



# 4076 CNS

## 9M FY25/5 results broadly in-line

Annual dividend hiked +53% to commemorate 40<sup>TH</sup> anniversary

### SUMMARY

● CNS announced 9-months cumulative 3Q FY25/5 (Jun-Feb) results at 15:00 on April 11. Headline numbers were net sales +4.1% YoY, operating profit -17.9%, and profit attributable to owners of parent -14.5%. As we have noted in previous quarterly follow-up reports, while topline net sales continue to grow at double digits, profits this term have slowed mainly due to 1) the strategic increase in salaries aimed at securing and retaining the necessary professionals to capture the growth opportunity going forward, with the implementation of a planned 10.8% increase in base and regular salaries from the beginning of the FY, depressing 1Q GPM from the impact of wage increases and increased managerial staff, increased training and recruitment expenses, and increased compensation paid for back-office outsourcing expenses, and 2) the impact of restructuring the new Consulting business through downsizing with a view toward reconfiguration during the current FY. Therefore, the initial budget has profits weighted toward the 2H, and 9-months cumulative results are broadly in-line, despite progress ratios shown below appearing to be slightly behind. There is no change to FY forecasts.

● The key takeaway from 3Q results is the sequential improvement from depressed 1Q results to the 2Q and 3Q shown in the big table on P2. Quarterly trends are as follows. Net sales YoY: 1Q -0.1% → 2Q +4.2% → 3Q +8.3%, GPM: 1Q 23.0% → 2Q 24.7% → ...

### 9M FY25/5 CNS Consolidated Financial Results Summary

JPY mn, % [J-GAAP]	FY24/5 9M act	FY25/5 9M act	PCT YOY	FY24/5 act	FY25/5 init CE	PCT YOY	FY24/5 9M ACH	FY25/5 9M ACH
<b>Net sales</b>	<b>4,980</b>	<b>5,187</b>	<b>4.1</b>	<b>6,657</b>	<b>7,562</b>	<b>13.6</b>	<b>74.8%</b>	<b>68.6%</b>
<i>by Business</i>								
● Digital Innovation Promotion Business	1,342	1,606	19.7	1,820	2,367	30.1	73.7%	67.9%
● Big Data Analysis Business	854	1,019	19.4	1,140	1,295	13.6	74.9%	78.7%
● System Infrastructure Business*	1,333	1,340	0.5	1,780	2,219	24.7	74.9%	60.4%
● Business System Integration Business	1,161	1,142	(1.6)	1,518	1,524	0.4	76.5%	75.0%
● Consulting Business	291	79	(72.8)	400	156	(61.0)	72.9%	50.8%
Gross Profit	1,240	1,258	1.5	1,639	1,834	11.9	75.6%	68.6%
GPM (%)	24.9%	24.3%	—	24.6%	24.3%	—	—	—
SG&A expenses	728	837	15.1	1,019	1,174	15.2	71.4%	71.3%
Ratio to sales (%)	14.6%	16.1%	—	15.3%	15.5%	—	—	—
<b>Operating profit</b>	<b>512</b>	<b>421</b>	<b>(17.8)</b>	<b>620</b>	<b>660</b>	<b>6.6</b>	<b>82.6%</b>	<b>63.8%</b>
<b>OPM (%)</b>	<b>10.3%</b>	<b>8.1%</b>	<b>—</b>	<b>9.3%</b>	<b>8.7%</b>	<b>—</b>	<b>—</b>	<b>—</b>
Ordinary profit	528	443	(16.1)	650	676	4.0	81.2%	65.5%
Profit attributable to owners of parent	351	300	(14.5)	461	489	6.2	76.0%	61.3%

Source: compiled by Omega Investment from TANSIIN Quarterly Financial Results Summaries.  
Figures by business provided by CNS Corporate Planning Department IR.

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

ACH ratio = progress relative to full-term CE.

### 3Q Follow-up

#### Financial Indicators

Share price (5/7)	1,603
YH (25/5/1)	1,629
YL (25/4/10)	1,294
10YH (21/8/20)	3,035
10YL (23/1/17)	1,270
Shrs out. (mn shrs)	2,906
Mkt cap (¥ bn)	4,658
EV (¥ bn)	1,312
Equity ratio (3/31)	77.5%
25.5 P/E (CE)	9.5x
25.5 EV/EBITDA (CE)	1.9x
24.5 ROE (act)	13.2%
24.5 ROIC (act)	12.6%
25.2 P/B (act)	1.22x
25.5 DY (CE)	4.68%

#### 6M daily share price



**Chris Schreiber CFA**  
Company Specialist

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...(continued from P1) 3Q 24.9%, ratio of SG&A to net sales: 1Q 18.1% → 2Q 16.2% → 3Q 14.3%, OPM: 1Q 4.8% → 2Q 8.5% → 3Q 10.7%, and operating profit YoY: 1Q -43.6% → 2Q -19.5% → 3Q +3.0%. This is a clear and continuous recovery of profits underway.

