

Nippon Computer Dynamics Co., Ltd.

4783

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Index

Summary	01
1. A characteristic stable income structure based on total solutions and stock-type sales	01
2. FY3/22 finished with major increases in sales and profits	01
3. Projecting higher sales and double-digit operating income increases in FY3/23 that may grow even further	01
4. Formulation of purpose to shift to a new growth stage	02
Company profile	03
1. Company profile	03
2. History	04
Business overview	05
1. Business overview and characteristics/strengths	05
2. System Development Business	05
3. Support and Service Business	06
4. A solid customer base with leading blue-chip customers in IT-related Business	07
5. Parking System Business	08
6. Risks and income characteristics	10
7. Profitability ratio of the IT-related Businesses is improving	11
Results trends	13
1. Summary of the FY3/22 consolidated results	13
2. Trends by segment	15
3. Financial condition	17
Outlook for the future	18
● Summary of the FY3/23 consolidated results forecast	18
Growth strategy	19
1. Formulation of the purpose to encourage further growth	19
2. Progress on the current medium-term management plan	20
3. FY3/23 as a year for creating a foundation for the next medium-term management plan	20
4. Shift to a new growth stage with the formulation of a purpose	21
Shareholder return policy	21
1. Returns profits to shareholders appropriately, based on a stable dividend	21
2. Shareholder benefits program	22
ESG and SDGs initiatives	23
1. Promoting sustainability management	23
2. Strengthening diversity initiatives	23

Summary

A growth strategy of being a total solution provider

Nippon Computer Dynamics <4783> (hereinafter referred to as “the Company”) is a pioneer as an independent system integrator with a history of over 50 years and pursues a growth strategy of being a total solution provider. In April 2022, towards further growth, the Company formulated the Group purpose: “Powering the world with passion.” which incorporates the aspiration, We dream of building a future where everyone can be their fullest selves.” It also partially modified its corporate philosophy to become “Contributing a bright future through unique technologies and services.”

1. A characteristic stable income structure based on total solutions and stock-type sales

The Company operates in three business areas – IT-related System Development Business (system integration), Support and Service Business (service integration), and Parking System Business for unattended bicycle parking lots utilizing IT solution knowhow (parking solutions). The Company’s strength lies in its advanced technologies and high-quality services cultivated through an extensive track record of over 50 years, and one-stop service provision to deliver total solutions. Furthermore, the IT-related Business is characterized by a stable income structure with as much as 80% of income from stock-type sales, supported by a strong client base and long-term continuous transactions with major blue-chip companies.

2. FY3/22 finished with major increases in sales and profits

In FY3/22 consolidated results, the Company recorded major increases in sales and profits, with ¥20,550mn in net sales, an increase of 17.0% year on year (YoY), ¥902mn in operating income, an increase of 272.3%, ¥956mn in ordinary income, an increase of 146.1%, and ¥458mn in net income attributable to owners of the parent, an increase of 214.7%. The IT-related Business (System Development Business, Support and Service Business) continued to perform strongly. In the System Development Business, the Company steadily acquired projects; and in the Support and Service Business, an outsourcing project received as a consignment by the information systems division in the previous fiscal year entered full-fledged operation. In the Parking Systems Business, the impact of the COVID-19 pandemic continued, but eased compared to FY3/21, and the business entered a recovery trend. As a result, operating income made a V-shaped recovery.

3. Projecting higher sales and double-digit operating income increases in FY3/23 that may grow even further

In FY3/23 consolidated guidance, the Company is projecting ¥21,000mn in net sales, an increase of 2.2% YoY, ¥1,000mn in operating income, an increase of 10.8%, ¥1,030mn in ordinary income, an increase of 7.6%, and ¥600mn in net income attributable to owners of the parent, an increase of 30.9%. In the IT-related Business, the sales plan is for ¥14,800mn, an increase of 2.3%. The businesses are expected to grow steadily as customer corporations expand their investments in DX. The Parking system Business sales plan is for ¥6,200mn, an increase of 2.1%. The impact of COVID-19 appears to be easing, with a gradual recovery expected to continue. On the cost front, the Company projects double-digit growth in operating income as the effects of higher sales and increased productivity absorb expanded strategic investments associated with human capital and DX promotion. Net income attributable to owners of the parent is expected to increase significantly as the Company finishes a round of recording impairment losses. Overall, the projection seems very conservative, and we see the potential for the Company to exceed its forecasts.

Summary

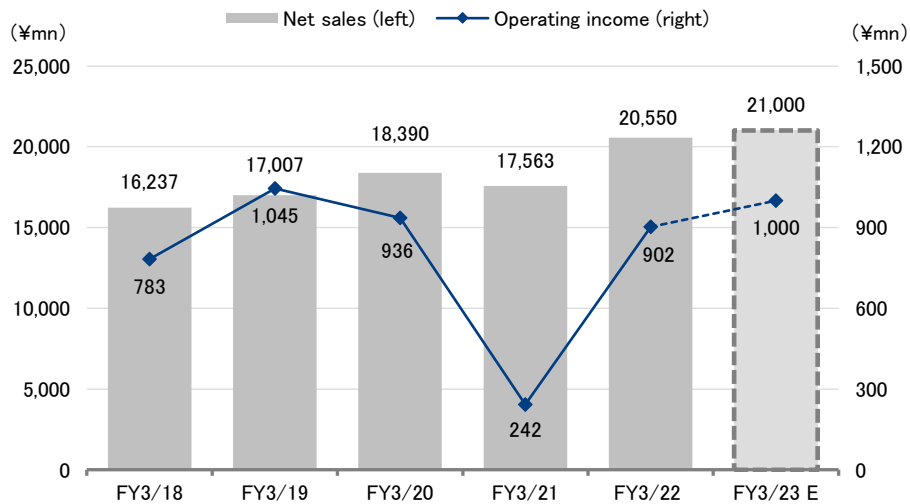
4. Formulation of purpose to shift to a new growth stage

Regarding the targets for FY3/23, the final fiscal year of the current medium-term management plan, the Company has achieved the net sales target one year ahead of schedule but does not expect to achieve the operating income target. The IT-related Business is growing steadily, but the Parking System Business has been heavily impacted, mainly by the COVID-19 pandemic. According to Representative Director and President Osamu Shimojo, who spoke with enthusiasm, “The business environment for the Parking System Business has changed dramatically under COVID-19, but the IT-related Business is steadily growing in earning capability. In the next medium-term management plan, there won’t be any great change in our basic policy for growth, but the we will promote BPR with the assumption that the business environment for the Parking Business will not return to pre-COVID-19 levels, and we aim to further accelerate our transformation and challenges in new fields, while remaining conscious of sustainability management.” We believe that the IT-related Business will not only continue to be the driver, but that by formulating the purpose and aggressively developing business, the Company has the potential to enter a new growth stage.

Key Points

- A growth strategy of being a total solution provider
- Projecting higher sales and double-digit operating income increases in FY3/23 that may grow even further
- Formulation of purpose to shift to a new growth stage

Results trends



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

Company profile

Pioneering independent system integrator with a history of over 50 years

1. Company profile

The Company is a pioneer as an independent system integrator with a history of over 50 years and pursues a growth strategy of being a total solution provider. In April 2022, the Company formulated its purpose: “Powering the world with passion. We dream of building a future where everyone can be their fullest selves.” It also partially modified its corporate philosophy to become “Contributing a bright future through unique technologies and services.”

As of the end of FY3/22, the Company’s business bases were its Head Office (Shinagawa Ward, Tokyo), Odaiba Office (Koto Ward, Tokyo), Koto Service Center (Koto Ward, Tokyo), Fukuoka Office (Hakata Ward, Fukuoka Prefecture), Kokura Office (Kitakyushu City, Fukuoka Prefecture), Nagasaki Office (Nagasaki City, Nagasaki Prefecture; including the second MSC (Managed Service Center)), and Goto Office (Goto City, Nagasaki Prefecture).

The Group is comprised of the Company and its subsidiaries, which include NCD Technology CO., Ltd., ZEXIS CORPORATION, NCD CHINA Co., Ltd., NCD EST Co., Ltd. (renamed from YANOSANGYO., Ltd. in September 2021), and NCD PROS., Ltd. (ownership ratio: 67%). NCD Technology conducts support and service in the IT-related Business, such as system development; ZEXIS conducts support and service in the IT-related Business, such as system development, mainly for the Panasonic Holdings <6752> Group; NCD CHINA conducts a System Development Business in China; NCD EST conducts a parking system business in Kyushu; and NCD PROS conducts a bicycle parking lot management and operations business. East Ambition Co., Ltd., a fee-based employment agency, was excluded from the scope of consolidation on June 29, 2021 following the transfer of all of its shares.

