

## 1H FY25/5 results in-line with internal plan

### Strategic increase in salaries and reinforcing new Consulting Business

#### SUMMARY

- CNS announced 1H FY25/5 (Jun-Nov) results at 15:00 on January 10. Topline numbers were net sales +2.0% YoY, operating profit -30.0%, ordinary profit -28.7% and profit attributable to owners of parent -26.4%. 2Q-only (Sep-Nov) results were net sales +4.2% YoY (1Q -0.1%) and operating profit -19.5% (1Q -43.6%), showing sequential improvement from the 1Q. Relative to the 4-year average 1H achievement ratios (progress toward full-term results) of net sales 48.3% and OP 50.9%, 1H FY25/5 net sales was 44.5% and 1H OP was 34.3%. This is attributed to the downsizing of the new Consulting business (1Q net sales -81.6% YoY) with a view toward reconfiguration this term, and depressed 1Q OPM mainly as a result of implementation of the strategic salary increase of roughly 11% from the beginning of the FY for profits.
- CNS is confident that it can achieve the initial full-term FY25/5 forecasts through implementation of initiatives for each business, noting that the initial internal budget is weighted toward the 2H. In this report we summarize progress on future initiatives in each of the 5 business areas. **We believe the CNS investment opportunity lies in management taking steps to ensure a steady transition from the current DX-driven high market growth to sustainable growth regardless of underlying market conditions, including transforming the profit structure to higher margins not dependent on contract-based orders, and compelling valuations that do not reflect that upside.**

#### 1H FY25/3 CNS Financial Results Summary

JPY mn, %	FY24/5	FY24/5	FY24/5	FY24/5	FY25/5	FY25/5	FY25/5	1H act	FY25/5	1H ACH
[J-GAAP]	1Q act	2Q act	3Q act	4Q act	1Q act	2Q act	1H act	YoY	init CE	ratio
Net sales	1,646	1,651	1,683	1,677	1,645	1,720	3,364	2.0	7,562	44.5%
YoY	17.5	14.3	10.5	3.5	(0.1)	4.2	2.0		13.6	
<i>by Business</i>										
● Digital Innovation Promotion Bus.	443	442	457	478	519	531	1,050	18.6	2,367	44.4%
● Big Data Analysis Business	265	293	296	286	321	349	670	20.2	1,295	51.8%
● System Infrastructure Business*	449	437	447	447	436	425	862	(2.7)	2,219	38.8%
● Business System Integration Bus.	395	383	383	357	351	389	739	(4.9)	1,524	48.5%
● Consulting Business	95	96	100	108	17	25	43	(77.6)	156	27.4%
Gross Profit	404	415	421	399	378	425	804	(1.9)	1,834	43.8%
GPM (%)	24.5%	25.1%	25.0%	23.8%	23.0%	24.7%	23.9%		24.3%	
SG&A expenses	263	233	232	292	298	279	577	16.4	1,174	49.2%
Ratio to sales (%)	16.0%	14.1%	13.8%	17.4%	18.1%	16.2%	17.2%		15.5%	
Operating profit	141	182	189	108	80	146	226	(30.0)	660	34.3%
YoY	33.7	11.5	8.2	(6.8)	(43.6)	(19.5)	(30.0)		6.5	
OPM (%)	8.6%	11.0%	11.2%	6.4%	4.8%	8.5%	6.7%		8.7%	
Ordinary profit	145	193	190	123	81	160	241	(28.7)	676	35.6%
Profit attributable to owners of parent	89	131	130	111	55	107	162	(26.4)	489	33.2%

Source: compiled by Omega Investment from TANSWIN Financial Results Summaries.

\*System Infrastructure Business includes cloud + on-premise.

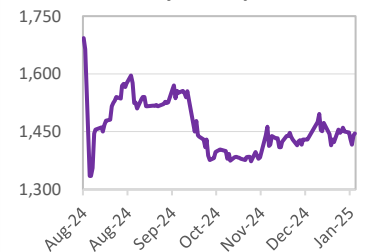
ACH ratio = progress relative to full-term CE.

