Company Report

May 17, 2024

Strategy Advisors, Inc.
Team Research

A creative manufacturing corporate group to grow at a rapid pace by adapting a VUCA era today

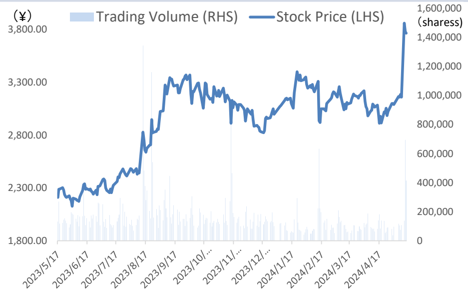
Q1 results exceeded 1H profit initial forecast. Significant upward revision and sales of a subsidiary announced.

Noritsu Koki group (the company) consists of three major subsidiaries (over 98% of revenue): Teibow (global top share of marking pen nibs, MIM), AlphaTheta (leading global share of DJ equipment), JLab (the top US brand for wireless earphones under $100), and others. 90% of revenue comes from overseas. The parent company is a pure holding company that owns 80% of consolidated total assets. The equity story of the company is all about the sophisticated expertise of manufacturing that enables the company to grow at a rapid pace by adopting a VUCA era.

The company's growth drivers are (1) the replacement of existing components with its MIM's mass production technology and (2) the establishment of a supply chain for audio equipment (DJ equipment and wireless earphones, hardware and software). The company's unique strength lies in its ability to build a flexible and resilient business portfolio that anticipates the change in the business situations (inimitability (i)). The company has also built a barrier to entry with its unrivaled expertise (inimitability (ii)). Those competitive advantages allow the company to achieve their vision (producing NO.1/Only1 businesses).

Q1 results exceeded the company’s initial 1H profit estimates. The decline in Teibow's sales and profit offset by significant increases in sales and profits at its audio equipment business. The company upwardly revised its 1H and full-year estimates (still conservative). The company announced the sale of its consolidated subsidiary PreMedica (in others segment).

Stock price and trading volume for the past year



Source: Strategy Advisors

Key Indicators

Stock Price (2024/5/15, closing)	3,765
Yea-to-date High (2024/5/14)	3,910
Yea-to-date Low (2024/2/14)	2,860
52-week high (2024/5/14)	3,910
52-week low (2023/2/17)	2,068
Number of Shares Issued (mn)	35.7
Market capitalization (¥ bn)	134.3
EV (¥ bn)	106.7
Shareholders equity ratio	73.5%
FY12/2024 PER (CoE, Times)	13.0
FY12/2023 PBR (Actual, Times)	0.65
FY12/2024 Dividend Yiels (CoE)	3.1%

Source: Strategy Advisors

Note: Stock price in yen

IFRS - Consolidated

FY end	Revenue (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	Pretax Profit (¥ mn)	前期比 (%)	NP (¥ mn)	YoY (%)	EPS (Yen)	DPS (Yen)
FY12/2022	73,515	34.9%	1,262	-79.2%	3,944	-25.8%	101,548	1885.3%	2,848.5	152.0
FY12/2023	91,552	24.5%	14,462	1046.0%	13,747	248.6%	10,210	-89.9%	285.9	115.0
FY12/2024 Q1	27,304	56.9%	7,640	278.2%	7,657	319.5%	5,235	397.7%	146.7	-
FY12/2024 Q2 CoE new	22,696	-5.7%	1,460	-72.7%	1,143	-78.8%	565	-83.4%	15.8	-
FY12/2024 1H CoE old	45,000	8.5%	5,700	-22.6%	5,400	-25.1%	3,700	-16.9%	103.7	58.0
FY12/2024 1H CoE new	50,000	20.6%	9,100	23.6%	8,800	22.0%	5,800	30.2%	162.5	58.0
FY12/2024 2H CoE old	52,600	5.0%	7,700	8.5%	7,400	13.3%	4,900	-14.6%	-	-
FY12/2024 2H CoE new	53,500	6.8%	6,900	-2.8%	6,600	1.0%	4,500	-21.6%	-	-
FY12/2024 CoE old	97,600	6.6%	13,400	-7.3%	12,800	-6.9%	8,600	-15.8%	241.0	116.0
FY12/2024 CoE new	103,500	13.1%	16,000	10.6%	15,400	12.0%	10,300	0.9%	288.7	116.0

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Figure 1. Key indicators

Key indicators IFRS-consolidated	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023
Stock indicators								
Number of shares issued at year-end ('000 shares)	36,191	36,191	36,191	36,191	36,191	36,191	36,191	36,191
Number of treasury shares at year-end ('000 shares)	577	577	577	577	577	557	533	508
EPS (¥)	120.5	250.5	82.8	36.2	277.8	143.6	2,848.5	285.9
EPS (Diluted, ¥)	106.3	242.6	74.2	32.7	276.7	140.6	2,845.6	276.7
PER (Times)	7.5	10.0	29.7	25.6	8.8	18.9	0.8	10.5
DPS (¥)	10.0	15.0	15.0	15.0	20.0	198.0	152.0	115.0
Payout ratio (%)	8.3%	6.0%	18.1%	41.4%	7.2%	137.9%	5.3%	40.2%
DOE (%)	0.6%	0.8%	0.7%	0.7%	0.8%	6.5%	3.6%	2.1%
BPS (¥)	1,607.7	2,119.4	2,103.9	2,203.6	2,959.7	3,115.5	5,399.6	5,755.3
Profitability indicators								
Gross profit margin (%)	49.2%	48.3%	47.3%	48.6%	54.5%	45.5%	40.2%	44.9%
Operating profit+depreciation & amortization (¥ mn)	6,191	7,609	7,897	6,895	9,836	12,069	6,513	19,690
Operating EBITDA (¥ mn)	-	-	7,965	6,847	0	10,739	11,367	17,875
EBITDA margin (%)	-	-	12.5%	26.2%	0.0%	19.7%	15.5%	19.5%
Operating profit margin (%)	9.2%	10.6%	9.5%	15.8%	14.1%	11.1%	1.7%	15.8%
Profit attributable to owners of parent profit margin (%)	8.6%	15.9%	4.6%	4.9%	24.0%	9.4%	138.1%	11.1%
Financial indicators								
Ratio of pretax profit to total asset (%) ROA	5.8%	4.6%	4.0%	0.4%	1.3%	2.1%	1.4%	4.7%
Ratio of profit to equity attributable to owners of parent (%) ROE	7.8%	13.4%	3.9%	1.7%	10.8%	4.7%	66.9%	5.1%
Ratio of equity attributable to owners of parent to total asset (%)	49.3%	50.8%	50.1%	49.0%	44.5%	42.0%	62.7%	73.5%
Financial leverage	1.99	2.00	1.98	2.02	2.16	2.31	1.88	1.47
Total asset turnover (Times)	0.46	0.42	0.43	0.17	0.21	0.22	0.26	0.31
Profit attributable to owners of parent profit margin (%)	8.6%	15.9%	4.6%	4.9%	24.0%	9.4%	138.1%	11.1%
Cash and cash equivalents (¥ mn)	25,314	26,663	27,573	50,162	69,596	38,141	96,436	70,190
Cash asset (¥ mn, company definition)	27,072	27,588	28,287	53,258	72,622	40,391	132,200	91,700
Interest-bearing debt (¥ mn)	35,022	38,176	36,082	45,120	90,122	104,450	51,079	42,577
Interest-bearing debt (¥ mn, company definition)	35,022	38,177	36,082	37,364	81,035	95,619	48,054	39,016
Net Debt (¥ mn)	9,708	11,513	8,509	-5,042	20,526	66,309	-45,357	-27,613
Net Debt (¥ mn, company definition)	7,950	10,589	7,795	-15,894	8,413	55,228	-84,146	-52,684
Net DE ratio	0.17	0.15	0.11	-0.06	0.19	0.60	-0.24	-0.13
Net DE ratio (company definition)	0.14	0.14	0.10	-0.20	0.08	0.50	-0.44	-0.26
Net Debt/operating EBITDA (compnay definition)			0.98	-2.32	#DIV/0!	5.14	-7.40	-2.95
Invested capital (¥ mn, gross IC)	92,314	113,654	111,048	123,608	195,536	215,474	243,623	247,951
Invested capital (¥ mn, net IC)	66,885	87,298	85,765	67,939	127,596	181,964	108,749	153,160
NOPAT (NOPLAT, ¥ mn)	3,089	3,989	4,056	2,770	3,897	4,066	846	9,690
ROIC (%, gross IC)	3.5%	3.9%	3.6%	2.4%	2.4%	2.0%	0.4%	3.9%
ROIC (%, company definition, net IC)	5.2%	5.2%	4.7%	3.6%	4.0%	2.6%	0.6%	7.4%
Efficiency indicators								
Working capital (¥ mn)	6,880	6,909	6,786	7,494	9,526	23,221	24,645	25,393
Working capital turnover (Times)	7.3	8.1	9.4	3.5	4.3	2.3	3.0	3.6
Current ratio (%)	212.1%	185.4%	200.9%	220.1%	213.3%	169.1%	191.5%	373.9%
Quick ratio (%)	185.3%	161.4%	181.9%	203.0%	197.7%	134.9%	166.4%	315.8%
Cash Conversion Cycle : CCC (days) =A+B-C	12.1	11.2	3.3	4.9	24.7	106.5	137.4	133.0
Accounts receivable turnover (Times)	5.0	4.5	4.6	1.8	3.1	3.2	4.0	6.2
Accounts receivable turnover days : A	72.8	81.0	79.5	199.9	117.9	113.6	91.1	58.8
Inventory turnover (Times)	6.3	6.2	6.8	2.7	3.5	2.9	2.9	3.0
Inventory turnoverdays : B	57.5	58.5	53.8	134.7	104.5	125.2	127.6	120.3
Accounts payable turnover (Times)	3.1	2.8	2.8	1.1	1.8	2.8	4.5	7.9
Accounts payable turnover days : C	118.2	128.3	130.0	329.6	197.7	132.3	81.2	46.1
R&D, capex, depreciation indicators								
R&D expenses (¥ mn)	1,544	1,585	576	330	3,223	4,472	5,330	6,482
R&D ratio to revenue (%)	3.1%	2.8%	0.9%	0.5%	7.8%	5.9%	7.3%	7.1%
Capex (¥ mn)	1,299	1,886	23,382	2,424	3,698	1,191	1,656	2,098
Depreciation and amortization (¥ mn)	1,580	1,655	1,844	2,761	4,020	6,001	5,251	5,228
Employee indicators								
Number of emplpyee (persons)	1,360	1,459	1,630	1,629	1,776	1,121	1,184	1,246
Number of temporary employees (annual average, persons)	818	848	926	935	244	381	249	263
Revenue per employee including temporary (¥ mn)	24.4	25.3	25.9	25.4	21.1	41.2	52.5	61.9
EBITDA per employee including temporary (¥ mn)			3.2	2.7	0.0	5.9	8.1	12.1
Operating profit per employee including temporary (¥ mn)	2.2	2.2	2.2	1.5	3.0	5.9	0.9	9.8

Source: Strategy Advisors – Based on Company Data
Note) ROIC=NOPAT ÷ Invested capital, CCC: Cash Conversion Cycle

Executive Summary

Equity story

The organic strength of the company, including its corporate DNA, growth drivers, and inimitability, have led to sustainable revenue growth and increased corporate value. We believe that the equity story of the company is all about the sophisticated expertise of the manufacturing business that enables the company to grow at a rapid pace by adopting a VUCA era today. These intermittent transformations have something in common with the former transformations of IBM and Hitachi.

Manufacturing corporate DNA to deliver enrichment through human sensitivity

As the company has acquired and sold various businesses since its foundation, its mission (corporate DNA) has always been "to bring prosperity to society and people". The minilab, which is a system that shortened time needed for film development and printing significantly, can be described as a business that delivers the rich value of photography (the joy of seeing) through the sensitivity of human senses. This point has been carried over to the three businesses that drive the company's current performance: marking pen nibs (the joy of drawing thoughts), DJ equipment (the joy of expressing and experiencing), and wireless earphones (the joy of listening freely anywhere), all of which are manufacturing businesses focused on "delivering richness through the human senses". No matter how advanced AI and digital technologies become, there is always a richness that is mediated by human sensitivity. Noritsu Koki, the company that has consistently nurtured this corporate DNA since its foundation, is the only company that remains a global niche market leader in the manufacturing fields.

Game changer

CEO Iwakiri decided to make DJ equipment his new business because he thought that in 2019, considering the global situation and trend at that time, including the rapid digitalization, there would come a time in the future when people's sensibilities would return to their origins, and one of those origins would be music. He believes that while the original business is disappearing due to digitalization, the world of music will see a return to its origins as people reevaluate the merits of analog and the joy of touching the real things. CEO Iwakiri believes that this trend will be a game changer in the way people spend their leisure time, just as a stream becomes a major river.

A masterpiece of Japanese craftsmanship

AlphaTheta's DJ equipment is a masterpiece of Japanese manufacturing in music. The acquisition was made in April 2020 based on the company's management decision that it was appropriate for the company's NO.1/Only 1 business in manufacturing. After that, COVID-19 pandemic and the Ukrainian war happened, which isolated and divided regions and communities. That situation has driven people to create music from many sources, both analog and digital, share their creations and videos over the Internet, and create the huge community that they belong to. DJ activity matched the demand in the quarantine situation, made people feel less isolated from the world, thus led to the significant increase of the sales of individual use. The resumption of clubs and events after the COVID-19 pandemic, home DJ equipment performances, and online events have led to continued market expansion, and the adoption of breakdancing and 3x3 basketball as official events for the 2024 Paris Olympics has brought DJ equipment into the spotlight.

From manufacturing to "monozukuri"

The company's manufacturing business has an increasingly strong "monozukuri" component. "Monozukuri" includes not only the product itself, but also activities that infuse "added value" into the "thing" (product), such as developing new methods or introducing services to make it better (as defined by the Ministry of Economy, Trade and Industry). In this sense, Teibow's existing marking pen nib business, which is its cash cow, is "manufacturing", but Teibow's new business areas, MIM, AlphaTheta, and JLab are in the "monozukuri" category. The following two growth drivers are the foundation that underpins the company's "monozukuri" business activities.