- **Digital Innovation Promotion Business:** In addition to the expansion of the scope of services for cashless payment service projects, where CNS was recognized for its track record, expansion of the structure for existing projects such as ServiceNow implementation support and generative AI-related projects, etc. supported high growth.
- **Big Data Analysis Business:** High double-digit growth was driven by steady expansion in existing projects as well as new customer projects launched in the 1Q.
- **System Infrastructure Business:** Demand for CNS original service “U-Way” continued to rise, winning orders from three new end users. In addition, the impact of project freezes and delays due to customer circumstances, such as the start of government cloud projects in local governments, was offset, resulting in growth turning positive in the 3Q.
- **Business System Integration Business:** Steady expansion in capabilities for projects related to economic security and system construction for securities companies, and beginning work on ERP-related projects aimed at building a track record, started to offset the impact of a significant reduction in the scope of operation and maintenance projects for some existing customers.

## 3Q FY25/5 CNS Consolidated Financial Results Summary

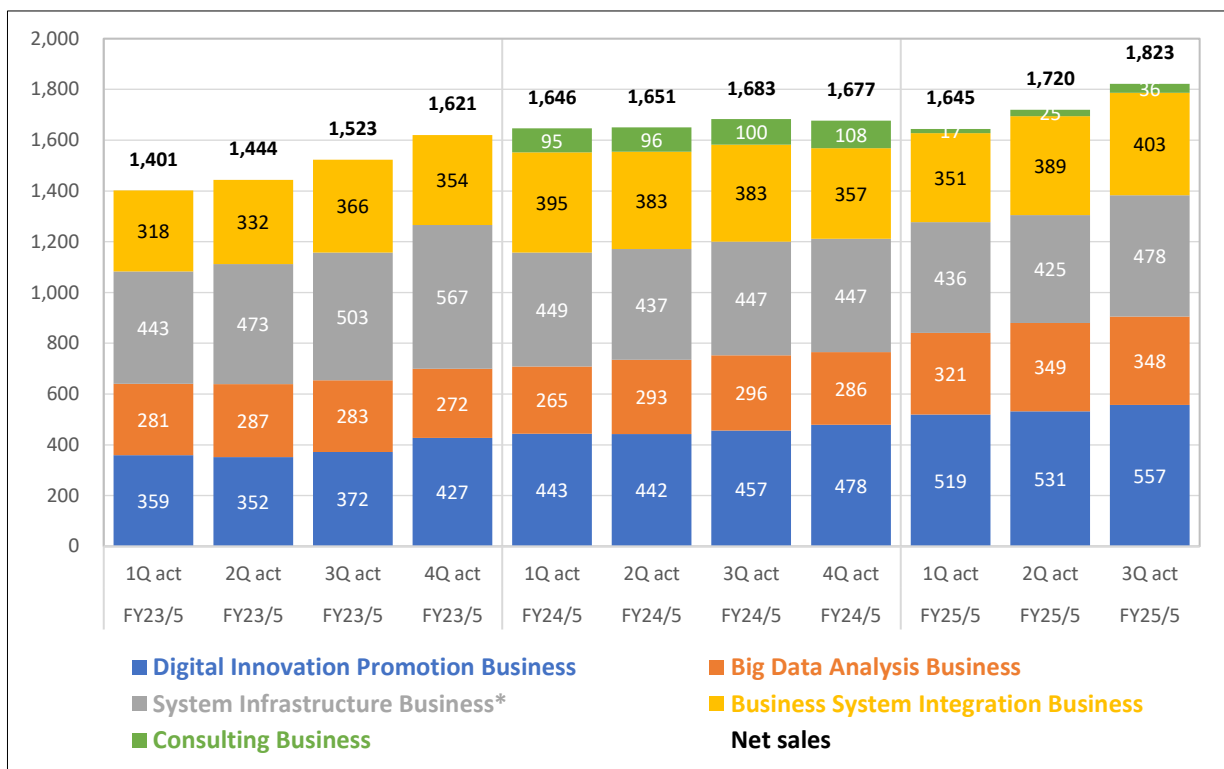
JPY mn, % [J-GAAP]	FY23/5 1Q act	FY23/5 2Q act	FY23/5 3Q act	FY23/5 4Q act	FY24/5 1Q act	FY24/5 2Q act	FY24/5 3Q act	FY24/5 4Q act	FY25/5 1Q act	FY25/5 2Q act	FY25/5 3Q act
Net sales	1,401	1,444	1,523	1,621	1,646	1,651	1,683	1,677	1,645	1,720	1,823
YoY	3.1	7.2	12.8	18.9	17.5	14.3	10.5	3.5	(0.1)	4.2	8.3
by Business											
● Digital Innovation Promotion Business	359	352	372	427	443	442	457	478	519	531	557
● Big Data Analysis Business	281	287	283	272	265	293	296	286	321	349	348
● System Infrastructure Business*	443	473	503	567	449	437	447	447	436	425	478
● Business System Integration Business	318	332	366	354	395	383	383	357	351	389	403
● Consulting Business	—	—	—	—	95	96	100	108	17	25	36
YoY											
● Digital Innovation Promotion Business	29.5	29.1	27.3	24.8	23.4	25.7	22.8	12.0	17.1	20.2	21.8
● Big Data Analysis Business	29.4	25.9	17.9	4.7	(5.9)	1.9	4.6	5.4	21.4	19.1	17.9
● System Infrastructure Business*	(16.6)	8.0	4.7	30.2	1.4	(7.7)	(11.1)	(21.3)	(2.8)	(2.6)	6.9
● Business System Integration Business	(4.6)	(18.5)	8.1	8.9	24.0	15.3	4.7	0.8	(11.2)	1.6	5.2
● Consulting Business	—	—	—	—	—	—	—	—	(81.6)	(73.7)	(63.7)
Gross Profit	334	372	398	402	404	415	421	399	378	425	455
● Digital Innovation Promotion Business	—	—	—	—	95	109	120	122	124	137	143
● Big Data Analysis Business	—	—	—	—	70	79	68	62	68	78	73
● System Infrastructure Business*	—	—	—	—	107	108	114	105	104	105	130
● Business System Integration Business	—	—	—	—	103	90	91	78	84	105	111
● Consulting Business	—	—	—	—	29	30	28	32	(2)	0	(3)
GPM (%)	23.9%	25.7%	26.1%	24.8%	24.5%	25.1%	25.0%	23.8%	23.0%	24.7%	24.9%
● Digital Innovation Promotion Business	—	—	—	—	21.5%	24.6%	26.3%	25.5%	23.9%	25.9%	25.7%
● Big Data Analysis Business	—	—	—	—	26.4%	26.8%	23.0%	21.8%	21.1%	22.3%	21.0%
● System Infrastructure Business*	—	—	—	—	23.9%	24.7%	25.6%	23.4%	23.8%	24.7%	27.2%
● Business System Integration Business	—	—	—	—	26.0%	23.5%	23.6%	21.8%	23.9%	26.9%	27.6%
● Consulting Business	—	—	—	—	30.8%	31.0%	27.5%	29.7%	—	1.6%	—
SG&A expenses	229	208	223	287	263	233	232	292	298	279	260
Ratio to sales (%)	16.3%	14.4%	14.7%	17.7%	16.0%	14.1%	13.8%	17.4%	18.1%	16.2%	14.3%
Operating profit	106	163	175	116	141	182	189	108	80	146	195
YoY	(17.4)	(2.9)	7.4	54.8	33.7	11.5	8.2	(6.8)	(43.6)	(19.5)	3.0
OPM (%)	7.5%	11.3%	11.5%	7.1%	8.6%	11.0%	11.2%	6.4%	4.8%	8.5%	10.7%
Ordinary profit	112	172	185	119	145	193	190	123	81	160	202
Profit attributable to owners of parent (ATOP)	76	114	126	117	89	131	130	111	55	107	137

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

Figures by business provided by CNS Corporate Planning Department IR.

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

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

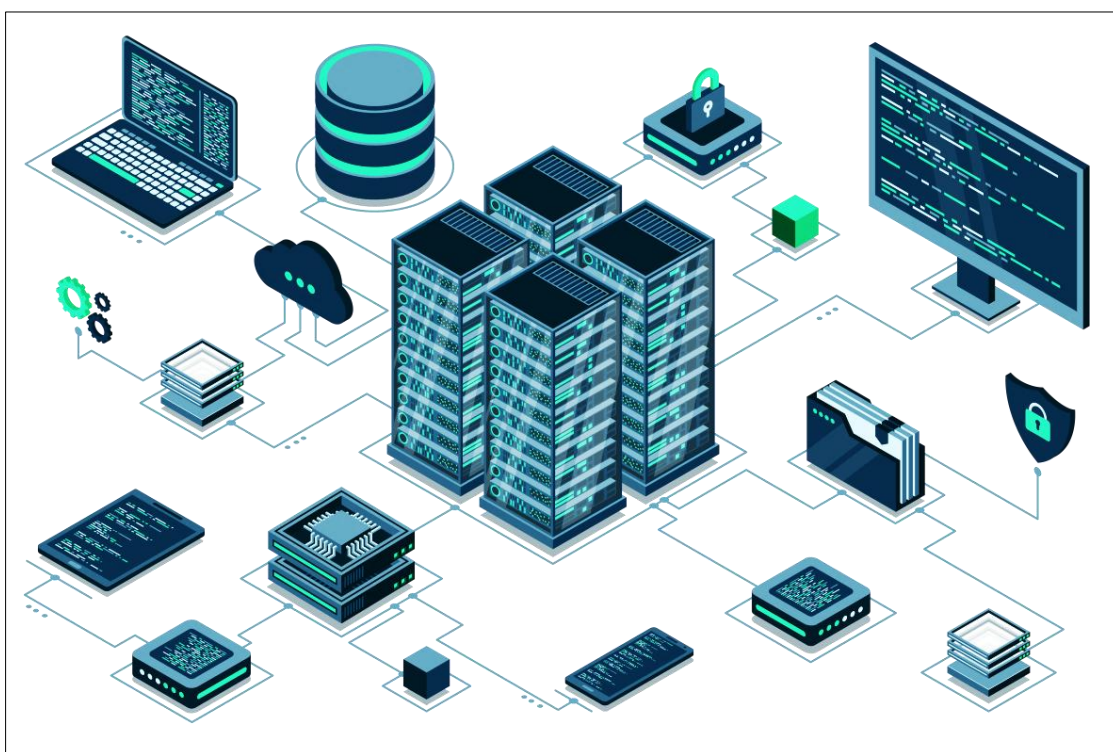


Source: compiled by Omega Investment from figures provided by CNS Corporate Planning Department IR.

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



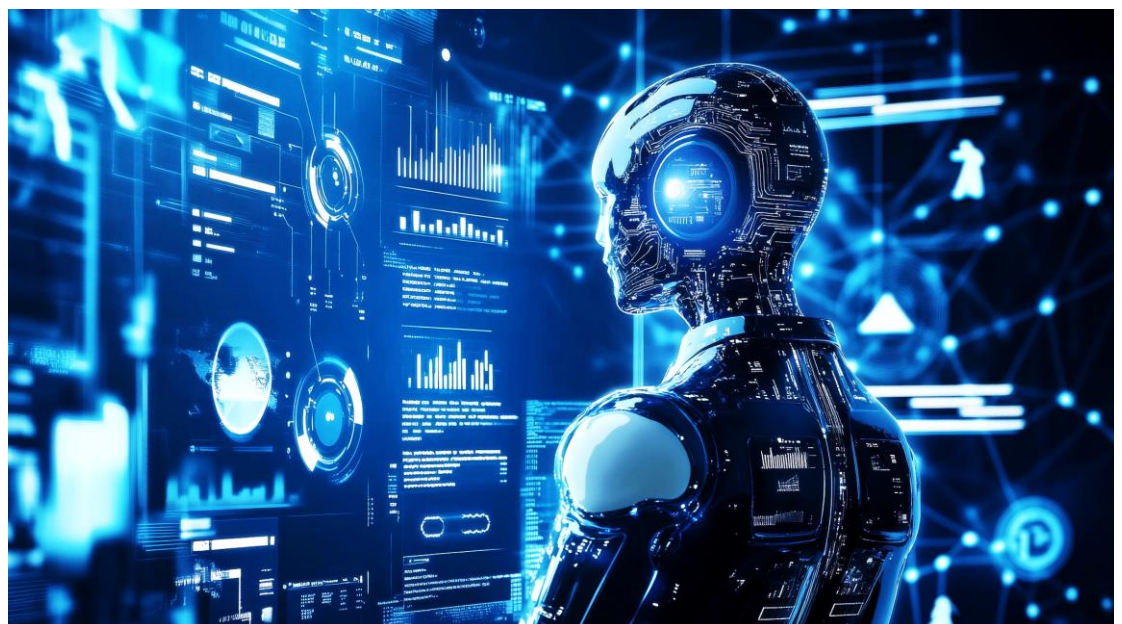
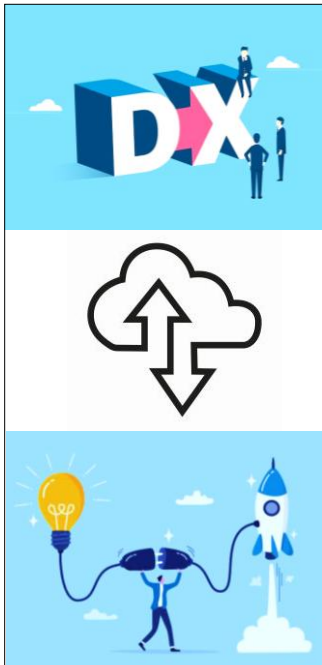
- Consulting Business:** CNS is significantly downsizing the organization with the aim of restructuring the business during the current fiscal year. At the same time, it is increasing staff for existing projects and promoting proposals to newly acquired customers. A GP loss was incurred due to the hiring of new consulting personnel and further efforts to expand the customer base.







- **Commemorative Dividend to Celebrate the Company's 40th Anniversary:** On April 17, CNS announced a revision of its annual dividend forecast from 49.0 yen → 75.0 yen (+53%) to include a commemorative dividend of 26.0 yen (see graph on the bottom of P6 for details and trend of recent hikes).
- **Relocation of Head Office:** On February 14, CNS announced its Board of Directors resolved to relocate its head office to Shinagawa-ku, Tokyo, targeting October 2025 - November 2025. CNS plans to submit a proposal for approval to amend the Articles of Incorporation to the 40th Annual General Meeting of Shareholders to be held in August 2025. Regarding reasons for the move, since the onset of the COVID-19 pandemic, the Company has swiftly and efficiently transitioned to an online environment and restructured operations accordingly. While this shift has provided a convenient working environment, challenges associated with the online environment are increasing. At the same time, there is a growing need to enhance the convenience and productivity of remote work. The aims of relocation of the head office include: addressing the aforementioned challenges, optimizing the work environment for employees, improving business outcomes, fostering active innovation, providing a work environment that inspires a desire to come to the office, and further enhancing corporate value by introducing a hybrid work model that combines online and offline elements.
- **Launch of new comprehensive DX consulting services:** On February 21, CNS announced launch of new DX consulting services that provide comprehensive support from DX diagnosis and strategy formulation to human resource development through an accompanying-type approach. The background is efforts to enhance corporate value through DX are reported to be only halfway there, with many Japanese companies not yet seeing sufficient results. According to the IPA DX Trends 2024 report, in industries such as manufacturing, construction, distribution, ITC and services, 40% or less of companies responded that they are implementing DX across the entire company based on a company-wide strategy, indicating there are many challenges in DX initiatives.
- **Launch of "ServiceNow ITSM Quick Starter Package":** On April 15, CNS announced the launch of "ServiceNow ITSM Quick Starter Package" for mid-sized companies, which can help implement ServiceNow in as short as just one month. This solution focuses on incident management and problem management, two core functions of ServiceNow's IT Service Management (ITSM) capabilities, addressing the issue that many mid-sized companies have been reluctant to adopt global standard ServiceNow due to hurdles such as the time required for implementation and high initial costs.





## SHARE PRICE AND VALUATIONS



### Key takeaways:

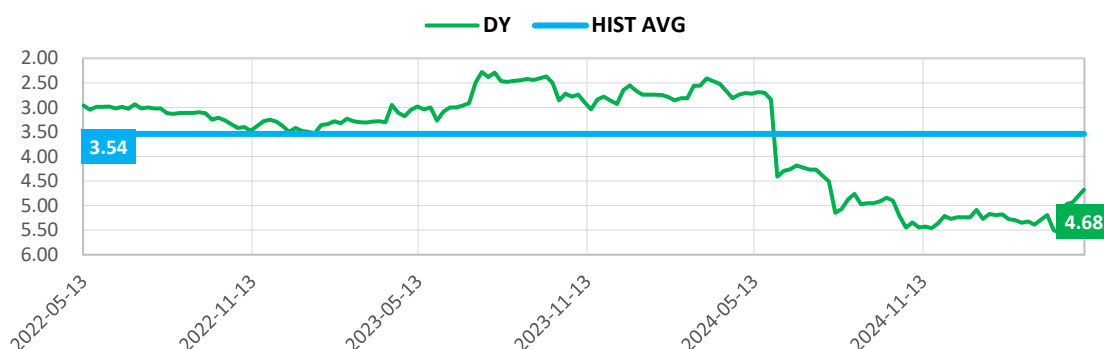
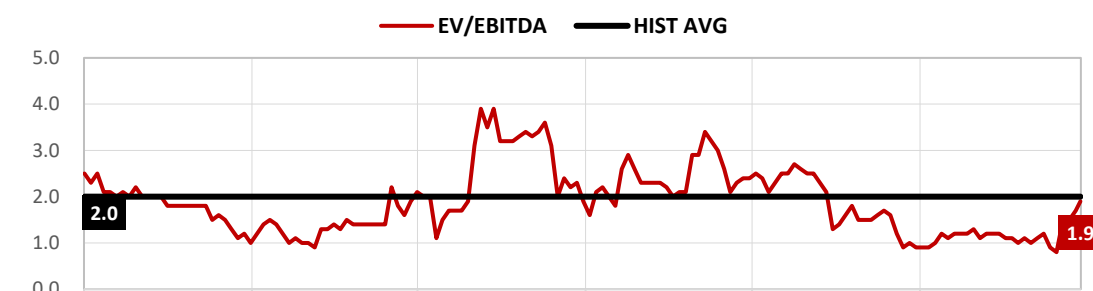
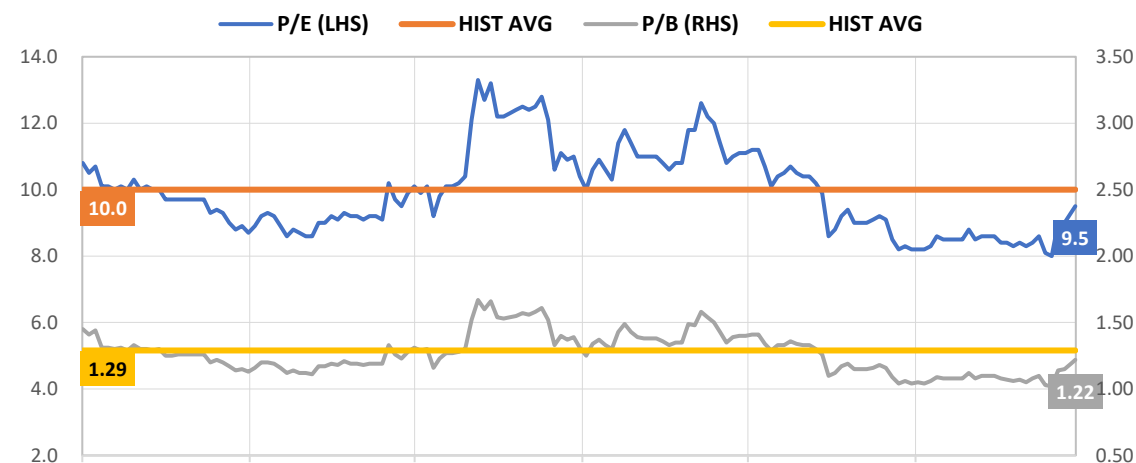
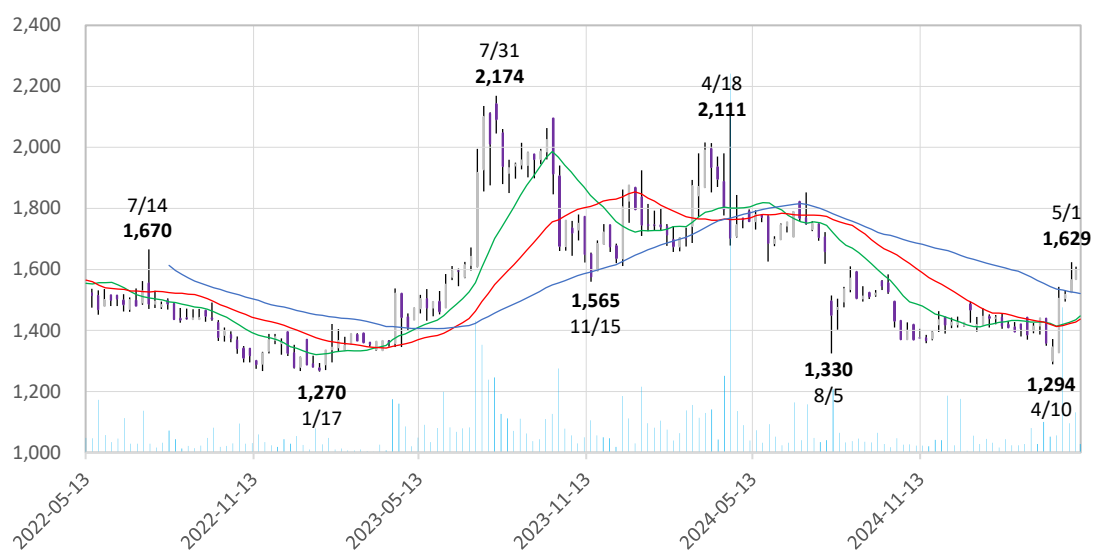
❶ The P/E and P/B ratios are trading 5.0% and 5.5% below their respective historical averages.

❷ EV/EBITDA on 1.9x is one of the lowest in the industry, and it is trading 4.0% below its historical average.

❸ The DY at 4.68% is one of the highest among peers, and some have yet to pay a dividend, trading 32% 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 still 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.

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



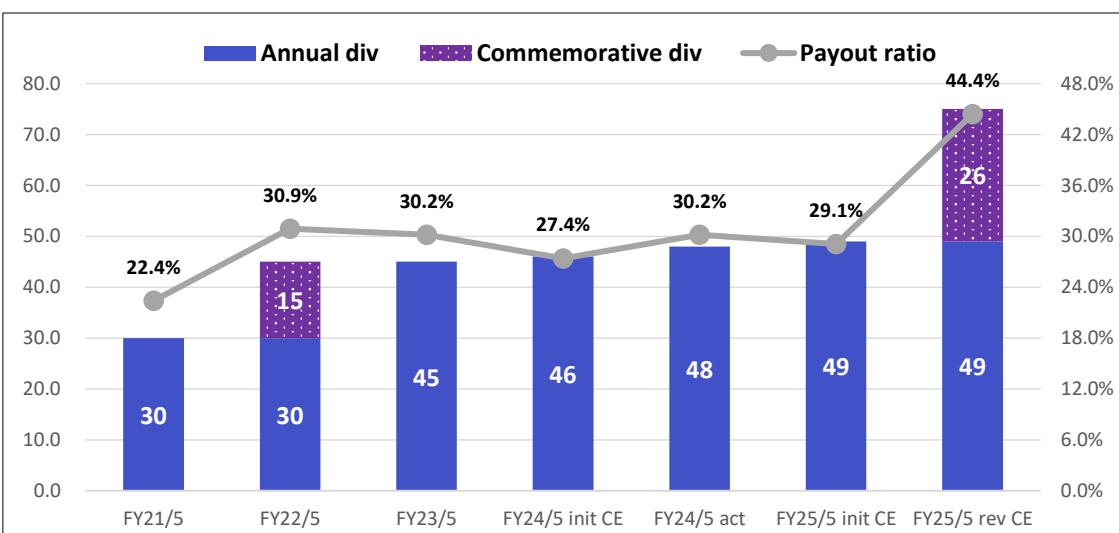
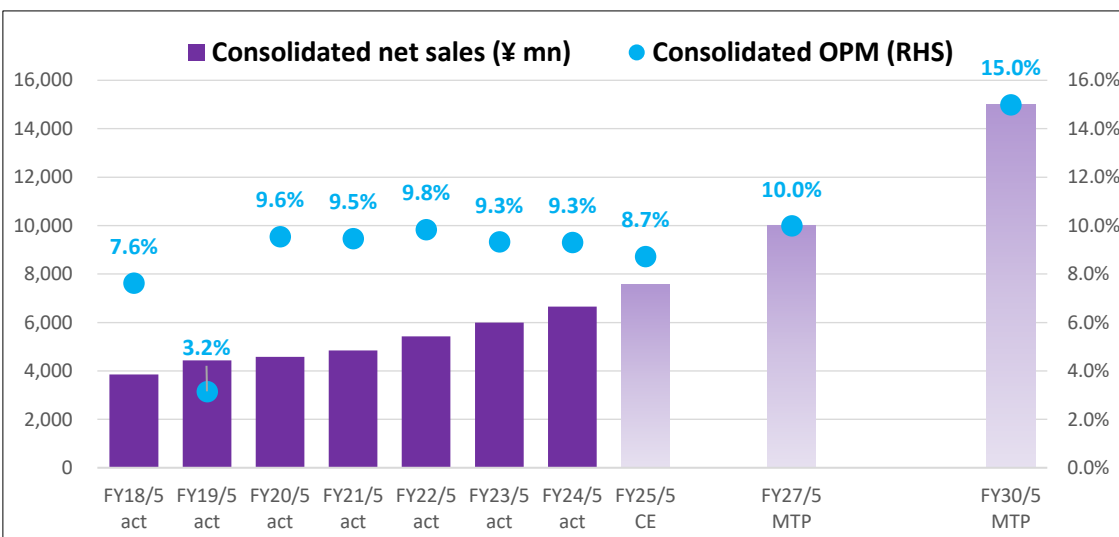
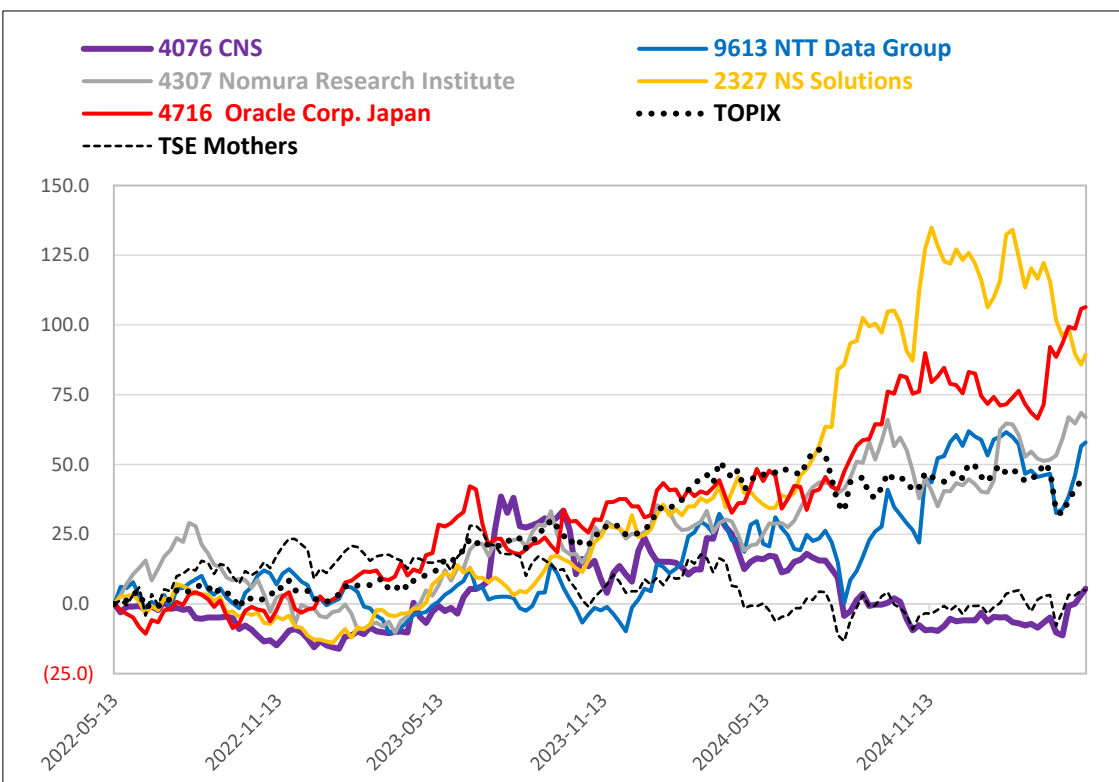
Source: compiled by Omega Investment from historical price data. Forecast values based on current Company estimates.



## 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.

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



Note: The progressive dividend policy of CNS applies to the annual dividend, and it does not include any commemorative dividend.

## 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 unpredictable 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+
Net sales	4,434	4,578	4,841	5,419	5,989	6,657	7,562	10,000	15,000
YoY	15.1	3.2	5.8	11.9	10.5	11.1	13.6	14.5	14.5
<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%		
Gross Profit	711	973	1,148	1,322	1,506	1,639	1,834		
• 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		
GPM (%)	16.0%	21.3%	23.7%	24.4%	25.1%	24.6%	24.3%		
• 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%		
SG&A expenses	571	536	690	789	947	1,019	1,174		
Ratio to sales (%)	12.9%	11.7%	14.3%	14.6%	15.8%	15.3%	15.5%		
Depreciation	14	16	20	25	30	34	40		
EBITDA	154	454	478	559	589	654	700		
Operating profit	140	437	458	533	559	620	660	1,000	1,800
YoY	(52.4)	212.3	4.8	16.4	4.8	10.9	6.5	17.3	21.6
OPM (%)	3.2%	9.6%	9.5%	9.8%	9.3%	9.3%	8.7%	10.0%	12.0%
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	—		
DOE	—	4.0%	4.0%	5.2%	4.1%	4.0%	—		
Net profit	143	325	337	409	433	461	489		
Payout ratio	35.1%	19.3%	22.3%	31.9%	30.2%	30.2%	—		
ROE	—	20.6%	18.1%	16.3%	13.6%	13.2%	—		
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	—		
ROIC	—	17.1%	16.7%	13.8%	12.6%	12.6%	—		

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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