COMPANY RESEARCH AND ANALYSIS REPORT

I'LL Inc.

3854

Tokyo Stock Exchange Prime Market

7-Nov.-2024

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Contents

Summary

Sales and profit both forecast to increase and reach record highs in FY7/25

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. Under "CROSS-OVER Synergy," a base strategy which integrates real-world and online capabilities, the Company aims to realize value creation through BX* that not only enhances efficiency through DX, but also transforms backside (back office, backyard) operations which are becoming increasingly complex day by day.

* BX is an abbreviation of backside transformation. It is a new concept in which value creation is realized through transformation from the backside based on the Company's proprietary CROSS-OVER Synergy strategy.

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 (CROSS Business and Other Online 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 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.

2. Sales and profit both increased significantly and reached record highs in FY7/24

In FY7/24 consolidated results, net sales increased 9.9% year on year (YoY) to ¥17,508mn, operating profit rose 20.2% to ¥4,263mn, ordinary profit was up 20.0% to ¥4,285mn, and profit attributable to owners of parent increased 16.8% to ¥2,887mn. These increases in sales and profit are generally in line with the Company's forecast (released on June 7, 2024) and represent record high results. The System Solutions Business delivered sustained high growth as it pushed ahead with an integrated production and sales system and partner strategy, and it steadily captured growing demand for DX from mid-tier and small/medium-size companies struggling with chronic personnel shortages. The Online Solutions Business also performed strongly. Gross profit increased by 12.6% while the gross profit margin rose 1.3 percentage points (pp) to 55.8%. SG&A expenses rose 7.3%, but the SG&A expenses ratio declined 0.7pp to 31.5%. As a result, the operating profit margin rose 2.1pp to 24.4%.

3. Sales and profit both forecast to increase and reach record highs in FY7/25

The Company's forecast for its FY7/25 consolidated results has both sales and profit increasing to record high results. It is forecasting net sales to increase 9.4% YoY to ¥19,150mn, operating profit to grow 12.6% to ¥4,800mn, ordinary profit to rise 12.6% to ¥4,826mn, and profit attributable to owners of parent to increase 12.8% to ¥3,257mn. As sales and profit are expected to continue increasing, the Company plans to prioritize investment in growth in order to take the next step. It is anticipating demand for DX to remain high as personnel shortages at mid-tier and small/medium-size companies grow more severe, and that projects will grow in scale. In regard to costs, although it expects the prices of the products it purchases to rise and personnel costs and advertising expenses to increase, these will be absorbed by factors such as the effects of increased sales, shorter delivery times and stable operations realized by being more selective when assessing contract projects, the reflection of supply-side price increases in sales prices, and the accumulation of recurring net sales. The Company's results forecasts at the start of the fiscal year tend to be conservative, but taking into account the favorable business environment, the upward trend in recurring net sales, and the improvement in the gross profit margin due to the effects of its integrated production and sales strategy, it is expected to perform well.

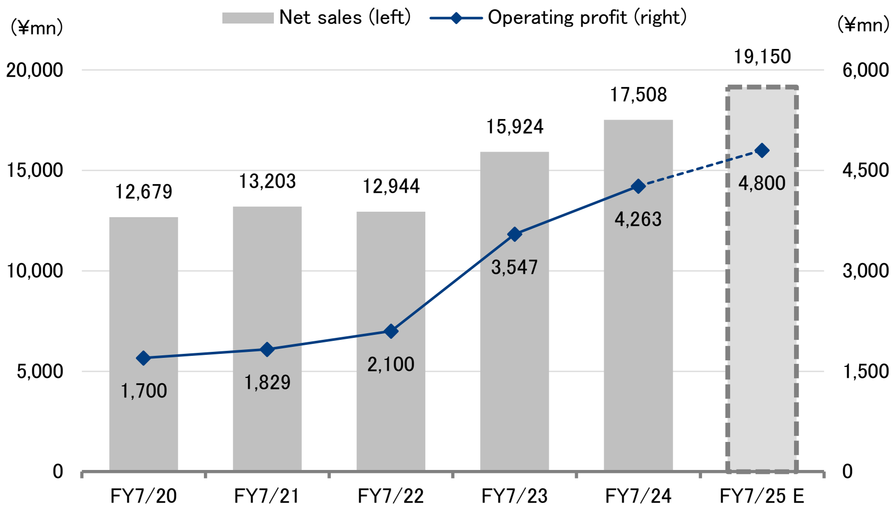
4. Aiming for an operating profit margin of over 30% in the long term and strengthening shareholder return

For its medium-term management plan, the Company has adopted a rolling plan in which it can revise the targets at any time, such as to respond to rapid changes to its business environment. The current three-year medium-term management plan was initially formulated in September 2023, but the FY7/24 results have exceeded the most recent targets by a large margin. Therefore, in September 2024, it formulated a three-year medium-term management plan (FY7/25–FY7/27) containing targets that have been revised upward compared to the previous plan. This new plan has been positioned as a period to take a step forward toward its long-term target of an operating profit margin of over 30%. Under the plan, it will work to maintain a double-digit annual average growth rate while further strengthening its management base by accelerating investment in growth, including investments in human capital and promotions. In FY7/25, it also plans to raise the dividend amount for the eighth consecutive year. Its policy is to use surplus funds to strengthen shareholder returns, so it is expected to further enhance shareholder return in accordance with profit growth.

