



Record performance continues - FY24/3 1Q OP declines on planned increase in investments; FY Targets Unchanged

• **Earnings Result Summary:** Japan System Techniques announced its 1Q results for FY24/3 after the close of the market on August 10 (Thursday). Key figures on a consolidated basis ; operating profit fell 53.3%, to ¥122 mn on a 10.2% rise in sales, to ¥5,640 mn. Ordinary profit fell 53.6%, to ¥134 mn, and net income attributable to the parent company fell 72.4%, to ¥61. Operating profit decreased due to a planned increase in expenses from investments. An overview by business segment is as follows.

• **Overview by business segment :** In the DX&SI business, sales increased 6.3% YoY, to ¥3,457 mn because of strong inquiries for projects from both new and existing clients, but higher unit labor and outsourcing costs declined operating profit on 5.8%, to ¥482 mn. In the Package business, operating profit rose 11.4% YoY, to ¥147 mn on an 11.0% rise in sales to ¥960 mn. Sales of program products in BankNeo, an integrated information system for financial institutions, declined YoY, Sales of PP and implementation support services for the strategic university management system "GAKUEN Series" increased. The Medical Big Data business posted a 52.0% YoY growth in operating profit, to ¥15 mn on 30.0% growth in sales, to ¥415 mn on higher sales from high-profit businesses such as analysis services and utilization services. The Global business declined 12.6% YoY in operating profit, to ¥104 mn, on 18.4% growth in sales, to ¥806 mn. Although SAP implementation support projects in Malaysia were strong, SI development projects, ERP package sales, and implementation consulting, etc. in Thailand saw lower sales. General and administrative expenses not attributable to reported segments increased 22.5% YoY, to ¥627mn. As a result, SG&A expenses rose 20.0% YoY, to ¥1,237mn, and the SG&A-to-sales ratio rose 1.9 percentage points, to 21.9%. The main reasons for the increase were the one-time strengthening of training and recruitment, and higher personnel expenses due to the increase in personnel.

• **FY24/3 Company Full-Year Earnings Forecast :** There is no change from the initial FY24/3 forecast announced on May 12, and the company is on track to achieve the initial forecast. The order backlog at the beginning of the period and the order activity in the current period indicate that the company will continue to achieve record high performance in FY24/3.

FY	¥mn,%	Net Sales	YoY	Oper. Profit	YoY	Recur. Profit	YoY	Net Profit	YoY	EPS ¥(3)	DPS ¥(3)
FY19/3		16,869	7.9	856	15.4	870	10.8	318	(45.1)	30.3	14.0
FY20/3		18,020	6.8	971	13.4	1,022	17.5	-31	-	-2.9	14.0
FY21/3		18,789	4.3	1,216	25.3	1,310	28.3	578	-	54.0	14.0
FY22/3 ⁽¹⁾		21,399	13.9	2,000	64.6	2,052	56.7	1,330	129.9	112.3	20.0
FY23/3 ⁽²⁾		23,519	9.9	2,385	19.3	2,450	19.4	1,772	33.2	144.5	32.0
FY24/3(CE)		25,300	7.6	2,540	6.5	2,600	6.1	1,880	6.1	153.3	40.0
FY23/3 1Q		5,119	4.5	261	(23.6)	289	(16.8)	223	(5.8)	36.5	-
FY24/3 1Q		5,640	10.2	122	(53.3)	134	(53.6)	61	(72.4)	5.1	-

Source: Compiled by SIR from the company materials

Note(1): In FY22/3, "Accounting Standard for Revenue Recognition" and other standards were applied, but since the impact of this change is negligible, the SIR shows the percentage change from the previous year. Note(2): A two-for-one stock split of common stock was conducted on October 1, 2022. Note(3): EPS and DPS are retroactively adjusted to reflect a 1-for-2 stock split.

1Q Follow-up



Focus Points:

Fully independent DX provider. High operating margins on own-brand packaged software. New business portfolio and growth strategy will continue to generate the highest profits.

Key Indicators

Share price (8/22)	1,977
YH (6/20)	2,690
YL (3/16)	1,570
10YH (23/6/20)	2,690
10YL (16/2/15)	296
Shrs out. (mn shrs)	12.418
Mkt cap (¥ bn)	24.7
EV(¥bn)	13.31
Shr equity ratio (23/3/31)	61.84%
24.03 P/E (CE)	13.0x
23.03 P/B (act)	2.26x
23.03 ROE (act)	17.8%
24.03 DY (CE)	2.0%

1Y Share Price chart



Source: Trading VIEW

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Double-digit growth in sales but decline in profit due to planned upfront investments

Package business posts increase in GAKUEN Series sales

Greater use of medical expense billing statement for Medical Big data business

Overview of 1Q FY24/3

On a consolidated basis, Japan System Techniques posted net sales of ¥5,640 mn (+10.2% YoY), operating profit of ¥122 mn (-53.3% YoY), recurring profit of ¥134 mn (-53.6%), and net profit of ¥61 mn (-72.4%). Profit below the operating profit level fell year on year because of planned increase in expenses due to upfront investments despite double-digit growth in net sales. A summary by business is as follows.

The **DX & SI business** recorded net sales of ¥3,457 mn (+6.3% YoY) and operating profit of ¥482 mn (-5.8% YoY). Despite an increase in net sales due to firm inquiries from both new and existing customers, operating profit declined primarily because of an increase in labor and outsourcing expenses.

The **Package business** posted net sales of ¥960 mn (+11.0% YoY) and operating profit of ¥147 mn (+11.4% YoY) as sales of information integration system for financial institutions “BankNeo” PP fell slightly year on year. On the other hand, strategic university management system “GAKUEN series” PP and implementation support service net sales rose, which contributed to the increase in Package business profit.

The **Medical Big Data business** recorded net sales of ¥415 mn (+30.0% YoY) and operating profit of ¥15 mn (+52.0% YoY). This was primarily because of an increase in net sales from highly profitable businesses, including analysis services and medical expense billing statement-related services.

The **Global business** posted net sales of ¥806 mn (+18.4% YoY) and operating profit of ¥104 mn (-12.6% YoY). Even though there was an increase in SAP implementation support projects in Malaysia, net sales for SI development projects in Thailand, ERP package sales, and implementation consulting fell.

As for company-wide expenses not attributable to a reporting segment, general administrative expenses rose to ¥627 mn (+22.5 YoY). Therefore, SG&A expenses increased 20.0% year on year to ¥1,237 mn, pushing the SG&A expense ratio up 1.9 ppt to 21.9%. This was primarily the result of an increase in various expenses related to efforts to reinforce training and recruiting. Furthermore, there was an increase in not only head office employees but also employees for the various businesses, one facet of upfront investments, and the dramatic increase in SG&A expenses was partially due to the unique 1Q factor of new employees being assigned to the Personnel Department until they are assigned to a particular business in July, the start of 2Q.

Net sales and Profit for each segment (1Q FY2024/3, ¥mn)

	DX&SI business	Package business	Medical big data business	Global business	Total	Adj. ⁽¹⁾	Amount recorded on PL ⁽²⁾
Net sales							
1. External sales	3,457	960	415	806	5,640	-	5,640
2. Inter-segment sales and transfers	27	0.4	-	18	46	(46)	-
Total	3,486	960	415	825	5,687	(46)	5,640
Segment profit	482	147	15	104	749	(627)	122

Source: Compiled by SIR from company data.

Note 1: Adjustments are corporate expenses, etc. not allocated to any reportable segment, and are included in general and administrative expenses

Note 2: Segment operating profit is the same as operating profit shown on the quarterly income statement

Net sales grow for 13 consecutive years, and recurring profit, 9 consecutive years, hitting record level, and 3 consecutive years of dividend increases

Package business expected to post major change in earnings

Aggressively expanding human capital

Earnings outlook for the full FY24/3

For the full year FY24/3, Japan System Techniques forecasts nets sales of ¥25.3 bn (+7.6% YoY), operating profit of ¥2,540 mn (+6.5% YoY), recurring profit of ¥2.6 bn (+6.1%), and net profit of ¥1,880 mn (+6.1% YoY). The company did not revise its earnings forecasts announced on May 12, and steady progress is being made toward achieving those forecasts. It appears that the company will continue to post record profits for FY24/3 because of the order backlog at the beginning of the fiscal year and orders since then, which would result in 13 consecutive years of net sales growth and 9 consecutive years of recurring profit growth. As for shareholder return, the company initially announced a FY24/3 year-end dividend per share of ¥40, an increase of ¥8 compared to FY23/3 dividend. This will be the third consecutive year that the company increased its dividend.

The company releases order backlog information only as of the end of March and September, and the order backlog for each business as of the end of FY23/3, the most recent figures, are provided in the below table. Both the Package business and Medical Big Data business have a double-digit order backlog compared to 1Q FY23/3, and orders have continued to grow at a sound pace since then. Therefore, both businesses are expected to record double-digit growth in net sales, and the company expects that the Package business, which posted a decline in net sales and profit for FY23/3, will record the largest change in earnings in FY24/3 of the four businesses.

The company is also actively recruiting employees as planned upfront investment. It has plans to recruit 104 FY24/3 new graduates, who joined the company in April 2023, and 30-40 mid-career hires. Considering retirements and other departures from the company, this would be a net increase of 80-90 employees. For the DX & SI business, there has been a prominent increase in the number of large prime projects of ¥50 mn or more over the past several years, and skillful SEs will continue to be important. According to a Ministry of Economy, Trade and Industry survey, there is a shortage of IT human resources, including SE workers, and the supply-demand gap is forecast to grow in the future because of Japan's labor force and high demand for IT human resources related to DX transformation. In addition, IT human resources need specialized skills, and the time and cost necessary to train them impacts the supply-demand gap. The highly profitable Package business and Medical Big Data business are based on DX & SI business system development, and the company is actively working to expand its human capital in order to develop new highly-profitable products in the medium and long term.

Order backlog (2019.3.31-2023.3.31, ¥mn)

FY	2019/3	2019/9	2020/3	2020/9	2021/3	2021/9	2022/3	2022/9	2023/3	Change from FY22/3
DX&SI business	2,738	2,622	2,937	3,099	2,766	3,121	3,857	4,138	4,098	6.2%
Package business	1,237	1,251	1,349	2,764	2,301	2,423	1,902	2,521	2,187	15.0%
Medical Big Data business	619	549	532	782	692	900	727	1,095	814	12.0%
Total order back log	4,595	4,423	4,818	6,645	5,760	6,446	6,486	7,754	7,099	9.5%

Source: Compiled by SIR based on the company financial results presentation materials

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