COMPANY RESEARCH AND ANALYSIS REPORT

FINDEX Inc.

3649

Tokyo Stock Exchange Prime Market

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https://www.fisco.co.jp

Contents

Summary

Forecasting increases in sales and profit in FY12/24, solid results in cumulative results through 3Q

FINDEX Inc. <3649> is an R&D tech company that develops and sells solutions such as medical data management systems and document management systems. The Company seeks to achieve its corporate philosophy of "Enriching society with technologies and creation," through its core digital transformation (DX) solutions that support treatment at medical institutions, and also promotes solutions to support administrative DX of government agencies and local authorities, and develops and sells medical equipment.

1. Engaged in Medical Business, Public Sector Business, and Health Tech Business

The Company's business is divided into three sections. The Medical Business develops, sells and maintains systems such as medical data management systems for medical institutions, the Public Sector Business develops, sells and maintains official documents management services for government agencies and local authorities, and the Health Tech Business develops, sells, and maintains medical equipment such as gaze analyzing perimeters (GAP). The Medical Business currently accounts for the majority of the Company's revenue, with the Public Sector Business and the Health Tech Business still at the growth stage. The operating profit margins of the Medical Business and the Public Sector Business are at a high level of around 30%, due to the steady expansion of core products, reducing customization workloads as package sales increased, and improving recurring sales (maintenance, supports, etc.) as the number of hospitals served increased. Furthermore, large hospitals introduce software at the end or start of the year when patient numbers are low and there is less disruption due to public holidays, meaning the booking of sales is concentrated in 1Q (Jan–Mar) and 4Q (Oct–Dec).

2. Significant increases in both sales and profit through 3Q FY12/24 led to record highs and solid performance

In the Company's 3Q FY12/24 cumulative consolidated results, net sales increased 24.1% year on year (YoY) to ¥4,310mn, operating profit improved 41.3% to ¥1,125mn, ordinary profit increased 38.1% to ¥1,132mn, and profit attributable to owners of parent increased by 46.6% to ¥831mn. The large increase in sales and profit resulted in record highs and solid performance. The Medical Business performed well, while the growth in the Public Sector Business also contributed. Gross profit increased 22.0% YoY, but the gross profit margin fell 1.0 percentage points (pp) to 60.4% due to factors such as increased outsourcing costs associated with data migration. SG&A expenses increased 10.5% YoY due to strategic human resource investments, but this was absorbed by increased sales, and the SG&A expense margin fell 4.3pp to 34.2%. As a result, the operating profit margin rose 3.2pp to 26.1%. On a quarterly basis, there was a particularly high ratio of earnings in 1Q FY12/24.

3. Forecast for an increase in sales and profit in FY12/24 with initial forecast left unchanged

The FY12/24 full-year consolidated results forecasts are unchanged from the Company's initial forecasts, with the forecast for net sales increasing 11.4% YoY to ¥5,782mn, operating profit increasing 5.2% to ¥1,574mn, ordinary profit increasing 4.2% to ¥1,591mn, and profit attributable to owners of parent increasing 3.6% to ¥1,097mn. In terms of profits, although the increase in personnel costs due to continued strategic human resource investments will result in only a small increase in profits, sales are expected to increase by double digits due to the expansion of the Medical Business and the growth of the Public Sector Business. The 3Q cumulative progress rate versus the full-year company forecast is 74.5% for net sales, 71.5% for operating profit, 71.2% for ordinary profit, and 75.8% for profit attributable to owners of parent, which are all solid. The Health Tech Business has seen a delay in its sales strategy, but considering the increase in number of new and additional hospitals served in the Medical Business, the acceleration in growth in the Public Sector Business, and the fact that sales tend to be concentrated in 4Q, we at FISCO believe that strong results can be expected on a full-year basis.

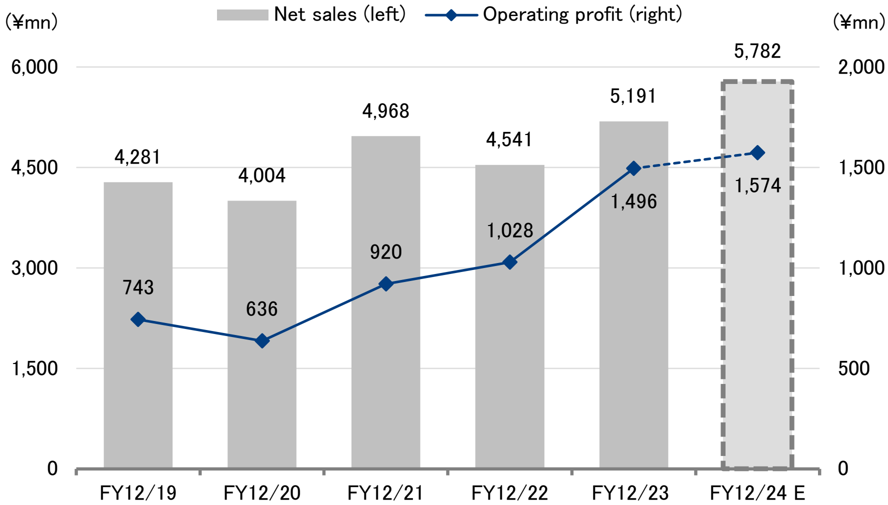
4. Steady progress on growth strategy

The Company formulated its Medium-Term Business Plan "Vision for 2025" (FY12/21–FY12/25) as part of its growth strategy, which contains FY12/25 final year management targets (revised targets announced on February 13, 2023) such as net sales of ¥6,330mn, ordinary profit of ¥2,100mn, ordinary profit margin of 33.2%, dividend per share of ¥18.0, and a dividend payout ratio of 31.2%. Looking at the status of progress, although the sales strategy is lagging behind in the Health Tech Business, the Medical Business is progressing smoothly, and the Public Sector Business has been accelerating growth more than expected. In terms of priority measures going forward, in the Medical Business, among other things, the Company will accelerate the rollout of cloud-based solutions to large hospitals, promote cross-selling to medium-sized hospitals and clinics, and make appropriate price revisions (effects expected to be realized from FY12/25 onwards). In the Public Sector Business, among other things, the Company will work to further strengthen relationships with distributors to fully develop medium-sized projects, while in the Health Tech Business, the Company will promote initiatives such as proactive marketing to increase awareness and understanding.

Key Points

- R&D tech company that develops and sells medical data management systems and document management systems
- Significant increases in both sales and profit through 3Q FY12/24 led to record highs and solid performance
- Forecast for an increase in sales and profit in FY12/24 with initial forecast left unchanged
- Steady progress on growth strategy
- FISCO recognizes the high profit margin business model and is focusing on developments related to early-stage dementia

Results trends



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

Company profile

R&D tech company that develops and sells medical data management systems and document management systems

1. Company profile

FINDEX Inc. is an R&D tech company that develops and sells solutions such as medical data management systems and document management systems. The Company seeks to achieve its corporate philosophy of "Enriching society with technologies and creation," through its core digital transformation (DX) solutions that support treatment at medical institutions, and also promotes solutions to support administrative DX of government agencies and local authorities, and develops and sells medical equipment.

As of the end of 3Q FY12/24, the Company had its head office in Chiyoda-ku, Tokyo, and its business locations comprise Shikoku branch (Matsuyama City, Ehime Prefecture), Osaka branch (Chuo-ku, Osaka City), Fukuoka branch (Chuo-ku, Fukuoka City), Sapporo branch (Kita-ku, Sapporo City), Naha branch (Naha City, Okinawa Prefecture), Kyoto branch (Nakagyo-ku, Kyoto City), Niigata branch (Chuo-ku, Niigata City), and Kagoshima branch (Kagoshima City). The group is made up of the Company, one consolidated subsidiary (Fitting Cloud Inc.), and one equity-method affiliate (EMC Healthcare Co., Ltd.). Fitting Cloud provides IT services using the Cloud. On a consolidated basis, the group has total assets of ¥6,144mn, net assets of ¥5,283mn, an equity ratio of 85.9%, 26,608,800 shares outstanding (including 940,433 treasury shares), and 307 employees (excluding directors, temporary, and part-time workers).

2. History

The Company was established as Shikoku Kanei Kogyo Co., Ltd. in Matsuyama City, Ehime Prefecture in January 1985 (changed its trade name to Shake Hands, Inc. in May 1992, and then to Pioneer Shikoku Co. in July 1993). It started its medical software development business in May 1994, changed its trade name to PSC Inc. in March 1998, released electronic medical record REMORA in December 2002, and released data management software Claio in October 2003. It changed its trade name to its current name of FINDEX Inc. in November 2014, changed the name of its Matsuyama head office to Shikoku branch, centralized the head office in Tokyo in January 2017, and established consolidated subsidiary Eagle Matrix Consulting, Co., Ltd. (changed its name to EMC Healthcare Co., Ltd. in August 2018, and was changed from a consolidated subsidiary to an equity-method affiliate in July 2022) in February 2017. It released gaze analyzing perimeter GAP-screener for checkup centers in February 2019, and gaze analyzing perimeter GAP in April 2021, and also established Fitting Cloud in April 2021.

In stock-related matters, the Company listed on the Osaka Stock Exchange (OSE) JASDAQ Market in March 2011, then listed on the Tokyo Stock Exchange (TSE) JASDAQ Market following the merger of the TSE and OSE markets in July 2013. It moved to the TSE First Section in November 2014. In April 2022, it was moved to the TSE Prime Market as part of the TSE's market restructuring.

History

Date	Event
January 1985	Established Shikoku Kanei Kogyo Co., Ltd. in Matsuyama City, Ehime Prefecture
May 1992	Changed trade name to Shake Hands, Inc.
July 1993	Changed trade name to Pioneer Shikoku Co.
May 1994	Started medical software development business
March 1998	Changed trade name to PSC Inc.
September 2000	Joint research with Ehime Medical Association, Ehime University Medical Informatics Department, and others began on construction of medical association intranet work, etc.
March 2001	Participated in development support of Japan Medical Association standard receipt software as a primary development ORCA project member of JMA
May 2001	Participated as vendor in the Shikoku 4-prefecture electronic medical record network collaboration project of the former Ministry of International Trade and Industry's "Advanced IT-based Networking Promotion Project for Medical Care"
May 2002	The business model of electronic medical record research and development was adopted as "Ehime Prefecture Venture Support Project" in FY2002 and FY2003
December 2002	Released electronic medical record REMORA
April 2003	Opened Tokyo branch in Minato-ku, Tokyo
October 2003	Released Claio, data management software for medical use
February 2006	Relocated head office to Nagaki-cho, Matsuyama City, Ehime
October 2009	Opened Osaka branch in Chuo-ku, Osaka City
March 2011	Listed on JASDAQ (Standard) of the Osaka Securities Exchange
November 2012	Opened Sapporo branch in Kita-ku, Sapporo City, and Fukuoka branch in Hakata-ku, Fukuoka City
July 2013	Listed on the JASDAQ (Standard) of the Tokyo Stock Exchange (TSE) following the merger of the Osaka Securities Exchange and the TSE
November 2014	Changed company name to Findex Inc. Listed on the First Section of the Tokyo Stock Exchange from JASDAQ (Standard)
July 2015	Acquired the business of Try For Inc.
January 2017	Renamed Matsuyama head office as Shikoku branch, and centralized the head office in Tokyo
February 2017	Established consolidated subsidiary Eagle Matrix Consulting, Co., Ltd.
August 2018	Changed trade name of Eagle Matrix Consulting, Co., Ltd. to EMC Healthcare Co., Ltd.
February 2019	Released GAP-screener, a gaze analyzing perimeter for checkup facilities
August 2019	Opened Naha branch in Kume, Naha City
December 2020	Relocated Tokyo head office to Chiyoda-ku, Tokyo
February 2021	Invested in Digital Entertainment Asset Pte. LTD.
March 2021	Invested in CROSS SYNC. Inc.
April 2021	Released GAP, a gaze analyzing perimeter Established consolidated subsidiary Fitting Cloud Inc. Opened Kyoto branch in Nakagyo-ku, Kyoto City
May 2021	Opened Niigata branch in Chuo-ku, Niigata City
April 2022	Moved from the First Section of the TSE to the Prime Market following the TSE market reorganization Changed registered head office to Tokyo head office
July 2022	Changed EMC Healthcare Co., Ltd. from a consolidated subsidiary to an equity-method affiliate
September 2023	Launched new brand PiCls specializing in cloud-based services
June 2024	Began providing DocuMaker Cloud, a service for producing documents such as medical diagnosis certificates Began providing CocktailAI, a text generation solution for medical documentation utilizing generative AI offered by consolidated subsidiary Fitting Cloud

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

Business description

Engaged in Medical Business, Public Sector Business, and Health Tech Business

1. Business description

The Company's business is divided into three sections. The Medical Business includes the development, sale and maintenance of software such as medical data management systems for medical institutions, the Public Sector Business includes the development, sale and maintenance of public document management systems for government agencies and local authorities, and the Health Tech Business includes the development, sale, and maintenance of medical equipment such as gaze analyzing perimeters (GAP).

The Medical Business currently accounts for the majority of the Company's revenue, with the Public Sector Business and the Health Tech Business still at the growth stage. The Public Sector Business turned a profit in FY12/23 due to increased net To. In addition, although the Medical Business and the Public Sector Business may see fluctuating results due to large-scale projects, etc., the operating profit margin remains high at around 30% due to the steady expansion of core products, reducing individual customization man-hours as package sales increased, and improving recurring sales (maintenance, supports, etc.) as the number of hospitals served increased.

Results by segment

(¥mn)

	FY12/22	FY12/23	3Q FY12/24 (cumulative)
Net sale	4,541	5,191	4,310
Medical Business	4,350	4,935	4,086
Public Sector Business	121	187	197
Health Tech Business	69	68	26
Net sales composition	100.0%	100.0%	100.0%
Medical Business	95.8%	95.1%	94.8%
Public Sector Business	2.7%	3.6%	4.6%
Health Tech Business	1.5%	1.3%	0.6%
Operating profit	1,028	1,496	1,125
Medical Business	1,267	1,625	1,199
Public Sector Business	-33	41	59
Health Tech Business	-205	-170	-132
Operating profit margin	22.6%	28.8%	26.1%
Medical Business	29.1%	32.9%	29.4%
Public Sector Business	-	22.1%	30.0%
Health Tech Business	-	-	-

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

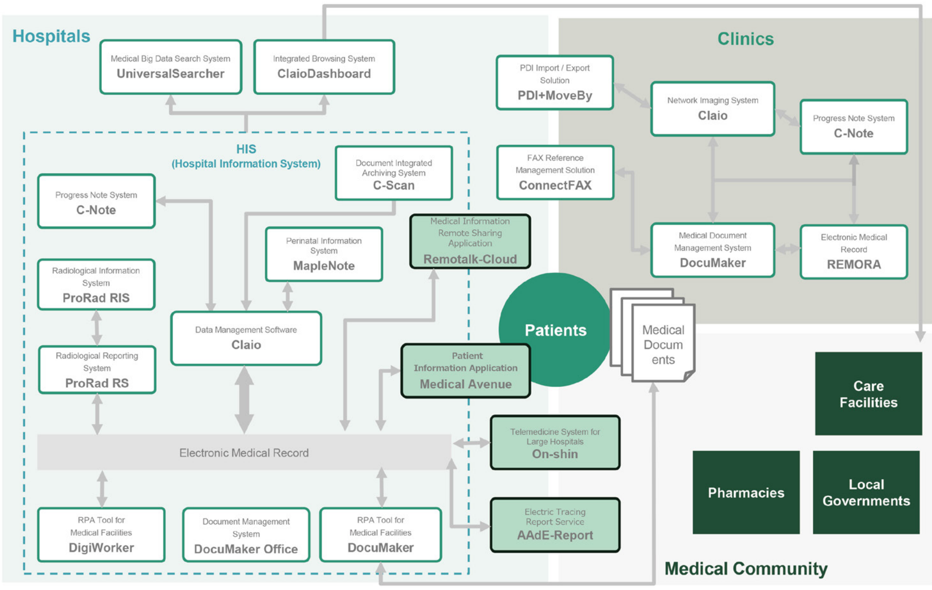
(1) Medical Business

The Medical Business offers solutions that support treatment at medical institutions nationwide, from university hospitals to clinics. As medical institutions require a high level of expertise for each clinical department, the Company offers different systems for different departments, and centralizes the data held in each system to help optimize the efficiency of treatment services and improve quality of treatment.

The core product of the Medical Business is the data management software Claio, that accounts for approximately 30% of net sales. This is a medical data management system that efficiently manages images and data that can easily be lost when eliminating paper medical records, and contains features to aid value-added use of the product. The Company's other products include on-premises type systems such as integrated browsing system ClaioDashboard, medical big data search system UniversalSearcher, progress note system C-Note, electronic medical record REMORA, radiological report system ProRad RS, PDI import/export software PDI+MoveBy, as well as documentation system DocuMaker, and document management system DocuMaker Office (medical) for administrative departments of medical institutions. Cloud-based solutions include medical information remote sharing application Remotalk-Cloud, patient information application Medical Avenue, telemedicine system for large hospitals On-shin, and electronic tracing report system AAdE-Report.

The Company launched new product PiCls specializing in cloud-based services in September 2023. The Company has positioned Medical Avenue as a core product of the brand and aims to enhance features that support the formation of a medical community. Medical information transfer system PiCls Referral and online reservation service PiCls Booking Assistant were also launched at the same time. In addition, in June 2024 the Company began offering DocuMaker Cloud, a documentation service for small hospitals and clinics, and CocktailAI, a text generation solution for medical documents utilizing generative AI. CocktailAI was jointly developed by consolidated subsidiary Fitting Cloud and Kyoto University Hospital. For the time being, it will be provided as an integrated feature of DocuMaker (for a monthly fee), and in the future, the Company will also promote its integration into the Company's electronic medical record REMORA and other products. CocktailAI won the Excellence Award at the 2nd Generative AI Innovation Awards, a pitch competition held at the Generative AI Summit Tokyo '24 Fall, hosted by Google Cloud in October 2024.

Medical Business – Our Flagship Solutions



Source: The Company's results briefing materials

For 3Q FY12/24 cumulative net sales, the Medical Business accounted for 94.8% of all Company net sales, and by type of service, software accounted for 51.1%, hardware 8.4%, support 27.5%, and others 7.8%. Systems sales are now mainly on-premises based solutions that use a hospital's own servers. This is because hospitals are required to have high-level security for disaster management and personal data protection. However, with the mid- to long-term move towards Cloud services, the Company is focusing on the development and sales expansion of Cloud-based solutions.

(2) Public Sector Business

The Public Sector Business utilizes the Company's expertise in the medical field to provide solutions that support the administrative DX of government agencies and local authorities and the administrative DX of hospitals, such as legally compliant archive management and electronic approval system DocuMaker Office, and DX consulting. The Company's sales strategy is to increase the number of installations with small- and medium-sized projects (mostly by distributor sales), while strengthening its approaches by direct sales to independent administrative agencies with large market shares, public corporations and public interest corporations, and large local governments. As of the end of 3Q FY12/24, the cumulative number of installations was 48 (39 package installations for local governments and 9 package installations for medical facilities), and there has been no cancellation since the service was launched. Going forward, the Company will work to strengthen recruitment and employee training, as well as work to cultivate new distributors and build stronger relationships with them, all with the goal of future business growth.

(3) Health Tech Business

The Health Tech Business has established a new visual field test using new concepts and cutting-edge technology, and aims to achieve early detection of eye diseases that lack subjective symptoms, as well as further expand business by using big data. It completed domestic medical device notification of gaze analyzing perimeter GAP-screener in February 2019 and commenced sales, and also commenced sales of gaze analyzing perimeter GAP in April 2021 (domestic medical device notification completed in January 2019). GAP is a visual field test device jointly developed with the Ophthalmology Department of the Kyoto University Hospital using a world-first measurement method.

Existing products determine visibility based on examinees judging their visibility by themselves, which can lead to mistakes and misunderstandings. However, GAP has the merit of automatically assessing the examinee's visibility, removing mistakes and misunderstandings. Other advantages over existing products include an increased number of tests per day as tests only take 3–5 minutes, being head mounted and therefore portable, not requiring darkness so can be used anywhere, even in waiting rooms, house visits, and health checkups, and being more user-oriented as there is no need for patients to stare at a certain spot during the test to keep their eyes focused as for conventional visual field test devices.

In this segment the Company aims to sell packaged equipment to medical institutions (2,360 hospitals and 8,244 clinics) in Japan through distributors such as ophthalmic equipment dealers, and to sell GAP-screener to checkup centers (1,799 facilities) on a pay-per-test basis by its direct sales and via Toyota Tsusho Corporation <8015>. Overseas, procedures for the European Union Medical Device Regulation (EU-MDR) were completed in August 2022, and commenced shipments of GAP to Europe, the Middle East and North Africa through Rexxam Co., Ltd. from December 2023. GAP is being sold in approximately 50 countries as an OEM product of Rexxam under the name FIELDNavigator. Preparations are currently under way to start medical regulatory approval for sales in India.

Having found that GAP is also useful in detecting early-stage dementia (MCI*), the Japan Agency for Medical Research and Development (AMED) adopted the Company's R&D as a part of AMED's 2021 research project for medical-engineering collaboration and implementation of artificial intelligence, "the R&D of a screening program for slight cognitive dysfunctions, utilizing digital phenotyping of gaze point response and eyeball movements" (joint research with Kyoto University). The Company is conducting joint research with university hospitals aimed at early detection and developing diagnostic equipment for early-stage dementia through visual field tests.

* MCI is an abbreviation of Mild Cognitive Impairment, which is also called early-stage dementia. It is the condition one step before a full dementia diagnosis.

Characteristics and strengths include advanced expertise and a diverse product lineup

2. Characteristics and strengths

The characteristics and strengths of the Company include its engineers and consultants with expertise, a business model with high profit margin built by a talented team, and highly specialized and versatile product lineup. The Company engages a small talented team of approximately 300 employees (307 as of the end of 3Q FY12/24, excluding directors, temporary, and part-time staffs, with 25% in programmers, 41% in sales and software engineers, 15% in customer service, and 19% in administration), and the majority of employees are the engineers not only involved in hardware and software development, but also has extensive medical expertise. Its sales team serve as consultants with expertise in directly communicating with hospitals and clinics to propose, install and support medical software. For sales, the Company maintains high profit margins by utilizing distributors in each region. It not only offers a product lineup that provides a one-stop shop for information infrastructure required by hospitals, but also maintains a competitive advantage in price. For example, when hospitals implement systems for each department, Claio enables them to share infrastructure features, allowing the hospitals to hold down total deployment costs.

Targets are university hospitals and large hospitals; system deployments show an upward trend

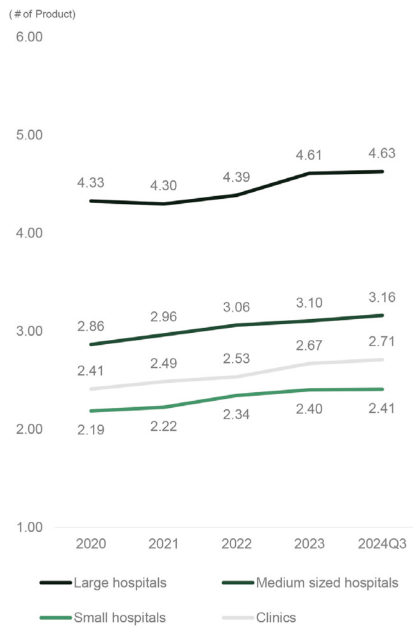
3. Sales strategy and earnings characteristics

The Company's sales strategy for the Medical Business is to focus on university hospitals and large hospitals, its main lead users. It conducts sales directly with these targets, and uses distributors in each region for small- and medium-sized hospitals and clinics. In cumulative 3Q FY12/24, distributors sales totaled ¥898mn, accounting for 20.9% of all Company net sales (for the Medical Business: software 12.0%, hardware 0.1%, support 8.4%; for the Public Sector Business: software 0.3%). Doctors generally start their careers at university hospitals before becoming clinicians, medical researchers or medical practitioners, who after using the Company's solutions at a university hospital and experiencing their convenience and reliability, often order the Company's products after becoming clinicians, medical researchers or medical practitioners. This means that system deployment requests from hospitals increase without the Company proactively conducting sales activities.

Systems procurements at large hospitals such as university hospitals are large in scale, and generally involve competitive bidding, meaning joint bids with large companies such as large SIer and manufacturers. From an earnings perspective, the mainstay of sales are large orders from large hospitals, but these need adjustments such as requirements definitions at least one year in advance, and often incur one-off costs for individual customization and data migration work after a contract is signed, meaning the profit margin can often change for each project. By contrast, sales made via distributors involve smaller order amounts per project compared to large hospitals, as well as sales commission, but do curb the direct sales costs of the Company, and as they are often package sales that do not require customization, ultimately tend to have a higher profit margin. Going forward, the Company plans to expand package sales to further improve its profit margin.

Medical software is generally replaced in 5–7 year cycles in line with the lifespan of servers and PCs. The sales cycle involves initial costs of ¥100–200mn at university hospitals and large hospitals and ¥20–100mn at small- and medium-sized hospitals and clinics, and then subsequently (5–6 years) maintenance and support fees of ¥7–15mn/year at university hospitals and large hospitals, and ¥1.5–7mn at small- and medium-sized hospitals and clinics. The Company further boosts sales through its cross-selling strategy of adding products during replacements. The average number of packaged solutions per facility was 4.04 for large hospitals in FY12/18, but had risen to 4.63 in 3Q FY12/24.

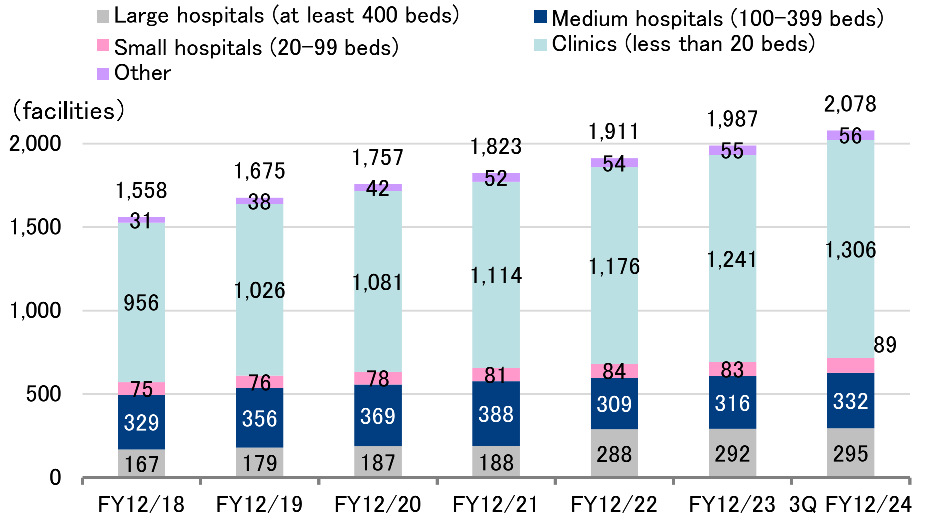
Average number of packaged software solutions per institution



Source: The Company's results briefing materials

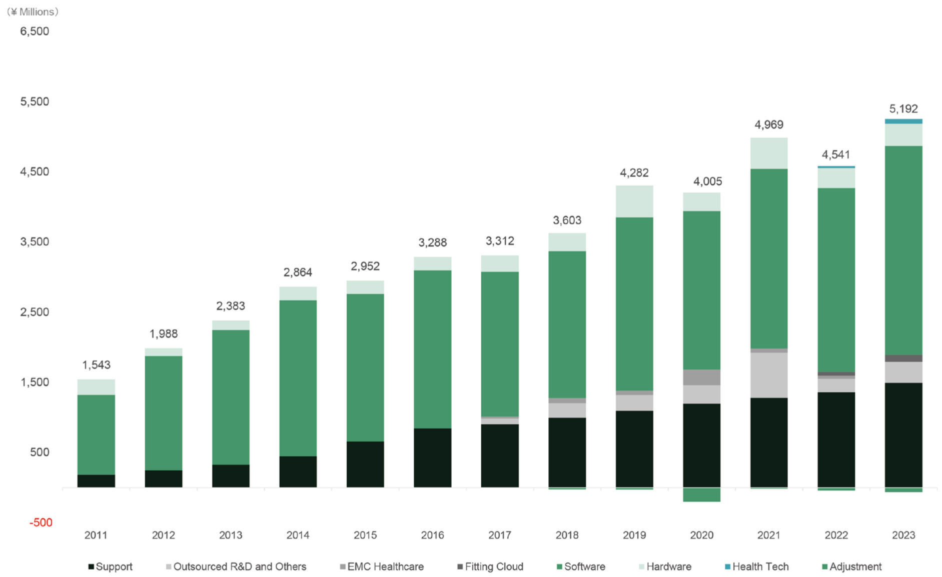
The number of facilities using the Company's medical software (calculated excluding the sale of one-time products) is growing, and stood at 2,078 facilities as of end-3Q FY12/24, up 33.4% from 1,558 facilities at the end of FY12/18. The customer retention rate is around 99%. Its system installation figures show an upward trend, with an approximately 75% market share in national university hospitals nationwide and an approximately 40% market share in large hospitals with more than 400 beds, while the number of other hospital and clinic users has reached more than 1,500. These figures can be said to demonstrate the Company's competitive advantage. Although company-wide net sales may change depending on large projects, recurring sales such as maintenance and support sales, which rise as the number of hospitals served increases, are on the rise.

Changes in medical system user numbers



Note: The categorization of a large hospital was changed from at least 500 beds to at least 400 beds following the revision of medical service fees in 2018. The graph data defines a large hospital as one with at least 400 beds from 2022.
Source: Prepared by FISCO from the Company's results briefing materials and others

Trends in net sales by service



Source: The Company's results briefing materials

Seasonality is a factor in the Company's earnings. Large hospitals tend to install and update software at the end or start of the year when outpatient numbers are low and there is less disruption due to public holidays, meaning the earnings are concentrated in 1Q (Jan–Mar) and 4Q (Oct–Dec). Quarterly net sales and operating profit for FY12/19 were concentrated in 3Q due to temporary factors such as hospitals moving orders forward ahead of the consumption tax rate hike, but apart from this, have broadly been concentrated in 1Q and 4Q. For this reason, quarterly results should be taken as a reference. The Company adopted the Accounting Standards for Revenue Recognition from FY12/22, and changed from a completion method to a percentage-of-completion method for large projects, meaning future sales bookings may be more equalized.

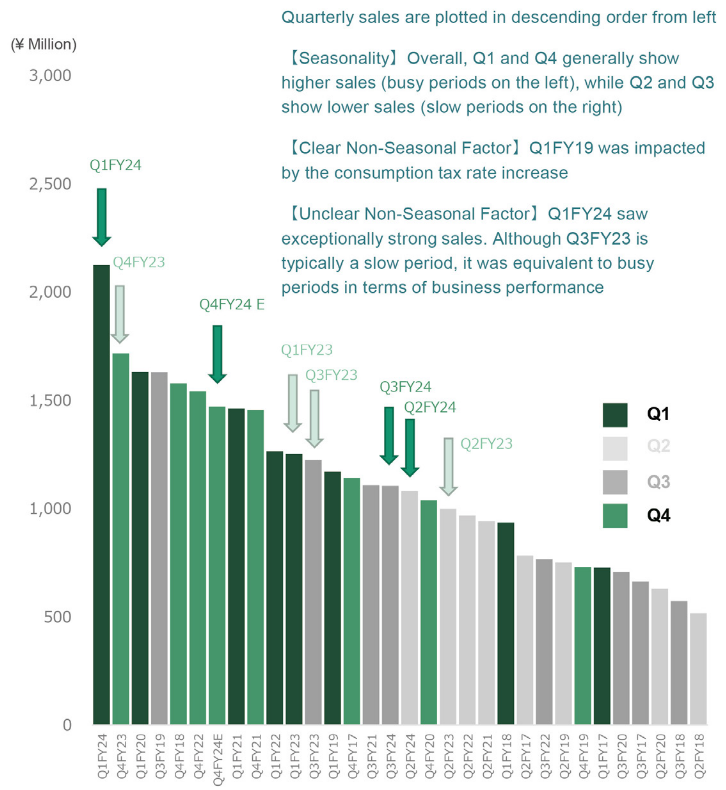
Quarterly net sales and operating profit

(¥mn)

	1Q	2Q	3Q	4Q	Full-year
Net sales					
FY12/19	1,170	751	1,629	730	4,281
FY12/20	1,631	629	707	1,038	4,004
FY12/21	1,463	943	1,108	1,455	4,968
FY12/22	1,265	969	766	1,542	4,541
FY12/23	1,252	997	1,225	1,717	5,191
FY12/24	2,125	1,081	1,105		
Operating profit					
FY12/19	284	-10	596	-127	743
FY12/20	651	-98	-44	128	636
FY12/21	451	38	214	217	920
FY12/22	370	85	32	540	1,028
FY12/23	288	109	399	700	1,496
FY12/24	862	78	185		

Note: The Accounting Standard for Revenue Recognition has been applied from FY12/22.
Source: Prepared by FISCO from the Company's results briefing materials

Quarterly sales are plotted in descending order from left



Source: The Company's results briefing materials

High competitiveness in a favorable market environment

4. Risk factors and earning characteristics and countermeasures

Risk factors faced by the software development and information service sector include IT and DX investment restraints due to the economic climate, intensified market competition, unprofitable projects and quality defects and software failure, slow response to technological advances, intellectual property, recruitment and development of human resources, ties with partner companies and distributors, and legal regulations.

In terms of market trends surrounding the company, with DX at medical facilities , government agencies and local authorities also expected to further accelerate, we at FISCO believe the market environment is favorable for the Company. In terms of competition, the Company has a high market share, especially among large hospitals, and FISCO believes its high-level of expertise and extensive product lineup make it highly competitive.

Result trends

Significant increase in sales and profit in 3Q FY12/24 cumulative results led to record high results

1. Results for 3Q FY12/24

In the Company's 3Q FY12/24 cumulative consolidated results, net sales increased 24.1% YoY to ¥4,310mn, operating profit improved 41.3% to ¥1,125mn, ordinary profit increased 38.1% to ¥1,132mn, and profit attributable to owners of parent increased by 46.6% to ¥831mn. The large increase in sales and profit resulted in record high results. The mainstay Medical Business performed well, while the growth in the Public Sector Business also contributed. Gross profit increased 22.0% YoY, but the gross profit margin fell 1.0pp to 60.4% due to factors such as increased outsourcing costs associated with data migration. SG&A expenses increased 10.5% YoY due to strategic human resource investments, but this was absorbed by increased sales, and the SG&A expense margin fell 4.3pp to 34.2%. As a result, the operating profit margin rose 3.2pp to 26.1%.

On a quarterly basis, 1Q net sales increased 69.7% YoY to ¥2,124mn and operating profit rose 199.0% to ¥862mn, 2Q net sales increased 8.4% YoY to ¥1,081mn and operating profit declined 28.2% to ¥78mn, and 3Q net sales decreased 9.8% YoY to ¥1,104mn and operating profit declined 53.6% to ¥185mn. Both 1Q and 4Q account for a large percentage of earnings for the Company, and in FY12/24 the ratio of earnings increased particularly in 1Q.

Results for 3Q FY12/24

(¥mn)

	3Q FY12/23 (cumulative)		3Q FY12/24 (cumulative)		YoY	
	Results	vs. net sales	Results	vs. net sales	Amount	%
Net sale	3,474	100.0%	4,310	100.0%	835	24.1%
Gross profit	2,132	61.4%	2,601	60.4%	469	22.0%
SG&A expenses	1,335	38.5%	1,476	34.2%	140	10.5%
Operating profit	796	22.9%	1,125	26.1%	329	41.3%
Ordinary profit	820	23.6%	1,132	26.3%	312	38.1%
Profit attributable to owners of parent	567	16.3%	831	19.3%	264	46.6%

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

FY12/24 results (quarterly basis)

(¥mn)

	FY12/23			FY12/24					
	1Q	2Q	3Q	1Q		2Q		3Q	
	Amount	Amount	Amount	Amount	YoY	Amount	YoY	Amount	YoY
Net sale	1,251	997	1,225	2,124	69.7%	1,081	8.4%	1,104	-9.8%
Gross profit	714	565	852	1,341	87.7%	581	2.8%	678	-20.4%
SG&A expenses	426	456	452	480	12.5%	503	10.2%	493	8.9%
Operating profit	288	108	399	862	199.0%	78	-28.2%	185	-53.6%
Ordinary profit	292	122	405	865	196.2%	79	-34.6%	187	-53.8%
Profit attributable to owners of parent	199	84	283	642	222.4%	58	-30.9%	130	-54.0%

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

Solid expansion in the Medical Business and accelerating growth in Public Sector Business

2. Trends by segment

Medical Business net sales rose 23.1% YoY to ¥4,086mn while operating profit increased 34.4% to ¥1,199mn. Both sales and profit increased significantly, reaching their highest levels ever. The operating profit margin increased 2.5pp YoY to 29.4%. The Consulting Department, which was newly established in January 2023, received orders constantly, and the business expanded steadily due to an increase in new and additional installations at hospitals, strong sales (distributor sales) of high profitability package systems, and expanded maintenance and support sales. As of the end of 3Q, the number of medical system users increased by 91 facilities from the end of the previous fiscal year to 2,078 facilities, and the average number of package installations per facility at large hospitals increased by 0.02 to 4.63 installations. Orders received decreased 12.0% year on year to ¥2,418mn, and the order backlog decreased 21.1% YoY to ¥1,392mn. Both decreased, but remained at high levels.

Public Sector Business net sales improved 75.8% YoY to ¥197mn, and operating profit increased 527.5% to ¥59mn. With the large increase in sales and profit, the operating profit margin rose 21.6pp to 30.0%, exceeding expectations. Monthly usage fee revenue increased steadily alongside the increase in the number of users. There were 16 new operations (12 packages for local governments and 4 packages for medical institutions), bringing the total number of facilities that have installed the service since its launch to 48 (39 packages for local governments and 9 packages for medical institutions). The number of cancellations has remained at zero.

Health Tech Business net sales decreased 36.4% YoY to ¥26mn, and it suffered an operating loss of ¥132mn (loss of ¥105mn in 3Q FY12/23). A total of eight GAP and GAP-screener units were sold. Revenue fell due to the drop in the number of units sold and the operating loss expanded, but product awareness has increased due to exposure in ophthalmology journals, academic papers and media exposure, and the Company continued to provide training sessions for distributors. Overseas, the Company is conducting market research with medical device distributor on sales in the ASEAN region, and is coordinating with Rexxam for the second lot shipment to some areas in the EU, the Middle East, and North Africa.

Trends by segment for 3Q FY12/24

(¥mn)

	3Q FY12/23 (cumulative)		3Q FY12/24 (cumulative)		
	Amount	Composition	Amount	Composition	YoY
Orders received	2,937	100.0%	2,688	100.0%	-8.5%
Medical Business	2,748	93.6%	2,418	89.9%	-12.0%
Public Sector Business	157	5.4%	245	9.1%	55.8%
Health Tech Business	31	1.1%	25	0.9%	-19.9%
Order backlog	1,893	100.0%	1,608	100.0%	-15.1%
Medical Business	1,765	93.2%	1,392	86.6%	-21.1%
Public Sector Business	114	6.0%	204	12.7%	78.6%
Health Tech Business	13	0.7%	11	0.7%	-15.1%
Net sales	3,474	100.0%	4,310	100.0%	24.1%
Medical Business	3,321	95.6%	4,086	94.8%	23.1%
Software	1,792	51.6%	2,204	51.1%	22.9%
Of which, via distributors	461	13.3%	517	12.0%	12.0%
Hardware	202	5.8%	362	8.4%	78.9%
Of which, via distributors	10	0.3%	6	0.1%	-36.4%
Support	1,126	32.4%	1,185	27.5%	5.3%
Of which, via distributors	337	9.7%	362	8.4%	7.4%
Other	199	5.8%	334	7.8%	68.0%
Public Sector Business	112	3.2%	197	4.6%	75.8%
Software	-	-	181	4.2%	-
Of which, via distributors	-	-	12	0.3%	-
Hardware	-	-	7	0.2%	-
Other	-	-	7	0.2%	-
Health Tech Business	40	1.2%	26	0.6%	-36.4%
Operating profit	796	22.9%	1,125	26.1%	41.3%
Medical Business	892	26.9%	1,199	29.4%	34.4%
Public Sector Business	9	8.4%	59	30.0%	527.5%
Health Tech Business	-105	-	-132	-	-

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

Highly financially sound

3. Financial condition

As of the end of 3Q FY12/24, total assets increased ¥210mn to ¥6,144mn compared to the end of FY12/23. Notes and accounts receivable - trade, and contract assets decreased ¥899mn, but cash and deposits increased ¥1,155mn. Total liabilities declined ¥227mn to ¥861mn, due mainly to a ¥206mn decrease in income taxes payable, etc. Net assets improved ¥438mn to ¥5,283mn, due mainly to a ¥418mn increase in retained earnings. As a result, the equity ratio rose 4.4pp to 85.9%. With the Company having accumulated cash and deposits of ¥3,848mn, we at FISCO consider its financial soundness extremely high.

Balance Sheets and Cash Flow Statements (Simplified)

(¥mn)

Item	End of FY12/20	End of FY12/21	End of FY12/22	End of FY12/23	End of 3Q FY12/24
Total assets	3,796	4,556	4,980	5,934	6,144
Current assets	3,150	3,705	4,128	5,006	5,221
Non-current assets	645	850	852	927	923
Total liabilities	723	1,044	937	1,088	861
Current liabilities	534	825	654	772	593
Non-current liabilities	189	218	283	316	267
Total net assets	3,073	3,512	4,042	4,845	5,283
Shareholders' equity	3,068	3,505	4,038	4,844	5,283
Equity ratio	80.8%	76.9%	81.1%	81.5%	85.9%

Item	FY12/20	FY12/21	FY12/22	FY12/23
Cash flow from operating activities	542	750	693	842
Cash flow from investing activities	-146	-493	-230	-296
Cash flow from financing activities	-201	-183	-142	-270
Cash and cash equivalents at end of period	1,972	2,045	2,287	2,563

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

Outlook

Keeping forecast for an increase in sales and profit in FY12/24 unchanged

● FY12/24 results outlook

The FY12/24 full-year consolidated results forecasts are unchanged from the Company's initial forecasts, with the forecast for net sales increasing 11.4% YoY to ¥5,782mn, operating profit increasing 5.2% to ¥1,574mn, ordinary profit increasing 4.2% to ¥1,591mn, and profit attributable to owners of parent increasing 3.6% to ¥1,097mn. In terms of profits, although the increase in personnel costs due to continued strategic human resource investments will only result in a small increase in profits, sales are expected to increase by double digits due to the expansion of the Medical Business and the growth of the Public Sector Business. The number of employees is forecasted to increase by 20 for the full fiscal year (17 were newly hired as of 3Q).

The 3Q cumulative progress rate versus the full-year company forecast is 74.5% for net sales, 71.5% for operating profit, 71.2% for ordinary profit, and 75.8% for profit attributable to owners of parent, which are all solid. The Health Tech Business has seen a delay in its sales strategy, but considering the increase in number of new and additional hospitals served in the Medical Business, the acceleration in growth in the Public Sector Business, and the fact that sales tend to be concentrated in 4Q, we at FISCO believe that strong results can be expected on a full-year basis.

FY12/24 results outlook

(¥mn)

	FY12/23 full year		FY12/24 full year			3Q FY12/24 (cumulative)	
	Results	Composition	Forecast	Composition	YoY	Results	Progress rate
Net sale	5,191	100.0%	5,782	100.0%	11.4%	4,310	74.5%
Operating profit	1,496	28.8%	1,574	27.2%	5.2%	1,125	71.5%
Ordinary profit	1,527	29.4%	1,591	27.5%	4.2%	1,132	71.2%
Profit attributable to owners of parent	1,059	20.4%	1,097	19.0%	3.6%	831	75.8%

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

Growth strategy

Medium-Term Business Plan "Vision for 2025"

1. Medium-Term Business Plan "Vision for 2025"

As a growth strategy to achieve its corporate philosophy of "Enriching society with technologies and creation," the Company formulated its Medium-Term Business Plan "Vision for 2025" (FY12/21–FY12/25). It contains FY12/25 final year management targets (revised targets announced on February 13, 2023) such as net sales of ¥6,330mn (Medical Business ¥5,320mn, Public Sector Business ¥330mn, Health Teach Business ¥680mn), ordinary profit of ¥2,100mn, ordinary profit margin of 33.2%, dividend per share of ¥18.0, and a dividend payout ratio of 31.2%.

The Company's basic strategy is (1) Concentration of management resources (restructure medical solutions business to sustain growth, prioritize M&A as a key growth strategy, strengthen partner sales), (2) Acceleration of advanced R&D (reconceptualize its presence as a R&D-oriented company, improve internal training system and enable dynamic staffing including management levels, acquire and retain the right talent), (3) Addressing key sustainability challenges (support and engage in international initiatives for climate change, contribute to reducing disparities in health care and improving wellbeing of people, ensure good corporate governance and foster a diverse and inclusive workplace culture).

The Medical Business is proceeding with a business strategy of proactively cross selling solutions to mainly large hospitals, achieving higher profit margins by increasing packaged solutions sales via distributors, and penetrating the market with in-house developed next-generation infrastructure features to support medical DX. For bolstering the partner sales department, the Company's policy is to transfer 20% of system deployments for large medical institutions to distributors by 2025. The Public Sector Business has positioned archive management and electronic approval system DocuMaker Office as its core product, and is focusing on increasing sales to independent administrative agencies with large market shares, public corporations and public interest corporations, and large local governments. Domestically, the Health Tech Business will promote the establishment of a consulting sales structure at medical equipment dealers by training and assigning sales professionals capable of explaining the technical aspects of GAP, while internationally, it will establish a sales structure to increase sales of GAP in the EU, India, the ASEAN region, and the U.S.

Medium-Term Business Plan "Vision for 2025"

	FY2022	FY2023	FY2024	FY2025	CAGR FY2025/FY2022
(¥ Millions)	Actual	Medium-Term Business Plan			
Net sales	4,541	**5,065**	**5,754**	**6,330**	11.7%
Medical Business	4,352	4,705	5,066	5,320	6.9%
Public Business	121	160	207	330	39.7%
Health Tech Business	69	200	480	680	114.4%
Ordinary profit	1,055	**1,330**	**1,710**	**2,100**	25.8%
Ordinary profit margin	23.2%	26.3%	29.7%	33.2%	
Annual cash dividends per share	9.50	**11.00**	**15.00**	**18.00**	23.7%
Payout ratio	33.7%			31.2%	

Source: The Company's FY3/23 results briefing materials

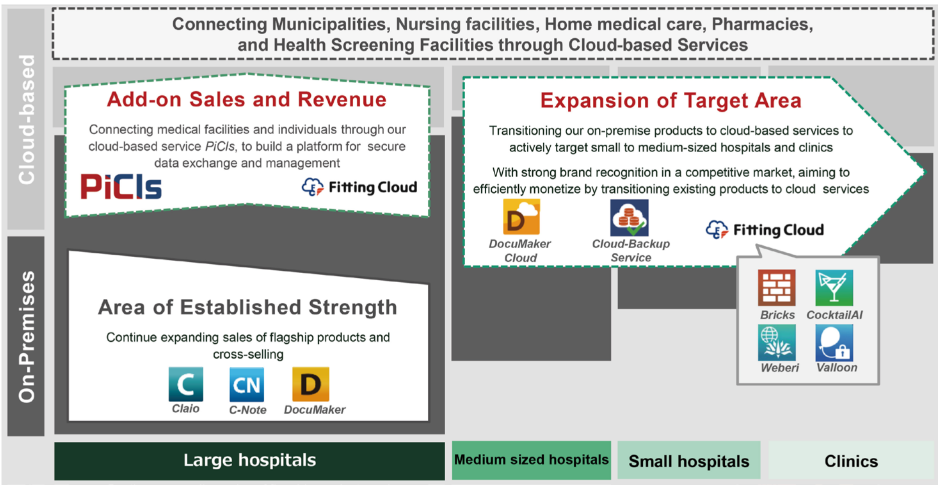
Healthcare industry trend highlights include the Healthcare DX Reiwa Vision 2030 being advanced by the Ministry of Health, Labour and Welfare and the Amended Next Generation Medical Infrastructure Act advanced by the Cabinet Office.

In its "Healthcare DX Reiwa Vision 2030" announced in May 2022, the Ministry of Health, Labour and Welfare stated that it is important to simultaneously advance three initiatives to achieve medical DX : "Establishment of a Nationwide Healthcare Information Platform," "Electronic medical chart information standardization, etc.," and "DX of NHI reimbursement rate revision." For the "Establishment of a Nationwide Healthcare Information Platform," Japan will build an infrastructure for the exchange of medical information, enabling the sharing and exchange of medical information such as specific health checkups, vaccinations, electronic prescriptions, and electronic medical records. In the "Electronic medical chart information standardization, etc.," Japan will standardize the standards for electronic medical record information, which differ from medical institution to medical institution, making it possible to view it at medical institutions, and citizens can check their own data on My Number Portal. The Ministry of Health, Labour and Welfare aims to achieve a 100% penetration rate of electronic medical records by 2030. "DX of NHI reimbursement rate revision" is an initiative that aims to minimize the burden on medical institutions (hospitals, clinics, pharmacies, visiting nursing care stations). In addition to reducing the system modification costs of medical institutions by significantly streamlining the work related to medical fee revisions, it also aims to reduce the workload related to eligibility for intractable diseases and disabilities that involve public funds.

The Amended Next-Generation Medical Infrastructure Act promoted by the Cabinet Office is a law that promotes research and development using medical information. The Next-Generation Medical Infrastructure Act that came into force in May 2018 was amended and went into force in April 2024. It has been amended to create a new system for creating and using "pseudonymized medical data" to enable the provision of more useful data, making it possible to provide data on rare cases. In addition, it has become possible to digitize the patient's consent form for pseudonymization, and it has become possible to provide data to researchers and other parties in a form that can be linked and analyzed with public databases such as the National Database of Health Insurance Claims and Specific Health Checkups of Japan (NDB), the Japanese Long-term Care Database (Long-Term Care DB), and the Diagnosis Procedure Combination Database (DPCDB). Until now, the Next-Generation Medical Infrastructure Act has not been widely used, but it is expected that this amendment will promote its use.

The medical DX promoted by the government aims to improve medical cost optimization and access to medical care through standardization of electronic medical records and sharing of medical information, while also improving convenience for patients in the medical and nursing care fields in terms of reservations, consultations, payments, medication management, and other areas, as well as streamlining of management operations for businesses. With the trend of medical DX expected to accelerate in the future, the Company plans to promote growth strategies in two directions: "add-on revenue" and "target expansion." For add-on revenue, the Company will promote the accumulation of additional revenue through upselling and cross-selling strategies such as the cloud service PiCls series based on its traditional on-premises products for large hospitals, where the Company has strengths. For target expansion, the Company will promote the expansion of sales of cloud-based solutions such as DocuMaker Cloud and Cocktail AI to domains such as small- and medium-sized hospitals and clinics that were not the main target until now. We believe that the trend of medical DX is a tailwind for the Company's business model and business strategy.

Our strength and future prospects in the Medical Business



Source: The Company's results briefing materials

The growth strategy progress is smooth in the Medical Business and growth is accelerating more than expected in the Public Sector Business

2. Growth strategy progress

Looking as of 3Q FY12/24, the progress of the growth strategy is as follows. Although the sales strategy is lagging behind in the Health Tech Business, the Medical Business is progressing smoothly, and the Public Sector Business has been accelerating growth more than expected. In the Medical Business, the number of medical system users has grown to 2,078 facilities as of the end of 3Q FY12/24, and the benefits of the new consulting department established in January 2023 are becoming apparent. In addition, it can be said that cross-selling mainly to large hospitals, provision of comprehensive services including maintenance, increased profit margins through the expansion of sales of packaged products with low installation costs are also progressing smoothly. In the Public Sector Business, bids from local governments are going well, and the cumulative number of installations was 48 as of the end of 3Q FY12/24, compared to the target of 57 for FY12/25. As the number of installed users increases, monthly usage fee revenue is steadily accumulating, creating a recurring revenue structure.

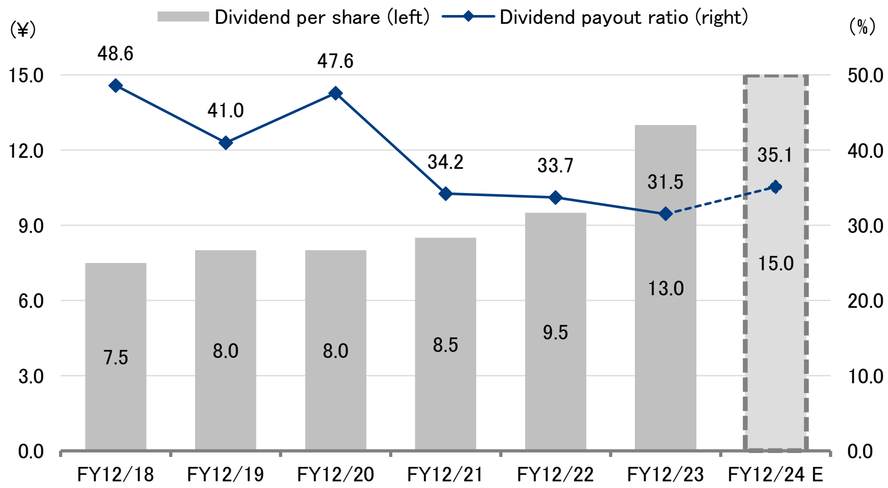
As for future priority measures, in the Medical Business, the Company will promote continuous recruitment and training of personnel, acceleration of the rollout of cloud-based solutions to large hospitals, promotion of cross-selling to medium-sized hospitals and clinics, and appropriate price revisions (promote a price increase of about 20% from April 2024, with the effect expected to be realized from FY12/25 onwards as it will be implemented at the time of sales and contract renewals). In the Public Sector Business, the Company will work to further secure personnel to expand the business, strengthen relationships with distributors to fully develop medium-sized projects, link its solutions with other companies' systems, further strengthen the customer support as the number of users increases, accumulate know-how by installing in large-scale facilities, and enhance product functions with a user-first approach. In the Health Tech Business, the Company will promote initiatives such as proactive marketing to increase awareness and understanding, adding an interface and usage guide functions that are easy for medical professionals to use, investing in research and development to add new testing functions, restructuring the sales structure through distributor training, and developing distributors for sales in India and the ASEAN region. In June 2024, GAP was featured on NHK General TV's Afternoon Live Newsoon, and in August 2024 a visual field test using GAP was conducted on Nippon Television's Learn with Kazlaser. The Company continues to invest in growth, including new business development such as MCI, M&A, etc.

Shareholder returns are conducted through the implementation of stable and continuous dividends

3. Shareholder return policy

The Company aims to maximize corporate value by establishing its position in the market through innovative product capabilities and advanced consulting skills. As for shareholder returns, to achieve the same, the Company's basic policy is to pay dividends based on a comprehensive assessment of its business performance, financial position, and achievement of its business plan, while maintaining and expanding internal reserves to continue to make necessary investments. Based on this policy, the Company plans to raise its annual dividend by ¥2.0 YoY to ¥15.0 (¥7.0 at end-2Q, and ¥8.0 at year end) for FY12/24. This is the fourth consecutive annual increase, and will result in a dividend payout ratio of 35.1%. The Company's Medium-Term Business Plan "Vision for 2025" targets a dividend per share of ¥18.0, and a dividend payout ratio of 31.2% for FY12/25, the final year of the plan, and we at FISCO expect stronger earnings to further enhance shareholder returns.

Dividend per share and dividend payout ratio



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

Contribute to social issues through business

4. Sustainability management

For sustainability management, the Company is strengthening initiatives towards the realization of a sustainable society through its business as a DX corporation supporting medical care and health. In October 2022, it endorsed the "My Declaration of Human Rights" project proposed by the Ministry of Justice, it began replying to the Carbon Disclosure Project's questions from the same year, and it is otherwise proactively working to address social issues and climate change.

As well as the Medical Business and the Public Sector Business contributing to medical and government DX, the Health Tech Business is using GAP to contribute to the early detection of glaucoma, considered the largest cause of blindness in Japan, and the early detection of early-stage dementia. Visual field tests for the early detection of glaucoma using GAP were conducted at the Iyo City Health Center, Ehime Prefecture between August and October 2022, with the implementation report for these being published on the TRY ANGLE EHIME (a digitalization acceleration project by Ehime Prefecture) website in April 2023. In March 2024, the Company received Kurumin certification from the Minister of Health, Labour and Welfare as a company that supports parenting.

FISCO recognizes the high profit margin business model and is focusing on developments related to early-stage dementia

5. FISCO's view

Looking at the trend in the Company's operating profit, it has been on an upward trend since bottoming out in FY12/20, when the COVID-19 pandemic was a factor, and is now at a record high. The operating profit margin rose until 3Q FY12/24. This is mainly due to the increasing number of systems installed in the Medical Business, as well as an increase in recurring revenue such as high-margin package sales and maintenance and support fees, and we evaluate this high-margin business model highly. We also highly evaluate the accelerating growth of the Public Sector Business, which is expected to be the second pillar of revenue. The progress of the growth strategy will be a point of focus in the future, but we believe that the business environment is favorable for the Company, with progress expected in medical and administrative DX through national policies, and that we can expect revenue to expand. In addition, from a medium- to long-term perspective, we will also pay attention to the development of the Health Tech Business related to early-stage dementia.

Disclaimer

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