Key Points

- A total system solutions company supporting the enterprise capability of mid-tier and small/medium-size companies
- Sales and profit both increased significantly and reached record highs in FY7/24
- Sales and profit both forecast to increase and reach record highs in FY7/25
- Aiming for an operating profit margin of over 30% in the long term and strengthening shareholder return
- Recognized for upward trend in profitability

Results trends



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

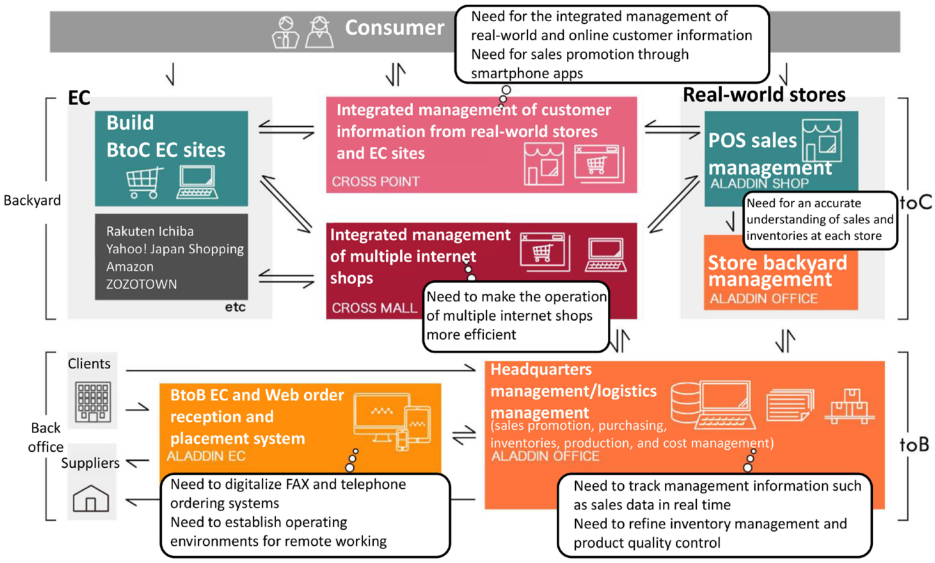
Company overview

A total system solutions company supporting customers' enterprise capability

1. Company overview

The Company is a total system solutions 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. Under CROSS-OVER Synergy, a base strategy which integrates real-world and online capabilities, the Company aims to realize value creation through BX that not only enhances efficiency through DX, but also transforms backside (back office, backyard) operations which are becoming increasingly complex day by day.

The Company's Solutions



Source: The Company's results overview

As of the end of 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 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 FY7/24, the Company had total assets of ¥14,153mn, net assets of ¥9,680mn, an equity ratio of 68.4%, and the total number of issued shares was 25,042,528 (including 11,419 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™, a backyard platform.

In terms of stocks, the Company went public with a listing on the Osaka Securities 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 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 Securities 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 Securities Exchange's JASDAQ Market accompanying a market merger by the Osaka Securities Exchange
December 2010	Moved the Tokyo Headquarters to Shibakoen (Minato-ku, Tokyo)
August 2011	Moved the Nagoya Branch to Nishiki (Naka-ku, Nagoya) 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 Securities 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
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
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
May 2024	I'LL services approved as tools covered by METI's IT introduction subsidy 2024 (for five consecutive years since FY2020)

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

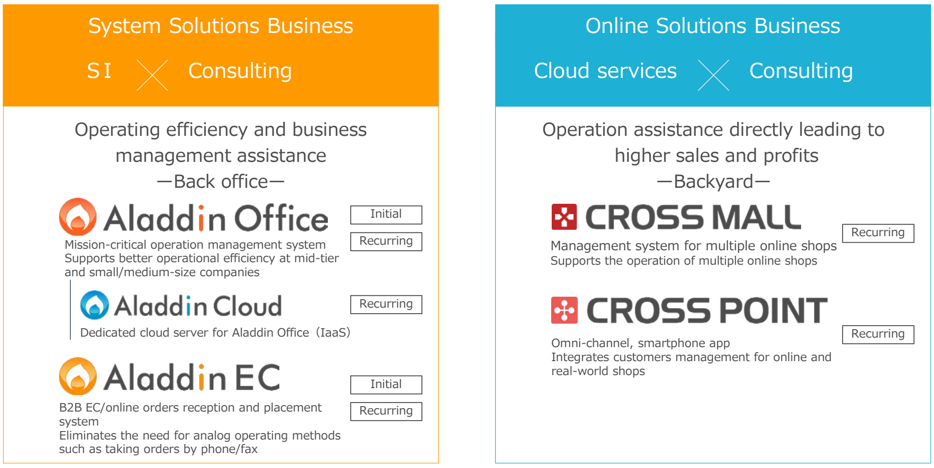
Business overview

Supporting BX through the integration of real-world and online capabilities

1. Overview of services

The Company operates 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. It advances BX by integrating real-world and online capabilities in a way that supports the transformation of the business processes of client companies.

Business activities



Source: The Company Information Material

(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, 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.

* 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.

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 focusing on the recurring business that acquires recurring revenue on an ongoing basis from maintenance and operations support. In 2006, it was the first IT company to be recognized as a supporting member of the Fasteners Cooperative association of Kansai 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 is focused on CROSS MALL and CROSS POINT. These software products are offered as recurring services, so profitability is high. It started offering the backyard platform BACKYARD™ in November 2023.

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 May 2024, the services provided by the Company were certified as tools eligible for the IT introduction subsidy 2024 provided by the Ministry of Economy, Trade and Industry (for five consecutive years since FY2020).

(1) The Aladdin Office series of mission-critical operation management systems for mid-tier and small/medium-size companies

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 include shirt and necktie firm Maker's Shirt Kamakura Co., Ltd., stocking and socks firm Fukusuke Corporation, ladies' fashion firm ANAP INC. <3189>, high-end leather shoes firm Madras Inc., functional food ingredient development and sales company Pharma Foods International Co., Ltd. <2929>, long-standing restaurant and bento box/side dish supplier NADAMAN CO., LTD., water dispenser and rental equipment delivery service operator NAC CO., LTD. <9788>, school lunch ingredient provision organization Osaka School Lunch Association, steel trading specialist FUJIWARA STEEL MATERIALS CO.,LTD., metal processing and precision machinery component supplier SATAKE Precision Technology Co., Ltd., and specialist trader in power tools and other professional tools Into Sangyo Co., Ltd.

