

# Presentation

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**Moderator:** We will begin shortly, so please be patient momentarily.

Thank you for your patience. We will now begin the Q2 Financial Results Briefing for the Fiscal Year Ending March 2024 of TAKACHIHO KOHEKI CO., LTD.

Thank you very much for taking time out of your busy schedule to listen to this presentation. Today, Takanobu Ide, President and Chief Executive Officer, will give an executive summary, Masaya Iwamoto, General Manager of Administration Department, will give an overview of the financial results for the second quarter of the fiscal year ending March 31, 2024, Naoko Tsuruho, General Manager of Corporate Planning Department, will explain the outlook for the fiscal year ending March 31, 2024, and then President Ide will again explain the progress of the Medium-Term Management Plan.

After the presentation, a question-and-answer session will be held. If you have any questions, please type them in the "Ask a Question" box on the screen and send them to us. You may submit your questions at any time, even during the presentation. We will read your question on your behalf, and a company representative will answer it. Please understand that it may be difficult to answer all questions due to time constraints. Thank you.

The briefing is scheduled to end at 11:30. After the session, a questionnaire will appear, and we would appreciate your cooperation in answering this questionnaire as well.

We would like to begin immediately. President Ide, if you would please.

**Ide:** My name is Ide, President and Chief Executive Officer. Thank you very much for joining us today. Today, we will proceed as shown in the table of contents on the screen.

I will start with the executive summary.

For the first half of the fiscal year ending March 31, 2024, we reported consolidated net sales of JPY12,729 million, operating income of JPY713 million, ordinary income of JPY1,057 million, and net income of JPY717 million, representing increases in both sales and income.

There are two main points. First, the Electronics business, which handles semiconductors and electronic components in the Devices segment, delivered a steady backlog of orders. In addition, the effect of new distributor contracts resulted in a significant increase in sales.

Second, in the cloud services business of the Cloud Services & Support segment, subscription revenue, which is a stable revenue source, increased due to the number of licenses accumulated for MSP services and strong sales of other cloud services.

For these reasons, as well as the recording of foreign exchange gains on foreign currency transactions, net income for the first half of the fiscal year was JPY237 million higher than initially projected.

We have left our full-year plan for the fiscal year ending March 31, 2024, unchanged, taking into account uncertain factors such as the production plans of our business partners, although we are making good progress as of the second quarter. By continuing to deliver the backlog of orders in the electronics business as we did in the first half and by growing the cloud services business, we project net sales of JPY24.8 billion, operating income of JPY1.62 billion, ordinary income of JPY1.6 billion, and net income of JPY1.249 billion for the current fiscal year.

That is all for the executive summary.

**Iwamoto:** My name is Iwamoto, General Manager of the Administration Department. Thank you for your cooperation today. I will explain our financial results for the second quarter of the fiscal year ending March 31, 2024.

First, I will start with the consolidated financial highlights.

For the first half of the fiscal year ending March 31, 2024, the electronics business led the way, with both sales and profits rising. In addition to the increase in operating income due to strong performance, we recorded a foreign exchange gain of JPY298 million on foreign currency transactions due to the depreciation of the Japanese yen, resulting in the highest net income for the first half of the year for the second consecutive year since the Company was listed on the stock exchange.

Next, I will give an overview of the results by segment.

Sales in the Cloud Services & Support segment increased 9.6% YoY to JPY1,192 million, while operating income decreased 1.3% YoY to JPY225 million, and the operating margin declined 2.1 percentage points to 18.9%.

Systems sales decreased 2.5% YoY to JPY4,613 million, operating income decreased by JPY129 million YoY to minus JPY83 million, and operating margin decreased by 2.8 points to minus 1.8%.

Device sales are up 30.6% YoY to JPY6,923 million, operating income is up 84.7% YoY to JPY571 million, and operating margin is up 2.5 percentage points to 8.3%.

The systems segment saw a decrease in profit due to additional construction work that occurred in the sub-segment of Global's fire protection systems business. On the other hand, total operating income was up 22.2% from the previous year due to significant growth in the devices segment.

Next, I will explain the details of each segment.

First, in the Cloud Services & Support segment, net sales increased 9.6% YoY. This was due to increased subscription revenues from MSP services and other cloud services, as well as maintenance revenues from access control systems. Maintenance of access control systems includes inspections for data centers and increased contracts for offices of foreign-affiliated companies.

