TAKACHIHO KOHEKI CO.,LTD.

Transcript of the financial results briefing for the Fiscal year ended 31 March 2024

Tuesday, 28 May 2024

Tsuruho: Ladies and gentlemen, thank you for your patience. TAKACHIHO KOHEKI CO., LTD. will now hold a financial result briefing for the fiscal year ending March 31, 2024.

Thank you very much for taking time out of your busy schedule today to watch this program.

I would like to explain today's schedule. First, Takanobu Ide, President and Chief Executive Officer, will give an executive summary, followed by Masaya Iwamoto, General Manager of Administration Dept., will present the financial results for the fiscal year ended March 31, 2024, Naoko Tsuruho, General Manager of Corporate Planning Dept., will present the forecast for the fiscal year ending March 31, 2025, and then President Ide will again explain the progress of the medium-term management plan.

There will be time for questions and answers afterwards. For questions and answers, please enter your questions through the Q&A function. Transmission is possible even in the middle of the explanation. Please note that it may be difficult to answer all questions due to time constraints. Please understand this in advance.

The briefing is scheduled to end at 11:50 a.m. A questionnaire screen will appear after completion. We appreciate your cooperation in answering this question as well.

Now then, President Ide, please accept my best regards.

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Ide: I am President and Chief Executive Officer. Thank you very much for watching today.

Today, we will proceed as indicated in the table of contents shown on the screen.

Executive Summary

[Millions of yen]

■ FY3/24 <Results>

- Sales and profits increased, driven by the Electronics business (Devices)
  Operating profit and each level of profit reached their highest levels since the Company's listing
- ROE improved to **8.6%** (YoY +0.9pt)
- Annual dividends per share of **158 yen** (up 21 yen from the most recent forecast and 25 yen from the previous year)

■ FY3/25 <Plan>

- Plan of increased sales and profits mainly due to business growth in Cloud Services & Support
- Annual dividends per share is forecast at **160 yen** (+2 yen from the previous year)

	FY3/23 Results	FY3/24 Plan	FY3/24 Results	FY3/25 Plan
Net sales	23,360	24,800	25,224	26,900
Operating profit	1,376	1,620	1,465	2,050
Ordinary profit	1,588	1,600	1,835	2,000
Profit attributable to owners of the parent	1,205	1,249	1,437	1,490
ROE	7.7%	7.7%	8.6%	8.6%
Annual dividends per share	133 yen	137 yen	158 yen	160 yen

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We will begin with the executive summary.

For the fiscal year ending March 31, 2024, we reported consolidated net sales of JPY25,224 million, operating income of JPY1,465 million, ordinary income of JPY1,835 million, and net income of JPY1,437 million.

Both sales and income increased, driven by the electronics business, which handles semiconductor electronic components in the devices segment.

In addition, each stage of income from operating income and below reached the highest level since the company's listing.

ROE improved 0.9 percentage points from the previous year to 8.6%.

The annual dividend per share is expected to be JPY158, an increase of JPY21 from the latest forecast and an increase of JPY25 from the previous year.

For the fiscal year ending March 31, 2025, we expect to increase sales and profits mainly due to business growth in the Cloud Services & Support segment.

The company plans net sales of JPY26,900 million, operating income of JPY2,050 million, ordinary income of JPY2,000 million, and net income of JPY1,490 million.

The annual dividend per share is planned to be JPY160, an increase of JPY2 from the previous year.

That's all for the Executive Summary.

Consolidated Financial Highlights

[Millions of yen]

Both sales and profit increased, with operating profit and each level of income reached their highest levels since the Company's listing

ROE increased to 8.6% due to the contribution of foreign exchange gains and gain on sale of cross-shareholdings

	FY3/23 Results	FY3/24 Plan	FY3/24 Results	Year-on-Year	Compared to plan
Net sales	23,360	24,800	25,224	+8.0%	+1.7%
Gross profit on sales	5,838	6,210	6,051	+3.7%	(2.6%)
Gross profit ratio (%)	25.0%	25.0%	24.0%	(1.0pt)	(1.0pt)
Selling, general and administrative expenses	4,461	4,590	4,585	+2.8%	(0.1%)
Operating profit	1,376	1,620	1,465	+6.5%	(9.5%)
Operating profit ratio (%)	5.9%	6.5%	5.8%	(0.1pt)	(0.7pt)
Foreign exchange gains	191	-	293	+53.8%	-
Ordinary profit	1,588	1,600	1,835	+15.6%	+14.7%
Ordinary profit ratio (%)	6.8%	6.5%	7.3%	+0.5pt	+0.8pt
Profit before tax	1,485	-	2,116	+42.5%	-
Profit attributable to owners of the parent	1,205	1,249	1,437	+19.3%	+15.1%
ROE	7.7%	7.7%	8.6%	+0.9pt	+0.9pt
EPS	134.69 yen	137.69 yen	158.46 yen	+23.77 yen	+20.77 yen

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Iwamoto: I am Iwamoto, the administrative manager. I would like to present our full-year financial results for the fiscal year ending March 31, 2024.

First, here are the consolidated financial highlights. For the fiscal year ended March 31, 2024, both sales and income increased, driven by the electronics business. In addition to the increase in operating income due to strong performance, foreign exchange gains and the sale of policy shareholdings also contributed to the increase in ROE to 8.6%.

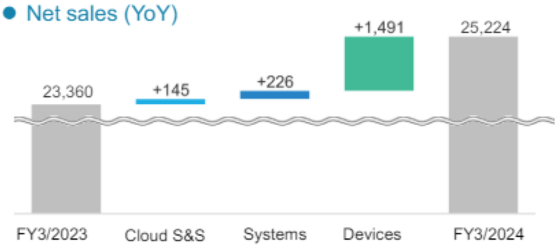
Results by Segment

[Millions of yen]

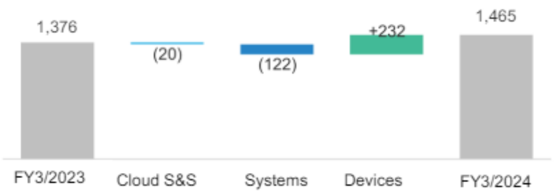
Fire protection systems business additional construction costs (one-time) will result in operating loss for the Systems segment, but sales and profits increased due to the strong performance of the Devices segment.

		FY3/23 Results	FY3/24 Results	Increase/ Decrease	Percentage change	FY3/24 Plan	Increase/ Decrease	Percentage change
Cloud Services & Support	Net sales	2,385	2,531	+145	+6.1%	2,800	(268)	(9.6%)
	Operating profit	506	486	(20)	(4.1%)	600	(113)	(19.0%)
	Operating profit ratio	21.2%	19.2%	(2.0pt)	-	21.4%	(2.2pt)	-
Systems	Net sales	9,630	9,857	+226	+2.4%	9,800	+57	+0.6%
	Operating profit	92	(29)	(122)	-	160	(189)	-
	Operating profit ratio	1.0%	(0.3%)	(1.3pt)	-	1.6%	(1.9pt)	-
Devices	Net sales	11,344	12,835	+1,491	+13.1%	12,200	+635	+5.2%
	Operating profit	776	1,008	+232	+29.9%	860	+148	+17.3%
	Operating profit ratio	6.8%	7.9%	+1.1pt	-	7.0%	+0.9pt	-
Consolidated total	Net sales	23,360	25,224	+1,863	+8.0%	24,800	+424	+1.7%
	Operating profit	1,376	1,465	+89	+6.5%	1,620	(154)	(9.5%)
	Operating profit ratio	5.9%	5.8%	(0.1pt)	-	6.5%	(0.7pt)	-

● Net sales (YoY)



● Operating profit (YoY)



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Next, I will provide an overview of our business performance by segment.

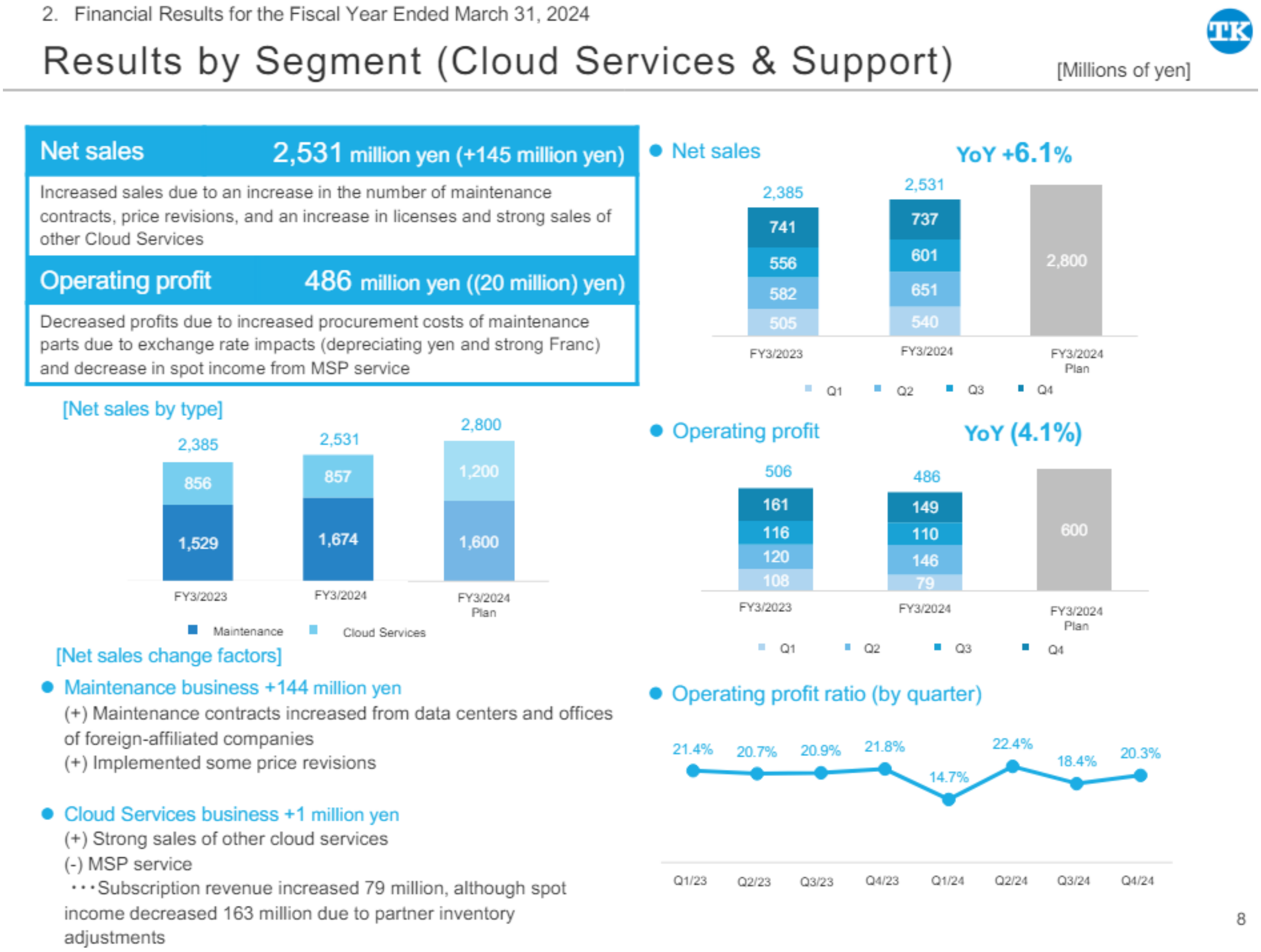
Cloud Services & Support sales increased 6.1% to JPY2,531 million, while operating income fell 4.1% to JPY486 million, and the operating margin declined 2 percentage points to 19.2%.

System sales decreased 2.4% from the previous year to JPY9,857 million, operating income decreased JPY122 million from the previous year to minus JPY29 million, and the operating income margin decreased 1.3 percentage points to minus 0.3%.

Devices sales increased 13.1% to JPY12,835 million, operating income increased 29.9% to JPY1,008 million, and the operating margin rose 1.1 percentage points to 7.9%.

The Systems segment reported an operating loss due to additional construction work incurred in the global fire protection systems business.

On the other hand, the devices segment performed well, resulting in an increase in total consolidated operating income.



From here, we will explain the details of each segment.

First, in the area of cloud services and support, net sales increased by JPY145 million from the previous year to JPY2,531 million.

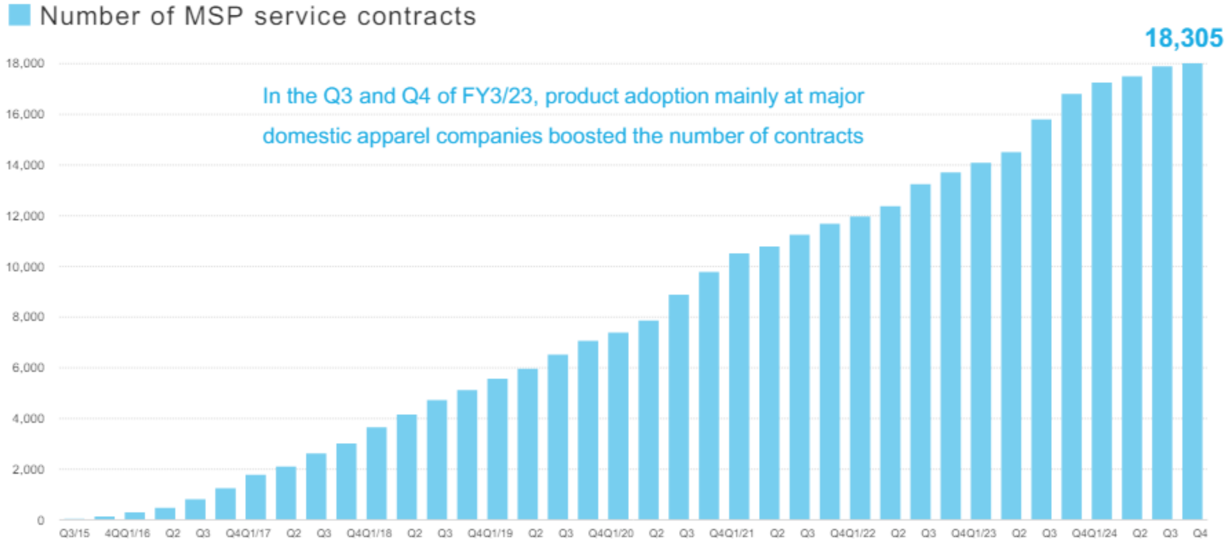
This was due to an increase in the number of contracts for data centers and offices of foreign companies in the maintenance business, as well as some price revisions, and an accumulation of licenses in cloud services.

Operating income, on the other hand, was JPY486 million, down JPY20 million from the previous year, due to higher procurement costs for maintenance parts, affected by the weak yen and the strong franc, and lower SPOT income from MSP services.

MSP Services Contract Status

MSP Services KPIs

Number of contracts As of March 31, 2024	Number of new contracts April 2023 to March 2024	Monthly cancellation rate* April 2023 to March 2024
18,305 licenses	2,912 licenses	0.48%



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

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Next, here is a graph on the status of MSP service subscriptions.

The number of subscriptions at the end of March 2024 is 18,305 licenses. The number of new licenses signed this fiscal year is 2,912 and the monthly churn rate is 0.48%.

2. Financial Results for the Fiscal Year Ended March 31, 2024

Results by Segment (Systems)

[Millions of yen]

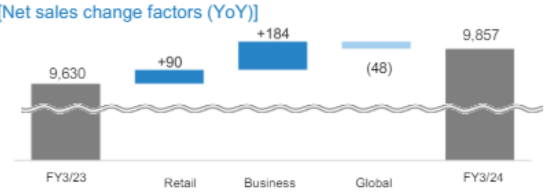
Net sales 9,857 million yen (+226 million yen)

Increased sales of Auto Mailing Insertion Systems (Business Solutions) and apparel stores (Retail Solutions)

Operating profit (29 million) yen ((122 million) yen)

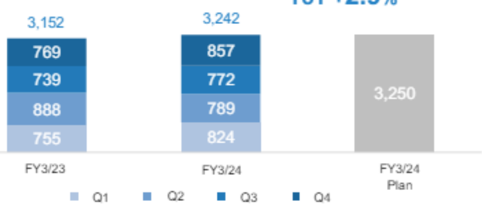
Strong performance of Retail and Business, although approximately 0.2 billion yen was recorded as expenses with the occurrence of fire protection systems business additional construction costs (one-time)

[Net sales change factors (YoY)]

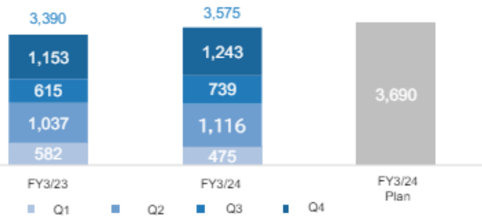


- Retails Solutions +90 million yen
  (+) Strong sales to apparel stores
  ･･･Adoption of RFID used in merchandise management as a measure to solve staff shortages
  ･･･Sales of security systems grew with the increase in new and renovated stores
  (+) Strong sales to drug stores
- Business Solutions +184 million yen
  (+) Increased sales of Auto Mailing Insertion Systems (envelope sealing machines)
  (+) Access control systems and surveillance cameras for offices of foreign-affiliated companies
- Global (48 million) yen
  (-) Decreased sales of fire protection systems with the delay in Thailand's power plant construction plans
  (+) Yen-translated earnings of overseas subsidiaries

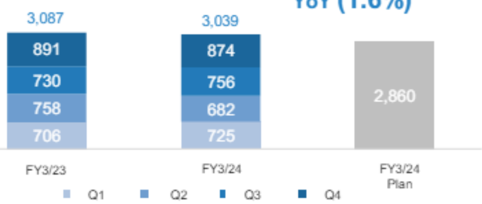
- Retail Solutions YoY +2.9%



- Business Solutions YoY +5.5%



- Global YoY (1.6%)



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Next is the performance of the systems segment.

Net sales increased JPY226 million from the previous year to JPY9,857 million. This was due to an increase in unit sales of mailing systems in business solutions and sales growth in apparel.

Operating income was affected by a one-time expense of approximately JPY200 million due to additional construction work in the global fire protection systems business, resulting in an operating loss of JPY29 million, a decrease of JPY122 million from the previous year.

By segment, sales in the Retail Solutions segment increased JPY90 million from the previous year to JPY3,242 million.

The main factor was strong sales to apparel customers. Sales of security systems grew due to the adoption of RFID for merchandise management in stores as a solution to labor shortages and to meet demand from new stores and renovations.

Sales to drugstores were also strong, mainly due to replacement demand for security systems.

Next, Business Solutions sales. The total amount was JPY3,575 million, up JPY184 million from the previous year.

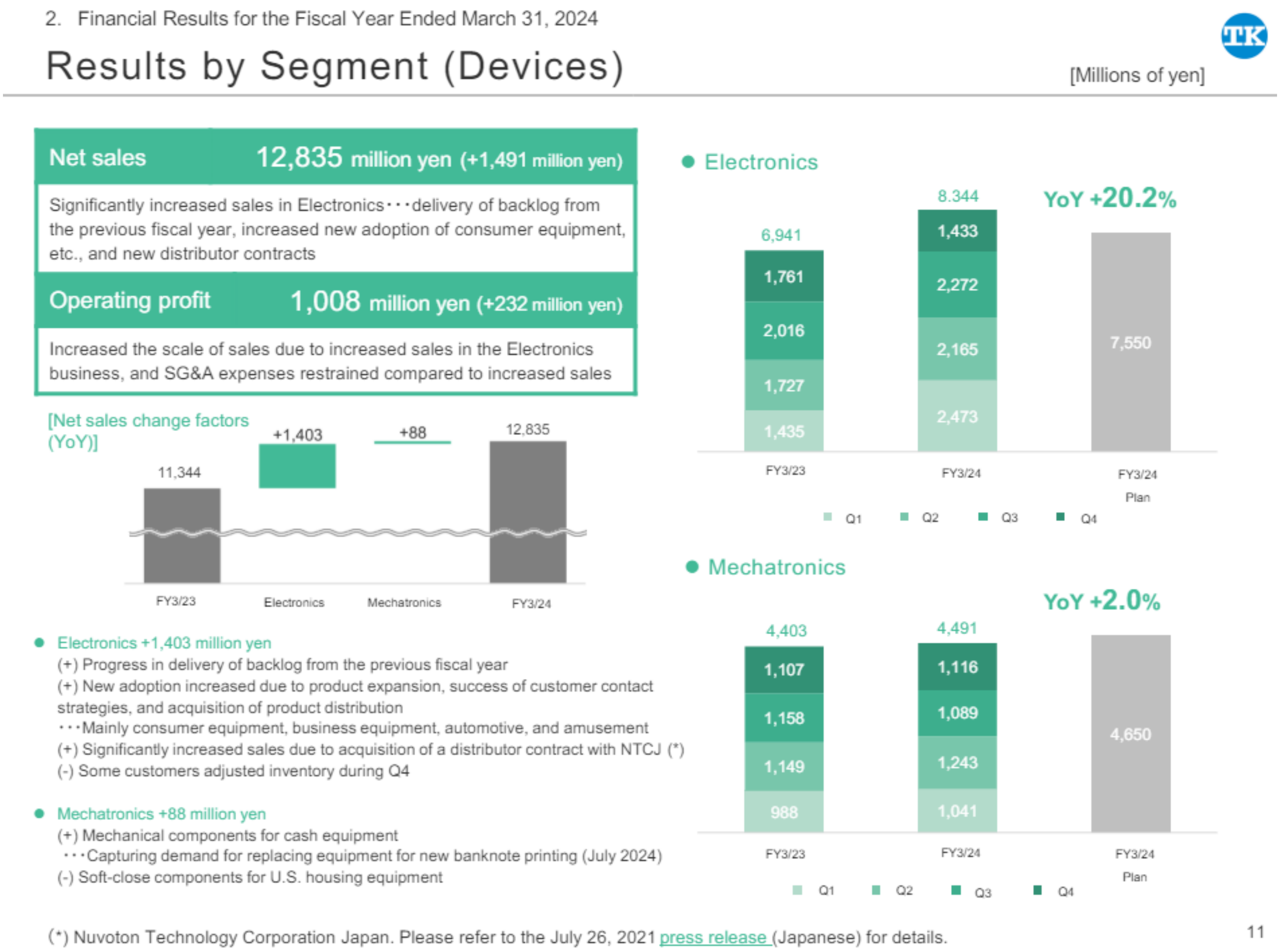
In the mailing system, equipment procurement was delayed at the time of the second quarter financial results, but installation has since progressed, and sales volume increased from the previous year.

In addition, sales of access control systems and surveillance cameras to offices of foreign-affiliated companies are growing.

Finally, global sales were JPY3,039 million, down JPY48 million from the previous year.

This is due to the fact that 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.

In addition, the depreciation of the yen against foreign currencies has had a positive effect by generating yen-translated earnings of overseas subsidiaries.



The next section details the performance of the devices segment. Net sales increased JPY1,491 million from the previous year to JPY12,835 million, driven by the electronics business.

Operating income increased JPY232 million from the previous year to JPY1,008 million due to the expanded scale of sales and the curbing of SG&A expenses.

By sub-segment, Electronics sales increased JPY1,403 million from the previous year to JPY8,344 million.

This was mainly due to the steady delivery of the large backlog of orders at the end of the previous fiscal year, as well as an increase in new hires, mainly for consumer and business equipment, in-vehicle equipment, and amusement equipment, as a result of the expansion of commercial products, customer contact strategies, and the acquisition of commercial distribution.

In addition, sales expanded due to the acquisition of a distributorship agreement with Nuvoton Technology Corporation Japan.

For the fourth quarter, inventory adjustments by some customers had an impact.

Next, sales of mechatronics increased JPY88 million from the previous year to JPY4,491 million.

Sales for money machines increased, capturing the demand for the new banknote printing. Negative factors include a decline in sales of soft-close components for housing equipment in the United States.

2. Financial Results for the Fiscal Year Ended March 31, 2024

Capital Efficiency Improvement Status

- Inventories・・・Increased due to impacts of inventory adjustment in the Semiconductor business, even though there were some results with reducing excess inventory
- Receivables and payables・・・Progress in improving cash flow by reviewing the transaction terms and proceeding with negotiations

[Calculation Formula]
- Turnover of inventories = Inventories (average balance at beginning and end of period) / Cost of sales x number of days (365 days)
- Turnover of trade receivables = Trade receivables (average balance at beginning and end of period) / Net sales x number of days (365 days)
  *Trade receivables = Accounts receivable + Notes receivable + Contract assets + Electronically recorded monetary claims (-) Contract liabilities (advances received)
- Turnover of trade payables = Trade payables (average balance at beginning and end of period) / Cost of sales x number of days (365 days)

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Next, I will explain the status of capital efficiency improvements. Inventories totaled JPY5,143 million at the end of March 2024.

We have been working to reduce excess inventory and have had some success in the Retail Solutions and Mechatronics businesses, but the semiconductor business has seen an increase due to inventory adjustments by customers. We will continue to work on order placement control and other measures to keep the level of orders at an appropriate level.

We would like to improve our cash flow by reviewing the terms and conditions of transactions to promote negotiations on receivables and on payables.

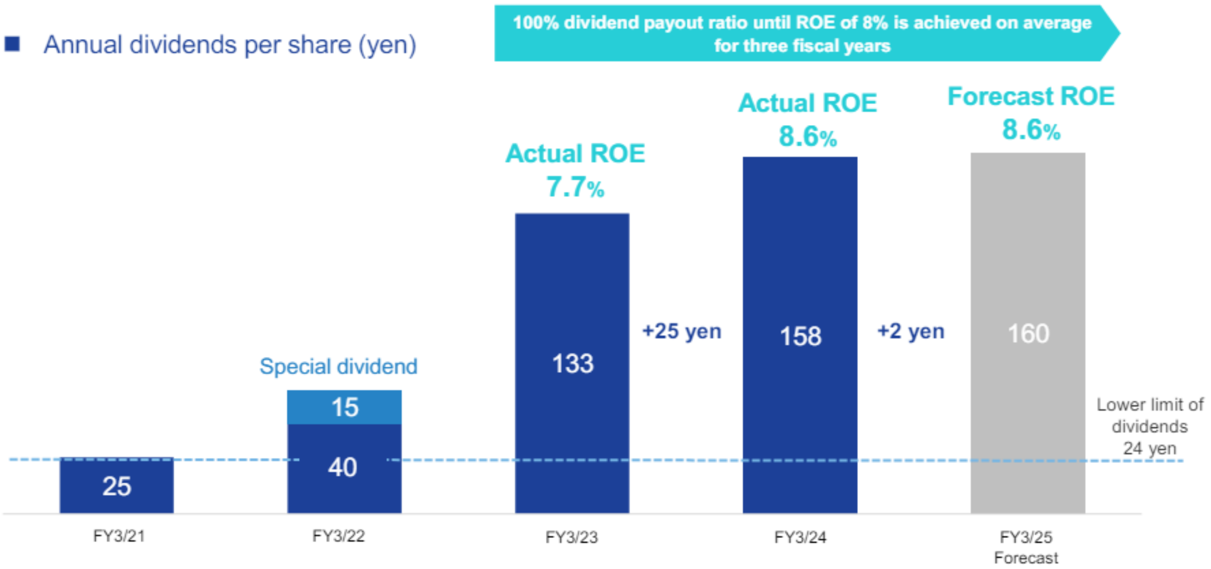
2. Financial Results for the Fiscal Year Ended March 31, 2024

Shareholder Returns

Annual dividends for the FY3/25 are planned to be **160 yen per** share (interim: 58 yen per share, year-end: 102 yen per share)

Shareholder Return Policy in the Medium-Term Management Plan 2022-2024

Maintain a **dividend payout ratio of 100% until ROE achieves 8% on average over three fiscal years (*)** in an effort to actively return profits to shareholders without increasing shareholders' equity



(*) 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.

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Next is shareholder return. For the fiscal year ending March 31, 2024, we plan to pay an annual dividend of JPY158, an increase of JPY25 over the previous year.

For the fiscal year ending March 31, 2025, we plan to pay an annual dividend of JPY160, up JPY2 from the previous year.

Based on the consolidated earnings forecasts for the first and second half of the fiscal year, we plan to calculate an interim dividend of JPY58 per share and a year-end dividend of JPY102 per share, assuming a payout ratio of 100%.

That is all from me. Thank you very much.

3. Forecast for the Fiscal Year Ending March 31, 2025

Consolidated Profit & Loss <Forecast>

[Millions of yen]

Increased sales and profit is forecast by shaking off one-time expenses (Systems) in the previous fiscal year and growth, mainly in the Cloud Services & Support business

	FY3/24 Results	FY3/25 Plan	Increase	Year-on-Year
Net sales	25,224	26,900	+1,675	+6.6%
Gross profit on sales	6,051	6,900	+848	+14.0%
Gross profit ratio (%)	24.0%	25.7%	-	+1.7pt
Selling, general and administrative expenses	4,585	4,850	+264	+5.8%
Operating profit	1,465	2,050	+584	+39.9%
Operating profit ratio (%)	5.8%	7.6%	–	+1.8pt
Ordinary profit	1,835	2,000	+164	+8.9%
Ordinary profit ratio (%)	7.3%	7.4%	-	+0.1pt
Profit attributable to owners of the parent	1,437	1,490	+52	+3.6%
ROE (%)	8.6%	8.6%	-	-
EPS	158.46 yen	163.92 yen	+5.46 yen	-
Annual dividends per share (*)	158 yen	160 yen	+2 yen	-

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

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Tsuruho: I am Tsuruho, General Manager of Corporate Planning Dept. I will now explain the outlook for the fiscal year ending March 31, 2025.

For the fiscal year ending March 31, 2025, we plan net sales of JPY26.9 billion, gross profit of JPY6.9 billion, operating income of JPY2.05 billion, ordinary income of JPY2.0 billion, and net income of JPY1.49 billion.

In addition to the additional construction costs incurred in the previous fiscal year for the system's fire protection system business, which were one-time and will not be recorded this fiscal year, the company plans to increase revenues and profits mainly due to business growth in Cloud Services & Support.

The forecast ROE is 8.6%, EPS is JPY163.92, and the annual dividend per share is expected to be JPY160.

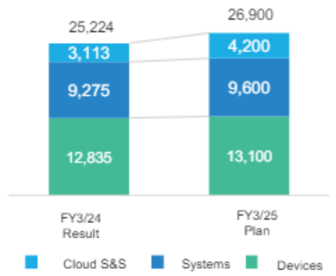
3. Forecast for the Fiscal Year Ending March 31, 2025

Net Sales and Operating Profit by Segment <Forecast>

[Millions of yen]

		FY3/24 Results (*)	FY3/25 Plan	FY3/25 Plan (after revision)	Increase/ Decrease	Percentage change
Cloud Services & Support	Net sales	3,113	4,000	4,200	+1,086	+34.9%
	Operating profit	530	900	730	+199	+37.7%
	Operating profit ratio	17.0%	22.5%	17.4%	+0.4pt	-
Systems	Net sales	9,275	9,600	9,600	+324	+3.5%
	Operating profit	(73)	270	380	+453	-
	Operating profit ratio	(0.8%)	2.8%	4.0%	+4.8pt	-
Devices	Net sales	12,835	12,400	13,100	+264	+2.1%
	Operating profit	1,008	880	940	(68)	(6.8%)
	Operating profit ratio	7.9%	7.1%	7.2%	(0.7pt)	-
Consolidated total	Net sales	25,224	26,000	26,900	+1,675	+6.6%
	Operating profit	1,465	2,050	2,050	+584	+39.9%
	Operating profit ratio	5.8%	7.9%	7.6%	+1.8pt	-

- Net sales by segment



- Points of revision of segment forecast

1. **Partial revision of classification category of "Cloud Services & Support"**
   Results of "cloud-based network products" have been recategorized from Systems (Business Solutions) to Cloud Services & Support
   (*) Reclassified 582 million yen in FY3/24 results
   (Cloud Services & Support +582 million yen, and Systems (582 million) yen)
   ➡ Please refer to P.17 for details

2. **Revised numerical targets in line with the latest conditions of each segment**
   (There will be no changes to the operating profit total)

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Next is the forecast for net sales and operating income by segment. As this is the final year of the medium-term management plan, we have previously disclosed the target values including segment breakdowns and have updated them with the values in the red frame to match the latest situation.

In addition, as will be explained in more detail later, the aggregate classification of Cloud Services & Support has been partially changed this fiscal year.

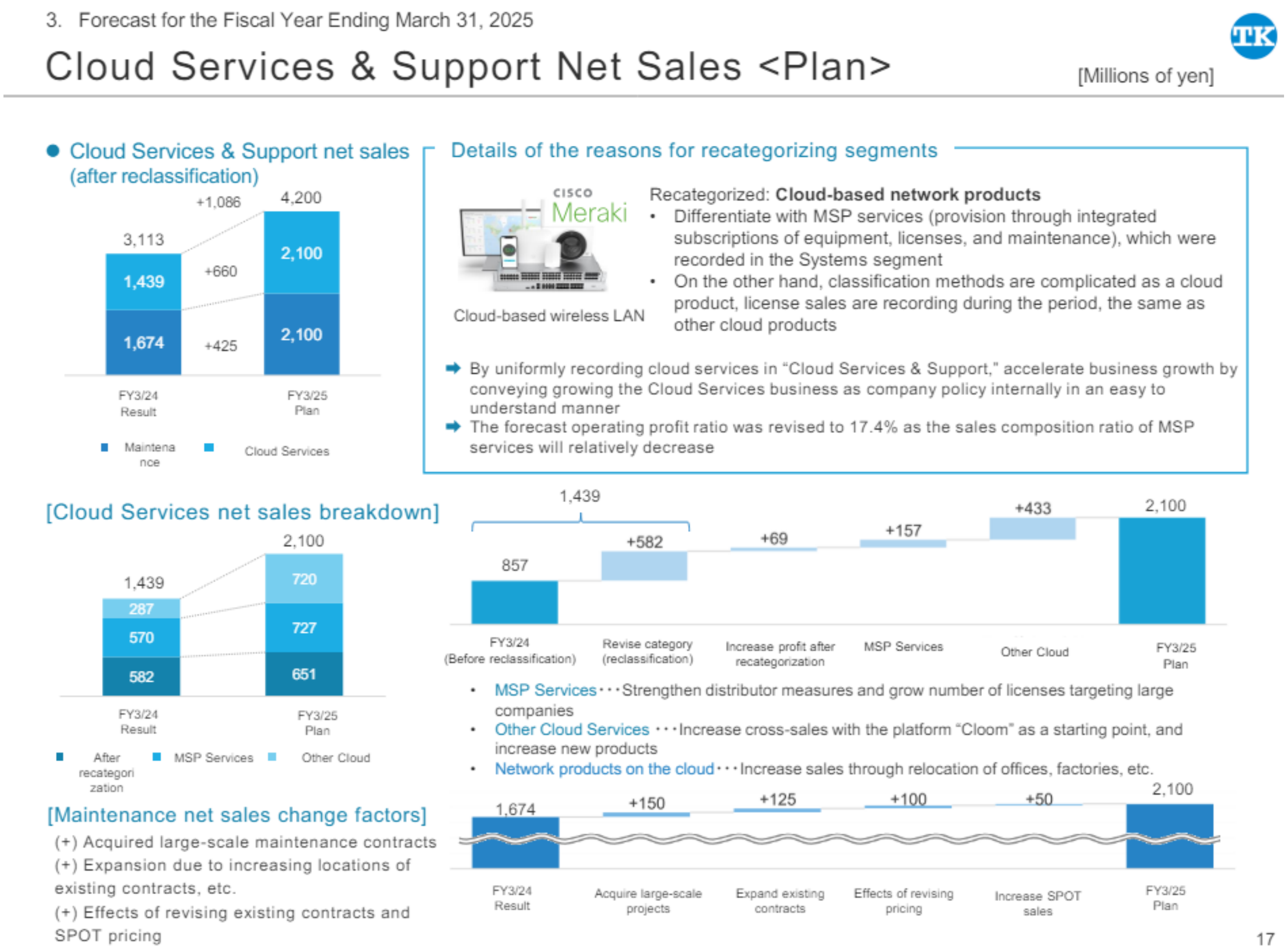
Therefore, the results for the fiscal year ending March 31, 2024, shown on this slide are based on a reclassification of JPY582 million in sales from business solutions to cloud services and support for the system.

For the fiscal year ending March 31, 2025, we plan a 34.9% YoY increase in sales for Cloud Services & Support to JPY4.2 billion and a 37.7% YoY increase in operating income to JPY730 million.

The YoY change is a figure for the results after the reclassification.

Similarly, systems sales are expected to increase 3.5% from the previous year to JPY9.6 billion, and operating income is expected to increase JPY453 million from the previous year to JPY380 million.

Next, we plan device sales of JPY13.1 billion, up 2.1% from the previous year, and operating income of JPY940 million, down 6.8% from the previous year.



From here, we will take a closer look at sales by segment.

First is Cloud Services & Support. Full-year sales are planned at JPY4.2 billion, an increase of JPY1.086 billion from the previous year's figure after recombination.

The breakdown is expected to be JPY425 million in the maintenance business and a positive JPY660 million in the cloud services business.

As I mentioned earlier, we have made some changes to the aggregate classification of Cloud Services & Support from this fiscal year.

The change applies to sales of cloud-based network products. Until the previous fiscal year, sales of this service had been recorded in the systems segment, as it was distinguished from MSP service, which is provided as an integrated maintenance service, and its sales format was considered as a product sale.

However, since this is a cloud-based service, it will be uniformly recorded in the Cloud Services & Support segment from this fiscal year, thereby clearly demonstrating both internally and externally the policy of growing the cloud services business and accelerating business growth.

The operating margin is expected to remain at around 17% due to the relative decrease in the sales composition of MSP services as a result of this change in the aggregate classification.

The breakdown of revenue growth in the cloud services business is shown in the waterfall chart in the center of the chart. Excluding recombination, the net increase in cloud network products is expected to be JPY69 million, JPY157 million in MSP services, and an additional JPY433 million in other cloud services.

As we will explain in the Progress section of the medium-term management plan, we will also expand cloud services by increasing cross-sales and new products based on our own developed platform, Cloom.

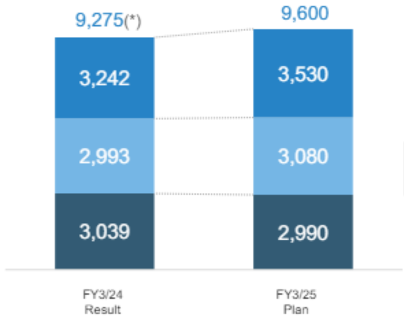
The breakdown of the maintenance business is shown in the waterfall chart at the bottom.

We expect an increase of JPY150 million from the acquisition of large maintenance contracts, JPY125 million from expansion of existing contracts due to an increase in the number of customer locations, and JPY150 million from price revisions and other factors.

