Nippon Techno Lab Inc.

3849

Sapporo Securities Exchange Ambitious

20-Mar.-2023

FISCO Ltd. Analyst

Tomokazu Murase

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■ Summary

Orders were strong amid surging interest in security, particularly for "FIREDIPPER." Forecast for a dramatic increase in sales and profits from 3Q FY3/23 onward driven by robust sales efforts aimed at capturing orders

Nippon Techno Lab, Inc. <3849> (hereafter, also "the Company") is a software and systems development company with a small number of highly skilled employees and a large number of products developed in-house that boast market dominance. Its main focus is on the Imaging and printer controller business, which develops and sells controllers for printers and plotters (hereafter combined as "printers") for special and industrial uses and software for these controllers (hereafter "printer controller software") and the Security business, which provides software and solutions for preventing information leakage, develops and sells integrated surveillance video systems compatible with the IP surveillance cameras made by each manufacturer, and delivers other security solutions. It also has a Storage solution business and Business solutions business, making four businesses in total. Its strengths are products it has developed in-house with market dominance in each business segment. In the Imaging and printer controller business, products include "Mistral," a control-systems software, and in the Security business, products include "SPSE," a total printing management foundation, and "FIREDIPPER," a video surveillance solution that specializes in infrastructure-related video surveillance. Over the past 10 years, it has wound up all of its outsource development and dispatch operations and stopped sales of products sourced from other companies to focus completely on the development and sale of its own products.

1. 1H FY3/23 results

In the 1H FY3/23 results, net sales were ¥266mn (up 32.8% year on year (YoY)), operating loss was ¥34mn (loss of ¥110mn in the previous fiscal year), ordinary loss was ¥33mn (loss of ¥98mn), and net loss was ¥24mn (loss of ¥69mn). The delivery of projects carried over from FY3/22 was completed in 1Q, resulting in a dramatic increase in sales. Furthermore, there was a surge of new interest in every segment leading to strong orders. The Imaging and printer controller business saw significant growth and the Integrated Surveillance Video System Division, particularly "FIREDIPPER," performed well.

2. Topics

The Company has developed an OSCE (Objective Structured Clinical Examination) implementation support system for medical educational institutions which has been adopted by Chiba University and Kanazawa University. "OSCE Implementation Support System" enables users to view video of and manage processes spanning from examination booking to the assessment scoring of each assignment for OSCE examinations being carried out at each station. It also allows users to remotely view a live video feed during an examination and watch recorded video afterward. Users can also freely set assignment and assessment items, and as evaluation scoring is carried out using a tablet, scores are reflected in the system instantly. In this way, the system can support effective OSCE implementation. Therefore, it is expected to be adopted by 80 universities across Japan that have medical departments, as well as universities with dental and pharmaceutical departments that carry out OSCE. It was recently decided that OSCE examinations will be funded publicly in Japan from FY2023, and plans are in place to set shared pass or fail criteria, increase the number and variety of OSCE assignments, and to review assessment frameworks. Therefore, it is forecast that this product will be used nationwide as a medical educational support system.

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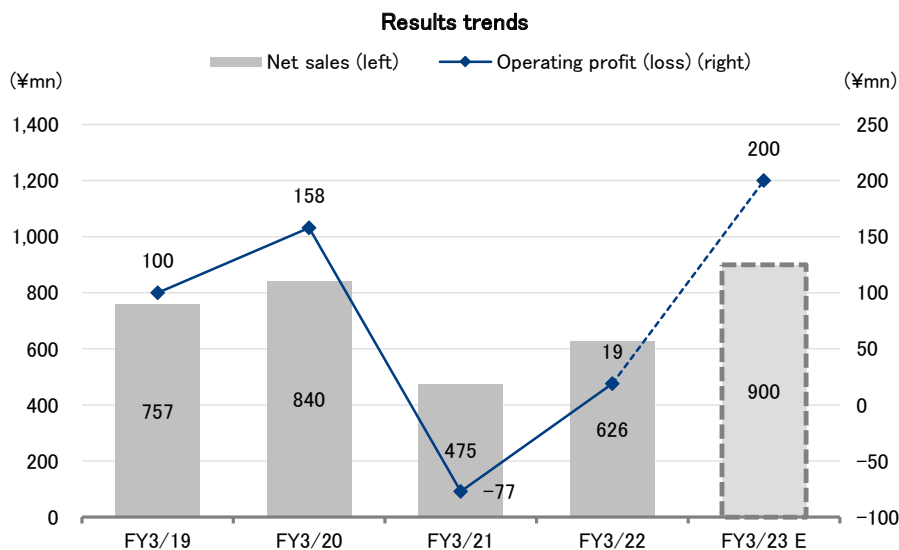
Summary

3.Outlook for FY3/23

The Company's forecast for its FY3/23 full year results remains unchanged from its initial forecast of net sales of ¥900mn (up 43.5% YoY), operating profit of ¥200mn (up 924.6%), ordinary profit of ¥200mn (up 504.8%), and net profit of ¥120mn (up 443.8%). In 1H, all segments saw a surge in new interest, so from 3Q onward, the Company will carry out robust sales efforts aimed at capturing orders. Its policy is to continue focusing development on strengthening the functions of each product in a way that anticipates customers' needs.

4. Medium-term management plan

In September 2022, the Company formulated "Next Stage 2026" (FY3/23-FY3/26), a medium-term management plan for reaching a new stage of growth. The plan aims to grow corporate value by leveraging the Company's advanced technical capabilities and the many unique and rare technologies it has accumulated to date to develop advanced software and systems with high added value that solve problems and improve value for customers. The basic policies of the plan are 1) practice proactive management that utilizes the external environment, 2) develop high value-added software and systems through advanced development and technical capabilities, and 3) maintain a small number of highly skilled employees. The targets for FY3/26 are net sales of ¥1,350mn (compared to ¥626mn in the FY3/22 results), operating profit of ¥350mn (compared to ¥19mn), operating profit margin of 25.9% (compared to 3.1%) ordinary profit of ¥350mn (compared to ¥33mn), net profit of ¥200mn (compared to ¥22mn), and ROE of 11.3% (compared to 2.1%).

Key Points

- A software and systems development company with a small number of highly skilled employees and a large number of products developed in-house that have market dominance
- Sales grew significantly in 2Q FY3/23. Orders were strong amid surging interest in security
- A dramatic increase in sales and profits is forecast from 3Q FY3/23 onward, driven by robust sales efforts aimed at capturing orders
- The Company has formulated its medium-term management plan "Next Stage 2026." The plan targets net sales in FY3/26 that are 2.1 times greater than in FY3/22

Results trends

Net sales (left) ■■■ Operating profit (loss) (right) ◆—

Source: Prepared by FISCO from the Company's financial results

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■ Company overview

A software and systems development company with a small number of highly skilled employees and a large number of products developed in-house that have market dominance

1. Company overview

The Company is a software and systems development company with a small number of highly skilled employees and a large number of products developed in-house that boast market dominance. Its main focus is on the Imaging and printer controller business, which develops and sells controllers for printers for special and industrial uses and printer controller software and the Security business, which provides software and solutions for preventing information leakage, develops and sells integrated surveillance video systems compatible with the IP surveillance cameras made by each manufacturer, and delivers other security solutions. It also has a Storage solution business and Business solutions business, making four businesses in total. Its strengths are products it has developed in-house with market dominance in each business segment.

Business system diagram
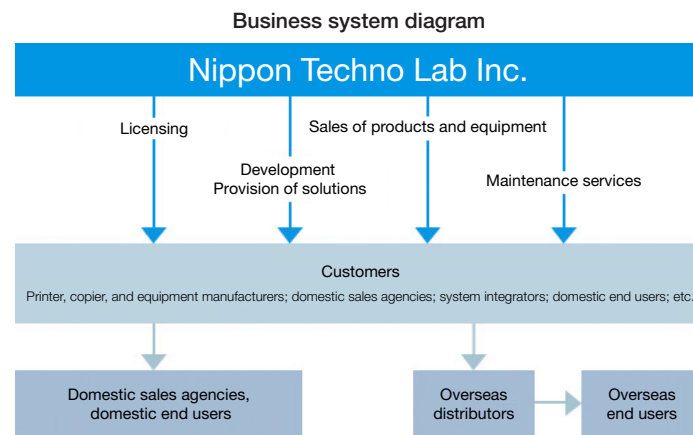
Source: The Company's website

The Company cites as its management philosophy the words of Shingen Takeda, that "The people are your castle, the people are your stone walls" (meaning that even if you have a castle, it is useless unless you also have the power of the people). Based on the idea that "people" who you can rely on are equivalent to a strong castle, the foundation of the Company is its people, and the managers of the Company are its people, or in other words, its human resources. Therefore, it spends time to acquire, train, and invest in human resources. As the Company develops advanced products (package products), it first requires human resources who are excellent academically (mainly in mathematics and information theory). Moreover, human resources with a knowledge of programming, color science, chemistry and physics, and with the ability to comprehend academic papers are essential. Since it is difficult to acquire externally people with the knowledge to contribute in the work field immediately, it is considered that its human resources must be trained for a minimum of 10 years within the Company.

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Company overview

Therefore, the Company develops all its products in-house, and not only does it not outsource to external companies, it does not procure licenses externally (purchasing), and it conducts development through full-time employees. In addition to developing its human resources, it also focuses on enabling its employees to work stress free, including through preferential treatment (no overtime required), paying high salaries, a full annual salary system (12 equal monthly payments), a focus on the work environment (in October 2020, it moved its head office, including its sales and development departments, to the 11th floor of Queen's Tower C in Yokohama's Minatomirai, and opened a Tokyo office, including its testing center and administrative departments, in Sengoku, Bunkyo Ward).

The Company's five management policies are described below.

(1) Focus on unique and rare technologies → Emphasize high added value and profitability.
(2) Base business on in-house development.
(3) Put emphasis on fundamental theory and basic technology.
(4) Aim to be the only company handling a business, technology, or product.
(5) Put emphasis on achieving harmony with shareholders, employees, and business partners.

2. History

The Company was founded in 1989 by its founder, President Eisei Matsumura. President Matsumura majored in informatic engineering science at university, and then worked in an overseas computer manufacturer for 45 years, where he was deeply involved in computer communication and software development. During this period, he handled and experienced many overseas-manufactured computers, OS, and application software. At that time, 99% of computers were manufactured in the US, and moreover, the OS and software tools installed in them, and even the package software used in Japan, was also almost entirely manufactured in the United States. When he founded the Company, President Matsumura set the goals of developing in-house package software for all uses and market launching these products. Therefore, in the seven years from the Company's foundation (1989 to 1995), it became involved in outsourced development (consignment) and systems development and while it did this, it made a list of the software packages distributed around the world that were considered necessary. It then identified the products from this list that did not seem to require a significant number of man-hours for development and then developed similar products in-house. Over the past 10 years, it has wound up all of its outsource development and dispatch operations and stopped sales of products sourced from other companies to focus completely on the development and sale of its own products.

