

BlueMeme (TYO: 4069)

A year to wait for the results of Digital Labor investments

◇ **BlueMeme** (hereafter referred to as the Company) is a pioneer in Japan in the development of 'low-code agile methods' and was the first company in Japan to introduce OutSystems' low-code technology after its foundation in 2006 and has been providing system development services based on this technology. The company is actively investing in promoting its unique automation concept called 'Digital Labor'. This initiative is expected to overcome the issue of the shortage and uneven distribution of IT personnel in Japan and accelerate DX initiatives not only in large companies but also in small and medium-sized enterprises while at the same time improving the company's productivity. As a result, the company expects its revenues to grow dramatically when the development of Digital Labor technology moves into the payback phase.

◇ **Growth strategy:** According to the medium-term management plan (published 14 November 2023), the company aims to achieve sales of 4.1 billion yen, operating profit of 920 million yen and pro forma EBITDA of 1.19 billion yen in FY3/2026 when the development of Digital Labor is underway, and sales of 10 billion yen by FY3/2028 through full-scale application of Digital Labor and expansion of partner business. These targets have been maintained in the announcement of the latest results.

◇ **Corrections to previous years' results:** the company has published corrected figures for FY3/2022 and beyond due to some reasons, including the decision that it is appropriate to recognize revenue at the time of contract, whereas previously revenue was recognized in a single year for license transactions, including long-term contracts. However, the impact on profit and loss is limited.

◇ **Full-year results for FY3/2024:** Full-year results for FY3/2024 show sales of 2.50 billion yen (+9.5% YoY) and operating profit of 250 million yen (-29.4% YoY), which is below the company's forecasts. However, pro forma EBITDA (see note) exceeded forecasts, and the order backlog increased, so the actual situation is not bad. There was no significant change in cash on hand.

As previously reported, on 15 March 2024, the company announced the launch of an 'Agile on Demand for OutSystems' service using Digital Labor and that MITSUI KNOWLEDGE INDUSTRY Co., Ltd, the company's largest shareholder, will start selling this service.

◇ **FY3/2025 company forecasts:** The full-year company forecasts for FY3/2025 are net sales of 3.10 billion yen (+23.7% YoY), operating profit of 250 million yen (-1.2% YoY), ordinary profit of 250 million yen (-1.9% YoY), and net profit attributable to owners of parent of 200 million yen (+14.4 % YoY). These figures are inherited from the aforementioned medium-term management plan.

While sales are expected to increase due to increased orders, operating profit and ordinary profit are expected to remain essentially unchanged due to the continued burden of Digital Labor-related investments.

◇ **Share price trends and highlights:** The share price once fell to 1,135 immediately after the announcement of Q3 results on 15 February 2024 but quickly rebounded to 1,499 yen. The share price then declined moderately and adjusted to 1,100 yen, but then rose slowly. After the announcement of the full-year results on 29 May, the share price fell again, but only temporarily, and quickly recovered to the 1,200 yen level.

In FY3/2025, the development of Digital Labor and other projects will climax, and these projects' costs will put pressure on earnings. However, earnings are expected to enter a J-curve growth trajectory if this development proceeds smoothly. Therefore, for the share price to enter a full-fledged upward trajectory, it will be necessary to see an accelerated increase in 'orders, sales and pro forma EBITDA' each quarter while at the same time seeing this development burden peak out.

Note: Pro forma EBITDA is an indicator of the company's IT service delivery business's actual profit level after adding profit before tax, extraordinary items, interest expense, depreciation, and amortisation, plus research and development costs, including Digital Labor, and the cost of recruiting and training engineers.

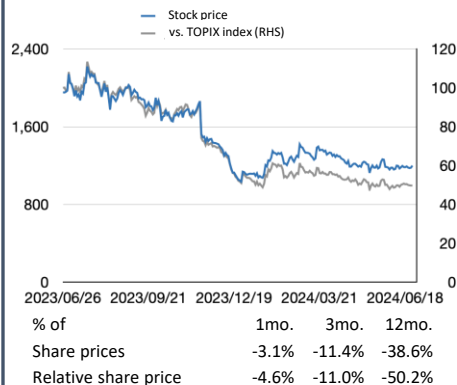
4Q results update

Information Technology

As of 19 July, 2024

Share price (7/18)	1,230 Yen
52weeks high/low	¥2,320/1,029
Avg Vol (3 month)	4.4 thou shrs
Market Cap	¥4.4 bn
Enterprise Value	¥1.9 Bn
PER (25/3 CE)	22.0 X
PBR (24/3 act)	1.61 X
Dividend Yield (25/3 CE)	- %
ROE (24/3 act)	6.6 %
Operating margin (24/3 act)	10.1 %
Beta (5Y Monthly)	NA
Shares Outstanding	3.420 mn shrs
Listed market	TSE Growth section

Share price performance



Points of interest

BlueMeme* is a systems development company specialising in low-code and Agile. It provides services based on the OutSystems platform, which has a worldwide reputation in this field. The company aims to achieve further growth by advancing the low-code concept and developing Digital Labor and business architects with unique ideas.

*Origin of company name: Blue (shining light) + Meme (gene that transmits culture). It expresses the company's strong philosophy of creating new values to form a new culture without being bound by conventional wisdom.

This report (Company note) has been prepared at the request of BlueMeme Inc. For details, please refer to the Disclaimer on the last page.



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Key financial data

(Unit: ¥mn)

Fiscal Year	2020/3	2021/3	2022/3	2023/3	2024/3	2025/3 (Forecast)
Net sales	1,800	2,101	1,929	2,244	2,506	3,100
Cost of sales	1,275	1,410	878	1,129	1,241	–
Gross profit	524	691	1,063	1,160	1,265	–
SG&A expenses	492	515	688	802	1,012	–
Operating profit	31	175	375	358	253	250
Ordinary profit	30	174	355	354	254	250
Net profit	10	130	259	259	174	200
Current assets	1,073	1,179	3,157	3,324	3,389	–
Cash and deposits	584	645	2,356	2,224	2,228	–
Non-current assets	199	206	193	206	344	–
Total assets	1,272	1,386	3,350	3,531	3,733	–
Total liabilities	914	862	952	819	1,071	–
Total net assets	358	523	2,397	2,659	2,609	–
Equity ratio (%)	28.2	37.8	71.6	75.3	69.9	–
Cash flow from operating activities	174	182	338	94	252	–
Cash flow from investing activities	-13	-21	-9	-46	-106	–
Cash flow from financing activities	59	-100	1,381	-179	-141	–
Cash and cash equivalents at end of period	584	645	2,356	2,224	2,228	–
EPS	5.15	62.49	80.28	74.00	50.49	58.34
DPS	0	0	0	0	0	0
BPS	-168.57	190.38	701.32	750.50	762.93	

Note: From FY3/2022, the new accounting standard for revenue recognition (new standard) is applied. Therefore, there is no continuity between FY3/2021 and FY3/2022 onwards.

Source: Omega Investment from company materials



Correction of previous years' results

Correction of previous years' results:

The company postponed the publication of its financial results on 14 May 2024 and announced corrections to its financial statements and prior years' results on 29 May 2024. In addition, on 21 June 2024, the company announced partial corrections to the above two disclosures.

The reason for this postponement is that the company found it necessary to reconsider the accounting policy it should adopt for the recognition of revenue from software license sales in light of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, 31 March 2020), which is effective from the beginning of the financial year ending 31 March 2022.

Specifically,

1. It was decided that the appropriate accounting treatment for license transactions involving long-term contracts was to recognize revenue collectively at the time of the contract. In contrast, revenue had previously been recognized on a single-year basis.
2. It was discovered that some transactions originally classified as software license sales had been aggregated and presented as professional services revenue.

As a result, it was decided that the financial reports and other documents for previous years should be amended.

This has resulted in revisions of profit and loss, net assets, and total assets. Quite simply, sales and profits have been recognized earlier than in previous years. Although the revision to total assets is somewhat large (up 14% from 2,876 million yen to 3,293 million yen in 3Q FY3/2024), the impact on profit and loss is limited, and no major change to the company's valuation is considered necessary.

Full-year results for FY3/2024 and details of revisions to previous years' results bluememe

Details of revisions to divisional year results for FY3/2022 to FY3/2023

(Unit: ¥mn)			
	FY3/2022 Full year before changes	FY3/2022 After changes to ventilation	Impact of the revision of the financial results for FY3/2022
Net sales	1,929	1,942	+12
Operating profit	363	375	+11

Note: Amounts are rounded down to the nearest million yen

(Unit: ¥mn)			
	FY3/2023 Full year before changes	FY3/2023 After changes to ventilation	Impact of the revision of the financial results for FY3/2023
Net sales	2,244	<u>2,289</u>	<u>+45</u>
Operating profit	309	<u>358</u>	<u>+48</u>

Note: Amounts are rounded down to the nearest million yen

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Source: Omega Investment from company materials

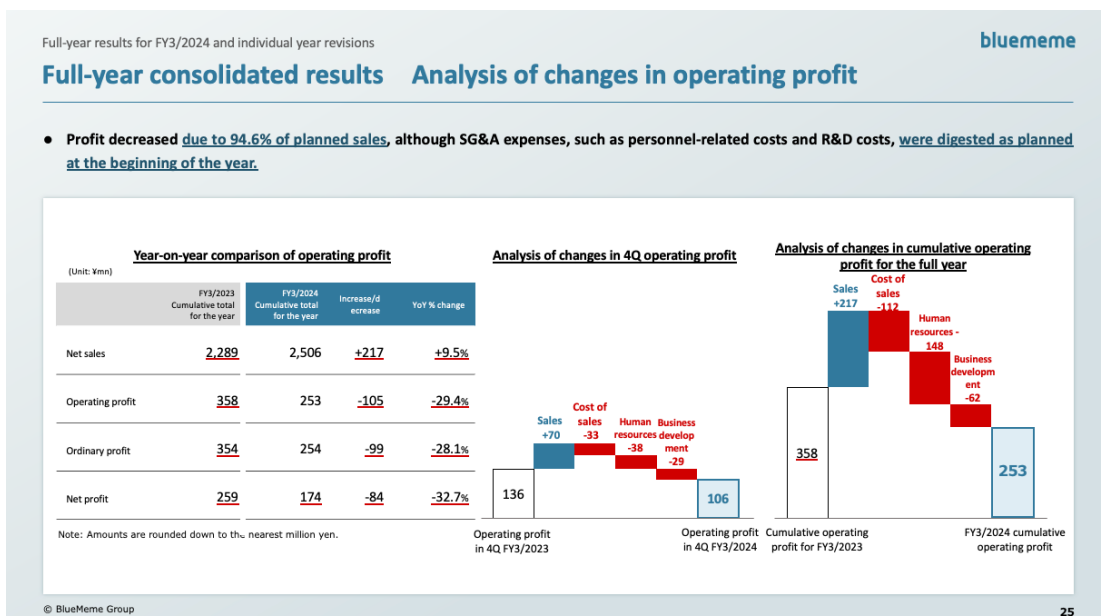
FY3/2024 full-year results

FY3/2024 full-year results: revenue and profit are below the company forecast, but KPIs are firm.

Full-year results for FY3/2024 show sales of 2.50 billion yen (+9.5% YoY) and operating profit of 250 million yen (-29.4% YoY), below the company's forecasts.

According to the company, the number of customers increased as expected, but new customers tended to start with smaller projects, which resulted in sluggish growth in order unit prices. As a result, sales did not reach the company's forecast despite the increase in revenue.

On the other hand, operating profit fell YoY and against the company's forecasts due to personnel-related costs and research and development costs incurred as expected at the beginning of the year, despite the company's efforts to improve operating efficiency.



Source: Omega Investment from company materials

However, the actual situation is not bad, as pro forma EBITDA (see note) is higher than planned, and the order backlog is also increasing. The cash-on-hand balance has remained the same.

	FY3/2024 Full year	FY3/2024 Plan	YoY	Progress	
Backlog of orders at the end of the year (after financial restatement)	600 million yen	570 million yen	113.8%	105.7%	Status of customers <ul style="list-style-type: none"> New customers are increasing at the expected pace Average customer spend has decreased in recent years Growth potential <ul style="list-style-type: none"> Order backlog increases at a faster-than-expected pace Pro forma EBITDA, which indicates the actual growth rate, is higher than planned
Backlog of orders at the end of the year (before financial restatement)	720 million yen	690 million yen	115.3%	104.5%	
Net sales	2,500 million yen	2,650 million yen	109.6%	94.6%	
Pro forma EBITDA	530 million yen	420 million yen	87.2%	127.6%	
Operating profit	250 million yen	310 million yen	71.4%	81.6%	

Note: Pro forma EBITDA is an indicator of the company's IT service delivery business's actual profit level after adding profit before tax, extraordinary items, interest expense, depreciation, and amortisation, plus research and development costs, including Digital Labor, and the cost of recruiting and training engineers.



FY3/2025 full-year forecast

FY3/2025 full-year forecast : The company's full-year forecasts for FY3/2025 are revenue of 3.10 billion yen (+23.7% y/y), operating profit of 250 million yen (-1.2% YoY), ordinary profit of 250 million yen (-1.9% YoY), and net profit attributable to owners of parent of 200 million yen (+14.4 % YoY). These figures were inherited from the aforementioned medium-term management plan.

While revenue is expected to increase due to increased orders, operating profit and ordinary profit are expected to remain essentially unchanged due to the continued burden of Digital Labor-related investments.

Overall, the company's forecast contains a few surprises.

There is no disclosure on company forecasts for the first six months of FY3/2025.

Full-year forecasts for FY3/2025 bluememe

Full-year forecast

- Due to a change in the revenue recognition criteria, some projects planned to be recognized as sales from FY3/2025 onwards have been recorded as sales in previous years. Still, the company aims to achieve sales of 3.1 billion yen in FY3/2025, as before.
- Operating profit is expected to remain at the same level as the previous year, as strategic investments will continue to achieve the medium-term management plan.

(Unit: ¥m)	FY3/2024 Cumulative total	FY3/2025 Forecast	Reference Percentage change from the previous year
Net sales	2,506	3,100	23.7%
Operating profit	253	250	-1.2%
Ordinary profit	254	250	-1.9%
Net profit	<u>174</u>	200	<u>14.4%</u>

Note: Amounts are rounded down to the nearest million yen

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Source: Omega Investment from company materials



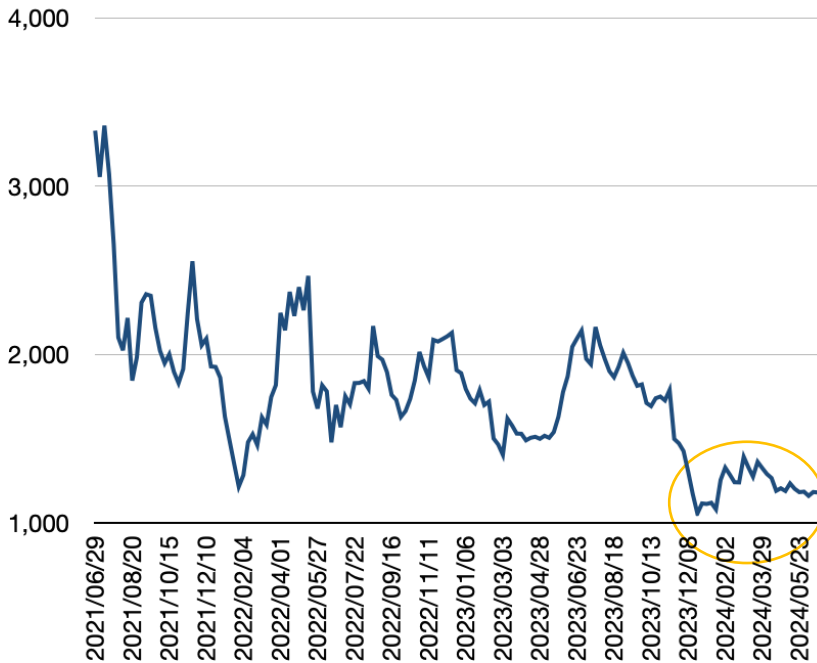
Share price trends and the focus

Share Price Trend

The share price once fell to 1,135 immediately after the announcement of Q3 results on 15 February 2024 but quickly rebounded to 1,499. The share price then fell slowly and adjusted to 1,100 yen, but then rose steadily. After the announcement of the full-year results on 29 May, the share price fell again, but only temporarily, and quickly recovered to the 1,200 yen level.

Thus, the share price has recently consolidated, which should indicate that while investors appreciate the continued revenue growth and pro forma EBITDA growth, the visibility of investment results for Digital Labor has not increased sufficiently.

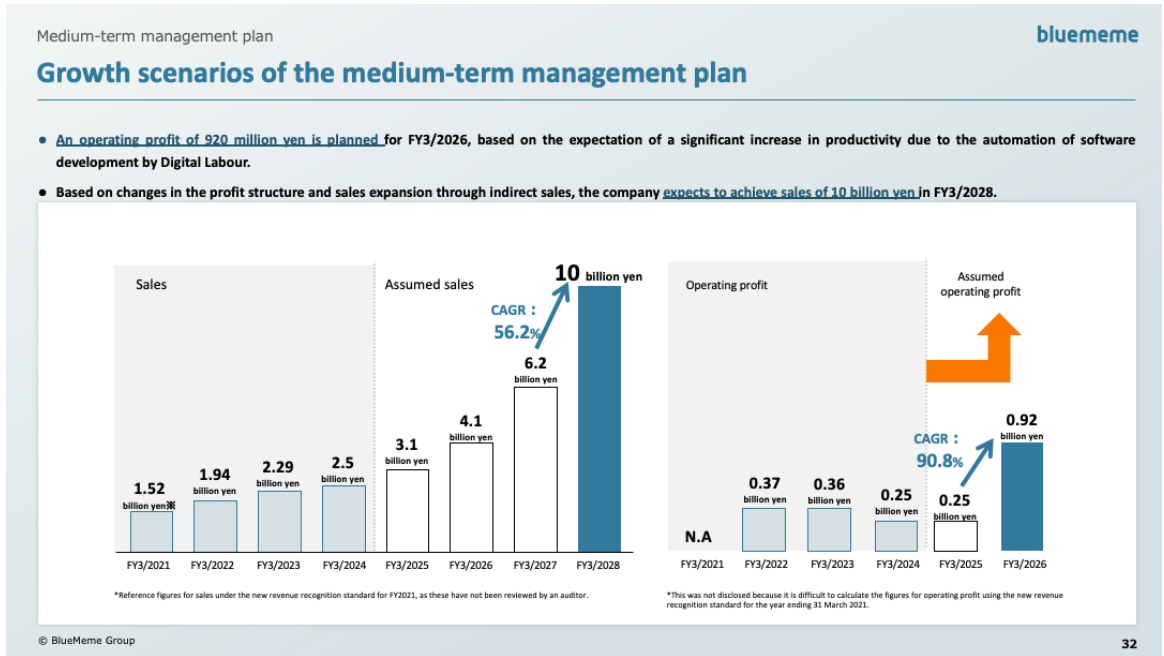
(Yen) **4069 : BlueMeme share price move**



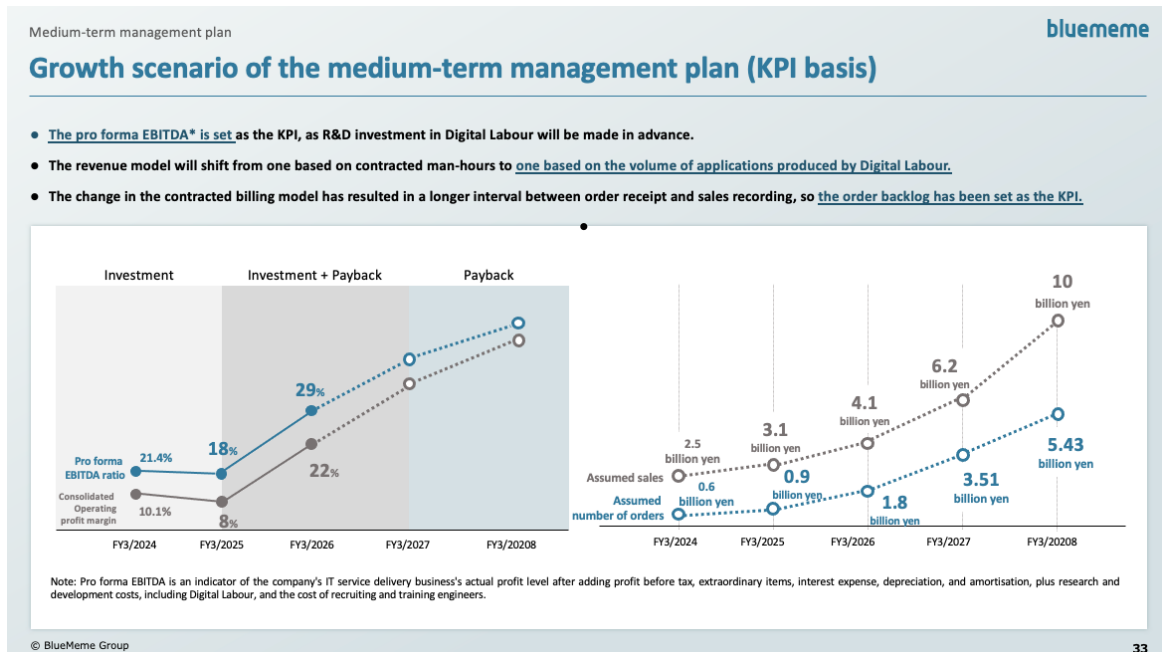
Share price trends and the focus

Points of interest from here on

In FY3/2025, the development of Digital Labor and other projects will climax, and these projects' costs will put pressure on earnings. However, earnings are expected to enter a J-curve growth trajectory if this development proceeds smoothly. Therefore, for the share price to enter a full-fledged upward trajectory, it will be necessary to see an accelerating increase in 'orders, sales and pro forma EBITDA' in the coming quarters while at the same time seeing this development burden peak out.



Source: Omega Investment from company materials



Source: Omega Investment from company materials

Financial data (full-year basis)

FY(¥mn)	2019/3	2020/3	2021/3	2022/3	2023/3	2024/3
[Statements of income]						
Net sales	1,496	1,800	2,101	1,942	2,289	2,506
Year-on-year basis (%)	95.7	20.2	16.8	–	17.9	9.5
Cost of sales	1,036	1,275	1,410	878	1,129	1,241
Gross profit	461	524	691	1,063	1,160	1,265
Gross profit margin (%)	30.8	29.2	32.9	54.8	50.7	50.5
SG&A expenses	374	492	515	688	802	1,012
Operating profit	87	31	175	375	358	253
Year-on-year basis (%)	–	-63.2	446.9	–	-4.5	-29.4
Operating profit ratio (%)	5.8	1.8	8.3	19.3	15.6	10.1
Non-operating income	0	0	2	0	0	4
Non-operating expenses	1	1	3	20	3	2
Ordinary profit	86	30	174	355	354	254
Ordinary profit margin (%)	5.7	1.7	8.3	18.3	15.5	10.2
Extraordinary income		0	0	–	–	–
Extraordinary expenses	19			–	11	2
Income before income taxes	67	30	174	355	342	252
Total income taxes	6	20	44	96	83	77
Net income	61	10	130	259	259	174
Year-on-year basis (%)		-82.0	1,081.8	–	0.3	-32.7
Net income ratio (%)	4.1	0.6	6.2	13.3	11.3	7.0
[Balance Sheets]						
Current assets	814	1,073	1,179	3,157	3,324	3,389
Cash and deposits	363	584	645	2,356	2,224	2,228
Notes and accounts receivable - trade, and contract assets	264	294	227	769	978	1,071
Non-current assets	202	199	206	193	206	344
Property, plant and equipment	116	105	92	91	80	153
Intangible assets	0	7	24	18	0	4
Investments and other assets	85	85	89	83	125	187
Total assets	1,016	1,272	1,386	3,350	3,531	3,733
Current liabilities	584	666	733	906	819	1,071
Short-term borrowings	235	135	116	95	1	1
Non-current liabilities	84	247	129	45	52	53
Long-term borrowings	53	212	96	4	3	4
Total liabilities	668	914	862	952	871	1,124
Total net assets	348	358	523	2,397	2,659	2,609
Shareholders' equity	348	358	523	2,397	2,659	2,606
Share capital	189	188	206	962	970	971
Capital surplus	180	179	197	953	961	962
Retained earnings	-21	-10	120	482	742	917
Treasury shares				-0	-14	-245
Total liabilities and net assets	1,016	1,272	1,386	3,350	3,531	3,733
[Statements of cash flows]						
Cash flow from operating activities	-65	174	182	338	94	252
Cash flow from investing activities	-148	-13	-21	-9	-46	-106
Cash flow from financing activities	279	59	-100	1,381	-179	-141
Free cash flow	-213	162	162	329	48	146
Net increase in cash and cash equiv.	66	221	61	1,710	-131	3
Cash and cash equiv. at beginning of period	297	363	584	645	2,356	2,224
Cash and cash equiv. at end of period	363	584	645	2,356	2,224	2,228

Source: Omega Investment from company materials

Note: Percentage change from the previous year for the FY3/2022 is not shown because the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and others were applied from the beginning of the FY3/2022, which will have a significant impact on sales and profit.

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