(2) B2B e-commerce and online order receiving platform Aladdin EC

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., hair care product company Techno-Eight, dairy product and Western confectionery firm Kurokawa Co., Ltd., bicycle firm RITEWAY (Riteway Products Japan), men's and ladies' apparel company GUEST LIST Co., Ltd., medical equipment seller SHEEN MAN CO., LTD.

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

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 YOHO Brewing Company, sporting goods sales firm Murasaki Sports Co., Ltd., ladies' fashion firm ANAP, sneaker shop atmos, 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 Co., Ltd., operator of e-commerce kimono wholesaler "Kimono Kyokomachi."

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

This product supports integrated management of real-world stores 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 Co., Ltd., Ameri vintage "Ameri" e-commerce firm B STONE CO., LTD., 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™

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). 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 including 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."*

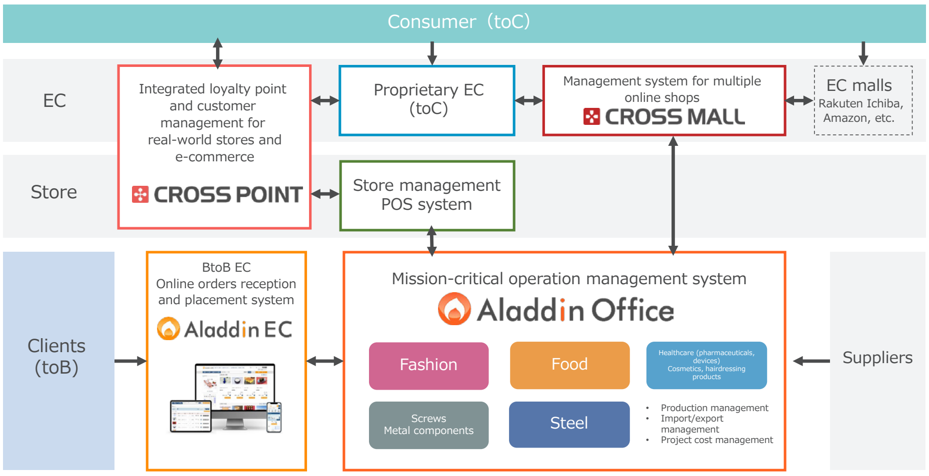
* The vision that BACKYARD™ intends to become the new standard: "Achieving a one-of-a-kind shop experience on one borderless platform."

BACKYARD™ was originally positioned as a next-generation service for CROSS MALL, but in order to respond to changes in e-commerce consumer behavior and diversifying needs, the Company is considering developing the service to cater for a wider range of industries and types of business, including large companies. Specifically, in addition to expanding the scope of companies targeted by the service from e-commerce businesses to online shop management for the online shops of retail, wholesale and manufacturing businesses, it will also work to realize operational management that meets market needs by continuously expanding functions, including real-world store management for retail businesses, order receipt and placement management and sales management for wholesale businesses, and the management of customer support enquiries.

3. CROSS-OVER Synergy strategy

The Company is advancing the CROSS-OVER Synergy strategy which aims to enhance the enterprise capability of mid-tier and small/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. This CROSS-OVER Synergy strategy is driving an increase in customers. In FY7/24, the Company had 7,449 client companies (5,152 in the System Solutions Business and 2,297 in the Online Solutions Business). This represents an increase of approximately 18% in four fiscal years from 6,342 in FY7/20 (4,591 in the System Solutions Business and 1,751 in the Online Solutions Business). This increase is driving the growth of recurring net sales, including maintenance fees and cloud service usage fees.

Providing real-world and online proposals and support as a single company (CROSS-OVER Synergy)



Source: The Company Information Material

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).

(2) Designated industry emphasis strategy

Another strength is the Company's designated industry emphasis which places a heavy focus on industries with many mid-tier and small/medium-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 fashion, food, medical/cosmetics/beauty products, screws and metal parts, and steel industries as the five main industries. It seeks to deepen market coverage with industry-specialized package software Aladdin Office series and other products.

(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 management, and the real-world and online integration field of integrated management of inventories and loyalty points in real-world and e-commerce operations. It also makes 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 FY7/24, the composition of the Company's 921 employees (up 48 employees from the end of the previous fiscal year) on a non-consolidated basis was engineers at 73%, salespeople at 17%, and general staff at 9%. 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 order 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.

(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 net sales.

(9) Partner strategy

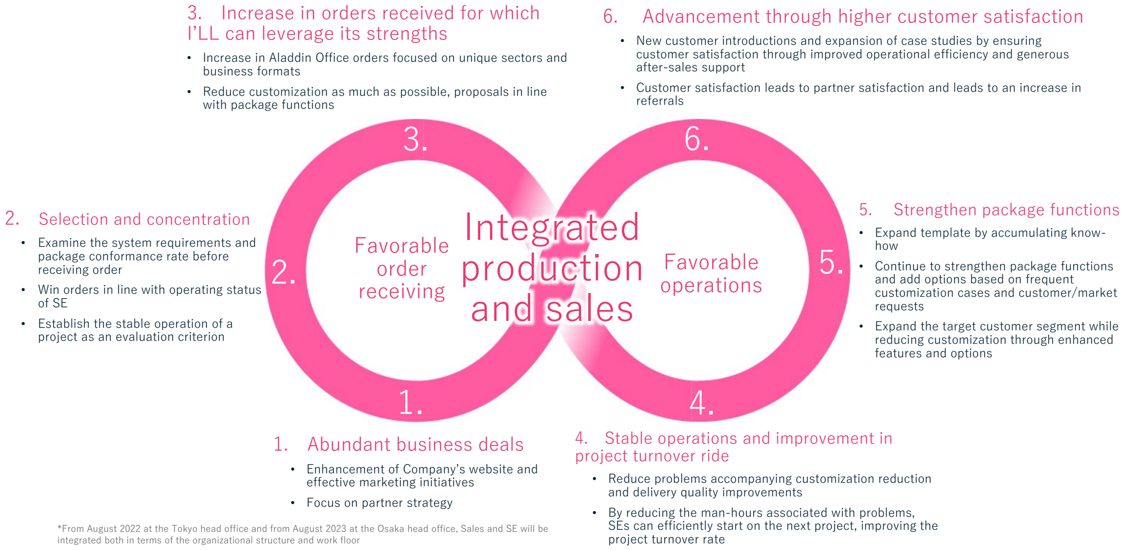
A feature of the Company is that it is also highly trusted by partners in new deal introductions and sales cooperation (banks, system integrators, IT equipment manufacturers, consultants, accounting offices, etc.). Deals introduced by partners represented 45.3% (2.6pp higher than the previous fiscal year) among new orders received by sales channel (on a value basis, FY7/24) in the System Solutions Business. In addition, inquiries via the Company's website accounted for 35.8% (2.3pp lower) of new orders, while acquisitions through internal sales were 18.9% (0.3pp lower). An increase in the percentage of pull-type sales, including inquiries through partner referrals, is 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.

