

NCD Co., Ltd.

4783

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FISCO Ltd. Analyst

Masanobu Mizuta



FISCO Ltd.

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

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Summary

FY3/25 consolidated results and dividend forecasts revised upward, and medium-term management plan targets revised upward again

NCD Co., Ltd. <4783> (formerly, Nippon Computer Dynamics; change of company name effective from January 1, 2024; hereafter, also “the Company”) is a pioneer as an independent system integrator with a history of over 57 years since its foundation in 1967.

1. Operates IT-related businesses (System Development Business, Support and Service Business) and Parking System Business as its three business pillars

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. In the IT-related businesses, the Company’s strength is its ability to provide systems development and outsourcing services that ensure stable quality. It is also notable for its stable income structure with a stock-type sales ratio of over 80%, achieved through long-term ongoing transactions with major blue-chip companies. The Parking System Business is the largest operator of electromagnetic lock-type bicycle parking lots in Japan, mainly as the direct manager and operator of self-operated bicycle parking lots.

2. Sales and profit increased substantially in 1H FY3/25 to reach record highs

In 1H FY3/25 consolidated results, the Company recorded major increases in sales and profit, with ¥14,759mn in net sales, an increase of 24.0% year on year (YoY), ¥1,404mn in operating income, an increase of 55.9%, ¥1,426mn in ordinary income, an increase of 57.1%, and ¥960mn in net income attributable to owners of the parent, an increase of 59.9%, marking record-high results for 1H. Demand levels remained high resulting in growth in all business segments, which absorbed increases in personnel and other expenses. The incorporation of Japan Computer Services, Inc. (JCS) into P/L consolidation from 4Q FY3/24 also contributed. The Company’s overall operating income margin improved 1.9 percentage points (pp) YoY to 9.5%. Regarding income margin by segment, the System Development Business increased by 0.4pp to 14.8%, the Support and Service Business decreased by 0.3pp to 10.1%, and the Parking System Business increased by 6.0pp to 23.8%. The considerable increase in income margin in the Parking System Business is the result of efforts including price revisions and improvements to operational efficiency.

Summary

3. Forecast for FY3/25 has been revised upward in anticipation of considerable sales and profit increases and consecutive record high results

For its consolidated results in FY3/25, the Company revised its forecast upward on November 8, 2024, projecting net sales to increase 17.7% YoY to ¥30,000mn, operating income to rise 27.6% to ¥2,700mn, ordinary income to grow 26.2% to ¥2,700mn, and net income attributable to owners of the parent to increase 29.7% to ¥1,800mn. This forecast anticipates a considerable YoY increase in sales and profit and consecutive record high results. The rate of progress made in 1H on revised full-year targets is 49.2% for net sales, 52.0% for operating income, 52.8% for ordinary income, and 53.3% for net income attributable to owners of the parent. A simple calculation suggests that profits will decline in 2H compared to 1H, but this is taking into account that the outlook for the overall business environment remains unclear, as well as factors such as the incurrence of costs associated with replacing dilapidated equipment in the Parking System Business in 2H. However, considering factors including that orders are expected to remain at high levels in the IT-related businesses, profitability is on an upward trend due to the rollout of the NCD service model, and profitability is likely to improve in the Parking System Business as a result of BPR, we at FISCO are anticipating good business results with both sales and profit continuing on a growth trajectory.

4. Targets in medium-term management plan “Vision 2026” have been revised upward again

The Company is expected to exceed its initial targets for FY3/26, the final year of its “Vision 2026” medium-term management plan, within FY3/25 (these targets were revised upward on May 13, 2024). Therefore, on November 8, 2024, it revised these targets upward once more to net sales of ¥32,000mn, operating income of ¥3,000mn, an operating income margin of 9.4%, and ROE of 20% or higher. The main reason for this is that profitability in both the IT-related businesses and the Parking System Business is higher than anticipated. The forecast dividend for FY3/25 was also revised upward on November 8, 2024, resulting in a large YoY increase. Representative Director and President Osamu Shimojo was upbeat: “I believe we are now well on track to reach the 2032 targets in our long-term vision. Backed by the continued steady rollout of various initiatives we aim to further improve profitability.” We at FISCO believe that the Company is making excellent progress with its medium-term management plan.

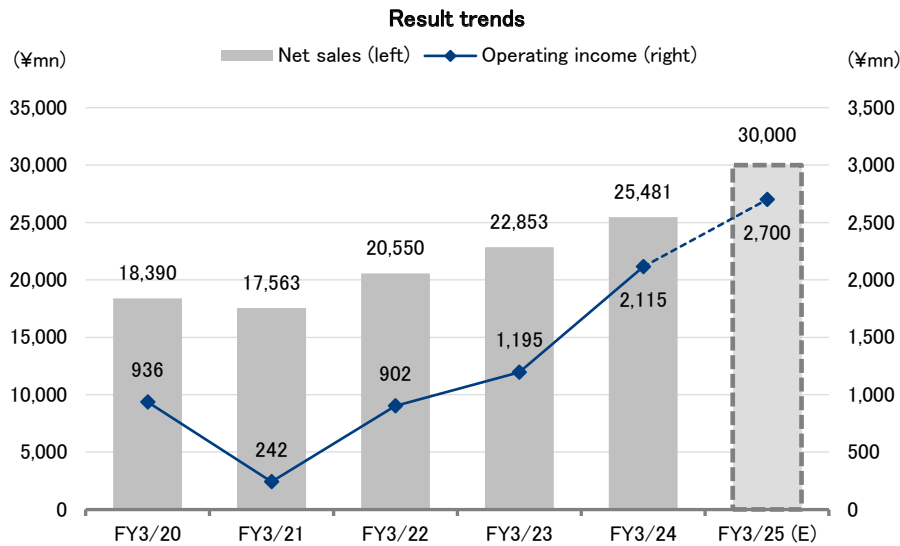
5. Steady efforts to improve profitability evaluated as successful

Looking at the Company’s results trends, the forecast for FY3/25 has also been revised upward in anticipation of a considerable YoY increase in sales and profit and consecutive record high results. The target figures of the medium-term management plan have also been revised upward again. In addition to the improving business environment, we at FISCO think this shows the Company is starting to reap the benefits of the steady efforts to improve profitability (expanding the business domain of the IT-related businesses, growing stock-type sales, evolving the NCD service model, and implementing BPR in the Parking System Business, etc.) it has made to date. As the Company accelerates reforms aimed at improving profit margins, we also think it is possible that it will achieve the 2032 targets stated in its long-term Group vision ahead of schedule and then go on to surpass them, so we will continue to focus on progress with its strategies to improve profitability.

