

# COMPANY RESEARCH AND ANALYSIS REPORT

**I'LL Inc.**

**3854**

Tokyo Stock Exchange Prime Market

1-May.-2024

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<https://www.fisco.co.jp>

## Index

<b>Summary</b>	<b>01</b>
1. Forming a virtuous cycle spiral in which increased productivity leads to higher gross profit margin	01
2. Net sales and profit both increased in 1H FY7/24, while the interim dividend, dividend payout ratio, and DOE were upwardly revised	02
3. Maintained outlook for double-digit growth in operating and ordinary profit in FY7/24, with a possibility for even higher upside	02
4. Aiming for operating profit margin in the 30% range over the long term	03
5. FISCO applauds the upward trend in profitability and is focusing on growth acceleration through BX	03
<b>Company overview</b>	<b>04</b>
1. Company overview	04
2. History	05
<b>Business overview</b>	<b>07</b>
1. Overview of services	07
2. Main products	08
3. “CROSS-OVER Synergy” strategy	10
4. Characteristics and strengths	10
5. Forming a virtuous cycle spiral in which increased productivity leads to higher gross profit margin	12
6. Strengthen collaborations with business partners	14
7. Risk factors as well as issues and countermeasures	15
<b>Results trends</b>	<b>15</b>
1. Overview of results for 1H FY7/24	15
2. Trends by business segments	17
3. Financial condition	17
<b>Outlook</b>	<b>18</b>
● Outlook for FY7/24 results	18
<b>Growth strategy</b>	<b>19</b>
1. Three-year medium-term (rolling) plan	19
2. Shareholder return policy	21
3. Sustainability management	22
4. FISCO's perspective	25

## Summary

### Net sales and profit both increased significantly and reached record highs in 1H FY7/24, while the interim dividend was upwardly revised

I'LL Inc. <3854> (hereafter, also “the Company”) is a total system solutions company that helps mid-tier and small/medium-size companies enhance their management capabilities. The “CROSS-OVER Synergy” strategy is the Company’s base strategy, and it supports DX\*<sup>1</sup> of companies through an IT-driven convergence of real-world and online capabilities. The Company aims to support value creation through the industry’s first\*<sup>2</sup> “BX,”\*<sup>3</sup> a new concept to support backyard\*<sup>4</sup> operations, which are becoming increasingly complex day by day, thus not limiting itself to supporting efficiency gains through DX.

\*1 DX is an abbreviation of digital transformation, and represents the idea that “wider IT usage changes people’s lives in a more positive direction in all aspects” and that the conversion of existing business models and business methods through digital technology creates new value.  
 \*2 Based on Company research  
 \*3 BX is an abbreviation of backside transformation. It is a concept in which value creation is realized through transformation from the backside based on the Company’s proprietary CROSS-OVER Synergy strategy.  
 \*4 The term “backyard” refers to the people, teams and sites that handle order processing, inquiry responses, inventory management, product registration and other such tasks behind the scenes at companies, online stores, and real-world stores.

#### 1. Forming a virtuous cycle spiral in which increased productivity leads to higher gross profit margin

The Company operates a System Solutions Business centered on the mission-critical operation management system Aladdin Office series, as well as an Online Solutions Business focused on CROSS MALL, a cloud-based software product for integrated management of multiple e-commerce websites, and CROSS POINT, a software product for the integrated management of customer and loyalty points at both real-world stores and e-commerce sites. In addition, the backyard platform BACKYARD™, which was released in December 2022 as a next-generation service of CROSS MALL, was launched in November 2023. In order to improve profitability, the Company is working to improve productivity and expand recurring net sales through an integrated production and sales system. The strategy is to form a virtuous cycle spiral that will lead to higher gross profit margins through overall improvements in quality and productivity, such as reducing customization man-hours and preventing problems before they arise by strengthening collaboration between sales and development at the order receiving stage. As a result, sales are on the rise and the gross profit margin is increasing.

## Summary

**2. Net sales and profit both increased in 1H FY7/24, while the interim dividend, dividend payout ratio, and DOE were upwardly revised**

In 1H FY7/24 consolidated results, net sales increased 12.9% year on year (YoY) to ¥8,571mn, operating profit rose 34.9% to ¥2,238mn, ordinary profit was up 34.5% to ¥2,249mn, and profit attributable to owners of parent increased 34.8% to ¥1,489mn. Net sales and profit both increased significantly and reached record highs, surpassing initial forecasts. The interim dividend for FY7/24 was upwardly revised. The System Solutions Business delivered sustained high growth as it pushed ahead with an integrated production and sales system and partner strategy, in addition to benefiting from high levels of DX demand at mid-tier and small/medium-size companies dealing with acute personnel shortages. The Online Solutions Business also performed strongly. The gross profit margin rose 2.1 percentage points (pp) to 56.6%. The main contributing factors were an improvement in the project turnover rate due to an improvement in product quality and enhancement of options, as well as growth in recurring net sales. SG&A expenses rose 5.6%, but the SG&A expenses ratio declined 2.1pt to 30.5%. Although personnel costs, advertising expenses and other expenses increased, the rate of increase in the SG&A expenses ratio was far lower than the rate of increase in net sales, thanks in part to a teleworking and work-from-home system that curtailed office rent increases. As a result, the operating profit margin rose 4.2pt to 26.1%. In addition, the Company has increased its dividend policy targets to a dividend payout ratio of at least 35% and a DOE of at least 10%.

**3. Maintained outlook for double-digit growth in operating and ordinary profit in FY7/24, with a possibility for even higher upside**

For FY7/24 consolidated results, the Company has maintained its initial forecasts, with net sales forecast to increase 6.1% from FY7/23 to ¥16,900mn, operating profit to grow 12.8% to ¥4,000mn, ordinary profit to rise 12.8% to ¥4,026mn, and profit attributable to owners of parent to increase 8.5% to ¥2,683mn. Although developments related to the end of Windows 10 support planned for 2025 will not have as much of an impact as a surge in demand, the Company expects that demand for business DX will remain at a high level. In terms of net sales, the System Solutions Business and the Online Solutions Business are both expected to grow. On the profit front, SG&A expenses are expected to increase as the Company continues to actively invest in human resources, development and sales promotion, but this is expected to be absorbed through productivity improvements and higher gross profit from recurring business, along with other factors. The profit growth rate is expected to slow down in comparison to FY7/23, but this considers factors such as a recoil from the large growth in FY7/23 and a sense of uncertainty, as well as temporary cost increases due to the parallel operation of both the CROSS MALL and BACKYARD™ platforms, so this forecast seems quite conservative. The business environment is favorable, and the Company's achievement rate against forecasts in 1H was 50.7% for net sales, 56.0% for operating profit, 55.9% for ordinary profit, and 55.5% for profit attributable to owners of parent. Profit enhancement measures centered on the integrated production and sales system are delivering results at an accelerated pace. Considering these and other factors, we at FISCO believe that there is a high possibility that the Company's results will exceed its forecasts.

## Summary

**4. Aiming for operating profit margin in the 30% range over the long term**

For its medium-term management plan, the Company's policy is to adopt a rolling plan in which it can revise the targets at any time, such as to respond to rapid changes to its business environment. Based on this policy, in September 2023, the Company formulated a three-year medium-term management plan with FY7/26 as the final year. Under this plan, the Company's forecast for FY7/26 is net sales of ¥20,400mn, gross profit of ¥11,728mn, gross profit margin of 57.5%, operating profit of ¥5,400mn, operating profit margin of 26.5%, and profit attributable to owners of parent of ¥3,616mn. These figures represent upward revisions for net sales and profit compared to the previous three-year plan. Furthermore, the Company has set an operating profit margin of 30% as a long-term goal, and has positioned this plan as a three-year period to solidify its operating profit margin at over 20%. As a basic policy, the Company has set an internal goal of double-digit growth for both the System Solutions Business and the Online Solutions Business, supported by the promotion of DX as a national policy. In terms of costs, it will continue to actively recruit human resources, but its policy is to absorb these costs by further improving productivity through increased recurring net sales and an integrated production and sales system, as it aims to increase profit margin. The migration from CROSS MALL to BACKYARD™ in the CROSS Business is expected to take approximately two to three years.

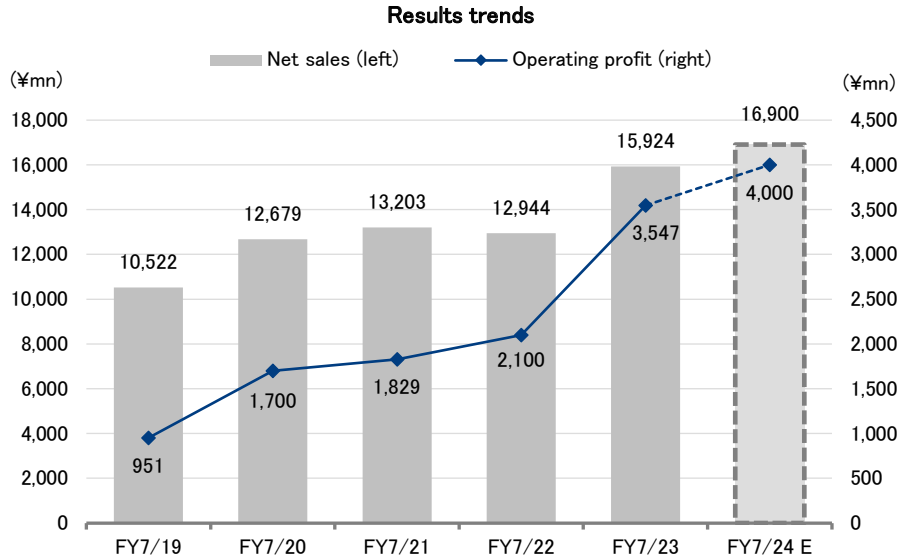
**5. FISCO applauds the upward trend in profitability, and is focusing on growth acceleration through BX**

The Company's gross profit margin increased by 12.5pt from 42.0% in FY7/19 to 54.5% in FY7/23, and subsequently to 56.6% in 1H FY7/24. In addition, the operating profit margin rose by 13.3pt from 9.0% in FY7/19 to 22.3% in FY7/23, and subsequently to 26.1% in 1H FY7/24. Moreover, the current medium-term management plan's FY7/26 targets for gross profit margin of 57.5% and operating profit margin of 26.5% are now likely to be met ahead of time. This upward trend in profitability is primarily due to the success of the Company's basic strategies of continuously implementing overall quality and productivity improvements through an integrated production and sales system, while continuing to actively invest in human resources and expanding recurring net sales. At FISCO, we positively evaluate these results. Furthermore, the Company has set a long-term goal of attaining an operating profit margin in the 30% range, and it is tackling challenges in new domains such as realizing value creation through BX. Therefore, FISCO will pay attention to the progress of the three-year plan and trends in growth acceleration through BX.

**Key Points**

- Total system solutions company supporting customers' enterprise capability through its "CROSS-OVER Synergy" strategy
- Net sales and profit both increased significantly and reached record highs in 1H FY7/24, while the interim dividend was upwardly revised
- Maintained outlook for double-digit growth in operating and ordinary profit in FY7/24, with a possibility for even higher upside
- Aiming for operating profit margin in the 30% range over the long term
- FISCO applauds the upward trend in profitability, and is focusing on growth acceleration through BX

Summary



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

## Company overview

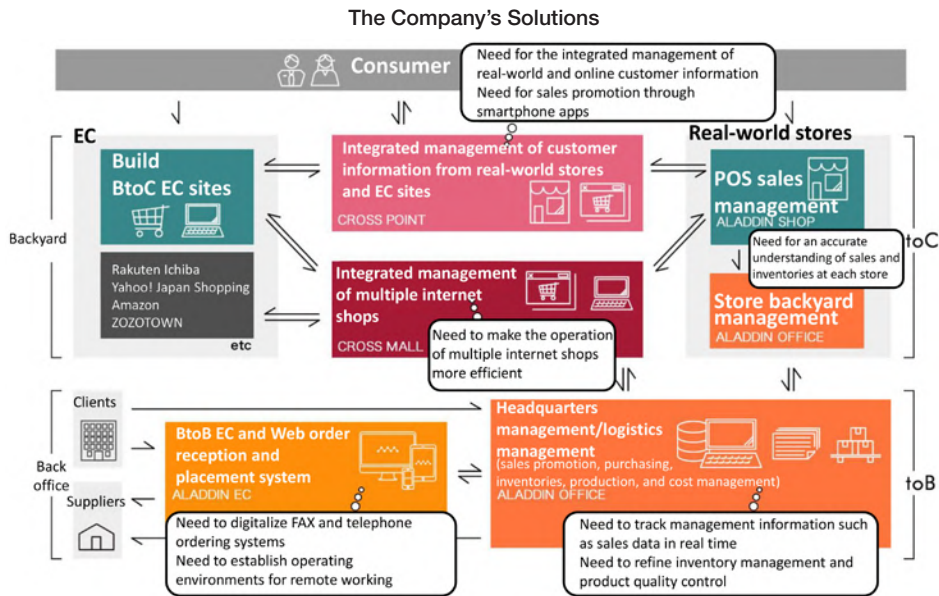
### A total system solutions company supporting customers' enterprise capability

#### 1. Company overview

The Company is a total system solution company that supports the enterprise capability of mid-tier and small/medium-size companies, which are its main customers, through various types of internally developed systems. With the mainstay, internally developed mission-critical operation management system Aladdin Office series, the Company supplies products and services to mid-tier and small/medium-size companies needing efficient use of IT to enhance management capabilities. By providing various types of systems, solutions, and services, the Company aims to realize not only efficiency support through DX but also value creation support through the new concept of "BX" to transform backyard operations, which are becoming increasingly complex day by day, through convergence of real-world and online capabilities with the "CROSS-OVER Synergy" strategy to support DX as its base strategy.

I'LL Inc. | 1-May.-2024  
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Company overview



Source: From the Company's results overview

As of the end of 1H FY7/24, the Company's headquarters are located in Kita-ku, Osaka, and its offices include the Osaka Headquarters, Tokyo Headquarters (Minato-ku, Tokyo), Nagoya Branch (Naka-ku, Nagoya). It also has research and development operations at the I'LL Matsue Laboratory (R&D center in Matsue, Shimane Prefecture). The Company also operates I'LL Career Colleges (ICCs) in Osaka and Tokyo as educational entities that offer individual and corporate training. The Group comprises the Company and one consolidated subsidiary (web-base.co.). Also, in June 2017, the Company invested in Sivira Inc. (additional investment made in June 2021) and concluded a capital and business alliance. At the end of 1H FY7/24, the Company had total assets of ¥12,822mn, net assets of ¥8,710mn, an equity ratio of 67.9%, and the total number of issued shares was 25,042,528 (including 11,119 treasury shares).

2. History

The Company was established as a sales company for office computers in February 1991, and subsequently expanded into proprietary software development and sales. It released Aladdin Office, a proprietary sales management software, in October 2004, CROSS MALL, a cloud-based software product for integrated management of multiple e-commerce websites, in March 2009, and in April 2013, it released CROSS POINT, a software product for the integrated management of customers and loyalty points at both real-world stores and e-commerce sites. The Company obtained ISO 27001 (ISMS) certification in September 2016 and in December 2022, it released BACKYARD™, the industry's first backyard platform.

In terms of stocks, the Company went public with a listing on the Osaka Stock Exchange (OSE) Hercules Market in June 2007, and subsequently was listed on the OSE JASDAQ Market accompanying a merger of OSE markets in October 2010 and then on the Tokyo Stock Exchange (TSE) JASDAQ Growth Market accompanying a merger of OSE and TSE markets in July 2013. It changed to the TSE Second Section in June 2018 and moved to the TSE First Section in July 2019. In April 2022, it was moved to the TSE Prime Market as part of the TSE's market restructuring.

Company overview

Company history

Dates	Main items
February 1991	Founded with the aim of selling office computers and developing computer software (Fukushima-ku, Osaka)
September 1993	Moved the headquarters to Noda (Fukushima-ku, Osaka)
April 1996	Started the PC school business
September 2000	Started the @VAL job openings and job seeker information site
July 2001	Opened the Tokyo Headquarters in Shimbashi (Minato-ku, Tokyo)
April 2002	Moved the headquarters to Kita-ku (Osaka)
January 2003	Started the digital business design (DBD) business
November 2003	Entered the online business
September 2004	Acquired privacy mark certification
October 2004	Released proprietary sales management software Aladdin Office
August 2005	Started the web doctor business
June 2007	Listed shares on the Osaka Stock Exchange's Hercules Market
August 2008	Opened the Nagoya Branch in Sakae (Naka-ku, Nagoya)
March 2009	Released CROSS MALL, an ASP service for integrated management of multiple E-commerce websites
October 2009	Opened the East Osaka Branch in Higashi-Osaka (Osaka)
October 2010	Listed shares on the Osaka Stock Exchange's JASDAQ Market accompanying a market merger by the Osaka Stock Exchange
December 2010	Moved the Tokyo Headquarters to Shibakoen (Minato-ku, Tokyo)
August 2011	Moved the Nagoya Branch to Nishiki (Naka-ku, Nagoya)
August 2011	Acquired Web Base as a subsidiary with the purchase of all shares
September 2012	Opened the Fukuoka Branch in Hakata-ku (Fukuoka) and the Sendai Branch in Aoba-ku (Sendai)
April 2013	Released CROSS POINT, a software product for integrated management of real-world stores and E-commerce customers and loyalty points
July 2013	Listed shares on the Tokyo Stock Exchange's JASDAQ Growth Market accompanying the Osaka Stock Exchange and Tokyo Stock Exchange merger
August 2015	Moved the Nagoya Branch to the Urban net Fushimi Building in Nishiki (Naka-ku, Nagoya)
November 2015	Mission-critical system Aladdin Office for Foods won the 45th Food Industrial Technical Award
March 2016	Moved the Osaka Headquarters to Grand Front Osaka Tower B in Kita-ku (Osaka)
September 2016	Mission-critical system Aladdin Office for Foods won the 19th Excellent Food Machine and Materials Prize
September 2016	Obtained ISO 27001 (ISMS) certification
May 2017	Ranked No.1 in Toyo Keizai Online's White 500 Companies Best for Female Recruits
June 2017	Invested in Sivira and concluded a capital and business alliance
October 2017	Opened I'LL Matsue Laboratory in Matsue (Shimane Prefecture) as a next-generation cloud R&D development office
June 2018	Changed the stock listing to the Tokyo Stock Exchange's Second Section
July 2019	Changed the stock listing to the Tokyo Stock Exchange's First Section
November 2019	Ended service by the @VAL job openings and job seeker information site
March 2020	Introduced in the METI Kansai Bureau of Economy, Trade and Industry's Interesting Kansai Company Examples – New Signs from Company Visits – KIZASHI
December 2020	Obtained Shopify Experts certification as a Shopify partner
June 2021	Made additional investment in Sivira
April 2022	Moved to the Tokyo Stock Exchange Prime Market as part of the TSE's market restructure Services provided certified as tools of the Ministry of Economy, Trade and Industry's "IT deployment subsidies 2022"
December 2022	Launched BACKYARD™, the industry's first backyard platform
March 2023	Strengthened the document approval feature of Aladdin Office, released as the optional function Aladdin Workflow
April 2023	I'LL services approved as tools covered by METI's IT deployment subsidies 2023 (for four consecutive years since FY2020).
October 2023	Opened Kanda Showroom in Chiyoda-ku, Tokyo
February 2024	Received a Management level B- score in the climate change questionnaire of the CDP, an international NGO

