WingArc1st Inc.

4432

Tokyo Stock Exchange Prime Market

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FISCO Ltd. Analyst
Yasu Inoue

FISCO Ltd.
https://www.fisco.co.jp

Index

Summary

Beneficiary of companies' DX investment and digitalization of public institutions market. FY2/24 results surpassed upwardly revised Company forecast

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

1. Outline of results for FY2/24

In the FY2/24 consolidated results, revenue increased 15.2% year-on-year (YoY) to ¥25,752mn, operating profit rose 22.9% to ¥7,309mn, and EBITDA was up 20.0% to ¥8,597mn, surpassing the upwardly revised Company forecast announced with 3Q results in January 2024 of ¥25,400mn in revenue, ¥7,200mn in operating profit, and EBITDA of ¥8,470mn. The cloud services market has slowed after growing sharply since the COVID-19 pandemic, but maintained robust growth amid trends such as migration from on-premises to cloud-based systems, shift to cloud-native development, and growing investment in digital businesses. As a result, the Business Document Solutions segment recorded a 14.9% YoY increase in revenue to ¥16,494mn and the Data Empowerment Solutions segment recorded a 15.8% rise in revenue to ¥9,258mn. The ¥1,434mn increase in EBITDA was due to revenue growth of ¥3,403mn absorbing a ¥1,969mn increase in SG&A expenses (including strategic investment).

2. Outlook for FY2/25

For the FY2/25 results outlook, the Company is forecasting that revenue will increase 7.2% YoY to ¥27,600mn, operating profit will rise 9.5% to ¥8,000mn, and EBITDA will rise 10.1% to ¥9,470mn. The Business Document Solutions segment aims to establish a foundation for digital business documents, while the Data Empowerment Solutions segment seeks to move into new markets such as low-code/no-code development. Looking at revenue breakdown by business segment, the Company looks for stable growth for both segments, forecasting a 10.3% YoY increase to ¥18,200mn for the Business Document Solutions segment and a 1.5% rise to ¥9,400mn for the Data Empowerment Solutions segment. The Company regards its FY2/25 results outlook to be its minimum commitment to the stock market. The Company is committed to achieving its initial forecast with the help of robust core systems demand and DX-related demand such as migrating systems to the cloud.

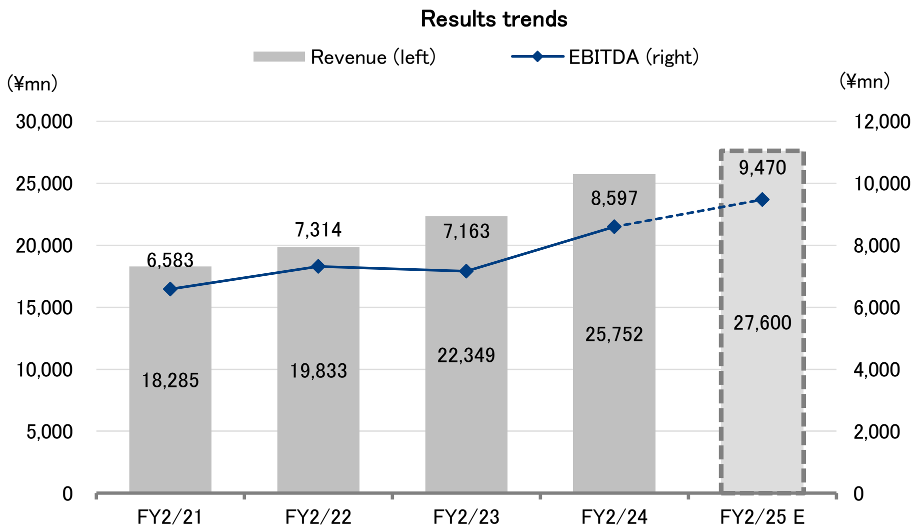
3. Medium- to long-term growth strategy

In January 2022, the Company announced its five-year Medium-term Management Policy (FY2/23 to FY2/27). With "Create a data platform that promotes DX" as the main pillar of this policy, it is aiming for major growth, mainly in the cloud business. Based on this platform, the Company's policy for Business Document Solutions is to work on "inter-company DX" of distributing data and realizing reforms of inter-company transactions, and for the Data Empowerment Solutions, to work on "intra-company DX" that draws out value from data and contributes to improving productivity and creating new businesses. The targets that the Company is aiming to achieve during the relevant period are a cloud growth rate of 40% (average of FY2/22 to FY2/27), a recurring revenue rate of 75% (FY2/27), a cloud ratio of 40% (FY2/27), and EBITDA* of ¥12.0bn (FY2/27). In FY2/24, the second year of its Medium-term Management Policy, the Company's cloud growth rate was 36.4%, recurring revenue rate was 61.8%, and EBITDA was ¥8.59bn. For FY2/25, it targets cloud growth rate of 25.8%, recurring revenue rate of 65.0%, and EBITDA of ¥9.47bn, steadily achieving its targets towards the final year of the policy.

* Initially adjusted EBITDA, but changed to EBIDTA from FY2/24.

Key Points

- In FY2/24, revenue increased 15.2% YoY and profits (EBITDA) 20.0%, and results were strong for both solutions. Exceeded forecasts revised upward at time of 3Q results
- Forecasts increased revenue and profit for FY2/25. Expects "invoiceAgent" and other products sales to increase
- Announced the Medium-term Management Policy in January 2022. With "Create a data platform that promotes DX" as its main pillar, is targeting the major growth of the cloud business



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

Company profile

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

1. Company profile

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

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

2. History

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

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

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

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

In 2013, Japan's IT market was rapidly changing from a business model centered on conventional core systems, which the Company was focusing on, to new technologies and platforms as represented by the cloud and big data. Globally also, the accelerating spread could be seen of low-cost, high-quality PaaS (Platform as a Service) that seamlessly connects the user to the world, including Amazon Web Service, a cloud platform service provided by Amazon.com, Inc. <AMZN>, of the United States, and Force.com, a cloud platform service provided by salesforce.com, Inc. <CRM> of the United States. As a result, it became relatively easy for application software vendors to provide their companies' own application software as a global cloud service by using the cloud platforms provided by PaaS vendors. This structural change of the software industry greatly reduced the barriers to entering the Japanese market for the worlds' powerful application software vendors and competition intensified.

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

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

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

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

History

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

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

Business description

The Data Empowerment business is the only reporting segment

1. Segment information

The Company's only reporting segment is the Data Empowerment business. However, according to the natures of the software and services, revenue is categorized into two segments; Business Document Solutions that supports companies' core operations, and Data Empowerment Solutions that utilizes data to create value.

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

2. Business Document Solutions

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

(a) SVF

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

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

(b) invoiceAgent

“invoiceAgent” is software and a cloud service that digitizes and integrates the management of business forms that are distributed in companies and public institutions, which contributes to the subsequent automation and improved efficiency of work. “invoiceAgent” can improve the efficiency of the storage, management and distribution of electronic documents, and it can also extract data from digitized documents and be linked to other work systems. It automates data input work that has conventionally been carried out manually and also supports the seamless linkage of data between systems. In addition, based on the rules set by the user, “invoiceAgent” can automatically store the digitized documents in the relevant folders. This eliminates the need for those in charge to perform duties such as manually sorting files while checking the contents, which makes it possible to reduce the time spent on document management. It is also compatible with the Invoice System introduced in October 2023 and the revised Electronic Book Storage Act enforced since January 2024, meaning companies can fulfil the legal requirements in these rules by using “invoiceAgent.”

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

3. Data Empowerment Solutions

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

(a) Dr.Sum

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

(b) MotionBoard

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

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

4. Strengths

(1) Proprietary technologies

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

(2) Strong business channels

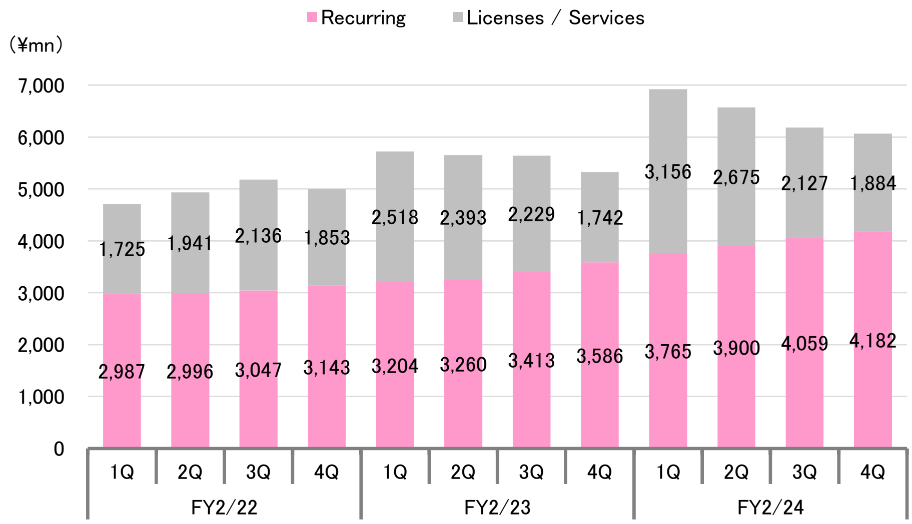
The Company's sales model is mainly indirect sales via partners. It has concluded contracts with many partner companies, such as SIers that specialize in large-scale projects for major companies and government ministries and agencies in major cities, SIers based in the regions, consulting firms that specialize in specific regions and cloud SIers that specialize in building cloud systems, and it is building a structure to provide solutions and services that cover systems-development projects all across Japan. This makes it possible to continuously create projects and to control operating costs, which in turn makes possible efficient sales activities. In FY2/21, it revised its partner system based on the idea of sales not only of the Company's software and services, but also of opening up new markets together with partners. Going forward as well, it seems it intends to build even better relations with its partners and to work develop the businesses of both parties. The Company's own sales account for about 10% and the rest is for contract partners such as NEC Corporation <6701> (NEC), Hitachi Ltd. <6501> and Fujitsu Limited <6702>.

(3) Substantial recurring revenue

The software and services provided by the Company are comprised of transactions that do not assume a continuous contract, such as for software licenses and the provision of services at the time the service is introduced, and transactions that do assume continuous contracts, such as software maintenance support contracts, subscription contracts and contracts to use cloud services. Transactions that assume a continuous contract are an earnings model called a recurring business, in which revenue accumulates each year alongside the increase in the number of companies introducing products and services. The earnings generated by these businesses (recurring revenue) contribute to the stabilization and the continuous increase of the Company's earnings. In FY2/24, the recurring revenue rate was 61.8% (60.2% in the previous period), and recurring revenue is steadily increasing on a fiscal quarterly basis, with cloud services, in particular, growing.

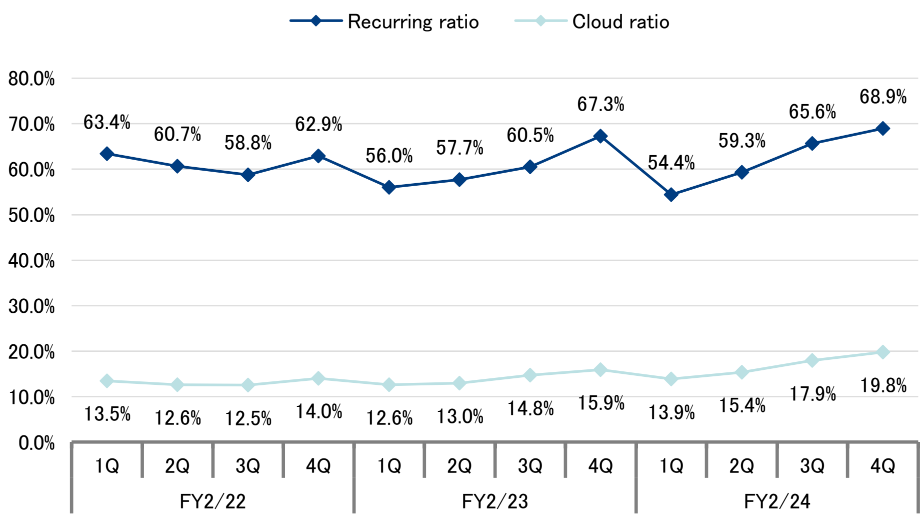
The Company also considers the maintenance contract continuation rate to be one of its most important KPI for the recurring business. In FY2/24, it trended stably at the high level of 94.0% (95.6% in the previous period). The Company is aiming for sustainable growth through a high maintenance retention rate by accumulating new contracts while retaining existing contracts to the greatest possible extent.

Quarterly revenue by contract



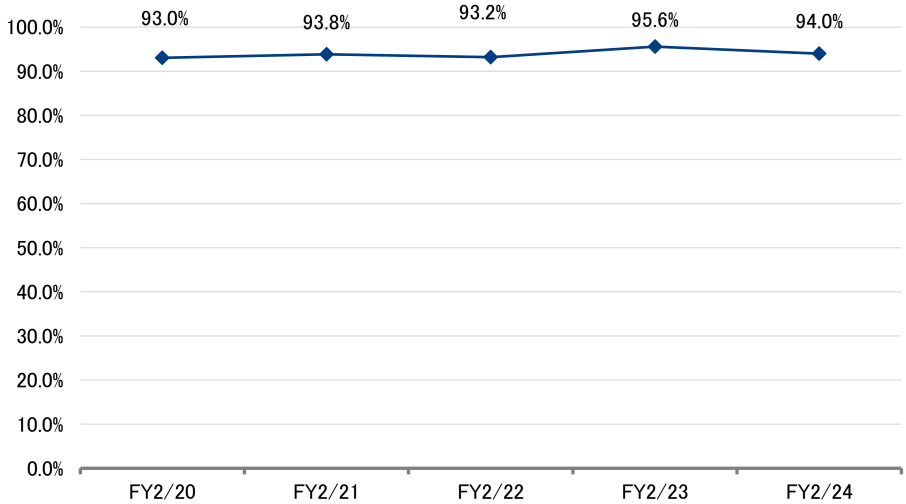
Source: Prepared by FISCO from the Company's financial results briefing materials

Quarterly revenue by contract



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

Maintenance contract continuation rate



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

Results trends

In FY2/24, revenue increased 15.2% and profits (EBITDA) increased 20.0%. Both solutions performed strongly and results exceeded the Company’s forecasts

1. Outline of results for FY2/24

In the FY2/24 consolidated results, revenue increased 15.2% YoY to ¥25,752mn, operating profit increased 22.9% to ¥7,309mn, and EBITDA increased 20.0% to ¥8,597mn, and the results were higher than the Company’s initial forecasts announced in April 2023 (revenue of ¥23,800mn, operating profit of ¥6,350mn, and EBITDA of ¥7,600mn), and its upwardly revised forecasts announced when it released 3Q results in January 2024 (revenue of ¥25,400mn, operating profit of ¥7,200mn and EBITDA of ¥8,470mn). Results trended strongly in both Business Document Solutions and Data Empowerment Solutions.

FY2/24 results

(¥mn)

	FY2/23		FY2/24			
	Result	% of revenue	Company forecast	Result	% of revenue	YoY
Revenue	22,349	100.0%	25,400	25,752	100.0%	15.2%
Business Document Solutions	14,354	64.2%	16,400	16,494	64.0%	14.9%
Data Empowerment Solutions	7,994	35.8%	9,000	9,258	36.0%	15.8%
Operating profit	5,945	26.6%	7,200	7,309	28.4%	22.9%
Profit before taxes	5,860	26.2%	-	7,304	28.4%	24.6%
Net profit	4,364	19.5%	-	5,378	20.9%	23.2%
Profit attributable to equity holders of the parent	4,401	19.7%	-	5,411	21.0%	23.0%
Operating profit	5,945	26.6%	-	7,309	28.4%	23.0%
Depreciation and amortization	1,217	5.4%	-	1,288	5.0%	5.8%
EBITDA	7,163	32.1%	8,470	8,597	33.4%	20.0%
Operating profit margin	26.6%		28.3%	28.4%		
EBITDA margin	32.1%		33.3%	33.4%		

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

In Business Document Solutions, revenue was ¥16,494mn, up 14.9% YoY. The main software and services constituting this segment are "SVF," which is to design and manage types of business forms that are essential to companies' core operations, including invoices and delivery documents, and "invoiceAgent," which stores electronic data and digitizes paper documents. Against the backdrop of the solid demand, "SVF" trended strongly in both licenses/services and maintenance with revenue up 8.1% to ¥14,146mn. Cloud services' revenue was ¥785mn, 32.1% higher than in the previous period, because needs for cloud business forms also increased, affected by the further progress made in shifting work systems onto the cloud. For "invoiceAgent," demand from companies to shift to paperless operations increased alongside the spread of remote working, and the revised Electronic Book Storage Act came into effect in January 2022 and there were many inquiries relating to this Act, so results were strong, and revenue grew compared to the previous period to ¥2,095mn (up 86.7%).

Revenue of the Data Empowerment Solutions segment increased 15.8% YoY to ¥9,258mn. The business mainly comprises "Dr.Sum" and "MotionBoard," which are services that streamline operations and improve productivity by integrating, processing, analyzing and visualizing data held by companies. Revenue increased a modest 4.6% YoY to ¥3,063mn for "Dr.Sum," but grew a sharp 68.7% to ¥324mn for "Dr.Sum Cloud," whose adoption by large companies accelerated. Revenue was up 22.5% YoY to ¥3,652mn for "MotionBoard," of which cloud services accounted for ¥1,512mn (up 23.3% YoY) as a result of expanding the number of contracted companies from 766 in FY2/23 to 927 in FY2/24.

Revenue by solution

(¥mn)

	FY2/21 Result	FY2/22 Result	FY2/23 Result	FY2/24		
				Result	Composition ratio	YoY
Revenue	18,285	19,833	22,349	25,752	100.0%	15.2%
Business Document Solutions	11,513	12,337	14,354	16,494	64.0%	14.9%
SVF	10,786	11,244	13,086	14,146	54.9%	8.1%
invoiceAgent	614	940	1,122	2,095	8.1%	86.7%
Other	113	153	145	251	1.0%	73.3%
Data Empowerment Solutions	6,771	7,495	7,994	9,258	36.0%	15.8%
Dr.Sum	2,574	2,694	2,929	3,063	11.9%	4.6%
MotionBoard	2,799	2,874	2,982	3,652	14.2%	22.5%
Other	1,397	1,925	2,082	2,541	9.9%	22.1%

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

The Company discloses EBITDA in addition to financial indicators required under IFRS. It had previously disclosed adjusted EBITDA, but as temporary adjustment items have gone, it now discloses EBITDA in its current format.

EBITDA recorded a double-digit increase in FY2/24, up 20.0% YoY to ¥8,597mn due to steady revenue expansion. The EBITDA margin was 33.4%, up from 32.1% in FY2/23.

Accumulated cash and greatly reduced the financial leverage

2. Financial condition

(1) Consolidated statement of financial condition

At the end of FY2/24, assets were ¥65,950mn (up ¥3,399mn from the end of the previous period). Current assets were ¥15,273mn (up ¥2,035mn) and non-current assets were ¥50,676mn (up ¥1,364mn). The increase in current assets was largely attributable to an increase of cash and cash equivalents of ¥1,810mn. The main factor behind the increase in non-current assets was an increase in financial assets of ¥1,677mn.

At the end of FY2/24, liabilities were ¥26,853mn (down ¥1,122mn from the end of the previous period). Current liabilities were ¥13,348mn (up ¥596mn) and non-current liabilities were ¥13,504mn (down ¥1,718mn). The main reason why current liabilities increased was that contract liabilities, etc. increased ¥428mn. The main factor behind the decrease in non-current liabilities was a decrease in long-term borrowings of ¥1,699mn following the completion of repayment.

At the end of FY2/24, capital was ¥39,096mn (up ¥4,522mn from the end of the previous period). The main factor behind the increase was a ¥3,510mn increase in retained earnings.

Looking at the indicators of financial soundness, the Company's financial leverage (net interest-bearing debt ÷ EBITDA), which was 0.4 times in FY2/24 (compared to 0.1 times in FY2/23), has improved significantly and enhanced its soundness. The Company is steadily accumulating cash and appears to be considering M&A in the future.

The goodwill and other intangible assets that were generated when the Company acquired all of the shares of the former WingArc1st in April 2016, including those that were generated subsequently from corporate acquisitions, were ¥27,348mn and ¥15,674mn respectively at the end of FY2/24, which in total constituted 65.2% of the Company's assets. Under IFRS, amortization is not carried out for goodwill and certain intangible assets (trademark rights) for which the number of years of useful life cannot be determined. In every period or in the event that there are signs of impairment, an impairment test is carried out, and should it be recognized that the profitability of the Company's businesses has declined, it becomes necessary to record an impairment loss. This could have a serious impact on the Company's results.

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

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

• Promoting solutions specializing in industries and work

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

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

(¥mn)

	FY2/21	FY2/22	FY2/23	FY2/24	Increase/ decrease amount
Current assets	7,291	10,940	13,238	15,273	2,035
Cash and cash equivalents	5,170	9,016	11,175	12,986	1,810
Trade and other receivables	1,728	1,495	1,472	1,669	196
Other financial assets	19	32	41	48	7
Other current assets	373	396	548	568	20
Non-current assets	48,618	47,978	49,311	50,676	1,364
Property, plant and equipment	1,910	1,481	1,604	1,803	198
Goodwill	27,248	27,249	27,309	27,348	39
Other intangible assets	17,206	16,636	16,231	15,674	-557
Other financial assets	2,245	2,597	4,148	5,826	1,677
Other non-current assets	7	13	17	23	6
Total assets	55,909	58,919	62,550	65,950	3,399
Current liabilities	11,175	11,403	12,752	13,348	596
Contract liabilities, etc.	6,360	6,383	7,418	7,847	428
Current portion of long-term borrowings	1,997	1,997	1,997	1,426	-570
Income taxes paid	402	840	778	1,181	402
Other liabilities	2,415	2,182	2,557	2,893	335
Non-current liabilities	19,056	16,896	15,223	13,504	-1,718
Long-term borrowings	14,164	12,191	10,214	8,515	-1,699
Deferred tax liabilities	4,541	4,558	4,657	4,710	53
Provisions	91	90	90	169	79
Other financial liabilities	259	57	260	108	-151
Total liabilities	30,231	28,299	27,975	26,853	-1,122
Capital, capital surplus	11,324	13,145	13,296	13,450	153
Treasury shares	-650	-650	-623	-564	59
Retained earnings	14,345	17,269	20,190	23,700	3,510
Other	657	854	1,710	2,509	799
Total equity	25,677	30,619	34,574	39,096	4,522
Total liabilities and equity	55,909	58,919	62,550	65,950	3,399
Interest-bearing debt	16,161	14,188	12,212	9,942	-2,269
Net interest-bearing debt	10,991	5,172	1,036	-3,044	-4,080
EBITDA*	6,583	7,314	7,163	8,597	1,434
Financial leverage	1.7x	0.7x	0.1x	-0.4x	-

* Adjusted EBITDA for FY2/21 and FY2/22
Note: Net interest-bearing debt = interest-bearing debt - cash and cash equivalents
Financial leverage = net interest-bearing debt ÷ EBITDA
Source: Prepared by FISCO from the Company’s financial results summary report and financial results briefing materials

(2) Consolidated statement of cash flows

Each of the cash flow conditions in FY2/24 are described below.

(a) Cash flows from operating activities

Net cash provided by operating activities was ¥7,840mn (¥6,870mn provided in the previous period). This was mainly due to recording profit before income taxes of ¥7,304mn and depreciation and amortization of ¥1,612mn, despite recording ¥1,791mn in income taxes paid.

(b) Cash flows from investing activities

Net cash used in investing activities was ¥1,600mn (¥1,020mn used in the previous period). This was mainly due to recording purchase of intangible assets of ¥585mn accompanying upgrading of core systems and customer management system repairs, purchase of investment securities of ¥527mn, and purchase of property, plant and equipment of ¥488mn accompanying construction of new technical facilities.

(c) Cash flows from financing activities

Net cash used in financing activities was ¥4,462mn (¥3,730mn used in the previous period). This was mainly due to repayments of long-term borrowings of ¥12,250mn and dividends paid of ¥1,900mn, despite recording proceeds from long-term borrowings of ¥10,000mn.

Summary of the consolidated cash flow statement

(¥mn)

	FY2/21	FY2/22	FY2/23	FY2/24	Increase/ decrease amount
Cash flows from operating activities (a)	4,952	6,439	6,870	7,840	969
Depreciation and amortization	3,104	1,538	1,490	1,612	122
Cash flows from investing activities (b)	-134	-532	-1,020	-1,600	-580
Free cash flow (a) + (b)	4,818	5,906	5,850	6,239	388
Cash flows from financing activities	-4,646	-2,084	-3,730	-4,462	-732
Effect of changes in exchanges rates on cash and cash equivalents	36	24	39	34	-5
Net increase in cash and cash equivalents	207	3,846	2,159	1,810	-348
Cash and cash equivalents at the beginning of the period	4,962	5,170	9,016	11,175	2,159
Cash and cash equivalents at the end of the period	5,170	9,016	11,175	12,986	1,810

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

Outlook

Forecasts increased revenue and profit for FY2/25

1. Outlook for FY2/25

In FY2/25, the Company is forecasting a 7.2% YoY increase in revenue to ¥27,600mn, 9.5% increase in operating profit to ¥8,000mn, 10.1% increase in EBITDA to ¥9,470mn, and 7.2% increase in profit attributable to equity holders of the parent to ¥5,800mn. FY2/25 is the third year of the Medium-term Management Policy announced in January 2022, and the outlook is that business expansion will advance centered on the cloud.

Revenue of the Business Document Solutions segment is forecast to increase 10.3% YoY to ¥18,200mn. The Company will focus on the "invoiceAgent" platform that integrates, distributes, and optimizes business documents transferred between companies. Major companies prioritize DX not only for the management of business forms, but also to achieve a reliable linkage of data with core systems. The Company is therefore strengthening the functions of "invoiceAgent" so that it can also use "Peppol," the electronic document standard recommended by the Digital Agency. When digitalizing business document-related operations, it must cover all transactions, i.e., suppliers as well as customers. Although the Electronic Book Storage Act and Invoice System, etc., took effect in FY2/24, some companies have experienced inadequate linkage of data with other companies due to the use of different business document systems. The Company found that 55.5% of company employees who responded to its surveys said that they used different business document systems for storage/management and receipt. Of these respondents, 90.8% felt that this reduced business efficiency and 76.6% were concerned about the risk of information leaks. The Company aims to capture demand reflected in the survey results to increase the number of contracted companies using its cloud services to 1,000–1,100.

In Data Empowerment Solutions, the Company aims to move into low-code/no-code development amid growing demand associated with expanding DX. Low-code development is closely related to its core business intelligence (BI) market. The basic functions of BI are aggregation and visualization of data. The Company's intentions for BI are to utilize aggregated and visualized data to construct systems that simplify various work processes rather than developing many programs for the market. For example, data aggregation and visualization can solve simple problems, but the Company could provide problem-solving tailored to specific work processes by incorporating BI into the functions of "MotionBoard." In its area of strength of services for large companies, the Company targets customers (including their subsidiaries) with "Dataring." Storing data managed by companies' systems and those that are not part of the system (such as data held at work sites) prepared in Excel and other applications in a database and linking them will enable their use in management processes such as management analysis, sales process analysis, and sales management as well as utilizing them at work sites, including construction sites, farm management, and public transport service information. BI could also be linked to "Dr.Sum" (data storage and aggregation), "MotionBoard" (visualization), and "invoiceAgent" (storage and operation of business documents). The Company has won a flagship project and plans to develop a solid framework (including account plans) before launching the service. In March 2024, the Company released "Dr.Sum Copilot," which is linked to generative AI "ChatGPT." It can generate programming languages SQL and Python with a database engine, sharply reducing time spent on data processing. The Company aims to attract a market for this service by applying it to work processes.

The Company is also expanding into the public sector. The local government-related business breaks down into three main areas – My Number-related, local government DX, and touchpoints with residents. It also includes quasi-public sector businesses that undertake regional revitalization by local governments. The Company plans to pioneer this market by introducing its "SVF," "Dr.Sum," "MotionBoard," and "invoiceAgent" offerings to the above business areas and forming alliances with companies with knowledge of each area.

Outlook for FY2/25 results

(¥mn)

	FY2/24		FY2/25		
	Result	% of revenue	Company forecast	% of revenue	YoY
Revenue	25,752	100.0%	27,600	100.0%	7.2%
Business Document Solutions	16,494	64.0%	18,200	65.9%	10.3%
Data Empowerment Solutions	9,258	36.0%	9,400	34.1%	1.5%
Operating profit	7,309	28.4%	8,000	29.0%	9.5%
EBITDA	8,597	33.4%	9,470	34.3%	10.1%

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

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

2. Medium- to long-term growth strategy

Due to the impact of the COVID-19 pandemic, companies are working on DX for workstyle reforms and to strengthen their competitiveness in this new environment. Also, in January 2022, the revised Electronic Book Storage Act was enacted to support remote working and paperless operations, and the digitization of documents relating to inter-company transactions is rapidly progressing. The Company considers these sort of major market changes to be business opportunities and to capture them, announced its five-year Medium-term Management Policy in January 2022. It has set "Create a data platform that promotes DX" as the main pillar of this policy and is aiming for major growth, mainly in the cloud business.

The targets that the Company is aiming to achieve during the Medium-term Management Policy period are a cloud growth rate of 40% (average of FY2/22 to FY2/27), a recurring revenue rate of 75%, a cloud ratio of 40%, and EBITDA of ¥12.0bn.

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

(1) Expand the cloud business

Companies' initiatives for DX are widening, and the cloud services market, which enables speedy installations of services with low initial costs and that can easily be linked to other systems, is growing. Currently, the majority of the Group's revenue is generated by software, and the Company's Medium-term Management Policy states it will "create a data platform that promotes DX" based on the cloud. It is targeting an average annual growth rate of cloud revenue of 40% from FY2/22 to FY2/27, and that cloud revenue will provide 40% of total revenue in FY2/27.

- **Strengthening the development structure**

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

- **Advancing alliances**

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

(2) Expand the recurring business

The Company is progressing the recurring business in which it continuously provides services and obtains payments for them according to the length of time that the relevant service is provided. The advantages of this recurring business include that it stabilizes results, improves the ability to forecast results, and maintains relationships with customers. However, its disadvantages include that it increases customer maintenance management costs. Therefore, the Company is aiming to increase revenue by forming a department to specialize in the recurring business and taking measures to maintain the retention rate, as well as by proposing additional product and services to customers. Going forward, the Company aims to improve this rate alongside the growth of revenue.

- **Maintain and improve the retention rate**

  In recurring business, the most important element is how to have customers continuously use the product or service after they have entered into a contract, so in the Company, the retention rate is a KPI. Therefore, the specialized department is working on maintaining and improving KPI through listening to customers on their usage conditions and issues and responding in detail to them. In FY2/24, the maintenance contract retention rate was 94.0% and was stable in a high position.

(3) Strengthening the Group management base

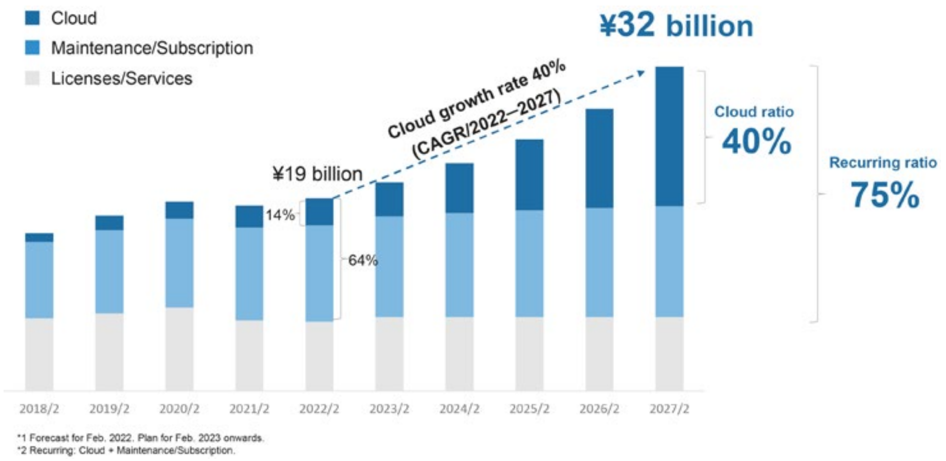
Since the Company was delisted in September 2013, it has advanced various initiatives including strengthening the management base, reorganizing the Group (integrating subsidiaries and selling non-core businesses), rebuilding the in-house core systems, increasing the sophistication of business management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

(4) Medium-term Management Policy second fiscal year results and third fiscal year targets

In FY2/24, the second fiscal year of the Medium-term Management Policy, the cloud growth rate was 36.4%, recurring revenue rate was 61.8%, and EBITDA was ¥8.59bn. For FY2/25, the third fiscal year, it targets a cloud growth rate of 25.8%, recurring revenue rate of 65.0%, and EBITDA of ¥9.47bn, steadily achieving its targets towards the final fiscal year of the policy.

For strategic investment, the Company initially planned investment of ¥5.5bn over three years, but plans to spend ¥1.75bn in FY2/25, bringing the three-year total to ¥5.21bn. It plans a similar level of investment going forward, with the possibility of investing in expansion of the public institutions business depending on progress. It seems that the Company is awaiting developments, because local governments vary in their level of commitment to digitalization.

Image of revenue growth



Source: The Medium-term Management Policy

Shareholder returns policy

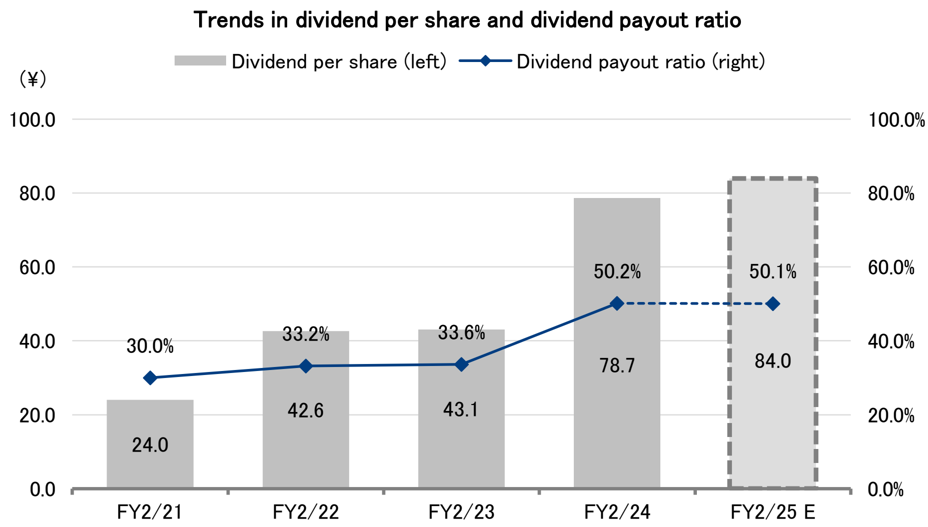
In FY2/24, changed total dividend payout ratio to around 50%. In FY2/25, plans to increase dividends by ¥5.3 to ¥84.0

The Company recognizes that returning profits to shareholders is an important management issue, and its basic policy is to return profits to shareholders in consideration of each fiscal year's business performance, while securing the internal reserves necessary for future business development and strengthening of the management structure to maintain growth.

The Company plans to allocate internal reserves to strengthening the management structure as well as for investment and development to provide new products and services and M&A. Its basic dividend policy calls for payment of dividends twice a year, but has four record dates for dividends (May 31, August 31, November 30, and last day of February of each year), allowing flexible profit return to shareholders.

The Company announced a change to its dividend policy in October 2023. From FY2/24, it changed its shareholder returns policy from one based on a consolidated dividend payout ratio of 30% to one based on a total return ratio of 50%. The reason for the change is that it has made some progress with strengthening its financial condition as a result of stable business growth centered on recurring revenue businesses and improved soundness of its cash flows. As stated in its shareholder returns policy set out in the Medium-term Management Policy announced on January 13, 2022, should profit attributable to equity holders of the parent be lower in FY2/23–FY2/27 than in FY2/22 (¥4,352mn), the Company will maintain the FY2/22 annual dividend of ¥42.6 per share.

The FY2/24 annual dividend was ¥78.7 (dividend payout ratio of 50.2%). The Company forecasts a ¥5.3 YoY dividend increase in FY2/25 to ¥84.0 per share (dividend payout ratio of 50.1%), based on its forecast of profit attributable to equity holders of the parent of ¥5,800mn.



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

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■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp