

Headwaters (4011 TSE Mothers)- - - - - November 9,2021**Provider of system development using AI and IT technologies as well as related services**

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[4011 Headwaters Sector : Information & Communication]

Fiscal Year		Net sales	YoY	Operating profit	YoY	Ordinary profit	YoY	Profit	YoY	EPS	BPS	DPS
		(mn yen)	(%)	(mn yen)	(%)	(mn yen)	(%)	(mn yen)	(%)	(yen)	(yen)	(yen)
Dec. 2019		1,067	14.3	120	165.4	121	136.3	100	130.4	121.7	465.0	0.0
Dec. 2020		1,153	8.0	169	40.6	155	28.4	153	52.9	180.5	819.8	0.0
Dec. 2021	CE	1,154	0.1	75	-55.5	77	-50.4	23	-84.9	24.9	-	0.0
Dec. 2021	E	1,147	-0.5	76	-55.1	78	-49.9	24	-84.3	25.7	851.7	0.0
Dec. 2022	E	1,288	12.3	109	43.4	109	39.9	74	208.9	79.4	931.1	0.0
Dec. 2023	E	1,433	11.3	146	33.9	146	33.9	100	34.6	106.9	1,038.0	0.0

Note: CE(company expectations),E(Stock Research Center expectations)
Source: Stock Research Center

1. Corporate Overview

Headwaters develops the AI solution business, engaged in one-stop provision of complicated AI introduction processes.

The company provides the AI integration service, in which the company conducts IT system development using AI, the digital transformation service, in which the company conducts IT system development without using AI, the product service, in which the company provides its own AI products, etc., and the OPS service, in which the company conducts improvement and maintenance of systems it developed.

2. Financial Analysis

From the fiscal year ended December 2017 to the fiscal year ended December 2020, due to factors including an increase in sales composition of the AI integration service, which has high profitability, ordinary profit increased 99.8% per year while the increase in net sales was 7.7% per year.

From the viewpoint of growth potential and profitability, the company is more attractive than similar listed companies.

3. Non-Financial Analysis

The source of intellectual capital of the company is the service provision structure that responds to customers' IT systems and needs.

4. Corporate Strategy Analysis

The company's growth strategy is to expand existing business with the acceleration of AI introduction, to diversify revenue sources with the use of external resources, to enhance its revenue base by increasing the ratio of stock type sales and to respond to the era of practically using AI by securing new revenue sources.

5. Analyst Evaluation

The Stock Research Center estimates a 0.5% decrease in revenue and 55.1% decrease in operating profit for the fiscal year ending December 2021, which is similar to the company's plan, based on the results of the first half of the fiscal year which recorded a large decrease in profit due to stagnant sales centering on the digital transformation service as well as an increase in personnel expenses, etc.

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The Stock Research Center estimates a 12.3% increase in revenue and 43.4% increase in operating profit for the fiscal year ending December 2022 as well as an 11.3% increase in revenue and 33.9% increase in operating profit for the fiscal year ending December 2023 assuming factors such as an increase in net sales due to enhanced marketing capabilities with increased number of consulting team members, etc. as well as improvement in gross profit margin with an increase in the sales composition of the AI integration service.

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