



## DX&SI business drives 2Q results; FY3/23 recurring profit to reach fourth consecutive year high

### Earnings Result Summary

**Key Points :** Japan System Techniques announced its 2Q results for FY3/23 after the close of the market on November 10 (Thursday). The DX&SI business was the main driver of the growth in sales and profit. Key consolidated figures for 2Q were sales of ¥11,004mn (+9.6% YoY), operating profit of ¥1,003mn (+1.1% YoY), recurring profit of ¥1,037mn (+3.3% YoY), and net income of ¥737mn (+7.4% YoY). As of October 1, 2022, a 2 for 1 stock split of its common stock was implemented, boosting its liquidity in the stock market. The company plans to increase annual dividend by ¥5 to ¥25 per share on retroactively adjusted basis for FY3/23.

**The impact of the reactionary decline to shrink from the previous year:** Compared to the 2Q of the previous year, the operating profit margin declined 0.8 percentage points to 9.1%, despite a nearly double-digit increase in sales. This was largely the result of concentrated program product sales of the highly profitable package business, the "GAKUEN series" strategic university management system and the "BankNeo" integrated information system for financial institutions in the 2Q of the previous year. Normally, sales of both products tend to be highest at the 4Q (January-March), but the users, universities and financial institutions, introduced both products in the 2Q of the previous fiscal year ahead of schedule. Similarly, in the Medical Big Data business, sales of highly profitable analysis services were concentrated in the 2Q of the previous fiscal year, partly due to increased demand related to COVID-19. However, a quarterly comparison with the 1Q (April-June) shows a significant improvement in the operating profit margin of 5.1% in the 2Q, suggesting that the impact of the reactionary decline is beginning to diminish.

**Record-high earnings expansion to continue:** The company's forecasts for FY3/23 remain unchanged from the initial forecasts, with sales of ¥22,400 mn (+4.7% YoY), operating profit of ¥2,120 mn (+6.0% YoY), recurring profit of ¥2,160mn (+5.2% YoY), and net income of ¥1,370 mn (+3.0% YoY), representing the 10th consecutive year of record-high sales and the 4th consecutive year of record-high recurring profits. As of the end of 2Q, performance of the Package business and the Medical Big Data business were ahead of the timeline progress, and the DX&SI business has an abundant backlog of software development projects, which is expected to drive earnings growth 2H of FY3/23.

FY	Net Sales (¥mn)	YoY (%)	Oper. Profit (¥mn)	YoY (%)	Ord. Profit (¥mn)	YoY (%)	Net Profit (¥mn)	YoY (%)	EPS <sup>(3)</sup> (¥)	DPS <sup>(3)</sup> (¥)
3/2018	15,630	9.9	742	29.9	785	25.8	579	40.9	55.2	14.0
3/2019	16,869	7.9	856	15.4	870	10.8	318	-45.1	10.0	14.0
3/2020	18,020	6.8	971	13.4	1,022	17.5	-31	-	-2.9	14.0
3/2021	18,789	4.3	1,216	25.2	1,310	28.2	579	-	54.0	14.0
3/2022	21,400	13.9	2,001	64.6	2,053	56.7	1,331	129.9	112.4	20.0
3/2023 CE <sup>(1)</sup>	22,400	4.7	2,120	6.0	2,160	5.2	1,370	3.0	111.7	25.0
3/2022 2Q <sup>(2)</sup>	10,042	-	992	-	1,004	-	686	-	60.2	-
3/2023 2Q <sup>(1)</sup>	11,004	9.6	1,003	1.1	1,037	3.3	737	7.4	60.2	-

Source: SIR from the company materials

Note(1): A two-for-one stock split of common stock was conducted on October 1, 2022.

Note(2): The percentage change from the previous year is not shown due to the adoption of the "Accounting Standard for Revenue Recognition" from the beginning of 1Q FY3/2022.

Note(3): EPS and DPS are retroactively adjusted to reflect a 1-for-2 stock split.

## 2Q 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 (12/14)	1,607
YH (22/11/18)	1,757
YL (22/1/28)	1,005
10YH (22/11/18)	1,757
10YL (13/1/4)	575
Shrs out. (mn shrs)	12.418
Mkt cap (¥ bn)	19.956
EV(¥bn)	12,855
Shr equity ratio (3/31)	58.94%
23.03 P/E (CE)	14.5x
22.03 P/B (act)	1.7x
22.03 ROE (act)	16.7%
23.03 DY (CE)	1.6%

### 6M Share Price chart (weekly)



Source: Trading VIEW

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Sales and operating profit rose, but operating profit margin fell slightly

Reactionary drop in sales caused by concentration of sales in 2Q FY3/22

Q1 comparison shows impact of the reactionary drop tapering off noticeably

## Overview of 2Q FY3/23 results

Key consolidated 2Q performance results were sales of ¥11,004 mn (+9.6% YoY), operating profit of ¥1,003 mn (+1.1% YoY), recurring profit of ¥1,037 mn (+3.3% YoY), and net income of ¥737 mn (+7.4% YoY), with earnings growth in the DX & SI business driving overall sales and profit expansion. On the other hand, operating profit margin dropped 0.8 pp YoY to 9.1%. This was largely attributable to lower sales and profits in the Packaged Software and Medical Big Data businesses, which had been highly profitable. The following is an overview by business segment.

The DX & SI business reported sales of ¥6,870 mn (+9.5% YoY) and operating profit of ¥1,044 mn (+24.5% YoY). The sales and profit growth was mainly driven by an increase in the number of large prime contracts for both new and existing customers in the former "Software business". In addition, sales of mainstay system equipment in the former "System Sales business" rose as the impact of the global semiconductor shortage, which had continued since last year, turned toward a recovery. As a result, overall profitability in this business segment improved substantially.

In the Packaged Software business, the company reported sales of ¥2,051 mn (-3.8% YoY) and operating profit of ¥555 mn (-29.3% YoY). Orders for both the GAKUEN series of strategic university management systems, which include GAKUEN RX and GAKUEN UNIVERSAL PASSPORT RX as core products, and BankNeo, an integrated information system for financial institutions, remained strong. However, sales and profit fell mainly reflecting a reactionary drop in sales of high-margin Program Products (PP) for both brands following a spike in sales in 2Q FY3/22, as well as a drop in sales of implementation support services for the GAKUEN series.

The Medical Big Data business posted sales of ¥718 mn (-2.9% YoY) and operating profit of ¥70 mn (-45.8% YoY). Although orders for the overall segment remained firm, earnings fell substantially as the segment was affected by a similar reactionary drop in sales as seen in the Packaged Software business, with sales for highly profitable analytics services and other services being concentrated in 2Q FY3/22.

The Global business recorded sales of ¥1,363 mn (+52.0% YoY) and operating profit of ¥184 mn, returning to profitability after being roughly break-even in 2Q FY3/22. The main factors behind the turnaround were an increase in inquiries for SAP implementation support projects in Malaysia from new customers as well as existing main customers, and a rise in consolidated profits of overseas subsidiaries stemming from a weaker yen.

Although the operating profit margin declined YoY due to the concentration of sales in the Packaged Software and Medical Big Data businesses in 2Q FY3/22, a QoQ comparison shows that operating profit margin improved from 5.1% in 1Q FY3/23 to 9.1% in 2Q FY3/23, suggesting that the impact of the reactionary drop is tapering off. Net assets increased ¥1,475 mn YoY to ¥15,687 mn, and the company's equity ratio rose from 60.6% in 2Q FY3/22 to 62.5% in 2Q FY3/23. In addition, the company's financial position has become remarkably stable, with zero interest-bearing debt outstanding as of 2Q FY3/23.

## Net sales and Profit for each segment (2Q FY3/2023, ¥mn)

	DX&SI business	Package business	Medical big data business	Global business	Total	Adjustment (1)	Amount recorded on PL(2)
Net sales							
1. External sales	6,870	2,051	718	1,363	11,004	-	11,004
2. Inter-segment sales and transfers	42	28	-	18	88	-88	-
Total	6,912	2,079	718	1,382	11,092	-88	11,004
Segment profit	1,044	555	70	184	1,855	-852	1,003

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

On track for consecutive record-high earnings

## Full-year FY3/23 earnings forecast

The company has maintained its initial full-year FY3/23 earnings forecast, which calls for sales of ¥22,400 mn (+4.7% YoY), operating profit of ¥2,120 million (+6.0% YoY), recurring profit of ¥2,160 million (+5.2% YoY), and net income attributable to owners of parent of ¥1,370 million (+3.0% YoY), representing the 10th consecutive year of record-high sales and the 4th consecutive year of record-high recurring profits.

## Half-yearly business performance and progress (FY3/22–FY3/23, ¥mn)

	FY3/2022			FY3/2023			% of progress
	1H	2H	FY	1H(act)	2H(CE)	FY(CE)	(1H/FY)
Net sales	10,042	11,357	21,399	11,004	11,396	22,400	49.1%
Op. profit	992	1,008	2,000	1,003	1,117	2,120	47.3%
OPM	9.9%	8.9%	9.3%	9.1%	9.8%	9.5%	-

Source: Compiled by SIR from company data

Noticeable increase in orders for large prime contracts

As of 2Q, 1H progress versus full-year FY3/23 earnings forecast was 49.1% for sales and 47.3% for operating profit, as shown in the table above. As previously mentioned in the initiation report published on September 12, 2022, the company's 2H earnings tend to be higher than 1H, with 4Q sales coming in highest for the last five years through FY3/22. The reason behind the company's earnings leaning heavier toward 2H is attributable to the fact that many of its clients are companies operating in the public-sector. With the exception of long-term orders, the company's total order backlog is generally reflected as sales in the following two quarters. Accordingly, with ample order backlog as of the end of September 2022, the company should be able to achieve its 2H sales target. In particular, the order backlog in the DX & SI business has grown at a remarkable 32.6% YoY. While the average order size used to be in the tens of millions of yen, the company is now undertaking an increasing number of large prime contracts of over ¥100 million, wherein it serves as a prime contractor dealing with clients directly. The DX & SI business is likely to drive FY03/23 results through 2H as it did in 1H. Progress in the Packaged Software and Medical Big Data businesses have come in ahead of plan, and the DX&SI business has an abundant backlog of software development projects, which the company expects will drive earnings growth through 2H. Profitability in the Packaged Software and Medical Big Data businesses, which saw lower sales and operating profit in 2Q as sales were concentrated in 2Q FY3/22, appears to be improving in 2H.

DX & SI business to continue driving performance in 2H

## Order backlog (end-March 2019 ~ end-September 2022, ¥,mn)

Business/As of									9/22
	3/2019	9/2019	3/2020	9/2020	3/2021	9/2021	3/2022	9/2022	Growth Rate (vs 9/21)
DX&SI business	2,738	2,622	2,937	3,099	2,766	3,121	3,857	4,138	32.6%
Package business	1,237	1,251	1,349	2,764	2,301	2,423	1,902	2,521	4.0%
Medical Big Data business	619	549	532	782	692	900	727	1,095	21.7%
Global business	0	0	0	0	0	0	0	0	-
Total Oder back log	4,595	4,423	4,818	6,645	5,760	6,446	6,486	7,754	20.3%

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

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