Takachiho Koheki | 2676

TSE Prime

Continuing to book record high profits and aiming to transform from "selling goods" to "selling services" by growing service businesses

Summary

■ **Tech-trading company providing everything from electronics products to IT solutions**

Takachiho Koheki (hereafter, the Company) is a trading company highly specialized in electronics technology that has identified the underlying needs of its customers to introduce the world's cutting-edge electronics products to Japan ahead of competitors. With engineering employees accounting for 42.5% of its workforce, the Company is a highly specialized technical organization with a total of about 25,000 customer accounts, and its solid customer base is one of its assets.

■ **Monetizing by providing solutions to high-profile social issues**

The Company's wide range of electronics products and IT solution services help solve modern social issues of great concern such as labor shortages and labor savings, crime control and prevention, hybrid work and work style reforms, and climate change and disasters.

■ **Stable financial position**

Takachiho Koheki has been effectively interest-bearing debt-free for 18 years and its shareholders' equity ratio has been above 70% for 16 consecutive years. Challenges going forward include optimizing its capital structure by limiting the buildup of equity and promoting a capital policy that boosts earnings, reduces taxes, and improves ROE by optimally incorporating debt. In addition, SIR believes that the Company needs to improve inventory turnover period and accounts receivable turnover period.

■ **Record high profits to continue in FY2025/3, the final year of the current medium-term management plan**

The Company projects operating profit to expand 39.9% YoY in FY2025/3, much higher than the average growth of peers including semiconductor/electronic component trading companies and information security companies, according to SIR estimates. Furthermore, it appears the Company will be booking record high profits across all profit lines, including operating profit.

■ **Share price insights**

Takachiho Koheki's earnings growth and pledge to deliver a dividend payout ratio of 100% have been a major lift to its share price. For the next fiscal year and beyond, after the current medium-term management plan comes to an end, the Company explained that it intends to

FY	Net Sales (¥mn)	YoY (%)	Oper. profit (¥mn)	YoY (%)	Ordin. profit (¥mn)	YoY (%)	Net profit (¥mn)	YoY (%)	EPS[1] (yen)	DPS (yen)
FY2020/3	20,616	3.6	788	-20.4	885	-18.5	190	-61.2	21.4	24.0
FY2021/3	20,591	-0.1	886	12.4	926	4.6	548	187.7	61.6	25.0
FY2022/3	20,784	0.9	1,024	15.6	1,247	34.6	878	60.2	98.4	55.0
FY2023/3	23,360	12.4	1,376	34.4	1,588	27.3	1,205	37.2	134.2	133.0
FY2024/3 (act)	25,224	8.0	1,465	6.5	1,835	15.6	1,437	19.3	157.9	158.0
FY2025/3 (CE)	26,900	6.6	2,050	39.9	2,000	8.9	1,490	3.6	163.9	160.0
FY2023/3 2Q	12,729	14.5	713	22.2	1,057	18.2	717	9.2	78.9	24.0
FY2024/3 2Q (CE)	12,400	-2.6	770	7.9	750	-29.1	540	-24.8	59.4	58.0

Source: Compiled by SIR from the Company TANSHIN financial statements.
(1) Historical EPS for FY22/3-FY24/3 is calculated using diluted EPS; there are no deluded shares for FY20/3 to FY21/3.

Full Report

Focus Points:

Takachiho Koheki specializes in proposal-based consulting sales grounded in advanced technology, with 42.5% of its employees having an engineering background. The company has announced that it will maintain a dividend payout ratio of 100% until it reaches a three-year average ROE of 8%, which has aroused interest among investors.

Key Indicators	
Share price (24/7/8)	3,980
YH (24/1/4)	4,330
YL (24/5/1)	3,510
10YH (24/1/4)	4,330
10YL (18/12/25)	851
Shrs out. (mn shrs)	10.172
Mkt cap (¥ bn)	40.48
Equity ratio(FY24/3)	73.3%
FY25/3 P/E (CE)	24.3x
FY24/3 P/B (act)	2.15x
FY24/3 ROE (act)	8.6%
FY25/3 DY (CE)	4.0%

Stock Price Chart (1 year)

Source: TradingView

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maintain or increase dividend per share through profit growth, even with a lower dividend payout ratio. Expectations for a further expansion of its valuation multiples, including its P/E multiple, are likely to rise in line with growth in the Company's service businesses centered around its highly profitable Cloud Service & Support segment. Its forward dividend yield remains elevated at 4.0% even at the current share price.

Company description

President
Mr. Takanobu Ide

Technology trading company Takachiho Koheki

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

The Company maintains a remarkably solid financial position and, with the exception of a small amount of lease obligations, it has remained effectively interest-bearing debt-free for 18 years since FY2006/3. Its shareholders' equity ratio is extremely high and has remained above 70% for the past 16 years. The Company is highly resilient and well prepared to recover on its own and adapt in the event of a business downturn.

Takachiho Koheki's management structure is led by President Takanobu Ide, and consists of six directors (including two outside directors), one full-time corporate auditor, and two outside corporate auditors, for a total of 9 members.

Business model

Features and strengths

Takachiho Koheki's outstanding competitiveness is backed by three key strengths, consisting of its connoisseurship, technological capabilities, and solid customer base.

Connoisseurship: The Company has been the first to introduce many products in Japan, including shoplifting prevention systems, by identifying cutting-edge products overseas and customizing them to meet Japanese specifications. In other words, the Company has been providing its customers with competitive products by leveraging its connoisseurship to identify latent customer needs and then uncovering cutting-edge products from around the world that meet those needs.

Technological capabilities: As a technology trading company, the Company not only purchases and sells goods, but also offers new value and products, and provides comprehensive and detailed services based on its advanced technological capabilities to solve customer issues. This has become a strength and one of the reasons for customers to choose the Company. The source of this strength stems from the fact that 42.5% of its workforce consists of engineering staff. As a highly specialized technical organization, the Company is able to provide everything from consulting services for customer system networks to development, design, implementation, and after-sales services tailored to customer specifications as a one-stop shop, earning it a solid reputation and customer confidence as a technology trading company.

Customer base: With a track record of serving many customers over its 70 years in business, the Company currently has about 25,000 customer accounts, and considers this stable and solid customer base to be one of its properties.

Overview by business

Takachiho Koheki's business consists of the Cloud Services and Support, System, and Device segments. It operated under the two business segments of System and Device until FY2022/3, but positioned its cloud-based services business and maintenance business as growth businesses from the perspective of growth and profitability, and carved them out of the previous System segment to create the new Cloud Services and Support segment in FY2023/3. In addition, the Company will partially change its classification of Cloud Services & Support from FY2025/3 (see Full-year FY2025/3 earnings forecast for more details).

The below table shows sales and operating profit by segment for the past five years. Figures for FY2020/3-FY2022/3 have been reclassified in line with the three-segment reporting system in accordance with the shift to a three-segment system starting in FY2023/3.

Net sales and Operating Profit for each segment (unit : ¥mn)

	FY2020/3			FY2021/3			FY2022/3			FY2023/3			FY2024/3		
	AMT	YoY	Percent	AMT	YoY	Percent	AMT	YoY	Percent	AMT	YoY	Percent	AMT	YoY	Percent
Cloud Services and Support	2,122	10.8%	10.3%	1,940	-8.6%	9.4%	2,115	9.0%	10.2%	2,385	12.8%	10.2%	2,531	6.1%	10.0%
System	10,442	-0.9%	50.6%	10,749	2.9%	52.2%	9,895	-7.9%	47.6%	9,630	-2.7%	41.2%	9,857	2.4%	39.1%
Device	8,051	8.2%	39.1%	7,901	-1.9%	38.4%	8,773	11.0%	42.2%	11,344	29.3%	48.6%	12,835	13.1%	50.9%
Net Sales Total	20,616	3.6%	100.0%	20,591	-0.1%	100.0%	20,784	0.9%	100.0%	23,360	12.4%	100.0%	25,224	8.0%	100.0%
Cloud Services and Support	268	-11.3%	34.0%	454	69.4%	51.2%	394	-13.2%	38.5%	506	28.4%	36.8%	486	-4.0%	33.2%
System	182	-57.8%	23.1%	154	-15.4%	17.4%	135	-12.3%	13.2%	92	-31.9%	6.7%	-29	-	-2.0%
Device	336	31.8%	42.6%	276	-17.9%	31.2%	494	79.0%	48.2%	776	57.1%	56.4%	1,008	29.9%	68.8%
Operating Profit Total	788	-20.3%	100.0%	886	12.4%	100.0%	1,024	15.6%	100.0%	1,376	34.4%	100.0%	1,465	6.5%	100.0%
Cloud Services and Support	12.7%			23.4%			18.6%			21.2%			19.2%		
System	1.7%			1.4%			1.4%			1.0%			-0.3%		
Device	4.2%			3.5%			5.6%			6.8%			7.9%		
Operating Profit Margin (companywide average)	3.8%			4.3%			4.9%			5.9%			5.8%		

Source: Compiled by SIR from the Company's IR material and fact book.

Note 1: Figures for each business are rounded to the nearest million yen. Accordingly, there may be slight differences compared to total consolidated net sales and total consolidated operating profit.
Note 2: The Company switched to a three-segment reporting system with the addition of the Cloud Services and Support segment starting in FY2023/3. Figures for FY2020/3-FY2022/3 have been reclassified in line with the three-segment reporting system.

■ Cloud Services and Support segment

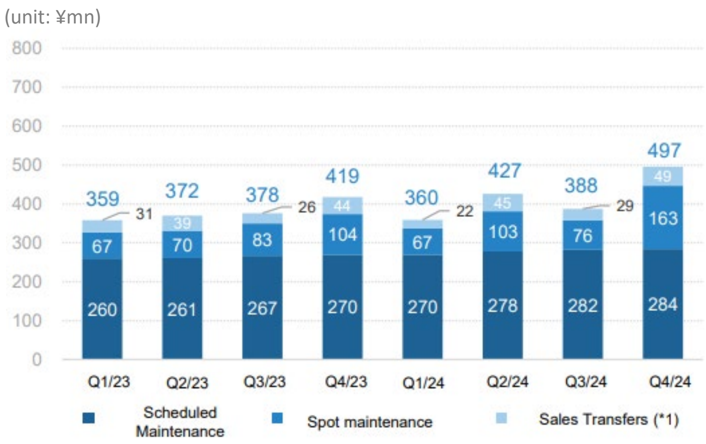
In FY2024/3, the Cloud Service & Support segment accounted for 10.0% of sales and 33.2% of operating profit. With an operating margin of 19.2%, this segment has the highest operating margin among all three segments. The segment consists of the maintenance business, which accounts for 66.1% of segment sales, and the cloud services business, which accounts for 33.9% of segment sales.

Maintenance business

In the maintenance business, the Company provides after-sales service for equipment sold through the Systems segment, including shoplifting prevention systems used in retail stores, as well as access control, surveillance, and facial recognition systems used in offices and factories. Maintenance sales tends to grow in proportion to equipment sales for systems.

Cloud Services & Support Net Sales Breakdown

Maintenance Net Sales Breakdown (by type)



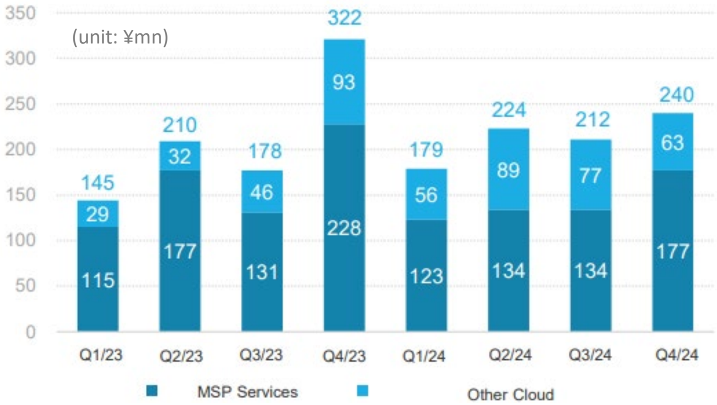
Note1: Concerning the maintenance provided free of charge in the first year after the sales of products in the Systems segment, an amount equivalent to the cost of the maintenance is transferred to Cloud Services & Support sales

Source: Excerpted from the Company's IR material.

Cloud service business

The main product of the cloud service business is its subscription-based managed service provider (MSP) service. Through this service, customers can outsource the maintenance, operation, and monitoring of their cloud network products to the Company. The MSP service covers cloud-based wireless LAN systems from Cisco, the largest computer network equipment vendor in the world. Its MSP service fee structure consists of a single monthly fee that covers the equipment, cloud service licensing fees, and maintenance fees.

Cloud Services Net Sales Breakdown (by service)



Source: Excerpted from the Company's IR material.

Cloud Services Net Sales Breakdown (by type)

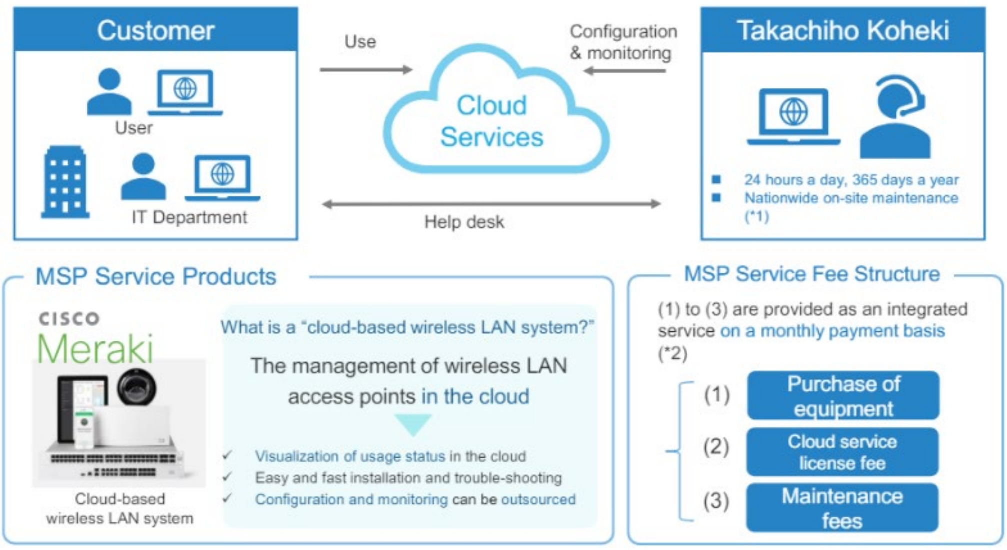
Note2: Lump-sum payment of initial costs, purchase of equipment for MSP Service, etc.

MSP service overview and contract status

The number of contracts for the MSP service has been steadily increasing since its launch in 2015, with 18,305 licenses at the end of FY24/3, of which 2,912 were new contracts. The monthly churn rate was extremely low at 0.48%.

Takachiho Koheki provides the following explanation regarding the competitive landscape for MSP services. There are many competitors for MSP services, including IT vendors, and the Company's MSP service has two main strengths. First, the Company has been handling Cisco Meraki cloud-based wireless LAN equipment since 2012, giving it a first-mover advantage as it launched its MSP service business much earlier than its competitors. Second, it serves as a one-stop shop for technical services, providing network design, installation, and maintenance services, which has led to a steady increase in contracts along with a low churn rate.

Overview of MSP Services



Source: Excerpted from the Company's IR material. (*1) Not available in some areas
(*2) The purchase of equipment (1) can be paid in a lump sum

Strategy and development of service business combining cloud services and maintenance going forward

The growth of cloud services, including MSP services, is one of Takachiho Koheki's key initiatives toward transforming its business. The Company positions its service business that combines cloud services and maintenance as a growth business, and believes that growth in the service business is essential for its transformation from “selling goods” to “selling services”. It aims to achieve service business growth mainly by implementing the following measures.

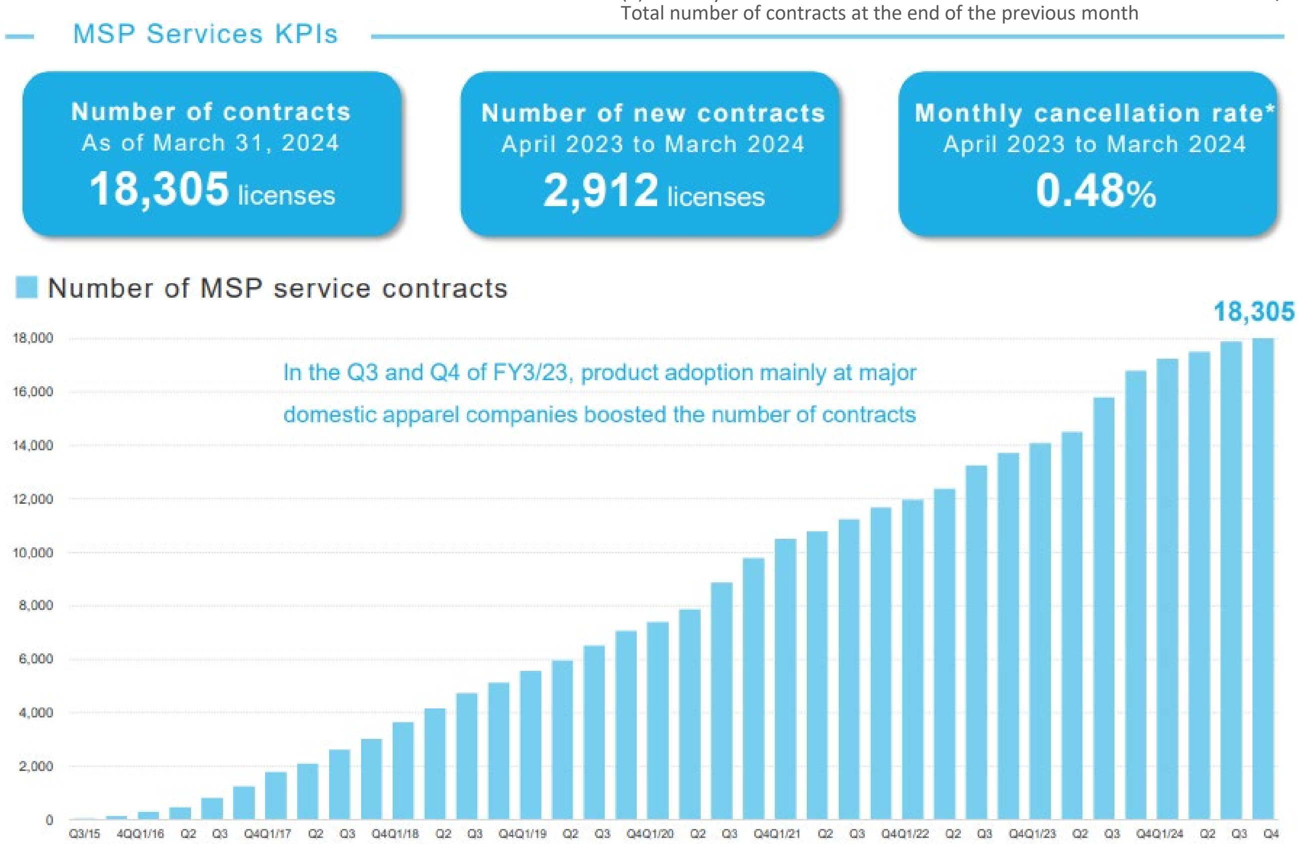
- MSP service: Bolster distributor strategy and boost subscriptions by targeting large companies.
- Other cloud services: Step up cross-selling centered on the Cloom platform, and add new products.
- Cloud-based network products: Increase in sales from office and factory relocations, etc.

Projecting 13% share in MSP services market in FY2025/3

According to the Company, its estimated share of the MSP service market at the end of FY2024/3 is 10.2% with 18,305 license subscriptions (assuming one license per unit). Going forward, it expects wireless LAN devices to be replaced by cloud-based devices as office renovation for hybrid work and demand for faster speeds using Wi-Fi6 will continue to grow, and the Company estimates that the market size will reach 180,000 licenses in FY2025/3. In this environment, the Company changed its target for FY2025/3, the final year of its medium-term management plan, from 27,000 licenses to 23,000 licenses owing to delays in bringing on board new distributors, but it expects to lift its estimated market share to 13% by implementing the measures mentioned above. The Company aims to achieve its initial target of an estimated market share of 15% with 27,000 licenses by FY2026/3.

Number of MSP service contracts and KPIs

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



Source: Excerpted from the Company’s IR material.

Verkada is an integrated security solution that provides physical security of their facilities and office work solutions

Cloom is a cloud service that enables smart offices

Bolstering Cloom-based combined proposals

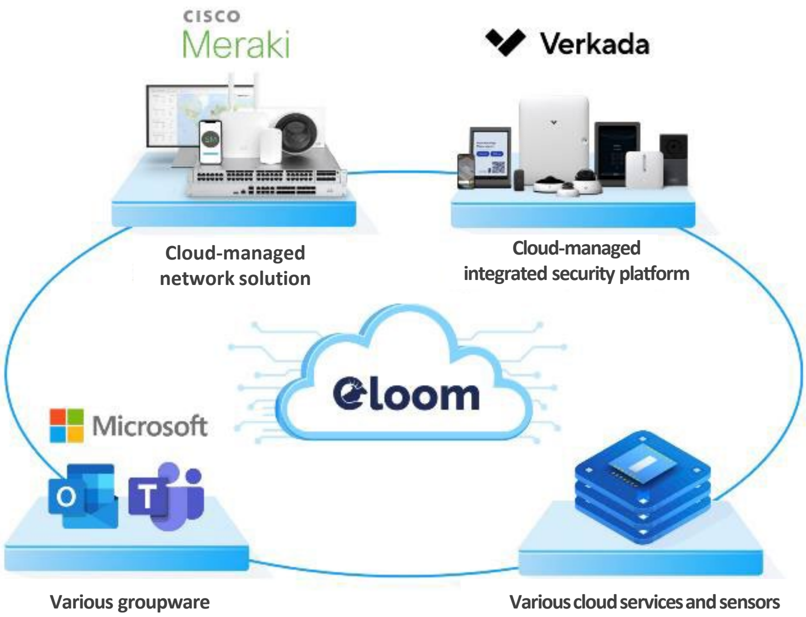
Featured network products in cloud services

Verkada is an integrated security solution developed by US-based Verkada Inc., and the Company offers the product as an authorized distributor in Japan. It is a cloud-based security solution that integrates cloud-based security cameras, access control systems, and environmental sensors, enabling users to monitor the physical security of their facilities at any time and from anywhere using their smartphones and other hand-held devices. In addition, by using the AI-based video search function, users can instantly identify a specific person. Currently, over 13,000 companies around the world have already installed the system.

With the diversification of work styles and hybrid work taking root in recent years, an increasing number of companies are introducing activity-based working (ABW) offices where employees decide which location is best suited for them to work most efficiently according to the nature of their work at any given time. The smart office platform Cloom, which was developed by the Company, supports the implementation of ABW offices by providing a platform for checking employee location, visualizing meeting room usage and availability, monitoring internal network operation, measuring environmental indicators such as office temperature, humidity, CO_2, and noise, monitoring office congestion, and employee entrance and exit records, as well as PC and smartphone wireless network access logs.

Cloom is a cloud service that promotes the transition to smart offices by integrating cloud-managed network solution Cisco Meraki, integrated security platform Verkada, and various groupware and cloud services, and by linking information obtained through APIs. Accordingly, the Company plans to propose Cloom to customers using one or more of the target devices. In addition, it plans to add more products that can be linked to Cloom going forward, thereby boosting its combined cloud proposals and expanding its cloud services business.

Smart office Cloom*1

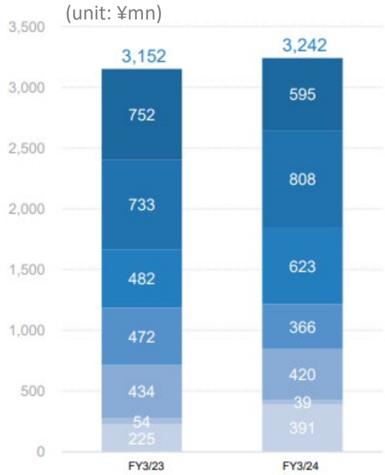


Source: Compiled by SIR from the Company's website. Note*1: Formerly TK Ecosystem

■ System segment

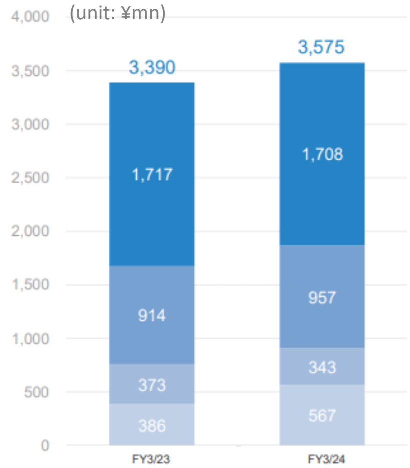
The Systems segment consists of the Retail Solution, Business Solution, and Global businesses, which together accounted for 39.1% of total sales in FY2024/3, as well as negative 2.0% of operating profit as a result of reporting an operating loss of ¥29 mn, down from a profit of ¥92 mn a year earlier. According to the Company, this was attributable to one-time factors and was largely the result of additional construction work for fire protection systems in the Global business (see FY2024/3 Earnings, Systems Segment on page 11 for details).

Retail Solutions Net Sales



	FY3/23	FY3/24
GMS	752	595
Drug stores	733	808
Apparel	482	623
Consumer electronics	472	366
HC/Sports	434	420
Mobile	54	39
Other	225	391

Business Solutions Net Sales



	FY3/23	FY3/24
Access control, surveillance cameras	1,717	1,708
Network Products	914	957
RFID Systems	373	343
Mailing Systems	386	567

- RFID: A contactless system that uses radio waves to read and write data on IC tags
- Mailing Systems: Envelope sealing machine (A machine that automates the series of tasks, from putting documents inside an envelope to sealing the envelope)

Source: Excerpted from the Company's IR material.

Retail Solution business is centered on a wide range of retail and distribution customers

The Retail Solution business serves a wide range of customers in the retail and distribution industry in general, from large stores such as shopping centers to small stores such as drugstores. Accordingly, customer plans for new store openings, relocations, and store closings affect demand for retail solution products. Key products include security devices such as product monitoring systems, video monitoring systems (surveillance cameras and surveillance video recording devices), and security tags. In addition, the Company is stepping up efforts to sell facial recognition systems that use the images captured by surveillance cameras. Demand for facial recognition systems has been on the rise in recent years, and its applications include detecting the entry of repeat shoplifters as well as preventing customer harassment to ensure store employee safety.

Business Solution business has strong market share of products for offices of foreign companies

The Business Solution business mainly sells products for office buildings, data centers, factories, and other corporate-related facilities. Specifically, the business has a high sales mix of security-related products, such as access control systems, network-related equipment, and surveillance cameras. In addition, the business handles the design, construction, installation, and sales of equipment for systems that incorporate the latest electronics technology, such as RFID tags and peripheral equipment for logistics and inventory management systems. The Company has a particularly strong market share in access control systems and surveillance cameras for offices of foreign companies.

Energy-related fire protection systems are the core of the Global business

The Global business designs and builds advanced fire protection systems and installs and sells equipment to office buildings and commercial facilities, as well as power generation and energy-related plants, natural gas and petrochemical plants, and others.

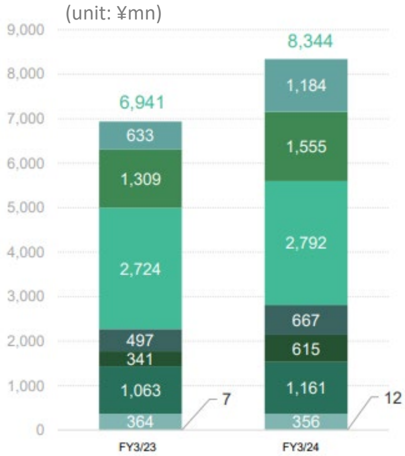
Takachiho Fire, Security & Services (Thailand) Ltd. is engaged in security-related consulting for product monitoring and video surveillance, and system design and sales of product monitoring systems, access control systems, surveillance cameras, fire protection systems, and other products in Thailand. In addition, Guardfire Limited and Guardfire Singapore Pte. Ltd. design and sell advanced fire protection systems in Southeast Asia.

■ Device segment

Device segment accounts for the highest sales and operating profit mix

The Device segment consists of the Electronics and Mechatronics businesses, and accounted for 50.9% of total sales and 68.8% of operating profit in FY2024/3, marking the largest share of operating profit that the segment has accounted for to date. It has also accounted for the largest sales mix among the three segments since FY2023/3. In particular, the Electronics business drove earnings growth in the segment with 20.2% CAGR from FY2019/3 to FY2024/3.

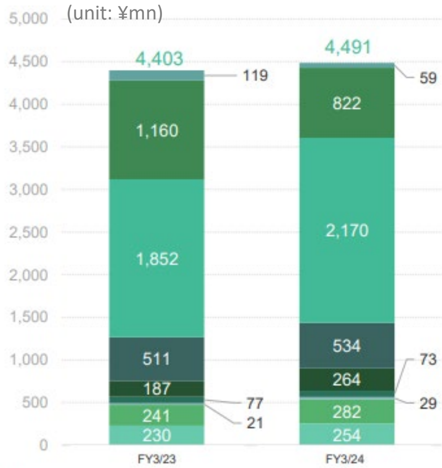
Electronics Net Sales



	FY3/23	FY3/24
Consumer equipment	633	1,184
Business equipment	1,309	1,555
Industrial equipment	2,724	2,792
Amusement	497	667
Auto Vehicles	341	615
Modules	1,063	1,161
Distributor	364	356
Other	7	12

(*) Auto Vehicles: Automotive equipment, railway equipment, ships, and transportation equipment

Mechatronics Net Sales



	FY3/23	FY3/24
Industrial equipment	119	59
Living / Lifestyle	1,160	822
Money Machine/Multifunctional Machines	1,852	2,170
Office	511	534
Environment & Energy	187	264
Medical and Nursing Care	77	73
Transportation Equipment	21	29
Amusement	241	282
Other	230	254

Source: Excerpted from the Company's IR material.

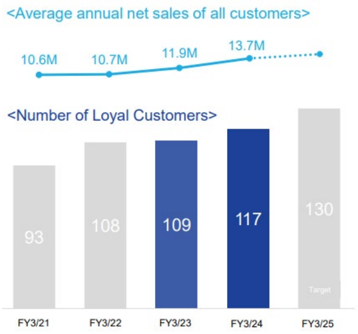
Electronics business drives sales growth in the Device segment

Key products in the Electronics business consist of various semiconductors centered on analog ICs, as well as silicon microphones and other sensors, and electronic components. As mentioned above, the high sales growth rate from FY2019/3 can be attributed to higher demand for Nuvoton Technology Japan Corporation (NTCJ) products, with which the Company signed a distributor agreement in 2021. Another contributing factor was that the Company steadily procured and delivered on an order backlog that had built up as customers placed more advanced orders in response to longer the lead times resulting from semiconductor shortages.

Mechatronics business is seeing robust sales of mechanical components driven by replacement demand for printing equipment to be used for the new banknotes to be issued from July 2024.

The main products in the Mechatronics business are mechanical parts that improve safety, convenience, and comfort, such as slide rails, gas springs, soft-close dampers, and lift systems. The products are mainly used for opening/closing, withdrawal, and safety mechanisms (slide rails, gas springs, and keys) for ATMs and other equipment at financial institutions and convenience stores, drawer and lifting mechanisms (slide rails and lifting systems) for system kitchens, and paper feed mechanisms (slide rails and dampers) for copy machines.

Progress of the Loyal Customer Strategy



Source: Excerpted from the Company's IR material.

Loyal customer strategy

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

In FY2024/3, the second year of the medium-term management plan, the Company's loyal customer count totaled 117 companies (+8 companies YoY), and average sales to all customers grew by 28% YoY. Since the Company achieved its target for average sales to all customers one year ahead of schedule, it revised its target to ¥14 mn for FY2025/3, the final year of the plan. On the other hand, its loyal customer count did not grow as much as expected, which was attributed to a delay in adopting the Company's products in the Mechatronics business and the postponement of investments to the next fiscal year by some customers in the Systems segment.

FY2024/3 Earnings result

Reached record-high profits

In FY2024/3, Takachiho Koheki reported consolidated sales of ¥25,224 mn (+8.0% YoY), operating profit of ¥1,465 mn (+6.5% YoY), ordinary profit of ¥1,835 mn (+15.6% YoY), and net profit of ¥1,437 mn (+19.3% YoY), marking record high profits. By business segment, the Device segment substantially boosted both sales and profits.

On the other hand, the Company's gross profit margin fell 1.0pp YoY to 24.0%. This was mainly attributable to the additional construction cost of approximately ¥200 mn incurred by the fire protection systems business in the System segment, which was recorded as a cost of sales. The SG&A ratio fell by 0.9pp YoY from 19.1% in FY2023/3 to 18.2% in FY2024/3. The Company's SG&A expenses consist of few variable costs that are tied to sales, and thus, its SG&A ratio falls when sales grow unless there are extraordinary factors. The decline in gross profit margin of 1.0 pp was offset by an improvement in the SG&A expenses-to-sales ratio, which limited the decline in operating profit margin to 5.8%, down only 0.1pp YoY. Ordinary profit grow 15.6% YoY, outpacing the 6.5% YoY rise in operating profit, reflecting a foreign exchange gain of ¥293 mn recorded under non-operating income. In addition, a ¥280 mn gain on the sale of investment securities under extraordinary income led to a 19.3% YoY boost in net profit, which surpassed the growth rate of all other profit lines.

The following is an overview of each segment.

Cloud Service & Support segment

Sales rose but operating profit fell owing to impact of foreign exchange rates

In the Cloud Service & Support segment, the Company is working to expand earnings from MSP services and tap into new markets such as cloud-based services, as well as grow its maintenance business. Sales came in at ¥2,531 mn (+6.1% YoY), operating profit was ¥486 mn (-4.1% YoY), and operating profit margin fell by 2.0pp YoY to 19.2%.

Factors affecting sales in the Cloud Services & Support segment are as follows:

- Maintenance business: Sales rose by ¥144 mn YoY. Maintenance income from access control systems and network products for data centers and offices of foreign companies increased. In addition, the Company implemented some price revisions, which also helped boost sales.
- Cloud service business: Sales rose as the Company enhanced its cloud service offerings. Subscription income from MSP services rose by ¥79 mn YoY, but spot sales fell by ¥163 mn due to inventory adjustments at partnered distributors. MSP service contracts expanded steadily to 18,305 licenses at the end of FY2024/3, up by 8.2% YoY. On the other hand, with regard to profits, mailing system maintenance parts drove down operating profit as a result of higher purchase costs stemming from foreign exchange rates (weak Japanese yen against strong Swiss franc) and inventory write-downs.

Operating loss in the System segment was temporary

System segment

In the System segment, sales came in at ¥9,857 mn (+2.4% YoY), with an operating loss of ¥29 mn, down ¥122 mn YoY, reflecting higher expenses associated with additional construction work for fire protection systems in Thailand under the global product category.

Factors affecting sales in the three businesses under the System segment are as follows:

- In the Retail Solution business, sales came in at ¥3,242 mn (+2.9% YoY), thanks to higher sales of RFID-based product management solutions and security systems for the apparel industry, and strong sales of product monitoring systems and other products for drugstores.
- In the Business Solution business, sales amounted to ¥3,575 mn (+5.5% YoY), reflecting strong sales of access control systems and network products to offices of foreign companies, as well as the delivery of a mailing system which had been behind owing to delays in equipment procurement.
- In the Global business, sales fell 1.6% YoY to ¥3,039 mn despite strong sales of security systems for apparel stores in Thailand, as sales of fire protection systems dropped owing to a delay in the construction plan for a power plant in Thailand. According to the Company, the unexpected additional construction work on fire protection systems, which led to the System segment reporting an operating loss, was a one-time event.

Device segment accounted for 68.8% of operating profit

Device segment

The Device segment consists of the Electronics and Mechatronics businesses. Sales in this segment amounted to ¥12,835 mn (+13.1% YoY), operating profit came in at ¥1,008 mn (+29.9% YoY), and operating profit margin rose by 1.1pp YoY to 7.9%.

Factors affecting sales in the two businesses under the Device segment are as follows:

- Sales in the Electronics business came in at ¥8,344 mn (+20.2% YoY), lifted by steady progress in working through order backlogs from the end of FY2023/3. In addition, strong sales of products from Nuvoton Technology Corporation Japan (NTCJ), with which the Company signed a distributor agreement in 2021, and higher adoption of products for consumer electronics, business equipment, and amusement equipment contributed to the double-digit increase in sales.
- In the Mechatronics business, sales came in at ¥4,491 mn (+2.0% YoY), owing to strong sales of mechanical components for bank ATMs resulting from the new banknotes to be issued and parts for power generation equipment, as well as steady sales to the amusement industry backed by the adoption of the new "spiral shaft" and other linear motion products in smart amusement machines.

Full-year FY2025/3 earnings forecast

Projecting to continue reaching record high profits, with operating profit margin hitting an all-time high of 7.6%

Summary of earnings forecast by the Company

Takachiho Koheki's full-year FY2025/3 earnings forecast calls for consolidated sales of ¥26.9 bn (+6.6% YoY), operating profit of ¥2.05 bn (+39.9% YoY), recurring profit of ¥2.0 bn (+8.9% YoY), and net profit of ¥1.49 bn (+3.6% YoY). It expects to book the third-highest sales in its history, while continuing to post record-high profits.

The Company plans to grow sales by 6.6% YoY while boosting gross profit to ¥6.9 bn (+14.0% YoY). The main factors behind this projection include the absence of approximately ¥200 mn in additional construction costs for fire protection systems in the Systems segment, which were included in cost of sales in FY2024/3, as well as an anticipated 34.9% YoY surge in sales in the Cloud Service & Support segment, which boasts the highest profit margin among the Company’s three segments. As a result, it expects gross profit margin to rise 1.7pp YoY to 25.7%, compared to 24.0% in FY2024/3.

Furthermore, the Company expects operating profit to rise 39.9% YoY, with sales growth of 6.6% YoY outpacing the projected 5.8% YoY increase in SG&A expenses. It expects operating profit margin to rise by 1.8pp YoY to reach a record-high 7.6%. On the other hand, the Company anticipates a single-digit 8.9% YoY growth in ordinary profit, mainly because it recorded ¥293 mn in foreign exchange gains under non-operating income in FY2024/3, but has not factored foreign exchange gains into its earnings forecast assumptions at this point in time. The Company was asked about its projected exchange rate assumptions for FY2025/3 at its earnings results briefing, but noted that it will not disclose these figures. The Japanese yen began weakening again from April onward, and the Company plans to address rising purchase costs through price revisions.

Plans to clarify policy for enhancing Cloud Service business within the Company

Change in segment classification

Takachiho Koheki will partially change its segment classification for the Cloud Service & Support segment starting from FY2025/3. Sales of cloud-based network products (cloud-based wireless networks such as Cisco's Meraki) in the System segment's Business Solution business will be included under the Cloud Service & Support segment from FY2025/3.

Previously, cloud-based wireless network products were recorded as sales in the System segment for the purpose of distinguishing them from MSP services. Meanwhile, it was recording sales as cloud license sales, as with its other cloud products, which made the accounting more complicated. By uniformly recording the sales under the Cloud Service & Support segment, the Company will be able to accelerate the growth of its Cloud Service business, as it will be able to clearly demonstrate its cloud service growth policy internally.

Segment forecasts for FY2025/3 based on the new segment classifications are as follows. For reference, segment sales and operating profit are shown under both the previous and new segment classifications for FY2024/3.

Net sales and Operating Profit for each previous/ new segment (unit : ¥mn)

	Previous segments FY2024/3			New segments FY2024/3			New segments FY2025/3 (Forecast)		
	AMT	YoY	Percent	AMT	YoY	Percent	AMT	YoY	Percent
Cloud Services and Support	2,531	6.1%	10.0%	3,113	30.5%	12.3%	4,200	34.9%	15.6%
Systems	9,857	2.4%	39.1%	9,275	-3.7%	36.8%	9,600	3.5%	35.7%
Devices	12,835	13.1%	50.9%	12,835	13.1%	50.9%	13,100	2.1%	48.7%
Net Sales Total	25,224	8.0%	100.0%	25,224	8.0%	100.0%	26,900	6.6%	100.0%
Cloud Services and Support	486	-4.1%	33.2%	530	4.7%	36.2%	730	37.7%	35.6%
Systems	-29	-	-2.0%	-73	-	-5.0%	380	-	18.5%
Devices	1,008	29.9%	68.8%	1,008	29.9%	68.8%	940	-6.8%	45.9%
Operating Profit Total	1,465	6.5%	100.0%	1,465	6.5%	100.0%	2,050	39.9%	100.0%
Cloud Services and Support	19.2%			17.0%			17.4%		
Systems	-0.3%			-0.8%			4.0%		
Devices	7.9%			7.9%			7.2%		
Operating Profit Margin (companywide average)	5.8%			5.8%			7.6%		

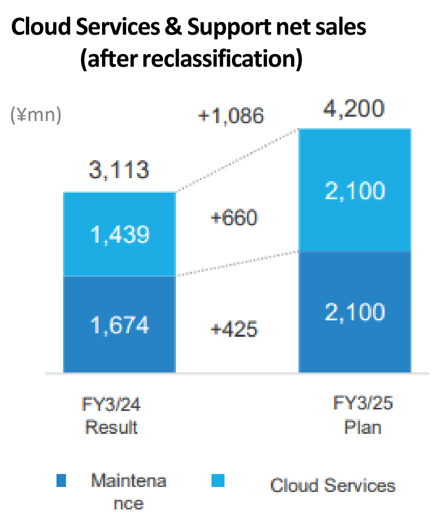
Source: Compiled by SIR from the Company's IR material and fact book.

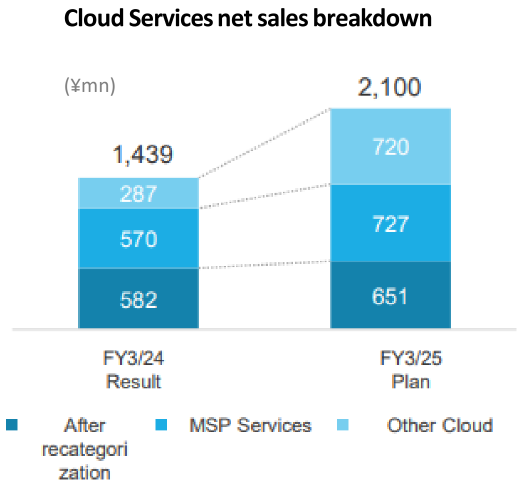
Drop in segment operating profit reflects decrease in sales mix of MSP services stemming from segment reclassification

Forecasts for each segment are as shown below.

Cloud Service & Support

In the Cloud Service & Support segment, the Company projects sales of ¥4.2 bn (+34.9% YoY) and operating profit of ¥730 mn (+37.7% YoY). Of the ¥4.2 bn in sales, the Company expects ¥2.1 bn (+25.4% YoY) to come from the maintenance business, and ¥2.1 bn (+45.9% YoY) from the cloud service business. It projects operating profit margin of 17.4% (vs. 17.0% in FY2024/3) owing to a relative drop in sales mix of MSP services as a result of the new segment classification. The sales forecasts and trends for the two businesses in this segment are shown below.





Source: Excerpted from the Company's IR material.

Sales of other cloud services to increase by 2.5x

- Takachiho Koheki projects sales growth in the maintenance business to come mainly from acquisition of large maintenance contracts, higher maintenance income in line with the expansion of existing customer locations, and the impact of price revisions on existing contracts and spot prices.
- In the cloud services business, the Company plans to step up its distributor strategy for MSP services and boost license count by targeting large companies. As for other cloud services, it plans to level up cross-sales of cloud-managed network solution Cisco Meraki, cloud-managed integrated security platform Verkada and various other cloud services, centered on its in-house developed Cloom platform, which connects various products and services offered by the Company via API. Furthermore, the Company plans to launch new products and also anticipates higher sales of cloud-based network products as a result of customers relocating their offices and factories. The breakdown of the expected ¥426 mn increase in sales in FY2025/3 consists of ¥150 mn from the acquisition of large contracts, ¥125 mn from the expansion of existing contracts, ¥100 mn from price revisions, and ¥50 mn from increased spot sales.

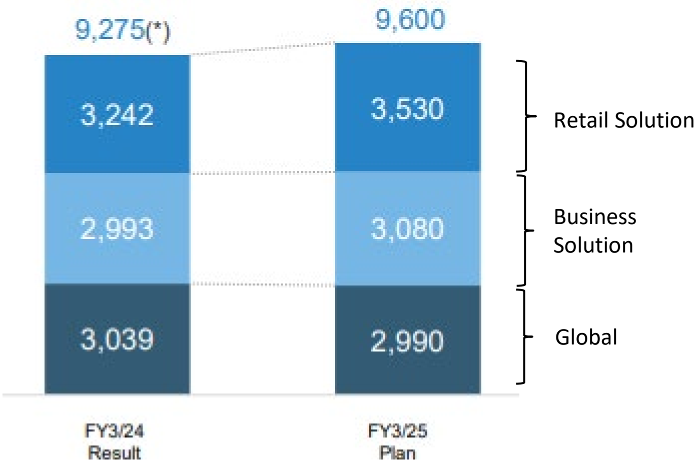
System segment

System segment profitability rising rapidly

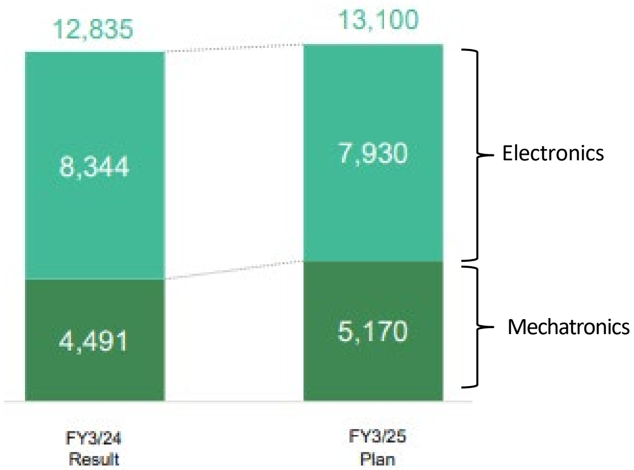
For the System segment, the Company projects sales of ¥9.6 bn (+3.5% YoY), an operating profit of ¥380 mn (versus an operating loss of ¥73 mn under the new segment classification in FY2024/3) and an operating profit margin of 4.0% (-0.8%). It expects profits to rise substantially owing to the absence of additional construction work on fire protection systems recorded in FY2024/3. The Company's sales forecasts and anticipated factors affecting sales for the three businesses in the System segment are as follows.

- In the Retail Solution business, the Company projects sales to rise by 8.9% YoY (+¥287 mn) and expects higher replacement sales of security systems such as facial recognition and surveillance cameras for general merchandise stores (GMS). On the other hand, it expects sales to the apparel industry to fall following a reactionary drop from booking major projects in FY2024/3.
- For the Business Solution business, the Company expects sales to increase by 2.9% YoY (+¥86 mn) owing to sales of cloud-based network products being reclassified under the Cloud Service & support segment. It projects sales of access control and surveillance cameras for offices of foreign companies to rise as customers expand their locations or move to new ones. In addition, it expects sales of access control systems to factories in Japan to increase.
- In the Global business, the Company expects sales to fall by 1.6% YoY (-¥49 mn). It plans to focus its sales efforts on high margin projects in areas such as fire protection systems for power plants and security systems for the Thai retail industry, which will likely result in a drop in sales. Furthermore, the Company expects changes in foreign exchange rates to reduce its yen-denominated profits.

Systems Net Sales Plan (unit: ¥mn)



Devices Net Sales Plan (unit: ¥mn)



Source: Compiled by SIR from the Company's IR material.

Projecting higher sales in the Mechatronics business and lower sales in the Electronics business

Device segment

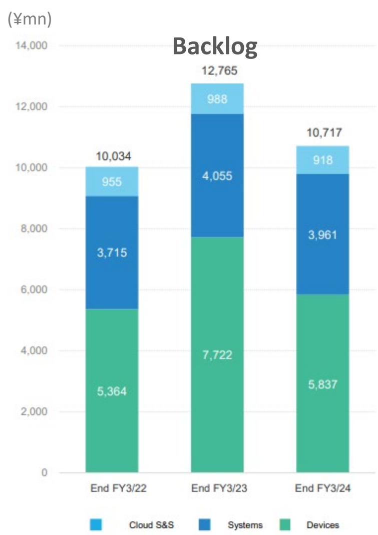
In the Device segment, the Company projects sales of ¥13.1 bn (+2.1% YoY), operating profit of ¥940 mn (-6.8% YoY) and an operating profit margin of 7.2% (versus 7.9% in FY2024/3). The projects drop in profit is largely attributed to an expected drop in sales in the Electronics business, combined with higher costs associated with an increase in headcount. The Company believes it must expand its headcount in order to further improve performance from FY2026/3 onward.

The Company's sales forecasts and anticipated factors affecting sales for the two business in the Device segment are as follows.

- In the Electronics business, the Company projects sales to fall by 5.0% YoY (-¥414 mn). It expects higher sales of electronic components that were adopted for use in consumer electronics in FY2024/3, with sales of various semiconductors to fall owing to customer production adjustments.

- For the Mechatronics business, the Company expects sales to expand by 15.1% YoY (+¥678 mn). It expects demand for mechanical components for money-handling equipment to continue in FY2025/3 with the replacement of equipment in line with the new banknotes to be printed starting in July 2024. Furthermore, it expects sales of mechanical components for residential equipment to grow in the US, along with an increase in adoption for use in products under planning and development.

Orders Received / Backlog



Source: Compiled by SIR from the Company's IR material.

Medium-term Management Plan

Med-term Management Plan 2022-2024 (unit: ¥mn)

Item	The final year FY2025/3 Target
Net sales	26,000
Ordinary profit	2,000
Net profit	1,400
ROE	(Target)10.0% 8.0% (Must be achieved)
Payout ratio	100% **Continued***

***Until the Company achieves a three-year average ROE of 8%**

Source: Compiled by SIR from the Company's IR material.

2022-2024 Medium-term Management Plan

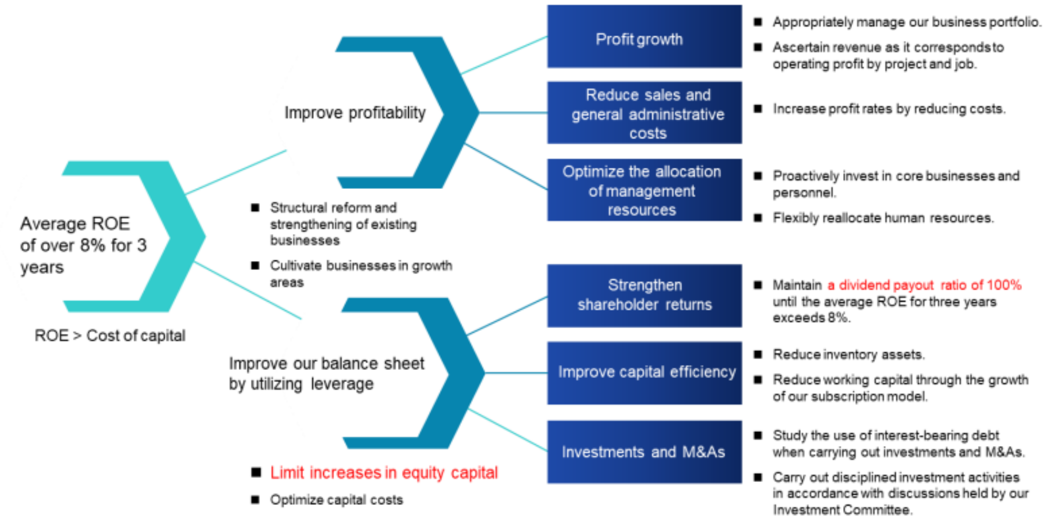
Takachiho Koheki announced its 2022-2024 medium-term management plan (FY2023/3-FY2025/3) on February 8, 2022, and the current fiscal year, FY2025/3, is the final year of the plan. Under the plan, the Company aims to sustainably grow and boost its corporate value over the medium to long term, and to ensure that it meets all of the listing maintenance criteria for its Prime Market listing.

Capital policy

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

Status of Capital Strategy

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



Source: Excerpted from the company's IR material.

Progress

As of the end of March 2023, Takachiho Koheki has met all of the Prime Market listing maintenance criteria, as it set out to accomplish in its medium-term management plan. With regard to its numerical performance targets, the Company is making progress toward achieving its forecast, which calls for sales of ¥26.9 bn, recurring profit of ¥2.0 bn, and net profit of ¥1,490 mn in FY2025/3, the final year of its medium-term management plan. In terms of achieving a three-year average ROE of over 8%, the Company's ROE came in at 7.7% in FY2023/3 and 8.6% in FY2024/3. Given its projected ROE of 8.6% for FY2025/3, the Company will achieve a three-year average ROE of over 8% by the end of FY2025/3 if it continues on its current path. At the same time, the Company recognizes that it has been slow in launching its future core businesses through strategic investments such as new businesses and M&A.

Use of ¥3.0 bn strategic investment budget and status of M&A and alliances

In addition to regular capital expenditures and investments, the Company has set aside a total of ¥3.0 bn for investment in its medium-term management plan. Of this amount, ¥2.6 bn is for (1) launching new businesses, (2) investing in service business growth, and (3) investing in fulfilling the needs of loyal customers. The remaining ¥400 mn will be allocated to strengthening the Company's internal infrastructure, including investments in IT such as digital transformation (DX) and human resource training.

The Company has used approximately ¥800 mn, or 27% of its ¥3 bn strategic investment budget through FY2024/3, comprised of ¥350 mn for new business discovery (fund investments), ¥250 mn for strengthening internal infrastructure (IT investments, etc.), and ¥200 mn for new service and new product development.

With regard to M&A and alliances, the Company announced a business alliance with Terilogy Holdings Corporation on May 9, 2024. Terilogy Holdings is a distributor of US-based Nozomi Networks, the market leader in the OT/IoT security market, with a strong track record of successful installations. Aside from that, the Company plans to continue its task force activities with the aim of securing M&A deals and alliances that will contribute to medium- and long-term business performance during FY2025/3.

Status of launching new businesses and business models

**OT: Operational Technology*

Firstly, the Takachiho Koheki is looking to launch an OT* Security business. Through its business alliance with Terilogy Holdings mentioned earlier, the Company plans to strengthen its OT security business by combining Terilogy Holdings' technical capabilities and knowledge in OT/IoT security with its own service and support capabilities, network security expertise, and customer base. The Company will begin proposing value-added, safe, and comfortable cyber security measures to its loyal customers in the manufacturing industry, where the risk of cyber attacks is rising as a result of factory automation and other factors.

Second, the Company launched the new version 2.0 of its cloud-based security information service EMLINX in April 2024, adding functions such as the ability to change the scope of information disclosure, which had been requested by customers. The Company aims to enhance its combined proposals with shoplifting prevention systems and surveillance cameras for retailers, with the goal of installing these systems in 10,000 stores by FY2027/3.

Thirdly, the Company will work to expand sales of cloud-based video systems. The market for cloud video systems, which enable image verification and AI video analysis on the cloud, is growing, and the number of projects is on the rise. The Company plans to bolster sales mainly to existing customers and capture replacement demand for on-premise systems.

Financials

Financial analysis

Extremely high equity ratio

Takachiho Koheki maintains a generally sound financial position. Aside from a small amount of lease obligations totaling ¥49 mn in FY2024/3, the Company has been effectively interest-bearing debt-free for 18 years since FY2006/3. The Company's shareholders' equity ratio is extremely high, remaining above 70% for 16 consecutive years, and it is highly resilient and well-prepared to recover on its own and adapt in the event of a business downturn.

On the other hand, it has not been able to take advantage of financial leverage, and the positive impact on tax savings and ROE from debt use has been limited. In light of this, the Company has a basic policy to limit the buildup of shareholders' equity under its current medium-term management plan (2022-2024) and will look into applying financial leverage such as interest-bearing debt for large investments in order to reduce its cost of capital. Furthermore, the Company aims to improve capital efficiency by pursuing a financial strategy to cut working capital by expanding its subscription model business, such as MSP services.

Inventory turnover period (days) based on cost of sales has been rising since FY2021/3, mainly driven by an increase in inventories centered on semiconductors. A major trend in the semiconductor supply chain is the ongoing process of semiconductor customers adjusting their inventory back to normal levels, following the inventory buildup from around 2022 in response to the semiconductor shortages in 2020-2021 caused by the COVID-19 pandemic. The Company's inventory increased as a result of customer inventory adjustments.

Inventory turnover and average collection period need improvement

This situation is not unique to the Company, as most semiconductor-related trading companies have seen a drop in inventory turnover ratio and an increase in inventory turnover days since FY2021/3. As for the current status of semiconductor devices, deliveries against order backlog as of the end of FY2024/3 is about 30-40% ahead of FY2023/3. On the other hand, orders fell temporarily in 4Q FY2024/3, but have remained flat since, according to the Company.

Accounts receivable turnover period has remained longer than days of payable turnover, and the spread is slightly wider when compared to other semiconductor-related trading companies. The Company plans to reduce inventories and shorten its Accounts receivable turnover period by growing its service businesses.

Cash flows

Takachiho Koheki went from producing negative free cash flow in FY2023/3 to generating a positive free cash flow of ¥1,671 mn in FY2024/3. This was attributed to a ¥3,030 mn increase in operating cashflow from FY2023/3, with a ¥2,116 mn increase in profit before income taxes, a ¥299 mn decrease in trade receivables, and a ¥257 mn increase in prepaid expenses. On the other hand, investment cashflow came to ¥29 mn, falling by ¥493 mn from FY2023/3. This was mainly the result of the large ¥1.1 bn in proceeds from withdrawal of time deposits in FY2023/3. Financing cashflow came to negative ¥1,459 mn, a decrease of ¥1,155 mn from FY2023/3. This was largely impacted by an increase in dividend payments from ¥604 mn in FY2023/3 to ¥1,480 mn in FY2024/3.

Key Financial Indicators FY2020/3-FY2024/3

FY	FY2020/3	FY2021/3	FY2022/3	FY2023/3	FY2024/3
Operating profit margin*(%)*	3.8	4.3	4.9	5.9	5.8
EBITDA margin*(%)*	4.7	4.9	5.8	6.7	6.6
ROE *(%)*	1.4	4.0	6	7.7	8.6
ROA *(%)*	1	2.9	4.4	5.6	6.4
Total asset turnover (times)	1.10	1.08	1.04	1.09	1.12
Financial leverage (X)	1.37	1.37	1.37	1.35	1.36
Net profit margin *(%)*	0.9	2.7	4.2	5.2	5.7
Equity ratio *(%)*	73.2	72.7	72.9	74.2	73.3
Interest bearing debt (JPY mn)	0	0	0	0	49
Net interest-bearing debt (JPY mn)	(6,200)	(6,001)	(6,709)	(4,509)	(4,822)
D/E ratio (X)	0	0	0	0	0
Net D/E ratio (X)	(0.46)	(0.42)	(0.45)	(0.27)	(0.29)
Inventory turnover (days)	59.4	58.6	64.3	83.1	95.4
Accounts Receivable Turnover (days)	108.2	108.5	103	95.4	92.9
Accounts Payable Turnover (days)	63.8	63.3	67.8	62.9	57
Cash/Total Assets(%)	33.4	30.8	32.6	20.4	21.2
Cash and Deposits/Market Cap (%)	72.7	59.9	50.6	20.1	14.1
Cash Flows from Operating Activities (1)	250	754	1,185	(1,388)	1,642
Cash Flows from Investing Activities(2)	(111)	(775)	(393)	522	29
Cash Flows from Financial Activities	(215)	(214)	(190)	(303)	(1,459)
FCF (1)+(2)	139	(21)	792	(866)	1,671
Cash and Deposits	5,100	4,901	5,609	4,509	4,871

Source: Compiled by SIR from SPEEDA data. * Data based on SPEEDA calculation rules and may differ from the company's publicly announced figures.

Share price insights

Factors contributing to weakness in share price despite solid fundamentals

Share price trends

The current share price of ¥3,980 (closing price on July 8) is up about 30% from a year ago. On the other hand, it is down 8.1% from its recent high of ¥4,330 recorded on January 23. Since February 2024, the Company's shares have underperformed the TOPIX while its fundamentals have remained strong with the Company posting record-high profits. The underperformance is particularly evident from around the end of March, after the ex-dividend date. This is likely due in large part to the small-cap sector underperforming versus the large-cap sector and the broader market. SIR believes that the large-cap sector is driving the overall upward momentum of the stock market, partly fueled by the weak yen, and that supply-demand factors in the stock market are outweighing the Company's fundamentals.

Earnings growth in FY2025/3 will substantially exceed the competitor’s average

Valuation

In this section, we look at relative valuation metrics to assess Takachiho Koheki’s stock price. The Device segment, which includes semiconductor and electronic component products, is projected to accounts for just under a majority of the Company's FY2025/3 sales and operating profit. On the other hand, the Company is also an MSP service provider, as its Cloud Service & Support segment, which includes MSP services, will account for about 35% of its operating profit. Given this, SIR selected 40 companies, including 22 major semiconductor and electronic component trading companies as well as 18 MSP providers in the IT infrastructure services industry that are engaged in MSP services and information security-related businesses, to perform a peer valuation comparison.

The Company's ROE is lower than the peer average, but its P/E, P/B, EV/EBITDA, and P/S ratios are higher than those of its peers, with the exception of the MSP provider average P/B ratio of 2.70x. However, the Company's P/B ratio is still well above 1x, indicating that it is well received by the stock market. The high investor evaluation can be attributed to the Company's large earnings growth rate over its peers and its commitment to paying out dividends to its shareholders. In its medium-term management plan covering the period between FY2023/3 and FY2025/3, announced on February 8, 2022, the Company committed to maintaining a dividend payout ratio of 100% until it achieves a three-year average ROE of 8%, which has been a major positive factor underpinning its stock price.

Meanwhile, the Company's dividend policy for the next fiscal year and beyond is beginning to attract attention. At the FY2024/3 earnings results briefing, the Company explained that it intends to maintain or increase dividend per share through profit growth, even if its dividend payout ratio decreases in the next fiscal year and beyond. The Company believes that growth in the service business centered on the Cloud Service & Support segment as well as transforming its business model from “selling goods” to “selling services” is essential in accelerating profit growth. Accordingly, SIR believes that the growth potential and growth rate of its service businesses will attract considerable attention as they will influence the Company's dividend payout policy and share price performance going forward.

Valuations

Comparable companies*1Div	PER(X) act	PER(X)*2 CE	PBR(X) act	ROE(%) act	OP Growth (%)*3	OPM (%)*4CE	EV/EVITDA act (CE)	Dividend Payout Ratio (%)*5act	Dividend Payout Ratio (%)*6CE	DY (%)*7CE	PSR(X)*8 CE	Shareholders' equity ratio (%)act
Takachiho Koheki	25.2	24.3	2.15	8.6	39.9	7.6	18.8	99.8	97.6	4.0	1.34	73.3
Average of 22 electronic component and semiconductor trading companies	11.1	12,2	0.98	10.0	(12.8)	3.6	6.2	41.6	44.1	3.7	0.28	47.1
Average of 18 information security companies	24.0	22.2	2.70	12.8	18.6	8.9	10.4	37.0	39.1	2.0	1.11	55.5

Source: Compiled by SIR from SPEEDA data.

Note 1. Unless otherwise noted, share prices are based on the closing price on July 8, 2024. 2. Calculated based on the company's EPS forecast for the current term. 3. Year-on-year operating profit growth rate 4. Operating profit margin for the current term 5. Total dividends paid by each company / average net profit for the current term 6. Company's forecast annual dividend per share for the current term for each company/average of the company's forecast EPS for the current term 7. Company's forecast annual dividend per share for the current financial year divided by the average of the most recent share price of each company. 8. Market caps. based on the most recent share price of each company divided by the average of the company's sales forecast for the current year.

Comparable companies

Electronic and semiconductor trading firm (22 comps.)	MACNICA HOLDINGS(3132), KAGA ELECTRONICS(8154), Restar Holdings(3156), TOMEN DEVICES(2737), SIIX(7613), RYODEN(8084), TOKYO ELECTRON DEVICE(2760), MARUBUN(7537), TACHIBANA ELETECH(8159), HAGIWARA ELECTRIC HOLDINGS(7467), Elematec(2715), Hakuto(7433), Shinko Shoji(8141), SUN-WA TECHNOS(8137), SANSHIN ELECTRONICS(8150), TSUZUKI DENKI(8157), KANADEN(8081), TAKEBISHI(7510), Daitron(7609), MEIJI ELECTRIC INDUSTRIES(3388), TOKAI ELECTRONICS(8071), KYOEI SANGYO(6973)
Information security firm (18 comps.)	SCSK(9719), T-Gaia(3738), NEC Networks & System Integration (1973), FUJI SOFT INCORPORATED(9749), Internet Initiative Japan(3774), Japan Business Systems(5036), SB Technology(4726), COMPUTER ENGINEERING & CONSULTING(9692), I-NET(9600), AGS(3648), SOLITON SYSTEMS (3040), GMO GlobalSign Holdings(3788), E-Guardian(6050), SECURE(4264), Eltes(3967), Encourage Technologies(3682), DAIWA TSUSHIN(7116), Internetworking & Broadband Consulting(3920)

Source: compiled by SIR from SPEEDA data.

Balance Sheet

	FY2020/3	FY2021/3	FY2022/3	FY2023/3	FY2024/3
Current assets	16,236	16,516	17,390	18,302	18,887
Cash and deposits	6,199	6,000	6,708	4,509	4,871
Notes receivable - trade	371	206	188	376	128
Electronically recorded monetary claims – operating	590	514	678	797	848
Accounts receivable - trade	5,757	6,296	4,348	5,557	5,609
Contract assets	–	–	1,311	815	716
Merchandise and finished goods	2,597	2,431	3,096	4,880	5,143
Other	840	1,066	1,058	1,365	1,572
Allowance for doubtful accounts	-122	0	0	0	-2
Non-current assets	2,319	2,956	3,203	3,831	4,075
Total property, plant and equipment	299	577	539	446	459
Buildings and structures, net	12	232	211	200	183
Land	117	115	111	–	–
Other, net	169	229	216	245	276
Intangible assets	147	337	299	233	171
Investments and other assets	1,872	2,041	2,364	3,151	3,444
Investment securities	925	1,444	1,773	2,586	3,009
Deferred tax assets	307	219	212	119	8
Other	640	377	377	445	427
Allowance for doubtful accounts	0	0	0	0	0
Total assets	18,556	19,473	20,593	22,133	22,963
Current liabilities	4,174	4,547	4,807	4,952	5,407
Notes and accounts payable - trade	2,591	2,839	2,984	3,059	2,924
Income taxes payable	241	141	249	124	540
Contract liabilities	–	–	913	947	1,067
Provision for bonuses	235	270	294	387	302
Provision for bonuses for directors (and other officers)	1	13	30	34	57
Provision for head office relocation expenses	82	–	–	–	–
Other	1,021	1,283	334	398	514
Non-current liabilities	797	751	760	748	719
Long-term accounts payable - other	35	42	31	20	–
Retirement benefit liability	729	673	685	679	619
Provision for share awards for directors (and other officers)	–	–	9	9	21
Other	31	35	34	40	78
Total Liabilities	4,971	5,299	5,568	5,700	6,127
Shareholders' equity	13,537	13,872	14,561	15,478	15,464
Share capital	1,209	1,209	1,209	1,209	1,209
Capital surplus	1,172	1,172	1,193	1,375	1,381
Retained earnings	12,388	12,722	13,377	13,979	13,938
Treasury shares	-1,231	-1,231	-1,218	-1,085	-1,064
Accumulated other comprehensive income	36	290	452	946	1,366
Valuation difference on available-for-sale securities	204	299	373	691	911
Foreign currency translation adjustment	-165	-58	41	227	394
Remeasurements of defined benefit plans	-2	49	37	26	60
Share acquisition rights	9	12	11	8	4
Non-controlling interests	0	0	0	0	0
Total Net assets	13,584	14,174	15,025	16,432	16,835
Total liabilities and net assets	18,556	19,473	20,593	22,133	22,963

Source: Compiled by SIR from the Company’s fact book and SPEEDA data.

Income Statement and Cash Flow Statement

	FY2020/3	FY2021/3	FY2022/3	FY2023/3	FY2024/3
Net sales	20,616	20,591	20,784	23,360	25,224
Cost of Sales	15,494	15,661	15,685	17,522	19,173
Gross Profit	5,121	4,930	5,099	5,838	6,051
Selling, General and Administrative Expenses	4,333	4,043	4,074	4,461	4,585
Operating Profit	788	886	1,024	1,376	1,465
Ordinary Profit	885	926	1,247	1,588	1,835
Extraordinary income	68	4	–	0	280
Extraordinary losses	366	1	3	103	–
Profit before income taxes	587	929	1,243	1,485	2,116
Income taxes - current	425	356	382	320	676
Income taxes - deferred	-28	24	-17	-40	2
Net Income	190	548	878	1,205	1,437
Profit attributable to owners of parent	190	548	878	1,205	1,437
Gross profit ratio	24.8%	23.9%	24.5%	25.0%	24.0%
Operating profit ratio	3.8%	4.3%	4.9%	5.9%	5.8%
Ordinary profit Ratio	4.3%	4.5%	6.0%	6.8%	7.3%
Net Income Ratio	0.9%	2.7%	4.2%	5.2%	5.7%
ROE	1.4%	4.0%	6.0%	7.7%	8.6%
ROA	1.0%	2.9%	4.4%	5.6%	6.4%
EPS (JPY)	21.40	61.56	98.61	134.69	158.46

Cash Flows from Operating Activities	250	754	1,185	(1,388)	1,642
Depreciation and Amortization - CF	190	133	183	185	199
Depreciation - CF	101	133	183	185	199
Amortization of Goodwill - CF	89				
Gain/Loss on Sale of Securities and Investment Securities	(68)				(280)
Gain/Loss on Sale of Investment Securities	(68)				(280)
Gain/Loss on Sale of PPE				82	
Interest and Dividends Received - Operating CF	26	21	32	47	111
Interest Paid - Operating CF	(1)	0	0		
Cash Flows from Investing Activities	(111)	(775)	(393)	523	29
Payments for Purchases of Securities and Investment Securities	0	(450)	(250)	(428)	(198)
Payments for Purchases of Investment Securities	0	(450)	(250)	(428)	(198)
Proceeds from Sales of Securities and Investment Securities	194			25	325
Proceeds from Sales of Investment Securities	194			25	325
Purchases/Sales of PPE	(108)	(363)	(57)	(103)	(68)
Payments for Purchases of PPE	(108)	(363)	(57)	(134)	(68)
Proceeds from Sales of PPE	0	0		31	0
Purchases/Sales of Intangible Assets	(69)	(200)	(84)	(33)	(30)
Payments for Purchases of Intangible Assets	(69)	(200)	(84)	(33)	(30)
Cash Flows from Financial Activities	(215)	(214)	(190)	(303)	(1,459)
Proceeds from Issuance of Stock			114	301	24
Redemption/Retirement of Stock	0	0	(80)	0	0
Cash Dividends Paid	(214)	(214)	(224)	(604)	(1,480)
Foreign exchange adjustment	(28)	36	106	69	150
Changes in Cash	(104)	(199)	708	(1,100)	362
Cash & Cash Equivalent - Beginning	5,204	5,100	4,901	5,609	4,509
Cash & Cash Equivalent - Ending	5,100	4,901	5,609	4,509	4,871
Free Cash Flow (FCF)	139	(21)	792	(865)	1,671

Source: Compiled by SIR from the Company’s fact book and SPEEDA data.

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