COMPANY RESEARCH AND ANALYSIS REPORT

FINDEX Inc.

3649

Tokyo Stock Exchange Prime Market

7-Feb.-2024

FISCO Ltd. Analyst

Masanobu Mizuta

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

R&D tech company that develops and sells medical data management systems and document management systems

FINDEX Inc. <3649> is an R&D tech company that develops and sells solutions such as medical data management systems and document management systems. The Company seeks to achieve its corporate philosophy of "Enriching society with technologies and creation," through its core digital transformation (DX) solutions that support treatment at medical institutions, and also develops solutions to support government digital transformation of government agencies and local authorities, and promotes the development and sales of medical equipment.

1. Engaged in Medical Business, Public Sector Business, and Health Tech Business

The Company's business is divided into three sections (sections were revised from FY12/23). The Medical Business develops, sells and maintains systems such as medical data management systems for medical institutions, the Public Sector Business sells and maintains official documents management services for government agencies and local authorities, and the Health Tech Business develops, sells and maintains gaze analyzing perimeters (GAP). The Medical Business currently accounts for the majority of the Company's revenue, with the Public Sector Business and the Health Tech business still at the growth stage. The characteristics and strengths of the Company include its engineers and consultants with expertise, a business model with high profit margin built by a talented team, and highly specialized and versatile product lineup. Its system deployment figures show an upward trend, with an approximately 75% market share in national university hospitals and an approximately 40% market share in large hospitals with more at least 400 beds. These figures can be said to demonstrate the Company's competitive advantage.

2. Growth accelerated by significant increases in sales and profit in 3Q FY12/23

In the Company's 3Q FY12/23 cumulative consolidated results, net sales increased 15.8% YoY to ¥3,474mn, operating profit improved 63.2% to ¥796mn, ordinary profit increased 56.7% to ¥820mn, and profit attributable to owners of parent increased by 62.2% to ¥567mn. Growth in the Medical Business was the driver for the significant increase in sales and profit. In the Medical Business, the number of hospitals served increased steadily, and highly profitable package sales (distributor sales) and recurring sales such as maintenance and support fees were also strong. The operating profit margin improved 6.6 percentage points to 22.9%. On a quarterly basis, 1Q net sales decreased 1.0% YoY to ¥1,251mn and operating profit declined 22.2% to ¥288mn, 2Q net sales increased 2.9% YoY to ¥997mn and operating profit improved 27.8% to ¥108mn, and 3Q net sales increased 59.9% YoY to ¥1,225mn and operating profit improved 1,128.9% to ¥399mn. 1Q sales and profit temporarily fell due to the adoption of the revised Accounting Standard for Revenue Recognition, but strong package sales lifted sales and profit in 2Q, and accelerated growth in the consulting department within the Medical Business in particular resulted in significant sales and profit growth in 3Q.

3. Forecast for significant increases in sales and profit in FY12/23 remains unchanged, with upside potential

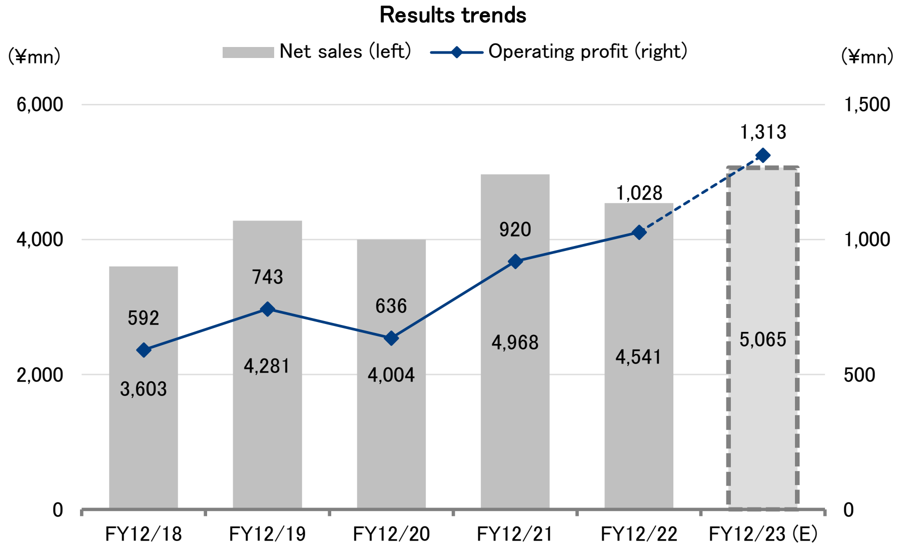
The FY12/23 full-year consolidated results forecasts are unchanged from the Company's initial forecasts, with the forecast for net sales increasing 11.5% YoY to ¥5,065mn, operating profit increasing 27.7% to ¥1,313mn, ordinary profit increasing 26.0% to ¥1,330mn, and profit attributable to owners of parent increasing 27.7% to ¥923mn. The Company expects the expansion of the Medical Business to result in significant sales and profit growth. In the Medical Business, the focus is on increasing new and additional deployments centering on the data management software Claio, boosting sales of packages, and initiatives for new business models. In the Public Sector Business, the Company is seeking to increase sales of archive management and electronic approval system DocuMaker Office, and generate monthly usage fee revenue. In the Health Tech Business, the policy is to strengthen partnerships with sales partners to catch up to the sales plan for GAP. The 3Q cumulative progress rate versus the full-year company forecast is 68.6% for sales, 60.7% for operating profit, 61.7% for ordinary profit, and 61.5% for profit attributable to owners of parent, which may seem slightly weak. However, there is a strong tendency for software sales tend to be concentrated at the end and start of each year, and the initial plan was weighted towards 2H, meaning that we at FISCO believe the Company is generally making steady progress toward full-year forecasts. Given the increase in the number of new and additional hospitals served, the steady increase in recurring maintenance sales, accelerating growth in 3Q, and the order backlog being the highest it has ever been at end-3Q, we at FISCO believe there is some upside potential.

4. Medium-Term Business Plan "Vision for 2025"

The Company formulated its Medium-Term Business Plan "Vision for 2025" (FY12/21-FY12/25) as part of its growth strategy, which contains FY12/25 final year management targets (revised targets announced on February 13, 2023) such as net sales of ¥6,330mn and ordinary profit of ¥2,100mn. Its basic strategy is (1) Concentration of management resources, (2) Acceleration of advanced R&D, and (3) Addressing key sustainability challenges. It is taking proactive steps for M&A by establishing an M&A section to actively use its abundant cash and deposits. Looking at the progress rate of its business strategy as of 3Q FY12/23, Health Tech Business sales are a little behind target, but Medical Business and Public Sector Business sales are broadly in line. A new consulting department was established (January 2023) in the Medical Business to provide optimal solutions on systems to medical institutions, which has already made a significant contribution to sales by securing a large ongoing project at a large hospital. The Company is also making good progress on cross selling mainly to large hospitals, the provision of comprehensive services including maintenance, and achieving high profitability by expanding the sale of packaged systems with low deployment costs. The Public Sector Business is steadily winning bids for local governments, and is close to achieving a profit structure capable of steadily generating monthly usage fee revenue. Another positive is increased company recognition from the increase in orders and successful project bids.

