

WELLNET CORPORATION (2428 JP)**FY25 1H RESULTS LANDED IN LINE WITH THE COMPANY'S EXPECTATION, THANKS TO IMPROVED MARGINS.****EXECUTIVE SUMMARY**

- **Earnings In-line:** Wellnet produced FY25 (June year-end) 1H sales of ¥5,559mil (+14.3% YoY) and OP of ¥816mil (+44.9%). Results were within expectations, boosted by a stronger 1Q due to a one-off promotion of 'Hokkaido Premium Vouchers' where they facilitated payment and money transfers. The gross profit margin [GPM] improved from 15.0% in FY21 to 22.8% in FY25 1H, and the OPM expanded from 6.4% to 14.6% in the same period.
- **Shifting to high value-add businesses, E-billing and SaaS (Payment+α):** In the 1H, management were hoping for stronger sales in the SaaS (Payment+α) business. Account numbers rose to 259 in 1H vs. 250 in FY24, improving GPMs. E-billing continues to be largest component in the Multi-payment service business (1H sales of ¥4,322mil vs. ¥8,038mil last year) in which the firm facilitates cash payment infrastructure at CVSs for consumers who wish to pay cash for their e-commerce shopping. The decrease of cash settlements at CVSs is a continuing trend – thankfully, so far this is offset by more transactions from DEGICA, a multi-functional payment settlement solution for global e-commerce retailers, though shifting consumer payment patterns remains a risk. New mandates with transportation operators remain key to their growing SaaS business.
- **Guidance maintained for FY25:** Sales guidance of ¥12,000mil is unchanged. Management anticipates the sales from SaaS falling short, but RP and NP are expected to increase to ¥1,500mil and ¥1,000mil (+22.6% and +19.6% YoY), respectively, by focusing on margin improvement.
- **Will there be changes in capital allocation or shareholder return policy?** Investments peaked in FY22 with new Surutto QRtto service launches, and RoI from FY25 onwards. The dividend payout ratio remains at 50% and a cash dividend payment of ¥26.46/share (+19.5% YoY, 50% of NP) is in-line with their plan.

Wellnet (2428 JP): Share Information

Market Cap (¥mil)		14,300	Market Cap (\$mil)		94	
22-day Average Trading Volume (¥mil)		211	22-day Average Trading Volume (\$mil)		1.4	
Share performance (%)	2428	TOPIX	Earnings Summary (¥mil, %)	FY23	FY24	FY25 CE
Share price (¥, 28 Feb 2025)	741	2,682.09	Sales	9,424	10,132	12,000
3mo (from 28 Nov 2024)	-16.5	-0.19	OP	939	1,222	1,500
6mo (from 28 Aug 2024)	-12.9	-0.37	OPM (%)	10.0	12.1	12.5
YTD (from 6 Jan 2025)	-9.41	-2.69	EBITDA	1,343	1,536	1,800*
1yr (from 28 Feb 2024)	+35.5	+0.27	EPS (¥)	33.68	44.29	52.91
5yrs (from 28 Feb 2020)	+31.1	+77.5	Financial Leverage (X)	3.2	3.2	3.2*
Per-share and Valuations	2428	TOPIX	Net D/E Ratio (X)	-1.6	-1.9	-1.9*
EPS (¥, FY25 CE)	52.91	184.82	FCF	404	935	1,000*
DPS (¥, FY25 CE)	26.46	N/A	Shareholder Return Summary	FY23	FY24	FY25 CE
BPS (¥, Feb 25)	424	1956.43	Dividend (¥)	16.84	22.15	26.46
FCFPS (¥, FY25EST)	51.55	N/A	Dividend Payout (%)	50.0	50.0	50.0
Forward PER (X)	14.0	14.5	Dividend Yield (%)	N/A	N/A	3.3
PBR (x)	1.7	1.4	DOE (%)	4.1	5.1	5.3*
PCFR (x)	14.4	N/A	Treasury Shares (%)	N/A	N/A	2.5
EV/EBITDA (X)	6.8	N/A	ROE (%)	8.1	10.1	12.0*

Source: Nippon-IBR based on data on Bloomberg and Toyo Keizai / * Nippon-IBR estimates

FY25 1H (JUNE YEAR-END) RESULTS

Wellnet reported its FY25 1H results on 31 January and produced operating profits [OP] of ¥816mil (+44.9%), recurring profits [RP] of ¥819mil (+45.3%), and net profits [NP] of ¥563mil (+46.4%) on sales of ¥5,559mil (+14.3% YoY). The Q1 results were boosted by a one-off event “Hokkaido Premium Vouchers” in northern Hokkaido. 2Q results are seen to have been in-line with management expectations. For the full year, while there may be some weakness in sales growth, the firm expects to achieve its guidance figures.

Wellnet (2428 JP): Earnings Summary & Guidance								
(¥mil / Jun year-end)	FY22		FY23		FY24		FY25	
	1H	FY	1H	FY	1H	FY	1H	YoY (%)
Sales	4,452	8,950	4,920	9,424	4,897	10,132	5,599	14.3
COGS	3,721	7,483	3,939	7,572	3,881	7,992	4,324	11.4
Gross Profit	731	1,466	981	1,851	1,016	2,140	1,274	25.5
GPM (%)	16.4	16.4	19.9	19.6	20.7	21.1	22.8	+2.0ppt
SG&A	346	730	418	912	452	917	458	1.3
SG&A / Sales (%)	7.8	8.2	8.5	9.7	9.2	9.1	8.2	-1.1ppt
OP	385	735	562	939	563	1,222	816	44.9
OPM (%)	8.6	8.2	11.4	10.0	11.5	12.1	14.6	+3.1ppt
RP	386	754	561	935	564	1,223	819	45.3
NP	282	532	444	635	385	836	563	46.4

Source: Nippon-IBR based on Wellnet's earning results materials

Management acknowledges the possibility that full-year top line sales may fall slightly short of guidance (¥12,000mil +18.4% YoY). We do not, however, think this will be of serious concern given:

1. Management's focus is on profitability,
2. Margins are improving as depreciation peaks and prices improves,
3. Any sales shortfall will likely stem from the much larger but low-margin Multi-payment Services Business, which likely improves sales mix, and
4. Management's strategic focus and efforts to expand the high value-added SaaS (Payment+ α) business.

It appears management had hoped for slightly stronger sales growth at the strategically important SaaS (Payment+ α) business. Relative to the ¥347mil (+16.8% YoY) in sales posted last year, 1H sales were ¥203mil. The active account balance in the 1H stood at 259 versus 250 as of the end of June 2024. On the other hand, so long as the firm is able to pass on cost increases to the customers at the Multi-payment Business, the firm will likely continue to see improvement to overall GPMs. Within the firm's Multi-payment Services Business, sales at the largest business component, that of the E-billing Business, was ¥4,322mil in 1H (+11.9% YoY) versus FY24 sales of ¥8,038mil (+7.3% YoY).

As noted in previous reports, sales derived from a large customer has been on a down trend (-9.3% YoY in FY24). While 1H figures are unavailable, we have no reason to think that said secular decline in sales has changed given the increasing customer use of credit cards and deferred payment apps such as Paidy.

The declining sales from the large e-commerce retailers, however, is being offset by increasing sales from DEGICA, a multi-functional payment settlement solution for global e-commerce merchants based in Japan. However, Wellnet acknowledges the potential risks associated with certain Chinese vendors which are DEGICA's main customers. In any event, we reiterate management's focus and efforts on expanding the high value-added SaaS (Payment+ α) business.

One other point of interest is that the Multi-payment Business may potentially see margin deterioration as the spread between commissions charged to merchants and fees paid to the likes of CVSs (who do the cash collections) contracts. Spreads could improve if the firm is able to negotiate higher commissions charged to merchants relative to fees paid.

Looking at the firm overall, we note that the GPM has been expanding steadily from 15.0% in FY21 to 22.8% in FY25 1H. Given that the SG&A ratio has shown no consistent trend in either direction, the improvement to GPM has allowed the OPM to expand from 6.4% in FY21 to 14.6% in FY25 1H. We understand that the improved profitability is also being driven by growth in the high value-added SaaS (Payment+ α) business, as well as the peaking-out of depreciation costs and improvements in pricing.

FY25 FULL YEAR OUTLOOK

The firm maintains its full-year earnings outlook. FY25 RP and NP are expected to increase +22.6% and +19.5% YoY to ¥1,500mil and ¥1,000mil, respectively. To the extent 1H numbers benefited from the aforementioned one-off event in Hokkaido, sales in the 2H may see a sequential decline (HoH). However, even allowing for some weakness in sales growth relative to guidance, if the firm is able to maintain profit margins seen in the 1H, earnings guidance figures will be well within reach.

The services the firm offers in the SaaS (Payment+ α) business is seeing good penetration among end-user consumers. The biggest goal and challenge Wellnet faces are securing the payment / settlement business from merchants in addition to gaining revenue from development of apps and software solutions. While the advantages of Wellnet's services may be clear, securing agreements from conservatively-run transportation operators will require time as the decision-making process typically involves top management, and each transportation operator already has their own individual settlement system.

Current fiscal year (FY25) represents the final year of the current three-year medium-term plan [MTP]. The firm has declined to comment on specific plans for any new MTP at this time.

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	1H	FY	1H	FY	1H	FY	1H	YoY (%)	FY CE	YoY (%)
Sales	4,452	8,950	4,920	9,424	4,897	10,132	5,599	14.3	12,000	18.4
COGS	3,721	7,483	3,939	7,572	3,881	7,992	4,324	11.4	N/A	N/A
Gross Profit	731	1,466	981	1,851	1,016	2,140	1,274	25.5	N/A	N/A
GPM (%)	16.4	16.4	19.9	19.6	20.7	21.1	22.8	+2.0ppt	N/A	N/A
SG&A	346	730	418	912	452	917	458	1.3	N/A	N/A
SG&A / Sales (%)	7.8	8.2	8.5	9.7	9.2	9.1	8.2	-1.1ppt	N/A	N/A
OP	385	735	562	939	563	1,222	816	44.9	N/A	N/A
OPM (%)	8.6	8.2	11.4	10.0	11.5	12.1	14.6	+3.1ppt	N/A	N/A
RP	386	754	561	935	564	1,223	819	45.3	1,500	22.6
NP	282	532	444	635	385	836	563	46.4	1,000	19.5

Source: Nippon-IBR based on Wellnet's earning results materials

Results and Medium-term Plan Target (FY22~25)					
(¥mil / June yr-end)	FY22	FY23	FY24	FY25	3-yr CAGR (%)
	Results	Results	Results	Target	
Sales	8,950	9,424	10,132	12,000	10.3
Recurring Profit (RP)	754	935	1,223	1,500	25.8
RPM (%)	8.4	9.9	12.1	11.0	N/A
Net Profit (NP)	532	635	836	1,000	23.4
Adjusted EPS (¥)	28.25	33.68	44.29	52.91	23.3
DPS (¥)	14.13	16.84	22.15	26.46	23.3
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 FY24, the firm has approx. ¥8,272mil in shareholder equity, of which required working capital is approx. ¥3,000mil. Management is of the view that the major investments for growth made since FY17 have now peaked and with the launch of its Surutto QRtto services, the firm expects to see a return on investment from FY25 onwards.. Separately, the company continues to also invest in e-billing related businesses.

Although the need to hire engineers will remain high as (1) the project scales up and (2) 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. As the firm expands its services to "settlement + α ", it might require technologies that are not developed in-house and may result in having to co-develop or acquire with/from another company. So far, Wellnet has not identified any urgent need for large-scale development or investment for now.

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 e-money and digitalisation demand from transportation operators. In FY25, the firm plans to pay a cash dividend of ¥26.46/share (+19.5% YoY), or 50% of net profit [NP].

Furthermore, on 14 August, the firm announced a share buyback of max 500,000 shares / ¥300mil to improve shareholder returns and capital efficiency. The Company's 'Performance Target-Linked Third Warrant' is expected to fulfil the conditions for exercising the right, but any shortfall in treasury shares to meet the required number of shares will be bought back in the market, rather than by the issue of new shares.

Cash Flow

Free cash flow [FCF] appears to be positive, based on operating cash flow minus capex. The operating cash flow figure, however, is inclusive of changes to temporary customer deposits/payments related to the firm's settlements business. Such deposits are inaccessible to the firm. A rough adjustment to current assets/liabilities in calculating changes to working capital is as shown in the table that follows.

Cash and Deposit and Current Liability breakdown										
(¥mil / Jun year-end)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25 1H
Total Cash and Deposits	14,458	15,848	10,564	12,915	8,690	10,504	13,129	14,070	16,657	23,214
Receiving Agency Deposits	9,566	11,381	6,959	9,394	6,340	8,350	10,171	10,514	11,980	20,053
NET Cash and Deposits	4,892	4,467	3,605	3,521	2,350	2,154	2,959	3,556	4,677	3,160
Total Current Asset	19,416	20,753	14,481	15,138	14,504	14,034	16,864	18,756	21,746	29,404
NET Total Current Asset	9,850	9,372	7,522	5,744	8,164	5,684	6,693	8,242	9,766	9,351
Total Current Liability	12,398	13,513	8,726	11,325	12,867	11,960	14,206	15,106	16,918	25,706
Receiving Agency Deposits	9,566	11,381	6,959	9,394	6,340	8,350	10,171	10,514	11,980	20,053
NET Current Liability	2,832	2,132	1,767	1,932	6,527	3,611	4,035	4,592	4,938	5,653
Working Capital	7,018	7,240	5,755	3,813	1,637	2,074	2,658	3,650	4,828	3,698

Source: Nippon-IBR based on Wellnet's earning results materials

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