

NCD Co., Ltd.

4783

Tokyo Stock Exchange Standard Market

31-Jan.-2024

FISCO Ltd. Analyst

Masanobu Mizuta



FISCO Ltd.

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

Index

Summary	01
1. Promotes IT-related Business (System Development Business, Support and Service Business) and Parking System Business	01
2. Sales and profit increased substantially in 1H FY3/24 amid growth in each business segment	02
3. Forecast for double-digit growth in operating income remains unchanged for FY3/24, and may grow even further	02
4. Accelerating reforms to raise profit margins with medium-term management plan “Vision 2026”	03
5. Focus on progress achieved under medium-term management plan amid favorable assessment of increase in profit margins in 1H FY3/24	03
Company profile	04
1. Company profile	04
2. History	05
Business overview	07
1. Business overview and characteristics/strengths	07
2. System Development Business	07
3. Support and Service Business	09
4. A solid customer base with leading blue-chip customers in IT-related Business; a recurring revenue ratio of over 80%	09
5. Parking System Business	10
6. IT-related Business remains at high level, Parking System Business showing signs of recovery	13
7. Risk factors, income characteristics, challenges, and countermeasures	15
Results trends	16
1. Summary of the 1H FY3/24 consolidated results	16
2. Trends by segment	17
3. Financial condition	18
Outlook for the future	19
● Summary of the FY3/24 consolidated results forecasts	19
Growth strategy	21
1. Purpose	21
2. Medium-term management plan “Vision 2026”	21
3. Shareholder return policy	23
4. Sustainability management	25
5. Analyst’s point of view	26

■ Summary

Independent system integrator renamed NCD in January 2024

NCD Co., Ltd. <4783> (formerly, Nippon Computer Dynamics; change of company name effective from January 1, 2024; hereinafter referred to as the “Company”) is a pioneer as an independent system integrator with a history of over 56 years. The Company promotes its growth strategy of serving as a total solutions provider underpinned by its Group purpose of “Powering the world with passion,” which incorporates its aspiration, “We dream of building a future where everyone can be their fullest selves.” Moreover, effective January 1, 2024, the Company changed its name to NCD Co., Ltd. and also changed its corporate logo with a view to unifying the Group to fulfill this purpose, raise brand value, and achieve sustained growth.

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

The Company 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 56 years, the latest information technology and abundant application knowledge, and one-stop service provision to deliver total solutions. The IT-related Business has established a solid customer base through its long-term, ongoing transactions with major blue-chip companies, and is characterized by its stable income structure in having achieved a recurring revenue ratio of 84% (results of 1H FY3/24). Meanwhile, the Company made Japan Computer Services, Inc. (JCS) a subsidiary upon acquisition of its shares in December 2023. The Company has its sights set on expanding its customer base and gaining expertise in kitting services and other such new domains as a result of having made JCS a Group company. The Company’s Parking System Business boasts of having among the largest number of electromagnetic lock-type bicycle parking lots in Japan. Recurring revenue (bicycle parking lot usage fee income, bicycle parking lot management and operation, etc.) of the business accounted for 94% of its sales in 1H FY3/24.

Summary

2. Sales and profit increased substantially in 1H FY3/24 amid growth in each business segment

In 1H FY3/24 consolidated results, the Company recorded major increases in sales and profits, with ¥11,904mn in net sales, an increase of 11.5% year on year (YoY), ¥900mn in operating income, an increase of 75.2%, ¥907mn in ordinary income, an increase of 73.6%, and ¥600mn in net income attributable to owners of the parent, an increase of 85.2%. Each of the business segments achieved substantial gains in sales and profits amid a scenario where growth of the segments particularly absorbed higher personnel expenses associated with the Company's investment in human capital. The IT-related Business (System Development Business, Support and Service Business) achieved favorable results in terms of orders against a backdrop of corporate investment in digital transformation (DX). In the Parking System Business, results were buoyed by price revisions and progress achieved in streamlining operations, in addition to a resurgence in economic activity and the flow of people. The segment income margin of the Parking System Business increased by 2.8 percentage points YoY to 7.6%, thereby significantly exceeding the initial in-house estimate of around 6.0%. In the IT-related Business, the System Development Business recorded ¥4,903mn in net sales, an increase of 12.9% YoY, and ¥704mn segment income, an increase of 42.7% YoY. Meanwhile, the Support and Service Business recorded ¥3,556mn in net sales, an increase of 10.4% YoY, and ¥367mn segment income, an increase of 10.1% YoY. The Parking System Business recorded net sales of ¥3,429mn, an increase of 10.9% YoY, and segment income of ¥612mn, up 66.8% YoY. The segment income margin of the Parking System Business increased by 6.0 percentage points YoY to 17.9%, thereby surpassing levels prior to the COVID-19 pandemic.

3. Forecast for double-digit growth in operating income remains unchanged for FY3/24, and may grow even further

The Company forecast for FY3/24 consolidated results remains unchanged from the initial forecast of increases in net sales of 2.8% YoY to ¥23,500mn, operating income of 17.1% to ¥1,400mn, ordinary income of 15.5% to ¥1,400mn, and net income attributable to owners of the parent of 26.4% to ¥850mn. The Company forecasts double-digit growth in operating income amid a scenario of increased sales backed by growth across all business segments, thereby absorbing human capital investment and other such outlays. It will focus on increasing profitability and plans to promote initiatives that include raising productivity and adjusting prices. Segment forecasts are as follows. In the System Development Business, the Company is forecasting net sales to increase 4.4% YoY to ¥9,650mn and segment income to go up 21.0% to ¥1,250mn. In the Support and Service Business, it is forecasting net sales to increase 3.7% YoY to ¥7,150mn and segment income to rise 14.2% to ¥803mn. In the Parking System Business, it is projecting net sales to edge up 0.4% to ¥6,700mn and segment income to increase 12.5% to ¥920mn. Progress rates toward full-year guidance in 1H results were sales at 50.7%, operating income at 64.3%, ordinary income at 64.9%, and net income attributable to owners of the parent at 70.7%. FISCO deems it highly likely that the Company's results will exceed its full-year forecast taking into account various factors such that include: the Company has achieved a high rate of progress toward achieving full-year guidance in its 1H income results; corporate investment in digital transformation (DX) is poised to remain at high levels in the IT-related Business, and; income generated by the Parking System Business is showing signs of recovery exceeding expectations.

Summary

4. Accelerating reforms to raise profit margins with medium-term management plan “Vision 2026”

The Company intends to enlist a management approach that takes into account both the Company’s cost of capital and its share price under its “Vision 2026” medium-term management plan, which accordingly contains quantitative targets for FY3/26, the final year of the plan, such that include net sales of ¥26.0bn, segment income of ¥1.8bn, segment income margin of 6.9%, and ROE of 15.0% or higher. Its numerical targets by segment are as follows. For the System Development Business, it is targeting net sales of ¥11.0bn, segment income of ¥1.5bn, and an segment income margin of 13.6%. In the Support and Service Business, it is targeting net sales of ¥8.0bn, segment income of ¥0.9bn and an segment income margin of 11.3%. And in the Parking System Business, it is aiming for net sales of ¥7.0bn, segment income of ¥1.15bn, and an segment income margin of 16.4%. Its policy on shareholder returns is to target a payout ratio of 30% or higher on a consolidated basis. According to Representative Director and President Osamu Shimojo, who spoke with enthusiasm, “We will promote various initiatives with a focus on raising profitability under the “Vision 2026” medium-term management plan. We will furthermore accelerate reforms and more swiftly take on challenges in new fields of business toward achieving the Group vision by 2032, while remaining conscious of sustainability management. We fully believe we will be able to achieve our targets for FY3/26 and intend to raise corporate value with the goal of being listed on the Prime Market in the future. To such ends, we need to enhance our investor relations initiatives and increase our media exposure, above and beyond improving our financial performance.”

5. Focus on progress achieved under medium-term management plan amid favorable assessment of increase in profit margins in 1H FY3/24

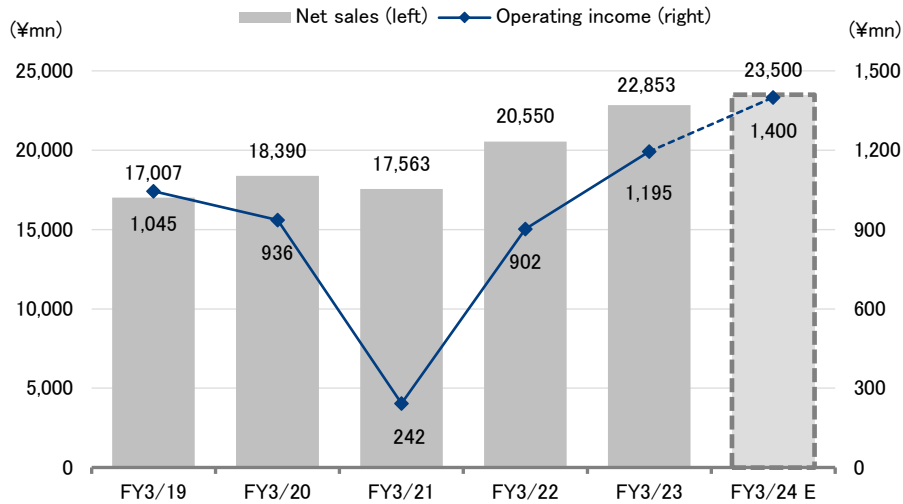
With Company-wide revenue having taken a downturn due to effects of COVID-19 pandemic on the Parking System Business, the Company rolled out an ambitious strategy entailing initiatives to further increase profitability under the “Vision 2026” medium-term management plan. The strategy has culminated in 2.8 percentage point increase YoY in the operating income margin in 1H FY3/24. FISCO assigns high marks to the Company not only simply given the notion that its initiatives prompted recovery of the Parking System Business, but also for success it has achieved in exhaustively implementing project management and quality control practices diligently carried out thus far, and also in improving productivity and streamlining operations. Furthermore, the Company has been redoubling its efforts in terms of setting its sights on expanding into new business domains in part by gaining AWS Solution Provider certification and making JCS a subsidiary. FISCO also takes a positive view in terms of the potential for further profit growth over the medium to long term as a result of the Company’s efforts to accelerate reforms in seeking to raise profit margins. As such, FISCO will continue to monitor progress of the Company’s strategy to increase profitability under its medium-term management plan.

Key Points

- Three main pillars of the System Development Business, Support and Service Business and Parking System Business
- Profits increased substantially in 1H FY3/24 amid growth in each business segment
- Forecast for double-digit growth in operating income remains unchanged for FY3/24, and may grow even further
- Accelerating reforms to raise profit margins with medium-term management plan “Vision 2026”
- Focus on progress achieved under medium-term management plan amid favorable assessment of increase in profit margins in 1H FY3/24

Summary

Result trends



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

Company profile

Pioneering independent system integrator with a history of over 56 years

1. Company profile

The Company is a pioneer as an independent system integrator with a history of over 56 years. The Company promotes its growth strategy of serving as a total solutions provider underpinned by its Group purpose of “Powering the world with passion,” which incorporates its aspiration, “We dream of building a future where everyone can be their fullest selves.” Moreover, effective January 1, 2024, the Company changed its name to NCD Co., Ltd. and also changed its corporate logo with a view to unifying the Group to fulfill this purpose, raise brand value, and achieve sustained growth.

As of the end of 1H FY3/24, 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 City, 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).

Company profile

The Group is comprised of the Company and its subsidiaries, which include NCD Technology Co., Ltd., NCD Solutions Co., Ltd. (formerly, ZEXIS CORPORATION, change of company name effective from January 1, 2024), NCD CHINA Co., Ltd., NCD EST Co., Ltd., and NCD Pros Co., Ltd. (ownership ratio: 67%). NCD Technology conducts support and service in the IT-related Business, such as system development; NCD Solutions 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 bicycle parking lot business in Kyushu; and NCD PROS conducts a bicycle parking lot management and operations business. In December 2023, the Company acquired shares of JCS, which engages in system development primarily for Kao <4452>, and subsequently made JCS a subsidiary. The Company has its sights set on expanding its customer base and gaining expertise in kitting services and other such new domains as a result of having made JCS a Group company.

At the end of 1H FY3/24, total assets were ¥12,585mn, net assets were ¥5,681mn, the equity ratio was 44.7%, and the number of issued shares was 8,800,000 shares (including treasury shares of 619,732 shares).

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, it registered for over-the-counter trading with the Japan Securities Dealers Association (it is currently 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 Co., Ltd. (now, NCD Technology) in November 2000, established NCD CHINA in April 2005, acquired ZEXIS CORPORATION (now, NCD Solutions) as a subsidiary in December 2007 (made it a wholly owned subsidiary in August 2008), established NCD Pros in March 2018, and acquired Yano Industrial Inc. (now, NCD EST) as a subsidiary in April 2019, and acquired JCS as a subsidiary in December 2023.

NCD Co., Ltd. | 31-Jan.-2024
 4783 Tokyo Stock Exchange Standard Market | <https://www.ncd.co.jp/ir/>

Company profile

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 (renamed NCD Solutions in January 2024) 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
May 2023	Formulated the new mid-term management plan "Vision 2026"
October 2023	Acquired AWS Solution Provider certification
December 2023	Acquired Japan Computer Services Inc. (JCS) as a subsidiary
January 2024	Changed company name from Nippon Computer Dynamics Co., Ltd. to NCD Co., Ltd.

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

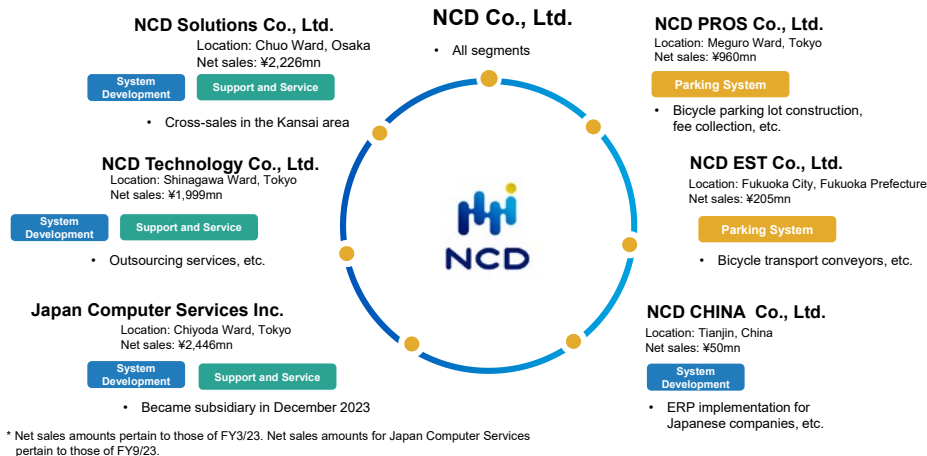
Business overview

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 56 years, the latest information technology and abundant application knowledge, and one-stop service provision to deliver total solutions.

Group companies and business segments



Source: Materials provided by the Company

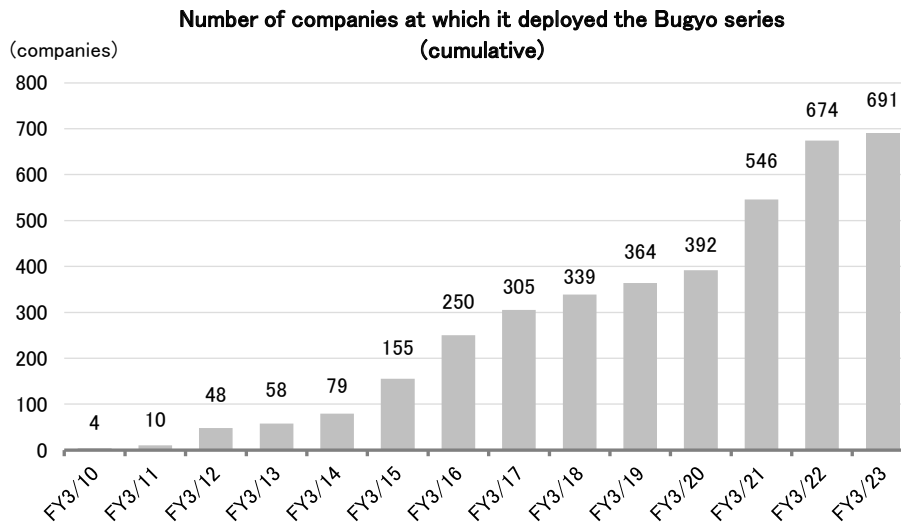
System Development Business mainly handles development and maintenance consignments for mission-critical business systems

2. System Development Business

The System Development Business conducts outsourced system integration, which involves undertaking the planning, design, development, construction, testing, 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 56 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.

Business overview

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. In particular, one of its strengths is systems construction to install the applications of Oracle <ORCL> 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 691 (not including cancellations) as of March 31, 2023. The Company received the regional leader award in Bugyo Series sales results for the 2022-23 season at the OBC Partner Award 2023 event in 2023.



Note: Total number of installations (cumulative) does not include cancellations.
 Source: Prepared by FISCO from the Company’s results briefing materials

In the cloud computing field, the Company adopted AWS (Amazon Web Services) of Amazon (Amazon.com <AMZN>), the largest public cloud vendor, for the Company’s bicycle parking business mission-critical system infrastructure, and it accumulates expertise in construction and operation while providing services as a solution using AWS. It is also the certified Japanese partner 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 “mcfame 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.

In October 2023, the Company acquired AWS Solution Provider certification and concluded an AWS Solution Provider Program (SPP) agreement. Going forward, the Company intends to develop business by taking an approach that entails positioning Amazon Web Services (AWS) as a core component of its package solutions, alongside OBC’s Bugyo Series and Panasonic Group’s MAJOR FLOW Z workflow management system.

We encourage readers to review our complete legal statement on “Disclaimer” page.

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.

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, provide comprehensive support to replace the customer's own systems management division. The two MSCs (Managed Services Centers) at Head Office and Nagasaki Office 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; a recurring revenue ratio of over 80%

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. This business notably entails many long-term, ongoing transactions. 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.

Business overview

Main customers of the IT-related Businesses

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 Inc. Nissui Corporation, Fukuoka Prefectural Government
Transactions for more than 10 years	JA OSAKA DENSAN Ltd., Kyudenko Corporation, Sony Group Corporation 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 , JFE Shoji Corporation, JTB Asset Management Corp., Takumi Otsuka Co., Ltd., Japan Freight Railway Company, Beisia Group Solutions, Benesse Corporation, Mizuho Financial Group, Inc., Mitsubishi Corporation Life Sciences Limited, LIXIL Group, etc. .

* As of October 1, 2023
 Source: Prepared by FISCO from the Company's results briefing materials

Also, as it has many long-term, ongoing transactions with major blue-chip companies, it has an earnings structure in which recurring revenue accumulate, such as for the maintenance and operation of the systems it has developed and constructed. Recurring revenue in IT-related Business achieved 84% of total sales (1H FY3/24), 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

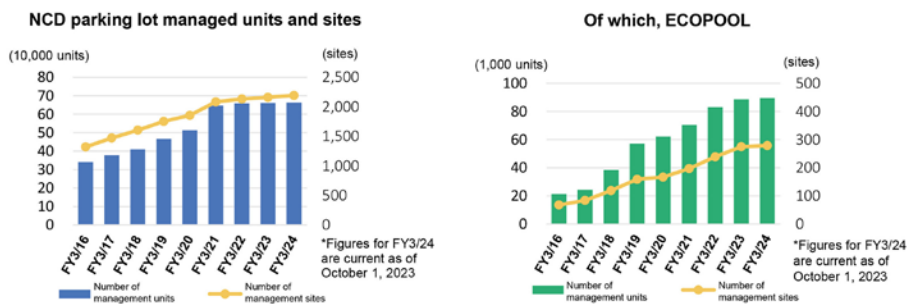
The Parking System Business mainly sells electromagnetic-lock bicycle parking equipment and manages operations of bicycle parking lots. Bicycle parking lots are not only managed and operated in a labor-saving and efficient manner utilizing IT, this business eliminates nationwide problems of abandoned 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.

Business overview

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. The sales categories are equipment sales, management and operations, and others. The management and operations category consists of self-operated bicycle parking lots, which are managed and operated by the Company based on contracts with private-sector companies that own commercial facilities, etc., designated management, in which the Company conducts management and operations as the manager designated by the local government, and consignment, in which the Company is consigned to manage bicycle parking lots operated by railway companies, local governments, etc. Sales ratios in 1H FY3/24 were 94% stock-type (bicycle parking lot usage fee income, bicycle parking lot management and operation, etc.) and 6% flow-type (sales of bicycle parking lot equipment).

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, 2023, it had 2,193 bicycle parking lot management sites and 663,500 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.



Source: Reprinted from the Company’s results briefing materials

Business overview

Some typical installation case studies 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. 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 Development Co., Ltd., 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. In March 2023, the Company opened a new type of bicycle parking lot in the Sasazuka district of Shibuya Ward in partnership with Sakura Rubber Company Limited <5189>. The new facility offers bicycle sharing services complete with bike-share bicycles from Docomo Bike Share, Inc., as well as electric kick scooters and electric-assisted bicycles from Luup, Inc. The Company has been actively pursuing opportunities in response to the increasing popularity of bike-share bicycles and electric kick scooters in recent years.

Customers for Parking System Business

Major customers for Parking System Business		
Local governments	Arakawa Ward, Ota Ward, Katsushika Ward, Kita Ward, Shibuya Ward, Shinjuku Ward, Suginami Ward, Setagaya Ward, Taiho Ward, Chuo Ward, Toshima Ward, Nakano Ward, Nerima Ward, Asaka City, Kawaguchi City, Komae City, Narashino City, Fuchu City, Yokohama City, Fukuoka City, etc. (Selected as the designated manager in the following cases) 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, 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.	Atre Co., Ltd., AEON RETAIL Co., Ltd., Ito Yokado Co., Ltd., Daimaru Matsuzakaya Department Stores Co., Ltd., Comodi-iida Co., Ltd., XYMAX Corporation, Sumitomo Realty & Development Co., Ltd., Seiyu Co., Ltd. The Daiiei, Inc., TIMES24 Co., Ltd., Takashimaya Company, Limited, Tokyu Store Corporation, TOKYU LAND CORPORATION, TOSHIN DEVELOPMENT CO., LTD., Nomura Real Estate Development Co., Ltd., PARCO CO., LTD., BIC CAMERA INC., MARUI GROUP CO., LTD., Mitsui Fudosan Co., Ltd., Isetan Mitsukoshi Holdings Ltd., Yodobashi Camera Co., Ltd., 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 Ward Silver Human Resources Center, Sagami-hara City Machimidori Public Company, Setagaya Ward Silver Human Resources Center, Nerima Ward Environment Machizukuri Public Company, Mitaka Town Management Inc. YOKOHAMA TRAFFIC SAFETY ASSOCIATION	<ul style="list-style-type: none"> • Contributions to local society via collaboration with various organizations

* As of October 1, 2023 * 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 in November 2019 at some facilities, and has since been increasing the number of sites where the service is available. In December 2023, the Company furthermore began to install payment machines specifically for processing cashless transactions, thereby eliminating the need to handle physical currency. The Company is capable of lowering management costs through reduction of collection and maintenance frequency. 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 actions will contribute to the environment.

Business overview

As part of the progress on Business Process Re-engineering (BPR) to improve the profitability of the Parking System Business, 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, the Company is promoting price revisions and deployment of QR code settlement primarily at self-operated bicycle parking lots. In developing new sales channels such as developers and architectural offices, the Company has received orders for redevelopment projects by strengthening collaboration with developers. We at FISCO believe the Company is generally making steady progress.

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

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

Results over the past five years (FY3/19 to FY3/23) and results for 1H FY3/24 are as follows in terms of net sales by segment and ratio of net sales by segment, segment income and segment income ratio, and segment income margin. In 1H FY3/24, the System Development Business accounted for 41.2% of net sales, the Support and Service Business for 29.9%, and the Parking System Business for 28.8%. In terms of ratio of net sales by segment, approximately 70% of net sales are attributable to the IT-related Business (System Development Business, Support and Service Business) and approximately 30% of net sales are attributable to the Parking System Business, with the exception of the period during which results of the Parking System Business were affected by the COVID-19 pandemic.

Looking at results by business segment, net sales and segment income of the System Development Business have been trending higher, with the segment income margin also holding to a consistently high level in the 10% to 15% range as a result of rigorous project management, quality management, and other such measures. In 1H FY3/24, the segment income margin furthermore increased to 14.4%, largely due to effects of higher productivity. Net sales and segment income of the Support and Service Business have also been trending higher. The segment income margin has been holding to an upward trajectory at a level within the 10% to 15% range since FY3/22. Still, the segment income margin is susceptible to downward pressure amid scenarios where it incurs one-time upfront expenses when it begins to undertake major new projects, as was the case in FY3/20 when the segment income margin was 4.9%. In the Parking System Business, net sales and segment income have been mounting a recovery since FY3/22, given diminished adverse effects of the COVID-19 pandemic. In 1H FY3/24, the segment income margin increased to 17.9%, thereby surpassing levels prior to the COVID-19 pandemic (14.7% in FY3/19 and 14.1% in FY3/20), due to effects of factors that include resurgence of demand, price revisions, and Business Process Re-engineering (BPR).

Business overview

Net sales by segment and composition of net sales

Item	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
(¥mn, %)						
Net sales						
System Development Business	6,329	7,073	7,405	8,365	9,243	4,903
Support and Service Business	4,611	4,568	5,072	6,099	6,892	3,556
Parking System Business	6,027	6,693	5,060	6,073	6,675	3,429
Consolidated net sales (including others)	17,007	18,390	17,563	20,550	22,853	11,904
Composition of net sales						
System Development Business	37.2	38.4	42.2	40.7	40.5	41.2
Support and Service Business	27.1	24.8	28.9	29.7	30.2	29.9
Parking System Business	35.4	36.4	28.8	29.6	29.3	28.8

Note: Net sales figures constitute net sales to external customers

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

Segment income and composition of segment income (Before consolidation adjustments)

Item	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
(¥mn, %)						
Segment income						
System Development Business	726	799	928	1,020	1,033	704
Support and Service Business	374	224	481	620	703	367
Parking System Business	883	944	13	451	817	612
Before consolidation adjustments	1,921	1,953	1,421	2,096	2,560	1,684
Composition of segment income						
System Development Business	37.8	40.9	65.3	48.7	40.3	41.8
Support and Service Business	19.5	11.5	33.9	29.6	27.5	21.8
Parking System Business	46.0	48.4	1.0	21.5	31.9	36.4

Note: Segment income constitutes income before consolidation adjustments

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

Segment income margin

Item	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
(%)						
Segment income margin						
System Development Business	11.5	11.3	12.5	12.2	11.2	14.4
Support and Service Business	8.1	4.9	9.5	10.2	10.2	10.3
Parking System Business	14.7	14.1	0.3	7.4	12.2	17.9

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

Conducts thorough project management and quality management

7. Risk factors, income characteristics, challenges, and countermeasures

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 at committee meetings after the order. It promotes efficiency by improving the work process as a Companywide initiative. Moreover, the Company aims to furthermore reduce costs by turning to a nearshore approach involving operations in Nagasaki and Fukuoka over the medium to long term. The Company is boosting recurring revenue 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, and has a stable income structure mainly in stock-type business.

The Parking System Business mainly generates recurring revenue from bicycle parking lot usage fee income and bicycle parking lot management and operation 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. Whereas financial results of the Parking System Business were temporarily affected by the COVID-19 pandemic, bicycle parking lot usage fee income in FY3/23 exceeded the level in FY3/20 before the pandemic due to factors that subsequently included a resurgence in economic activity and the flow of people along with successful outcomes of Business Process Re-engineering (BPR) initiatives undertaken to improve the profitability.

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 recurring revenue is expanding, quarterly results have been evening out and thereby diminishing the extent of seasonal impact.

Results trends

Sales and profit increased substantially in 1H FY3/24 amid growth in each business segment

1. Summary of the 1H FY3/24 consolidated results

In 1H FY3/24 consolidated results, the Company recorded major increases in sales and profits, with ¥11,904mn in net sales, an increase of 11.5% year on year (YoY), ¥900mn in operating income, an increase of 75.2%, ¥907mn in ordinary income, an increase of 73.6%, and ¥600mn in net income attributable to owners of the parent, an increase of 85.2%. Each of the business segments achieved substantial gains in sales and profits amid a scenario where growth of the segments particularly absorbed higher personnel expenses associated with the Company's investment in human capital. The IT-related Business (System Development Business, Support and Service Business) achieved favorable results in terms of orders against a backdrop of corporate investment in digital transformation (DX). In the Parking System Business, results were buoyed by price revisions and progress achieved in streamlining operations, in addition to a resurgence in economic activity and the flow of people. Gross profit on a Company-wide basis increased by 29.9% YoY, with the gross profit margin having gained by 2.8 percentage points to 19.8%. Meanwhile, whereas SG&A expenses increased by 12.0% YoY, the SG&A expense ratio held steady at 12.2%. As a result, the operating income margin increased by 2.8 percentage points YoY to 7.6%, thereby significantly exceeding the initial in-house estimate of around 6.0%. Under extraordinary loss, the Company has completed recording of impairment losses and loss on transfer to retirement benefit plan in the previous period.

Summary of the 1H FY3/24 consolidated results

	1H FY3/23		1H FY3/24		YoY	
	Amount	%	Amount	%	Change	% change
Net sales	10,672	100.0%	11,904	100.0%	1,231	11.5%
Gross profit	1,815	17.0%	2,357	19.8%	542	29.9%
SG&A expenses	1,301	12.2%	1,456	12.2%	155	12.0%
Operating income	513	4.8%	900	7.6%	386	75.2%
Ordinary income	523	4.9%	907	7.6%	384	73.6%
Net income attributable to owners of the parent	324	3.0%	600	5.0%	276	85.2%
Net sales by segment						
System Development Business	4,344	40.7%	4,903	41.2%	559	12.9%
Support and Service Business	3,222	30.2%	3,556	29.9%	333	10.4%
Parking System Business	3,090	29.0%	3,429	28.8%	338	10.9%
Segment income						
System Development Business	493	11.3%	704	14.4%	211	42.7%
Support and Service Business	333	10.3%	367	10.3%	34	10.1%
Parking System Business	367	11.9%	612	17.9%	245	66.8%

Note 1: Net sales by segment constitute net sales to external customers. Segment income constitutes income before consolidation adjustments

Note 2: Percentages with respect to net sales constitute a segment's net sales as a percentage of total consolidated net sales. Percentages with respect to income constitute a segment's income as a percentage of the segment's net sales

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

The IT-related Business continued to perform well and the Parking System Business recovered to levels prevailing before the COVID-19 pandemic

2. Trends by segment

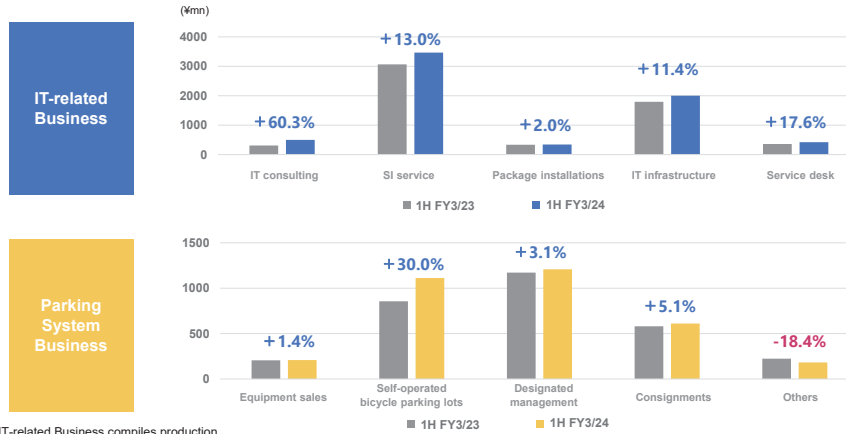
Looking at trends by segment (net sales constitute net sales to external customers; segment income constitutes operating income before consolidation adjustments), in IT-related Businesses, the System Development Business recorded ¥4,903mn in net sales, an increase of 12.9% YoY, and ¥704mn in segment income, an increase of 42.7% YoY. The Support and Service Business recorded ¥3,556mn in net sales, an increase of 10.4% YoY, and ¥367mn in segment income, an increase of 10.1% YoY. In terms of business category (non-consolidated basis), mainstay SI services and IT infrastructure-related services encountered robust growth with sales gains of 13.0% and 11.4% YoY, respectively. Meanwhile, sales increased by 60.3% YoY in IT consulting, by 2.0% in package installations, and by 17.6% in service desk operations.

In the System Development Business, mainstay SI services and IT infrastructure-related services performed well in terms of sales against a backdrop of factors that included corporate investment in digital transformation (DX). Results were also buoyed by projects for new installations of MAJOR FLOW Z workflow management systems (orders received for installation projects from four companies encompassing the logistics sector and insurance companies), in addition to expansion of the segment's business domain in terms of system development projects related to new products at insurance companies as well as mission-critical system renewal projects for the manufacturing sector. In terms of profit, the segment income margin increased by 3.0 percentage points to 14.4%. In addition to effects of the increase in sales, this is also attributable to factors that include rigorous project management and quality management, higher productivity, and operational streamlining. In the Support and Service Business, sales were buoyed by factors that include the segment's full-scale operational launch of help desk services for a new customer in the logistics sector, in addition to the segment's outsourcing involving information system divisions of major corporations (system operation for the Nissui <1332> Group) and expansion of the segment's business domain in the realm of cloud-related operations of insurance companies. The segment income margin remained largely unchanged in the 10% range due to upfront investment particularly for enlargement of the Nagasaki Office in preparation for business expansion going forward and for establishment of the Nissui Operations Center located within the Nagasaki Office.

The Parking System Business recorded net sales of ¥3,429mn, an increase of 10.9% YoY, and segment income of ¥612mn, up 66.8% YoY. In terms of the breakdown of net sales, whereas the Parking System Business attained modest results with respect to flow revenue with equipment sales up 1.4% YoY, it achieved favorable results with respect to its mainstay stock revenue amid gains of 30.0% in self-operated bicycle parking lots, 3.1% in designated management, and 5.1% in consignments. In terms of profit, the segment income margin of the Parking System Business increased by 6.0 percentage points YoY to 17.9%, thereby surpassing levels prior to the COVID-19 pandemic (14.7% in FY3/19 and 14.1% in FY3/20). The segment's results were buoyed by effects of price revisions, operational streamlining (bringing outsourced work in-house, etc.), and effects of reducing management and operation costs, which is in addition to a resurgence in economic activity and the flow of people.

Results trends

Sales trends (NCD parent)



*IT-related Business compiles production

Source: The Company's results briefing materials

Financial position remains favorable

3. Financial condition

Looking at the Company's financial condition, at the end of 1H FY3/24, total assets increased ¥198mn versus the end of FY3/23 to ¥12,585mn. This is mainly attributable to changes in current assets consisting of a ¥672mn increase in cash and deposits, a ¥200mn increase in securities, and a ¥438mn decrease in notes and accounts receivable - trade, and contract assets, and also attributable to changes in non-current assets consisting of a ¥287mn decrease in investments and other assets. Total liabilities decreased ¥437mn to ¥6,904mn. This is mainly attributable to changes in current liabilities consisting of a ¥130mn decrease in accounts payable - trade, a ¥277mn decrease in provision for bonuses, and a ¥125mn decrease in provision for stock remuneration, offset by a ¥146mn increase in income taxes payable. Total net assets increased ¥635mn YoY to ¥5,681mn. This is mainly attributable to a ¥64mn increase in capital surplus and a ¥495mn increase in retained earnings. As a result, the equity ratio rose 4.3 percentage points to 44.7%. There are no particular matters of concern regarding the status of cash flows amid a scenario of no major changes with respect to the balance sheet items. Accordingly, FISCO deems that the Company's financial position remains favorable.

Results trends

Financial statements and cash flow statement (simplified)

Item	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24	Change
Total assets	11,048	11,617	10,816	11,890	12,387	12,585	198
(Current assets)	6,455	6,644	6,768	7,949	8,579	9,132	552
(Non-current assets)	4,593	4,972	4,047	3,941	3,808	3,453	-354
Total liabilities	7,595	7,704	6,651	7,422	7,342	6,904	-437
(Current liabilities)	4,291	4,311	3,976	4,721	4,885	4,588	-296
(Non-current liabilities)	3,304	3,392	2,674	2,701	2,456	2,315	-141
Total net assets	3,453	3,913	4,165	4,468	5,045	5,681	635
(Shareholders' equity)	3,387	3,924	4,057	4,406	4,966	5,566	600
(Capital stock)	438	438	438	438	438	438	0
Equity ratio (%)	31.1	33.5	38.3	37.3	40.4	44.7	4.3pt

Item	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
Cash flows from operating activities	416	376	218	1,918	568	903
Cash flows from investing activities	-219	-164	142	-48	-171	-34
Cash flows from financing activities	-312	-370	-61	-779	-413	-196
Cash and cash equivalents at end of period	2,579	2,420	2,721	3,814	3,799	4,473

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

Outlook for the future

Forecast for significant growth in profits remains unchanged for FY3/24, and may grow even further

● Summary of the FY3/24 consolidated results forecasts

The Company forecast for FY3/24 consolidated results remains unchanged from the initial forecast of increases in net sales of 2.8% YoY to ¥23,500mn, operating income of 17.1% to ¥1,400mn, ordinary income of 15.5% to ¥1,400mn, and net income attributable to owners of the parent of 26.4% to ¥850mn. The Company forecasts double-digit growth in operating income amid a scenario of increased sales backed by growth across all business segments, thereby absorbing human capital investment and other such outlays. It will focus on increasing profitability and plans to promote initiatives that include raising productivity and adjusting prices.

Outlook for the future

Summary of the FY3/24 consolidated results forecasts

	FY3/23		FY3/24 forecasts		YoY		1H progress rate
	Amount	%	Amount	%	Change	% change	
Net sales	22,853	100.0%	23,500	100.0%	646	2.8%	50.7%
Operating income	1,195	5.2%	1,400	6.0%	204	17.1%	64.3%
Ordinary income	1,212	5.3%	1,400	6.0%	187	15.5%	64.9%
Net income attributable to owner of the parent	672	2.9%	850	3.6%	177	26.4%	70.7%
Net sales by segment							
System Development Business	9,243	40.4%	9,650	41.1%	406	4.4%	50.8%
Support and Service Business	6,892	30.2%	7,150	30.4%	257	3.7%	49.7%
Parking System Business	6,675	29.2%	6,700	28.5%	24	0.4%	51.2%
Segment income							
System Development Business	1,033	11.2%	1,250	13.0%	216	21.0%	56.3%
Support and Service Business	703	10.2%	803	11.2%	99	14.2%	45.8%
Parking System Business	817	12.2%	920	13.7%	102	12.5%	66.6%

Note 1: Net sales by segment constitute net sales to external customers. Segment income constitutes income before consolidation adjustments

Note 2: Percentages with respect to net sales constitute a segment's net sales as a percentage of total consolidated net sales. Percentages with respect to income constitute a segment's income as a percentage of the segment's net sales

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

Segment forecasts are as follows (net sales constitute net sales to external customers; segment income constitutes income before consolidation adjustments). In the System Development Business, the Company is forecasting net sales to increase 4.4% YoY to ¥9,650mn and segment income to go up 21.0% to ¥1,250mn. In the Support and Service Business, it is forecasting net sales to increase 3.7% YoY to ¥7,150mn and segment income to rise 14.2% to ¥803mn. In the Parking System Business, it is projecting net sales to edge up 0.4% to ¥6,700mn and segment income to increase 12.5% to ¥920mn.

Regarding its priority strategies, in the IT-related Business, the Company will evolve the NCD service model by enhancing its service menu, promote full IT outsourcing by expanding application of managed services, and promote the training of high-level IT personnel by strengthening mid-career hiring and promoting re-skilling, etc. Among its initiatives in 1H, the Company has been in the process of implementing plans toward applying its managed services with respect to each of its customers. In the Parking System Business, the Company plans to review business processes, revise pricing primarily at self-operated bicycle parking lots, expand the functions of ECOPOOL monthly bicycle parking lots, deploy next-generation bicycle parking lot services, improve profitability by reviewing its local government strategy, and strengthen the functions of its corporate strategy division, etc. In 1H, the Company proceeded with installation of payment machines for hourly rentals specifically for processing cashless transactions. In 2H, the Company plans to enhance its profitability by withdrawing from unprofitable projects. In the corporate division, it will strengthen materiality initiatives and fully incorporate them into management, strengthen human resources management, starting with securing and training personnel, and bolster its compliance and risk management systems for the Group overall, etc.

Progress rates toward full-year guidance in 1H results were sales at 50.7%, operating income at 64.3%, ordinary income at 64.9%, and net income attributable to owners of the parent at 70.7%. FISCO deems it highly likely that the Company's results will exceed its full-year forecast taking into account various factors such that include: the Company has achieved a high rate of progress toward achieving full-year guidance in its 1H income results; corporate investment in digital transformation (DX) is poised to remain at high levels in the IT-related Business, and; income generated by the Parking System Business is showing signs of recovery exceeding expectations.

Growth strategy

Purpose of “Powering the world with passion.”

1. Purpose

In order to accelerate its growth strategy of being a total solution provider, 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. Moreover, the Company changed its name to NCD effective from January 1, 2024, underpinned by its commitment to unifying the Group going forward toward fulfilling its purpose, raising brand value, and achieving sustained growth, while upholding the Company’s founding spirit.

Accelerating reforms to raise profit margins with medium-term management plan “Vision 2026”

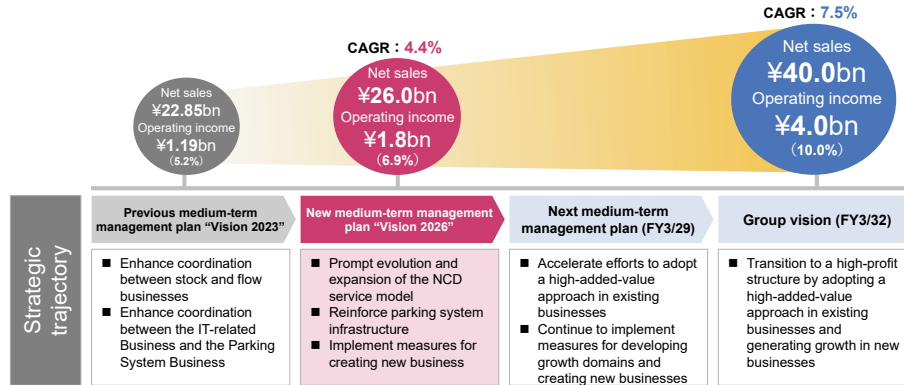
2. Medium-Term Management Plan “Vision 2026”

In May 2023, the Company formulated a vision for itself in 2032 (NCD Group vision) for sustainable growth and to increase corporate value, and established three basic policies: “Work to transform into a company with higher profitability and translate this into the sustainable growth of the NCD Group,” “Build a third business pillar by taking on the challenge of new business domains,” and “Strive to be a ‘well-being company’ such that working at the NCD Group brings happiness and the potential for growth.” The Company’s targets for 2032 are net sales of ¥40.0bn, operating income of ¥4.0bn and an operating income margin of 10.0%.

Then, the Company formulated “Vision 2026,” the new medium-term management plan for FY3/24 to FY3/26, back cast from its vision. The basic policies are: Further pursue NCD value by raising the added-value of existing businesses and creating new businesses (further strengthen coordination between the IT-related Business and Parking System Business and pursue new businesses to build a third business pillar by systemizing new business creation), Strengthen the management base to increase corporate value (promote sustainability management, strengthen initiatives for human capital management to maximize human resources value, and contribute to business transformation and sustainable growth through DX promotion), and Rebuild an optimal Group business system (pursue an organizational structure that maximizes business synergies). In terms of direction, the Company will shore up existing businesses and make investments from a long-term perspective, which will include improving profitability that is lower than the industry average, strengthening coordination between business departments, strengthening initiatives for new business domains, increasing added-value in existing businesses, securing and training human resources, and strengthening initiatives for rewarding work. It plans to tie these initiatives to efforts to achieve the targets of its next medium-term management plan (FY3/27 to FY3/29) and its Group vision for 2032.

Growth strategy

Strategic role of Vision 2026



Source: The Company's results and medium-term management plan briefing materials

"Vision 2026" numerical targets

Financial targets* (FY3/26)

Consolidated Group	Major segments			
	System development	Support and Service	Parking System	
Net sales	¥26.0bn	¥11.0bn	¥8.0bn	¥7.0bn
Operating income	¥1.8bn	¥1.5bn	¥0.9bn	¥1.15bn
Operating income margin	6.9%	13.6%	11.3%	16.4%
ROE	At least 15%	*Segment income: Income before allocation of adjustments (general and administrative expenses related to the parent company)		

Investment targets* (FY3/24-FY3/26)

Total investment over three years	¥1.8bn
● Human capital investment	¥0.7bn
● Investment related to R&D and new businesses	¥0.6bn
● Other investments	¥0.5bn

*Excludes investment in bicycle parking lot facilities in the Parking System Business

Shareholder return policy

Consolidated dividend payout ratio At least 30%
 The Company regards returning profits to shareholders as one of the most important priorities of management and will pay a stable, continuing dividend based on a target payout ratio of 30% or higher while comprehensively considering such factors as consolidated results and the level of internal reserves needed for future business development.

Source: Reprinted from the Company's results briefing materials

The Company intends to enlist a management approach that takes into account both the Company's cost of capital and its share price under its "Vision 2026" medium-term management plan, which accordingly contains quantitative targets for FY3/26, the final year of the plan, such that include net sales of ¥26.0bn, operating income of ¥1.8bn, operating income margin of 6.9%, and ROE of 15.0% or higher. The Company's investment plan calls for total investment of ¥1.8bn over three years (¥700mn in human capital, ¥600mn related to R&D and new businesses, and ¥500mn in other areas), excluding its capital investment in bicycle parking lots related to the Parking System Business. Its numerical targets by segment are as follows. For the System Development Business, it is targeting net sales of ¥11.0bn, segment income (before consolidation adjustments) of ¥1.5bn, and a segment income margin of 13.6%. In the Support and Service Business, it is targeting net sales of ¥8.0bn, segment income of ¥0.9bn and a segment income margin of 11.3%. And in the Parking System Business, it is aiming for net sales of ¥7.0bn, segment income of 1.15bn, and a segment income margin of 16.4%. Its policy on shareholder returns is to target a payout ratio of 30.0% or higher on a consolidated basis.

Growth strategy

In the IT-related Business, the Company will work to transform to a high added-value service model and establish a unique position as a full IT outsourcer. To this end, it will strengthen the services it provides, its customer base and systems and work to further expand its outsourcing business. In the Parking System Business, the Company will work to establish a strong position as a leading company and apply the strengths and expertise it has cultivated in the bicycle parking lot business to new business domains. It will stabilize its revenue base by carrying out a structural reform project and create businesses with high added value through promoting proposal-based businesses and providing new services. In the corporate division, the Company plans to promote sustainability management, human capital management and a more advanced governance system in order to achieve the levels of governance required of companies listed on the Prime Market.

With regard to new business creation, the Company will conduct multifaceted initiatives that include holding gatherings to select among presentations of business ideas upon embarking on its “co-do project” program for soliciting business ideas as a part of its strategy. In addition, with regard to sustainability management, the Company began KPI monitoring while incorporating materiality into each division’s policies. Going forward, the Company intends to strengthen initiatives for enhancing non-financial information. In the area of human capital management, the basic concept of its HR strategy is to focus on autonomous career formation and reforms to the organizational culture through dialogue. It plans to work to reform HR management for the development of both personnel and the organization.

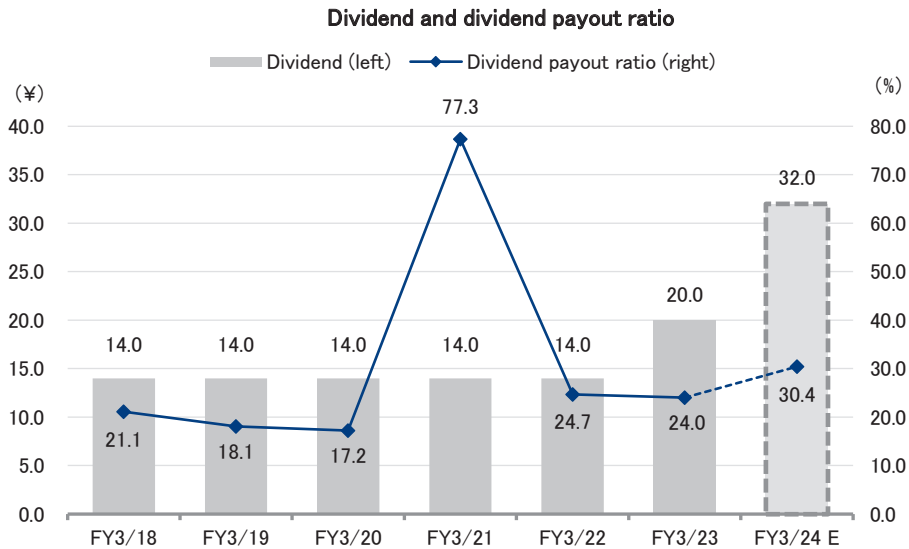
According to Representative Director and President Osamu Shimojo, who spoke with enthusiasm, “We will promote various initiatives with a focus on raising profitability under the “Vision 2026” medium-term management plan. We will furthermore accelerate reforms and more swiftly take on challenges in new fields of business toward achieving the Group vision by 2032, while remaining conscious of sustainability management. We fully believe we will be able to achieve our targets for FY3/26 and intend to raise corporate value with the goal of being listed on the Prime Market in the future. To such ends, we need to enhance our investor relations initiatives and increase our media exposure, above and beyond improving our financial performance.”

Targeting a consolidated payout ratio of 30% or higher for shareholder returns

3. Shareholder return policy

Regarding profit allocation, the Company has set a target consolidated payout ratio of 30% or higher starting in FY3/24 accompanying the start of its “Vision 2026” medium-term management plan. Based on this basic policy, the Company forecasts an annual dividend of ¥32.00 (an interim dividend of ¥16.00 and a period-end dividend of ¥16.00), which is an increase of ¥12.00 compared to FY3/23. The forecast dividend payout ratio is 30.4%. 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. We at FISCO reckon that there is a high likelihood of the Company outperforming its forecast of FY3/24 consolidated results, thereby giving rise to the possibility of it upwardly revising its dividends.

Growth strategy



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

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

Promoting sustainability management

4. Sustainability management

With respect to sustainability management, the Company established the Sustainability Promotion Committee in October 2021 and has outlined a policy of strengthening its sustainability management practices under its “Vision 2026” medium-term management plan. 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.” In addition, the Company established sustainable procurement guidelines in August 2023.

With respect to “contribute to realizing carbon neutrality,” the Company will promote DX and provide high added-value bicycle parking lot services. To “create a safe, secure and prosperous society,” it intends to provide resilient social infrastructure and contribute to regional revitalization. To “be a society where diverse human resources can play an active role,” it will promote diversity and inclusion, create a pleasant workplace that provides rewarding work and train the next generation of leaders. And, to “gain society’s trust,” the Company plans to increase the sophistication of its governance system, promote compliance, and conduct appropriate risk management.

The parking system business eliminates bicycle parking problems such as bicycles left on streets throughout the country, and helps improve the global environment through measures to ease traffic congestion, effective utilization of land, land and town planning, and reductions in CO₂ (carbon dioxide) emissions, etc. 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). The Company concluded official supplier agreements with the professional road cycling team SAITAMA DReVe in April 2022, and with VC FUKUOKA in April 2023. The Company also plans to contribute to local communities.

The basic concept of the Company’s HR strategy is to focus on autonomous career formation and reforms to the organizational culture through dialogue. Based on this concept, it is promoting health and productivity management, maintaining a pleasant workplace, work style reforms, career support, in-house ventures, diversity and inclusion, and increasing engagement. The Company instituted a new personnel system integrated at the Group level in April 2021 and in September 2021 it received Gold Certification as an excellent health company in the healthy company declaration program administered by the Kenko Kigyo Sengen Tokyo Suishin Kyogikai, a council of organizations formed to promote health initiatives among small- and medium-sized enterprises in Tokyo. The Company’s target for female managing directors/executive officers is one by FY3/27 and two by FY3/31. Generally, female directors tend to be outside directors, but the Company plans to promote women internally to the position of managing director/executive officer. It will work to comply with the Corporate Governance Code, revised in June 2021, through such measures as disclosing a skill matrix for directors and participating in the platform for the electronic exercise of voting rights.

Growth strategy



Source: The Company's results briefing materials

Focus on progress achieved under medium-term management plan amid favorable assessment of increase in profit margins in 1H FY3/24

5. Analyst's point of view

With Company-wide revenue having taken a downturn due to effects of COVID-19 pandemic on the Parking System Business, the Company rolled out an ambitious strategy entailing initiatives to further increase profitability under the "Vision 2026" medium-term management plan. The strategy has culminated in 2.8 percentage point increase YoY in the operating income margin in 1H FY3/24. FISCO assigns high marks to the Company not only simply given the notion that its initiatives prompted recovery of the Parking System Business, but also for success it has achieved in exhaustively implementing project management and quality control practices diligently carried out thus far, and also in improving productivity and streamlining operations. Furthermore, the Company has been redoubling its efforts in terms of setting its sights on expanding its range of services and business platform in part by gaining AWS Solution Provider certification and making JCS a subsidiary. FISCO also takes a positive view in terms of the potential for further profit growth over the medium to long term as a result of the Company's efforts to accelerate reforms in seeking to raise profit margins. As such, FISCO will continue to monitor progress of the Company's strategy to increase profitability under its medium-term management plan.



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp