COMPANY RESEARCH AND ANALYSIS REPORT

Terilogy Co., Ltd.

3356

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Summary

An IT solutions provider whose strengths include abilities to find emerging technologies and marketable products and to respond to the market. Has announced a new medium-term management plan that shows the path toward achieving net sales of ¥10bn.

1. Company profile and business description

Terilogy Co., Ltd.<3356> (hereafter, also "the Company"), which is an IT company, has been providing IP network-related products and state-of-the-art products and solutions in the network security field since its foundation in July 1989. Currently under its umbrella in the Terilogy Group are 4 consolidated subsidiaries (including a subsidiary's subsidiary) and 1 non-equity-method affiliate.

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

From the Company's corporate history, it can be read that it has quickly ascertained the trends of broadband, mobile, and cybersecurity and expanded its business areas to reflect them with the corporate IP network business as its original business. Also, the Company considers its own strengths to be 1) its ability to find "emerging technologies" and "marketable products" and "to respond to the market," 2) wide selection of customer solutions, 3) diverse service provision approaches, 4) technical capabilities rooted in experience, and 5) global response capabilities. In particular, the first strength listed above is used in its partnering strategy, which is a feature of the Company, and this is considered to be the core competence on which all other strengths are based.

The Company is currently developing business activities in four sections by products and services: the Network Section, Security Section, Monitoring Section, and Solutions Services Section. Its features include a maintenance system operating 24 hours a day, 365 days a year and an excellent distribution function that combines direct and indirect sales.

2. In the FY3/21 results, set new record-high profits even during the COVID-19

In the FY3/21 consolidated results, net sales increased 16.1% year-on-year (YoY) to ¥4,701mn, operating income grew 104.7% to ¥540mn, and ordinary income rose 88.5% to ¥543mn. The operating income margin was 11.5%, increasing significantly by 5.0 percentage points (pp) YoY mainly due to the improved cost of sales ratio. Looking at orders also, orders received during the period increased 36.8% to ¥5,455mn, while outstanding orders at the end of the period rose by 250.1% on the end of the previous period to ¥1,055mn, so results were extremely steady. Although net sales did not reach their record high since the Company's foundation (¥6,364mn in FY3/05), every profit item achieved a new record high even during COVID-19.

The Company is also maintaining a sound financial structure. At the end of FY3/21, the equity ratio had declined to 46.6% (53.9% at the end of the previous period) and the current ratio to 169.9% (209.4%). Also, the D/E ratio (interest - bearing debt / shareholders' equity) was 0.13 times (0.17 times) and net cash (cash and deposits - interest-bearing debt) was ¥2,070mn (¥1,508mn), so both had further improved. On a stand-alone basis, retained earnings, from which the Company normally funds dividend payments, were ¥502mn (¥156mn), so its capacity to fund dividend payments was also supplemented.

3. The Company's FY3/22 results forecasts are conservative

The Company has announced its initial forecasts for the FY3/22 consolidated results, of net sales to increase 10.6% YoY to ¥5.2bn and operating income to decrease 68.5% to ¥170mn. It can be said to be forecasting a decline in profits due to the effects of starting to adopt "the new accounting standard for recognizing revenue." But the assumption for the forecasts of an operating income margin of 3.3% would seem conservative compared to the value the Company is actually capable of (around 7%). It plans to once again pay a period-end dividend per share of ¥5.

4. The new medium-term management plan shows the path to net sales of ¥10bn

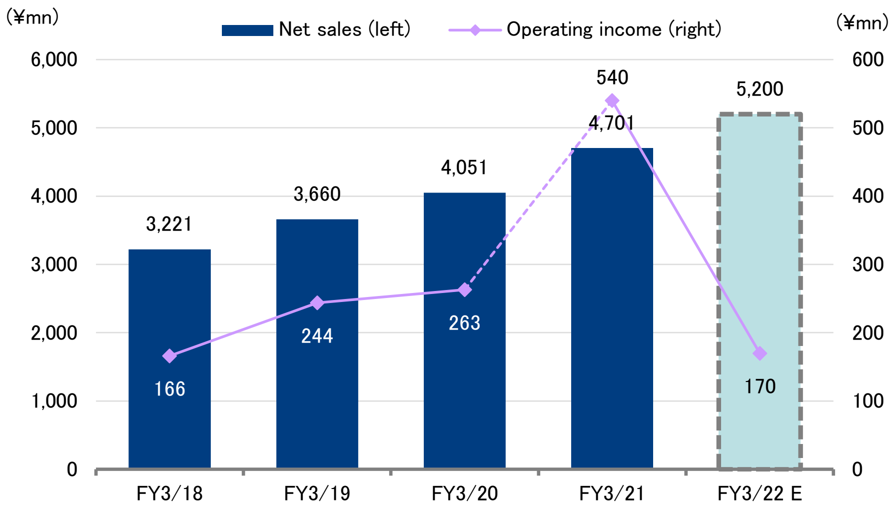
The Company has stated that it will "implement measures for public relations and publicity activities aimed at improving medium- to long-term and sustainable corporate value, while also aiming to maximize corporate value." In May 2021 as one part of these efforts, it announced its new three-year medium-term management plan.

For FY3/22, the plan's first fiscal year, the new medium-term management plan incorporates "numerical targets for organic growth," "the basic strategy and priority measures to achieve the targets" and "the basic approach for implementing the M&A and business alliance strategy." More specifically, it shows the path toward achieving net sales of ¥10bn.

Key Points

- An IT solutions company that has accumulated a track record in the 30 years since its foundation. The Company, which forms a corporate group with four consolidated subsidiaries (including second-generation subsidiaries) and one affiliated company counted for using the equity method as its affiliates, is currently conducting business activities through four sections: the Network Section, Security Section, Monitoring Section, and Solutions Services Section
- From the Company's corporate history, it can be read to have a track record of accurately ascertaining the trends of the times and skillfully changing its business focus areas to reflect them
- Also utilizing its core competence, its ability to find "emerging technologies" and "marketable products" and "to respond to the market," in its partnering strategy
- In the FY3/21 results, achieved higher sales and profits for the 4th consecutive period even during the COVID-19
- The Company's FY3/22 results forecasts appear conservative
- The new medium-term management plan announced in May 2021 shows the path to achieving net sales of ¥10bn

Results trend



Note: From FY3/22, adopted the "accounting standard for recognizing revenue"
Source: Prepared by FISCO from the Company's securities report and financial results

Company profile

An IT solutions provider established in 1989. Is progressing a business strategy that leverages its "abilities to find emerging technologies and marketable products and to respond to the market"

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

The Company is an IT company that has been providing IP network-related products and cutting-edge products and solutions in the network security field since its foundation in July 1989. In December 2004, it was newly listed on the JASDAQ Securities Exchange (currently, the Tokyo Stock Exchange (TSE) JASDAQ Standard).

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

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

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

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

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

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

In the security field, the Company has provided wide-ranging solutions by concluding a domestic (Japan) master reseller contract with TippingPoint of the US, when it was independent in 2004 (it was acquired by Hewlett-Packard <HPQ> of the US in 2010 and acquired by Trend Micro <4704> in 2015) followed by concluding reseller contracts with OneSpan <OSPN> (formerly VASCO Data Security of Belgium) in 2007, Lastline of the US in 2012 (which was acquired by VMware <VMW> of the US in 2020), RedSeal of the US in 2015, Tempered Networks of the US and KELA of Israel in 2016, and Nozomi Networks of the US in 2018 (domestic (Japan) reseller contract with Tempered Networks), which is enabling it to provide solutions over a wide range.

Company history

July 1989	Terilogy Co., Ltd. established in Kanda, Chiyoda-ku, Tokyo. Enterprise networks business launched.
Apr. 1991	Maintenance outsourcing contract signed with Toshiba Engineering Corporation (now Toshiba IT-Services Corporation) and maintenance service business launched.
May 1996	Outsourcing contract signed with Tokyo NTT Data Communication Systems Corporation (now NTT Data Business Systems Corporation) and customer solutions business launched.
Nov. 1999	Distribution contract signed with American company Redback Networks, Inc. and broadband network business launched, encompassing sales of Redback Networks broadband access servers, Ethernet software from American company Network Telesystems, Inc. (now Affinegy, Inc.), and other such products.
Jan. 2003	DNS/DHCP servers distribution contract signed with Infoblox Inc. <BLOX> of the US.
Oct. 2004	Domestic (Japan) master reseller contract signed with American company TippingPoint Inc. (now Trend Micro Inc. <4704>).
Dec. 2004	Listed on the JASDAQ Securities Exchange.
Sep. 2005	Certified under ISO 27001 information security management system (ISMS) standards.
Nov. 2005	Basic agreement on business collaboration signed with UNIADEX, Ltd. based on a capital tie-up agreement.
Dec. 2006	Domestic (Japan) master reseller contract signed with American company NETSCOUT Systems, Inc.
Feb. 2007	Distribution contract signed with Belgian company VASCO Data Security, Inc. (now OneSpan Inc. <OSPN>).
Mar. 2007	Certified under ISO 14001 environmental management system (EMS) standards.
Oct. 2008	Distribution contract signed with Singaporean company eG Innovations Pte Ltd.
Apr. 2010	Following merger of JASDAQ Securities Exchange and Osaka Securities Exchange, Terilogy listed on Osaka Securities Exchange JASDAQ.
Aug. 2010	Domestic (Japan) reseller contract signed with American company APCON, Inc.
Feb. 2011	Asia-Pacific distribution contract signed with American company SevOne, Inc.
June 2012	Sales begun of momentum, a unique probe software product developed in-house at Terilogy.
Sep. 2012	Distribution contract signed with Lastline Inc. of the US (now VMware, Inc. <VMW>).
July 2013	Following merger of Osaka Securities Exchange and Tokyo Stock Exchange, Terilogy listed on TSE JASDAQ Standard.
July 2013	Fullflex ZG master reseller contract signed with Accense Technology, Inc.
July 2015	Sales begun of CloudTriage, a unique, cloud-based operations monitoring service by Terilogy.
Dec. 2015	Distribution contract signed with American company RedSeal, Inc.
Apr. 2016	Distribution contract signed with Taiwanese system integration company SYSCOM.
Oct. 2016	Exclusive domestic reseller contract signed with American company Tempered Networks, Inc.
Nov. 2016	Distribution contract signed with Israeli company KELA.
Jan. 2017	Basic agreement on business collaboration signed with NCXX Group Inc. <6634> based on a capital tie-up agreement.
Jan. 2017	Basic agreement on joint marketing for security products signed with FISCO Ltd. <3807>.
Jan. 2017	Basic agreement on business collaboration in the area of transaction security with Fisco Cryptocurrency Exchange Inc.
Jan. 2017	Basic agreement on business collaboration in the area of joint product development for blockchain technology applications signed with SJI Ltd. (now CAICA Inc. <2315>).
Mar. 2017	Wholly owned subsidiary Terilogy Worx Corporation established.
Dec. 2017	Shares required for ICT business corporation establishment acquired by ITX Corporation, and wholly owned consolidated subsidiary Terilogy Serviceware Corporation established.
Apr. 2018	Distribution contract signed with American company Nozomi Networks Inc.
July 2018	Sales begun of EzAvater, Terilogy's unique, ultra-simple robotic process automation (RPA) tool.
Jan. 2019	Business tie-up agreement signed with Israeli company Harel-Hertz Investment House Ltd.
May 2019	Launched security risk assessment services for industrial control systems involving critical infrastructure, factory, and building management jointly with BroadBand Security, Inc. <4398>.
June 2019	Business tie-up with American company Sumo Logic, Inc.
July 2019	Consolidated subsidiary Terilogy Worx Corporation concluded distribution contract with American company BitSight Technologies, Inc.
Aug. 2019	Distribution contract concluded with Israeli company TechSee Augmented Vision Ltd.
June–Sept. 2019	Distribution contracts for Company-developed RPA tool EzAvater concluded with Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., islenet Inc., and UCHIDA ESCO Co., Ltd. <4699>.
Feb. 2020	Distribution contracts for Company-developed RPA tool EzAvater concluded with Hitachi Systems, Ltd.
Mar. 2020	Consolidated subsidiary Terilogy Serviceware Corporation concluded a business tie-up with Towa Engineering Corporation.
Mar. 2020	Distributor contract concluded with Israeli company Radware Ltd. <RDWR>.
Apr. 2020	Established joint venture with Vietnam Cyberspace Security Technology JSC, a subsidiary of Vietnamese telecom provider Hanoi Telecom, based on a strategic business tie-up.
May 2020	Consolidated subsidiary Terilogy Serviceware Corporation acquired shares of IGLOOO Inc., making it a subsidiary.
June 2020	Distributor contract for Company-developed RPA tool EzAvater concluded with Computer Engineering & Consulting Ltd. <9692>.
Nov. 2020	The Company and VNCS Global Solution Technology Joint Stock Company signed a memorandum of understanding with BroadBand Security regarding business development in Vietnam related to PCI DSS international security standards.

Nov. 2020	Consolidated subsidiary IGLOOO formed a business alliance with unbot inc., a digital marketing business serving China, whereby IGLOOO acts as an exclusive partner for promoting European, US, and Australian tourism in the Chinese market.
Nov. 2020	CAICA Technologies Inc. launched sales of the Company-developed EzAvater RPA tool.
Dec. 2020	RICOH JAPAN Corp. and NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION began handling Mieru-Tsuyaku, a multilingual video interpretation service of consolidated subsidiary Terilogy Serviceware Corporation.
Mar. 2021	Acquired certification as a DX certified business Acquired the shares of CRESEED Corp. and made it a subsidiary
Apr. 2021	Consolidated subsidiary Terilogy Worx concluded a distribution contract with GitGuardian of France
May. 2021	Concluded a distribution contract with Pebble Corporation for EzAvater, an in-house developed RPA tool

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

3. Core competence is its ability to find "emerging technologies" and "marketable products" and "to respond to the market"

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

The Company's ability to find "emerging technologies" and "marketable products" lies in "accurately ascertaining and incorporating the trends of the times into its business areas, finding the latest technologies of overseas venture companies and concluding distributor and other contracts," and it has no shortage of experience in this regard. In addition to Wellfleet and Infoblox, which were introduced as good examples in the previous section, we can also mention TippingPoint (Trend Micro), Belgian company OneSpan, and American company Lastline (VMware) as examples in the security field.

TippingPoint is a cybersecurity company specializing in IPS (intrusion prevention systems) that was acquired by Trend Micro in 2015 for approximately US$0.3bn. However, the Company concluded a domestic (Japan) master reseller contract and accumulated a track record with TippingPoint 16 years before its acquisition, and it continues to have a presence in which it is relied on by Trend Micro. Also, in 2007, the Company became the first in Japan to handle OneSpan's one-time password technology, which today has been adopted by all of Japan's megabanks and become an essential part of internet banking. Moreover, in 2012, the Company started selling the targeted-attack countermeasure cloud services of Lastline of the US (which was acquired by VMware of the US in 2020), and as is clear from the trend in the number of targeted-attack emails ascertained by the National Police Agency in recent years (2014: 1,723 cases→2015: 3,828 cases→2016: 4,046 cases→2017: 6,027 cases→2018: 6,740 cases cases→2019: 5,301 cases→2020: 4,119 cases), malware and other targeted attacks have come to be recognized as a major threat. This example would seem to clearly demonstrate the Company's ability to accurately ascertain the technological trends and cutting-edge technologies that it should precisely focus on as its business areas and its ability to find "emerging technologies" and "marketable products" with "foresight."

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

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

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

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

The Company's value chain

Source: The Company's website

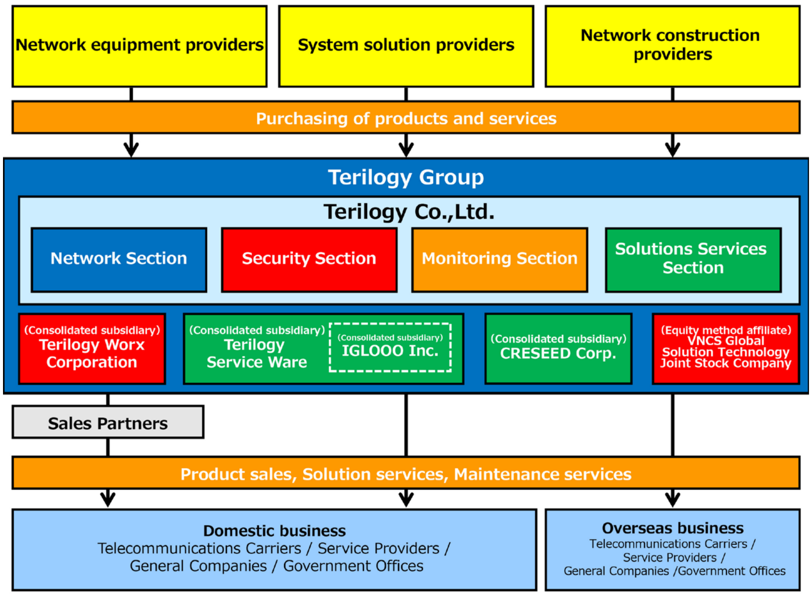
Business description

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

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

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

Diagram of the business structure



Source: The Company materials

2. Network Section

In the Network Section in FY3/21, net sales were ¥1,616mn, which provided 34.4% of total net sales. The main products and services it handles are 1) network products (routers, switches, wireless LAN, and DNS/DHCP), 2) design and build of in-company information and communication systems and infrastructure, and 3) sales of a wide range of network-related products, such as TV conferencing systems, and provision of professional services. The Company takes pride in its ability to provide solutions optimized to meet customer needs and the accumulation of a strong track record over the 30 years since its foundation. In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the networks and other devices provided by this section.

Main products in the Network Section

Network

Alteon ADC-vx

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

Network

Appliances

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

Network

Aerohive

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

Source: The Company's website

3. Security Section

In the Security Section in FY3/21, net sales were ¥1,628mn, which provided 34.6% of total net sales and solidifying it as the Company's main business pillar. The main products and services it handles are 1) network security products (firewalls, intrusion detection and prevention countermeasures, information leakage countermeasures, etc.), 2) security authentication infrastructure (identifying service users on a network), and 3) security systems to prevent unauthorized transactions (one-time password products). In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the security devices and software products provided by this section.

Main products in the Security Section

Security

Lastline

Protection from the latest threats in customers' public cloud environments (cloud infrastructure and cloud email) and in on-premises environments.

Security

Trend Micro TippingPoint

Has the leading track record for intrusion prevention systems as in-line type and network-type IPS appliances

Security

One Span (Former Vasco Data Security)

Secure user authentication that is more secure than fixed passwords by using a hard-software token to automatically generate a disposable, one-time password

Security

KERA

A consulting service that detects and collects information that threatens companies interacting with the Darknet, and then provides analysis results.

Security

Nozomi Networks

Provides asset management, real-time monitoring, abnormality detection, and vulnerability judgments for Industrial Control Systems (ICS)

Security

REDSEAL

Realizes proactive security by automatically generating an access map and attaching the results of a scan of the access map's vulnerabilities.

Security

Tempered Networks

Easily realize secure networks – Secure Networking Made Simple –

Security

Cloud WAF Service

Provides the industry's best Web app security with a positive security model based on machine learning technologies.

Source: The Company's website

4. Monitoring Section

In the Monitoring Section in FY3/21, net sales were ¥520mn, which provided 11.1% of total net sales, and a feature of this section is the handling of Company-developed products. The main products and services it handles are 1) packet analysis using a Company-developed product (momentum), 2) cloud-based monitoring services (CloudTriage), and 3) network operation, management, and monitoring devices. In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the Company-developed products (momentum); network operation, management, and monitoring devices; and software products provided by this section.

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

Main products in the Monitoring Section

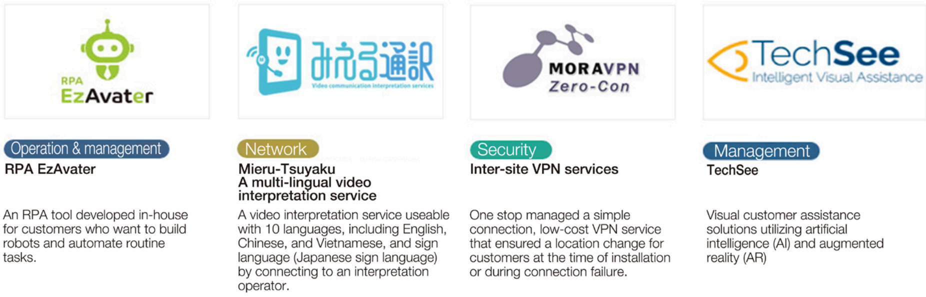
CloudTriage	momentum	eG Enabling Service Excellence	SevOne
Operation & management	Operation & management	Operation & management	Operation & management
CloudTriage RCA	**momentum**	**eG Enterprise**	**SevOne**
Skillfully identifies bottlenecks in the user's system and presents improvement points.	High performance capture ring software that enables high-speed packet capture and packet storage.	Conducts real-time monitoring of IT infrastructure, makes visible performance, analyzes the causes of problems, and automates specified tasks	A high-speed network performance management tool that collects and monitors every kind of data and enables application identification

Source: The Company's website

5. Solutions Services Section

In the Solutions Services Section in FY3/21, net sales were ¥936mn, which provided 19.9% of total net sales. The section's main products and services encompass 1) a Company-developed software robotic process automation (RPA) tool (EzAvater), 2) a multilingual real-time video interpretation service (Mieru-Tsuyaku), 3) a cloud-based, managed VPN service (MORA VPN Zero-Con), 4) a corporate internet connection service (MORA Hikari), 5) a high-speed mobile data communication service (MORA Mobile), 6) web conference services (MVC and Zoom), 7) a visual contactless remote support service (TechSee) using artificial intelligence (AI) and augmented reality (AR), and 8) business involving pre-travel, on-travel, and post-travel services provided by second-tier subsidiary IGLOOO and 9) operational support and agency business for information systems provided by consolidated subsidiary CRESEED Corp.

Main products in the Solutions Services Section



Source: The Company's website

The core of this section is formed by Terilogy Serviceware Corporation (changed corporate name from ITX Corporation's corporate ICT services business that was acquired from the Nojima Corporation <7419> Group in December 2017), and in its M&A strategy, the Company is acquiring new business domains and customer bases of a medium-sized and SME enterprise and retail stores such as chain stores operating nationwide and wholesale stores, both of which it has had few in the past. The point to focus on for this is the lineup of new products matched to medium-sized and SME customer groups, such as the RPA tool (EzAvater) which is attracting attention for realizing work-style reforms and improved work efficiency, and the multilingual, real-time video interpretation service (Mieru-Tsuyaku), which can be used to respond to inbound demand.

The features of EzAvater include it is extremely easy (robots for everyone = intuitive operations to enable the creation of scenarios to automate routine tasks), it makes delays unlikely (robots work at the speed of the system, and it creates templates for exception processing and realizes stable operations), it does not matter what app is used (through the adoption of image recognition technology, work can be automated regardless of the app, as long as it is operating on Windows) and it can start small (can be introduced starting from a single PC). Due to these features, EzAvater overcomes many of the weaknesses of RPA tools, such as that if there is no specialist IT department, it is difficult to create the robots and the introduction costs and maintenance burden are large. This software made it possible for a utilization method that creates robots that reflect the needs of work sites in each department and to have them carry out daily management tasks. In fact, EzAvater has accumulated many positive reviews on ITreview, which is Japan's largest review site managed by ITcrowd Corp. for reviews by real users of corporate IT products and cloud services, and in the ITreview Grid Award 2021 Winter, it received the High Performer award.

Also, for sales of EzAvater, the Company is actively utilizing a partner strategy (it has introduced a gold partner system) from the aim of wanting to penetrate a wide range of user groups. During 2019, it concluded distribution contracts with NCXX Solutions Inc., Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., and UCHIDA ESCO Co., Ltd. <4699>. Since 2020 also, it has concluded distribution contracts with Hitachi Systems, Ltd., Computer Engineering & Consulting Ltd. <9692>, and Pebble Corporation, and it is working to expand sales channels.

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

As of May 2021, Mieru-Tsuyaku had been introduced by 31 local governments, including Shinagawa City, Iizuka City, Fukaya City, Higashiomi City, Nagareyama City, Nagaoka City, and Inazawa City; by 11 medical facilities, including the Bureau of Social Welfare and Public Health Tokyo Metropolitan Government, Osaka Medical and Pharmaceutical University Hospital, Osaka City General Hospital and by 18 other organizations, including The Bank of Yokohama, Ltd. (introduced into all branches),Tokyo Metropolitan Foundation TSUNAGARI, and Higashioumi City Council Of Social Welfare. In addition, following its release by the Company on May 31 and in collaboration with NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION, it has been indicated it will be introduced into local government's COVID-19 group vaccination venues outsourced to the AGEKKE CORPORATION Group (5 local governments and 16 group vaccination venues in Tokyo, Kanagawa Prefecture, Tochigi Prefecture, and Fukushima Prefecture).

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

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

Results trends

The FY3/21 results greatly exceeded the initial Company forecasts Absorbed the effects of the dividend payments and M&A to maintain financial soundness

1. In the FY3/21 results, every profit item was a new record high

In the FY3/21 consolidated results, net sales increased 16.1% YoY to ¥4,701mn, operating income grew 104.7% to ¥540mn, ordinary income rose 88.5% to ¥543mn, and net income attributable to owners of parent increased 103.9% to ¥437mn. Although net sales did not reach their record high since the Company's foundation (¥6,364mn in FY3/05), every profit item achieved a new record high. Looking at the rates of achievement of the FY3/21 results compared to the initial forecasts, net sales were 112.5%, operating income was 270.1%, ordinary income was 271.5%, and net income attributable to owners of parent was 312.6%, so each item was significantly higher than forecast. Looking at orders also, orders received during the period increased 36.8% to ¥5,455mn, while outstanding orders at the end of the period rose by 250.1% on the end of the previous period to ¥1,055mn, so results were extremely steady.

Simplified income statement

(¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21
Net sales	2,639	2,434	3,221	3,660	4,051	4,701
YoY	-5.9%	-7.7%	-	13.6%	10.7%	16.1%
Cost of sales	1,890	1,709	2,197	2,256	2,537	2,757
YoY	-15.1%	-9.6%	-	2.7%	12.5%	8.7%
Gross profit	748	725	1,024	1,403	1,513	1,944
YoY	29.7%	-3.0%	-	37.0%	7.8%	28.5%
SG&A expenses	721	831	858	1,159	1,249	1,404
YoY	-8.6%	15.2%	-	35.0%	7.8%	12.4%
Operating income	26	-105	166	244	263	540
YoY	-	-	-	47.0%	8.0%	104.7%
Ordinary income	0	-97	173	229	288	543
YoY	-	-	-	32.3%	25.4%	88.5%
Net income	-19	-99	154	207	214	437
YoY	-	-	-	34.6%	3.5%	103.9%

Note: Results are non-consolidated up to FY3/17, and from FY3/18 onwards, they are consolidated and include net income attributable to owners of parent.
Source: Prepared by FISCO from the Company's securities report and financial results

Looking at net sales by business section in FY3/21, they increased 80.3% YoY in the Network Section, decreased 1.1% in the Security Section, declined 21.5% in the Monitoring Section, and increased 10.7% in the Solutions Services Section.

The factors in the background to the strong performance of the Network Section include 1) DHCP/DNS appliances manufactured by Infoblox of the US (Infoblox IP address management servers) have entered a phase of replacement purchases, and within Japan, there were 221 cases of replacement purchases for new models, which have increased added-value from the addition of security functions, from the current model, for which around 500 units have already been shipped; 2) in a situation of the use of Wi-Fi and the progress of the GIGA School concept within companies introducing teleworking and other reforms, progress was made for introductions of the Extreme Networks <EXTR> (formerly Aerohive) product, which is a cloud-based wireless LAN from the US; and 3) that customer take-up of Radware products sold via sales partners since FY3/21 has been strong.

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

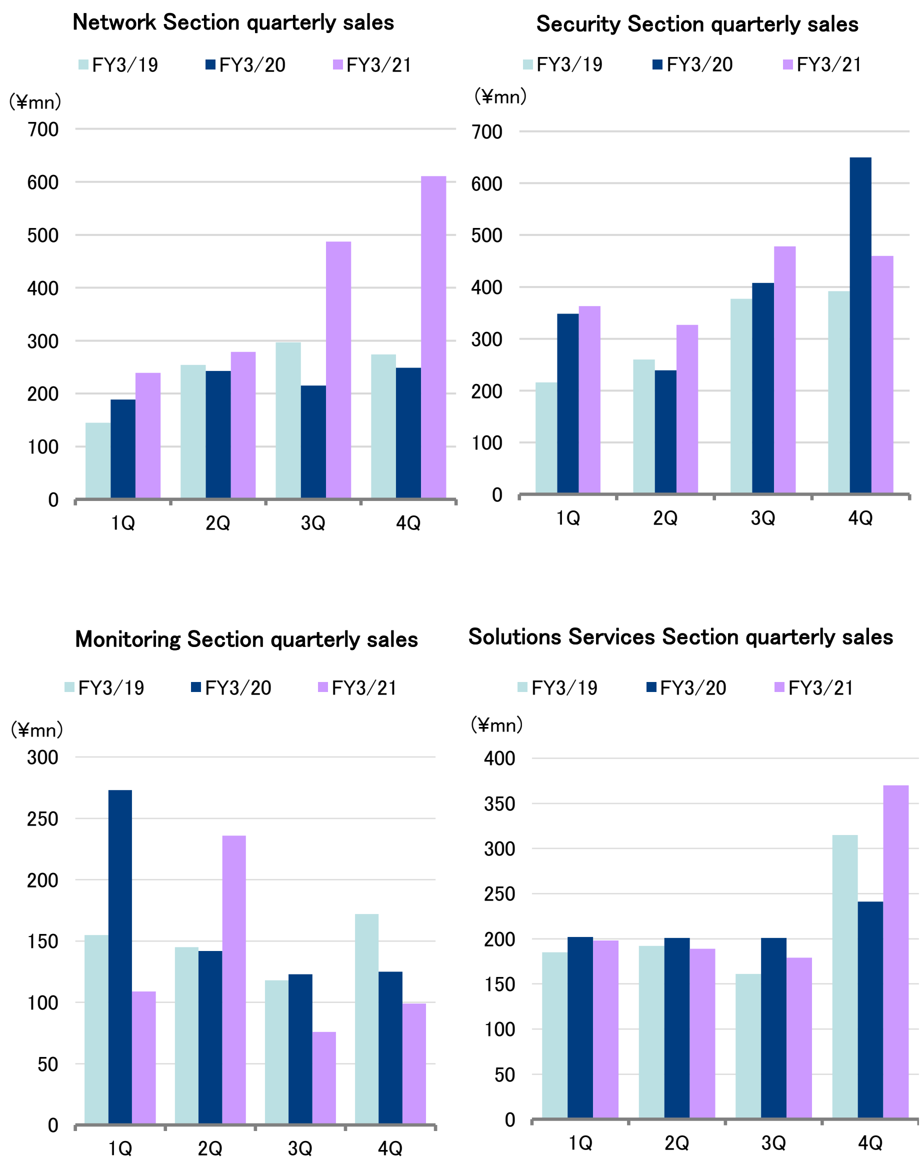
The Company became the primary distributor for Israeli company Radware in Japan following the conclusion of a distributor contract in March 2020, and it seems that the handover from the company that was previously in that position was smooth. Due to good customer acquisitions, it is highly probable that the Company will achieve annual sales of about ¥600mn (including maintenance contracts) within a few years. In actuality, Radware-related started off strongly with orders received of ¥217mn and ¥55 million in sales of maintenance service in FY3/21. In addition, due to the fact that the previous primary distributor mainly handled network-related products, the Company (which can distinguish the products from existing products in the security-related field) is expected to develop the business scale even larger through cross-selling and up-selling.

The main reasons why sales declined in the Security Section was that there was a large-scale order worth around ¥300mn in FY3/20 and also that from FY3/21, the recording of sales for an order from the National Police Agency (¥698mn) is being divided into monthly amounts (from December 2020 to November 2025). Ordering activities during the period were actually strong for network security projects and cyberthreat intelligence services due to the increases in cyberattacks and unauthorized accesses. Specifically, 1) interest is increasing in the market for such services, as security measures for industrial control systems have become an urgent matter, as evidenced by the acquisitions of orders for Nozomi Networks from four domestic electric power companies and also several major domestic companies in the manufacturing industry; 2) orders continue to be strong for KELA, a cyberthreat intelligence service that collects and analyzes information on cyber-terrorism and other such threats, and for the BitSight risk scoring service that makes it possible to visually monitor the exposure to cyber risks of supply chains and corporate groups; and 3) orders are increasing for proposals to counter targeted cyberattacks (defense and security against unauthorized network intrusions, a targeted attack countermeasure cloud service, onetime passwords, a network vulnerability diagnostic service, etc.)

The reason for the decline in sales in the Monitoring Section was that sales of maintenance services decreased following the end of a manufacturer's product support. Conversely, sales were recorded of a large-scale order for a government agency for momentum, which is a packet analysis product using in-house products and services. There was also an additional order from a domestic financial institution for SevOne, a performance monitoring product, while for CloudTriage, which is an operations monitoring cloud service developed by the Company, it is focusing on ordering activities for the main existing customers.

In the Solutions Services Section, the main product of Mieru-Tsuyaku, a multi-lingual video interpretation service, suffered due to the significant decline in the number of overseas visitors to Japan because of the impact of COVID-19. However, the Company succeeded in capturing demand from foreigners residing in Japan and from the deaf community, while introductions of this services by local governments, financial institutions, and medical facilities are also accelerating. Going forward, the Solutions Services Section will focus on initiatives that include diversifying its revenue sources in part by drawing on experience it has gained from its interpretation services and applying it to provision of its translation services, integrating Zoom and other remote meeting services with the Company's extensive range of solutions, generating greater demand for its EzAvater RPA tool developed in-house by offering packaged solutions, sales enhancement for TechSee's DIY support looking toward the 5G era (enabling customers to resolve problems on their own), and inbound marketing business for overseas tourists developed by IGLOO.

Trends in quarterly net sales by business section

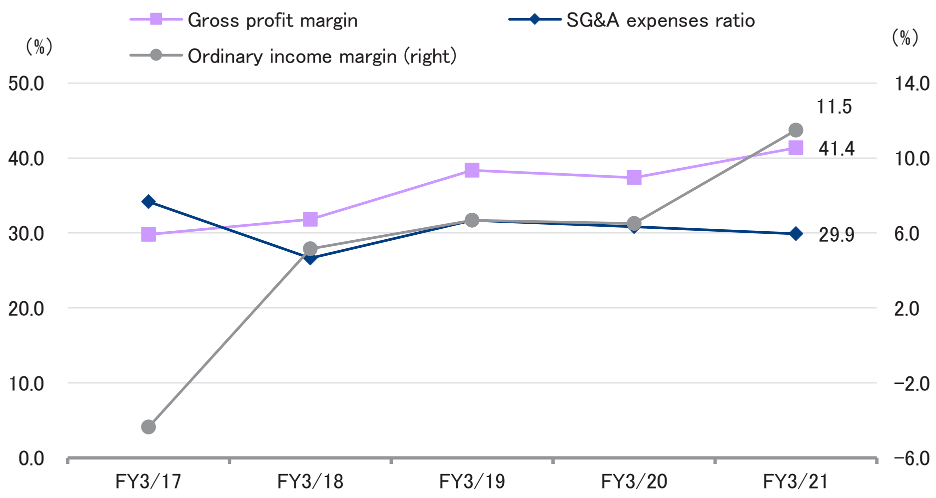


Source: Prepared by FISCO from the Company's securities report, quarterly securities report, and financial results

In FY3/21, the gross profit margin increased significantly by 4.0 percentages points (pp) YoY to 41.4%. The direct reasons for this included the effects of keeping-down costs due to COVID-19, the increase in the ratio of profitable projects, and the launches of in-house products and services that are highly profitable. However, it can also be considered to be from the effects of the Company's up-selling and cross-selling from its sales strategy, of "continuously proposing enhanced functionality that will increase added-value to customers," which is leading to improved productivity.

Conversely, the SG&A expenses ratio in FY3/21 declined 0.9pp YoY to 29.9%. This reflects the effects of the higher sales and of keeping down costs due to COVID-19. However, the Company can also be highly evaluated for its efforts to absorb the increase in personnel costs as upfront investment (the Company itself increased its full-time employees by 8 people) and the costs to develop in-house products, as well as the costs for the M&A (of IGLOOO and CRESEED). As a result, in FY3/21 the operating income margin improved greatly, up by 5.0pp YoY to 11.5%, mainly due to the improved cost of sales ratio. Looking at how it trended during the period as well, it improved from 7.4% in the 1Q to 13.8% in the 4Q. However, one point to note on looking at the Company's business model is that it includes sales of hardware that have a low profit margin, and at the current time the realistic value of the Company's operating income margin is around 7%, and the double-digit operating income margin can be said to be highly evaluated as the result of its efforts for daily sales activities.

Trends in the profit margin, etc.



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

2. Is maintaining a sound financial structure that can absorb cash outflows from dividend payments and M&A

With respect to the FY3/21 financial results, it is worth pointing out that the Company has organically developed a sound financial structure without resorting to equity finance. In terms of the typical indicators of financial stability, equity financing utilizing the Company's treasury shares combined with a rebound in financial results underpinned substantial gains in the equity ratio and current ratio. The equity ratio rose from 24.4% at the end of FY3/18 to 45.0% at the end of FY3/19 and 53.9% at the end of FY3/20. Meanwhile, the current ratio reached 99.0% at the end of FY3/18, 179.2% at the end of FY3/19, and 209.4% at the end of FY3/20, thereby surpassing the 200% threshold that indicates sufficient solvency.

Continuing, at the end of FY3/21 the equity ratio had declined to 46.6% and the current ratio to 169.9% on the end of the previous fiscal period. But this included due to the increase in advances received (current liabilities) following the order of a large-scale project from the National Police Agency, and it is not a particular cause for concern. In fact, the D/E ratio (interest-bearing debt / shareholders' equity) was 0.13 times (0.17 times at the end of the previous period) and net cash (cash and deposits – interest-bearing debt) was ¥2,070mn (¥1,508mn), so both further improved, and the Company is maintaining a sound financial structure able to absorb cash outflows due to dividend payments and M&A.

Moreover, the Company's non-consolidated retained earnings, which normally serve as the source of its dividend payments, increased to ¥502mn at the end of FY3/21 from ¥156mn at the end of FY3/20, which accordingly suggests that the Company has strengthened its capacity to furnish dividends. The Company has already secured approximately six years' worth of dividend capital given that it needs about ¥82mn to cover its dividend of ¥5 per share.

At the end of FY3/21, total assets were up ¥1,422mn on the end of the previous period to ¥5,625mn, while net assets had increased ¥374mn to ¥2,643mn. Looking at the increase and decrease factors compared to the end of the previous period, the most noticeable items were that in assets, there were increases in cash and deposits of ¥523mn and in goodwill (intangible non-current assets) of ¥189mn, and in liabilities, an increase in advances received (current liabilities) of ¥943mn. The increase in goodwill is due to IGLOOO and CRESEED being made subsidiaries, and when considering both companies' contributions to earnings, the financial structure is thought to be sound at the current time. The increase in advances received was mainly due to a large-scale project for the National Police Agency, and it will contribute to earnings over the next 5 years.

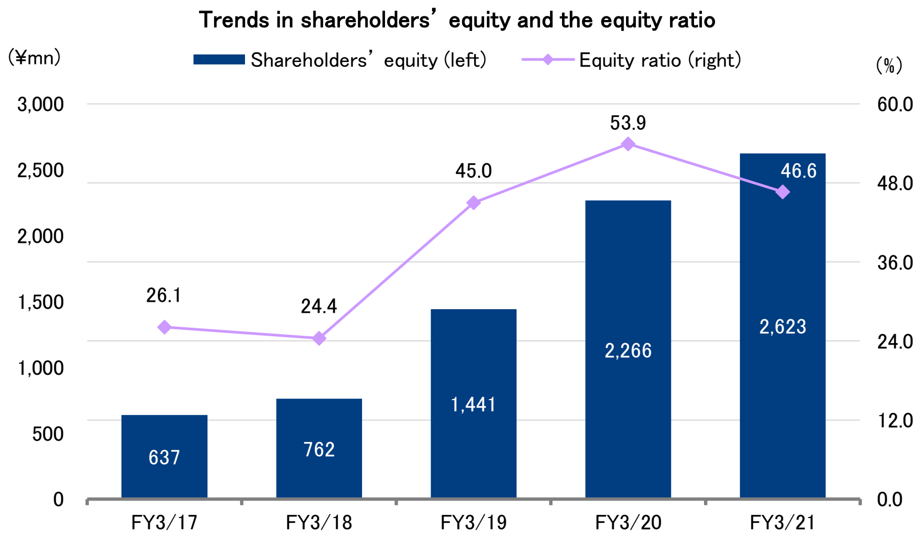
Return on equity (ROE) increased by 6.3 percentage points YoY to 17.9%, and return on assets (ROA) increased by 3.3 percentage points to 11.1%, indicating ongoing improvement with respect to profitability of assets.

Simplified balance sheet

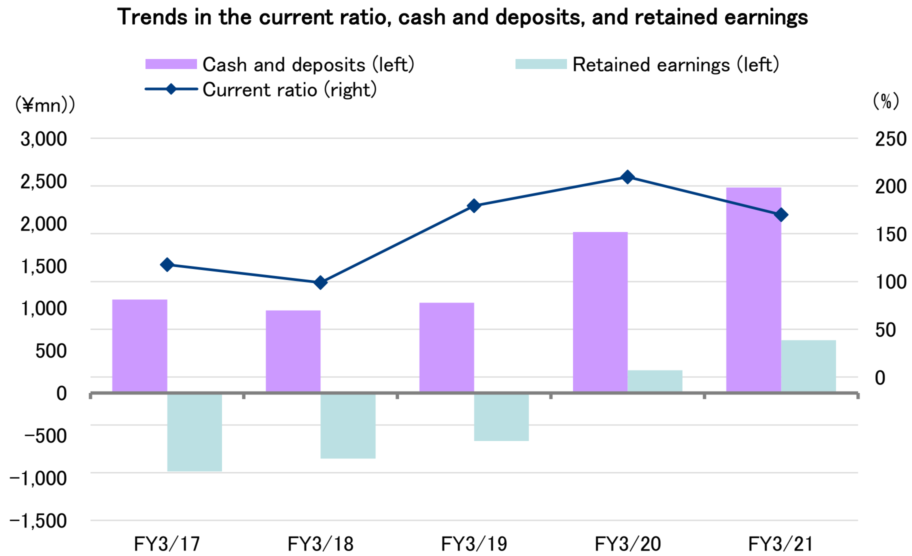
(¥mn)

	End of FY3/16	End of FY3/17	End of FY3/18	End of FY3/19	End of FY3/20	End of FY3/21	YoY
Current assets	2,019	2,063	2,288	2,355	3,404	4,515	1,111
Cash and deposits	1,007	1,098	972	1,064	1,895	2,418	523
Notes and accounts receivable - trade	524	493	863	742	871	965	94
Inventory assets	64	24	35	56	102	180	78
Non-current assets	435	375	834	839	798	1,109	311
Property, plant and equipment	108	93	131	148	147	208	61
Intangible non-current assets	87	63	381	353	339	526	186
Investments and other assets	239	218	321	337	311	374	62
Total assets	2,455	2,439	3,123	3,194	4,203	5,625	1,422
Current liabilities	1,676	1,752	2,312	1,314	1,626	2,657	1,031
Accounts payable - trade	106	315	252	243	451	378	-72
Short-term borrowings	928	750	1,177	137	130	57	-72
Non-current liabilities	78	49	48	439	307	324	16
Long-term borrowings	-	-	-	386	256	290	33
Lease obligations	67	35	9	11	7	6	-0
Total liabilities	1,755	1,802	2,361	1,753	1,934	2,981	1,047
Interest-bearing debt	928	750	1,177	524	386	347	-38
Total net assets	699	637	762	1,441	2,269	2,643	374

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

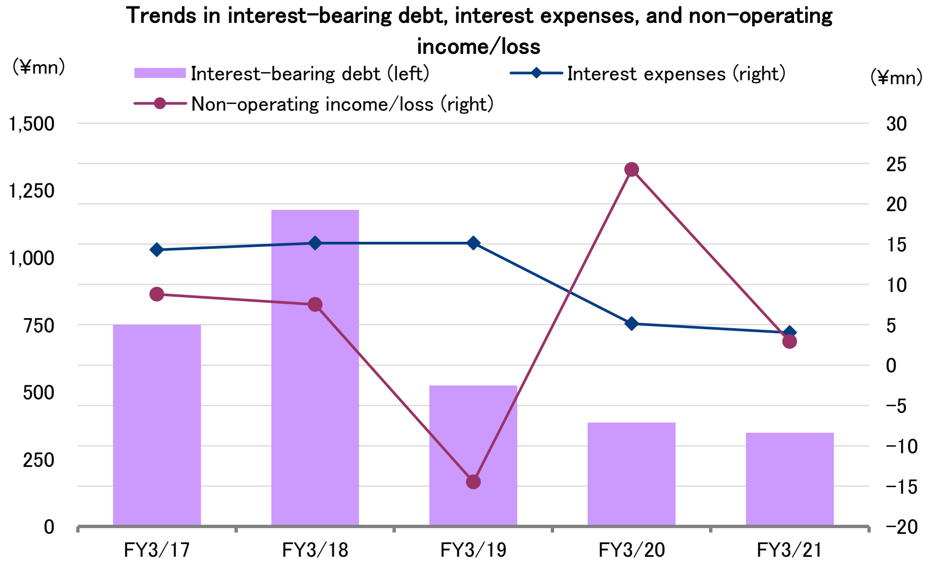


Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards.
Source: Prepared by FISCO from the Company's securities report and financial results



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

Also, the greater soundness of the financial structure has led to an improvement in non-operating income/loss. In the case of the Company, which handles imported goods as its mainstay products, the impact of foreign exchange profit/loss on non-operating revenue cannot be completely eliminated. However, in FY3/20, interest income was 3.2 times the level in FY3/19, and interest expenses were down 63.1% YoY, as the effects of reducing interest-bearing debt became apparent, which played a role in improving non-operating income/loss. In FY3/21, interest expense decreased YoY and non-operating income/loss remained in positive territory partly as a result of the Company having posted subsidy income.



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

At the end of FY3/21, the balance of cash and cash equivalents was ¥2,128mn. Looking at each of the cash flow conditions, net cash provided by operating activities was ¥1,131mn, mainly because net income before income taxes was ¥543mn and advances received increased ¥943mn. Net cash used in investing activities was ¥256mn overall, including due to expenditure of ¥223mn to acquire a subsidiary's shares following a change in the scope of consolidation. Net cash used in financing activities was ¥237mn, with the main factors being income from long-term borrowing of ¥140mn, but expenditure to repay long-term borrowing of ¥290mn and dividend payments of ¥81mn.

Simplified cash flow statement

(¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21
Net cash provided by (used in) operating activities (a)	-223	291	-55	374	484	1,131
Net cash provided by (used in) investing activities (b)	-4	0	-440	-55	-24	-256
Net cash provided by (used in) financing activities	-231	-219	391	-218	464	-237
Free cash flow (a) + (b)	-228	291	-495	318	459	874
Cash and cash equivalents at end of period	445	535	462	569	1,500	2,128

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

Outlook

Announced the new three-year medium-term management plan with FY3/22 as its first fiscal year
Attention is focusing on the path shown toward achieving net sales of ¥10bn

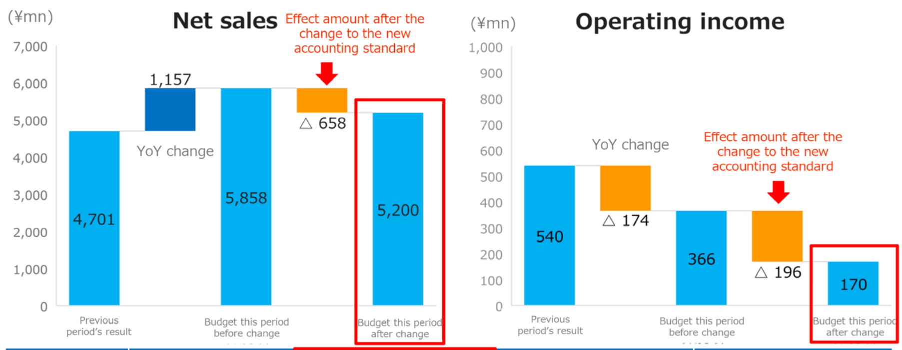
1. The FY3/22 results forecasts are conservative

With regard to initial forecasts for the FY3/22 consolidated results, the Company plans for net sales to increase 10.6% YoY to ¥5.2bn, operating income to decrease 68.5% to ¥170mn, ordinary income to decrease 68.7% to ¥170mn, and net income attributable to owners of parent to decline 70.3% to ¥130mn. Based on its policy for returns to shareholders of “targeting a dividend payout ratio of at least 50%,” it plans to once again pay a period-end dividend per share of ¥5.

The Company can be said to be forecasting declines in profits due to the effects of starting to apply “the new accounting standard for recognizing revenue (below, “the new accounting standard”),” but it has stated that these are conservative values. In fact, an operating income margin of 3.3%, which has been incorporated into the announced values, would seem extremely low compared to the value the Company is actually capable of (around 7%) even on considering that it will be pushed down by the increase in amortization of goodwill (by around 0.4pp). So these forecasts can be said to be very conservative.

Looking back, the Company’s initial forecasts for the FY3/21 results were also conservative. Looking at the rates of achievement of the FY3/21 results compared to the initial forecasts, net sales were 112.5%, operating income was 270.1%, ordinary income was 271.5%, and net income attributable to owners of parent was 312.6%, so each greatly exceeded their initial forecast. In addition to this positive performance, the Company seems to tend to be somewhat conservative with its initial forecasts. So for the FY3/22 results as well, it is considered highly possible that the results will exceed the initial forecasts to some extent.

The FY3/22 results forecasts and the effects of adopting the new accounting standard

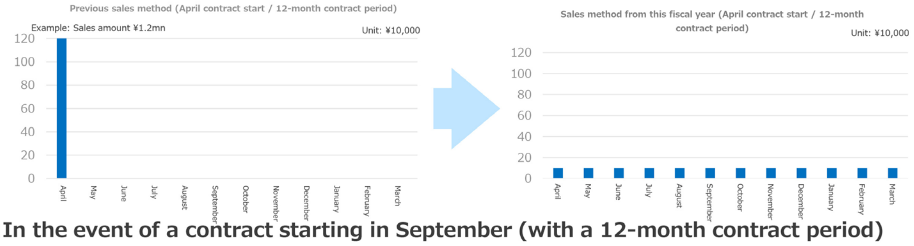


(¥mn)	FY3/21 result	FY3/22 forecast *Bottom line: after the change to the new accounting standard	Change *Bottom line: after the change to the new accounting standard	Change (%) *Bottom line: after the change to the new accounting standard
Net sales	4,701	5,858 **5,200**	1,157 **499**	24.6% **10.6%**
Operating income	540	366 **170**	-174 **-370**	-32.2% **-68.5%**

Source: The Company’s results briefing materials

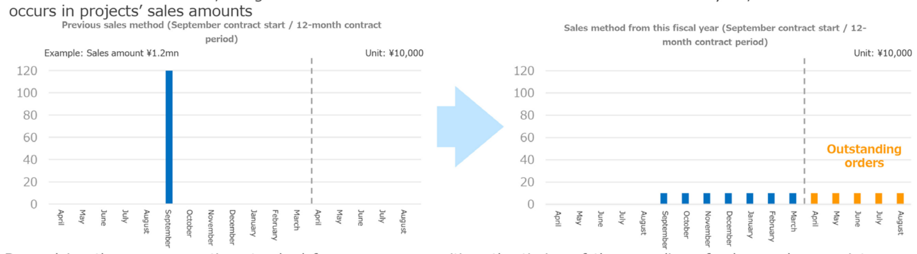
■In the event of a contract starting in April (with a 12-month contract period)

Although there is no difference in the sales amount in this period, there will occur differences in the monthly sales amounts



■In the event of a contract starting in September (with a 12-month contract period)

The later the contract starts, the greater the difference in the sales amount in the current fiscal year, but no differences occurs in projects' sales amounts



By applying the new accounting standard for revenue recognition, the timing of the recording of sales, such as maintenance product sales and subscriptions, has been made stricter, and sales are recorded for the period in which the performance obligations are satisfied.

Source: The Company's results briefing materials

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

The Company stated that it will "implement measures for public relations and publicity activities aimed at improving medium- to long-term and sustainable corporate value, while also aiming to maximize corporate value." In May 2021 as one part of these efforts, it announced the new medium-term management plan.

For FY3/22, the plan's first fiscal year, the new medium-term management plan incorporates "numerical targets for organic growth," "the basic strategy and priority measures to achieve the targets" and "the basic approach for implementing the M&A and business alliance strategy." More specifically, it shows the path toward achieving net sales of ¥10bn.

First, for the "numerical targets for organic growth," which are net sales of ¥7.4bn and operating income of ¥560mn in the plan's final fiscal year (FY3/24), the sense is that the Company established strong footholds in FY3/21, with operating income of ¥540mn. However, the message included here is that the "targets are to achieve a net sales growth rate of 20% and an operating income margin of 8%," and taking as the starting point FY3/22, for which the effects of the new accounting standard have been conservatively incorporated, the response should not be considered to be excessive compared to the absolute level for the final fiscal year. On the point that the operating income margin in FY3/24 will be 7.6%, it is assumed that this is a result of incorporating the effects of the increase in the amortization of goodwill due to CRESEED being made a subsidiary (around 0.4pp).

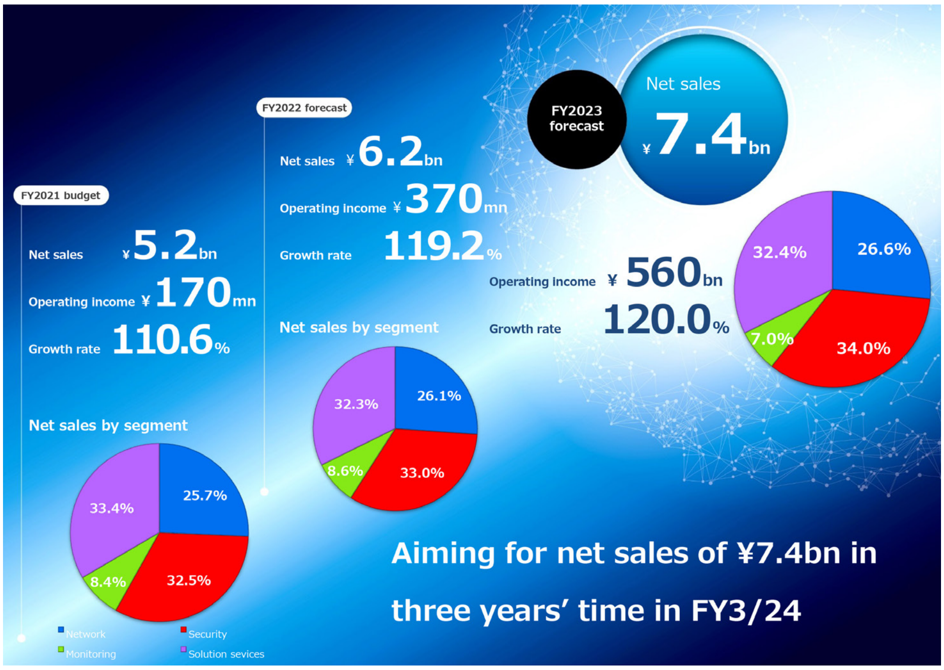
For "the basic strategy and priority measures to achieve the targets" the key messages can be read to be 1) strengthening the recurring income-type business model) 2) dynamic expansion of the Group's businesses, and 3) global business development. Whatever the case, the key will be the alliance strategy, including M&A, so the fact that the current new medium-term management plan incorporates a "basic approach for implementing an M&A and business alliance strategy" is considered to have an important meaning. In particular, based on the perceived image of an investment scale of around ¥1bn to ¥2bn, we shall be focusing on the Company clearly indicating the scale of the investment budget per project (¥300mn to ¥500mn) and the scale of acquired annual sales (¥500mn to ¥1bn).

On this point, the case of CRESEED being made a subsidiary in March 2021 appears rich in suggestions. CRESEED was founded in 1990 from a company split from the information systems department of KANEDA Co, Ltd., a trading company specializing in oil and chemical products. It seems its core business is an information systems operational support and outsourcing business for the information systems departments and systems personnel of customers. It provides IT services, such as work solutions and systems and network construction, centered on its group of in-house concept products that realize flexibility equivalent to scratch development and ease of application equivalent to package software.

By making CRESEED a subsidiary, the Company's strategy is to aim to 1) expand business opportunities in the medium- to small-scale enterprise markets, in which it has had little experience up to the present time, and 2) introduce an asset-type business model of an information systems operational support and outsourcing business. This can be said to be consistent with the basic strategy and priority measures in the new medium-term management plan. Also, in relation to the investment scale, including costs, of ¥302mn, as the FY3/22 forecasts are for net sales and operating income of ¥700mn and ¥50mn respectively, and an operating income margin of 7.1%, it is an acquisition that obeys the Company's own rules for M&A.

From the above points, based on the net sales target of ¥7.4bn through organic growth, the Company is aiming to accumulate net sales on a scale of ¥2bn to ¥4bn through its M&A strategy. In other words, the new medium-term management plan can be highly evaluated for ambitiously showing the path toward achieving net sales of ¥10bn, and we shall be paying attention to it taking this direction.

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

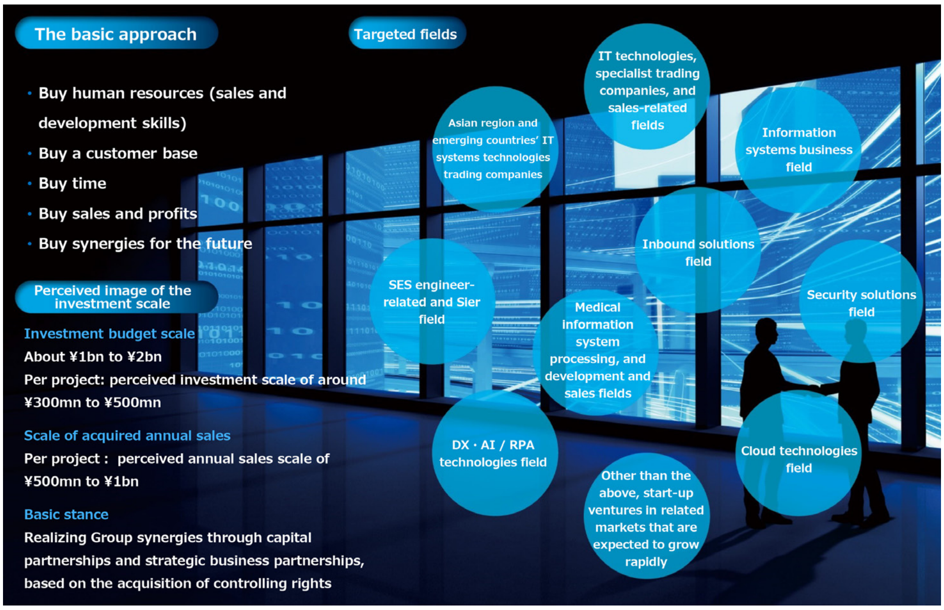


Source: The Company's results briefing materials

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

Source: The Company's results briefing materials

2021 to 2023 Three-year medium-term management plan



Source: The Company's results briefing materials

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