increase in monthly cloud usage fees effective from October 2024. Orders have continued to reach new record highs in part as a result of gaining new customers particularly with respect to large projects. Enlisting an order volume index with a baseline of 100 for results of 1H FY7/17, both initial orders and recurring orders achieved record highs in 1H FY7/25 with order volume index values of 165 and 191, respectively.

Results trends

(2) Online Solutions Business

In the Online Solutions Business, net sales increased 2.5% YoY to ¥1,117mn, gross profit was up 1.6% to ¥564mn, and gross profit margin decreased 0.4pp to 50.5%. Although the Other Online Business incurred decreases in both sales and profit due to downsizing of e-commerce website production, the Online Solutions Business achieved steady growth largely aligned with target levels amid a scenario in the CROSS Business where factors such as new customer acquisitions and higher unit sales prices culminated an increase in net sales of 5.8% to ¥854mn, an increase in gross profit of 5.4% to ¥487mn, and a decrease in the gross profit margin of 0.2pp to 57.0%. Although changes in e-commerce consumer behavior have prompted a trend among smaller e-commerce enterprises to downsize or exit operations, the Company has responded by strengthening its approach to targeting mid-tier and large companies in an effort to capture large projects.

Financial health remains sound with one-off factor no longer in effect by the end of FY7/25

3. Financial position

Looking at the Company's financial position, total assets at the end of 1H FY7/25 decreased ¥335mn from the end of FY7/24 to ¥13,818mn and total liabilities increased ¥1,990mn to ¥6,463mn. Meanwhile, total net assets decreased ¥2,326mn to ¥7,354mn and the equity ratio declined 15.2pp to 53.2%.

On December 6, 2024, the Company established the Impact Neutralization Trust® upon having requested that Tetsuo Iwamoto, who is the President and Representative Director of the Company as well as a major shareholder, sell a portion of his shareholdings (trust period: December 6, 2024–July 31, 2025, planned; Maximum number of shares to be purchased: 1,250,000 shares; Maximum amount allocated to share purchases: ¥4,500mn). On December 9, 2024, the Trust purchased 1,250,000 shares of the Company's stock through off-hours closing price trading on the Tokyo Stock Exchange (ToSTNeT-2) with funds provided by the Company. Subsequently, the Company's shares are to be sold enlisting an approach that mitigates any impact on market supply and demand of such shares to the extent possible. The shares of the Company purchased by the Trust are to be sold within the trust period, and the proceeds of the sale are to be distributed to the Company periodically at predetermined intervals. The shares purchased are accounted for as treasury shares given that the Trust is a self-benefit trust in which the Company is the beneficiary. Any gains arising from share sales due to an increase in the stock price is accounted for as an increase in other capital surplus (net assets), while any losses arising from share sales due to a decline in the stock price is accounted for as a decrease in other capital surplus (net assets). As a result of having established the Impact Neutralization Trust®, cash and cash equivalents under current assets have decreased by ¥154mn, short-term borrowings under current liabilities have increased by ¥2,190mn, and treasury shares under net assets have increased by ¥3,088mn as of the end of 1H FY7/25 (subtracted from shareholders' equity). The equity ratio consequently declined by 15.2pp, but that constitutes a one-off factor that will be eliminated by the end of FY7/25. This transitory factor aside, we at FISCO find no particular cause for concern and deem that the Company's financial health remains sound.

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Results trends

Balance sheets and statements of cash flow (condensed)

Item	End-FY7/21	End-FY7/22	End-FY7/23	End-FY7/24	End-1H FY7/25	Change
Total assets	8,449	9,576	12,115	14,153	13,818	-335
Current assets	6,087	7,249	9,675	11,567	11,313	-254
Non-current assets	2,362	2,326	2,440	2,585	2,504	-81
Total liabilities	3,860	3,861	4,374	4,473	6,463	1,990
Current liabilities	2,246	2,134	2,546	2,555	4,463	1,908
Non-current liabilities	1,613	1,727	1,828	1,918	2,000	82
Total net assets	4,589	5,715	7,740	9,680	7,354	-2,326
Management indicators						
Current ratio	271.0%	339.7%	380.0%	452.7%	253.5%	-199.2pp
Non-current assets to equity ratio	51.5%	40.7%	31.5%	26.7%	34.1%	7.4pp
Equity ratio	54.3%	59.7%	63.9%	68.4%	53.2%	-15.2pp

