COMPANY RESEARCH AND ANALYSIS REPORT

NSW Inc.

9739

Tokyo Stock Exchange Prime Market

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Contents

Summary

Final year of the previous medium-term management plan completed with targets met. Aiming for further growth from FY3/26 through the advancement of a new medium-term management plan

NSW Inc. <9739> (hereafter, also "the Company") is an independent IT solutions provider and an engineering group in which engineers account for nearly 90% of all employees. The Company categorizes businesses into the four segments of Enterprise Solutions, Services Solutions, Embedded Solutions, and Device Solutions. In the final year of the previous medium-term management plan (FY3/23 to FY3/25), results surpassed targets, so the Company is aiming to further improve results by advancing growth strategies based on its new medium-term management plan (FY3/26 to FY3/28).

1. Overview of FY3/25 results

In the FY3/25 consolidated results, net sales were ¥50,028mn (down 0.5% year on year (YoY)), operating profit was ¥6,116mn (up 4.3%), ordinary profit was ¥6,168mn (up 3.8%), and profit attributable to owners of parent was ¥3,662mn (down 14.6%). The decrease in net sales is due to a decline in sales in Enterprise Solutions. However, the operating profit margin rose to 12.2% as the increase in operating and ordinary profits exceeded forecasts, mainly due to efforts to improve productivity, such as making projects more efficient and negotiating expenses with customers to accommodate wage increases. Profit attributable to owners of parent also decreased but this was due to extraordinary income attributable to gain on sale of investment securities in FY3/24, leading to the recording of loss on valuation of investment securities in FY3/25. In addition, orders received, which lead to future sales, were solid at ¥51,199mn (up 0.8%). By segment, Enterprise Solutions saw decreases in sales and profits due to a rebound from strong sales of system devices in the previous fiscal year. Services Solutions secured increases in sales and profits as digital solutions sold well. In Embedded Solutions, sales and profits both rose, mainly due to its performance in the automotive sector. In Device Solutions, net sales remained roughly level due to factors including the curbing of IT investment by some major customers, while profits declined as the timing of orders failed to align smoothly with resource adjustments. The equity ratio was 75.1% as the Company maintained financial soundness, and profitability indicators such as ROA and ROE were also high. In line with its policy of maintaining a stable and continuing dividend with a target payout ratio of 30%, the Company paid an annual dividend of ¥85 per share, the same as the previous fiscal year.

2. FY3/26 forecasts

For the consolidated results in FY3/26, the Company is expecting increases in net sales and decreases in profits. It is forecasting net sales of ¥51,000mn (up 1.9% YoY), operating profit of ¥5,100mn (down 16.6%), ordinary profit of ¥5,140mn (down 16.7%), and profit attributable to owners of parent of ¥3,540mn (down 3.3%). This forecast is cautious as it takes into account uncertainty accompanying the effects of US tariff measures. To realize future growth, the Company is focusing on business expansion and human resources development and it plans to actively invest in measures related to these aims. By segment, in Enterprise Solutions, net sales are expected to rise but profits are expected to fall considerably due to an increase in SG&A expenses accompanying package renewals and other measures. It is also forecasting small increases in net sales and decreases in profits in the other three segments. However, the Company has a strong tendency to initially announce conservative forecasts, so FISCO thinks there is a high likelihood that the Company's results will surpass its forecasts. Additionally, the forecast annual dividend per share is ¥85, the same as in FY3/25, under the Company's policy of paying a stable, continuing dividend, so it can be said that the Company is giving adequate consideration to shareholder returns.

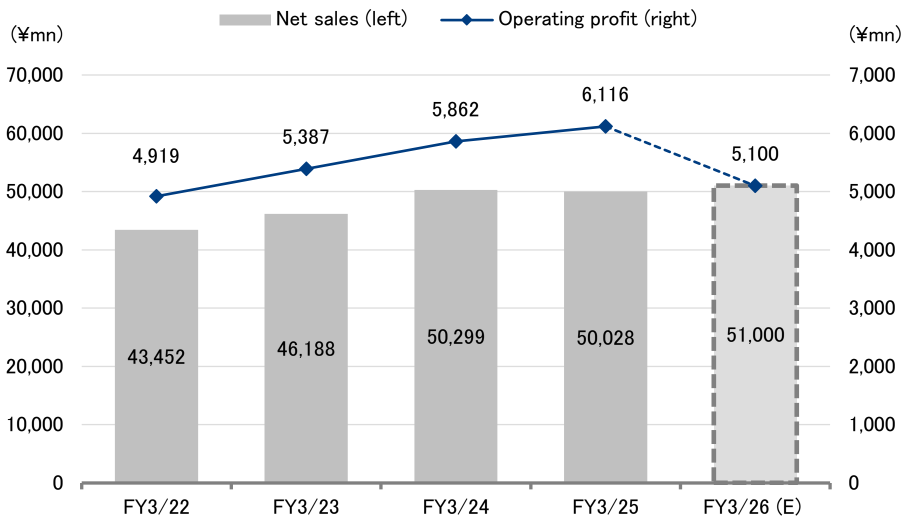
3. Medium-term management plan

The Company's long-term vision is to achieve net sales of ¥100.0bn and in its previous medium-term management plan (FY3/23 to FY3/25), final year results surpassed targets. Its new medium-term management plan (FY3/26 to FY3/28) is based on the concept of "DRIVE DX × Change The Standard." The targets for FY3/28, the final year of the plan, include net sales of ¥60,000mn (compound annual growth rate (CAGR) of an increase of 6.25%), an operating profit margin of 12%, and ROE of 10% or higher. To achieve these targets, it will pursue business strategies to realize growth in focus areas in each segment, management foundation strategies to strengthen recruitment and promote sustainability, and an investment strategy to advance investment which facilitates the business and management foundation strategies. Going forward, we will monitor the progress made on this medium-term management plan.

Key Points

- An independent IT solutions provider engaging in business in four segments
- Achieved an increase in operating profit in FY3/25. Maintained high levels of profitability and paid a stable, continuing dividend based on a target payout ratio of 30%
- Considerable profit decrease forecast for FY3/26 due to cost increases associated with investment activities targeting future growth. Dividend to remain level with the previous fiscal year at ¥85 per share
- The new medium-term management plan includes business strategies, management foundation strategies, and an investment strategy with the target of achieving net sales of ¥60,000mn and an operating profit margin of 12% in FY3/28

Results trends



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

Company profile

Aims to create and provide excellent systems to enrich society

1. Company profile

In the Company Group, based on its corporate philosophy of "Humanware By Systemware," which expresses its desire to leverage the individuality, sensibility, and creativity of each and every employee to the greatest possible extent to create excellent systems that will enrich society, the Company has set the "NSW Way" as its code of conduct. This code involves always seeing ahead of the times, customer-centric business concepts, ideas for utilizing human resources that leverage their potential to the greatest extent, a spirit of self-reliance and a polite, humble and sincere corporate culture, and a corporate vision that contributes to society.

