

# COMPANY RESEARCH AND ANALYSIS REPORT

## Terilogy Holdings Corporation

5133

Tokyo Stock Exchange Standard Market

30-Jan.-2023

FISCO Ltd. Analyst

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FISCO Ltd.

<https://www.fisco.co.jp>

Terilogy Holdings Corporation  
5133 Tokyo Stock Exchange Standard Market

30-Jan.-2023

<https://www.terilogy-hd.com/english/index.html>

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## Summary

### **An IT solutions provider established in 1989 aiming to accelerate the enhancement of corporate value by transitioning to a holding company structure**

#### **1. An IT solutions provider established in 1989**

Terilogy Holdings Corporation (hereafter, also “the Company”) <5133> (Terilogy Co., Ltd. established Terilogy Holdings Corporation as of November 1, 2022 through a sole share transfer; the holding company was newly listed on the Tokyo Stock Exchange Standard Market as of November 1, 2022; Terilogy was delisted as of October 28, 2022 and is now a wholly owned subsidiary) is an IT company that has been providing IP network-related products and cutting-edge products and solutions in the network security field since its founding in July 1989.

Its corporate philosophy is “to respond to the needs of our customers and ensure their full satisfaction,” and in the Heisei era, it expanded its business areas to contribute to the construction and development of an internet society under the slogan “In collaboration with customer.” Today, in the Reiwa era, the Company is working to provide solutions to meet the demands of the present age such as productivity improvements, work-stye reforms, inbound demand, the new way of life under the novel coronavirus (COVID-19) pandemic, DX (Digital Transformation), and SDGs under its new slogan “No. 1 in Quality.” From the Company’s corporate history, it can be read that it has quickly ascertained the trends of corporate IP network, broadband, mobile, and cybersecurity and expanded its business areas to reflect them.

#### **2. Developing business activities to meet customer needs through a four-section structure**

The Group is currently developing business activities in four sections: the Network Section, Security Section, Monitoring Section, and Solutions Services Section. Its features include providing a large number of products and services to meet customer demands and a maintenance system operating 24 hours a day, 365 days a year; and an excellent distribution function that combines direct and indirect sales.

#### **3. Core competencies include the “ability to find emerging technologies and marketable products” and “ability to respond to the market”**

The Group’s business model shows the ingenuity it employs in putting its corporate philosophy of “focus on the customer” into practice in its business. That, in short, is the creation of a business value chain centered around processes designed to respond to the needs of the customer (technology, product research and discovery, etc.), and processes aimed at ensuring full customer satisfaction (offering solutions combining multiple products, having a maintenance structure in place, etc.). The Company considers the Group’s strengths to be 1) its “ability to find emerging technologies and marketable products” and its “ability to respond to the market,” 2) wide selection of customer solutions, 3) diverse service provision approaches, 4) technical capabilities rooted in experience, and 5) global response capabilities. In particular, its competence in “finding emerging technologies and marketable products” and its “ability to respond to the market” is leveraged in processes throughout the value chain, and is the core competence that serves as the base for all of its strengths.

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#### Summary

#### 4. Loss in 1H FY3/23 also due to the effect of one-time expenses, but sales were steady

In the 1H FY3/23 consolidated results (of the delisted Terilogy), net sales increased 5.3% year-on-year (YoY) to ¥2,474mn, while operating loss amounted to ¥42mn (operating income was ¥178mn in the same period of the previous year). Operating income decreased (resulting in a loss) due to the impact of factors such as a drop in initial revenue following the shift to a subscription-type service (which particularly affected the Network Section), rising costs of foreign products due to the rapid weakening of the yen, and the enhancement of human capital for the purpose of business expansion, as well as the recording of various one-time expenses in conjunction with business and capital alliances and structural reorganization. However, sales remained steady against a backdrop of heightened demand for security. The drop in initial revenue was due to the Company's medium-term goal of transitioning to a recurring income-type business model, and apart from the recording of various one-time expenses, such as those in conjunction with business and capital alliances and structural reorganization, considering the results from an organic perspective, the Company effectively achieved an operating surplus. Therefore, we at FISCO believe that this 1H loss presents no particular cause for concern. The Company is also maintaining a sound financial structure.

#### 5. FY3/23 full-year forecast of decreased profit, but with a trend towards improvement in 2H

The FY3/23 full-year consolidated results forecasts (forecasts as a holding company were announced as of November 1, 2022, and as they are the same figures previously announced by Terilogy, they remain effectively unchanged; percentage changes are shown in comparison with Terilogy's FY3/22 results) are for net sales of ¥6,200mn (up 18.7% YoY), operating income of ¥370mn (down 16.2%), ordinary income of ¥370mn (down 15.8%), and net income attributable to owners of parent of ¥250mn (down 8.6%). As it posted a loss in 1H, the progress rate for the Company's full-year forecasts is low. However, an improvement in earnings is expected in 2H, taking into account such factors as the following: The IT industry typically tends to have a higher proportion of sales in the second half due to the timing of acceptance inspection and sales; the impact of the rise in purchasing prices may lessen as weak yen peaks in the second half; sales price revisions resulting from the rising purchasing prices may penetrate the market; the various one-time expenses incurred in the first half in conjunction with business and capital alliances and structural reorganization will be completed. From the above, we at FISCO believe that the Company is likely to achieve its full-year forecasts.

#### 6. Aiming to optimize the entire Group and refine its strengths by transitioning to a holding company structure

After transitioning to a holding company structure, Group management, investment, and new business development functions will be concentrated in the holding company. Meanwhile, each business company will have the autonomy to create its own growth strategies in the business area it is responsible for and to make decisions and advance business in a swift and flexible manner that takes into account changes in the environment. In other words, the Group's strengths are its "ability to find emerging technologies and marketable products" and its "ability to respond to the market," so it is aiming for a structure that refines and demonstrates these strengths, enabling the holding company to focus on the former while each business company has the responsibility and authority to work on the latter. This should contribute to the optimization of the entire Group and enhancement of corporate value. It looks like it will become a tailwind for the action plans for achieving targets by each Group company advocated in the new medium-term plan.

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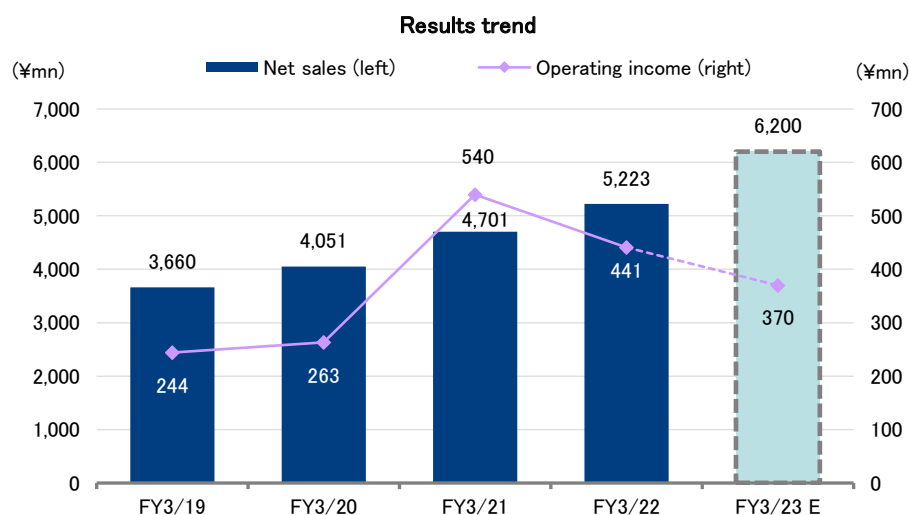
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## Summary

### Key Points

- An IT solutions company that has accumulated a track record for more than 30 years since its foundation. Transitioned to a holding company as of November 1, 2022
- From the Company's corporate history, it can be read to have a track record of accurately ascertaining the trends of the times and skillfully changing its business focus areas to reflect them. The Company is currently developing its business activities in four sections: the Network Section, Security Section, Monitoring Section, and the Solutions Services Section
- The Group has built a business model backed by its corporate philosophy of "focus on the customer." The strength of its core competence in "finding emerging technologies and marketable products" and its "ability to respond to the market" has become evident in its business performance as well
- Loss in 1H FY3/23 also due to the effect of one-time expenses, but sales were steady; full-year forecast of decreased profit, but with a trend towards improvement in 2H
- It is aiming to optimize the entire Group and refine its strengths by transitioning to a holding company structure



Note: From FY3/22, adopted the revised Accounting Standard for Revenue Recognition, etc.

Note: As the Company transitioned to a holding company as of November 1, 2022, figures until FY3/22 are for Terilogy, and figures for FY3/23 E are for Terilogy Holdings Corporation

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

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## Company profile

**An IT solutions provider established in 1989. As it pursues its corporate philosophy of “focus on the customer” it has expanded its areas of business**

### 1. An IT solutions provider that continues to meet the demands of the present age

The Company is an IT company that has been providing IP network-related products and cutting-edge products and solutions in the network security field since its foundation in July 1989. Terilogy (before its transition to a holding company; is currently a wholly owned subsidiary) was listed on the JASDAQ Securities Exchange in December 2004 and transitioned to the TSE Standard Market in April 2022 following the market restructuring (sector changed from Wholesale Trade to Information & Communication in September 2022). In August 2022, the Company entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD. <8096> regarding the expansion of transactions and next-generation business development centered around the security business. KANEMATSU ELECTRONICS became the second largest shareholder (shareholding ratio: 5.00%) through a third-party allocation of shares and disposal of treasury shares.

Then in November 2022, the Company transitioned to a holding company, which was newly listed on the TSE Standard Market. The Group (as of November 1, 2022) is made up of the Company (the holding company), five consolidated subsidiaries (Terilogy, Terilogy Worx Corporation, Terilogy Serviceware Corporation, IGLOOO Inc., and CRESEED Corp.), and one non-equity-method affiliate (VNCS Global Solution Technology Joint Stock Company).

Its corporate philosophy is “to respond to the needs of our customers and ensure their full satisfaction,” and in the Heisei era, it expanded its business areas to contribute to the construction and development of an internet society under the slogan “In collaboration with customer.” Today, in the Reiwa era, the Company is working to provide solutions to meet the demands of the present age such as productivity improvements, work-style reforms, inbound demand, the new way of life under COVID-19, DX, and SDGs under its new slogan “No. 1 in Quality.”

### 2. Expanded its business areas to broadband, mobile, and security with the corporate IP network business as its original business

Looking at the Company’s corporate history, it can be read that it has quickly ascertained the trends and expanded its business areas to reflect them with the corporate IP network business as its original business. These include 1) the rapid shift from internet communication using telephone lines and ISDN lines to high-speed internet communication using broadband lines, such as ADSL and FTTH, 2) the arrival of the mobile era against the backdrop of the spread of smartphones, and 3) the increasing importance of cybersecurity in an internet society.

\* Listed companies noted in this report are presented in the format “company name + <securities code>” on first mention, and then presented without the securities code on second and subsequent mention. Unlisted companies are presented on first mention with the company name followed by denotation as to the type of business entity, and then presented without the business entity denotation on second and subsequent mention. However, securities codes and business entity type are noted on first mention only in tables depicting company history, etc.

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## Company profile

### Company history

<b>July 1989</b>	Terilogy Co., Ltd. established in Kanda, Chiyoda-ku, Tokyo. Enterprise networks business launched.
<b>Apr. 1991</b>	Maintenance outsourcing contract signed with Toshiba Engineering Corporation (now Toshiba IT-Services Corporation) and maintenance service business launched.
<b>May 1996</b>	Outsourcing contract signed with Tokyo NTT Data Communication Systems Corporation (now NTT Data Business Systems Corporation) and customer solutions business launched.
<b>Nov. 1999</b>	Distribution contract signed with American company Redback Networks, Inc. and broadband network business launched, encompassing sales of Redback Networks broadband access servers, Ethernet software from American company Network Telesystems, Inc. (now Affinegy, Inc.), and other such products.
<b>Jan. 2003</b>	DNS/DHCP servers distribution contract signed with Infoblox Inc. <BLOX> of the US.
<b>Oct. 2004</b>	Domestic (Japan) master reseller contract signed with American company TippingPoint Inc. (now Trend Micro Inc. <4704>).
<b>Dec. 2004</b>	Listed on the JASDAQ Securities Exchange.
<b>Sep. 2005</b>	Certified under ISO 27001 information security management system (ISMS) standards.
<b>Nov. 2005</b>	Basic agreement on business collaboration signed with UNIADDEX, Ltd. based on a capital tie-up agreement.
<b>Dec. 2006</b>	Domestic (Japan) master reseller contract signed with American company NETSCOUT Systems, Inc.
<b>Feb. 2007</b>	Distribution contract signed with Belgian company VASCO Data Security, Inc. (now OneSpan Inc. <OSPN>).
<b>Mar. 2007</b>	Certified under ISO 14001 environmental management system (EMS) standards.
<b>Oct. 2008</b>	Distribution contract signed with Singaporean company eG Innovations Pte Ltd.
<b>Apr. 2010</b>	Following merger of JASDAQ Securities Exchange and Osaka Securities Exchange, Terilogy listed on Osaka Securities Exchange JASDAQ (currently called the Osaka Exchange).
<b>Aug. 2010</b>	Domestic (Japan) reseller contract signed with American company APCON, Inc.
<b>Feb. 2011</b>	Asia-Pacific distribution contract signed with American company SevOne, Inc.
<b>June 2012</b>	Sales begun of momentum, a unique probe software product developed in-house at Terilogy.
<b>Sep. 2012</b>	Distribution contract signed with Lastline Inc. of the US (now VMware, Inc. <VMW>).
<b>July 2013</b>	Following merger of Osaka Securities Exchange and Tokyo Stock Exchange, Terilogy listed on TSE JASDAQ Standard.
<b>July 2013</b>	Fullflex ZG master reseller contract signed with Accense Technology, Inc.
<b>July 2015</b>	Sales begun of CloudTriage, a unique, cloud-based operations monitoring service by Terilogy.
<b>Dec. 2015</b>	Distribution contract signed with American company RedSeal, Inc.
<b>Apr. 2016</b>	Distribution contract signed with Taiwanese system integration company SYSCOM.
<b>Oct. 2016</b>	Exclusive domestic reseller contract signed with American company Tempered Networks, Inc.
<b>Nov. 2016</b>	Distribution contract signed with Israeli company KELA.
<b>Jan. 2017</b>	Basic agreement on business collaboration signed with NCXX Group Inc. <6634> based on a capital tie-up agreement.
<b>Jan. 2017</b>	Basic agreement on joint marketing for security products signed with FISCO Ltd. <3807>.
<b>Jan. 2017</b>	Basic agreement on business collaboration in the area of transaction security with Fisco Cryptocurrency Exchange Inc.
<b>Jan. 2017</b>	Basic agreement on business collaboration in the area of joint product development for blockchain technology applications signed with SJI Ltd. (now CAICA Inc. <2315>).
<b>Mar. 2017</b>	Wholly owned subsidiary Terilogy Worx Corporation established.
<b>Dec. 2017</b>	Shares required for ICT business corporation establishment acquired by ITX Corporation, and wholly owned consolidated subsidiary Terilogy Serviceware Corporation established.
<b>Apr. 2018</b>	Distribution contract signed with American company Nozomi Networks Inc.
<b>July 2018</b>	Sales begun of EzAvater, Terilogy's unique, ultra-simple robotic process automation (RPA) tool.
<b>Jan. 2019</b>	Business tie-up agreement signed with Israeli company Harel-Hertz Investment House Ltd.
<b>May 2019</b>	Launched security risk assessment services for industrial control systems involving critical infrastructure, factory, and building management jointly with BroadBand Security, Inc. <4398>.
<b>June 2019</b>	Business tie-up with American company Sumo Logic, Inc.
<b>July 2019</b>	Consolidated subsidiary Terilogy Worx Corporation concluded distribution contract with American company BitSight Technologies, Inc.
<b>Aug. 2019</b>	Distribution contract concluded with Israeli company TechSee Augmented Vision Ltd.
<b>June–Sept. 2019</b>	Distribution contracts for Terilogy -developed RPA tool EzAvater concluded with Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., and UCHIDA ESCO Co., Ltd.
<b>Feb. 2020</b>	Distribution contract for Terilogy -developed RPA tool EzAvater concluded with Hitachi Systems, Ltd.
<b>Mar. 2020</b>	Consolidated subsidiary Terilogy Serviceware Corporation concluded a business tie-up with Towa Engineering Corporation.
<b>Mar. 2020</b>	Distributor contract concluded with Israeli company Radware Ltd. <RDWR>.
<b>Apr. 2020</b>	Established joint venture with Vietnam Cyberspace Security Technology JSC, a subsidiary of Vietnamese telecom provider Hanoi Telecom, based on a strategic business tie-up.
<b>May 2020</b>	Consolidated subsidiary Terilogy Serviceware Corporation acquired shares of IGLOOO Inc., making it a subsidiary.
<b>June 2020</b>	Distribution contract for Terilogy -developed RPA tool EzAvater concluded with Computer Engineering & Consulting Ltd. <9692>.

We encourage readers to review our complete legal statement on “Disclaimer” page.

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## Company profile

Nov. 2020	Terilogy and VNCS Global Solution Technology Joint Stock Company signed a memorandum of understanding with BroadBand Security regarding business development in Vietnam related to PCI DSS international security standards. CAICA Technologies Inc. launched sales of the Terilogy-developed EzAvater RPA tool.
Nov. 2020	Consolidated subsidiary IGLOOO formed a business alliance with unbot inc., a digital marketing business serving China, whereby IGLOOO acts as an exclusive partner for promoting European, US, and Australian tourism in the Chinese market.
Nov. 2020	CAICA Technologies Inc. launched sales of the Company-developed EzAvater RPA tool.
Dec. 2020	RICOH JAPAN Corp. and NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION began handling Mieru-Tsuyaku, a multilingual video communication interpretation service of consolidated subsidiary Terilogy Serviceware Corporation.
Mar. 2021	Acquired certification as a DX certified business Acquired the shares of CRESEED Corp. and made it a subsidiary
Apr. 2021	Consolidated subsidiary Terilogy Worx concluded a distribution contract with GitGuardian of France
May. 2021	Concluded a distribution contract with Pebble Corporation for EzAvater, a Terilogy-developed RPA tool.
June 2021	Consolidated subsidiary IGLOOO formed a business alliance with ADARA, a U.S. company with over 1.7 billion digital IDs worldwide, to strengthen digital marketing support in the field of inbound tourism in Japan. Consolidated subsidiary Terilogy Worx signed a distribution contract with Singaporean company Uppsala Security, a provider of risk management solutions for crypto-asset AML and cyber-attacks. Signed a distribution contract with Focus Systems Corporation for ThreatSonar, from Taiwan's TeamT5, a product handled by consolidated subsidiary Terilogy Worx.
July 2021	A Company engineer won the Grand Prize in the Network Division at the TREND MICRO Partner Engineer Award 2020.
Sep. 2021	Signed a capital and business tie-up with CBA Inc., an environmental DX venture, and underwrote share options to be issued by CBA.
Oct. 2021	Consolidated subsidiary Terilogy Worx began offering in-house-developed cyber threat hunting solution. Signed a distribution contract with Collabos Corporation for TechSee, a visual support tool handled by the Company that enables DX for support operations.
Nov. 2021	Consolidated subsidiary Terilogy Worx signed a sales partnership contract with Information Development Co., Ltd. for its in-house developed THX product enabling cyber-threat hunting. Capital and business tie-up partner CBA Inc began offering CBA-wellfest, an industrial waste treatment cloud service.
Dec. 2021	Consolidated subsidiary Terilogy Serviceware signed a business tie-up agreement with WELL ROOM Co., Ltd., operator of a multilingual healthcare service site, and began offering its multi-lingual service for medical institutions.
Feb. 2022	Consolidated subsidiary Terilogy Worx concluded a partnership with Synack, a U.S. company that provides crowdsourced security testing services worldwide.
Mar. 2022	Consolidated subsidiary Terilogy Worx Corporation concluded a capital and business alliance with Nihon Cyber Defence (accepted a third-party allocation of shares from Nihon Cyber Defence).
Apr.-May 2022	Consolidated subsidiary Terilogy Serviceware concluded an agreement for the distribution of Terilogy-developed RPA tool EzAvater with CAREER PLANNING Co., Ltd. and Rustic System Co., Ltd.
May 2022	Concluded a distribution agreement with U.S.-based SecurityGate to enter the risk management market in the OT security field. Signed a distribution contract with KDDI Evolve, Inc. for TechSee, a visual support tool.
July 2022	Consolidated subsidiary Terilogy Serviceware concluded an agreement for the distribution of Terilogy -developed RPA tool EzAvater with Office More Co., Ltd.
Aug 2022	Changed its sector on the TSE Standard Market from Wholesale Trade to Information & Communication. Entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD. <8096> regarding the expansion of transactions and next-generation business development centered around the security business (Implemented a third-party allocation of shares to KANEMATSU ELECTRONICS and disposal of treasury shares).
Oct 2022	Consolidated subsidiary Terilogy Serviceware concluded an agreement for the distribution of Terilogy-developed RPA tool EzAvater with Instrategy Corp.
Nov 2022	Terilogy Co., Ltd. established Terilogy Holdings Corporation through a sole share transfer; the holding company was newly listed on the Tokyo Stock Exchange Standard Market (Terilogy Co., Ltd. was delisted and became a wholly owned subsidiary).

Source: Prepared by FISCO from the Company's securities report and website



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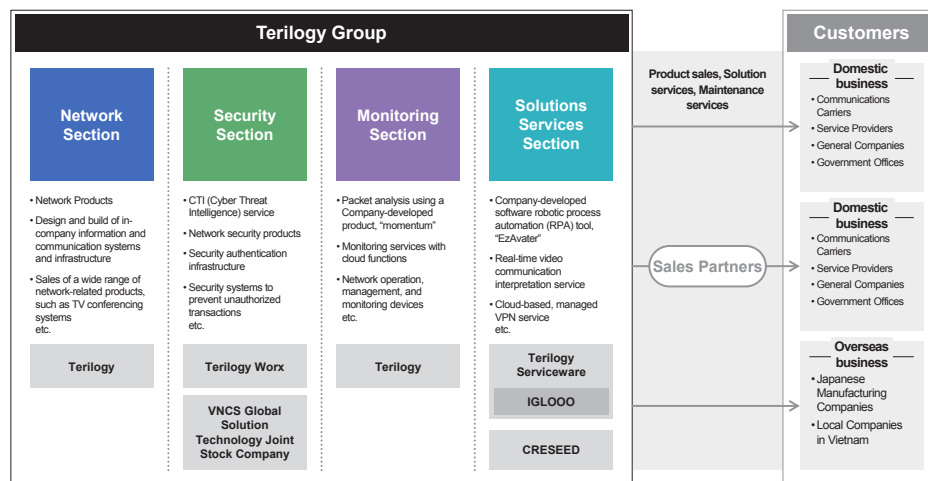
## Business description

### Engages in business in four sections: the Network Section, Security Section, Monitoring Section, and Solutions Services Section

#### 1. Develops its business in four sections by products and services

The Group does not disclose segment information, but it develops its business activities in four sections according to products and services: the Network Section, Security Section, Monitoring Section, and Solutions Services Section.

Diagram of the business structure



Source: The Company's results briefing material

#### 2. Network Section

The Network Section is mainly being developed by Terilogy. In 1H FY3/23, net sales were ¥640mn, which provided 25.9% of total net sales. The main products and services it handles are 1) network products (routers, switches, wireless LAN, and DNS/DHCP), 2) design and build of in-company information and communication systems and infrastructure, and 3) sales of a wide range of network-related products, such as TV conferencing systems, and provision of professional services. The Company takes pride in its ability to provide solutions optimized to meet customer needs through the accumulation of a strong track record over the 30 years since its foundation. In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the networks and ancillary devices provided by this section.

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#### Business description

#### Main products in the Network Section



#### Network

##### Alteon ADC-vx

Up to a maximum of 28 virtual ADC (vADC) loaded on one dedicated ADC hardware unit. Able to consolidate and integrate multiple ADC



#### Network

##### Appliances

NonStop/distribution/centralized management for identity-driven networks, such as DNS/DHCP/RUDIUS



#### Network

##### Aerohive

Fully control-less, cloud-based next-generation WiFi solutions

Source: The Company's website

With regard to the Radware products, customer take-up of products sold via sales partners since FY3/21 has been strong. The main Radware products which Terilogy handles in this business are 1) DDoS-fighting equipment and services that autonomously protect against Dos/DDoS attacks, also known as “service stop attacks”; 2) Load Balancer (a product that distributes the load on a server allowing it to operate stably), which boasts a large track record in the Japanese market; 3) multihoming equipment, which is the de facto standard for line load balancing; 4) Cloud WAF Service that achieves the highest level of web application security in the industry; 5) Bot Manager that protects all channels, such as web applications, mobile applications, and API, from automated threats (bots); and 6) Cloud Workload Protection service that comprehensively protects cloud assets. Products 2) and 3) are network related, while the rest are security related.

Terilogy became the primary distributor of Radware products in Japan following the conclusion of a distributor contract in March 2020, but due to the fact that the previous primary distributor mainly handled network-related products, Terilogy (which can distinguish the products from existing products in the security-related field) is expected to develop the business scale even larger through cross-selling and up-selling. In actuality, for Radware-related orders, it achieved ¥166mn (¥217mn in FY3/21) in orders received and ¥278mn (¥55mn in FY3/21) in sales of maintenance service in FY3/22. When considering that maintenance sales is a recurring income-type business, it can be determined that it is highly likely to contribute to increased sales in FY3/23 as well.

### 3. Security Section

The Security Section is mainly being developed by Terilogy Worx (TWX), with a focus on the CTI business area. In 1H FY3/23, net sales were ¥1,009mn, which provided 40.8% of total net sales and solidifying it as the Group's main business pillar. The main products and services it handles include 1) CTI (Cyber Threat Intelligence) service, 2) network security products (firewalls, intrusion detection and prevention countermeasures, information leakage countermeasures, etc.), 3) security authentication infrastructure (identifying service users on a network), and 4) security systems to prevent unauthorized transactions (one-time password products). It has a maintenance system operating 24 hours a day, 365 days a year to support the security devices and software products provided by this section.

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#### Business description

In the CTI business area, the Group secured a big project for National Police Agency in 2021 and it has a track record of projects for the Ministry of Defense through a partner, but this was mainly focused on consulting services. However, in March 2022, TWX accepted a third-party allocation of shares from Nihon Cyber Defence Co., Ltd. through a capital and business alliance. As Nihon Cyber Defence is a company with members who are well versed in the national defense field, including former leaders in the Japan Self-Defense Forces, the leveraging of both companies' strengths will enable the provision of products that add new value, and it is expected that this will be a major development toward winning new clients.

#### Main products in the Security Section

 <p><b>Security</b></p> <p><b>Lastline</b> Protection from the latest threats in customers' public cloud environments (cloud infrastructure and cloud email) and in on-premises environments.</p>	 <p><b>Security</b></p> <p><b>Trend Micro TippingPoint</b> Has the leading track record for intrusion prevention systems as in-line type and network-type IPS appliances</p>	 <p><b>Security</b></p> <p><b>One Span (Former Vasco Data Security)</b> Secure user authentication that is more secure than fixed passwords by using a hard-software token to automatically generate a disposable, one-time password</p>	 <p><b>Security</b></p> <p><b>KERA</b> A consulting service that detects and collects information that threatens companies interacting with the Darknet, and then provides analysis results.</p>
 <p><b>Security</b></p> <p><b>Nozomi Networks</b> Provides asset management, real-time monitoring, abnormality detection, and vulnerability judgments for Industrial Control Systems (ICS)</p>	 <p><b>Security</b></p> <p><b>REDSEAL</b> Realizes proactive security by automatically generating an access map and attaching the results of a scan of the access map's vulnerabilities.</p>	 <p><b>Security</b></p> <p><b>Tempered Networks</b> Easily realize secure networks – Secure Networking Made Simple –</p>	 <p><b>Security</b></p> <p><b>Cloud WAF Service</b> Provides the industry's best Web app security with a positive security model based on machine learning technologies.</p>

Source: The Company's website

#### 4. Monitoring Section

The Monitoring Section is mainly being developed by Terilogy In 1H FY3/23, net sales were ¥126mn, which provided 5.1% of total net sales, and a feature of this section is the handling of Terilogy-developed products. The main products and services it handles are 1) packet analysis using a Terilogy-developed product (momentum), 2) monitoring services with cloud functions (CloudTriage), and 3) network operation, management, and monitoring devices. In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the Terilogy-developed products (momentum); network operation, management, and monitoring devices; and software products provided by this section.

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#### Business description

Terilogy's own brands include momentum (network packet capture products developed completely in-house), which constitutes the core of the Monitoring Section, and CloudTriage (IT systems operation monitoring cloud services managed under its own brand), which uses a monthly billing model and forms part of the support business division. In momentum, data (packets) exchanged on a network are collected in a storage device, analyzed and made visible in order to validate service quality, specify locations of defects, and provide support measures. It is, so to speak, a drive recorder-like solution on a network, and Terilogy has successfully acquired important customers, such as major mobile communication carriers. Currently, it is working on developing new usage scenes, including network monitoring, security measures, and troubleshooting responses. Also, CloudTriage measures the operation conditions of IT systems from the user's viewpoint, and in the event of a decline in performance, like a delay in remote access, it specifies the cause. It is provided inexpensively as a monthly billing cloud service.

#### Main products in the Monitoring Section

 <p><b>CloudTriage</b></p> <p>Operation &amp; management CloudTriage RCA</p> <p>Skillfully identifies bottlenecks in the user's system and presents improvement points.</p>	 <p><b>momentum</b></p> <p>Operation &amp; management momentum</p> <p>High performance capture ring software that enables high-speed packet capture and packet storage.</p>	 <p><b>eG Enterprise</b></p> <p>Operation &amp; management eG Enterprise</p> <p>Conducts real-time monitoring of IT infrastructure, makes visible performance, analyzes the causes of problems, and automates specified tasks</p>	 <p><b>SevOne</b></p> <p>Operation &amp; management SevOne</p> <p>A high-speed network performance management tool that collects and monitors every kind of data and enables application identification</p>
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Source: The Company's website

## 5. Solutions Services Section

The Solutions Services Section is mainly being developed by Terilogy Serviceware, IGLOOO (a subsidiary of Terilogy Serviceware), and CRESEED. In 1H FY3/23, net sales were ¥698mn, which provided 28.2% of total net sales. The section's main products and services encompass 1) a Terilogy-developed software robotic process automation (RPA) tool (EzAvater), 2) a real-time video communication interpretation service (Mieru-Tsuyaku), 3) a cloud-based, managed VPN service (MORA VPN Zero-Con), 4) a corporate internet connection service (MORA Hikari), 5) a high-speed mobile data communication service (MORA Mobile), 6) web conference services (MVC and Zoom), 7) a visual contactless remote support service (TechSee) using artificial intelligence (AI) and augmented reality (AR), and 8) business involving pre-travel, on-travel, and post-travel services provided by IGLOOO and 9) operational support and outsourcing business for information systems provided by CRESEED.

#### Main products in the Solutions Services Section

 <p><b>RPA EzAvater</b></p> <p>Operation &amp; management RPA EzAvater</p> <p>An RPA tool developed in-house for customers who want to build robots and automate routine tasks.</p>	 <p><b>Mieru-Tsuyaku</b> A multilingual video communication interpretation service</p> <p>Network</p> <p>A video communication interpretation service useable with 10 languages, including English, Chinese, and Vietnamese, and sign language (Japanese sign language) by connecting to an interpretation operator.</p>	 <p><b>MORAVPN Zero-Con</b></p> <p>Security</p> <p>Inter-site VPN services</p> <p>One stop managed a simple connection, low-cost VPN service that ensured a location change for customers at the time of installation or during connection failure.</p>	 <p><b>TechSee</b> Intelligent Visual Assistance</p> <p>Management</p> <p>TechSee</p> <p>Visual customer assistance solutions utilizing artificial intelligence (AI) and augmented reality (AR)</p>
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Source: The Company's website

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#### Business description

“EzAvater” is an RPA tool which is gaining attention as a way to achieve workstyle reform and improve efficiency. Its features include that it is extremely easy (robots for everyone = intuitive operations to enable the creation of scenarios to automate routine tasks), it makes stoppages unlikely (the robots work at the speed of the system, and it creates templates for exception processing and realizes stable operations), it does not matter what app is used (through the adoption of image recognition technology, work can be automated regardless of the app, as long as it is operating on Windows) and it can start small (can be introduced starting from a single PC). Due to these features, “EzAvater” overcomes many of the weaknesses of RPA tools, such as that if there is no specialist IT department, it is difficult to create the robots and the introduction costs and maintenance burden are large. This software made it possible for a utilization method that creates robots that reflect the needs of work sites in each department and to have them carry out daily management tasks. In fact, EzAvater has accumulated many positive reviews on ITreview, which is Japan’s largest review site managed by ITCrowd Corp. for reviews by real users of corporate IT products and cloud services, and in the ITreview Grid Award 2022 Summer RPA Category, it received the LEADER award.

Also, for sales of EzAvater, the Company is actively utilizing a partner strategy (it has introduced a gold partner system) from the aim of wanting to penetrate a wide range of user groups. During 2019, it concluded distribution contracts with NCXX Solutions Inc., Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., and UCHIDA ESCO Co., Ltd. Since 2020, it has also concluded distribution contracts with Hitachi Systems, Ltd., Computer Engineering & Consulting Ltd. <9692>, Pebble Corporation, CAREER PLANNING Co., Ltd., Rustic System Co., Ltd., Office More Co., Ltd, and Instrategy Corp., and it is working to expand sales channels. According to the Company, distributors are switching from RPA tools made by other companies to EzAvater, which it sees as proof of the product’s appeal.

Mieru-Tsuyaku is a video communication interpretation service that is available anytime, anywhere with one touch using a tablet or smartphone with a call operator providing support, such as for customer service. It provides interpretation services in English, Chinese, Korean, Thai, Russian, Portuguese, Spanish, Vietnamese, French, Tagalog, Indonesian, Nepalese, Hindi, and Japanese sign language for a flat rate (¥15,000 per month for the light plan, available from 9am to 9pm, and ¥25,000 per month for the standard plan, available 24 hours a day). The Company also offers a medical interpreting option (only in English, Chinese, Korean, Portuguese, Spanish and Vietnamese ¥35,000 per month).

Mieru-Tsuyaku was originally launched as a service targeting inbound visitors, but it has evolved into a service that can be utilized to respond to the needs of foreign residents in healthcare facilities, evacuation centers during disasters, and government office service counters, as well as for web conferences that require interpreting, educational facilities (using GIGA School tablets), and other purposes. As of the end of 1H FY3/23 (Apr. – Sept.), Mieru-Tsuyaku had been introduced by 40 local governments (238 IDs), including Tokyo Metropolis, Miyagi Prefecture, Chiyoda City, Bunkyo City, Hachioji City, Nikko City, Fukuoka City, and Nagaoka City; by 5 medical facilities (7 IDs), including Yokohama Municipal Citizen’s Hospital and Mieruka Clinic; by 21 miscellaneous organizations (2,425 IDs), including SEIBU RAILWAY, Kintetsu Department Store, Shiseido Japan, Tsuruya Golf, Fukuoka International Airport, AEON RETAIL, Zoff, and MEGANE NO YONEZAWA; and by 18 group vaccination sites (29 IDs), including those in Sapporo City, Kobe City, Zama City, Niigata City, and Taito City.

Mieru-Tsuyaku is offered by Terilogy Serviceware (TSW). TSW is a consolidated subsidiary whose trade name was changed from that of the former corporate ICT services business of ITX Corporation, which was acquired from Nojima <7419> Group in December 2017. With this M&A strategy, the Company is acquiring new business domains and a customer base of medium-sized and SME enterprises, as well as retail stores such as nationwide chain stores and wholesale stores, both of which it had few in the past (TSW now has in excess of 1,000 customers, including major corporations).

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#### Business description

In May 2020, Terilogy Serviceware made IGLOOO, which conducts an inbound media business, into a subsidiary. IGLOOO is a company that provides pre-travel and post-travel services, of businesses to produce content and promote overseas travel, centered on the operation of VOYAPON, an online media for inbound travel for people in Europe, the US, and Australia. Up until now, TSW has been providing the real-time video communication interpretation service Mieru-Tsuyaku in the “during travel” domain for foreign tourists visiting Japan. IGLOOO’s services are highly complementary and synergistic with those of Terilogy Serviceware that have established positions as industry leaders. Even during the “with COVID-19” era, it seems certain that the national policy aimed at making Japan a popular destination will be restarted in some way, so the Company’s contrarian decision to make an offensive move even during this difficult time is worthy of praise.

Since joining the Terilogy Group, IGLOOO has conducted the following initiatives: 1) joined forces with MIKI TOURIST CO., LTD., and ITP INC., to launch the International Travel Showcase Online Exhibit Support Package of services to assist those wishing to take part in online travel exhibitions, particularly in Europe, the US, and Australia (August 2020); 2) updated its VOYAPON inbound media service for Europe, the US, and Australia (August 2020); 3) launched its VOYAPON STORE, a cross-border e-commerce website featuring narratives from the perspectives of foreign nationals (September 2020); 4) entered into a business alliance with unbot Inc., which engages in digital marketing business geared toward China, as an exclusive partner to promote tourism to Europe, the US, and Australia for the Chinese market (November 2020); 5) launched the first cross-border e-commerce project for Europe, the US, and Australia in collaboration with Yomitan Village, Okinawa Prefecture (April 2021), 6) created a PR video and implemented promotions for Yamanashi Prefecture, targeting the Middle East (May 2021), 7) entered into a business alliance with ADARA, a U.S. company that boasts over 1.7 billion digital IDs across the world, to strengthen support for digital marketing in the inbound tourism field (June 2021); and 8) created the “Hamamatsu, The City of Music” series of PR videos targeting overseas viewers (April 2022). In such ways, in terms of the future, it is accelerating business promotion and developing its presence to play a role for the Solutions Services Section.

## ■ Features and Strengths

**The company has built a business model backed by its corporate philosophy. Its core competence is its firm “ability to find emerging technologies and marketable products” and “ability to respond to the market”**

### 1. Building the business value chain needed to practice its corporate philosophy of “focus on the customer”

The Group’s business model shows the ingenuity it employs in putting its corporate philosophy “to respond to the needs of our customers and ensure their full satisfaction” into practice as a business. That, in short, is the creation of a business value chain centered around processes designed to meet the needs of the customer (technology, product research and discovery, etc.), and processes aimed at ensuring full customer satisfaction (offering solutions combining multiple products, having a maintenance structure in place, etc.), as well as the use of a partnering strategy in each of the processes along the value chain.



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#### Features and Strengths

#### The Group's value chain



Source: Terilogy's website

To build a business model and value chain backed by a corporate philosophy, the Group first needs to establish a mission and vision based on that philosophy, and then incorporate those in an action plan designed to achieve them. The Group has established as its mission “to provide unique, valuable security technology in a digital society to ensure safety and security in every business situation,” and as its vision, “to become a technology solutions organizer that offers and implements unique, optimal solutions to customer issues by combining technologies of value.” It has incorporated these into an action plan in a form fitted to the processes of its business value chain.

Specifics of that action plan include ongoing research and discovery activities regarding advanced, cutting-edge technology trends in Silicon Valley and Israel; ongoing research, inquiry and validation activities to determine the compatibility of technology discovered with the Japanese market and with issues faced by customers; development of solutions for market introduction by combining multiple technologies and through adaptive development arrangements, building of delivery and support systems, training in high-value proposal sales, and new market creation activities. All of these are indeed aligned with the corporate philosophy to “respond to the needs of our customers and ensure their full satisfaction”

## 2. The Company's competence in “finding emerging technologies and marketable products” and its “ability to respond to the market” are the basis for all of its strengths

The Group considers its strengths to be 1) its competence in “finding emerging technologies and marketable products” and its “ability to respond to the market” which is the discernment required to find and identify progressive, leading-edge technologies and deploy them in markets in ways adapted specifically to local customers; 2) wide selection of security and safety solutions for varying applications, encompassing everything from network infrastructure to communication endpoints; 3) flexible provision of diverse services and products supported by a product lineup covering everything from products utilizing leading-edge technologies through to maintenance services, software products developed in-house, and new services; 4) stable and proven technical capabilities rooted in experience since its founding through three decades of reliable, customer-tailored service provision; and 5) global response capabilities, including the rapidly growing markets of emerging nations in Asia. Each of these strengths is backed by a track record of results, but in particular, the Company's “ability to find emerging technologies and marketable products” and its “ability to respond to the market” would seem to be its core competence on which all of the other strengths are based.

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#### Features and Strengths

### 3. Refining the “ability to find emerging technologies” and “marketable products” to fulfill customer needs

The Group’s ability to find “emerging technologies” and “marketable products” lies in “accurately ascertaining and incorporating the trends of the times into its business areas, finding the latest technologies of overseas venture companies and concluding distributor and other contracts,” and it has no shortage of experience in this regard. Here, in addition to Wellfleet of the US and Infoblox <BLOX> of the US, in the broadband field, we can also mention TippingPoint (it was acquired by Hewlett-Packard <HPQ> of the US in 2010 and acquired by Trend Micro <4704> in 2015), Belgian company OneSpan, and American company Lastline (which was acquired by VMware <VMW> of the US in 2020), as examples in the security field.

Terilogy’s corporate IP network business began in 1990 when it entered into a distribution contract with Wellfleet of the US and started to provide routers (telecommunications equipment for relaying two or more different networks), which are one of the main products to build IP networks. Although Wellfleet does not exist today, in 1998, the company was acquired by Nortel (Canada), the world’s second largest computer network device company at the time, to compete against Cisco Systems <CSCO> of the US founded in 1984, which was the largest company back then. The Group’s discovery of Wellfleet in 1990 can be said to be a good example of its “ability to find emerging technologies and marketable products.” Currently, Terilogy is fulfilling its responsibility as a supplier by handling the routers manufactured by Cisco Systems.

In the broadband area, in 1999, the Company started to provide ADSL-connection software, and subsequently it developed hit products with more than 10 million users, which became a bridgehead into a business for major telecommunication companies. Also, in 1999, it concluded a distribution contract with Redback Networks of the US, and through the introduction of broadband access servers and other products, it contributed to building the FTTH networks of various electric power companies. Also, in mobile-related products, it realized growth for DNS/DHCP appliances manufactured by Infoblox of the US (devices to issue an IP address) and Terilogy-developed solutions for monitoring networks have become its core products following the spread of smartphones. In 2003, Terilogy was the first in Japan to conclude a distribution contract with Infoblox, which was founded in 1999. Currently, DNS/DHCP appliances manufactured by Infoblox are handled by major companies in Japan and have acquired the position of being the de-facto standard, so this can also be evaluated as indicating the Group’s “foresight.”

In the security field, the Company has provided wide-ranging solutions by concluding a domestic (Japan) master reseller contract with TippingPoint of the US, when it was independent in 2004 followed by concluding reseller contracts with OneSpan <OSPN> (formerly VASCO Data Security of Belgium) in 2007, Lastline of the US in 2012, RedSeal of the US in 2015, Tempered Networks of the US and KELA of Israel in 2016, and Nozomi Networks of the US in 2018 (exclusive domestic (Japan) reseller contract with Tempered Networks), which is enabling it to provide solutions over a wide range.



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#### Features and Strengths

TippingPoint is a cybersecurity company specializing in IPS (intrusion prevention systems) that was acquired by Trend Micro in 2015 for approximately US\$300mn. However, Terilogy concluded a domestic (Japan) master reseller contract with TippingPoint 11 years before its acquisition (2004) and has accumulated a track record, so it continues to be relied on by Trend Micro. Also, in 2007, Terilogy became the first in Japan to handle OneSpan's one-time password technology, which today has been adopted by all of Japan's megabanks and become an essential part of internet banking. Moreover, in 2012, Terilogy started selling the targeted-attack countermeasure cloud services of Lastline of the US, and as is clear from the trend in the number of targeted-attack emails ascertained by the National Police Agency (NPA) in recent years (2014: 1,723 cases → 2015: 3,828 cases → 2016: 4,046 cases → 2017: 6,027 cases → 2018: 6,740 cases → 2019: 5,301 cases → 2020: 4,119 cases; later data has not been disclosed), malware and other targeted attacks have come to be recognized as a major threat. Also, although the number of targeted-attack emails reached a peak in 2018 and following years, statistics regarding the number of arrests made for cybercrimes released by the NPA (2018: 9,040 cases → 2019: 9,519 cases → 2020: 9,875 cases → 2021: 12,209 cases) show a rapidly increasing trend, suggesting that the threat of cyber-attacks on companies is growing.

These examples would seem to clearly demonstrate the Group's ability to accurately ascertain the technological trends and cutting-edge technologies that it should precisely focus on as its business areas and its "ability to find emerging technologies and marketable products" with "foresight."

#### 4. An "ability to respond to the market" well-regarded by business partners

So why do overseas venture companies select the Group as their partner in Japanese business? The reason is its high ability "ability to respond to the market," which has been fine-tuned since its foundation by implementing a management strategy that is supported by its corporate philosophy of prioritizing the needs and satisfaction of customers.

The sources of the Group's "ability to respond to the market" are 1) its ability to combine imported technologies with its proprietary technologies to develop solutions with high levels of customer satisfaction, and 2) its ability to fill-in missing parts by fully utilizing an alliance and M&A strategy. In general, even if venture companies are able to create good technologies and products, in many cases they are inferior to major companies in the value chain for aspects like maintenance and sales. But in the case of Terilogy, in 1991, two years after it was founded, it concluded a maintenance outsourcing contract with Toshiba IT-Services Corporation (formerly Toshiba Engineering Co., Ltd.). For sales, one of its features is that it has not only established an indirect sales network, including through alliances, but that it has also worked to strengthen its direct sales force, such as by acquiring customer touch points through business and capital alliances and M&A.

Terilogy has been highly evaluated by influential customers for its active utilization of a partnering strategy for the entire value chain, from product development (combining imported technologies with its proprietary technologies) through to maintenance (in which Terilogy itself identifies problems and then outsources the actual maintenance work) and sales (using both direct and indirect agency network sales), and it is efficiently building an excellent customer base (in the case of Terilogy, more than 300 companies are mainly major companies, and it conducts business directly with around 90% of customers). This has formed the "excellent distribution capabilities in Japan" (a wealth of customer information, a maintenance system that operates 24 hours a day, 365 days a year, and extensive customer contact points through combining direct sales with indirect sales) and it has become the deciding factor for overseas venture companies in choosing the Group as their partner in Japan.

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#### Features and Strengths

In March 2020, Terilogy signed a distributor agreement with Israeli company Radware <RDWR>, which is one of the global leaders in areas such as network virtualization and cybersecurity solutions and is a publicly listed company on the NASDAQ market in the US. A press release from Nihon Radware K.K. stated, “Terilogy has a track record of creating Japanese markets by providing numerous overseas cutting-edge technologies to the Japanese market. Terilogy has achieved stable operation and management of technologies and products that previously had no track record in the Japanese market, and has earned the trust of Japanese customers for many years. Radware expects synergies between the strong solution proposal and support capabilities provided by Terilogy and the technical capabilities that have allowed Radware to be regarded as an industry leader, and has decided to conclude a distributor contract this time, judging that Radware can provide integrated security solutions to Japanese corporate customers, including main products such as Cloud WAF Service, Bot Manager and Cloud Workload Protection.” We can view this as proof that the Group’s “ability to find emerging technologies and marketable products” and “ability to respond to the market” are viewed positively by overseas technology companies.

#### 5. The Group’s strengths are becoming evident in its business results as well

The Group can be highly evaluated for leveraging its ability to “find emerging technologies and marketable products” and “respond to the market” while successfully strengthening its value chain through its partnering strategy and acquiring an outstanding customer base. That said, the Group’s partnering strategy also involves incorporating trading company functions, which are generally less profitable, into the business model, and through FY3/17, the Group’s operating income margin was flagging. Beginning in FY3/18, however, the Group’s performance began to improve, and the strengths we have seen thus far seem to have become evident in its business results.

Looking at the change in the Group’s operating income margin between FY3/18 and FY3/22 (evaluated on a full-year basis due to the IT-related industry’s seasonal factor of fiscal year-end acceptance inspection and recording of sales, which means results typically tend to skew toward the second half), on a consolidated basis it went from 5.1%, to 6.6%, to 6.5%, to 11.5%, to 8.5%; on a non-consolidated basis it went from 4.0%, to 3.0%, to 2.8%, to 10.5%, to 7.4%; and as a total calculated value of subsidiaries, from 19.7%, to 22.3%, to 26.0%, to 16.6%, to 10.1%.

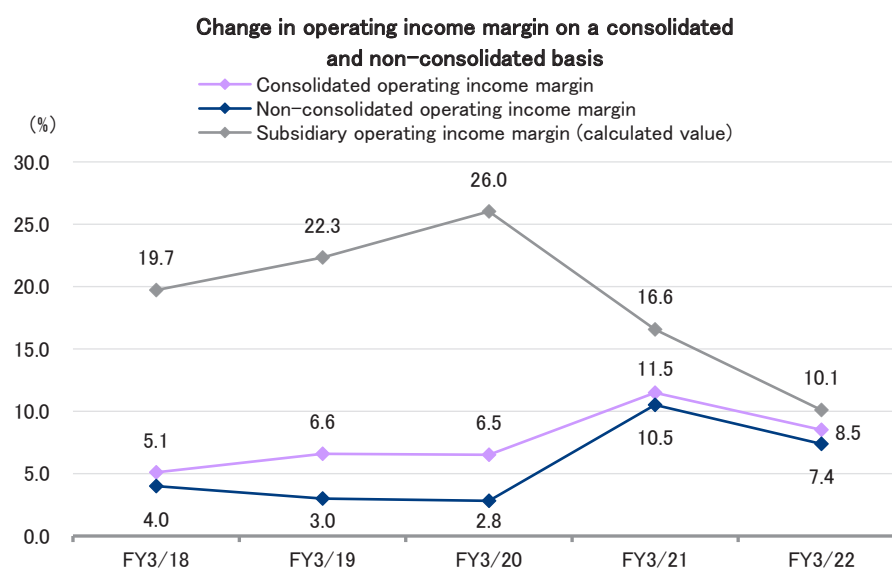
In FY3/22, the adoption of the revised Accounting Standard for Revenue Recognition, etc. and the effects of new consolidation through M&As (the consolidation of subsidiaries as advanced investments exerted a downward pull on the operating income margin) meant that levels declined year on year, but the trends can be read as follows: 1) the non-consolidated operating income margin was declining but then suddenly improved and it is now at a level that compares favorably to other companies in the industry, and 2) the operating income margin of the Company’s group of subsidiaries, including those acquired through M&A, is not only higher than that of the Company on a stand-alone basis but is also high in absolute terms.

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Features and Strengths



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

## Results trends

### Loss in 1H FY3/23 also due to the effect of one-time expenses, but sales were steady Maintaining financial soundness

#### 1. Loss in 1H FY3/23 also due to the effect of one-time expenses, but sales were steady

In the 1H FY3/23 consolidated results (of the delisted Terilogy), net sales increased 5.3% YoY to ¥2,474mn, while operating loss amounted to ¥42mn (operating income was ¥178mn in the same period of the previous year). Operating income decreased (resulting in a loss) due to the impact of factors such as a drop in initial revenue following the shift to a subscription-type service (which particularly affected the Network Section), rising costs of foreign products due to the rapid weakening of the yen, and the enhancement of human capital for the purpose of business expansion, as well as the recording of various one-time expenses in conjunction with business and capital alliances and structural reorganization (¥20mn recorded for expenses related to business and capital alliances and ¥32mn for various expenses associated with structural reorganization such as settlement of restricted stock). However, sales remained steady against a backdrop of heightened demand for security. Orders received decreased 10.2% YoY to ¥2,435mn, but outstanding orders rose 30.6% YoY to ¥1,850mn owing to the shift to a subscription-type service.

Although The Company posted an operating loss in 1H FY3/23, the drop in initial revenue was due to the Company's medium-term goal of transitioning to a recurring income-type business model, and apart from the recording of various one-time expenses, such as those in conjunction with business and capital alliances and structural reorganization, considering the results from an organic perspective, the Company effectively achieved an operating surplus. Therefore, we at FISCO believe that this 1H loss presents no particular cause for concern.

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# Results trends

## Simplified income statement

	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22	1H FY3/23
<b>Net sales</b>	2,434	3,221	3,660	4,051	4,701	5,223	2,474
YoY	-7.7%	-	13.6%	10.7%	16.1%	11.1%	5.3%
<b>Cost of sales</b>	1,709	2,197	2,256	2,537	2,757	3,162	1,621
YoY	-9.6%	-	2.7%	12.5%	8.7%	14.7%	16.5%
<b>Gross profit</b>	725	1,024	1,403	1,513	1,944	2,061	853
YoY	-3.0%	-	37.0%	7.8%	28.5%	6.0%	-10.9%
<b>SG&amp;A expenses</b>	831	858	1,159	1,249	1,404	1,620	895
YoY	15.2%	-	35.0%	7.8%	12.4%	15.4%	15.0%
<b>Operating income</b>	-105	166	244	263	540	441	-42
YoY	-	-	47.0%	8.0%	104.7%	-18.3%	-
<b>Ordinary income</b>	-97	173	229	288	543	439	-39
YoY	-	-	32.3%	25.4%	88.5%	-19.0%	-
<b>Net income</b>	-99	154	207	214	437	275	-80
YoY	-	-	34.6%	3.5%	103.9%	-37.5%	-

Note: Results are non-consolidated up to FY3/17, and from FY3/18 onwards, they are consolidated and include net income attributable to owners of parent, with the adoption of revised Accounting Standard for Revenue Recognition, etc. from FY3/22

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

Looking at net sales by business section in 1H FY3/23, they declined 9.6% YoY to ¥640mn in the Network Section, increased 34.1% to ¥1,009mn in the Security Section, declined 21.6% to ¥126mn in the Monitoring Section, and decreased 4.0% to ¥698mn in the Solutions Services Section.

In the Network Section, sales declined due to the drop in initial revenue following the transition to a subscription-type business model. However, orders for Radware products, such as DDoS-fighting services, load balancing devices for WAN lines, and Web application optimization, remained strong as the Company sought to solve network issues faced by companies through efforts such as countermeasures against the ongoing DDoS attacks that follow global sporting events, and load balancing of VPN and WAN lines that are strained due to telework and working from home. In addition, the Company pursued the acquisition of orders for network construction projects using Extreme Networks (formerly Aerohive), a secure cloud-based wireless LAN product, against a backdrop of increased corporate Wi-Fi use associated with the introduction of telework and free address systems. As for Infoblox IP address management servers, the demand for replacement with new models has died down, leading the Company to focus on DNS security solutions proposals. Although sales declined in 1H FY3/23 due to the drop in initial revenue, the Network Section is expected to become a high-margin, stable revenue source from FY3/24 and beyond, owing to the shift to a subscription-style business model.

The Security Section saw a significant increase in sales against a backdrop of the growing threat of attacks on cybersecurity, such as unauthorized access and targeted attacks. In the field of critical infrastructure such as electric power systems and industrial control systems such as factory and building management, there has been an increase in inquiries about control system and security risk analysis projects that use Nozomi Networks for OT and IoT security measures. There has also been an increase in Sumologic, which can quickly and accurately identify threats through the integrated collection and correlation of log information from existing systems and security tools, as well as log information from cloud services such as SaaS and PaaS. Orders have been steady for a Cyber Threat Intelligence Service that collects and analyzes information on cyber-crime and terrorism, and BitSight, an automated cyber risk assessment service that visualizes supply chain risks. The software supply chain risk service also launched smoothly. In addition, the Company began full-scale development of a service that uses AI to analyze social media sites used in crimes to identify hidden relationships and undercover accounts between criminal groups.

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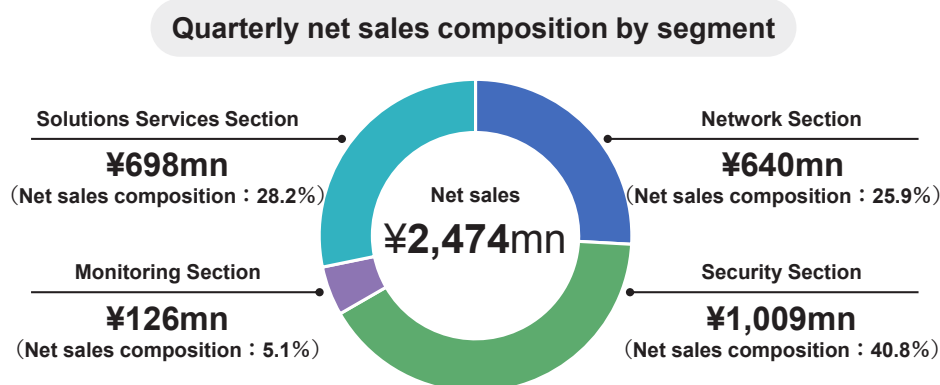
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#### Results trends

The Monitoring Section saw a decrease in sales associated with lower maintenance service sales following the end of support for long-used legacy products. However, against a backdrop of increased network load and security risks due to the rapid expansion of telework and working from home, the Company focused on acquiring new projects such as network monitoring, security measures, and troubleshooting responses for the new packet capture model THX Series from Terilogy Worx. In addition, the Company is pursuing the acquisition of orders for Terilogy's CloudTriage operation monitoring cloud service, mainly from existing major customers. As this will expand sales of high-margin Terilogy products and services, we will be watching future trends closely.

Overall sales in the Solution Services Section declined slightly, but the mainstay product, Mieru-Tsuyaku (a real-time video communication interpretation service that includes sign language), saw an increase in use at vaccination centers, government agencies and local governments, and medical facilities. In addition, demand for Zoom combined with Mieru-Tsuyaku as a new usage style is increasing at international conferences and other events. Furthermore, as COVID-19 travel restrictions for entering Japan are easing, there are encouraging signs of a full-scale comeback of inbound demand. There has been an increase in inquiries about the easy-connecting, cloud-based managed VPN service, a network service for cloud-based PBX service providers and SMEs, partly due to its simplicity and easy-to-implement price range. The number of contracts for EzAvater, an RPA tool developed by Terilogy, has been growing steadily as its use has expanded regardless of industry, type of business, or scale, owing to its growing recognition and features that allow anyone to use it easily. Order-taking activities are generally on track at CRESEED, which provides operational support for information systems and business development, and at IGLOOO, a promotion business utilizing inbound media to Japan, are generally performing at the planned level.

#### Quarterly net sales composition by segment



Source: The Company's results briefing material

## 2. Maintaining financial soundness

The Company is also maintaining the soundness of its financial structure. At the end of 1H FY3/23, total assets were up ¥288mn from the end of the previous period to ¥6,280mn, total liabilities increased ¥102mn to ¥3,653mn, and net assets increased ¥186mn to ¥2,626mn. There were no major items of change, but as a result, the equity ratio at the end of 1H FY3/23 was 41.4%, up 1.2 percentage points YoY. The current ratio was 152.8% (148.9% at the end of FY3/22), the D/E ratio (interest-bearing debt / shareholders' equity) was 0.09 times (0.11 times at the end of FY3/22), and net cash (cash and deposits – interest-bearing debt) was ¥2,306mn (¥1,901mn at the end of FY3/22). All items improved, and it can be said that the Company has maintained financial soundness.

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## Results trends

At the end of FY3/20, Terilogy (Currently Terilogy Holdings Corporation) resumed paying dividends after a 14-year break (since then it has maintained an annual ordinary dividend of ¥5 per share and in FY3/22, it also paid a special dividend of ¥2 per share), and it also had cash outflows of ¥223mn in FY3/21 on M&A and ¥249mn in FY3/22 on share buybacks. These shareholder returns and growth strategy activity were made possible by a significant increase in the equity ratio from 24.4% at the end of FY3/18 to 53.9% at the end of FY3/20 and an increase of more than 200% in the current ratio, from 99.0% at the end of FY3/18 to 209.4% at the end of FY3/20, indicating an ample solvency margin. This shows a disciplined approach to a strategy of raising corporate value that takes the financial situation into account.

## Simplified balance sheet

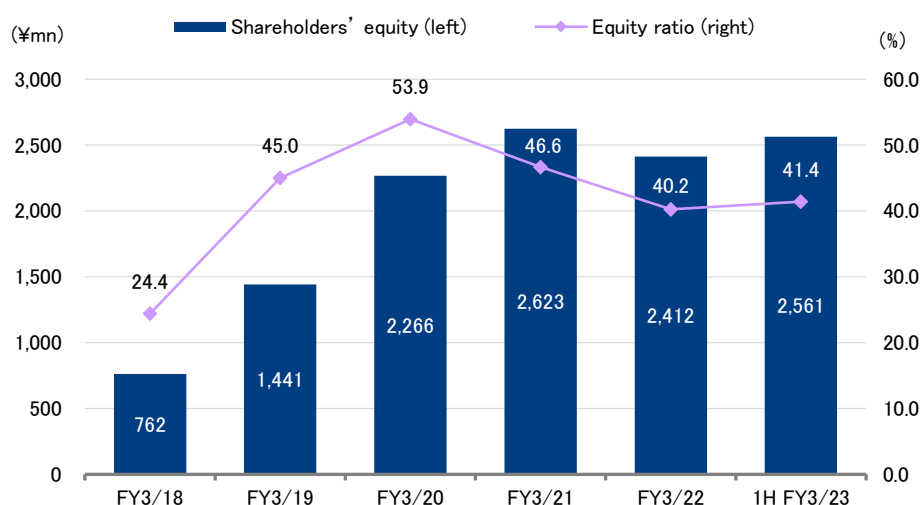
	End of FY3/17	End of FY3/18	End of FY3/19	End of FY3/20	End of FY3/21	End of FY3/22	End of 1H FY3/23	YoY
<b>Current assets</b>	2,063	2,288	2,355	3,404	4,515	4,871	5,176	304
Cash and deposits	1,098	972	1,064	1,895	2,418	2,159	2,545	385
Notes and accounts receivable - trade	494	863	742	871	965	838	511	-327
Inventory assets	24	35	56	102	180	72	132	60
<b>Non-current assets</b>	375	834	839	798	1,109	1,119	1,103	-15
Property, plant and equipment	93	131	148	147	208	188	169	-19
Intangible non-current assets	63	381	353	339	526	478	472	-5
Investments and other assets	218	321	337	311	374	452	462	9
<b>Total assets</b>	2,439	3,123	3,194	4,203	5,625	5,991	6,280	288
<b>Current liabilities</b>	1,752	2,312	1,314	1,626	2,657	3,271	3,387	115
Accounts payable - trade	315	252	243	451	378	174	192	18
Short-term borrowings, etc.	750	1,177	137	130	57	38	20	-18
<b>Non-current liabilities</b>	49	48	439	307	324	279	266	-12
Long-term borrowings	-	-	386	256	290	220	219	-1
<b>Total liabilities</b>	1,802	2,361	1,753	1,934	2,981	3,551	3,653	102
(Interest-bearing debt)	750	1,177	524	386	347	258	239	-19
<b>Total net assets</b>	637	762	1,441	2,269	2,643	2,439	2,626	186

Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards

Notes and accounts receivable - trade for FY3/22 and beyond include contract assets

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

## Trends in shareholders' equity and the equity ratio



Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards

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

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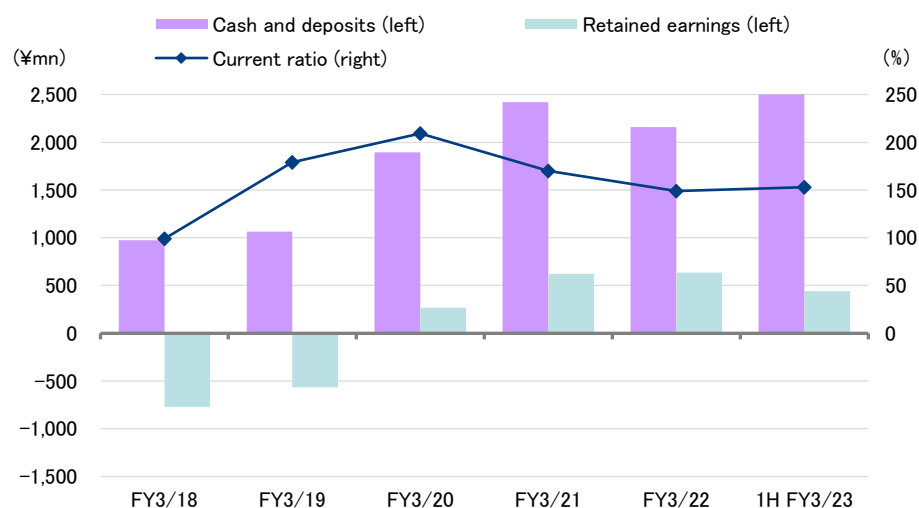
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# Results trends

## Trends in the current ratio, cash and deposits, and retained earnings



Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards  
Source: Prepared by FISCO from the Company's securities report and financial results

At the end of 1H FY3/23, the balance of cash and cash equivalents was ¥2,252mn. Looking at each of the cash flow conditions, net cash provided by operating activities was ¥267mn, net cash used in investing activities was ¥70mn, net cash provided by financing activities was ¥194mn.

## Simplified cash flow statement

	(¥mn)						
	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22	End of 1H FY3/23
Net cash provided by (used in) operating activities (a)	291	-55	374	484	1,131	414	267
Net cash provided by (used in) investing activities (b)	0	-440	-55	-24	-256	-243	-70
Net cash provided by (used in) financing activities	-219	391	-218	464	-237	-428	194
Free cash flow (a) + (b)	291	-495	318	459	874	171	197
Cash and cash equivalents at end of period	535	462	569	1,500	2,128	1,867	2,252

Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards  
Source: Prepared by FISCO from the Company's securities report and financial results

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## ■ Outlook

### **FY3/23 full-year forecast of decreased profit, but with a trend towards improvement in 2H.**

### **Aiming to strengthen the optimization capabilities of the entire Group and refine its strengths under a holding company structure**

#### **1. FY3/23 full-year forecast of decreased profit, but with a trend towards improvement in 2H**

The FY3/23 full-year consolidated results forecasts (forecasts as a holding company were announced as of November 1, 2022, and as they are the same figures previously announced by Terilogy, they remain effectively unchanged; percentage changes are shown in comparison with Terilogy's FY3/22 results) are for net sales increasing 18.7% YoY to ¥6,200mn operating income decreasing 16.2% to ¥370mn, ordinary income decreasing 15.8% to ¥370mn, and net income attributable to owners of parent decreasing 8.6% to ¥250mn. The assumed exchange rate is US\$1=¥130.00 (FY3/22 rate was US\$1=¥112.38). The Company expects to pay a dividend (one payment at the fiscal year end) of ¥5 per share, a decrease of ¥2 YoY. The FY3/22 dividend of ¥7 included a special dividend of ¥2 yen, so on an ordinary dividend basis, it is the same amount as FY3/22.

These forecasts are consistent with the targets for the second year of the new medium-term plan announced in May 2021. As the Group handles a lot of imported products which it buys in US dollars and sells in yen, the weakening of the yen should have an advance effect of lowering gross profit margin, but even taking into account the increasingly tense international situation caused by Russia's invasion of Ukraine, the Company has kept to the plan's targets, which suggests it sees these as the minimum that must be achieved.

In terms of sales, the Network Section saw a drop in initial revenue following the transition to a subscription-type business model, and replacement demand for new models of IP address management server Infoblox products died down, but orders for Radware products and Extreme Networks (formerly Aerohive) products are expected to remain strong. As for the Security Section, performance is expected to remain strong. The Monitoring Section will be affected by lower sales of maintenance services, but the Company will pursue the acquisition of orders for the new packet capture model THX Series from Terilogy Worx. As the Monitoring Section accounts for a relatively small percentage of total net sales (5.1% in 1H FY3/23), its impact on total net sales is also small. In the Solutions Section, the Company expects growth in the mainstay product Mieru-Tsuyaku associated with a full-scale comeback of inbound demand, and it is also promoting the expansion of the number of contracts for EzAvater, an RPA tool developed by Terilogy.

In terms of profit, as in 1H, the Company expects sales to decline due to the drop in initial revenue following the transition to a subscription-type business model, rising costs of foreign products due to the rapid weakening of the yen, the enhancement of human capital for the purpose of business expansion, and the recording of various one-time expenses in conjunction with business and capital alliances and structural reorganization, as well as other factors.



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As it posted a loss in 1H, the progress rate for the Company's full-year forecasts is low. However, 2H is expected to see an improvement in earnings, taking into account such factors as the following: The IT industry typically tends to have a higher proportion of sales in the second half due to the timing of acceptance inspection and sales; the impact of the rise in purchasing prices may lessen as weak yen peaks in the second half; sales price revisions resulting from the rising purchasing prices may penetrate the market; the various one-time expenses incurred in the first half in conjunction with business and capital alliances and structural reorganization will be completed. From the above, we at FISCO believe that the Company is likely to achieve its full-year forecasts.

### **2. Expecting to strengthen the optimization capabilities of the entire Group and refine its strengths by transitioning to a holding company structure**

The Company transitioned to a holding company on November 1, 2022 to raise corporate value by accelerating the Group's business development and strengthening governance. Under the new structure, Group management, investment, and new business development functions will be concentrated in the holding company. Meanwhile, each business company will have the autonomy to create its own growth strategies in the business area it is responsible for and to make decisions and advance business in a swift and flexible manner that takes into account changes in the environment. In other words, the Group's strengths are its "ability to find emerging technologies and marketable products" and its "ability to respond to the market," so it is aiming for a structure that will refine and demonstrate these strengths, with the holding company focused on finding emerging technologies and marketable products, which requires a broader perspective, while each business company has the responsibility and authority to work on responding to the market, which requires a closer connection to customers. Furthermore, as the Group is aiming to diversify and expand the business areas in which it operates through strategies such as M&A, optimizing the entire Group will become more important than ever before. It can therefore be evaluated that this transition to a holding company structure will contribute to raising corporate value in the medium to long term.

### **3. The new medium-term management plan shows the path to achieve net sales of ¥10bn**

The Group's new medium-term plan announced in May 2021 (three-year plan with FY3/22 as the first year) incorporates "numerical targets for organic growth," "the basic strategy and priority measures to achieve the targets" and "the basic approach for implementing the M&A and business alliance strategy."

First of all, based on the numerical targets for FY3/24 (net sales of ¥7.4bn and operating income of ¥560mn), the final year of the plan, the Company appears to be aiming for a sales growth rate of 20% and an operating income margin of 8% on an organic basis. Additionally, the M&A strategy presents an image of investment on a scale of around ¥1bn to ¥2bn, clearly indicating the scale of the investment budget per project (¥300mn to ¥500mn) and the scale of acquired annual sales (¥500mn to ¥1bn). The content of the new medium-term plan reflects a highly motivated plan that provides a path toward achieving net sales of ¥10bn.

For "the basic strategy and priority measures to achieve the targets," the key messages are 1) strengthening the recurring income-type business model 2) dynamic expansion of the Group's businesses, and 3) global business development. Whatever the case, the key will be the alliance strategy, including M&A, so the concentration of investment and new business development functions in a holding company can be taken as a positive development. Also, the transition to a structure that gives each business company the responsibility and authority to make decisions and advance business in a swift and flexible manner should become a tailwind for the action plans for achieving targets by each Group company advocated in the new medium-term plan. There is also a possibility the Company will formulate a new medium-term management plan due to its transition to a holding company structure. We will follow the new growth strategy closely.

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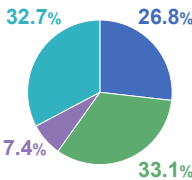
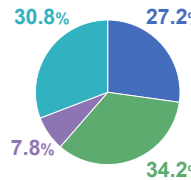
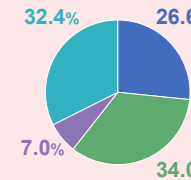
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## Outlook

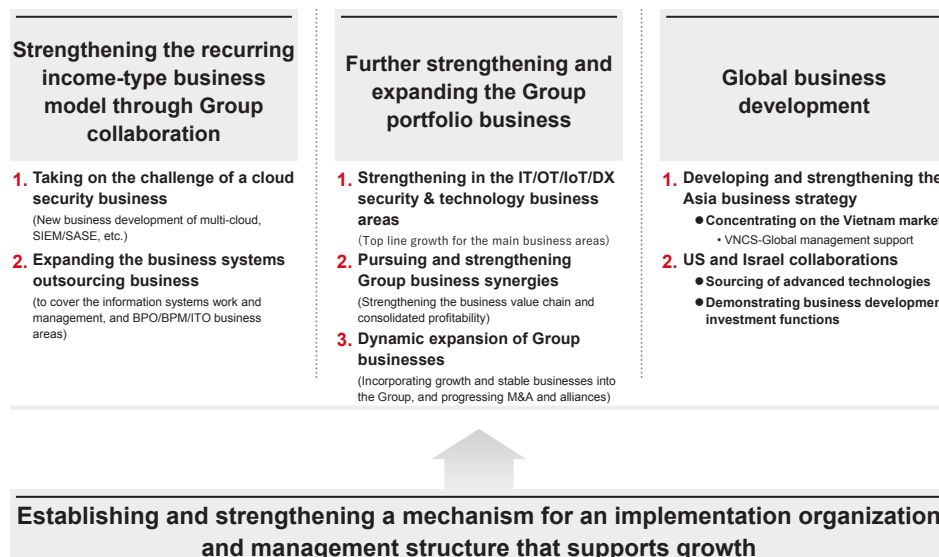
2021 to 2023 Three-year medium-term management plan (numerical targets)

**Aiming for net sales of ¥7.4bn in FY3/24**

	FY2021 Results	FY2022 Target	FY2023 Forecast
Net sales	¥5.2bn	¥6.2bn	¥7.4bn
Operating income	¥440mn	¥370mn	¥560mn
Growth rate	111.1%	118.7%	120.0%
Net sales by segment			

Source: The Company's results briefing materials

2021 to 2023 Three-year medium-term management plan (basic strategy and priority measures)



Source: The Company's results briefing materials

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