Key Points

- R&D tech company that develops and sells medical data management systems and document management systems
- Approximately 75% domestic market share in national university hospitals nationwide
- Growth accelerated by significant increases in sales and profit in 3Q FY12/23
- Forecast for significant increases in sales and profit in FY12/23 remains unchanged, with upside potential
- FY12/25 target is for net sales of ¥6,330mn and ordinary profit of ¥2,100mn
- FISCO recognizes the substantial increase in profitability, and focuses on early-stage dementia research



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

Company profile

Corporate philosophy of "Enriching society with technologies and creation"

1. Company overview

Findex is an R&D tech company that develops and sells solutions such as medical data management systems and document management systems. The Company seeks to achieve its corporate philosophy of "Enriching society with technologies and creation," through its core digital transformation (DX) solutions that support treatment at medical institutions, and also develops solutions to support government digital transformation of government agencies and local authorities, and develops and sells medical equipment.

As of end-3Q FY12/23, the Company had its head office in Chiyoda-ku, Tokyo, and its business locations comprise Shikoku branch (Matsuyama City, Ehime Prefecture), Osaka branch (Chuo-ku, Osaka City), Fukuoka branch (Chuo-ku, Fukuoka City), Sapporo branch (Kita-ku, Sapporo City), Naha branch (Naha-shi, Okinawa Prefecture), Kyoto branch (Nakagyo-ku, Kyoto City), and Niigata branch (Chuo-ku, Niigata City). The group is made up of the Company, one consolidated subsidiary (Fitting Cloud Inc.), and one equity-method affiliate (EMC Healthcare Co., Ltd.). Fitting Cloud provides IT services using the Cloud. On a consolidated basis, the group has total assets of ¥5,075mn, net assets of ¥4,358mn, an equity ratio of 85.8%, 26,608,800 shares outstanding (including 962,288 treasury shares), and 306 employees.

2. History

Findex was established as Shikoku Kanei Kogyo Co., Ltd. in Matsuyama City, Ehime Prefecture in January 1985 (changed its trade name to Shake Hands, Inc. in May 1992, and then to Pioneer Shikoku Co. in July 1993). It started its medical software development business in May 1994, changed its trade name to PSC Inc. in March 1998, released electronic medical record REMORA in December 2002, and released data management software Claio in October 2003. It changed its trade name to its current name of Findex Inc. in November 2014, changed the name of its Matsuyama head office to Shikoku branch centralized the head office in Tokyo in January 2017, and established consolidated subsidiary Eagle Matrix Consulting, Co., Ltd. (changed its name to EMC Healthcare Co., Ltd. in August 2018, and was changed from a consolidated subsidiary to an equity-method affiliate in July 2022) in February 2017. It released gaze analyzing perimeter GAP-screener for checkup centers in February 2019, and gaze analyzing perimeter GAP in April 2021, and also established Fitting Cloud in April 2021.

In stock-related matters, the Company listed on the Osaka Stock Exchange (OSE) JASDAQ Market in March 2011, then listed on the Tokyo Stock Exchange (TSE) JASDAQ Market following the merger of the TSE and OSE markets in July 2013. It moved to the TSE First Section in November 2014. In April 2022, it was moved to the TSE Prime Market as part of the TSE's market restructuring.

History

Date	Event
January 1985	Established Shikoku Kanei Kogyo Co., Ltd. in Matsuyama City, Ehime Prefecture
May 1992	Changed trade name to Shake Hands, Inc.
July 1993	Changed trade name to Pioneer Shikoku Co.
May 1994	Started medical software development business
March 1998	Changed trade name to PSC Inc.
September 2000	Joint research with Ehime Medical Association, Ehime University Medical Informatics Department, and others began on construction of medical association intranet work, etc.
March 2001	Participated in development support of Japan Medical Association standard receipt software as a primary development ORCA project member of JMA
May 2001	Participated as vendor in the Shikoku 4-prefecture electronic medical record network collaboration project of the former Ministry of International Trade and Industry's "Advanced IT-based Networking Promotion Project for Medical Care"
May 2002	The business model of electronic medical record research and development was adopted as "Ehime Prefecture Venture Support Project" in FY2002 and FY2003
December 2002	Released electronic medical record REMORA
April 2003	Opened Tokyo branch in Minato-ku, Tokyo
October 2003	Released Claio, data management software for medical use
February 2006	Relocated head office to Nagaki-cho, Matsuyama City, Ehime
October 2009	Opened Osaka branch in Chuo-ku, Osaka City
March 2011	Listed on JASDAQ (Standard) of the Osaka Securities Exchange
November 2012	Opened Sapporo branch in Kita-ku, Sapporo City, and Fukuoka branch in Hakata-ku, Fukuoka City
July 2013	Listed on the JASDAQ (Standard) of the Tokyo Stock Exchange (TSE) following the merger of the Osaka Securities Exchange and the TSE
November 2014	Changed company name to Findex Inc. Listed on the First Section of the Tokyo Stock Exchange from JASDAQ (Standard)
July 2015	Acquired the business of Try For Inc.
January 2017	Renamed Matsuyama head office as Shikoku branch, and centralized the head office in Tokyo
February 2017	Established consolidated subsidiary Eagle Matrix Consulting, Co., Ltd.
August 2018	Changed trade name of Eagle Matrix Consulting, Co., Ltd. to EMC Healthcare Co., Ltd.
February 2019	Released GAP-screener, a gaze analyzing perimeter for checkup facilities
August 2019	Opened Naha branch in Kume, Naha City
December 2020	Relocated Tokyo head office to Chiyoda-ku, Tokyo
February 2021	Invested in Digital Entertainment Asset Pte. LTD.
March 2021	Invested in CROSS SYNC. Inc.
April 2021	Released GAP, a gaze analyzing perimeter Established consolidated subsidiary Fitting Cloud Inc. Opened Kyoto branch in Nakagyo-ku, Kyoto City
May 2021	Opened Niigata branch in Chuo-ku, Niigata City
April 2022	Moved from the First Section of the TSE to the Prime Market following the TSE market reorganization Changed registered head office to Tokyo head office
July 2022	Changed EMC Healthcare Co., Ltd. from a consolidated subsidiary to an equity-method affiliate
September 2023	Launched new brand PiCls specializing in cloud-based services

Source: Prepared by FISCO from the Company's securities report and press releases

Business description

Engaged in medical business, public sector business, and health tech business

1. Business overview

The Company's business is divided into three sections (sections were revised from FY12/23, with the existing System Development Business being split into the Medical Business and the Public Sector Business). The Medical Business includes the development, sale and maintenance of software such as medical data management systems for medical institutions, the Public Sector Business includes the sale and maintenance of public document management systems for government agencies and local authorities, and the Health Tech Business includes the development, sale and maintenance of gaze analyzing perimeters (GAP).

The Medical Business currently accounts for the majority of the Company's revenue, with the Public Sector Business and the Health Tech business still at the growth stage. The operating profit margin for the former segments over the past four fiscal years (FY12/19-FY12/22) increased significantly (from 20.3% in FY12/19 to 27.6% in FY12/22) thanks to factors such as the System Development Business (substantially the Medical Business) steadily expanding core products, reducing individual customization man-hours as package sales increased, and improving recurring sales (maintenance, supports, etc.) as the number of hospitals served increased. The Company's quarterly results are reference values only due to seasonal variations, but the overall operating profit margin in cumulative 3Q FY12/23 rose substantially YoY on the back of a strong performance by the Medical Business, as well as a contribution from the Public Sector Business returning to the black.