On the other hand, as explained in the first quarter results, operating income was minus 1.3% YoY, as higher purchase costs for maintenance parts for mailing systems due to the depreciation of the Japanese yen pushed down profits.

The operating profit margin was 14.7% in the first quarter, mainly due to the impact of the increased purchase cost of maintenance parts mentioned earlier. In the second quarter, the three months from July to September, the ratio was 22.4%, up 1.7 percentage points YoY. This is mainly due to increased maintenance income from other cloud services and access control systems, as I mentioned earlier.

Next, this graph shows the status of MSP service contracts.

The number of contracts at the end of September 2023 was 17,505 licenses. The number of new subscriptions for the first six months of the current fiscal year was 1,475 licenses, and the monthly churn rate was 0.54%. Although the increase in the third and fourth quarters of the fiscal year ending March 31, 2023, is larger, this is due to the adoption of the system by a major apparel company in Japan, which boosted the number of contracts.

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Next, I would like to explain the details of the performance of the systems segment.

First, net sales in the Retail Solutions segment declined 1.9% YoY to JPY1,613 million. The decline was mainly due to a decrease in sales of product monitoring systems for home centers. However, sales to apparel customers grew, and the performance of RFID-based product management solutions and security systems was strong.

Sales of business solutions declined 1.7% YoY to JPY1,592 million. As explained in the first quarter financial results, the delayed procurement of equipment for mailing systems has been delivered. Still, some of the delivery has been postponed to the third quarter or later. In addition, sales of RFID for logistics applications increased YoY.

Finally, global sales decreased 4% YoY to JPY1,407 million. First of all, as mentioned in the forecast section of the previous year's financial results, the construction of power plants by the Electricity Generating Authority of Thailand has been delayed due to inflation and other factors, and some projects have been halted.

On the other hand, there were some positive factors, such as increased sales of apparel products in the security system business, which is also conducted in Thailand. This is due to the increase in the number of overseas tourists, which has resulted in a strong apparel market in Thailand for high-fashion and other items. In addition, the depreciation of the Japanese yen against the U.S. dollar resulted in yen-translated earnings from overseas subsidiaries.

Next, I will explain the details of the performance of the Devices segment.

First, sales in the electronics segment increased 46.6% YoY to JPY4,638 million.

There are three reasons for this.

First, delivery of the large backlog of orders at the end of the previous period progressed. As a result, sales of electronic components for industrial equipment, such as semiconductor manufacturing equipment and power supply modules used in base stations, grew.

Secondly, the sales scale expanded due to the effect of new distributor contracts, including transactions transferred from the previous distributor. As mentioned in the notes, we have concluded a distributor agreement with Nuvoton Technology Corporation Japan, which has been contributing to our business performance since the third quarter of the previous fiscal year.

Lastly, as a result of our efforts to expand new product lineups and build relationships with our customers, we have increased the number of new applications, mainly for business equipment such as printers, consumer equipment, and the amusement market, which has also boosted sales.

Next, sales of mechatronics increased 6.9% YoY to JPY2,285 million. Positive factors included growth in sales of products for money machines and capturing demand for the new banknote reprinting. Another factor was the adoption of new commercial products in smart amusement machines, such as spiral shafts and other linear motion components.

Negative factors include lower sales of soft-close parts for housing equipment in the U.S.

I will continue with an explanation of the status of capital efficiency improvement.

Inventories increased significantly to JPY4.8 billion at the end of March 2023, mainly due to the increase in advance orders from customers resulting from the shortage of semiconductors.

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Although inventories have decreased during the first half of this fiscal year due to progress in deliveries of backlog of orders for electronics and the strengthening of order control, we recognize that inventories are still high. We will continue our efforts to bring inventories down to an appropriate level. We will also review transaction terms for receivables and payables and work to improve capital efficiency.

This concludes my explanation. Thank you all very much.

**Tsuruho:** My name is Tsuruho, General Manager of the Corporate Planning Office. Thank you. I will now explain our outlook for the fiscal year ending March 31, 2024.

For the fiscal year ending March 31, 2024, we are maintaining our initial forecast of JPY24.8 billion in net sales, JPY6.21 billion in gross profit, JPY1.62 billion in operating income, JPY1.6 billion in ordinary income, and JPY1.249 billion in net income. We expect to increase both sales and income by focusing on capturing order backlogs in the electronics business and growth in cloud services.

The forecast ROE is 7.7%, EPS is JPY137.73, and the annual dividend per share is expected to be JPY137.

Next, the table and graph show our forecasts for net sales and operating income by segment.

All three segments plan to increase sales and income, with the devices segment expected to drive consolidated results with an increase of JPY855 million in sales. I will explain the details of each segment in the following slides.

The first is Cloud Services & Support. We are planning full-year sales of JPY2.8 billion, and the progress rate as of the first half of the fiscal year is 42.6%.

I will explain our initiatives for the second half of the fiscal year. First, in the cloud services business, in order to further increase the number of MSP service licenses, we will expand our customer base to include enterprise customers through distributors who became our partners in the previous fiscal year and aim to win large-scale projects. In addition, we will promote sales through distributors by conducting effective campaigns while building up a track record of direct sales to customers in the systems segment.

We will also strengthen sales of Verkada, our integrated security solution, through distributors. We will also aim to expand our cloud services business by launching a new service that enables centralized management of the TK Ecosystem, network security, and remote access on the cloud, which will be explained in more detail later in the Topics section. This centralized management service, named Cisco+Secure Connect, was announced in a press release issued on November 16.

Next, in the maintenance business, we will first promote sales to increase new contracts with customers who have not yet signed maintenance contracts. In addition, by analyzing past data and devising the timing of inspections, we will reduce product failures themselves and improve profit margins.

Other efforts will be made to improve customer satisfaction by developing new menus that meet customer needs and building a customer-specific knowledge site with product information, FAQs, and other information.

Next, I will explain our plans for the systems segment.

In retail solutions, we plan full-year sales of JPY3.25 billion, and the progress rate in the first half is 49.6%. In the second half of the year, we aim to increase sales of security systems such as shoplifting prevention systems and surveillance cameras by capturing demand for new apparel stores and replacing existing systems in home centers.

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The Business Solutions segment plans full-year sales of JPY3.69 billion, with a progress rate of 43.2% in the first half of the fiscal year. We aim to achieve this goal by increasing sales of access control systems and surveillance cameras, mainly for data centers and offices of foreign-affiliated companies. For domestic factory customers, we also expect to increase sales by replacing existing access control systems. In other areas, we will strengthen our proposals for factory logistics solutions.

On a global basis, we plan full-year sales of JPY2.86 billion, and the progress rate in the first half of the fiscal year is 49.2%. As explained in the results section, the plan for the Electricity Generating Authority of Thailand for fire protection systems has been delayed. Still, we aim to achieve this goal by firmly capturing the projects in progress and increasing sales of security systems for apparel.

Next, I will explain our plans for the devices segment.

In the electronics business, we plan full-year sales of JPY7.55 billion, and we have made good progress so far, with 61.4% in the first half of the year. Although there is a sense of uncertainty due to customers' production adjustments, we aim to achieve the plan by promoting delivery of the backlog of orders through delivery date negotiations. By application, sales of industrial equipment, which account for most of the backlog of orders, are expected to grow. In addition, we will expand overseas sales through our new base in China, which opened in April of this fiscal year and will conduct activities to acquire new distribution contracts.

In mechatronics, we plan full-year sales of JPY4.65 billion, and the progress rate in the first half of the fiscal year is 49.1%. We expect equipment production to peak in the second half of this fiscal year due to the reprinting of new banknotes in 2024, and we will capture this demand to increase sales of mechanical components for money machines.

We also aim to increase equipment sales for renewable energy power generation, which is becoming increasingly popular due to strengthened policy support. In other areas, we will work to create high-margin projects by reinforcing the planning and development of proprietary products that embody customer needs.

Next, this slide shows the composition of results by quarter. Since some of the numbers were less than 50% in terms of progress by segment, we will supplement them with this graph.

Our performance is heavily weighted in the fourth quarter, followed by the second quarter. This is mainly due to the fact that installation completions and acceptance inspections increase in September and March, the months of the fiscal year, since the products in the systems segment are often the subject of capital investment by our customers.

Next is shareholder returns.