Key Points

- Three main pillars of the System Development Business, Support and Service Business, and Parking System Business
- Sales and profit increased substantially in 1H FY3/25 to reach record highs
- Forecast for FY3/25 has been revised upward in anticipation of considerable sales and profit increases and consecutive record high results
- Targets in medium-term management plan “Vision 2026” have been revised upward again

Summary



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

Company profile

Pioneering independent system integrator

1. Company profile

The Company has been a pioneer as an independent system integrator with a history spanning 57 years since its foundation in 1967. 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. from Nippon Computer Dynamics 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.

At the end of 1H FY3/25, total assets were ¥14,831mn, net assets were ¥7,096mn, the equity ratio was 47.4%, and the number of issued shares was 8,800,000 shares (including treasury shares of 619,838 shares). 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; Relocated and expanded, May 2024), 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., NCD Pros Co., Ltd. (ownership ratio: 67%), and made Japan Computer Services, Inc. (JCS) a subsidiary in December 2023. NCD Technology engages in system development and other IT-related businesses; NCD Solutions engages in system development and other IT-related businesses, mainly for the Panasonic Holdings Corporation <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. JCS engages in IT-related businesses including development, operation and maintenance of systems for customers primarily Kao Corporation <4452>.

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, then changed the Company name to NCD in January 2024. Regarding stock market-related matters, in September 2000, it registered for over-the-counter trading with the Japan Securities Dealers Association (it was 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. (currently, NCD Technology) in November 2000, established NCD CHINA in April 2005, acquired ZEXIS CORPORATION (currently, 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. (currently, NCD EST) as a subsidiary in April 2019, and acquired JCS as a subsidiary in December 2023.

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
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 medium-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.
March 2024	Certified as 2024 Health & Productivity Management Outstanding Organizations (Large Enterprise Category)
November 2024	Issued Integrated Report 2024, the Group's first integrated report

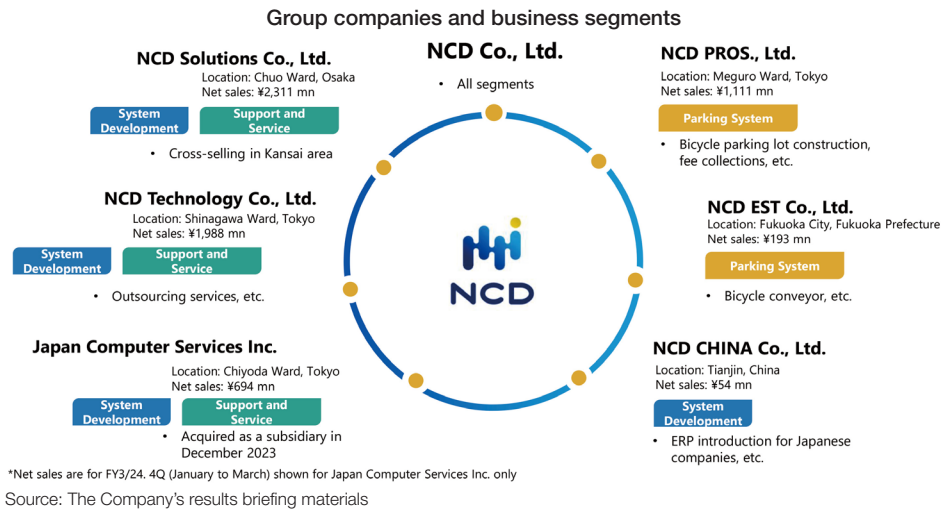
Source: Prepared by FISCO from the Company's website and materials

Business overview

Promotes IT-related businesses (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 57 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 core 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 core 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 57 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 core 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. In August 2024, the Company was recognized for its sales and other achievements during the 2023–2024 season and received the OBC Bugyo Award 2023–2024 Regional Leader Award.

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 core 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 "SMAGANN," form creation tool "Smart Report Meister," and screen creation and data visualization tool "Smappi"). 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," 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 Holdings Group's MAJOR FLOW workflow management system.

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 Service 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 Azure.

Business overview

The Company constructed its own operation standard “NS-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 businesses

4. A solid customer base has been built with leading blue-chip customers in IT-related businesses; achieving a stock-type sales ratio of over 80%

In IT-related businesses (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 other blue-chip companies. This business notably entails many long-term, ongoing transactions. Generally 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. 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. Sales in the IT-related businesses comprise flow-type (systems development and construction, etc.) and stock-type (systems maintenance and operation, etc., including for systems developed by other companies). Sales ratios in FY3/24 were 17% flow-type and 83% stock-type, while in 1H FY3/25, they were 19% flow-type and 81% stock-type. This stable income structure with a stock-type sales ratio of over 80% is one of the main features of these businesses.

