COMPANY RESEARCH AND ANALYSIS REPORT

Terilogy Holdings Corporation

5133

Tokyo Stock Exchange Standard Market

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Contents

Summary

Further increases in sales and profit are expected in FY3/27, following the previous fiscal year. A dividend policy changed to a progressive dividend policy

Terilogy Holdings Corporation <5133> (hereafter, also "the Company" and "the Group") is an independent IT corporate group that contributes to the digital transformation (DX) of companies and society, primarily focusing on network security and solutions services. The Group aims to establish itself as a "unique ICT business company group with independence and self-respect," actively conducting M&A to achieve this goal.

1. Development in the Network, Security, and Solutions Services sections

The Group's business is divided into three sections: the Network Section, which handles sales and maintenance of network products; the Security Section, which handles sales and maintenance of network security products including those developed by the Group; and the Solutions Services Section, which handles sales and maintenance of software including software developed within the Group, IT services, and inbound tourism promotion. The Network and Security sections mainly handle products from emerging overseas IT companies at the forefront of technology in Silicon Valley, Israel, etc. The features and strengths of the Group include over 30 years of accumulated experience and expertise since its founding, strong market responsiveness through accurate identification of trends of the time, the ability to discover cutting-edge technologies from emerging overseas IT companies, and the capability to deliver optimal solutions by combining imported technologies with the Group's proprietary technologies.

2. FY3/26 ended with significant increases in sales and profit

In the FY3/26 consolidated results, net sales rose 23.0% year on year (YoY) to ¥10,646mn, operating income increased 101.0% to ¥549mn, ordinary income grew 100.8% to ¥656mn, and net income attributable to owners of parent increased 97.2% to ¥346mn. The results significantly exceeded the initial forecast announced on May 15, 2025, and ended the fiscal year with substantial increases in both sales and profit, in line with the revised forecast announced on March 13, 2026. Sales performed strongly in all business sections on the back of high demand. On the profit front, although costs increased due to the rising purchase price of imported products and higher expenses associated with investment in human capital, these increases were absorbed through factors such as the impact of sales growth and price optimization. By business section, net sales grew 7.9% to ¥1,787mn in the Network Section, 31.4% to ¥4,434mn in the Security Section, and 22.2% to ¥4,424mn in the Solutions Services Section. In non-operating items, derivative valuation gains/losses improved.

3. FY3/27 is also expected to achieve further increases in sales and profit

For FY3/27, consolidated results are forecast to show net sales increasing 14.6% YoY to ¥12,200mn, operating income increasing 20.6% YoY to ¥662mn, ordinary income increasing 8.8% YoY to ¥715mn, and net income attributable to owners of parent increasing 23.6% YoY to ¥429mn. The Company expects increases in both sales and profit to continue from the previous fiscal year. Sales in all business sections are expected to grow on the back of high demand, with security products in particular expected to drive the growth. By business section, net sales are projected to rise 3.9% to ¥1,860mn (15.2% of total sales) in the Network Section, 23.3% to ¥5,465mn (44.8% of total sales) in the Security Section, and 10.3% to ¥4,875mn (40.0% of total sales) in the Solutions Services Section. On the profit front, while personnel costs and other costs will rise due to investment in human capital, these are expected to be offset by the impact of sales growth and price optimization. Assuming exchange rates remain generally at the same level as in the previous fiscal year, we have not factored in any foreign exchange gains or losses or derivative valuation gains or losses among non-operating items. We at FISCO believe that demand for cybersecurity solutions will remain strong, and expect strong results in FY3/27.

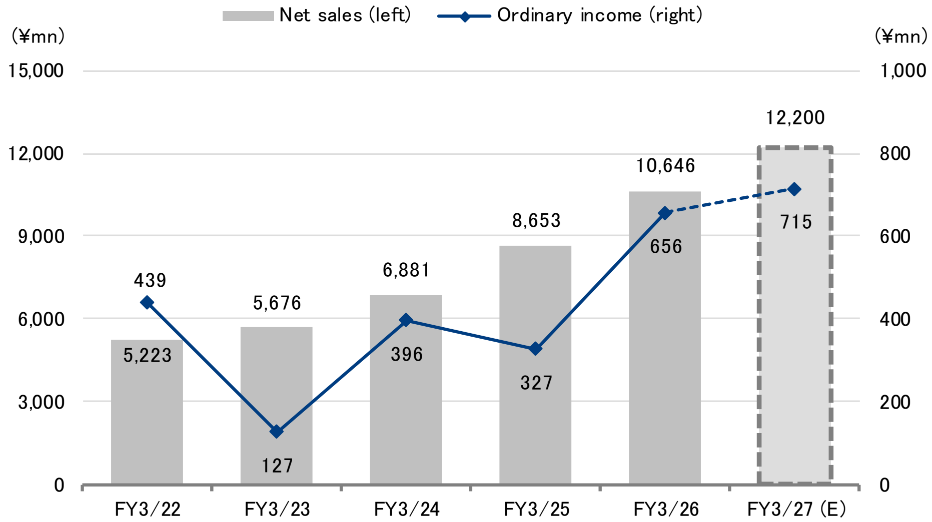
4. Medium-term management plan's performance targets revised upward and the plan's 10% ROE target achieved. A dividend policy changed to a progressive dividend policy

To respond to changes in the management environment, the Company reviews the numerical targets of its medium-term management plan each fiscal year using a rolling approach. Furthermore, in FY3/26, the Company exceeded the performance targets for FY3/26 set forth in the previous medium-term management plan and also largely achieved the performance targets for FY3/27. Accordingly, in the "Terilogy Group New Three-Year Medium-Term Management Plan (FY3/27–FY3/29)," formulated in May 2026, the performance targets for FY3/27 and beyond were revised upward. As part of efforts to realize management that takes into account the cost of capital and stock price, the Company achieved in FY3/26 the medium- to long-term ROE (return on equity) target of 10% that it had set (actual result: 11.4%). As its new ROE targets going forward, the Company aims to achieve ROE of 12.0% for FY3/27 and 15.0% for FY3/29 through further strengthening its profitability and improving capital efficiency. In addition, in May 2026, the Company announced a change in its dividend policy and upward revisions to dividends for FY3/26 and FY3/27. The dividend policy was changed to a progressive dividend policy, under which dividends will be increased each fiscal year by approximately ¥0.2 per share as a guideline.

Key Points

- Development in the Network, Security, and Solutions Services sections
- FY3/26 ended with significant increases in sales and profit
- Further increases in sales and profit are expected in FY3/27, following the previous fiscal year
- Medium-term management plan's performance targets revised upward and dividend policy changed to a progressive dividend policy
- Medium- to long-term ROE target of 10% achieved in FY3/26 (actual result: 11.4%); targets of 12.0% for FY3/27 and 15.0% for FY3/29

Results trend



Note: Figures for FY3/22 represent Terilogy's results.
Source: Prepared by FISCO from the Company's financial results

Company profile

Aims to be a "unique ICT business company group with independence and self-respect"

1. Company profile

The Company is a holding company established by Terilogy Co., Ltd. on November 1, 2022, through a sole share transfer. With a mission of "To create new value through ever-evolving Technology and limitless Solutions," the Group is an independent IT corporate group that contributes to the DX of companies and society, primarily focusing on network security and solutions services. The Group is working to establish itself as a "unique ICT business company group with independence and self-respect," actively conducting M&A to achieve this goal.

As of the end of FY3/26, the Company has total assets of ¥10,261mn, net assets of ¥3,364mn, an equity ratio of 31.9%, and 17,111,742 shares outstanding (including 5,510 treasury shares). In May 2026, the Company relocated its head office to Kanda-Jimbocho, Chiyoda-ku, Tokyo. In August 2022, it entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD., in August 2024, it entered into a business and capital alliance with Takachiho Koheki Co., Ltd. <2676>, and in May 2025, it entered into a business and capital alliance with SAXA, Inc. <6675>, with each becoming a major shareholder of the Company.

The Group is made up of 11 companies in total, including the Company (the holding company), seven consolidated subsidiaries and three equity-method affiliates. The consolidated subsidiaries are Terilogy Co., Ltd., Constella Security Japan Inc. (name changed on June 1, 2024, from Terilogy Worx Corporation), Terilogy Serviceware Corporation, IGLOOO Inc., CRESEED Corporation, LogIT Corporation, and Carol System Sendai co.,Ltd. (consolidated as a subsidiary in February 2026). The equity-method affiliates are: VNCS Global Solution Technology Joint Stock Company, a Vietnamese joint venture; ITM Inc., a consolidated subsidiary of SAKURA internet Inc. <3778>; and PeaSoft Vietnam Joint Stock Company (hereafter, "PeaSoft"), a Vietnamese company with which CRESEED entered into a business and capital alliance in May 2025.

In addition, in September 2021, the Company entered into a business and capital alliance with CBA Inc., an environmental DX venture. In February 2023, the Company signed an investment agreement with ILV PFUND, LIMITED PARTNERSHIP, a venture capital fund based in Israel. In July 2024, the Company became an investor in the Nippon Cyber Security Fund 1 Investment Limited Partnership, which was established in April of the same year with KANEMATSU <8020> and others as founding sponsors. In February 2026, the Company signed an investment agreement with INTEP Inc., a startup spun off from Keio University School of Medicine that develops and provides the rehabilitation clinical support system "Smart Reha®."

2. History

Terilogy was established in July 1989 and has expanded its operations primarily through handling products from emerging overseas IT companies at the forefront of network security. In addition, the Group has developed and launched original products, including 'momentum,' a software-based probe product, in June 2012; CloudTriage, an operations monitoring cloud service, in July 2015; and EzAvater, a robotic process automation (RPA) tool, in July 2018. In recent years, the Group has also actively pursued M&A to enhance its presence in the contract-based system development field—making CRESEED a consolidated subsidiary in March 2021 and LogIT a consolidated subsidiary in March 2024.

Regarding shares, Terilogy first listed on the JASDAQ Securities Exchange in December 2004. Following the merger of the JASDAQ Securities Exchange and Osaka Securities Exchange (OSE) in April 2010, Terilogy listed on OSE JASDAQ (currently called the Osaka Exchange), and then after the merger of the OSE and Tokyo Stock Exchange (TSE) in July 2013, it listed on TSE JASDAQ Standard. In April 2022, it transferred to the TSE Standard Market following the TSE's market segment revisions. Then, on November 1, 2022, Terilogy established the Company through a sole share transfer, and the Company was newly listed on the TSE Standard Market (while Terilogy was delisted after becoming a wholly owned subsidiary).

Company history

Date	Event
July 1989	Established Terilogy Co., Ltd. in Kanda, Chiyoda-ku, Tokyo
November 1999	Signed distribution contract with US-based Redback Networks, Inc.
January 2003	Signed DNS/DHCP server distribution contract with US-based Infoblox Inc.
October 2004	Signed domestic (Japan) master reseller contract with US-based TippingPoint Inc. (now Trend Micro Inc.)
December 2004	Listed on the JASDAQ Securities Exchange
September 2005	Acquired ISO 27001 information security management system (ISMS) certification
February 2007	Signed distribution contract with Belgium-based VASCO Data Security, Inc. (now OneSpan Inc.)
March 2007	Acquired ISO 14001 environmental management system (EMS) certification
April 2010	Following merger of JASDAQ Securities Exchange and Osaka Securities Exchange (OSE), Terilogy listed on OSE
June 2012	Launched momentum, a probe software product developed in-house at Terilogy
September 2012	Signed distribution contract with US-based Lastline Inc. (now VMware, Inc.)
July 2013	Listed on Tokyo Stock Exchange (TSE) JASDAQ market following merger of OSE and TSE
July 2015	Launched CloudTriage, a cloud-based operations monitoring service developed in-house by Terilogy
March 2017	Established Terilogy Worx Corporation (now Constella Security Japan Inc.) (wholly owned subsidiary)
December 2017	Acquired shares in company involved in corporate ICT service business from ITX Corporation and established Terilogy Serviceware Corporation (wholly owned subsidiary)
April 2018	Signed distribution contract with US-based Nozomi Networks Inc.
July 2018	Launched EzAvater, a unique robotic process automation (RPA) tool developed in-house by Terilogy
June 2019	Entered into business alliance with US-based Sumo Logic, Inc.
March 2020	Signed distributor contract with Israel-based Radware Ltd.
April 2020	Established a joint venture in Vietnam through a business alliance with Vietnam Cyberspace Security Technology Joint Stock Company, a subsidiary of Vietnam-based Hanoi Telecom
June 2020	Terilogy Serviceware acquired shares in IGLOOO Inc. and made it a subsidiary
March 2021	Acquired 90% of the shares of CRESEED Corporation and made it a consolidated subsidiary
September 2021	Entered into a capital and business alliance (subscribed to share acquisition rights) with CBA Inc., an environmental DX venture
October 2021	Started offering cyber threat hunting solution developed by Terilogy Worx
April 2022	Transferred to the TSE Standard Market following the TSE's market segment revisions
August 2022	Entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD (implemented third-party allocation of shares and disposal of treasury shares to KANEMATSU ELECTRONICS)
September 2022	The industry categorization on the TSE Standard Market was changed from the wholesale industry to the information and communications industry
November 2022	Terilogy established Terilogy Holdings Corporation through a sole share transfer Terilogy Holdings Corporation was newly listed on the TSE Standard Market (Terilogy, which became a wholly owned subsidiary, was delisted)
February 2023	Signed agreement to invest in Israel-based venture investment fund ILV PFUND, LIMITED PARTNERSHIP
May 2023	Entered into a business and capital alliance with ITM Inc., a subsidiary of SAKURA internet Inc. <3778>, making it an equity-method affiliate
August 2023	Made CRESEED a wholly owned subsidiary
October 2023	Acquired all shares of effestep Co., Ltd. and made it a consolidated subsidiary
March 2024	Acquired all shares of LogIT Corporation and made it a consolidated subsidiary
April 2024	CRESEED absorbed effestep through merger
June 2024	Changed name of Terilogy Worx to Constella Security Japan Inc.
July 2024	Involved in Japan's first cyber security fund, the Nippon Cyber Security Fund 1 Investment Limited Partnership, as an investor
August 2024	Entered into a business and capital alliance with Takachiho Koheki Co., Ltd. <2676>
May 2025	Entered into a business and capital alliance with SAXA, Inc. <6675> CRESEED entered into a business and capital alliance with PeaSoft Vietnam Joint Stock Company, acquiring a 20% equity stake and making it an equity-method affiliate
November 2025	Terilogy Serviceware acquired translation, interpreting, and instructor dispatch business from World City, Ltd. and WonderPlanet Inc.
February 2026	Signed an investment agreement with INTEP Inc. regarding the subscription for shares issued through a third-party allotment Acquired all shares of Carol System Sendai co.,Ltd., making it a consolidated subsidiary

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

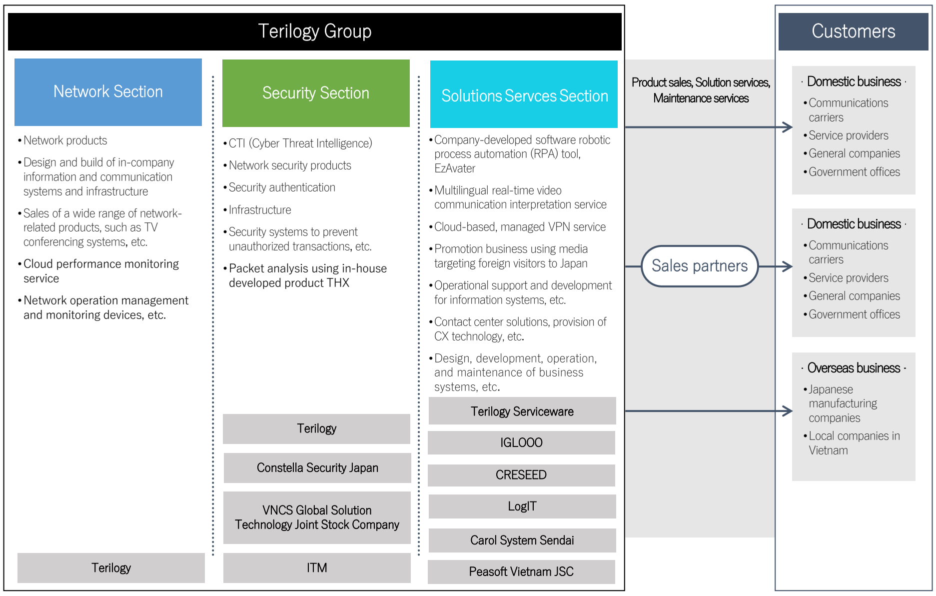
Business overview

Overall expansion in the Security and Solutions Services sections

1. Business overview

The Group's business is divided into three sections. The Network Section handles sales and maintenance of network products, the Security Section handles the sales and maintenance of security products including those developed by the Group, and the Solutions Services Section handles the sales and maintenance of software including software developed within the Group, IT services, and inbound tourism promotion business. The Network and Security sections mainly handle products from cutting-edge overseas IT companies in places like Silicon Valley in the US or Israel. The Company provides solutions covering a wide range of areas, including through the Solutions Services Section. This includes solutions related to networks, IT security, OT/IoT security, cloud security, cyber threat intelligence (CTI), and in-Group development, operational management, and monitoring.

Diagram of the business structure



Source: The Company's results briefing materials

Regarding net sales by business section, although the Network Section's sales fluctuate in line with renewal demand that arises every four to five years, they have generally remained flat because renewal and maintenance services constitute its core business. In contrast, both the Security Section and the Solutions Services Section have been on an expansion trend. Comparing the actual results for FY3/21 and FY3/26, net sales in the Network Section increased only slightly, from ¥1,616mn to ¥1,787mn. By contrast, the Security Section expanded approximately 2.7 times, from ¥1,628mn to ¥4,434mn, on the back of growing demand for cybersecurity measures. The Solutions Services Section grew approximately 4.7 times, from ¥936mn to ¥4,424mn, driven by the effects of M&A, including the consolidation of CRESEED as a subsidiary in March 2021 and LogIT in March 2024. As a result, the Network Section's share of total sales declined from 34.4% to 16.8%, while the Security Section's share increased from 34.6% to 41.6% and the Solutions Services Section's share increased from 19.9% to 41.6%.

Trends in net sales by segment

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26
Net sales						
Network Section	1,616	1,399	1,286	1,560	1,657	1,787
Security Section	1,628	1,726	2,155	3,005	3,375	4,434
Solutions Services Section	936	1,710	1,965	2,314	3,620	4,424
Monitoring Section	520	387	269	-	-	-
Total	4,701	5,223	5,676	6,881	8,653	10,646
Share of total sales						
Network Section	34.4%	26.8%	22.7%	22.7%	19.2%	16.8%
Security Section	34.6%	33.1%	38.0%	43.7%	39.0%	41.6%
Solutions Services Section	19.9%	32.7%	34.6%	33.6%	41.8%	41.6%
Monitoring Section	11.1%	7.4%	4.7%	-	-	-

Notes 1: Figures up to FY3/22 are for Terilogy. From FY3/22, the Company adopted the Accounting Standard for Revenue Recognition.
Notes 2: Business sections revised from FY3/24. Figures prior to and including FY3/23 are before reclassification.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Network Section

The Network Section is mainly conducted by Terilogy and its business includes the sale and maintenance of network products (such as switches, routers, wireless LAN, and DNS/DHCP), the design and build of in-company information and communication systems and infrastructure, and sales and maintenance of TV conferencing systems. Net sales breakdown shows that product and subscription sales accounted for around 50%, and maintenance services also accounted for around 50%.

Its main products are Infoblox IP address management servers (manufactured by US-based Infoblox), Radware products (manufactured by Israel-based Radware <RDWR>) that provide Distributed Denial of Service Attack (DDoS) countermeasures and solve issues faced by corporate networks such as load balancing for WAN lines, and Extreme Networks (formerly Aerohive, manufactured by US-based Extreme Networks <EXTR>), a cloud-based wireless LAN system.

3. Security Section

The Security Section is mainly operated by Terilogy and Constella Security Japan. It conducts business that includes the provision of CTI security services that defend against threats such as cyberattacks and information leaks caused by unauthorized system access, the sale and maintenance of network security-related products (firewalls, intrusion detection and prevention countermeasures, information leakage countermeasures, etc.), the sale and maintenance of security authentication infrastructure (identifying service users on a network), and the sale and maintenance of one-time password products for preventing unauthorized transactions. Net sales breakdown shows that product and subscription sales accounted for around 80% and maintenance service sales around 20% of sales.

The Group's in-house security service focuses on three areas: countermeasures against cybercrime, such as ransomware; defense against attacks on social infrastructure by advanced persistent threat (APT) groups (also known as targeted attacks) and against the exploitation of important information, including intellectual property rights; and detection of disinformation from groups backed by nations (information operations). With the increasing global importance of information and cognitive warfare using social media, there is an expected increase in the need for analysis and countermeasures in this area.

Its main products include: Nozomi Networks products (manufactured by US-based Nozomi Networks), whose strengths are OT/IoT security measures for key infrastructure such as electric power systems and the manufacturing control systems area, such as factory and building management; Sumo Logic (manufactured by US-based Sumo Logic), a log management and analysis cloud security service; TippingPoint unauthorized network intrusion prevention security products (manufactured by US-based TippingPoint, which was acquired by US-based Hewlett-Packard <HPQ> in 2010 and then by Trend Micro <4704> in 2015); and OneSpan (manufactured by Belgium-based OneSpan <OSPN>), which prevents unauthorized transactions through one-time password-based user authentication.

Regarding CTI security services, the Company provides BitSight (manufactured by US-based BitSight), which can provide a visualization of supply chain risk and THX Series cyber threat hunting solutions developed by the Terilogy Group. In October 2023, the Company commenced sales of TrackerIQ that detects insider fraud in cloud application usage (manufactured by Israel-based RevealSecurity). It also commenced the provision of a social media threat intelligence management service using technology from Cyabra (Israel).

In the CTI security service, the Group has a track record that includes a big project for the National Police Agency secured in 2021. In April 2023, Terilogy, KANEMATSU ELECTRONICS, and GLOBAL SECURITY EXPERTS <4417> launched Technical Knowledge Guardian for OT Security, an integrated support service jointly created by the three companies that provides one-stop support ranging from consulting on manufacturing control system (OT system) security to the implementation of OT and network products. Also, in April 2023, Nozomi Guardian (manufactured by US-based Nozomi Networks), which is sold by Terilogy, was adopted for a managed security service launched by NEC <6701> that monitors the security of control systems at factories and other sites. Regarding SAXA, with which the Company entered into a business and capital alliance in May 2025, the Group is promoting the implementation of its products and services in SAXA's information security business.

Recent topics of note include Constella Security Japan signing a domestic master distributor agreement with France-based Filigran SAS (Filigran) in June 2025. Filigran develops the proprietary eXtended Threat Management (XTM) suite comprising the OpenCTI and OpenBAS open source threat intelligence platforms, which are renowned around the world. In September 2025, the Nippon Cyber Security Fund 1 Investment Limited Partnership invested in Constella Security Japan as its second investee. In November 2025, Terilogy signed a distribution agreement for Japan with US-based Obsidian Security, Inc. (Obsidian Security), a leading SaaS security company. Obsidian Security ranked 95th in the 2025 Deloitte Technology Fast 500 list of the 500 fastest-growing companies in North America. In February 2026, Terilogy signed a distribution agreement with UK-based Advanced Cyber Defence Systems Ltd. and began selling "Observatory," an EASM (External Attack Surface Management) product that identifies vulnerabilities through daily scans.

4. Solutions Services Section

The Solutions Services Section is mainly operated by Terilogy Serviceware, IGLOOO, CRESEED, LogIT, and Carol System Sendai. Terilogy Serviceware operates an ICT solution services business focused primarily on visual communication solutions and network security-related services. The Solutions Services Section's main products include EzAvater, a software robotic process automation (RPA) tool developed by the Terilogy Group, Mieru-Tsuyaku, a real-time video communication interpretation service that breaks down language barriers by enabling smooth communication with foreign visitors to Japan, MORA VPN Zero-Con, a cloud-based managed VPN service for small- to medium-sized enterprises, and Zero-Con SASE, which addresses rising security concerns among small- to medium-sized businesses. IGLOOO operates a promotion business using VOYAPON, an inbound media site targeting visitors to Japan from Europe, North America, Australia, and the Middle East, CRESEED engages in information system DX support and contracted systems development, and LogIT engages in information systems business such as contact center solutions for companies focusing on customer experience (CX). Carol System Sendai engages in contracted system development mainly for major companies in the Tohoku area.

EzAvater is unique in that it enables anyone to easily create robots to automate routine tasks. The use of a distribution partner strategy to increase sales has raised product recognition and as there are no limits to potential customers in terms of industry, type of business, or size, the number of contracts is on an upward trend. Major sales partners include Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., UCHIDA ESCO Co., Ltd., Hitachi Systems, Ltd., and Computer Engineering & Consulting <9692>, among others.

Mieru-Tsuyaku can be used on a tablet or smartphone. With just one touch, it provides support from a call operator anytime, anywhere, for situations such as customer service. In June 2024, it was awarded a place in the OMOTENASHI Selection chosen by OMOTENASHI NIPPON, an organization managed by ENGAWA Co., Ltd. With the increase in inbound tourism to Japan, the service has been introduced at facilities with a high ID count per unit, such as department stores, retailers, stations, airports, and accommodation facilities, and the number of IDs is trending upward. The most recent examples include retailers such as the general retailer AEON Retail Co., Ltd., AOKI Holdings Inc., which sells men's and women's clothing, and eyewear retailer Zoff Co., Ltd., hotel facilities such as Seibu Prince Hotels Worldwide Inc., Tokyo Dome Hotel Co., Ltd., Kyoritsu Maintenance Co., Ltd. <9616>, and Hotel Okura Co., Ltd., local governments such as Kita Ward in Tokyo and Bunkyo Ward in Tokyo, and others such as The Bank of Fukuoka, Ltd. (a subsidiary of Fukuoka Financial Group, Inc. <8354>), The Kumamoto Bank, Ltd., and The Juhachi-Shinwa Bank, Ltd.

In November 2025, Terilogy Serviceware acquired translation, interpreting, and instructor dispatch business from World City Ltd. and WonderPlanet Inc. It will strengthen the highly specialized business interpreting field, such as supporting companies in communicating information for overseas audiences and interpreting services for online meetings with foreign participants.

IGLOOO operates a tourism-related promotion business targeting Europe, North America, Australia, and the Middle East. With the increase in inbound tourism to Japan, requests for the production of PR videos for tourist destinations are on the rise. Since 2023, IGLOOO has produced PR videos introducing the attractions of areas such as Yamanashi Prefecture, Oita Prefecture, and Shikoku. Furthermore, in July 2025, it acquired a travel business license, and in September 2025, it officially released VOYAPON+, a new function for the VOYAPON inbound media site for visitors to Japan. With the future arrival of the Web3 era in mind, IGLOOO will evolve it from a media site into a platform and comprehensively support tourists visiting Japan in the planning and execution phases. In February 2026, IGLOOO signed a sponsorship agreement with Sint-Truiden VV, a football club competing in Belgium's top-tier Pro League.

CRESEED provides support for corporate information system processes and contracted systems development. LogIT develops an information system business focused on CX that includes contact center solutions for corporations. Carol System Sendai engages in contracted system development in the Tohoku area. Regarding PeaSoft, with which the Company entered into a business and capital alliance in May 2025, CRESEED will utilize PeaSoft's IT personnel in its systems development solutions business and expand system development services for Japanese companies operating in Vietnam. In addition, LogIT has begun handling an AI platform and is working to launch AI-powered sentiment analysis and cloud business services in the market. Going forward, the Company plans to cultivate the Solutions Services Section, including systems development, as a new pillar of profit.

Core competencies include the "ability to find emerging technologies and marketable products" and "ability to respond to the market"

5. Features and strengths

The Group's features and strengths include a wealth of experience and expertise accumulated since Terilogy's founding over 30 years ago, the ability to respond to the market by accurately ascertaining the trends of the times, the ability to find the latest technologies of cutting-edge overseas IT companies, and the ability to combine imported technologies with the Group's proprietary technologies to deliver solutions optimized to meet customer needs.

(a) Building the business value chain to practice its corporate philosophy of "focus on the customer"

One of the features and strengths of the Group's business model is the establishment of a value chain designed to put its "focus on the customer" corporate philosophy into practice. That, in short, is the 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.

To build a business model and value chain backed by a corporate philosophy, the Company needs to establish the Group's mission and vision based on that philosophy, and then incorporate those in an action plan designed to achieve them. Specifics of that action plan include (1) ongoing research and discovery activities regarding advanced, cutting-edge technology trends in Silicon Valley in the US, and Israel; (2) ongoing research, inquiry and validation activities to determine the compatibility of technology discovered with the Japanese market and with issues faced by customers, (3) development of solutions for market introduction by combining multiple technologies and through adaptive development arrangements, (4) building of delivery and support systems, (5) training in high-value proposal sales, and (6) new market creation activities.

(b) Core competencies include the "ability to find emerging technologies and marketable products" and "ability to respond to the market"

These value chains include: (1) 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 to maintenance services, software products developed by the Group, and new services; (4) stable and proven technical capabilities rooted in experience since its founding through over three decades of reliable, customer-tailored service provision; and (5) global response capabilities, including the rapidly growing markets of emerging nations in Asia. In other words, its core competencies include the "ability to find emerging technologies and marketable products" and "ability to respond to the market," which involve accurately ascertaining the technological trends and cutting-edge technologies of overseas companies that it should precisely focus on, and then introducing and promoting these.

(c) Examples demonstrating the "ability to find emerging technologies and marketable products"

Here are some examples that demonstrate the Group's "ability to find emerging technologies and marketable products," including the discovery of US-based companies Wellfleet and Infoblox in the broadband field, US-based TippingPoint (now Trend Micro Inc.) in the security field, Belgium-based OneSpan (formerly VASCO Data Security), and US-based Lastline (acquired by US-based VMware in 2020).

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, which are one of the main products to build IP networks. Wellfleet was founded in 1986, and was acquired by Nortel Networks (Canada), the world's second largest computer network device company, in 1998 to compete against Cisco Systems (CSCO) of the US, which was the largest company back then. The discovery of Wellfleet in 1990 can be said to be a good example of its "ability to find emerging technologies and marketable products." In the broadband area, in 1999, the Company started to provide ADSL connection software. Subsequently, it developed hit products with more than 10 million users, which became a bridgehead into a business for major telecommunication companies. Also, 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. In mobile-related products, it realized growth for DNS/DHCP servers manufactured by Infoblox of the US, with which it concluded an agreement in 2003 to become its first Japanese agent, and these DNS/DHCP servers have become the de facto standard that are currently being used by a large number of IT companies in Japan.

In the security field, the Company is providing a wide range of solutions which started with the conclusion of a domestic (Japan) master reseller contract with US-based TippingPoint in 2004. This was followed by reseller contracts with Belgium-based OneSpan in 2007, US-based Lastline in 2012, and US-based Nozomi Networks in 2018. TippingPoint specializes in IPS (intrusion prevention systems) and was acquired by Trend Micro in 2015. However, Terilogy concluded a domestic master reseller contract with TippingPoint in 2004 and built up a strong track record. It remains a trusted business partner of Trend Micro. Regarding Belgium-based OneSpan, Terilogy was the first company in Japan to introduce its one-time password technology in 2007. Since then, the technology has become essential to internet banking and is used by all of Japan's megabanks. The introduction of US-based Lastline's cloud-based targeted attack countermeasure service is another example of the Group's "ability to find emerging technologies and marketable products," as it anticipated the growing trend of targeted email attacks in recent years. In addition, in March 2020, Terilogy signed a distributor agreement with Israel-based Radware, a global leader in network virtualization and cybersecurity solutions.

(d) An "ability to respond to the market" well-regarded by business partners

One of the reasons why overseas IT startup companies regard the Group highly is its "ability to respond to the market," which has been fine-tuned since its foundation. Terilogy has built an excellent customer base (more than 300 companies, most of which are major companies) as it has been highly evaluated by influential customers for its active utilization of a partnering strategy covering 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). In this way, the sources of the Group's "ability to respond to the market" are its ability to combine imported technologies with its proprietary technologies to develop solutions with high levels of customer satisfaction, and its ability to fill-in missing parts by fully utilizing an alliance and M&A strategy.

6. Risk factors and earnings characteristics, measures, and challenges

Risk factors faced by the Group include a slow response to technological innovation, fiercer market competition, difficulties securing personnel, and foreign exchange fluctuation. Of these, with regard to responding to technological innovation, it continues to gather information on the latest technologies, including from overseas, while also working to identify companies that possess cutting-edge technologies. In the Network Section and Security Section, a large proportion of product purchases from overseas manufacturers, including license fees, are denominated in foreign currencies, making exchange rate fluctuations a factor that can affect earnings. The Group seeks to reduce this risk through various measures, including forward exchange contracts and revisions to selling prices. Furthermore, as the Solutions Services Section—which does not depend on purchasing products from overseas—accounts for an increasing share of total sales, the impact of exchange rate fluctuations on the Company's overall results is also expected to diminish. As for seasonal fluctuations, in IT and information services-related industries, sales generally tend to be weighted toward the end of the fiscal year due to their relationship with customer receipt and inspection periods. In the Group's case, sales tend to be weighted toward 2Q (July–September) and 4Q (January–March), but this tendency has gradually been mitigated by the adoption of the revised Accounting Standard for Revenue Recognition, etc.

Results trends

FY3/26 ended with significant increases in sales and profit

1. Overview of FY3/26 results

In the FY3/26 consolidated results, net sales rose 23.0% YoY to ¥10,646mn, operating income increased 101.0% to ¥549mn, ordinary income increased 100.8% to ¥656mn, and net income attributable to owners of parent increased 97.2% to ¥346mn. Orders received increased 13.5% YoY to ¥11,372mn, while the outstanding orders at the end of the fiscal year rose 19.1% to ¥4,534mn. The average US dollar exchange rate was ¥150.67, compared with ¥152.62 in the previous fiscal year. The Company substantially exceeded its initial forecasts announced on May 15, 2025, of net sales of ¥9,700mn, operating income of ¥450mn, ordinary income of ¥450mn, and net income attributable to owners of parent of ¥280mn. The fiscal year closed with substantial increases in both sales and profit, broadly in line with the revised forecasts announced on March 13, 2026, of net sales of ¥10,385mn, operating income of ¥546mn, ordinary income of ¥654mn, and net income attributable to owners of parent of ¥352mn. On the sales side, all business sections performed strongly and recorded sales growth on the back of continued high demand. On the profit side, although costs increased due to higher purchase costs for imported products and continued investment in human capital, these increases were absorbed by the effects of higher sales, price optimization, and other factors.

FY3/26 consolidated results

(¥mn)

	FY3/25		FY3/26		YoY		Initial forecast		Revised forecast	
	Results	Composition/ Margin	Results	Composition/ Margin	Change amount	Change %	Amount	Achievement rate	Amount	Achievement rate
Net sales	8,653	-	10,646	-	1,992	23.0%	9,700	109.8%	10,385	102.5%
Gross profit	2,817	32.6%	3,411	32.0%	593	21.1%	-	-	-	-
SG&A expenses	2,544	29.4%	2,862	26.9%	317	12.5%	-	-	-	-
Operating income	273	3.2%	549	5.2%	275	101.0%	450	122.0%	546	100.6%
Equity-method investment gain	3	-	9	-	5	-	-	-	-	-
Foreign exchange gain	91	-	44	-	-46	-	-	-	-	-
Gain on valuation of derivatives	-	-	43	-	43	-	-	-	-	-
Loss on valuation of derivatives	-50	0.6%	-	-	50	-	-	-	-	-
Ordinary income	327	3.8%	656	6.2%	329	100.8%	450	146.0%	654	100.4%
Net income attributable to owners of parent	176	2.0%	346	3.3%	170	97.2%	280	123.9%	352	98.6%
Average exchange rate (US dollar/yen)	152.62	-	150.67	-	-1.95	-	-	-	-	-
Net sales by segment										
Network Section	1,657	19.2%	1,787	16.8%	130	7.9%	1,707	104.7%	-	-
Security Section	3,375	39.0%	4,434	41.6%	1,058	31.4%	4,141	107.1%	-	-
Solutions Services Section	3,620	41.8%	4,424	41.6%	803	22.2%	3,850	114.9%	-	-
Orders received	10,021	-	11,372	-	1,351	13.5%	-	-	-	-
Outstanding orders	3,807	-	4,534	-	727	19.1%	-	-	-	-

Note: Initial forecasts are based on the figures announced on May 15, 2025, while revised forecasts are based on the upwardly revised figures announced on March 13, 2026.
Source: Prepared by FISCO from the Company's financial results, results briefing materials and company press releases

By business section, net sales grew 7.9% to ¥1,787mn in the Network Section, 31.4% to ¥4,434mn in the Security Section, and 22.2% to ¥4,424mn in the Solutions Services Section, with particularly significant growth in the Security Section and the Solutions Services Section. Gross profit increased 21.1%, although the gross profit margin declined 0.6 percentage points (pp) to 32.0%. SG&A expenses increased 12.5%, but the SG&A expense ratio declined 2.5pp to 26.9%. As a result, the operating margin improved 2.0pp to 5.2%. Among non-operating items, equity-method investment gain increased by ¥5mn to ¥9mn, foreign exchange gains decreased by ¥46mn to ¥44mn, and gains on the valuation of derivatives improved by ¥93mn to ¥43mn (compared with a valuation loss of ¥50mn in the previous fiscal year). As a result, the ordinary profit margin improved 2.4pp to 6.2%.

The Security Section and the Solutions Services Section grew significantly

2. Trends by segment

The Network Section performed strongly, with net sales increasing 7.9% as demand for network security measures remained at a high level. “Infoblox,” an IP address management server product, recorded significant sales growth as replacement projects increased in line with the transition to new models. “Radware,” a DDoS attack countermeasure solution, also recorded significant sales growth, driven by strengthened marketing efforts to acquire new customers amid a sharp increase in damage caused by cyberattacks in Japan, as well as improved recognition of security-related products newly added to the product lineup. Although sales of “Extreme Networks,” a cloud-based wireless LAN system, declined, the product performed generally in line with the plan, supported by orders for replacement projects from existing wireless LAN environments and additional projects associated with the development of new locations such as offices and warehouses.

The Security Section grew significantly, with net sales increasing 31.4% as demand for cybersecurity measures to protect social infrastructure and companies remained at a high level. “Nozomi Networks,” one of the Section’s main products, saw further acceleration in demand for OT/IoT security, with large-scale deployments at major domestic companies and in the public infrastructure sector progressing strongly. In addition, inquiries from medium-sized manufacturers reached a record-high level. CTI security services, the Group’s proprietary threat information analysis service, secured projects including the Ministry of Internal Affairs and Communications’ project for the development and demonstration of technologies to address false and misleading information on the Internet, projects related to the Ministry of Defense, and projects for the National Police Agency. Demand is expected to further expand, particularly in the government sector, going forward. “Sumo Logic,” a log management and analysis cloud security service, expanded its adoption among domestic SOC operators, including being adopted as the security platform for the global SOC (Security Operation Center) of a major automotive parts manufacturer. In addition, the unauthorized network intrusion prevention security product “TippingPoint” and “OneSpan,” a user authentication solution using one-time passwords, also recorded growth.

The Solutions Services Section grew significantly, with sales increasing 22.2% by addressing a wide range of needs, including business efficiency improvements and digitalization. Mieru-Tsuyaku, a multilingual, real-time video interpretation service, was introduced at more facilities such as department stores, retail stores, and accommodation facilities due to the increase in inbound tourism demand. There was growth in network security services for SMEs, including UTM, endpoint, and SASE services, on the back of increased demand. Awareness of EzAvater, an RPA tool, increased, as its adoption expanded across industries, sectors, and companies of all sizes. IGLOOO, which operates a promotion business using inbound-focused media for visitors to Japan, saw rising demand for PR services from government agencies, municipalities, and private-sector companies on the back of strong inbound tourism demand. CRESEED's information system DX and systems development business performed strongly, securing orders for PC replacement projects to support Windows 11, as well as related server projects and system update projects. Orders for network and server security measure projects also increased. LogIT, which provides enterprise contact center solutions centered on voice services, secured orders for voice biometrics authentication projects and compliance recording projects.

Maintaining a sound financial position

3. Financial position

Looking at the Company's financial position, total assets at the end of FY3/26 increased ¥3,152mn compared to the end of the previous fiscal year to ¥10,261mn. This was mainly attributable to increases of ¥1,564mn in cash and deposits, ¥124mn in notes and accounts receivable – trade and contract assets, ¥559mn in advance payments, and ¥294mn in goodwill. Total liabilities increased ¥2,658mn to ¥6,896mn. This was mainly attributable to a ¥1,344mn increase in advances received, while interest-bearing debt (the total of short- and long-term borrowings) increased ¥512mn to ¥790mn. Net assets increased ¥494mn to ¥3,364mn. The main factors were a ¥73mn increase in capital surplus and ¥346mn rise in retained earnings. As a result, the equity ratio fell 7.8pp to 31.9%. While interest-bearing debt increased and the equity ratio decreased, it is not at a level which is particularly concerning, and on the cash flow statements as well, there was no particular cause for concern. In FISCO's view, the Company is practicing a disciplined strategy to raise corporate value that takes into account financial condition and is maintaining financial soundness.

Balance sheet and cash flow statement (summary)

(¥mn)

	End of FY3/22	End of FY3/23	End of FY3/24	End of FY3/25	End of FY3/26	Change amount
Total assets	5,991	6,144	6,898	7,109	10,261	3,152
Current assets	4,871	5,068	5,323	5,536	7,819	2,283
Non-current assets	1,119	1,075	1,574	1,572	2,442	869
Total liabilities	3,551	3,698	4,334	4,238	6,896	2,658
Current liabilities	3,271	3,325	3,993	4,002	6,511	2,509
Non-current liabilities	279	373	340	235	384	148
Total net assets	2,439	2,445	2,564	2,870	3,364	494
Equity ratio	40.2%	39.1%	36.7%	39.7%	31.9%	-7.8pp

	FY3/22	FY3/23	FY3/24	FY3/25	FY3/26
Net cash provided by/used in operating activities	414	287	324	-54	1,860
Net cash provided by/used in investing activities	-243	34	-578	-234	-1,102
Net cash provided by/used in financing activities	-428	112	-134	46	678
Cash and cash equivalents at end of fiscal year	1,867	2,298	1,916	1,681	3,125

Note: Figures at the end of FY3/22 are for Terilogy.
Source: Prepared by FISCO from the Company's financial results

Outlook

Further increases in sales and profit are expected in FY3/27, following the previous fiscal year

● FY3/27 forecast

The FY3/27 consolidated results forecasts are for continued growth in both sales and profit following the previous fiscal year, with net sales increasing 14.6% YoY to ¥12,200mn, operating income increasing 20.6% to ¥662mn, ordinary income increasing 8.8% to ¥715mn, and net income attributable to owners of parent increasing 23.6% to ¥429mn. Sales in all business sections are expected to grow on the back of high demand, with security products in particular expected to drive the growth. By business section, net sales are projected to increase 3.9% to ¥1,860mn in the Network Section (15.2% of total sales), 23.3% to ¥5,465mn in the Security Section (44.8% of total sales), and 10.3% to ¥4,875mn in the Solutions Services Section (40.0% of total sales). On the profit side, although personnel costs and other expenses will continue to increase due to investment in human capital, these increases are expected to be absorbed by the effects of higher sales and price optimization. The Company assumes that exchange rates will remain generally at the same level as the previous fiscal year and does not anticipate foreign exchange gains/losses or valuation gains/losses on derivatives in non-operating income. We at FISCO believe that strong performance can be expected, supported by continued high level of demand for cybersecurity measures.

FY3/27 consolidated forecast

(¥mn)

	FY3/26		FY3/27		YoY	
	Results	Composition/ Margin	Forecast	Composition/ Margin	Change amount	Change %
Net sales	10,646	-	12,200	-	1,553	14.6%
Operating income	549	5.2%	662	5.4%	112	20.6%
Ordinary income	656	6.2%	715	5.9%	58	8.8%
Net income attributable to owners of parent	346	3.3%	429	3.5%	82	23.6%
Net sales by segment						
Network Section	1,787	16.8%	1,860	15.2%	72	4.0%
Security Section	4,434	41.6%	5,465	44.8%	1,031	23.3%
Solutions Services Section	4,424	41.6%	4,875	40.0%	451	10.2%

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

Growth strategy

Medium-term management plan's performance targets revised upward

1. Terilogy Group New Three-Year Medium-Term Management Plan (FY3/27–FY3/29)

To respond to changes in the management environment, the Group reviews the numerical targets of its medium-term management plan each fiscal year using a rolling approach. In FY3/26, the Group exceeded the FY3/26 targets set in the previous medium-term management plan (formulated in May 2025 and covering FY3/26 to FY3/28) of net sales of ¥9,700mn and ordinary income of ¥450mn, and also largely achieved the FY3/27 targets of net sales of ¥11,000mn and ordinary income of ¥600mn. Accordingly, in the "Terilogy Group New Three-Year Medium-Term Management Plan" formulated in May 2026 (FY3/27–FY3/29), the targets from FY3/27 onward were revised upward. The new targets are net sales of ¥12,200mn and ordinary income of ¥710mn for FY3/27, ¥13,500mn and ¥1,000mn for FY3/28, and ¥15,000mn and ¥1,200mn for FY3/29, respectively. The planned share of total sales by business section is 15.2% for the Network Section, 44.8% for the Security Section, and 40.0% for the Solutions Services Section in FY3/27; 14.4%, 45.7%, and 39.9%, respectively, in FY3/28; and 14.5%, 45.8%, and 39.7%, respectively, in FY3/29. Growth is expected to be driven by cybersecurity-related businesses and systems development-related businesses.

Overview of the medium-term management plan

(¥bn)

	FY3/26		FY3/27		FY3/28		FY3/29
	New target	Previous target	Results	Previous target	New target	Previous target	New target
Net sales	9.7	10.6	11.0	12.2	12.0	13.5	15.0
Ordinary income	0.45	0.62	0.60	0.71	1.00	1.00	1.20
Share of total sales by business section							
Network Section	17.6%	16.8%	16.0%	15.2%	15.2%	14.4%	14.5%
Security Section	42.7%	41.6%	46.7%	44.8%	48.5%	45.7%	45.8%
Solutions Services Section	39.7%	41.6%	37.2%	40.0%	36.3%	39.9%	39.7%

Source: Prepared by FISCO from the Company's results briefing materials

The Group's management policy is to "enhance business value by developing a sustainable business portfolio that realizes long-term profits and acquiring new business portfolios that create the future." By promoting existing core business strategies, growth business strategies, and next-generation challenge business strategies, the Group aims to stabilize, strengthen, and renew its management foundation.

As its basic direction, its business strategy focuses on optimizing and maximizing the utilization of management resources, building a diversified business model in the IT business (pursuing deeper market understanding), creating synergies and diversifying risks, and improving employee motivation through the expansion of business opportunities. Its financial strategy focuses on efficient fund management through Group financing, share repurchases enabled by improved profitability (as a shareholder return measure), and diversification of financing methods. Its global strategy focuses on expanding borderless transactions and business opportunities while strengthening response capabilities, expanding overseas based on verification of market flexibility and risks, and strengthening exchanges and trust relationships with overseas business partners. Its human resources strategy focuses on actively investing in employee skill improvement and development, promoting active personnel exchanges within the Group (expanding career opportunities), optimizing the organizational structure from new graduate recruitment onward, and developing and strengthening business managers (sharing management experience). Its investment strategy focuses on business investment as a measure to strengthen growth in existing businesses, investments aimed at creating strategically mutually beneficial relationships for business alliances, and investments aimed at acquiring future growth markets and new businesses. Its technology strategy focuses on further strengthening localized intelligence to optimize advanced technologies, transforming the ability to identify cutting-edge technologies into an organizational asset, possessing and providing a robust DX foundation, implementing and integrating AI functions into security products (putting "Security for AI & AI for Security" into practice), and improving productivity and accumulating knowledge through the use of AI.

As important measures, the Group promotes (1) strengthening stock-type business models and developing human resources through Group collaboration, (2) further expanding and enhancing the Group's business portfolio, and (3) global business expansion. Under (1), the Group promotes strengthening Group business synergies and business development (including expanding inter-Group transactions and utilizing management resources within the Group); strengthening human resource development, capability development, and organizational development through the practice of human capital management (including promoting diversification of capabilities through active recruitment); and improving business, systems, and management (including improving the productivity of administrative operations and optimizing and rebuilding core systems). Under (2), the Group promotes strengthening IT/OT/IoT/DX security and technology fields (expanding the top line of its core business areas); pursuing cloud security businesses (including multi-cloud and SIEM/SASE); actively engaging in and pursuing future growth business fields (AI, automation technology, the medical information industry, and environmental DX); and dynamically expanding Group businesses and creating new businesses (including investments to strengthen existing core businesses and promotion of various alliances). Under (3), the Group promotes strengthening its Asian business strategy (enhancing business in Asian global markets and focusing on the Vietnamese market); establishing a global sales, development, and operation service support structure (including creating mechanisms that enable coordination with the Japanese market); and strengthening global operational monitoring support services (including strengthening collaboration with partners).

As its basic approach to executing future M&A and business alliance strategies, the Group has identified target areas including IT technology, specialized trading companies, and sales-related domains; Asia-based and emerging IT technology trading firms; security solutions; cloud technologies; inbound tourism solutions; medical information and life sciences; information systems, SES technology personnel, and SIer fields; Industry 4.0 and industrial DX; and generative AI and automation technology. The Group envisions acquiring businesses with annual sales of around ¥500–1,000mn per deal, with an investment budget in the range of approximately ¥1,000–2,000mn.

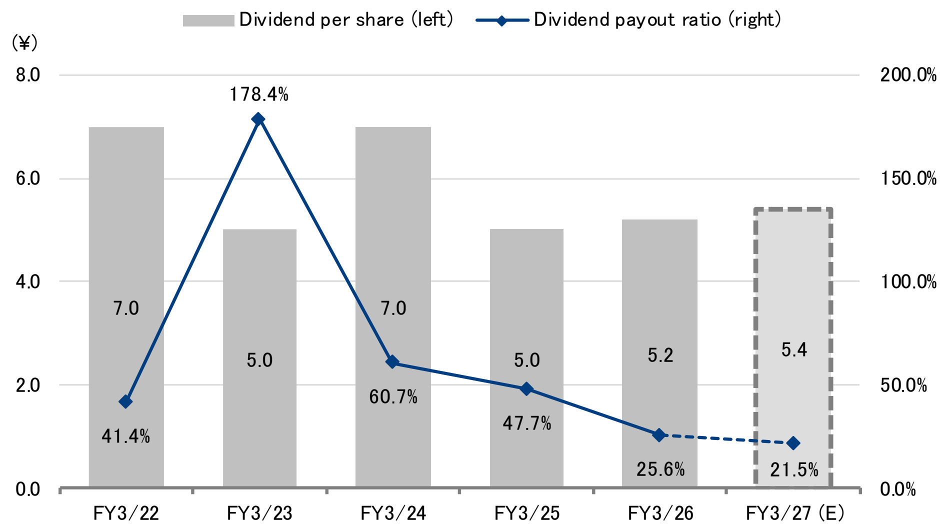
In order to implement management practices that are conscious of capital costs and share price, the Company recognizes that maintaining a sound financial position while being mindful of capital costs is an important management issue in order to meet the expectations of all stakeholders, including shareholders and investors, achieve sustainable growth of the Group, and enhance medium- to long-term corporate value. Regarding ROE, which is a key indicator, the Company had set a medium- to long-term target of 10.0%, which it achieved with an ROE of 11.4% in FY3/26. Going forward, the Company aims to achieve ROE of 12.0% in FY3/27 and 15.0% in FY3/29 through further strengthening profitability and improving capital efficiency. As an initiative for improving employee engagement to accelerate business development, the Company has raised employee wages and increased the incentive rate granted through its employee stock ownership association from 7% to 20%.

Changing the dividend policy to a progressive dividend policy

2. Shareholder return policy

In May 2026, the Company announced a change to its dividend policy and upward revisions to its dividend forecasts for FY3/26 and FY3/27. The Company changed its dividend policy to a progressive dividend policy, under which dividends will be increased by approximately ¥0.2 per share each fiscal year. As a result, the dividend forecast for FY3/26 was revised upward by ¥0.2 from the previous forecast to ¥5.2 per share (to be paid in full at the end of the fiscal year), representing an increase of ¥0.2 per share from the previous fiscal year, with a dividend payout ratio of 25.6%. The dividend forecast for FY3/27 was also revised upward by ¥0.4 from the initial forecast to ¥5.4 per share (to be paid in full at the end of the fiscal year), representing an increase of ¥0.2 per share from FY3/26, with a dividend payout ratio of 21.5%. We at FISCO believe that further strengthening of shareholder returns can be expected as earnings continue to expand.

Dividend per share and dividend payout ratio



Note: Figures for FY3/22 are for Terilogy. FY3/24 includes a special dividend of ¥2.00.
Source: Prepared by FISCO from the Company's financial results and company press releases

Focus on progress in measures to drive sustainable profit growth and improve profit margins

3. FISCO's view

With the "ability to find emerging technologies and marketable products" and "ability to respond to the market" as its core competencies, the Group has an extensive track record to date of introducing and promoting cutting-edge technologies from overseas. FISCO acknowledges this strength. At the same time, however, FISCO believes that the Group's key challenge is to achieve sustainable profit growth and improve profit margins through measures such as mitigating foreign exchange risk, making further progress in price optimization, expanding high-value-added businesses, and increasing recurring-revenue streams. To address these challenges, the Group is also actively leveraging M&A and alliances to expand a sustainable business portfolio capable of generating long-term profits. The ordinary income margin improved to 6.2% in FY3/26, up 2.4pp from the previous fiscal year, which FISCO believes reflects the results of the Group's ongoing initiatives to enhance profitability. With the business environment surrounding the Group remaining favorable, including continued growth in demand for cybersecurity measures, FISCO will continue to focus on the progress of measures to drive sustainable profit growth and improve profit margins.

FISCO

Disclaimer

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