

Company Report

February 26, 2025

Strategy Advisors Inc.

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Q3 FY3/25 Results: In-Line With Company Forecasts. Testers are Tough. System & Service Underpin Performance

In Q3 (cumulative) of FY3/25, sales were down 1.3% YoY to ¥29.92 billion and operating profit was down 36.6% YoY to ¥1.16 billion, resulting in a decline in both sales and profits. In Q3 (3-months), sales were down 16.0% YoY to ¥9.11 billion and operating profit was down 72.9% YoY to ¥260 million. When announcing the Q2 financial results, the company revised its full-year forecast downward and the Q3 financial results can be said to be in line with that.

The main reason for the decline in profits was the Test Solution division, which focuses on testers, with cumulative Q3 sales falling 15.3% YoY and operating income declining sharply to ¥650 million compared to ¥430 million in the same period last year. Testers were heavily affected by the decline in capital investment by Japanese semiconductor manufacturers, the company's main customers, due to the sluggish market for NAND flash memory. Meanwhile, System and Service performed well, led by GAIO TECHNOLOGY, which deals in verification tools for automobiles, with the division's sales increasing 11.4% YoY in cumulative Q3 and operating income also increasing 28.8% YoY.

Demand for testers in Q4 is expected to remain sluggish but is expected to recover somewhat from Q3. System and Service are expected to remain strong in Q4. Semiconductor Design-related demand, such as semiconductor design for automobiles and industrial machinery, is expected to slow slightly, but EDA is likely to remain strong. Overall, there is a high possibility that the company's forecast for FY3/25 will be achieved.

The recovery of the NAND flash memory market has been slow, but with the start of operations at a major user's new factory in FY2026 and an expected increase in new-generation 3D NAND, it is expected that there will be signs of improvement in the second half of FY2026. In addition, efforts to expand the number of users and applications of testers will gradually produce results. While revenues other than Test Solution are stable and underpinning the overall performance, the stock price has been sluggish, resulting in a low PER of 13.5 times. As the company has built a stable profit structure by transforming into being a manufacturer, if there are signs of improvement in the demand and market conditions for NAND flash memory, the stock price is expected to recover.

Stock Price & Trading Volumes



Source: Strategy Advisors

Key Indicators

Stock Price (2/21)	1,374
52-Week High (3/8/24)	2,129
52-Week Low (8/5/24)	1,282
All-Time High (3/8/24)	2,129
All-Time Low (10/27/08)	182
Shares on Issue (mn)	13.4
Market Capitalization (¥ bn)	18.4
Equity Ratio (3/24, %)	51.6
ROE (3/24 Actual, %)	6.1
PER (3/25 CoE, Times)	13.5
PBR (3/24 Actual, Times)	0.75
Dividend Yield (3/25 CoE, %)	5.1

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 (¥)
3/2025 Q1	10,218	17.6	434	329.7	733	125.5	434	128.8	32.3	-
3/2025 Q2	10,590	-1.8	464	-38.4	17	-98.1	25	-96.1	1.8	-
3/2025 Q3	9,114	-16.0	267	-72.9	530	-45.7	536	230.9	39.9	-
3/2024 Q1-Q3	30,325	7.8	1,839	28.6	2,182	31.2	994	0.4	74.6	-
3/2025 Q1-Q3	29,922	-1.3	1,165	-36.6	1,280	-41.3	995	0.1	74.0	-
3/2021	32,536	4.4	1,954	17.0	2,460	29.8	1,534	31.3	120.7	50.0
3/2022	37,238	14.5	2,585	32.3	2,984	21.3	2,194	43.0	168.7	65.0
3/2023	38,629	3.7	2,319	-10.3	2,480	-16.9	1,666	-24.1	127.0	70.0
3/2024	41,358	7.1	2,474	6.7	2,880	16.1	1,477	-11.3	110.6	70.0
3/2025 CoE	41,500	0.3	1,800	-27.3	1,800	-37.5	1,350	-8.6	101.1	70.0

Source: Company data. Compiled by Strategy Advisors

1. Q3 Financial Results Overview

Figure 1. Summary of FY3/25 Q3 Financial Results

(¥ bn)

	3/24 Q1-Q3 (A)	Progress (A)/(C)	3/25 Q1-Q3 (B)	Progress (B)/(D)	3/25Q1	3/25Q2	3/25Q3	3/25Q4 CoE	3/24 Full (C)	3/25 Full CoE (D)
Sales	30,325	73.3%	29,922	72.1%	10,218	10,590	9,114	11,578	41,358	41,500
YoY	7.8%		-1.3%		17.6%	-1.8%	-16.0%	4.9%	7.1%	0.3%
Test Solution	11,337	71.4%	9,606	69.5%	3,234	3,819	2,553	4,224	15,885	13,830
YoY	14.7%		-15.3%		32.8%	-14.8%	-42.3%	-7.1%	14.0%	-12.9%
Semiconductor Design-related	9,512	73.8%	9,761	74.2%	3,361	3,261	3,139	3,389	12,884	13,150
YoY	-5.4%		2.6%		5.3%	2.8%	-0.3%	0.5%	-3.0%	2.1%
System and Service	9,476	75.3%	10,554	72.7%	3,622	3,510	3,422	3,966	12,589	14,520
YoY	15.9%		11.4%		18.4%	12.2%	4.1%	27.4%	10.4%	15.3%
Gross Profit	9,770	74.2%	8,993	73.7%	3,111	3,247	2,635	3,207	13,160	12,200
YoY	9.9%		-8.0%		18.3%	-3.6%	-30.1%	-5.4%	7.5%	-7.3%
Margin over Sales	32.2%		30.1%		30.4%	30.7%	28.9%	27.7%	31.8%	29.4%
Test Solution	4,616	74.8%	3,340	72.6%	1,148	1,340	852	1,260	6,174	4,600
YoY	13.1%		-27.6%		17.1%	-19.6%	-56.7%	-19.1%	8.7%	-25.5%
Margin over Sales	40.7%		34.8%		35.5%	35.1%	33.4%	29.8%	38.9%	33.3%
Semiconductor Design-related	2,170	74.7%	2,199	73.3%	791	737	671	801	2,905	3,000
YoY	-2.8%		1.3%		5.2%	-1.3%	0.0%	9.0%	-0.6%	3.3%
Margin over Sales	22.8%		22.5%		23.5%	22.6%	21.4%	23.6%	22.5%	22.8%
System and Service	2,982	73.1%	3,453	75.1%	1,171	1,170	1,112	1,147	4,080	4,600
YoY	15.8%		15.8%		30.5%	22.5%	-1.6%	4.5%	12.1%	12.7%
Margin over Sales	31.5%		32.7%		32.3%	33.3%	32.5%	28.9%	32.4%	31.7%
Operating Income	1,839	74.3%	1,165	64.7%	434	464	267	635	2,474	1,800
YoY	NA		-36.6%		329.7%	-38.4%	-72.9%	0.2%	6.7%	-27.2%
Margin over Sales	6.1%		3.9%	NA	4.2%	4.4%	2.9%	5.5%	6.0%	4.3%
Test Solution	437	NA	-654	NA	-212	-198	-244	NA	NA	NA
YoY	NA		NM	NA	NM	NM	NM	NA	NA	NA
Margin over Sales	3.9%		-6.8%		-6.6%	-5.2%	-9.6%	NA	NA	NA
Semiconductor Design-related	383	NA	355	NA	169	118	68	NA	NA	NA
YoY	NA		-7.3%	NA	4.3%	-19.2%	-9.3%	NA	NA	NA
Margin over Sales	4.0%		3.6%		5.0%	3.6%	2.2%	NA	NA	NA
System and Service	1,149	NA	1,480	NA	522	542	416	NA	NA	NA
YoY	NA		28.8%	NA	81.9%	42.3%	-13.5%	NA	NA	NA
Margin over Sales	12.1%		14.0%		14.4%	15.4%	12.2%	NA	NA	NA
Adjustment	-130		-14		-44	1	29	NA	NA	NA

Note: The allocation of operating profit by segment has changed since Q1 of FY3/25, and YoY comparisons are not possible.

Source: Company Data. Compiled by Strategy Advisors.

Q3 Earnings Down Sharply

Q3 results for FY3/25, announced on February 10, showed a large drop in profits, with cumulative sales down 1.3% YoY to ¥29.92 billion and operating profit down 36.6% YoY to ¥1.16 billion. In Q3 (3-months), sales were down 16.0% YoY to ¥9.11 billion and operating income was down 72.9% YoY to ¥260 million. Both sales and operating profits also declined compared to Q2 (3-months).

By business division, the profits of Test Solution, mainly testers, have deteriorated significantly. On the other hand, System and Service have steadily increased profits, mainly due to GAIO TECHNOLOGY, which provides verification tools and contract services for automobiles. Semiconductor Design-related business is also affected by the delayed recovery of the semiconductor industry as a whole, but EDA is strong and has generated solid profits.

The company revised its full-year forecast downwards when announcing its first-half financial results in November and the Q3 results were in line with the post-revision levels.

2. Trends by Sector

1) Test Solution Business

Tester Sales Fall Sharply

The Test Solution Business consists of testers manufactured by INNOTECH itself and probe cards and reliability testing equipment manufactured by STAR, a Taiwanese subsidiary. The main testers are for NAND flash memory, with major Japanese manufacturers being the main users. In Q3 of FY3/25 (3-months) sales were just ¥110 million. Operating income is also thought to be in the red. Demand is also sluggish in Q4, but a slight recovery is expected for testers and burn-in boards for NAND flash memory. The company is expected to achieve its annual sales forecast of ¥1.65 billion for the tester business.

STAR 's Reliability Evaluation Equipment have been Delayed

STAR sales in Q3 (3-months) were slightly down both YoY and QoQ due to factors including delays in deliveries of reliability evaluation equipment. The impact of spinning off the mass production probe card business through restructuring appears to have been limited in Q3. Sales of reliability evaluation equipment that were delayed from Q3 will be realized in Q4, so sales and operating income in Q4 are expected to increase relative to Q3.

Figure 2. Test Solution Business Revenue Trends

(¥ mn)

FY	3/24				3/25			3/24	3/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1-Q3	Q1-Q3
Sales	2,435	4,481	4,421	4,548	3,234	3,819	2,553	11,337	9,606
Testers	529	636	1,256	750	879	263	118	2,421	1,260
STAr Technologies	1,906	3,845	3,164	3,798	2,354	3,556	2,435	8,915	8,345
Operating Income	-314	247	504	375	-212	-198	-244	437	-654
Testers	-29	-24	496	129	43	-220	-278	443	-455
STAr Technologies	-285	271	8	246	-255	22	34	-6	-199
Operating Margin	-12.9%	5.5%	11.4%	8.2%	-6.6%	-5.2%	-9.6%	3.9%	-6.8%
Testers	-5.5%	-3.8%	39.5%	17.2%	4.9%	-83.7%	-235.6%	18.3%	-36.1%
STAr Technologies	-15.0%	7.0%	0.3%	6.5%	-10.8%	0.6%	1.4%	-0.1%	-2.4%

Note: Sales breakdown is based on segment information. Operating income breakdown is based on segment information and presentation materials. Tester operating income is calculated by subtracting STAr operating income from division operating income.

Source: Company Data. Compiled by Strategy Advisors.

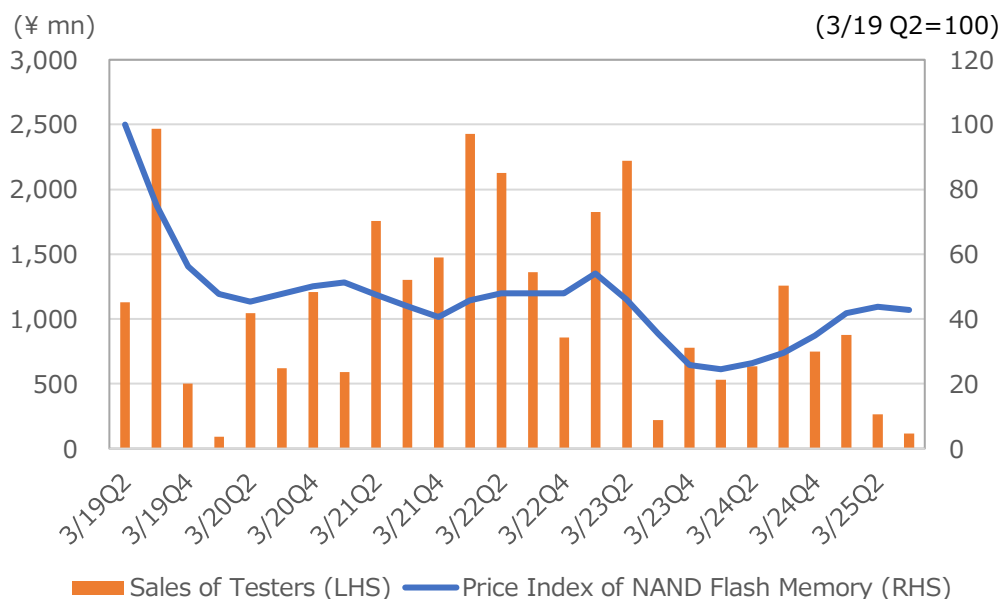
Current Demand and Market Conditions for NAND Flash Memory are Sluggish Due to Adjustments in Smartphones & PCs

According to Kioxia Holdings (TSE 285A), which announced its Q3 results for fiscal year 2025 on February 14, the market for NAND flash memory is weak and the company's average selling price for the October-December 2024 period fell by a low single-digit percentage compared to the July-September period. The company forecasts sales for the January-March 2025 period to be ¥315 to 345 billion, down from ¥450 billion in the previous quarter. This appears to have factored in the decline in prices.

Expected to Recover from the Second Half of FY3/26

At present, demand for smartphones and PCs is sluggish and it is believed that users are adjusting their NAND flash memory inventory. On the other hand, demand for enterprise data centers is solid and the introduction of AI servers is accelerating; so, it is expected that demand and market conditions for NAND flash memory as a whole will improve in the second half of FY3/26, when inventory adjustments for smartphones and other products are expected to be completed. Accordingly, demand for INNOTECH's testers is also expected to recover. In addition, under the policy of expanding the user base, testers for overseas manufacturers are expected to increase in FY3/26. This will result in expected sales and profits of the tester business recovering in FY3/26 when compared to FY3/25.

Figure 3. NAND Flash Memory Market Conditions and INNOTECH's Tester Sales



Note: Price index created by Strategy Advisors based on Kioxia Holdings' financial results presentation materials.

Source: Company Data. Compiled by Strategy Advisors.

2) Semiconductor Design-Related Business

Remains Resilient Despite Being Affected by Semiconductor Market Conditions

The Semiconductor Design-related Business consists of the import and sale of EDA, for which INNOTECH itself acts as an agent, SANEI HYTECHS, which designs semiconductors and develops software and MoDeCH, which creates simulation models for semiconductor devices. Sales for the Semiconductor Design-related Business in Q3 (3-months) were down 0.3% YoY to ¥3.13 billion, while operating profit was flat at ¥670 million.

EDA Remains Strong

EDA is performing well, with sales in Q3 (3-months) increasing 2.5% YoY to ¥2.21 billion. Cumulative Q3 sales increased 7.0% YoY. Operating income also appears to be increasing steadily. The company sells EDA developed by the US company Cadence to Japanese electronic components and industrial machinery and also provides follow-up services. In addition to being stable with a stock-based business model, the weak yen is also likely to have had an effect, as most contracts are USD denominated.

SANEI HYTECHS is Affected by the Slowdown in Semiconductor Demand

SANEI HYTECHS' sales and operating income for Q3 (3-months) were down compared to the same period last year. This is thought to be due to sluggish demand for design of analog semiconductors for automobiles and industrial machinery. There was no significant change for MoDeCH.

There are not expected to be any major changes in the Semiconductor Design-related Business in Q4. EDA is a stock-based business and transactions with existing customers are expected to continue, so it is likely to remain strong. SANEI HYTECHS is however expected to be affected by the sluggish demand for semiconductors in general in Q4 as well. Revenues from the Semiconductor Design-related Business for the full FY3/25 are expected to trend close to the company's forecast.

EDA is Expected to Remain Strong in FY3/26

For EDA in FY3/26, the number of renewals of multi-year contracts with customers is expected to be limited and there are few factors that could cause fluctuations in earnings. There is a high possibility that steady earnings will be secured. For SANEI HYTECHS, which is currently experiencing a slowdown, the timing of the recovery of demand for semiconductors in general will be the key, but a certain degree of recovery is expected in the second half of FY3/26 due to progress in inventory adjustments by device manufacturers, etc.

Figure 4. Revenue Trends in the Semiconductor Design-Related Business

(¥ mn)

	3/24				3/25			3/24	3/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1-Q3	Q1-Q3
Sales	3,193	3,171	3,148	3,372	3,361	3,261	3,139	9,512	9,761
EDA	2,082	2,117	2,159	2,283	2,316	2,271	2,214	6,358	6,801
SANEI HYTECHS	1,038	1,016	951	990	971	951	871	3,005	2,793
MoDeCH	73	37	38	98	73	39	53	148	165
Operating Income	162	146	75	192	169	118	68	383	355
EDA	38	35	48	133	64	60	49	121	173
SANEI HYTECHS	118	130	33	16	99	65	28	281	192
MoDeCH	6	-19	-6	43	6	-7	-9	-19	-10
Operating Margin	5.1%	4.6%	2.4%	5.7%	5.0%	3.6%	2.2%	4.0%	3.6%
EDA	1.8%	1.7%	2.2%	5.8%	2.8%	2.6%	2.2%	1.9%	2.5%
SANEI HYTECHS	11.4%	12.8%	3.5%	1.6%	10.2%	6.8%	3.2%	9.4%	6.9%
MoDeCH	8.2%	-51.4%	-15.8%	43.9%	8.2%	-17.9%	-17.0%	-12.8%	-6.1%

Note: Sales breakdown is based on segment information. Operating income breakdown is based on segment information and presentation materials. EDA's operating income is calculated by subtracting operating income of SANEI HYTECHS and MoDeCH from division operating income.

Source: Company Data. Compiled by Strategy Advisors.

3) System and Service Business

System and Service Revenues are Growing Steadily

The System and Service business is made up of INNOTECH's own embedded systems by GAIO TECHNOLOGY, which sells and provides contract services for automotive verification tools, IT Access, which develops cashless payment terminals and software for vending machines and REGULUS, which handles image processing technology. Cumulative sales for Q3 increased 11.4% YoY to ¥10.55 billion, and operating income increased 28.8% YoY to ¥1.48 billion.

GAIO TECHNOLOGY Continues to Perform Well

GAIO TECHNOLOGY, which contributes particularly heavily to profits, continues to show strong earnings. Cumulative Q3 sales increased 22.2% YoY and operating profit increased 48.2%. Verification tools remain stable and demand for contract services appears to have grown significantly. The company appears to be struggling to secure personnel, including for outsourced work, to meet strong demand. IT Access' cumulative Q3 sales increased 4.5% YoY, and operating income increased 13.1%. Payment terminals are performing well, and software development for automobiles is growing. INNOTECH's embedded systems also appear to be performing well.

Q4 is Set to Remain Strong

For System and Service, demand trends are not expected to change in Q4, and full-year earnings for FY3/25 are expected to reach company forecasts. For FY3/26, the macro environment surrounding the automobile industry is somewhat uncertain, with the possibility of tariffs being introduced by the Trump administration in the United States, thereby intensifying friction between the United States and China, but there are no particular negative factors specific to INNOTECH. While it can be said that GAIO TECHNOLOGY will have to face the challenge of expansion, including issues such as securing personnel. As long as there are no macro disruptions, the System and Service business is likely to achieve stable profits in FY3/26.

Figure 5. Revenue Trends in the System and Service Business

(¥ mn)

	3/24				3/25			3/24	3/25
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q1-Q3	Q1-Q3
Sales	3,060	3,129	3,287	3,113	3,622	3,510	3,422	9,476	10,554
INNOTECH: Embedded									
Systems	636	766	766	647	735	936	751	2,168	2,422
IT Access	1,396	1,256	1,272	1,236	1,656	1,171	1,274	3,924	4,101
GAIO TECHNOLOGY	917	1,028	1,079	1,048	1,127	1,286	1,281	3,024	3,694
REGULUS	109	80	169	182	102	118	116	358	336
Operating Income	287	381	481	467	522	542	416	1,149	1,480
INNOTECH: Embedded									
Systems	50	100	93	90	74	116	32	243	222
IT Access	144	143	126	110	212	122	133	413	467
GAIO TECHNOLOGY	140	169	241	209	258	301	256	550	815
REGULUS	-47	-31	21	58	-22	3	-5	-57	-24
Operating Margin	9.4%	12.2%	14.6%	15.0%	14.4%	15.4%	12.2%	12.1%	14.0%
INNOTECH: Embedded									
Systems	7.9%	13.1%	12.1%	13.9%	10.1%	12.4%	4.3%	11.2%	9.2%
IT Access	10.3%	11.4%	9.9%	8.9%	12.8%	10.4%	10.4%	10.5%	11.4%
GAIO TECHNOLOGY	15.3%	16.4%	22.3%	19.9%	22.9%	23.4%	20.0%	18.2%	22.1%
REGULUS	-43.1%	-38.8%	12.4%	31.9%	-21.6%	2.5%	-4.3%	-15.9%	-7.1%

Note: Sales breakdown is based on segment information. Operating income breakdown is based on segment information and presentation materials. INNOTECH's embedded systems operating income is calculated by subtracting the operating income of IT Access, GAIO TECHNOLOGY and REGULUS from the division's operating income.

Source: Company Data. Compiled by Strategy Advisors.

3. Business Outlook

Company Forecast to be Achieved in FY3/25

The company's forecast for FY3/25 was revised downwards when the Q2 financial results were announced in November 2024 and Q3 is expected to follow that trend. Full-year sales are expected to increase 0.3% YoY to ¥41.5 billion and operating income is expected to decrease 27.3% YoY to ¥1.8 billion. By division, Semiconductor Design-related revenues are likely to be slightly weaker than expected, but this will be offset by increased revenues from System and Service. Test Solution are progressing as expected. The business environment is tough due to the sluggish market for NAND flash memory. Even though Test Solution is in the red, the company as a whole is able to secure solid revenues, which can be said to be the result of the company's efforts to diversify its business, such as through transforming itself into a manufacturer and expanding System and Service.

In the cumulative Q3 financial results, insurance cancellation refunds of ¥260 million were recorded as non-operating income and a small foreign exchange loss due to fluctuations in yen-dollar exchange rate was recorded as non-operating expenses. In addition, a business transfer gain of ¥310 million was recorded as extraordinary income due to the spin-off resulting from the restructuring of STAR's mass-produced probe cards.

Business Performance is Likely to Recover in FY3/26

As for the results for FY3/26, demand and market conditions for NAND flash memory are expected to recover from the second half of the fiscal year. Testers are expected to recover compared to FY3/25 due to factors unique to INNOTECH, such as the diversification of sales destinations. EDA and System and Service Businesses are largely recurring revenue-type businesses and so are expected to remain strong. Therefore, the extent of INNOTECH's overall profit recovery will be mostly affected by the timing and extent of the recovery of NAND flash memory.

Performance in FY3/26 is Crucial for Achieving the Mid-Term Business Plan

The current mid-term business plan (FY3/25 to FY3/27) sets targets of ROE 10% and ROIC 8%, aiming to achieve an operating profit margin of 7-8% and a record high operating profit (FY3/08 of ¥3.33 billion). The operating income margin based on the company's forecast for FY3/25 is 4.3% and the ROE calculated based on the company's equity at the end of Q3 (using the company's forecast net profit for the term) is 5.4%, which is a large deviation from the target value. INNOTECH's business performance is expected to bottom out in FY3/25 and then start to recover, but in order to achieve the mid-term plan, it is desirable to have a certain degree of clarity regarding the business performance recovery in FY3/26.

Figure 6. Income Statement (Quarterly)

(¥ mn)

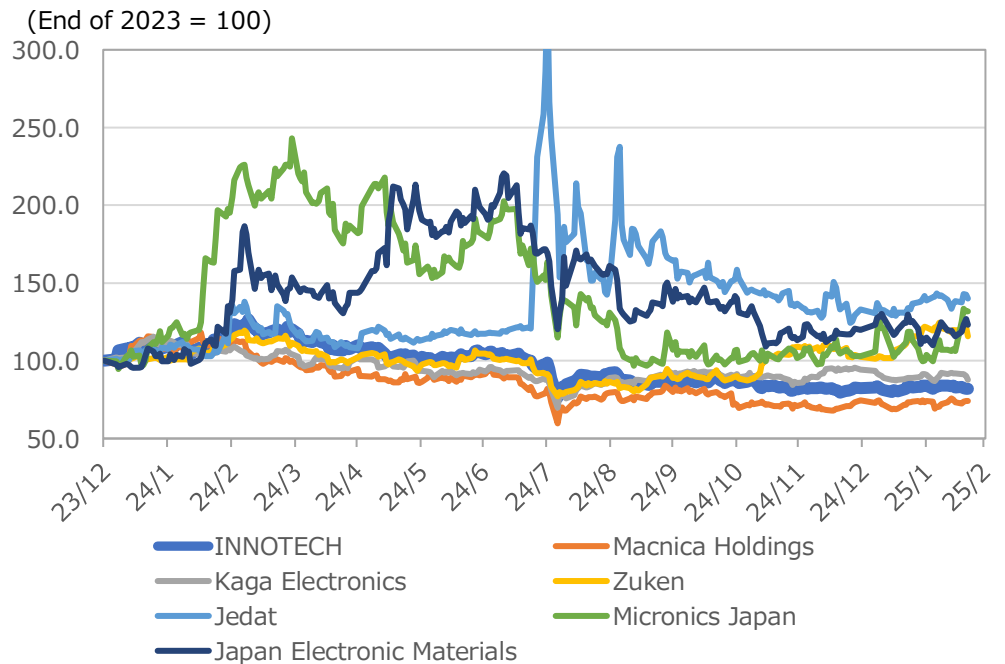
FY	3/24Q1	3/24Q2	3/24Q3	3/24Q4	3/25Q1	3/25Q2	3/25Q3	3/25Q4 CoE
Sales	8,689	10,782	10,854	11,033	10,218	10,590	9,114	11,578
(YoY Change)	-3.8%	0.5%	29.9%	5.0%	17.6%	-1.8%	-16.0%	4.9%
Cost Of Sales	6,058	7,414	7,082	7,643	7,106	7,344	6,479	
Gross Profit	2,630	3,367	3,772	3,390	3,111	3,247	2,635	
(Gross Margin)	30.3%	31.2%	34.8%	30.7%	30.4%	30.7%	28.9%	
SG&A	2,529	2,615	2,786	2,756	2,677	2,782	2,369	
Operating Income	101	753	986	634	434	464	267	635
(YoY Change)	-70.6%	-18.1%	486.9%	-28.8%	329.7%	-38.4%	-72.9%	0.2%
(Operating Margin)	1.2%	7.0%	9.1%	5.7%	4.2%	4.4%	2.9%	5.5%
Non-Operating Income	357	258	94	188	444	-148	416	
Interest and Dividend Income	0	0	0	0	0	0	0	
Non-Operating Expenses	134	130	104	124	146	298	153	
Interest Expense Discount	0	0	0	0	0	0	0	
Ordinary Income	325	882	976	697	733	17	530	520
(YoY Change)	-40.9%	-9.7%	623.0%	-14.8%	125.5%	-98.1%	-45.7%	-25.4%
(Ordinary Income Margin)	3.7%	8.2%	9.0%	6.3%	7.2%	0.2%	5.8%	4.5%
Extraordinary Profit	0	0	2	0	0	0	319	
Extraordinary Losses	0	0	0	-29	0	0	0	
Pretax Profit	325	883	415	727	733	18	848	
(YoY Change)	-40.9%	-9.6%	205.1%	-11.1%	125.5%	-98.0%	104.3%	
(Pretax Profit Margin)	3.7%	8.2%	3.8%	6.6%	7.2%	0.2%	9.3%	
Income Taxes	165	179	245	227	296	-20	256	
(Effective Tax Rate)	50.8%	20.3%	59.0%	31.2%	40.4%	-111.1%	30.2%	
Net Income	159	704	171	498	436	39	591	
Net Income to Minority Interests	-30	60	9	16	2	13	56	
Net Income to Owners of the Parent	189	643	162	483	434	25	536	355
(YoY Change)	-28.7%	-2.1%	138.2%	-28.6%	129.6%	-96.1%	230.9%	-26.5%
(Net Income Margin)	2.2%	6.0%	1.5%	4.4%	4.2%	0.2%	5.9%	3.1%

Source: Company Data. Compiled by Strategy Advisors.

4. Stock Price and Valuation

INNOTECH's stock price has been fluctuating in a box range of ¥1,350 to ¥1,400 after it fell when the company announced a downward revision of its earnings forecast in November 2024. Looking at the stock price trends of its semiconductor trading companies, EDA and probe card competitors, stock prices have generally been sluggish in the second half of 2024. Recently, the stock prices of companies such as Micronics Japan, which announced good financial results for FY12/24, and Zuken, which announced enhanced shareholder returns, have risen, but there have been no major changes in the stock prices of other companies. INNOTECH's stock price has been sluggish, just like electronics trading companies Macnica Holdings and Kaga Electronics.

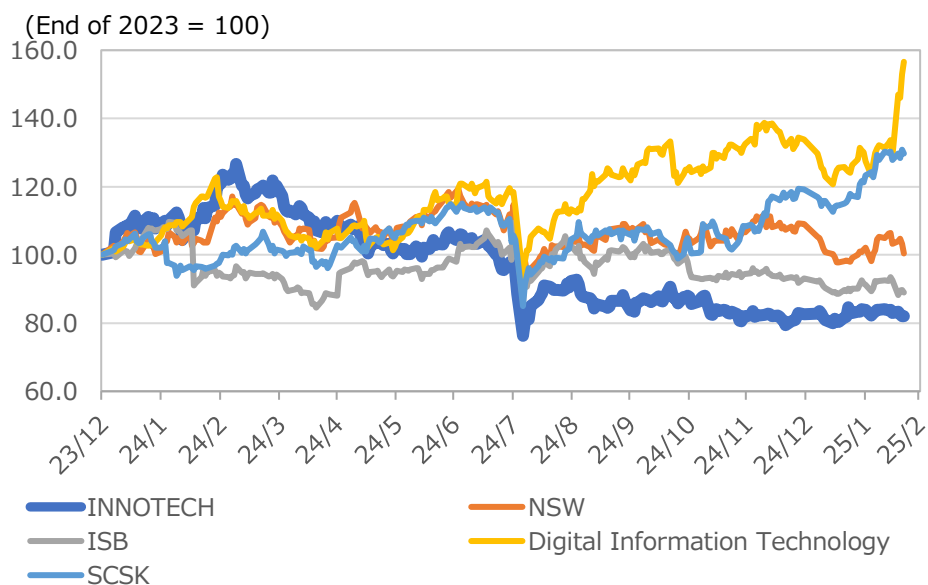
Figure 7. Comparison of Stock Prices between INNOTECH & Semiconductor-Related Companies



Source: Strategy Advisors.

Looking at the stock prices of systems-related companies, there is a large difference between the companies. Digital Information Technology revised its full-year earnings forecast and dividend forecast upward when it announced its first half of FY6/25, and its stock price, which was already strong, rose even more. SCSK also revised its full-year forecast upward when it announced Q3 of FY3/25, and its stock price rose. INNOTECH's stock price has been pulled down by its semiconductor tester business and other businesses and it has underperformed relative to these competitor firms.

Figure 8. Comparison of Stock Prices Between INNOTECH & Other Embedded Systems-Related Companies



Source: Strategy Advisors.

Figure 9. Profitability Comparison with Peers

Company	Code	FY	Sales	Operating Income	Operating Margin	ROE	ROIC	Equity Ratio
INNOTECH	9880	3/24	41,358	2,474	6.0%	6.1%	6.3%	51.6%
Macnica Holdings	3132	3/24	1,028,718	63,733	6.2%	21.7%	18.4%	44.2%
Kaga Electronics	8154	3/24	542,697	25,845	4.8%	14.5%	16.1%	52.6%
Zuken	6947	3/24	38,466	4,797	12.5%	9.5%	47.7%	63.3%
Jedat	3841	3/24	2,061	302	14.7%	9.6%	NA	78.3%
Micronics Japan	6871	12/24	38,292	5,312	13.9%	10.3%	15.0%	73.8%
Japan Electronic Materials	6855	3/24	17,461	870	5.0%	2.5%	3.4%	71.0%
NSW	9739	3/24	50,299	5,862	11.7%	13.6%	23.7%	75.2%
ISB	9702	12/24	33,954	2,800	8.2%	16.1%	33.3%	68.2%
Digital Information Technologies	3916	6/24	18,150	2,040	11.2%	26.0%	52.8%	68.1%
SCSK	9719	3/24	480,307	57,004	11.9%	14.1%	18.1%	65.3%

Note: ROIC is calculated by dividing NOPAT by the average of business assets (fixed assets + net working capital) during the period. Jedat is listed as NA because business assets are negative.

Source: Compiled by Strategy Advisors. Based on Company Data.

Figure 10. Comparison of Valuations with Peers

(¥ mn, Times)	Code	FY	Stock Price (2/21)	Market Cap	PER CoE	PBR Actual	EV/ EBITDA	Dividend Yield CoE	ROE CoE
INNOTECH	9880	3/24	1,374	18,351	13.5	0.75	6.1	5.1%	5.4%
Macnica Holdings	3132	3/24	1,868.0	333,277	11.2	1.36	9.1	1.9%	11.7%
Kaga Electronics	8154	3/24	2,667	140,167	7.8	0.93	3.6	2.1%	11.0%
Zuken	6947	3/24	4,755	103,868	26.2	2.62	11.8	2.1%	10.2%
Jedat	3841	3/24	1,372	5,281	22.0	1.49	5.1	2.9%	6.8%
Micronics Japan	6871	12/24	5,090	196,423	NA	3.96	NA	NA	NA
Japan Electronic Materials	6855	3/24	2,335	29,493	12.3	1.20	4.5	2.4%	9.2%
NSW	9739	3/24	2,778	41,389	9.9	1.25	3.5	3.1%	12.0%
ISB	9702	12/24	1,282	14,662	9.3	1.09	2.2	4.2%	11.6%
Digital Information Technologies	3916	6/24	2,545	37,437	19.4	5.47	10.9	2.6%	27.0%
SCSK	9719	3/24	3,763	1,176,005	25.3	3.89	16.0	1.9%	14.6%

Note: ROE (company forecast) is calculated by dividing the company's forecast net income for the current period by the equity capital at the end of the most recent quarterly fiscal period.

EBITDA in EV/EBITDA is calculated by adding the company's forecast operating profit to the most recent full-year actual depreciation and amortization expenses.

Source: Compiled by Strategy Advisors. Based on Company Data.

Valuations are Low

INNOTECH's valuation is at a low level. The company's forecast-based PER is 13.5 times and the PBR based on the actual BPS for FY3/24 is 0.75 times. The dividend yield based on the forecast for FY3/25 is 5.1%. The PBR is the lowest among these companies, but the dividend yield is the highest. The following three points can be considered as reasons why INNOTECH's stock price has remained at a low level.

1) the semiconductor cycle is stagnant except for some areas such as AI-related ones, 2) its ROE is 5.4%, the lowest compared to the comparable companies and 3) it appears that the stock has not been able to break away from being viewed as an electronics trading company stock.

Expectations for Recovery in NAND Market & Unique Measures

Of these, 1) the semiconductor cycle is expected to show signs of improvement in the second half of FY3/26 and 2) ROE remains relatively low, but is expected to recover to a certain extent in FY3/26, so the stock price is expected to recover from the current level. The first catalyst for the stock price is the increasing visibility of a recovery in the NAND flash memory market. Factors specific to INNOTECH include measures aimed at improving efficiency such as group reorganization, the realization of an expansion of the user base and product lineup and the strengthening of shareholder returns, which are considered to be potential factors. In particular, the expansion of the user base for Test Solution, which is currently making progress, is expected to contribute to improving future growth.

Figure 11. Income Statement

(¥ mn)

	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25CoE
Sales	28,863	28,735	29,804	31,161	32,536	37,238	38,629	41,358	41,500
(YoY Change)	-7.6%	-0.4%	3.7%	4.6%	4.4%	14.5%	3.7%	7.1%	0.3%
Cost Of Sales	20,786	20,345	20,329	21,566	22,581	26,018	26,387	28,198	
Gross Profit	8,076	8,390	9,475	9,595	9,954	11,219	12,242	13,160	12,200
(Gross Margin)	28.0%	29.2%	31.8%	30.8%	30.6%	30.1%	31.7%	31.8%	
SG&A	7,077	7,145	7,519	7,925	8,000	8,634	9,922	10,685	10,400
Operating Income	999	1,244	1,955	1,670	1,954	2,585	2,319	2,474	1,800
(YoY Change)	-1.3%	24.5%	57.2%	-14.6%	17.0%	32.3%	-10.3%	6.7%	-27.2%
(Operating Margin)	3.5%	4.3%	6.6%	5.4%	6.0%	6.9%	6.0%	6.0%	4.3%
Non-Operating Income	591	527	892	594	902	908	719	898	
Non-Operating Expenses	339	563	388	369	397	509	558	492	
Ordinary Income	1,251	1,208	2,459	1,896	2,460	2,984	2,480	2,880	1,800
(YoY Change)	7.7%	-3.4%	103.6%	-22.9%	29.7%	21.3%	-16.9%	16.1%	-37.5%
(Ordinary Profit Margin)	4.3%	4.2%	8.3%	6.1%	7.6%	8.0%	6.4%	7.0%	4.3%
Extraordinary Profit	6	0	1	0	7	72	2	3	
Extraordinary Losses	30	0	203	0	10	81	0	534	
Pretax Profit	1,227	1,209	2,256	1,895	2,458	2,976	2,482	2,349	
(YoY Change)	1.7%	-1.5%	86.6%	-16.0%	29.7%	21.1%	-16.6%	-5.4%	
(Pretax Profit Margin)	4.3%	4.2%	7.6%	6.1%	7.6%	8.0%	6.4%	5.7%	
Income Taxes	398	444	676	600	827	693	767	817	
(Effective Tax Rate)	32.4%	36.7%	30.0%	31.7%	33.6%	23.3%	30.9%	34.8%	
Net Income	829	764	1,580	1,294	1,630	2,283	1,714	1,532	
Net Income to Minority Interests	23	43	86	126	95	88	48	54	
Net Income to Owners of the Parent	806	721	1,493	1,168	1,534	2,194	1,666	1,477	1,350
(YoY Change)	8.9%	-10.5%	107.1%	-21.8%	31.3%	43.0%	-24.1%	-11.3%	-8.6%
(Net Income Margin)	2.8%	2.5%	5.0%	3.7%	4.7%	5.9%	4.3%	3.6%	3.3%
EPS (¥)	45.9	41.0	93.5	81.0	120.7	168.7	127.0	110.6	100.3

Source: Company Data. Compiled by Strategy Advisors.

Figure 12. Balance Sheet

(¥ mn)

FY	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24
Current Assets	16,160	17,963	17,400	19,243	20,476	23,189	25,957	30,305
Cash And Deposits	5,154	5,763	4,498	6,335	5,626	6,664	6,598	8,876
Accounts Receivable	6,628	7,119	7,428	7,392	8,550	8,773	9,566	10,034
Inventory	2,049	2,524	3,922	3,874	4,793	6,101	8,105	9,181
Other Current Assets	2,329	2,557	1,552	1,642	1,507	1,651	1,688	2,214
Fixed Assets	14,116	14,598	15,480	15,723	17,203	17,351	17,671	17,528
Tangible Fixed Assets	10,080	10,235	10,370	10,565	10,713	10,842	11,463	11,630
Intangible Fixed Assets	1,550	1,488	1,489	1,372	2,224	2,424	2,236	2,066
Investments & Other Assets	2,485	2,874	3,620	3,785	4,266	4,085	3,971	3,831
Investment Securities	1,179	1,383	1,850	2,013	2,059	1,771	1,734	1,479
Deferred Tax Assets	57	65	288	266	388	420	501	498
Others	1,249	1,426	1,482	1,506	1,819	1,894	1,736	1,854
Total Assets	30,277	32,562	32,880	34,967	37,680	40,541	43,629	47,833
Current Liabilities	5,077	6,862	7,155	10,120	12,183	13,612	17,068	20,260
Trade Payables	1,526	2,024	1,637	2,408	1,947	2,333	3,053	2,778
Interest-Bearing Debt	0	0	727	3,339	5,111	5,649	8,070	10,139
Others	3,551	4,838	4,791	4,373	5,125	5,630	5,945	7,343
Fixed Liabilities	579	630	3,810	4,427	4,369	3,761	1,970	2,250
Interest-Bearing Debt	0	0	3,158	3,591	3,433	2,953	1,073	1,280
Deferred Tax Liabilities	0	0	0	0	0	0	0	0
Others	579	630	652	836	936	808	897	970
Net Assets	24,620	25,068	21,915	20,418	21,127	23,167	24,589	25,322
Shareholders' Equity	23,941	24,001	21,017	19,454	20,478	22,015	22,805	23,528
Capital	10,517	10,517	10,517	10,517	10,517	10,517	10,517	10,517
Capital Surplus	7,301	7,328	4,506	4,506	4,468	4,228	4,242	4,044
Retained Earnings	6,379	6,784	7,261	5,580	6,606	7,950	8,697	9,242
Accumulated Others	74	199	-7	-38	-384	198	799	1,176
Comprehensive Income								
Stock Acquisition Rights	305	290	278	277	273	128	128	21
Non-Controlling Interests	298	576	627	724	759	824	855	596
Liabilities & Net Assets	30,277	32,562	32,880	34,967	37,680	40,541	43,629	47,833
Equity Capital	24,016	24,201	21,009	19,416	20,094	22,213	23,605	24,704
BPS (¥)	1,366.8	1,396.5	1,430.4	1,528.5	1,578.2	1,694.7	1,796.3	1,835.6

Source: Company Data. Compiled by Strategy Advisors.

Figure 13. Key Indicators

	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24
EPS (¥)	45.9	41.0	93.5	81.0	120.7	168.7	127.0	110.6
BPS (¥)	1,366.8	1,396.5	1,430.4	1,528.5	1,578.2	1,694.7	1,796.3	1,835.6
DPS (¥)	15.0	30.0	40.0	40.0	50.0	65.0	70.0	70.0
Dividend Payout Ratio	32.7%	73.1%	42.8%	49.4%	41.4%	38.5%	55.1%	63.3%
# of Shares Issued ('000)	18,219	18,219	15,700	13,700	13,700	13,700	13,700	13,700
Treasury Stock ('000)	648	888	1,012	997	967	592	559	242
# of Shares of Treasury Stock Excluded ('000)	17,571	17,330	14,688	12,703	12,733	13,108	13,141	13,458
Average # of Shares of Treasury Stock Excluded ('000)	17,566	17,579	15,973	14,430	12,712	13,013	13,128	13,366
Equity Ratio	79.3%	74.3%	63.9%	55.5%	53.3%	54.8%	54.1%	51.6%
Interest-Bearing Debt (¥ mn)	0	0	3,885	6,930	8,544	8,602	9,143	11,419
Net Interest-Bearing Debt (¥ mn)	-5,154	-5,763	-613	595	2,918	1,938	2,545	2,543
D/E Ratio	0.00	0.00	0.18	0.36	0.43	0.39	0.39	0.46
Net D/E Ratio	-0.21	-0.24	-0.03	0.03	0.15	0.09	0.11	0.10
Operating Profit Margin	3.5%	4.3%	6.6%	5.4%	6.0%	6.9%	6.0%	6.0%
EBITDA (¥ mn)	1,545	1,844	2,723	2,655	2,947	3,643	3,516	3,762
EBITDA Margin	5.4%	6.4%	9.1%	8.5%	9.1%	9.8%	9.1%	9.1%
ROE	3.4%	3.0%	6.6%	5.8%	7.8%	10.4%	7.3%	6.1%
ROIC	3.7%	4.5%	7.4%	6.0%	6.4%	8.8%	6.6%	6.3%
Number of Employees	1,117	1,174	1,257	1,428	1,539	1,642	1,728	1,775

Note: ROIC is calculated as NOPAT/(average of business assets during the period)

Source: Company Data. Compiled by Strategy Advisors.

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