OVAL Corporation

7727

Tokyo Stock Exchange Standard Market

11-Mar.-2024

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Summary

A pioneer in flowmeters, a major dedicated manufacturer of fluid measurement equipment. Reflecting positive results, medium-term management plan targets upwardly revised for FY3/25

OVAL Corporation <7727> (hereby, the “Company”) was established in 1949 and is a pioneer in flowmeters. It is a major dedicated manufacturing of fluid measurement equipment and is listed on the Standard section of the Tokyo Stock Exchange (TSE). Its sensor division provides flowmeters that boast a wide-ranging lineup, its systems division provides system packages related to fluid measurement, and its service division offers precision maintenance to meet customer needs. Composed of these three businesses, the Company consistently provides products and services optimal for the times and pursues the highest level of customer satisfaction. It is working to grow into being Asia’s No. 1 sensing solution company by FY3/32, and is in the midst of promoting a medium-term management plan, Imagination 2025 (FY3/23 to FY3/25).

1. Overview of 1H FY3/24 results

In the Company’s consolidated results for 1H FY3/24, net sales increased 13.6% year on year (YoY) to ¥6,976mn, operating profit grew 68.2% to ¥798mn, thus both sales and profit had major gains. The increase in net sales was driven by the sensor division, which performed well. In addition, the increase in operating profit can be attributed to a lower fixed expense ratio, including personnel expenses, alongside the increase in sales. Regarding net sales by business division, the sensor division performed well domestically for semiconductor-related industries and overseas for battery-related industries in China and Korea. Receiving a lump-sum payment for licensing fees from Austria’s Anton Paar GmbH (“Anton Paar”) also made a contribution, as the division’s net sales rose 22.7% YoY. In the systems division, sales fell by 27.0% YoY on the impact of stagnant orders received in the previous period and a limited recovery overseas. The service division’s sales increased by 10.9% due in part to consolidating KEIHIN KEISOKU CO., LTD. and making it a wholly owned subsidiary in January 2023. As a result, the equity ratio rose to 63.5%, securing a high level of safety that is higher than the precision device industry average on the Prime, Standard and Growth markets. Reflecting the positive results, the Company upped its interim dividend to ¥7 from the initial plan of ¥4, as it is making adequate considerations for shareholder returns as well.

2. FY3/24 forecasts

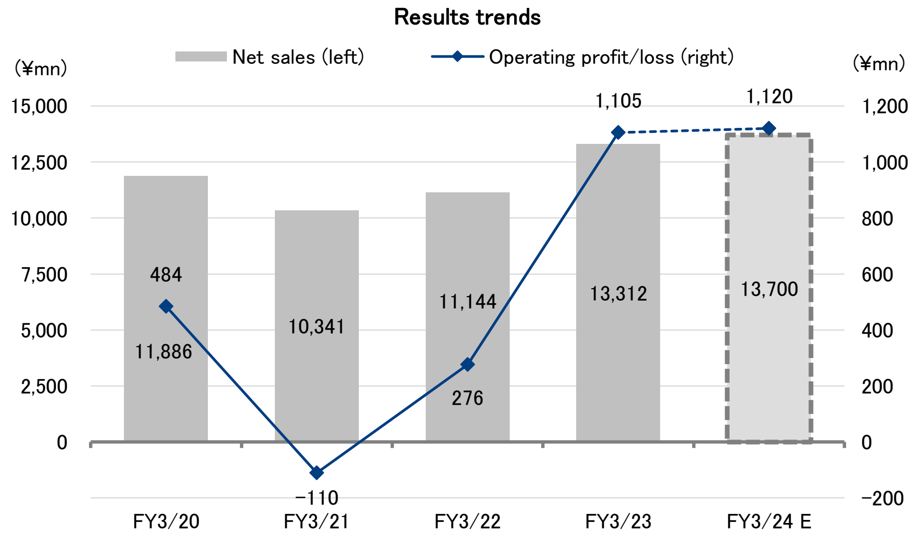
For its consolidated full-year forecasts for FY3/24, the Company is conservatively maintaining its initial results forecasts, which are net sales of ¥13,700mn, up 2.9% YoY, and operating profit of ¥1,120, up 1.3%. Regarding net sales, the licensing agreement with Anton Paar in 1H boosted the progress ratio; in 2H it is expected to be in line with a typical year. Regarding operating profit, it factors in a decline in the profit margin from an increased material expense ratio and higher construction project ratio. At the same time, the per-share year-end dividend was raised from the initial plan of ¥5 to ¥7, and the annual dividend was raised from the initial plan of ¥9 to ¥14 (an increase of ¥5), which would be a record-level high. This shows management’s commitment to returning profits to shareholders and can be seen as a mark of confidence that full-year result forecasts can be achieved.

3. Medium- to long-term growth strategy

In the Company's medium-term management plan, Imagination 2025, announced in March 2022 and covering from FY3/23 to FY3/25, it initially set result forecasts at net sales of ¥13.0bn, ordinary profit of ¥0.70bn, profit attributable to owners of parent of ¥0.38bn, ROE of 3.0%, and an annual dividend of ¥9. However, results in FY3/23 achieved the result forecasts of the medium-term management plan two years ahead of time, thus the forecasts were revised upwardly. The new forecasts that were announced are net sales of ¥14.0bn, up ¥1.0bn from the initial plan, ordinary profit of ¥1.40bn, up ¥0.70bn, profit attributable to owners of parent of ¥0.88bn, up ¥0.50bn, ROE of 5.7%, up 2.7 percentage points), and an annual dividend of ¥15, up ¥6. The Company has made no revisions to the basic policies and basic strategies for achieving the result forecasts. In other words, it plans to strengthen and expand the sensor business, service business, and systems business in accordance with a basic policy of investing management resources on a priority basis in priority areas and exploratory areas, as well as creating new business. In addition, it has stated that its strategy for strengthening the management base is manufacturing BCL, or best cost location, strengthening human resources, and promoting digital transformation (DX) and sustainability. The Company is steadily accumulating results in accordance with the basic policies and basic strategy of its medium-term management plan, and achievements going forward can be expected.