Source: Prepared by FISCO from the Company's annual securities reports, website, and releases



## Business overview

Distinctive characteristic is the “CROSS-OVER Synergy” strategy to support DX through IT-driven convergence of real-world and online

### 1. Overview of services

The Company’s business segments are the System Solutions Business with mainstay Aladdin Office series, a mission-critical operation management system series, as the primary product and the Online Solutions Business (CROSS Business and Other Online Business) with CROSS MALL, a software product for integrated management of multiple e-commerce websites, and the mainstay solution, CROSS POINT, a software product for integrated management of real-world store and e-commerce customers and loyalty points, available as cloud services.

#### Business activities



Source: From the Company's results overview

### (1) System Solutions Business

The System Solutions Business designs and develops mission-critical systems and handles hardware maintenance, system operation support, network construction, and security management for customer companies almost entirely on its own. It primarily supplies the mainstay Aladdin Office series, an internally developed mission critical operation management system with deployments at more than 5,000 companies and offers Aladdin Shop, a store management system for the fashion industry, Aladdin EC, a B2B e-commerce platform specifically for transactions between companies, and Aladdin Cloud, a data center-based IaaS\* solution. In March 2023, the Company strengthened the document approval function of Aladdin Office, released as the optional function Aladdin Workflow. The Company also operates the ICC Osaka School and Tokyo School as educational institutions that conduct training for individuals and companies.

\* An acronym for Infrastructure as a Service. A service that provides infrastructure such as virtual servers and networks through the internet. Aladdin Cloud operations are carried out at a data center unlike Aladdin Office, which is operated on the client's premises.

#### Business overview

The Company aims to secure competitive advantages, including by developing systems that are tailored to the industries and business formats of its customer companies, conducting flexible customization, and enhancing product variations specialized for each industry. For after-sales as well, it is emphasizing the recurring business that acquires recurring revenue from maintenance and operations support. By industry, in 2006, it was the first IT company to be recognized as a supporting member of the Kansai Screw Cooperative, and utilizes this connection to conduct sales activities.

#### (2) Online Solutions Business

The Online Solutions Business comprises the CROSS Business and Other Online Business. The CROSS Business delivers cloud-based applications, and its main focuses are CROSS MALL, a software product for the integrated management of multiple e-commerce websites, and CROSS POINT, a mainstay software product for the integrated management of customers and loyalty points at both real-world stores and e-commerce websites. Profitability is high because these software products are offered as recurring services. From November 2023, the Company started offering BACKYARD™, the backyard platform released in December 2022 as the next generation of CROSS MALL.

The Other Online Business consists of CROSS STAFF, a cloud-based staff management system for temporary staffing agencies (launched in 2016), B2C e-commerce platform assistance and web marketing assistance (corporate webpage production and operation assistance, e-commerce websites construction assistance, customer business analysis and strategy consulting, promotions, and updates and revisions based on log analysis results after webpage production).

## 2. Main products

Below is a list of the Company's main products and leading customer deployment examples. In April 2023, the services provided by the Company were certified as tools eligible for the IT Deployment Subsidies 2023 provided by the Ministry of Economy, Trade and Industry (for four consecutive years since FY2020).

#### (1) Mission-critical operation management system for small/medium-size companies Aladdin Office and store management system Aladdin Shop (real-world)

These products support digitalization of operation management, including sales, inventory, production, and store management, and improved management capabilities by promoting workstyle reforms with better operational efficiency and strengthening internal compliance. Leading deployment examples are shirt and necktie firm Maker's Shirt Kamakura, stocking and socks firm Fukusuke Corporation, ladies' fashion firm ANAP <3189>, high-end leather shoes firm Madras Inc., suitcase and carry-on bag manufacturer and distributor T&S Co., Ltd., Nagoya specialty Tenmusu firm Jiraiya, salt and rock salt wholesale firm Japan Seasoning, Co., Ltd., automotive brake part manufacturer DIXCEL Co., Ltd., screw specialty trading firm Touyo Screw Co., Ltd., bundling and packaging material wholesaler YANAGIDA CO., LTD., and stage lighting equipment importer and distributor Ken Production Services inc.

Business overview

**(2) B2B e-commerce platform Aladdin EC (online)**

This product supports digitalization of orders reception and placement operation management between companies and internally and stronger sales through workstyle reforms with better operational efficiency and differentiation from other companies. Leading deployment examples are food trading firm PRECO GROUP (group led by Preco Foods Corporation), alcohol and alcohol-related product sales firm Suntory Marketing & Commerce Limited, furniture and interiors manufacturer FRANCE BED Co.,Ltd., producer and distributor of steamed chicken and other processed foods AMATAKE Co., Ltd., commissioned meal service and foodstuff distributor HITOWA Food Service Co., Ltd., cosmetics and beauty and health devices and goods firm Comfort Japan Inc., dairy product and Western confectionery firm Kurokawa Co., Ltd., bicycle firm RITEWAY (Riteway Products Japan), men's and ladies' apparel company GUEST LIST, medical equipment seller SHEEN MAN CO., LTD.

**(3) Multiple e-commerce websites integrated management software CROSS MALL (online)**

This product handles integrated management of multiple online shops, including online marketplaces and e-commerce platforms, and boosts sales through workstyle reforms with better operational efficiency and reinforced e-commerce initiatives. Leading deployment examples are craft beer production and sales firm YO-HO Brewing Co., Ltd., sporting goods sales firm Murasaki Sports Co., Ltd., ladies' fashion firm ANAP, men's fashion e-commerce business P.B.I. Co., Ltd. with the Silver Bullet brand, eco-friendly product importer and wholesale firm e.oct Inc., and Maruhisa, operator of e-commerce kimono wholesaler "Kimono Kyokomachi."

**(4) Real-world store and e-commerce customer and loyalty point integrated management software CROSS POINT (online)**

This product supports integrated management of real-world store and e-commerce customers and loyalty points through development of a real-world store and e-commerce omni-channel and use of a smartphone app, etc., as well as improved sales via the omni-channel and expansion of the fan segment through enhanced branding. Leading deployment examples are shoe manufacturer and distributor REGAL CORPORATION <7938>, shirt and necktie firm Maker's Shirt Kamakura, stocking and socks firm FUKUSUKE CORPORATION, babies', kids', and mothers' clothing firm BRANSHES, casual women's clothing "w closet" firm Wears Inc., Ameri vintage "Ameri" e-commerce firm B STONE, ladies' fashion e-commerce "flower" operator Sola Of Tokyo Co., Ltd., and bag and other apparel planning, production, sales firm COO COMPANY LIMITED, and women's fashion retailer ANAP.

**(5) Backyard platform BACKYARD™ (online)**

BACKYARD™ is a cloud service for supporting backyard operations, which are becoming increasingly complex day by day, across business formats such as wholesale, retail, and e-commerce, and realizes BX by not only improving operational efficiency but also by transforming from the backside (the Company started offering this service in November 2023). The Company has positioned this service as a next-generation service for CROSS MALL, and it has management and collaboration functions that support borderless and multiple channels, efficiency gains through automatic processing, and data fusion to achieve unified management of all backyard operations, covering not only online shops but also include all business formats. It comprises five management functions (CROSS/collaboration management, ORDER/order management, ITEM/product management, STOCK/inventory management, COMMUNICATION/customer service support), and is equipped with functions in the themes of automation, visualization, customization, and communication. By promoting communication with backyard teams and customers, it enables the realization of "ONE by 1."\*

\* The vision that BACKYARD™ intends to become the new standard: "Achieving a one-of-a-kind shop experience on one borderless platform."

#### Business overview

BACKYARD™ will be offered starting with the provision of online shop management, for the e-commerce businesses, but in the future, it plans to gradually provide upgraded versions of physical store management for retail businesses, order management and sales management for wholesale businesses, and inquiry management for customer support, or as optional services. In conjunction with the start of BACKYARD™ use, the Company opened a dedicated backyard base called BACKYARD TOKYO at the Kanda Showroom (Chiyoda-ku, Tokyo, opening in October 2023), as well as began exhibiting and selling BACKYARD BOX, eco-friendly original cardboard shelving to be used in the backyard. The Company is also publishing the media “LOVE by BACKYARD” which sheds light on the “uniqueness” of backyards.

### 3. “CROSS-OVER Synergy” strategy

The Company is advancing the “CROSS-OVER Synergy” strategy which aims to enhance the enterprise capability of small and medium-size companies that require effective IT usage by developing and proposing solutions to the management challenges faced by these customers from both real-world and online perspectives. This strategy seeks realization of an “all one-stop” service that proposes a combination of mission-critical operation systems from the System Solutions Business (real-world) that support better operation efficiency and services from the Online Solutions Business (online environments) that assists reinforcement of sales capabilities and creation of stronger synergy effect.

The Company possesses robust offensive and defensive capabilities thanks to this “CROSS-OVER Synergy” strategy, and the number of client companies is on the rise. In FY7/23, the number of client companies increased 3.3% YoY to 7,307 companies (a 2.7% increase to 5,054 companies in the System Solutions Business and a 4.5% increase to 2,253 companies in the Online Solutions Business). An increase in the number of customers has also prompted a significant increase in the net sales of recurring business, one of the Company’s focuses, thereby enhancing profitability.

### 4. Characteristics and strengths

The Company’s main characteristics and strengths are: (1) specialization in the mid-tier and small/medium-size company markets; (2) designated industry emphasis strategy; (3) strong sales and inventory management know-how; (4) product ecosystem strategy that realizes total solutions; (5) operations with engineers making up about 70% of employees; (6) ability to accommodate individual customization; (7) omni-channel strategy in retail business; (8) high proprietary product and service ratios; and (9) partner strategy.

#### (1) Specialization in mid-tier and small/medium-size company markets

The Company has delivered proprietary services that specialize in mid-tier and small/medium-size company markets since its founding. Small/medium-size companies with less than ¥5.0bn in annual sales account for roughly 90% of customer volume. In recognition of these efforts, the Company received the Special Award (Commerce and Information Policy Bureau Director-General’s Award) in METI’s “IT Management Awards for Small and Medium Enterprises 2011” in 2011. As a result of the strengthening of (9) partner strategy, there is an increasing trend in orders from major customers, which has led to an overall increase in order unit prices (details in later section).

## Business overview

**(2) Designated industry emphasis strategy**

Another strength is the Company's designated industry emphasis which places a heavy focus on industries with many small/mid-size companies in wholesale, retail, and manufacturing sectors. It forms operations with robust service and sales capabilities, including development of industry-specific systems and establishment of expert teams for individual industries, and thereby boosts new customer acquisition capabilities. Specifically, it positions apparel and fashion, food, medical equipment, screws and metal parts, and steel and non-ferrous metal industries as the five main industries. It seeks to deepen market coverage with industry-specialized package software Aladdin Office series and other products. In July 2023, the Company started offering an updated version of Aladdin Office Tetsuo, a sales, inventory, and processing management system for the steel and non-ferrous metal industries. In addition to managing receivables and payables by segment such as for specific offices and business divisions, the Company has also strengthened functions such as processing process planning management in response to demand for improved management of processing operations.

**(3) Strong sales and inventory management know-how**

Since its founding, the Company has consistently provided sales and inventory management software that requires understanding of customer operations. It has extensive deployments and know-how in real-world and online environments for manufacturing, wholesale, retail, and other business formats and industries and sales and inventory management with different management methods for each firm.

**(4) Product ecosystem strategy that realizes total solutions**

The product ecosystem strategy that consists of multiple product groups is also a strength. The Company develops proprietary products and services that cover the online field of building online shops and related management assistance services, the real-world store and headquarter field of store sales management and backside inventory managements, and the real-world and online integration field of integrated management of inventories and loyalty points in real-world and e-commerce operations. It is also capable of making hybrid proposals that combine various products and realizes total solutions for customers.

**(5) Operations with engineers making up about 70% of employees**

As of the end of FY7/23, the composition of the Company's 852 employees (up 48 employees from the end of the previous fiscal year) on a consolidated basis was engineers at 72%, salespeople at 18%, and general staff at 10%. The Company places emphasis on post-system provision support too with an operation in which roughly 70% of employees are engineers. It intends to continue strengthening technology division personnel with the aim of having an organization that promotes cultivation of human resources who handle three roles (industry and operation knowhow, mission-critical systems, and online) and reinforcement of technology capabilities. Meanwhile, the Company is also promoting an environment and product development to overcome labor-intensive production.

**(6) Ability to accommodate individual customization**

Given differences in operation implementation methods by industries and individual cases at mid-tier and small/medium-size companies, the Company adheres to a fundamental strategy of supporting individual customization of software that meets diverse needs. Meanwhile, the number of companies capable of handling individual customization of software has been trending lower in the software development market in recent years. This shift has lowered orders competition and is boosting profit margin. To further improve productivity and profit margin, the Company is also striving to minimize the amount of individual customization and provide it as an optional feature.

## Business overview

**(7) Omni-channel strategy in retail business**

In recent years, the retail industry has seen an increase in the popularity of an omni-channel strategy that integrates real-world stores and online stores and realizes an environment and distribution paths in which customers can purchase products in the same way from all channels (sales channels and customer contact points). Since the Company has commercialized integration of real-world and online environments from its founding and accumulated business know-how and a track record that was not achieved in a short period of time, FISCO thinks it possesses an advantage in advancement of omni-channel strategy in the retail industry that cannot be copied by other firms.

**(8) High proprietary product and service ratios**

The Company promotes sales expansion mainly for its own products and services as an important aspect of the management policy of building an income structure that does not depend on sales of other company products, such as hardware, which is readily affected by price fluctuations and has low profit margins. Its own products and services (software, operation, maintenance, membership fees, etc.) hence have a large presence at about 70% of sales.

**(9) Partner strategy**

A feature of the Company is that it is also highly trusted by partners in new deal introductions and sales cooperation (banks, system integrators, office equipment manufacturers, consultants, accounting offices, etc.). Deals introduced by partners represented 42.7% (2.5pt higher than the previous fiscal year) among new orders received by sales channel (on a value basis, FY7/23) in the System Solutions Business. In addition, inquiries via the Company's website accounted for 38.1% (0.3pt lower) of new orders, while acquisitions through internal sales were 19.1% (2.2pt lower). In addition to proposals that address the essence of customer issues, increased awareness of the Company has contributed to an increase in the percentage of pull-type sales, including partner referrals and inquiries through the Company's website, leading to more efficient sales activities. There is also an increasing trend in orders received from major customers based on partner introductions, which has led to an overall rise in unit sales prices on orders received.

In this way, the Company has the competitive advantage of preparing human resources who become very familiar with different industries and work and have knowledge of mission-critical systems, and the online shops, as well as a partner strategy. As a result, the System Solutions Business's competitive tender victory rate is 91.6% (FY7/23) and the repeat customer rate is 98.4% (same period), which can be said to show the height of its competitive advantages.

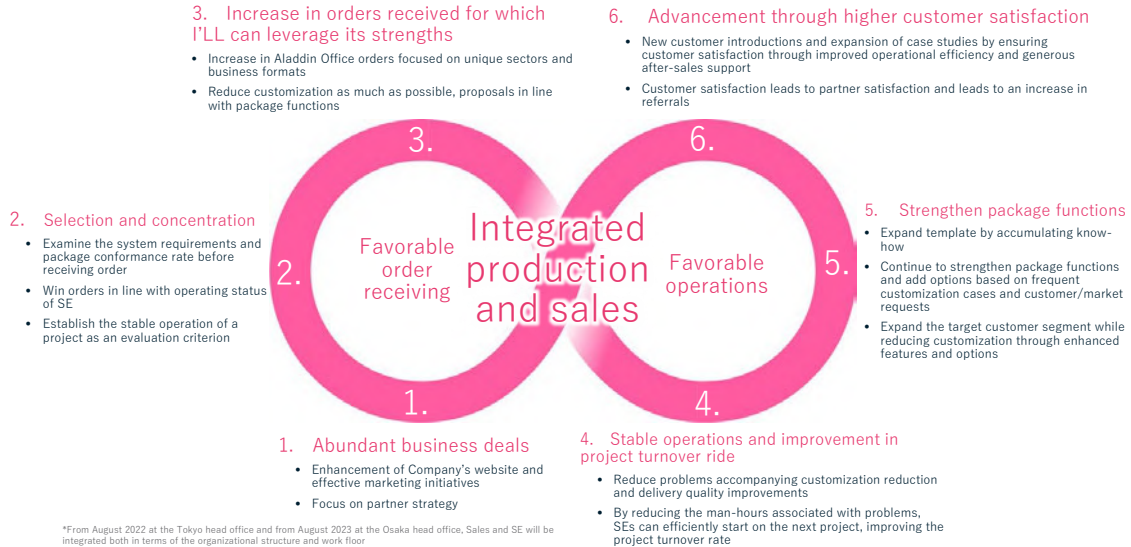
**5. Forming a virtuous cycle spiral in which increased productivity leads to higher gross profit margin**

In an aim to improve profitability, the Company is working to improve productivity and expand recurring revenue sales through an integrated production and sales system. The strategy is to form a virtuous cycle spiral that will lead to higher gross profit margins through comprehensive improvements in quality and productivity, including efforts to reduce customization man-hours and prevent problems ahead of time through reinforced collaboration between sales and development teams at the orders stage. Since FY7/20, it has integrated sales and support (system sales and system support) with organizational change and further enhanced collaboration. Additionally, despite the Company's support for individual customization as a fundamental strategy, it is improving its gross profit margin through measures such as expanding orders conforming to packaged functions to minimize customization and shortening lead time with enhanced quality and productivity.



Business overview

Profit improvement for continuous growth and virtuous cycle spiral



Source: From the Company's results overview

As a result of the above, net sales are on an increasing trend, while the gross profit margin has also been rising. Starting with FY7/19 as the base year for comparison, on a Company-wide basis, net sales increased 51.3% through FY7/23, while the gross profit margin rose 12.5pt from 42.0% to 54.5%. Notably, the gross profit margin of the System Solutions Business increased 13.7pt from 41.6% to 55.3%, which drove the overall increase in the gross profit margin. Within the Online Solutions Business, the gross profit margin of the CROSS Business rose just 1.2pt, from 54.6% to 55.8%. This was due to increased development-related costs for BACKYARD™. Going forward, the Company expects the gross profit margin to increase in tandem with the expansion of recurring net sales.

On a Company-wide basis, recurring net sales rose 75.4% in the five year-period from FY7/19 to FY7/23, while gross profit from recurring business increased by 81.4%. As a result, the coverage ratio for SG&A expenses against gross profit from recurring business increased from 58.5% in FY7/19 to 71.7% in FY7/23, and subsequently rose to 79.7% in 1H FY7/24. This means that the Company now has a profit structure that can cover about 80% of SG&A expenses with gross profit from recurring business. Over the next three years, the Company aims for a 100% coverage ratio for SG&A expenses against gross profit from recurring business. The ratio of recurring net sales and the ratio of gross profit from recurring business declined in FY7/23, but this was due to a temporary factor in the System Solutions Business, which was the increase in hardware device sales accompanying the termination of server maintenance by manufacturers. The overall gross profit margin is continuing to rise as the Company seeks to uncover demand for software modifications and updates and proposes migration to cloud services. Furthermore, the gross profit margin on recurring business is generally in the high 50% range.

The gross profit margin for 1H FY7/24 was 56.6% on a Company-wide basis. The gross profit margin for each business was 57.5% for the System Solutions Business and 50.9% for the Online Solutions Business (within the Online Solutions Business: 57.2% for the CROSS Business and 33.0% for Other Online business). The gross profit margin in the System Solutions Business increased to a higher level.

## Business overview

## Results trends by business

	(¥mn)					
	FY7/19	FY7/20	FY7/21	FY7/22	FY7/23	1H FY7/24
Net sales	10,522	12,679	13,203	12,944	15,924	8,571
System Solutions Business	9,138	11,167	11,505	11,036	13,857	7,480
Online Solutions Business	1,384	1,512	1,698	1,907	2,067	1,090
CROSS Business	851	984	1,186	1,385	1,521	807
Other Online Business	533	527	512	522	546	282
Gross profit	4,422	5,664	6,137	6,738	8,682	4,854
System Solutions Business	3,805	4,951	5,298	5,775	7,659	4,298
Online Solutions Business	617	713	838	962	1,022	555
CROSS Business	464	569	667	792	849	462
Other Online Business	152	143	171	170	172	93
Gross profit margin	42.0%	44.7%	46.5%	52.1%	54.5%	56.6%
System Solutions Business	41.6%	44.3%	46.1%	52.3%	55.3%	57.5%
Online Solutions Business	44.6%	47.2%	49.4%	50.4%	49.4%	50.9%
CROSS Business	54.6%	57.8%	56.2%	57.2%	55.8%	57.2%
Other Online Business	28.5%	27.1%	33.4%	32.6%	31.5%	33.0%
Recurring net sales	3,586	4,172	4,803	5,576	6,290	3,494
Ratio of recurring net sales	34.1%	32.9%	36.4%	43.1%	39.5%	40.8%
Gross profit from recurring business	2,030	2,354	2,791	3,304	3,682	2,083
Ratio of gross profit from recurring business	45.9%	41.6%	45.5%	49.0%	42.4%	42.9%
Gross profit margin from recurring business	56.6%	56.4%	58.1%	59.3%	58.5%	59.6%
SG&A expenses	3,471	3,964	4,307	4,637	5,134	2,615
Coverage ratio for SG&A expenses against gross profit from recurring business	58.5%	59.4%	64.8%	71.3%	71.7%	79.7%

Note: Results for FY7/21 and prior periods have been retrospectively adjusted due to a change in accounting standards from FY7/22. There has been no change to Company-wide results.

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

## 6. Strengthen collaborations with business partners

The Company is pushing ahead with strengthening service collaborations with business partners in various fields as an initiative to drive further sales growth and profit expansion. As for collaborations in FY7/24, in October 2023 Alladin Office began collaboration with V-ONE Cloud, which is the receivables management and payment matching system of R&AC Co., Ltd. In November 2023, CROSS MALL began collaboration on order, shipment and inventory data with ANA Mall, an online shopping mall operated by ANA X Inc., which is part of the ANA (ANA HOLDINGS INC. <9202>) Group.

In conjunction with the capital and business alliance between Sivira and Dentsu Group Inc. <4324>, in June 2021, the Company made an additional investment in Sivira, with which the Company has a capital and business alliance, in order to maintain the ownership ratio. By further strengthening the alliance, the Company plans to pursue new services offering both security and convenience. In June 2023, the Company participated as a partner company in "Mizuho Digital Connect," a DX support program for institutional clients that Mizuho Bank, Ltd. and Mizuho Research & Technologies, Ltd. are working on. Through this program, the Company will support improvements in the corporate value of Mizuho Bank's institutional clients.



## 7. Risk factors as well as issues and countermeasures

General risks in the information systems and services industry include competition for orders, longer development periods accompanying increasingly larger projects, individual projects becoming unprofitable, delays in addressing technological innovations, securing human resources, and other factors. In the Company's case, however, since it mainly develops and sells package software, there is less risk of incurring losses on individual projects compared to system development companies that primarily handle consigned development work. On the other hand, the Company encounters profit margin setback from increases in process steps and customization because it pursues differentiation from rivals through the provision of flexible customization suited to customers. It is addressing this challenge by promoting productivity improvement through an integrated production and sales system.

## Results trends

### Net sales and profit both increased significantly and reached record highs in 1H FY7/24

#### 1. Overview of results for 1H FY7/24

In 1H FY7/24 consolidated results, net sales increased 12.9% YoY to ¥8,571mn, operating profit rose 34.9% to ¥2,238mn, ordinary profit was up 34.5% to ¥2,249mn, and profit attributable to owners of parent increased 34.8% to ¥1,489mn. Net sales and profit both increased significantly and reached record highs, surpassing initial forecasts (forecasts announced on September 8, 2023: net sales of ¥8,318mn, operating profit of ¥1,986mn, ordinary profit of ¥1,998mn, and profit attributable to owners of parent of ¥1,334mn). The interim dividend for FY7/24 was upwardly revised. The System Solutions Business delivered sustained high growth as it pushed ahead with an integrated production and sales system and partner strategy, in addition to benefiting from high levels of DX demand at mid-tier and small/medium-size companies dealing with acute personnel shortages. The Online Solutions Business also performed strongly. On a Company-wide basis, recurring net sales increased 15.0% to ¥3,494mn, gross profit from recurring business rose 16.0% to ¥2,083mn, the gross profit margin from recurring business increased 0.5pt to 59.6%, and the coverage ratio for SG&A expenses against gross profit from recurring business was up 7.2pt to 79.7%.

## Results trends

## Overview of 1H FY7/24 consolidated results

	1H FY7/23		Initial target	1H FY7/24		YoY		Vs. initial forecast	
	Results	Composition ratio		Results	Composition ratio	Change	% change	Change	% change
Net sales	7,591	100.0%	8,318	8,571	100.0%	980	12.9%	253	3.0%
Gross profit	4,136	54.5%	-	4,854	56.6%	718	17.4%	-	-
SG&A expenses	2,476	32.6%	-	2,615	30.5%	138	5.6%	-	-
Operating profit	1,659	21.9%	1,986	2,238	26.1%	579	34.9%	252	12.7%
Ordinary profit	1,672	22.0%	1,998	2,249	26.2%	576	34.5%	251	12.6%
Profit attributable to owners of parent	1,105	14.6%	1,334	1,489	17.4%	384	34.8%	155	11.7%
Breakdown of net sales									
System Solutions Business	6,569	86.5%		7,480	87.3%	910	13.9%	-	-
Online Solutions Business	1,021	13.5%		1,090	12.7%	69	6.8%	-	-
CROSS Business	748	9.9%		807	9.4%	59	7.9%	-	-
Other Online Business	272	3.6%		282	3.3%	10	3.7%	-	-
Company-wide recurring net sales	3,039	40.0%		3,494	40.8%	455	15.0%	-	-
Breakdown of gross profit									
System Solutions Business	3,614	55.0%		4,298	57.5%	684	18.9%	-	-
Online Solutions Business	521	51.0%		555	50.9%	34	6.5%	-	-
CROSS Business	431	57.6%		462	57.2%	31	7.2%	-	-
Other Online Business	89	32.7%		93	33.0%	4	4.5%	-	-
Company-wide gross profit from recurring business	1,795	59.1%		2,083	59.6%	288	16.0%	-	-
Coverage ratio for SG&A expenses against gross profit from recurring business	-	72.5%		-	79.7%	7.2pt	-	-	-

Notes: 1. Initial forecasts were disclosed on September 8, 2023.

2. The composition ratio for gross profit represents the ratio of gross profit to net sales, which equates to gross profit margin by business.

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

Gross profit increased 17.4% YoY, while the gross profit margin rose 2.1pt to 56.6%. The main contributing factors were an improvement in the project turnover rate due to an improvement in product quality and enhancement of options, as well as growth in recurring net sales. SG&A expenses rose 5.6%, but the SG&A expenses ratio declined 2.1pt to 30.5%. Personnel costs increased mainly due to factors that included an increase in employee headcount reflecting continuous hiring of new graduates and experienced employees, an increase in base salary (provided a uniform increase in base salary of ¥10,000 per person from April 2023), establishment of a new work-from-home allowance (provided since August 2023). Additionally, advertising expenses increased due to the start of a new TV commercial to increase public recognition of Aladdin Office (started airing commercial on February 2, 2024, during broadcasts of TV Tokyo's "Dawn of Gaia" program). SG&A expenses were pushed up by factors such as development costs for BACKYARD™, costs for opening the BACKYARD TOKYO service showroom, expenses related to exhibitions, and disaster relief donations for those affected by the 2024 Noto Peninsula Earthquake. Meanwhile, the rate of increase in the SG&A expenses ratio was far lower than the rate of increase in net sales, thanks in part to a teleworking and work-from-home system that curtailed office rent increases. As a result, the operating profit margin rose 4.2pt to 26.1%. The main factors behind the ¥579mn YoY increase in operating profit were an increase of ¥684mn due to an increase in gross profit in the System Solutions Business and an increase of ¥34mn due to an increase in gross profit in the Online Solutions Business, which were partially offset by a decrease of ¥124mn due to an increase in personnel costs, and a decrease of ¥13mn due to an increase in other SG&A expenses.

## The System Solutions Business delivered sustained high growth

### 2. Trends by business segments

#### (1) System Solutions Business

In the System Solutions Business, net sales increased 13.9% YoY to ¥7,480mn, gross profit rose 18.9% to ¥4,298mn, and gross profit margin rose 2.5pt to 57.5%. The gross profit margin increased due to significant increases in both net sales and profit. Although replacement demand for server devices associated with the conclusion of maintenance support by manufacturers settled down in 1Q, there were high levels of DX demand at mid-tier and small/medium-size companies. In addition, profit enhancement measures were also effective. These measures included the accumulation of recurring net sales; the improvement in project precision and development of more accurate work plans when providing quotations due to the integrated production and sales system; increased permeation of profit awareness throughout the progression of project phases; the reduction in after-sales support man-hours following system operation due to the improvement in quality deliveries; the launch of new packages and the bolstering of functions and enhancement of options; the efficient use of partner companies; and the increase in the SE utilization rate due to both progress on new projects and final checks of invoices of existing customers. Moreover, the number of large-scale projects has been increasing due to referrals from partner companies, and the average price per project has shown a stronger upward trend.

#### (2) Online Solutions Business

In the Online Solutions Business, net sales increased 6.8% YoY to ¥1,090mn, gross profit was up 6.5% to ¥555mn, and gross profit margin declined 0.1pt to 50.9%. In the CROSS Business, net sales increased 7.9% to ¥807mn, gross profit rose 7.2% to ¥462mn, and gross profit margin declined 0.4pt to 57.2%. In terms of the market environment, there was an increase in the number of EC enterprises that downsized or exited operations due to the impact of changes in post-pandemic EC consumer behavior. However, the Company saw contract cancellation rates remain at low levels, and the CROSS Business and Other Online Business performed strongly with increases in net sales and profit. The gross profit margin declined slightly. However, this decline was mostly caused by an increase in personnel and development costs associated with ongoing development to expand the functions of BACKYARD™. Therefore, at FISCO we believe that this is only a temporary factor.

## Financial health is strong

### 3. Financial condition

Looking at the Company's financial condition, total assets had increased ¥707mn from the end of FY7/23 to ¥12,822mn as of the end of 1H FY7/24. This was mainly attributable to increases of ¥413mn in cash and cash equivalents, ¥146mn in notes and accounts receivable – trade, and contract assets, and ¥238mn in software in progress, while there was a decrease of ¥148mn in software. Total liabilities decreased ¥262mn to ¥4,112mn. This mainly reflected decreases of ¥213mn in consumption taxes payable and ¥125mn in accounts payable – other, both of which are included in other under current liabilities. Total net assets increased ¥969mn to ¥8,710mn, mainly due to the recording of profit attributable to owners of parent, despite a decrease due to ¥500mn in dividends of surplus. As a result, the equity ratio rose 4.0pt to 67.9%. At FISCO, we think that the Company's financial health is strong, and find no particular cause for concern.

## Results trends

## Balance sheets and statements of cash flow (condensed)

Item							(¥mn)
	End-FY7/19	End-FY7/20	End-FY7/21	End-FY7/22	End-FY7/23	End-1H FY7/24	Change
Total assets	6,646	7,585	8,449	9,576	12,115	12,822	707
Current assets	4,409	4,993	6,087	7,249	9,675	10,216	541
Non-current assets	2,236	2,591	2,362	2,326	2,440	2,605	165
Total liabilities	3,794	3,871	3,860	3,861	4,374	4,112	-262
Current liabilities	2,335	2,366	2,246	2,134	2,546	2,202	-344
Non-current liabilities	3,794	1,505	1,613	1,727	1,828	1,909	81
Total net assets	2,851	3,713	4,589	5,715	7,740	8,710	969
<b>(Management indicators)</b>							
Current ratio	188.8%	211.0%	271.0%	339.7%	379.9%	463.9%	84.0pt
Non-current (assets) ratio	78.4%	69.8%	51.5%	40.7%	31.5%	29.9%	-1.6pt
Equity ratio	42.9%	49.0%	54.3%	59.7%	63.9%	67.9%	4.0pt

Item	End-FY7/19	End-FY7/20	End-FY7/21	End-FY7/22	End-FY7/23	End-1H FY7/24
Cash flows from operating activities	1,006	2,088	2,027	1,134	3,073	1,306
Cash flows from investing activities	-600	-587	-216	-482	-547	-392
Cash flows from financing activities	-420	-663	-551	-465	-526	-500
Cash and cash equivalents at end of the period	1,356	2,194	3,453	3,640	5,639	6,053

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

## Outlook

### Maintained outlook for increases in net sales and profit in FY7/24, with a possibility for even higher upside

#### ● Outlook for FY7/24 results

For FY7/24 consolidated results, the Company has maintained its initial forecasts, with net sales forecast to increase 6.1% from FY7/23 to ¥16,900mn, operating profit to grow 12.8% to ¥4,000mn, ordinary profit to rise 12.8% to ¥4,026mn, and profit attributable to owners of parent to increase 8.5% to ¥2,683mn.

#### Overview of FY7/24 consolidated results forecast

	FY7/23		FY7/24		YoY		1H achievement rate
	Results	Composition ratio	Forecast	Composition ratio	Change	% change	
Net sales	15,924	100.0%	16,900	100.0%	975	6.1%	50.7%
Gross profit	8,682	54.5%	9,464	56.0%	781	9.0%	51.3%
SG&A expenses	5,134	32.2%	5,464	32.3%	329	6.4%	47.9%
Operating profit	3,547	22.3%	4,000	23.7%	452	12.8%	56.0%
Ordinary profit	3,571	22.4%	4,026	23.8%	454	12.8%	55.9%
Profit attributable to owners of parent	2,472	15.5%	2,683	15.9%	210	8.5%	55.5%

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

## Outlook

As for overall market sentiment, although developments related to the end of Windows 10 support planned for 2025 will not have as much of an impact as a surge in demand, the Company expects that demand for business DX will remain at a high level, mainly because of severe personnel shortages. In terms of net sales, the System Solutions Business and the Online Solutions Business are both expected to grow through aggressive sales activities. As key measures, in the System Solution Business, the Company will expand its sales area and accumulate know-how on large-scale projects for major customers. The Company will also advance measures such as expanding the scale of supported business sectors and target customers by strengthening package functions. In the Online Solutions Business, the Company will promote the migration of existing CROSS MALL customers to BACKYARD™ and work on cultivating new BACKYARD™ customers after the migration of existing customers is complete. Furthermore, in response to changes in EC consumer behavior, the Company will broaden the scope of companies eligible for services from the EC business to include retail, manufacturing, and wholesaling, and continue to expand functions to achieve borderless operation management, which has become a market issue. On the profit front, SG&A expenses will increase as the Company continues to actively invest in human resources (plans called for 63 new graduates, 12 more than in the previous year, to join the Company in April 2024, along with the hiring of 15 to 25 experienced employees), development and sales promotion, but this is expected to be absorbed through productivity improvements and higher gross profit from recurring business, along with other factors.

The profit growth rate is expected to slow down in comparison to FY7/23, but this is based on factors such as a recoil from the large growth in FY7/23 and a sense of uncertainty, as well as temporary cost increases due to the parallel operation of both the CROSS MALL and BACKYARD™ platforms, so this forecast seems quite conservative. The business environment is favorable, supported by trends such as further growth in corporate demand for DX. The Company's achievement rate against forecasts in 1H was 50.7% for net sales, 56.0% for operating profit, 55.9% for ordinary profit, and 55.5% for profit attributable to owners of parent. Profit enhancement measures centered on the integrated production and sales system are delivering results at an accelerated pace. Considering these and other factors, we at FISCO believe that there is a high possibility that the Company's results will exceed its forecasts.

