

Company Report

February 28, 2025

Strategy Advisors Inc.

Kenichi Ito



The Review of Shareholder Benefits Shows Confidence in Business Growth. We Look Forward to Seeing a Leap Forward This Fiscal Year

The full-year financial results for FY12/2024 (disclosed on February 13th) showed a slight increase in sales and a decrease in operating profit, with sales of ¥18.71 bn (up 7.3% YoY) and operating profit of ¥720 mn (down 33.7% YoY). 1) The hiring of executive personnel as an upfront investment (just over ¥100 mn) and an increase in one-time expenses related to M&A (¥130 mn) and 2) an increase in shareholder benefit expenses (¥270 mn) due to a sharp increase in individual shareholders seeking benefits; led to an increase in selling and administrative expenses, resulting in operating profit falling short of the mid-term management and initial plans.

Even in these circumstances, the company achieved the following business results: 1) improved profitability of services (conducted price negotiations with some partner companies), 2) provision of total security solutions utilizing SOC and segue security, 3) acquisition of First One Systems in Thailand and 4) development of RevoWorks ZONE, making it a year in which the company pursued aggressive management.

The company expects a large increase in profits for FY12/2025 (sales of ¥22.5 bn and operating profit of ¥1.26 bn), while maintaining the target figures of the medium-term management plan. Considering that the change in the scope of consolidation (full-year contribution and deconsolidation of FOS and Techno Creation) will have an effect of increasing sales by approximately ¥700 mn, organic sales are expected to increase by just over 15%. Considering that sales have continued to increase by just over 10% since the company was listed, it can be said that this is a plan with ample room for achievement.

The company plans to focus on 1) strengthening its efforts to win large orders, including digital government projects, 2) strengthening VAD coverage by changing its organizational structure, 3) growing Segue Security, a strategic business company and 4) further cultivating relationships with local governments and financial institutions by launching RevoWorks ZONE (April). It appears that there are bids worth hundreds of millions of yen for digital government projects, so future orders will be a focus of attention.

The stock price has fallen sharply since the company reviewed its shareholder benefits. This fiscal year, the company is expected to meet the criteria for maintaining its Prime listing by reducing benefits expenses, increasing its business performance and strengthening shareholder returns (increasing dividends).

Stock Price & Trading Volumes (Past Year)



Source: Strategy Advisors

Key Indicators

Stock Price (2/27/25)	476
Year-to-Date High (2/13/25)	669
Year-to-Date Low (2/21/25)	457
52-Week High (3/1/24)	693
52-Week Low (2/21/25)	457
Shares on Issue (mn)	31.6
Market Capitalization (¥ bn)	15.1
EV (¥ bn)	18.6
Equity Ratio (12/24 Actual, %)	22.3
PER (12/25 CoE, Times)	21.5
PBR (12/24 Actual, Times)	6.7
Dividend Yield (12/25 CoE, %)	2.7

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	18,717	7.3	720	-33.7	1,060	4.4	507	-23.3	15.6	11.0
12/2025 CoE	22,500	20.2	1,260	75.0	1,260	18.9	701	38.3	22.2	13.0

Source: Strategy Advisors. Based on Company Data.

FY12/2024 Full-Year Results Show a Significant Decrease in Profits, Mainly Due to Increases in Upfront Investments & Preferential Treatment Expenses

1. Full Year Financial Results FY12/24 Summary

The full-year financial results for FY12/2024 (disclosed on February 13th) showed a slight increase in sales and a decrease in operating profit, with sales of ¥18.71 billion (up 7.3% YoY) and operating profit of ¥720 million (down 33.7% YoY). 1) The hiring of executive personnel as an upfront investment (just over ¥100 million) and an increase in one-time expenses related to M&A (¥130 million) and 2) an increase in shareholder benefits expenses (¥270 million) due to a sharp increase in individual shareholders seeking benefits; led to an increase in selling and administrative expenses, resulting in operating profit falling short of the mid-term management and initial plans.

Ordinary profit fell short of the plan only by a limited margin due to the recognition of derivative valuation gains (¥400 million), while net profit fell far short of the plan, just like operating profit, due to the recognition of valuation losses on investment securities. It should also be noted that FY12/2024 was a somewhat challenging year from the beginning compared to previous years, due to the special demand (VAD) and the backlash from large-scale projects (SI) following the resolution of the semiconductor shortage, as well as the start of depreciation of RevoWorks Cloud.

Even in these circumstances, the company achieved business results, including 1) improving the profitability of its services (negotiating prices with some of its partner companies), 2) providing total security solutions utilizing SOC and segue security, 3) acquiring First One Systems in Thailand and 4) developing RevoWorks ZONE, and can be said to have completed a "year of investment" in which the company pursued aggressive management aimed at achieving its performance targets for the final year of its medium-term management plan.

Continue Aggressive Action to Achieve Performance Targets for the Final Year of The Mid-Term Management Plan. Although Changes in VAD's Distribution Channels are a Cause for Concern, Demand for Extreme Networks' Products & Security Materials are Strong

By business, VAD's sales were ¥9.57 billion (up 6.8% YoY) and gross profit was ¥2.2 billion (up 25.6% YoY), with improved profitability in support driving growth. It should be noted that there appears to have been some changes in the flow of trade following delivery delays caused by the global semiconductor shortage resulting from COVID-19. Client companies that had previously sourced through the company started to do business with multiple vendors who could deliver on delivery deadlines, which resulted in a lower increase in Juniper Networks products, the company's main product, than expected. This is a cause for some concern, but delivery delays have already been resolved, and it is expected that the flow of trade will return to the company, which is the largest company in the industry that can hold inventory. Given that inquiries about Extreme Networks products and security materials are increasing, there is no need for excessive concern when looking at VAD as a whole.

Resources are Expanding, & Segue Expects to Expand Direct Contracts with End Users in The Future

In the SI (System Integration) business, sales were ¥7 billion (down 3.1% YoY) and gross profit was ¥1.44 billion (down 4.9% YoY), a slight decrease in both sales and profits, mainly due to a backlash from large projects. Although the company continued to accumulate medium-sized projects and develop end-user customers, the results were slightly weaker than last year due to factors such as salary increases for engineers. Furthermore, with the acquisition of Techno Creation (disclosed on June 28, 2024), the company's engineering resources have expanded compared to before and in the future, it is expected that profitability will improve due to an increase in projects with direct contracts with end users other than VAD, while also utilizing segue security. There appear to already be several large-scale inquiries, so we will be keeping an eye on future order trends.

In-House Development Saw a Decline in Gross Profit Due to Increases in Labor Costs and Depreciation Expenses. But the Profitability of Segue Security is a Positive

In-house development saw a large increase in sales and a large decrease in profits, with sales of ¥1.08 billion (up 20.4% YoY) and gross profit of ¥590 million (down 14.9% YoY). While the spread of RevoWorks and the expansion of Segue Security were successful, increases in development costs, platform costs for service provision and depreciation all pushed down performance. Segue Security has already turned a profit and is expected to contribute further to its performance this year. In addition to revamping the company's website, the company has also changed its management structure (Mr. Kogawa, who has extensive experience in the security business, was appointed president) and we are hopeful for a leap forward in the future. Demand for security is strong and there is a possibility that the company will be able to acquire new projects by using its proposals for total security solutions that utilize consulting and SOC as a hook.

Overseas, Attention Focused on Future Synergies

Overseas, sales were ¥1.05 billion and gross profit was ¥340 million (as this is a new disclosure from this fiscal year, YoY is not disclosed) and in addition to ISS Resolution, First One Systems (FOS), which was acquired in the FY12/2024, was newly consolidated. FOS is a company that is expanding its business by introducing excellent products from around the world and adding technologically added value.

The company's founding president continues to be actively involved in management and in the future, we can expect to see the creation of synergies between Thai subsidiaries and the expansion of business related to local Japanese companies.

Figure 1. Quarterly Financial Results (¥ mn, %)

FY	FY12/23				FY12/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Sales	4,561	4,497	4,353	4,032	4,954	3,457	5,506	4,801
(YoY)	36.6%	68.7%	37.5%	-9.5%	8.6%	-23.1%	26.5%	19.1%
VAD	2,531	2,033	2,129	2,273	2,838	1,908	1,884	2,944
(YoY)	58.7%	49.5%	64.5%	9.1%	12.1%	-6.2%	-11.5%	29.5%
SI	1,881	2,196	1,975	1,523	1,823	1,293	2,727	1,162
(YoY)	20.3%	112.2%	30.7%	-27.2%	-3.1%	-41.1%	38.1%	-23.7%
In-house Development	150	267	248	237	293	257	263	271
(YoY)	-17.1%	-1.4%	-31.2%	-14.5%	95.9%	-3.9%	6.2%	14.6%
Gross Profit	1,091	993	1,038	1,002	1,213	914	1,261	1,204
(Gross Profit Margin)	23.9%	22.1%	23.8%	24.9%	24.5%	26.4%	22.9%	25.1%
·VAD	564	402	450	340	612	417	534	643
·SI	445	355	387	478	407	354	409	278
·In-house Development	82	235	202	183	195	142	109	151
SG&A	673	783	737	845	783	997	972	1,120
Operating Profit	418	210	302	156	431	-84	289	84
(YoY)	85.8%	100.0%	24.8%	-53.3%	3.1%	-140.0%	-4.3%	-46.2%
(Operating Profit Margin)	9.2%	4.7%	6.9%	3.9%	8.7%	-2.4%	5.2%	1.7%
Non-Operating Income/Expenses	-6	-19	-5	-41	383	9	3	-55
Ordinary Profit	412	191	296	116	813	-73	290	30
(YoY)	49.8%	3.8%	17.0%	-65.8%	97.3%	-138.2%	-2.0%	-74.1%
(Ordinary Profit Margin)	9.0%	4.2%	6.8%	2.9%	16.4%	-2.1%	5.3%	0.6%
Extraordinary Profit and Loss	0	0	0	0	0	0	12	244
Profit Before Income Taxes	412	191	296	116	813	-60	303	77
Income Taxes	143	69	107	49	268	43	115	172
Profit	269	122	189	68	545	-103	188	-95
Profit (Loss) Attributable to Non- controlling Interests	-9	-7	0	3	6	2	7	12
Profit Attributable to Owners of Parent	278	130	188	65	540	-106	181	-107

Source: Company Data.

2. Earnings Forecast for FY12/2025 & Key Priorities for This Fiscal Year

The Performance Forecast for FY12/2025 Remains Unchanged from the Targets in the Medium-Term Management Plan

The company expects a large increase in profits for FY12/2025 (sales of ¥22.5 billion and operating profit of ¥1.26 billion), while maintaining the target figures of the medium-term management plan. Sales are expected to increase by approximately ¥3.7 billion compared to the previous fiscal year, but considering that the change in the scope of consolidation (full-year contribution and deconsolidation of FOS and Techno Creation) will have an effect of increasing sales by approximately ¥700 million, organic sales are expected to increase by just over 15%. Considering that sales have continued to increase by just over 10% since the company was listed, it can be said that this is a plan with ample room for achievement.

There is Good Demand for Digital Government Projects. Segue Expects to Receive More Orders in the Future

The company plans to focus on 1) strengthening order-taking activities for large projects, including digital government projects, 2) strengthening VAD coverage by changing the organizational structure, 3) expanding segue security and 4) further deepening business with local governments and financial institutions by launching RevoWorks ZONE (April). It appears that there are bids for digital government projects worth hundreds of millions of yen, so future orders will be of interest. VAD has changed its organizational structure to respond to changes in the flow of business. By expanding its product lineup and customer range, it is expected to grow by 15 to 20%. The company has not disclosed earnings forecasts by business, but it is expected that VAD and overseas will lead to growth this fiscal year.

Expecting A Significant Increase in Profits Due to an Improvement in Gross Profit Margins and a Reduction in Shareholder Benefits and Human Resources-Related Expenses

In terms of profits, the company expects to improve its gross profit margin by several points, mainly in VAD and overseas. In addition, it is expected that sales and administrative expenses will increase by about ¥200 million due to a review of shareholder benefit expenses and a decrease in M&A-related expenses. In addition, compared to FY12/2024, the number of mid-career hires, mainly highly skilled personnel, is expected to decrease, so the increase in personnel-related expenses will be suppressed. On the other hand, the company expects to raise salaries by about 5% across the company and it is expected that the increase in personnel expenses necessary for growth will continue this fiscal year. It is expected that operating profit will increase significantly by 75%, but considering that FY12/2024 is the first year of the medium-term management plan and that the hiring of highly skilled personnel and M&A-related expenses increased more than expected, it can be said that this year's profit growth is well within the achievable range.

We Positively Evaluate Segue's Review of Shareholder Benefits as a Sign of Confidence in its Business Performance

The company also announced a review of shareholder benefits. Previously, investors who held 10 or more units at the end of March and September were given a ¥15,000 QUO card, but starting this fiscal year, investors who hold 10 or more units will receive a ¥10,000 benefit at the end of December only (¥20,000 for those who have held the shares since the end of June).

Strategy Advisors see the review of benefits as a sign of confidence in the company's performance and evaluate it positively. Shareholder benefits have been poorly received by institutional investors because they go against the principle of shareholder equality and impair profits and losses due to increased sales and administrative expenses. Considering the company's expected business growth, the increase in valuation through the provision of high added value through total security solutions and its capital policy centered on active shareholder returns, there is a good chance that it will be able to clear the Prime Listing Maintenance Standards while keeping shareholder benefits in check.

The High Shareholder Yield of 2.8% Makes the Company Highly Attractive as An Investment

The company also announced a ¥2 increase in dividends at the same time as reviewing shareholder benefits. The expected dividend for this term is ¥13 in total, with an interim dividend of ¥6 and a final dividend of ¥7 and the dividend yield (calculated based on the closing price of ¥457 on February 21) is high at 2.8%. The company is also taking a stance not having unnecessary assets and will consider buying back its own shares depending on the stock price. In the FY12/2024 term, VAD was weaker than expected, so business progress did not appear to be good until Q1 (January to March) of the FY12/2025 term, but from Q2 onwards, the company plans to return to a high growth trajectory with the recording of the above-mentioned large-scale projects and the return of VAD to a growth trajectory becoming apparent. It will be important to pay attention to the order trends in each quarter this term and determine the timing of the reversal of business performance and stock price.

3. Stock Price Trends and Valuations

Share Price Fell Sharply Due to the Revision of Perks

The stock price has fallen by about 30% since the announcement of the financial results and the review of shareholder benefits. Before the announcement of the shareholder benefits (February 2024), the stock price had been fluctuating around ¥300, but due to the high-value benefits, it has risen to around ¥650. This review of shareholder benefits involves reducing the total shareholder benefits of ¥30,000 to ¥20,000 (if held continuously for more than six months) and the stock price has fallen in line with the reduction in the benefits.

Considering EPS Growth & Income Gains, Investment in Segue Group is Highly Attractive

The shareholder benefit yield calculated based on the current stock price of ¥457 (closing price on February 21st) is $\text{¥20,000} / \text{¥457,000}$ (calculated based on 10 units, or 1,000 shares) = 4.3%, maintaining a certain level of attractiveness for individual investors. In addition, the dividend will be increased by ¥2 this year, so the dividend yield will be 2.8%. Considering EPS growth through business growth, income gains from dividends and returns from benefits, the current stock price level can be said to be extremely attractive for investment.

Current Fiscal Year, There is a Possibility that Individual Investors Will Actively Invest Toward the End of June

In addition, we would like to add that in FY12/2025, there is a possibility that the number of individual investors who reinvest in the company will increase toward the end of June in order to meet the conditions for continuing to hold onto their benefits. The company appears to be steering its management with an awareness of the average stock price from October to December, which is the judgment period for the standards for maintaining the Prime Market listing and has implemented a change in the period for determining the rights to benefits.

PER Based on the Company's Plan for FY12/2025 is 20.6 Times, Which is a Slightly Undervalued Level

The PER calculated based on the EPS for FY12/2024 is 29.3 times, which is slightly expensive, while the PER calculated based on the EPS (¥22.2) based on the company's plan for this fiscal year (FY12/2025) is 20.6 times (calculated at ¥457), which is relatively cheap. Also, if the profit targets for the final year of the medium-term management plan (FY12/2026) (operating profit of ¥1.8 billion, net profit of ¥1.05 billion) are achieved, the stock will look even cheaper, so we would like to pay attention to whether the company can achieve profit growth that will raise expectations for the achievement of the plan in FY12/2025 and raise market expectations.

The Industry as A Whole Has Seen Strong Stock Price Performance

The average stock price increase/decrease rate of competitors over the past year has been 12.3%, showing a generally strong trend. The average PER is also about 30 times, and valuations remain relatively high despite the current rising interest rate environment. In addition, because of their asset-light business, each company has a high ROE and the average PBR is also high at 4.5 times.

Going Forward, We Expect to See an Increase in Valuation in Addition to Business Growth

A characteristic of this industry is that companies with a PBR of over 10 times have a dramatically high PER. For Segue, too, how to increase the PER will be important in order to further increase its corporate value in the future. In addition to continued profit growth in line with the medium-term management plan, attention will be focused on whether the stock price will increase valuation as it factors in profitability due to increased added value from the provision of in-house developed services and total security solutions, and the expansion of potential markets due to overseas expansion.

Figure 2. Comparative Valuations with Peers

Ticker	Company	FY	Stock Price (2/21)(¥)	Market cap (¥ mn)	PER (Times)	PBR (Times)	ROE (%)	EV/EBITDA (Times)	Dividend Yield (%)	Shareholder s' Equity Ratio(%)	Net D/E Ratio (Times)	Stock Price Change Over Past Year (%)	Stock Price Change Over Past 3 Years (%)
3968	Segue Group	12/2024	457	14,880	29.3	4.9	14.4	12.5	2.8	22.3	-0.5	-33.6	162.1
9719	SCSK	03/2024	3,763	1,177,349	29.3	3.9	14.1	14.1	1.9	64.1	-0.2	40.3	96.7
3697	SHIFT	08/2024	1,373	367,278	70.0	10.7	16.2	26.1	0.0	54.3	-0.3	-21.5	3.4
2327	NS Solutions	03/2024	4,115	753,053	29.7	3.0	11.1	14.7	1.8	63.2	-0.3	66.6	133.1
9749	FUJISOFT	12/2024	9,803	660,722	29.2	4.4	16.0	23.2	0.0	53.9	0.1	62.8	254.5
4722	Future	12/2024	1,784	170,065	15.3	2.8	19.3	8.2	2.6	60.3	-0.3	7.0	34.3
9682	DTS	03/2024	4,190	178,839	23.5	2.7	11.8	10.0	2.6	73.4	-0.6	9.3	53.7
2317	Systema	03/2024	350	149,058	16.7	3.2	20.0	9.4	3.4	70.5	-0.8	21.5	-9.3
3636	Mitsubishi Research Institute	09/2024	4,665	74,845	14.7	1.1	7.5	4.8	3.4	56.5	-0.4	-4.4	25.7
3762	TECHMATRIX	03/2024	2,167	96,471	24.8	4.0	17.4	8.5	1.5	25.4	-1.1	9.2	39.2
3844	COMTURE	03/2024	1,896	61,130	19.2	3.6	19.7	9.5	2.5	71.7	-0.7	-3.6	-31.4
5036	Japan Business Systems	09/2024	1,100	53,203	31.5	2.1	6.7	11.8	3.2	37.3	0.7	-16.5	NA
4413	baudroie	02/2024	5,070	81,294	64.5	18.0	29.6	47.2	0.0	67.1	-0.8	56.0	415.2
4687	TDC SOFT	03/2024	1,353	67,957	19.0	6.4	17.7	12.8	1.8	72.4	-0.7	30.7	144.9
4417	GLOBAL SECURITY EXPERTS	03/2024	5,080	38,828	47.4	15.3	37.7	32.8	0.8	37.2	0.2	-6.8	288.2
3915	TerraSky	02/2024	2,338	30,203	97.9	2.6	2.9	27.7	0.0	60.2	-0.5	56.4	63.7
3040	Soliton Systems	12/2024	1,100	21,713	11.6	1.6	14.8	2.5	4.7	52.7	-1.2	-20.1	-26.5
9600	I-NET	03/2024	1,939	31,494	13.3	1.5	11.7	6.3	2.9	53.4	0.1	-8.1	53.3
3857	LAC	03/2024	1,156	36,175	25.3	2.3	9.1	9.0	1.0	64.8	-0.3	57.1	54.8
4847	Intelligent Wave	06/2024	1,067	28,105	19.2	3.0	15.8	7.3	3.3	54.7	-0.5	-7.9	84.9
4662	Focus Systems	03/2024	1,062	17,303	11.3	1.2	10.7	5.8	3.6	63.9	-0.3	-4.9	18.1
3837	Ad-Sol Nissin	03/2024	2,142	20,124	20.6	2.8	14.0	10.1	2.8	71.5	-0.5	31.0	33.8
4434	Serverworks	02/2024	2,429	19,151	29.3	1.8	6.3	11.5	0.0	59.0	-0.6	-37.3	5.5

Source: Created by our Strategy Advisors. Based on SPEEDA Data.

Figure 3. Consolidated Statement of Income (¥ mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25 CoE
Total Sales	7,793	8,767	9,647	10,993	12,039	13,623	17,443	18,718	22,500
(YoY)	NM	12.5%	10.0%	14.0%	9.5%	13.2%	28.0%	7.3%	20.2%
VAD				5,280	5,262	6,332	8,966	9,574	-
(YoY)				-	-0.3%	20.3%	41.6%	6.8%	
SI				5,127	6,169	6,203	7,576	7,005	-
(YoY)				-	20.3%	0.6%	22.1%	-7.5%	
In-house Development				586	608	1,088	901	1,084	-
(YoY)				-	3.7%	79.0%	-17.2%	20.3%	
Gross profit	1,871	2,169	2,532	3,093	3,092	3,559	4,124	4,592	-
(Gross Profit Margin)	24.0%	24.7%	26.2%	28.1%	25.7%	26.1%	23.6%	24.5%	
VAD				1,371	1,314	1,299	1,757	2,206	-
(Gross Profit Margin)				26.0%	25.0%	20.5%	19.6%	23.0%	
SI				1,313	1,446	1,419	1,665	1,447	-
(Gross Profit Margin)				25.6%	23.4%	22.9%	22.0%	20.7%	
In-house Development				409	332	842	702	597	-
(Gross Profit Margin)				69.7%	54.6%	77.3%	77.9%	55.1%	
SG&A	1,489	1,685	1,983	2,249	2,453	2,653	3,038	3,872	-
Operating Profit	382	484	548	844	639	906	1,086	720	1,260
(YoY)		26.7%	13.2%	54.0%	-24.3%	41.8%	19.9%	-33.7%	75.0%
(Operating Profit Margin)	4.9%	5.5%	5.7%	7.7%	5.3%	6.7%	6.2%	3.8%	5.6%
Non-Operating Income	58	20	17	32	55	204	22	450	-
Non-Operating Expense	3	18	11	1	7	60	93	110	-
Ordinary Profit	438	486	554	874	686	1,051	1,015	1,060	1,260
(YoY)		11.0%	14.0%	57.8%	-21.5%	53.2%	-3.4%	4.4%	18.9%
(Ordinary Profit Margin)	5.6%	5.5%	5.7%	8.0%	5.7%	7.7%	5.8%	5.7%	5.6%
Extraordinary Profit	28	70	65	66	56	189	0	269	-
Extraordinary Loss	0	0	1	2	32	74	0	196	-
Profit Before Income Taxes	466	556	619	938	710	1,165	1,015	1,133	-
(YoY)		19.3%	11.3%	51.5%	-24.3%	64.1%	-12.9%	11.6%	
(Pre-tax profit margin on sales)	5.98%	6.34%	6.42%	8.53%	5.90%	8.55%	5.82%	6.05%	
Income Taxes	147	178	207	304	255	423	368	598	-
(Effective tax rate)	31.55%	32.01%	33.44%	32.41%	35.92%	36.31%	36.26%	52.78%	
Profit	319	377	412	634	455	742	648	535	-
Profit (Loss) Attributable to Non-controlling Interests	0	0	0	0	0	-2	-13	27	-
Profit Attributable to Owners of Parent	319	377	412	634	455	743	661	508	701
(YoY)		18.2%	9.3%	53.9%	-28.2%	63.3%	-11.0%	-23.1%	38.0%

Source: Company Data. Compiled by Strategy Advisors.

Figure 4. Key Financial Indicators

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
EPS (¥)	9.5	11.0	12.0	18.4	13.0	21.2	6.3	14.9
BPS (¥)	69	72	80	91	90	103	37	92
Dividend per share (¥)	0.00	1.66	3.33	5.33	5.33	6.00	10.00	11.00
Dividend payout ratio	0.0%	15.0%	27.8%	29.0%	40.9%	28.3%	159.6%	73.9%
Closing price (¥)	332	246	305	453	259	272	309	639
PER(Times)	34.9	22.3	25.5	24.7	19.9	12.8	49.3	42.9
PBR (Times)	4.8	3.4	3.8	5.0	2.9	2.6	8.3	7.0
Shares on Issue ('000)	5,669	5,729	11,487	11,557	11,640	11,688	11,721	34,060
Treasury stock ('000)	0	0	0	128	390	501	498	914
Number of treasury stocks excluded ('000)	5,669	5,729	11,487	11,429	11,250	11,187	11,223	33,147
Market Capitalization	11,292	8,456	10,511	15,533	8,742	9,128	10,403	21,181
Shareholders' Equity Ratio	45.0%	45.8%	45.3%	44.1%	37.1%	32.6%	33.8%	22.3%
Interest-bearing debt balance	59	0	18	10	502	1,130	850	2,311
D/E Ratio	0.03	0.00	0.01	0.00	0.16	0.31	0.21	0.76
EV(Enterprise Value)	9,811	6,805	8,359	13,838	7,914	7,179	7,824	18,617
EBITDA	495	592	683	1,003	806	1,055	1,281	1,026
EV/EBIDA	19.8	11.5	12.2	13.8	9.8	6.8	6.1	18.1
ROE	16.5%	15.8%	15.7%	21.3%	14.3%	21.6%	17.2%	14.4%
ROIC(Invested capital)	11.4%	12.7%	13.0%	18.0%	11.2%	11.3%	14.8%	2.4%
ROIC(Business assets)	45.1%	65.6%	80.8%	87.0%	37.7%	33.8%	51.8%	9.4%
Number of Employees	350	391	409	446	473	527	570	NA

Source: Company Data. Compiled by Strategy Advisors.

Figure 5. Balance Sheet (¥ mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
Cash and deposits	1,469	1,663	2,181	1,727	1,352	2,990	3,358	3,909
Notes and accounts receivable - trade	1,116	1,190	1,236	2,176	2,078	2,361	2,019	3,095
Inventories	769	686	640	822	2,377	3,104	2,848	1,688
Others	724	820	988	1,081	1,430	1,521	1,805	2,104
Current assets	4,079	4,359	5,044	5,807	7,237	9,976	10,029	10,796
Buildings and structures	13	15	28	33	42	45	99	105
Tools, furniture and fixtures	152	152	154	161	167	164	243	245
Others	1	1	9	1	1	40	35	28
Tangible fixed assets	166	168	190	195	209	248	377	377
Intangible assets	35	219	302	241	166	258	263	1,575
Investment securities	705	356	336	603	665	343	468	235
Others	170	248	274	346	348	427	694	649
Investments and other assets	875	604	610	949	1,013	770	1,162	885
Total noncurrent assets	1,075	991	1,102	1,385	1,389	1,276	1,802	2,837
Total assets	5,154	5,350	6,146	7,192	8,625	11,252	11,831	13,633
Accounts payable-trade	856	595	508	805	1,606	1,886	1,513	1,411
Current portion of long-term loans	0	0	0	8	502	288	274	632
Advances received	1,110	1,620	2,079	2,184	2,473	3,138	4,018	4,874
Others	554	470	519	737	521	1,056	1,049	1,396
Current liabilities	2,520	2,686	3,107	3,734	5,101	6,367	6,853	8,313
Long-term debt	0	0	10	2	0	805	544	1,653
Retirement benefit liability	132	147	176	201	223	246	260	360
Others	181	67	67	82	102	150	160	114
Noncurrent liabilities	313	213	253	285	325	1,200	964	2,127
Total liabilities	2,833	2,899	3,360	4,019	5,426	7,567	7,817	10,440
Capital stock	498	506	507	511	515	517	526	533
Capital surplus	271	278	280	283	287	290	297	0
Retained earnings	1,143	1,520	1,875	2,394	2,666	3,229	3,520	2,833
Treasury shares	0	0	0	-100	-303	-384	-382	-467
Total shareholders' equity	1,912	2,304	2,661	3,088	3,165	3,652	3,961	2,899
Accumulated other comprehensive income	409	146	107	54	-21	-48	-22	83
Share subscription rights	0	0	18	31	55	63	64	61
Non-controlling interests	0	0	0	0	0	18	11	150
Total net assets	2,321	2,451	2,787	3,173	3,199	3,685	4,014	3,193
Total liabilities and net assets	5,154	5,350	6,146	7,192	8,625	11,252	11,831	13,633

Source: Company Data. Compiled by Strategy Advisors.

Figure 6. Cash Flow (¥ mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
Profit before income taxes	466	556	619	938	710	1,165	1,015	1,133
Depreciation	85	98	112	134	143	125	152	177
Amortization of goodwill	28	10	23	25	24	24	43	129
Decrease (increase) in notes and accounts receivable - trade	93	-73	53	-941	98	-235	347	-834
Decrease (increase) in accounts receivable	0	-10	-35	-124	-149	224	128	-98
Decrease (increase) in inventories	-467	83	52	-182	-1,555	-721	256	1,192
Decrease (increase) in advance payments	-15	-168	-98	34	-19	-287	-384	-123
Increase (decrease) in notes and accounts payable-trade	462	-261	-141	296	801	256	-376	-157
Increase (decrease) in advances received	158	482	446	104	289	651	879	777
Other	-140	-281	-269	-122	-493	-77	-475	-442
Cash Flows from Operating Activities	670	435	761	164	-151	1,125	1,586	1,755
Increase/decrease in fixed deposits	91	0	0	0	0	0	0	0
Purchase of investment securities	-109	-51	-35	-331	-194	-1	-121	-51
Proceeds from sales of investment securities	30	80	93	70	61	379	0	223
Purchase of property, plant and equipment	-100	-107	-83	-86	-111	-81	-227	-119
Purchase of intangible assets	-28	-129	-85	-11	-14	-13	-78	-44
Purchase of subsidiary share capital associated with a change in the scope of consolidation	0	-72	-96	0	0	-195	0	-1,161
Payments into long-term deposits	0	0	0	0	0	0	-169	169
Other	-12	-19	27	-43	3	-5	-64	-9
Cash flows from investing activities	-127	-297	-179	-402	-255	84	-659	-991
Net increase (decrease) in borrowings	-85	-39	-12	-8	492	595	-290	1,328
Proceeds from issuance of shares	30	15	3	7	8	5	3	0
Purchase of treasury shares	0	0	0	-100	-202	0	0	-1,279
Dividends paid	0	0	-57	-115	-183	-180	-370	-328
Other	-40	-20	0	0	-98	35	-12	-55
Cash flows from financing activities	-95	-44	-66	-216	17	454	-669	-335
Free Cash Flow	543	138	582	-238	-406	1,209	927	764

Source: Company Data. Compiled by Strategy Advisors.

Figure 7. Quarterly Performance Trends (¥ mn)

FY	FY12/22				FY12/23				FY12/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Sales	3,338	2,665	3,166	4,454	4,561	4,497	4,353	4,032	4,954	3,457	5,506	4,801
(YoY)	-1.2%	6.3%	26.2%	22.2%	36.6%	68.7%	37.5%	-9.5%	8.6%	-23.1%	26.5%	19.1%
VAD	1,594	1,360	1,294	2,084	2,531	2,033	2,129	2,273	2,838	1,908	1,884	2,944
(YoY)	22.2%	39.8%	9.7%	15.4%	58.7%	49.5%	64.5%	9.1%	12.1%	-6.2%	-11.5%	29.5%
SI	1,563	1,035	1,511	2,093	1,881	2,196	1,975	1,523	1,823	1,293	2,727	1,162
(YoY)	-20.6%	-26.6%	27.1%	30.8%	20.3%	112.2%	30.7%	-27.2%	-3.1%	-41.1%	38.1%	-23.7%
In-house Development	180	271	360	277	150	267	248	237	293	257	263	271
(YoY)	74.1%	114.6%	158.8%	15.7%	-17.1%	-1.4%	-31.2%	-14.5%	95.9%	-3.9%	6.2%	14.6%
Gross Profit	852	785	870	1,052	1,091	993	1,038	1,002	1,213	914	1,261	1,204
(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%	25.1%
·VAD	369	308	240	381	564	402	450	340	612	417	534	643
·SI	385	265	343	425	445	355	387	478	407	354	409	278
·In-house Development	97	211	287	246	82	235	202	183	195	142	109	151
SG&A	627	679	629	718	673	783	737	845	783	997	972	1,120
Operating Profit	225	105	242	334	418	210	302	156	431	-84	289	84
(YoY)	-16.7%	625.0%	633.3%	-6.2%	85.8%	100.0%	24.8%	-53.3%	3.1%	-140.0%	-4.3%	-46.2%
(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%	1.7%
Non-Operating Income/Expenses	50	78	12	4	-6	-19	-5	-41	383	9	3	-55
Ordinary Profit	275	184	253	339	412	191	296	116	813	-73	290	30
(YoY)	-9.2%	1633.3%	622.9%	-5.8%	49.8%	3.8%	17.0%	-65.8%	97.3%	-138.2%	-2.0%	-74.1%
(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%	0.6%
Extraordinary Profit and Loss	0	0	0	15	0	0	0	0	0	0	12	244
Profit Before Income Taxes	275	358	253	279	412	191	296	116	813	-60	303	77
Income Taxes	94	122	86	121	143	69	107	49	268	43	115	172
Profit	181	236	167	158	269	122	189	68	545	-103	188	-95
Profit (Loss) Attributable to Non-controlling Interests	0	0	0	0	-9	-7	0	3	6	2	7	12
Profit Attributable to Owners of Parent	181	236	167	159	278	130	188	65	540	-106	181	-107

Source: Company Data. Compiled by Strategy Advisors

Disclaimer

This report is published by Strategy Advisors, Inc. (hereafter referred to as "the issuer") and was prepared with outside partners and analysts as the primary authors.

The purpose of this report is to provide an unconventional approach to the introduction and commentary of the companies covered. In principle, the publisher does not review or approve the content of the report (although we will point out obvious errors or inappropriate language to the authors).

The Publisher may receive compensation, directly or indirectly, from the Subject Company for providing planning proposals and infrastructure for the publication of this report.

The outside firms and analysts who write this report may receive compensation, directly or indirectly, from the subject company in addition to preparing this report. In addition, the outside firms and analysts who write this report may have entered into transactions in the securities of the subject company or may do so in the future.

This report is prepared solely for the purpose of providing information to assist in investment decisions and is not intended as a solicitation for securities or other transactions. Final decisions regarding securities and other transactions are the sole responsibility of the investor.

In preparing this report, the authors have received information through interviews with the subject companies. However, the hypotheses and views expressed in this report are not those of the subject companies but rather are based on the authors' analysis and evaluation.

This report is based on information that the authors believe to be reliable, but they do not guarantee its accuracy, completeness, or timeliness. The views and forecasts expressed in this report are based on the judgment of the authors at the time of publication and are subject to change without notice.

In no event shall the publisher or authors be liable for any direct, indirect, incidental, or special damages that may be incurred by an investor as a result of reliance on the information or analysis contained in this report.

In principle, the copyright of this report belongs to the publisher. Reproduction, sale, display, distribution, publication, modification, distribution, or commercial use of the information provided in this report without the permission of the publisher is prohibited by law.



Strategy Advisors

Central Building 703, 1-27-8 Ginza, Chuo-Ku, Tokyo 104-0061, Japan