

Company Report

November 22, 2024

Strategy Advisors Inc.
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Strong Performance Continues with Q3 Financial Results. Full-Year Profit Forecast Revised Upwards for the Third Time This Fiscal Year

Noritsu Koki announced its Q3, FY12/24 results after the market closed on November 8. The results for the July-September period showed strong progress against the company's previous second-half forecast, with the stagnation of Teibow being offset by the strong performance of AlphaTheta and JLab. Of the back of this performance, the company revised its full year forecast on the same day. While sales were revised downward to reflect the temporary suspension of shipments of some AlphaTheta products, operating profit and items below this line were revised upward for the third time this fiscal year.

At the board of directors meeting held on September 13, they decided to separate Teibow's MIM business into Hamamatsu Metal Works (scheduled for early January) and to transit to a new structure in which a newly established intermediate holding company, Teibow Holdings (100% owned by Noritsu Koki), will own 100% of the shares of Teibow (separated MIM business) and Hamamatsu Metal Works, effective April 1, 2025.

For the first 3 quarters of the fiscal year (Jan-Sep) there was an increase in both revenue and profit, with revenue of ¥78.437 billion (+21.2% YoY), operating EBITDA of ¥20.119 billion (+47.6 %), operating profit of ¥16.078 billion (+28.9 %), profit before tax of ¥16.189 billion (+32.5%) and profit attributable to owners of the parent of ¥12.915 million (+64.7%). Relative to the company's prior full-year forecasts, it has achieved in the first 3 quarters, the following percentage of full-year expectations; revenues 75.6%, operating EBITDA 93.6%, operating profit 95.7%, profit before tax 97.5% and profit attributable to owners of the parent 99.4%.

In the July-September quarter, Teibow's performance continued to stagnate through the first half of the year. AlphaTheta maintained its good performance. JLab's performance slowed down compared to the previous quarter due to the frontloaded shipments in the previous April-June quarter. Compared to the August forecast, Teibow's performance was below the forecast, while AlphaTheta and JLab's performances were above forecast.

Share Price and Volumes (Past 1 Year)



Source: Strategy Advisors

Key Indicators

Stock Price (11/21/2024)	4,295
52-Week High (06/14/2024)	4,660
52-Week Low (12/18/2023)	2,823
Historical High (09/08/1999)	5,900
Historical Low (11/15/2012)	282
Shares on Issue (mn)	35.7
Market Capitalization (¥ bn)	153.3
EV (¥ bn)	105.2
Equity Ratio (FY12/23 Actual, %)	73.5
PER (FY12/24 CoE, Times)	11.1
PBR (FY12/23 Actual, Times)	0.75
Dividend Yield (FY12/24 CoE, %)	2.7

Source: Strategy Advisors

The average exchange rate (January-September) was ¥151.3 to the USD, ¥13.2 lower than the same period last year and ¥164.4 to the EUR, ¥14.8 lower than the same period last year, which had a positive effect on the earnings of AlphaTheta and JLab, which trade a lot in USD and EUR. The October-December forecast for the new company forecast is still conservative, with the exchange rate assumptions maintained at ¥145 to the USD and ¥158 to the EUR, and the impact of the temporary shipment suspension of some AlphaTheta products being given the most extreme consideration. The stock price is likely to rise in anticipation of an increase in dividends and an improvement in actual results compared to the forecast.

IFRS-Consolidated

FY	Net Sales (¥ mn)	YoY (%)	Operating Income (¥ mn)	YoY (%)	Income Before Taxes (¥ mn)	YoY (%)	Net Income (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
FY12/23 Q3	23,929	34.6%	5,127	478.0%	5,021	59.4%	3,388	87.5%	213.6	-
FY12/24 Q3	25,674	7.3%	2,199	-57.1%	2,082	-58.5%	1,431	-57.8%	354.5	-
FY12/23 Q1-Q3	64,722	30.3%	12,474	195.1%	12,218	53.3%	7,842	-92.4%	213.6	-
FY12/24 Q1-Q3	78,437	21.2%	16,078	28.9%	16,189	32.5%	12,915	64.7%	354.5	-
FY12/21	54,481	-	6,068	-	5,315	-	5,115	-	143.6	198.0
FY12/22	72,233	32.6%	1,039	-82.9%	3,722	-30.0%	101,554	-	2,848.5	152.0
FY12/23	90,052	24.7%	14,390	-	13,678	30.1%	10,199	-90.0%	285.9	115.0
FY12/24 CoE	103,100	14.5%	18,000	25.1%	17,800	30.1%	13,800	35.3%	386.6	116.0

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

Source: Strategy Advisors. Based on Company Data.

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1. Financial Results for Q3, FY12/24

FY12/24 Q3 Results

The company announced its FY12/24 Q3 results after the market closed on November 8. The results for the July-September period showed strong progress against the company's previous second half forecast, with stagnation at Teibow being offset by strong performances at AlphaTheta and JLab. In response to this, the company revised its full year forecast on the same day. Sales revenue was revised downward to reflect the temporary suspension of shipments of some AlphaTheta products in the October-December period, while operating profit and items below were revised upward for the third time this fiscal year. We believe that these forecasts are still conservative.

Next Medium-Term Plan to Be Announced on February 14, 2025

As the company is on track to achieve its Medium-Term Plan for FY2025 full year ahead of schedule, it plans to announce its next Medium-Term Plan on February 14, 2025, when it announces its full-year financial results.

Significant Increase in Sales and Profits

In Q3, sales revenue was ¥78.437 billion (+21.2% YoY), operating EBITDA was ¥20.119 billion (+47.6 %), operating profit was ¥16.078 billion (+28.9 %), profit before tax was ¥16.189 billion (+32.5%) and profit attributable to owners of the parent was ¥12.915 billion (+64.7%), including gains on the sale of Premedica shares (approximately ¥1.8 billion, transferred on May 13, 2024), resulting in increased sales and profits. Teibow's MIM business will be spun off as Hamamatsu Metal Works with the aim of accelerating decision-making and improving the efficiency of resource allocation and will be structured to aim for further growth (from April 1, 2025).

Progress in Achievement Rate

Progress against the company's full-year forecasts was 75.6% for revenue, 93.6% for operating EBITDA, 95.7% for operating profit, 97.5% for profit before tax and 99.4% for profit attributable to owners of the parent. Progress against the new company forecasts for the second half (dated November 8) for the July-September period were 51.0%, 70.2%, 53.4%, 56.4% and 61.8% respectively.

Status of Subsidiaries

By subsidiary, compared to the same period last year, Teibow's profits remained flat, while AlphaTheta and JLab saw significant increases in sales and profits. Compared to the previous forecast, Teibow's results were slightly lower due to the sluggish pen tip business in the cosmetics field; but AlphaTheta's results were higher due to favorable demand and JLab's results were higher due to the expansion of sales channels and a decrease in the amount of returned goods.

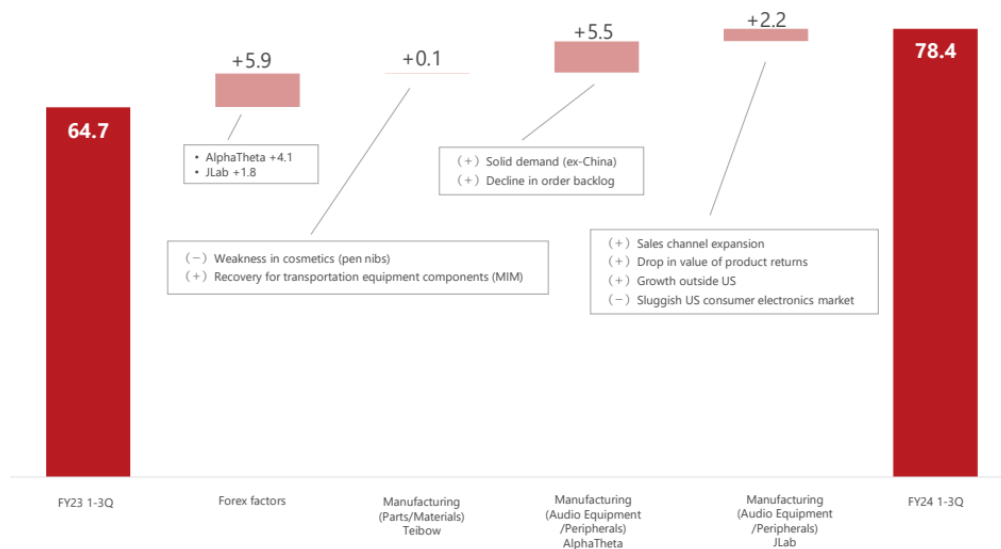
Average Exchange Rate

The average exchange rates were ¥151.3 to the USD, down ¥13.2 YoY and ¥164.4 to the EUR, down ¥14.8 YoY. This had a positive effect on the earnings of AlphaTheta and JLab, which handle a large amount of USD and EUR transactions.

An analysis of the changes in sales revenue and operating profit (compared to the same period last year) is shown in the chart below.

Analysis of Changes in Revenue

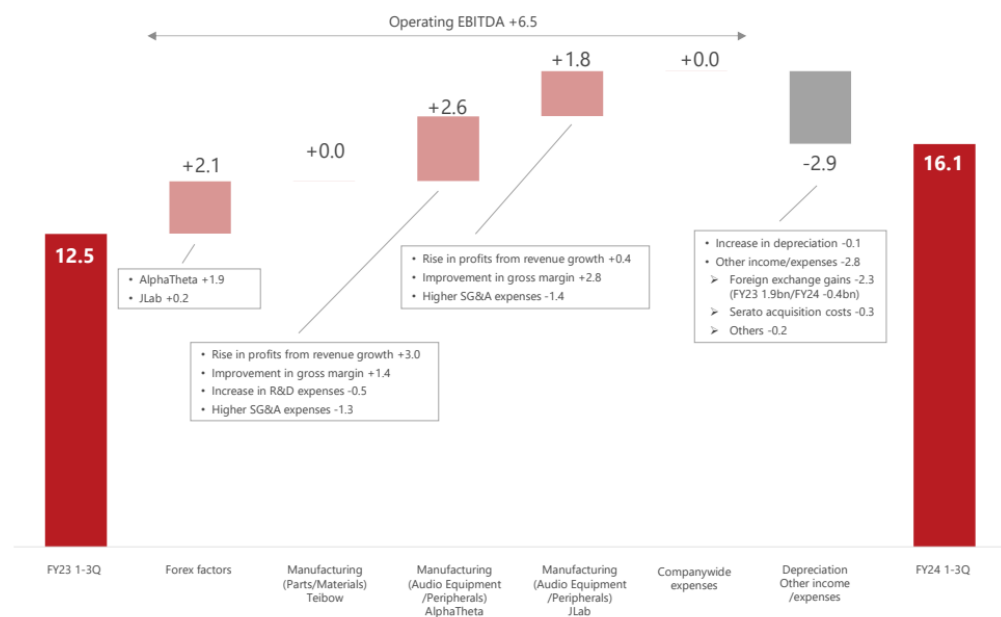
Figure 1. Analysis of Changes in Revenue YoY (Unit: ¥ bn)



Source: Company Data

Analysis of Changes in Operating Profit

Figure 2. Analysis of Changes in Operating Profit YoY (Unit: ¥ bn)



Source: Company Data

Company Forecasts Revised Again for FY12/2024

The company has revised its forecasts again. Revenue has been revised downward to reflect the temporary suspension of shipments of some AlphaTheta products, while operating profit and below have been revised upward for the third time this fiscal year. Broken things down by subsidiary, Teibow has revised downward both revenue and operating profit. AlphaTheta has revised downward its revenue but revised its operating profit upwards. JLab has revised both revenue and operating profit upwards.

Details of Upward Revisions to Various Profits

The company's new forecasts for FY12/2024 are revenue of ¥103.1 billion (+14.5 % YoY), operating EBITDA of ¥22.700 billion (+28.3 %), operating profit of ¥18 billion (+25.1%), profit before tax of ¥17.8 billion (+30.2%) and profit attributable to owners of the parent of ¥13.8 billion (+35.3%).

Exchange Rate Impact

The average exchange rate assumptions are ¥149.7 to the USD (down ¥9.1 from the previous term) and ¥162.8 to the EUR (down ¥10.8 from the previous term). The impact of a ¥1 depreciation of the JPY against the USD is an increase of ¥370 million in sales revenue and ¥10 million in operating profit and an increase of ¥160 million in sales revenue and ¥140 million in operating profit for the EUR. The -¥400 million exchange rate valuation loss recorded in Q3 is expected to be approximately -¥200 million for the full year.

Dividend Forecast

The dividend forecast was left unchanged, but since the dividend payout ratio target is over 40% (currently 30.0%), it appears that the company will consider changing (increasing) the dividend forecast once full-year results are finalized, as it did in the previous term.