For the fiscal year ending March 31, 2024, we plan to pay an annual dividend of JPY137 per share, an increase of JPY4 YoY. There is no change from the initial forecast. Based on the consolidated earnings forecasts for the first and second half of the year, we have calculated a dividend payout ratio of 100% and plan to pay an interim dividend of JPY53 per share and a year-end dividend of JPY84 per share.

This concludes my explanation. Thank you all very much.

**Idc:** I will now explain the progress of our Medium-Term Management Plan.

Our Medium-Term Management Plan started in April 2022, and its slogan is "Creating New Value in the Era of the New Normal." Our numerical targets are an ordinary income of JPY 2 billion, a net income of JPY 1.4 billion for the fiscal year ending March 31, 2025, and an ROE of 8% on average over the three years of the Medium-Term Management Plan.

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To achieve these goals, we are implementing governance, business, and capital strategies, and as of the end of September, we are exactly halfway through this Medium-Term Management Plan. Today, I would like to explain some of the progress of our business strategies.

First, I would like to explain the progress of our Loyal Customer Strategy.

The Loyal Customer Strategy is a strategy that aims to strengthen relationships with customers by creating satisfied customers through our value-added services. These loyal customers are also defined as customers with annual sales of JPY30 million or more per company.

Under this strategy, we have set two numerical targets.

One is to increase the number of loyal customers to more than 130. The second is to increase the average sales of all customers by 20%.

Regarding the first target, the number of loyal customers, we have counted the number of customers who have already posted sales of JPY30 million or more during the six months from April to September, and the result is 63 companies, an increase of 12 companies YoY, and so far, we are making good progress. As for the second goal, the average sales for all customers, the average for the last six months was JPY8.3 million, which is also up about 20% YoY.

This strategy aims to achieve this target by expanding group synergies, and two main initiatives in the first half of the year are described here.

One is to strengthen proposal activities in both the electronics and mechatronics businesses of the device segment by combining their respective technologies into unique solutions. This performance is on an increasing trend, albeit gradually.

The other is strengthening cooperation between the systems segment and our group company, Mighty Cube. Especially for retail customers, we are now able to offer more appropriate products by leveraging the product lineups of both companies, and we are now sharing knowledge and other resources. Before the start of the Medium-Term Management Plan, some parts of the business were vertically divided by divisions. Still, we will increase the number of customers who become loyal customers by raising the added value we can provide through synergy in such efforts.

Next, I would like to talk about our growth strategy for the electronics business.

The electronics business has grown significantly and driven our business performance, especially in the past year and a half. Please see the graph on the top left. From left to right, the graph shows actual sales for the past three years; the middle shows the plan for the current fiscal year and the image of sales for the final year of the next Medium-Term Management Plan.

Below this graph is our growth strategy, which shows the strategies to be implemented for each fiscal year on the horizontal axis. As you can see here, we are pursuing six strategies for medium- to long-term business growth, which I would like to explain.

The first strategy is customer-oriented sales activities, which has been our basic strategy to date. In the electronics business, we are particularly interested in building strong relationships of trust with our customers and being trusted by our suppliers. We believe that it is important to be the choice of both our customers and our suppliers. Through this strategy, we will continue to aim to increase the number of new customers adopting our products for their end products further and to firmly acquire commercial distribution channels that are being reorganized due to industry restructuring and other factors.

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Second, we will expand our commercial rights (agency contracts). As mentioned in the explanation of our business performance, sales from the agency contract with Nuvoton Technology Corporation Japan have contributed significantly to our business performance since the third quarter of the last fiscal year. For the future, we aim to expand the scale of sales by acquiring distributorship agreements mainly with manufacturers of products that we already handle and that are easy to propose in combination with power supply semiconductors, which is our strength.

The third is to expand overseas sales. Until now, our main focus has been on selling overseas products to domestic customers, but we intend to expand our overseas sales in the future. In April of this year, we opened a new base in Shenzhen, China. We would like to team up with companies that understand local business customs, such as this base, to strengthen communication with our overseas business partners further and increase our overseas sales capabilities.

Fourth, we will strengthen sales in growth areas. The Appendix shows sales by end product, and the Company's sales to industrial equipment account for a large percentage of its total sales. We believe that industrial equipment, such as semiconductor manufacturing equipment and telecommunication-related equipment, is a market with particularly strong growth potential over the medium to long term, and we intend to continue strengthening sales and increasing sales.

Fifth, we will increase added value. Our engineers provide technical support, including advice on external components, verification of actual operation, and design for amusement applications. We are also focusing on proposing unique solutions that combine the technologies of our mechatronics business to increase the added value that only we can offer.

Finally, we would like to aim for even greater growth by further strengthening our sales capabilities, with M&A and alliances in mind.

Next, I will explain the status of our TK ecosystem.

As part of our strategy to grow our service business, we are planning to expand our cloud service and support segment, and one of our strategies is to develop a B-to-B platform called TK Ecosystem. The development of this system is progressing smoothly, and we expect to launch sales by the end of this year.

Today, I would like to explain what the TK Ecosystem is and how we plan to market it.

The theme of TK Ecosystem is "Smart Office." This service is designed to improve the office environment. The products we have been selling for this service are Cisco Meraki, a cloud-based wireless LAN, and Verkada, an integrated security solution. Both are cloud-based products, and we will collect and visualize various types of data by connecting them through API integration.

Meraki and Verkada both have dashboard functions, but by using the TK ecosystem, not only management users but also general users will be able to view the data.

For example, the network operation status can be viewed on the TK Ecosystem dashboard. In the event of a failure, for example, the general public can isolate the problem themselves and, depending on the nature of the problem, ask the Information Systems Department to take action. These advantages make TK Ecosystem a service leading to higher office productivity. We will continue to expand the range of products covered, such as network security and cloud-based ID management, after the service's launch to ensure greater customer satisfaction.

TK Ecosystem aims to achieve sales results in the current fiscal year by capturing the demand for labor savings due to labor shortages and demand for improved office environments. Our sales strategy is to first propose

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TK Ecosystem to customers who have already installed Meraki and eventually to propose other target products such as Verkada. With this strategy, we aim to expand our cloud services business by increasing the number of customer contracts and unit price per customer.

Next, I would like to discuss human resource development and investment in human resources.

Our human resources strategy is designed to achieve the profit structure reforms outlined in our Medium-Term Management Plan. The direction is to acquire the skills necessary for selling service, flexibly deploy human resources, develop human resources to realize DX and improve the internal environment to enhance engagement. I would like to explain the initiatives implemented under this policy in the first half of the year.

First, we revised the qualification allowance system. We have introduced video material services to promote reskilling and expanded the system to further increase motivation. The number of qualifications covered by the program has been increased to 99, approximately double the previous number and the incentive amount has also been increased. Each certification is ranked, and those who achieve bronze or higher receive a monthly allowance on top of their salary. In addition, we will promote IT literacy first by encouraging digital certifications such as IT Passport.

Next, we are also expanding various training programs and have resumed overseas training this year. In addition, we are recommending an in-house AI-related certification called the G certification, and currently, more than 20% of all employees have requested to take the e-learning course and are studying to obtain the certification. Through the acquisition of this certification, we would like to improve the efficiency of business operations using AI and strengthen the discovery of AI products.

Lastly, as for the improvement of our internal environment, we first conducted an employee awareness survey. Based on the results of this survey, the president, directors in charge, and department heads held numerous discussions, and some measures have already been implemented starting this fiscal year.

Specifically, we have introduced a mentoring system for young employees and casual days throughout the year. Other measures include the introduction of hourly paid leave. We are also planning to implement various measures in the future by enhancing benefits and introducing a flex system, and we will continue our efforts to increase engagement.

Finally, I would like to talk about sustainability.

As already announced in a press release in September, we have identified materiality intending to create a society that is friendly to people and the earth.

We have identified four materialities: the realization of an environmentally sustainable society, the realization of a society overflowing with kindness, the promotion of employee self-realization and DEI, and the strengthening of our governance system and improvement of transparency. The KPIs are posted on our website. We will work together as a group to achieve these goals.

This concludes my explanation. Thank you all very much.

**Moderator:** Thank you very much.

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## Question & Answer

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**Moderator [M]:** We will now open the floor for questions.

Please type your question in the “Ask a Question” box on the screen and send it to us. We will read your question and a representative from the company will answer. Please enter your question if you have any.

**Questioner [Q]:** The first question.

I would like to know the reason for the negative gross margin compared to the same period of the previous year. Please advise.

**Iwamoto [A]:** Thank you for your question. I will answer your question.

There are two reasons for the negative gross margin ratio. One is due to the change in the sales mix by segment. On a gross profit basis, the systems segment tends to have a higher gross profit margin, but this time, the sales composition ratio of the systems segment dropped, and the composition ratio of devices rose.

The other reason is that the cost of sales has risen due to additional construction work in the fire protection systems business and higher procurement costs for maintenance parts for mailing systems.

That is all.

**Moderator [M]:** Thank you very much. Please wait for the next question.

**Questioner [Q]:** Next question.

In the electronics of devices business, it seems that sales for business equipment and consumer electronics grew significantly. Please tell us the background.

**Iwamoto [A]:** I will answer this question as well.

The reasons for the increase in sales of business equipment can be attributed to the acquisition of new distributor contracts and an increase in transactions transferred from the previous distributor. In addition, we believe that we were able to increase the number of new hires due to the increase in the number of products we can offer to customers as a result of these agency contracts.

That is all.

**Moderator [M]:** Thank you very much. Please wait until the next question.

**Questioner [Q]:** Next question.

I would like to ask if there were any unexpected good or bad aspects in the first half of the fiscal year compared to the beginning of the fiscal year. Please advise.

**Ide [A]:** Thank you very much. I will answer from my side.

What was better than expected in the first half of the year was the steady progress of deliveries in the electronics business.

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On the other hand, one point unfavorable to our expectations was still the systems segment. As I explained in my presentation earlier, the reason for the segment's operating loss was that sales of mailing systems were postponed to the third quarter and beyond, and additional construction work on fire protection systems had a significant negative impact in this area.

That is all.

**Moderator [M]:** Thank you very much. Please wait until the next question.

**Questioner [Q]:** Next question.

Regarding MSP service licenses, the slope of the graph seems to be slowing down, but do you think this trend will continue? Please advise.

**Tsuruho [A]:** I will answer your question.

In the previous fiscal year, there were large-scale projects for apparel. During the second quarter, as you asked, there was a gradual increase. We intend to increase sales to large companies by strengthening sales through the distributors we partnered with last year. We have high expectations for sales to large companies since the number of licenses per client is large, and we are actually seeing an increase in the number of projects.

That is all.

**Moderator [M]:** Thank you very much. Please wait for the next question.

**Questioner [Q]:** Next question.

What is your outlook for the semiconductor market at present and in the future? I hear talk of an inventory adjustment phase, and I wonder if this will impact your company. Please advise.

**Tsuruho [A]:** I will answer this question as well.

In the electronics business, some of our customers have their own inventories, and we are affected by the inventory adjustment. We have received requests to extend delivery dates. However, we are currently negotiating with them so that we can deliver on schedule. If the delivery of the backlog of orders progresses smoothly, we do not foresee any problem in achieving our electronics business plan for the current fiscal year.

That is all.

**Moderator [M]:** Thank you very much. Please wait for the next question.

**Questioner [Q]:** Next question.

I would like to ask if there is any current policy regarding dividends after the average ROE exceeds 8%. Please advise.

**Ide [A]:** I will answer from my side.

Regarding our dividend policy, we will actually decide on the dividend after the ROE exceeds 8% on average for three fiscal years. We would like to consider this based on the actual results, performance status, outlook, stock investment plans, cash situation, and other factors. Although it is not finalized at this time, and we will discuss it in the future, we would like to secure a net income to sustain the dividend amount through business growth.

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That is all.

**Moderator [M]:** Thank you very much. Please wait until the next question.

**Questioner [Q]:** Next question.

In the systems segment, in the second quarter of every year, the business performance is heavily weighted and becomes profitable, but what is the reason for the operating deficit in the first half of this fiscal year? Please advise.

**Iwamoto [A]:** Thank you for your question. I will answer your question.

The operating deficit in the systems segment was largely due to additional construction work in the fire protection systems business in the global subsegment. This additional work occurred in response to a request from a loyal customer. It involved challenging areas in which we had little experience, such as mechanical and electrical equipment other than fire protection systems.

As a result, we were not able to adequately manage the project, which resulted in higher costs than originally planned, and in addition, we faced issues with progress and quality. In the future, if we try to work in such an inexperienced area, we would like to work with a partner with sufficient expertise to ensure we can proceed with the project.

That is all.

**Moderator [M]:** Thank you very much. Please wait until the next question.

**Questioner [Q]:** Next question. In the device business, which would be a greater factor in revenue growth, the acquisition of new customers or the disposal of backlogs of orders? Please advise.

**Iwamoto [A]:** Thank you very much. I will answer this question as well.

The backlog of orders in the devices segment includes both orders that have accumulated due to the prolonged lead time caused by the shortage of semiconductors and orders from new contracts. As for the amount, the portion accumulated due to the prolonged lead time is larger.

That is all.

**Moderator [M]:** Thank you very much. Please wait for the next question.

**Questioner [Q]:** Next question. Could you give us some details about the TK ecosystem and what numbers you are targeting? Also, immediately after its release, will you focus on existing loyal customers to encourage them to adopt the system? Or will you target new customers from the beginning? Please advise.

**Ide [A]:** Thank you for your question. I will answer from my side.

First of all, we would like to record sales for the TK Ecosystem within this fiscal year. We would like to consider announcing the target figures in a press release or other means when sales begin.

We have already conducted PoC and implementation within the company, and in the future, we will be working with customers; as of now, two PoC companies have been decided upon. Through this PoC, we would like to continue development so that TK Ecosystem can become a better solution.

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In parallel with the development, we plan to target existing customers who have already deployed Cisco Meraki's cloud-based wireless LAN to build up a sales track record.

That is all.

**Moderator [M]:** Thank you very much. We are still accepting questions, so if you have any questions, please enter them in the chat box.

**Questioner [Q]:** Next question.

Is it correct to say that the figures for TK Ecosystem will be included in the cloud services business from now on? Please advise.

**Tsuruho [A]:** The TK Ecosystem is a cloud system developed independently by our company, so we plan to record sales in the cloud services business of the Cloud Services & Support segment.

That is all.

**Moderator [M]:** Thank you very much. Please wait until the next question.

**Questioner [Q]:** Next question.

We have a question about why the spot revenue from MSP services is declining. Please advise.

**Tsuruho [A]:** I will answer this one as well.

Regarding your question about spot revenues from MSP services decreasing YoY and the reasons for this, first of all, the decreasing spot revenues correspond to sales for the one-time payments of cloud-based wireless LAN equipment fees.

This is because the shortage of materials last year also impacted the cloud wireless LAN and the lead time for the cloud wireless LAN was prolonged, resulting in an increase in advance orders from partners. Partner inventory has been increasing, and some adjustments were made in the first half of this fiscal year.

That is all.

**Moderator [M]:** Thank you very much. Please wait until the next question.

**Questioner [Q]:** Next question.

I would like to ask if there is any bias in the type of industry of the clients of MSP service users. Please advise.

**Tsuruho [A]:** We have customers from various industries. There is not much of a bias. Based on the number of licenses, the largest number of customers are in the retail industry, which has a large number of stores. Still, in terms of the number of companies, there are many general corporate offices and welfare facilities such as nursing care facilities, factories, and schools.

That is all.

**Moderator [M]:** Thank you very much. Please wait until the next question.

**Questioner [Q]:** Next question.

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I would like to ask about the number of new graduates hired this year, the number of job offers, and other information about the employment situation. Please advise.

**Iwamoto [A]:** Thank you very much. I will answer your question.

Four new graduates joined the company in April of this fiscal year, three of whom were assigned to sales and the other to technical work. In addition, we have sent acceptance letters to six new graduates who will be graduating in 2024.

I feel that the situation for new graduate hiring is becoming a little tougher every year. Recently, we have been using new graduate recruiting methods, such as direct recruiting and referral recruiting, which have been on the rise, as a new graduate recruiting method.

That is all.

**Moderator [M]:** Thank you very much. Please wait until the next question.

Now that all the questions have been answered, we will conclude the question and answer period. Finally, President Ide will make a few remarks. President Ide, if you would please.

**Ide [M]:** Once again, thank you very much for taking time out of your busy schedule today to listen to our presentation. We look forward to your continued support of TAKACHIHO KOHEKI in the future.

**Moderator [M]:** Thank you very much.

This concludes today's financial results briefing. Please take a few moments to answer the questionnaire that will appear after this presentation.

Thank you very much for watching to the end of today's presentation.

[END]

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1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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