In addition to the Company itself, the Company's Group consists of three wholly-owned consolidated subsidiaries; NSS, Inc., which conducts businesses including system development and infrastructure construction; in China, NSW China Co., Ltd., which conducts businesses including embedded development; and NSA, Inc., a special subsidiary for the employment of people with disabilities that provides general agency services and support services.

The Company's business base is located to the west of Tokyo, but it has customers throughout the country, including government offices and public organizations, and also many major companies, such as in the manufacturing and distribution industries. When it was first established, transactions were highly concentrated with the NEC Corporation <6701> Group, but alongside the expansion of the customer base, this percentage has fallen to 11.3% of net sales in FY3/25, and the scope of customers for transactions has widened yearly. The Chinese subsidiary mainly covers Japanese companies that are entering the local Chinese market. Additionally, it opened the Taiwan office (representative office) in April 2018, and this office seeks to recruit customers and conducts local surveys in the Taiwanese market, a global site for semiconductor production, assembly, and testing.

The Company Group is an engineering group with a total of 2,487 employees and nearly 90% of its workforce comprises of engineers as of the end of FY3/25. Shoji Tada has served as the President and Representative Director since April 2013.

2. History

The Company started in 1966 as an independent software house, with a software development business and an outsourced computing business. Subsequently, in 1968 it started an operation management services business, and in 1978, a development business for firmware and logic circuits. Alongside the evolution of IT technologies, its business areas have expanded, including that it started a systems integration business in 1990, a data center business in 1998, a cloud service business in 2009, and an IoT/M2M business in 2013.

During this period, the Company changed its name to NIPPON SYSTEMWARE CO., LTD., in 1982. It began the over-the-counter trading of its shares in 1996 and opened the Yamanashi IT Center in August 1998 with the funds obtained from the market. It was listed on the Tokyo Stock Exchange (hereafter "TSE") 2nd Section in April 1999, its listing was upgraded to the TSE 1st Section in March 2000, and it celebrated the 50th anniversary of its establishment in FY3/16. In April 2022, its listing was changed to the Prime Market following the TSE's reorganization of market categories. Moreover, toward taking a leap forward to a new stage, it changed its company name to NSW in August 2022. Similarly, in January 2023, it changed the names of the three consolidated subsidiaries.

History

August 1966	Established the Business Computing Center in Minato Ward, Tokyo. Commenced software development and outsourced computing activities
October 1968	Commenced operation management service activities
December 1975	Acquired own building (present site of Head Office)
February 1976	Became a member of Japan Software Industrial Association (now Japan Information Technology Service Industry Association)
June 1978	Commenced development activities related to firmware and logic circuits
June 1980	Launched a business for the sale of office computers and office-automation equipment
March 1982	Changed the company name to NIPPON SYSTEMWARE CO., LTD.
March 1986	Established the Osaka Branch (now the Osaka Office) in Osaka City. Strengthened regional development
September 1986	Construction of the new Head Office building completed
February 1990	Started the systems integration business
August 1990	Established Nippon Technowave Co., Ltd., as a wholly owned subsidiary
April 1996	Stock registered as over-the-counter with the Securities Dealers Association of Japan
October 1997	Obtained ISO 9001 certification, an international assurance of quality
August 1998	Established the Yamanashi IT Center. Launched the datacenter business
April 1999	The Company is listed on the TSE 2nd Section
March 2000	The Company is designated to the TSE 1st Section
July 2002	The outsourcing business to manage and control customers' information systems achieved the requirements to be certified in the ISMS (Information Security Management Systems) assessment scheme
September 2002	Established NSW SALES CO., LTD.
February 2005	Obtained ISO 14001 certification, an international environmental management standard
March 2007	Obtained ISO/IEC 27001, an international standard for Information Security Management Systems
April 2007	Certified by the Ministry of Health, Labour and Welfare as a corporation promoting measures to support the development of the next generation
October 2007	Obtained ISO/IEC 20000, an international standard for IT service management systems
September 2009	Launched the cloud service business
October 2009	Established NSW WITH CO., LTD. (now a wholly-owned consolidated subsidiary)
April 2010	Established NSW China Co., Ltd. (now a wholly-owned consolidated subsidiary)
May 2013	Launched the IoT/M2M business
July 2013	Changed the name of NIPPON TECHNOWAVE CO., LTD., to NSW Techno Services CO., Ltd. (now a wholly-owned consolidated subsidiary) after the merger with NSW SALES CO., LTD.
January 2018	Acquired all the shares of NIHON SOFTWARE ENGINEERING Co., Ltd., and made it a subsidiary
April 2018	Established the Taiwan Office in Taiwan
April 2020	Absorbed NIHON SOFTWARE ENGINEERING Co., Ltd.
August 2021	Acquired all the shares of Kohwa System Corporation and made it a subsidiary
April 2022	Absorption merger of Kohwa System Corporation Listing changed to the TSE Prime Market following the TSE's market reorganization
August 2022	Changed name to NSW Inc.
January 2023	Changed the names of the three consolidated companies (NSW Techno Services CO., Ltd. → NSS Inc.; NSW China Co., Ltd. → NSW China Co., Ltd.; NSW WITH CO., LTD. → NSA Inc.). (The company name of NSW China Co., Ltd. was changed in Chinese, while its English name was unchanged)

Source: Prepared by FISCO from the Company's website

Business overview

While leveraging the Company's features to the greatest possible extent, aims for further development in the four business areas and the DX-related business

1. The Company's features

The Company conducts four solutions businesses—Enterprise Solutions, Services Solutions, Embedded Solutions, and Device Solutions and it is aiming to expand DX-related business that leverages the technological synergies from these businesses. Its major strength is that it has technologies and expertise for both software and for hardware.

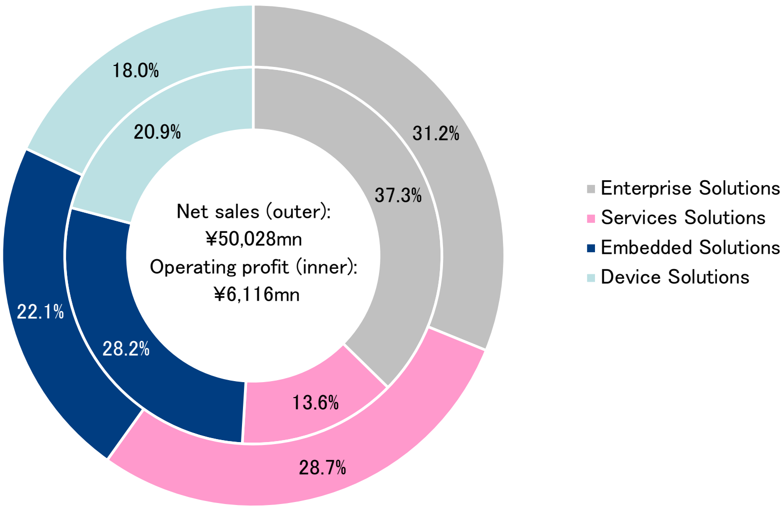
The Company's strengths include its accumulated industry and business expertise and systems-construction capabilities that it has cultivated in the Enterprise Solutions business in various industrial fields; service coordination capabilities and a foundation to provide infrastructure and platforms such as cloud environments in the Services Solutions business; product development capabilities, including for embedded software and LSI* design and image processing technologies, in the Embedded Solutions and the Device Solutions business. The Company's major strength is that it has a core structure that enables it to support the DX sought by customers, centered on digital technology such as IoT and AI that leverages those synergies, and it utilizes all these strengths for growth in the future.

* Abbreviation of Large-Scale Integration. It refers to a large-scale integrated circuit that incorporates many electronic components, such as transistors, diodes, resistors, and capacitors, into one semiconductor chip.

2. Business description

Looking at net sales and operating profit by segment in FY3/25, the Enterprise Solutions business provided 31.2% of net sales and 37.3% of operating profit; these figures are 28.7% and 13.6% for the Services Solutions business, 22.1% and 28.2% for the Embedded Solutions business, and 18.0% and 20.9% for the Device Solutions business, respectively. It is considered that the reasons why the Embedded Solutions business and the Device Solutions business provide comparatively high profit margins is that the technological barriers to enter these businesses are high and there are few independent companies of the same scale as the Company conducting these businesses. Also, in the Enterprise Solutions business, various initiatives, including improving profitability and limiting unprofitable projects, are proving successful and the profit margin has improved significantly in recent years. Conversely, the reason for the comparably low profit margin in the Services Solutions business is that it became an independent segment starting from FY3/20 and the business is currently undertaking efforts to bolster its structure, upfront investment for developing new services, and responses to unprofitable projects.

Net sales and operating profit by segment (FY3/25)



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

The Enterprise Solutions business provides operations-related solutions. Utilizing the business expertise cultivated over many years, such as for the manufacturing, distribution, finance and insurance industries, and for government offices, the Company provides optimized solutions for its customers, from consulting through to systems design, development, maintenance, and operations.

Services Solutions provides IT services and IoT & AI services. IT services are a variety of services that support customers' systems, from servers and network designs that maximize systems' performance and the construction of secure environments, through to highly reliable management and monitoring by urban- and suburban-type data centers. Also, the IoT & AI services utilize their strength of enabling total coordination, from devices through to the cloud, and based on the Toami IoT cloud platform, support customers' creation of new business value, from collecting data through to its analysis and utilization.

Embedded Solutions develops embedded systems and provides edge device solutions. In embedded systems development, the Company responds to demand for product diversification, increased efficiency and improved design quality and for smart products by using the embedded technologies it has cultivated for app, middleware and driver development as a result of developing a wide range of products for the automotive and industrial sectors, amongst others. In addition, in edge device solutions, it proposes optimal IoT environments to customers that keep down costs from small starts through its abundant design and development capabilities that enables it to respond in-house, for from embedded apps through to LSI, and through alliances with various sensor and device vendors.

Device Solutions develops LSI and FPGA (integrated circuits in which the purchasers and designers can set the configuration after manufacturing). It provides solutions according to requirements, including for high-level designs, logic designs and verification, logical synthesis, layout designs, manufacturing, and testing. It is responding for lower-power consumption designs and advanced processes in various fields, such as for image processing and communication controls.

The business field that holds significant expectations to become a new pillar of earnings by combining its expertise in the above-described four segments is the DX-related business that focuses on digital technologies such as IoT and AI. Currently, the Company conducts the business while including it in the revenue of the existing segments. Centering on Toami, an IoT cloud platform that began selling in May 2013, a major strength of the Company is having the capability to accommodate everything from development and analysis services necessary for IoT to embedded apps, starting with wireless and sensor technology, to LSI design. The Company's Toami has a track record of introductions into more than 100 companies in total, mainly for the realization of IoT-accessible products. The number of alliance partners has also grown to more than 30 companies and it provides it in more than 30 countries worldwide. Inquires for related services, such as for an analysis service to effectively utilize the data collected through IoT, are also strong. Toami is being utilized by companies including Panasonic Holdings Corporation <6752>, Nipron Co., Ltd., EXEO Group, Inc. <1951>, Tohoku Energy Service Co, Inc., Watanabe Electric Industry Co., Ltd., Renesas Electronics Corporation <6723>, NEC Networks & System Integration Corporation, RION Co., Ltd. <6823>, and Japan Radio Co., Ltd.

Results trends

In FY3/25, the increase in operating profit surpassed forecasts

1. Overview of FY3/25 results

The Japanese economy in FY3/25 was marked by a gradual recovery in business conditions due to improved employment and income conditions, as well as the effects of fiscal and monetary policies. At the same time, there were many concerns putting downward pressure on the economy that required monitoring, including weakness in the consumer mindset due to rising prices driven by soaring energy and raw material costs, the unpredictability of US trade policies, ongoing stagnation in China's economy, and the unclear situation in the Middle East. However, in the information services industry, the appetite for DX-related investment remained high, as companies sought to improve productivity and strengthen competitiveness, and there was steady demand for IT investment related to digitalization, such as system renewals and transitions to cloud-based solutions. Under such conditions, the Company ambitiously engaged in the final year of its medium-term management plan.

As a result, in the Company's FY3/25 consolidated results, net sales were ¥50,028mn (down 0.5% YoY), operating profit was ¥6,116mn (up 4.3%), ordinary profit was ¥6,168mn (up 3.8%), and profit attributable to owners of parent was ¥3,662mn (down 14.6%). The decrease in net sales is due to a decline in sales in Enterprise Solutions. However, the operating profit margin rose to 12.2% as increase in operating and ordinary profits exceeded forecasts, mainly due to efforts to improve productivity, such as making projects more efficient and negotiating expenses with customers to accommodate wage increases. Profit attributable to owners of parent also decreased but this was due to a rebound on extraordinary income attributable to gain on sale of investment securities recorded in FY3/24, which manifested as loss on valuation of investment securities in FY3/25. Said loss on valuation of investment securities was the impairment of shares held as a venture investment and the Company's business relationships remain unchanged. In addition, orders received, which lead to future sales, were solid at ¥51,199mn (up 0.8%). As a result, the Company was able to complete its previous medium-term management plan with targets met. The Group can be said to have a broad range of customers and is continuing to grow in a stable manner regardless of the operating environment.

FY3/25 consolidated results

(¥mn)

	FY3/24		FY3/25			YoY		vs. forecast	
	Results	% of net sales	Initial forecast	Results	% of net sales	Increase (decrease)	% change	Increase (decrease)	% change
Net sales	50,299	100.0%	52,000	50,028	100.0%	-270	-0.5%	-1,971	-3.8%
Cost of sales	40,287	80.1%	-	39,518	79.0%	-769	-1.9%	-	-
Gross profit	10,012	19.9%	-	10,510	21.0%	498	5.0%	-	-
SG&A expenses	4,149	8.2%	-	4,394	8.8%	245	5.9%	-	-
Operating profit	5,862	11.7%	6,000	6,116	12.2%	253	4.3%	116	1.9%
Ordinary profit	5,940	11.8%	6,050	6,168	12.3%	227	3.8%	118	2.0%
Profit attributable to owners of parent	4,287	8.5%	4,175	3,662	7.3%	-625	-14.6%	-512	-12.3%

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

Continued strong performance in Embedded Solutions. Service Solutions achieved YoY increase but fell short of targets

2. Overview by segment

(1) Enterprise Solutions business

In the Enterprise Solutions business, net sales were ¥15,587mn (down 6.7% YoY), operating profit was ¥2,283mn (down 6.4%), and the operating profit margin was 14.6% (same level as the previous fiscal year). Net sales decreased due to a rebound from strong sales of system devices in the previous fiscal year. Operating profit also decreased due to a decline in gross profit accompanying the decrease in sales, despite profit contributions from high-margin projects. In addition, although orders received were ¥15,995 (down 4.5%), the order backlog remained solid at ¥6,593mn (up 4.6%).

Breaking down net sales, business solutions net sales were ¥6,399mn (up 7.4% YoY). Sales of proprietary packages to the manufacturing and logistics industries were steady, but sales to retail industry customers declined as a large-scale project came to an end, despite growth in sales to existing customers. Additionally, sales of solutions for the financial industry and public sector were ¥7,284mn (down 7.3% YoY). Although the Company faced challenges in expanding card settlement operations for the financial and insurance sectors, it successfully leveraged its operational expertise to generate steady systems-related sales to government agencies and public organizations. However, the transfer of certain operations to the Services Solutions business had an impact. Moreover, net sales from system devices declined by a large margin to ¥1,904mn (down 34.0%). This is because sales of POS systems to customers in the retail industry, which had been strong in FY3/24, declined considerably as the system upgrade cycle ran its course.

(2) Services Solutions business

In the Services Solutions business, net sales were ¥14,362mn (up 2.7% YoY), operating profit was ¥831mn (up 95.7%), and the operating profit margin was 5.8% (up 2.8 percentage points (pp)). Net sales increased due to an increase in sales related to IoT systems construction. Operating profit increased due a rise in gross profit accompanying the resolution of unprofitable projects and the increase in sales, but profit levels still fell short of targets. This segment became an independent segment starting from FY3/20, and the operating profit margin was lower than other segments due to the impact of efforts to strengthen the structure targeting business expansion along with upfront investments to develop new services. Although the resolution of unprofitable projects was completed in the interim period, it seems that it will take a little more time for the business to get on track and contribute to the overall performance of the Company. Orders received was at ¥14,818mn (up 5.1%).

Looking at a breakdown of net sales, net of sales of the cloud infrastructure service were ¥9,930mn (down 0.2% YoY). Cloud construction-related sales increased, driven by firm demand for cloud use. In infrastructure and other services, the data management field performed well and the Company also transferred some operations from the Enterprise Solutions business in order to concentrate its operations-related operations in the Services Solutions business, which made a positive contribution. Net sales of digital solutions were ¥4,432mn (up 9.8% YoY). Regarding IoT and AI, the significant growth of IoT systems development for the manufacturing industry contributed on the profit front. Furthermore, in Web and EC, the Company strengthened its management framework in response to the considerable opportunity loss incurred from having to deal with unprofitable projects at existing customers.

(3) Embedded Solutions business

Net sales were ¥11,075mn (up 4.0% YoY), operating profit was ¥1,722mn (up 7.8%), and the operating profit margin was 15.6% (up 0.5pp). The profit margin maintained a high level. Net sales were buoyant in the automotive and mobility fields. Profit increased due to the increase in gross profit that increased with increased sales. Productivity improved due to the efforts to develop more business with existing customers. The Company continues to maintain a high profit margin. As noted above, this is thought to be because the technological barriers to enter this business are high and there are very few independent companies of the same size as the Company engaging in this business. Orders received was solid at ¥11,235mn (up 3.1%).

Looking at a breakdown of net sales, sales in the automotive sector, one of the Company's areas of specialty, were firm due to strong demand for engineers in the SDV* field. In the mobile sector, sales declined as a major customer ended its development phase. In the industry sector, sales related to the development of facility devices performed well, particularly due to growth in the energy field. In the communications sector, sales grew due to an upward trend in network device development for existing customers.

* Abbreviation of Software Defined Vehicle. A vehicle that can have its performance raised by changing the software to increase value and functions.

(4) Device Solutions business

In the Device Solutions business, net sales were ¥9,002mn (up 0.5% YoY), operating profit was ¥1,278mn (down 8.7%), and the operating profit margin was 14.2% (down 1.4pp). Net sales only increased slightly due to factors including the curbing of IT investment by some major customers. Profit declined, mainly due to opportunity losses resulting from said curbing of investment. Similarly, in Embedded Solutions, productivity improved as a result of efforts to win more business from existing customers. In addition, the technological barriers to enter this business are high and there are very few independent companies of the same size as the Company engaging in this business, so the Company continued to maintain a high profit margin. The Company is stronger in specialty fields than general fields, but its customers are in solidified fields, so results are grown by deeply cultivating relationships with major customers. Orders received were ¥9,149mn (up 1.2%), remaining flat with the previous fiscal year, and the Company plans to watch trends related to semiconductors going forward.

Looking at the breakdown of net sales, the impact of the slowdown in sales accompanying the curbing of IT investment by some major customers was not sufficiently covered by increases in sales to other customers. Additionally, the failure to smoothly align the timing of orders with resource adjustments meant there were times when available personnel had to wait on standby, which impacted profitability. The semiconductor field is particularly highly specialized, and there is a chronic labor shortage in the industry as a whole. The Company is fully committed to utilizing overseas resources and coordinating partnerships primarily in Southeast Asia, starting with Vietnam. It is forming alliances in Taiwan as well, working to acquire projects from overseas companies and develop new customers.

Results by segment

(¥mn)

	FY3/24 Results	FY3/25		YoY change	vs. forecast
		Forecast	Results		
Net sales	50,299	52,000	50,028	-0.5%	-3.8%
Enterprise Solutions	16,701	16,800	15,587	-6.7%	-7.2%
Services Solutions	13,985	15,300	14,362	2.7%	-6.1%
Embedded Solutions	10,650	10,700	11,075	4.0%	3.5%
Device Solutions	8,961	9,200	9,002	0.5%	-2.2%
Operating profit	5,862	6,000	6,116	4.3%	1.9%
Enterprise Solutions	2,438	2,220	2,283	-6.4%	2.9%
Services Solutions	425	1,010	831	95.7%	-17.6%
Embedded Solutions	1,598	1,520	1,722	7.8%	13.3%
Device Solutions	1,400	1,250	1,278	-8.7%	2.2%
Operating profit margin	11.7%	11.5%	12.2%	0.6pp	0.7pp
Enterprise Solutions	14.6%	13.2%	14.6%	0.0pp	1.4pp
Services Solutions	3.0%	6.6%	5.8%	2.8pp	-0.8pp
Embedded Solutions	15.0%	14.2%	15.6%	0.5pp	1.4pp
Device Solutions	15.6%	13.6%	14.2%	-1.4pp	0.6pp

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

Continuing to practice debt-free management with high levels of financial soundness and profitability

3. Financial condition and management indicators

At the end of FY3/25, total assets increased ¥3,011mn from the end of the previous fiscal year to ¥47,149mn. This was mainly due to increases in cash and deposits, notes and accounts receivable-trade, and contract assets, and work in process. Total liabilities increased ¥771mn to ¥11,735mn, with the main items being increases in income taxes payable and advances received. Total net assets increased ¥2,240mn to ¥35,414mn in conjunction with the booking of profit attributable to owners of parent.

As a result of the above, the current ratio (current assets/current liabilities) declined 7.0pp from the end of the previous fiscal year to 417.6%, but the Company's short-term solvency is high. Also, the fixed ratio (fixed assets/equity capital) declined 0.8pp to 29.1%. The procurement of fixed assets (such as equipment investment) is fully covered by shareholders' equity with no repayment deadlines, and the Company continues to practice debt-free management. The equity ratio declined 0.1pp to 75.1%, but remains well above the telecommunications industry average of 31.4% on the TSE Prime Market in FY3/24, indicating that the Company maintains a high degree of financial soundness. Also, ROE is 10.7% and ROA is 13.5%, which exceeded the 8.4% and 4.3% that are the respective averages of the telecommunications industry companies on the TSE Prime Market, so it can be said that its profitability is also high.

Consolidated balance sheets and main management indicators

(¥mn)

	FY3/24	FY3/25	Increase (decrease)
Current assets	34,218	36,858	2,640
Cash and deposits	18,812	19,666	854
Notes and accounts receivable-trade and contract assets, electronically recorded monetary claims - operating	13,091	14,440	1,349
Work in process	647	1,273	626
Fixed assets	9,920	10,291	371
Property, plant and equipment	5,735	5,772	37
Intangible assets	322	403	81
Investments and other assets	3,862	4,115	253
Total assets	44,138	47,149	3,011
Current liabilities	8,058	8,826	768
Noncurrent liabilities	2,906	2,908	2
Total liabilities	10,964	11,735	771
(Interest-bearing debt)	0	0	0
Total net assets	33,174	35,414	2,240
Stability			
Current ratio (current assets/current liabilities)	424.6%	417.6%	-7.0pp
Fixed ratio (fixed assets/equity capital)	29.9%	29.1%	-0.8pp
Equity ratio	75.2%	75.1%	-0.1pp
Profitability			
ROE (return on equity)	13.6%	10.7%	-2.9pp
ROA (return on assets)	14.0%	13.5%	-0.5pp

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

At the end of FY3/25, the balance of cash and cash equivalents increased ¥8,854mn from the end of the previous fiscal year to ¥19,666mn due to proceeds from withdrawal of time deposits and other factors.

Looking at the cash flow conditions, net cash provided by operating activities was ¥3,849mn (a decrease of ¥1,202mn YoY). This was mainly due to the increase in non-cash items such as depreciation, loss on valuation of investment securities and increase in advances received, in addition to the increases in trade receivables and in inventories, and decrease in income taxes paid against the recording of profit before income taxes. Conversely, net cash provided in investing activities was ¥6,407mn (an increase of ¥15,110mn). This was mainly due to proceeds from withdrawal of time deposits and purchase of investment securities. Net cash used in financing activities was ¥1,414mn (an increase in expenditure of ¥520mn), which was mainly due to dividends paid.

From the above, if you subtract the spending required to maintain business operations, such as capital investment, from the funds acquired by the Company through its business, it leaves a free cash flow of ¥10,256mn which the Company can use freely. This indicates that the Company is generating stable profit and has ample funds, even after accounting for capital investment.

Consolidated cash flow statements

(¥mn)

	FY3/24	FY3/25
Cash flow from operating activities (a)	5,051	3,849
Cash flow from investing activities (b)	-8,703	6,407
Cash flow from financing activities	-894	-1,414
Free cash flow (a) + (b)	-3,652	10,256
Cash and cash equivalents at the end of the fiscal year	10,812	19,666

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

Outlook

Operating profit forecast to decrease in FY3/26, the first year of the new medium-term management plan, due to investment focused on future growth

● **FY3/26 forecasts**

In the information services industry in FY3/26, IT demand is expected to continue growing due to the advancement of DX driven by AI, initiatives by companies to enhance productivity and operational efficiency, and investment in strengthening cyber security as it becomes ever more important. On the other hand, there are also factors that can negatively affect the outlook, including the risk of a downturn in the Japanese economy due to increasingly unpredictable US trade policy and the effects of soaring prices on personal consumption and corporate business results, as well as structural risks such as IT personnel shortages growing more severe. Under such conditions, the Group plans to achieve further growth by actively expanding its core and foundation businesses while also creating medium- to long-term growth areas.

For the consolidated results in FY3/26, the Company expects slight increase in net sales and considerable decrease in profits. It is forecasting net sales of ¥51,000mn (up 1.9% YoY) and operating profit of ¥5,100mn (down 16.6%), ordinary profit was ¥5,140mn (down 16.7%), and profit attributable to owners of parent was ¥3,540mn (down 3.3%). This forecast is cautious as it takes into account the uncertainty accompanying the effects of US tariff measures. The forecast decline in profit is attributed to the Company's focus on business expansion and human resources development aimed at future growth, as well as its active investment in related measures. The limited decline in profit attributable to owners of parent is due to the absence of the loss on valuation of investment securities recorded in the previous fiscal year. Even though FY3/26 is the first year of the new medium-term management plan, the Company is known for issuing conservative forecasts at the beginning of the fiscal year, so FISCO thinks there is a high likelihood that the Company will achieve its targets.

Looking at the outlook by segment, in Enterprise Solutions, the Company is forecasting net sales of ¥15,960mn (up 2.4% YoY), operating profit of ¥1,750mn (down 23.4%), and operating profit margin of 11.0% (down 3.7pp). The decrease in the profit margin is particularly significant as it includes an increase in costs associated with the renewal of packages as investment for the future. In Service Solutions, the Company is forecasting net sales of ¥14,690mn (up 2.3% YoY), operating profit of ¥810mn (down 2.6%), and operating profit margin of 5.5% (down 0.3pp). Sales are expected to increase due to good performance in terms of orders, and the Company will aim to boost capacity utilization by completing the resolution of unprofitable projects and returning to normal conditions. However, there are many upfront investment factors for new service development, so the profit margin is expected to continue to be low compared to the other segments.

In Embedded Solutions, the Company is projecting net sales of ¥11,180mn (up 0.9% YoY), operating profit of ¥1,400mn (down 18.7%), and operating profit margin of 12.5% (down 3.0pp). In Device Solutions, it is projecting net sales of ¥9,170mn (up 1.9%), operating profit of ¥1,140mn (down 10.8%), and operating profit margin of 12.4% (down 1.8pp). In both segments, an order backlog will steadily be converted to sales and the Company plans to maintain a high profit margin by increasing productivity. In Device Solutions, the Company is addressing the shortage of personnel in the highly specialized semiconductor field by utilizing overseas resources, primarily in Southeast Asia, and expanding partnerships with the aim of acquiring projects from overseas companies and developing new customers. However, partner development will incur SG&A expenses and it will take some time to improve efficiency, so a decline in profit is expected.

FY3/26 consolidated results forecasts

(¥mn)

	FY3/25		FY3/26		YoY	
	Results	% of net sales	Forecast	% of net sales	Increase (decrease)	% change
Net sales	50,028	100.0%	51,000	100.0%	971	1.9%
Operating profit	6,116	12.2%	5,100	10.0%	-1,016	-16.6%
Ordinary profit	6,168	12.3%	5,140	10.1%	-1,028	-16.7%
Profit attributable to owners of parent	3,662	7.3%	3,540	6.9%	-122	-3.3%

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

Medium- to long-term growth strategy

Advancing business strategies, management foundation strategies, and an investment strategy with the aim of achieving the new medium-term management plan's targets

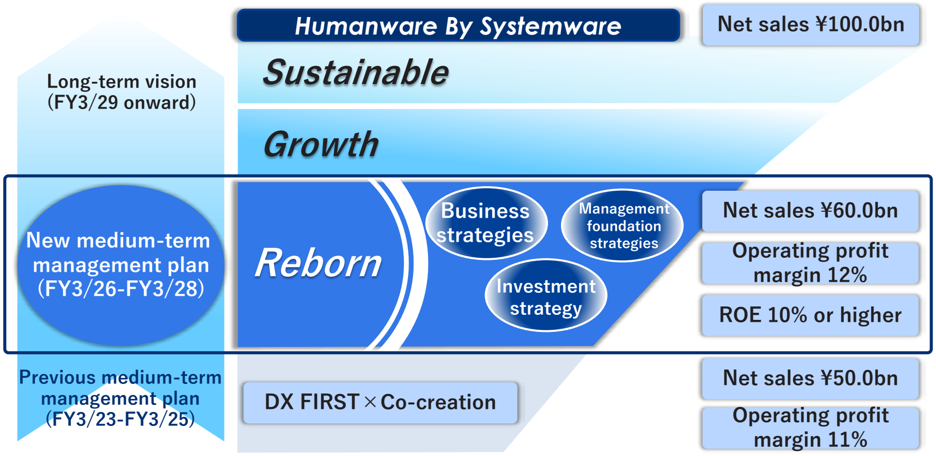
1. Overview of new medium-term management plan

The Company's long-term vision is to achieve net sales of ¥100.0bn and the Company completed its previous medium-term management plan (FY3/23 to FY3/25) by achieving the plan's targets of net sales of ¥50.0bn and an operating profit margin of 11%. When formulating the new medium-term management plan starting in FY3/26, the Company took into account various business environment conditions. These included social issues such as an aging population, declining birthrate, and shrinking workforce; environmental and energy challenges; and technology trends like the acceleration of AI-driven DX and the development of next-generation information and communication technologies (beyond 5G and 6G). It also took into account the market environment, including technological innovation, societal digitalization, and challenges related to human resources at both vendor and user companies. In order to pursue medium- to long-term growth under these environmental conditions, the Company believes it will need the technological capabilities required to adapt to the steadily growing IT market and to continue generating added value, as well as an organizational framework and robust management foundation for realizing these capabilities.

The new medium-term management plan (FY3/26 to FY3/28) is a roadmap for achieving the long-term vision's target. The Company has positioned it as a period for being "Reborn (returning to the basics)" so it can refine its competitive edge to pursue future growth. In other words, it aims to advance a medium-term management plan in which it goes back to basics to achieve a firmer footing. To achieve this, it will pursue Change Business (align businesses with global and industry standards), Change Talent (optimize human resources by actively investing in human capital), and Change Technology (incorporate technologies that can become a driving force in the future) under the new concept of "DRIVE DX × Change The Standard."

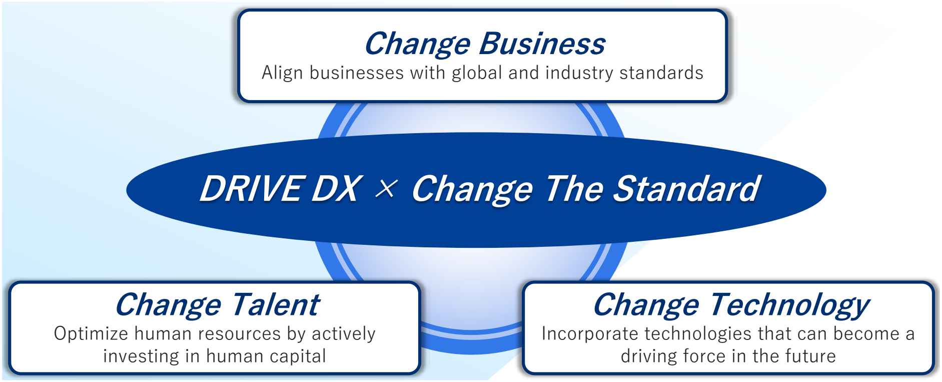
In regard to the specific strategies in the plan, it will advance business strategies to expand its core and foundation businesses in each segment while also creating growth areas, management foundation strategies to strengthen human resources, pursue global development, and promote sustainability, and an investment strategy to advance investment which facilitates the business and management foundation strategies. As a result of these strategies, it is aiming to achieve final-year targets including net sales of ¥60,000mn, an operating profit margin of 12%, and ROE of 10% or higher.

Long-term vision roadmap



Source: The Company's medium-term management plan materials

Medium-term management plan concept



Source: The Company's medium-term management plan materials

2. Business strategies

The Company will advance the following business strategies with the aim of expanding its core and foundation businesses and creating growth areas

(1) Enterprise Solutions

The Company plans to transition to a fit-to-standard model. First of all, in order to expand core and foundation businesses, it will expand its solutions for assembly and manufacturing customers, expand its operations for developing systems for credit card companies to also cover systems planning, and execute a shift to digital government projects. Next, to create growth areas, it will aim to develop business consulting personnel through collaboration between businesses in different industries, create new businesses by applying generative AI in each industry, and establish sustainable business models by evolving the style of the systems integration (SI) business. Furthermore, it has set focus areas of transition to a fit-to-standard model in the enterprise resource planning (ERP: Systems that centralize companies' management resources and utilize them for management decision making in real time) business, accelerating modernization through the use of AI, and innovating buying behavior through the smart POS business. Through the above measures, it plans to expand the scale of its business from ¥15.5bn in FY3/25 to ¥18.0bn–19.0bn in FY3/28, which includes growing focus areas from ¥4.0bn to ¥7.0bn.

(2) Services Solutions

The Company plans to lead customers to a better future through digital technology. First of all, in order to expand core and foundation businesses, it will pursue the following strategies. In regard to DX for manufacturers, it will specialize in DX solutions for the design and manufacturing sectors. For cloud platforms, it will provide integrated packages combining infrastructure building and activities to encourage use. In the operations business, it will expand its IT operations services and develop business process outsourcing (BPO: a model in which external specialists carry out certain business processes on behalf of a company) operations. Next, to create growth areas, it will develop project proposal and consulting personnel who can engage in upstream areas, cultivate human resources who are proficient in AI and data use, investigate and utilize cutting-edge technologies, and use generative AI to advance business transformation. Furthermore, it has set focus areas of solutions for manufacturing aftermarkets, smart factories with a focus on manufacturing execution systems (MES: Systems that manage manufacturing processes while collecting and analyzing data) and supervisory control and data acquisition systems (SCADA: Systems that monitor and control processes and collect data), and professional services that make use of AI and data. Through the above measures, it plans to expand the scale of its business from ¥14.3bn in FY3/25 to ¥17.0bn–18.0bn in FY3/28, which includes growing focus areas from ¥6.0bn to ¥9.0bn.

(3) Embedded Solutions

The Company plans to create new added value by integrating a variety of product development technologies. First of all, in order to expand core and foundation businesses, it will deepen its development of solutions that can be embedded in vehicles and industrial machinery, and deploy the solutions it has developed for specific fields in systems development for a wide range of industries. Next, to create growth areas, it will expand the area covered by the business to accommodate the accelerating shift to software-defined vehicles (SDV), strengthen technologies for next-generation networks, and leverage its expertise related to different industries to create cross-sectoral business models. Furthermore, it has set focus areas of strengthening in the mobility field, expanding in the aerospace and defense sectors, and further developing its business in the cashless settlement field. Through the above measures, it plans to expand the scale of its business from ¥11.0bn in FY3/25 to ¥13.0bn–14.0bn in FY3/28, which includes growing focus areas from ¥3.0bn to ¥5.0bn.

(4) Device Solutions

The Company aims to transition from an approach centered on “how to IC design” to an approach centered on “what to design.” First of all, in order to expand core and foundation businesses, it will advance dynamic evolution into a device provision business, expand and deepen its LSI solutions business, and realize business growth through the development of global human resources. Next, to create growth areas, it will use cutting-edge technologies to enter overseas markets, expand its device business through global development, and strengthen its ability to compete internationally through a base in Southeast Asia. Furthermore, it has set focus areas of strengthening and expanding the device provision business, targeting the in-vehicle, factory automation (FA), and sensing device fields, and developing its device business globally. Through the above measures, it plans to expand the scale of its business from ¥9.0bn in FY3/25 to ¥10.0bn–11.0bn in FY3/28, which includes growing focus areas from ¥1.0bn to ¥2.5bn.

As a recent example of implementation of the business strategies, in April 2025, the Company formed a consulting and system integration (CS&I) partnership with Databrick Inc., a US-based AI company, and started supplying Databricks' Data Intelligence Platform. This enables the Company to actively help customers to carry out a wide range of data analysis and usage by using Databricks' AI-equipped data infrastructure to enhance the integrated data analysis functions of the data management business. In other words, the Company has further strengthened its data management business through the provision of an integrated platform with features including high levels of scalability, openness, and performance. It plans to provide powerful support for advancing business innovation by offering customers effective data analysis and usage proposals as a partner that is in touch with their DX issues. It will achieve this by building data analysis infrastructure, providing data analysis solutions, and offering consultation on data use.

3. Management foundation strategies

The Company will engage in initiatives to develop human resources who can support business growth and multifaceted initiatives to strengthen the management foundation with the aim of enhancing the value of its people, developing globally, promoting sustainability, and strengthening brand power.

(1) Initiatives to develop human resources who can support business growth

First of all, the Company is aiming to raise the number of certified employees from 800 under the previous medium-term management plan to 1,200 during the new medium-term management plan. To achieve this, it will upgrade its educational systems, build an original learning base by accumulating knowledge, and by strengthening technological capabilities and changing mindsets. Next it will facilitate health management and well-being by supporting employees in terms of both physical and mental health and by realizing work-life balances. Furthermore, it will strengthen recruitment by recruiting 500 new graduates and 200 mid-career employees during the plan period, raising the number of Group employees from 2,487 in March 2025 to 2,800 in March 2028.

(2) Multifaceted initiatives to strengthen the management foundation

As a first step toward global expansion, the Company aims to select regions where it expects to find future markets and partners, and to strategically introduce overseas technologies and services into the Japanese market. Next, it will strengthen brand power by actively engaging in initiatives such as commercials, advertising, and sports sponsorship, and by strengthening IR activities targeting shareholders and investors in a way that enhances corporate value. Furthermore, to advance sustainability, it will work to reduce the environmental load of its business activities, promote diversity, and strengthen corporate governance. In regard to specific targets, it aims to increase the ratio of women among new recruits from 18% in FY3/25 to 25% in FY3/27, as well as the ratio of men taking childcare leave from 37% to 70%. It will also aim to reduce Scope 1 and 2 greenhouse gas emissions from the 14,240 t-CO_2 recorded in FY2013 to half that amount by FY2030.

A recent occurrence related to strengthening brand power and promoting sustainability happened in November 2024, when Around Now!, an IoT service provided by the Company to help prevent heat stroke, won the Social Contribution Award in the IoT Category at the 18th Japan Cloud Industry Association (ASPIC) Cloud Awards 2024. This service collects real-time data on temperature, humidity, and wet-bulb globe temperature (an indicator for environmental heat) through environmental sensors, allowing users to monitor on-site environmental conditions remotely and view the data in real time via a web browser. When measurements exceed a danger threshold set in advance, the service sends an alert notification by email. This helps makes safety management at sites where there is a high risk of heat stroke more effective. Recently, there has been long period of hot weather and many companies and local governments are inquiring about and adopting Around Now! to help cope with this environment.

In recent years, there has been a global trend of focusing on Environment, Social, and Governance (ESG) investment, which involves selecting the issues of companies that prioritize initiatives toward ESG for investment, and in Japan as well, it seems there is plenty of room for growth in this area. In this sense, FISCO thinks it is highly likely that attention will be focused on the Company, which is actively working on environmental and social contribution activities.

4. Investment strategy

The Company is aiming to realize strategic investment in sources of competitiveness.

• Investment which facilitates the business and management foundation strategies

In regard to investment strategy, the Company plans to invest up to ¥10.0bn over the three-year medium-term management plan period. This allocation includes assets recorded on the balance sheet and expenses reflected in the statement of income. Breaking it down, in regard to business strategies, the Company has allocated a total of ¥5.0bn for R&D and business development investments that aim to optimize business by supporting measures to realize strategies in each segment. In regard to management foundation strategies, the Company has allocated a total of ¥5.0bn for human capital and brand management investments that aim to build a robust management foundation from a medium- to long-term perspective, with a focus on investment in human resources.

5. Group management targets

As shown above, under the medium-term management plan, the Company will advance business strategies, management foundation strategies, and an investment strategy with the target of achieving Group management targets of net sales of ¥60,000mn (CAGR of 6.25%), an operating profit margin of 12%, ROE of 10% or higher, and a payout ratio of 30% or higher in FY3/28. In FY3/26, the first year of the plan, the Company is forecasting net sales to remain roughly level, operating profit to decrease by 16.6%, and the operating profit margin to decline to 10.0%, but these forecasts factor in the impact of US tariffs, as well as an increase in costs associated with investments for future growth. The Company also has a tendency to be conservative in its forecasts. FISCO thinks that if the Company can execute the growth strategies contained in its medium-term management plan, then the Group management targets for the final year of the plan are achievable. We will monitor future result trends and the progress made on growth strategies.

Shareholder return policy

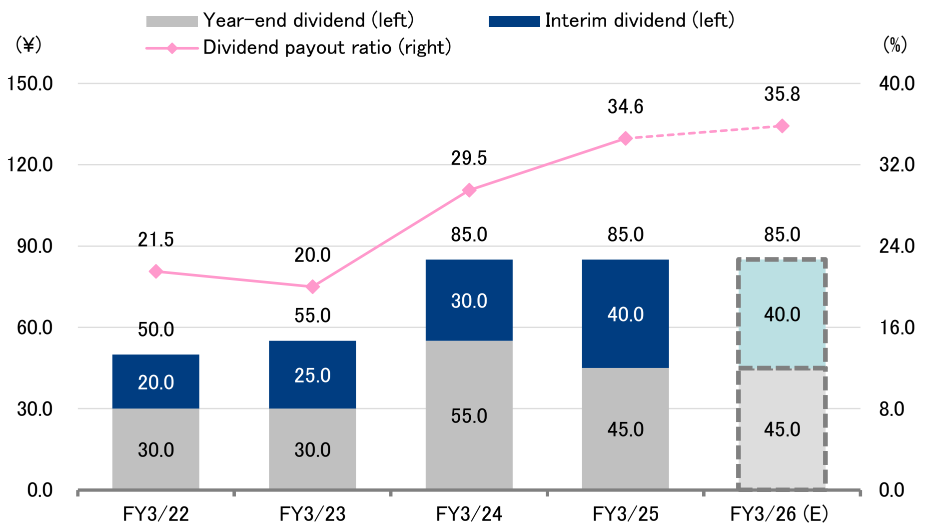
The Company plans to continue to pay a stable, continuing dividend depending on its financial position and results with a target payout ratio of 30% for the time being

The Company positions returning profit to shareholders as an important management issue, and has a basic policy of paying a stable, continuing dividend. The basic policy is to decide on a dividend amount after comprehensively considering results for that term and its financial situation while enhancing internal reserves.

In FY3/25, although profit attributable to owners of parent declined, the Company paid a per-share annual dividend of ¥85 (¥40 interim, ¥45 year-end), resulting in a payout ratio of 34.6%. Although a decline in profit is also forecast for FY3/26, the Company plans to maintain an annual dividend of ¥85 (¥40 interim, ¥45 year-end), for a forecast payout ratio of 35.8%. This shows that the Company is giving adequate consideration to shareholder returns.

In FY3/24, the average payout ratio of companies on the TSE Prime Market in the telecommunications industry is high at 47.1%, but the industry's average payout ratio tends to fluctuate significantly in response to annual changes in earnings. At the same time, the Company has traditionally paid a dividend based on a stable payout ratio. Going forward, it plans to continue paying a stable and continuing dividend based on its financial position and results with a target payout ratio for the time being of 30%. As a company on the TSE Prime Market, the Company plans to continue working to strengthen governance and enhance information provision and to work for sustained growth and to further raise corporate value.

Trends in the dividend and dividend payout ratio



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

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