Growth driver (1)

The company's growth drivers are (1) the replacement of existing components with its MIM mass production technology and (2) the creation of a supply chain for audio equipment (DJ equipment and wireless earphones, hardware and software). (1) MIM has made it possible to produce hollow shapes, which had been difficult to produce due to the difficulty of controlling sintering precision. The company's expertise in ultra-fine machining technology developed in marking pen nib machining is used to improve technical innovation. The company estimates that the global MIM market is worth approximately 400 billion yen.

Growth driver (2)

(2) In terms of building the supply chain for audio equipment, first of all, the average unit price of DJ equipment is increasing year by year, not only due to the rise in raw material prices but also due to the improvement of functions. The global market is expected to grow at a CAGR of nearly 10% from approximately US$500 million in 2021. The company has moved from a hardware-oriented focus to strengthening its software business, and is in the process of acquiring a major software company. The company has positioned wireless earphones, an even larger market ($8.9 billion in 2022), as a strategic product. It has captured the top share in the US market with its affordable products, and aims to further develop markets in Europe, Africa, and Asia, which have large populations.

CEO Iwakiri's management philosophy

CEO Iwakiri considers wireless earphones as "an access point for everyone on the planet to touch the direction of knowledge (all kinds of information)". These words reflect Mr. Iwakiri's management philosophy and desire to provide products and services that enable people around the world to appreciate added value equally through their daily lives or life. In terms of business strategy, it also offers a glimpse of the company's grand long-term growth strategy for the mass market, from top global niche products such as marking pen nibs and DJ equipment to top global end-user consumer products in the form of audio devices and software services. CEO Iwakiri's reason for not seeking simple synergies among the three main subsidiaries which are independently operated is, "The reality is that management efficiency alone cannot be more than 1+1=2. The criteria for M&A are to seek potential value of 1+1=10 or more". His words clearly reflect the far-sightedness.

Inimitability

The company's corporate DNA of mastering "manufacturing" is embodied in its highly profitable business with a top share in the global niche markets (Teibow's operating EBITDA margin of 27.1%, FY12/23) and its R&D orientation (R&D expense to revenue ratio of 7.1 %, FY12/23). The company's positioning is to create the NO.1/Only1 businesses that will become the foundation of society. We believe that the company's unique strength lies in its ability to build a flexible and resilient business portfolio that anticipates changes in the prevailing environment (inimitability (i)). The company's strong financial position and proactive financial strategy are also differentiating factors. The company has built a barrier to enter the market (inimitability (ii)) by accumulating unrivaled expertise in the secret techniques of marking pen nib processing and the ability to develop DJ equipment that is fully aware of the requirements of advanced professional DJs. These competitive advantages of the company have made the company to achieve the NO.1/Only1 businesses.

Financial structure and capital policy

The company aims for an operating EBITDA margin of 20% or more as its mid-term plan goal. The order of profit margin for the three main businesses is Teibow, AlphaTheta, and JLab. As a result of business restructuring, the company has ample cash assets. In addition, goodwill and intangible assets were recorded as a result of recognizing excess earning power when acquiring three major businesses. Cash assets, goodwill, and intangible assets account for 78% of total assets. The total assets turnover ratio is low at 0.31, and improving capital efficiency is an issue. The company aims to allocate surplus cash assets to growth investments, increase capital efficiency by expanding existing businesses and developing new fields, and improve ROE (8% target).

Stock price performance

The company's stock price bottomed out and began to rise between 2016 and 2017, when it proceeded with the transfer of its original business and M&A. During the COVID-19 pandemic, the company proceeded to focus on "manufacturing", and after another adjustment phase, it has been on an upward trajectory again since late 2023. Once the company's new business growth strategy and ROE improvement scenario come into view, the company's stock price will likely test its post-IPO high (5,900 yen, 1999/09/08) again. The company's PBR is 0.65x as a result of its increase of cash assets, and it is also an issue that requires immediate measures to return profits to shareholders. The company is advocating an improvement not only in its dividend payout ratio but also in its total return ratio.

Note

Note: This report is extracted in essence from the Initiation Report published on April 23, 2024, with the latest information on timely disclosure, financial results and stock prices (including those of other similar companies) through May 17, 2024. For detail such as the contents of each subsidiary and history, please refer to the Initiation Report. In addition, the report also reflects the contents of the financial results briefing and an individual interview after the announcement of Q1 results on May 10, 2012. Chapter 6, "Sum-of-the-parts Analysis", which was newly added to the report, presents a discussion based on Strategy Advisors (SA) analysts' own assumptions and premises. The assumed EV, market capitalization, and theoretical stock price shown in this chapter are part of the simulation results and do not guarantee their reproducibility nor exclude other possibilities.

1. Optimize the business portfolio by adapting to the current environment

1) Company profile

Core business

The company is a corporate group that creates businesses that form the foundation of society, from manufacturing businesses closely related to daily life (parts and materials, audio equipment-related businesses) to businesses that take on the challenges of the future (preventive medicine, etc.). The company has evaluated the growth potential of each business in terms of business vision, competitive advantage, growth potential, and IRR, and has built a business portfolio with manufacturing as its core business. The company aims to further evolve toward the formation of a business group that will continue to grow globally.

Company group

The company group consists of three major companies (accounting for over 98% of revenue): Teibow (parts/materials), AlphaTheta (audio equipment/peripherals), and JLab (audio equipment/peripherals), and others (the parent company, Noritsu Koki (group management and business research/investment related to new growth areas), etc.). 90% of revenue comes from overseas. The parent company is a pure holding company that owns over 80% of the consolidated total assets.

3 core companies

Teibow is a leading-edge micro parts and materials manufacturer with the world's top market share (over 50%) in the marking pen nibs (writing instruments, cosmetics) business. Teibow also manufactures metal parts (MIM: metal powder injection molding). AlphaTheta is an audio equipment manufacturer with the world's top market share of its DJ equipment business, which was spun out from Pioneer. JLab is a US-based audio equipment manufacturer with the leading brand "JLab", which has the category top market share in the US (headphones under $50, wireless earphones under $100) and a few percent of a global share. The positioning of each company in the business portfolio is as follows. Teibow is a cash cow with in-house manufacturing, AlphaTheta is a fabless with strength in upstream operations including R&D, and JLab is a fabless with strength in downstream operations including marketing and providing products that are on trend.

"Manufacturing" is the base

The company is a creative corporate group that aims for sustainable growth by optimizing its business portfolio while adapting to the change in the business situations, while inheriting the corporate DNA of manufacturing as its vocation. The products produced by the company are not necessarily visible to everyone, but the company focuses on manufacturing products that are part of the social infrastructure needed by people around the world. The automatic photo printing washing machine (minilab), which was the company's original business, at one point was the de facto standard worldwide.

Global niche top

The company has accumulated the expertise to develop global niche-top products (marking pen nibs, DJ equipment) that are difficult to imitate in each of these areas. Particularly in the audio equipment field, in addition to AlphaTheta's R&D capabilities, the acquisition of audio device manufacturer JLab has expanded the breadth and depth of the audio equipment-related field, from upstream to downstream in the supply chain.

Corporate philosophy

The company's corporate philosophy is as follows.
MISSION (meaning of life): prosperity for society and people
VISION (future vision): producing "NO.1/Only1" businesses
VALUE (behavioral guidelines): grasp needs, think one step ahead, etc.
This philosophy reflects the company's desire to provide products and services that enable people around the world to appreciate added value in their daily lives or life on an equal basis.

Creative business group

The company's path to its current state was based on the profound experience of breaking away from its original business, diversifying, and reorganizing its business. In the process, the company has accumulated unique management expertise and transformed into a creative corporate group that is ahead of the times. (Note: For detail, please refer to our initiation report published on Apr.23, 2024).

Conglomerate

The company's business structure is similar to that of a conglomerate, which is an organizational structure for companies that own and operate different industries and business sectors. Meanwhile, in the process of diversification and business restructuring, as the company organized a team specializing in M&A, took JMDC public, and transferred most of its subsidiaries, it is sometimes considered a venture capital (VC) or fund management company. The current management team sees the company as strictly a manufacturing company with M&A as a tool.

Improving capital efficiency is an issue

The company's current financial structure has a low total assets turnover ratio of 0.31, and improving capital efficiency is an issue. As a result, ROE remains 5.1% (FY12/23, future target of over 8%) and ROIC continues to be lower than WACC (assumed at 5-6%), while economic added value (EVA) has not been created (ROIC of 7.4% was achieved on a net IC basis in FY12/23).

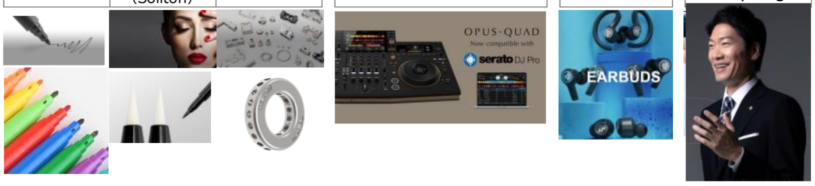
ROIC management

The current management team focuses on improving profitability (a business EBITDA margin of at least 20%) and capital efficiency (investment in growth areas, M&A to strengthen core businesses, and shareholder returns) to improve ROE and ROIC.

Figure 2. Noritsu Koki's business portfolio

Focus Area	Manufacturing					Others
Segment	Parts/Material			Audio Equipment/Peripherals		Research Investment
Core Co.	Teibow			AlphaTheta	JLab	Parent Co.
Business	Marking pen nibs		Metal parts	DJ/CLUB equipments	Audio devices	Holding Co.
	Writing	Cosmetics	MIM	Professional Audio Eq.	Earphone	New biz
	Felt-tip	Eyebrow	Auto/ind.	Music Production Eq.	Headphone	Investment
				Related Services		
Special remarks	Global share 50%+	Ultra-fine brush technology (Soliton)	Top-class domestic market share	DJ eq. global top share Serato acquisition	Below $100/50 Top brand in US	Biz promotion Capital policy Group mgt.

Product & service images



Source: Strategy Advisors – Based on Company Data

2) Business segment

3 segments

The company's three business segments are manufacturing (parts/materials), manufacturing (audio equipment related), and others. The core subsidiaries are Teibow (including soliton corporation) in the manufacturing (parts/materials) business, AlphaTheta and JLab in the manufacturing (audio equipment related) business, and a parent company, Noritsu Koki (group management, research and investment of new growth areas), etc.

Revenue breakdown

Revenue breakdown (FY12/23): Manufacturing (parts/materials, Teibow) 12.9%, Manufacturing (audio equipment related) 85.5% (AlphaTheta 56.7%, JLab 28.8%), Others 1.6%.

Figure 3. Trends in revenue by segment

FY	12/21	12/22	12/23
Revenue (¥ mn)			
Teibow	12,282	12,717	11,781
AlphaTheta	26,511	36,362	51,930
JLab	14,596	23,154	26,340
Others	1,090	1,282	1,500
Total	54,481	73,515	91,552

FY	12/21	12/22	12/23
Ratio to total (%)			
Teibow	22.5%	17.3%	12.9%
AlphaTheta	48.7%	49.5%	56.7%
JLab	26.8%	31.5%	28.8%
Others	2.0%	1.7%	1.6%
Total	100.0%	100.0%	100.0%

Source: Strategy Advisors – Based on Company Data, Note: JLab 12/21 is 9 months

Operating EBITDA

Operating EBITDA is calculated by subtracting other income and expenses from operating profit, and adding depreciation and amortization expenses (excluding depreciation of right-of-use assets). Compared to operating profit, the company considers this to be useful information for evaluating its business performance, as it shows a company's inherent earning power that is not affected by non-recurring profits and losses or amortization expenses, and so the company discloses this information additionally. HQ & company-wide expenses mainly include expenses for the parent company.

Operating EBITDA breakdown: Manufacturing (parts/materials) 16.7%, Manufacturing (audio equipment related) 82.4% (AlphaTheta 69.6%, JLab 12.8%), Others 0.9%. Note: After considering HQ expenses.
Operating EBITDA margin: Manufacturing (parts/materials) 27.1%, Manufacturing (audio equipment related) 20.2% (AlphaTheta 25.7 %, JLab 9.3%), Others 11.9%.

The parent company (a pure holding company)

In order to strengthen its audio equipment related business, the company is proceeding with the acquisition of Serato, a major DJ equipment software company. Noritsu Koki as the parent company with a management team and 17 other employees, is responsible for group management (capital policy, group finance, investments, M&A, legal affairs, human resources, IR, etc.) and for business research and investment in new growth areas. As it is a pure holding company, it does not record sales, but it generated a consolidated net profit of 170.5% and its total assets accounted for 80.1% of consolidated total assets (as of FY12/23).

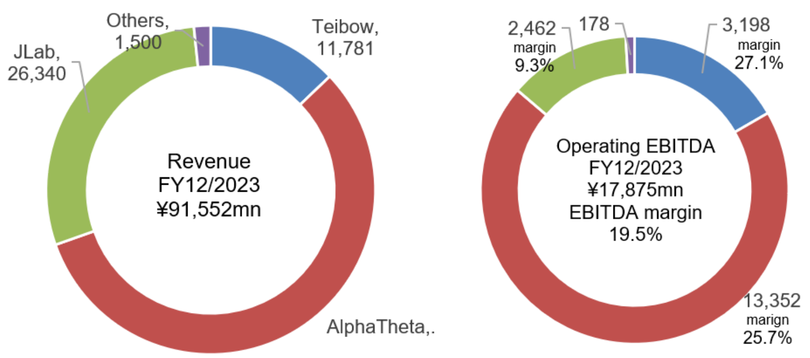
Figure 4. Trends in operating EBITDA and its margin

FY	12/21	12/22	12/23
Operating EBITDA (¥ mn)			
Teibow	4,185	3,718	3,198
AlphaTheta	5,671	6,897	13,352
JLab	1,404	1,337	2,462
Others	273	272	178
HQ expenses	-795	-858	-1,316
Total	10,739	11,367	17,875

FY	12/21	12/22	12/23
EBITDA margin (%)			
Teibow	34.1%	29.2%	27.1%
AlphaTheta	21.4%	19.0%	25.7%
JLab	9.6%	5.8%	9.3%
Others	25.0%	21.2%	11.9%
Total	19.7%	15.5%	19.5%

Source: Strategy Advisors – Based on Company Data, Note: JLab 12/21 is 9 months

Figure 5. Revenue and operating EBITDA by segment



Note: Segment operating EBITDAs are before HQ expenses deducted (Total operating EBITDA is after HQ expenses deducted.)
Source: Strategy Advisors – Based on Company Data

3） Positioning

Profitability and market share

In the process of reorganizing its business, the company decided to focus on its manufacturing business. It positioned each subsidiary with profitability on the vertical axis and market share on the horizontal axis (Figure 6, the size of the circle indicates the scale of revenue). In January 2015, the company acquired Teibow and made it the mainstay of manufacturing, while transferring or withdrawing most of its non-core businesses other than manufacturing and separating healthcare from the scope of consolidation (as of September 2020). In healthcare, after listing JMDC (4483 TSE Prime), the company transferred the majority of its holdings to Omron (6645 TSE Prime) in February 2022, making it non-consolidated. The company also transfers all of its shares of PreMedica to MEDIPAL HOLDINGS CORPORATION (7459 TSE Prime) at the end of May 2024（Transefer price: ¥3.8 billion）.

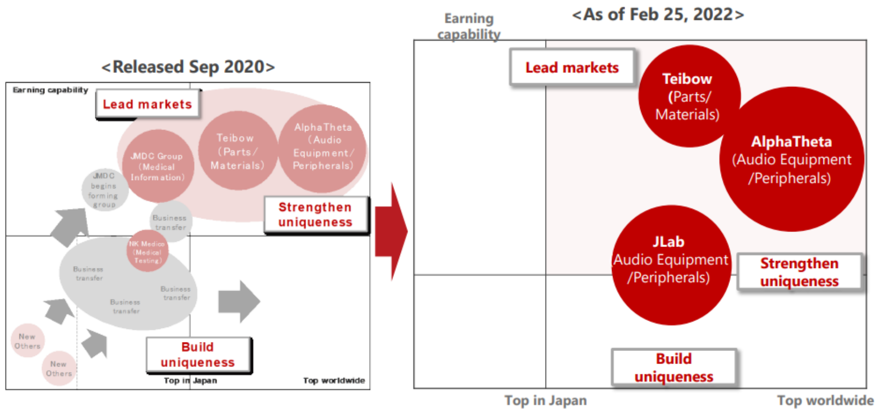
Choice and concentration

The only remaining consolidated subsidiaries in healthcare is Kidswell Bio (4584 TSE Growth, a biotech venture), an equity method subsidiary. Meanwhile, in the manufacturing business, Teibow acquired soliton corporation in February 2019 to strengthen its cosmetics field. The company subsequently acquired AlphaTheta in April 2020, and JLab in May 2021 to advance and strengthen the audio equipment related field. The acquisition of these two companies suddenly accelerated the globalization of the manufacturing business. The company is in the process of applying to acquire Serato, a major DJ equipment software company, and aims to strengthen its audio equipment related field .

Market traction and uniqueness

Both Teibow and AlphaTheta have strong market traction and uniqueness, and have become the leaders as a NO.1/Only1 company. Although JLab is a highly competitive commodity product and has low profitability, its uniqueness has earned it the status of a top brand in the US (in the under $50 headphone/$100 wireless earphone categories), and the company believes that there is great potential for it to increase its global share from its currently level of a few percent.

Figure 6. Transition of business portfolio



Source: Company data
Note: PreMedica is not shown in the portfolio as it is in preparation for IPO.

4) Globalization

Sales breakdown by region

90.0% of the company's revenue comes from overseas (44.9% from North/Latin America, 32.6% from EMEA, 7.2% from APAC , and 5.3% from China), and 10.0% comes from Japan. The breakdown by the three main businesses is as follows. Teibow: Overseas 59.3% (North/Latin America 17.8%, EMEA 10.9%, APAC 12.9%, China 17.8%), Japan 40.7%. AlphaTheta : Overseas 94.5% (North/Latin America 35.0% , EMEA 46.0%, APAC 8.4%, China 5.2%), Japan 5.5%. JLab : Overseas 99.8% (North/Latin America 79.1%, EMEA 17.6%, APAC 2.9%, China 0.1%), Japan 0.2%. (Above all data from FY12/23)

Forex rate impact

Teibow's global sales and purchases are basically denominated in yen, and the impact against both the USD and the EUR is minimal. AlphaTheta retails their products in each local currency and purchases in USD. Since EMEA's revenue is large, the weakening of the yen against the EUR has a positive impact on profits. As revenue in USD, mainly in North America, is slightly lower than purchases, the weaker yen against the USD has a negative impact on profits. JLab sells in each region's currency and purchases in USD. Since revenue in the US is large, a weaker yen against the USD has a positive impact on profits. The impact is minor in areas other than the US as its revenue is still small. The weaker yen had a positive impact on operating profit for the company’s overall group .

The company assumes the impact of a 1 yen depreciation for FY12/24 is as follows.

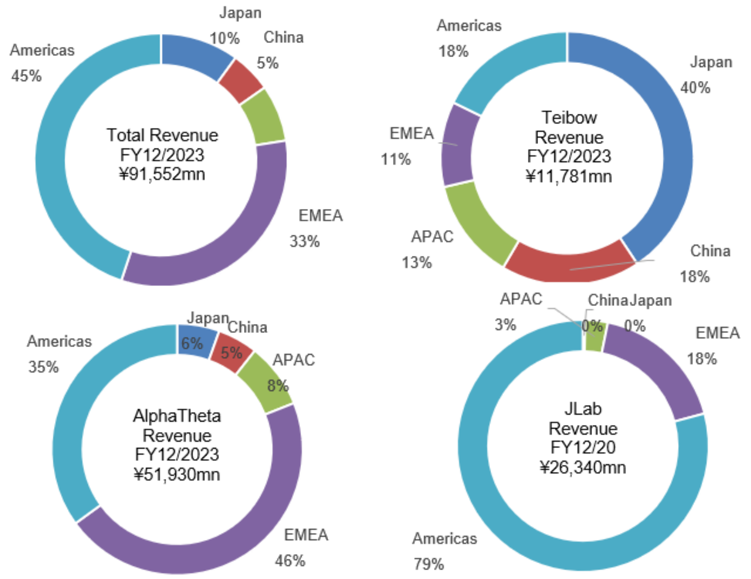
Assumed forex rate

¥145.9/USD: Revenue +¥370 million, operating EBITDA +¥10 million, operating profit +¥20 million
¥158.8/EUR: Revenue +¥160 million, operating EBITDA +¥140 million, operating profit +¥190 million

Production bases

Teibow has its own factory (3 factories in Hamamatsu); AlphaTheta and JLab are fabless; AlphaTheta has sales offices in America, UK and China, and JLab has sales offices in America. Teibow is increasing its production capacity, mainly for MIM (Nov.2021-Sep.2024, capex of ¥1.3 billion).

Figure 7. Revenue breakdown ratio by region (FY12/2023)



Source: Strategy Advisors – Based on Company Data

Employee distribution (by business, region)

The number of consolidated regular employees is 1,246 people (as of the end of FY12/23), of which 603 are Teibow, 503 are AlphaTheta, 74 are JLab, and 66 are others. Regional distribution (as of the end of FY12/22): Japan 82.2%, North/Latin America 6.9%, EMEA 6.4%, China 4.5%. The gender ratio (as of the end of FY12/22) is 71.3% for men and 28.7% for women.

Figure 8. Consolidated regular employee distribution

FY-end	12/21	12/22	12/23
Regular employee (persons)			
Teibow	573	599	603
AlphaTheta	459	470	503
JLab	38	58	74
Others	51	57	66
Total	1,121	1,184	1,246

FY-end	12/21	12/22	12/23
Ratio to total (%)			
Teibow	51.1%	50.6%	48.4%
AlphaTheta	40.9%	39.7%	40.4%
JLab	3.4%	4.9%	5.9%
Others	4.5%	4.8%	5.3%
Total	100.0%	100.0%	100.0%

Source: Strategy Advisors – Based on Company Data, Note: FY-end figures

5) Various indicators

Productivity per employee

The company-wide average productivity per regular employee (as of the end of FY12/23) was ¥75.4 million in revenue, ¥14.7 million in operating EBITDA, and ¥11.9 million in operating profit. Teibow: revenue of ¥19.6 million and operating EBITDA of ¥5.3 million. AlphaTheta: revenue of ¥106.7 million and operating EBITDA of ¥27.4 million. Jlab: revenue of ¥399.1 million and operating EBITDA of ¥37.3 million.

AlphaTheta is fabless with a majority of its personnel in R&D, and JLab is fabless with a small elite group of sales and planning personnel, thus its per capita productivity index tends to be higher than that of Teibow, which has manufacturing personnel (also partly due to the depreciation of the yen).

Figure 9. Productivity per regular employee

FY	12/22	12/23
Revenue per employee (¥ mn)		
Teibow	21.7	19.6
AlphaTheta	78.3	106.7
JLab	482.4	399.1
Others	23.7	24.4
Total average	63.8	75.4

FY	12/22	12/23
EBITDA per employee (¥ mn)		
Teibow	6.3	5.3
AlphaTheta	14.8	27.4
JLab	27.9	37.3
Others	5.0	2.9
Total average	9.9	14.7

Source: Strategy Advisors – Based on Company Data

R&D expenses to revenue ratio

The ratio of the company's R&D expenses to revenue is 7.1% on a company-wide average, and by business segment it is 0.5% for Teibow, 12.1% for AlphaTheta, 0.3% for JLab, and 6.3% for others at FY12/23. AlphaTheta's R&D expenses account for 96.6% of the company's total. Teibow and JLab have demonstrated cost leadership in mature areas that do not require significant R&D (marking pen nibs (writing instruments/ cosmetics), wireless earphones/headphones) by establishing high-volume production, sales systems and channels.

Teibow has R&D capabilities through the establishment of new materials and new MIM technology (new manufacturing methods, complex shapes). AlphaTheta, on the other hand, will continue to strengthen its new product development system and increase the number of products under development by focusing on R&D and establishing a unique position in the audio equipment-related field, where technological innovation is rapid.

Figure 10. Trends in R&D expenses and its ratio to revenue

FY	12/21	12/22	12/23
R&D expenses (¥ mn)			
Teibow	72	70	62
AlphaTheta	4,299	5,129	6,260
JLab	49	49	66
Others	51	81	94
Total	4,472	5,330	6,482

FY	12/21	12/22	12/23
R&D ratio to revenue (%)			
Teibow	0.6%	0.6%	0.5%
AlphaTheta	16.2%	14.1%	12.1%
JLab	0.3%	0.2%	0.3%
Others	4.7%	6.3%	6.3%
Total average	8.2%	7.3%	7.1%

Source: Strategy Advisors – Based on Company Data

Capex, depreciation and amortization expenses

The company's capital investment was ¥2,098 million, and depreciation and amortization expenses were ¥4,396 million (excluding the amortization of leased assets). In addition to establishing a new pen nib factory and a new MIM factory, Teibow is expanding and rationalizing the production capacity of its existing factory. AlphaTheta aims to establish a base for software application development. JLab will invest in expansion outside the US. JLab will also strengthen inventory management and logistics functions in Europe and Asia, as well as strengthen its sales structure in Asia.

Figure 11. Trends in capex, depreciation and amortization expenses

FY	12/21	12/22	12/23	FY	12/21	12/22	12/23
Capex (¥ mn)				**Depreciation & amortization (¥ mn)**			
Teibow	649	767	689	Teibow	1,044	1,103	1,145
AlphaTheta	455	540	1,107	AlphaTheta	2,171	2,085	2,102
JLab	26	143	32	JLab	564	1,004	1,080
Others	61	205	269	Others	35	50	69
Total	1,191	1,656	2,098	Total	3,814	4,243	4,396

Source: Strategy Advisors – Based on Company Data

Note: Excluding amortization of leased assets

Goodwill, intangible assets

The total amount of goodwill and intangible assets of the company accounts for 45.2% of total assets. These results come from the acquisitions of Teibow, AlphaTheta, and JLab, respectively. In FY12/22, the company recorded a ¥5.9 billion impairment loss on goodwill at JLab. This is because the discount rate (WACC) rose with the hike in policy interest rates in the US market, and as a result, the fair value of the shares fell below the holding value of the shares, and the lower amount was recognized as an impairment loss.

Figure 12. Trends in goodwill and intangible assets

FY-end	12/21	12/22	12/23	FY-end	12/21	12/22	12/23
Goodwill (¥ mn)				**Intangible assets (¥ mn)**			
Teibow	19,490	19,490	19,490	Teibow	12,526	12,025	11,531
AlphaTheta	19,400	19,400	19,400	AlphaTheta	44,985	43,446	42,188
JLab	13,582	9,698	10,366	JLab	20,372	22,577	23,143
Others	0	0	0	Others	100	253	262
Total	52,473	48,589	49,256	Total	77,983	78,301	77,124

Source: Strategy Advisors – Based on Company Data, Note: FY-end figures

Figure 13. Trends by segment (FY3/2020 to FY12/2024)

Operating Segment IFRS-Consolidated (¥, %)	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023	FY12/2024 CoE	CAGR 12/21-23
Revenue	**26,147**	**41,148**	**54,481**	**73,515**	**91,552**	**103,500**	29.6%
YoY	-	-	-	34.9%	24.5%	13.1%	
Japan	19,321	16,080	7,816	8,396	9,173		8.3%
US	1,842	8,833	21,586	30,037	35,687		28.6%
Mid.&South America			1,045	1,576	2,593		57.5%
Europe	1,315	10,853	14,180	19,485	27,538		39.4%
Middle east & Africa			1,101	1,550	2,280		43.9%
Othe areas (China, etc)	3,667	5,380	8,751	10,584	14,281		27.7%
Overses revenue sub-total	6,826	25,068	46,665	65,119	82,379		32.9%
Overseas revenue ratio	26.1%	60.9%	85.7%	88.6%	90.0%		
Average forex rate (¥/USD)		106.1	109.8	131.4	140.6	145.9	
Average forex rate (¥/EUR)		122.4	129.9	138.0	152.0	158.8	
Year-end forex rate (¥/USD)		103.5	115.0	132.7	141.8	145.0	
Year-end forex rate (¥/EUR)		127.0	130.5	141.5	157.1	158.0	
Manufacturing (Parts/Materials) Teibow		7,362	12,282	12,717	11,781	12,400	-2.1%
YoY	-	-	-	3.5%	-7.4%	-2.5%	
Ratio to total revenue	-	17.9%	22.5%	17.3%	12.9%	12.0%	
Writing Instruments			7,888	8,249	7,519		-2.4%
Cosmetics			1,656	1,706	1,442		-6.7%
MIM			2,279	2,297	2,251		-0.6%
Others			458	464	567		11.3%
Manufacturing (Audio Equipment/Peripherals)		21,530	41,107	59,516	78,271	89,500	38.0%
YoY	-	-	-	44.8%	31.5%	50.4%	
Ratio to total revenue	-	52.3%	75.5%	81.0%	85.5%	86.5%	
AlphaTheta			26,511	36,362	51,930	60,000	40.0%
YoY	-	-	-	37.2%	42.8%	15.5%	
Ratio to total revenue			48.7%	49.5%	56.7%	58.0%	
JLab			14,596	23,154	26,340	29,500	34.3%
YoY	-	-	-	58.6%	13.8%	12.0%	
Ratio to total revenue	-	-	26.8%	31.5%	28.8%	28.5%	
Manufacturing sub-total	11,276	28,892	53,389	72,233	90,052	101,900	29.9%
Others	14,871	12,255	1,090	1,282	1,500	1,600	17.3%
YoY	-	-	-	17.6%	17.0%	6.7%	
Ratio to total revenue	56.9%	29.8%	2.0%	1.7%	1.6%	1.5%	
Operating profit	**4,134**	**5,816**	**6,068**	**1,262**	**14,462**	**16,000**	54.4%
YoY	-	-	-	-79.2%	1046.0%	10.6%	
OP margin	15.8%	14.1%	11.1%	1.7%	15.8%	15.5%	
Operating EBITDA	**6,847**	**9,487**	**10,739**	**11,367**	**17,875**	**21,000**	29.0%
YoY	-	-	-	5.8%	57.3%	17.5%	
EBITDA margin	26.2%	23.1%	19.7%	15.5%	19.5%	20.3%	
Manufacturing (Parts/Materials) Teibow		2,412	4,185	3,718	3,198	3,500	-12.6%
YoY	-	-	-	-11.2%	-14.0%	-5.9%	
EBITDA margin	-	32.8%	34.1%	29.2%	27.1%	28.2%	
Ratio to total EBITDA	-	23.8%	36.3%	30.4%	16.7%	15.8%	
Manufacturing (Audio Equipment/Peripherals)		4,708	7,076	8,234	15,814	18,600	49.5%
YoY	-	-	-	16.4%	92.1%	125.9%	
EBITDA margin	-	21.9%	17.2%	13.8%	20.2%	20.8%	
Ratio to total EBITDA	-	46.5%	61.3%	67.4%	82.4%	84.2%	
AlphaTheta			5,671	6,897	13,352	15,400	53.4%
YoY	-	-	-	21.6%	93.6%	123.3%	
EBITDA margin	-	-	21.4%	19.0%	25.7%	25.7%	
Ratio to total EBITDA	-	-	49.2%	56.4%	69.6%	69.7%	
JLab			1,404	1,337	2,462	3,200	32.4%
YoY	-	-	-	-4.8%	84.1%	139.3%	
EBITDA margin	-	-	9.6%	5.8%	9.3%	10.8%	
Ratio to total EBITDA	-	-	12.2%	10.9%	12.8%	14.5%	
Manufacturing sub-total	3,635	7,120	11,261	11,952	19,012	22,100	29.9%
Others	3,794	2,999	273	272	178		-19.3%
YoY	-	-	-	-0.4%	-34.6%	-	
EBITDA margin	25.5%	24.5%	25.0%	21.2%	11.9%	-	
Ratio to total EBITDA	51.1%	29.6%	2.4%	2.2%	0.9%	-	
HQ expenses	-582	-633	-795	-858	-1,316	-1,100	

Source: Strategy Advisors – Based on Company Data

Note: Prior to FY21/12, the US was North America (including Canada)

2. Reorganize non-manufacturing business in other business

1) PreMedica (preventive medical care)

Business content

PreMedica is a company involved in preventive medical care and R&D of innovative medical technology. Its head office is located in Minato-ku, Tokyo, and the Tokyo Research Institute is in Shinjuku-ku. The testing service business is divided into parts/organs (eastern, chest, abdomen, whole body) and diseases (circulatory diseases, lifestyle-related diseases, cancer, dementia, physical constitution checks) and performs various tests. In R&D support, PreMedica collaborates with universities, research institutes, and manufacturers. PreMedica makes research contract testing/measurement, and provides intestinal flora measurement/analysis services, and diabetic kidney disease (DKD)/acute kidney disease (AKD) risk measurement kits.

Decision to sell all its shares

In July 2010, Noritsu Koki established NK Medical (currently PreMedica) for the purpose of developing business in the medical field. The company acquired Doctor Net in June 2010, established Japan Regenerative Medicine in October 2013, and acquired Japan Medical Data Center (currently JMDC), Feed, and i-Medic in May 2013, strengthening and expanding its business in the medical field. In order to concentrate management resources on the manufacturing business, the company separated its medical business and transferred and deconsolidated most of its subsidiaries. The company also transfers all of its shares of PreMedica to MEDIPAL HOLDINGS CORPORATION at the end of May 2024.

Performance, finance

PreMedica's business results in FY3/23 are as follows: sales of ¥1,347 million, net profit of ¥161 million, retained earnings of ¥727 million, net assets of ¥948 million, and total assets of ¥1,266 million.

2) Noritsu Koki's parent company

Pure holding company

Noritsu Koki's parent company is a pure holding company with a management team and 17 employees, and is responsible for group management (capital policy, group finance, investments, M&A, legal affairs, human resources, IR, etc.) and business research and investment in new growth areas. Although the company does not operate a sales-making business on a parent company basis, it accounts for 170.5% of consolidated net income and 80.1% of total assets (FY12/23).

Main account items of PL

The parent company results for FY12/23 were sales of 0, an operating loss of ¥1,546 million, a recurring loss of ¥815 million, and net profit of ¥17,385 million. The main account items on the PL statement were SG&A expenses of ¥1,546 million, non-operating profit of interest income of ¥751 million, a forex gain of ¥349 million, and non-operating expenses of interest paid of ¥285 million, financing fees of ¥95 million, and extraordinary income of ¥25,569 million in the form of a gain on sales of investment securities.

Main account items of BS

The BS at the end of FY12/23 had total assets of ¥223,742 million, with the main items being cash and deposits of ¥39,902 million, the major item is long and short-term lending of ¥43,641 million, investment securities of ¥21,341 million, and stocks of affiliated companies of ¥101,100 million. In terms of liabilities, long and short-term loans of ¥39,370 million yen. In terms of net assets, shareholders' equity of ¥165,641 million and total net assets of ¥178,159 million.

Consolidated/parent ratio

On a consolidated basis, total assets are ¥279,471 million (consolidated/ parent ratio 1.25), cash and cash equivalents are ¥70,190 million (1.76), interest-bearing debt is ¥42,577 million (1.08), total equity capital attributable to owners of the parent company is ¥205,374 million (1.24), and total equity is ¥205,844 million (1.16).

3. Current performance trends

Results for Q1 FY12/2024

After the market close on May 10, the company announced its Q1 results for FY12/24, showing a significant increase in both revenue and profits, with revenue of ¥27,304 million (+56.9% YoY), EBITDA of ¥7,847 million (+207.5% YoY), operating profit of ¥7,640 million (+278.2% YoY), pretax profit of ¥7,657 million (+319.5% YoY), and net profit of ¥5,235 million (+398.1% YoY). Profits exceeded the company's 1H estimates at the beginning of the period. The company revised up its 1H and full-year estimates significantly on May 10. Q1 progress rates against the company's full-year new estimates (revised on May 10) for revenue, operating profit, pretax profit, and net profit are 26.4%, 47.8%, 49.7%, and 50.8%, respectively. Q1 progress rates against its 1H new estimates (revised on May 10) are 54.6%, 84.0%, 87.0%, and 90.3%, respectively. The company's new estimates are still conservative for both 1H and full-year.

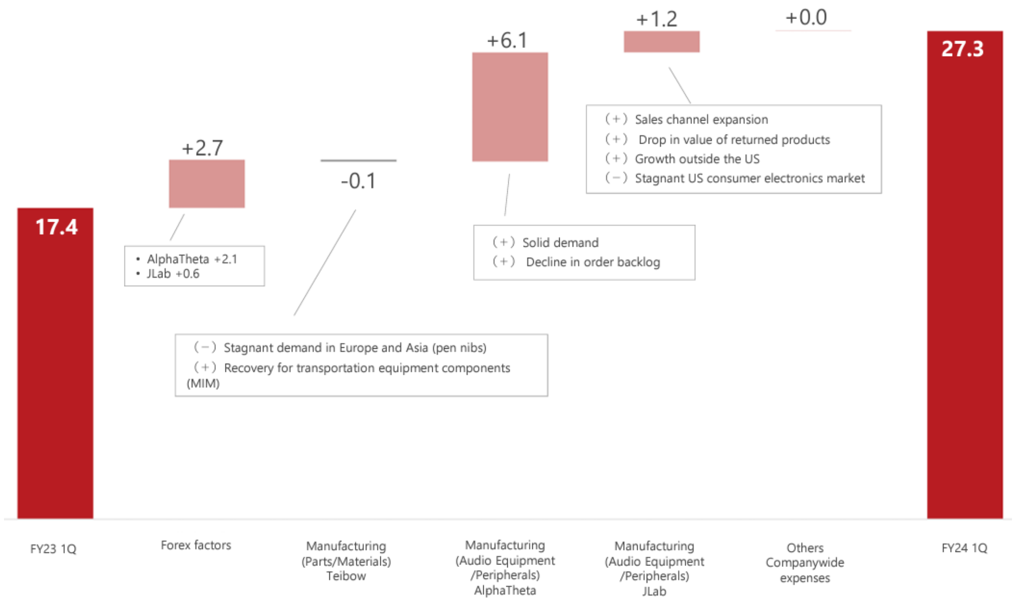
Revenue increase/decrease YoY analysis

By individual company, Teibow posted lower revenue and profits YoY, while AlphaTheta and JLab posted large increases in revenue and profits YoY (Figure 36). Forex rates (on average) were ¥148.6 to the USD, a depreciation of ¥16.3 YoY, and ¥161.3 to the EUR, a depreciation of ¥19.2 YoY, which positively affected the earnings of AlphaTheta and JLab, which trade mostly in USD and EUR. The weaker yen has a positive impact on operating profit for the group as a whole.

The revenue decline YoY at Teibow was due to the stagnant European, American, and Asian markets (excluding Japan and China, writing instruments and cosmetics) not being offset by a recovery in transportation equipment parts (MIM), resulting in a -¥0.1 billion YoY in revenue. AlphaTheta and JLab posted a +¥2.1 billion and +¥0.6 billion YoY in revenue, respectively, due to the impact of weaker yen. AlphaTheta's revenue increased by ¥6.1 billion YoY due to strong demand and a decrease in order backlog. Its revenue increased in all regions, in particular those for EMEA expanded 2.2 times YoY. JLab also posted an increase of revenue by ¥1.2 billion, offsetting the impact of the stagnation in the U.S. consumer electronics retail market, thanks to channel expansion, a decrease in returns, and growth outside the U.S. market. The increase in AlphaTheta's shipments and the decrease in JLab's returns may be partially due to the anticipatory effect.

Analysis of revenue increase/decrease YoY

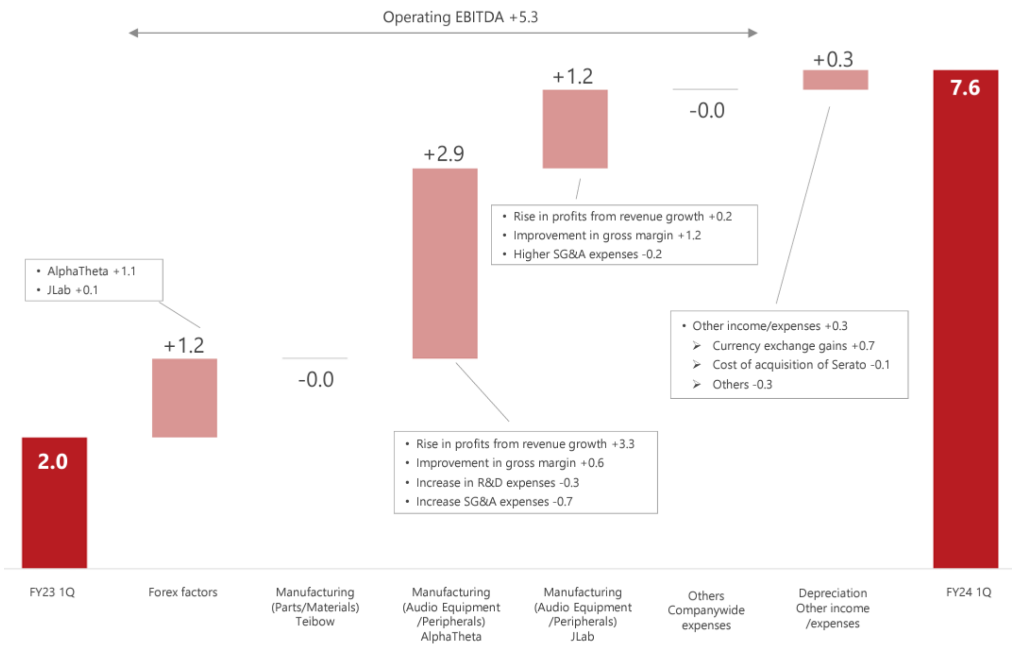
Figure 14. Analysis of revenue increase/decrease YoY



Source: Company data

Analysis of operating profit increase/decrease YoY

Figure 15. Analysis of operating profit increase/decrease YoY



Source: Company data

Outlook for FY12/2024 Upward revision

The company upwardly revised its 1H and full-year estimates for FY12/2024 on May 10, reflecting business progress in Q1 and a review of assumed forex rates. EBITDA of ¥21.0 billion (+17.5% YoY), operating profit of ¥16.0 billion

(+10.6% YoY), pretax profit of ¥15.4 billion (+12.0% YoY), and net profit ¥10.3 billion (+1.0% YoY). The assumed average forex rates are ¥145.9 to the USD (+¥5.3 depreciation YoY) and ¥158.8 to the EUR (+¥6.8 depreciation YoY); the acquisition of Serato and the sale of PreMedica are not reflected in the estimates because their deals have not yet been closed. The dividend forecast remains unchanged at this time, although the dividend payout ratio target of 40% or more will remain unchanged. The conservative mid-term management plan targets are subject to revision.

