COMPANY RESEARCH AND ANALYSIS REPORT

IID, Inc.

6038

Tokyo Stock Exchange Growth Market

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FISCO Ltd. Analyst

Yuzuru Sato

FISCO

FISCO Ltd.

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Summary

Good opportunities have arrived for accelerating growth through an M&A strategy in the online media industry. Higher sales and double-digit profit growth expected in FY6/25, despite higher sales and lower profits in FY6/24

IID, Inc. <6038> (hereinafter "the Company") operates two business segments: the Creator Platform Business (CP Business), which involves managing online media content, and the Creator Solutions Business (CS Business), which involves providing research and e-commerce solutions. The mainstay CP Business includes online advertising, data and content delivery (including e-commerce merchandise sales and holding events), media and systems, and a publishing business. The Company operates 81 online media websites spanning a diverse range of 21 content categories that include automotive, IT, entertainment, and lifestyles (as of June 30, 2024). It also turns to mergers and acquisitions in promoting its media portfolio strategy of seeking not to rely on specific forms of media and its 360-degree business approach of diversifying revenue rather than relying solely on online advertising income.

1. Outline of results for FY6/24

In FY6/24 consolidated results, net sales increased by 0.9% year on year (YoY) to ¥1,625mn, while operating profit declined 7.9% to ¥523mn. Online advertising income declined due to a decrease in ad unit prices, but the Company's media portfolio strategy and 360-degree business approach progressed steadily as net sales set a consecutive record high. Subscription services*1, a focus of the Company, is still small in terms of sales scale, but the number of paying subscribers increased by 1.5 times from the end of the previous year for substantial growth. Also, at FIT Pacific, Inc. (hereinafter "FITP")*2, which became a subsidiary in November 2022, there were active inquiries for facility management for data centers, for which the company has the country's top share, which contributed to the increase in sales. At the same time, on the profit front, the slumping CS Business had an impact and led to a second consecutive year of profit declines.

*1 Paid membership services including Response, one of Japan's largest comprehensive automotive platforms, ScanNetSecurity, a specialized site for information security, and others.
*2 FIT Pacific engages in a vehicle crash testing service business and a facility management business, mainly for data centers, and recorded net sales of ¥686mn and operating profit of ¥58mn in FY3/22, before becoming a subsidiary. The Company holds a 100.0% ownership stake in FIT Pacific as of June 30, 2024.

2. Outlook for FY6/25

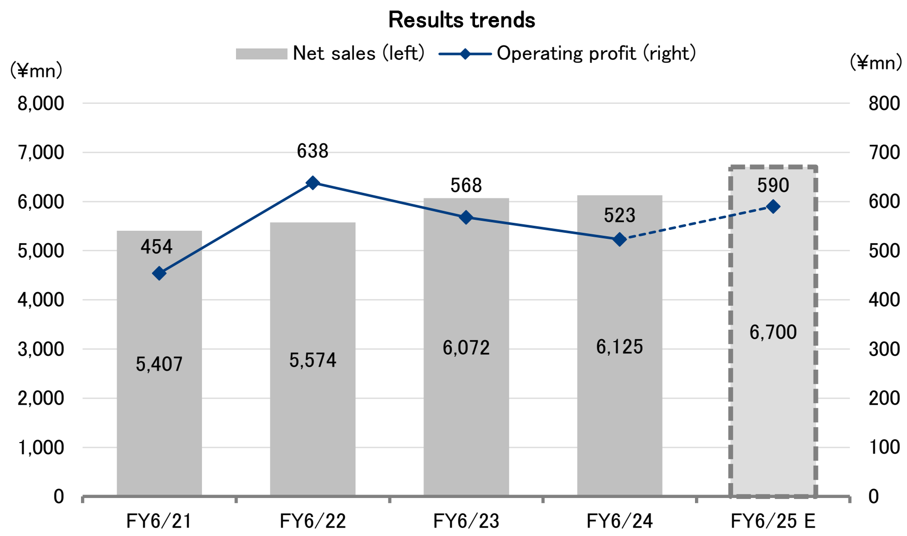
For FY6/25 consolidated results, the Company is targeting an 9.4% increase YoY in net sales to ¥6,700mn and a 12.6% increase in operating profit to ¥590mn. The Company continues its aim to expand earnings by carrying out its media portfolio strategy and 360-degree business approach. In the CP Business, firm trends in online advertising income are expected as the ad unit price bottoms out, and in both the CP and CS Businesses, higher sales and higher profits are planned. Group subsidiary businesses are also expected to trend steadily, and among them, FITP is seeing an increase in new inquiries for facility management services for data centers, which is expected to contribute to higher earnings. Business forecasts do not include the effects of any future M&A.

