

COMPANY RESEARCH AND ANALYSIS REPORT

NSW Inc.

9739

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Summary

In FY3/26, operating profit declined though it exceeded the initial forecast, and a substantial dividend increase was implemented

NSW Inc. <9739> (hereafter, also “the Company”) is an independent IT solutions provider listed on the Prime Market of the Tokyo Stock Exchange (hereafter “TSE”) and an engineering group in which engineers account for nearly 90% of all employees. The Company categorizes businesses into the four segments of Enterprise Solutions, Services Solutions, Embedded Solutions, and Device Solutions. Under its medium-term management plan (FY3/26 to FY3/28), the Company aims to strengthen its competitiveness by advancing growth strategies.

1. Overview of FY3/26 results

In the FY3/26 consolidated results, net sales were ¥52,431mn (up 4.8% year on year (YoY)), operating profit was ¥5,290mn (down 13.5%), ordinary profit was ¥5,533mn (down 10.3%), and profit attributable to owners of parent was ¥3,709mn (up 1.3%). Net sales reached a record high, and although operating profit declined as initially planned, it still exceeded the initial forecast. The decline in operating profit was primarily attributable to higher SG&A expenses, including advertising and promotional costs aimed at strengthening the Company’s brand and rent and lease expenses incurred to improve the workplace environment. By segment, Enterprise Solutions and Services Solutions posted significant declines in operating profit due to higher expenses and the impact of unprofitable projects. Embedded Solutions also recorded a decline in operating profit due to higher expenses, although the decline was limited as performance exceeded the plan. In contrast, Device Solutions performed strongly and achieved growth in operating profit. Furthermore, the equity ratio increased to 76.9%, maintaining a level of financial soundness well above the industry average. FISCO notes that the Company raised its target dividend payout ratio from 30% to 50% beginning in FY3/26 and increased the annual dividend to ¥125 per share, up ¥40 from the previous fiscal year, demonstrating its commitment to shareholder returns.

2. FY3/27 forecasts

For the consolidated results in FY3/27, the Company forecasts net sales of ¥54,000mn (up 3.0% YoY), operating profit of ¥5,400mn (up 2.1%), ordinary profit of ¥5,450mn (down 1.5%), and profit attributable to owners of parent of ¥3,750mn (up 1.1%). This forecast is cautious as it takes into account uncertainty surrounding the economic outlook. To realize future growth, the Company is focusing on business expansion and human resources development and it plans to actively invest in measures related to these aims. By segment, Enterprise Solutions is expected to post a decline in profit due to the transfer of certain operations to Services Solutions. Services Solutions is expected to achieve profit growth, driven by efforts to improve profit margins. For Embedded Solutions and Device Solutions, profits are expected to remain largely flat, reflecting factors such as rising personnel costs. However, the Company has a strong tendency to initially announce conservative forecasts, so FISCO thinks there is a high likelihood that the Company’s results will achieve its forecasts. For FY3/27, the annual dividend is expected to remain unchanged at ¥125 per share, based on the target dividend payout ratio of 50%.

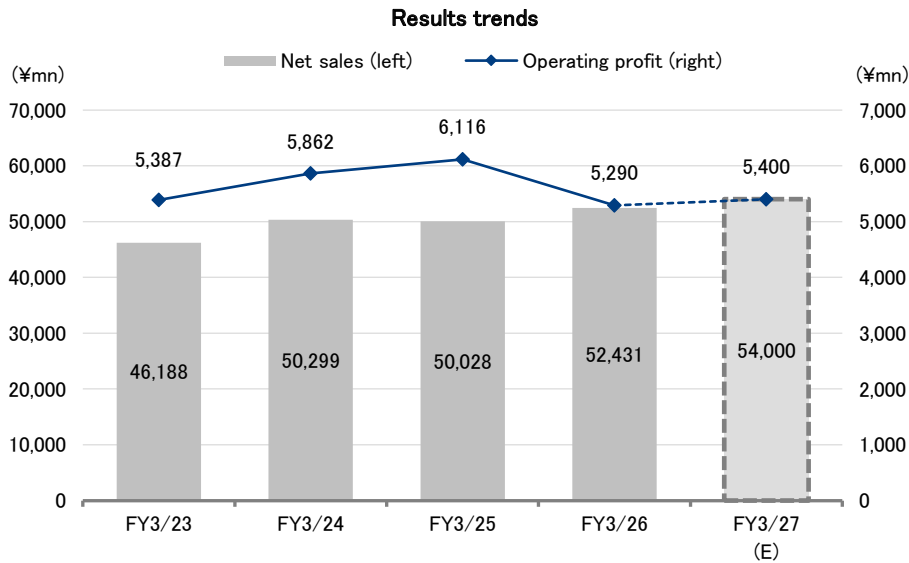
Summary

3. Medium-term management plan

The Company’s long-term vision is to achieve net sales of ¥100.0bn. Its current medium-term management plan (FY3/26 to FY3/28) is based on the concept of “DRIVE DX × Change The Standard.” The targets for FY3/28, the final year of the plan, include net sales of ¥60.0bn (compound annual growth rate (CAGR) of an increase of 6.25%), an operating profit margin of 12%, and ROE of 10% or higher. To achieve these targets, it will pursue business strategies to realize growth in focus areas in each segment, management foundation strategies to strengthen recruitment and promote sustainability, and an investment strategy to advance investment which facilitates the business and management foundation strategies. The Company is steadily advancing its business strategy initiatives, and FISCO will continue to monitor the progress made on this medium-term management plan.

Key Points

- Reported higher net sales but lower profits, while still exceeding the initial forecast. Implemented a significant dividend increase by raising the target dividend payout ratio to 50%
- Conservatively forecasts flat earnings for FY3/27 due to higher expenses associated with continued investment in future growth. Expects dividends to remain unchanged from the previous fiscal year
- The medium-term management plan includes business strategies, management foundation strategies, and an investment strategy with the target of achieving net sales of ¥60.0bn and an operating profit margin of 12% in FY3/28



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

■ Company profile

Aims to create and provide excellent systems to enrich society

1. Company profile

In the Company Group, based on its corporate philosophy of “Humanware By Systemware,” which expresses its desire to leverage the individuality, sensibility, and creativity of each and every employee to the greatest possible extent to create excellent systems that will enrich society, the Company has set the “NSW Way” as its code of conduct. This code involves always seeing ahead of the times, customer-centric business concepts, ideas for utilizing human resources that leverage their potential to the greatest extent, a spirit of self-reliance and a polite, humble and sincere corporate culture, and a corporate vision that contributes to society.