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Company overview

History

| Date	Main events
January 1989	Established Nippon Techno Lab, Inc., in Shinbashi, Minato Ward, Tokyo
April 1989	Relocated the head office to Higashi Gotanda, Shinagawa Ward, Tokyo. Started providing technical support for massively parallel computers for a major construction company
July 1990	Alongside the business expansion, relocated the head office to Ningyo-cho Nihonbashi, Chuo Ward, Tokyo
June 1991	Developed an UNIX-compliant device drive for an OA equipment manufacturer
July 1991	Launched sales of the "NPS series," a UNIX-compliant driver for color MFP and an image input/output system
June 1994	Alongside the business expansion, moved the head office to Tenma-cho, Nihonbashidai, Chuo Ward, Tokyo
November 1995	Developed a Windows-compliant device driver
September 1996	Entered-into a capital and business tie-up with Yazaki Corporation and conducted outsourced development of gas alarms system and vehicle-installed OS
October 1996	Developed the "Mistral" print server
March 1997	Concluded an agreement on Adobe Photoshop and technical support with Adobe Systems of the US
May 1997	Established a new development center in Nihonbashi Horidomechou, Chuo Ward, Tokyo
July 1998	Concluded a MISTRAL sales contract with the former Canon Sales Co., Inc.
January 1999	Concluded an exclusive sales agreement with Kinokuniya Company Ltd. for the digital library system "NTL DLS" and started sales
August 1999	Started sales of the PICTROGRAPHY-use Adobe PS printer controller for the former Fuji Photo Film Co., Ltd.
October 1999	Concluded a development agreement for the "Mistral" plotter controller manufactured by MIMAKI ENGINEERING CO., LTD.<6638>
February 2000	Started shipments of a controller for the "DocuColor" "A Color" project of Kyushu Electric Power Company for Fuji Xerox Co., Ltd.
August 2000	Concluded an OEM sales agreement for the "Mistral" A1 plotter controller for the former KYOCERTA MITA Corporation
September 2000	Started shipments through "Mistral" OEM of a wide plotter controller manufactured by KATSURAGAWA ELECTRIC CO., LTD.<6416>
January 2001	Started shipments of the "Mistral" multi-function printer controller manufactured by former Minolta Co., Ltd.
February 2001	Built various service sites to grow sales of the mobile phone (Toyota PiPit) of the former Gazoo Media Service Corporation.
March 2001	Started shipments of the light printer PostScript controller manufactured by Duplo Corporation
May 2002	For business expansion and to integrate the head office and the development center, relocated the head office to Hirakawacho, Chiyoda Ward, Tokyo
September 2002	Started shipments of Adobe PS-installed printer controller for high-speed inkjet printers for RISO KAGAKU CORPORATION <6413>
December 2002	Started the Information security business and commenced developments
March 2004	Initiated PKI authentication technology in the University of Tokyo Hospital
April 2004	Started shipments of controllers for high-speed variable printers for Nagano Japan Radio Co., Ltd.
June 2004	Entered into a licensing agreement for "JAWS RIP" with Global Graphics of the UK
October 2005	Concluded a development and licensing agreement for filter software for large plotters for Ricoh Company, Ltd.<7752> Started developing PS controllers for large plotters for the former Showa Information Systems Co., Ltd.
September 2006	Started the video security business
May 2007	Listed on Sapporo Securities Exchange Ambitious
September 2007	Entered-into a business tie-up with an inkjet head manufacturer. Developed large-scale, high-speed inkjet printer control equipment.
October 2007	Conducted joint development of a high-speed digital printer with JADASON Enterprises
February 2008	Started sales of "FIREDIPPER," a surveillance camera network remote management system
September 2008	Launched sales of "SPSE," a secure printing system Entered-into a tie-up with the former KYOCERTA MITA JAPAN Corporation
October 2008	Started sales of "WisePatrol," a client PC surveillance system
February 2009	Launched sales of a CO_2 offset navigator and a toner and ink saver
April 2010	Started sales of "iDupli," a data backup & label printing system
June 2010	Started developing a controller for high-speed POD printers for Duplo Corporation
July 2010	Developed "DICOM PAPER PRINT," a medical-use image printing system
March 2011	Started a capital and business tie-up with NALTEC, Inc.
July 2011	Concluded a licensing agreement for "Harlequin RIP" with Global Graphics of the UK
April 2012	Started fully fledged shipment of the line-head IJ printer controller
December 2012	Acquired the ISO27001 certification
January 2015	Started sales of a secure camera system package for food production sites
October 2015	Succeeded in developing digital printing for tablets (generics)
April 2016	Succeeded in developing a printer for aluminum foil
March 2017	Started the cyber security business Entered into a business tie-up with NSFOCUS Japan Co., Ltd., a network security vendor
October 2020	Moved head office to Minatomirai, Yokohama, and opened a Tokyo office in Bunkyo Ward

Source: Prepared by FISCO from the Company's materials

■ Business description

Imaging and printer controller business and Security business account for over 90% of net sales

The Company is developing four businesses; the "Imaging and printer controller business," the "Storage solution business," the "Security business," and the "Business solutions business." Breaking down net sales for 1H FY3/23, the Imaging and printer controller business accounted for 56.9%, the Storage solution business for 2.2%, the Security business for 40.8%, and the Business solutions business for 0.1%. The Imaging and printer controller business and the Security business make up over 90% of overall net sales.

Percentage of total net sales (1H FY3/23)

- Imaging and printer controller business
- Storage solution business
- Security business
- Business solutions business

0.1%
40.8%
56.9%
2.2%
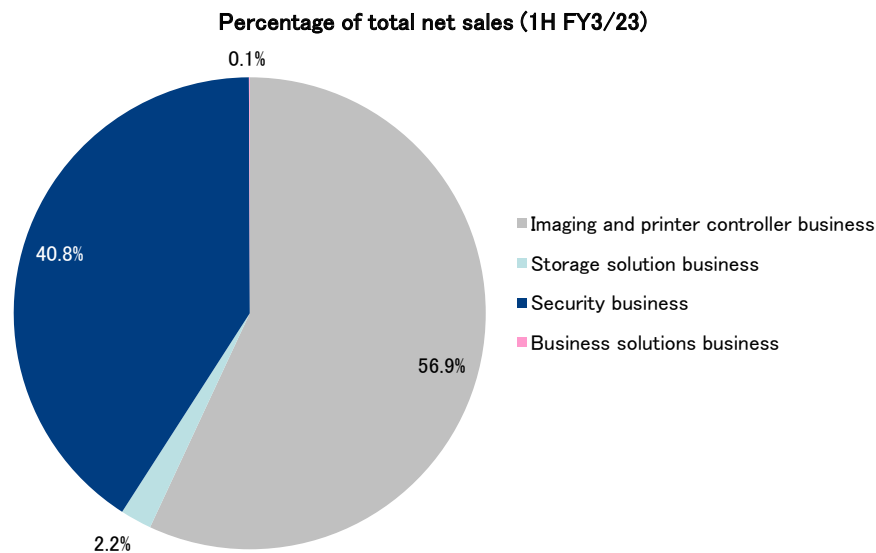
Source: Prepared by FISCO from the Company's financial results

1. Imaging and printer controller business

In contrast to printer manufacturers that provide printers for special and industrial uses, the Company develops, sells, and provides maintenance for controllers (controller software) for devices including industrial-use inkjet printers and wide-format, long-length plotters. Products developed in-house include "Mistral," a control-systems software, printer control equipment (hardware) into which "Mistral" has been embedded, and "PSR," which can easily be embedded for other applications. The features of this business include specialization in the development and sale of special, business-use and industrial-use printer control systems software that can be used with printer multifunction machines, at CAD design sites, and for other specific purposes.

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Business description

2. Storage solution business

This business mainly conducts the development, sales, and maintenance of portable storage media systems (storage media such as CD and memory cards that require dedicated reading and writing devices to read and write the information), while it also conducts R&D for product development in the future. The developed products are "Mnemos," one of which is "Mnemos NEXT," a files system for large-capacity, long-term storage archives, and it is software in which the aim is to offer long-term storage comprised of disks, a tape library, or an optical disk library that is provided as one integrated hierarchical file system. In today's era of the explosive generation of information, large-scale archive-use storage (tapes and optical disks) are the optimal storage in order to realize large volume, long-term data storage at low cost, resulting in an increasing number of inquiries.

3. Security business

This business mainly develops, sells, and provides maintenance for security printing systems and integrated surveillance video systems, while it also conducts R&D for future product development. It comprises the Security Printing Systems Division and the Integrated Surveillance Video Systems Division.

(1) Security Printing Systems Division

This division develops, sells, and provides maintenance for security printing systems. Regarding products developed in-house, its main focus is "SPSE," a total printing management foundation, and it also handles "PC GUARD," which protects computers from unauthorized log-ins, and "COPY GUARD." Within these is "SPSE PRINT SCOPE," which is the Company's total printing management foundation, is a printing environment integrated foundation that can totally manage all aspects, not only authentication printing, but also for printing content, ensuring auditable and inspectable printing security, and ascertaining the printing volume for each piece of equipment, the optimized operations of printers, and the management of printing costs. In terms of the average value of the projects introduced, it can manage from 50,000 to 500,000 jobs per day per server and has a track record of stable operations 24 hours a day 365 days a year, and of large-scale introductions on the scale of many thousands of people, to financial institutions, including to over half of the mega-banks and major securities companies, and major companies in the communication and manufacturing industries.

(2) Integrated Surveillance Video Systems Division

This division develops, sells, and provides maintenance for integrated surveillance video systems. Its products developed in-house include "FIREDIPPER," a video surveillance solution developed entirely in-house that specializes in infrastructure-related video surveillance. "FIREDIPPER" is compatible with camera models from multiple vendors, meaning it can be used in major camera networks both in Japan and overseas. In addition to managing camera feeds, it can also be linked to fire alarm devices, emergency exits, and various IoT sensors as an image-integrated platform for mechanical security systems that coordinates sensor alarms and camera surveillance footage. There are many cases of it being adopted as a surveillance system for important public facilities and it has a track record of being used across Japan for large-scale, mission-critical sites that require surveillance 24 hours a day, 365 days a year, including expressways, power plants, and Narita International Airport.

COMPANY RESEARCH AND ANALYSIS REPORT
FISCO Ltd.
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Business description

4. Business solutions business

The Company conducts outsourced development, sales and maintenance of special software that meets customers' needs. As its systems-development track record, it has developed various types of embedded-use μ CPU software and OS device drivers, and it is meeting demand in a wide range of industries, including for reservation systems in hotels and Japanese inns, mobile phone sales' support sites, non-bank loan application sites, a set of communication satellite TRANSPONDER systems, local government public relations video distribution sites, membership system information provision site systems (credit card wireless payment systems), hydraulic experiments and analysis systems, ECG monitoring data recording and analysis system, and image-contents large-scale distribution systems. In microprocessor firmware development, the Company has completed developments in areas including automobile instrument panel firmware; gas leak sensors; cheque, bill, and CD recording devices; and automotive optical LAN controllers.

■ Strengths

Original products it has developed with market dominance in each segment include "Mistral," "SPSE PRINT SCOPE" and "FIREDIPPER"

1. Mistral

The printers' targeted by the "Mistral" control system software must be highly accurate and have high image quality as they are used for special applications. In order to achieve a printer output that meets customers' diverse and sophisticated needs, it provides to customers all of the component technologies related to the various control systems software, including computer connection control devices, image-development software, network connection software, image processing software, color synthesis software, scanner input devices' control software, color adjustment software, data format automated recognition conversion software, and inkjet discharge control software. These products have extremely good reputations in the inkjet line-head controllers market, and these technologies are the Company's strengths.

Also, Mistral is not only for paper, as the targets for printing also include plastics, boards, containers, and film, and their uses include for painting and marking systems. Previously, processes such as the painting process or the printing process relied on screen printing and silk printing. But due to the overlapping benefits from the Company's products, of simplification of the line, rationalization, low pollution, optimized inventories, and putting product information online, it has become possible through using these systems to build high performance printer (painting) lines, even including product tracking.

The reasons for the superiority of "Mistral" is that it can be customized due to its original head driver architecture, and its head and printing widths (from 1 head to multiple arranged heads) can be freely selected. To give an example, in the industrial large-scale printer of Hewlett-Packard Company of the US, it is possible to have a 2,800mm printing device by arranging 26 4-inch heads. Due to this superiority, it can be used with the world's best heads, including of FUJIFILM Dimatix Inc., and Kyocera <6971>. Also, through the state-of-the-art technologies of Mistral Technology and FUJIFILM Dimatix, it can be combined with "Samba," a high-performance, highly durable industrial-use inkjet head, to give the optimal inkjet printer for industrial uses, such as in the high-definition printing field.

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Strengths

2. SPSE PRINT SCOPE

The authentication printing solution "SPSE PRINT SCOPE" makes is possible to extract the content of printed items, such as text and images, while being used for printer manufacturers' genuine printer drivers and Microsoft Windows OS genuine Standard TCP/IP Port Monitor. In terms of the introductions of "SPSE PRINT SCOPE," it has a track record of large-scale introductions on the scale of many thousands of people, to financial institutions, including to over half of the mega-banks and major securities companies, and to major companies in the communication and manufacturing industries.

A feature of "SPSE PRINT SCOPE" is that it makes visible the actual printing conditions, and it is a foundation on which the entire printing environment can be managed. Not only for authentication printing, but also for printing content, while ensuring auditable and inspectable printing security, it enables the printing volume for each sector and piece of equipment to be ascertained, the operations of printers to be optimized, and printing costs to be managed. In addition, it makes possible systems construction in every type of environment and can be introduced not only into virtual PC environments, but also into Thinclient and ThinPrint (printing systems) environments. It also integrates the printing environments of network separated (mission critical and information systems) and Web separated environments, and it enables authentication printing even in a mixture of printing environments, of Windows, Linux, and Mac OS environments. It further makes it possible to build systems even when there is a shared print server. Moreover, for genuine printer drivers, it enables an environment in which printing quality is ensured and the output destination is not selected. Many companies are implementing measures for information security, and leaving out, forgetting, and mixing-up print-outs are sources of information leakage, and eradicating the leaving-out of print-outs is a way to prevent the leakage of information before it occurs. A lot of information leakages involved an electronic medium, but even today amid the progress of digitization, paper medium is still the source of many information leakages. Security measures for MFP, which use a lot of paper, are important, but one of the strengths of the product is that it improves the overall printing environment, thereby strengthening security and reducing costs.

3. FIREDIPPER

The video integrated surveillance software "FIREDIPPER" is a video surveillance solution that the Company developed completely in-house that specializes in infrastructure-related video surveillance in places where the use of video is essential and where problems, such as failures and malfunctions, cannot be allowed to occur. It realizes non-stop operations for camera video and the accumulation of records for various purposes, and it also makes possible a redundant configuration video server. Further, it is said that it has extendibility, in that it can coordinate with fire alarms, emergency doors, and various sensor groups. The Company has a track record of providing multiple video surveillance solutions even on a nationwide scale and it can be used from small-scale to large-scale, while there is also an enterprise version that utilizes the "FIREDIPPER Integration Center" that can be used on the Cloud. The "FIREDIPPER Integration Center" is equipped with an AI image recognition function and it leverages its strength of being compatible with camera models from multiple vendors to enable AI image recognition regardless of the camera's manufacturer or type. This means it can be used for purposes such as personal identification, object recognition, and abandonment detection through both live video feed and recorded video.

"Information Camera IP Integrated System" for broadcasting businesses enables the IP use of information cameras through HLD-300C, an ultra-low latency AVC/H.264 encoder/decoder manufactured by IBEX Technology Co, Ltd., as well the integrated management of IP information cameras through "FIREDIPPER." It has been delivered to many customers, including to the main domestic airports under the jurisdiction of the Ministry of Land, Infrastructure and Transport, Narita International Airport, expressways, national volcanoes (volcano surveillance), the Ground Self-Defense Force (surveillance of exercises), the Maritime Self-Defense Force (surveillance of movements), the police (surveillance of traffic intersections), local governments (surveillance of rivers and roads), ports (surveillance of marine vessels), and nuclear power plants (surveillance of surrounding areas and sensor linkage).

■ Results trends

1H FY3/23 saw a dramatic increase in sales as the delivery of projects carried over from the previous year was completed. Orders were strong amid surging interest in security, particularly "FIREDIPPER"

1. 1H FY3/23 results

In the 1H FY3/23 results, net sales were ¥266mn (up 32.8% year on year (YoY)), operating loss was ¥34mn (loss of ¥110mn in the previous fiscal year), ordinary loss was ¥33mn (loss of ¥98mn), and net loss was ¥24mn (loss of ¥69mn).

1H FY3/23 results

(¥mn)

	1H FY3/22		1H FY3/23		Change	
	Results	% of sales	Results	% of sales	Amount	%
Net sales	200	-	266	-	65	32.8%
Operating loss	-110	-55.0%	-34	-12.8%	76	-
Ordinary loss	-98	-49.3%	-33	-12.6%	65	-
Net loss	-69	-34.6%	-24	-9.1%	45	-

Source: Prepared by FISCO from the Company's financial results

The Company worked to support the operations of existing customers while improving the quality and functions of products, thereby building relationships of trust by raising customer satisfaction and further strengthening its competitiveness. At the same time, it advanced sales activities aimed at capturing new users. 1H FY3/23 saw a large increase in sales as the delivery of projects carried over from the previous year was completed in 1Q. Furthermore, there was a surge of new interest in every segment leading to strong orders. The Imaging and printer controller business saw significant growth and the Integrated Surveillance Video System Division, particularly "FIREDIPPER," performed well.

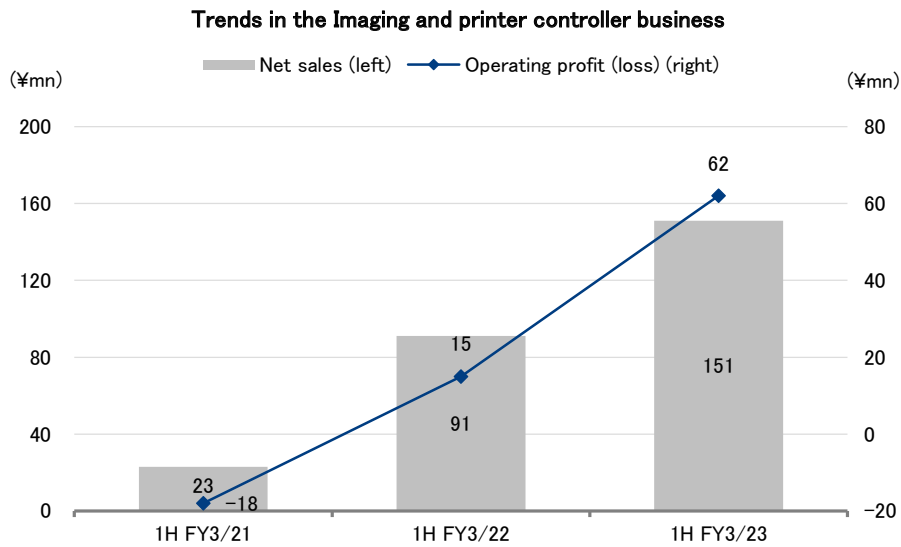### 2. Segment trends

1H FY3/23 results by segment

(¥mn)

	1H FY3/22		1H FY3/23		Change	
	Results	Ratio	Results	Ratio	Amount	%
Net sales	200	-	266	-	65	32.8%
Imaging and printer controller business	91	45.4%	151	56.9%	60	66.6%
Storage solution business	7	3.5%	5	2.2%	-1	-18.7%
Security business	95	47.8%	108	40.8%	12	13.5%
Business solutions business	6	3.3%	0	0.1%	-6	-97.7%
Operating profit	-110	-55.0%	-34	-12.8%	76	-
Imaging and printer controller business	15	17.3%	62	41.3%	46	298.1%
Storage solution business	-10	-151.3%	-25	-440.9%	-14	-
Security business	-55	-58.3%	-12	-11.1%	43	-
Business solutions business	2	37.1%	0	62.3%	-2	-96.2%

Source: Prepared by FISCO from the Company's financial results

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Results trends

(1) Imaging and printer controller business

The business recorded net sales of ¥151mn (up 66.6% YoY) and segment profit of ¥62mn (up 298.1%). In the business environment, as lifestyles adapted to the new normal, there was growing need for greater diversity and shorter delivery times in areas such as packaging design. Expectations regarding high-performance inkjet printer controllers also continued to grow. In 1H, projects at major customers that had been frozen due to the COVID-19 pandemic began to move again, and the Company received high value orders. Orders are forecast to continue coming in. Orders received was ¥159mn and orders balance was ¥188mn, some of which are scheduled to be fulfilled in 3Q FY3/23.
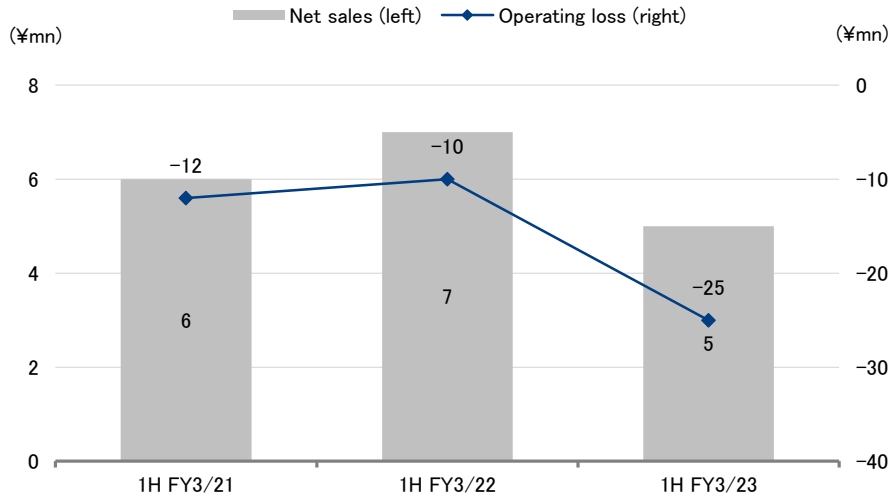
Trends in the Imaging and printer controller business

Net sales (left) — Operating profit (loss) (right)

	1H FY3/21	1H FY3/22	1H FY3/23
Net sales	23	91	151
Operating profit (loss)	−18	15	62

Source: Prepared by FISCO from the Company's financial results

(2) Storage solution business

The business recorded net sales of ¥5mn (down 18.7% YoY) and a segment loss of ¥25mn (loss of ¥10mn in the previous fiscal year). There was an increase in interest from businesses, such as medical facilities and medical research institutes, regarding big data storage from an energy-saving perspective, as part of movement toward a decarbonized society. Orders received was ¥4mn and orders balance was ¥3mn.

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Results trends

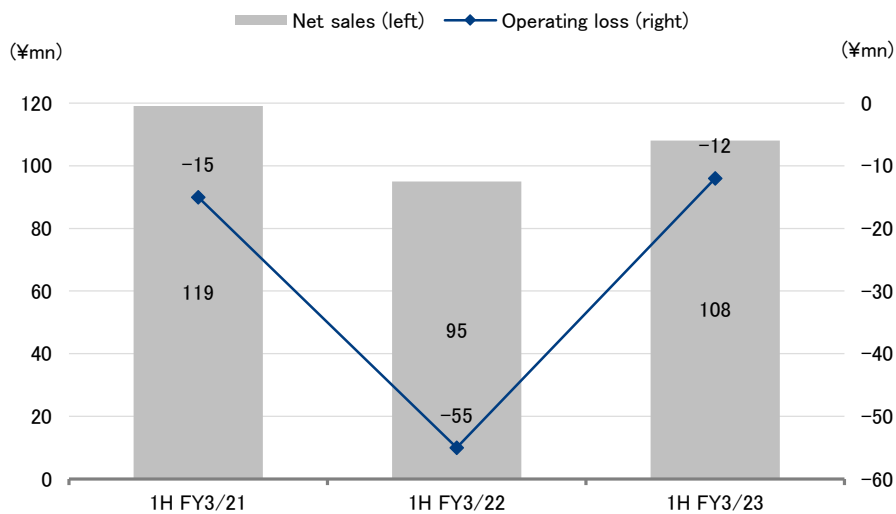**Trends in the Storage solution business**

Source: Prepared by FISCO from the Company's financial results

(3) Security business

The business recorded net sales of ¥108mn (up 13.5% YoY) and a segment loss of ¥12mn (loss of ¥55mn in the previous fiscal year). The Security Printing Systems Division captured new customers as interest from local governments increased following the adoption of "SPSE," its main product, by the Ministry of Internal Affairs and Communications in FY3/22. In the Integrated Surveillance Video Systems Division, the launch of "People Counting System for Airports" as a subscription service contributed to stabilizing sales. In addition to an increase in interest in plant surveillance from facilities such as nuclear power plants, Kanazawa University adopted "OSCE Implementation Support System for Medical Educational Institutions," leading to an increase in interest from other public and private universities.

Trends in the Security business

Source: Prepared by FISCO from the Company's financial results

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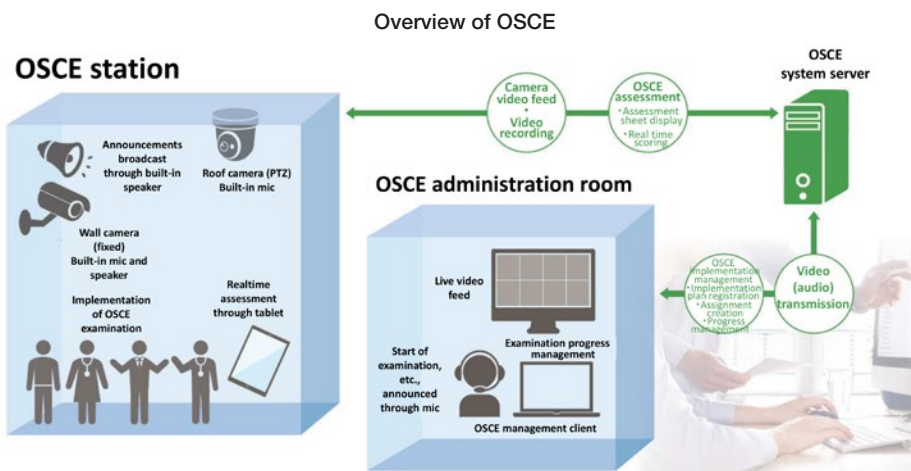
Results trends

(4) Business solutions business

The business recorded net sales of ¥0mn (down 97.7% YoY) and a segment profit of ¥0mn (down 96.2% YoY).

Common examinations (CBT, OSCE) to be publicly funded from FY2023, introduction expected at 80 universities across Japan

3. Topics

The Company is developing and delivering video systems for educational institutions. Specifically, it has developed "OSCE Implementation Support System for Medical Educational Institutions," which has been adopted by Chiba University and Kanazawa University. The product enables users to view video of and manage processes spanning from examination booking to the assessment scoring of examinations being carried out at each station. It also allows users to remotely view a live video feed during an examination and watch recorded video afterward. Users can also freely set assignment and assessment items, and as evaluation scoring is carried out using a tablet, scores are reflected in the system instantly. In this way, the system can support effective OSCE implementation. Therefore, it is expected to be introduced at 80 universities across Japan. It was recently decided that common examinations (CBT, OSCE) will be funded publicly in Japan from FY2023, and plans are in place to set shared pass or fail criteria, increase the number and variety of OSCE assignments, and to review assessment frameworks. Therefore, it is forecast that this product will be used as a medical educational support system for not only medical education, but also for dental education, clinical training for nurses, clinical laboratory technician training, and other specialist education.

Overview of OSCE

Source: The Company's website

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■ Outlook

Forecast for a dramatic increase in sales and profits for FY3/23. Amid a surge in new interest, the Company will carry out robust sales efforts aimed at capturing orders from 3Q onward

1. FY3/23 outlook

The Company's forecast for its FY3/23 full year results remains unchanged from its initial forecast of net sales of ¥900mn (up 43.5% YoY), operating profit of ¥200mn (up 924.6%), ordinary profit of ¥200mn (up 504.8%), and net profit of ¥120mn (up 443.8%). In 1H, all segments saw a surge in new interest, so from 3Q onward, the Company will carry out robust sales efforts aimed at capturing orders. Its policy is to continue focusing development on strengthening the functions of each product in a way that anticipates customers' needs.

FY3/23 outlook

(¥mn)

	FY3/22		FY3/23		Change	
	Results	% of sales	Forecast	% of sales	Amount	%
Net sales	626	-	900	-	273	43.5%
Operating profit	19	3.1%	200	22.2%	180	924.6%
Ordinary profit	33	5.3%	200	22.2%	166	504.8%
Net profit	22	3.5%	120	13.3%	97	443.8%
Earnings per share (¥)	13.52		73.52		-	-

Source: Prepared by FISCO from the Company's financial results

2. Outlook by segment

(1) Imaging and printer controller business

In addition to cultivating new customers, the business will focus on handling large-scale orders (large amounts, high-end) from and building its relationships with two major companies that it already has a track record with (Think Laboratory Co., Ltd, and Komori Corporation <6349>). Think Laboratory is using the Company's products for its FXIJ series of cutting-edge digital printers and Komori Corporation is using them for its NS series, the company's next global strategic models. As these are planned to enter mass production during FY3/23, the Company expects to continue receiving orders. Think Laboratory was a step ahead of its business partners in suspending sales and printer manufacturing activities until the pandemic subsides, but it is now preparing production frameworks for the post-pandemic era. The delivery of projects carried over from FY3/22 due to semiconductor supply shortages was completed in 1Q FY3/23. The development of a new function (maintenance of print quality) that has already been ordered is progressing smoothly and it is scheduled for delivery in 3Q. Furthermore, Komori Corporation ordered its second lot in 2Q FY3/23 following its replacement of offset printers and it is expected to order a third lot within the fiscal year. In addition to these two companies, the Company is expecting to receive orders from two new customers. These two medium-sized companies are an inkjet head manufacturer and a label printer manufacturer. Going forward it plans to make its technological advantage over competing companies clear and further sharpen its competitive edge.

Outlook

(2) Storage solution business

The business is developing sales with the aim of returning to profitability by providing solutions that meet customer needs. There is a need for the long-term, secure, and low-cost (energy efficient) storage of large volumes of data, particularly from medical facilities, media organizations, and manufacturing businesses, and demand is growing for secure storage methods for big data. In response, the Company has dramatically advanced the reliability and data transmission speed of tape media such as LTO (Linear Tape-Open) and it is actively promoting sales of solutions that use LTO tape. Interest in large-capacity petabyte class archiving is also increasing and the Company expects to capture orders from major manufacturers. Currently the Company mainly sells to companies manufacturing Blu-ray storage devices, but it has started delivering orders from medical facilities such as hospitals and medical research institutes, for which data handling and storage is a pressing issue, and the number of inquiries and orders is increasing. It is also forecasting major demand from projects that require the batch storage of large volumes of data, such as national projects, and projects in the cutting-edge research field and telecommunications industry, so it plans to promote sales to companies engaged in large-scale projects.

(3) Security business
a) Security Printing Systems Division

Amid rising awareness of the need for information management for print-outs, information security products are being adopted, mainly by the Ministry of Internal Affairs and Communications, major financial institutions, and local governments, and orders are expected to increase in the future. "SPSE" has a track record of being introduced by private-sector companies, financial institutions, and public organizations. Delivery of products to the Ministry of Internal Affairs and Communications was completed in FY3/22 and the Company secured new orders from local governments in 1H FY3/23.

b) Integrated Surveillance Video Systems Division

Demand is booming from infrastructure that uses relatively large-scale surveillance systems containing multiple cameras, such as airports, expressways, dams, and power plants, and demand for real-time performance aimed at a society that fully uses the 5th generation mobile network (5G). Therefore, the division is focusing its order-taking activities on electric power and public projects. In addition to existing infrastructure demand, the introduction of systems at commercial facilities, including rail networks and stations, and residential properties is also moving forward. For commercial-facilities projects, the Company is working to develop new functions that differentiate it from industry competitors, and steadily growing orders. In plant surveillance, in 1H FY3/23 the Company received orders for systems for uses such as long-distance volcano observation, wind power plant surveillance, river surveillance, and people counting. It has specific, scheduled orders in sight for the next few years and its target market has expanded from the previous focus on public sector-related to include private sector-related as well. Needs for surveillance cameras, such as for crime prevention, disaster prevention, and anti-terrorism measures, are trending upward, and it seems that needs for "FIREDIPPER," which has been introduced for many public transport-related projects, will also increase in the future. Additionally, the Company's video AI analysis functions have been evaluated highly so it plans to further develop these functions.