## Growth strategy

### Aiming for operating profit margin in the 30% range over the long term

#### 1. Three-year medium-term (rolling) plan

For its medium-term management plan, the Company's policy is to adopt a rolling plan in which it can revise the targets at any time, such as in response to rapid changes to its business environment. Based on this policy, in September 2023 the Company formulated a three-year medium-term management plan with FY7/26 as the final year. Under this plan, the Company's forecast for FY7/26 calls for net sales of ¥20,400mn, gross profit of ¥11,728mn, gross profit margin of 57.5%, operating profit of ¥5,400mn, operating profit margin of 26.5%, and profit attributable to owners of parent of ¥3,616mn. These represent upward revisions for net sales and profit compared to the previous three-year plan. Furthermore, the Company has set an operating profit margin in the 30% range as a long-term goal, and has positioned this plan as a three-year period to solidify its operating profit margin of over 20%.

Growth strategy

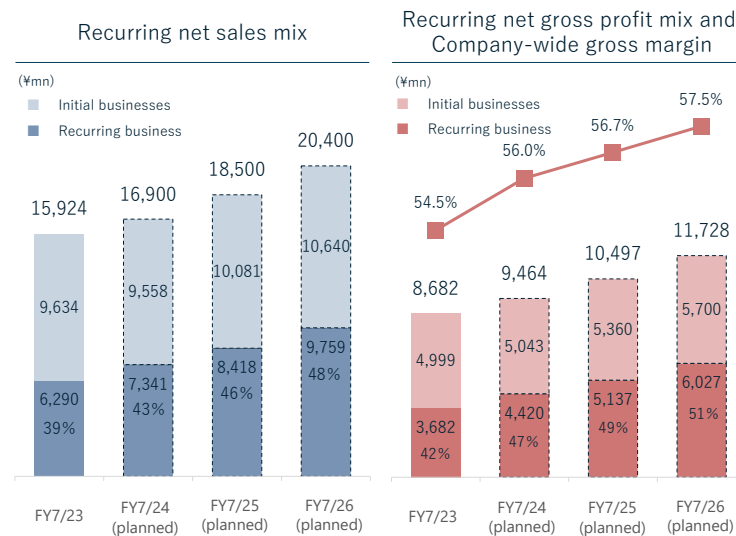
Three-year medium-term (rolling) plan

	FY7/23 results	FY7/24 target	FY7/25 target	FY7/26 target	CAGR (%) 2023-2026
Net sales	15,924	16,900	18,500	20,400	9
Gross profit	8,682	9,464	10,497	11,728	11
Gross profit margin	54.5%	56.0%	56.7%	57.5%	-
Operating profit	3,547	4,000	4,600	5,400	15
Operating profit margin	22.3%	23.7%	24.9%	26.5%	-
Profit attributable to owners of parent	2,472	2,683	3,083	3,616	14

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

As a basic policy, the Company has set an internal goal of double-digit growth for both the System Solutions Business and the Online Solutions Business, supported by the promotion of DX as a national policy. In the System Solutions Business, the Company will gradually expand the sales area from the Tokyo-Nagoya-Osaka key metro areas to other areas on the assumption of providing 100% remote support. It will also work further on developing new partners in response to the progress of regional expansion. In terms of handling large projects, the Company will reinforce contact with partners and pursue recruitment activities aimed at securing human resources, centered on talented engineers and technicians. In the CROSS Business, the Company will pursue the migration of CROSS MALL existing customers to BACKYARD™, and work to cultivate new customers after the migration of existing customers is complete. In terms of costs, the Company will continue to actively recruit human resources (15-25 experienced hires and 55-65 new graduate hires annually), but its policy is to absorb these costs through the effects of increased recurring net sales which are more profitable than initial sales and strengthened project management through an integrated production and sales system, as it aims to increase profit margin. In the System Solutions Business, net sales for cloud products in FY7/23 were 4.9 times that of FY7/20 for Aladdin Project's Management Reinforcement Cloud, and 2.2 times higher for Aladdin EC, as both marked large growth in sales. Also, since the migration from CROSS MALL to BACKYARD™ in the CROSS Business is expected to take approximately two to three years, the Company expects temporary cost increases due to the parallel operation of both platforms.

Recurring net sales / gross profit mix

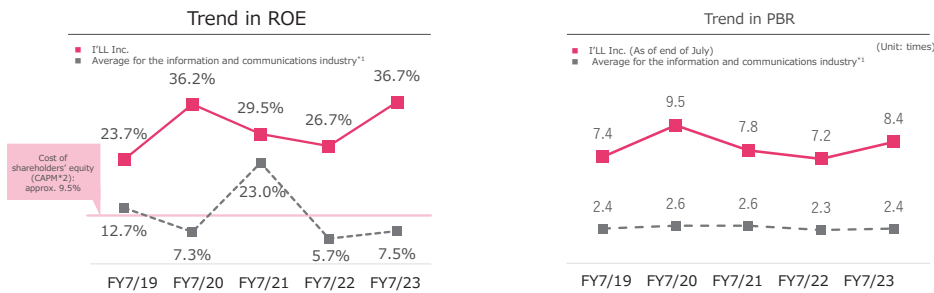


Source: From the Company's results overview

Growth strategy

The Company believes that its current cost of capital is around 9.5% (average for the period from FY7/19 to FY7/23). The Company's Return on Equity (ROE) is around 30%, surpassing the cost of shareholders' equity. Accordingly, the Company believes that it is delivering a performance exceeding the industry average for the information and communications industry. Moreover, the Company's Price-to-Book Ratio (PBR) stands at roughly 8, which is far higher than the industry average in the range of 2. Therefore, the Company believes that it has earned a measure of positive valuation from the markets. Going forward, the Company's policy is to increase corporate value through ongoing improvement in profit margins and investment in human resources.

Management that is conscious of cost of capital and stock price



Source: From the Company's results overview

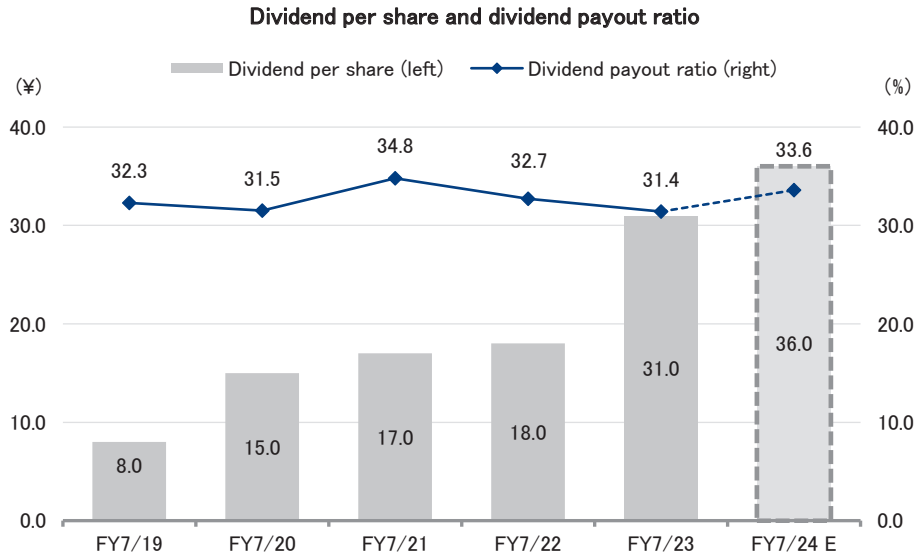
The Company is working to enhance its English-language disclosure documents in response to a growing share of non-Japanese investors and an increase in requests for information gathering opportunities from them. In addition to providing its consolidated financial results reports in English as before, the Company also makes English-language resources available on its website such as documents that assist in understanding the Company and its business model.

## Upwardly revised the interim dividend for FY7/24, and raised targets for dividend payout ratio and DOE

### 2. Shareholder return policy

The Company's basic policy for returning profits is to pay a dividend based on results, while comprehensively considering factors such as ROE and the dividend payout ratio when allocating profits, while ensuring the necessary retained earnings for future business expansion and strengthening the management structure. The Company targets a dividend payout ratio of at least 35%, and a dividend on equity (DOE) of at least 10%. Previously, the Company had targeted a dividend payout ratio of at least 30% and a DOE of at least 8%. Both of these targets were increased in FY7/24. Furthermore, in terms of the dividend forecast for FY7/24, the Company upwardly revised its interim dividend by ¥2.0 and maintained its year-end dividend forecast on March 7, 2024. For FY7/24, the Company's dividend forecast calls for a ¥5.0 increase from FY7/23 to an annual dividend of ¥36.0 (¥16.0 at 2Q-end and ¥20.0 at fiscal year-end). The Company expects to increase the dividend for the seventh consecutive year since FY7/18, and the forecast dividend payout ratio is 33.6%. At FISCO, we think that further enhancement of shareholder returns can be expected accompanying the growth in earnings.

Growth strategy



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

## Emphasis on investment in personnel

### 3. Sustainability management

The Company's mission is "Always free, love & dream with you. That is our responsibility," and it considers its social responsibility to be placing importance not only on profit-making activities through its businesses, but also on being able to feel "free, love & dream" through its businesses. Also, the Company's values are "Giving dreams to society through 'BX'" (With Society), "Conducting management together with the environment and creating a world with zero excess stock" (With the Environment), "Developing a corporate culture and systems in which each and every employee can demonstrate their abilities," (With Coworkers), and "Maintaining transparent and sound management and improving enterprise value alongside corporate growth" (With Shareholders).

In "Giving dreams to society through 'BX'," the Company is creating opportunities for new value creation by supporting opening-up from "simple" work through "BX" in order to help build a better society, and also helping to realize diverse workstyles, such as teleworking, aiming to contribute to the creation of a society in which everyone can play an active role. In addition, it places trust with customers and partners as its top priority and is building relationships not merely as "a business partner" but relationships of co-prosperity in which each partner can grow by working together collaboratively. In "Conducting management together with the environment and creating a world with zero excess stock," the Company is enhancing its disclosure of environment-related information in support of TCFD (the Task Force on Climate Related Financial Disclosures) which was determined at the Board of Directors meeting in July 2022, and is actively working to achieve the goal of reducing emissions of GHG (greenhouses gases) by half by FY2030 and to effectively zero by FY2050. Also, through "BX," it intends to increase the accuracy of stock management and forecasts and to work together with customers to help resolve the social problems of apparel loss and food loss.

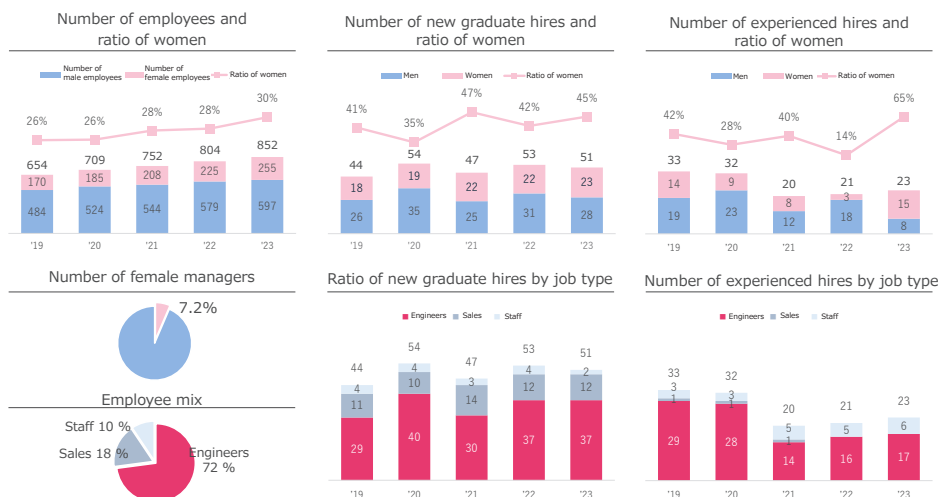


Growth strategy

In “Developing a corporate culture and systems in which each and every employee can demonstrate their abilities,” the Company is working to foster autonomy among its employees and to build a corporate culture that enables them to work freely with dreams. It is also establishing a fair evaluation system that rewards “people who work hard” regardless of their race, gender, age, or position. In addition, it is establishing an environment in which employees are not restricted by work hours or work places and in which even employees who are raising children, providing nursing care, and living in regional areas can still demonstrate their abilities. In “Maintaining transparent and sound management and improving enterprise value alongside corporate growth,” the Company is maintaining sound management in which various opinions are reflected through a system of having five independent external directors (from among 14 directors in total). It is also actively holding dialogues with stakeholders (shareholders, customers, business partners, and employees) and reflecting their opinions in management.

Among these values, the Company places particular importance on “Developing a corporate culture and systems in which each and every employee can demonstrate their abilities.” Specifically, in creating its corporate culture, the Company is promoting glass (transparent) management, a culture that praises people who take on challenges and does not criticize their failures, diverse workstyles tailored to the individual, and training for new employees from the Company president himself. With respect to systems, the Company has established a system for dinner meetings with the president and executive officers and annual prizes, and also systems in which women can work with peace of mind, including paid menstrual leave and a flextime system, and a fair evaluation system of “correctly evaluating people who work hard.” Also, the Company encourages employees to send email messages to enable them to directly message the president and officers. The average annual income of employees (non-consolidated, excluding those on leave), when indexed with FY7/19 as 100, increased to 114 in FY7/23. Through these efforts to establish a good work environment, in FY7/23 the employee turnover rate (non-consolidated) was 3.4% (3.4% for men and 3.6% for women), which is very low compared to the industry average (11.9% based on Company research). Also, the percentage of women returning to work after maternity leave (FY7/23) was 100% for the sixth consecutive period and the percentage of eligible men taking paternity leave (FY7/23) rose to 55.2%. In an engagement survey conducted in January 2024, the Company achieved high scores that exceeded the industry average for every item. Going forward, the Company is aiming to improve the work environment and create an even more virtuous circle.

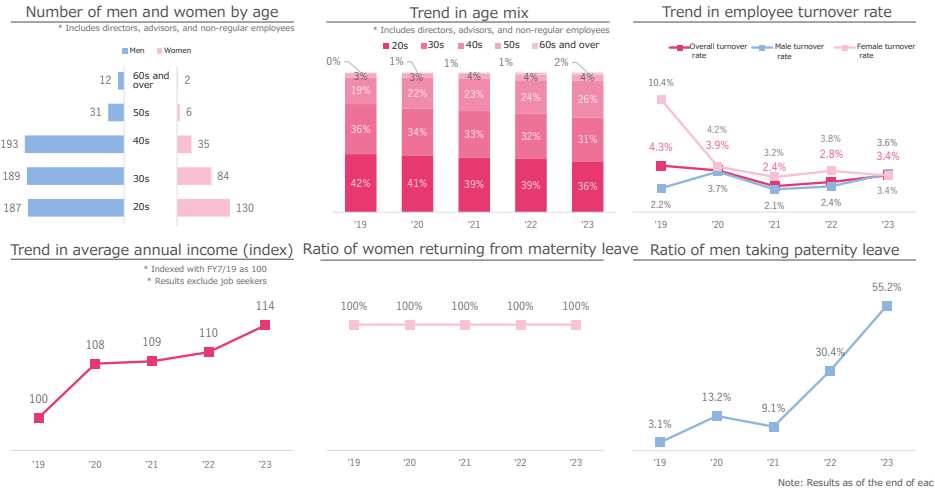
Human capital data (1) (non-consolidated)



Note: Results as of the end of each July  
 Source: From the Company's results overview

Growth strategy

Human capital data (2) (non-consolidated)



Note: Results as of the end of each July  
 Source: From the Company's results overview

Note: Results as of the end of each

Some examples of the Company's initiatives for sustainability are as follows. As part of its series of social contribution activities, the Company was a sponsor of "MOVE FES.2023 Supported by AIRU," an event held by the General Incorporated Association WITH ALS in June 2023. WITH ALS conducts awareness-raising activities on the intractable disease ALS (amyotrophic lateral sclerosis). (This marks the third year of sponsorship, following 2019 and 2021.) In October 2023, the Company invested in the Social Bond (73rd JASSO Social Bond) issued by Independent Administrative Institution Japan Student Services Organization (JASSO). In February 2024, the Company received a Management level B- score in the climate change questionnaire of the CDP, an international NGO that runs a global disclosure system for environmental assessments. Additionally, in February 2024, the Company received the Best Culture Co-creation Award (Secretariat x Management category) in the Culture Headquarters Awards 2023 hosted by Unipos Inc. Furthermore, as a regional-support initiative (Matsue City, Shimane Prefecture), at I'LL Matsue Lab, which was opened in 2017, the Company conducts local recruitment centered on Shimane University and Matsue National College of Technology and has opened the IT Exchange Space on the first floor of the office, where it conducts activities to increase interest in IT and improve IT skills. As an activity toward the practical utilization of blockchain technology, the Company is working together with Sivira, in which it has invested, toward the practical realization of a next-generation platform that can achieve both safety and convenience for the e-commerce industry.

## **FISCO applauds the upward trend in profitability, and is focusing on growth acceleration through BX**

### **4. FISCO's perspective**

The Company's gross profit margin increased by 12.5pt from 42.0% in FY7/19 to 54.5% in FY7/23, and subsequently to 56.6% in 1H FY7/24. In addition, the operating profit margin rose by 13.3pt from 9.0% in FY7/19 to 22.3% in FY7/23, and subsequently to 26.1% in 1H FY7/24. Moreover, the current medium-term management (rolling) plan's FY7/26 targets for gross profit margin of 57.5% and operating profit margin of 26.5% are now likely to be met ahead of time. This upward trend in profitability is primarily due to the success of the Company's basic strategies of continuously implementing overall quality and productivity improvements through an integrated production and sales system, while continuing to actively invest in human resources and expanding recurring net sales. At FISCO, we positively evaluate these results. Furthermore, the Company has set a long-term goal of attaining an operating profit margin in the 30% range. It has positioned the current medium-term management plan as a three-year period to solidify its operating profit margin at over 20%, and it is also tackling challenges in new domains such as realizing value creation through BX. Therefore, at FISCO we will pay attention to the progress of the three-year plan and trends in growth acceleration through BX.



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