Results by segment

(¥mn)

Former segment classification	FY12/19	FY12/20	FY12/21	FY12/22
Net sales	4,281	4,004	4,968	4,541
System Development Business	4,227	3,983	4,919	4,471
Health Tech Business	53	21	49	69
Net sales composition	100%	100%	100%	100%
System Development Business	98.7%	99.5%	99.0%	98.5%
Health Tech Business	1.3%	0.5%	1.0%	1.5%
Operating profit	743	636	920	1,028
System Development Business	856	851	1,137	1,233
Health Tech Business	-113	-215	-217	-205
Operating profit margin	17.4%	15.9%	18.5%	22.6%
System Development Business	20.3%	21.4%	23.1%	27.6%
Health Tech Business	-209.8%	-1013.0%	-440.9%	-296.4%

New segment classification	3Q FY12/22 (cumulative)	3Q FY12/23 (cumulative)
Net sales	2,999	3,474
Medical Business	2,872	3,321
Public Sector Business	62	112
Health Tech Business	64	40
Net sales composition	100%	100%
Medical Business	95.8%	95.6%
Public Sector Business	2.1%	3.2%
Health Tech Business	2.1%	1.2%
Operating profit	488	796
Medical Business	704	892
Public Sector Business	-53	9
Health Tech Business	-162	-105
Operating profit margin	16.3%	22.9%
Medical Business	24.5%	26.9%
Public Sector Business	-85.8%	8.4%
Health Tech Business	-252.9%	-257.3%

Note 1: The "Accounting Standard for Revenue Recognition" has been applied from FY12/22.
Note 2: Segments were changed from FY12/23 (the existing System Development Business was split into the Medical Business and the Public Sector Business).
Note 3: Sales exclude internal sales.
Source: Prepared by FISCO from the Company's financial results

(1) Medical Business

The Medical Business offers solutions that support treatment at medical institutions nationwide, from university hospitals to clinics. As medical institutions require a high level of expertise for each clinical department, the Company offers different systems for different departments, and centralizes the data held in each system to help optimize the efficiency of treatment services and improve quality of treatment.

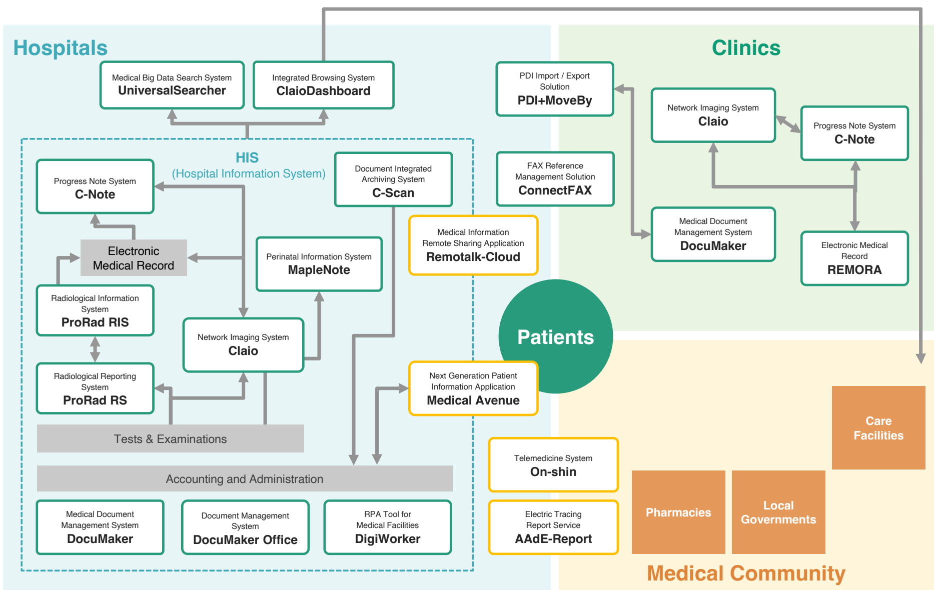
For 3Q FY12/23 cumulative net sales, the Medical Business accounted for 95.6% of all Company sales, and by type of service, software accounted for 51.6%, hardware, 5.8%, support 32.4%, and others 5.8%. Systems sales are now mainly on-premises type systems that use a medical institution's own servers. This is because medical institutions are required to have high-level security for disaster management and personal data protection. However, with the mid- to long-term move towards Cloud systems, the Company is focusing on the development and sales expansion of Cloud-based solutions.

The core product of the Medical Business is the data management software Claio, that accounts for approximately 30% of net sales. This is a medical data management system that efficiently manages images and data that can easily be lost when eliminating paper medical records, and contains features to aid value-added use of the system. The number of users topped 1,500 at end-October 2023.

The Company's other products include on-premises type systems such as integrated browsing system ClaioDashboard, medical big data search system UniversalSearcher, progress note system C-Note, electronic medical record REMORA, radiological information system ProRad RIS, PDI import/export software PDI+MoveBy, as well as medical document management system for accounting and administration fields (administrative departments of medical institutions) DocuMaker, and document management system DocuMaker Office (medical). Cloud-based solutions include medical information remote sharing application Remotalk-Cloud, next-generation patient information app Medical Avenue, telemedicine system for major medical institutions On-shin, and electronic tracing report system AAdE-Report.

The Company launched new product PiCls specializing in existing cloud-based services in September 2023. The Company has positioned Medical Avenue as a core product of the brand and aims to enhance features that support the formation of a medical community. Medical information transfer system PiCls Referral and online appointment reservation service PiCls Booking Assistant were also launched at the same time. In October 2023, consolidated subsidiary Fitting Cloud and Kyoto University Hospital commenced joint research aimed at using generative AI to reduce labor for document management tasks in treatment locations.

Medical Business key products



Source: Reprinted from the Company's supplementary results briefing materials

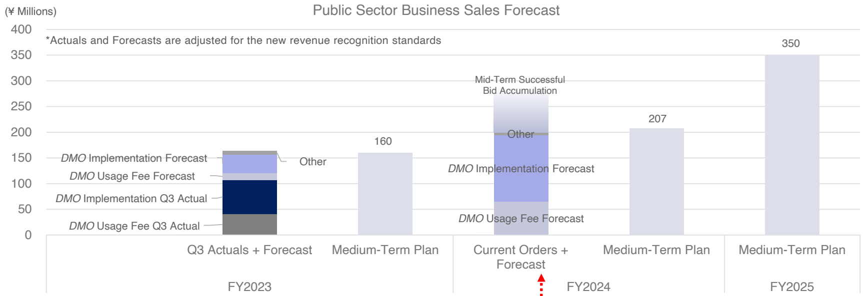
(2) Public Sector Business

The Public Sector Business utilizes the Company's expertise in the medical field to provide solutions that support the government digital transformation of government agencies and local authorities and the administrative digital transformation of medical institutions, such as legally compliant archive management and electronic approval system DocuMaker Office, and digital transformation consulting.

The Company's sales strategy going forward is to increase the number of installations at mid- to small-sized projects (mostly by distributor sales) while strengthening sales (direct sales) to independent administrative agencies with large market shares, public corporations and public interest corporations, and large local governments. The Company will also augment its workforce to focus on expanding sales through major projects and to prepare for acquisition of multiple projects which it has a high likelihood of winning.