(4) Business solutions business

While striving to increase customer satisfaction and the customers' corporate value, the Company will also pick up the latest market needs and trends and work to horizontally deploy the technologies it has already acquired. Furthermore, the Company will work on entering new fields of interest with a strategic awareness.

■ Medium-term management plan

The Company has formulated its medium-term management plan "Next Stage 2026." The plan targets net sales of ¥1,350mn in FY3/26, 2.1 times greater than in FY3/22

In September 2022, the Company formulated "Next Stage 2026" (FY3/23-FY3/26), a medium-term management plan for reaching a new stage of growth.

1. Management policies

Regarding the external environment, the connection of things has advanced due to the full-scale provision of 5G service in 2020, and in addition to thinking up new services, there is a need for major innovations in communications systems and controller systems for peripheral devices such as sensors and cameras. Additionally, as convenience has improved significantly, security also needs to be strengthened further and attention is being paid to the advancement and high functionalization of innovative systems that incorporate AI.

The Company is positioning these changes in the external environment as opportunities. It is leveraging its advanced technical capabilities and the many unique and rare technologies it has accumulated to date to develop advanced software and systems with high added value that solve problems and improve value for customers, aiming to expand corporate value. The basic policies of the plan are 1) practice proactive management that utilizes the external environment, 2) develop high value-added software and systems through advanced development and technical capabilities, and 3) maintain a small number of highly skilled employees.

(1) Proactive management that utilizes the external environment
In the 5G society, it would seem investment is becoming active not only for hard aspects, but also for software and systems that control various type of equipment, which is expected to increase opportunities for earnings. Therefore, alongside actively conducting R&D and strengthening sales capabilities, the Company is aiming to increase earnings through strengthening the salesforce.

(2) The development of high value-added software and systems through advanced development capabilities and technical capabilities
The Company anticipates that the technical standards demanded by customers will rise further, so is leveraging the many unique and rare technologies it has accumulated to date to develop advanced software and systems with high added value that solve problems and improve value for customers.

(3) Having a small number of highly skilled employees
The Company's total number of employees is small, at less than 30. The majority are engineers and their technical level is top-class within Japan. By having a small number of highly skilled employees, the Company provide low-cost, high quality services through speedy initiatives.

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Medium-term management plan

2. Numerical targets

The Company's numerical targets for FY3/26 are net sales of ¥1,350mn (compared to ¥626mn in the FY3/22 results), operating profit of ¥350mn (compared to ¥19mn), operating profit margin of 25.9% (compared to 3.1%) ordinary profit of ¥350mn (compared to ¥33mn), net profit of ¥200mn (compared to ¥22mn), and ROE of 11.3% (compared to 2.1%). The details of the Company's business and its products are comparatively unknown, so communicating its activities externally and raising name recognition is a pressing issue. However, if it manages to do this, then business results are expected to improve.

The medium-term management plan's numerical targets

	FY3/22 Results	FY3/23 E	FY3/24 Plan	FY3/25 Plan	FY3/26 Plan
Net sales	626	900	1,050	1,150	1,350
Operating profit	19	200	250	300	350
Operating profit margin	3.1%	22.2%	23.8%	26.1%	25.9%
Ordinary profit	33	200	250	300	350
Net profit	22	120	140	170	200
ROE	2.1%	9.5%	10.0%	10.8%	11.3%

(¥mn)

Source: Prepared by FISCO from the Company's financial results and medium-term management plan materials

Shareholder return policy

As an R&D-type company, the Company's basic policy is to distribute profits linked to business performance to shareholders while also retaining the internal funds necessary for business expansion in the future and to strengthen its corporate structure. The Company's basic policy is also to pay dividends once or twice a year, basically paying a year-end dividend and adding an interim dividend as necessary to ensure appropriate and timely returns to shareholders. In FY3/22, the Company paid a year-end dividend per share of ¥5.0. In FY3/23, it will not pay an interim dividend and the year-end dividend has yet to be decided. However, its medium-term management plan includes a plan to pay an annual dividend of ¥20.0 from FY3/23 onward.

Dividend per share
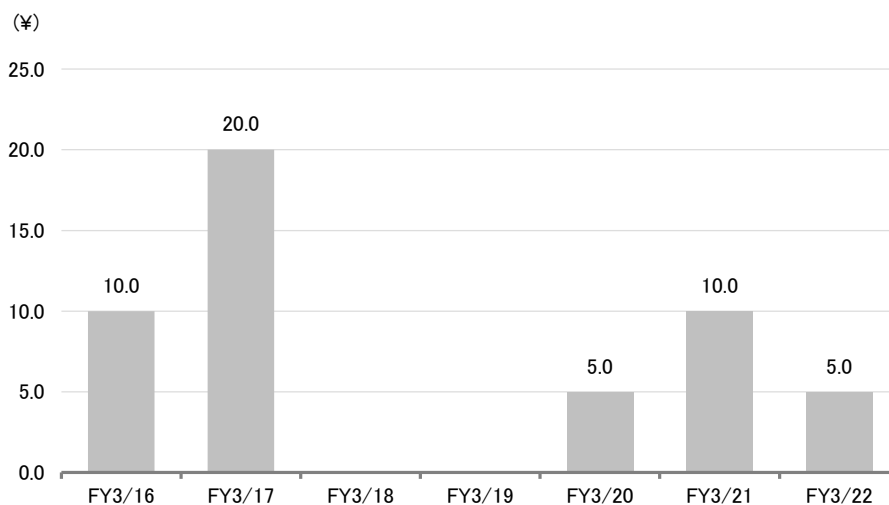
(¥)

FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22
10.0	20.0			5.0	10.0	5.0

Source: Prepared by FISCO from the Company's financial results

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■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp