

WELLNET CORPORATION (2428 JP)

TSE Standard

A fintech company that transforms the transportation industry's ticketing system.



NIPPON INVESTMENT BESPOKE RESEARCH UK LTD

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Introduction

Wellnet Corporation (2428 JP) provides BtoB settlement and authentication services which businesses use to settle payments with consumers. The firm has developed an advanced IT platform in-house and introduced a Software as A Service (SaaS) business model since 2000. This provides customers with access to the firm's system and its services, helping to reduce the extensive system development costs for customers. The subscription-based fee structure has been widely accepted by customers and this progressive model has been a major growth engine for Wellnet.

Wellnet's core business domain is its multi-payment service. Multi-payment service is a one-stop payment agency system for both cash and cashless payments. In addition to cashless payments by credit card and e-money, cash payments at convenience stores [CVS], online banking settlement and payment apps can also be used.

With the multi-payment service, customers can outsource the cumbersome processes associated with electric payments. After an order is confirmed, Wellnet's customers can simply pass the data to the service provider for the system to proceed with the necessary procedures to complete the transaction. Paperless billing and the real-time acquisition of storage information enables customers to further streamline their operations.

The firm's electric payment settlement services are employed by a wide range of customers, from transport operators such as railways, airlines, and bus operators, to e-commerce merchants, CVS, online shopping platforms, insurance companies, banks etc.

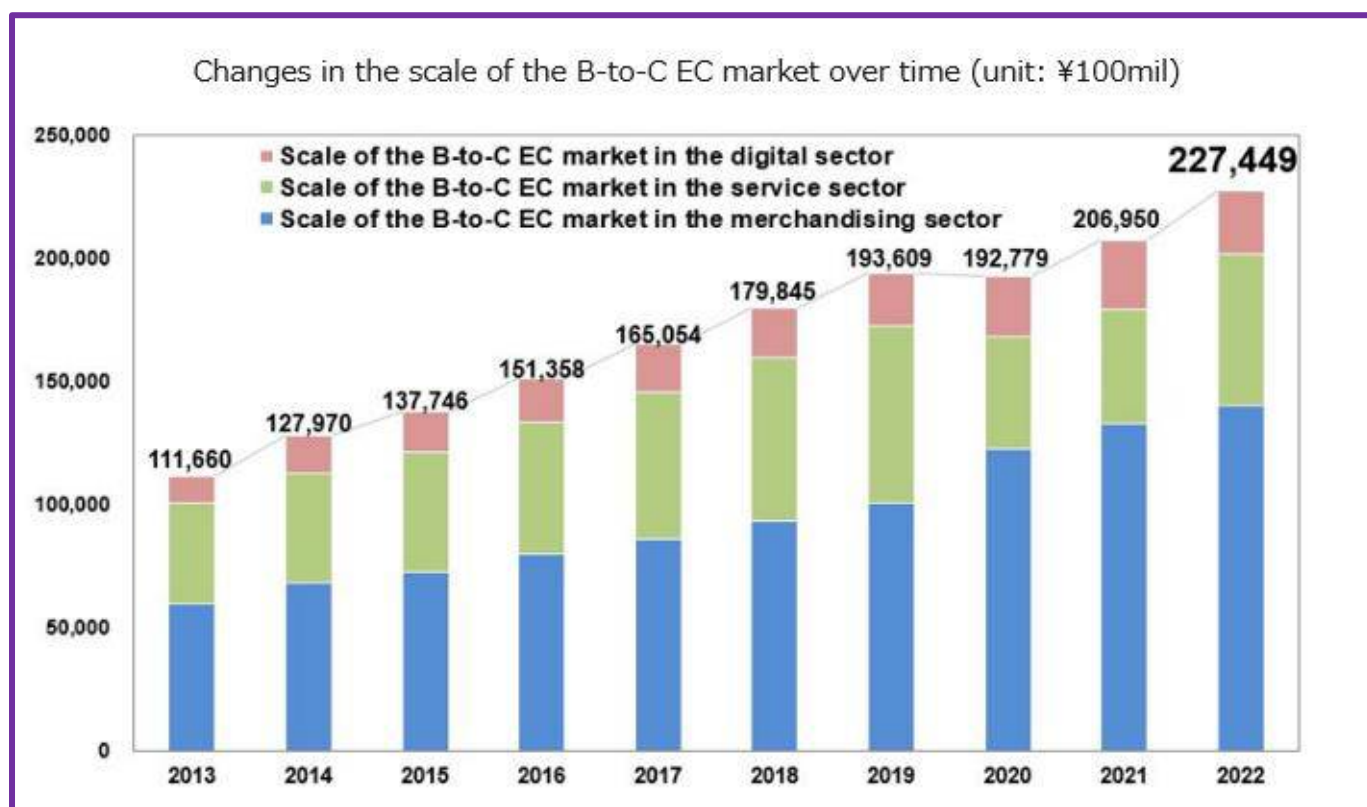
Wellnet engages in business with approx. 3,000 companies in Japan. One of the firm's largest clients, generating approx. 20% of total revenues in FY23 (fiscal year June 2023), was Amazon Japan KK [hereafter AMZN], according to Yukashokenhokokusho [YUHO], a statutory disclosure for companies limited by shares in Japan. Wellnet provides the platformer with its e-billing – one of Multi-payment Services that the firm offers.

Multi-payment services for the transport industry, including railways, airlines, and express buses, are where Wellnet has extensive expertise. Although airlines and the Japan Railway [JR] companies issue their own credit cards with which passengers can use to pay for tickets, Wellnet provides other settlement services with which they can pay, such as cash for tickets at convenience stores, or by using PayPay Bank Corporation (unlisted, JP)'s Pay-easy net banking to pay online. It is no exaggeration to say that the company has a monopoly on payments for express buses in particular.

The Ministry of Economy, Trade and Industry [METI] has conducted the E-Commerce [EC] Market Survey every year since 1998. According to the 2022 survey, the market for BtoC e-commerce [EC] reached ¥22.7trillion (+9.91% YoY), steadily growing from ¥19.3trillion in 2020 and ¥20.7trillion in 2021.

The survey also reported that the market size of the BtoB market rose +12.8% YoY to ¥420.2 trillion, up from ¥334.9trillion in 2020 and to ¥372.7trillion in 2021.

The EC ratio (ratio of e-commerce transaction value over all commercial transaction value) in the BtoC and BtoB businesses reached 9.13% (+0.35ppt YoY) and 37.5% (+1.9ppt YoY), respectively. As a reference, according to Digital Commerce 360 analysis of U.S. Department of Commerce data, U.S EC represented 22.0% of total retail sales in 2023, compared to 21.2% in 2022. In case of B2B, share of B2B EC is estimated at around 14.0% in 2023, out of total B2B manufacturing and wholesale revenue, according to Statista, which compared to 12.1% in 2020.



Source: The FY2022 E-Commerce Market Survey, Ministry of Economy, Trade, and Industry [METI] August 2023

As evidenced in the survey, Wellnet expects the electric payment settlement market will continue to lead the growth for multi-payment services. Consequently, Wellnet is expanding its services to support the digitalisation of payments and authentication in anticipation of the expansion of the digital money market – represented by various travel IC cards and apps, such as SUICA issued and managed by JR East. It will be imperative that companies are able to provide safe and seamless cashless settlement services as they will be directly connecting to users' bank accounts.

Wellnet's Business Model

Wellnet's core competence is in settlement and authentication service – the bridge between businesses and consumers – which it provides on a subscription base. The firm's services are divided into four categories:

- 1) Billing service: This entails the use of paper invoices, transfer receipts, etc. for billing and collection,
- 2) E-Billing service: Paperless billing and collection of payments,
- 3) Remittance services: For efficient remittance of money from the business to the customer, and
- 4) SaaS Settlement and Customised System services.

In FY24 Q1~Q3, Wellnet produced OP ¥922mil (+17.5% YoY) on sales of ¥7,560mil (+5.4% YoY), of which 79.2% of sales (¥5,985mil) was generated from the E-Billing service.

1) Paper-based Billing and Collection Service

Paper-based Billing and Collection provides two services:

a) Collection Agency service,

Under this service, Wellnet principally provides a software system that issues payment slips with bar codes printed on prescribed 'payment slips.' Consumers then take the payslip to pay for the bills at CVS and other payment point contracted by Wellnet. The payment is then collected on behalf of the firm's customers and secured in Wellnet's escrow accounts. The firm has a wide range of companies for this service, including electric power companies [EPCOs], gas supply companies and e-commerce businesses.

b) Invoicing service

This is a BPO service that includes the printing of the barcoded payslips, posting them, payment confirmation and then clearing the accounts receivable from the system once everything has been paid.

With the move to a paperless society, the paper-based services have been gradually replaced with the E Billing service. Wellnet is actively encouraging its existing paper-based customers to switch to its E-Billing system.

2) E-Billing service

Unlike Paper-based Billing services, this service does not require the issuance and mailing of paper invoices for payment but connects the Wellnet server to KIOSK terminals installed in CVSs, POS cash registers, ATMs, net banking facilities, credit cards, e-money, and payment app on smartphones to settle the payment without payment slips with barcode.

Currently, E-Billing services are used for a variety of settlements, including the purchase of airline tickets for most domestic airlines, tickets sold by more than 100 express bus operators, as well as online shopping. The primary benefit to businesses is that (1) they do not need to develop connections and contracts with individual collection points (CVSs, banks, etc.) and (2) Wellnet can provide businesses with various payment methods under one single contract.

