

Terilogy Holdings Corporation

5133

Tokyo Stock Exchange Standard Market

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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. Under its corporate philosophy of “we aim to be a corporate group of technology organizers who continuously provide the optimal, accurate solutions and services required by customers to respond to and further advance the changes brought on by a digital society,” it engages in an IT solutions and services business, primarily involving IP networks and network security. The Terilogy Group is a technology-focused corporate group that contributes to the DX of companies and society.

1. Overall expansion in the Security and Solutions Services sections

The Company’s business is divided into 4 sections. The Network Section handles areas such as sales of network products, the Security Section handles areas such as sales of network security products, the Monitoring Section’s business includes packet analysis using a Terilogy Group-developed product (THX) and cloud-based performance monitoring (CloudTriage), and the Solutions Services Section’s business includes a Terilogy Group-developed software robotic process automation (RPA) tool (EzAvater) and a real-time video communication interpretation service (Mieru-Tsuyaku). Additionally, from FY3/24, the Monitoring Section’s sales will be reclassified under the Network and Security sections. In the Network Section, net sales can be affected by factors such as large-scale projects, and in FY3/21, sales rose dramatically due to replacement demand for new models of an IP address management server. There has been overall expansion in the Security and Solutions Services sections, with the Security Section growing 73.1% from FY3/19 to FY3/23, and the Solutions Services Section growing 130.4% over the same period.

2. Core competencies include the “ability to find emerging technologies and marketable products” and “ability to respond to the market”

The Company’s 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 its proprietary technologies to deliver solutions optimized to meet customer needs. 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. The base of these business value chains that put its corporate philosophy into practice are its 1) “ability to find emerging technologies and marketable products” and its “ability to respond to the market,” 2) wide selection of customer solutions, 3) diverse service provision approaches, 4) technical capabilities rooted in experience, and 5) global response capabilities. 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.

Summary

3. Large decline in profits in FY3/23, mainly due to yen depreciation and one-time expenses

In the FY3/23 consolidated results, net sales were ¥5,676mn, operating income was ¥115mn, ordinary income was ¥127mn, and net income attributable to owners of parent was ¥46mn. A simple comparison with Terilogy's FY3/22 consolidated results shows an 8.7% increase in net sales, a 74.0% decrease in operating income, a 71.0% decrease in ordinary income, and an 83.1% decrease in net income attributable to owners of parent. Sales grew smoothly overall, driven by high growth in the Security and Solutions Services sections. However, profits fell significantly. Reasons for this included a decline in the gross margin due to the impact of rapid yen depreciation on foreign exchange, and increased personnel costs accompanying efforts to bolster human capital in preparation for business expansion. One-time expenses also had an impact, including ¥20mn in expenses related to M&As and alliances, and ¥46mn in various expenses associated with structural reorganization, such as settlement of restricted stock.

4. Large increase in profits forecast for FY3/24 driven by high levels of demand

The FY3/24 consolidated results forecasts are for net sales of ¥6,345mn (up 11.8% YoY), operating income of ¥240mn (up 107.9%), ordinary income of ¥240mn (up 88.6%), and net income attributable to owners of parent of ¥168mn (up 261.2%). The Company anticipates double-digit growth in sales as demand remains high. In regard to profits, although personnel costs will increase due to continued investment in human capital, the Company is forecasting that profits will greatly recover, mainly because of the impact of the increase in sales, an easing of downward pressure on the gross margin due to a lull in yen depreciation, and the effects of price revisions, as well as the absence of one-time expenses recorded in FY3/23. The Company plans to raise prices by about 10% based on an assumed exchange rate of US\$1=¥140.00. Considering the favorable environment for security business, the possibility of yen appreciation that exceeds the Company's expectations, and the possibility of price revisions being implemented smoothly, we at FISCO believe that there is room for the Company's performance to surpass its forecast.

5. New three-year medium-term management plan (FY3/24-FY3/26)

The Company 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). The plan's targets are 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. 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. 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%.