At the end of FY3/22, total assets were ¥11,890mn, net assets were ¥4,468mn, capital stock was ¥438mn, the equity ratio was 37.3%, and the number of issued shares (including treasury shares of 728,932 shares) was 8,800,000 shares.

Introducing the Group companies



Company profile

2. History

The Company was established in March 1967 when it launched the System Development Business. It then launched the Support and Service Business in October 1995, and the Parking System Business in October 1997. Regarding stock market-related matters, in September 2000, the Company registered for over-the-counter trading with the Japan Securities Dealers Association (it was subsequently listed on the Tokyo Stock Exchange (TSE) JASDAQ market following the merger of the exchanges). In April 2022, the Company was transferred to the TSE Standard Market following the reorganization of markets on the exchange.

In Group companies, the Company established Nihon System Research (now, NCD Technology) in November 2000, established NCD CHINA in April 2005, acquired ZEXIS CORPORATION as a subsidiary in December 2007 (made it a wholly owned subsidiary in August 2008), established NCD PROS in March 2018, and acquired YANOSANGYO (renamed NCD EST in September 2021) as a subsidiary in April 2019.

History

Date	Event
March 1967	The Company was established in Ebisu, Shibuya Ward, Tokyo, as a software development company
January 1970	In the Middle and Near East, it succeeded in developing and installing comprehensive systems, becoming the first company in Japan to develop software overseas
September 1976	Deployed the PRIDE system development methodology (developed by US-based MBA) as the first user in Japan
April 1979	Opened the Fukuoka Sales Office as a business site (currently, the Fukuoka Office)
February 1990	Received certification as a "system integrator" from the Ministry of International Trade and Industry (currently, the Ministry of Economy, Trade and Industry)
October 1995	Launched the Support and Service Business
October 1997	Merger of Finetech Systems Co., Ltd., C.A.P Co., Ltd., and Holon Co., Ltd.
October 1997	Launched the Parking System Business
April 1999	Relocated the Head Office to Nishi-Gotanda, Shinagawa Ward, Tokyo
September 2000	Registered for over-the-counter trading with the Japan Security Dealers Association
November 2000	Established Nihon System Research Co., Ltd. (currently, NCD Technology)
December 2004	Listed shares on the JASDAQ market of the Tokyo Stock Exchange
April 2005	Established NCD CHINA Co., Ltd. in the Huayuan Industry Area, Tianjin, China
June 2006	Acquired the Privacy Mark certification
May 2007	Acquired ISO 9001 certification (certification of the Fukuoka Sales Office as a related business office)
December 2007	Acquired ZEXIS CORPORATION as a subsidiary
May 2011	Opened the Nagasaki Sales Office as a business site (currently, the Nagasaki Office)
March 2013	The number of bicycle parking lot management units in the Parking System Business surpassed 300,000 units
November 2015	Opened the Koto Service Center as a business site
March 2017	50th anniversary of the Company's establishment
March 2018	Established NCD PROS., Ltd. (subsidiary with a 67% stake)
April 2019	Acquired YANOSANGYO., Ltd. (renamed NCD EST in September 2021), as a subsidiary
October 2019	Opened the Odaiba Office as a business site
April 2020	Opened the Goto Office (Goto City, Nagasaki Prefecture) as a business site
April 2020	The number of bicycle parking lot management units in the Parking System Business surpassed 500,000 units
April 2021	The number of bicycle parking lot management units in the Parking System Business surpassed 600,000 units
September 2021	Acquired gold authorization as a company with an outstanding approach to health and productivity management
October 2021	Established the Sustainability Promotion Committee
April 2022	Transferred to the Tokyo Stock Exchange Standard Market
April 2022	Formulation of purpose and partial amendment of corporate philosophy

Source: Prepared by FISCO from the Company's homepage and materials

■ Business overview

Promotes IT-related Business (System Development Business, Support and Service Business) and Parking System Business

1. Business overview and characteristics/strengths

The Company, as a total solutions provider, is developing and managing three business pillars: the System Development Business (systems integration) and the Support and Service Business (service integration), which are IT-related Businesses, and the Parking System Business (parking solutions), which is an unattended bicycle parking lot-related business that it launched through utilizing its expertise in IT solutions.

The Company leverages advanced technologies and high-quality services cultivated through an extensive track record as an independent company of over 50 years, the latest information technology and robust application knowledge, and one-stop service provision to deliver total solutions. Furthermore, in the IT-related Businesses, has a stable income structure with as much as 80% of income from stock-type sales, supported by a strong client base and long-term continuous transactions with major blue-chip companies that includes major insurers, leading energy companies, and top manufacturers.

System Development Business mainly handles development and maintenance consignments for mission-critical business systems

2. System Development Business

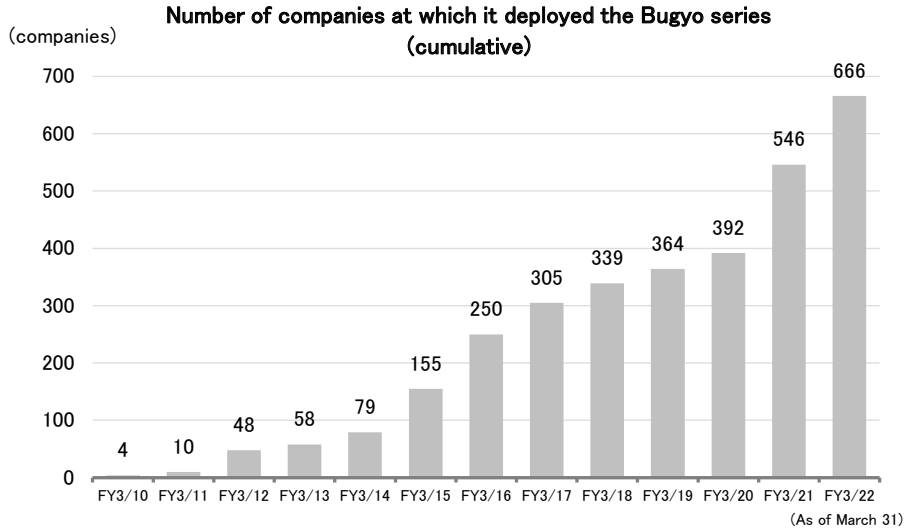
The System Development Business conducts outsourced system integration, which involves undertaking the planning, design, development, construction, installation, maintenance and management mainly of mission-critical systems. Its services include systems construction solutions, infrastructure construction solutions, and package solutions, primarily for medium-sized companies and major corporate groups.

Based on the expertise cultivated through its abundant track record of over 50 years, from constructing large-scale systems to constructing small-scale systems, the Company constructs its own proprietary systems development standard "NS-SD" (NCD Standard System Development) and project management standard "NS-PM" (NCD Standard Project Management) to realize system development that ensures stable quality.

Package solutions are solutions for companies, such as medium-sized companies, that want to install systems in a short period of time at low cost. The Company provides various solutions, including installation, customization, and management support for the package software of its strategic partner companies.

One of the Company's strengths is systems construction to install the applications of Oracle and the "Bugyo Series," which is the mission-critical system of OBIC BUSINESS CONSULTANTS CO., LTD. <4733>. For OBC's Bugyo Series, among all of OBC's partners, the Company has the largest team specializing in installing the Bugyo Series, and its total number of corporate installations reached 666 as of the end of FY3/22. The Company received OBC Partner of the Year award in sales results for the 2021-22 season in May 2022.

Business overview



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

In the cloud computing field, the Company's bicycle parking business mission-critical system infrastructure has been adopted for the AWS (Amazon Web Services) of Amazon (Amazon.com <AMZN>), the largest public cloud vendor, and it accumulates expertise in construction and operation while providing services as a solution using AWS. It is also the certified Japanese subsidiary of Salesforce.com <CRM>, and it has a track record of many installations of "Salesforce," the world's No. 1 cloud CRM platform.

Moreover, the Company also provides linked-package tools developed in-house on a fee basis to Salesforce (including task management tool "SMAGAN," form creation tool "Smart Report Meister," and screen creation and data visualization tool "Smappi"), and it offers the inventory management tool "Kuramaru," which was also developed in-house.

Another of the Company's features is that it supports the global development of Japanese companies. It provides support for installation of ERP packages such as "mcfame GA," which is the global-compliant ERP of Business Engineering Corporation <4828>, and "Yoyu U8" of UFIDA Software in China, which has the No.1 share for ERP in China.

