Segue Group | 3968 (TSE Prime)

Company Report

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Strategy Advisors Inc.
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An Independent SI Company That Provides High Added Value by Providing Total Security Solutions

Segue Group is a system integrator specializing in networks and security founded in 1995. Since 2012, the company has seen its revenue increase every fiscal year, with an average annual growth rate of 15.6% (2012-2023).

Its strength is that by limiting its business domain, it has been able to establish close collaborative relationships with partner companies and secure specialized engineers. Even if a newer company tries to enter the market, it will have difficulty securing personnel with expertise in networks and security and it will be difficult to secure stable orders from partner companies, making this a model that is difficult to follow.

The company's equity story is to increase profitability (gross profit margin) by providing total security solutions, including in-house developed services; and to make a leap forward to become a unique, high value-added company and total security solutions company that offers a wide range of functions in the fields of networking and security. To achieve this, the company has announced "Segue300" as a new medium-term management plan (disclosed on May 22, 2024). Under this plan, the company plans to expand sales, including M&A, to ¥30 billion by FY12/2026 and aims for sales growth of just under 20% on an annualized basis.

In February 2014, the company announced a large benefit (QUO cards valued at ¥30,000 per year) in order to meet the market capitalization of the stock listed on the prime market and the stock price rose significantly. Although the current valuation does not seem cheap, the PER calculated based on the performance target for the final year of the medium-term management plan is around 19 times and we hope that the stock price will reach a new record high with the achievement of the plan.

Although the performance for FY12/2024 is somewhat sluggish due to a backlash from the strong performance of the previous term, orders are extremely strong and it appears that the company is steadily winning projects related to central government ministries and agencies through close collaboration with partner companies. In addition, it is noteworthy that the company is thoroughly implementing management that is conscious of corporate value through an active capital policy such as share buybacks.

Stock Price & Trading Volumes

Source: Strategy Advisors

Key Indicators

Stock Price (1/21/24)	614
Year-to-Date High (1/10/25)	659
Year-to-Date Low (1/21/25)	614
52-Week High (2/25/24)	711
52-Week Low (12/6/23)	298
Shares on Issue (mn)	32.0
Market Capitalization (¥ bn)	19.6
EV (¥ bn)	7.8
Equity Ratio (12/23 Actual, %)	33.8
PER (12/24 CoE, Times)	24.2
PBR (12/23 Actual, Times)	2.6
Dividend Yield (12/24 CoE, %)	1.8

Source: Strategy Advisors

Japanese GAAP - Consolidated

FY	Sales (¥ mn)	YoY Change (%)	Operating Income (¥ mn)	YoY Change (%)	Ordinary Income (¥ mn)	YoY Change (%)	Net Income (¥ mn)	YoY Change (%)	EPS (¥)	DPS (¥)
12/2020	10,993	14.0	844	54.0	874	57.8	634	53.9	18.4	5.3
12/2021	12,039	9.5	639	-24.3	686	-21.5	455	-28.2	13.0	5.3
12/2022	13,623	13.2	906	41.8	1,051	53.2	743	63.3	21.2	6.0
12/2023	17,443	28.0	1,086	19.9	1,015	-3.4	661	-11.0	6.3	10.0
12/2024 CoE	18,800	7.8	960	-11.6	1,330	31.0	773	16.9	22.7	11.0

Source: Strategy Advisors. Based on Company Data.

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Executive Summary

Segue Group is a system integrator specializing in networks and security. Its predecessor was J’s Communication, which was founded in Osaka City in 1995 with Segue Group established in 2014 as a pure holding company. The company's founder, President Yasuyuki Aisu, is 58 years old (born in 1966) and was born in Osaka. His father runs a plating factory in Osaka, and from an early age he was impressed by the sight of his father working day and night in the factory, completely covered in black paint, despite being a graduate of a national university. In kindergarten, he also had the experience of collecting copper and other metal scraps at his grandparents' home and factory and having bought sold them to those close to him for ¥300, he learnt that money can be earned in exchange for labor.

Since 2012, the company has seen an increase in sales every fiscal year, with an average annual growth rate of 15.6% (2012-2023). In addition to strong demand in the network and security fields surrounding digital transformation, the company has achieved high growth by handling products in high demand, such as Juniper Networks (an IT infrastructure and security appliance company), Ruckus Wireless (which provides Wi-Fi access points) and Rapid7 (a vulnerability risk management tool). The company has created an advantage by focusing on products and employing a large number of engineers who are well versed in those areas and has established a position as a system integrator specializing in networks and security.

The company's business is broadly divided into three categories: "VAD (Value Added Distribution)", "SI (System Integration)", and "In-house Development". As of the end of fiscal year 2023/12, the gross profit breakdown was VAD: 42.6%, SI: 40.4% and in-house development: 17.0% (from FY12/2024, "overseas" will be added). The gross profit margin of in-house development, which provides “RevoWorks“ is high at 77.9%, while the gross profit margins of VAD and SI are generally around 20-25%. Simply, design/construction and operation/maintenance are highly profitable, while license and hardware sales are less profitable.

The company's equity story is to increase profitability (gross profit margin) by providing total security solutions, including in-house developed products and services; and to make a leap forward to become a unique high value-added company and total security solutions company that provides a variety of functions in the fields of networking and security. Due to winning projects through collaboration with prime vendors and the impact of purchasing and selling overseas products, the company's profitability was relatively low compared to other companies and it has tended to be evaluated as a wholesaler. In the future, it is expected that the company will increase its profitability by providing total security solutions and adding value that only Segue can provide.

The company announced "Segue300" as a new medium-term management plan (disclosed on May 22, 2024). The plan calls for expanding sales, including M&A, to ¥30 billion by FY12/2026 (M&A is a challenging goal). On an annualized basis, the company is expected to aim for sales growth of just under 20%, which is a plan to further accelerate the company's growth rate, which has continued to grow at around 10-15%. In addition, if the company can increase added value by providing total security solutions and increase its gross profit margin, it is expected that the improved profitability will lead to business growth and an increase in value.

In order to meet the market capitalization of outstanding shares standard for Prime Market Listening, the company announced a high-value benefit in February 2024. Shareholders who hold 10 units (1,000 shares) or more will be presented with a QUO cards valued at ¥15,000 once every six months, which amounts to a high-value benefit equivalent to ¥30,000 for the whole year. The current share price is ¥637 (closing price on January 6th), which means that shareholders who hold ¥637,000 worth of shares will receive a benefit equivalent to a benefit yield of 4.7%. The share price has risen significantly since the announcement of the high-value benefit and the benefit yield supports the share price, so the company has come close to meeting the Prime Market listing standard.

The current valuation is at the average level of the comparable companies and does not seem cheap. However, the PER calculated based on the results for the final year of the medium-term management plan is about 19 times and it is quite possible that the stock price will reach a new record high since the listing, once the results of the plan are factored in. Recent orders are extremely strong and attention will be focused on whether the company can achieve the plan by expanding its business scale in both quantity and quality while strengthening its human resources, especially its engineers.

1. Company Overview

1) A Network Integrator That Has Seen Revenue Growth Every Year Since 2012

A System Integrator Specializing in Networks & Security

Segue Group is a system integrator specializing in networks and security. Its predecessor was J’s Communication, which was founded in Osaka City in 1995. In 2014, in order to further grow, Segue Group was established as a pure holding company that brings together group companies.

The Average Annual Growth Rate Is 15.6%

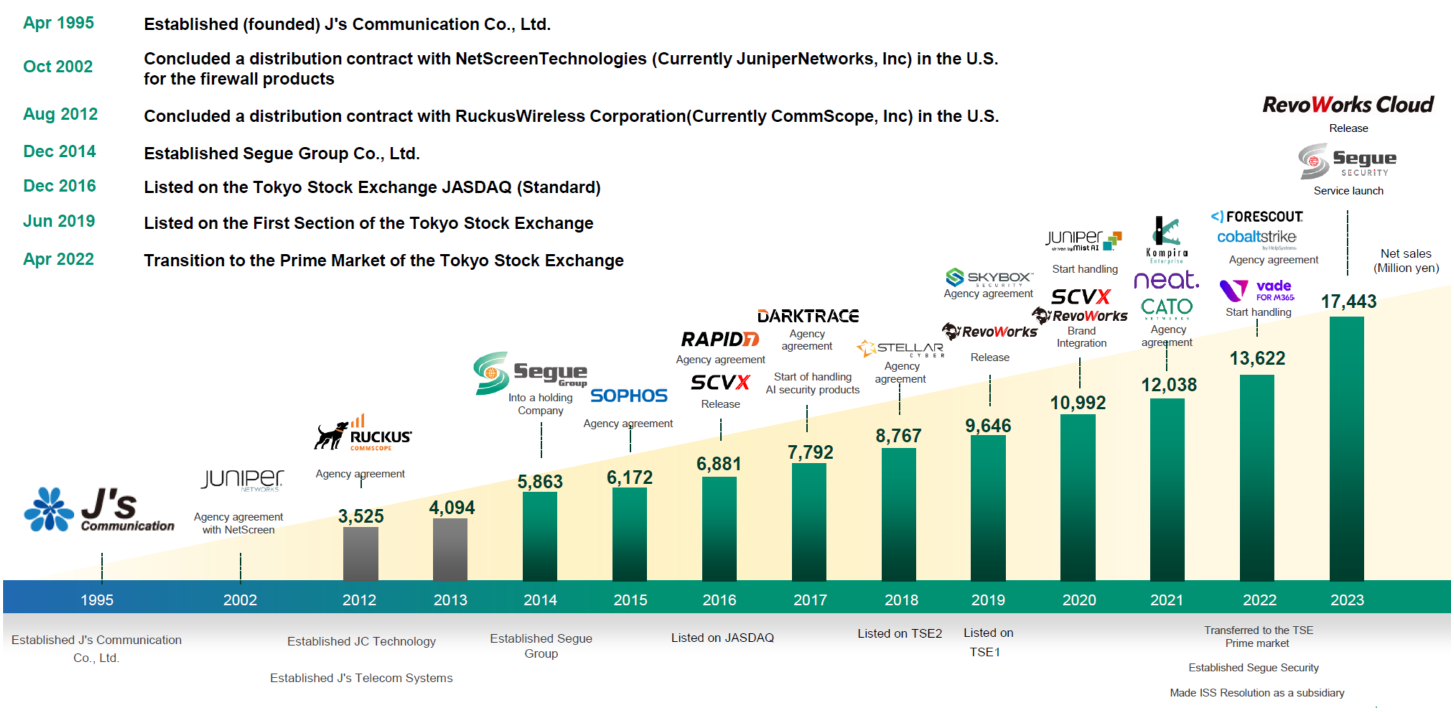
Since 2012, the company has seen an increase in sales every fiscal year, with an average annual growth rate of 15.6% (2012-2023). In addition to strong demand for network-related products, the company has steadily expanded its business by increasing the number of solutions it handles.

Of particular note is that since October 2002, the company began handling network products and services as an agent for the Juniper Networks (acquired by HP in January 2024 for $14 billion). The company has achieved stable growth by adding value such as system integration, maintenance and operation to network equipment and peripheral services such as firewalls and switches provided by global top manufacturers.

Establishing a Unique Positioning

In addition to Juniper Networks, the company is also actively increasing its handling of products and services with high customer demand, such as Ruckus Wireless, which provides Wi-Fi access points and Rapid7, a vulnerability risk management tool; and has established a system that allows it to provide world-class services in each field through the company. There are many system integrators, but Segue has created a comparative advantage by narrowing down the products it handles and employing a large number of engineers who are well versed in those fields, so it can be said that it has established a unique position as a system integrator that specializes in networks and security.

Figure 1. Segue Group Sales Trends



Source: Company Data.

2) Achieving Stable Growth in A Structure Similar to the Construction Industry

Segue is a Subcontractor with Strength in the Network & Security Fields

The system integrator industry has a similar structure to the construction industry. For large-scale projects, the main contractor (primary contractor) receives orders directly from the client (orderer) and is responsible for construction management, material procurement and budget management. Subcontractors who specialize in specialized areas such as foundation, electrical and facility work receive orders directly from the primary contractor. Segue is also a subcontractor-like company in the construction industry and has established a position as a specialized technical partner with strengths in products, technologies and support in the network and security fields.

