COMPANY RESEARCH AND ANALYSIS REPORT

WingArc1st Inc.

4432

Tokyo Stock Exchange Prime Market

14-Jun.-2023

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Summary

Aiming to “create a data platform that promotes DX.” Steady strategic investment in FY2/23 helped the Company exceed its forecasts

WingArc1st Inc. <4432> (hereafter, also “the Company”) provides corporate software and cloud services. Its business segments are Business Document Solutions that supports companies’ core operations, and Data Empowerment Solutions that creates value from data. Although the Company was delisted in September 2013 following a management buyout (MBO), it maintained a competitive edge and judged that it had achieved the purpose of the MBO, which is stably and continuously improving enterprise value for the future, so it was relisted on the Tokyo Stock Exchange (TSE) 1st Section in March 2021 and was then transferred to the TSE Prime Market in April 2022.

1. Outline of results for FY2/23

In the FY2/23 consolidated results, revenue increased 12.7% year-on-year (YoY) to ¥22,349mn, while operating profit decreased 0.7% to ¥5,945mn, due partially to strategic investment of ¥1,717mn (95.4% of the ¥1,800mn strategic investment amount in its initial plan) to bolster business, and adjusted EBITDA, which is a profit indicator that excludes the effects of ordinary business activities, decreased 2.1% to ¥7,163mn. These figures were all higher than the Company’s initial FY2/23 forecasts announced in April 2022 (revenue of ¥21,000mn, operating profit of ¥4,750mn and adjusted EBITDA of ¥6,000mn), and its upwardly revised forecasts announced when it released 3Q results in January 2023 (revenue of ¥22,000mn, operating profit of ¥5,650mn and adjusted EBITDA of ¥6,900mn). The strong performance of both the Business Document Solutions and Data Empowerment Solutions segments was the major factor behind these results. In Business Document Solutions, revenue increased 16.3% to ¥14,354mn, while in Data Empowerment Solutions, revenue rose 6.7% to ¥7,994mn.

2. Outlook for FY2/24

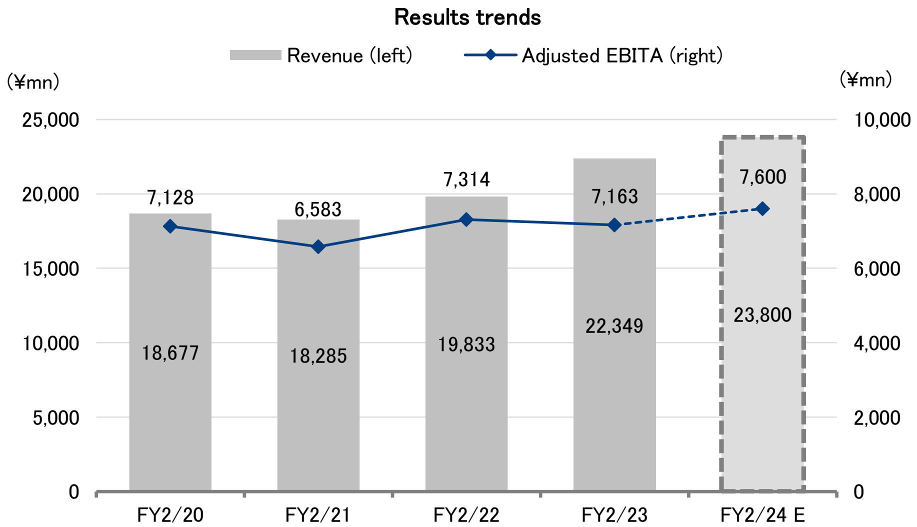
For the FY2/24 results outlook, the Company is forecasting that revenue will increase 6.5% YoY to ¥23,800mn, operating profit will improve 6.8% to ¥6,350mn, and adjusted EBITDA will increase 6.1% to ¥7,600mn. The Company has been using the management indicators of adjusted EBITDA and adjusted profit for period in its performance explanations, but will shift to using EBITDA and profit attributable to equity holders of the parent instead of adjusted figures from FY2/24 onward as there are virtually no expenses to adjust at present. In the Business Document Solutions, the focus will be on responding to aspects such as the Electronic Book Storage Act and Invoice System, etc., and sales of “invoiceAgent” are expected to strengthen and increase. In Data Power Solutions, the focus will be on cloud-based solutions for industries and work and on “Dataring,” which is a service to support the utilization of data by large companies, and it is thought that progress will be made in acquiring customers. The Company expects stable growth to continue for both businesses, with revenue increasing by 6.9% YoY to ¥15,343mn for Business Document Solutions, and by 5.8% to ¥8,457mn in Data Power Solutions. The Company views its FY2/24 earnings forecasts as its minimum commitment to the market, and seeks to achieve its initial figures amid a strong tailwind of robust demand for core systems and legislative compliance.

3. Medium- to long-term growth strategy

In January 2022, the Company announced its five-year Medium-term Management Policy (FY2/23 to FY2/27). With "Create a data platform that promotes DX" as the main pillar of this policy, it is aiming for major growth, mainly in the cloud business. Based on this platform, the Company's policy for Business Document Solutions is to work on "inter-company DX" of distributing data and realizing reforms of inter-company transactions, and for the Data Empowerment Solutions, to work on "Intra-company DX" that draws out value from data and contributes to improving productivity and creating new businesses. The targets that the Company is aiming to achieve during the relevant period are a "cloud growth rate of 40% (average of FY2/22 to FY2/27)," "a recurring revenue rate of 75% (FY2/27)," "a cloud ratio of 40% (FY2/27)," and "adjusted EBITDA of ¥12bn (FY2/27)." In FY2/23, the first year of its Medium-term Management Policy, the Company's cloud growth rate was 20.3%, recurring revenue rate was 60.2%, and EBITDA was ¥7.16bn. For FY2/24, it targets cloud growth rate of 24.4%, recurring revenue rate of 63.5%, and EBITDA of ¥7.60bn, steadily achieving its targets towards the final year of the policy.

Key Points

- In FY2/23, revenue increased 12.7% YoY and profits (adjusted EBITDA) decreased 2.1%, and results were strong for both solutions. Exceeded initial forecasts and revised forecasts announced at time of 3Q results.
- Forecasts increased revenue and profit for FY2/24. Expects "invoiceAgent" and other products sales to increase
- Announced the Medium-term Management Policy in January 2022. With "Create a data platform that promotes DX" as its main pillar, is targeting the major growth of the cloud business



Note: Will change profit indicator from adjusted EBITDA to EBITDA from FY2/24 onward
Source: Prepared by FISCO from the Company's financial results summary report

Company profile

Viewing big data as a "new resource," provides software and services that bring value to companies and society

1. Company profile

The Company's vision is to "Empower Data, Innovate the Business, Shape the Future," and it is aiming to bring about innovation in many companies by utilizing the various data that exists in society, and as a result, to realize a better society. Due to the current spread of smartphones and IoT, the data that is created every day is increasing at an accelerating pace. Also, needs are rising for improved work efficiency, such as through workstyle reforms. The Company views this various data (big data) as a "new resource" and is utilizing this resource to provide software and services that bring about a range of value for companies and society.