Main customers of the IT-related businesses

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

*As of October 1, 2024

Source: The Company’s results briefing materials

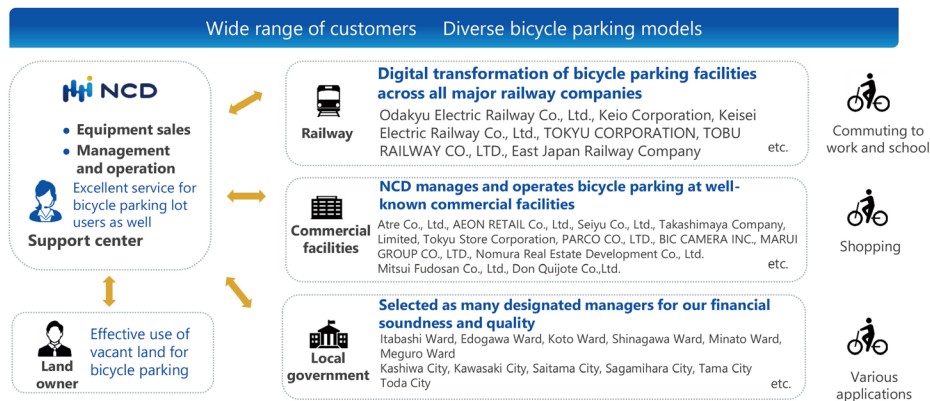
Parking System Business largest operator of electromagnetic lock-type bicycle parking lots in Japan

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.

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 contracting, in which the Company is consigned to manage bicycle parking lots operated by railway companies, local governments, etc. Sales in the Parking System Business comprise flow-type (sales of bicycle parking lot equipment, e-commerce business, etc.) and stock-type (self-operated bicycle parking lot usage fee income, designated management and consignment, etc.). Sales ratios in FY3/24 were 17% flow-type and 83% stock-type, while in 1H FY3/25, they were 22% flow-type and 78% stock-type, demonstrating a business model focused on stock-type sales.

Business model of the Parking System Business

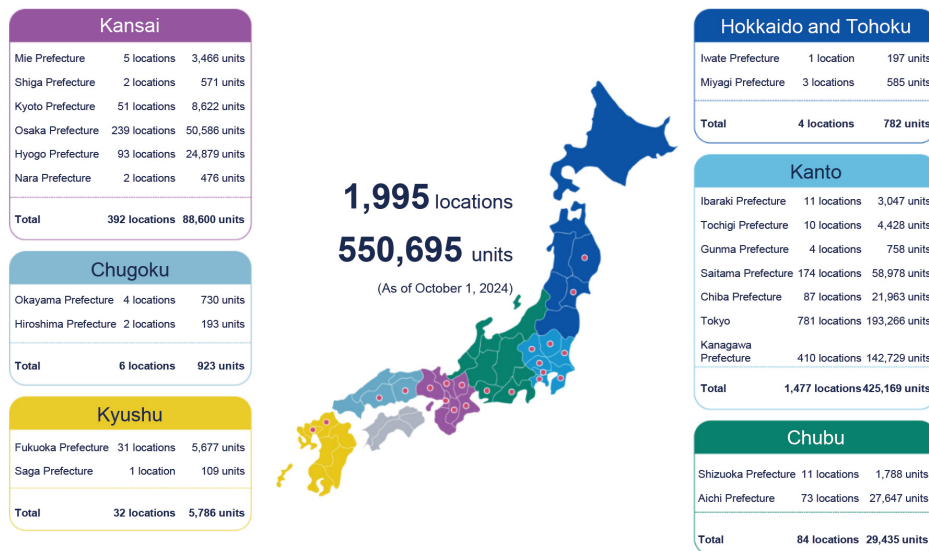


*As of October 1, 2024 *Designated manager: An organization designated to manage a public facility for a specified period of time
Source: The Company's results briefing materials

Business overview

The business is one of the largest operators of electromagnetic lock-type bicycle parking lots in Japan and is widely supported by local governments, railway companies, commercial facilities and other organizations nationwide for its contribution to reducing the number of abandoned bicycles. In its business with local governments, the Company is selected by local governments as the designated manager of bicycle parking lots, supporting the development of urban environments with local governments by setting up and operating parking lots through public-private partnerships. The Company revised the calculation standards for the number of managed lots and managed units in April 2024 (under the new standards, only lots for which the Company carries out system maintenance and consigned operations are included). Under the new standards, as of October 1, 2024, the number of NCD managed bicycle parking lots was 1,995 and the number of managed units was 550,695.

Size of the Parking System Business market



Source: The Company's results briefing materials

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 one of the largest sites in the country with 3,000 units, in 2011; Shibuya Stream, a redevelopment project in the Shibuya district in 2018; Minami Machida Grandberry Park of the Tokyu Group in 2019; and Grand Emio TOKOROZAWA of the Seibu Group in 2020; KAMEIDO CLOCK in collaboration with Nomura Real Estate in 2022; Tachikawa City information facility CotoLink in 2022; and MEGA Don Quijote Narimasu store (one of the largest new Don Quijote stores in Tokyo in terms of sales floor area) in March 2024. 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. 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.

Business overview

To improve user convenience and reduce operations and management costs, the Company launched a cashless bicycle parking lot payment service in December 2019. 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 reducing impact on the environment.

The Company is implementing BPR to further improve profitability in the Parking System Business, partly due to a temporary decline in earnings in the business caused by the COVID-19 pandemic. Specifically, progress has been made on bringing construction and peripheral operations in-house (bicycle parking equipment installation work and related tasks are being consolidated under NCD PROS). Additionally, fee-collection operations are also being brought in-house, primarily at 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 making steady progress in BPR.

IT-related businesses remain at high level, Parking System Business exceeded pre-pandemic levels

6. Performance by segment

Results over the past six years (FY3/19 to FY3/24) and results for 1H FY3/25 are as follows in terms of net sales by segment (net sales to external customers) and ratio of net sales by segment, segment income (operating income before consolidation adjustment) and segment income ratio, and segment income margin (same).

Looking at the composition of net sales in FY3/24, the System Development Business accounted for 40.9%, the Support and Service Business for 30.4%, and the Parking System Business for 28.6%. In 1H FY3/25, the System Development Business accounted for 41.8%, the Support and Service Business for 31.3%, and the Parking System Business for 26.9%. Although the Parking System Business was impacted by the COVID-19 pandemic for a period, in general, around 70% of net sales are attributable to the IT-related businesses (System Development Business, and Support and Service Business) and approximately 30% are attributable to the Parking System Business. Regarding segment income ratio, in FY3/24, the System Development Business accounted for 41.8% of income, the Support and Service Business for 23.1%, and the Parking System Business for 34.9%, while in 1H FY3/25, the System Development Business accounted for 39.2%, the Support and Service Business for 20.0%, and the Parking System Business for 40.6%. Ratios for the Parking System Business fell considerably from FY3/21 to FY3/22 due to the COVID-19 pandemic, but they have since recovered.