Support and Service Business primarily conducts outsourcing of maintenance and operations

3. Support and Service Business

The Support and Service Business conducts outsourced service integration in the form of services to undertake the maintenance and operation of customers' systems and applications. These services include providing application maintenance and operation solutions, infrastructure maintenance and operation solutions, and business support solutions.

Business overview

When providing outsourced maintenance and operation services, a specialized group of engineers who can handle multiple system failure, such as network systems construction and maintenance and management, provide comprehensive support to replace the customer’s own systems management division. The Head Office and the two Nagasaki MSCs (Managed Services Centers) coordinate to run one-stop technical support for the maintenance and operation of systems and applications through remote monitoring 24 hours a day, 365 days a year, and a service desk to respond to inquiries. The Company also provides support for introducing cloud services, including Amazon’s AWS and Microsoft’s Azure.

The Company constructed its own operation standard “ND-OS” (NCD Standard Operation Service), which conforms to ITIL (Information Technology Infrastructure Library) to reduce customers’ IT infrastructure operation and management costs. As it conducts remote monitoring through lines connected to customers, its costs become an advantageous strength. In support-service projects for major life insurance companies, it provides a help desk support service and an infrastructure support service, as well as an on-site support service at the customer’s office.

Through utilizing its strengths, which include expertise cultivated through its abundant track record, its ability to respond quickly, provide services flexibly, and its comprehensive support, the Company’s outsourced systems construction does not stop at maintenance and operation for customers, as a feature of the Company is that it can undertake the maintenance and operation of systems and applications constructed by other companies. In a high security environment, it is strengthening its responses to business continuity plans (BCP), such as at the time of a disaster.

A solid customer base with leading blue-chip customers in IT-related Business

4. A solid customer base with leading blue-chip customers in IT-related Business

In IT-related Business (System Development Business, and Support and Service Business), the Company has built a powerful customer base that includes major insurers, leading energy companies, top manufacturers and blue-chip companies and engages in long-term continuous transactions in many cases. While the system development industry has a structure with extensive secondary and tertiary outsourcing to mid-sized companies by major system integrators. In the Company’s case, direct transactions with end users (primary consignment) are at more than 80% of business. This level demonstrates the high level of the Company’s technology capabilities and quality.

Main customers of the IT-related Businesses

Transactions for more than 50 years	Takasago Thermal Engineering Co., Ltd., Tokyo Gas Group, Panasonic Group
Transactions for more than 30 years	SRL, Inc., SAIBUGAS Group, Nippon Life Group, FUJIFILM Group, MetLife Insurance K.K.
Transactions for more than 20 years	KADOKAWA CORPORATION, DENTSU Group, Nippon Suisan Kaisha, Ltd., Fukuoka Prefectural Government
Transactions for more than 10 years	JA OSAKA DENSAN Ltd., Kyudenko Corporation, Mitsui O.S.K. Lines, Ltd., Sony Group, Tokio Marine & Nichido Fire Insurance Co., Ltd., Tokyo Tekko Co., Ltd., Manulife Life Insurance Company, Yakult Honsha Co., Ltd.
Recent customers	ENEOS Group, FWD Fuji Life Insurance Company, ORIX Life Insurance Corporation, Kitakyushu City, JTB Asset Management Corp., Takumi Otsuka Co., Ltd., Mitsubishi Corporation Life Sciences Limited, Mizuho Financial Group, Inc., LIXIL Group, etc.

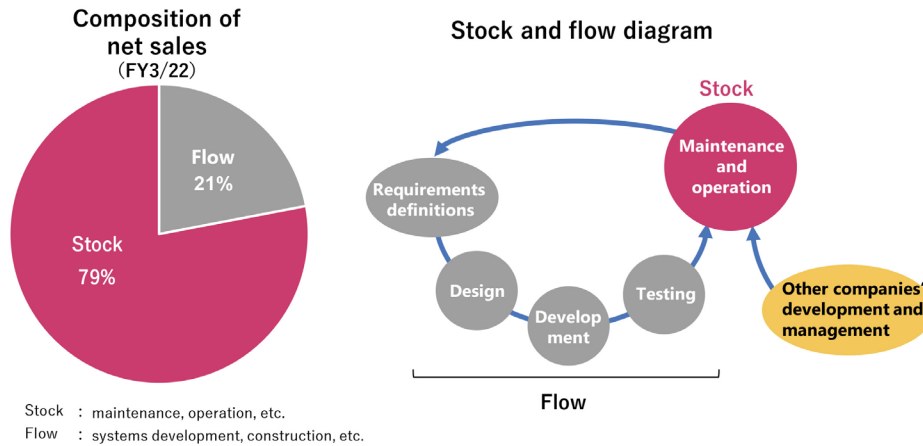
* As of April 1, 2022

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

Business overview

Also, as it has many long-term, ongoing transactions with major blue-chip companies, it has an earnings structure in which stock-type sales accumulate, such as for the maintenance and operation of the systems it has developed and constructed. Stock-type sales in IT-related Business have reached approximately 80% of total sales (1H FY3/22), including for the maintenance and operation outsourced to it for the development projects of other companies. In this way, the stable income structure is also a feature.

Business model of IT-related Businesses



Source: Reprinted from the Company's results briefing materials

Parking System Business mainly manages and operates electromagnetic-lock parking lots

5. Parking System Business

The Parking System Business mainly sells electromagnetic-lock bicycle parking equipment and manages operations of bicycle parking lots. Bicycle parking lots are not only managed and operated in a labor-saving and efficient manner utilizing IT, this business eliminates nationwide problems of abandoned bicycles and other bicycle parking issues while also contributing to easing traffic congestion, effective utilization of land, region and community building, and improvement of the global environment through reduced CO₂ emissions.

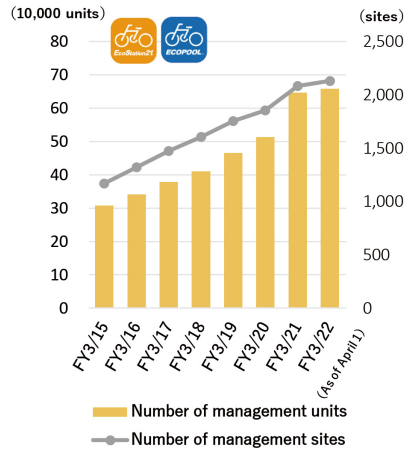
From the idea of “wanting to change towns and the future through IT and bicycles,” in 1992, the Company proposed a monthly bicycle parking lot management method using a two-dimensional code, which was a new technology at that time. From this start, it launched the parking system business in 1997, and began establishing NCD bicycle parking lots in 1999. Initially, its sales were mainly of electromagnetic lock-type bicycle parking devices and payment machines, but it then realized unattended bicycle parking lots through remote controls that utilized the IT technologies it had previously developed. Monthly fees had been the mainstream in the bicycle parking lot industry, but the Company pioneered coin-operated bicycle parking lots (unattended bicycle parking lots with spaces rented by the hour), and its business expanded.

Specifically, the Company operates mainstay time-based unattended bicycle parking lots “EcoStation21” (since 1999), monthly bicycle parking lots “ECOPOOL” (since 2013), and other bicycle parking services primarily near train stations in metropolitan Tokyo and in Kansai, Chubu, Kyushu, and other areas (it consigns operation to partner companies in Kansai and Chubu). It covers bicycle parking lots near train stations, at commercial facilities, and at local government-managed facilities.

Business overview

For its contribution to reducing the number of bicycles left on streets, the Company is widely supported by organizations like local governments, railway companies, and commercial facilities throughout the country, establishing among the largest numbers of electromagnetic lock-type bicycle parking lots in Japan. As of April 1, 2022, it had 2,133 bicycle parking lot management sites and 658,422 management units. Moreover, in transactions with local governments, the local government selects the Company to be its designated manager and facilities are installed and managed through a collaboration of the public and private sectors, and the Company supports urban development together with the local government.

NCD parking lot managed units and locations



Source: Reprinted from the Company's results briefing materials

Some typical installation cases include Aoi Street in Shibuya Ward (Shinjuku Station), which became the first bicycle parking lot on a sidewalk, in 2007; Terrace Mall Shonan at Tsujido Station, which is the largest site in the country with 3,000 units, in 2011; Shibuya Stream, a redevelopment project in the Shibuya district in 2018; Akabane Station East Exit in 2019; Minami-machida Grandberry Park in the Tokyu Group redevelopment project in 2019; and Grand Emio TOKOROZAWA in the Seibu Group redevelopment project in 2020. In April 2021, the Company started management and operation service for bicycle parking lots as the designated manager with 22,900 management units and 770 rental bicycles at 15 locations in the vicinity of four train stations in Tokyo's Edogawa Ward (Funabori, Nishi-Kasai, Kasai and Kasai-Rinkai Park stations) as part of an effort to curtail the number of bicycles left around stations.

