Company Report

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Strategy Advisors, Inc.
Team Research

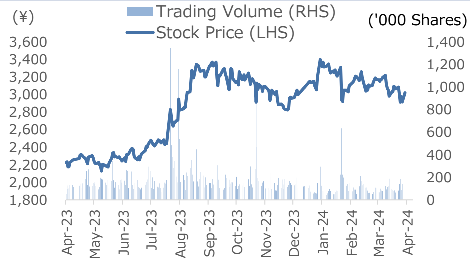
A creative manufacturing corporate group to grow at a rapid pace by adapting a VUCA society today

Noritsu Koki group (the company) consists of three major subsidiaries (accounting for over 98% of revenue): Teibow (global top share of marking pen nibs, MIM), AlphaTheta (leading global share of DJ equipment), JLab (the top US brand for wireless earphones under $100), and others. 90% of revenue comes from overseas. The parent company is a pure holding company that owns 80% of consolidated total assets. The equity story of the company is all about the sophisticated expertise of manufacturing that enables the company to grow at a rapid pace by adopting a VUCA (Volatility, Uncertainty, Complexity, Ambiguity) society.

Since its founding, the company has consistently maintained its mission "to bring prosperity to society and people", which is often referred to as corporate DNA. The company's growth drivers are (1) the replacement of existing components with its MIM's mass production technology and (2) the establishment of a supply chain for audio equipment (DJ equipment and wireless earphones, hardware and software). The company's unique strength lies in its ability to build a flexible and resilient business portfolio that anticipates the change in the business situations (inimitability (i)). The company has also built a barrier to entry with its unrivaled expertise (inimitability (ii)). Those competitive advantages allow the company to achieve their vision (producing NO.1/Only1 businesses).

The company aims for operating EBITDA margin of 20% (OP margin of 15 %) or more. The company aims to allocate surplus cash assets to growth investments, and improve ROE by increasing capital efficiency through expansion of existing and development of new areas of business. Once PBR0.5x and ROE improves by the company’s shareholder return measures, stock price will likely test its post-IPO high.

Stock price and trading volume for the past year



Source: Strategy Advisors

Key Indicators

Stock Price (2024/4/22, closing)	3,020
Yea-to-date High (2024/1/22)	3,450
Yea-to-date Low (2024/2/14)	2,860
52-week high (2024/1/22)	3,450
52-week low (2023/2/17)	2,068
Number of Shares Issued (mn)	35.7
Market capitalization (¥ bn)	107.8
EV (¥ bn)	80.1
Shareholders equity ratio	73.5%
FY12/2024 PER (CoE, Times)	12.5
FY12/2023 PBR (Actual, Times)	0.5
FY12/2024 Dividend Yiels (CoE)	3.8%

Source: Strategy Advisors

Note: Stock price in yen

FY end	Revenue (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	Pretax Profit (¥ mn)	前期比 (%)	NP (¥ mn)	YoY (%)	EPS (Yen)	DPS (Yen)
FY3/2019	63,527	13.4%	6,053	1.7%	5,954	-2.3%	2,948	-67.0%	74.2	15.0
FY3/2020	26,147	-	4,134	-	599	-	1,289	-	32.7	15.0
F12/2020 (9 months)	41,148	-	5,816	-	2,574	-	9,893	-	276.7	20.0
FY12/2021	54,481	-	6,068	-	5,315	-	5,115	-	140.6	198.0
FY12/2022	73,515	34.9%	1,262	-79.2%	3,944	-25.8%	101,548	1885.3%	2,848.5	152.0
FY12/2023	91,552	24.5%	14,462	1046.0%	13,747	248.6%	10,210	-89.9%	285.9	115.0
F12/2024 CoE	97,600	6.6%	13,400	-7.3%	12,800	-6.9%	8,600	-15.8%	241.0	116.0

Table of Contents

Figure 1. Key indicators

Key indicators IFRS-consolidated	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023
Stock indicators								
Number of shares issued at year-end ('000 shares)	36,191	36,191	36,191	36,191	36,191	36,191	36,191	36,191
Number of treasury shares at year-end ('000 shares)	577	577	577	577	577	557	533	508
EPS (¥)	120.5	250.5	82.8	36.2	277.8	143.6	2,848.5	285.9
EPS (Diluted, ¥)	106.3	242.6	74.2	32.7	276.7	140.6	2,845.6	276.7
PER (Times)	7.5	10.0	29.7	25.6	8.8	18.9	0.8	10.5
DPS (¥)	10.0	15.0	15.0	15.0	20.0	198.0	152.0	115.0
Payout ratio (%)	8.3%	6.0%	18.1%	41.4%	7.2%	137.9%	5.3%	40.2%
DOE (%)	0.6%	0.8%	0.7%	0.7%	0.8%	6.5%	3.6%	2.1%
BPS (¥)	1,607.7	2,119.4	2,103.9	2,203.6	2,959.7	3,115.5	5,399.6	5,755.3
Profitrability indicators								
Gross profit margin (%)	49.2%	48.3%	47.3%	48.6%	54.5%	45.5%	40.2%	44.9%
Operating profit＋depreciation & amortization (¥ mn)	6,191	7,609	7,897	6,895	9,836	12,069	6,513	19,690
Operating EBITDA (¥ mn)	-	-	7,965	6,847	0	10,739	11,367	17,875
EBITDA margin (%)	-	-	12.5%	26.2%	0.0%	19.7%	15.5%	19.5%
Operating profit margin (%)	9.2%	10.6%	9.5%	15.8%	14.1%	11.1%	1.7%	15.8%
Profit attributable to owners of parent profit margin (%)	8.6%	15.9%	4.6%	4.9%	24.0%	9.4%	138.1%	11.1%
Financial indicators								
Ratio of pretax profit to total asset (%) ROA	5.8%	4.6%	4.0%	0.4%	1.3%	2.1%	1.4%	4.7%
Ratio of profit to equity attributable to owners of parent (%) ROE	7.8%	13.4%	3.9%	1.7%	10.8%	4.7%	66.9%	5.1%
Ratio of equity attributable to owners of parent to total asset (%)	49.3%	50.8%	50.1%	49.0%	44.5%	42.0%	62.7%	73.5%
Financial leverage	1.99	2.00	1.98	2.02	2.16	2.31	1.88	1.47
Total asset turnover (Times)	0.46	0.42	0.43	0.17	0.21	0.22	0.26	0.31
Profit attributable to owners of parent profit margin (%)	8.6%	15.9%	4.6%	4.9%	24.0%	9.4%	138.1%	11.1%
Cash and cash equivalents (¥ mn)	25,314	26,663	27,573	50,162	69,596	38,141	96,436	70,190
Cash asset (¥ mn, company definition)	27,072	27,588	28,287	53,258	72,622	40,391	132,200	91,700
Interest-bearing debt (¥ mn)	35,022	38,176	36,082	45,120	90,122	104,450	51,079	42,577
Interest-bearing debt (¥ mn, company definition)	35,022	38,177	36,082	37,364	81,035	95,619	48,054	39,016
Net Debt (¥ mn)	9,708	11,513	8,509	-5,042	20,526	66,309	-45,357	-27,613
Net Debt (¥ mn, company definition)	7,950	10,589	7,795	-15,894	8,413	55,228	-84,146	-52,684
Net DE ratio	0.17	0.15	0.11	-0.06	0.19	0.60	-0.24	-0.13
Net DE ratio (company definition)	0.14	0.14	0.10	-0.20	0.08	0.50	-0.44	-0.26
Net Debt/operating EBITDA (compnay definition)			0.98	-2.32	#DIV/0!	5.14	-7.40	-2.95
Invested capital (¥ mn, gross IC)	92,314	113,654	111,048	123,608	195,536	215,474	243,623	247,951
Invested capital (¥ mn, net IC)	66,885	87,298	85,765	67,939	127,596	181,964	108,749	153,160
NOPAT (NOPLAT, ¥ mn)	3,089	3,989	4,056	2,770	3,897	4,066	846	9,690
ROIC (%, gross IC)	3.5%	3.9%	3.6%	2.4%	2.4%	2.0%	0.4%	3.9%
ROIC (%, company definition, net IC)	5.2%	5.2%	4.7%	3.6%	4.0%	2.6%	0.6%	7.4%
Efficiency indicators								
Working capital (¥ mn)	6,880	6,909	6,786	7,494	9,526	23,221	24,645	25,393
Working capital turnover (Times)	7.3	8.1	9.4	3.5	4.3	2.3	3.0	3.6
Current ratio (%)	212.1%	185.4%	200.9%	220.1%	213.3%	169.1%	191.5%	373.9%
Quick ratio (%)	185.3%	161.4%	181.9%	203.0%	197.7%	134.9%	166.4%	315.8%
Cash Conversion Cycle : CCC (days) =A+B-C	12.1	11.2	3.3	4.9	24.7	106.5	137.4	133.0
Accounts receivable turnover (Times)	5.0	4.5	4.6	1.8	3.1	3.2	4.0	6.2
Accounts receivable turnover days : A	72.8	81.0	79.5	199.9	117.9	113.6	91.1	58.8
Inventory turnover (Times)	6.3	6.2	6.8	2.7	3.5	2.9	2.9	3.0
Inventory turnoverdays : B	57.5	58.5	53.8	134.7	104.5	125.2	127.6	120.3
Accounts payable turnover (Times)	3.1	2.8	2.8	1.1	1.8	2.8	4.5	7.9
Accounts payable turnover days : C	118.2	128.3	130.0	329.6	197.7	132.3	81.2	46.1
R&D, capex, depreciation indicators								
R&D expenses (¥ mn)	1,544	1,585	576	330	3,223	4,472	5,330	6,482
R&D ratio to revenue (%)	3.1%	2.8%	0.9%	0.5%	7.8%	5.9%	7.3%	7.1%
Capex (¥ mn)	1,299	1,886	23,382	2,424	3,698	1,191	1,656	2,098
Depreciation and amortization (¥ mn)	1,580	1,655	1,844	2,761	4,020	6,001	5,251	5,228
Employee indicators								
Number of emplpyee (persons)	1,360	1,459	1,630	1,629	1,776	1,121	1,184	1,246
Number of temporary employees (annual average, persons)	818	848	926	935	244	381	249	263
Revenue per employee including temporary (¥ mn)	24.4	25.3	25.9	25.4	21.1	41.2	52.5	61.9
EBITDA per employee including temporary (¥ mn)			3.2	2.7	0.0	5.9	8.1	12.1
Operating profit per employee including temporary (¥ mn)	2.2	2.2	2.2	1.5	3.0	5.9	0.9	9.8

Source: Strategy Advisors – Based on Company Data
Note) ROIC=NOPAT ÷ Invested capital, CCC: Cash Conversion Cycle

Executive Summary

Equity story

The organic strength of the company, including its corporate DNA, growth drivers, and inimitability, have led to sustainable revenue growth and increased corporate value. We believe that the equity story of the company is all about the sophisticated expertise of the manufacturing business that enables the company to grow at a rapid pace by adopting a VUCA society today. These intermittent transformations have something in common with the former transformations of IBM and Hitachi.

Manufacturing corporate DNA to deliver enrichment through human sensitivity

As the company has acquired and sold various businesses since its foundation, its mission (corporate DNA) has always been "to bring prosperity to society and people". The minilab, which is a system that shortened time needed for film development and printing significantly, can be described as a business that delivers the rich value of photography (the joy of seeing) through the sensitivity of human senses. This point has been carried over to the three businesses that drive the company's current performance: marking pen nibs (the joy of drawing thoughts), DJ equipment (the joy of expressing and experiencing), and wireless earphones (the joy of listening freely anywhere), all of which are manufacturing businesses focused on "delivering richness through the human senses". No matter how advanced AI and digital technologies become, there is always a richness that is mediated by human sensitivity. Noritsu Koki, the company that has consistently nurtured this corporate DNA since its foundation, is the only company that remains a global niche market leader in the manufacturing fields.

Game changer

CEO Iwakiri decided to make DJ equipment his new business because he thought that in 2019, considering the global situation and trend at that time, including the rapid digitalization, there would come a time in the future when people's sensibilities would return to their origins, and one of those origins would be music. He believes that while the original business is disappearing due to digitalization, the world of music will see a return to its origins as people reevaluate the merits of analog and the joy of touching the real things. CEO Iwakiri believes that this trend will be a game changer in the way people spend their leisure time, just as a stream becomes a major river.

A masterpiece of Japanese craftsmanship

AlphaTheta's DJ equipment is a masterpiece of Japanese manufacturing in music. The acquisition was made in April 2020 based on the company's management decision that it was appropriate for the company's NO.1/Only 1 business in manufacturing. After that, COVID-19 pandemic and the Ukrainian war happened, which isolated and divided regions and communities. That situation has driven people to create music from many sources, both analog and digital, share their creations and videos over the Internet, and create the huge community that they belong to. DJ activity matched the demand in the quarantine situation, made people feel less isolated from the world, thus led to the significant increase of the sales of individual use. The resumption of clubs and events after the COVID-19 pandemic, home DJ equipment performances, and online events have led to continued market expansion, and the adoption of breakdancing and 3x3 basketball as official events for the 2024 Paris Olympics has brought DJ equipment into the spotlight.

From manufacturing to "monozukuri"

The company's manufacturing business has an increasingly strong "monozukuri" component. "Monozukuri" includes not only the product itself, but also activities that infuse "added value" into the "thing" (product), such as developing new methods or introducing services to make it better (as defined by the Ministry of Economy, Trade and Industry). In this sense, Teibow's existing marking pen nib business, which is its cash cow, is "manufacturing", but Teibow's new business areas, MIM, AlphaTheta, and JLab are in the "monozukuri" category. The following two growth drivers are the foundation that underpins the company's "monozukuri" business activities.

Growth driver (1)

The company's growth drivers are (1) the replacement of existing components with its MIM mass production technology and (2) the creation of a supply chain for audio equipment (DJ equipment and wireless earphones, hardware and software). (1) MIM has made it possible to produce hollow shapes, which had been difficult to produce due to the difficulty of controlling sintering precision. The company's expertise in ultra-fine machining technology developed in marking pen nib machining is used to improve technical innovation. The company estimates that the global MIM market is worth approximately 400 billion yen.

Growth driver (2)

(2) In terms of building the supply chain for audio equipment, first of all, the average unit price of DJ equipment is increasing year by year, not only due to the rise in raw material prices but also due to the improvement of functions. The global market is expected to grow at a CAGR of nearly 10% from approximately US$500 million in 2021. The company has moved from a hardware-oriented focus to strengthening its software business, and is in the process of acquiring a major software company. The company has positioned wireless earphones, an even larger market ($8.9 billion in 2022), as a strategic product. It has captured the top share in the US market with its affordable products, and aims to further develop markets in Europe, Africa, and Asia, which have large populations.

CEO Iwakiri's management philosophy

CEO Iwakiri considers wireless earphones as "an access point for everyone on the planet to touch the direction of knowledge (all kinds of information)". These words reflect Mr. Iwakiri's management philosophy and desire to provide products and services that enable people around the world to appreciate added value equally through their daily lives or life. In terms of business strategy, it also offers a glimpse of the company's grand long-term growth strategy for the mass market, from top global niche products such as marking pen nibs and DJ equipment to top global end-user consumer products in the form of audio devices and software services. CEO Iwakiri's reason for not seeking simple synergies among the three main subsidiaries which are independently operated is, "The reality is that management efficiency alone cannot be more than 1+1=2. The criteria for M&A are to seek potential value of 1+1=10 or more". His words clearly reflect the far-sightedness.

Inimitability	The company's corporate DNA of mastering "manufacturing" is embodied in its highly profitable business with a top share in the global niche markets (Teibow's operating EBITDA margin of 27.1%, FY12/23) and its R&D orientation (R&D expense to revenue ratio of 7.1 %, FY12/23). The company's positioning is to create the NO.1/Only1 businesses that will become the foundation of society. We believe that the company's unique strength lies in its ability to build a flexible and resilient business portfolio that anticipates changes in the prevailing environment (inimitability (i)). The company's strong financial position and proactive financial strategy are also differentiating factors. The company has built a barrier to enter the market (inimitability (ii)) by accumulating unrivaled expertise in the secret techniques of marking pen nib processing and the ability to develop DJ equipment that is fully aware of the requirements of advanced professional DJs. These competitive advantages of the company have made the company to achieve the NO.1/Only1 businesses.
Financial structure and capital policy	The company aims for an operating EBITDA margin of 20% or more as its mid-term plan goal. The order of profit margin for the three main businesses is Teibow, AlphaTheta, and JLab. As a result of business restructuring, the company has ample cash assets. In addition, goodwill and intangible assets were recorded as a result of recognizing excess earning power when acquiring three major businesses. Cash assets, goodwill, and intangible assets account for 78% of total assets. The total assets turnover ratio is low at 0.31, and improving capital efficiency is an issue. The company aims to allocate surplus cash assets to growth investments, increase capital efficiency by expanding existing businesses and developing new fields, and improve ROE (8% target).
Stock price performance	The company's stock price bottomed out and began to rise between 2016 and 2017, when it proceeded with the transfer of its original business and M&A. During the COVID-19 pandemic, the company proceeded to focus on "manufacturing", and after another adjustment phase, it has been on an upward trajectory again since late 2023. Once the company's new business growth strategy and ROE improvement scenario come into view, the company's stock price will likely test its post-IPO high (5,900 yen, 1999/09/08). The company's PBR is 0.5x as a result of its increase of cash assets, and it is also an issue that requires immediate measures to return profits to shareholders. The company is advocating an improvement not only in its dividend payout ratio but also in its total return ratio.

1. Optimize the business portfolio by adapting to the current environment

1) Company profile

Core business

The company is a corporate group that creates businesses that form the foundation of society, from manufacturing businesses closely related to daily life (parts and materials, audio equipment-related businesses) to businesses that take on the challenges of the future (preventive medicine, etc.). The company has evaluated the growth potential of each business in terms of business vision, competitive advantage, growth potential, and IRR, and has built a business portfolio with manufacturing as its core business. The company aims to further evolve toward the formation of a business group that will continue to grow globally.

Company group

The company group consists of three major companies (accounting for over 98% of revenue): Teibow (parts/materials), AlphaTheta (audio equipment/peripherals), and JLab (audio equipment/peripherals), and others (PreMedica (preventive medical care business), the parent company, Noritsu Koki (group management and business research/investment related to new growth areas)). 90% of revenue comes from overseas. The parent company is a pure holding company that owns over 80% of the consolidated total assets.

3 core companies

Teibow is a leading-edge micro parts and materials manufacturer with the world's top market share (over 50%) in the marking pen nibs (writing instruments, cosmetics) business. Teibow also manufactures metal parts (MIM: metal powder injection molding). AlphaTheta is an audio equipment manufacturer with the world's top market share of its DJ equipment business, which was spun out from Pioneer. JLab is a US-based audio equipment manufacturer with the leading brand "JLab", which has the category top market share in the US (headphones under $50, wireless earphones under $100) and a few percent of a global share. The positioning of each company in the business portfolio is as follows. Teibow is a cash cow with in-house manufacturing, AlphaTheta is a fabless with strength in upstream operations including R&D, and JLab is a fabless with strength in downstream operations including marketing and providing products that are on trend.

"Manufacturing" is the base

The company is a creative corporate group that aims for sustainable growth by optimizing its business portfolio while adapting to the change in the business situations, while inheriting the corporate DNA of manufacturing as its vocation. The products produced by the company are not necessarily visible to everyone, but the company focuses on manufacturing products that are part of the social infrastructure needed by people around the world. The automatic photo printing washing machine (minilab), which was the company's original business, at one point was the de facto standard worldwide.

Global niche top

The company has accumulated the expertise to develop global niche-top products (marking pen nibs, DJ equipment) that are difficult to imitate in each of these areas. Particularly in the audio equipment field, in addition to AlphaTheta's R&D capabilities, the acquisition of audio device manufacturer JLab has expanded the breadth and depth of the audio equipment-related field, from upstream to downstream in the supply chain.

Corporate philosophy

The company's corporate philosophy is as follows.
MISSION (meaning of life): prosperity for society and people
VISION (future vision): producing "NO.1/Only1" businesses
VALUE (behavioral guidelines): grasp needs, think one step ahead, etc.
This philosophy reflects the company's desire to provide products and services that enable people around the world to appreciate added value in their daily lives or life on an equal basis.

Creative business group

As will be discussed later (Chapter 2: Top management and corporate DNA), the company's path to its current state was based on the profound experience of breaking away from its original business, diversifying, and reorganizing its business. In the process, the company has accumulated unique management expertise and transformed into a creative corporate group that is ahead of the times.

Conglomerate

The company's business structure is similar to that of a conglomerate, which is an organizational structure for companies that own and operate different industries and business sectors. Meanwhile, in the process of diversification and business restructuring, as the company organized a team specializing in M&A, took JMDC public, and transferred most of its subsidiaries, it is sometimes considered a venture capital (VC) or fund management company. The current management team sees the company as strictly a manufacturing company with M&A as a tool.

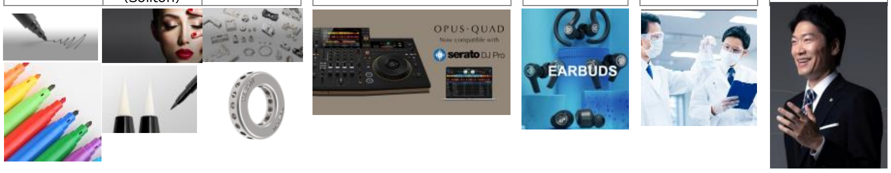
Improving capital efficiency is an issue

The company's current financial structure has a low total assets turnover ratio of 0.31, and improving capital efficiency is an issue. As a result, ROE remains 5.1% (FY12/23, future target of over 8%) and ROIC continues to be lower than WACC (assumed at 5-6%), while economic added value (EVA) has not been created (ROIC of 7.4% was achieved on a net IC basis in FY12/23).

ROIC management

The current management team focuses on improving profitability (a business EBITDA margin of at least 20%) and capital efficiency (investment in growth areas, M&A to strengthen core businesses, and shareholder returns) to improve ROE and ROIC.

Figure 2. Noritsu Koki's business portfolio

Focus Area	Manufacturing					Others	
Segment	Parts/Material			Audio Equipment/Peripherals		Medical	Research Investment
Core Co.	Teibow			AlphaTheta	JLab	PreMedica	Parent Co.
Business	Marking pen nibs		Metal parts	DJ/CLUB equipments Professional Audio Eq. Music Production Eq. Related Services	Audio devices Earphone Headphone	Preventive Test services Internal organs, blood Health check	Holding Co. New biz Investment Biz promotion Capital policy
	Writing Felt-tip	Cosmetics Eyebrow	MIM Auto/ind.				
Special remarks	Global share 50%+	Ultra-fine brush technology (Soliton)	Top-class domestic market share	DJ eq. global top share Serato acquisition	Below $100/50 Top brand in US	IPO plan	Group mgt.
Product & service images							

Source: Strategy Advisors – Based on Company Data

2) Business segment

3 segments

The company's three business segments are manufacturing (parts/materials), manufacturing (audio equipment related), and others. The core subsidiaries are Teibow (including soliton corporation) in the manufacturing (parts/ materials) business, AlphaTheta and JLab in the manufacturing (audio equipment related) business, and PreMedica (preventive medical care) and a parent company, Noritsu Koki (group management, research and investment of new growth areas).