Summary

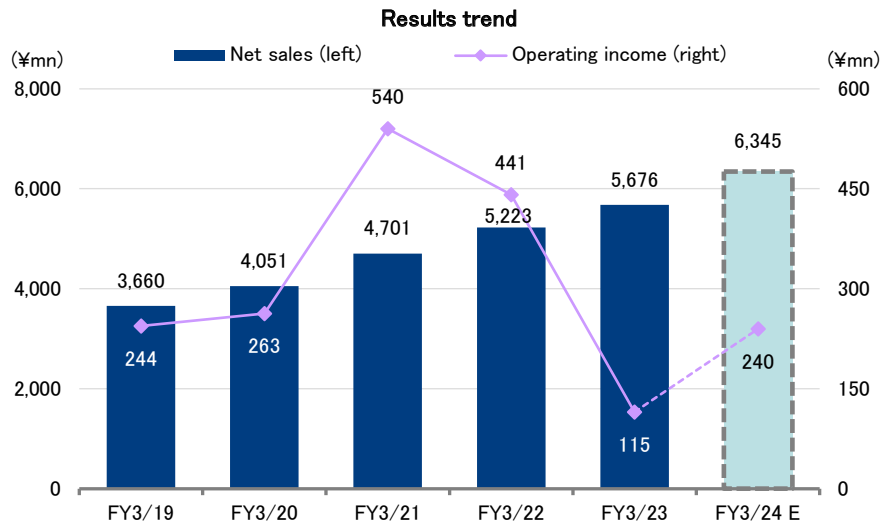
6. FISCO's view

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, even taking into account the impact of factors such as the adoption of the revised Accounting Standard for Revenue Recognition, etc. during the previous two fiscal years, the transition period for the shift to a 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. 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 new medium-term management plan steers toward business portfolio expansion and a shift to recurring income-type business models, including using M&As and alliances to accelerate the development of new technologies and business areas, and also contains ambitious strategies to speed up business development, such as raising employee engagement by strengthening investment in human capital and clarifying standards for M&A strategies. We at FISCO think these measures show a certain amount of promise as strategies for achieving the medium- to long-term sales target of ¥10.0bn. Furthermore, the progress of digital transformation (DX) and growing security needs, etc. 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 (such as measures to reduce risk from exchange rate fluctuations, measures to grow recurring sales, measures to change the composition of overall sales, and section-specific strategies), as well as new products and services, etc. 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
- There was a large decline in profits in FY3/23, mainly due to yen depreciation and one-time expenses
- A large increase in profits is forecast for FY3/24, driven by high levels of demand
- The Group is expected to implement initiatives for realizing continuous profit growth and enhancing profitability, as well as to create new growth drivers

Summary



Note: From FY3/22, applied the Accounting Standard for Revenue Recognition, etc.
 Note: As the Company established a holding company and newly listed as of November 1, 2022, figures until FY3/22 are for Terilogy
 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

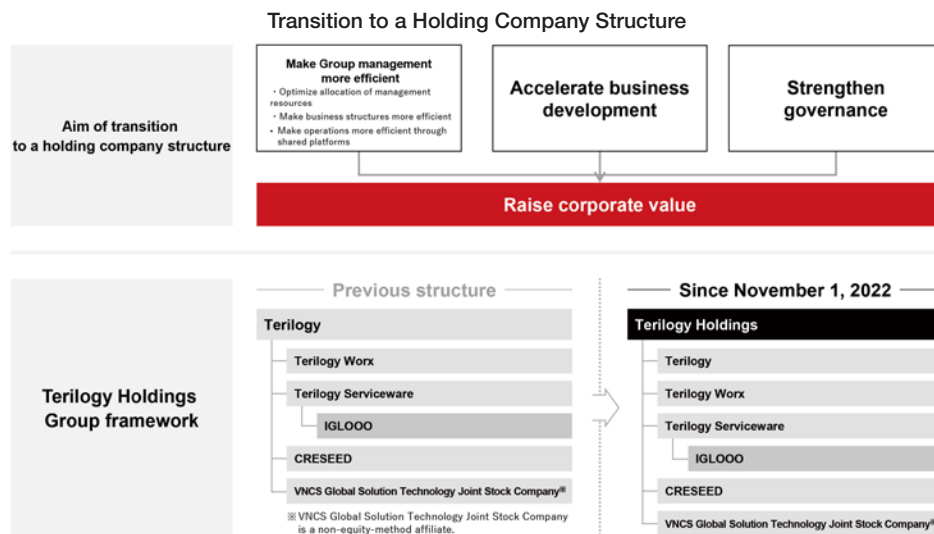
The Company is a holding company established by Terilogy on November 1, 2022, through a sole share transfer. Under its corporate philosophy of “we aim to be a corporate group of technology organizers who continuously provide the optimal, accurate solutions and services required by customers to respond to and further advance the changes brought on by a digital society,” it engages in an IT solutions and services business, primarily involving IP networks and network security. The Terilogy Group is a technology-focused corporate group that contributes to the DX of companies and society.

As of the end of FY3/23, the Company's head office is located in Kudan-kita, Chiyoda-ku, Tokyo. It has total assets of ¥6,144mn, net assets of ¥2,445mn, capital of ¥450mn, a capital adequacy ratio of 39.1%, and 17,111,742 shares outstanding (including 805,300 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: 5.24%).

Company profile

The Group is made up seven companies in total, including the Company (the holding company), five consolidated subsidiaries (Terilogy, which became a fully-owned subsidiary following the establishment of the Company, Terilogy Worx Corporation, Terilogy Serviceware Corporation, IGLOOO Inc., and CRESEED Corporation), and one non-equity-method affiliate (VNCS Global Solution Technology Joint Stock Company, a Vietnamese joint venture). In May 2023, the Company purchased a 20% stake in ITM Inc., turning it into an equity-method affiliate, and in June 2023, Terilogy Worx purchased additional shares of Nihon Cyber Defence KK (NCD), increasing its stake to 10.18%.

The Group transitioned to a holding company structure with the aim of raising corporate value by making Group management more efficient, accelerating business development, and strengthening governance.



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 2018 of CloudTriage, a unique, cloud-based operations monitoring service, in July 2015, and EzAvater, an ultra-simple robotic process automation (RPA) tool, both of which were also developed in-house at Terilogy. In March 2021, Terilogy acquired certification as a DX certified business under a scheme operated by the government of Japan. This was renewed in March 2023.

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 restructuring. Then on November 1, 2022, the holding company Terilogy Holdings Corporation was listed on the TSE Standard Market through a technical listing (while Terilogy was delisted after becoming a fully-owned subsidiary).

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Company profile

Company history

July 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, encompassing sales of Redback Networks broadband access servers, Ethernet software from American company Network Telesystems, Inc. (now Affinegy, Inc.), and other such products.
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.
Oct. 2008	Distribution contract signed with Singaporean company eG Innovations Pte Ltd.
Apr. 2010	Following merger of JASDAQ Securities Exchange and Osaka Securities Exchange, Terilogy listed on Osaka Securities Exchange JASDAQ (currently called the Osaka Exchange).
Aug. 2010	Domestic (Japan) reseller contract signed with American company APCON, Inc.
Feb. 2011	Asia-Pacific distribution contract signed with American company SevOne, Inc.
June 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>).
July 2013	Following merger of Osaka Securities Exchange and Tokyo Stock Exchange, Terilogy listed on TSE JASDAQ Standard.
July 2013	Fullflex ZG master reseller contract signed with Accense Technology, Inc.
July 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.
Jan. 2017	Basic agreement on joint marketing for security products signed with FISCO Ltd. <3807>.
Jan. 2017	Basic agreement on business collaboration in the area of transaction security with Fisco Cryptocurrency Exchange Inc.
Jan. 2017	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 Corporation 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.
July 2018	Sales begun of EzAvater, Terilogy's unique, ultra-simple 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>.
June 2019	Business tie-up with American company Sumo Logic, Inc.
July 2019	Consolidated subsidiary Terilogy Worx Corporation concluded distribution contract with American company BitSight Technologies, Inc.
Aug. 2019	Distribution contract concluded with Israeli company TechSee Augmented Vision Ltd.
June–Sept. 2019	Distribution contracts for Terilogy -developed RPA tool EzAvater concluded with Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., and UCHIDA ESCO Co., Ltd.
Feb. 2020	Distribution contract for Terilogy -developed RPA tool EzAvater concluded with Hitachi Systems, Ltd.
Mar. 2020	Consolidated subsidiary Terilogy Serviceware Corporation concluded a business tie-up with Towa Engineering Corporation.
Mar. 2020	Distributor contract concluded with Israeli company Radware Ltd. <RDWR>.
Apr. 2020	Established 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 IGL000 Inc., making it a subsidiary.
June 2020	Distribution contract for Terilogy -developed RPA tool EzAvater concluded with Computer Engineering & Consulting Ltd. <9692>.

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Company profile

Nov. 2020	Terilogy and VNCS Global Solution Technology Joint Stock Company signed a memorandum of understanding with BroadBand Security regarding business development in Vietnam related to PCI DSS international security standards. CAICA Technologies Inc. launched sales of the Terilogy-developed EzAvater RPA tool.
Nov. 2020	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.
Nov. 2020	CAICA Technologies Inc. launched sales of the Company-developed EzAvater RPA tool.
Dec. 2020	RICOH JAPAN Corp. and NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION began handling Mieru-Tsuyaku, a multilingual video communication interpretation service of consolidated subsidiary Terilogy Serviceware Corporation.
Mar. 2021	Acquired certification as a DX certified business Acquired the shares of CRESEED Corp. and made it a subsidiary
Apr. 2021	Consolidated subsidiary Terilogy Worx concluded a distribution contract with GitGuardian of France
May. 2021	Concluded a distribution contract with Pebble Corporation for EzAvater, a Terilogy-developed RPA tool.
June 2021	Consolidated subsidiary IGLOOO formed a business alliance with ADARA, a U.S. company with over 1.7 billion digital IDs worldwide, 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, a provider of risk management solutions for crypto-asset AML and cyber-attacks. Signed a distribution contract with Focus Systems Corporation for ThreatSonar, from Taiwan's TeamT5, a product handled by consolidated subsidiary Terilogy Worx.
July 2021	A 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 with CBA Inc., an environmental DX venture, and underwrote share options to be issued by CBA.
Oct. 2021	Consolidated subsidiary Terilogy Worx began offering in-house-developed cyber threat hunting solution. Signed a distribution contract with Collabos Corporation for TechSee, a visual support tool handled by the Company that enables DX for support operations.
Nov. 2021	Consolidated subsidiary Terilogy Worx signed a sales partnership contract with Information Development Co., Ltd. for its in-house developed THX product enabling cyber-threat hunting. 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., operator of a multilingual healthcare service site, and began offering its multi-lingual service for medical institutions.
Feb. 2022	Consolidated subsidiary Terilogy Worx concluded a partnership with Synack, a U.S. company that provides crowdsourced security testing services worldwide.
Mar. 2022	Consolidated subsidiary Terilogy Worx Corporation concluded a capital and business alliance with Nihon Cyber Defence (accepted a third-party allocation of shares from Nihon Cyber Defence).
Apr.-May 2022	Consolidated subsidiary Terilogy Serviceware concluded an agreement for the distribution of Terilogy-developed RPA tool EzAvater with CAREER PLANNING Co., Ltd. and Rustic System Co., Ltd.
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. for TechSee, a visual support tool.
July 2022	Consolidated subsidiary Terilogy Serviceware concluded an agreement for the distribution of Terilogy -developed RPA tool EzAvater with Office More Co., Ltd.
Aug 2022	Changed its sector on the TSE Standard Market from Wholesale Trade to Information & Communication. Entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD. <8096> regarding the expansion of transactions and next-generation business development centered around the security business (Implemented a third-party allocation of shares to KANEMATSU ELECTRONICS and disposal of treasury shares).
Oct 2022	Consolidated subsidiary Terilogy Serviceware concluded an agreement for the distribution of Terilogy-developed RPA tool EzAvater with Instrategy Corp.
Nov 2022	Terilogy established Terilogy Holdings Corporation through a sole share transfer; the holding company was newly listed on the Tokyo Stock Exchange Standard Market (Terilogy was delisted and became a wholly owned subsidiary).
May 2023	Business and capital alliance concluded with ITM Inc., which becomes an equity-method affiliate
Jun. 2023	Terilogy Worx increased its stake Nihon Cyber Defence

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

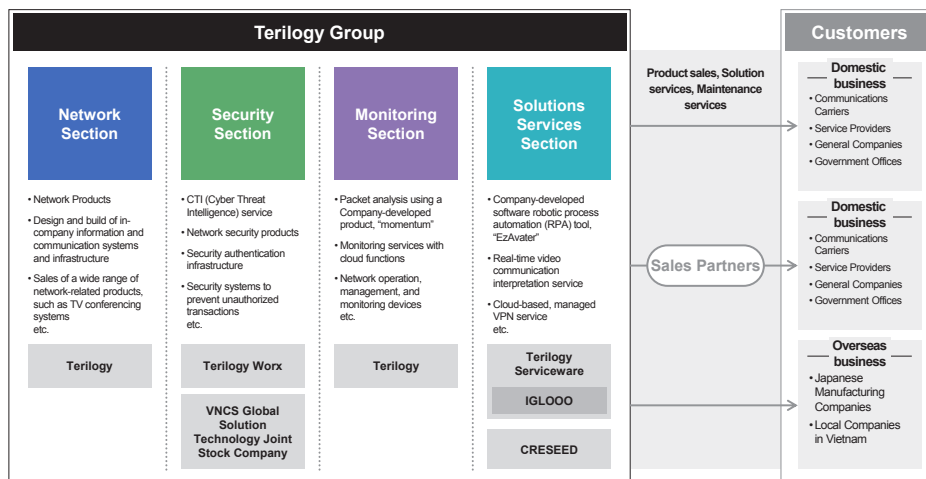
Business overview

Overall expansion in the Security and Solutions Services sections

1. Business overview

The Company's business is divided into 4 sections. The Network Section handles areas such as sales of network products, the Security Section handles areas such as sales of network security products, the Monitoring Section's business includes packet analysis using a Terilogy Group-developed product (THX) and monitoring services with cloud functions (CloudTriage), and the Solutions Services Section's business includes a Terilogy Group-developed software robotic process automation (RPA) tool (EzAvater) and a real-time video communication interpretation service (Mieru-Tsuyaku). Additionally, from FY3/24, the Monitoring Section's sales will be reclassified under the Network and Security sections.

Diagram of the business structure



Source: The Company's results briefing material

Looking at net sales by section and net sales composition results for the past five fiscal years (FY3/19-FY3/23), in FY3/23 the Network Section accounted for 22.7% of sales, the Security Section for 38.0%, the Monitoring Section for 4.7%, and the Solutions Services Section for 34.6%. In the Network Section, net sales can be affected by factors such as large-scale projects. In FY3/21, sales rose dramatically due to replacement demand for new models of an IP address management server and large-scale projects also made a contribution, but then sales declined in FY3/22 due to the effects of the adoption of the revised Accounting Standard for Revenue Recognition, etc. and in FY3/23 as the replacement demand mentioned above ended. There has been overall expansion in the Security and Solutions Services sections, with the Security Section growing 73.1% from FY3/19 to FY3/23, and the Solutions Services Section growing 130.4% over the same period.

Business overview

Trends in net sales by segment and net sales composition

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

Source: Prepared by FISCO from the Company's financial results, results briefing materials, Notice of Convocation of the Annual General Meeting of Shareholders, and materials

In August 2022, the Company entered into a business and capital alliance with KANEMATSU ELECTRONICS with the aim of expanding transactions and advancing next-generation business development centered around the security business. Also, 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 (making it into an equity-method affiliate), a subsidiary of SAKURA Internet Inc. <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 KK, which started with the conclusion of a capital and business alliance in 2022, by buying additional shares in the company (raising its stake to 10.18%).

The Network Section's business includes sales of network products

2. Network Section

The Network Section is mainly focused on Terilogy and its business includes the sale 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, provision of professional services, and maintenance concerning a wide range of network-related products, such as TV conferencing systems.

Net sales in FY3/23 were ¥1,286mn, with product sales (including subscription services) accounting for a little under 50% and maintenance service sales accounting for over 50%. 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. In FY3/2021, there was replacement demand for new Infoblox IP address management server model. 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 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>Appliances NonStop/distribution/centralized management for identity-driven networks, such as DNS/DHCP/RUDIUS</p>	 <p>Network</p> <p>Aerohive 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 products (firewalls, intrusion detection and prevention countermeasures, information leakage countermeasures, etc.), the sale of security authentication infrastructure (identifying service users on a network), and the sale and maintenance of security systems for preventing unauthorized transactions, such as one-time password products.









Net sales in FY3/23 were ¥2,155mn, with product sales (including subscription services) accounting for over 70% and maintenance service sales accounting for over 20%. Its main products, in addition to CTI-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 as security measures in manufacturing control systems (OT/IoT systems) fields such as key infrastructure 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, and OneSpan one-time password products for preventing unauthorized transactions (manufactured by Belgium-based Onespan).

In the CTI 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.

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

Business overview

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>KERA A consulting service that detects and collects information that threatens companies interacting with the Darknet, and then provides analysis results.</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>Tempered Networks Easily realize secure networks – Secure Networking Made Simple –</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 Monitoring Section's business includes a cloud-based operations monitoring service

4. Monitoring Section

The Monitoring Section is mainly focused on Terilogy, which mainly sells the momentum network packet capture products developed within the Terilogy Group and associated packet analysis services, and Terilogy and Terilogy Serviceware, which sell CloudTriage, a cloud-based IT systems operations monitoring service developed within the Terilogy Group, and offer cloud performance monitoring services, network operation management and monitoring devices and software products, as well as maintenance operations. Net sales in FY3/23 were ¥269mn, with product sales (including subscription services) accounting for a little under 20% and maintenance service sales accounting for over 80%. Regarding network packet capture products developed within the Terilogy Group, the Company is working to capture orders for the new model THX Series. Additionally, from FY3/24, the Monitoring Section's sales will be reclassified under the Network and Security sections.

Main products in the Monitoring Section

 <p>Operation & management</p> <p>CloudTriage RCA Skillfully identifies bottlenecks in the user's system and presents improvement points.</p>	 <p>Operation & management</p> <p>momentum High performance capture ring software that enables high-speed packet capture and packet storage.</p>	 <p>Operation & management</p> <p>eG Enterprise Conducts real-time monitoring of IT infrastructure, makes visible performance, analyzes the causes of problems, and automates specified tasks</p>	 <p>Operation & management</p> <p>SevOne A high-speed network performance management tool that collects and monitors every kind of data and enables application identification</p>
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Source: The Company's website

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

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

5. Solutions Services Section

The Solutions Services Section is mainly focused on Terilogy Serviceware, IGLOOO, and CRESEED, 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 a technology outsourcing service, provision of an information system development and operation service, provision of TechSee, a visual contactless remote support service that uses artificial intelligence (AI) and augmented reality (AR), and a 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 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. In FY3/23, although there was a decline in usage by local governments, including for COVID-19 vaccination centers, the recovery of overseas tourism to Japan led to the introduction of the service at facilities that tend to use multiple IDs, such as department stores, retailers, stations, and ports, so the number of IDs increased. The service was adopted by Seibu Railway Company, Ltd. for tablets issued to each member of its station staff from 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 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, and by SHIBUYA SKY, a facility with views located in Shibuya, Tokyo, from May 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.

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

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

Strengthening its response to technological innovation

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

Risk factors faced by the Company 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. Regarding foreign exchange fluctuation, a large percentage of the products the Company imports from overseas have been purchased using foreign currencies, so rapid yen depreciation is contributing to raising its cost of sales ratio. The Company is responding with a policy that aims to reduce this risk through measures including 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.

■ Features and Strengths

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

1. Building the business value chain to practice its corporate philosophy of “focus on the customer”

The Company's 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 its proprietary technologies to deliver solutions optimized to meet customer needs.

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 creation of a 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. The Company has established as its mission to provide unique, valuable security technology in a digital society to ensure safety and security in every business situation, and stated as its vision, to become a technology solutions organizer that offers and implements unique, optimal solutions to customer issues by combining technologies of value. It has incorporated these into an action plan in a form fitted to the processes of its business value chain.

Features and Strengths

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.

2. 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.

3. Examples demonstrating the "ability to find emerging technologies and marketable products"

The Group's "ability to find emerging technologies and marketable products" lies in "accurately ascertaining and incorporating the trends of the times into its business areas, finding the latest technologies of overseas venture companies and concluding distributor and other contracts," and it has no shortage of experience in this regard.

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, and US-based TippingPoint (acquired by US-based Hewlett-Packard (HPQ) in 2010 and then Trend Micro Inc. <4704> in 2015) Belgium-based OneSpan (OSPN, formerly VASCO Data Security), and US-based Lastline (acquired by US-based VMware (VMW) in 2020) in the security field.

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. Although Wellfleet does not exist today, in 1998, Wellfleet was acquired by Nortel (Canada), the world's second largest computer network device company at the time, to compete against Cisco Systems <CSCO> of the US founded in 1984, which was the largest company back then. The Group's discovery of Wellfleet in 1990 can be said to be a good example of its "ability to find emerging technologies and marketable products."

Features and Strengths

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 2023 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.

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, 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 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 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 foresight, as it anticipated the increase in targeted-attack emails seen in recent years.

These examples would seem to clearly demonstrate the Group's ability to accurately ascertain the technological trends and cutting-edge technologies that it should precisely focus on as its business areas and its "ability to find emerging technologies and marketable products" with "foresight."

4. 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.

Features and Strengths

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.

Results trends

Large decline in profits in FY3/23, mainly due to yen depreciation and one-time expenses

1. Overview of FY3/23 consolidated results

In the FY3/23 consolidated results (no results available for FY3/22 as the holding company was established on November 1, 2022), net sales were ¥5,676mn, operating income was ¥115mn, ordinary income was ¥127mn, and net income attributable to owners of parent was ¥46mn. A simple comparison with Terilogy's FY3/22 consolidated results shows an 8.7% increase in net sales, a 74.0% decrease in operating income, a 71.0% decrease in ordinary income, and an 83.1% decrease in net income attributable to owners of parent.

Overview of FY3/23 consolidated results

	(Reference) FY3/22 Terilogy		FY3/23 Terilogy Holdings		
	Results	Composition	Results	Composition	Change %
Net sales	5,223	100.0%	5,676	100.0%	8.7%
Gross profit	2,061	39.5%	1,994	35.1%	-3.3%
SG&A expenses	1,620	31.0%	1,878	33.1%	15.9%
Operating income	441	8.5%	115	2.0%	-74.0%
Ordinary income	439	8.4%	127	2.2%	-71.0%
Net income attributable to owners of parent	273	5.2%	46	0.8%	-83.1%
Average exchange rate (U.S. dollar/yen)	112.38	-	135.48	-	-
Net sales by segment					
Network Section	1,399	26.8%	1,286	22.7%	-8.1%
Security Section	1,726	33.1%	2,155	38.0%	24.8%
Monitoring Section	387	7.4%	269	4.7%	-30.3%
Solutions Services Section	1,710	32.7%	1,965	34.6%	14.9%

Note: FY3/22 results are for Terilogy, while FY3/23 results are for Terilogy Holdings

Source: Prepared by FISCO from the Company's financial results, results briefing materials, Notice of Convocation of the Annual General Meeting of Shareholders, and materials

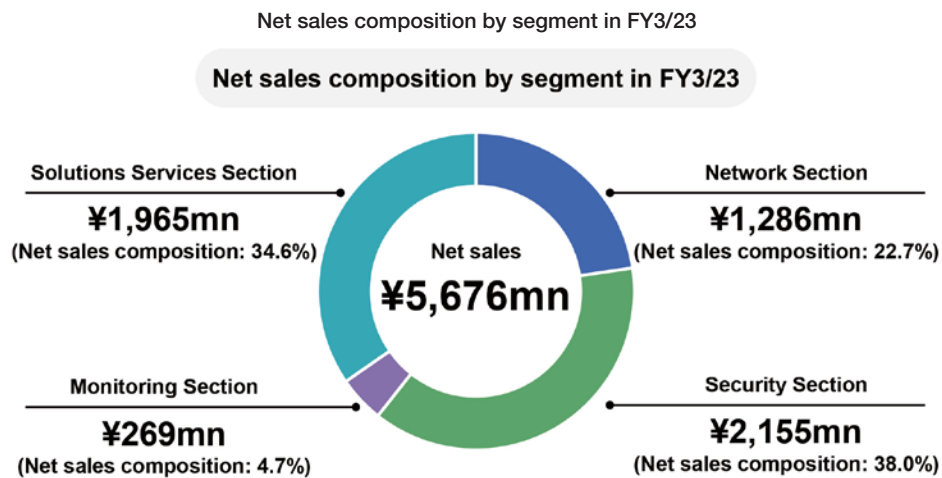
Results trends

Sales grew smoothly overall, driven by high growth in the Security and Solutions Services sections. However, profits fell significantly. Reasons for this included a decline in the gross margin due to the impact of rapid yen depreciation on foreign exchange, and increased personnel costs accompanying efforts to bolster human capital in preparation for business expansion. One-time expenses also had an impact, including ¥20mn in expenses related to M&As and alliances, and ¥46mn in various expenses associated with structural reorganization, such as settlement of restricted stock. Gross profit decreased 3.3% and the gross margin decreased 4.4 percentage points to 35.1%. SG&A expenses increased 15.9%, and the SG&A expense to sales ratio rose by 2.1 points to 33.1%. As a result, the operating income margin fell by 6.5 points to 2.0%.

Sales being driven by high growth in the Security and Solutions Services sections

2. Trends by segment

Looking at net sales by business section, they declined 8.1% YoY to ¥1,286mn in the Network Section in non-consolidated results compared to FY3/22 consolidated results, increased 24.8% to ¥2,155mn in the Security Section, declined 30.3% to ¥269mn in the Monitoring Section, and increased 14.9% to ¥1,965mn in the Solutions Services Section.



Source: The Company's results briefing material

The Network Section saw a decrease in net sales. Orders for Radware products that solve network issues faced by companies, such as countermeasures against DDoS attacks, were steady and Extreme (formerly Aerohive) network construction products performed well against a backdrop of increased corporate Wi-Fi use, but factors such as the end of replacement demand for Infoblox IP address management server products and a shift to subscription-based models meant sales fell overall.

Results trends

In the Security Section, the high rate of growth continued as net sales rose dramatically against the backdrop of rising security needs. CTI-related products, that are a focus for the Company, performed well and there was an increase in control system security risk analyses using Nozomi Networks products, which have strengths as security measures in manufacturing control systems (OT/IoT systems) fields such as key infrastructure and factories. The Company also succeeded in selling TippingPoint unauthorized intrusion network prevention security products to customers such as government agencies and manufacturing businesses as a countermeasure to cyberattacks targeted at specific organizations and companies. There were also steady orders for products such as Sumologic, which can quickly and accurately identify threats from log information, and BitSight, which can provide a visualization of supply chain risk. In addition, the Company fully launched a service that uses AI to analyze social media sites used in crimes to identify hidden relationships and undercover accounts between criminal groups. It also smoothly established a software supply chain risk service, which is one of its next major themes of engagement.

The Monitoring Section saw a large decrease in net sales. Although sales of the new model THX Series network packet capture products and the CloudTriage cloud-based IT systems operations monitoring service, both developed within the Terilogy Group, were steady, maintenance service sales fell following the end of support for long-used legacy products.

In the Solutions Services Section, the high rate of growth continued as net sales rose dramatically. Sales of EzAvater, a software RPA tool developed within the Terilogy Group, were strong amid a flow toward DX. Introductions of the real-time video communication interpretation service Mieru-Tsuyaku increased, particularly at commercial facilities, as inbound demand returned. Demand for Zoom combined with Mieru-Tsuyaku as a new usage method grew, as did demand for devices such as all-in-one monitors. The return of inbound tourism also meant that the promotion business that uses VOYAPON, a media site targeting visitors to Japan operated by IGLOOO, saw an increase in demand for PR aimed at attracting foreign tourists to Japan. The information system development and operation service provided by CRESEED also performed well.

Maintaining financial soundness

3. Financial condition

Looking at the Company's financial condition, as of the end of FY3/23, (Terilogy Holding's) total assets were ¥6,144mn, total liabilities were ¥3,698mn, and net assets were ¥2,445mn. Compared to the end of FY3/22 (Terilogy's results), total assets were up ¥152mn, total liabilities increased ¥146mn, and net assets increased ¥5mn. From February to March 2023, it also carried out share buybacks totaling ¥299mn. As a result, the equity ratio fell 1.1 percentage points to 39.1%. The Company is maintaining the soundness of its financial structure and has not made any especially big changes. There were 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 condition into consideration.

Results trends

Financial statement and simplified cash flow statement

	(¥mn)				
	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23
Total assets	3,194	4,203	5,625	5,991	6,144
Current assets	2,355	3,404	4,515	4,871	5,068
Non-current assets	839	798	1,109	1,119	1,075
Total liabilities	1,753	1,934	2,981	3,551	3,698
Current liabilities	1,314	1,626	2,657	3,271	3,325
Non-current liabilities	439	307	324	279	373
Total net assets	1,441	2,269	2,643	2,439	2,445
(Shareholders' equity)	1,433	2,262	2,617	2,393	2,388
Equity ratio	45.0%	53.9%	46.6%	40.2%	39.1%

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23
Net cash provided by (used in) operating activities	374	484	1,131	414	287
Net cash provided by (used in) investing activities	-55	-24	-256	-243	34
Net cash provided by (used in) financing activities	-218	464	-237	-428	112
Cash and cash equivalents at end of period	569	1,500	2,128	1,867	2,298

Note: Figures up to FY3/22 for Terilogy

Source: Prepared by FISCO from the Company's financial results, partly corrected financial results and materials

Outlook

Large increase in profits forecast for FY3/24, driven by high levels of demand

● Overview of FY3/24 consolidated forecast

The FY3/24 full-year 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 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 because of the impact of the increase in sales, an easing of downward pressure on the gross margin due to a lull in yen depreciation, and the effects of price revisions, as well as the absence of one-time expenses recorded in FY3/23. The Company plans to raise prices by about 10% based on an assumed exchange rate of US\$1=¥140.00. Considering the favorable environment for security business, the possibility of yen appreciation that exceeds the Company's expectations, and the possibility of price revisions being implemented smoothly, we at FISCO believe that there is room for the Company's performance to surpass its forecast.

Outlook

Overview of FY3/24 consolidated forecast

	FY3/23		FY3/24		
	Results	Composition	Forecast	Composition	Change %
Net sales	5,676	100.0%	6,345	100.0%	11.8%
Gross profit	1,994	35.1%	-	-	-
SG&A expenses	1,878	33.1%	-	-	-
Operating income	115	2.0%	240	3.8%	107.9%
Ordinary income	127	2.2%	240	3.8%	88.6%
Net income attributable to owners of parent	46	0.8%	168	2.6%	261.2%
Average exchange rate (U.S. dollar/yen)	135.48	-	140.00	-	-
Net sales by segment					
Network Section	1,286	22.7%	-	27.9%	-
Security Section	2,155	38.0%	-	38.7%	-
Monitoring Section	269	4.7%	-	-	-
Solutions Services Section	1,965	34.6%	-	33.4%	-

Source: Prepared by FISCO from the Company's financial results, results briefing materials, and 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.

Growth strategy

FY2023 to FY2025 New three-year medium-term management plan (numerical targets)

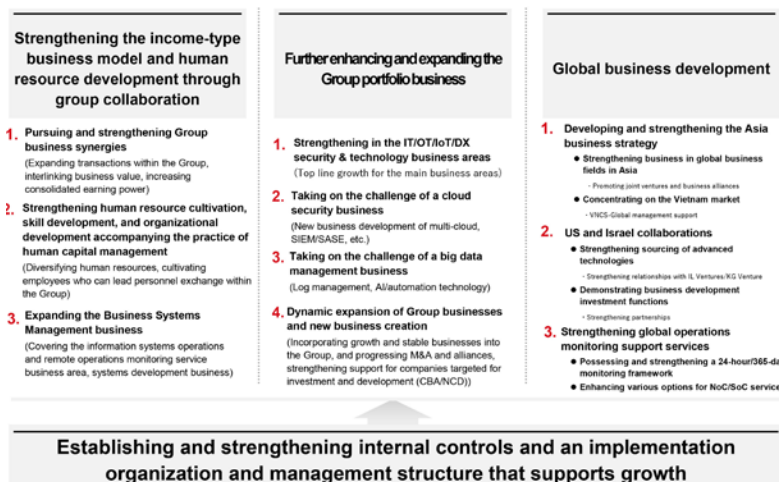
	FY2023 Target	FY2024 Forecast	FY2025 Forecast
Net sales	¥6.3bn	¥7.2bn	¥8.2bn
Operating income	¥240mn	¥330mn	¥530mn
Growth rate	111%	115%	113%
Net sales by segment			

Source: The Company's results briefing materials

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%.

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



Source: The Company's results briefing materials

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

Growth strategy

In regard to the Company’s recent M&A and alliance strategy, in August 2022, it entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD. with the aim of expanding transactions and advancing next-generation business development centered around the security business. Also, 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, 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 2022, by buying additional shares in the company (raising its stake to 10.18%). Furthermore, the Company has clarified standards for its M&A and alliance strategy going forward. It will target companies with annual sales of around ¥500-1,000mn 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. It’s 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 carrying out share buybacks and paying dividends based on business results. Under this basic policy, in February and March 2023, it carried out share buybacks totaling ¥299mn and its annual dividend for FY3/23 (paid in full at the end of the fiscal year) was ¥5.00, down ¥2.00 from FY3/22. This resulted in a dividend payout ratio of 178.4%. For FY3/24, the Company plans to pay an annual dividend of ¥5.00 (to be paid in full at the end of the fiscal year), the same amount as in FY3/23. The forecast dividend payout ratio is 49.4%.

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

Practicing management that is conscious of capital cost and share price

3. Key performance indicators for the sustainable enhancement of corporate value to be announced in November 2023

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. Therefore, in November 2023, it plans to announce key performance indicators for the sustainable enhancement of corporate value as part of efforts to practice management that is conscious of capital cost and share price.

The progress of DX and growing security needs have created a favorable business environment around the Group, so we at FISCO think that it can expect to grow sales and profits in the medium- to long-term by using M&As and alliances to accelerate the development of new technologies and business areas.

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

4. FISCO'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, even taking into account the impact of factors such as the adoption of the revised Accounting Standard for Revenue Recognition, etc. during the previous two fiscal years, the transition period for the shift to a 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. 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 new medium-term management plan steers toward business portfolio expansion and a shift to recurring income-type business models, including using M&As and alliances to accelerate the development of new technologies and business areas, and also contains ambitious strategies to speed up business development, such as raising employee engagement by strengthening investment in human capital and clarifying standards for M&A strategies. We at FISCO think these measures show a certain amount of promise as strategies for achieving the medium- to long-term sales target of ¥10.0bn. 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 (such as measures to reduce risk from exchange rate fluctuations, measures to grow recurring sales, measures to change the composition of overall sales, and section-specific strategies), 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.



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