As a result of these business consulting capabilities based on thorough knowledge of different industries and types of work, as well as the partner strategy, the System Solutions Business's competitive tender victory rate as of the end of FY7/24 was 85.7% and the repeat customer rate was 98.4%, 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. Also, in addition to enhancing collaboration through the integration of sales and support (system sales and system support), the Company is supporting individual customization as a fundamental strategy, while at the same time improving its gross profit margin through measures such as expanding orders by strengthening packaged functions and continuing to add options, and shortening lead times with enhanced quality and productivity.

Profit improvement for continuous growth and virtuous cycle spiral



Source: 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. In comparison to FY7/20, in FY7/24 net sales increased 38.1%, while the gross profit margin rose 11.1pp from 44.7% to 55.8%. Notably, the gross profit margin of the System Solutions Business increased 12.2pp from 44.3% to 56.5%, which drove the overall increase in the gross profit margin. Within the Online Solutions Business, the gross profit margin of the CROSS Business remained mostly flat, rising from 57.8% to 58.0%. 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.

Recurring net sales rose 72.9%, while gross profit from recurring business increased by 81.1%. As a result, the coverage ratio for SG&A expenses against gross profit from recurring business increased from 59.4% to 77.4%, which means that the Company now has a profit structure that can cover about 80% of SG&A expenses with gross profit from recurring business. Going forward, the Company is aiming 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.

Results trends by business

(¥mn)

	FY7/20	FY7/21	FY7/22	FY7/23	FY7/24
Net sales	12,679	13,203	12,944	15,924	17,508
System Solutions Business	11,167	11,505	11,036	13,857	15,339
Online Solutions Business	1,512	1,698	1,907	2,067	2,168
(CROSS Business)	984	1,186	1,385	1,521	1,634
(Other Online Business)	527	512	522	546	534
Gross profit	5,664	6,137	6,738	8,682	9,773
System Solutions Business	4,951	5,298	5,775	7,659	8,659
Online Solutions Business	713	838	962	1,022	1,113
(CROSS Business)	569	667	792	849	948
(Other Online Business)	143	171	170	172	165
Gross profit margin	44.7%	46.5%	52.1%	54.5%	55.8%
System Solutions Business	44.3%	46.1%	52.3%	55.3%	56.5%
Online Solutions Business	47.2%	49.4%	50.4%	49.4%	51.3%
(CROSS Business)	57.8%	56.2%	57.2%	55.8%	58.0%
(Other Online Business)	27.1%	33.4%	32.6%	31.5%	30.9%
Recurring net sales	4,172	4,803	5,576	6,290	7,212
Ratio of recurring net sales	32.9%	36.4%	43.1%	39.5%	41.2%
Gross profit from recurring business	2,354	2,791	3,304	3,682	4,264
Ratio of gross profit from recurring business	41.6%	45.5%	49.0%	42.4%	43.6%
Gross profit margin from recurring business	56.4%	58.1%	59.3%	58.5%	59.1%
SG&A expenses	3,964	4,307	4,637	5,134	5,509
Coverage ratio for SG&A expenses against gross profit from recurring business	59.4%	64.8%	71.3%	71.7%	77.4%

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 net sales and gross profit
Source: Prepared by FISCO from the Company's results overview

6. Strengthen collaborations with business partners

The Company is pushing ahead with strengthening collaborations with business partners in various fields as an initiative to drive sales growth and profit expansion. As for collaborations in FY7/24, in October 2023, Alladin Office began a 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 a 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 June 2024, CROSS MALL followed its collaboration on order and inventory data with Mercari Shops, an e-commerce platform operated by Mercari, Inc. <4385>, by collaborating on product data. It also launched a collaboration on order and inventory data with PowerPOS Cloud, a cloud-based POS cash register system provided by TASNET Corp. In July 2024, CROSS MALL began a collaboration on order data with AnyGift, an e-gift service provided by AnyReach Inc.

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.

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 setbacks 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

Sales and profit both increased and reached record highs in FY7/24

1. Overview of consolidated results for FY7/24

In FY7/24 consolidated results, net sales increased 9.9% year on year (YoY) to ¥17,508mn, operating profit rose 20.2% to ¥4,263mn, ordinary profit was up 20.0% to ¥4,285mn, and profit attributable to owners of parent increased 16.8% to ¥2,887mn. These increases in sales and profit are generally in line with the Company's forecast (released on June 7, 2024, net sales of ¥17,350mn, operating profit of ¥4,250mn, ordinary profit of ¥4,272mn, and profit attributable to owners of parent of ¥2,851mn) and represent record high results. The System Solutions Business delivered sustained high growth as it pushed ahead with an integrated production and sales system and partner strategy, and it steadily captured growing demand for DX from mid-tier and small/medium-size companies struggling with chronic personnel shortages. The Online Solutions Business also performed strongly. Recurring net sales rose 14.7% to ¥7,212mn, gross profit from recurring business increased 15.8% to ¥4,264mn, gross profit margin on recurring business increased 0.6pp to 59.1%, and the coverage ratio for SG&A expenses against gross profit from recurring business increased 5.7pp to 77.4%. In the System Solutions Business, there was an increase in monthly maintenance fees as systems projects became larger, as well as an increase in the introduction of cloud products, and the stable growth of the CROSS Business also contributed.

Overview of FY7/24 consolidated results

(¥mn)

	FY7/23		FY7/24						
	Results		Results		YoY		Company forecast	vs. forecast	
	Amount	% of sales	Amount	% of sales	Change	% change	Amount	Change	% change
Net sales	15,924	100.0%	17,508	100.0%	1,583	9.9%	17,350	158	0.9%
Gross profit	8,682	54.5%	9,773	55.8%	1,091	12.6%	9,672	101	1.0%
SG&A expenses	5,134	32.2%	5,509	31.5%	374	7.3%	5,422	87	1.6%
Operating profit	3,547	22.3%	4,263	24.4%	716	20.2%	4,250	13	0.3%
Ordinary profit	3,571	22.4%	4,285	24.5%	713	20.0%	4,272	13	0.3%
Profit attributable to owners of parent	2,472	15.5%	2,887	16.5%	415	16.8%	2,851	36	1.3%
Net sales by business									
System Solutions Business	13,857	87.0%	15,339	87.6%	1,482	10.7%	-	-	-
Online Solutions Business	2,067	13.0%	2,168	12.4%	101	4.9%	-	-	-
(CROSS Business)	1,521	9.6%	1,634	9.3%	113	7.4%	-	-	-
(Other Online Business)	546	3.4%	534	3.1%	-12	-2.2%	-	-	-
Gross profit by business									
System Solutions Business	7,659	55.3%	8,659	56.5%	999	13.1%	-	-	-
Online Solutions Business	1,022	49.4%	1,113	51.3%	91	8.9%	-	-	-
(CROSS Business)	849	55.8%	948	58.0%	99	11.7%	-	-	-
(Other Online Business)	172	31.5%	165	30.9%	-7	-4.1%	-	-	-
Recurring net sales	6,290	39.5%	7,212	41.2%	922	14.7%	-	-	-
Gross profit from recurring business	3,682	58.5%	4,264	59.1%	582	15.8%	-	-	-
Coverage ratio for SG&A expenses against gross profit from recurring business	71.7%	-	77.4%	-	-	5.7pp	-	-	-

Notes: 1. Company forecasts were disclosed on June 7, 2024
Notes: 2. The % of sales for gross profit is the gross profit margin on the net sales of each business
Source: Prepared by FISCO from the Company's financial results and results overview

Overall gross profit increased 12.6% YoY, while the gross profit margin rose 1.3pp to 55.8%. Although SG&A expenses rose 7.3%, the SG&A expenses ratio declined 0.7pp to 31.5%. As a result, the operating profit margin rose 2.1pp to 24.4%. The main factors behind the ¥716mn YoY increase in operating profit were an increase of ¥999mn in gross profit in the System Solutions Business and an increase of ¥91mn in gross profit in the Online Solutions Business, despite a decrease of ¥297mn due to an increase in personnel costs, and a decrease of ¥77mn due to an increase in other SG&A expenses. Personnel costs increased by 8.2% (including an 11.7% increase in personnel costs in cost of sales) due to ongoing revisions to human resources systems and an increase in employee headcount. Other SG&A expenses increased due to initiatives such as exhibitions at trade shows and a TV commercial to increase public recognition, as well as disaster relief donations for those affected by the 2024 Noto Peninsula Earthquake. Factors contributing to the decrease in the SG&A expenses ratio included a teleworking and work-from-home system that curtailed office rent increases. The Company also recorded a ¥230mn loss on retirement of non-current assets under extraordinary losses following the retirement and writing off of some of its cloud service development software.

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 10.7% YoY to ¥15,339mn, gross profit rose 13.1% to ¥8,659mn, achieving double-digit growth in both sales and profit. Gross profit margin rose 1.2pp to 56.5%. Although replacement demand for server devices associated with the conclusion of maintenance support by manufacturers settled down in 1Q, strong growth continued due to high levels of DX demand at mid-tier and small/medium-size companies, as well as factors including the accumulation of recurring net sales driven by growing demand for the introduction of cloud services, smooth progress on development and an increase in the project turnover rate due to profit enhancement measures such as the integrated production and sales system, an increase in the number of large-scale projects due to referrals from partner companies, and the reflection of supply-side price increases in sales prices.

(2) Online Solutions Business

In the Online Solutions Business, net sales increased 4.9% YoY to ¥2,168mn, gross profit was up 8.9% to ¥1,113mn, and gross profit margin increased 1.9pp to 51.3%. In the CROSS Business, net sales increased 7.4% to ¥1,634mn, gross profit rose 11.7% to ¥948mn, and gross profit margin was up 2.2pp to 58.0%. Due to the impact of changes in post-pandemic e-commerce consumer behavior, there has been a trend among smaller e-commerce enterprises to downsize or exit operations. In response, the Company has been strengthening its approach targeting mid-tier and large companies in an effort to capture large-scale projects, and as a result, sales growth has been generally smooth. In regard to profit, although the Company has continued to invest in human capital and the development of BACKYARD™, the gross profit margin increased due to the increase in sales and the smooth performance of cloud services.

Financial health is getting stronger

3. Financial condition

Looking at the Company's financial condition, total assets at the end of FY7/24 increased ¥2,038mn from the end of FY7/23 to ¥14,153mn. This was mainly attributable to increases of ¥1,023mn in cash and cash equivalents, ¥472mn in accounts receivable – trade, ¥335mn in contract assets, and ¥164mn in software in progress, despite a decrease of ¥210mn in software. Total liabilities decreased ¥98mn to ¥4,473mn. Under current liabilities, there was a decrease of ¥146mn in accrued consumption taxes included in "other" and an increase of ¥115mn in accounts payable – trade. Under non-current liabilities, there was an increase of ¥113mn in retirement benefit liability. Total net assets increased ¥1,940mn to ¥9,680mn, mainly due to the recording of profit attributable to owners of parent, despite a decrease due to ¥901mn in dividends of surplus. As a result, the equity ratio rose 4.5pp to 68.4%. At FISCO, we find no particular cause for concern and think that the Company's financial soundness has been further enhanced.

Balance sheets and statements of cash flow (condensed)

(¥mn)

Item	End-FY7/20	End-FY7/21	End-FY7/22	End-FY7/23	End-FY7/24	Change
Total assets	7,585	8,449	9,576	12,115	14,153	2,038
Current assets	4,993	6,087	7,249	9,675	11,567	1,892
Non-current assets	2,591	2,362	2,326	2,440	2,585	145
Total liabilities	3,871	3,860	3,861	4,374	4,473	98
Current liabilities	2,366	2,246	2,134	2,546	2,555	8
Non-current liabilities	1,505	1,613	1,727	1,828	1,918	89
Total net assets	3,713	4,589	5,715	7,740	9,680	1,940
Management indicators						
Current ratio	211.0%	271.0%	339.7%	379.9%	452.7%	72.8pp
Non-current assets to equity ratio	69.8%	51.5%	40.7%	31.5%	26.7%	-4.8pp
Equity ratio	49.0%	54.3%	59.7%	63.9%	68.4%	4.5pp

Item	FY7/20	FY7/21	FY7/22	FY7/23	FY7/24
Cash flows from operating activities	2,088	2,027	1,134	3,073	2,637
Cash flows from investing activities	-587	-216	-482	-547	-712
Cash flows from financing activities	-663	-551	-465	-526	-901
Cash and cash equivalents at end of the period	2,194	3,453	3,640	5,639	6,663

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

Outlook

Sales and profit both forecast to increase and reach record highs in FY7/25

● Outlook for FY7/25 consolidated results

The Company's forecast for its FY7/25 consolidated results has both sales and profit increasing to record high results. It is forecasting net sales to increase 9.4% YoY to ¥19,150mn, operating profit to grow 12.6% to ¥4,800mn, ordinary profit to rise 12.6% to ¥4,826mn, and profit attributable to owners of parent to increase 12.8% to ¥3,257mn. It is also forecasting the gross profit to increase 10.3% to ¥10,783mn, gross profit margin to increase 0.5pp to 56.3%, SG&A expenses to rise 8.6% to ¥5,983mn, and the SG&A expenses ratio to decrease 0.3pp to 31.2%. As sales and profit are expected to continue increasing, the Company plans to prioritize investment in growth in order to take the next step.

Overview of FY7/25 consolidated results forecast

(¥mn)

	FY7/24		FY7/25		YoY		1H forecast	2H forecast
	Results	% of sales	Forecast	% of sales	Change	% change		
Net sales	17,508	100.0%	19,150	100.0%	1,642	9.4%	9,333	9,817
Gross profit	9,773	55.8%	10,783	56.3%	1,010	10.3%	-	-
SG&A expenses	5,509	31.5%	5,983	31.2%	474	8.6%	-	-
Operating profit	4,263	24.4%	4,800	25.1%	537	12.6%	2,356	2,444
Ordinary profit	4,285	24.5%	4,826	25.2%	541	12.6%	2,367	2,459
Profit attributable to owners of parent	2,887	16.5%	3,257	17.0%	370	12.8%	1,595	1,662

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

As for the overall market outlook, although developments related to the end of Windows 10 support planned for October 2025 will have a minimal impact on demand, the Company anticipates that demand for business DX will remain at a high level, mainly because of severe personnel shortages at mid-tier and small/medium-size companies, and projects are expected to grow larger in size. In terms of costs, it is anticipating prices of supply-side products, such as licenses, to rise, as well as costs including an increase in personnel costs accompanying the strengthening of recruitment efforts and revisions to human resources systems and an increase in advertising expenses accompanying the year-round broadcasting of the TV commercial. However, these cost increases are expected to be absorbed by factors such as the effects of increased sales, shorter delivery times and stable operations realized by being more selective when assessing contract projects, the reflection of supply-side price increases in sales prices, and the accumulation of recurring net sales. Looking at the forecasts on a six-month basis, in 1H, it is forecasting net sales of ¥9,333mn, operating profit of ¥2,356mn, ordinary profit of ¥2,367mn, and profit attributable to owners of parent of ¥1,595mn, while in 2H, it is forecasting net sales of ¥9,817mn, operating profit of ¥2,444mn, ordinary profit of ¥2,459mn, and profit attributable to owners of parent of ¥1,662mn. Although the ratio of this results forecast is slightly weighted toward 2H, the 1H results incorporate a decrease in reaction to the replacement demand for server devices associated with the conclusion of maintenance support by manufacturers experienced in 1Q of the previous fiscal year, while the 2H results include an increase in net sales due to the accumulation of recurring net sales and growth in terms of engineering, as well as a slight boost to sales in 4Q due to demand for PC replacements accompanying the end of Windows 10 support.

The Company's results forecasts at the start of the fiscal year tend to be conservative, but taking into account the favorable business environment, including the further growth in demand for DX from companies, the upward trend in recurring net sales such as cloud services, and the improvement in the gross profit margin due to the effects of its integrated production and sales strategy, it is expected to perform well in FY7/25.

Growth strategy

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

1. Medium-term management (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. The current three-year medium-term management plan was initially formulated in September 2023, but the FY7/24 results have exceeded the most recent targets by a large margin. Therefore, in September 2024, the Company formulated a three-year medium-term management plan (FY7/25–FY7/27) containing targets that have been revised upward compared to the previous plan. This new plan has been positioned as a period to take a step forward toward its long-term target of an operating profit margin of over 30%. Under the plan, it will work to maintain a double-digit annual average growth rate (CAGR targets for the FY7/24 to FY7/27 period are 10.3% for net sales, 11.6% for gross profit, 15.7% for operating profit, and 15.7% for profit attributable to owners of parent) while further strengthening its management base by accelerating investment in growth, including investments in human capital and promotions.

Medium-term management (rolling) plan

(¥mn)

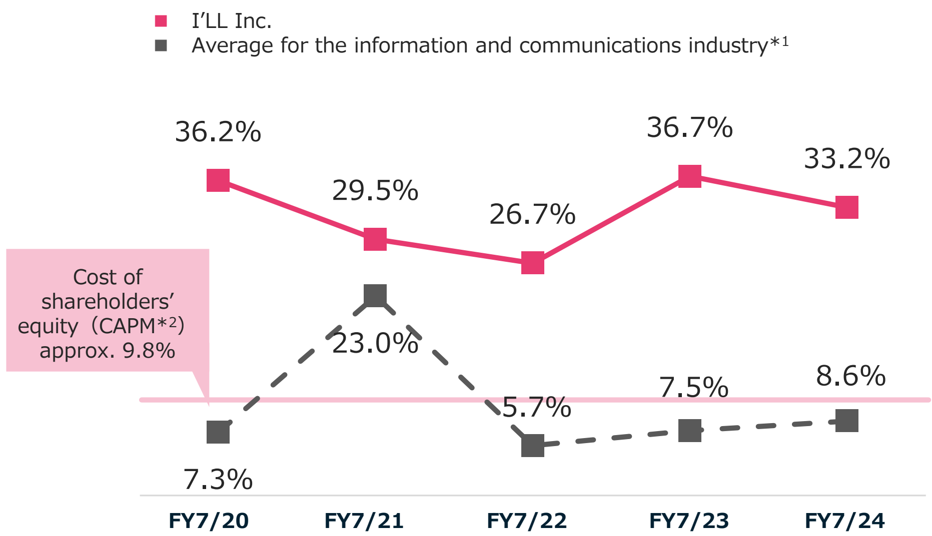
	FY7/24		FY7/25		FY7/26		FY7/27	
	Target	Results	Previous plan	New plan	Previous plan	New plan	Previous plan	New plan
Net sales	16,900	17,508	18,500	19,150	20,400	21,200	-	23,500
Gross profit	9,464	9,773	10,497	10,783	11,728	12,085	-	13,587
Gross profit margin	56.0%	55.8%	56.7%	56.3	57.5%	57.0%	-	57.8%
Operating profit	3,000	4,263	4,600	4,800	5,400	5,600	-	6,600
Operating profit margin	23.7%	24.4%	24.9%	25.1%	26.5%	26.4%	-	28.1%
Profit attributable to owners of parent	2,683	2,887	3,083	3,257	3,616	3,798	-	4,473

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

Priority measures include allocating the results of revisions to human resources systems to secure talented personnel through continuous improvement to salaries, bonuses, and other compensation, continuing to invest in human capital (strengthening recruitment and development) and advertising (year-round broadcasting of the TV commercial) aimed at raising public recognition, deepening the CROSS-OVER Synergy strategy to accelerate the speed of organizational reforms and product development, and using surplus funds for potential M&As and to strengthen shareholder return. Regarding business strategies, in the System Solutions Business, it will use the integrated production and sales system to be more selective when assessing projects and continue to strengthen its ability to handle large projects, while also advancing initiatives such as cultivating new partners, and using referrals from banks to expand its operating area (based on 100% remote support from Tokyo, Nagoya, and Osaka). In the CROSS Business, it will enhance and expand the functions of BACKYARD™, among other strategies. Its targets for the annual number of new employees are 70–80 new graduates and 25–35 mid-career employees.

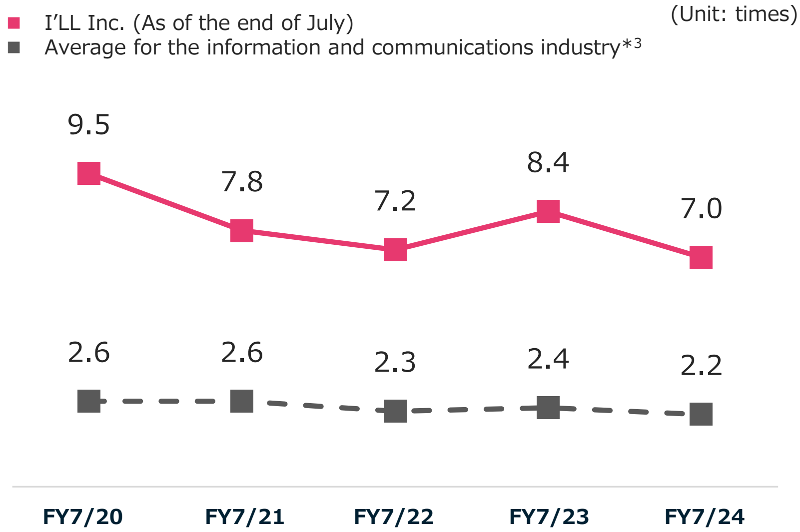
The Company believes that its current cost of shareholders' equity is around 9.8% (average for the period from FY7/20 to FY7/24). Its Return on Equity (ROE) is around 30%, surpassing the cost of shareholders' equity and representing performance that exceeds the industry average for the information and communications industry. Moreover, Price-to-Book Ratio (PBR) stands at roughly 8x, far higher than the industry average, which has earned the Company 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. Additionally, 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 from overseas. In addition to providing its consolidated financial results reports in English as before, it has also made an English-language document explaining the Company and its business model available on its website.

Trend in ROE



Source: The Company's results overview

Trend in PBR



Source: The Company's results overview

Considerable dividend increase in FY7/25 and strengthening of shareholder return

2. Shareholder return policy

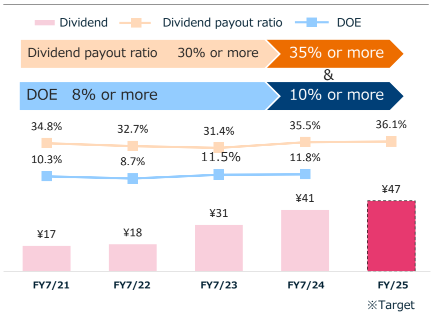
The Company's basic policy for returning profits is to pay a dividend based on results, while comprehensively considering factors such as ROE and the dividend payout ratio when allocating profits, while ensuring the necessary retained earnings for future business expansion and strengthening the management structure. Under this policy, it targets a dividend payout ratio of at least 35%, and a dividend on equity (DOE) of at least 10%. Both of these targets were increased in FY7/24. In FY7/24, the Company increased its annual dividend by ¥10.00 on FY7/23 to ¥41.00 (¥16.00 at 2Q-end and ¥25.00 at fiscal year-end), giving a payout ratio of 35.5%. Its dividend forecast for FY7/25 calls for a ¥6.00 increase from FY7/24 to an annual dividend of ¥47.00 (¥20.00 at 2Q-end and ¥27.00 at fiscal year-end). This represents an increase in the dividend amount for an eighth consecutive year since FY7/18, and the forecast dividend payout ratio is 36.1%. The Company plans to use surplus funds to strengthen shareholder returns, so the further enhancement of shareholder returns accompanying growth in earnings can be expected.

Dividend policy

Share dividends

		FY7/23	FY7/24	FY7/25 (planned)
Interim	Dividend per share	¥11.00	¥16.00	¥20.00 +¥4.00 YoY
End of fiscal year	Dividend per share	¥20.00	¥25.00	¥27.00 +¥2.00 YoY
Annual	Dividend per share	¥31.00	¥41.00	¥47.00
	YoY	+72.2 %	+32.3 %	+14.6 %
	Dividend payout ratio	31.4 %	35.5 %	36.1 %
	DOE	11.5 %	11.8 %	–

Dividend policy and trends in dividend per share and dividend payout ratio



Source: The Company's results overview

Emphasis on investment in personnel

3. Sustainability management

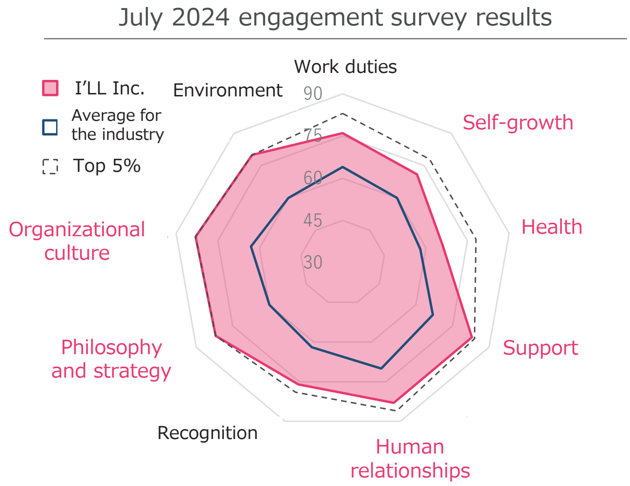
The Company's mission is "Always free, love & dream with you. That is our responsibility," and it considers its social responsibility to be placing importance not only on profit-making activities through its businesses, but also on being able to feel "free, love & dream" through its businesses. Also, 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 for 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 of FY2021 levels 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.

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 non-consolidated employees (excluding those on leave), when indexed with FY7/20 as 100, increased to 109 in FY7/24. Through these efforts to establish a good work environment, in FY7/24 the employee turnover rate was 3.4% (2.5% for men and 5.0% for women), which is very low compared to the industry average (12.8% based on Company research). Also, the percentage of women returning to work after maternity leave was 100% for the seventh consecutive year and the percentage of eligible men taking paternity leave rose to 59.3%. In an engagement survey conducted in July 2024, the Company achieved high scores that exceeded the industry average for every item. However, the scores for "self-growth" and "health" were low, so the Company will address these issues going forward as it aims to improve the work environment and create an even more virtuous cycle.

Current state of human capital (engagement survey results)



Source: The Company's results overview

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, the Company received the Best Culture Co-creation Award (Secretariat x Management category) in the Culture Headquarters Awards 2023 hosted by Unipos Inc. In May 2024, the Company formulated a policy for handling customer harassment. In July 2024, it introduced BOX ZERO, boxes provided by ZERO Co., Ltd with the aim of eliminating food loss, at the Osaka Headquarters, Tokyo Headquarters, and Nagoya Branch as part of its welfare efforts. These boxes not only enable employees to easily purchase light meals within Company buildings, but also contribute to reducing food loss. The Company has also become one of the main sponsors of TRIUMPH, Kokugakuin University's ultimate frisbee team. It is supporting the activities of the team, which is one of the biggest university ultimate frisbee teams in Japan.

Also, as a regional-support initiative (Matsue City, Shimane Prefecture), at I'LL Matsue Lab which was opened in 2017, it 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 raise interest in IT and improve IT skills. As an activity toward the practical utilization of blockchain, 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.

Recognized for upward trend in profitability

4. FISCO's perspective

The Company's gross profit margin increased by 11.1pp from 44.7% in FY7/20 to 55.8% in FY7/24, and the operating profit margin rose by 11.0pp from 13.4% to 24.4%. This is the result of the simple but steady implementation of business strategy, including efforts to enhance quality and productivity through the continued advancement of human resources development, work environment improvements, and the integrated production and sales system, to raise the level of project management, and to grow recurring net sales. We evaluate the Company highly on this point. The new medium-term management plan formulated in September 2024 has been positioned as a three-year period to take a step forward toward its long-term objectives, and it will work to maintain a double-digit annual average growth rate while further strengthening its management base by accelerating investment in growth, including investments in human capital and promotions. It is getting closer to achieving its long-term target of an operating profit margin of over 30%, and at FISCO, we will pay attention to the progress it continues to make on its growth strategies and trends in growth acceleration through BX.

Disclaimer

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