COMPANY RESEARCH AND ANALYSIS REPORT

Netyear Group Corporation

3622

Tokyo Stock Exchange Growth Market

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Contents

Summary

Aiming for growth through active utilization of generative AI technologies and collaboration with the NTT DATA Group

Netyear Group Corporation <3622> (hereafter, also "the Company") has publicly declared both internally and externally its full commitment to generative AI, and while continuing to promote improvements in UX/CX (user/customer experience), it is now also rapidly working to incorporate generative AI into the digital marketing measures of its client companies. In February 2019, the Company concluded a capital and business alliance agreement with NTT DATA Corporation (now an operating subsidiary of NTT DATA Group <9613>) and became a member of the NTT Group. One of its growth strategies is to generate synergies by combining NTT DATA's system development capabilities with the Company's ability to support businesses through the use of generative AI.

1. Overview of FY3/25 results

In FY3/25, the Company reported net sales of ¥3,377mn (down 7.0% year on year (YoY)) and operating income of ¥82mn (down 43.0%). Although net sales to non-NTT Group clients rose 1.1% YoY to ¥2,337mn, this was not enough to offset a 21.0% decline in net sales to the NTT Group to ¥1,040mn, resulting in a second consecutive year of lower revenue. On the profit front, although the Company worked to control SG&A expenses, the decline in gross profit due to lower sales had a significant impact. Compared to its initial forecast (¥4,100mn in net sales and ¥300mn in operating income), results fell short due to several missed large-scale orders in 2H, primarily caused by human resource constraints stemming from delays in hiring and training personnel.

2. FY3/26 forecasts

In the forecast for FY3/26, the Company is planning ¥3,500mn in net sales (up 3.6% YoY) and ¥100mn in operating income (up 21.0%), marking the first increase in sales and profits in three fiscal years. By leveraging its accumulated expertise in digital marketing across all stages of the full marketing funnel, together with generative AI technologies and tools, the Company aims to enhance service sophistication and broaden its offerings. It will also strengthen its digital marketing support services by promoting multi-channel strategies that span both digital and physical (e.g., in-store) domains. In addition, the Company plans to deepen collaboration with the NTT DATA Group in the generative AI domain. The fiscal year began with a higher order backlog than the same time last year, indicating a solid start, and the Company will continue to reinforce its personnel resources in pursuit of its performance targets.

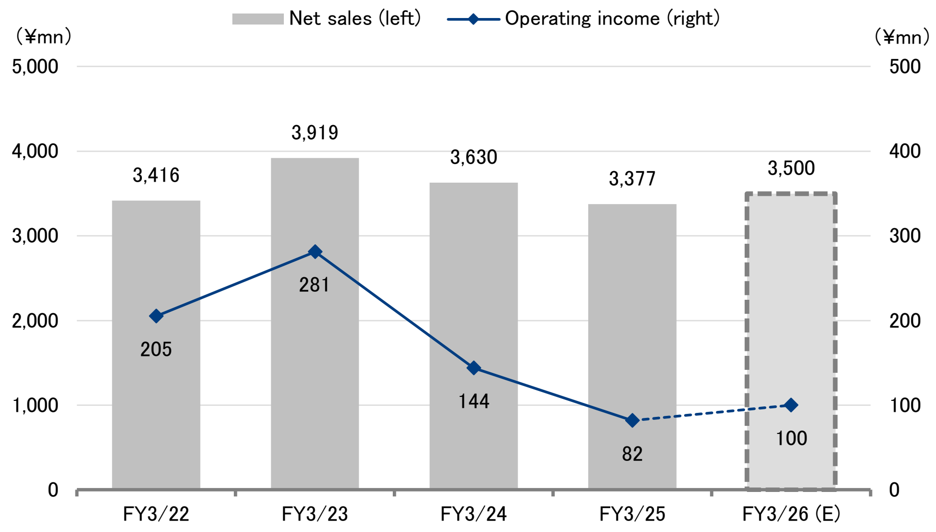
3. Growth strategy

As part of its growth strategy, the Company is focused on cultivating key clients. Rather than limiting itself to digital promotions, it provides services that unlock client potential—ranging from analyzing customer bases to executing loyalty marketing strategies. Through these efforts, the Company aims to increase the number of client companies that can generate annual revenue of around ¥500mn each. Currently, there are about four such companies, but the Company intends to expand this number to drive sustainable growth. Currently, although sales are small, amounting to tens of millions of yen, there are several companies that have the potential to grow to hundreds of millions of yen in the future. The Company is proactively integrating generative AI technologies into the digital marketing domain and strengthening its generative AI human resources. These efforts include reskilling programs within the Company as well as stepping up mid-career recruitment of talent with expertise in generative AI. It is also enhancing its brand by emphasizing its strengths. Following the appointment of a new president in June 2024, the internal mindset reforms that were a top priority appear to be taking root, and the Company is now expected to push forward with more aggressive business development. In June 2025, the Company announced its medium- to long-term management policy, including a three-year numerical plan starting from FY3/26. The shareholder return policy remains unchanged, with a stable dividend payout ratio of approximately 20% as a benchmark. For FY3/26, the Company plans to maintain its per-share dividend at ¥6.0, the same level as the previous fiscal year (dividend payout ratio of 60.9%).

Key Points

- Possesses comprehensive capabilities to support all stages of the full marketing funnel for client companies
- FY3/26 is expected to mark the first increase in sales and profits in three fiscal years
- Aims for medium- to long-term growth by strengthening digital marketing support services through the use of generative AI technologies

Results trends (non-consolidated)



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

Business overview

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

1. Company profile

The Company's vision is to "create the future society by utilizing generative AI. Everything starts from the user experience," and it develops Strategic Internet Professional Services (SIPS) that provide digital transformation (DX) and digital marketing support services for companies and public administration utilizing Internet technology. Specifically, the Company provides services such as proposing digital marketing measures, support for new business development, designs of ideal UX/CX, development of owned media and apps, operations of digital advertisements and SEO, sales, installation, and operation support for various types of marketing tools, and e-commerce (EC) development support. All of these services are characterized by their focus on supporting the growth of its client companies.

The Company was established in 1999 and listed shares on the Tokyo Stock Exchange (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 185 employees as of the end of FY3/25.

Strength lies in applying generative AI across the full marketing funnel to support client growth

2. Business description and strengths

The Company's business area is digital marketing which encompasses the entire customer journey, beginning with initial points of contact such as advertisements and social media, followed by owned media, EC sites, and apps, ultimately leading users to take action, such as making purchases. It then analyzes customer purchasing behavior to drive repeat visits and foster customer loyalty. 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.

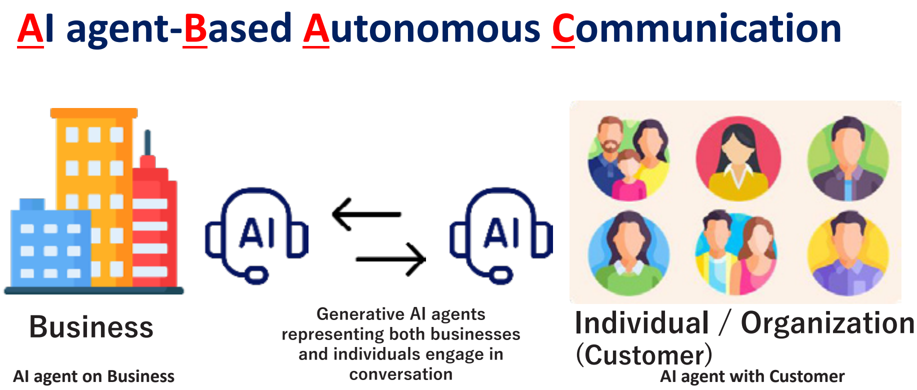
The Company's strength lies in its 26 years of accumulated experience working alongside clients to develop measures that promote their growth. With a track record of sincerely addressing the diverse challenges faced by client companies across different industries and sectors—and solving those challenges in collaboration with them—the Company has established a competitive edge that is difficult for rivals to match. Looking ahead, it plans to actively promote the use of generative AI not only to improve the efficiency and quality of conventional projects, but also to support the formulation of clients' digital strategies by helping build new types of relationships between companies and users through the use of AI agents.

3. Future communication model envisioned by the Company

The Company is advocating a next-generation model for marketing communication between businesses and consumers, known as the ABAC model*. Specifically, the Company envisions a near future in which a world will emerge where generative AI agents acting on behalf of consumers and generative AI agents representing companies engage in direct conversations with one another to fulfill a wide range of consumer needs. For example, suppose a consumer sees a polo shirt in a YouTube video before going to bed and asks their personal generative AI agent to find a similar item. While the consumer sleeps, their AI agent autonomously engages in conversations with the AI agents representing global apparel brands and shopping sites to locate a matching product. By morning, the polo shirt the customer was interested in might already be delivered to their doorstep. The Company anticipates such a future and has begun researching how to build the necessary technologies, systems, and databases to bring this vision to life.

* ABAC stands for AI agent-Based Autonomous Communication (trademark application pending).

ABAC model



Source: "DESIGN FOR THE FUTURE," the Company's items related to business plans and growth potential

4. Collaboration with NTT DATA in the utilization of generative AI

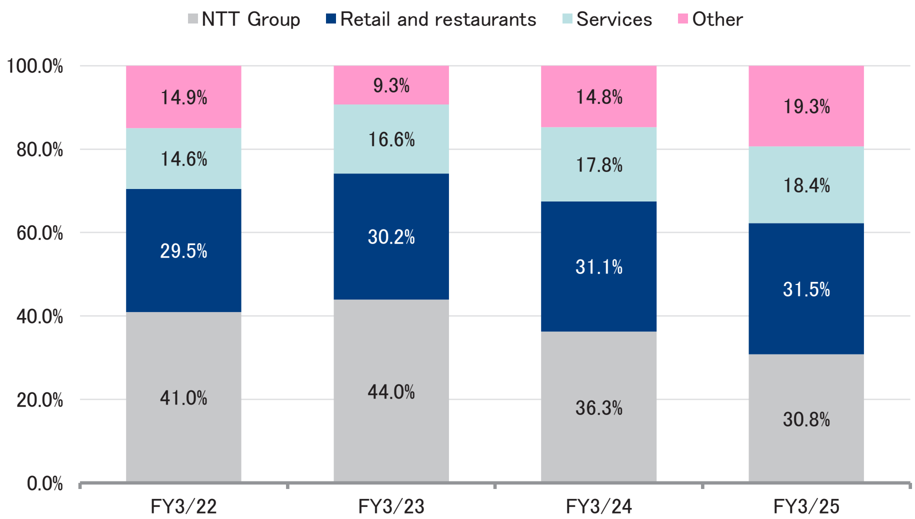
While the Company is stepping up its focus on the generative AI field, its parent company NTT DATA entered into a strategic partnership with OpenAI—a global leader in generative AI—in April 2025. As a member of the NTT DATA Group, the Company aims to fully leverage the Group's broad range of generative AI-related capabilities to gain a dominant position in the digital marketing market in the area of generative AI.

Main client companies

Source: “DESIGN FOR THE FUTURE,” the Company’s items related to business plans and growth potential

Over the four fiscal years through FY3/25, the breakdown of net sales by client segment has remained relatively consistent, with the NTT Group (centered on NTT DATA) accounting for 30–40%, the retail and restaurant sector around 30%, and the services sector in the 10% range. Since FY3/24, the ratio of sales to the NTT Group has declined from 44.0% in FY3/23 to 30.8% in FY3/25 due to the continued downsizing of specific projects with major NTT Group clients. In FY3/25, sales to NTT DATA accounted for 25.7%, while Starbucks Coffee Japan, Co., Ltd. accounted for 13.7%, with the two companies together making up just under 40% of total net sales. Many of the projects with NTT DATA involve collaboration in the telecommunications, finance, and public sectors. Although sales have declined for the past two fiscal years due to the downsizing or conclusion of large-scale projects, the Company remains committed to strengthening its collaboration and expanding sales going forward.

Sales breakdown by client company



Source: Prepared by FISCO from the Company’s annual securities reports

Results trends

Lower sales and profits in FY3/25 due to decrease in sales to NTT Group

1. Overview of FY3/25 results

The Company settled with decreased sales and profits, having reported FY3/25 results of ¥3,377mn in net sales (down 7.0% YoY), ¥82mn in operating income (down 43.0%), ¥83mn in ordinary income (down 42.3%), and net loss of ¥33mn (net profit of ¥106mn in the previous fiscal year), posting a decline in both sales and profit for the second consecutive fiscal year. Compared to the initial forecast, results also fell short by ¥722mn in net sales, ¥217mn in operating income, ¥215mn in ordinary income, and ¥238mn in net profit.

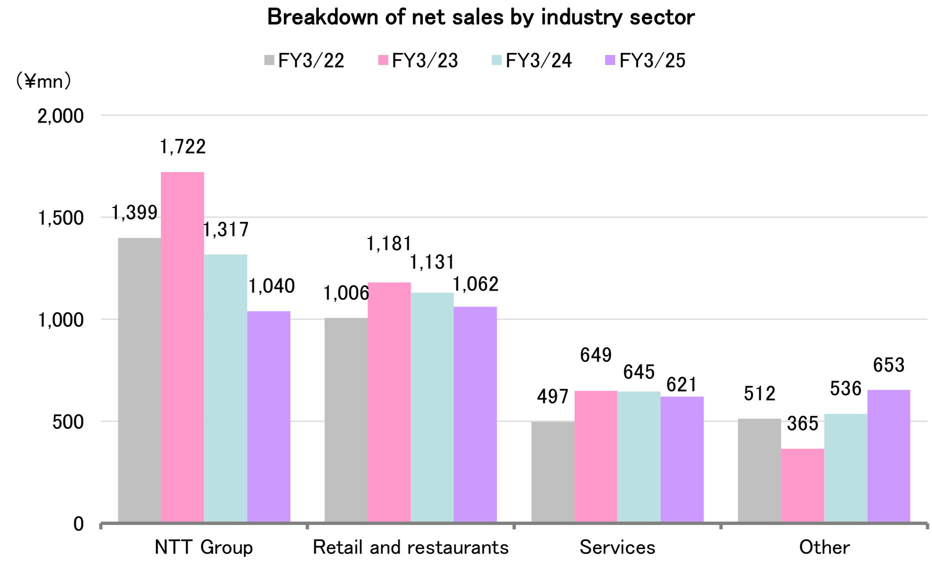
FY3/25 results

(¥mn)

	FY3/24		FY3/25			YoY		vs. forecast
	Results	% of net sales	Initial forecast	Results	% of net sales	Change (%)	Change amount	
Net sales	3,630	-	4,100	3,377	-	-7.0%	-252	-722
Cost of sales	2,813	77.5%	-	2,693	79.8%	-4.2%	-119	-
Gross profit	817	22.5%	-	683	20.2%	-16.3%	-133	-
SG&A expenses	672	18.5%	-	601	17.8%	-10.6%	-71	-
Operating income	144	4.0%	300	82	2.4%	-43.0%	-62	-217
Ordinary income	144	4.0%	299	83	2.5%	-42.3%	-60	-215
Extraordinary income/ losses	-	-	-	-90	-	-	-90	-
Net profit	106	2.9%	205	-33	-	-	-139	-238
Numbers of employees at the end of FY	189			185		-2.1%		

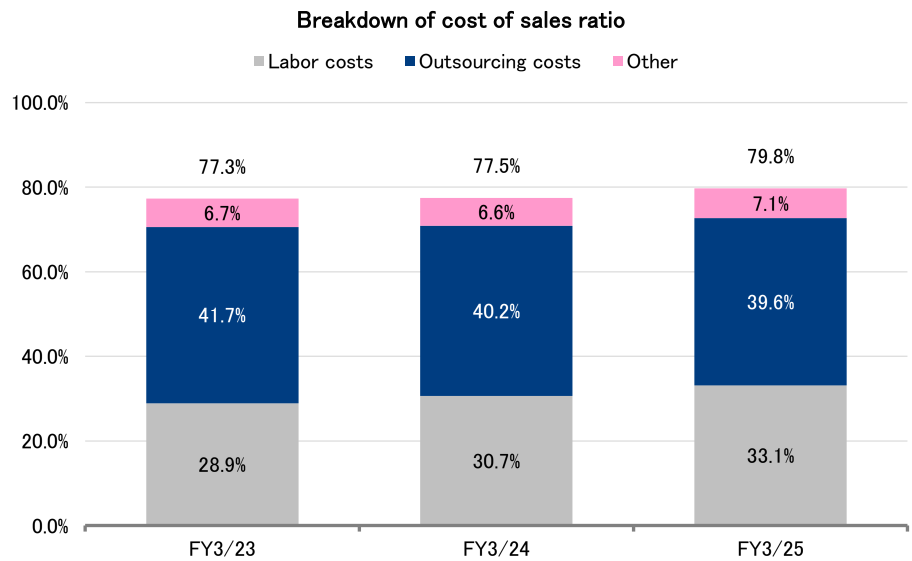
Source: Prepared by FISCO from the Company's financial results

The main factors behind the decline in sales were the lower order backlog at the beginning of the fiscal year—¥667mn compared to ¥909mn in the previous fiscal year—and a continued drop in net sales to the NTT Group, which fell 21.0% YoY to ¥1,040mn due to the downsizing or termination of large-scale projects, marking the second consecutive year of decline. Outside the NTT Group, net sales to the retail and restaurants sector declined 6.1% YoY to ¥1,062mn, and net sales to the services sector fell 3.7% YoY to ¥621mn, while sales to other sectors increased 21.8% YoY to ¥653mn. By individual major client, sales to NTT DATA declined 22.5% YoY to ¥869mn, while sales to Starbucks Coffee Japan increased 3.3% YoY to ¥462mn. The retail and restaurants, and services sectors all saw year-on-year declines for a second straight year, due in part to a slowdown in EC market growth following the end of the COVID-19 pandemic, which led many companies to redirect their investment budgets toward physical store development. Additionally, the growing prevalence of complex, large-scale projects exposed a shortage of human resources needed to win such orders, resulting in the loss of several major projects originally anticipated in the second half of the fiscal year. These factors contributed to the decline in sales and shortfall versus the initial forecast.



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

The cost of sales ratio rose 2.3 percentage points (pp) YoY to 79.8%, and gross profit declined ¥133mn YoY to ¥683mn. The main factor behind the increase in the cost of sales ratio was a 2.5pp rise in the labor cost ratio due to a decline in engineer utilization rates stemming from lower sales. While the outsourcing cost ratio improved by 0.6pp, other cost of sales items—including software usage fees, service charges, and rent—rose 0.4pp. Additionally, the Company's efforts to compensate for reduced large-scale project revenues by accumulating smaller projects also contributed to the rise in the cost of sales ratio. SG&A expenses declined by ¥71mn YoY, reflecting efforts to reduce recruitment and other costs, but this was not enough to offset the drop in gross profit. The Company also recorded a ¥90mn loss on valuation of investment securities as extraordinary losses, reflecting a decline in the net assets of a capital and business alliance partner—equal to the full acquisition cost of the investment. However, the collaboration with the partner is ongoing. The number of employees at the end of FY3/25 decreased by 4 from the previous fiscal year-end to 185, indicating that reinforcing personnel resources remains a key challenge going forward.



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

Debt-free management with equity ratio in the 80% range and sound financial position

2. Financial position and management indicators

Looking at the financial standing at the end of FY3/25, total assets were down ¥52mn from the previous fiscal year-end to ¥3,135mn. The main changes in current assets were increases of ¥27mn in cash and deposits and ¥20mn in contract assets. Meanwhile, in non-current assets, investment securities decreased ¥90mn.

Total liabilities increased ¥22mn from the previous fiscal year-end to ¥494mn. While accounts payable decreased ¥24mn, provision for bonuses fell ¥20mn, and deposits received declined ¥11mn, accounts payable-trade rose ¥74mn. Total net assets decreased ¥75mn YoY to ¥2,641mn, mainly due to a ¥33mn net loss and the payment of ¥41mn in dividends, which reduced retained earnings.

Regarding management indicators, the equity ratio remained high at 84.2%, and with no interest-bearing debt and ¥2,188mn in cash and deposits—an adequate level relative to the scale of operations—the Company is considered to be in a sound financial position. It plans to use its cash on hand for growth investments, including M&A and alliances, as well as for shareholder returns. M&A and alliance targets include companies with advanced technologies or human resources in AI and big data. The Company’s strategy is to efficiently expand its business by supplementing currently lacking resources through such partnerships.

Balance sheets

(¥mn)

	End-FY3/22	End-FY3/23	End-FY3/24	End-FY3/25	Change
Current assets	3,005	3,075	3,003	3,049	46
Cash and deposits	1,962	2,220	2,160	2,188	27
Non-current assets	116	101	185	86	-99
Total assets	3,122	3,176	3,188	3,135	-52
Current liabilities	643	520	464	488	24
Non-current liabilities	5	5	7	5	-1
Total liabilities	648	525	471	494	22
Interest-bearing debt	-	-	-	-	-
Net assets	2,474	2,651	2,717	2,641	-75
<Stability>					
Equity ratio	79.2%	83.5%	85.2%	84.2%	-1.0pp
Interest-bearing debt ratio	-	-	-	-	-
<Profitability>					
ROA	7.5%	8.9%	4.5%	2.6%	-1.9pp
ROE	26.4%	7.8%	4.0%	-	-
Operating income margin	6.0%	7.2%	4.0%	2.4%	-1.6pp

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

Outlook

For FY3/26, the Company is expected to mark the first increase in sales and profits in three fiscal years

1. FY3/26 forecasts

In the forecast for FY3/26, the Company is planning ¥3,500mn in net sales (up 3.6% YoY), ¥100mn in operating income (up 21.0%), ¥100mn in ordinary income (up 20.3%), and ¥69mn in net profit (net loss of ¥33mn in the previous fiscal year), marking the first increase in both sales and profit in three fiscal years. Corporate appetite for investment in digital transformation (DX) remains firm, and demand in the digital marketing domain where the Company operates is expected to stay strong.

FY3/26 forecasts

(¥mn)

	FY3/25		FY3/26		
	Results	% of net sales	Forecast	% of net sales	YoY
Net sales	3,377	-	3,500	-	3.6%
Operating income	82	2.4%	100	2.9%	21.0%
Ordinary income	83	2.5%	100	2.9%	20.3%
Net profit	-33	-	69	2.0%	-
Net profit per share (¥)	-4.82		9.86		

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

In this environment, the Company will leverage its strength in full-funnel marketing expertise to broaden its service offerings in the digital marketing domain through the use of generative AI tools. It will also promote multi-channel strategies that span both digital and physical channels (such as retail stores). On the sales side, the Company aims to achieve higher sales and profits by strengthening its collaboration with NTT DATA and other Group companies. While certain projects routed through NTT DATA are expected to see either slight declines or remain flat, sales to other major clients are projected to increase. On the development front, the Company plans to co-create with a diverse range of partner companies to develop products and new services that utilize digital and generative AI technologies.

A key challenge for the Company is strengthening its human resources. Given the high mobility of digital talent, the Company sees around a dozen employees leave each year. Mid-career hiring and in-house training will therefore be critical to its growth in order to compensate for this. The Company has suspended new graduate recruitment as of 2024, as it believes the return on investment is currently negative—due to the time it takes for new graduates to become productive and the risk that they may leave shortly thereafter, even after reaching that stage. Going forward, the Company plans to promote the company-wide use of generative AI and continue efforts to strengthen its talent base.

On the profit front, the Company expects higher profits driven by an improved gross profit margin resulting from increased sales and continued control of SG&A expenses. Considering that the order backlog at the beginning of the fiscal year is higher than the same time last year, along with favorable market conditions and the current level of human resources, the ¥3,500mn net sales forecast appears conservative. FISCO believes this reflects the Company's intention to lay the groundwork for actions necessary to achieve medium- to long-term growth.

Aiming for medium- to long-term growth by strengthening digital marketing support services through the use of generative AI technologies

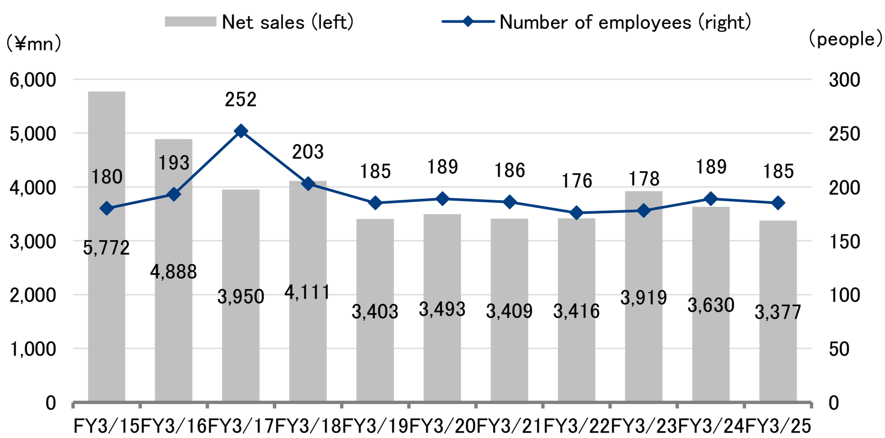
2. Growth strategy

While the Company has long pursued business expansion by leveraging its expertise in UX/CX design and digital technologies, it now aims to accelerate growth by actively incorporating generative AI technologies and tools into its offerings. By doing so, it seeks to support client companies in promoting digital transformation (DX) and provide highly cost-effective digital marketing support services. The Company plans to integrate generative AI technologies into all phases of the PDCA cycle—from UX/CX design to implementation and improvement—striving to both enhance project efficiency and deliver higher added value. Under the strong leadership of Ryuzo Hironaka, who was appointed President in June 2024, this initiative is being fully promoted, and its future developments are drawing attention. To achieve sustainable growth, the Company has identified five key challenges: securing and developing human resources, expanding service areas, utilizing generative AI technologies, collaborating with the NTT DATA Group, and strengthening branding.

(1) Securing and developing human resources

In the IT industry, talent mobility is high, and the chronic shortage of IT engineers continues amid growing demand for DX-related investment, making it increasingly difficult to secure skilled personnel. The Company also faces a shortage of IT engineers—particularly those with specialized skill sets—due to the rising complexity and sophistication of projects. In the previous fiscal year, this led to several cases where the lack of specific technical capabilities resulted in lost orders. Based on the new three-year medium-term plan launched in FY3/26, it can be inferred that the Company's ability to secure engineers with generative AI expertise—an area where demand is expected to grow further—will be a decisive factor in whether it can realize its envisioned growth scenario. The Company plans to strengthen in-house hiring efforts more than ever before while also cooperating closely with NTT DATA Group companies to improve flexibility in human resource sharing.

Trends in non-consolidated net sales and number of employees at fiscal year-end



Source: Prepared by FISCO from the Company's annual securities reports

The Company also plans to take a medium- to long-term perspective in identifying key personnel who will drive the business, securing and developing them strategically, and establishing HR systems and other frameworks to maximize their performance.

(2) Expanding service areas

The Company plans to further expand and deepen its full-funnel digital marketing domain, which is one of its core strengths. In the past, it often handled only specific stages within the full funnel, but going forward it aims to broaden its scope into adjacent areas—extending from customer acquisition to customer relationship management (CRM), analyzing digital data, and then rolling out new promotional initiatives. One example of this is in the hotel industry, where the Company has analyzed customer data, proposed scenarios for cultivating loyal customers, and carried out targeted promotions and campaigns that have delivered tangible results.

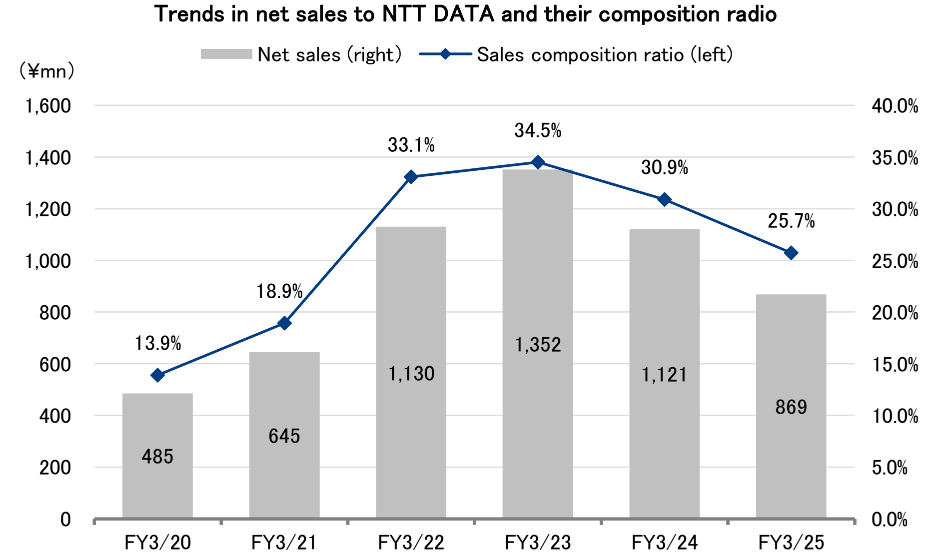
Going forward, the Company plans to incorporate generative AI technologies into such initiatives to further improve project efficiency and added value, thereby enhancing support for client businesses.

(3) Utilizing generative AI technologies

The Company will align generative AI technologies with each client's growth scenario, proposing the appropriate tools and technologies for each project, supporting their implementation, and applying generative AI across all stages of service—from design and implementation to operation. One example of how generative AI is used is during the hypothesis-testing phase of owned media design. In this phase, user behavior histories across various attributes are analyzed, and by leveraging generative AI, the Company can reasonably infer behavioral patterns by user group, enabling greater efficiency and speed in the process. The Company has established a dedicated internal department to promote generative AI, with the goal of accumulating and disseminating more advanced expertise while also encouraging external collaboration and co-creation.

(4) Collaborating with the NTT DATA Group

Since entering into a capital and business alliance with NTT DATA, the Company has achieved tangible results in areas such as project expansion and new client acquisition by leveraging NTT DATA's customer base and technological capabilities. Going forward, FISCO will be watching closely to see how synergies can be realized in the field of generative AI technologies. At present, the majority of sales to NTT DATA come from digital marketing support projects for telecommunications companies. However, the Company now aims to expand its services and transaction scale with infrastructure companies and financial institutions for which the NTT Group is developing core systems, focusing on digital marketing as a key offering. Generative AI is also a priority area for NTT DATA, and FISCO believes this presents a strong opportunity for creating even greater synergies.



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

(5) Strengthening branding

As the Company moves to further enhance its use of generative AI technologies and tools and roll out new services that will form the foundation of future business, it also plans to strengthen external communications to ensure appropriate recognition from stakeholders, including clients. By steadily building a track record of delivering new value-added services using generative AI for corporate clients, the Company aims to enhance its appeal in both sales and recruitment activities.

(6) Medium-term growth outlook

Looking ahead, the Company's strategy is to expand earnings while building a management foundation that will enable sustainable growth, with FY3/25 marking the low point. Its medium- to long-term management strategy, announced in June 2025, is notably ambitious.

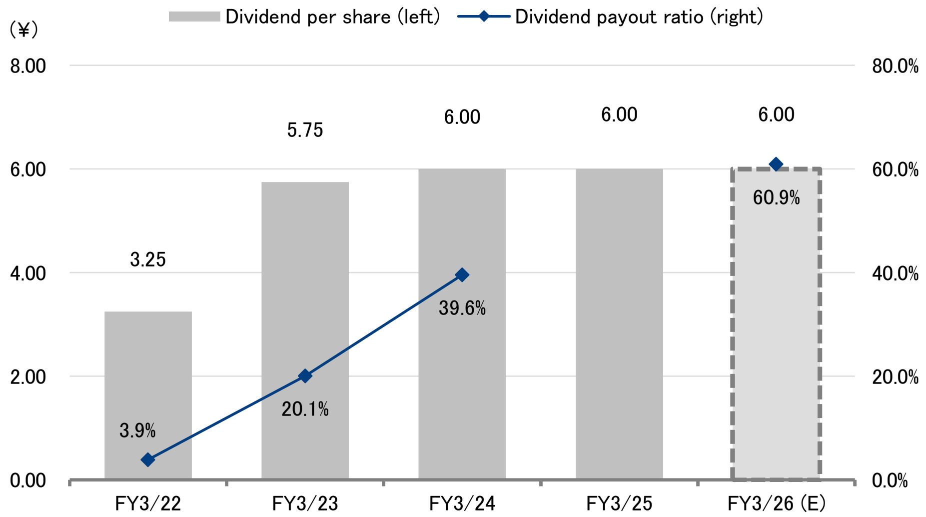
Previously, the Company aimed to cultivate around 10 key clients capable of generating stable annual net sales of approximately ¥500mn each, and to achieve an operating margin of over 10%. As of FY3/25, it appears that around four such key clients had been secured. From FY3/26 onward, the Company will work to increase the number of key clients to drive sustainable growth. At the same time, a major focus will be how it proposes and wins orders for generative AI technologies with existing clients—leveraging those technologies to deliver high value-added services, enhance competitiveness, and place earnings on a growth trajectory.

Shareholder return policy

Stably and continuously pay dividends with a target dividend payout ratio of approximately 20%

The Company pays dividends as a measure to return profits to shareholders. In FY3/23, the Company decided on a basic dividend policy of stably and continuously paying dividends with a target dividend payout ratio of approximately 20%. Based on this policy, although a net loss was recorded for FY3/25, the Company paid a dividend of ¥6.0 per share, the same amount as the previous fiscal year. For the FY3/26 dividend, the Company expects to maintain the same dividend as in FY3/25 of ¥6.0 (dividend payout ratio of 60.9%). The Company will likely consider increasing the dividend if the dividend payout ratio were to drop below 20%. The quantitative standard will be reviewed as appropriate going forward, comprehensively taking into account future changes in the external environment, financial condition, business development, and other factors.

Dividend per share and dividend payout ratio



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

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