

Takachiho Koheki | 2676

TSE Prime

INITIATION

Long-established technology trading company with strength in security and labor-saving IT solutions pledges to maintain 100% dividend payout ratio until achieving target ROE



Summary

■ Technology trading company providing everything from electronics products to IT solutions

Takachiho Koheki is a trading company highly specialized in electronics technology, introducing the world's cutting-edge electronics products to Japan ahead of competitors, with engineering employees accounting for 42.2% of its workforce. Accordingly, the company's strength lies in proposal-based consulting sales that provide optimal solutions based on customer needs.

■ Generating earnings by providing solutions to social issues

The company's electronics products and IT solution services help solve modern social issues of great concern such as crime control and prevention, labor shortages and labor savings, and climate change and disasters.

■ Strong financial position

Takachiho Koheki has had no interest-bearing debt and remains debt-free for the past 17 years. Its equity ratio is extremely high, exceeding 70% for 15 consecutive years, and its resilience to economic fluctuations is extremely high. Going forward, the company aims to achieve an optimal capital structure that limits the buildup of shareholders' equity and will promote a capital policy that boosts earnings, reduces taxes, and improves ROE by optimally incorporating debt.

■ New 2022-2024 medium-term management plan

The medium-term management plan, which is designed to maximize corporate value, calls for net sales of ¥26 bn and recurring profit of ¥2 bn in FY25/3, the final year of the plan. It also includes a pledge to maintain a dividend payout ratio of 100% until the three-year average ROE reaches 8%.

■ Stock price valuation

With the growth of IT solution-related businesses such as information security, investors can expect valuation metrics such as P/E multiples to further expand.

FY	Net Sales (mn)	YoY (%)	Oper. profit (mn)	YoY (%)	Ordin. profit (mn)	YoY (%)	Net profit (mn)	YoY (%)	EPS ⁽¹⁾ (yen)	DPS (yen)
FY19/3	19,894	1.7	989	49.1	1,086	53.8	491	275.3	53.5	24.0
FY20/3	20,616	3.6	788	-20.4	885	-18.5	190	-61.2	21.4	24.0
FY21/3	20,591	-0.1	886	12.4	926	4.6	548	187.7	61.6	25.0
FY22/3	20,784	0.9	1,024	15.6	1,247	34.6	878	60.2	98.5	55.0
FY23/3 (act)	23,360	12.4	1,376	34.4	1,588	27.3	1,205	37.2	134.2	133.0
FY24/3 (CE)	24,800	6.2	1,620	17.7	1,600	0.7	1,249	3.6	137.7	137.0
FY23/3 2Q	11,118	16.0	584	35.4	894	82.5	657	96.8	73.3	24.0
FY24/3 2Q (CE)	12,100	8.8	710	21.5	700	-21.7	480	-27.0	52.9	53.0

Source: compiled by SIR from the company IR material and TANSHIN financial statements.

(1) Historical EPS for FY19/3-FY23/3 is calculated using diluted EPS; projected EPS is calculated using the average number of shares outstanding during the period.

Focus Points:

Takachiho Koheki specializes in proposal-based consulting sales grounded in advanced technology, with 42% of its employees having an engineering background. The company has announced that it will maintain a dividend payout ratio of 100% until it reaches a three-year average ROE of 8%, which has aroused interest among investors.

Key Indicators

Share price (23/7/24)	3,085
YH (23/7/5)	3,300
YL (23/1/6)	2,155
10YH (23/7/5)	3,300
10YL (18/12/25)	851
Shrs out. (mn shrs)	10.172
Mkt cap (¥ bn)	32.041
Equity ratio(9/30)	74.2%
FY24/3 P/E (CE)	22.4x
FY23/3 P/B (act)	1.70x
FY23/3 ROE (act)	7.7%
FY24/3 DY (CE)	4.3%



Source: Tradingview

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Company description



Head Office Building
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Tokyo)

Technology trading company Takachiho Koheki

Takachiho Koheki sells security-related products to offices, retail stores, factories, and logistics facilities, as well as the system equipment, mechanical components, and semiconductor-related devices for the IT networks used by these customers. In addition, the company also serves as a MSP service provider that operates, maintains, and monitors network systems. The company has a leading market share in the areas of electronic article surveillance systems and security cameras for the drugstore market, foreign office security systems, and mechanical components for money machines and copy machines.

The company is a highly specialized technical organization with 42.2% of employees having an engineering background. It also provides consulting, development and design services, and after-sales services for customer system networks, and has earned a strong reputation as a trusted technology trading company. With an equity ratio of 74.2% and no interest-bearing debt, the company is also characterized by its extremely strong financial position.

History

Takachiho Koheki was established in 1952 as a trading company importing and selling civil engineering and construction machinery. In the same year, the company entered into an exclusive agency agreement with US-based Burroughs Corporation (now Unisys Corporation) and began selling its computers in Japan. Eleven years later, in 1963, the company opened its US offices in New York and Detroit, and began importing and selling the first OCR system in Japan. Since its establishment, the company has been importing and selling security systems, electronic article surveillance systems, access control systems, and cloud-based wireless LAN systems that had never been introduced in Japan before, and became a pioneer in these markets. During this period, the company listed on the JASDAQ market in 2000, moved to the Second Section of the Tokyo Stock Exchange in 2004, and was transferred to the First Section the following year in 2005. In 2022, the company transferred to the Prime Market of the Tokyo Stock Exchange.

Corporate philosophy

As a technology trading company, Takachiho Koheki has positioned "creativity" as the root of its business activities, and has adopted the following three statements as its corporate philosophy .

1. Enhancing customer satisfaction
2. Gaining worldwide trust
3. Contributing to society



President
Mr. Takanobu Ide

Management structure

Takachiho Koheki's management structure is led by President Takanobu Ide, and consists of six directors (including two outside directors), one full-time corporate auditor, and three corporate auditors (including two outside corporate auditors), for a total of 10 members.

Domestic and overseas consolidated group companies

The company has nine consolidated group subsidiaries in Japan and overseas. Of the eight overseas subsidiaries, seven are located in Asia, the company's trade area. The remaining one overseas subsidiary is located in the US. It currently has no equity-method affiliates.

Business model

Overview by business

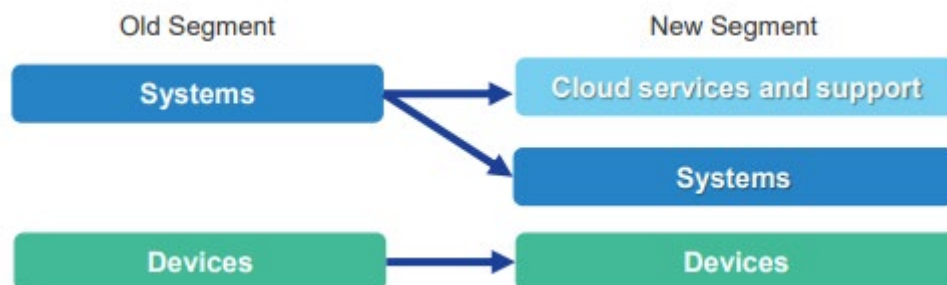
Until FY22/3, Takachiho Koheki operated under the System and Device segments. Starting in FY23/3, the company positioned its cloud-based service business and maintenance business as growth businesses, and newly created the Cloud Service & Support segment from the previous System segment in light of its growth potential and profitability.

In addition, the company renamed its Office Solution product category under the System segment to Business Solution product as part of its expansion beyond the office market into a wide range of markets, including data centers and logistics.

Furthermore, within the Device segment, the company renamed its Electrical product category to Electronics product in order to focus on overall electronics products with high value-added technology, and renamed its Industrial Machinery product category to Mechatronics product in order to broaden the scope of development of unit products that integrate machinery and electronics.

As a result, the company now has three business segments: Cloud Service & Support, System, and Device. The new segment classifications and the product categories within each segment are shown in the table below.

Transition to new segment from FY23/3



Segment	Main business	Main company
Cloud Services and Support		
Cloud Service and Support	Cloud services (including MSP services), system maintenance related to each product line in the system segment, outsourced system operation, and operation monitoring services	Takachiho Koheki
Systems		
Retail Security Products	Electronic Article Surveillance Systems (shoplifting prevention devices, sensor cable alarms, security tags, etc.) System design and sales of video monitoring systems, etc., and design and installation of various systems	Takachiho Koheki, Mighty Cube Co.,Ltd.
Business Solution Products	Access control systems, video surveillance systems, network-related equipment (cloud-based wireless LAN systems, etc.) Sales of RFID tags and peripheral equipment for logistics and inventory management systems, mail inserter systems, etc., and design and installation of various systems	Takachiho Koheki, Mighty Cube Co.,Ltd.
Global Products	Sales, design, construction and installation of advanced fire protection systems, etc.	Takachiho Fire, Security & Services(Thailand) Ltd., Guardfire Limited, Guardfire Singapore Pte.Ltd.
Devices		
Electronics	Sales of semiconductors (analog ICs, etc.), sensors (silicon microphones, etc.) and electronic components	Takachiho Koheki, TAKACHIHO KOHEKI (H.K.) LIMITED, LIMITED, TAKACHIHO TRADING (SHANGHAI) Co.,Ltd.,
Mechatronics	Sales of safety and labor-saving mechanical parts such as slide rails, gas springs, keys, dampers, lifting systems, etc.	Takachiho Koheki, TAKACHIHO KOHEKI (H.K.) LIMITED, TAKACHIHO TRADING (SHANGHAI) Co.,Ltd., Takachiho America, Inc.

Source: compiled by SIR from the company's IR material.

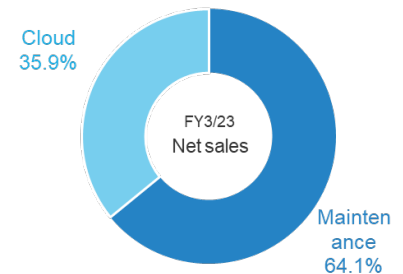
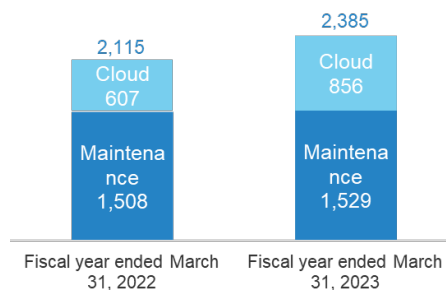
Cloud Service & Support

In FY23/3, the Cloud Service & Support segment accounted for 10.2% of sales and 36.8% of operating profit. This segment consists of two main businesses: cloud services (35.9% of segment sales) and maintenance (64.1% of segment sales). In the cloud service business, the main product is the subscription-based MSP (Managed Service Provider) service.

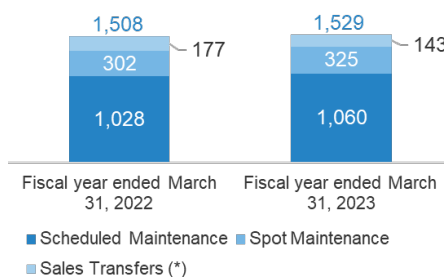
In the maintenance business, the company provides after-sales service, including troubleshooting, for security systems used in various retail stores, as well as network, access control, and mailing systems for offices and factories. The company has established a service system that is available 24 hours a day, 365 days a year from 300 service locations nationwide, and focuses on improving customer satisfaction by providing speedy service.

As for other initiatives in this segment, the company aims to accumulate license sales of MSP services by selling directly to customers in the Systems segment, in addition to selling through distributors. It is also focusing on expanding sales of Verkada, an integrated security solution designed to address the labor-saving demands of customer stores and other facilities, by attracting new distributors. In the maintenance business, in addition to boosting the number of new contracts with customers who have not yet signed maintenance contracts, the company is working to develop new service offerings that meet customer needs. The detailed sales breakdown for this segment is shown in the chart below.

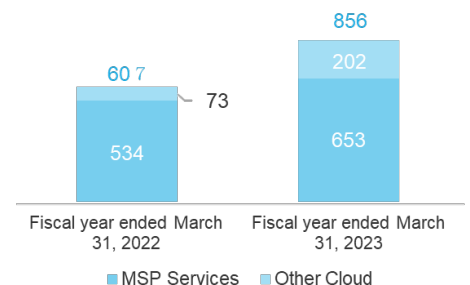
■ Cloud Services & Support Net Sales Breakdown (¥mn)



(1) "Maintenance" net sales breakdown (¥mn)



(2) "Cloud Services" net sales breakdown (¥mn)

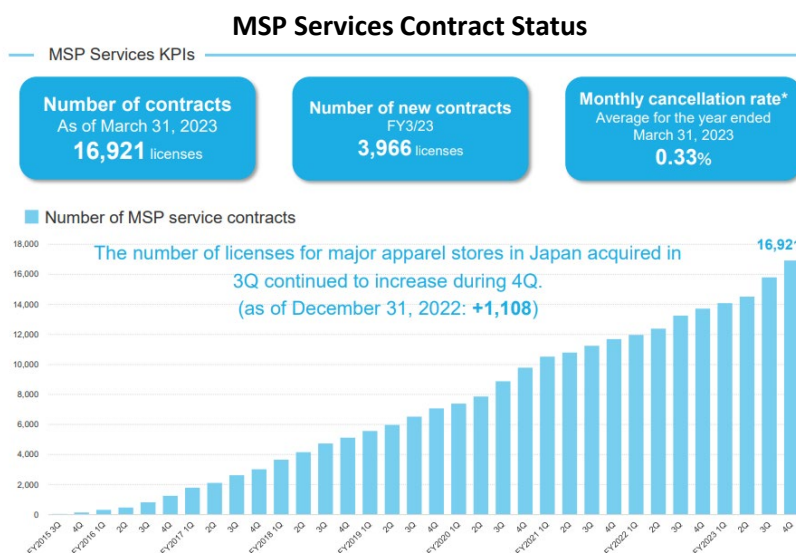


Source: compiled by SIR from the company's IR material.

(*) Concerning the maintenance provided free of charge in the first year after the sales of products in the Systems segment, an amount equivalent to the cost of the maintenance is transferred to Cloud Services & Support sales

The number of subscriptions for the MSP service has been steadily increasing since its launch in 2015, with 16,921 licenses at the end of FY23/3, of which 3,966 were new subscriptions. The monthly churn rate, calculated by dividing the number of contract churns in a month by the cumulative number of contracts at the end of the previous month, is extremely low at 0.33%.

As shown in the graph below, the contract growth rates in 3Q and 4Q of FY23/3 were large. This is mainly attributable to the fact that a major domestic apparel company with stores nationwide decided to subscribe in bulk, and the company made steady progress in implementation.



Source: compiled by SIR from the company's IR material.

(*) Monthly cancellation rate: Number of contract cancellations in a month / Total number of contracts at the end of the previous month.

System

In FY23/3, the System segment accounted for 41.2% of sales and 6.7% of operating profit. This segment is divided into three product categories: Retail Solution, which mainly consists of electronic article surveillance systems and video monitoring systems; Business Solution, which mainly consists of access control systems for offices and data centers; and Global Product, which mainly consists of fire protection systems for factories and plants. For the Global Product category, Thailand-based Takachiho Fire, Security & Service (Thailand) Ltd. and Guardfire Limited, as well as Singapore-based Guardfire Singapore Pte. Ltd. sell products and provide services to customers in Southeast Asia.

As a common initiative for both the Retail Solution and Business Solution product categories, the company is promoting cross-selling by leveraging its extensive customer base. In the Retail Solution product category alone, the company is stepping up sales of security systems to the apparel industry, where demand is recovering thanks to the easing of movement restrictions, as well as to consumer electronics mass retailers, where inbound demand is expected to recover.

In the Business Solution product category, the company is focusing on capturing the growing demand for office-related infrastructure driven by new construction and renovations, and sales of access control systems to foreign-affiliated offices are growing. In addition, sales of access control systems for data centers continued to grow steadily.

In the Global Product category, the company plans to capture demand for disaster prevention systems for power generation plants, which has picked up thanks to rising demand for electricity in Thailand. However, the Thai government is reconsidering some of its power plant construction plans in light of inflation and other factors, and there is some uncertainty over demand. Accordingly, the company projects lower sales for the Global Product category in FY24/3.

The impact of the FY23/3 segment reclassification is meaningful when looking only at FY23/3, but a five-year timeline from FY19/3 to FY23/3 shows a marked decline in the sales and operating profit composition of the System segment. While sales composition has remained in the low 40% range in recent years compared to the 50% level five years ago, the operating profit composition fell from 43.6% in FY19/3 to 6.7% in FY23/3. This was attributable to the slowdown in new plant construction in Thailand in FY20/3 reflecting a drop in crude oil prices and a slowdown in demand for petrochemical products. Meanwhile, in FY21/3 and FY22/3, the COVID-19 pandemic affected part of the Retail Solutions product category as new store openings were curbed, while delays in new plant construction in the Global Product category once again dragged down profits in the System segment. In contrast, the company saw double-digit growth in operating profit in the Cloud Service & Support at 13.8% and in the Device segment at 32.1%, which largely offset the impact of lower crude oil prices and the pandemic in the System segment.

Device

In FY23/3, the Device segment accounted for 48.6% of sales and 56.4% of operating profit, making it the largest segment both in terms of sales and operating profit. The Device segment is broken down into the Electronic product category, which accounted for 61.2% of segment sales in FY23/3, and the Mechatronics product category, which accounted for 38.8% of segment sales.

The Electronics product category includes sales and consulting (electronic equipment design support) related to analog ICs and other semiconductors, sensors such as silicon microphones, and electronic components, which are used in a wide range of fields, including semiconductor manufacturing equipment, industrial equipment such as IP-PBX (PBX) and information communication equipment such as smart phones, and entertainment equipment.

In the Mechatronics product category, the company sells and provides consulting services for mechanical components that improve safety, convenience, and comfort, such as slide rails, gas springs, and lift systems. The products are mainly used for opening/closing, withdrawal, and safety mechanisms (slide rails, gas springs, and keys) for ATMs and other equipment at financial institutions and convenience stores, drawer and lifting mechanisms (slide rails and lifting systems) for system kitchens, and paper feed mechanisms (slide rails and dumpers) for copy machines.

Sales and Operating profit by Segment (¥mn)

	FY19/3			FY20/3			FY21/3			FY22/3			FY23/3		
	AMT	YoY	%	AMT	YoY	%	AMT	YoY	%	AMT	YoY	%	AMT	YoY	%
Cloud Service & Support	1,916	-	9.6%	2,122	10.8%	10.3%	1,940	-8.6%	9.4%	2,115	9.0%	10.2%	2,385	12.8%	10.2%
Systems	10,536	-	53.0%	10,442	-0.9%	50.6%	10,749	2.9%	52.2%	9,895	-7.9%	47.6%	9,630	-2.7%	41.2%
Devices	7,442	-	37.4%	8,051	8.2%	39.1%	7,901	-1.9%	38.4%	8,773	11.0%	42.2%	11,344	29.3%	48.6%
Total consolidated sales	19,894	1.7%	100.0%	20,616	3.6%	100.0%	20,591	-0.1%	100.0%	20,784	0.9%	100.0%	23,360	12.4%	100.0%
Cloud Service & Support	302	-	30.5%	268	-11.3%	34.0%	454	69.4%	51.2%	394	-13.2%	38.5%	506	28.4%	36.8%
Systems	431	-	43.6%	182	-57.8%	23.1%	154	-15.4%	17.4%	135	-12.3%	13.2%	92	-31.9%	6.7%
Devices	255	-	25.8%	336	31.8%	42.6%	276	-17.9%	31.2%	494	79.0%	48.2%	776	57.1%	56.4%
Total consolidated operating profit	989	49.1%	100.0%	788	-20.3%	100.0%	886	12.4%	100.0%	1,024	15.6%	100.0%	1,376	34.4%	100.0%
Cloud Service & Support	15.8%			12.7%			23.4%			18.6%			21.2%		
Systems	4.1%			1.7%			1.4%			1.4%			1.0%		
Devices	3.4%			4.2%			3.5%			5.6%			6.8%		
OPM(Company average)	5.0%			3.8%			4.3%			4.9%			5.9%		

Source: compiled by SIR from the company's IR material.

(Note 1) Each business is rounded to the nearest thousand yen and presented in millions of yen. Accordingly, there may be slight differences from the total consolidated net sales and total consolidated operating profit.

(Note 2) Starting in FY23/3, the company switched to three segment reporting, adding the Cloud Service & Support segment. Figures for FY19/3-FY22/3 have been reclassified and presented in accordance with the new three segment reporting classification.

Loyal customer strategy

The loyal customer strategy is designed to create customers who are satisfied with the company's value-added offerings and aims to strengthen relationships with them. A loyal customer is defined as those with annual sales of at least ¥30 million per company. Under this strategy, the company has set two numerical targets in its 2022-2024 medium-term management plan. First, it aims to increase the number of loyal customers to at least 130 companies, and second, it aims to boost average sales to all customers by 20%.

In FY23/3, the first year of the current medium-term management plan, the company's loyal customer count rose by only one company YoY to 109 companies. Of all customers, the company was able to cross-sell offerings from different segments to an additional eight customers, but was only able to add one loyal customer owing to a YoY drop in major projects in the System segment.

Meanwhile, the company made steady progress in terms of average sales to all customers, up 11% YoY to ¥11.9 mn. In addition to higher overall sales, average sales to loyal customers rose 10%. This demonstrates that the company is making steady progress in its efforts to cultivate deeper customer relationships.

Based on the above, the company has outlined two initiatives for the second year of its 2022-2024 medium-term management plan and beyond. For the first initiative, the company actively introduced customers and held technology study sessions between the electronics and mechatronics businesses in the Device segment in the previous fiscal year, which led to several orders for unique solutions that combined the technologies of both businesses, and it aims to continue this initiative going forward. For the second initiative, the company has been planning and developing unit products that fulfill the needs of loyal customers and applying for patents in the mechatronics business, and will continue to actively plan and develop similar products to strengthen the business.



Source: compiled by SIR from the company's IR material.

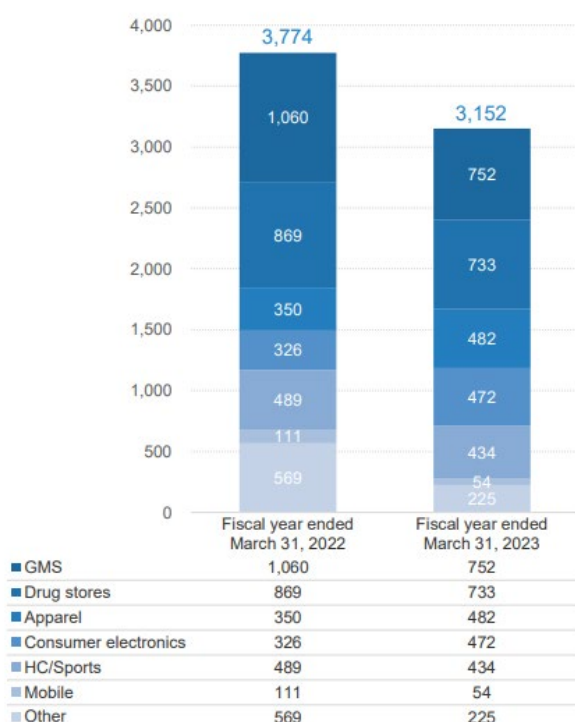
Sales by market and strategic core businesses

Takachiho Koheki's product portfolio includes a very large number of products sold and services provided, and earnings are affected by changes in the demand structure, technological innovation, and growth potential in a variety of industries. As for the Cloud Service & Support segment, cyber attacks have become more technologically sophisticated than ever in recent years, and the latent demand for security systems for various retail outlets and network, access control, and mailing systems for offices and factories is significant. The System segment sells electronic article surveillance systems, access control systems, mailing systems, RFID systems, fire protection systems, and other products to a wide range of industries, including telecommunications, financial, power generation, and oil processing plants, in addition to retailers such as supermarkets, drugstores, and specialty retailers, and demand for its products fluctuates according to new store opening plans and customer capital expenditures. In the Device segment, the company sells industrial equipment to a broad range of manufacturing industries, and over the next few years, it expects to see higher sales of spiral shafts, a mechanical component used in next-generation smart pachinko and smart pachislot machines, which were introduced in the amusement market at the end of last year.

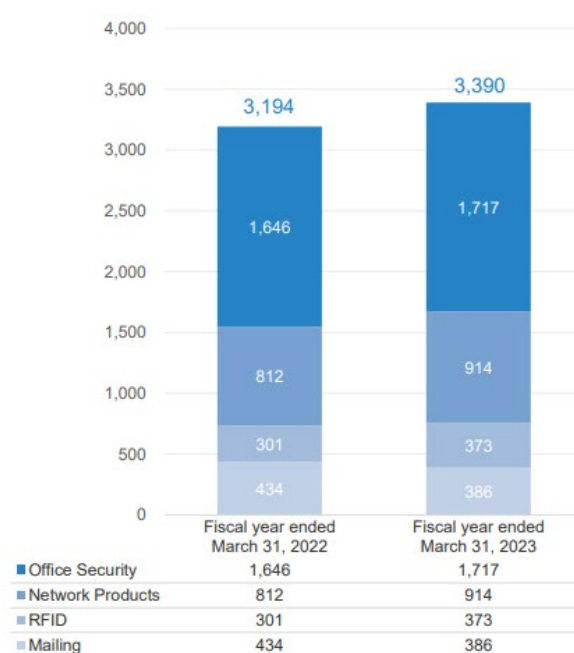
The chart below shows sales by market (by customer) for the System Segment and the Device Segment. In FY23/3, sales to GMS and drugstores in the Retail Solution product category under the System Segment were large, at over ¥700 mn each. In the Business Solution product category, sales to the office security market stood out from the rest. On the other hand, in the Device segment, sales of industrial equipment such as semiconductor manufacturing equipment were extremely high in the Electronics Product category. For the Mechatronics product category, sales to the labor-saving market accounted for 42% of category sales.

Retail Solutions and Business Solutions Net Sales Breakdown

■ Retail Solutions Net Sales



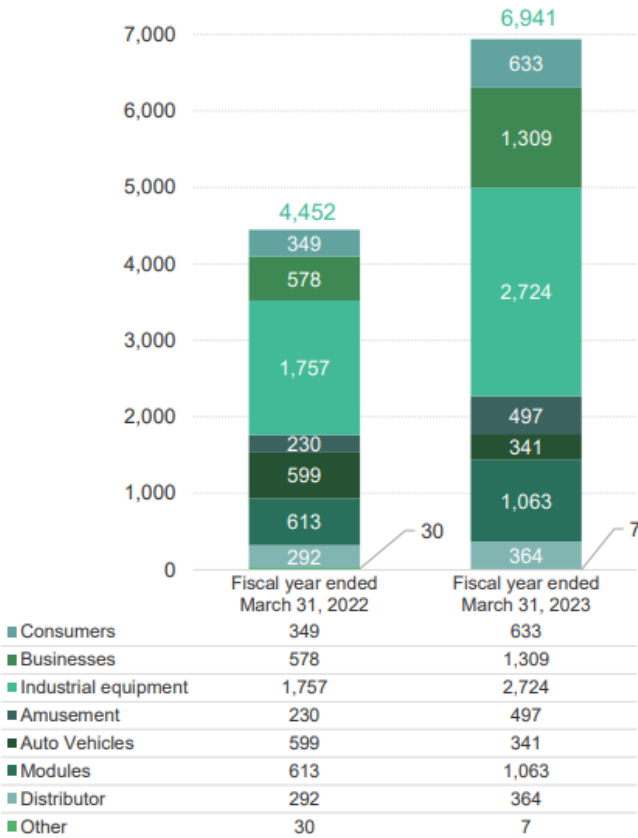
■ Business Solutions Net Sales



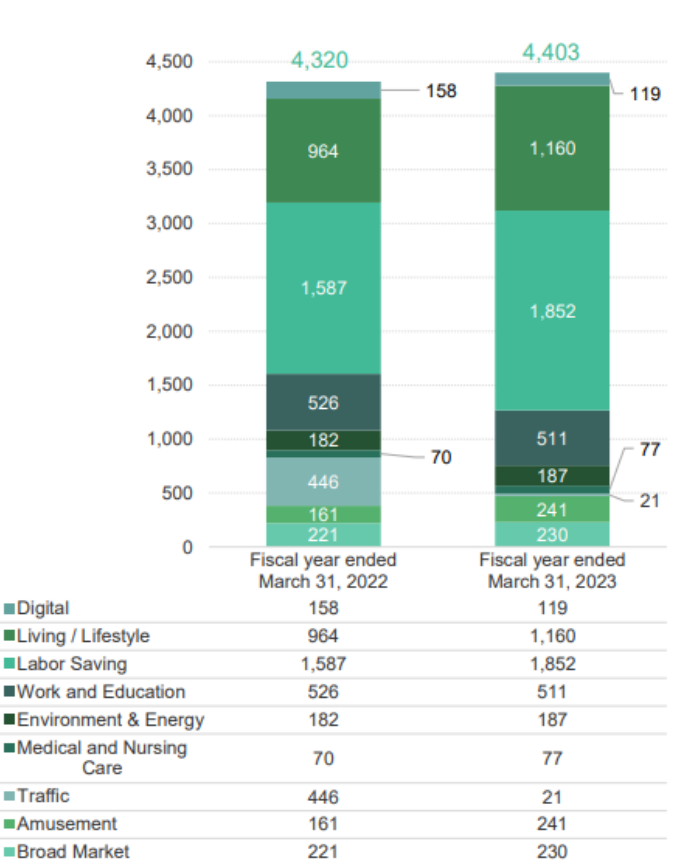
Source: compiled by SIR from the company's IR material. Some reclassification has been made to the results for the fiscal year ended March 31, 2022 due to the change in sub-segment names (Retail +53 million, Business -5.3 million).

Devices Net Sales Breakdown

■ Electronics Net Sales



■ Mechatronics Net Sales



Source: compiled by SIR from the company's IR material.

Some of the company's strategic core businesses and new business areas include the following products and services.

MSP service

The MSP (Managed Service Provider) service is a subscription-based outsourcing service for maintenance, operation, and monitoring of cloud products, and the company currently offers MSP services for cloud-based wireless LAN products. Today, wireless LAN devices are being replaced by cloud-based devices as offices are remodeled for hybrid work and demand for faster speeds using Wi-Fi6 is on the rise, and the market for MSP services targeting cloud-based wireless LANs is growing thanks to strong outsourcing demand driven by labor-saving measures. The company estimates that there are 180,000 units in the market (calculated as one license per unit), and believes it currently holds about 9% of the market. It aims to grow this to 27,000 units by FY25/3 and achieve ¥1.2 bn in sales for MSP services.

TK Ecosystem

The TK Ecosystem is a BtoB platform that centralizes the management of physical security and networks, such as cameras, to create a smart office environment. As of March 2023, the TK Ecosystem was in the proof-of-concept stage using the company's in-house facilities, and is scheduled to enter production in October 2023, with actual implementation planned for March 2024.

Verkada

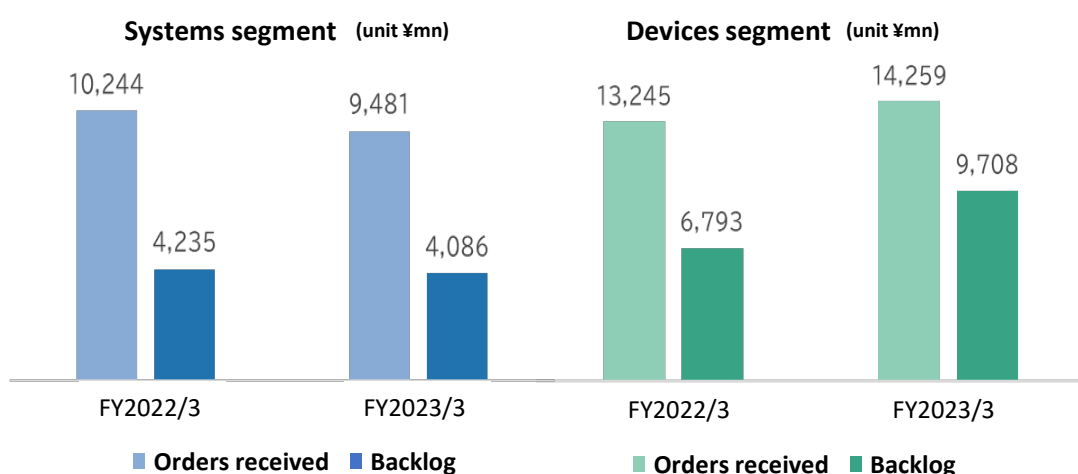
Verkada is an integrated security solution developed by US-based Verkada Inc., and the company offers the product as an authorized distributor in Japan. It is a cloud-based security solution that integrates cloud-based security cameras, access control systems, and environmental sensors, enabling users to monitor the physical security of their facilities at any time and from anywhere using their smartphones and other hand-held devices. In addition, by using the AI-based video search function, users can instantly identify a specific person. Currently, over 13,000 companies around the world have already installed the system. The company aims to convert its current Verkada offering into an MSP service. This will enable it to provide outsourced maintenance and operation management in the cloud, and capture labor-saving demand.

EMLINX

EMLINX is a cloud-based crime prevention information service, enabling users to share information on shoplifting incidents in stores, such as pictures taken by surveillance cameras, status of damage, and shoplifting techniques, via a cloud server installed on the internet. When a shoplifting incident is registered, an email is sent to nearby stores with EMLINX, and users can also view and search for shoplifting incidents that have occurred at other stores in the neighborhood, and analyze whether similar incidents have occurred before. EMLINX is a crime prevention solution that helps reduce losses and eliminate crime by sharing information on theft with physical security systems such as surveillance cameras, electronic article surveillance systems, and facial recognition systems, and enabling store staff to immediately respond to the theft.

Orders & backlog

As of end-FY23/3, order backlog in the Device segment grew substantially by 42.9% YoY, reaching ¥9,708 mn. Growth in order backlogs in the electronics business was particularly strong.



Source: compiled by SIR from the company's IR material.

Employee composition

As the company changed its segment classification to three segments of Cloud Service & Support, System, and Device from FY23/3, there is no continuity in the number of employees by segment. The System segment had the lowest sales per employee at ¥32.5 mn, which was lower than the ¥47.1 mn recorded on a companywide basis (496). The Device segment stands out with a remarkably high sales per employee of ¥210.1 mn.

The System segment includes the Global Product category, where the majority of the 296 employees in the segment come from Takachiho Fire, Security & Services (Thailand) Ltd., Guardfire Limited, and Guardfire Singapore Pte. Ltd. The company features a high percentage of engineering staff at 42.2% (as of April 1, 2022). Its advanced technological capabilities enable the company to provide comprehensive solution services to customers, covering everything from consulting to customized product development, technical support, and after-sales services.

Employee count and sales per employee by segment

Segment	Number of Employees		Sales per employee (¥ mn) ⁽²⁾
	FY22/3 ⁽¹⁾	FY23/3	FY23/3
Cloud Service & Support	-	55	43.4
Systems	348	296	32.5
Devices	50	54	210.1
Reportable Segment	398	405	-
Company-wide basis (shared)	90	91	-
Total Employees	488	496	42.6(FY22/3)→47.1(FY23/3)

Source: compiled by SIR based on YUHO financial statements.

Note 1: Employee count for FY22/3 based on previous segment classification. Note 2: Sales per employee based on new segment classification.

Earnings Trends

Full-year FY23/3 earnings summary

FY23/3 marks Takachiho Koheki's first year of its 2022-2024 medium-term management plan announced in February 2022. The company reported consolidated sales of ¥23,360 mn (+12.4% YoY), operating profit of ¥1,376 mn (+34.4% YoY), recurring profit of ¥1,588 mn (+27.3% YoY), and net profit of ¥1,205 mn (+37.2% YoY). All profit lines from operating profit down reached their highest levels since the company listed on the JASDAQ stock exchange in 2000. Operating profit margin rose from 4.9% in FY22/3 to 5.9% in FY23/3, matching the record high of 5.9% set in FY01/3. Earnings growth was driven by higher sales and profits in the Cloud Service & Support and Device segments. Summary by business segment and segment sales and segment operating profit are as follows.

Cloud Service & Support

The Cloud Service & Support segment posted sales of ¥2,385 mn (+12.8% YoY), operating profit of ¥506 mn (+28.5% YoY), and an operating profit margin of 21.2% (+2.6pp YoY). For the mainstay high-margin MSP service, which is mainly sold through distributors, sales grew on the back of a steady increase in new contracts thanks to promotional campaigns targeting distributors. In addition, the launch of other cloud services, such as the Employee Baggage Screening Service and the Verkada integrated security solution, also helped boost sales. However, sales fell slightly short of initial plan owing to delays in offering MSP services at new distributors.

Operating profit was largely driven up by the higher sales composition of the cloud service business, including the high-margin MSP service. In FY23/3, the number of MSP service contracts grew by 23.5% YoY to 16,921 licenses, with new contracts up a substantial 38.5% YoY to 3,966 licenses.

System

The System segment generated sales of ¥9,630 mn (-2.7% YoY), operating profit of ¥92 million (-31.6% YoY), and an operating profit margin of 1.0% (-0.4pp YoY).

In the Retail Solution business, sales fell 16.5% YoY to ¥3,152 mn owing to a reactionary drop in major projects such as CCTV and facial recognition systems, which saw strong demand in FY22/3, as well as lower security investments by retail customers amid soaring utility costs and other factors.

The Business Solution segment saw sales rise 6.1% YoY to ¥3,390 mn, thanks to strong sales of access control systems to offices of foreign-affiliated companies and steady sales to data centers.

In the Global business, sales were up 5.5% YoY to ¥3,087 mn as sales in the fire protection systems business in Thailand were solid after pandemic-related lockdowns were lifted, while the weak yen led to higher yen-denominated earnings at overseas subsidiaries.

Device

The Device segment reported sales of ¥11,344 mn (+29.3% YoY), operating profit of ¥776 mn (+57.1% YoY), and an operating profit margin of 6.8% (+1.2pp YoY).

The Electronics business saw sales grow 55.9% YoY to ¥6,941 mn thanks to strong sales of electronic components for 5G base stations, semiconductor manufacturing equipment, and home-use printer components driven by higher telework demand. Furthermore, the uptick in sales was underpinned by progress in deepening customer relationships in the amusement market as well as strong ramp-up in sales of NTCJ (Nuvoton Technology Japan Corporation) products, with which the company signed a distributorship agreement in FY22/3.

In the Mechatronics business, sales rose 1.9% YoY to ¥4,403 mn on the back of strong sales of slide rails for overseas copy machines and mechanical parts for bank terminals driven by special demand for printing new banknotes.

Sales and Operating profit by Segment

(unit: ¥mn)	Cloud Service & Support	YoY	Systems	YoY	Devices	YoY	Total	YoY	Adj.	PL recorded amt.	YoY
Net sales											
1. Sales to external customers	2,385	12.8%	9,630	-2.7%	11,344	29.3%	23,360	12.4%	-	23,360	12.4%
2. Intersegment sales and transfers	-		-		-		-		-	-	
Total	2,385	12.8%	9,630	-2.7%	11,344	29.3%	23,360	12.4%	-	23,360	12.4%
Segment Operating profit	506	28.5%	92	-31.9%	776	57.1%	1,376	34.4%	-	1,376	34.4%

Source: compiled by SIR from the company's IR material.

Full-year FY24/3 earnings forecast

Takachiho Koheki's full-year FY24/3 earnings forecast calls for net sales of ¥24,800 mn (+6.2% YoY), operating profit of ¥1,620 mn (+17.7% YoY), recurring profit of ¥1,600 mn (+0.7% YoY), and net profit of ¥1,249 mn (+3.6% YoY). The company's 1H earnings forecast announced at the same time calls for net sales of ¥12,100 mn (+8.8% YoY), operating profit of ¥710 mn (+21.5% YoY), recurring profit of ¥700 mn (-21.7% YoY), and net profit of ¥480 mn (-27.0% YoY). Profits are projected to be slightly larger in 2H compared to 1H. This is because the company's products, mainly in the System segment, are often designated as capital investments, and earnings tend to be weighted toward 4Q and 2Q in line with the timing of customer investments. In addition, since the company recorded a foreign exchange gain of ¥286 mn as non-operating income in 1H FY23/3, it expects recurring profit to fall YoY. Forecast by segment is as follows.

Cloud Service & Support

The company projects the Cloud Service & Support segment to generate sales of ¥2.8 bn (+17.4% YoY) and operating profit of ¥0.6 billion (+18.4% YoY). For its cloud services, in addition to distributor sales of MSP services, the company will begin selling directly to System segment with the aim of boosting its license volume. Although procurement costs for equipment are rising for MSP services, partly due to the weak yen, the company is continuing to negotiate with customers to pass on these costs. In terms of selling the integrated security solution Verkada, the company plans to expand sales by capturing distributors from FY24/3 onward, on top of continuing to sell directly. In the maintenance business, the company aims to boost new contracts with customers who have not yet signed maintenance contracts, while reducing product disruptions and improving profitability by leveraging past data for maintenance and inspections.

System

For the System segment, the company targets sales of ¥9.8 bn (+1.8% YoY) and operating profit of ¥160 million (+72.5% YoY), with plans for the segment's three main businesses as follows.

The company expects sales in the Retail Solution business to rise 3.1% YoY to ¥3,250 mn. It aims to step up sales of shoplifting prevention systems, surveillance cameras, and other security systems to the apparel market, which is recovering as movement restrictions are lifted, as well as to consumer electronics mass retailers and other favorable markets where inbound demand is expected to grow.

In the Business Solution business, the company projects sales to grow 8.8% YoY to ¥3,690 mn, primarily on the back of expanded sales of access control systems for offices and data centers. Office building construction is on the rise fueled by major urban redevelopment projects, and the company intends to capitalize on this infrastructure demand. In addition, it aims to further boost its market share for foreign-affiliated offices and data centers by expanding its global product lineup.

For the Global business, the company anticipates sales to fall 7.4% YoY to ¥2,860 mn. This business is centered on fire protection systems in Southeast Asia. Currently, the Thai government is reviewing its plans for power plant construction projects owing to inflation and other factors, and the company expects sales to fall given the uncertainty over when some projects will be booked.

Device

For the Device segment, the company forecasts sales of ¥12.2 bn (+7.5% YoY) and operating profit of ¥860 mn (+10.7% YoY).

In the Electronics business, the company expects sales to rise 8.8% YoY to ¥7,550 mn on the back of order backlogs, despite signs of a slowdown in the semiconductor market. It aims to enhance profitability by stepping up sales to the industrial equipment and amusement equipment markets and expanding its solutions business. Furthermore, the company opened a new base in Shenzhen, China, in April 2023, which it plans to use to expand its overseas sales.

For the Mechatronics business, the company projects sales to increase 5.6% YoY to ¥4,650 mn and expects sales of mechanical components for ATMs and other money machines to continue growing as it did in FY23/3 driven by the need to replace machines in 2024 when new banknotes will be printed.

Sales, Operating Profit, and Operating Profit Margin by Segment (unit: ¥mn)

Segments		FY23/3 (act)	FY24/3 (CE)	YoY CHG AMT	CHG %
Cloud Service & Support	Net sales	2,385	2,800	414	17.4%
	Operating profit	506	600	93	18.4%
	OPM	21.20%	21.40%	+0.2pt	-
Systems	Net sales	9,630	9,800	169	1.8%
	Operating profit	92	160	67	72.5%
	OPM	1.00%	1.60%	+0.6pt	-
Devices	Net sales	11,344	12,200	855	7.5%
	Operating profit	776	860	83	10.7%
	OPM	6.80%	7.00%	+0.2pt	-
TOTAL	Net sales	23,360	24,800	1,439	6.2%
	Operating profit	1,376	1,620	243	17.7%
	OPM	5.90%	6.50%	+0.6pt	-

Source: compiled by SIR from the company's IR material.

Consolidated PL key figures FY23/3-FY24/3 (unit: ¥mn)

	FY23/3 act	FY24/3 (CE)	YoY CHG AMT	CHG %
Net Sales	23,360	24,800	1,439	6.2%
Gross profit	5,838	6,210	371	6.4%
GPM(%)	25.0%	25.0%	-	+0.0pt
SG&A	4,461	4,590	128	2.9%
Operating profit	1,376	1,620	243	17.7%
OPM(%)	5.90%	6.50%	-	+0.6pt
Ordinary profit	1,588	1,600	11	0.7%
Ordinary profit Ratio(%)	6.80%	6.50%	-	-0.3pt
Net income	1,205	1,249	43	3.6%
ROE(%)	7.7%	7.7%	-	+0.0pt
EPS(¥)	134.69	137.74	+3.05	-
Dividend Per Share(¥) *	133	137	+4	-

Source: compiled by SIR from the company's IR material.

(*)Annual dividend per share: calculated by dividing the full amount of net profit for the year by the number of shares outstanding at the end of the year, in accordance with the 100% dividend payout ratio policy (EPS is calculated by dividing net profit for the year by the average number of shares outstanding during the year).

Medium-term Management Plan and Growth Strategy

2022–2024 Medium-term Management Plan

On February 8, 2022, Takachiho Koheki announced its new 2022-2024 medium-term management plan. The slogan of the plan is "New Medium-Term Management Plan 2022-2024: Challenges for Creation ~Towards 100th anniversary – Creating new value in a new normal era~". It pledges to meet all the listing maintenance criteria for the Prime Market, while aiming to achieve sustainable growth and enhance its corporate value over the medium to long term.

The concept behind the plan is based on the Group's corporate philosophy and basic policies of "concentrating on high value-added businesses transformation" and "creating new value by strengthening the management base," with the aim of solving customer challenges and social issues by fully leveraging the Group's strength to provide services backed by a high level of technological prowess while also making major strides to become a company that meets the expectations of its shareholders. In addition, the company intends to maximize the corporate value of the Group by taking on the challenge of "creation" aimed at business transformation and promoting a new business strategy, capital policy, and governance policy through the execution of this plan.

As for the Prime Market listing maintenance criteria, of the five criteria including the number of shareholders, number of tradable shares, market capitalization of tradable shares, ratio of tradable shares, and average daily trading value, the company did not meet the criteria for market capitalization of tradable shares and average daily trading value as of the transition record date set by the Tokyo Stock Exchange (June 30, 2021). However, as of June 30, 2021, the market capitalization and average daily trading value of tradable shares did not meet the criteria. However, through various corporate initiatives based on the commitments made in the 2022-2024 Medium-Term Management Plan, the company met the criteria for market capitalization of tradable shares as of the record date of March 31, 2023, and the criteria for average daily trading value as of the record date of December 31, 2022, respectively.

New Medium-Term Management Plan 2022-2024

(unit: ¥mn)		New Medium-Term Management Plan 2022-2024		
FY	FY22/3 act	FY23/3 First Year (act)	FY24/3 Second Year (plan)	FY25/3 Final Year(plan)
Net sales	20,784	23,360	24,800	26,000
Ordinary profit	1,247	1,588	1,600	2,000
Net income	878	1,205	1,249	1,400
ROE	6.0%	7.7%	7.7%	10.0% (target) 8.0% (*)
Dividend Per Share	55yen	133yen	137yen	100.0% (Continue until ROE achieves 8% average for 3 periods)

Source: compiled by SIR from the company's IR material.

*certain achievement

Business strategy

The basic strategy for growth toward new business transformation under the new 2022-2024 Medium-Term Management Plan is to **(1) promote and deepen the loyal customer strategy, (2) grow service businesses, and (3) create future core businesses**. In addition, the company **(4) will strengthen its management base** by optimally allocating management resources, promoting digital transformation of the management base, and training and investing in human resources, and has set a **(5) three-year ¥3 bn commitment for strategic investments** to create new corporate value.

The following five items are listed in the 2022-2024 Medium-Term Management Plan as priority measures for growth in the business strategy.

① Promote and deepen loyal customer strategy: Expand businesses with high profitability and growth potential among existing businesses

The company will focus on further expanding its market share in areas where it has a strong share, such as electronic article surveillance systems and security cameras for the drugstore market, security systems for foreign-affiliated offices, and mechanical components for money machines and copy machines. In addition, it will further deepen its loyal customer strategy, in which the company aims to create and strengthen relationships with customers who are satisfied with the added value it provides.

② Growth of service businesses: Transformation from "selling goods" to "selling services"

In FY25/3, the company plans to lift Cloud Service & Support segment sales composition to 15% of total sales and operating profit to 45%-50% of total operating profit. It aims to improve services by leveraging data stored in the cloud, reducing churn rates by solving customer issues and expanding customer value by lowering management costs. For the MSP service, which currently generates about ¥500 mn in sales (FY22/3), the company aims to achieve annual sales of about ¥1.2 bn in three years (FY25/3), and intends to advance its unique BtoB platform, which integrates physical security and network, into the TK Ecosystem.

③ Creation of future core businesses: Acquiring a new revenue base through launching new businesses and business model

New business development areas include cyber security (vulnerability, privacy), climate change (SDGs, ESG), blockchain (metaverse, VR/AR, Web3, NFT), robotics (labor saving, automation, logistics, sensors), quantum computing, 5G/6G, and smart homes. In addition, the company will offer new products in the existing areas of retail (camera analysis, privacy issues, labor saving), office (TK cloud service, SASE, cloud transition for NET security, logistics solutions), electronics (audio, communication, sensors for mid-sized companies and Asian manufacturers), and mechatronics (global products and alternatives to existing products). Furthermore, the company plans to create new businesses and business models in collaboration with venture capital firms, universities, and proprietary information sources.

④ Strengthen management base: Promote business portfolio management / digital transformation / strengthen investment in human resource development / capital efficiency improvement efforts

The company will optimally allocate personnel by shifting management resources to priority businesses, and perform business portfolio management with an organizational structure that enables strategy execution. In promoting digital transformation, the company will leverage digital marketing to streamline prospect acquisition, automate internal processing of small customers, and go paperless to streamline internal operations and reduce internal costs.

⑤ (5) Set three-year ¥3 bn commitment for strategic investments: Accelerate growth drivers by investing a total of ¥3 bn to strengthen internal infrastructure, grow and develop core areas (=service businesses), and launch new businesses.

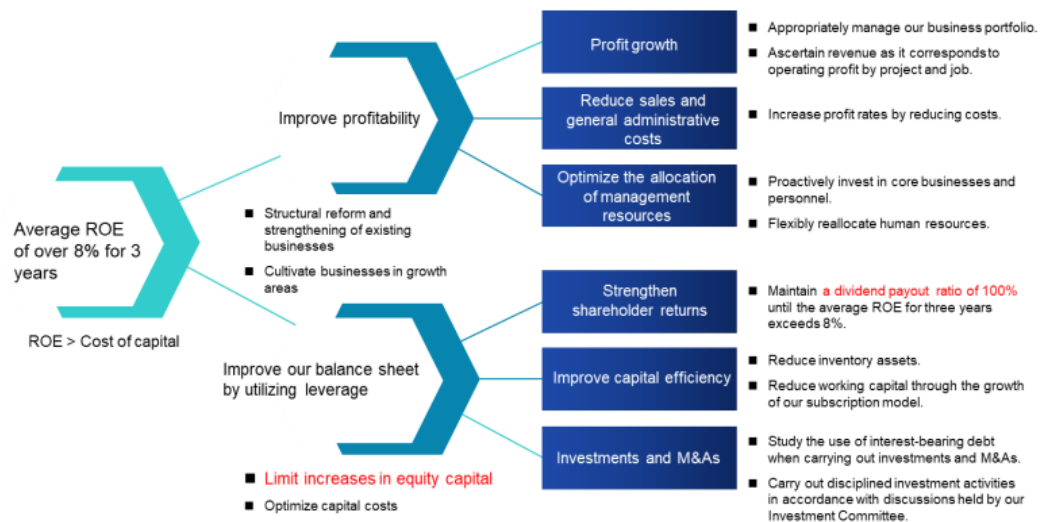
In addition to ordinary capex and investment, the company has set aside a total of ¥3.0 bn for investment, of which ¥400 mn will be used to strengthen internal infrastructure, including IT investments such as digital transformation and human resource development. The remaining ¥2.6 bn will be used for investments and loans to external companies and businesses, M&A deals, growth and development of service businesses such as the smart office BtoB platform TK Ecosystem being developed in-house, development of solution units that fulfill the needs of loyal customers, and launching new businesses.

Capital policy

Takachiho Koheki announced that it will maintain a dividend payout ratio of 100% until it achieves a three-year average ROE of 8%, based on its basic policy of limiting the buildup of shareholders' equity to improve return on capital and the balance sheet. It will also look into using interest-bearing debt for large investments to reduce cost of capital. In addition, the company will accelerate its efforts to improve capital efficiency, cutting working capital by reducing inventories and expanding its subscription model business.

Status of Capital Strategy

The following strategies are implemented to **increase shareholder value(ROE>capital cost)**, with 3 years average **ROE of 8% or more** set as a KPI



Source: Excerpted from the company's IR material.

Governance

The company will establish an Investment Committee to improve the quality of discussions by the Board of Directors and the Executive Committee by strengthening the supervisory and oversight functions related to investment decisions, including M&A strategies. In addition, a voluntary Nomination and Compensation Committee will be established to enhance the fairness, transparency, and objectivity of procedures related to nomination and compensation. Furthermore, the company will set KPIs for capital efficiency as part of executive compensation to promote shareholder-oriented management. Future issues to be discussed include appointing female directors from the perspective of ensuring diversity, and restructuring the personnel, evaluation, and compensation systems of domestic and overseas group companies.

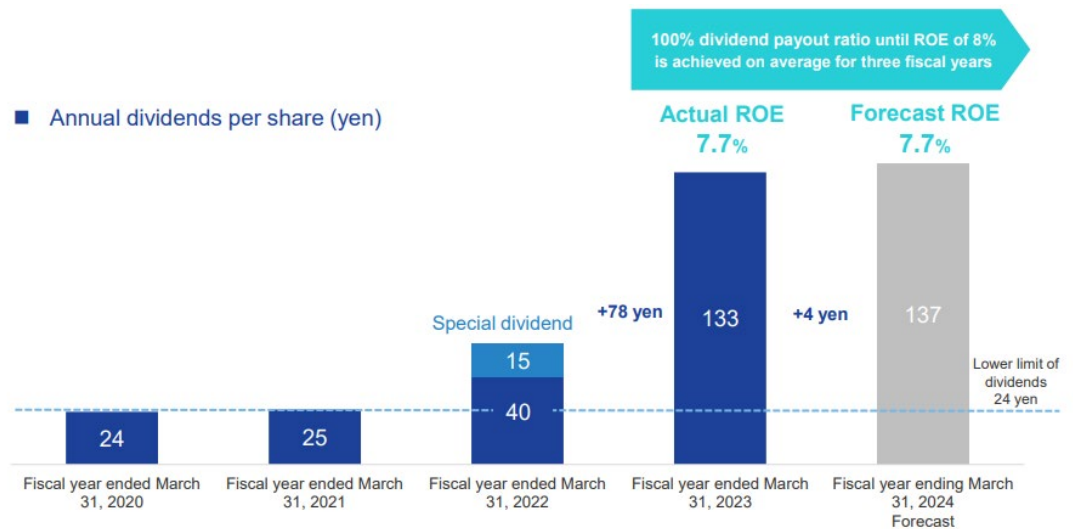
Shareholder returns: Proactive dividend policy

As mentioned in the Medium-Term Management Plan section, Takachiho Koheki announced a highly proactive and investor-friendly shareholder return policy. The company plans to maintain a dividend payout ratio of 100% until it achieves a three-year average ROE of 8%. It is worth noting that three-year average refers to the average of the three most recent fiscal years following FY23/3, the first year of the medium-term management plan. The company’s basic policy is to limit any further buildup of shareholders’ equity to improve return on capital and the balance sheet. The minimum annual dividend is still set at ¥24 per share. In FY23/3, the company reached the annual minimum amount after paying an interim dividend of ¥24 per share. Combined with the year-end dividend of ¥109 per share, the total annual dividend comes to ¥133 per share.

Until ROE data for the most recent three years beginning with FY23/3 are available, the dividend payout ratio will be set to 100%, including for FY24/3. Based on this, the projected FY24/3 annual dividend per share is ¥137, the same as the projected EPS of ¥137, with an interim dividend of ¥53 per share and a year-end dividend of ¥84 per share.

This proactive dividend policy shows the company's strong commitment and confidence toward growing earnings in line with the business strategy outlined in its medium-term management plan.

Dividend Trends and Dividend Policy



Source: Excerpted from the company’s IR material.

Note: Average over three fiscal years: Average of the three most recent fiscal years from the fiscal year ended March 31, 2023, the first year of the Medium-Term Management Plan.

Financial Analysis

Characteristics of the balance sheet and cash flow statement

Takachiho Koheki maintains a strong financial position and has been free of interest-bearing debt for 17 years since FY06/3. The company's equity ratio is extremely high, exceeding 70% for the past five years, and its resilience to business downturns is high. On the other hand, the company does not use any debt, limiting the positive impact of leverage on tax savings and ROE. In light of this, the current 2022-2024 medium-term management plan calls for a basic policy of limiting the buildup of shareholders' equity and the company is looking into incorporating debt for large investments to reduce cost of capital. Furthermore, it plans to reduce working capital by expanding its subscription model business, including the MSP service, and promote a financial strategy that accelerates its efforts to improve capital efficiency.

The company generated negative free cash flow in FY23/3. This was largely due to a ¥2,572 mn drop in cash flows from operating activities in FY22/3, as pre-tax profit of ¥1,485 mn was more than offset by a ¥1,306 mn increase in notes and accounts receivable-trade and a ¥1,798 mn increase in inventories. On the other hand, cash flows from investing activities amounted to ¥522 mn, up ¥915 mn from FY22/3. This was attributable to ¥1,100 mn in proceeds from withdrawal of time deposits and ¥30 mn in proceeds from the sale of all idle land holdings, which was partially offset by ¥428 mn in purchase of investment securities and ¥134 mn in purchase of property, plant, and equipment. Cash outflows from financing activities came to ¥303 mn, down ¥113 mn from FY22/3. This was primarily due to dividend payments of ¥604 mn, which were partially offset by ¥281 mn in sales of treasury stock.

One point to note is that the total dividend payment of ¥604 mn in FY23/3 is almost triple the average dividend payment of ¥220 mn over the previous four years, reflecting the company's proactive approach to shareholder returns.

Key Financial Indicators FY19/3-FY23/3

FY, ¥mn	FY19/3	FY20/3	FY21/3	FY22/3	FY23/3
EBITDA (¥mn)	1,232	978	1,019	1,207	1,561
ROE (%)*	3.5	1.4	4.0	6.0	7.7
ROA (%)*	2.6	1.0	2.9	4.4	5.6
ROIC (%)*	4.2	2.9	3.6	4.5	7.0
Interest Bearing Debt (¥mn)	0.0	0.0	0.0	0.0	0.0
Net Interest Bearing Debt (¥mn)	0.0	0.0	0.0	0.0	0.0
D/E Ratio (X)	0.0	0.0	0.0	0.0	0.0
Net D/E Ratio (X)	0.0	0.0	0.0	0.0	0.0
Interest bearing liability/EBITDA	0.0	0.0	0.0	0.0	0.0
Equity Ratio(%)	72.9	73.2	72.7	72.9	74.2
Total Assets Turnover(rotation)	1.1	1.1	1.1	1.0	1.1
Accounts Receivable Turnover Ratio (rotation)	3.1	3.1	3.0	3.2	3.7
Accounts Payable Turnover Ratio (rotation)	5.4	5.7	5.8	5.4	5.8
Cash/Total Assets(%)	33.4	33.4	30.8	32.6	20.4
Cash and Deposits/Market Cap (%)	74.8	72.7	59.9	50.6	20.1

Simplified Cash Flow from FY19/3 to FY23/3

FY, ¥mn	FY19/3	FY20/3	FY21/3	FY22/3	FY23/3期
Cash Flows from Operating Activities (1)	940	250	754	1,185	-1,387
Cash Flows from Investing Activities(2)	-135	-111	-775	-393	522
Cash Flows from Financial Activities	-679	-215	-214	-190	-303
FCF (1)+(2)	805	139	-21	792	-865
Cash and Deposits	5,204	5,100	4,901	5,609	4,509

Source: compiled by SIR from SPEEDA data. * Data based on SPEEDA calculation rules and may differ from the company's publicly announced figures. (Note) See Appendix for detailed cash flow data.

Share price insights

Share price trends

Takachiho Koheki’s share price has risen substantially since the beginning of the year. The lowest price so far this year was ¥2,164 on January 13, and the highest price is ¥3,300 on July 5, 2023. The share price soared sharply from June to July, especially after announcing FY23/3 earnings results and FY24/3 forecast on May 12. This year’s peak share price of ¥3,300 on July 5 marked a 40% increase from the May 12 price of ¥2,348. The main catalyst behind the rise is not only the strong earnings in FY23/3, but also the "Notice Concerning Dividends of Surplus" announced at the same time, which made it clear that dividend per share in FY24/3 will rise substantially compared to FY23/3, in line with the company’s commitment to maintain a dividend payout ratio of 100% as mentioned in its 2022-2024 medium-term management plan announced in February 2022. This was likely well received by investors and triggered a rerating.

1-Year Weekly Relative Performance Trend



Source: Trading View

Valuation

Investors often use valuation comparisons with similar companies as a reference when calculating stock prices, but it is difficult to compare the profitability and growth potential of individual companies on the same scale, given their different business portfolios, value chains, supply chains, capital structures, etc. Valuations also vary depending on management strategy, financial strategy, shareholder return policy, and other factors. Furthermore, it is not easy to translate factors such as rarity, SDG policies, and governance into the same valuation model, as they are not always reflected in financial indicators. Electronics trading companies also vary widely in terms of the products each company handles. In addition, the company has a different business portfolio from the typical electronics trading company, as it also operates as an MSP service provider in the IT infrastructure services and system development industries, which are divided into a wide range of sub-sectors.

Accordingly, we selected 47 companies, including 25 electronic component and semiconductor trading companies and 22 companies engaged in information security-related businesses in the IT infrastructure services and systems development industries, to compare valuations across a broad universe of similar companies.

It is up to investors to decide which valuation metrics are valid, but the company's strong commitment to shareholder returns through its dividend policy appears to have played a major role in the recent rally in share price. The company's confidence in its future earnings growth is evident given its policy of maintaining a 100% dividend payout ratio until it achieves a three-year average ROE of 8%.

In terms of P/E ratio, it is fair to say that investors believe that the growth potential in the information security industry is higher than that in the electronic components and semiconductor trading industry. The fact that the company's P/E ratio is higher than that of electronic component and semiconductor trading companies suggests that this view is factored into the valuation. Going forward, Takachiho Koheki's P/E ratio may expand further depending on the growth of its Cloud Support & Service segment.

	PER(X) ⁽¹⁾	EV/EVITDA	PBR(X)	PSR(X)	ROE(%)	Payout Ratio(%)	DY(%)	Equity Ratio(%)	OPM(%)	Interest Bearing Debt
Takachiho Koheki	22.4	14.7	1.4	1.0	7.7	100	4.5	74.2	6.5	None
Average of 25 electronic component and semiconductor trading companies	12.4	6.4	0.85	0.22	11.0	36.0	3.5	45.7	3.5	have
Average of 22 information security companies	47.1	16.0	4.42	2.57	6.8	12.0	0.6	59.0	11.3	18 of 22 companies have
Average of 47 electronic component, semiconductor trading, and information security companies	26.4	10.9	2.5	1.3	9.1	25.0	2.1	51.9	6.9	43 of 47 companies have

Source: compiled by SIR from SPEEDA data.

(1) Share prices for valuations are based on the closing price on July 21, 2023. Unless otherwise noted, actual results for the most recent fiscal year are used.

(2) Calculated based on the company's EPS forecast for the current term.

(3) Calculated based on projected dividend per share and EPS for the current term.

(4) Calculated using the projected dividend per share for the current term and the closing price on July 21, 2023.

Comparable companies

Electronic and semiconductor trading firm (25 comps.)	MACNICA HOLDINGS(3132), KAGA ELECTRONICS(8154), KAGA ELECTRONICS(8154), Restar Holdings(3156), TOMEN DEVICES(2737), Ryosan(8140), SIIX(7613), RYODEN(8084), TOKYO ELECTRON DEVICE(2760), Elematec(2715), Hakuto(7433), TACHIBANA ELETECH(8159), MARUBUN(7537), HAGIWARA ELECTRIC HOLDINGS(7467), SUN-WA TECHNOS(8137), Shinko Shoji(8141), SANSHIN ELECTRONICS(8150), RYOYO ELECTRO (8068), TSUZUKI DENKI(8157), KANADEN(8081), TAKEBISHI(7510), Daitron(7609), MEIJI ELECTRIC INDUSTRIES(3388), GLOSEL(9995), TOKAI ELECTRONICS(8071), KYOEI SANGYO(6973)
Information security firm (22 comps.)	LAC(3857), SOLITON SYSTEMS (3040), SOLITON SYSTEMS (3040), GIGA PRIZE(3830), GMO GlobalSign Holdings(3788), Digital Arts(2326), OPTiM(3694), Cybertrust Japan(4498), Global Security Experts(4417), Eltes(3967), adish(7093), SECURE(4264), AMIYA(4258), Asgent(4288), Vario Secure(4494), VLC HOLDINGS(2467), Fuva Brain(3927), Cyber Security Cloud(4493), Encourage Technologies(3682), FFRI Security(3692), Cacco(4166), SecuAvail(3042), DDS(3782)

Source: compiled by SIR from SPEEDA data.

Appendix

Income Statement FY19/3-FY23/3

FY, ¥mn	FY19/3	FY20/3	FY21/3	FY22/3	FY23/3
Total Cost of Sales	19,894	20,616	20,591	20,785	23,360
Cost of Sales	14,787	15,494	15,661	15,686	17,522
Gross Profit	5,107	5,122	4,930	5,099	5,838
Gross Margin	25.7	24.8	23.9	24.5	25.0
Selling, General and Administrative Expenses	4,118	4,334	4,044	4,075	4,461
Operating Profit	990	788	886	1,024	1,376
Operating Profit Margin	5.0	3.8	4.3	4.9	5.9
Non-Operating Income	102	101	109	251	270
Interest and Dividends Income	23	25	21	29	47
Non-Operating Expenses	5	4	69	28	58
Interest Expenses	1	1		0	
Income from Equity Method - Non-Operating	7	2	-2	7	9
Ordinary Profit	1,087	885	926	1,247	1,588
Ordinary Profit Margin	5.5	4.3	4.5	6.0	6.8
Extraordinary Gains/Losses	(192)	(298)	2	(4)	(103)
Extraordinary Gain	4	68	4		0
Extraordinary Loss	196	366	2	4	103
Pretax Profit	894	587	929	1,243	1,485
Pretax Profit Margin	4.5	2.8	4.5	6.0	6.4
Income Taxes	403	397	381	365	280
Income Taxes - Current	407	425	357	382	320
Income Taxes - Deferred	(4)	(28)	24	(17)	(40)
Net Profit Attribute to parent company shareholders	491	191	548	878	1,205
Net Profit Margin	2.5	0.9	2.7	4.2	5.2

Source: compiled by SIR from SPEEDA data.

Balance Sheet FY19/3-FY23/3

FY, ¥mn	FY19/3	FY20/3	FY21/3	FY22/3	FY23/3
(Assets)					
Current Assets	16,209	16,236	16,516	17,390	18,302
Cash & Deposit	6,303	6,199	6,000	6,708	4,509
Notes Receivable	375	371	206	188	376
Electronic Monetary Claims	622	590	514	678	797
accounts receivable	569	5,757	6,296	4,348	5,557
contract assets	–	–	–	1,311	815
Finished Goods and Merchandise	2,445	2,597	2,431	3,096	4,880
Others	782	840	1,066	1,058	1,365
Allowance for Doubtful Accounts	(13)	(122)	0	0	0
Non-Current Assets	2,673	2,319	2,956	3,203	3,831
Property, Plant & Equipment (PPE)	338	299	577	539	446
Buildings and structures (net amount)	18	12	232	211	200
Lands	128	117	115	111	–
Others (net amount)	192	169	229	216	245
Intangible Assets	455	147	337	299	233
Investments and Other Assets	1,879	1,872	2,041	2,364	3,151
Investment Securities	1,140	925	1,444	1,773	2,586
Deferred Tax Assets	255	307	219	212	119
Others	484	640	377	377	445
Allowance for Doubtful Accounts	0	0	0	0	0
Total Assets	18,883	18,556	19,473	20,593	22,133
(Liabilities)					
Current Liabilities	4,420	4,174	4,547	4,807	4,952
Notes and accounts payable	2,827	2,591	2,839	2,984	3,059
Income taxes payable	255	241	141	249	124
Contract liability	–	–	–	913	947
Reserve for bonuses	267	235	270	294	387
Reserve for directors' bonuses	22	1	13	30	34
Head office transfer cost	–	82	–	–	–
Others	1,047	1,021	1,283	334	398
Non-Current Liabilities	695	797	751	760	748
Long-term accounts payable	–	35	42	31	20
Provision for Retirement Benefits	657	729	673	685	679
Reserve for directors' Stock issuance	–	–	–	9	9
Others	38	31	35	34	40
Total Liabilities	5,116	4,971	5,299	5,568	5,700
(Net Assets)					
Shareholders' Equity	13,561	13,537	13,872	14,561	15,478
Capital Stock	1,209	1,209	1,209	1,209	1,209
Capital Surplus	1,172	1,172	1,172	1,193	1,375
Retained Earnings	12,411	12,388	12,722	13,377	13,979
Treasury Stock	(1,231)	(1,231)	(1,231)	(1,218)	(1,085)
Accumulated Other Comprehensive Income	199	36	290	452	946
Valuation Difference On Available-for-sale Securities	266	204	299	373	691
Foreign Currency Translation Adjustments	(55)	(165)	(58)	41	227
Remeasurements of defined benefit plans	(11)	(2)	49	37	26
Share Warrants	5	9	12	11	8
Non-controlling interest	0	0	0	0	0
Total Net Assets	13,766	13,584	14,174	15,025	16,432
Total liabilities and net assets	18,883	18,556	19,473	20,593	22,133

Source: compiled by SIR from SPEEDA data.

Cash Flow Statement FY19/3-FY23/3

FY, ¥mn	FY19/3	FY20/3	FY21/3	FY22/3	FY23/3
Cash Flows from Operating Activities	940	250	754	1,185	(1,387)
Depreciation and Amortization - CF	242	190	133	183	185
Depreciation - CF	100	101	133	183	185
Amortization of Goodwill - CF	142	89	0	0	0
Gain/Loss on Sale of Securities and Investment Securities	0	(68)	0	0	0
Gain/Loss on Sale of Investment Securities	0	(68)	0	0	0
Gain/Loss on Sale of PPE	0	0	0	0	82
Interest and Dividends Received - Operating CF	25	26	21	32	47
Interest Paid - Operating CF	(1)	(1)	0	0	
Cash Flows from Investing Activities	(135)	(111)	(775)	(393)	522
Payments for Purchases of Securities and Investment Securities	0	0	(450)	(250)	(428)
Payments for Purchases of Investment Securities	0	0	(450)	(250)	(428)
Proceeds from Sales of Securities and Investment Securities	0	194	0	0	25
Purchases/Sales of PPE	(69)	(108)	(363)	(57)	(104)
Payments for Purchases of PPE	(70)	(108)	(363)	(57)	(134)
Proceeds from Sales of PPE	1	0	0	0	30
Purchases/Sales of Intangible Assets	(69)	(69)	(200)	(84)	(33)
Payments for Purchases of Intangible Assets	(69)	(69)	(200)	(84)	(33)
Cash Flows from Financial Activities	(679)	(215)	(214)	(190)	(303)
Proceeds from Issuance of Stock	0	0	0	114	300
Redemption/Retirement of Stock	(465)	0	0	(80)	0
Cash Dividends Paid	(224)	(214)	(214)	(224)	(604)
Foreign exchange adjustment	8	(28)	36	106	69
Changes in Cash Flow	134	(104)	(199)	708	(1,099)
Cash & Cash Equivalent - Beginning	5,069	5,204	5,100	4,901	5,608
Cash & Cash Equivalent - Ending	5,204	5,100	4,901	5,609	4,509
Free Cash Flow (FCF)	805	139	(21)	792	(865)

Source: compiled by SIR from SPEEDA data.

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