COMPANY RESEARCH AND ANALYSIS REPORT

AlphaPurchase Corporation

7115

Tokyo Stock Exchange Standard Market

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Contents

Summary

As a leader in purchasing and service agency solutions for large enterprises, there is significant potential for growth in the future

AlphaPurchase Corporation <7115> is mainly involved in purchasing and service agency solutions for large enterprises. It has two business segments: the MRO*1 Business, which engages in purchasing of indirect materials such as parts for repairing equipment and machinery, as well as office equipment, and the FM*2 Business, which carries out maintenance of commercial facilities and so forth. Both of these are outsourcing businesses, with significant future growth potential. In the MRO Business, the Company provides its in-house developed platforms APMRO and Infinite Catalog, and their development capabilities are the source of the Company's growth.

*1 MRO: Maintenance, Repair & Operation
*2 FM: Facility Management

1. Overview of FY12/24 results

Looking at the Company's consolidated results for FY12/24, net sales were ¥55,952mn (up 7.7% year on year (YoY)), operating profit was ¥1,242mn (up 4.6%), ordinary profit was ¥1,227mn (up 3.8%), and profit attributable to owners of parent was ¥865mn (up 1.8%). Net sales came in lower than the forecast, mainly due to the postponement of major construction projects until FY12/25; however, profit achieved the forecast primarily due to a slight decrease in depreciation and amortization. By segment, in the MRO Business, net sales increased 11.0% YoY, as the Company made brisk sales to large enterprises, while operating profit also rose 20.9%, mainly reflecting a decrease in the SG&A ratio. In the FM Business, net sales were down 0.4% YoY, mainly due to the postponement of a large-scale renovation project, and operating profit decreased by 19.0% due to changes in sales composition. The number of contracts with large enterprises (companies with an average monthly purchase amount of ¥10.00 million or higher by corporate group), a KPI for the Company, stood at 42 companies at the fiscal year-end (up 2 companies from the previous fiscal year-end).

2. FY12/25 forecasts

For the FY12/25 consolidated results, the Company is forecasting net sales of ¥61,975 (up 10.8% YoY), operating profit of ¥1,410mn (up 13.5%), ordinary profit of ¥1,400mn (up 14.0%), and profit attributable to owners of parent of ¥979mn (up 13.1%). In the MRO Business, net sales are forecast to increase 9.0% YoY, as sales to large enterprises are expected to continue double-digit growth with a continued increase in purchases by existing customers and an increase in new customers. In the FM Business, net sales are expected to increase 15.8% to ¥17,000mn due to the start of a large-scale project that was postponed in the previous fiscal year. On the expenses front, IT expenses (including amortization) and human resource-related expenses (including temporary employees, training expenses, and so forth) are expected to increase, but the Company plans to absorb these expenses to achieve an increase in operating profit.

3. Medium- to long-term outlook: Huge potential market

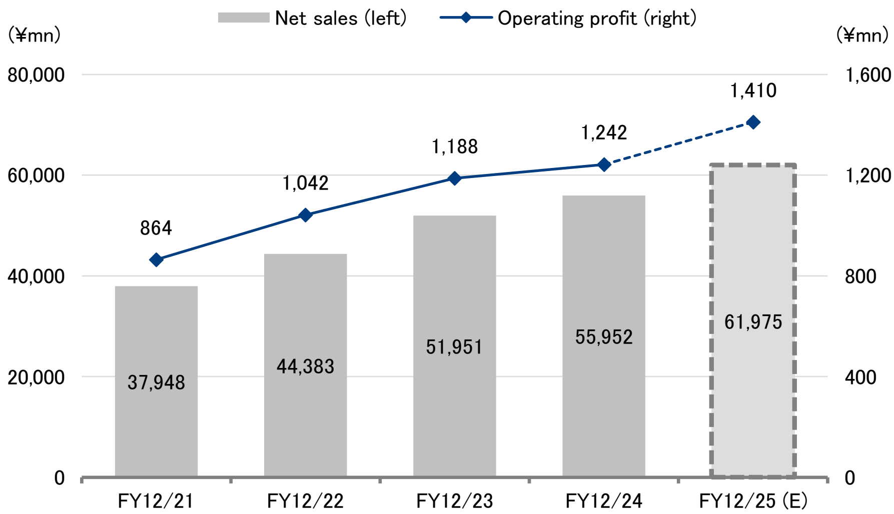
The Company's core business is purchasing and service agency solutions, and having narrowed its target customer to large enterprises with net sales of ¥100.0bn or above, it has a potential customer base estimated at approximately 1,000 companies. In the MRO Business, the Company currently has contracts with only 42 major customers, indicating significant potential. By the Company's estimation, the majority of materials purchased by large enterprises in a year are "direct materials" such as raw materials and parts. The Company's target indirect materials market (consumables, tools and supplies, etc.) has a scale of approximately ¥5tn, which includes a longtail MRO market for high-mix low-volume items of approximately ¥1tn. Of this, approximately 60% of the materials require specification finalization and price negotiations, while the remaining 40% or so are in the catalog item market, which does not require negotiation. This is currently the Company's business domain, and is estimated to have a scale of approximately ¥400.0bn. The Company's current customer base in the MRO Business is small, at just 87 companies, including those with small transaction volume, representing 8.7% of 1,000 companies. The Company's greatest strength is its ability for in-house development of application programming interfaces (APIs), which are systems that link the customers' systems (ERP*, etc.) with the suppliers' systems. Various companies participate in the catalog purchasing market, and at this point there are no other companies that offer similar purchasing agency services to large enterprises at the same scale as the Company. Strictly speaking, there are no companies that can compete directly. There are some companies that can compete partially, but rather, the largest rival to the Company in this market can be said to be in-house purchasing departments. Since large enterprises are expected to further reduce indirect expenses going forward (increase outsourcing), the Company's business appears to have significant room for growth.

* ERP: Enterprise Resource Planning

Key Points

- The mainstay business is purchasing and service agency solutions for large enterprises, and the Company differentiates itself with its development capabilities
- The number of customers is growing, and operating profit is forecast to increase 13.5% in FY12/25
- Large enterprises have low outsourcing rates, meaning that the potential for market expansion is significant

Consolidated results trend



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

Company profile

1. Company profile

The Company was established in November 2000, mainly by the US investment fund Ripplewood, and when the principal shareholder exited from Japan in the 2008 Global Financial Crisis, the current principal shareholder, ASKUL Corporation <2678> acquired the shares, including portions held by other major shareholders. The Company's core business is currently purchasing and service agency solutions, and its business segments are the MRO Business, which operates the AMPRO and Infinite Catalog platforms for purchasing indirect material such as parts for repairing equipment and machinery and also office equipment, and the FM Business, which provides maintenance and other services for commercial facilities. The Company is headquartered in Minato-ku, Tokyo, with FY12/24 net sales of ¥55,952mn and 264 employees at the fiscal year-end.

2. History

The Company was established in November 2000 as a company providing MRO (indirect/secondary materials) for companies, mainly by the US investment fund Ripplewood. Subsequently, in addition to the expansion of the core business, the Company established a 24-hour office in Kanda, Chiyoda-ku, Tokyo in 2006 as a facility management business base. Then, when the principal shareholder, Ripplewood, exited Japan due to the Global Financial Crisis, the principal shareholder changed to ASKUL. During this shift, the corporate status was changed to a new-and-old-company separation method via company split.

The Company's shares were listed on the Tokyo Stock Exchange (TSE) Standard Market in December 2022. Currently, ASKUL is the principal shareholder with a 62.43% ownership stake, making the Company a consolidated subsidiary of ASKUL.

History

Year	Key events
November 2000	Established in Uchisaiwaicho, Chiyoda-ku, Tokyo as a company providing MRO (indirect/secondary materials) for companies, with US company Ripplewood as the principal shareholder
September 2006	Established a 24-hour office in Kanda, Chiyoda-ku, Tokyo, as a facility management business base
November 2010	Major shareholder changed to ASKUL Corporation. During this shift, the corporate status was changed to a new-and-old-company separation method via company split
January 2013	Acquired the construction and maintenance business from Sagawa Advance Co., Ltd. Obtained a specific construction permit
January 2014	Spun off the technology division and established ATC Co., Ltd.
May 2016	Relocated the head office to Mita, Minato-ku, Tokyo
December 2022	Listed on TSE Standard Market
June 2024	Established AP Renovations Corporation through a company split (incorporation-type company split). Transferred the construction business

Source: Prepared by FISCO from the Company's website

Business overview

Highly stable recurring revenue-based business model with two pillars: the MRO Business providing purchasing agency services and the FM Business providing service agency solutions

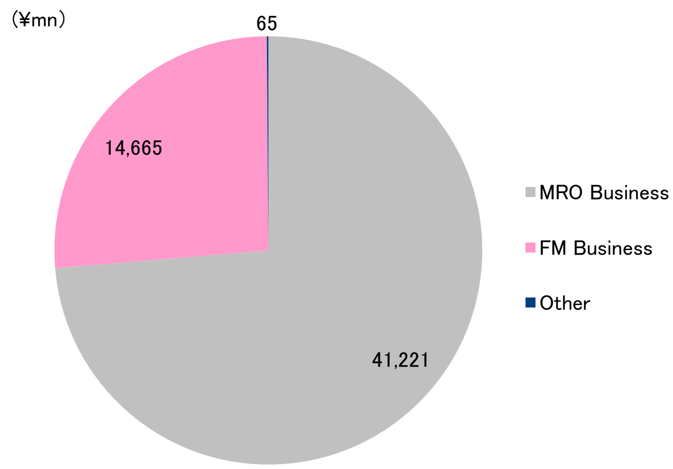
1. Business segments

The Company discloses three business segments: the MRO Business, which operates the AMPRO and Infinite Catalog platforms for purchasing indirect materials such as parts for repairing equipment and machinery and also office equipment, and the FM Business, which provides maintenance and other services for commercial facilities, and Other.

Looking at net sales by segment for FY12/24, the MRO Business recorded net sales of ¥41,221mn (sales composition ratio 73.7%), the FM Business recorded net sales of ¥14,665mn (26.2%), and Other recorded net sales of ¥65mn (0.1%). In operating profit by segment, the MRO Business recorded operating profit of ¥769mn (operating profit composition ratio 61.9%), the FM Business recorded operating profit of ¥389mn (31.3%), and Other* recorded operating profit of ¥83mn (6.7%).

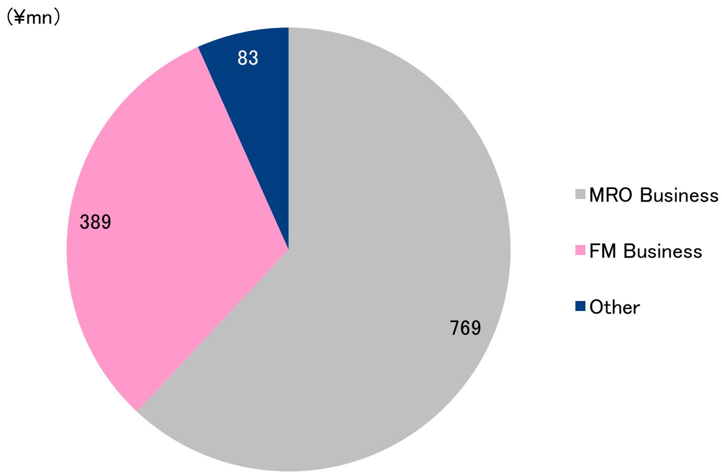
* The Other business records external sales (sales excluding IT service business sales for the Company which are eliminated on consolidation) of the software business of the Company's subsidiary, ATC Corporation. On the other hand, operating profit of the Other business includes profit from the service business of ATC for the Company, causing segment profit to exceed net sales.

Net sales by segment
(FY12/24: ¥55,952mn)



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

Operating profit by segment
(FY12/24: ¥1,242mn)



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

(1) MRO Business

Many enterprises purchase a range of indirect materials* needed at their headquarters, branches, laboratories, plants, and other facilities; however, it is inefficient to have each location purchasing these materials separately, and many enterprises have to deal with issues relating to materials. The MRO Business meets the need of enterprises to improve their purchasing operations by providing systems and services that enable efficient, appropriate, and low-cost purchasing, centered on the Company's IT platforms, APMRO and Infinite Catalog.

* Materials and parts required in the manufacturing process are referred to as "direct materials," while other items such as equipment, consumables, tools and supplies, safety products, research equipment, office automation equipment, home appliances, and books are referred to as "indirect materials."

1) Business model

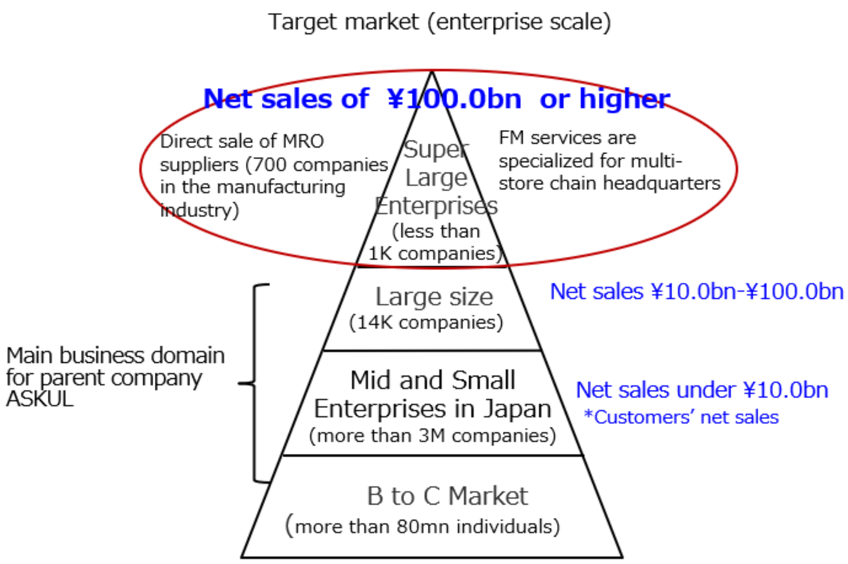
Enterprises that use the Company's services first enter a contract with the Company, and then they use the Company's IT platforms (APMRO and Infinite Catalog) to purchase products from various suppliers. In terms of distribution flow, the Company purchases the products then applies a predetermined margin to sell them to the customer. Since the products themselves are shipped directly from the supplier to the customer, the Company does not have inventory or a logistics center. The Company's net sales are the amount of the sale of the product to the customer; not system usage fees*.

* The Company charges fees such as system customization fees as necessary, based on customers' requirements; however, including these, system usage fees amount to less than 1% of sales.

2) Target customers

The Company focuses on target customers that are large enterprises with net sales of ¥100.0bn or higher. It does not target mid-sized enterprises, small- and medium-sized enterprises (SMEs), or independent stores and so forth. The reason is that as a corporate group's sales amount increases, its needs for MRO purchasing also increase, generating demand for a service that does not use employees for sophisticated management. Mid-sized enterprises, SMEs, or independent stores with net sales below ¥100.0bn are the business domain of the parent company, ASKUL, so their niches are separated.

Target market (enterprise scale)



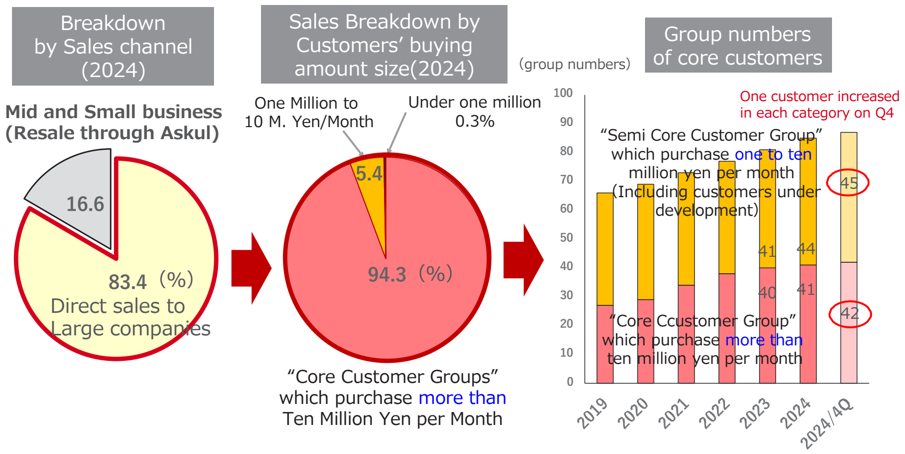
Source: The Company's IR materials

Key requirements of purchasing agency services are speed, low cost, and items being easy to find. However, on top of these requirements, large enterprises tend to place greater emphasis on companywide purchasing control and system linkage with the core IT system (mainly ERP), as well as registration rules for trading companies. Since there can be issues such as being unable to make payment if purchases are not made in accordance with internal rules, procedures, and systems, the larger the enterprise, the greater the requirement for services that enable safety and linkage with the enterprise's own systems. The Company has developed and provides its own systems (AMPRO and Infinite Catalog) that can meet the requirements of such customers, which enables it to differentiate itself.

Of the MRO Business sales in FY12/24, 83.4% were direct sales to large enterprises, and the remaining 16.6% were to small and medium-sized workplaces via the parent company, ASKUL. Furthermore, within these large enterprises, 94.3% of the sales amount was to large customers purchasing ¥10.00mn or more per month on average, 5.4% were to customers purchasing ¥1.00mn–¥10.00mn, and 0.3% were to customers purchasing less than ¥1.00mn.

In terms of the number of contracted companies (as of the end of FY12/24), 42 companies were corporate groups purchasing ¥10.00mn or more per month on average (up 1 company from 4Q FY12/23), 45 companies were purchasing ¥1.00mn–¥10.00mn (up 1 company), for a total of 87 companies (up 2 companies).

Composition ratio of sales amounts



Source: The Company's IR materials

Specific corporate customers include Ajinomoto Co., Inc. <2802>, Ricoh Company, Ltd. <7752>, Asahi Kasei Corporation <3407>, Toray Industries, Inc. <3402>, MITSUBISHI CHEMICAL CORPORATION, Tokyo Electron Ltd. <8035>, Kansai Electric Power Co., Inc. <9503>, TOSHIBA CORPORATION, Kioxia Corporation, KUBOTA Corporation <6326>, Sony Corporation, TEIJIN LIMITED <3401>, RIKEN, DAIHATSU MOTOR CO., LTD., TOYOTA INDUSTRIES CORPORATION <6201>, TOYOTA AUTO BODY CO., LTD., TOYOTA MOTOR CORPORATION <7203>, DENSO CORPORATION <6902>, ENEOS Corporation, and PENTA-OCEAN CONSTRUCTION CO., LTD. <1893>.

(2) FM Business

This business provides services for stores and facilities operated by customers, such as commercial facility repairs, cleaning, various type of construction work, maintenance and inspection. It also conducts purchasing agency operations for interior materials and signage for stores as well as various equipment and consumables. For large-scale chain stores with store numbers exceeding 1,000, it becomes unfeasible to manage stores using the personnel of an internal construction department or store development department, and so forth, creating the need for DX tools and external Business Process Outsourcing (BPO) services. These services are provided by the Company's FM Business.

FM Business services

Source: The Company's IR materials

1) Business model and services

The Company provides services at customers' request based on set fees. The benefit for the customer is that it can receive consistent services that do not vary between stores or facilities, and that it can control personnel (fixed costs) in its own internal construction department, maintenance department, and purchasing department, etc. This business can be described as an outsourcing business, like the MRO Business.

The business services fall into three broad categories. Services for chain stores (service such as repair, maintenance and inspection, cleaning, and renovation project management), large-scale renovation projects (large-scale renovation projects compliant with the Construction Business Act for business hotels or multi-store chains), and material delivery services based on the separation of materials and construction (a service that provides timely delivery of the necessary materials for new store openings or renovations of multi-store chains). The materials delivery service accounts for a higher portion of net sales.

2) Target customers

In the FM Business also, the Company targets large-scale chain with over 1,000 stores mainly of the same brand or store and net sales of ¥100.0bn or higher. The reason is similar to the MRO Business, namely that as the number of stores in a corporate group increases, its outsourcing needs also become more complex, and it requires services that can handle high-level management without using employees. Another target customer is large hotel chains with large numbers of guest rooms, despite having few buildings. The main customer industries include convenience stores, fast food chains, drug store chains, and business hotel chains.

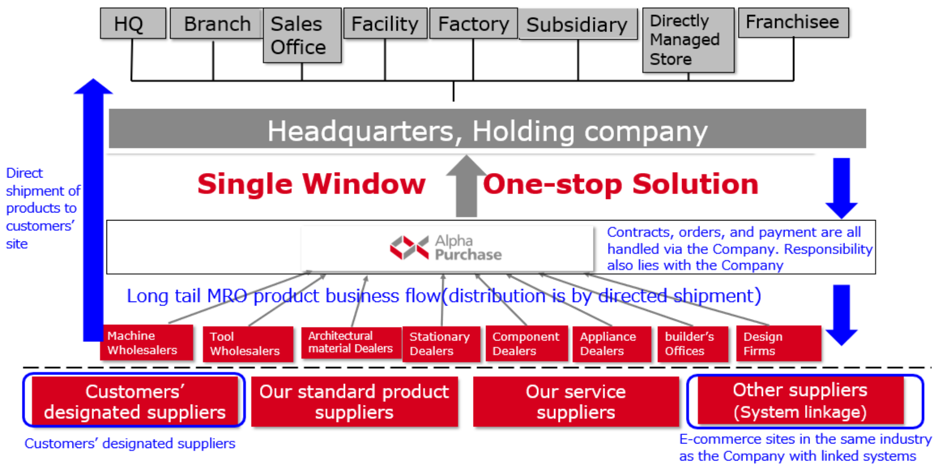
The Company's greatest strength is its systems development capabilities

2. Characteristics and strengths

(1) Single-window, one-stop solutions

One of the characteristic strengths of the Company's MRO Business is that it provides single-window purchasing. Large enterprises have various departments and divisions, plants, and branches, and if these are allowed to order consumables and equipment as they please, it results not only in variation in purchased items and prices, but also poor efficiency since payment processing is needed for each respective supplier. By entering a contract with the Company, the Company provides a single contact point for ordering (single-window), which not only simplifies accounting processes, but also avoids ordering errors or overlapping orders and so forth. Moreover, for the supplier, the Customer is linked not only with the Company's standard suppliers, but also with their own dedicated (designated) suppliers and other e-commerce website suppliers. This enables customers to purchase the same product from the appropriate supplier at the optimal price, and also to compare purchasing conditions (number of days to shipping, minimum lots, etc.), before selecting a supplier.

Unification of transaction account

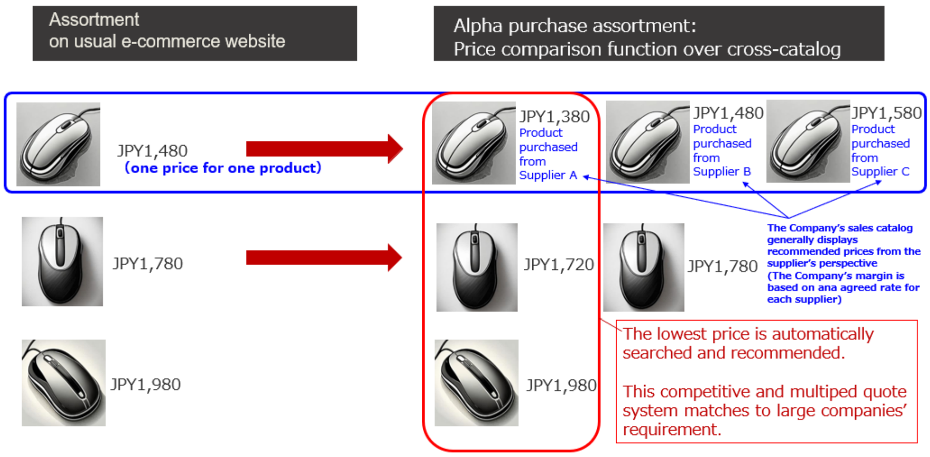


Source: The Company's IR materials

(2) Automatic competitive quotes for the same product (cross-supplier proposal)

Another characteristic of the Company's system is that when customers are searching for a product, the system not only displays products of similar type, performance and price (Product A, Product B, Product C), as a general e-commerce website does, but also displays the sale price for different suppliers (Company X, Company Y, Company Z) of the same product (for example, Product A), and can recommend the lowest price. By making both "vertical" proposals based on similar products, as well as "horizontal" cross-supplier proposals, the system meets the purchasing needs of major companies that require multiple competitive quotes.

Automatic quotation for the same product



Source: The Company's IR materials

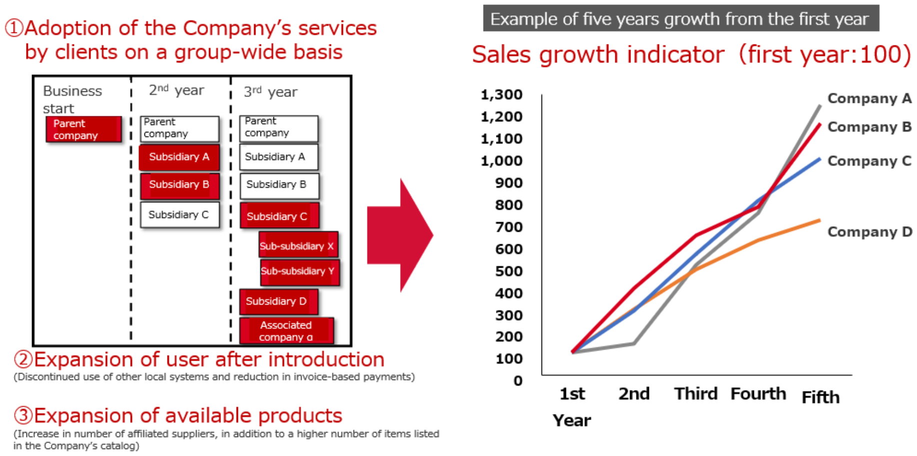
(3) Recurring revenue-based business model

A distinctive characteristic of the MRO Business, which constitutes the Company's core business, is that of its use of a recurring revenue-based business model that seemingly serves as a strength when it comes to the Company's business expansion. The Company's revenues are likely to accumulate year after year with little risk of a major downturn due to the factors outlined as follows.

The Company achieves net sales growth as the number of companies under contract increases given a situation where the number of corporate contracts undoubtedly constitutes a fundamental metric in driving its revenue growth. Conversely, net sales decrease when cancellations rise. The Company reports that over the last five years (2020–2024), it has encountered no cancellations among enterprises whose procurement amounts to at least ¥10.00mn per month on average and only one cancellation (2.5% of the total number of customers) among clients with average monthly procurement amounting to between ¥1.00mn and ¥10.00mn, thereby indicating that its cancellation rate is effectively zero.

Even on a single client basis, the Company achieves growth in net sales (purchasing volume) when such clients whose use of services were initially limited to corporate headquarters later extend such use of services to branches, sales offices, and factories. As such, annual net sales on a single client basis tend to increase year after year, thereby giving rise to a situation where gains in procurement of such existing clients constitutes a driving force underpinning the Company's annual sales growth.

Rate of sales growth



Source: The Company's IR materials

Growth in the number of product suppliers gives rise to a more comprehensive product lineup and greater client convenience, which in turn increases the likelihood of net sales growth. We at FISCO contend that the number of suppliers involved with the Company's services will increase going forward for two main reasons. The first reason has to do with the Company's systems development capabilities. In cases where new suppliers (manufacturers, wholesalers, other e-commerce websites, etc.) wish to take part in the Company's system, they are able to readily enlist their involvement through the Company's website given the Company's own API development capabilities. The second reason has to do with the Company's own growth potential. Many suppliers generally seek to become involved with websites that sell more (have higher user traffic) than other websites, thereby suggesting the prospect of growth in the number of suppliers who seek to become involved with the website as the Company's customer base grows and net sales increase.

(4) Systems development capabilities

We at FISCO deem that the Company's greatest strength is that of its systems development capabilities. Whereas the Company's primary business is that of procurement outsourcing, it is not possible to build such a business model in the absence of sophisticated systems development capabilities. First on the client side, large corporations who serve as the Company's major clients each have their own large-scale systems (such as ERP), and would most likely hesitate to adopt solutions in the absence of systems that can be integrated with theirs. This means that the Company must offer systems that not only allow for selection and purchase of products at the lowest prices, but that also enable seamless end-to-end management of the entire process, encompassing ordering, receiving, invoicing, payment, and inventory control, while furthermore integrating with headquarters, branch offices, sales offices, factories, and other such locations in a manner that enables consistent access throughout.

The same also applies on the supplier side. Suppliers associated with the Company's MRO Business consist of the Company's standard suppliers as well as customer-designated suppliers and even suppliers associated with other e-commerce websites. As such, it is essential that the Company's solutions integrate with systems of these suppliers. We at FISCO contend that the Company's ability to develop various APIs that enable such integration serves as its greatest distinctive characteristic and strength.

With absolutely no comparable rivals, in-house purchasing departments serve as the Company's main competition

3. Competition

(1) General e-commerce websites

The Company's competitors broadly speaking consist of all enterprises that sell physical goods, but in a narrow sense its competitors particularly constitute operators of e-commerce websites that handle merchandise such as tools, equipment, and consumables for corporate customers. Whereas specific examples include MonotaRO Co., Ltd. <3064>, TRUSCO NAKAYAMA CORPORATION <9830>, and Misumi Corporation Inc., these companies are also suppliers that are integrated into the Company's systems. This situation seems to suggest that the Company has no direct competitors strictly speaking given the apparent lack of companies offering similar procurement outsourcing services to large enterprises at the same scale as the Company.

(2) Primary competition: In-house purchasing departments

With respect to the Company's competition, the Company stated that "rather than competing with specific companies, our greatest rival constitutes the notion that many large corporations still engage in purchasing internally within their own departments." In other words, the Company's greatest challenge in terms of competition remains that of its approach to getting enterprises to adopt outsourcing with respect to such in-house procurement operations. Although the prospect of breaking through this barrier is no easy task, we at FISCO contend that the Company has substantial potential to overcome such challenges as a trailblazer.

Results trends

Net sales underperformed in FY12/24 due to delays incurred by some projects, but operating profit increased 4.6% YoY

1. Overview of FY12/24 results

In the consolidated results for FY12/24, net sales increased 7.7% YoY to ¥55,952mn, operating profit rose 4.6% to ¥1,242mn, ordinary profit gained 3.8% to ¥1,227mn, and profit attributable to owners of parent edged up 1.8% to ¥865mn. Although net sales results underperformed projections due to factors that included large-scale construction having incurred delays to FY12/25 in the FM Business, the Company achieved its profit forecast in part due to a slight decrease in depreciation and amortization.

By segment, the MRO Business achieved increases in both net sales and profits due to favorable performance in sales to large corporations, but the FM Business incurred a slight decrease in net sales and lower profits due to factors that included postponement of large-scale refurbishment projects. The number of contracts with large enterprises (those with average monthly procurement of at least ¥1.00mn), a KPI for the Company, stood at 87 companies as of the end of FY12/24, for an increase of 2 companies relative to 4Q FY12/23.

Analysis of factors positively and negatively affecting the operating profit amount includes an increase of ¥312mn due to higher gross profit in the MRO Business, a decrease of ¥94mn due to lower gross profit in the FM Business, a decrease of ¥77mn due to higher personnel expenses, a decrease of ¥57mn due to higher IT expenditure, a decrease of ¥13mn due to higher distribution costs, and a decrease of ¥15mn due to a greater amount of other expenditures. As a result, operating profit increased by ¥54mn YoY.

Consolidated results for FY12/24

(¥mn)

	FY12/23		FY12/24		YoY	
	Results	% of net sales	Results	% of net sales	Change	% change
Net sales	51,951	100.0%	55,952	100.0%	4,001	7.7%
Gross profit	4,828	9.3%	5,037	9.0%	209	4.3%
SG&A expenses	3,640	7.0%	3,795	6.8%	155	4.3%
Operating profit	1,188	2.3%	1,242	2.2%	54	4.6%
Ordinary profit	1,183	2.3%	1,227	2.2%	44	3.8%
Profit attributable to owners of parent	850	1.6%	865	1.5%	15	1.8%

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

2. Status by segment

(1) MRO Business

In the MRO Business, net sales increased 11.0% YoY to ¥41,221mn and segment profit gained 20.9% to ¥1,242mn. Results were particularly strong in the manufacturing sector, which accounts for over 70% of the Company's large corporate clients. On the other hand, net sales to SMEs fell below the results of the previous fiscal year. On the expense side, although the Company continued to invest in IT systems in order to achieve sustainable business growth, segment profit increased substantially as a result of factors that included a decrease in the segment's SG&A expense ratio amid a slowdown in the rate of IT expenditure growth partially due to conclusion of the five-year depreciation period associated with certain intangible assets related to past large-scale IT investment.

(2) FM Business

In the FM Business, net sales decreased 0.4% YoY to ¥14,665mn and segment profit declined 19.0% to ¥389mn. The marginal decrease in net sales results was attributable to postponement in the timing of carrying out high-cost refurbishment of large facilities in addition to a decrease in the number of projects associated with small retail establishments. On the other hand, segment profit decreased due to a lower gross profit margin with respect to the segment overall as a result of variations in the sales mix.

(3) Other

In the Other business, net sales decreased 17.2% YoY to ¥65mn due to focus placed on operations for the Company, and despite recording of external sales associated with the software business of the Company's subsidiary ATC (sales excluding net sales made by the IT services business to the Company, which are subject to intercompany elimination). On the other hand, segment profit increased 17.3% to ¥83mn given that segment profit includes profit generated as a result of services provided to the Company by the services business of ATC.

Results by segment in FY12/24

(¥mn)

	FY12/23		FY12/24		YoY	
	Results	% of net sales	Results	% of net sales	Change	% change
Net sales	51,951	100.0%	55,952	100.0%	4,001	7.7%
MRO Business	37,145	71.5%	41,221	73.7%	4,075	11.0%
FM Business	14,726	28.3%	14,665	26.2%	-60	-0.4%
Other	79	0.2%	65	0.1%	-13	-17.2%
Operating profit	1,188	100.0%	1,242	100.0%	54	4.6%
MRO Business	636	53.6%	769	61.9%	133	20.9%
FM Business	480	40.4%	389	31.3%	-91	-19.0%
Other	71	6.0%	83	6.7%	12	17.3%
EBITDA	1,804	-	1,856	-	52	2.9%

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

Lean balance sheet given a lack of inventory and equipment. Software represents the largest non-current asset

3. Financial position

Total assets as of the end of FY12/24 amounted to ¥18,381mn for an increase of ¥1,265mn relative to the end of FY12/23. Of that amount, current assets were ¥15,925mn for an increase of ¥1,229mn, mainly attributable to an increase of ¥1,589mn in cash and deposits, a decrease of ¥331mn in accounts receivable-trade including electronically recorded monetary claims, and a decrease of ¥221mn in merchandise. Non-current assets were ¥2,455mn for an increase of ¥36mn, mainly attributable to a decrease of ¥33mn in property, plant and equipment, an increase of ¥230mn in intangible assets, and a decrease of ¥160mn in investments and other assets. Intangible assets (mainly software) account for 86% of the Company's non-current assets, which reflects the Company's emphasis on systems development.

Current liabilities amounted to ¥12,274mn for an increase of ¥584mn, mainly attributable to an increase of ¥737mn in accounts payable-trade associated with higher net sales, and a decrease of ¥132mn in income taxes payable and accrued consumption taxes. Non-current liabilities amounted to ¥34mn for a decrease of ¥19mn. As a result, total liabilities were ¥12,309mn for a decrease of ¥564mn. Total net assets amounted to ¥6,071mn for an increase of ¥701mn, mainly attributable to an increase of ¥654mn in retained earnings associated with the amount recorded for profit attributable to owners of parent. As a result, the equity-to-asset ratio as of the end of FY12/24 was 33.0% for an increase of 31.4% relative to the end of FY12/23.

Consolidated balance sheet

(¥mn)

	FY12/23-end	FY12/24-end	Change
Total current assets	14,696	15,925	1,229
Cash and deposits	4,169	5,759	1,589
Accounts receivable-trade (incl. electronically recorded monetary claims)	9,580	9,248	-331
Merchandise	613	391	-221
Total non-current assets	2,419	2,455	36
Property, plant and equipment	115	82	-33
Intangible assets	1,882	2,112	230
Software	1,520	1,506	-14
Investments and other assets	421	260	-160
Total assets	17,115	18,381	1,265
Total current liabilities	11,690	12,274	584
Accounts payable-trade	10,663	11,401	737
Accounts payable-other	252	291	39
Income taxes payable and accrued consumption taxes	415	283	-132
Non-current liabilities	54	34	-19
Total liabilities	11,745	12,309	564
Total net assets	5,370	6,071	701
Total liabilities and net assets	17,115	18,381	1,265

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

4. Status of cash flows

In FY12/24, net cash provided by operating activities was ¥2,471mn. The main inflows were profit before income taxes of ¥1,227mn, depreciation and amortization of ¥613mn, decrease in trade receivables of ¥197mn, decrease in inventories of ¥261mn, and trade payables of ¥737mn. Net cash used in investing activities was ¥665mn. The main outflows were purchase of property, plant and equipment and purchase of intangible assets of ¥803mn and the main inflow was proceeds from refund of guarantee deposits of ¥143mn. Net cash used in financing activities was ¥217mn. The main outflows were repayments of long-term borrowings of ¥53mn and payments of dividends of ¥211mn.

As a result, cash and cash equivalents increased by ¥1,589mn during the fiscal year, thereby culminating in cash and cash equivalents at end of period of ¥5,759mn. The Company has secured cash on hand amounting to at least 1.4 months of net sales.

Statement of consolidated cash flows

(¥mn)

	FY12/23	FY12/24
Cash flows from operating activities	1,224	2,471
Cash flows from investing activities	-722	-665
Cash flows from financing activities	-229	-217
Net increase (decrease) in cash and cash equivalents	272	1,589
Cash and cash equivalents at end of period	4,169	5,759

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

Outlook

Operating profit poised to rise by 13.5% in FY12/25 driven by increase in number of clients and results from previously delayed projects

● FY12/25 forecasts

For the FY12/25 consolidated results, the Company is forecasting net sales of ¥61,975 (up 10.8% YoY), operating profit of ¥1,410mn (up 13.5%), ordinary profit of ¥1,400mn (up 14.0%), and profit attributable to owners of parent of ¥979mn (up 13.1%).

In the MRO Business, the Company forecasts a 9.0% increase in net sales relative to FY12/24 due to the likelihood of persisting double-digit growth partially given an increase in sales to large enterprises as a result of the Company having secured more contracts with such clients. In the FM Business, net sales are expected to increase 15.8% to ¥17,000mn due to the start of a large-scale project that was postponed in the previous fiscal year. On the expenses front, IT expenses (including amortization) and human resource-related expenses (including temporary employees, training expenses, and so forth) are expected to increase, but the Company plans to absorb the increase to achieve an increase in operating profit.

FY12/25 consolidated results outlook

(¥mn)

	FY12/24		FY12/25		YoY	
	Results	% of net sales	Forecast	% of net sales	Change	% change
Net sales	55,952	100.0%	61,975	100.0%	6,022	10.8%
MRO Business	41,221	73.7%	44,900	72.4%	3,679	9.0%
FM Business	14,665	26.2%	17,000	27.4%	2,335	15.8%
Operating profit	1,242	2.2%	1,410	2.3%	167	13.5%
Ordinary profit	1,227	2.2%	1,400	2.3%	172	14.0%
Profit attributable to owners of parent	865	1.5%	979	1.6%	113	13.1%

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

Medium- to long-term outlook

Significant room for growth in an extensive potential market. Infinite Catalog released as a groundbreaking service

Whereas the Company has not released a specific medium-term business plan, we at FISCO find that the Company has significant room for growth given several factors, as follows.

1. Scale of potential market

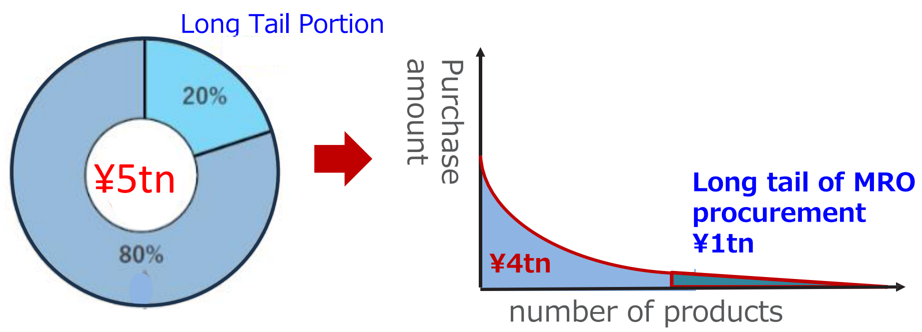
(1) Large number of companies presents growth opportunities

The target market for the Company's MRO Business consists of enterprises with net sales of at least ¥100.0bn, of which there are approximately 1,000 such companies. Although the prospect of all such enterprises opting to outsource their procurement operations is inconceivable, the potential market amounts to 500 companies assuming a scenario where half of such enterprises shift to outsourcing. The Company's MRO Business currently serves 42 major corporate clients, which accounts for only 8.4% of the 500 companies constituting the potential market. Large corporations are poised to further step up their cost-cutting efforts (rationalization) in non-core areas going forward, making it more likely than not that they will increasingly turn to outsourcing when it comes to indirect materials. The notion that the Company is a trailblazer in this market suggests that it has substantial room for growth.

(2) Amounts spent on purchases present growth opportunity

According to the Company's estimates, large corporations spend approximately ¥5tn annually with respect to procurement of indirect materials. Of that amount, such enterprises spend approximately ¥4tn (80% of the overall amount) on contractually specified goods whose purchases are administered in a similar manner to that of procurement of direct materials. The remaining amount of approximately ¥1tn (20% of the overall amount) falls under the long tail category encompassing a wide variety of low-cost items that require significant administrative effort culminating in relatively higher costs.

Conceptual diagram illustrating growth opportunities for the Company



Source: The Company's IR materials

Of the ¥1tn amount, there is a market of approximately ¥400.0bn with respect to merchandise subject to negotiations in determining product specifications, and a market of approximately ¥200.0bn with respect to standard products subject to price negotiations. The market representing the remaining amount of approximately ¥400.0bn presents opportunities for the Company in the realm of catalog-based sales such as those offered by the Company. The Company's catalog-based sales to large corporations currently amount to approximately ¥35.0bn (calculated as the amount of direct sales of the MRO Business to large corporations, excluding sales to SMEs) with respect to this ¥400.0bn market, thereby indicating that the Company has an estimated market share of approximately 9%. This suggests that there is significant untapped potential in this market with respect to the Company's MRO Business.

2. Strength in API development capabilities

(1) Strength in API development capabilities

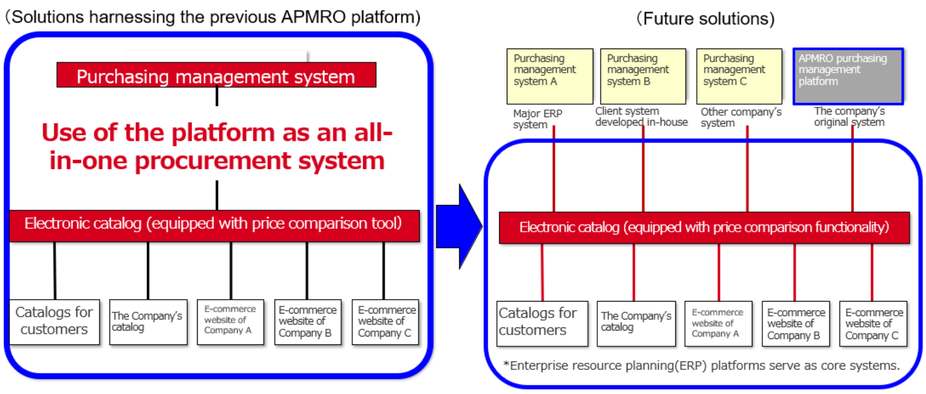
We at FISCO find that the Company has strengths derived from its systems development capabilities, particularly when it comes to its ability to develop APIs that enable integration with various systems. The Company's balance sheet substantiates this notion in that accounts receivable-trade and accounts payable-trade constitute a large portion of both current assets and current liabilities, while inventory is minimal. Meanwhile in terms of non-current assets, the balance sheet contains little in the way of property, plant and equipment (logistics centers, etc.), while intangible assets (mainly software) account for the majority of the non-current assets. Amid a scenario of a market with significant untapped potential, it is likely that the Company will differentiate itself from its competitors by leveraging such intangible assets it has amassed over time.

(2) Infinite Catalog

1) Overview of the Infinite Catalog

One example of the Company's development capabilities involves its Infinite Catalog, released in September 2024. The Infinite Catalog is an electronic catalog developed by specifically harnessing the electronic catalog functionality of the Company's existing APMRO platform. It is designed to dynamically archive items thereby making it possible to increase the number of items listed in the catalog indefinitely, as the name suggests. It not merely provides a simple list of products and prices but serves as a system module that constitutes part of the core APMRO platform. With further functional enhancements going forward, it will be capable of flexibly addressing client requests such as those that involve changes to purchasing terms and product specifications. Given that it handles tasks that had been difficult to carry out with conventional catalogs, the Company seeks to expand the range of e-commerce websites and procurement systems that can be integrated with the Infinite Catalog, thereby effectively making it possible to handle an infinite number of items.

Overview of the Infinite Catalog



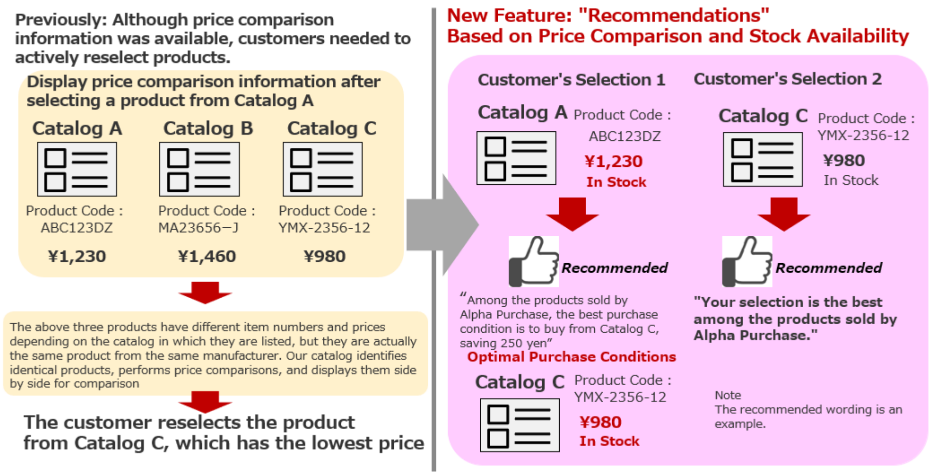
Source: The Company's IR materials

2) Infinite Catalog: Enhanced product comparison tool

The product comparison tool is one of the enhanced features available with the Infinite Catalog. Although the previous platform enabled access to price comparison information, clients were required to actively reselect products themselves. For instance, when a client using the previous platform selected product X from catalog A, price comparison information for the same product would be displayed from other catalogs (such as catalog B and catalog C), even if the merchandise code or product number differed by catalog but the product was from the same manufacturer. However, the client would then have to make the final decision on which catalog to turn to in product selection.

With the Infinite Catalog, on the other hand, products are automatically selected for customers based on price and inventory availability. For instance, if a customer is looking for Product X, the platform checks various catalogs containing the same product. In so doing, the platform might determine that Catalog C has the lowest price and that the product is in stock. As a result, the product in the customer's shopping cart is then automatically replaced with the recommended product from Catalog C. This powerful recommendation tool significantly reduces customer effort needed in choosing products.

Product comparison tool



Source: The Company's IR materials

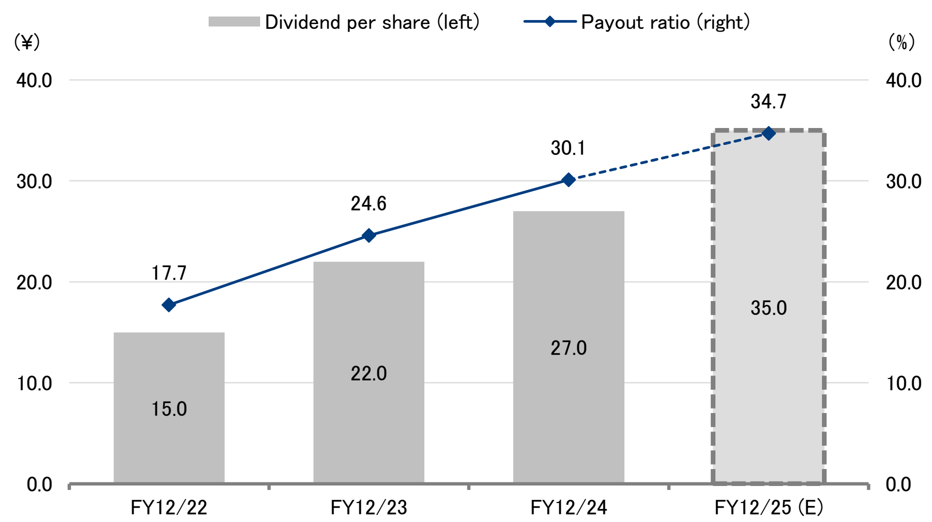
The Infinite Catalog is also equipped with an interactive negotiation tool, which allows for attachment of documents within the electronic catalog and enables immediate execution of transactions encompassing consultations, negotiations, and finalizing contracts using an inquiry (chat) tool, even with respect to products that are otherwise difficult to order using a standard catalog. This includes products subject to frequent and substantial price fluctuations, products whose prices vary significantly due to size of the business deal and new product launches, products with a wide variety of options to be placed in catalogs, and custom-made industrial materials and components.

Shareholder return policy

Basic policy of providing continuous and consistent dividends. Annual dividend increase to ¥35.0 set for FY12/25

Having established a basic policy of continuously and consistently providing dividends under its shareholder return policy, the Company intends to increase both its dividend payout ratio and dividend per share in alignment with improvement in business performance and profitability (including better cash flow) attributable to progress achieved with respect to meeting objectives of the medium-term business plan, while also securing retained earnings necessary to actively invest in business growth in a timely manner. Based on this policy, the Company paid annual dividends of ¥15.0 in FY12/22, ¥22.0 in FY12/23, and ¥27.0 in FY12/24. For FY12/25, the Company has announced that it will increase its annual dividend to ¥35.0 per share for a projected dividend payout ratio of 34.7%.

Annual dividend and payout ratio



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

Disclaimer

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