

ODK SOLUTIONS CO., LTD. (3839 JP)*DUE TO UPFRONT INVESTMENT ON NEW BUSINESSES, FY3/2024 OP WILL LIKELY SEE NEAGATIVE YOY GROWTH.***FY3/2023 RESULTS AND RECAP**

ODK Solutions (hereinafter ODK) produced FY3/2023 operating profit [OP] of ¥420mil (-3.7% YoY) on sales of ¥5,566mil (+1.2% YoY). Sales landed largely in line with company guidance, which was revised on 31 January, while OP overshot its guidance of ¥330mil (-24.3% YoY) thanks to a decline in provisions for retirement benefits and a reduction in costs due to changes in the sales mix. It is worth noting, however, that the original FY3/2023 OP guidance of ¥570mil (+30.7% YoY) was revised down on 31 January for the following reasons:

- Education-related Services: [FY3/2023 sales of ¥3,479mil (-0.3% YoY)]
 1. Revenues from Education Related Services, ODK's core business within the System Management segment, has high seasonality in Q4, as most universities hold their entrance exams in February and March. However, ODK failed to expand cross-selling services to existing customers as well as cultivating new businesses.
 2. The number of universities that deploy UCARO – a must-have cross-university entrance exams portal for candidates – rose by 23 to 111 universities. However, new services such as (1) Compass-U – an online service that helps candidates pass AO (admission office) exams and aids in the selection of candidates more comprehensively than just through paper exams, and (2) iiscore-U, an exam rating and scoring system for universities which enables admin offices to integrate all exam evaluation systems on the web, made slower starts than expected. Furthermore, ODK does not disclose the OP breakdown by segment or by service.
- Financial-related services: [FY3/2023 sales of ¥1,049mil (-2.8% YoY)]
ODK provides 1) My Number Collection System. This gathers individuals' My Number data via the web or smartphone, and 2) My Number Management System. This service securely manages My Number data collected by financial institutions. The firm also provides BPO solutions related to My Number.

With the Japanese government's promotion of My Number to all citizens, it also links up with everyone's financial assets, as well as their National Health Insurance and taxation details. Therefore, there is an increasing operational burden on financial institutions as they now need to tag their clients' information to each clients' My Number. However, ODK failed to gain new clients due to more than expected competition from similar service providers.

In addition, sales of Financial-related Services fell short of the original forecast due to the partial stripping out of system operation services for systems used by securities brokers.

EXECUTIVE SUMMARY

- ODK reported FY3/2023 earnings with an operating profit [OP] of ¥420mil (-3.7% YoY) on sales of ¥5,566mil (+1.2% YoY). Sales landed largely in line with the revised guidance made on 31 Jan, while OP overshot the guidance of ¥330mil (-24.3% YoY) thanks to improved sales mix.
- ODK has three business segments, of which System Management and System Development generated 98.5% of FY3/2023 sales. System Management sales (¥5,333mil +2.8% YoY) accounted for 95.8% of total sales. Contributions from ECS, a subsidiary that was consolidated in FY21, and an HR training support business that was acquired in Q2 supported segment sales growth.
- ODK is guiding for FY3/2024 OP of ¥340mil (-19.2% YoY) on sales of ¥6,200mil (+11.4% YoY). ODK raised prices to universities which will likely lead to the sales growth, however, increase in R&D costs of new businesses and investment for growth will likely squeeze OP.
- ODK also announced its revised medium-term management plan, with the final year FY3/2026 targets of RP of ¥700mil (CAGR +16.0%) on sales of ¥8,500mil (CAGR +15.2%). Over the three years, sales are expected to grow by ¥2,934mil. ODK will also move from the TSE Prime Market to the TSE Standard on the back of more suitable listing criteria for the firm's liquidity stock market cap and trading volume.

- General Business: [FY3/2023 sales of ¥713mil (-1.1% YoY)]
Sales fell short of the original forecast as homepage development mandates that existed in FY3/2022 waned. Moreover, ODK had initially assumed the same level of revenue from medical system server replacement and other system developments, however, post-COVID demand from existing customers remained weak which led to shortfall in the business revenue.

ODK Solutions (3839 JP): Earnings Results							
(¥mil)	FY3/2021	FY3/2022	FY3/2023				
	FY	FY	1H	FY	YoY (%)	FYCE	FY vs. FYCE (%)
Sales	5,412	5,500	1,871	5,566	1.2	6,400	-13.0
COGS	3,731	3,891	1,627	3,895	0.1	N/A	N/A
COGS / Sales (%)	68.9	70.7	87.0	70.0	-0.7ppt	N/A	N/A
GP	1,680	1,609	244	1,671	3.9	N/A	N/A
GPM (%)	31.0	29.3	13.0	30.0	+0.7ppt	N/A	N/A
SG&A	1,011	1,173	634	1,250	6.6	N/A	N/A
SG&A / Sales (%)	18.7	21.3	33.9	22.5	+1.2ppt	N/A	N/A
OP	669	436	-390	420	-3.7	570	-26.3
OPM (%)	12.4	7.9	N/A	7.5	-0.4ppt	8.9	-1.4ppt
RP	695	509	-374	449	-11.7	600	-25.2
Extraordinary P/ L	-0	-203	-3	-53	N/A	N/A	N/A
Corporation Tax	-219	-111	-101	-165	N/A	N/A	N/A
NP*	474	194	-271	236	21.8	340	-30.6

Source: Nippon-IBR based on ODK Solutions' earnings results presentation materials

Performance By Segment

ODK's business is divided into four segments of which two – System Management and System Development – generate some 98.5% of FY3/2023 consolidated sales.

- System Management**
The segment offers services for three types of business: (1) Education-related, (2) Securities Settlement, and (3) Other businesses, which includes medical solutions for clinical testing systems and cloud-based medical records and Customer Success Solutions developed and operated by ODK's subsidiaries. FY3/2023 System Management earned revenues of ¥5,333mil (+2.8% YoY), accounting for 95.8% of the total consolidated sales. Contributions from ECS, a subsidiary was consolidated in FY21, and a human resource [HR] training support business that was acquired in Q2, supported segment sales growth.
- System Development Maintenance**
Here, ODK develops, manages, and upgrades each customer's system, therefore, the firm will continue to generate sales in the System Management Segment. In FY3/2023, segment revenues fell -27.3% YoY to ¥152mil, which constitutes 2.7% of total consolidated sales. Although ODK received development orders associated with (1) Tokyo Stock Exchange [TSE]'s market reformation, (2) other spot-based development orders such as HP renewal, (3) My Number-related system for securities houses, and (4) e-learning systems that led the sales growth in FY3/2022, FY3/2023 levels of business waned.

ODK Solutions (3839 JP): Consolidated Sales Breakdown by Segment and Service							
(¥mil)	FY3/2021		FY3/2022		FY3/2023		YoY (%)
	1H	FY	1H	FY	1H	FY	
Education	84	3,597	799	3,491	861	3,479	-0.3
Securities Settlement	459	948	496	1,029	485	986	-4.2
General	277	599	273	572	295	626	9.4
Subsidiaries	0	0	0	95	130	241	153.7
System Management	821	5,145	1,570	5,189	1,772	5,333	2.8
Education	0	0	0	0	0	0	0
Securities Settlement	27	82	31	49	27	62	26.5
General	48	85	23	67	0	6	-91.1
Others	37	80	52	92	40	82	-10.9
Development and Maintenance	113	248	107	209	69	152	-27.3
General	3	17	47	102	30	80	-21.6
Others	0	0	0	0	0	0	0.0
Hardware Sales	3	17	47	102	30	80	-21.9

Source: Nippon-IBR based on FY21 & FY22 1H earnings presentation published by ODK Solutions

FY3/2024 OUTLOOK AND MEDIUM-TERM MANAGEMENT PLAN (FY3/2024~FY3/2026)

ODK is guiding for FY3/2024 OP of ¥340mil (-19.2% YoY) on sales of ¥6,200mil (+11.4% YoY). Although ODK raised prices to universities which will likely lead to the sales growth, the increase in R&D costs for its new businesses and investments for growth will likely squeeze OP.

The ultimate goal of ODK's three-year medium-term management plan is to transform its business model from creating added-value services via its data-based businesses to creating new value through strengthen and of expertise across the entire ODK Group.

ODK launched its newly revised medium-term management plan that covers the three years from FY3/2024~FY3/2026 (ending March 2026). In FY3/2024, the company aims to achieve growth in its domestic businesses by focusing on:

- Solidifying the business model during the first half of the plan.
- Restructuring its existing businesses to enhancing profitability.
In education-related services, ODK plans to raise the fee per person per month. Moreover, to reduce the churn of existing customers, ODK will intensify its marketing efforts to universities with more regular visits. The firm will also endeavour to transform itself from an outsourcing provider to a consulting specialist. With the number of UCARO users now comprising more than 50% of total candidates, this will enable ODK to gain cross-selling opportunities.
- Aim to achieve profitability in new businesses, such as Local Bridge, by building expertise and investing on R&D

As of FY3/2023, the firm has cash of ¥2,811mil, some 48.5% of net assets. ODK has not disclosed capital allocation details, however, required capital will be allocated to strategic investments based on a ROIC target of 7%.

ODK aims to achieve the final year (FY3/2026) RP of ¥700mil (CAGR +16.0%) on sales of ¥8,500mil (CAGR +15.2%). Over the three years, sales are expected to grow by ¥2,934mil – especially in the existing businesses of Education related service and Securities Settlement service - ODK aims to achieve CAGR of 11.0% over the three years in Education-related services, Securities Settlement services and General services. The firm revised down the final-year sales target by ¥500mil due to:

1. Delays in market expansion of the customer success market will impact the new service launched by ODK's subsidiary pottos.
2. Changes in the financing environment due to: 1) an anticipated rise in long-term interest rates, 2) the decline in creditworthiness on the back of the move to the TSE Standard Market from the current TSE Prime market, 3) increase in R&D and investments for growth.

Based on the revised sales target and increase in R&D expenses for new businesses, the FY3/2026 RP target was also revised down by ¥100mil (-0.7%), which will generate a RPM of 8.2%, up from FY3/2023's 8.1%. Through M&A, ODK aims to gain 1) partners to its data business, and/or 2) secure engineering human resources by acquiring system engineering companies. To improve the RPM above the current target, it is also important to improve 1) pottos' customer success business, and 2) the profitability of the securities finance business. The education-related business, which earns approx. 68% of consolidated sales, tends to generate higher profitability The firm aims to achieve a total ROIC of 7%

ODK Solutions (3839 JP): Medium-term Management Plan				
(¥mil)	FY3/2024	FY3/2025	FY3/2026	3-year CAGR
Sales	5,566	6,200	8,500	15.2
RP	449	360	700	16.0
Dividend (¥)	10.00	10.00	10.00	0.0

Source: Nippon-IBR based on FY3/2023 earnings presentation published by ODK Solutions

CHANGE IN LISTING TO TSE STANDARD FROM TSE PRIME

ODK announces that it will change its market listing from TSE Prime Market to Standard Market. The firm's liquid stock market cap was ¥1.9bil vs. TSE's criteria of ¥10.0bil or more, and daily average trading volume as of March 2023 was ¥5mil vs. ¥20mil. ODK has comfortably passed the listing criteria under TSE Standards which require ¥1.0bil liquidity stock market cap and monthly trading shares 10 trading units which the firm achieved ¥1.91bil and 1,461 trading units respectively.

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