Item	FY7/21	FY7/22	FY7/23	FY7/24	1H FY7/25
Cash flows from operating activities	2,027	1,134	3,073	2,637	1,766
Cash flows from investing activities	-216	-482	-547	-712	-232
Cash flows from financing activities	-551	-465	-526	-901	-1,688
Cash and cash equivalents at end of the period	3,453	3,640	5,639	6,663	6,509

Source: Prepared by FISCO from the Company's financial results and semi-annual securities report

Outlook

Forecast for record-high results in FY7/25 unchanged

● Outlook for FY7/25 consolidated results

The Company has maintained its initial forecast for its FY7/25 consolidated results, projecting both sales and profit increasing to record high results. It is forecasting net sales to increase 9.4% YoY to ¥19,150mn, operating profit to grow 12.6% to ¥4,800mn, ordinary profit to rise 12.6% to ¥4,826mn, and profit attributable to owners of parent to increase 12.8% to ¥3,257mn. It is also forecasting the gross profit to increase 10.3% to ¥10,783mn, gross profit margin to increase 0.5pp to 56.3%, SG&A expenses to rise 8.6% to ¥5,983mn, and the SG&A expenses ratio to decrease 0.3pp to 31.2%. As sales and profit are expected to continue increasing, the Company plans to prioritize investment in growth in order to take the next step.

Overview of FY7/25 consolidated results forecast

	FY7/24		FY7/25		YoY		1H results	
	Results	% of net sales	Forecast	% of net sales	Change	% change	Amount	Progress rate
Net sales	17,508	100.0%	19,150	100.0%	1,642	9.4%	9,242	48.3%
Gross profit	9,773	55.8%	10,783	56.3%	1,010	10.3%	5,119	47.5%
SG&A expenses	5,509	31.5%	5,983	31.2%	474	8.6%	2,858	47.8%
Operating profit	4,263	24.4%	4,800	25.1%	537	12.6%	2,260	47.1%
Ordinary profit	4,285	24.5%	4,826	25.2%	541	12.6%	2,235	46.3%
Profit attributable to owners of parent	2,887	16.5%	3,257	17.0%	370	12.8%	1,537	47.2%

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

Outlook

As for the overall market outlook, although developments related to the end of Windows 10 support planned for October 2025 will have a minimal impact on demand, the Company anticipates that demand for business DX will remain at a high level, mainly because of severe personnel shortages at mid-tier and small/medium-size companies, and projects are expected to grow larger in size. In terms of costs, the Company is anticipating prices of supply-side products, such as licenses, to rise, as well as costs including an increase in personnel costs accompanying the strengthening of recruitment efforts and revisions to human resources systems and an increase in advertising expenses accompanying the year-round broadcasting of the TV commercial. However, these cost increases are expected to be absorbed by factors such as the effects of increased sales, shorter delivery times and stable operations realized by being more selective when assessing contract projects, the reflection of supply-side price increases in sales prices, and the accumulation of recurring net sales.

The Company has implemented priority measures in its respective business segments. In the System Solutions Business, the Company has been making up for its shortfalls with respect to its 1H targets by achieving a higher turnover rate in its system development projects. It also has been alleviating workload imbalances across the entire organization by proceeding with projects in a manner that takes into account availability of all engineers (system engineers and programmers). The Company has also been promoting use of generative AI in programming tasks and testing workflows. In the CROSS Business, the Company has been strengthening its outreach to Aladdin Office users and expanding its network of system collaboration partners. It also revised prices charged to its existing customers of CROSS MALL effective from March 2025 accompanying improvements in support quality. In the Other Online Business, the Company has been enhancing its analysis support and branding support, which constitute value-added services for e-commerce operations.

The Company's rates of progress in 1H toward achieving its full-year forecasts were somewhat on the low side with net sales at 48.3%, operating profit at 47.1%, ordinary profit at 46.3%, and profit attributable to owners of parent at 47.2%. However, we at FISCO contend that the Company is positioned to achieve its full-year forecasts and deliver favorable results upon having taken into account various factors such as the following. For one, the Company is subject to seasonal factors whereby its results are weighted toward 2H due to accumulation of recurring net sales and growth of the engineering team. Also, the System Solutions Business has been encountering upward momentum with respect to orders. Meanwhile, the gross profit margin started to rise in 2Q due to an increase in monthly cloud usage fees that took effect in October 2024. Furthermore, the Company revised prices charged to its existing CROSS MALL customers in March 2025.

Growth strategy

Aiming for operating profit margin of over 30% in the long term

1. Medium-term management (rolling) plan

For its medium-term management plan, the Company's policy is to adopt a rolling plan in which it can revise the targets at any time, such as in response to rapid changes to its business environment. With the three-year medium-term management plan (FY7/25–FY7/27), formulated in September 2024 constituting the Company's third phase toward achieving its long-term target of attaining an operating profit margin exceeding 30%, the Company is promoting efforts to further strengthen its management base by accelerating investment in growth, including investments in human resources and promotions, while maintaining a double-digit annual average growth rate (CAGR for FY7/24–FY7/27 projected at 10.3% for net sales, 11.6% for gross profit, 15.7% for operating profit, and 15.7% for profit attributable to owners of the parent). The plan is premised on prospects of the Company encountering robust demand driven by multiple factors that include an order environment characterized by DX demand, a shift to open platforms with respect to office computers and other such legacy systems, and a scenario where the timing is right for system replacement given the need for contending with Japan's reduced tax rate scheme adopted in 2020 and given a surge in demand for server operating system replacement. This is bound to culminate in continuous expansion with respect to the size of system development projects. The Company is looking toward hiring 70 to 80 new graduates and 25 to 35 mid-career professionals annually, while also redoubling efforts with respect to its media strategy such that includes TV commercials to raise public recognition.

Medium-term management plan (consolidated)

	FY 7/24	FY 7/25	FY 7/26	FY 7/27	CAGR (FY7/24-27)
(JPY million)	Actual	Plan			
Net sales	17,508	19,150	21,200	23,500	10.3%
Gross profit	9,773	10,783	12,085	13,587	11.6%
(margin)	(55.8%)	(56.3%)	(57.0%)	(57.8%)	
Operating profit	4,263	4,800	5,600	6,600	15.7%
(margin)	(24.4%)	(25.1%)	(26.4%)	(28.1%)	
Net profit	2,887	3,257	3,798	4,473	15.7%

Source: The Company's results overview

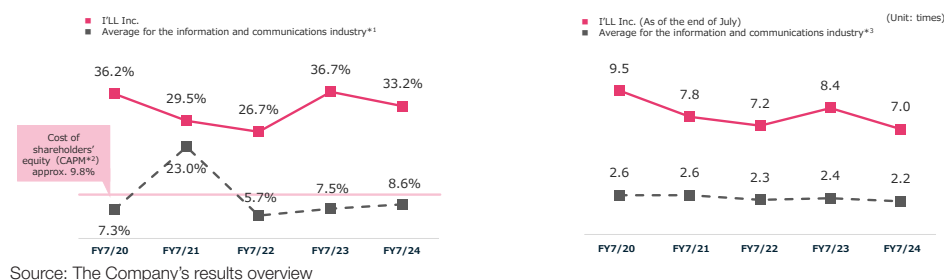
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Growth strategy

Priority measures include allocating the results of revisions to human resources systems to secure talented personnel through continuous improvement to salaries, bonuses, and other compensation, continuing to invest in human capital (strengthening recruitment and development) and advertising (year-round broadcasting of the TV commercial, etc.) aimed at raising public recognition, deepening the CROSS-OVER Synergy strategy to accelerate the speed of organizational reforms and product development, and using surplus funds for potential M&As and to further strengthen shareholder return. Regarding business strategies, in the System Solutions Business, it will use the integrated production and sales system to be more selective when assessing projects and continue to strengthen its ability to handle large projects, while also advancing initiatives such as cultivating new partners, and using referrals from banks to expand its operating area (based on 100% remote support from Tokyo, Nagoya, and Osaka). In the CROSS Business, it will enhance functions and expand sales of BACKYARD™, among other strategies.

The Company believes that its current cost of shareholders' equity is around 9.8% (average for the period from FY7/20 to FY7/24). Its Return on Equity (ROE) is around 30%, surpassing the cost of shareholders' equity and representing performance that exceeds the industry average for the information and communications industry. Moreover, Price-to-Book Ratio (PBR) stands at roughly 8x, far higher than the industry average, which has earned the Company a measure of positive valuation from the markets. Going forward, the Company's policy is to increase corporate value through ongoing improvement in profit margins and investment in human resources. Additionally, the Company is working to enhance its English-language disclosure documents in response to a growing share of non-Japanese investors and an increase in requests for information from overseas. The Company has also made an English-language document explaining the Company and its business model available on its website.

ROE and PBR



Forecasting considerable dividend increase in FY7/25 and strengthening shareholder return

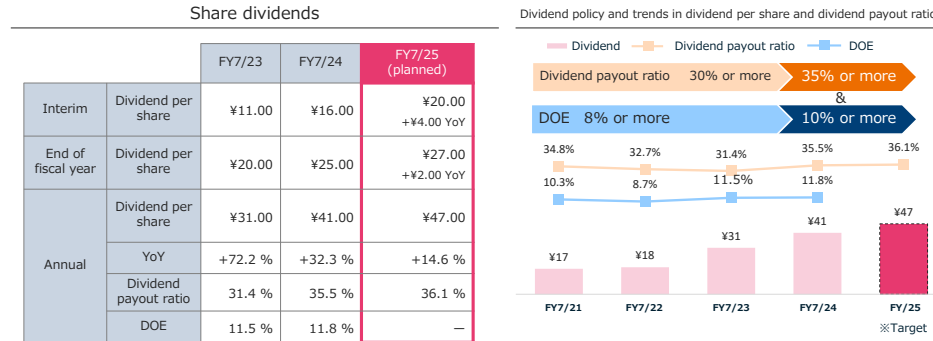
2. Shareholder return policy

With respect to shareholder returns, the Company has raised its dividend targets effective from FY7/24 in enlisting the aims of achieving a dividend payout ratio of at least 35% and dividend on equity (DOE) of at least 10%. For FY7/25, the Company's dividend forecast calls for a ¥6.00 increase from FY7/24 to an annual dividend of ¥47.00 (¥20.00 at 1H-end and ¥27.00 at fiscal year-end). This represents an increase in the dividend amount for an eighth consecutive year since FY7/18 and a forecast dividend payout ratio of 36.1%. Given that the Company plans to strengthen shareholder returns going forward, it is poised to further enhance shareholder returns accompanying growth in earnings.

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Growth strategy

Dividend policy



Source: The Company's results overview

Emphasis on investment in personnel

3. Sustainability management

The Company's mission is "Always free, love & dream with you. That is our responsibility," and it considers its social responsibility to be placing importance not only on profit-making activities through its businesses, but also on being able to feel "free, love & dream" through its businesses. Also, the Company's values are "Giving dreams to society through 'BX'," "Conducting management together with the environment and creating a world with zero excess stock," "Developing a corporate culture and systems in which each and every employee can demonstrate their abilities," and "Maintaining transparent and sound management and improving enterprise value alongside corporate growth."

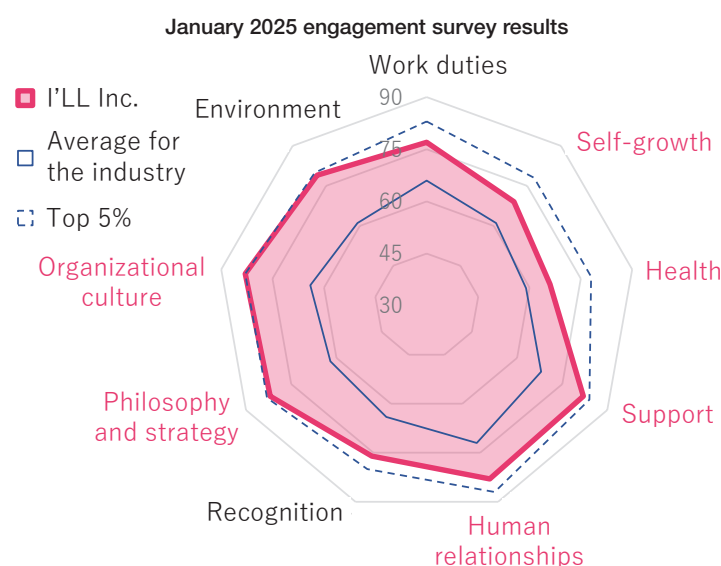
In "Giving dreams to society through 'BX'," the Company is creating opportunities for new value creation by supporting opening-up from "simple work" through "BX" in order to help build a better society, and also helping to realize diverse workstyles, such as teleworking, aiming for a society in which everyone can play an active role. In addition, it places trust with customers and partners as its top priority and is building relationships not merely as "a business partner" but relationships of co-prosperity in which each partner can grow by working together collaboratively. In "Conducting management together with the environment and creating a world with zero excess stock," the Company is enhancing its disclosure of environment-related information in support of the Task Force on Climate-related Financial Disclosures (TCFD) which was determined at the Board of Directors meeting in July 2022, and is actively working to achieve the goal of reducing emissions of greenhouses gases (GHG) by half by FY2030 and to effectively zero by FY2050. Also, through "BX," it intends to increase the accuracy of stock management and forecasts and to work together with customers to help resolve the social problems of apparel loss and food loss.