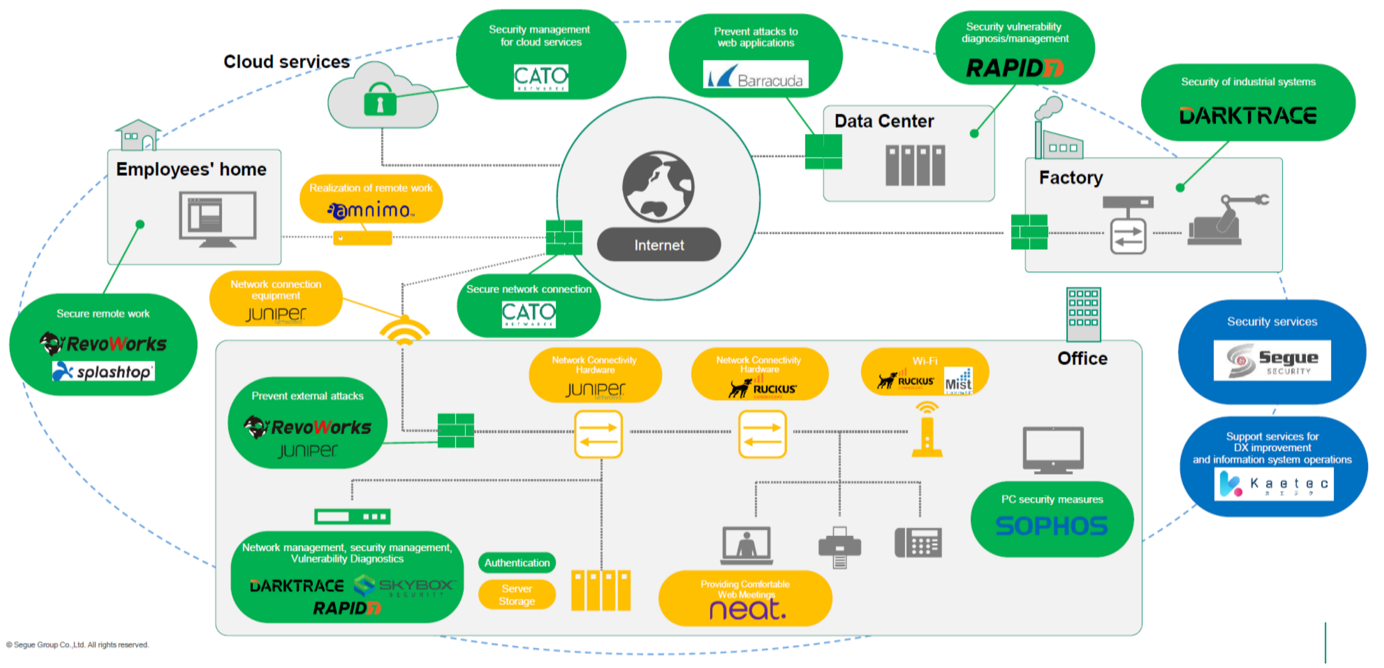
Establishing Collaborative Relationships with Major System Integrators

The primary contractors (equivalent to major general contractors in the construction industry) who place orders with Segue include manufacturer-affiliated system integrators such as Fujitsu and NEC (including NEC Networks & Systems Integration), communication system integrators such as NTT, KDDI, and Softbank and trading company-affiliated system integrators such as Sojitz Tech-Innovation, Itochu Techno-Solutions (CTC) and SCSK. Segue has handled many cases of introducing European and American network equipment and peripheral services and has engineers with expertise in those fields, which has earned it the trust of these major system integrators and enabled it to strengthen its mechanisms for receiving orders for projects.

Establishing Good Relationships with Both Orders & Suppliers by Limiting Themselves to Their Specialty & Surrounding Areas

The company's services include network connection devices, peripheral Wi-Fi, security, vulnerability diagnosis and remote work environments. By limiting its scope to its own specialty and related areas, it is able to establish partnerships and collaborate with major system integrators without competing with them. In addition, when procuring European and American network devices, it is able to secure sales volume thanks to stable orders from major domestic system integrators, thereby enhancing its product procurement capabilities. By specializing in the network peripheral area, it has established good relationships with major system integrators who are its ordering source and European and American network device manufacturers, who are its suppliers.

Figure 2Segue's Services



Source: Company Data.

3) Establishing Barriers to Entry (Inimitability) Through A Concentration Strategy

Five Forces are at Work

In his book “Competitive Strategy,” Michael Porter revealed that five forces are at work in any industry (see Competitive Strategy by M.E. Porter (Diamond Inc., 1995) and Michael Porter's Competitive Strategy ([Essential Edition] Kindle Edition by Joan Magretta and Sakurai Yuko (Hayakawa Publishing, 2012)).

If Competitive Factors are Strong, Profitability Will Decrease

The five forces are: 1) the threat of new entrants, 2) the bargaining power of suppliers, 3) the bargaining power of buyers, 4) the threat of substitute products or services and 5) competition among existing companies. If the impact of the five competitive forces is strong, profitability will decline; and conversely, if their impact is weak, it will be an opportunity to increase profits. Essentially, the idea is that "if you position yourself in a less competitive situation, your profits will increase".

Segue Establishes Barriers to Entry Through a Concentration strategy

Porter claims that strategies to gain a competitive advantage over competitors can be summarized as one of three strategies: 1) cost leadership strategy, 2) concentration strategy and 3) differentiation strategy. In the case of Segue, it can be said that they have established a competitive advantage by focusing on and specializing in the fields of networking and security. By limiting the field, they have achieved 1) securing specialized engineers and 2) establishing collaborative relationships with partner companies.

Even if a latecomer tries to enter the market, they will not be able to secure personnel knowledgeable in networks and security and they will not be able to secure stable orders from partner companies, making it a model that cannot be easily imitated.

TOB is Increasing & Industry Reorganization is Progressing

In addition, it should be noted that the system integrator industry is seeing an increase in tender offers and it is noteworthy that industry restructuring is progressing. SCSK (9719, TSE Prime), one of the largest companies in the industry, announced a tender offer for Net One Systems (November 2024). By bringing Net One Systems (7518, TSE Prime) under its control, it is expected to be able to provide IT services vertically, from IT infrastructure to applications. NEC (6701, TSE Prime) also announced that it would make its consolidated subsidiary NEC Networks & Systems Integration (1973, TSE Prime) a wholly owned subsidiary through a tender offer (October 2024). In addition to strengthening services for local governments, it is expected that the quality of services will be improved through mutual utilization of management resources. KDDI (9433, TSE Prime) also announced a tender offer for LAC (3857, TSE Standard) (November 2024). By integrating network services and cybersecurity services, it is now possible to provide a comprehensive range of services from consulting to monitoring and operation.

One Structural Factor is Limited Growth Due to a Shortage of Engineers

The background to this is that although individual company factors are involved in each project, the essential factor is that the chronic shortage of engineers has exposed the limits to growth. By becoming affiliated with a major company rather than going alone, it will be possible to realize economies of scale and operate the business more productively.

Segue Has a Collaborative Relationship with A Major SI Company & Does Not Want to be Associated with ANY Singular Company

It is quite possible that Segue may receive a takeover bid proposal from a major company in the future. However, in the case of Segue, it has established close collaborative relationships with partner companies, including major SI companies through its unique positioning, so it is not desirable for it to be associated with a singular group. In addition, as the industry restructuring progresses as described above, it may actually increase Segue's advantage as an independent company that can freely handle the products that customers want.

Hiring Engineers Interested in Networking & Security

In addition, by limiting its field, the company has been able to secure engineers who want to work on overseas products and engineers who are interested in networks and security and its concentration strategy has been successful. As mentioned above, as the industry undergoes restructuring, it is quite possible that Segue will attract a large number of specialized engineers by actively recruiting mid-career workers with experience in the industry.

2. Business Overview & Business Model

1) Business Overview

Disclose Three Business Segments: VAD, SI & In-House Development

The only reportable segment is the "IT Solutions Business", but the company discloses business performance by business in the financial results briefing materials. Business performance is broadly divided into three segments: "VAD (Value Added Distribution)", "SI (System Integration)" and "In-house Development." As of the end of FY12/23, the composition ratio of gross profit was VAD: 42.6%, SI: 40.4% and In-House Development: 17.0% ("Overseas" will be added from FY12/24).

Profitability is High with In-House Development

Profitability is high for in-house development, which offers the in-house developed product “RevoWorks“ with a gross profit margin of 77.9%. The gross profit margins for VAD and SI are generally around 20-25%, with design/construction and operation/maintenance being highly profitable, while license and hardware sales are less profitable.

VAD Sales Increased Sharply in FY12/23 As Inventory Due to the Semiconductor Shortage was Recorded as Sales

VAD's sales for FY12/23 increased dramatically by 41.6% compared to the same period last year. This was mainly due to the gradual recording of sales of backlogged hardware orders, which had increased due to delivery delays caused by the global semiconductor shortage. VAD's gross profit margin for FY12/23 fell to 19.6%, but the backlog has already been cleared and profitability is expected to improve again as sales expand in the future.

Figure 3Trends In Performance by Segment (unit: ¥ mn)

FY	12/20	12/21	12/22	12/23
Total Sales	**10,993**	**12,039**	**13,623**	**17,443**
(YoY)	14.0%	9.5%	13.2%	28.0%
VAD	**5,280**	**5,262**	**6,332**	**8,966**
(YoY)	-	-0.3%	20.3%	41.6%
SI	**5,127**	**6,169**	**6,203**	**7,576**
(YoY)	-	20.3%	0.6%	22.1%
In-House Development	**586**	**608**	**1,088**	**901**
(YoY)	-	3.7%	79.0%	-17.2%
Gross Profit	**3,093**	**3,092**	**3,559**	**4,124**
(Gross Profit Margin)	28.1%	25.7%	26.1%	23.6%
VAD	1,371	1,314	1,299	1,757
(Gross Profit Margin)	26.0%	25.0%	20.5%	19.6%
(Composition Ratio)	44.3%	42.5%	36.5%	42.6%
SI	1,313	1,446	1,419	1,665
(Gross Profit Margin)	25.6%	23.4%	22.9%	22.0%
(Composition Ratio)	42.4%	46.8%	39.9%	40.4%
In-House Development	409	332	842	702
(Gross Profit Margin)	69.7%	54.6%	77.3%	77.9%
(Composition Ratio)	13.2%	10.7%	23.6%	17.0%

Source: Company Data.

Providing Vertical Services from Design & Construction to System Engineer Services and Managed Services

What each business segment has in common is that they provide vertical services from the design and construction phase, known as professional services, to the SE services (contract and dispatch) involved in the actual implementation, as well as subsequent managed services (monitoring, management and other operations).Once implementation is decided, it is possible to secure stock income through managed services, making this a business model that allows for stable business expansion.

Figure 4. Overview Of Business Segment

Business Segment	VAD (Distribution)	In-House Development	SI
Business Contents	Overseas Product Distributor	In-House Development	Domestic Product Distributor (such as Servers)
Professional Services (Design & Construction)	○	○	○
SE Services (Contracting & Dispatching)	○	○	○
Managed Services (Operation of Monitoring, Management, etc.)	○	○	○

Source: Strategy Advisors. Based on Company Data.

2) VAD Business Model

In Addition to Selling Overseas Products & Licenses, VAD also Provides Comprehensive Consulting & System Integration Services

VAD stands for 'Value Added Distribution' and is the company's main business. In addition to selling overseas products and licenses, the company works with prime vendors to support proposal activities and technical improvement; and it offers consulting, system integration, customization, operation and maintenance services also. In addition, the company handles logistics, from receiving product parts and materials, to stocking, inspecting and shipping and also handles pre-shipment installation work. Maintenance support is available 24 hours a day, 365 days a year at 106 locations nationwide.

Highly Trusted by Manufacturers

The company is also highly trusted by manufacturers, having been awarded the "Japan Distributor of the Year 2023" by its major client Juniper Networks and "The Best Partner of the Year 2023" by Rapid7. For manufacturers looking to expand globally, the company has a strong sense of trust in its close collaborative relationships with major Japanese system integrators and the presence of the company, which employs engineers with extensive product knowledge, is extremely important.

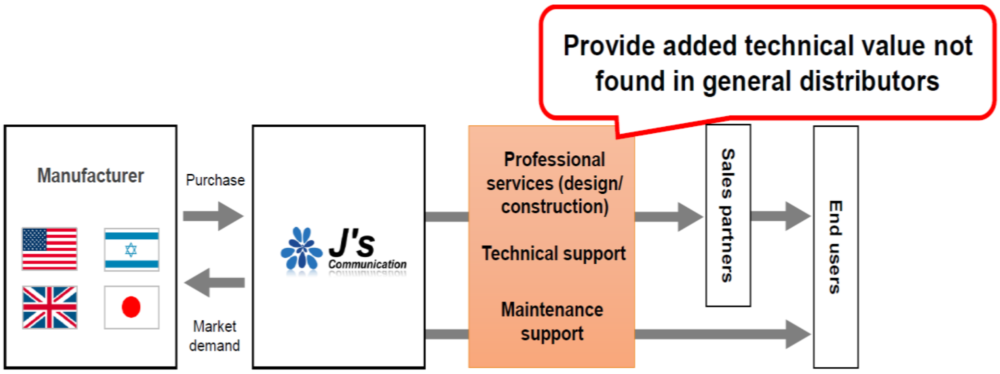
Gross Profit Margins are Declining, But We Expect Them to Improve in the Future

The gross profit margin for FY12/23 was 19.6%, which has been on a downward trend since FY12/20. This is mainly due to favorable sales of licenses and hardware, which have lower gross profit margins compared to system integration, operation and maintenance. Due to the impact of the global semiconductor shortage triggered by the spread of COVID-19, product backlogs have been on the rise since the Q3 FY12/21: but since the Q4 FY12/22, progress has been made in securing and delivering equipment and hardware sales have been stronger than ever. The backlog of orders due to the semiconductor shortage is already being worked through and profitability is expected to improve in the future.

Procurement From Major Business Partners Accounts For 37.3%

From the perspective of risk diversification, the company has secured a system for procuring products from various manufacturers in the US, UK, Israel, etc., but currently procurement from Juniper Networks and Ruckus Wireless accounts for 37.3% of the company's total (FY12/23). In order to further expand VAD's business, it is necessary to obtain sales agency contracts for products with high demand in the Japanese market, and this will test the company's ability to discern products.

Figure 5. VAD Business Model



Source: Strategy Advisors. Based on Company Data.

3) SI Business Model

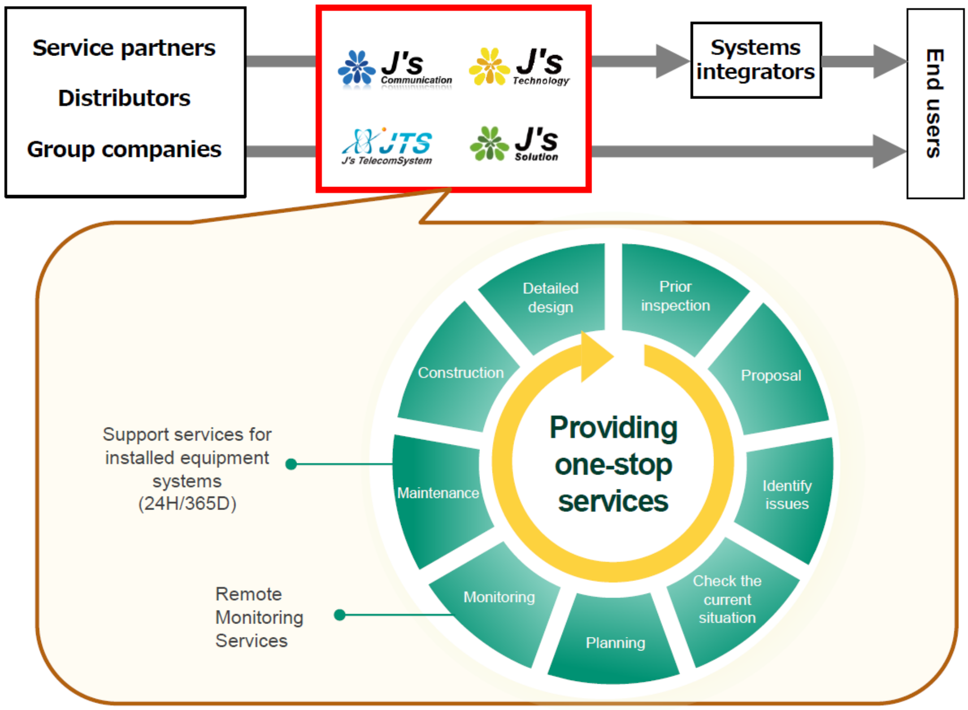
SI Provides Support for New Implementations, Planning, Monitoring & Maintenance Services

In system integration (SI), the company receives orders via major prime vendor system integrators and manufacturers' agents and provides comprehensive system integration services related to the products it handles. Specifically, in addition to support for new installations, such as construction, detailed design and advance verification, the company also provides support such as checking the current situation, formulating plans, monitoring and maintenance. It is therefore possible to provide a combination of software and appliances related to security and IT infrastructure in a form that meets the needs of the customer.

Sales Through Major Partners Account For 30%

The company's strength is that it receives stable orders from prime vendors, with approximately 30% of its total sales coming from sales through its top five partners.

Figure 6. SI Business Model



Source: Company Data. Compiled by Strategy Advisors

"Kaetec": A Service for End Users

In order to increase sales to major system integrators, the company is working to increase the unit price of SES (system engineering services), which have a higher stock value; while at the same time securing sales to end users, mainly through "Kaetec." "Kaetec" is a total solution service that resolves the resource shortage in information systems departments and began providing services in October 2021. Specifically, it provides suitability surveys for information systems departments, operation of MS365, Google and other business tools, PC kitting, help desk support, etc.

It is Priced Inexpensively & is Targeted at Small/ Medium-Sized Businesses

The basic fee (monthly from ¥50,000) is set low and the service is designed to target small and medium-sized enterprises without competing with the major system integrators that are the company's partners. As mentioned above, the company's strength is its ability to steadily secure work from major system integrators. On the other hand, compared to its competitors, whose gross profit margins are around 30%, it has had the issue of low profitability. In the future, the company intends to expand sales to existing customers as a stable, recurring revenue base, while at the same time improving profitability by simultaneously expanding the services it provides directly to end users through "Kaetec."

Figure 7. Kaetec Service Overview

Service	Overview	Price
Information System Appropriate Investigation Service	・Identify IT infrastructure configuration, uses, and specifications ・Check usage and operation status of groupware and business applications ・Conduct simplified security diagnosis ・Create and present a report summarizing investigation results and improvement proposals"	From ¥300,000
Operational Services for MS365/Google	・License management and account operation and management ・Operation and management of associated applications such as Azure AD and Intune ・Support for employees ・Troubleshooting	From ¥16,000/month
Business Tool Operation Service	・User account operation and management ・Master data registration and modification ・Support for employees ・Troubleshooting	From ¥24,000/month
Computer Comprehensive Operation Service	・Employee support ・PC and mobile asset management ・Kitting support for business devices ・Security tool operation	From ¥77,500/month
Network/Server Operation Services	・Life cycle management ・Analysis and escalation of monitoring alerts ・Support for device configuration changes ・Support for manufacturer inquiries and repair requests	From ¥100,000/month
Consulting Services	・General Consulting	-

Source: Company Website. Compiled by Strategy Advisors

4) In-House Development Business Model

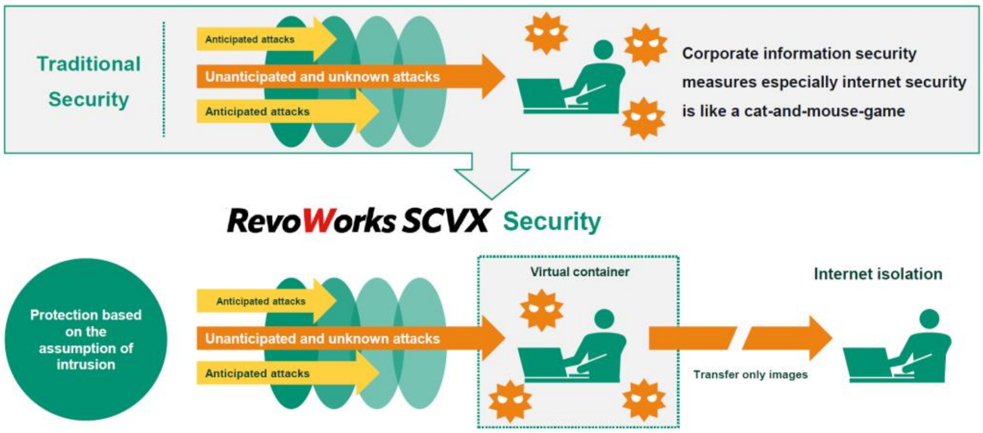
In-House Development Includes "RevoWorks"

The company provides its own in-house developed security products and services. Its main service is its in-house developed software, "RevoWorks". "RevoWorks" was developed in response to the personal information leak incident at the Japan Pension Service (2015), which prompted the Ministry of Internal Affairs and Communications to create guidelines for local governments on the "Municipal Information System Resilience Improvement Model". The guidelines suggested that networks connected to the Internet and networks used by local governments for business purposes (LGWAN connections) be physically separated.

Screen Transfer Technology Allows You to Browse the Internet

In response to this, Segue developed and began providing "RevoWorks", which is a service that allows users to launch a virtual browser on a container and browse the Internet using screen transfer technology. Conventional security systems were unable to prevent unexpected and unknown attacks, but by using "RevoWorks," even if an attack reaches the virtual container, the Internet is isolated, so serious damage is not caused, making it a solution that can prevent the worst-case scenario in any cyberattack.

Figure 8. Overview of RevoWorks SCVX



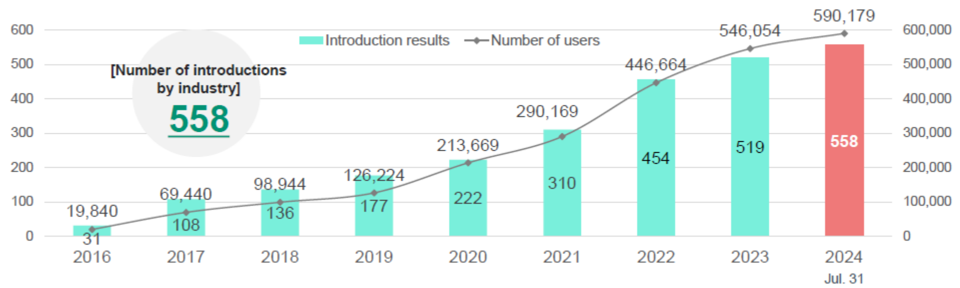
Source: Company Data.

Already Used by Nearly 600,000 Users

Since the service was launched, the number of adoptions has been steadily increasing. As of the end of May 2024, the cumulative number of adoptions was 541, with nearly 600,000 users using the service. The majority of adoptions are by local governments, which are likely to evaluate the fact that the service is in line with the guidelines announced by the Ministry of Internal Affairs and Communications, as mentioned above. In addition, adoption at medical institutions has also increased recently, against the backdrop of digital transformation accompanying work style reforms.

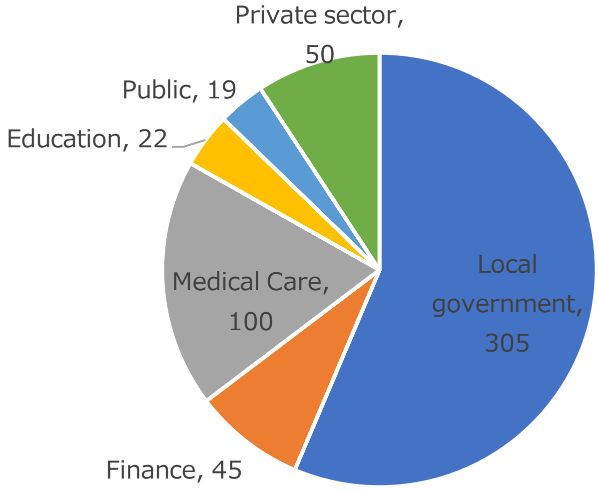
In addition, a certain amount of adoption has also been made at financial institutions, which require robust security and it can be said that there is still a lot of room for expansion.

Figure 9. RevoWorks Implementation Trends
(Units: left axis: cases, right axis: people)



Source: Company Data.

Figure 10. RevoWorks Introduction Results (Final Day of May 2024)
(Unit: Cases)



Source: Company Data. Compiled by Strategy Advisors

Synergies With Existing Businesses Are Also Expected, Enabling the Provision of Differentiated Total Solutions

In addition, by providing in-house developed services, it is expected that synergy will be created with existing businesses such as SI and VAD. There are also increasing cases of combining the company's own product "RevoWorks "with overseas products imported by VAD and of providing SI when introducing various services all at once in response to customer requests, making it possible for Segue to provide differentiated total solutions.

Established Segue Security and Began Providing Comprehensive Consulting Services

The company established Segue Security in November 2022 and began providing comprehensive security-related consulting services. Kouji Morii, who was the president of Segue Security when it was founded, was a former white hacker and a specialist in the security field. In addition, Hideaki Kogawa, who is the executive officer and head of the security business promotion office at core subsidiary J's Communication, will become president of Segue Security from January 2025. Kogawa has experience managing an organization of 900 people as the head of the network and security business division at Fujitsu.

Offering A Wide Range of Services

Segue Security offers a wide range of services, including managed security services, which include operation and maintenance services provided by security engineers, forensics for the investigation of major incidents and external disclosure, security diagnosis and consulting and human resource development.

SOC Opened in December 2023

In addition, in order to expand Segue Security's business, the company established a SOC (Security Operations Center) in December 2023. In addition to providing its own services such as "RevoWorks "the company is strengthening its organization to meet the comprehensive security consulting needs of client companies and is expected to play a major role in the future as a business segment that will drive the performance of the Segue Group.

In-House Business is Highly Profitable and is Important in Increasing the Company's Stock Valuation

The gross profit margin of the In-House Development segment was 77.9% (FY12/23), which is extremely high compared to VAD and SI. Strategy Advisors believe that in order for the company's valuation to rise further, it is important to increase the company's overall gross profit margin and believes that by expanding sales of highly profitable In-House products in addition to purchasing and selling products from other companies, the company's corporate value can be further improved.

3. The President'S Background And Management Philosophy

Learning The Value of Work from An Early Age

President Yasuyuki Aisu is 58 years old and was born in Osaka in 1966. He comes from a family of true merchants and learned the value of work from an early age. All of his father's brothers were entrepreneurs and his father also left the factory run by his maternal grandfather and ran a plating factory in Osaka. He says he was impressed by the sight of his father, who had graduated from a national university, working day and night at the plating factory, covered in black paint. Also, when he was in kindergarten, he would collect scraps at his grandparents' home and factory and sell for ¥300, so he learned from those close to him that money is paid for labor.

After Graduating from High School, Mr. Aisu Got a Job at His Father's Company & then Moved to a Data Communications Company

In order to take over his father's company, he went to a technical high school and was passionate about part-time work during his student days. He worked part-time as a vendor at a high school baseball game and felt that it was worthwhile to work as the harder, he worked, the more money he got because of the commission system. After graduating from high school, he got a job at his father's company. At the time, he was driving a 4-ton truck and helping with deliveries. He was expected to take over his father's company, but he could not see any future in a company where most of the employees were in their 40's and 50's, and he did not find it interesting to work as the only young employee, so he changed jobs to Data Controls Inc., which imports and sells network equipment and provides repair services. At the time, NTT had been privatized and the communications industry was starting to grow, so he decided to join a data communications company, which is the intersection of the computer and communications industries.

After the Establishment of Segue Group, Business Expanded Significantly by Handling Routing Switches

At Data Controls, he learned network-related technology, working as a communications engineer and also gained experience as a sales engineer, and was appointed head of the Osaka sales office. Looking back on that time, he says it was good that he was able to learn both technology and sales. After that, he had the option of returning to his father's company and taking over the company, but he chose to start his own business and founded J's Communication (the predecessor to Segue) at the age of 28. In the early days of the company, he worked on optical fiber-related work and imported and sold LAN parts. The turning point came when he started handling Alantec (later FOREsystems), a routing switch that combined a router and switch, which was imported and sold by Nissho Electronics (now Sojitz Tech-Innovation). He was able to sell a large number of products to companies that use Apple PCs, such as major manufacturers, pharmaceutical companies and medical device manufacturers, and was off to a good start with 3 years of the company's inception.

Third Time’s a Charm Listing in December 2016

Since the business continued to expand steadily after that, the next step was to aim for listing. When he was 39 years old, he was approved for listing on the Osaka Securities Exchange's Hercules Market at the time and a roadshow was held. Just as the stock price was being decided, the company in which he invested and did business with went into civil rehabilitation and the listing was cancelled. After that, he strengthened his organization and aimed to list again, but then the Lehman Shock hit, and the timing of the listing became unclear again. From these experiences, he decided that there was no need to rush to list and that it was important to build up the company's capabilities once again, so he further strengthened his organizational structure. Then, in December 2016, the third time was a charm, and he listed on the JASDAQ (now the Standard Market). After that, he stepped up to the Second Section of the Tokyo Stock Exchange in December 2018 and the First Section of the Tokyo Stock Exchange in June 2019. Following the reorganization of the Tokyo Stock Exchange's market divisions, he chose the Prime Market, and in order to meet the listing criteria of the market, he is focusing on improving his corporate value. The background to this is that after all these hardships, he was able to list and step up to the First Section of the Tokyo Stock Exchange.

Aiming to Become an Indispensable Company That Can Carry Out National Policy

President Aisu said that he is always conscious of his company's raison d'être and value when working. In particular, recently, there have been more opportunities to participate in work for the Digital Agency and the Ministry of Defense through partners and he wants to make a leap forward as a company recognized as a company that can take on national policy.

A Culture of Honesty & Effort

The company has a culture of honesty and hard work. The reason Segue has been able to continue expanding its business to this extent is because it entered the networking field early on, honed its technology for many years, and has earnestly built trust with its partner companies. These efforts are the source of Segue's competitive advantage, which is rooted in its corporate culture and management philosophy.

4. Potential Market and Cybersecurity Budget

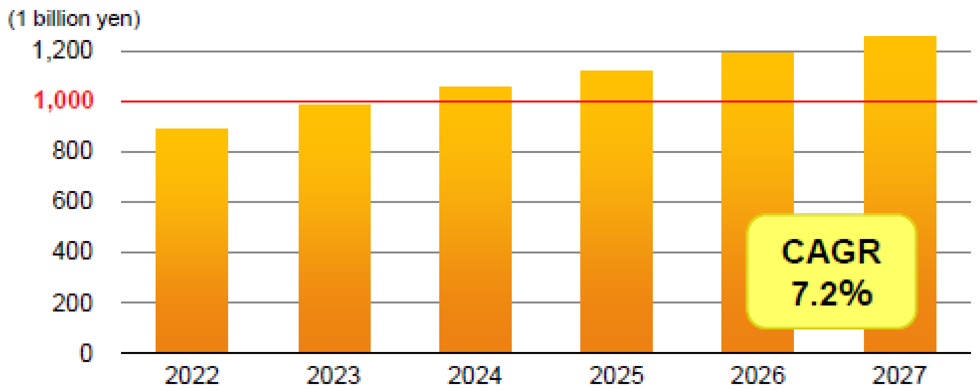
The Security Market is Expected to Continue to Grow Steadily at Around 10%

The security market in Japan is expected to grow steadily at around 10%. According to a survey released by IDC Japan in March 2024, the security market in 2024 is expected to exceed ¥1 trillion for the first time, reaching ¥1.455 trillion, up 7.6% from the previous year. Since the COVID-19 pandemic, telecommuting and remote work, as well as access to corporate systems via the Internet have continued and demand for endpoint threat detection and response and ID management has increased. In addition, large-scale security incidents have occurred frequently at companies and organizations and the field of vulnerability management measures also appears to be growing.

The Domestic Security Market is Expected to Grow at a CAGR of 7.2%

In the future, the use of AI in cybersecurity measures is expected to expand, and the domestic security market is expected to continue to grow at a CAGR of 7.2%. The market is also expected to grow at double-digit rates globally, and the external environment is favorable for Segue, which has begun expanding globally, including into Thailand.

Figure 11. Japan Domestic Security Market Forecast



Source: Company Data. Cited from IDC Japan

Individual Companies Have Also Set Growth Targets of Around 10%

Additionally, Trend Micro (4704, TSE Prime), a comprehensive security company, has set a sales growth rate of 8-10% as its medium-term performance growth target in a plan titled "Road to 2027". In addition to market research, a micro growth rate target of around 10% has also been set and it is believed that the security market as a whole will continue to grow steadily at around 10%.

Figure 12. Trend Micro's Mid-Term Growth Rate

	2022	2023[1]	2024E[2]	YTD 2024 Progress	2027E[2]
Net Sales Growth %	18%	11%	9%	10%	8-10%
COGS % of Revenue[4]	19%	22%	19%	20%	18-20%
S&M % of Revenue[4]	37%	37%	34%	33%	28-30%
R&D % of Revenue[4]	17%	17%	17%	17%	13-15%
G&A % of Revenue[4]	8%	8%	7%	7%	5-7%
Operating Margin %	14%	13%	20%	20%[3]	29-31%
		Operating Income	¥53B		

Source: Quoted from Trend Micro's "IR Day" Materials for Institutional Investors

The Cybersecurity-Related Budgets of Each Ministry and Agency Are Enormous, Amounting to Approximately ¥1 trillion

The total cybersecurity-related budget for all ministries and agencies included in the government's 2024 budget proposal is a collective approximate ¥1.0 trillion, a huge amount. The largest amount is the budget for the supervision and operation of the Digital Agency's information systems, which has been approximately ¥480 billion for the second consecutive year. This is an investment in the administrative systems of each ministry and agency and is accounted for collectively in the Digital Agency.

The Ministry of Defense Has the Second Largest Budget After The Digital Agency

The next largest budget is the Ministry of Defense's budget for strengthening defense in the cyber domain, with ¥211.5 billion allocated for fiscal 2024. In response to the increasing risk of cyber-attacks, the "Defense Industry Cybersecurity Standards" were established in March 2022, which require the adoption of management measures at the same level as those required by the US Department of Defense for contractors and strengthen not only the identification and defense of attackers but also "detection", "response" and "recovery." As a result, a relatively large budget has been secured.

The Company's Partner Has Expertise in Government Projects, Which Will Benefit Segue

The company's major partners, such as Fujitsu and NEC, are strong in these government projects, and it appears that Segue is also benefiting through their relationships with these companies. It is possible that cybersecurity-related budgets will continue to new record levels in the future, which is a tailwind for the company.

Figure 13. Cybersecurity-Related Budgets of Each Ministry and Agency

Government Ministries & Agencies	Contents	FY2024 Budget (¥bn)	FY2023 Budget (¥bn)
Ministry of Economy, Trade and Industry	Industrial Cyber Security Strengthening Project	2.3	2.4
Ministry of Economy, Trade and Industry	Digital infrastructure development project for industrial DX	2.0	2.0
National Police Agency	Cyber Security Emergency Contact System Project	0.3	0.3
Ministry of Health, Labour and Welfare	Promoting digital transformation in medical and nursing care	3.0	4.4
Ministry of Land, Infrastructure, Transport and Tourism	DX in the infrastructure sector including I-Construction, DX in construction and cities	45.8	51.1
Ministry of Land, Infrastructure, Transport and Tourism	Disaster prevention/safety related, promotion of housing DX	36.0	36.0
Ministry of Internal Affairs and Communications	Submarine cable maintenance and space domain network (NTN) initiatives	8.1	8.1
Ministry of Internal Affairs and Communications	ICT solutions such as Open RAN and 5G	7.0	7.2
Ministry of Internal Affairs and Communications	Improving local government response capabilities in cyberspace	3.6	2.1
Digital Agency	Information system supervision and operation	480.3	481.1
Cabinet Office	Digital Garden City Initiative Promotion Grant	100.0	100.0
Ministry of Agriculture, Forestry and Fisheries	Research and development of smart agriculture, etc.	8.2	7.8
Ministry of Defense	Strengthening defense in the cyber domain	211.5	264.3
Ministry of Justice	Measures to ensure good public order	38.5	39.7
Ministry of Education, Culture, Sports, Science and Technology	Quantum Light Flagship Program (Q-LEAP)	4.5	4.2
Total		**951.1**	**1,010.7**

Source: Compiled by Strategy Advisors. Based on Documents from the Various Ministries and Agencies

5. Financial Strategy Including Capital Policy

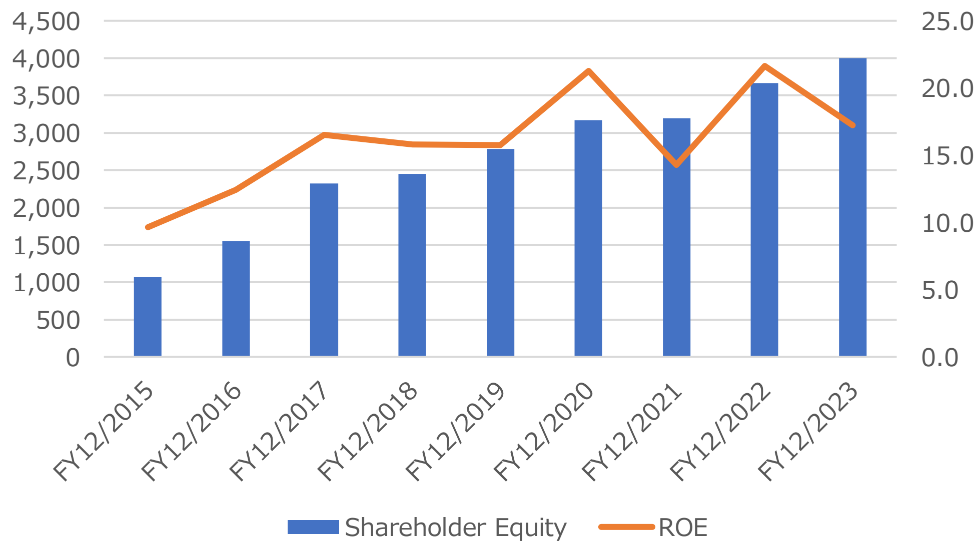
The Company Has a Healthy Balance Sheet

The balance sheets of system integrators, which invest mostly in human resources, tend to be financially sound and have little borrowing. The company's equity ratio is at a stable level of 33.8% (as of the end of FY12/23) and its net cash at the end of Q3 FY12/24 (July-September) was ¥1.14 billion. It also has cash and deposits of ¥3.09 billion and unless it conducts a relatively large-scale M&A, it will be able to secure the funds necessary for business growth through cash flows obtained from existing businesses and borrowings.

Segue is Actively Buying Back its Own Shares in Addition to Paying Dividends

The company is proactive in returning profits to shareholders and has been paying dividends since FY12/18. The dividend payout ratio for FY12/23 was high at 51.0% and the company is thoroughly committed to not having unnecessary assets. In FY12/24, the company terminated the contract for forward contracts for cash-on-delivery treasury stock that it had entered into with SBI Securities, purchased the shares of Segue held by SBI Securities, contributed a portion of the shares to a stock benefit trust and disposed of its own shares. In addition, on October 24, 2024, the company also cancelled the remaining treasury stock and on November 14, it announced the acquisition of additional treasury stock. Given that the Tokyo Stock Exchange has requested that the company "management be conscious of capital costs and stock prices", the company's aggressive financial strategy should be commended. The company's ROE was high at 17.2% (FY12/23), which is well above the cost of capital.

Figure 14. Changes in Equity Capital (LHS Axis) and ROE (RHS Axis) (Unit: ¥ mn, %)



Source: Company Data. Compiled by Strategy Advisors

Implementing An Aggressive Capital Policy to Meet the Requirements of The TSE Prime Market

It is also important to note that the company's aggressive financial strategy is being driven by its need to meet the TSE Prime Market's eligibility requirements. On March 26, 2024, the company disclosed its progress toward meeting the maintenance criteria. The market capitalization of tradable shares calculated based on the closing price on February 29 (¥635, taking into account a 1-for-3 stock split) meets the Prime Market's listing maintenance criteria of tradable share market capitalization (over ¥10 billion), but is just barely within the limit. Going forward, the company will need to continue to meet the Prime Market's listing maintenance criteria through aggressive financial strategies in addition to business growth.

Figure 15. Compliance with TSE Prime Listing Maintenance Standards (Disclosure on March 16, 2024)

	Number of Shareholders	# Shares Outstanding	Market Capitalization	% Outstanding Shares
Standards for Maintaining Listing	800	20,000 units	¥10 billion	35.0%
Closing Price on February 29, 2024	4,609	56,638 units	¥10.8 billion	47.6%

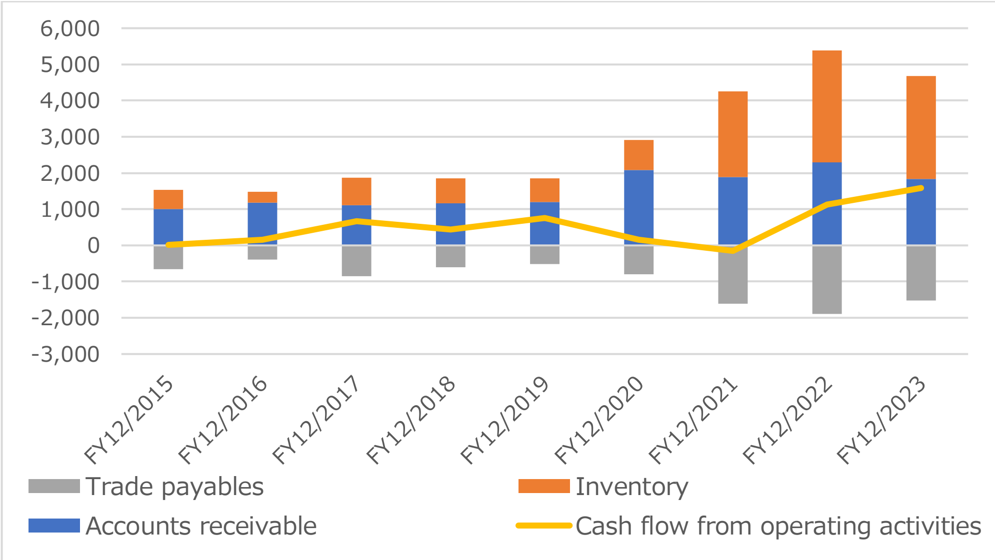
Source: Company Data. Compiled by Strategy Advisors

Working Capital is Required to Purchase Other Companies' Products & Increased Inventory May Worsen Profitability

A feature of the company's balance sheet is that, compared to competitors, it has a somewhat heavy working capital due to the procurement of products from other companies. As mentioned above, since Q3 FY12/21, inventory has piled up due to delivery delays caused by the shortage of semiconductors, putting pressure on operating cash flow. Although inventory is still at a high level compared to the past, the impact of delivery delays has already been resolved and the current increase in inventory is largely due to favorable orders, so it does not appear that it will take long to record this as sales.

Figure 16. Trends In Working Capital and Operating Cash Flow

(Unit: ¥ mn)



Source: Company Data. Compiled by Strategy Advisors

6. Equity Story and Medium-Term Management Plan

Expected To Provide Total Security Solutions & Provide Unique Added Value

The company's equity story is to increase profitability (gross profit margin) by providing total security solutions, including in-house developed services; and to make a leap forward to becoming a total security solutions company, a one-of-a-kind company that provides a variety of functions in the fields of networking and security. As mentioned above, since the company acquires projects through collaboration with prime vendors and purchases and sells products from other companies, its profitability is lower than that of system integrators and so it has tended to be viewed by the capital market as a wholesaler. In the future, it is expected that the company will increase its profitability by providing total security solutions and adding value that only Segue can provide.

The New Medium-Term Management Plan Is Expected to Challenge High Growth of Just Under 20% Per Year

The company announced "Segue300" as a new medium-term management plan (disclosed on May 22, 2024). The plan calls for expanding sales, including M&A, to ¥30 billion by FY12/26 (the M&A portion is a challenging goal). On an annualized basis, the company is expected to aim for sales growth of just under 20%, which is a plan to further accelerate the company's growth rate, which has continued to grow sales at around 10-15%.

Figure 17. Sales Targets for The New Medium-Term Management Plan

(¥ mn)	FY12/23 Results	FY12/26 CoE	Annual Growth
Sales	17,443	30,000	19.8%
VAD	8,966	13,000	13.2%
SI	7,576	9,000	5.9%
In-House Development	901	1,800	25.9%
Abroad	-	2,200	-
M&A (Challenge Goal)	-	4,000	-

Source: Company Data.

Policy to Increase Added Value by Increasing In-House Development

The key points to note are: 1) to increase sales of in-house development by 25% annually, 2) the growth rate of SI, which has low profitability, is expected to slow down slightly and 3) the company expects to expand its overseas business. As mentioned above, in order for Segue to demonstrate its uniqueness as a total security solution, it is essential to accelerate the growth of in-house development, including Segue Security.

In addition, as cybersecurity needs are rapidly expanding and central government budgets are also increasing, strong demand is expected to continue. In the future, it is expected that the company will continue to provide added value that only the company can provide by combining overseas products, the in-house developed service “RevoWorks “and Segue Security.

Strengthening Human Capital is Also Essential. Converting IT Engineers to Security Engineers

In order to achieve this, the key point is to strengthen human capital. The company will continue to recruit and train engineers, while at the same time, it has set a policy of converting IT engineers to security engineers, with the aim of securing over 100 engineers with a thoroughly improved understanding of security. The forecast for a slight slowdown in the SI sales growth rate is likely due to this conversion of engineers. In addition, with SCSK making a takeover bid for Net One Systems, a competitor of the company, it is expected that engineers from Net One Systems may be transferred to the company in the future. As demand is strong, attention will be focused on whether the company can secure engineers.

Putting the Acquired Companies on a Growth Trajectory. The Plan is to Expand Overseas

We are also looking forward to the company's global expansion in order to secure overseas sales of ¥2.2 billion. The company has already acquired two Thai companies, ISS Resolution (stocks acquired in December 2022) and First One Systems (stocks acquired in May 2024). If the growth of these two companies can be accelerated in order to expand business in the ASEAN region, the potential markets will expand dramatically.

Accumulate Small M&A Deals & Continue to Secure Engineers

The company has set a challenging goal of ¥4 billion in new sales through M&A. The company plans to acquire around 4 to 5 companies over the next three years. The targets are companies that provide security services, IT services and systems engineering, and the intention is to secure engineers through the acquisitions. Given that there is a significant shortage of engineers in Japan and the valuations of companies providing IT services are rising, there are hopes that the company will also expand its resources overseas.

The Plan is to Improve Gross Profit Margins

The profit levels for each fiscal year set out in the mid-term management plan are as follows. The company plans to improve gross profit margins by just over 1% and expects to improve profitability by increasing added value. In addition, sales and administrative expenses are expected to increase by around ¥500 to ¥800 million each fiscal year, a large increase compared to previous years. It is presumed that this plan incorporates to a certain extent costs such as recruitment expenses, marketing costs for in-house developed services, strengthening sales staff and shareholder benefits and is therefore a target that is quite achievable.

Figure 18. Mid-Term Business Plan Performance Targets

Unit: million yen

	FY2024	FY2025	FY2026	Reference FY2026 M&A Challenge
Net sales	18,800	22,500	26,000	30,000
Gross profit	4,680	5,750	6,880	7,840
(Profit margin)	24.9%	25.6%	26.5%	26.1%
SG&A expenses	3,720	4,490	5,080	5,840
Operating income	960	1,260	1,800	2,000
(Profit margin)	5.1%	5.6%	6.9%	6.7%
Ordinary income	1,330	1,260	1,800	2,000
Net income*	773	701	1,050	1,178
(Reference) EBITDA	1,150	1,600	2,160	2,610

Source: Company Data.

7. Business Trends

Set for Record Profits in FY12/23

The results for FY12/23 were sales of ¥17.44 billion (up 28.0% YoY) and operating profit of ¥1.08 billion (up 19.9% YoY), setting a new record high. In terms of sales, growth was driven by robust demand for digital transformation, as well as the recording of product sales due to the elimination of the semiconductor shortage and favorable sales of ancillary services. In addition, the acquisition of ISS Resolution contributed to an increase in sales of approximately ¥500 million. Orders received were also ¥17.97 billion (¥10.36 billion for products and ¥7.60 billion for services), up 25.9% YoY. Although the backlog of orders was being cleared, orders were also secured favorably, confirming that the demand environment is extremely favorable.

VAD Drove Growth

By business, VAD sales increased 41.6% YoY due to favorable hardware sales and SI also increased steadily by 22.1%. In-House Development sales fell by 17.2% YoY at a level that was more than expected, as deliveries to local governments peaked-out, but gross profit margins remained high and gross profit was in line with the initial plan.

Achieved Significant Profit Increase While Making Upfront Investments

In terms of profits, the company recorded an impairment loss on some of the inventory it had held as a measure to deal with delivery delays and was able to overcome upfront investments such as hiring and training, expanding its business offices and opening the SOC, resulting in a high increase in profits.

Figure 19. Annual Performance Trends (Unit: ¥ mn)

FY	12/20	12/21	12/22	12/23
Total Sales	**10,993**	**12,039**	**13,623**	**17,443**
(Compared to Previous Period)	14.0%	9.5%	13.2%	28.0%
VAD	**5,280**	**5,262**	**6,332**	**8,966**
(Compared to Previous Period)	-	-0.3%	20.3%	41.6%
SI	**5,127**	**6,169**	**6,203**	**7,576**
(Compared to Previous Period)	-	20.3%	0.6%	22.1%
In-house development	**586**	**608**	**1,088**	**901**
(Compared to Previous Period)	-	3.7%	79.0%	-17.2%
Gross Profit	**3,093**	**3,092**	**3,559**	**4,124**
(Gross Profit Margin)	28.1%	25.7%	26.1%	23.6%
VAD	1,371	1,314	1,299	1,757
(Gross Profit Margin)	26.0%	25.0%	20.5%	19.6%
SI	1,313	1,446	1,419	1,665
(Gross Profit Margin)	25.6%	23.4%	22.9%	22.0%
In-house development	409	332	842	702
(Gross Profit Margin)	69.7%	54.6%	77.3%	77.9%
Selling, General & Administrative Expenses	2,249	2,453	2,653	3,038
Operating profit	**844**	**639**	**906**	**1,086**
(Compared to Previous Period)	54.0%	-24.3%	41.8%	19.9%
(Operating Profit Margin)	7.7%	5.3%	6.7%	6.2%

Source: Company Data.

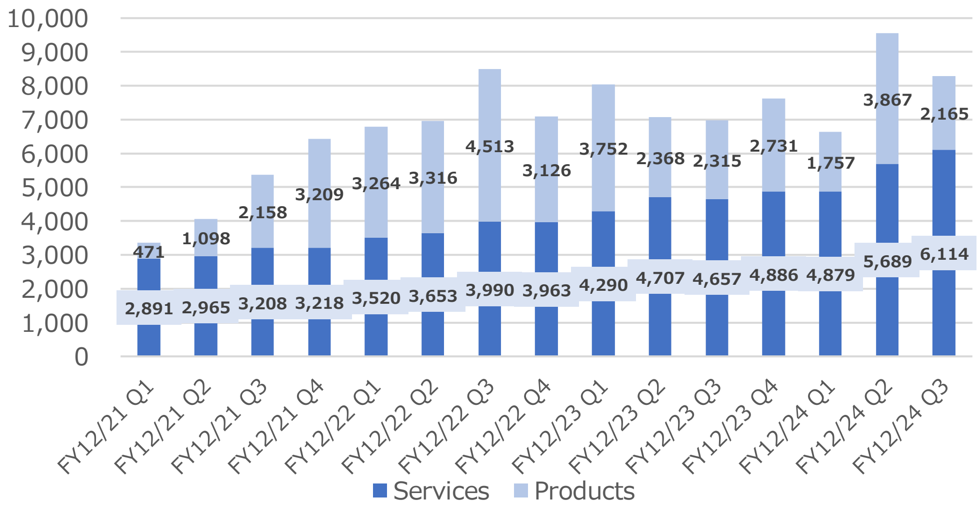
FY12/24, Sales Are Expected to Increase Slightly

The cumulative results for Q3 FY12/24 were sales of ¥13.91 billion (up 3.8% YoY), and operating income of ¥630 million (down 31.6% YoY), showing a slight increase in sales and a large decrease in profits. Although there was a rebound effect from the strong FY12/23, existing businesses maintained a high level. In addition, the consolidation of the two acquired companies (First One Systems and Techno Creation) contributed to maintaining a slight increase in sales.

Orders Are Extremely Strong & the Demand Environment is Likely to Be Favorable

Cumulative orders received for the third quarter were ¥14.57 billion (up 9.7% YoY). Orders for services have been steady (up 24.2% YoY) and stock income from product sales has been accumulating. In addition, as the impact of the semiconductor shortage has been resolved and progress has been made in clearing backlogged orders; backlogged orders in Q1 FY12/24 started off negative compared to the same period last year, but as of Q3 the backlogged orders had risen to ¥8.27 billion (up 18.7% from the same period last year), once again reaching a high level.

Figure 20. Quarterly Order Backlog Trends (Unit: ¥ mn)



Source: Company Data.

Improved Profitability of VAD

By business, the profit margin of VAD improved, mainly due to improved profitability of support services. Although sales were slightly down compared to the same period last year, the fact that gross profit increased by 10.4% YoY was positive. In addition, sales of security-related products to central government agencies are progressing well.

In-House Development. Profits Fell Due to Depreciation. Revenues Steadily Increased Again. Steadily Acquiring New Projects

Meanwhile, In-House Development once again started to see revenues increase, but profits have declined due to the start of amortization of cloud development costs. The marginal profit ratio of in-house developed software is high; and if sales exceed fixed costs, including amortization, it is expected to drive the company's performance again, so there is no need to be overly concerned. In addition to prefectural and local governments, the company is apparently winning projects from government agencies and hospitals that must meet high security standards, so there is hope for the future. Furthermore, the newly established Segue Security is accumulating profits as planned and is expected to turn a profit within this fiscal year.

Disclosure of Sales & Gross Profit Figures for Overseas Business Begins

In addition, the company disclosed sales (cumulative Q3 total of ¥620 million) and gross profit (cumulative Q3 total of ¥200 million) from its overseas business in the third quarter. In its mid-term management plan, the company plans to secure sales of ¥2.2 billion overseas by FY12/26, so future developments will be of interest.

Operating Profit Fell Sharply, But Ordinary Profit & Below Saw Increases

Operating profit fell significantly, mainly due to a ¥560 million increase in sales and administrative expenses for the cumulative third quarter compared to the same period last year. This was due to the impact of M&A (one-time-related expenses and also sales and administrative expenses of two subsidiaries), shareholder benefit expenses and increased investment in human capital. On the other hand, ordinary profit and below secured an increase compared to the same period last year, due to the recording of extraordinary profits including valuation gains on derivatives and gains on sales of securities.

Plan to Reorganize Business Operations to Focus Management Resources on Security

The company also transferred 95% of its shares in J's Telecom Systems, which previously held 100% of (while continuing to hold 5%). It plans to streamline its business operations and focus its management resources on the security field.

Figure 20. Quarterly Financial Results (¥ mn, %)

	FY12/23				FY12/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net Sales	**4,561**	**4,497**	**4,353**	**4,032**	**4,954**	**3,457**	**5,506**
(YoY)	36.6%	68.7%	37.5%	-9.5%	8.6%	-23.1%	26.5%
VAD	**2,531**	**2,033**	**2,129**	**2,273**	**2,838**	**1,908**	**1,884**
(YoY)	58.7%	49.5%	64.5%	9.1%	12.1%	-6.2%	-11.5%
SI	**1,881**	**2,196**	**1,975**	**1,523**	**1,823**	**1,293**	**2,727**
(YoY)	20.3%	112.2%	30.7%	-27.2%	-3.1%	-41.1%	38.1%
In-house Development	**150**	**267**	**248**	**237**	**293**	**257**	**263**
(YoY)	-17.1%	-1.4%	-31.2%	-14.5%	95.9%	-3.9%	6.2%
Gross Profit	1,091	993	1,038	1,002	1,213	914	1,261
(Gross Profit Margin)	23.9%	22.1%	23.8%	24.9%	24.5%	26.4%	22.9%
・VAD	564	402	450	340	612	417	534
・SI	445	355	387	478	407	354	409
・In-house Development	82	235	202	183	195	142	109
SG&A	673	783	737	845	783	997	972
Operating Profit	**418**	**210**	**302**	**156**	**431**	**-84**	**289**
(YoY)	85.8%	100.0%	24.8%	-53.3%	3.1%	-140.0%	-4.3%
(Operating Profit Margin)	9.2%	4.7%	6.9%	3.9%	8.7%	-2.4%	5.2%
Non-Operating Income/Expenses	-6	-19	-5	-41	383	9	3
Ordinary Profit	**412**	**191**	**296**	**116**	**813**	**-73**	**290**
(YoY)	49.8%	3.8%	17.0%	-65.8%	97.3%	-138.2%	-2.0%
(Ordinary Profit Margin)	9.0%	4.2%	6.8%	2.9%	16.4%	-2.1%	5.3%
Extraordinary Profit and Loss	0	0	0	0	0	0	12
Profit Before Income Taxes	412	191	296	116	813	-60	303
Income Taxes	143	69	107	49	268	43	115
Profit	**269**	**122**	**189**	**68**	**545**	**-103**	**188**
Profit (Loss) Attributable to Non-controlling Interests	-9	-7	0	3	6	2	7
Profit Attributable to Owners of Parent	**278**	**130**	**188**	**65**	**540**	**-106**	**181**

Source: Company Data.

8. Stock Price and Valuation

Strong Fundamentals But Weak Valuations

The company's market capitalization has reached a new record high since it was listed, hovering around ¥20 billion. Except for FY12/21, when profitability deteriorated due to an increase in inventory caused by a semiconductor shortage, the company has continued to increase sales and profits every fiscal year and its fundamentals are strong, but its valuation has been sluggish. Before the announcement of the high-value benefits in February 2024, its PBR was 2 to 3 times and its market capitalization was around ¥10 billion.

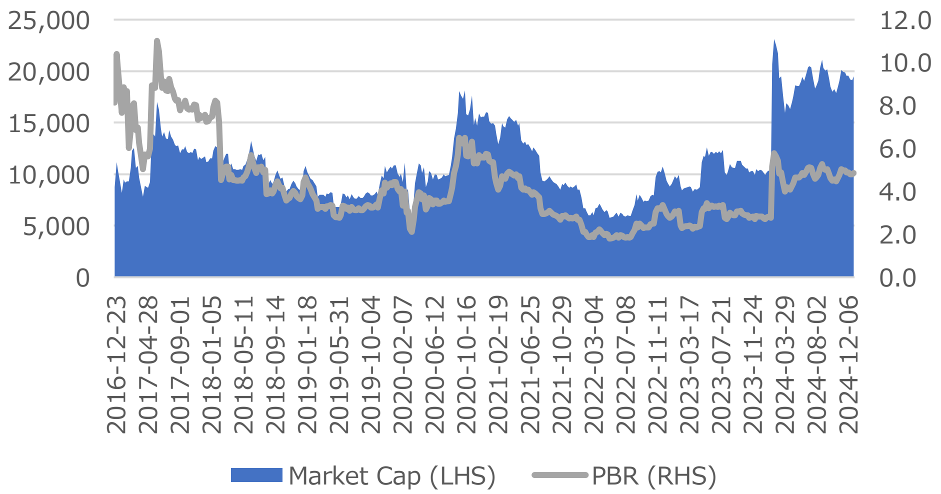
The Reason for this is a Decline in Profitability, But Profitability is Expected to Improve Again in the Future

Despite the company's solid performance, the reason for the decline in valuation is the decline in profitability since FY12/20. Due to the impact of the semiconductor shortage, gross profit margins fell significantly below FY12/20's gross profit margin (28.1%) for 3 consecutive fiscal years (FY12/21, FY12/22 and FY12/23). The impact of the increase in inventory due to the semiconductor shortage has already been resolved and gross profit margins for 1H FY12/24 (Jan-Jun) were 25.5%, showing a slight recovery. However, in order to further increase valuation in the future, it is important to continue improving profitability.

The Announcement of High-Value Benefits Has Led to the Benefit Yield Supporting the Stock Price

Furthermore, in order to meet the market capitalization requirement for Prime Market listing, the company announced a high-value benefit in February 2024. Shareholders who hold 10 units (1,000 shares) or more will be presented with a QUO cards valued at ¥15,000 once every six months, which amounts to a high-value benefit equivalent to ¥30,000 for the whole year. The current share price is ¥614 (closing price on 1/21), which means that shareholders who hold ¥614,000 worth of shares will receive a benefit equivalent to a benefit yield of 4.8%. The share price has risen significantly since the announcement of the high-value benefit, and the benefit yield is supporting the share price.

Figure 21. Trends in Market Capitalization and PBR (units: ¥ mn, times)



Source: Company Data.

Current PER is on Par with Competitors

The PER remained at around 30 times, which is not particularly expensive compared to competitors, but prior to the announcement of the benefits, the PER was low at around 15-20 times. Although the ROE was high, the low PER resulted in the PBR remaining low.

PER Calculated Based on Net Profit for the Final Year of the Medium-Term Management Plan is 19 Times

The net income target set by the company for the final year of its medium-term management plan (FY12/26) is ¥1.05 billion and the PER calculated based on the current market capitalization (approximately ¥20 billion) is approximately 19 times. Strategy Advisors believe that although the high preferential treatment has temporarily put the company's valuation on par with that of competitors, if the company can achieve the performance targets of the plan, there is a good chance that it will reach a new record high again.

Figure 22PER (Unit: Times)

Source: Company Data.

Valuation is In-Line with the Average of its Peers

The average PER of small and medium-sized SI and development companies is 31.4 times and the average PBR is 4.4 times, so Segue's valuation is generally at the same level as its competitors. The equity ratio is relatively low and the increase in equity capital is being suppressed by active shareholder return through share buybacks and dividends.

SHIFT Achieves High PER

Among these comparison companies, the three with high valuations are SHIFT, Baudroie and Global Security Experts. SHIFT is a company that has grown significantly by actively conducting M&A, starting out in IT services specializing in testing processes. However, what is noteworthy is that despite its low ROE, it has achieved a high PBR due to its high PER. Since SI and development companies do not require fixed assets and most of their investment is in human capital, mainly through recruitment, there is little need to build up equity capital. It is natural that they have a high ROE, and it is important to raise their PER.

In this regard, SHIFT is successful in proactively disclosing KPIs such as the number of engineers, number of employees, turnover rate, unit price and utilization rate and proactively communicating the reproducibility and scalability of its business to the capital market.

Baudroie Is Profitable

Baudroie Inc. is an IT service provider specializing in IT infrastructure such as networks and servers. The company is characterized by a high gross profit margin of just under 40% due to selective ordering. Strategy Advisors believe that an improvement in gross profit margins is essential for Segue Group's valuation to increase and this is a good example of the high correlation between profitability and valuation.

Global Security Experts Targets Small & Medium-Sized Businesses

Global Security Experts is a company that has achieved high growth by providing comprehensive security services to small and medium-sized enterprises. While many companies target large corporations, it has been successful in providing comprehensive security services to small and medium-sized enterprises, which are blue ocean targets. Segue has also started offering services to small and medium-sized enterprises through Kaetec, but in order to increase its valuation in the future, it can be said that it would also be effective to develop the small and medium-sized enterprise market where it is possible to do business directly, rather than through a partner.

Figure 23Comparison of Valuations with Peers

Ticker	Company	FY	Stock Price (1/6)(¥)	Market cap (¥ mn)	PER (Times)	PBR (Times)	ROE (%)	EV/EBITDA (Times)	Dividend Yield (%)	Shareholders' Equity Ratio(%)	Net D/E Ratio(Times)	ROE (%)	Stock Price Change Over Past Year (%)	Stock Price Change Over Past 3 Years (%)
3968	**Segue Group**	**12/2023**	**637**	**19,414**	**29.4**	**4.8**	**17.2**	**13.1**	**1.5**	**33.8**	**-0.6**	**17.2**	**106.6**	**156.5**
9719	SCSK	03/2024	3,272	1,022,550	25.3	3.4	14.1	12.1	1.8	64.1	-0.2	14.1	14.1	47.8
3697	SHIFT	08/2024	17,710	311,807	60.8	9.2	16.2	22.4	0.0	54.3	-0.3	16.2	-47.5	-2.2
2327	NS Solutions	03/2024	3,990	730,067	30.1	3.1	11.1	14.2	2.1	63.2	-0.3	11.1	71.6	131.6
9749	FUJISOFT	12/2023	9,690	610,581	51.5	4.9	9.1	25.4	1.1	48.3	0.2	9.1	61.0	265.7
4722	Future	12/2023	1,813	160,682	17.4	3.1	19.2	8.8	2.2	77.8	-0.5	19.2	2.6	17.3
9682	DTS	03/2024	4,130	167,806	23.0	2.7	11.8	9.6	2.5	73.4	-0.6	11.8	15.7	68.0
2317	Systena	03/2024	359	128,604	17.8	3.4	20.0	9.7	2.8	70.5	-0.8	20.0	16.2	-11.4
3636	Mitsubishi Research Institute	09/2024	4,825	74,116	14.8	1.1	7.5	4.9	3.3	56.5	-0.4	7.5	3.9	23.9
3762	TECHMATRIX	03/2024	2,282	91,665	25.9	4.2	17.4	9.1	1.2	25.4	-1.1	17.4	35.1	41.2
3844	COMTURE	03/2024	2,140	68,242	21.8	4.1	19.7	11.0	2.1	71.7	-0.7	19.7	16.0	-29.5
5036	Japan Business Systems	09/2024	919	41,898	27.7	1.8	6.7	10.3	2.7	37.3	0.7	6.7	-42.6	-
4413	baudroie	02/2024	4,790	76,750	65.5	18.3	29.6	44.5	0.0	67.1	-0.8	29.6	39.4	441.2
4687	TDC SOFT	03/2024	1,531	72,169	23.4	3.9	17.7	15.0	3.1	72.4	-0.7	17.7	44.6	182.0
4417	GLOBAL SECURITY EXPERTS	03/2024	5,270	39,542	50.5	16.2	37.7	34.0	0.5	37.2	0.2	37.7	15.6	301.2
3915	TerraSky	02/2024	2,490	32,144	107.1	2.9	2.9	29.8	0.0	60.2	-0.5	2.9	38.3	56.6
3040	Soliton Systems	12/2023	1,185	21,966	11.3	2.0	18.7	3.0	2.0	49.1	-1.2	18.7	-11.8	-9.5
9600	I-NET	03/2024	1,573	24,000	10.9	1.2	11.7	5.2	3.4	53.4	0.1	11.7	-15.7	18.8
3857	LAC	03/2024	1,157	34,918	25.3	2.3	9.1	9.0	2.2	64.8	-0.3	9.1	63.2	61.1
4847	Intelligent Wave	06/2024	1,184	30,999	21.8	3.4	15.8	8.3	3.4	54.7	-0.5	15.8	12.8	124.2
4662	Focus Systems	03/2024	1,103	16,676	11.9	1.2	10.7	6.1	3.4	63.9	-0.3	10.7	9.3	15.5
3837	Ad-Sol Nissin	03/2024	1,980	18,263	18.7	2.5	14.0	9.2	2.2	71.5	-0.5	14.0	25.6	15.3
4434	Serverworks	02/2024	2,420	19,049	29.9	1.8	6.3	11.4	0.0	59.0	-0.6	6.3	-23.1	-18.1

Source: Created by Strategy Advisors. Based on SPEEDA Materials

9. ESG/Sustainability

President Aisu Has a High Ownership Stake

As a pure holding company, Segue Group manages and supports the business of nine consolidated subsidiaries (as of the end of June 2024). The organizational form is a company with an audit and supervisory committee. The founder, President Aisu, owns 40.6% including the asset management company (as of the end of 2023). As of the end of February 2024 (closing price), the tradeable share ratio is 49.9% (tradable share market capitalization: ¥10.79 billion).

Outside Directors Make Up the Majority

Of the six directors, 3 are independent outside directors (50% composition). Principle 4-8 of the Corporate Governance Code requires that companies listed on the Prime Market appoint at least one-third of their directors as independent outside directors and so it meets this criteria.

There is One Female Director. The Company Will Likely Need to Appoint & Develop More Female Executives & Managers in the Future

In addition, one of the six directors is female (female director ratio 17%), which currently meets the Tokyo Stock Exchange's recommended standards. The Tokyo Stock Exchange stipulates that Prime Market listed companies should: 1) strive to appoint at least one female director by 2025, 2) aim to increase the ratio of female directors to 30% or more by 2030 and 3) encourage the formulation of action plans to achieve these goals. However, given the small number of female managers (more details below), there will be a need to further promote and develop female directors and managers.

Comprised of Independent Outside Directors

Outside directors are a certified public accountant, a lawyer and an individual with expertise in the information and communications industry and are able to provide independent guidance and advice to management. All of them are audit and supervisory committee members and have no special interest in the Segue Group.

Figure 24Director Skills Matrix

Name	Position at Company	Skills and Experience									
		Business Management	Industry Knowledge	Sales and Marketing	Technology	Finance, Accounting, M&A	HR and Personnel Development	Legal and Risk Management	Global	ESG and Sustainability	Organization Management
Yasuyuki Aisu	Representative Director and President	●	●	●	●					●	●
Satoru Ama	Director	●	●	●	●				●	●	●
Yasuhiro Fukuda	Director	●				●	●	●	●	●	●
Hirofumi Nakagawa Outside - Independent	Outside Director Audit and Supervisory Committee Member	●				●					●
Yumiko Terada Outside - Independent	Outside Director Audit and Supervisory Committee Member							●	●	●	
Masaki Mitsuyu Outside - Independent	Outside Director Audit and Supervisory Committee Member	●	●	●					●		●

Note: Titles Omitted.
Source: Segue Group

Sustainability Has Been Established

At present, the Segue Group has not established a basic policy on sustainability and the sustainability-related system is not separate from the corporate governance system. With regard to efforts to increase corporate value in the mid to long-term, the group will consider basic policies and goal formulation for sustainability issues from a sustainable perspective, implementation of strategies based on those policies and effective supervision.

Disclosures Related to Climate Change Will Likely Be Necessary in the Future

According to supplementary principle 3-1③ of the Corporate Governance Code, companies listed on the Prime Market should "Collect and analyze necessary data on the impact of climate change-related risks and revenue opportunities on their business activities and revenue, etc., and work to improve the quality and quantity of disclosure based on the TCFD or an equivalent framework, which is an internationally established disclosure framework". Segue Group has not implemented this supplementary principle and says it will consider disclosing the impact of climate-related risks and revenue opportunities on its business activities and revenue etc. in the future.

Human Capital is the Source of Segue's Competitive Advantage

However, human capital itself is the value of the Segue Group and is positioned as the source of its competitiveness. We aim to quickly become a group of professional engineers of 1,000 people by creating a rewarding work environment, accelerating recruitment, and utilizing our cultivated training know-how. In order to maximize human resource value and business value through securing, training, and retaining human resources, we have established the following policies regarding human resource development, including ensuring diversity in our workforce, and regarding the development of the internal environment.

Aiming to Develop Self-Reliant & Self-Reliant Human Resources

As part of its human resource development policy, the company wishes to develop "autonomous, self-reliant human resources" that will serve as the foundation for creating new value and growing together with its customers, which is based on its corporate philosophy of "utilizing IT technology to create value; continuing to grow together with our customers and contributing to the realization of a prosperous society".

Introducing Various Training Programs

Specifically, training for new employees and first, second and third-year employees will be provided to build the foundation for employees to become "self-reliant and self-reliant personnel". The company will focus on recruiting executive personnel and developing managers through training aimed at strengthening management and leadership skills for managers to strengthen training capabilities, e-learning, external training, various qualification support systems and technical training.

In Addition to Proactive Recruitment, Quantitatively Grasp Employee Mental, Physical Health & Engagement Indexes

As a policy for improving the internal environment, in order to continuously maximize the value of human resources as a collection of diverse human resources, the company is working to improve the internal environment by revising its personnel system from time to time to create a strong organization even in a rapidly changing business environment.

The company actively hires new graduates and mid-career employees, whilst employing personnel with diverse experience and develops an onboarding program and promotes close communication in the workplace so that the employees can fully demonstrate their abilities. In addition, the company conducts pulse surveys (20 questions) three times a year and deep surveys (154 questions) once a year to grasp the state of mental and physical condition and engagement index, extract issues and takes appropriate action.

Target Figures are Set

The results of the deep survey are used as indicators and the company discloses targets and results for those indicators. The target is to "achieve a level above the industry average in terms of the combined results of mental and physical condition and engagement index, and to continually maintain and improve the score".

Figure 25. A Deep Survey of Segue Groups

Deep Survey Results	2021	2022	2023
Segue Group 's Deviation Value in the Industry	50	50	50
Segue Group Score	58	58	59

Note: Industry standard deviation is calculated for "Software/SIer." The performance for this indicator is that of core company J's Communication Co., Ltd.
Source: Segue Group

The Ratio of Female Managers Is 0%

The ratio of female managers in the Segue Group is 0% (5.9% for consolidated subsidiaries J's Communication and 0% for Jays Technology in FY12/23). According to statistics compiled by the Japan Productivity Center, the ratio of female managers in prime-listed companies on the Tokyo Stock Exchange for FY3/24 is 8.5% overall and 12.5% in the information and communications industry.

The Promotion & Training of Female Managers is a Future Challenge

For the Segue Group, the promotion and development of female managers is a management issue. Although mid-career hires are being promoted to managerial positions, the number of women promoted to managerial positions is still low. It will be necessary to develop a policy for ensuring diversity, set numerical targets and monitor the implementation status in the future.

The Wage Gap Between Men and Women is Also Somewhat High

The gender wage gap, with men considered as 100%, is 69.3% (all workers, J's Communication 76.7%, J's Technology 67.0%). The Tokyo Stock Exchange Prime Market as a whole is 71.4% and the Information and Communications Industry is 76.4%, which is 2% higher than the Tokyo Stock Exchange Prime Market and about 7% higher than the industry average.

10. Risk Factors

・Dependence on a Specific Manufacturer

The company purchases from certain manufacturers as an agent. In order to diversify risk, the company has secured multiple suppliers. However, if the competitiveness of the products of its major suppliers significantly declines or the company is forced to change its agent agreements due to business restructuring or other factors, this could have an adverse effect on the company's performance.

・Deteriorating Profitability Due to Exchange Rate Fluctuations

When purchasing products from overseas manufacturers, the import price is settled in dollars, so if the yen depreciates dramatically and the purchase price in yen rises, the increase cannot be properly passed on to the sales price, which may lead to a decline in profitability. The company is hedging its risks with forward exchange contracts and currency options, but it is difficult to completely eliminate the risk.

・Securing IT Human Resources

Due to the shortage of IT personnel, if the company is unable to secure engineers and technicians, it may have a negative impact on the company's performance growth. The company provides training for new employees and training for young employees aimed at making them "self-reliant and self-reliant personnel" and is working to enhance e-learning and external training. In addition, the company is conducting pulse surveys and deep surveys to understand the physical and mental condition of employees, but if the competitive environment becomes even more intense, it may have a negative impact on the company's performance.

・Risks Associated with Natural Disasters

The company's inventory of hardware and other products is concentrated at a logistics center. Inventory is concentrated in order to improve the efficiency of receiving, inspection and delivery operations, ensure appropriate inventory, and reduce costs. However, if a natural disaster such as an earthquake occurs and damage occurs on a scale that cannot be covered by disaster prevention measures or insurance, delivery delays and quantity shortages may have a negative impact on the company's performance.

・Dependence on a Singular Person

Mr. Aisu, the company's representative director and president, owns just under 40% of the company's shares together with the asset management company and has been the driving force behind the company's growth since its founding. If an unforeseen event were to cause Mr. Aisu to be unable to manage the company, this could have a negative impact on relationships with business partners and employee retention.

Figure 26Consolidated Statement of Income (¥ mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24CoE
Total Sales	**7,793**	**8,767**	**9,647**	**10,993**	**12,039**	**13,623**	**17,443**	**18,800**
(YoY)	NM	12.5%	10.0%	14.0%	9.5%	13.2%	28.0%	7.8%
VAD				**5,280**	**5,262**	**6,332**	**8,966**	**-**
(YoY)				-	-0.3%	20.3%	41.6%	-100.0%
SI				**5,127**	**6,169**	**6,203**	**7,576**	**-**
(YoY)				-	20.3%	0.6%	22.1%	-100.0%
In-house Development				**586**	**608**	**1,088**	**901**	**-**
(YoY)				-	3.7%	79.0%	-17.2%	-100.0%
Gross profit	**1,871**	**2,169**	**2,532**	**3,093**	**3,092**	**3,559**	**4,124**	**-**
(Gross Profit Margin)	24.0%	24.7%	26.2%	28.1%	25.7%	26.1%	23.6%	
VAD				1,371	1,314	1,299	1,757	-
(Gross Profit Margin)				26.0%	25.0%	20.5%	19.6%	
SI				1,313	1,446	1,419	1,665	-
(Gross Profit Margin)				25.6%	23.4%	22.9%	22.0%	
In-house Development				409	332	842	702	-
(Gross Profit Margin)				69.7%	54.6%	77.3%	77.9%	
SG&A	1,489	1,685	1,983	2,249	2,453	2,653	3,038	-
Operating Profit	**382**	**484**	**548**	**844**	**639**	**906**	**1,086**	**960**
(YoY)		26.7%	13.2%	54.0%	-24.3%	41.8%	19.9%	-11.6%
(Operating Profit Margin)	4.9%	5.5%	5.7%	7.7%	5.3%	6.7%	6.2%	5.1%
Non-Operating Income	58	20	17	32	55	204	22	-
Non-Operating Expense	3	18	11	1	7	60	93	-
Ordinary Profit	**438**	**486**	**554**	**874**	**686**	**1,051**	**1,015**	**1,330**
(YoY)		11.0%	14.0%	57.8%	-21.5%	53.2%	-3.4%	31.0%
(Ordinary Profit Margin)	5.6%	5.5%	5.7%	8.0%	5.7%	7.7%	5.8%	7.1%
Extraordinary Profit	28	70	65	66	56	189	0	-
Extraordinary Loss	0	0	1	2	32	74	0	-
Profit Before Income Taxes	466	556	619	938	710	1,165	1,015	-
(YoY)		19.3%	11.3%	51.5%	-24.3%	64.1%	-12.9%	-100.0%
(Pre-tax profit margin on sales)	5.98%	6.34%	6.42%	8.53%	5.90%	8.55%	5.82%	0.00%
Income Taxes	147	178	207	304	255	423	368	-
(Effective tax rate)	31.55%	32.01%	33.44%	32.41%	35.92%	36.31%	36.26%	
Profit	**319**	**377**	**412**	**634**	**455**	**742**	**648**	**-**
Profit (Loss) Attributable to Non-controlling Interests	0	0	0	0	0	-2	-13	-
Profit Attributable to Owners of Parent	**319**	**377**	**412**	**634**	**455**	**743**	**661**	**773**
(YoY)		18.2%	9.3%	53.9%	-28.2%	63.3%	-11.0%	16.9%

Source: Company Data. Compiled by Strategy Advisors

Figure 27Key Financial Indicators

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23
EPS (¥)	**9.5**	**11.0**	**12.0**	**18.4**	**13.0**	**21.2**	**6.3**
BPS (¥)	**69**	**72**	**80**	**91**	**90**	**103**	**37**
Dividend per share (¥)	**0.00**	**1.66**	**3.33**	**5.33**	**5.33**	**6.00**	**10.00**
Dividend payout ratio	0.0%	15.0%	27.8%	29.0%	40.9%	28.3%	159.6%
Closing price (¥)	**332**	**246**	**305**	**453**	**259**	**272**	**309**
PER(Times)	**34.9**	**22.3**	**25.5**	**24.7**	**19.9**	**12.8**	**49.3**
PBR (Times)	**4.8**	**3.4**	**3.8**	**5.0**	**2.9**	**2.6**	**8.3**
Shares on Issue ('000)	5,669	5,729	11,487	11,557	11,640	11,688	11,721
Treasury stock ('000)	0	0	0	128	390	501	498
Number of treasury stocks excluded ('000)	5,669	5,729	11,487	11,429	11,250	11,187	11,223
Market Capitalization	**11,292**	**8,456**	**10,511**	**15,533**	**8,742**	**9,128**	**10,403**
Shareholders' Equity Ratio	45.0%	45.8%	45.3%	44.1%	37.1%	32.6%	33.8%
Interest-bearing debt balance	59	0	18	10	502	1,130	850
D/E Ratio	0.03	0.00	0.01	0.00	0.16	0.31	0.21
EV(Enterprise Value)	9,811	6,805	8,359	13,838	7,914	7,179	7,824
EBITDA	495	592	683	1,003	806	1,055	1,281
EV/EBIDA	19.8	11.5	12.2	13.8	9.8	6.8	6.1
ROE	**16.5%**	**15.8%**	**15.7%**	**21.3%**	**14.3%**	**21.6%**	**17.2%**
ROIC(Invested capital)	11.4%	12.7%	13.0%	18.0%	11.2%	11.3%	14.8%
ROIC(Business assets)	45.1%	65.6%	80.8%	87.0%	37.7%	33.8%	51.8%
Number of Employees	**350**	**391**	**409**	**446**	**473**	**527**	**570**

Source: Company Data. Compiled by Strategy Advisors

Figure 28Balance Sheet (¥ mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23
Cash and deposits	1,469	1,663	2,181	1,727	1,352	2,990	3,358
Notes and accounts receivable - trade	1,116	1,190	1,236	2,176	2,078	2,361	2,019
Inventories	769	686	640	822	2,377	3,104	2,848
Others	724	844	988	1,082	1,430	1,522	1,805
Current assets	**4,079**	**4,383**	**5,044**	**5,807**	**7,237**	**9,976**	**10,029**
Buildings and structures	13	15	28	33	42	45	99
Tools, furniture and fixtures	152	152	154	161	167	164	243
Others	1	1	9	1	1	40	35
Tangible fixed assets	166	168	190	195	209	248	377
Intangible assets	35	219	302	241	166	258	263
Investment securities	705	356	336	603	665	343	468
Others	170	248	274	346	348	427	694
Investments and other assets	875	604	610	949	1,013	770	1,162
Total noncurrent assets	**1,075**	**991**	**1,102**	**1,385**	**1,389**	**1,276**	**1,802**
Total assets	**5,154**	**5,350**	**6,146**	**7,192**	**8,625**	**11,252**	**11,831**
Accounts payable-trade	856	595	508	805	1,606	1,886	1,513
Current portion of long-term loans	0	0	0	8	502	288	274
Advances received	1,110	1,620	2,079	2,184	2,473	3,138	4,018
Others	554	470	519	737	521	1,056	1,049
Current liabilities	**2,520**	**2,686**	**3,107**	**3,734**	**5,101**	**6,367**	**6,853**
Long-term debt	0	0	10	2	0	805	544
Retirement benefit liability	132	147	176	201	223	246	260
Others	181	67	67	82	102	150	160
Noncurrent liabilities	**313**	**213**	**253**	**285**	**325**	**1,200**	**964**
Total liabilities	**48,588**	**50,228**	**47,695**	**45,029**	**46,026**	**47,820**	**40,202**
Capital stock	498	506	507	511	515	517	526
Capital surplus	271	278	280	283	287	290	297
Retained earnings	1,143	1,520	1,875	2,394	2,666	3,229	3,520
Treasury shares	0	0	0	-100	-303	-384	-382
Total shareholders' equity	**1,912**	**2,304**	**2,661**	**3,088**	**3,165**	**3,652**	**3,961**
Accumulated other comprehensive income	409	146	107	54	-21	-48	-22
Share subscription rights	0	0	18	31	55	63	64
Non-controlling interests	0	0	0	0	0	18	11
Total net assets	**2,321**	**2,451**	**2,787**	**3,173**	**3,199**	**3,685**	**4,014**
Total liabilities and net assets	**5,154**	**5,350**	**6,146**	**7,192**	**8,625**	**11,252**	**11,831**

Source: Company Data. Compiled by Strategy Advisors

Figure 29Cash Flow (¥ mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23
Profit before income taxes	466	556	619	938	710	1,165	1,015
Depreciation	85	98	112	134	143	125	152
Amortization of goodwill	28	10	23	25	24	24	43
Decrease (increase) in notes and accounts receivable - trade	93	-73	53	-941	98	-235	347
Decrease (increase) in accounts receivable	0	-10	-35	-124	-149	224	128
Decrease (increase) in inventories	-467	83	52	-182	-1,555	-721	256
Decrease (increase) in advance payments	-15	-168	-98	34	-19	-287	-384
Increase (decrease) in notes and accounts payable-trade	462	-261	-141	296	801	256	-376
Increase (decrease) in advances received	158	482	446	104	289	651	879
Other	-140	-281	-269	-122	-493	-77	-475
Cash Flows from Operating Activities	**670**	**435**	**761**	**164**	**-151**	**1,125**	**1,586**
Increase/decrease in fixed deposits	91	0	0	0	0	0	0
Purchase of investment securities	-109	-51	-35	-331	-194	-1	-121
Proceeds from sales of investment securities	30	80	93	70	61	379	0
Purchase of property, plant and equipment	-100	-107	-83	-86	-111	-81	-227
Purchase of intangible assets	-28	-129	-85	-11	-14	-13	-78
Purchase of subsidiary share capital associated with a change in the scope of consolidation	0	-72	-96	0	0	-195	0
Payments into long-term deposits	0	0	0	0	0	0	-169
Other	-12	-19	27	-43	3	-5	-64
Cash flows from investing activities	**-127**	**-297**	**-179**	**-402**	**-255**	**84**	**-659**
Net increase (decrease) in borrowings	-85	-39	-12	-8	492	595	-290
Proceeds from issuance of shares	30	15	3	7	8	5	3
Purchase of treasury shares	0	0	0	-100	-202	0	0
Dividends paid	0	0	-57	-115	-183	-180	-370
Other	-40	-20	0	0	-98	35	-12
Cash flows from financing activities	**-95**	**-44**	**-66**	**-216**	**17**	**454**	**-669**

Source: Company Data. Compiled by Strategy Advisors

Figure 30Quarterly Performance Trends (¥ mn)

	FY12/22				FY12/23				FY12/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net Sales	**3,338**	**2,665**	**3,166**	**4,454**	**4,561**	**4,497**	**4,353**	**4,032**	**4,954**	**3,457**	**5,506**
(YoY)	-1.2%	6.3%	26.2%	22.2%	36.6%	68.7%	37.5%	-9.5%	8.6%	-23.1%	26.5%
VAD	**1,594**	**1,360**	**1,294**	**2,084**	**2,531**	**2,033**	**2,129**	**2,273**	**2,838**	**1,908**	**1,884**
(YoY)	22.2%	39.8%	9.7%	15.4%	58.7%	49.5%	64.5%	9.1%	12.1%	-6.2%	-11.5%
SI	**1,563**	**1,035**	**1,511**	**2,093**	**1,881**	**2,196**	**1,975**	**1,523**	**1,823**	**1,293**	**2,727**
(YoY)	-20.6%	-26.6%	27.1%	30.8%	20.3%	112.2%	30.7%	-27.2%	-3.1%	-41.1%	38.1%
In-house Development	**180**	**271**	**360**	**277**	**150**	**267**	**248**	**237**	**293**	**257**	**263**
(YoY)	74.1%	114.6%	158.8%	15.7%	-17.1%	-1.4%	-31.2%	-14.5%	95.9%	-3.9%	6.2%
Gross Profit	852	785	870	1,052	1,091	993	1,038	1,002	1,213	914	1,261
(Gross Profit Margin)	25.5%	29.5%	27.5%	23.6%	23.9%	22.1%	23.8%	24.9%	24.5%	26.4%	22.9%
・VAD	369	308	240	381	564	402	450	340	612	417	534
・SI	385	265	343	425	445	355	387	478	407	354	409
・In-house Development	97	211	287	246	82	235	202	183	195	142	109
SG&A	627	679	629	718	673	783	737	845	783	997	972
Operating Profit	**225**	**105**	**242**	**334**	**418**	**210**	**302**	**156**	**431**	**-84**	**289**
(YoY)	-16.7%	625.0%	633.3%	-6.2%	85.8%	100.0%	24.8%	-53.3%	3.1%	-140.0%	-4.3%
(Operating Profit Margin)	6.7%	3.9%	7.6%	7.5%	9.2%	4.7%	6.9%	3.9%	8.7%	-2.4%	5.2%
Non-Operating Income/Expenses	50	78	12	4	-6	-19	-5	-41	383	9	3
Ordinary Profit	**275**	**184**	**253**	**339**	**412**	**191**	**296**	**116**	**813**	**-73**	**290**
(YoY)	-9.2%	1633.3%	622.9%	-5.8%	49.8%	3.8%	17.0%	-65.8%	97.3%	-138.2%	-2.0%
(Ordinary Profit Margin)	8.2%	6.9%	8.0%	7.6%	9.0%	4.2%	6.8%	2.9%	16.4%	-2.1%	5.3%
Extraordinary Profit and Loss	0	0	0	15	0	0	0	0	0	0	12
Profit Before Income Taxes	275	358	253	279	412	191	296	116	813	-60	303
Income Taxes	94	122	86	121	143	69	107	49	268	43	115
Profit	**181**	**236**	**167**	**158**	**269**	**122**	**189**	**68**	**545**	**-103**	**188**
Profit (Loss) Attributable to Non-controlling Interests	0	0	0	0	-9	-7	0	3	6	2	7
Profit Attributable to Owners of Parent	**181**	**236**	**167**	**159**	**278**	**130**	**188**	**65**	**540**	**-106**	**181**

Source: Company Data. Compiled by Strategy Advisors

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