

# COMPANY RESEARCH AND ANALYSIS REPORT

**I'LL Inc.**

**3854**

Tokyo Stock Exchange Prime Market

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## Summary

### In FY7/23, the Company achieved its target of operating profit margin in the 20% range two fiscal years ahead of schedule

I'LL Inc. <3854> (hereafter, also “the Company”) is a total system solutions company that helps mid-tier and small/medium-size companies enhance their management capabilities. The “CROSS-OVER Synergy” strategy is the Company’s base strategy, and it supports DX\*1 of companies through an IT-driven convergence of real-world and online capabilities. The Company aims to support value creation through a new concept of “BX\*3” to support backyard\*2 operations, which are becoming increasingly complex day by day, thus not limiting itself to supporting efficiency gains through DX.

\*1 DX is an abbreviation of digital transformation, and represents the idea that “wider IT usage changes people’s lives in a more positive direction in all aspects” and that the conversion of existing business models and business methods through digital technology creates new value.

\*2 The term “backyard” refers to the people, teams and sites that handle order processing, inquiry responses, inventory management, product registration and other such tasks behind the scenes at companies, online stores, and real-world stores.

\*3 BX is an abbreviation of backside transformation. It is a concept in which value creation support is realized through transformation from the backside based on the Company’s proprietary CROSS-OVER Synergy strategy.

#### 1. Forming a virtuous cycle spiral in which increased productivity leads to higher gross profit margin

The Company operates a System Solutions Business centered on the mission-critical operation management system Aladdin Office series, as well as an Online Solutions Business focused on CROSS MALL, a cloud-based software product for integrated management of multiple e-commerce websites, and CROSS POINT, a software product for the integrated management of customer and loyalty points at both real-world stores and e-commerce sites. In addition, the backyard platform BACKYARD™, which was released in December 2022 as a next-generation service of CROSS MALL, will be offered from November 2023. In order to improve profitability, the Company is working to improve productivity and expand recurring net sales through an integrated production and sales system. The strategy is to form a virtuous cycle spiral that will lead to higher gross profit margins through overall improvements in quality and productivity, such as reducing customization man-hours and preventing problems before they arise by strengthening collaboration between sales and development at the order receiving stage. As a result, sales are on the rise and the gross profit margin is increasing.

## Summary

**2. In FY7/23, both sales and profit increased, exceeding the upwardly revised forecasts**

In FY7/23 consolidated results, net sales increased 23.0% year on year (YoY) to ¥15,924mn, operating profit rose 68.9% to ¥3,547mn, ordinary profit grew 68.4% to ¥3,571mn, and profit attributable to owners of parent increased 79.4% to ¥2,472mn. Both sales and profit increases were higher than the Company's forecasts, which had been upwardly revised on February 24, 2023, and both net sales and all profit lines reached new record highs. The strong net sales were aided by a number of factors, including the elimination of the impacts of delays in server device deliveries caused by semiconductor shortages in the previous fiscal year, the Company's ability to generate higher-than-expected demand for software modifications and upgrades accompanying the server replacement demand which had been anticipated at the beginning of the fiscal year, the increase in the number of man-hours and the loss of opportunity to receive other projects in conjunction with software modification demand to handle the invoice system were lower than anticipated, and the improvement in the project turnover rate due to improvements in product quality. In terms of profits, in addition to the higher-than-expected increase in sales, profits were helped by the integrated system of production and sales for marketing and development, as well as the expansion of recurring revenue. Gross profit increased 28.8%, while the gross profit margin rose 2.4 percentage points (pp) to 54.5%. SG&A expenses increased 10.7% due to factors including the ongoing increase in the number of personnel, but the SG&A expenses ratio declined 3.6pp to 32.2%. As a result, the operating profit margin rose 6.1pp to 22.3%, and the Company achieved its target in its medium-term management plan of being in the 20% range two years ahead of schedule.

**3. Expecting double-digit growth in operating and ordinary profit in FY7/24, with a possibility for an even higher upside**

For FY7/24 consolidated results, the Company forecasts net sales to increase 6.1% YoY to ¥16,900mn, operating profit to grow 12.8% to ¥4,000mn, ordinary profit to rise 12.8% to ¥4,026mn, and profit attributable to owners of parent to increase 8.5% to ¥2,683mn. The Company is expecting double-digit increases in both operating profit and ordinary profit in both the System Solutions Business and the Online Solutions Business. As key measures, in the System Solutions Business, the Company will expand its sales area and accumulate know-how on large-scale projects for major customers, and in the Online Solutions Business the Company will promote the migration of existing CROSS MALL customers to BACKYARD™ and promote new customer development after completing the migration of existing customers. In terms of profits, SG&A expenses are expected to increase as the Company continues to actively invest in human resources, development and sales promotion, but this is expected to be absorbed through productivity improvements and higher gross profit from recurring business, along with other factors. The profit growth rate for FY7/24 is expected to slow down in comparison to FY7/23, but this is due to a recoil from the large growth in FY7/23 and a sense of uncertainty, and it also considers temporary costs increases due to the parallel operation of both the CROSS MALL and BACKYARD™ platforms, so this forecast seems quite conservative. Considering that the business environment is favorable, such as companies' DX needs increasing further, and that recurring net sales are on the rise, we at FISCO believe that there is a high possibility that the Company's forecasts will be raised.

## Summary

**4. Aiming for operating margin of 30% over the long term**

For its medium-term management plan, the Company's policy is to adopt a rolling plan in which it can revise the targets at any time, such as to respond to rapid changes to its business environment. Based on this policy, in September 2023, the Company formulated a three-year medium-term management plan with FY7/26 as the final year. Under this plan, the Company's forecast for FY7/26 is net sales of ¥20,400mn, gross profit of ¥11,728mn, gross profit margin of 57.5%, operating profit of ¥5,400mn, operating profit margin of 26.5%, and profit attributable to owners of parent of ¥3,616mn. These figures represent upward revisions for net sales and profit compared to the previous three-year plan. Furthermore, the Company has set an operating profit margin of 30% as a long-term goal, and has positioned this plan as a three-year period to solidify its operating profit margin at over 20%. As a basic policy, the Company has set an internal goal of double-digit growth for both the System Solutions Business and the Online Solutions Business, supported by the promotion of DX as a national policy. In terms of costs, it will continue to actively recruit human resources, but its policy is to absorb these costs through the effects of increased recurring net sales and strengthened project management through an integrated production and sales system, as it aims to increase profit margin. The migration from CROSS MALL to BACKYARD™ in the CROSS Business is expected to take approximately two to three years.

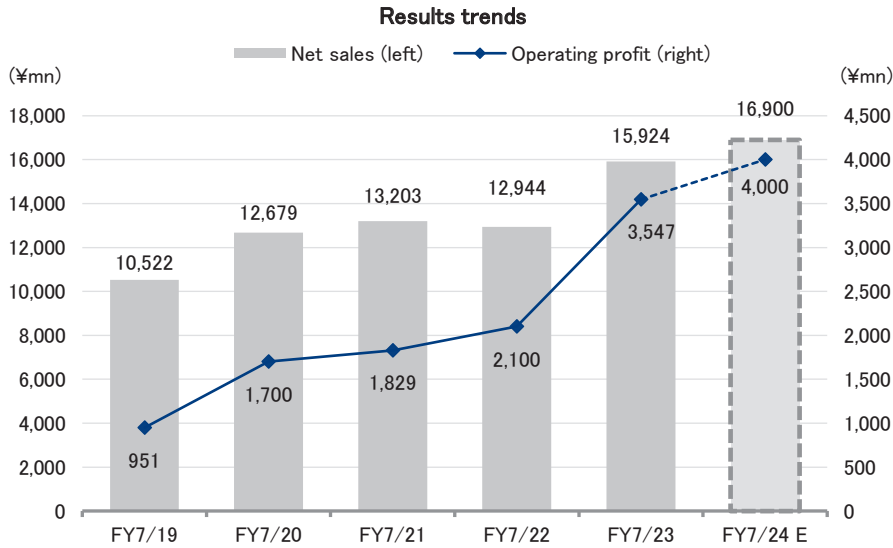
**5. Focusing on growth acceleration due to BX**

In order to improve profitability, the Company has been promoting a strategy to form a virtuous cycle spiral in which overall quality and productivity improvements through an integrated production and sales system lead to higher gross profit margins. As a result, the operating profit margin increased significantly from 9.0% in FY7/19 to 22.3% in FY7/23, while continuing to actively invest in human resources. At FISCO, we positively evaluate the results of this improvement in profitability. Going forward, the Company aims to further increase the operating profit margin to 30%, and will promote productivity improvement and recurring revenue sales expansion through an integrated production and sales system, in addition to expanding sales areas, expanding projects targeting major customers, and realizing value creation through BX along with other initiatives to take on challenges in new domains. The market environment is favorable, and at FISCO we will pay attention to the progress of the three-year plan and trends in growth acceleration through BX.