Business overview

Looking at results by business, there has been steady growth in both net sales and segment income in the System Development Business. Net sales in the segment exceeded ¥10.0bn for the first time in FY3/24. The segment income margin has also risen to 14.8% over FY3/24 and 1H FY3/25, reflecting measures such as rigorous project management and quality control. Net sales and segment income in the Support and Service Business have also been on an upward trend. The segment income margin deteriorated to 4.9% in FY3/20 due to one-time initial costs associated with a large new project, but since FY3/22, it has remained stably above 10% and is steadily rising. In FY3/24, this margin reached 11.0%. The Parking System Business was hit hard by the COVID-19 pandemic in FY3/21, but recovered from FY3/22 onward. In FY3/24, net sales, segment income and the segment income margin all recovered to above the pre-pandemic levels attained in FY3/19. Furthermore, in 1H FY3/25, the margin rose sharply to 23.8% due to factors such as the effects of price revisions.

Net sales by segment and composition of net sales

	(¥mn, %)						
Item	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24	1H FY3/25
Net sales							
System Development Business	6,329	7,073	7,405	8,365	9,243	10,421	6,165
Support and Service Business	4,611	4,568	5,072	6,099	6,892	7,735	4,619
Parking System Business	6,027	6,693	5,060	6,073	6,675	7,297	3,966
Consolidated net sales (including others)	17,007	18,390	17,563	20,550	22,853	25,481	14,759
Composition of net sales							
System Development Business	37.2	38.5	42.2	40.7	40.4	40.9	41.8
Support and Service Business	27.1	24.8	28.9	29.7	30.2	30.4	31.3
Parking System Business	35.4	36.4	28.8	29.6	29.2	28.6	26.9

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)

	(¥mn, %)						
Item	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24	1H FY3/25	
Segment income							
System Development Business	799	928	1,020	1,033	1,541	910	
Support and Service Business	224	481	620	703	851	465	
Parking System Business	944	13	451	817	1,284	944	
Before consolidation adjustments	1,953	1,421	2,096	2,560	3,685	2,324	
Composition of net sales							
System Development Business	40.9	65.3	48.7	40.4	41.8	39.2	
Support and Service Business	11.5	33.9	29.6	27.5	23.1	20.0	
Parking System Business	48.4	1.0	21.5	31.9	34.9	40.6	

Note: Segment income constitutes income before consolidation adjustments.
 Source: Prepared by FISCO from the Company's financial results

Segment income margin

	(%)						
Item	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24	1H FY3/25	
Segment income margin							
System Development Business	11.3	12.5	12.2	11.2	14.8	14.8	
Support and Service Business	4.9	9.5	10.2	10.2	11.0	10.1	
Parking System Business	14.1	0.3	7.4	12.2	17.6	23.8	

Note: Calculated using segment income before consolidation adjustments
 Source: Prepared by FISCO from the Company's financial results and results briefing materials

IT-related businesses conduct thorough project management and quality management; Parking System Business promotes BPR

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

The general risk in IT-related businesses (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 is promoting further cost reduction by turning to a nearshore approach involving operations in Nagasaki and Fukuoka. 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, 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 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, FY3/24 results exceeded the pre-pandemic level due to factors that subsequently included a resurgence in economic activity and the flow of people along with successful outcomes of BPR initiatives undertaken to improve the profitability, including price revisions. The Company is accelerating this results growth in FY3/25.

Results trends

Sales and profit increased substantially in 1H FY3/25 to reach record highs

1. Summary of the 1H FY3/25 consolidated results

In 1H FY3/25 consolidated results, the Company recorded major increases in sales and profit, with ¥14,759mn in net sales, an increase of 24.0% YoY, ¥1,404mn in operating income, an increase of 55.9%, ¥1,426mn in ordinary income, an increase of 57.1%, and ¥960mn in net income attributable to owners of the parent, an increase of 59.9%, marking record-high results for 1H. Demand levels remained high resulting in growth in all business segments, which absorbed increases in personnel expenses due to human capital investment and other expenses. JCS, which was incorporated into P/L consolidation in 4Q FY3/24, also contributed. The Company's gross profit increased 37.9% YoY and the gross profit margin rose 2.2pp to 22.0%. SG&A expenses increased 26.7% and the SG&A expense ratio rose 0.3pp to 12.5%. As a result, the Company's overall operating income margin improved 1.9pp to 9.5%. Factors behind the ¥503mn increase in operating income included a ¥1,471mn increase in net sales, an ¥844mn decrease in cost of sales, a ¥196mn decrease in SG&A expenses, and an increase of ¥72mn associated with the consolidation of JCS (including ¥20mn amortization of goodwill). Additionally, a ¥14mn increase in insurance claim and dividend income was recorded as non-operating income and a ¥23mn gain on sale of investment securities was recorded as extraordinary income.

Summary of the 1H FY3/25 consolidated results

	1H FY3/24		1H FY3/25		YoY	
	Amount	%	Amount	%	Change	%
Net sales	11,904	100.0%	14,759	100.0%	2,855	24.0%
Gross profit	2,357	19.8%	3,249	22.0%	892	37.9%
SG&A expenses	1,456	12.2%	1,845	12.5%	388	26.7%
Operating income	900	7.6%	1,404	9.5%	503	55.9%
Ordinary income	907	7.6%	1,426	9.7%	518	57.1%
Net income attributable to owners of the parent	600	5.0%	960	6.5%	359	59.9%
Net sales by segment						
System Development Business	4,903	41.2%	6,165	41.8%	1,262	25.7%
Support and Service Business	3,556	29.9%	4,619	31.3%	1,063	29.9%
Parking System Business	3,429	28.8%	3,966	26.9%	537	15.7%
Other	14	0.1%	8	0.1%	-6	-45.1%
Segment income						
System Development Business	704	14.3%	910	14.8%	206	29.3%
Support and Service Business	367	10.3%	465	10.1%	97	26.6%
Parking System Business	612	17.9%	944	23.8%	332	54.3%
Other	2	17.5%	3	48.5%	1	52.6%
Adjustments for corporate expenses, etc.	-786	-	-920	-	-	-

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

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 and results briefing materials

Results trends

The IT-related businesses continued to perform well and the Parking System Business saw a significant improvement in profitability

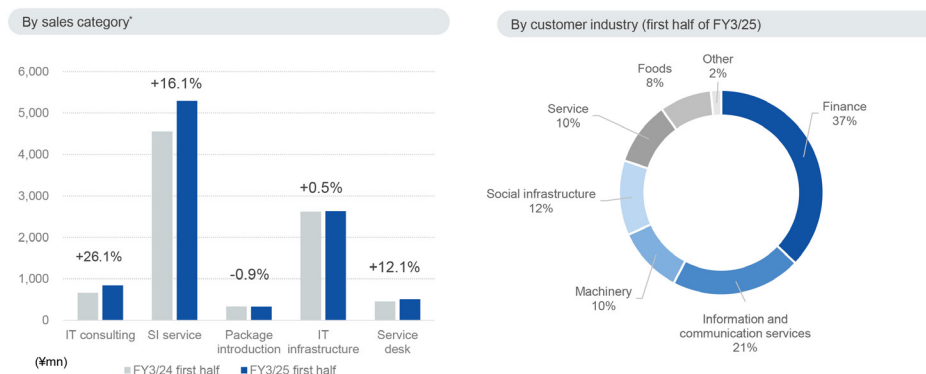
2. Trends by segment

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 ¥6,165mn in net sales, an increase of 25.7% YoY, and ¥910mn in segment income, an increase of 29.3% YoY. The Support and Service Business recorded ¥4,619mn in net sales, an increase of 29.9% YoY, and ¥465mn in segment income, an increase of 26.6% YoY, with both segments achieving significant increases in sales and profit. In addition to demand levels remaining high, the consolidation of JCS also contributed (¥1,384mn positive impact on sales). The segment income margin rose 0.4pp to 14.8% in the System Development Business and decreased 0.3pp to 10.1% in the Support and Service Business.

In the System Development Business, there was growth in areas including the testing of business-use applications for insurance companies and development of systems for gas companies. There was an upward trend in orders for the MAJOR FLOW workflow management system, and there was also an order that leveraged the Company's extensive knowledge to build a package combining MAJOR FLOW and the Bugyo Series for a finance company. In the Support and Service Business, sales were driven by orders for systems management in manufacturing industries and the start of cloud-based core systems operation in the construction industry. The segment income margin remained roughly level due to expenses associated with moving and expanding the Fukuoka Office, but factors such as growth in the use of both the Fukuoka Office and Nagasaki Office as near-shoring locations contributed to efforts to improve productivity.

By business category (excluding JCS), although net sales in package introduction declined 0.9% YoY, the mainstay SI service performed well with an increase of 16.1%, while there were also smooth increases of 26.1% in IT consulting, 0.5% in IT infrastructure, and 12.1% in the service desk category. By client industry, finance accounted for 37% of net sales, information and communication services for 21%, machinery for 10%, social infrastructure for 12%, services for 10%, food for 8%, and others for 2%.

Breakdown of consolidated net sales (IT-related businesses)



*Does not include Japan Computer Services Inc. **SI services* includes maintenance of business applications

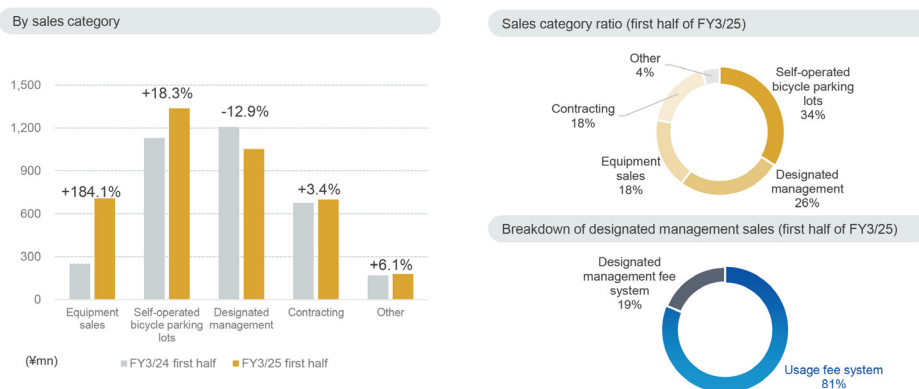
Source: The Company's results briefing materials

Results trends

The Parking System Business recorded net sales of ¥3,966mn, an increase of 15.7% YoY, and segment income of ¥944mn, up 54.3% YoY. Looking at a breakdown of net sales, although net sales from designated management decreased 12.9% due to withdrawal from unprofitable projects, net sales from self-operated bicycle parking lots, which are stock-type sales, rose 18.3%. There were also steady increases of 184.1% in equipment sales due to orders anticipated in 2H being moved forward, 3.4% in contracting, and 6.1% in other sales. The most significant projects in 1H included Emi Terrace Tokorozawa bicycle parking (equipment sales) as part of the redevelopment of the west exit of Tokorozawa Station, Omiya Sakura Square Mall bicycle parking at the west exit of JR Omiya Station, and Ekimachi 1 Chome Minami-Fukuoka bicycle parking at JR Minami-Fukuoka Station. Also, in July 2024, the Company began wholesaling the CYCPLUS AS2 series of compact electric air pumps as an import distributor of CYCPLUS.

By category, self-operated bicycle parking lots accounted for 34% of net sales, while designated management accounted for 26% (of which, 81% was usage fee system, 19% was designated management fee system), equipment sales for 18%, contracting for 18%, and other sales for 4%. The segment income margin rose 6.0pp YoY to 23.8%, considerably surpassing pre-pandemic levels (14.7% in FY3/19, 14.1% in FY3/20). This significant improvement in profitability reflected the increase in sales from the recovery in bicycle parking lot usage following the end of COVID-19 mobility restrictions, as well as the results of BPR, which included price revisions, particularly at self-operated bicycle parking lots, improvements to operational efficiency, and the withdrawal from unprofitable designated managed bicycle parking lots for local governments.

Breakdown of consolidated net sales (Parking System Business)



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 FY3/25, total assets decreased ¥67mn versus the end of FY3/24 to ¥14,831mn. The main factors were an increase of ¥208mn in cash and deposits and a decrease of ¥200mn in securities. Total liabilities decreased ¥760mn to ¥7,735mn. The main factor was a ¥215mn decrease in provision for bonuses. Interest-bearing debt (long- and short-term loans) decreased ¥57mn YoY to ¥851mn. Total net assets rose ¥692mn YoY to ¥7,096mn, of which mainly retained earnings increased ¥682mn YoY. As a result, the equity ratio rose 4.8pp to 47.4%. There are no particular matters of concern regarding the status of cash flows. Accordingly, FISCO deems that the Company's financial position remains favorable.

Results trends

Financial statements and cash flow statement (simplified)

Item	FY3/21	FY3/22	FY3/23	FY3/24	1H FY3/25	Change
	(¥mn)					
Total assets	10,816	11,890	12,387	14,899	14,831	-67
Current assets	6,768	7,949	8,579	11,044	11,143	98
Non-current assets	4,047	3,941	3,808	3,854	3,688	-166
Total liabilities	6,651	7,422	7,342	8,495	7,735	-760
Current liabilities	3,976	4,721	4,885	5,791	5,225	-565
Non-current liabilities	2,674	2,701	2,456	2,704	2,509	-194
Total net assets	4,165	4,468	5,045	6,403	7,096	692
Shareholders' equity	4,057	4,406	4,966	6,236	6,919	683
Equity ratio (%)	38.3	37.3	40.4	42.6	47.4	4.8pp

Item	FY3/21	FY3/22	FY3/23	FY3/24	1H FY3/25
Cash flows from operating activities	218	1,918	568	2,574	477
Cash flows from investing activities	142	-48	-171	-99	224
Cash flows from financing activities	-61	-779	-413	-508	-481
Cash and cash equivalents at end of period	2,721	3,814	3,799	5,767	5,993

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

Outlook for the future

Forecast for FY3/25 has been revised upward in anticipation of considerable sales and profit increases and consecutive record high results

● Summary of the FY3/25 consolidated results forecasts

For its consolidated results in FY3/25, the Company revised its forecast upward on November 8, 2024, projecting net sales to increase 17.7% YoY to ¥30,000mn, operating income to rise 27.6% to ¥2,700mn, ordinary income to grow 26.2% to ¥2,700mn, and net income attributable to owners of the parent to increase 29.7% to ¥1,800mn. Compared to the previous forecast (initial forecast announced on May 13, 2024, net sales of ¥28,000mn, operating income of ¥2,200mn, ordinary income of ¥2,200mn, and net income attributable to owners of the parent of ¥1,450mn), this represents an increase of ¥2,000mn for net sales, ¥500mn for operating income, ¥500mn for ordinary income, and ¥350mn for net income attributable to owners of the parent, in anticipation of a considerable YoY increase in sales and profit and consecutive record high results. The effects of sales increases following strong performance in all business segments, as well as the benefits of the efforts to improve profitability, are expected to absorb an increase in costs such as human capital investment and upfront investment.

Outlook for the future

Summary of the FY3/25 consolidated results forecasts

(¥mn)

	FY3/24		FY3/25		YoY		Previous forecast	Change from previous forecast		1H rate of progress on revised targets
	Amount	%	Amount	%	Change	% change		Change	% change	
Net sales	25,481	100.0%	30,000	100.0%	4,519	17.7%	28,000	2,000	7.1%	49.2%
Gross profit	5,162	20.3%	-	-	-	-	-	-	-	-
SG&A expenses	3,047	12.0%	-	-	-	-	-	-	-	-
Operating income	2,115	8.3%	2,700	9.0%	585	27.6%	2,200	500	22.7%	52.0%
Ordinary income	2,140	8.4%	2,700	9.0%	560	26.2%	2,200	500	22.7%	52.8%
Net income attributable to owner of the parent	1,387	5.4%	1,800	6.0%	413	29.7%	1,450	350	24.1%	53.3%
Net sales by segment										
System Development Business	10,421	40.9%	12,840	42.8%	2,419	23.2%	11,650	1,190	10.2%	48.0%
Support and Service Business	7,735	30.4%	9,470	31.6%	1,735	22.4%	9,150	320	3.5%	48.8%
Parking System Business	7,297	28.6%	7,690	25.6%	393	5.4%	7,200	490	6.8%	51.6%
Other	26	0.1%	-	-	-	-	-	-	-	-
Segment income										
System Development Business	1,541	14.8%	2,000	15.6%	459	29.8%	1,568	432	27.6%	45.5%
Support and Service Business	851	11.0%	950	10.0%	99	11.6%	849	101	11.9%	48.9%
Parking System Business	1,284	17.6%	1,640	21.3%	356	27.7%	1,616	24	1.5%	57.6%
Other	7	29.1%	-	-	-	-	-	-	-	-
Adjustments for corporate expenses, etc.	-1,570	-	-	-	-	-	-	-	-	-

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

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 and 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 23.2% YoY to ¥12,840mn and segment income to go up 29.8% to ¥2,000mn (revised upward by ¥1,190mn and ¥432mn respectively). In the Support and Service Business, it is forecasting net sales to increase 22.4% YoY to ¥9,470mn and segment income to increase 11.6% to ¥950mn (revised upward by ¥320mn and ¥101mn respectively). In the Parking System Business, it is projecting net sales to increase 5.4% to ¥7,690mn and segment income to increase 27.6% to ¥1,640mn (revised upward by ¥490mn and ¥24mn respectively), meaning that forecasts for all segments have been revised upward. The segment income margin is forecast to rise 0.8pp to 15.6% in the System Development Business, decrease 1.0pp to 10.0% in the Support and Service Business, and increase 3.7pp to 21.3% in the Parking System Business. In the Parking System Business, the Company expects the increase in net sales will be restrained by its policy of withdrawing from unprofitable designated managed bicycle parking lots for local governments, but it forecasts strong growth in profitability on continued price revisions and a reduction in unprofitable projects.