In April 2022, the Company was selected to be a bicycle parking lot management service provider by four local government bodies (Shinjuku Ward, Itabashi Ward, Shinagawa Ward, Kawasaki City), and started management and operation of a total of 246 bicycle parking lots with spaces for approximately 58,000 units. Furthermore, in collaboration with Nomura Real Estate, the Company opened a 1,244 units bicycle parking lot inside the large-scale commercial facility, KAMEIDO CLOCK. In June 2022, the Company started management and operation bicycle parking lots for a total of 1,820 units inside the Tachikawa City information facility CotoLink.

Business overview

Customers for Parking System Business

Customers for Parking System Business		
Local governments	Ota Ward, Katsushika Ward, Kita Ward, Shibuya Ward, Shinjuku Ward, Suginami Ward, Setagaya Ward, Taito Ward, Chuo Ward, Toshima Ward, Nakano Ward, Nerima Ward, Bunkyo Ward, Asaka City, Ichikawa City, Kawaguchi City, Komae City, Narashino City, Fuchu City, Yokohama City, Wako City, Fukuoka City, etc. (Selected as the designated manager in the following cases) Arakawa Ward, Itabashi Ward, Edogawa Ward, Koto Ward, Shinagawa Ward, Minato Ward, Meguro Ward, Kashiwa City, Kawasaki City, Saitama City, Sagami City, Tachikawa City, Tama City, Toda City, Nagoya City, Kyoto City	<ul style="list-style-type: none"> • Positive assessment of financial soundness and management and operation quality • Provide services in Kansai, Chubu, Kyushu, etc.
Commercial facilities, etc.	atré, AEON RETAIL, Ito Yokado, Daimaru Matsuzakaya, Comodi-ida, Sumitomo Realty & Development Co., Ltd., SEIYU, daiei, TIMES24 Co., Ltd., Takashimaya, Tokyu Store, TOKYU LAND CORPORATION, Nomura Real Estate Development Co., Ltd., PARCO, BicCamera, Marui Co., Ltd., Mitsui Fudosan, MITSUKOSHI ISETAN, Yodobashi Camera, etc.	<ul style="list-style-type: none"> • Provide proposals that add IT technologies, such as cashless payments
Railway operators	Odakyu Electric Railway Co., Ltd., Keio Corporation, Keisei Electric Railway Co., Ltd., Keikyu Corporation, SAGAMI RAILWAY Co., Ltd., SEIBU RAILWAY Co., Ltd., TOKYU CORPORATION, TOBU RAILWAY CO., LTD., East Japan Railway Company, Hanshin Electric Railway Co., Ltd., Hankyu Corporation, Keihan Electric Railway Co., Ltd., etc.	<ul style="list-style-type: none"> • Covers the main railway operators
Other organizations, etc.	Kawasaki City Traffic Safety Association, Kita City Silver Human Resources Center for seniors, Sagami City Machimidori Public Company, Setagaya City Silver Human Resources Center for seniors, Nerima City Environment Machizukuri Public Company, Mitaka Town Management Organization, YOKOHAMA TRAFFIC SAFETY ASSOCIATION	<ul style="list-style-type: none"> • Contributions to local society via collaboration with various organizations

*1 As of April 1, 2022

*2 Designated manager: Organization designated for a fixed period to manage public facilities

Source: Reprinted from the Company's results briefing materials

Sales categories are equipment sales, management operation, and others. Furthermore, management operation has three sub-categories of self-operated bicycle parking lots (lots managed operation under the Company's EcoStation21 brand based on contracts with private-sector companies), designated management (bicycle parking lot management operation based on selection of a designated lot manager by a local government entity), and consignment (consigned management of a bicycle parking lot operated by a railway company, local government entity, or others). The Company also operates the STYLE-B (Shinagawa Ward, Tokyo), a multi-functional facility that proposes lifestyles using bicycles.

To improve user convenience and reduce operations and management costs, the Company launched a cashless bicycle parking lot payment service (contact-free payment machine) in November 2019 at some facilities. The Company is capable of lowering management costs through reduction of collection and maintenance frequency. It plans to expand rollout of contactless payment due to positive response as a measure that prevents COVID-19 infections. In addition, to increase its earning capability, the Company also intends to proceed with revision of bicycle parking lot usage fees.

Conducts thorough project management and quality management

6. Risks and income characteristics

The general risk in IT-related Business (System Development Business and Support and Service Business) is possible sales and profit fluctuation due to major project or other business orders and individual project profitability.

To curtail risk related to profitability, the Company conducts rigorous project and quality management to prevent losses and sustain profitability, such as checking profit margin at the estimate stage in the orders committee and carefully assessing project progress and quality control conditions after the order. Additionally, it promotes efficiency by improving the work process as a Companywide initiative.

Business overview

The Company is boosting stock-type sales through expansion of maintenance and operation service consignments following development work in System Development Business and build-up of continuous consignments in Support and Service Business (IT-related Business had about 80% of sales from stock-type business in FY3/22) and has a stable income structure mainly in stock-type business.

The Parking System Business mainly generates stock-type sales from bicycle parking lot usage fees revenue and bicycle parking lot operation and management consignments through accumulation of managed lots and managed unit volume, and there has been a declining percentage of flow sales from equipment sales, which is affected by order fluctuations related to bidding and other business recruitment activities. In FY3/21 and FY3/22, however, the number of bicycle parking users dropped sharply due to the impact of practices related to the COVID-19 pandemic, such as refraining from going out, and usage fee revenue decreased steeply. Demand is moderately recovering, but it might still take some time to restore pre-pandemic levels depending on conditions.

As a seasonal factor, System Development Business exhibits a pattern of stronger income in 2Q (Jul-Sep) and 4Q (Jan-Mar) in accordance with the implementation timing of customers' corporate IT investment budgets and acceptance inspection timing. Excluding cases of temporary impact by large deals or unprofitable deals, 2Q and 4Q generally have higher shares of overall income from a quarterly perspective and 2H (Oct-Mar) is stronger at the half-year level. Nevertheless, since stock-type sales are expanding, quarterly results have been evening out and thereby diminishing the extent of seasonal impact.

Upward trend in profitability for IT-related Business

7. Profitability ratio of the IT-related Businesses is improving

Looking at segment sales and breakdown trends over the past five years (FY3/18-/22), the breakdown until FY3/20 was IT-related Business (System Development Business, Support and Service Business) at just over 60% and Parking System Business at just over 30%. In FY3/21 and 1H FY3/22, meanwhile, Parking System Business sales decreased and the share of sales also weakened because of the impact of the COVID-19 pandemic (decline in bicycle parking lot usage fee revenue amid refraining from going out and postponements of projects and business deals),

Net sales and composition of total net sales by segment

	(¥mn, %)					
Item	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22
Net sales						
System Development Business	5,672	5,738	6,329	7,073	7,405	8,368
Support and Service Business	4,308	4,524	4,611	4,568	5,072	6,099
Parking System Business	5,392	5,948	6,027	6,693	5,060	6,073
Consolidated net sales (including others)	15,405	16,237	17,007	18,390	17,563	20,555
Composition of net sales						
System Development Business	36.8	35.3	37.2	38.4	42.2	40.7
Support and Service Business	28.0	27.9	27.1	24.8	28.9	29.7
Parking System Business	35.0	36.6	35.4	36.4	28.8	29.5

Source: Prepared by FISCO from the Company's materials

Business overview

In segment operating income and composition of operating income (before consolidation adjustments) over the past five fiscal years (FY3/18-22), even excluding the setback in Parking System Business due to COVID-19 impact in FY3/21 and FY3/22, the IT-related Business (System Development Business and Support and Service Business) ratio has been moving upward.

**Operating income and composition of operating income by segment
(before consolidation adjustments)**

Item	FY3/17						FY3/18						FY3/19						FY3/20						FY3/21						FY3/22										
	FY3/17						FY3/18						FY3/19						FY3/20						FY3/21						FY3/22										
Operating income																																									
System Development Business	389						549						726						799						928						1,020										
Support and Service Business	127						267						374						224						481						620										
Parking System Business	744						925						883						944						13						451										
Total before consolidation adjustments (including others)	1,246						1,655						1,921						1,953						1,421						2,096										
Composition of operating income																																									
System Development Business	31.2						33.2						37.8						40.9						65.3						48.7										
Support and Service Business	10.2						16.1						19.5						11.5						33.9						29.6										
Parking System Business	59.8						55.9						46.0						48.4						1.0						21.5										

Source: Prepared by FISCO from the Company's materials

In segment operating income margin trends in the past five years (FY3/18-22), System Development Business margin moved upward due to the results of rigorous project management and quality management, and other measures. Support and Service Business margin weakens (FY3/17 and FY3/20) when it incurs one-time costs from large new consignments, including replacement consignments from other company projects, and then improves significantly after exhaustion of one-time costs and stabilization of operations (FY3/19, FY3/21, and FY3/22).

Parking System Business held at a high operating income margin in the mid-ten% range until FY3/20, but this dropped sharply in FY3/21 and FY3/22 due to decreased sales because of the COVID-19 impact. Since the number of bicycle parking users is expected to take some time to recover to pre-COVID-19 levels, the Company is implementing measures to restore profitability by lowering management operating costs, revising rates, and bringing peripheral work in-house.

Operating income margin by segment

Item	FY3/17						FY3/18						FY3/19						FY3/20						FY3/21						FY3/22										
	FY3/17						FY3/18						FY3/19						FY3/20						FY3/21						FY3/22										
Operating income margin																																									
System Development Business	6.9						9.6						11.5						11.3						12.5						12.2										
Support and Service Business	3.0						5.9						8.1						4.9						9.5						10.2										
Parking System Business	13.8						15.6						14.7						14.1						0.3						7.4										

Source: Prepared by FISCO from the Company's materials

Results trends

FY3/22 finished with major increases in sales and profits

1. Summary of the FY3/22 consolidated results

In FY3/22 consolidated results, the Company recorded significant growth in sales and profit, with ¥20,550mn in net sales, an increase of 17.0% YoY, ¥902mn in operating income, an increase of 272.3%, ¥956mn in ordinary income, an increase of 146.1%, and ¥458mn in net income attributable to owners of the parent, an increase of 214.7%.

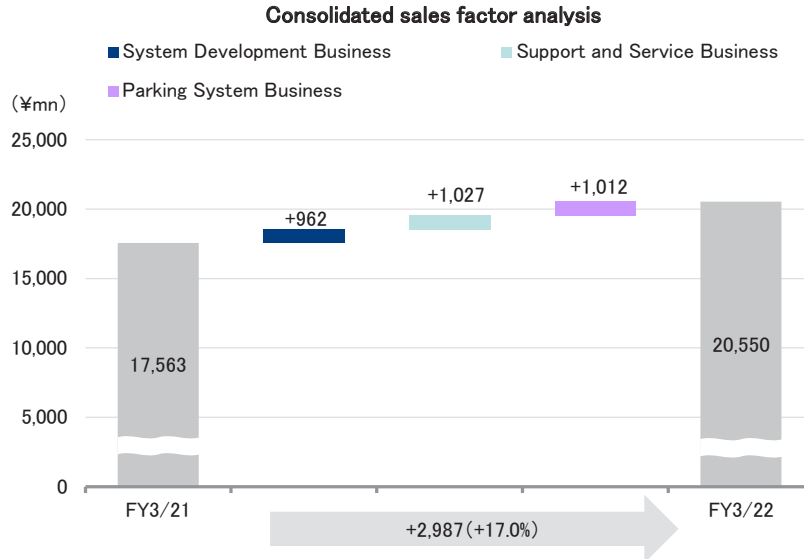
Summary of the FY3/22 consolidated results

	(¥mn)		
	FY3/21	FY3/22	Change
Net sales	17,563	20,550	17.0%
Gross profit	2,507	3,257	29.9%
SG&A expenses	2,265	2,354	3.9%
Operating income	242	902	272.3%
Ordinary income	388	956	146.1%
Net income and loss attributable to owners of the parent	145	458	214.7%
Net sales by segment			
System Development Business	7,405	8,368	13.0%
Support and Service Business	5,072	6,099	20.2%
Parking System Business	5,060	6,073	20.0%
Operating income by segment (before consolidation adjustments)			
System Development Business	928	1,020	9.9%
Support and Service Business	481	620	28.7%
Parking System Business	13	451	3138.4%

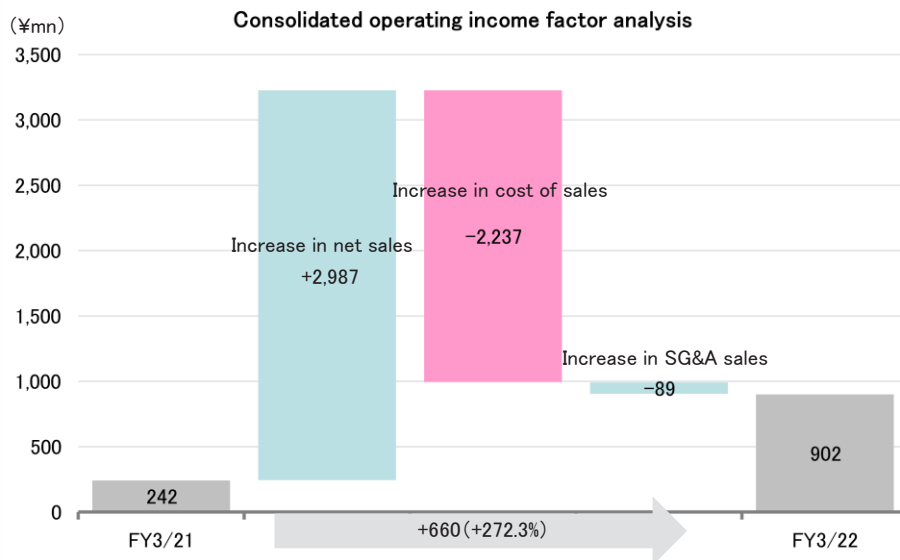
Source: Prepared by FISCO from the Company's materials

The IT-related Business (System Development Business and Support and Service Business) continue to perform strongly, with net sales breaking through ¥20.0 billion for the first time. In the Parking Systems Business, the impact of the COVID-19 pandemic continued, but eased compared to FY3/21, and the business entered a recovery trend. Gross profit increased by 29.9% due to the effects of higher sales and increased productivity, and the gross profit margin rose 1.6 percentage points to 15.9%. SG&A expenses increased by only 3.9% overall, despite the increase in DX investment, while the SG&A expenses ratio decreased by 1.4 percentage points to 11.5%. As a result, operating income made a V-shaped recovery. The operating income margin was 4.4%, an increase of 3.0 percentage points. The Company recorded impairment losses of ¥215mn related to Company dormitories and bicycle parking facilities under extraordinary losses.

Results trends



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



Source: Reprinted from the Company's results briefing materials

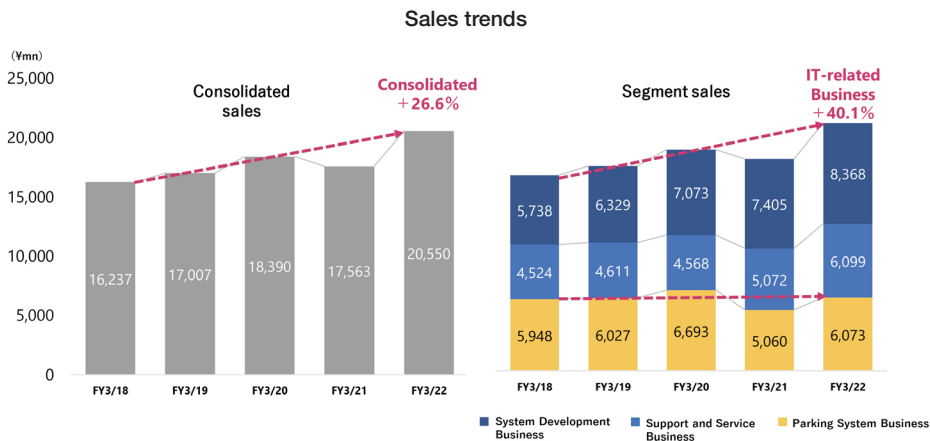
Compared with the previous forecast (revised upward on February 4, 2022 to net sales of ¥20,000mn, operating income of ¥900mn, ordinary income of ¥920mn, and net income attributable to owners of parent of ¥500mn), the results were at about the same level. Furthermore, regarding the impact of adopting the Accounting Standard for Revenue Recognition compared to the previous method, net sales decreased by ¥108mn, cost of sales decreased by ¥100mn, and operating income, ordinary income, and income before income taxes all decrease by ¥8mn, respectively. The impact of adopting the Accounting Standard for Revenue Recognition was negligible.

Results trends

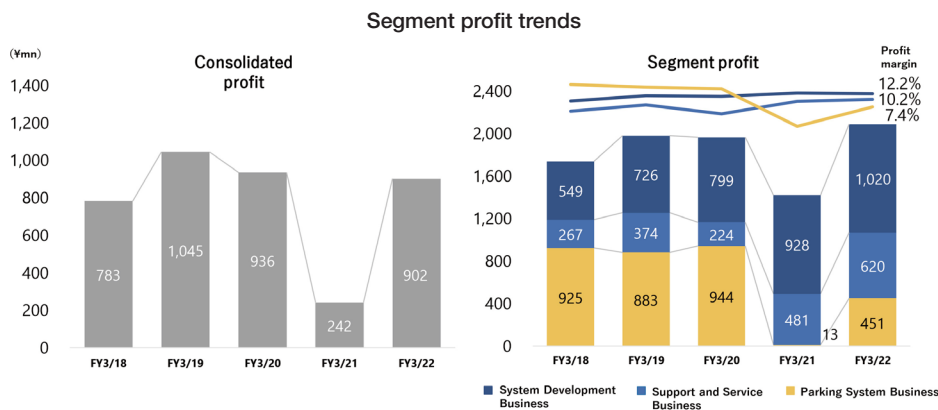
Continued strong performance in IT-related Business

2. Trends by segment

The following explanation reviews segment trends (before adjustment of general management costs related to the parent company and other companywide costs for operating income). Looking at trends in the past five years, the Company continued strong performance in IT-related Business. The Parking System Business began a recovery trend after a sharp downturn in FY3/21 due to the significant impact of COVID-19.



Source: Reprinted from the Company's results briefing materials



Source: Reprinted from the Company's results briefing materials

The System Development Business posted ¥8,368mn in net sales, an increase of 13.0% YoY, and ¥1,020mn in operating income, up 9.9%. In sales, this business steadily acquired new projects in new domains, including handling new products, due to promoting account plans (proposal sales to existing customers targeting areas not yet covered in orders), which it has been focusing on, to existing customers among insurers. Package installations such as installations of accounting shared services (such as OBC's "Kanjo Bugyo") also performed strongly against a backdrop of heightened demand for improved work efficiency. In addition, the Company received and order for a core system renewal project for a major manufacturer. The operating income margin was 12.2%, down 0.3 percentage points.

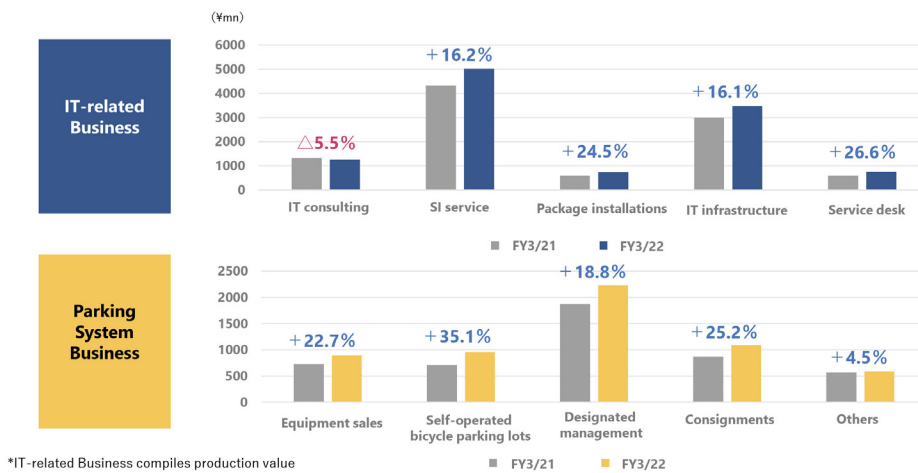
Results trends

The Support and Service Business booked ¥6,099mn in net sales, an increase of 20.2% YoY, and ¥620mn in operating income, up 28.7%. This business started full-fledged operation of a work outsourcing project for an information systems division received as a new consignment in the previous fiscal year (system operations for the Nippon Suisan Kaisha <1332> Group (Nissui Group)). It also expanded its remote operation monitoring service through cross-selling to existing customers. The operating income margin was 10.2%, up 0.7 of a percentage point.

The Parking System Business recorded ¥6,073mn in net sales, an increase of 20.0% YoY, and ¥451mn in operating income, compared to ¥13mn in the previous fiscal year. The recovery reflected improved railway usage by office and student commuters as the COVID-19 pandemic impact eased, the acquisition of new equipment sales, and a contribution from a large project as a designated manager received in the previous fiscal year. The operating income margin was 7.4%, up 7.1 percentage points. In addition to the effect of higher sales, there were also contributions from fixed cost reduction measures, such as bringing outsourced work in-house using Group companies. Moreover, compared with pre-COVID-19 results for FY3/20 (net sales ¥6,693mn, operating income ¥944mn), the segment appears to be in mid-recovery.

Following is a comparison of the Company’s nonconsolidated sales in FY3/21 and FY3/22 with the IT-related Business sales categories as “IT consulting,” “SI services,” “Package installations,” “IT infrastructure,” and “Service desk,” and the Parking System Business sales categories as “Equipment sales,” “Self-operated parking lots,” “Designated management,” “Consignments,” and “Others.” In IT-related Business, the mainstay SI services and IT infrastructure led double-digit growth. In the Parking System Business, all categories are on a recovery trend due to the easing of the impacts of COVID-19.

Sales trends (NCD parent)



Source: Reprinted from the Company’s results briefing materials

Results trends

Good financial position

3. Financial condition

Looking at the Company's financial condition, at the end of FY3/22, total assets increased ¥1,074mn versus the end of FY3/21 to ¥11,890mn. Cash and deposits increased ¥1,093mn. Total liabilities rose ¥771mn to ¥7,422mn. Income taxes payable increased ¥404mn, and provision for bonuses increased ¥330mn. Interest-bearing debt decreased ¥430mn. Net assets rose by ¥303mn to ¥4,468mn. As a result, the equity ratio deteriorated by 1.0 percentage point to 37.3%. However, with the decrease in interest-bearing debt, we judge the Company to be in a good financial position.

Financial statements

	(¥mn)				
Item	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22
Net sales	16,237	17,007	18,390	17,563	20,550
Cost of sales	13,552	13,926	15,246	15,055	17,293
Gross profit	2,684	3,081	3,143	2,507	3,257
Gross profit margin (%)	16.5	18.1	17.1	14.3	15.9
SG&A expenses	1,901	2,036	2,206	2,265	2,354
SG&A expenses rate (%)	11.7	12	12	12.9	11.5
Operating income	783	1,045	936	242	902
Operating income margin (%)	4.8	6.1	5.1	1.4	4.4
Non-operating income	46	66	51	175	82
Non-operating expenses	22	22	34	29	28
Ordinary income	807	1,089	953	388	956
Ordinary income margin (%)	5	6.4	5.2	2.2	4.7
Extraordinary income	-	-	92	14	28
Extraordinary loss	23	131	43	137	216
Income before income taxes	784	958	1,002	265	768
Total income taxes	258	340	349	112	298
Net income attributable to owners of the parent	526	615	648	145	458
Rate of net income attributable to owners of the parent (%)	3.2	3.6	3.5	0.8	2.2
Comprehensive income	631	483	571	264	412
Total assets	11,070	11,048	11,617	10,816	11,890
(Current assets)	6,343	6,455	6,644	6,768	7,949
(Non-current assets)	4,727	4,593	4,972	4,047	3,941
Total liabilities	7,981	7,595	7,704	6,651	7,422
(Current liabilities)	4,043	4,291	4,311	3,976	4,721
(Non-current liabilities)	3,937	3,304	3,392	2,674	2,701
Total net assets	3,089	3,453	3,913	4,165	4,468
(Shareholders' equity)	2,891	3,387	3,924	4,057	4,406
(Capital stock)	438	438	438	438	438
Total number of issued shares at the end of period, excluding treasury shares	7,941,368	7,941,368	7,941,368	8,071,068	8,071,068
Earnings per share (¥)	66.31	77.45	81.62	18.11	56.78
Book-value assets per share (¥)	387.8	433.34	490.66	512.95	549.14
Dividend per share (¥)	14.00	14.00	14.00	14.00	14.00
Equity ratio (%)	27.8	31.1	33.5	38.3	37.3
Return on equity (%)	18.7	18.9	17.7	3.6	10.7
Cash flows from operating activities	791	416	376	218	1,918
Cash flows from investing activities	-554	-219	-164	142	-48
Cash flows from financing activities	-271	-312	-370	-61	-779
Cash and cash equivalents at end of period	2,700	2,579	2,420	2,721	3,814

Source: Prepared by FISCO from the Company's materials

■ Outlook for the future

Expecting sales increase and double-digit operating income increased in FY3/23 that may grow even further

● Summary of the FY3/23 consolidated results forecast

The Company forecast for FY3/23 consolidated results is increases in net sales of 2.2% YoY to ¥21,000mn, operating income of 10.8% to ¥1,000mn, ordinary income of 7.6% to ¥1,030mn, and net income attributable to owners of the parent of 30.9% to ¥600mn.

Summary of the FY3/23 consolidated results forecasts

	FY3/22	FY3/23 forecasts	% change
Net sales	20,550	21,000	2.2%
IT-related Business	14,467	14,800	2.3%
Parking System Business	6,073	6,200	2.1%
Operating income	902	1,000	10.8%
Ordinary income	956	1,030	7.6%
Net income attributable to owner of the parent	458	600	30.9%
Earnings per share (¥)	56.78	74.33	-
Dividend per share (¥)	14.00	14.00	-

Source: Prepared by FISCO from the Company's materials

In the IT-related Business (System Development Business, Support and Service Business) the net sales plan is for ¥14,800mn, an increase of 2.3% from FY3/22. The Company is expecting strong growth backed by expansion in DX investment by corporate customers, with the System Development Business capturing projects in new domains centered on insurance companies among existing companies, and the Support and Service Business promoting expansion of maintenance and operation services. For the Parking System Business, the net sales plan is for ¥6,200mn, up 2.1%. Despite a sense of uncertainty, the easing of the impact of COVID-19 and the gradual recovery are expected to continue. On the cost front, the Company projects double-digit growth in operating income as the effects of higher sales and increased productivity absorb expanded strategic investments associated with human capital and DX promotion. Net income attributable to owners of the parent is expected to increase significantly as the Company finishes a round of recording impairment losses. Overall, the projection seems very conservative, and we see the potential for the Company to exceed its forecasts.

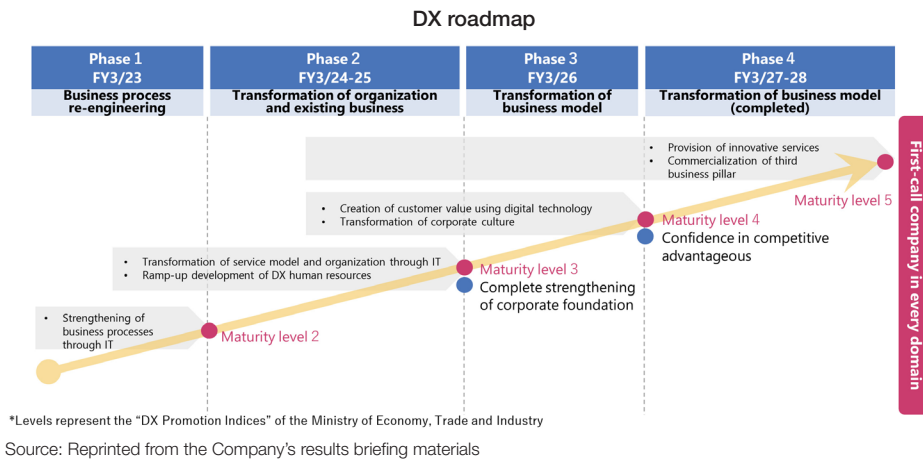
Growth strategy

Formulation of the purpose to encourage further growth

1. Formulation of the purpose to encourage further growth

The Company pursues a growth strategy of being a total solution provider. In April 2022, towards further growth, the Company formulated the Group purpose: “Powering the world with passion.” which incorporates the aspiration, “We dream of building a future where everyone can be their fullest selves.” It also partially modified its corporate philosophy to become “Contributing a bright future through unique technologies and services.”

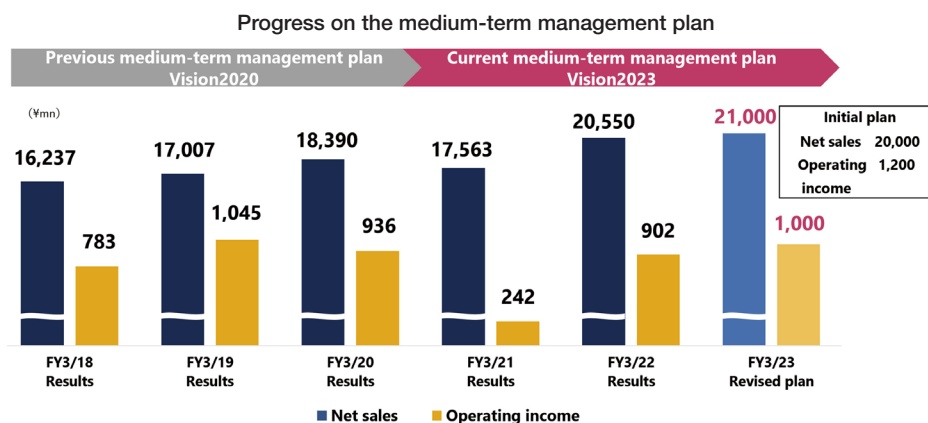
Furthermore, the Company has articulated the DX Vision: “In the NCD Group, we are committed to contributing to the transformation of our customers’ businesses and the development of society, aiming to achieve sustainable growth for our entire Group by having employees approach their work with vibrancy and enthusiasm. To achieve this, each member of the Group draws on their knowledge and wisdom to transform their awareness and take up the challenge of creating digital technologies and services with new concepts.” With this, the Company has declared its commitment to ramping up DX promotion. A new DX promotion department was established in April 2022 and a roadmap was formulated.



For final-year targets of the current medium-term management plan, the net sales target has been achieved ahead of schedule and the operating income target has not been achieved

2. Progress on the current medium-term management plan

The status of progress of the current medium-term management plan, “Vision 2023,” (FY3/21 to FY3/23) is as follows. The plan for the final year, FY3/23, is for net sales of ¥21,000mn and operating income of ¥1,000mn. Compared to the initial plan (¥20,000mn and operating income of ¥1,200mn) the Company has achieved the net sales target one year ahead of schedule but has not achieved the operating income target. The main factors in the result are steady growth in the IT-related Business (System Development Business and Support and Service Business), while the Parking System Business was significantly impacted by the COVID-19 pandemic.



FY3/23 as a year for creating a foundation for the next medium-term management plan

3. FY3/23 as a year for creating a foundation for the next medium-term management plan

The Company has positioned FY3/23 as a year for creating a foundation for the next medium-term management plan, without significantly changing its basic strategy. The policy is to further improve added value by strengthening the coordination between stock (operation) and flow (development). In IT-related Business, the Company's policy will include making use of the NCD service model, developing and enhancing human resources specializing in cloud systems, and strengthening the cooperation structure with Group companies; in the Parking System Business, the measures will include further strengthening the revenue base through steady execution of Business Process Re-engineering (BPR) and strategic sales expansion of ECOPOOL; in the administration and back-office divisions, its measures will include promoting sustainability management, increasing the level of governance, strengthening initiatives for human capital management, and promoting DX.

Growth strategy

Looking at progress of BPR measures in the Parking System Business, under its business process and staff formation re-design, the Company plans to introduce an inquiry service using chatbots at its bicycle parking lots during FY3/23. In promoting a shift to in-house handling of construction and peripheral operations by strengthening the role of Group subsidiaries, NCD PROS, Ltd. has started bicycle parking equipment installation work, peripheral work, and fee collection operations, among others. In promoting streamlining of the usage fee structure and expansion of cashless payments, the Company is proceeding as planned with fee revision at bicycle parking lots that are targeted for streamlining, and is also rolling out cashless payment functions, mainly at new locations. In developing new sales channels such as developers and architectural offices, the Company has expanded orders for redevelopment projects, such as Kameido and Nagareyama-otakanomori, by strengthening collaboration with developers. Furthermore, in February 2022, as part of user services at bicycle parking lots, the Company started an “Amazon Locker” service. This will also contribute to the reduction of CO₂ emissions by reducing redeliveries by couriers.

Shift to a new growth stage with the formulation of a purpose

4. Shift to a new growth stage with the formulation of a purpose

According to Representative Director and President Osamu Shimojo, who spoke with enthusiasm, “The business environment for the Parking Business has changed dramatically under the COVID-19 pandemic, but the IT-related Business is steadily growing in earning capability. In the next medium-term management plan, there won’t be any great change in our basic policy for growth, but we will promote BPR with the assumption that the business environment for the Parking System Business will not return to pre-COVID-19 levels, and we aim to further accelerate our transformation and challenges in new fields, while remaining conscious of sustainability management.” We believe that the IT-related Business will not only continue to be the driver, but that by formulating the purpose and aggressively developing business, the Company has the potential to enter a new growth stage.

Shareholder return policy

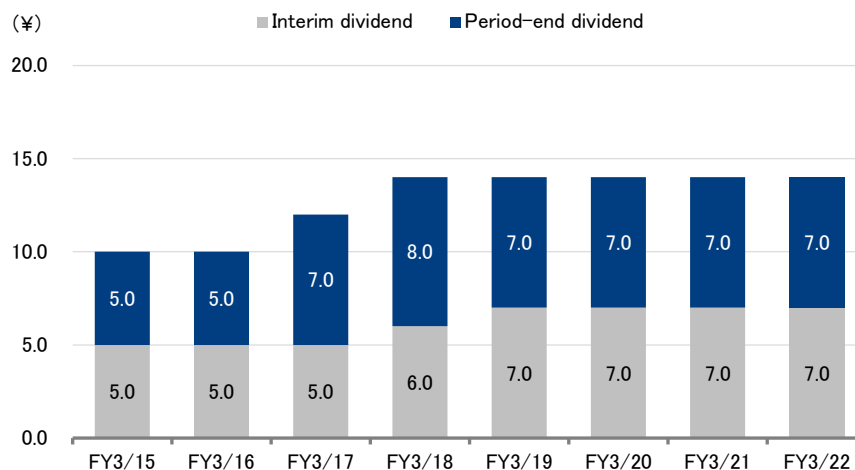
Returns profits to shareholders appropriately, based on a stable dividend

1. Returns profits to shareholders appropriately, based on a stable dividend

The Company’s basic policy for returning profits to shareholders is to work to retain earnings to strengthen its corporate structure and actively develop its businesses, but at the same time, to maintain stable dividends comprehensively considering factors such as the dividend payout ratio and dividend yield. It does not set a target for the dividend payout ratio, but going forward, it intends to return profits to shareholders appropriately while continuing to further strengthen its management foundation and to actively develop its businesses. In accordance with the basic policy, the Company paid a ¥14 dividend (an interim dividend of ¥7 and a period-end dividend of ¥7) in FY3/22, the same as in FY3/21. The dividend payout ratio is 24.7%. For FY3/23, the forecast dividend is ¥14 (an interim dividend of ¥7 and a period-end dividend of ¥7), the same as FY3/22. The forecast dividend payment ratio is 18.8%.

Shareholder return policy

Dividend trend



Source: Reprinted from the Company's results briefing materials

2. Shareholder benefits program

The Company also implements a shareholder benefits program as part of its measures to return profits to shareholders. Shareholders holding at least 1,000 shares (10 units) on September 30 of each year are eligible for the program. They receive a gift (QUO card) depending on the number of shares they hold and the continuous period of time they have held them.

Shareholder benefits program

Gift: QUO card

Number of shares held	Continuous period of time held	
	Less than 3 years	3 years or more
1,000 to 2,999 shares	Worth ¥2,000	Worth ¥3,000
3,000 to 4,999 shares	Worth ¥3,000	Worth ¥5,000
5,000 shares or more	Worth ¥5,000	Worth ¥7,000

<Conditions for the continuous holding>

•With the last day in September in each year as the record date, shareholders who are confirmed as being registered in the registry of shareholders on this date are eligible for the program.

•As for the determination of continuous holdings, shareholders holding shares for "three years or more" are the ones who are registered consecutively seven times "with the same shareholder number" in the registry of shareholders in each fiscal half (the end of March and the end of September in each year).

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

ESG and SDGs initiatives

Promoting sustainability management

1. Promoting sustainability management

To strengthen ESG and SDGs initiatives, and to implement activities that promote sustainability across the Group, based on the Company's sustainability basic policy, the Company established the Sustainability Promotion Committee in October 2021.

The Company advocates the materiality themes of “contribute to realizing carbon neutrality,” “create a safe, secure and prosperous society,” “be a society where diverse human resources can play an active role,” and “gain society's trust.” The Parking System Business contributes to resolution of abandoned bicycles, easing of traffic congestion, effective utilization of land, region and community building, and improvement of the global environment through reduced CO₂ emissions. It is also implementing bicycle utilization promotion plans in various regions based on the Bicycle Use Promotion Act (enacted in May 2017 for the purpose of comprehensive and systematic promotion of bicycle usage). In April 2022, the Company concluded an official supplier agreement with the professional road cycling team SAITAMA DReVe. The Company also plans to contribute to local communities.

The Group's Materiality

<p>① Contribute to realizing carbon neutrality</p> <ul style="list-style-type: none"> Promotion of DX Provision of bicycle parking service with high added value 	<p>② Create a safe, secure and prosperous society</p> <ul style="list-style-type: none"> Provision of resilient social infrastructure Contribution to regional revitalization 	<p>③ Be a society where diverse human resources can play an active role</p> <ul style="list-style-type: none"> Promotion of diversity and inclusion Achievement of both ease of work and job satisfaction Training next-generation leaders 	<p>④ Gain society's trust</p> <ul style="list-style-type: none"> Enhancement of governance system Promotion of compliance Suitable risk management 
 <p>Provision of bicycle parking service with high added value</p> <p>In February 2022, the Company started introducing “Amazon Lockers” at its bicycle parking lots. By reducing redeliveries, these will contribute to curbing CO₂ emissions.</p>		 <p>Contribution to regional revitalization</p> <p>In April 2020, the Company established the Nagasaki Sales Center Goto Office in Goto City, Nagasaki. The office will contribute to job creation in the local community, including recruiting new graduates.</p>	

Source: Reprinted from the Company's results briefing materials

Strengthening diversity initiatives

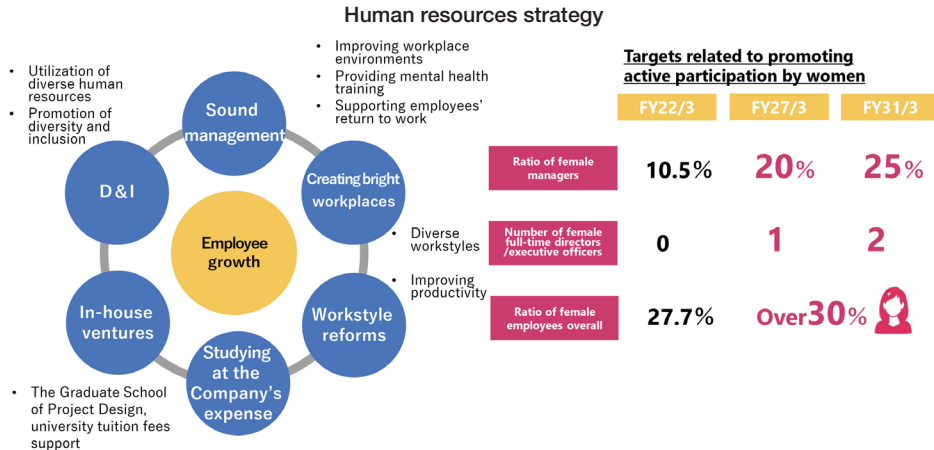
2. Strengthening diversity initiatives

As a human resources strategy, the Company promotes health and productivity management, creation of a bright workplaces, workstyle reforms, career assistance, in-house ventures, and D&I (Diversity & Inclusion). It rolled out a new personnel program uniformly throughout the Group in April 2021. The Company acquired gold authorization as a company with an outstanding approach to health and productivity management in the healthy company declaration under the outstanding health management company certification program operated by the healthy company declaration Tokyo promotion council in September 2021.

Goals for the number of women full-time directors/executive officers are one in FY3/27 and two in FY3/31. While women directors often hold outside director positions, the Company wants to recruit the full-time directors/executive

ESG and SDGs initiatives

officers from women within the organization. Furthermore, the Company is promoting compliance with the Corporate Governance Code revised in June 2021, including disclosure of a directors' skill matrix and participation in an electronic voting platform.



Source: Reprinted from the Company's results briefing materials

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