

Logizard Co., Ltd.

4391

Tokyo Stock Exchange Growth Market

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Summary

For 1H FY6/24, mainstay cloud services continued to perform well, with steady progress on capturing B2B customers

Logizard Co., Ltd. <4391> (hereinafter, “the Company”) sells systems that support inventory management and provides services ancillary to these systems to its customers, which are mainly companies in the retail and logistics industries, manufacturers, and third-party logistics (3PL) companies. The three systems provided by the Company are Logizard ZERO, which supports inventory management in warehouses; Logizard ZERO-STORE, which supports inventory management in stores; and Logizard OCE, which supports the realization of efficient inventory management and logistics through the integrated management of the inventory information of multiple stores and warehouses. It provides them through the cloud so they are easy to introduce even for small- and medium-sized companies. The mainstay cloud services have a subscriptions-based earnings model and therefore a stable earnings foundation (in 1H FY6/24, cloud services, which are highly profitable, provided 78.4% of sales).

1. Outline of results for 1H FY6/24

In 1H FY6/24 results*, net sales were ¥990mn (¥927mn in the same period of the previous fiscal year), operating profit was ¥172mn (¥168mn), ordinary profit was ¥172mn (¥168mn), and net profit was ¥123mn (¥123mn). Net sales in development and introduction services were lower than expected, but mainstay cloud services performed steadily and contributed to the results. Cloud services comprised of Logizard ZERO, Logizard ZERO-STORE, and Logizard OCE had a favorable business environment and the Company steadily accumulated accounts and Monthly Recurring Revenue (MRR). The results reflected the Company’s response to brisk inquiries regarding B2B deals and its efforts to strengthen various promotions, such as Logizard EXPO 2023. On the profit front, the Company invested in product development based on the medium-term management plan and strengthened investment in human resources, while the highly profitable cloud services performed briskly to increase profits.

* The Company has changed to non-consolidated accounting as of 3Q FY6/23, so consolidated figures are used for comparisons for the same period of the previous fiscal year (YoY). Figures for 1H FY6/24 are non-consolidated financial results. Moreover, increases and decreases have been presented as reference figures.

Summary

2. Outlook for FY6/24

For FY6/24 results, the Company’s initial forecast is unchanged with net sales to increase 9.2% YoY to ¥2,024mn, operating profit to rise 27.0% to ¥331mn, ordinary profit to increase 27.0% to ¥331mn, and net profit to increase 22.7% to ¥226mn, so both sales and profit are expected to rise. Looking at 1H progress rates on sales by service, the development and introduction service appears to be delayed slightly compared to the forecast, but the difference is expected to be covered by strong performance in cloud services. The delay in the development and introduction service is mainly due to the larger number of complex deals in B2B business compared with B2C, and the impact from schedules for renovation of higher-level systems by other companies. In cloud services, a favorable business environment is expected to continue, mainly due to increasing needs in the logistics industry related to the so-called “2024 problem” of logistical supply driver shortages and OMO* marketing. Development and introduction services are making steady progress on developing new customers under a strategy of expanding into and growing share in the B2B market, and the Company is therefore aiming to build its customer base further in this area. In addition, the Company’s policy is to build a system that can keep up with strong customer needs by shortening the lead time from order to delivery through measures such as function standardization and proposal streamlining. On the profit front, the Company is expecting profit growth to outstrip that of sales. To achieve further growth in earnings and increase in corporate value, the Company’s policy is to invest in human resources and R&D, while increasing profitability by building up sales of highly profitable cloud services.

* OMO (Online Merges with Offline) refers to building an online integrated state that does not distinguish between the online and the offline. It is a concept and initiative that provides a new purchasing experience never seen before.

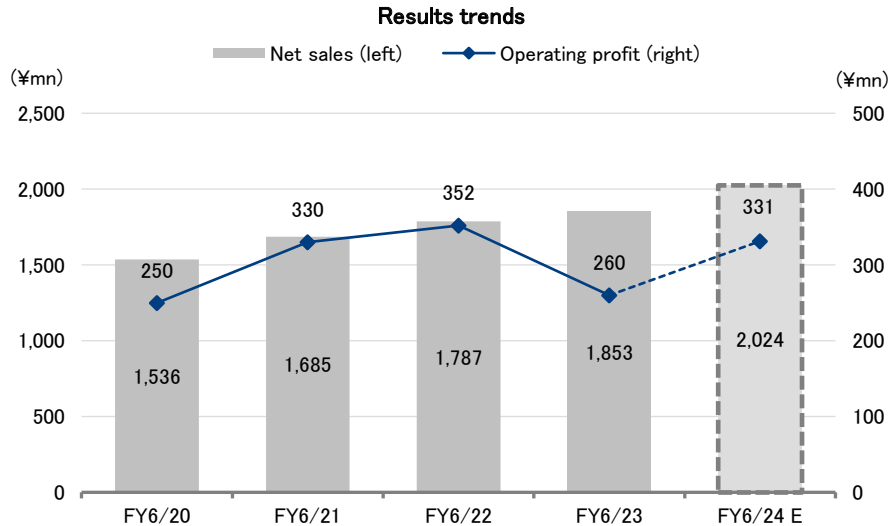
3. Overview of the medium-term management plan

With COVID-19 being reclassified as a Class V infectious disease under the Infectious Diseases Control Law and changes in business trends which affect the Company occurring daily, in August 2023 the Company established a medium-term management plan (FY6/24 – FY6/26). As economic and social activities recover from the COVID-19 pandemic, within the logistics industry, the importance of brick-and-mortar stores is being reaffirmed. The Company sees business opportunities in the increasing need for OMO marketing, which more seamlessly integrates online and offline services, and in robust demand for labor saving and automation, given that labor shortages in the logistics industry remain an issue, and will tie these opportunities to results expansion. In particular, as inquiries from B2B companies increase, the Company will actively expand its business to the B2B domain while maintaining a firm hold on its share of the existing B2C domain. Through this, the Company is aiming for ¥1,875mn in sales of mainstay cloud services (up 28.2% from FY6/23) and overall ordinary profit of ¥434mn (up 66.5%) for FY6/26, the final year of the plan. Also, the Company intends to continue focusing on securing human resources and is planning to increase its workforce from 115 employees in FY6/23 to 157 in FY6/27.

Key Points

- For 1H FY6/24, mainstay cloud services continued to perform well, with steady progress on capturing B2B customers
- No change to full-year forecast for higher sales and profits, with the favorable business environment expected to continue
- Under its medium-term management plan, the Company will focus on entering the B2B domain while accommodating increasing needs for OMO marketing and for labor saving and automation because of labor shortages

Summary



Note: Changed to non-consolidated accounting as of 3Q FY6/23
 Source: Prepared by FISCO from the Company's financial results

Company profile

Since its foundation, has provided WMS to customers via the cloud. Supports the improved accuracy and efficiency of logistics work through systems

1. Company profile

The Company was founded in 2001 in Saitama Prefecture in order to develop and sell warehouse inventory management systems (hereinafter, WMS). The Company's name is a portmanteau of logistics and wizard and incorporates the idea of "contributing to industry and to society by innovatively improving the efficiency of logistics as if by magic." Since its foundation, based on its mentality that "customers' shipments should be absolute" and that "customers and shipment receivers should absolutely not be inconvenienced," it has contributed to improving the accuracy and efficiency of the logistics work of customers, which are mainly small- and medium-sized companies for which aggressive IT investment is difficult due to cost reasons.

President and CEO Shigenori Kanazawa previously worked in the apparel industry, so initially the Company started a business whose mainstay service was Logizard PLUS (service provision ended in January 2023), a WMS for the apparel industry. It expanded its target customers by reflecting the needs of customers into its systems, and currently provides services via the cloud to customers in a wide range of industries, from food and beverages through to cosmetics and 3PL.

Company profile

Going forward, the Company will reliably capture new needs that have emerged with the resumption of economic and social activities post-pandemic and bridge this to results expansion in the future. Specifically, under its medium-term management plan established in August 2023, the Company intends to accommodate WMS needs, which are expanding to B2B companies, automation to alleviate labor shortages and new trends related to the creation of smart stores and their online integration, and incorporate them into its own results. To this end, the Company will make upfront investment in R&D and in personnel hiring and development and further strengthen its business base to expand results over the medium to long term and raise enterprise value.

History

Date	Event
July 2001	Logizard Ltd. was established in Warabi City, Saitama Prefecture, in order to develop and sell warehouse inventory management systems Started sales of the Logizard PLUS warehouse inventory management system
September 2002	Started sales of the RB-Manager store inventory management system
August 2005	Conducted an absorption merger of Logizard Co., Ltd. (formerly Soft communications Co., Ltd.) and changed the corporate name to Logizard Co., Ltd.
July 2006	Opened the Akita Development Center in Akita City, Akita Prefecture
January 2008	Opened the Osaka Sales Office in Kita Ward, Osaka City, Osaka Prefecture (currently relocated to Chuo Ward, Osaka City, Osaka Prefecture)
August 2009	Opened the Yokote Development Center in Yokote City, Akita Prefecture
September 2009	Started sales of the POS Pita RBM store inventory management system
September 2012	Started sales of Logizard ZERO, a new version of Logizard PLUS
April 2018	Acquired the Privacy Mark
July 2018	The Company's shares were listed on the Tokyo Stock Exchange's Mothers market
May 2019	Started sales of Logizard ZERO-STORE, a new version of POS Pita RBM
December 2019	Acquired the Information Security Management System (ISMS) certification
January 2021	Acquired the Information Security Management System (ISMS) Cloud security certification
April 2022	Transferred to the Tokyo Stock Exchange's Growth Market following the TSE's market restructuring
February 2023	Completed liquidation of Logizard SCM Technology (Shanghai) Co., Ltd.

