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各 位

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当社の企業調査レポート（英語版）の発行に関するお知らせ

2024年1月5日付で株式会社フィスコより当社の企業調査レポート（日本語版）が発行されておりますが、本日、海外の投資家向けに英訳された当社の企業調査レポート（英語版）が発行されたことをお知らせいたします。

当社の企業調査レポートにつきましては、添付資料をご参照ください。

以 上

COMPANY RESEARCH AND ANALYSIS REPORT

Terilogy Holdings Corporation

5133

Tokyo Stock Exchange Standard Market

2-Feb.-2024

FISCO Ltd. Analyst

Masanobu Mizuta



FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

A technology-focused corporate group that contributes to the DX of companies and society

Terilogy Holdings Corporation (hereafter, also “the Company”) <5133> is a holding company established by Terilogy Co., Ltd. on November 1, 2022, through a sole share transfer. It is a technology-focused corporate group that contributes to the digital transformation (DX) of companies and society, mainly being developed with a focus on network security and solution services.

1. Overall expansion in the Security and Solutions Services sections

The Company’s business is divided into three sections (sections were revised from FY3/24). The Network Section handles sales and maintenance of network products, the Security Section handles the sales and maintenance of security products, and the Solutions Services Section handles the sales and maintenance of software developed in-house and IT services. Looking at sales, there has been an overall expansion in the Security Section and the Solutions Section due to factors such as increased demand, new product sales expansion, and M&A. The features and strengths of the Company include a wealth of experience and expertise accumulated since Terilogy’s founding over 30 years ago, its ability to respond to the market by accurately ascertaining the trends of the time, the ability to find the latest technologies of cutting-edge overseas IT companies, and the ability to combine imported technologies with the Group’s proprietary technologies to deliver solutions optimized to meet customer needs. One factor that impacts its earnings is that a large percentage of the products the Company imports from overseas have been purchased using foreign currencies, so it tends to be affected by exchange rate fluctuations. The Company’s policy is to reduce this risk through various measures including forward exchange contracts and sales price revisions.

2. Significant sales increase absorbs impact of yen depreciation in 1H FY3/24

In the 1H FY3/24 consolidated results, sales were ¥3,009mn, operating income was ¥24mn, ordinary income was ¥58mn, and net income attributable to owners of parent was ¥20mn. As the Company transitioned to a holding company from 3Q FY3/23, a YoY comparison with the consolidated earnings of Terilogy shows that high growth in the Security and Solutions Services sections drove a 21.6% growth in net sales (up ¥534mn) and a return to the black for profit (operating income up ¥67mn, ordinary income up ¥98mn, and net income attributable to owners of parent up ¥101mn). Orders received increased 40.5% YoY to ¥3,420mn, and outstanding orders rose 22.3% YoY to ¥2,262mn. In terms of profit, rising procurement costs due to yen depreciation pulled down the gross margin, and SG&A expenses increased from strengthening investment in human capital, but were absorbed by the significant increase in sales. Ordinary income and net income attributable to owners of parent were helped by ¥20mn gain on valuation of derivatives and ¥17mn foreign exchange gains from foreign exchange contracts in non-operating income.

Summary

3. No change in FY3/24 full-year results forecast of significant profit growth

The FY3/24 consolidated results forecasts are for net sales increasing 11.8% YoY to ¥6,345mn, operating income increasing 107.9% to ¥240mn ordinary income increasing 88.6% to ¥240mn, and net income attributable to owners of parent increasing 261.2% to ¥168mn. The Company anticipates double-digit growth in sales as demand remains high. In terms of profits, although personnel costs will increase due to continued investment in human capital, the Company is forecasting that profits will greatly improve, mainly because of a significant rise in sales, the absence of one-time expenses recorded in FY3/23, as well as an easing of downward pressure on the gross margin due to a lull in yen depreciation and the effects of price revisions, both in 2H. The Company plans to raise prices by about 10% based on an assumed exchange rate is US\$1=¥140.00. The 1H progress rate for the Company's full-year forecasts appears low. However, we at FISCO believe that the Company is likely to achieve its full-year forecasts due to the following factors; the favorable security-related business environment, a higher proportion of sales are typically in 2H, the slight strengthening of the yen, and the possibility that the effects of price revisions that were delayed in the first half will show in the second half.

4. Portfolio expansion and enlargement undertaken under medium-term management plan

In its new Terilogy Group Three-Year Medium-Term Management Plan (FY3/24-FY3/26, a rolling plan to be revised each fiscal year), the Company's numerical targets were for net sales of ¥6,300mn and operating income of ¥240mn in FY3/24, net sales of ¥7,200mn and operating income of ¥330mn in FY3/25, and net sales of ¥8,200mn and operating income of ¥530mn in FY3/26. Its medium- to long-term target is for Group-wide net sales of ¥10.0bn. It further aims to practice management that is conscious of capital cost and share price and targets a medium- to long-term return on equity (ROE) of 10.0%. The key messages of the basic strategies and priority measures for achieving these targets are 1) strengthen recurring income-type business models and cultivate human resources through Group cooperation, 2) further expand and enhance the Group's business portfolio, and 3) advance global business development. The plan's direction is not limited to solving the information systems and security-related issues facing customers' businesses, it also includes proactively addressing challenges in new areas that will be essential to the society of the future, such as social issues connected to tourism DX and environmental DX.

Summary

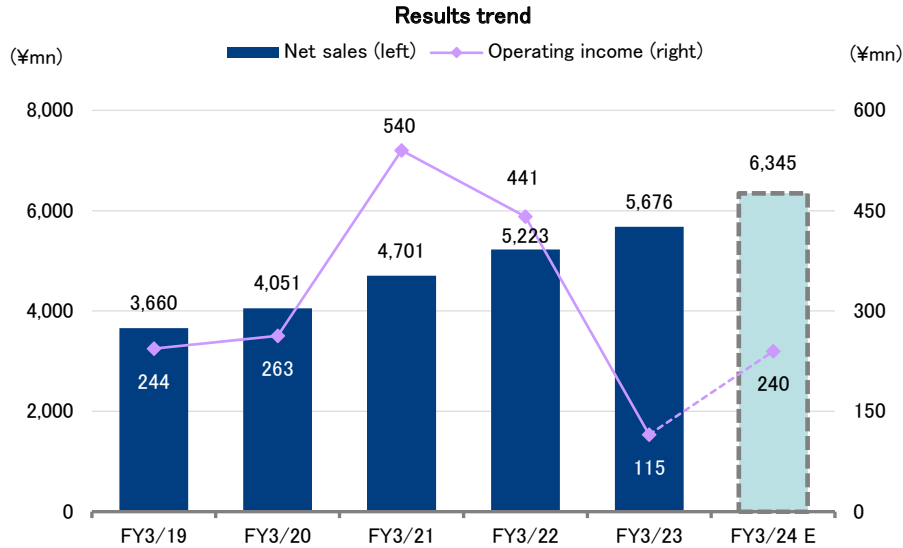
5. Expected to implement initiatives for realizing continuous profit growth and enhancing profitability, as well as to create new growth drivers

With the “ability to find emerging technologies and marketable products” and “ability to respond to the market” as its core competencies, the Group has an extensive track record to date of introducing and promoting cutting-edge technologies from overseas. However, looking at past results, even though the Company has generally grown in terms of sales, with M&As also making a contribution, when it comes to profit, it cannot shake the impression that not enough has been done to realize continuous profit growth and to enhance profitability, and that its past strengths and track record are not reflected in its current performance. Although the Company expects a significant increase in sales to absorb the impact of yen depreciation in FY3/24, as investors tend to be interested in anticipated profit growth, we believe that realizing continuous profit growth and enhancing profitability is a challenge that the Group must address. The Group’s medium-term management plan steers toward business portfolio expansion and a shift to recurring income-type business areas, and also contains ambitious strategies to speed up business development. We at FISCO think these measures show a certain amount of promise. Furthermore, the progress of digital transformation (DX) and growing security needs have created a favorable business environment around the Group, so we also think that if it can demonstrate concrete strategies that are not limited to just growing sales, but that also include measures for realizing continuous profit growth and enhancing profitability (including measures to reduce risk from exchange rate fluctuations such as through implementation of a new price strategy, expansion of its IT services less prone to exchange rate fluctuations, measures to grow recurring sales such as through subscription-type services and maintenance service revenue, and section-specific strategies to improve the sales mix), as well as new products and services that can drive growth, it will result in greater interest from investors in the Group’s growth scenario.

Key Points

- The Group is a technology-focused corporate group that contributes to the DX of companies and society
- Overall expansion in the Security and Solutions Services sections
- Significant sales increase absorbs impact of yen depreciation in 1H FY3/24
- No change in FY3/24 full-year results forecast of significant profit growth
- Portfolio expansion and enlargement undertaken under medium-term management plan
- The Group is expected to implement initiatives for realizing continuous profit growth and enhancing profitability, as well as to create new growth drivers

Summary



Source: Prepared by FISCO from the Company's financial results

Company profile

A holding company established by Terilogy in November 2022 through a sole share transfer

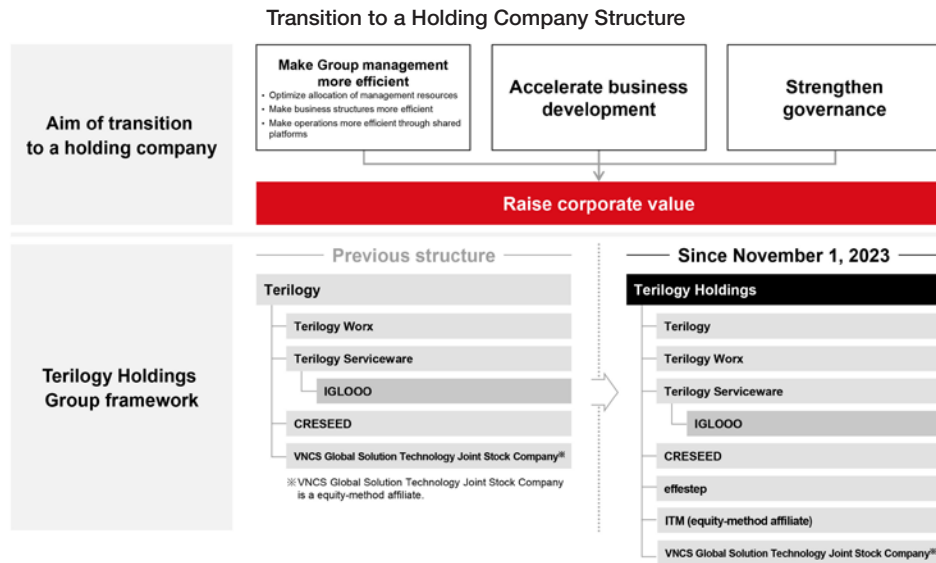
1. Company profile

The Company is a holding company established by Terilogy on November 1, 2022, through a sole share transfer. It is a technology-focused corporate group that contributes to the DX of companies and society, primarily engaging in network security and solutions services.

As of the end of 1H FY3/24, the Company's head office is located in Kudan-kita, Chiyoda-ku, Tokyo. It has total assets of ¥6,205mn, net assets of ¥2,420mn, shareholder's equity of ¥2,336mn, capital of ¥450mn, an equity ratio of 38.7%, and 17,111,742 shares outstanding (including 715,400 treasury shares). In August 2022, it entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD., making it the Company's second largest shareholder (shareholding ratio: 5.22%).

As of November 1, 2023, the Group was made up of nine companies in total, including the Company (the holding company), six consolidated subsidiaries (Terilogy, which became a fully-owned subsidiary following the establishment of the Company, Terilogy Worx Corporation, Terilogy Serviceware Corporation, IGLOOO Inc., CRESEED Corporation, and effestep Co., Ltd. of which the Company acquired all shares in October 2023), and two equity-method affiliates (VNCS Global Solution Technology Joint Stock Company, a joint venture company in Vietnam, and ITM Inc., in which the Company purchased a 20% stake in May 2023). In June 2023, Terilogy Worx purchased additional shares of Nihon Cyber Defence KK (NCD), increasing its stake to 10.18%.

Company profile



Source: The Company's results briefing materials

2. History

Terilogy was established in July 1989 and began operating by launching an enterprise networks business. It then expanded the scope of its operations, including by launching a maintenance service business, a customer solutions business, and a broadband network business. Although the main focus was on handling products developed by cutting-edge IT companies based overseas, including Silicon Valley and Israel, the Group has also been working to expand its product lineup. This started in June 2012 with the launch of momentum, a unique probe software product developed in-house at Terilogy. This was followed by the launch in July 2015 of CloudTriage, a unique operations monitoring service, and in July 2018, EzAvater, an ultra-simple robotic process automation (RPA) tool, both of which were also developed in-house at Terilogy.

Regarding shares, Terilogy first listed on the JASDAQ Securities Exchange in December 2004. Following the merger of the JASDAQ Securities Exchange and Osaka Securities Exchange (OSE) in April 2010, Terilogy listed on OSE JASDAQ (currently called the Osaka Exchange), and then after the merger of the OSE and Tokyo Stock Exchange (TSE) in July 2013, it listed on TSE JASDAQ Standard. In April 2022, it transferred to the TSE Standard Market following the TSE's market segment revisions. Then on November 1, 2022, Terilogy established Terilogy Holdings Corporation through a sole share transfer, and Terilogy Holdings Corporation was newly listed on the TSE Standard Market (while Terilogy was delisted after becoming a fully-owned subsidiary).

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Company profile

Company history

Date	Event
Jul. 1989	Terilogy established in Kanda, Chiyoda-ku, Tokyo. Enterprise networks business launched.
Apr. 1991	Maintenance outsourcing contract signed with Toshiba Engineering Corporation (now Toshiba IT-Services Corporation) and maintenance service business launched.
May 1996	Outsourcing contract signed with Tokyo NTT Data Communication Systems Corporation (now NTT Data Business Systems Corporation) and customer solutions business launched.
Nov. 1999	Distribution contract signed with American company Redback Networks, Inc. and broadband network business launched.
Jan. 2003	DNS/DHCP servers distribution contract signed with Infoblox Inc. <BLOX> of the US.
Oct. 2004	Domestic (Japan) master reseller contract signed with American company TippingPoint Inc. (now Trend Micro Inc. <4704>).
Dec. 2004	Listed on the JASDAQ Securities Exchange.
Sep. 2005	Certified under ISO 27001 information security management system (ISMS) standards.
Nov. 2005	Basic agreement on business collaboration signed with UNIADDEX, Ltd. based on a capital tie-up agreement.
Dec. 2006	Domestic (Japan) master reseller contract signed with American company NETSCOUT Systems, Inc.
Feb. 2007	Distribution contract signed with Belgian company VASCO Data Security, Inc. (now OneSpan Inc. <OSPN>).
Mar. 2007	Certified under ISO 14001 environmental management system (EMS) standards.
Apr. 2010	Following merger of JASDAQ Securities Exchange and Osaka Securities Exchange, Terilogy listed on Osaka Securities Exchange JASDAQ (OSE).
Aug. 2010	Domestic (Japan) reseller contract signed with American company APCON, Inc.
Feb. 2011	Asia-Pacific distribution contract signed with American company SevOne, Inc.
Jun. 2012	Sales begun of momentum, a unique probe software product developed in-house at Terilogy.
Sep. 2012	Distribution contract signed with Lastline Inc. of the US (now VMware, Inc. <VMW>).
Jul. 2013	Following merger of the OSE and Tokyo Stock Exchange (TSE), Terilogy listed on TSE JASDAQ Standard. Fullflex ZG master reseller contract signed with Accense Technology, Inc. (now 144Lab, Inc.).
Jul. 2015	Sales begun of CloudTriage, a unique, cloud-based operations monitoring service by Terilogy.
Dec. 2015	Distribution contract signed with American company RedSeal, Inc.
Apr. 2016	Distribution contract signed with Taiwanese system integration company SYSCOM.
Oct. 2016	Exclusive domestic reseller contract signed with American company Tempered Networks, Inc.
Nov. 2016	Distribution contract signed with Israeli company KELA.
Jan. 2017	Basic agreement on business collaboration signed with NCXX Group Inc. <6634> based on a capital tie-up agreement. Basic agreement on joint marketing for security products signed with FISCO Ltd. <3807>. Basic agreement on business collaboration in the area of transaction security with Fisco Cryptocurrency Exchange Inc. (currently Zaif Inc.). Basic agreement on business collaboration in the area of joint product development for blockchain technology applications signed with SJI Ltd. (now CAICA Inc. <2315>).
Mar. 2017	Wholly owned subsidiary Terilogy Worx established.
Dec. 2017	Shares required for ICT business corporation establishment acquired by ITX Corporation, and wholly owned consolidated subsidiary Terilogy Serviceware Corporation established.
Apr. 2018	Distribution contract signed with American company Nozomi Networks Inc.
Jul. 2018	Sales begun of EzAvater, Terilogy's unique robotic process automation (RPA) tool.
Jan. 2019	Business tie-up agreement signed with Israeli company Harel-Hertz Investment House Ltd.
May 2019	Launched security risk assessment services for industrial control systems involving critical infrastructure, factory, and building management jointly with BroadBand Security, Inc. <4398>.
Jun. 2019	Business tie-up with American company Sumo Logic, Inc.
Jul. 2019	Consolidated subsidiary Terilogy Worx concluded distribution contract with American company BitSight Technologies, Inc.
Aug. 2019	Distribution contract concluded with Israeli company TechSee Augmented Vision Ltd.
Mar. 2020	Consolidated subsidiary Terilogy Serviceware Corporation concluded a business tie-up with Towa Engineering Corporation. Distributor contract concluded with Israeli company Radware Ltd. <RDWR>.
Apr. 2020	Established a joint venture with Vietnam Cyberspace Security Technology JSC, a subsidiary of Vietnamese telecom provider Hanoi Telecom, based on a strategic business tie-up.
May 2020	Consolidated subsidiary Terilogy Serviceware Corporation acquired shares of IGLOOO Inc., making it a subsidiary.
Nov. 2020	Terilogy and VNCS Global Solution Technology Joint Stock Company signed a memorandum of understanding with BroadBand Security regarding business development in Vietnam. Consolidated subsidiary IGLOOO formed a business alliance with unbot inc., a digital marketing business serving China, whereby IGLOOO acts as an exclusive partner for promoting European, US, and Australian tourism in the Chinese market.
Dec. 2020	RICOH JAPAN Corp. and NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION began handling Mieru-Tsuyaku, a video communication interpretation service of consolidated subsidiary Terilogy Serviceware Corporation.
Mar. 2021	Acquired certification as a DX certified business. Acquired 90% of the shares of CRESEED Corp. and made it a subsidiary.
Apr. 2021	Consolidated subsidiary Terilogy Worx concluded a distribution contract with GitGuardian of France.

We encourage readers to review our complete legal statement on "Disclaimer" page.

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Company profile

Date	Event
Jun. 2021	Consolidated subsidiary IGL000 formed a business alliance with American company ADARA to strengthen digital marketing support in the field of inbound tourism in Japan. Consolidated subsidiary Terilogy Worx signed a distribution contract with Singaporean company Uppsala Security.
Jul. 2021	Company engineer won the Grand Prize in the Network Division at the TREND MICRO Partner Engineer Award 2020.
Sep. 2021	Signed a capital and business tie-up (underwrote share options) with CBA Inc., an environmental DX venture.
Oct. 2021	Consolidated subsidiary Terilogy Worx began offering in-house-developed cyber threat hunting solution. Signed a distribution contract with Collabos Corporation <3908> for TechSee, a product handled by the Company.
Nov. 2021	Consolidated subsidiary Terilogy Worx signed a sales partnership contract with Information Development Co., Ltd. for its in-house developed product, THX. Capital and business tie-up partner CBA Inc began offering CBA-wellfest, an industrial waste treatment cloud service.
Dec. 2021	Consolidated subsidiary Terilogy Serviceware signed a business tie-up agreement with WELL ROOM Co., Ltd., and began offering its multilingual service for medical institutions.
Feb. 2022	Consolidated subsidiary Terilogy Worx concluded a partnership with American company Synack.
Mar. 2022	Consolidated subsidiary Terilogy Worx concluded a capital and business alliance with Nihon Cyber Defence (accepted a third-party allocation of shares).
Apr. 2022	Transferred to the TSE Standard Market following the TSE's market segment revisions.
May 2022	Concluded a distribution agreement with U.S.-based SecurityGate to enter the risk management market in the OT security field. Signed a distribution contract with KDDI Evolva, Inc. (currently Altius Link, Inc.) for TechSee, a visual support tool.
Aug. 2022	Entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD (implemented a third-party allocation of shares to KANEMATSU ELECTRONICS and disposal of treasury shares).
Oct. 2022	Changed its sector on the TSE Standard Market from Wholesale Trade to Information & Communication.
Nov. 2022	Terilogy established Terilogy Holdings Corporation through a sole share transfer. Terilogy Holdings Corporation was newly listed on the Tokyo Stock Exchange Standard Market (Terilogy was delisted and became a wholly owned subsidiary).
Feb. 2023	Consolidated subsidiary Terilogy concluded a distribution agreement with American company Rapid7, and launched the provision of a comprehensive security service. Invested in the Israeli venture investment fund IL Ventures.
May 2023	Entered into a business and capital alliance with ITM, Inc. (converted to equity-method affiliate), a subsidiary of Sakura Internet <3778>.
Jun. 2023	Terilogy Worx increased its stake in Nihon Cyber Defence.
Aug. 2023	Made consolidated subsidiary CRESEED Corporation a wholly-owned subsidiary.
Oct. 2023	Acquired all shares of effestep Co., Ltd. and made it a consolidated subsidiary.

Source: Prepared by FISCO from the Company's securities report and website

Business overview

Overall expansion in the Security and Solutions Services sections

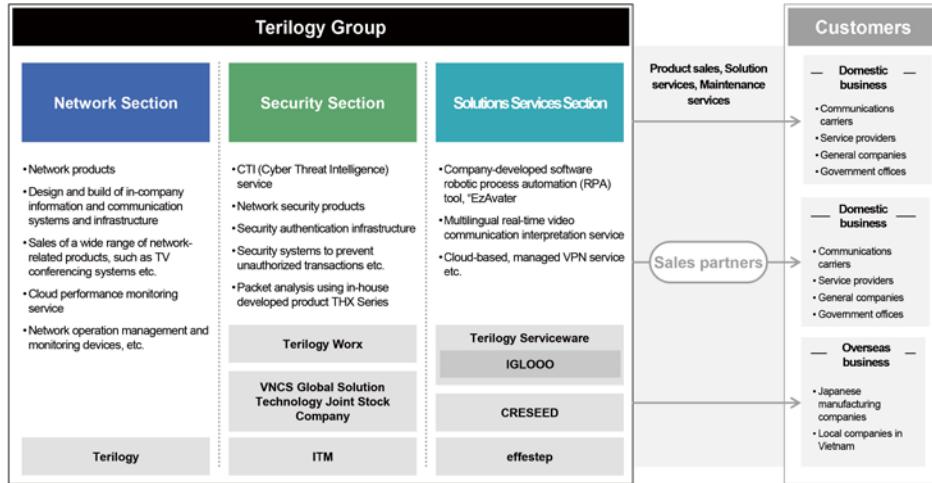
1. Business overview

The Company's business is divided into three sections (sections were revised from FY3/24, with the existing Monitoring Section split between the Network Section and the Security Section). The Network Section handles sales and maintenance of network products, the Security Section handles the sales and maintenance of security products, and the Solutions Services Section handles the sales and maintenance of software developed in-house, IT services, and inbound tourism promotion business.

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Business overview

Diagram of the business structure



Source: The Company's results briefing material

Net sales and net sales composition over the past five fiscal years (FY3/19-FY3/23) and for 1H FY3/24 are as follows. Looking at sales, there has been an overall expansion in the Security Section and the Solutions Services Section due to factors such as increased demand, new product sales expansion, and M&A. In the Network Section, the demand for replacement of IP address management servers with new models boosted sales from FY3/21 onwards, but this replacement demand had died down in FY3/23. The 1H FY3/24 net sales composition was 25.6% for the Network Section, 46.1% for the Security Section, and 28.3% for the Solutions Services Section.

Trends in net sales by segment and net sales composition

	(¥mn)					
	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
Net sales						
Network Section	970	896	1,616	1,399	1,286	769
Security Section	1,245	1,645	1,628	1,726	2,155	1,388
Solutions Services Section	853	845	936	1,710	1,965	851
Monitoring Section	590	663	520	387	269	-
Total	3,660	4,051	4,701	5,223	5,676	3,009
Net sales composition						
Network Section	26.5%	22.1%	34.4%	26.8%	22.7%	25.6%
Security Section	34.0%	40.6%	34.6%	33.1%	38.0%	46.1%
Solutions Services Section	23.3%	20.9%	19.9%	32.7%	34.6%	28.3%
Monitoring Section	16.2%	16.4%	11.1%	7.4%	4.7%	-
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Figures up to FY3/22 for Terilogy. From FY3/22, adopted the revised Accounting Standard for Revenue Recognition, etc. Business sections revised from FY3/24

Source: Prepared by FISCO from the Company's materials

Business overview

In regard to the Company's recent M&A and alliance strategy, it entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD. in August 2022 with the aim of expanding transactions and advancing next-generation business development centered around the security business. In February 2023, it invested in IL Ventures, an Israeli venture investment fund, in order to discover companies that possess the next generation of progressive, leading-edge technologies that can be used to cultivate new business areas, such as DX solutions for the manufacturing industry. In May 2023, it concluded a business and capital alliance with ITM Inc. (turning it into an equity-method affiliate), a subsidiary of SAKURA Internet <3778>, in order to provide a cloud security management service, build a specialist cloud platform for operational technology (OT) fields, and accelerate solution development. In June 2023, Terilogy Worx aimed to contribute to Japan's national security by strengthening its relationship with Nihon Cyber Defence, which started with the conclusion of a capital and business alliance in March 2022, by buying additional shares in the company (raising its stake to 10.18%). In August 2023, the Company made CRESEED Corporation a wholly-owned subsidiary through a simple share exchange, and in October 2023, it acquired all shares in effestep, a company primarily engaged in software development for major manufacturers and other operations, and made it a consolidated subsidiary.

The Network Section's business includes sales and maintenance of network products



2. Network Section

The Network Section is mainly conducted by Terilogy and its business includes the sale and maintenance of network products (such as switches, routers, wireless LAN, and DNS/DHCP), the design and build of in-company information and communication systems and infrastructure, and sales and maintenance of TV conferencing systems. Looking at sales (including those from part of the former Monitoring Section) in more detail, product sales (including subscriptions) and maintenance service sales each accounted for around 50% of sales.

Its main products are Infoblox IP address management servers (manufactured by US-based Infoblox), Radware products (manufactured by Israel-based Radware) with strengths in areas such as Distributed Denial of Service Attack (DDoS) countermeasures and load balancing for WAN lines, and Extreme (formerly Aerohive, manufactured by US-based Extreme Networks) secure cloud-based wireless LAN products for network construction, as well as momentum network packet capture products developed within the Terilogy Group (previously part of the Monitoring Section), and CloudTriage cloud-based IT systems operations monitoring service (previously part of the Monitoring Section). In FY3/21, sales were boosted by replacement demand for new Infoblox IP address management server models. Following this, the Company started shifting to subscription-based models.

Business overview

Main products in the Network Section

 <p>Network</p> <p>Alteon ADC-vx</p> <p>Up to a maximum of 28 virtual ADC (vADC) loaded on one dedicated ADC hardware unit. Able to consolidate and integrate multiple ADC</p>	 <p>Network</p> <p>Infoblox DNS/DHCP/IP address management/DNS security</p> <p>Achieved zero trust through on-premise and cloud-based DDI & DNS security</p>	 <p>Network</p> <p>Aerohive</p> <p>Fully control-less, cloud-based next-generation WiFi solutions</p>
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Source: The Company's website

The Security Section's business includes cyberattack countermeasures

3. Security Section

The Security Section is mainly focused on Terilogy Worx and its business includes the provision of CTI (Cyber Threat Intelligence) security services that defend against threats such as cyberattacks and information leaks caused by unauthorized systems access, the sale of network security-related products (firewalls, intrusion detection and prevention countermeasures, information leakage countermeasures, etc.), the sale and maintenance of security authentication infrastructure (identifying service users on a network), and the sale and maintenance of one-time password products for preventing unauthorized transactions. Looking at sales (including those from part of the former Monitoring Section) in more detail, product sales (including subscriptions) accounted for around 80% and maintenance service sales around 20% of sales.

The Group's in-house security service broadly focuses on three areas: countermeasures for cybercrime as represented by ransomware, attacks on social infrastructure by advanced persistent threat (APT) attack (targeted attack) groups and defense against exploitation of important intellectual property rights information, and analysis of disinformation from groups backed by a nation (information operations). The increasing global importance of information warfare and cognitive warfare using social media is expected to lead to the growth of analysis and countermeasures in this area.







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Business overview

Its main products, in addition to CTI security service-related products, are TippingPoint unauthorized intrusion network prevention security products (manufactured by US-based TippingPoint, which was acquired by US-based Hewlett-Packard <HPQ> in 2010 and then Trend Micro Incorporated <4704> in 2015), Nozomi Networks products (manufactured by US-based Nozomi Networks), which have strengths such as security measures in manufacturing control systems (OT/IoT systems) fields such as key infrastructure such as electric power systems and factories, Sumologic (manufactured by US-based Sumologic), which can quickly and accurately identify threats from log information, BitSight (manufactured by US-based BitSight), which can provide a visualization of supply chain risk, OneSpan one-time password products for preventing unauthorized transactions (manufactured by Belgium-based OneSpan), and new network packet capture product THX Series (formerly the Monitoring Group) manufactured by Terilogy Group. In October 2023, The Company commenced sales of TrackIQ that detects insider fraud in cloud application usage (manufactured by Israel-based RevealSecurity). It also commenced the provision of a social media threat intelligence management service using technology from Cyabra (Israel).

In the CTI security service-related-field, the Company has a track record that includes a big project for the National Police Agency secured in 2021. In April 2023, Terilogy, KANEMATSU ELECTRONICS, and GLOBAL SECURITY EXPERTS Inc. <4417> jointly launched Technical Knowledge Guardian for OT Security, an integrated support service that provides one-stop support ranging from consulting on manufacturing control system (OT system) security to the implementation of network products. Also, in April 2023, NEC Corporation <6701> started using Nozomi Networks Guardian (manufactured by US-based Nozomi Networks), a managed security service sold by Terilogy, to oversee control system security in its factories and other locations.

Main products in the Security Section

		
<p>Security</p> <p>Lastline Protection from the latest threats in customers' public cloud environments (cloud infrastructure and cloud email) and in on-premises environments.</p>	<p>Security</p> <p>Trend Micro TippingPoint Has the leading track record for intrusion prevention systems as in-line type and network-type IPS appliances.</p>	<p>Security</p> <p>One Span (Former Vasco Data Security) Secure user authentication that is more secure than fixed passwords by using a hard-software token to automatically generate a disposable, one-time password.</p>
		
<p>Security</p> <p>Nozomi Networks Provides asset management, real-time monitoring, abnormality detection, and vulnerability judgments for Industrial Control Systems (ICS).</p>	<p>Security</p> <p>REDSEAL Realizes proactive security by automatically generating an access map and attaching the results of a scan of the access map's vulnerabilities.</p>	<p>Security</p> <p>Cloud WAF Service Provides the industry's best Web app security with a positive security model based on machine learning technologies.</p>

Source: The Company's website

The Solutions Services Section includes RPA developed within the Terilogy Group and a video communication interpretation service

4. Solutions Services Section

The Solutions Services Section is mainly focused on Terilogy Serviceware, IGLOOO, CRESEED, and effestep that became a consolidated subsidiary in October 2023, and its business includes the sale of EzAvater, a software robotic process automation (RPA) tool developed by the Terilogy Group that contributes to work style reform and improving operational efficiency, sale of Mieru-Tsuyaku, a real-time video communication interpretation service that breaks down language barriers by enabling smooth communication with foreign visitors to Japan, provision of MORA VPN Zero-Con, a cloud-based managed VPN service for small- to medium-sized enterprises, provision of network solutions services such as web conferencing services, provision of Reminar, an on-demand video distribution service independently developed by the Group to support video usage in company activities, provision of TechSee, a visual contactless remote support service that uses artificial intelligence (AI) and augmented reality (AR), information system development by CRESEED and effestep, and the promotion business that uses VOYAPON, a media site targeting visitors to Japan operated by IGLOOO, which specializes in the European, American, Australian and Middle Eastern markets.

EzAvater is an RPA tool that is unique in that it enables anyone to easily create robots to automate routine tasks. The use of a distribution partner strategy to increase sales has raised product recognition and as there are no limits to potential customers in terms of industry, type of business, or size, the number of contracts is on an upward trend. In June 2023, it introduced a job assistance free license rental plan for vocational schools for people with disabilities. The Group has signed distribution contracts with Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., UCHIDA ESCO Co., Ltd., Hitachi Systems, Ltd., Computer Engineering & Consulting Ltd. <9692>, Jitsugyo no Nihon Research Institute, Ltd., CAREER PLANNING Co., Ltd., Rustic System Co. Ltd., Office More Co., Ltd., Instrategy Corp., Godo Kaisha AMDEA, etc.

The real-time video communication interpretation service Mieru-Tsuyaku is a video communication interpretation service that is available anytime, anywhere with one touch using a tablet or smartphone with a call operator providing support, such as for customer service. Although there is a decline in usage by local governments, including for COVID-19 vaccination centers, the recovery of overseas tourism to Japan has led to the introduction of the service at facilities with a high ID count per unit, such as department stores, retailers, stations, and ports. The service was adopted by Seibu Railway Company, Ltd. for tablets issued to each member of its station staff in June 2022, by Yamaha Music Retailing Co., Ltd. for eight directly-managed stores across Japan from October 2022, by glasses retailer OWNDAYS Inc. for 10 stores that receive particularly high inbound demand from overseas visitors from March 2023, by Hankyu Hanshin Department Stores, Inc. for five department stores, including its Umeda Main Store, from April 2023, by SHIBUYA SKY, a facility with views located in Shibuya, Tokyo, from May 2023, and by @cosmeTOKYO, an interactive cosmetics specialist store in Tokyo's Harajuku from August 2023. Additionally, at the Social Products Award 2023 hosted by the Association for the Promotion of Social Products in March 2023, the service won the consumer jury award for services that use digital technology to solve social issues. Going forward, Terilogy Serviceware aims to create synergies with the tourism-related promotion business operated by IGLOOO.

IGLOO operates a tourism-related promotion business. Inquiries about tourist attractions PR video production are on the rise as inbound demand returned, and IGLOO has produced PR videos introducing the attractions of Yamanashi Prefecture, Oita Prefecture and Shikoku in 2023. In October, it also started a PR service for the Middle East to business and local governments requiring inbound tourism promotions aimed at the Middle East market.

Business overview

Main products in the Solutions Services Section

			
<p>Operation & management RPA EzAvater</p>	<p>Network Mieru-Tsuyaku A multilingual video communication interpretation service</p>	<p>Security Inter-site VPN services</p>	<p>Management TechSee</p>
<p>An RPA tool developed in-house for customers who want to build robots and automate routine tasks.</p>	<p>A video communication interpretation service useable with 10 languages, including English, Chinese, and Vietnamese, and sign language (Japanese sign language) by connecting to an interpretation operator.</p>	<p>One stop managed a simple connection, low-cost VPN service that ensured a location change for customers at the time of installation or during connection failure.</p>	<p>Visual customer assistance solutions utilizing artificial intelligence (AI) and augmented reality (AR).</p>

Source: The Company's website

The Company has built the business value chain to practice its corporate philosophy

5. Characteristics and strengths

The Group's characteristics and strengths include a wealth of experience and expertise accumulated since Terilogy's founding over 30 years ago, the ability to respond to the market by accurately ascertaining the trends of the times, the ability to find the latest technologies of cutting-edge overseas IT companies, and the ability to combine imported technologies with the Group's proprietary technologies to deliver solutions optimized to meet customer needs.

(a) Building the business value chain to practice its corporate philosophy of "focus on the customer"

The Group considers the creation of the value chains required to put its corporate philosophy of "focus on the customer" into practice to be one of the characteristic strengths of its business model. That, in short, is the business value chain centered around processes designed to meet the needs of the customer (technology, product research and discovery, etc.), and processes aimed at ensuring full customer satisfaction (offering solutions combining multiple products, having a maintenance structure in place, etc.), as well as the use of a partnering strategy in each of the processes along the value chain.

To build a business model and value chain backed by a corporate philosophy, the Company needs to establish a mission and vision based on that philosophy, and then incorporate those in an action plan designed to achieve them. Specifics of that action plan include 1) ongoing research and discovery activities regarding advanced, cutting-edge technology trends in Silicon Valley and Israel; 2) ongoing research, inquiry and validation activities to determine the compatibility of technology discovered with the Japanese market and with issues faced by customers, 3) development of solutions for market introduction by combining multiple technologies and through adaptive development arrangements, building of delivery and support systems, training in high-value proposal sales, and new market creation activities. The action plan puts the Company's corporate philosophy of "focus on the customer" into practice.

Business overview

(b) Core competencies include the “ability to find emerging technologies and marketable products” and “ability to respond to the market”

The base of these business value chains that put its corporate philosophy into practice are its 1) competence in “finding emerging technologies and marketable products” and its “ability to respond to the market” which is the discernment required to find and identify progressive, leading-edge technologies and deploy them in markets in ways adapted specifically to local customers; 2) wide selection of security and safety solutions for varying applications, encompassing everything from network infrastructure to communication endpoints; 3) flexible provision of diverse services and products supported by a product lineup covering everything from products utilizing leading-edge technologies through to maintenance services, software products developed in-house, and new services; 4) stable and proven technical capabilities rooted in experience since its founding through three decades of reliable, customer-tailored service provision; and 5) global response capabilities, including the rapidly growing markets of emerging nations in Asia. In short, its core competencies include the “ability to find emerging technologies and marketable products” and “ability to respond to the market,” which involves accurately ascertaining the technological trends and cutting-edge technologies of overseas companies that it should precisely focus on, and then introducing and promoting these.

(c) Examples demonstrating the “ability to find emerging technologies and marketable products”

Here we introduce some examples that demonstrate the Group’s “ability to find emerging technologies and marketable products,” including the discovery of US-based companies Wellfleet and Infoblox (BLOX) in the broadband field, US-based TippingPoint (now Trend Micro) in the security field, Belgium-based OneSpan (OSPN, formerly VASCO Data Security), and US-based Lastline (acquired by US-based VMware (VMW) in 2020).

Terilogy’s corporate IP network business began in 1990 when it entered into a distribution contract with Wellfleet of the US and started to provide routers (telecommunications equipment for relaying two or more different networks), which are one of the main products to build IP networks. Wellfleet was founded in 1984, and was acquired by Nortel (Canada), the world’s second largest computer network device company at the time, in 1998 to compete against Cisco Systems (CSCO) of the US, which was the largest company back then. The discovery of Wellfleet in 1990 can be said to be a good example of its “ability to find emerging technologies and marketable products.”

In the broadband area, in 1999, the Company started to provide ADSL-connection software, and subsequently it developed hit products with more than 10 million users, which became a bridgehead into a business for major telecommunication companies. Also, in 1999, it concluded a distribution contract with Redback Networks of the US, and through the introduction of broadband access servers and other products, it contributed to building the FTTH networks of various electric power companies. Also, in mobile-related products, it realized growth for DNS/DHCP appliances manufactured by Infoblox of the US (devices to issue an IP address), with which it concluded an agreement in 2003 to become its first Japanese agent, and Terilogy Group-developed solutions for monitoring networks have become its core products following the spread of smartphones. Currently, these DNS/DHCP appliances manufactured by Infoblox of the US have become the de facto standard that are currently being used by a large number of IT companies in Japan. The Group deserves recognition for discovering Infoblox in the US at an early stage.

Business overview

In the security field, the Company is providing wide-ranging solutions which started with the conclusion of a domestic (Japan) master reseller contract with US-based TippingPoint (now Trend Micro), when it was independent in 2004, followed by reseller contracts with Belgium-based OneSpan (formerly VASCO Data Security) in 2007, US-based Lastline in 2012, US-based RedSeal in 2015, US-based Tempered Networks and Israel-based KELA in 2016, and US-based Nozomi Networks in 2018 (contract with Tempered Networks is an exclusive domestic (Japan) reseller contract). US-based TippingPoint (now Trend Micro) specializes in IPS (intrusion prevention systems) and it was acquired by Trend Micro in 2015. However, Terilogy concluded a domestic (Japan) master reseller contract with TippingPoint (now Trend Micro) in 2004, 11 years before this acquisition, and has accumulated a track record, so it continues to be relied on by Trend Micro. Regarding Belgium-based OneSpan, in 2007, Terilogy became the first company in Japan to handle OneSpan's one-time password technology, and today and it has become an essential part of internet banking, with adopters including all of Japan's megabanks. Furthermore, US-based Lastline's targeted-attack countermeasure cloud service is a good example of the Group's "ability to find emerging technologies and marketable products," as it anticipated the increase in targeted-attack emails seen in recent years.

(d) An "ability to respond to the market" well-regarded by business partners

One of the reasons why overseas venture companies regard the Group highly is its "ability to respond to the market," which has been fine-tuned since its foundation by implementing a management strategy that is supported by its corporate philosophy of prioritizing the needs and satisfaction of customers. Terilogy has built an excellent customer base (more than 300 companies, most of which are major companies, and around 90% of which are direct customers) as it has been highly evaluated by influential customers for its active utilization of a partnering strategy covering the entire value chain, from product development (combining imported technologies with its proprietary technologies) through to maintenance (in which Terilogy itself identifies problems and then outsources the actual maintenance work) and sales (using both direct and indirect agency network sales). In this way, the sources of the Group's "ability to respond to the market" are its ability to combine imported technologies with its proprietary technologies to develop solutions with high levels of customer satisfaction, and its ability to fill-in missing parts by fully utilizing an alliance and M&A strategy.

In March 2020, Terilogy signed a distributor agreement with Israeli company Radware <RDWR>, which is one of the global leaders in areas such as network virtualization and cybersecurity solutions. A press release from Nihon Radware K.K. stated, "Terilogy has a track record of creating Japanese markets by providing numerous overseas cutting-edge technologies to the Japanese market. Terilogy has achieved stable operation and management of technologies and products that previously had no track record in the Japanese market, and has earned the trust of Japanese customers for many years. Radware expects synergies between the strong solution proposal and support capabilities provided by Terilogy and the technical capabilities that have allowed Radware to be regarded as an industry leader, and has decided to conclude a distributor contract this time, judging that Radware can provide integrated security solutions to Japanese corporate customers, including main products such as Cloud WAF Service, Bot Manager and Cloud Workload Protection." We can view this as proof that the Group's "ability to find emerging technologies and marketable products" and "ability to respond to the market" are examples for why it is viewed positively by overseas technology companies.

Strengthening its response to technological innovation

6. Risk factors and earnings characteristics, measures, and challenges

Risk factors faced by the Group include a slow response to technological innovation, fiercer market competition, difficulties securing personnel, and foreign exchange fluctuation. Out of these, it is responding to technological innovation by gathering the latest technology-related information, including from overseas, and working to identify companies that possess cutting-edge technology. One factor that impacts its earnings is that a large percentage of the products the Company imports from overseas have been purchased using foreign currencies, so it tends to be affected by exchange rate fluctuations. The Company's policy is to reduce this risk through various measures including forward exchange contracts and sales price revisions. In regard to seasonal fluctuations, in IT and information services-related industries, sales generally tend to be weighted toward the end of the fiscal year due to their relationship with customer receipt and inspection periods. In the Company's case, sales tend to be weighted toward 2Q (July-September) and 4Q (January-March), but the adoption of the revised Accounting Standard for Revenue Recognition, etc. is expected to mitigate this tendency.

Results trends

Significant sales increase absorbs impact of yen depreciation in 1H FY3/24

1. Overview of 1H FY3/24 consolidated results

In the 1H FY3/24 consolidated results, sales were ¥3,009mn, operating income was ¥24mn, ordinary income was ¥58mn, and net income attributable to owners of parent was ¥20mn. As the Company transitioned to a holding company from 3Q FY3/23, a YoY comparison with the consolidated earnings of Terilogy shows that high growth in the Security and Solutions Services sections drove a 21.6% growth in sales (up ¥534mn) and a return to the black for profit (operating income up ¥67mn, ordinary income up ¥98mn, and net income attributable to owners of parent up ¥101mn). Orders received increased 40.5% YoY to ¥3,420mn, and outstanding orders rose 22.3% YoY to ¥2,262mn. In terms of profit, rising procurement costs due to yen depreciation weighed on the gross margin, and SG&A expenses increased from strengthening investment in human capital, but were absorbed by the significant increase in sales. Gross profit increased 14.2% YoY, but the gross margin declined by 2.1 percentage points to 32.4%. Although SG&A expenses increased 6.0% YoY, the SG&A ratio declined by 4.6 percentage points to 31.5%. Ordinary income and net income attributable to owners of parent were helped by ¥20mn gain on valuation of derivatives and ¥17mn foreign exchange gains from foreign exchange contracts in non-operating income.

Results trends

Overview of 1H FY3/24 consolidated results

	(Reference) 1H FY3/23 Terilogy		1H FY3/24 Terilogy Holdings		
	Results	Composition	Results	Composition	Change %
Net sales	2,474	100.0%	3,009	100.0%	21.6%
Gross profit	853	34.5%	974	32.4%	14.2%
SG&A expenses	895	36.2%	949	31.5%	6.0%
Operating income	-42	-	24	0.8%	-
Ordinary income	-39	-	58	1.9%	-
Net income attributable to owners of parent	-80	-	20	0.7%	-
Average exchange rate (U.S. dollar/yen)	134.66	-	141.04	-	-
Net sales by segment					
Network Section	767	31.0%	769	25.6%	0.2%
Security Section	1,009	40.8%	1,388	46.1%	37.6%
Solutions Services Section	698	28.2%	851	28.3%	22.0%

Note 1: Due to the transition to a holding company from 3Q FY3/23, changes are compared with Terilogy's 1H FY3/23 earnings

Note 2: Due to the change of business segments from FY3/24, 1H FY3/23 figures are those following the reclassification

Source: Prepared by FISCO from the Company's materials

High growth in the Security and Solutions Services sections

2. Trends by segment

Looking at net sales by business section (the YoY figures have also been reclassified due to the change in segments from FY3/24), they improved by 0.2% YoY to ¥769mn in the Network Section, increased by 37.6% to ¥1,388mn in the Security Section, and increased by 22.0% to ¥851mn in the Solutions Services Section.

Network Section sales were flat YoY. The winding down of demand for replacement of Infoblox IP address management server products with new models is a negative factor, but there were more business inquiries for Radware solutions as a DDoS countermeasure. Against the backdrop of staff returning to offices, there was also a rise in network construction projects using cloud-based wireless LAN system Extreme Networks. Also, maintenance and services performed well.

The Security Section maintained high growth with sales increasing strongly on the back of growing security needs. CTI security service-related products, that are a focus for the Company, were steady, while products showing significant sales growth included OneSpan one-time password products for preventing unauthorized transactions, TippingPoint unauthorized intrusion network prevention security product, Nozomi Networks products which have strengths such as security measures in manufacturing control systems (OT/IoT systems) fields such as key infrastructure such as electric power systems and factories, and Sumologic which can quickly and accurately identify threats from log information. Deliveries were completed for the new network packet capture product THX Series developed by Terilogy Group after Japanese manufacturers used it for long-term storage projects to comply with the EU's General Data Protection Regulation (GDPR). Some deliveries were also completed for Internet banking projects at major Japanese financial institutions that adopt the one-time password product OneSpan.

Results trends

The Solutions Services Section also maintained strong growth with a significant increase in sales. The number of contracts for RPA tool EzAvater is on an upward trend without limits to potential customers in terms of industry, type of business, or size, based on its ease of use and growing product recognition. Its newly released simultaneous connection floating robot also contributed to the increase in deployed units. Mieru-Tsuyaku, a real-time video communication interpretation service, increased unit sales mainly to accommodation, public transport, and commercial facilities as inbound demand resumed. It is seeing increased use in conference interpreting, telephone interpreting and translation, etc., as well as increased BPO business inquiries, with one of its strengths being the multilingual contact center operated by the Group. For all-in-one monitors and audiovisual equipment-related products, business inquiries were firm for capital investment projects for conference rooms as staff return to offices. The inbound tourism promotion business operated by IGLOOO performed positively as inbound demand resumed. Orders were strong for CRESEED's system development, with orders including invoice program system development projects and Windows server design builds and replacement projects.

Maintaining financial soundness

3. Financial condition

Looking at the Company's financial condition, as of the end of 1H FY3/24, total assets were up ¥61mn to ¥6,205mn compared to the end of FY3/23. Cash and deposits decreased ¥168mn, notes and accounts receivable, and contract assets declined ¥143mn, but inventories increased ¥69mn, advance payments improved ¥47mn, and investments and other assets increased ¥222mn. Total liabilities were up ¥87mn to ¥3,785mn. Accounts payable - other decreased ¥59mn, while accounts payable-trade increased ¥219mn. The interest-bearing debt (long- and short-term borrowings total) increased ¥0.9mn to ¥421mn. Net assets declined ¥25mn to ¥2,420mn. As a result, the equity ratio fell 0.4 percentage points to 38.7%. The Company is maintaining the soundness of its financial structure and appears not to have made any especially big changes. There are also no points of particular concern in its cash flow statement. We at FISCO assess the Company as practicing a disciplined strategy for raising corporate value that takes its financial conditions into consideration.

Financial statement and cash flow statement

	(¥mn)				
	End of FY3/20	End of FY3/21	End of FY3/22	End of FY3/23	End of 1H FY3/24
Total assets	4,203	5,625	5,991	6,144	6,205
(Current assets)	3,404	4,515	4,871	5,068	4,955
(Non-current assets)	798	1,109	1,119	1,075	1,250
Total liabilities	1,934	2,981	3,551	3,698	3,785
(Current liabilities)	1,626	2,657	3,271	3,325	3,417
(Non-current liabilities)	307	324	279	373	368
Total net assets	2,269	2,643	2,439	2,445	2,420
(Shareholders' equity)	2,262	2,617	2,393	2,388	2,336
Equity ratio	53.9%	46.6%	40.2%	39.1%	38.7%

	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
Net cash provided by/used in operating activities	484	1,131	414	287	210
Net cash provided by/used in investing activities	-24	-256	-243	34	-302
Net cash provided by/used in financing activities	464	-237	-428	112	-81
Cash and cash equivalents at end of period	1,500	2,128	1,867	2,298	2,129

Note: Figures up to FY3/22 for Terilogy

Source: Prepared by FISCO from the Company's materials

Outlook

No change in FY3/24 full-year results forecast of significant profit growth

● Overview of FY3/24 consolidated forecast

The FY3/24 full-year consolidated results forecasts are unchanged, with the forecast for net sales increasing 11.8% YoY to ¥6,345mn, operating income increasing 107.9% to ¥240mn, ordinary income increasing 88.6% to ¥240mn, and net income attributable to owners of parent increasing 261.2% to ¥168mn. The Company is expecting double-digit sales growth, driven by high levels of demand. Following the reclassification of the Monitoring Section's sales under the Network and Security sections, net sales composition by section will be 27.9% for the Network Section, 38.7% for the Security Section, and 33.4% for the Solutions Services Section.

In terms of profit, although personnel costs will increase due to continued investment in human capital, the Company is forecasting that profits will greatly recover, mainly from a significant increase in sales, the drop out of one-time expenses recorded in FY3/23, as well as an easing of downward pressure on the gross margin due to a lull in yen depreciation and the effects of price revisions, both in 2H. The Company plans to raise prices by about 10% based on an assumed exchange rate of US\$1=¥140.00. The 1H progress rate for the Company's full-year forecasts appears low (operating income was 10.0%, ordinary income 24.2% and net income attributable to owners of parent 11.9%). However, we at FISCO believe that the Company is likely to achieve its full-year forecasts due to the following factors; the favorable security-related business environment, a higher proportion of sales are typically in 2H, the slight strengthening of the yen, and the possibility that the effects of price revisions that were delayed in the first half will show in the second half.

Overview of FY3/24 consolidated forecast

	FY3/23		FY3/24				1H results		Progress rate
	Results	Composition	Forecast	Composition	Change amount	Change %			
Net sales	5,676	100.0%	6,345	100.0%	669	11.8%	3,009	47.4%	
Gross profit	1,994	35.1%	-	-	-	-	974	-	
SG&A expenses	1,878	33.1%	-	-	-	-	949	-	
Operating income	115	2.0%	240	3.8%	125	107.9%	24	10.0%	
Ordinary income	127	2.2%	240	3.8%	113	88.6%	58	24.2%	
Net income attributable to owners of parent	46	0.8%	168	2.6%	122	261.2%	20	11.9%	
Average exchange rate (U.S. dollar/yen)	135.48	-	140	-	-	-	141.04	-	
Net sales by segm									
Network Section	1,286	22.7%	-	27.9%	-	-	769	-	
Security Section	2,155	38.0%	-	38.7%	-	-	1,388	-	
Solutions Services Section	1,965	34.6%	-	33.4%	-	-	851	-	
Monitoring Section	269	4.7%	-	-	-	-	-	-	

Source: Prepared by FISCO from the Company's materials

Growth strategy

Medium- to long-term target of ¥10.0bn in Group-wide sales

1. Terilogy Group new three-year medium-term management plan

The Company transitioned into a holding company in November 2022 to raise corporate value by accelerating the Group's business development and strengthening governance. It is also facing the fact that it needs to expand and transform the Group business structure in a way that adapts to the new social and corporate activities of the post-pandemic period, so it has formulated the new Terilogy Group Three-Year Medium-Term Management Plan (FY3/24-FY3/26, a rolling plan to be revised each fiscal year). Under the rolling plan format, the plan's targets will be revised each fiscal year. The Group's vision is to "become a corporate group overflowing with professional innovation capabilities, including the ability to create freely, execute steadily, and produce results." Accordingly, it has set targets for net sales of ¥6,300mn and operating income of ¥240mn in FY3/24, net sales of ¥7,200mn and operating income of ¥330mn in FY3/25, and net sales of ¥8,200mn and operating income of ¥530mn in FY3/26. Its medium- to long-term target is for Group-wide sales of ¥10.0bn.

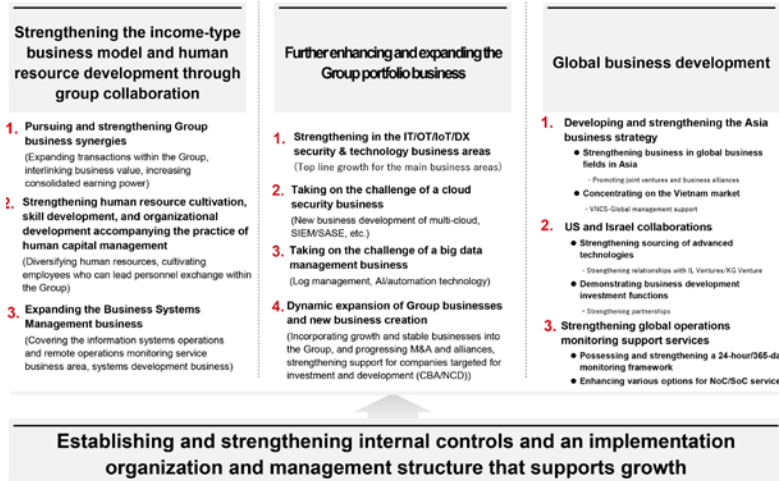
In order to practice management that is conscious of capital cost and share price, the Company recognizes that maintaining a sound financial standing which is conscious of capital cost is an important management issue in order to meet the expectations of all stakeholders, including shareholders and investors, realize the sustainable growth of the Terilogy Group, and enhance medium- to long-term corporate value, and aims to practice management that is conscious of capital cost and share price and targets a medium- to long-term return on equity (ROE) of 10.0%.

In terms of the business environment, the Company is anticipating rapid progress to be made on the digital transformation of industry, including significant changes and advances in industrial structure. It sees this period of digital transformation as a big opportunity and it plans to contribute to advancing the DX of customers in any market, both in Japan and overseas, with a focus on the strategic areas of "providing cybersecurity technology that supports the safe and secure use of digital technology," "providing simple, stress-free cloud-based services," and "providing technologies to manage data from log analysis and management."

The key messages of the basic strategies and priority measures for achieving these targets are 1) strengthen recurring income-type business models and cultivate human resources through Group cooperation, 2) further expand and enhance the Group's business portfolio, and 3) advance global business development. The plan's direction is not limited to solving the information systems and security-related issues facing customers' businesses, it also includes proactively addressing challenges in new areas that will be essential to the society of the future, such as social issues connected to tourism DX and environmental DX. Additionally, as an initiative for improving employee engagement to accelerate business development, from April 2023 employee wages have been raised by 6% and the percentage of incentives granted through its employee stock ownership association has been raised from 7% to 20%.

Growth strategy

FY2023 to FY2025 New three-year medium-term management plan
(basic strategy and priority measures)



Source: The Company's results briefing materials

The Company has clarified standards for its M&A and alliance strategy going forward. It will target companies with annual sales of around ¥500mn-¥1,000mn in business areas including the IT technology, trading, and sales area, the Asian and emerging IT technology trading area, the security solutions area, and the cloud technology area. Its budget per investment target is around ¥2,000mn.

The basic approach for implementing the M&A and business alliance strategy

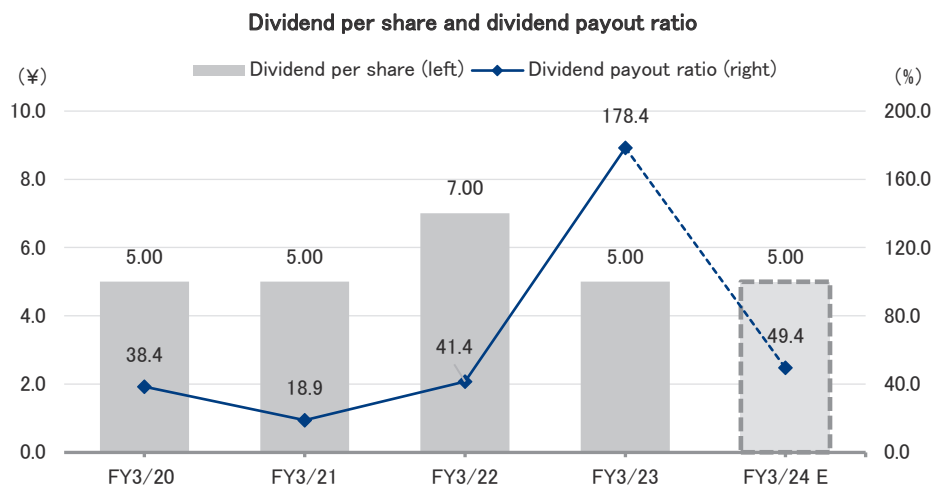
Basic approach	Target areas
<ul style="list-style-type: none"> Acquire human resource (sales/development capabilities) Acquire customer bases Acquire time Acquire sales/profits Acquire future synergies 	IT technology, trading, and sales area
Envisioned scope of investment	Asian and emerging IT technology trading area
Scale of annual sales Approx. ¥500-1,000mn per target	Security solutions area
Basic stance Realize Group synergies through capital and strategic business alliances based on securing control. Contribute to Group consolidation.	Cloud technology area
Investment budget Approx. ¥2,000mn per investment	Inbound tourism solutions area
	Medical information processing, development, and sales area
	Information systems business area
	Systems engineering service engineers and systems integrator area
	DX and AI/RPA technologies areas
	Other startup venture companies in related markets that are anticipating rapid growth

Source: The Company's results briefing materials

Shareholder return includes a results-based dividend and share buybacks

2. Shareholder return policy

In regard to shareholder return, the Company has positioned the pursuit of a shareholder-friendly management strategy as an important issue, and its basic policy of working to provide returns to shareholders by dividends based on business results. Under this basic policy, the Company plans to pay an annual dividend of ¥5.00 for FY3/24 (to be paid in full at the end of the fiscal year), the same as for FY3/23. The forecast dividend payout ratio is 49.4%.



Note: Figures up to FY3/22 for Terilogy
Source: Prepared by FISCO based on Company materials

Expected to implement initiatives for realizing continuous profit growth and enhancing profitability, as well as to create new growth drivers

3. Analyst's view

With the “ability to find emerging technologies and marketable products” and “ability to respond to the market” as its core competencies, the Group has an extensive track record to date of introducing and promoting cutting-edge technologies from overseas. However, looking at past results, even though the Company has generally grown in terms of sales, with M&As also making a contribution, when it comes to profit, it cannot shake the impression that not enough has been done to realize continuous profit growth and to enhance profitability, and that its past strengths and track record are not reflected in its current performance, even taking into account the impact of factors such as the adoption of the revised Accounting Standard for Revenue Recognition, etc., current shift to subscription-type service, the bounce back from a special demand situation, the new consolidation of subsidiaries still at the advance investment stage, the effects of yen depreciation on foreign exchange, and the incurrence of one-time expenses. Although the Company expects a significant increase in sales to absorb the impact of yen depreciation in FY3/24, as investors tend to be interested in anticipated growth in profit and dividends, we believe that realizing continuous profit growth and enhancing profitability is a challenge that the Group must address.

The Group's medium-term management plan aims to expand business portfolio and transition to recurring income-based business models. This involves accelerating engagement with new technologies and new fields, utilizing M&A and alliances. Additionally, the plan includes ambitious strategies such as enhancing employee engagement through increased human capital investment to expedite business development and clarifying M&A strategy standards. We at FISCO believe that these measures hold promise as a strategy to achieve net sales of ¥10.0bn in the medium to long term. Furthermore, the progress of digital transformation (DX) and growing security needs have created a favorable business environment around the Group. Therefore, we also believe that the Group can generate greater interest from investors by demonstrating concrete strategies that go beyond mere sales growth. These strategies should encompass measures to realize continuous profit growth and enhance profitability. Examples include a pricing strategy to mitigate exchange rate fluctuation risks, expanding IT services that are less susceptible to exchange rate fluctuations, such as system development, and specific strategies to improve the sales mix. Additionally, we at FISCO, believe that if the Company presents more concrete plans for new products and services that can drive growth, it will result in greater interest from investors in the Group's growth scenario.



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