

System Integrator

3826

Tokyo Stock Exchange Standard Market

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FISCO Ltd.

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

■ Index

■ Summary	01
1. FY2/24 results	01
2. FY2/25 forecasts	01
3. Two-year Management Plan	02
■ Business overview	03
1. Object Browser Business	04
2. E-Commerce Business	05
3. ERP Business	06
4. AI Business	07
5. Other Business	08
■ Results trends	10
1. Overview of FY2/24 results	10
2. Results by business segment	11
3. Financial position and management indicators	17
■ Outlook	18
1. Forecasts for FY2/25	18
2. Two-year Management Plan	21
■ Shareholder return policy and SDGs initiatives	23
1. Shareholder return policy	23
2. SDGs initiatives	24

Summary

Outlook envisions return to growth trajectory from FY2/26 onward driven by the ERP Business amid robust demand

System Integrator <3826> (hereafter, also “the Company”) is an independent software developer that develops and sells software for improvement of corporate productivity with a slogan of “We consistently create software that creates time rather than consumes time.” The Company operates the Object Browser Business, including the database development support tool SI Object Browser and integrated project management tool SI Object Browser PM (below, OBPM Neo), the ERP Business, and the AI Business respectively. The Company made DG Commerce Inc., which was established through spin-off of the E-Commerce Business, an equity-method affiliate upon selling off 60.0% of DG Commerce shares in January 2024.

1. FY2/24 results

Regarding business performance in FY2/24, net sales increased by 7.8% year on year (YoY) to ¥4,835mn and operating profit declined by 19.3% to ¥328mn. Net sales reached a new record high for the first time in two fiscal years amid a scenario where higher sales in the ERP Business and the Object Browser Business offset lower sales in the E-Commerce Business. Meanwhile, operating profit and ordinary profit decreased for a second consecutive fiscal year due to increases in personnel expenses and R&D expenses along with a decrease in profit of the E-Commerce Business. Net profit reached a new record high for the first time in five fiscal years, having increased by 237.2% YoY to ¥944mn as a result of the company having recorded gain on sales of shares of subsidiaries and associates of ¥868mn under extraordinary income, which was associated with the Company having made the E-Commerce Business a joint venture company. Whereas the Company’s workforce decreased to 216 employees as of the end of FY2/24, which is 17 fewer employees than at the end of the previous fiscal year, the workforce effectively increased by 15 employees largely as planned when excluding the 32 employees transferred out as a result of the Company having made the E-Commerce Business a joint venture company.

2. FY2/25 forecasts

In FY2/25, the Company forecasts net sales to decrease by 6.8% YoY to ¥4,508mn and operating profit to decrease by 51.3% to ¥160mn. On the basis of its existing businesses, the Company anticipates increases in both sales and profits, with net sales up by 9.4% and operating profit up by 2.5%. The Company has recorded approximately ¥60mn in expenses associated with expansion of the Osaka Office and relocation of the Fukuoka Office, incurred with the aim of fortifying the structure of the ERP Business. The Company is also aggressively undertaking growth investment that includes approximately ¥120mn for R&D expenses in part allocated to new businesses, which is on top of ¥67mn from the previous fiscal year. However, these outlays will be offset by higher revenues. In April 2024, the ERP business began providing support for installation of SAP S/4HANA® Cloud Public Edition (“SAP S/4HANA”) newly offered by SAP <SAP>. SAP ranks at the top of the market for ERP products for major companies in terms of market share. The Company seeks to tap into prevailing high demand from companies seeking to migrate to SAP S/4HANA from their existing systems. The Company aims to achieve net sales of ¥500mn in three years, after having initially started out as a subcontractor then hiring and training certified technical professionals at its developer subsidiaries in Japan and Vietnam. Effective from FY2/25, the Company intends to prepare consolidated financial statements, which will entail accounting for profits attributable to its Vietnamese subsidiary and accounting for share of profit of entities accounted for using equity method associated with DG Commerce.

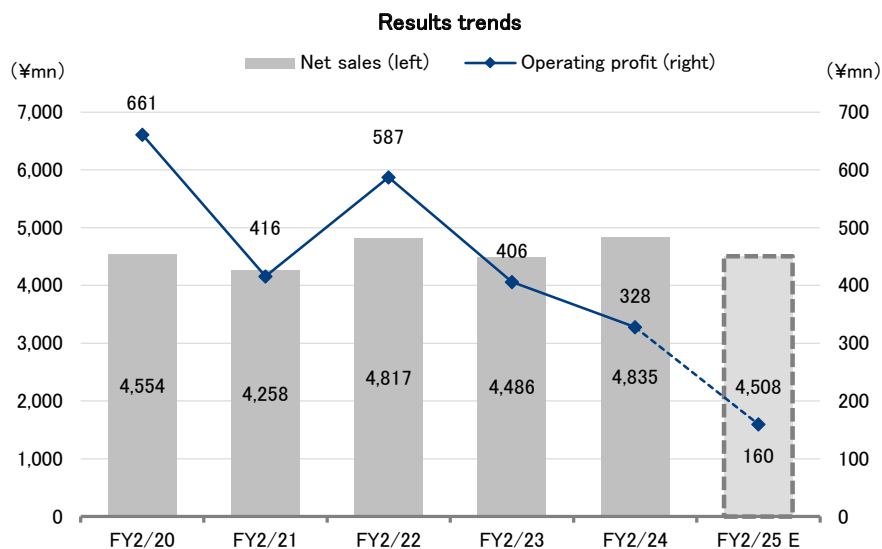
Summary

3. Two-year Management Plan

The Company has released its Two-year Management Plan in which it explicitly states that it aims to exceed performance levels achieved in FY2/24 with results targets for FY2/26 of ¥5,000mn in net sales and operating profit of ¥336mn. It will enlist a basic policy that involves developing new businesses that hold promise for the future, while also seeking sustained sales growth and profitability gains in each of its business segments by focusing its resources on ERP, AI, and the development support tool domain. In seeking to achieve its targets, the Company has restructured its organizational framework from its previous business-specific structure to a function-specific structure (separation of development and sales functions) effective from March 2024. It also strives to boost employee motivation by changing its personnel evaluation system to one that places emphasis on job performance and competencies. The results of these initiatives are expected to become apparent beginning in the latter half of FY2/25. Under its policy on shareholder returns, the Company aims to increase total shareholder returns (TSR: stock price gains + dividends) while also furnishing dividends based on a standard dividend payout ratio of 30%. The Company intends to provide a dividend of ¥5.0 per share for FY2/25 (dividend payout ratio of 50.1%), which includes ¥2.0 per share as a commemorative dividend in recognition of its 30th anniversary. Under its shareholder rewards program, the Company provides a gift of newly harvested Koshihikari rice, which is grown in Niigata using reduced levels of fertilizers and agrochemicals, to eligible shareholders with holdings of at least 200 shares who have been listed under the same shareholder number in the shareholder ledger at the end of February and the end of August in each year.

Key Points

- In FY2/24, net sales achieved new record high for first time in two fiscal years amid favorable results in the ERP Business
- In FY2/25, increases in sales and profit anticipated on the basis of existing businesses other than the E-Commerce Business
- Seeking sustained sales growth and profitability gains while developing new businesses and focusing resources on ERP, AI, and development support tools



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

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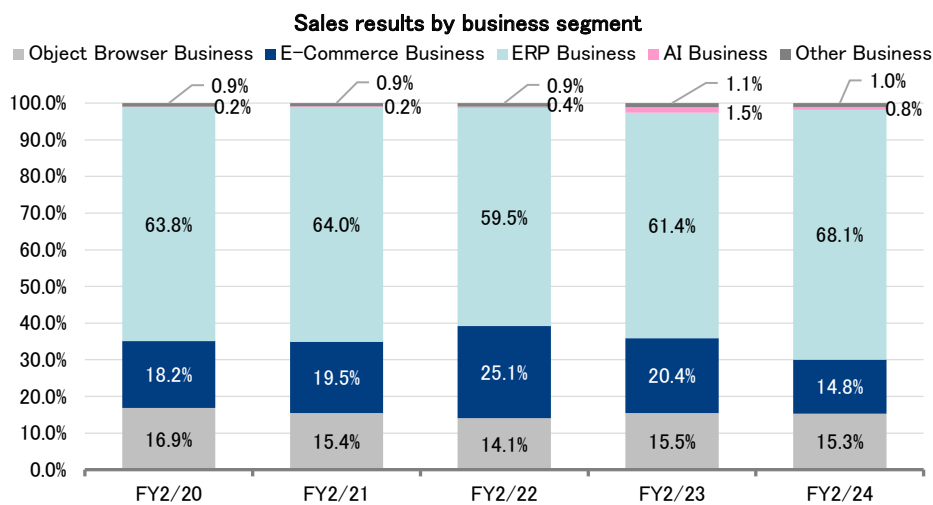
Business overview

An independent software developer that “consistently creates software that creates time rather than consumes time”

Founded in 1995, System Integrator is an independent software developer. In addition to the sales of packaged software developed in-house, the Company also provides maintenance services and cloud services (SaaS). The Company is mainly looking to develop new products that can be offered as an SaaS model. Its mainstay existing products include database development support tool SI Object Browser, integrated project management tool OBPM Neo, and the GRANDIT Web-ERP package. On January 1, 2024, the Company transferred 60.0% of the shares of its subsidiary DG Commerce Inc. to DG Financial Technology, Inc.*, subsequent to having previously assigned its E-Commerce Business, the mainstay product of which is the SI Web Shopping package for constructing e-commerce websites, to DG Commerce upon its established by spinning off operations of the E-Commerce Business. Going forward, DG Commerce will be classified as an equity-method affiliate of the Company. Effective from FY2/25, the Company will consequently disclose business segment results under the three business segments of Object Browser Business, ERP Business, AI Business, along with the Other Business segment encompassing new businesses.

* DG Financial Technology, Inc. is a subsidiary of Digital Garage, Inc. <4819> that engages in payment information processing services, payment collection agency services, and money transfer services.

Looking at sales results by business segment for the most recent five fiscal years, the ERP Business accounted for more than 60% of total net sales, with the remainder equally divided between the Object Browser Business and E-Commerce Business. However, the proportion of net sales attributable to the ERP Business and Object Browser Business is poised to increase in both segments given removal of the E-Commerce Business effective from FY2/25. Moreover, the Company has been working toward developing and cultivating multiple new businesses since 2018, none of which has achieved profitability. This situation constitutes a business challenge going forward.



Note: Percentages of the ERP Business and AI Business up through FY2/22 have been calculated from results briefing materials

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

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Business overview

1. Object Browser Business

In the Object Browser Business, the Company has developed the database development support tool SI Object Browser, the database design support tool SI Object Browser ER (hereafter, the Object Browser series), which contribute to the improvement of engineer productivity, as well as the integrated project management tool OBPM Neo, and sells licenses or provides as SaaS.

In the percentages of total net sales, the Object Browser series provides around 40% and OBPM Neo around 60%. Since the launch of the Object Browser series in 1997, it has a deployment track record of roughly 20,000 companies and 500,000 licenses, and it is the de-facto standard within Japan for its applicability to almost all main data bases. The prominent brand strength of the products makes them highly profitable with almost no sales costs and gross profit margins of over 80%. Competing freeware is available, but does not impact the products because of the difference in functionality. Previously, only package sales (license sales + maintenance services) were available, but from February 2021, SaaS-type sales* were launched. More than 30% of its net sales are accounted for through recurring income, such as from maintenance support, and its sales are also comparatively stable.

* The contract term ranges from one year to two years or three years (includes maintenance fees). Upgrades to the latest versions are free. For Oracle only.

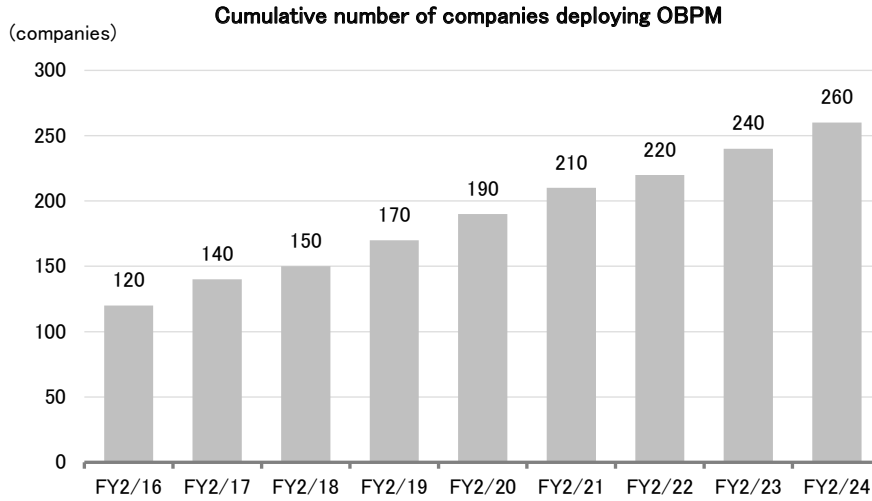
At the same time, OBPM Neo*1 is a tool that helps development divisions increase their productivity by enabling them to comprehensively manage progress of development projects (including management of schedules, costs, personnel, quality and profitability) in order to prevent the occurrence of unprofitable projects. The Company began developing and selling OBPM, the on-premises version, in 2008, and it updated the product in March 2021 to create OBPM Neo, the SaaS version. As the only product in Japan that complies with PMBOK*2, it is being increasingly deployed primarily by mid-sized IT companies. The product has been deployed by around 260 companies as of the end of February 2024. Major IT companies develop their own project management tools in-house, but in recent years, the name recognition of OBPM Neo has increased and its high quality has come to be recognized, so more and more companies are considering deploying it within their divisions. At the same time, there are many cases of small- and medium-sized companies using off-the-shelf software like Excel or free software tools. Whereas slightly less than 40% of the Company's existing customers continue to use the on-premises version, such customers will switch over to the SaaS version as its functionality is upgraded. This is likely to culminate in a gross profit margin of around 70%. In July 2022, the Company launched the Remote PMO Service*3 for quickly detecting problems and making improvements by monitoring customer projects online.

*1 Monthly usage fees (excluding tax) are ¥105,000 for 10 licenses, ¥157,500 for 20 licenses, ¥189,000 for 30 licenses, ¥231,000 for 40 licenses, and ¥262,500 for 50 licenses. Pricing for license quantities of 50 or more is available upon inquiry. Contract term of one year. There are also optional services for connecting with various types of systems.

*2 PMBOK (Project Management Body of Knowledge): A systematic compilation of know-how and methods related to project management. "A Guide to the Project Management Body of Knowledge" was first published in 1987 by the non-profit Project Management Institute (PMI) and has gradually become well known. PMBOK has evolved over time and is now accepted as the industry standard for project management around the world.

*3 Regarding monthly fees (excluding tax), there are three plans, ¥300,000, ¥550,000 and ¥950,000, depending on the number of projects supported.

Business overview



Note: Figure for FY2/24 obtained through company inquiries
 Source: Prepared by FISCO from the Company's website and results briefing materials

2. E-Commerce Business

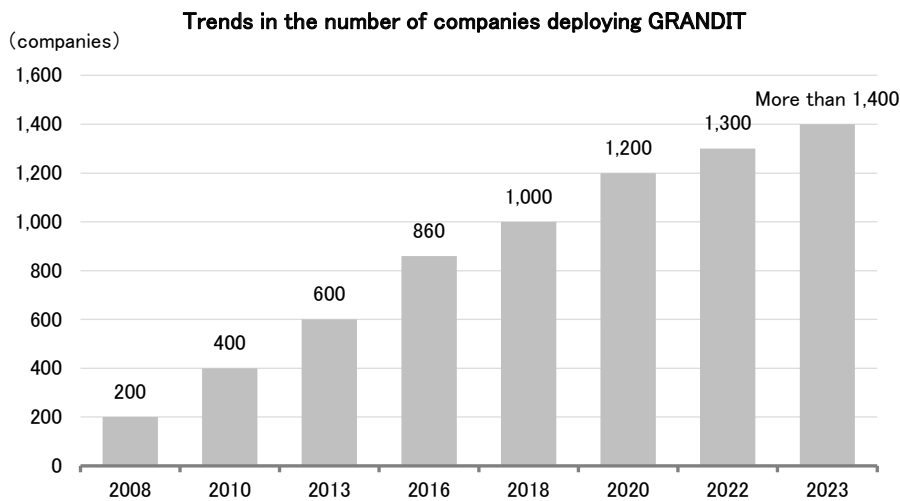
The E-Commerce Business has continued to develop and sell its SI Web Shopping package for constructing e-commerce websites, which serves as the Company's mainstay product and was the first of its kind in Japan upon its release in 1996. Features of SI Web Shopping have to do with its development thus far as a customized solution tailored to customer requirements. One such feature is its scalability in terms of being capable of processing large-volume transactions necessary with respect to large e-commerce websites that handle transactions amounting to several tens of billions of yen. Another such feature is the notion that it is equipped with high-level security functions. However, although the e-commerce website package has been used by more than 1,100 companies overall to set up e-commerce websites (of which, less than 10% are in active operation) since it went on sale in 1996, and although the Company previously ranked as one of the top three major companies* in terms of its share of the market for large e-commerce websites, it has continued to encounter stagnant growth amid intensifying competition over the last several years. Amid that scenario, the Company was approached by DG Financial Technology with a proposal seeking to acquire such operations, given DG Financial Technology's access to resources for facilitating growth of the E-Commerce Business enlisting its sales and customer platform. Per discussions with DG Financial Technology, the Company spun off operations of its E-Commerce Business and subsequently sold 60.0% of the shares of the newly established DG Commerce.

* The Company's position in the e-commerce website construction package industry is that of specifically serving the large-scale B-to-C businesses segment, which essentially constitutes an oligopoly consisting of three companies: the Company, SOFTCREATE HOLDINGS CORP. <3371> subsidiary ebeing Corp. (with a track record of websites set up for over 1,600 companies), and Estore Corporation <4304> subsidiary Commerce21 Corporation (with a track record of websites set up for over 300 companies).

Business overview

3. ERP Business

The ERP Business develops and sells (installs) the GRANDIT Web-ERP package. This software is sold by a consortium of 11 IT companies. Since this consortium was established in 2004, the Company has been involved in planning and developing GRANDIT and has contributed to the market diffusion of this product. The GRANDIT Web-ERP package is targeted to mid-sized companies with several tens of billions of yen in annual sales, but recently deployments for major companies have also started to increase, and it has been sold to more than 1,400 companies by the entire consortium. Distinctive features of the GRANDIT software include the points that it is an ERP that is completely based on the web, therefore customers can easily upgrade their software without maintenance work on the client side, and as the software is independent of hardware, it can be used anywhere in the environment where the web operates. Furthermore, the GRANDIT software can be applied to a wide range of industries because the technological expertise of each of the 11 companies is utilized in product development, and it is highly competitive in terms of functionality, being one of the few domestically produced ERPs that include production management. In November 2022, the Company released the GRANDIT miraimil ERP service for small- and medium-sized enterprises and done more, continuing to evolve day-by-day.



Source: Prepared by FISCO from the GRANDIT CORPORATION's materials

The Company has the leading track record of deployments among the members of the consortium, having deployed it into hundreds of companies, and it received the GRANDIT AWARD Prime Partner of the Year, as the leading sales company, seven times in the past. Its strengths include its in-house developments, including the “production management add-on module” and the “construction management add-on module” as an add-on module to supplement GRANDIT’s basic functionalities for the manufacturing industry, and the “project management template (IT template)” that coordinates with OBPM Neo for the software industry, and also that it has development capabilities enabling it to respond with a wide range of solutions. Moreover, its other strengths include that it is able to provide proposals for business automation through combining RPA and AI, and that it can provide integrated services based on the public cloud, such as AWS and Microsoft Azure.

Business overview

The size of the domestic ERP market has been steadily growing amid an intensifying trend of enterprises implementing digital transformation (DX) of management prompted by the COVID-19 pandemic. With SAP, the largest ERP company, having announced that it will end its support for the maintenance of existing systems in FY2027, the Company began providing support for installation of SAP S/4HANA in April 2024 in addressing the chronic shortage of engineers amid a scenario of major companies in particular migrating from their existing systems to SAP S/4 HANA along with escalating momentum of companies switching over to other ERP options.

ERP vendors are classified by their customer size, and foreign companies such as SAP and Oracle <ORCL> are players for major companies. The Company's target customers are mainly mid-sized companies, which means that products competing products with GRANDIT include GLOVIA by Fujitsu <6702> and OBIC7 by OBIC <4684>. However, due to the increasing complexity of multifunctionality and external linkage functions recently, the Company has tended to receive larger orders with prices approximately ¥300mn to ¥500mn per project. It is difficult to calculate on a generalized basis, since the gross profit margin varies depending on each product configuration and specifications, but on average, the gross margin ranges from 25% to 29%. On the other hand, there is the risk that the profit margin will decrease, and a project will become unprofitable in the event that the project term is prolonged or the renovation work occurs.

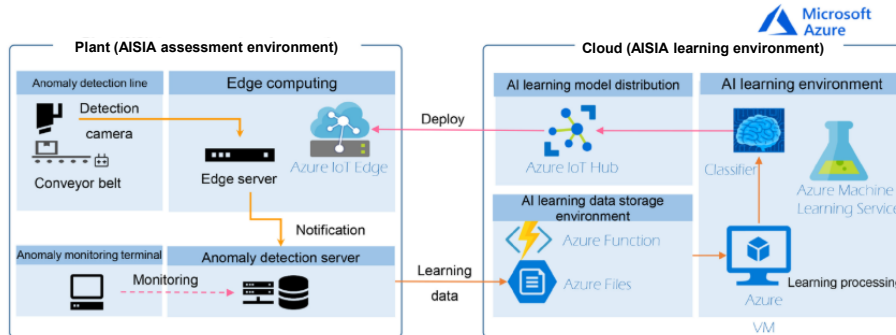
4. AI Business

As for the AI Business, the Company released the AISIA-AD, deep-learning visual inspection system that uses state-of-the-art image recognition technologies, in October 2018. This system automates the visual inspection process on the production line using deep learning technology, resulting in significant labor savings. AISIA-AD's deep-learning technology creates an AI model that can distinguish between normal and anomalies through a learning environment that uses Microsoft Azure. In the anomaly detection process, using a camera to capture images of inspection objects, it photographs the products passing along the manufacturing line and uses an edge computer to make judgements at a high speed and in real time, sorting the products deemed to be anomalies. The object of detection and the required precision differ from customer to customer, so it is necessary to develop an AI model for each individual project and to set final specifications while implementing proof of concept (PoC).

The initial costs to implement PoC are approximately ¥4mn. Deploying AISIA-AD in an actual manufacturing line requires a license fee of ¥4.8mn and development costs (from requirement definitions through to implementation support, and training) of ¥10mn, as well as approximately ¥4mn for hardware devices, and standard development and implementation term ranges from four to six months, and a PoC validation period of two to three months. In many cases, the customers of the Company's ERP Business are in the manufacturing industry, and its strategy is to progress customer acquisition by capitalizing on the expertise and network it has accumulated through ERP deployments, but it is taking longer than initially expected to get up and running because of the challenge to improve accuracy.

Business overview

Image of AISIV-Anomaly Detection in use



AISIA-Anomaly Detection is capable of enlisting entirely local or entirely cloud-based models for learning and assessment.

Source: The Company's website

5. Other Business

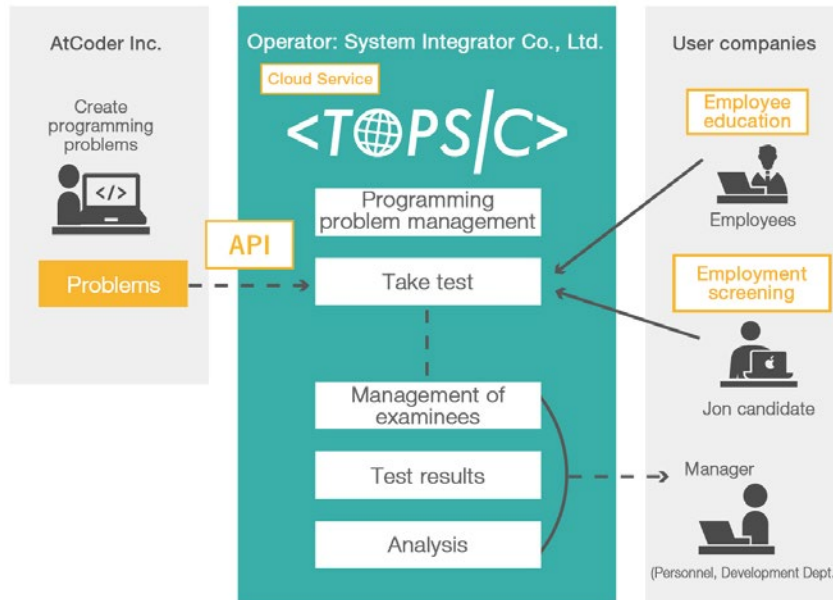
Other Business encompasses two services, one of which is the TOPSIC programming skills evaluation service started in January 2018 and the other of which is the IDEA GARDEN idea creation platform released in fall 2021. Of these, the Company has decided to withdraw from business involving IDEA GARDEN by the end of FY2/25 upon having considered factors that include its profitability outlook, market feasibility, and challenges inherent in achieving business expansion.

The Company offers two services: TOPSIC, which started from TOPSIC-PG, a service that checks examinees' skill level by issuing problems and evaluating the ability of the algorithm, a common programming skill that does not rely on a programming language, in an online format with a combination of six difficulty stages; and TOPSIC-SQL as a skill check service for SQL, which is a database-related language frequently used in operating systems. It can be used as a tool in the screening process for the hiring of engineers, in the educational training of employees, and in the skill check process for selecting outsourcing companies, and since it supports multiple languages, can also be used for foreign engineer hiring and offshore companies' selection.

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Business overview

TOPSIC service



Source: The Company's website

There are two kinds of fee-charging plans (excluding taxes), which are the pay-for-usage system (billing per the frequency of use) and the fixed-fee system (billing per the number of people). In the pay-for-usage system, the standard plan (for general companies) is an annual basic fee of ¥38,000 plus a fee per exam taken of ¥19,000. In the fixed-fee system, the standard plan is an annual basic fee of ¥300,000, plus additional annual usage fees per the number of persons using it (offered for training service companies for 50% and for schools at 10% of the standard plan). As of the end of February 2024, 46 companies have signed contracts. The profit margin of TOPSIC-SQL, which is created in-house, is higher than for TOPSIC-PG, whose exam questions are contracted out.

The competitor to this programming skills evaluation service is Track Test from Givery Inc. It has been adopted by over 200 companies, from startups to major corporations, and ranks at the top of the industry in both the number of test-takers and number of problems. In addition, paiza from Paiza Inc., which provides job seeking and job changing services linked to skill checks, can be deemed to be a competitor despite having a different business model given its approximately 660,000 registered members along with more than 4,000 companies using the service for recruitment as of the end of September 2023. One management challenge faced by the Company is that of a situation where TOPSIC has been struggling to achieve growth relative to that of competing services.

In part to improve the name awareness of TOPSIC, since 2018 the Company has held PG Battle around once a year, a tournament in which companies and schools compete against each other in programming contests using TOPSIC at a pace of once every two months. In July 2022, it also began TOPSIC SQL CONTEST, an event that tests SQL coding abilities. The sixth PG Battle held in October 2023 has grown to attract 361 teams (378 teams in the previous year) and 1,134 participants (1,083 participants in the previous year) on a combined school and company basis. TOPSIC SQL CONTEST has seen a growing number of registered members each time the contest is held, and the number of registered members has grown to 2,000 as of the end of April 2024.

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Results trends

In FY2/24, net sales achieved new record high for first time in two fiscal years amid favorable results in the ERP Business

1. Overview of FY2/24 results

In FY2/24 results, net sales increased by 7.8% YoY to ¥4,835mn, operating profit decreased by 19.3% to ¥328mn, ordinary profit decreased by 19.3% to ¥336mn, and net profit increased by 237.2% to ¥944mn.

FY2/24 results

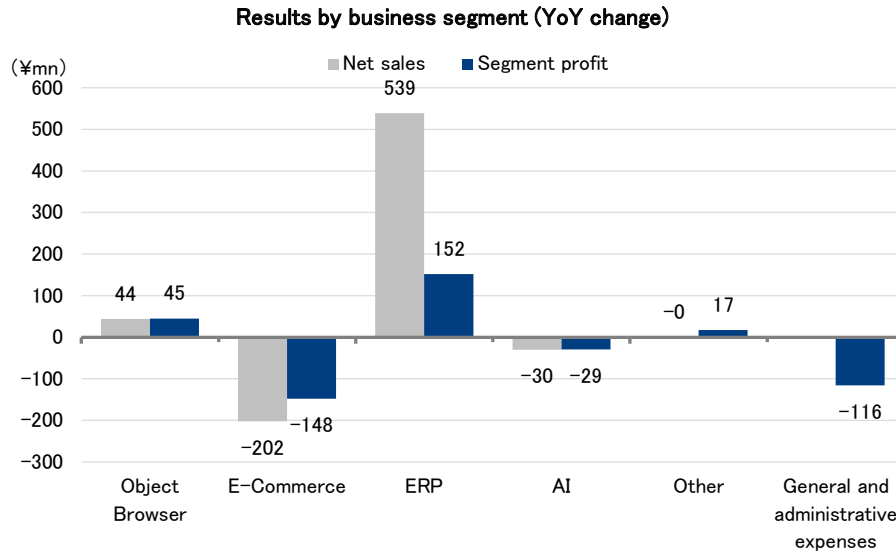
	FY2/23		Company's forecasts*	FY2/24			
	Result	% of sales		Result	% of sales	YoY	Vs. forecast
Net sales	4,486	-	4,892	4,835	-	7.8%	-1.2%
Gross profit	1,576	35.1%	-	1,628	33.7%	3.3%	-
SG&A expenses	1,169	26.1%	-	1,300	26.9%	11.1%	-
Operating profit	406	9.1%	371	328	6.8%	-19.3%	-11.5%
Ordinary profit	416	9.3%	392	336	6.9%	-19.3%	-14.3%
Extraordinary profit and loss	-0			954			
Net profit	280	6.2%	918	944	19.5%	237.2%	2.9%

* Based on the Company's revised figures released in January 2024
 Source: Prepared by FISCO from the Company's financial results

Net sales reached a new record high for the first time in two fiscal years amid a scenario where higher sales in the ERP Business and the Object Browser Business offset lower sales in the E-Commerce Business. Gross profit increased on a monetary basis by 3.3% YoY to ¥1,628mn, despite the gross profit margin having decreased to 33.7% from 35.1% in the previous fiscal year. The decrease was in part attributable to a lower engineer utilization rate (down 0.8 percentage points YoY to 60.6%) due to an insufficient number of projects in the E-Commerce Business and AI Business, and also attributable to changes in sales results by business segment (the ERP Business accounted for 68.1% of the Company's overall net sales for an increase of 6.7 percentage points). Meanwhile, operating profit and ordinary profit decreased amid an increase in SG&A expenses of 11.1% YoY to ¥1,300mn primarily due to higher personnel expenses* (up ¥75mn), higher R&D expenses (up ¥23mn), and expenses incurred particularly in relation to establishing a subsidiary and selling its shares. By business segment, whereas lower profits and increased losses in the E-Commerce Business and AI Business were offset by higher profits in the ERP Business and the Object Browser Business, the overall decrease in profits was largely attributable to an increase of ¥116mn in general and administrative expenses. Nevertheless, net profit reached a new record high for the first time in five fiscal years (¥578mn in FY2/19) as a result of the Company having recorded gain on sales of shares of DG Commerce of ¥868mn and gain on sale of investment securities of ¥88mn under extraordinary income. The Company's workforce decreased to 216 employees as of the end of FY2/24, which is 17 fewer employees than at the end of the previous fiscal year. However, given that 32 engineers were transferred out due to the spin-off of the E-Commerce Business, the workforce effectively increased by 15 employees largely as planned.

* Personnel expenses include hiring expenses and education expenses.

Results trends



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

ERP Business achieves double-digit growth in sales and profits amid increase in projects seeking compliance with the government's invoicing system

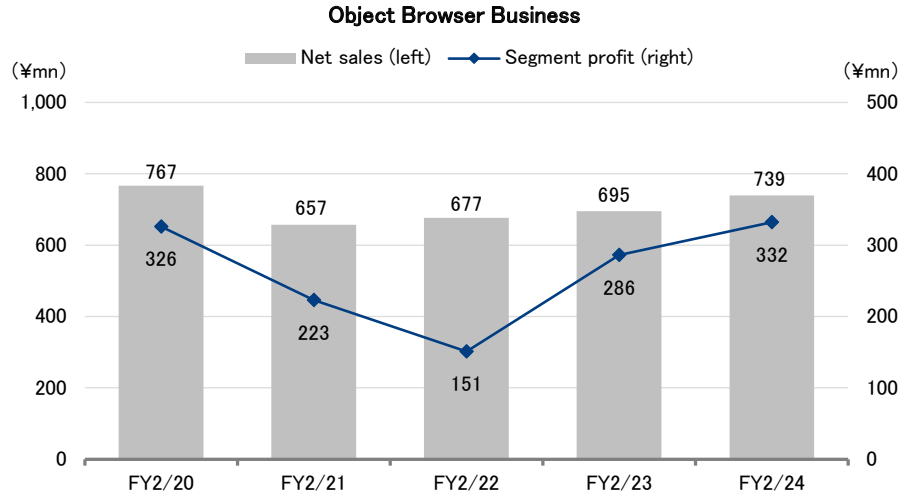
2. Results by business segment

(1) Object Browser Business

The Object Browser Business achieved higher sales and profits, with net sales up by 6.3% YoY to ¥739mn and segment profit* up by 16.0% to ¥332mn, thereby slightly exceeding the Company's revised forecasts released in January 2024 (net sales of ¥737mn and core business profit of ¥323mn). Whereas net sales of the Object Browser series remained largely unchanged, the segment's sales and profit increased largely due to double-digit gains in sales of OBPM Neo.

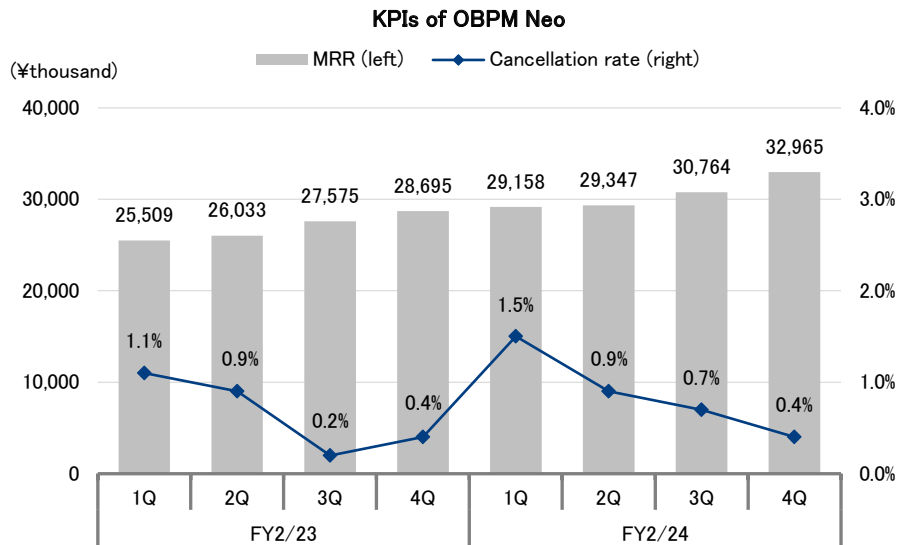
* Effective from FY2/24, the Company will disclose profits by business segment before deduction of Company-wide shared expenses (general and administrative expenses of ¥727mn) to facilitate a more accurate understanding regarding financial performance of each business segment. The Company has also revised segment profit for FY2/23 based on the same standards. Prior to this change, the Company allocated shared expenses to each business segment in proportion to the net sales of the respective segment, then decreased profit of each segment by the respective shared expense amount. However, this resulted in a situation where profitability was portrayed as lower than actual performance in the ERP Business, which generates a high volume of sales.

Results trends



Note: The chart depicts operating profit for FY2/22 and prior fiscal years and depicts core business profit before deduction of Company-wide shared expenses for FY2/23 and subsequent fiscal years.
 Source: Prepared by FISCO from the Company's financial results

Sales of OBPM Neo increased by 14.9% YoY to a new record high of ¥32mn in 4Q, prompted by steady growth in monthly recurring revenue (MRR) amid a situation where the Company made progress in gaining new OBPM Neo customers and kept cancellation rates low upon having resumed various marketing initiatives for OBPM Neo following on suspension of such efforts previously due to the COVID-19 pandemic.

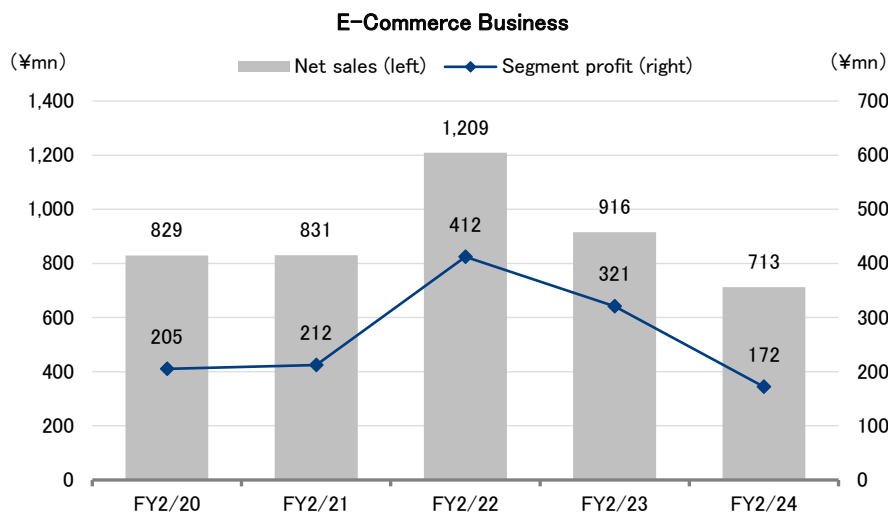


Source: Prepared by FISCO from the Company's results briefing materials

Results trends

(2) E-Commerce Business

Net sales from the E-Commerce Business declined 22.1% YoY to ¥713mn and segment profit declined by 46.3% to ¥172mn. Both figures were nearly in line with the Company’s revised forecasts (net sales of ¥706mn and core business profit of ¥175mn). As COVID-19 has subsided, retail companies have begun to shift their investment policies from the e-commerce field to real stores and DX-related investment, and the Company struggled to acquire new orders, as it was slow to accommodate this change in customer needs. Moreover, converting the business to a joint venture on January 1, 2024, was also a factor in the decrease in sales and profits as two months’ worth of sales and profits were lost.



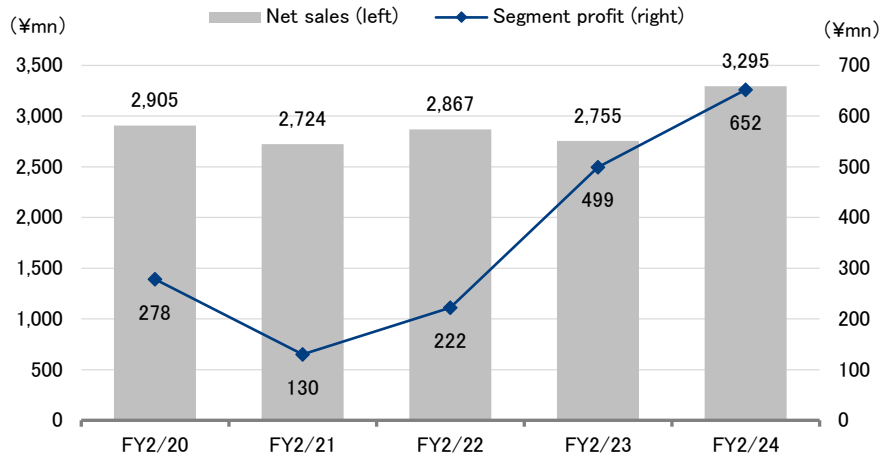
Note: The chart depicts operating profit for FY2/22 and prior fiscal years and depicts core business profit before deduction of Company-wide shared expenses for FY2/23 and subsequent fiscal years.
Source: Prepared by FISCO from the Company’s financial results

(3) ERP Business

Net sales from the ERP Business increased 19.6% YoY to ¥3,295mn and segment profit rose 30.7% to ¥652mn, coming in just under the Company’s revised forecasts (net sales of ¥3,359mn and core business profit of ¥682mn), but net sales set a record high for the first time in four fiscal years, so the segment performed well. There was an increase in development projects from existing customers for GRANDIT in order to comply with the Invoice System that went into effect in October 2023. Sales also increased for an electronic bookkeeping solution to accommodate the amended Act concerning Preservation of Electronic Books that became mandatory in January 2024. Demand related to these revised laws is estimated to have boosted sales by several hundreds of millions of yen. In particular, projects to comply with the Invoice System were highly profitable and were one of the reasons the core business profit margin rose from 18.1% to 19.8%. Looking on a quarterly basis, 4Q net sales increased 7.2% YoY to ¥868mn, so sales continued to increase, but segment profit declined by 20.7% to ¥147mn, a reversal of the previous trend. An increase in personnel expenses (increased bonuses and education expenses) and a lack of high-profit projects like before are thought to have had an impact.

Results trends

ERP Business

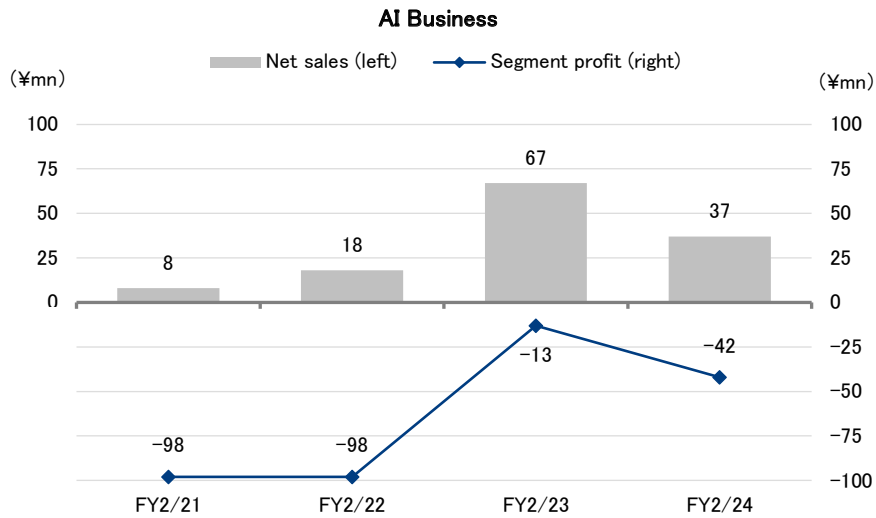


Note: The chart depicts operating profit for FY2/22 and prior fiscal years and depicts core business profit before deduction of Company-wide shared expenses for FY2/23 and subsequent fiscal years.
 Source: Prepared by FISCO from the Company's financial results

(4) AI Business

Net sales from the AI Business decreased 44.8% YoY to ¥37mn and the segment loss was ¥42mn (¥13mn loss the previous fiscal year). These figures fell slightly short of the Company's revised forecasts (net sales of ¥42mn and segment loss of ¥32mn). There were a number of verification and study projects (including for PoC) using AISIA-AD, a deep-learning visual inspection system, but in many cases there were demands to review the facilities used for the verification process and propose operations, so currently there are many companies that are still cautious about its full-fledged deployment on their production lines. In FY2/24, one existing customer was expecting to increase facilities, but verifying results, the time it took to do so, and the fact that the deployment timing was pushed back all negatively affected earnings. PoC projects were wide-ranging and included film products, parts for transportation equipment, plastic bottle caps, and electrical equipment materials, but it appears to be taking time to verify the increased precision of abnormal object detection and cost effectiveness of deploying a system.

Results trends



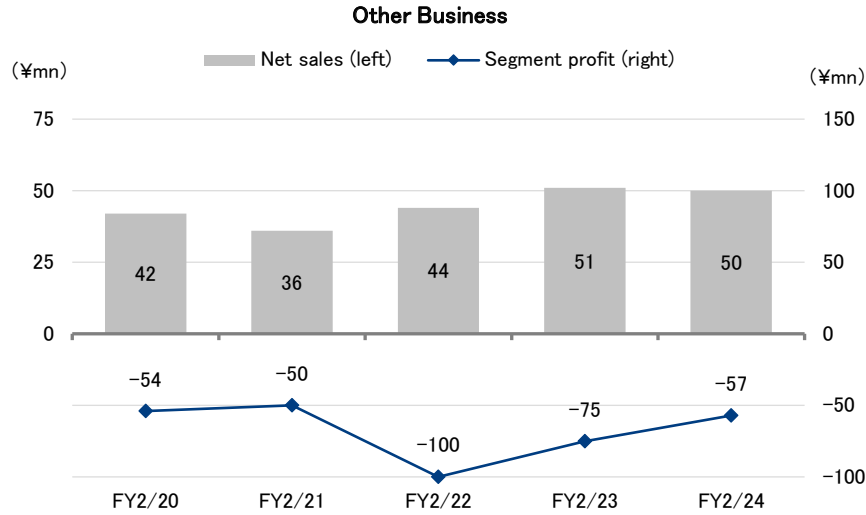
Note: The chart depicts operating profit for FY2/22 and prior fiscal years and depicts core business profit before deduction of Company-wide shared expenses for FY2/23 and subsequent fiscal years.
 Source: Prepared by FISCO from the Company's financial results

In light of these circumstances, in October 2023 the Company began handling Image Pro, an AI external inspection system developed by RUTILEA to simplify the precision verification process for customers. The product is characterized by enabling the user to directly set parameters for abnormal areas on the image, the target of inspection, for each abnormal pattern in color, scratches, indentions, etc. using only a mouse; no specialized programming knowledge is needed. Verification precision can be expected to improve by combining AI and rule-based algorithms, which will make it possible to substantially shorten the development period. Seminars were held after the announcement and the response appears to have been favorable. In the future, combining Image Pro functions with AISIA-AD will make a more complete system in the quest for profitability.

(5) Other Business

In the Other Business segment, which includes new businesses, net sales declined by 1.9% YoY to ¥50mn and the segment loss was ¥57mn (¥75mn loss the previous fiscal year), which was generally in line with the Company's revised forecasts (net sales of ¥48mn and a segment loss of ¥63mn). The reason the loss contracted was partially because there was no longer a loss from VOICE TICKETS, a customer success support tool that the Company withdrew from. In addition, companies deploying IDEA GARDEN did not increase and the Company has decided to withdraw from the business at the end of FY2/25.

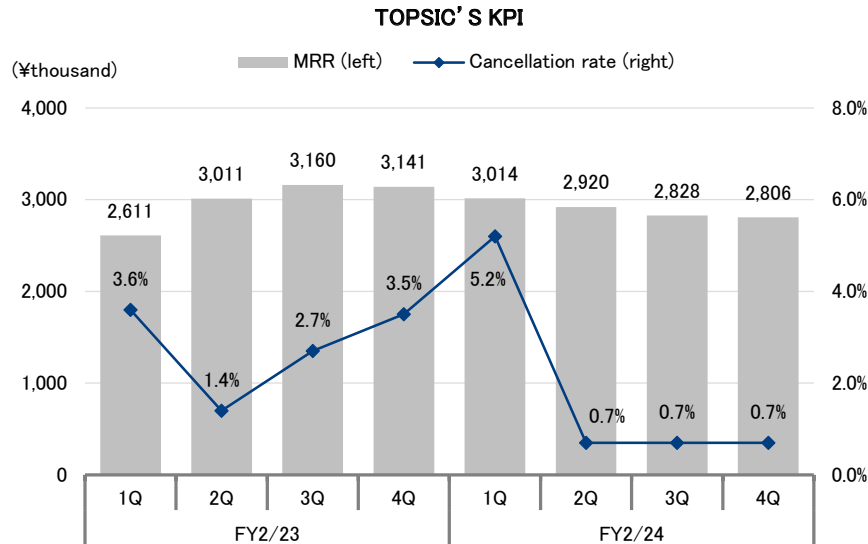
Results trends



Note: The chart depicts operating profit for FY2/22 and prior fiscal years and depicts core business profit before deduction of Company-wide shared expenses for FY2/23 and subsequent fiscal years.
 Source: Prepared by FISCO from the Company's financial results

TOPSIC, a programming skills evaluation service, acquired new customers but also lost a certain number of existing customers, so the year-end number of contracted companies decreased by one to 46. The ratio of customers with low unit sales increased, so MRR also continued to gradually decline. 4Q MRR sales were down 10.7% YoY to ¥2,806mn. But by focusing on customer service activities to promote continued use, the cancellation rate was 0.7% from the 2Q onward, and the Company's efforts appear to be effective in keeping the rate below 1%. In February 2024, AI analysis and skill graph functions were added to enable analysis and visualization of examinees' answer tendencies and solution methods. Utilizing these functions is expected to raise the speed of engineer training. The Company is strengthening marketing activities focused on company personnel and recruitment divisions and training service companies as target customers, and it plans to thereby raise the number of contracted companies going forward.

Results trends



Note: MRR are companies contracted under a fixed payment plan.
 Source: Prepared by FISCO from the Company's results briefing materials

Using funds obtained from gain on sales of shares of subsidiaries and associates for growth investment and shareholder returns

3. Financial position and management indicators

Total assets at the end of FY2/24 amounted to ¥4,752mn, an increase of ¥972mn from the end of the previous fiscal year. Looking at the main factors behind this change, in current assets, cash and deposits rose by ¥1,026mn on the sale of shares in DG Commerce and other factors. In non-current assets, software (including software in process) decreased by ¥142mn and investment securities declined ¥88mn, while shares of subsidiaries and associates rose ¥87mn and deferred tax assets increased ¥41mn.

Total liabilities at the end of FY2/24 totaled ¥1,087mn, up ¥176mn from the end of the previous fiscal year. Accounts payable – trade declined ¥33mn and income taxes payable increased by ¥211mn. Total net assets increased ¥795mn to ¥3,665mn. Valuation difference on available-for-sale securities declined by ¥61mn due to selling off investment securities, but retained earnings increased by ¥857mn.

Looking at management indicators, the equity ratio went up from 75.9% at the end of the previous fiscal year to 77.1% thanks to an increase in retained earnings. Under debt-free management, cash and deposits were over ¥2.9bn, accumulating to a record high level, and the Company's financial condition can be judged to be good. Funds obtained from the sale of shares in DG Commerce are intended to be used to make growth investments, including through M&A, and allocated to shareholder returns.

Results trends

Balance sheet and management indicators

	FY2/21	FY2/22	FY2/23	FY2/24	Difference
	(¥mn)				
Current assets	2,544	2,801	3,092	4,171	1,079
(Cash and deposits)	1,473	1,631	1,964	2,990	1,026
(Work in process)	329	169	10	17	7
Non-current assets	953	778	687	580	-106
Total assets	3,498	3,580	3,780	4,752	972
Total liabilities	1,066	866	910	1,087	176
(Advances received, contract liabilities)	264	340	318	304	-14
(Interest-bearing debt)	-	-	-	-	-
Total net assets	2,431	2,714	2,869	3,665	795
(Retained earnings)	1,686	1,988	2,173	3,030	857
Management indicators					
(Safety)					
Equity ratio	69.5%	75.8%	75.9%	77.1%	1.2pt
(Profitability)					
ROE	12.5%	15.2%	10.0%	28.9%	18.9pt
Operating profit margin	9.8%	12.2%	9.1%	6.8%	-2.3pt

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

Outlook

In FY2/25, increases in sales and profit anticipated on the basis of existing businesses other than the E-Commerce Business

1. Forecasts for FY2/25

For its FY2/25 results, the Company is forecasting net sales to decline 6.8% YoY to ¥4,508mn, operating profit to decrease 51.3% to ¥160mn, ordinary profit to decrease 47% to ¥178mn and net profit to decline 88.5% to ¥109mn, so declines in both sales and profits are expected. On an existing business basis, net sales are projected to increase by 9.4% and operating profit by 2.5%.

Forecasts for FY2/25

	FY2/24		FY2/25				Existing business YoY
	Full-year results	(excluding E-Commerce Business)	1H forecast	YoY	Full-year forecast	YoY	
Net sales	4,835	4,122	2,088	-13.9%	4,508	-6.8%	9.4%
Operating profit	328	156	-49	-	160	-51.3%	2.5%
Ordinary profit	336	-	-40	-	178	-47.0%	-
Net profit	944	-	-82	-	109	-88.5%	-
Earnings per share (¥)	86.51	-	-7.56	-	9.98	-	-

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

Outlook

In FY2/25, toward further expansion of the ERP Business, the Company intends to state around ¥60 million in SG&A expenses related to enlarging the Osaka Office and relocating the Fukuoka Office to enlarge it and around ¥15mn in extraordinary loss. In addition, around ¥120mn is planned for R&D expenses related to new products and services (increase of ¥67mn YoY), but this will be offset by the increase in sales and the Company is expecting to secure a profit increase on an existing business basis. Regarding the Osaka and Fukuoka Offices, the relocation and expansion will make it possible to double the workforce compared to previously. Both offices have so far had around 60 members, primarily engineers. The Company intends to begin consolidated accounting in FY2/25, and entails accounting for profits attributable to its Vietnamese subsidiary* and accounting for share of profit of entities accounted for using equity method associated with DG Commerce. (In non-consolidated results forecasts, it is calculated by inclusion in share of profit of entities accounted for using equity method, which is in non-operating income.)

* A development site for the ERP Business established in October 2022. At the end of FY2/24 it had a workforce of 36 people (up 27 from the end of the previous fiscal year) and posted a slight profit. In FY2/25, 24 people are scheduled to be added, which would bring the workforce to 60 people.

By business segment, the Object Browser Business, ERP Business and AI Business are expected to see increased sales, but core business profit is forecast to fall in the Object Browser and ERP Businesses. The losses in the AI Business and Other Business are expected to contract.

Outlook by business segment

	(¥mn)							
	Net sales		YoY		Core business profit		YoY	
	FY2/24	FY2/25 E	Difference	Change	FY2/24	FY2/25 E	Difference	Change
Object Browser Business	739	793	53	7.2%	332	298	-34	-10.2%
ERP Business	3,295	3,570	276	8.3%	652	619	-33	-5.1%
AI Business	37	98	60	163.5%	-42	-17	25	-
Other Business	50	47	-3	-6.6%	-57	-15	42	-

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

(1) Object Browser Business

In the Object Browser Business, net sales are expected to increase 7.2% to ¥793mn and core business profit to decline by 10.2% to ¥298mn. Net sales are expected to continue to increase as the number of customers increases for OBPM Neo; the Object Browser series is also expected to sell well. Amid an ongoing chronic shortage of engineers, there are estimated to be over 2,000 companies with the potential to deploy OBPM Neo, which is a project management support tool, and by strengthening sales, the Company will focus on acquiring customers. In addition, regarding Object Browser, Ver. 23.1 was released in July 2023. The new version partially automates the development process using OpenAI's ChatGPT, but the Ver. 24 release in January 2024 increases the processes that allow for use of ChatGPT to increase engineer productivity, and going forward as well stable demand is expected as the default standard. The Company is predicting lower profit despite higher sales because it reorganized its internal organizations by function (development, sales) in March 2024 and profit was impacted by sales expenses associated with an increase in allocation of expenses to the consolidated sales organization, but this is a temporary factor.

Outlook

(2) ERP Business

In the ERP Business, the Company is forecasting net sales to increase 8.3% YoY to ¥3,570mn and core business profit to decline by 5.1% to ¥619mn. Although special demand associated with responding to the Invoice System, which made a contribution in the previous fiscal year, will drop off, using these projects as a hook, the Company expects buoyant conditions to continue for GRANDIT development projects as existing customers order additional development projects. The reason profit is down is stating around ¥60mn in expenses related to the Osaka Office expansion and Fukuoka Office relocation and expansion, so the downturn in profit is seen as temporary.

In the ERP Business, the Company started a deployment support service in April 2024 for SAP S/4HANA, newly provided by SAP for further growth. SAP has the top share of ERP products for large companies, and with maintenance service for the existing system slated to end in FY2027, there will be a whole host of projects for migrating to SAP S/4HANA. With a shortage of SAP engineers continuing, the Company intends to capture this demand. The product is for large companies, so initially the Company will start as a subcontractor, but it is already in order negotiations for a development project with a prime contractor. The Company will strengthen recruitment and training of SAP-certified engineers domestically and at its Vietnamese subsidiary, and will target sales of ¥500mn in three years. Demand is rampant, so FISCO believes that the target is achievable if a development system can be established.

(3) AI Business

In the AI Business, the Company is expecting net sales to increase by 163.5% to ¥98mn and the core business loss to be ¥17mn (loss of ¥42mn the previous fiscal year). Regarding net sales, a project to expand use of AISIA-AD for an existing customer that has been carried over since the previous fiscal year will contribute to the increase, and sales of Image Pro, which the Company began handling in October 2023, will also contribute to the increase. Profitability is lagging, but the Company plans to take measures in FY2/25 that include revising the business model, and for the time being the policy of continuing the business remains unchanged.

(4) Other Business

Net sales in Other Business is projected to decrease 6.6% YoY to ¥47mn and the core business loss to be ¥15mn (loss of ¥57mn the previous fiscal year). Net sales are expected to decline as the Company withdraws from the IDEA GARDEN business. Some withdrawal costs will be incurred, but TOPSIC is performing well, which is expected to contract the amount of loss. Regarding TOPSIC, the community marketing* method has been adopted and through various events the Company will acquire new customers.

* Community marketing is a marketing method to acquire new customers that involves forming a community among users that are fans of the product or service or to directly connect users and companies (dedicated site, various events), and through communication in the community, product and service engagement is fostered, and the user data acquired is used in marketing.

Outlook

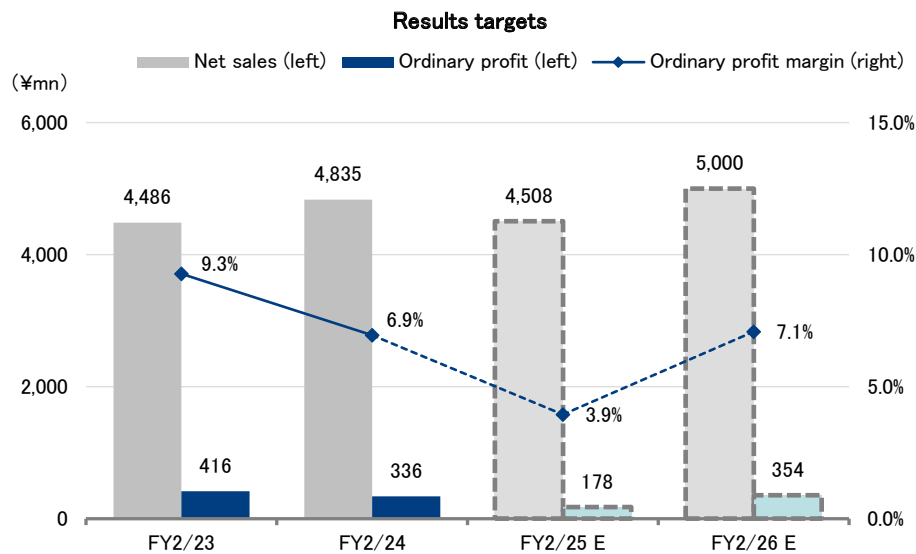
Seeking sustained sales growth and profitability gains while developing new businesses and focusing resources on ERP, AI, and development support tools

2. Two-year Management Plan

(1) Results targets of Two-year Management Plan

The Company announced a two-year management plan and long-term results targets* in April 2023, but in light of the fact the E-Commerce Business was split up, a new venture company was formed, and organizational restructuring was conducted to strengthen the functions of development and sales organizations, a new two-year management plan was announced. Results targets for the second year of the plan, FY2/26, are net sales of ¥5,000mn and ordinary profit of ¥354mn, and the Company will work to surpass its result levels from FY2/24.

* Results targets for FY2/25 are net sales of ¥5,500mn and ordinary profit of ¥536mn. Its long-term targets for five years from now in FY2/28 are net sales of ¥7,100mn, and operating profit of ¥1,400mn and for 10 years from now in FY2/33 are net sales of ¥12,000mn and operating profit of ¥3,000mn.



Source: Prepared by FISCO from the Company's releases.

(2) Basic policy

a) Vision for FY2/26

The Company's vision is the same as before: "We consistently create software that creates time rather than consumes time." It will focus resources on business systems for companies, and along with further growth from existing businesses from core systems to development support tools and AI systems, the Company also plans to actively invest to develop and cultivate new products and services that solve the business issues of companies.

(b) Aspirations and basic policies for FY2/26

The Company has five aspirations for FY2/26 and measures will be promoted based on basic policies for each.

Outlook

<Aspirations>

- As a unique creator, to launch new product and service businesses that truly provide time to support the next 10 years.
- As a top-level system coordinator, to be a true system integrator that can provide value beyond expectations to solve the business issues of customers.
- To focus resources on the three domains of business systems, AI, and development support tools and to establish a solutions-based business model that utilizes the Company's strengths.
- To continue to improve by 1% to restore the operating profit margin to 10%.
- To maximize shareholder value by ensuring sustained growth while strengthening governance.

<Basic policies>

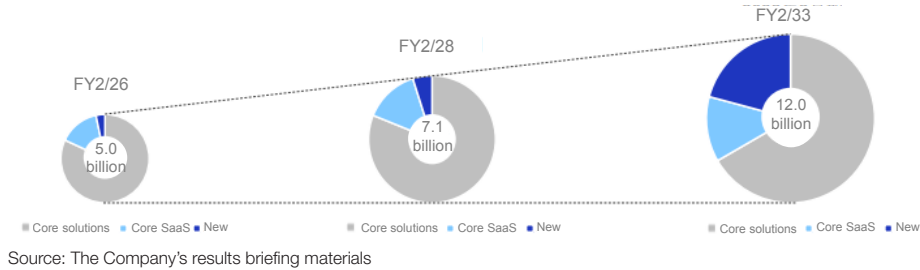
- Regarding profitability, the Company will work to continue to improve by 1% in all businesses. AI technologies will also be actively deployed to raise productivity.
- Regarding business policy, the Company will work for stable growth by focusing resources in business systems, AI and development support tools and will strive to pioneer new growth areas through active investment in new business development.
- Regarding human resources and organizations, the Company will work to train highly proactive professionals with high technical capability and value provision capability and will strive to enhance technical capability and competitiveness through organizational restructuring (splitting development and sales functions) in March 2024. In addition, regarding employee performance evaluations, the Company has switched to an evaluation system as of FY2/25 that emphasizes business results and competency, which will raise motivation and engagement.
- Regarding investment, the Company will invest in businesses and human resources for sustained growth and also invest in corporate alliances, including M&A. As for targets, the Company is targeting companies with human resources that will lead to growth in the ERP Business and currently appears to be doing continuing due diligence on a deal on a scale of annual sales of several hundreds of millions of yen.
- Regarding the management infrastructure, the Company will maintain management data and create a system that allows for dynamic management decisions while conducting data analysis.
- Regarding shareholder returns, the Company will strive to improve its TSR (stock price gains + dividends) and conduct shareholder returns in a stable and continuing manner.
- Regarding ESG and SDGs initiatives, the Company will build administrative and monitoring systems that secure and maintain management transparency and work for a competitive advantage and will promote activities at each business site that contribute to local communities.

(3) Long-term vision

In terms of a long-term vision, the Company has set sales targets of ¥7.1bn for FY2/28 and ¥12.0bn for FY2/33. As for initiatives from a long-term perspective, the Company aims to form strong products and brand power such that product names are synonymous with the company like with Object Browser. To build a new pillar after the ERP Business (GRANDIT), the Company will make active investments in new business development and company alliances. Through these initiatives, the Company aims to develop at least three businesses with net sales in the range of ¥3.0bn to ¥5.0bn as it works to expand earnings.

Outlook

Two-year Management Plan and long-term targets for FY2/33



Shareholder return policy and SDGs initiatives

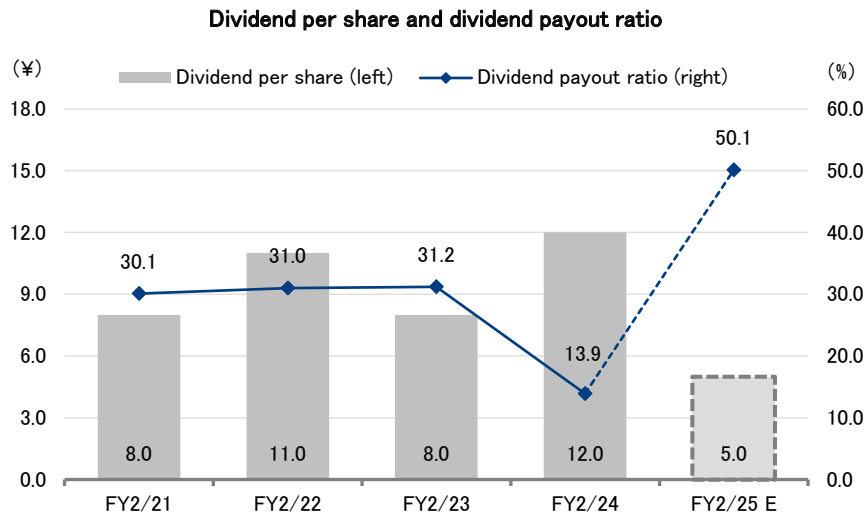
Standard dividend payout ratio is 30% based on performance and a gift of Koshihikari rice through shareholder rewards program

1. Shareholder return policy

Regarding shareholder returns, the Company aims to raise TSR (stock price gains + dividends) through stable and ongoing shareholder returns. The Company will raise the stock price through earnings growth and intends to pay a dividend based on a dividend payout ratio of 30%. The dividend per share for FY2/24 was ¥12.0 (dividend payout ratio of 13.9%), which included a special dividend of ¥2.0, for an increase of ¥4.0 from the previous year. The reason the dividend payout ratio is low is because of major gains on sales of shares of subsidiaries and associates, which caused net profit to swell. In FY2/25, the Company is planning to lower the dividend by ¥7.0 to ¥5.0 (dividend payout ratio of 50.1%), which includes a ¥2.0 commemorative dividend (30th anniversary).

In addition, the Company has introduced a shareholder rewards program with the objective of cultivating stable shareholders who hold their shares for the mid-to long-term. The program is for shareholders who hold at least 200 shares and who are listed under the same shareholder number in the shareholder ledger at the end of August and end of February in each year. The Company rewards newly harvested Koshihikari rice grown in Niigata, using reduced levels of fertilizers and agrochemicals. Shareholders holding from 200 to 999 shares receive a 1kg bag, those holding 1,000 to 3,999 receive a 2kg bag, those holding 4,000 to 15,999 receive a 5kg bag, and those holding 16,000 shares or more receive a 10kg bag, with the gift being delivered each fall after the harvest.

Shareholder return policy and SDGs initiatives



Note: FY2/24 includes a special dividend of ¥2.0, and FY2/25 includes a commemorative dividend of ¥2.0 to commemorate the Company's 30th anniversary.
 Source: Prepared by FISCO from the Company's financial results

Highly evaluated as a company actively working on SDGs

2. SDGs initiatives

The Company is also actively promoting initiatives for the SDGs. As for environmental initiatives, the Company is switching to products in conformance with the Green Purchasing Act for equipment and supplies purchased internally (in FY3/23, the rate was 26.7%, above the FY2/30 goal of 20%). It is also reducing consumption of paper by promoting data conversion (372 printed sheets annually per employee in FY2/23; goal of 240 sheets in FY2/30). In addition, in August 2023, the Company purchased sustainability bonds issued by Saitama Prefecture (Saitama ESG bonds).

As of social initiatives, in September 2021, the Company began activities to create websites free of charge for the Children's Cafeteria program in Saitama Prefecture, where the Company's headquarters is located. As of the end of November 2023, the Company has created and supports 19 websites. Also, to contribute to regional revitalization, realization of a diverse society, and the development of the IT industry in Japan and overseas, the Company is promoting remote work hirings of people living in outer prefectures (seven hired as of FY2/23; goal of 20 by FY2/30) and hiring of people of foreign nationalities (22 hired as of FY2/23; goal of 30 by FY2/30).

The Company proactively recruits female employees, has full childcare and nursing care systems, and has been highly reputed for these initiatives, being awarded in 2012 with the gold certification as "a company practicing diverse workstyles" from Saitama Prefecture and in 2021, it was registered as a "Saitama Prefecture SDGs Partner" and "Saitama City SDGs Certified Company." In 2017, the Company was certified by the Ministry of Health, Labour and Welfare as a "company realizing both work and nursing care (Tomonin)" and then in 2019 as a "company supporting parenting (Platinum Kurumin)." Also in 2017, the Company was selected as one of the "100 Teleworking Pioneers" by the Ministry of Internal Affairs and Communications, as a company that is actively promoting teleworking. These initiatives by the Company have also been highly evaluated by students and others, and even within the IT industry where the labor shortage has become a serious issue, the Company appears able to recruit excellent human resources comparatively smoothly with an employee retention rate of 90%, which is above the industry average.

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