

Terilogy Holdings Corporation

5133

Tokyo Stock Exchange Standard Market

5-Aug.-2024

FISCO Ltd. Analyst

Masanobu Mizuta



FISCO Ltd.

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

■ Index

■ Summary	01
1. Development in the Network, Security, and Solutions Services sections	01
2. Large profit increase achieved in FY3/24 as significant sales increase absorbs impact of yen depreciation	01
3. Large increases in sales and operating income forecast for FY3/25	02
4. Promoting the expansion and enlargement of the Group's business portfolio	02
■ Company profile	03
1. Company profile	03
2. History	04
■ Business overview	07
1. Business overview	07
2. Network Section	08
3. Security Section	09
4. Solutions Services Section	11
5. Characteristics and strengths	12
6. Risk factors and earnings characteristics, measures, and challenges	15
■ Results trends	15
1. Overview of FY3/24 consolidated results	15
2. Trends by segment	16
3. Financial condition	17
■ Outlook	18
● Overview of FY3/25 consolidated forecast	18
■ Growth strategy	19
1. Terilogy Group new three-year medium-term management plan	19
2. Shareholder return policy	21
3. FISCO's view	22

Summary

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

Terilogy Holdings Corporation (hereafter, also “the Company” and “the Group”) <5133> is a holding company established by Terilogy Co., Ltd. on November 1, 2022, through a sole share transfer. It is an independent IT corporate group that contributes to the digital transformation (DX) of companies and society, primarily focusing on network security and solutions services. The Group is working to establish itself as a “unique ICT business company group with independence and self-respect,” actively conducting M&A to achieve this goal.

1. Development in the Network, Security, and Solutions Services sections

The Company’s business is divided into three sections (which were revised from FY3/24). The Network Section handles sales and maintenance of network products, the Security Section handles sales and maintenance of security products, and the Solutions Services Section handles sales and maintenance of software developed within the Group, IT services, and inbound tourism promotion. The Network and Security sections mainly handle products from cutting-edge overseas IT companies in places like Silicon Valley in the US or Israel. The Company provides solutions covering a wide range of areas, including through the Solutions Services Section. This includes solutions related to networks, IT security, OT/IoT security, cloud security, cyber threat intelligence (CTI), and in-Group development, operational management, and monitoring. The characteristics and strengths of the Company include a wealth of experience and expertise accumulated since Terilogy’s founding over 30 years ago, its ability to respond to the market by accurately ascertaining the trends of the time, the ability to find the latest technologies of cutting-edge overseas IT companies, and the ability to combine imported technologies with the Group’s proprietary technologies to deliver solutions optimized to meet customer needs.

2. Large profit increase achieved in FY3/24 as significant sales increase absorbs impact of yen depreciation

In the FY3/24 consolidated results, net sales increased 21.2% year on year (YoY) to ¥6,881mn, operating income rose 136.0% to ¥272mn, ordinary income went up 211.8% to ¥396mn, and net income attributable to owners of parent increased 305.8% to ¥188mn. These figures represent significant increases in sales and profits, exceeding initial forecasts. Orders received increased 32.5% to ¥7,469mn, and outstanding orders rose 31.8% to ¥2,439mn. This large increase in sales was due to factors including demand growth in the Security and Solutions Services sections, strengthened sales measures, and the effects of price revisions for some products. In terms of profit, procurement costs increased due to yen depreciation and personnel costs increased due to investment in human capital, but these were absorbed by the significant increase in sales. Foreign exchange gains from foreign exchange contracts contributed to an increase in ordinary income. As a result, the operating income margin increased by 2.0 percentage points to 4.0% and the ordinary income margin increased by 3.6 percentage points to 5.8%.

Summary

3. Large increases in sales and operating income forecast for FY3/25

The FY3/25 consolidated results are expected to show large increases in sales and operating income, with forecasts for net sales increasing 22.9% YoY to ¥8,455mn, operating income increasing 38.0% to ¥376mn, ordinary income decreasing 5.3% to ¥376mn, and net income attributable to owners of parent increasing 38.8% to ¥262mn. It is assumed that exchange rates will remain roughly level with 2H FY3/24 (US\$1=around mid-¥150.00). The Company anticipates sales will grow in each section as demand remains high and the effects of M&A carried out in the previous year will contribute to sales in the Solutions Services Section. In addition, the Company plans to proceed with price revisions for some products. In terms of profits, personnel costs will increase due to continued investment in human capital, but this is expected to be absorbed by a significant increase in sales. The absence of foreign exchange gains in non-operating income is forecast to cause a slight decrease in ordinary income, but net income attributable to owners of parent is expected to increase significantly due to the shedding of a loss on valuation of investment securities recorded in the previous fiscal year. Considering the favorable security-related business environment, we at FISCO believe there is potential for the Company to surpass their forecasts.

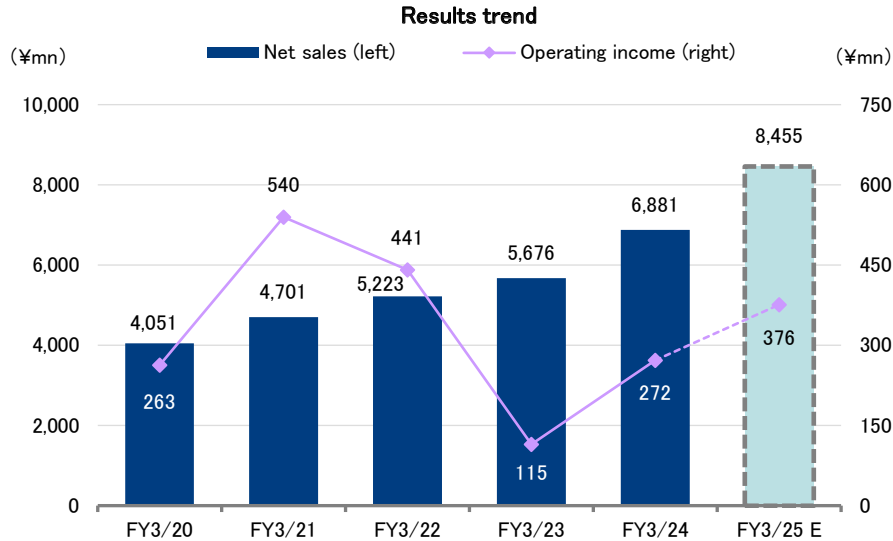
4. Promoting the expansion and enlargement of the Group’s business portfolio

In its new Terilogy Group Three-Year Medium-Term Management Plan (FY3/25-FY3/27, a rolling plan revised each fiscal year), the Company’s numerical targets, which have been revised with the objective of achieving the three-year medium-term management plan targets formulated in the previous fiscal year ahead of schedule, are for net sales of ¥8,400mn and operating income of ¥370mn in FY3/25, net sales of ¥9,700mn and operating income of ¥550mn in FY3/26, and net sales of ¥11,000mn and operating income of ¥800mn in FY3/27. There are no major changes to basic policy and 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.” The 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.

Key Points

- A technology-focused, independent IT corporate group that contributes to the DX of companies and society
- Development in the Network, Security, and Solutions Services sections
- Large profit increase achieved in FY3/24 as significant sales increase absorbs impact of yen depreciation
- Large increases in sales and operating income forecast for FY3/25
- Promoting the expansion and enlargement of the Group’s business portfolio
- Results expected from measures to realize sustainable profit growth and enhance profit margins

Summary



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

Company profile

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

1. Company profile

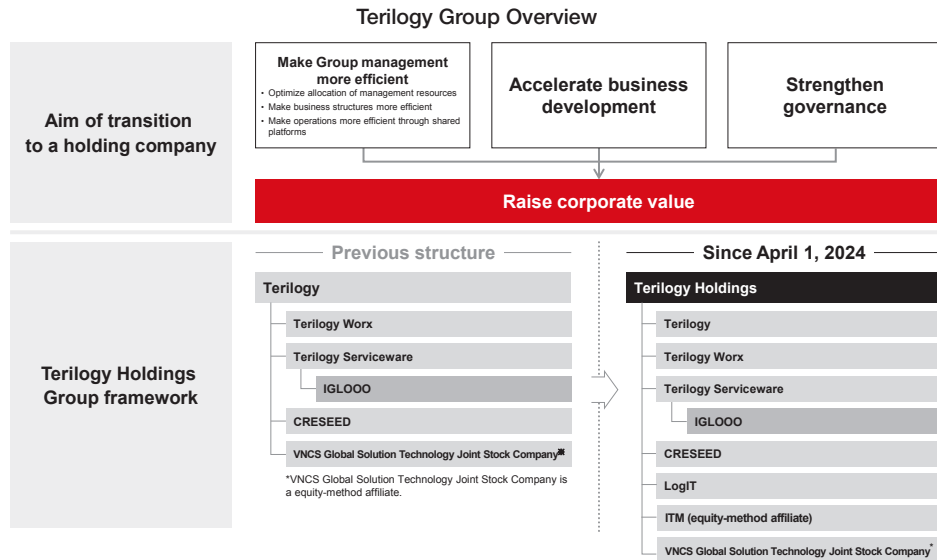
The Company is a holding company established by Terilogy on November 1, 2022, through a sole share transfer. It is an independent IT corporate group that contributes to the DX of companies and society, primarily focusing on network security and solutions services. The Group is working to establish itself as a “unique ICT business company group with independence and self-respect,” actively conducting M&A to achieve this goal.

As of the end of FY3/24, the Company's head office is located in Kudan-kita, Chiyoda-ku, Tokyo. It has total assets of ¥6,898mn, net assets of ¥2,564mn, an equity ratio of 36.7%, and 17,111,742 shares outstanding (including 715,400 treasury shares). In August 2022, it entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD., making it the Company's second largest shareholder (shareholding ratio: 5.22%).

As of April 1, 2024, the Group was made up of nine companies in total, including the Company (the holding company), six consolidated subsidiaries (Terilogy, which became a fully-owned subsidiary following the establishment of the Company, Terilogy Worx Corporation, Terilogy Serviceware Corporation, IGLOOO Inc., CRESEED Corporation, and LogIT Corporation), and two equity-method affiliates (VNCS Global Solution Technology Joint Stock Company, a joint venture company established in April 2020 in Vietnam, and ITM Inc., in which the Company purchased a 20% stake in May 2023).

Company profile

effestep Co., Ltd. which the Company made into a subsidiary in October 2023, was absorbed into CRESEED Corporation on April 1, 2024. On June 1, 2024, Terilogy Worx Corporation changed its name to Constella Security Japan inc.



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 original product lineup. Specifically, this effort started in June 2012 with the launch of 'momentum,' a unique probe software product developed in-house by the Group. This was followed by the launch in July 2015 of CloudTriage, a unique operations monitoring service, and in July 2018, EzAvater, an ultra-simple robotic process automation (RPA) tool.

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

Terilogy Holdings Corporation | 5-Aug.-2024
 5133 Tokyo Stock Exchange Standard Market | <https://www.terilogy-hd.com/english/index.html>

Company profile

Company history

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

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

Terilogy Holdings Corporation | 5-Aug.-2024
 5133 Tokyo Stock Exchange Standard Market | <https://www.terilogy-hd.com/english/index.html>

Company profile

Date	Event
Jun. 2021	Consolidated subsidiary IGLOOO formed a business alliance with American company ADARA to strengthen digital marketing support in the field of inbound tourism in Japan. Consolidated subsidiary Terilogy Worx signed a distribution contract with Singaporean company Uppsala Security.
Jul. 2021	Company engineer won the Grand Prize in the Network Division at the TREND MICRO Partner Engineer Award 2020.
Sep. 2021	Signed a capital and business tie-up (underwrote share options) with CBA Inc., an environmental DX venture.
Oct. 2021	Consolidated subsidiary Terilogy Worx began offering in-house-developed cyber threat hunting solution. Signed a distribution contract with Collabos Corporation <3908> for TechSee, a product handled by the Company.
Nov. 2021	Consolidated subsidiary Terilogy Worx signed a sales partnership contract with Information Development Co., Ltd. for its in-house developed product, THX. Capital and business tie-up partner CBA Inc began offering CBA-wellfest, an industrial waste treatment cloud service.
Dec. 2021	Consolidated subsidiary Terilogy Serviceware signed a business tie-up agreement with WELL ROOM Co., Ltd., and began offering its multilingual service for medical institutions.
Feb. 2022	Consolidated subsidiary Terilogy Worx concluded a partnership with American company Synack.
Mar. 2022	Consolidated subsidiary Terilogy Worx concluded a capital and business alliance with Nihon Cyber Defence (accepted a third-party allocation of shares).
Apr. 2022	Transferred to the TSE Standard Market following the TSE's market segment revisions.
May 2022	Concluded a distribution agreement with US-based SecurityGate to enter the risk management market in the OT security field. Signed a distribution contract with KDDI Evolve, Inc. (currently Altius Link, Inc.) for TechSee, a visual support tool.
Aug. 2022	Entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD (implemented a third-party allocation of shares to KANEMATSU ELECTRONICS and disposal of treasury shares).
Oct. 2022	Changed its sector on the TSE Standard Market from Wholesale Trade to Information & Communication.
Nov. 2022	Terilogy established Terilogy Holdings Corporation through a sole share transfer. Terilogy Holdings Corporation was newly listed on the Tokyo Stock Exchange Standard Market (Terilogy was delisted and became a wholly owned subsidiary).
Feb. 2023	Consolidated subsidiary Terilogy concluded a distribution agreement with American company Rapid7, and launched the provision of a comprehensive security service. Invested in the Israeli venture investment fund IL Ventures.
May 2023	Entered into a business and capital alliance with ITM, Inc. (converted to equity-method affiliate), a subsidiary of Sakura Internet <3778>.
Jun. 2023	Terilogy Worx increased its stake in Nihon Cyber Defence.
Aug. 2023	Made consolidated subsidiary CRESEED Corporation a wholly-owned subsidiary.
Oct. 2023	Acquired all shares of effestep Co., Ltd. and made it a consolidated subsidiary.
Mar. 2024	Acquired all shares of LogIT Corporation and made it a consolidated subsidiary.
Apr. 2024	Consolidated subsidiary effestep Co., Ltd. absorbed into consolidated subsidiary CRESEED Corporation. Consolidated subsidiary Terilogy Serviceware Corporation concluded distribution contract for RPA tool EzAvater with Chuo Computer Service Inc. Business partnership agreement concluded between Terilogy Holdings Corporation, Terilogy, and Takachiho Koheki Co., Ltd. <2676>.
Jun. 2024	Name of consolidated subsidiary Terilogy Worx Corporation changed to Constella Security Japan inc.

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

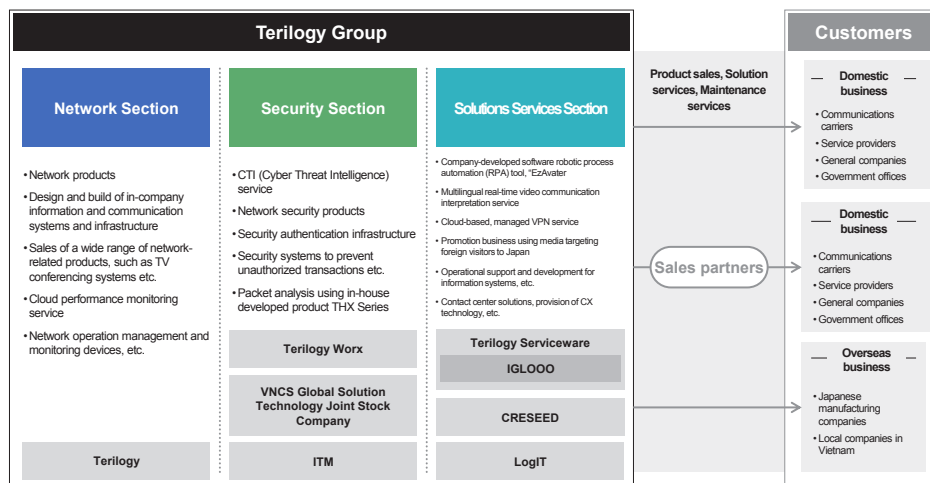
Business overview

Overall expansion in the Security and Solutions Services sections

1. Business overview

The Company's business is divided into three sections (sections were revised from FY3/24). The Network Section handles sales and maintenance of network products, the Security Section handles the sales and maintenance of security products, and the Solutions Services Section handles the sales and maintenance of software developed in-house, IT services, and inbound tourism promotion business. The Network and Security sections mainly handle products from cutting-edge overseas IT companies in places like Silicon Valley in the US or Israel. The Company provides solutions covering a wide range of areas, including through the Solutions Services Section. This includes solutions related to networks, IT security, OT/IoT security, cloud security, cyber threat intelligence (CTI), and in-Group development, operational management, and monitoring.

Diagram of the business structure



* Terilogy Worx Corporation changed its name to Constella Security Japan inc., effective June 1, 2024.

Source: The Company's results briefing material

Net sales and net sales by segment over the past five fiscal years (FY3/20-FY3/24) are as follows (Figures prior to and including FY3/23 are before reclassification). Looking at sales, there has been an overall expansion in the Security Section and the Solutions Services Section due to factors such as increased demand, new product sales expansion, and M&A. In the Network Section, the demand for replacement of IP address management servers with new models boosted sales from FY3/21 onwards, but this replacement demand had died down in FY3/23. The FY3/24 net sales composition was 22.7% for the Network Section, 43.7% for the Security Section, and 33.6% for the Solutions Services Section.

Business overview

Trends in net sales by segment and net sales composition

	(¥mn)				
	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24
Net sales					
Network Section	896	1,616	1,399	1,286	1,560
Security Section	1,645	1,628	1,726	2,155	3,005
Solutions Service Section	845	936	1,710	1,965	2,314
Monitoring Section	663	520	387	269	-
Total	4,051	4,701	5,223	5,676	6,881
Net sales composition					
Network Section	22.1%	34.4%	26.8%	22.7%	22.7%
Security Section	40.6%	34.6%	33.1%	38.0%	43.7%
Solutions Service Section	20.9%	19.9%	32.7%	34.6%	33.6%
Monitoring Section	16.4%	11.1%	7.4%	4.7%	-
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note 1: Figures up to FY3/22 for Terilogy. From FY3/22, adopted the revised Accounting Standard for Revenue Recognition, etc.

Note 2: Business sections revised from FY3/24. Figures prior to and including FY3/23 are before reclassification

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

In regard to the Company's M&A and alliance strategy from 2022 onward, in March 2022, Terilogy Worx Corporation (now Constella Security Japan inc.) concluded a capital and business alliance with Nihon Cyber Defence with the aim of contributing to Japan's national security (it then strengthened this relationship in June 2023 by purchasing additional shares to increase its stake). 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. 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 July 2023, the Company made CRESEED Corporation a wholly-owned subsidiary through a simple share exchange, and in October 2023, it acquired all shares in effestep Co., Ltd., a company primarily engaged in software development for major manufacturers and other operations, and made it a consolidated subsidiary (it was then absorbed into CRESEED Corporation on April 1, 2024). In March 2024, the Company made LogIT Corporation, a company that specializes in developing CX (customer experience) solutions, into a consolidated subsidiary through acquisition of its all shares from INFOCOM CORPORATION. In May 2024, a business partnership agreement concerning market cultivation in the industrial solutions domain was concluded between Terilogy Holdings Corporation, Terilogy, and Takachiho Koheki Co., Ltd. <2676>.

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




2. Network Section

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

Business overview

Its main products are Infoblox IP address management servers (manufactured by US-based Infoblox), Radware products (manufactured by Israel-based Radware) that provide Distributed Denial of Service Attack (DDoS) countermeasures and solves issues concerning load balancing for WAN lines, and Extreme (formerly Aerohive, manufactured by US-based Extreme Networks) secure cloud-based wireless LAN products, as well as CloudTriage, a cloud-based IT systems operations monitoring service.

Main products in the Network Section

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

The Security Section's business includes cyberattack countermeasures

3. Security Section

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

The Group's in-house security service focuses on three areas: countermeasures against cybercrime, such as ransomware; defense against attacks on social infrastructure by advanced persistent threat (APT) groups (also known as targeted attacks) and the exploitation of important intellectual property rights information; and detection of disinformation from groups backed by nations (information operations). With the increasing global importance of information and cognitive warfare using social media, there is an expected increase in the need for analysis and countermeasures in this area.

Terilogy Holdings Corporation | 5-Aug.-2024
 5133 Tokyo Stock Exchange Standard Market | <https://www.terilogy-hd.com/english/index.html>



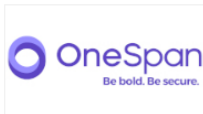



Business overview

Its main products include Nozomi Networks products (manufactured by US-based Nozomi Networks), which have strengths in security measures for the manufacturing control systems area (OT/IoT systems area) within key infrastructure, including electric power systems, and in the management of factories and buildings; Sumo Logic (manufactured by US-based Sumo Logic), which can quickly and accurately identify threats from log information; 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 by Trend Micro Incorporated <4704> in 2015); and OneSpan (manufactured by Belgium-based OneSpan), which prevents unauthorized transactions through one-time password-based user authentication.

Regarding CTI security services, the Company provides BitSight (manufactured by US-based BitSight), which can provide a visualization of supply chain risk and THX Series (formerly handled by the Monitoring Section) cyber security threat hunting solutions. In October 2023, the Company commenced sales of TrackerIQ that detects insider fraud in cloud application usage (manufactured by Israel-based RevealSecurity). It also commenced the provision of a social media threat intelligence management service using technology from Cyabra (Israel).

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

Main products in the Security Section

 Security Cato Networks World's first SASE platform through the next-generation network and security services provided by Cato Networks	 Security Trend Micro TippingPoint Intrusion Prevention System that boasts the top track record as an inline network-based IPS appliance	 Security Open 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
 Security Nozomi Networks Provides asset management, real-time monitoring, abnormality detection, and vulnerability judgments for Industrial Control Systems (ICS)	 Security TXOne Networks Edge Series Security solution for OT Networks— vulnerability attack prevention, network protection, and segmentation	 Security REDSEAL Realizes proactive security by automatically generating an access map and attaching the results of a scan of the access map's vulnerabilities

Source: The Company's website

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

4. Solutions Services Section

The Solutions Services Section is mainly operated by Terilogy Serviceware, IGLOOO, CRESEED, and LogIT. Its main products include EzAvater, a software robotic process automation (RPA) tool developed by the Terilogy Group, Mieru-Tsuyaku, a real-time video communication interpretation service that breaks down language barriers by enabling smooth communication with foreign visitors to Japan, MORA VPN Zero-Con, a cloud-based managed VPN service for small- to medium-sized enterprises, and TechSee, a visual contactless remote support service that uses artificial intelligence (AI) and augmented reality (AR). Additionally, CRESEED and LogIT are engaged in contracted systems development, while IGLOOO operates a promotion business using VOYAPON, a media site targeting visitors to Japan which specializes in the European, American, and Australian markets. Regarding MORA VPN Zero-Con, the Company is also planning to release a new SASE solution to capitalize on increased concern about security risks among small- to medium-sized enterprises.

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. The Group has signed distribution contracts with Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., UCHIDA ESCO Co., Ltd., Hitachi Systems, Ltd., Computer Engineering & Consulting Ltd. <9692>, Jitsugyo no Nihon Research Institute, Ltd., CAREER PLANNING Co., Ltd., Rustic System Co. Ltd., Office More Co., Ltd., Instrategy Corp., Godo Kaisha AMDEA, Chuo Computer Service Inc., etc. In January 2024, EzAvater received the Leader award in the RPA Tool Category of the ITreview Grid Award 2024 Winter hosted by ITcrowd Corp. This is the 10th consecutive year it has won this award.

The real-time video communication interpretation service Mieru-Tsuyaku can be used on a tablet or smartphone. It is available anytime, anywhere with a single touch providing support from a call operator for situations such as customer service. The recovery of overseas tourism to Japan has led to the introduction of the service at facilities with a high ID count per unit, such as department stores, retailers, stations, and airports. Recent introductions include by Seibu Railway Company, Ltd. in June 2022, which issued tablets to each member of its station staff; by Hankyu Hanshin Department Stores, Inc. in April 2023 for five department stores, including its Umeda Main Store; by SHIBUYA SKY, a facility with views located in Shibuya, Tokyo, from May 2023; by @cosmeTOKYO, an interactive cosmetics specialist store in Tokyo's Harajuku from August 2023; and by Mitsui Fudosan Hotel Management Co., Ltd. from May 2024, which has introduced the service at 27 of its hotels under THE CELESTINE HOTELS, Mitsui Garden Hotels, and sequence brands in Japan. Additionally, at the Social Products Award 2023 hosted by the Association for the Promotion of Social Products in March 2023, Mieru-Tsuyaku won the consumer jury award for services that use digital technology to solve social issues. In June 2024, it was awarded a place in the OMOTENASHI Selection chosen by OMOTENASHI NIPPON, an organization managed by ENGAWA Co., Ltd. Going forward, Terilogy Serviceware aims to create synergies with the tourism-related promotion business operated by IGLOOO.

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

Business overview

CRESEED and LogIT are engaged in the information systems business, including contracted systems development. Going forward, the companies plan to expand efforts in the IT services field, including systems construction, with the aim of mitigating exchange rate fluctuation risks on a Company-wide basis.

Main products in the Solutions Services Section

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

Source: The Company's website

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

5. Characteristics and strengths

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

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

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

To build a business model and value chain backed by a corporate philosophy, the Company needs to establish the Group's mission and vision based on that philosophy, and then incorporate those in an action plan designed to achieve them. Specifics of that action plan include 1) ongoing research and discovery activities regarding advanced, cutting-edge technology trends in Silicon Valley in the US, 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.

Business overview

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

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

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

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

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

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

Business overview

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

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

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

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

Strengthening its response to technological innovation

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

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

■ Results trends

Large profit increase achieved in FY3/24 as significant sales increase absorbs impact of yen depreciation

1. Overview of FY3/24 consolidated results

In the FY3/24 consolidated results, net sales increased 21.2% YoY to ¥6,881mn, operating income rose 136.0% to ¥272mn, ordinary income went up 211.8% to ¥396mn, and net income attributable to owners of parent increased 305.8% to ¥188mn. These results show considerable increases in sales and profit that surpass the initial forecast (the forecast announced on May 15, 2023 predicted net sales of ¥6,345mn, operating income of ¥240mn, ordinary income of ¥240mn, and net income attributable to owners of parent of ¥168mn). Orders received increased 32.5% YoY to ¥7,469mn, and outstanding orders at the end of the fiscal year rose 31.8% to ¥2,439mn.

This large increase in sales was due to factors including demand growth in the Security and Solutions Services sections, strengthened sales activities, and the effects of price revisions for some products. In terms of profit, procurement costs increased due to yen depreciation (the average exchange rate in FY3/23 was US\$1=¥135.48 while in FY3/24 it was US\$1=¥144.57, showing depreciation of ¥9.09 on the US dollar) and personnel costs increased due to investment in human capital, but these were absorbed by the significant increase in sales. Gross profit increased 15.0% YoY, but the gross profit margin declined by 1.8 percentage points to 33.3%. SG&A expenses increased 7.5% YoY, but the SG&A ratio declined by 3.7 percentage points to 29.4%. A ¥78mn increase in foreign exchange gains from foreign exchange contracts (¥5mn in FY3/23, ¥83mn in FY3/24) and an improvement of ¥32mn in gain on valuation of derivatives (loss of ¥2mn in FY3/23, gain of ¥29mn in FY3/24) contributed to an increase in ordinary income. As a result, the operating income margin increased by 2.0 percentage points to 4.0% and the ordinary income margin increased by 3.6 percentage points to 5.8%. In extraordinary losses, there was a ¥44mn loss on valuation of investment securities.

Results trends

Overview of FY3/24 consolidated results

	(¥mn)								
	FY3/23		FY3/24		YoY		Initial forecast amount	Change on forecast	
	Results	Composition	Results	Composition	Change amount	Change %		Amount	%
Net sales	5,676	100.0%	6,881	100.0%	1,204	21.2%	6,345	536	8.4%
Gross profit	1,994	35.1%	2,292	33.3%	298	15.0%	-	-	-
SG&A expenses	1,878	33.1%	2,020	29.4%	141	7.5%	-	-	-
Operating income	115	2.0%	272	4.0%	157	136.0%	240	32	13.3%
Foreign exchange gain	5	0.1%	83	1.2%	78	-	-	-	-
Gain on valuation of derivatives	-	-	29	0.4%	29	-	-	-	-
Loss on valuation of derivatives	2	0.0%	-	-	-2	-	-	-	-
Ordinary income	127	2.2%	396	5.8%	269	211.8%	240	156	65.0%
Net income attributable to owners of parent	46	0.8%	188	2.7%	142	305.8%	168	20	12.3%
Average exchange rate (US dollar/yen)	135.48	-	144.57	-	9.09	-	-	-	-
Net sales by segment									
Network Section	1,556	27.4%	1,560	22.7%	4	0.3%	1,770	-210	-11.9%
Security Section	2,155	38.0%	3,005	43.7%	850	39.5%	2,455	550	22.4%
Solutions Services Section	1,965	34.6%	2,314	33.6%	349	17.8%	2,119	195	9.2%
<Reference>									
Orders received	5,638	-	7,469	-	1,831	32.5%	-	-	-
Outstanding orders	1,851	-	2,439	-	588	31.8%	-	-	-

Note 1: Initial forecast shows the values announced on May 15, 2023.

Note 2: Business segments were revised from FY3/24. Net sales by business segment for FY3/23 are those following the reclassification.

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

High growth in the Security and Solutions Services sections

2. Trends by segment

Looking at net sales by business segment (figures by business segment for FY3/23 are those following the reclassification of business segment implemented in FY3/24), net sales improved by 0.3% YoY to ¥1,560mn in the Network Section, increased by 39.5% to ¥3,005mn in the Security Section, and increased by 17.8% to ¥2,314mn in the Solutions Services Section.

Network Section net sales were flat YoY. For Infoblox IP address management server products, which are a focus of the Company, demand for replacement with new models wound down but the Company focused on making proposals such as DNS security solutions, so sales remained generally solid. Radware, a DDoS countermeasure solution, performed smoothly, boosted by a worldwide increase in cyberattacks. Projects using cloud-based wireless LAN system to build safe and secure network environments performed well.

Results trends

The Security Section maintained high growth with sales increasing strongly on the back of growing security needs. Amid growing risks such as the manipulation of public opinion using false information transmitted and spread through the internet, CTI security services performed strongly, including the receipt of large-scale projects from public agencies. There was a considerable increase in sales of Nozomi Networks products (manufactured by US-based Nozomi Networks), which have strengths in security measures for manufacturing control systems (OT/IoT systems) within key infrastructure, including electric power systems, and in the management of factories and buildings, following an increase in orders from customers including electricity companies and major manufacturing companies in Japan. There was also a large upturn in sales for the unauthorized intrusion network prevention security product TippingPoint, and log analysis platform Sumo Logic. Add-on orders were received from major financial institutions for authentication base systems that use one-time passwords to prevent unauthorized transactions through internet banking. Deliveries were completed for THX Series cyber security threat hunting solutions after Japanese manufacturers used it for long-term storage projects to comply with the EU's General Data Protection Regulation (GDPR).

The Solutions Services Section also maintained strong growth with a significant increase in sales. The number of contracts for RPA tool EzAvater is on an upward trend without limits to potential customers in terms of industry, type of business, or size, based on its ease of use and growing product recognition. Its newly released simultaneous connection floating robot also contributed to the increase in deployed units. Mieru-Tsuyaku, a real-time video communication interpretation service, increased unit sales mainly to public transport and retail stores customers, as well as accommodation facilities suffering from severe worker shortages, as inbound demand recovered smoothly. It also saw increased uptake for uses such as conference interpreting, telephone interpreting, and translation, as well as a rise in inquiries about BPO projects, as one of the Group's strengths is that it operates a multilingual contact center. There was also an increase in inquiries about cloud-based managed VPN services from cloud PBX providers among others. The inbound tourism promotion business operated by IGLOOO saw an increase in inquiries and orders for large-scale projects as inbound tourism grew. Orders were strong for CRESEED's system development, with orders including projects for handling customer support and core server replacement projects.

Maintaining financial soundness

3. Financial condition

Looking at the Company's financial condition, as of the end of FY3/24, total assets were up ¥754mn to ¥6,898mn compared to the end of FY3/23. Cash and deposits decreased ¥432mn, and there were increases in notes and accounts receivable, and contract assets of ¥364mn, advance payments of ¥190mn, goodwill of ¥273mn and investment securities of ¥223mn. Total liabilities were up ¥635mn to ¥4,334mn. Accounts payable-trade increased ¥144mn, advances received increased ¥345mn, and income taxes payable increased ¥137mn. The interest-bearing debt (long- and short-term borrowings total) decreased ¥51mn to ¥369mn. Net assets rose ¥119mn to ¥2,564mn mainly because retained earnings increased ¥175mn. As a result, the equity ratio fell 2.4 percentage points to 36.7%. Although the equity ratio decreased, there are no significant variances observed, and there were no points of particular concern in the cash flow statement. We at FISCO assess the Company as practicing a disciplined strategy for raising corporate value that takes its financial conditions into consideration.

Results trends

Financial statement and cash flow statement

	End of FY3/20	End of FY3/21	End of FY3/22	End of FY3/23	End of FY3/24	Change amount
(¥mn)						
Total assets	4,203	5,625	5,991	6,144	6,898	754
(Current assets)	3,404	4,515	4,871	5,068	5,323	255
(Non-current assets)	798	1,109	1,119	1,075	1,574	499
Total liabilities	1,934	2,981	3,551	3,698	4,334	635
(Current liabilities)	1,626	2,657	3,271	3,325	3,993	668
(Non-current liabilities)	307	324	279	373	340	-32
Total net assets	2,269	2,643	2,439	2,445	2,564	119
Equity ratio	53.9%	46.6%	40.2%	39.1%	36.7%	-2.4%

	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24
Net cash provided by/used in operating activities	484	1,131	414	287	324
Net cash provided by/used in investing activities	-24	-256	-243	34	-578
Net cash provided by/used in financing activities	464	-237	-428	112	-134
Cash and cash equivalents at end of period	1,500	2,128	1,867	2,298	1,916

Note: Figures up to FY3/22 for Terilogy

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

Outlook

Large increases in sales and operating income forecast for FY3/25

● Overview of FY3/25 consolidated forecast

The FY3/25 consolidated results forecasts are for net sales increasing 22.9% YoY to ¥8,455mn, operating income increasing 38.0% to ¥376mn, ordinary income decreasing 5.3% to ¥376mn, and net income attributable to owners of parent increasing 38.8% to ¥262mn, projecting significant increases in sales and operating income. It is assumed that exchange rates will remain roughly level with 2H FY3/24 (US\$1= around mid-¥150.00).

The Company anticipates sales growth in each section as demand remains high and the effects of the consolidation of effestep Co., Ltd. (which was absorbed into CRESEED Corporation on April 1, 2024) and LogIT Corporation in the previous year will contribute to sales in the Solutions Services Section. Furthermore, the Company plans to make price revisions to some products in response to the yen depreciation. Looking at net sales by section, Network Section sales will increase by 13.8% YoY to ¥1,775mn (21.0% of overall net sales), Security Section sales will increase by 2.4% to ¥3,077mn (36.4%), and Solution Services Section sales will increase by 55.6% to ¥3,601mn (42.6%). In terms of profits, personnel costs will increase due to continued investment in human capital, but this is expected to be absorbed by a significant increase in sales. The absence of foreign exchange gains in non-operating income is forecast to cause a slight decrease in ordinary income, but net income attributable to owners of parent is expected to increase significantly due to the shedding of a loss on valuation of investment securities recorded in the previous fiscal year. Considering the favorable security-related business environment, we at FISCO believe there is potential for the Company to surpass their forecasts.

Outlook

Overview of FY3/25 consolidated forecast

	FY3/24		FY3/25		YoY	
	Results	Composition	Forecast	Composition	Change amount	Change %
Net sales	6,881	100.0%	8,455	100.0%	1,573	22.9%
Operating income	272	4.0%	376	4.4%	103	38.0%
Ordinary income	396	5.8%	376	4.4%	-20	-5.3%
Net income attributable to owners of parent	188	2.7%	262	3.1%	73	38.8%
Net sales by segment						
Network Section	1,560	22.7%	1,775	21.0%	215	13.8%
Security Section	3,005	43.7%	3,077	36.4%	72	2.4%
Solutions Services Section	2,314	33.6%	3,601	42.6%	1,287	55.6%

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

Growth strategy

Promoting the expansion and enlargement of the Group's business portfolio

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

The Company transitioned into a holding company in November 2022 and aims to expand and transform the Group's business in response to changing business environments. It has adopted a rolling approach for revising the target figures of its medium-term management plan, which is updated annually. Terilogy Group Three-Year Medium-Term Management Plan covers the period from FY3/25 to FY3/27. The Company revised its targets with the possibility of achieving them ahead of schedule in the three-year medium-term management plan formulated in the previous fiscal year. The revised targets are net sales of ¥8,400mn and operating income of ¥370mn in FY3/25, net sales of ¥9,700mn and operating income of ¥550mn in FY3/26, and net sales of ¥11,000mn and operating income of ¥800mn in FY3/27. It also envisions that the net sales composition by segment in FY3/27 will comprise 20.6% from the Network Section, 38.5% from the Security Section, and 40.9% from the Solution Services Section.

FY2024 to FY2026 new three-year medium-term management plan

	FY2024 Target	FY2025 Plan	FY2026 Plan
Net sales	¥8,400mn	¥9,700mn	¥11,000mn
Ordinary Income	¥370mn	¥550mn	¥800mn
Growth rate	123%	115%	113%
Net sales by segment			

Source: The Company's results briefing material

Terilogy Holdings Corporation | 5-Aug.-2024
 5133 Tokyo Stock Exchange Standard Market | <https://www.terilogy-hd.com/english/index.html>

Growth strategy

There are no major changes to basic policy and 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.”

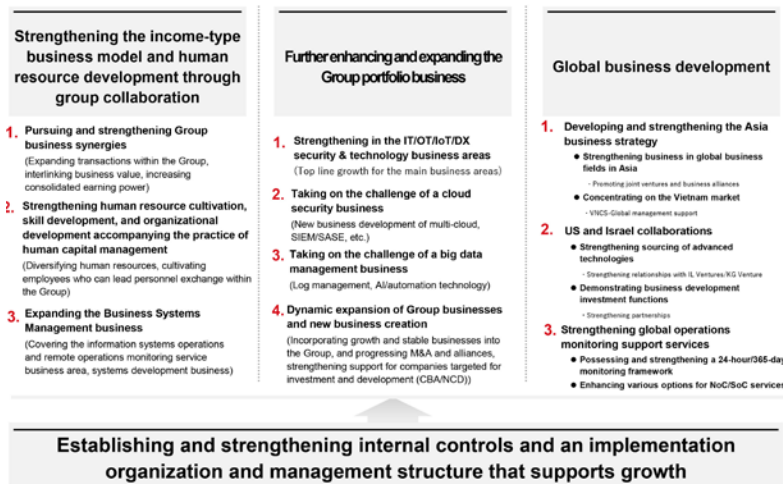
In order to implement management practices that are conscious of capital costs and share price, the Company recognizes the importance of maintaining a sound financial standing. This is crucial for meeting the expectations of all stakeholders, including shareholders and investors, achieving sustainable growth of the Group, and enhancing medium- to long-term corporate value. The Company regards return on equity (ROE) as a key indicator and targets achieving ROE of 10.0% in the medium- to long-term.

As an initiative for improving employee engagement to accelerate business development, the Company has raised employee wages, as well as the percentage of incentives granted through its employee stock ownership association.

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 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.

FY2024 to FY2026 new three-year medium-term management plan (priority measures)



Source: The Company’s results briefing materials

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

Growth strategy

Going forward, the Company has set criteria for its M&A and alliance strategy. It will target companies in business areas such as IT technology, specialized trading companies, sales sectors, Asian and emerging IT technology trading, security solutions, and cloud technology. It aims for acquisitions with annual sales ranging from ¥500mn to ¥1,000mn per deal, with an investment budget of approximately ¥1,000mn to ¥2,000mn.

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

Basic approach	Target areas
<ul style="list-style-type: none"> Investment activities aimed to further strengthen and expand existing businesses Investment activities aimed at stronger alliances and strategic reciprocity Investment activities to secure new businesses and markets with future potential 	<p>IT technology, trading, and sales area</p> <hr/> <p>Asian and emerging IT technology trading area</p> <hr/> <p>Security solutions area (IT/OT/IloT)</p> <hr/> <p>Cloud technology area</p> <hr/> <p>Inbound tourism solutions area</p> <hr/> <p>Medical information and life science area</p> <hr/> <p>Information systems, systems engineering service engineers and systems integrator area</p> <hr/> <p>Industry 4.0 Industry DX area</p> <hr/> <p>Generative AI/automation technology area</p> <hr/> <p>Other than the above, start-up ventures that have potential synergies with the Group that are expected to grow rapidly</p>
Envisioned scope of investment	
<p>Scale of annual sales</p> <ul style="list-style-type: none"> Approx. ¥500mn-¥1,000mn per target 	
Basic stance	
<ul style="list-style-type: none"> M&A based on securing a controlling interest Expand business through capital and strategic business alliances 	
Investment budget	
<ul style="list-style-type: none"> Target approx. ¥1.0bn-¥2.0bn 	
<p>< Main Investment Activities in FY2023 ></p> <ul style="list-style-type: none"> May 2023 Made an equity-method affiliate of ITM Inc., a multi-cloud management services operating company. Strived to strengthen the multi-cloud security service business and to collaborate with SAKURA Internet. Oct. 2023 Made a subsidiary of effestep Co., Ltd., a system development company, and in April 2024, merged it with CRESEED Corporation, a consolidated subsidiary, with the objective of strengthening business. 	

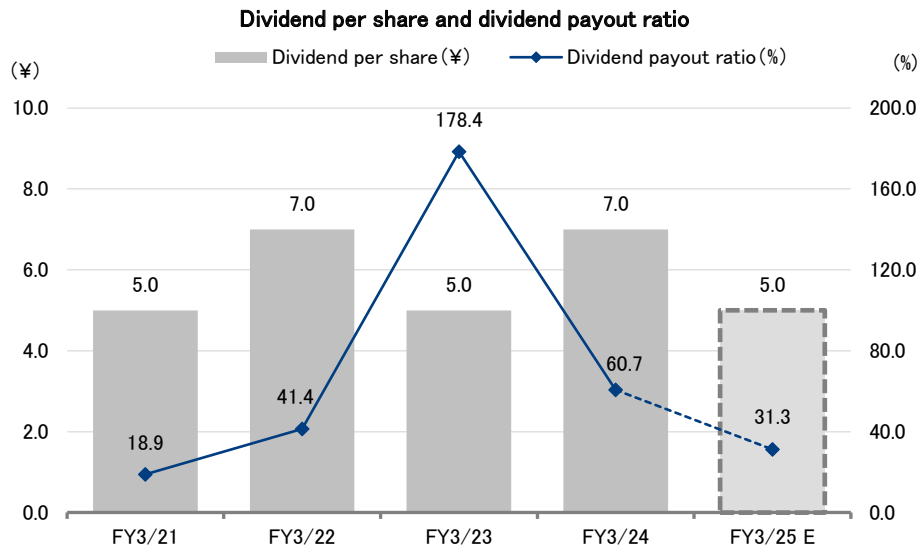
Source: The Company's results briefing materials

Shareholder return includes a results-based dividend

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 is to work to provide returns to shareholders by dividends based on business results. Under this basic policy, the Company paid an annual dividend of ¥7.0 for FY3/24 (paid in full at the end of the fiscal year, a regular dividend of ¥5.0 and a special dividend of ¥2.0 to commemorate the 35th anniversary of the Company), an increase of ¥2.0 on the ¥5.0 paid in FY3/23. The dividend payout ratio was 60.7%. For FY3/25, the Company plans to pay an annual dividend of ¥5.0 (to be paid in full at the end of the fiscal year), a decrease of ¥2.0 from FY3/24. Excluding the special dividend paid exclusively in FY3/24, the regular dividend amount remains the same. The forecast dividend payout ratio is 31.3%.

Growth strategy



Note: Figures up to FY3/22 for Terilogy
 Source: Prepared by FISCO from the Company's financial results

Results expected from measures to realize sustainable profit growth and enhance profit margins

3. 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. In FY3/24, despite rapid yen depreciation providing a headwind in regard to foreign exchange, the Company achieved large increases in sales and profit by successfully capturing demand growth through measures to strengthen technology and sales, which we at FISCO commend. However, it cannot be denied that current profit levels are not as good as they could be, so we see the realization of sustainable profit growth and enhancement of profit margins as issues the Group needs to address going forward.

In response to these issues, the Group's new three-year medium-term management plan aims to expand its business portfolio, including by utilizing M&A and alliances, and transition to recurring income-based business models. It also outlines plans to raise the ordinary income margin to 7.3% by FY3/27 (versus 5.8% in FY3/24). We think this shows a certain amount of promise. The progress of digital transformation (DX) and growing security needs have created a favorable business environment around the Group. Therefore, we at FISCO believe that if the Group can demonstrate concrete strategies that encompass measures to realize continuous profit growth and enhance profitability (such as measures to mitigate exchange rate fluctuation risks, strategies to expand profit from recurring sales, and strategies to improve the sales mix) and present more concrete plans for new products and services that can drive growth, it will result in greater interest and understanding from investors regarding the Group's growth scenario.

Disclaimer

FISCO Ltd. ("FISCO") offers stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiries, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp