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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

2022年6月28日付で株式会社フィスコによる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 Co., Ltd.

3356

Tokyo Stock Exchange Standard Market

26-Jul.-2022

FISCO Ltd. Analyst

**Yoshihiro Maeda**



FISCO Ltd.

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

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## Summary

### An IT solutions provider established in 1989 aiming to accelerate the enhancement of corporate value by transitioning to a holding company structure

#### 1. An IT solutions provider established in 1989

Terilogy Co., Ltd. <3356> (hereafter, also “the Company”) is an IT company that has been providing IP network-related products and cutting-edge products and solutions in the network security field since its founding in July 1989. Currently under the umbrella of the Terilogy Group are 4 consolidated subsidiaries (including a subsidiary’s subsidiary) and 1 non-equity-method affiliate (it plans to transition to a holding company structure in November 2022).

Its corporate philosophy is “to respond to the needs of our customers and ensure their full satisfaction,” and in the Heisei era, it expanded its business areas to contribute to the construction and development of an internet society under the slogan “In collaboration with customer.” Today, in the Reiwa era, the Company is working to provide solutions to meet the demands of the present age such as productivity improvements, work-style reforms, inbound demand, the new way of life under the novel coronavirus (COVID-19) pandemic, DX (Digital Transformation), and the SDGs under its new slogan “No. 1 in Quality.”

From the Company’s corporate history, it can be read that it has quickly ascertained the trends of broadband, mobile, and cybersecurity and expanded its business areas to reflect them with the corporate IP network business.

#### 2. Developing business activities to meet customer needs through a four-section structure

The Company is currently developing business activities in four sections: the Network Section, Security Section, Monitoring Section, and Solutions Services Section. Its features include providing a large number of products and services to meet customer demands and a maintenance system operating 24 hours a day, 365 days a year; and an excellent distribution function that combines direct and indirect sales.

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

The Company’s business model shows the ingenuity it employs in putting its corporate philosophy of “focus on the customer” into practice in its business. That, in short, is the creation of a business value chain centered around processes designed to respond to 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.).

The Company considers its own strengths to be 1) its “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 particular, its competence in “finding emerging technologies and marketable products” and its “ability to respond to the market” is leveraged in processes throughout the value chain, and is the core competence that serves as the base for all of its strengths.

## Summary

**4. Operating income in FY3/22 far exceeded previous forecasts**

In the FY3/22 consolidated results, net sales increased 11.1% YoY to ¥5,223mn, while operating income fell 18.3% to ¥441mn. Operating income greatly exceeded previous forecasts (initial forecast of ¥170mn which was revised upward to ¥250mn when the 1H results were announced). The operating income margin was lower by 3.0 pp YoY at 8.5%, while orders received during the period increased 11.1% to ¥6,058mn and outstanding orders at the end of the period rose by 79.1% versus the end of the previous period to ¥1,890mn. Starting from FY3/22, the Company is applying the revised Accounting Standard for Revenue Recognition and the Implementation Guidance on revised Accounting Standard for Revenue Recognition (hereinafter, "revised Accounting Standard for Revenue Recognition, etc."). Although this means that profits have declined nominally, these financial results actually show smooth business expansion.

The Company is also maintaining a sound financial structure. At the end of FY3/22, the equity ratio had declined to 40.2% (46.6% at the end of the previous period) and the current ratio to 148.9% (169.9%). Also, the D/E ratio (interest - bearing debt / shareholders' equity) was 0.11 times (0.13 times) and net cash (cash and deposits - interest-bearing debt) was ¥1,901mn (¥2,070mn), so it maintained the levels from the end of the previous fiscal year. On a stand-alone basis, retained earnings, from which the Company normally funds dividend payments, were ¥498mn (¥502mn), so it has secured sufficient capacity to fund dividend payments.

Also, following share buybacks representing 2.74% of outstanding shares from May to June 2021, the Company raised its annual dividend issued at the end of FY3/22 from the initially planned ¥5 to ¥7 per share (ordinary dividend of ¥5 per share, special dividend of ¥2 per share).

**5. FY3/23 results forecasts must be achieved**

The Company's initial forecast for the F3/23 full-year consolidated results are for net sales of ¥6,200mn (up 18.7% YoY) and operating income of ¥370mn (-16.2%). These forecasts are consistent with the targets for the second year of the three-year medium-term management plan (hereinafter, "the new medium-term plan") announced in May 2021. As the Company handles a lot of imported products which it buys in US dollars and sells in yen, the weakening of the yen should have an advance effect of lowering gross profit margin, but even taking into account the increasingly tense international situation caused by Russia's invasion of Ukraine, the Company has kept to the new medium-term plan's targets, which suggests it sees these as the minimum that must be achieved.

**6. Aiming to optimize the entire Group and refine its strengths by transitioning to a holding company structure**

In April 2022, the Company's Board of Directors made a resolution to transition to a holding company structure. This was approved at the ordinary general meeting of shareholders and by relevant authorities in June. On November 1, 2022, Terilogy Holdings Co., Ltd. will be established and registered and shares of the Company will be transferred to the new holding company. On the same day, Terilogy Holdings will be newly listed on the Tokyo Stock Exchange's Standard Market (a technical listing that effectively enables the Company to maintain its current listing).

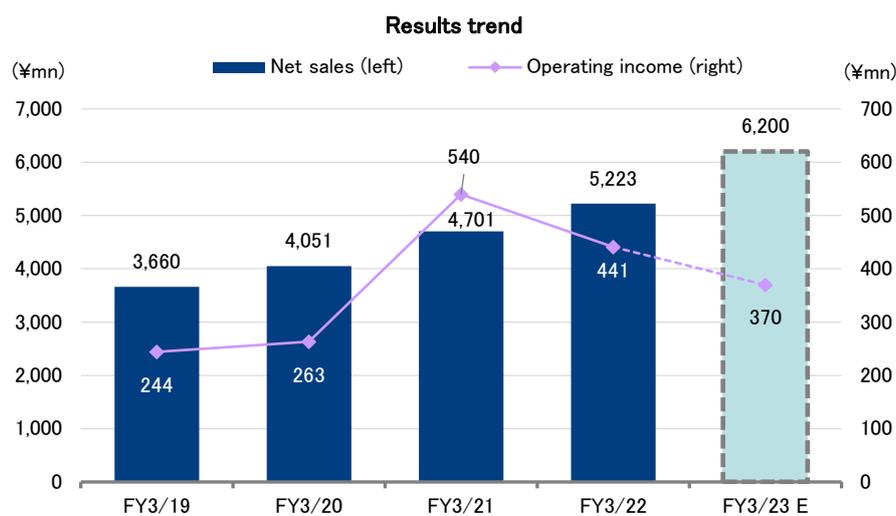
Summary

Under the new structure, Group management, investment, and new business development functions will be concentrated in the holding company. Meanwhile, each business company will have the autonomy to create its own growth strategies in the business area it is responsible for and to make decisions and advance business in a swift and flexible manner that takes into account changes in the environment. In other words, the Company's strengths are its "ability to find emerging technologies and marketable products" and its "ability to respond to the market," so it is aiming for a structure that refines and demonstrates these strengths, enabling the holding company to focus on the former while each business company has the responsibility and authority to work on the latter. This should contribute to the optimization of the entire Group and enhancement of corporate value.

While the transition to a holding company structure will occur at the halfway point of FY3/22, which is the first year of the new medium-term plan, it looks like it will become a tailwind for the action plans for achieving targets by each Group company advocated in the new medium-term plan. We will follow each company's implementation of these plans closely going forward.

**Key Points**

- An IT solutions company that has accumulated a track record in the 30 years since its foundation. The Company, which forms a corporate group with four consolidated subsidiaries (including second-generation subsidiaries) and one affiliated company not counted for using the equity method as its affiliates, is currently conducting business activities.
- From the Company's corporate history, it can be read to have a track record of accurately ascertaining the trends of the times and skillfully changing its business focus areas to reflect them. The Company is currently developing its business activities in four sections: the Network Section, Security Section, Monitoring Section, and the Solutions Services Section.
- The Company has built a business model backed by its corporate philosophy of "focus on the customer." The strength of its core competence in "finding emerging technologies and marketable products" and its "ability to respond to the market" has become evident in its business performance as well.
- While the Company effectively achieved good results in FY3/22, it must achieve its FY3/23 targets, which anticipate an increase in sales and decline in profit
- It is aiming to optimize the entire Group and refine its strengths by transitioning to a holding company structure



Note: From FY3/22, adopted the revised Accounting Standard for Revenue Recognition, etc.  
 Source: Prepared by FISCO from the Company's securities report and financial results

## ■ Company profile

**An IT solutions provider established in 1989. As it pursues its corporate philosophy of “focus on the customer” it has expanded its areas of business.**

### 1. An IT solutions provider that continues to meet the demands of the present age

The Company is an IT company that has been providing IP network-related products and cutting-edge products and solutions in the network security field since its foundation in July 1989. In December 2004, it was newly listed on the JASDAQ Securities Exchange, and is currently listed on the TSE Standard Market.

Its corporate philosophy is “to respond to the needs of our customers and ensure their full satisfaction,” and in the Heisei era, it expanded its business areas to contribute to the construction and development of an internet society under the slogan “In collaboration with customer.” Today, in the Reiwa era, the Company is working to provide solutions to meet the demands of the present age such as productivity improvements, work-style reforms, inbound demand, the new way of life under COVID-19, DX, and SDGs under its new slogan “No. 1 in Quality.”

### 2. Expanded its business areas to broadband, mobile, and security with the corporate IP network business as its original business

Looking at the Company’s corporate history, it can be read that it has quickly ascertained the trends and expanded its business areas to reflect them with the corporate IP network business as its original business. These include 1) the rapid shift from internet communication using telephone lines and ISDN lines to high-speed internet communication using broadband lines, such as ADSL and FTTH, 2) the arrival of the mobile era against the backdrop of the spread of smartphones, and 3) the increasing importance of cybersecurity in an internet society.

\* Listed companies noted in this report are presented in the format “company name + <securities code>” on first mention, and then presented without the securities code on second and subsequent mention. Unlisted companies are presented on first mention with the company name followed by denotation as to the type of business entity, and then presented without the business entity denotation on second and subsequent mention. However, securities codes and business entity type are noted on first mention only in tables depicting company history, etc.

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Company profile

**Company history**

July 1989	Terilogy Co., Ltd. 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 Company-developed RPA tool EzAvater concluded with Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., isinet Inc., and UCHIDA ESCO Co., Ltd.
Feb. 2020	Distribution contracts for Company-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 Cyberpace 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.
June 2020	Distributor contract for Company-developed RPA tool EzAvater concluded with Computer Engineering & Consulting Ltd. <9692>.
Nov. 2020	The Company 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.

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

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Company profile

<b>Nov. 2020</b>	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.
<b>Nov. 2020</b>	CAICA Technologies Inc. launched sales of the Company-developed EzAvater RPA tool.
<b>Dec. 2020</b>	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.
<b>Mar. 2021</b>	Acquired certification as a DX certified business Acquired the shares of CRESEED Corp. and made it a subsidiary
<b>Apr. 2021</b>	Consolidated subsidiary Terilogy Worx concluded a distribution contract with GitGuardian of France
<b>May. 2021</b>	Concluded a distribution contract with Pebble Corporation for EzAvater, an in-house developed RPA tool
<b>June 2021</b>	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.
<b>July 2021</b>	A Company engineer won the Grand Prize in the Network Division at the TREND MICRO Partner Engineer Award 2020.
<b>Sep. 2021</b>	Signed a capital and business tie-up with CBA Inc., an environmental DX venture, and underwrote share options to be issued by CBA.
<b>Oct. 2021</b>	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.
<b>Nov. 2021</b>	Consolidated subsidiary Terilogy Worx signed a sales partnership contract with Information Development Co., Ltd. for its in-house-developed THX product cyber-threat hunting. Capital and business tie-up partner CBA began offering CBA-wellfest, an industrial waste treatment cloud service.
<b>Dec. 2021</b>	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.
<b>Feb. 2022</b>	Consolidated subsidiary Terilogy Worx concluded a partnership with Synack, a U.S. company that provides crowdsourced security testing services worldwide.
<b>Mar. 2022</b>	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).
<b>Apr.-May 2022</b>	Consolidated subsidiary Terilogy Serviceware concluded an agreement for the distribution of Company-developed RPA tool EzAvater with CAREER PLANNING Co., Ltd. and Rustic System Co., Ltd.
<b>May 2022</b>	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.

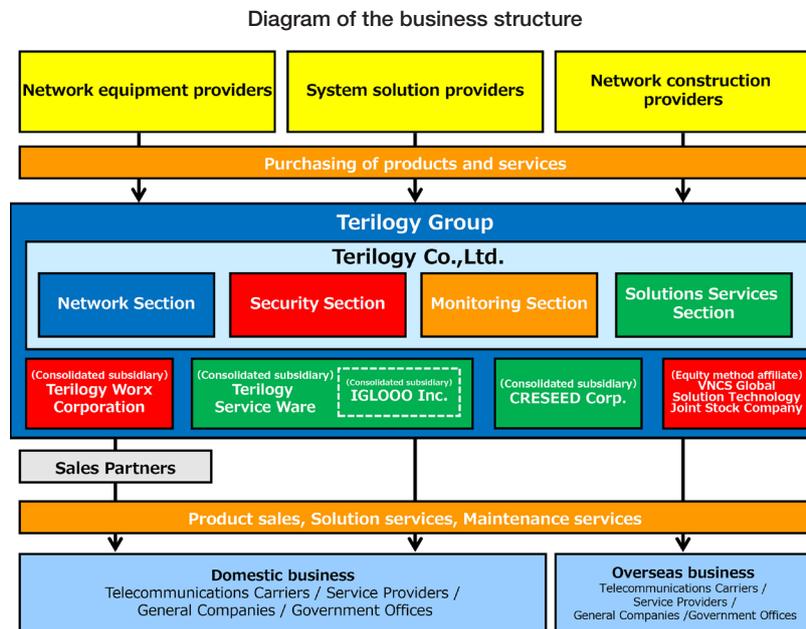
Source: Prepared by FISCO from the Company's securities report and website

## Business description

### Engages in business in four sections: the Network Section, Security Section, Monitoring Section, and Solutions Services Section

#### 1. Develops its business in four sections by products and services

The Company does not disclose segment information, but it develops its business activities in four sections according to products and services: the Network Section, Security Section, Monitoring Section, and Solutions Services Section.



Source: The Company materials

#### 2. Network Section

In the Network Section in FY3/22, net sales were ¥1,399mn, which provided 26.8% of total net sales. The main products and services it handles are 1) network products (routers, switches, wireless LAN, and DNS/DHCP), 2) design and build of in-company information and communication systems and infrastructure, and 3) sales of a wide range of network-related products, such as TV conferencing systems, and provision of professional services. The Company takes pride in its ability to provide solutions optimized to meet customer needs and the accumulation of a strong track record over the 30 years since its foundation. In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the networks and other devices provided by this section.

Business description

Main products in the Network Section

 <p>Network</p> <p><b>Alteon ADC-vx</b>        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><b>Appliances</b>        NonStop/distribution/centralized management for identity-driven networks, such as DNS/DHCP/RUDIUS</p>	 <p>Network</p> <p><b>Aerohive</b>        Fully control-less, cloud-based next-generation WiFi solutions</p>
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Source: The Company's website

3. Security Section

In the Security Section in FY3/22, net sales were ¥1,726mn, which provided 33.1% of total net sales and solidifying it as the Company's main business pillar. The main products and services it handles are 1) CTI (Cyber Threat Intelligence) service, 2) network security products (firewalls, intrusion detection and prevention countermeasures, information leakage countermeasures, etc.), 3) security authentication infrastructure (identifying service users on a network), and 4) security systems to prevent unauthorized transactions (one-time password products). In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the security devices and software products provided by this section.

On a stand-alone basis, the Company is developing operations that span the overall security business area and within this, consolidated subsidiary Terilogy Worx (TWX) is primarily engaged in the CTI business area. In the CTI business area, the Group secured a big project for National Police Agency in 2021 and it has a track record of projects for the Ministry of Defense through a partner, but this was mainly focused on consulting services. Regarding this point, in March 2022, TWX concluded a capital and business alliance by accepting a third-party allocation of shares from Nihon Cyber Defence. As Nihon Cyber Defence is a company with employees who are well versed in the national defense field, including former leaders in the Japan Self-Defense Forces, the leveraging of both companies' strengths will enable the provision of products that add new value, and it is expected that this will be a major development toward winning new clients.

Business description

Main products in the Security Section

			
<p><b>Security</b></p> <p><b>Lastline</b>                  Protection from the latest threats in customers' public cloud environments (cloud infrastructure and cloud email) and in on-premises environments.</p>	<p><b>Security</b></p> <p><b>Trend Micro TippingPoint</b>                  Has the leading track record for intrusion prevention systems as in-line type and network-type IPS appliances</p>	<p><b>Security</b></p> <p><b>One Span (Former Vasco Data Security)</b>                  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><b>Security</b></p> <p><b>KERA</b>                  A consulting service that detects and collects information that threatens companies interacting with the Darknet, and then provides analysis results.</p>
			
<p><b>Security</b></p> <p><b>Nozomi Networks</b>                  Provides asset management, real-time monitoring, abnormality detection, and vulnerability judgments for Industrial Control Systems (ICS)</p>	<p><b>Security</b></p> <p><b>REDSEAL</b>                  Realizes proactive security by automatically generating an access map and attaching the results of a scan of the access map's vulnerabilities.</p>	<p><b>Security</b></p> <p><b>Tempered Networks</b>                  Easily realize secure networks – Secure Networking Made Simple –</p>	<p><b>Security</b></p> <p><b>Cloud WAF Service</b>                  Provides the industry's best Web app security with a positive security model based on machine learning technologies.</p>

Source: The Company's website

#### 4. Monitoring Section

In the Monitoring Section in FY3/22, net sales were ¥387mn, which provided 7.4% of total net sales, and a feature of this section is the handling of Company-developed products. The main products and services it handles are 1) packet analysis using a Company-developed product (momentum), 2) monitoring services with cloud functions (CloudTriage), and 3) network operation, management, and monitoring devices. In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the Company-developed products (momentum); network operation, management, and monitoring devices; and software products provided by this section.

The Company's own brands include momentum (network packet capture products developed completely in-house), which constitutes the core of the Monitoring Section, and CloudTriage (IT systems operation monitoring cloud services managed under its own brand), which uses a monthly billing model and forms part of the support business division. In momentum, data (packets) exchanged on a network are collected in a storage device, analyzed and made visible in order to validate service quality, specify locations of defects, and provide support measures. It is, so to speak, a drive recorder-like solution on a network, and the Company has successfully acquired important customers, such as major mobile communication carriers. Currently, it is working on developing new usage scenes, including network monitoring, security measures, and troubleshooting responses. Also, CloudTriage measures the operation conditions of IT systems from the user's viewpoint, and in the event of a decline in performance, like a delay in remote access, it specifies the cause. It is provided inexpensively as a monthly billing cloud service.

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Business description

**Main products in the Monitoring Section**

 <b>CloudTriage</b>	 <b>momentum</b>	 <b>eG Enterprise</b>	 <b>SevOne</b>
<span style="background-color: #0056b3; color: white; padding: 2px;">Operation &amp; management</span> <b>CloudTriage RCA</b>	<span style="background-color: #0056b3; color: white; padding: 2px;">Operation &amp; management</span> <b>momentum</b>	<span style="background-color: #0056b3; color: white; padding: 2px;">Operation &amp; management</span> <b>eG Enterprise</b>	<span style="background-color: #0056b3; color: white; padding: 2px;">Operation &amp; management</span> <b>SevOne</b>
<p style="font-size: 0.8em;">Skillfully identifies bottlenecks in the user's system and presents improvement points.</p>	<p style="font-size: 0.8em;">High performance capture ring software that enables high-speed packet capture and packet storage.</p>	<p style="font-size: 0.8em;">Conducts real-time monitoring of IT infrastructure, makes visible performance, analyzes the causes of problems, and automates specified tasks</p>	<p style="font-size: 0.8em;">A high-speed network performance management tool that collects and monitors every kind of data and enables application identification</p>

Source: The Company's website

**5. Solutions Services Section**

In the Solutions Services Section in FY3/22, net sales were ¥1,710mn, which provided 32.7% of total net sales. The section's main products and services encompass 1) a Company-developed software robotic process automation (RPA) tool (EzAvater), 2) a multilingual real-time video communication interpretation service (Mieru-Tsuyaku), 3) a cloud-based, managed VPN service (MORA VPN Zero-Con), 4) a corporate internet connection service (MORA Hikari), 5) a high-speed mobile data communication service (MORA Mobile), 6) web conference services (MVC and Zoom), 7) a visual contactless remote support service (TechSee) using artificial intelligence (AI) and augmented reality (AR), and 8) business involving pre-travel, on-travel, and post-travel services provided by second-tier subsidiary IGL000 and 9) operational support and outsourcing business for information systems provided by consolidated subsidiary CRESEED Corp.

**Main products in the Solutions Services Section**

 <b>EzAvater</b>	 <b>Mieru-Tsuyaku</b>	 <b>MORA VPN Zero-Con</b>	 <b>TechSee</b>
<span style="background-color: #0056b3; color: white; padding: 2px;">Operation &amp; management</span> <b>RPA EzAvater</b>	<span style="background-color: #0056b3; color: white; padding: 2px;">Network</span> <b>Mieru-Tsuyaku</b> <b>A multilingual video communication interpretation service</b>	<span style="background-color: #0056b3; color: white; padding: 2px;">Security</span> <b>Inter-site VPN services</b>	<span style="background-color: #0056b3; color: white; padding: 2px;">Management</span> <b>TechSee</b>
<p style="font-size: 0.8em;">An RPA tool developed in-house for customers who want to build robots and automate routine tasks.</p>	<p style="font-size: 0.8em;">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 style="font-size: 0.8em;">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 style="font-size: 0.8em;">Visual customer assistance solutions utilizing artificial intelligence (AI) and augmented reality (AR)</p>

Source: The Company's website

“EzAvater” is an RPA tool which is gaining attention as a way to achieve workstyle reform and improve efficiency. Its features include that it is extremely easy (robots for everyone = intuitive operations to enable the creation of scenarios to automate routine tasks), it makes stoppages unlikely (the robots work at the speed of the system, and it creates templates for exception processing and realizes stable operations), it does not matter what app is used (through the adoption of image recognition technology, work can be automated regardless of the app, as long as it is operating on Windows) and it can start small (can be introduced starting from a single PC). Due to these features, “EzAvater” overcomes many of the weaknesses of RPA tools, such as that if there is no specialist IT department, it is difficult to create the robots and the introduction costs and maintenance burden are large. This software made it possible for a utilization method that creates robots that reflect the needs of work sites in each department and to have them carry out daily management tasks. In fact, EzAvater has accumulated many positive reviews on ITreview, which is Japan's largest review site managed by ITcrowd Corp. for reviews by real users of corporate IT products and cloud services, and in the ITreview Grid Award 2021 Winter, it received the High Performer award.

## Business description

Also, for sales of EzAvatar, the Company is actively utilizing a partner strategy (it has introduced a gold partner system) from the aim of wanting to penetrate a wide range of user groups. During 2019, it concluded distribution contracts with NCXX Solutions Inc., Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., and UCHIDA ESCO Co., Ltd. Since 2020, it has also concluded distribution contracts with Hitachi Systems, Ltd., Computer Engineering & Consulting Ltd. <9692>, Pebble Corporation, CAREER PLANNING Co., Ltd., and Rustic System Co., Ltd. and it is working to expand sales channels. According to the Company, distributors are switching from RPA tools made by other companies to EzAvatar, which it sees as proof of the product's appeal.

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. It provides interpretation services in English, Chinese, Korean, Thai, Russian, Portuguese, Spanish, Vietnamese, French, Tagalog, Indonesian, Nepalese, Hindi, and Japanese sign language for a flat rate (¥15,000 per month for the light plan, available from 9am to 9pm, and ¥25,000 per month for the standard plan, available 24 hours a day). The Company also offers a medical interpreting option (only in English, Chinese, Korean, Portuguese, Spanish and Vietnamese ¥35,000 per month).

Mieru-Tsuyaku was originally launched as a service targeting inbound visitors, but it has evolved into a service that can be utilized to respond to the needs of foreign residents in healthcare facilities, evacuation centers during disasters, and government office service counters, as well as for web conferences that require interpreting, educational facilities (using GIGA School tablets), and other purposes. As of May 2022, Mieru-Tsuyaku had been introduced at 132 group vaccination sites in Saitama Prefecture, Kumamoto Prefecture, and elsewhere; by 34 government agencies and local governments, including the Ministry of Agriculture, Forestry and Fisheries, Miyagi Prefecture, Chiba Prefecture, Shinagawa City, Adachi City, and Suginami City; by seven medical facilities including Yokohama Municipal Citizen's Hospital and Kawasaki Municipal Tama Hospital; and by 12 other organizations including Tokyo Zoological Park Society, the Yokosuka Tourism Association, Zoff, and Kintetsu Department Store.

Mieru-Tsuyaku is offered by Terilogy Serviceware (TSW). TSW is a consolidated subsidiary whose trade name was changed from that of the former corporate ICT services business of ITX Corporation, which was acquired from Nojima <7419> Group in December 2017. With this M&A strategy, the Company is acquiring new business domains and a customer base of medium-sized and SME enterprises, as well as retail stores such as nationwide chain stores and wholesale stores, both of which it had few in the past (TSW now has in excess of 1,000 customers, including major corporations).

In May 2020, Terilogy Serviceware made IGLOOO, which conducts an inbound media business, into a subsidiary. IGLOOO is a company that provides pre-travel and post-travel services, of businesses to produce content and promote overseas travel, centered on the operation of VOYAPON, an online media for inbound travel for people in Europe, the US, and Australia. Up until now, the Company has been providing the multilingual real-time video communication interpretation service Mieru-Tsuyaku in the "during travel" domain for foreign tourists visiting Japan. IGLOOO's services are highly complementary and synergistic with those of the Company that have established positions as industry leaders. Even during the "with COVID-19" era, it seems certain that the national policy aimed at making Japan a popular destination will be restarted in some way, so the Company's contrarian decision to make an offensive move even during this difficult time is worthy of praise.

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Business description

Since joining the Terilogy Group, IGLOOO has conducted the following initiatives: 1) joined forces with MIKI TOURIST CO., LTD., and ITP INC., to launch the International Travel Showcase Online Exhibit Support Package of services to assist those wishing to take part in online travel exhibitions, particularly in Europe, the US, and Australia (August 2020); 2) updated its VOYAPON inbound media service for Europe, the US, and Australia (August 2020); 3) launched its VOYAPON STORE, a cross-border e-commerce website featuring narratives from the perspectives of foreign nationals (September 2020); 4) entered into a business alliance with unbot Inc., which engages in digital marketing business geared toward China, as an exclusive partner to promote tourism to Europe, the US, and Australia for the Chinese market (November 2020); 5) launched the first cross-border e-commerce project for Europe, the US, and Australia in collaboration with Yomitan Village, Okinawa Prefecture (April 2021), 6) created a PR video and implemented promotions for Yamanashi Prefecture, targeting the Middle East (May 2021), 7) entered into a business alliance with Adara, a U.S. company that boasts over 1.7 billion digital IDs across the world, to strengthen support for digital marketing in the inbound tourism field (June 2021); and 8) created the “Hamamatsu, The City of Music” series of PR videos targeting overseas viewers (April 2022). In such ways, in terms of the future, it is accelerating business promotion and developing its presence to play a role for the Solutions Services Section.

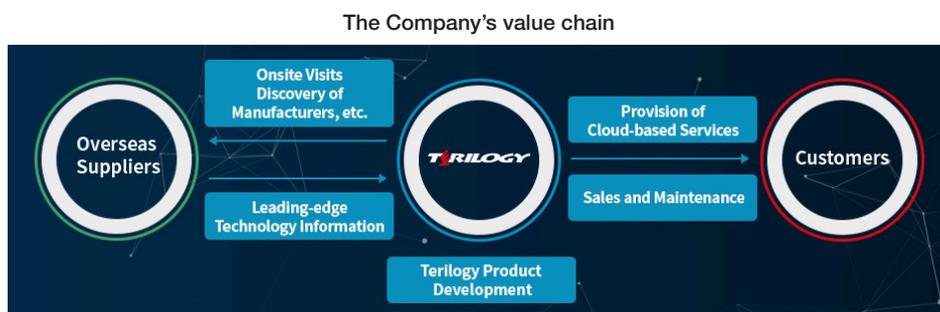
## ■ Features and Strengths

**The company has built a business model backed by its corporate philosophy.**

**Its core competence is its firm “ability to find emerging technologies and marketable products”**

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

The Company’s business model shows the ingenuity it employs in putting its corporate philosophy “to respond to the needs of our customers and ensure their full satisfaction” into practice as a business. 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.



Source: The Company's website

#### Features and Strengths

To build a business model and value chain backed by a corporate philosophy, a company first needs to establish a mission and vision based on that philosophy, and then incorporate those in an action plan designed to achieve them. On a stand-alone basis, 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 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.

Specifics of that action plan include ongoing research and discovery activities regarding advanced, cutting-edge technology trends in Silicon Valley and Israel; ongoing research, inquiry and validation activities to determine the compatibility of technology discovered with the Japanese market and with issues faced by customers; 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. All of these are indeed aligned with the corporate philosophy to “respond to the needs of our customers and ensure their full satisfaction”

### **2. The Company’s competence in “finding emerging technologies and marketable products” and its “ability to respond to the market” are the basis for all of its strengths**

The Company considers its strengths to be 1) its 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. Each of these strengths is backed by a track record of results, but in particular, the Company’s “ability to find emerging technologies and marketable products” and its “ability to respond to the market” would seem to be its core competence on which all of the other strengths are based.

### **3. Refining the “ability to find emerging technologies” and “marketable products” to fulfill customer needs**

The Company’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, in addition to Wellfleet and Infoblox, in the broadband field, we can also mention TippingPoint (it was acquired by Hewlett-Packard <HPQ> of the US in 2010 and acquired by Trend Micro <4704> in 2015), Belgian company OneSpan, and American company Lastline (which was acquired by VMware of the US in 2020,) as examples in the security field.

#### Features and Strengths

The Company'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, the company 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 Company's discovery of Wellfleet in 1990 can be said to be a good example of its "ability to find emerging technologies and marketable products." Currently, the Company is fulfilling its responsibility as a supplier by handling the routers manufactured by Cisco Systems.

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 <BLOX> of the US (devices to issue an IP address) and Company-developed solutions for monitoring networks have become its core products following the spread of smartphones. In 2003, the Company was the first in Japan to conclude a distribution contract with Infoblox, which was founded in 1999. Currently, DNS/DHCP appliances manufactured by Infoblox are handled by major companies in Japan and have acquired the position of being the de-facto standard, so this can also be evaluated as indicating the Company's "foresight."

In the security field, the Company has provided wide-ranging solutions by concluding a domestic (Japan) master reseller contract with TippingPoint of the US, when it was independent in 2004 followed by concluding reseller contracts with OneSpan <OSPN> (formerly VASCO Data Security of Belgium) in 2007, Lastline of the US in 2012 (which was acquired by VMware <VMW> of the US in 2020), RedSeal of the US in 2015, Tempered Networks of the US and KELA of Israel in 2016, and Nozomi Networks of the US in 2018 (exclusive domestic (Japan) reseller contract with Tempered Networks), which is enabling it to provide solutions over a wide range.

TippingPoint is a cybersecurity company specializing in IPS (intrusion prevention systems) that was acquired by Trend Micro in 2015 for approximately US\$0.3bn. However, the Company concluded a domestic (Japan) master reseller contract with TippingPoint 11 years before its acquisition (2004) and has accumulated a track record, so it continues to be relied on by Trend Micro. Also, in 2007, the Company became the first in Japan to handle OneSpan's one-time password technology, which today has been adopted by all of Japan's megabanks and become an essential part of internet banking. Moreover, in 2012, the Company started selling the targeted-attack countermeasure cloud services of Lastline of the US, and as is clear from the trend in the number of targeted-attack emails ascertained by the National Police Agency (NPA) in recent years (2014: 1,723 cases → 2015: 3,828 cases → 2016: 4,046 cases → 2017: 6,027 cases → 2018: 6,740 cases → 2019: 5,301 cases → 2020: 4,119 cases; later data has not been disclosed), malware and other targeted attacks have come to be recognized as a major threat. Also, although the number of targeted-attack emails reached a peak in 2018 and following years, statistics regarding the number of arrests made for cybercrimes released by the NPA (2018: 9,040 cases → 2019: 9,519 cases → 2020: 9,875 cases → 2021: 12,209 cases) show a rapidly increasing trend, suggesting that the threat of cyber-attacks on companies is growing.

These examples would seem to clearly demonstrate the Company'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."

## Features and Strengths

**4. An ability to “ability to respond to the market” well-regarded by business partners**

So why do overseas venture companies select the Company as their partner in Japanese business? The reason is its high ability “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.

The sources of the Company’s “ability to respond to the market” are 1) its ability to combine imported technologies with its proprietary technologies to develop solutions with high levels of customer satisfaction, and 2) its ability to fill-in missing parts by fully utilizing an alliance and M&A strategy. In general, even if venture companies are able to create good technologies and products, in many cases they are inferior to major companies in the value chain for aspects like maintenance and sales. But in the case of the Company, in 1991, two years after it was founded, it concluded a maintenance outsourcing contract with Toshiba IT-Services Corporation (formerly Toshiba Engineering Co., Ltd.). For sales, one of its features is that it has not only established an indirect sales network, including through alliances, but that it has also worked to strengthen its direct sales force, such as by acquiring customer touch points through business and capital alliances and M&A.

The Company has been highly evaluated by influential customers for its active utilization of a partnering strategy for the entire value chain, from product development (combining imported technologies with its proprietary technologies) through to maintenance (in which the Company itself identifies problems and then outsources the actual maintenance work) and sales (using both direct and indirect agency network sales), and it is efficiently building an excellent customer base (more than 300 companies on a standalone base, which are mainly major companies, and it conducts business directly with around 90% of customers). This has formed the “excellent distribution capabilities in Japan” (a wealth of customer information, a maintenance system that operates 24 hours a day, 365 days a year, and extensive customer contact points through combining direct sales with indirect sales) and it has become the deciding factor for overseas venture companies in choosing the Company as their partner in Japan.

In March 2020, the Company 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 and is a publicly listed company on the NASDAQ market in the US. 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 Company’s “ability to find emerging technologies and marketable products” and “ability to respond to the market” are viewed positively by overseas technology companies.

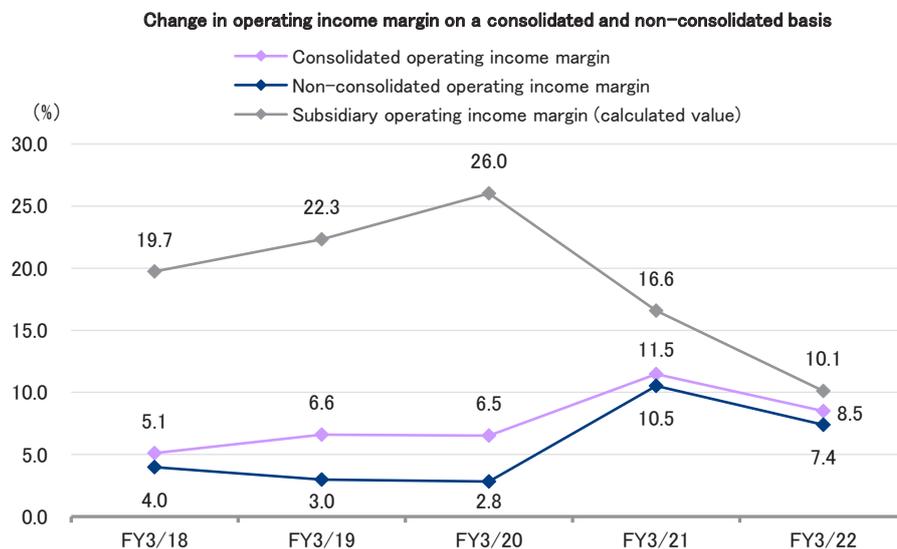
**5. The Company’s strengths are becoming evident in its business results as well**

The Company can be highly evaluated for leveraging its ability to “find emerging technologies” and “respond to the market” while successfully strengthening its value chain through its partnering strategy and acquiring an outstanding customer base. That said, the Company’s partnering strategy also involves incorporating trading company functions, which are generally less profitable, into the business model, and through FY3/17, the Company’s operating income margin—a typical index of profitability that reflects the relative merits and demerits of corporate competitiveness—was flagging. Beginning in FY3/18, however, the Company’s performance began to improve, and the strengths we have seen thus far seem to have become evident in its business results.

Features and Strengths

Looking at the change in the Company's operating income margin between FY3/18 and FY3/22, on a consolidated basis it went from 5.1%, to 6.6%, to 6.5%, to 11.5%, to 8.5%; on a non-consolidated basis it went from 4.0%, to 3.0%, to 2.8%, to 10.5%, to 7.4%; and as a total calculated value of subsidiaries, from 19.7%, to 22.3%, to 26.0%, to 16.6%, to 10.1%.

In FY3/22, the adoption of the revised Accounting Standard for Revenue Recognition, etc. and the effects of new consolidation through M&As (the consolidation of subsidiaries as advanced investments exerted a downward pull on the operating income margin) meant that levels declined year on year, but the trends can be read as follows: 1) the non-consolidated operating income margin was declining but then suddenly improved and it is now at a level that compares favorably to other companies in the industry, and 2) the operating income margin of the Company's group of subsidiaries, including those acquired through M&A, is not only higher than that of the Company on a stand-alone basis but is also high in absolute terms.



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

## Results trends

**The results in FY3/22 greatly exceeded past Company forecasts. The Company maintained its financial soundness while absorbing shareholder returns and the impact of M&A.**

### 1. Results in FY3/22 were substantially good

In the FY3/22 consolidated results, net sales increased 11.1% YoY to ¥5,223mn, while operating income fell 18.3% to ¥441mn. The operating income margin was lower by 3.0 pp YoY at 8.5%, while orders received during the period increased 11.1% to ¥6,058mn and outstanding orders at the end of the period rose by 79.1% versus the end of the previous period to ¥1,890mn.

## Results trends

The adoption of the revised Accounting Standard for Revenue Recognition, etc. from FY3/22 had a downward effect on revenue, decreasing net sales by ¥516mn and operating income by ¥139mn. However, operating income still greatly exceeded past forecasts (initial forecast of ¥170mn which was revised upward to ¥250mn when the 1H results were announced) and these financial results actually show smooth business expansion.

The decline in operating income margin particularly stood out, but there is a feeling that the Company overachieved in FY3/21 and the adoption of the revised Accounting Standard for Revenue Recognition, etc. and new consolidation of IGLOOO and CRESEED also had a heavy impact. Considering the results from an organic perspective suggests there is no particular problem.

## Simplified income statement

	(¥mn)					
	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22
<b>Net sales</b>	2,434	3,221	3,660	4,051	4,701	5,223
YoY	-7.7%	-	13.6%	10.7%	16.1%	11.1%
<b>Cost of sales</b>	1,709	2,197	2,256	2,537	2,757	3,162
YoY	-9.6%	-	2.7%	12.5%	8.7%	14.7%
<b>Gross profit</b>	725	1,024	1,403	1,513	1,944	2,061
YoY	-3.0%	-	37.0%	7.8%	28.5%	6.0%
<b>SG&amp;A expenses</b>	831	858	1,159	1,249	1,404	1,620
YoY	15.2%	-	35.0%	7.8%	12.4%	15.4%
<b>Operating income</b>	-105	166	244	263	540	441
YoY	-	-	47.0%	8.0%	104.7%	-18.3%
<b>Ordinary income</b>	-97	173	229	288	543	439
YoY	-	-	32.3%	25.4%	88.5%	-19.0%
<b>Net income</b>	-99	154	207	214	437	273
YoY	-	-	34.6%	3.5%	103.9%	-37.5%

Note: Results are non-consolidated up to FY3/17, and from FY3/18 onwards, they are consolidated and include net income attributable to owners of parent, with the application of revised Accounting Standard for Revenue Recognition, etc. from FY3/22.

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

Looking at net sales by business section in FY3/22, they declined 13.4% YoY in the Network Section, increased 6.0% in the Security Section, declined 25.6% in the Monitoring Section, and increased 82.7% in the Solutions Services Section.

The decline in sales in the Network Section was primarily due to technicalities, namely the high hurdle set by results in the second half of FY3/21 and the adoption of the revised Accounting Standard for Revenue Recognition, etc. Orders for DHCP/DNS appliances manufactured by Infoblox of the US (Infoblox IP address management servers), which have entered a phase of replacement purchases, and Radware products, that have been on sale since FY3/21, were steady and order-taking activity for Extreme Networks' secure cloud-driven wireless LAN products generally went as planned.

## Results trends

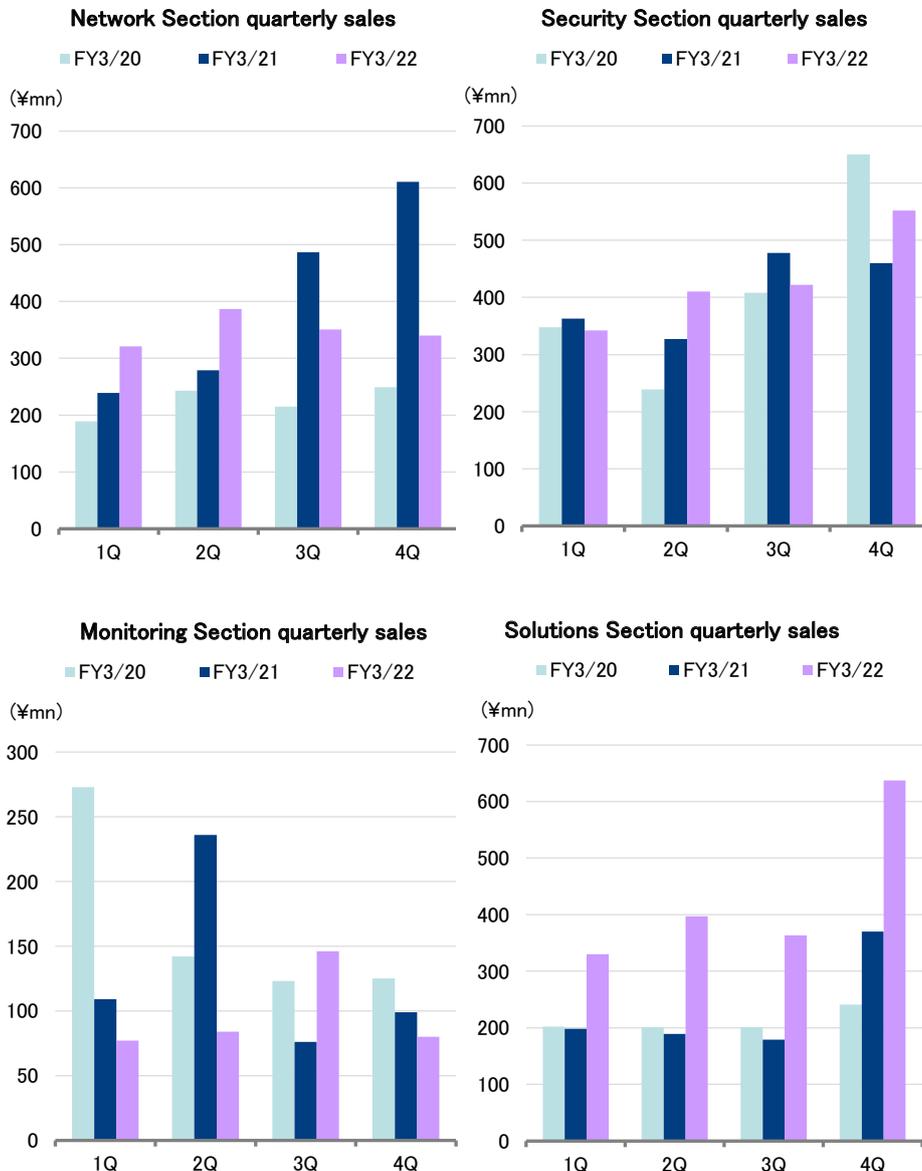
The Security Section performed well with an increase in the threat of cyber-attacks, as internet dependence in public life and economic activity rose with the hosting of the Tokyo Olympics and Paralympics and in the midst of the COVID-19 pandemic. Specific products delivering strong performance included, among others, 1) Nozomi Networks products designed to respond to a demand for security measures in critical infrastructure such as electric power systems and industrial control systems such as factory and building management, stimulated by the spread of OT and IoT; 2) Network intrusion prevention security and targeted attack countermeasure cloud services to combat threats such as cyber-attacks and unauthorized access, which are becoming more sophisticated and complex by the day; and 3) The KELA CTI service, which collects and analyzes information on cyber-crime and terrorism, etc., and BitSight, an automated cyber risk assessment service that visualizes supply chain risks. In addition, the Company has won an order from a government agency for a service that uses AI to analyze social media sites to identify hidden relationships and undercover accounts between criminal groups, and has successfully deployed a service to address software supply chain risks—the next theme the Company is working on—at a major telecommunications carrier.

In the Monitoring Section, the Company secured orders from electric power-related internet service providers and domestic financial institutions for momentum, the packet capture product, but it took time to establish a sales structure following the switch to a new momentum model, so sales declined overall. For the CloudTriage operation monitoring cloud service, it focused on activities to cultivate demand centered on its existing major customers, and as a result, the section's net sales in the second half of the year increased compared to the first half. As both momentum and CloudTriage are proprietary products and are expected to be highly profitable, we will be watching future movement closely.

The large sales increase in the Solutions Services Section was mainly due to the new consolidation of CRESEED but even excluding this, organic growth was in double digits. Amid the ongoing COVID-19 pandemic, the factors that contributed to this organic growth were 1) the excellent reputation of Mieru-Tsuyaku ( a multilingual, real-time, video communication interpretation service that includes sign language) and the section's mainstay product, which enabled it to capture growing demand for a means of communication with foreign residents and people with hearing difficulties at group vaccination sites, and 2) demand for ancillary products, such as video and audio equipment, also expanded in addition to conventional license and webinar contracts as web conferencing services became more commonplace. This led to inquiries from cloud-based PBX services and retail distribution including beauty salons, as well as from medium-sized companies and others, for the easy-connecting, cloud-based managed VPN service due to its simplicity and affordability, helping the section to achieve organic growth. EzAvater, the Company's in-house developed RPA tool, is expanding its distributor network and focusing on marketing activities to raise brand recognition, and order-taking activity by IGLOOO and CRESEED Corp. was in line with expectations.

Results trends

Trends in quarterly net sales by business section

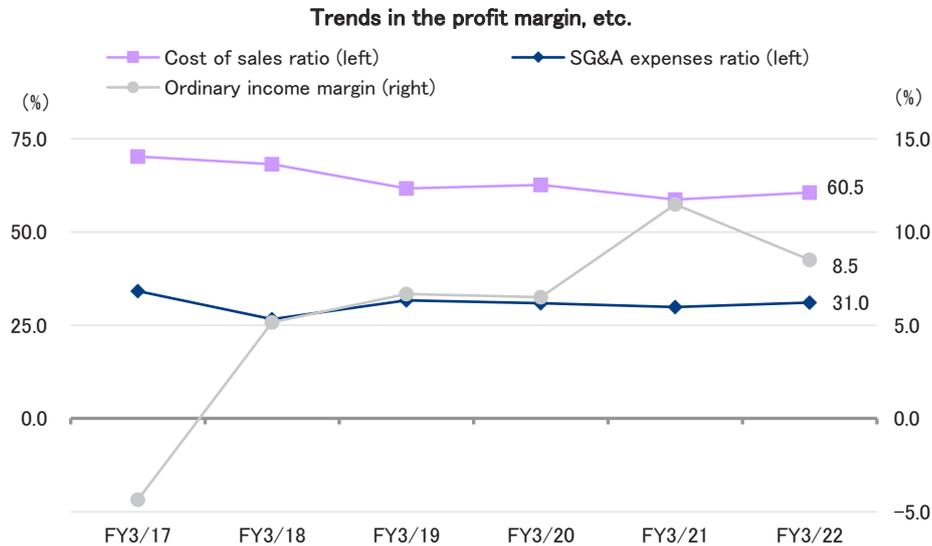


Source: Prepared by FISCO from the Company's securities report, quarterly securities report, and financial results

The cost of sales ratio in FY3/22 was 60.5%, a YoY increase of 1.9 pp and the SG&A expenses ratio rose by 1.1 pp to 31.0%. This was a direct result of the adoption of the revised Accounting Standard for Revenue Recognition, etc. and new consolidation of IGLOOO and CRESEED.

As a result, the operating income margin in FY3/22 was 8.5%, a decline of 3.0% pp from the 11.5% recorded in FY3/21. However, given the Company's business model, which involves low-margin hardware sales, a more realistic operating income margin for the Company is actually around 7%. Therefore, our impression at FISCO is that the Company significantly overachieved in its results for FY3/21 and that the levels achieved in FY3/22 are still good.

## Results trends



Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards.  
 Source: Prepared by FISCO from the Company's securities report and financial results

## 2. Is maintaining a sound financial structure that can absorb cash outflows from shareholder returns and M&A

The Company is also maintaining the soundness of its financial structure. The equity ratio was 40.2% at the end of FY3/22 (46.6% at the end of FY3/21), while the current ratio was lower at 148.9% (169.9%). The D/E ratio (interest-bearing debt / shareholders' equity) was 0.11 times (0.13 times) and net cash (cash and deposits – interest-bearing debt) was ¥1,901mn (¥2,070mn), both maintaining the levels at the end of the previous period.

Moreover, the Company's non-consolidated retained earnings, which normally serve as the source of its dividend payments, were ¥498mn at the end of FY3/22 (versus ¥502mn). The Company has already secured over four years' worth of dividend capital, even if it were to maintain a dividend of ¥7 per share.

At the end of FY3/20, the Company resumed paying dividends after a 14-year break (since then it has maintained an annual ordinary dividend of ¥5 per share and in FY3/22, it also paid a special dividend of ¥2 per share), and it also had cash outflows of ¥223mn in FY3/21 on M&A and ¥249mn in FY3/22 on share buybacks. These shareholder returns and growth strategy activity were made possible by a significant increase in the equity ratio from 24.4% at the end of FY3/18 to 53.9% at the end of FY3/20 and an increase of more than 200% in the current ratio, from 99.0% at the end of FY3/18 to 209.4% at the end of FY3/20, indicating an ample solvency margin. This shows a disciplined approach to a strategy of raising corporate value that takes the financial situation into account.

At the end of the FY3/22, total assets were up ¥365mn from the end of the previous period to ¥5,991mn, while net assets decreased ¥203mn to ¥2,439mn. Looking at a breakdown of the changes versus the end of the previous period, it is notable that in assets, advance payments to suppliers rose by ¥754mn, while an increase in treasury shares (¥234mn) was the main factor behind a decrease in net assets.

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## Results trends

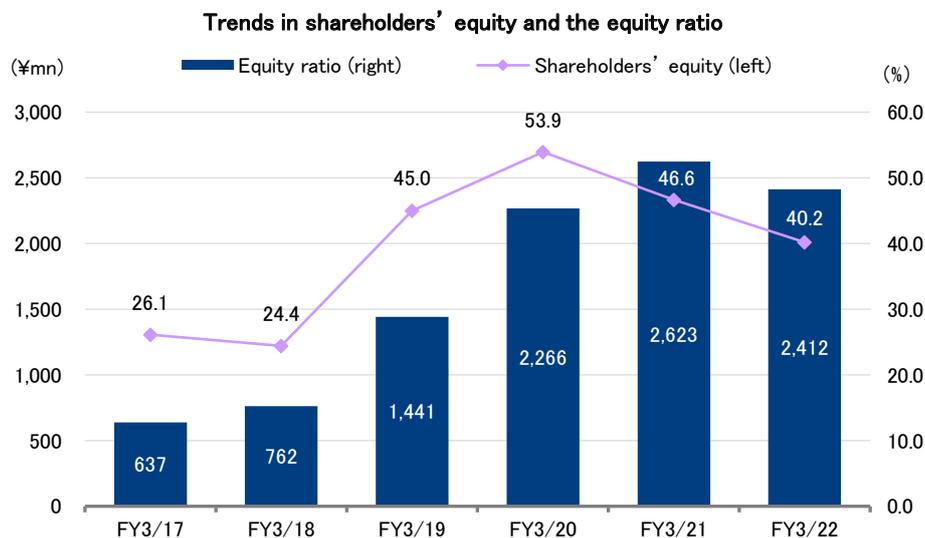
## Simplified balance sheet

	End of FY3/17	End of FY3/18	End of FY3/19	End of FY3/20	End of FY3/21	End of FY3/22	YoY
<b>Current assets</b>	2,063	2,288	2,355	3,404	4,515	4,871	356
Cash and deposits	1,098	972	1,064	1,895	2,418	2,159	-259
Notes and accounts receivable - trade	494	863	742	871	965	838	-126
Inventory assets	24	35	56	102	180	72	-108
<b>Non-current assets</b>	375	834	839	798	1,109	1,119	9
Property, plant and equipment	93	131	148	147	208	188	-20
Intangible non-current assets	63	381	353	339	526	478	-48
Investments and other assets	218	321	337	311	374	452	78
<b>Total assets</b>	2,439	3,123	3,194	4,203	5,625	5,991	365
<b>Current liabilities</b>	1,752	2,312	1,314	1,626	2,657	3,271	614
Accounts payable - trade	315	252	243	451	378	174	-204
Short-term borrowings, etc.	750	1,177	137	130	57	38	-19
<b>Non-current liabilities</b>	49	48	439	307	324	279	-44
Long-term borrowings	-	-	386	256	290	220	-69
Lease obligations	35	9	11	7	6	1	-4
<b>Total liabilities</b>	1,802	2,361	1,753	1,934	2,981	3,551	569
Interest-bearing debt	750	1,177	524	386	347	258	-89
<b>Total net assets</b>	637	762	1,441	2,269	2,643	2,439	-203

Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards.

Notes and accounts receivable - trade for FY3/22 and beyond include contract assets.

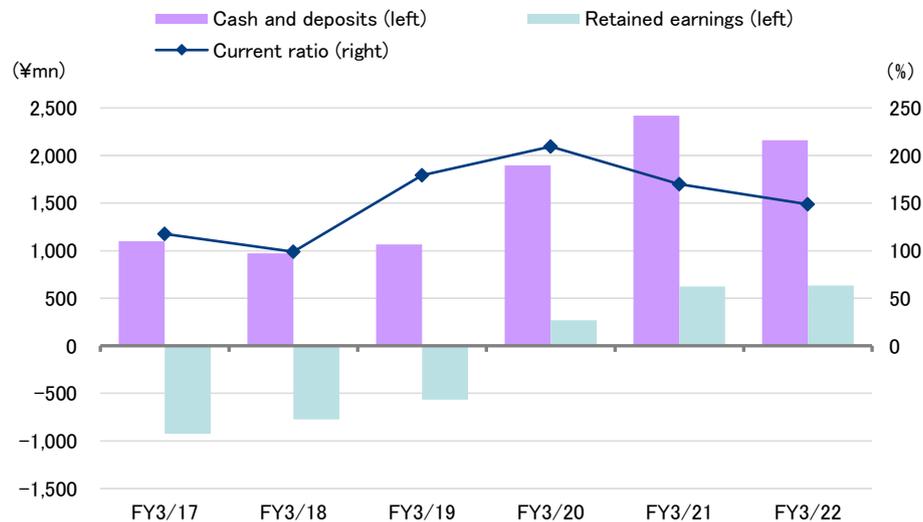
Source: Prepared by FISCO from the Company's securities report and financial results



Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards.

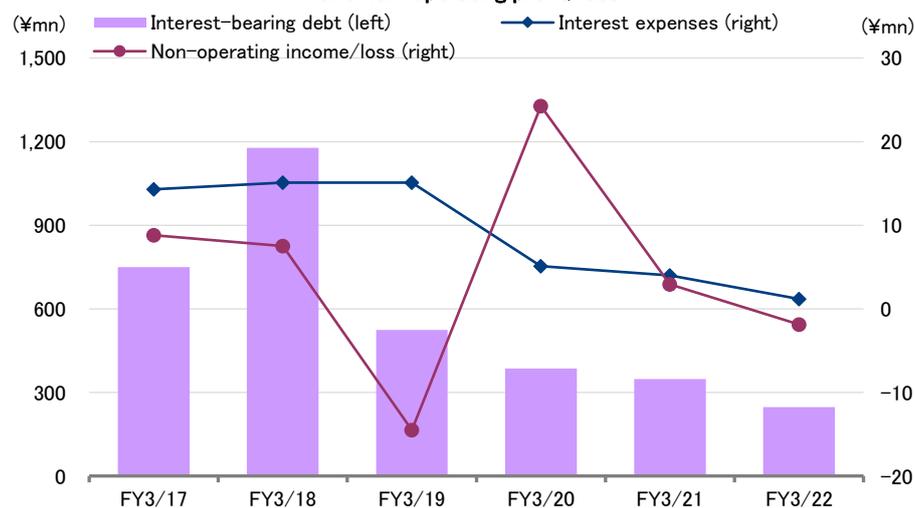
Source: Prepared by FISCO from the Company's securities report and financial results

## Results trends

**Trends in the current ratio, cash and deposits, and retained earnings**


Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards.  
 Source: Prepared by FISCO from the Company's securities report and financial results

Also, the greater soundness of the financial structure has led to an improvement in non-operating income/loss. In the case of the Company, which handles imported goods as its mainstay products, the impact of foreign exchange profit/loss on non-operating revenue cannot be completely eliminated. Despite this, interest expenses in FY3/22 decreased 44.0% YoY, and reductions on interest-bearing debt continue to be effective.

**Trends in interest-bearing debt, interest expenses, and non-operating profit/loss**


Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards.  
 Source: Prepared by FISCO from the Company's securities report and financial results

## Results trends

At the end of FY3/22, the balance of cash and cash equivalents was ¥1,867mn. Looking at each of the cash flow conditions, net cash provided by operating activities was ¥414mn, mainly because net income before income taxes was ¥411mn. Net cash used in investing activities was ¥243mn, mainly due to the acquisition of tangible and intangible assets and investment securities. Net cash used in financing activities was ¥428mn overall, including ¥89mn for repayment of long-term borrowings, ¥82mn in dividend payments, and ¥249mn for the repurchase of shares.

## Simplified cash flow statement

	(¥mn)					
	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22
Net cash provided by (used in) operating activities (a)	291	-55	374	484	1,131	414
Net cash provided by (used in) investing activities (b)	0	-440	-55	-24	-256	-243
Net cash provided by (used in) financing activities	-219	391	-218	464	-237	-428
Free cash flow (a) + (b)	291	-495	318	459	874	171
Cash and cash equivalents at end of period	535	462	569	1,500	2,128	1,867

Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards.

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

## Outlook

### The FY3/23 results forecast must be achieved Aiming to strengthen the optimization capabilities of the entire Group and refine its strengths under a holding company structure

#### 1. The forecast for operating income margin in the FY3/23 results forecasts seems conservative

In its consolidated results forecasts for FY3/23, the Company has made an initial forecast of net sales increasing 18.7% YoY to ¥6,200mn operating income decreasing 16.2% to ¥370mn, ordinary income decreasing 15.8% to ¥370mn, and net income attributable to owners of parent decreasing 8.6% to ¥250mn. These forecasts are consistent with the targets for the second year of the new medium-term plan announced in May 2021. As the Company handles a lot of imported products which it buys in US dollars and sells in yen, the weakening of the yen should have an advance effect of lowering gross profit margin, but even taking into account the increasingly tense international situation caused by Russia's invasion of Ukraine, the Company has kept to the plan's targets, which suggests it sees these as the minimum that must be achieved.

The initial forecast for sales growth of an increase of 18.7% looks high compared to past results (FY3/19: 13.6% increase → FY3/20: 10.7% increase → FY3/21: 16.1% increase → FY3/22: 11.1% increase). However, the Company's net sales target can be seen as reasonable after considering the following: 1) The negative impact of the adoption of the revised Accounting Standard for Revenue Recognition etc. (a decrease of ¥516mn in FY3/22) will not be present in FY3/23, 2) the formulation of net sales forecasts takes into account opaque factors that need to be anticipated for at each Group company, 3) the Network Section, which saw a decrease in sales in FY3/22, has products that can drive a significant increase in sales, and 4) it is possible that price revisions (increases) to import products due to the weakening of the yen will increase sales income.

#### Outlook

The products in the Network Section that can drive a significant increase in sales are 1) Infoblox IP address management servers and Radware products. The former is seeing continuing demand, mainly from major domestic manufacturers, for purchases replacing the current model with new models, which have increased added-value from the addition of security functions, for which around 500 units have already been shipped (looking at the number of clients based on orders shows 221 products to 69 clients in FY3/21 and 89 products to 68 clients in FY3/22). It is anticipated that this demand for replacements and the up-selling effect driven by increased added value will also manifest in FY3/23.

With regard to the latter Radware products, customer take-up of products sold via sales partners since FY3/21 has been strong. The main Radware products which the Company handles in this business are 1) DDoS-fighting equipment and services that autonomously protect against Dos/DDoS attacks, also known as “service stop attacks”; 2) Load Balancer (a product that distributes the load on a server allowing it to operate stably), which boasts a large track record in the Japanese market; 3) multihoming equipment, which is the de facto standard for line load balancing; 4) Cloud WAF Service that achieves the highest level of web application security in the industry; 5) Bot Manager that protects all channels, such as web applications, mobile applications, and API, from automated threats (bots); and 6) Cloud Workload Protection that comprehensively protects cloud assets. Products 2) and 3) are network related, while the rest are security related.

The Company became the primary distributor for Israeli company Radware in Japan following the conclusion of a distributor contract in March 2020, and it seems that the handover from the company that was previously in that position was smooth. Due to good customer acquisitions, it is highly probable that the Company will achieve annual sales of about ¥600mn (including maintenance contracts) within a few years. In addition, due to the fact that the previous primary distributor mainly handled network-related products, the Company (which can distinguish the products from existing products in the security-related field) is expected to develop the business scale even larger through cross-selling and up-selling. In actuality, for Radware-related orders, it achieved ¥166mn (¥217mn in FY3/21) in orders received and ¥278mn (¥55mn in FY3/21) in sales of maintenance service in FY3/22. When considering that maintenance sales is a recurring income-type business, it can be determined that is highly likely to contribute to increased sales in FY3/23 as well.

On the other hand, the initial forecast for the operating income margin in FY3/23 is 6.0%, a decrease of 2.5 pp on the 8.5% recorded in FY/22. This seems to be a conservative forecast when considering the following points.

The factors behind the forecast of a decline in the operating income margin in FY3/23 are most likely 1) advanced investment through IGLOOO and CRESEED, 2) an increase in costs due to the transition to a holding company structure, and 3) the effect of a weak yen, which has rapidly depreciated as a result of Russia's invasion of Ukraine (resulting in an increase in the cost of imported product supplies). Considering each of these, in regard to 1), it is possible that both companies will contribute to improving income margins, and the effects of 2) are likely to be limited. Regarding 3), a movement of ¥10 on the US dollar will have a ¥100mn effect on the Company, so a certain amount of impact on completed orders and proposals is unavoidable. However, pricing as of the end of April had been revised on the assumption of ¥130 to the US dollar, so the possibility of the impact of the weakening yen only having a negative effect is limited.

In FY3/23, the Company plans to pay a period-end dividend per share of ¥5 (ordinary dividend only), realizing a dividend payout ratio of 32.4%.

## Outlook

**2. Expecting to strengthen the optimization capabilities of the entire Group and refine its strengths by transitioning to a holding company structure**

In April 2022, the Company's Board of Directors made a resolution to transition to a holding company structure. The purpose of the resolution is to raise corporate value by accelerating the Group's business development and strengthening governance. After obtaining approval at the Ordinary General Meeting of Shareholders in June and permission from relevant authorities, on November 1, 2022, Terilogy Holdings Co., Ltd. will be established and registered and shares of the Company will be transferred to the new holding company. On the same day, Terilogy Holdings will be newly listed on the Tokyo Stock Exchange's Standard Market (a technical listing that effectively enables the Company to maintain its current listing).

Under the current structure, the Company acts as the parent company, operating a total security solutions service business while also managing subsidiaries. However, under the new structure, Group management, investment, and new business development functions will be concentrated in the holding company while each business company will have the autonomy to create its own growth strategies in the business area it is responsible for and to make decisions and advance business in a swift and flexible manner that takes into account changes in the environment. In other words, the Company's strengths are "finding emerging technologies and marketable products" and its "ability to respond to the market," so it is aiming for a structure that will refine and demonstrate these strengths, with the holding company focused on finding emerging technologies and marketable products, which requires a broader perspective, while each business company has the responsibility and authority to work on responding to the market, which requires a closer connection to customers. Furthermore, as the Group is aiming to diversify and expand the business areas in which it operates through strategies such as M&A, optimizing the entire Group will become more important than ever before. It can therefore be evaluated that this transition to a holding company structure will contribute to raising corporate value in the medium to long term.

**3. The new medium-term management plan shows the path to achieve net sales of ¥10bn**

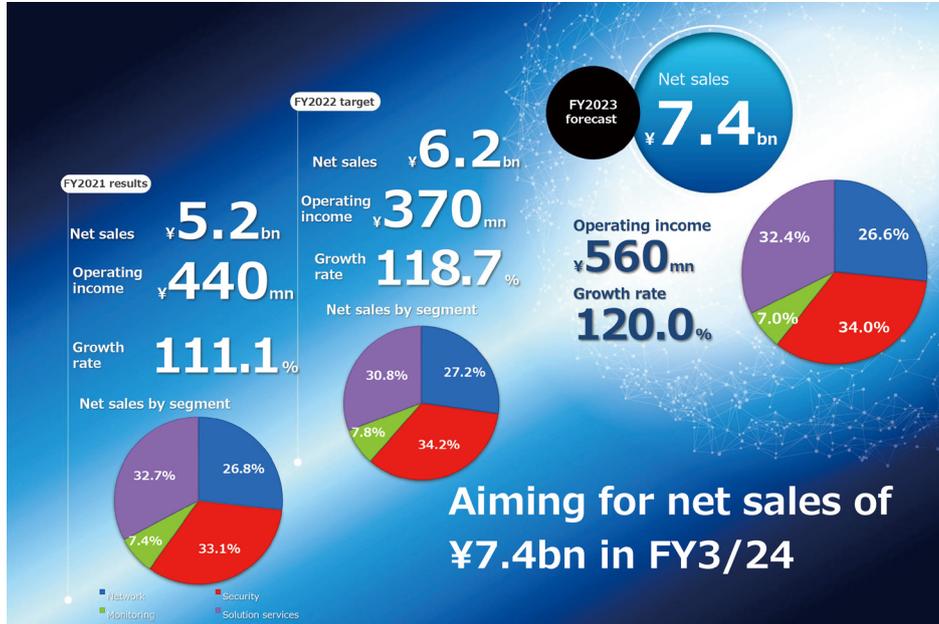
The Company's new medium-term plan announced in May 2021 (three-year plan with FY3/22 as the first year) incorporates "numerical targets for organic growth," "the basic strategy and priority measures to achieve the targets" and "the basic approach for implementing the M&A and business alliance strategy."

First of all, based on the numerical targets for FY3/24 (net sales of ¥7.4bn and operating income of ¥560mn), the final year of the plan, the Company appears to be aiming for a sales growth rate of 20% and an operating income margin of 8% on an organic basis. Additionally, the M&A strategy presents an image of investment on a scale of around ¥1bn to ¥2bn, clearly indicating the scale of the investment budget per project (¥300mn to ¥500mn) and the scale of acquired annual sales (¥500mn to ¥1bn). The content of the new medium-term plan reflects a highly motivated plan that provides a path toward achieving net sales of ¥10bn.

For "the basic strategy and priority measures to achieve the targets" the key messages are 1) strengthening the recurring income-type business model 2) dynamic expansion of the Group's businesses, and 3) global business development. Whatever the case, the key will be the alliance strategy, including M&A, so the concentration of investment and new business development functions in a holding company can be taken as a positive development. Also, the transition to a structure that gives each business company the responsibility and authority to make decisions and advance business in a swift and flexible manner should become a tailwind for the action plans for achieving targets by each Group company advocated in the new medium-term plan. We will follow each company's implementation of these plans closely going forward.

Outlook

2021 to 2023 Three-year medium-term management plan (numerical targets)



Source: The Company's results briefing materials

2021 to 2023 Three-year medium-term management plan (basic strategy and priority measures)



Source: The Company's results briefing materials

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