Source: Prepared by FISCO from the Company's securities reports

2. Business description

The Company's business is broadly divided into three segments: cloud services, in which it provides WMS via the cloud; development and introduction services, which involves supporting the introduction of systems for customers that are using its cloud services; and device sales services, which means selling devices necessary for warehouse work, such as dedicated printers to create barcode labels. In the percentage of total net sales by service in 1H FY6/24, cloud services provided 78.4%, development and introduction services 16.9%, and device sales services 4.6%. The mainstay cloud services have a subscription model in which the Company collects monthly usage fees from customers. Once a service is introduced, the profit margin is high as it generates earnings automatically and regularly, creating a stable earnings foundation (operating profit margin was 17.4% and ROE (Return on Equity) was 11.4% in 1H FY6/24.) Other than this segment, the development and introduction services and device sales services segments have a business model in which earnings are generated when an order is received from a customer and a delivery is made.

Company profile

(1) The Logizard ZERO warehouse inventory management system

For its customers, which include retailers, distribution companies, and 3PL companies, the Company provides this system which accurately ascertains the number of products (inventory) stored in warehouses and improves the efficiency of work in warehouses. Through barcode reading and the integrated management of all of the movements of products from deliveries through to shipments, returns and movements on shelves in warehouses, it realizes “accurate inventory management,” “prevention of erroneous shipments,” and “the improved efficiency and standardization of work in warehouses.” The functions of this system are many and diverse, including functions to coordinate with materials handling and logistics robots in order to realize improved efficiency and labor saving at logistics worksites, product management functions that manage expiration dates and other items, functions to manage goods packaged together that improve the accuracy and efficiency of repeat online sales, inventory and status-inquiry functions that enable inventory inquiries from storage locations and products, security-compatible functions that can manage password logins and related, and store inventory management functions linked with Logizard ZERO-STORE. Customers rent the handy terminal that reads the barcodes, while the Company replaces batteries free of charge and repairs or replaces a broken device on the same day. The Company also provides fixed-mount barcode readers as an option, and is working to strengthen its products by adding optional functions as appropriate to improve customer convenience.

Also, one of the appeals of this service is an enhanced support structure through a dedicated support team that enables speedy introductions in a minimum of one month and linkages with a variety of external systems. Since customization is minimal and the service can be linked with external systems, customers can introduce it at a low cost and in a short period of time. In particular, for 3PL companies that must respond on the tight schedule of the shipper, its appealing points include a secure and reliable service with a short introduction period and that the system can be steadily operated up to the shipment date specified by the shipper. Steady progress is being made to link external systems, with the link to multi-channel commerce platform Shopify commencing in November 2022. In addition, in April 2023, it strengthened system linkage with “Aladdin Office for fashion,” a sales and inventory management system for apparel. In 1H FY3/24, the started trial testing system links with logistics warehouse report tool “Quick Loda,” aiming to provide a visual representation in numbers of work progress and productivity inside warehouses.

One specific instance of usage is the picking operation that occurs when an order is received from a consumer. Logizard ZERO provides instructions stating that “the targeted product is third from the right, second from the bottom shelf. Please package it and ship it to Mr. OO,” which enables accurate picking operations.

(2) The Logizard ZERO-STORE store inventory management system

Logizard ZERO-STORE is a system that realizes the improved efficiency of inventory management in stores. Its three main functions are inventory management, POS cash register (optionally provided as linked to the products of other companies), and analysis tools. The analysis tools have functions to automatically aggregate and analyze net sales in stores and can be utilized to plan sales strategies. Inventory management and POS cash register are provided as effective functions for both the administrators (head office) and the business offices (stores). In inventory management, functions including inventory management, sales management and stock management are provided for the administrators. For example, it enables the head office to conduct the integrated management of various business offices’ data, which is beneficial for the efficient management of the various business offices and for overall optimization. It provides functions including a sales and inventory registration function using smartphones for business offices, and a function for inquiring about the inventories of other stores in which a store’s inventory can be checked in real time. This service makes it possible to improve the efficiency of store operations and to respond quickly to consumers.

Company profile

POS cash register is provided linked to the payment work support service that uses tablet devices. In addition to the basic cash register functions such as credit card processing, it has functions to change unit prices such as for discounts, to print receipts, and to send a store's sales data to the head office, among other things. It can also be easily linked to peripheral devices like receipt printers and handy terminals, and is notable for being highly versatile. Another appealing point of this system is that it can be introduced at low cost. Instead of an expensive POS cash register, the service can be obtained via the cloud on a tablet device, so it can be easily introduced even by small- and medium-sized customers. In September 2023, the Company began linking with Smareji, a highly functional cloud POS cash register app, improving customer convenience and the system's appeal. It can be introduced in a short time and has an enhanced support structure, which are some of the reasons why customers support it, the same as the Company's other services.

Specific usage scenarios include confirming inventory on a smartphone when there is an inquiry from a customer on whether a product is in stock, and if it is in stock, confirming which shelf it is on, such as in the backroom. This system makes it possible to respond quickly to consumers.

(3) The Logizard OCE OMO support system

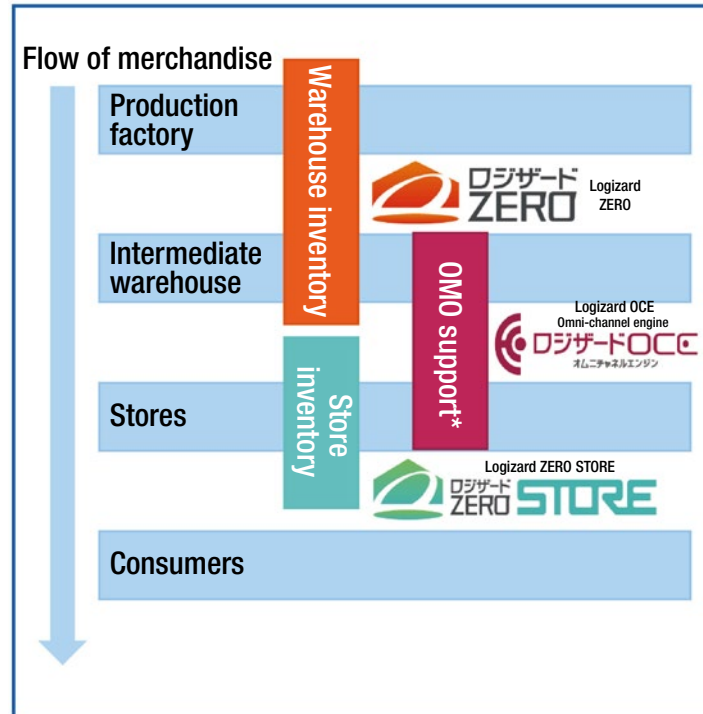
Logizard OCE is a product that supports customers' omni-channels*. By linking it to the Company's Logizard ZERO and Logizard ZERO-STORE, it can utilize the integrated data on stores and warehouses and realize optimized shipping and deliveries for each customer. Through the integrated management of inventory, it contributes to the smooth management of an omni-channel strategy that comprehensively utilizes multiple channels. Also, another feature is that it can be connected to the WMS provided by other companies and can utilize the above-described functions. It seems that needs for OMO marketing are rising, and amid these conditions, we at FISCO think that demand for this system will continue to be strong.

* Omni-channel is an environment in which consumers, when making purchases, can purchase with all (= omni) the contacts points (= channels) seamlessly connected. It is a state in which with regards to each channel provided by the selling side, regardless of whether online (e.g.: online shops) or offline (e.g.: actual stores), the consumer side can purchase products without worrying about the number of items in stock, point cards, etc., providing a "seamless purchasing experience."

Specific usage scenarios include when there is an order from a consumer via an e-commerce site, the inventory of the relevant product is confirmed in the stores and warehouses and a decision is made on the most efficient place to send it from.

Company profile

The Company's cloud services and corresponding areas



* OMO...abbreviation of Online Merges with Offline

Source: Reprinted from the Company's business plan and materials on growth potential

(4) Fees system and sales channels

The cloud services of Logizard ZERO, Logizard ZERO-STORE, and Logizard OCE can be used by customers based on the characteristics of their own or their shippers' business. Logizard ZERO is offered for a fixed monthly fee or a monthly usage fee and Logizard ZERO-STORE and Logizard OCE are provided for a fixed monthly fee. For linkages to external systems, there is a mechanism to link to the apps provided by the application partners so that they can be used without the need for additional development by adding an optional fee. This earnings model achieves stable earnings from the cloud service, while allowing upselling from options, etc.

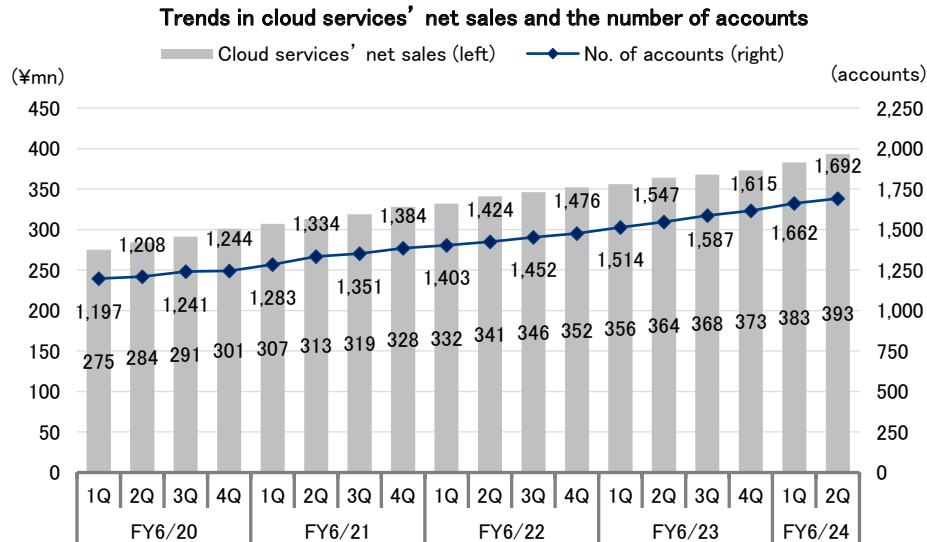
The sales channels are direct sales by the Company and sales activities through agencies. The agencies are divided into application partners that develop and sell systems linked to the Logizard series, and sales partners such as agencies. The application partners include many companies that are developing EC support systems and order management systems, including GMO MAKESHOP Co., Ltd.

3. Features and strengths

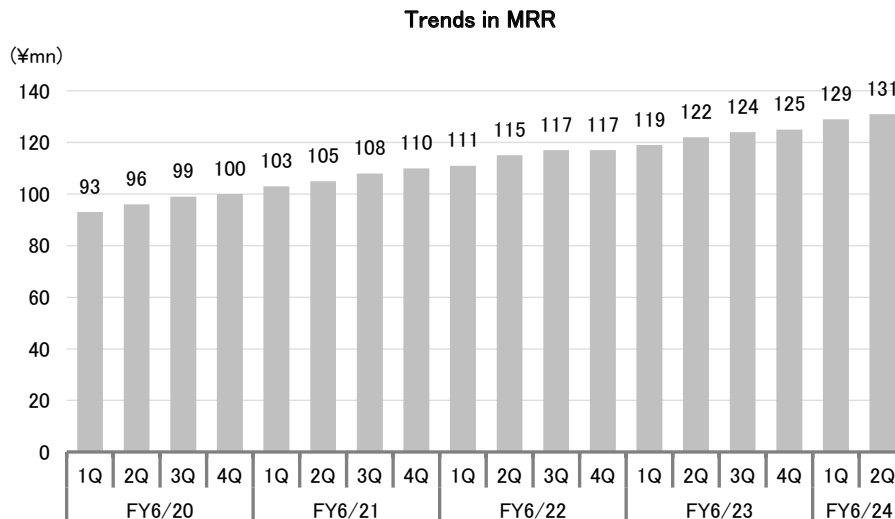
The strengths of the Company's products include their short delivery times, low prices, and high-quality services. They can be introduced with short delivery times and at low cost through the ability to accurately ascertain through interviews with customers the products' characteristics and management requirements and the shipping destinations' characteristics and also as they are highly versatile systems. Moreover, many small- and medium-sized companies do not have dedicated system engineers, so the Company supports customers' introductions of IT through its operations support service provided 365 days a year.

Company profile

Also, as was mentioned above, the Company is able to stably generate earnings through adopting a subscription model. It continuously upgrades the versions of its products so that they reflect customers' current needs, which contributes to lowering the cancellation rate. In the future as well, at FISCO, we expect it to stably generate earnings from both existing customers and new customers. By gradually increasing new accounts while keeping the cancellation rate at a low level, the Company is steadily building up its monthly recurring revenue (MRR).



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



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

4. Business environment

With regards to the Company's business environment, at FISCO we think its markets will steadily grow in the future, based on the current situation of e-commerce in people's daily lives, the labor shortage in the logistics industry, and the shortage of human resources able to respond to digitalization. In particular, in a survey of small- and medium-sized companies, which are the Company's main customers, while there were some companies "in a state of shifting from analog conditions to a business environment in which digital tools are used," 37.9% of companies answered that they "do not have human resources able to advance digitalization" (The Ministry of Economy, Trade and Industry's 2022 White Paper on Small and Medium Enterprises). In addition, according to the 2023 White Paper on Small and Medium Enterprises, 69.4% of companies responded that they had not hired IT or digital personnel within the most recent year, and 20.7% responded that there was a shortage of personnel. This suggests that personnel for promoting digitalization remain in short supply. Within this environment, we at FISCO think that demand for the Company's services, which can be easily introduced via the cloud and for which it has established a comprehensive support structure able to respond to requests 365 days a year, will be strong.

Results trends

For 1H FY6/24, mainstay cloud services continued to perform well, with steady expansion in account numbers and MRR. While expanding development investment, the Company will increase profits

1. Outline of results for 1H FY6/24

In 1H FY6/24 results, net sales were ¥990mn (¥927mn in the same period of the previous fiscal year), operating profit was ¥172mn (¥168mn), ordinary profit was ¥172mn (¥168mn), and net profit was ¥123mn (¥123mn). With the Company's transition to non-consolidated accounting from 3Q FY6/23, it is not possible to make a simple YoY comparison, however, net sales, operating profit, and ordinary profit have all been higher YoY. Net profit was level YoY due to the recording of expenses for removal of interior equipment as a special loss.

The Company's business environment remains favorable, with growth in needs for OMO marketing amid an increase and diversification in consumption activity. In addition, needs for labor saving and automation based on the logistics industry's "2024 problem" remain high.

Net sales in mainstay cloud services performed well, totaling ¥776mn (¥720mn in the same period of the previous fiscal year), while MRR net sales were ¥131mn (¥122mn). With brisk inquiries from customers, the Company undertook continuous linking between apps and strengthening of product functions, redirected staff from their previous assignments at EOS to new customer acquisitions, and stepped-up its activity on promotions such as Logizard EXPO 2023. As a result, the number of accounts climbed steadily to 1,692 (1,547).

Results trends

Net sales in development and introduction services were slightly lower than expected at ¥167mn (¥173million in the same period of the previous fiscal year.) The result was mainly due to longer than expected lead times from order to delivery, attributable to the larger number of complex deals in B2B business compared with B2C, and renovation of higher-level systems by other companies. In device sales services, net sales were ¥46mn (¥33mn). With a rising sense of personnel shortages in the logistics industry, inquiries about high priced equipment have been more active than in the past.

On the profit front, the Company has intensified its activities for product development, R&D, and human resource investment based on the policies of the medium-term management plan, while sales of highly profitable cloud services have been progressing steadily, building up profits. In 1H FY6/24, product development investment increased 239.1% YoY to ¥78mn and R&D investment increased 91.7% to ¥23mn. In addition, with the strengthening of product capabilities including RFID* option functions, AI logistics robot coordination, and links to various apps, along with the inclusion of customer needs for OMO marketing into functional aspects, the Company has steadily carried out strengthening of products and services in line with the policies of the medium-term management plan.

Furthermore, steady progress has been made on human resource strategies stipulated in the medium-term management plan. In 1H FY6/24, six new employees were recruited, and the Company plans to have another four new employees join by around April 2024. Looking ahead, the Company's policy is to continue to proactively recruit human resources to respond to strong customer needs.

* A system that uses radio waves to read the tag data of installed memory without direct contact. Compared to barcodes in which each and every tag is scanned by a laser, RFID is able to scan multiple tags at the same time by using radio waves. If the tag is within the range of the radio waves, it can be read from even far away.

Results for 1H FY6/24

	1H FY6/23 (consolidated)		1H FY6/24 (non-consolidated)		YoY (reference values)	
	Results	% of net sales	Results	% of net sales	Change	% of change
Net sales	927	-	990	-	62	6.7%
Cost of sales	448	48.3%	449	45.4%	1	0.2%
SG&A expenses	310	33.5%	368	37.2%	57	18.6%
Operating profit	168	18.2%	172	17.4%	3	2.1%
Ordinary profit	168	18.2%	172	17.4%	3	2.1%
Net profit attributable to owners of parent	123	13.3%	123	12.5%	0	0.1%

Note: The Company changed to non-consolidated accounting as of 3Q FY6/23, so figures and changes from the previous year are provided as reference

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

Results trends

The equity ratio is at the high level of 88.1%.
The current ratio and non-current ratio are both sound and at a level where there are no concerns about long- or short-term fund liquidity

2. Financial condition and business indicators

Looking at the Company's financial condition at the end of 1H FY6/24, total assets increased by ¥73mn from the end of the previous period to ¥2,038mn. The main factors were increases of ¥39mn in property, plant and equipment due to expansion of office space to accommodate an increase in employees and ¥24mn in software to upgrade the versions of basic functions for Logizard ZERO, which were partially offset by a decrease of ¥68mn in cash and deposits due to payments for the acquisition of non-current assets and for bonuses.

Total liabilities decreased ¥28mn from the end of the previous period to ¥242mn. The main factors were a decrease other expenses of ¥97mn, reflecting a decrease in expenses payable due to the payment of accrued bonuses. This was partially offset by increases of ¥9mn in accounts payable-trade, ¥16mn in accounts payable-other, and ¥42mn in income taxes payable. Net assets increased by ¥102mn to ¥1,796mn, reflecting an increase of ¥82mn in retained earnings following the recording of net profit.

Looking at management indicators, the current ratio is 698.1% and the non-current ratio is 19.3%. Although the non-current ratio has risen by 4.8 percentage points (pp) from the end of the previous period, FISCO considers both the current and non-current ratios to be at sound levels that would not cause issues with short- or long-term fund liquidity. The equity ratio remains high at 88.1%, an increase of 1.9pp from the end of the previous period. It can be understood from its financial statements that the Company is conducting management while taking into consideration financial soundness and liquidity of funds.

Balance sheet and management indicators

	(¥mn)		
	FY6/23	1H FY6/24	Change
Current assets	1,720	1,692	-28
Cash and deposits	1,453	1,384	-68
Non-current assets	244	346	101
Net assets	1,965	2,038	73
Total liabilities	271	242	-28
Current liabilities	271	242	-28
Net assets	1,693	1,796	102
Retained earnings	1,241	1,324	82
Total liabilities and net assets	1,965	2,038	73
<Main management indicators>			
Equity ratio	86.2%	88.1%	1.9pp
Current ratio	634.1%	698.1%	64.0pp
Non-current ratio	14.5%	19.3%	4.8pp

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

■ Outlook

The Company is expecting higher sales and profit in FY6/24. While the business environment is expected to be favorable, the Company will focus on acquiring new customers, mainly in the B2B business

For its FY6/24 results, the Company is forecasting net sales to increase 9.2% to ¥2,024mn, operating profit to increase 27.0% to ¥331mn, ordinary profit to rise 27.0% to ¥331mn and net profit to rise 22.7% to ¥226mn, so it is projecting both sales and profit to increase. The 1H progress rates on net sales by service were 49.6% for cloud services, 41.8% for development and introduction services, and 78.3% for device sales services. Progress on development and introduction services has been slightly delayed compared to the forecast; however, cloud services are expected to perform favorably so the results forecast remains unchanged.

For cloud services, the business environment is expected to remain favorable, with the “2024 problem” of the logistics industry and increasing needs for OMO marketing. The Company’s policy is to focus on acquiring new customers, mainly in the B2B business, by strengthening functions through links with development and apps, optional functions such as RFID, and promoting response to OMO marketing.

Development and introduction services are making steady progress on developing new customers under a strategy of expanding into and growing share in the B2B market, and the Company is therefore aiming to build its customer base further in this area. In addition, the Company’s policy is to build a system that can keep up with strong customer needs by shortening the lead time from order to delivery through measures such as function standardization and proposal streamlining. Recruitment of personnel is also proceeding steadily at present. Strengthening of the order receiving system by enhancement of development resources also appears to be contributing to shortening lead times to delivery.

Device sales services are expected to perform robustly in conjunction with favorable performance of cloud services.

On the profit front, growth is expected to exceed that of sales. The Company’s policy is to continue making investments in product development and R&D, human resources, and promotion, while increasing profitability by building up sales of highly profitable cloud services.

Outlook for FY6/24

	(¥mn)					
	FY6/23		FY6/24		YoY	
	Results	% of net sales	Forecast	% of net sales	Change	% of change
Net sales	1,853	-	2,024	-	170	9.2%
Operating profit	260	14.1%	331	16.4%	70	27.0%
Ordinary profit	260	14.1%	331	16.4%	70	27.0%
Net profit	184	10.0%	226	11.2%	41	22.7%

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

■ Medium- to long-term growth strategy

With a basic growth strategy of combining trendy products with high-contact service, the Company will make upfront investment in R&D and human resources to further expand results in the future

1. Overview of the medium-term management plan

In August 2023 the Company established a medium-term management plan that runs through FY6/26 in response to the changing business environment. Because of the COVID-19 pandemic, trends had been weighted toward e-commerce, but with COVID-19 being reclassified as a Category V infectious disease, economic and social activities have resumed and the importance of stores is being reaffirmed. In addition, with the needs and purchasing behaviors of consumers diversifying, there is a high level of demand for OMO marketing and for inventory management methods that make this possible. In particular, there has been increased focus on OMO marketing and inventory management methods in the B2B industry as well. Also, in the logistics industry, labor shortages remain and there is a need for labor saving and automation because of this. With the business environment surrounding the Company changing as previously described, the Company has put forth a basic growth strategy of combining trendy products with high-contact service. It intends to carry out upfront investment in R&D and human resources to establish services and systems capable of accommodating needs that are expected to increase in the future. “High-contact” here means that in business activities the Company’s employees are actively involved with customers and provide value to them. Sales and development employees will communicate closely with customers to provide support for their businesses. In order to further promote high-contact service, the Company will 1) build systems that make it possible to simultaneously deliver orders and develop products, 2) expand support systems, 3) systematize and schedule initial training for employees, whose numbers are increasing, and 4) create systems that enable employees to work with peace of mind.

In FY6/23, cloud services performed well, surpassing expectations, with the Company revising its forecast for cloud service sales and ordinary profit upward. The revised targets for FY6/26 for cloud services were net sales of ¥1,875mn (up 28.2% compared to FY6/23, an increase of ¥46mn from the previously announced forecast) and ordinary profit of ¥434mn (up 66.5%, increase of ¥1mn). FISCO surmises that ordinary profit may come in even higher, given the favorable business environment, appropriate direction for the Company’s product development, and high profit margins on cloud services. Furthermore, regarding hiring to strengthen systems, the Company is looking to increase its workforce to 157 employees by the end of FY6/27.

2. Specific trends and response policies

(1) WMS needs expanding to B2B

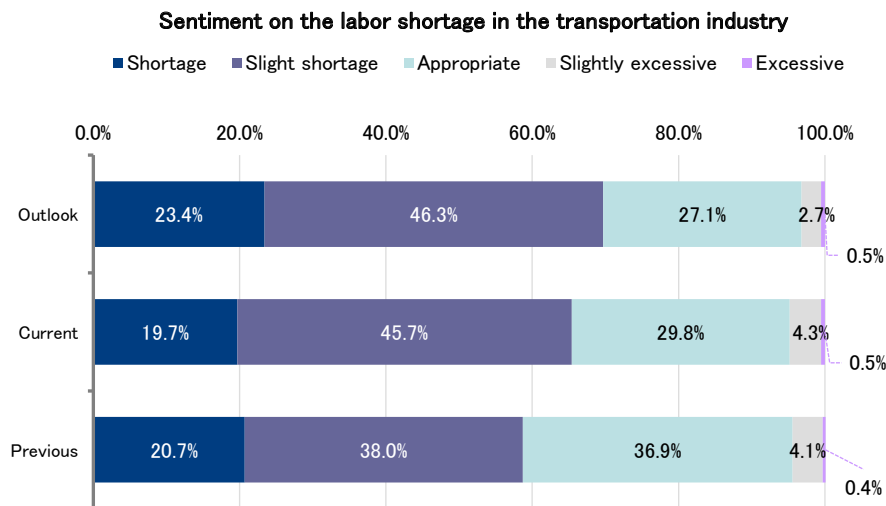
In order to accommodate increasing needs for OMO marketing among B2B companies, the Company will search for and make available distinct B2B functions required by different workflows, from allocation methods to packing slips, shipping tags, SCM labels, serial shipping, and traceability, and will actively acquire customers among B2B companies. A background factor for this is the increasingly intense competition in the existing B2C market. While securing share in the B2C market, the Company intends to enter markets where it can demonstrate its strengths and which has relatively less competition in order to reliably secure profits. In addition, it intends to grow into the standard WMS in the B2B market while determining how it will handle the industry standard EDI.

Medium- to long-term growth strategy

With regard to making available functions required by B2B, the Company is creating functions in line with B2B workflows while collaborating with customer companies. Because the Company got its start in business for B2B companies in the apparel industry, it is assumed that the process of creating systems suited to B2B companies will proceed smoothly. Examples of introduction in B2B companies are increasing, with one example being Bed and Mattress, which has seen its logistics warehouse shipping capacity increase by over 500% with the introduction of Logizard ZERO.

(2) Trend of using automation to make up for labor shortages

The Company intends to continue to accelerate its provision of products in response to needs for labor saving and automation in order to deal with labor shortages in the logistics and warehouse industries. Specifically, it plans to improve the efficiency of work in warehouses by expanding linkages to AI logistics robots and strengthening optional functions like RFID. The shortage of labor in the truck transportation industry is a major problem, and we at FISCO think that demand will trend strongly for services that realize labor saving and automation. According to the Truck Transport Industry Business Sentiment Survey (flash report) by the Japan Trucking Association published in November 2023, the percentage of respondents replying that they had a shortage or a slight shortage of labor from July to September 2023 worsened by 6.7pp compared to the previous survey (April to June 2023) to 65.4%. With regards to the future outlook as well, 69.7% answered that they anticipated having a shortage or a slight shortage, so the labor shortage is expected to continue for the present. Given this outlook, the Company intends to increase its appeal to customers by enhancing functions and options that contribute to their labor savings and automation. In 1H FY6/24, the Company engaged in a trial test for linking with an application that provides a visual representation in figures of work progress and productivity inside a warehouse. The application has contributed to increased operational efficiency for customers by enabling decision-making to be based on data rather than relying on experience or intuition.



Source: Prepared by FISCO from the Japan Trucking Association's Truck Transport Industry Business Sentiment Survey

Medium- to long-term growth strategy

(3) Integrating smart and online stores

With increasing interest in OMO marketing and increasing focus on inventory management methods to make it possible, the Company will accelerate its OMO response. Specifically, by expanding API* linkage with other companies' products, and by organizing and making available functions required by OMO marketing, the Company intends to promote development of Logizard ZERO-STORE and Logizard OCE and win orders for them. In 1H FY6/24, the Company continued to grasp and gather customer needs for OMO marketing and incorporate them on the function side.

* API (Application Programming Interface) refers to the connecting interface that connects software and applications. By connecting API with the products of other companies, the user can use functions that are not installed on its own company's systems, such as software and applications.

Along with these measures, the Company will actively continue sales promotion activities. In order to accommodate customers with warehouses in outlying regions and customers spread out across the country, the Company has actively carried out online sales promotion activities since before the pandemic. It has accumulated expertise in online customer acquisition and sales activities based on this experience. It will also hold offline events. These events are sales opportunities where new customers can be expected to be acquired, with existing customers attending the events together with prospective customers, for example. Offline communication is also important from the perspective of grasping customer needs and reflecting them in R&D. In fact, at "Logizard EXPO 2023 – Connecting with Cloud Services," which was held in November 2023, there was so much interest that the event had standing room only.

Shareholder return policy

Dividend payments conducted since FY6/22. For FY6/24, the Company forecasts dividends of ¥15.00 per share

Having expanded its business base, the Company has acquired the potential to secure stable earnings while working for business growth going forward through investment in human resources and products, so in FY6/22 it paid a dividend. For FY6/22, it paid a dividend of ¥14.95 per share and for FY6/23, it paid a dividend of ¥12.00 per share. For FY6/24, it is expecting to pay a year-end dividend of ¥15.00 per share.

The Company plans to continuously return profits to shareholders in order to further increase its enterprise value. It has a basic policy to pay a dividend with a dividend payout ratio of 20% or higher, while considering its financial condition and the state of internal reserves.

The Company is conducting upfront investment in product development based on the medium-term management plan, and if it can grow sales of cloud services in the future, we at FISCO think it may increase the dividend. This is because its subscription model has a high profit margin, so we expect that alongside the growth of sales, profits, which are the source of funds for dividends, are also likely to increase.



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