Payment information is passed on to the business in real time via the firm's system, so there is no need for the time and cost of creating and sending invoices and payment slips, and goods and services can be provided only after payment has been confirmed.

Wellnet earned approx. 20% of FY23 revenue from AMZJ, which is a part of E-Billing service.

3) Remittance services

Wellnet offers two types of remittance solutions: a) NET DE Uketori and b) Cash Remittance service at CVSs.

a) NET DE Uketori

This service uses the internet to efficiently make transfers from businesses to customers. Under this system, the recipient accesses a dedicated website using the ID received from the business and enters the bank account information to receive the transfer. Based on this information, the account is verified, and the transfer is automatically processed, reducing the administrative burden on the business.

The main users of this service are businesses that conduct e-commerce transactions, such as refunds for event ticket sellers in the event of cancellations due to rain, etc. In addition, the service is used in a wide variety of ways, including expenses such as train fares for job seekers and incentives for internet providers.

Wellnet's competitive advantages include its direct connection to the banking network, which eliminates the risk of recombination (i.e. transfer of funds by mistake, such as wrong account numbers), and the speed with which funds can be transferred instantly.

b) Cash Remittance service at CVSs.

This service allows customers to directly receive cash transfers from businesses at CVSs. Under this system, the recipient enters the ID received from the business into the multimedia terminal at the CVS and ATM of Seven Bank (8410 JP) installed at Seven Eleven stores. The recipient then brings the voucher issued at the terminal to the shop cashier to receive the cash. For example, in case of Seven Eleven, the recipient receives notes from the ATM and coins from POS cashier.

The service eliminates the need for the business to have the customer's bank account information. Furthermore, the service reduces administrative costs as there are no postal transfer or bank transfer fees.

4) SaaS Settlement and Customised Development services

Wellnet's current core business is its multi-payment solutions. While the firm expects this business to continue to grow, the multi-payment service market does not have high barriers to entry, therefore competition is likely to increase.

Wellnet is also promoting priority measures such as "Responding to the era of electronic payments" and "IT-oriented projects for the transport industry / MaaS business" with the keywords "paperless" and "cashless". The firm is implementing measures with an eye on the lifestyle-oriented FinTech platform in the context of these measures.

The firm is focusing on 'payment + α platform expansion', with solutions such as:

- a) "Shiharai Hisho (Payment Secretary), a smartphone app that enables users to make payments instantly from their smartphones,
- b) Bus Mori!, a smartphone app to book and purchase highway bus tickets, and
- c) solutions such as the 'ekaiin.com (e-member.com)' tool – for example, paying for tuition fees etc, and
- d) providing the new 'Shimaeru' service for issuing and storing electronic invoices.

During FY17~FY19, Wellnet invested in the development of ALTAIR – a comprehensive ticketing system designed to support the digital transformation of the transportation Industry. ALTAIR particularly focuses on providing an all-in-one core sales system, in particular, tailored to the needs of transportation systems. This effectively links the operators' terminals with users' devices, such as smartphones, and supports ticketing, payment settlement and profit split between operators in case a route is operated by multiple operators.

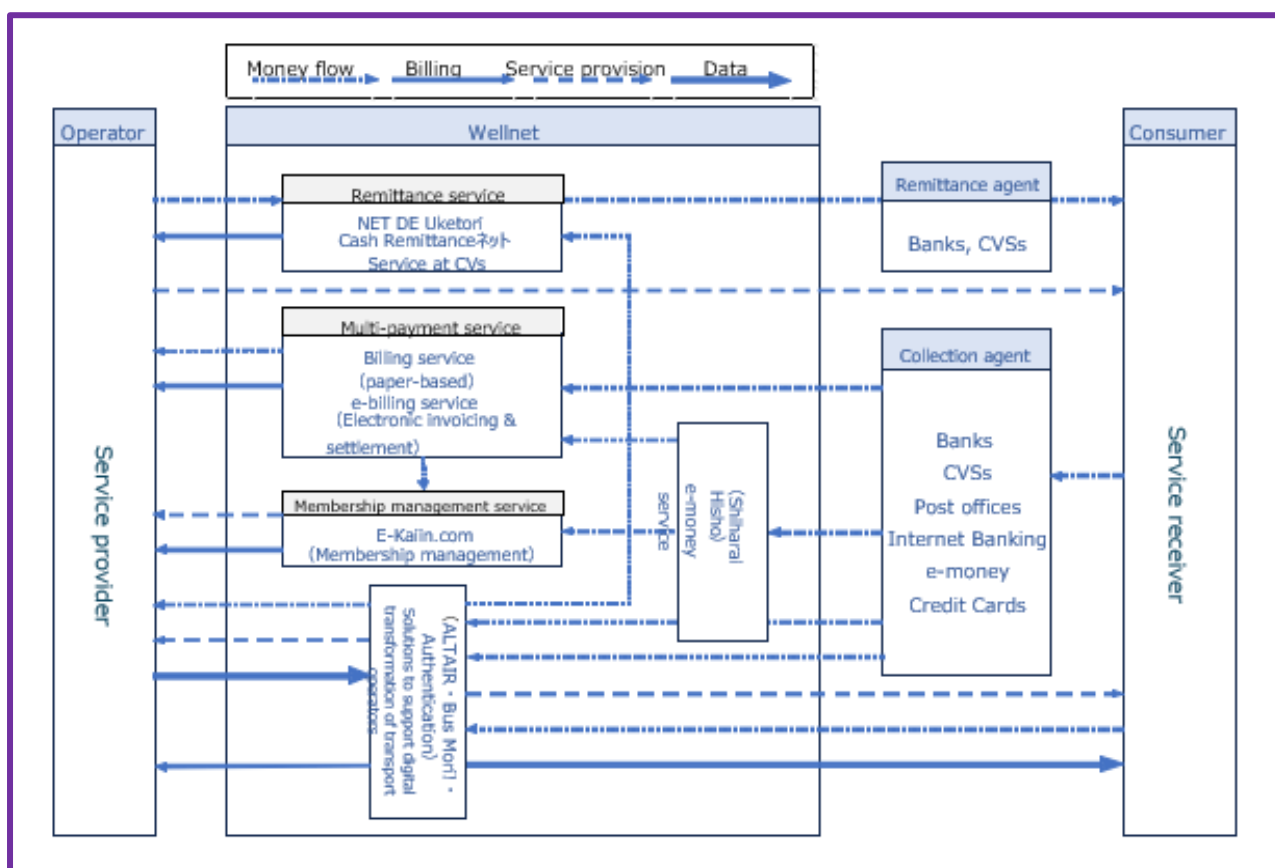
Wellnet aims to offer solutions such as business process outsourcing [BPO], regional MaaS (Mobility as A Service), airport terminal solutions and ticketing solutions for short-distance railways and busses. The firm's ALTAIR solutions are already deployed in regional MaaS projects in Hokkaido and Sendai City in Miyagi prefecture.

Wellnet (2428 JP): Earnings Trend and Sales by service							
(¥mil / accounts)	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024 Q3
Sales	9,784	10,032	9,380	8,842	8,950	9,424	7,560
GP	1,866	1,610	1,621	1,331	1,467	1,852	1,568
OP	678	503	817	568	736	939	922
Sales by Service							
Billing	921	936	929	941	956	1,178	916
E-Billing	8,506	8,759	7,912	7,397	7,446	7,489	5,985
Remittance	198	214	426	388	369	426	347
SaaS	32	67	79	91	140	297	254
Others	126	55	34	26	39	35	57
Total	9,784	10,032	9,380	8,842	8,950	9,424	7,560
Source: Nippon-IBR based on interviews with Wellnet and its FY24 Q3 presentation							
Number of Accounts (incl. OEMs) per Service							
Number of Accounts (incl. OEM)	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024 Q3
Billing	392	387	393	382	372	397	380
E-Billing	1,065	1,199	1,241	1,846	2,548	3,380	4,229
Remittance	105	123	149	181	195	223	263
SaaS	52	80	102	118	170	217	237
Others	21	18	12	9	9	9	14
Total	1,635	1,807	1,897	2,536	3,294	4,226	5,123
Source: Nippon-IBR based on interviews with Wellnet and its FY24 Q3 presentation							

Revenue flow

Wellnet's fee structure is based on a subscription model, so as to reduce the initial investment by customers. The firm primarily receives 1) initial onboarding fee, 2) monthly base fee (stock-based revenue), and 3) fee per transaction (flow-based revenue).

Wellnet earns revenue via the following fee structure:



Source: Wellnet FY23 Yukashokenhokokusho [YUHO]

Key Performance Indicators [KPIs] of Wellnet's Business

Based on the money flow, Wellnet's direct customers are businesses who subscribe to Wellnet's services, therefore, the firm's business model can be categorised as an enterprise SaaS model. For an enterprise SaaS provider, its key performance indicators [KPIs] generally includes the followings:

1. Stock Revenue

Changes in the number of subscribers influences both the onboarding income and the monthly base income (stock-based income). In FY23, 3.5% of revenue was earned through the monthly base income. Wellnet has approx. 3,000 companies as its customers as of FY24 Q3.

2. Flow Revenue (recurring revenue)

PAYG (pay-as-you-go) revenue (flow revenue) is affected by the number of payments / transactions made. In FY24 Q3, Wellnet had 5,123 accounts (including customers whose systems are operated by Wellnet), up from 4,226 at the end of FY23.

In the usual enterprise SaaS business model, the number of accounts, especially active users, is one of the flow revenue variables. However, in Wellnet's case, the company's clients are companies that sell goods and services to consumers, and the services it provides to such client companies are for payment collection from the consumers.

Consequently, flow income is influenced by the number of payments collected, not by the number of accounts or active users.

Another variable of flow revenue is the commission rate. Commission rates for clients using Wellnet's electronic payment services vary from company to company, therefore profit margins vary from customer to customer. The services with the highest profit margins are its 'Bus Moli!' smartphone app and Altair (web-based), with which Wellnet developed in-house and also manages the consumers' accounts. The number of transactions for these services, expressed as the number of tickets issued, fell sharply due to travel restrictions following the more recent coronavirus infection flareup. However, the number of smartphone tickets issued remained firm during the travel restriction period, as the convenience of being able to issue tickets directly on a smartphone compared to paper-based tickets issued at KIOSKs, met the needs of all parties.

Bus Mori! Ticketing Volume and Gross Profit Trend					
		FY20	FY21	FY22	FY23
Digital Tickets	Number of settlements	153,000	131,000	228,000	519,000
	GP (¥mil)	70	76	104	142
	GP/settlement (¥)	458	581	455	274
Paper Tickets	Number of settlements	2,102,000	678,000	789,000	1,279,000
	GP (¥mil)	290	89	101	187
	GP/settlement (¥)	138	132	128	146

Source: Nippon-IBR based on Wellnet's FY23 results material

3. Customer acquisition cost [CAC] and customer conversion rate

Wellnet's SaaS model basically does not offer a free trial, so fees are paid from the outset. Therefore, CAC and the customer conversion rate is not deemed to be a KPI, as the ratio is meaningless.

4. Churn rate.

Wellnet's strengths are that 1) its system is widely adopted by transport operators, who are unlikely to take the risk of changing system providers; 2) it offers both paper and electronic payment settlement and collection services; and 3) the convenience store payment system was conceived and created by the company, so it enjoys first mover advantage. As a result, the company's churn rate is just 1%, compared to the enterprise SaaS average of 5-10% per annum.

Potential Earnings Risk

Below are potential earnings risk associated with Wellnet's operation.

1. Competition

Although Wellnet has been allocating its growth investments on high margin fintech solutions, the multi-payment services still generates the vast majority of its revenue. However, as noted above, the multi-payment service market has become excessively competitive, due to a low barrier to entry. Furthermore, technology in fintech has been progressing fast, making the current core competence potentially obsolete.

2. Law and regulations

The Company's settlement agency business operates under the Instalment Sales Act. In addition, the Company's remittance services and "Shiharai Hisho" (payment secretary service) are subject to regulations under the Law on Funds Settlement and the Law on Prevention of Transfer of Criminal Proceeds as well as the Guideline associated with Money Laundering and Funding Terrorism. The Company's business performance may be affected by any future amendments to these laws and regulations, depending on the content of such amendments. *Shiharai Hisho* is also an electric money fintech service, hence required to comply with the anti-fraud measures.

3. Treatment of Collection Agent Deposits

In the multi-payment service, payment collections made by Wellnet on behalf of customers are temporarily stored in an escrow savings account in Wellnet's name and then remitted to customers on a predetermined date. The amount held in the escrow accounts is reported on the firm's balance sheet in both 'Cash and deposits' as part of Current Asset and 'Deposit received from collection agency' in Current Liability. Currently, the deposit in the escrow account is protected by the Deposit Protection Scheme by Japan's FSA. In any case the protection was lifted, additional costs may be incurred to change the operation while ensuring deposits remain secure.

Cash and Deposit and Current Liability breakdown								
(¥mil)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Total Cash and Deposits	14,458	15,848	10,564	12,915	8,690	10,504	13,129	14,071
Receiving Agency Deposits	9,566	11,381	6,959	9,394	6,340	8,350	10,171	10,441
NET Cash and Deposits	4,892	4,467	3,605	3,521	2,350	2,154	2,959	3,630
Total Current Asset	19,416	20,753	14,481	15,138	14,504	14,034	16,864	18,756
NET Total Current Asset	9,850	9,372	7,522	5,744	8,164	5,684	6,693	8,315
Total Current Liability	12,398	13,513	8,726	11,325	12,867	11,960	14,206	15,106
Receiving Agency Deposits	9,566	11,381	6,959	9,394	6,340	8,350	10,171	10,441
NET Current Liability	2,832	2,132	1,767	1,932	6,527	3,611	4,035	4,665
Working Capital	7,018	7,240	5,755	3,813	1,637	2,074	2,658	3,650

Source: Nippon-IBR based on Wellnet's YUHO (FY16~FY23)

4. High exposure to CVS networks in the multi-payment service

In the multi-payment service, some 80% of the revenue / transaction volume is settled using CVS's infrastructure such as KIOSK terminals. Should a CVS require a change in terminal due to changes in the service it offers, Wellnet might need to bear the cost of adjusting its payment solutions.

5. Reputation risk

Wellnet's reputation could come under question if there are system troubles. Moreover, if there is a breach in the protection of personal information, costs may be incurred to further enhance its security capabilities.

FY24 Q3 Earnings summary

Wellnet reported FY24 Q3 earnings that were in line with the firm's guidance with cumulative (Q1~Q3) operating profit [OP] of ¥922mil (+17.5% YoY) on sales of ¥7,560mil (+5.4% YoY). Sales rose on 1) easy comps: FY23 Q1~Q3 sales were weak due to lacklustre sales in Wellnet's core transportation-related settlement services due to COVID-related restrictions which lasted until May 2023, and 2) commission rate negotiations did not take place during FY23.

The operating profit margin [OPM] improved +1.3ppt YoY to 12.2%, thanks to (1) an increase in sales of high value-added services such as settlement + α SaaS to transportation companies (+18% YoY), (2) a peak out of depreciation costs for large-scale developments such as ALTAIR which sequentially started from FY16, and (3) an improved sales mix due to declines in sales from cash settlements for AMZNJ as consumers are moving away from cash payments at CVSs.

Wellnet has been allocating its resources primarily on 1) e-billing services, which includes payment settlement service for AMZNJ, and 2) settlement + α SaaS such as e-money smartphone app *Shiharai Hisho*, e-ticketing app *Bus Mori!*, and other customised multi-payment SaaS during FY23. Revenue from the largest customer, AMZNJ, has been declining due to consumers using less cash settlement at CVSs and switching to settlement via credit card and deferred payment via Paidy app. In FY24 Q1~Q3, sales from AMZNJ declined -9% YoY.

Sales to Main Clients									
(¥mil)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24 Q3
AMZNJ	3,525	3,278	3,166	3,388	3,406	2,984	2,594	2,397	N/A
Yahoo Japan Corporation	578	1,447	1,593	1,579	1,116	888	751	560	N/A
Total Sales	10,529	10,260	9,783	10,032	9,379	8,842	8,950	9,424	7,560
% AMZNJ	33.5	32.0	32.4	33.8	36.3	33.8	29.0	25.4	N/A
%YJ (LY Corporation)	5.5	14.1	16.3	15.7	11.9	10.0	8.4	5.9	N/A
OPM (%)	19.5	10.7	6.9	5.0	8.7	6.4	8.2	9.9	12.1

Source: Nippon-IBR based on Wellnet's YUHO

Although the decline in sales from the giant shopping platformer consequently improved the firm's OPM, Wellnet sees it as a risk because a huge proportion of sales could disappear as consumers' payment patterns change over time. That said, Wellnet also sees it an opportunity to develop a new business in SaaS services to transportation operators, with which the firm has developed payment and authentication solutions expertise.

Wellnet has been investing in the development of its settlement + α services since 2016 and started offering solutions to support digital transformation of transport operators. For example, from January 2020, Wellnet has been providing its smartphone ticketing app Dohna!! in Hakodate City, Hokkaido – four local bus operators have adopted the system.

Wellnet has also developed a total system for ticket reservations, ticketing and settlement that can be used on a nationwide Mobility as a Service (MaaS) platform, and its use has been expanded to JAL (Japan Airlines) MaaS since March 2024. Currently, the firm participates in the development of a digital ticketing system using QR codes in collaboration with Surutto KANSAI, an IC ticket service organisation comprising 61 railway and bus operators in the Kansai region. With this system, users purchase tickets from a dedicated website, and when boarding the train, the QR code is used to display the ticket on their smartphone via Wellnet's server. The system targets tickets that are not currently IC chip compatible, as well as standard tickets, thus also stands to benefit from the payment needs of inbound tourist demand.

The service, named *Surutto QRtto*, will likely be launched in June 2024. After launch, Wellnet will gain revenue from monthly app system management fees and per-user settlement and authentication fees. However, revenue from those operational fees will not be enough to offset the likely decline in cash payment settlement revenues from AMZNJ. The key growth determinant will likely be if Wellnet can gain mandates for payment solutions from each of participating transportation operators.

Medium-Term Plan (FY23-FY25)

FY24 is the second year of the three-year medium-term plan. Wellnet aims to achieve recurring profit [RP] of ¥1500mil (3-year CAGR +25.8%) on sales of ¥13,600mil (3-year CAGR +15.0%) in the final year (FY25) of the plan. FY23 RP rose +24.0% YoY to ¥935mil, slightly fell short of the 3-year RP CAGR of +25.8%. However, with sales of high value-added solutions such as Bus Mori!, ALTAIR and E-Kaiin rising, and thanks to a decline in sales from low margin customers, the FY23 OPM improved +1.8ppt YoY. Wellnet is guiding for FY24 RP of ¥1,150mil (=22.9% YoY) on sales of ¥10,160mil (+7.8% YoY). The FY24 RP guidance also suggests that pace of growth is running short of the 3-year CAGR target.

Earnings Summary & Guidance								
	FY21	FY22	FY23		FY24			
(¥mil)	FY	FY	FY	YoY(%)	Q3(Cum)	YoY(%)	FY CE	YoY(%)
Sales	8,842	8,950	9,424	5.3	7,560	5.4	10,160	7.8
COGS	7,511	7,483	7,572	1.2	5,992	4.3	N/A	N/A
Gross Profit	1,330	1,466	1,851	26.3	1,567	10.0	N/A	N/A
GPM (%)	15.0	16.4	19.6	+3.3ppt	20.7	+0.9ppt	N/A	N/A
SG&A	763	730	912	24.9	645	0.9	N/A	N/A
SG&A / Sales (%)	8.6	8.2	9.7	+1.5ppt	8.5	-0.4ppt	N/A	N/A
OP	567	735	939	27.7	922	17.5	N/A	N/A
OPM (%)	6.4	8.2	10.0	+1.8ppt	12.2	+1.3ppt	N/A	N/A
RP	666	754	935	24.0	923	17.6	1,150	22.9
NP*	393	532	635	19.4	643	20.6	790	24.3

Source: Nippon-IBR based on Wellnet's earnings material

* Net profit attributed to the parent's shareholders

Wellnet aims to achieve medium-term growth with the following areas of focus:

1. Capture corporates' cashless and paperless demands by offering solutions such as *Shiharai Hisho* (e-money), digital invoicing and digital payment settlement.
2. Promote payment settlement + α (such as authentication solution) or embedded e-money.
3. Promote digitalisation of transportation operators and MaaS cloud services
4. Offer community-based FinTech.
5. Contribute to benefits for communities, especially in Hokkaido, where the firm is headquartered.

OP deteriorated from FY17 as costs associated with the hiring engineers for the development of new solutions were high. At the same time, between FY20~FY23, one of firm's more profitable services for highway bus operators *Bus Mori!* suffered from a slump in sales due to COVID-related restrictions. While the number of paper tickets deteriorated significantly – evidenced by the number of payment settlement through Bus Mori! – transaction volumes of digital ticketing surged.

The current medium-term is considered to be a transition period for Wellnet as the firm moves away from being a payment solution provider to becoming a settlement and authentication platformer in the digital ticketing market for transportation operators. The earnings forecast in the medium-term plan does not include much upside from the *Surutto QRtto* service.

Results and Medium-term Plan (FY23~FY25) Target					
(¥mil / June yr.-end)	FY22	FY23	FY24	FY25	3-yr CAGR (%)
	Results	Results	Target	Target	
Sales	8,950	9,424	10,160	13,600	15.0
Recurring Profit (RP)	754	935	1,150	1,500	25.8
RPM (%)	8.4	9.9	11.3	11.0	N/A
Net Profit (NP)	532	635	790	1,000	23.4
EPS (¥)	28.25	33.68	42.00	55.00	24.9
DPS (¥)	14.13	16.84	21.00	28.00	25.6
Dividend Pay-out Ratio (%)	50.0	50.0	50.0	50.0	N/A

Source: Nippon-IBR based on Wellnet's medium-term presentation material

Capital allocation policy

As of FY23, the firm has approx. ¥7,737mil in shareholder equity, of which required working capital is approx. ¥3,000mil. Management is of the view that the major investments for growth that Wellnet has spent since FY17 has now peaked and with realisation of Surutto QRtto services, the firm will likely enter a phase where it expects to see a return on investment from FY25 onwards.

Although the need to hire engineers will remain high as the project scales up and given the firm will continue to invest on security for its server that will have access to consumers' personal data, Wellnet is yet to disclose the amount of investment needed.

Wellnet's dividend pay-out ratio remains at 50% – the firm changed it from 100% to 50% in FY17 to allocate resources to develop digital transformation solutions such as *Shiharai Hisho* and ALTAIR, primarily targeting at e-money and digitalisation demand from transportation operators.

Financial Summary

P&L Summary

(¥mil / June yr.-end)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24CE	FY25CE
Sales	7,600	8,888	10,529	10,260	9,783	10,032	9,379	8,842	8,950	9,424	10,160	13,600
YoY (%)	+10.6	+16.9	+18.5	-2.6	-4.7	+2.5	-6.6	-5.8	+1.2	+5.3	+7.8	+33.9
COGS	5,068	6,200	7,483	7,673	7,917	8,422	7,758	7,511	7,483	7,572	N/A	N/A
Gross Profit (GP)	2,532	2,688	3,045	2,586	1,866	1,609	1,621	1,330	1,466	1,851	N/A	N/A
GPM (%)	33.3	30.2	28.9	25.2	19.1	16.0	17.3	15.0	16.4	19.6	N/A	N/A
SG&A	1,058	1,050	990	1,487	1,188	1,106	803	763	730	912	N/A	N/A
Operating Profit (OP)	1,473	1,637	2,054	1,099	677	503	817	567	735	939	N/A	N/A
YoY (%)	+5.7	+11.1	+25.4	-46.5	-38.4	-25.8	+62.4	-30.6	+29.6	+27.7	N/A	N/A
OPM (%)	19.3	18.4	19.5	10.7	6.9	5.0	8.7	6.4	8.2	10.0	N/A	N/A
Interest & dividend received	30	19	13	11	10	10	1	7	8	0	N/A	N/A
Interest payment	0	0	0	0	0	0	0	2	3	4	N/A	N/A
Investment gains & losses	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Recurring Profit (RP)	1,488	1,520	2,007	1,239	708	530	826	666	754	935	1,150	1,500
YoY (%)	+4.7	+2.1	+32.0	-38.3	-42.9	-25.2	+55.8	-19.4	+13.2	+24.0	+22.9	+30.4
RPM (%)	19.6	17.1	19.1	12.1	7.2	5.3	8.8	7.5	8.4	9.9	11.3	11.0
Pre-tax Profit	1,466	1,520	2,007	1,239	708	537	718	666	770	961	N/A	N/A
Tax costs	552	581	657	369	213	162	224	272	28	326	N/A	N/A
Minority shareholder interest	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit (NP)	913	938	1,350	869	495	374	494	393	532	635	790	1,000
YoY (%)	+20.2	+2.7	+43.9	-35.7	-43.1	-24.5	+32.0	-20.5	+35.3	+19.3	+24.3	+26.6
Comprehensive Profit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Nippon-IBR based on Wellnet's presentation materials, and YUHOs

Balance Sheet Summary

(¥mil / June yr.-end)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Current Asset	19,316	17,990	19,416	20,753	14,481	15,138	14,504	14,034	16,864	18,756
Fixed Asset	2,043	1,676	1,688	1,704	2,330	3,822	5,570	7,223	6,778	6,136
Tangible	472	437	411	415	528	2,027	2,851	4,347	4,207	3,888
Intangible	484	433	531	829	1,105	1,080	876	733	565	444
Investment and others	1,086	805	745	459	696	714	1,842	2,142	2,005	1,803
Total Asset	21,360	19,667	21,104	22,457	16,811	18,960	20,074	21,257	23,642	24,892
Current Liability	13,005	11,285	12,398	13,513	8,725	11,325	12,867	119,602	14,205	15,105
Fixed Liability	159	164	221	164	178	191	197	2,121	2,026	1,959
Net Asset	8,194	8,218	8,485	8,780	7,907	7,443	7,009	7,175	7,410	7,826
Capital	667	667	667	667	667	667	667	667	667	667
Capital Surplus	3,509	3,509	3,509	3,509	3,509	3,509	3,509	3,509	3,509	3,509
Retained Earnings	4,605	4,651	5,263	5,203	4,690	4,017	3,551	3,685	3,906	4,264
Treasury Shares	-626	-650	-993	-682	-1,054	-841	-788	-764	-729	-703
Minority Interest	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	8,156	8,178	8,446	8,698	7,812	7,353	6,936	7,102	7,355	7,745
Shareholders' Equity Ratio (%)	38.1	41.5	40.0	38.7	46.4	38.7	34.5	33.4	31.1	31.1
Interest-bearing Debt	10	0	0	0	0	0	740	2,000	1,900	1,800

Source: Nippon-IBR based on Wellnet's presentation materials, and YUHOs

Cash Flow Summary

(¥mil / June yr.-end)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Operating Cash Flow	2,236	-712	2,554	2,328	-3,993	3,177	-1,846	-2,599	3,285	1,114
Depreciation	219	219	207	279	316	410	376	366	450	404
Goodwill Amortisation	0	0	0	0	0	0	0	0	0	0
Change in Sales Receivables	391	99	134	365	114	14	85	-5	-57	-66
Change in inventories	0	-4	-3	2	-1	-1	0	0	8	-1
Change in Accounts Payable	-772	-159	-178	-678	-334	-109	-22	-31	6	8
Investment Cash Flow	-1,341	-762	218	-1,341	35	-477	-1,181	-1,799	-269	268
Free Cash Flow	895	-1,474	2,772	987	-3,958	2,700	-3,027	800	3,016	1,382
Finance Cash Flow	-753	-933	-1,108	-596	-1,405	-848	-196	1,013	-390	-360
Cash and Cash Equivalent	15,702	13,293	14,958	15,348	9,983	11,835	8,609	10,423	13,049	14,070

Source: Nippon-IBR based on Wellnet's presentation materials, and YUHOs

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For further enquiry, please contact:

Nippon Investment Bespoke Research UK Ltd
118 Pall Mall
London SW1Y 5EA
TEL: +44 (0)20 7993 2583
Email: enquiries@nippon-ibr.com



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