Orders for DocuMaker Office

Public Sector Business Sales Forecast



List of Confirmed Orders and Backlog

Winning bid in	Customers	Solutions	Implementation scheduled in	# of expected users
MAR2023	City A	Public document management & e-Approval	OCT2023	900
MAY2023	Prefecture B	Public document management & e-Approval	MAR2024	5,000
JUN2023	National University C	Public document management & e-Approval e-Application (public document excluded)	APR2024	1,000
AUG2023	Organization D	Public document management & e-Approval	DEC2023	30
SEP2023	National University E	Public document management & e-Approval	APR2024	450
SEP2023	Foundation F	Public document management & e-Approval	APR2024	150
SEP2023	Organization G	Public document management & e-Approval	APR2024	500

*Public Document Management & e-Approval: Document management and electronic approval in accordance with the Public Document Management Act
*e-Application (public document excluded): Application of documents other than public documents (e.g. Notification of commuting)

Source: Reprinted from the Company's supplementary results briefing materials

(3) Health Tech Business

The Health Tech Business has established a new visual field test using new concepts and cutting-edge technology, and aims to achieve early detection of eye diseases that lack subjective symptoms, as well as further expand business by using big data. It completed domestic medical device notification of gaze analyzing perimeter GAP-screener in February 2019 and commenced sales, and also commenced sales of gaze analyzing perimeter GAP in April 2021 (domestic medical device notification completed in January 2019). GAP is a visual field test device jointly developed with the Ophthalmology Department of the Kyoto University Hospital using a world-first measurement method.

Existing products determine visibility based on examinees judging their visibility by themselves, which can lead to mistakes and misunderstandings. However, GAP has the merit of automatically assessing the examinee's visibility, removing mistakes and misunderstandings. Other advantages over existing products include an increased number of tests per day as tests only take 3-5 minutes, being head mounted and therefore portable, not requiring darkness so can be used anywhere, even in waiting rooms, house visits, and medical examinations, and being more user friendly as there is no need to stare at a spot during the test to keep your eyes focused as for general visual field test devices.

The segment's business strategy is to continue investing in R&D, and although it is still at the stage of bolstering its structure ahead of full-scale sales, in the domestic market, distributors such as ophthalmic equipment dealers are selling package equipment to medical institutions (2,360 hospitals and 8,244 clinics), while the Company and Toyota Tsusho Corporation <8015> are selling GAP-screeners to eye hospitals, clinics and checkup centers (approximately 1,799) on a pay-as-you-test basis. Overseas, procedures for the European Union Medical Device Regulation (EU-MDR) were completed in August 2022, and the Company had been making sales preparations for the EU. It commenced sales of GAP shipments to Europe, the Middle East and North Africa through Rexxam Co., Ltd. from December 2023. GAP is being sold in approximately 50 countries as an OEM product of Rexxam under the name FIELDNavigator. Preparations are currently under way to start medical regulatory approval for sales in India.

GAP is also useful in detecting early-stage dementia (MCI*), and the Japan Agency for Medical Research and Development (AMED) adopted in its 2021 research project for medical-engineering collaboration and implementation of artificial intelligence, "the R&D of a screening program for slight cognitive dysfunctions, utilizing digital phenotyping of gaze point response and eyeball movements" (joint research with Kyoto University). The Company is conducting joint research with university hospitals aimed at early detection and developing treatment equipment for early-stage dementia through visual field tests.

* MCI is an abbreviation of Mild Cognitive Impairment, which is also called early-stage dementia. It is the condition one step before a full dementia diagnosis.

Characteristics and strengths include high-level of expertise and extensive product lineup

2. Characteristics and strengths

The characteristics and strengths of the Company include its engineers and consultants with expertise, a business model with high profit margin built by a talented team, and highly specialized and versatile product lineup. The Company engages a small talented team of approximately 300 employees (306 as of end-3Q FY12/23, with 28% in programmers, 40% in sales and software developers, 13% in customer service, 17% in management, and 2% as executives), and the majority of employees are not just involved in hardware and software development, but are engineers with extensive medical expertise. Its sales team serve as consultants with expertise in directly communicating with hospitals and clinics to propose, install and support medical software. For sales, the Company maintains high profit margins by utilizing distributors in each region. It not only offers a product lineup that offers a one-stop shop for information infrastructure required by medical institutions, but also maintains a competitive advantage in price. For example, when medical institutions introduce systems for each department, the use of Claio allows it to share infrastructure features, allowing the medical institution to hold down total deployment costs.

Targets are university hospitals and large hospitals; system deployments show an upward trend

3. Sales strategy and earnings characteristics

The Company's sales strategy for the Medical Business is to focus on university hospitals and large hospitals, its main lead users. It conducts sales directly with these targets, and uses distributors in each region for small- and medium-sized hospitals and clinics. In cumulative 3Q FY12/23, distributors accounted for 23.3% of sales (software: 13.3%, hardware: 0.3%, support: 9.7%). Doctors generally start their careers at university hospitals before becoming clinicians, medical researchers or medical practitioners, who after using the Company's systems at a university hospital and experiencing their convenience and reliability, often order the Company's products after becoming clinicians, medical researchers or medical practitioners. This means that system deployment requests from hospitals increase without the Company actively conducting sales activities.

Systems procurements at large hospitals such as university hospitals are large in scale, and generally involve competitive bidding, meaning joint bids with large companies such as Sier. From an earnings perspective, the mainstay of sales are large orders from large hospitals, but these need adjustments such as requirement definitions at least one year in advance, and often incur one-off costs for individual customization and data transfer work after a contract is signed, meaning the profit margin can often change for each individual project. By contrast, sales made via distributors involve smaller order amounts per project compared to large hospitals, as well as sales commission, but do curb the direct sales costs of the Company, and as they are often package sales that do not require individual customization, ultimately tend to have a higher profit margin. Going forward, the Company plans to expand package sales to further improve its profit margin.

Medical software is generally replaced in 5-7 year cycles in line with the lifespan of servers and PCs. The sales cycle involves initial costs of ¥100-200mn at university hospitals and large hospitals and ¥20-100mn at small- and medium-sized hospitals and clinics, and then subsequently (5-6 years) maintenance and support fees of ¥7-15mn/year at university hospitals and large hospitals, and ¥1.5-7mn at small- and medium-sized hospitals and clinics. The Company further boosts sales through its cross sales strategy of adding items during replacements. The average number of packaged software solutions per institution was 4.04 for large hospitals in FY12/18, but had risen to 4.60 in 3Q FY12/23.

