

Netyear Group Corporation

3622

Tokyo Stock Exchange Growth Market

19-Aug.-2022

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

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Summary

Growth in customer-centric DX services, aiming for double-digit profit growth while developing new businesses

Netyear Group Corporation <3622> (hereinafter also referred to as “the Company”) provides digital transformation (DX) utilizing internet technology and digital marketing services and has expertise in user experience design. The Company concluded a capital and business alliance agreement with NTT DATA <9613> and became a group company in February 2019. Additionally, it has transitioned to disclosure of non-consolidated results from FY3/22 following the sale in April 2021 of all shares in subsidiary Tribal Media House, Inc.

1. FY3/22 results

The Company reported FY3/22 non-consolidated results* of ¥3,416mn in net sales (+0.2% YoY) and ¥205mn in operating income (+46.1%). In accordance with the adoption of the “Accounting Standard for Revenue Recognition,” etc. there was a ¥415mn decline in both net sales and cost of sales compared to under the previous accounting standard, but excluding this factor the actual revenue growth was 12.4%. There is strong corporate appetite for investment in customer-centric DX, and in particular, a large joint project with NTT DATA contributed significantly to the increase in sales. Sales to NTT DATA increased to ¥1,130mn (+75.2% YoY), and the ratio of sales to NTT DATA increased to 33.1%. In earnings, in addition to the effect of increased sales, the cost of sales ratio improved significantly (from 80.9% to 75.0% in FY3/21 (77.7% under the previous accounting standard)), partly because the operating rate remained at a high level throughout the year due to the contribution from large-scale projects from the beginning of the fiscal year. These were the factors behind the increase in profit. As a new business, the Company began development and sales of Shopify apps, and it has released eight apps as of June 2022, and booked development costs of ¥62mn. Although the contribution to sales is minor, the Company will aim to monetize them while enhancing the functions of these apps.

* The Company started preparing non-consolidated financial results from FY3/22. As a result, comparisons are made on a non-consolidated basis. Additionally, the Company began adopting the “Accounting Standard for Revenue Recognition,” etc. (ASBJ Statement No. 29) from FY3/22.

2. Forecast for FY3/23

In the forecasts for FY3/23, the Company projects ¥3,600mn in net sales (+5.4% YoY) and ¥240mn in operating income (+17.0%), with continued growth in both sales and profit. The Company anticipates a continued increase in collaborative projects with NTT DATA as well as an increase in customer-centric UX design and system development projects integrating physical and digital experiences. The Company also foresees continued expansion of owned media projects and EC development, etc. Regarding the Performance Optimization Service* (hereafter, the “POS”) that the Company started in 2019, the number of clients has steadily increased to 33 companies (as of March 31, 2022), and will contribute to growth in earnings. Bolstering human resources had been a challenge, but the Company is planning a roughly 10.0% increase in personnel compared to March 2022 as a result of increasing hiring of new graduates and experienced hires. Also, the Company plans to supplement the necessary personnel for each project based on collaboration with LULL INC., which provides IT personnel development services.

* With the aim of energizing client companies’ owned media and maximizing marketing cost-effectiveness, this is a service that analyzes data including clients’ issues, the market situation, and trends among competitors, to propose improvement measures to budget allocation proposals in the three areas of SEO, web digital, and Web page improvement. Also, it provides one-stop solution support ranging from operation/analysis to improvement recommendations.

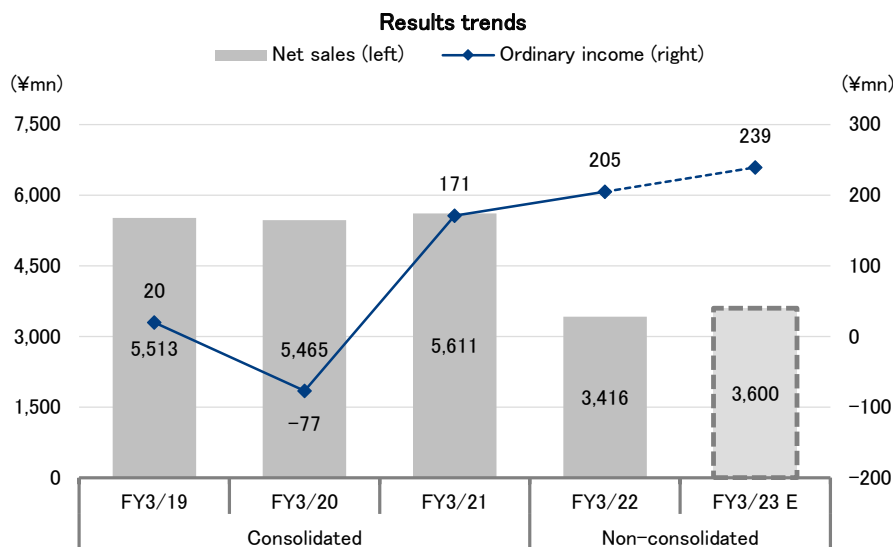
Summary

3. Growth strategy

The Company positioned the period from FY3/20 to FY3/23 as a period to “strengthen the management structure,” and has worked on related initiatives during this period. The results have become apparent, such as the shift in the profit structure. In the new medium-term plan from FY3/24, the Company will aim for further profit growth by working on the development and nurture of new businesses in addition to the growth of existing businesses. As new businesses, in addition to Shopify-related services and POS, the Company will work to develop social impact businesses. Amid growing interest in SDGs, this business provides service design, system development, digital marketing, and other help to companies aiming to launch new businesses that address social issues. The Company is also planning to advance open collaboration, etc., with social entrepreneurs in the future. In addition, as public administration digitalizes further, the number of projects for local governments is expected to increase by promoting collaboration with NTT DATA, which has an extensive track record of government projects.

Key Points

- Actual double-digit sales and profit growth in FY3/22 due to contributions from large projects and an improvement in the cost of sales ratio
- In FY3/23, sales and profit growth expected to continue amid strong DX demand
- In addition to promoting collaboration with NTT DATA, aiming to increase corporate value over the medium to long term by developing new businesses



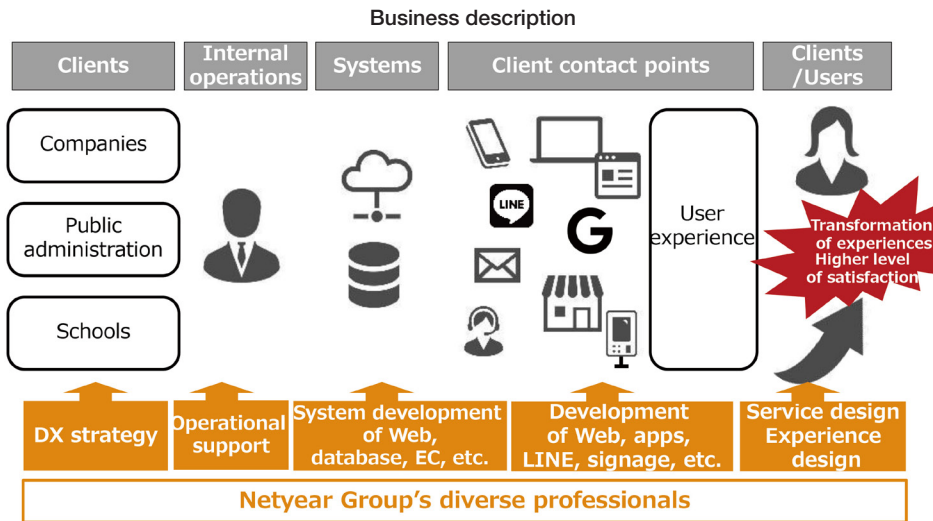
Note: The Company began adopting the “Accounting Standard for Revenue Recognition,” etc. from FY3/22.
 Source: Prepared by FISCO from the Company’s financial results

Business overview

Provides digital marketing services and joined the NTT DATA Group in 2019

1. Company profile

The Company's vision is to "Create the future of business digitally and with users. Everything starts from the user experience," and it develops Strategic Internet Professional Services (SIPS) that provides DX and digital marketing services for companies and public administration utilizing user experience design and digital technologies. Specifically, the Company's characteristics are customer experience (CX)-driven, which includes proposing digital marketing measures, designs and development of owned media and apps to realize ideal CX, digital advertisements and SEO operations, sales and installation support for various types of marketing tools, operations, EC development and store app development and sales.



Source: The Company's results briefing materials

The Company was established in 1999 and listed shares on the TSE Mothers Market in 2008. The Company's listing was transferred to the TSE Growth Market as a result of the TSE's reorganization of its market categories in April 2022. The Company announced a capital and business alliance with NTT DATA in February 2019, and NTT DATA became the Company's largest shareholder with a 48.5% stake in March 2019 through a TOB. The Company had 176 employees as of March 31, 2022. Of these employees, approximately 130 people work for the Customer Experience division, roughly 20 people work for the new Social Impact Business division (including the Shopify business), and 20-30 people work for administrative divisions. There are 250-260 people including external partners assigned to projects on an individual project basis.

The Company sold all shares of subsidiary Tribal Media House (acquired as a subsidiary in 2009), which provides marketing assistance and analysis and consulting using social media, in April 2021. Its main reason for the sale was a decision to pursue growth by concentrating management resources in the owned media field. Due to the sale of Tribal House, the Company discloses its results on a non-consolidated basis from FY3/22.

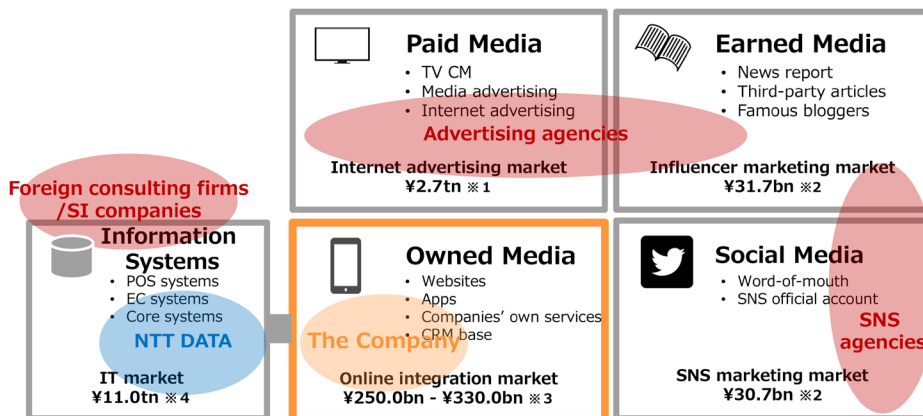
Possesses strength in design capabilities for realizing ideal CX (Customer Experience)

2. Business description and strengths

The Company’s business area is digital marketing, which refers to the marketing techniques in corporate activities that are centered on owned media (website and smartphone apps of the client company, etc.) and that are coordinated with elements such as existing media, marketing, call centers, and stores. These services are for clients such as companies and local governments, and propose and implement new digital marketing strategies to produce the outcomes that the clients want, including improved brand value, sales growth, and the promotion of business transformations.

Digital marketing has four main media depending on the method of client contact. The first is paid media (placement of internet ads), the second is earned media (influencer marketing, etc.), the third is social media (word-of-mouth by consumers on SNS and other services), and the fourth is owned media (communication through a company’s own website and apps). The Company proposes, develops, and operates digital marketing measures that utilize owned media.

Competitive environment and the Company’s strategy to respond



Source ※ 1 Dentsu Inc. "2021 Advertising Expenditures in Japan"
 ※ 2 CyberBuzz, Inc. Press Release: "Market Trends Survey" 2020 values
 ※ 3 Deloitte ToTomatsu MIC Research Institute Co., Ltd. "Web solutions market forecasts for 2022-2024 found in "Internet Advertisement and Web Solutions Market: Current Situation and Outlook (FY2020)"
 ※ 4 Ministry of Economy, Trade and Industry FY2021 sales in software development and program production of the IT services industry in "Statistics of Selected Service Industries (2021)"

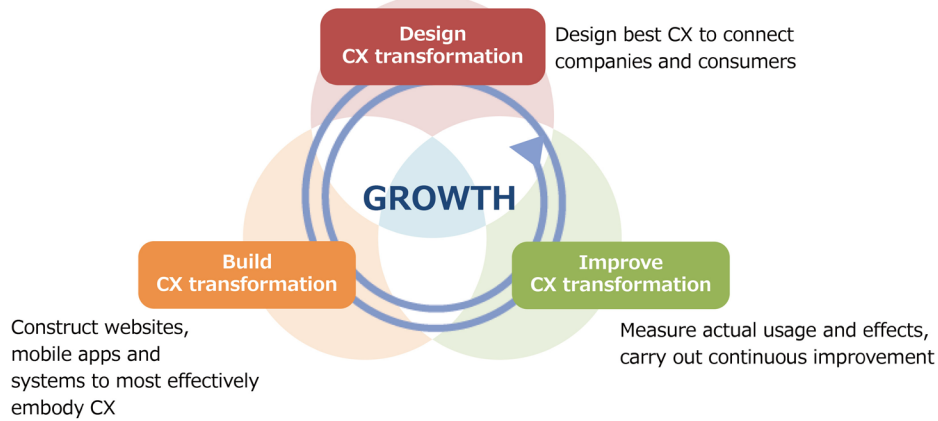
Source: The Company's results briefing materials

We think an important strength is the Company’s extensive array of methods for realizing ideal CX (robust consulting capabilities) cultivated through projects based on the CX design concept for 23 years since its founding. CX in this context refers to “a series of experiences in which users become interested in, buy, and continue to use the services and products offered by a company through various points of contact, such as in stores, advertisements, websites and apps.” The ultimate aim of enhanced CX is getting users to purchase products or become a supporter. The Company is building continuous relationships with client companies by creating a cycle through the series of processes: Design CX, Build CX and Improve CX.

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Business overview

Services process

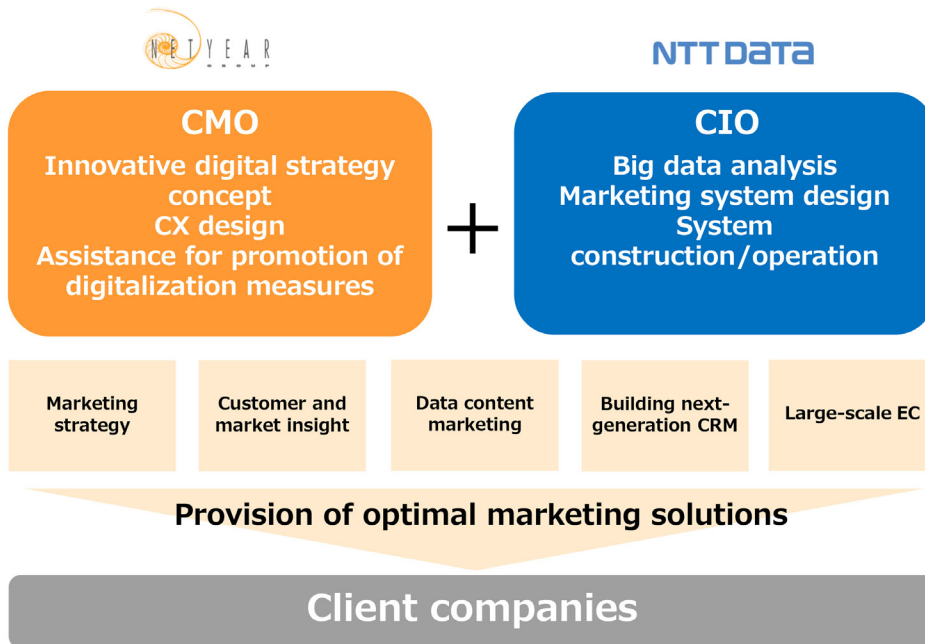


Ongoing relationship with client companies

Source: The Company's results briefing materials

Since the clients usually require unique CX based on their business models, the Company designs an appropriate project for each client. The project period is typically about three months and might extend to about one year in a prolonged case. The Company utilizes outsourcing for a majority of the system development work. Recently project sizes have been getting larger with greater complexity in digital marketing strategy that should incorporate data analysis and system collaboration with other divisions at client companies (such as the sales division and information system division). Design activities to realize ideal CX have risen in importance because of growing difficulty in communicating corporate messages to consumers amid excessive amounts of information. We think this offers a positive environment for capitalizing on the Company's strength. We at FISCO believe the Company is also resolving limits on system development capabilities, which had been an issue, through collaboration with NTT DATA and hence has established a foundation for growth.

Consolidation by NTT DATA



Source: The Company's results briefing materials

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

Business overview

In addition to its custom projects, the Company is also putting effort into selling products developed in-house and by other companies. These products include marketing automation (MA) tools by Salesforce.com <CRM> and access analysis tools by Google <GOOG> and Adobe <ADBE>. In addition, from FY3/22 the Company started the deployment and utilization support service for Shopify provided by Shopify Inc. <SHOP>, including original store apps for Shopify store owners.

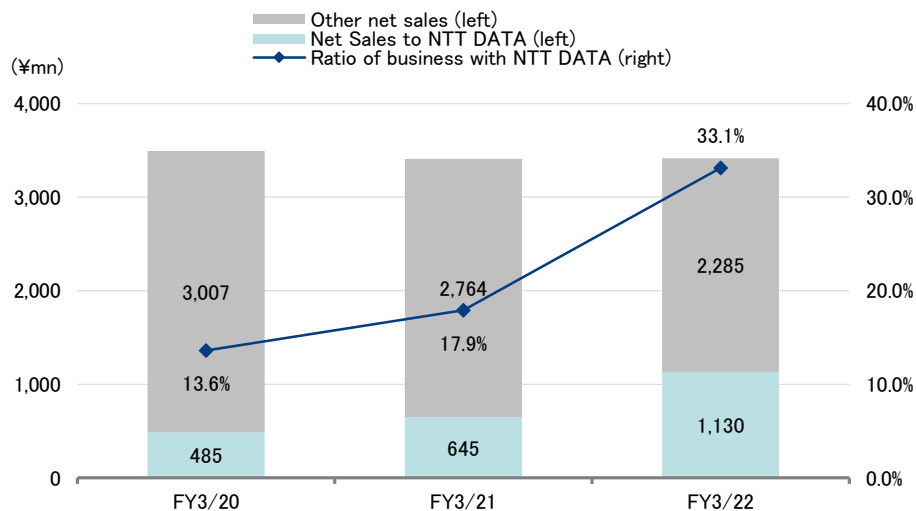
The Company has clients from a wide range of industries, including retail, services, manufacturing, and financial services, and centered on many large companies that are representative of Japan, particularly those in the BtoC field where digital marketing utilizing owned media is important. Also, NTT DATA is the No. 1 client in terms of sales, and NTT DATA accounted for 33.1% of net sales in FY3/22 due to the increase in joint development projects.

Client companies



Source: The Company's results briefing materials

Non-consolidated net sales and ratio of business with NTT DATA



Source: The Company's results briefing materials

Performance trends

Actual double-digit sales and profit growth in FY3/22 due to contributions from large projects and an improvement in the cost of sales ratio

1. FY3/22 results overview

The Company reported FY3/22 non-consolidated results of ¥3,416mn in net sales (+0.2% YoY), ¥205mn in operating income (+46.1%), ¥205mn in ordinary income (+46.4%), and ¥580mn in net profit (+119.9%). In FY3/22 the Company started adopting the "Accounting Standard for Revenue Recognition," etc. and now records the net amount of sales and costs of software licensing and advertisements (booked as commission income), which it has previously booked as net sales and cost of sales. As a result, there was a ¥415mn decline in both net sales and cost of sales, but excluding this factor the actual sales growth was 12.4%, resulting in an actual double-digit increase in both sales and profit. In addition, a ¥604mn gain on the sale of shares in Tribal Media House was recorded as an extraordinary gain.

FY3/22 result

	FY3/21		Company's initial forecast	FY3/22		Change	
	Result	% of sales		Result	% of sales	Amount	Rate
Net sales	3,409	-	3,600	3,416	-	6	0.2%
Cost of sales	2,758	80.9%	-	2,563	75.0%	-195	-7.1%
Gross profit	651	19.1%	-	852	25.0%	201	30.9%
SG&A expenses	511	15.0%	-	647	19.0%	136	26.8%
Operating income	140	4.1%	140	205	6.0%	64	46.1%
Ordinary income	140	4.1%	139	205	6.0%	65	46.4%
Extraordinary income	-	-	-	605	-	605	-
Net profit	263	7.7%	531	580	17.0%	316	119.9%
FY-end number of employees (people)	186		-	176		-10	-5.4%

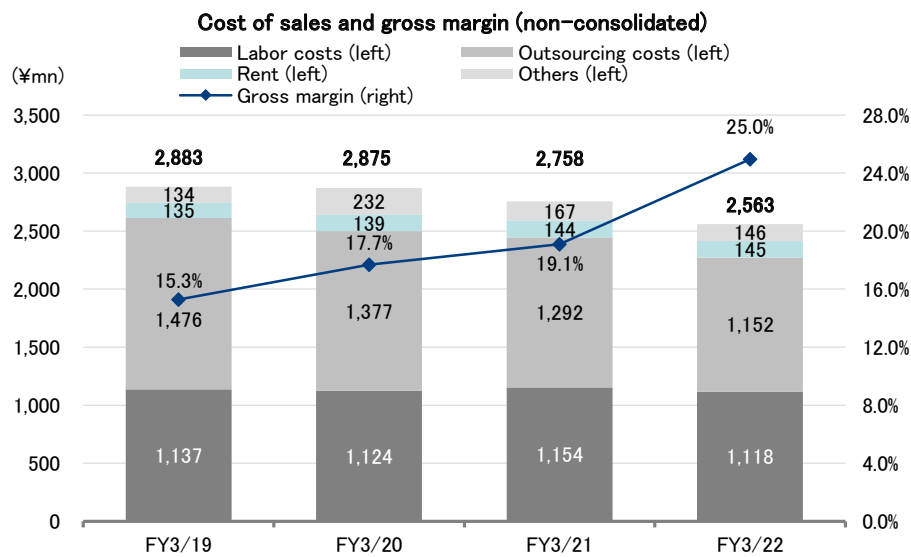
Note: The Company started preparing non-consolidated financial results from FY3/22. As a result, comparisons are made on a non-consolidated basis. The Company began adopting the "Accounting Standard for Revenue Recognition," etc. (ASBJ Statement No. 29) from FY3/22. As a result, net sales and cost of sales declined ¥415mn.

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

There is strong corporate appetite for investment in customer-centric DX, and in particular, a large joint project with NTT DATA contributed significantly to the increase in sales. Sales to NTT DATA increased to ¥1,130mn (+75.2% YoY), and the ratio of sales to NTT DATA increased to 33.1%. Other factors behind the increase in sales included the fact that a large project for a telecommunications company that the Company began in the second half of FY3/21 contributed to results through the fiscal year. The Company received orders for customer-centric DX development projects, from UX design to Web application development for clients in the finance industry, and also received orders from local governments for communication systems, etc., that provide public administration services utilizing LINE. In terms of large projects other than those for NTT DATA, the Company is receiving strong orders for a digitalization initiative from Starbucks Coffee Company (Japan), and has increased sales to that company as well.

Performance trends

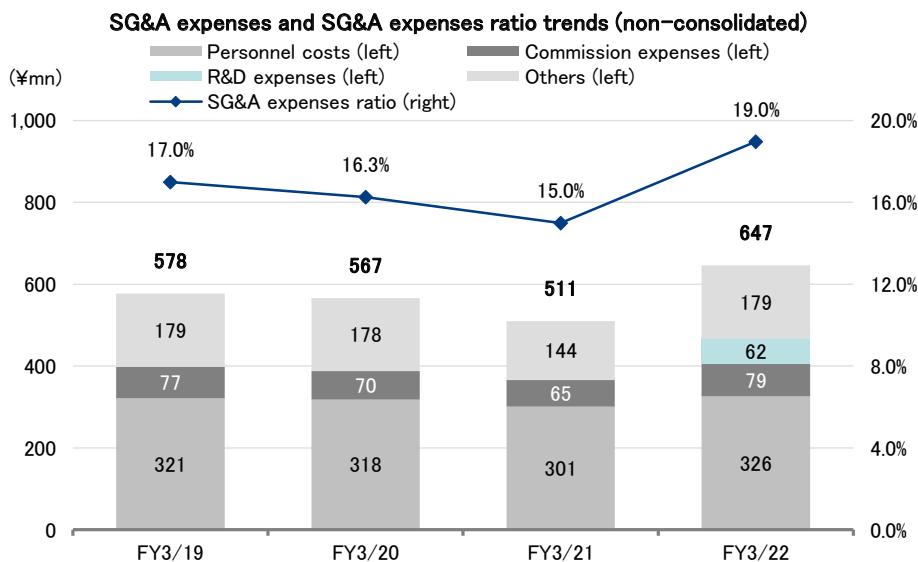
In earnings, the effect of the increase in sales, as well as large projects contributing to profit from the beginning of the fiscal year, along with the fact that the operating rate stayed at a high level throughout the year, led to a big improvement in the cost of sales ratio. This resulted in an increase in profit. The cost of sales ratio improved from 80.9% in FY3/21 to 75.0% (77.7% under the previous accounting standard). Looking at a breakdown of the cost of sales, labor costs declined ¥36mn YoY, while outsourcing costs decreased ¥139mn. From these, it can be seen that the productivity of projects improved due to efforts for the optimal assignment of personnel. Additionally, benefits from the initiative to eliminate unprofitable projects, which the Company has been working on for the past two to three years, have begun to emerge.



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

Meanwhile, SG&A expenses increased 26.8% YoY to ¥647mn. The main factors included a ¥25mn increase in personnel costs, a ¥13mn increase in commission expenses, and a ¥62mn increase in R&D costs related to Shopify app development. Others increased by ¥35mn due to an increase in the size-based business tax and workplace vaccination drives as a measure to prevent COVID-19 infections.

Performance trends



Note: Personnel costs = Executive compensation + salary + provision of reserve for bonuses + retirement benefit expenses + legal welfare expenses
 Source: Prepared by FISCO from company materials

More than 7,000 Shopify store apps have been sold around the world, but there are still few apps developed by Japanese companies, and the Company entered this market believing that there was room for growth. As of June 2022, the Company has released eight apps that will lead to sales promotion and operational support for EC businesses. Product reviews have generally been positive. Going forward, the Company will aim to monetize while bolstering the features of these apps.

Shopify store apps released by the Company (FY3/22)

App name	Release dates	Overview	Monthly price plan
Delivery & Order Supporter	July 2021	CSV output compatible with major logistics companies is possible, and the desired delivery date and time, holidays, questionnaire items, etc. can be displayed on the cart screen with a simple operation.	Free, \$5.0, \$9.0, \$18.0
Prize Promotion and Campaign Supporter	October 2021	An app that shares links with campaign winners and influencers, and generates a dedicated LP in order to send prizes and samples.	Free
Pop-up Supporter	November 2021	App that displays recommended items in pop-ups. Multiple products can be set.	Free, \$9.5
Age-verification Supporter	January 2022	App that verifies a buyer's age on the Cart page. Allows for voluntary setting of age restrictions.	\$9.0
Coupon Raffle Supporter	January 2022	App that randomly displays the result each day, regardless of winning or losing, and displays the coupon code if it is a win.	Free
Back in Stock (Japanese version: Restocking Notification Supporter)	January 2022	Notifies user automatically via email or SMS of a restocking, and also has an out-of-stock alert and reserved product request function.	Free, \$9.5, \$15.0, \$35.0
Thank You Supporter	March 2022	Allows user to easily customize a thank you page that will display after a purchase, and also display recommended items along with SNS-linked functions.	Free, \$9.5, \$14.5, \$29.0
Ranking Supporter	April 2022	App that measures the PV of all content and displays on the site in a rankings format.	\$5.0

Source: Prepared by FISCO from shopify app store

Performance trends

Will allocate the increase in cash from the sale of a subsidiary to growth investments

2. Financial position and management indicators

Looking at the financial standing at the end of FY3/22, total assets were up ¥806mn from the previous fiscal year-end to ¥3,122mn. Main changes in current assets were an ¥888mn increase in cash and deposits from ¥700mn from shares of subsidiaries and associates and increased earnings, and a ¥149mn increase in notes and accounts receivable-trade. Meanwhile, in non-current assets, shares of subsidiaries and associates decreased ¥95mn and deferred tax assets were down by ¥93mn.

Total liabilities climbed ¥248mn from the previous fiscal year-end to ¥648mn, due to a ¥103mn increase in account payables and a ¥119mn increase in income taxes payable. Total net assets increased ¥558mn to ¥2,474mn. Retained earnings increased ¥557mn due to the booking of ¥580mn in net profit and the payment of dividends of ¥22mn.

Regarding management indicators, the equity ratio dropped slightly from 82.7% at the end of FY3/21 to 79.2%, but we at FISCO feel that the Company has a healthy financial position as it has no debts and cash and deposits are at a record high. Looking at profitability, the operating income margin was 6.0%, and it continues to recover after bottoming out in FY3/20. This did not reach the Company's record high operating income margin of 7.8% in FY2/15 (non-consolidated), but by becoming a part of the NTT DATA Group, the Company's profitability has steadily increased. While maintaining and enhancing its profitability, the Company plans to allocate its accumulated cash to new business investment as a foundation for growth.

Balance sheet and management indicators

	(¥mn)				
	FY3/19 (consolidated)	FY3/20 (consolidated)	FY3/21 (non-consolidated)	FY3/22 (non-consolidated)	Change
Current assets	2,496	2,438	1,874	3,005	1,131
(Cash and deposits)	1,241	992	1,073	1,962	888
Fixed assets	245	274	441	116	-324
Total assets	2,742	2,712	2,315	3,122	806
Current liabilities	755	830	389	643	253
Fixed liabilities	27	26	10	5	-5
Total liabilities	783	856	399	648	248
(Interest-bearing debt)	36	0	0	0	0
Net assets	1,958	1,856	1,916	2,474	558
(Stability)					
Equity ratio	70.3%	67.7%	82.7%	79.2%	-3.5pt
Interest-bearing debt ratio	1.8%	-	-	-	-
(Profitability)					
ROA	0.7%	-2.9%	6.2%	7.5%	1.3pt
ROE	-4.2%	-3.6%	14.7%	26.4%	11.7pt
Operating income margin	0.4%	-1.4%	4.1%	6.0%	1.9pt

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

Outlook

Expecting firm DX demand again in FY3/23, with an outlook for continued growth in sales and profit

1. FY3/23 outlook

In the forecasts for FY3/23, the Company projects ¥3,600mn in net sales (+5.4% YoY), ¥240mn in operating income (+17.0%), ¥239mn in ordinary income (+16.4%), and ¥167mn in net profit (-71.2%). Due to the non-recurrence of the gain on the sale of shares booked in FY3/22, net income is expected to decline, but the Company expects net sales, operating income and ordinary income to all continue to increase. Also, the current situation of orders received is on track. The operating rate in 1Q was typically low, but it is expected to recover from 2Q onward, although it may be lower YoY partly due to the strong operating rate in the year-earlier period from the contribution of large-scale projects.

FY3/23 results outlook

	FY3/22		FY3/23		Change	
	Result	% of sales	Company forecast	% of sales	Amount	Rate
	(¥mn)					
Net sales	3,416	-	3,600	-	183	5.4%
Gross profit	852	25.0%	885	24.6%	32	3.8%
SG&A expenses	647	19.0%	645	17.9%	-2	-0.4%
Operating income	205	6.0%	240	6.7%	34	17.0%
Ordinary income	205	6.0%	239	6.6%	33	16.4%
Net profit	580	17.0%	167	4.6%	-413	-71.2%
Net profit per share (¥)	82.95		23.86		-	-

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

Regarding net sales, the Company will continue to capture DX projects for which demand is firm. In addition to the continued increase in collaborative projects with NTT DATA, it is expected that large-scale development projects for a food company will contribute to sales. The Company also plans to focus on expanding sales of EC development and POS, etc. In the field of EC-related business, the Company will focus on Shopify support and its store apps, as well as EC for BtoB companies. As part of this, in May 2022 the Company announced a collaboration with GMO MAKESHOP Co., Ltd. Targeting the deployment of the customizable EC solution GMO Cloud EC that GMO MAKESHOP provides, the Company will support upstream processes such as figuring out requirements for EC implementation as well as business design, and downstream processes such as system maintenance after deployment and sales promotion support for EC. Through these efforts, the Company will support the growth of EC sites of companies that have deployed them. The EC adoption rate of BtoB companies is still low compared to BtoC companies, and requirements for customization are strong, so it is considered to be an area where the Company's strengths can be capitalized, and future developments are expected.

Outlook

Collaborative scheme with GMO MAKESHOP



Support areas through collaboration

Source: The Company's press release

POS aims to maximize conversions of Web sites by providing one-stop support for SEO, digital advertising, and Web page improvement. In the past, SEO, digital advertising and Web page improvement, etc. were facing challenges because overall optimization was not necessarily being achieved as different departments and people in charge managed the budgets and ran the operations. Going forward, the Company will realize overall optimization by providing support for these areas in a one-stop manner. The number of client companies, which was three at the launch of the service in 2019, has steadily increased to 33 in FY3/22, contributing to increased profits. Although it still accounts for a small percentage of sales, it seems that in addition to orders from existing clients, orders from new clients including referrals from NTT DATA, are increasing. The Company is aiming for sales of ¥1.0bn in the medium to long term.

The Company expects the gross margin to decline 0.4pt YoY to 24.6%. Factors include the costs of launching new services and the booking of development costs of Shopify apps, which were booked as SG&A expenses in FY3/22, as cost of sales. Meanwhile, the Company expects the SG&A expense ratio to decrease 1.1pt to 17.9% due to the non-recurrence of ¥62mn in development costs, but the ratio would increase 0.8pt on a basis excluding development costs. This is due to an increase in hiring costs and training costs resulting from the increase in personnel, and the Company has factored in its plan to boost personnel by about 10.0%.

The Company has been struggling to hire for the past few years due to a chronic shortage of IT personnel, but it plans to expand the range of hiring routes as profits recover and increase the number of personnel by about 10.0% compared to the end of the previous fiscal year. Specifically, the Company started hiring new graduates and regional/local hires in 2022, and is making good progress, having hired seven new graduates and making the decision to hire two regional/local hires. In March 2022, the Company began collaborating with LULL, which provides in IT personnel development services. The Company will add its own UX curriculum to the IT personnel development curriculum provided by LULL, and will supplement the necessary human resources for each project. In FY3/22, approximately 20 people were involved in the Company's development projects through LULL, and the results have begun to emerge. Using this scheme will allow the Company to receive orders that had been passed over due to a shortage of human resources, so can be called an initiative that will lead to an increase in sales.

Also, the Company is working to strengthen UX design and implementation capabilities to integrate physical and digital experiences in order to further raise its competitiveness. It has created a UX design promotion task force in order to spread UX knowledge to all employees. In addition to having employees acquire basic knowledge about UX, the Company has developed a six-month curriculum where employees actually design UX in a workshop. 72 employees (about half the people in the division) took the course in FY3/22. By continuing these efforts, the concept of UX design will be deeply rooted in all employees, including salespeople and engineers, aiming to be "Japan's No. 1 UX design company."

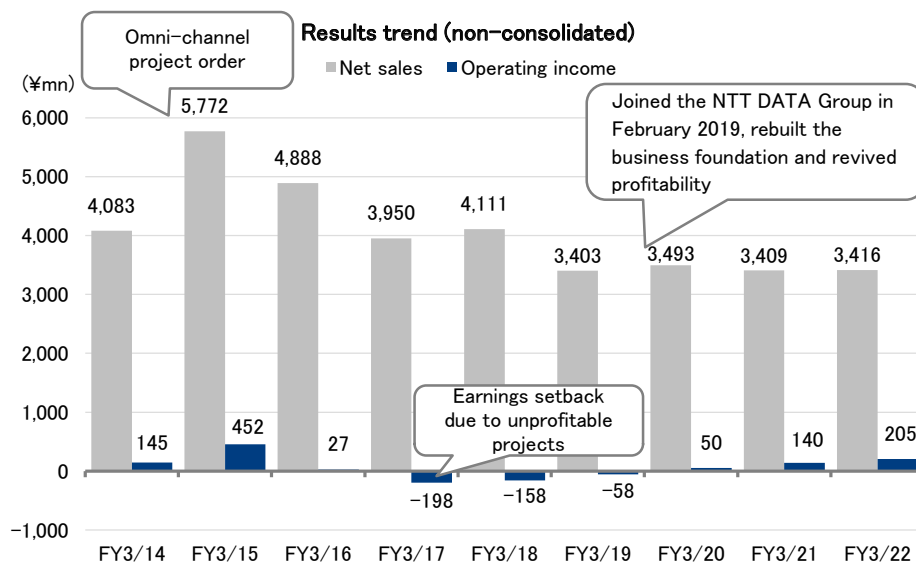
Transforming to profitable structure through the collaborative effects with NTT DATA and strengthening the project management system

2. Progress on medium-term plan

The Company has positioned the period from FY3/20 to FY3/23 as a period for “strengthening the management structure,” and has worked on the following four initiatives while restoration of profitability is the top management priority.

(1) Transformation to a profitable structure

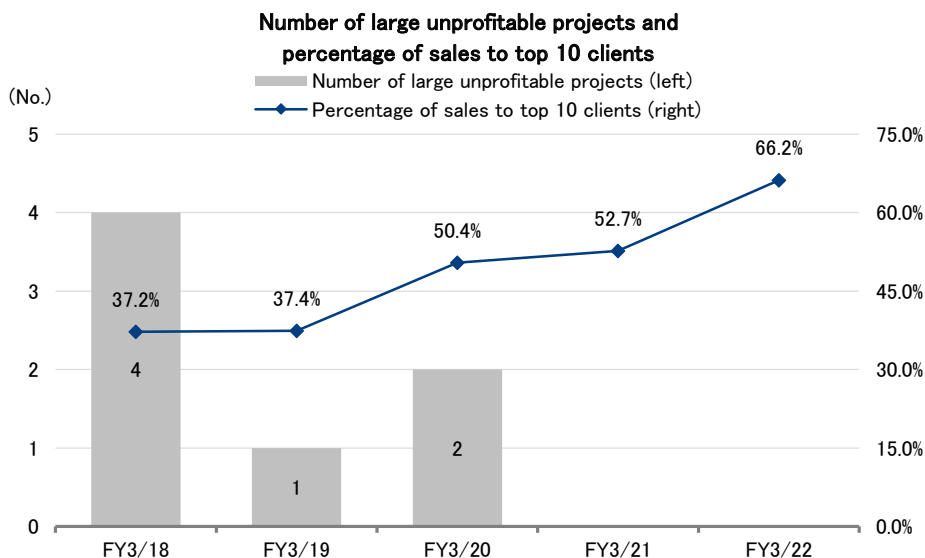
The Company’s non-consolidated earnings peaked in FY3/15, and partly due to the fact that some unprofitable projects occurred from FY3/17 onward, the Company entered a challenging period for earnings, recording an operating loss for three consecutive fiscal years. However, by concluding a capital and business alliance agreement with NTT DATA in February 2019 and working to rebuild the business foundation, the Company achieved a turnaround in FY3/20, and has been steadily expanding profits since then. Also, profitability (operating income margin) recovered to 6.0% in FY3/22. Meanwhile, net sales have been growing modestly since FY3/20 as a result of promoting profit-oriented sales activities.



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

As measures for the turnaround and improvement of profitability, the Company focused on sales activities targeting key clients, worked to increase sales per client, and tried to curb unprofitable projects. By focusing on sales activities targeting key clients, the ratio of sales to the top 10 clients increased from 37.2% in FY3/18 to 66.2% in FY3/22 (most of the increase was the increase in sales to NTT DATA), which also led to an improvement in sales productivity. Regarding the curbing of unprofitable projects, while four large-scale unprofitable projects (projects with loss exceeding ¥10mn) occurred in FY3/18, implementing risk management to orders (defining the requirements during the pre-order stage and stringently carrying out careful examinations of estimate amounts), thorough management of project profits and incorporation of a mechanism to improve project profits have resulted in eliminating unprofitable projects since FY3/21.

Outlook



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

(2) Collaboration with NTT DATA

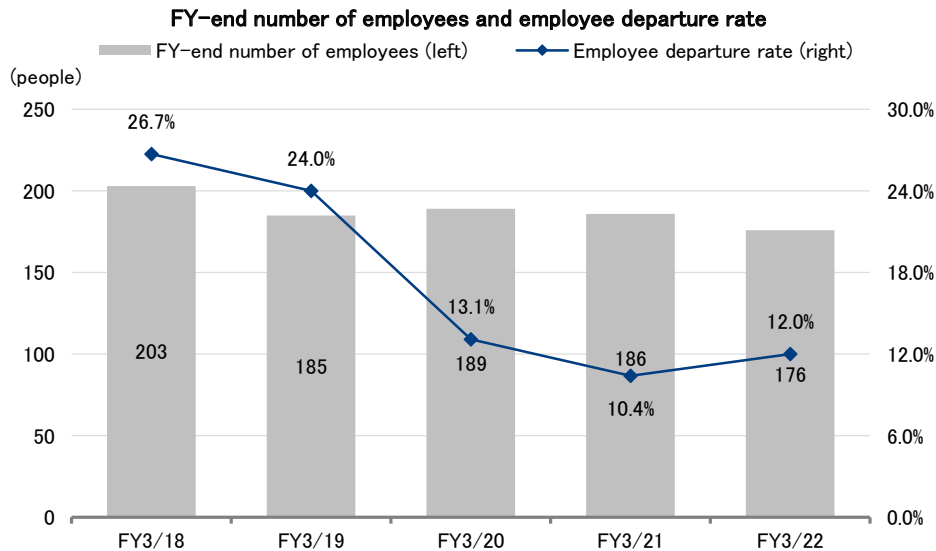
Since carrying out the capital and business alliance with NTT DATA, the number of joint development projects that leverage the strengths of both companies has increased, which is a factor behind the recovery in profits. By joining the NTT DATA Group, opportunities to receive orders for new development projects in the distribution and retail industries as well as in the public administration field are on the rise. As a result, the ratio of sales to NTT DATA is expected to rise from 33.1% in FY3/22 to the middle of the 40.0% range in the medium term, and is forecast to keep contributing to the Company's earnings growth going forward.

(3) Enhancement of employee engagement

With respect to human capital, which is the source of corporate growth, the Company has worked to keep the employee departure rate down by enhancing employee engagement in addition to bolstering hiring and development. Specifically, the Company redefined its corporate mission, introduced various systems* to make it easier for employees to work, strengthened education and training, and promoted receiving orders for projects that make work more rewarding for employees. As a result, the employee departure rate has dropped from 26.7% in FY3/18 to 12.0% in FY3/22, which is about the average level in the industry, so these measures are commendable. The number of employees had been on a downward trend for the past few years, but as mentioned above, the Company's policy has been to strengthen hiring, including new graduates. Therefore, the number of employees is expected to start to increase from FY3/23 onward.

* Introduced the "kakemochi" employee system, revised the benefits system to reflect LGBT concerns, established a flexible work management system anticipating family nursing care and childcare, etc., and introduced a remote location working system.

Outlook



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

(4) Service development

Accompanying the evolution of Internet technology, new services are being developed of one after another, and the Company has also been working to develop and nurture of new services according to needs. Regarding POS, the Company has steadily accumulated a track record, with the number of client companies increasing from eight in FY3/20 to 33 in FY3/22. The Company has also increased the number of divisions of client companies to which it provides BtoB digital marketing support services from six divisions to 16 divisions. With regard to Web application development, for which demand is expanding, the Company has increased the number of employees from three to 47 in order to boost its ability to receive orders. These efforts have also led to a recovery in profitability.

In addition to promoting collaboration with NTT DATA, the Company is aiming to increase corporate value over the medium to long term by nurturing new businesses

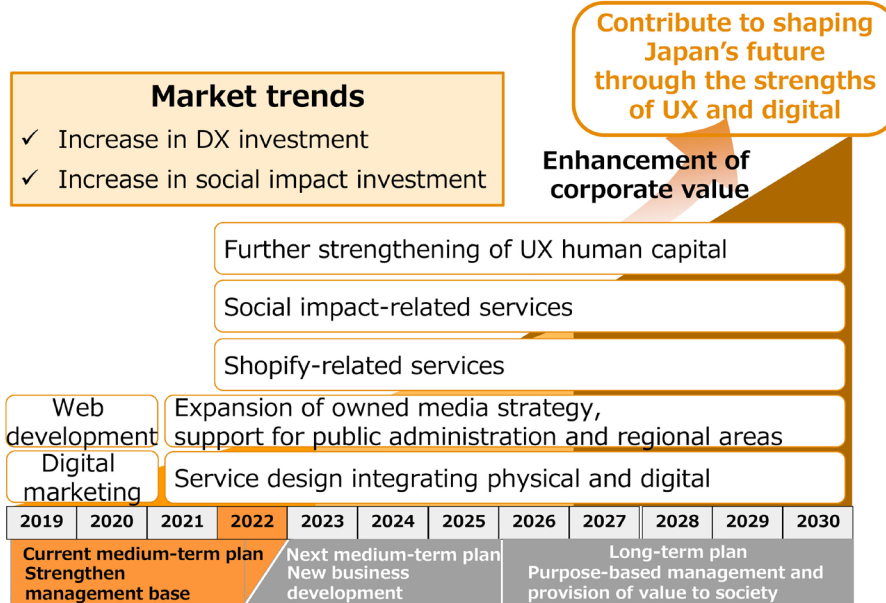
3. Growth strategy

As far as the future market trends are concerned, the Company anticipates that in addition to active customer-centric DX investment, including the integration of physical and digital, investments aimed at solving social issues such as the SDGs are also expected to increase. Under this situation, the Company plans to aim for additional profit growth by working to develop and nurture new businesses in addition to achieving growth in existing businesses. Specifically, the Company will work on the following four points.

- (1) Focus on developing and bolstering human capital in UX, which is the Company's strength.
- (2) Provide UX design through system development by focusing on service development support centered on owned media and bolstering collaboration with NTT DATA.
- (3) Accompanying the changes in CX, work on providing services to support operational reforms.
- (4) Given the increase in awareness of social issues, work on supporting business development aiming for resolution.

Outlook

Market trends and growth policy

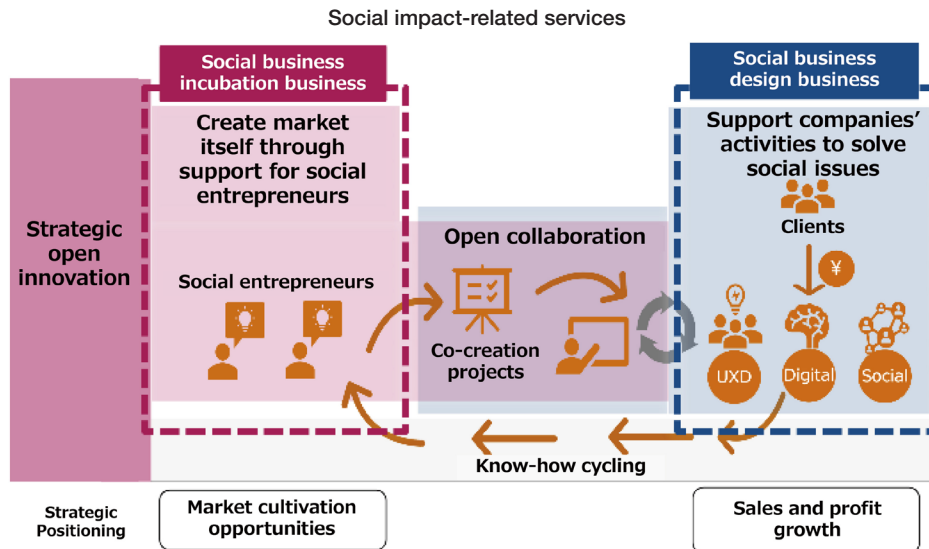


Source: The Company's results briefing materials

For existing businesses, the Company will focus not only on Web development and digital marketing support, but also on UX design and system development that integrates physical and digital, for which demand is expanding. New UX design that integrates physical and digital requires organizational and operational reforms, but there is often a shortage of DX human resources depending on the client company. There is strong demand for BPO (Business Process Outsourcing). In addition, in the past the target was mainly companies, but as the digitalization of public administration makes further progress going forward, the number of projects for local governments is expected to increase by promoting collaboration with NTT DATA, which has an extensive track record of projects for local governments.

Meanwhile, as new businesses, in addition to Shopify-related services and POS, the Company will work to nurture social impact businesses. Amid growing interest in SDGs, this service provides service design, system development, digital marketing support, and other assistance to companies aiming to launch new businesses that address social issues. The Company is also planning to advance open collaboration with social entrepreneurs in the future.

Outlook



Source: The Company's results briefing materials

Shareholder return policy

Pays stable, continuous dividends as a basic policy and will consider shifting to performance-linked dividends in the future

The Company pays dividends in order to return profits to shareholders. Its basic dividend policy is to stably and continuously pay dividends while ensuring it retains the internal reserves necessary to develop its businesses in the future and to strengthen its business structures. The Company hence has steadily paid a ¥3.25 dividend since FY3/08 and intends to pay ¥3.25 again in FY3/23 (dividend payout ratio of 13.6%). It has also indicated willingness to consider adoption of performance-linked dividends in the future once it possesses sufficient internal retention and is capable of generating stable cash annually. This might happen in FY3/23 if earnings smoothly expand. It is believed it will aim for a dividend payout ratio in the 20.0% to 30.0% level, which is the average for listed companies.



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