COMPANY RESEARCH AND ANALYSIS REPORT

R&D COMPUTER CO., LTD.

3924

Tokyo Stock Exchange Prime Market

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Summary

In the first fiscal year of the medium-term management plan, net sales growth and profit margin improvement both sharply outpaced initial targets.
The Company is also proactively enhancing shareholder returns, including by raising the dividend payout ratio

R&D COMPUTER CO., LTD. <3924> (hereafter, also "the Company") is an independent, medium-sized systems integrator that celebrated the 50th anniversary of its foundation in January 2021. The Company's proactive approach to M&A has prompted rapid expansion with respect to what it considers the growth area of package-based SI services, in addition to its stable business foundations of systems integration services and infrastructure solutions services. Its earnings structure is changing, with seasonality easing and growth strategies proving successful. Its performance is currently notably strong, with the operating profit margin exceeding the target for the final fiscal year of the three-year plan during its first fiscal year.

1. Outline of consolidated results for FY3/24

In FY3/24 consolidated results, the Company achieved new record highs in net sales and all profit levels. Net sales rose 18.6% year on year (YoY) to ¥13,732mn, operating profit grew 41.5% to ¥1,729mn, ordinary profit increased 40.8% to ¥1,743mn, and profit attributable to owners of parent rose 59.8% to ¥1,233mn. Net sales exceeded the initial plan by 10.7% and operating profit by 21.0%. Net sales grew YoY in all three service lines, rising 19.3% for systems integration services and 20.5% for package-based SI services, marking strong growth for each around 20%. Also, the gross profit margin rose 0.6 percentage points YoY to 22.2%, owing to the advancement of high-value-added business. Package-based SI services' share of total net sales rose 0.5 percentage points YoY to 34.0%. The SG&A expense ratio decreased 1.5 percentage points YoY to 9.6%. This is mainly because strong sales growth offset higher personnel expenses associated with revised employee conditions and a rise in expenses associated with investments in human capital, such as expenses for training personnel in new digital fields. As a result, each level of profit increased significantly, and profitability improved substantially with the operating profit margin up 2.0 percentage points YoY to 12.6%. The operating profit margin of 12.6% already exceeds the 12.0% target for the final fiscal year of the medium-term management plan, VISION 2025. The pace of growth in both net sales and profit margins during the first fiscal year of the three-year plan was excellent.

2. Full-year consolidated results forecast for FY3/25 and status of medium-term management plan progress

In its FY3/25 consolidated results, the Company forecasts net sales to increase 5.0% YoY to ¥14,420mn, operating profit to rise 7.5% to ¥1,860mn, ordinary profit to grow 9.0% to ¥1,900mn, and profit attributable to owners of parent to increase 2.8% to ¥1,267mn. It expects net sales to remain solid in all service lines, with continued sharp expansion of net sales in package-based SI services, driven by SAP-related business. For systems integration services, the Company forecasts broadly flat net sales with an increase of 0.4% YoY to ¥7,600mn. However, FISCO believes there is significant upside potential to the Company's initial plan as the domestic IT services market is likely to continue on a modest growth trajectory. Meanwhile, the Company recorded a roughly ¥6,600mn provision for loss on orders received in FY3/24 4Q for some unprofitable projects. As it is still unclear at this time when those projects will be finished, concerns remain about additional losses arising in FY3/25, which are a risk to FY3/25 results. The Company has not changed its quantitative targets for FY3/26, the final fiscal year of the medium-term management plan, but is likely to sharply exceed them, considering its flying start in the plan's first fiscal year.

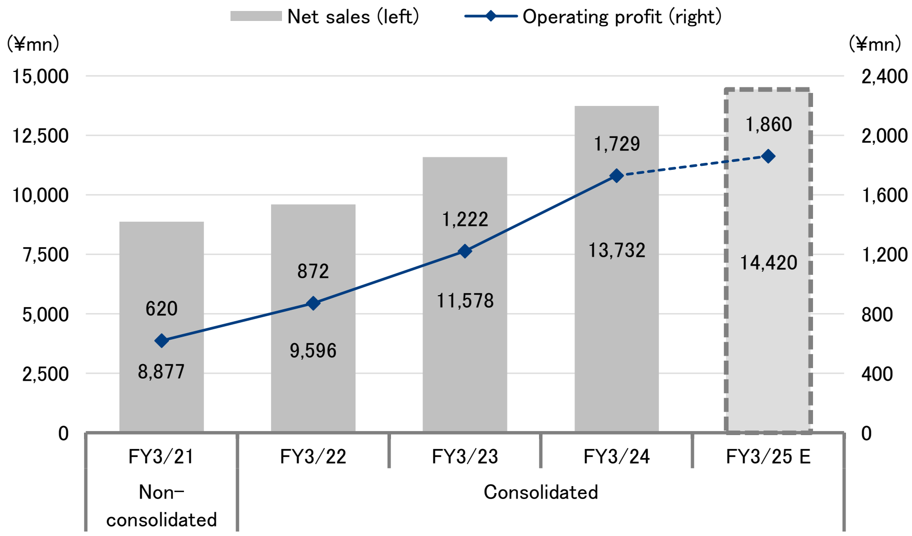
3. Dividend policy

The Company raised its three-year dividend payout ratio standard for VISION 2025 from at least 40% to at least 50%. On November 1, 2023, the Company conducted a two-for-one split of its common stock. In FY3/24, the Company paid an interim dividend of ¥10.0 and a year-end dividend of ¥25.0 for an annual dividend of ¥35.0 per share, up sharply from ¥17.5 in the previous fiscal year. The dividend payout ratio came to 50.9%. For FY3/25, the Company plans to increase the annual dividend per share by ¥1.0 from the previous fiscal year to ¥36.0 since it expects profit to rise further. FISCO believes that while there is not much room to raise the dividend payout ratio further in FY3/25, there is plenty of room to lift the dividend payout ratio from the current level of at least 50% in FY3/26 onwards, given the Company's solid financial standing and strong results.

Key Points

- Both net sales and operating profit sharply surpassed the initial plan for FY3/24. Improvement was especially notable for the operating profit margin, which rose 2.0 percentage points to 12.6%, achieving the target for the final fiscal year of the medium-term management plan in its first year
- In FY3/25, the Company forecasts both net sales and operating profit will rise YoY. It is steadily working towards VISION 2025, and plans to further expand business through initiatives such as proactive M&A and human resource development
- The dividend payout ratio target was raised from at least 40% to at least 50%, and the annual dividend increased sharply to ¥35.0 in FY3/24. There is room for a further increase in FY3/26 onward, given financial soundness

Results trends



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

Company profile

Significant increase in profitability due to package-based SI growth strategy

1. Company profile

The Company has a long history as an independent systems integrator, celebrating 50 years since its 1971 foundation in January 2021. Unusual for the information services industry, it was established by an educational institute. "With all our heart" as the Company creed, and it conducts business based on its three corporate philosophies of 1) Create value for customers and pursue customer satisfaction to increase corporate value, 2) As a group of professionals, open up a path for the next generation and become a leading information technologies company, and 3) Always maintain and uphold an innovative corporate culture.

Since it was established by an educational institute, one of its features is its passion for educating employees. It encourages employees to acquire not only IT-related qualifications, but other business-related qualifications as well, and on average each employee holds three or more qualifications. Employees having skills and knowledge both in IT and customers' businesses makes it possible to develop systems that provide high levels of customer satisfaction.

2. History

At the time of its foundation in 1971, the Company began transactions with FUJITSU <6702> in the development of a banking system, which led to expansion of its business scope centering around the outsourced development of financial systems for banks and insurance companies. In 2006, it started infrastructure-related services for systems integration services as the infrastructure solutions services. The Company began collaborating with Salesforce.com, Inc. (currently Salesforce Japan Co., Ltd.) in April 2010, and started providing cloud computing services. Furthermore, in systems integration services, it has started working on introducing package systems and developing add-ons as package-based SI services.

In April 2020, it carried out organizational restructuring in response to accelerating trends in DX. It established the DX Promotion Headquarters and made it directly responsible for the Salesforce Promotional Office (Now "Salesforce Business Promotional Office") and the newly established Cloud Strategy Office (Now "DX Technology Center"). Currently, the DX Promotion Headquarters is central to efforts to strengthen the Company's pool of employees proficient in new digital technologies, such as low-code and agile development, and the Company is shifting toward cloud-based business.

The Company was listed on the Tokyo Stock Exchange (TSE) Second Section in December 2015, and subsequently upgraded to the TSE First Section in May 2018. It then moved to the Prime Market following the TSE's restructuring of its market segments in April 2022.

In April 2021, in the Company's first-ever M&A acquisition, it acquired all the shares of infree Corp., which handles the enterprise resource planning (ERP) of German-based SAP <SAP>, and made it a wholly-owned subsidiary. In April 2022, the Company acquired NESCO SUPER SOLUTION Co., Ltd. (now "Technigate Co., Ltd."), a specialist company of the SuperStream accounting package, and made it a wholly-owned subsidiary. These subsidiaries are included in the consolidation of the financial statements and have been part of the consolidated financial statements since FY3/22.

3. Business description

The Company operates the three service lines of systems integration services, infrastructure solutions services, and package-based SI services, and is structured to provide total system support to resolve business issues. According to the composition of consolidated net sales by service line in FY3/24, systems integration services provided 55.1%, infrastructure solutions services 10.8%, and package-based SI services 34.0%.

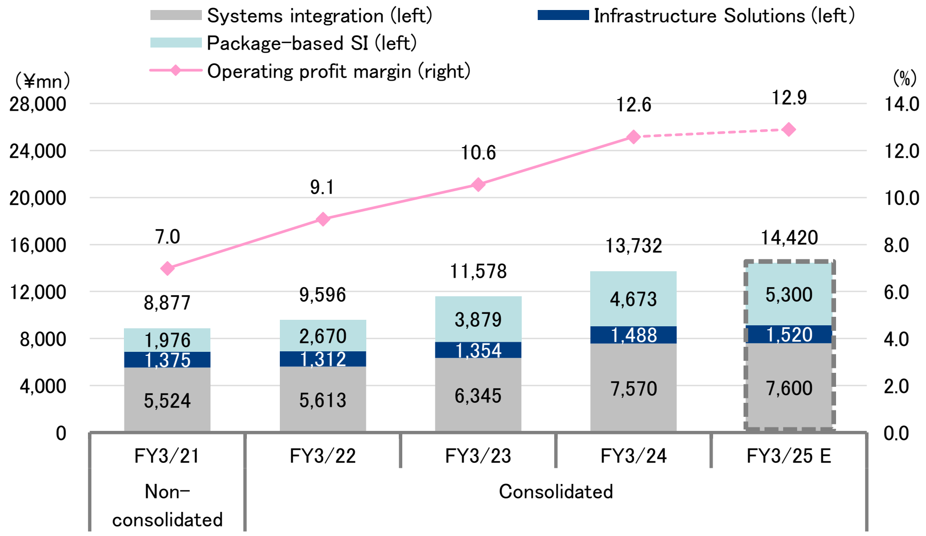
Regarding annual average sales growth rates for the three fiscal years up to FY3/24, the overall rate was 15.7%, the rate for systems integration services was 11.1%, the rate for infrastructure solutions services was 2.7%, and the rate for package-based SI services was 33.2%.

In FY3/21, sales and profits decreased due to the impact of the COVID-19 pandemic, with net sales decreasing 2.4% YoY and operating profit decreasing 12.6%. Looking at net sales changes by service line, systems integration services decreased by 7.0% YoY and infrastructure solutions services decreased by 9.3% YoY, while package-based SI services showed a clearly distinct trend, increasing 20.7% YoY. Infrastructure solution services experienced the strongest impacts of a reactionary decrease from Windows 10 upgrade-related business in FY3/20 and the COVID-19 pandemic. In FY3/22, both net sales and operating profit exceeded pre-pandemic levels, successfully overcoming changes in the business environment in a single fiscal year.

With respect to the Company's results, sales are concentrated mainly in 2Q (July-September) and 4Q (January-March) due to the balance between the timing of budget execution by client companies and work periods on development systems, and operating profit tends to be weighted mainly towards the fiscal year-end in the fourth quarter. The 1Q operating profit margin was extremely low at between 1 and 2%; however, from FY3/22 onward, profitability has improved significantly, partly due to the increase in net sales of package-based SI services, and the seasonality of the Company's revenues appears to be easing somewhat.

The Company has positioned systems integration services and infrastructure solutions services as steady growth businesses and package-based SI services as a high growth business. In April 2020, the Company established the Salesforce Business Promotional Office to expand Salesforce-related business throughout the entire Company. The results appeared as early as FY3/21. infree, which was made a subsidiary in April 2021, has an excellent internal education system, and the Company has also utilized employees who are involved with its SAP-related business. As a result, net sales of the SAP-related business have realized sustainable growth. Furthermore, having a subsidiary that is high level and provides highly paid services has also had a beneficial impact on the Company's corporate culture, such as inspiring employee motivation to take on higher-added-value work. With the added impact of a difference in sales composition due to the expansion of package-based SI services, the operating profit margin increased from 7.8% in FY3/20 before the COVID-19 pandemic to 10.6% in FY3/23, rising to 12.6% in FY3/24 and forecast to further jump to 12.9% in FY3/25.

Trends in net sales and operating profit margin by service line



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

Business profile

Growth of package-based SI services greater than forecast

1. Systems integration services

Systems integration services are a mainstay business, with a share of total net sales of 55.1% in FY3/24. Breaking down the services by industry type, services for finance account for 42% (*including 25% for banks, 13% for credit card companies, and 3% for financial and other), services for industry and logistics account for 43%, public sector 7%, and medicine 9%.

The systems integration services cover a wide range of fields, including finance, industry and distribution, public sector, and medical care. It mainly conducts outsourced development for customers such as end users, domestic manufacturers, and major systems integrators. The Company has in place a system to provide total services covering all processes, from planning and system construction through to system management. Banks are investing in IT in order to reduce workloads and to save labor, and demand is expected to be at a high level in the medium to long term. There are also many projects for online banks and distribution-related financial subsidiaries.

Financial institutions are the biggest customers for the IT services industry. In the case of the Company, it serves prime contractors include FUJITSU and Hitachi, Ltd. <6501> as a collaborating company. For many years, it has maintained excellent business relations with major systems integrators including FUJITSU at the top of the list, followed by the Hitachi Group centered on Hitachi, Ltd. and Hitachi Solutions, Ltd., the NTT DATA Group <9613>, and NS Solutions Corporation <2327>. The Company's strategy for growing transactions with manufacturing-based systems integrators, which are its largest customer base, is to expand package orders and pursue quality.

Close business relations with the FUJITSU Group formed immediately after founding, and it has become a core partner. In FY3/23, the degree of dependency on FUJITSU for sales was 27.0%. In FUJITSU's FY2022 PQI (Partner Quality Improvement) skill level certification, the Company ranked GOLD for all three steps of the skill levels, including the first step (quality records), second step (quality evaluation), and third step (quality plan), for the seventh consecutive year. In fiscal 2021, in the Fujitsu Software Master Award 2022, which recognizes the efforts of companies that are cultivating large numbers of engineers, the Company was the recipient of first place in the Top Technology Company category due to its cultivation of high-level engineers. FUJITSU is advancing DX business and the Company is actively working to cultivate DX personnel.

Direct user transactions have been positioned as a high growth area, even within systems integration services. The Company is leveraging its customer base to win repeat orders and using package-based SI services as a hook to cultivate new customers. It is advancing highly productive development by focusing on fields where it has expertise and new strategic fields. Main users include Mitsubishi Research Institute DCS Co., Ltd., Sumitomo Mitsui Trust Systems & Services Co., Ltd., Idemitsu Kosan Co., Ltd. <5019>, OPTAGE Inc., and NOMURA HOLDINGS, INC. <8604>. This customer base can be said to be the result of high evaluations from customers of the Company's technological capabilities, its business knowledge in areas such as finance and distribution, and its track record in terms of quality.

2. Infrastructure solutions services

Infrastructure solutions services covers an array of services including installing the hardware, such as servers, that form customers' IT system infrastructure; constructing networks and systems infrastructure, including databases and application infrastructure; and performing subsequent management and maintenance. It has also recently established a new office for cloud business, and focuses on cloud-related services. After surveying and analyzing the IT systems infrastructure environments of various customers, including general companies, universities and other educational facilities, hospitals, and government ministries and agencies, it provides infrastructure solutions services that are tailored to meet their needs. Specifically, in addition to infrastructure solutions services such as network construction, it provides total, one-stop services by combining systems integration services.

3. Package-based SI services

As growth businesses, the Company forms alliances with system and package vendors and in some cases is provided with packages, and offers a total service to customers, from support for introducing software package products (Salesforce, SAP, SuperStream, COMPANY, etc.) to customization, add-on development, maintenance, and management. Net sales of package-based SI services in FY3/24 were ¥4,673mn. The ratio of net sales by business type was 40% for Salesforce, 20% for SAP, 26% for accounting packages, 9% for personnel salary packages, and 5% for other types.

(1) Salesforce – cloud-based SFA/CRM applications

US-based Salesforce, Inc. <CRM> provides a platform that enables users to access combinations of multiple functions, with a focus on the cloud-based business applications Sales Force Automation (SFA) and Customer Relationship Management (CRM). It is the world's biggest platform in its field and has been introduced by over 150,000 companies globally. It established a Japanese subsidiary in 2000. The Company started a business with Salesforce in April 2010 and concluded a sales partner agreement in November 2016. In June 2023, the Company acquired the highest position of "Expert" in the Experience Cloud domain of the Salesforce Navigator Program. Under the Salesforce Navigator Program, the expert capabilities of partners' products, industries, and services are evaluated by Salesforce from the three aspects of knowledge, experience, and quality, and their level is certified on a three-step scale. Experts are partners who possess the highest level of experience and technology in a specific field.

It is currently a Salesforce certified consulting partner (Gold) and application partner, with a track record of more than 2,000 projects for around 500 companies. It uses its business findings in many industries and many types of businesses and knowledge of a wide range of products to propose optimal solutions. In terms of industries, it has a track record of projects including for non-life insurance, insurance agencies, universities, vocational schools and cram and preparatory schools, the manufacturing industry (food, equipment, parts, software, etc.), restaurants, wholesale businesses, retail businesses, specialty trading companies, apparel, print and publishing businesses, real estate, dispatches of human resources, internet services, legal offices, and facility management. It is also used in information systems for financial institutions.

The Salesforce Business Promotional Office's deployment of Salesforce cloud services not only for business divisions but throughout the entire Company is leading to sustainable growth for the business.

(2) SAP – enterprise resource planning package

German-based SAP was established in 1972 and is the world's largest market share holder in the enterprise resource planning (ERP) systems package field. In April 2021, in the Company's first ever M&A acquisition, it acquired all shares of infree Corp. and made it a wholly-owned subsidiary. Since its foundation in 2001, infree has wielded strengths both in consulting to facilitate adoption of the SAP R/3 package of SAP enterprise resource planning solutions and in developing add-on software. It was certified as a SAP PartnerEdge Service partner in January 2022. The Group's SAP sales were ¥69mn in FY3/21 and the M&A contributed to a substantial increase to ¥483mn in FY3/22. In FY3/23, the second year after the M&A, sales were ¥667mn, and in FY3/24, the third year since the M&A, sales continued to be strong at ¥943mn. Seeking to leverage synergies, the Company carried out reforms that include integration of offices and having its executives serve as representative directors of infree. Moreover, the Company has successfully grown sales in SAP-related business on a Group-wide basis by sharing resources, such as education tools developed by infree, within the Group.

(3) SuperStream – accounting package

SuperStream Inc. was established in 1986, when it launched GL, a mainframe compatible general accounting system. In March 2022, the cumulative number of companies that had installed its SuperStream accounting package passed the 10,000 mark. In April 2022, the Company acquired the specialist company NESCO SUPER SOLUTION Co., Ltd. and made it a wholly-owned subsidiary. NESCO SUPER SOLUTION was founded in 2008 when NESCO Co., Ltd split off its SuperStream business and established it as a new company. The Company changed the subsidiary's trade name to Technigate Co., Ltd. in January 2023. In December 2022, it integrated its Tokyo and Osaka offices to quickly realize synergies through the unification of parent company and subsidiary and the sharing of business resources. It recorded net sales of ¥586mn in FY3/21 prior to becoming a subsidiary of the Company. The Group's consolidated sales of accounting packages, including SuperStream, were ¥269mn in FY3/21 and ¥295mn in FY3/22, and the effects of the acquisition led to a substantial increase to ¥837mn in FY3/23. Technigate has been taking action in response to the adoption of electronic invoice systems in accordance with Japan's Electronic Books Preservation Act, with FY3/23 serving as a transitional phase. Demand for compatible software packages has emerged, resulting in a significant increase in consolidated sales to ¥1,223mn.

Looking at the situation concerning taxpayers complying with the Electronic Books Preservation Act, as of October 2020 it was 72.7% of 33,000 major companies, 4.8% of 3,099,000 small to medium enterprises, and 1.2% of 5,251,000 sole proprietors. Revisions to the act in January 2022 forbid the saving of information from electronic transactions in hard format, making the preservation of electronic data mandatory for all businesses. A two-year grace period had been enacted up to December 2023, but from January 2024, electronic records must be preserved. The main purposes of the revisions are to promote paperless accounting operations, strengthen security, and encourage workstyle reforms and DX. Points covered by the revisions other than the mandatory preservation of electronic transaction information include the abolition of the pre-approval system, relaxation of timestamp and search function requirements, abolition of appropriate administrative processing requirements, and stronger penalties for falsification. While the relaxation of requirements will make it easier to introduce electronic book preservation, penalties for falsification are more severe.

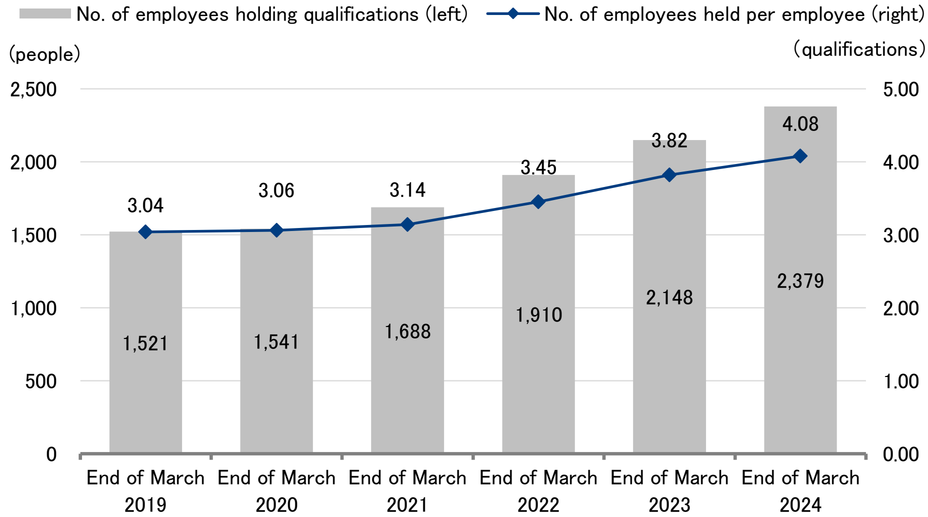
4. IT-related and business-related qualifications

(1) Number of employees holding qualifications

One of the Company's strengths is that it is a group of excellent engineers. It actively progresses employees' acquisitions of qualifications not only for IT-related qualifications but also for business-related qualifications to deepen their understanding of customers' businesses, such as finance, industry and distribution, and medical care. At the end of March 2024, a total of 2,379 employees held IT-related and business-related qualifications (breaking this down, 2,099 employees held IT-related qualifications and 280 employees held business-related qualifications) and the average number of qualifications held per employee was 4.08. Compared to the end of FY3/21, the number of employees holding qualifications has grown by 40.9%, and the average number of qualifications held per employee has increased by 0.94.

By actively promoting acquisitions of business-related qualifications, the Company's engineers are able to provide systems integration services from the customer's viewpoint. As a result, customer satisfaction is increasing, which becomes the driving force behind building strong relations of trust.

Trends in the no. of employee holding qualifications held per employee



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

(2) New employee training

The Company also focuses on educating new employees. Prior to joining the Company, employees complete an e-learning course to prepare for the basic information processing test, and after joining spend three months receiving training to become members of society and on basic technologies. During this training period, trainees learn basic program development knowledge, programming languages, and systems design. The curriculum includes an introduction to Java programming, Java programming fundamentals, Java programming applications (DB access), Java application development fundamentals, introduction to Java DB access application development, web application development fundamentals, web application building practice, and a results presentation. It is high level training that not only teaches simple program building, but also challenges trainees to acquire two vendor certifications during the new employee training period. The pass rate for 'Oracle MASTER Bronze Oracle Database 12c' has achieved 100%. Employees from core collaborating companies can also join the training, and in 2023, 50 people participated, including 30 employees from the Company. Following the new employee training, new employees then transition to OJT for their assigned positions. There, they receive support from senior colleagues who are their trainers.

When recruiting, the Company seeks graduates and postgraduates from both the sciences and humanities. The ratio of men to women entering in April 2024 was equal at 1:1. The Company aims to create a workplace where women can play an active role, as evidenced by the 100% return to work rate from parental leave in FY3/24. In addition, the ratio of new graduates in the humanities to those in the sciences is 65% for humanities and 35% for sciences. Employees in their 20s and 30s make up half of the Company's workforce, with 31.9% in their 20s, 22.6% in their 30s, 28.0% in their 40s, and 17.5% in their 50s or older. As it has in place a complete education system, it seems that it prioritizes recruits with "the ability to think logically," "a willingness to learn" and "a passion for the IT industry and SE," and recruits people who have the aptitude to use its system positively and want to grow.

Results trends

The operating profit margin improved to 12.6% in FY3/24 from 10.6% in the previous fiscal year, reflecting progress advancing high-value-added business under the medium-term management plan

1. Outline of consolidated results for FY3/24

In FY3/24 consolidated results, the Company achieved new record highs in net sales and all profit levels, with net sales increasing 18.6% YoY to ¥13,732mn, operating profit increasing 41.5% to ¥1,729mn, ordinary profit increasing 40.8% to ¥1,743mn, and profit attributable to owners of parent increasing 59.8% to ¥1,233mn. Net sales exceeded the initial plan by 10.7% and operating profit by 21.1%. Net sales was higher YoY in all three service lines. Systems integration and package-based SI net sales each exceeded the initial plan by around 20%, at 19.3% and 20.5%, respectively. The operating profit margin rose by 0.6 percentage points YoY to 22.2% due to progress on high-value-added business. Package-based SI services share of total net sales rose by 0.5 percentage points YoY to 34.0%. The SG&A expense ratio decreased by 1.5 percentage points YoY to 9.6%, mainly reflecting the strong increase in sales, despite a rise in personnel expenses associated with revised employee conditions and expense associated with human capital investment, such as expenses for training human resources in new digital fields. As a result, each level of profit increased significantly, and the operating profit margin increased by 2.0 percentage points to 12.6%, substantially improving profitability.

FY3/24 consolidated results

(¥mn)

	FY3/23		FY3/24			Change		vs plan
	Results	% of net sales	Plan	Results	% of net sales	Amount	%	
Net sales	11,578	-	12,400	13,732	-	2,153	18.6%	10.7%
Systems integration	6,345	54.8%	-	7,570	55.1%	1,225	19.3%	-
Infrastructure solutions	1,354	11.7%	-	1,488	10.8%	134	9.9%	-
Package-based SI	3,879	33.5%	-	4,673	34.1%	793	20.5%	-
Gross profit	2,505	21.6%	-	3,053	22.2%	547	21.9%	-
SG&A expenses	1,283	11.1%	-	1,323	9.6%	40	3.1%	-
Operating profit	1,222	10.6%	1,429	1,729	12.6%	507	41.5%	21.1%
Ordinary profit	1,238	10.7%	1,447	1,743	12.7%	505	40.8%	20.5%
Profit attributable to owners of parent	772	6.7%	900	1,233	9.0%	461	59.8%	37.1%

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

Higher net sales in systems integration services and package-based SI services drove overall results

2. Trends by service line

Net sales for the three service lines all grew, but growth was most prominent in package-based SI services, where the Company aggressively conducted M&A, lifting the share of total net sales to 34.0%, or one third, and contributing to profit expansion.

(1) Systems integration services

Net sales in systems integration services were ¥7,570mn, up 19.3% YoY. By industry, sales rose 15.6% to ¥3,151mn in the finance field, which saw favorable activity in contracted development projects for Internet banks and trust banks. In the industry and distribution field, sales for telecommunications providers where solid, while the public sector saw growth in sales driven by the continuation of a large-scale project from the previous fiscal year and the receipt of orders for system development projects for government organizations.

Systems integration services net sales by industry

(¥mn)

	FY3/23		FY3/24		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Finance	2,725	43.0%	3151	41.6%	426	15.6%
(of which, banks)	1,501	23.7%	1876	24.8%	375	25.0%
(of which, credit cards)	1,003	15.8%	1,015	13.4%	11	1.2%
(of which, other finance)	221	3.5%	259	3.4%	38	17.4%
Industry and distribution	2,668	42.1%	3,226	42.6%	558	20.9%
Public sector	402	6.3%	546	7.2%	144	36.0%
Medical care	549	8.7%	646	8.5%	96	17.6%
Total	6,345	100.0%	7,570	100.0%	1,225	19.3%

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

(2) Infrastructure solutions services

Net sales in infrastructure solutions services rose 9.9% YoY to ¥1,488mn. The Company strengthened human resource training in the field of cloud business centered on DX promotion, and increased orders for the public sector. Furthermore, regarding server client services, the semiconductor shortage eased and the receipt of orders for infrastructure design and deployment projects increased.

Infrastructure solutions services net sales by industry

(¥mn)

	FY3/23		FY3/24		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Server/client	808	59.7%	898	60.3%	90	11.2%
Network	365	27.0%	376	25.3%	10	3.0%
Cloud	180	13.3%	213	14.3%	33	18.3%
Total	1,354	100.0%	1,488	100.0%	134	9.9%

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

(3) Package-based SI services

Net sales of package-based SI services climbed 20.5% YoY to ¥4,673mn, for a share of total net sales of 34.0%. Growth in this service line has been driven thus far by Salesforce-related business, which saw a slowdown in growth with net sales of ¥1,879mn, up 3.1% YoY. On the other hand, SAP-related business, which continued to experience M&A effects, recorded growth of 41.3% to ¥943mn, and accounting packages performed favorably, growing 46.1% to ¥1,223mn. Technigate, which handles the SuperStream accounting package, saw a significant increase in net sales in FY3/24 with the introduction of the invoicing system in October 2023 and start of Japan's Electronic Books Preservation Act in January 2024.

Package-based SI services net sales

(¥mn)

	FY3/23		FY3/24		Change	
	Results	% of net sales	Results	% of net sales	Amount	%
Salesforce	1,822	47.0%	1,879	40.2%	56	3.1%
SAP	667	17.2%	943	20.2%	275	41.3%
Accounting packages	837	21.6%	1,223	26.2%	386	46.1%
Personnel salary packages	414	10.7%	396	8.5%	-18	-4.5%
Other	137	3.5%	231	4.9%	93	68.0%
Total	3,879	100.0%	4,673	100.0%	793	20.5%

Note: Accounting packages (SuperStream, Bugyo), personnel salary packages (COMPANY, SuperStream), and other (DynamicsCRM, others)
Source: Prepared by FISCO from the Company's results briefing materials

3. Financial condition

At the end of FY3/24, total assets were up ¥1,210mn from the end of FY3/23 to ¥8,712mn. Looking at the main factors in the change, current assets were up ¥1,227mn to ¥7,366mn, and non-current assets were down ¥16mn to ¥1,345mn. Accounts receivable – trade and contract assets increased ¥603mn and cash and deposits rose by ¥539mn. In intangible assets, goodwill decreased by ¥71mn to ¥273mn. The Company practices debt-free management, and has a current ratio of 317.9% and an equity ratio of 66.0%, so its financial stability is extremely high. As it has ample liquidity on hand, we at FISCO believe that it can take an agile approach to M&A and further strengthen shareholder returns.

Consolidated balance sheet and management indicators

(¥mn)

	End-FY3/20 (non-consolidated)	End-FY3/21 (non-consolidated)	End-FY3/22 (consolidated)	End-FY3/23 (consolidated)	End-FY3/24 (consolidated)	Change
Current assets	4,969	5,187	5,823	6,139	7,366	1,227
(Cash and deposits)	2,167	2,384	2,906	3,062	3,601	539
(Accounts receivable – trade and contract assets)	2,339	2,321	2,428	2,649	3,253	603
Non-current assets	528	559	676	1,362	1,345	-16
Property, plant and equipment	85	75	64	113	103	-9
Intangible assets	9	6	121	727	644	-82
Goodwill			114	345	273	-71
Investments and other assets	433	476	489	522	597	75
Total assets	5,498	5,746	6,500	7,502	8,712	1,210
Current liabilities	1,404	1,317	1,625	2,013	2,317	303
Non-current liabilities	466	482	508	623	621	-1
Total liabilities	1,871	1,800	2,133	2,637	2,939	301
Total net assets	3,626	3,946	4,366	4,865	5,773	908
[Stability]						
Current ratio	353.9%	393.8%	358.3%	304.9%	317.9%	13.0pt
Equity ratio	66.0%	68.7%	67.2%	64.7%	66.0%	1.3pt

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

Outlook

Company forecasts operating profit of ¥1,860mn in FY3/25, expects to attain a year early the target of ¥1,800mn for FY3/26, the final fiscal year of the medium-term plan

In its FY3/25 consolidated results, the Company forecasts net sales to increase 5.0% YoY to ¥14,420mn, operating profit to rise 7.5% to ¥1,860mn, ordinary profit to grow 9.0% to ¥1,900mn, and profit attributable to owners of parent to increase 2.8% to ¥1,267mn. It expects net sales to remain solid in all service lines, with continued sharp expansion of net sales in package-based SI services, driven by SAP-related business. For systems integration services, the Company forecasts broadly flat net sales with an increase of 0.4% YoY to ¥7,600mn. However, FISCO believes there is significant upside potential to the Company's initial plan as the domestic IT services market is likely to continue on a modest growth trajectory. Meanwhile, the Company recorded a roughly ¥6,600mn provision for loss on orders received in FY3/24 4Q for some unprofitable projects. As it is still unclear at this time when those projects will be finished, concerns remain about additional losses arising in FY3/25, which are a risk to FY3/25 results.

Consolidated outlook for FY3/25

(¥mn)

	FY3/24				FY3/25 E				YoY	
	1H	2H	Full year	% of net sales	1H	2H	Full year	% of net sales	Change	Change (%)
Net sales	6,465	7,267	13,732	-	6,750	7,670	14,420	-	687	5.0%
Systems integration	3,657	3,913	7,570	55.1%	-	-	7,600	52.7%	29	0.4%
Infrastructure solutions	648	840	1,488	10.8%	-	-	1,520	10.5%	31	2.1%
Package-based SI	2,160	2,513	4,673	34.0%	-	-	5,300	36.8%	626	13.4%
Operating profit	761	968	1,729	12.6%	806	1,054	1,860	12.9%	130	7.5%
Ordinary profit	775	968	1,743	12.7%	815	1,085	1,900	13.2%	156	9.0%
Profit attributable to owners of parent	525	708	1,233	9.0%	554	713	1,267	8.8%	33	2.8%

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

Medium- to long-term growth strategy and status of progress

On track to substantially exceed medium-term management plan VISION 2025's numerical targets for both net sales and operating profit.
Operating profit margin improvement is especially rapid, significant upside in terms of profit

1. Medium-term management plan VISION 2025 and status of progress

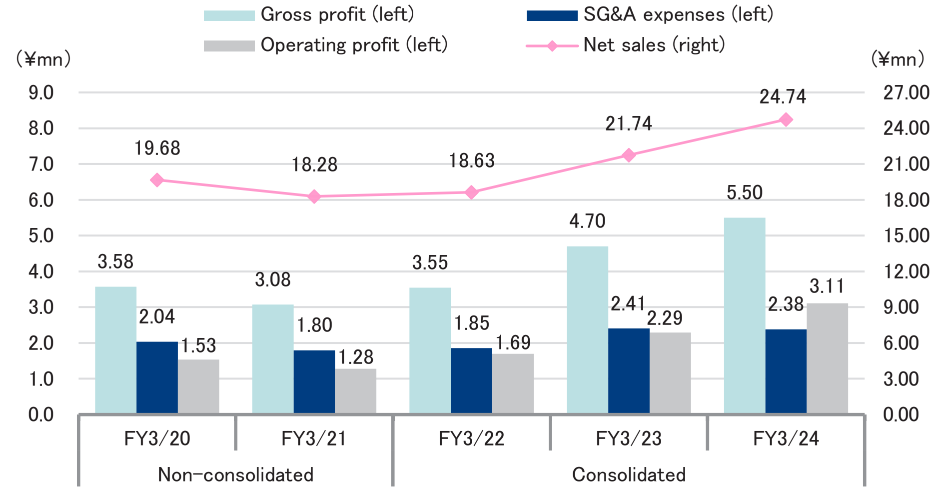
In VISION 2025, the Company's medium-term management plan covering the three years from FY3/24 to FY3/26, the key strategies are 1) proactively advance M&A, 2) further strengthen relationships with alliance partners, 3) promote DX business, 4) invest in human resource training and strengthen areas of expertise, and 5) further grow sales in existing SI fields. The Company's numerical targets for FY3/26 are net sales of ¥15,000mn and operating profit of ¥1,800mn. This would correspond to three-year CAGR of 9.0% for net sales and 13.8% for operating profit. By service line, projected net sales CAGR is 5.5% for systems integration services, 4.4% for infrastructure solutions services, and 15.6% for package-based SI services. The share of total net sales for package-based SI services, a high-value-added business, is projected to increase 6.5 percentage points to 40%, contributing to an increase in the operating profit margin of 1.4 percentage points to 12.0%.

In November 2023, the Company announced upward revisions to its full-year consolidated forecast for FY3/24 in light of 2Q results. It raised its forecast for net sales to ¥13,300mn and operating profit to ¥1,615mn. It ended up achieving even higher net sales of ¥13,732mn and operating profit of ¥1,729mn. Therefore, it attained a year ahead of plan its targets for net sales of ¥13,700mn and operating profit of ¥1,620mn in FY3/25, the second fiscal year of its medium-term management plan. The operating profit margin rose sharply to 12.6% in FY3/24, already surpassing the target of 12.0% for the final fiscal year of the medium-term management plan. The Company has not revised the medium-term management plan's targets at this point. However, FISCO believes that the business environment remains favorable, and that both net sales and the operating profit margin are likely to continue on an uptrend going forward. Also, further upside to the profit margin is well within range if package-based SI services' share of total net sales reaches the target of 40.0%.

Human capital is an important management resource, central to value creation for an IT services company; however, the Company faces a worsening shortage of engineers. In its DX Report of September 2018, the Ministry of Economy, Trade and Industry suggested that there is a risk of a shortage of between 400,000 to 800,000 engineers emerging by 2030 due to the "2025 Digital Cliff" and the low productivity of IT human resources in Japan, as it is a labor-intensive business model. In the determination of surplus and shortage of full-time employees and other workers by industry D.I. (Diffusion Index = "shortage" - "surplus") based on the Survey On Labor Economy Trend by the Ministry of Ministry of Health, Labour and Welfare, as of February 2024, the "total of surveyed industries" stood at 51, whereas the "information and communications industry" stood at 62 ("shortage" 63, "surplus" 1), indicating a strong sense of shortage. Only two industries had a more serious shortage of workers than the information and communications industry: the "construction industry" (D.I. 65), which will ramp up workstyle reforms from April 2024, as well as the "academic research and professional/technical services industry" (D.I. 66).

When the Company was primarily operating business based on systems integration services, its targets were to rigorously manage projects and eliminate unprofitable projects in order to lift the operating profit margin above 10%. In FY3/24, the Company has achieved an operating profit margin of 12.6% by expanding package-based SI services. Comparing pre-COVID-19 non-consolidated financial results for FY3/20 and consolidated results for FY3/24 including package-based SI services subsidiaries through M&A, per-employee figures have risen in net sales from ¥19.68mn to ¥24.74mn, in gross profit from ¥3.58mn to ¥5.50mn, in SG&A expenses from ¥2.04mn to ¥2.41mn, and in operating profit from ¥1.53mn to ¥2.38mn. By increasing the weight of high-value-added business, the Group has adopted a growth strategy of increasing productivity by enhancing per-employee net sales and gross profit, raising employee compensation, and investing in R&D and human resource development for the future.

Per-employee net sales, gross profit, SG&A expenses, and operating profit



Note: Per-employee net sales, etc., are calculated using the average of the number of employees at the start and at the end of the fiscal year, with the number at the end of the fiscal year used for FY3/22 only
Source: Prepared by FISCO from the Company's annual securities report and results briefing materials

2. Measures for realizing the medium-term management plan

The market environment in the medium-term management plan anticipates steady growth in the domestic IT market, while innovative new technologies such as agile development and generative AI are continuously emerging. The Company works to place the right person in the right position in order to meet customers' expectations. In anticipation of changes in user needs and to build a competitive position in the future, the Company is dynamically engaged in reskilling its employees to enhance agile development capabilities.

Measures for realizing the medium-term management plan

1. Promotion of proactive M&A Expand the Group's overall business scale by investing in companies with businesses that will create synergies with the Company
2. Further strengthen teamwork with business partners Expand the scope of solutions through package-based SI and services by deepening cooperation with companies possessing excellent IT products/services and proprietary technologies
3. Promote the DX business
(1) Cloud, package-based SI
1) Company-wide development of Salesforce-related business
2) Increase the ratio of package-based SI services, such as SAP and SuperStream
3) Expand direct user transactions through expansion of package-based SI services
4) Promote structural reform of the cloud business (AWS, Azure, etc.) in the infrastructure solutions field
(2) Low-code development, agile development
1) Develop low-code development personnel centered on GeneXus and Microsoft Power Platform
2) Make agile development the standard method for low-code and cloud native development
(3) Initiatives on generative AI
1) Start planning development of generative AI business from FY3/24 2H as a measure to strengthen the DX business
2) Promote investigative research on generative AI services, such as Salesforce "Einstein Copilot," ServiceNow "Now Assist," Microsoft "Azure Open AI Service" and examine necessary skills acquisition for formulation and implementation of a proposal model
4. Investment in human resource development and strengthening of specialization fields
(1) Aggressive investment in human resource development
Accelerate promotion of acquisition of service and IT qualifications and focus on new digital engineer qualification acquisition, such as package-based SI services, cloud, and low-code development
(2) Bolster areas of strength
Promote high-productivity development, focusing on areas in which the Company possesses know-how and new growth areas
5. Further improve sales in existing SI areas
(1) Expand domain in the finance field
(2) Increase receipt of orders in the public sector
(3) Strengthen alliances with partners such as Fujitsu Group, Hitachi Group, NTT Data Group
(4) Promote modernization of existing systems

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

Conventional development requires systems to accurately and efficiently record, store and use large amounts of data, with an emphasis on quality. Existing systems are becoming outdated, complex, and black box, and modernization is required to avoid the "2025 Digital Cliff" that Japan's Ministry of Economy, Trade and Industry is warning about. Migrating COBOL assets to languages like Java requires engineers with many years of systems development experience who know older programming languages. For cost-focused customers, the Company provides combinations of package and cloud services. For customers who are focused on development speed, it proposes DX-based development. The Company will overcome the "2025 Digital Cliff" and provide solutions for users aiming for management transformation through DX, so it is pursuing agile development methods as a standard for low-code development and cloud-native development.

Characteristics of conventional development and DX development

Type	Characteristics
Conventional development	System to accurately and efficiently record, store and use large amounts of data • Focus on cost and quality: Scratch development, waterfall development, packages, cloud, joint development
DX development	System to repeatedly provide and improve services in a short space of time • Focus on speed and flexibility: Agile development, low-code development, cloud, generative AI

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

In order to strengthen its agile development capabilities, the Company entered into a software development partnership agreement with GeneXus Japan Inc. in September 2022. The GeneXus low-code software development tool has been adopted by over 8,700 companies located in more than 50 countries worldwide and used by more than 130,000 technical experts. The GeneXus software development tool significantly shortens development timelines by as much as 80% by enabling developers to automatically generate applications and databases simply by entering task requirements. Once the requirements have been declared, developers are able to share a functional prototype of the application or database, thereby making it easier to pinpoint issues at the preliminary stage. In addition, the software development tool automatically generates software applications after requirements have been declared. This makes it possible for users to significantly reduce development costs and shorten timelines, while lowering the occurrence rate of coding bugs and curbing the likelihood of system obsolescence. The tool offers the distinctive advantage of enabling development of systems that are not prone to obsolescence because it provides for substantial maintainability and does not rely on infrastructure.

The Company is working to train low-code developers, mainly around GeneXus and Microsoft Power Platform and is proactively increasing personnel. The DX Promotion Headquarters is taking steps to establish standard approaches to low-code development and agile development with respect to cloud-native development.

The Company has been placing focus on its highly profitable package-based SI services offering hands-off solutions. The Company has achieved sustainable growth through strategic investment and inhouse education in the SAP-related business. As a SuperStream NX partner, Technigate has knowledge and strong technical capabilities concerning the SuperStream accounting package business. It cultivates direct user transactions with a focus on major companies and to date, it has installed the package at a total of 727 companies. The Company is sharing the knowledge possessed by its subsidiary and using it to grow its own direct user transaction business. It also plans to integrate subsidiaries' customer bases into its package-based SI services business so that it can provide them with next-generation services that offer even greater added value.

The Company has launched a new business handling ServiceNow. US-based ServiceNow, Inc.<NOW> was established in 2004 and provides a cloud-based operations platform for raising worker productivity in an SaaS format. It established a Japanese subsidiary in 2013. Its cloud services encourage workstyle reforms and greater productivity among employees by simplifying and automating a company's routine workflow processes in areas from IT asset management to security, human resources, and customer service.

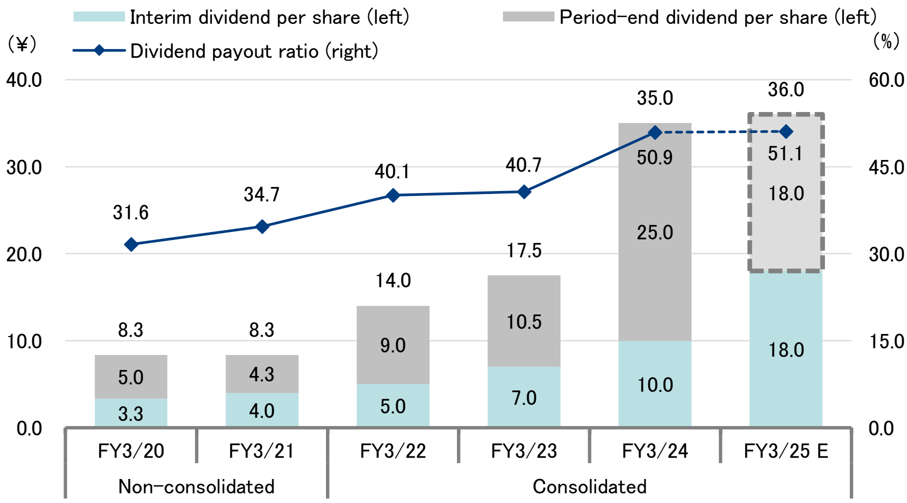
In its initiatives on generative AI, the Company started planning business development in FY3/24 2H as a measure to strengthen the DX business. It promotes investigative research on generative AI services, such as Salesforce "Einstein Copilot," ServiceNow's "Now Assist," Microsoft's "Azure Open AI Service," and examines necessary skills acquisition for formulation and implementation of a proposal model.

Shareholder return policy

FY3/24 dividend up sharply to ¥35.0 as profit increased and the dividend payout ratio was raised. FY3/25 dividend forecast of ¥36.0

The Company considers returning profits to shareholders to be one of its more important management issues, and its basic policy is to continuously and stably return profits to shareholders after considering supplementing internal reserves as necessary to strengthen the management structure and for business development in the future. In November 2021, the Company changed its dividend policy and raised its standard for the consolidated dividend payout ratio from at least 30% to at least 40%. Under VISION 2025, the Company further raised its standard for the consolidated dividend payout ratio to at least 50% for the three years until FY3/26. On November 1, 2023, the Company conducted a two-for-one stock split of its common stock. In FY3/24, the Company paid an interim dividend of ¥10.0 and a year-end dividend of ¥25.0 for an annual dividend of ¥35.0 per share, up sharply from ¥17.5 in the previous fiscal year. The dividend payout ratio came to 50.9%. For FY3/25, the Company plans to increase the annual dividend per share by ¥1.0 from the previous fiscal year to ¥36.0 since it expects profit to rise further. The expected dividend payout ratio is 51.1%. FISCO believes that while there is not much room to raise the dividend payout ratio further in FY3/25, there is plenty of room to lift the dividend payout ratio from the current level of at least 50% in FY3/26 onwards, given the Company's solid financial standing and strong results.

Dividend per share and dividend payout ratio



Notes: Retroactively revised following the 1.5 to 1 stock split conducted on October 1, 2021
Retroactively revised following the 2 to 1 stock split conducted on November 1, 2023
Source: Prepared by FISCO from the Company's financial results

Sustainability management

The Company's value creation model is to promote corporate management with an emphasis on ESG towards reaching the United Nations Sustainable Development Goals (SDGs) in 2030, serving as an IT partner while continuously creating solutions. Its seven key indicators for sustainability management are 1) human resource development, 2) response to climate change, 3) human rights and diversity, 4) health and productivity management, 5) business partners, 6) quality security, and 7) corporate governance. It has cited 10 of the SDGs to which it will contribute: 3. Good health and well-being, 4. Quality education, 5. Gender equality, 8. Decent work and economic growth, 9. Industry, innovation and infrastructure, 10. Reduced inequalities, 12. Responsible consumption and production, 13. Climate action, 16. Peace, justice and strong institutions, and 17. Partnerships for the goals. By promoting corporate management that emphasizes ESG, the Company aims to contribute to achieving the SDGs through the provision of system solutions that support high-quality, safe and secure social infrastructure by a group of excellent engineers, and to create workplaces that enable individual employees to enjoy a healthy and fulfilling relationship with their work.

Seven key indicators for sustainability management

The Group's key indicators	The SDGs
1. Human resource development	Contribute to the realization of sustainable social infrastructure through the provision of optimal system solutions by a group of excellent engineers.
2. Response to climate change	Recognize that initiatives in response to climate change are a common global issue and aim to conduct corporate activities that are considerate of the global environment.
3. Human rights and diversity	Respect the human rights and individual diversity of all people and aim to establish an environment where individuals can reach their full potential.
4. Health and productivity management	Aim to create a workplace where individual employees can be healthy mentally and physically and enjoy fulfilling relationships with their work.
5. Business partners	Contribute to the achievement of the SDGs through the building of long-term cooperative relationships with business partners.
6. Quality security	Aim to be a company that is trusted by stakeholders by providing high quality, safe and secure services.
7. Corporate governance	Further enhance corporate governance to realize management that can provide benefits to all stakeholders.

Source: The Company's results briefing materials

Disclaimer

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