Key Points

- A major dedicated manufacturer of fluid measurement equipment; carries out three businesses, the sensor division, systems division, and service division
- Major increases in sales and profits in 1H FY3/24. Driven by the sensor division, which is performing well. Interim dividend upwardly revised from the initial plan
- Regarding full-year forecasts for FY3/24, the Company is conservatively maintaining its initial result forecasts. At the same time, it upwardly revised its year-end dividend from initial plans and is putting an emphasis on returning profits to shareholders
- Result forecasts in the medium-term management plans upwardly revised. No change in basic policies or basic strategy; the Company is steadily accumulating results and achievements can be expected going forward



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

Company and business overview

Develops integrated business as a dedicated manufacturer of fluid measurement equipment

1. Company overview

The Company was founded in May 1949 as a pioneer in flowmeters and is now a major dedicated manufacturer of fluid measurement equipment. The name OVAL refers to an oblong egg shape. By rotating an elliptical shaped cog with the flow, the flow volume can be measured. Flowmeters are the Company's roots and its showpiece product. It mainly conducts a B2B business targeting factories and plants, and flowmeters that measure fluids such as oil (kerosene, gasoline, heavy oil), water, vapor, and other liquids in production processes are the Company's mainstay product. It has continued business related to fluids, including system solutions, for over 70 years since its founding. In the future as well, sensors, such as flowmeters, will be indispensable to the automation of manufacturing, and the Company plans to provide this mother tool supporting manufacturing along with technologies cultivated over many years.

The Company has its head office in Shinjuku, Tokyo and has 11 consolidated subsidiaries under it (4 in Japan, and 7 overseas). It operates globally, primarily in Asia in countries such as China, Korea, and Taiwan, and in Southeast Asia. As of September 30, 2023, it has 691 consolidated employees and is currently listed on the TSE Standard market. Jun Tanimoto has served as the Company's president and CEO since June 2011, and based on its medium- to long-term vision and medium-term management plan, it seeks to be the No. 1 sensing solutions company in Asia. In addition, as a part of its strategy to increase its name recognition, it utilizes a mascot character on its website and results briefing materials, and has an affiliation agreement with cross-country skier Hikari Miyazaki.

2. History

OVAL ENGINEERING CO., LTD., the Company's forerunner, was established in May 1949, and in December 1992, it changed its name to OVAL Corporation. Since its founding it has increased its consolidated subsidiaries to the current 11 and expanded its business domain. Currently, it primarily manufactures and sells various flowmeters, metrological and energy control equipment and related systems, fluid control devices, and other fluid measurement equipment for factories. It also carries out service division business, including related maintenance and flowmeter inspection services. In September 2006, it acquired registration based on the Japan Calibration Service System (JCSS), a registration system for calibration service providers under the Measurement Act. Solving customer issues with the added value of calibration quality is a strength of the Company. The Company listed on the TSE Second Section in October 1961, and changed its designation to the TSE First Section in May 2014. In April 2022, it transferred to the TSE Prime market, but in October 2023 changed to the TSE Standard market.

History

Date	History
May 1949	Jun Kashima, the founder of OVAL, begins operations at Higashi-Osaki, Shinagawa, Tokyo.
July 1953	OVAL receive a gas flowmeter manufacturing license, becoming the first company in Japan to produce four types of flowmeters - the other three are water meters, gasoline dispensers and oil meters.
October 1961	OVAL stock is listed on the Second Section of the Tokyo Stock Exchange.
Apr 1972	Production begins at the newly completed Yamanashi Factory.
Aug 1982	Yokohama Operations Center opens in the Kanazawa Seaside Industrial Area developed by the city of Yokohama.
July 1985	Emerson Japan Co., Ltd., a subsidiary of Emerson Electric Company (U.S.A.), becomes a major shareholder with capital increasing to 2.2 billion yen. OVAL forms an agreement with Micro Motion, Inc. (USA) for technological transfers to continue between the two companies on production of flowmeters and all related technologies.
October 1991	Oval Singapore Pte. Ltd. is founded as a subsidiary of OVAL.
December 1992	The new corporate name, “OVAL Corporation,” and the new corporate trademark are introduced.
August 1993	Yang Instrutech Co., Ltd., a subsidiary of OVAL, is founded in Taipei, Taiwan.
October 1993	Oval Singapore Pte. Ltd. changes its name to Oval Asia Pacific Pte. Ltd. and expands the scope of its business since then.
September 1994	Yokohama Operation Center, OVAL’s main production site, is certified according to ISO 9001 in Quality System.
October 1994	Beijing Office opens.
April 1996	Hefei Oval instrument Co. Ltd. begins operations in Hefei, China.
May 1996	Yang Instrutech Co., Ltd. changes its name to Oval Taiwan Co., Ltd.
June 1998	Shanghai Oval Instrument Co., Ltd. is founded in China.
September 1999	Oval Techno Co., Ltd. is founded as new subsidiary of OVAL.
September 2002	5,953,000 shares of OVAL Corporation repurchased from Emerson Japan Co Ltd., the largest shareholder, and equity relationship between the two companies ends. Establishes Oval Europe B.V. in the Netherlands to expand sales and improve maintenance service in Europe and the Middle East.
April 2003	Yamanashi factory and Toyo Seiki Co., Ltd. are consolidated to a new company, Yamanashi Oval Corporation.
April 2004	A subsidiary company in Korea, Oval Gas Engineering Co. is established.
April 2005	In order to rationalize management, OVAL Corporation absorbs its subsidiary, Oval Techno Co., Ltd.
June 2006	OVAL head office is certified according to ISO9001 in Quality System.
August 2006	Yokohama Operation Center is certified according to ISO14001 in Environment Management System Standards.
September 2006	OVAL Corporation is registered as a qualified calibration party according to JCSS (Japan Calibration Service System).
July 2007	Oval Gas Engineering Co. renames to Oval Engineering Inc.
March 2009	Miyazaki OVAL Corporation was established as a joint company with Yoshikawa Electric Co., Ltd. to integrate the manufacture of electric instruments and converters.
November 2009	As part of the business tie-up and capital alliance between TOKYO KEIKI INC. and OVAL Corporation, 1,309,000 shares of OVAL Corporation are assigned to TOKYO KEIKI INC. on Dec. 1.
July 2010	Establishes HEFEI OVAL Automation Control System Co., Ltd. in China.
August 2010	OVAL head office is certified according to ISO14001 Environmental Management Systems Standard.
July 2011	Aiming to develop further growth in overseas flow measurement markets, Tokyo Keiki Inc., Nagano Keiki Co., Ltd., Chino Corporation, and OVAL Corporation create a business alliance.
March 2012	OVAL Corporation is listed as a loanable stock of the Tokyo Stock Exchange.
May 2012	Changes share unit of stock from 1,000 to 100 in order to improve liquidity of the stock and expand the investor base.
May 2014	OVAL Corporation is listed on the first section of the Tokyo Stock Exchange.
June 2016	Transitions to a company with an audit and supervisory committee.
April 2017	OVAL Corporation of America is founded in Texas, U.S.A.
June 2018	OVAL head office and Yokohama Operation Center are certified according to ISO27001 in information security management system standards.
August 2018	Acquired additional shares of Miyazaki OVAL to make it a wholly owned subsidiary.
April 2022	OVAL Corporation has made transition to the Tokyo Stock Exchange Prime Market.
January 2023	Acquired all shares of Keihin Keisoku Co., Ltd. and made it a wholly owned subsidiary.
October 2023	OVAL Corporation has made transition to the Tokyo Stock Exchange Standard Market.

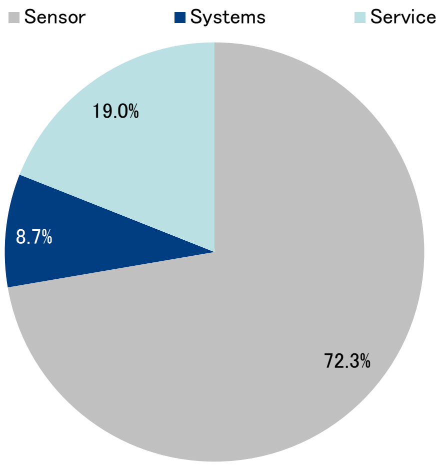
Source: The Company’s website

3. Business description

The Company Group is a single segment consisting of the manufacture and sale of measuring equipment, thus segment information is omitted, but information is disclosed by business division. The sensor business manufactures and sells flowmeters and other measuring devices along with related equipment. The systems business designs, develops, sells, and installs system equipment related to the manufacture, shipping, testing, and analysis of fluid measuring control. The service business handles products in the field, repair, maintenance, and calibration (including JCSS). The Company primarily handles industrial measuring equipment and does not handle meters for general residential waterworks and gas.

The respective shares of net sales of each business in 1H FY3/24 were 72.3% for the sensor business, 8.7% for the systems business, and 19.0% for the service business. Profitability is highest with the sensor business, then the service business and systems business. The systems business is a field with intense international competition, but the Company sees it as a promising field long-term with great growth potential. By region, net sales are primarily domestic sales, but overseas sales, mostly in Asia, account for 20-30%. “No. 1 in Asia” is a key phrase in the Company’s medium-term management plan that started in 2022, so it is seeking to make further leaps forward. The sensor business and systems business are developed overseas, but the service business is primarily domestic.

Share of net sales by business division
(1H FY3/24: ¥6,976mn)



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

4. Company strengths

The Company’s three main strengths are a wide-ranging product lineup, systems and service centered on flowmeters, and JCSS (a registration system for calibration service providers) for supply of measurement standards.

The first strength, a wide-ranging product lineup, in the field of industrial meters, only the Company can provide products that measure liquids, gases, and vapor from low to high temperatures, products that include positive displacement flowmeters, Coriolis flowmeters, vortex flowmeters, ultrasonic flowmeters, thermal mass flowmeters, turbine flowmeters, electronic meters, and other peripheral equipment. Of these, its mainstay products are positive displacement flowmeters, Coriolis flowmeters, and vortex flowmeters. They account for 90% of the sensor division’s sales. Its positive displacement flowmeters and vortex flowmeters have an approximate 50% share of the domestic market. Compared to the Company’s broad-ranging product lineup, industry majors Yokogawa Electric Corporation <6841> and Toshiba Infrastructure Systems & Solutions Corporation only have a portion of this lineup of flowmeters.

Product lineup

Source: The Company's results briefing materials

For the second strength, systems and service centered on flowmeters, the Company provides receiving and inspection systems with its fluid measuring control system, conducts onsite repair and maintenance such as service and calibration (correction by comparing a meter's deviation and precision to a standard), and possesses mobile inspection vehicles. In this way, the Company covers not only the manufacture and sale of measuring equipment but with a broad network also offers systems and service.

Regarding the third strength, JCSS for supply of measurement standards, the Company is the only JCSS registered business with JSCC registration based on flow measurement method for three types of fluids, oil (kerosene, gasoline, fuel oil), water, and vapor. In particular, the flow rate that can be calibrated for petroleum is the largest among domestic calibration companies. In addition, the flow rate range is the widest among domestic calibration companies. With regard to the range of flow volumes as well, it offers the largest range as a calibration provider. With respect to the various types of flowmeters, the Company draws on the fact that it can provide JCSS calibration for differing fluids and wide flow volume ranges to solve customer issues by providing the added value of calibration quality to its flowmeters. The Company provides calibration services not only for its own products but for the products of other companies as well, and going forward it plans to expand this service to flowmeters used at automakers and pharmaceutical companies.

Result trends

In 1H FY3/24, major increases in sales and profits driven by the sensor division

1. Overview of 1H FY3/24 results

The global economy in 1H FY3/24 continued to be unstable due to prolonged inflation and monetary tightening in Europe and the U.S., and in China, the economy slowed due to stagnant internal and external demand starting with real estate investment and development. In Japan, although the COVID-19 pandemic subsiding and economic activity returning to normal, and consumer spending, inbound demand, and capital investment are getting back on their feet and the economy is continuing to gradually recover, prices continue to rise due to soaring energy and raw material prices, thus the future remains uncertain.

Under such an economic environment, the Company Group steadily moved forward on its medium-term management plan, Imagination 2025. As a result, consolidated results for 1H FY3/24 were orders received of ¥8,774mn (up 33.5% YoY) and net sales of ¥6,976mn (up 13.6%) for major gains compared to 1H FY3/23. The increased sales were driven by the strong-performing sensor division. On the profit front, along with the increase in sales, the ratio of fixed expenses, including personnel expenses, declined, and the cost of sales ratio improved by 2.7 percentage points, while the SG&A ratio improved by 1.0 points. The highly profitable sensor business grew, and although the price of materials skyrocketed, efforts by the purchasing division kept the impact on price increases to a minimum. As a result of the sales increase and lowering the fixed cost ratio, operating profit totaled ¥798mn (up 68.2%), ordinary profit was ¥852mn (up 49.7%) and profit attributable to owners of parent totaled ¥550mn (up 86.8%), thus there were large gains in both sales and profits. This was a turning point in the medium-term management plan, and these were solid financial results directed at achieving the numerical targets for FY3/25.

Consolidated results for 1H FY3/24

(¥mn)

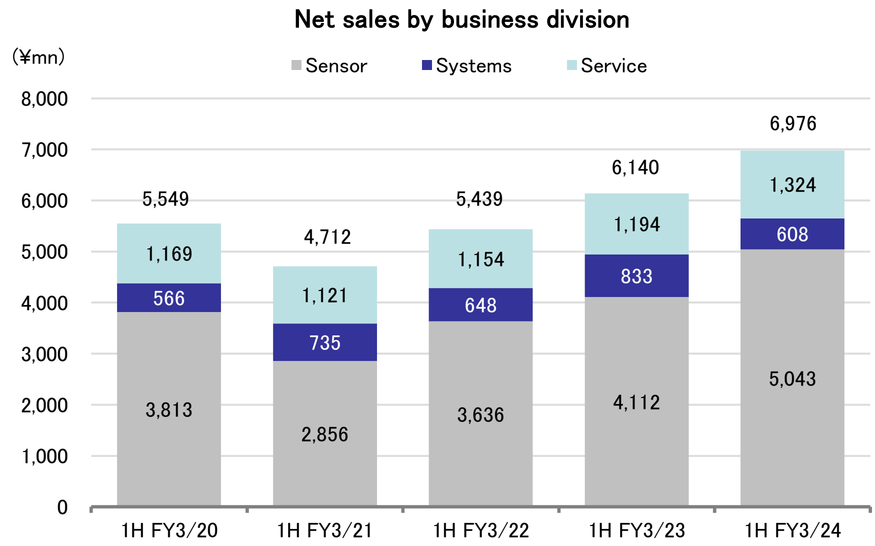
	1H FY3/23		1H FY3/24		YoY	
	Result	Sales share	Result	Sales share	Change	% change
Net sales	6,140	100.0%	6,976	100.0%	836	13.6%
Cost of sales	3,657	59.6%	3,968	56.9%	310	8.5%
Gross profit	2,482	40.4%	3,008	43.1%	526	21.2%
SG&A expense	2,007	32.7%	2,210	31.7%	202	10.1%
Operating profit	474	7.7%	798	11.4%	323	68.2%
Ordinary profit	569	9.3%	852	12.2%	283	49.7%
Profit attributable to owners of parent	294	4.8%	550	7.9%	255	86.8%

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

Looking at results by business division, in the sensor division, orders received were ¥6,284mn (up 36.5% YoY). Although domestic orders from the oil-related industry stagnated, there were strong advance orders to secure inventory for the semiconductor-related industry, and orders were also solid from the chemicals-related industry. In addition, overseas, the Company maintained strong sales to the battery-related industry, including for electric vehicles, through subsidiaries in China and Korea. Net sales were strong, totaling ¥5,043mn (up 22.7%). Like with orders received, domestically, sales were brisk to semiconductor-related and chemicals-related industries, and overseas sales were strong to the battery-related industry in China and Korea. Additionally, overseas, the Company has recorded orders received and sales from a contractual lump-sum payment made as compensation for intellectual property licensing based on a licensing agreement with Anton Paar of Austria, and this contributed to revenue. Net sales in the sensor division declined significantly in 1H FY3/21 due to the Company being severely affected by the impact of capital investment being put off due to the uncertain outlook caused by the pandemic.

In the systems division, orders received increased significantly to ¥1,128mn (up 48.1% YoY). Although there was stagnation overseas, in Japan, the Company received large orders from the National Institute of Advanced Industrial Science and Technology (AIST) for upgrading, inspecting and repairing oil flow standard equipment and from the food products-related industry. In particular, regarding the order from AIST, the Company is a JCSS provider and its technological capabilities where highly commended for stably and continually providing calibration and testing services based on national standards. At the same time, net sales were limited to ¥608mn (down 27.0%). This was attributable domestically to the impact of slow orders received in the previous period and overseas to the impact of the pandemic bottoming out in Southeast Asia but the recovery still being limited.

In the service division, orders received were ¥1,361mn (up 13.1% YoY), and net sales were ¥1,324mn (up 10.9%), thus both exceeded the previous year. This was attributable to continuing steady, detailed maintenance activities, including support services for maintenance plans in the oil-related industry, a major customer, despite a difficult market environment with industry reshuffling and the energy transition for a decarbonized society. Also, as a part of efforts to strengthen its maintenance and calibration business for other products, in January 2023, the Company acquires all the shares in KEIHIN KEISOKU CO., LTD. and consolidated its profit and loss statement from 1Q, which contributed to increased sales revenue. Net sales in the service division went down in 1H FY3/21 due to the impact of a difficult market environment for the oil-related industry, a major customer, due to falling crude oil prices and industry reshuffling. However, the service division recorded steady sales compared to the sensor division and systems division and was not heavily impacted by the business conditions.



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

Maintaining a high level of safety

2. Financial condition and management indicators

Total assets as of the end of 1H FY3/24 were ¥22,758mn, up ¥392mn from the end of the previous period. Of these, current assets were ¥12,018mn, up ¥483mn. This was attributable to notes and accounts receivable - trade, and contract assets decreasing ¥117mn but electronically recorded monetary claims-operating increased ¥54mn and inventories increased ¥510mn. The increase in inventories was because inventory was increased to maintain delivery deadlines for the Company's products during material supply shortages. As a result of this initiative, all deliveries were made on time. In addition, non-current assets were ¥10,740mn, down ¥90mn. This was due to investment securities increasing ¥41mn and long-term prepaid expenses increasing ¥85mn, but building and structures, machinery, equipment and vehicles, software, and goodwill decreased by ¥130mn due to depreciation and deferred tax assets decreased ¥58mn.

At the same time, total liabilities were ¥7,860mn, down ¥222mn. Of these, current liabilities were ¥3,884mn, down ¥108mn. This was mainly attributable to short-term borrowings increasing ¥88mn but notes and accounts payable – trade decreasing ¥82mn and other current liabilities decreasing ¥97mn. Non-current liabilities were ¥3,975mn, down ¥113mn. This was mainly due to long-term borrowings decreasing ¥43mn and provision for retirement benefits for directors (and other officers) declining ¥37mn. Total net assets were ¥14,897mn, up ¥615mn. This was primarily attributable to increases in retained earnings of ¥438mn and foreign currency translation adjustment of ¥121mn.

As a result of the above, the equity ratio increased to a highly commendable 63.5%, a high level of safety above the average of 55.7% for the precision instruments industry listed on the Prime, Standard, and Growth markets in FY3/23. At the same time, ROA, ROE and other indicators of profitability were below the industry average, so strengthening profitability is an issue going forward.

Consolidated balance sheets and management indicators

(¥mn)

	End-FY3/23	End-1H FY3/24	Change
Current assets	11,534	12,018	483
(Cash and deposits)	3,191	3,195	3
(Notes and accounts receivable - trade, and contract assets, electronically recorded monetary claims – operating)	4,817	4,755	-62
(Inventories)	3,276	3,786	510
Non-current assets	10,830	10,740	-90
Property, plant and equipment	8,725	8,649	-76
Intangible assets	606	531	-75
Investments and other assets	1,498	1,559	61
Total assets	22,365	22,758	392
Current liabilities	3,993	3,884	-108
(Short-term borrowings)	1,413	1,502	88
Non-current liabilities	4,089	3,975	-113
(Long-term borrowings)	714	670	-43
Total liabilities	8,082	7,860	-222
(Total borrowings)	2,127	2,172	44
Total net assets	14,282	14,897	615
Safety			
Equity ratio	62.0%	63.5%	1.5pt

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

Outlook

For FY3/24, maintaining initial result forecasts, confidence in achieving plans

● FY3/24 results forecast

Regarding the outlook, domestic demand is down due to high prices and monetary tightening globally. In addition, with surging prices for resources and energy due to the protracted Ukraine situation, the economic outlook is expected to continue to be unclear. Further, regarding capital investment by customer companies as well, which has a major impact on the Company Group's earnings, there is a chance it goes below the forecast due to personnel shortages and to the increases in material and energy costs cutting into corporate earnings, as a difficult managing environment is expected to continue.

Amid these conditions, the Company Group, in the second year of the Imagination 2025 medium-term management plan, will seek to steadily turn its growth strategy and initiative to strengthen the management base into results. Regarding its consolidated result forecasts for FY3/24, it has maintained the result forecasts it made when it announced its financial results for the previous period, which are net sales of ¥13,700mn, up 2.9% YoY, operating profit of ¥1,120mn, up 1.3%, ordinary profit of ¥1,210mn, down 1.5%, and profit attributable to owners of parent of ¥810mn, up 24.8%. Regarding net sales, in 1H, the licensing contract with Anton Paar boosted the progress rate, but in 2H sales are expected to return to the level of a normal year. As for operating profit, the Company is forecasting a decline in the profit margin due to a higher material expense ratio and higher construction project ratio. In addition, the large margin of increase in profit attributable to owners of parent was due to an extraordinary loss recorded in the previous period (advisory fee of ¥204mn) dropping off this term. 1H financial results had major increases in sales and profits, so the full-year results forecast seem extremely cautious and conservative. At the same time, as mentioned below, the Company raised its dividend significantly, which shows its confidence in being able to fully achieve its full-year result forecasts.

FY3/24 consolidated results forecast

(¥mn)

	FY3/23		FY3/24		YoY	
	Result	Sales share	Forecast	Sales share	Change	% change
Net sales	13,312	100.0%	13,700	100.0%	388	2.9%
Operating profit	1,105	8.3%	1,120	8.2%	15	1.3%
Ordinary profit	1,228	9.2%	1,210	8.8%	-18	-1.5%
Profit attributable to owners of parent	649	4.9%	810	5.9%	161	24.8%

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

Medium- to long-term growth strategy

Aiming to be Asia's No.1 sensing solutions company. Phase 1 to FY3/25 proceeding steadily

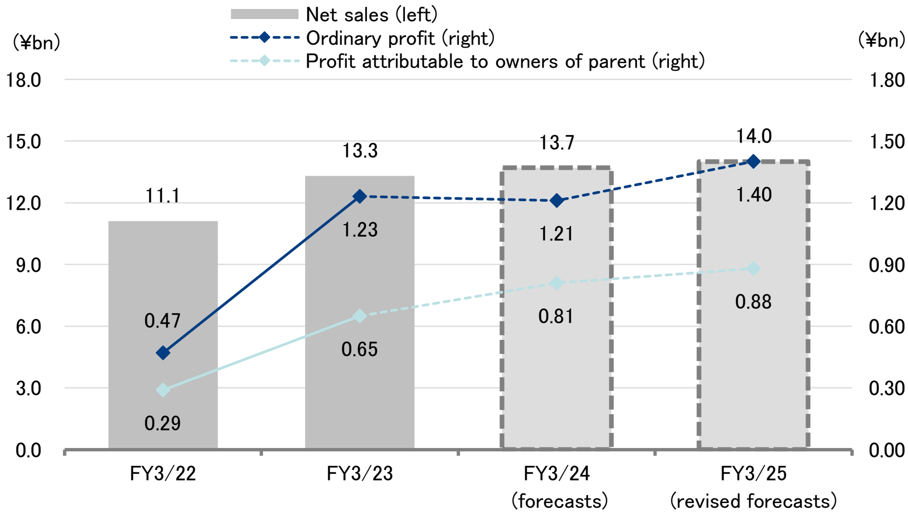
1. Medium- to long-term forecasts

The Company announced its medium-term management plan Imagination 2025 (FY3/23 to FY3/25) in March 2022 and announced a medium- to-long term vision on which it is predicated. Striving long-term to be Asia's No. 1 sensing solutions company, for FY3/32 in 10 years, it is planning to achieve net sales of ¥20.0bn, an ordinary profit margin of 10.0%, and ROE of 10.0%.

In order to achieve consolidated net sales of ¥20.0bn in FY3/32, in terms of business portfolio, the Company plans to commit management resources on a priority basis to priority fields and exploratory fields. Specifically, the plan calls for growth to be driven by the systems business as a priority field and achieve ¥3.0bn in net sales, which would be growth of 150% compared to FY3/22 results. The service business is at the core of growth as a priority field. The Company is planning net sales of ¥5.0bn, a 92% increase on the same basis. The mainstay sensor business is positioned as a base field, and the Company will continue working to generate profit as it is planning sales of ¥10.0bn, a 30% increase. In addition to these existing businesses, the Company is planning a net increase of ¥2.0bn in sales from new businesses and will seek to create business as the exploratory field.

The Imagination 2025 medium-term management plan has positioned structural reform as Phase 1, the first step to achieving the medium- to long-term vision, and is the period for promoting structural reform aimed at achieving its vision for management in 10 years through imagination and creativity. The result forecasts for FY3/25, the final year in the medium-term management plan, is ¥13.0bn in net sales, ¥0.70bn in ordinary profit, ¥0.38bn in profit attributable to owners of parent, and an ROE of 3.0%. However, in FY3/23, efforts were made to reduce manufacturing expenses by raising operating efficiency, and switch a portion of outsourced processes to in-house production to raise capacity utilization at plants. As a result, the forecasts for the final year of the medium-term management plan were achieved two years ahead of schedule and thus forecasts were revised. Under the revised forecasts, the Company substantially upwardly revised net sales to ¥14.0bn (up ¥1.0bn from the initial plan), ordinary profit to ¥1.40bn (up ¥0.70bn), profit attributable to owners of parent to ¥0.88bn (up ¥0.50bn), and ROE to 5.7% (up 2.7 percentage points). The revised forecasts are ambitious. Compared to FY3/22 results, net sales are up 25.6%, ordinary profit is up 198.1%, profit attributable to owners of parent is up 207.6% and ROE is up 3.5 percentage points.

Numerical targets of the medium-term management plan



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

2. Strategies for achieving medium-term management plan

The basic strategies of the medium-term management plan are a growth strategy and an approach for strengthening the management base. For its growth strategy, the Company will closely follow changes in the business environment to reform existing businesses and conduct innovation to solve social issues. This strategy has been defined as one for raising corporate value. It is composed of a 1) growth strategy for the sensor business, 2) growth strategy for the service business, 3) growth strategy for the systems business, and 4) strategy for creating new business. Further, as for the strategy to strengthen the management base, the Company will revise and improve the current management base and define a strategy for building a management base that is resilient and can be trusted by society by the deployment of new organizations to meet the changing times. Specifically, the strategy will be composed of 1) a manufacturing BCL strategy, 2) human resource strengthening strategy, 3) DX promotion strategy, and (4) sustainability promotion strategy.

Plans for specific initiatives for the growth strategy are as follows.

(1) Sensor business growth strategy

In terms of new product development, the Company is aiming to develop derivative sensors from existing technologies as a growth engine and will plan new products aligned with growth markets and latent needs. In addition, it will upgrade existing products and promote development of a customer orientation through marketing as it creates added value. Moreover, to expand the Asian business, the Company will revise and rebuild sales channels centering on China, Korea, Taiwan and Southeast Asia and will work to expand the China market through building an integrated system for manufacturing, sales, and technology.

(2) Service business growth strategy

To expand the maintenance business, the Company will work to expand its business domain to include subscriptions and work to transition from passive service to active (proposal-based) service. Additionally, to expand the calibration business, regarding JCSS calibration, it will work to strengthen sales centering on flowmeters for the automotive-related market, other companies' flowmeters, and flowmeters overseas.

(3) Systems business growth strategy

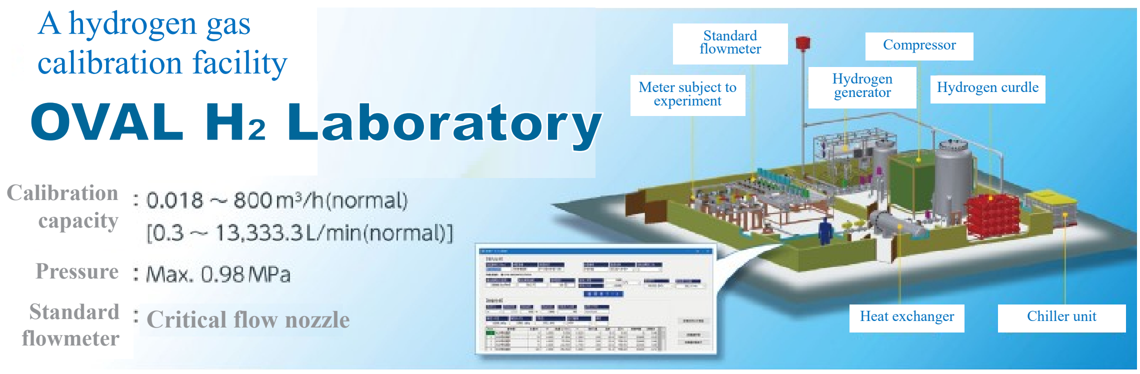
As for M&A alliances, the Company will develop undeveloped markets with good new partners. Also, as far as contributing to a carbon-free society, it will aim to participate in carbon free-related systems (for example, related to the supply of hydrogen and ammonia for fuel) and will contribute to the stable supply of oil and natural gas related to energy security for the goal of carbon neutrality. Moreover, to expand the Asian business, the Company will expand sales channels through strengthening coordination with Group companies in Southeast Asia, China, Korea, Taiwan and Singapore in particular, and will work to expand sales of small-scale systems projects in China, Korea, and Taiwan.

(4) New business creation strategy

To develop in-house technologies, the Company will reinspect the technologies it possesses (design and manufacturing) and work to consider new businesses that can be created. Also, it will create an in-house venture program to cultivate entrepreneurs internally aimed at the future by taking in the valuable opinions of ambitious employees.

As the results of these growth strategies, in FY3/23, the Company utilized exhibitions and digital broadcasts for engineers involved in manufacturing and R&D to make proposals for facilities management and status monitoring aimed at improving the environment at customer factories, taking safety measures, and raising work efficiency. In addition, regarding the strategy to expand business in the service business growth strategy, the Company acquired shares in KEIHIN KEISOKU, which performs maintenance on instrumentation devices using advanced technologies at factories and plants and earned the trust of and accumulated an extensive track record with customers, and on January 20, 2023, made the company a wholly owned subsidiary. In this way, the Company strengthened maintenance of other companies' products and its calibration business. Also, products whose scale is currently small but which are growing quickly are products that contribute to the SDGs for decarbonization; they include flowmeters for hydrogen measurement and flowmeters that measure ammonia. The Company is taking on the challenge of next-generation technologies and innovation for decarbonization. For measuring hydrogen in particular, the Company's strength is an ample lineup of products, including 120 MPa ultra-high pressure Coriolis flowmeters, ultrasonic flowmeters and thermal mass flowmeters. The Company's aiming to provide one-stop shopping for everything from hydrogen supply chain flowmeters to calibration. Moreover, because initiatives are needed when hydrogen is manufactured, including its storage and transport, the Company intends to build the OVAL H_2 Laboratory, a hydrogen gas calibration facility. The Company plans to pour resources into next-generation energy markets and with the opportunity to be a part of a new supply chain, the Company will contribute to a sustainable society, including measures addressing climate change.

OVAL H_2 Laboratory, a hydrogen gas calibration facility



Source: The Company's interim report

At the same time, plans for specific initiatives for the strategy of strengthening the management base are as follows.

(1) Manufacturing BCL strategy

For rigorous best cost location, or BCL, the Company will reassess its designs based on materials and production processes, and its production methods and supply chains and will work to both cut costs (material costs, manufacturing costs) and ensure quality and delivery stability. In addition, in terms of utilizing the product portfolio, the Company will analyze profitability and growth potential of its products amid a changing market environment, and clarify the products that should be focused and those that should be discontinued.

(2) Strategy to strengthen human resources

With regard to human resources, the Company will work to increase productivity by the rigorous practice of putting the right numbers and types of people in the right positions as it aims to build a human resources system that fosters people for the next generation with a view to the future and which is integrated throughout the Group. As for financial strategy, the Company will focus management resources on new businesses and businesses that generate earnings.

(3) DX promotion strategy

To promote DX, the Company will establish a new dedicated department and accelerate the Company's growth by using digital tools throughout. Also, to effectively utilize information assets, it will work to utilize accumulated delivery information, repair records and customer information in digital marketing. Further, to foster a DX mindset, all employees will use digital technologies to foster a mindset of taking on new challenges.

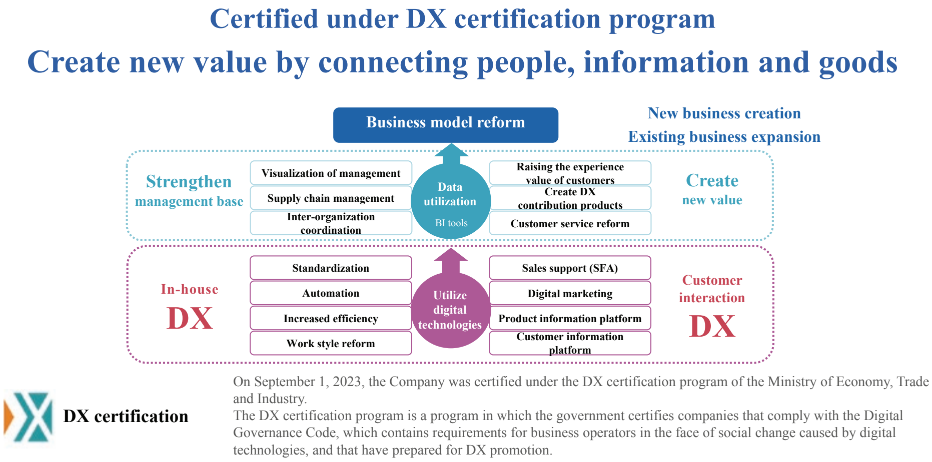
(4) Sustainability promotion strategy

As initiatives to address environmental issues through business activities, the Company will provide products and services that consider the environment, starting with products related to alternatives to fossil fuels, and will strive to reduce the amount of CO_2 given off by its business activities, reduce waste and promote reuse. In addition, in respecting human rights, the Company respects the rights of all stakeholders regardless of individual attributes such as gender, age, nationality, social status, or disability. Moreover, in complying with laws and regulations, the Company practices sincere business activities, including fair competition and timely disclosure, and works to strengthen its governance system.

Its track record in executing its strategy to strengthen the management base includes the following. In FY3/23, it utilized marking automation for greater sales efficiency and to change and diversity its marketing activities. To address surging raw material prices, the Company raised efficiency by doing administrative inventory throughout the Company Group, and worked to raise capacity utilization by switching some processes in-house that had been outsourced to reduce manufacturing costs.

In addition, as far as results in 1H FY3/24, on September 1, 2023, the Company earned certification as a DX-certified operator based on the DX certification program of the Ministry of Economy, Trade and Industry. The DX certification program is a program in which the government certifies companies that comply with the Digital Governance Code, which contains requirements for business operators in the face of social change caused by digital technologies, and that have prepared for DX promotion. The Company Group intends to use the DX certification logo on business cards and in other business promotions in the future.

DX certification acquired



Source: The Company's results briefing materials

Moreover, regarding sustainability, the Company has long promoted various initiatives. As an example, in November 2022, it entered into an affiliation agreement with the cross-country skier Hikari Miyazaki. The Company felt a sense of concord between itself and the athlete boldly taking on challenges and her single-minded focus on achieving her goals. Reaching for the top, the Company supports the athlete taking on challenges on the global stage as it contributes to the promotion of sports. In addition, through winter sports, which are largely impacted by the problem of climate change, the Company recognizes environmental problems as a social responsibility and intends to continue contributing to sustainable development. In recent years, in Japan as well, ESG investment has been increasing in which companies are analyzed and invested in from the perspective of the Environment, Social and Governance, or ESG. In 2020, the balance was US$2.8tn, rising quickly to account for 8.1% of global investing, and it is thought that there is still plenty of room to grow going forward. In this sense as well, the Company, which is actively involved in social initiatives, will be watched.

Shareholder return policy

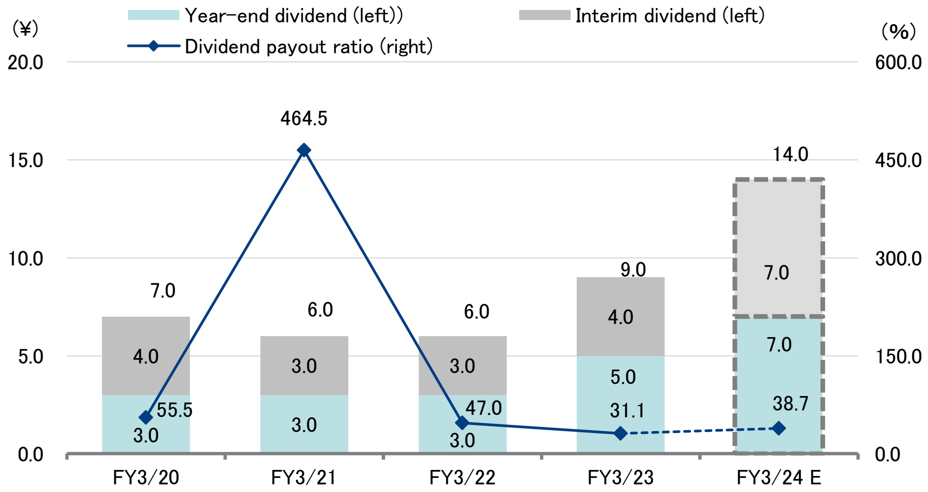
For FY3/24, the Company plans to substantially increase the dividend compared to the initial forecast

The Company pays out a dividend as its policy on shareholder returns. Its basic policy on dividends is to recognize that returning profits to shareholders is a very important priority and to make decisions upon comprehensively considering securing its management base and enhancing its financial condition for future business development. Under the medium-term management plan currently underway, the Company is securing retained earnings necessary for making active, timely investment for business growth while it improves its results and cash flow to raise the amount of the dividend.

For FY3/24, reflecting its favorable results, it raised its per-share interim dividend from an initial forecast of ¥4 to ¥7 and will raise its per-share year-end dividend from ¥5 to ¥7, which means the annual dividend is being raised from ¥9 as initially forecasted to ¥14 (an increase of ¥5 YoY), which is a record-level high. This not only shows management's stance toward fully considering shareholders, it also reveals its confidence in being able to achieve it full-year result forecasts.

The Company changed to the TSE Prime market in April 2022, but decided to transfer to the Standard market on October 20, 2023. Management decided that a sound, grounded approach to management would be the optimal and most timely choice rather than putting too much emphasis on achieving the listing requirements of the Prime market and that it would secure an environment for shareholders to confidently own and trade the Company's shares without the threat of being delisted in the future. At the same time, it can be recognized that efforts made previously to maintain Prime market listing standards have resulted in a certain level of results, dividends, and stock price, and going forward it will continue initiatives to be relisted on the Prime market, promoting initiatives to raise corporate value to earn high ratings from investors and business partners. Going forward, results can continue to be expected from steady promotion of the basic policies and basic strategies of the Company's medium-term management plan.

Dividends and payout ratio



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

FISCO

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