

COMPANY RESEARCH AND ANALYSIS REPORT

Nippon Computer Dynamics Co., Ltd.

4783

Tokyo Stock Exchange Standard Market

13-Jan.-2023

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FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

A growth strategy of being a total solution provider

Nippon Computer Dynamics <4783> (hereinafter referred to as “the Company”) is a pioneer as an independent system integrator with a history of over 50 years and pursues a growth strategy of being a total solution provider. In April 2022, the Company formulated the Group purpose: “Powering the world with passion.” which incorporates the aspiration, “We dream of building a future where everyone can be their fullest selves.” It also partially modified its corporate philosophy to become “Contributing a bright future through unique technologies and services.”

1. A characteristic stable income structure based on total solutions and stock-type sales

The Company operates in three business areas – IT-related System Development Business (system integration), Support and Service Business (service integration), and Parking System Business for unattended bicycle parking lots utilizing IT solution knowhow (parking solutions). The Company’s strength lies in its advanced technologies and high-quality services cultivated through an extensive track record of over 50 years, and one-stop service provision to deliver total solutions. Furthermore, the IT-related Business is characterized by a stable income structure with as much as 70% of income from stock-type sales, supported by a strong client base and long-term continuous transactions with major blue-chip companies.

2. 1H FY3/23 finished with major increases in sales and profits

In 1H FY3/23 consolidated results, the Company recorded major increases in sales and profits, with ¥10,672mn in net sales, an increase of 15.4% year on year (YoY), ¥513mn in operating income, an increase of 24.9%, ¥523mn in ordinary income, an increase of 24.7%, and ¥324mn in net income attributable to owners of the parent, an increase of 20.2%. From a net sales aspect, the IT-related Business (System Development Business, Support and Service Business) continued to perform strongly against a backdrop of demand for DX, and in the Parking System Business, net sales showed a recovery trend centered on increased bicycle parking lot usage fee income accompanying the easing of restrictions on activities. For operating income, overall, there was a significant increase in operating income despite a slight decrease in income in the System Development Business and Support and Service Business due to personnel expenses and other upfront investments, but in the Parking System Business there was a tendency toward recovery due to factors such as the effect of increased revenue.

3. Full-year forecast for FY3/23 remains unchanged, but there is a possibility of outperforming forecasts

In FY3/23 consolidated guidance, the Company forecast remains unchanged and it is projecting ¥21,000mn in net sales, an increase of 2.2% YoY, ¥1,000mn in operating income, an increase of 10.8%, ¥1,030mn in ordinary income, an increase of 7.6%, and ¥600mn in net income attributable to owners of the parent, an increase of 30.9%. The IT-related Business is expecting strong growth backed by expansion in DX investment by corporate customers, and in the Parking System Business, despite a sense of uncertainty, the easing of the impact of the spread of novel coronavirus (COVID-19) and the gradual recovery are expected to continue. On the cost front, the Company projects double-digit growth in operating income as the effects of higher sales and increased productivity absorb expanded strategic investments associated with human capital and DX promotion. The forecast looks conservative overall considering that the progress rate in the 1H was steady, income characteristics of the Company have a high composition in the 2H, the impact of the change in method of the reserve for bonuses that held down operating income in 1H will be alleviated in 2H, and the pace of recovery of net sales in the Parking System Business is increasing, so we expect improved productivity and greater operational efficiency. We assess there is a high likelihood the Company will exceed full-year guidance.

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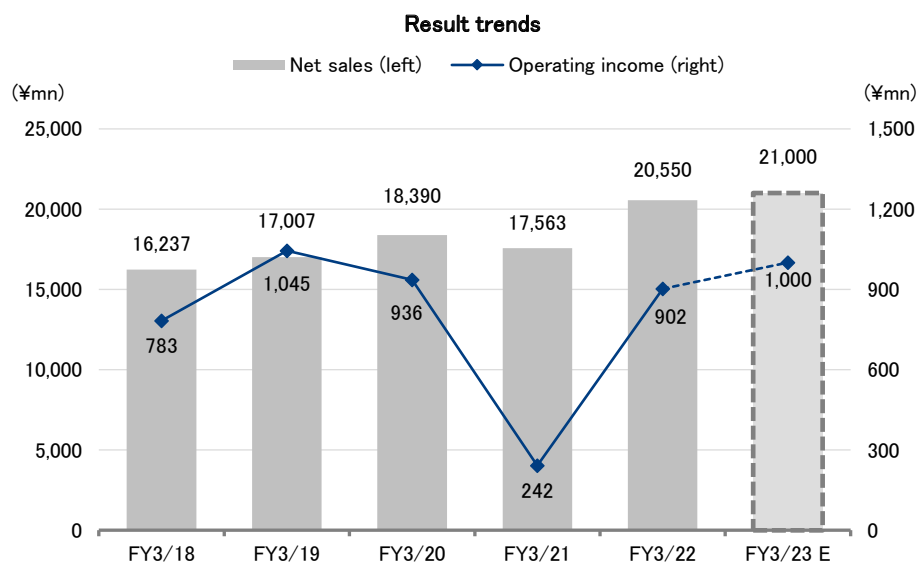
Summary

4. Pushing improved profit margin to head toward a new growth stage

The Company is expected to achieve the numerical targets for both net sales and operating income for FY3/23, the final fiscal year of the current medium-term management plan, “Vision 2023.” For the next medium-term management plan, from FY3/24 onward, the policy is particularly to push for an improved profit margin. According to Representative Director and President Osamu Shimojo, who spoke with enthusiasm, “The business environment for the Parking System Business has changed dramatically under COVID-19, but the IT-related Business is steadily growing in earning capability. Under the next medium-term management plan, we will transform while being aware of sustainability management and accelerate our challenges in new fields as well as work on management with a particular awareness of improving the profit margin.” The policy is to further improve added value by strengthening the coordination between stock (operation) and flow (development). The IT-related Business will not only be a growth driver, but we believe the Company will enter a new growth stage by proactively expanding business toward improving the profit margin.

Key Points

- A growth strategy of being a total solution provider
- Full-year forecast for FY3/23 remains unchanged, but there is a possibility of outperforming forecasts
- Pushing improved profit margin to head toward a new growth stage under next medium-term management plan



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

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Company profile

Pioneering independent system integrator with a history of over 50 years

1. Company profile

The Company is a pioneer as an independent system integrator with a history of over 50 years. The Company pursues a growth strategy of being a total solution provider and in April 2022, formulated the Group purpose: "Powering the world with passion." which incorporates the aspiration, "We dream of building a future where everyone can be their fullest selves."

As of the end of 1H FY3/23, the Company's business bases were its Head Office (Shinagawa Ward, Tokyo), Odaiba Office (Koto Ward, Tokyo), Koto Service Center (Koto Ward, Tokyo), Fukuoka Office (Hakata Ward, Fukuoka Prefecture), Kokura Office (Kitakyushu City, Fukuoka Prefecture), Nagasaki Office (Nagasaki City, Nagasaki Prefecture; including the MSC (Managed Service Center)), and Goto Office (Goto City, Nagasaki Prefecture).

The Group is comprised of the Company and its subsidiaries, which include NCD Technology CO., Ltd., ZEXIS CORPORATION, NCD CHINA Co., Ltd., NCD EST Co., Ltd., and NCD PROS., Ltd. (ownership ratio: 67%). NCD Technology conducts support and service in the IT-related Business, such as system development; ZEXIS conducts support and service in the IT-related Business, such as system development, mainly for the Panasonic Holdings <6752> Group; NCD CHINA conducts a System Development Business in China; NCD EST conducts a parking system business in Kyushu; and NCD PROS conducts a bicycle parking lot management and operations business.

At the end of 1H FY3/23, total assets were ¥11,375mn, net assets were ¥4,750mn, capital stock was ¥438mn, the equity ratio was 41.4%, and the number of issued shares was 8,800,000 shares (including treasury shares of 728,932 shares).

Introducing the Group companies

NCD Technology Co., Ltd.
Established November 2000
Capital stock ¥40mn
Ownership ratio 100%
Net sales ¥1,741mn

System Development
Business

Support and Service
Business

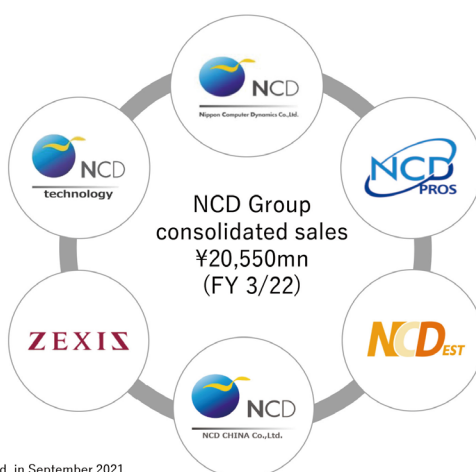
ZEXIS CORPORATION
Established March 1969
Capital stock ¥96mn
Ownership ratio 100%
Net sales ¥1,996mn

System Development
Business

Support and Service
Business

*Renamed from YANOSANGYO., Ltd. in September 2021

Source: From company explanatory materials



NCD PROS., Ltd.
Established March 2018
Capital stock ¥30mn
Ownership ratio 67%
Net sales ¥721mn

Parking System
Business

NCD EST Co., Ltd.*
Established April 1978
Capital stock ¥10mn
Ownership ratio 100%
Net sales ¥169mn

Parking System
Business

NCD CHINA Co., Ltd.
Established April 2005
Capital stock US\$600,000
Ownership ratio 100%
Net sales ¥60mn

System Development
Business

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Company profile

2. History

The Company was established in March 1967 when it launched the System Development Business. It then launched the Support and Service Business in October 1995, and the Parking System Business in October 1997. Regarding stock market-related matters, in September 2000, the Company registered for over-the-counter trading with the Japan Securities Dealers Association (it was subsequently listed on the Tokyo Stock Exchange (TSE) JASDAQ market following the merger of the exchanges). In April 2022, the Company was transferred to the TSE Standard Market following the reorganization of markets on the exchange.

In Group companies, the Company established Nihon System Research (now, NCD Technology) in November 2000, established NCD CHINA in April 2005, acquired ZEXIS CORPORATION as a subsidiary in December 2007 (made it a wholly owned subsidiary in August 2008), established NCD PROS in March 2018, and acquired YANOSANGYO (renamed NCD EST in September 2021) as a subsidiary in April 2019.

History

Date	Event
March 1967	The Company was established in Ebisu, Shibuya Ward, Tokyo, as a software development company
January 1970	In the Middle and Near East, it succeeded in developing and installing comprehensive systems, becoming the first company in Japan to develop software overseas
September 1976	Deployed the PRIDE system development methodology (developed by US-based MBA) as the first user in Japan
April 1979	Opened the Fukuoka Sales Office as a business site (currently, the Fukuoka Office)
February 1990	Received certification as a "system integrator" from the Ministry of International Trade and Industry (currently, the Ministry of Economy, Trade and Industry)
October 1995	Launched the Support and Service Business
October 1997	Merger of Finetech Systems Co., Ltd., C.A.P Co., Ltd., and Holon Co., Ltd.
October 1997	Launched the Parking System Business
April 1999	Relocated the Head Office to Nishi-Gotanda, Shinagawa Ward, Tokyo
September 2000	Registered for over-the-counter trading with the Japan Security Dealers Association
November 2000	Established Nihon System Research Co., Ltd. (currently, NCD Technology)
December 2004	Listed shares on the JASDAQ market of the Tokyo Stock Exchange
April 2005	Established NCD CHINA Co., Ltd. in the Huayuan Industry Area, Tianjin, China
June 2006	Acquired the Privacy Mark certification
May 2007	Acquired ISO 9001 certification (certification of the Fukuoka Sales Office as a related business office)
December 2007	Acquired ZEXIS CORPORATION as a subsidiary
May 2011	Opened the Nagasaki Sales Office as a business site (currently, the Nagasaki Office)
March 2013	The number of bicycle parking lot management units in the Parking System Business surpassed 300,000 units
November 2015	Opened the Koto Service Center as a business site
March 2017	50th anniversary of the Company's establishment
March 2018	Established NCD PROS., Ltd. (subsidiary with a 67% stake)
April 2019	Acquired YANOSANGYO., Ltd. (renamed NCD EST in September 2021), as a subsidiary
October 2019	Opened the Odaiba Office as a business site
April 2020	Opened the Goto Office (Goto City, Nagasaki Prefecture) as a business site
April 2020	The number of bicycle parking lot management units in the Parking System Business surpassed 500,000 units
April 2021	The number of bicycle parking lot management units in the Parking System Business surpassed 600,000 units
September 2021	Acquired gold authorization as a company with an outstanding approach to health and productivity management
October 2021	Established the Sustainability Promotion Committee
April 2022	Transferred to the Tokyo Stock Exchange Standard Market
April 2022	Formulation of purpose and partial amendment of corporate philosophy

Source: Prepared by FISCO from the Company's homepage and materials

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Business overview

Promotes IT-related Business (System Development Business, Support and Service Business) and Parking System Business

1. Business overview and characteristics/strengths

The Company, as a total solutions provider, is developing and managing three business pillars: the System Development Business (systems integration) and the Support and Service Business (service integration), which are IT-related Businesses, and the Parking System Business (parking solutions), which is an unattended bicycle parking lot-related business that it launched through utilizing its expertise in IT solutions.

The Company leverages advanced technologies and high-quality services cultivated through an extensive track record as an independent company of over 50 years, the latest information technology and abundant application knowledge, and one-stop service provision to deliver total solutions.

System Development Business mainly handles development and maintenance consignments for mission-critical business systems

2. System Development Business

The System Development Business conducts outsourced system integration, which involves undertaking the planning, design, development, construction, installation, maintenance and management mainly of mission-critical systems. Its services include systems construction solutions, infrastructure construction solutions, and package solutions, primarily for medium-sized companies and major corporate groups.

Based on the expertise cultivated through its abundant track record of over 50 years, from constructing large-scale systems to constructing small-scale systems, the Company constructs its own proprietary systems development standard “NS-SD” (NCD Standard System Development) and project management standard “NS-PM” (NCD Standard Project Management) to realize system development that ensures stable quality.

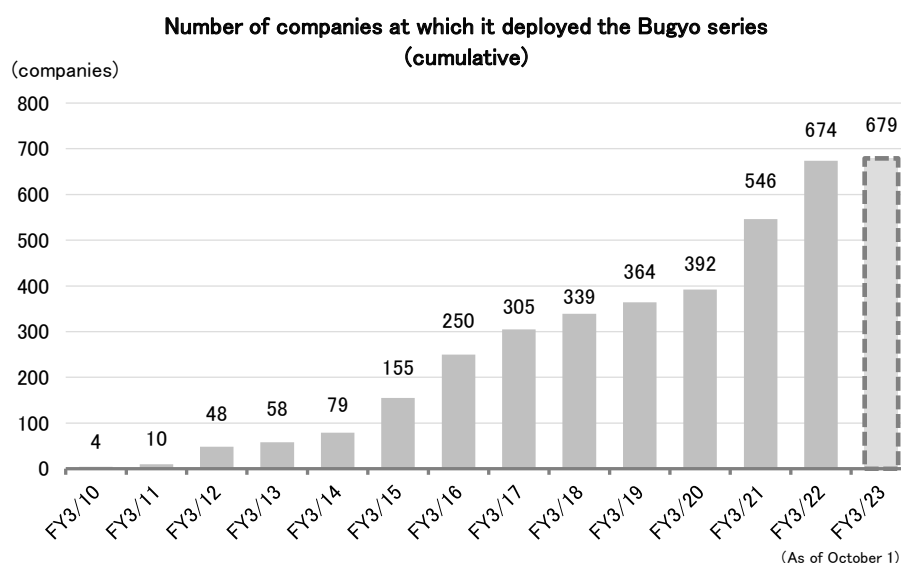
Package solutions are solutions for companies, such as medium-sized companies, that want to install systems in a short period of time at low cost. The Company provides various solutions, including installation, customization, and management support for the package software of its strategic partner companies.

One of the Company’s strengths is systems construction to install the applications of Oracle and the “Bugyo Series,” which is the mission-critical system of OBIC BUSINESS CONSULTANTS CO., LTD. <4733>. For OBC’s Bugyo Series, among all of OBC’s partners, the Company has the largest team specializing in installing the Bugyo Series, and its total number of installations reached 679 as of October 1, 2022. At OBC Partner Award 2022, the Company received OBC Partner of the Year award in sales results for the 2021-22 season in May 2022.

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

In the cloud computing field, the Company's bicycle parking business mission-critical system infrastructure has been adopted for the AWS (Amazon Web Services) of Amazon (Amazon.com <AMZN>), the largest public cloud vendor, and it accumulates expertise in construction and operation while providing services as a solution using AWS. It is also the certified Japanese subsidiary of Salesforce.com <CRM>, and it has a track record of many installations of "Salesforce," the world's No. 1 cloud CRM platform.

