

# COMPANY RESEARCH AND ANALYSIS REPORT

## Terilogy Co., Ltd.

3356

TSE JASDAQ Standard

15-Feb.-2021

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FISCO Ltd.

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

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## Summary

**An IT solutions provider with a strong ability to find emerging technologies and marketable products and its market response. Poised to achieve higher sales and profits for a fourth consecutive fiscal year amid substantial gains in profitability**

### 1. Company profile and business description

Terilogy Co., Ltd. <3356> (hereafter, also “the Company”) is an IT company that has been providing IP network-related products and cutting-edge products and solutions in the network security field since it was founded in July 1989 (the first year of the Heisei era). Its corporate philosophy is “to respond to the needs of our customers and ensure their full satisfaction,” and in the Heisei era, it expanded its business areas to contribute to the construction and development of an internet society under the slogan “In collaboration with customer.” Today, in the Reiwa era, the Company is working to provide solutions to meet the demands of the present age such as productivity improvements, work-style reforms, the new way of life under the novel coronavirus disease (COVID-19) and for inbound demand under its new slogan “No. 1 in Quality.”

From the Company’s corporate history, it can be read that it has quickly ascertained the trends of broadband, mobile, and cybersecurity and expanded its business areas to reflect them with the corporate IP network business as its original business. Also, the Company considers its own strengths to be 1) its ability to find “emerging technologies” and “marketable products” and its “market response,” 2) wide selection of customer solutions, 3) diverse service provision approaches, 4) technical capabilities rooted in experience, and 5) global response capabilities. In particular, the first strength listed above is used in its partnering strategy, which is a feature of the Company, and this is considered to be the core competence on which all other strengths are based.

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

### 2. Favorable results in FY3/21 1H despite the COVID-19 pandemic

In the FY3/21 1H consolidated results, net sales increased 5.5% year on year (YoY) to ¥1,941mn, operating income rose 177.6% to ¥170mn, and ordinary income grew 144.2% to ¥177mn. Its operating income margin made a substantial gain of 5.5 percentage points YoY to 8.8% mainly due to improvement in its cost of sales ratio, orders received increased 11.4% to ¥2,015mn and outstanding orders increased 12.7% to ¥375mn.

The Company’s financial structure has also been improving given that it has absorbed ¥81mn in outflow of cash accompanying payment of the FY3/20 year-end dividend. As of the end of FY3/21 1H, the Company has achieved further improvement with respect to its equity ratio, which increased to 54.0% (compared to 53.9% at the end of FY3/20), and its current ratio, which increased to 221.0% (compared to 209.4% at the end of FY3/20). The Company has also been developing greater capacity to pay dividends given that its non-consolidated retained earnings, which normally serve as the source of its dividend payments, increased to ¥159mn (compared to ¥156mn at the end of FY3/20).

## Summary

### 3. FY3/21 financial results poised to culminate in higher sales and profits for the fourth consecutive fiscal year

The Company's initial forecasts with respect to its FY3/21 consolidated results remain unchanged, projecting net sales to increase by 3.2% YoY to ¥4,180mn and operating income to decrease by 24.2% to ¥200mn. It seems highly likely that the Company will achieve higher sales and profits for a fourth consecutive fiscal year given the notion that 1H results are trending slightly higher than the estimates. This was originally put forward as a must-reach target based on conservative projections upon having factored in ramifications of the COVID-19 pandemic. The Company intends to maintain a year-end dividend of ¥5 per share.

### 4. Likely release of new medium-term management plan targeting milestone of ¥5bn in net sales

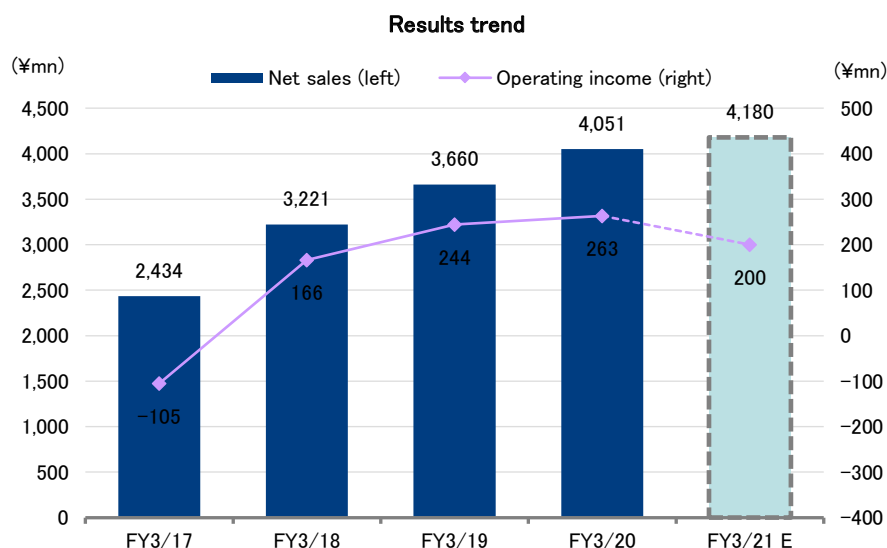
The Company has stated that it will "implement measures for public relations and publicity activities aimed at improving medium- to long-term and sustainable corporate value, while also aiming to maximize corporate value." Because FY3/20 was the final fiscal year of the previous medium-term management plan, the Company was preparing to announce a new medium-term management plan with FY3/21 as the first year, but this has been postponed due to the COVID-19 pandemic.

The next medium-term management plan will likely be formulated with FY3/22 as its first fiscal year. In the new medium-term management plan, in addition to setting numerical targets as checkpoints for achieving sales of ¥5bn, we can expect the Company to present an equity story that combines a detailed action plan to pursue organic growth with business alliances and M&A strategies based on a highly convincing financial strategy.

## Key Points

- An IT solutions company that has accumulated a track record in the 30 years since its foundation. The Company is currently conducting business activities through four sections: the Network Section, Security Section, Monitoring Section, and Solutions Services Section
- From the Company's corporate history, it can be read to have a track record of accurately ascertaining the trends of the times and skillfully changing its business focus areas to reflect them
- Also utilizing its core competence, its ability to find "emerging technologies" and "marketable products" and its "market response," in its partnering strategy
- FY3/21 results will most likely culminate in higher sales and profits for a fourth consecutive fiscal year, despite the COVID-19 pandemic
- The Company's new medium-term management plan slated for release in spring 2021 is likely to contain a growth strategy encompassing concrete tactics pertaining to business alliances and M&A, along with high quantitative targets

## Summary



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

## Company profile

**An IT solutions provider established in 1989.**  
**Promoting a business strategy in alignment with the new normal under COVID-19**

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

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

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

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

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

The Company's corporate IP network business began in 1990 when it entered into a distribution contract with Wellfleet of the US and started to provide routers (telecommunications equipment for relaying two or more different networks), which are one of the main products to build IP networks. Although Wellfleet does not exist today, in 1998, the company was acquired by Nortel (Canada), the world's second largest computer network device company at the time, to compete against Cisco Systems <CSCO>\* of the US founded in 1984, which was the largest company back then. The Company's discovery of Wellfleet in 1990 can be said to be a good example of its ability to find "emerging technologies" and "marketable products." Currently, the Company is a supplier that handles the routers manufactured by Cisco Systems.

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

In the broadband area, in 1999, the Company started to provide ADSL-connection software, and subsequently it developed hit products with more than 10 million users, which became a bridgehead into a business for major telecommunication companies. Also, in 1999, it concluded a distribution contract with Redback Networks of the US, and through the introduction of broadband access servers and other products, it contributed to building the FTTH networks of various electric power companies. Also, in mobile-related products, it realized growth for DNS/DHCP appliances manufactured by Infoblox <BLOX> of the US (devices to issue an IP address) and Company-developed solutions for monitoring networks have become its core products following the spread of smartphones. In 2003, the Company was the first in Japan to conclude a distribution contract with Infoblox, which was founded in 1999. Currently, DNS/DHCP appliances manufactured by Infoblox are handled by major companies in Japan and have acquired the position of being the de-facto standard, so this can also be evaluated as indicating the Company's "foresight."

In the security field, the Company has provided wide-ranging solutions by concluding a domestic (Japan) master reseller contract with TippingPoint of the US, when it was independent in 2004 (it was acquired by Hewlett-Packard <HPQ> of the US in 2010 and acquired by Trend Micro <4704> in 2015) followed by concluding reseller contracts with OneSpan <OSPN> (formerly VASCO Data Security of Belgium) in 2007, Lastline of the US in 2012 (which was acquired by VMware <VMW> of the US in 2020), RedSeal of the US in 2015, Tempered Networks of the US and KELA of Israel in 2016, and Nozomi Networks of the US in 2018 (domestic (Japan) reseller contract with Tempered Networks), which is enabling it to provide solutions over a wide range.

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## Company profile

## Company history

July 1989	Terilogy Co., Ltd. established in Kanda, Chiyoda-ku, Tokyo. Enterprise networks business launched.
Apr. 1991	Maintenance outsourcing contract signed with Toshiba Engineering Corporation (now Toshiba IT-Services Corporation) and maintenance service business launched.
May 1996	Outsourcing contract signed with Tokyo NTT Data Communication Systems Corporation (now NTT Data Business Systems Corporation) and customer solutions business launched.
Nov. 1999	Distribution contract signed with American company Redback Networks, Inc. and broadband network business launched, encompassing sales of Redback Networks broadband access servers, Ethernet software from American company Network Telesystems, Inc. (now Affinegy, Inc.), and other such products.
Jan. 2003	DNS/DHCP servers distribution contract signed with Infoblox Inc. <BLOX> of the US.
Oct. 2004	Domestic (Japan) master reseller contract signed with American company TippingPoint Inc. (now Trend Micro Inc. <4704>).
Dec. 2004	Listed on the JASDAQ Securities Exchange.
Sep. 2005	Certified under ISO 27001 information security management system (ISMS) standards.
Nov. 2005	Basic agreement on business collaboration signed with UNIADDEX, Ltd. based on a capital tie-up agreement.
Dec. 2006	Domestic (Japan) master reseller contract signed with American company NETSCOUT Systems, Inc.
Feb. 2007	Distribution contract signed with Belgian company VASCO Data Security, Inc. (now OneSpan Inc. <OSPN>).
Mar. 2007	Certified under ISO 14001 environmental management system (EMS) standards.
Oct. 2008	Distribution contract signed with Singaporean company eG Innovations Pte Ltd.
Apr. 2010	Following merger of JASDAQ Securities Exchange and Osaka Securities Exchange, Terilogy listed on Osaka Securities Exchange JASDAQ.
Aug. 2010	Domestic (Japan) reseller contract signed with American company APCON, Inc.
Feb. 2011	Asia-Pacific distribution contract signed with American company SevOne, Inc.
June 2012	Sales begun of momentum, a unique probe software product developed in-house at Terilogy.
Sep. 2012	Distribution contract signed with Lastline Inc. of the US (now VMware, Inc. <VMW>).
July 2013	Following merger of Osaka Securities Exchange and Tokyo Stock Exchange, Terilogy listed on TSE JASDAQ Standard.
July 2013	Fullflex ZG master reseller contract signed with Accense Technology, Inc.
July 2015	Sales begun of CloudTriage, a unique, cloud-based operations monitoring service by Terilogy.
Dec. 2015	Distribution contract signed with American company RedSeal, Inc.
Apr. 2016	Distribution contract signed with Taiwanese system integration company SYSCOM.
Oct. 2016	Exclusive domestic reseller contract signed with American company Tempered Networks, Inc.
Nov. 2016	Distribution contract signed with Israeli company KELA.
Jan. 2017	Basic agreement on business collaboration signed with NCXX Group Inc. <6634> based on a capital tie-up agreement.
Jan. 2017	Basic agreement on joint marketing for security products signed with FISCO Ltd. <3807>.
Jan. 2017	Basic agreement on business collaboration in the area of transaction security with Fisco Cryptocurrency Exchange Inc.
Jan. 2017	Basic agreement on business collaboration in the area of joint product development for blockchain technology applications signed with SJI Ltd. (now CAICA Inc. <2315>).
Mar. 2017	Wholly owned subsidiary Terilogy Worx Corporation established.
Dec. 2017	Shares required for ICT business corporation establishment acquired by ITX Corporation, and wholly owned consolidated subsidiary Terilogy Serviceware Corporation established.
Apr. 2018	Distribution contract signed with American company Nozomi Networks Inc.
July 2018	Sales begun of EzAvater, Terilogy's unique, ultra-simple robotic process automation (RPA) tool.
Jan. 2019	Business tie-up agreement signed with Israeli company Harel-Hertz Investment House Ltd.
May 2019	Launched security risk assessment services for industrial control systems involving critical infrastructure, factory, and building management jointly with BroadBand Security, Inc. <4398>.
June 2019	Business tie-up with American company Sumo Logic, Inc.
July 2019	Consolidated subsidiary Terilogy Worx Corporation concluded distribution contract with American company BitSight Technologies, Inc.
Aug. 2019	Distribution contract concluded with Israeli company TechSee Augmented Vision Ltd.
June–Sept. 2019	Distribution contracts for Company-developed RPA tool EzAvater concluded with Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., islenet Inc., and UCHIDA ESCO Co., Ltd. <4699>.
Feb. 2020	Distribution contracts for Company-developed RPA tool EzAvater concluded with Hitachi Systems, Ltd.
Mar. 2020	Consolidated subsidiary Terilogy Serviceware Corporation concluded a business tie-up with Towa Engineering Corporation.
Mar. 2020	Distributor contract concluded with Israeli company Radware Ltd. <RDWR>.
Apr. 2020	Established joint venture with Vietnam 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.
June 2020	Distributor contract for Company-developed RPA tool EzAvater concluded with Computer Engineering & Consulting Ltd. <9692>.
Nov. 2020	The Company and VNCS Global Solution Technology Joint Stock Company signed a memorandum of understanding with BroadBand Security regarding business development in Vietnam related to PCI DSS international security standards.

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

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## Company profile

Nov. 2020	Consolidated subsidiary IGLOOO formed a business alliance with unbot inc., a digital marketing business serving China, whereby IGLOOO acts as an exclusive partner for promoting European, US, and Australian tourism in the Chinese market.
Nov. 2020	CAICA Technologies Inc. launched sales of the Company-developed EzAvater RPA tool.
Dec. 2020	RICOH JAPAN Corp. and NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION began handling Mieru-Tsuyaku, a multilingual video interpretation service of consolidated subsidiary Terilogy Serviceware Corporation.

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

### 3. Core competence is its ability to find “emerging technologies” and “marketable products” and its “market response”

The Company considers its strengths to be 1) its ability to find “emerging technologies” and “marketable products” and its “market response,” which is the discernment required to find and identify progressive, leading-edge technologies and deploy them in markets in ways adapted specifically to local customers; 2) wide selection of security and safety solutions for varying applications, encompassing everything from network infrastructure to communication endpoints; 3) flexible provision of diverse services and products supported by a product lineup covering everything from products utilizing leading-edge technologies through to maintenance services, software products developed in-house, and new services; 4) stable and proven technical capabilities rooted in experience since its founding through three decades of reliable, customer-tailored service provision; and 5) global response capabilities, including the rapidly growing markets of emerging nations in Asia. Each of these strengths is backed by a track record of results, but in particular, the Company's ability to find “emerging technologies” and “marketable products” and its “market response” would seem to be its core competence on which all of the other strengths are based.

The Company's ability to find “emerging technologies” and “marketable products” lies in “accurately ascertaining and incorporating the trends of the times into its business areas, finding the latest technologies of overseas venture companies and concluding distributor and other contracts,” and it has no shortage of experience in this regard. In addition to Wellfleet and Infoblox, which were introduced as good examples in the previous section, we can also mention TippingPoint (Trend Micro), Belgian company OneSpan, and American company Lastline (VMware) as examples in the security field.

TippingPoint is a cybersecurity company specializing in IPS (intrusion prevention systems) that was acquired by Trend Micro in 2015 for approximately US\$0.3bn. However, the Company concluded a domestic (Japan) master reseller contract and accumulated a track record with TippingPoint 16 years before its acquisition, and it continues to have a presence in which it is relied on by Trend Micro. Also, in 2007, the Company became the first in Japan to handle OneSpan's one-time password technology, which today has been adopted by all of Japan's megabanks and become an essential part of internet banking. Moreover, in 2012, the Company started selling the targeted-attack countermeasure cloud services of Lastline of the US (which was acquired by VMware of the US in 2020), and as is clear from the trend in the number of targeted-attack emails ascertained by the National Police Agency in recent years (2014: 1,723 cases→2015: 3,828 cases→2016: 4,046 cases→2017: 6,027 cases→2018: 6,740 cases), malware and other targeted attacks have come to be recognized as a major threat. This example would seem to clearly demonstrate the Company's ability to accurately ascertain the technological trends and cutting-edge technologies that it should precisely focus on as its business areas and its ability to find “emerging technologies” and “marketable products” with “foresight.”

So why do overseas venture companies select the Company as their partner? The reason is its high level of “market response,” which has been fine-tuned since its foundation by implementing a management strategy that is supported by its corporate philosophy of prioritizing the needs and satisfaction of customers.



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## Company profile

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

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

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

The Company's value chain



Source: The Company's website

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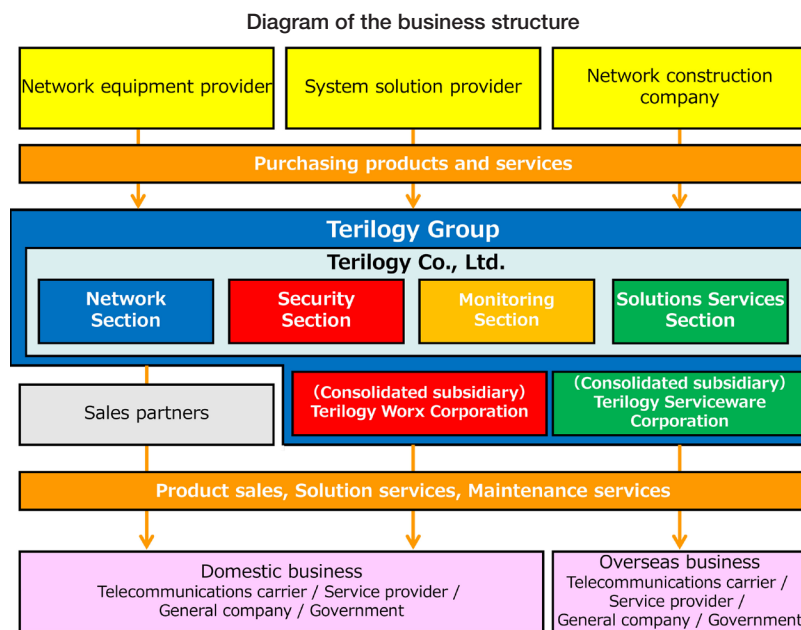
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## Business description

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

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

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



Source: The Company's securities report




#### 2. Network Section

In the Network Section in FY3/21 1H, net sales were ¥518mn, which provided 26.7% of total net sales. The main products and services it handles are 1) network products (routers, switches, wireless LAN, and DNS/DHCP), 2) design and build of in-company information and communication systems and infrastructure, and 3) sales of a wide range of network-related products, such as TV conferencing systems, and provision of professional services. The Company takes pride in its ability to provide solutions optimized to meet customer needs and the accumulation of a strong track record over the 30 years since its foundation. In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the networks and other devices provided by this section.

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#### Business description

#### Main products in the Network Section









		
Network	Network	Network
<b>Alteon ADC-vx</b> Up to a maximum of 28 virtual ADC (vADC) loaded on one dedicated ADC hardware unit. Able to consolidate and integrate multiple ADC	<b>Appliances</b> NonStop/distribution/centralized management for identity-driven networks, such as DNS/DHCP/RUDIUS	<b>Aerohive</b> Fully control-less, cloud-based next-generation WiFi solutions

Source: The Company's website

### 3. Security Section

In the Security Section in FY3/21 1H, net sales were ¥690mn, which provided 35.5% of total net sales and solidifying it as the Company's main business pillar. The main products and services it handles are 1) network security products (firewalls, intrusion detection and prevention countermeasures, information leakage countermeasures, etc.), 2) security authentication infrastructure (identifying service users on a network), and 3) security systems to prevent unauthorized intrusions (one-time password products). In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the security devices and software products provided by this section.

#### Main products in the Security Section

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

Source: The Company's website





## Business description

### 4. Monitoring Section

In the Monitoring Section in FY3/21 1H, net sales were ¥345mn, which provided 17.8% of total net sales, and a feature of this section is the handling of Company-developed products. The main products and services it handles are 1) packet analysis using a Company-developed product (momentum), 2) cloud-based monitoring services (CloudTriage), and 3) network operation, management, and monitoring devices. In addition, it has a maintenance system operating 24 hours a day, 365 days a year to support the Company-developed products (momentum); network operation, management, and monitoring devices; and software products provided by this section.

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

#### Main products in the Monitoring Section

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

### 5. Solutions Services Section

In the Solutions Services Section in FY3/21 1H, net sales were ¥387mn, which provided 19.9% of total net sales. The section's main products and services encompass 1) a Company-developed software robotic process automation (RPA) tool (EzAvater), 2) a multilingual real-time video interpretation service (Mieru-Tsuyaku), 3) a cloud-based, managed VPN service (MORA VPN Zero-Con), 4) a corporate internet connection service (MORA Hikari), 5) a high-speed mobile data communication service (MORA Mobile), 6) web conference services (MVC and Zoom), 7) a visual contactless remote support service using artificial intelligence (AI) and augmented reality (AR), and 8) business involving pre-travel, on-travel, and post-travel services provided by second-tier subsidiary IGLOOO.

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#### Business description

#### Main products in the Solutions Services Section

			
<b>Operation &amp; management</b> RPA EzAvater	<b>Network</b> Mieru-Tsuyaku A multi-lingual video interpretation service	<b>Security</b> Inter-site VPN services	<b>Management</b> TechSee
<p>An RPA tool developed in-house for customers who want to build robots and automate routine tasks.</p>	<p>A video 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 core of this section is formed by Terilogy Serviceware Corporation (changed corporate name from ITX Corporation's corporate ICT services business that was acquired from the Nojima Corporation <7419> Group in December 2017), and in its M&A strategy, the Company is acquiring new business domains and customer bases of a medium-sized and SME enterprise and retail stores such as chain stores operating nationwide and wholesale stores, both of which it has had few in the past. The point to focus on for this is the lineup of new products matched to medium-sized and SME customer groups, such as the RPA tool (EzAvater) which is attracting attention for realizing work-style reforms and improved work efficiency, and the multilingual, real-time video interpretation service (Mieru-Tsuyaku), which can be used to respond to inbound demand.

The features of EzAvater include it is extremely easy (robots for everyone = intuitive operations to enable the creation of scenarios to automate routine tasks), it makes delays unlikely (robots work at the speed of the system, and it creates templates for exception processing and realizes stable operations), it does not matter what app is used (through the adoption of image recognition technology, work can be automated regardless of the app, as long as it is operating on Windows) and it can start small (can be introduced starting from a single PC). Due to these features, EzAvater overcomes many of the weaknesses of RPA tools, such as that if there is no specialist IT department, it is difficult to create the robots and the introduction costs and maintenance burden are large. This software made it possible for a utilization method that creates robots that reflect the needs of work sites in each department and to have them carry out daily management tasks. For sales of EzAvater, the Company is actively utilizing a partnering strategy (it has introduced the Gold Partner system) with the aim of spreading its use among a wide range of user groups, and during 2019, the Company concluded distributor contracts in rapid succession with NCXX Solutions Inc., Panasonic Solution Technologies Co., Ltd., Resona Gate Co., Ltd., Yamazakibuneidou, Inc., Nextage Co., Ltd., islenet Inc., and UCHIDA ESCO Co., Ltd. <4699>. Since the start of 2020, the Company has concluded distributor contracts with Hitachi Systems, Ltd. and Computer Engineering & Consulting Ltd. <9692>.

## Results trends

### Extremely favorable financial results in FY3/21 1H. Financial structure continuing to improve upon having absorbed outflow of cash accompanying resumption of dividends

#### 1. Favorable flow of revenue in FY3/21 1H despite the COVID-19 pandemic

Turning to FY3/21 1H consolidated results, net sales increased 5.5% year on year (YoY) to ¥1,941mn, operating income rose 177.6% to ¥170mn, ordinary income grew 144.2% to ¥177mn, and net income attributable to owners of parent climbed 171.7% to ¥117mn. The Company has achieved 46.4% of its initial target for net sales (in comparison with 45.4% in FY3/20 1H), 85.0% for operating income (23.2%), 89.0% for ordinary income (25.3%), and 83.9% for net income attributable to owners of parent (20.1%). This constitutes sound performance given that the Company's results tend to skew toward the latter half of the fiscal year, and accordingly does not diverge from seasonality trends with respect to the Company's revenues.

Moreover, net orders received during the fiscal period increased by 11.4% YoY to ¥2,015mn and outstanding orders at the end of 1H increased by 12.7% to ¥375mn, which seemingly bodes well when it comes to expectations for 2H.

#### Simplified income statement

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21 1H
	(¥mn)					
Net sales	2,639	2,434	3,221	3,660	4,051	1,941
YoY*	-5.9%	-7.7%	-	13.6%	10.7%	5.5%
Cost of sales	1,890	1,709	2,197	2,256	2,537	1,122
YoY*	-15.1%	-9.6%	-	2.7%	12.5%	-4.3%
Gross profit	748	725	1,024	1,403	1,513	819
YoY*	29.7%	-3.0%	-	37.0%	7.8%	22.8%
SG&A expenses	721	831	858	1,159	1,249	649
YoY*	-8.6%	15.2%	-	35.0%	7.8%	7.2%
Operating income	26	-105	166	244	263	170
YoY*	-	-	-	47.0%	8.0%	177.6%
Ordinary income	-0	-97	173	229	288	177
YoY*	-	-	-	32.3%	25.4%	144.2%
Net income	-19	-99	154	207	214	117
YoY*	-	-	-	34.6%	3.5%	171.7%

\* The figures stated for FY3/21 1H are comparisons against the same period of the previous fiscal year

Note: Results are non-consolidated up to FY3/17, and from FY3/18 onwards, they are consolidated and include net income attributable to owners of parent.

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

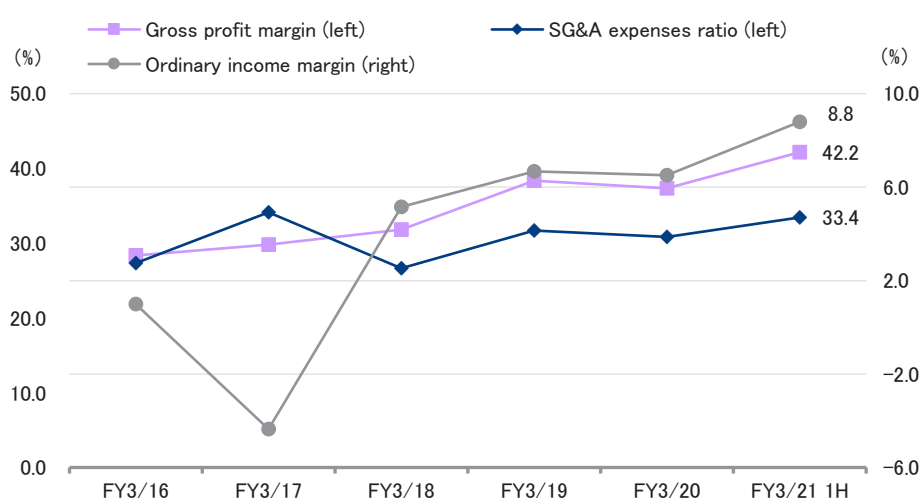
In FY3/21 1H, the gross profit margin increased substantially by 5.9 percentage points YoY to 42.2%, and on a quarterly basis increased to 43.4% in 2Q from 40.8% in 1Q. Whereas the Company encountered factors such as lower expenditure due to the COVID-19 pandemic, a higher proportion of profitable projects, and launches of the Company's own highly profitable products and services, it would seem that the increase in the gross profit margin is directly attributable to productivity gains attained through success achieved under the Company's up-selling and cross-selling marketing strategy which involves continuously proposing options for enhanced functionality that enable customers to generate greater added value.

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## Results trends

On the other hand, the SG&A expenses ratio for FY3/21 1H increased by 0.5 of a percentage point YoY to 33.4% despite higher sales. However, this is not cause for concern given that the Company is moving to absorb cost increases incurred by its second-tier subsidiary IGLOOO not accounted for in the initial estimates, in addition to upfront investment whereby the Company incurred higher personnel expenses (hiring nine new graduates and four mid-career employees at its headquarters) and higher in-house product development costs. As a result, in FY3/21 1H, the operating income margin increased to 8.8%, a substantial 5.5 percentage point gain relative to FY3/20 1H, largely due to an increase in the cost of sales ratio. Also, the operating income margin marked improvement over the course of FY3/21 1H, having gone from 7.4% in 1Q to 9.9% in 2Q.

## Trends in the profit margin, etc.



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

## 2. The financial structure has significantly improved even accounting for the outflow of cash accompanying the resumption of dividends

With respect to the FY3/21 1H financial results, it is worth pointing out that the Company has organically developed a sound financial structure without resorting to equity finance. In terms of the typical indicators of financial stability, equity financing utilizing the Company's treasury shares combined with a rebound in financial results underpinned substantial gains in the equity ratio and current ratio. The equity ratio rose from 24.4% at the end of FY3/18 to 45.0% at the end of FY3/19 and 53.9% at the end of FY3/20. Meanwhile, the current ratio reached 99.0% at the end of FY3/18, 179.2% at the end of FY3/19, and 209.4% at the end of FY3/20, thereby surpassing the 200% threshold that indicates sufficient solvency.

As of the end of FY3/21 1H, the equity ratio and current ratio have shown further gains, to 54.0% (53.9% at the end of FY3/20) and 221.0% (209.4%), respectively. Although the extent to which the ratios have increased is limited, the improvement achieved upon having absorbed the outflow of cash accompanying payment of the FY3/20 year-end dividend is worthy of recognition.



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## Results trends

Moreover, the Company's non-consolidated retained earnings, which normally serve as the source of its dividend payments, increased to ¥159mn at the end of FY3/21 1H from ¥156mn at the end of FY3/20, which accordingly suggests that the Company has strengthened its capacity to furnish dividends as of the end of the first six months of the fiscal year. The Company has already secured approximately two years' worth of dividend capital given that it needs about ¥82mn to cover its dividend of ¥5 per share.

At the end of FY3/21 1H, total assets were up ¥54mn YoY at ¥4,257mn and net assets were up ¥37mn at ¥2,306mn. Notable changes compared to the end of FY3/19 on the assets side include a ¥228mn increase in cash and deposits and a ¥424mn decline in notes and accounts receivable - trade. Notable changes on the liabilities side include a ¥301mn decline in accounts payable - trade and a ¥143mn increase in interest-bearing debt.

Return on equity (ROE) increased by 2.7 percentage points YoY to 5.1%, and return on assets (ROA) increased by 2.1 percentage points to 4.2%, indicating ongoing improvement with respect to profitability of assets.

## Simplified balance sheet

	End of FY3/16	End of FY3/17	End of FY3/18	End of FY3/19	End of FY3/20	End of FY3/21 1H	YoY
<b>Current assets</b>	2,019	2,063	2,288	2,355	3,404	3,338	-65
Cash and deposits	1,007	1,098	972	1,064	1,895	2,124	228
Notes and accounts receivable - trade	524	493	863	742	871	447	-424
Inventory assets	64	24	35	56	102	110	8
<b>Non-current assets</b>	435	375	834	839	798	919	120
Property, plant and equipment	108	93	131	148	147	173	26
Intangible assets	87	63	381	353	339	400	60
Investments and other assets	239	218	321	337	311	345	33
<b>Total assets</b>	2,455	2,439	3,123	3,194	4,203	4,257	54
<b>Current liabilities</b>	1,676	1,752	2,312	1,314	1,626	1,510	-115
Accounts payable - trade	106	315	252	243	451	149	-301
Short-term borrowings	928	750	1,177	137	130	146	16
<b>Non-current liabilities</b>	78	49	48	439	307	440	132
Long-term borrowings	-	-	-	386	256	384	127
Lease obligations	67	35	9	11	7	0	-7
<b>Total liabilities</b>	1,755	1,802	2,361	1,753	1,934	1,951	17
Interest-bearing debt	928	750	1,177	524	386	530	143
<b>Total net assets</b>	699	637	762	1,441	2,269	2,306	37

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

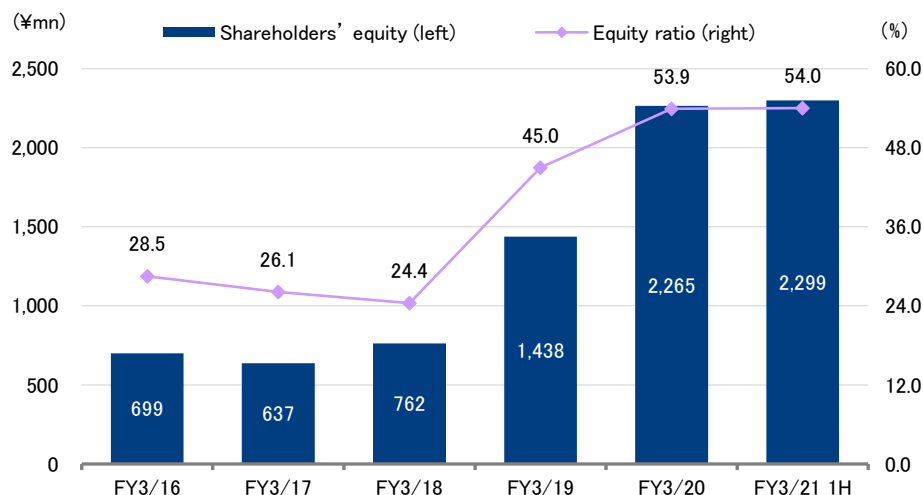
Source: Prepared by FISCO from the Company's securities report and financial results



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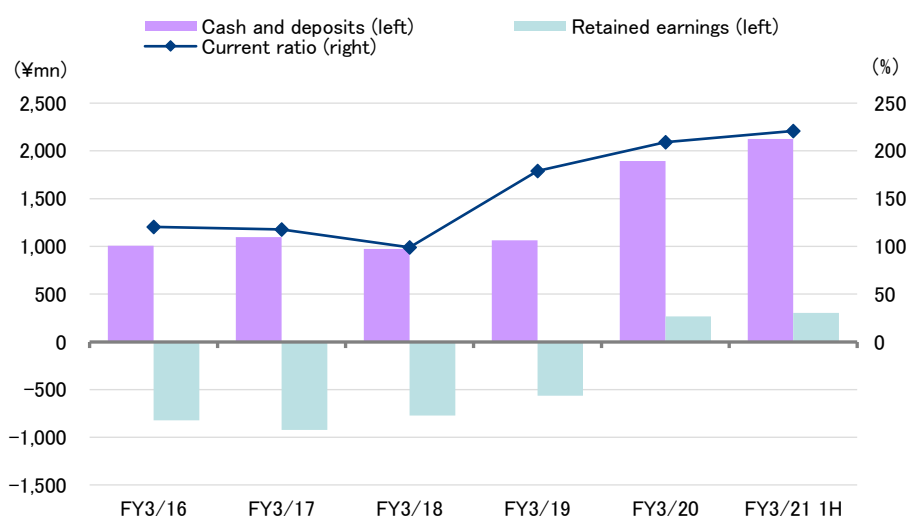
## Results trends

## Trends in shareholders' equity and the equity ratio



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

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

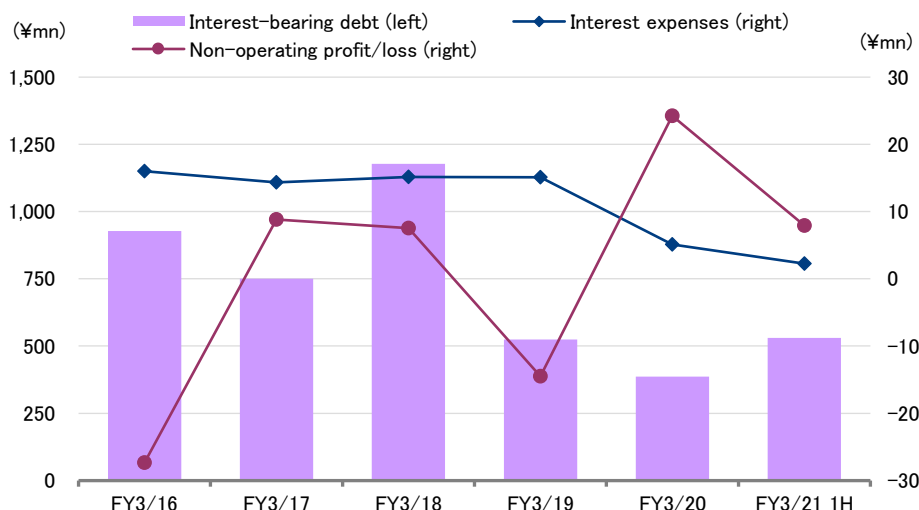


Note: Results are non-consolidated up to FY3/17 and consolidated from FY3/18 onwards.  
Source: Prepared by FISCO from the Company's securities report and financial results

Also, the greater soundness of the financial structure has led to an improvement in non-operating profit/loss. In the case of the Company, which handles imported goods as its mainstay products, the impact of foreign exchange profit/loss on non-operating revenue cannot be completely eliminated. However, in FY3/20, interest income was 3.2 times the level in FY3/19, and interest expenses were down 63.1% YoY, as the effects of reducing interest-bearing debt became apparent, which played a role in improving non-operating profit/loss. In FY3/21 1H, interest expense decreased YoY and non-operating profit/loss remained in positive territory partly as a result of the Company having posted subsidy income.

## Results trends

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



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

At the end of FY3/21 1H, cash and cash equivalents were ¥1,834mn. As for cash flows, net cash provided by operating activities was ¥381mn, partially due to net income before taxes of ¥177mn. Net cash from investing activities transitioned to an overall inflow of ¥11mn, mainly due to ¥35mn in acquisition of subsidiary shares accompanying changes in the scope of consolidation. On the other hand, net cash used in financing activities was ¥52mn, mainly due to dividend payments of ¥81mn.

## Simplified cash flow statement

	(¥mn)					
	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21 1H
Net cash provided by (used in) operating activities (a)	-223	291	-55	374	484	381
Net cash provided by (used in) investing activities (b)	-4	-0	-440	-55	-24	11
Net cash provided by (used in) financing activities	-231	-219	391	-218	464	-52
Free cash flow (a) + (b)	-228	291	-495	318	459	393
Cash and cash equivalents at end of period	445	535	462	569	1,500	1,834

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

## ■ Outlook

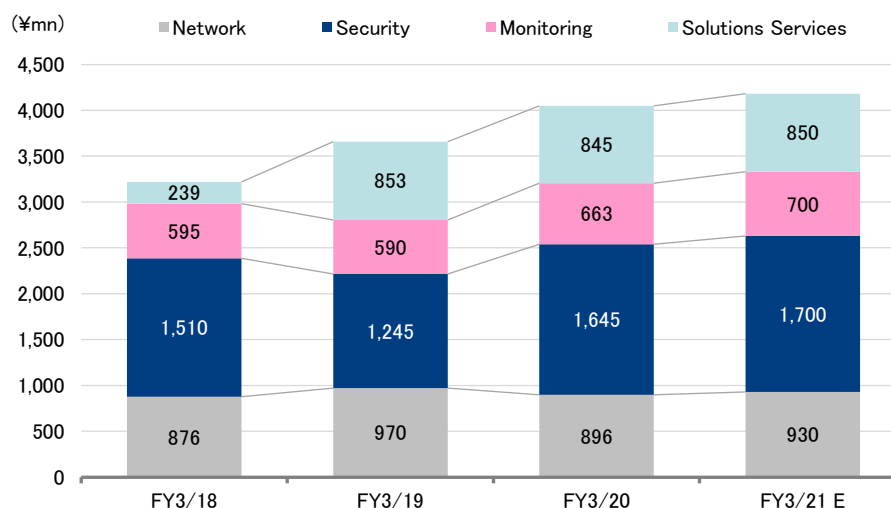
**Prospect of higher sales and profits for a fourth consecutive fiscal year within realm of possibility despite the COVID-19 pandemic. Likely release of new medium-term management plan targeting milestone of ¥5bn in net sales**

### 1. Company has internally set its targets one notch higher upon having released conservative projections with respect to its FY3/21 results

For the FY3/21 consolidated results, the Company has announced that it projects sales to increase but profits to decline. Specifically, the Company is forecasting net sales to rise 3.2% YoY to ¥4,180mn, operating income to decline 24.2% to ¥200mn, ordinary income to fall 30.6% to ¥200mn, and net income attributable to owners of parent to decrease 34.8% to ¥140mn. The Company is projecting lower profits despite its forecast for higher sales due to the fact that it has factored in an increase in personnel expenses due to aggressive expansion of personnel and higher development costs for its own products. Also, the Company is planning to pay a period-end dividend of ¥5 per share based on its shareholder return policy of targeting a dividend payout ratio of 50% or above.

The Company's announced projections are conservative considering the impact of the COVID-19 pandemic, and do not factor in the Radware business mentioned later. The Company regards the announced projections as must-reach targets and has set even higher internal targets whereby it aims to achieve a fourth consecutive fiscal year of double-digit sales growth while avoiding a decline in profits. As such, the Company's results for FY3/21 1H are conceivably in line with such targets.

Outlook for net sales by business section in FY3/21



Source: Prepared by FISCO from the Company's materials

## Outlook

The Company projects higher sales across all four of its business sections for the entirety of FY3/21. As for trends with respect to quarterly net sales generated by respective business sections in FY3/21 1H, we find that sales have been steadily increasing in the Network Section and Security Section. Meanwhile, the Monitoring Section encountered a decrease in sales in 1H. This decrease is largely attributable to a situation where sales recoiled relative to FY3/20 1Q, which saw a surge in sales. Another way to interpret the situation is that during the three months of FY3/21 2Q results of the Monitoring Section rebounded in that sales were 66% higher than in the three months of FY3/20 2Q. In the Solutions Services Section, sales for both 1Q and 2Q were below levels achieved in FY3/20 amid a situation where the section's mainstay product, the Mieru-Tsuyaku multilingual real-time video interpretation service, suffered a setback in the form of a substantial decrease in the number of foreign tourists to Japan due to the COVID-19 pandemic. Nevertheless, the Solutions Services Section has achieved sales volume that compares favorably with that of FY3/19. This is attributable to the section having upgraded its services for foreigners living in Japan and having tapped new markets offering both demand with respect to administrative operations of respective municipal governments and demand with respect to administrative operations of hospitals, amid an environment beset by the COVID-19 pandemic.

Factors underpinning the Network Section's sound performance are twofold: 1) DNS/DHCP appliances manufactured by Infoblox of the US (Infoblox IP address management servers) are encountering a phase of replacement demand. Over the next two years or so, there is likely to be demand for replacements of current models, of which some 500 units have been shipped domestically in Japan and new models are equipped with security features that offer higher added value and 2) the Network Section is encountering steady progress in terms of companies installing the cloud-based wireless LAN product of Extreme Networks <EXTR> of the US (formerly Aerohive), as enterprises promote Wi-Fi use and the GIGA School concept in-house as they adopt telework and other such arrangements. Moreover, performance has been strong with respect to customer take-up of Radware products that have gone on sale beginning in FY3/21. The Company also handles products equipped with security features in contrast to the former primary distributor which handled only products equipped with load-balancing functionality. As such, it would seem likely that the Company will generate business above and beyond that simply involving product take-up."

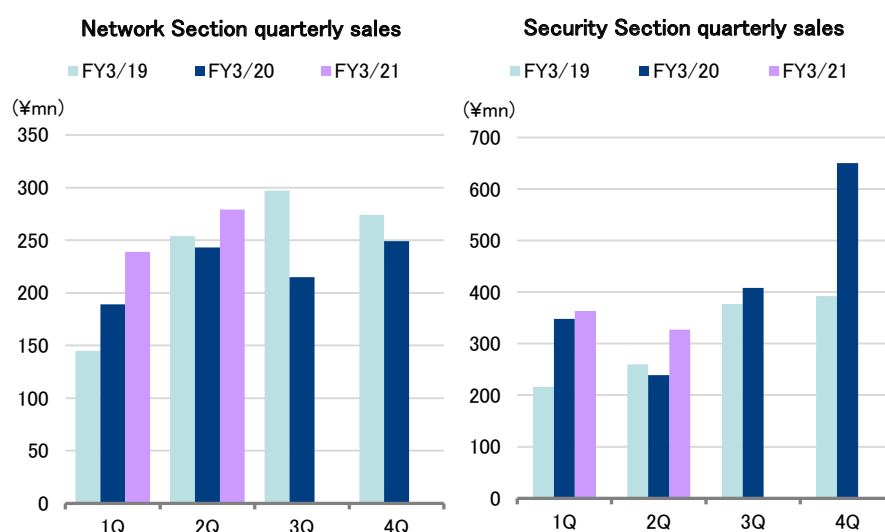
The Security Section has been achieving firm results from its network security projects and cyberthreat intelligence services in response to increasing incidents of cyberattacks and unauthorized access. Specifically, 1) there has been mounting interest in the market for such services as security measures for industrial control systems have become an urgent matter, evidenced by Nozomi Networks gaining orders from four electric power companies, and 2) the Company continues to generate strong results from KELA's cyberthreat intelligence services, which collect and analyze information on cyber-terrorism and other such threats, and BitSight's risk scoring services, which make it possible to visually monitor cyber risk exposure of supply chains and corporate group enterprises. The Company has landed a large order for KELA services from the central government of Japan amounting to ¥700mn over five years.

In the Monitoring Section, the Company posted sales generated from a large order placed by government agencies for the Company's own momentum packet capture products and services. The section has been furthermore achieving strong results thanks to its efforts to win orders involving other projects as well. In addition, the section gained orders from financial institutions in Japan for additional projects involving the SevOne's network performance monitoring product, and has furthermore been placing focus on marketing its CloudTriage operations monitoring cloud-based services developed in-house to its current major customers.

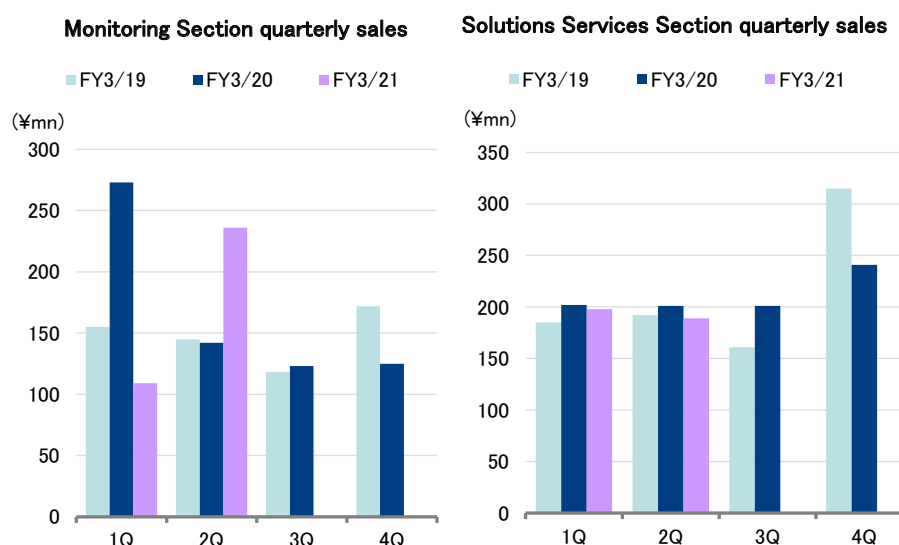
## Outlook

The Solutions Services Section succeeded in tapping demand by providing Mieru-Tsuyaku visual interpretation support for foreign nationals living in Japan and the deaf community. It also hastened its efforts to have municipal governments, financial institutions and healthcare organizations adopt such services. Going forward, the Solutions Services Section will focus on initiatives that include diversifying its revenue sources in part by drawing on experience it has gained from its interpretation services and applying it to provision of its translation services, integrating Zoom and other remote meeting services with the Company's extensive range of solutions, generating greater demand for its EzAvater RPA tool developed in-house by offering packaged solutions, and enhancing sales of TechSee's DIY support looking toward the 5G era (enabling customers to resolve problems on their own).

### Trends in quarterly net sales by business section



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



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

Outlook

## 2. Ongoing initiatives to cope with new normal of the “with COVID-19” era

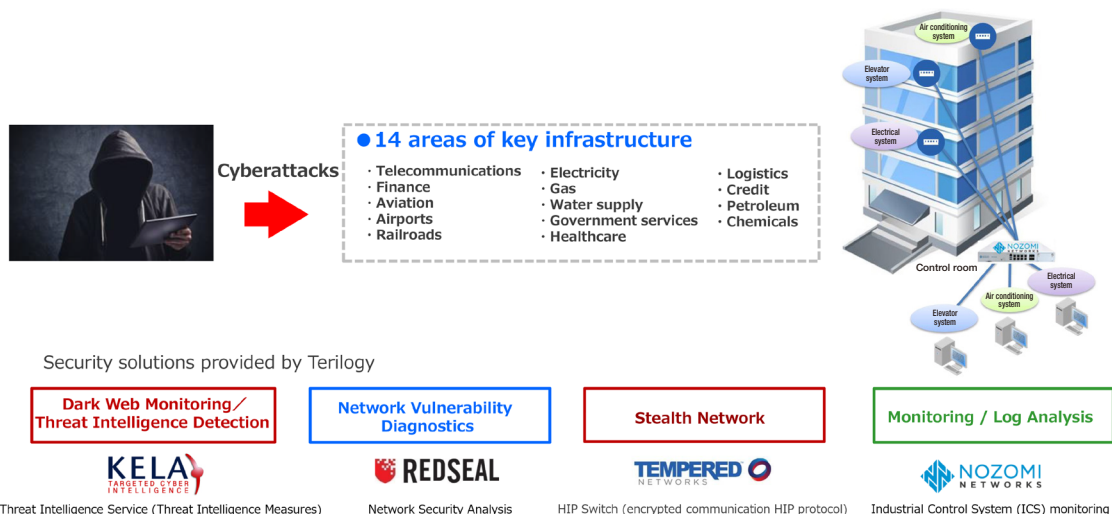
The Company outlines its key initiatives in FY3/21 as “responding to changes in the market due to the COVID-19 pandemic” and an “extra business strategy with a view to achieving net sales of ¥5bn.” As concrete measures for the first initiative, the Company will focus on 1) cybersecurity measures targeting daily life and economic activities, 2) work style reform countermeasures against the rampant spread of COVID-19, and 3) support for foreign language interpretation for foreigners residing in Japan concerning measures to deal with COVID-19.

In the Security Section, in addition to network security to counter cyberattacks and unauthorized access (network security analysis by RedSeal (US)), the Company has added to its lineup cyber-intelligence services that collect and analyze malicious information such as that exchanged between cybercrime groups and to provide intelligence on cyberthreats to contracting companies (Israeli company KELA's threat monitoring solutions that have a track record for preventing terrorism at the 2012 London Olympic and Paralympic Games), cybersecurity measures for factories and office buildings where IoT use has progressed (cyber-defense products manufactured by Tempered Networks (US) that protect the safety of companies' communications between sites), and industrial control systems (ICS) manufactured by Nozomi Networks (US) that quickly detect cyberthreats and abnormal processes in industrial control systems, such as in social infrastructure and factories.

The “new way of life” as announced by the Ministry of Health, Labour and Welfare includes examples of new work-styles such as telecommuting, working in rotations, staggered starting times, open office spaces, online meetings, online business card exchanging, and holding in-person meetings in well-ventilated places with participants wearing masks. Indeed, companies must have robust online environments and tools in order to continue doing business these days. This current trend provides a clear tailwind for the Company, which provides network infrastructure building, cybersecurity, network monitoring, and various other IT solutions.

Looking at the Company's service lineup, in terms of cybersecurity measures targeting daily life and economic activities, we believe that there will be significant business opportunities, including for 1) continuation and extension of measures to bolster efforts targeting cyber-terrorism due to the postponement of the Tokyo Olympic and Paralympic Games and 2) response to threats such as cyberattacks and unauthorized access which will increase as the shift to online by society as a whole progresses.

### Cybersecurity measures for daily life and economic activities



Source: The Company's results briefing materials

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## Outlook

With respect to countermeasures against the rampant spread of COVID-19, the Company is deploying value-added services using Zoom, which is well known among the general public and is used for online meetings as well as other events such as online drinking parties and the like. Specifically, by linking Zoom with SumoLogic, a log management and analysis service, the Company is providing a service that enables customers to manage the usage status of online meetings, business negotiations, classes, events, etc. in ways that are optimal for the individual needs of users. The Company is also providing a remote service that enables interpretation among participants by linking the Company's Mieru-Tsuyaku service to Zoom meetings or business talks with overseas offices or customers.

### Various situations in which Zoom is used



Source: The Company's results briefing materials

With respect to foreign language interpretation support for foreigners residing in Japan concerning measures to deal with COVID-19, demand for the Company's multilanguage real-time video interpretation service (Mieru-Tsuyaku) has been increasing. As the number of foreign residents in Japan increased for the seventh consecutive year, especially for people from Asian countries, local governments, medical institutions, and financial institutions have been needing to address the multinationalization of the services they provide, but the need to provide support about dealing with COVID-19 to foreigners living in Japan has made such needs even more acute.

Mieru-Tsuyaku is a video interpretation service that is available anytime, anywhere with one touch using a tablet or smartphone with a call operator providing support, such as for customer service. It provides interpretation services in English, Chinese, Korean, Thai, Russian, Portuguese, Spanish, Vietnamese, French, Tagalog, Indonesian, Nepalese, Hindi, and Japanese sign language for a flat rate (¥15,000 per month for the light plan, available from 9am to 9pm, and ¥25,000 per month for the standard plan, available 24 hours a day). The Company also offers a medical interpreting option (only in English, Chinese, Korean, Portuguese, Spanish and Vietnamese ¥35,000 per month).

The service is currently being offered to foreign nationals residing in Japan by the customers noted below. Local government customers include Shinagawa City, Iizuka City, Fussa City, Miyakojima City, Tsukuba City, Fukaya City, Higashiomi City, Nagareyama City and Yomitan Village. Financial institution customers include Bank of Yokohama, Ltd. (all branches), while medical institution customers include the providers of medical services for the crew of the large cruise ships docked off the Port of Nagasaki (provided free of charge) and accepting COVID-19 patients in Chiba Prefecture. Among drugstores, customers include Tomod's, OHGA Pharmacy (Fukuoka Prefecture), and Cocokara Fine <3098>. Going forward, demand for the service is likely to grow further as momentum ramps up to continually address challenges brought about by the spread of COVID-19 amid a scenario where the second and third waves of the pandemic have materialized.

### 3. Extra business strategy already being implemented

In the "extra business strategy with a view to achieving net sales of ¥5bn," the Company will continue to pursue 1) business growth through the M&A and business alliance strategy, 2) acceleration of collaboration in the inbound solution business, and 3) additional market introductions of products and services based on strengthening cutting-edge technology sourcing tie-up strategies (US, Israel, etc.).

## Outlook

The Radware business based on a strategic distributor contract plays a central role in the effort to achieve business growth through the M&A and business alliance strategy. The main products in this business are 1) DDoS-fighting equipment and services that autonomously protect against Dos/DDoS attacks, also known as “service stop attacks”; 2) Load Balancer (a product that distributes the load on a server allowing it to operate stably), which boasts a large track record in the Japanese market; 3) multihoming equipment, which is the de facto standard for line load balancing; 4) Cloud WAF Service that achieves the highest level of web application security in the industry; 5) Bot Manager that protects all channels, such as web applications, mobile applications, and API, from automated threats (bots); and 6) Cloud Workload Protection that comprehensively protects cloud assets. Products 2 and 3 are network related, while the rest are security related.

The Company became the primary distributor for Israeli company Radware in Japan following the conclusion of a distributor contract in March 2020, and it seems that the handover from the company that was previously in that position was smooth. Due to good customer acquisitions, it is highly probable that the Company will achieve annual sales of about ¥600mn (including maintenance contracts) within a few years. Actually, Radware-related started off strongly with orders received of ¥79mn FY3/211H. In addition, due to the fact that the previous primary distributor mainly handled network-related products, the Company (which can distinguish the products from existing products in the security-related field) might be able to grow the business scale even larger through cross-selling and up-selling.

The Company’s entry into the Vietnamese market as the nation undergoes remarkable economic growth serves as yet another highlight of the Company’s efforts to achieve “business growth through the M&A and business alliance strategy.” Specifically, in April 2020, the Company established a joint venture in Vietnam (VNCS Global Solution Technology (VNCS Global), the Company holds a 20% stake) based on a strategic business alliance with Vietnam Cyberspace Security Technology JSC, a security-related equipment distributor and a subsidiary of Hanoi Telecom, a Vietnamese broadband telecommunications carrier.

In July 2020, VNCS Global gained certification from the Ministry of Information and Communication of Vietnam as one of eight companies that provide “security operation center (SOC) services that meet requirements for network connectivity and information sharing with the National Cyber Security Monitoring Center.” In November 2020, the Company and VNCS Global launched a “Japanese-quality” security consultation business in partnership with BroadBand Security <4398> regarding business development in Vietnam related to the PCI DSS international security standards.

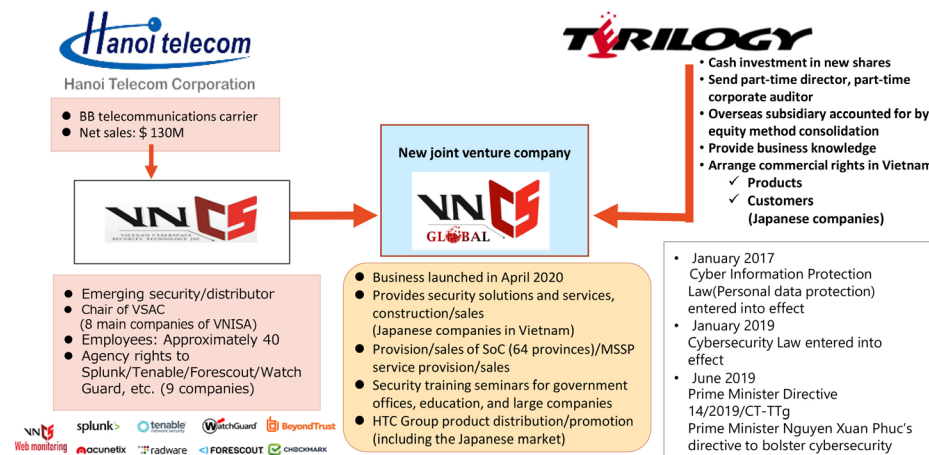
Although any contribution to the Company’s financial results derived from developing this business will be negligible for the time being, it is worth keeping an eye on this business going forward particularly given that its entry into the Vietnamese market will expand applications of Mieru-Tsuyaku and enhance the platform’s functions.



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Outlook

Business development in the Vietnam market through a joint venture



In acceleration of collaboration in the inbound solution business, the Company aims to build a value chain fully covering pre-travel, on-travel, and post-travel in the inbound domain. One specific move was entering the inbound media business leveraging the conversion of IGLOOO into a subsidiary (in May 2020) through the Company's subsidiary Terilogy Serviceware Corporation.

IGLOOO is a company that provides pre-travel and post-travel services, producing content and promoting overseas travel, centered on the operation of VOYAPON, an online media for travel to Japan for people in Europe, the US, and Australia. Up until now, the Company has been providing the multilingual real-time video interpretation service Mieru-Tsuyaku in the "on-travel" domain for foreign tourists visiting Japan. IGLOOO's services are highly complementary and synergistic with the Company, which has established itself as being in the top position in the industry. Even with the COVID-19 pandemic, it seems certain that the national policy aimed at making Japan a popular destination for tourism will be restarted in some way ahead of the Tokyo Olympic and Paralympic Games to be held in summer 2021, so the Company's decision to make an offensive move during this difficult time deserves praise.

IGLOOO has made the following moves since joining the Terilogy Group: 1) joined forces with MIKI TOURIST CO., LTD. and ITP INC. in August 2020 to launch the International Travel Showcase Online Exhibit Support Package of services for assisting those who wish to take part in online travel exhibitions particularly in Europe, the US and Australia, 2) revamped its VOYAPON inbound media service geared to Europe, the US and Australia in August 2020, 3) launched its VOYAPON STORE cross-border e-commerce website featuring narratives from the perspective of foreign nationals in September 2020 and 4) entered into a business alliance with unbot., which engages in digital marketing business geared to China, in November 2020. Through the business alliance, IGLOOO serves as an exclusive partner in arranging tourism promotion directed toward Europe, the US, and Australia in the Chinese market.

## Outlook

### Inbound business strategy by building a value chain covering pre-travel, on-travel, and post-travel



Source: The Company's results briefing materials

With respect to "additional market introductions of products and services based on strengthening the cutting-edge technology sourcing tie-up strategies (US, Israel, etc.)," the target domains include analysis and management of application and data machine logs, internal fraud management, 5G solution AR (augmented reality), and handling diversification of cutting-edge CTI (threat intelligence). The Company's ability to find "emerging technologies" and "marketable products" should prove to be valuable.

#### 4. The new medium-term management plan is expected to be announced in May 2021

In May 2018, the Company announced a medium-term management plan themed "Toward Terilogy in Three Years' Time." In it, it set targets for the medium-term management plan's final fiscal year of FY3/20, which included net sales of ¥5bn and resuming dividend payments. This would be achieved through the growth strategy, main pillars of which are 1) business expansion through M&A and alliances, 2) providing products and services installed with the latest technologies, 3) a value mix with the products of other companies, with its own products as the core products, and 4) taking on the challenge of conducting an inbound demand business and implementing measures to contribute to society. Although the Company did not achieve net sales of ¥5bn, that target included expanding the business through M&A and alliances. The Company did achieve an increase in sales and profits for the third consecutive fiscal year and did resume paying a dividend in FY3/20. We believe these achievements are worthy of a certain amount of praise.

In a December 2019 press release, the Company stated that it will "implement measures for public relations and publicity activities aimed at improving medium- to long-term and sustainable corporate value, while also aiming to maximize corporate value." The Company was preparing to announce a new medium-term management plan in May 2020. Although the Company postponed release of its new medium-term management plan due to the COVID-19 pandemic, the plan's much-awaited release may take place in May 2021 if all goes well.

Given that the Company's growth story centers on the notion that it enlists funds procured by means of equity finance, one would hope that its new medium-term management plan will incorporate content that includes 1) a plan of action for promoting organic growth, 2) a business alliance and M&A strategy that is as specific as possible, and 3) high quantitative targets aiming to achieve the milestone of ¥5bn in net sales.

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