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各 位

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当社の企業調査レポート（英語版）の発行に関するお知らせ

2025年1月17日付で株式会社フィスコより当社の企業調査レポート（日本語版）が発行されておりますが、本日、海外の投資家向けに英訳された当社の企業調査レポート（英語版）が発行されたことをご知らせいたします。

当社の企業調査レポート（英語版）につきましては、添付資料をご参照ください。

以 上

COMPANY RESEARCH AND ANALYSIS REPORT

Terilogy Holdings Corporation

5133

Tokyo Stock Exchange Standard Market

17-Feb.-2025

FISCO Ltd. Analyst

Masanobu Mizuta



FISCO Ltd.

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

Terilogy Holdings Corporation
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<https://www.terilogy-hd.com/english/index.html>

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Summary

A technology-focused, independent IT corporate group that contributes to the DX of companies and society. Significant increases in sales and operating income forecast for FY3/25

Terilogy Holdings Corporation (hereafter, also “the Company” and “the Group”) <5133> 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. 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 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. In 1H FY3/25, due to yen depreciation, recorded an operating loss, while ordinary income went down; sales, however, increased

In the 1H FY3/25 consolidated results, net sales increased 31.4% year on year (YoY) to ¥3,955mn, operating loss was ¥21mn (a profit of ¥24mn in the same period of the previous fiscal year), ordinary income decreased 62.1% to ¥22mn, and net loss attributable to owners of parent was ¥43mn (a profit of ¥20mn). Orders received increased 43.9% to ¥4,920mn, and outstanding orders rose 50.5% to ¥3,405mn. The average exchange rate was ¥152.62 (¥11.58 weaker yen than in 1H FY3/24). On the profit front, the impact of the weak yen on foreign exchange markets (higher license fees for higher purchasing costs) and increased expenses from investing in human capital led to an operating loss, negative ordinary income, and a net loss attributable to owners of parent, but with regard to sales, orders were firm and revenue increased significantly, so trends were steady. Looking at net sales by segment, the Network Section increased by 4.7% to ¥805mn, the Security Section increased 10.9% to ¥1,539mn and the Solutions Services Section went up 89.1% to ¥1,610mn owing in part to the contribution of M&A.

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3. Maintains the forecast for significant increases in sales and operating income for FY3/25

The FY3/25 consolidated results forecasts has been left unchanged from the initial forecast 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. Major increases in sales and operating income are expected. In all sections, demand is expected to trend at a high level. 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. The profit progress rate for 1H is at a low level, but demand is firm, and considering sales in the Solution Services Section tend to be concentrated in 2H, the strong dollar-weak yen on exchange markets is settling down, and the effects of price adjustments are gradually emerging, FISCO believes that the Company's full year forecasts are achievable.

4. Promoting the enhancement and expansion of the Group's business portfolio as part of its growth strategy

In the Terilogy Group Three-Year Medium-Term Management Plan for FY3/25 to FY3/27 (a rolling plan revised each fiscal year), the Company is targeting net sales of ¥11,000mn and operating income of ¥800mn for FY3/27, the last year of the plan. As the priority measures for achieving these targets the Company is promoting: 1) strengthening recurring income-type business models and developing human resources through Group cooperation, 2) further expanding and enhancing the Group's business portfolio, and 3) advancing global business development. As for measures for achieving management that is aware of capital costs and the stock price, to bring about the sustained growth of the Group and raise medium- to long-term corporate value, the Company recognizes that being aware of capital costs and maintaining a sound financial structure are key management issues. In addition, it has ROE (return on equity) as a key indicator and a policy of striving for ROE of 10.0% over the medium to long term.

Key Points

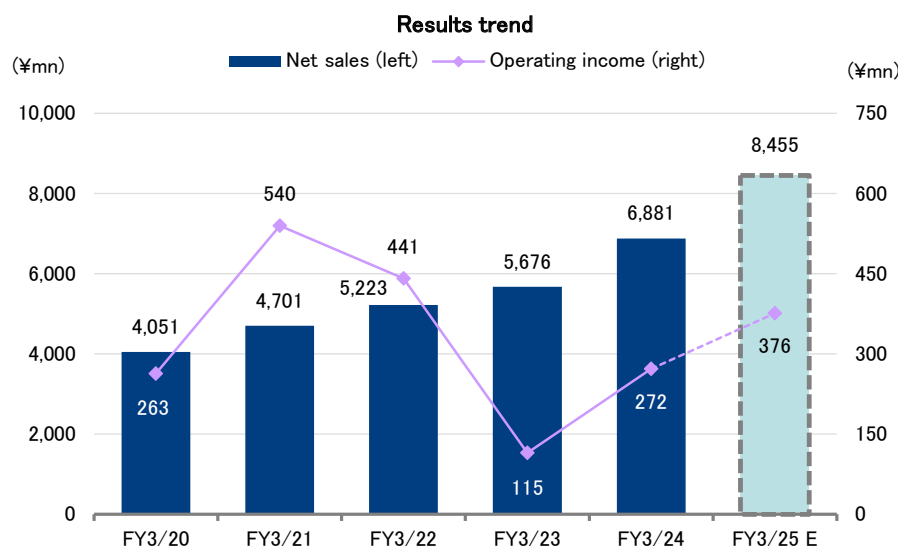
- Development in the Network, Security, and Solutions Services sections
- In 1H FY3/25, due to yen depreciation, recorded operating loss, while ordinary income went down; sales, however, increased
- Maintains the forecast for significant increases in sales and operating income for FY3/25
- Promoting the enhancement and expansion of the Group's business portfolio as part of its growth strategy

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Summary



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

Company profile

Aims to be a “unique ICT business company group with independence and self-respect”

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 1H FY3/25, the Company's head office is located in Kudan-kita, Chiyoda-ku, Tokyo. It has total assets of ¥6,849mn, net assets of ¥2,639mn, an equity ratio of 38.0%, and 17,111,742 shares outstanding (including 29,700 treasury shares). In August 2022, it entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD., and in August 2024, it entered into a business and capital alliance with Takachiho Koheki Co., Ltd. <2676>, making them the Company's second largest shareholders (shareholding ratio of each company: 5.01%).

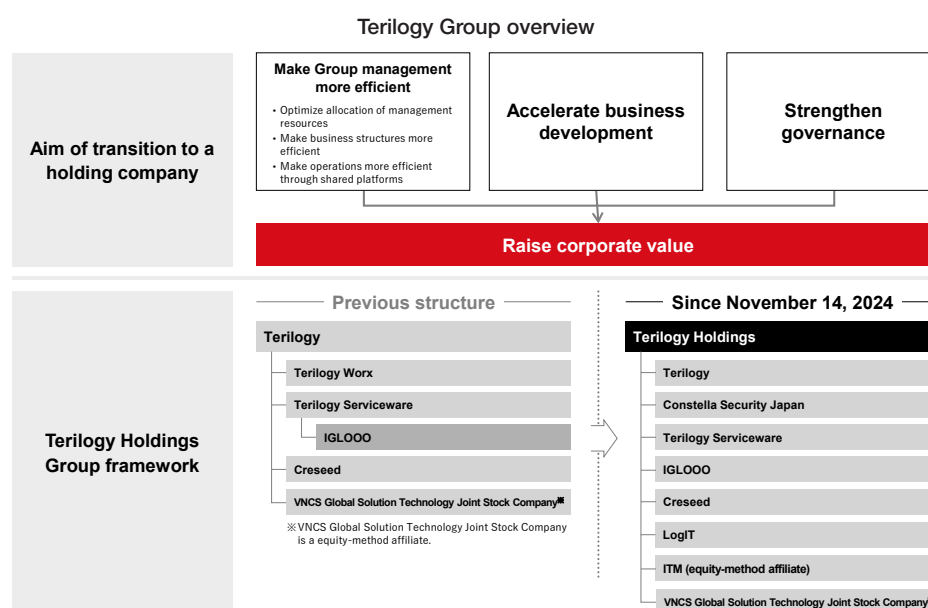
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Company profile

As of November 14, 2024, the Group was made up of nine companies in total, including the Company (the holding company), six consolidated subsidiaries and two equity-method affiliates. The consolidated subsidiaries are Terilogy Co., Ltd., Constella Security Japan Inc., (name changed on June 1, 2024 from Terilogy Worx Corporation), Terilogy Serviceware Corporation, IGLOOO Inc., CRESEED Corporation, and LogIT Corporation (made a subsidiary in March 2024), and the equity-method affiliates are VNCS Global Solution Technology Joint Stock Company, a Vietnamese joint venture, and ITM Inc. Additionally, effestep Co. Ltd., which the Company made a subsidiary in October 2023, was absorbed into CRESEED Corporation on April 1, 2024. Equity-method affiliate ITM is a consolidated subsidiary of SAKURA internet Inc. <3778>.



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

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, an 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).

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Company profile

Company history

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

Important disclosures and disclaimers appear at the back of this document.

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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 Evolva, Inc. (currently Altius Link, Inc.) for TechSee, a visual support tool. |
| Aug. 2022 | Entered into a business and capital alliance with KANEMATSU ELECTRONICS LTD (implemented a third-party allocation of shares to KANEMATSU ELECTRONICS and disposal of treasury shares). |
| Oct. 2022 | Changed its sector on the TSE Standard Market from Wholesale Trade to Information & Communication. |
| Nov. 2022 | Terilogy established Terilogy Holdings Corporation through a sole share transfer. Terilogy Holdings Corporation was newly listed on the Tokyo Stock Exchange Standard Market (Terilogy was delisted and became a wholly owned subsidiary). |
| Feb. 2023 | Consolidated subsidiary Terilogy concluded a distribution agreement with American company Rapid7, and launched the provision of a comprehensive security service. Invested in the Israeli venture investment fund IL Ventures. |
| May 2023 | Entered into a business and capital alliance with ITM, Inc. (converted to equity-method affiliate), a subsidiary of Sakura internet Inc. <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 Chuoh 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. |
| Aug. 2024 | Capital alliance with Takachiho Koheki Co., Ltd. Terilogy Co., Ltd. concluded a sales agency agreement with Salvador Technologies of Isreal and launched sales of a cyber recovery unit |

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

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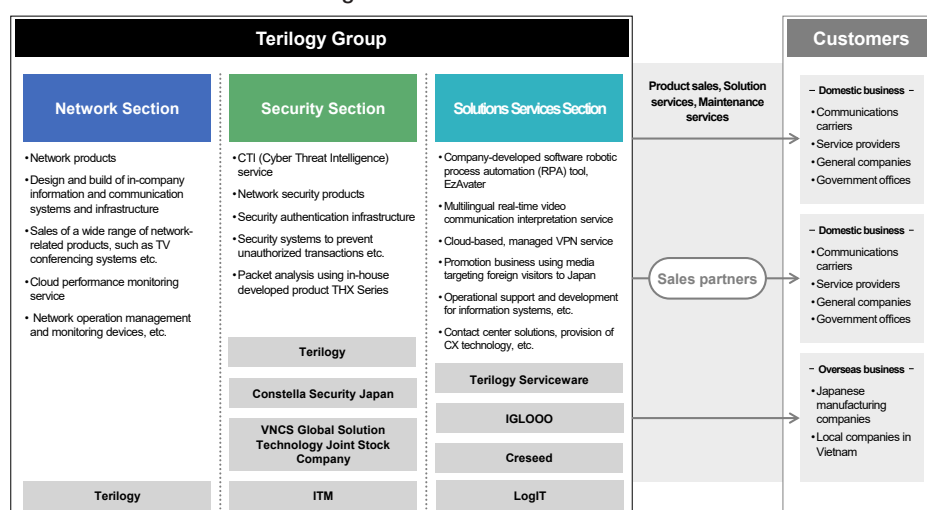
Business overview

Overall expansion in the Security and Solutions Services sections

1. Business overview

The Company's business is divided into three sections. 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



Source: The Company's results briefing material

Net sales and net sales by segment over the past four fiscal years (FY3/21-FY3/24) are as follows (Figures prior to and including FY3/23 are before reclassification). There has been an overall expansion in sales 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 died down in FY3/23. 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. The 1H FY3/25 net sales composition was 20.4% for the Network Section, 38.9% for the Security Section, and 40.7% for the Solutions Services Section. The share of the Solutions Services Section increased markedly.

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Business overview

Trends in net sales by segment and net sales composition

| | FY3/21 | FY3/22 | FY3/23 | FY3/24 | 1H FY3/25 |
|---------------------------|--------|--------|--------|--------|-----------|
| (¥mn) | | | | | |
| Net sales | | | | | |
| Network Section | 1,616 | 1,399 | 1,286 | 1,560 | 805 |
| Security Section | 1,628 | 1,726 | 2,155 | 3,005 | 1,539 |
| Solutions Service Section | 936 | 1,727 | 1,965 | 2,314 | 1,610 |
| Monitoring Section | 520 | 387 | 269 | - | - |
| Total | 4,701 | 5,223 | 5,676 | 6,881 | 3,955 |
| Net sales composition | | | | | |
| Network Section | 34.4% | 26.8% | 22.7% | 22.7% | 20.4% |
| Security Section | 34.6% | 33.0% | 38.0% | 43.7% | 38.9% |
| Solutions Service Section | 19.9% | 33.1% | 34.6% | 33.6% | 40.7% |
| Monitoring Section | 11.1% | 7.4% | 4.7% | - | - |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

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

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 (now Constella Security Japan) 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 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 (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 August 2023, the Company made the consolidated subsidiary CRESEED a wholly-owned subsidiary through a simple share exchange, and in October 2023, it acquired all shares in effestep, a company primarily engaged in software development for major manufacturers and other operations, and made it a consolidated subsidiary (it was then absorbed into CRESEED on April 1, 2024).

In March 2024, the Company made LogIT, a company that specializes in developing CX (customer experience) solutions, into a consolidated subsidiary through acquisition of its all shares from INFOCOM CORPORATION. In July 2024, the Company invested in the Nippon Cyber Security Fund 1 Investment Limited Partnership (established in April 2024 with KANEMATSU CORPORATION <8020>, etc. as the initiating company), Japan's first fund investing in security companies, and in August 2024 entered into a capital alliance with Takachiho Kohekito strengthen market development in the industrial solutions domain.

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Business overview




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.

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 unique to the Terilogy Group.

Main products in the Network Section

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

Source: The Company's website

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 and maintenance 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.

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Business overview

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.

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 network intrusion 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 cyber security threat hunting solutions developed by the Terilogy Group. 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 Group 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.







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Business overview

Main products in the Security Section

| | | |
|---|--|--|
|  <p>Security Cato Networks</p> <p>World's first SASE platform through the next-generation network and security services provided by CATO Networks</p> |  <p>Security Trend Micro TippingPoint</p> <p>Intrusion Prevention System that boasts the top track record as an inline network-based IPS appliance</p> |  <p>Security Open Span (FormerVasco Data Security)</p> <p>Secure user authentication that is more secure than fixed passwords by using a hard-software token to automatically generate a disposable, one-time password</p> |
|  <p>Security Nozomi Networks</p> <p>Provides asset management, real-time monitoring, abnormality detection, and vulnerability judgments for Industrial Control Systems (ICS)</p> |  <p>Security TXOne Networks Edge Series</p> <p>Security solution for OT Networks— vulnerability attack prevention, network protection, and segmentation</p> |  <p>Security REDSEAL</p> <p>Realizes proactive security by automatically generating an access map and attaching the results of a scan of the access map's vulnerabilities</p> |

Source: The Company's website

The Solutions Services Section includes RPA developed within the 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. The Company began providing Zero-ConSASE in July 2024 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. and HIROSHIMA SOHGO SECURITY SERVICES CO.,LTD., etc.

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Business overview

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. Use of the service ended with the closure of vaccination locations related to the COVID-19 vaccine. 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, airports, and accommodation facilities. 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. In November 2024, Takachiho Koheki began handling the Mieru-Tsuyaku service. In June 2024, it was awarded a place in the OMOTENASHI Selection chosen by OMOTENASHI NIPPON, an organization managed by ENGAWA Co., Ltd.

IGLOOO operates a tourism-related promotion business. Inquiries about tourist attractions PR video production are on the rise as inbound demand returned, and IGLOOO 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.

CRESEED provides support for corporate information system processes and contracted systems development. LogIT develops an information system business that includes contact center solutions for corporations. 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 EzAvatar</p> <p>An RPA tool developed in-house for customers who want to build robots and automate routine tasks.</p> |  <p>Network Mieru-Tsuyaku A multilingual video communication interpretation service</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>Security Inter-site VPN services</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>Management TechSee</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.

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Business overview

(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, 4) building of delivery and support systems, 5) training in high-value proposal sales, and 6) new market creation activities.

(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, which are one of the main products to build IP networks. Wellfleet was founded in 1984, and was acquired by Nortel Networks (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.”

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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.

In the security field, the Company is providing wide-ranging solutions which started with the conclusion of a domestic (Japan) master reseller contract with US-based TippingPoint, when it was independent in 2004, followed by reseller contracts with Belgium-based OneSpan (formerly VASCO Data Security) in 2007, US-based Lastline in 2012, US-based RedSeal in 2015, US-based Tempered Networks and Israel-based KELA in 2016, and US-based Nozomi Networks in 2018 (contract with Tempered Networks is an exclusive domestic (Japan) reseller contract). US-based TippingPoint specializes in IPS (intrusion prevention systems) and it was acquired by Trend Micro in 2015. However, Terilogy concluded a domestic (Japan) master reseller contract with TippingPoint in 2004, 11 years before this acquisition. Given its accumulated track record, Terilogy is still a trusted business partner of 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." 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.

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Business overview

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 Group imports (including license fees) from overseas have been purchased using foreign currencies, so it tends to be affected by exchange rate fluctuations. The Group 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 Group'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

In 1H FY3/25, recorded an operating loss, and ordinary income was down due to yen depreciation and other factors, but sales were steady

1. Overview of 1H FY3/25 consolidated results

In the 1H FY3/25 consolidated results, net sales increased 31.4% YoY to ¥3,955mn, operating loss was ¥21mn (a profit of ¥24mn in the same period of the previous fiscal year), ordinary income decreased 62.1% to ¥22mn, and net loss attributable to owners of parent was ¥43mn (a profit of ¥20mn). Orders received increased 43.9% to ¥4,920mn, and outstanding orders rose 50.5% to ¥3,405mn. The average exchange rate was ¥152.62 (¥11.58 weaker yen than in 1H FY3/24). On the profit front, operating income was positive, ordinary income was down, and final income was positive due to the impact of the weak yen on foreign exchange markets and increases in expenses related to investment in human capital. Sales, however, were steady, improving substantially as order trends were buoyant.

Regarding net sales, sales were up in all sections. In particular, the Solution Services Section saw increased demand and LogIT was newly consolidated, which resulted in much higher revenue. In terms of profits, purchase costs (license fees) increased due to the impact of the weak yen on foreign exchange markets. Another negative factor was an increase in expenses such as personnel costs related to investment in human capital. Gross profit increased 27.3% YoY, but the gross profit margin declined by 1.0 percentage point (pp) to 31.4%. SG&A expenses increased by 32.9%, and the SG&A ratio was 31.9%, an increase of 0.3pp. In non-operating segments, foreign exchange gain increased by ¥52mn (¥17mn in 1H FY3/24, ¥70mn in 1H FY3/25) due to forward exchange contracts. Gain/loss on valuation of derivatives worsened by ¥46mn (gain of ¥20mn in 1H FY3/24; loss of ¥26mn in 1H FY3/25).

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Results trends

Overview of 1H FY3/25 consolidated results

| | 1H FY3/24 | | 1H FY3/25 | | YoY | |
|---|-----------|-------------|-----------|-------------|---------------|----------|
| | Results | Composition | Results | Composition | Change amount | Change % |
| Net sales | 3,009 | 100.0% | 3,955 | 100.0% | 945 | 31.4% |
| Gross profit | 974 | 32.4% | 1,241 | 31.4% | 266 | 27.3% |
| SG&A expenses | 949 | 31.6% | 1,262 | 31.9% | 312 | 32.9% |
| Operating income | 24 | 0.8% | -21 | - | -45 | - |
| Foreign exchange gain | 17 | 0.6% | 70 | 1.8% | 52 | 293.9% |
| Gain on valuation of derivatives | 20 | 0.7% | - | - | -20 | - |
| Loss on valuation of derivatives | - | - | 26 | 0.7% | - | - |
| Ordinary income | 58 | 2.0% | 22 | 0.6% | -36 | -62.1% |
| Net income attributable to owners of parent | 20 | 0.7% | -43 | - | -36 | - |
| Average exchange rate (US dollar/yen) | 141.04 | - | 152.62 | - | 11.58 | - |
| Net sales by segment | | | | | | |
| Network Section | 769 | 25.6% | 805 | 20.4% | 36 | 4.7% |
| Security Section | 1,388 | 46.1% | 1,539 | 38.9% | 150 | 10.9% |
| Solutions Services Section | 851 | 28.3% | 1,610 | 40.7% | 758 | 89.1% |
| <Reference> | | | | | | |
| Orders received | 3,420 | - | 4,920 | - | 1,500 | 43.9% |
| Outstanding orders | 2,262 | - | 3,405 | - | 1,143 | 50.5% |

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

High growth in the Solutions Services section

2. Trends by segment

Looking at net sales by business segment, net sales improved 4.7% YoY to ¥805mn in the Network Section, increased 10.9% to ¥1,539mn in the Security Section, and increased 89.1% to ¥1,610mn in the Solutions Services Section, owing in part to M&A.

In the Network Section, trends were generally firm and revenue increased. There were increased sales of the IP address management server product Infoblox. Replacement demand ran its course, but the Company focused on proposal activities for protective DNS, which blocks off threats to DNS and provides more effective security measures. Radware, a measure against DDoS attacks, saw revenue decrease, but the Company strengthened sales activities to acquire new customers, and inquiries are increasing. Extreme Networks, a cloud-based wireless LAN system for building safe and secure network environments, saw increased revenue by a large margin. Utilization increased at office floors and warehouses that need flexible mobility.

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Results trends

The Security Section performed well, seeing double-digit revenue growth against a backdrop of increasing security needs. Nozomi Networks, which has strength in security measures for the industrial control systems field (OT/IoT systems), which includes important infrastructure like power systems and factory and building management, had a major increase in revenue. Orders increased from domestic power companies and major domestic manufacturers. CTI security services experienced major revenue growth. Orders were strong from government agencies against the backdrop of the increased risk of public opinion manipulation from false information being generated and spread on the Internet, and growth accelerated along with existing anti-cybercrime services. In addition, there was growth from Sumo Logic, which can quickly and accurately grasp threats from log information, and the THX series, a new network packet capture product developed by the Group. At the same time, sales were down for TippingPoint, an unauthorized network intrusion prevention security product, and OneSpan, a one-time password product for preventing fraudulent transactions.

In the Solution Services Section, there was major growth in revenue. EzAvater, an RPA tool developed proprietarily by the Group, saw sales increase. As a result of increased name recognition, adoption of the tool has been expanding regardless of industry, sector, or scale. Mieru-Tsuyaku, a multilingual, real-time video communication interpretation service, experienced increased sales. Due to expansion in inbound tourism demand, inquiries have increased from department stores, retail stores, and lodging facilities primarily. Orders were steady in the Kansai area in particular ahead of Expo 2025 Osaka, Kansai, Japan to be held in the spring of 2025. IGLOOO, which develops promotions related to inbound tourism, saw a major increase in revenue. Orders increased as inbound tourism increased. CRESEED, a system developer, saw revenue increase substantially. Customer support services and projects for security measures were strong. Newly consolidated LogIT, which provides contact center solutions for corporations, primarily voice, witnessed a steady performance from the maintenance business for existing customers and the emotion analysis business; inquiries about cloud contact center solutions are also increasing.

Maintaining financial soundness

3. Financial condition

Looking at the Company's financial condition, total assets at the end of 1H FY3/25 decreased ¥49mn compared to the end of the previous fiscal year to ¥6,849mn. Advance payments to suppliers increased by ¥68m and inventories increased by ¥69mn, but accounts receivable – trade decreased by ¥159mn. Total liabilities decreased ¥124mn from the end of the previous fiscal year to ¥4,209mn. Advances received increased by ¥74mn while accounts payable – other decreased by ¥122mn. The balance of interest-bearing debt (total of long- and short-term borrowings) decreased by ¥46mn to ¥322mn. Net assets increased ¥75mn to ¥2,639mn. This was primarily due to treasury shares (a subtraction) declining by ¥255mn. As a result, the equity ratio rose 1.3pp to 38.0%. There were no items with particularly major changes, and on the cash flow statement as well, there was no particular cause for concern. In FISCO's view, the Company is practicing a disciplined strategy to raise corporate value that takes into account financial condition and is maintaining financial soundness.

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Results trends

Financial statement and cash flow statement

| | End of FY3/21 | End of FY3/22 | End of FY3/23 | End of FY3/24 | End of 1H FY3/25 | (¥mn) Change amount |
|-------------------------|------------------|------------------|------------------|------------------|---------------------|---------------------------|
| Total assets | 5,625 | 5,991 | 6,144 | 6,898 | 6,849 | -49 |
| Current assets | 4,515 | 4,871 | 5,068 | 5,323 | 5,281 | -42 |
| Non-current assets | 1,109 | 1,119 | 1,075 | 1,574 | 1,568 | -6 |
| Total liabilities | 2,981 | 3,551 | 3,698 | 4,334 | 4,209 | -124 |
| Current liabilities | 2,657 | 3,271 | 3,325 | 3,993 | 3,911 | -82 |
| Non-current liabilities | 324 | 279 | 373 | 340 | 298 | -41 |
| Total net assets | 2,643 | 2,439 | 2,445 | 2,564 | 2,639 | 75 |
| Equity ratio | 46.6% | 40.2% | 39.1% | 36.7% | 38.0% | 1.3% |

| | FY3/21 | FY3/22 | FY3/23 | FY3/24 | 1H FY3/25 |
|---|--------|--------|--------|--------|-----------|
| Net cash provided by/used in operating activities | 1,131 | 414 | 287 | 324 | 36 |
| Net cash provided by/used in investing activities | -256 | -243 | 34 | -578 | -119 |
| Net cash provided by/used in financing activities | -237 | -428 | 112 | -134 | 91 |
| Cash and cash equivalents at end of period | 2,128 | 1,867 | 2,298 | 1,916 | 1,931 |

Note: Figures up to FY3/22 for Terilogy

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

Outlook

Maintains the forecast for significant increases in sales and operating income for FY3/25

● Overview of FY3/25 consolidated forecast

In its consolidated performance forecasts for the full year of FY3/25, the Company has maintained its initial forecasts. It is projecting net sales to rise 22.9% YoY to ¥8,455mn, operating income to increase 38.0% YoY to ¥376mn, ordinary income to decline 5.3% YoY to ¥376mn, and net income attributable to owners of parent to go up 38.8% to ¥262mn. So, the Company is forecasting large increases in both revenues and profits.

Regarding net sales, each section is expecting demand at a high level. In addition, in the Solution Services Section, newly consolidated LogIT will contribute. The Company plans to adjust the prices of some products related to yen depreciation. Plans for net sales by section are as follows. The Network Section is projected to increase by 13.8% to ¥1,775mn (21.0% of overall net sales), the Security Section to increase 2.4% to ¥3,077mn (36.4%), and the Solution Services Section to go up by 55.6% to ¥3,601mn (42.6%). On the profit front, 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.

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Outlook

In 1H, the Company recorded an operating loss, and the rate of progress against full-term forecasts was at a low level. However, considering that demand is firm, sales in the Solution Services Section tend to be weighted to 2H (CRESEED and Log IT's information system businesses and IGLOOO's projects for government agencies tend to receive acceptance inspections in 4Q), the strong dollar and weak yen on foreign exchange markets is subsiding, and the effects of price adjustments will gradually emerge, FISCO thinks that it may be possible for the Company to meet its full-year forecasts.

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% |
| Gross profit | 2,292 | 33.3% | - | - | - | - |
| SG&A expenses | 2,020 | 29.4% | - | - | - | - |
| 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% |
| Average exchange rate (US dollar/yen) | 144.57 | - | - | - | - | - |
| 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 enhancement and expansion of the Group's business portfolio as part of its growth strategy

1. Terilogy Group new three-year medium-term management plan (FY3/25–FY3/27)

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. Plans for the share of sales for each section in FY3/25 are 21.0% for the Network Section, 36.4% for the Security Section, and 42.6% for the Solution Services Section. For FY3/26, the projections are 21.0% for the Network Section, 37.0% for the Security Section, and 42.0% for the Solution Services Section. For FY3/27, the projections are 20.6% for the Network Section, 38.5% for the Security Section, and 40.9% for the Solution Services Section.

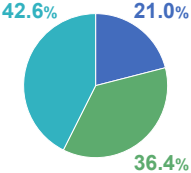
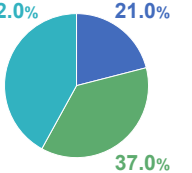
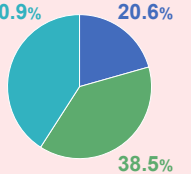
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Growth strategy

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

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 terms of the business environment, the Group 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."

As the priority measures for achieving these targets the Company is promoting: 1) strengthening recurring income-type business models and developing human resources through Group cooperation, 2) further expanding and enhancing the Group's business portfolio, and 3) advancing 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.

In addition, regarding services for the manufacturing sector, which had been somewhat of a thin area for the Group, through the alliance with Takachiho Koheki and other measures, the Company will strengthen sales primarily in the area of industrial control systems (OT/IoT systems area). Furthermore, it plans to introduce new products and more actively utilize human resources. The introduction of new products has normally been at the pace of one to two per year, but in FY3/25, the Company has already launched four, and new projects will be promoted centered on the younger generation.

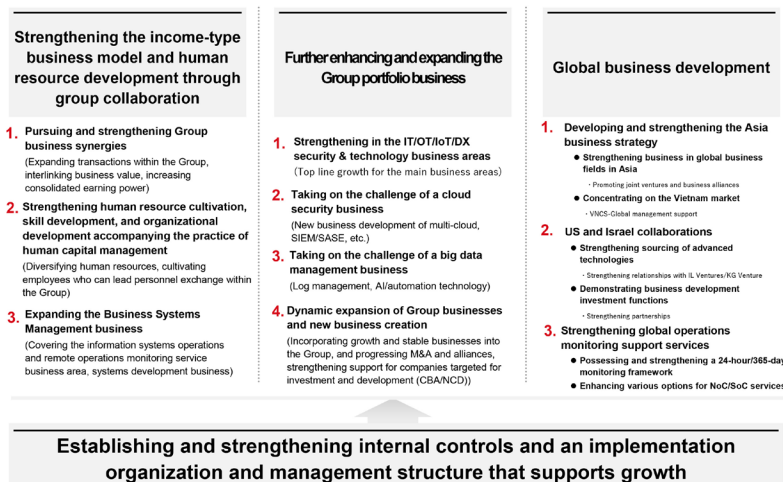
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Growth strategy

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



Source: The Company's results briefing materials

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.

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 | IT technology, trading, and sales area Asian and emerging IT technology trading area Security solutions area (IT/OT/IloT) Cloud technology area Inbound tourism solutions area Medical information and life science area Information systems, systems engineering service engineers and systems integrator area Industry 4.0 Industry DX area Generative AI/automation technology area |
| Envisioned scope of investment | |
| Scale of annual sales <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 | Other than the above, start-up ventures that have potential synergies with the Group that are expected to grow rapidly |

Source: The Company's results briefing materials

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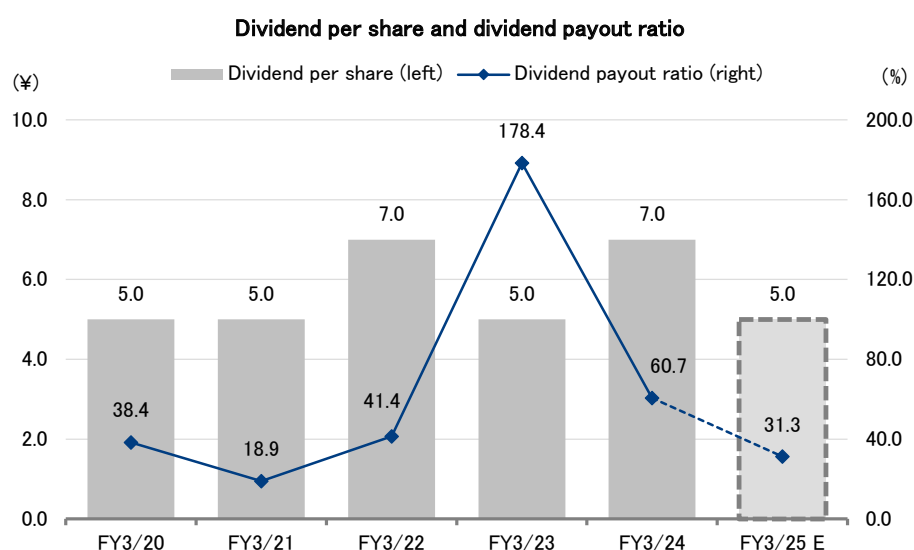
<https://www.terilogy-hd.com/english/index.html>

Growth strategy

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 plans to pay an annual dividend of ¥5.00 for FY3/25 (to be paid in full at the end of the fiscal year), which represents a decrease of ¥2.00 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%.



Note: Figures up to FY3/22 for Terilogy

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

Expecting sustained profit growth and progress in measures to raise profitability

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. FISCO acknowledges this strength, but, at the same time, the Group faces the issues of reducing foreign exchange risk, sustained profit growth, and raising profitability. In its new three-year medium-term management plan, the Group intends to expand its business portfolio utilizing M&A and alliances and convert to a recurring-revenue business model to raise the ordinary income ratio in FY3/27 to 7.3% (5.8% in FY3/24). With the advance of DX and security-related needs increasing, the business environment surrounding the Group is good, and to the extent that it is, FISCO believes that the Company can be expected to make progress in sustained profit growth and measures to raise profitability (measures to reduce foreign exchange risk, strategies to expand recurring-revenue business, strategies to improve the sales mix, etc.).

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