Systems and Devices Net Sales <Plan>

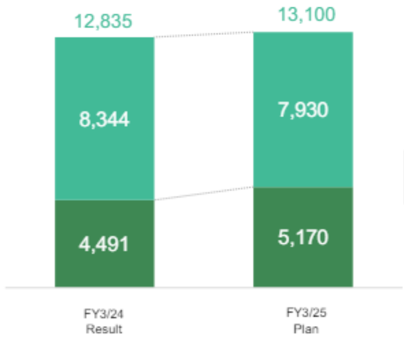
[Millions of yen]

● Systems Net Sales



Sub-segment	Increase/ Decrease	Main factors
Retail Solutions	+287	(+) Security systems for GMS ･･･Increased sales to replace facial recognition and surveillance cameras, etc. (-) For apparel･･･ Reactionary fall to large projects in the previous year.
Business Solutions (*)	+86	(+) Access control systems and surveillance cameras for offices of foreign-affiliated companies ･･･Increased sales due to strengthening bases, relocations, etc. (+) Access control systems for domestic factories
Global	(49)	(-) Decreased sales due to focusing on projects with high profitability (-) Forecast of decreased yen-translated earnings

● Devices Net Sales



Sub-segment	Increase/ Decrease	Main factors
Electronics	(414)	(-) Affected by production adjustments of customers (+) Consumer equipment ･･･Increased production of products newly adopted in the previous fiscal year
Mechatronics	+678	(+) Mechanical components for cash equipment ･･･Demand for replacing equipment for new banknote printing from July 2024 (+) Mechanical components for housing equipment ･･･Increased adoption of planning and development products for the U.S.

(*) Reclassified 582 million yen in the fiscal year ended March 31, 2024 results (Cloud Services & Support +582 million yen, and Systems (582 million) yen). Please refer to P.16 for details. 18

Next, I will explain our plans for sales of systems and devices.

First, in systems, we plan net sales of JPY9.6 billion, an increase of JPY324 million.

The breakdown is expected to be JPY287 million plus in Retail Solutions, JPY86 million plus in Business Solutions, and JPY49 million minus in Global.

In retail solutions, replacement sales of face recognition and surveillance cameras to GMS are expected to grow.

Sales to the apparel industry, which were strong in the previous fiscal year, are expected to decline in reaction to the large RFID and other projects in the previous year.

In business solutions, access control systems and surveillance cameras for offices of foreign-affiliated companies are expected to grow due to customers' base expansion and relocation. In addition, access control systems for domestic factories are expected to grow.

Global sales are expected to decrease as a result of focusing on projects with higher profit margins, etc. We also assume a decrease in yen-equivalent earnings.

In devices, sales are planned to increase by JPY264 million to JPY13.1 billion.

The breakdown is as follows: Electronics is expected to be minus JPY414 million, and Mechatronics is expected to be plus JPY678 million.

In electronics, sales are planned to decrease due to customers' production adjustments. However, sales for consumer electronics are expected to be positive because products adopted in the previous fiscal year are expected to increase production.

In mechatronics, sales for money machines are expected to be positive, mainly because demand for the new banknote printing is expected to continue through the first half of the year. In addition, sales for housing equipment are also expected to grow due to the adoption of planned and developed products and an increase in projects for the US market.

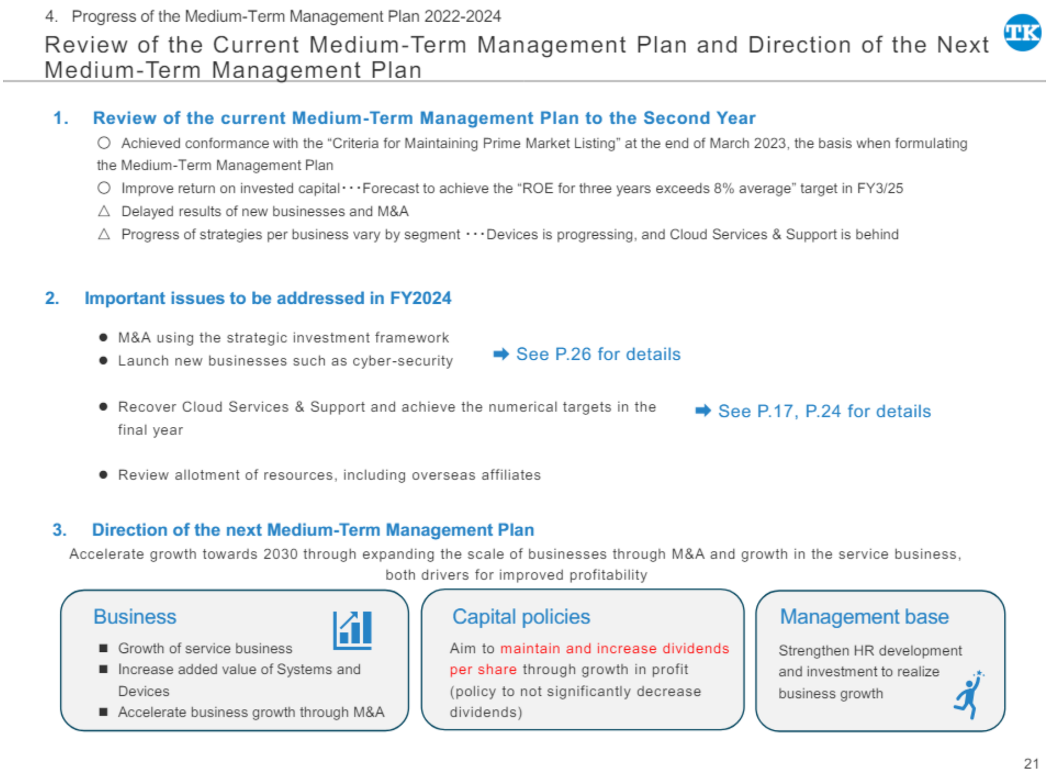
That is all from me.

Ide: I will now explain the progress of the medium-term management plan from my side.

Our medium-term management plan, which started in April 2022, has the slogan "Creating New Value in the Era of the New Normal.

The numerical targets are ordinary income of JPY2 billion for the fiscal year ending March 31, 2025, and ROE of 8% on average over the three-year period of the medium-term management plan.

To achieve this goal, we are moving forward with governance, business, and capital strategies, and we have one year remaining in this medium-term management plan.



First, I will review the current medium-term management plan and explain the direction of the next medium-term management plan.

Looking back at the end of the second year, we believe that we have made good progress in these areas: we have met the criteria for maintaining our prime market listing, which was the basis for our medium-term plan; we have improved our return on capital and expect to achieve an average ROE of over 8% for the three fiscal years.

At the same time, however, we recognize that the commercialization of new businesses and M&A is lagging, and that there is some variation in business strategies by segment.

Therefore, one of the key issues to be addressed in the current fiscal year, the final year of the medium-term management plan, is to make use of the JPY3 billion strategic investment framework to achieve M&A results and to quickly launch new businesses such as cybersecurity.

Second, recover the behind-the-scenes Cloud Services & Support segment and achieve the numerical targets for the final year.

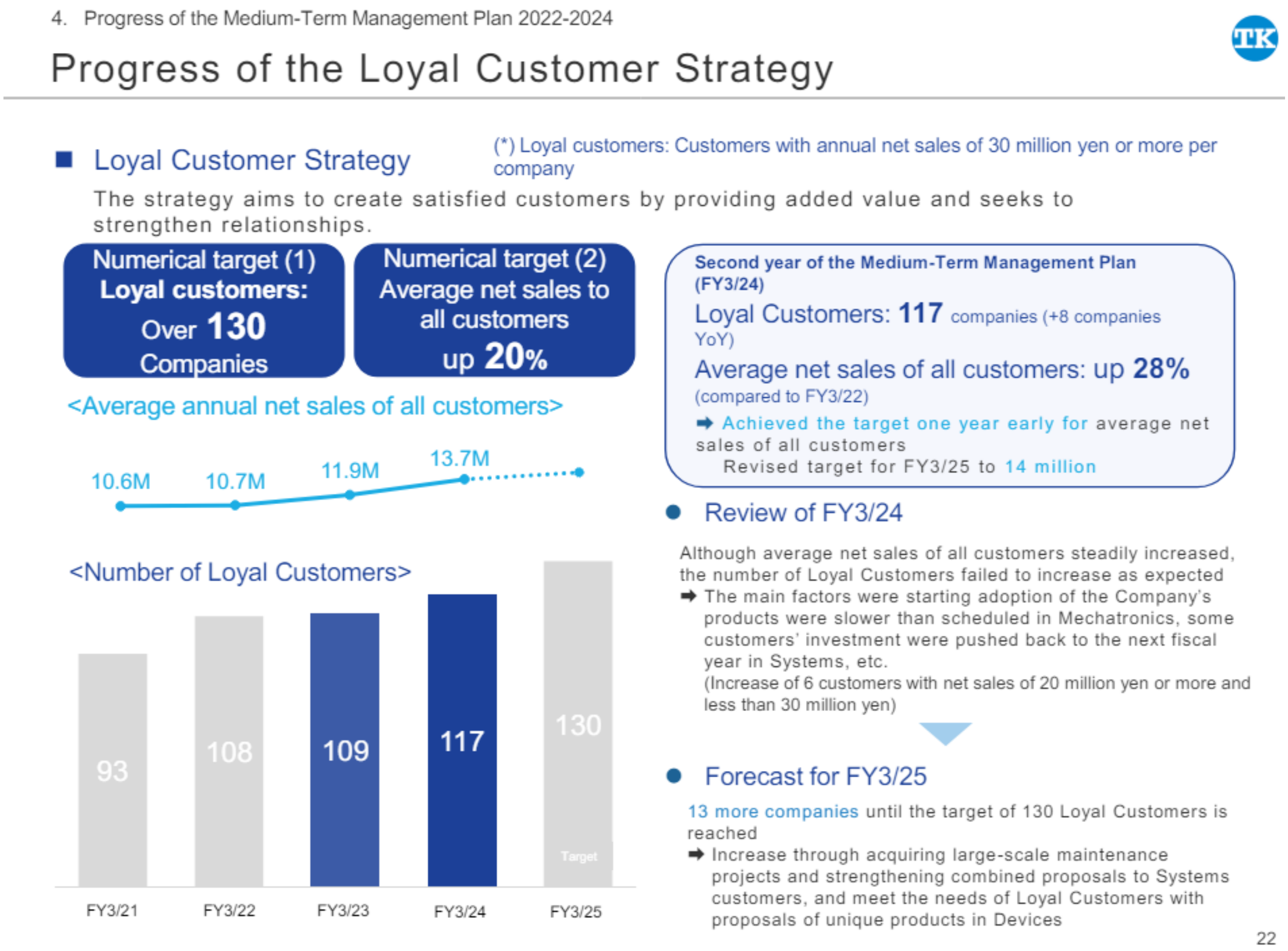
I would like to explain these two things in the slides that follow.

Finally, we will continue to review the allocation of resources, including overseas subsidiaries.

We are planning to announce our next medium-term management plan in 2025, but I would like to give you an overview of the direction only.

We will accelerate our growth toward 2030 largely by expanding the scale of our business through M&A and improving our profit structure through growth of our service business.

Regarding capital policy, we intend to lower the dividend payout ratio, but maintain or increase the dividend per share, which will be maintained or increased through profit growth.



Next is the progress of the loyal customer strategy.

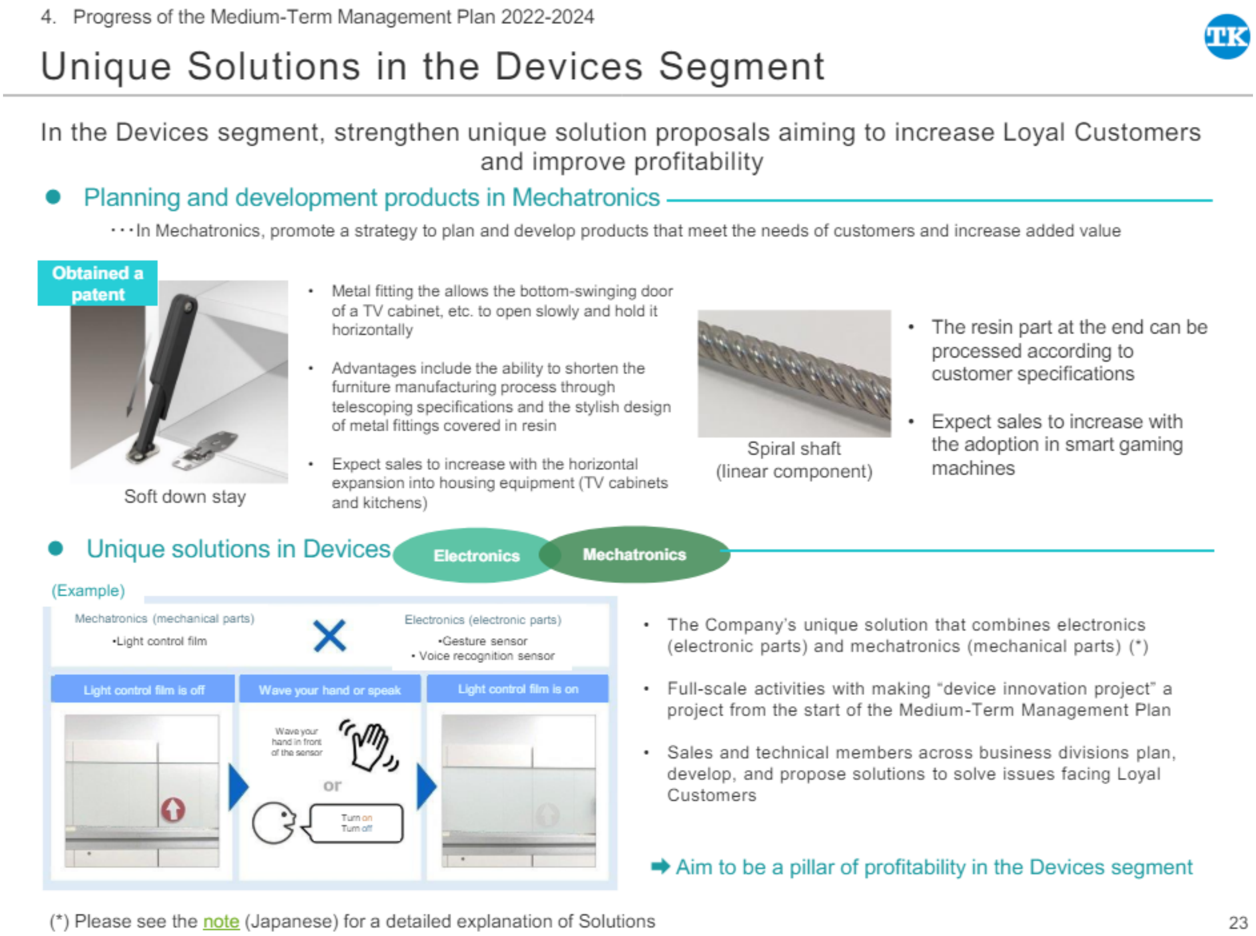
The Loyal Customer Strategy is a strategy that aims to create satisfied customers and strengthen relationships with them through our value-added offerings. Loyal customers are also defined as customers with annual sales of JPY30 million or more per company.

The strategy sets two numerical targets. One will be to increase the number of loyal customers to over 130 companies, and the other will be to increase the average sales of all customers by 20%.

As for the results of this fiscal year, the first target, the number of loyal customers, was 117, an increase of 8 companies from the previous year. Regarding the second goal, average sales to all customers, we achieved our goal one year ahead of schedule, up 28% from the fiscal year ending March 31, 2022. The target for this fiscal year is JPY14 million.

As a self-assessment, the number of loyal customers did not grow as expected. This was due to a delay in the start of adoption of our products in the mechatronics segment, and in the systems segment, some customers' investments were delayed to the next fiscal year.

As for the forecast for the fiscal year ending March 31, 2025, we are 13 companies away from our target of 130 companies. This is expected to be achieved by winning large maintenance projects, proposing combined system products, and proposing unique products that realize the needs of loyal customers with devices.



Next, we will explain the unique solutions in the device segment.

As explained earlier, this is an initiative that we are strengthening with the aim of increasing the number of loyal customers and improving profitability.

First, it is a mechatronics planning and development product. Here are two examples of products.

The soft down stay on the left, a furniture fitting, has been patented for its advantages in terms of shortening the manufacturing process and design. We expect to increase sales of this product by promoting horizontal development for residential facilities.

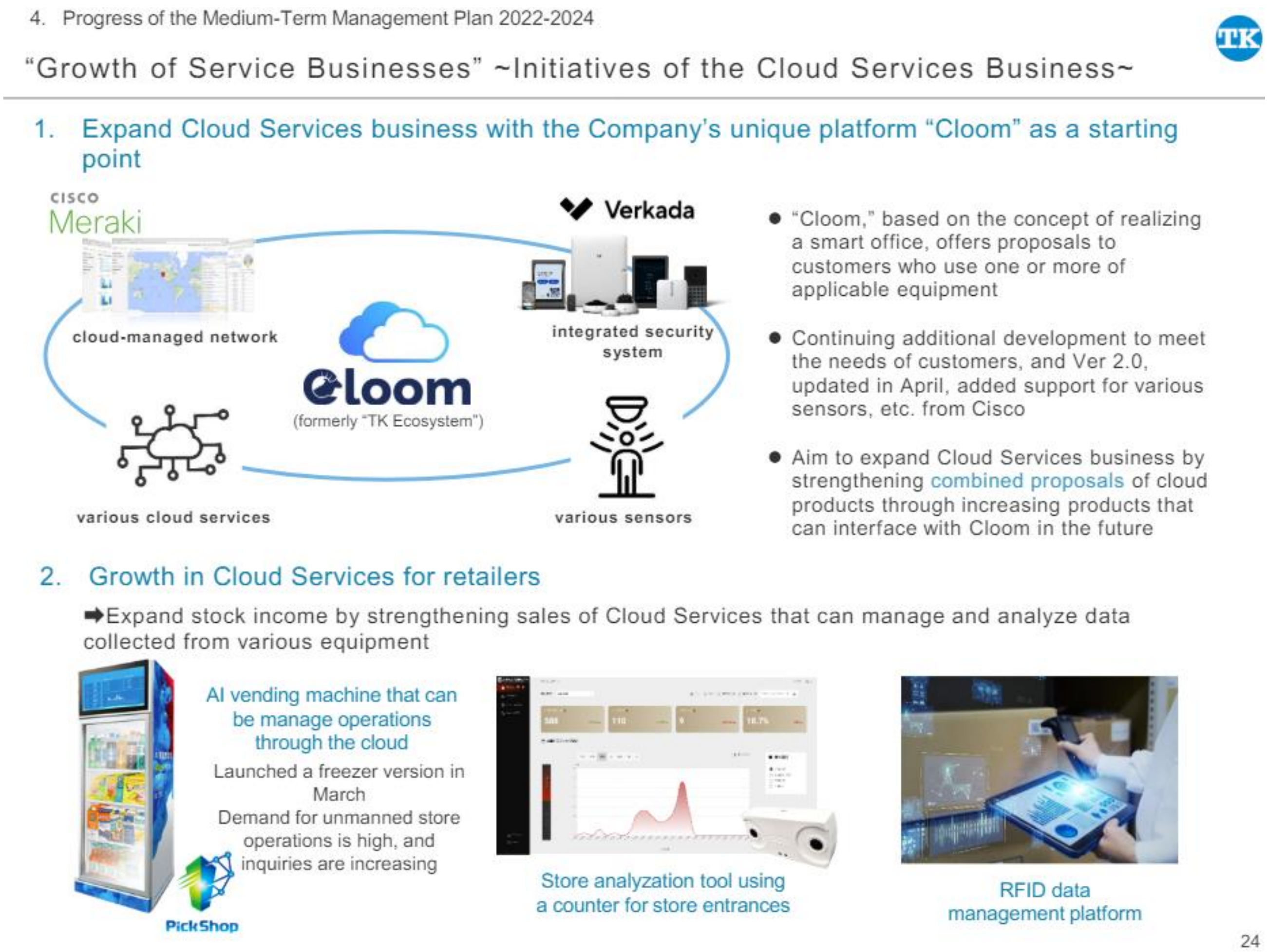
The spiral shaft on the right, a direct-acting component, is used in smart amusement machines because the resin part at the tip can be machined to each customer's specifications.

In this way, Mechatronics is promoting a strategy of increasing added value by planning and developing products that embody customer needs.

Next is a unique solution that combines electronics and mechatronics.

In the example below left, a mechatronic dimming film, combined with an electronics sensor, allows the dimming film to be activated by gesture or voice without touching it. It is intended for use in medical facilities, food factories, etc.

In this way, we are stepping up efforts to plan and develop solutions to the issues faced by our loyal customers, with the aim of making this a pillar of earnings for the device segment in the future.



Next, regarding the initiatives in the cloud services business, other cloud services are planned to grow this fiscal year. I will explain how we will expand it.

First, we will expand our cloud service business, starting with our proprietary platform, Cloom.

For Cloom, a platform that enables smart offices, we make proposals mainly to customers who have purchased Cisco Meraki. Therefore, by adding Verkada to the system, the number of functions that can be used with Cloom will increase, making the system more convenient to use.

In this way, we will promote a composite proposal of various products starting with Cloom.

Additional development continues, and version 2.0 was also released in April. We will continue to add products and services that are compatible with Cloom.

Next, we will discuss cloud services for the retail industry.

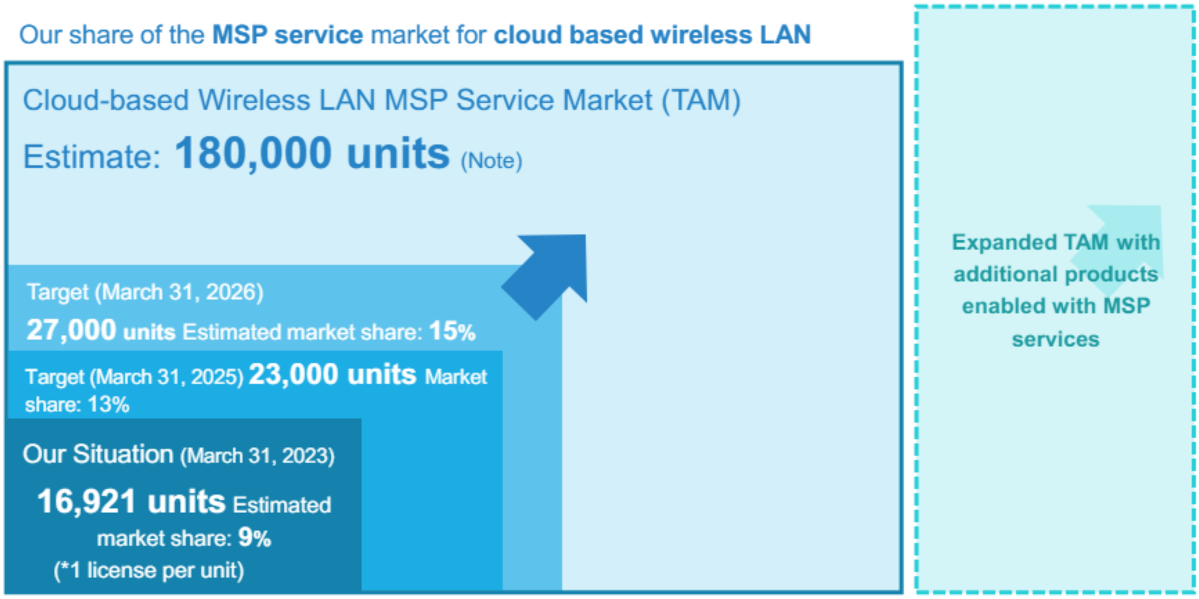
For retail customers, we are also strengthening sales of cloud services that, together with various types of equipment, enable management and analysis of data collected from such equipment, thereby expanding stock income.

The AI vending machine Pick Shop, the leftmost one, launched in March in frozen form, has caught the demand for unmanned store operations and is attracting an increasing number of inquiries. This product allows inventory and sales management to be implemented in the cloud.

Other cloud services, such as store analysis tools using entry counters and RFID data management platforms, have also seen sales growth.

Market scale of MSP services

- The replacement of wireless LAN equipment with cloud-based equipment is progressing due to office renovations due to hybrid work and demand for faster speeds from Wi Fi6. Demand for outsourcing due to labor saving measures is also strong, and the MSP service market is expanding.
- Considering the delay in setting up new partners, the target for number of licenses was revised to 23,000 by March 31, 2025.
- Aim to achieve the original target of 27,000 units for the final year of the Medium-Term Management Plan by March 31, 2026.



(Note) The market for cloud-based wireless LAN services and internet connected services is 147,800 units in the forecast for FY2024 (Source: Fuji Chimera Research Institute, "2022 Communications Related Marketing Survey Overview"). We have estimated the MSP service market for cloud based wireless LAN based on this, while making certain assumptions.

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Next is the size of the market for MSP services.

This one was announced at the time of the full-year financial results for the fiscal year ending March 31, 2023, and the license target has been updated this time.

The target for the fiscal year ending March 31, 2025, has been changed from the original 27,000 units to 23,000 units.

Although the number of licenses is building up, the situation is behind schedule due to the delay in launching new partners. The initial target of 27,000 units is to be achieved by the end of March 2026.

Progress of "Creation of Future Core Businesses"

1. Status of launching new businesses and business model

Cyber-security

▸ Launched OT Security business

- Cyber-security measures for the manufacturing industry, where risks of cyber attacks are increasing due to factory automation, etc.
- Business partnerships with Terilogy, which has a track record of many adoptions, as a sales distributor for Nozomi Networks USA, a market leader in the OT/IoT security market
- Started proposals to Loyal Customers in the manufacturing industry

*OT (Operational Technology)
Control and operation technology for optimized use of physical systems and equipment used in factories, etc.

Cloud-based crime-prevention information service "EMLINX"

- Additional development of functionality that have been necessary from before (changes in the scope of information disclosure, etc.) and Ver 2.0 released in April 2024.
- Strengthen combined proposals of theft-prevention systems and surveillance cameras for retailers, with a target of 10,000 store adoptions by FY3/27.

Cloud-based video system

- Market growing and projects increasing for cloud-based video system that can perform image confirmation and AI image analysis in the cloud
- Mainly strengthen sales to existing customers in the future, capture replacement demand from on-premises systems

2. Status of use of 3.0 billion yen of strategic investment framework

Use approximately 0.8 billion yen by FY3/24

<Breakdown>

Purpose	Amount
Launch new businesses (fund investment)	0.35 billion yen
Strengthen internal base (IT investments, etc.)	0.25 billion yen
Develop new services and new products	0.2 billion yen

3. Status of M&A and alliances

- 1 alliance in the H1 FY3/25 (Terilogy, announced on May 9, 2024)
- Continue activities through the task force aiming for M&A and alliances that will contribute to the medium- to long-term results this fiscal year

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Next is the progress of "Creation of Future Core Businesses".

First, let me explain the status of new business and business model launches.

The OT security business is being launched first, providing cyber security measures for the manufacturing industry and other industries where the risk of cyber-attacks is rising due to factory automation and other factors.

As we announced in a press release on May 9, we have entered into a business alliance with Terilogy Co., Ltd., which has a proven track record as a sales agent for Nozomi Networks, the market leader in the OT/IoT security market and has introduced many products to the market.

We are starting a proposal for loyal customers in the manufacturing industry.

The second cloud-based crime prevention information service, EMLINX, was released in April as version 2.0 after additional development of functions that had been requested by customers for some time.

We aim to introduce this system to 10,000 stores by the fiscal year ending March 31, 2027, and will strengthen our proposal as a total solution together with shoplifting prevention systems and surveillance cameras for the retail industry.

As for the third, cloud-based video systems, the market is growing, and the number of projects is increasing. In the future, we intend to capture replacement demand from existing customers for on-premises systems.

Next, the use of the JPY3 billion strategic investment quota is summarized in the lower left-hand corner.

Approximately JPY800 million has been spent by March 2024, including fund investments to find new businesses and IT investments to strengthen internal infrastructure.

Lastly, in terms of M&A and alliances, we are currently in the process of forming one business alliance with Terilogy, which I explained earlier. Over the current fiscal year, the task force will continue its activities with the aim of establishing M&A and alliances that will contribute to business performance over the medium to long term.

Strengthen HR Development and Investment

Medium-Term Management Plan 2022-2024

Profit Structure Reform

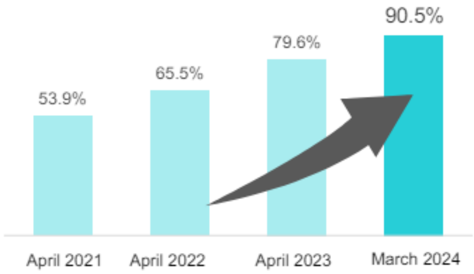
(1) Transition from "product sales" to "service sales"
(2) Strengthen business portfolio
(3) Improve operational efficiency through DX

Direction of Human Resource Strategy

- ✓ Acquire the skills necessary for "service sales"
- ✓ Develop human resources to achieve agile staffing and business efficiency through DX
- ✓ Improving the internal environment to increase engagement

Human capital management initiatives

■ Membership rate in Employee Stock Ownership Plan



- Membership rate increased to **90.5%** due to incentive increasing to 50%, etc.
- Aim to further increase awareness of management participation towards the final year of the Medium-Term Management Plan by strengthening internal IR in the future

■ Increase in average annual income

FY2023 **up 6%** YoY, FY2024 expected to be **up 3%**YoY
*The policy is not to increase the amount uniformly, but based on one's duties, abilities, and results

[Main factors for the increase (FY2024)]

- Revised personnel system
  (1) Made classifications of levels more minute in order to increase opportunities for promotions and raises
  (2) Established new levels to make it easier for young people to be appointed to management positions
- Expand employee benefits: introduced cafeteria plans, and increased amount of housing allowance

■ Hiring

- Aiming to raise hiring competitiveness, raised the initial salary for new graduates in 2025 (those with four-year degrees and regular positions) **300,000 yen**
- 47% (from FY2022) of mid-career hires joined the company as referral hires

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

Our human resource strategy is working to achieve the profit structure reforms in our medium-term management plan. The direction will be to acquire the skills necessary for experience-selling and service business, to deploy human resources in an agile manner, to develop human resources to realize DX, and to create an internal environment to improve engagement.

I will explain the initiatives implemented under this policy for the fiscal year ending March 31, 2024.

First is the participation rate of the employee stock ownership plan. The incentive was raised to 50%, and the company stepped up its efforts to educate the public about the shareholding association, resulting in a 90.5% share as of March 2024. Some studies have shown that the average for listed companies is around 36%, so we consider this to be a high level.

We intend to strengthen our internal IR activities to further increase employees' awareness of the need to participate in management.

Second, the average annual salary of employees increased by 6% for the fiscal year ending March 31, 2024. We expect a 3% increase for the fiscal year ending March 31, 2025.

Factors here are due to the revision of the personnel system and the expansion of benefit programs. Revisions to the personnel system include subdividing grade classifications to increase opportunities for salary increases and promotions and establishing new grade levels to facilitate the promotion of younger employees to management positions.

Finally, with regard to recruitment, we have raised the starting salary to JPY300,000 starting from career-track positions for graduates of four-year universities in March 2025, with the aim of raising the competitiveness of our recruitment. In addition, referral hiring is increasing, with 47% of mid-career hires since FY2022 coming from referrals.

That is all for our presentation.

Tsuruho: Thank you very much.

Question & Answer

Tsuruho [M]: We will now open for questions and answers. Please enter your question from the Q&A function. Now, please ask your questions.

Thank you for your question. I will read from the first question first.

Questioner [Q]: I received a question if it is correct to understand that the fiscal year ended March 31, 2024, was strong.

Tsuruho [M]: This will be answered by the president.

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

Regarding your question about whether the fiscal year ending March 31, 2024, was favorable, the semiconductor business in the devices segment was very strong, but additional construction work for fire protection systems occurred, and the systems business was lower than expected. However, the overall gain was covered by foreign exchange gains and gains from the sale of policy shareholdings, resulting in an upward swing. That is all.

Questioner [Q]: I received a question regarding the planned increase in revenue and decrease in profit for the fiscal year ending March 2025 for devices, and why the result.

Tsuruho [M]: The president will answer this one as well.

Ide [A]: Thank you. This will be due to an increase in personnel. The devices, especially the electronics business, is progressing better than in the original medium-term management plan, although sales are expected to decline this fiscal year due to inventory adjustments by customers. We will be in a situation where we are increasing the number of employees in order to achieve better performance in the next fiscal year and beyond. That is all.

Questioner [Q]: Why did the additional work occur on the fire protection system? Is my understanding correct that this will not occur in the current fiscal year, and therefore the amount will be increased?

Tsuruho [M]: Iwamoto will answer this one.

Iwamoto [A]: Thank you for your question. Here is my response to your question.

The reason for the additional work on the fire protection system was that we took on the challenge of installing mechanical and electrical equipment in addition to fire protection equipment, an area we had never experienced before, in response to the requests of our loyal customers.

As a result, we were not able to adequately manage the project, which increased the cost more than originally planned, and in addition, we incurred costs due to progress and also quality problems. Since all expenses were recorded in the fiscal year ended March 31, 2024, we believe that there will be no impact on the fiscal year ending March 31, 2025.

As per your question, we believe that this will be a factor in the increase in profits. That is all.

Questioner [Q]: Next question. What is your policy on the policy shareholdings?

Tsuruho [M]: Iwamoto will answer this one as well.

Iwamoto [A]: Thank you for your question. I will answer this question as well.

As for policy shareholdings, as stated in our Corporate Governance and Basic Policy, we have a policy on our website that allows us to hold shares of our business partners for the purpose of strengthening transactions other than for investment purposes.

We make a decision on whether or not to invest in a company by comprehensively considering the benefits to be gained by strengthening business relationships with the company and the amount of investment to be made.

The Board of Directors meets once a year to review the significance of the policy holdings, the track record of transactions, and the cost of capital and economic rationality, and then makes an overall decision on whether or not to continue holding the shares. That is all.

Questioner [Q]: I received a question regarding an assumed exchange rate.

Tsuruho [A]: I will answer this one.

Regarding your question about the assumed exchange rate, we have an assumed exchange rate set internally. The budget is formulated based on this, but the figures are not disclosed. However, since we are an import trading company, we usually assume a relatively conservative depreciation of the yen.

However, this year, the yen has weakened more than expected due to the significant depreciation of the yen in April, and as in the previous fiscal year, we will continue our efforts to secure gross profit by revising prices for customers and negotiating with suppliers and subcontractors. That is all.

Questioner [Q]: I didn’t understand well about the recombination of Cloud Services & Support, so please tell me again.

Tsuruho [A]: I will answer this one as well. The purpose of this change in segment classification, briefly, is that all cloud-based services will be recorded in Cloud Services & Support.

We made the change because, until now, cloud-based network products have been accounted for in the system segment, making them difficult to understand. That is all.

Questioner [Q]: Next question. We have been asked about the status of our recruitment.

Tsuruho [M]: Iwamoto will answer this question.

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

Six new graduates joined the company in April 2024. As for the breakdown, three are assigned to sales, two to staffing, and one to engineering.

We were able to hire a sufficient number of employees, but we wanted to hire a few more engineers. The recruitment situation for new graduates has become very difficult recently, and we have had more people turn down job offers than ever before.

We intend to utilize a variety of recruitment methods to secure human resources. That is all.

Tsuruho [M]: As the time for the end of the session is approaching, we will now conclude the question-and-answer period.

Lastly, Mr. Ide, President, would like to make a few remarks. Mr. President, please.

Ide [M]: Thank you very much for taking time out of your busy schedule today to listen to our financial results presentation. We look forward to working with you in the future.

Tsuruho [M]: Thank you very much. This concludes today's financial results briefing.

After this, a questionnaire screen will appear. Thank you in advance for your cooperation in answering our questions.

Thank you very much for watching to the end today.

[End]

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Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
4. *This document has been translated by SCRIPTS Asia.*

Questions that could not be answered on the day of the briefing

We will answer questions that could not be answered due to time constraints on the day of the briefing.

[Q]: What caused the decrease in gross profit ratio for FY3/24?

[A]: This was due to the recording of additional construction costs (approximately 0.2 billion yen) incurred in the fire protection systems business in the Systems segment as cost of sales.

[Q]: What is the reason for the decrease in the ratio of SG&A expenses to net sales for FY3/24?

[A]: Our SG&A expenses reflect fewer variable expenses that are linked to sales. Therefore, in the absence of special factors, the SG&A ratio is structured so that the more sales grow, the lower the SG&A ratio.

[Q]: Does "Franc" mentioned on slide 8 refer to Swiss Francs?

[A]: Yes, as you indicated, it refers to Swiss Francs.

[Q]: You mentioned that you "worked to increase sales by strong sales of other Cloud Services." What are the main types of other Cloud Services that you offer?

[A]: "Other Cloud Services" mainly include services for retailers and for network security systems. Cloud Services for retailers include store analysis tools and the RFID data management platform, as shown on slide 24 of Financial Results for the fiscal year ended March 31, 2024, and other services such as the Employee Baggage Screening service as a measure against shoplifting by staff members (internal theft). Cloud Services for network security systems include the "Cisco Secure Connect" integrated security system and the email security service.

[Q]: What is the status of Verkada?

[A]: Currently, Verkada is being adopted by apparel companies (especially high-end fashion brands), offices, and baseball stadiums, exhibiting growing results. We have also strengthened sales from distributors and strived to acquire projects for the manufacturing industry and educational facilities.

[Q]: Could you give us more details about sales growth of Cloom for FY3/25, taking into account the features of the product? It would also be helpful if you could provide us with more details about the background of the delay in MSP services. And what is the recovery plan?

[A]: First of all, Cloom is a platform that connects various products and services through API-based integration, as shown in the top figure on slide 24 of Financial Results for the fiscal year ended March 31, 2024. Cloom offers features that are available only to customers who have installed Cisco Meraki, and those available only to customers who have installed Verkada. We will increase sales in the Cloud Services business by combined proposals of target products to enhance Cloom's user-friendliness. Secondly, the reason for our lowering of the target number of licenses for MSP services in FY3/25 was due to the delay in setting up new partners. MSP services are mainly sold through distributors and are currently being sold by multiple partners. Of these partners, delays have occurred in the establishment of sales methods and other matters at a partner that was scheduled to start up during FY3/23. This issue has been resolved, and sales have begun; however, because the service is a subscription format, a greater delay than expected in accumulating licenses has had a negative impact. As the said distributor is strong in marketing to large companies, we are aiming to make up for the delay by acquiring large-scale projects and conducting effective campaigns for distributors.

[Q]: "Aim to further increase awareness of management participation towards the final year of the Medium-Term Management Plan by strengthening internal IR in the future" is shown on the bottom left of slide 27. In what specific ways are you increasing awareness of management participation? And has it been successful?

[A]: Until now, we have strengthened our awareness-raising activities, believing that membership in the Employee Stock Ownership Plan itself would lead to an awareness of the stock price, which in turn would lead to a greater awareness of management participation. Now that the membership rate has exceeded 90%, we will work to strengthen internal IR for employees who are already members of the Plan, as well as work to encourage those who have not yet joined. Specifically, we plan to explain, through internal financial results briefings and internal newsletters, what kind of explanations we provide externally, what initiatives we communicate externally, and what kind of evaluations and feedback we receive from investors. Concerned that it will be difficult to show the effects of our efforts to raise awareness of management participation, we will look into the best indices and other measures to report this matter.

[Q]: What is the status of inventory adjustments by customers in the Electronics business in Q4 and to what extent do you expect them to continue in FY3/25?

[A]: In Q4 of FY3/24, sales declined compared to the period Q1–Q3 due to customer requests to push back deliveries. Customers still carry inventories, and we expect those inventories to continue to be used up through 2024. We expect that a recovery will begin between January and March 2025.

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