Regarding its priority strategies, in the IT-related businesses, the Company will evolve the NCD service model by expanding its service menu, promote full IT outsourcing by expanding the application of the Managed Service Centers, promote the training of high-level IT personnel by strengthening mid-career hiring and promoting re-skilling, and create synergies between Group companies, particularly JCS, among other strategies. In the Parking System Business, it will continue to revise pricing, primarily for self-operated bicycle parking lots, improve the profitability of designated management bicycle parking lots through its local government strategy, realize data-driven management using the data platform established through BPR, and improve advertising and marketing aimed at general contractors and developers. In the corporate division, it plans to step up materiality initiatives to fully embed them in management, reinforce human resource management capabilities, including by securing and training human resources, and further enhance the Group's governance structure.

Outlook for the future

The rate of progress made in 1H on revised full-year targets is 49.2% for net sales, 52.0% for operating income, 52.8% for ordinary income, and 53.3% for net income attributable to owners of the parent. A simple calculation suggests that profits will decline in 2H compared to 1H, but this is taking into account that the outlook for the overall business environment remains unclear, as well as factors such as the incurrence of costs associated with replacing some dilapidated equipment in the Parking System Business in 2H. However, considering factors including that orders are expected to remain at high levels in the IT-related businesses on the back of corporate investment in DX, profitability is on an upward trend due to the rollout of the NCD service model, and profitability is likely to improve further in the Parking System Business as a result of BPR, including price revisions and gains in operational efficiency, we at FISCO are anticipating good business results to continue in FY3/25 with both sales and profit remaining on a growth trajectory.

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.

Targets in medium-term management plan “Vision 2026” have been revised upward again

2. Medium-term management plan “Vision 2026”

In May 2023, the Company formulated a vision for itself in 2032 (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%.

Growth strategy

Then, the Company formulated “Vision 2026,” the medium-term management plan for FY3/24 to FY3/26, back cast from its vision. The plan period has been positioned as the first step in realizing the Group’s vision and its 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 businesses 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.

Under its “Vision 2026” medium-term management plan, the Company’s initial targets for FY3/26, the plan’s final year, were net sales of ¥26,000mn, operating income of ¥1,800mn, an operating income margin of 6.9%, and ROE of 15.0% or higher. However, net sales and operating income exceeded these targets in FY3/24, the plan’s first year, due to stronger-than-expected sales growth and improved profitability in each business, as well as the consolidation of JCS. As a result, on May 13, 2024, the Company revised its FY3/26 targets to net sales of ¥30,000mn, operating income of ¥2,400mn, an operating income margin of 8.0%, and ROE of 20% or higher. Furthermore, as the Company is expected to achieve these revised FY3/26 targets in FY3/25 and go on to exceed them, it has revised its final year targets upward once more to net sales of ¥32,000mn, operating income of ¥3,000mn, an operating income margin of 9.4%, and ROE of 20% or higher. The main reason for this is that profitability in both the IT-related businesses and the Parking System Business is higher than anticipated. Looking at the forecasts for each business segment following this further revision (net sales constitute net sales to external customers; segment income constitutes operating income before consolidation adjustments), it now forecasts net sales of ¥13,700mn, segment income of ¥2,140mn, and a segment income margin of 15.6% for the System Development Business, net sales of ¥10,100mn, segment income of ¥1,050mn, and a segment income margin of 10.4% for the Support and Service Business, and net sales of ¥8,200mn, segment income of ¥1,860mn, and a segment income margin of 22.7% for the Parking System Business. Additionally, the target for total investment over the three-year plan period has been set as ¥1,800mn (¥700mn in human capital investments, ¥600mn in investments related to R&D and new business creation, and ¥500mn in other investments).

Growth strategy

Revised medium-term management plan

(¥mn, %)

	FY3/26 targets		
	Initial forecast	First revision	Second revision
Net sales	26,000	30,000	32,000
Operating income	1,800	2,400	3,000
Operating income margin	6.9	8.0	9.4
ROE	15% or more	20% or more	20% or more
Net sales by segment			
System Development Business	11,000	12,500	13,700
Support and Service Business	8,000	9,800	10,100
Parking System Business	7,000	7,700	8,200
Segment income			
System Development Business	1,500	1,700	2,140
Support and Service Business	900	1,000	1,050
Parking System Business	1,150	1,750	1,860
Segment income margin			
System Development Business	13.6	13.6	15.6
Support and Service Business	11.3	10.2	10.4
Parking System Business	16.4	22.7	22.7

Notes: 1. The initial forecast was announced on May 15, 2023, the first revision on May 13, 2024, and the second revision on November 8, 2024.

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

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

Regarding key strategies, in the IT-related businesses, the Company is aiming to transition to a high added-value service model through initiatives including enhancing added value by evolving and expanding the NCD service model to contribute to customers' DX, further developing existing domains, strengthening its approach to acquiring new customers with a focus on large companies, and reinforcing its business base in order to expand structures and raise its ability to deliver services. In the Parking System Business, the Company will work to establish a strong position as a leading company by stabilizing its revenue base through the completion of its business restructuring project, creating businesses that offer high added value by converging the know-how it has cultivated in the bicycle parking lot business with market needs, and optimizing business structures. In the corporate division, the Company aims to achieve the levels of governance required by companies listed on the Prime Market through efforts including promoting sustainability management, human capital management, and establishing a more advanced governance system.

With regard to new business creation, the Company is conducting 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.