In "Developing a corporate culture and systems in which each and every employee can demonstrate their abilities," the Company is working to foster autonomy among its employees and to build a corporate culture that enables them to work freely with dreams. It is also establishing a fair evaluation system that rewards "people who work hard" regardless of their race, gender, age, or position. In addition, it is establishing an environment in which employees are not restricted by work hours or work places and in which even employees who are raising children, providing nursing care, and living in regional areas can still demonstrate their abilities. In "Maintaining transparent and sound management and improving enterprise value alongside corporate growth," the Company is maintaining sound management in which various opinions are reflected through a system of having five independent external directors (from among 14 directors in total). It is also actively holding dialogues with stakeholders (shareholders, customers, business partners, and employees) and reflecting their opinions in management.

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Growth strategy

Among these values, the Company places particular importance on “Developing a corporate culture and systems in which each and every employee can demonstrate their abilities.” Specifically, in creating its corporate culture, the Company is promoting glass (transparent) management, a culture that praises people who take on challenges and does not criticize their failures, diverse workstyles tailored to the individual, and training for new employees from the Company president himself. With respect to systems, the Company has established a system for dinner meetings with the president and executive officers and annual prizes, and also systems in which women can work with peace of mind, including paid menstrual leave and a flextime system, and a fair evaluation system of “correctly evaluating people who work hard.” Also, the Company encourages employees to send email and other forms of messages to enable them to directly contact the president and officers. The average annual income of non-consolidated employees (excluding those on leave), when indexed with FY7/20 as 100, increased to 109 in FY7/24. Through these efforts to establish a good work environment, in FY7/24 the employee turnover rate was 3.4% (2.5% for men and 5.0% for women), which is very low compared to the industry average (12.8% based on Company research). Also, the percentage of women returning to work after maternity leave was 100% for the seventh consecutive year and the percentage of eligible men taking paternity leave rose to 59.3%. In an engagement survey conducted in January 2025, the Company achieved a high score of 79 (industry average of 63) and exceeded the industry average for every item. Going forward, it aims to improve the work environment and create an even more virtuous cycle.



Source: The Company's results overview

Some examples of the Company's recent initiatives for sustainability are as follows. In February 2024, the Company received a Management level B- score in the climate change questionnaire of the CDP, an international NGO that runs a global disclosure system for environmental assessments. In May 2024, the Company formulated a policy for handling customer harassment. In July 2024, it introduced BOX ZERO boxes for reducing food loss provided by ZERO Co., Ltd. as part of its employee welfare efforts. Also in July 2024, the Company became one of the main sponsors of TRIUMPH, Kokugakuin University's ultimate frisbee team. In November 2024, the Company served as a sponsor of the MOVE FES.2024 event held by the General Incorporated Association WITH ALS, which conducts awareness-raising activities on the intractable disease ALS (amyotrophic lateral sclerosis). This was the fourth time the Company has served as a sponsor of the event, after having done so previously in 2019, 2021, and 2023.

Recognized for upward trend in profitability

4. FISCO's perspective

The Company's gross profit margin and operating profit margin temporarily declined in 1H FY7/25, but are trending higher on a full-year basis. This is the result of the simple but steady implementation of business strategy, including efforts to enhance quality and productivity through the continued advancement of human resources development, work environment improvements, and the integrated production and sales system, to raise the level of project management, and to grow recurring net sales. We evaluate the Company highly on this point. The medium-term management plan formulated in September 2024 aims to maintain a double-digit annual average growth rate while further strengthening its management base by accelerating investment in growth, including investments in human capital and promotions. It is getting closer to achieving its long-term target of an operating profit margin of over 30%, and at FISCO, we will pay attention to the progress it continues to make on its growth strategies and trends in growth acceleration through BX.

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