#### 2Q Follow-up

##### Financial Indicators

Share price (1/31)	1,445
YH (24/4/18)	2,111
YL (24/8/5)	1,330
10YH (21/8/20)	3,035
10YL (23/1/17)	1,270
Shrs out. (mn shrs)	2,906
Mkt cap (¥ bn)	4,199
EV (¥ bn)	0,826
Equity ratio (11/30)	73.8%
25.5 P/E (CE)	8.6x
25.5 EV/EBITDA (CE)	1.2x
24.5 ROE (act)	13.2%
24.5 ROIC (act)	12.6%
24.8 P/B (act)	1.14x
25.5 DY (CE)	3.39%

##### 6M daily share price



**Chris Schreiber CFA**  
Company Specialist

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## 1H RESULTS SUMMARY AND PROGRESS ON FUTURE GROWTH INITIATIVES BY BUSINESS

- **1H RESULTS SUMMARY:** CNS 1H FY25/5 net sales increased +2.0% YoY, driven by ongoing high growth in Digital Innovation Promotion Business and a recovery in Big Data Analysis Business, which can be clearly seen in the graph on the next page. GP declined -1.9% (GPM 24.8% → 23.9%) due to the planned 10.8% increase in labor cost from base and regular salary increases. OP declined -30.0% (OPM 9.8% → 6.7%), in addition to the decrease in GP, due to SG&A expense increasing +16.4% (ratio to sales 15.0% → 17.2%) due to the +17.0% increase in personnel expense from wage increases and increased managerial staff, increased training and recruitment expenses, and increased compensation paid for back-office outsourcing expenses. However, 1H results were largely in line with the internal plan.
- **Digital Innovation Promotion Business:** 1H net sales increased +18.6% YoY, and GP increased +28.4% (GPM 23.0% → 24.9%), due to the expansion of the structure for new customer projects related to ServiceNow, cashless payment service projects, and generative AI-related projects (mainly for NTT DATA) won in the previous fiscal year. Future initiatives include: 1) further increase orders for generative AI projects mainly for NTT DATA and existing customers, 2) expand the ServiceNow project structure through increasing sales staff and strengthening the development structure, and 3) expand the structure for acquiring mainly cashless payment projects.
- **Big Data Analysis Business:** 1H net sales recovered +20.2% YoY with GP decreasing -2.0% (GPM 26.6% → 21.7%), in addition to maintaining a structure to expand existing projects related to major clients, aggressive sales activities resulted in the acquisition of several new

### 2Q FY25/5 CNS Consolidated Financial Results Summary

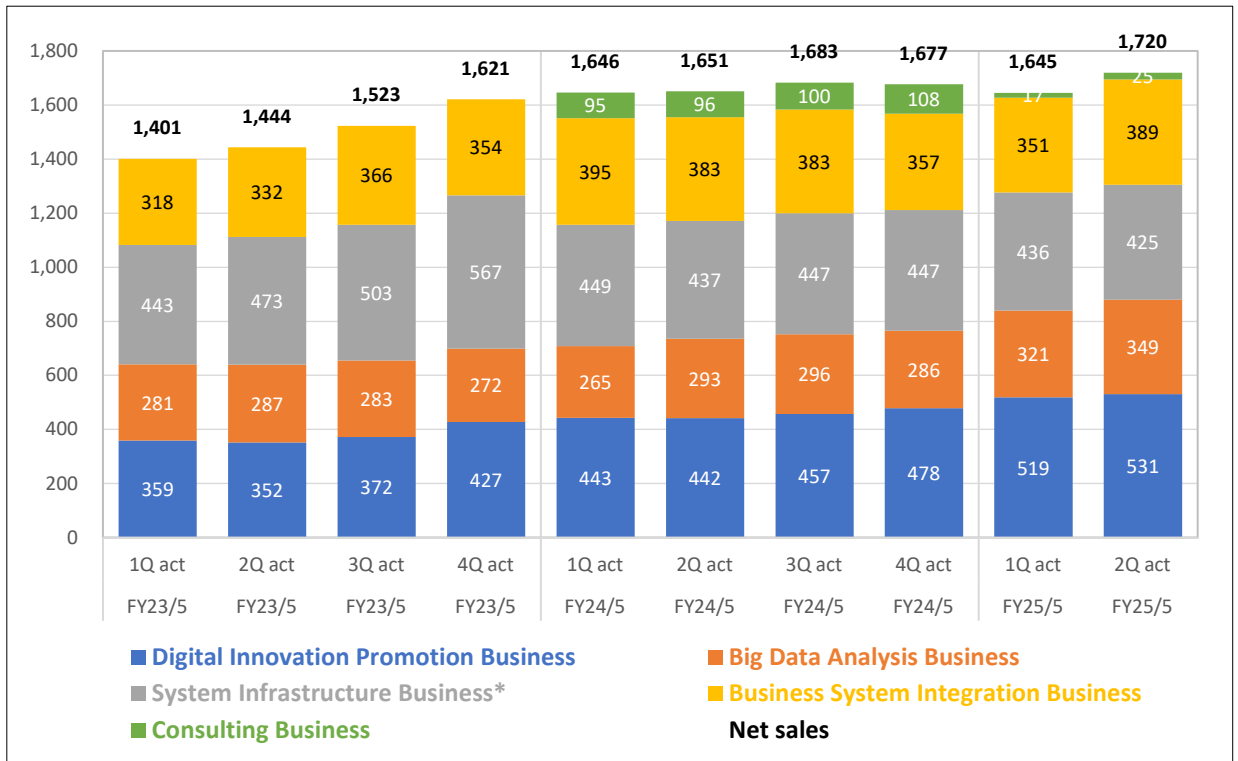
JPY mn, % [J-GAAP]	FY23/5 1Q act	FY23/5 2Q act	FY23/5 3Q act	FY23/5 4Q act	FY24/5 1Q act	FY24/5 2Q act	FY24/5 3Q act	FY24/5 4Q act	FY25/5 1Q act	FY25/5 2Q act
<b>Net sales</b>	1,401	1,444	1,523	1,621	1,646	1,651	1,683	1,677	1,645	1,720
<b>YoY</b>	3.1	7.2	12.8	18.9	17.5	14.3	10.5	3.5	(0.1)	4.2
<i>by Business</i>										
● Digital Innovation Promotion Business	359	352	372	427	443	442	457	478	519	531
● Big Data Analysis Business	281	287	283	272	265	293	296	286	321	349
● System Infrastructure Business*	443	473	503	567	449	437	447	447	436	425
● Business System Integration Business	318	332	366	354	395	383	383	357	351	389
● Consulting Business	—	—	—	—	95	96	100	108	17	25
<b>YoY</b>										
● Digital Innovation Promotion Business	29.5	29.1	27.3	24.8	23.4	25.7	22.8	12.0	17.1	20.2
● Big Data Analysis Business	29.4	25.9	17.9	4.7	(5.9)	1.9	4.6	5.4	21.4	19.1
● System Infrastructure Business*	(16.6)	8.0	4.7	30.2	1.4	(7.7)	(11.1)	(21.3)	(2.8)	(2.6)
● Business System Integration Business	(4.6)	(18.5)	8.1	8.9	24.0	15.3	4.7	0.8	(11.2)	1.6
● Consulting Business	—	—	—	—	—	—	—	—	(81.6)	(73.7)
<b>Gross Profit</b>	334	372	398	402	404	415	421	399	378	425
● Digital Innovation Promotion Business	—	—	—	—	95	109	120	122	124	137
● Big Data Analysis Business	—	—	—	—	70	79	68	62	68	78
● System Infrastructure Business*	—	—	—	—	107	108	114	105	104	105
● Business System Integration Business	—	—	—	—	103	90	91	78	84	105
● Consulting Business	—	—	—	—	29	30	28	32	(2)	0
<b>GPM (%)</b>	23.9%	25.7%	26.1%	24.8%	24.5%	25.1%	25.0%	23.8%	23.0%	24.7%
● Digital Innovation Promotion Business	—	—	—	—	21.5%	24.6%	26.3%	25.5%	23.9%	25.9%
● Big Data Analysis Business	—	—	—	—	26.4%	26.8%	23.0%	21.8%	21.1%	22.3%
● System Infrastructure Business*	—	—	—	—	23.9%	24.7%	25.6%	23.4%	23.8%	24.7%
● Business System Integration Business	—	—	—	—	26.0%	23.5%	23.6%	21.8%	23.9%	26.9%
● Consulting Business	—	—	—	—	30.8%	31.0%	27.5%	29.7%	—	1.6%
<b>SG&amp;A expenses</b>	229	208	223	287	263	233	232	292	298	279
<b>Ratio to sales (%)</b>	16.3%	14.4%	14.7%	17.7%	16.0%	14.1%	13.8%	17.4%	18.1%	16.2%
<b>Operating profit</b>	106	163	175	116	141	182	189	108	80	146
<b>YoY</b>	(17.4)	(2.9)	7.4	54.8	33.7	11.5	8.2	(6.8)	(43.6)	(19.5)
<b>OPM (%)</b>	7.5%	11.3%	11.5%	7.1%	8.6%	11.0%	11.2%	6.4%	4.8%	8.5%
Ordinary profit	112	172	185	119	145	193	190	123	81	160
Profit attributable to owners of parent (ATOP)	76	114	126	117	89	131	130	111	55	107

Source: compiled by Omega Investment from TANSWIN Quarterly Financial Results Summaries.

\*System Infrastructure Business includes cloud + on-premise.



## Quarterly Trend of Net Sales by Business (JPY million)



Source: compiled by Omega Investment from TANSHIN Quarterly Financial Results Summaries.  
 \*System Infrastructure Business includes cloud + on-premise.

clients, while GP dipped slightly due to increased staff for existing projects for a major telecom carrier and software vendors, acquiring several new clients including a major consulting firm and financial institutions. Future initiatives include: 1) proactive proposals to win new projects, focusing on selection and concentration of projects (shift to high unit price projects), continuing to expand track record for U-Way Migration to SAS Viya and developing new large-scale projects by leveraging the capabilities of multiple companies, sharing customers and technology toward acquiring new customers.

