COMPANY RESEARCH AND ANALYSIS REPORT

Netyear Group Corporation

3622

Tokyo Stock Exchange Growth Market

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Summary

Outlook is for earnings growth to continue, partially due to the benefits of collaboration with NTT Data

Netyear Group Corporation <3622> (hereinafter also referred to as “the Company”) provides customer-originated digital transformation (DX) support business utilizing internet technology, and has a deep track record in the digital marketing domain. The Company concluded a capital and business alliance agreement with NTT DATA Group Corporation <9613> and became a group company in February 2019. There has been an increase in the collaborative projects combining NTT DATA’s system development capabilities and the Company’s customer experience (CX) design capabilities, and the ratio of net sales to NTT DATA is above 30%.

1. FY3/23 results

In FY3/23, the Company reported net sales of ¥3,919mn (+14.7% YoY) and operating income of ¥281mn (+37.1%), both of which exceeded the Company’s initial plan (net sales of ¥3,600mn, operating income of ¥240mn). The number of companies working to improve digital marketing and CX using owned media (own websites, smartphone apps, etc.) is increasing, and collaborative projects with NTT DATA (telecommunications, retail, financial, and local government projects) are on the rise. In addition, digital marketing support projects for Starbucks Coffee Japan Co., Ltd., with which the Company has been doing business for over 15 years, also contributed to the increase in earnings. Although the cost of sales ratio rose slightly due to an increase in outsourcing costs resulting from an increase in business volume, this was covered by the impact of increased sales, and the operating income margin was 7.2%, recovering to the 7% level for the first time in eight fiscal years.

2. FY3/24 forecast

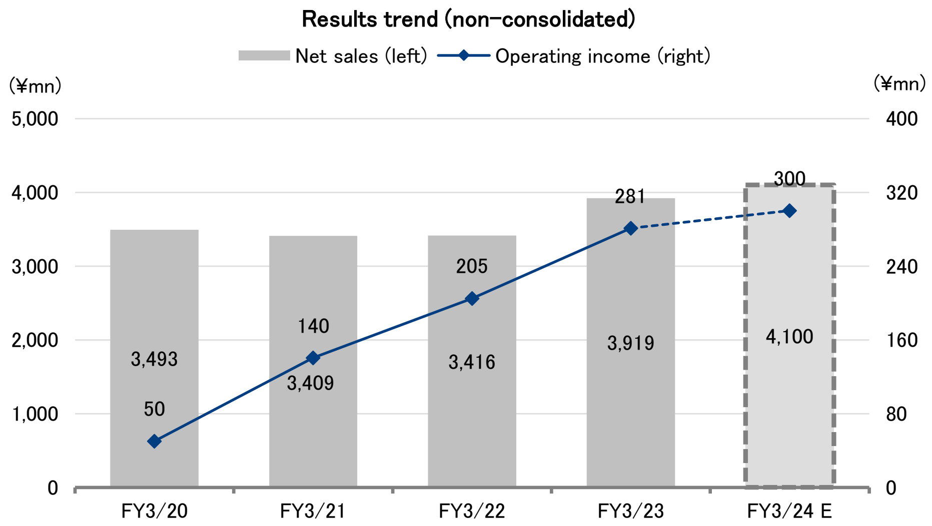
In the forecast for FY3/24, the Company is expecting ¥4,100mn in net sales (+4.6% YoY) and ¥300mn in operating income (+6.7%), with continued strong results. Corporate DX investment remains robust, and there are many inquiries for development projects aimed at supporting digital marketing and improving CX, which are the Company’s business domains. In some cases, the Company has decided to forego orders due to a shortage of human resources, and thus the Company plans to proactively invest in human resources and build a foundation for growth. In addition to adding employees at a pace of over 10% annually on a net basis, the Company will also accelerate strategic initiatives with external partners and build a network of professional human resources. Specifically, from March 2022, in collaboration with LULL INC., a staffing agency, the Company started a project to reskill young workers into IT and digital human resources, and the Company has already hired 5–6 of these young workers as employees. In FY3/24, while making these kinds of investments in human resources, the Company aims to increase sales and profits by receiving orders for collaborative projects with NTT DATA and ongoing projects from key clients.

3. Growth strategy

As a future growth strategy, the Company will aim for further profit growth by developing and nurturing new businesses in addition to growing existing businesses. On top of collaborating with NTT DATA on existing businesses, the Company plans to standardize the know-how it has accumulated thus far and combine it with SasS-type services such as the e-commerce platform Shopify to improve profitability. In addition, as a new business area, the Company will develop social impact businesses that aim to solve social issues and resolve business issues. As the first such business, in September 2022, the Company formed a business alliance with the Japan Advisory Caregiver Association to support the reduction of the risk of people leaving their jobs to provide nursing care for a family member, and the Company plans to support the DX of the service platform provided by the Association and the development of a specialized e-commerce site. In addition, in February 2023, the Company concluded a comprehensive partnership agreement with Uwajima City, Ehime Prefecture, regarding a regional revitalization project centered on the "utilization of closed schools" that solves both regional and business issues. In addition to revitalizing closed schools as coworking spaces and shared offices, the Company will build an e-commerce site that supports local product sales and provides digital marketing support. For the time being, the impact of these projects on business results will be minor, but by accumulating many such projects, the Company intends to contribute to society and achieve profit growth at the same time. The Company will also look to acquire and firmly retain human resources by working on these kinds of projects that contribute to society.

Key Points

- For FY3/23, the Company achieved double-digit growth in sales based on robust DX investment, as well as double-digit growth in operating income and ordinary income
- In FY3/24, the Company aims to increase sales and profits while focusing on strengthening the management foundation through investment in human resources
- In addition to expanding existing businesses through collaboration with NTT DATA, the Company will aim to develop social impact businesses and improve corporate value over the medium to long term.
- The Company changed its dividend policy from a stable dividend to performance-linked dividend targeting a payout ratio around 20%



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

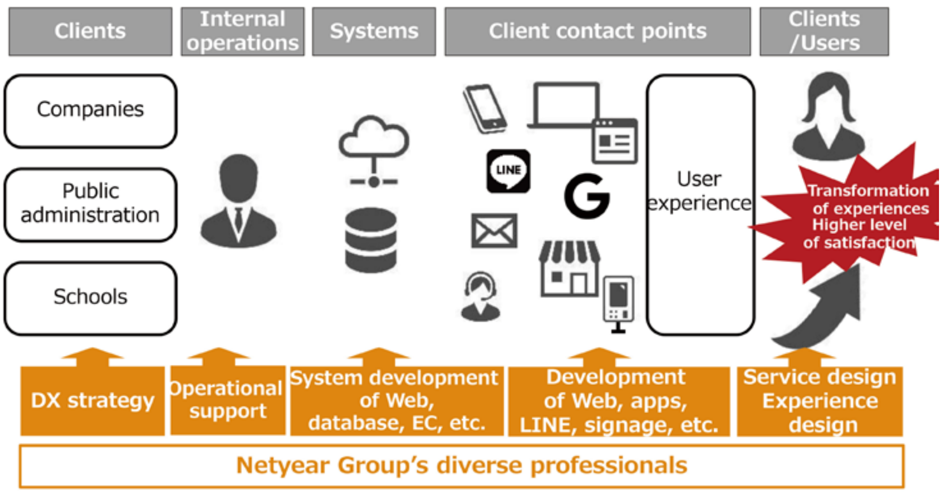
Business overview

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 CX-driven, which includes proposing digital marketing measures, support for new business development, 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, e-commerce development and store app development and sales.

Business description



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, 2023, which was basically the same as level as the end of the previous fiscal year. Of these employees, approximately 130 people work for the Customer Experience Division, 16 people work in the new Social Impact Business Division (including the Shopify business), and around 30 people work in the Administrative Division. There are 250–260 people, including external partners assigned to projects on an individual project basis.

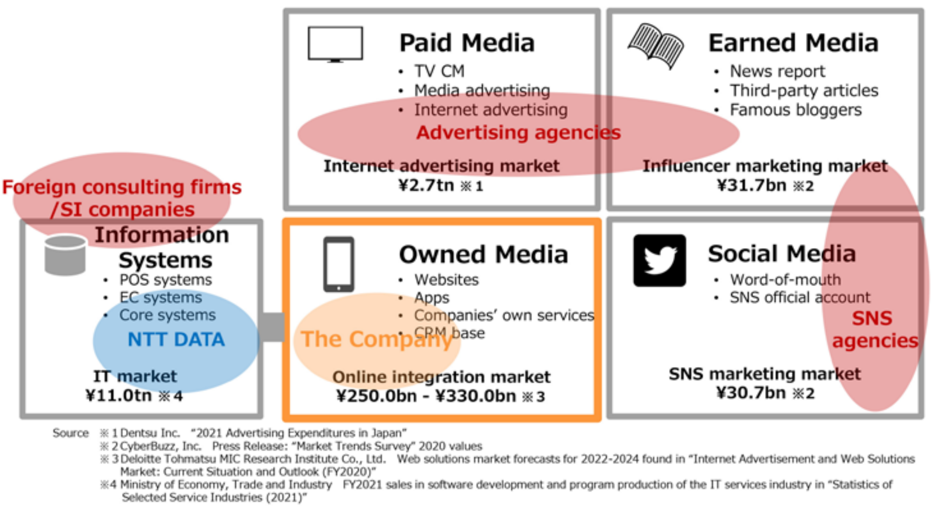
Possesses strength in design capabilities for realizing ideal CX

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 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). Of these, the Company develops digital services and proposes, develops, and operates digital marketing measures that utilize owned media.

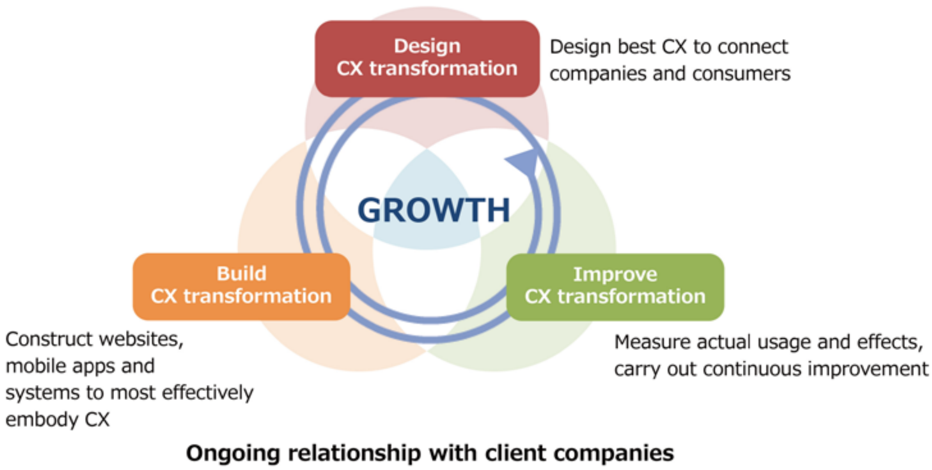
Competitive environment and the Company's strategy to respond



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 24 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.

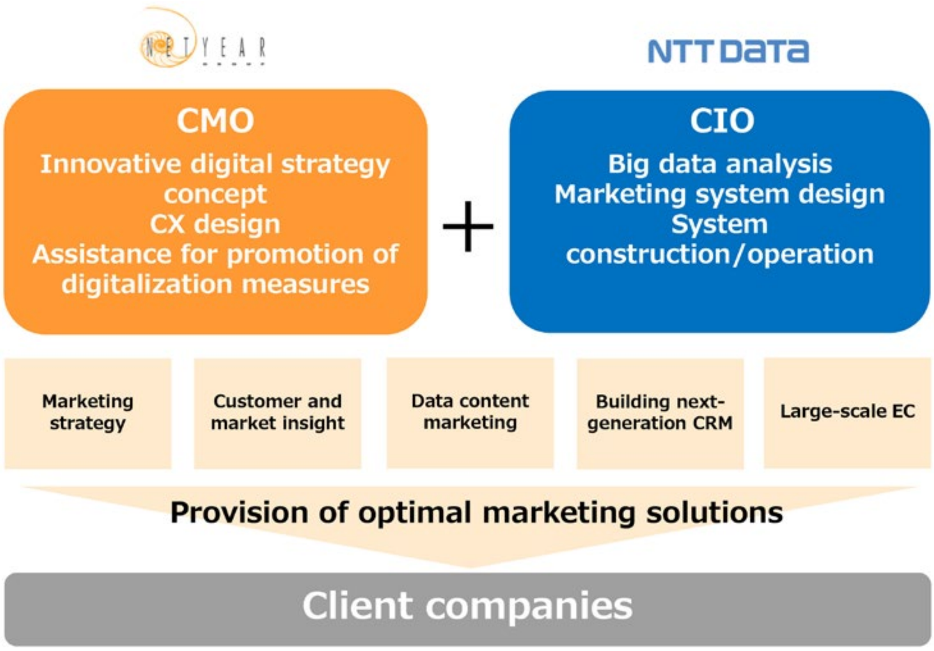
Services process



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. Meanwhile, through collaboration with NTT DATA, the Company's system development capabilities, which were an issue for the Company, are being resolved, and synergies are beginning to emerge, such as the improvement in business results based on an increase in collaborative projects.

Consolidation by NTT DATA



Source: The Company's results briefing materials

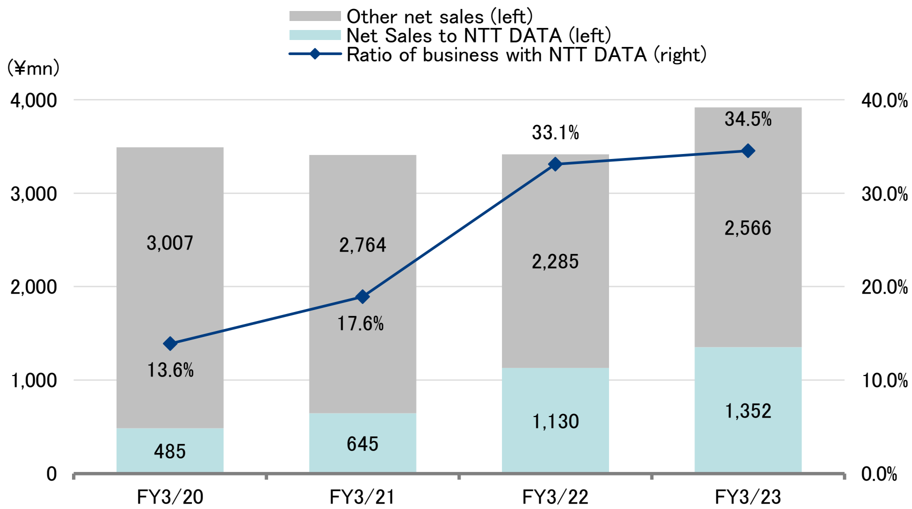
In addition to custom projects, the Company is also supporting the introduction of products developed in-house and by other companies. These products include marketing automation (MA) tools by Salesforce.com <CRM> and access analysis tools by Google <GOOG> and Adobe <ADBE>. There are also cases in which these are introduced together with custom projects. Also, from FY3/22 the Company started the deployment and utilization support service for Shopify, the e-commerce platform provided by Shopify Inc. <SHOP>.

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. The Company has done business with more than 900 companies on a cumulative basis, and works on 3,000 projects annually. In the past few years, the ratio of sales to NTT DATA has been on the rise, and this ratio increased to 34.5% in FY3/23. For NTT DATA, there has been an increase in projects for the telecommunications industry, finance industry, and for local governments, and going forward there is expected to be a continued increase in joint development projects and a modest rise in the ratio of sales that NTT DATA accounts for in the Company's sales mix.

Client companies

Source: The Company's results briefing materials

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



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

Performance trends

For FY3/23, the Company achieved double-digit growth in net sales based on robust DX investment, as well as double-digit growth in operating income and ordinary income

1. FY3/23 results overview

The Company reported FY3/23 non-consolidated results of ¥3,919mn in net sales (+14.7% YoY), ¥281mn in operating income (+37.1%), ¥280mn in ordinary income (+36.6%), and ¥200mn in net profit (-65.5%). Although net profit declined due to the fact that in FY3/22 the Company recorded a ¥604mn extraordinary income on the sale of shares of an affiliate, overall results were positive with net sales, operating income and ordinary income all increased by double digits and exceeded the Company's initial forecasts.

FY3/23 results (non-consolidated)

(¥mn)

	FY3/22		FY3/23			YoY	
	Result	% of sales	Company forecast	Result	% of sales	Change (%)	Change
Net sales	3,416	-	3,600	3,919	-	14.7%	503
Cost of sales	2,563	75.0%	2,715	3,028	77.3%	18.2%	465
Gross profit	852	25.0%	885	890	22.7%	4.5%	38
SG&A expenses	647	19.0%	645	609	15.6%	-5.9%	-38
Operating income	205	6.0%	240	281	7.2%	37.1%	76
Ordinary income	205	6.0%	239	280	7.2%	36.6%	75
Extraordinary income and loss	605	-	-	-	-	-	-605
Net profit	580	17.0%	167	200	5.1%	-65.5%	-380

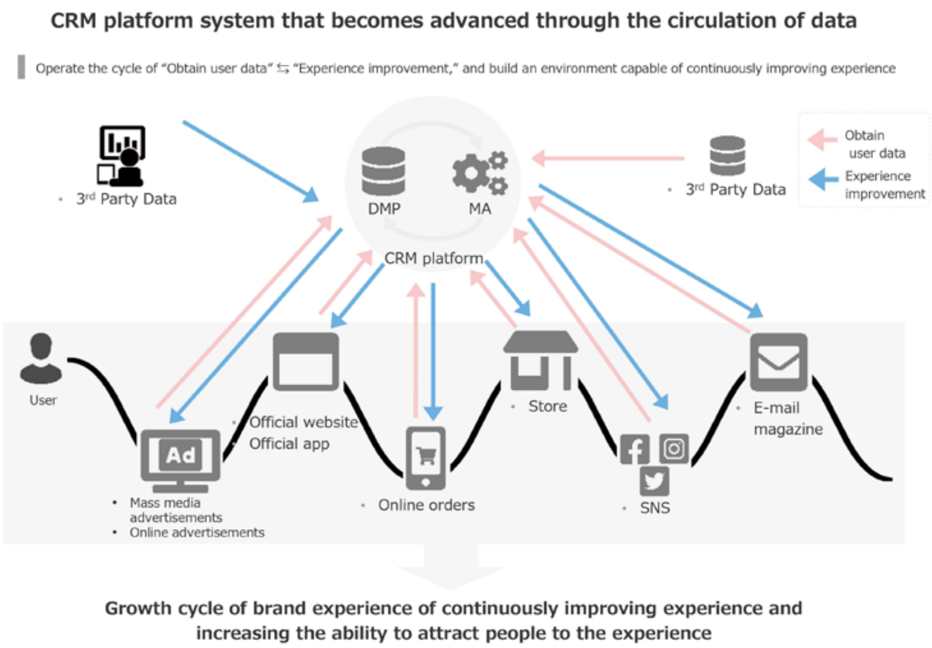
Source: Prepared by FISCO from the Company's financial results

With respect to net sales, while corporate investment in DX continues, the Company's initiatives originating from CX in the digital marketing field, which is a business domain of the Company, have been highly evaluated, and ongoing development projects from existing key clients have been going smoothy. Collaboration projects with NTT DATA also performed well, with ongoing projects in the telecommunications and retail industries, as well as an increase in projects in the finance industry and for local governments. By key client, sales to NTT DATA increased 19.7% YoY to ¥1,352mn, sales to Starbucks Coffee Japan rose 37.4% to ¥508mn, and sales to other customers rose 7.4% to ¥2,058mn.

For Starbucks Coffee Japan, these sales are due to the continuous improvement of the purchasing experience, such as designing and developing a mobile ordering service using LINE and rebuilding the e-commerce platform. In terms of digital marketing measures, companies are always making improvements and modifications to enhance the CX of websites and member apps, etc., and this is leading to continuous orders for the Company. A development project for MOS FOOD SERVICES, INC. <8153> also contributed to the increase in sales. The Company supported the construction of a "data-driven CRM platform system" that enables everything from accumulating and analyzing customer behavior data to extracting optimal marketing measures and verifying their effectiveness. The construction of this system makes it possible to implement optimal marketing initiatives aimed at target customers, as well as to verify the effectiveness of marketing initiatives across departments, which is expected to improve the ROI of marketing departments. In addition, although still small in terms of net sales, the increase in sales of "Performance Optimization Service*" ("POS") also contributed to the increase in sales. Meanwhile, the Company has released a total of eight Shopify store apps, which it started releasing in FY3/22, but because the Company has been struggling to acquire paying customers, going forward the Company has decided to expand sales by incorporating these as part of the Shopify building support solutions menu.

* 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 make optimal proposals for improvement measures and budget allocation 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. As of the end of March 2023, the Company had contracts with 25 companies.

MOS Burger Deployment Example

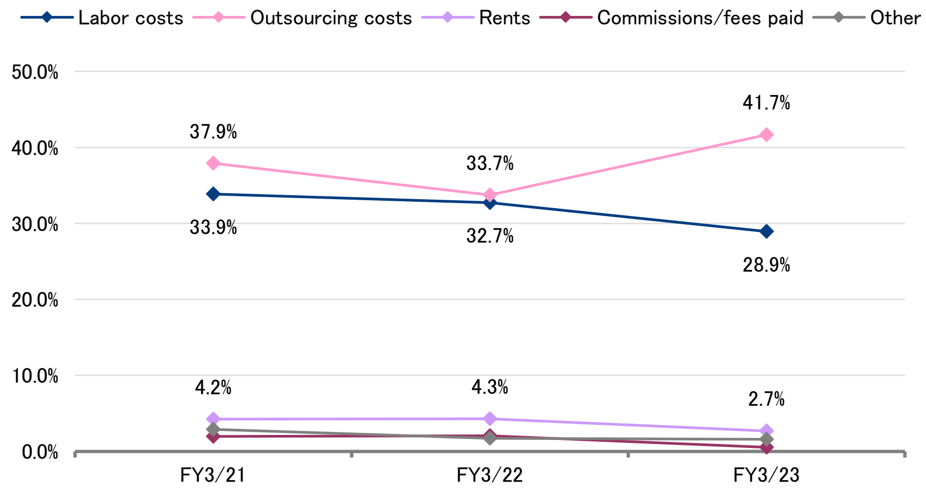


Source: The Company's website

Looking at the change factors for costs, the cost of sales ratio increased by 2.3 percentage points from 75.0% in the previous fiscal year to 77.3%. The majority of this increase was due to the inclusion of development costs (¥62mn) for Shopify-related apps, which were recorded as SG&A expenses in the previous fiscal year, in the cost of sales. The cost ratio in the previous fiscal year including these development costs in the cost of sales was 76.9%, so there was an increase of 0.4 percentage points in real terms. Looking at the breakdown, the labor cost ratio decreased from 32.7% to 28.9%, and rents decreased from 4.3% to 2.7%, so the effect of higher sales led to declines in these areas. On the other hand, the outsourcing cost ratio increased from 33.7% to 41.7%, which pushed up the cost ratio. This increase in outsourcing was due to the lack of human resources in the Company to handle the expansion in business volume, leading to outsourcing. Therefore, the expansion of internal resources is an issue for the future.

Meanwhile, SG&A expenses declined ¥38mn YoY, but it was effectively an increase of ¥24mn excluding the impacts of the transfer of development costs. This was due to the increase in recruitment/hiring costs and training costs, as the Company hired seven new graduates and added experienced hires as well. However, there was a roughly equal number of people who left the Company, so the number of employees at the end of March 2023 remained on par with the level at the end of March 2022.

Breakdown of cost of sales ratio



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

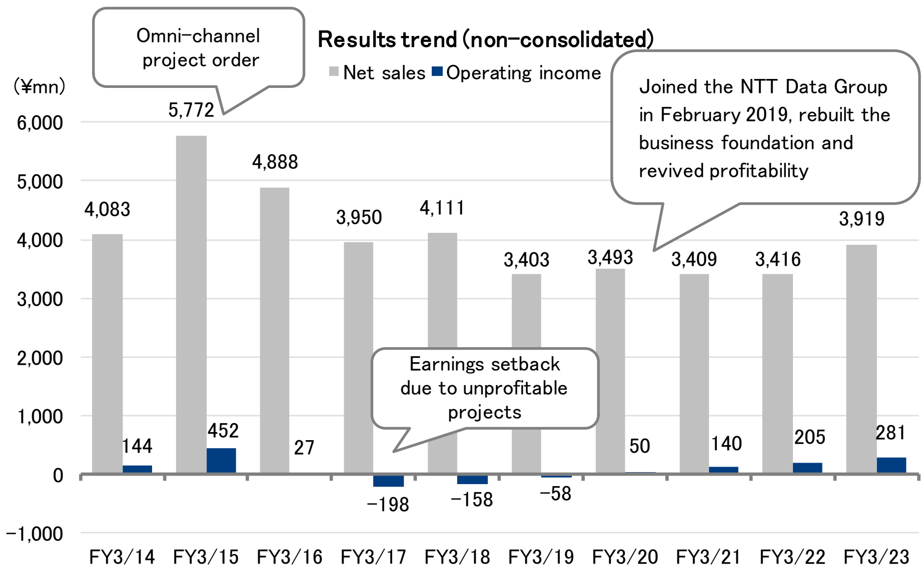
Transforming to profitable structure through the collaborative effects with NTT DATA and strengthening the project management system

2. Results on initiatives in medium-term plan

For the period from FY3/20 to FY3/23, the Company set "restoration of profitability," or changing the earnings structure to one with profits, as the top management priority, and was working on the following four initiatives. As mentioned above, in FY3/23, the Company had double-digit increases in sales and profits, and in the four years from FY3/20 the Company saw a recovery in earnings on a continuous upward trajectory, with the operating income margin recovering to 7.2%, the highest level since FY3/15. Based on this, at FISCO we assess that the Company has achieved its goal of "restoration of profitability."

(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) was 7.2% in FY3/23, recovering close to the all-time peak of 7.8% recorded back in FY3/15. On the other hand, net sales were sluggish for some time after FY3/20 as a result of promoting profit-oriented sales activities, but in FY3/23 a large-scale development project from an existing customer contributed to sales, so net sales growth topped 10% for the first time in a long time.



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), and it seems like there was an increase trend in FY3/23 as well. Sales productivity also increased due to a focus on sales activities to key clients. Regarding the curbing of unprofitable projects, while four large-scale unprofitable projects (projects with loss exceeding ¥10mn) occurred in FY3/18, in addition to implementing thorough risk management for orders (defining the requirements during the pre-order stage and stringently carrying out careful examinations of estimates) and thorough management of project profits, the Company incorporated a mechanism to improve project profits, and these efforts resulted in no unprofitable projects for three straight fiscal years since FY3/21, and this has been a factor behind the improvement in profitability.

(2) Collaboration with NTT DATA

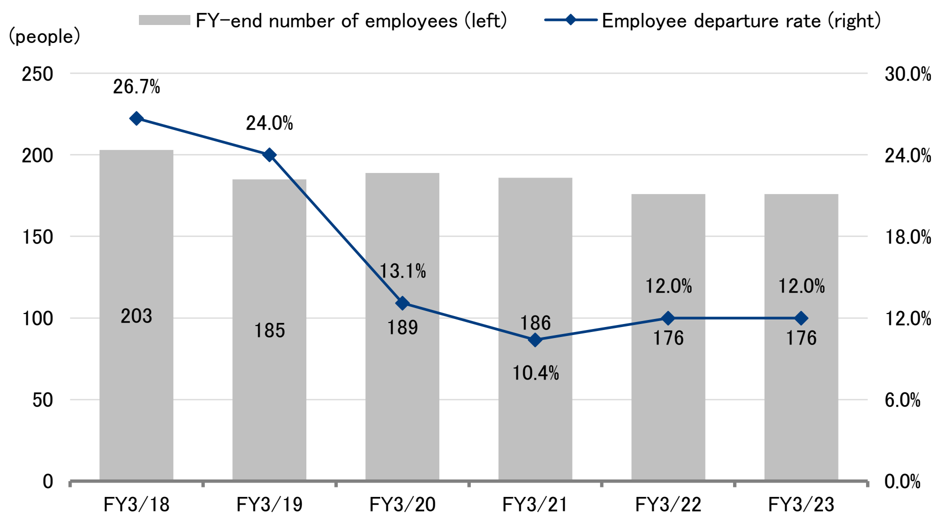
Since carrying out the capital and business alliance with NTT DATA, the number of joint development projects that leverage the strengths of both companies has increased, the ratio of sales to NTT DATA increased from 13.6% in FY3/20 to 34.5% in FY3/23, and this has been a driving force behind the recovery in earnings. By joining the NTT DATA Group, opportunities to receive orders for new development projects in the distribution and retail industries, the finance industry, and the public sector are on the rise. As a result, the ratio of sales to NTT DATA are expected to increase to the middle of the 40% range in the medium term.

(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 turnover rate has dropped from 26.7% in FY3/18 to around 12% in FY3/23, which is about the average level in the industry, so the Company's efforts have had a certain level of impact.

* 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.

FY-end number of employees and employee departure rate



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

(4) Service development

Accompanying the evolution of Internet technology, as new services are being developed one after another, the Company has been working to develop and nurture of new services according to needs of the market. Regarding POS, net sales have been growing, and a certain level of effect has emerged, but sales of store apps and e-commerce building support services are struggling, so this can be said to be a future issue for the Company.

The financial condition is healthy, and the Company is also considering an alliance strategy in order to expand business

3. Financial position and management indicators

Looking at the financial standing at the end of FY3/23, total assets were up ¥54mn from the previous fiscal year-end to ¥3,176mn. The main changes in current assets were a ¥257mn increase in cash and deposits, a ¥48mn decrease in notes and accounts receivable-trade, and a ¥23mn decline in prepaid expenses. Meanwhile, in non-current assets, software decreased by ¥3mn and investments and other assets fell by ¥13mn.

Total liabilities declined ¥122mn from the previous fiscal year-end to ¥525mn. Accounts payable increased ¥10mn and unpaid expenses increased ¥27mn, while there was a ¥133mn decline in income taxes payable. Total net assets increased ¥177mn to ¥2,651mn. Retained earnings increased ¥177mn due to the booking of ¥200mn in net profit and the payment of dividends of ¥22mn.

Regarding management indicators, the equity ratio increased from 79.2% at the end of FY3/22 to 83.5%, 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 of ¥2,220mn. Looking at profitability, the operating income margin increased 1.2 percentage points YoY to 7.2%, and improved to the highest level since FY3/15. Going forward, the Company is considering options such as recruiting and training human resources necessary for further growth, and expanding into new business areas through M&A and alliance strategies. The Company is targeting companies with technical resources in the fields of e-commerce, AI, and big data, but there is also the possibility that the Company will promote an alliance strategy jointly with NTT DATA.

Balance sheet and management indicators

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23	Change
Current assets	1,760	1,874	3,005	3,075	69
(Cash and deposits)	806	1,073	1,962	2,220	257
Fixed assets	434	334	116	101	-14
Total assets	2,195	2,315	3,122	3,176	54
Current liabilities	510	389	643	520	-122
Fixed liabilities	11	10	5	5	-
Total liabilities	522	399	648	525	-122
(Interest-bearing debt)	-	-	-	-	-
Net assets	1,673	1,916	2,474	2,651	177
(Stability)					
Equity ratio	76.2%	82.7%	79.2%	83.5%	4.2pt
Interest-bearing debt ratio	-	-	-	-	-
(Profitability)					
ROA	2.3%	6.2%	7.5%	8.9%	1.4pt
ROE	2.4%	14.7%	26.4%	7.8%	-18.6pt
Operating income margin	1.4%	4.1%	6.0%	7.2%	1.2pt

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

Outlook

For 3/24, aiming to increase sales and profits while focusing on strengthening the management platform by investing in human resources

1. FY3/24 outlook

In the forecast for FY3/24, the Company projects an increase in both sales and profit with ¥4,100mn in net sales (+4.6% YoY), ¥300mn in operating income (+6.7%), ¥299mn in ordinary income (+6.6%), and ¥209mn in net profit (+4.4%). It seems that inquiries from companies working to deploy and improve digital marketing measures originating with CX, which is the Company's business domain, remain robust, and the urgent issue for the Company is bolstering its human resources. For this reason, in FY3/24, the Company's plan is to aim for steady earnings growth while focusing on strengthening the management platform through human resource investment.

FY3/24 results outlook

(¥mn)

	FY3/23		FY3/24		YoY
	Result	% of sales	Company forecast	% of sales	
Net sales	3,919	-	4,100	-	4.6%
Operating income	281	7.2%	300	7.3%	6.7%
Ordinary income	280	7.2%	299	7.3%	6.6%
Net profit	200	5.1%	209	5.1%	4.4%
Net profit per share (¥)	28.61		29.86		

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

Regarding net sales, it is expected that collaborative projects with NTT DATA will continue to increase, and that single-digit sales growth will be possible by continuing projects with existing key clients. Sales to Starbucks Coffee Japan and MOS FOOD SERVICES, which grew in the previous fiscal year, are expected to be at the same level as in FY3/23, and if the Company has sufficient human resources, additional sales growth can be expected.

In terms of its human resources strategy, eight new graduates joined the Company in the spring of 2023, and based on the project to reskill young workers into IT and digital human resources which the Company began working on jointly in March 2022 in collaboration with LULL, a staffing agency, the Company plans to develop human resources without IT industry experience as engineers and have them become employees. In this scheme, LULL's IT human resource development curriculum is first used, and online instructors and career advisors support both skill and career development, and the Company provides a user experience (UX) curriculum designed based on its wealth of knowledge. In FY3/22, about 20 people participated in about around 10 of the Company's development projects through LULL, and in FY3/23 the Company hired 5–6 employees through this scheme, so it has started to yield results. Because hiring experienced hires is costly, the Company plans to continue working to train inexperienced people and hire them as full-time employees. Together with new graduate hires, the Company plans to increase its workforce at an annual rate of about 10%. In addition, there is a shortage of project managers who manage and lead projects, which is an area for the Company to work to bolster. As the number of employees increases, the capacity to receive orders will expand, which will not only lead to sales growth, but profitability will also improve through efforts to increase the ratio of work performed in-house. For this reason, human resources costs and hiring and training costs are expected to continue to increase for the time being, but this is positioned as an upfront investment for building a management foundation to achieve sustainable growth.

In addition, in order to increase the number of employees, it is also necessary to work on reducing the turnover rate. The employee turnover rate for FY3/23 was around 12%, about the same level as in the previous fiscal year, which is in line with the industry average, but it would be ideal if the turnover rate could be reduced to the single digits. Regarding measures to reduce the turnover rate, in addition to reviewing the personnel system and improving various systems and benefit programs that enable diverse work styles, it will be necessary for the Company to increase engagement by revitalizing communication. Developing a social impact business, which is a new business area, is part of the Company's efforts to engage with employees.

Also, the Company is working to strengthen customer-driven 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 2021 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. By continuing these efforts, the concept of UX design will be deeply rooted in all employees, including salespeople and engineers, as the Company aims to be "Japan's No. 1 UX design company." As a part of this, aiming to develop design human resources,* in FY3/23 the Company began a system to support employees in obtaining certification as a "human-centered design specialist/expert," a certification implemented by Human Centered Design Organization (HCD-Net), and seven employees have obtained this certification.

* This broadly refers to people who can envision an ideal future and creatively solve business issues. These are people who combine design, business and technology skills.

In addition to growing existing businesses through collaboration with NTT DATA, the Company is looking to nurture social impact businesses and enhance corporate value over the medium to long term.

2. 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. Amid this situation, for existing businesses, the Company will strengthen collaboration with NTT DATA to improve sales efficiency, promote activities to comprehensively propose multiple solutions to meet diversifying needs, and realize the best CX without barriers between real and digital. Through these efforts, the Company will support the digital marketing and DX of client companies and expand its business. In addition, in order to horizontally develop and expand various solutions, the Company plans to standardize the know-how it has accumulated so far and work to improve profitability by combining this know-how with SaaS-type services.

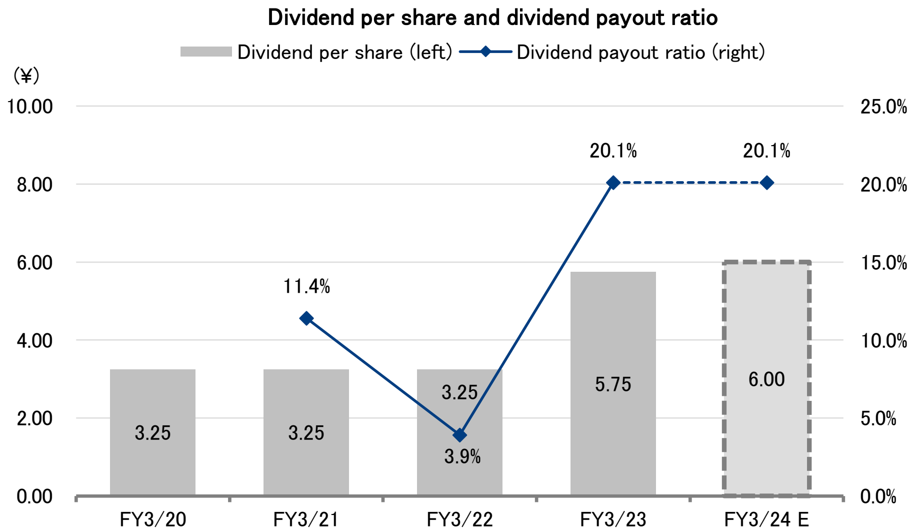
Meanwhile, as new businesses, the Company will develop social impact businesses that aim to solve social and business issues. As the first such business, in September 2022 the Company formed an operating alliance with the Japan Advisory Caregiver Association (Shizuoka Prefecture) to assist in reducing the risk of people leaving work to provide nursing care for family members. The Japan Advisory Caregiver Association is an organization established in 2020 with the aim of reducing the risk of people leaving work to provide nursing care (a situation in which people are forced to leave their jobs due to an increase in the burden of nursing care), which has become a problem in a super-aging society, and the organization offers seminars and consultation meetings. Through this alliance, the Company plans to provide DX support for the advisory nursing care service platform provided by the Association and support the development of an e-commerce site specializing in nursing care-related products.

In February 2023, the Company signed a comprehensive partnership agreement with Uwajima City, Ehime Prefecture, regarding a regional revitalization project centered on the "utilization of closed schools" that solves both regional and business issues. The specific themes to be considered for implementation under this agreement are: 1) utilization of closed schools in Uwajima City as co-working spaces and shared offices; 2) implementation of training programs to develop service design human resources that will lead regional revitalization; 3) Utilizing the corporate hometown tax system, etc. to attract funds from companies that are highly interested in regional revitalization projects, build e-commerce sites that support local product sales, digital marketing support, and provide fan marketing. The impact of these projects on business results is minor, but by accumulating many such projects, the Company intends to contribute to society and achieve profit growth at the same time.

Shareholder return policy

Changing dividend policy from a stable dividend to a performance-linked dividend targeting a dividend payout ratio of 20%.

The Company pays dividends as a measure to return profits to shareholders, and recently announced a change to its dividend policy. Up until now, the Company's basic dividend policy was 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, but as profitability has recovered, the Company has decided to pay dividends with a target dividend payout ratio of approximately 20% going forward. Based on this policy, for FY3/23 the Company increased its dividend per share by ¥2.5 YoY to ¥5.75 (dividend payout ratio of 20.1%). For the FY3/24 dividend, the Company expects to increase the dividend once again by ¥0.25 to ¥6.0 (dividend payout ratio of 20.1%). The quantitative standard will be reviewed as appropriate going forward, comprehensively taking into account future changes in the external environment, financial conditions, business development, and other factors. Therefore, if the dividend payout ratio falls below 20% in the future, a dividend increase can be expected.



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

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