

Company Report

August 13, 2024

Strategy Advisors, Inc.
Team Research



1H results beaten prior forecasts leading to upward revision of full-year forecasts. Still conservative view for 2H

Noritsu Koki (the company) announced its FY12/24 1H results after the market close on August 9. 1H results exceeded the company's prior 1H forecast significantly, with stagnation at Teibow offset by large increases in revenue and profit at AlphaTheta and JLab. On the same day, the company revised its full-year forecasts upward again, but they still remain very conservative.

The company discontinued the "Others" segment following the sale of PreMedica on May 31. On July 18, the company announced the cancellation of AlphaTheta's acquisition of Serato, but the two companies will continue to have a close relationship as business partners.

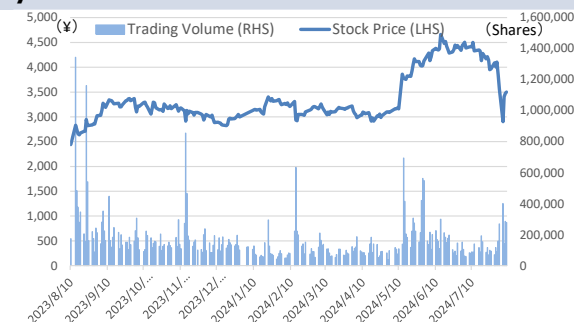
1H results showed a significant increase in both revenue and profit: revenue of 52,763 million yen (+29.3% YoY), operating EBITDA of 14,040 million yen (+76.2% YoY), operating profit of 13,879 million yen (+88.9% YoY), pretax profit of 14,107 million yen (+96.0% YoY), and interim profit attributable to owners of the parent of 11,484 million yen (+157.8% YoY).

The company achieved 105.5% of its prior forecast in terms of revenue, 121.0% in terms of operating EBITDA, 152.5% in terms of operating profit, 160.3% in terms of pretax profit, and 198.0% in terms of interim profit attributable to owners of the parent. Progress rates in 1H against the company's new full-year forecasts are 50.9%, 65.3%, 82.6%, 85.0%, and 88.3%, respectively.

By subsidiary, Teibow was flat, while AlphaTheta and JLab posted large increases in revenues and profits YoY. Teibow fell short of the prior forecast, while AlphaTheta and JLab exceeded it. In particular, JLab, which saw a decrease in returns, is expected to continue to see revenue growth towards the busy Q4 season.

Average exchange rates were ¥152.3 to the USD, down ¥17.4 YoY, and ¥164.6 to the EUR, down ¥18.8 YoY, positively impacting

Share price and volume for the past 1 year



Source: Strategy Advisors

Key Indicators

Stock Price (2024/8/9, closing)	3,665
Year-to-date High (2024/6/14)	4,660
Year-to-date Low (2024/2/14)	2,860
52-week high (2024/6/14)	4,660
52-week low (2023/2/17)	2,068
Number of Shares Issued (mn)	35.7
Market capitalization (¥ bn)	130.8
EV (¥ bn)	103.2
Shareholders equity ratio	73.5%
FY12/2024 PER (CoE, Times)	10.1
FY12/2023 PBR (Actual, Times)	0.64
FY12/2024 Dividend Yields (CoE)	3.2%

Source: Strategy Advisors

earnings at AlphaTheta and JLab, which have large USD and EUR transactions.

The company's 2H forecast is quite conservative, taking into account the strong yen, economic slowdown, and cost increases due to aggressive investments to expand revenues in 2H.

AlphaTheta's order backlog has declined to about half of its peak and is reflected in the full-year forecast based on the assumption of forward demand anticipation. The company had a little impact from sluggish economy in China due to its small position in the market, and it will rather focus on how to increase revenue in China.

Although the company's stock price has been adversely affected by market volatility, the company's strong performance and growth scenario are confirmed in its 1H results, and its low PER and PBR are likely to attract renewed buying interest in the market.

IFRS - Consolidated

FY end	Revenue (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	Pretax Profit (¥ mn)	YoY (%)	NP (¥ mn)	YoY (%)	EPS (Yen)	DPS (Yen)
FY12/2022	72,233	-	1,039	-	3,722	-	101,554	-	2,848.5	152.0
FY12/2023	90,052	24.7%	14,388	1284.8%	13,677	267.5%	10,199	-90.0%	285.9	115.0
FY12/2024 1H	52,763	29.3%	13,879	88.9%	14,107	96.0%	11,484	157.8%	321.8	58.0
FY12/2024 1H CoE	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	53,500	6.8%	6,900	-2.8%	6,600	1.0%	4,500	-21.6%	-	-
FY12/2024 2H CoE new	50,937	1.7%	2,921	-58.8%	2,493	-61.8%	1,516	-73.6%	-	-
FY12/2024 CoE old	103,500	13.0%	16,000	10.6%	15,400	12.0%	10,300	1.0%	288.7	116.0
FY12/2024 CoE new	103,700	15.2%	16,800	16.8%	16,600	21.4%	13,000	27.5%	364.2	116.0

Note: Due to the discontinuation of the "Other" segment, the past results have been retroactively reclassified to discontinued operations.

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1. Financial Results for the 1H for FY12/24

FY12/24 1H results

The company announced its FY12/24 1H results after the market close on August 9, 2024. 1H results exceeded the company's prior 1H forecast significantly, with the stagnation of Teibow offset by large increases in revenue and profit at AlphaTheta and JLab. On the same day, the company revised its full-year forecasts upward again, but they remain conservative.

Significant increase in revenue and profits

1H results showed a significant increase in both revenue and profits: revenue of 52,763 million yen (+29.3% YoY), operating EBITDA of 14,040 million yen (+76.2% YoY), operating profit of 13,879 million yen (+88.9% YoY), pretax profit of 14,107 million yen (+96.0% YoY), and interim profit attributable to owners of the parent of 11,484 million yen (+157.8% YoY). The company achieved significant increases in both revenue and profits, with pretax profit of 14,107 million yen (+96.0% YoY) and interim profit attributable to owners of the parent of 11,484 million yen (+157.8% YoY). All shares of PreMedica were sold on May 31, and the gain on the sale of shares (approximately 1.8 billion yen, after deducting income tax) was reflected in net profit.

Percentage achieved, progress

The company achieved 105.5% of revenue, 121.0% of operating EBITDA, 152.5% of operating profit, 160.3% of pretax profit, and 198.0% of interim profit attributable to owners of the parent. Progress rates in 1H against the company's new full-year forecasts (as of August 9, 2024) were 50.9%, 65.3%, 82.6%, 85.0%, and 88.3%, respectively. The fact that the company has already achieved over 80% of its operating profit and pretax profit, respectively, not reflecting the gain on the sale of PreMedica, suggests that the company's new full-year forecasts are quite conservative.

Subsidiaries

By subsidiary, Teibow's profit was flat, while AlphaTheta and JLab landed with large increases in revenue and profits. Teibow failed to meet prior forecasts, while AlphaTheta and JLab exceeded them. In particular, JLab, which saw a decrease in returns, is expected to continue to see revenue growth towards the busy Q4 season. AlphaTheta's order backlog has declined to about half of its peak level (more than one month but less than several months) and is reflected in the forecast based on the assumption of forward demand anticipation. The company has a backlog of orders for some products and hopes to achieve a delivery time of about one month, but delivery times for some products are still above that level.

Average forex rates

Average forex rates were ¥152.3 to the USD, down ¥17.4 YoY, and ¥164.6 to the EUR, down ¥18.8 YoY, positively impacting earnings at AlphaTheta and JLab, which have large USD and EUR transactions.

Analysis of changes in revenue and operating profit YoY is shown in the figure below.

Analysis of Changes in Revenue

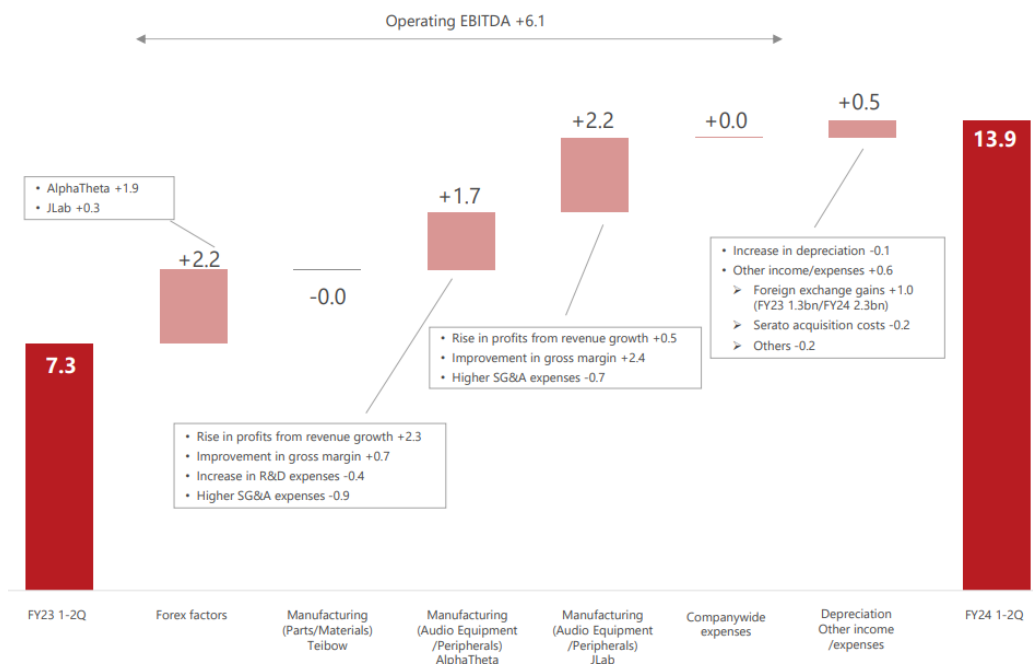
Figure 1: Analysis of Changes in Revenue YoY, Unit: ¥ bn



Source: Company data

Analysis of Changes in Operating Profit

Figure 2: Analysis of Changes in Operating Profit YoY, Unit: ¥ bn



Source: Company data

Upwardly revised forecast for FY12/24

Even after factoring in a partial reversal of the forex valuation gain (approximately 2.3 billion yen) recorded in 1H and the possibility of a partial sales prepayment in 2H, the company revised its full-year forecasts upward again on August 9, as the positive impact of business progress is still larger

for the full year. By subsidiary, the company lowered its forecast for Teibow and raised its forecast for AlphaTheta and JLab. The company's forecast for 2H is conservative, taking into account uncertainties.

For FY12/24, the company forecasts revenue of 103.7 billion yen (+15.2% YoY), operating EBITDA of 21.5 billion yen (+21.5% YoY), operating profit of 16.8 billion yen (+16.8% YoY), pretax profit of 16.6 billion yen (+21.4% YoY), and net profit attributable to owners of the parent of 13.0 billion yen (+27.5% YoY).

Impact of Forex

The average forex assumptions are 148.6 yen to the USD (+8.0 yen depreciation YoY) and 161.3 yen to the EUR (+9.3 yen depreciation YoY). A ¥1 depreciation of the yen against the USD would result in a ¥370 million increase in revenue and a ¥10 million increase in operating profit, and a ¥160 million increase in revenue and a ¥140 million increase in operating profit against the EUR. The forex valuation gain of approximately 2.3 billion yen recorded in 1H is expected to shrink to approximately 200 million yen in the full-year forecast.

Dividend Forecast

The company is currently maintaining its dividend forecast, but as it targets a payout ratio of 40% or more (31.9% at present), it is likely to consider changing its dividend forecast (increasing the dividend) after confirming Q4 results, as was the case in the previous fiscal year.

Breakdown of Changes in Revenue Forecast

The breakdown of the change in revenue forecast YoY is as follows : forex impact +4.5 bn yen (AlphaTheta +2.8 bn yen, JLab +1.7 bn yen), Teibow +0.4 bn yen, AlphaTheta +6.1 bn yen, and JLab +2.7 bn yen.

Breakdown of Changes in Operating Profit Forecast

The breakdown of changes in operating profit forecast YoY is as follows: forex impact +1.4 billion yen (AlphaTheta +1.2 billion yen, JLab +200 million yen), Teibow +0.0 billion yen (revenue increase +200 million yen, gross profit margin improvement +100 million yen, SG&A -300 million yen), AlphaTheta +1.1 billion yen (revenue increase +3.2 billion yen, gross profit margin improvement +1.5 billion yen, R&D -900 million yen, SG&A -2.7 billion yen), JLab +1.3 billion yen (revenue increase +700 million yen, gross profit margin improvement +2.4 billion yen, SG&A -1.8 billion yen), amortization and other income and expenses -1.4 billion yen (amortization: -0.3 billion yen, foreign exchange losses -0.9 billion yen, Serato acquisition-related expenses -0.1 billion yen, other -0.1 billion yen).

Main Points

The downward revision of -0.2 billion yen for Teibow's sales revenue and -0.3 billion yen for operating profit in comparison with the prior forecast is due to a deterioration of gross profit margin of -0.2 billion yen and an increase in SG&A expenses of -0.1 billion yen due to a lower capacity utilization rate caused by weak demand for cosmetics and lower yield of certain products in MIM.

Subtracting 1H results from the full-year forecast, SG&A expenses for the 2H are expected to be 1.8 billion yen for AlphaTheta (0.9 billion yen in 1H) and 1.1 billion yen for JLab (0.7 billion yen in 1H), with the budget weighted

toward the 2H. This is mainly due to increased personnel expenses and promotions planned for sales expansion.

Breakdown of Changes in Net Profit Forecast YoY

The breakdown of changes in net profit forecast YoY is as follows: operating profit +2.4 bn yen, equity in earnings of affiliates +0.5 bn yen (equity in earnings of affiliates +0.6 bn yen and others -0.1 bn yen in FY12/23), income tax expense -1.9 bn yen (tax increase due to higher profit -0.9 bn yen, estimated difference in tax effect -1.0 bn yen, etc.), and income from discontinued operations +1.8 bn yen (gain on sale of PreMedica stock).

Conservative 2H Company Forecast

Considering the strong yen trend, economic slowdown, and cost increases due to aggressive investments for sales expansion in 2H, the company's 2H forecast is extremely conservative (revenue up 1.7% YoY, operating profit down 58.8% YoY). The company is confident that it has already achieved over 80% of its 1H operating profit and pretax profit targets, respectively, and has therefore allocated a larger SG&A budget in 2H, thereby adding depth to its buffer.

By Subsidiary

AlphaTheta, which has made progress in eliminating inventory built up in Q1, saw a slowdown in Q2 (particularly in DJ equipment shipments, down 8,000 units YoY compared to Q1 last year when a new product has launched and down 25,000 units QoQ to 155,000 units). However, SA believes that the risk of a decline in earnings into 2H is small, as demand for professional high-end products remains strong. While, it should be noted that JLab's earnings improvement in Q2 (EBITDA margin of 18.8%, up 11.5 percentage points YoY and up 5.0 percentage points QoQ) has been remarkable, with lower returns due to quality improvements and stronger manufacturing and inventory control. SA believes that these improvements are not temporary, but are the result of strengthened management structure (CFO was invited from a Canadian listed company) and quality control through globalization (sales in Japan, etc.).

Financial Condition and Capital Management

Compared to the end of FY12/23, the financial position at the end of 1H was as follows: interest-bearing debt 36.0 billion yen (-3.0 billion yen), cash assets 112.8 billion yen (+21.1 billion yen), and net debt -76.8 billion yen (-24.1 billion). The ratio of equity attributable to owners of the parent rose to 74.5%, up 1 percentage point from the end of FY12/23. In addition to the 1.8 billion yen gain from the sale of PreMedica, the Serato acquisition budget of \$70 million (slightly over 10 billion yen) remains intact; while the cancellation of the Serato acquisition is disappointing, the company has nothing to lose as they continue to be close business partners. The company's M&A strategy has not yet been decided, but SA believes that its financial free hand has been increased and that its advantage for non-organic growth remains solid.

Figure 3: Quarterly Business Performance Trends

Quarterly Financial Results (¥ mn, %) (Cumulative)	FY12/2022				FY12/2023				FY12/2024		1H		FY12/2024	
	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Achieved	Progress	Old est	New est
Revenue	13,958	30,971	48,752	72,233	17,067	40,793	64,722	90,052	26,922	52,763	105.5%	50.9%	103,500	103,700
YoY	-	-	-	-	22.3%	31.7%	32.8%	24.7%	57.7%	29.3%			59.9%	15.2%
Cost of sales	7,949	18,352	29,794	43,986	10,191	23,454	36,277	50,480	13,308	26,397				
YoY	-	-	-	-	28.2%	27.8%	21.8%	14.8%	30.6%	12.5%				
Cost of sales ratio	56.9%	59.3%	61.1%	60.9%	59.7%	57.5%	56.1%	56.1%	49.4%	50.0%				
Gross profit	6,008	12,823	19,274	28,686	6,989	17,574	28,818	40,084	13,744	26,365				
YoY	-	-	-	-	16.3%	37.1%	49.5%	39.7%	96.7%	50.0%				
Gross profit margin	43.0%	41.4%	39.5%	39.7%	41.0%	43.1%	44.5%	44.5%	51.1%	50.0%				
SG&A	4,576	9,928	15,599	21,795	5,528	11,696	18,399	26,725	6,986	14,515				
YoY	-	-	-	-	20.8%	17.8%	17.9%	22.6%	26.4%	24.1%				
SG&A ratio to revenue	32.8%	32.1%	32.0%	30.2%	32.4%	28.7%	28.4%	29.7%	25.9%	27.5%				
Operating profit	1,672	3,197	4,084	1,039	2,009	7,347	12,474	14,388	7,627	13,879	152.5%	82.6%	16,000	16,800
YoY	-	-	-	-	20.2%	129.8%	205.4%	1284.8%	279.6%	88.9%			11.2%	16.8%
OP margin	12.0%	10.3%	8.4%	1.4%	11.8%	18.0%	19.3%	16.0%	28.3%	26.3%			15.5%	16.2%
Profit before tax	2,022	4,676	7,827	3,722	1,814	7,196	12,218	13,677	7,646	14,107	160.3%	91.6%	15,400	16,600
YoY	-	-	-	-	-10.3%	53.9%	56.1%	267.5%	321.5%	96.0%			12.6%	21.4%
Pretax profit margin	14.5%	15.1%	16.1%	5.2%	10.6%	17.6%	18.9%	15.2%	28.4%	26.7%			14.9%	16.0%
Profit attributable to owners of parent	100,163	101,121	102,928	101,554	1,051	4,454	7,842	10,199	5,235	11,484	198.0%	88.3%	10,300	13,000
YoY	-	-	-	-	-99.0%	-95.6%	-92.4%	-90.0%	398.1%	157.8%			1.0%	27.5%
NP margin	717.6%	326.5%	211.1%	140.6%	6.2%	10.9%	12.1%	11.3%	19.4%	21.8%			10.0%	12.5%
Operating EBITDA	2,444	4,953	6,800	11,095	2,496	7,969	13,628	17,696	7,805	14,040	121.0%	65.3%	21,000	21,500
YoY	-	-	-	-	2.1%	60.9%	100.4%	59.5%	212.7%	76.2%			18.7%	21.5%
EBITDA margin	17.5%	16.0%	13.9%	15.4%	14.6%	19.5%	21.1%	19.7%	29.0%	26.6%			20.3%	20.7%
Cumulative quarter average forex rate (¥/USD)	116.2	122.9	128.1	131.4	132.3	134.9	138.1	140.6	148.6	152.3			145.9	148.6
Cumulative quarter average forex rate (¥/EUR)	130.4	134.3	136.0	138.0	142.1	145.8	149.6	152.0	161.3	164.6			158.8	161.3
Cumulative quarter average forex rate (¥/CNY)	18.3	18.9	19.3	19.5	19.3	19.5	19.6	19.8	20.6	21.1				
Quarter-end forex rate (¥/USD)	122.4	136.7	144.8	132.7	133.5	145.0	149.6	141.8	151.4	161.1			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	172.3			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	22.0				
Quarterly Financial Results (¥ mn, %) (3 months)	FY12/2022				FY12/2023				FY12/2024					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Revenue	13,958	17,013	17,781	23,480	17,067	23,725	23,929	25,329	26,922	25,841				
YoY	-	-	-	-	22.3%	39.5%	34.6%	7.9%	57.7%	8.9%				
Cost of sales	7,950	10,199	11,330	14,069	10,078	13,140	12,686	14,063	13,178	13,221				
YoY	-	-	-	-	26.8%	28.8%	12.0%	0.0%	30.8%	0.6%				
Cost of sales ratio	57.0%	59.9%	63.7%	59.9%	59.0%	55.4%	53.0%	55.5%	48.9%	51.2%				
Gross profit	6,008	6,814	6,451	9,411	6,989	10,585	11,243	11,266	13,744	12,620				
YoY	-	-	-	-	16.3%	55.3%	74.3%	19.7%	96.7%	19.2%				
Gross profit margin	43.0%	40.1%	36.3%	40.1%	41.0%	44.6%	47.0%	44.5%	51.1%	48.8%				
SG&A	4,576	5,352	5,670	6,195	5,528	6,168	6,703	8,325	6,986	7,528				
YoY	-	-	-	-	20.8%	15.2%	18.2%	34.4%	26.4%	22.0%				
SG&A ratio to revenue	32.8%	31.5%	31.9%	26.4%	32.4%	26.0%	28.0%	32.9%	25.9%	29.1%				
Operating profit	1,672	1,525	887	-3,044	2,009	5,337	5,127	1,914	7,627	6,252				
YoY	-	-	-	-	20.2%	250.0%	478.0%	-	279.6%	17.1%				
OP margin	12.0%	9.0%	5.0%	-0.4%	11.8%	22.5%	21.4%	7.6%	28.3%	24.2%				
Profit before tax	2,022	2,654	3,150	-4,104	1,814	5,382	5,021	1,459	7,646	6,460				
YoY	-	-	-	-	-10.3%	102.8%	59.4%	-	321.5%	20.0%				
Pretax profit margin	14.5%	15.6%	17.7%	-	10.6%	22.7%	21.0%	5.8%	28.4%	25.0%				
Profit attributable to owners of parent	100,163	958	1,807	-1,374	1,051	3,402	3,388	2,356	5,235	6,248				
YoY	-	-	-	-	-99.0%	255.1%	87.5%	-	398.1%	83.7%				
NP margin	717.6%	5.6%	10.2%	-	6.2%	14.3%	14.2%	9.3%	19.4%	24.2%				
Operating EBITDA	2,444	2,509	1,846	4,294	2,496	5,473	5,658	4,068	7,805	6,235				
YoY	-17.5%	-20.2%	-19.8%	84.5%	2.1%	118.1%	206.5%	-5.3%	212.7%	13.9%				
EBITDA margin	17.5%	14.7%	10.4%	18.3%	14.6%	23.1%	23.6%	16.1%	29.0%	24.1%				
Quarter average forex rate (¥/USD)	116.2	129.6	138.4	141.0	132.3	137.4	144.6	147.9	148.6	155.9				
Quarter average forex rate (¥/EUR)	130.4	138.1	139.3	144.3	142.1	149.5	157.3	159.1	161.3	167.9				
Quarter average forex rate (¥/CNY)	18.3	19.6	20.2	19.9	19.3	19.6	19.9	20.4	20.6	21.5				

Source: Strategy Advisors – Based on Company Data

Note1: Rounded under ¥ mn. Rounded to one decimal place

Note2: Due to the discontinuation of the "Other" segment, the past results have been retroactively reclassified to discontinued operations.

Figure 4: Quarterly Performance Trends by Business Segment

Quarterly Financial Results (¥ mn, %) (Cumulative)	FY12/2022				FY12/2023				FY12/2024		1H		FY12/2024	
	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Achieved	Progress	Old est	New est
Revenue	13,958	30,971	48,752	72,233	17,067	40,793	64,722	90,052	26,922	52,763	105.5%	50.9%	103,500	103,700
YoY	-	-	-	-	22.3%	31.7%	32.8%	24.7%	57.7%	29.3%			59.9%	15.2%
Cost of sales	7,949	18,352	29,794	43,986	10,191	23,454	36,277	50,480	13,308	26,397				
YoY	-	-	-	-	28.2%	27.8%	21.8%	14.8%	30.6%	12.5%				
Cost of sales ratio	56.9%	59.3%	61.1%	60.9%	59.7%	57.5%	56.1%	56.1%	49.4%	50.0%				
Gross profit	6,008	12,823	19,274	28,686	6,989	17,574	28,818	40,084	13,744	26,365				
YoY	-	-	-	-	16.3%	37.1%	49.5%	39.7%	96.7%	50.0%				
Gross profit margin	43.0%	41.4%	39.5%	39.7%	41.0%	43.1%	44.5%	44.5%	51.1%	50.0%				
SG&A	4,576	9,928	15,599	21,795	5,528	11,696	18,399	26,725	6,986	14,515				
YoY	-	-	-	-	20.8%	17.8%	17.9%	22.6%	26.4%	24.1%				
SG&A ratio to revenue	32.8%	32.1%	32.0%	30.2%	32.4%	28.7%	28.4%	29.7%	25.9%	27.5%				
Operating profit	1,672	3,197	4,084	1,039	2,009	7,347	12,474	14,388	7,627	13,879	152.5%	82.6%	16,000	16,800
YoY	-	-	-	-	20.2%	129.8%	205.4%	1284.8%	279.6%	88.9%			11.2%	16.8%
OP margin	12.0%	10.3%	8.4%	1.4%	11.8%	18.0%	19.3%	16.0%	28.3%	26.3%			15.5%	16.2%
Profit before tax	2,022	4,676	7,827	3,722	1,814	7,196	12,218	13,677	7,646	14,107	160.3%	85.0%	15,400	16,600
YoY	-	-	-	-	-10.3%	53.9%	56.1%	267.5%	321.5%	96.0%			12.6%	21.4%
Pretax profit margin	14.5%	15.1%	16.1%	5.2%	10.6%	17.6%	18.9%	15.2%	28.4%	26.7%			14.9%	16.0%
Profit attributable to owners of parent	100,163	101,121	102,928	101,554	1,051	4,454	7,842	10,199	5,235	11,484	198.0%	88.3%	10,300	13,000
YoY	-	-	-	-	-99.0%	-95.6%	-92.4%	-90.0%	398.1%	157.8%			1.0%	27.5%
NP margin	717.6%	326.5%	211.1%	140.6%	6.2%	10.9%	12.1%	11.3%	19.4%	21.8%			10.0%	12.5%
Operating EBITDA	2,444	4,953	6,800	11,095	2,496	7,969	13,628	17,696	7,805	14,040	121.0%	65.3%	21,000	21,500
YoY	-	-	-	-	2.1%	60.9%	100.4%	59.5%	212.7%	76.2%			18.7%	21.5%
EBITDA margin	17.5%	16.0%	13.9%	15.4%	14.6%	19.5%	21.1%	19.7%	29.0%	26.6%			20.3%	20.7%
Cumulative quarter average forex rate (¥/USD)	116.2	122.9	128.1	131.4	132.3	134.9	138.1	140.6	148.6	152.3			145.9	148.6
Cumulative quarter average forex rate (¥/EUR)	130.4	134.3	136.0	138.0	142.1	145.8	149.6	152.0	161.3	164.6			158.8	161.3
Cumulative quarter average forex rate (¥/CNY)	18.3	18.9	19.3	19.5	19.3	19.5	19.6	19.8	20.6	21.1				
Quarter-end forex rate (¥/USD)	122.4	136.7	144.8	132.7	133.5	145.0	149.6	141.8	151.4	161.1			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	172.3			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	22.0				
Quarterly Financial Results (¥ mn, %) (3 months)	FY12/2022				FY12/2023				FY12/2024					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Revenue	13,958	17,013	17,781	23,480	17,067	23,725	23,929	25,329	26,922	25,841				
YoY	-	-	-	-	22.3%	39.5%	34.6%	7.9%	57.7%	8.9%				
Cost of sales	7,950	10,199	11,330	14,069	10,078	13,140	12,686	14,063	13,178	13,221				
YoY	-	-	-	-	26.8%	28.8%	12.0%	0.0%	30.8%	0.6%				
Cost of sales ratio	57.0%	59.9%	63.7%	59.9%	59.0%	55.4%	53.0%	55.5%	48.9%	51.2%				
Gross profit	6,008	6,814	6,451	9,411	6,989	10,585	11,243	11,266	13,744	12,620				
YoY	-	-	-	-	16.3%	55.3%	74.3%	19.7%	96.7%	19.2%				
Gross profit margin	43.0%	40.1%	36.3%	40.1%	41.0%	44.6%	47.0%	44.5%	51.1%	48.8%				
SG&A	4,576	5,352	5,670	6,195	5,528	6,168	6,703	8,325	6,986	7,528				
YoY	-	-	-	-	20.8%	15.2%	18.2%	34.4%	26.4%	22.0%				
SG&A ratio to revenue	32.8%	31.5%	31.9%	26.4%	32.4%	26.0%	28.0%	32.9%	25.9%	29.1%				
Operating profit	1,672	1,525	887	-3,044	2,009	5,337	5,127	1,914	7,627	6,252				
YoY	-	-	-	-	20.2%	250.0%	478.0%	-	279.6%	17.1%				
OP margin	12.0%	9.0%	5.0%	-	11.8%	22.5%	21.4%	7.6%	28.3%	24.2%				
Profit before tax	2,022	2,654	3,150	-4,104	1,814	5,382	5,021	1,459	7,646	6,460				
YoY	-	-	-	-	-10.3%	102.8%	59.4%	-	321.5%	20.0%				
Pretax profit margin	14.5%	15.6%	17.7%	-	10.6%	22.7%	21.0%	5.8%	28.4%	25.0%				
Profit attributable to owners of parent	100,163	958	1,807	-1,374	1,051	3,402	3,388	2,356	5,235	6,248				
YoY	-	-	-	-	-99.0%	255.1%	87.5%	-	398.1%	83.7%				
NP margin	717.6%	5.6%	10.2%	-	6.2%	14.3%	14.2%	9.3%	19.4%	24.2%				
Operating EBITDA	2,444	2,509	1,846	4,294	2,496	5,473	5,658	4,068	7,805	6,235				
YoY	-17.5%	-20.2%	-19.8%	84.5%	2.1%	118.1%	206.5%	-5.3%	212.7%	13.9%				
EBITDA margin	17.5%	14.7%	10.4%	18.3%	14.6%	23.1%	23.6%	16.1%	29.0%	24.1%				
Quarter average forex rate (¥/USD)	116.2	129.6	138.4	141.0	132.3	137.4	144.6	147.9	148.6	155.9				
Quarter average forex rate (¥/EUR)	130.4	138.1	139.3	144.3	142.1	149.5	157.3	159.1	161.3	167.9				
Quarter average forex rate (¥/CNY)	18.3	19.6	20.2	19.9	19.3	19.6	19.9	20.4	20.6	21.5				

Source: Strategy Advisors – Based on Company Data

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

Figure 5. Medium-Term Management Plan

(\\$ mn)	MTMP FY21	Midium-Term Management Plan FY25					CAGR FY21 ~25
	FY12/21	FY12/22	FY12/23	FY12/24		FY12/25	
	Actual	Actual	Actual	old CoE	new CoE	Mid. Target	
Revenue	54,481	73,515	91,552	103,500	103,700	100,000	16.4%
Mfg. (Parts/Materials) Teibow	12,282	12,717	11,781	12,400	12,200	12,800	1.0%
Ratio to total	22.5%	17.3%	12.9%	12.7%	11.8%	12.8%	
Mfg.(Audio equipment/peripherals)	41,107	59,516	78,271	89,500	91,500	85,500	20.1%
Ratio to total	75.5%	81.0%	85.5%	86.5%	88.2%	85.5%	
AlphaTheta	26,511	36,362	51,930	60,000	60,800	56,500	20.8%
Ratio to total	48.7%	49.5%	56.7%	58.0%	58.6%	56.5%	
JLab	14,596	23,154	26,340	29,500	30,700	29,000	18.7%
Ratio to total	26.8%	31.5%	28.8%	28.5%	29.6%	29.0%	
Others	1,090	1,282	1,500	1,600	0	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	21,000	21,500	20,000	16.8%
EBITDA margin	19.7%	15.5%	19.5%	20.3%	20.7%	20.0%	
Mfg. (Parts/Materials) Teibow	4,185	3,718	3,198	3,500	3,200	3,700	-3.0%
EBITDA margin	34.1%	29.2%	27.1%	28.2%	26.2%	28.9%	
Mfg.(Audio equipment/peripherals)	7,076	8,234	15,814	18,600	19,600	17,200	24.9%
EBITDA margin	17.2%	13.8%	20.2%	20.8%	21.4%	20.1%	
AlphaTheta	5,671	6,897	13,352	15,400	15,700	13,800	24.9%
EBITDA margin	21.4%	19.0%	25.7%	25.7%	25.8%	24.4%	
JLab	1,404	1,337	2,462	3,200	3,900	3,400	24.7%
EBITDA margin	9.6%	5.8%	9.3%	10.8%	12.7%	11.7%	
Others, HQ expenses	-522	-585	-1,137	-1,100	-1,300	-900	
Operating profit	6,068	1,262	14,462	16,000	16,800	15,000	25.4%
OP margin	11.1%	1.7%	15.8%	15.5%	16.2%	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	288.7	364.2	290.0	
Payout ratio	137.9%	5.3%	40.2%	40.2%	31.9%	over 40%	
Net Debt/Operating EBITDA	5.1	-7.4	-2.9			below 3.0	

Source: Strategy Advisors, based on company data.

Note: FY12/25 mid-term target is as of February 13, 2024 (revised upward at the announcement of FY12/23 results). The FY12/24 forecasts, which were revised upward at the time of the May 10, 2024 Q1 and August 9, 2024 Q2 results announcement, have already exceeded the mid-term targets.

2. Comparison with Similar 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 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) at 73.6%.

Highest Operating Profit Margin and Lowest ROE among the 7 Companies

Kawai Musical Instruments Manufacturing Co.

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 bid 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 10.4%, ROE 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 JVC KENWOOD

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 6: Profitability Comparison with Similar Companies

Company name	Stock Code	FY	Sales (¥ mn)	OP (¥ mn)	OPM (%)	ROE (%)	Equity ratio (%)	Business
Noritsu Koki	7744	12/23	91,522	14,462	15.8%	5.1%	73.5%	Pen nibs/cosmetics/MIM, Audio equip., Others
AuBEX	3583	3/24	5,387	560	10.4%	7.2%	64.4%	Pen nibs/cosmetics, Medical equipment
Kawai Musical Inst. Mfg.	7952	3/24	80,192	3,255	4.1%	6.9%	58.4%	Musical inst./education, Parts/material, etc.
Roland	7944	12/23	102,445	11,871	11.6%	22.2%	49.2%	Musical Inst., DJ & Audio equipment
ELECOM	6750	3/24	110,169	12,380	11.2%	11.9%	73.6%	PC/smartphone/tablet/TV/AV, Peripherals
CASIO COMPUTER	6952	3/24	268,828	14,208	5.3%	5.3%	66.1%	Watch, Consumer, System, Others
JVCKENWOOD	6632	3/24	359,459	18,226	5.1%	12.2%	36.2%	Car Audio, Wireless/commercial, Media/etc.

Note: Noritsu Koki and JVCKENWOOD are under IFRS (sales means revenue), others are under Japanese GAAP

Source: Strategy Advisors – Based on Company Data

3. Stock Price Trends and Valuations

Stock Price Comparison of 7 Similar Companies

We compared the stock price index (with the August 13, 2019 stock price as 100) of the company and the six aforementioned similar companies over the past five years. The stock price changes over the most recent period are: 1) JVC Kenwood +282%, 2) Noritsu Koki +85%, 3) AuBEX +27%, 4) Roland +24%, 5) Kawai Musical Instruments -16%, 6) Casio Computer -19%, and 7) Elecom -23%.

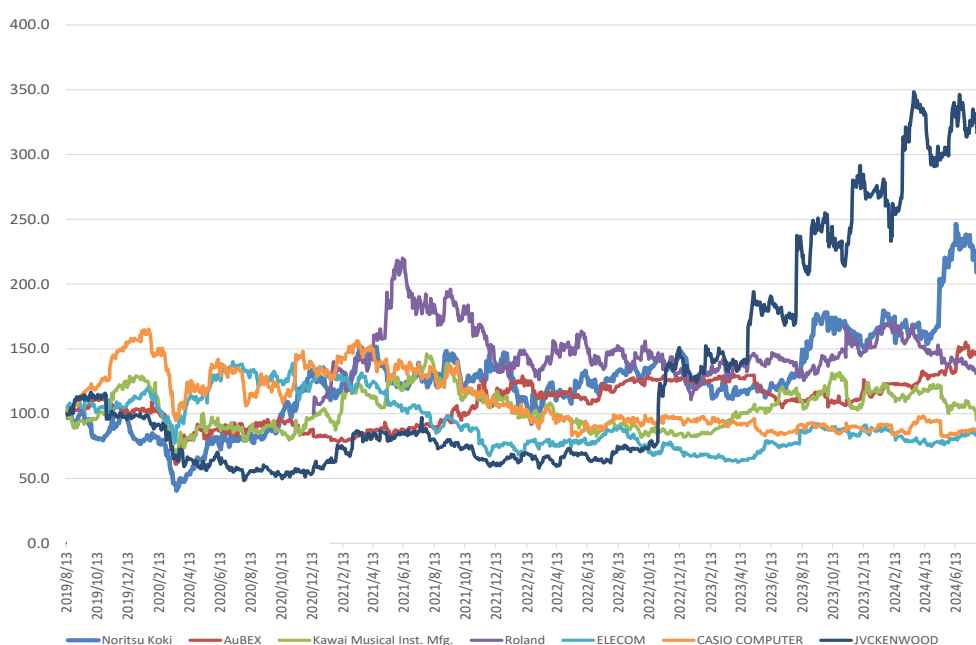
Factors Affecting Stock Price Fluctuations

With the exception of Casio Computer and JVCKENWOOD, each of the market capitalization of the five remaining companies is below ¥150 billion, respectively, although Noritsu Koki beat ¥150 billion in the recent rally. The only reason why JVCKENWOOD's performance is far better than the peers is due to the positive surprise of a significant increase in sales and profits in Q1 for FY3/24. The reason for the slump in the stock prices of Kawai Musical Instruments, 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: Noritsu Koki 0.64, Kawai Musical Instruments 0.53, and AuBEX 0.46. The PER ratio has been in the range of 6x to 57x, with Noritsu Koki's 10.06x being the second lowest after AuBEX at 6.30x. The highest dividend yields are 4.74% for Roland, 3.59% for Elecom, and 3.17% for Noritsu Koki.

Figure 7. Stock Price Index of Similar Companies (100 as of August 13, 2019)



Source: Strategy Advisors (Noritsu Koki's stock price index is shown in bold blue line)

Noritsu Koki 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 enterprise value is calculated by sum-of-the-parts analysis and net debt is subtracted to arrive at a theoretical share price of 7,029 yen (see our report dated May 17, 2024). 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 Factor

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 8: Comparison of Valuations with Similar Companies

Company name	Stock code	Recent FY results	Stock price (Aug.9) (¥)	Mkt cap (Aug.9) (¥ mn)	PER CoE (Times)	PBR Actual (Times)	Dividend Yield CoE (%)	ROE Actual (%)
Noritsu Koki	7744	12/2023	3,665	132,640	10.06	0.64	3.17%	5.1%
AuBEX	3583	3/2024	1,040	3,216	6.30	0.46	2.40%	7.2%
Kawai Musical Inst. Mfg.	7952	3/2024	2,669	24,052	57.36	0.53	-	6.9%
Roland	7944	12/2023	3,590	101,105	11.64	2.47	4.74%	22.2%
ELECOM	6750	3/2024	1,337	123,300	11.32	1.27	3.59%	11.9%
CASIO COMPUTER	6952	3/2024	1,133	273,643	25.94	1.14	-	5.3%
JVCKENWOOD	6632	3/2024	1,072	175,808	12.93	1.41	1.21%	12.2%

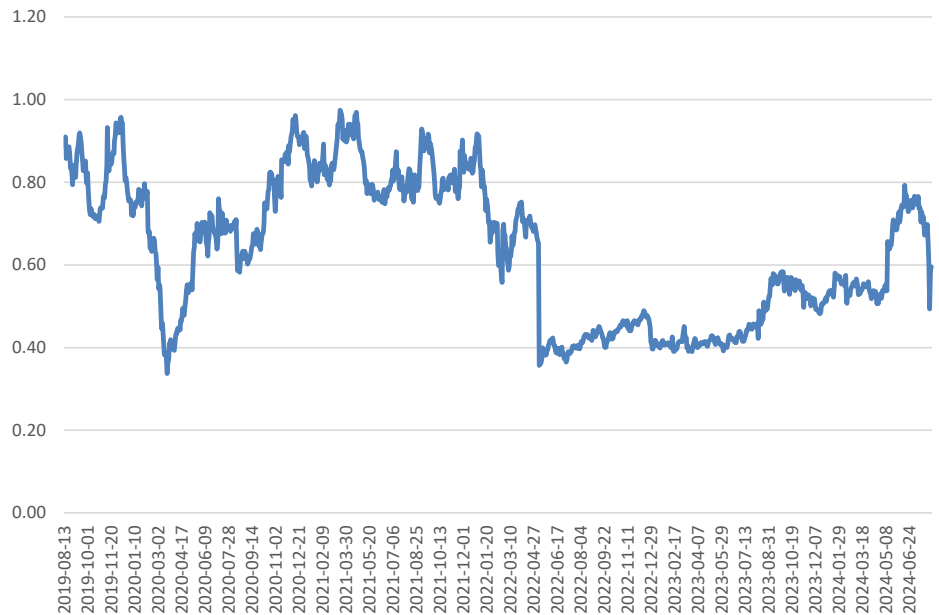
Source: Strategy Advisors – Based on Company Data

Figure 9: Trends in PER



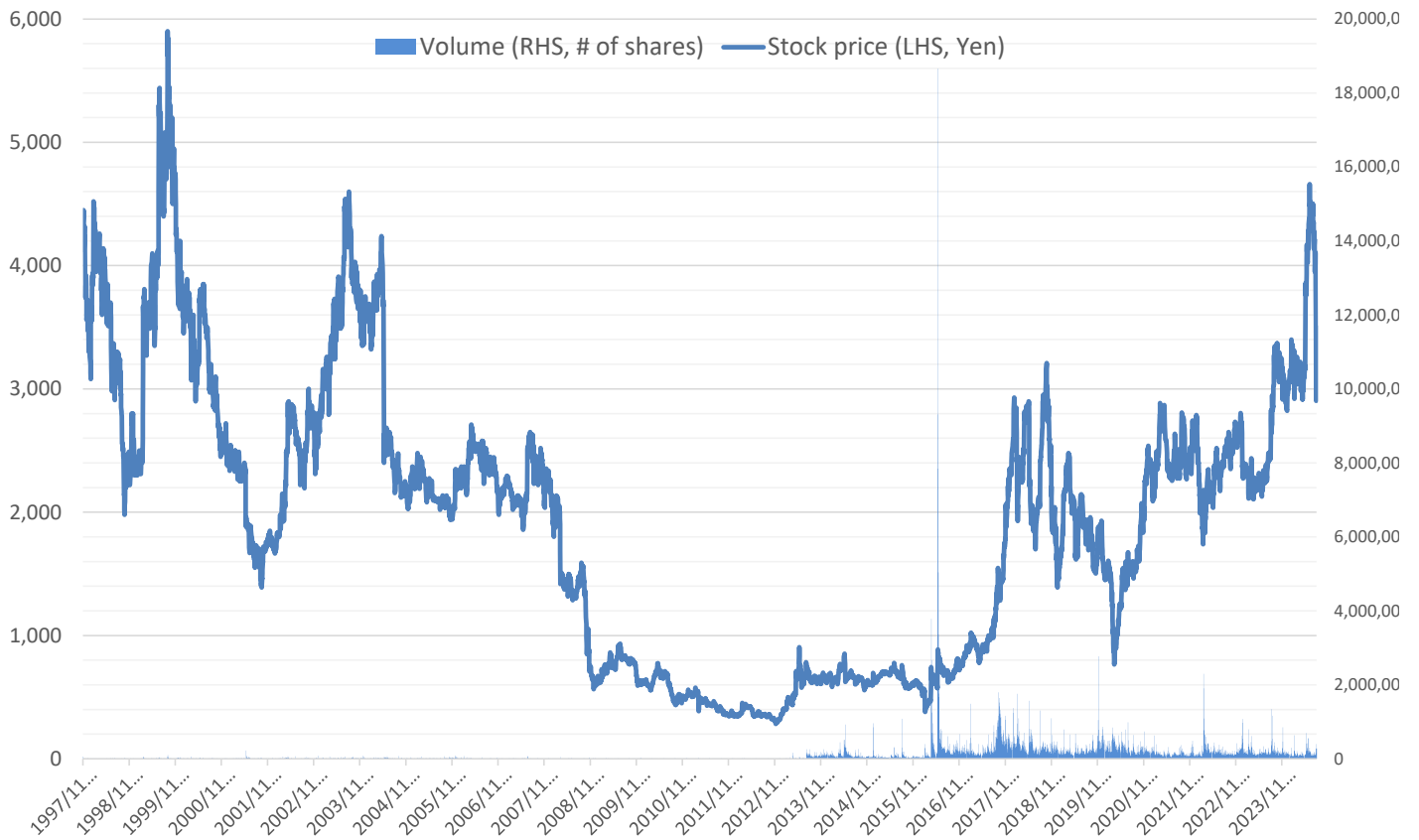
Source: Strategy Advisors

Figure 10: Trends in PBR



Source: Strategy Advisors

Figure 11: Noritsu Koki's Share Price and Trading Volume since its Listing (data from the last day of each month)



Source: Strategy Advisors

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

Figure 12. Profit and Loss Statement

Profit and loss statement (IFRS) (¥ mn)	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020	FY12/2021	FY12/2022	FY12/2023	FY12/2024
	9 months					CoE			
Continuing operations									
Revenue	50,045	56,035	63,527	26,147	41,148	54,481	73,515	91,552	103,700
YoY	16.0%	12.0%	13.4%	-	-	-	34.9%	24.5%	15.2%
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	16,800
YoY	127.1%	29.1%	1.7%	-	-	-	-79.2%	-	16.8%
Operating profit margin	9.2%	10.6%	9.5%	15.8%	14.1%	11.1%	1.7%	15.8%	16.2%
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	16,600
YoY	186.6%	-4.0%	-2.3%	-	-	-	-25.8%	248.6%	21.4%
Pretax profit margin	12.7%	10.9%	9.4%	2.3%	6.3%	9.8%	5.4%	15.0%	16.0%
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	13,000
YoY	-	107.9%	-67.0%	-	-	-	-	-90.0%	27.5%
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%	12.5%
Operating EBITDA	-	-	7,965	6,847	0	10,739	11,367	17,875	21,500
EBITDA margin	-	-	12.5%	26.2%	0.0%	19.7%	15.5%	19.5%	21.5%

Source: Strategy Advisors, based on company data.

Note: FY12/2024 company forecast is a comparison with FY12/12 figures excluding the "Other" segment from FY12/11.

Figure 13: Breakdown of SG&A Expenses

Selling, general and administrative expenses (¥ mn)	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020	FY12/2021	FY12/2022	FY12/2023	FY12/2024
	9 months					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.

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