In addition to the Company itself, the Company’s Group consists of three wholly-owned consolidated subsidiaries; NSS, Inc., which conducts businesses including system development and infrastructure construction; in China, NSW China Co., Ltd., which conducts businesses including embedded development; and NSA, Inc., a special subsidiary for the employment of people with disabilities that provides general agency services and support services.

The Company’s business base is located to the west of Tokyo, but it has customers throughout the country, including government offices and public organizations, and also many major companies, such as in the manufacturing and distribution industries. When it was first established, transactions were highly concentrated with the NEC Corporation <6701> Group, but alongside the expansion of the customer base, this percentage has fallen to 11.0% of net sales in FY3/26, and the scope of customers for transactions has widened yearly. The Chinese subsidiary mainly covers Japanese companies that are entering the local Chinese market. Additionally, it opened the Taiwan office (representative office) in April 2018, and this office seeks to recruit customers and conducts local surveys in the Taiwanese market, a global site for semiconductor production, assembly, and testing.

The Company Group is an engineering group with a total of 2,536 employees and nearly 90% of its workforce comprises of engineers as of the end of FY3/26. Additionally, effective April 2026, Shoji Tada serves as Chairman, Representative Director and CEO, while Daisuke Takemura serves as President, Representative Director and COO. Together, they will lead the Company toward achieving the goals of its medium-term management plan.

2. History

The Company started in 1966 as an independent software house, with a software development business and an outsourced computing business. Subsequently, in 1968 it started an operation management services business, and in 1978, a development business for firmware and logic circuits. Alongside the evolution of IT technologies, its business areas have expanded, including that it started a systems integration business in 1990, a data center business in 1998, a cloud service business in 2009, and an IoT/M2M business in 2013.

During this period, the Company changed its name to NIPPON SYSTEMWARE CO., LTD., in 1982. It began the over-the-counter trading of its shares in 1996 and opened the Yamanashi IT Center in August 1998 with the funds obtained from the market. It was listed on the TSE 2nd Section in April 1999, its listing was upgraded to the TSE 1st Section in March 2000, and it celebrated the 50th anniversary of its establishment in FY3/16. In April 2022, its listing was changed to the Prime Market following the TSE’s reorganization of market categories. Moreover, toward taking a leap forward to a new stage, it changed its company name to NSW in August 2022. Similarly, in January 2023, it changed the names of the three consolidated subsidiaries.

■ Business overview

Leveraging its features to the greatest possible extent, the Company aims for development in the four business areas

1. The Company's features

The Company conducts four solutions businesses—Enterprise Solutions, Services Solutions, Embedded Solutions, and Device Solutions and it is aiming to expand DX-related business that leverages the technological synergies from these businesses. Its major strength is that it has technologies and expertise for both software and for hardware.

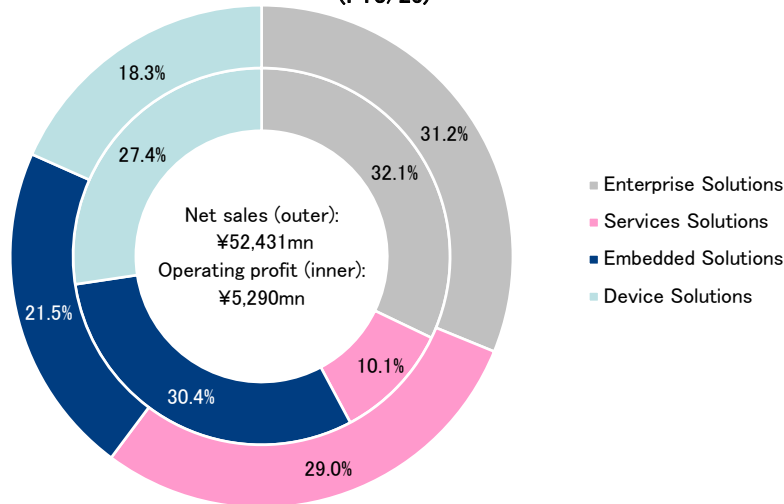
The Company's strengths include its accumulated industry and business expertise and systems-construction capabilities that it has cultivated in the Enterprise Solutions business in various industrial fields; service coordination capabilities and a foundation to provide infrastructure and platforms such as cloud environments in the Services Solutions business; product development capabilities, including for embedded software and LSI design and image processing technologies, in the Embedded Solutions and the Device Solutions business. The Company's major strength is that it has a core structure that enables it to support the DX sought by customers, centered on digital technology such as IoT and AI that leverages those synergies, and it utilizes all these strengths for growth in the future.

2. Business description

Looking at net sales and operating profit by segment in FY3/26, the Enterprise Solutions business provided 31.2% of net sales and 32.1% of operating profit; these figures are 29.0% and 10.1% for the Services Solutions business, 21.5% and 30.4% for the Embedded Solutions business, and 18.3% and 27.4% for the Device Solutions business, respectively. It is considered that the reasons why the Embedded Solutions business and the Device Solutions business provide comparatively high profit margins is that the technological barriers to enter these businesses are high and there are few independent companies of the same scale as the Company conducting these businesses. Also, in the Enterprise Solutions business, various initiatives, including improving profitability and limiting unprofitable projects, are proving successful and the profit margin has improved significantly in recent years. Conversely, the profit margin of the Services Solutions business, which became an independent segment starting from FY3/20, remains comparably low because the business is currently undertaking efforts to bolster its structure, upfront investment for developing new services, and responses to unprofitable projects.

Business overview

Net sales and operating profit by segment (FY3/26)



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

The Enterprise Solutions business provides operations-related solutions. Utilizing the business expertise cultivated over many years, such as for the manufacturing, distribution, finance and insurance industries, and for government offices, the Company provides optimized solutions for its customers, from consulting through to systems design, development, maintenance, and operations.

Services Solutions provides IT services and IoT & AI services. IT services are a variety of services that support customers' systems, from servers and network designs that maximize systems' performance and the construction of secure environments, through to highly reliable management and monitoring by urban- and suburban-type data centers. Also, the IoT & AI services utilize their strength of enabling total coordination, from devices through to the cloud, and based on the Toami IoT cloud platform, support customers' creation of new business value, from collecting data through to its analysis and utilization.

Embedded Solutions develops embedded systems and provides edge device solutions. In embedded systems development, the Company responds to demand for product diversification, increased efficiency and improved design quality and for smart products by using the embedded technologies it has cultivated for app, middleware and driver development as a result of developing a wide range of products for the automotive and industrial sectors, amongst others. In addition, in edge device solutions, it proposes optimal IoT environments to customers that keep down costs from small starts through its abundant design and development capabilities that enables it to respond in-house, for from embedded apps through to LSI, and through alliances with various sensor and device vendors.

Device Solutions develops LSI and FPGA (integrated circuits in which the purchasers and designers can set the configuration after manufacturing). It provides solutions according to requirements, including for high-level designs, logic designs and verification, logical synthesis, layout designs, manufacturing, and testing. It is responding for lower-power consumption designs and advanced processes in various fields, such as for image processing and communication controls.

Business overview

The business field that holds significant expectations to become a new pillar of earnings by combining its expertise in the above-described four segments is the DX-related business that focuses on digital technologies such as IoT and AI. Currently, the Company conducts the business while including it in the revenue of the existing segments. Centering on Toami, an IoT cloud platform that began selling in May 2013, a major strength of the Company is having the capability to accommodate everything from development and analysis services necessary for IoT to embedded apps, starting with wireless and sensor technology, to LSI design. The Company's Toami has a track record of introductions into more than 100 companies in total, mainly for the realization of IoT-accessible products. The number of alliance partners has also grown to more than 30 companies and it provides it in more than 30 countries worldwide. Inquires for related services, such as for an analysis service to effectively utilize the data collected through IoT, are also strong. Toami is being utilized by companies including Panasonic Holdings Corporation <6752>, Nipron Co., Ltd., EXEO Group, Inc. <1951>, Tohoku Energy Service Co, Inc., Watanabe Electric Industry Co., Ltd., Renesas Electronics Corporation <6723>, NEC Networks & System Integration Corporation, RION Co., Ltd. <6823>, and Japan Radio Co., Ltd.

Results trends

In FY3/26, operating profit declined though it exceeded the initial forecast

1. Overview of FY3/26 results

The Japanese economy continued to recover gradually in FY3/26, due to improved employment and income conditions, as well as the effects of various policies. On the other hand, there were many factors giving rise to concerns about an economic downturn, including trade policy trends in the United States, China, and other countries, as well as soaring energy and raw material prices resulting from the deteriorating situation in the Middle East, making it necessary to closely monitor future developments. Against this backdrop, in the information services industry, investment appetite for digital transformation (DX) initiatives aimed at improving productivity and enhancing competitiveness among businesses—including the growing adoption of AI—remained strong, and demand for IT investment continued to be robust.

Under these circumstances, in the Company's FY3/26 consolidated results, net sales were ¥52,431mn (up 4.8% YoY), operating profit was ¥5,290mn (down 13.5%), ordinary profit was ¥5,533mn (down 10.3%), and profit attributable to owners of parent was ¥3,709mn (up 1.3%). Net sales reached a record high, and while operating profit decreased as initially planned, it still finished above the initial forecast. The increase in net sales was largely driven by growth in Services Solutions. Gross profit was affected by higher cost of sales associated with unprofitable projects, but increased to ¥10,762mn (up 2.4% YoY), reflecting sales growth. The decline in operating profit was primarily attributable to a significant increase in SG&A expenses to ¥5,472mn (up 24.5% YoY), driven by higher personnel costs resulting from wage increases, advertising and promotional expenses aimed at strengthening the Company's brand for future growth, and rent and lease expenses incurred to improve the workplace environment. The slight increase in profit attributable to owners of parent reflected a rebound from the loss on valuation of securities recorded in the previous fiscal year. Furthermore, orders received, which support future sales growth, remained robust at ¥52,957mn (up 3.4% YoY), indicating that the Company's business scale continues to expand steadily. The Group can be said to have a broad range of customers and is continuing to grow in a stable manner regardless of the operating environment.

Results trends

FY3/26 consolidated results

(¥mn)

	FY3/25		Initial forecast	FY3/26		YoY		vs. forecast	
	Results	% of net sales		Results	% of net sales	Increase (decrease)	% change	Increase (decrease)	% change
Net sales	50,028	-	51,000	52,431	-	2,403	4.8%	1,431	2.8%
Cost of sales	39,518	79.0%	-	41,669	79.5%	2,151	5.4%	-	-
Gross profit	10,510	21.0%	-	10,762	20.5%	252	2.4%	-	-
SG&A expenses	4,394	8.8%	-	5,472	10.4%	1,078	24.5%	-	-
Operating profit	6,116	12.2%	5,100	5,290	10.1%	-826	-13.5%	190	3.7%
Ordinary profit	6,168	12.3%	5,140	5,533	10.6%	-635	-10.3%	393	7.7%
Profit attributable to owners of parent	3,662	7.3%	3,540	3,709	7.1%	47	1.3%	169	4.8%

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

Enterprise Solutions and Services Solutions reported a significant decline in profits

2. Overview by segment

(1) Enterprise Solutions business

In the Enterprise Solutions business, net sales were ¥16,349mn (up 4.9% YoY), operating profit was ¥1,698mn (down 25.6%), and the operating profit margin was 10.4% (down 4.3 percentage points (pp)). Net sales increased due to growth in system development projects for the retail industry, primarily from existing customers, as well as increased demand from the finance and insurance industries and government offices. Operating profit declined significantly due to higher expenses and the impact of unprofitable projects incurred in the third quarter. However, performance is generally progressing as planned in line with the initial forecast for the fiscal year. In addition, orders received were ¥16,277mn (up 1.8%), the order backlog was at ¥6,511mn (down 1.2%).

Breaking down net sales, sales of solutions for the financial industry and public sector were ¥8,293mn (up 13.9% YoY). In the financial and insurance sectors, the life and non-life insurance segments expanded significantly and drove overall growth, while the government agency and public organization segments also performed well, supported by increased system development projects for government agencies, including the digitization of administrative procedures. Meanwhile, sales of Business Solutions totaled ¥6,281mn (down 1.8% YoY). Sales to the manufacturing and logistics industries declined YoY due to the impact of unprofitable projects in the logistics field and the resulting missed business opportunities; however, sales to retail industry customers remained steady as the Company focused on retaining and expanding its major customer base. Furthermore, although sales of system equipment tend to be concentrated in the second half of the fiscal year, sales declined to ¥1,774mn (down 6.8% YoY), partly due to restrained IT investment by major existing customers. In particular, sales of equipment associated with new store openings in the retail industry, such as POS systems and cash registers, declined.

Results trends

(2) Services Solutions business

In the Services Solutions business, net sales were ¥15,218mn (up 6.0% YoY), operating profit was ¥533mn (down 35.8%), and the operating profit margin was 3.5% (down 2.3pp). Net sales increased due to strong performance in IoT system development and data management-related services. Operating profit, however, declined significantly due to higher expenses and the impact of unprofitable projects incurred during the period. This segment became an independent segment starting from FY3/20, and the operating profit margin was lower than those of the other three segments due to the impact of efforts to strengthen the structure targeting business expansion along with upfront investments to develop new services, and measures taken to address unprofitable projects. Although efforts to acquire new customers can sometimes result in unprofitable projects, the Company is reducing such projects by improving the accuracy of its cost estimates, strengthening quality control, and implementing stricter reviews by headquarters during the order acceptance process. Meanwhile, orders received totaled ¥15,317mn (up 3.4% YoY), while the order backlog stood at ¥7,121mn (up 1.4%), with both continuing to show steady growth.

Looking at a breakdown of net sales, digital solutions recorded ¥4,992mn (up 12.6% YoY). Regarding IoT and AI, IoT systems development for the manufacturing industry performed well, contributing on both the sales and profit front. Meanwhile, the web and e-commerce segments continued to experience unprofitable projects, which negatively impacted profitability. In response, the Company is working to prevent a recurrence by strengthening its management systems. Net sales from cloud and infrastructure services totaled ¥10,225mn (up 3.0% YoY). The cloud business performed steadily, driven primarily by cloud integration. Additionally, data management services continued to perform well, and the Company is conducting activities in anticipation of initiatives that will leverage AI.

(3) Embedded Solutions business

Net sales were ¥11,250mn (up 1.6% YoY), operating profit was ¥1,609mn (down 6.6%), and the operating profit margin was 14.3% (down 1.2pp). The profit margin maintained a high level. Net sales increased due to steady performance in the automotive and industrial sectors. Although the growth rate slowed, net sales exceeded the plan. Operating profit declined due to higher expenses; however, through steady efforts to build up profits, the Company finished above the plan. Additionally, productivity improved due to the efforts to develop more business with existing customers. The Company continues to maintain a high profit margin. As noted above, this is thought to be because the technological barriers to enter this business are high and there are very few independent companies of the same size as the Company engaging in this business. Orders received stood at ¥11,593mn (up 3.2% YoY), while the order backlog stood at ¥3,089mn (up 12.5%), both remaining strong.

Looking at a breakdown of net sales, sales in the automotive sector, one of the Company's areas of specialty, continued to perform strongly, particularly in the SDV* field, with growth driven primarily by existing customers. The industrial sector expanded, driven primarily by the mobile field, where the Company creates added value through collaboration with other business domains. Meanwhile, sales in the communications sector declined YoY, partly due to a temporary slowdown in projects from existing customers; however, the Company aims to expand the scope of its services.

* Abbreviation of Software Defined Vehicle. A vehicle that can have its performance raised by changing the software to increase value and functions.

Results trends

(4) Device Solutions business

In the Device Solutions business, net sales were ¥9,612mn (up 6.8% YoY), operating profit was ¥1,447mn (up 13.3%), and the operating profit margin was 15.1% (up 0.9pp), maintaining a high level of profitability. Net sales increased due to continued strong performance in the semiconductor design and development sector, as well as successful efforts to acquire new customers. Operating profit rose despite higher expenses, as ongoing profitability improvement efforts more than offset the increase in costs. Productivity improved as a result of efforts to win more business from existing customers. In addition, the technological barriers to enter this business are high and there are very few independent companies of the same size as the Company engaging in this business, so the Company continued to maintain a high profit margin. The Company is stronger in specialty fields than general fields, but its customers are in solidified fields, so results are grown by strengthening relationships with major customers. Orders received stood at ¥9,769mn (up 6.8% YoY), while the order backlog stood at ¥3,087mn (up 5.4%), both remaining strong.

Looking at the breakdown of net sales, performance improved partly due to the success of the Company's new business development efforts, which it has prioritized since the previous fiscal year. Orders received remain steady, and while business conditions in its domestic service areas remain favorable, the Company's chronic shortage of resources has yet to be resolved. Given the more positive outlook for overseas markets, the Company intends to focus on accelerating its overseas expansion. The semiconductor field is particularly highly specialized, and there is a chronic labor shortage in the industry as a whole. The Company is fully committed to utilizing overseas resources and coordinating partnerships primarily in Southeast Asia, starting with Vietnam. It is forming alliances in Taiwan as well, working to acquire projects from overseas companies and develop new customers.

Results by segment

	FY3/25 Results	FY3/26		YoY change (%)	vs. forecast (%)
		Forecast	Results		
Net sales	50,028	51,000	52,431	4.8%	2.8%
Enterprise Solutions	15,587	15,960	16,349	4.9%	2.4%
Services Solutions	14,362	14,690	15,218	6.0%	3.6%
Embedded Solutions	11,075	11,180	11,250	1.6%	0.6%
Device Solutions	9,002	9,170	9,612	6.8%	4.8%
Operating profit	6,116	5,100	5,290	-13.5%	3.7%
Enterprise Solutions	2,283	1,750	1,698	-25.6%	-3.0%
Services Solutions	831	810	533	-35.8%	-34.1%
Embedded Solutions	1,722	1,400	1,609	-6.6%	15.0%
Device Solutions	1,278	1,140	1,447	13.3%	27.0%
Operating profit margin	12.2%	10.0%	10.1%	-2.1pp	0.1pp
Enterprise Solutions	14.6%	11.0%	10.4%	-4.3pp	-0.6pp
Services Solutions	5.8%	5.5%	3.5%	-2.3pp	-2.0pp
Embedded Solutions	15.6%	12.5%	14.3%	-1.2pp	1.8pp
Device Solutions	14.2%	12.4%	15.1%	0.9pp	2.6pp

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

Results trends

Continuing to practice debt-free management with high levels of financial soundness

3. Financial position and management indicators

At the end of FY3/26, total assets increased ¥2,139mn from the end of the previous fiscal year to ¥49,289mn. This was mainly due to increases in notes and accounts receivable-trade and contract assets, and investment securities. Total liabilities decreased ¥337mn to ¥11,397mn, with the main items being an increase in accounts payable-trade and decreases in income taxes payable and provision for bonuses. Total net assets increased ¥2,477mn to ¥37,891mn in conjunction with the booking of profit attributable to owners of parent.

As a result of the above, the current ratio increased 37.3pp from the end of the previous fiscal year to 454.9%, indicating the Company's extremely high short-term solvency. In addition, the fixed ratio increased 0.9pp to 30.0%. The procurement of fixed assets (such as equipment investment) is fully covered by shareholders' equity with no repayment deadlines, and the Company continues to practice debt-free management. The equity ratio increased 1.8pp to 76.9%, and remains well above the telecommunications industry average of 31.4% on the TSE Prime Market in FY3/25, indicating that the Company maintains a significantly high degree of financial soundness. Meanwhile, ROE declined 0.6pp to 10.1%, while ROA declined 2.0pp to 11.5%. While ROA exceeded the average for telecommunications companies on the TSE Prime Market, ROE was slightly below the average. Going forward, the Company plans to focus on management practices that also take capital efficiency into account.

Consolidated balance sheets and main management indicators

	End of FY3/25	End of FY3/26	Increase (decrease)
			(¥mn)
Current assets	36,858	37,911	1,053
Cash and deposits	19,666	19,650	-16
Notes and accounts receivable-trade and contract assets, electronically recorded monetary claims - operating	14,440	15,340	900
Work in process	1,273	1,292	19
Fixed assets	10,291	11,377	1,086
Property, plant and equipment	5,772	5,987	215
Intangible assets	403	471	68
Investments and other assets	4,115	4,918	803
Total assets	47,149	49,289	2,139
Current liabilities	8,826	8,334	-492
Noncurrent liabilities	2,908	3,063	155
Total liabilities	11,735	11,397	-338
(Interest-bearing debt)	0	0	0
Total net assets	35,414	37,891	2,477
Stability			
Current ratio (current assets/current liabilities)	417.6%	454.9%	37.3pp
Fixed ratio (fixed assets/equity capital)	29.1%	30.0%	0.9pp
Equity ratio	75.1%	76.9%	1.8pp
Profitability			
ROE (return on equity)	10.7%	10.1%	-0.6pp
ROA (return on assets)	13.5%	11.5%	-2.0pp

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

■ Outlook

Operating profit expected to increase slightly in FY3/27, due to investment focused on growth

● FY3/27 forecasts

In the information services industry in FY3/27, IT demand is expected to continue growing due to companies' efforts to further advance DX, investments in strengthening cybersecurity, and the broader adoption of AI. On the other hand, there are also a number of downside risks to the outlook, including the impact of uncertain global conditions—such as tensions in the Middle East and US policy developments—on the Japanese economy and corporate earnings, as well as intensifying competition for AI talent, which is expected to be in even greater demand going forward. Under such conditions, the Group plans to achieve further growth by actively expanding its foundation businesses while also creating medium- to long-term growth areas.

For the consolidated results in FY3/27, the Company expects net sales of ¥54,000mn (up 3.0% YoY) and operating profit of ¥5,400mn (up 2.1%), ordinary profit of ¥5,450mn (down 1.5%), and profit attributable to owners of parent of ¥3,750mn (up 1.1%). This forecast is cautious as it takes into account the uncertainty accompanying tensions in the Middle East and the effects of US tariff measures. In addition, the forecast incorporates proactive investment in related measures focused on business expansion and human resources development aimed at future growth under the medium-term management plan. Ordinary profit is the only earnings category expected to decline, due to the absence of insurance proceeds recorded as non-operating income in the previous fiscal year. The Company is known for issuing conservative forecasts at the beginning of the fiscal year, so FISCO thinks there is a high likelihood that the Company will achieve its forecast.

Looking at the outlook by segment, in Enterprise Solutions, the Company is forecasting net sales of ¥13,620mn (down 16.7% YoY), operating profit of ¥1,630mn (down 4.0%), and operating profit margin of 12.0% (up 1.6pp). As a result of the transfer of low-margin projects for the manufacturing industry to Services Solutions, sales are expected to decline significantly, while profit margins are expected to improve. On the other hand, in Services Solutions, the Company is forecasting net sales of ¥18,670mn (up 22.7% YoY), operating profit of ¥710mn (up 33.0%), and operating profit margin of 3.8% (up 0.3pp). Although the Company is undertaking a number of challenging projects, it will work to minimize the impact of unprofitable projects and improve profitability.

In Embedded Solutions, the Company is planning net sales of ¥11,780mn (up 4.7% YoY), operating profit of ¥1,610mn (up 0.0%), and operating profit margin of 13.7% (down 0.6pp). Device Solutions plans to achieve net sales of ¥9,930mn (up 3.3%), operating profit of ¥1,450mn (up 0.1%), and operating profit margin of 14.6% (down 0.5pp). The Company expects sales to increase in both segments, but profits are expected to remain flat, reflecting factors such as rising personnel costs. The Company plans to steadily convert its order backlog into sales while maintaining high profit margins through productivity improvements. In Device Solutions, the Company is addressing the shortage of personnel in the highly specialized semiconductor field by utilizing overseas resources, primarily in Southeast Asia, and expanding partnerships with the aim of acquiring projects from overseas companies and developing new customers. However, partner development will incur SG&A expenses and it will take some time to improve efficiency, so operating profit is expected to be flat.

Outlook

FY3/27 consolidated results forecasts

(¥mn)

	FY3/26		FY3/27		YoY	
	Results	% of net sales	Forecast	% of net sales	Increase (decrease)	% change
Net sales	52,431	-	54,000	-	1,568	3.0%
Operating profit	5,290	10.1%	5,400	10.0%	109	2.1%
Ordinary profit	5,533	10.6%	5,450	10.1%	-83	-1.5%
Profit attributable to owners of parent	3,709	7.1%	3,750	6.9%	40	1.1%

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

■ Medium- to long-term growth strategy

Advancing business strategies, management foundation strategies, and an investment strategy with the aim of achieving the medium-term management plan's targets

1. Overview of medium-term management plan

The Company has set a long-term vision of achieving net sales of ¥100.0bn, and under its previous medium-term management plan (FY3/23 to FY3/25), achieved the plan's targets of net sales of ¥50.0bn and an operating profit margin of 11%. When formulating a medium-term management plan starting in FY3/26, the Company took into account various business environment conditions. These included social issues such as an aging population, declining birthrate, and shrinking workforce; environmental and energy challenges; and technology trends like the acceleration of AI-driven DX and the development of next-generation information and communication technologies (beyond 5G and 6G). It also took into account the market environment, including technological innovation, societal digitalization, and challenges related to human resources at both vendor and user companies. In order to pursue medium- to long-term growth under these environmental conditions, the Company believes it will need the technological capabilities required to adapt to the steadily growing IT market and to continue generating added value, as well as an organizational framework and robust management foundation for realizing these capabilities.

The medium-term management plan (FY3/26 to FY3/28) is a roadmap for achieving the long-term vision's target. The Company has positioned it as a period for being "Reborn (returning to the basics)" so it can refine its competitive edge to pursue future growth. In other words, it aims to advance a medium-term management plan in which it goes back to basics to achieve a firmer footing. To achieve this, it will pursue Change Business (align businesses with global and industry standards), Change Talent (optimize human resources by actively investing in human capital), and Change Technology (incorporate technologies that can become a driving force in the future) under the concept of "DRIVE DX × Change The Standard."

In regard to the specific strategies in the plan, it will advance business strategies to expand its core and foundation businesses in each segment while also creating growth areas, management foundation strategies to strengthen human resources, pursue global development, and promote sustainability, and an investment strategy to advance investment which facilitates the business and management foundation strategies. As a result of these strategies, it aims to achieve net sales of ¥60.0bn, an operating profit margin of 12%, and ROE of 10% or higher in FY3/28, the final year of the plan.

Medium- to long-term growth strategy

2. Business strategies

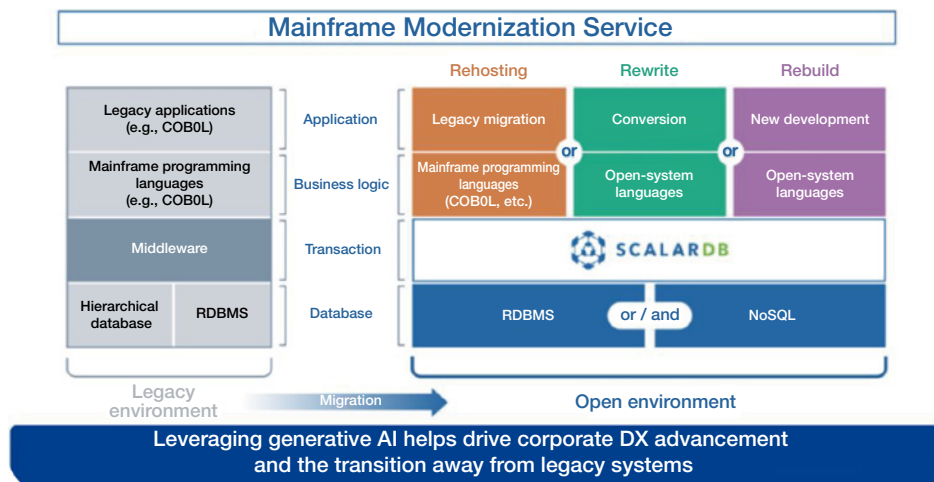
The Company will advance the following business strategies to expand its core and foundation businesses and create growth areas

(1) Enterprise Solutions

The Company plans to transition to a fit-to-standard model. In order to expand core and foundation businesses, it will expand its solutions for assembly and manufacturing customers, expand its operations for developing systems for credit card companies to also cover systems planning, and execute a shift to digital government projects. To create growth areas, it will aim to develop business consulting personnel through collaboration between businesses in different industries, create new businesses by applying generative AI in each industry, and establish sustainable business models by evolving the style of the systems integration (SI) business. Furthermore, it has set focus areas of transition to a fit-to-standard model in the enterprise resource planning (ERP: Systems that centralize companies' management resources and utilize them for management decision making in real time) business, accelerating modernization through the use of AI, and innovating buying behavior through the smart POS business. Through the above measures, it plans to expand the scale of its business from ¥15.5bn in FY3/25 to ¥18.0bn–19.0bn in FY3/28, which includes growing focus areas from ¥4.0bn to ¥7.0bn.

As part of its FY3/26 initiatives under the theme of “Business transformation through generative AI,” the Company worked to transform its business structure and create new growth opportunities centered on generative AI. Specifically, in August 2025, the Company began testing its “Smart Modernization Service,” which leverages generative AI to provide end-to-end support for the code analysis of legacy systems such as mainframes and midrange computers, the automatic generation of requirements specifications, and code optimization for modern architectures. This service enables the efficient and highly accurate analysis, migration, and reconstruction of legacy assets—tasks that traditionally required significant man-hours and specialized expertise—thereby providing strong support for companies seeking to advance DX and transition away from legacy systems. With the necessary structure now in place to meet customer demand for system modernization, the Company has seen an increase in orders for medium- to large-scale modernization projects, while opportunities to propose generative AI-based modernization solutions are also increasing.

Testing a generative AI-powered Smart Modernization Service for use in the Company's existing Mainframe Modernization Service



Source: The Company's results briefing materials

Medium- to long-term growth strategy

(2) Services Solutions

The Company plans to lead customers to a better future through digital technology. In order to expand core and foundation businesses, it will pursue the following strategies. In regard to DX for manufacturers, it will specialize in DX solutions for the design and manufacturing sectors. For cloud platforms, it will provide integrated packages combining infrastructure building and activities to encourage use. In the operations business, it will expand its IT operations services and develop business process outsourcing (BPO: a model in which external specialists carry out certain business processes on behalf of a company) operations. To create growth areas, it will develop project proposal and consulting personnel who can engage in upstream areas, cultivate human resources who are proficient in AI and data use, investigate and utilize cutting-edge technologies, and use generative AI to advance business transformation. Furthermore, it has set focus areas of solutions for manufacturing aftermarkets, smart factories with a focus on manufacturing execution systems (MES: Systems that manage manufacturing processes while collecting and analyzing data) and supervisory control and data acquisition systems (SCADA: Systems that monitor and control processes and collect data), and professional services that make use of AI and data. Through the above measures, it plans to expand the scale of its business from ¥14.3bn in FY3/25 to ¥17.0bn–18.0bn in FY3/28, which includes growing focus areas from ¥6.0bn to ¥9.0bn.

In FY3/26, under its initiative to strengthen DX solutions for the manufacturing industry, the Company provided strong support for DX in the design and manufacturing domains. In addition, under its initiative to expand infrastructure and operational services, it promoted comprehensive cloud offerings and the development of its IT operations and BPO businesses. Specifically, in July 2025, the Company opened Kyoto Innovation Digital Labo (KiND), an exhibition facility where visitors can experience cutting-edge technologies. The facility was established on the campus of Kyoto University of Advanced Science in collaboration with Deloitte Tohmatsu Node and the university. KiND features a showcase area where visitors can see, touch, and experience cutting-edge technologies, including AI and generative AI, as well as an innovation area that hosts workshops designed to help companies envision their future state and define the digital transformation required to realize it, based on the experiences gained in the showcase area.

In March 2026, the Company also launched a proof-of-concept project for DX in facility management at the National Showa Memorial Park. More than 40 years have passed since the park opened, and costs associated with aging facilities and related repairs have been increasing. At the same time, initiatives to improve the efficiency and quality of park management and operations have become increasingly urgent in order to ensure that visitors can continue to enjoy the park safely and with peace of mind. This proof-of-concept project goes beyond simply reducing labor requirements and improving the efficiency of facility inspection operations. It also aims to enhance park operations through the AI-driven digitization of paper-based records and the utilization of IoT technologies, while optimizing the deployment of specialized technicians through remote support.

(3) Embedded Solutions

The Company plans to create new added value by integrating a variety of product development technologies. In order to expand core and foundation businesses, it will deepen its development of solutions that can be embedded in vehicles and industrial machinery, and deploy the solutions it has developed for specific fields in systems development for a wide range of industries. To create growth areas, it will expand the area covered by the business to accommodate the accelerating shift to software-defined vehicles (SDV), strengthen technologies for next-generation networks, and leverage its expertise related to different industries to create cross-sectoral business models. Furthermore, it has set focus areas of strengthening in the mobility field, expanding in the aerospace and defense sectors, and further developing its business in the cashless settlement field. Through the above measures, the Company will expand the scale of its business from ¥11.0bn in FY3/25 to ¥13.0bn–14.0bn in FY3/28, which includes growing focus areas from ¥3.0bn to ¥5.0bn.

Medium- to long-term growth strategy

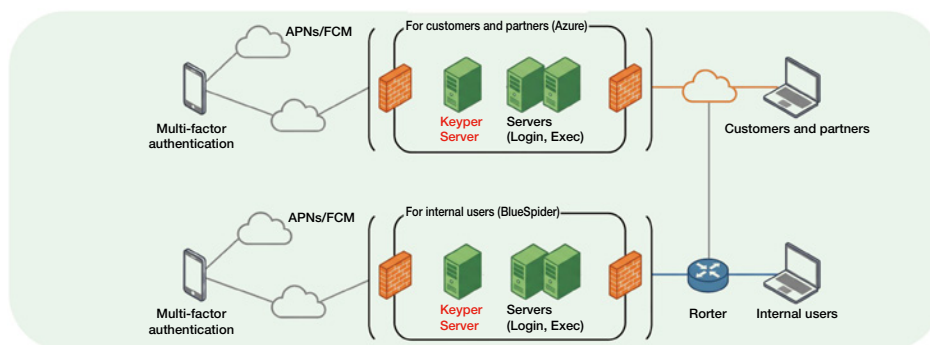
In its initiatives for FY3/26, under the theme of SDV transition and next-generation network support, the Company expanded the scope of its offerings and strengthened its technological capabilities to support the acceleration of SDVs. Under the theme of deepening and expanding embedded development, it worked to extend its embedded-development expertise for automotive and industrial equipment applications from specific fields to a broader range of industries. Specifically, in June 2025, the Company jointly developed the dashboard for NEXTY LocaTrack, a new service that utilizes a MaaS platform and integrates with Qualcomm tracking devices, in collaboration with Nexty Electronics. The service uploads data collected by the tracking devices—including location, temperature, humidity, atmospheric pressure, impact, tilt, and light—to the cloud and, through API integration, displays location information and cargo status on a map. In addition to tracking the location of cargo, the system enables users to monitor various sensor data to help improve transportation quality. Going forward, the Company plans to leverage technologies developed in the mobility field and apply its embedded-development expertise across a wide range of industries.

(4) Device Solutions

The Company aims to transition from an approach centered on “how to IC design” to an approach centered on “what to design.” In order to expand core and foundation businesses, it will advance dynamic evolution into a device provision business, expand and deepen its LSI solutions business, and realize business growth through the development of global human resources. To create growth areas, it will use cutting-edge technologies to enter overseas markets, expand its device business through global development, and strengthen its ability to compete internationally through a base in Southeast Asia. Furthermore, it has set focus areas of strengthening and expanding the device provision business, targeting the in-vehicle, factory automation (FA), and sensing device fields, and developing its device business globally. Through the above measures, it plans to expand the scale of its business from ¥9.0bn in FY3/25 to ¥10.0bn–11.0bn in FY3/28, which includes growing focus areas from ¥1.0bn to ¥2.5bn.

As part of its FY3/26 initiatives, the Company promoted the expansion of its LSI solutions business by leveraging cutting-edge technologies to expand into and deepen its presence in overseas markets. Specifically, in January 2026, the Company officially adopted the passwordless authentication platform Keyper as a security foundation for the semiconductor industry. Through this adoption, the Company aims to strengthen authentication and access-management security measures within the semiconductor development environments and semiconductor design services it provides, while addressing the advanced cybersecurity requirements increasingly demanded across industries, including the semiconductor sector. This initiative responds to growing demand within the semiconductor industry for the protection of data and design assets.

Adoption of Keyper as a security platform for the semiconductor industry



Source: The Company's results briefing materials

3. Management foundation strategies

The Company will engage in initiatives to develop human resources who can support business growth and multifaceted initiatives to strengthen the management foundation with the aim of enhancing the value of its people, developing globally, promoting sustainability, and strengthening brand power

(1) Initiatives to develop human resources who can support business growth

The Company is aiming to raise the number of certified employees from 800 under the previous medium-term management plan to 1,200 during the new medium-term management plan. To achieve this, it will upgrade its educational systems, build an original learning base by accumulating knowledge, and by strengthening technological capabilities and changing mindsets. It will facilitate health management and well-being by supporting employees in terms of both physical and mental health and by realizing work-life balances. It will strengthen recruitment by recruiting 500 new graduates and 200 mid-career employees during the plan period, raising the number of Group employees from 2,487 in March 2025 to 2,800 in March 2028.

As part of its human resource development, Enterprise Solutions is focusing on cultivating business consulting talent by training consultants with advanced problem-solving skills through cross-industry collaboration. Meanwhile, Services Solutions is working to develop upstream planning and AI talent, strengthening consulting capabilities and driving business transformation through the use of generative AI. In Embedded Solutions, the Company is developing cross-industry talent by cultivating technical experts capable of driving business models that integrate know-how from different industries. In Device Solutions, with the aim of developing global talent, the Company is cultivating professionals capable of working globally to support the expansion of its overseas operations.

(2) Multifaceted initiatives to strengthen the management foundation

As part of global expansion, the Company aims to select regions where it expects to find future markets and partners, and to strategically introduce overseas technologies and services into the Japanese market. It will strengthen brand power by actively engaging in initiatives such as commercials, advertising, and sports sponsorship, and by strengthening IR activities targeting shareholders and investors in a way that enhances corporate value. To advance sustainability, it will work to reduce the environmental load of its business activities, promote diversity, and strengthen corporate governance. In regard to specific targets, it aims to increase the ratio of women among new recruits from 18% in FY3/25 to 25% in FY3/27, as well as the ratio of men taking childcare leave from 37% to 70%. It will also aim to reduce Scope 1 and 2 greenhouse gas emissions from the 14,240 t-CO₂ recorded in FY3/14 to half that amount by FY3/31.

As part of its FY3/26 initiatives, the Company worked to strengthen its overall corporate brand through anniversary campaigns, sports sponsorships, and TV commercials. To mark its 60th anniversary, the Company began airing TV commercials featuring actress Hana Sugisaki in August 2025, which it expects will enhance its profile in the recruitment market. In addition, as part of its efforts to improve the company-wide learning environment, the Company introduced a company-wide learning platform, resulting in a 16% YoY increase in the qualification attainment rate. Furthermore, the Company established a subsidiary in Malaysia, which commenced operations in April 2026. In line with its device solutions strategy, the Company plans to position this location as a semiconductor-related base to capture overseas demand.

4. Investment strategy

The Company is aiming to realize strategic investment in sources of competitiveness

- **Investment which facilitates the business and management foundation strategies**

In regard to investment strategy, the Company plans to invest up to ¥10.0bn over the three-year medium-term management plan period. This allocation includes assets recorded on the balance sheet and expenses reflected in the statement of income. Breaking it down, in regard to business strategies, the Company has allocated a total of ¥5.0bn for R&D and business development investments that aim to optimize business by supporting measures to realize strategies in each segment. In regard to management foundation strategies, the Company has allocated a total of ¥5.0bn for human capital and brand management investments that aim to build a robust management foundation from a medium- to long-term perspective, with a focus on investment in human resources.

For FY3/26, the Company made business strategy investments totaling ¥0.7bn, including human resource development, technical and management education to support the expansion of business strategies across each segment, the promotion of company-wide AI adoption, and the strengthening of overseas marketing activities. In addition, as part of its management foundation strategy investments, the Company invested ¥1.6bn in initiatives such as improving employee compensation through higher wages and better workplace conditions, enhancing the training environment by strengthening its internal learning platform, expanding mid-career hiring, and conducting branding activities. For FY3/27, the Company plans to invest ¥1.0bn in business strategies and ¥2.0bn in management foundation strategies.

AI is a critical foundation for sustained value creation as an Sler. To promote AI utilization internally, the Company uses the latest models of GPT, Claude, and Gemini in its development environment, selecting the appropriate model depending on the project and development phase. In addition, the Company has built a proprietary AI platform to utilize internal data, and the number of internal users increased from 556 in the previous fiscal year (27.2% of employees) to 997 (48.8%). The Company is promoting Physical AI—AI that enables autonomous operation of robots and machinery—as a company-wide priority area, and is also advancing initiatives to improve on-site operations by analyzing data collected from the field using AI and digital twins.

5. Group management targets

As shown above, under the medium-term management plan, the Company will advance business strategies, management foundation strategies, and an investment strategy with the target of achieving Group management targets of net sales of ¥60.0bn (CAGR of 6.25%), an operating profit margin of 12%, ROE of 10% or higher, and a payout ratio of 30% or higher in FY3/28. For FY3/26, the first year of the plan, the Company initially expected flat net sales and a significant decline in operating profit, factoring in the impact of US tariffs and increased expenses associated with investments for future growth. However, net sales reached a record high, and operating profit finished above the plan. For FY3/27, the second year of the plan, the Company has issued a conservative forecast for slight increases in both net sales and operating profit. The medium-term management plan is positioned as a three-year period to strengthen the Company's foundation for future growth, and progress is on track, including necessary investments. FISCO thinks that if the Company can execute the growth strategies contained in its medium-term management plan, then the Group management targets for the final year of the plan are achievable. We will continue to monitor future result trends and the progress made on growth strategies.

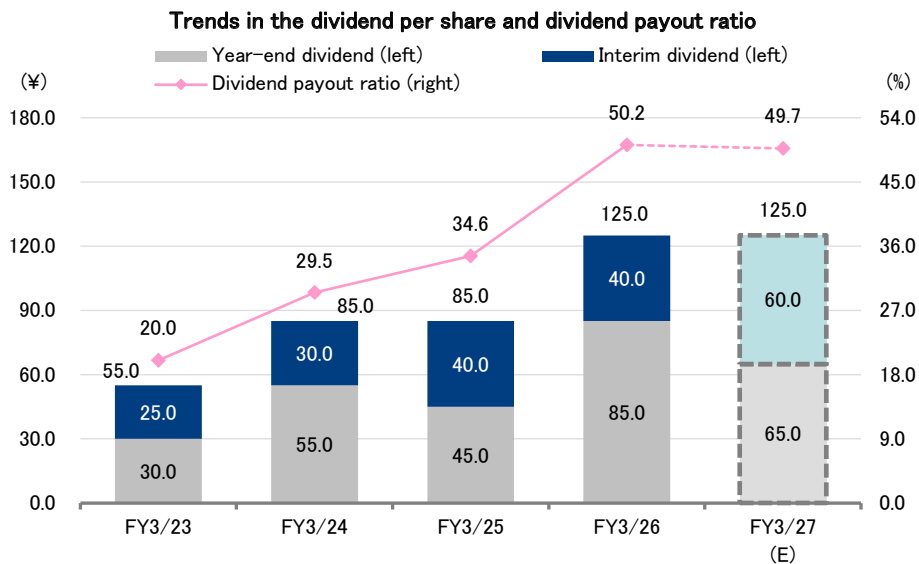
Shareholder return policy

The Company raised its target dividend payout ratio from 30% to 50% and significantly increased its dividend

The Company positions returning profit to shareholders as an important management issue, and has a basic policy of paying a stable, continuing dividend. The basic policy is to decide on a dividend amount after comprehensively considering results for that term and its financial situation while enhancing internal reserves.

In FY3/25, the Company paid an annual dividend of ¥85 per share (¥40 interim, ¥45 year-end), with a payout ratio of 34.6%, exceeding the 30% target. For FY3/26, the Company clarified its shareholder return stance, given that consolidated net sales exceeded ¥50.0bn for the third consecutive year, reflecting a solid business foundation. Specifically, the Company raised its target dividend payout ratio to 50% and implemented a significant increase in the annual dividend to ¥125 (¥40 interim, ¥85 year-end). For FY3/27, the Company also plans an annual dividend of ¥125 (¥60 interim, ¥65 year-end). This shows that the Company is giving adequate consideration to shareholder returns.

In FY3/24 and FY3/25, the average payout ratios of companies on the TSE Prime Market in the telecommunications industry were 47.2% and 35.8%, respectively, but the industry's average payout ratio tends to fluctuate significantly in response to annual changes in earnings. At the same time, the Company has traditionally paid a dividend based on a stable payout ratio. Going forward, it plans to continue paying a stable and continuing dividend based on its financial position and results with a target payout ratio of 50%. As a company on the TSE Prime Market, the Company plans to continue working to strengthen governance and enhance information provision and, based on its medium-term management plan, to work for sustained growth and to further raise corporate value.



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



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