3. Mid-term targets

As for the Company's mid-term targets, for FY6/26, it is targeting net sales of ¥10.0bn and EBITDA (operating profit + deprecation + amortization of goodwill) of ¥1.2bn (it was ¥679mn in FY6/24). It will continue its previous growth strategy and actively engage in M&A as a strategy to accelerate growth. Over these two to three years, online media companies dependent on online advertising income have had a tough time with earnings levels, and M&A costs are coming down. For the Company, which has a strong financial foundation, it could be said that good opportunities have arrived, so trends going forward will be watched. The Company intends to focus not only on automobiles but also education, finance, and entertainment. In addition to online media, the Company aims to maximize earnings by intertwining non-virtual events and promotion services.

Key Points

- Will break free of earnings structure dependent on online advertising income through its media portfolio strategy and 360-degree business approach
- For FY6/25, predicting higher sales and higher profits in both the CP and CS Businesses. Operating profit and ordinary profit are expected to turn around and increase for the first time in three fiscal years
- To achieve FY6/26 results targets (net sales of ¥10.0bn, EBITDA of ¥1.2bn), the Company will promote an aggressive M&A strategy
- The consolidated dividend on equity ratio (DOE) will be raised from 1.5% to 2.0%, and the Company will provide a stable, ongoing dividend. Stock buybacks will also be considered



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

Company profile

Expansion of both the CP Business focused on managing online media content and the CS Business of providing research and e-commerce solution services

1. Company profile

The Company operates two business segments: one of which is the Creator Platform Business (CP Business), which entails offering various services including online advertising and e-commerce merchandise sales with a focus on operating its own online media platforms in seeking to produce a world where everyone is able to engage with media; and the other of which is the Creator Solutions Business (CS Business), which entails providing research and e-commerce solutions. Since its establishment in 2000, the Company has been expanding its business operations while promoting its M&A strategy. As of June 30, 2024, the Company has seven consolidated subsidiaries (en Factory, Inc., Onlineshop Labo, Inc., Michael Inc., SAVAWAY Corp., FIT Pacific, Inc., Link Corp., RoundFlat, Inc.*) with a combined workforce of 277 employees (including temporary workers).

* RoundFlat, Inc. is a wholly owned subsidiary of Onlineshop Labo, Inc.

2. Business description

(1) Creator Platform Business (CP Business)

The CP Business segment primarily generates net sales from online advertising streamed through online media platforms operated by the Company, media content, and data billing and sales (including e-commerce merchandise sales). For this reason, the extent to which the segment is able to efficiently improve the media value of the online media platforms serves as the key to the segment increasing its revenues. The segment also encompasses operations that include developing and providing systems related to media and e-commerce, engaging in the publishing business, as well as the automotive and IT-related businesses of FIT Pacific, which became a subsidiary in November 2022.

The portfolio of online media platforms operated by the Company is currently 81 websites spanning 21 content categories as of June 30, 2024, which is an increase of 2 websites YoY. A distinguishing aspect of the segment is that it operates websites encompassing a wide range of content categories including the automotive and IT, entertainment, lifestyles, and the e-commerce domains. One such website is the Response online media platform in the automotive domain, which is One of Japan's largest comprehensive automotive platforms. It holds a central position among the online media platforms operated by the Company and is a service for paying subscribers. The segment's publishing business primarily involves issuing magazines in the puzzle and anime domains and coordinating with online media.

(2) Creator Solutions Business (CS Business)

In its CS Business, the Company offers research solutions and e-commerce solutions. Sales to the automotive and telecommunications sectors account for the bulk of sales related to research solutions. Meanwhile in the realm of e-commerce solutions, the segment offers the marbleASP e-commerce website development system to e-commerce providers. Characterized by their low cost, short lead times, and high scalability, these services are suitable for e-commerce websites with membership counts ranging from hundreds of thousands of users.

Strengths derived from system developed in-house for efficiently managing online media content

3. Features and strengths

(1) iid-CMP

A key strength of the Company derives from the in-house development of its iid-CMP platform (IID content marketing platform) for efficiently managing the many online media platforms and high volume of content handled in the CP Business. The iid-CMP platform makes it possible for users to monetize online media in the early stages, enlisting the platform's four key features as follows. The iid-CMP platform enables: 1) achievement of higher sales using tools for generating substantial website engagement (SEO strategies, SNS compatibility, prompt web page rendering, optimal usability and user experience for smartphones and other devices, etc.), 2) cost optimization through low-cost operations (shared system usage and CPU resource distribution, standardization of formats in which news articles are furnished to portal websites, joint operation of optimal network advertising and affiliate advertising, etc.), 3) database storage and management (big data management enlisting data acquired from website content), and 4) streamlined editing enlisting content management functions (posting of news articles and photos online, content proofing and, similarity assessment).

(2) M&A strategy

In addition to in-house development, the Company is actively proceeding with efforts to acquire online media content through M&A. This entails ongoing consideration of around five websites as potential M&A opportunities using the personal networks of the Company's management team when it comes to primary channels for gaining information. When making a business acquisition, management draws up a plan consisting of a target investment payback period of approximately five years. Meanwhile, the prospect of achieving profitability within two years post-acquisition serves as a key benchmark for assessing business continuity. Use of the iid-CMP platform has enabled the Company to lower costs, increase sales, and monetize nearly all of the websites in which it is involved. The Company has been encountering an increasing number of instances where a counterparty expresses interest in initiating sales negotiations thanks to the Company's track record of over 20 years of managing online media platforms and successfully arranging mergers and acquisitions. Accordingly, the Company's strengths lie in its expertise for identifying promising media platforms among potential opportunities and being able to determine suitable acquisition price.

Elsewhere, the Company is also actively making strategic investments for the purpose of collaboration in new areas of business. Of its investment deals, two companies have gone public, including note inc. <5243>, which runs "note," a platform for creators, and Nyle, Inc. <5618>, which operates Carmo-kun, a subscription-based car leasing service. Companies that have yet to be listed include Campingcar Inc., which develops sharing economy services in the MaaS domain, and Jigowatts Inc., which engages in business involving virtual keys and small chargers for EVs. Most recently, in October 2023, the Company formed a capital and business alliance with CINEMATODAY, Inc., which operates CINEMATODAY, a comprehensive online movie platform. In June 2022, the Company also invested in Arriba Studio PTE. LTD. (Singapore), an accelerator that supports startups in the Web3/NFT domain. Going forward, the Company intends to spur growth of its own media platforms by collecting cutting-edge information through Arriba Studio and concurrently seeking business alliances with prominent Web3 startups in Japan and abroad.

Results trends

Will break free of earnings structure dependent on online advertising income through media portfolio strategy and 360-degree business approach

1. Outline of results for FY6/24

In FY6/24 consolidated results, net sales increased by 0.9% YoY to ¥6,125mn, operating profit declined by 7.9% to ¥523mn, ordinary profit declined by 3.3% to ¥547mn and profit attributable to owners of parent decreased by 41.8% to ¥163mn. Net sales were affected by the slump in online adverting income from a decrease in ad unit prices, but sales from FITP, which was consolidated in November 2022, fully contributed and there was steady growth in the subscription business. As a result, net sales set a consecutive record high, albeit by only a slight increase. Meanwhile, operating profit declined for the second straight fiscal year due to the slump in online adverting income, which has a high profit ratio, and lower sales in the CS Business. However, growth in the subscription business, higher productivity from building an AI platform, and shifting resources all had an effect and kept the margin of decline small. EBITDA (operating profit before depreciation and amortization), which is a traditional measure of profitability, also declined slightly, by 5.3% to ¥679mn. The large percentage decline in profit attributable to owners of parent was the result of ¥39mn in gain on the redemption of investment securities recorded in the previous fiscal year as an extraordinary gain dropping off and loss on valuation of investment securities and impairment losses recorded as extraordinary losses totaling ¥202mn.

Consolidated results trends

(¥mn)

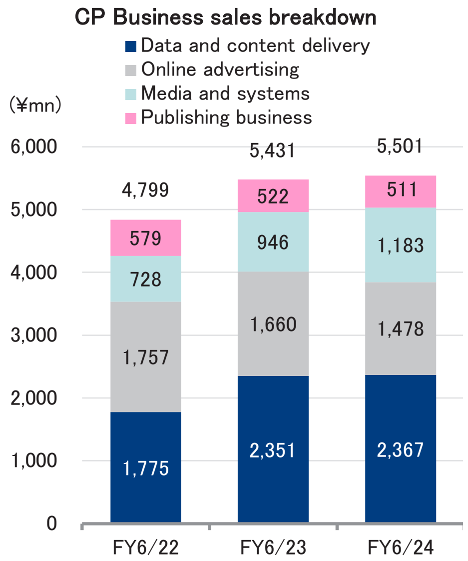
	FY6/20	FY6/21	FY6/22	FY6/23	FY6/24
Net sales	5,266	5,407	5,574	6,072	6,125
YoY	1.4%	2.7%	3.1%	8.9%	0.9%
Operating profit	315	454	638	568	523
YoY	1.5%	44.1%	40.4%	-10.8%	-7.9%
% of net sales	6.0%	8.4%	11.4%	9.4%	8.6%
Ordinary profit	277	464	638	566	547
YoY	-11.5%	67.2%	37.6%	-11.3%	-3.3%
Profit attributable to owners of parent	104	464	450	280	163
YoY	-46.4%	346.5%	-3.0%	-37.8%	-41.8%
EBITDA	428	550	713	717	679
YoY	4.9%	28.4%	29.7%	0.5%	-5.3%
% of net sales	8.1%	10.2%	12.8%	11.8%	11.1%

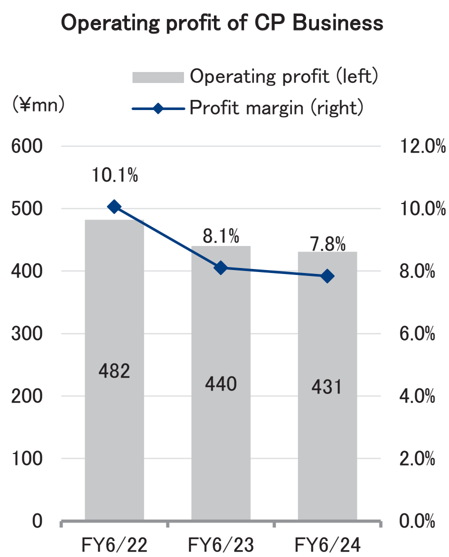
Note: EBITDA = operating profit + depreciation + amortization of goodwill
Source: Prepared by FISCO from the Company's financial results

(1) CP Business

Net sales from the CP Business went up 1.3% YoY to ¥5,501mn, and operating profit fell slightly by 2.0% to ¥431mn, around the same level as the previous fiscal year. In net sales, online advertising continued to decline, by 11.0% to ¥1,478mn, due to falling ad unit prices, and the publishing business declined by 2.1% to ¥511mn, but media systems rose 25.1% to ¥1,183mn and data content provision inched up 0.7% to ¥2,367mn, making up for the decline in online advertising income, and so forth. Regarding media systems, along with FITP contributing for the full year, the increase in the number of customers for TEMPOSTAR, an integrated management system for multiple online shops from SAVAWAY, contributed to the increase in sales. TEMPOSTAR began service linkage with Mercari Shops, managed by Mercari Inc. <4385>, in February 2024, and the Company finished linkage with major e-commerce providers in Japan. In data content provision, e-commerce sales declined in reaction to special demand during the pandemic, but en Factory's intercompany training service* and growth in the subscription business offset the decline, and profitability also improved. In the subscription business, Response, a comprehensive automotive platform, and ScanNetSecurity, a specialized site for information security, steadily increased their numbers of paying subscribers (up 1.5x from the end of last year), primarily corporations.

* Among the intercompany training services, Fukugyo Ryugaku involves placing company employees within venture enterprise host companies for a period of around two to three months for the purpose of enabling such employees to gain experience through secondary employment or training at such venture companies with the aims of employee reskilling and other forms of professional development, providing them with growth opportunities and encouraging self-sufficiency. For the host company, this service can lead to resolving issues through the use of outside human resources, and both parties can enjoy the benefits. Since the launch of the service in July 2020, the number of those experiencing this intracompany training has increased from approximately 120 at the end of June 2023 to more than 200 as of April 2024. The cumulative number of companies using the service exceeds 40, and the number of registered venture companies is approximately 300.





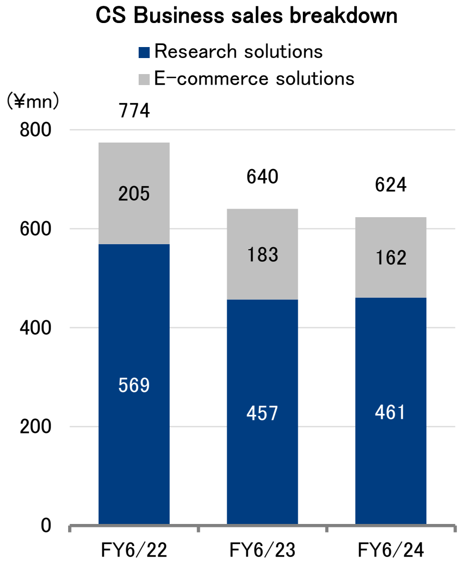
Note: Excludes intra-segment transactions
Source: Prepared by FISCO from the Company's financial results and earnings presentation materials

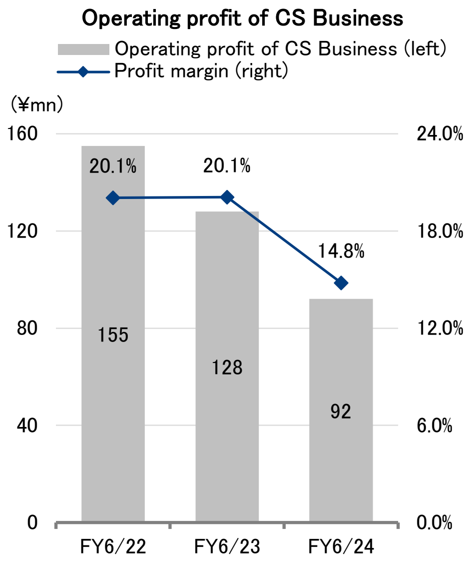
Around 50% of FITP's net sales were from vehicle crash testing at Tsukuba Technical Center (data content provision), owned by the Company, and the remainder were from the facility management business (media systems), which offers operations management and monitoring related to equipment for data centers, large-scale commercial facilities, and power sources and networks. There was net sales growth across the board. In the facilities management business in particular, there were many inquiries for data centers, for which the Company has the top share in Japan at just over 70%.

The operating profit margin declined slightly from 8.1% the previous fiscal year to 7.8% though online advertising sales had a smaller share of sales and the publishing business's profitability decline (from higher material and logistics expenses). The Company has steadily fostered the non-online advertising businesses, including steady growth in the subscription business, thanks to progress in the media portfolio strategy and 360-degree business approach that it has been promoting for a number of years. FISCO commends the Company for the resulting progress in building an earnings foundation that is not dependent on online advertising.

(2) CS Business

Net sales from the CS Business declined by 2.6% YoY to ¥624mn and operating profit decreased by 28.2% to ¥92mn, so both sales and profits declined. The operating profit margin also went down from 21.0% the previous year to 14.8%, but by continuing sales activities focused on profitability, the Company maintained profitability at a high level of above 10%. The breakdown of net sales is as follows. Research solutions increased steadily though 3Q, but decelerated in 4Q for a 0.9% increase to ¥461mn. The economic outlook grew even cloudier, and companies became cautious about placing orders, which was believed to be a factor. At the same time, e-commerce solutions declined 11.5% to ¥162mn, as it saw a declining number of new customers as growth in the overall e-commerce industry slowed in reaction to previous pandemic-related demand.





Note: Excludes intra-segment transactions
Source: Prepared by FISCO from the Company's financial results and earnings presentation materials

Utilizing strong financial foundation to promote M&A strategy

2. Financial position

Total assets at the end of FY6/24 increased ¥607mn from the end of the previous year to ¥6,269mn. Mainly, in current assets, cash and deposits increased by ¥807mn.

Total liabilities increased ¥514mn to ¥2,003mn. This was mainly due to increasing interest-bearing debt by ¥310mn in preparation for executing M&A; also, income taxes payable increased by ¥122mn. Total net assets increased by ¥93mn to ¥4,266mn. Retained earnings increased by ¥93mn, and valuation difference on available-for-sale securities rose by ¥39mn, but non-controlling interests declined by ¥49mn due to raising the ownership stake in FITP and other factors.

The equity ratio fell from 71.7% the previous fiscal year end to 67.0% due to the increase in interest-bearing debt, but net cash (cash and deposits minus interest-bearing debt) totaled ¥2,865mn, a record-high level. Utilzing its strong financial foundation, the Company intends to conduct relatively large M&A deals with net sales exceeding ¥1.0bn. For this reason, depending on future M&A deals, the Company is looking to increase interest-bearing debt, and as a general indicator, it is thinking of a D/E ratio of up to around 0.5 times (0.18 times at the end of the previous fiscal year).

Simplified consolidated balance sheet and management indicators

(¥mn)

	FY6/21	FY6/22	FY6/23	FY6/24	Change
Current assets	3,918	4,050	4,022	4,718	695
Cash and deposits	2,928	2,905	2,806	3,613	807
Non-current assets	805	1,118	1,639	1,550	-88
Goodwill	67	172	339	362	22
Total assets	4,724	5,169	5,661	6,269	607
Total liabilities	1,275	1,340	1,488	2,003	514
Interest-bearing debt	380	300	437	748	310
Total net assets	3,448	3,828	4,172	4,266	93
Management Indicators					
[Safety]					
Equity ratio	71.7%	72.8%	71.7%	67.0%	-4.7pt
D/E ratio	0.11x	0.08x	0.11x	0.18x	0.08x
Net cash	2,548	2,605	2,368	2,865	497

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

For FY6/25, expecting higher sales and profits in both the CP and CS Businesses; operating profit and ordinary profit to make a turnaround to growth for the first time in three fiscal years

2. Outlook for FY6/25

For consolidated results in FY6/25, net sales are expected to increase 9.4% YoY to ¥6,700mn, operating profit to increase 12.6% to ¥590mn, ordinary profit to increase 7.7% to ¥590mn, and profit attributable to owners of parent to rise 126.8% to ¥370mn. Net sales are predicted to set a new record high, operating profit and ordinary profit to increase for the first time in three fiscal years, and profit attributable to owners of parent to increase for the first time in four fiscal years. This outlook does not include the results of M&A conducted during FY6/25.

Consolidated results outlook

(¥mn)

	FY6/21	FY6/22	FY6/23	FY6/24	FY6/25 E
Net sales	5,407	5,574	6,072	6,125	6,700
YoY	2.7%	3.1%	8.9%	0.9%	9.4%
Operating profit	454	638	568	523	590
YoY	44.1%	40.4%	-10.8%	-7.9%	12.6%
Net sales	8.4%	11.4%	9.4%	8.6%	8.8%
Ordinary profit	464	638	566	547	590
YoY	67.2%	37.6%	-11.3%	-3.3%	7.7%
Profit attributable to owners of parent	464	450	280	163	370
YoY	346.5%	-3.0%	-37.8%	-41.8%	126.8%

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

As for the business environment, in the online media industry, growth is decelerating in the number of unique users (UU) and number of page views (PV) as the online population reaches its peak, and falling ad unit prices caused by restrictions on cookies and other factors are having an impact. Online advertising sales, a revenue source for a media management company, are having a tough time, and the earnings environment is difficult except for certain major operating companies. The Company is taking measures to address these issues. They are: 1) enhancing the membership base and raising LTV, 2) developing businesses outside advertising (360-degree business approach), 3) expanding the scale of M&A, and 4) expanding mutual-aid based alliances through support for media management. By continuing to engage in these four measures, the Company will further promote the building of an earnings foundation not dependent on online advertising.

Looking at trends in monthly revenue per UU in major media, ad revenue was limited to around 90% of the total in 2022, and this had fallen to less than 80% as of June 2024. On the other hand, subscription revenue has been steadily expanding. For this reason, going forward, revenue per UU, including the creation of paying subscribers and e-commerce sales, will be used as a KPI more than PVs, which impacts advertising revenue, and efforts will be made to improve it. The subscription business is growing, centering on corporate customers in the fields of automobiles and internet security, but there is also growth potential in finance, education, and entertainment, so initiatives going forward will be watched.

At the same time, the Company aims to expand by focusing on unique data acquisition (member registration information, site viewing information, and information from questionnaires, etc.), data that makes up for lower targeting precision associated with less use of cookies. Regarding the decline in ad unit prices, this has settled down of late, and online advertising sales in FY6/25 are expected to turn around and be positive for the first time effectively in three fiscal years.*

* Net sales in FY6/22 were ¥1,757mn, a decline from ¥1,846mn in FY6/21, but this was due to the impact of applying revenue recognition accounting; on the same accounting basis, the total was ¥2,130mn, an effective increase in sales.

Also, in media systems, the Company expects expansion in the facility management business for FITP data centers. In data content provision as well Entame Print*1 is increasing steadily as a sales promotion measure for companies, and Gemumaido*2, a new service, is expected to contribute to sales. Through these initiatives, the CP Business is projecting higher sales and profits, and the CS Business will aim for higher sales and profits by strengthening its sales system.

*1 The Entame Print service, available through the use of multifunction copy machines installed at convenience stores, enables users to purchase and print various types of content, including photo cards featuring popular characters, celebrities, and video game images. The service can be used as a promotional tool for products involving intellectual property, including picture cards bundled with advance-purchase movie tickets. The scale of net sales for FY6/24 is tens of millions of yen.

*2 A service that allows games to be printed out at convenience stores.

In addition, regarding raising productivity through the use of AI technologies, which the Company has been involved in since the previous fiscal year, results are being steadily generated in information collection, production and editing processes, and going forward, distribution and profitability (optimal ad placement and distribution using AI) will be introduced in sales divisions and elsewhere. Human resources made redundant by introducing AI will be relocated to focus businesses like the subscription business. The percentage of employees in production and editing divisions was 31% in FY6/22, but this was reduced to 29% in FY6/23 and 27% in FY6/24.

Actively promoting an M&A strategy to achieve results targets for FY6/26

3. Mid-term targets

It its mid-term plan released in August 2021, the Company presented targets for achieving net sales of ¥10.0bn and EBITDA of ¥1.2bn in FY6/26, the final year of the plan. In next two years, net sales would need to rise by 1.6 times and EBITDA by 1.8 times, but by promoting its media portfolio strategy and 360-degree business approach pivoting on the CP Business, while actively conducting M&A on a fairly large scale and developing new businesses, the Company intends to work to reach the targets. In particular, with regard to M&A, with the management environment in the online media industry continuing to be difficult, the number of sales deals is increasing and purchase costs are coming down. The Company's candidate purchase targets seem to have increased ten-fold or more compared to two to three years ago. The Company is conducting due diligence on sales deals brought to it near daily, and by 2025 it may be involved in multiple M&As targeting companies with a sales scale of ¥1.0bn or more. The Company's activities going forward will be watched.

Shareholder return policy

The consolidated dividend on equity ratio (DOE) will be raised from 1.5% to 2.0% and the Company will provide a stable, ongoing dividend. Stock buybacks will also be considered

The Company has enhanced its financial foundation by expanding earnings over the past few years, so in FY6/23 it started to pay a dividend to shareholders and in FY6/24 that dividend was ¥14.0 (DOE of 1.7%). As its dividend policy, the Company aimed for a DOE of 1.5% up to FY6/24, but intends to raise it to around 2.0% in FY6/25 and onward. Based on this policy, the per-share dividend in FY6/25 is scheduled to be ¥16.0 (DOE of 1.8%), an increase of ¥2.0 from the previous fiscal year. In addition, there has been no change in the Company's policy of considering stock buybacks depending on the share price, and raising corporate value to a price-to-book ratio (PBR) of 1 or higher is a management priority (as of the end of FY6/24, net assets per share was ¥856.25).

Disclaimer

■ For inquiries, 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