- **System Infrastructure Business:** 1H net sales decreased -2.7% YoY, and GP decreased -2.9% (GPM flat at 24.4%). While inquiries for "U-Way Oracle Cloud VMware Solution migration and implementation support service" increased, and a new government cloud project was launched in the 2Q, net sales declined slightly due to the termination of projects at existing clients and the freezing or postponement of projects for client reasons. Factors for failure to achieve the target included new project starts postponed due to revised plans at major existing clients, and new client acquisition was limited to small projects. Expectations for an expanded structure are due to the scheduled start of the Government Cloud project, a policy measure of the Digital Agency. Future initiatives include: 1) acquisition of new end-users and implementation of measures to increase the number of existing projects, focusing on promoting proposal activities to increase the number of existing projects, and aiming to acquire end users with U-Way Oracle Cloud VMware Solution Migration and Implementation Support Service as a starting point, incorporating previous VMware know-how + know-how with Oracle Cloud Infrastructure and Oracle products, providing support from system planning to operation according to customer requirements toward acquiring new customers.

- **Business System Integration Business:** 1H net sales decreased -4.9% and GP decreased -2.2% (GPM 24.8% → 25.5%). The number of personnel increased due to the expansion of projects related to economic security (System for Ensuring Stable Provision of Specified Essential Infrastructure Services under the Economic Security Promotion Act – Cabinet Office) won in the previous FY and system construction projects for securities companies,



however this could not offset the impact of the significant downsizing of the operation and maintenance systems of some existing clients. Despite the decline in net sales, CNS managed to improve GPM, focusing on expansion of economic security and existing projects, including NS Solutions and Mizuho Information & Research Institute (IT consulting). Future initiatives include: 1) target expansion of the scale of projects related to economic security, focusing on expanding the scale of large near-shore IT projects for existing clients and support for the development of advanced key technologies, and 2) building a track record with Oracle ERP, focusing on continuing to build a track record as well as expanding project scale.

- **Consulting Business:** 1H net sales decreased sharply by -77.6% YoY, and GP posted a loss due to the significant downsizing aiming for reconfiguration during the current FY. Focusing on turning around the business this term by increasing the number of consultants through increasing and strengthening new consultants as well as deploying a cost increase for upfront investment in promoting DX. Future initiatives include: 1) turn around the business through increasing staff on existing projects, including PMO projects and business strategy development support projects, 2) reinforce the business structure through recruitment centered on recruitment of mid-career consultants and 3) expand business transactions with new end-users. End-users acquired during the 1H include electrical equipment/electronics manufacturers and transportation equipment manufacturers, focusing on providing high quality service to new end-users through reinforcing the structure aiming to expand business transactions.
- For reference, delayed startup of Consulting Business in FY24/5 resulted in a 14.5% shortfall of profits from the initial full-term forecast. Newly launched Consulting Business started off with a shortage of consultants, and the business was commenced with existing engineers. Efforts were also focused on building a track record in business transformation design projects, but the inability to hire consultants as planned had a negative impact due to a lack of securing new consulting projects. Consulting Business net sales and gross profit recorded 20% and 30% shortfalls, respectively. The initial forecast for FY25/5 Consulting Business is net sales -61.0% YoY and GP -56.6%.
- The CNS Group will celebrate its 40th Anniversary since founding during FY25/5. The main reason for the slowdown in profit growth relative to accelerating top line growth is factoring in implementation of a uniform 8% base increase and regular salary increases of approximately 11%, which are aimed at improving work ethic and attracting and retaining talented employees, as well as the anticipation of a certain level of expenses due to planned leading investments in innovation creation. The initial dividend indication is for a +1yen hike to ¥49 per share under the new progressive dividend policy (see details on P6).

#### FY25/5 Consolidated Financial Forecast Summary

JPY mn, %	FY23/5 act	FY24/5 act	Pct YoY	FY25/5 init CE	Pct YoY
Net sales	5,989	6,657	11.1	7,562	13.6
Cost of sales	4,483	5,017	11.9	—	
ratio to sales	74.9%	75.4%			
Gross profit	1,506	1,639	8.9	1,834	11.9
GPM (%)	25.1%	24.6%		24.3%	
SG&A expenses	946	1,019	7.7	—	
ratio to sales	15.8%	15.3%			
Operating profit	559	619	10.9	660	6.6
OPM (%)	9.3%	9.3%		8.7%	
Ordinary profit	587	650	10.6	676	4.0
ratio to sales	9.8%	9.8%		9.0%	
Profit ATOP	433	461	6.5	489	6.2
ratio to sales	7.2%	6.9%		6.5%	

Source: compiled by Omega Investment from FY24/5 Results and MTP IR briefing materials.



## SHARE PRICE AND VALUATIONS



### Key takeaways:

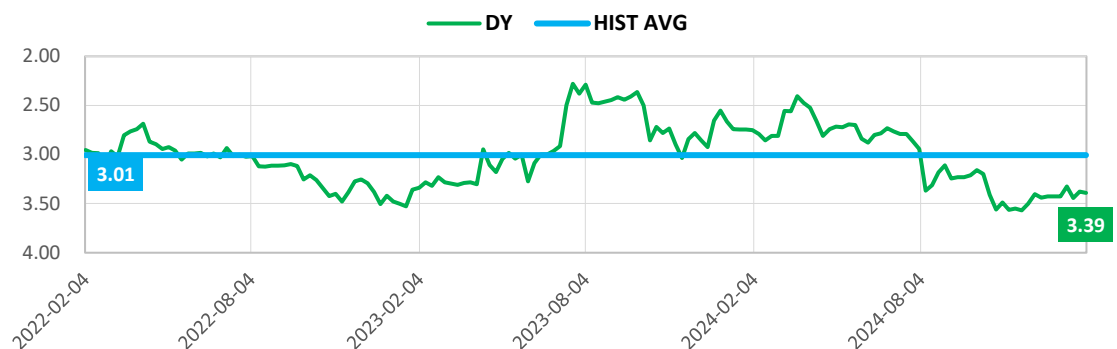
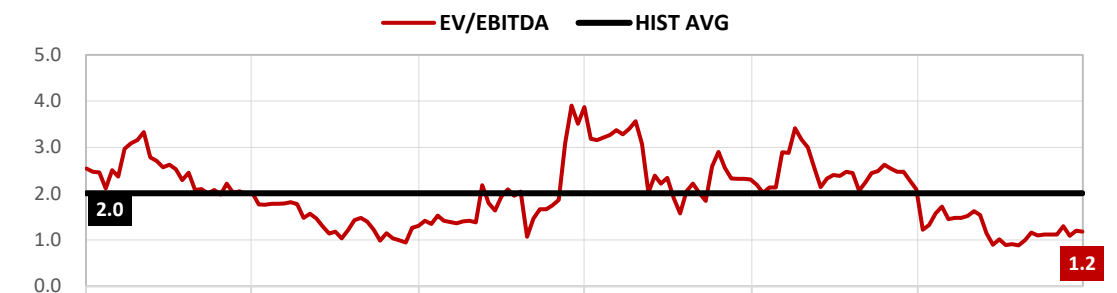
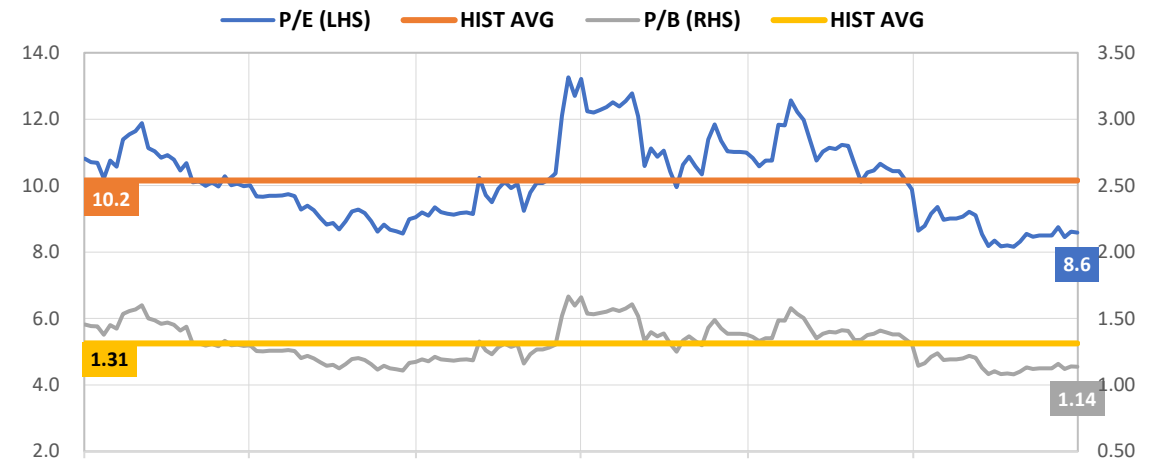
❶ The P/E and P/B ratios are trading 15% and 13% below their respective historical averages.

❷ EV/EBITDA on 1.2x is one of the lowest in the industry by far, and it is trading 41% below its historical average.

❸ The DY at 3.39% is one of the highest among peers, and some have yet to pay a dividend, trading 13% above its historical average.

➔ Even adjusting for the lower liquidity of the TSE Growth Market shown on the following page using the TSE Mothers index, CNS valuations are all trading at the bottom of their listing ranges, presenting a contradiction with the underlying strong earnings, and prospects for double-digit growth to continue for the next 4-5 years. **Apparent weak 1Q results on the surface present an opportunity to buy on weakness.**

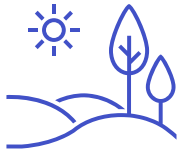
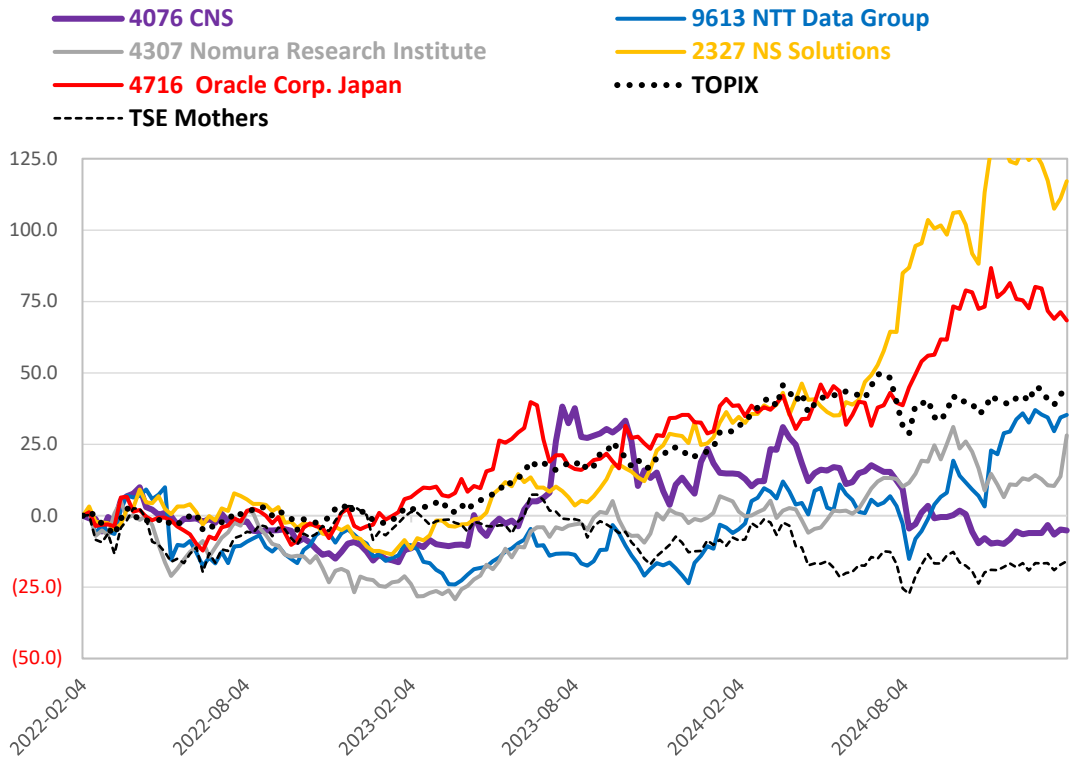
### 3-Year Weekly Share Price Chart, 13W/26W/52W MA, Volume and Valuation Trends



Source: compiled by Omega Investment from historical price data. Forecast values based on current Company estimates.

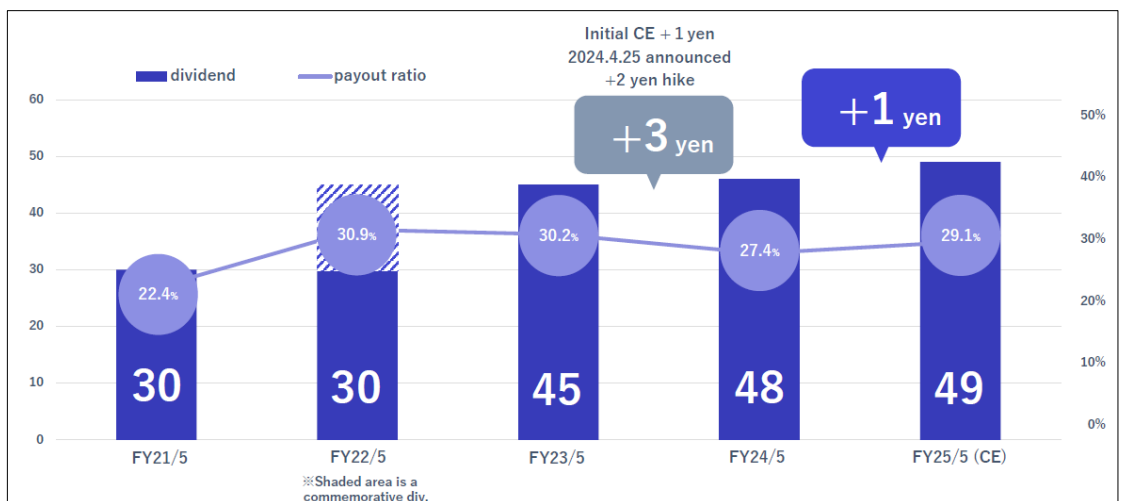
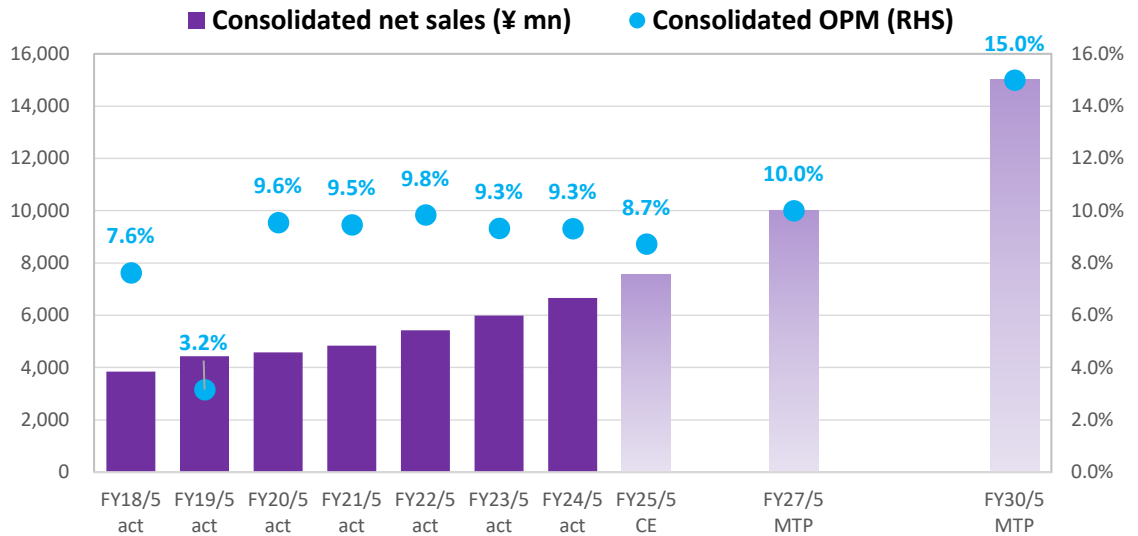


### 3-Year Relative Share Price Performance versus Major Customers and Partners




#### Shareholder return policy

Expanding business by quickly identifying changes in the ICT industry and being proactive in taking on challenges in new fields, based on the trust and track record with major system integrators and ongoing relationships with them → these business characteristics enable CNS to secure stable revenues. In order to achieve sustainable growth together with shareholders, continuation of the progressive dividend policy to increase dividends in line with profit growth, with a target payout ratio of 30% or more.



## Omega Investment's case for CNS as an attractive opportunity

Omega Investment believes that CNS is one of those rare hidden gems among small cap growth companies waiting to be discovered. First, as an investor, it is reassuring that the Chairman and President are major shareholders, so their financial interests are directly aligned with shareholders. More importantly, management is taking steps to ensure a steady transition from the current DX-driven high market growth to sustainable growth regardless of underlying market conditions, including transforming the profit structure to higher margins not dependent on contract-based orders. 

### CNS Consolidated Financial Highlights and Key Indicators

JPY mn, %	FY19/5	FY20/5	FY21/5	FY22/5	FY23/5	FY24/5	FY25/5	FY27/5	FY30/5
[J-GAAP]	act	act	act	act	act	act	init CE	MTP+	MTP+
<b>Net sales</b>	<b>4,434</b>	<b>4,578</b>	<b>4,841</b>	<b>5,419</b>	<b>5,989</b>	<b>6,657</b>	<b>7,562</b>	<b>10,000</b>	<b>15,000</b>
<b>YoY</b>	<b>15.1</b>	<b>3.2</b>	<b>5.8</b>	<b>11.9</b>	<b>10.5</b>	<b>11.1</b>	<b>13.6</b>	<b>14.5</b>	<b>14.5</b>
<i>by Business</i>									
• Digital Innovation Promotion Business			832	1,184	1,509	1,819	2,367		
• Big Data Analysis Business			772	945	1,123	1,139	1,295		
• System Infrastructure Business*			1,833	1,884	1,985	1,779	2,219		
• Business System Integration Business			1,403	1,405	1,370	1,517	1,524		
• Consulting Business			—	—	—	399	156		
<i>Sales breakdown</i>									
• Digital Innovation Promotion Business			17.2%	21.8%	25.2%	27.3%	31.3%		
• Big Data Analysis Business			15.9%	17.4%	18.7%	17.1%	17.1%		
• System Infrastructure Business*			37.9%	34.8%	33.1%	26.7%	29.3%		
• Business System Integration Business			29.0%	25.9%	22.9%	22.8%	20.2%		
• Consulting Business			—	—	—	6.0%	2.1%		
<b>Gross Profit</b>	<b>711</b>	<b>973</b>	<b>1,148</b>	<b>1,322</b>	<b>1,506</b>	<b>1,639</b>	<b>1,834</b>		
• Digital Innovation Promotion Business			249	313	382	445	551		
• Big Data Analysis Business			218	282	333	278	294		
• System Infrastructure Business*			373	425	459	434	576		
• Business System Integration Business			306	301	330	361	360		
• Consulting Business			—	—	—	118	51		
<b>GPM (%)</b>	<b>16.0%</b>	<b>21.3%</b>	<b>23.7%</b>	<b>24.4%</b>	<b>25.1%</b>	<b>24.6%</b>	<b>24.3%</b>		
• Digital Innovation Promotion Business			29.9%	26.4%	25.3%	24.5%	23.3%		
• Big Data Analysis Business			28.2%	29.8%	29.7%	24.4%	22.7%		
• System Infrastructure Business*			20.3%	22.6%	23.1%	24.4%	26.0%		
• Business System Integration Business			21.8%	21.4%	24.1%	23.8%	23.6%		
• Consulting Business			—	—	—	29.6%	32.7%		
<b>SG&amp;A expenses</b>	<b>571</b>	<b>536</b>	<b>690</b>	<b>789</b>	<b>947</b>	<b>1,019</b>	<b>1,174</b>		
<b>Ratio to sales (%)</b>	<b>12.9%</b>	<b>11.7%</b>	<b>14.3%</b>	<b>14.6%</b>	<b>15.8%</b>	<b>15.3%</b>	<b>15.5%</b>		
Depreciation	14	16	20	25	30	34	40		
EBITDA	154	454	478	559	589	654	700		
<b>Operating profit</b>	<b>140</b>	<b>437</b>	<b>458</b>	<b>533</b>	<b>559</b>	<b>620</b>	<b>660</b>	<b>1,000</b>	<b>1,800</b>
<b>YoY</b>	<b>(52.4)</b>	<b>212.3</b>	<b>4.8</b>	<b>16.4</b>	<b>4.8</b>	<b>10.9</b>	<b>6.5</b>	<b>17.3</b>	<b>21.6</b>
<b>OPM (%)</b>	<b>3.2%</b>	<b>9.6%</b>	<b>9.5%</b>	<b>9.8%</b>	<b>9.3%</b>	<b>9.3%</b>	<b>8.7%</b>	<b>10.0%</b>	<b>12.0%</b>
Ordinary profit	276	486	490	594	588	650	676		
Total income taxes	66	156	147	185	156	175	—		
Profit attributable to owners of parent	143	325	337	409	433	461	489		
Total assets	2,423	2,803	3,139	4,152	4,547	4,934	—		
Total shareholders' equity	1,445	1,720	1,994	3,039	3,341	3,672	—		
Shareholders' equity ratio	59.6%	61.4%	63.5%	73.2%	73.5%	74.4%	—		
Total cash dividends	50	63	75	131	131	139	—		
<b>DOE</b>	<b>—</b>	<b>4.0%</b>	<b>4.0%</b>	<b>5.2%</b>	<b>4.1%</b>	<b>4.0%</b>	<b>—</b>		
Net profit	143	325	337	409	433	461	489		
Payout ratio	35.1%	19.3%	22.3%	31.9%	30.2%	30.2%	—		
<b>ROE</b>	<b>—</b>	<b>20.6%</b>	<b>18.1%</b>	<b>16.3%</b>	<b>13.6%</b>	<b>13.2%</b>	<b>—</b>		
NOPAT (OP - income taxes)	74	281	312	348	403	445	—		
Invested capital (IBD + net assets)	1,555	1,728	2,001	3,045	3,354	3,683	—		
• Interest-bearing debt	110	8	7	6	13	11	—		
• Net assets	1,445	1,720	1,994	3,039	3,341	3,672	—		
<b>ROIC</b>	<b>—</b>	<b>17.1%</b>	<b>16.7%</b>	<b>13.8%</b>	<b>12.6%</b>	<b>12.6%</b>	<b>—</b>		

Source: compiled by Omega Investment from IR results briefing materials and Annual Securities Reports (YUHO financial statements).

\*Note: System Infrastructure Business includes cloud and on-premise (separately disclosed weight of cloud in FY22/5 was 61%).

+Note: MTP YoY figures for FY27/3 and FY30/3 are expressed as 3-year CAGR.



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