Moreover, the Company also provides linked-package tools developed in-house on a fee basis to Salesforce (including task management tool "SMAGAN," form creation tool "Smart Report Meister," and screen creation and data visualization tool "Smappi"), and it offers the inventory management tool "Kuramaru," which was also developed in-house.

Another of the Company's features is that it supports the global development of Japanese companies. It provides support for installation of ERP packages such as "mcframe GA," which is the global-compliant ERP of Business Engineering Corporation <4828>, and "Yoyu U8" of UFIDA Software in China, which has the No.1 share for ERP in China.

Support and Service Business primarily conducts outsourcing of maintenance and operations

3. Support and Service Business

The Support and Service Business conducts outsourced service integration in the form of services to undertake the maintenance and operation of customers' systems and applications. These services include providing application maintenance and operation solutions, infrastructure maintenance and operation solutions, and business support solutions.

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When providing outsourced maintenance and operation services, a specialized group of engineers who can handle multiple system failure, such as network systems construction and maintenance and management, provide comprehensive support to replace the customer's own systems management division. The Head Office and the two Nagasaki MSCs (Managed Services Centers) coordinate to run one-stop technical support for the maintenance and operation of systems and applications through remote monitoring 24 hours a day, 365 days a year, and a service desk to respond to inquiries. The Company also provides support for introducing cloud services, including Amazon's AWS and Microsoft's Azure.

The Company constructed its own operation standard "ND-OS" (NCD Standard Operation Service), which conforms to ITIL (Information Technology Infrastructure Library) to reduce customers' IT infrastructure operation and management costs. As it conducts remote monitoring through lines connected to customers, its costs become an advantageous strength. In support-service projects for major life insurance companies, it provides a help desk support service and an infrastructure support service, as well as an on-site support service at the customer's office.

Through utilizing its strengths, which include expertise cultivated through its abundant track record, its ability to respond quickly, provide services flexibly, and its comprehensive support, the Company's outsourced systems construction does not stop at maintenance and operation for customers, as a feature of the Company is that it can undertake the maintenance and operation of systems and applications constructed by other companies. In a high security environment, it is strengthening its responses to business continuity plans (BCP), such as at the time of a disaster.

A solid customer base with leading blue-chip customers in IT-related Business

4. A solid customer base with leading blue-chip customers in IT-related Business

In IT-related Business (System Development Business, and Support and Service Business), the Company has built a powerful customer base that includes major insurers, leading energy companies, top manufacturers and blue-chip companies and engages in long-term continuous transactions in many cases. While the system development industry has a structure with extensive secondary and tertiary outsourcing to mid-sized companies by major system integrators. In the Company's case, direct transactions with end users (primary consignment) are at more than 80% of business. This level demonstrates the high level of the Company's technology capabilities and quality.

Main customers of the IT-related Businesses

Transactions for more than 50 years	Takasago Thermal Engineering Co., Ltd., Tokyo Gas Group, Panasonic Group
Transactions for more than 30 years	SRL, Inc., SAIBUGAS Group, Nippon Life Group, FUJIFILM Group, MetLife Insurance K.K.
Transactions for more than 20 years	KADOKAWA CORPORATION, Mitsui O.S.K. Lines, Ltd., DENTSU Group, Nissui Corporation, Fukuoka Prefectural Government
Transactions for more than 10 years	JA OSAKA DENSAN Ltd., Kyudenko Corporation, Sony Group, Tokio Marine & Nichido Fire Insurance Co., Ltd., Tokyo Tekko Co., Ltd., Manulife Life Insurance Company, Yakult Honsha Co., Ltd.
Recent customers	ELASTOMIX CO., LTD., FWD Fuji Life Insurance Company, ORIX Life Insurance Corporation, JTB Asset Management Corp., Takumi Otsuka Co., Ltd., Mitsubishi Corporation Life Sciences Limited, Mizuho Financial Group, Inc., LIXIL Group, etc.

* As of December 1, 2022

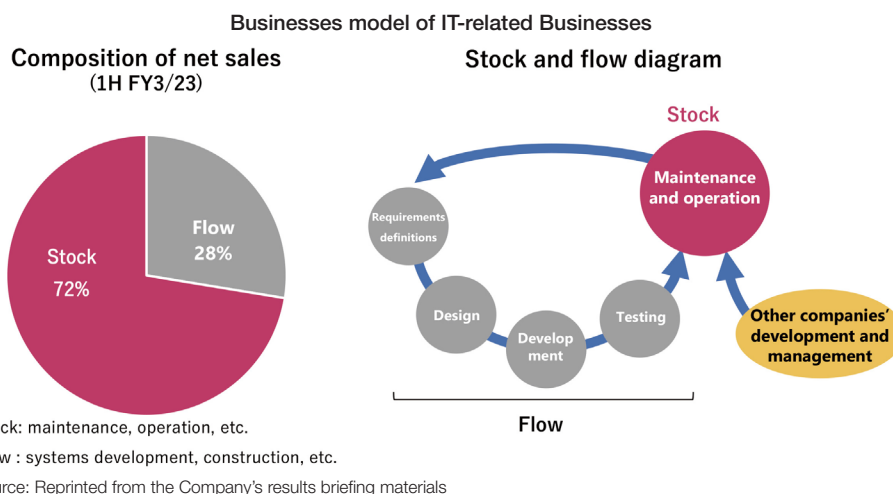
Source: Prepared by FISCO from the Company's briefing materials

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Also, as it has many long-term, ongoing transactions with major blue-chip companies, it has an earnings structure in which stock-type sales accumulate, such as for the maintenance and operation of the systems it has developed and constructed. Stock-type sales in IT-related Business account for more than 70% of total sales (1H FY3/23), including for the maintenance and operation outsourced to it for the development projects of other companies. In this way, the stable income structure is also a feature.



Parking System Business mainly manages and operates electromagnetic-lock parking lots

5. Parking System Business

The Parking System Business mainly sells electromagnetic-lock bicycle parking equipment and manages operations of bicycle parking lots. Bicycle parking lots are not only managed and operated in a labor-saving and efficient manner utilizing IT, this business eliminates nationwide problems of abandoned bicycles and other bicycle parking issues while also contributing to easing traffic congestion, effective utilization of land, region and community building, and improvement of the global environment through reduced CO₂ emissions.

The Company aims to solve the problem of abandoned bicycles, and in 1992 proposed a monthly bicycle parking lot management method using a two-dimensional code, a new technology at that time. From this start, it launched the parking system business in 1997, and began establishing NCD bicycle parking lots in 1999. Initially, its sales were mainly of electromagnetic lock-type bicycle parking devices and payment machines, but it then realized unattended bicycle parking lots through remote controls that utilized the IT technologies it had previously developed. Monthly fees had been the mainstream in the bicycle parking lot industry, but the Company pioneered coin-operated bicycle parking lots (unattended bicycle parking lots with spaces rented by the hour), and its business expanded.

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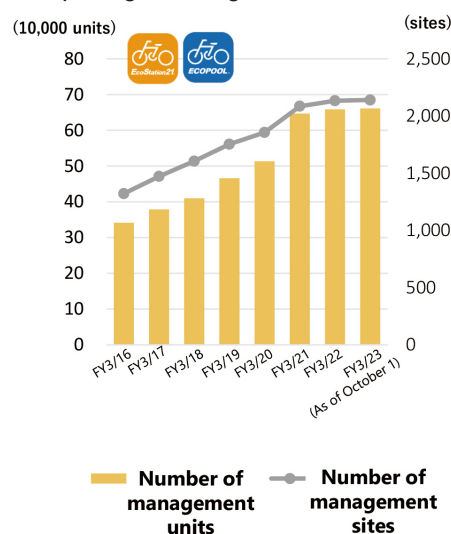
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Specifically, the Company operates mainstay time-based unattended bicycle parking lots “EcoStation21” (since 1999), monthly bicycle parking lots “ECOPOOL” (since 2013), and other bicycle parking services primarily near train stations in metropolitan Tokyo and in Kansai, Chubu, Kyushu, and other areas (it consigns operation to partner companies in Kansai and Chubu). It covers bicycle parking lots near train stations, at commercial facilities, and at local government-managed facilities. Sales categories are equipment sales, management operation, and others. The management operation category includes: self-operated bicycle parking lots, which the Company operates and manages based on agreements with private companies such as commercial facilities; designated management, where management and operation occurs as a designated manager selected by a local government; and consignments, where it manages bicycle parking lots under consignment from operators such as railway companies or local governments.

For its contribution to reducing the number of bicycles left on streets, the Company is widely supported by organizations like local governments, railway companies, and commercial facilities throughout the country, establishing among the largest numbers of electromagnetic lock-type bicycle parking lots in Japan. As of October 1, 2022, it had 2,140 bicycle parking lot management sites and 661,343 management units. Moreover, in transactions with local governments, the local government selects the Company to be its designated manager and facilities are installed and managed through a collaboration of the public and private sectors, and the Company supports urban development together with the local government.

NCD parking lot managed units and locations



Source: Reprinted from the Company's results briefing materials

Some typical installation cases include Aoi Street in Shibuya Ward (Shinjuku Station), which became the first bicycle parking lot on a sidewalk, in 2007; Terrace Mall Shonan at Tsujido Station, which is the largest site in the country with 3,000 units, in 2011; Shibuya Stream, a redevelopment project in the Shibuya district in 2018; Akabane Station East Exit in 2019; Minami-machida Grandberry Park in the Tokyu Group redevelopment project in 2019; and Grand Emio TOKOROZAWA in the Seibu Group redevelopment project in 2020. In April 2021, the Company started management and operation service for bicycle parking lots as the designated manager with 22,900 management units and 770 rental bicycles at 15 locations in the vicinity of four train stations in Tokyo's Edogawa Ward (Funabori, Nishi-Kasai, Kasai and Kasai-Rinkai Park stations) as part of an effort to curtail the number of bicycles left around stations.

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In April 2022, the Company was selected to be a bicycle parking lot management service provider by four local government bodies (Shinjuku Ward, Itabashi Ward, Shinagawa Ward, Kawasaki City), and started management and operation of a total of 246 bicycle parking lots with spaces for approximately 58,000 units. Furthermore, in collaboration with Nomura Real Estate, the Company opened a 1,244 units bicycle parking lot inside the large-scale commercial facility, KAMEIDO CLOCK. In June 2022, the Company started management and operation bicycle parking lots for a total of 1,820 units inside the Tachikawa City information facility CotoLink.

Customers for Parking System Business

Customers for Parking System Business		
Local governments	Ota Ward, Katsushika Ward, Kita Ward, Shibuya Ward, Shinjuku Ward, Suginami Ward, Setagaya Ward, Taito Ward, Chuo Ward, Toshima Ward, Nakano Ward, Nerima Ward, Asaka City, Ichikawa City, Kawaguchi City, Komae City, Narashino City, Fuchu City, Yokohama City, Wako City, Fukuoka City, etc. (Selected as the designated manager in the following cases) Arakawa Ward, Itabashi Ward, Edogawa Ward, Koto Ward, Shinagawa Ward, Minato Ward, Meguro Ward, Kashiwa City, Kawasaki City, Saitama City, Sagami-hara City, Tachikawa City, Tama City, Toda City, Kyoto City, Nagoya City	<ul style="list-style-type: none"> Positive assessment of financial soundness and management and operation quality Provide services in Kansai, Chubu, Kyushu, etc.
Commercial facilities, etc.	atré, AEON RETAIL, Ito Yokado, Daimaru Matsuzakaya, Comodi-iida, XYMAX Corporation, Sumitomo Realty & Development Co., Ltd., SEIYU, daiei, TIMES24 Co., Ltd., Takashimaya, Tokyu Store, TOKYU LAND CORPORATION, TOSHIN DEVELOPMENT CO., LTD., Nomura Real Estate Development Co., Ltd., PARCO, BicCamera, Marui Co., Ltd., Mitsui Fudosan, MITSUKOSHI ISETAN, Yodobashi Camera, etc.	<ul style="list-style-type: none"> Provide proposals that add IT technologies, such as cashless payments
Railway operators	Odakyu Electric Railway Co., Ltd., Keio Corporation, Keisei Electric Railway Co., Ltd., Keikyu Corporation, SAGAMI RAILWAY Co., Ltd., Metropolitan Intercity Railway Company, SEIBU RAILWAY Co., Ltd., Chichibu Railway Co., Ltd., TOKYU CORPORATION, TOBU RAILWAY CO., LTD., East Japan Railway Company, etc.	<ul style="list-style-type: none"> Covers the main railway operators
Other organizations, etc.	Kawasaki City Traffic Safety Association, Kita City Silver Human Resources Center for seniors, Sagami-hara City Machimidori Public Company, Setagaya City Silver Human Resources Center for seniors, Nerima City Environment Machizukuri Public Company, Mitaka Town Management Organization, YOKOHAMA TRAFFIC SAFETY ASSOCIATION	<ul style="list-style-type: none"> Contributions to local society via collaboration with various organizations

*1 As of October 1, 2022

*2 Designated manager: Organization designated for a fixed period to manage public facilities

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

To improve user convenience and reduce operations and management costs, the Company launched a cashless bicycle parking lot payment service (contact-free payment machine) in November 2019 at some facilities. The Company is capable of lowering management costs through reduction of collection and maintenance frequency. It plans to expand rollout of contactless payment due to positive response as a measure that prevents COVID-19 infections. In February 2022, the Company started introducing "Amazon Locker," dedicated lockers for received luggage, at its bicycle parking lots as a service for users. By reducing redeliveries, these will contribute to curbing CO₂ emissions.

As part of the progress on Business Process Re-engineering (BPR) to improve the profitability of the Parking System Business, a re-design of the operation process and personnel formation has seen the introduction of a chat bot inquiry service at over 400 parking lots as of 1H FY3/23. In promoting a shift to in-house handling of construction and peripheral operations by strengthening the role of Group subsidiaries, bicycle parking equipment installation work and peripheral work are concentrated in NCD PROS, and fee-collection operations are also moving in-house, centered on designated management venues. For rationalization of the usage fee structure (price revisions) and expansion of cashless payments, in 1H FY3/23 the Company expanded the number of sites where QR code payment is possible by over 200, and the amount paid via QR code payments rose by approximately 1.8 times (compared to March 2022 results). In developing new sales channels such as developers and architectural offices, the Company has received orders for redevelopment projects in 1H FY3/23, including Daikanyama and Hirai, by strengthening collaboration with developers. Although time will be needed for the rationalization of the usage fee structure, we believe the Company is generally making steady progress.

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Business overview

Conducts thorough project management and quality management

6. Risks and income characteristics

The general risk in IT-related Business (System Development Business and Support and Service Business) is possible sales and profit fluctuation due to major project or other business orders and individual project profitability.

To curtail risk related to profitability, the Company conducts rigorous project and quality management to prevent losses and sustain profitability, such as checking profit margin at the estimate stage in the orders committee and carefully assessing project progress and quality control conditions after the order. Additionally, it promotes efficiency by improving the work process as a Companywide initiative.

The Company is boosting stock-type sales through expansion of maintenance and operation service consignments following development work in System Development Business and build-up of continuous consignments in Support and Service Business (IT-related Business had about 70% of sales from stock-type business in 1H FY3/23) and has a stable income structure mainly in stock-type business.

The Parking System Business mainly generates stock-type sales from bicycle parking lot usage fee income and bicycle parking lot operation and management consignments through accumulation of managed lots and managed unit volume, and there has been a declining percentage of flow sales from equipment sales, which is affected by order fluctuations related to bidding and other business recruitment activities. The declaration of states of emergency and requests to exercise self-restraint in going outdoors in response to the COVID-19 pandemic resulted in a decrease in the number of parking lot users from 4Q FY3/20, which hit bicycle parking lot usage fee income. Furthermore, railway companies restrained from capital investment due to worsening results, which also had an impact. Since then, there has been a gradual recovery in the number of parking lot users accompanying the easing of restrictions on activities, but there is a possibility that it may take time for a full recovery depending on the state of the COVID-19 pandemic.

As a seasonal factor, System Development Business exhibits a pattern of stronger income in 2Q (Jul-Sep) and 4Q (Jan-Mar) in accordance with the implementation timing of customers' corporate IT investment budgets and acceptance inspection timing. Excluding cases of temporary impact by large deals or unprofitable deals, 2Q and 4Q generally have higher shares of overall income from a quarterly perspective and 2H (Oct-Mar) is stronger at the half-year level. Nevertheless, since stock-type sales are expanding, quarterly results have been evening out and thereby diminishing the extent of seasonal impact.

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Business overview

IT business remains at high level

7. IT-related Business remains at high level, Parking System Business showing signs of recovery

Looking at segment sales and breakdown trends over the past five years (FY3/18-/22), the breakdown until FY3/20 was IT-related Business (System Development Business, Support and Service Business) at just over 60% and Parking System Business at just over 30%. In FY3/21 and FY3/22, meanwhile, Parking System Business sales decreased and the share of sales also weakened because of the impact of the COVID-19 pandemic (decline in bicycle parking lot usage fee income amid refraining from going out and postponements of construction and business deals due to restrained capital investment by railway companies). Composition in 1H FY3/23 was 70.9% for the IT-related Business (System Development Business was 40.7% and the Support and Service Business 30.2%) and 29.0% for the Parking System Business. Both businesses recorded double-digit growth year on year so there was no significant change in the composition of net sales.

Net sales and composition of total net sales by segment

						(¥mn, %)
Item	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22	1H FY3/23 total
Net sales						
System Development Business	5,738	6,329	7,073	7,405	8,368	4,344
Support and Service Business	4,524	4,611	4,568	5,072	6,099	3,222
Parking System Business	5,948	6,027	6,693	5,060	6,073	3,090
Consolidated net sales (including others)	16,237	17,007	18,390	17,563	20,555	10,672
Composition of net sales						
System Development Business	35.3	37.2	38.4	42.2	40.7	40.7
Support and Service Business	27.9	27.1	24.8	28.9	29.7	30.2
Parking System Business	36.6	35.4	36.4	28.8	29.5	29.0

Source: Prepared by FISCO from the Company's Securities Report and quarterly reports

Looking at operating income and its composition of net sales by segment (before adjustment for Companywide expenses other expenses) over the past five years (FY3/18-22), operating income in the IT-related Business has been expanding in conjunction with the expansion of net sales. Operating income in the Parking System Business has been gradually trending upward after being hit with the impact of the COVID-19 pandemic in FY3/21 and FY3/22. For operating income in 1H FY3/23, the IT-related Business decreased slightly due to the impact of personnel expenses and other upfront investments, while the Parking System Business increased significantly in conjunction with the easing of restrictions on activities.

Operating income margin by segment (before consolidation adjustments)

						(¥mn, %)
Item	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22	1H FY3/23 total
Operating income						
System Development Business	549	726	799	928	1,020	493
Support and Service Business	267	374	224	481	620	333
Parking System Business	925	883	944	13	451	367
Total before consolidation adjustments (including others)	1,655	1,921	1,953	1,421	2,096	1,197
Composition of operating income						
System Development Business	33.2	37.8	40.9	65.3	48.7	41.2
Support and Service Business	16.1	19.5	11.5	33.9	29.6	27.9
Parking System Business	55.9	46.0	48.4	1.0	21.5	30.7

Source: Prepared by FISCO from the Company's Securities Report and quarterly reports

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Business overview

In segment operating income margin trends in the past five years (FY3/18-22), System Development Business has been stable at a level generally above 10% from FY3/19 due to the result of rigorous project management, quality management, and other measures. Support and Service Business margin weakens (FY3/18 and FY3/20) when it incurs one-time costs from large new consignments, including replacement consignments from other company projects, and then improves significantly after exhaustion of one-time costs and stabilization of operations (FY3/19, FY3/21, and FY3/22).

Parking System Business held at a high operating income margin of about 15% until FY3/20, but this dropped sharply in FY3/21 and FY3/22 due to decreased sales because of the COVID-19 impact. However, net sales began to recover in 1H FY3/23 in conjunction with the easing of restrictions on activities, and in addition to the effect of increased revenue, there was a contribution from the results of measures such as reducing management and operation costs, and the margin recovered to 11.9%.

Operating income margin by segment

						(%)
Item	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22	1H FY3/23 total
Operating income margin						
System Development Business	9.6	11.5	11.3	12.5	12.2	11.4
Support and Service Business	5.9	8.1	4.9	9.5	10.2	10.4
Parking System Business	15.6	14.7	14.1	0.3	7.4	11.9

Source: Prepared by FISCO from the Company's Securities Report and quarterly reports

Results trends

1H FY3/23 finished with major increases in sales and profits

1. Summary of the 1H FY3/23 consolidated results

In 1H FY3/23 consolidated results, the Company recorded major increases in sales and profits, with ¥10,672mn in net sales, an increase of 15.4% year on year (YoY), ¥513mn in operating income, an increase of 24.9%, ¥523mn in ordinary income, an increase of 24.7%, and ¥324mn in net income attributable to owners of the parent, an increase of 20.2%.

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Results trends

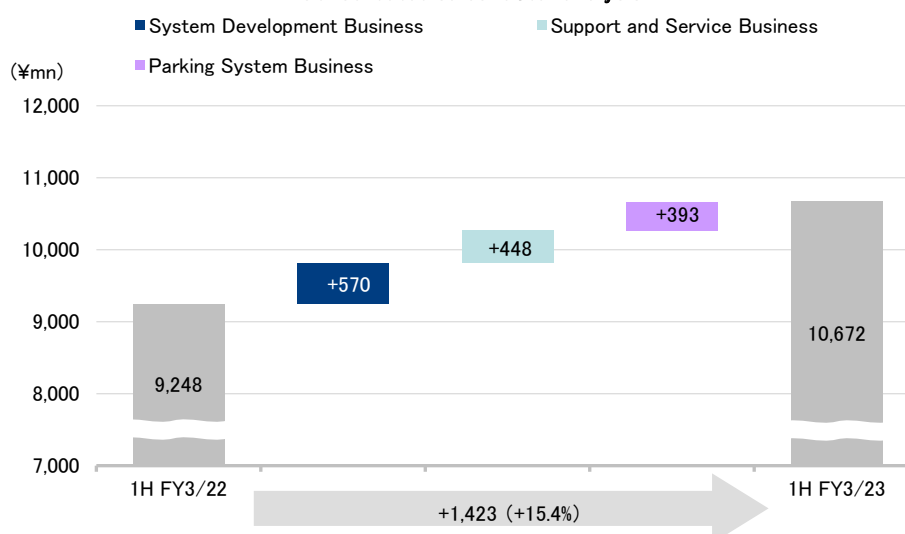
Summary of the 1H FY3/23 consolidated results

	1H FY3/22	1H FY3/23	Change
Net sales	9,248	10,672	15.4%
Gross profit	1,532	1,815	18.4%
SG&A expenses	1,121	1,301	16.0%
Operating income	411	513	24.9%
Ordinary income	419	523	24.7%
Net income and loss attributable to owners of the parent	269	324	20.2%
Net sales by segment			
System Development Business	3,773	4,344	15.1%
Support and Service Business	2,773	3,222	16.2%
Parking System Business	2,697	3,090	14.6%
Operating income by segment (before consolidation adjustments)			
System Development Business	519	493	-5.1%
Support and Service Business	337	333	-0.9%
Parking System Business	126	367	190.0%

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

From a net sales aspect, the IT-related Business (System Development Business, Support and Service Business) continued to perform strongly against a backdrop of demand for DX, and in the Parking System Business, net sales showed a recovery trend centered on increased bicycle parking lot usage fee income accompanying easing of restrictions on activities. For operating income overall, there was a significant increase despite a slight decrease in income in the System Development Business and Support and Service Business due to personnel expenses and other upfront investments (including the impact of the change in method of calculating the reserve for bonuses), but there was a recovery trend in the Parking System Business due the effect of increased revenue, etc. Gross profit on a Companywide basis increased 18.4% YoY due to the effects of higher sales and increased productivity, and the gross profit margin rose 0.4 percentage points to 17.0%. SG&A expenses increased by 16.0% YoY due to human capital investment and DX-related investments, and the SG&A expenses ratio increased by 0.1 percentage points to 12.2%. As a result, the operating income margin was 4.8%, an increase of 0.4 percentage points. The Company also booked an extraordinary loss of ¥59mn due to a loss on transition to a retirement plan, etc.

Consolidated sales factor analysis

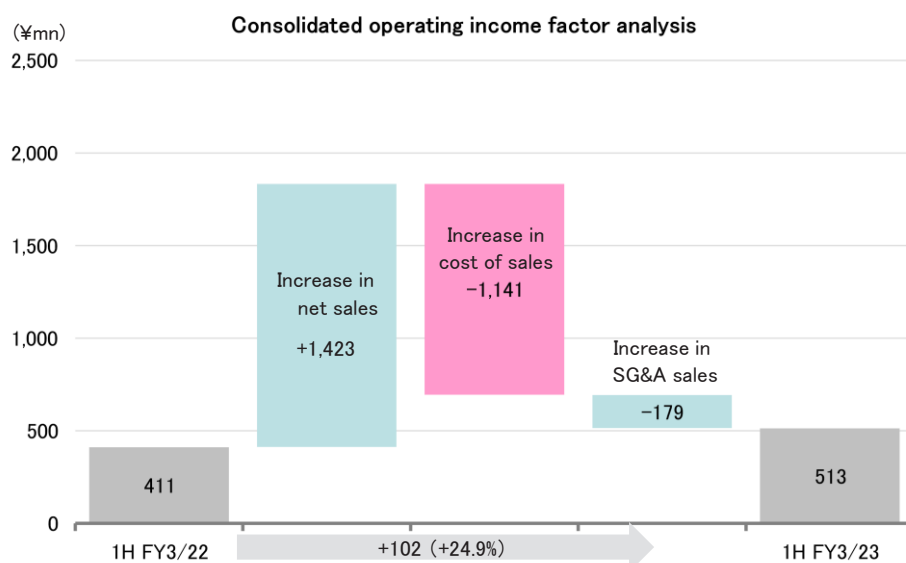


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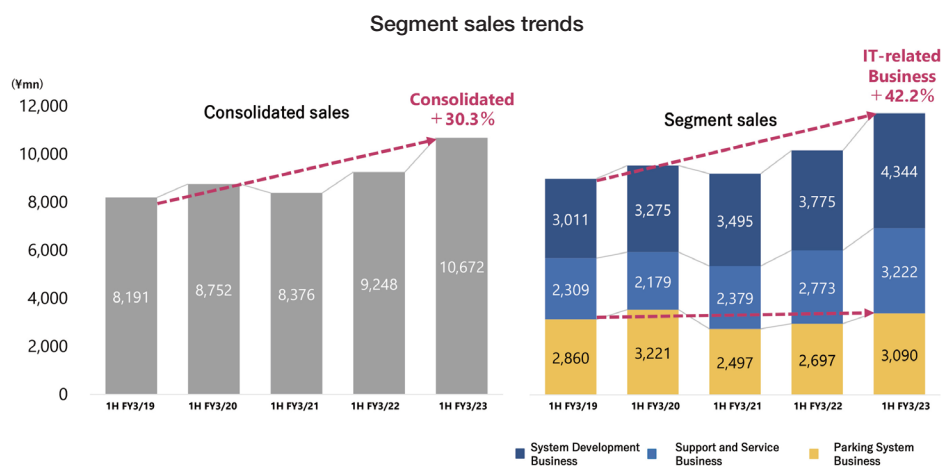
Results trends



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

Continued strong performance in IT-related Business, Parking System Business on a recovery trend

2. Trends by segment



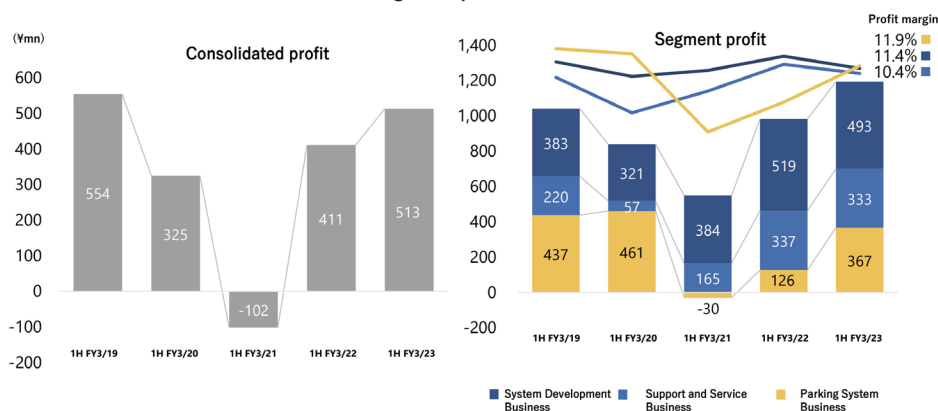
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Results trends

Segment profit trends



Source: Reprinted from the Company's results briefing materials

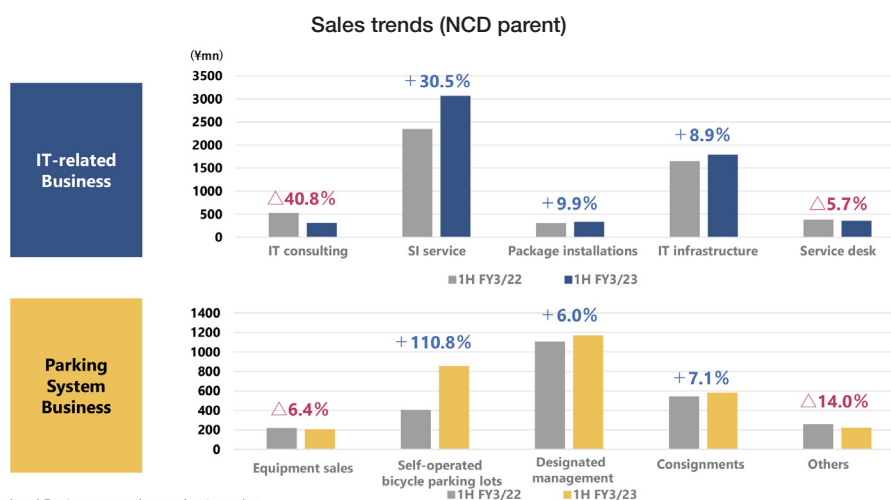
Looking at trends by segment, in IT-related Businesses, the System Development Business recorded ¥4,344mn in net sales, an increase of 15.1% YoY, and ¥493mn in operating income, a decrease of 5.1% YoY. The Support and Service Business recorded ¥3,222mn in net sales, an increase of 16.2% YoY, and ¥333mn in operating income, a decrease of 0.9% YoY. Both the System Development Business and the Support and Service Business saw double-digit growth in sales. This was due to factors such as the System Development Business acquiring new system development projects for insurance companies and the Support and Service Business expanding the domain of business for a work outsourcing project of the information systems division (system operations for the Nissui <1332> Group) as well as new cloud-related projects for insurance companies. However, operating income decreased slightly due to personnel expenses and other upfront investments. Looking at net sales by business category, the mainstay SI services recorded significant sales growth of 30.5% YoY. Sales in IT infrastructure showed solid growth, up 8.9% YoY. Against a backdrop of customer demand for DX, the Company is promoting account plans, which it has been focusing on, and the creation of service models. In the System Development Business, this has led to acquisition of new system development projects for insurance companies, and in the Support and Service Business, it has led to orders for remote operation services for IT infrastructure at leading energy companies. In package installations, installations of accounting shared services (such as OBC's "Kanjō Bugyō") performed strongly, with a 9.9% increase in sales.

The Parking System Business recorded net sales of ¥3,090mn, an increase of 14.6% YoY, and operating income of ¥367mn, up 190.0% YoY. Although equipment sales continue to be affected by COVID-19, railway usage for commuting to work and school as well as leisure travel has improved due to easing of restrictions on activities, and net sales entered a recovery trend centered on bicycle parking lot usage fee income. As for new customers, the Company has started business with Chichibu Railway and opened monthly bicycle parking lots "ECOPOOL," which do not require bicycle parking lot management by station employees, at seven stations on local lines. In addition to the effects of higher sales, operating income has increased significantly due to the results of lowering management operating costs, such as bringing outsourced work in-house. The breakdown of sales from managing operations of bicycle parking lots is as follows: Self-operated bicycle parking lots increased 110.8% YoY, designated management increased 6.0% YoY, and consignments increased 7.1% YoY.

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Results trends



*IT-related Business compiles production value

Source: Reprinted from the Company's results briefing materials

Good financial position

3. Financial condition

Looking at the Company's financial condition, at the end of 1H FY3/23, total assets decreased ¥515mn versus the end of FY3/22 to ¥11,375mn. Cash and deposits decreased ¥282mn and notes and accounts receivable - trade, and contract assets decreased ¥321mn. Total liabilities decreased ¥798mn to ¥6,624mn. Accounts payable decreased ¥138mn, income taxes payable decreased ¥268mn, provision for bonuses decreased ¥243mn, and retirement benefit liability decreased ¥132mn. Net assets increased ¥282mn YoY to ¥4,750mn. As a result, the equity ratio rose 4.1 percentage points from the end of the same period last year to 41.4%. There are no particular matters for concern, and we judge the Company to be in a good financial position.

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Results trends

Financial statements

Item	(¥mn)					
	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22	1H FY3/23
Net sales	16,237	17,007	18,390	17,563	20,550	10,672
Cost of sales	13,552	13,926	15,246	15,055	17,293	8,857
Gross profit	2,684	3,081	3,143	2,507	3,257	1,815
Gross profit margin (%)	16.5	18.1	17.1	14.3	15.9	17.0
SG&A expenses	1,901	2,036	2,206	2,265	2,354	1,301
SG&A expenses rate (%)	11.7	12	12	12.9	11.5	12.2
Operating income	783	1,045	936	242	902	513
Operating income margin (%)	4.8	6.1	5.1	1.4	4.4	4.8
Non-operating income	46	66	51	175	82	22
Non-operating expenses	22	22	34	29	28	13
Ordinary income	807	1,089	953	388	956	523
Ordinary income margin (%)	5	6.4	5.2	2.2	4.7	4.9
Extraordinary income	-	-	92	14	28	-
Extraordinary loss	23	131	43	137	216	59
Income before income taxes	784	958	1,002	265	768	463
Total income taxes	258	340	349	112	298	136
Net income attributable to owners of the parent	526	615	648	145	458	324
Rate of net income attributable to owners of the parent (%)	3.2	3.6	3.5	0.8	2.2	3.0
Comprehensive income	631	483	571	264	412	339
Total assets	11,070	11,048	11,617	10,816	11,890	11,375
(Current assets)	6,343	6,455	6,644	6,768	7,949	7,399
(Non-current assets)	4,727	4,593	4,972	4,047	3,941	3,976
Total liabilities	7,981	7,595	7,704	6,651	7,422	6,624
(Current liabilities)	4,043	4,291	4,311	3,976	4,721	4,207
(Non-current liabilities)	3,937	3,304	3,392	2,674	2,701	2,417
Total net assets	3,089	3,453	3,913	4,165	4,468	4,750
(Shareholders' equity)	2,891	3,387	3,924	4,057	4,406	4,674
(Capital stock)	438	438	438	438	438	438
Total number of issued shares at the end of period, excluding treasury shares	7,941,368	7,941,368	7,941,368	8,071,068	8,071,068	8,071,068
Earnings per share (¥)	66.31	77.45	81.62	18.11	56.78	-
Book-value assets per share (¥)	387.8	433.34	490.66	512.95	549.14	-
Dividend per share (¥)	14	14	14	14	14	7
Equity ratio (%)	27.8	31.1	33.5	38.3	37.3	41.4
Return on equity (%)	18.7	18.9	17.7	3.6	10.7	-
Cash flows from operating activities	791	416	376	218	1,918	30
Cash flows from investing activities	-554	-219	-164	142	-48	-169
Cash flows from financing activities	-271	-312	-370	-61	-779	-147
Cash and cash equivalents at end of period	2,700	2,579	2,420	2,721	3,814	3,532

Source: Prepared by FISCO from the Company's materials

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■ Outlook for the future

Forecast for double-digit growth in operating income remains unchanged for FY3/23, and may grow even further

● Summary of the FY3/23 consolidated results forecast

The Company forecast for FY3/23 consolidated results remains unchanged from the previous forecast, with increases in net sales of 2.2% YoY to ¥21,000mn, operating income of 10.8% to ¥1,000mn, ordinary income of 7.6% to ¥1,030mn, and net income attributable to owners of the parent of 30.9% to ¥600mn. The progress rate in 1H was steady, with 50.8% for net sales, 51.4% for operating income, 50.8% for ordinary income, and 54.1% for net income attributable to owner of the parent.

Summary of the FY3/23 consolidated results forecasts

	FY3/22	FY3/23 forecasts	% change	1H progress rate
Net sales	20,550	21,000	2.2%	50.8%
IT-related Business	14,465	14,800	2.3%	51.1%
Parking System Business	6,073	6,200	2.1%	49.9%
Operating income	902	1,000	10.8%	51.4%
Ordinary income	956	1,030	7.6%	50.8%
Net income attributable to owner of the parent	458	600	30.9%	54.1%
EPS (¥)	56.78	74.33	-	-
Dividend (¥)	14	14	-	-

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

In the IT-related Business (System Development Business, Support and Service Business) the net sales plan is for ¥14,800mn, an increase of 2.3% YoY from FY3/22. The Company is expecting strong growth backed by expansion in DX investment by corporate customers, with the System Development Business capturing projects in new domains centered on insurance companies among existing companies, and the Support and Service Business promoting expansion of maintenance and operation services. For the Parking System Business, the net sales plan is for ¥6,200mn, up 2.1%. Despite a sense of uncertainty, the easing of the impact of COVID-19 and the gradual recovery are expected to continue. On the cost front, the Company projects double-digit growth in operating income as the effects of higher sales and increased productivity absorb expanded strategic investments associated with human capital and DX promotion. Net income attributable to owners of the parent is expected to increase significantly as the Company finished a round of recording impairment losses in the previous period.

The forecast looks conservative overall considering that the progress rate in the 1H was steady, income characteristics of the Company have a high composition in the 2H, the impact of the change in method of the reserve for bonuses that held down operating income in 1H will be alleviated in 2H, and the pace of recovery of net sales in the Parking System Business is increasing, so we expect improved productivity and greater operational efficiency. We assess there is a high likelihood the Company will exceed full-year guidance.

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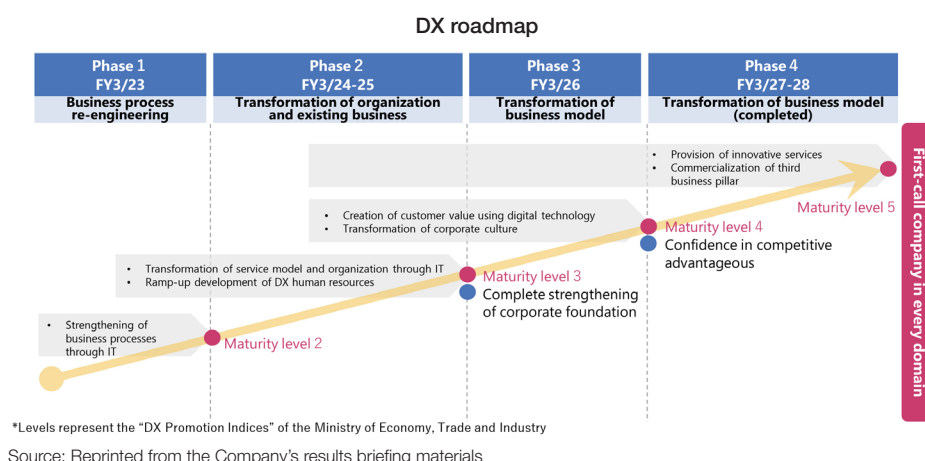
Growth strategy

Formulation of the purpose to encourage further growth

1. Formulation of the purpose to accelerate the growth strategy

In order to accelerate its growth strategy of being a total solution provider, in April 2022, the Company formulated the Group purpose: “Powering the world with passion.” which incorporates the aspiration, “We dream of building a future where everyone can be their fullest selves.” It also modified its corporate philosophy to become “Contributing a bright future through unique technologies and services.”

Furthermore, the Company has articulated the DX Vision: “In the NCD Group, we are committed to contributing to the transformation of our customers’ businesses and the development of society, aiming to achieve sustainable growth for our entire Group by having employees approach their work with vibrancy and enthusiasm. To achieve this, each member of the Group draws on their knowledge and wisdom to transform their awareness and take up the challenge of creating digital technologies and services with new concepts.” With this, the Company has declared its commitment to ramping up DX promotion. A new DX promotion department was established in April 2022 and a roadmap was formulated.



2. Expected achievement of the final-year targets of the current medium-term management plan

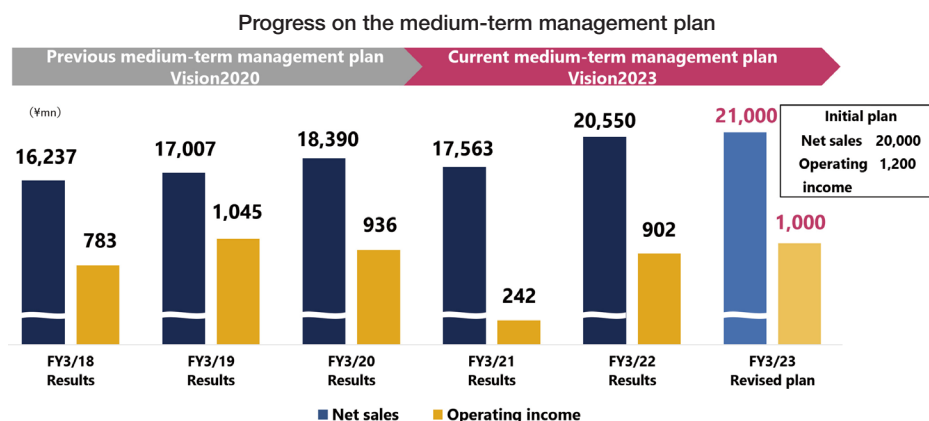
The current medium-term management plan “Vision 2023” (FY3/21 to FY3/23) includes initiatives in the IT-related Business (System Development Business, Support and Service Business) such as making use of the NCD service model, developing and enhancing human resources specializing in cloud systems, and strengthening the cooperation structure with Group companies; in the Parking System Business, the measures will include further strengthening the revenue base through steady execution of BPR and strategic sales expansion of ECOPOOL; in the administration and back-office divisions, its measures will include promoting sustainability management, increasing the level of governance, strengthening initiatives for human capital management, and promoting DX.

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Growth strategy

Regarding the targets for FY3/23, the final fiscal year of the current medium-term management plan, the initial plan was for net sales of ¥20,000mn and operating income of ¥1,200mn. While the IT-related Business performed strongly, the Parking System Business was greatly affected by COVID-19, so net sales and operating income targets were revised to ¥21,000mn and ¥1,000mn, respectively. The Company's current FY3/23 forecast for operating income is ¥1,000mn, and this revised target is expected to be met. We believe there is a high likelihood the Company will outperform FY3/23 forecasts, and even a possibility of reaching the initial plan of ¥1,200mn in operating income.



Source: Reprinted from the Company's results briefing materials

3. Next mid-term management plan promotes higher profit margins toward a new growth stage

For the next medium-term management plan, from FY3/24 onward, the policy is particularly to push for an improved profit margin. According to Representative Director and President Osamu Shimojo, who spoke with enthusiasm, "The business environment for the Parking System Business has changed dramatically under COVID-19, but the IT-related Business (System Development Business, Support and Service Business) is steadily growing in earning capability. Under the next medium-term management plan, we will transform while being aware of sustainability management and accelerate our challenges in new fields as well as work on management with a particular awareness of improving the profit margin." The policy is to further improve added value by strengthening the coordination between stock (operation) and flow (development). The IT-related Business will not only be a growth driver, but we assess the Company will enter a new growth stage by proactively expanding business toward improving the profit margin.

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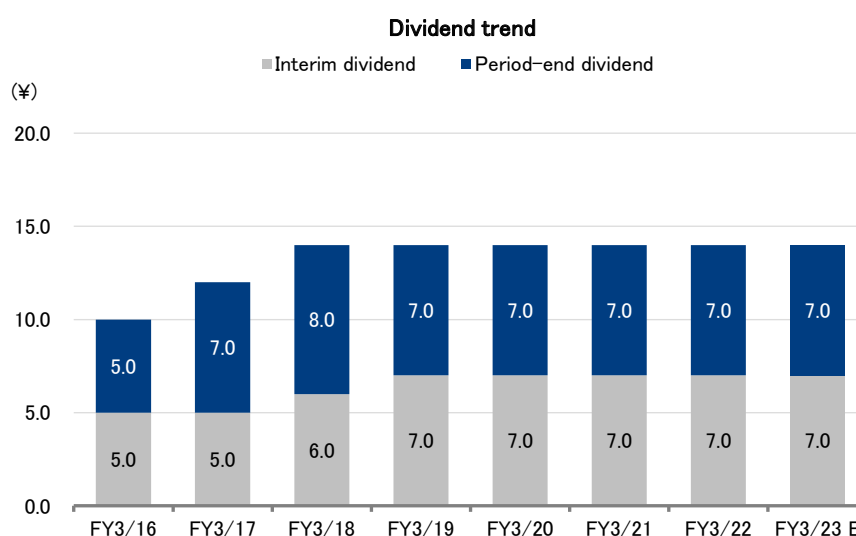
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Shareholder return policy

Returns profits to shareholders appropriately, based on a stable dividend

1. Returns profits to shareholders appropriately, based on a stable dividend

The Company's basic policy for returning profits to shareholders is to work to retain earnings to strengthen its corporate structure and actively develop its businesses, but at the same time, to maintain stable dividends comprehensively considering factors such as the dividend payout ratio and dividend yield. It does not set a target for the dividend payout ratio, but going forward, it intends to return profits to shareholders appropriately while continuing to further strengthen its management foundation and to actively develop its businesses. In accordance with the basic policy, the Company paid a ¥14 dividend (an interim dividend of ¥7 and a period-end dividend of ¥7) in FY3/23, the same as in FY3/22. The forecast dividend payout ratio is 18.8%.



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

2. Shareholder benefits program

The Company also implements a shareholder benefits program as part of its measures to return profits to shareholders. Shareholders holding at least 1,000 shares (10 units) on September 30 of each year are eligible for the program. They receive a gift (QUO card) depending on the number of shares they hold and the continuous period of time they have held them.

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Shareholder return policy

Shareholder benefits program

Gift: QUO card

Number of shares held	Continuous period of time held	
	Less than 3 years	3 years or more
1,000 to 2,999 shares	Worth ¥2,000	Worth ¥3,000
3,000 to 4,999 shares	Worth ¥3,000	Worth ¥5,000
5,000 shares or more	Worth ¥5,000	Worth ¥7,000

<Conditions for the continuous holding>

•With the last day in September in each year as the record date, shareholders who are confirmed as being registered in the registry of shareholders on this date are eligible for the program.

•As for the determination of continuous holdings, shareholders holding shares for “three years or more” are the ones who are registered consecutively seven times “with the same shareholder number” in the registry of shareholders in each fiscal half (the end of March and the end of September in each year).

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

ESG and SDGs initiatives

1. Promoting sustainability management

To strengthen ESG and SDGs initiatives, and to implement activities that promote sustainability across the Group, based on the Company's sustainability basic policy, the Company established the Sustainability Promotion Committee in October 2021.

The Company advocates the materiality themes of “contribute to realizing carbon neutrality,” “create a safe, secure and prosperous society,” “be a society where diverse human resources can play an active role,” and “gain society's trust.” The Parking System Business contributes to resolution of abandoned bicycles, easing of traffic congestion, effective utilization of land, region and community building, and improvement of the global environment through reduced CO₂ emissions. It is also implementing bicycle utilization promotion plans in various regions based on the Bicycle Use Promotion Act (enacted in May 2017 for the purpose of comprehensive and systematic promotion of bicycle usage). In April 2022, the Company concluded an official supplier agreement with the professional road cycling team SAITAMA DReVe. The Company also plans to contribute to local communities.

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ESG and SDGs initiatives

The Group's Materiality

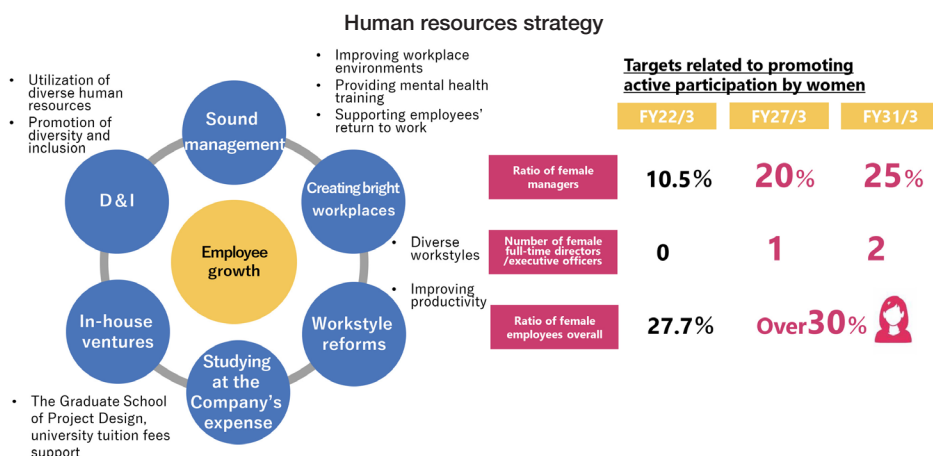


Source: Reprinted from the Company's results briefing materials

2. Strengthening diversity initiatives

As a human resources strategy, the Company promotes health and productivity management, creation of a bright workplaces, workstyle reforms, career assistance, in-house ventures, and D&I (Diversity & Inclusion). It rolled out a new personnel program uniformly throughout the Group in April 2021. The Company acquired gold authorization as a company with an outstanding approach to health and productivity management in the healthy company declaration under the outstanding health management company certification program operated by the healthy company declaration Tokyo promotion council in September 2021.

Goals for the number of women full-time directors/executive officers are one in FY3/27 and two in FY3/31. While women directors often hold outside director positions, the Company wants to recruit the full-time directors/executive officers from women within the organization. Furthermore, the Company is promoting compliance with the Corporate Governance Code revised in June 2021, including disclosure of a directors' skill matrix and participation in an electronic voting platform.



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