**Key Points**

- Total system solutions company supporting customers' enterprise capability through its "CROSS-OVER Synergy" strategy
- In FY7/23 the Company achieved its target of operating margin in the 20% range two years ahead of schedule, exceeding the upwardly revised forecasts
- Expecting double-digit growth in operating and ordinary profit in FY7/24, with a possibility for even higher upside
- Aiming for operating profit margin of 30% over the long term
- At FISCO, we applaud the outcome of the strategy to increase profitability, and we are focusing on growth acceleration through BX

Summary



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

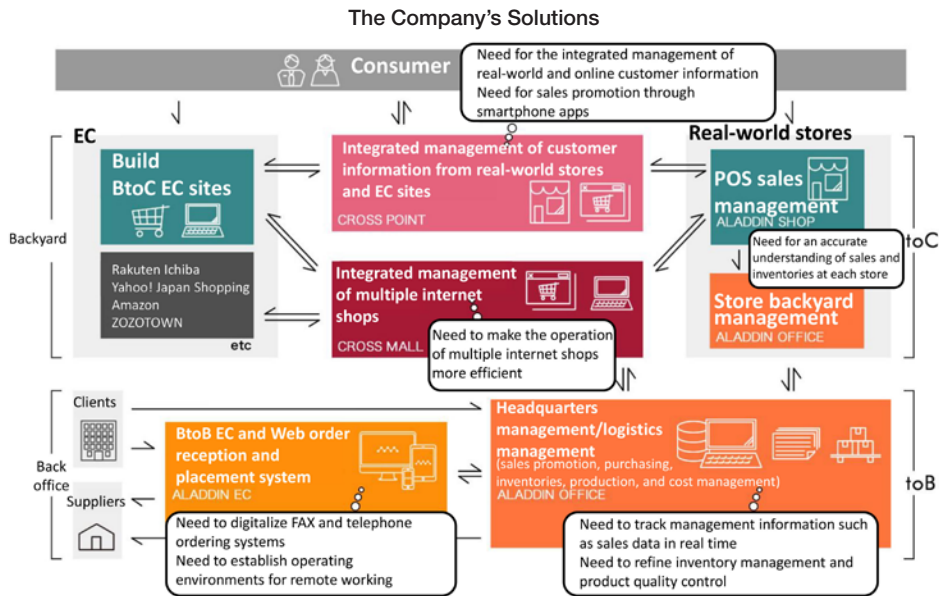
## Company overview

### A total system solutions company supporting customers' enterprise capability

#### 1. Company overview

The Company is a total system solution company that supports the enterprise capability of mid-tier and small/medium-size companies, which are its main customers, through various types of internally developed systems. With the mainstay, internally developed mission-critical operation management system Aladdin Office series, the Company supplies products and services to mid-tier and small/medium-size companies needing efficient use of IT to enhance management capabilities. By providing various types of systems, solutions, and services, the Company aims to realize not only efficiency support through DX but also value creation support through the new concept of "BX" through convergence of real-world and online capabilities with the "CROSS-OVER Synergy" strategy to support DX as its base strategy.

Company overview



Source: From the Company's results overview

As of the end of FY7/23, the Company's headquarters are located in Kita-ku, Osaka, and its offices include the Osaka Headquarters, Tokyo Headquarters (Minato-ku, Tokyo), Nagoya Branch (Naka-ku, Nagoya). It also has research and development operations at the I'LL Matsue Laboratory (R&D center in Matsue, Shimane Prefecture). The Company also operates I'LL Career Colleges (ICCs) in Osaka and Tokyo as educational entities that offer individual and corporate training. The Group comprises the Company and one consolidated subsidiary (web-base. co.). Also, in June 2017, the Company invested in Sivira Inc. (additional investment made in June 2021) and concluded a capital and business alliance.

At the end of FY7/23, the Company had total assets of ¥12,115mn, net assets of ¥7,740mn, ¥354mn in share capital, an equity ratio of 63.9%, and had 25,042,528 shares (including 10,019 treasury shares) in outstanding share volume.

**2. History**

The Company was established as a sales company for office computers in February 1991, and subsequently expanded into proprietary software development and sales. It began its digital business design (DBD) business in January 2003 and established a unique strategy and made a full-scale entry into the online business in November 2003. It released Aladdin Office, a proprietary sales management software, in October 2004, CROSS MALL, a cloud-based software product for integrated management of multiple e-commerce websites, in March 2009, and in April 2013, it released CROSS POINT, a software product for the integrated management of customers and loyalty points at both real-world stores and e-commerce sites. The Company obtained ISO 27001 (ISMS) certification in September 2016 and in December 2020, it was certified as one of the "Shopify Experts" in the partner program for Shopify, a cloud-based multi-channel commerce platform. In December 2022, it released BACKYARD™, the industry's first\* backyard platform.

\* Based on Company research

Company overview

In terms of stocks, the Company went public with a listing on the Osaka Stock Exchange (OSE) Hercules Market in June 2007, and subsequently was listed on the OSE JASDAQ Market accompanying a merger of OSE markets in October 2010 and then on the Tokyo Stock Exchange (TSE) JASDAQ Growth Market accompanying a merger of OSE and TSE markets in July 2013. It changed to the TSE Second Section in June 2018 and moved to the TSE First Section in July 2019. In April 2022, it was moved to the TSE Prime Market as part of the TSE's market restructuring.

Company history

Dates	Main items
February 1991	Founded with the aim of selling office computers and developing computer software (Fukushima-ku, Osaka)
September 1993	Moved the headquarters to Noda (Fukushima-ku, Osaka)
April 1996	Started the PC school business
September 2000	Started the @VAL job openings and job seeker information site
July 2001	Opened the Tokyo Headquarters in Shimbashi (Minato-ku, Tokyo)
April 2002	Moved the headquarters to Kita-ku (Osaka)
January 2003	Started the digital business design (DBD) business
November 2003	Entered the online business
September 2004	Acquired privacy mark certification
October 2004	Released proprietary sales management software Aladdin Office
August 2005	Started the web doctor business
June 2007	Listed shares on the Osaka Stock Exchange's Hercules Market
August 2008	Opened the Nagoya Branch in Sakae (Naka-ku, Nagoya)
March 2009	Released CROSS MALL, an ASP service for integrated management of multiple E-commerce websites
October 2009	Opened the East Osaka Branch in Higashi-Osaka (Osaka)
October 2010	Listed shares on the Osaka Stock Exchange's JASDAQ Market accompanying a market merger by the Osaka Stock Exchange
December 2010	Moved the Tokyo Headquarters to Shibakoen (Minato-ku, Tokyo)
August 2011	Moved the Nagoya Branch to Nishiki (Naka-ku, Nagoya)
August 2011	Acquired Web Base as a subsidiary with the purchase of all shares
September 2012	Opened the Fukuoka Branch in Hakata-ku (Fukuoka) and the Sendai Branch in Aoba-ku (Sendai)
April 2013	Released CROSS POINT, a software product for integrated management of real-world stores and E-commerce customers and loyalty points
July 2013	Listed shares on the Tokyo Stock Exchange's JASDAQ Growth Market accompanying the Osaka Stock Exchange and Tokyo Stock Exchange merger
August 2015	Moved the Nagoya Branch to the Urban net Fushimi Building in Nishiki (Naka-ku, Nagoya)
November 2015	Mission-critical system Aladdin Office for Foods won the 45th Food Industrial Technical Award
March 2016	Moved the Osaka Headquarters to Grand Front Osaka Tower B in Kita-ku (Osaka)
September 2016	Mission-critical system Aladdin Office for Foods won the 19th Excellent Food Machine and Materials Prize
September 2016	Obtained ISO 27001 (ISMS) certification
May 2017	Ranked No.1 in Toyo Keizai Online's White 500 Companies Best for Female Recruits
June 2017	Invested in Sivira and concluded a capital and business alliance
October 2017	Opened I'LL Matsue Laboratory in Matsue (Shimane Prefecture) as a next-generation cloud R&D development office
June 2018	Changed the stock listing to the Tokyo Stock Exchange's Second Section
July 2019	Changed the stock listing to the Tokyo Stock Exchange's First Section
November 2019	Ended service by the @VAL job openings and job seeker information site
March 2020	Introduced in the METI Kansai Bureau of Economy, Trade and Industry's Interesting Kansai Company Examples – New Signs from Company Visits – KIZASHI
December 2020	Obtained Shopify Experts certification as a Shopify partner
June 2021	Made additional investment in Sivira
April 2022	Moved to the Tokyo Stock Exchange Prime Market as part of the TSE's market restructure Services provided certified as tools of the Ministry of Economy, Trade and Industry's "IT deployment subsidies 2022"
December 2022	Launched BACKYARD™, the industry's first backyard platform
March 2023	Strengthened the document approval feature of Aladdin Office, released as the optional function Aladdin Workflow
April 2023	I'LL services approved as tools covered by METI's IT deployment subsidies 2023 (for four consecutive years since FY2020).
October 2023	Opened Kanda Showroom in Chiyoda-ku, Tokyo

Source: Prepared by FISCO from the Company's website and releases



## Business overview

Distinctive characteristic is the “CROSS-OVER Synergy” strategy to support DX through IT-driven convergence of real-world and online

### 1. Overview of services

The Company’s business segments are the System Solutions Business with mainstay Aladdin Office series, a mission-critical operation management system series, as the primary product and the Online Solutions Business (CROSS Business and Other Online Business) with CROSS MALL, a software product for integrated management of multiple e-commerce websites, and the mainstay solution, CROSS POINT, a software product for integrated management of real-world store and e-commerce customers and loyalty points, available as cloud services.

#### Business activities



Source: From the Company's results overview

#### (1) System Solutions Business

The System Solutions Business designs and develops mission-critical systems and handles hardware maintenance, system operation support, network construction, and security management for customer companies almost entirely on its own. It primarily supplies the mainstay Aladdin Office series, an internally developed mission critical operation management system with deployments at more than 5,000 companies and offers Aladdin Shop, a store management system for the fashion industry, Aladdin EC, a B2B e-commerce platform specifically for transactions between companies, and Aladdin Cloud, a data center-based IaaS\* solution. In March 2023, the Company strengthened the document approval function of Aladdin Office, released as the optional function Aladdin Workflow. The Company also operates the ICC Osaka School and Tokyo School as educational institutions that conduct training for individuals and companies.

\* An acronym for Infrastructure as a Service. A service that provides infrastructure such as virtual servers and networks through the internet. Aladdin Cloud operations are carried out at a data center unlike Aladdin Office, which is operated on the client's premises.

#### Business overview

The Company aims to secure competitive advantages, including by developing systems that are tailored to the industries and business formats of its customer companies, conducting flexible customization, and enhancing product variations specialized for each industry. For after-sales as well, it is emphasizing the recurring business that acquires recurring revenue from maintenance and operations support. By industry, in 2006, it was the first IT company to be recognized as a supporting member of the Kansai Screw Cooperative, and utilizes this connection to conduct sales activities.

#### (2) Online Solutions Business

The Online Solutions Business comprises the CROSS Business and Other Online Business. The CROSS Business delivers cloud-based applications, and its main focuses are CROSS MALL, a software product for the integrated management of multiple e-commerce websites, and CROSS POINT, a mainstay software product for the integrated management of customers and loyalty points at both real-world stores and e-commerce websites. Profitability is high because these software products are offered as recurring services. From November 2023, the Company will start offering BACKYARD™, the backyard platform released in December 2022 as the next generation of CROSS MALL.

The Other Online Business consists of CROSS STAFF, a cloud-based staff management system for temporary staffing agencies (launched in 2016), B2B e-commerce platform assistance and web marketing assistance (corporate webpage production and operation assistance, e-commerce websites construction assistance, customer business analysis and strategy consulting, promotions, and updates and revisions based on log analysis results after webpage production).

## 2. Main products

Below is a list of the Company's main products and leading customer deployment examples. In April 2023, the services provided by the Company were certified as tools eligible for the IT Deployment Subsidies 2023 provided by the Ministry of Economy, Trade and Industry (for four consecutive years since FY2020).

#### (1) Mission-critical operation management system for small/medium-size companies Aladdin Office and store management system Aladdin Shop (real-world)

These products support digitalization of operation management, including sales, inventory, production, and store management, and improved management capabilities by promoting workstyle reforms with better operational efficiency and strengthening internal compliance. Leading deployment examples are shirt and necktie firm Maker's Shirt Kamakura, stocking and socks firm Fukusuke Corporation, ladies' fashion firm ANAP <3189>, high-end leather shoes firm Madras Inc., suitcase and carry-on bag manufacturer and distributor T&S Co., Ltd., Nagoya specialty Tenmusu firm Jiraiya, salt and rock salt wholesale firm Japan Seasoning, Co., Ltd., automotive brake part manufacturer DIXCEL Co., Ltd., screw specialty trading firm Touyo Screw Co., Ltd., bundling and packaging material wholesaler YANAGIDA CO., LTD., and stage lighting equipment importer and distributor Ken Production Services inc.

Business overview

**(2) B2B e-commerce platform Aladdin EC (online)**

This product supports digitalization of orders reception and placement operation management between companies and internally and stronger sales through workstyle reforms with better operational efficiency and differentiation from other companies. Leading deployment examples are food trading firm PRECO GROUP (group led by Preco Foods Corporation), alcohol and alcohol-related product sales firm Suntory Marketing & Commerce Limited, furniture and interiors manufacturer FRANCE BED SALES Co., Ltd., producer and distributor of steamed chicken and other processed foods AMATAKE Co., Ltd., commissioned meal service and foodstuff distributor HITOWA Food Service Co., Ltd., cosmetics and beauty and health devices and goods firm Comfort Japan Inc., dairy product and Western confectionery firm Kurokawa Co., Ltd., bicycle firm RITEWAY (Riteway Products Japan), men's and ladies' apparel company GUEST LIST, medical equipment seller SHEEN MAN CO., LTD.

**(3) Multiple e-commerce websites integrated management software CROSS MALL (online)**

This product handles integrated management of multiple online shops, including online marketplaces and e-commerce platforms, and boosts sales through workstyle reforms with better operational efficiency and reinforced e-commerce initiatives. Leading deployment examples are craft beer production and sales firm YO-HO Brewing Co., Ltd., sporting goods sales firm Murasaki Sports Co., Ltd., ladies' fashion firm ANAP, men's fashion e-commerce business P.B.I. Co., Ltd. with the Silver Bullet brand, eco-friendly product importer and wholesale firm e.oct Inc., and Maruhisa, operator of e-commerce kimono wholesaler "Kimono Kyokomachi".

**(4) Real-world store and e-commerce customer and loyalty point integrated management software CROSS POINT (online)**

This product supports integrated management of real-world store and e-commerce customers and loyalty points through development of a real-world store and e-commerce omni-channel and use of a smartphone app, etc., as well as improved sales via the omni-channel and expansion of the fan segment through enhanced branding. Leading deployment examples are shoe manufacturer and distributor REGAL CORPORATION <7938>, shirt and necktie firm Maker's Shirt Kamakura, stocking and socks firm FUKUSUKE CORPORATION, babies', kids', and mothers' clothing firm BRANSHES, casual women's clothing "w closet" firm Wears Inc., Ameri vintage "Ameri" e-commerce firm B STONE, ladies' fashion e-commerce "flower" operator Sola Of Tokyo Co., Ltd., and bag and other apparel planning, production, sales firm COO COMPANY LIMITED, and women's fashion retailer ANAP.

**(5) Backyard platform BACKYARD™ (online)**

BACKYARD™ is a cloud service for supporting backyard operations, which are becoming increasingly complex day by day, across business formats such as wholesale, retail, and e-commerce, and realizes BX by not only improving operational efficiency but also by transforming from the backside (the Company will start offering this service in November 2023). The Company has positioned this service as a next-generation service for CROSS MALL, and it has management and collaboration functions that support borderless and multiple channels, efficiency gains through automatic processing, and data fusion to achieve unified management of all backyard operations, covering not only online shops but also include all business formats. It comprises five management functions (CROSS/collaboration management, ORDER/order management, ITEM/product management, STOCK/inventory management, COMMUNICATION/customer service support), and is equipped with functions in the themes of automation, visualization, customization, and communication. By promoting communication with backyard teams and customers, it enables the realization of "ONE by 1"\*.

\* The vision that BACKYARD™ intends to become the new standard: "Achieving a one-of-a-kind shop experience on one borderless platform."

#### Business overview

The Company will start with the provision of online shop management, for the e-commerce businesses, but in the future, it plans to gradually provide upgraded versions of physical store management for retail businesses, order management and sales management for wholesale businesses, and inquiry management for customer support, or as optional services. In conjunction with the launch of BACKYARD™, the Company will open a dedicated backyard base called BACKYARD TOKYO at the Kanda Showroom (Chiyoda-ku, Tokyo, opening in October 2023), as well as exhibit and sell BACKYARD BOX, eco-friendly original cardboard shelving to be used in the backyard. The Company is also publishing the media “LOVE by BACKYARD” which sheds light on the “uniqueness” of backyards.

### 3. “CROSS-OVER Synergy” strategy

The Company is advancing the “CROSS-OVER Synergy” strategy which aims to enhance the enterprise capability of small and medium-size companies that require effective IT usage by developing and proposing solutions to the management challenges faced by these customers from both real-world and online perspectives. This strategy seeks realization of an “all one-stop” service that proposes a combination of mission-critical operation systems from the System Solutions Business (real-world) that support better operation efficiency and services from the Online Solutions Business (online environments) that assists reinforcement of sales capabilities and creation of stronger synergy effect.

The Company possesses robust offensive and defensive capabilities thanks to this “CROSS-OVER Synergy” strategy, and the number of client companies is on the rise. In FY7/23, the number of client companies increased 3.3% YoY to 7,307 companies (a 2.7% increase to 5,054 companies in the System Solutions Business and a 4.5% increase to 2,253 companies in the Online Solutions Business). An increase in the number of customers has also prompted a significant increase in the net sales of recurring business, one of the Company’s focuses, thereby enhancing profitability.

### 4. Characteristics and strengths

The Company’s main characteristics and strengths are: (1) specialization in the mid-tier and small/medium-size company markets; (2) designated industry emphasis strategy; (3) strong sales and inventory management know-how; (4) product ecosystem strategy that realizes total solutions; (5) operations with engineers making up about 70% of employees; (6) ability to accommodate individual customization; (7) omni-channel strategy in retail business; (8) high proprietary product and service ratios; and (9) partner strategy.

#### (1) Specialization in mid-tier and small/medium-size company markets

The Company has delivered proprietary services that specialize in mid-tier and small/medium-size company markets since its founding. Small/medium-size companies with less than ¥5.0bn in annual sales account for roughly 90% of customer volume. In recognition of these efforts, the Company received the Special Award (Commerce and Information Policy Bureau Director-General’s Award) in METI’s “IT Management Awards for Small and Medium Enterprises 2011” in 2011. As a result of the strengthening of (9) partner strategy, there is an increasing trend in orders from major customers, which has led to an overall increase in order unit prices (details in later section).

## Business overview

**(2) Designated industry emphasis strategy**

Another strength is the Company's designated industry emphasis which places a heavy focus on industries with many small/mid-size companies in wholesale, retail, and manufacturing sectors. It forms operations with robust service and sales capabilities, including development of industry-specific systems and establishment of expert teams for individual industries, and thereby boosts new customer acquisition capabilities. Specifically, it positions apparel and fashion, food, medical equipment, screws and metal parts, and steel and non-ferrous metal industries as the five main industries. It seeks to deepen market coverage with industry-specialized package software Aladdin Office series and other products. In July 2023, the Company started offering an updated version of Aladdin Office Tetsuo, a sales, inventory, and processing management system for the steel and non-ferrous metal industries. In addition to managing receivables and payables by segment such as for specific offices and business divisions, the Company has also strengthened functions such as processing process planning management in response to demand for improved management of processing operations.

**(3) Strong sales and inventory management know-how**

Since its founding, the Company has consistently provided sales and inventory management software that requires understanding of customer operations. It has extensive deployments and know-how in real-world and online environments for manufacturing, wholesale, retail, and other business formats and industries and sales and inventory management with different management methods for each firm.

**(4) Product ecosystem strategy that realizes total solutions**

The product ecosystem strategy that consists of multiple product groups is also a strength. The Company develops proprietary products and services that cover the online field of building online shops and related management assistance services, the real-world store and headquarter field of store sales management and backside inventory managements, and the real-world and online integration field of integrated management of inventories and loyalty points in real-world and e-commerce operations. It is also capable of making hybrid proposals that combine various products and realizes total solutions for customers.

**(5) Operations with engineers making up about 70% of employees**

As of the end of FY7/23, the composition of the Company's 852 employees (up 48 employees from the end of the previous fiscal year) on a non-consolidated basis was engineers at 72%, salespeople at 18%, and general staff at 10%. The Company places emphasis on post-system provision support too with an operation in which roughly 70% of employees are engineers. It intends to continue strengthening technology division personnel with the aim of having an organization that promotes cultivation of human resources who handle three roles (industry and operation knowhow, mission-critical systems, and online) and reinforcement of technology capabilities. Meanwhile, the Company is also promoting an environment and product development to overcome labor-intensive production.

**(6) Ability to accommodate individual customization**

Given differences in operation implementation methods by industries and individual cases at mid-tier and small/medium-size companies, the Company adheres to a fundamental strategy of supporting individual customization of software that meets diverse needs. Meanwhile, the number of companies capable of handling individual customization of software has been trending lower in the software development market in recent years. This shift has lowered orders competition and is boosting profit margin.

## Business overview

**(7) Omni-channel strategy in retail business**

The retail industry has shown interest in recent years in omni-channel strategy that integrates real-world stores and online stores and realizes an environment and distribution paths in which customers can purchase products in the same way from all channels (sales channels and customer contact points). Since the Company has commercialized integration of real-world and online environments from its founding and accumulated business know-how and a track record that was not achieved in a short period of time, FISCO thinks it possesses an advantage in advancement of omni-channel strategy in the retail industry that cannot be copied by other firms.

**(8) High proprietary product and service ratios**

The Company promotes sales expansion mainly for its own products and services as an important aspect of the management policy of building an income structure that does not depend on sales of other company products, such as hardware, which is readily affected by price fluctuations and has low profit margins. Its own products and services (software, operation, maintenance, membership fees, etc.) hence have a large presence at about 70% of sales.

**(9) Partner strategy**

A feature of the Company is that it is also highly trusted by partners in new deal introductions and sales cooperation (banks, system integrators, office equipment manufacturers, consultants, accounting offices, etc.). Deals introduced by partners represented 42.7% (2.5pp higher than the end of the previous fiscal year) among new orders received by sales channel (on a value basis, end of FY7/23) in the System Solutions Business. In addition, inquiries via the Company's website accounted for 38.1% (0.3pp lower) of new orders, while acquisitions through internal sales were 19.1% (2.2pp lower). In addition to proposals that address the essence of customer issues, increased awareness of the Company has contributed to an increase in the percentage of pull-type sales, including partner referrals and inquiries through the Company's website, leading to more efficient sales activities. There is also an increasing trend in orders received from major customers based on partner introductions, which has led to an overall rise in unit sales prices on orders received.

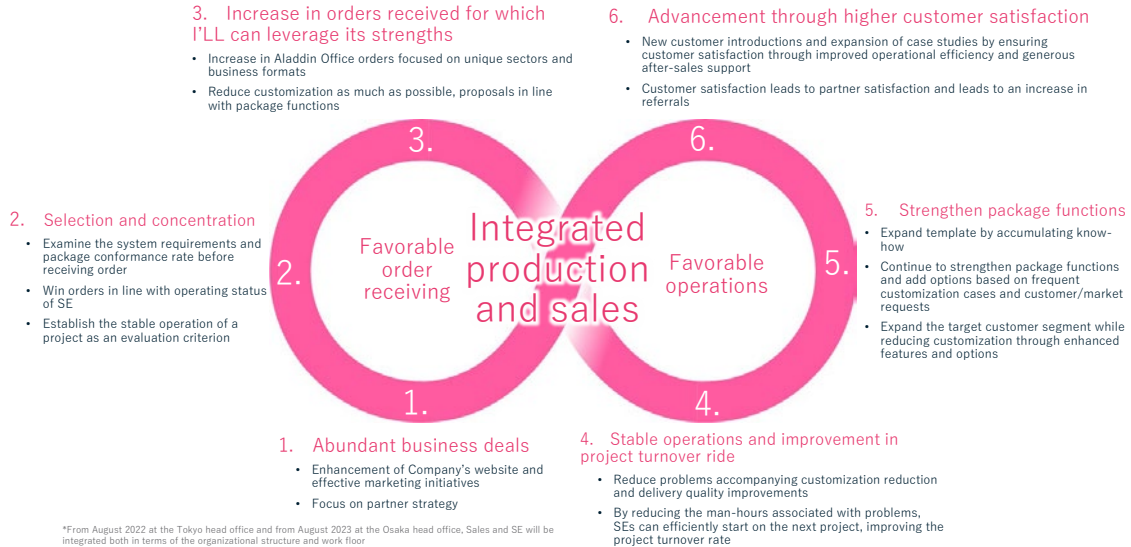
In this way, the Company has the competitive advantage of preparing human resources who become very familiar with different industries and work and have knowledge of mission-critical systems, and the online shops, as well as a partner strategy. As a result, the System Solutions Business's competitive tender victory rate is 91.6% (FY7/23) and the repeat customer rate is 98.4% (same period), which can be said to show the height of its competitive advantages.

**5. Forming a virtuous cycle spiral in which increased productivity leads to higher gross profit margin**

In an aim to improve profitability, the Company is working to improve productivity and expand recurring revenue sales through an integrated production and sales system. The strategy is to form a virtuous cycle spiral that will lead to higher gross profit margins through comprehensive improvements in quality and productivity, including efforts to reduce customization man-hours and prevent problems ahead of time through reinforced collaboration between sales and development teams at the orders stage. Since FY7/20, it has integrated sales and support (system sales and system support) with organizational change and further enhanced collaboration. Additionally, despite the Company's support for individual customization as a fundamental strategy, it is improving its gross profit margin through measures such as expanding orders conforming to packaged functions to minimize customization and shortening lead time with enhanced quality and productivity.

Business overview

Profit improvement for continuous growth and virtuous cycle spiral



Source: From the Company's results overview

As a result of the above, net sales are on an increasing trend, while the gross profit margin has been rising. The trends by business over the past five fiscal years (FY7/19-FY7/23) are as follows. On a Company-wide basis, net sales increased 51.3% over five years from FY7/19 to FY7/23. The gross profit margin rose 12.5pp over this period from 42.0% to 54.5%, rising a particularly high 13.7pp in the System Solutions Business, from 41.6% to 55.3%, which drove the overall rise in the gross profit margin. Within the Online Solutions Business, the gross profit margin in the CROSS Business rose just 1.2pp, from 54.6% to 55.8%. This was due to the increase in personnel costs and development costs in conjunction with factors such as the reinforcement of support staff associated with the release of BACKYARD™. Going forward, the Company expects the gross profit margin to increase in tandem with the expansion of recurring net sales.

On a Company-wide basis, recurring net sales rose 75.4% in the five-year period from FY7/19 to FY7/23, while gross profit from recurring business increased by 81.4%. Gross profit from recurring business (¥3,304mn in FY7/22, ¥3,682mn in FY7/23) has grown in scale to the point of being able to cover personnel costs (¥3,271mn in FY7/22, ¥3,621mn in FY7/23). The ratio of recurring revenue sales and the ratio of gross profit from recurring business declined in FY7/23, but this was due to a temporary factor in the System Solutions Business, which was the increase in hardware sales accompanying the termination of server maintenance by manufacturers. The overall gross profit margin is continuing to rise as the Company seeks to uncover demand for software modifications and updates and proposes migration to cloud services. Furthermore, the gross profit margin on recurring business is generally in the high 50% range.

## Business overview

## Results trends by business

	(¥mn)				
	FY7/19	FY7/20	FY7/21	FY7/22	FY7/23
Net sales	10,522	12,679	13,203	12,944	15,924
System Solutions Business	9,138	11,167	11,505	11,036	13,857
Online Solutions Business	1,384	1,512	1,698	1,907	2,067
CROSS Business	851	984	1,186	1,385	1,521
Other Online Business	533	527	512	522	546
Gross profit	4,422	5,664	6,137	6,738	8,682
System Solutions Business	3,805	4,951	5,298	5,775	7,659
Online Solutions Business	617	713	838	962	1,022
CROSS Business	464	569	667	792	849
Other Online Business	152	143	171	170	172
Gross profit margin	42.0%	44.7%	46.5%	52.1%	54.5%
System Solutions Business	41.6%	44.3%	46.1%	52.3%	55.3%
Online Solutions Business	44.6%	47.2%	49.4%	50.4%	49.4%
CROSS Business	54.6%	57.8%	56.2%	57.2%	55.8%
Other Online Business	28.5%	27.1%	33.4%	32.6%	31.5%
Recurring net sales	3,586	4,172	4,808	5,576	6,290
Ratio of recurring net sales	34.1%	32.9%	36.4%	43.1%	39.5%
Gross profit from recurring business	2,030	2,354	2,791	3,304	3,682
Ratio of gross profit from recurring business	45.9%	41.6%	45.5%	49.0%	42.4%
Gross profit margin from recurring business	56.6%	56.4%	58.1%	59.3%	58.5%
Personnel costs	2,327	2,738	3,104	3,271	3,621

Note: Since FY7/22 4Q, has changed the method for offsetting the transactions between the parent and subsidiary in preparing consolidated financial statements, so the results by business have been retroactively adjusted. There has been no change to the Companywide results

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

## 6. Strengthen collaborations with business partners

The Company promotes forming service collaborations with business partners in various fields as an initiative to drive further sales growth and profit expansion. As for collaborations with business partners in FY7/23, the System Solutions Business began collaboration for Aladdin Office with the Money Forward Cloud Accounting Plus accounting software package for medium-sized enterprises and listed companies of Money Forward <3994> (April 2023); collaborations for Aladdin EC with the PG Multi-payment Service, which is the comprehensive payment service of GMO Payment Gateway <3769>, and with the SMBC Multi-payment Service, which is the payment service of SMBC GMO PAYMENT Co. Ltd. (August 2022); collaboration for Aladdin Cloud with the Verona cloud zero trust service of AMIYA Corporation <4258> (January 2023); and strengthened collaboration for "Aladdin Office for fashion" with "Logizard ZERO," a cloud warehouse management system provided by Logizard <4391> (April 2023). Meanwhile, the Online Solutions Business started collaboration for CROSS MALL with the Recustomer purchasing experience platform of Recustomer, Inc. (September 2022); collaboration with the Air Logi e-commerce cloud warehouse management system (WMS) of Commerce Robotics Inc. (January 2023), and; collaboration with the Mercari Shops e-commerce platform of Souzoh, Inc. (April 2023).

In conjunction with the capital and business alliance between Sivira and Dentsu Group Inc. <4324>, in June 2021, the Company made an additional investment in Sivira, with which the Company has a capital and business alliance, in order to maintain the ownership ratio. By further strengthening the alliance, the Company plans to pursue new services offering both security and convenience.



#### Business overview

In June 2023, the Company participated as a partner company in “Mizuho Digital Connect,” a DX support program for institutional clients that Mizuho Bank, Ltd. and Mizuho Research & Technologies, Ltd. are working on. Through this program, the Company will support improvements to the corporate value of Mizuho Bank’s institutional clients.

#### 7. Risks, income characteristics, and measures

General risks in the information systems and services industry include competition for orders, longer development periods accompanying increasingly larger projects, individual projects becoming unprofitable, delays in addressing technological innovations, securing human resources, and other factors. In the Company’s case, however, since it mainly develops and sells package software, there is less risk of incurring losses on individual projects compared to system development companies that primarily handle consigned development work. On the other hand, the Company encounters profit margin setback from increases in process steps and software bugs in development and customization because it pursues differentiation from rivals through the provision of flexible customization suited to customers. It is addressing this challenge by promoting a strategy of raising productivity and improving the gross profit margin.

## Results trends

### In FY7/23, both sales and profit increased, exceeding the upwardly revised forecasts

#### 1. Overview of FY7/23 results

In FY7/23 consolidated results, net sales increased 23.0% year on year (YoY) to ¥15,924mn, operating profit rose 68.9% to ¥3,547mn, ordinary profit grew 68.4% to ¥3,571mn, and profit attributable to owners of parent increased 79.4% to ¥2,472mn. Both sales and profit increases were higher than the Company’s forecasts, which had been upwardly revised on February 24, 2023 (net sales of ¥15,000mn, operating profit of ¥3,100mn, ordinary profit of ¥3,126mn, and profit attributable to owners of parent of ¥2,044mn) and both net sales and all profit lines reached new record highs.

## Business overview

## Overview of FY7/23 consolidated results

	FY7/22		FY7/23			Initial target		Revised forecasts	
	Amount	Composition ratio	Amount	Composition ratio	YoY	Amount	vs. forecast	Amount	vs. forecast
Net sales	12,944	100.0%	15,924	100.0%	23.0%	14,100	12.9%	15,000	6.2%
Gross profit	6,738	52.1%	8,682	54.5%	28.8%	-	-	-	-
SG&A expenses	4,637	35.8%	5,134	32.2%	10.7%	-	-	-	-
Operating profit	2,100	16.2%	3,547	22.3%	68.9%	2,400	47.8%	3,100	14.4%
Ordinary profit	2,121	16.4%	3,571	22.4%	68.4%	2,426	47.2%	3,126	14.2%
Profit attributable to owners of parent	1,377	10.6%	2,472	15.5%	79.4%	1,553	59.2%	2,044	20.9%
ROE	26.7%	-	36.7%	-	10.0pt	-	-	-	-
<b>Breakdown of net sales</b>									
System Solutions Business	11,036	85.3%	13,857	87.0%	25.6%	-	-	-	-
Online Solutions Business	1,907	14.7%	2,067	13.0%	8.4%	-	-	-	-
CROSS Business	1,385	10.7%	1,521	9.6%	9.8%	-	-	-	-
Other Online Business	522	4.0%	546	3.4%	4.6%	-	-	-	-
(Recurring net sales)	5,576	43.1%	6,290	39.5%	12.8%	-	-	-	-
<b>Breakdown of gross profit</b>									
System Solutions Business	5,775	52.3%	7,659	55.3%	32.6%	-	-	-	-
Online Solutions Business	962	50.4%	1,022	49.4%	6.2%	-	-	-	-
CROSS Business	792	57.2%	849	55.8%	7.2%	-	-	-	-
Other Online Business	170	32.6%	172	31.5%	1.2%	-	-	-	-
(Recurring net sales)	3,304	59.3%	3,682	58.5%	11.4%	-	-	-	-

Note: Initial forecast is from September 7, 2022. Revised forecast is from February 24, 2023.

The percentages of gross profit by business show the percentages relative to net sales by business (the gross profit margin by business)

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

In sales, in addition to the results of the high level of DX demand, the bolstering of the partner strategy and the proactive investment in personnel, sales were aided by a number of factors, including the elimination of the impacts of delays in server device deliveries caused by semiconductor shortages in the previous fiscal year, the Company's ability to generate higher than expected demand for software modifications and updates accompanying the server replacement demand which had been anticipated at the beginning of the fiscal year, the increase in the number of man-hours and the loss of opportunity to receive other projects in conjunction with software modification demand to handle the invoice system were lower than anticipated, and the improvement in the project turnover rate due to improvements in product quality. In terms of profits, in addition to the higher-than-expected increase in sales, profits were helped by a number of factors, including the improvement in project precision due to the integrated system of production and sales for marketing and development SE, the reduction in after-sales support man-hours following system operation due to the improvement in quality deliveries, the increase in the gross profit margin due to the bolstering of functions and enhancement of options, as well as the increase in recurring revenue. Recurring net sales on a Company-wide basis increased 12.8% YoY to ¥6,290mn, while gross profit from recurring business rose 11.4% to ¥3,682mn. The profit structure is now to the point where gross profit from recurring business is able to cover personnel costs (¥3,621mn).

## Business overview

Gross profit increased 28.8% YoY, while the gross profit margin rose 2.4pp YoY to 54.5%. SG&A expenses rose 10.7% due to factors that include an ongoing increase in employee headcount (hired 21 experienced employees and 51 new graduates in FY7/23) to bolster manpower, payment of a year-end bonus to the entire workforce and an increase in base salary, events held to commemorate the establishment of the Company, the resumption of sales promotion activities such as exhibits at trade shows, as well as activity expenses related to sustainability management. However, the SG&A expenses ratio declined 3.6pp to 32.2%. As a result, the operating profit margin increased 6.1pp to 22.3%, thereby achieving the medium-term management plan's target of surpassing the 20% threshold two fiscal years ahead of schedule. Examining factors resulting in the ¥1,447mn increase in operating profit, the main positive factors were increases in gross profit by ¥1,884mn in the System Solutions Business and by ¥59mn in the Online Solutions Business, while the main negative factors was the ¥496mn increase in SG&A expenses (personnel expenses increased ¥349mn and other SG&A expenses increased ¥147mn).

## Significant expansion of results in the System Solutions Business

### 2. Trends by business segments

#### (1) System Solutions Business

In the System Solutions Business, net sales increased 25.6% YoY to ¥13,857mn, gross profit rose 32.6% to ¥7,659mn, and gross profit margin rose 3.0pp to 55.3%. The gross profit margin also increased due to the significant increase in both net sales and profit. Factors that contributed to this included: a high level of DX demand; a greater number of large projects as a result of developing stronger relationships with business partners; the elimination of impacts of delays in server device deliveries caused by semiconductor shortages; an increase in orders for hardware replacement associated with the conclusion of server maintenance support, as well as more orders for software replacement and modifications associated with such hardware; improvement in system quality and stable operations brought about by integrated production and sales; productivity gains amid sustained efforts to strengthen package functions; project management know-how accumulated with respect to large projects; and expanded recurring net sales volume. Regarding the sales channel mix (on a value basis), the ratio of sales through partner referrals increased 2.5pp to 42.7%. Regarding orders, relative to an index of 100 set for FY7/19, initial product sales were 128, while recurring sales were 188, marking significant growth.

#### (2) Online Solutions Business

In the Online Solutions Business, net sales increased 8.4% YoY to ¥2,067mn, gross profit up 6.2% to ¥1,022mn, and gross profit margin declined 1.0pp to 49.4%. In the CROSS Business, net sales increased 9.8% to ¥1,521mn, gross profit gained 7.2% to ¥849mn, and gross profit margin declined 1.4pp to 55.8%. The gross profit margin declined due to the increase in personnel costs and development costs associated with the development of BACKYARD™, but the increasing trend for both net sales and profit was maintained.

## Financial health is strong

### 3. Financial conditions and management indicators

At the end of FY7/23, total assets had increased ¥2,538mn from the end of the previous period to ¥12,115mn. This was mainly attributable to increases of ¥1,999mn in cash and cash equivalents and ¥396mn in notes and accounts receivable – trade in current assets. Total liabilities increased ¥513mn to ¥4,374mn. This was mainly due to a ¥375mn increase in consumption tax payable and a ¥146mn increase in income taxes payable. Total net assets increased ¥2,025mn to ¥7,740mn, due to the accumulation of retained earnings despite the ¥525mn decline in dividends of surplus. As a result, the equity ratio rose 4.2pp to 63.9%. At FISCO, we think that the Company's financial health is strong, and find no cause for concern.

#### Consolidated balance sheets and management indicators

	(¥mn)					
	End-FY7/19	End-FY7/20	End-FY7/21	End-FY7/22	End-FY7/23	Change
<b>Total assets</b>	6,646	7,585	8,449	9,576	12,115	2,538
<b>Current assets</b>	4,409	4,993	6,087	7,249	9,675	2,425
<b>Non-current assets</b>	2,236	2,591	2,362	2,326	2,440	113
<b>Total liabilities</b>	3,794	3,871	3,860	3,861	4,374	513
<b>Current liabilities</b>	2,335	2,366	2,246	2,134	2,546	412
<b>Non-current liabilities</b>	1,459	1,505	1,613	1,727	1,828	101
<b>Total net assets</b>	2,851	3,713	4,589	5,715	7,740	2,025
<b>(Management indicators)</b>						
<b>Current ratio</b>	188.8%	211.0%	271.0%	339.7%	380.0%	40.3pt
<b>Non-current (assets) ratio</b>	78.4%	69.8%	51.5%	40.7%	31.5%	-9.2pt
<b>Equity ratio</b>	42.9%	49.0%	54.3%	59.7%	63.9%	4.2pt

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

#### Consolidated statements of cash flow

	(¥mn)				
	FY7/19	FY7/20	FY7/21	FY7/22	FY7/23
<b>Cash flows from operating activities</b>	1,006	2,088	2,027	1,134	3,073
<b>Cash flows from investing activities</b>	-600	-587	-216	-482	-547
<b>Cash flows from financing activities</b>	-420	-663	-551	-465	-526
<b>Cash and cash equivalents at end of the period</b>	1,356	2,194	3,453	3,640	5,639

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

## ■ Outlook

### Expecting increases in both net sales and profit in FY7/24, with a possibility for an even higher upside

#### ● FY7/24 outlook

For FY7/24 consolidated results, the Company forecasts net sales to increase 6.1% YoY to ¥16,900mn, operating profit to grow 12.8% to ¥4,000mn, ordinary profit to rise 12.8% to ¥4,026mn, and profit attributable to owners of parent to increase 8.5% to ¥2,683mn. The Company is expecting growth in both the System Solutions Business and the Online Solutions Business, and is forecasting double-digit growth in both operating and ordinary profit. The 1H forecasts are for net sales to increase 9.6% YoY to ¥8,318mn, operating profit to rise 19.7% to ¥1,986mn, ordinary profit to grow 19.4% to ¥1,998mn, and profit attributable to owners of parent to increase 20.7% to ¥1,334mn.

#### Overview of FY7/24 consolidated results forecast

	FY7/23				FY7/24						(¥mn)
	1H result	Composition ratio	Full-year result	Composition ratio	1H forecast	Composition ratio	YoY	Full-year forecast	Composition ratio	YoY	
	Net sales	7,591	100.0%	15,924	100.0%	8,318	100.0%	9.6%	16,900	100.0%	6.1%
Gross profit	4,136	54.5%	8,682	54.5%	-	-	-	9,464	56.0%	9.0%	
SG&A expenses	2,476	32.6%	5,134	32.2%	-	-	-	5,464	32.3%	6.4%	
Operating profit	1,659	21.9%	3,547	22.3%	1,986	23.9%	19.7%	4,000	23.7%	12.8%	
Ordinary profit	1,672	22.0%	3,571	22.4%	1,998	24.0%	19.4%	4,026	23.8%	12.8%	
Profit attributable to owners of parent	1,105	14.6%	2,472	15.5%	1,334	16.0%	20.7%	2,683	15.9%	8.5%	

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

As for the overall market sentiment, although the scheduled end of Windows OS support in 2025 will not have as much of an impact as the special demand, the Company expects that demand for business DX will remain at a high level due to worsening labor shortages and other factors. In terms of sales, the Company aims to grow both its System Solutions Business and its Online Solutions Business through aggressive sales activities. As key measures, in the System Solutions Business, it will expand its sales area and accumulate know-how on large-scale projects for major customers, and in the Online Solutions Business the Company will promote the migration of existing CROSS MALL customers to BACKYARD™ and work on cultivating new customers after the migration of existing customers is complete. In terms of profits, SG&A expenses are expected to increase as the Company continues to actively invest in human resources, development and sales promotion, but this is expected to be absorbed through productivity improvements and higher gross profit, along with other factors.

The profit growth rate for FY7/24 is expected to slow down in comparison to FY7/23, but this is due to a recoil from the large growth in FY7/23, and a sense of uncertainty, and it also considers temporary cost increases due to the parallel operation of both the CROSS MALL and BACKYARD™ platforms, so this forecast seems quite conservative. Considering that the business environment is favorable, such as companies' DX needs increasing further, and that recurring net sales are on the rise, we at FISCO believe that there is a high possibility that results will exceed the forecast.

## Growth strategy

### Aiming for 30% operating profit margin over the long term

#### 1. Three-year medium-term (rolling) plan

For its medium-term management plan, the Company's policy is to adopt a rolling plan in which it can revise the targets at any time, such as in response to rapid changes to its business environment. Based on this policy, in September 2023 the Company formulated a three-year medium-term management plan with FY7/26 as the final year. Under this plan, the Company's forecast for FY7/26 calls for net sales of ¥20,400mn, gross profit of ¥11,728mn, gross profit margin of 57.5%, operating profit of ¥5,400mn, operating profit margin of 26.5%, and profit attributable to owners of parent of ¥3,616mn. These represent upward revisions for net sales and profit compared to the previous three-year plan. Furthermore, the Company has set an operating profit margin of 30% as a medium- to long-term goal, and has positioned this plan as a three-year period to solidify its operating profit margin of over 20%.

Three-year medium-term (rolling) plan

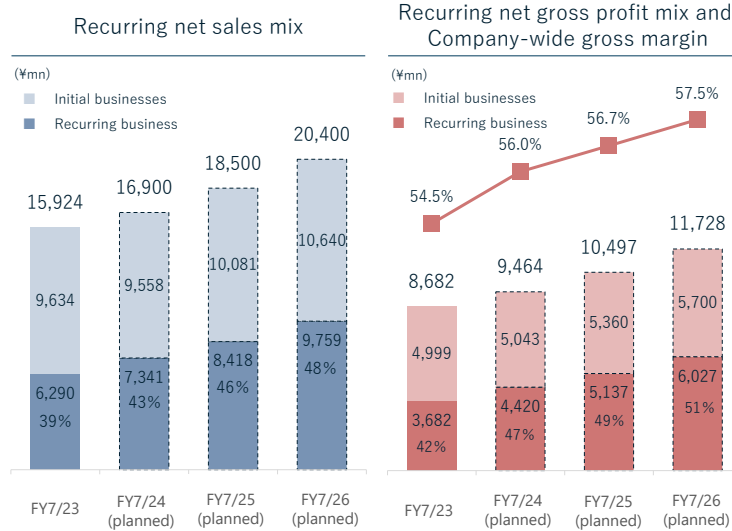
	(¥mn)			
	FY7/23 Results	FY7/24 Target	FY7/25 Target	FY7/26 Target
Net sales	15,924	16,900	18,500	20,400
Gross profit	8,682	9,464	10,497	11,728
(Gross profit margin)	54.5%	56.0%	56.7%	57.5%
Operating profit	3,547	4,000	4,600	5,400
(Operating profit margin)	22.3%	23.7%	24.9%	26.5%
Profit attributable to owners of parent	2,472	2,683	3,083	3,616

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

As a basic policy, the Company has set an internal goal of double-digit growth for both the System Solutions Business and the Online Solutions Business, supported by the promotion of DX as a national policy. In the System Solutions Business, the Company will gradually expand the sales area from the Tokyo-Nagoya-Osaka key metro areas to other areas on the assumption of providing 100% remote support. It will also work further on developing new partners in response to the progress of regional expansion. In terms of handling large projects, the Company will reinforce contact with partners and pursue recruitment activities aimed at securing human resources, centered on talented engineers and technicians. In the CROSS Business, the Company will pursue the migration of CROSS MALL existing customers to BACKYARD™, and work to cultivate new customers after the migration of existing customers is complete. In terms of costs, the Company will continue to actively recruit human resources (15-25 experienced hires and 55-65 new graduate hires annually), but its policy is to absorb these costs through the effects of increased recurring net sales which are more profitable than initial sales and strengthened project management through an integrated production and sales system, as it aims to increase profit margin. In the System Solutions Business, net sales for cloud products in FY7/23 were 4.9 times that of FY7/20 for Aladdin Project's Management Reinforcement Cloud, and 2.2 times higher for Aladdin EC, as both marked large growth in sales. Also, the migration from CROSS MALL to BACKYARD™ in the CROSS Business is expected to take approximately two to three years.

Growth strategy

Recurring net sales mix, recurring revenue gross profit mix and Company-wide gross profit margin



Source: From the Company's results overview

## Focusing on acceleration of growth through BX

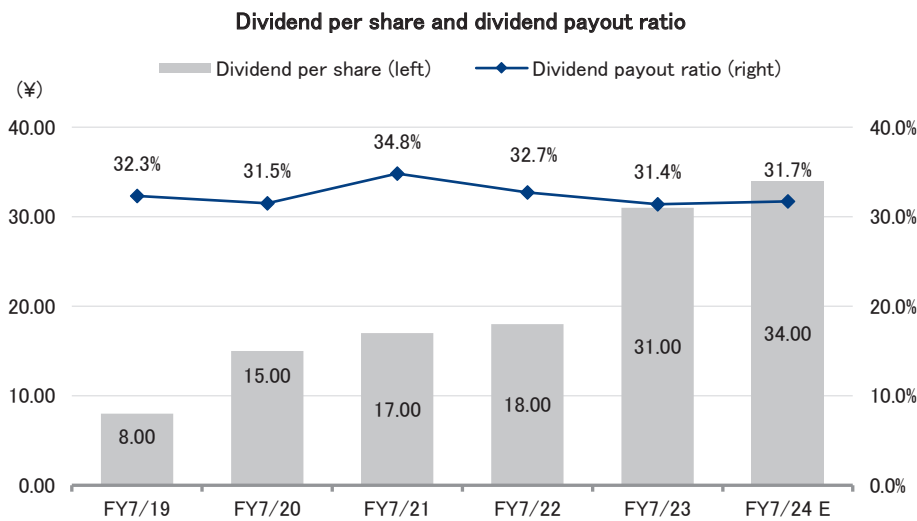
### 2. Analyst viewpoint

In order to improve profitability, the Company has been promoting a strategy to form a virtuous cycle spiral, in which overall quality and productivity improvements through an integrated production and sales system lead to higher gross profit margins. As a result, the operating profit margin increased significantly from 9.0% in FY7/19 to 22.3% in FY7/23, while the Company continued to actively invest in human resources. At FISCO, we positively evaluate the results of this improvement in profitability. In the future, the Company aims to further increase the operating profit margin to 30%, and will promote productivity improvement and recurring net sales expansion through an integrated production and sales system, in addition to expanding sales areas, expanding projects targeting major customers, and realizing value creation through BX along with other initiatives to take on challenges in new domains. The market environment is favorable, and at FISCO we will pay attention to the progress of the three-year plan and trends in growth acceleration through BX.

## Shareholder return policy

### Targets a dividend payout ratio of at least 30%, DOE of at least 8%, and a stable dividend

The Company's basic policy for returning profits is to pay a dividend based on results while comprehensively considering things like management and the balance between retained earnings for maintaining and strengthening its competitiveness in the industry and return on equity (ROE) when allocating profits. The Company targets a dividend payout ratio of at least 30% and dividend on equity (DOE) of at least 8% as indicators of stable dividends. The Company's FY7/23 annual dividend was ¥31.00 (¥11.00 at 2Q-end and ¥20.00 at fiscal year-end), which was ¥13.00 higher than the previous year. The dividend payout ratio was 31.4%. For FY7/24, the Company's dividend forecast is a ¥3.00 increase to an annual dividend of ¥34.00 (¥14.00 at 2Q-end and ¥20.00 at fiscal year-end). The Company expects to increase the dividend for the seventh consecutive year since FY7/18, and the forecast dividend payout ratio is 31.7%. At FISCO, we think that further enhancement of shareholder returns can be expected accompanying the growth in earnings.



Note: The Company conducted 2-for-1 stock splits on August 1, 2018 and November 1, 2019 and has retroactively adjusted figures for FY7/19 and prior fiscal years accordingly  
 Source: Prepared by FISCO from the Company's financial results



## ■ Sustainability initiatives

### Emphasis on investment in personnel

The Company's mission is "Always free, love & dream with you. That is our responsibility," and it considers its social responsibility to be placing importance not only on profit-making activities through its businesses, but also on being able to feel "free, love & dream" through its businesses. Also, the Company's values are "Giving dreams to society through 'BX'" (With Society), "Conducting management together with the environment and creating a world with zero excess stock" (With the Environment), "Developing a corporate culture and systems in which each and every employee can demonstrate their abilities," (With Coworkers), and "Maintaining transparent and sound management and improving enterprise value alongside corporate growth" (With Shareholders).

In "Giving dreams to society through 'BX'," the Company is creating opportunities for new value creation by supporting opening-up from "simple" work through "BX" in order to help build a better society, and also helping to realize diverse workstyles, such as teleworking, aiming for a society in which everyone can play an active role. In addition, it places trust with customers and partners as its top priority and is building relationships not merely as "a business partner" but relationships of co-prosperity in which each partner can grow by working together collaboratively.

In "Conducting management together with the environment and creating a world with zero excess stock," the Company is enhancing its disclosure of environment-related information in support of TCFD (the Task Force on Climate Related Financial Disclosures) which was determined at the Board of Directors meeting in July 2022, and is actively working to achieve the goal of reducing emissions of GHG (greenhouses gases) by half by FY2030 and to effectively zero by FY2050. Also, through "BX," it intends to increase the accuracy of stock management and forecasts and to work together with customers to help resolve the social problems of apparel loss and food loss.

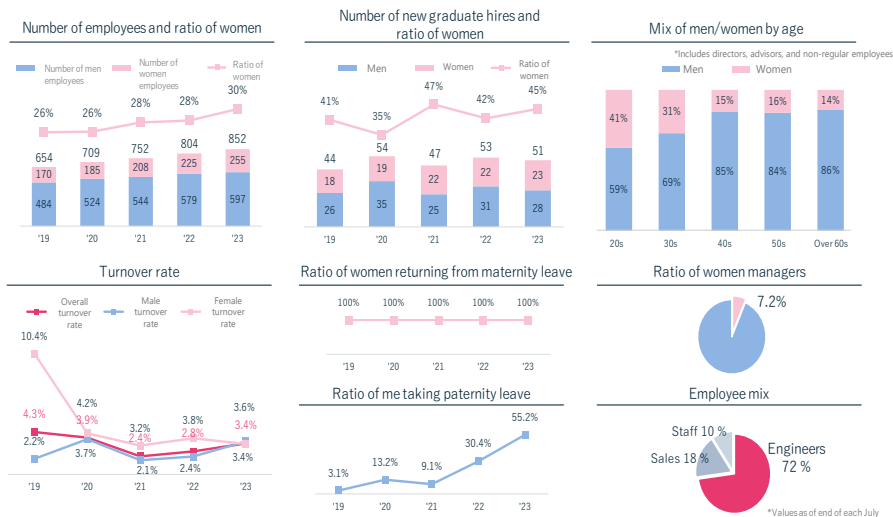
In "Developing a corporate culture and systems in which each and every employee can demonstrate their abilities," the Company is working to foster autonomy among its employees and to build a corporate culture that enables them to work freely with dreams. It is also establishing a fair evaluation system that rewards "people who work hard" regardless of their race, gender, age, or position. In addition, it is establishing an environment in which employees are not restricted by work hours or work places and in which even employees who are raising children, providing nursing care, and living in regional areas can still demonstrate their abilities.

In "Maintaining transparent and sound management and improving enterprise value alongside corporate growth," the Company is maintaining sound management in which various opinions are reflected through a system of having five independent external directors (from among 14 directors in total). It is also actively holding dialogues with stakeholders (shareholders, customers, business partners, and employees) and reflecting their opinions in management.

Sustainability initiatives

Among these values, the Company places particular importance on “Developing a corporate culture and systems in which each and every employee can demonstrate their abilities.” Specifically, in creating its corporate culture, the Company is promoting glass (transparent) management, a culture that praises people who take on challenges and does not criticize their failures, diverse workstyles tailored to the individual, and training for new employees from the Company president himself. With respect to systems, the Company has established a system for dinner meetings with the president and executive officers and annual prizes, and also systems in which women can work with peace of mind, including paid menstrual leave and a flextime system, and a fair evaluation system of “correctly evaluating people who work hard.” Also, the Company encourages employees to send email messages to enable them to directly message the president and officers. Through these efforts to establish a good work environment, in FY7/23 the employee turnover rate (standalone) was low at 3.4% (3.4% for men and 3.6% for women). Also, the percentage of women returning to work after maternity leave (FY7/23) was 100% for the sixth consecutive period and the percentage of eligible men taking paternity leave (FY7/23) rose to 55.2%. In an engagement survey conducted in July 2023, the Company achieved high scores that exceeded the industry average for every item. Going forward, the Company is aiming to improve the work environment and create an even more virtuous circle.

Current status of human capital (non-consolidated)



Source: From the Company's results overview

The Company is also bolstering initiatives for sustainability. To give some examples, as part of its series of social-contribution activities, it was a sponsor of “MOVE FES.2023 Supported by AIRU,” an event held by the General Incorporated Association WITH ALS in June 2023 that conducts awareness-raising activities on the intractable disease ALS (amyotrophic lateral sclerosis). This marks the third year of sponsorship, following 2019 and 2021. Also, as a regional-support initiative (Matsue City, Shimane Prefecture), at I'LL Matsue Lab which was opened in 2017, it conducts local recruitment centered on Shimane University and Matsue National College of Technology and has opened the IT Exchange Space on the first floor of the office, where it conducts activities to raise interest in IT skills. As an activity toward the practical utilization of blockchain technology, the Company is working together with Sivira, in which it has invested, toward the practical realization of a next-generation platform that can achieve both safety and convenience for the e-commerce industry.



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