

Netyear Group Corporation

3622

Tokyo Stock Exchange Growth Market

14-Aug.-2024

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

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Summary

Aiming for sustained growth by expanding key clients and strengthening collaboration with NTT DATA

Netyear Group Corporation <3622> (hereinafter also referred to as “the Company”) formulates digital marketing measures starting with the improvement of customer experience (CX) to enhance the value of client companies’ brands and corporate value, as well as provide system development, operation, and maintenance services. The Company concluded a capital and business alliance agreement with NTT DATA (now an operating subsidiary of NTT DATA Group Corporation <9613>) and became an NTT Group company in February 2019. One of its growth strategies is to combine NTT DATA’s system development capabilities with its own CX design capabilities to create synergies. The ratio of net sales to the NTT Group was 36.3% in FY3/24.

1. FY3/24 results

In FY3/24, the Company had decreases in sales and profits, reporting net sales of ¥3,630mn (down 7.4% YoY) and operating income of ¥144mn (down 48.5%). The main factor contributing to the decrease in net sales was a decline in new orders due to a number of clients scaling down or ending projects for their own reasons as well as a shortage of human resources at the Company. A 23.5% YoY decline in sales to the NTT Group (including NTT DATA) to ¥1,318mn had a large negative impact. On the profit front, negative factors were a lower human resource utilization rate due to a decrease in orders and increases in upfront investment in human resources and development of new services of around ¥38mn and expenses associated with strengthening IT security infrastructure of ¥33mn.

2. FY3/25 forecast

In the forecast for FY3/25, the Company is planning ¥4,100mn in net sales (up 12.9% YoY) and ¥300mn in operating income (up 107.0%). The Company forecasts a recovery in net sales by expanding key clients and pioneering new clients through strengthened collaboration with NTT DATA. It targets profit growth by increasing gross profit through capacity utilization improvement and cutting back on mid-career hires. At the ordinary annual general meeting of shareholders held on June 24, 2024, Ryuzo Hironaka, who had been with the Company until 2009, took over as the new president and CEO. Mr. Hironaka has extensive experience as a digital marketing consultant. He will lead the Company by harnessing his strong presence to maximize its strengths and put its earnings on a growth trajectory.

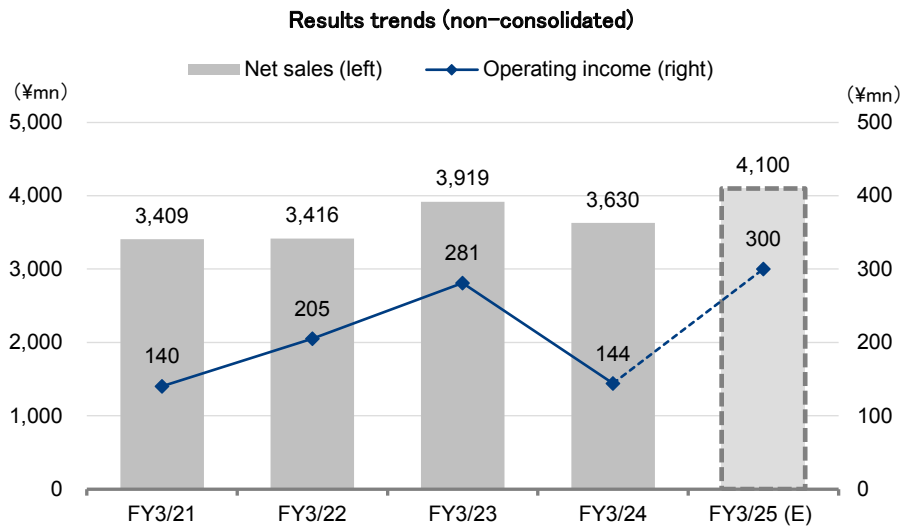
3. Growth strategy

As a future growth strategy, the Company’s priorities are to 1) strengthen its competitive advantage by expanding the scope of target customer contact point improvement, 2) expand key clients by providing versatile services, 3) cultivate stable clients through strengthened collaboration with NTT DATA, 4) expand the lineup of services it provides, and 5) hire and train human resources. After concluding a capital alliance agreement with Hexabase Inc. in September 2023, the two companies aim to release a jointly developed product targeting small businesses by the end of 2024. The Company’s policy on shareholder returns is based on a target dividend payout ratio of approximately 20%. For the FY3/25 dividend, the Company plans the same dividend as in FY3/24 of ¥6.0 per share (dividend payout ratio of 20.5%).

Summary

Key Points

- Possesses strength in design capabilities for realizing ideal CX
- For FY3/25, the Company aims to increase sales and profits by expanding key clients (including an increase in collaborative projects with NTT DATA)
- The Company targets medium- to long-term growth by expanding the scope of target customer contact point improvement, providing versatile services, and strengthening collaboration with NTT DATA



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

Business overview

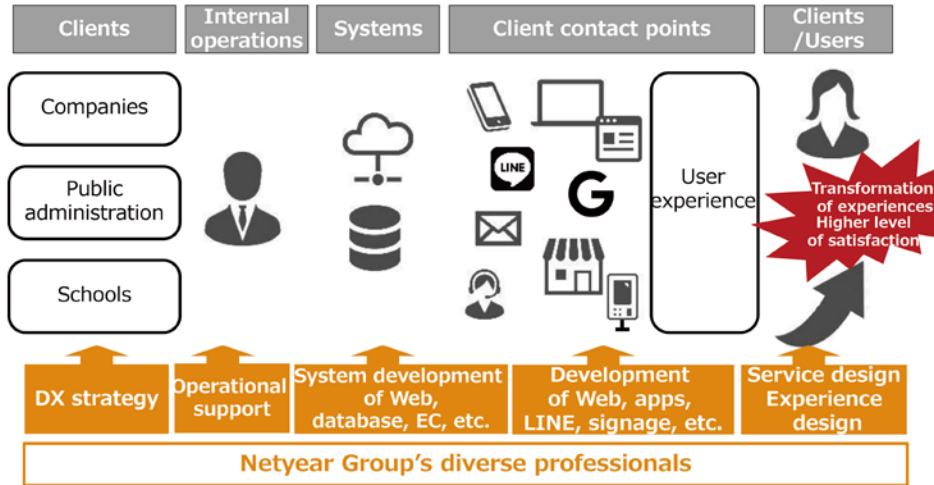
Provides digital marketing services and joined the NTT DATA Group in 2019

1. Company profile

The Company's vision is to "Create the future of business digitally and with users. Everything starts from the user experience," and it develops Strategic Internet Professional Services (SIPS) that provide DX and digital marketing services for companies and public administration utilizing user experience design and digital technologies. Specifically, the Company's characteristics are CX-driven, which includes proposing digital marketing measures, support for new business development, designs and development of owned media and apps to realize ideal CX, digital advertisements and SEO operations, sales and installation support for various types of marketing tools, operations, e-commerce development and store app development and sales, all of which is done from the starting point for improving CX.

Business overview

Business description



Source: The Company's results briefing materials

The Company was established in 1999 and listed shares on the TSE Mothers Market in 2008. The Company's listing was transferred to the TSE Growth Market as a result of the TSE's reorganization of its market categories in April 2022. The Company announced a capital and business alliance with NTT DATA in February 2019, and NTT DATA became the Company's largest shareholder with a 48.5% stake in March 2019 through a TOB. The Company had 189 employees as of March 31, 2024.

Possesses strength in design capabilities for realizing ideal CX

2. Business description and strengths

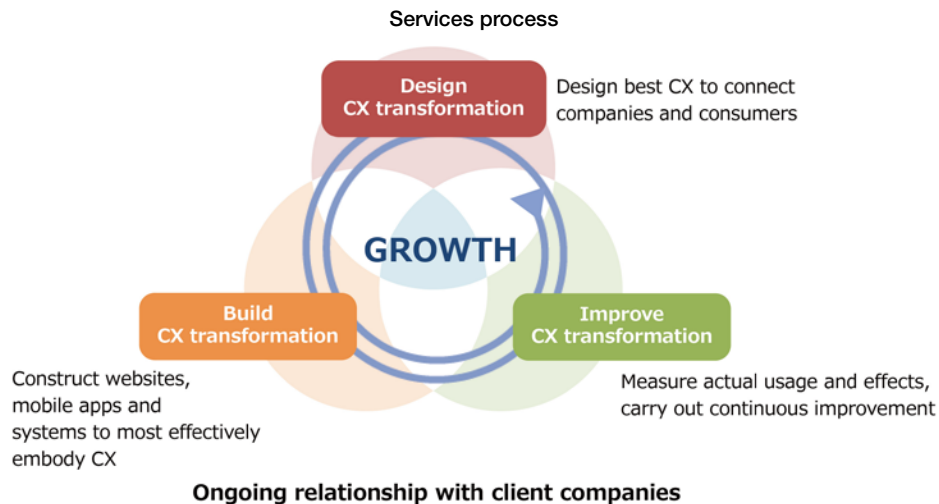
The Company's business area is digital marketing, which refers to the marketing techniques in corporate activities that are centered on owned media and that are coordinated with elements such as existing media, marketing, call centers, and stores. These services are for clients such as companies and local governments, and propose and implement new digital marketing strategies to produce the outcomes that the clients want, including improved brand value, sales growth, and the promotion of business transformations.

Digital marketing has four main media depending on the method of client contact. The first is paid media (placement of internet ads), the second is earned media (influencer marketing, etc.), the third is social media (word-of-mouth by consumers on social media and other services), and the fourth is owned media (communication through a company's own website and apps). Of these, the Company develops digital services and proposes, develops, and operates digital marketing measures that utilize owned media.

Business overview

The Company's strength lies in its 25 years of experience since founding of focusing on improving customer experience (CX) as the starting point for projects. This has provided the Company with a vast array of tools to achieve the ideal CX (in other words, robust consulting capabilities). CX in this context refers to "a series of experiences in which users become interested in, buy, and continue to use the services and products offered by a company through various points of contact, such as in stores, advertisements, websites and apps." The ultimate aim of enhanced CX is getting users to purchase products or become a supporter. The Company is building continuous relationships with client companies by creating this cycle of processes of design, build and improve CX, run the PDCA (Plan-Do-Check-Act) cycle and support client companies' growth. Another strength of the Company is its ability to progress projects with an understanding of the value of UX design by people who are not specialist UX designers. It has an internal certification system for employees with a certain skill level to strengthen the standard of UX design. Approximately 80% of its employees (156) have attended its UX training course*, of which 12 have obtained a qualification (as of May 31, 2024).

| * A six-month course that requires hands-on UX design in workshops as well as acquiring basic knowledge of UX |