In the seven and a half years since the MBO, has strengthened the management foundation and rebuilt the business structure, and was relisted in March 2021

2. History

In March 2004, the Company acquired the software business (currently the Data Empowerment business) of the Information Design Department of Tsubasa Systems Co., Ltd. and changed its company name to WingArc Technologies Co, Ltd.

The Company started the current Data Empowerment business in March 2004. However, Tsubasa Systems' Information Design Department, from which it acquired this business, had positioned it as an in-company venture and launched it in October 1993 in order to create a new business in the field of software other than packaged software for vehicle maintenance, which was this company's main business at that time, and this business department released Super Visual Formade (hereafter, "SVF"), which is business-forms development software and currently the Company's main product, in December 1996, and then released "Dr.Sum," a multi-dimensional high-speed aggregation search engine, in May 2001, thereby establishing this business. After that, Tsubasa Systems sold this business department to raise funds, and in March 2004 with Advantage Partners Inc., as the sponsor, it sold the business to AP2 Inc. and AP2 changed its company name to WingArc Technologies Co, Ltd. Following the business acquisition in March 2004, WingArc Technologies Co, Ltd. was newly established through a company split in November 2009, and this company inherited the Company's Data Empowerment business, and alongside this, the Company's name was changed to 1st Holdings, Inc. (formerly 1st Holdings). Subsequently, in December 2010 the Company was listed on the Osaka Stock Exchange (OSE) JASDAQ (Standard) Market, and then in February 2012, its market listing was changed to the TSE 2nd Section.

However, in April 2013 with ORIX <8591> as the sponsor, Monolith Holdings Inc.* carried out a TOB (takeover bid) for the shares of the former 1st Holdings, which was completed in May of the same year, and the Company was delisted from this market in September of the same year.

* Monolith Holdings was established in November 2012 by Hiroyuki Uchino, the President and Representative Director of the former 1st Holdings (currently the Company's Chairman and Director), in order to acquire the shares of the former 1st Holdings.

At that time, Japan's IT market was rapidly changing from a business model centered on conventional core systems, which the Company was focusing on, to new technologies and platforms as represented by the Cloud and big data. Globally also, the accelerating spread could be seen of low-cost, high-quality PaaS (Platform as a Service) that seamlessly connects the user to the world, including Amazon Web Service, a cloud platform service provided by Amazon.com, Inc., of the United States, and Force.com, a cloud platform service provided by salesforce.com, Inc. of the United States. As a result, it became relatively easy for application software vendors to provide their companies' own application software as a global cloud service by using the cloud platforms provided by PaaS vendors. This structural change of the software industry greatly reduced the barriers to entering the Japanese market for the worlds' powerful application software vendors, and even for the Company, which had built a firm position in the Japanese market, the competition would certainly intensify.

In this situation, in order to stably and continuously improve the Company's enterprise value in the future, the former 1st Holdings' Board of Directors determined that resolving the following issues were urgent tasks; (1) Reconstructing the business structure (reorganization of the subsidiaries in the Group, re-distribution of human and physical resources, reconstruction of the business structure by reviewing and improving business processes, etc.), (2) Strengthening product development capabilities (strengthening product development capabilities through capital and business alliances with third parties), (3) Progressing globalization (business development in global markets, including Asia), and (4) Creating new businesses (further accelerating the growth strategy through the development of new products and services in the Cloud and big data eras). But in the event of implementing these measures while maintaining its listing, there would be risks, including that the profit level would decline and cash flow would deteriorate, so it decided to delist and became a private company through an MBO (Management Buyout).

Subsequently in December 2013, as the surviving company of Monolith Holdings, an absorption merger was conducted of the former 1st Holdings and the company name was changed to 1st Holdings. Then in March 2014, the name of the company was changed to WingArc1st (hereafter, the former WingArc1st).

WAC Holdings Co., Ltd., was established in March 2016 by CJP WA Holdings, L.P., an investment fund managed by the Carlyle Group, in order to acquire all of the shares of the former WingArc1st. WAC Holdings conducted a LBO (leveraged buyout) and for the fund raising for this, in addition to its own funds, it carried out borrowing from financial institutions(raising funds of ¥31,500mn) as external fund raising, and in April 2016 it acquired all of the shares of the former WingArc1st from Mr. Hiroyuki Uchino and OPI2002 Investment Partnership, a subsidiary of ORIX. After that, WAC Holdings carried out an absorption merger with the former WingArc1st as the non-surviving company, with June of the same year as the effective date, and on the same day the company name of WAC Holdings was changed to WingArc1st.

From the time it was delisted, the Company worked on both expanding the business areas and strengthening the management foundation, such as by having a stable business centered on core systems and widening the sale networks through partnerships, through rapidly addressing the issues it was aware of at that time. In March 2018, it invested in Toyo Business Engineering Corporation (currently Business Engineering Corporation) and progressed developments of solutions that combined applications for the manufacturing industry, a strength of this company, with the Company's software and services. It also concluded capital and business alliances with ITOCHU Corporation<8001> and Suzuyo & Co., Ltd.) in September 2018, with Data Applications Co., Ltd.<3848>, Sansan, Inc.<4443>, TEIKOKU DATABANK, LTD. and ITOCHU Corporation in November 2019, and with PKSHA Technology Inc.<3993> and TOSHIBA DIGITAL SOLUTIONS CORPORATION in November 2020, and jointly with these partners, it has been opening-up sales channels and developing solutions. The Company determined that to a certain extent it had achieved the objectives of the MBO, which were maintaining its competitive advantages and stably and continuously improving enterprise value, and therefore it was relisted in March 2021.

History

Date	Major event
April 1972	Yamagiwa Works Inc. was established in order to manufacture and sell lighting equipment and related parts.
June 1990	Changed company name to Tech Yamagiwa Inc.
February 2004	Changed company name to AP2 Inc.
March 2004	Acquired the software business of the Information Design Department of Tsubasa Systems Co., Ltd. (currently the Data Empowerment business) and started the manufacture and sales of software Changed company name to WingArc Technologies Co, Ltd.
November 2009	The Company inherited the Data Empowerment business following the establishment of WingArc Technologies Co, Ltd. through a company split and transitioned to a holding company structure, while at the same time, the company name was changed to 1st Holdings Inc. (formerly 1st Holdings Inc.)
December 2010	Listed on the OSE JASDAQ (standard) market
March 2011	Acquired all of the shares and made a subsidiary of Vario Secure Networks Inc. (currently Vario Secure Inc.), which conducts a security services business
February 2012	Listed on the TSE 2nd section
November 2012	Delisted from the OSE JASDAQ (standard) market
May 2013	The former 1st Holdings Inc. was made a wholly owned subsidiary through a TOB (takeover bid) by Monolith Holdings Inc.
September 2013	Delisted from the TSE 2nd section
December 2013	With Monolith Holdings Inc. as the surviving company, conducted an absorption merger of the former 1st Holdings Inc. and changed the company name to 1st Holdings Inc.
March 2014	In order to strengthen the management base, conducted an absorption merger of 3 subsidiaries with 1st Holdings Inc. as the surviving company and changed the company name to WingArc1st Inc. (formerly WingArc1st Inc.)
June 2016	With WAC Holdings, Inc. as the surviving company, conducted an absorption merger of the former WingArc1st Inc. and changed the company name to WingArc1st Inc. As part of a series of structural reforms, acquired all the shares of Vario Secure Inc.
March 2018	In order to jointly develop solutions, concluded a capital and business alliance with Toyo Business Engineering Corporation (currently Business Engineering Corporation)
September 2018	In order to jointly develop solutions, concluded capital and business alliances with ITOCHU Corporation and Suzuyo & Co., Ltd.
November 2019	In order to jointly develop solutions, concluded a capital and business alliance with Data Applications Co., Ltd. In order to develop new services, concluded a capital and business alliance with Sansan, Inc. In order to develop new services, concluded a capital and business alliance with TEIKOKU DATABANK, LTD. In order to expand into new business areas, concluded a capital and business alliance with ITOCHU Corporation
November 2020	In order to develop new services, concluded a capital and business alliance with PKSHA Technology Inc. In order to develop data solutions services, concluded a capital and business alliance with TOSHIBA DIGITAL SOLUTIONS CORPORATION
March 2021	Listed on the TSE 1st section
February 2022	In order to progress DX in the transportation industry, acquired the shares and made a subsidiary of traevo Co., Ltd.
April 2022	Listed was transferred from the TSE 1st section toa the new market category (Prime market)

Source: Prepared by FISCO from the Company's securities report

Business description

The Data Empowerment business is the only segment

1. Segment information

The Company's only reporting segment is the "Data Empowerment business." However, according to the natures of the software and services, revenue is categorized into two segments; "Business Document Solutions" that supports companies' core operations, and "Data Empowerment Solutions" that utilizes various data to create new value that has not existed before.

Business Document Solutions supports the core operations of companies and public institutions

2. Business Document Solutions

Business Document Solutions provides the software that are most commonly used in Japan as the work foundation relating to business forms and also solutions based on this software that are used for the creation, output, and management of business documents in various places in society, from business forms such as invoices, delivery documents, shipping slips, and e-tickets, through to various types of certificates issued by public institutions. The mainstay “SVF” undertakes the creation and output of business forms, and currently 85% of the business forms output by “SVF” are digitized. In combination with the “SPA” document-management infrastructure, it is contributing to promoting digital transformation (DX) at many companies and public institutions.

(a) SVF

“SVF,” which is the Company’s main product, is a business form infrastructure solution to increase the efficiency of business-forms development and to respond to diverse output requirements. Through proprietary software, SVF can intuitively design complex business forms specific to Japan through non-programming and output them in various forms, including PDF, Excel, and paper. It is highly versatile, and realizes business form management that does not depend on the manufacturer or type of OS. It is being utilized as business form infrastructure for the shared use of multiple systems by many companies and public institutions, and it is contributing to improving the efficiency of systems management and strengthening internal controls.

In addition to “SVF Cloud,” a business form cloud service that combines the strengths of conventional SVF with flexibility and real time capabilities, it is provided as “SVF Cloud for Salesforce,” which is a collaboration with Salesforce.com Inc. to provide an SFA service on the Cloud, and also as “SVF Cloud for kintone,” a collaboration with Cybozu, Inc.<4776> to provide a business platform. Through the WEB API functions, it can be linked with various cloud services and flexibly respond to differences in systems between companies and to system changes, and it can output PDF estimates from smartphones and tablets even at external locations.

(b) invoiceAgent

“invoiceAgent” is software and a cloud service that digitizes and integrates the management of business forms that are distributed in companies and public institutions, which contributes to the subsequent automation and improved efficiency of work. “invoiceAgent” can improve the efficiency of the storage, management and distribution of electronic documents, and it can also extract data from digitized documents and be linked to other work systems. It automates data input work that has conventionally been carried out manually and also supports the seamless linkage of data between systems. In addition, based on the rules set by the user, “invoiceAgent” can automatically store the digitized documents in the relevant folders. This eliminates the need for those in charge to perform duties such as manually sorting files while checking the contents, which makes it possible to reduce the time spent on document management. It is also compatible with the revised Electronic Book Storage Act enacted in January 2022 and the Invoice System, inc. expected to be introduced in October 2023, meaning companies can fulfil the legal requirements in these rules by using “invoiceAgent.”

Data Empowerment Solutions improves the speed and quality of work by utilizing data

3. Data Empowerment Solutions

Data Empowerment Solutions mainly sells software and provides cloud services and maintenance support to end users. It provides the software and the solutions based on them that serve as the business foundation to create value that so far people have not been aware of and that has not existed by combining and analyzing various types of data (generally called BI (Business Intelligence)). The concept is to realize improved management speed through improving productivity and increasing the efficiency of business processes, and it covers the series of data-utilization process, of data aggregation, analysis, visualization, and decision-making support. It is being incorporated into companies' business processes and other aspects and has many users, from managers through to persons in charge of work at worksites.

(a) Dr.Sum

"Dr.Sum" is software intended to be utilized for companies' decision making through collecting and accumulating data from inside and outside of the company and processing and analyzing this data. It has performance that can handle big data, of hundreds of millions of data items, in only a few seconds and is equipped with a user interface based on the Internet and Excel that the user is familiar with, and it makes it possible for the user to easily aggregate and analyze big data even if they are not a systems manager. Also, "Dr.Sum" is being used as an information-analysis infrastructure that supports companies through the integrated management of the various data within a company, such as relating to sales and accounting.

(b) MotionBoard

"MotionBoard" is a dashboard that utilizes information based on the concept of changing the various data that companies handle into information that has value to bring about innovation within these companies. Its first feature is its diverse expressive capabilities. The user can freely place many graphical charts on the PC screen, and it can be used according to the user's purpose, from confirming work content through to checking the progress of a business strategy. It is also equipped with GIS functions and makes it possible to plot (place) data with positional information on a map. In such ways, new ways of utilizing information can be created, for example, a store strategy that combines information on competitor stores with population-movement information, or truck-movement management that uses driving information. Its second feature is real time processing. "MotionBoard" connects in real time with various data sources, including core systems, information-related systems, SFA and CRM, and external cloud services, and it can integrate, analyze, and make visible all this information in a single chart. It used through non-programming and is frequently used in a form that incorporates the systems within companies. In recent years, in addition to being used to improve business productivity linked to Salesforce and for the utilization of big data in the retail industry, it has also been used for purposes including to analyze and make visible data generated through IoT and to investigate risks through setting thresholds. Its third feature is its high maintainability. Normally, the construction of information systems is generally performed by the system manager who has advanced knowledge, but in "MotionBoard," it is assumed that the user will perform the visualization and analysis freely based on their own ideas. Since users can freely perform tasks ranging from setting the data through to selecting and positioning the display items and charts by themselves, this enables them to also respond quickly, such as to changes in work flows.

Strengths are its robust financial base through proprietary technologies, strong business channels, and deep recurring revenue

4. Strengths

(1) Proprietary technologies

Since its foundation, the Company has worked on developing proprietary technologies that specialize in utilizing companies' information. The features of its typical technologies are ultra-high-speed aggregation, the virtual integration of data, and the real time processing of IoT data, and these technologies are the source of the Group's competitiveness. Each respective technology is advanced and complex, but they are provided as software and services that are equipped with simple and intuitive user interfaces that "anyone can use easily" and that produce results quickly. The core parts of the R&D activities and software development are all conducted within the Group.

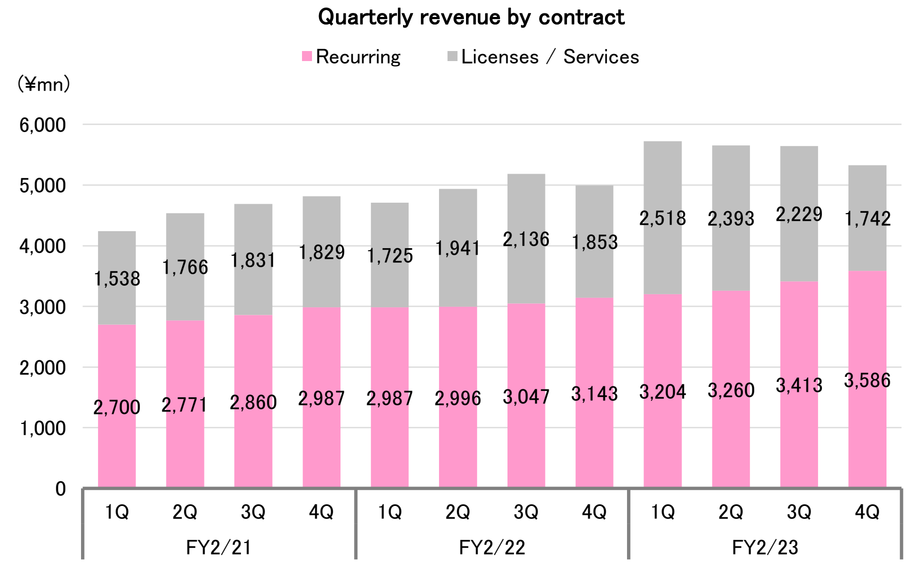
(2) Strong business channels

The Company's sales model is mainly indirect sales via partners. It has concluded contracts with many partner companies, such as SIers that specialize in large-scale projects for major companies and government ministries and agencies in major cities, SIers based in the regions, consulting firms that specialize in specific regions and cloud SIers that specialize in building cloud systems, and it is building a structure to provide solutions and services that cover systems-development projects all across Japan. This makes it possible to continuously create projects and to control operating costs, which in turn makes possible efficient sales activities. In FY2/21, it revised its partner system based on the idea of sales not only of the Company's software and services, but also of opening up new markets together with partners. Going forward as well, it seems it intends to build even better relations with its partners and to work develop the businesses of both parties. It currently has partner contracts with 547 companies as of February 28, 2023. In particular, a large partner is NEC <6701>, with which it has a stable trading relationship.

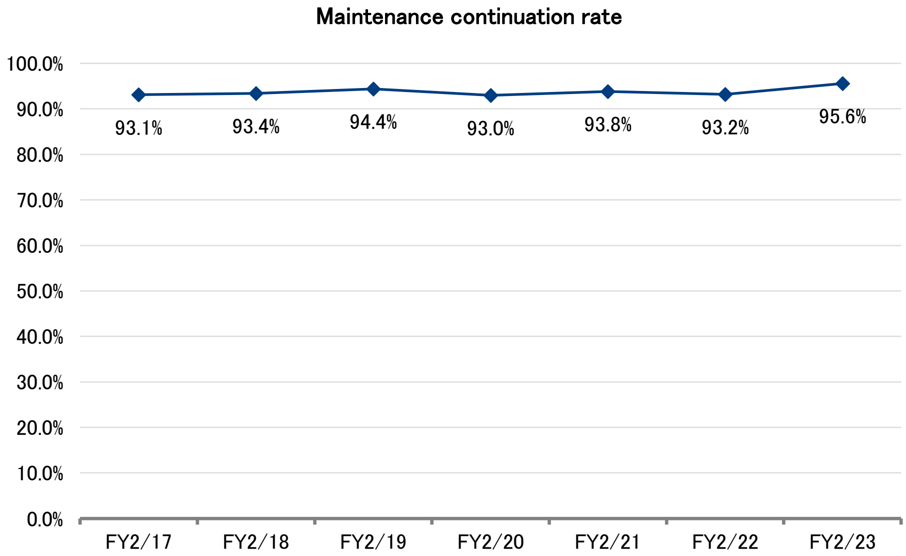
(3) Deep recurring revenue

The software and services provided by the Company are comprised of transactions that do not assume a continuous contract, such as for software licenses and the provision of services at the time the service is introduced, and transactions that do assume continuous contracts, such as software maintenance support contracts, subscription contracts and contracts to use cloud services. Transactions that assume a continuous contract are an earnings model called a recurring business, in which revenue accumulates each year alongside the increase in the number of companies introducing products and services. The earnings generated by these businesses (recurring revenue) contribute to the stabilization and the continuous increase of the Company's earnings. In FY2/23, the recurring revenue rate was 60.2% (61.4% in the previous period), and recurring revenue is steadily increasing on a fiscal quarterly basis.

The Company also considers the maintenance contract continuation rate to be one of its most important KPI for the recurring business. In FY2/23, it trended stably at the high level of 95.6% (93.2% in the previous period). By maintaining a high maintenance retention rate, the Group is accumulating new contracts and realizing sustainable growth while maintaining the existing contracts to the greatest possible extent.



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



Note: Ratio of the continuous monetary amount of maintenance contracts for "SVF" "invoiceAgent," "Dr.Sum," and "MotionBoard"
Source: Prepared by FISCO from the Company's financial results briefing materials

Results trends

In FY2/23, revenue increased 12.7% and profits (adjusted EBITDA) decreased 2.1%. Both solutions performed strongly and results exceeded the Company's forecasts

1. Outline of results for FY2/23

In the FY2/23 consolidated results, revenue increased 12.7% YoY to ¥22,349mn, operating profit decreased 0.7% to ¥5,945mn, and adjusted EBITDA decreased 2.1% to ¥7,163mn, and the results were higher than the Company's initial forecasts announced in April 2022 (revenue of ¥21,000mn, operating profit of ¥4,750mn, and adjusted EBITDA of ¥6,000mn), and its upwardly revised forecasts announced when it released 3Q results in January 2023 (revenue of ¥22,000mn, operating profit of ¥5,650mn and adjusted EBITDA of ¥6,900mn). Results trended strongly in both Business Document Solutions and Data Empowerment Solutions, which contributed greatly.

FY2/23 results and adjustment indicators

(¥mn)

	FY2/22		FY2/23		
	Result	% of revenue	Company forecast	Result	YoY
Revenue	19,833	100.0%	22,000	22,349	12.7%
Operating profit	5,986	30.2%	5,650	5,945	-0.7%
Profit before taxes	5,910	29.8%	-	5,860	-0.8%
Net profit	4,353	21.9%	-	4,364	0.2%
Profit attributable to equity holders of the parent	4,352	21.9%	-	4,401	1.1%
Operating profit	5,986	30.2%	-	5,945	-0.7%
Depreciation and amortization	1,274	6.4%	-	1,217	-4.4%
EBITDA	7,260	36.6%	-	7,163	-1.3%
Adjustment items	54	0.3%	-	-	-
Adjusted EBITDA	7,314	36.9%	6,900	7,163	-2.1%
Profit attributable to equity holders of the parent	4,352	21.9%	-	4,401	1.1%
Adjustment items	54	0.3%	-	-	-
Effective tax rate	26.3%	-	-	25.5%	-
Tax-effect adjustment	14	0.1%	-	-	-
Adjusted profit attributable to equity holders of the parent	4,392	22.1%	4,200	4,401	0.2

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

In Business Document Solutions, revenue was ¥14,354mn, up 16.3% YoY. The main software and services constituting this segment are "SVF," which is to design and manage types of business forms that are essential to companies' core operations, including invoices and delivery documents, and "invoiceAgent," which stores electronic data and digitizes paper documents. Against the backdrop of the solid demand, "SVF" revenue trended strongly in both software licenses and maintenance. On the other hand, cloud services' revenue was 32.4% higher than in the previous period because needs for cloud business forms also increased, affected by the further progress made in shifting work systems onto the Cloud. As a result, "SVF" revenue was ¥13,086mn (up 16.4%). For "invoiceAgent," demand from companies to shift to paperless operations increased alongside the spread of remote working, and the revised Electronic Book Storage Act came into effect in January 2022 and there were many inquiries relating to this Act, so results were strong for each of software licenses, maintenance, and cloud services, and revenue grew compared to the previous period to ¥1,122mn (up 19.4%).

In Data Empowerment Solutions, revenue was ¥7,994mn (up 6.7% YoY). The main software and services constituting this business are "Dr.Sum" and "MotionBoard" that realize improved work efficiency and productivity through the integration, processing, analysis, and visualization of the data held by companies. For "Dr.Sum," orders increase from medium-sized companies and software licenses rose on the previous period. As a result, revenue was ¥2,929mn (up 8.7%). For "MotionBoard," software maintenance trended strongly from the steady accumulation of new contracts. Cloud services were affected by the fall in large-scale projects, but revenue was still higher than in the previous period due to acquisitions of new contracts and strengthening of customer success. As a result, "MotionBoard" revenue was ¥2,982mn (up 3.8%).

Revenue by solution

(¥mn)

	FY2/20 Result	FY2/21 Result	FY2/22 Result	FY2/23		
				Result	Composition ratio	YoY
Revenue	18,677	18,285	19,833	22,349	100.0%	12.7%
Business Document Solutions	11,739	11,513	12,337	14,354	64.2%	16.3%
SVF	11,200	10,786	11,244	13,086	58.6%	16.4%
invoiceAgent	389	614	940	1,122	5.0%	19.4%
Other	150	113	153	145	0.6%	-5.0%
Data Empowerment Solutions	6,937	6,771	7,495	7,994	35.8%	6.7%
Dr.Sum	2,804	2,574	2,694	2,929	13.1%	8.7%
MotionBoard	2,554	2,799	2,874	2,982	13.3%	3.8%
Other	1,579	1,397	1,925	2,082	9.3%	8.1%

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

The Company Group discloses EBITDA and adjusted EBITDA, in addition to the financial indicators specified by IFRS. They exclude the effects of extraordinary costs items that are not considered when showing the results of ordinary business activities, and the purpose of this is to provide useful information to investors evaluating the results of the Company in order for them to understand the pure growth of the Group's enterprise value.

In FY2/23, despite solid revenue growth, EBITDA dipped slightly to ¥7,163mn (down 1.3%YoY) as the Company implemented the strategic investment set out in the Medium-term Management Policy. Adjusted EBITDA was ¥7,163mn (down 2.1% YoY) due to the absence of temporary cost adjustments. The adjusted EBITDA margin dropped to 32.1% (36.9% in the previous period).

Adjusted EBITDA trend

(¥mn)

	FY2/20	FY2/21	FY2/22	FY2/23	YoY
Revenue (a)	18,677	18,285	19,833	22,349	12.7%
Operating costs (b)	12,993	15,078	13,847	16,404	18.5%
Personnel expenses	4,427	4,985	5,186	5,791	11.7%
Research and development costs	2,178	2,267	2,446	2,636	7.8%
Outsourcing expenses	1,448	1,483	1,862	2,395	28.6%
Commission expenses	748	829	846	1,142	35.0%
Other operating income	5	8	8	6	-20.5%
Other operating expenses	4,195	5,520	3,513	4,444	26.5%
Operating profit (c = a-b)	5,684	3,207	5,986	5,945	-0.7%
Depreciation and amortization (d)	1,276	1,237	1,274	1,217	-4.4%
EBITDA (e = c + d)	6,961	4,444	7,260	7,163	-1.3%
Adjustment items (f)	166	2,139	54	-	-
Temporary audit remuneration costs	38	19	-	-	-
Listing-related costs	128	40	20	-	-
Office contract cancellation costs	-	1,849	-	-	-
Temporary incentive remuneration	-	230	-	-	-
Temporary special retirement allowance	-	-	33	-	-
Adjusted EBITDA (g = e + f)	7,128	6,583	7,314	7,163	-2.1%
Operating profit margin	30.4%	17.5%	30.2%	26.6%	-
Adjusted EBITDA margin	38.2%	36.0%	36.9%	32.1%	-

Note: EBITDA = operating profit + depreciation and amortization, adjusted EBITDA=EBITDA + temporary costs
Source: Prepared by FISCO from the Company's financial results summary report and financial results briefing materials

Accumulated cash and greatly reduced the financial leverage

2. Financial condition

(1) Consolidated statement of financial condition

At the end of FY2/23, assets were ¥62,550mn (up ¥3,630mn from the end of the previous period). Current assets were ¥13,238mn (up ¥2,297mn) and non-current assets were ¥49,311mn (up ¥1,333mn). The increase in current assets was largely attributable to an increase of cash and cash equivalents of ¥2,159mn. The main factor behind the increase in non-current assets was an increase in financial assets of ¥1,550mn following the amortization of customer-related and technology-related assets.

At the end of FY2/23, liabilities were ¥27,975mn (down ¥323mn from the end of the previous period). Current liabilities were ¥12,752mn (up ¥1,349mn) and non-current liabilities were ¥15,223mn (down ¥1,673mn). The main reason why current liabilities increased was that contract liabilities, etc. increased ¥1,035mn. The main factor behind the decrease in non-current liabilities was a decrease in long-term borrowings of ¥1,976mn following the completion of repayment.

At the end of FY2/23, capital was ¥34,574mn (up ¥3,954mn from the end of the previous period). The main reasons why capital increased was that although retained earnings decreased ¥1,479mn following the payment of dividends, retained earnings increased ¥4,401mn because of the recording of profit attributable to equity holders of the parent, and other capital increased ¥875mn.

Looking at the indicators of financial soundness, the Company's financial leverage (net interest-bearing debt ÷ adjusted EBITDA) decreased greatly and is highly sound. Specifically, it trended at 1. 8 times in FY2/20, 1.7 times in FY2/21, 0.7 times in FY2/22, and 0.1 times in FY3/23, which is considered to be as a result of the Company's steady accumulation of cash.

The goodwill and other intangible assets that were generated when the Company acquired all of the shares of the former WingArc1st in April 2016, including those that were generated subsequently from corporate acquisitions, were ¥27,309mn and ¥16,231mn respectively at the end of FY2/23, which in total constituted 69.6% of the Company's assets. Under IFRS, unlike Japanese standards, amortization is not carried out for goodwill and intangible assets (trademark rights) for which a part of the number of years of useful life cannot be determined. In every period or in the event that there are signs of impairment, at such times an impairment test is carried out, and should it be recognized that the profitability of the Company's businesses has declined, it becomes necessary to record an impairment loss. This could have a serious impact on the Company's results.

However, the Company is working to strengthen the profitability of its businesses in order to mitigate risk relating to the impairment of goodwill, mainly by carrying out the following measures.

• Growth of the recurring business

Recurring revenue, which includes the maintenance of software licenses, subscriptions, and cloud services usage fees, are recorded continuously as revenue every year as long as the contract continues, so if the number of contracts increases, the revenue portion also increases. The Company is working to grow this recurring business in order to stabilize and strengthen the profitability of its businesses.

• Promoting solutions specializing in industries and work

The Company not only provides software and cloud services, but also solutions tailored to the work of customers combined with its expertise in each respective industry. In particular, Data Empowerment Solutions has grown including by providing IoT visualization solutions to the manufacturing industry and solutions to improve business productivity to the finance industry. In order to increase revenue even more through new solutions, it is working to continuously develop technologies and to accumulate industry expertise.

Summary of the consolidated statement of financial condition and the main management indicators

(¥mn)

	FY2/20	FY2/21	FY2/22	FY2/23	Increase/ decrease amount
Current assets	7,093	7,291	10,940	13,238	2,297
Cash and cash equivalents	4,962	5,170	9,016	11,175	2,159
Trade and other receivables	1,677	1,728	1,495	1,472	-22
Other financial assets	20	19	32	41	9
Other current assets	433	373	396	548	151
Non-current assets	50,829	48,618	47,978	49,311	1,333
Property, plant and equipment	3,213	1,910	1,481	1,604	123
Goodwill	27,172	27,248	27,249	27,309	59
Other intangible assets	18,213	17,206	16,636	16,231	-405
Other financial assets	2,214	2,245	2,597	4,148	1,550
Other non-current assets	15	7	13	17	4
Total assets	57,923	55,909	58,919	62,550	3,630
Current liabilities	11,964	11,175	11,403	12,752	1,349
Contract liabilities, etc.	6,378	6,360	6,383	7,418	1,035
Long-term borrowings scheduled to be repaid within one year	1,997	1,997	1,997	1,997	-0
Income taxes paid	859	402	840	778	-61
Other liabilities	2,727	2,415	2,182	2,557	375
Non-current liabilities	22,429	19,056	16,896	15,223	-1,673
Long-term borrowing	16,134	14,164	12,191	10,214	-1,976
Deferred-tax liabilities	5,004	4,541	4,558	4,657	99
Provisions	147	91	90	90	0
Other financial liabilities	1,143	259	57	260	203
Total liabilities	34,394	30,231	28,299	27,975	-323
Capital, capital surplus	11,324	11,324	13,145	13,296	150
Treasury shares	-	-650	-650	-623	26
Retained earnings	11,893	14,345	17,269	20,190	2,921
Other	310	657	854	1,710	856
Total capital	23,529	25,677	30,619	34,574	3,954
Liabilities and total capital	57,923	55,909	58,919	62,550	3,630
Interest-bearing debt	18,131	16,161	14,188	12,212	-1,976
Net interest-bearing debt	13,169	10,991	5,172	1,036	4,135
Adjusted EBITDA	7,128	6,583	7,314	7,163	-150
Financial leverage	1.8 times	1.7 times	0.7 times	0.1 times	-

Note: Net interest-bearing debt = interest-bearing debt - cash and cash equivalents
Financial leverage = net interest-bearing debt ÷ adjusted EBITDA
Source: Prepared by FISCO from the Company's financial results summary report and financial results briefing materials

(2) Consolidated statement of cash flows

Each of the cash flow conditions in FY2/23 are described below.

(a) Cash flows from operating activities

Cash acquired as a result of operating activities was ¥6,870mn (acquired ¥6,439mn in the previous period). This was mainly because although the Company recorded incomes tax paid of ¥1,790mn, profit before income taxes of ¥5,860mn and depreciation and amortization of ¥1,490mn were also recorded.

(b) Cash flows from investing activities

Net cash used in investing activities was ¥1,020mn (¥532mn used in the previous fiscal year). The main items were the recording of ¥93mn for the purchase of property and equipment such as work PCs, and in-company infrastructure development servers; ¥468mn for the purchase of intangible assets due to the construction of in-company infrastructure service ID platforms and design of new core systems, and ¥414mn for the purchase of investment securities.

(c) Cash flows from financing activities

Cash acquired as a result of financing activities was ¥3,730mn (used ¥2,084mn in the previous period). The main items were the recording of ¥2,000mn for repayment of long-term borrowings and of ¥1,478mn for dividends paid.

Summary of the consolidated cash flow statement

(¥mn)

	FY2/20	FY2/21	FY2/22	FY2/23	Increase/ decrease amount
Cash flows from operating activities (a)	6,555	4,952	6,439	6,870	431
Depreciation and amortization	1,893	3,104	1,538	1,490	-48
Cash flows from investing activities (b)	-418	-134	-532	-1,020	-487
Free cash flow (a) + (b)	6,137	4,818	5,906	5,850	-56
Cash flows from financing activities	-4,593	-4,646	-2,084	-3,730	-1,645
Effect of changes in exchanges rates on cash and cash equivalents	-18	36	24	39	15
Cash and cash equivalents increase/decrease amount	1,524	207	3,846	2,159	-1,686
Balance of cash and cash equivalents at the start of the period	3,437	4,962	5,170	9,016	3,846
Balance of cash and cash equivalents at the end of the period	4,962	5,170	9,016	11,175	2,159

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

Outlook

Forecasts increased revenue and profit for FY2/24. Expects new products sales to increase

1. Outlook for FY2/24

In FY2/24, which is the second fiscal year of the Medium-term Management Policy announced in January 2022, the outlook is that business expansion will advance, centered on the Cloud. In Business Document Solutions, the focus will mainly be on the responses to the Electronic Book Storage Act and Invoice System, etc., and sales of "invoiceAgent" are forecast to strengthen and increase. In Data Empowerment Solutions, the focus will be "Dataring," which is cloud-based solutions for industries and work, and a service to support the utilization of data by large companies, and it is expected that progress will be made in acquiring customers. As the outlook for FY2/24, the Company is forecasting that revenue will increase 6.5% YoY to ¥23,800mn, operating profit will increase 6.8% to ¥6,350mn, EBITDA will increase 6.1% to ¥7,600mn, and profit attributable to equity holders of the parent will increase 4.5% to ¥4,600mn. Profit declined despite revenue growth in FY2/23 as the Company carried out strategic investments of ¥1.8bn, which was over 90% of the amount called for in the first fiscal year of the Medium-term Management Policy. As these costs will no longer be a factor behind YoY profit decrease from FY2/24 onward, the Company expects higher revenue, as well as improved operating profit and EBITDA.

The Company has been using the management indicators of adjusted EBITDA and adjusted profit for period in its performance explanations, but will shift from using EBITDA and profit attributable to equity holders of the parent instead of adjusted figures from FY2/24 onward as there are virtually no expenses to adjust at present.

Outlook for FY2/24 results

(¥mn)

	FY2/23		FY2/24		
	Result	% of revenue	Company forecast	% of revenue	YoY
Revenue	22,349	100.0%	23,800	100.0%	6.5%
Business Document Solutions	14,354	64.2%	15,343	64.5%	6.9%
Data Empowerment Solutions	7,994	35.8%	8,457	35.5%	5.8%
Operating profit	5,945	26.6%	6,350	26.7%	6.8%
EBITDA	7,163	32.1%	7,600	31.9%	6.1%
Profit attributable to equity holders of the parent	4,401	19.7%	4,600	19.3%	4.5%

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

The main pillar in the five-year Medium-term Management Policy is "Create a data platform that promotes DX"

2. Medium- to long-term growth strategy

Due to the impact of the COVID-19 pandemic, companies are actively working on DX for workstyle reforms and to strengthen their competitiveness in this new environment. Also, in January 2022, the revised Electronic Book Storage Act was enacted to support remote working and paperless operations, and the digitization of documents relating to inter-company transactions is rapidly progressing. The Company considers these sort of major market changes to be business opportunities and to capture them, announced its five-year Medium-term Management Policy in January 2022. It has set "Create a data platform that promotes DX" as the main pillar of this policy and is aiming for major growth, mainly in the Cloud business. Based on this platform, the Company's policy for Business Document Solutions is to work on "inter-company DX" of distributing data and realizing reforms of inter-company transactions, and for the Data Empowerment Solutions, to work on "intra-company DX" that draws out value from data and contributes to improving productivity and creating new businesses.

The targets that the Company is aiming to achieve during the relevant period are a "cloud growth rate of 40% (average of FY2/22 to FY2/27)," "a recurring revenue rate of 75% (FY2/27)," "a cloud ratio of 40% (FY2/27)," and "adjusted EBITDA of ¥12bn (FY2/27)."

The specific measures are (1) Expand the Cloud business, (2) Expand the recurring business, and (3) Strengthen the Group's management base.

(1) Expand the Cloud business

Currently, the majority of the Company's revenue is generated by software, but in a situation in which companies' initiatives for DX are widening, the cloud services market, which enables speedy installations of services with low initial costs and that can easily be linked to other systems, is growing. In this sort of environment, the Company announced its Medium-term Management Policy, and based on the Cloud, set the objective of "Create a data platform that promotes DX." It is targeting an average annual growth rate of cloud revenue of 40% from FY2/22 to FY2/27, and that cloud revenue will provide 40% of total revenue in FY2/27.

• Strengthening the development structure

On the one hand, the Company is strengthening the development structure in order to continuously develop new functions for and improve the performance of cloud services, but on the other hand, a situation is continuing in which it is becoming more and more difficult to acquire excellent engineers. In response to this, it is thought that it is actively working on cutting-edge technologies, advancing workstyle reforms, and providing an environment that is appealing for engineers to work in, while at the same time it is also utilizing external resources and building a flexible development structure.

• Advancing alliances

The cloud services provided by the Company are not just the Group's services, as it is also aiming to speedily provide comprehensive services through close alliances with companies with various characteristics. In the future, it is thought that it will form alliances with various companies in order to improve the levels of services.

(2) Expand the recurring business

The Company not only provides one-time services to customers, but it is also progressing the "recurring business" in which it continuously provides services and obtains payments for them according to the length of time that the relevant service is provided. The advantages of this "recurring business" include that it stabilizes results, improves the ability to forecast results, and maintains relationships with customers. However, its disadvantages include that it increases customer maintenance management costs. Therefore, the Company is aiming to increase revenue by forming a department to specialize in the "recurring business" and conduction measures to prevent losing customers, as well as by proposing additional product and services to customers. It is thought that alongside the growth of revenue in the future, the Company is aiming to improve this rate. In the Medium-term Management Policy announced in January 2022, it is targeting a recurring revenue rate of 75% in FY2/27.

• Maintain and improve the retention rate

In "recurring business," the most important element is how to have customers continuously use the product or service after they have entered-into a contract, so in the Company, the "retention rate" is a KPI. Therefore, the specialist department is working on maintaining and improving this rate through listening to customers on their usage conditions and issues and responding in detail to them. In FY2/23, the "retention rate" was 95.6% and is stable.

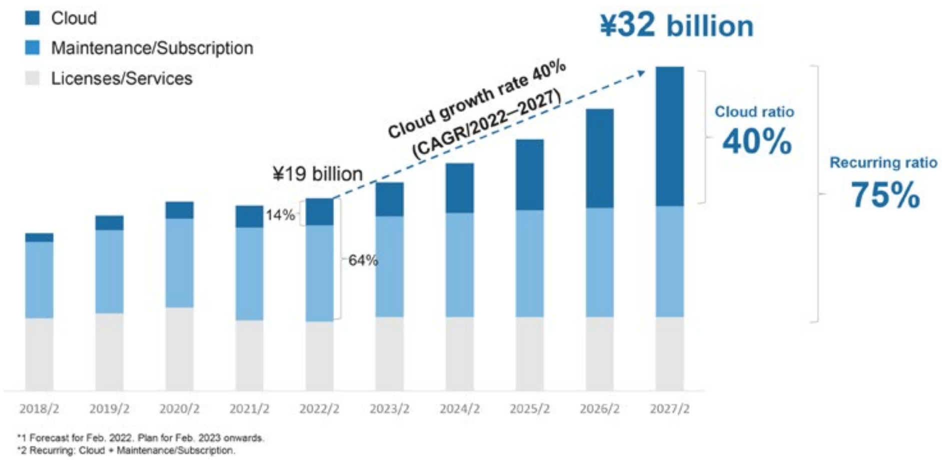
(3) Strengthening the Group management base

Since the Company was delisted in September 2013, it has advanced various initiatives including strengthening the management base, reorganizing the Group (integrating subsidiaries and selling non-core businesses), rebuilding the in-company core systems, increasing the sophistication of business management systems, and creating various systems for customer-management work. Going forward, in order to achieve the targets in the Medium-term Management Policy, it plans to launch and strengthen various cloud services, and it will need to carry out highly detailed results management. Also, with regards to subsidiaries including overseas subsidiaries acquired through M&A for business expansion, it will need to have an integrated management structure based on the Company Group's management policies. The Group is progressing DX internally to respond to this, and the Group companies are collaborating closely with each other and working on measures to strengthen the structure that will enable them to ascertain management conditions in a timely manner and to quickly formulate appropriate measures in response to these conditions.

(4) Medium-term Management Policy first fiscal year performance and second fiscal year targets

In FY2/23, the first fiscal year of the Medium-term Management Policy, the cloud growth rate was 20.3%, recurring revenue rate was 60.2%, and EBITDA was ¥7.16bn. For FY2/24, it targets a cloud growth rate of 24.4%, recurring revenue rate of 63.5%, and EBITDA of ¥7.60bn, steadily achieving its targets towards the final year of the policy.

Image of revenue growth



Source: The Medium-term Management Policy

Shareholder returns policy

Expects to increase dividends in FY2/24 by ¥1.9 YoY to ¥45 based on a consolidated dividend payout ratio of 30%

The Company considers returning profits to shareholders to be one of its most important management issues, and its basic dividend policy is to pay a dividend after considering results in each period and also while securing the internal reserves needed for business development in the future and to strengthen the management structure in order to maintain its growth potential.

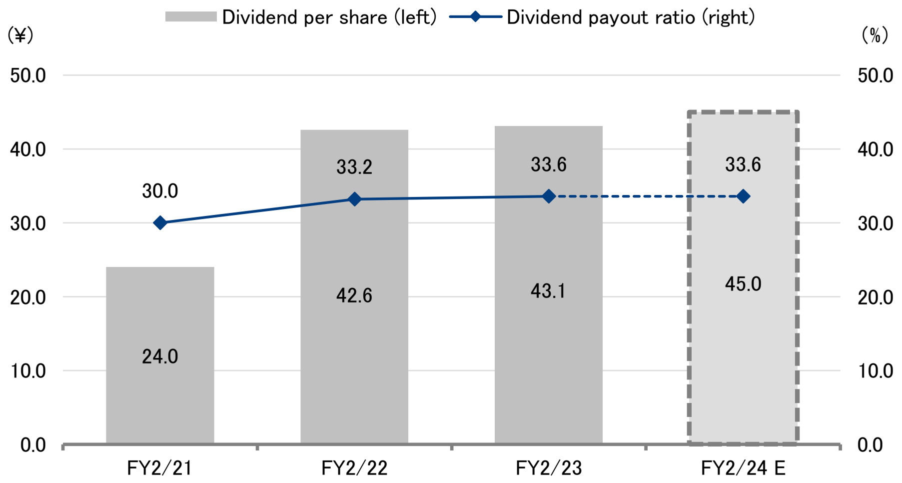
The Company's plans to allocate internal reserves to strengthening the management constitution and also as the source of funds for investment, development, and related in order to provide new products and services. Its policy is to pay a dividend from surplus twice a year targeting a consolidated dividend payout ratio of around 30%, and it aims to stably pay dividends.

In accordance with the returns to shareholder policy described in the Medium-term Management Policy announced in January 2022, for the five years from FY2/23 to FY2/27, the Company's policy is that even in the event that profit attributable to equity holders of the parent falls behind its level in FY2/22, it will still maintain the FY2/22 annual dividend of ¥42.6. Should profit attributable to equity holders of the parent exceed its level in FY2/22, it plans to pay a dividend targeting a consolidated dividend payout ratio of around 30% in accordance with its basic dividend policy.

Based on its expectation that profit attributable to equity holders of the parent will be higher in FY2/24 than in FY2/22, the Company plans to increase the dividend by ¥1.9 YoY to ¥45 per share based on a consolidated dividend payout ratio of 30%.

Shareholder returns policy

Trends in dividend per share and dividend payout ratio



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

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