Growth strategy

The Company has set out a number of initiatives to realize management that takes into account the cost of capital and the share price: 1) increase profitability (by raising the added-value of existing businesses and creating new businesses to further improve profit margins and grow profits), 2) optimally allocate capital (deliver stable and continuous shareholder returns and invest in growth, such as human capital investment), 3) step up sustainability initiatives and improve the disclosure of non-financial information (further promote sustainability management and publish integrated reports), and 4) reinforce IR and PR activities (improve information disclosure, expand dialogue with shareholders and other investors, and strengthen branding, such as updating the corporate logo). Additionally, in November 2024 it issued Integrated Report 2024, the NCD Group's first integrated report.

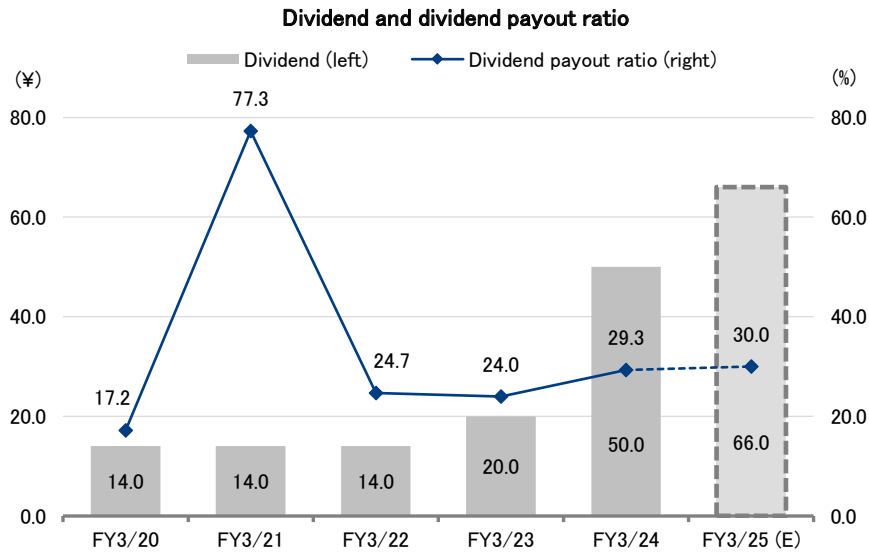
Representative Director and President Osamu Shimojo was upbeat: "We have been steadily improving profitability as the result of efforts to improve quality and productivity in the IT-related businesses, and the effects of gains in operational efficiency and price revisions in the Parking System Business, and we have once again revised the targets for the final year of the medium-term management plan upward. I believe we are now well on track to reach the 2032 targets in the long-term vision, backed by the continued steady implementation of various initiatives to further improve profitability. We also want to improve shareholder returns and step up investor relations activities to further increase corporate value." FISCO's view is that the Company is making excellent progress with its medium-term management plan.

Forecast dividend for FY3/25 was also revised upward resulting in a large increase

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. Also, in accordance with the upward revision of the FY3/25 consolidated business results, the forecast dividend for FY3/25 was also revised upward on November 8, 2024 (upward revision of ¥6.00 to the interim dividend, ¥6.00 to the year-end dividend, totaling ¥12.00). As a result, the forecast dividend is now ¥66.00 per share (interim dividend ¥33.00, year-end dividend ¥33.00), an increase of ¥16.00 from FY3/24. The forecast dividend payout ratio is 30.0%. 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 gift (QUO cards) depending on the number of shares they hold and the continuous period of time they have held them. We at FISCO see the possibility of further improvements in shareholder returns as earnings continue to grow.

Growth strategy



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

Shareholder benefits program

Shares held	Continuous holding period	
	Less than 3 years	3 years or more
1,000 shares or more but less than 3,000 shares	Worth ¥2,000	Worth ¥3,000
3,000 shares or more but less than 5,000 shares	Worth ¥3,000	Worth ¥5,000
5,000 shares or more	Worth ¥5,000	Worth ¥7,000

Source: The Company's results 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. In August 2024, it released a Partnership Building Declaration, and in November 2024 it issued Integrated Report 2024, the NCD Group’s first integrated report.

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 respect for human rights and diversity and inclusion, balance ease of work and job satisfaction 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 Company also has plans to create more job opportunities through its regional offices. Specifically, it aims to increase the total number of regional employees at its Fukuoka, Nagasaki and other offices, including employees working at business partners, from 322 at the end of FY3/24 to 400 at the end of FY3/26. Also, the Parking System Business is eliminating bicycle parking problems such as bicycles left on streets, and helping to improve the global environment through measures to ease traffic congestion, effective utilization of land, land and town planning, and reducing CO₂ emissions, among other efforts.

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. 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 enterprises. In March 2024, the Company received certification as a 2024 Health & Productivity Management Outstanding Organizations (Large Enterprise Category) under the Ministry of Economy, Trade and Industry’s recognition program. In addition, the Company’s target for female managing directors/executive officers is to increase from the current one to at least 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.

Steady efforts to improve profitability evaluated as successful

5. Analyst's point of view

Looking at the Company's results trends, FY3/24 saw the end of the effects of the COVID-19 pandemic contributing to record high business results, while the forecast for FY3/25 has also been revised upward in anticipation of a considerable YoY increase in sales and profit and consecutive record high results. The target figures of the medium-term management plan have also been revised upward again. In addition to the improving business environment, we at FISCO think this shows the Company is starting to reap the benefits of the steady efforts to improve profitability (expanding the business domain of the IT-related businesses, growing stock-type sales, evolving the NCD service model, and implementing BPR in the Parking System Business, etc.) it has made to date. We are also impressed by its enhancement of shareholder returns. As the Company accelerates reforms aimed at improving profit margins, we also think it is possible that it will achieve the 2032 targets stated in its long-term Group vision ahead of schedule and then go on to surpass them, so we will continue to focus on progress with its strategies to improve profitability.



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■ For inquiries, please contact: ■

FISCO Ltd.

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

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

Email: support@fisco.co.jp