Source: The Company's results briefing materials

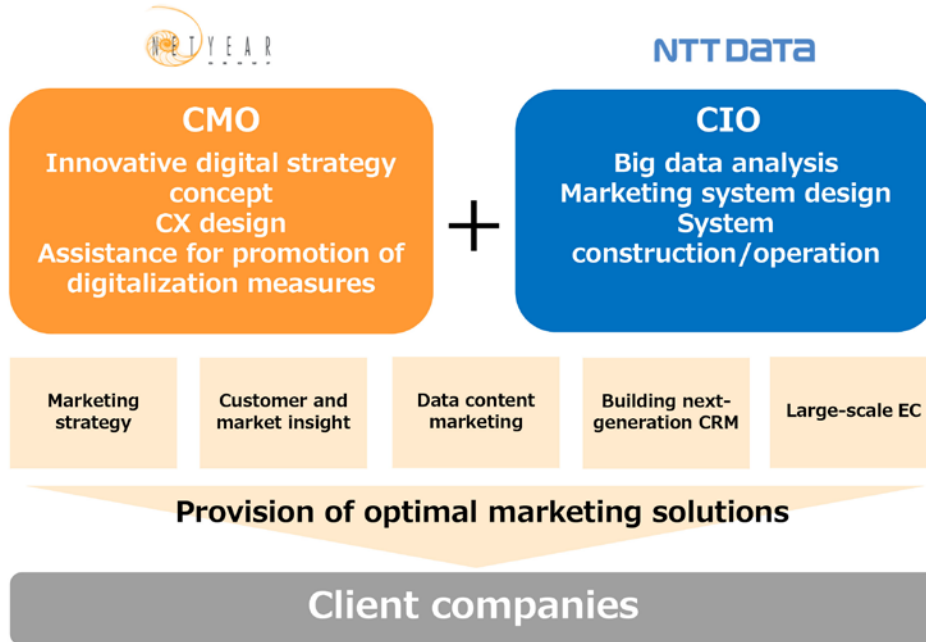
Since the clients usually require unique CX based on their business models, the Company designs an appropriate project for each client. The project period is typically about three months and might extend to about one year in a prolonged case. The Company utilizes outsourcing for a majority of the system development work. Recently project sizes have been getting larger with greater complexity in digital marketing strategy that should incorporate data analysis and system collaboration with other divisions at client companies (such as the sales division and information system division). Further, digital marketing technologies continue to evolve, and clients' demands have become more specialized and sophisticated in recent years. In this market environment, the Company is resolving the issue of a lack of system development capabilities through its collaboration with NTT DATA, with synergy effects beginning to appear, such as earnings recovering from a slump as a result of an increase in collaborative projects.

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Business overview

Consolidation by NTT DATA

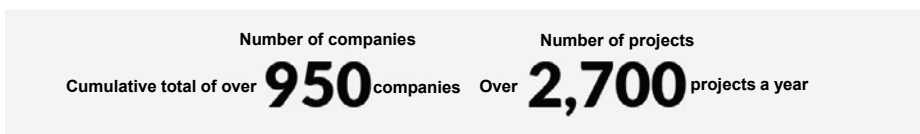


Source: The Company's results briefing materials

In addition to custom projects, the Company is also supporting the introduction of products developed in-house and by other companies. Also, from FY3/22 the Company started the installation and utilization support services for Shopify, the e-commerce platform provided by Shopify Inc. <SHOP>.

The Company has clients from a wide range of industries, including retail, services, manufacturing, and financial services, and centered on many large companies that are representative of Japan, particularly those in the BtoC field where digital marketing utilizing owned media is important, and has recently been involved in large-scale projects for Starbucks Coffee Japan Co., Ltd. and MOS FOOD SERVICES, INC.

Main client companies



Source: Reprinted from "DESIGN FOR THE FUTURE," the Company's items related to business plans and growth potential

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Business overview

Examples of UX improvement projects

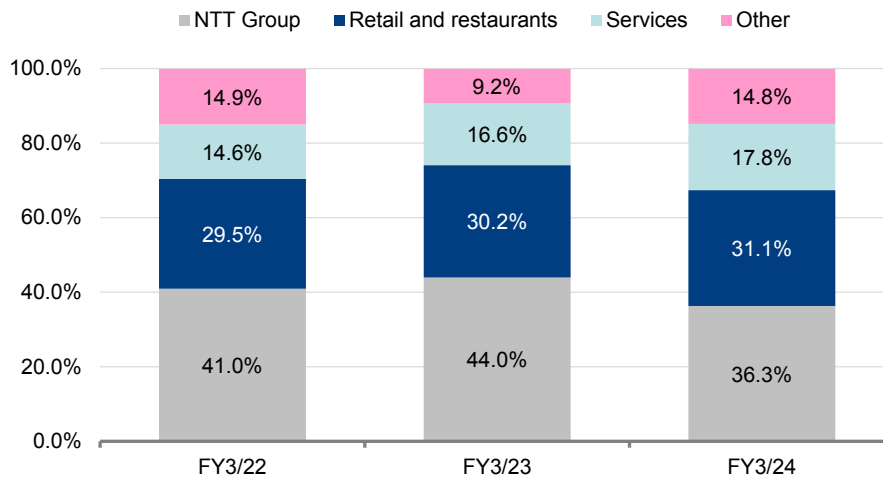
Client company	Project content
Starbucks Coffee Japan	Support for ESG management measures
MOS FOOD SERVICES, INC.	Improvement of user experience by building user-centered customer base
Japan Airport Terminal Co., Ltd., Tokyo International Air Terminal Corporation	Improvement of user experience of Haneda Airport in general
Toyota Fudosan Co., Ltd.	Promotion of DX of complex facilities using SaaS applications and customer management
ITEC HANKYU HANSHIN Co.,LTD.	Improvement of customer experience value of owned media
Pokémon Center Co., Ltd.	Realize OMO that connects digital and in-person experiences to create seamless customer experience
Sakata City, Yamagata Prefecture	Regional revitalization that fuses the digital and physical worlds

Note: Pokémon Center and Sakata City projects are collaborative projects with NTT DATA

Source: Prepared by FISCO from "DESIGN FOR THE FUTURE," the Company's items related to business plans and growth potential

In FY3/24, the ratio of sales to the NTT Group (mainly NTT DATA) was the largest at 36.3%, followed by 31.1% for the retail and restaurant industries, 17.8% for services, and 14.8% for others. By individual company, the ratio of sales to NTT DATA and Starbucks Coffee Japan was 30.9% and 12.3%, respectively, with the ratio of sales to these two companies accounting or over 40% in the past three years. Collaborative projects with NTT DATA for the telecommunications and finance industries and local governments account for the bulk of sales. Although the ratio of sales to the NTT Group was lower in FY3/24 than in FY3/23, it is expected to increase gradually as the two companies strengthen their collaboration.

Sales breakdown by client company



Source: Prepared by FISCO from the Company's security reports

Performance trends

Lower net sales and profits in FY3/24 due to decrease in sales to NTT Group

1. FY3/24 results overview

The Company settled with decreased sales and profits, having reported FY3/24 results of ¥3,630mn in net sales (down 7.4% YoY), ¥144mn in operating income (down 48.5%), ¥144mn in ordinary income (down 48.6%), and ¥106mn in net profit (down 47.0%). The Company's initial plan targeted net sales and profit growth. However, a number of existing clients scaled down or terminated projects for various reasons, and new orders declined due to human resource constraints at the Company. A decrease in orders from the NTT Group was also a negative factor.

FY3/24 results

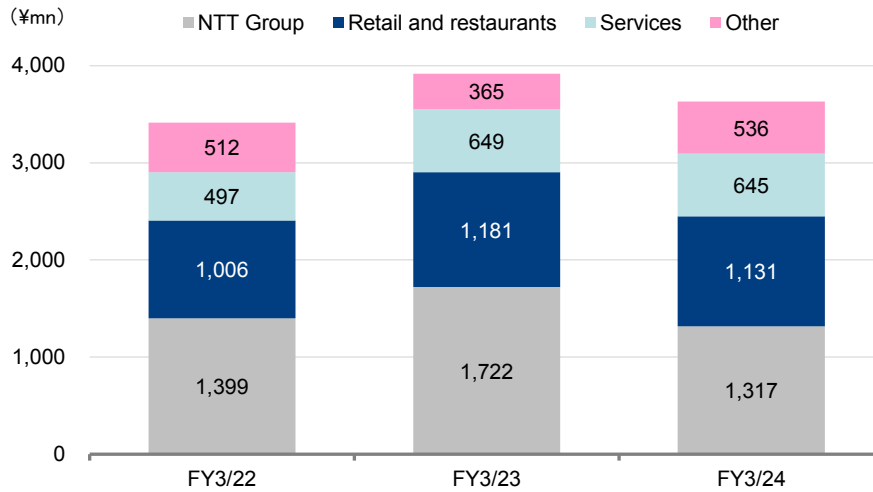
	FY3/23		Initial forecast	FY3/24		YoY		Vs. forecast
	Results	% of sales		Results	% of sales	Change	Change (%)	
	(¥mn)							
Net sales	3,919	-	4,100	3,630	-	-288	-7.4%	-469
Cost of sales	3,028	77.3%	-	2,813	77.5%	-215	-7.1%	-
Gross profit	890	22.7%	-	817	22.5%	-73	-8.2%	-
SG&A expenses	609	15.6%	-	672	18.5%	62	10.3%	-
Operating income	281	7.2%	300	144	4.0%	-136	-48.5%	-155
Ordinary income	280	7.2%	299	144	4.0%	-136	-48.6%	-154
Net profit	200	5.1%	209	106	2.9%	-94	-47.0%	-102
Numbers of employees at the end of FY	178			189		11	6.2%	

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

Breaking down net sales by industry sector, sales to the NTT Group (including NTT DATA) declined a sharp 23.5% YoY to ¥1,318mn due to the end of a large project. Sales to the retail and restaurant industries also fell 4.3% YoY to ¥1,131mn, with sales to Starbucks Coffee Japan decreasing by 12.0% to ¥447mn. Following the reclassification of COVID-19's category from class 2 to class 5 (equivalent to seasonal influenza) in May 2023 under the Act on Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases, the number of customers at physical stores recovered in the retail and restaurant industries. Consequently, client companies likely allocated investment budgets to physical stores. Sales to the service industry declined 0.6% YoY to ¥645mn and sales to other industries were up 46.9% to ¥536mn. The increase in sales to other industries was likely to be the result of strengthened sales activities to offset the decrease in orders from NTT Group.

Performance trends

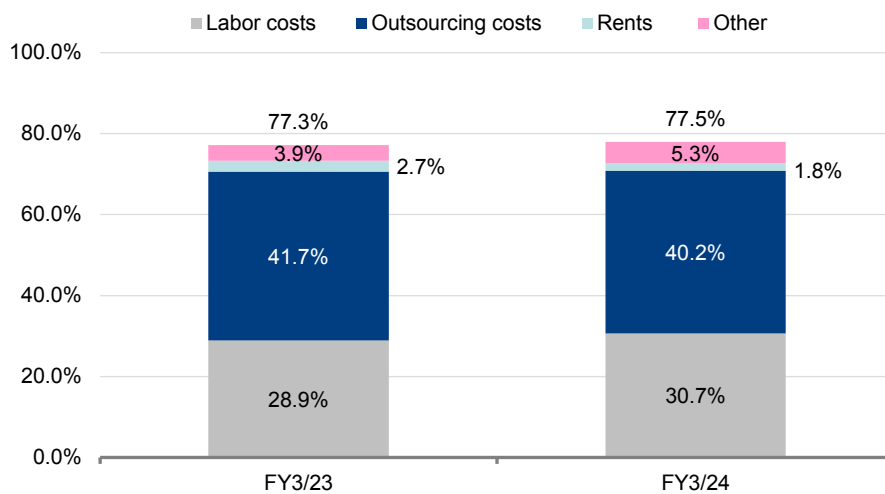
Breakdown of net sales by industry sector



Source: Prepared by FISCO from the Company's security reports

The cost of sales ratio increased from 77.3% in the previous fiscal year to 77.5%. The labor cost ratio went up from 28.9% to 30.7%, because the human resource utilization rate turned down amid a decrease in orders, while the outsourcing cost ratio decreased from 41.7% to 40.2%, and ratio of rents was down from 2.7% to 1.8% on reducing the head office floor area. As a result, gross profit decreased ¥73mn YoY. SG&A expenses increased ¥62mn, because upfront investment in the development of new services and hiring and training personnel went up by approximately ¥71mn. The Company recruited around 40 employees as planned, including eight new graduates, and improved the employee turnover rate from 12% in FY3/23 to 8% in FY3/24, so the number of employees at the end of FY3/24 came to 189, an increase of 11.

Breakdown of cost of sales ratio



Source: Prepared by FISCO from the Company's security reports

The financial condition is healthy, and the Company is also promoting M&A and alliance strategies in order to expand business

2. Financial position and management indicators

Looking at the financial standing at the end of FY3/24, total assets were up ¥11mn from the previous fiscal year-end to ¥3,188mn. The main changes in current assets were decreases of ¥59mn in cash and deposits and ¥12mn in work in progress. Meanwhile, in non-current assets, investment securities increased by ¥90mn and deferred tax assets decreased by ¥10mn.

Total liabilities declined ¥54mn from the previous fiscal year-end to ¥471mn. There was a ¥12mn increase in accounts payable, while there were decreases of ¥25mn in accounts payable-trade, ¥29mn in accrued expenses, and ¥13mn in accrued consumption taxes. Total net assets increased ¥65mn to ¥2,717mn. Retained earnings increased ¥65mn due to the booking of ¥106mn in net profit and the payment of dividends of ¥40mn.

Regarding management indicators, the equity ratio increased from 83.5% at the end of FY3/23 to 85.2%. We at FISCO think that the Company has a healthy financial position as it has no debts and has maintained cash and deposits of ¥2,160mn, which we think is at a reasonable level considering the scale of its business. Going forward, the Company plans to allocate cash on hand to growth investments including M&A and alliances, and has started taking action such as concluding a capital alliance agreement with Hexabase Inc. in September 2023. As its future strategy for M&A and alliances, the Company is targeting companies with technical and human resources in the fields of e-commerce, AI, and big data to grow its business efficiently.

Balance sheet and management indicators

	(¥mn)				
	FY3/21	FY3/22	FY3/23	FY3/24	Change
Current assets	1,874	3,005	3,075	3,003	-71
(Cash and deposits)	1,073	1,962	2,220	2,160	-59
Fixed assets	334	116	101	185	83
Total assets	2,315	3,122	3,176	3,188	11
Current liabilities	389	643	520	464	-56
Fixed liabilities	10	5	5	7	2
Total liabilities	399	648	525	471	-54
(Interest-bearing debt)	-	-	-	-	-
Net assets	1,916	2,474	2,651	2,717	65
(Stability)					
Equity ratio	82.7%	79.2%	83.5%	85.2%	1.7pt
Interest-bearing debt ratio	-	-	-	-	-
(Profitability)					
ROA	6.2%	7.5%	8.9%	4.5%	-4.4pt
ROE	14.7%	26.4%	7.8%	4.0%	-3.8pt
Operating income margin	4.1%	6.0%	7.2%	4.0%	-3.2pt

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

■ Outlook

For FY3/25, the Company aims to increase sales and profits by expanding key clients (including an increase in collaborative projects with NTT DATA)

1. FY3/25 outlook

In the forecast for FY3/25, the Company projects an increase in both sales and profit with ¥4,100mn in net sales (up 12.9% YoY), ¥300mn in operating income (up 107.0%), ¥299mn in ordinary income (up 107.5%), and ¥205mn in net profit (up 93.2%). At a time when companies remain motivated to invest in DX, the Company will continue to deepen transactions with key clients by providing digital marketing support services that start with CX enhancement. It also plans to acquire new clients to grow net sales by strengthening its partnership with NTT DATA and other NTT Group companies.

For profit, the Company aims to raise its gross profit margin from 22.5% in FY3/24 to 23.8% in FY3/25 by improving its human resource utilization rate as a result of order expansion and curtailing outsourcing costs. Assuming an increase in net sales, it forecasts a ¥13mn YoY increase in SG&A expenses due to rising costs for the development of new services and hiring and training personnel. However, the SG&A expense ratio is projected to drop from 18.5% to 16.7%. The Company hired nine new graduates in spring 2024 and plans to adjust mid-career hires depending on order trends.

FY3/25 results outlook

	FY3/24		FY3/25		YoY
	Result	% of sales	Company forecast	% of sales	
Net sales	3,630	-	4,100	-	12.9%
Operating income	144	4.0%	300	7.3%	107.0%
Ordinary income	144	4.0%	299	7.3%	107.5%
Net profit	106	2.9%	205	5.0%	93.2%
Net profit per share (¥)	15.16		29.29		

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

At the ordinary annual general meeting of shareholders held on June 24, 2024, Ryuzo Hironaka, who had been with the Company until 2009, took over as the new president and CEO. After starting his own company, Mr. Hironaka gained extensive experience as a digital marketing consultant working on many projects for major companies. His strong presence and in-depth knowledge of the Company's strengths led to his appointment. Although the Company's collaborative relationship with NTT DATA has produced some positive results, the Company believes that it can win more projects where the Company can harness its strengths. Under the leadership of President Hironaka, the Company seeks to strengthen its partnership with NTT DATA further.

Outlook

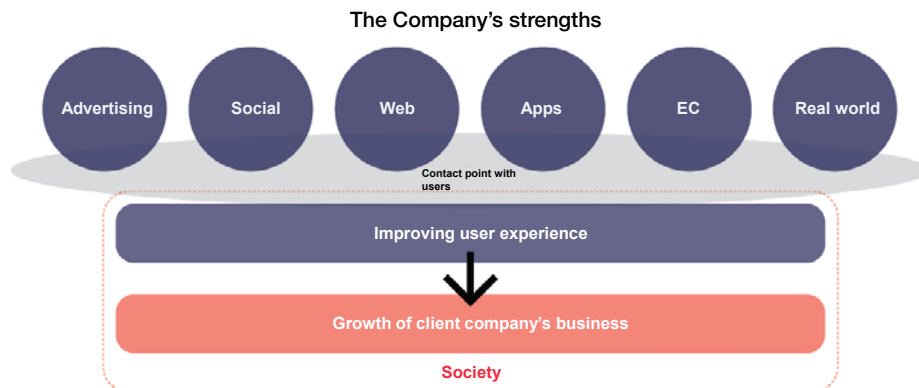
The Company targets medium- to long-term growth by expanding the scope of target customer contact point improvement, providing versatile services, and strengthening collaboration with NTT DATA

2. Growth strategy

As a future growth strategy, the Company's priorities are to 1) strengthen its competitive advantage by expanding the scope of target customer contact point improvement, 2) expand key clients by providing versatile services, 3) cultivate stable clients through strengthened collaboration with NTT DATA, 4) expand the lineup of services it provides, and 5) hire and train human resources.

(1) Strengthen its competitive advantage by expanding the scope of target customer contact point improvement

The Company seeks to accelerate business growth by expanding the scope of target customer contact point improvement, providing a greater range of value to fulfill the diverse needs of its clients. Specifically, it will expand customer contact points beyond the Web to the digital space in general (social media, online advertising, e-commerce, etc.) as well as the real world (retail stores) to increase the scope of support it can offer client companies, thereby strengthening its competitive advantage in a crowded market.

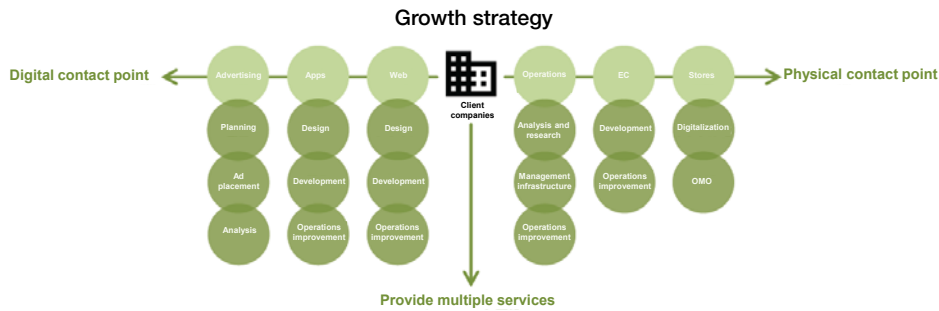


Source: Reprinted from "DESIGN FOR THE FUTURE," the Company's items related to business plans and growth potential

(2) Expand key clients by providing versatile services

The Company aims to deepen its business relationships with client companies by providing versatile services and to increase the number of key clients to improve earnings efficiency. It intends to deliver a one-stop service covering planning and design, development, and operation improvement for each customer contact point to deepen transactions with key clients like Starbucks Coffee Japan with which it can expect stable business worth hundreds of millions of yen over multiple years. Although the Company currently has only a handful of key clients, its goal is to develop approximately 10 candidate companies into key clients.

Outlook



Source: Reprinted from "DESIGN FOR THE FUTURE," the Company's items related to business plans and growth potential

(3) Cultivate stable clients through strengthened collaboration with NTT DATA

The Company plans to create key clients that would be difficult to reach on its own by sharing its customer strategy with NTT DATA and other NTT Group companies, collaborating in sales and cultivation of new clients, and providing value that harnesses the strengths of both companies. Although net sales turned down in FY3/24, partly due to the conclusion of large projects, the Company expects net sales to recover to the FY3/23 level by leveraging the new president's strong presence to win orders for collaborative projects.

(4) Expand the lineup of services it provides

The Company is focused on expanding four services—Design & Agile, Brand Value Improvement Support, SaaS Integration, and Full-stack SX. The reason for this focus is the importance of improving efficiency by expanding services that have been somewhat systematized as well as increasing custom projects to achieve sustained growth in the medium to long term. Although some of these services showed positive results in FY3/24, they were not sufficient to shore up overall earnings, because some discrepancy between clients' requirements and the services that the Company offers remained. In FY3/25, the Company plans to expand sales of these services by improving their quality to make them more attractive to client companies.

Focus services for growth in scale

Service name	Content
Design & Agile	A service whereby the Company actively devises goals with a design-oriented approach to solve a client's problems instead of responding to the client's requests for proposals and definitions of requirements, and works together to achieve these goals. The Company aims for continuous creation of value it delivers, which is not possible with a traditional contract development model.
Brand Value Improvement Support	A service that entails an in-depth understanding of the client company's brand, construction of a scheme covering service design through to overall digital marketing, and working with the client on marketing and service expansion after the scheme is completed. The goal of the service is continuous brand value enhancement for the client.
SaaS Integration	Aiming to transform a service that simply constructs a system to one that produces results, SaaS Integration combines a number of existing SaaS services to release a new system quickly and develop a package including utilization support after the release instead of the traditional, fully customized service according to each client's requirements.
Full-stack SX	The service focuses on social impact to provide comprehensive support for new business development by companies and local governments, utilizing agile development and open source software. It is a full-stack service that goes beyond development support, offering services such as business consulting and human resource training support to help clients bring development in-house, and expansion of functions as the business grows, with the ultimate goal of making society better.

Source: Prepared by FISCO from "DESIGN FOR THE FUTURE," the Company's items related to business plans and growth potential

Outlook

The Company is also developing new services. After concluding a capital alliance agreement with Hexabase Inc. in September 2023, the two companies aim to release a jointly developed product targeting small businesses by the end of 2024. Hexabase Inc. is a Backend as a Service (BaaS) company, which provides as a cloud service the system development infrastructure a company needs when launching a new business. Its BaaS platform Hexabase makes it possible for engineers to develop full-scale Web systems without backend coding, providing an advanced microservices architecture based on OSS* to deliver diverse backend functions as cloud services according to business processes and needs. As well as the joint development project, the Company and Hexabase Inc. have started collaboration in sales activities, making proposals to clients that combine the Company's front-end services with Hexabase services as a package to increase the conversion rate of prospective projects that had previously been overlooked.

* Open source software (OSS) is software whose source codes are in the public domain, which can be freely viewed, changed, and distributed.

The Company also plans M&A and alliances, targeting companies with resources it does not have to strengthen and expand its business base. It is especially focused on AI, given its growing importance in the digital marketing field. In September 2023, the Company became the first in Japan to conclude a partner agreement with Behamics, Inc. (U.S.), an AI platform vendor

Behamics provides an SaaS AI platform for e-commerce companies that specializes in AI-based analysis of an e-commerce site's performance and improving its profitability. Features of the service include 1) additional information and reminders appearing as pop-ups for users onsite who are viewing products to help them make the right purchase decisions, 2) use of AI to detect technical and performance issues, automatically discovering bugs that are difficult to find, and 3) use of AI analysis to identify quickly reason for earnings fluctuations. In the e-commerce business, the Company provides installation and utilization support services for Shopify. It plans to make proposals to clients that combine Shopify with Behamics services to help make their e-commerce businesses profitable as quickly as possible as well as increase its orders in the e-commerce field. In April 2024, the service was introduced for the mail-order site of Halmek Corporation, which has a publishing and mail-order sales business targeting women aged 50 plus, as the first user in Japan. Client feedback appears to have been positive so far, so the Company is looking to expand sales based on Halmek's case study.

In June 2024, the company launched a new service Netyear CVR Max that supports conversion rate optimization (CRO) of websites. The service utilizes DEJAM, a website improvement tool supplied by LeanGo to improve the conversion rate (CVR) of clients' owned media and support earnings growth efficiently. The Company is moving away from its approach to performance optimization services (POS) that rely on consultants' experience and intuition, instead providing data-backed, objective insights and qualitative analysis from its UX perspective and the use of DEJAM. In this way, the Company will support performance improvement with a PDCA cycle of formulating an improvement plan, implementing it, and analyzing its results.

(5) Hire and train human resources

The Company seeks to hire diverse personnel with excellent specialist skills to ensure it has sufficient human resources to drive its growth. At the same time, it will improve its work environment by providing various employment systems to accommodate diverse work styles and flexible working patterns centered on remote working. For personnel training, it has a system that supports employees' studies to obtain qualifications. It has also seen positive effects of this and other initiatives such as education programs to draw out intrinsic motivation and expanding personnel management, such as an employee turnover rate below 10%. The Company plans to formulate a medium-term human resource development plan in FY3/25 to achieve sustained growth.

Outlook

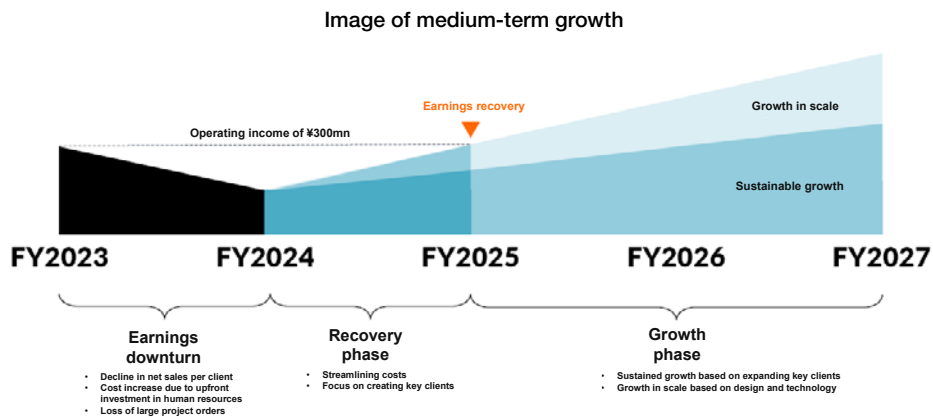
Specifically, to secure human resources, the Company engages in hiring mid-career employees based on referrals as well as recruiting in regional areas. As well, in collaboration with LULL INC., a staffing agency, the Company started a project to reskill young workers into IT and digital human resources in March 2022. In this initiative, the Company trains workers with no previous IT industry experience as engineers and hires them as full-time employees.

In this scheme, LULL's IT human resource development curriculum is used, and online instructors and career advisors support both skill and career development, and the Company provides a user experience (UX) curriculum designed based on its wealth of knowledge. Several dozen members are involved in the Company's development projects through LULL, some of whom have become employees. Given the high cost of mid-career hires, the Company plans to continue with the scheme of training inexperienced workers through LULL and hiring them as employees. It is also building a human resource distribution network to address shortages, such as assigning freelancers with the required skills to projects through partner companies.

As its workforce increases, the Company can expect improved profitability as a consequence of reducing outsourcing expenses, which account for 50% of cost of sales. Although the Company expects the increase in personnel expenses, recruitment/hiring costs and training costs to continue, it considers this to be upfront investment in building a management foundation to achieve sustained growth.

(6) Image of medium-term growth

The Company has positioned FY3/25 as a recovery phase toward future earnings growth and is focusing on streamlining costs and creating key clients. For FY3/26 and beyond its strategy is to work toward sustainable growth by expansion of key clients and putting earnings on a growth trajectory by combining its strengths in UX design and technologies to achieve growth in scale.

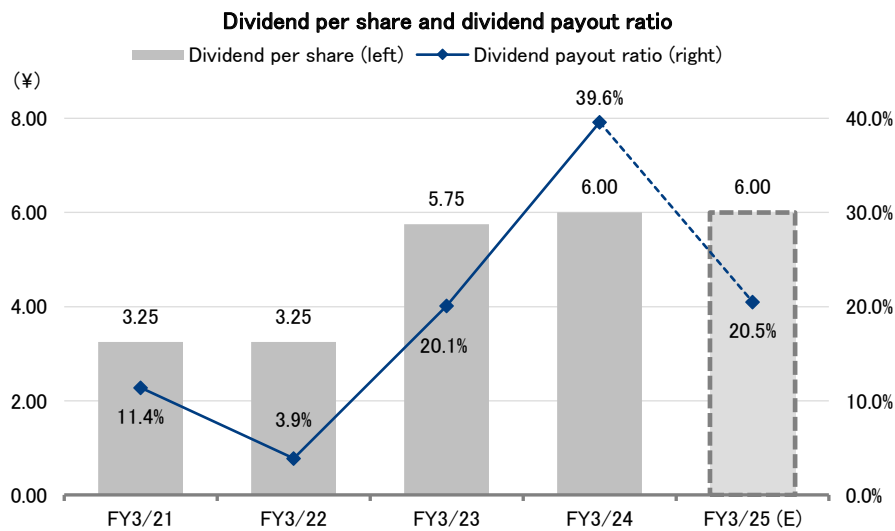


Source: Reprinted from "DESIGN FOR THE FUTURE," the Company's items related to business plans and growth potential

Shareholder return policy

Stably and continuously pay dividends with a target dividend payout ratio of approximately 20%

The Company pays dividends as a measure to return profits to shareholders. In FY3/23, the Company decided on a basic dividend policy of stably and continuously paying dividends with a target dividend payout ratio of approximately 20%. Based on this policy, for FY3/24, the Company increased its dividend per share by ¥0.25 to ¥6.0 (dividend payout ratio of 39.6%). For the FY3/25 dividend, the Company expects to maintain the same dividend as in FY3/24 of ¥6.0 (dividend payout ratio of 20.5%). The Company will likely consider increasing the dividend if the dividend payout ratio were to drop below 20%. The quantitative standard will be reviewed as appropriate going forward, comprehensively taking into account future changes in the external environment, financial condition, business development, and other factors.



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



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