Revenue breakdown

Revenue breakdown (FY12/23): Manufacturing (parts/materials, Teibow) 12.9%, Manufacturing (audio equipment related) 85.5% (AlphaTheta 56.7%, JLab 28.8%), Others 1.6%.

Figure 3. Trends in revenue by segment

FY	12/21	12/22	12/23
Revenue (¥ mn)			
Teibow	12,282	12,717	11,781
AlphaTheta	26,511	36,362	51,930
JLab	14,596	23,154	26,340
Others	1,090	1,282	1,500
Total	54,481	73,515	91,552

FY	12/21	12/22	12/23
Ratio to total (%)			
Teibow	22.5%	17.3%	12.9%
AlphaTheta	48.7%	49.5%	56.7%
JLab	26.8%	31.5%	28.8%
Others	2.0%	1.7%	1.6%
Total	100.0%	100.0%	100.0%

Source: Strategy Advisors – Based on Company Data, Note: JLab 12/21 is 9 months

Operating EBITDA

Operating EBITDA is calculated by subtracting other income and expenses from operating profit, and adding depreciation and amortization expenses (excluding depreciation of right-of-use assets). Compared to operating profit, the company considers this to be useful information for evaluating its business performance, as it shows a company's inherent earning power that is not affected by non-recurring profits and losses or amortization expenses, and so the company discloses this information additionally. HQ & company-wide expenses mainly include expenses for the parent company.

Operating EBITDA breakdown: Manufacturing (parts/materials) 16.7%, Manufacturing (audio equipment related) 82.4% (AlphaTheta 69.6%, JLab 12.8%), Others 0.9%. Note: After considering HQ expenses.
Operating EBITDA margin: Manufacturing (parts/materials) 27.1%, Manufacturing (audio equipment related) 20.2% (AlphaTheta 25.7 %, JLab 9.3%), Others 11.9%.

The parent company (a pure holding company)

In order to strengthen its audio equipment related business, the company is proceeding with the acquisition of Serato, a major DJ equipment software company. Noritsu Koki as the parent company with a management team and 17 other employees, is responsible for group management (capital policy, group finance, investments, M&A, legal affairs, human resources, IR, etc.) and for business research and investment in new growth areas. As it is a pure holding company, it does not record sales, but it generated a consolidated net profit of 170.5% and its total assets accounted for 80.1% of consolidated total assets (as of FY12/23).

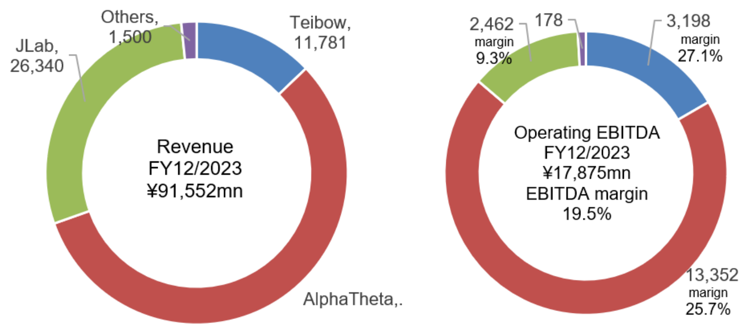
Figure 4. Trends in operating EBITDA and its margin

FY	12/21	12/22	12/23
Operating EBITDA (¥ mn)			
Teibow	4,185	3,718	3,198
AlphaTheta	5,671	6,897	13,352
JLab	1,404	1,337	2,462
Others	273	272	178
HQ expenses	-795	-858	-1,316
Total	10,739	11,367	17,875

FY	12/21	12/22	12/23
EBITDA margin (%)			
Teibow	34.1%	29.2%	27.1%
AlphaTheta	21.4%	19.0%	25.7%
JLab	9.6%	5.8%	9.3%
Others	25.0%	21.2%	11.9%
Total	19.7%	15.5%	19.5%

Source: Strategy Advisors – Based on Company Data, Note: JLab 12/21 is 9 months

Figure 5. Revenue and operating EBITDA by segment



Note: Segment operating EBITDAs are before HQ expenses deducted (Total operating EBITDA is after HQ expenses deducted.)
Source: Strategy Advisors – Based on Company Data

3) Positioning

Profitability and market share

In the process of reorganizing its business, the company decided to focus on its manufacturing business. It positioned each subsidiary with profitability on the vertical axis and market share on the horizontal axis (Figure 6, the size of the circle indicates the scale of revenue). In January 2015, the company acquired Teibow and made it the mainstay of manufacturing, while transferring or withdrawing most of its non-core businesses other than manufacturing and separating healthcare from the scope of consolidation (as of September 2020). In healthcare, after listing JMDC (4483 TSE Prime), the company transferred the majority of its holdings to Omron (6645 TSE Prime) in February 2022, making it non-consolidated.

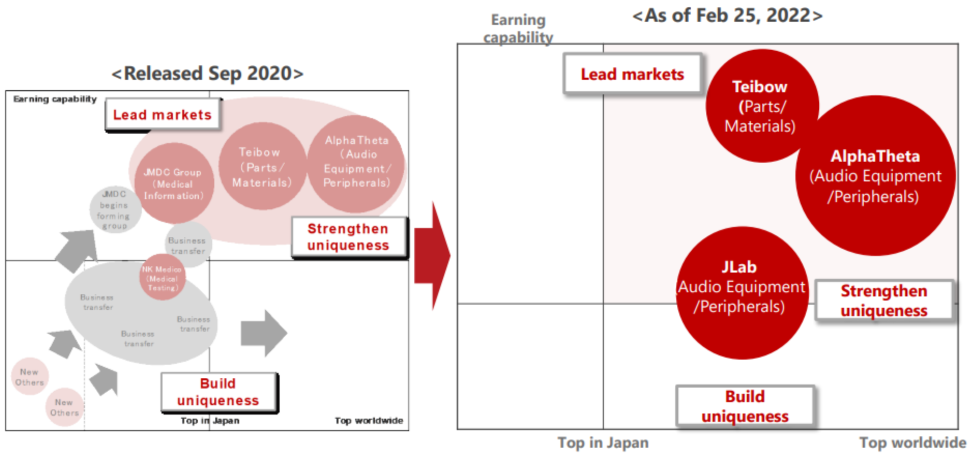
Choice and concentration

The only remaining consolidated subsidiaries in healthcare are PreMedica, which is included in the other segment, and Kidswell Bio (4584 TSE Growth, a biotech venture), an equity method subsidiary. Meanwhile, in the manufacturing business, Teibow acquired soliton corporation in February 2019 to strengthen its cosmetics field. The company subsequently acquired AlphaTheta in April 2020, and JLab in May 2021 to advance and strengthen the audio equipment related field. The acquisition of these two companies suddenly accelerated the globalization of the manufacturing business. The company is in the process of applying to acquire Serato, a major DJ equipment software company, and aims to strengthen its audio equipment related field .

Market traction and uniqueness

Both Teibow and AlphaTheta have strong market traction and uniqueness, and have become the leaders as a NO.1/Only1 company. Although JLab is a highly competitive commodity product and has low profitability, its uniqueness has earned it the status of a top brand in the US (in the under $50 headphone/$100 wireless earphone categories), and the company believes that there is great potential for it to increase its global share from its currently level of a few percent.

Figure 6. Transition of business portfolio



Source: Company data

Note: PreMedica is not shown in the portfolio as it is in preparation for IPO.

4) Globalization

Sales breakdown by region

90.0% of the company's revenue comes from overseas (44.9% from North/Latin America, 32.6% from EMEA, 7.2% from APAC , and 5.3% from China), and 10.0% comes from Japan. The breakdown by the three main businesses is as follows. Teibow: Overseas 59.3% (North/Latin America 17.8%, EMEA 10.9%, APAC 12.9%, China 17.8%), Japan 40.7%. AlphaTheta : Overseas 94.5% (North/Latin America 35.0% , EMEA 46.0%, APAC 8.4%, China 5.2%), Japan 5.5%. JLab : Overseas 99.8% (North/Latin America 79.1%, EMEA 17.6%, APAC 2.9%, China 0.1%), Japan 0.2%. (Above all data from FY12/23)

Forex rate impact

Teibow's global sales and purchases are basically denominated in yen, and the impact against both the USD and the EUR is minimal. AlphaTheta retails their products in each local currency and purchases in USD. Since EMEA's revenue is large, the weakening of the yen against the EUR has a positive impact on profits. As revenue in USD, mainly in North America, is slightly lower than purchases, the weaker yen against the USD has a negative impact on profits. JLab sells in each region's currency and purchases in USD. Since revenue in the US is large, a weaker yen against the USD has a positive impact on profits. The impact is minor in areas other than the US as its revenue is still small. The weaker yen had a positive impact on operating profit for the company’s overall group .

The company assumes the impact of a 1 yen depreciation for FY12/24 is as follows.

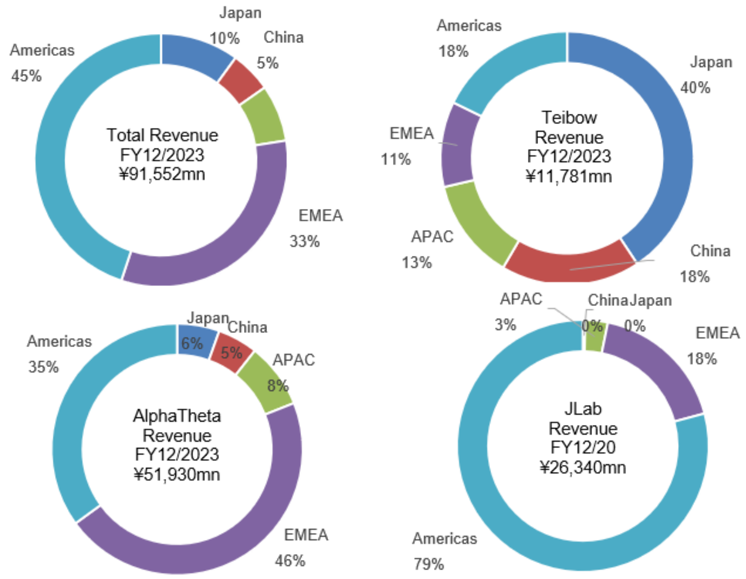
Assumed forex rate

¥140.5/USD: Revenue +¥370 million, operating EBITDA +¥10 million, operating profit +¥20 million
¥152.0/EUR: Revenue +¥160 million, operating EBITDA +¥140 million, operating profit +¥190 million

Production bases

Teibow has its own factory (3 factories in Hamamatsu); AlphaTheta and JLab are fabless; AlphaTheta has sales offices in America, UK and China, and JLab has sales offices in America. Teibow is increasing its production capacity, mainly for MIM (Nov.2021-Sep.2024, capex of ¥1.3 billion).

Figure 7. Revenue breakdown ratio by region (FY12/2023)



Source: Strategy Advisors – Based on Company Data

Employee distribution (by business, region)

The number of consolidated regular employees is 1,246 people (as of the end of FY12/23), of which 603 are Teibow, 503 are AlphaTheta, 74 are JLab, and 66 are others. Regional distribution (as of the end of FY12/22): Japan 82.2%, North/Latin America 6.9%, EMEA 6.4%, China 4.5%. The gender ratio (as of the end of FY12/22) is 71.3% for men and 28.7% for women.

Figure 8. Consolidated regular employee distribution

FY-end	12/21	12/22	12/23
Regular employee (persons)			
Teibow	573	599	603
AlphaTheta	459	470	503
JLab	38	58	74
Others	51	57	66
Total	1,121	1,184	1,246

FY-end	12/21	12/22	12/23
Ratio to total (%)			
Teibow	51.1%	50.6%	48.4%
AlphaTheta	40.9%	39.7%	40.4%
JLab	3.4%	4.9%	5.9%
Others	4.5%	4.8%	5.3%
Total	100.0%	100.0%	100.0%

Source: Strategy Advisors – Based on Company Data, Note: FY-end figures

5) Various indicators

Productivity per employee

The company-wide average productivity per regular employee (as of the end of FY12/23) was ¥75.4 million in revenue, ¥14.7 million in operating EBITDA, and ¥11.9 million in operating profit. Teibow: revenue of ¥19.6 million and operating EBITDA of ¥5.3 million. AlphaTheta: revenue of ¥106.7 million and operating EBITDA of ¥27.4 million. Jlab: revenue of ¥399.1 million and operating EBITDA of ¥37.3 million.

AlphaTheta is fabless with a majority of its personnel in R&D, and JLab is fabless with a small elite group of sales and planning personnel, thus its per capita productivity index tends to be higher than that of Teibow, which has manufacturing personnel (also partly due to the depreciation of the yen).

Figure 9. Productivity per regular employee

FY	12/22	12/23
Revenue per employee (¥ mn)		
Teibow	21.7	19.6
AlphaTheta	78.3	106.7
JLab	482.4	399.1
Others	23.7	24.4
Total average	63.8	75.4

FY	12/22	12/23
EBITDA per employee (¥ mn)		
Teibow	6.3	5.3
AlphaTheta	14.8	27.4
JLab	27.9	37.3
Others	5.0	2.9
Total average	9.9	14.7

Source: Strategy Advisors – Based on Company Data

R&D expense ratio

The ratio of the company's R&D expenses to revenue is 7.1% on a company-wide average, and by business segment it is 0.5% for Teibow, 12.1% for AlphaTheta, 0.3% for JLab, and 6.3% for others (PreMedica) at FY12/23. AlphaTheta's R&D expenses account for 96.6% of the company's total. Teibow and JLab have demonstrated cost leadership in mature areas that do not require significant R&D (marking pen nibs (writing instruments/ cosmetics), wireless earphones/headphones) by establishing high-volume production, sales systems and channels.

Teibow has R&D capabilities through the establishment of new materials and new MIM technology (new manufacturing methods, complex shapes). AlphaTheta, on the other hand, will continue to strengthen its new product development system and increase the number of products under development by focusing on R&D and establishing a unique position in the audio equipment-related field, where technological innovation is rapid.

Figure 10. Trends in R&D expenses and its ratio to revenue

FY	12/21	12/22	12/23
R&D expenses (¥ mn)			
Teibow	72	70	62
AlphaTheta	4,299	5,129	6,260
JLab	49	49	66
Others	51	81	94
Total	4,472	5,330	6,482

FY	12/21	12/22	12/23
R&D ratio to revenue (%)			
Teibow	0.6%	0.6%	0.5%
AlphaTheta	16.2%	14.1%	12.1%
JLab	0.3%	0.2%	0.3%
Others	4.7%	6.3%	6.3%
Total average	8.2%	7.3%	7.1%

Source: Strategy Advisors – Based on Company Data

Capex, depreciation and amortization expenses

The company's capital investment was ¥2,098 million, and depreciation and amortization expenses were ¥4,396 million (excluding the amortization of leased assets). In addition to establishing a new pen nib factory and a new MIM factory, Teibow is expanding and rationalizing the production capacity of its existing factory. AlphaTheta aims to establish a base for software application development. JLab will invest in expansion outside the US. JLab will also strengthen inventory management and logistics functions in Europe and Asia, as well as strengthen its sales structure in Asia.

Figure 11. Trends in capex, depreciation and amortization expenses

FY	12/21	12/22	12/23
Capex (¥ mn)			
Teibow	649	767	689
AlphaTheta	455	540	1,107
JLab	26	143	32
Others	61	205	269
Total	1,191	1,656	2,098

FY	12/21	12/22	12/23
Depreciation & amortization (¥ mn)			
Teibow	1,044	1,103	1,145
AlphaTheta	2,171	2,085	2,102
JLab	564	1,004	1,080
Others	35	50	69
Total	3,814	4,243	4,396

Source: Strategy Advisors – Based on Company Data

Note: Excluding amortization of leased assets

Goodwill, intangible assets

The total amount of goodwill and intangible assets of the company accounts for 45.2% of total assets. These results come from the acquisitions of Teibow, AlphaTheta, and JLab, respectively. In FY12/22, the company recorded a ¥5.9 billion impairment loss on goodwill at JLab. This is because the discount rate (WACC) rose with the hike in policy interest rates in the US market, and as a result, the fair value of the shares fell below the holding value of the shares, and the lower amount was recognized as an impairment loss.

Figure 12. Trends in goodwill and intangible assets

FY-end	12/21	12/22	12/23
Goodwill (¥ mn)			
Teibow	19,490	19,490	19,490
AlphaTheta	19,400	19,400	19,400
JLab	13,582	9,698	10,366
Others	0	0	0
Total	52,473	48,589	49,256

FY-end	12/21	12/22	12/23
Intangible assets (¥ mn)			
Teibow	12,526	12,025	11,531
AlphaTheta	44,985	43,446	42,188
JLab	20,372	22,577	23,143
Others	100	253	262
Total	77,983	78,301	77,124

Source: Strategy Advisors – Based on Company Data, Note: FY-end figures

Figure 13. Trends by old segment (FY3/2015 to FY3/2020)

Operating Segment IFRS-Consolidated (¥, %)	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020
Revenue	**35,598**	**43,145**	**50,045**	**56,035**	**63,527**	**65,114**
YoY	-	21.2%	16.0%	12.0%	13.4%	2.5%
Japan	34,356	36,891	43,231	48,709	55,801	58,273
Overseas	1,241	6,253	6,814	7,326	7,725	6,840
Overseas revenue ratio	3.5%	14.5%	13.6%	13.1%	12.2%	10.5%
Manufacturing	2,564	9,263	10,276	11,268	11,890	11,276
YoY	-	261.3%	10.9%	9.7%	5.5%	-5.2%
Ratio to total revenue	7.2%	21.5%	20.5%	20.1%	18.7%	17.3%
Healthcare	10,123	11,222	17,666	21,706	23,556	25,989
YoY	-	10.9%	57.4%	22.9%	8.5%	10.3%
Ratio to total revenue	28.4%	26.0%	35.3%	38.7%	37.1%	39.9%
Senior and Lifestyle	22,105	21,729	20,574	22,358	27,864	27,770
YoY	-	-1.7%	-5.3%	8.7%	24.6%	-0.3%
Ratio to total revenue	62.1%	50.4%	41.1%	39.9%	43.9%	42.6%
Others	806	931	1,529	700	215	78
YoY	-	15.5%	64.2%	-54.2%	-69.3%	-63.7%
Ratio to total revenue	2.3%	2.2%	3.1%	1.2%	0.3%	0.1%
Operating profit	**1,943**	**2,030**	**4,611**	**5,954**	**6,053**	**3,782**
YoY	-	4.5%	127.1%	29.1%	1.7%	-
OP margin	5.5%	4.7%	9.2%	10.6%	9.5%	5.8%
Operating EBITDA	**-**	**-**	**-**	**-**	**7,965**	**8,931**
YoY	-	-	-	-	-	-
EBITDA margin	-	-	-	-	12.5%	13.7%
Segment profit	1,437	2,990	4,488	6,003	6,237	7,272
YoY	-	108.1%	50.1%	33.8%	3.9%	16.6%
Segment profit margin	4.0%	6.9%	9.0%	10.7%	9.8%	11.2%
Manufacturing	147	2,168	2,765	3,191	3,012	2,606
YoY	-	1374.8%	27.5%	15.4%	-5.6%	-13.5%
Segment profit margin	5.7%	23.4%	26.9%	28.3%	25.3%	23.1%
Ratio to total segment profit	10.2%	72.5%	61.6%	53.2%	48.3%	35.8%
Healthcare	642	718	2,125	3,112	3,179	4,190
YoY	-	11.8%	196.0%	46.4%	2.2%	31.8%
Segment profit margin	6.3%	6.4%	12.0%	14.3%	13.5%	16.1%
Ratio to total segment profit	44.7%	24.0%	47.3%	51.8%	51.0%	57.6%
Senior and Lifestyle	438	202	1,168	58	41	573
YoY	-	-53.9%	478.2%	-95.0%	-29.3%	1297.6%
Segment profit margin	2.0%	0.9%	5.7%	0.3%	0.1%	2.1%
Ratio to total segment profit	30.5%	6.8%	26.0%	1.0%	0.7%	7.9%
Others	210	-98	-1,570	-310	4	-98
YoY	-	-	-	-	-	-
Segment profit margin	26.1%	-10.5%	-102.7%	-44.3%	1.9%	-125.6%
Ratio to total segment profit	14.6%	-3.3%	-35.0%	-5.2%	0.1%	-1.3%
HQ expenses	0	0	0	-48	1	1

Source: Strategy Advisors – Based on Company Data

Figure 14. Trends by segment (FY3/2020 to FY12/2024)

Operating Segment IFRS-Consolidated (¥, %)	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023	FY12/2024 CoE	CAGR 12/21-23
Revenue	**26,147**	**41,148**	**54,481**	**73,515**	**91,552**	**97,600**	29.6%
YoY	-	-	-	34.9%	24.5%	6.6%	
Japan	19,321	16,080	7,816	8,396	9,173		8.3%
US	1,842	8,833	21,586	30,037	35,687		28.6%
Mid.&South America			1,045	1,576	2,593		57.5%
Europe	1,315	10,853	14,180	19,485	27,538		39.4%
Middle east & Africa			1,101	1,550	2,280		43.9%
Othe areas (China, etc)	3,667	5,380	8,751	10,584	14,281		27.7%
Overses revenue sub-total	6,826	25,068	46,665	65,119	82,379		32.9%
Overseas revenue ratio	26.1%	60.9%	85.7%	88.6%	90.0%		
Average forex rate (¥/USD)		106.1	109.8	131.4	140.6	140.5	
Average forex rate (¥/EUR)		122.4	129.9	138.0	152.0	152.0	
Year-end forex rate (¥/USD)		103.5	115.0	132.7	141.8	140.5	
Year-end forex rate (¥/EUR)		127.0	130.5	141.5	157.1	152.0	
Manufacturing (Parts/Materials) Teibow		7,362	12,282	12,717	11,781	12,400	-2.1%
YoY	-	-	-	3.5%	-7.4%	-2.5%	
Ratio to total revenue	-	17.9%	22.5%	17.3%	12.9%	12.7%	
Writing Instruments			7,888	8,249	7,519		-2.4%
Cosmetics			1,656	1,706	1,442		-6.7%
MIM			2,279	2,297	2,251		-0.6%
Others			458	464	567		11.3%
Manufacturing (Audio Equipment/Peripherals)		21,530	41,107	59,516	78,271	83,600	38.0%
YoY	-	-	-	44.8%	31.5%	40.5%	
Ratio to total revenue	-	52.3%	75.5%	81.0%	85.5%	85.7%	
AlphaTheta			26,511	36,362	51,930	55,600	40.0%
YoY	-	-	-	37.2%	42.8%	7.1%	
Ratio to total revenue			48.7%	49.5%	56.7%	57.0%	
JLab			14,596	23,154	26,340	28,000	34.3%
YoY	-	-	-	58.6%	13.8%	6.3%	
Ratio to total revenue	-	-	26.8%	31.5%	28.8%	28.7%	
Manufacturing sub-total	11,276	28,892	53,389	72,233	90,052	96,000	29.9%
Others	14,871	12,255	1,090	1,282	1,500	1,600	17.3%
YoY	-	-	-	17.6%	17.0%	6.7%	
Ratio to total revenue	56.9%	29.8%	2.0%	1.7%	1.6%	1.6%	
Operating profit	**4,134**	**5,816**	**6,068**	**1,262**	**14,462**	**13,400**	54.4%
YoY	-	-	-	-79.2%	1046.0%	-7.3%	
OP margin	15.8%	14.1%	11.1%	1.7%	15.8%	13.7%	
Operating EBITDA	**6,847**	**9,487**	**10,739**	**11,367**	**17,875**	**18,800**	29.0%
YoY	-	-	-	5.8%	57.3%	5.2%	
EBITDA margin	26.2%	23.1%	19.7%	15.5%	19.5%	19.3%	
Manufacturing (Parts/Materials) Teibow		2,412	4,185	3,718	3,198	3,500	-12.6%
YoY	-	-	-	-11.2%	-14.0%	-5.9%	
EBITDA margin	-	32.8%	34.1%	29.2%	27.1%	28.2%	
Ratio to total EBITDA	-	23.8%	36.3%	30.4%	16.7%	17.6%	
Manufacturing (Audio Equipment/Peripherals)		4,708	7,076	8,234	15,814	16,400	49.5%
YoY	-	-	-	16.4%	92.1%	99.2%	
EBITDA margin	-	21.9%	17.2%	13.8%	20.2%	19.6%	
Ratio to total EBITDA	-	46.5%	61.3%	67.4%	82.4%	82.4%	
AlphaTheta			5,671	6,897	13,352	13,500	53.4%
YoY	-	-	-	21.6%	93.6%	95.7%	
EBITDA margin	-	-	21.4%	19.0%	25.7%	24.3%	
Ratio to total EBITDA	-	-	49.2%	56.4%	69.6%	67.8%	
JLab			1,404	1,337	2,462	2,900	32.4%
YoY	-	-	-	-4.8%	84.1%	116.9%	
EBITDA margin	-	-	9.6%	5.8%	9.3%	10.4%	
Ratio to total EBITDA	-	-	12.2%	10.9%	12.8%	14.6%	
Manufacturing sub-total	3,635	7,120	11,261	11,952	19,012	19,900	29.9%
Others	3,794	2,999	273	272	178		-19.3%
YoY	-	-	-	-0.4%	-34.6%	-	
EBITDA margin	25.5%	24.5%	25.0%	21.2%	11.9%	-	
Ratio to total EBITDA	51.1%	29.6%	2.4%	2.2%	0.9%	-	
HQ expenses	-582	-633	-795	-858	-1,316	-1,100	

Source: Strategy Advisors – Based on Company Data

Note: Prior to FY21/12, the US was North America (including Canada)

2. Top management and corporate DNA

Shareholder composition

Looking at Noritsu Koki's shareholder structure, the founding family owns a stake of approximately 50%. As of the end of November 2023, the largest shareholder is THANK Planning Inc. (Representative Director: Kayo Nishimoto), the asset management company of the Nishimoto family that founded the company, with an ownership ratio of 42.09 %, followed by Kayo Nishimoto, the daughter of the founder, with a 6.73%, so that the Nishimoto family owns a total of 48.82%. According to a large shareholding change report, as of October 6, 2022, Baillie Gifford & Company (with one other joint holder) held 4.38 %. Foreign stock ownership ratio was 20.88% at the end of December 2023.

The presence of the founder

After founder Kannichi Nishimoto passed away in 2005 at the age of 90 during his tenure as president, the presence of the founding family was demonstrated at the 2008 general shareholders meeting. In a situation with an ongoing deterioration in the business due to the shrinking market caused by the digitization of photographs, the management team at the moment continued the minilab business and even announced a partnership with rival Fuji Photo Film (Fujifilm Holdings, 4901 TSE Prime).

Figure 15. Shareholder composition (as of the end of December 2023)

Top shareholders	Shares held	Share holding ratio
THANK Planning Inc.	**15,019**	**42.09%**
The Master Trust Bank of Japan Ltd. (Trust Account)	3,370	9.44%
Kayo Nishimoto	**2,401**	**6.73%**
Custody Bank of Japan, Ltd. (Trust Account)	1,359	3.81%
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	645	1.80%
GOLDMAN SACHS INTERNATIONAL	641	1.79%
Sumitomo Mitsui Banking Corporation	540	1.51%
THE BANK OF NEW YORK 133652	454	1.27%
GOVERNMENT OF NORWAY	386	1.08%
BNYM SA/NV FOR BNYM FOR BNYM GCM CLIENT ACCTS M ILM FE	359	1.00%
Subtotal	25,174	70.56%

Note: THANK Planning is the asset management company of the founder family (Representative director: Kayo Nishimoto)

Source: Strategy Advisors – Based on Company Data

Major change in management policy

At the general meeting of shareholders in 2008, a representative for the founding family made an amendment motion, and a proposal for a total management change was adopted. Former President and Representative Director Hirotsugu Nishimoto had been secretary to founder Kannichi Nishimoto and his son-in-law, and in 2009 he was appointed to the company's Board of Directors and in 2010 to the position of President and Representative Director. The board of directors at the time, led by Hirotsugu Nishimoto, included consultants and people with an investment banking backgrounds.

The company recorded an impairment loss on the minilab business in 2010, and while downsizing the business, the company transferred the minilab business to an investment fund as a separate company in 2016 and entrusted it with reconstruction.

Accelerate diversification

In order to rapidly launch a new business to replace the minilab, the company established an M&A team within the company, and by 2018 used the company's own funds to acquire dozens of companies in six segments. The diversified fields include medical support (Japan Medical Data Center: current JMDC, etc.), publishing and mail order (Halmek (currently Halmek Holdings [7119 TSE Growth]), manufacturing (Teibow, etc.), biotechnology, and insurance. In addition, the company established plants, medical testing businesses, and companies that manage M&A. The company prioritized the solid profit structure and future prospects of individual companies in its M&A, and did not pay much attention to synergies. In that sense, the company's business structure is similar to that of a conglomerate, which is an organizational structure for companies that own and operate different industries and business sectors. Although the group is now focused on manufacturing businesses, in the process of selling these founding businesses, diversifying, and reorganizing its portfolio, the company organized a dedicated M&A team, sold most of its subsidiaries, took JMDC public, and acquired AlphaTheta and JLab, and the company can be considered a venture capital (VC) or fund manager. The current management team positions the company solely a manufacturing company.

Business restructuring

In June 2018, Hirotsugu Nishimoto stepped down as CEO and representative director, and handed over to Mr. Ryukichi Iwakiri (current CEO and representative director), who was brought in from outside the company. Mr. Iwakiri was 40 years old at that time and had a background in overseeing the business at Digital Holdings (2389 TSE Prime, formerly OPT). Mr. Iwakiri narrowed his focus to a segment with manufacturing businesses such as Teibow as its core business, proceeded with the acquisition of audio equipment manufacturers AlphaTheta and JLab, and proceeded with the reorganization of the business portfolio. The company transferred most of its non-manufacturing subsidiaries, and after JMDC went public, sold the majority of its shares to Omron and deconsolidated it. CEO Iwakiri is now promoting globalization, and promoting management reforms to improve profitability and capital efficiency.

Mr. Iwakiri's belief

Mr. Iwakiri's belief in his work is rooted in the desire to eliminate discriminatory poverty from this world. This was triggered by his belief as a student that poverty and discrimination caused by the place that people are born and its environment surrounds are unfortunate for humanity as a whole. At that time, he was struck by a nonfiction photograph he saw, “The Vulture and the Little Girl” by Kevin Carter, which made him think deeply about his choice of profession. Through the professional spirit of the photographer who continued to take photographs, Mr. Iwakiri understood that photographs have the power to sway public opinion to save lives and from that derived his sense of mission.

Mr. Iwakiri's career

Mr. Iwakiri studied management engineering, believing that his path would be to become a top corporate executive and provide products and services of equal value to people around the world, rather than as a volunteer or a teacher. After graduating from college, he wanted to gain extensive experience in business management, and since 99% of companies in Japan are small to medium-sized enterprises, he decided that sales skills were the first personal ability he needed. Based on those ideas, he worked for F&M (4771 TSE Standard), a provider of accounting, financial, and management services for small and midsize companies, where he acquired the financial fundamentals of business management. He then realized that the next wave of IT and digitalization was coming, and that is why he decided to join OPT (currently Digital Holdings), which provides marketing-related advertising, CRM support, development support, and resident human resources support services. Consequently, he worked in sales, content, SEM, BPO, and as a representative of a subsidiary, and then became a director of the head office, in charge of new businesses, advertising business, and overseas business.

Mr. Iwakiri's turning point

Mr. Iwakiri is not only a digital marketing professional, but has also honed his management background through overseeing the core business, sales, group management, consulting, strategic planning, business restructuring, and domestic and international M&A. Apart from Kannichi Nishimoto, the company's founder, Mr. Iwakiri admires executives such as Kazuo Inamori (founder of Kyocera) and Steve Jobs (founder of Apple Inc.). Mr. Iwakiri moved to Noritsu Koki because he happened to come across the company when he was thinking that the management of OPT should be left to the younger generation, and he prioritized learning in a completely different and more demanding environment than the digital marketing, advertising, and IT service-related companies he had personally experienced. Noritsu Koki was a company with a proven track record in manufacturing that its founder, Kannichi Nishimoto, had made into a global leader in his lifetime, but at the time, the company had already left its original business and diversified through numerous M&As, resulting in a large number of businesses outside of manufacturing.

Discontinuous growth

Considering the uncertain business environment at the time and the company's discontinuous growth, CEO Iwakiri decided that the company needed to refine its business focus, so drew a roadmap for a phased business restructuring. Outwardly, Mr. Iwakiri's management policy, which was to organize the diversified business portfolio established by the former management team and narrow its focus to the manufacturing business, appears to be the opposite of the former management team's management policy. However, Strategy Advisors believes that both the former management and CEO Iwakiri were well aware that the key to sustainable corporate growth is a corporate structure that enables the company to grow at a rapid pace by adopting a "VUCA society" today. In fact, the "discontinuous growth of existing businesses" that CEO Iwakiri has pursued since taking office has resulted in the company's current strong financial position and return to its manufacturing business, and it continues to grow as a company with global ambitions. The company's DNA of mastering "manufacturing" has been passed down from the founding family to the current management team and to the next generation, and will continue to evolve in pursuit of sustainable growth.

3. An analysis from the perspective of management strategy theory

1) Positioning

Competitive strategy

Michael Porter, in his book Competitive Strategy, identified five competitive factors at work in any industry (M.E. Porter, Competitive Strategy [Diamond Inc., 1995]), Joanne Magretta, Yuko Sakurai, "[Essential Edition] Michael Porter's Competitive Strategy Kindle Edition" ([Hayakawa Shobo, 2012]).

Competitive factors

The five competitive factors are: (1) the threat of new entrants, (2) the bargaining power of suppliers, (3) the bargaining power of buyers, (4) the threat of substitute products (substitute services), and (5) competition between existing companies. If the influence of the five competitive factors is strong, profitability will decline, and conversely, if the influence is weak, it will be an opportunity to improve profits. The key idea is that "positioning yourself in a situation where competition is not intense will increase your profits".

Competitive advantage

The company's positioning is to "create NO.1/Only1 businesses that will become the foundation of society". This can be said to be a model case for putting Michael Porter's management strategy theory of "competitive advantage" into practice. Porter argues that strategies for gaining a competitive advantage over competitors can be summarized as: (1) cost leadership strategy, (2) concentration strategy, and (3) differentiation strategy. The company has strengths in (2) concentration strategy and (3) differentiation strategy.

Definition of three strategies

(1) Cost leadership strategy is a strategy to gain an advantage by offering lower prices than your competitors, or to increase profit margins by lowering the cost of supplying products and services. (2) Concentration strategy is a strategy to gain a competitive advantage by concentrating your management resources in a narrow range of specific markets (customer segments, regions, specific products). (3) Differentiation strategy is a strategy that regards the market for a specific product as homogeneous and attempts to gain a competitive advantage by creating differences in functions and services compared to competitors' products.

Teibow

Teibow utilized its felt processing technology, the raw material for high-end men's hats, which was its original business ((3) differentiation strategy), and concentrated its management resources on the marking pen nib business ((2)

concentration strategy), and as a result, was unrivaled in the industry and had preferential price negotiation rights ((1) cost leadership strategy).

AlphaTheta

AlphaTheta is originally a group of engineers spun out from a division of Pioneer, and has excellent development capabilities in audio equipment products and a reputation for its brand power. The (2) concentration strategy and (3) differentiation strategy have been effective in gaining a competitive advantage, such as receiving high praise from advanced professional DJs.

JLab

JLab is targeting a market with many competitors such as wireless earphones and headphones. It is a leading brand in the US (headphones under $50, wireless earphones under $100) with user-friendliness ((1) cost leadership strategy) and high functionality ((2) concentration strategy, (3) differentiation strategy) which originated from a unique culture in California.

2) Discontinuous growth (non-organic growth)

Non-organic growth

Organic growth refers to a strategy in which a company grows using its internal resources. This is a growth strategy that increases profits by making use of existing human resources, products and services, technology and expertise, and funds. Non-organic growth is the opposite, and is a strategy to increase profits by incorporating new businesses, products, and services through M&As.

M&A

The company's growth strategy has evolved from diversification by incorporating new businesses to targeting the "discontinuous growth of existing businesses". There are two ways to incorporate new business: starting up new businesses within the company or incorporating external resources through M&A. The idea of developing everything on your own or else relying on M&A is short-sighted. There are various ways to grow a business, depending on the combination of target business field and the management resources available, and an M&A strategy is one of those methods. Since the company was breaking away from its original business and made a brand new start, the company focused on M&A to launch new businesses. Among the subsidiaries acquired through M&A, existing businesses were formed around highly profitable subsidiaries such as Teibow and JMDC.

Discontinuous growth of existing businesses

"Discontinuous growth of existing businesses" is a method of dividing existing businesses into core businesses and non-core businesses, and growing core businesses by incorporating not only internal resources but also external resources. The company chose to keep Teibow as its core business and to sell JMDC after going public because it has manufacturing as its corporate DNA. To expand the manufacturing business, the current management team has acquired global companies such as AlphaTheta and JLab through M&A, and has established a new business field related to audio equipment as the second pillar after the existing parts and materials business field. This management decision had the side effect of accelerating globalization and strengthening

R&D orientation. In order to strengthen its audio equipment-related business, the company is moving forward with the acquisition of Serato, a leading DJ equipment software company, while its non-core business (others), PreMedica (in the area of preventive medicine), is preparing to go public and increase its independence.

IBM case

Typical examples are the cases of the former IBM and recently Hitachi (TSE Prime 6501). IBM once reigned at the top of the IT industry with its general-purpose computers, but amidst the wave of downsizing, IBM separated its hardware (PCs, hard disks) business one after the other, and intermittently transformed itself into a solutions company. However, while investing in Microsoft and Intel at the time, IBM was unable to incorporate them, which allowed GAFAM to rise to prominence and cause it to fall behind in terms of market capitalization.

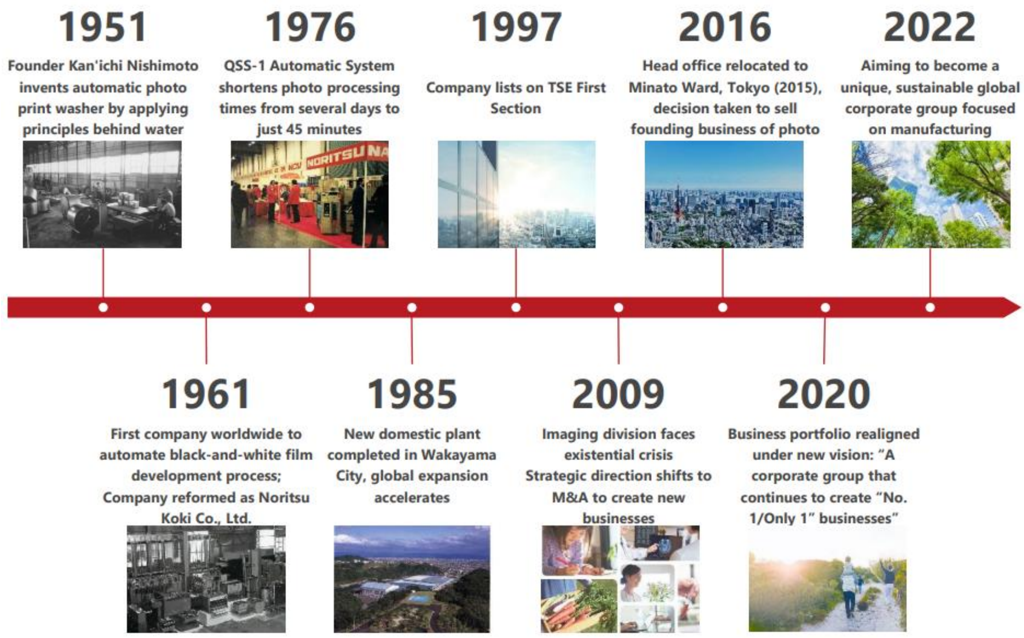
Hitachi case

Hitachi started to reform its business structure after recording a huge loss due to investments in semiconductors and home appliances. The company achieved a V-shaped recovery by significantly revamping its business portfolio and transferring major subsidiaries, returning to its core businesses (social infrastructure: IT and services, energy and transportation, and connected industries). Hitachi is also active in acquiring external resources, including large-scale M&A (such as GlobalLogic, an US IT company).

Returning to the roots of “manufacturing”

The origins of Noritsu Koki date back to in 1951, when founder Kannichi Nishimoto developed an automatic photographic paper washing machine and established Noritsu Koki Seisakusho in 1956. The company became a worldwide sensation with its "minilab", which unified and automated the process from silver halide photo development to printing. In the 2000s, the market contracted significantly as the industry shifted to digital. Faced with an existential crisis, the company has diversified, restructured its business, and parted ways with its original business, focusing on its "manufacturing" business. The young management team of CEO Iwakiri (in his 40s) and CFO Yokobari (in his 30s) has inherited the corporate DNA of mastering manufacturing and is aiming to become the global leader in MIM and the comprehensive audio equipment field, from DJ equipment to acoustic devices.

Figure 16. History



Source: Company data

Figure 17. Performance trends of major subsidiaries (accounting for over 10% of consolidated sales)

Subsidiaries (¥ mn)	FY3/2015	FY3/2016	FY3/2017	FY3/2018
Teibow				
Sales		8,494	9,474	10,211
Recurring profit		2,060	2,911	3,192
RP margin		24.3%	30.7%	31.3%
Net profit		1,609	2,188	2,742
Net assets		9,227	11,420	14,178
Total assets		39,362	40,090	41,147
Halmek				
Sales		10,670	10,874	10,244
Recurring profit		738	1,276	423
RP margin		6.9%	11.7%	4.1%
Net profit		471	836	115
Feed				
Sales	5,455	5,881	6,619	7,227
Recurring profit	60	121	131	89
RP margin	1.1%	2.1%	2.0%	1.2%
Net profit	31	161	85	55
Nippon Kyosai				
Sales				
Recurring profit				
RP margin				
Net profit				
Zenkoku Mail Order Group				
Sales	9,810	10,770	9,501	8,977
Recurring profit	-172	-17	357	3
RP margin	-1.8%	-0.2%	3.8%	0.0%
Net profit	-116	-77	284	-180
NK Works (currently Noritsu Precision)				
Sales	5,489			
Recurring profit	-97			
RP margin	-1.8%			
Net profit	-651			
NORITSU AMERICA CORPORATION		EXIT		
Sales	7,910			
Recurring profit	554			
RP margin	7.0%			
Net profit	313			

Subsidiaries (¥ mn)	FY3/2019	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023
Teibow						
Revenue	10,723	10,129	6,392	11,120	11,531	10,505
Pretax profit	3,228	2,855	1,772	2,175	2,827	628
Pretax profit margin	30.1%	28.2%	27.7%	19.6%	24.5%	6.0%
Net profit	2,356	2,159	1,306	1,302	2,131	59
Total equity	16,509	18,650	19,946	21,255	23,395	11,623
Total assets	44,355	44,001	44,941	46,211	46,372	31,676
AlphaTheta EMEA Limited						
Revenue			10,154	12,141	15,815	23,898
Pretax profit			147	504	350	1,077
Pretax profit margin			1.4%	4.2%	2.2%	4.5%
Net profit			64	379	425	692
AlphaTheta Music America, Inc.						
Revenue			7,414	8,108	12,221	18,170
Pretax profit			549	580	1,062	1,309
Pretax profit margin			7.4%	7.2%	8.7%	7.2%
Net profit			435	419	781	1,000
PEAG, LLC dba Jlab Audio						
Revenue				14,596	23,116	26,290
Pretax profit				942	825	2,093
Pretax profit margin				6.5%	3.6%	8.0%
Net profit				1,086	825	2,093
JMDC	**FY3/2019**	**FY3/2020**	**FY3/2021**	**FY3/2022**		
Revenue	10,064	12,158	16,771	21,814		
Pretax profit	1,410	2,178	3,636	4,768	EXIT	
Pretax profit margin	14.0%	17.9%	21.7%	21.9%		
Net profit	1,010	1,528	2,476	3,247		
Halmek						
Revenue	10,605	11,731				
Pretax profit	437	782				
Pretax profit margin	4.1%	6.7%				
Net profit	252	528				
Feed						
Revenue	7,852	8,096				
Pretax profit	210	238				
Pretax profit margin	2.7%	2.9%				
Net profit	137	149	EXIT			
Nippon Kyosai						
Revenue	7,261	7,925				
Pretax profit	239	52				
Pretax profit margin	3.3%	0.7%				
Net profit	177	42				
Zenkoku Mail Order Group						
Revenue	8,803					
Pretax profit	175					
Pretax profit margin	2.0%					
Net profit	68					

Source: Strategy Advisors – Based on Company Data

4. Teibow (parts/materials)

1) History

Teikoku Hat

Teibow's predecessor was Teikoku Hat, which was established in June 1896 as a company manufacturing and sells high-quality soft hats and fedora hats. In January 1957, Teikoku Hat began manufacturing marking pen nibs by utilizing felt processing technology, which is the raw material for hats. Teikoku Hat expanded its marking pen nib materials to synthetic fibers and plastics, specializing in the nib business, and ceased manufacturing felt hats in December 1974. In 1981, Teikoku Hat changed its name to Teibow. In January 1994, Teibow began manufacturing and selling metal parts using the metal injection molding method (MIM). Teibow joined the Noritsu Koki Group in January 2015 (acquisition price: ¥31.4 billion). In February 2019, Teibow acquired soliton corporation, the world's only manufacturer of brush head automation machine. Teibow has acquired the technology to make ultra-fine brushes and has bolstered the cosmetics business (marking pen nib application area).

soliton corporation

soliton corporation, headquartered in Nara Prefecture, has systematized traditional brush-making techniques and produced over 200 million brushes such as calligraphy pens, eyeliners, and eyebrow brushes.

2) Company profile

Over 50% global share (marking pen nibs)

Teibow's business is the manufacture of marking pen nibs (writing, cosmetic pen nibs), MIM parts, and porous products for new fields (such as air freshener applications). It has sales of ¥12 billion, 603 employees. The company has a head office/factory, Miyakoda Technology Center, and the MIM development center in Hamamatsu city, Shizuoka prefecture, soliton corporation (manufacturing of cosmetic pen nib parts) in Nara City, and a manufacturing and sales base for marking pen nib parts in Jiangsu Province, China. The marking pen nib business has expanded into a global business with a worldwide market share of over 50%. The MIM business has also achieved a leading share in Japan, and is also developing internationally, for instance with transportation equipment in Europe.

Figure 18. Teibow's business details

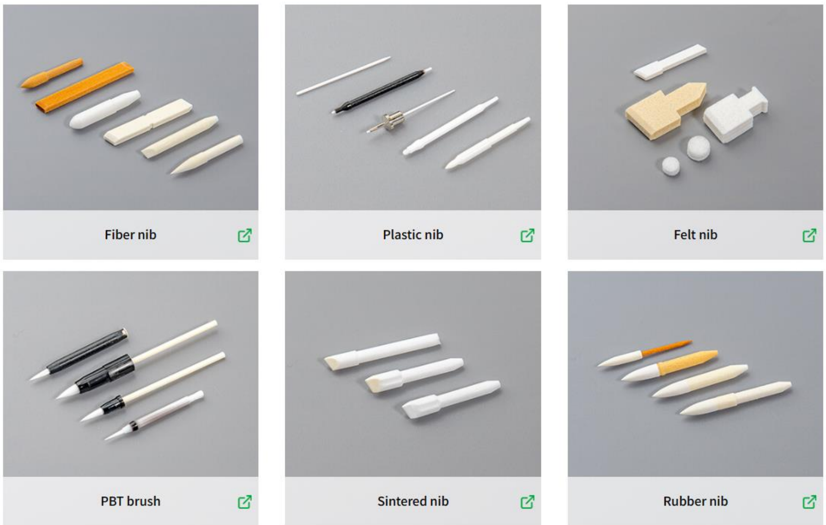
Source: Company data

3) Marking pen nibs (writing instruments) business

Product lineup

Teibow sells more than 5 billion marking pen nibs annually to approximately 400 customers in 45 countries. Teibow manages approximately 3,400 types of products. The product range is wide, including fiber cores, felt cores, plastic cores, sintered cores, rubber cores, and PBT brushes. It can be used for all kinds of writing instruments, including oil-based markers, water-based markers, whiteboard markers, line markers, art supplies markers, paint markers, drawing markers, and ink feeders. According to the company, the global market for marking pen nibs is estimated to be around several tens of billions of yen.

Figure 19. Marking pen nib products lineup



Source: Company data

Porous body

The basis of Teibow's top share in the world is its "capillary force control technology in porous materials". Marking pen nib components, including felt nib, are porous and have a structure with fine spaces inside. The fiber core that makes up the porous body is characterized by having directional fibers and allowing liquid to pass through it smoothly. This feature is called capillary force control, and the narrower the internal gap, the stronger the capillary force. Capillary forces play a key role in the marking pen nibs. Examples include adjusting ink discharge, adjusting ink suction, improving cap-off performance (preventing blurring due to volatilization), and improving drain-back performance (preventing blurring when left facing upward).

Core technology: Capillary force control

The capillary force of the fiber core is mainly controlled by the fiber thickness and number of fibers. On the other hand, the capillary force of the plastic core is controlled by the design of the pores inside the core. Regardless of the strength of the capillary force throughout the pores, each pore is designed to have both narrow gaps (strong capillary area: carries and holds ink) and wide gaps (weak capillary area: discharges ink).

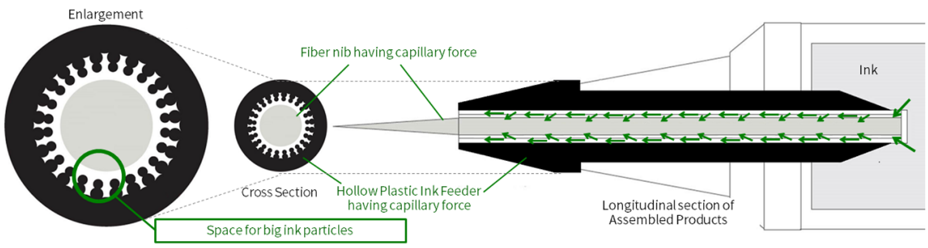
Hollow relay core structure

Teibow is also working on custom-made products and the development of new products. As an example, Teibow has developed a structure called a hollow relay core, which is used in brush pens that spit out a lot of ink and create a glittery feel with large glitter ink. Hollow relay cores have a W structure in which ink is constantly supplied from the surrounding area by covering the fiber core, which is the part where end-users actually write, with a hollow plastic relay core.

Advanced polishing technology

Teibow's advanced polishing technology enables the processing of complex shapes (spatula shape, kokeshi doll shape, shark shape, archery shape, brush shape, hollow shape, etc.). This processing technology is the foundation for the evolution into MIM.

Figure 20. W structure with hollow relay core



Source: Company data

Figure 21. Examples of special shapes

Source: Company data

4) Marking pen nibs (cosmetics) business

Top runner in liquid liner industry

Teibow is an industry leader in supplying applicators for liquid liner products, and has the world's top share of nylon tips for eyeliner. Teibow is the only supplier in the world that can develop and produce brushes and relay cores as one unit. Teibow proposes applicators optimized for containers and contents.

Development proposal as a set

For liquid eyeliner applications, Teibow supplies nylon fiber cores that have a soft and smooth brush feel, and PBT fiber brushes that have a unique stiffness and brush feel. Teibow can supply cosmetic pen nibs suitable for containers such as filling type, direct liquid type, and dip type. Teibow develops and supplies a set of cosmetic pen nib and batting for the filling type, and a set of the cosmetic pen nib and relay lead for the direct liquid type. Liquid products are one of the most difficult products to develop among cosmetics, as they require the cosmetic pen nib to be impregnated with a certain amount of liquid. Teibow is the only company in the world that can develop, produce and supply both brushes and relay cores, and is able to propose development as a set.

Various pen nibs and applicators

Teibow also offers parts suitable for high viscosity bulk and colored/lame bulk, as well as pen nibs for eyebrow and lip liner applications. Teibow also offers make-up removers and applicators perfect for correctors that allow end-users to touch up their makeup. Teibow offers a variety of products depending on the application and customer's container/bulk, such as hollow plastic cores with irregular cross-sections for nail art and polyester fiber cores for nail care. Unlike makeup products, the cosmetic pen nib of nail products used to paint on nails must have excellent durability.

5) MIM business

Top class production capacity in Japan

Metal Injection Molding (MIM) is a cutting-edge metal parts manufacturing methods, and is a composite technique created by combining traditional plastic injection molding and metal powder metallurgy. By injection molding using a mold, it is possible to easily manufacture minute and precise parts that are difficult to machine, as well as parts with complex shapes and three-dimensional shapes. Teibow also excels in mass production, and Teibow can manage monthly production of 1,000 to 1 million pieces. It can now produce hollow shapes, which were previously considered difficult to produce due to the difficulty of controlling sintering accuracy. According to the company, the expertise in ultra-fine processing technology cultivated through marking pen nib processing is being utilized to improve sintering precision. Teibow has among the leading production capacities in Japan and is also developing an international market (transportation equipment in Europe).

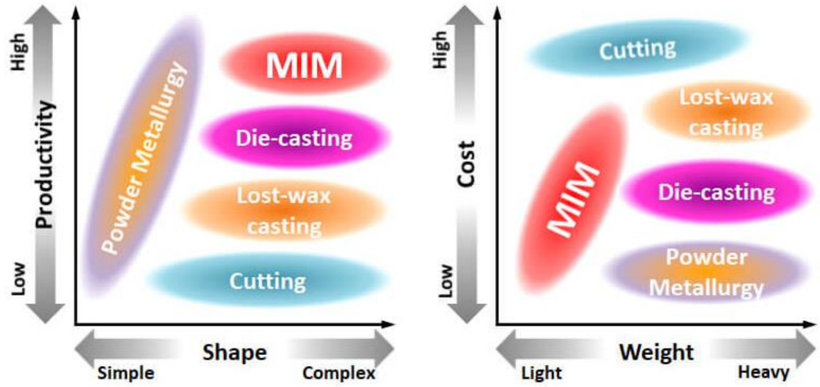
MIM world market size

According to the company, the MIM market size is estimated at approximately ¥400 billion. According to QY Research, the global MIM market size in 2023 is estimated to be USD2,349 million, and is expected to grow at a CAGR of 5.7% from 2024 to 2030, reaching USD3,478.5 million by 2030. Major MIM manufacturers include Indo-MIM, ARC Group, NIPPON PISTON RING, Schunk, Sintex, Praxis Powder Technology, ASH Industries, Form Technologies and Smith Metal Products, etc.

MIM usage/application examples

MIM has a wide range of applications: automobile/motorcycle parts, bicycle shift/brake units, ball screw parts, endoscope/orthodontic/other medical equipment parts, housing/vending machine parts, ATM/pneumatic equipment/knife parts, printer parts, camera parts, notebook PC parts, exterior parts, mobile phone/radio equipment parts, semiconductor manufacturing equipment parts, etc. The main materials are various SUS, SCM415, Fe-Ni, Fe-3Si, Fe-49-Co, SKD11, etc. Application examples of MIM conversion: Cutting parts (reduced processing costs, significant cost reduction), lost wax (improved dimensional accuracy), current MIM (adapted from overseas MIM, improved quality and delivery time). Application examples include reducing part costs by integrating two parts and forming hollow MIMs.

Figure 22. Image of MIM features



Source: Company data

Figure 23. Hollow shape MIM

Source: Company data

6) New field

Product examples for each use

Teibow is applying the technology it has cultivated in marking pen nib manufacturing to new fields. Examples: absorption (adsorption), suction (retention/volatilization), filter (filtration), coating, stylus pen, tubing, and other uses. Examples of products for each use include:

- Absorption (adsorption): blood absorber, hygiene test swab, oral care
- Suction (retention/vaporization): Air freshener wick, air freshener stick wick, agricultural water supply wick, in vitro diagnostic reagent, printer absorber
- Filter (filtration): ventilation filter, pipette tip filter (physical and chemical equipment), industrial filter
- Application: medical applications, industrial applications
- Stylus pen: Stylus pen tip for smartphones and tablets, touch pen tip for electronic boards
- Tubing: Medical tubing (catheter, liquid delivery), insulation tubing (thermistor sensor protection)

7) Production and sales system

Mass production

Teibow has production bases in Japan and partially in China. Writing instruments pen-nib production is 60% made-to-stock and 40% made to order. Since up to 5 billion pieces are produced each year, the average unit cost of writing instruments are estimated to be around ¥2 per piece. Cosmetics and MIM are made to order (lead time 1-2 months). Teibow sells directly to its major customers, and some to developing countries go through distributors.

Unit selling price

The unit selling price is the highest for cosmetics, MIM is close to the same level, and writing instruments are the lowest. Writing accounts for 64% of sales revenue, making it the largest contributor to profits. The profit margin is not disclosed. The company is focusing on MIM, which has high growth potential, and MIM accounts for 59.1% of capital investment (as of FY12/22).

8) Performance trends

Stabilized writing inst. and cosmetics, focus on MIM

Teibow's sales revenue decreased by 11.9% YoY in FY12/20 due to the COVID-19 pandemic, increased by 20.3% YoY in FY12/21, and increased by 3.5% YoY in FY12/22, but decreased again by 7.4% YoY in FY12/23. The reasons for the decline are stagnation in the European, American, and domestic markets (writing instruments, cosmetics) and customers' production adjustments (MIM). Depreciation expenses have increased due to increased MIM capital investment YoY in FY12/19 and FY12/20. The EBITDA margin also decreased from 34.1% in FY12/21 to 27.1% in FY12/23.

Figure 24. Teibow's performance trends by business (¥ million, %)

Teibow	FY19	FY20	FY21	FY22	FY23
Revenue	11,590	10,212	12,282	12,717	11,781
YoY	-	-11.9%	20.3%	3.5%	-7.4%
Writing Inst.	7,923	6,906	7,888	8,249	7,519
Cosmetics	1,478	1,136	1,656	1,706	1,442
MIM	1,760	1,743	2,279	2,297	2,251
Others	427	426	458	464	567
EBITDA	3,779	3,212	4,185	3,718	3,198
Margin	32.6%	31.5%	34.1%	29.2%	27.1%
Capex	1,302	1,376	649	767	689
MIM	910	1,124	352	453	-
Depreciation	390	475	547	606	648
R&D	70	65	72	70	62
R&D ratio	0.6%	0.6%	0.6%	0.6%	0.5%

Teibow	FY19	FY20	FY21	FY22	FY23
%Total	100.0%	100.0%	100.0%	100.0%	100.0%
Writing Inst.	68.4%	67.6%	64.2%	64.9%	63.8%
Cosmetics	12.8%	11.1%	13.5%	13.4%	12.2%
MIM	15.2%	17.1%	18.6%	18.1%	19.1%
Others	3.7%	4.2%	3.7%	3.6%	4.8%
%Total	100.0%	100.0%	100.0%	100.0%	100.0%
MIM	69.9%	81.7%	54.2%	59.1%	-

Source: Strategy Advisors – Based on Company Data

5. AlphaTheta (audio equipment related)

1) History

Started as a division of Pioneer

AlphaTheta's predecessor was Pioneer's DJ equipment business. In June 1994, the CDJ500, the world's first flat-top DJ player, was released. Since the release of the first professional DJ mixer DJM-500 equipped with the world's first "BEATEFFECT" in October 1995, the multiplayer CDJ-2000NXS for professional DJs was released in September 2012, the PLX-1000 analog turntable for professional use was released in July 2014. AlphaTheta has released a series of hit products.

From Pioneer DJ to AlphaTheta

In March 2015, Pioneer DJ became independent through a share split (became part of KKR). In October 2015, the system was updated to ver.4.0 with "rekordbox dj", a DJ play function originally developed by the music management application called "rekordbox™". In August 2016, they released "TORAIZSP-16" and made a full-scale entry into the music production market. In October 2019, it opened DJ school Pioneer DJ Yokohama Lab. In January 2020, Pioneer DJ name was changed to AlphaTheta. In April 2020, AlphaTheta was acquired by the Noritsu Koki Group (total payment amount: estimated corporate value of approximately ¥65 billion = acquisition fee of ¥35 billion + loan repayment of ¥30 billion).

2) Company profile

Business content

Established on August 12, 2014. AlphaTheta's business activities include product development, design, and sales of DJ/club equipment, professional audio equipment, and music production equipment, as well as related services. Revenue: ¥51.9 billion, number of employees: 503. It is headquartered in Yokohama, Kanagawa Prefecture, and has sales subsidiaries in the UK, California (the US), and Shanghai (China).

Over 70% global share

AlphaTheta has captured over 70% of the world market share for DJ equipment (90% in Europe, 60% in the US) and has become the de facto standard for DJ equipment. Its strength is its in-house development and design systems that integrate hardware and applications. It is expanding its business globally, and its main markets are overseas, principally in Europe and North America (sales ratio by region: North/Latin America 35 % , EMEA 46%, APAC 8%, China 5%, Japan 6%).

Figure 25. AlphaTheta's business details

Source: Company data

3) Core technology

Main core technology

AlphaTheta's core technologies are (1) user interface technology, (2) signal processing technology, and (3) high-quality sound technology.

User interface technology

(1) User interface technology: Achieving delicate and versatile DJ play "BIG JOG"

It has a highly reliable user interface technology that connects delicate and diverse touches to performance expression, with an operation load adjustment function that responds to the operational feel required by individual DJs, such as cueing a song, fine adjustment of playback speed, and scratching. It achieves high performance play.

Signal processing technology

(2) Signal processing technology: Waveform display that clearly shows the content of a song

By understanding the structure of a song, DJs can mix it more attractively. Audio signal processing technology/song analysis technology analyzes the structure and features of a song, and visually displays the information DJs want to know in waveforms in an easy-to-understand manner. DJs can instantly cue up to the desired playback position.

High-quality sound technology

(3) High-quality sound technology: Club sound that knows everything about the scene

Twenty years since it introduced the first DJ mixer in 1995, it has achieved a tight low range, a realistic midrange, and a high-resolution high range. Through repeated field tests, it pursues a club sound that evokes a sense of euphoria.

4) Market penetration

Brand power

World's top 10 DJs use AlphaTheta equipment, and market penetration is close to 100%. The company's brands, Pioneer DJ and AlphaTheta, have penetrated the world as top brands of DJ equipment. Many top DJs used AlphaTheta's equipment for streaming even though clubs were not open and events could not be held because of the COVID-19 pandemic.

Reaching a wide range of customers

AlphaTheta has a broad customer reach, with approximately 10 million annual website visits, 2.7 million news registrations, over 2.2 million social networking followers (as of 2020).

Covering a wide range of DJ needs

AlphaTheta's DJ equipment has an extensive product lineups tailored to various situations, covering DJ needs from professionals to hobbyists. Professional DJs include world-famous DJs who play at festivals and events, professional DJs who play in clubs, and DJs who also produce and release their own music. Regular DJs include those who perform at clubs, restaurants, and bars in cities, and DJs who sometimes bring their own equipment to perform at hotels and parties. Hobbyist DJs include individuals who enjoy

DJing at home, DJs who enjoy it as a hobby, and people who enjoy DJing casually through their favorite music on smartphones, PCs, and applications.

5) Production and sales system

Consignment production, direct sales

Production of DJ equipment is outsourced to factories in Asia. Products are shipped directly from the factory to each country and sell wholesale to musical instrument stores in the areas of three overseas sales companies (America, UK, and China). These musical instrument stores ranges from large chains to individual stores. It uses local distributors in other areas.

Number of units shipped

The volume of DJ equipment shipped temporarily declined to 468,000 units in FY12/21 (down 10.9% YoY) due to production cutbacks caused by semiconductor shortages, but has steadily increased to 515,000 units in FY12/22 (up 10.0% YoY) and 609,000 units in FY12/23 (up 18.2% YoY). Monthly active users (MAUs) for DJ applications also increased rapidly to 610,000 users in FY12/22 (up 52.5% YoY) and 790,000 users in FY12/23 (up 29.5% YoY).

Figure 26. All of the world's top 10 DJs use the company's equipment

Ranking[1]	Artist/Est. revenue[1]	Mixer/Player[2]
1	The Chainsmokers ($46 million)	DJM-900NXS2 CDJ-2000NXS2
2	Marshmello ($40 million)	DJM-900NXS2 CDJ-2000NXS2
3	Calvin Harris ($38.5 million)	DJM-900NXS2 CDJ-2000NXS2
4	Steve Aoki ($30 million)	DJM-900NXS2 CDJ-2000NXS2
5	Diplo ($25 million)	DJM-900NXS2 CDJ-2000NXS2
6	Tiesto ($24 million)	DJM-900NXS2 CDJ-2000NXS2
7	Martin Garrix ($19 million)	DJM-900NXS2 CDJ-2000NXS2
8	David Guetta ($18 million)	DJM-900NXS2 CDJ-2000NXS
9	Zedd ($17 million)	DJM-900NXS2 CDJ-2000NXS2
10	Armin van Buuren ($15 million)	DJM-900NXS2 CDJ-2000NXS2

Source: Company data, Forbes -The World's Highest-Paid DJs 2019

6) Important measures/growth measures

Continuous growth and new value creation

AlphaTheta aims to expand its business domain through new value creation based on the continuous growth of its core/club equipment business.

(1) Continuous growth of the DJ/club equipment business: Introducing industry-leading next-generation DJ equipment, developing the DJ culture and expanding the new customer base, creating markets and customers in the Asian region.

(2) Expansion of business areas: Evolution of application software business, expansion of the digital service business, business expansion in adjacent areas (headphones, monitor speakers, etc.)

An agreement to acquire Serato

In November 2023, the company announced and reached an agreement for AlphaTheta to acquire all the shares of Serato, a major DJ equipment software company, which is currently under review in New Zealand and the UK. The planned acquisition price is 70 million dollars (approximately ¥10.5 billion, including advisory fees). AlphaTheta has been developing DJ equipment compatible with Serato's DJ software since 2011. AlphaTheta and Serato will continue to operate as independent brands and aim to create new value in music experiences and contribute to the industry and users.

Overview of Serato

Serato Audio Research Limited was founded in Auckland, New Zealand in 1998 (co-founders: Steve West, AJ Bertenshaw). West and Bertenshaw met in a computer science class at the University of Auckland. West created an algorithm that allowed him to change the tempo of a recorded track without changing its pitch. The first product "Pitch'n Time" was based on an original audio manipulation concept, and they tried to sell this product to various companies including Pioneer and Sony (now Sony Group [6758 TSE Prime]), but could not obtain the support of the music industry. However, the idea was received more positively in Hollywood, where it quickly became a useful editing tool for filmmakers.

Serato Software Products

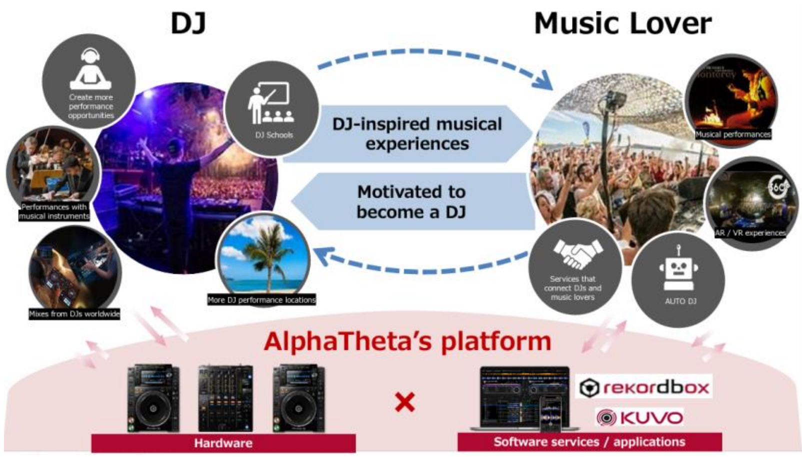
Serato's software products are used for digital music mixing, including digital record mixing for DVS records. Serato also makes software for DJ mixing with a visual component that includes waveform beatmatching and other information about the sound produced by the system.

Figure 27. Serato's performance trends (NZ IFRS))

Serato (NZ$, K)	FY3/21	FY3/22	FY3/23	Serato (¥ mn)	FY3/21	FY3/22	FY3/23
Revenue	32,977	30,169	40,370	Revenue	3,034	2,776	3,714
Operating profit	8,499	5,710	10,475	Operating profit	782	525	964
OPM (%)	25.8%	18.9%	25.9%	OPM (%)	25.8%	18.9%	25.9%
Net profit	6,161	4,831	6,639	Net profit	567	444	611
Capital total	5,114	2,856	7,750	Capital total	470	263	713
Debt total	3,913	6,198	8,950	Debt total	360	570	823
Total assets	9,027	9,054	16,700	Total assets	830	833	1,536

Source: Strategy Advisors – Based on Company Data Note: Yen/NZ=¥92 conversion

Figure 28. The world that AlphaTheta seeks to create



Source: Company data

7) Performance trends

High price range products

More than 90% of AlphaTheta's revenue comes from hardware (mostly DJ equipment) and less than 10% from software. The average selling price of DJ equipment for club professionals is around ¥200,000, however, popular professional DJs use three units (center, left and right), and the unit price ranges from ¥500,000 to ¥700,000. On the other hand, price ranges of ¥100,000 to ¥250,000 are popular for individuals, yet demand for products under ¥50,000 for beginners is increasing due to demand from people staying at home after the COVID-19 pandemic. Since FY12/21, the number of units sold (shipped) to general individuals have exceeded that to professional DJs, but high-end products have accounted for a sizable proportion of sales revenue.

Average price

Although the simple average unit price, which is calculated by dividing revenue by the number of DJ units shipped, decreased temporarily from ¥54,000 in FY12/19 to ¥51,000 in FY12/20, the price has since continued to rise, reaching ¥57,000 in FY12/21, ¥71,000 in FY12/22, and ¥85,000 in FY12/23. Professional DJs have high standards for sound quality and functionality, and the marketing effects of introducing new products in higher price ranges are appearing.

EBITDA margin

The EBITDA margin also remained around 20% until FY12/22, but rose to 25.7% in FY12/23, aided by the effects of the weaker yen. AlphaTheta has strong R&D capabilities, and its R&D expense ratio to revenue remains in the range of 12-16%. The amount of capital investment doubled YoY in FY12/23. AlphaTheta is in the process of acquiring Serato, a major DJ software company, with the aim of expanding and strengthening its software products.

Figure 29. AlphaTheta's performance trends

AlphaTheta	FY19	FY20	FY21	FY22	FY23
DJ eq. shipping (K units)	471	525	468	515	609
YoY (%)	-	11.5%	-10.9%	10.0%	18.3%
DJ Apl. MAU (K persons)	-	-	400	610	790
YoY (%)	-	-	-	52.5%	29.5%
Average unit price (¥ K)	53.7	51.1	56.6	70.6	85.3
Revenue (¥ mn)	25,300	26,829	26,511	36,362	51,930
EBITDA (¥ mn)	5,300	5,508	5,671	6,897	13,352
EBITDA margin (%)	20.9%	20.5%	21.4%	19.0%	25.7%
Capex (¥ mn)	250	194	455	540	1,107
Depreciaiton (¥ mn)	-	1,630	2,171	2,085	2,102
R&D expenses (¥ mn)	3,800	4,056	4,299	5,129	6,250
R&D ratio to revenue (%)	15.0%	15.1%	16.2%	14.1%	12.0%

Source: Strategy Advisors – Based on Company Data

Note) 12-month equivalent for FY12/20, MAU is the year-end value

8) DJ equipment market trends

DJ equipment global market

According to Business Research Insights, the global market size for DJ equipment is expected to reach US$853.13 million by 2027 from US$495.67 million in 2021 (CAGR 9.47%). Emergen Research also predicts that the global market size for DJ equipment will reach US$961.30 million in 2030, up from US$453.63 million in 2021 (CAGR 6.6%). In both cases, the expansion of the DJ equipment market will be driven by the rise of a broader young consumer base in the music industry and the evolution of new digital technologies. The growing popularity of electronic dance music in particular is reflected in the fact that breakdancing and 3x3 basketball have officially been added to the 2024 Paris Olympics.

DJ's role

DJs use hardware that allows them to play two recorded sound sources simultaneously and combine them into one. This is a purely analog method in which DJs rotate turntables in a circular motion to control recording playback and song tempo. This allows DJs to make consistent changes across accounts and blend songs specifically. This technique includes adjusting the beat of the music source, rhythmically balancing, playing two records simultaneously, smoothing transitions between songs, etc. The company has used the COMP function to reduce the sound pressure and convert it to a thinner sound, producing a comfortable and powerful bass sound without sound cracking. In addition, the new DJM-A9 has a function that allows the DJ to swing the song to a fast or slow tempo to create a sense of excitement, shake the audience aggressively, and then instantly return to the center of the song to create a higher sense of excitement through quick changes (Center Rock function).

DJ equipment

DJs use a variety of equipment, including turntables, CDs, mixers, controllers, horns, bass, and percussion hardware. DJ software is used to control music files and create beats. Since the main market for DJ equipment is for professionals, it is one of the few electronic equipment products with unit sales prices that are continuing to rise with increasing functionality.

DJ equipment manufacturer

The top DJ equipment manufacturers (in order of revenue) are as follows: ① AlphaTheta (Japan), ② InMusic (US: Akai, Denon, Stanton, Numark, others), ③ Shure (US), ④ Hercules (France), ⑤ Roland (Japan), ⑥ Behringer (Germany), ⑦ Reloop (Germany), ⑧ DJ Tech (Italy). According to the company, AlphaTheta has a global market share of over 70% for DJ equipment hardware, compared to InMusic, the second largest company with a large number of brands under its umbrella, which has a share of 10-15%.

6. JLab (audio equipment related)

1) History

Business booms after acquisition by PE fund

JLab is a consumer audio equipment manufacturer founded in 2005 in Tucson, Arizona. In January 2012, JLab was acquired by a private equity fund and relocated to California. After making JLab one of the top five headphone brands in the US market, the management team led by CEO Winthrop Cramer began advancing into the overseas market to expand its sales.

Sports competition sponsorship activities

JLab has become well known through active sponsorship activities, such as becoming the official audio partner of Major League Soccer (MLS) in 2017. In 2018, JLab became a partner of eMLS, an e-sports league established by MLS, and entered the gaming market. In May 2021, JLab was acquired by Noritsu Koki (acquisition price is around ¥40 billion) and joined the group. JLab Japan was established in 2022, making a full-scale entry into the Japanese market. In 2023, JLab also entered the national collegiate sports market, which has a very large market potential.

2) Business overview

Inexpensive wireless earphones are the mainstay

JLab's mainstay is inexpensive wireless earphones, but it also manufactures high-end wireless earphones and headphones, as well as wireless headphones and Bluetooth speakers. JLab has developed a wide range of products that meet various customer needs at affordable prices. In the future, JLab aims to increase its market share by rolling out products in four areas: Audio, Work, Gaming/Creators, and Health.

Figure 30. Price range of JLab products

Source: Company data

Figure 31. Product areas covered by JLab

Audio	Work	Gaming Creators	Health
			
Expand lineup from earphones, headphones and children's products to cover portable speakers and home audio systems	Deploy facilities that support more efficient work environments than current keyboard/mouse and webcam peripherals	Develop products tailored to gaming and media creation, focusing on current lineup of gaming headphones and microphones	Move into hearing support category following new regulations in US that allow OTC hearing aids; develop new products for Hearing Health field

Source: Company data

3) Production and sales system

Focusing on sales channels outside the US

JLab outsources manufacturing to factories in Asia and ships mainly to the US. JLab is gradually expanding its sales channels outside the US. From FY12/21 to FY22/23, the sales revenue breakdown is North/Latin America 85.6%→79.1%, EMEA 13.1%→17.6%, APAC 1.0%→2.9% , Japan 0.0 %→0.2%.

4) Performance trends

Expanding US share

JLab's revenue increased by 36.7% YoY in FY12/20, but there was a reactionary decline of 1.3% YoY in FY12/21 temporarily. Double-digit growth continued with 23.4% YoY in FY12/22 and 13.8% YoY in FY12/23. The EBITDA margin was 5.8% in FY12/22, down 5.8% points YoY, but recovered to 9.3% in FY12/23. The impact of the stagnation in the US consumer electronics retail market was offset by expanding market share in the US, expanding channels, and growing outside the US.

Selected elites

JLab has a small number of employees at 74 (FY12/23), consisting of selected elites who make decisions quickly. They are sensitive to trends and have succeeded in creating a brand by providing products at affordable prices for applications such as sports or gyms that require replacement demand in harsh environments. JLab's approach of focusing on second-choice products rather than chasing high-end items is effective.

Figure 32. JLab's performance trends

JLab	FY19	FY20	FY21	FY22	FY23
Revenue (¥ mn)	13,900	19,000	18,756	23,154	26,340
YoY (%)	-	36.7%	-1.3%	23.4%	13.8%
EBITDA (¥ mn)	2,100	3,500	2,173	1,337	2,462
EBITDA margin (%)	15.1%	18.4%	11.6%	5.8%	9.3%
Capex (¥ mn)	-	-	26	143	32
Depreciaiton (¥ mn)	-	-	564	1,004	1,080
R&D expenses (¥ mn)	-	-	49	49	66
R&D ratio to revenue (%)	-	-	0.3%	0.2%	0.3%

Source: Strategy Advisors – Based on Company Data

5) Wireless earphone market trends

Many manufacturers compete in a high growth market

Research Station LLC expects the global market (value) for wireless earphones to grow from US$8.9 billion in 2022 to US$18.2 billion in 2031 (CAGR 7.9%). According to Modor Intelligence, the global earphone market is set to reach 937.67 million units in 2029, up from 273.54 million units in 2024 (CAGR 27.9%). Major entrants are Boat, Samsung Electronics, Apple, Xiaomi, BBK Electronics, Sony, Bose, Skullcandy, Edfier International, QCY, JLab, Huawei, and others. The earphone market is categorized by function (wired earphones, wireless earphones (truly wireless)) and price range (premium range (over $150), mid-range ($50-150), and low range (under $50)).

JLab aims to capture second choice demand

In the premium range, major vendors such as Apple, Samsung, and Bose are investing substantial amounts in R&D and are engaged in technological competition. Although JLab has a value share of around 2%, its clever brand strategy (particularly for sports such as soccer and gyms) has made it the top brand under $100 in the North American market. When using iPhones in harsh environments such as sports or gyms, consumers tend to choose affordable and fashionable JLab products as a second choice rather than original iPhone brand earphones. The company sees JLab products as an access point for everyone on the planet to access the direction of knowledge (all information).

7. Other businesses

1) PreMedica (preventive medical care)

Business content

PreMedica is a company involved in preventive medical care and R&D of innovative medical technology. Its head office is located in Minato-ku, Tokyo, and the Tokyo Research Institute is in Shinjuku-ku. The testing service business is divided into parts/organs (eastern, chest, abdomen, whole body) and diseases (circulatory diseases, lifestyle-related diseases, cancer, dementia, physical constitution checks) and performs various tests. In R&D

support, PreMedica collaborates with universities, research institutes, and manufacturers. PreMedica makes research contract testing/measurement, and provides intestinal flora measurement/analysis services, and diabetic kidney disease (DKD)/acute kidney disease (AKD) risk measurement kits.

Preparing for listing

In July 2010, Noritsu Koki established NK Medical (currently PreMedica) for the purpose of developing business in the medical field. The company acquired Doctor Net in June 2010, established Japan Regenerative Medicine in October 2013, and acquired Japan Medical Data Center (currently JMDC), Feed, and i-Medic in May 2013, strengthening and expanding its business in the medical field. In order to concentrate management resources on the manufacturing business, the company separated its medical business and transferred and deconsolidated most of its subsidiaries. The company is preparing to list PreMedica and plans to make it independent as a non-core business.

Performance, finance

According to the financial results announcement (FY3/23), PreMedica's business results are as follows: net income of ¥161 million, retained earnings of ¥727 million, net assets of ¥948 million, and total assets of ¥1,266 million.

2） Noritsu Koki's parent company

Pure holding company

Noritsu Koki's parent company is a pure holding company with a management team and 17 employees, and is responsible for group management (capital policy, group finance, investments, M&A, legal affairs, human resources, IR, etc.) and business research and investment in new growth areas. Although the company does not operate a sales-making business on a parent company basis, it accounts for 170.5% of consolidated net income and 80.1% of total assets (FY12/23).

Main account items of PL

The parent company results for FY12/23 were sales of 0, an operating loss of ¥1,546 million, a recurring loss of ¥815 million, and net profit of ¥17,385 million. The main account items on the PL statement were SG&A expenses of ¥1,546 million, non-operating profit of interest income of ¥751 million, a forex gain of ¥349 million, and non-operating expenses of interest paid of ¥285 million, financing fees of ¥95 million, and extraordinary income of ¥25,569 million in the form of a gain on sales of investment securities.

Main account items of BS

The BS at the end of FY12/23 had total assets of ¥223,742 million, with the main items being cash and deposits of ¥39,902 million, the major item is long and short-term lending of ¥43,641 million, investment securities of ¥21,341 million, and stocks of affiliated companies of ¥101,100 million. In terms of liabilities, long and short-term loans of ¥39,370 million yen. In terms of net assets, shareholders' equity of ¥165,641 million and total net assets of ¥178,159 million.

Consolidated/parent ratio

On a consolidated basis, total assets are ¥279,471 million (consolidated/ parent ratio 1.25), cash and cash equivalents are ¥70,190 million (1.76), interest-bearing debt is ¥42,577 million (1.08), total equity capital attributable to owners of the parent company is ¥205,374 million (1.24), and total equity is ¥205,844 million (1.16).

8. Financial structure and capital strategy

Profit margin and operating EBITDA margin

The company's gross profit margin (FY12/23) was 44.9%. It also had an SG&A expense ratio of 30.1%, an operating profit margin 15.8%, a pre-tax profit margin of 15.0%, and profit attributable to owners of the parent company of 11.1%. The operating EBITDA margin was 19.5%. Compared to operating profit, operating EBITDA indicates a company's intrinsic earning power that is not affected by non-recurring profits and losses or amortization expenses. Therefore, the company considers this information useful in evaluating its performance and discloses it additionally.

Total asset turnover rate is low

As a result of business restructuring (selling shares of JMDC, etc.), the company has ample cash assets. In addition, goodwill and intangible assets were recorded as a result of recognizing excess earning power when acquiring three major businesses. Cash assets, goodwill, and intangible assets account for 78% of total assets. The equity ratio (equity ratio attributable to owners of the parent company) is 73.5%, the total asset turnover ratio is low at 0.31, and even though the current profit margin is 11.1%, the ROE remains at 5.1%.

ROE improvement

The company recognizes that improving capital efficiency is an issue, and aims to improve ROE (8% target) by allocating surplus cash assets to investment in growth, increasing capital efficiency by expanding existing businesses and developing new fields. ROIC continued to be lower than WACC (assumed at 5-6%), and economic added value (EVA) had not been created.

ROIC improvement

The current management team aims to improve profitability (operating EBITDA margin of 20% or more) and capital efficiency (investment in growth areas, M&A to strengthen core businesses, shareholder returns) in order to improve ROE and ROIC. US-based JLab's WACC was set at a high level due to high interest rates, which caused the impairment.

Working capital turnover ratio, CCC

Working capital ratio has fallen from 7.0-9.0 to 3.0-4.0 since FY3/20. The cash conversion cycle (CCC) has also been extended from 20 days or less to over 100 days since FY12/21. The main factors were the deconsolidation of JMDC (FY12/22 includes JMDC as an opening balance) and the acquisition of two audio equipment-related companies (Impact on FY12/23).

Growth story from a financial perspective

The company's growth story from a financial perspective is one of high profitability and EBITDA margins relative to cash used, and ample surplus funds that leave room for growth. The company has a strong financial position and is cash-rich (Net Debt -¥52,684 million as of the end of FY12/23), which gives it the flexibility to invest in growth quickly and effectively in new and existing business areas, M&A, and elsewhere. In terms of capex, the company has already invested in a new MIM plant, and its two audio equipment-related subsidiaries are fabless, so there are no major capex plans for the time being.

Free cash flow

Free cash flow, which is operating cash flow minus investment cash flow, is expected to remain positive. In addition, the company expects to see an influx of funds from the selling of shares of its medical and healthcare-related subsidiaries, including the listing of PreMedica. According to the CFO, the company is in the process of building a track record for growth in its three core businesses under the current mid-term management plan, and any surplus funds will be allocated to investments for growth, including new business fields, under the next mid-term management plan.

Tax rate

From a tax perspective, the company has adopted Japanese Group Relief System. Tax rates have not been set for the past several years due to the sale of shares and the use of loss carried forward.

Note: See Figure 1 Main Indicators on page 3

9. Current performance trends

Results for FY12/2023

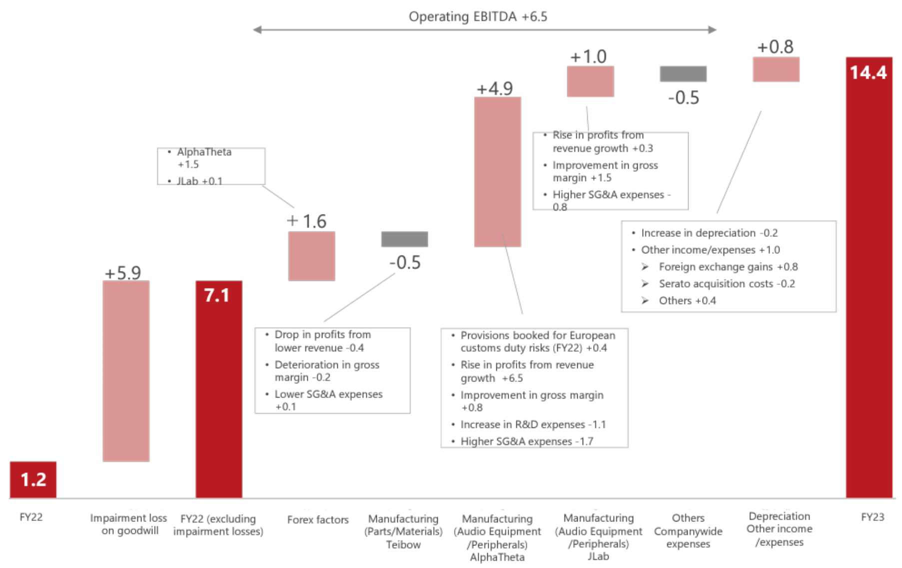
The company's performance for FY12/23 was a significant increase in revenue and profits, with revenue of ¥91,552 million (up 24.5% YoY) and operating profit of ¥14,462 million (up 1,045.5% YoY). Net profit of ¥10,199 million (down 90.0% YoY) was actually an increase, excluding the impact of gain on sale of stocks in the previous fiscal year (net profit from discontinued operations of ¥97,552 million). On an individual company basis, Teibow's revenue and profits decreased, while AlphaTheta and JLab posted increased revenue and profits. In terms of forex rates (average), the yen depreciated by ¥9.2 to the USD at ¥140.6, and by ¥14.0 YoY to ¥152.0 to the EUR, which had a positive impact on the profits of AlphaTheta and JLab, which do a lot of business in USD and EUR. The weaker yen has a positive impact on operating profit for the group as a whole.

Sales revenue increase/decrease analysis

The decline in Teibow's revenue YoY was due to stagnation in the European, American and domestic markets (writing instruments and cosmetics), as well as the impact of customers' production adjustments (MIM), resulting in a decrease of ¥900 million. AlphaTheta and JLab's revenue increased by ¥3.4 billion and ¥1.7 billion, respectively, due to the impact of the weaker yen. AlphaTheta's revenue increased by ¥12.1 billion due to price optimization, steady demand (excluding China), normalization of supply, and strong new product rollout, although there have been delayed sales since FY12/21. JLab also posted a ¥1.5 billion increase, offsetting the impact of the stagnation in the US consumer electronics retail market by expanding its US market share, boosting channels, and growing outside the US. Other company-wide expenses also improved by ¥200 million.

Analysis of operating profit increase/decrease YoY

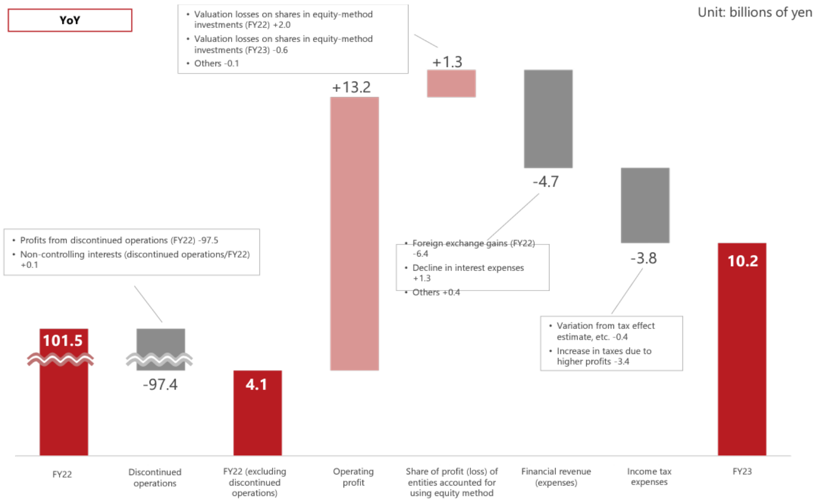
Figure 33. Analysis of operating profit increase/decrease YoY



Source: Company data

Analysis of net profit increase/decrease YoY

Figure 34. Analysis of net profit increase/decrease YoY



Source: Company data

Outlook for FY12/2024

The company's estimates for FY12/24 are revenue of ¥97,600 million (up 6.6 % YoY), operating EBITDA of ¥18,800 million (up 5.2 % YoY), operating profit of ¥13,400 million (down 7.3% YoY), and net profit of ¥8,600 million (down 15.7% YoY). The average forex rate assumption is ¥140.5/USD and ¥152.0/EUR.

The breakdown of changes (increase/decrease) in revenue

The breakdown of changes (increase/decrease) in revenue is expected to be Teibow up ¥0.6 billion, AlphaTheta up ¥3.7 billion, JLab up ¥1.7 billion, and HQ expenses up ¥0.1 billion.

Operating profit changes

The breakdown of changes in operating profit is as follows.
Teibow +¥300 million (revenue increase effect +¥200 million, gross profit margin improvement +¥300 million, SG&A expense increase -¥200 million),
AlphaTheta +¥100 million (revenue increase effect +¥1.9 billion, gross profit margin improvement +¥1.8 billion, R&D expenses increase -¥900 million, SG&A expenses increase -¥2.7 billion),
JLab +¥400 million (revenue increase effect +¥400 million, gross profit margin improvement +¥1.4 billion, SG&A expenses increased -¥1.4 billion), and amortization expense, other income and expenses increase -¥1.9 billion yen (depreciation expenses increase -¥200 million, forex loss by -¥1.4 billion, and Serato acquisition-related costs -¥300 million).

Net profit changes

The breakdown of changes in net profit is as follows. Operating profit -¥1 billion, compared to the valuation loss on equity method stocks for FY12/23 +¥600 million, financial balance -¥500 million, corporate income tax expense -¥700 million.

Conservative company's estimates

Although the company expects year-on-year sales growth and profits decline YoY, all three major subsidiaries are forecasting growth in both sales and profits YoY. Other factors contributing to the decline in overall profits are increases in amortization expense and other income and expenses (especially forex losses). Considering the current weakness of yen, the company's estimates are considered to be conservative.

Figure 35. Quarterly performance trends

Quarterly Financial Results (¥ mn, %)	FY12/2021				FY12/2022				FY12/2023			
(Cumulative)	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Q1-4
Revenue	10,339	23,530	36,946	54,481	14,224	31,536	49,662	73,515	17,398	41,469	65,789	91,552
YoY	-	-	-	-	37.6%	34.0%	34.4%	34.9%	22.3%	31.5%	32.5%	24.5%
Cost of sales	4,598	11,312	18,823	29,717	8,047	18,352	29,794	43,986	10,191	23,454	36,277	50,480
YoY	-	-	-	-	75.0%	62.2%	58.3%	48.0%	26.6%	27.8%	21.8%	14.8%
Cost of sales ratio	44.5%	48.1%	50.9%	54.5%	56.6%	58.2%	60.0%	59.8%	58.6%	56.6%	55.1%	55.1%
Gross profit	5,741	12,217	18,122	24,763	6,176	13,184	19,867	29,529	7,207	18,014	29,511	41,072
YoY	-	-	-	-	7.6%	7.9%	9.6%	19.2%	16.7%	36.6%	48.5%	39.1%
Gross profit margin	55.5%	51.9%	49.0%	45.5%	43.4%	41.8%	40.0%	40.2%	41.4%	43.4%	44.9%	44.9%
SG&A	3,562	7,838	12,462	17,839	4,708	10,211	16,041	22,406	5,702	12,085	19,013	27,595
YoY	-	-	-	-	32.2%	30.3%	28.7%	25.6%	21.1%	18.4%	18.5%	23.2%
SG&A ratio to revenue	34.5%	33.3%	33.7%	32.7%	33.1%	32.4%	32.3%	30.5%	32.8%	29.1%	28.9%	30.1%
Operating profit	2,331	3,605	4,738	6,068	1,700	3,267	4,227	1,262	2,020	7,365	12,522	14,462
YoY	-	-	-	-	-27.1%	-9.4%	-10.8%	-79.2%	18.8%	125.4%	196.2%	1046.0%
OP margin	22.5%	15.3%	12.8%	11.1%	12.0%	10.4%	8.5%	1.7%	11.6%	17.8%	19.0%	15.8%
Profit before tax	1,446	2,253	3,637	5,315	2,050	4,746	7,970	3,944	1,825	7,214	12,264	13,747
YoY	-	-	-	-	41.8%	110.7%	119.1%	-25.8%	-11.0%	52.0%	53.9%	248.6%
Pretax profit margin	14.0%	9.6%	9.8%	9.8%	14.4%	15.0%	16.0%	5.4%	10.5%	17.4%	18.6%	15.0%
Profit attributable to owners of parent	1,263	1,660	2,268	5,115	100,163	101,121	102,928	101,554	1,051	4,454	7,842	10,199
YoY	-	-	-	-	-	-	-	-	-99.0%	-95.6%	-92.4%	-90.0%
NP margin	12.2%	7.1%	6.1%	9.4%	704.2%	320.7%	207.3%	138.1%	6.0%	10.7%	11.9%	11.1%
Operating EBITDA	2,964	6,110	8,412	10,739	2,486	5,049	6,980	11,367	2,552	8,046	13,748	17,875
YoY	-	-	-	-	-16.1%	-17.4%	-17.0%	5.8%	2.7%	59.4%	97.0%	57.3%
EBITDA margin	28.7%	26.0%	22.8%	19.7%	17.5%	16.0%	14.1%	15.5%	14.7%	19.4%	20.9%	19.5%
Cumulative quarter average forex rate (¥/USD)	105.9	107.7	108.5	109.8	116.2	122.9	128.1	131.4	132.3	134.9	138.1	140.6
Cumulative quarter average forex rate (¥/EUR)	127.7	129.8	129.8	129.9	130.4	134.3	136.0	138.0	142.1	145.8	149.6	152.0
Qumulative quarter average forex rate (¥/CNY)	16.4	16.7	16.8	17.0	18.3	18.9	19.3	19.5	19.3	19.5	19.6	19.8
Quarter-end forex rate (¥/USD)	110.7	110.6	111.9	115.0	122.4	136.7	144.8	132.7	133.5	145.0	149.6	141.8
Quarter-end forex rate (¥/EUR)	129.8	131.6	129.9	130.5	136.7	142.7	142.3	141.5	145.7	157.6	158.0	157.1
Quarter-end forex rate (¥/CNY)	16.8	17.1	17.3	18.1	19.3	20.4	20.4	19.0	19.4	19.9	20.5	19.9

Quarterly Financial Results (¥ mn, %)	FY12/2021				FY12/2022				FY12/2023			
(3 months)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	10,339	13,191	13,416	17,535	14,224	17,312	18,126	23,853	17,398	24,071	24,320	25,763
YoY	-	-	-	-	37.6%	31.2%	35.1%	36.0%	22.3%	39.0%	34.2%	8.0%
Cost of sales	4,598	6,714	7,511	10,894	8,047	10,305	11,442	14,192	10,191	13,263	12,823	14,203
YoY	-	-	-	-	75.0%	53.5%	52.3%	30.3%	26.6%	28.7%	12.1%	0.1%
Cost of sales ratio	44.5%	50.9%	56.0%	62.1%	56.6%	59.5%	63.1%	59.5%	58.6%	55.1%	52.7%	55.1%
Gross profit	5,741	6,476	5,905	6,641	6,176	7,008	6,683	9,662	7,207	10,807	11,497	11,561
YoY	-	-	-	-	7.6%	8.2%	13.2%	45.5%	16.7%	54.2%	72.0%	19.7%
Gross profit margin	55.5%	49.1%	44.0%	37.9%	43.4%	40.5%	36.9%	40.5%	41.4%	44.9%	47.3%	44.9%
SG&A	3,562	4,276	4,624	5,377	4,708	5,503	5,830	6,365	5,702	6,383	6,928	8,582
YoY	-	-	-	-	32.2%	28.7%	26.1%	18.4%	21.1%	16.0%	18.8%	34.8%
SG&A ratio to revenue	34.5%	32.4%	34.5%	30.7%	33.1%	31.8%	32.2%	26.7%	32.8%	26.5%	28.5%	33.3%
Operating profit	2,331	1,274	1,133	1,330	1,700	1,567	960	-2,965	2,020	5,345	5,157	1,940
YoY	-	-	-	-	-27.1%	23.0%	-15.3%	-	18.8%	241.1%	437.2%	-
OP margin	22.5%	9.7%	8.4%	7.6%	12.0%	9.1%	5.3%	-	11.6%	22.2%	21.2%	7.5%
Profit before tax	1,446	807	1,384	1,678	2,050	2,696	3,224	-4,026	1,825	5,389	5,050	1,483
YoY	-	-	-	-	41.8%	234.1%	132.9%	-	-11.0%	99.9%	56.6%	-
Pretax profit margin	14.0%	6.1%	10.3%	9.6%	14.4%	15.6%	17.8%	-	10.5%	22.4%	20.8%	5.8%
Profit attributable to owners of parent	1,263	397	608	2,847	100,163	958	1,807	-1,374	1,051	3,402	3,388	2,357
YoY	-	-	-	-	7830.6%	141.3%	197.2%	-	-99.0%	255.1%	87.5%	-
NP margin	12.2%	3.0%	4.5%	16.2%	704.2%	5.5%	10.0%	-	6.0%	14.1%	13.9%	9.1%
Operating EBITDA	2,964	3,146	2,302	2,327	2,486	2,563	1,931	4,387	2,552	5,494	5,702	4,127
YoY	-	-	-	-	-16.1%	-18.5%	-16.1%	88.5%	2.7%	114.4%	195.3%	-5.9%
EBITDA margin	28.7%	23.8%	17.2%	13.3%	17.5%	14.8%	10.7%	18.4%	14.7%	22.8%	23.4%	16.0%
Quarter average forex rate (¥/USD)	105.9	109.5	110.1	113.7	116.2	129.6	138.4	141.0	132.3	137.4	144.6	147.9
Quarter average forex rate (¥/EUR)	127.7	132.0	129.8	130.1	130.4	138.1	139.3	144.3	142.1	149.5	157.3	159.1
Quarter average forex rate (¥/CNY)	16.4	17.0	17.0	17.8	18.3	19.6	20.2	19.9	19.3	19.6	19.9	20.4

Source: Strategy Advisors – Based on Company Data

Note: Rounded under ¥ mn. Rounded to one decimal place

Figure 36. Quarterly performance trends by business segment

Segment Breakdown (¥ mn, %)	FY12/2021				FY12/2022				FY12/2023			
(Cumulative)	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Q1-4	Q1	Q1-2	Q1-3	Q1-4
Revenue	10,339	23,530	36,946	54,481	14,224	31,536	49,662	73,515	17,398	41,469	65,789	91,552
YoY	-	-	-	-	37.6%	34.0%	34.4%	34.9%	22.3%	31.5%	32.5%	24.5%
Manufacturing (Parts/Materials)	2,854	5,953	9,122	12,282	3,062	6,298	9,452	12,717	2,856	5,808	8,750	11,781
YoY	-	-	-	-	7.3%	5.8%	3.6%	3.5%	-6.7%	-7.8%	-7.4%	-7.4%
Writing Instruments	1,859	3,882	5,902	7,888	1,988	4,235	6,237	8,249	1,829	3,684	5,585	7,519
Cosmetics	343	746	1,175	1,656	415	783	1,269	1,706	371	764	1,115	1,442
MIM	544	1,107	1,712	2,279	554	1,083	1,648	2,297	522	1,099	1,634	2,251
Others	106	217	331	458	103	195	296	464	132	261	414	567
Manufacturing (Audio Equipment/Peripherals)	7,238	17,095	27,058	41,107	10,895	24,673	39,299	59,516	14,211	34,984	55,971	78,270
YoY	-	-	-	-	50.5%	44.3%	45.2%	44.8%	30.4%	41.8%	42.4%	31.5%
AlphaTheta	7,238	14,255	19,789	26,511	8,462	16,820	24,577	36,362	10,718	25,184	39,161	51,930
YoY	-	-	-	-	16.9%	18.0%	24.2%	37.2%	26.7%	49.7%	59.3%	42.8%
JLab	0	2,840	7,269	14,596	2,433	7,853	14,722	23,154	3,493	9,800	16,810	26,340
YoY	-	-	-	-	-	176.5%	102.5%	58.6%	43.6%	24.8%	14.2%	13.8%
Others	246	481	765	1,090	266	565	909	1,282	331	675	1,066	1,500
Operating EBITDA	2,964	6,110	8,412	10,739	2,486	5,049	6,980	11,367	2,552	8,046	13,748	17,875
YoY	-	-	-	-	-16.1%	-17.4%	-17.0%	5.8%	2.7%	59.4%	97.0%	57.3%
EBITDA margin	28.7%	26.0%	22.8%	19.7%	17.5%	16.0%	14.1%	15.5%	14.7%	19.4%	20.9%	19.5%
Manufacturing (Parts/Materials)	965	2,148	3,263	4,185	791	1,853	2,774	3,718	650	1,522	2,323	3,198
YoY	-	-	-	-	-18.0%	-13.7%	-15.0%	-11.2%	-17.8%	-17.9%	-16.3%	-14.0%
EBITDA margin	33.8%	36.1%	35.8%	34.1%	25.8%	29.4%	29.3%	29.2%	22.8%	26.2%	26.5%	27.1%
Manufacturing (Audio Equipment/Peripherals)	2,119	4,269	5,559	7,076	1,899	3,578	4,722	8,234	2,081	6,938	12,050	15,814
YoY	-	-	-	-	-10.4%	-16.2%	-15.1%	16.4%	9.6%	93.9%	155.2%	92.1%
EBITDA margin	29.3%	25.0%	20.5%	17.2%	17.4%	14.5%	12.0%	13.8%	14.6%	19.8%	21.5%	20.2%
AlphaTheta	2,119	4,134	5,024	5,671	2,443	3,897	4,699	6,897	2,659	7,053	11,275	13,352
YoY	-	-	-	-	15.3%	-5.7%	-6.5%	21.6%	8.8%	81.0%	139.9%	93.6%
EBITDA margin	29.3%	29.0%	25.4%	21.4%	28.9%	23.2%	19.1%	19.0%	24.8%	28.0%	28.8%	25.7%
JLab	0	134	535	1,404	-543	-318	23	1,337	-577	-115	775	2,462
YoY	-	-	-	-	-	-	-95.7%	-4.8%	-	-	-	84.1%
EBITDA margin	-	4.7%	7.4%	9.6%	-22.3%	-4.0%	0.2%	5.8%	-16.5%	-1.2%	4.6%	9.3%
Others	54	78	154	273	42	95	180	272	55	77	120	178
HQ expenses	-175	-386	-565	-795	-246	-478	-696	-858	-235	-491	-745	-1,316

Segment Breakdown (¥ mn, %)	FY12/2021				FY12/2022				FY12/2023			
(3 months)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	10,339	13,191	13,416	17,535	14,224	17,312	18,126	23,853	17,398	24,071	24,320	25,763
YoY	-	-	-	-	37.6%	31.2%	35.1%	36.0%	22.3%	39.0%	34.2%	8.0%
Manufacturing (Parts/Materials)	2,854	3,099	3,169	3,160	3,062	3,236	3,154	3,265	2,856	2,952	2,942	3,031
YoY	-	-	-	-	7.3%	4.4%	-0.5%	3.3%	-6.7%	-8.8%	-6.7%	-7.2%
Writing Instruments	1,859	2,022	2,019	1,986	1,988	2,246	2,002	2,011	1,829	1,854	1,901	1,933
Cosmetics	343	403	428	480	415	368	485	436	371	392	351	327
MIM	544	562	605	566	554	528	564	649	522	576	535	616
Others	106	110	114	127	103	91	101	167	132	128	152	155
Manufacturing (Audio Equipment/Peripherals)	7,238	9,857	9,963	14,049	10,895	13,778	14,626	20,217	14,211	20,773	20,987	22,299
YoY	-	-	-	-	50.5%	39.8%	46.8%	43.9%	30.4%	50.8%	43.5%	10.3%
AlphaTheta	7,238	7,017	5,534	6,722	8,462	8,358	7,757	11,785	10,718	14,466	13,977	12,768
YoY	-	-	-	-	16.9%	19.1%	40.2%	75.3%	26.7%	73.1%	80.2%	8.3%
JLab	-	2,840	4,429	7,327	2,433	5,420	6,869	8,432	3,493	6,307	7,010	9,530
YoY	-	-	-	-	-	90.8%	55.1%	15.1%	43.6%	16.4%	2.1%	13.0%
Others	246	235	284	325	266	299	344	373	331	344	391	433
Operating EBITDA	2,964	3,146	2,302	2,327	2,486	2,563	1,931	4,387	2,552	5,494	5,702	4,127
YoY	-	-	-	-75.5%	-16.1%	-18.5%	-16.1%	88.5%	2.7%	114.4%	195.3%	-5.9%
EBITDA margin	28.7%	23.8%	17.2%	13.3%	17.5%	14.8%	10.7%	18.4%	14.7%	22.8%	23.4%	16.0%
Manufacturing (Parts/Materials)	965	1,183	1,115	922	791	1,062	921	944	650	872	801	875
YoY	-	-	-	-	-18.0%	-10.2%	-17.4%	2.4%	-17.8%	-17.9%	-13.0%	-7.3%
EBITDA margin	33.8%	38.2%	35.2%	29.2%	25.8%	32.8%	29.2%	28.9%	22.8%	29.5%	27.2%	28.9%
Manufacturing (Audio Equipment/Peripherals)	2,119	2,150	1,290	1,517	1,899	1,679	1,144	3,512	2,081	4,857	5,112	3,764
YoY	-	-	-	-	-10.4%	-21.9%	-11.3%	131.5%	9.6%	189.3%	346.9%	7.2%
EBITDA margin	29.3%	21.8%	12.9%	10.8%	17.4%	12.2%	7.8%	17.4%	14.6%	23.4%	24.4%	16.9%
AlphaTheta	2,119	2,015	890	647	2,443	1,454	802	2,198	2,659	4,394	4,222	2,077
YoY	-	-	-	-	15.3%	-27.8%	-9.9%	239.7%	8.8%	202.2%	426.4%	-5.5%
EBITDA margin	29.3%	28.7%	16.1%	9.6%	28.9%	17.4%	10.3%	18.7%	24.8%	30.4%	30.2%	16.3%
JLab	0	134	401	869	-543	225	341	1,314	-577	462	890	1,687
YoY	-	-	-	-	-	67.9%	-15.0%	51.2%	-	105.3%	161.0%	28.4%
EBITDA margin	-	4.7%	9.1%	11.9%	-22.3%	4.2%	5.0%	15.6%	-16.5%	7.3%	12.7%	17.7%
Others	54	24	76	119	42	53	85	92	55	22	43	57
HQ expenses	-175	-211	-179	-230	-246	-232	-218	-162	-235	-256	-254	-571

Source: Strategy Advisors – Based on Company Data

Note: Rounded under ¥ mn. Rounded to one decimal place

10. Medium to long-term outlook

Medium-term management plan FY25

Upward revision

Noritsu Koki has formulated and is implementing a medium-term management plan FY25 (four years from FY12/22 to FY12/25). Following the achievement of the FY25 previous target two years ahead of schedule in FY12/23, the company has revised upward for the final year FY12/25 target figures. While DJ equipment is the company's immediate growth driver, MIM, for which it has already invested in a new plant, and JLab products, for which it is seeking sales channels outside the US, are also expected to be pillars of earnings growth in the medium to long term.

Target figures

FY25 target figures (revision)

Revenue ¥100 billion (up ¥13 billion), operating EBITDA ¥20 billion (up ¥2.5 billion), operating profit (up ¥2.5 billion), EPS ¥290 (up ¥70), ROIC 5-6% (WACC assumed 5-6%), dividend payout ratio of 40% or more. Compared to the previous target figures, Teibow's revenue/profit decreased, AlphaTheta's revenue/profit increased, JLab's revenue unchanged/profit decreased, and others/HQ expenses revenues/loss decreased.

Growth driver (1)

The company's growth drivers are (1) the replacement of existing components with its MIM mass production technology and (2) the creation of a supply chain for audio equipment (DJ equipment to earphones, hardware to software). (1) MIM has made it possible to produce hollow shapes, which had been difficult to produce due to the difficulty of controlling sintering precision. The company's expertise in ultrafine processing technology cultivated through marking pen nib processing has been utilized to improve sintering accuracy. The company has one of the leading production capacities in Japan and is also developing the global market (e.g., for transportation equipment in Europe). The global MIM market is estimated to be worth around 400 billion yen.

Growth driver (2)

(2) In terms of building the supply chain for audio equipment, first of all, the average unit price of DJ equipment is increasing year by year, not only due to the rise in raw material prices but also due to the improvement of functions. The global market is expected to grow at a CAGR of nearly 10% from approximately US$500 million in 2021. The company has moved from a hardware-oriented focus to strengthening its software, and is in the process of acquiring a major software company. The company has positioned wireless earphones, an even larger market ($8.9 billion in 2022), as a strategic product. It has captured the top share of the US market with its affordable products, and aims to further develop markets in Europe, Africa, and Asia, which have large populations.

CEO Iwakiri's philosophy

CEO Iwakiri considers wireless earphones as "an access point for everyone on the planet to receive knowledge (all kinds of information)". These words reflect Mr. Iwakiri's philosophy and desire to provide products and services that enable people around the world to appreciate added value equally through their daily lives or life. In terms of business strategy, it also offers a glimpse of the company's grand long-term growth strategy for the mass market, from being a global leader in niche products such as marking pen nibs and DJ equipment to being a global leader in general-purpose products in the form of audio devices and software services. CEO Iwakiri's reason for not seeking simple synergies is, "The reality is that management efficiency alone cannot be more than 1+1=2. The criteria for M&A are to seek potential value of 1+1=10 or more". His words clearly reflect the far-sightedness.

Three important measures

The three important measures in the medium-term management plan FY25 are as follows:

① Create a business group with high growth potential and innovation by strengthening existing areas of the group's business and investing in growth areas.

② Pursue a financial strategy towards an ROE of 8%

③ Promote sustainability and governance management

Important measure 1: Realize a business group with high growth potential and innovation

Teibow

Teibow (Target figures: Revenues ¥12.8 billion, EBITDA ¥3.7 billion)

<Existing/Fundamental Business>

- Writing biz: Development of high value-added products, expansion of sales channels to emerging countries and China.
- Cosmetics biz: Expand sales channels for strategic products mainly in China, propose new eyeliners to the market, expand sales of PBT brushes

<Growth/New Business>

- MIM biz: Utilize high quality and a mass production system to expand sales into new fields and new international markets, more than doubling sales revenue
- New field biz: Strengthen sales of Teibow products by leveraging marking pen nib technology for new applications such as air fresheners and medical care

AlphaTheta

AlphaTheta (Target figures: Revenues ¥56.5 billion, EBITDA ¥13.8 billion)

<Existing/Fundamental Business>

- DJ equipment business: Further increase the value provided by leveraging technological capabilities and brand strengths in DJ equipment, expand sales channels to key regions, and provide customer-centered experiential value through hardware and software, etc.

<Growth/New Business>

- Expand and monetize services in adjacent markets to the core business, for instance by proposing the DJ lifestyle to a new customer base, by providing music production equipment or by establishing a data business relates to music performance, and generate revenue of over ¥4 billion from software services. Targeted synergies of Serato acquisition.

JLab

JLab (Target figures: Revenues ¥29 billion, EBITDA ¥3.4 billion)

<Existing/Fundamental Business>

- Personal audio business : Expand sales channels outside the US (aiming for a share of more than 30% outside the US), speed up the introduction of new products, strengthen cost competitiveness, and stabilize quality and production system management

<Growth/New Business>

- Expand into peripheral businesses, aim to become a personal technology company, and contribute to society through products such as brand ambassadors and sports support (CSR)

Important measure 2: Financial strategy

ROE8% or more

The company's financial strategy for FY25 is to improve its cash flow generation ability, continue to invest in growth, maintain financial soundness, and provide continuous and stable returns to shareholders in order to achieve an ROE of 8% or higher.

- Cashflow generation: Operating EBITDA margin of 20% or more, ROIC of 5-6% (higher than WACC)
- Growth investment: Actively invest capital in growth areas in each business and consider M&A to strengthen core businesses
- Shareholder returns: Continuous and stable dividends with the goal of a payout ratio of 40% or more
- Capital policy: Maintain financial soundness with a target of Net Debt/operating EBITDA of 3.0 or less

Capital allocation & growth investment

The breakdown of capital allocation (to FY25: 4-year cumulative total) and growth investment (total of ¥74 billion) is as follows. The ¥74 billion will be funded by ¥95 billion from asset sales (the remaining ¥21 billion will be returned to shareholders).

- Production capacity improvement/rationalization (Teibow) : ¥1 billion
- DJ Monitor and Serato acquisition, etc. (AlphaTheta) : ¥10-¥12 billion
- DX/system investment: ¥2 billion
- Current equipment renewal: ¥4 billion
- Growth investment looking ahead 10 years: ¥55 billion (strengthening existing businesses, new businesses and M&A, promoting sustainability)

Loan repayment

The company plans to use operating cash flow (value before tax deductions from asset sales) to repay loans (¥45 billion, including ¥20 billion in prepayments).

Important measure 3: Sustainability initiatives

The company established the following promotion structure and implemented the following measures to strengthen its sustainability efforts.

Sustainability Promotion Office

Establishment of a new specialized department (Sustainability Promotion Office): Set four materialities (critical issues) in FY12/21, published a materiality response plan and goals, and took steps to solve environmental, social, and governance issues. The company has been making progress, but from January 2024, the company has established a new specialized department.

"MSCI Japan ESG Select Leaders Index" constituent stocks

Newly selected as a constituent of the "MSCI Japan ESG Select Leaders Index": This index is one of the ESG indexes developed and managed by MSCI Inc. in the US, and stocks with high ESG ratings in each industry are selected. It is an index referenced by investors around the world who pay attention to companies' ESG initiatives, and is also adopted as an ESG investment index by the Government Pension Investment Fund (GPIF) .

Figure 37. Medium-Term Management Plan (MTMP) target

(¥ mn)	MTMP FY21	Midium-Term Management Plan FY25				
	FY12/21	FY12/22	FY12/23	FY12/24	FY12/25	CAGR
	Actual	Actual	Actual	CoE	Mid. Target	FY21 ～25
Revenue	54,481	73,515	91,552	97,600	100,000	16.4%
Mfg. (Parts/Materials) Teibow	12,282	12,717	11,781	12,400	12,800	1.0%
Ratio to total	22.5%	17.3%	12.9%	12.7%	12.8%	
Mfg.(Audio equipment/peripherals)	41,107	59,516	78,271	83,600	85,500	20.1%
Ratio to total	75.5%	81.0%	85.5%	85.7%	85.5%	
AlphaTheta	26,511	36,362	51,930	55,600	56,500	20.8%
Ratio to total	48.7%	49.5%	56.7%	57.0%	56.5%	
JLab	14,596	23,154	26,340	28,000	29,000	18.7%
Ratio to total	26.8%	31.5%	28.8%	28.7%	29.0%	
Others	1,090	1,282	1,500	1,600	1,700	
Domestic revenue	7,816	8,396	9,172	-		
Ratio to total	14.3%	11.4%	10.0%			
Overseas revenue	46,665	65,119	82,380	-		
Ratio to total	85.7%	88.6%	90.0%			
Operating EBITDA	10,739	11,367	17,875	18,800	20,000	16.8%
EBITDA margin	19.7%	15.5%	19.5%	19.3%	20.0%	
Mfg. (Parts/Materials) Teibow	4,185	3,718	3,198	3,500	3,700	-3.0%
EBITDA margin	34.1%	29.2%	27.1%	28.2%	28.9%	
Mfg.(Audio equipment/peripherals)	7,076	8,234	15,814	16,400	17,200	24.9%
EBITDA margin	17.2%	13.8%	20.2%	19.6%	20.1%	
AlphaTheta	5,671	6,897	13,352	13,500	13,800	24.9%
EBITDA margin	21.4%	19.0%	25.7%	24.3%	24.4%	
JLab	1,404	1,337	2,462	2,900	3,400	24.7%
EBITDA margin	9.6%	5.8%	9.3%	10.4%	11.7%	
Others, HQ expenses	-522	-585	-1,137	-4,000	-900	
Operating profit	6,068	1,262	14,462	13,400	15,000	25.4%
OP margin	11.1%	1.7%	15.8%	13.7%	15.0%	
ROE	4.7%	2.7%	5.1%		over4%~8%	
ROIC (Gross IC base)	2.1%	0.4%	4.4%	6.0%	5～6%	
ROIC (Net IC base, Co. definition)	2.6%	0.6%	7.4%	6.0%	5～6%	
EPS (¥)	143.6	2,848.5	285.9	241.0	290.0	
Payout ratio	137.9%	5.3%	40.2%	48.1%	over 40%	
Net Debt/Operating EBITDA	5.1	-7.4	-2.9		below 3.0	

Source: Strategy Advisors – Based on Company Data

11. Comparison with similar companies

Highest operating profit margin and lowest ROE among the 7 companies

In selecting companies for comparison with Noritsu Koki, we have chosen companies whose core business is manufacturing, who have comparable products, and whose business scale is similar. Six similar companies were selected for comparison. However, there is no company like Noritsu Koki that has separated itself from its original business and transformed itself into a conglomerate in a completely different industry. Among the seven companies including Noritsu Koki, the company has the highest operating profit margin of 15.8%, while its ROE of 5.1% is the lowest. Its equity ratio of 73.5% is the second highest after ELECOM (6750 TSE Prime) 75.8% .

Kawai Musical Instruments Manufacturing

Kawai Musical Instruments Manufacturing (7952 TSE Prime) and Roland (7944 TSE Prime) are similar companies with a high sales ratio of audio equipment and comparable sales scale. Kawai Musical Instruments Manufacturing is an old company established in 1927. Although Kawai Musical Instruments Manufacturing has a material processing business with a high operating profit margin, its overall operating profit margin remains at 5.7% due to the high sales ratio of the musical instrument education business, which mainly sells pianos with a low profit margin.

Roland

Roland is a major Japanese electronic musical instrument manufacturer founded in 1972. Starting 2010, Roland was in the red for four consecutive years, and its business performance was sluggish. In July 2014, a takeover bit for Roland shares was initiated by Tokowa Corporation, a member of the Taiyo Pacific Partners Group, a US investment fund. Roland was delisted in October 2014, proceeded with a management restructuring, and relisted in December 2020. Roland has been reborn as a highly profitable company with an operating profit margin of 11.6% and an ROE of 22.2% for FY12/23.

AuBEX

AuBEX (3583 TSE Standard) is a competitor of Teibow, although its sales are small. Operating profit margin 11.7%, ROE 8.3%. In addition to the core business of marking pen nibs (writing instruments, cosmetics), the company also operates a medical business (flow control tube applied products). The market share for marking pen nibs is 25% (Noritsu Koki has 50%). According to the company, the market size for marking pen nibs is estimated to be around several tens of billions of yen.

ELECOM

Although ELECOM's business is different, it manages products with short life cycles and has relatively stable profitability (operating profit margin of 10.9% and ROE of 10.0%) despite fierce sales competition with competitors. It is worth watching as a benchmark for JLab.

Casio computer
JVCKENWOOD

Casio Computer (6952 TSE Prime) and JVCKENWOOD (6632 TSE Prime) have sales that are about three times larger than Noritsu Koki, but their operating profit margins are around 6%, the second lowest after Kawai Musical Instruments Manufacturing.

Figure 38. Profitability comparison with similar companies

Company name	Stock Code	FY	Sales (¥ mn)	OP (百万円)	OPM (%)	ROE (%)	Equity ratio (%)	Business
Noritsu Koki	7744	12/2023	91,522	14,462	15.8%	5.1%	73.5%	Pen nibs/cosmetics/MIM, Audio equip., Others
AuBEX	3583	3/2023	5,315	623	11.7%	8.3%	62.5%	Pen nibs/cosemtics, Medical equipment
Kawai Musical Inst. Mfg.	7952	3/2023	87,771	5,045	5.7%	10.3%	54.0%	Musical inst./education, Parts/material, etc.
Roland	7944	12/2023	102,445	11,871	11.6%	22.2%	49.2%	Musical Inst., DJ & Audio equipment
ELECOM	6750	3/2023	103,727	11,305	10.9%	10.0%	75.8%	PC/smartphone/tablet/TV/AV, Peripherals
CASIO COMPUTER	6952	3/2023	263,831	18,164	6.9%	5.9%	66.1%	Watch, Consumeer, System, Others
JVCKENWOOD	6632	3/2023	336,910	21,634	6.4%	18.2%	33.0%	Car Audio, Wireless/commercial, Media/etc.

Note: Noritz Koki and JVCKENWOOD are based on IFRS (Sales as Revenue), others are based on Japanese standards.

Source: Strategy Advisors – Based on Company Data

12. Stock price trends and valuation

Stock price comparison of 7 similar companies

We compared the stock price performance of Noritsu Koki and the six similar companies mentioned above over the past five years. The recent stock price fluctuations are: (1) JVCKENWOOD +251%, (2) Noritsu Koki +37%, (3) Roland +34%, (4) Kawai Musical Instruments Manufacturing +20%, (5) AuBEX +14%, (6) Casio Computer -6%, (7) ELECOM -12%. Over the same period, TOPIX was +18% and the Nikkei average was +33%.

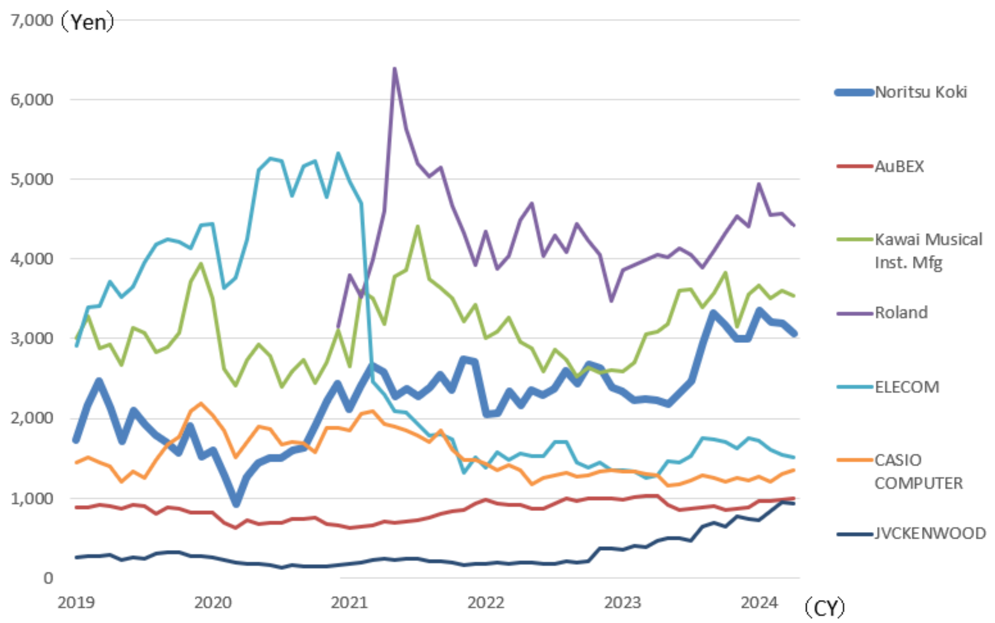
Factors causing stock price fluctuations

With the exception of Casio Computer and JVCKENWOOD, each of the market capitalization of the five remaining companies is below ¥150 billion, respectively, meaning that they have not been able to follow the recent market trend led by large market capitalization stocks. The only reason why JVCKENWOOD's stock price has risen since 2023 is due to the positive surprise of a significant increase in sales and profits in Q1 for FY3/24. The reason for the slump in the stock prices of Casio Computer and ELECOM is presumed to be that their business performance has remained flat over the past five years and that there has been little change in their business structures.

Valuation comparison

Among the seven companies, three companies have a PBR of 1.0 or less: Kawai Musical Instruments Manufacturing 0.72, Noritsu Koki 0.52, AuBEX 0.35. The PER ratio has been in the range of 7x to 22x, and Noritsu Koki's 12.38x is slightly lower than the median. Noritsu Koki has the highest dividend yield of 3.89 % followed by Roland 3.85%.

Figure 39. Stock price trends of similar companies



Source: Strategy Advisors

Note: Noritsu Koki’s stock price is indicated by a bold blue line

Noritsu Koki's stock price catalyst

Noritsu Koki's stock price bottomed out and began to rise between 2016 and 2017, when it proceeded with the transfer of its legacy business and M&A. During the COVID-19 pandemic, the company proceeded to begin its focus on manufacturing, and after another adjustment phase, it has been on an upward trajectory again since late 2023. Once the company's new business growth strategy and ROE improvement scenario come into view, its stock price will likely test its post-IPO high (5,900 yen, 1999/09/08). The company's PBR is 0.5x as a result of its increase of cash assets, and it is also an issue that requires immediate measures to return profits to shareholders. The company is advocating an improvement not only in its dividend payout ratio but also in its total return ratio.

Risk factors

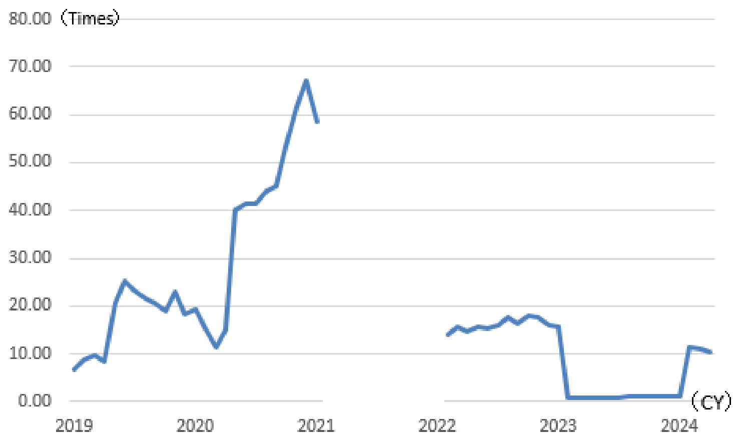
At present, the risk factor for the stock price is considered to be a decline in management efficiency due to the rapid expansion of overseas business. On February 14, 2023, JLab announced a goodwill impairment loss of ¥5.9 billion, and its stock price temporarily fell.

Figure 40. Valuation comparison with similar companies

Company name	Stock code	FY	Stock price (Apr.4) (¥)	Mkt cap '(Apr.4) (¥ mn)	PER CoE (Times)	PBR Actual (Times)	Dividend Yield CoE (%)	ROE Actual (%)
Noritsu Koki	7744	12/2023	3,050	107,957	12.38	0.52	3.89%	5.1%
AuBEX	3583	3/2023	1,010	3,130	7.22	0.35	1.98%	8.3%
Kawai Musical Inst. Mfg.	7952	3/2023	3,530	31,856	9.50	0.72	2.69%	10.3%
Roland	7944	12/2023	4,440	124,340	14.25	3.04	3.85%	22.2%
ELECOM	6750	3/2023	1,504	130,162	14.97	1.52	2.92%	10.0%
CASIO COMPUTER	6952	3/2023	1,348.0	322,310	22.36	1.42	-	5.9%
JVCKENWOOD	6632	3/2023	935	150,388	13.58	1.29	0.87%	18.2%

Source: Strategy Advisors – Based on Company Data

Figure 41. Trends in PER



Source: Strategy Advisors

Figure 42. PBR trends

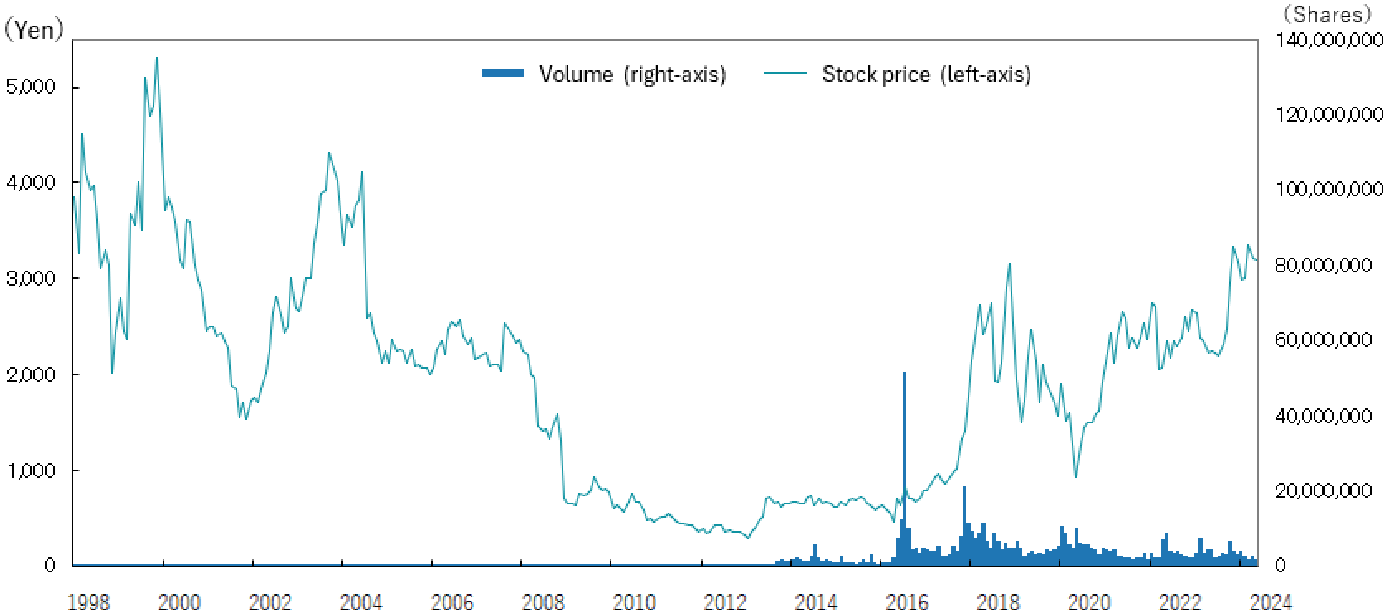
Source: Strategy Advisors

Figure 43. Noritsu Koki's past performance trends (from the 46th period)

Special remarks	Period	FY	Account. Standard	Business performance				Profit margin			Equity indicator		Cash&equiv.	Employee	Temporary	Top management
				Sales	OP	RP	NP	OPM	RPM	NPM	ROE	Equity ratio	year-end	(persons)		President/CEO
Decline in photo processing equipment (mini-labs) business Response to digitization	46	3/01	Japanese Standard	66,540	5,487	9,365	4,496	8.2%	14.1%	6.8%	5.2%	73.0%				Kanichi Nishimoto
	47	3/02		66,627	2,715	2,952	1,503	4.1%	4.4%	2.3%	1.7%	72.7%	18,653	2,861	340	Kanichi Nishimoto
	48	3/03		78,602	9,057	8,231	3,861	11.5%	10.5%	4.9%	4.2%	72.1%	27,467	2,946	352	Kanichi Nishimoto
	49	3/04		90,734	14,044	13,741	8,323	15.5%	15.1%	9.2%	8.7%	75.7%	26,816	3,040	379	Kanichi Nishimoto
	50	3/05		73,808	4,955	5,506	3,494	6.7%	7.5%	4.7%	3.5%	78.7%	28,997	3,104	331	Kanichi Nishimoto
	51	3/06		69,078	4,099	4,983	-7,318	5.9%	7.2%	-10.6%	-7.4%	79.0%	36,084	2,878	298	Tsutomu Satani
	52	3/07		58,863	3,050	4,372	1,920	5.2%	7.4%	3.3%	2.0%	80.8%	36,391	2,122	609	Tsutomu Satani
	53	3/08		62,633	4,190	4,887	2,126	6.7%	7.8%	3.4%	2.2%	84.0%	33,717	1,963	707	Tsutomu Satani
Imaging division in danger of extinction M&A of new business	54	3/09		45,434	-1,864	-1,171	-3,864	-4.1%	-2.6%	-8.5%	-4.6%	87.8%	31,839	2,000	586	Yukihiko Chayama
	55	3/10		27,959	-6,922	-6,047	-20,857	-24.8%	-21.6%	-74.6%	-31.9%	80.1%	30,245	2,017	341	Hirotsugu Nishimoto
	56	3/11		29,312	239	-448	-5,782	0.8%	-1.5%	-19.7%	-10.0%	79.1%	22,368	1,224	372	Hirotsugu Nishimoto
	57	3/12		18,787	604	-421	-1,566	3.2%	-2.2%	-8.3%	-2.8%	82.2%	19,420	995	191	Hirotsugu Nishimoto
	58	3/13		27,379	616	952	417	2.2%	3.5%	1.5%	0.7%	70.4%	23,576	1,210	738	Hirotsugu Nishimoto
	59	3/14		55,084	2,967	2,806	1,324	5.4%	5.1%	2.4%	2.2%	64.6%	27,105	1,502	752	Hirotsugu Nishimoto
	60	3/15		54,488	2,475	2,139	1,029	4.5%	3.9%	1.9%	1.7%	51.1%	23,130	1,868	928	Hirotsugu Nishimoto
Transition to IFRS				Revenue	OP	Pretax profit	NP	OPM	PTX P margin	NPM	ROE	Equity ratio	Cash&equiv. year-end	Employee (persons)	Temporary	Top management President/CEO
Mini-lab business transfer Restructuring	60	3/15	IFRS	35,598	1,943	1,978	2,250	5.5%	5.6%	6.3%	4.1%	46.3%	23,622	1,868	928	Hirotsugu Nishimoto
	61	3/16		43,145	2,030	2,215	-2,955	4.7%	5.1%	-6.8%	-5.4%	51.1%	31,187	1,113	791	Hirotsugu Nishimoto
	62	3/17		50,045	4,611	6,348	4,290	9.2%	12.7%	8.6%	7.8%	49.3%	25,314	1,360	818	Hirotsugu Nishimoto
	63	3/18		56,035	5,954	6,092	8,920	10.6%	10.9%	15.9%	13.4%	50.8%	26,663	1,459	848	Hirotsugu Nishimoto
	64	3/19		63,527	6,053	5,954	2,948	9.5%	9.4%	4.6%	3.9%	50.1%	27,573	1,630	926	Ryukichi Iwakiri
Discontinuation of non-core businesses	65	3/20		26,147	4,134	599	1,289	15.8%	2.3%	4.9%	1.7%	49.0%	50,162	1,629	935	Ryukichi Iwakiri
	66	12/20		41,148	5,816	2,574	9,893	14.1%	6.3%	24.0%	10.8%	44.5%	69,596	1,776	244	Ryukichi Iwakiri
	67	12/21		54,481	6,068	5,315	5,115	11.1%	9.8%	9.4%	4.7%	42.0%	38,141	2,076	381	Ryukichi Iwakiri
Medical biz discon.	68	12/22		73,515	1,262	3,944	101,548	1.7%	5.4%	138.1%	66.9%	62.7%	96,436	1,184	249	Ryukichi Iwakiri
Focus on mfg. biz	69	12/23		91,552	14,462	13,747	10,210	15.8%	15.0%	11.2%	5.1%	73.5%	70,190	1,246	263	Ryukichi Iwakiri
Globalization	70	12/24E		97,600	13,400	12,800	8,600	13.7%	13.1%	8.8%						Ryukichi Iwakiri

Source: Strategy Advisors – Based on Company Data

Figure 44. Trends in Noritsu Koki's stock price and trading volume since its listing



Source: Strategy Advisors

Note 1: Data on the last day of each month

Note 2: Highest price since listing was 5,900 yen (closing price on September 8, 1999)

13. Strengthening ESG management and governance

1) Sustainability initiatives

Sustainability Committee Sustainability Promotion Council

The company has identified sustainability initiatives as a key initiative in its medium-term management plan FY25. It has set up a Sustainability Committee and a Sustainability Promotion Council as its basic structure. The former not only develops management policies, strategies, and action plans, but also discusses ESG risks and monitors the status of implementation. The latter is responsible for the actual progress management, evaluation, and promotion of individual measures. To further strengthen its efforts, the company is building the following promotion structure and implementing the following measures.

① Establishment of a new specialized department

Sustainability Promotion Office

The company has set four materialities (critical issues) for FY12/21, published a "materiality response plan" and goals, and has been working on solving environmental, social, and governance issues. In January 2024, the company established a new Sustainability Promotion Office as a specialized department.

② Newly selected as a constituent of the "MSCI Japan ESG Select Leaders Index"

"MSCI Japan ESG Select Leaders Index" constituent stocks

This index is one of the ESG indexes developed and managed by MSCI Inc. in the US, and stocks with high ESG ratings are selected in each industry. It is an index referenced by investors around the world who pay attention to companies' ESG initiatives, and is also adopted as an ESG investment index by the Government Pension Investment Fund (GPIF).

2) Strengthening governance and challenges

Management structure

When the company formulated its medium-term management plan FY21 (in 2019), it reviewed its management structure in order to respond to changes in the business environment. The Board of Directors places emphasis on the supervisory function, with the majority of directors being outside directors (four out of six directors), and the executive officer system has been revamped. Additionally, a Nominating and Compensation Committee has been established. In addition to strengthening governance, the company has built a system that enables quick decision-making and execution.

Global governance structure

In its medium-term management plan FY25, the company is rapidly globalizing through M&A with global companies. As a result, there is an urgent need to strengthen governance in overseas base systems (human resources, finance/accounting, customers, transactions, forex, legal affairs, etc.). Additionally, in order to strengthen IR and PR for global investors, the company has renewed its website (June 2019), improved disclosure materials and introduced fact sheets, provided an English translation, and is releasing more video and other content.

Conglomerate management structure

Since the company operates as a conglomerate, each subsidiary is independently profitable and there is no change in senior management after a M&A deal, resulting in three operating companies with rich individuality.

Group governance

Going forward, advancing group governance beyond the framework of each subsidiary will be an extremely important management theme. The key to corporate management of a pure holding company and three operating companies is the combination of rapid and appropriate decision-making, close communication that eliminates information asymmetries, and transparency and mobility in their respective boards of directors.

Branding strategy

In addition, Strategy Advisors believes that a branding strategy, including a name change, is also an issue to consider, given that the current company name has become associated with the image of the minilab business, the company's predecessor (its subsidiaries such as Teibow and AlphaTheta changed their names in response to changes in business models and capital relationships).

14. SWOT analysis

Strategy Advisors conducted a SWOT analysis of Noritsu Koki.

Strengths

① The ability to build a flexible and resilient business portfolio in anticipation of changes in the current environment based on the accumulation of expertise on target segment/positioning capabilities in the process of diversification and business restructuring (inimitability (i)).

② The company has built a barrier to entry by accumulating unrivaled expertise in the secret techniques of marking pen-nib processing and the ability to develop DJ equipment that is fully aware of the requirements of advanced professional DJs (inimitability (ii)).

③ Excellent information gathering and marketing skills to anticipate trends and create brand value one step ahead in products with low barriers to entry and many competitors, such as earphones/headphones products.

④ Strong financial position and proactive financial strategy based on the ¥95 billion (as of the end of FY12/22) in cash-generating assets from the sale of the business to be used as funds to invest in growth and provide shareholders returns over the medium to long term.

⑤ A young management team (CEO in his 40s, CFO in his 30s) with the flexibility and sensitivity to respond quickly to globalization and changing times.

Weaknesses

① The total asset turnover ratio is low at 0.31, which is a factor in the decline in ROE.

② ROIC below WACC and a failure to generate economic value added (EVA).

③ Rapid globalization (90% of revenue from overseas) through M&A has not been accompanied by a global governance structure.

④ While the audio equipment-related business is expanding, the parts and materials business has not been able to break free from its dependence on the mature business (marking pen nibs), and there is little synergy between the two businesses.

⑤ Absence of countermeasures against the hostile takeover risk associated with a low PBR (0.5).

Opportunities

① The emerging market potential of marking pen nibs (writing instruments/ cosmetics), and audio equipment/devices due to the increase in the young population and improvements in the living standards of emerging countries.

② Expansion of the consumer (home-use) market due to technological innovation and increased awareness of DJ equipment.

③ Establishment of mass-production technology for complex-shaped MIM parts will lead to a shift from machining to MIM.

Threats

① Many transactions are conducted in Europe and the US, making them susceptible to forex rate fluctuations.

② Prices and lead times of raw materials and purchased goods from suppliers are susceptible to geopolitical influences due to global supply and demand trends and transportation systems.

③ The supply chain is susceptible to natural disasters due to the concentration of manufacturing bases.

④ If the expected results are not achieved regarding the large amount of goodwill generated in connection with corporate acquisitions, whether due to changes in the business environment or in the competitive situation, impairment losses may occur, which may affect business results.

Figure 45. Income statement

Profit and loss statement (IFRS) (¥ mn)	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023	FY12/2024 CoE
Continuing operations									
Revenue	**50,045**	**56,035**	**63,527**	**26,147**	**41,148**	**54,481**	**73,515**	**91,552**	**97,600**
YoY	16.0%	12.0%	13.4%	-	-	-	34.9%	24.5%	6.6%
Cost of sales	25,433	28,993	33,453	13,439	18,721	29,717	43,986	50,480	
Gross profit	**24,612**	**27,042**	**30,073**	**12,707**	**22,426**	**24,763**	**29,529**	**41,072**	
Gross profit margin	49.2%	48.3%	47.3%	48.6%	54.5%	45.5%	40.2%	44.9%	
Selling, general and administrative expenses	20,123	21,038	23,835	7,353	15,828	17,839	22,406	27,595	
SG&A ratio to sales	40.2%	37.5%	37.5%	28.1%	38.5%	32.7%	30.5%	30.1%	
Other income	211	85	118	57	441	253	341	1,342	
Other expenses	88	134	302	1,276	1,223	1,109	6,202	357	
Operating profit (loss)	**4,611**	**5,954**	**6,053**	**4,134**	**5,816**	**6,068**	**1,262**	**14,462**	**13,400**
YoY	127.1%	29.1%	1.7%	-	-	-	-79.2%	-	-7.3%
Operating profit margin	9.2%	10.6%	9.5%	15.8%	14.1%	11.1%	1.7%	15.8%	13.7%
Equity method investment gains and losses	-42	-42	5	-3,358	-305	-248	-2,286	-982	
Finance income	2,333	887	88	31	113	1,027	6,767	827	
Finance costs	553	706	192	207	3,050	1,532	1,798	560	
Profit (loss) before tax	**6,348**	**6,092**	**5,954**	**599**	**2,574**	**5,315**	**3,944**	**13,747**	**12,800**
YoY	186.6%	-4.0%	-2.3%	-	-	-	-25.8%	248.6%	-6.9%
Pretax profit margin	12.7%	10.9%	9.4%	2.3%	6.3%	9.8%	5.4%	15.0%	13.1%
Income tax expense	2,249	-3,352	1,965	-889	-4,321	887	-214	3,543	
Tax rate	35.4%	-55.0%	33.0%	-148.4%	-167.9%	16.7%	-5.4%	25.8%	
Profit (loss) from continuing operations	4,099	9,445	3,989	1,488	6,895	4,427	4,159	10,204	
Profit (loss) from discontinued operations	-189	-937	-1,349	117	3,761	2,168	97,552	6	
Net profit (loss)	3,909	8,507	2,639	1,606	10,657	6,595	101,712	10,210	
Non-controlling interests	-380	-412	-309	316	763	1,480	157	10	
Profit attributable to owners of the parent profit	**4,290**	**8,920**	**2,948**	**1,289**	**9,893**	**5,115**	**101,554**	**10,199**	**8,600**
YoY	-	107.9%	-67.0%	-	-	-	-	-90.0%	-15.7%
Profit attributable to owners of the parent profit margin	8.6%	15.9%	4.6%	4.9%	24.0%	9.4%	138.1%	11.1%	8.8%
Operating EBITDA	**-**	**-**	**7,965**	**6,847**	**0**	**10,739**	**11,367**	**17,875**	**18,800**
EBITDA margin	-	-	12.5%	26.2%	0.0%	19.7%	15.5%	19.5%	19.3%

Source: Strategy Advisors – Based on Company Data

Figure 46. Breakdown of SG&A expenses

Selling, general and administrative expenses (¥ mn)	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023	FY12/2024 CoE
SG&A	20,123	21,038	23,835	7,353	15,828	17,839	22,406	27,595	
Employee benefit expenses	6,546	7,544	8,497	4,446	5,753	4,534	5,728	7,007	
Advertising and promotional expenses	4,582	4,875	4,678	149	928	1,532	2,650	3,390	
Packing and transportation expenses	1,800	1,993	2,636	241	727	996	1,338	1,630	
Taxes and dues				193	298	182	210	238	
Communication expenses				90	228	177	259	477	
Sales commissions				72	300	312	1,038	1,406	
Consumables expenses					167	142	207	495	
Commission paid	1,631	1,126	1,325	503	1,034	1,294	1,512	1,906	
Travel and transportation expenses			498	340	114	55	192	364	
Research and development expenses	1,521	447	380	201	3,158	4,460	4,622	5,581	
Depreciation and amortization		494	581	763	2,504	3,300	3,684	3,763	
Other	4,041	4,557	5,237	350	611	849	966	1,333	

Source: Strategy Advisors – Based on Company Data

Figure 47. Balance sheet

Balance Sheet（IFRS、¥ mn）	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020	FY12/2021	FY12/2022	FY12/2023
Assets								
Cash and cash equivalents	25,314	26,663	27,573	50,162	69,596	38,141	96,436	70,190
Trade and other receivables	11,315	13,563	14,096	14,540	12,037	21,865	14,834	14,683
Contract Assets			97	42	26	9		
Income taxes receivable						1,664	23	11,860
Inventories	4,383	4,914	4,951	4,967	5,756	14,638	16,107	17,164
Reinsurance assets		3,400	3,834	4,228				
Other financial assets	100	270			333	529	386	384
Other current assets	912	1,630	794	842	703	1,122	750	684
Subtotal	42,025	50,443	51,348	74,785	88,453	77,972	128,539	114,967
Assets held for sale			9,457	129				
Current assets	**42,025**	**50,443**	**60,806**	**74,914**	**88,453**	**77,972**	**128,539**	**114,967**
Property, plant and equipment	5,476	6,173	6,871	7,298	9,054	9,361	7,314	7,785
Right-to-use assets				7,321	8,978	8,663	2,889	3,413
Goodwill	38,847	39,352	38,788	38,160	52,446	72,179	48,589	49,256
Intangible assets	21,911	21,660	17,141	17,260	64,633	83,065	78,302	77,125
Investment accounted for using equity method	357	359	319	5,170	4,707	4,536	2,630	1,673
Retirement benefit assets	167	245	230	190	264	324	303	372
Other financial assets	6,171	24,009	19,430	5,406	5,068	4,561	37,069	22,801
Deferred tax assets	1,208	6,260	5,914	4,477	2,791	3,262	1,574	2,001
Other non-current assets	144	153	251	106	260	213	44	74
Non-current assets	**74,283**	**98,214**	**88,949**	**85,393**	**148,206**	**186,168**	**178,717**	**164,504**
Total assets	**116,309**	**148,658**	**149,755**	**160,308**	**236,660**	**264,141**	**307,257**	**279,471**
Liabilities								
Trade and other payables	8,818	11,568	12,261	12,013	8,267	13,282	6,296	6,454
Short-term interest-bearing debt	5,948	7,195	5,814	8,048	24,922	23,109	19,660	15,949
Short-term debt	5,948	7,195	5,814	6,879	23,681	21,897	18,995	15,170
Lease obligations				1,169	1,241	1,212	665	779
Lease liabilities			2,336	3,009	1,895	3,377	208	381
Other financial liabilities	230	299	220	138	219	252	209	257
Income taxes payable	1,763	738	931	3,164	2,523	1,098	35,324	441
Provisions	12	23	64	67	88	87	138	236
Insurance contract reserve		3,822	4,342	4,763				
Other current liabilities	3,043	3,557	2,612	2,747	3,559	4,897	5,271	7,029
Subtotal	19,817	27,203	28,582	33,952	41,476	46,106	67,109	30,752
Liabilities directly associated with assets held for sale			1,690	82				
Current liabilities	**19,817**	**27,203**	**30,273**	**34,034**	**41,476**	**46,106**	**67,109**	**30,752**
Long-term interest-bearing debt	29,074	30,981	30,268	37,072	65,200	81,339	31,417	26,628
Long-term debt	29,074	30,981	30,268	30,485	57,354	73,721	29,058	23,845
Lease obligations				6,587	7,846	7,618	2,359	2,783
Others financial liabilities	126	22	15					
Deferred tax liabilities	7,495	12,836	10,115	4,285	9,573	8,706	15,276	15,753
Retirement benefit liabilities	641	660	645	661	561	632	283	263
Provisions	195	220	302	298	242	302	61	118
Other non-current liabilities	23	22	164	121	420	317	213	109
Non-current liabilities	**37,557**	**44,745**	**41,511**	**42,439**	**76,000**	**91,298**	**47,253**	**42,874**
Total liabilities	**57,374**	**71,948**	**71,784**	**76,474**	**117,477**	**137,404**	**114,362**	**73,626**
Net assets								
Share capital	7,025	7,025	7,025	7,025	7,025	7,025	7,025	7,025
Capital surplus	17,658	14,908	14,755	24,032	41,379	41,406	41,411	38,339
Retained earnings	33,471	42,008	45,048	49,914	59,136	63,522	157,863	162,135
Treasury shares	-1,211	-1,211	-1,211	-1,211	-1,211	-1,169	-1,119	-1,066
Other components of equity	348	12,747	9,349	-1,272	-914	239	-12,636	-1,058
Equity attributable to owners of parent	57,292	75,478	74,966	78,488	105,414	111,024	192,544	205,374
Non-controlling interests	1,642	1,231	3,004	5,345	13,769	15,711	350	469
Total equity	**58,935**	**76,709**	**77,970**	**83,833**	**119,183**	**126,736**	**192,895**	**205,844**
Total liabilities and equity	**116,309**	**148,658**	**149,755**	**160,308**	**236,660**	**264,141**	**307,257**	**279,471**
Working capital	6,880	6,909	6,786	7,494	9,526	23,221	24,645	25,393
Total interest-bearing debt	35,022	38,176	36,082	45,120	90,122	104,450	51,079	42,577
Net debt	9,708	11,513	8,509	-5,042	20,526	66,309	-45,357	-27,613

Source: Strategy Advisors – Based on Company Data

Figure 48. Cash flow statement

Statement of Cash Flows (IFRS) (¥ mn)	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY12/2020 9 months	FY12/2021	FY12/2022	FY12/2023
Cash flows from operating activities (1)	**2,100**	**2,785**	**7,099**	**7,064**	**5,557**	**3,907**	**11,738**	**-31,588**
Profit (loss) before tax	6,348	6,092	5,954	599	2,574	5,315	3,944	13,747
Profit (loss) from discontinued operations	-189	-962	-1,420	1,239	5,896	4,286	147,175	6
Depreciation and amortization	1,580	1,655	1,844	2,761	4,020	6,001	5,251	5,228
Loss (gain) related to fixed assets	81	34	312	2,705	22	42	5,934	28
Loss (gain) on sale of shares of subsidiaries	-373			-31	-4,238	-9	-100,706	
Loss (gain) on valuation of investment securities							-46,108	
Finance income (costs)	-2,152	-178	69	209	2,946	649	-4,959	-267
Share of loss (profit) of investments accounted for using equity method	42	48	1	1,251	305	248	2,286	982
Working capital loss (gain)	-1,411	-603	959	-80	553	-5,429	-493	1,214
Accounts receivable loss (gain)	-1,698	-1,297	-597	125	563	-6,042	538	1,102
Inventory loss (gain)	-367	-507	-17	-39	-13	-2,762	85	144
Accounts payable loss (gain)	654	1,201	1,573	-166	3	3,375	-1,116	-32
Cash flows from investing activities(2)	**-9,143**	**-1,105**	**-1,572**	**-1,345**	**-21,984**	**-40,460**	**93,391**	**23,166**
Purchase of tangible and intangible assets	-655	-954	-2,083	-1,388	-3,565	-2,198	-1,957	-2,028
Proceeds from sales of tangible and intangible assets	192	9	19	4	8	5		
+- shares of subsidiaries resulting in chg in scope of consolidation	-8,652	-925	-316	-3,594	-19,959	-38,914	96,200	
Other financial assets purchase/sales/redemption	608	1,330	1,252	4,656	2,061	750	-364	25,330
FCF (1+2)	-7,043	1,680	5,527	5,719	-16,427	-36,553	105,129	-8,422
Cash flows from financing activities	**1,179**	**-329**	**-2,610**	**14,910**	**35,808**	**4,275**	**-47,586**	**-18,892**
Short-term debt increase (decrease)	-356	4,083	-1,500	200	-14,631	-7,571	986	-4,827
Long-term debt increase (decrease)	1,057	-1,199	-689	1,076	26,478	14,085	-40,044	-4,580
Proceeds from long-term debt	5,580	33,513	1,600	5,735	36,141	31,492	35,000	
Repayments of long-tem debt	-4,523	-34,712	-2,289	-4,659	-9,663	-17,407	-75,044	-4,580
Divided paid	-320	-427	-534	-534	-641	-855	-7,305	-5,527
Depreciation and amortization (A)	1,580	1,655	1,844	2,761	4,020	6,001	5,251	5,228
Capex (B)	1,299	1,886	23,382	2,424	3,698	1,191	1,656	2,098
Working capital loss (gain) (C)	-1,411	-603	959	-80	553	-5,429	-493	1,214
Simple FCF (NI+A-B-C)	5,982	9,292	-19,549	1,706	9,662	15,354	105,642	12,115
Others (Forex, etc.)	-9	-1	1	-6	9	821	752	1,068
Cash and cash equivalents increase (decrease)	-5,873	1,349	2,919	20,623	19,390	-31,455	58,295	-26,246

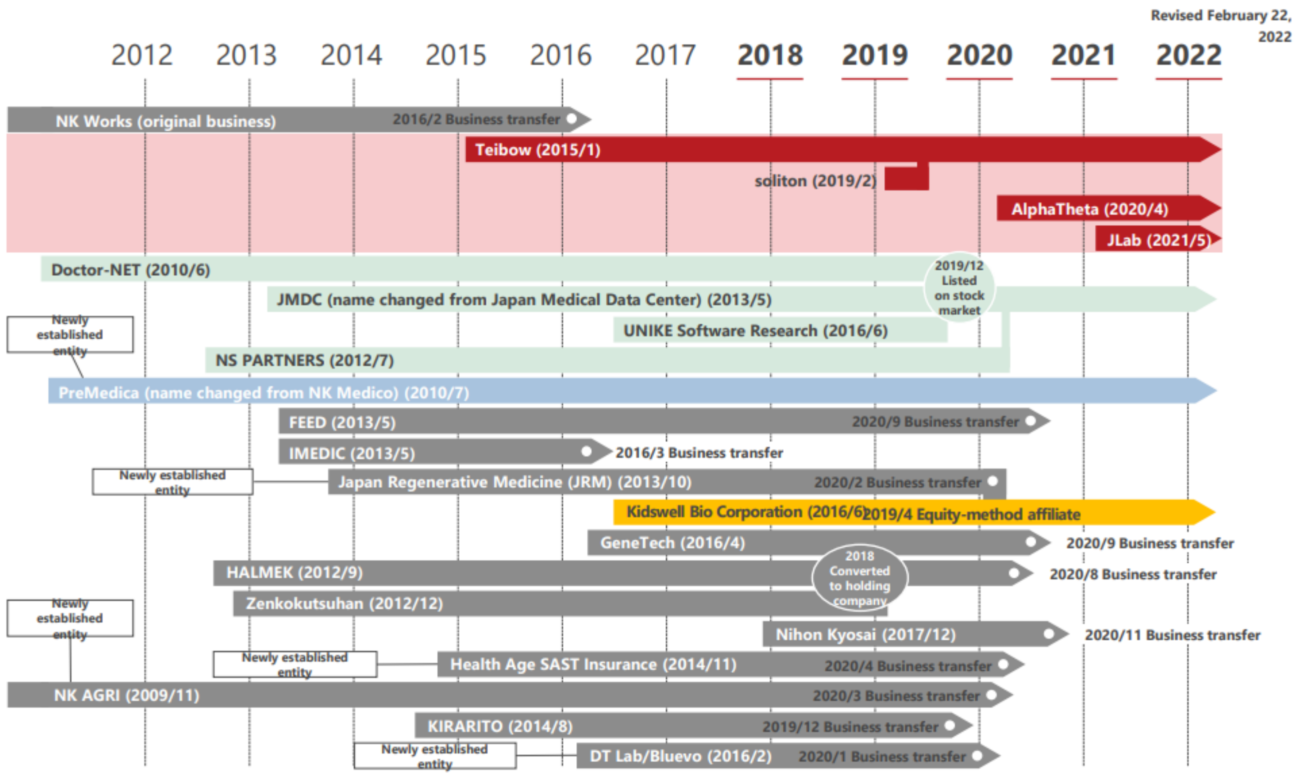
Source: Strategy Advisors – Based on Company Data

Figure 49. Background related to new businesses

Year	Month	New business-related history	Notes (withdrawals, transfers, etc.)
2009	4	NK Relations established to strengthen new business expansion	September 2018, Merger into the Company
2009	11	NK Agri established, entering into production and sales of fresh vegetables.	Withdrawn in March 2020
2010	6	Acquired Doctor Net and entered the medical equipment business.	Transferred to Japan Medical Data Center in April 2018
2010	7	NK MEDICO established to develop business in the medical field.	Currently PreMedica
2011	2	Established NK Works (currently Noritsu Precision) through a corporate split and transferred its main business to the holding company structure.	
2012	7	Acquired NS Partners and entered the consulting business for medical institutions.	Transferred to JMDC Corporation in April 2020
2012	12	Acquired Zenkoku Mail Order Group to strengthen the senior life business.	Transferred in August 2020
2013	5	Acquired Japan Medical Data Center (currently JMDC to be transferred in February 2022), Feed and iMedic to expand medical businesses. Acquired Akita Cable Television to strengthen senior living business	
2013	10	Established Japan Regenerative Medicine and entered the field of regenerative medicine.	
2015	1	Acquired Teibow to strengthen and expand manufacturing business.	
2016	2	Transferred NK Works (now Noritsu Precision), which was the company's founding business.	
2016	4	Acquired GeneTech and entered the biotechnology field.	Transferred to equity method in September 2020
2016	6	Acquired Gene Techno Science (currently Kidswell Bio) and made it a subsidiary.	Transferred to an equity method affiliate in April 2019
2016	6	Acquired Unike Software Research to strengthen the medical information field.	Transferred to Japan Medical Data Center in May 2018
2017	12	Acquired Nippon Kyosai to strengthen the insurance field.	Transferred in November 2020
2019	2	Acquired soliton corporation to strengthen the cosmetics field in the manufacturing business.	
2019	12	JMDC Corporation listed on the Tokyo Stock Exchange Mothers market.	
2020	3	Decided to withdraw from the agri-food business	
2020	4	Acquired AlphaTheta, which develops DJ equipment such as "Pioneer DJ"	
2021	5	Acquired PEAG, LLC dba JLab Audio, a U.S. company that develops personal audio equip.	
2022	2	Transferred JMDC	

Source: Strategy Advisors – Based on Company Data

Figure 50. Business portfolio reorganization chart



Source: Company Data

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