

# Nippon Techno Lab Inc.

**3849**

Sapporo Securities Exchange Ambitious

16-Jul.-2020

FISCO Ltd. Analyst

**Tomokazu Murase**



FISCO Ltd.

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

## ■ Index

<b>■ Summary</b> .....	<b>01</b>
1. FY3/20 results .....	01
2. Topics .....	01
3. Outlook for FY3/21 .....	01
<b>■ Company overview</b> .....	<b>02</b>
<b>■ Business description</b> .....	<b>05</b>
1. Imaging and printer controller business .....	05
2. Storage solution business .....	06
3. Security business .....	07
4. Business solutions business .....	08
<b>■ Strengths</b> .....	<b>09</b>
1. An inkjet printer control system software optimized for industrial uses, such as in the high-definition printing field: “Mistral” .....	09
2. Only solution to realize authentication printing and to ascertain the content of printing: “SPSE PRINT SCOPE” .....	09
3. A video surveillance solution developed completely in-house: “FIRE DIPPER” .....	10
<b>■ Results trends</b> .....	<b>11</b>
1. FY3/20 results .....	11
2. Segment trends .....	12
3. R&D (Research & Development) .....	14
<b>■ Outlook</b> .....	<b>16</b>
1. FY3/21 outlook .....	16
2. Outlook by segment .....	16
3. Initiatives for achieving the medium-term management plan, “Next Stage 2022” .....	17
<b>■ Shareholder return policy</b> .....	<b>19</b>

## Summary

### Achieved a dramatic increase in sales and profits for a second consecutive year in FY3/20

Nippon Techno Lab, Inc. <3849> (hereafter, also “the Company”) is a computer systems development company with a small number of highly skilled employees who conduct four businesses: the Imaging and printer controller business, the Storage solution business, the Security business, and the Business solutions business. Its strengths include its products it developed in-house in each business segment with market dominance.

#### 1. FY3/20 results

In the FY3/20 results, net sales were ¥840mn (up 11.0% year on year (YoY)), operating profit was ¥158mn (up 57.2%), ordinary profit was ¥156mn (up 187.0%), and net profit was ¥87mn (up 124.7%), for a second consecutive year of higher sales and profits. A dramatic increase in net sales of products in the Imaging and printer controller business coupled with a sharp decrease in selling, general and administrative expenses in the Storage solution and Information security businesses resulted in an overall increase in operating profit, for a significant YoY increase in sales and profits. In addition, each profit measure exceeded the initial plan (net sales ¥900mn, operating profit ¥150mn, ordinary profit ¥150mn, net profit ¥80mn).

#### 2. Topics

On June 5, 2020, the Company announced the inclusion of an image recognition function in its “FIREDDIPPER” video surveillance solution, which was developed completely in-house and specialized for infrastructure-related video surveillance in mission critical environments, mainly for government and municipal offices. This will enable the construction of an image recognition system, including “facial recognition,” “people counting,” “temperature checking,” and “object detection” using camera images imported into FIREDDIPPER. In addition, the system can simultaneously process multiple image sources, as well as handling image analysis from live and recorded video and performing facial recognition of masked subjects. Furthermore, the system is compatible with camera models from multiple vendors, which offers the advantage of eliminating the need for dedicated image recognition equipment. With the addition of this new function, we expect that sales will expand even further.

#### 3. Outlook for FY3/21

There are expectations the corporate customers will prolong self-restraint on their business activities due to the impact of the novel coronavirus (COVID-19). However, amid strong demand for the Company’s main businesses, its policy for FY3/21 is to continue initiatives towards achieving the medium-term management plan. However, at this point, it is difficult to make a rational earnings forecast, and the Company judged that it cannot make an appropriate forecast disclosure, leaving the earnings forecast for FY3/21 undetermined.

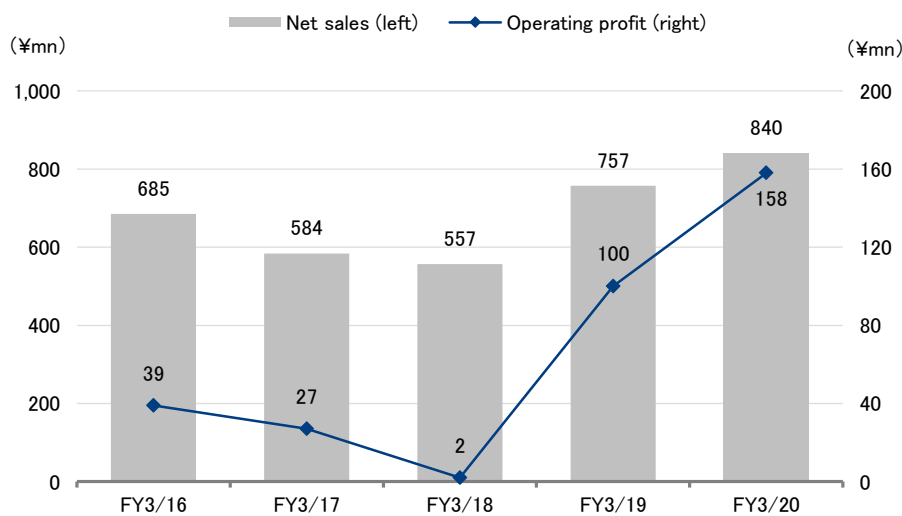
Before the COVID-19 pandemic, the Company had received orders from overseas companies regarding the ultra-high speed print server project for the factory market. Since there is strong interest in this product, orders are expected to recover in step with the restart of economic activity globally. Furthermore, the Company’s integrated surveillance video systems business are expected to find use in contexts such as expressways, rivers, ports, and airports and so forth, stronger access security in factories, commercial facilities, medical data collection through application of high-resolution 4K and 8K cameras, remote medicine, recording of lectures, recording evidence from workplace screens, and so forth. As a result, we see the Company recovering quickly once economic activity resumes.

Summary

**Key Points**

- A computer systems development company with a small number of highly skilled employees and a large number of products developed in-house that have market dominance
- FY3/20 saw a dramatic increase in sales and profits led by the Imaging and printer controller business
- New addition of an image recognition function to FIREDIPPER, body temperature checking through connection with thermal cameras simultaneously with facial recognition and people counting
- Amid strong demand for the Company's main businesses, its policy for FY3/21 is to continue initiatives towards achieving the medium-term management plan

**Results trends**



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

## Company overview

### Since its foundation, has developed in-house and market launched package software

The Company was founded in 1989 by its founder, President Eisei Matsumura. President Matsumura majored in informatic engineering science at university, and then worked in an overseas computer manufacturer for 45 years, where he was deeply involved in computer communication and software development. During this period, he handled and experienced many overseas-manufactured computers, OS, and application software.

Company overview

At that time, 99% of computers were manufactured in the US, and moreover, the OS and software tools installed in them, and even the package software used in Japan, was also almost entirely manufactured in the United States. In 1971, Intel <INTC> developed the microprocessor, and in 1985, Microsoft <MSFT> released OS “Windows,” and IBM <IBM> PC-AT (PC) became the global standard, after which installing and operating software on these platforms became the mainstream. Incidentally, in the worlds of control-use embedded computers (Arm, Motorola, and, Intel) and proprietary architecture, such as game consoles, Japan-manufactured OS and application software have acquired only small market shares and have only a small presence.

When founding the Company in 1989, President Matsumura set the goals of developing in-house package software for all uses and market launching these products. Therefore, in the seven years from the Company’s foundation (1989 to 1995), it became involved in outsourced development (consignment) and systems development. As a side of this, it made a list of the software packages distributed around the world considered necessary. Among them, it developed its own similar products in-house that do not seem to require a significant of man-hours for development.

History

Date	Main events
January 1989	Established Nippon Techno Lab, Inc., in Shinbashi, Minato Ward, Tokyo
April 1989	Relocated the head office to Higashi Gotanda, Shinagawa Ward, Tokyo. Started providing technical support for massively parallel computers for a major construction company
July 1990	Alongside the business expansion, relocated the head office to Ningyo-cho Nihonbashi, Chuo Ward, Tokyo
June 1991	Developed an UNIX-compliant device drive for an OA equipment manufacturer
July 1991	Launched sales of the “NPS series,” a UNIX-compliant driver for color MFP and an image input/output system
June 1994	Alongside the business expansion, moved the head office to Tenma-cho, Nihonbashi, Chuo Ward, Tokyo
November 1995	Developed a Windows-compliant device driver
September 1996	Entered-into a capital and business tie-up with Yazaki Corporation and conducted outsourced development of gas alarms system and vehicle-installed OS
October 1996	Developed the “Mistral” print server
March 1997	Concluded an agreement on Adobe Photoshop and technical support with Adobe Systems of the US
May 1997	Established a new development center in Nihonbashi Horidomechou, Chuo Ward, Tokyo
July 1998	Concluded a MISTRAL sales contract with the former Canon Sales Co., Inc.
January 1999	Concluded an exclusive sales agreement with Kinokuniya Company Ltd. for the digital library system “NTL DLS” and started sales
August 1999	Started sales of the PICTROGRAPHY-use Adobe PS printer controller for the former Fuji Photo Film Co., Ltd.
October 1999	Concluded a development agreement for the “Mistral” plotter controller manufactured by MIMAKI ENGINEERING CO., LTD.
February 2000	Started shipments of a controller for the “DocuColor” “A Color” project of Kyushu Electric Power Company for Fuji Xerox Co., Ltd.
August 2000	Concluded an OEM sales agreement for the “Mistral” A1 plotter controller for the former KYOCERTA MITA Corporation
September 2000	Started shipments through “Mistral” OEM of a wide plotter controller manufactured by KATSURAGAWA ELECTRIC CO., LTD
January 2001	Started shipments of the “Mistral” multi-function printer controller manufactured by former Minolta Co., Ltd.
February 2001	Built various service sites to grow sales of the mobile phone (Toyota PiPit) of the former Gazoo Media Service Corporation.
March 2001	Started shipments of the light printer PostScript controller manufactured by Duplo Corporation
May 2002	For business expansion and to integrate the head office and the development center, relocated the head office to Hirakawacho, Chiyoda Ward, Tokyo
September 2002	Started shipments of Adobe PS-installed printer controller for high-speed inkjet printers for RISO KAGAKU CORPORATION
December 2002	Started the information security business and commenced developments
March 2004	Initiated PKI authentication technology in the University of Tokyo Hospital
April 2004	Started shipments of controllers for high-speed variable printers for Nagano Japan Radio Co., Ltd.
June 2004	Entered into a licensing agreement for “JAWS RIP” with Global Graphics of the UK
October 2005	Concluded a development and licensing agreement for filter software for large plotters for Ricoh Company, Ltd. Started developing PS controllers for large plotters for the former Showa Information Systems Co., Ltd.
September 2006	Started the video security business
May 2007	Listed on Sapporo Securities Exchange Ambitious
September 2007	Entered-into a business tie-up with an inkjet head manufacturer. Developed large-scale, high-speed inkjet printer control equipment.
October 2007	Conducted joint development of a high-speed digital printer with JADASON Enterprises
February 2008	Started sales of “FIREDIPPER,” a surveillance camera network remote management system

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

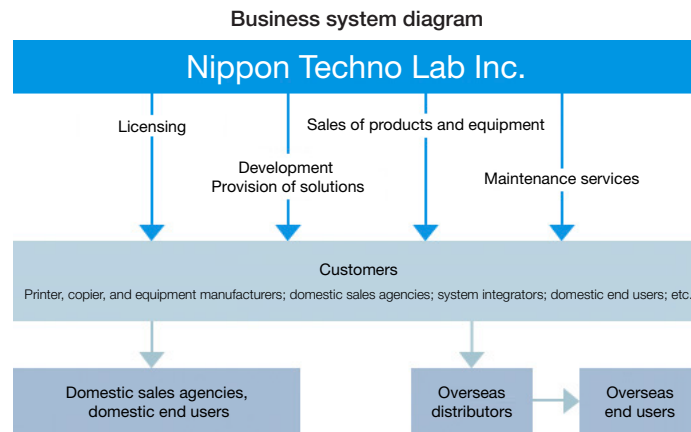
Nippon Techno Lab Inc. | 16-Jul.-2020

3849 Sapporo Securities Exchange Ambitious | <https://www.ntl.co.jp/en/>

Company overview

Date	Main events
September 2008	Launched sales of "SPSE," a secure printing system Entered-into a tie-up with the former KYOCERTA MITA JAPAN Corporation
October 2008	Started sales of "WisePatrol," a client PC surveillance system
February 2009	Launched sales of a CO <sub>2</sub> offset navigator and a toner and ink saver
April 2010	Started sales of "Dupli," a data backup & label printing system
June 2010	Started developing a controller for high-speed POD printers for Duplo Corporation
July 2010	Developed "DICOM PAPER PRINT," a medical-use image printing system
March 2011	Started a capital and business tie-up with NALTEC, Inc.
July 2011	Concluded a licensing agreement for "Harlequin RIP" with Global Graphics of the UK
April 2012	Started fully fledged shipment of the line-head IJ printer controller
December 2012	Acquired the ISO27001 certification
January 2015	Started sales of a secure camera system package for food production sites
October 2015	Succeeded in developing digital printing for tablets (generics)
April 2016	Succeeded in developing a printer for aluminum foil
March 2017	Started the cyber security business Entered into a business tie-up with NSFOCUS Japan Co., Ltd., a network security vendor

Source: Prepared by FISCO from the Company's materials

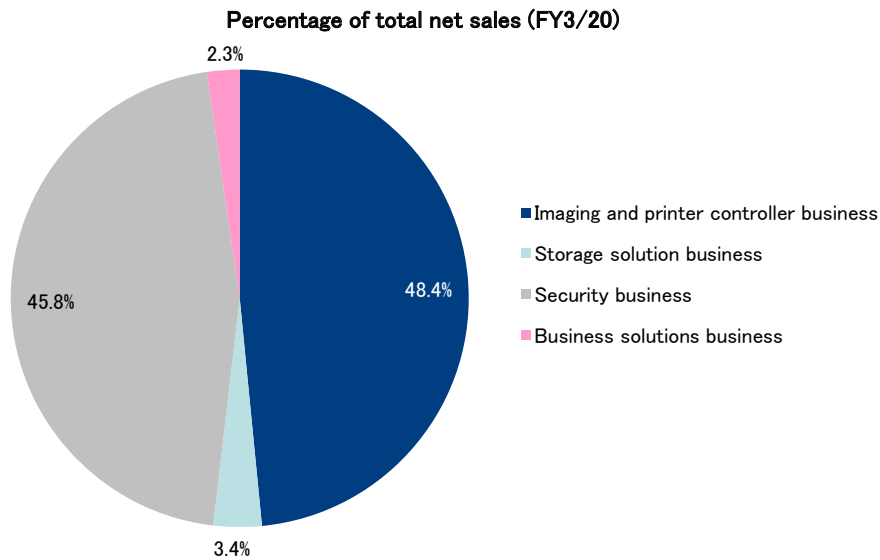


Source: The Company's website

## ■ Business description

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

The Company is developing four businesses; the “Imaging and printer controller business,” the “Storage solution business,” the “Security business,” and the “Business solutions business.” Breaking down net sales for FY3/20, the Imaging and printer controller business accounted for 48.4% and the Security business for 45.8%. The two key businesses segments together make up over 90% of overall net sales.



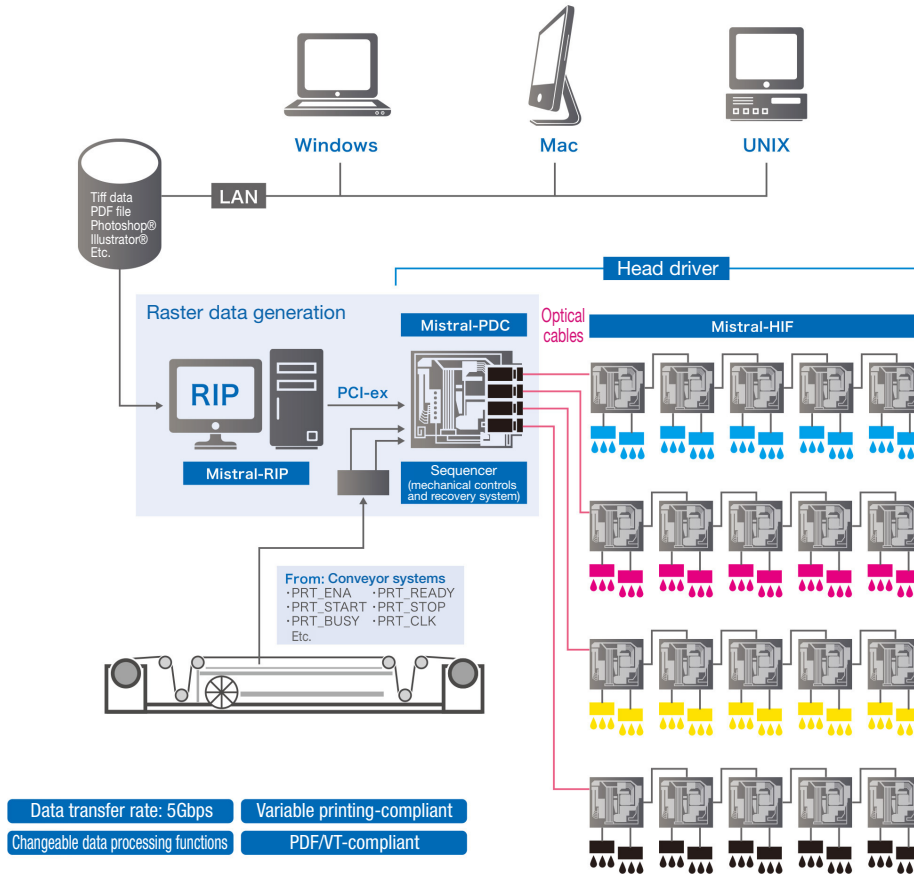
Source: Prepared by FISCO from the Company's financial results

#### 1. Imaging and printer controller business

In contrast to printer manufacturers that provide printers for special and industrial uses, the Company develops and sells Mistral, which is control-systems software for the printers, while it also sells printer control equipment (hardware) into which Mistral has been embedded. The features of this business include the Company's specialization in the development and sales of this special, business-use and industrial-use printer control systems software that can be used with printer multifunction machines, at CAD design sites, and for certain purposes. The printers it targets must be highly accurate and have high image quality as they are used for special applications, and in order to realize in a short-period printer output that meets customers' diverse and sophisticated needs, it provides to customers all of the component technologies relating to the various control systems software.

Business description

Mistral's core technologies



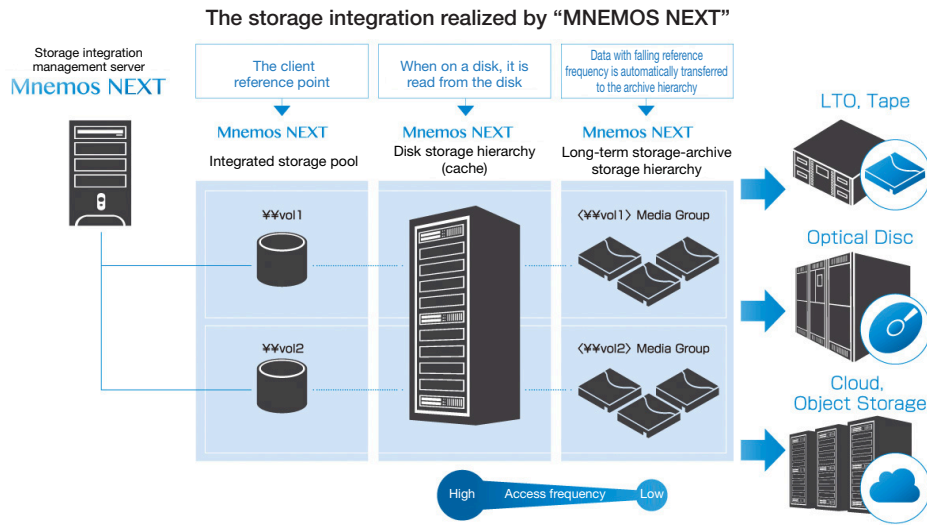
Source: The Company materials

2. Storage solution business

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



Business description



Source: The Company's website

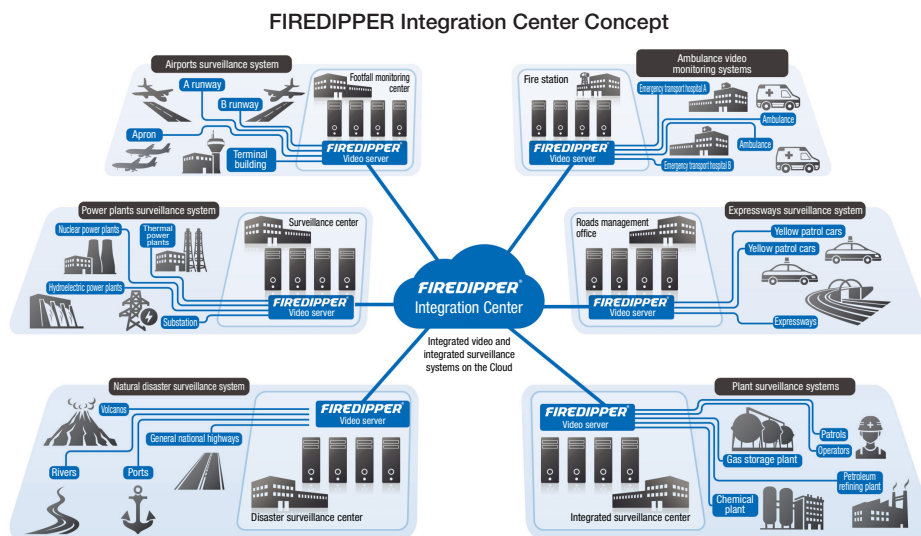
3. Security business

This business mainly develops, sells, and maintains security printing systems and integrated surveillance video systems, while it also conducts R&D for product development in the future. “SPSE PRINT SCOPE,” which is the Company’s total printing management foundation, is a printing environment integrated foundation that can totally manage all aspects, not only authentication printing, but also for printing content, ensuring auditable and inspectable printing security, and ascertaining the printing volume for each piece of equipment, the optimized operations of printers, and the management of printing costs. In terms of the average value of the projects introduced, it can manage from 50,000 to 500,000 jobs per day per server and has a track record of stable operations 24 hours a day 365 days a year, and of large-scale introductions on the scale of many thousands of people, to financial institutions, including to over half of the mega-banks and major securities companies, and major companies in the communication and manufacturing industries.

In the video security field, it handles the “FIRE DIPPER” video integrated surveillance software. It is a video surveillance solution the Company developed entirely in-house that specializes in infrastructure-related video surveillance. The video server realizes non-stop operations for video and the accumulation of records for various purposes, while also making possible a redundant configuration. It can cooperate with fire alarms, emergency doors and various types of sensor groups. “FIRE REC,” an appliance surveillance server for SMEs, can transmit live video images and accumulate recordings from approximately 100 cameras with a single installation, and it is used in fields such as food quality control (food defense), commercial facilities surveillance, and plant surveillance. In other products, “FIRE REC” is a small, all-in-one NVR used for crime prevention, including at chain stores, tenants, buildings, condominiums, and warehouses.

Business description

Moreover, in the FIREDIPPER's main market of mission-critical environments, mainly for government and municipal offices, in many cases the cameras of different manufacturers are used mixed together, so it is essential to have multi-vendor compliant cameras and related aspects. The video integrated management system "FIREDIPPER" solves the problems arising from the requests by various systems and provides a robust video integration system. It has been delivered to many customers, including to the main domestic airports under the jurisdiction of the Ministry of Land, Infrastructure and Transport, Narita International Airport, expressways, national volcanoes (volcano surveillance), the Ground Self-Defense Force (surveillance of exercises), the Maritime Self-Defense Force (surveillance of movements), the police (surveillance of traffic intersections), local governments (surveillance of rivers and roads), ports (surveillance of marine vessels), and nuclear power plants (surveillance of surrounding areas and sensor cooperation).



Source: The Company materials

**4. Business solutions business**

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

## Strengths

### **New addition of an image recognition function to FIRE DIPPER, body temperature checking through connection with thermal cameras simultaneously with facial recognition and people counting**

#### **1. An inkjet printer control system software optimized for industrial uses, such as in the high-definition printing field: “Mistral”**

The Company is focusing on the inkjet digital printing market, and it is developing and selling the “Mistral” printer control system software and conducting sales of printer control devices into which Mistral is embedded (hardware).

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

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

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

#### **2. Only solution to realize authentication printing and to ascertain the content of printing: “SPSE PRINT SCOPE”**

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

#### Strengths

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

A lot of information leakages that have been reported on in the media involved an electronic medium, but even today amid the progress of digitization, paper medium is still the source of many information leakages. Security measures for MFP, which use a lot of paper, are important, but measures to keep down costs also cannot be ignored. By improving the printing environment as a whole, the Company is realizing both strengthened security and cost reductions.

### 3. A video surveillance solution developed completely in-house: “FIREDDIPPER”

The video integrated surveillance software “FIREDDIPPER” is a video surveillance solution that the Company developed completely in-house that specializes in infrastructure-related video surveillance in places where the use of video is essential and where problems, such as failures and malfunctions, cannot be allowed to occur. It realizes non-stop operations for camera video and the accumulation of records for various purposes, and it also makes possible a redundant configuration video server. Further, it is said that it has extendibility, in that it can coordinate with fire alarms, emergency doors, and various sensor groups. The Company has a track record of providing multiple video surveillance solutions even on a nationwide scale and it can be used from small-scale to large-scale, while there is also an enterprise version that utilizes the “FIREDDIPPER Integration Center” that can be used on the Cloud.

On June 5, 2020, the Company announced the inclusion of an image recognition function in its “FIREDDIPPER” video surveillance solution, which will enable the construction of an image recognition system, including “facial recognition,” “people counting,” “temperature checking,” and “object detection” using camera images imported into FIREDDIPPER. In addition, the system can simultaneously process multiple image sources, as well as handling image analysis from live and recorded video and performing facial recognition of masked subjects. Furthermore, the system is compatible with camera models from multiple vendors, which offers the advantage of eliminating the need for dedicated image recognition equipment.

Specific usage applications are as follows.

#### (1) Facial recognition

The system automatically detects faces of human subjects from camera images and compares them against pre-registered facial recognition data to identify people. Used in conjunction with access management by IC cards, the system realizes a high level of security with outstanding performance in preventing impersonation.

#### Strengths

#### (2) People counting

The function for detecting faces in camera images can be used to count the number of people in a designated area.

#### (3) Temperature checking

By combining the facial recognition function with the temperature checking function of a temperature checking thermal camera, it is possible to check the temperature of an unspecified large number of people. To give an example, by conducting body temperature checking simultaneously with facial recognition when people enter a facility, the system can assist with employee health management.

#### (4) Object detection

The system can automatically detect objects from camera images and distinguish what kind of object it is (general passenger car, truck, motorcycle, person, etc.). The system can also detect the color of the object as well as the object.

## Results trends

### FY3/20 saw a dramatic increase in sales and profits led by the Imaging and printer controller business

#### 1. FY3/20 results

In the FY3/20 results, net sales were ¥840mn (up 11.0% year on year (YoY)), operating profit was ¥158mn (up 57.2%), ordinary profit was ¥156mn (up 187.0%), and net profit was ¥87mn (up 124.7%), for a second consecutive year of higher sales and profits. A dramatic increase in net sales of products in the Imaging and printer controller business coupled with a sharp decrease in selling, general and administrative expenses in the Storage solution and Information security businesses resulted in an overall increase in operating profit, for a significant YoY increase in sales and profits. In addition, each profit measure exceeded the initial plan (net sales ¥900mn, operating profit ¥150mn, ordinary profit ¥150mn, net profit ¥80mn). No especial impact from COVID-19 was observed in FY3/20.

#### FY3/20 results

	FY3/19		FY3/20		Change	
	Results	% of sales	Results	% of sales	Amount	%
<b>Net sales</b>	757	-	840	-	83	11.0%
Imaging and printer controller business	259	34.3%	406	48.4%	147	56.9%
Storage solution business	35	4.7%	28	3.4%	-6	-19.0%
Security business	437	57.8%	385	45.8%	-52	-12.0%
Business solutions business	24	3.3%	19	2.3%	-5	-21.0%
<b>Operating profit</b>	100	-	158	-	57	57.2%
Imaging and printer controller business	97	12.9%	170	20.3%	72	74.7%
Storage solution business	-31	-	-26	-	4	-15.6%
Security business	151	20.0%	151	18.0%	-0	-0.2%
Business solutions business	5	0.8%	4	0.5%	-1	-26.5%
<b>Ordinary profit</b>	54	7.2%	156	18.6%	101	187.0%
<b>Net profit</b>	38	5.1%	87	10.4%	48	124.7%

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

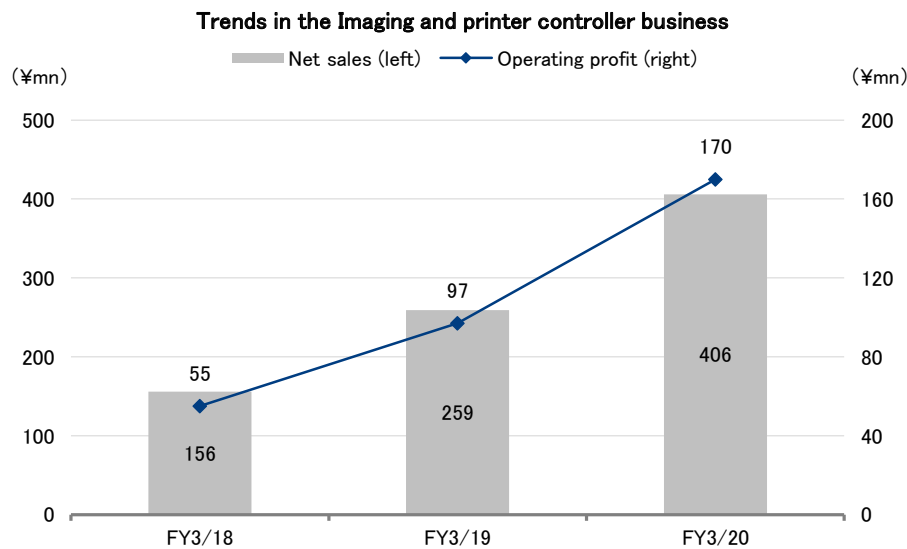
Results trends

2. Segment trends

(1) Imaging and printer controller business

The Imaging and printer controller business recorded net sales of ¥406mn (up 56.9% YoY) and segment profit of ¥170mn (up 74.7%). Product net sales increased dramatically, and line head controllers for commercial inkjet printers performed strongly, primarily in sales to Think Laboratory Co., Ltd.,\* which received a third-party allocation of shares (in September 2019). Furthermore, the percentage of total net sales for the segment rose to 48.4% (34.4% in the previous fiscal year).

\* Think Laboratory provides fully automatic laser gravure cylinder making systems, water-based digital inkjet systems, and other flexible packaging solutions to over 250 companies in 38 countries around the world.

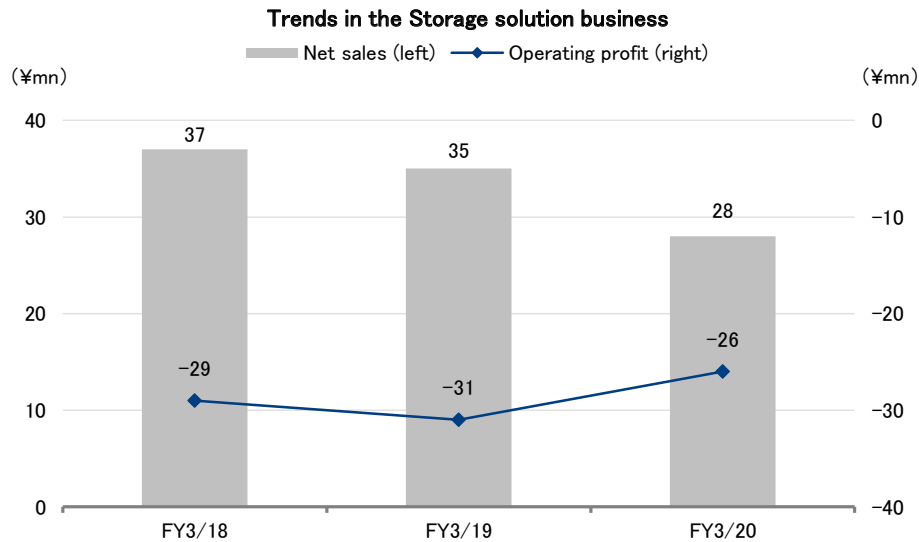


Source: Prepared by FISCO from the Company's financial results

(2) Storage solution business

The Storage solution business recorded net sales of ¥28mn (down 19.0% YoY) and a segment loss of ¥26mn (loss of ¥31mn in the previous fiscal year). Although net sales decreased, selling, general and administrative expenses decreased dramatically, helping to narrow the segment loss. The segment's percentage of net sales decreased to 3.4% (4.7% in the previous fiscal year).

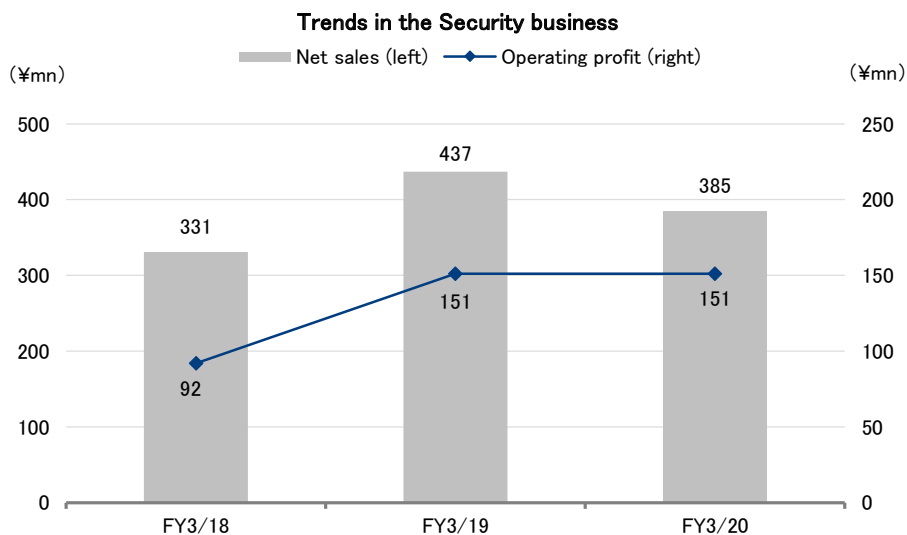
Results trends



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

**(3) Security business**

The Security business is the next main business after the Imaging and printer controller business. It recorded net sales of ¥385mn (down 12.0% YoY) and segment income of ¥151mn (down 0.2%). The segment is comprised of the Security Printing System Division (information security) and the Integrated Surveillance Video System Division (video security). The Security Printing System Division saw an increase in sales and profits due to increased product net sales, while the Integrated Surveillance Video System Division recorded decreases in sales and profits. The segment's percentage of net sales decreased to 45.8% (57.8% in the previous fiscal year).

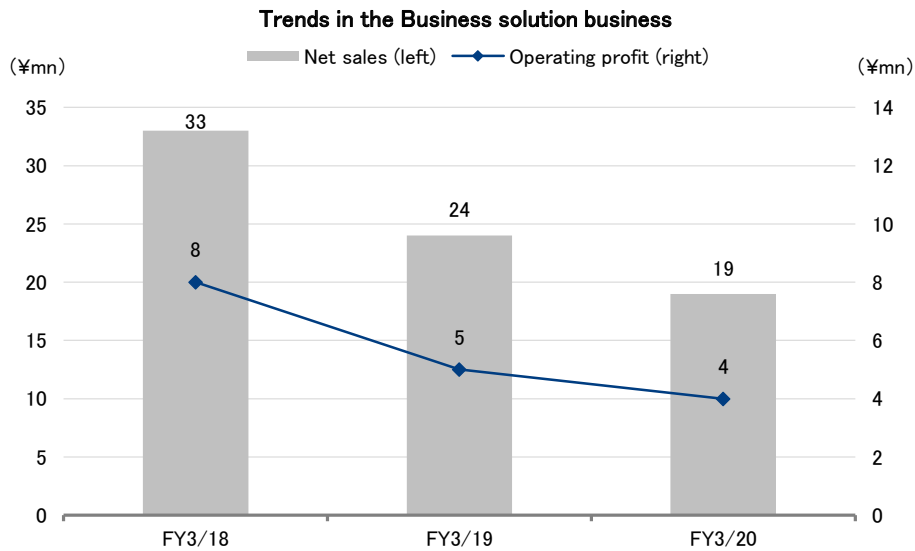


Source: Prepared by FISCO from the Company's financial results

Results trends

**(4) Business solutions business**

The Business solutions business recorded net sales of ¥19mn (down 21.0% YoY) and segment profit of ¥4mn (down 26.5%). The segment's percentage of net sales decreased to 2.3% (3.3% in the previous fiscal year).



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

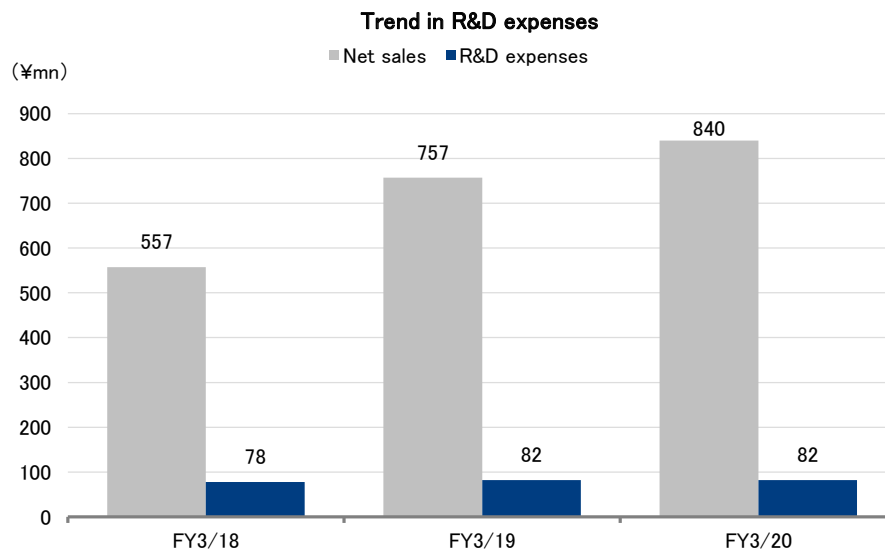
**Continuing aggressive R&D investment focused on the development department to capture future earnings**

**3. R&D (Research & Development)**

In R&D activities, the Company continues to make aggressive R&D investments focused on the development department with a view to capturing future earnings. In FY3/20 the total amount of R&D expenses increased by ¥297 thousand to ¥82,567 thousand (up 0.4% YoY), and the ratio of R&D expenses to net sales reached 9.8%.



## Results trends



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

## R&amp;D investment by segment

(¥thousand)

	FY3/20		R&D details
	R&D expenses	YoY	
Imaging and printer controller business	10,735	211.4%	Development of inkjet controller and development to make new model post script rasterizers comply with the Company's existing printer controller software, etc.
Storage solution business	25,628	-17.0%	Development of a data archiver that is part of a portable storage media system
Security business	46,202	-3.6%	Improvement of SPSE (authentication printing solution) and development of optional functions, as well as development to make integrated surveillance video systems compliant with smartphones
Business solutions business	0	-	

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

## ■ Outlook

### Amid strong demand for the Company's main businesses, its policy for FY3/21 is to continue initiatives towards achieving the medium-term management plan

#### 1. FY3/21 outlook

The Company's mainstay Image and printer controller business, Information security business, Video security business, and Storage solution business are in high demand. Therefore, its policy for FY3/21 is to continue initiatives towards achieving the medium-term management plan. On the other hand, there are expectation that corporate customers will prolong self-restraint on their business activities due to the impact of COVID-19. In this situation, it is currently difficult to make a rational earnings forecast, and the Company judged that it cannot make an appropriate forecast disclosure, leaving the earnings forecast for FY3/21 undetermined.

Before the COVID-19 pandemic, the Company had received orders from overseas companies regarding the ultra-high speed print server project for the factory market. Since there is strong interest in this product, orders are expected to recover in step with the restart of economic activity globally. Furthermore, the Company's integrated surveillance video systems business are expected to find use in contexts such as expressways, rivers, ports, and airports and so forth, stronger access security in factories, commercial facilities, medical data collection through application of high-resolution 4K and 8K cameras, remote medicine, recording of lectures, recording evidence from workplace screens, and so forth. As a result, we see the Company recovering quickly once economic activity resumes.

#### 2. Outlook by segment

##### (1) Imaging and printer controller business

The Company is steadily progressing development work for the medical and pharmaceutical markets, such as printing for tablets, and it has established a repeat orders system. Moreover, in the industrial market, offset printing and gravure printing methods are currently being changed to digital printing, so the Company has equipped its original ultra-high speed print server software with functions for printing on flexible packaging and so forth. Moreover, there have been inquiries for the cardboard printing system that utilizes the Company's proprietary technology, and for controller development for high quality 4K and 8K TV panels. Also, through a collaboration with a major head manufacturer and ink manufacturer, it has entered the stages of planning and execution for overseas business development. Furthermore, in its initiatives in new fields, the Company is focusing on controllers for high quality TV panels, and a mobile lot printing system for construction sites in connection with architectural CAD.

##### (2) Storage solution business

The Company is making proposals for low-cost systems based on Single-drive Standalone system, which is standalone drive-compliant software for a portable storage media system, and encouraging users to introduce the Company's software. In FY3/20, the Company provided solutions for prefectural police evidence data that cannot be modified once the data has been saved, and aims to expand sales for research institute data management and other applications with a high demand for ensuring the validity of data. Furthermore, the Company will expand sales by actively incorporating needs for low-cost, safe, long-term storage of large quantities of data among big data companies. The Company is seeing an increase in inquiries about large-capacity petabyte class archiving, and aims to achieve profitability at an early stage by acquiring large projects.

## Outlook

**(3) Security business****a) Information security**

Amid rising awareness of the need for information management for print-outs, information security products are being introduced, mainly by major financial institutions and local governments. Orders are expected to increase in the future, and the Company is focused on expanding its subscription model with a view to establishing its position as a stable growth platform. The security print system product SPSE PRINT SCOPE can also be used for printing outside the office by telework. By enabling information about who printed what, when, and where, to be understood, the Company will work to capture printing security needs going forward.

**b) Video security**

In the Integrated Surveillance Video System Division, the Company sees firm order activity in electric power and public projects. For commercial-facilities projects, in order to increase the likelihood of orders, the Company has embedded new functions into its products to differentiate them from the products of its industry peers. On the other hand, in plant surveillance, it has currently obtained a number of orders, and moreover it has in sight specific, scheduled orders in the next few years. The target market has expanded from the previous focus on public sector-related to include private sector-related as well. Needs for surveillance cameras, such as for crime prevention, disaster prevention, and anti-terrorism measures, are trending upward, and it seems that needs for "FIRE DIPPER," integrated surveillance software that has been introduced for many public transport-related projects, will also increase in the future. Furthermore, the Company aims to expand sales by working to expand functionality and performance through the use of AI and so forth.

**(4) Business solutions business**

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

**3. Initiatives for achieving the medium-term management plan, "Next Stage 2022"**

The Company announced its medium-term management plan, "Next Stage 2022," in May 2019. In this medium-term management plan, it sets out three management policies and the targets for FY3/22, of net sales of ¥1,300mn and operating profit of ¥450mn.

**(1) Management policies****a) Proactive management that utilizes the follow-up external environment**

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

**b) The development of high value-added software and systems through advanced development capabilities and technical capabilities**

In the printer controller, video security, information security, and storage solutions fields, which are the Company's main businesses, in the future the technical standards required by customers are expected to become increasingly higher. Therefore, the Company intends to grow earnings by aiming to solve customers' problems and improve value through utilizing the many unique technologies and rare technologies it has accumulated up to the present day, and by developing advanced software and systems with high added-value.

Outlook

**c) Having a small number of highly skilled employees**

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

**(2) Results targets**

Targeting net sales of ¥1,300mn and operating profit of ¥450mn in FY3/22, the final fiscal year of the medium-term management plan.

**The medium-term management plan's numerical targets**

(¥mn)

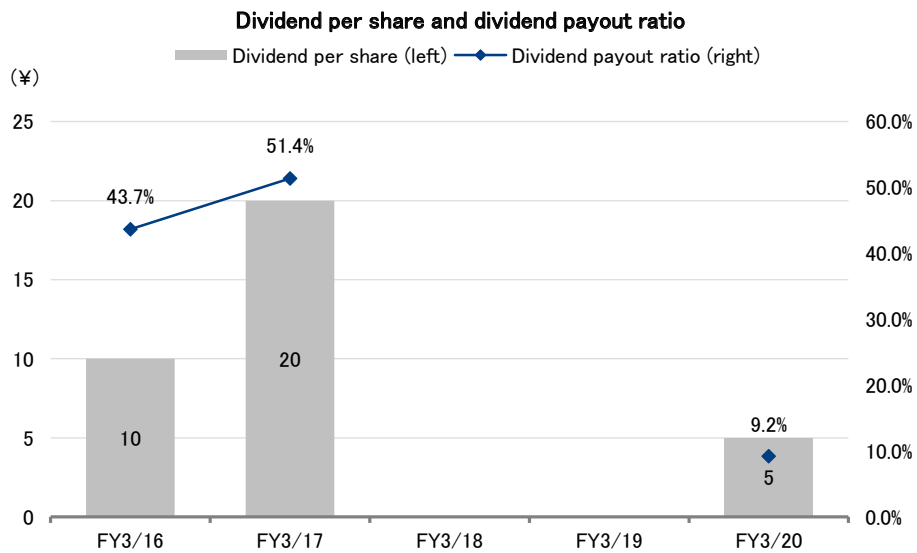
	FY3/19 Results	FY3/20 Results	FY3/22 Plan
Net sales	757	840	1,300
Operating profit	100	158	450
Ordinary profit	54	156	450
Net profit	38	87	300
Operating profit margin	13.3%	18.9%	34.6%
ROE	4.1%	8.4%	20.0%

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

## Shareholder return policy

### Policy is to actively pay dividends, while also prioritizing R&D, aiming for a dividend payout ratio of 30% in the future

As an R&D-type company, the Company's basic policy is to returns profits to shareholders while also retaining the internal funds necessary for business expansion in the future and to strengthen its corporate structure. The Company's basic policy is also to pay dividends once or twice a year, basically paying a year-end dividend and adding an interim dividend as necessary to ensure appropriate and timely returns to shareholders. Based on this policy, in FY3/20 the Company's has decided to recommence dividend payment by paying a dividend per share of ¥5.0. It is aiming for a dividend payout ratio of 30% for the future.



Note: Conducted a 2-for-1 stock split on April 1, 2019  
 Source: Prepared by FISCO from the Company's financial results



## Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (Financial information Dept.)

Email: [support@fisco.co.jp](mailto:support@fisco.co.jp)