COMPANY RESEARCH AND ANALYSIS REPORT

Logizard Co., Ltd.

4391

Tokyo Stock Exchange Growth Market

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FISCO Ltd. Analyst
Ryoji Mogi

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

Contents

Summary

Increase in sales and profit driven by results of mainstay cloud services. Expected to improve profitability through the steady accumulation of monthly recurring revenue (MRR)

Logizard Co., Ltd. <4391> (hereafter, also "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 FY6/25, cloud services, which are highly profitable, provided 76.7% of sales).

1. Outline of results for 1H FY6/25

In the 1H FY6/25 results, net sales increased 11.8% year on year (YoY) to ¥1,106mn, operating profit rose 52.0% to ¥261mn, ordinary profit was up 52.2% to ¥262mn, and net profit was up 57.1% to ¥194mn. This increase in sales and profits was achieved through the steady implementation of measures to capture demand created by warehouse inventory management systems (WMS) needs expanding to B2B, the trend of using automation to make up for labor shortages, and the integration of smart technology and online business by stores. The double-digit growth of operating profit and subsequent lines of profit was particularly notable, surpassing the growth rate of net sales. As a result, the operating profit margin rose 6.3 percentage points (pp) to 23.7%. The smooth acquisition of new accounts for highly profitable cloud services and improvement in the gross profit margins for development and introduction services and device sales services contributed to this increase in profits. Additionally, alongside this rise in gross profit margins, the Company actively invested in human resources and product development in accordance with its medium-term management plan, while also keeping cost increases within appropriate levels, which greatly contributed to the steep rise in profits.

2. Outlook for FY6/25

For FY6/25 results, the Company is forecasting a 12.0% YoY increase in net sales to ¥2,214mn, 15.6% increase in operating profit to ¥400mn, 15.6% increase in ordinary profit to ¥400mn, and 11.3% increase in net profit to ¥281mn. The outlook for the business environment is favorable due to demand for automation and strong interest in OMO* marketing. Furthermore, the order backlog at the end of FY6/24 was at record levels and net sales are expected to increase YoY. By service, sales of mainstay cloud services are forecast to see a smooth increase of 8.8% YoY to ¥1,702mn, while sales of development and introduction services are expected to rise sharply by 41.1% to ¥447mn. Sales of device sales services are forecast to decrease by 32.6% to ¥64mn. In terms of profit, the Company expects to improve profitability while investing more aggressively in human resources and promotions by increasing the number of new accounts in profitable cloud services and appropriately controlling the increase in SG&A expenses.

* 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.

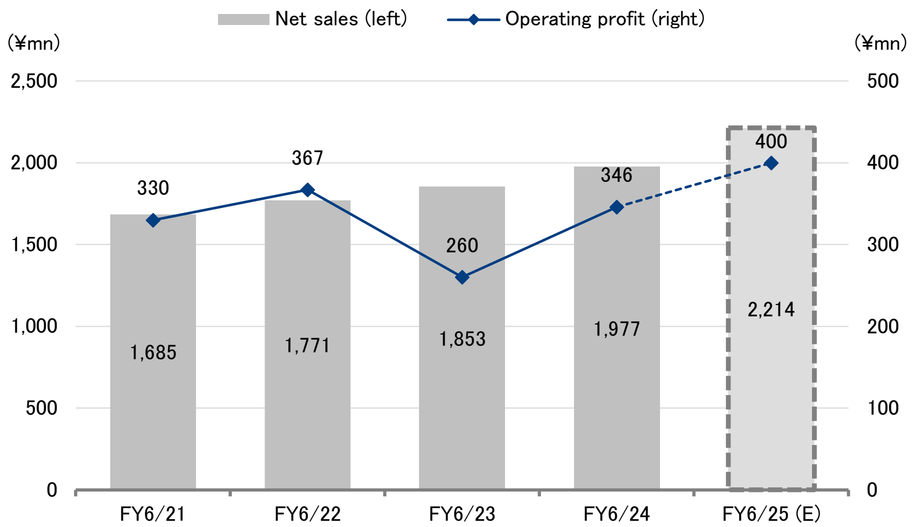
3. Overview of the medium-term management plan

Under its medium-term management plan, the Company aims to expand earnings and raise corporate value with a basic strategy of combining trendy products with high-contact service amid changes in the business environment and customer needs following the COVID-19 pandemic. In the WMS market, the Company anticipates growing needs for labor saving and automation as well as OMO marketing. In this context, it regards as business opportunities current trends such as WMS needs expanding to B2B, trend of using automation to make up for labor shortages, and integrating smart and online stores. Its strategy is to progress product development that fulfills current needs and establish and enhance structures for continuously delivering high quality services to capture changing customer needs and expand its earnings. Recently, inquiries have been brisk from companies in the B2B industry. At the same time, competition has intensified in the existing B2C market because of new players entering the business. The Company plans aggressive business expansion in the B2B industry while securing its share of the B2C market. It is also hiring more personnel and building its internal human resource system to refine its ability to provide value to customers. By solidly implementing these measures, the Company targets net sales of ¥1,896mn (up 21.2% from FY6/24) and ordinary profit of ¥493mn (up 42.5%) in mainstay cloud services in FY6/26, the final year of the medium-term management plan. It also aims to increase its work force to 157 in FY6/27.

Key Points

- Increase in sales and profit in 1H FY6/25 driven by results of mainstay cloud services
- Profitability expected to further improve through the steady accumulation of MRR
- Outlook for continued sales and profit growth in FY6/25. Outlook for the external environment is good
- 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

Results trends



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 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.

Going forward, the Company's policy is to accurately capture the new needs that have emerged since the COVID-19 pandemic to expand its earnings. Specifically, it seeks to incorporate new trends into its earnings results, including WMS needs expanding to B2B, trend of using automation to make up for labor shortages, and integrating smart and online stores. To this end, the Company will invest upfront in product development and hiring and training personnel, further strengthening its business base for earnings expansion and enhancement of corporate value in the medium to long term.

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 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 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 involve supporting the introduction of systems for customers that are using its cloud services; and device sales services, which sell devices necessary for warehouse work, such as dedicated printers to create barcode labels. In the percentage of total net sales by service in 1H FY6/25, cloud services provided 76.7%, development and introduction services 18.6%, and device sales services 4.8%. 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. 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.

(1) The Logizard ZERO warehouse inventory management system (WMS)

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 main 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 store inventory management system. 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 linkages to external systems. In FY6/24, system linkage began with "W2 Unified," an integrated e-commerce platform compatible with OMO/omni-channel* environments, "W2 Repeat," an e-commerce platform for D2C repeat mail order purchases, cloud-based video management platform "Safie," Shipping label issuing system "Ship&co," SaaS e-commerce system "futureshop," and inventory forecasting and gross profit maximization tool "LTV-Zaiko." The Company has also started trial testing system links with "SmaCo," a cloud service that visualizes warehouse operations, and logistics warehouse report tool "Quick Loda," continuously seeking to make its services more convenient for users.

* 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."

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./Ms. 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. 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.

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.

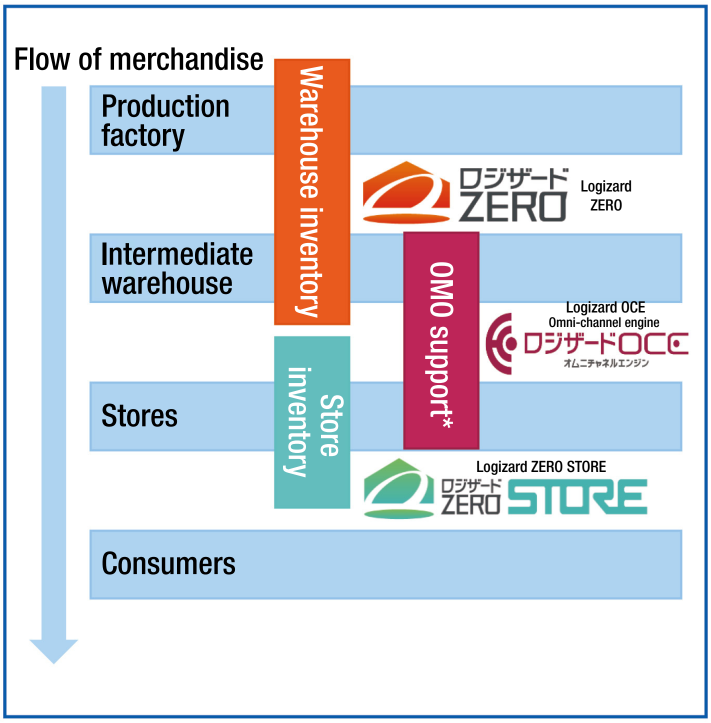
Specific usage scenarios include confirming inventory on a smartphone when there is an inquiry from a customer on whether a product is in stock, and if it is in stock, confirming which shelf it is on, such as in the backroom. This system makes it possible to respond quickly to consumers.

(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.

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.

The Company's cloud services and corresponding areas



* OMO…abbreviation of Online Merges with Offline

Source: 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 e-commerce support systems and order management systems, including GMO MAKESHOP Co., Ltd.

The Company is introducing unique systems as a way to capture customers, including exhibitions, online advertising, and a referral system called Introduction Partner. The number of attendees at its seminars and exhibitions is on an upward trend. These events are also available to existing customers as opportunities to gather information, creating points of contacts with customers. The Company is also promoting its strong track record of WMS introductions and is receiving lots of inquiries through its website.

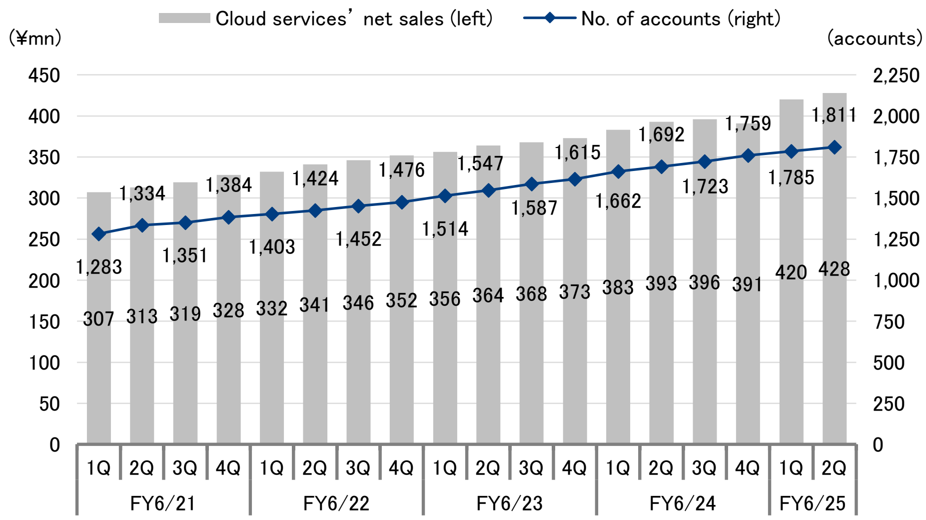
Additionally, there are cases where the Company has been mistaken for a warehousing company due to the Logizard name, so it is responding to these kinds of inquiries by providing Logizard Matching, a completely free service that provides referrals to logistics and warehousing companies in the Company's network. We at FISCO believe this is a unique initiative that will lead to future customer acquisition.

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 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 through the 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.

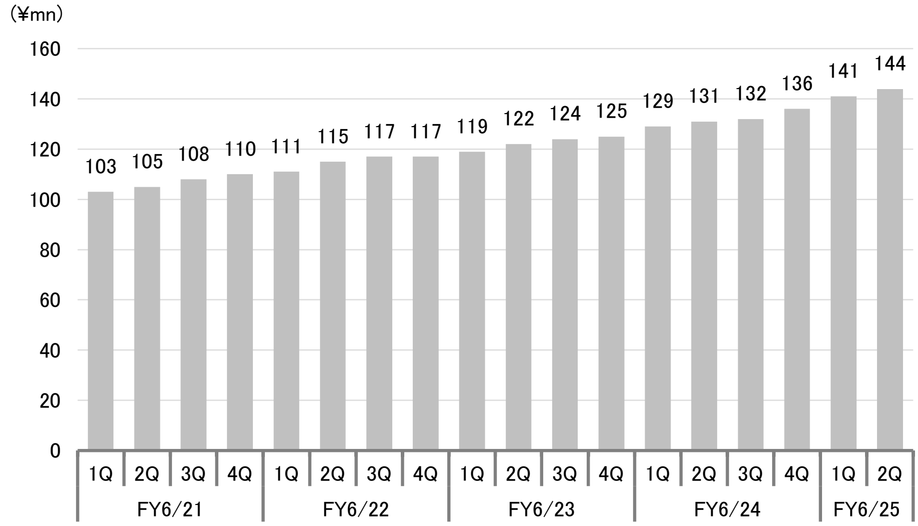
Also, as was mentioned above, the Company is able to stably generate earnings through adopting a subscription model. It continuously upgrades the versions of its products so that they reflect customers' current needs, which contributes to lowering the cancellation rate. At FISCO, we expect solid earnings expansion as a result of keeping the cancellation rate of existing customers low and increasing the number of new customers. By maintaining an increase of new accounts while keeping the cancellation rate at a low level, the Company is steadily building up its MRR.

Trends in cloud services' net sales and the number of accounts



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

Trends in MRR



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. There is a shortage of human resources to progress digitalization particularly among small- and medium-sized companies, which are the Company's main customers. According to the Ministry of Economy, Trade and Industry's 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 such personnel. In addition, according to the 2024 White Paper on Small and Medium Enterprises, 38.2% of companies responded that there was a shortage of personnel to advance digitalization, including those that answered that they were "in a state of shifting from analog conditions to a business environment in which digital tools were used." This suggests that personnel for promoting digitalization remains in short supply. Within this environment, we at FISCO think that demand for the Company's services will remain strong, because they can be easily introduced via the cloud and have a comprehensive support structure able to respond to requests 365 days a year. Furthermore, the Company has noted that there is a shortage of IT personnel among relatively large B2B companies as well. As the 2025 digital cliff (the 2025 digital cliff is referred to in a report released by the Ministry of Economy, Trade and Industry in 2018, which states that if Japanese companies fail to promote their management reforms through digital transformation, economic losses of up to ¥12tn per year will be incurred after 2025) approaches, a shortage of personnel for updating on-premises legacy systems remains in Japan, raising expectations of a growing need for the Company's cloud-based services.

Results trends

Increase in sales and profit in 1H FY6/25. Profitability improved with double-digit growth for each line of profit

1. Outline of results for 1H FY6/25

In the 1H FY6/25 results, net sales increased 11.8% YoY to ¥1,106mn, operating profit rose 52.0% to ¥261mn, ordinary profit was up 52.2% to ¥262mn, and net profit was up 57.1% to ¥194mn. This increase in sales and profits was achieved through the steady implementation of measures to capture demand created by WMS needs expanding to B2B, the trend of using automation to make up for labor shortages, and the integration of smart technology and online business by stores. The double-digit growth of operating profit and subsequent lines of profit was particularly notable, surpassing the growth rate of net sales. As a result, the operating profit margin rose 6.3pp to 23.7%. The smooth acquisition of new accounts for highly profitable cloud services and improvement in the gross profit margins for development and introduction services and device sales services contributed to this increase in profits. Additionally, the Company actively invested in human resources and product development in accordance with its medium-term management plan, while also keeping cost increases within appropriate levels, which greatly contributed to the steep rise in profits.

Amid the profitability improvement, the rate of progress on the FY6/25 forecasts was 50.0% for net sales, 65.4% for operating profit, 65.4% for ordinary profit, and 69.2% for net profit. Performance on each line of profit was generally good. Looking at cost of sales, in labor costs, wages increased 8.1% in accordance with efforts to strengthen human resources, but all other expenses related to labor shrank, resulting in a decrease of 0.9% overall. Outsourcing costs increased 40.3% due to increased investment in order delivery and product development, while server costs rose 13.7% due to investment in increasing server capacity and strengthening security in response to the growing number of accounts. Furthermore, rent expenses rose following an increase in office size in the previous fiscal year and there was an increase in amortization expenses associated with the accumulation of software assets. In SG&A expenses, personnel expenses increased 2.5% as the establishment of human resources systems enabled the Company to secure more personnel, but R&D investment shrank by 88.9% as projects previously in the R&D phase transitioned into the product development phase. There were also increases in other expenses, such as travel expenses and order support costs.

By service, the mainstay cloud services posted net sales of ¥848mn (up 9.3% YoY) and the gross profit margin increased by 9.7pp to 65.7%. Under its medium-term management plan, the Company is focusing on attracting customers in the B2B market, and it made steady progress on winning new transactions from B2B companies. Inquiries from B2C companies (its main customers) also remained brisk. As a result, the number of accounts at the end of 1H FY6/25 increased by 52 compared to the end of FY6/24 to 1,811 and MRR grew 5.9% to ¥144mn. Efforts to strengthen linkage with external systems and enhance product features, as well as conducting aggressive online-offline promotion activities, kept cancellation rates low while increasing the number of new customers, which contributed to earnings expansion. Development and introduction services posted net sales of ¥205mn (up 22.5%) and the gross profit margin increased by 1.0pp to 33.9%. Sales increased due to an increase in projects fulfilling B2B needs. Device sales services posted net sales of ¥52mn (up 14.2%) and the gross profit margin increased by 3.6pp to 36.7%. Sales increased due to the steady performance of supply products, such as dedicated printers to create barcode labels and shipping forms.

As well, the Company has made solid progress with initiatives set out in its medium-term management plan. In addition to making progress with linkages to external applications designed to save labor and core systems for B2B companies, it has also established a new personnel system and enhanced its internal organization.

Results for 1H FY6/25

(¥mn)

	1H FY6/24		1H FY6/25			
	Results	% of net sales	Results	% of net sales	Change	% of change
Net sales	990	-	1,106	-	116	11.8%
Operating profit	172	17.4%	261	23.7%	89	52.0%
Ordinary profit	172	17.4%	262	23.7%	89	52.2%
Net profit	123	12.5%	194	17.6%	70	57.1%
Net profit per share (¥)	38.77	-	60.52	-	22	56.1%

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

2. Progress on product measures

(1) WMS needs expanding to B2B

Examples of the Company tackling WMS needs expanding to B2B are the introductions at AEON RETAIL Co., Ltd. and SANYEI CORPORATION <8119>.

AEON RETAIL is developing LULUTI, a service for renting formal wear through both physical and e-commerce stores. In September 2023, it introduced the Logizard ZERO cloud-based WMS with the aim of enabling deployment at a large number of stores and standardizing warehouse management. Before this introduction, it had been managing over 2,000 items in its warehouses through analog methods, which resulted in cases of human error, but with support from the Company, it has established a workflow and is able to visualize the status of rentals, returns, and cleaning using RFID* tags. Inventory turnover has also been optimized through linkage with its e-commerce system, resulting in a reduction in human error of about 80%. Regular warehouse management ends when an order for an item in storage comes in and the item is then shipped, but rental businesses operate a cyclical process in which rented items are returned and then shipped out again. At FISCO, we see this realization of a standardized warehouse management system in the rental industry, where individualized management is essential, as a considerable success.

* 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.

SANYEI CORPORATION operates an e-commerce business for furniture and gardening products, but a sudden increase in demand during the COVID-19 pandemic led to issues with its analog warehouse and shipment management processes. After considering WMS introduction, it decided to adopt Logizard ZERO, which can be operated in coordination with the Next Engine order management system. The introduction of automated shipping instructions for multiple warehouses and barcode management has decreased erroneous shipments and increased efficiency to the point that overtime work is almost nonexistent. It has also shrunk lead times and enabled the company to handle delivery requests, leading to a further increase in orders.

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

The Company is addressing the trend of using automation to make up for labor shortages by realizing labor savings through linkage to AI logistics robots and the strengthening of optional functions like RFID, an automated recognition technology based on short-range wireless communication, as well as enabling automated coordination with apps created by other companies.

As the products handled by customers can vary considerably, at present, the introduction of RFID can lead to issues, such as how the radio waves are received, that are unique for each workplace. However, the system has been evaluated highly, with some companies that have introduced it saying that stocktaking process can be completed in just 10 minutes. Two stumbling blocks regarding RFID are that the unit cost is high compared to barcodes and that it is dependent on automated recognition, which can create issues in customer environments where it is difficult to control the receipt of radio waves. However, in recent years the unit cost has been trending downward, which has just about eliminated issues concerning cost.

One example concerning automated coordination with apps created by other companies is the introduction at SAGAWA EXPRESS CO., LTD., where a system was established in which the shipping label issuance function coordinates with API* to automatically issue shipping labels. This automated coordination reduced the workload on the shipper, while the API coordination also enables the warehouse company to take on requests from the shipper as a proxy.

* 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.

(3) Integrating increasingly smart stores with online stores

In regard to the integration of increasingly smart stores with online stores, otherwise known as OMO, traditional warehouse management systems do not go beyond warehouse management, but as more and more business are integrating physical and online sales, there is demand for the centralized management of both warehouse and store inventories.

The cloud-based store inventory management system Logizard ZERO-STORE is an example of an initiative to capture this demand. It uses a camera function contained within an app to detect barcodes related to the receipt, shipping, and movement of products to enable the real-time checking of store inventory levels. This means that store staff can check inventory instantly and respond to customers more quickly. It can also link with peripheral systems such as Smareji and Shopify to provide omnichannel support. Furthermore, by linking with the Logizard ZERO cloud-based WMS, it can be used to centrally manage both warehouse and store inventory and to check shipment and receipt records in real time. These functions are expected to make inventory management more efficient and raise customer satisfaction.

(4) Launch of a technology partnership and joint research with Plat'Home Co., Ltd.

On February 13, 2025, the Company and Plat'Home concluded a technology partnership agreement concerning joint research on utilizing Plat'Home's block chain technology in logistics fields. The logistics industry is facing a wide range of issues, including labor shortages and rising transportation costs associated with the "2024 problem," so raising efficiency is an urgent matter for the entire industry. The Company's Logizard ZERO cloud-based WMS is being used at over 1,800 logistics facilities, and it is accumulating information and data pertaining to warehouse management operations on a daily basis. This research project will aim to combine the logistics big data gathered by Logizard ZERO with ThingsToken™ block chain technology developed by Plat'Home with the aim of contributing to the logistics industry by exploring the possibilities presented by utilizing Web3 technology in logistics facilities. ThingsToken™ is a system that can virtualize real world assets (RWA), such as objects, facilities, and devices to link Web2 and Web3 worlds, accelerating token economics related to RWA. It is a registered trademark of Plat'Home.

The equity ratio is at the high level of 87.6%. 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

3. Financial condition and business indicators

Looking at the Company's financial condition at the end of 1H FY6/25, total assets increased by ¥125mn from the end of the previous fiscal year to ¥2,382mn. Current assets increased by ¥57mn from the end of the previous fiscal year to ¥1,917mn. This was mainly due to a ¥51mn increase in cash and deposits due to a recovery of funds. Non-current assets increased by ¥68mn from the end of the previous fiscal year to ¥464mn. This was mainly due to a ¥27mn increase in software to upgrade the basic functions of Logizard ZERO.

Total liabilities decreased by ¥37mn from the end of the previous fiscal year to ¥294mn. This was mainly due to the payment of accrued bonuses. Net assets increased by ¥163mn from the end of the previous fiscal year to ¥2,087mn, mainly because of a ¥138mn increase in retained earnings resulting from net profit recorded in 1H FY6/25.

Looking at management indicators, the current ratio is 650.9% and the non-current ratio is 22.3%. The current ratio increased by 90.3pp and the non-current ratio increased by 1.7pp from the end of the previous fiscal year. 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 87.6%, having risen 2.3pp from the end of the previous fiscal year. 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)

	End-FY6/24	End-1H FY6/25	Change
Current assets	1,860	1,917	57
Cash and deposits	1,537	1,588	51
Non-current assets	396	464	68
Total assets	2,256	2,382	125
Total liabilities	331	294	-37
Current liabilities	331	294	-37
Net assets	1,924	2,087	163
Retained earnings	1,453	1,591	138
Total liabilities and net assets	2,256	2,382	125
<Main management indicators>			
Equity ratio	85.3%	87.6%	2.3pp
Current ratio	560.6%	650.9%	90.3pp
Non-current ratio	20.6%	22.3%	1.7pp

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

4. FISCO's opinion

The 1H FY6/25 results demonstrate the steady progress and success of various measures the Company is advancing and it is extremely likely that it will achieve its full-year targets. Also, as these measures are building a base for medium- to long-term growth, we hold great expectations regarding the Company's future growth potential.

In cloud services, the long-term target for number of accounts is a minimum of at least 3,000. It is focusing on both capturing new accounts and preventing cancellations and it has been cultivating both the B2B and B2C markets, but in recent years, it has concentrated on strengthening measures to enhance convenience for B2B companies that are struggling with logistics issues. Previously it was able to grow account numbers among small retailers with no physical stores, but going forward we think it will target companies that have yet to introduce its systems, including major retailers, and companies that still practice management using outdated systems, such as Excel-based systems, and have room to upgrade. Also, even after an introduction is completed, the Company strives to prevent cancellations through measures such as offering various types of support through its engineers, and automatically adding a regular version update function. Additionally, the gross profit margin tends to improve in proportion to the increase in the number of accounts, and looking at the gross profit margin trend from FY6/23 onward, after bottoming out in 4Q FY6/23 at 54.6%, it has fluctuated in waves, arriving at 65.7% as of 1H FY6/25. This movement is due to its close relationship to rises in MRR and introduction support personnel capacity. The Company's cloud services require high levels of expertise and it takes a certain amount of time to train personnel to this level. This pushes cost of sales upward, temporarily lowering the gross profit margin. However, once these personnel become proficient enough to work on projects, the gross profit margin rises again. Currently the Company is actively increasing its workforce, so we think it is likely that the gross profit margin will continue to fluctuate going forward.

In development and introduction services, the lead time from order to delivery can vary depending on the scale of the project. Some projects only require a short amount of time until delivery, while larger projects can take a long time leading up to the order, and there are even cases where it takes about three months to define requirements. In regard to incorporating the customer' opinions during development, the Company launches initial development based on the customer's requests and then development is advanced in a way that is individualized to each customer. Within this, high-demand functions are being standardized and turned into built-in product functions. The Company's products include regular version updates and there are cases where some functions are introduced in advance on an experimental basis in anticipation of user needs.

Looking at the Company's personnel plans, it has recruited 132 employees (87 engineers and 45 corporate and sales staff) in FY6/25 and 125 employees (82 engineers and 43 corporate and sales staff) as of the end of 1H FY6/25. This means it has achieved its full-year target of 132 a little ahead of schedule. In regard to changes in work styles following the pandemic, while the number of companies that are encouraging their employees to return to the office is increasing, the Company's policy is to maintain flexible work styles in accordance with the type of work an employee does. Development personnel and programmers are able to work remotely on a full-time basis while introduction personnel in customer-facing roles work in a hybrid style that combines remote work and office attendance. Management departments also use work patterns that combine remote and office work, with each department setting a number of days for in-person attendance with a view to encouraging communication between employees.

In addition, the technology with Plat'Home is expected to result in the effective use of large volumes of inventory information and big data related to transportation, delivery, and storage. While the number of accounts in the Company's cloud services is currently over 1,800, the situation regarding the handling of each account's information has been concluded on an account-by-account basis. The Company is considering the possibility of a joint research to integrate this information, which it believes could contribute to more efficient transportation and storage.

As shown above, the Company is steadily advancing initiatives in each field and responding flexibly to customer needs. We think it has established a framework that will result in further growth in the future.

Outlook

The Company is expecting continued sales and profit increase in FY6/25, expecting improved profitability on growth of cloud services despite being in an upfront investment phase

For its FY6/25 results, the Company is forecasting increases of 12.0% YoY in net sales to ¥2,214mn, 15.6% in operating profit to ¥400mn, 15.6% in ordinary profit to ¥400mn, and 11.3% in net profit to ¥281mn.

The outlook for the business environment remains favorable amid the heightened need for automation and growing interest in OMO marketing. In this context, the Company expects its mainstay cloud services business to continue performing strongly and forecasts a steep increase in net sales of development and introduction services. The order backlog at the end of FY6/24 was a record high, which will also likely contribute to the increase in topline earnings. As a result, the Company expects net sales to grow at a higher rate than in FY6/24. In terms of profit, the Company expects to improve profitability while investing more aggressively in hiring and training human resources and promotions by increasing the number of new accounts in profitable cloud services and appropriately controlling the increase in cost of sales and SG&A expenses. It plans to respond appropriately to changes in the market, which will lead to earnings expansion by steadily implementing the initiatives set out in the medium-term management plan.

For cloud services, the Company is forecasting an 8.8% YoY increase in net sales to ¥1,702mn. The Company will continue to focus on acquiring new customers, mainly in the B2B business, while maintaining and steadily increasing its market share in the B2C business. It plans to make its services more competitive by strengthening optional functions, progress linkages to external apps, and promote response to OMO marketing, thereby increasing the number of new accounts while keeping cancellation rates stable at a low level.

The Company forecasts a sharp 41.1% YoY increase to ¥447mn in net sales of development and introduction services. As noted previously, the problem of longer lead times was resolved by progressing function standardization and proposal streamlining. It plans to accelerate earnings expansion by responding quickly to each project at a time when customer inquiries are brisk.

The Company is forecasting a 32.6% YoY decline in net sales of device sales services to ¥64mn. The outlook for lower sales is not a reflection of problems in business activities per se, but is mainly due to the dropout of sales of large equipment in FY6/24 and a reactionary downturn after steep growth in the previous fiscal year.

Establishment of new business departments to strengthen order acceptance and delivery and strengthening the product development structure will also likely contribute toward attaining the Company's forecast. It began investing upfront to expand its work force in FY6/23. As a result of having more human resources, the Company has established independent departments responsible for the delivery and product development structures. Having formed an internal structure capable of continuing product development while expanding orders, the Company aims to accelerate its growth.

Outlook for FY6/25

(¥mn)

	FY6/24		FY6/25		YoY	
	Results	% of net sales	Forecast	% of net sales	Change	% of change
Net sales	1,977	-	2,214	-	237	12.0%
Operating profit	346	17.5%	400	18.1%	54	15.6%
Ordinary profit	346	17.5%	400	18.1%	54	15.6%
Net profit	252	12.8%	281	12.7%	29	11.3%

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 2024, the Company unveiled a new medium-term management plan (FY6/25–FY6/26) in response to changes in the business environment and customer needs that have emerged since the COVID-19 pandemic and recent earnings trends. It is adjusted from the previous medium-term management plan on a rolling basis, but the basic policy is unchanged. It focuses on expanding business performance and increasing corporate value based on the basic strategy of combining trendy products with high-contact service. In the WMS market, there is a growing need for labor saving and automation as well as OMO marketing. The Company prioritizes as trendy products those that address WMS needs expanding to B2B, trend of using automation to make up for labor shortages, and integrating smart and online stores. It plans to invest upfront in R&D and product development, and in hiring and training personnel with a view to building services and structures that fulfill needs expected to grow 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.

The Company revised up its performance targets to reflect continued brisk performance of cloud services in FY6/24. In FY6/26, the final year of the medium-term management plan, the Company targets net sales of ¥1,896mn (up 21.2% from FY6/24; up ¥21mn from the previous announcement) and ordinary profit of ¥493mn (up 42.5%, up ¥59mn) for cloud services. As well, it aims to increase its work force to 157 in FY6/27 to strengthen its structure. We at FISCO see a potential upside to the profit forecast, because the direction of the medium-term management plan reasonably reflects changes in the external environment, cloud services are a profitable and stable earnings foundation, and unit prices are likely to rise amid the uptick in B2B projects.

2. Specific trends and response policies

(1) WMS needs expanding to B2B

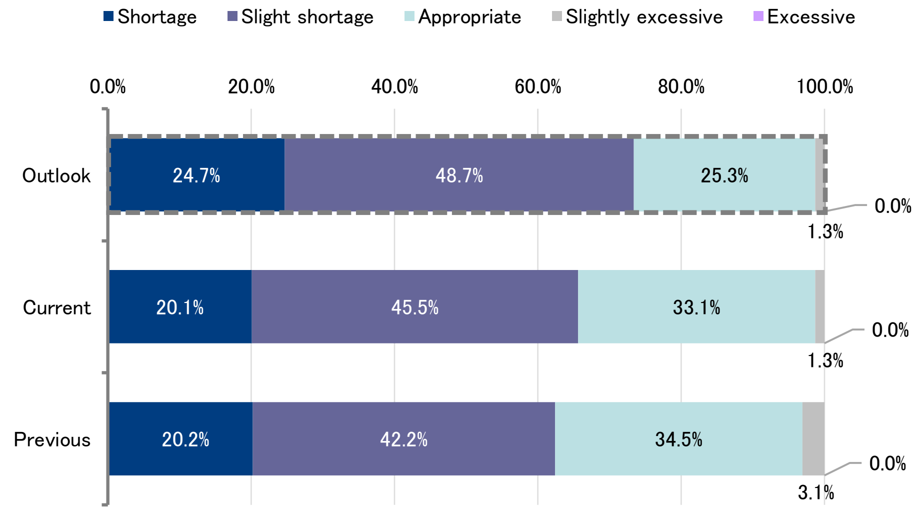
In order to accommodate increasing needs for OMO marketing among B2B companies, the Company will search for and make available distinct B2B functions required by different workflows, from allocation methods to packing slips, shipping tags, SCM labels, serial shipping, and traceability, and will actively acquire customers among B2B companies. Background factors for this are brisk inquiries by B2B companies and the rising need for companies to break away from legacy systems and implement logistics DX. To secure profits, the Company intends to enter B2B market, where it can demonstrate its strengths and the market is large and SaaS WMS has not yet penetrated, while maintaining its share of the B2C market. In addition, it intends to grow into the standard WMS in the B2B market while determining how it will handle the industry standard EDI.

With regard to making available functions required by B2B, the Company is creating functions in line with B2B workflows while collaborating with customer companies. Most recently, the Company added pick-up in store and store shipment functions for online orders to Logizard ZERO-STORE as standard functions. It also began API linkage with Akikurabugyo Cloud by linking with core systems for B2B companies. The Company initially started a B2B business whose mainstay service was a WMS for the apparel industry. With this experience, we assume that the Company is fully capable to creating systems suited to B2B services. The number of services introduced by B2B customers is on the increase, including the introduction of Logizard ZERO by Bed & Mattress, whose logistics warehouse shipping capacity grew by more than 500%.

(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 February 2025, the percentage of respondents replying that they had a shortage or a slight shortage of labor from October to December 2024 worsened by 3.2pp compared to the previous survey (July to September 2024) to 65.6%. With regards to the future outlook as well, 73.4% 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. It recently began linkage with gross profit maximization tool "LTV-Zaiko," which sharply reduced the time it takes to obtain and collate inventory data. In this way, the Company is aggressively pursuing linkage with external systems that help customers improve efficiency of business operations or introduce automation.

Sentiment on the labor shortage in the transportation industry



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

(3) Integrating increasingly smart stores with 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 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. The Company will continue to help customers further optimize inventory management and improve the quality of consumers' shopping experience by focusing on strengthening and expanding functions while understanding customers' needs.

In addition to these various product measures, the Company intends to focus investment to enhance its internal organization and personnel system so it can continue to deliver high-contact service. Based on this policy, it established a new personnel system in FY6/24 that allows employees to feel safe in their work. The Company seeks to improve employee turnover and add depth to its human resources by enhancing its personnel system while hiring new employees. As its work force expands, the Company established the Solution Department responsible for order acceptance and delivery, and Product Service Department responsible for product development.

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, through which it has accumulated expertise in customer acquisition and sales activities. It also holds 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 can also be considered important from the perspective of grasping customer needs and reflecting them in R&D.

Shareholder return policy

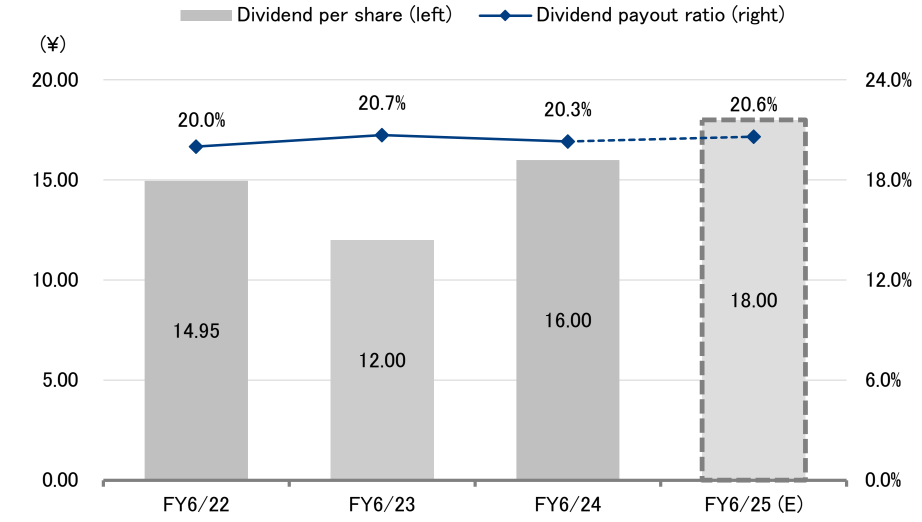
Dividend payments conducted since FY6/22. For FY6/25, the Company forecasts dividends of ¥18.00 per share

The Company has been paying dividends since FY6/22, as the expansion of its business base has allowed it to secure stable earnings while pursuing business growth through investments in human resources and products. The Company paid a dividend of ¥14.95 per share in FY6/22, ¥12.00 in FY6/23, and ¥16.00 in FY6/24. For FY6/25, it is expecting to pay a dividend of ¥18.00.

The Company plans to continuously return profits to shareholders in order to further increase its corporate 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.

Recent performance of its mainstay cloud services has been robust. Having a subscriptions-based earnings model, cloud services are profitable and a stable earnings foundation. The unit price per project is also likely to rise as the Company actively acquires B2B companies as customers. We at FISCO think that the dividend could be raised if the Company can steadily accumulate profits while growing topline earnings.

Dividend per share and dividend payout ratio



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

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