Breakdown of Changes in Revenue Forecast

The breakdown of the changes in sales revenue (compared to the previous fiscal year) is expected to be an exchange rate impact of +¥5.6 billion (AlphaTheta +¥3.8 billion, JLab +¥1.8 billion), Teibow +¥100 million, AlphaTheta +¥4.7 billion and JLab +¥2.7 billion.

Breakdown of Changes in Operating Profit Forecast

The breakdown of the changes in operating profit (compared to the previous period) is as follows: exchange rate impact +¥1.9 billion (AlphaTheta +¥1.7 billion, JLab +¥200 million), Teibow -¥100 million (increased SG&A expenses -¥100 million), AlphaTheta +¥1.7 billion (effect of increased sales +¥2.4 billion, improved gross profit margin +¥2.0 billion, increased research and development expenses -¥600 million, increased SG&A expenses -¥2.1 billion), JLab +¥1.4 billion (effect of increased sales +¥700 million, improved gross profit margin +¥2.9 billion, increased SG&A expenses -¥2.2 billion), depreciation expenses and other income/expenses -¥1.4 billion (increased depreciation expenses -¥300 million, exchange rate gain/loss -¥900 million, costs related to the acquisition of Serato -¥100 million & others -¥100 million).

Main Points

Compared to previous forecasts, Teibow's sales revenue will be down ¥300 million and its operating profit will be down ¥100 million due to a delayed recovery in pen nibs. AlphaTheta's sales revenue is expected to fall by ¥1.4 billion due to the suspension of shipments of some products, but its operating profit will increase by ¥500 million overall, as the profit decrease of ¥800 million due to lower sales will be offset by an improved gross profit margin of +¥400 million, a reduction in research and development expenses of +¥300 million and a reduction in selling, general and administrative expenses of +¥600 million. JLab's sales revenue will remain the same, but its operating profit will increase by ¥200 million overall, as the increase in SG&A expenses (increased marketing costs) of -¥400 million will be offset by an improved gross profit margin of +¥600 million.

Breakdown Of Changes in Net Income Forecast

The changes in net profit for the period (compared to the previous period) is as follows: operating profit +¥3.6 billion, equity method investment profit +¥500 million (loss on valuation of equity method investments in fiscal year 12/23 +¥600 million, others -¥100 million), corporate income tax expenses -¥2.3 billion (increase in taxes due to increased profits -¥1.3 billion, difference in estimate for tax effects etc. -¥1 billion, etc.) and profit/loss from discontinued operations +¥1.8 billion (gain on sale of Premedica shares).

Conservative Company Forecast for Q4

The company's forecast for the October-December period has been set at ¥24.663 billion (down 2.6% YoY) in sales revenue and ¥1.922 billion (up 0.4%) in operating profit, considering the maximum impact of the temporary suspension of shipments of some AlphaTheta products, as well as exchange rate fluctuations, the economic slowdown and increased costs due to aggressive investments aimed at expanding sales. These forecasts are still considered conservative.

Subsidiary Status: Teibow

In the July-September period, Teibow's MIM business showed signs of recovery for automotive applications, but pen nibs continued to stagnate in the writing and cosmetic markets. The same situation is expected to continue in the October-December period.

Subsidiary Status: AlphaTheta

AlphaTheta continues to enjoy a robust business environment, particularly in Europe and the US, with shipments of DJ equipment in the July-September period increasing by 30,000 units YoY and 22,000 units quarter-on-quarter to 177,000 units. While the robust business environment is expected to continue in the October-December period, the new forecast incorporates the maximum risk of shipment suspensions for some products. The company has identified the causes of product defects including new products and is preparing to resume shipments in late November. Given this situation, the company's forecast assumption that shipments of these products will not resume at all during the October-December period is considered conservative.

Subsidiary Status: JLab

JLab's shipment volumes decreased in Q3 due to a backlash from the increase in Q2 shipments, but this was as expected. The gross profit margin continues to improve due to a decline in the volume of returned goods because of quality improvements and strengthened manufacturing and inventory management. Q4 will see an increase in seasonal demand in preparation for the Christmas sales season. On the other hand, to achieve further growth from FY12/25 onwards, the company will strategically increase marketing expenses and adopt a strategy of working to further strengthen its brand power.

Financial Status and Capital Policy

Regarding the financial situation at the end of Q3, compared to the end of the previous fiscal year, interest-bearing debt was ¥36 billion, down ¥3 billion, cash assets increased ¥18.2 billion to ¥109.9 billion and net debt was ¥73.8 billion, down ¥21.2 billion. Inventory assets increased ¥1.0 billion from the previous quarter to ¥20.1 billion (considering that the exchange rate at the end of Q3 shifted to a stronger JPY than at the end of Q2, the increase in real terms was much more than ¥1.0 billion), but this was mainly due to strategic product inventory buildup for the Christmas sales season at JLab and considered to be a healthy trend. The equity ratio attributable to owners of the parent company rose to 74.0%, up 0.4 percentage points from the end of the previous quarter. In addition to the ¥1.8 billion gain on the sale of Premedica, the cancellation of the Serato acquisition left the budget for that amount at \$70 million dollars (just over ¥10 billion).

The Next Medium-Term Plan Will Be Announced on February 14, 2025

The company has advised that it will announce its next Medium-Term Plan on February 14, 2025. As it is highly likely that the ongoing Medium-Term Plan FY2025 will be achieved one year ahead of schedule, the new plan will also be brought forward by one year. In the new plan, attention will be focused on the organic growth of each subsidiary, including the strengthening of Teibow's MIM business, as well as future M&A strategies, capital allocation and shareholder return policies. If expectations for an increase in corporate value over the medium to long term increase, this is likely to lead to an increase in the stock price.

Figure 3. Quarterly Business Performance Trends

Quarterly Financial Results (¥ mn, %) (Cumulative)	FY12/23				FY12/24			FY12/24		
	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Progress	Old est	New est
Revenue	17,067	40,793	64,722	90,052	26,922	52,763	78,437	76.1%	103,500	103,100
YoY	20.0%	29.4%	30.3%	22.5%	57.7%	29.3%	21.2%		59.9%	14.5%
Cost of sales	10,078	23,218	35,904	49,967	13,177	26,397	38,904			
YoY	25.2%	26.5%	20.5%	13.6%	30.8%	13.7%	8.4%			
Cost of sales ratio	59.0%	56.9%	55.5%	55.5%	48.9%	50.0%	49.6%			
Gross profit	6,989	17,574	28,818	40,084	13,744	26,365	39,532			
YoY	13.2%	33.3%	45.1%	35.7%	96.7%	50.0%	37.2%			
Gross profit margin	41.0%	43.1%	44.5%	44.5%	51.1%	50.0%	50.4%			
SG&A	5,528	11,696	18,399	26,725	6,986	14,515	22,741			
YoY	17.4%	14.5%	14.7%	19.3%	26.4%	24.1%	23.6%			
SG&A ratio to revenue	32.4%	28.7%	28.4%	29.7%	25.9%	27.5%	29.0%			
Operating profit	2,009	7,347	12,474	14,388	7,627	13,879	16,078	89.3%	16,000	18,000
YoY	18.2%	124.9%	195.1%	1040.1%	279.6%	88.9%	28.9%		11.2%	25.1%
OP margin	11.8%	18.0%	19.3%	16.0%	28.3%	26.3%	20.5%		15.5%	17.5%
Profit before tax	1,814	7,196	12,218	13,677	7,646	14,107	16,189	90.9%	15,400	17,800
YoY	-11.5%	51.6%	53.3%	246.8%	321.5%	96.0%	32.5%		12.6%	30.1%
Pretax profit margin	10.6%	17.6%	18.9%	15.2%	28.4%	26.7%	20.6%		14.9%	17.3%
Profit attributable to owners of parent	1,051	4,454	7,842	10,199	5,235	11,484	12,915	93.6%	10,300	13,800
YoY	-99.0%	-95.6%	-92.4%	-90.0%	398.1%	157.8%	64.7%		1.0%	35.3%
NP margin	6.2%	10.9%	12.1%	11.3%	19.4%	21.8%	16.5%		10.0%	13.4%
Operating EBITDA	2,496	7,969	13,628	17,696	7,805	14,040	20,119	88.6%	21,000	22,700
YoY	0.4%	57.8%	95.2%	55.7%	212.7%	76.2%	47.6%		18.7%	28.3%
EBITDA margin	14.6%	19.5%	21.1%	19.7%	29.0%	26.6%	25.6%		20.3%	22.0%
Cumulative quarter average forex rate (¥/USD)	132.3	134.9	138.1	140.6	148.6	152.3	151.3		145.9	148.6
Cumulative quarter average forex rate (¥/EUR)	142.1	145.8	149.6	152.0	161.3	164.6	164.4		158.8	161.3
Quarterly quarter average forex rate (¥/CNY)	19.3	19.5	19.6	19.8	20.6	21.1	21.0			
Quarter-end forex rate (¥/USD)	133.5	145.0	149.6	141.8	151.4	161.1	142.7		145.0	145.0
Quarter-end forex rate (¥/EUR)	145.7	157.6	158.0	157.1	163.2	172.3	159.4		158.0	158.0
Quarter-end forex rate (¥/CNY)	19.4	19.9	20.5	19.9	20.8	22.0	20.5			
Quarterly Financial Results (¥ mn, %) (3 months)	FY12/23				FY12/24					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3			
Revenue	17,067	23,725	23,929	25,329	26,922	25,841	25,674			
YoY	22.3%	39.5%	34.6%	7.9%	57.7%	8.9%	7.3%			
Cost of sales	10,078	13,140	12,686	14,063	13,178	13,221	12,507			
YoY	26.8%	28.8%	12.0%	0.0%	30.8%	0.6%	-1.4%			
Cost of sales ratio	59.0%	55.4%	53.0%	55.5%	48.9%	51.2%	48.7%			
Gross profit	6,989	10,585	11,243	11,266	13,744	12,620	13,167			
YoY	16.3%	55.3%	74.3%	19.7%	96.7%	19.2%	17.1%			
Gross profit margin	41.0%	44.6%	47.0%	44.5%	51.1%	48.8%	51.3%			
SG&A	5,528	6,168	6,703	8,325	6,986	7,528	8,226			
YoY	20.8%	15.2%	18.2%	34.4%	26.4%	22.0%	22.7%			
SG&A ratio to revenue	32.4%	26.0%	28.0%	32.9%	25.9%	29.1%	32.0%			
Operating profit	2,009	5,337	5,127	1,914	7,627	6,252	2,199			
YoY	20.2%	250.0%	478.0%	-	279.6%	17.1%	-57.1%			
OP margin	11.8%	22.5%	21.4%	7.6%	28.3%	24.2%	8.6%			
Profit before tax	1,814	5,382	5,021	1,459	7,646	6,460	2,082			
YoY	-10.3%	102.8%	59.4%	-	321.5%	20.0%	-58.5%			
Pretax profit margin	10.6%	22.7%	21.0%	5.8%	28.4%	25.0%	8.1%			
Profit attributable to owners of parent	1,051	3,402	3,388	2,356	5,235	6,248	1,431			
YoY	-99.0%	255.1%	87.5%	-	398.1%	83.7%	-57.8%			
NP margin	6.2%	14.3%	14.2%	9.3%	19.4%	24.2%	5.6%			
Operating EBITDA	2,496	5,473	5,658	4,068	7,805	6,235	6,079			
YoY	2.1%	118.1%	206.5%	-5.3%	212.7%	13.9%	7.4%			
EBITDA margin	14.6%	23.1%	23.6%	16.1%	29.0%	24.1%	23.7%			
Quarter average forex rate (¥/USD)	132.3	137.4	144.6	147.9	148.6	155.9	149.4			
Quarter average forex rate (¥/EUR)	142.1	149.5	157.3	159.1	161.3	167.9	164.0			
Quarter average forex rate (¥/CNY)	19.3	19.6	19.9	20.4	20.6	21.5	20.8			

Source: Strategy Advisors. Based on Company Data.

Note 1: Rounded under ¥ mn. Rounded to one decimal place.

Note 2: 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

Segment Breakdown (¥ mn, %) (Cumulative)	FY12/23				FY12/24			FY12/24		
	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Progress	Old est	New est
Revenue	17,067	40,793	64,722	90,052	26,922	52,763	78,437	76.1%	103,500	103,100
YoY	20.0%	29.4%	30.3%	22.5%	57.7%	29.3%	21.2%		14.9%	14.5%
Manufacturing (Parts/Materials)	2,856	5,808	8,750	11,781	2,713	5,843	8,819	74.1%	12,400	11,900
YoY	-6.7%	-7.8%	-7.4%	-7.4%	-5.0%	0.6%	0.8%		41.7%	1.0%
Writing Instruments	1,829	3,684	5,585	7,519	1,778	3,812	5,632			
Cosmetics	371	764	1,115	1,442	253	608	929			
MIM	522	1,099	1,634	2,251	531	1,132	1,798			
Others	132	261	414	567	150	290	459			
Manufacturing (Audio Equipment/Peripherals)	14,211	34,984	55,971	78,270	24,208	46,919	69,617	76.3%	89,500	91,200
YoY	30.4%	41.8%	42.4%	31.5%	70.3%	34.1%	24.4%		14.3%	16.5%
AlphaTheta	10,718	25,184	39,161	51,930	18,934	33,260	48,774		60,000	60,400
YoY	26.7%	49.7%	59.3%	42.8%	76.7%	32.1%	24.5%		15.5%	16.3%
JLab	3,493	9,800	16,810	26,340	5,274	13,658	20,843		29,500	30,800
YoY	43.6%	24.8%	14.2%	13.8%	51.0%	39.4%	24.0%		12.0%	16.9%
Others	-	-	-	-	-	-	-		-	-
Operating EBITDA	2,496	7,969	13,628	17,696	7,805	14,040	20,119	88.6%	21,000	22,700
YoY	0.4%	57.8%	95.2%	55.7%	212.7%	76.2%	47.6%		18.7%	28.3%
EBITDA margin	14.6%	19.5%	21.1%	19.7%	29.0%	26.6%	25.6%		20.3%	22.0%
Manufacturing (Parts/Materials)	650	1,522	2,323	3,198	596	1,522	2,324	75.0%	3,500	3,100
YoY	-17.8%	-17.9%	-16.3%	-14.0%	-8.3%	0.0%	0.0%		9.4%	-3.1%
EBITDA margin	22.8%	26.2%	26.5%	27.1%	22.0%	26.0%	26.4%		28.2%	26.1%
Manufacturing (Audio Equipment/Peripherals)	2,081	6,938	12,050	15,814	7,436	12,997	18,521	89.0%	18,600	20,800
YoY	9.6%	93.9%	155.2%	92.1%	257.3%	87.3%	53.7%		17.6%	31.5%
EBITDA margin	14.6%	19.8%	21.5%	20.2%	30.7%	27.7%	26.6%		20.8%	22.8%
AlphaTheta	2,659	7,053	11,275	13,352	6,707	10,694	15,747		15,400	16,700
YoY	8.8%	81.0%	139.9%	93.6%	152.2%	51.6%	39.7%		15.3%	25.1%
EBITDA margin	24.8%	28.0%	28.8%	25.7%	35.4%	32.2%	32.3%		25.7%	27.6%
JLab	-578	-115	775	2,462	729	2,303	2,774		3,200	4,100
YoY	-	-	-	84.1%	-	-	257.9%		30.0%	66.5%
EBITDA margin	-16.5%	-1.2%	4.6%	9.3%	13.8%	16.9%	13.3%		10.8%	13.3%
Others	-	-	-	-	-	-	-		-	-
HQ expenses	-235	-491	-745	-1,316	-228	-479	-726		-1,100	-1,200
Segment Breakdown (¥ mn, %) (3 months)	FY12/23				FY12/24					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3			
Revenue	17,067	23,726	23,929	25,330	26,922	25,841	25,674			
YoY	20.0%	37.0%	32.0%	6.2%	57.7%	8.9%	7.3%			
Manufacturing (Parts/Materials)	2,856	2,952	2,942	3,031	2,713	3,130	2,976			
YoY	-6.7%	-8.8%	-6.7%	-7.2%	-5.0%	6.0%	1.2%			
Writing Instruments	1,829	1,854	1,901	1,933	1,778	2,033	1,820			
Cosmetics	371	392	351	327	253	354	321			
MIM	522	576	535	616	531	601	665			
Others	132	128	152	155	150	140	169			
Manufacturing (Audio Equipment/Peripherals)	14,211	20,773	20,987	22,299	24,208	22,711	22,698			
YoY	30.4%	50.8%	43.5%	10.3%	70.3%	9.3%	8.2%			
AlphaTheta	10,718	14,466	13,977	12,768	18,934	14,326	15,514			
YoY	26.7%	73.1%	80.2%	8.3%	76.7%	-1.0%	11.0%			
JLab	3,493	6,307	7,010	9,530	5,274	8,384	7,185			
YoY	43.6%	16.4%	2.1%	13.0%	51.0%	32.9%	2.5%			
Others	-	-	-	-	-	-	-			
Operating EBITDA	2,496	5,473	5,659	4,068	7,805	6,235	6,079			
YoY	0.4%	113.5%	193.1%	-7.3%	212.7%	13.9%	7.4%			
EBITDA margin	14.6%	23.1%	23.6%	16.1%	29.0%	24.1%	23.7%			
Manufacturing (Parts/Materials)	650	872	801	875	596	925	802			
YoY	-17.8%	-17.9%	-13.0%	-7.3%	-8.3%	6.1%	0.1%			
EBITDA margin	22.8%	29.5%	27.2%	28.9%	22.0%	29.6%	26.9%			
Manufacturing (Audio Equipment/Peripherals)	2,081	4,857	5,112	3,764	7,436	5,560	5,524			
YoY	9.6%	189.3%	346.9%	7.2%	257.3%	14.5%	8.1%			
EBITDA margin	14.6%	23.4%	24.4%	16.9%	30.7%	24.5%	24.3%			
AlphaTheta	2,659	4,394	4,222	2,077	6,707	3,986	5,053			
YoY	8.8%	202.2%	426.4%	-5.5%	152.2%	-9.3%	19.7%			
EBITDA margin	24.8%	30.4%	30.2%	16.3%	35.4%	27.8%	32.6%			
JLab	-578	463	890	1,687	729	1,573	471			
YoY	-	105.8%	160.2%	28.4%	-	239.7%	-47.1%			
EBITDA margin	-16.5%	7.3%	12.7%	17.7%	13.8%	18.8%	6.6%			
Others	-	-	-	-	-	-	-			
HQ expenses	-235	-256	-254	-571	-228	-250	-247			

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
	FY12/21	FY12/22	FY12/23	FY12/24			FY12/25	
	Actual	Actual	Actual	05/24 CoE	08/24 CoE	11/24 CoE	Mid. Target	
Revenue	54,481	72,233	90,052	103,500	103,700	103,100	100,000	16.4%
Mfg. (Parts/Materials) Teibow	12,282	12,717	11,781	12,400	12,200	11,900	12,800	1.0%
Ratio to total	22.5%	17.6%	13.1%	12.7%	11.8%	11.5%	12.8%	
Mfg.(Audio equipment/peripherals)	41,107	59,516	78,271	89,500	91,500	91,200	85,500	20.1%
Ratio to total	75.5%	82.4%	86.9%	86.5%	88.2%	88.5%	85.5%	
AlphaTheta	26,511	36,362	51,930	60,000	60,800	60,400	56,500	20.8%
Ratio to total	48.7%	50.3%	57.7%	58.0%	58.6%	58.6%	56.5%	
JLab	14,596	23,154	26,340	29,500	30,700	30,800	29,000	18.7%
Ratio to total	26.8%	32.1%	29.2%	28.5%	29.6%	29.9%	29.0%	
Others	1,090	0	0	1,600	0	0	1,700	
Domestic revenue	6,744	7,113	7,672	-	-	-	-	
Ratio to total	12.4%	9.8%	8.5%					
Overseas revenue	47,737	65,120	82,380	-	-	-	-	
Ratio to total	87.6%	90.2%	91.5%					
Operating EBITDA	10,739	11,095	17,696	21,000	21,500	22,700	20,000	16.8%
EBITDA margin	19.7%	15.4%	19.7%	20.3%	20.7%	22.0%	20.0%	
Mfg. (Parts/Materials) Teibow	4,185	3,718	3,198	3,500	3,200	3,100	3,700	-3.0%
EBITDA margin	34.1%	29.2%	27.1%	28.2%	26.2%	26.1%	28.9%	
Mfg.(Audio equipment/peripherals)	7,076	8,234	15,814	18,600	19,600	20,800	17,200	24.9%
EBITDA margin	17.2%	13.8%	20.2%	20.8%	21.4%	22.8%	20.1%	
AlphaTheta	5,671	6,897	13,352	15,400	15,700	16,700	13,800	24.9%
EBITDA margin	21.4%	19.0%	25.7%	25.7%	25.8%	27.6%	24.4%	
JLab	1,404	1,337	2,462	3,200	3,900	4,100	3,400	24.7%
EBITDA margin	9.6%	5.8%	9.3%	10.8%	12.7%	13.3%	11.7%	
Others, HQ expenses	-522	-857	-1,316	-1,100	-1,300	-1,200	-900	
Operating profit	6,068	1,039	14,388	16,000	16,800	18,000	15,000	25.4%
OP margin	11.1%	1.4%	16.0%	15.5%	16.2%	17.5%	15.0%	
ROE	4.7%	2.7%	5.1%				over 4%~8%	
ROIC (Gross IC base)	2.0%	0.3%	3.9%	6.0%	6.0%	6.0%	5~6%	
ROIC (Net IC base, Co. definition)	2.6%	0.6%	7.4%	6.0%	6.0%	6.0%	5~6%	
EPS (¥)	143.6	2,848.5	285.9	288.7	364.2	386.6	290.0	
Payout ratio	137.9%	5.3%	40.2%	40.2%	31.9%	30.0%	over 40%	
Net Debt/Operating EBITDA	5.1	-7.6	-3.0				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 upwards at the time of the Q1, on May 10, Q2 on August 9 and Q3 on November 8 for full year 12/2024 and have already exceeded the mid-term targets.

2. Comparison With Similar Companies

When selecting companies to compare with Noritsu Koki, the criteria were companies whose core business is manufacturing, which have similar products and which are of similar business scale. Six companies were selected as comparable companies for comparison. However, there is no company that has separated its original business like Noritsu Koki and transformed into a conglomerate in a completely different industry. Of the seven companies including Noritsu Koki, Noritsu Koki has the highest operating profit margin at 16.0%, but the lowest ROE at 5.1%. Its equity ratio of 73.5% is the second highest after ELECOM (6750 TSE Prime) at 73.6%.

The Company Has the Highest Operating Profit Margin and The Lowest ROE Among the Seven Companies

Noritsu Koki | 7744 (TSE Prime)

Kawai Musical Instruments	Similar companies with a high sales ratio for audio equipment and similar sales scale include Kawai Musical Instruments Manufacturing Co., Ltd. (7952 TSE Prime) and Roland (7944 TSE Prime). Kawai Musical Instruments Manufacturing Co., Ltd. is an older company, having been established in 1927. Although it has a material processing business with a high operating profit margin, the sales ratio of its musical instrument education business, which is mainly focused on pianos and has a low profit margin, is high, so the operating profit margin for the entire company is only 4.1%.
Roland	Roland is a major Japanese electronic musical instrument manufacturer founded in 1972. Since 2010, the company posted losses for four consecutive fiscal years and its performance was sluggish. In July 2014, a takeover bid for Roland shares was completed by Tokowaka Corporation, a member of the US investment fund Taiyo Pacific Partners Group. The company was delisted in October of the same year and after undergoing management restructuring, it was relisted in December 2020. In fiscal year 2023/12, the company has been reborn as a highly profitable company with an operating profit margin of 11.6% and an ROE of 22.2%.
AuBEX	AuBEX (3583 TSE Standard) has a smaller sales volume but is a competitor of Teibow. Its operating profit margin is 10.4%, and its ROE is 7.2%. In addition to its core business of marking pen tips (writing and cosmetics), AuBEX also operates a medical business (products using flow control tubes). Its market share for marking pen tips is approximately 25% (Noritsu Koki has over 50%). According to the company, the market size for marking pen tips is estimated to be in the tens of billions of yen.
ELECOM	Although ELECOM (6750 TSE Prime) has a different business model, it handles products with short life cycles and maintains relatively stable profitability (operating profit margin 11.2%, ROE 11.9%) amidst fierce sales competition with rival companies. It is also an interesting benchmark for JLab.
Casio Computer JVCKENWOOD	Casio Computer (6952 TSE Prime) and JVCKENWOOD (6632 TSE Prime) have sales three times that of Noritsu Koki, but their operating profit margins are in the 5% range, second only to Kawai Musical Instruments.

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	90,052	14,390	16.0%	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 Seven Similar Companies

We compared the stock price index trends over the past five years (with the stock price on November 21, 2019 set at 100) for the company and the six similar companies mentioned above. The stock price fluctuation rates up to the most recent time are: 1) JVCKENWOOD +443%, 2) Noritsu Koki +151%, 3) AuBEX +38%, 4) Roland +35%, 5) Kawai Musical Instruments Manufacturing Co., Ltd. -16%, 6) ELECOM -33% and 7) Casio Computer Co., Ltd. -47%.

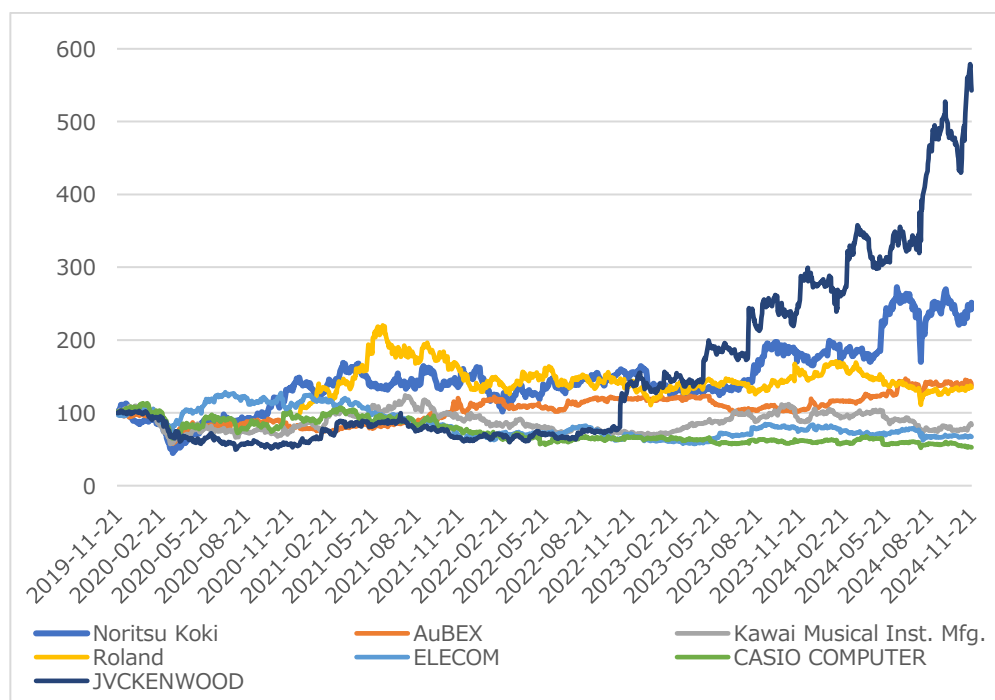
Factors Behind Stock Price Fluctuations

Excluding Casio Computer and JVCKENWOOD, the market capitalization of the other five companies is below ¥150 billion, but Noritsu Koki's most recent high was above ¥150 billion. JVCKENWOOD's stock price has soared since 2023 due to the positive surprise of a large increase in sales and profits in the first quarter of the fiscal year ending March 2024. The sluggish stock prices of Kawai Musical Instruments, Casio Computer and ELECOM are likely due to their flat performance over the past five years and little change in their business structures.

Valuation Comparison

Of the seven companies, three have a PBR of 1.0 or less: Noritsu Koki at 0.75, Kawai Musical Instruments at 0.60, and AuBEX at 0.51. The PER ranges widely from 5 to 65, with Noritsu Koki's 11.11 being the second lowest after AuBEX's 5.72. The dividend yields are the highest at 4.11% for Roland, 3.33% for Elecom and 2.70% for Noritsu Koki.

Figure 7. Stock Price Index of Similar Companies (100 as of November 21, 2019)



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

Noritsu Koki Stock Price Catalysts

Noritsu Koki's stock price bottomed out and started to rise between 2016 to 2017 when the company transferred its original business and carried out M&A. During the COVID-19 pandemic, the company continued to focus on "manufacturing" and after a period of adjustment, it has been on an upward trend again since the second half of 2023. As the company's growth strategy for new businesses and scenarios for improving ROE become clear, we can expect the company's stock price to test its highest price since listing (¥5,900, 1999/09/08). In addition, by calculating the company's enterprise value using a sum-of-the-parts analysis and deducting net debt, a theoretical stock price of ¥7,029 is obtained (see our report dated May 17, 2024). As a result of the expansion of the company's cash assets, etc., the company's PBR is 0.75 times and it is also attracting attention as a stock that urgently requires action such as shareholder return measures. The company aims to improve not only its dividend payout ratio but also its total return ratio.

Risk Factors

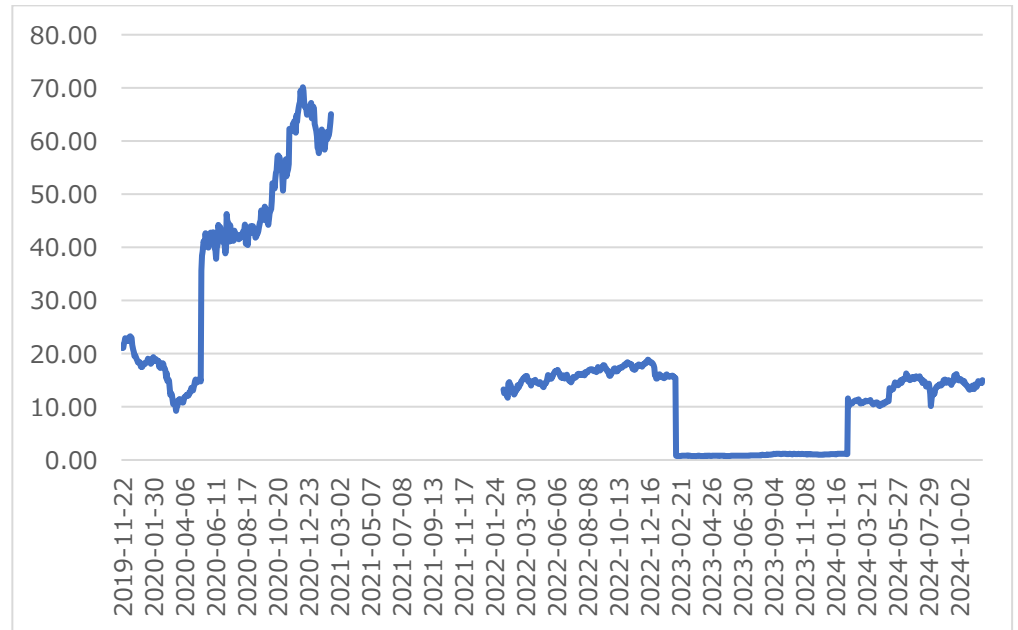
At present, the risk factor for the stock price is a decline in management efficiency due to the rapid expansion of their overseas business. On February 14, 2023, the company announced a goodwill impairment loss of ¥5.9 billion for JLab, causing the stock price to temporarily fall.

Figure 8. Comparison of Valuations with Similar Companies

Company name	Stock code	Recent FY results	Stock price (Nov.21) (¥)	Mkt cap (Nov.21) (¥ mn)	PER CoE (Times)	PBR Actual (Times)	Dividend Yield CoE (%)	ROE Actual (%)
Noritsu Koki	7744	12/23	4,295	153,334	11.11	0.75	2.70%	5.1%
AuBEX	3583	3/24	1,151	3,234	5.72	0.51	2.60%	7.2%
Kawai Musical Inst. Mfg.	7952	3/24	2,995	25,755	64.37	0.60	-	6.9%
Roland	7944	12/23	3,935	108,798	16.19	2.71	4.11%	22.2%
ELECOM	6750	3/24	1,440	109,955	12.19	1.36	3.33%	11.9%
CASIO COMPUTER	6952	3/24	1,074	242,457	24.58	1.08	-	5.3%
JVCKENWOOD	6632	3/24	1,461	220,337	17.62	1.92	1.21%	12.2%

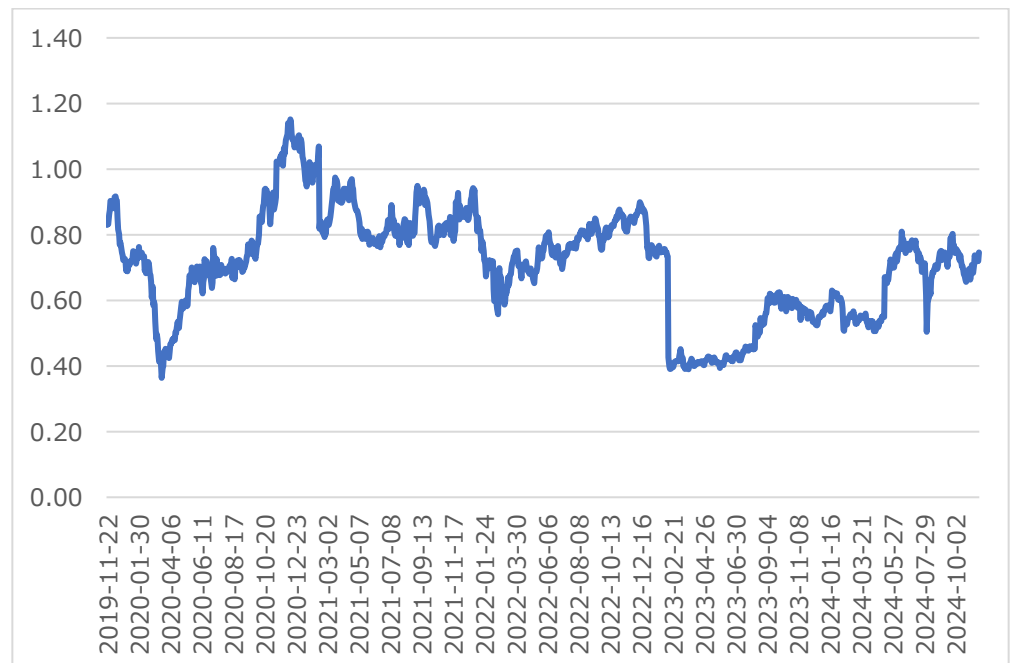
Source: Strategy Advisors. Based on Company Data.

Figure 9. Trends in PER



Source: Strategy Advisors

Figure 10. Trends in PBR



Source: Strategy Advisors

Noritsu Koki | 7744 (TSE Prime)

Figure 11. Noritsu Koki's Share Price and Trading Volumes Since its Listing
(data from the last day of each month)



Source: Strategy Advisors

Note: The highest price since listing was ¥5,900 (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	72,233	90,052	103,100
YoY	16.0%	12.0%	13.4%	-	-	-	32.6%	24.7%	14.5%
Cost of sales	25,433	28,993	33,453	13,439	18,721	29,717	43,547	49,967	
Gross profit	24,612	27,042	30,073	12,707	22,426	24,763	28,686	40,085	
Gross profit margin	49.2%	48.3%	47.3%	48.6%	54.5%	45.5%	39.7%	44.5%	
Selling, general and administrative expenses	20,123	21,038	23,835	7,353	15,828	17,839	21,795	26,725	
SG&A ratio to sales	40.2%	37.5%	37.5%	28.1%	38.5%	32.7%	30.2%	29.7%	
Other income	211	85	118	57	441	253	341	1,339	
Other expenses	88	134	302	1,276	1,223	1,109	6,193	309	
Operating profit (loss)	4,611	5,954	6,053	4,134	5,816	6,068	1,039	14,390	18,000
YoY	127.1%	29.1%	1.7%	-	-	-	-82.9%	-	25.1%
Operating profit margin	9.2%	10.6%	9.5%	15.8%	14.1%	11.1%	1.4%	16.0%	17.5%
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	557	
Profit (loss) before tax	6,348	6,092	5,954	599	2,574	5,315	3,722	13,678	17,800
YoY	186.6%	-4.0%	-2.3%	-	-	-	-30.0%	267.5%	30.1%
Pretax profit margin	12.7%	10.9%	9.4%	2.3%	6.3%	9.8%	5.2%	15.2%	17.3%
Income tax expense	2,249	-3,352	1,965	-889	-4,321	887	283	3,546	
Tax rate	35.4%	-55.0%	33.0%	-148.4%	-167.9%	16.7%	7.6%	25.9%	
Profit (loss) from continuing operations	4,099	9,445	3,989	1,488	6,895	4,427	4,005	10,132	
Profit (loss) from discontinued operations	-189	-937	-1,349	117	3,761	2,168	97,706	78	
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	13,800
YoY	-	107.9%	-67.0%	-	-	-	-	-90.0%	35.3%
Profit attributable to owners of the parent profit margin	8.6%	15.9%	4.6%	4.9%	24.0%	9.4%	140.6%	11.3%	13.4%
Operating EBITDA	-	-	7,965	6,847	9,487	10,739	11,095	17,696	22,700
EBITDA margin	-	-	12.5%	26.2%	23.1%	19.7%	15.4%	19.7%	22.0%

Source: Strategy Advisors. Based on Company Data.

Note: The company forecast for FY12/2024 compares the figures from FY12/2023 excluding the "Other" segment.

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
	9 months							
SG&A	20,123	21,038	23,835	7,353	15,828	17,839	21,795	26,725
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	855	355	468

Source: Strategy Advisors. Based on Company Data.

Note: Unknown portion of retrospective adjustment is adjusted under "Other"

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