The breakdown of changes (increase/decrease) in revenue YoY

The breakdown of changes (increase/decrease) YoY in revenue is expected to be forex impact +¥3.1 billion (AlphaTheta +¥2.0 billion, JLab +¥1.1 billion), Teibow +¥0.6 billion, AlphaTheta +¥6.1 billion, JLab +¥2.1 billion, and others +¥0.1 billion.

Operating profit changes YoY

The breakdown of changes Yoy in operating profit is as follows. Forex +¥1.0 billion (AlphaTheta +¥0.9 billion, JLab up ¥0.1 billion), Teibow +¥0.3 billion (revenue increase effect +¥0.2 billion, gross profit margin improvement +¥0.3 billion, SG&A expense increase -¥0.2 billion), AlphaTheta +¥1.1 billion (revenue increase effect +¥3.2 billion, gross profit margin improvement +¥1.5 billion, R&D expenses increase -¥0.9 billion, SG&A expenses increase -¥2.7 billion), JLab +¥0.6 billion (revenue increase effect +¥0.5 billion, gross profit margin improvement +¥1.8 billion, SG&A expenses increase -¥1.7 billion), and amortization expense, other income and expenses increase -¥1.5 billion (depreciation expenses increase -¥0.2 billion, forex loss by -¥1.0 billion, and Serato acquisition-related costs -¥0.3 billion).

Net profit changes YoY

The breakdown of changes in net profit is as follows. Operating profit -¥1.6 billion, compared to the valuation loss on equity method stocks for FY12/23 +¥0.6 billion, financial balance -¥0.5 billion, corporate income tax expense -¥1.6 billion (estimated differences in tax effects, etc. -¥1.0bn, etc.).

Conservative company's estimates

The company's new estimates (revised on May 10) is conservative, taking into account uncertainties in Q2 and beyond. However, considering the weaker-than-expected yen, the estimates for lower sales and profits in Q2 and 2H are still considered conservative.

Inventory level

The company states that the AlphaTheta order backlog was partially eliminated ahead of schedule. We believe that the effect of its quality improvement efforts should have contributed to the improvement in addition to the lack of impact of COVID-19. Its inventory level of ¥8,096 million at the end of Q1 is equivalent to 1.7 months of the full-year revenue estimates of ¥56,500 million. The decrease in the amount of JLab returns was also partially due to the pre-emption, but it is also thought to be due to the lack of impact of COVID-19 compared to the Q1 of the previous year. JLab's inventory level of ¥7,009 million is equivalent to 2.9 months of the full-year revenue estimates of ¥29,000 million for FY12/2004. JLab inventory changes are affected by forex rate fluctuations, and tends to swell when the yen weakens.

Figure 16. Quarterly performance trends

Quarterly Financial Results (¥ mn, %)	FY12/2022				FY12/2023				FY12/2024	Progress rate		FY12/2024	
(Cumulative)	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Q1-4	Q1	vs 1H CoE	vs FY CoE	1H CoE	FY CoE
Revenue	14,224	31,536	49,662	73,515	17,398	41,469	65,789	91,552	27,304	54.6%	26.4%	50,000	103,500
YoY	37.6%	34.0%	34.4%	34.9%	22.3%	31.5%	32.5%	24.5%	56.9%			20.6%	13.1%
Cost of sales	8,047	18,352	29,794	43,986	10,191	23,454	36,277	50,480	13,308				
YoY	75.0%	62.2%	58.3%	48.0%	26.6%	27.8%	21.8%	14.8%	30.6%				
Cost of sales ratio	56.6%	58.2%	60.0%	59.8%	58.6%	56.6%	55.1%	55.1%	48.7%				
Gross profit	6,176	13,184	19,867	29,529	7,207	18,014	29,511	41,072	13,996				
YoY	7.6%	7.9%	9.6%	19.2%	16.7%	36.6%	48.5%	39.1%	94.2%				
Gross profit margin	43.4%	41.8%	40.0%	40.2%	41.4%	43.4%	44.9%	44.9%	51.3%				
SG&A	4,708	10,211	16,041	22,406	5,702	12,085	19,013	27,595	7,217				
YoY	32.2%	30.3%	28.7%	25.6%	21.1%	18.4%	18.5%	23.2%	26.6%				
SG&A ratio to revenue	33.1%	32.4%	32.3%	30.5%	32.8%	29.1%	28.9%	30.1%	26.4%				
Operating profit	1,700	3,267	4,227	1,262	2,020	7,365	12,522	14,462	7,640	84.0%	47.8%	9,100	16,000
YoY	-27.1%	-9.4%	-10.8%	-79.2%	18.8%	125.4%	196.2%	1046.0%	278.2%			23.6%	10.6%
OP margin	12.0%	10.4%	8.5%	1.7%	11.6%	17.8%	19.0%	15.8%	28.0%			18.2%	15.5%
Profit before tax	2,050	4,746	7,970	3,944	1,825	7,214	12,264	13,747	7,657	87.0%	49.7%	8,800	15,400
YoY	41.8%	110.7%	119.1%	-25.8%	-11.0%	52.0%	53.9%	248.6%	319.6%			22.0%	12.0%
Pretax profit margin	14.4%	15.0%	16.0%	5.4%	10.5%	17.4%	18.6%	15.0%	28.0%			17.6%	14.9%
Profit attributable to owners of parent	100,163	101,121	102,928	101,554	1,051	4,454	7,842	10,199	5,235	90.3%	50.8%	5,800	10,300
YoY	-	-	-	-	-99.0%	-95.6%	-92.4%	-90.0%	398.1%			30.2%	1.0%
NP margin	704.2%	320.7%	207.3%	138.1%	6.0%	10.7%	11.9%	11.1%	19.2%			11.6%	10.0%
Operating EBITDA	2,486	5,049	6,980	11,367	2,552	8,046	13,748	17,875	7,847	67.6%	37.4%	11,600	21,000
YoY	-16.1%	-17.4%	-17.0%	5.8%	2.7%	59.4%	97.0%	57.3%	207.5%			44.2%	17.5%
EBITDA margin	17.5%	16.0%	14.1%	15.5%	14.7%	19.4%	20.9%	19.5%	28.7%			23.2%	20.3%
Cumulative quarter average forex rate (￥/USD)	116.2	122.9	128.1	131.4	132.3	134.9	138.1	140.6	148..6			146.8	145.9
Cumulative quarter average forex rate (￥/EUR)	130.4	134.3	136.0	138.0	142.1	145.8	149.6	152.0	161.3			159.7	158.8
Qumulative quarter average forex rate (￥/CNY)	18.3	18.9	19.3	19.5	19.3	19.5	19.6	19.8	20.6				
Quarter-end forex rate (￥/USD)	122.4	136.7	144.8	132.7	133.5	145.0	149.6	141.8	151.4			145.0	145.0
Quarter-end forex rate (￥/EUR)	136.7	142.7	142.3	141.5	145.7	157.6	158.0	157.1	163.2			158.0	158.0
Quarter-end forex rate (￥/CNY)	19.3	20.4	20.4	19.0	19.4	19.9	20.5	19.9	20.8				

Quarterly Financial Results (¥ mn, %)	FY12/2022				FY12/2023				FY12/2024
(3 months)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	14,224	17,312	18,126	23,853	17,398	24,071	24,320	25,763	27,304
YoY	37.6%	31.2%	35.1%	36.0%	22.3%	39.0%	34.2%	8.0%	56.9%
Cost of sales	8,047	10,305	11,442	14,192	10,191	13,263	12,823	14,203	13,308
YoY	75.0%	53.5%	52.3%	30.3%	26.6%	28.7%	12.1%	0.1%	30.6%
Cost of sales ratio	56.6%	59.5%	63.1%	59.5%	58.6%	55.1%	52.7%	55.1%	48.7%
Gross profit	6,176	7,008	6,683	9,662	7,207	10,807	11,497	11,561	13,996
YoY	7.6%	8.2%	13.2%	45.5%	16.7%	54.2%	72.0%	19.7%	94.2%
Gross profit margin	43.4%	40.5%	36.9%	40.5%	41.4%	44.9%	47.3%	44.9%	51.3%
SG&A	4,708	5,503	5,830	6,365	5,702	6,383	6,928	8,582	7,217
YoY	32.2%	28.7%	26.1%	18.4%	21.1%	16.0%	18.8%	34.8%	26.6%
SG&A ratio to revenue	33.1%	31.8%	32.2%	26.7%	32.8%	26.5%	28.5%	33.3%	26.4%
Operating profit	1,700	1,567	960	-2,965	2,020	5,345	5,157	1,940	7,640
YoY	-27.1%	23.0%	-15.3%	-	18.8%	241.1%	437.2%	-	278.2%
OP margin	12.0%	9.1%	5.3%	-	11.6%	22.2%	21.2%	7.5%	28.0%
Profit before tax	2,050	2,696	3,224	-4,026	1,825	5,389	5,050	1,483	7,657
YoY	41.8%	234.1%	132.9%	-	-11.0%	99.9%	56.6%	-	319.6%
Pretax profit margin	14.4%	15.6%	17.8%	-	10.5%	22.4%	20.8%	5.8%	28.0%
Profit attributable to owners of parent	100,163	958	1,807	-1,374	1,051	3,402	3,388	2,357	5,235
YoY	7830.6%	141.3%	197.2%	-	-99.0%	255.1%	87.5%	-	398.1%
NP margin	704.2%	5.5%	10.0%	-	6.0%	14.1%	13.9%	9.1%	19.2%
Operating EBITDA	2,486	2,563	1,931	4,387	2,552	5,494	5,702	4,127	7,847
YoY	-16.1%	-18.5%	-16.1%	88.5%	2.7%	114.4%	195.3%	-5.9%	207.5%
EBITDA margin	17.5%	14.8%	10.7%	18.4%	14.7%	22.8%	23.4%	16.0%	28.7%
Quarter average forex rate (￥/USD)	116.2	129.6	138.4	141.0	132.3	137.4	144.6	147.9	148..6
Quarter average forex rate (￥/EUR)	130.4	138.1	139.3	144.3	142.1	149.5	157.3	159.1	161.3
Quarter average forex rate (￥/CNY)	18.3	19.6	20.2	19.9	19.3	19.6	19.9	20.4	20.6

Source: Strategy Advisors – Based on Company Data

Note: Rounded under ¥ mn. Rounded to one decimal place

Figure 17. Quarterly performance trends by business segment

Segment Breakdown (¥ mn, %)	FY12/2022				FY12/2023				FY12/2024	Progress rate		FY12/2024	
(Cumulative)	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Q1-4	Q1	vs 1H CoE	vs FY CoE	1H CoE	FY CoE
Revenue	14,224	31,536	49,662	73,515	17,398	41,469	65,789	91,552	27,304	54.6%	26.4%	50,000	103,500
YoY	37.6%	34.0%	34.4%	34.9%	22.3%	31.5%	32.5%	24.5%	56.9%			20.6%	13.1%
Manufacturing (Parts/Materials)	3,062	6,298	9,452	12,717	2,856	5,808	8,750	11,781	2,713	46.0%	21.9%	5,900	12,400
YoY	7.3%	5.8%	3.6%	3.5%	-6.7%	-7.8%	-7.4%	-7.4%	-5.0%			1.6%	5.3%
Writing Instruments	1,988	4,235	6,237	8,249	1,829	3,684	5,585	7,519	1,778				
Cosmetics	415	783	1,269	1,706	371	764	1,115	1,442	253				
MIM	554	1,083	1,648	2,297	522	1,099	1,634	2,251	531				
Others	103	195	296	464	132	261	414	567	150				
Manufacturing (Audio Equipment/Peripherals)	10,895	24,673	39,299	59,516	14,211	34,984	55,971	78,270	24,208	55.9%	27.0%	43,300	89,500
YoY	50.5%	44.3%	45.2%	44.8%	30.4%	41.8%	42.4%	31.5%	70.3%			23.8%	14.3%
AlphaTheta	8,462	16,820	24,577	36,362	10,718	25,184	39,161	51,930	18,934	60.5%	31.6%	31,300	60,000
YoY	16.9%	18.0%	24.2%	37.2%	26.7%	49.7%	59.3%	42.8%	76.7%			24.3%	15.5%
JLab	2,433	7,853	14,722	23,154	3,493	9,800	16,810	26,340	5,274	44.0%	17.9%	12,000	29,500
YoY	-	176.5%	102.5%	58.6%	43.6%	24.8%	14.2%	13.8%	51.0%			22.4%	12.0%
Others	266	565	909	1,282	331	675	1,066	1,500	382	47.8%	23.9%	800	1,600
Operating EBITDA	2,486	5,049	6,980	11,367	2,552	8,046	13,748	17,875	7,847	67.6%	37.4%	11,600	21,000
YoY	-16.1%	-17.4%	-17.0%	5.8%	2.7%	59.4%	97.0%	57.3%	207.5%			44.2%	17.5%
EBITDA margin	17.5%	16.0%	14.1%	15.5%	14.7%	19.4%	20.9%	19.5%	28.7%			23.2%	20.3%
Manufacturing (Parts/Materials)	791	1,853	2,774	3,718	650	1,522	2,323	3,198	596	37.3%	17.0%	1,600	3,500
YoY	-18.0%	-13.7%	-15.0%	-11.2%	-17.8%	-17.9%	-16.3%	-14.0%	-8.3%			5.1%	9.4%
EBITDA margin	25.8%	29.4%	29.3%	29.2%	22.8%	26.2%	26.5%	27.1%	22.0%			27.1%	28.2%
Manufacturing (Audio Equipment/Peripherals)	1,899	3,578	4,722	8,234	2,081	6,938	12,050	15,814	7,436	70.2%	40.0%	10,600	18,600
YoY	-10.4%	-16.2%	-15.1%	16.4%	9.6%	93.9%	155.2%	92.1%	257.3%			52.8%	17.6%
EBITDA margin	17.4%	14.5%	12.0%	13.8%	14.6%	19.8%	21.5%	20.2%	30.7%			24.5%	20.8%
AlphaTheta	2,443	3,897	4,699	6,897	2,659	7,053	11,275	13,352	6,707	72.1%	43.6%	9,300	15,400
YoY	15.3%	-5.7%	-6.5%	21.6%	8.8%	81.0%	139.9%	93.6%	152.2%			31.9%	15.3%
EBITDA margin	28.9%	23.2%	19.1%	19.0%	24.8%	28.0%	28.8%	25.7%	35.4%			29.7%	25.7%
JLab	-543	-318	23	1,337	-577	-115	775	2,462	728	56.0%	22.8%	1,300	3,200
YoY	-	-	-95.7%	-4.8%	-	-	-	84.1%	-			-	30.0%
EBITDA margin	-22.3%	-4.0%	0.2%	5.8%	-16.5%	-1.2%	4.6%	9.3%	13.8%			10.8%	10.8%
Others	42	95	180	272	55	77	120	178	42			-600	-1,100
HQ expenses	-246	-478	-696	-858	-235	-491	-745	-1,316	-228				

Segment Breakdown (¥ mn, %)	FY12/2022				FY12/2023				FY12/2024
(3 months)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	14,224	17,312	18,126	23,853	17,398	24,071	24,320	25,763	27,304
YoY	37.6%	31.2%	35.1%	36.0%	22.3%	39.0%	34.2%	8.0%	56.9%
Manufacturing (Parts/Materials)	3,062	3,236	3,154	3,265	2,856	2,952	2,942	3,031	2,713
YoY	7.3%	4.4%	-0.5%	3.3%	-6.7%	-8.8%	-6.7%	-7.2%	-5.0%
Writing Instruments	1,988	2,246	2,002	2,011	1,829	1,854	1,901	1,933	1,778
Cosmetics	415	368	485	436	371	392	351	327	253
MIM	554	528	564	649	522	576	535	616	531
Others	103	91	101	167	132	128	152	155	150
Manufacturing (Audio Equipment/Peripherals)	10,895	13,778	14,626	20,217	14,211	20,773	20,987	22,299	24,208
YoY	50.5%	39.8%	46.8%	43.9%	30.4%	50.8%	43.5%	10.3%	70.3%
AlphaTheta	8,462	8,358	7,757	11,785	10,718	14,466	13,977	12,768	18,934
YoY	16.9%	19.1%	40.2%	75.3%	26.7%	73.1%	80.2%	8.3%	76.7%
JLab	2,433	5,420	6,869	8,432	3,493	6,307	7,010	9,530	5,274
YoY	-	90.8%	55.1%	15.1%	43.6%	16.4%	2.1%	13.0%	51.0%
Others	266	299	344	373	331	344	391	433	382
Operating EBITDA	2,486	2,563	1,931	4,387	2,552	5,494	5,702	4,127	7,847
YoY	-16.1%	-18.5%	-16.1%	88.5%	2.7%	114.4%	195.3%	-5.9%	207.5%
EBITDA margin	17.5%	14.8%	10.7%	18.4%	14.7%	22.8%	23.4%	16.0%	28.7%
Manufacturing (Parts/Materials)	791	1,062	921	944	650	872	801	875	596
YoY	-18.0%	-10.2%	-17.4%	2.4%	-17.8%	-17.9%	-13.0%	-7.3%	-8.3%
EBITDA margin	25.8%	32.8%	29.2%	28.9%	22.8%	29.5%	27.2%	28.9%	22.0%
Manufacturing (Audio Equipment/Peripherals)	1,899	1,679	1,144	3,512	2,081	4,857	5,112	3,764	7,436
YoY	-10.4%	-21.9%	-11.3%	131.5%	9.6%	189.3%	346.9%	7.2%	257.3%
EBITDA margin	17.4%	12.2%	7.8%	17.4%	14.6%	23.4%	24.4%	16.9%	30.7%
AlphaTheta	2,443	1,454	802	2,198	2,659	4,394	4,222	2,077	6,707
YoY	15.3%	-27.8%	-9.9%	239.7%	8.8%	202.2%	426.4%	-5.5%	152.2%
EBITDA margin	28.9%	17.4%	10.3%	18.7%	24.8%	30.4%	30.2%	16.3%	35.4%
JLab	-543	225	341	1,314	-577	462	890	1,687	728
YoY	-	67.9%	-15.0%	51.2%	-	105.3%	161.0%	28.4%	-
EBITDA margin	-22.3%	4.2%	5.0%	15.6%	-16.5%	7.3%	12.7%	17.7%	13.8%
Others	42	53	85	92	55	22	43	57	42
HQ expenses	-246	-232	-218	-162	-235	-256	-254	-571	-228

Source: Strategy Advisors – Based on Company Data

Note: Rounded under ¥ mn. Rounded to one decimal place

Figure 18. Medium-Term Management Plan (MTMP) target

(¥ mn)	MTMP FY21	Midium-Term Management Plan FY25					
	FY12/21	FY12/22	FY12/23	FY12/24		FY12/25	CAGR
	Actual	Actual	Actual	old CoE	new CoE	Mid. Target	FY21 ~25
Revenue	54,481	73,515	91,552	97,600	103,500	100,000	16.4%
Mfg. (Parts/Materials) Teibow	12,282	12,717	11,781	12,400	12,400	12,800	1.0%
Ratio to total	22.5%	17.3%	12.9%	12.7%	12.7%	12.8%	
Mfg.(Audio equipment/peripherals)	41,107	59,516	78,271	83,600	89,500	85,500	20.1%
Ratio to total	75.5%	81.0%	85.5%	85.7%	86.5%	85.5%	
AlphaTheta	26,511	36,362	51,930	55,600	60,000	56,500	20.8%
Ratio to total	48.7%	49.5%	56.7%	57.0%	58.0%	56.5%	
JLab	14,596	23,154	26,340	28,000	29,500	29,000	18.7%
Ratio to total	26.8%	31.5%	28.8%	28.7%	28.5%	29.0%	
Others	1,090	1,282	1,500	1,600	1,600	1,700	
Domestic revenue	7,816	8,396	9,172	-	-	-	
Ratio to total	14.3%	11.4%	10.0%				
Overseas revenue	46,665	65,119	82,380	-	-	-	
Ratio to total	85.7%	88.6%	90.0%				
Operating EBITDA	10,739	11,367	17,875	18,800	21,000	20,000	16.8%
EBITDA margin	19.7%	15.5%	19.5%	19.3%	20.3%	20.0%	
Mfg. (Parts/Materials) Teibow	4,185	3,718	3,198	3,500	3,500	3,700	-3.0%
EBITDA margin	34.1%	29.2%	27.1%	28.2%	28.2%	28.9%	
Mfg.(Audio equipment/peripherals)	7,076	8,234	15,814	16,400	18,600	17,200	24.9%
EBITDA margin	17.2%	13.8%	20.2%	19.6%	20.8%	20.1%	
AlphaTheta	5,671	6,897	13,352	13,500	15,400	13,800	24.9%
EBITDA margin	21.4%	19.0%	25.7%	24.3%	25.7%	24.4%	
JLab	1,404	1,337	2,462	2,900	3,200	3,400	24.7%
EBITDA margin	9.6%	5.8%	9.3%	10.4%	10.8%	11.7%	
Others, HQ expenses	-522	-585	-1,137	-1,100	-1,100	-900	
Operating profit	6,068	1,262	14,462	13,400	16,000	15,000	25.4%
OP margin	11.1%	1.7%	15.8%	13.7%	15.5%	15.0%	
ROE	4.7%	2.7%	5.1%			over4%~8%	
ROIC（Gross IC base)	2.1%	0.4%	4.4%	6.0%	6.0%	5~6%	
ROIC（Net IC base, Co. definition)	2.6%	0.6%	7.4%	6.0%	6.0%	5~6%	
EPS（¥)	143.6	2,848.5	285.9	241.0	288.7	290.0	
Payout ratio	137.9%	5.3%	40.2%	48.1%	40.2%	over 40%	
Net Debt/Operating EBITDA	5.1	-7.4	-2.9			below 3.0	

Source: Strategy Advisors – Based on Company Data

Note: Medium-term target for FY12/25 is as of February 13, 2024 (revised upward at the time of the announcement of FY12/23 results). The company's new estimates for FY12/24, which was revised upward at the time of the Q1 results announcement on May 10, 2024, already exceeded the mid-term target.

4. Comparison with similar companies

Highest operating profit margin and lowest ROE among the 7 companies

In selecting companies for comparison with Noritsu Koki, we have chosen companies whose core business is manufacturing, who have comparable products, and whose business scale is similar. Six similar companies were selected for comparison. However, there is no company like Noritsu Koki that has separated itself from its original business and transformed itself into a conglomerate in a completely different industry. Among the seven companies including Noritsu Koki, the company has the highest operating profit margin of 15.8%, while its ROE of 5.1% is the lowest. Its equity ratio of 73.5% is the second highest after ELECOM (6750 TSE Prime) 73.6%.

Kawai Musical Instruments Manufacturing

Kawai Musical Instruments Manufacturing (7952 TSE Prime) and Roland (7944 TSE Prime) are similar companies with a high sales ratio of audio equipment and comparable sales scale. Kawai Musical Instruments

Manufacturing is an old company established in 1927. Although Kawai Musical Instruments Manufacturing has a material processing business with a high operating profit margin, its overall operating profit margin remains at 4.1% due to the high sales ratio of the musical instrument education business, which mainly sells pianos with a low profit margin.

Roland

Roland is a major Japanese electronic musical instrument manufacturer founded in 1972. Starting 2010, Roland was in the red for four consecutive years, and its business performance was sluggish. In July 2014, a takeover bit for Roland shares was initiated by Tokowa Corporation, a member of the Taiyo Pacific Partners Group, a US investment fund. Roland was delisted in October 2014, proceeded with a management restructuring, and relisted in December 2020. Roland has been reborn as a highly profitable company with an operating profit margin of 11.6% and an ROE of 22.2% for FY12/23.

AuBEX

AuBEX (3583 TSE Standard) is a competitor of Teibow, although its sales are small. Operating profit margin of 10.4%, ROE of 7.2%. In addition to the core business of marking pen nibs (writing instruments, cosmetics), the company also operates a medical business (flow control tube applied products). The market share for marking pen nibs is 25% (Noritsu Koki has 50%). According to the company, the market size for marking pen nibs is estimated to be around several tens of billions of yen.

ELECOM

Although ELECOM's business is different, it manages products with short life cycles and has relatively stable profitability (operating profit margin of 11.2% and ROE of 11.9%) despite fierce sales competition with competitors. It is worth watching as a benchmark for JLab.

Casio computer
JVCKENWOOD

Casio Computer (6952 TSE Prime) and JVCKENWOOD (6632 TSE Prime) have sales that are about three times larger than Noritsu Koki, but their operating profit margins are around 5%, the second lowest after Kawai Musical Instruments Manufacturing.

Figure 19. Profitability comparison with similar companies

Company name	Stock Code	FY	Sales (¥ mn)	OP (¥ mn)	OPM (%)	ROE (%)	Equity ratio (%)	Business
Noritsu Koki	7744	12/2023	91,522	14,462	15.8%	5.1%	73.5%	Pen nibs/cosmetics/MIM, Audio equip., Others
AuBEX	3583	3/2024	5,387	560	10.4%	7.2%	64.4%	Pen nibs/cosemtics, Medical equipment
Kawai Musical Inst. Mfg.	7952	3/2024	80,192	3,255	4.1%	6.9%	58.4%	Musical inst./education, Parts/material, etc.
Roland	7944	12/2023	102,445	11,871	11.6%	22.2%	49.2%	Musical Inst., DJ & Audio equipment
ELECOM	6750	3/2024	110,169	12,380	11.2%	11.9%	73.6%	PC/smartphone/tablet/TV/AV, Peripherals
CASIO COMPUTER	6952	3/2024	268,828	14,208	5.3%	5.3%	66.1%	Watch, Consumeer, System, Others
JVCKENWOOD	6632	3/2024	359,459	18,226	5.1%	12.2%	36.2%	Car Audio, Wireless/commercial, Media/etc.

Note: Noritsu Koki and JVCKENWOOD are based on IFRS (Sales as Revenue), others are based on Japanese standards.

Source: Strategy Advisors – Based on Company Data

5. Stock price trends and valuation

The company's recent stock price movement

The company's Q1 results announcement after the market close on May 10 (Fri.), which featured a large increase in sales and profit and a large upward revision to the company's estimates, pushed the company's stock price to an all-day high on May 13 (Mon.) and to a 52-week high of 3,910 yen at the market opening on May 14 (up over 23% from the closing price on May 10). The market seemed to take this as a positive surprise. Since then, its stock price has shown a calm movement while digesting the trading profits taking.

Stock price comparison of 7 similar companies

We compared the stock price performance of Noritsu Koki and the six similar companies mentioned above over the past five years. The recent stock price fluctuations are: (1) JVCKENWOOD +260%, (2) Noritsu Koki +126%, (3) Kawai Musical Instruments Manufacturing +33%, (4) Roland +28%, (5) AuBEX +19%, (6) Casio Computer -10%, (7) ELECOM -11%. Over the same period, TOPIX was +78% and the Nikkei average was +81%.

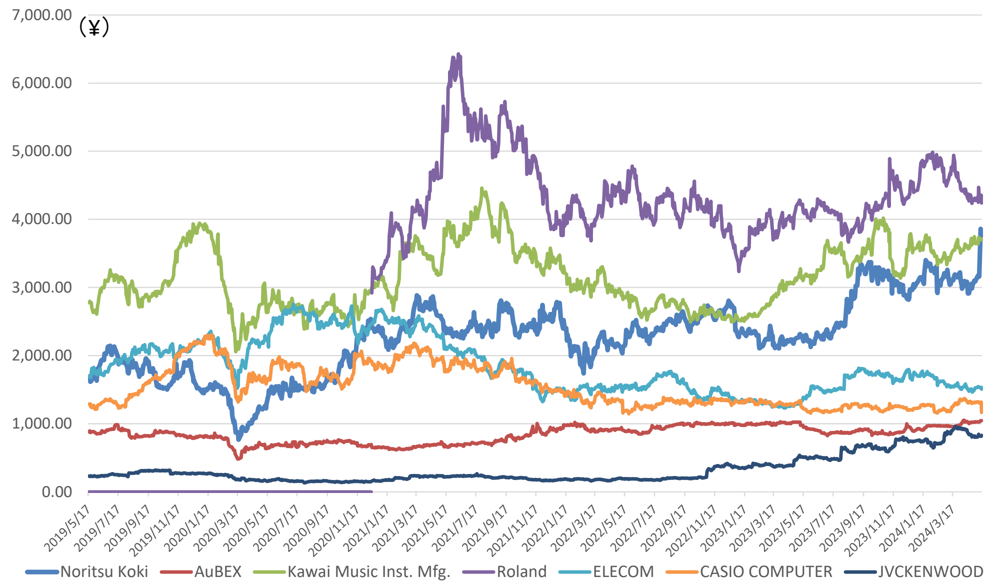
Factors causing stock price fluctuations

With the exception of Casio Computer, each of the market capitalization of the six remaining companies is below ¥150 billion, respectively, meaning that they have not been able to follow the recent market trend led by large market capitalization stocks. The reason why JVCKENWOOD's stock price has risen since 2023 is due to the positive surprise of a significant increase in sales and profits in Q1 for FY3/24. Noritsu Koki's recent surge in stock price is for the same reason. The reason for the slump in the stock prices of Casio Computer and ELECOM is presumed to be that their business performance has remained flat over the past five years and that there has been little change in their business structures.

Valuation comparison

Among the seven companies, three companies have a PBR of 1.0 or less: Kawai Musical Instruments Manufacturing 0.75, Noritsu Koki 0.64, AuBEX 0.47. The PER ratio has been in the range of 6x to 27x, and Noritsu Koki's 13x is slightly lower than the median. Roland has the highest dividend yield of 4.01% followed by Noritsu Koki of 3.08%.

Figure 20. Stock price trends of similar companies



Source: Strategy Advisors

Note: Noritsu Koki's stock price is indicated by a bold blue line

Noritsu Koki's stock price catalyst

Noritsu Koki's stock price bottomed out and began to rise between 2016 and 2017, when it proceeded with the transfer of its legacy business and M&A. During the COVID-19 pandemic, the company proceeded to begin its focus on manufacturing, and after another adjustment phase, it has been on an upward trajectory again since late 2023. Once the company's new business growth strategy and ROE improvement scenario come into view, its stock price will likely test its post-IPO high (5,900 yen, 1999/09/08). The company's PBR is 0.64x as a result of its increase of cash assets, and it is also an issue that requires immediate measures to return profits to shareholders. The company is advocating an improvement not only in its dividend payout ratio but also in its total return ratio.

Risk factors

At present, the risk factor for the stock price is considered to be a decline in management efficiency due to the rapid expansion of overseas business. On February 14, 2023, JLab announced a goodwill impairment loss of ¥5.9 billion, and its stock price temporarily fell.

Figure 21. Valuation comparison with similar companies

Company name	Stock code	Recent FY results	Stock price (May15) (¥)	Mkt cap (May15) (¥ mn)	PER CoE (Times)	PBR Actual (Times)	Dividend Yield CoE (%)	ROE Actual (%)
Noritsu Koki	7744	12/2023	3,765	136,259	13.04	0.64	3.08%	5.1%
AuBEX	3583	3/2024	1,045	3,232	6.33	0.47	2.39%	7.2%
Kawai Musical Inst. Mfg.	7952	3/2024	3,700	33,343	9.94	0.75	2.57%	6.9%
Roland	7944	12/2023	4,240	119,411	13.73	2.87	4.01%	22.2%
ELECOM	6750	3/2024	1,508	139,070	14.96	1.52	2.92%	11.9%
CASIO COMPUTER	6952	3/2024	1,165	281,372	27.01	1.17	-	5.3%
JVCKENWOOD	6632	3/2024	829	135,956	10.00	1.09	1.57%	12.2%

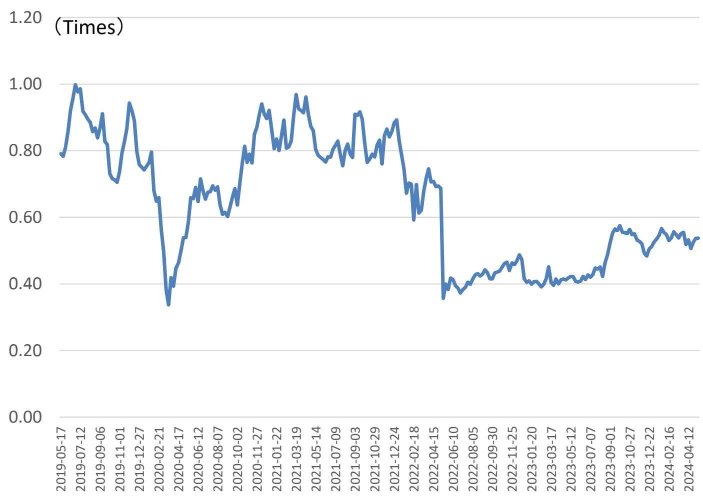
Source: Strategy Advisors – Based on Company Data

Note: Mkt cap is based on # of shares outstanding before deduction of treasury stock

Figure 22. Trends in PER

Source: Strategy Advisors

Figure 23. PBR trends



Source: Strategy Advisors

6. Sum-of-the parts analysis

Calculating EV of conglomerates

Sum-of-the-parts analysis (a method for evaluating companies with multiple businesses and assets) is commonly used to calculate the enterprise value (EV) of conglomerates, such as Japanese general electric companies. We considered the company as a conglomerate, calculated the EV of each business (main subsidiaries), and examined the difference between the total EV and the actual EV. This difference is usually recognized as a conglomerate discount. In some cases, such as Hitachi, this conglomerate discount has been successfully eliminated through corporate efforts by selection and concentration.

Acquistion prices of the three main subsidiaries

The company's three main subsidiaries, Teibow, AlphaTheta, and JLab, operate independently under the umbrella of a pure holding company. The latter two are relatively new subsidiaries, having joined the company in January 2015, April 2020, and May 2021, respectively. The total acquisition payment for each is ¥31.4 billion, ¥65 billion (acquisition price of ¥35 billion + loan repayment of ¥30 billion), and approximately ¥40 billion (USD 370 million; 110 yen/USD forex rate at the end of March 2021).

Calculating the EV of the three main subsidiaries

We calculate the EV of the three subsidiaries by multiplying their FY12/24 EBITDA estimates by the assumed EV/EBITDA multiples of 8x, 10x, and 12x, respectively, based on the CAGRs of EBITDA from the acquisition to FY12/23. EV would be ¥28 billion for Teibow, ¥154 billion for AlphaTheta, and ¥38.4 billion for JLab. The two companies other than AlphaTheta, which significantly exceeded the acquisition value, are valued slightly below the acquisition value. For JLab, an impairment loss of ¥5.9 billion on goodwill was recorded in FY12/22. Since JLab is a US company, it has its specific variables such as forex and interest rates change impact (e.g., changes in goodwill).

PreMedica EV valuation at its selling

The transefer price of PreMedica, which the company sells by the end of May 2024, is ¥3.8 billion. Thus the EV/EBITDA multiple would be 14 times based on EBITDA of ¥270 million (assuming all other business EBITDA is PreMedica and using the average of FY12/21 and FY12/22). The estimated EV/EBITDA multiples of the three main subsidiaries vary depending on the business performance, growth scenario, market environment, market valuation, etc. Since we use conservative multiple assumptions in this study, please refer to Figure 24 for a simulation of corporate value in the assumed range of multiples.

Assumed market cap.

The total estimated EV is ¥220.4 billion, and the estimated market capitalization would be ¥254.4 billion (assumed theoretical stock price: ¥7,029) after subtracting net debt of -¥34.0 billion (= interest-bearing debt ¥42.1 billion - cash and its equivalents ¥76.1 billion) at the end of March 2024 from the EV. The difference of ¥118.4 billion from the current market capitalization of ¥136.0 billion is recognized as a conglomerate discount.

PBR

The PBR will be 1.21 when the assumed market capitalization is achieved. We believe that improving total asset turnover and ROE by strengthening management efficiency and showing results of investment in growth areas are essential to pursue higher PBR. According to the company, since the appointment of a new CFO of JLab (former CFO of a Canadian listed company) in January 2022, JLab has strengthened its management structure and has shown improved profitability through increased management efficiency. Teibow's MIM business will take a while to realize actual results of the plant capex investment, as it may take several years to get approval from transportation equipment and parts manufacturers, who are its main customers. In addition, the company does not have enough new sales with respect to MIM until the transition to the COVID-19 Class 5 in May 2023, and it is expected that the results of sales promotion will unlikey to emerge until the second half of FY12/2024 or later.

The medium-term management plan FY25 and shareholder returns policy

The company’s revised estimates for FY12/2024 has already exceeded the numerical target for the final year of the medium-term management plan FY25. However, due to uncertainties in Q2 and 2H (such as the partial preemption impact of elimination of AlphaTheta's order backlog and the decrease in JLab's returns in Q1, etc.), no change was made at the time of the announcement of Q1 results (on May 10). The dividend forecast was also unchanged at the time of the Q1 results announcement. The company's policy is to continue to provide appropriate shareholder returns based on a payout ratio of 40% or more.

Note

Note: Chapter 6 "Sum-of-the-parts Analysis", which was newly added to the report, presents a discussion based on Strategy Advisors (SA) analysts' own assumptions and premises. The assumed EV, market capitalization, and theoretical stock price shown in this chapter are part of the simulation results and do not guarantee their reproducibility nor exclude other possibilities.

Figure 24. Sum-of-the-parts analysis **Unit: ¥ bn, times, ¥, %**

Unit: ¥ bn	M&A Date	Acquisition price	Multiple (times)				EBITDA			
			8	10	12	14	12/24CoE	CAGR	Acquisition FY	
			EV (＝EBITDA x Multiple)					FY~12/23		FY
Teibow	1/15	31.4	28.0	35.0	42.0	49.0	3.5	-1.4%	3.7	12/19
AlphaTheta	4/20	65.0	123.2	154.0	184.8	215.6	15.4	48.4%	4.7	12/20
JLab	5/21	40.0	25.6	32.0	38.4	44.8	3.2	51.0%	1.4	12/21

	Selling date	Selling price	EV (＝EBITDA x Multiple)				EBITDA
PreMedica	5/24end	3.8	2.2	2.7	3.2	3.8	0.27

Sum-of-the-parts EV	3/24end	220.4	=28.0+154.0+38.4
Cash & its equivalents	3/24end	76.1	
Interest bearing debt	3/24end	42.1	
Market capitalization	3/24end	254.4	=EV-Net debt=EV- (Interest bearing debt-Cash)
#Shares outstandig	3/24end	36.2	
Assumed stock price (¥)	3/24end	7,029	=Market Cap.(¥bn)÷#shares outstanding(mn) x 1,000
Equity to parent owners	3/24end	209.8	
Assumed PBR (times)	3/24end	1.21	=Market Cap.÷Equity to parent owners

Goodwill	3/24end	12/23end	12/22end	12/21end	12/20end	12/19end
Teibow	19.5	19.5	19.5	19.5	19.5	19.5
AlphaTheta	19.4	19.4	19.4	19.4	19.4	
JLab	11.1	10.4	9.7	13.6		

Source: Strategy Advisors

Note 1: Teibow's EBITDA CAGR is based on FY12/19~FY12/23 (four years)

Note 2: PreMedica's EBITDA is taken from the figures of the other businesses and averaged for FY12/21 and FY12/22.

Figure 25. Trends in Noritsu Koki's stock price and trading volume since its listing

Source: Strategy Advisors

Note 1: Data on the last day of each month

Note 2: Highest price since listing was 5,900 yen (closing price on September 8, 1999)

7. SWOT analysis

Strategy Advisors conducted a SWOT analysis of Noritsu Koki.

Strengths

① The ability to build a flexible and resilient business portfolio in anticipation of changes in the current environment based on the accumulation of expertise on target segment/positioning capabilities in the process of diversification and business restructuring (inimitability (i)).

② The company has built a barrier to entry by accumulating unrivaled expertise in the secret techniques of marking pen-nib processing and the ability to develop DJ equipment that is fully aware of the requirements of advanced professional DJs (inimitability (ii)).

③ Excellent information gathering and marketing skills to anticipate trends and create brand value one step ahead in products with low barriers to entry and many competitors, such as earphones/headphones products.

④ Strong financial position and proactive financial strategy based on the ¥95 billion (as of the end of FY12/22) in cash-generating assets from the sale of the business to be used as funds to invest in growth and provide shareholders returns over the medium to long term.

⑤ A young management team (CEO in his 40s, CFO in his 30s) with the flexibility and sensitivity to respond quickly to globalization and changing times.

Weaknesses

① The total asset turnover ratio is low at 0.31, which is a factor in the decline in ROE.

② ROIC below WACC and a failure to generate economic value added (EVA).

③ Rapid globalization (90% of revenue from overseas) through M&A has not been accompanied by a global governance structure.

④ While the audio equipment-related business is expanding, the parts and materials business has not been able to break free from its dependence on the mature business (marking pen nibs), and there is little synergy between the two businesses.

⑤ Absence of countermeasures against the hostile takeover risk associated with a low PBR below 1.0x.

Opportunities

① The emerging market potential of marking pen nibs (writing instruments/ cosmetics), and audio equipment/devices due to the increase in the young population and improvements in the living standards of emerging countries.

② Expansion of the consumer (home-use) market due to technological innovation and increased awareness of DJ equipment.

③ Establishment of mass-production technology for complex-shaped MIM parts will lead to a shift from machining to MIM.

Threats

① Many transactions are conducted in Europe and the US, making them susceptible to forex rate fluctuations.

② Prices and lead times of raw materials and purchased goods from suppliers are susceptible to geopolitical influences due to global supply and demand trends and transportation systems.

③ The supply chain is susceptible to natural disasters due to the concentration of manufacturing bases.

④ If the expected results are not achieved regarding the large amount of goodwill generated in connection with corporate acquisitions, whether due to changes in the business environment or in the competitive situation, impairment losses may occur, which may affect business results.

Figure 26. Income statement

Profit and loss statement（IFRS）(¥ mn)	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023	FY12/2024 CoE
Continuing operations									
Revenue	**50,045**	**56,035**	**63,527**	**26,147**	**41,148**	**54,481**	**73,515**	**91,552**	**103,500**
YoY	16.0%	12.0%	13.4%	-	-	-	34.9%	24.5%	13.1%
Cost of sales	25,433	28,993	33,453	13,439	18,721	29,717	43,986	50,480	
Gross profit	**24,612**	**27,042**	**30,073**	**12,707**	**22,426**	**24,763**	**29,529**	**41,072**	
Gross profit margin	49.2%	48.3%	47.3%	48.6%	54.5%	45.5%	40.2%	44.9%	
Selling, general and administrative expenses	20,123	21,038	23,835	7,353	15,828	17,839	22,406	27,595	
SG&A ratio to sales	40.2%	37.5%	37.5%	28.1%	38.5%	32.7%	30.5%	30.1%	
Other income	211	85	118	57	441	253	341	1,342	
Other expenses	88	134	302	1,276	1,223	1,109	6,202	357	
Operating profit (loss)	**4,611**	**5,954**	**6,053**	**4,134**	**5,816**	**6,068**	**1,262**	**14,462**	**16,000**
YoY	127.1%	29.1%	1.7%	-	-	-	-79.2%	-	10.6%
Operating profit margin	9.2%	10.6%	9.5%	15.8%	14.1%	11.1%	1.7%	15.8%	15.5%
Equity method investment gains and losses	-42	-42	5	-3,358	-305	-248	-2,286	-982	
Finance income	2,333	887	88	31	113	1,027	6,767	827	
Finance costs	553	706	192	207	3,050	1,532	1,798	560	
Profit (loss) before tax	**6,348**	**6,092**	**5,954**	**599**	**2,574**	**5,315**	**3,944**	**13,747**	**15,400**
YoY	186.6%	-4.0%	-2.3%	-	-	-	-25.8%	248.6%	12.0%
Pretax profit margin	12.7%	10.9%	9.4%	2.3%	6.3%	9.8%	5.4%	15.0%	14.9%
Income tax expense	2,249	-3,352	1,965	-889	-4,321	887	-214	3,543	
Tax rate	35.4%	-55.0%	33.0%	-148.4%	-167.9%	16.7%	-5.4%	25.8%	
Profit (loss) from continuing operations	4,099	9,445	3,989	1,488	6,895	4,427	4,159	10,204	
Profit (loss) from discontinued operations	-189	-937	-1,349	117	3,761	2,168	97,552	6	
Net profit (loss)	3,909	8,507	2,639	1,606	10,657	6,595	101,712	10,210	
Non-controlling interests	-380	-412	-309	316	763	1,480	157	10	
Profit attributable to owners of the parent profit	**4,290**	**8,920**	**2,948**	**1,289**	**9,893**	**5,115**	**101,554**	**10,199**	**10,300**
YoY	-	107.9%	-67.0%	-	-	-	-	-90.0%	1.0%
Profit attributable to owners of the parent profit margin	8.6%	15.9%	4.6%	4.9%	24.0%	9.4%	138.1%	11.1%	10.0%
Operating EBITDA	**-**	**-**	**7,965**	**6,847**	**0**	**10,739**	**11,367**	**17,875**	**21,000**
EBITDA margin	-	-	12.5%	26.2%	0.0%	19.7%	15.5%	19.5%	20.3%

Source: Strategy Advisors – Based on Company Data

Figure 27. Breakdown of SG&A expenses

Selling, general and administrative expenses (¥ mn)	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023	FY12/2024 CoE
SG&A	20,123	21,038	23,835	7,353	15,828	17,839	22,406	27,595	
Employee benefit expenses	6,546	7,544	8,497	4,446	5,753	4,534	5,728	7,007	
Advertising and promotional expenses	4,582	4,875	4,678	149	928	1,532	2,650	3,390	
Packing and transportation expenses	1,800	1,993	2,636	241	727	996	1,338	1,630	
Taxes and dues				193	298	182	210	238	
Communication expenses				90	228	177	259	477	
Sales commissions				72	300	312	1,038	1,406	
Consumables expenses					167	142	207	495	
Commission paid	1,631	1,126	1,325	503	1,034	1,294	1,512	1,906	
Travel and transportation expenses			498	340	114	55	192	364	
Research and development expenses	1,521	447	380	201	3,158	4,460	4,622	5,581	
Depreciation and amortization		494	581	763	2,504	3,300	3,684	3,763	
Other	4,041	4,557	5,237	350	611	849	966	1,333	

Source: Strategy Advisors – Based on Company Data

Figure 28. Balance sheet

Balance Sheet (IFRS、¥ mn)	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020	FY12/2021	FY12/2022	FY12/2023
Assets								
Cash and cash equivalents	25,314	26,663	27,573	50,162	69,596	38,141	96,436	70,190
Trade and other receivables	11,315	13,563	14,096	14,540	12,037	21,865	14,834	14,683
Contract Assets			97	42	26	9		
Income taxes receivable						1,664	23	11,860
Inventories	4,383	4,914	4,951	4,967	5,756	14,638	16,107	17,164
Reinsurance assets		3,400	3,834	4,228				
Other financial assets	100	270			333	529	386	384
Other current assets	912	1,630	794	842	703	1,122	750	684
Subtotal	42,025	50,443	51,348	74,785	88,453	77,972	128,539	114,967
Assets held for sale			9,457	129				
Current assets	**42,025**	**50,443**	**60,806**	**74,914**	**88,453**	**77,972**	**128,539**	**114,967**
Property, plant and equipment	5,476	6,173	6,871	7,298	9,054	9,361	7,314	7,785
Right-to-use assets				7,321	8,978	8,663	2,889	3,413
Goodwill	38,847	39,352	38,788	38,160	52,446	72,179	48,589	49,256
Intangible assets	21,911	21,660	17,141	17,260	64,633	83,065	78,302	77,125
Investment accounted for using equity method	357	359	319	5,170	4,707	4,536	2,630	1,673
Retirement benefit assets	167	245	230	190	264	324	303	372
Other financial assets	6,171	24,009	19,430	5,406	5,068	4,561	37,069	22,801
Deferred tax assets	1,208	6,260	5,914	4,477	2,791	3,262	1,574	2,001
Other non-current assets	144	153	251	106	260	213	44	74
Non-current assets	**74,283**	**98,214**	**88,949**	**85,393**	**148,206**	**186,168**	**178,717**	**164,504**
Total assets	**116,309**	**148,658**	**149,755**	**160,308**	**236,660**	**264,141**	**307,257**	**279,471**
Liabilities								
Trade and other payables	8,818	11,568	12,261	12,013	8,267	13,282	6,296	6,454
Short-term interest-bearing debt	5,948	7,195	5,814	8,048	24,922	23,109	19,660	15,949
Short-term debt	5,948	7,195	5,814	6,879	23,681	21,897	18,995	15,170
Lease obligations				1,169	1,241	1,212	665	779
Lease liabilities			2,336	3,009	1,895	3,377	208	381
Other financial liabilities	230	299	220	138	219	252	209	257
Income taxes payable	1,763	738	931	3,164	2,523	1,098	35,324	441
Provisions	12	23	64	67	88	87	138	236
Insurance contract reserve		3,822	4,342	4,763				
Other current liabilities	3,043	3,557	2,612	2,747	3,559	4,897	5,271	7,029
Subtotal	19,817	27,203	28,582	33,952	41,476	46,106	67,109	30,752
Liabilities directly associated with assets held for sale			1,690	82				
Current liabilities	**19,817**	**27,203**	**30,273**	**34,034**	**41,476**	**46,106**	**67,109**	**30,752**
Long-term interest-bearing debt	29,074	30,981	30,268	37,072	65,200	81,339	31,417	26,628
Long-term debt	29,074	30,981	30,268	30,485	57,354	73,721	29,058	23,845
Lease obligations				6,587	7,846	7,618	2,359	2,783
Others financial liabilities	126	22	15					
Deferred tax liabilities	7,495	12,836	10,115	4,285	9,573	8,706	15,276	15,753
Retirement benefit liabilities	641	660	645	661	561	632	283	263
Provisions	195	220	302	298	242	302	61	118
Other non-current liabilities	23	22	164	121	420	317	213	109
Non-current liabilities	**37,557**	**44,745**	**41,511**	**42,439**	**76,000**	**91,298**	**47,253**	**42,874**
Total liabilities	**57,374**	**71,948**	**71,784**	**76,474**	**117,477**	**137,404**	**114,362**	**73,626**
Net assets								
Share capital	7,025	7,025	7,025	7,025	7,025	7,025	7,025	7,025
Capital surplus	17,658	14,908	14,755	24,032	41,379	41,406	41,411	38,339
Retained earnings	33,471	42,008	45,048	49,914	59,136	63,522	157,863	162,135
Treasury shares	-1,211	-1,211	-1,211	-1,211	-1,211	-1,169	-1,119	-1,066
Other components of equity	348	12,747	9,349	-1,272	-914	239	-12,636	-1,058
Equity attributable to owners of parent	57,292	75,478	74,966	78,488	105,414	111,024	192,544	205,374
Non-controlling interests	1,642	1,231	3,004	5,345	13,769	15,711	350	469
Total equity	**58,935**	**76,709**	**77,970**	**83,833**	**119,183**	**126,736**	**192,895**	**205,844**
Total liabilities and equity	**116,309**	**148,658**	**149,755**	**160,308**	**236,660**	**264,141**	**307,257**	**279,471**
Working capital	6,880	6,909	6,786	7,494	9,526	23,221	24,645	25,393
Total interest-bearing debt	35,022	38,176	36,082	45,120	90,122	104,450	51,079	42,577
Net debt	9,708	11,513	8,509	-5,042	20,526	66,309	-45,357	-27,613

Source: Strategy Advisors – Based on Company Data

Figure 29. Cash flow statement

Statement of Cash Flows (IFRS) (¥ mn)	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023
Cash flows from operating activities (1)	**2,100**	**2,785**	**7,099**	**7,064**	**5,557**	**3,907**	**11,738**	**-31,588**
Profit (loss) before tax	6,348	6,092	5,954	599	2,574	5,315	3,944	13,747
Profit (loss) from discontinued operations	-189	-962	-1,420	1,239	5,896	4,286	147,175	6
Depreciation and amortization	1,580	1,655	1,844	2,761	4,020	6,001	5,251	5,228
Loss (gain) related to fixed assets	81	34	312	2,705	22	42	5,934	28
Loss (gain) on sale of shares of subsidiaries	-373			-31	-4,238	-9	-100,706	
Loss (gain) on valuation of investment securities							-46,108	
Finance income (costs)	-2,152	-178	69	209	2,946	649	-4,959	-267
Share of loss (profit) of investments accounted for using equity method	42	48	1	1,251	305	248	2,286	982
Working capital loss (gain)	-1,411	-603	959	-80	553	-5,429	-493	1,214
Accounts receivable loss (gain)	-1,698	-1,297	-597	125	563	-6,042	538	1,102
Inventory loss (gain)	-367	-507	-17	-39	-13	-2,762	85	144
Accounts payable loss (gain)	654	1,201	1,573	-166	3	3,375	-1,116	-32
Cash flows from investing activities(2)	**-9,143**	**-1,105**	**-1,572**	**-1,345**	**-21,984**	**-40,460**	**93,391**	**23,166**
Purchase of tangible and intangible assets	-655	-954	-2,083	-1,388	-3,565	-2,198	-1,957	-2,028
Proceeds from sales of tangible and intangible assets	192	9	19	4	8	5		
+- shares of subsidiaries resulting in chg in scope of consolidation	-8,652	-925	-316	-3,594	-19,959	-38,914	96,200	
Other financial assets purchase/sales/redemption	608	1,330	1,252	4,656	2,061	750	-364	25,330
FCF (1+2)	-7,043	1,680	5,527	5,719	-16,427	-36,553	105,129	-8,422
Cash flows from financing activities	**1,179**	**-329**	**-2,610**	**14,910**	**35,808**	**4,275**	**-47,586**	**-18,892**
Short-term debt increase (decrease)	-356	4,083	-1,500	200	-14,631	-7,571	986	-4,827
Long-term debt increase (decrease)	1,057	-1,199	-689	1,076	26,478	14,085	-40,044	-4,580
Proceeds from long-term debt	5,580	33,513	1,600	5,735	36,141	31,492	35,000	
Repayments of long-tem debt	-4,523	-34,712	-2,289	-4,659	-9,663	-17,407	-75,044	-4,580
Divided paid	-320	-427	-534	-534	-641	-855	-7,305	-5,527
Depreciation and amortization (A)	1,580	1,655	1,844	2,761	4,020	6,001	5,251	5,228
Capex (B)	1,299	1,886	23,382	2,424	3,698	1,191	1,656	2,098
Working capital loss (gain) (C)	-1,411	-603	959	-80	553	-5,429	-493	1,214
Simple FCF (NI+A-B-C)	5,982	9,292	-19,549	1,706	9,662	15,354	105,642	12,115
Others (Forex, etc.)	-9	-1	1	-6	9	821	752	1,068
Cash and cash equivalents increase (decrease)	-5,873	1,349	2,919	20,623	19,390	-31,455	58,295	-26,246

Source: Strategy Advisors – Based on Company Data

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