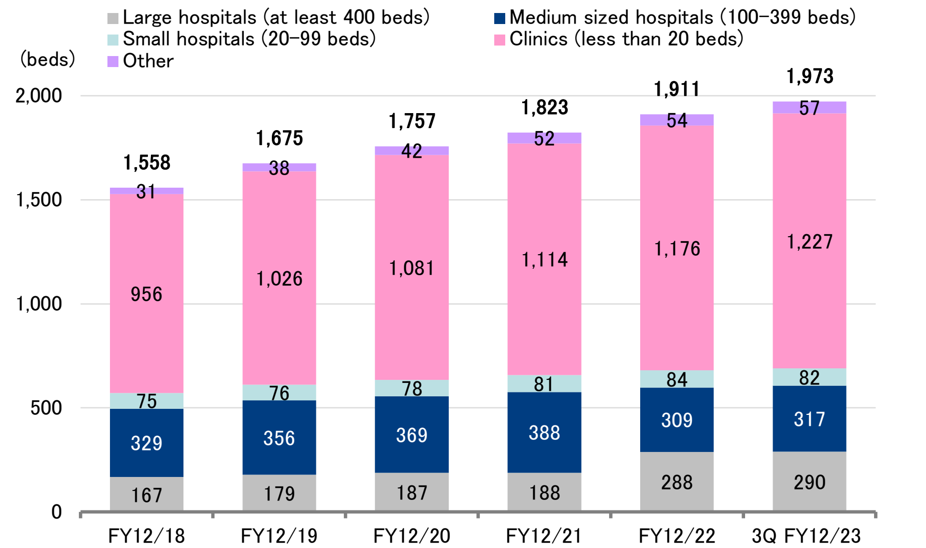
Average number of packaged software solutions per institution

*Definitions are unified due to the presence of mixed definitions in some of the previously disclosed data

Source: Reprinted from the Company's supplementary results briefing materials

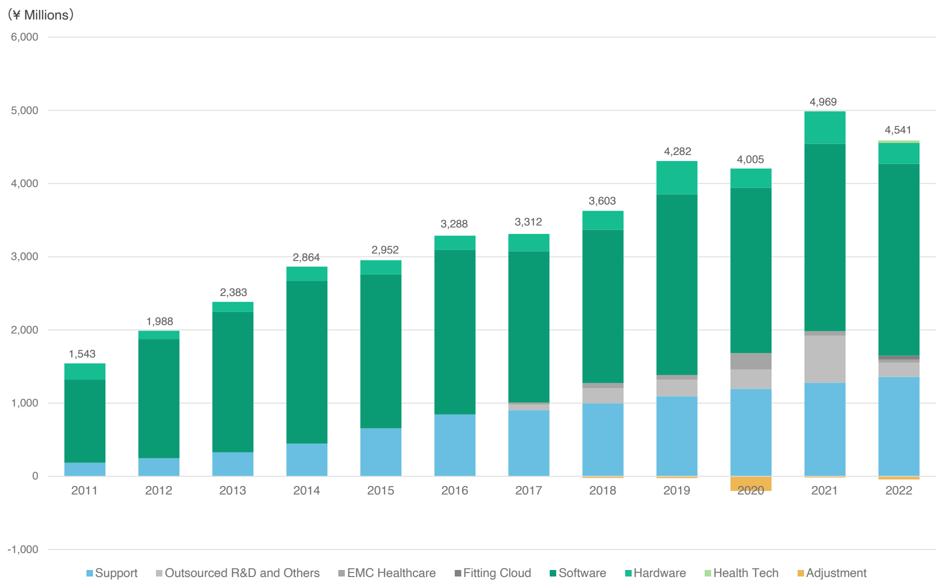
The number of institutions using the Company's medical software (calculated excluding the sale of one-time products) is growing, and stood at 1,973 institutions as of end-3Q FY12/23, up 26.6% from 1,558 institutions at end-FY12/18. The customer retention rate is around 99%. Its system introduction figures show an upward trend, with an approximately 75% market share in national university hospitals nationwide and an approximately 40% market share in large hospitals with more than 400 beds. These figures can be said to demonstrate the Company's competitive advantage. Although company-wide sales may change depending on large projects, recurring sales such as maintenance and support sales, which rise as the number of hospitals served increases, are on the rise.

Changes in medical system user numbers



Note: The categorization of a large hospital was changed from at least 500 beds to at least 400 beds following the revision of medical service fees in 2018. The graph data defines a large hospital as one with at least 400 beds from 2022.
Source: Prepared by FISCO from the Company's results briefing materials and others

Trends in net sales by service



Source: Reprinted from the Company's supplementary results briefing materials

Seasonality is a factor in the Company's sales. Large hospitals tend to introduce software at the end or start of the year when patient numbers are low and there is less disruption due to public holidays, meaning the booking of sales are concentrated in 1Q (Jan-Mar) and 4Q (Oct-Dec). Quarterly net sales and operating profit for FY12/19 were concentrated in 3Q due to institutions moving orders forward ahead of the consumption tax rate hike, but since then, have broadly been concentrated in 1Q and 4Q. The Company adopted the Accounting Standards for Revenue Recognition from FY12/22, and changed from a completion method to a percentage-of-completion method for large projects, meaning future sales bookings may be more equalized.

Quarterly net sales and operating profit

(¥mn)

	1Q	2Q	3Q	4Q	Full-year
Net sales					
FY12/19	1,170	751	1,629	730	4,281
FY12/20	1,631	629	707	1,038	4,004
FY12/21	1,463	943	1,108	1,455	4,968
FY12/22	1,265	969	766	1,542	4,541
FY12/23	1,252	997	1,225		
Operating profit					
FY12/19	284	-10	596	-127	743
FY12/20	651	-98	-44	128	636
FY12/21	451	38	214	217	920
FY12/22	370	85	32	540	1,028
FY12/23	288	109	399		

Note: The "Accounting Standard for Revenue Recognition" has been applied from FY12/22.
Source: Prepared by FISCO from the Company's supplemental results briefing materials

High competitiveness in a favorable market environment

4. Risk factors and earning characteristics and countermeasures

Risk factors faced by the software development and information service sector include IT and DX investment restraints due to the economic climate, intensified market competition, unprofitable projects and quality defects and software failure, slow response to technological advances, intellectual property, recruitment and development of human resources, ties with partner companies and distributors, and legal regulations.

Looking at trends in the medical sector, in May 2022, the Liberal Democratic Party Policy Research Council published its Medical DX Reiwa Vision 2030, in which it proposed initiatives for the simultaneous establishment of a national medical information platform, standardization of electronic medical records, and digital transformation of medical treatment fee amendments. Although there was a phase during the COVID-19 pandemic when there was a pause in IT and digital transformation capex by medical institutions, factors such as medical digital transformation initiatives including My Number cards and electronic subscriptions, initiatives for improvements in the workstyle of doctors and medical professionals as well as hospital internal operational optimization are expected to keep IT and digital transformation investment high over the medium to long term. With digital transformation at government agencies and local authorities also expected to further accelerate, we at FISCO believe the market environment is favorable for the Company. It already has a high market share focusing on large hospital, and FISCO believes its high-level of expertise and extensive product lineup make it highly competitive.

Results trends

Growth accelerated by significant increases in sales and profit in 3Q FY12/23

1. Results for 3Q FY12/23

In the Company's 3Q FY12/23 cumulative consolidated results, net sales increased 15.8% YoY to ¥3,474mn, operating profit improved 63.2% to ¥796mn, ordinary profit increased 56.7% to ¥820mn, and profit attributable to owners of parent increased by 62.2% to ¥567mn. Growth in the Medical Business was the driver for the significant increase in sales and profit. In the Medical Business, the number of hospitals served increased steadily, and highly profitable package sales (distributor sales) and recurring sales such as maintenance and support fees were also strong. Gross profit margin increased 21.8% YoY, and the gross margin improved 3.0 percentage points to 61.4%. SG&A expenses rose 5.8% YoY due to an increase in personnel costs and hiring training expenses, broadly in line with plan, while the SG&A expense ratio fell 3.6 percentage points to 38.5%. The Company introduced a new HR regulation in April 2023 under which working hours were reduced to 7.5 hours per day and 37.5 hours per week, effectively increasing base pay. The operating profit margin increased 6.6 percentage points to 22.9% as a result.

On a quarterly basis, 1Q net sales decreased 1.0% YoY to ¥1,251mn and operating profit declined 22.2% to ¥288mn, 2Q net sales increased 2.9% YoY to ¥997mn and operating profit improved 27.8% to ¥108mn, and 3Q net sales increased 59.9% YoY to ¥1,225mn and operating profit improved 1,128.9% to ¥399mn. Sales and profit temporarily declined in 1Q due to the adoption of the revised Accounting Standard for Revenue Recognition resulting in some of the sales booked in 1Q under the existing method being booked in 4Q of the previous period under the percentage-of-completion method, and an increase in outsourcing costs for data migration work, but strong package sales contributed to an increase in sales and profit in 2Q, and accelerated growth in the Medical Business resulted in significant sales and profit growth in 3Q.

Results for 3Q FY12/23

(¥mn)

	3Q FY12/22 (cumulative)		3Q FY12/23 (cumulative)		YoY	
	Results	Composition	Results	Composition	Amount	%
Net sales	2,999	100%	3,474	100%	474	15.8%
Gross profit	1,751	58.4%	2,132	61.4%	381	21.8%
SG&A expenses	1,263	42.1%	1,335	38.5%	72	5.8%
Operating profit	488	16.3%	796	22.9%	308	63.2%
Ordinary profit	523	17.4%	820	23.6%	296	56.7%
Profit attributable to owners of parent	349	11.7%	567	16.3%	217	62.2%

FY12/23 results (quarterly basis)

(¥mn)

	FY12/22			FY12/23					
	1Q	2Q	3Q	1Q		2Q		3Q	
	results	results	results	results	YoY	results	YoY	results	YoY
Net sales	1,264	969	766	1,251	-1.0%	997	2.9%	1,225	59.9%
Gross profit	791	535	424	714	-9.6%	565	5.5%	852	100.7%
SG&A expenses	420	450	391	426	1.4%	456	1.3%	452	15.5%
Operating profit	370	85	32	288	-22.2%	108	27.8%	399	1128.9%
Ordinary profit	381	99	42	292	-23.4%	122	22.2%	405	862.4%
Profit attributable to owners of parent	258	61	29	199	-22.9%	84	37.8%	283	852.2%

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

Increase in new and additional deployments, strong package sales

2. Results trends by business segment

3Q cumulative Medical Business net sales rose 15.5% YoY to ¥3,321mn while operating profit increased 26.7% to ¥892mn. Orders received increased 14.0% YoY to ¥2,748mn, and the order backlog rose 36.6% to ¥1,765mn. Sales and profit grew significantly, accelerating in 3Q in particular (sales increased 54.9% YoY to ¥1,168mn and operating pofit increased 294.1% to ¥423mn), on the back of an increase in the number of new and additional hospitals served, with the Consulting Department newly established in January 2023 securing a large ongoing project, strong sales (distributor sales) of high profitability package systems, and expanded maintenance and support sales. New and additional deployments totaled 117 (34 hospital projects and 83 clinic projects). The Company had 1,973 users as of end-3Q (up 62 institutions versus end-FY12/22) and is closing in on 2,000 institutions.

Public Sector Business net sales improved 79.5% YoY to ¥112mn, and operating profit was ¥9mn (loss of ¥53mn in 3Q FY12/22). Orders received increased 124.3% YoY to ¥157mn, with the backlog growing 116.0% to ¥114mn. The increase in sales moved the department back into the black. The department has implemented a total of 32 packages (26 for local authorities and 6 for medical institutions) since it started offering services. It received 7 orders from local authorities in 3Q cumulative (4 orders in 3Q) to be implemented in 2023 and spring 2024. It is also negotiating multiple implementation projects planned for 2H FY12/24 onwards, which are expected to lead to accelerated growth in FY12/24.

Health Tech Business net sales decreased 36.3% YoY to ¥40mn, and it suffered an operating loss of ¥105mn (loss of ¥162mn in 3Q FY12/22). Domestic shipments of GAP and GAP-screener numbered 13 units. Net sales declined due to EMC Healthcare being changed to an equity-method affiliate, but the operating loss narrowed.

Trends by segment for 3Q FY12/23

(¥mn)

	3Q FY12/23 (cumulative)		
	Amount	Composition	YoY
Orders received	2,937	100.0%	14.4%
Medical Business	2,748	93.6%	14.0%
Public Sector Business	157	5.4%	124.3%
Health Tech Business	31	1.1%	-63.6%
Order backlog	1,893	100.0%	40.7%
Medical Business	1,765	93.2%	36.6%
Public Sector Business	114	6.0%	116.0%
Health Tech Business	13	0.7%	-
Net sales	3,474	100.0%	15.8%
Medical Business	3,321	95.6%	15.5%
Software	1,792	51.6%	14.1%
(of via distributors)	461	13.3%	-
Hardware	202	5.8%	38.2%
(of via distributors)	10	0.3%	-
Support	1,126	32.4%	8.5%
(of via distributors)	337	9.7%	-
Others	199	5.8%	67.5%
Public Sector Business	112	3.2%	79.5%
Health Tech Business	40	1.2%	-36.3%
Operating profit	796	22.9%	63.2%
Medical Business	892	26.9%	26.7%
Public Sector Business	9	8.4%	-
Health Tech Business	-105	-257.3%	-

Note: Operating profit composition and operating profit margin by segment.
Source: Prepared by FISCO from the Company's financial results

Highly financially sound

3. Financial condition

Looking at the Company's financial condition, as of the end of 3Q FY12/23, total assets increased ¥94mn to ¥5,075mn compared to the end of FY12/22. Notes and accounts receivable - trade, and contract assets decreased ¥258mn, but cash and deposits increased ¥289mn, and merchandise and finished goods improved ¥32mn. Total liabilities declined ¥221mn to ¥716mn, due mainly to a ¥62mn decrease in accounts payable - other and a ¥166mn decrease in income taxes payable, etc. Net assets improved ¥315mn to ¥4,358mn, due mainly to a ¥293mn increase in retained earnings. As a result, the equity ratio rose 4.7 percentage points to 85.8%. With the Company having accumulated cash and deposits of ¥2,702mn, we at FISCO consider its financial soundness extremely high.

Balance Sheets and Cash Flow Statements (Simplified)

(¥mn)

Item	End of FY12/19	End of FY12/20	End of FY12/21	End of FY12/22	End of 3Q FY12/23	Change
Total assets	3,464	3,796	4,556	4,980	5,075	94
(Current assets)	2,632	3,150	3,705	4,128	4,204	76
(Non-current assets)	832	645	850	852	870	17
Total liabilities	622	723	1,044	937	716	-221
(Current liabilities)	487	534	825	654	438	-215
(Non-current liabilities)	134	189	218	283	277	-5
Total net assets	2,842	3,073	3,512	4,042	4,358	315
(Shareholders' equity)	2,842	3,068	3,505	4,038	4,352	313
Equity ratio	82.0	80.8	76.9	81.1%	85.8%	4.7pt

Item	FY12/19	FY12/20	FY12/21	FY12/22
Cash flow from operating activities	1,670	542	750	693
Cash flow from investing activities	-367	-146	-493	-230
Cash flow from financing activities	-207	-201	-183	-142
Cash and cash equivalents at end of period	1,778	1,972	2,045	2,287

Note: Has not prepared a cumulative 3Q FY12/23 cash flow statement.
Source: Prepared by FISCO from the Company's financial results

Outlook

Forecast for significant increases in sales and profit in FY12/23 remains unchanged, with upside potential

● **FY12/23 results outlook**

The FY12/23 full-year consolidated results forecasts are unchanged from the Company's initial forecasts, with the forecast for net sales increasing 11.5% YoY to ¥5,065mn, operating profit increasing 27.7% to ¥1,313mn, ordinary profit increasing 26.0% to ¥1,330mn, and profit attributable to owners of parent increasing 27.7% to ¥923mn. The Company expects the expansion of the Medical Business to result in significant sales and profit growth. The forecast by segment is for Medical Business net sales to improve 8.1% YoY to ¥4,705mn and operating profit to increase 2.4% to ¥1,298mn, Public Sector Business net sales to increase 32.2% to ¥160mn and operating profit of ¥13mn (a ¥33mn operating loss in FY12/22), and Health Tech Business net sales to improve by 189.9% to ¥200mn and operating profit of ¥2mn (a ¥205mn operating loss in FY12/22). In the Medical Business, the focus is on increasing new and additional deployments centering on the data management software Claio, boosting sales of packages, and initiatives for new business models. In the Public Sector Business, the Company is seeking to increase sales of archive management and electronic approval system DocuMaker Office, and generate monthly usage fee revenue. In the Health Tech Business, the policy is to strengthen partnerships with sales partners to catch up to the sales plan for GAP and GAP-screener.

The 3Q cumulative progress rate versus the full-year company forecast is 68.6% for net sales, (70.6% for the Medical Business, 70.1% for the Public Sector Business, and 20.5% for the Health Tech Business), 60.7% for operating profit, 61.7% for ordinary profit, and 61.5% for profit attributable to owners of parent, which may seem slightly weak. However, there is a tendency for software sales tend to be concentrated at the end and start of each year, and the initial plan was weighted towards 2H (sales forecast is ¥2,145mn for 1H and ¥2,920mn for 2H, operating profit is ¥322mn and ¥991mn, respectively), meaning that we at FISCO believe the Company is generally making steady progress toward full-year forecasts. Given factors such as the increase in the number of new and additional hospitals served, the steady increase in recurring maintenance sales, accelerating growth in 3Q, and the order backlog being the highest it has ever been at end-3Q, we at FISCO believe there is some upside potential.

FY12/23 results outlook

(¥mn)

	FY12/22		FY12/23				
	Results	Composition	Results	Composition	YoY	3Q cumulative results	Progress rate
Net sales	4,541	100.0%	5,065	100.0%	11.5%	3,474	68.6%
Operating profit	1,028	22.6%	1,313	25.9%	27.7%	796	60.7%
Ordinary profit	1,055	23.2%	1,330	26.3%	26.0%	820	61.7%
Profit attributable to owners of parent	722	15.9%	923	18.2%	27.7%	567	61.5%
Basic earnings per share	28.21	-	36.03	-	-	-	-
Net sales by segment							
Medical Business	4,352	95.8%	4,705	92.9%	8.1%	3,321	70.6%
Public Sector Business	121	2.7%	160	3.2%	32.2%	112	70.1%
Health Tech Business	69	1.5%	200	3.9%	189.9%	40	20.5%
Operating profit by segment							
Medical Business	1,267	29.1%	1,298	27.6%	2.4%	892	68.8%
Public Sector Business	-33	-	13	8.1%	-	9	72.4%
Health Tech Business	-205	-	2	1.0%	-	-105	-

Note 1: Segments were changed from FY12/23.
Note 2: Operating profit composition and operating profit margin by segment.
Source: Prepared by FISCO from the Company's financial results, results briefing materials and materials provided by the Company

Growth strategy

Medium-Term Business Plan "Vision for 2025"

1. Medium-Term Business Plan "Vision for 2025"

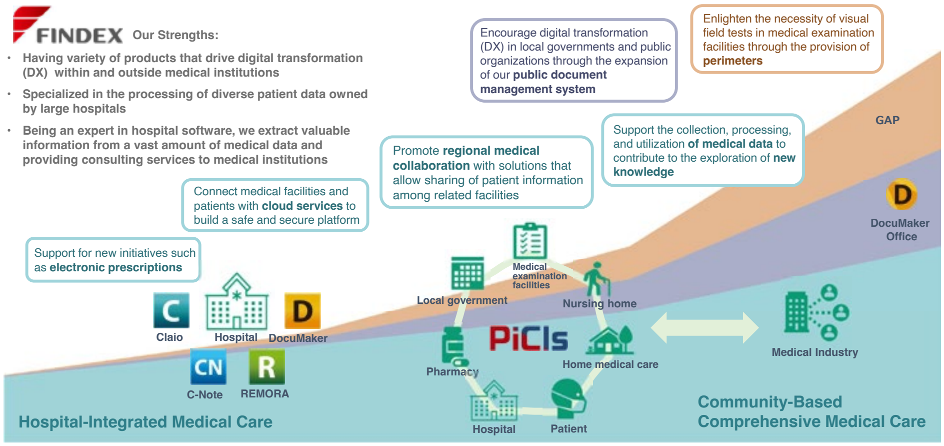
To achieve its corporate philosophy of "Enriching society with technologies and creation," the Company formulated its Medium-Term Business Plan "Vision for 2025" (FY12/21-FY12/25). It contains FY12/25 final year management targets (revised targets announced on February 13, 2023) such as net sales of ¥6,330mn (Medical Business: ¥5,320mn, Public Sector Business ¥330mn, Health Teach Business ¥680mn), ordinary profit of ¥2,100mn, ordinary profit margin of 33.2%, dividend per share of ¥18.0, and a dividend payout ratio of 31.2%.

Medium-Term Business Plan "Vision for 2025"

	FY2022	FY2023	FY2024	FY2025	CAGR FY2025/FY2022
(¥ Millions)	Actual	Medium-Term Business Plan			
Net sales	4,541	**5,065**	**5,754**	**6,330**	11.7%
Medical Business	4,352	4,705	5,066	5,320	6.9%
Public Business	121	160	207	330	39.7%
Health Tech Business	69	200	480	680	114.4%
Ordinary profit	1,055	**1,330**	**1,710**	**2,100**	25.8%
Ordinary profit margin	23.2%	26.3%	29.7%	33.2%	
Annual cash dividends per share	9.50	**11.00**	**15.00**	**18.00**	23.7%
Payout ratio	33.7%			31.2%	

Source: Reprinted from the Company's supplementary results briefing materials

Vision of the Company



Source: Reprinted from the Company's supplementary results briefing materials

The Company's basic strategy is (1) Concentration of management resources (restructure medical solutions business to sustain growth, prioritize M&A as a key growth strategy, strengthen partner sales), (2) Acceleration of advanced R&D (reconceptualize its presence as a R&D-oriented company, improve internal training system and enable dynamic staffing including management levels, acquire and retain the right talent), (3) Addressing key sustainability challenges (support and engage in international initiatives for climate change, contribute to reducing disparities in health care and improving wellbeing of people, ensure good corporate governance and foster a diverse and inclusive workplace culture). It is taking proactive steps for M&A by establishing an M&A section to actively use its abundant cash and deposits.

The Medical Business is proceeding with a business strategy of proactively cross selling solutions to more than 1,900 existing customers (as of December 2022), mainly large hospitals, achieving higher profit margins by increasing packaged solutions sales via distributors, and penetrating the market with in-house developed next-generation infrastructure features to support medical digital transformation. For bolstering the partner sales department, the Company's policy is to transfer 20% of system deployments for large medical institutions to distributors by 2025.

The Public Sector Business has positioned archive management and electronic approval system DocuMaker Office as its core product, and is focusing on increasing sales to independent administrative agencies with large market shares, public corporations and public interest corporations, and large local governments. It targets a total of 57 projects in FY12/25 (25 projects as of FY12/22).

Domestically, the Health Tech Business will establish a consulting sales structure at medical equipment dealers by training and assigning sales professionals capable of explaining the technical aspects of GAP, while internationally, it will establish a sales structure to increase sales of GAP in the EU, India, the ASEAN region, and the U.S. It aims to ship 800 units in FY12/25 (21 units were shipped in FY12/22).

Business strategy making steady progress

2. Business strategy progress

Looking at the progress rate of the Company's business strategy as of 3Q FY12/23, Health Tech Business sales are a little behind target, but Medical Business and Public Sector Business sales are broadly in line. A new consulting department was established (January 2023) in the Medical Business to provide optimal solutions on systems to medical institutions, which has already made a significant contribution to sales by securing a large ongoing project at a large hospital. The Company is also making good progress in areas such as cross selling mainly to large hospitals, the provision of comprehensive services including maintenance, and achieving high profitability by expanding the sale of packaged systems with low deployment costs. The Public Sector Business is steadily winning bids for local governments, and is close to achieving a profit structure capable of steadily generating monthly usage fee revenue. Another positive is increased company recognition from the increase in orders and successful project bids.

The Company's strategy from 4Q FY12/23 for the Medical Business is to continue proposing effective problem solving by delivering consulting services, exploring new business relating to real medical data, expanding and branding cloud-based solutions necessary for collaborations, recruiting and training software developers, and working towards the utilization of generative AI. For the Public Sector Business, the Company will focus on large projects, improving product convenience by adding new features, and bolstering marketing by leveraging its improved brand recognition. For the Health Tech Business, although the Company commenced shipments of GAP to the EU, the Middle East, and North Africa in December 2023 to catch up with sales of GAP, it is also making preparations for medical regulatory approval for sales in India, strengthening marketing activities aimed at raising brand awareness, strengthening and developing partner sales, creating a market focusing on the early detection of eye diseases, and promoting further research and publishing academic papers with domestic and overseas research institutions.

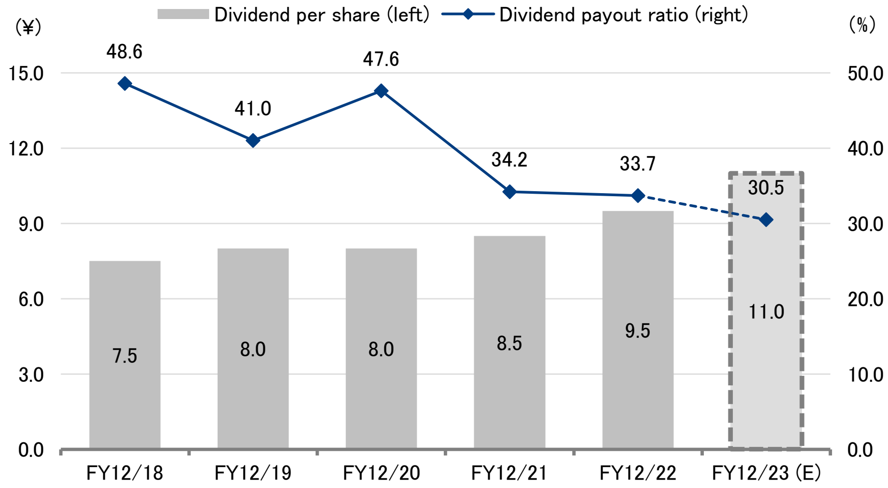
Shareholder returns are conducted through the implementation of stable and continuous dividends

3. Shareholder return policy

The Company aims maximize corporate value by establishing its position in the market through innovative product capabilities and advanced consulting skills. For shareholder returns, to achieve this, the Company's basic policy is to pay dividends based on a comprehensive assessment of its business performance, financial position, and achievement of its business plan, while maintaining and expanding internal reserves to continue to make necessary investments.

Based on this policy, the Company plans to raise its annual dividend by ¥1.5 YoY to ¥11.0 (¥4.0 at end-2Q, and ¥7.0 at year end) for FY12/23. This is the third consecutive annual increase, and will result in a dividend payout ratio of 30.5%. The Company's Medium-Term Business Plan "Vision for 2025" targets a dividend per share of ¥18.0%, and a dividend payout ratio of 31.2% for FY12/25, the final year of the plan, and we at FISCO expect stronger earnings to further enhance shareholder returns.

Dividend per share and dividend payout ratio



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

Contribute to social issues through business

4. Sustainability management

For sustainability management, the Company is strengthening initiatives towards the realization of a sustainable society as a corporation supporting medical care and health with digital transformation. In October 2022, it endorsed the "My Declaration of Human Rights" project proposed by the Ministry of Justice. In November 2022, it endorsed the Task Force on Climate-related Financial Disclosure (TCFD) and participates in the TCFD Consortium.

As well as the Medical Business and the Public Sector Business contributing to medical and government digital transformation, the Health Tech Business is contributing to the early detection of glaucoma, considered the largest cause of blindness in Japan, and the early detection of early-stage dementia. Visual field tests for the early detection of glaucoma using GAP were conducted at the Iyo City Health Center, Ehime Prefecture between August and October 2022, with the implementation report for these being published on the TRY ANGLE EHIME (a digitalization acceleration project by Ehime Prefecture) website in April 2023.

FISCO recognizes the substantial increase in profitability, and focus on early-stage dementia research

5. FISCO's view

Despite an impact from the adoption of the revised Accounting Standard for Revenue Recognition, the results of the Company show a steady growth trend, with the rise in profit and the profit margin particularly impressive. The main contributors to these rises are increased system deployments, a rise in highly profitable package sale, and increased recurring sales (maintenance and support fees) due to increase in number of system installations, and we at FISCO view these achievements positively. Looking ahead, our focus is on the Company's progress towards its targets in the Medium-Term Business Plan "Vision for 2025," and in this respect, we believe the Company is operating in a favorable business environment due to factors such as hospitals and local government attempting to reduce costs and improve user convenience by accelerating digital transformation. Given factors such as the acceleration of the Company's growth from 2H FY12/23, we at FISCO think the Company may exceed its targets for the final year of the plan. From a medium- to long-term perspective, we also focus on the progress of joint research on early detection of early-stage dementia using visual field tests and the development of treatment equipment.

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp