COMPANY RESEARCH AND ANALYSIS REPORT

OVAL Corporation

7727

Tokyo Stock Exchange Standard Market

9-Aug.-2024

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Index

Summary

A pioneer in flowmeters, a major dedicated manufacturer of fluid measurement equipment.
Steady progress also being made in FY3/25 towards achieving targets in medium-term management plan

OVAL Corporation <7727> (hereby, the "Company") was established in 1949 and is a pioneer in flowmeters. The Company is the largest specialized manufacturer 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 FY3/24 results

In the Company's consolidated results for FY3/24, net sales increased by 7.8% year on year (YoY) to ¥14,347mn, operating profit grew 33.5% to ¥1,475mn, ordinary profit rose 28.1% to ¥1,572mn, and profit attributable to owners of parent improved 69.8% to ¥1,102mn, with both sales and profit exceeding the Company's initial forecasts, and operating profit and ordinary profit posting a record high. The increase in net sales was driven by sales growth in each division, particularly in the sensor division. Operating profit growth was due to a decline in the ratio of fixed expenses, including personnel expenses, while sales increased. Regarding net sales by business division, sales rose 7.6% YoY at the core sensor division. It performed well domestically on steady orders from the chemicals-related industry and the shipment of orders received from the semiconductor-related industry up to 3Q, and overseas for battery-related industries in China and Korea, as well as from the receipt of a lump-sum payment for licensing fees from Austria's Anton Paar GmbH ("Anton Paar"). In the systems division, sales increased by 8.9% YoY. Overseas sales declined on lower YoY orders, but domestic sales were boosted by the partial booking of sales by applying the domestic sales percentage-of-completion method for a major project. Service division sales rose by 7.8% YoY. This was achieved despite a difficult market environment with industry reshuffling and the energy transition for a decarbonized society, through the continuation of steady and detailed maintenance activities, including support services for maintenance plans in the oil-related industry, a major customer, and the consolidation of KEIHIN KEISOKU CO, LTD. and making it a wholly-owned subsidiary in January 2023. As a result, the equity ratio rose to 63.6%, securing a high level of safety that is higher than the precision instrument industry average on the Prime, Standard and Growth Markets. Reflecting the positive results, the Company significantly increased its annual dividend to ¥14.0 from the initial plan of ¥9.0, and it is making adequate considerations for shareholder returns as well.

2. FY3/25 forecasts

For its consolidated full-year forecasts for FY3/25, the Company forecasts net sales of ¥14,000mn, down 2.4% YoY, operating profit of ¥1,300mn, down 11.9%, ordinary profit of ¥1,400mn, down 11.0%, and profit attributable to owners of parent of ¥880mn, down 20.2%. Regarding net sales, despite factoring in a lump sum payment for licensing fees from Anton Paar, it expects a slight decline in sales due to factors such as a slowdown in sales to the domestic semiconductor-related industry and to the battery-related industry, including for electric vehicles in China and Korea, which had been strong in FY3/24. Regarding profit, the Company is factoring in a fall in profit margins on higher raw material and fuel costs. Despite forecasting lower sales and profit, it expects to achieve the year-end targets in its medium-term management plan. It should be noted that the initially announced earnings forecasts tend to be very cautious and conservative. The Company increased its per-share annual dividend ¥1.0 to ¥15.0, a record high. This shows management's commitment to returning profits to shareholders.

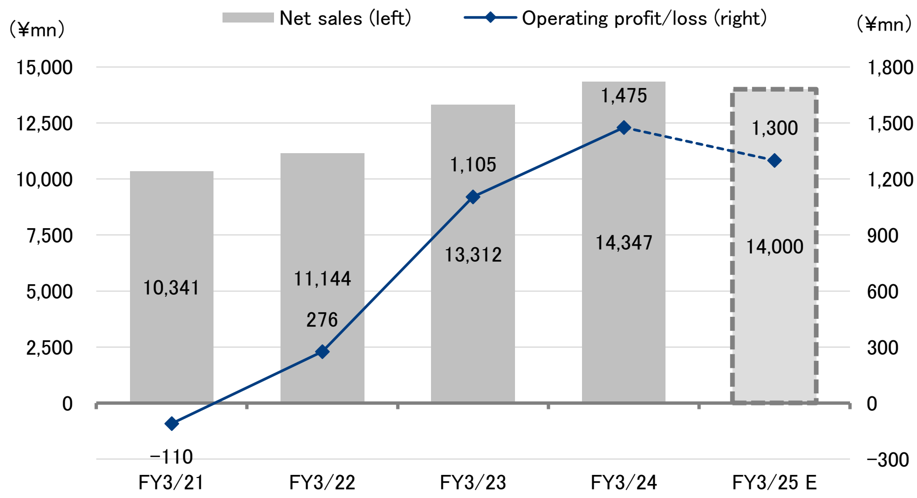
3. Medium- to long-term growth strategy

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 (return on equity) of 3.0%, and an annual dividend of ¥9.0. 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 ¥15.0, up ¥6.0. These are extremely ambitious forecasts, but earnings are also moving steadily towards the targets for the final year of the plan. 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 for the final year of the plan 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 FY3/24. Sales growth in each division, particularly in the sensor division. Annual dividend upwardly revised from the initial plan
- Forecasts lower sales and profit in full-year FY3/25, but expects to achieve targets in medium-term management plan. Intends to increase annual dividend and focus 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

Results trends



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 March 31, 2024, it has 698 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 mascot characters O-chan and VAL-chan 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 July 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. This is due to management deciding that a sound, grounded approach to management is the optimal and most timely choice rather than putting too much emphasis on achieving the listing requirements of the Prime 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.
July 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.

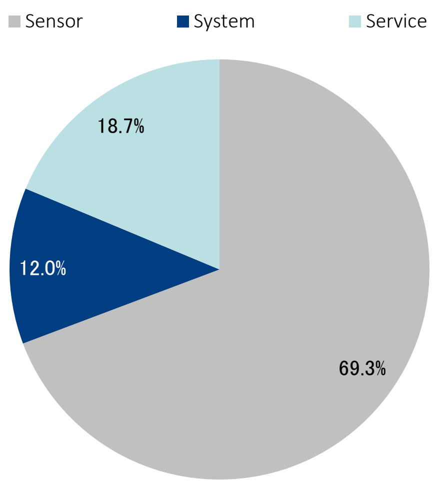
Source: The Company’s website

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 division manufactures and sells flowmeters and other measuring devices along with related equipment. The systems division designs, develops, sells, and installs system equipment related to the manufacture, shipping, testing, and analysis of fluid measuring control. The service division 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 division in FY3/24 were 69.3% for the sensor division, 12.0% for the systems division, and 18.7% for the service division. Profitability is highest with the sensor division, then the service division and systems division. Based on sales and profit, the sensor division is the core business of the Company. The systems division 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 division and systems division are developed overseas, but the service division is primarily domestic.

Share of net sales by business division
(FY3/24: ¥14,347mn)



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 flow-meters, 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 (flowmeter testing) 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

Record sales and profit in FY3/24. Sales growth in each division, particularly in the sensor division.

1. Overview of FY3/24 results

The global economy in FY3/24 continued to be unstable due to the protraction of the Russia/Ukraine conflict, growing tensions in the Middle East, cooling economies caused by global monetary tightening policies, and the slowdown of the Chinese economy. In Japan, despite an upward trend in inbound demand and services consumption, the weakening yen, wage growth remaining unable to keep up with price increases, especially for small businesses, and weak consumer spending weighed on the economy, and the economic outlook is expected to remain unclear.

Under such economic environment, the Company Group moved forward on its medium-term management plan Imagination 2025. As a result, FY3/24 consolidated results were orders received of ¥14,985mn, up 8.4% YoY, net sales of ¥14,347mn, up 7.8%, operating profit of ¥1,475mn, up 33.5% ordinary profit of ¥1,572mn, up 28.1%, and profit attributable to owners of parent of ¥1,102mn, up 69.8%, thus there were gains in both sales and profits. This exceeded the Company's initial forecasts by 4.7% for sales, 31.7% for operating profit, 29.9% for ordinary profit, and 36.0% for profit attributable to owners of parent, with operating profit and ordinary profit in particular posting a record high. This resulted in profit margins (versus sales) increasing at every level.

The increase in net sales was driven by sales growth in each division, particularly in the sensor division. Operating profit growth was due to a decline in the ratio of fixed expenses, including personnel expenses, as sales increased. The receipt of a lump-sum payment for licensing fees from Anton Paar also greatly contributed to orders, net sales and operating profit. The reason for the larger YoY increase in profit attributable to owners of parent was the large decrease in extraordinary loss, such as the booking last year of advisory fees required to reach a decision on the proposed acquisition of Anton Paar. Ultimately, the decision was to enter into a business alliance with Anton Paar. FY3/24 was the second year of the Company's medium-term management plan, and with the numerical targets for the final fiscal year (FY3/25) being achieved in all categories a year early, the results can be viewed as extremely successful.

Consolidated results for FY3/24

(¥mn)

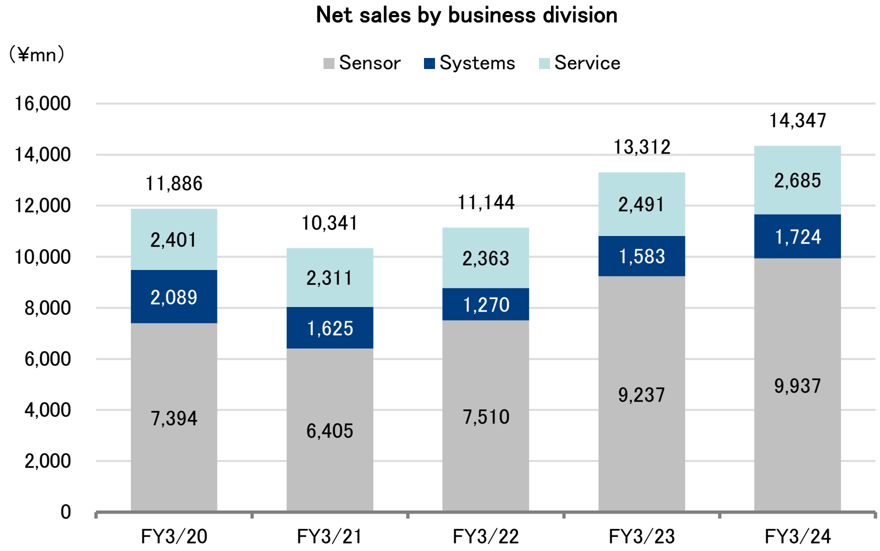
	FY3/23		FY3/24			YoY		Vs forecast	
	Result	Sales share	Forecast	Result	Sales share	Change	% change	Change	% change
Net sales	13,312	100.0%	13,700	14,347	100.0%	1,035	7.8%	647	4.7%
Cost of sales	8,035	60.4%	-	8,395	58.5%	360	4.5%	-	-
Gross profit	5,277	39.6%	-	5,952	41.5%	674	12.8%	-	-
SG&A expense	4,172	31.3%	-	4,476	31.2%	303	7.3%	-	-
Operating profit	1,105	8.3%	1,120	1,475	10.3%	370	33.5%	355	31.7%
Ordinary profit	1,228	9.2%	1,210	1,572	11.0%	344	28.1%	362	29.9%
Profit attributable to owners of parent	649	4.9%	810	1,102	7.7%	452	69.8%	292	36.0%

Note: Initial plan at time of FY3/23 results announcement
Source: Prepared by FISCO from the Company's financial results

Looking at results by business division, in the core sensor division, orders received were ¥10,305mn (up 5.5% YoY). Although domestic orders from the semiconductor-related industry decreased YoY due to a recent slowdown in orders, there were solid orders from the chemicals-related industry, centering on the materials market. In addition, overseas, the Company's subsidiaries in China and Korea maintained strong sales to the battery-related industry, including for electric vehicles. Net sales were strong, totaling ¥9,937mn (up 7.6%). As with orders received, domestically, sales were steady to the chemicals-related industry and orders received from the semiconductor-related industry up to 3Q were shipped. This shows that advance orders to combat the components shortage associated with the boom in the semiconductor industry were steadily met. Sales were also strong to the battery-related industry for electric vehicles in China and Korea. Overseas, the Company in the cumulative 1H period 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 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 COVID-19 pandemic (hereafter, "COVID-19").

In the systems division, orders received increased significantly to ¥1,986mn (up 25.2% 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, from the food products-related industry, and from the Ministry of Defense. 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 ¥1,724mn (up 8.9%). Overseas sales decreased YoY due to factors such as lower orders in FY3/23, but domestic sales were boosted by the partial booking of sales by applying the domestic sales percentage-of-completion method for a major project.

In the service division, orders received were ¥2,694mn (up 8.9% YoY), and net sales were ¥2,685mn (up 7.8%), 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. Although net sales in the service division declined slightly in FY3/21 due to COVID-19, the impact was minor. 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 at the end of FY3/24 were ¥23,451mn, up ¥1,085mn from the end of the previous period. Of these, current assets were ¥12,634mn, up ¥1,099mn. This was attributable to notes and accounts receivable-trade decreasing ¥96mn and ¥252mn respectively, but cash and deposits increased ¥201mn, electronically recorded monetary claims-operating increased ¥343mn, contract assets improved ¥219mn, and inventories increased ¥652mn. The increase in inventories (total of merchandise, finished good, work in process, raw materials and supplies) was because inventory increased to maintain delivery deadlines for the Company's products during material supply shortages, such as electronic components becoming difficult to obtain due to semiconductor shortages. As a result of this initiative, all deliveries were made on time. In addition, non-current assets were ¥10,816mn, down ¥13mn. This was due to buildings and structures increasing ¥72mn, investment securities increasing ¥70mn, and long-term prepaid expenses increasing ¥88mn, but machinery, equipment and vehicles, software and goodwill decreased ¥197mn due to depreciation, etc., deferred tax assets decreased ¥55mn, and insurance reserves decreased ¥55mn.

At the same time, total liabilities were ¥8,086mn, up ¥3mn. Of these, current liabilities were ¥4,315mn, up ¥322mn. This was mainly attributable to short-term borrowing decreasing ¥103mn, but other payables increasing ¥390mn, and bonus reserves increasing ¥69mn. Non-current liabilities were ¥3,771mn, down ¥318mn. This was mainly attributable to long-term borrowings decreasing ¥206mn, and retirement benefits decreasing ¥51mn. The total of both long-term and short-term borrowing was ¥1,817mn, down ¥309mn. Total net assets were ¥15,364mn, up ¥1,082mn. This was primarily attributable to increases in retained earnings of ¥833mn, and foreign currency translation adjustment of ¥119mn.

As a result of the above, the equity ratio increased to a highly commendable 63.6%, 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, the most recent year for which data is available. At the same time, with ROA at 4.8% and ROE at 7.7%, indicators of profitability were below the industry average, so strengthening profitability is an issue going forward.

Consolidated balance sheets and management indicators

(¥mn)

	FY3/23	FY3/24	Change
Current assets	11,534	12,634	1,099
(Cash and deposits)	3,191	3,392	201
(Notes and accounts receivable - trade, and contract assets, electronically recorded monetary claims – operating)	4,817	5,031	213
(Inventories)	3,276	3,927	652
Non-current assets	10,830	10,816	-13
Property, plant and equipment	8,725	8,754	28
Intangible assets	606	474	-132
Investments and other assets	1,498	1,587	89
Total assets	22,365	23,451	1,085
Current liabilities	3,993	4,315	322
(Short-term borrowings)	1,413	1,310	-103
Non-current liabilities	4,089	3,771	-318
(Long-term borrowings)	714	507	-206
Total liabilities	8,082	8,086	3
(Total borrowings)	2,127	1,817	-309
Total net assets	14,282	15,364	1,082
Safety			
Equity ratio	62.0%	63.6%	1.6pt
Profitability			
ROA (return on assets)	5.6%	6.9%	1.3pt
ROE (return on equity)	4.8%	7.7%	2.9pt

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

Cash and cash equivalents at the end of the current period was ¥3,197mn, up ¥234mn from the end of the previous period. Funds received from operating activities was ¥1,002mn. This was due to lower funds from increases in trade receivables and contract assets, and an increase in inventory assets, but funds increased from current net income for the period before taxes and depreciation expenses. Funds expended for investment activities was ¥172mn. This was a result of increased funds from the withdrawal of time deposits, and decreased funds from expenditure to acquire property, plant and equipment and deposit time deposits. Funds expended for financial activities was ¥683mn. While funds increased from income via long-term debt, it decreased from expenditure on long-term debt repayments and payment of dividends. Based on the above, free cash flow (cash the Company is freely able to spend) grew significantly to ¥830mn, up ¥237mn from the end of the previous period.

Consolidated cash flow statement

(¥mn)

	FY3/23	FY3/24
Cash flow from operating activities (a)	617	1,002
Cash flow from investment activities (b)	-379	-172
Cash flow from financial activities	-574	-683
Free cash flow (a) + (b)	237	830
Cash and cash equivalent year-end balance	2,963	3,197

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

Outlook

For FY3/25, expects weaker YoY performance, but to achieve medium-term management plan targets

● FY3/25 result forecasts

Regarding the outlook, domestic demand is down due to high prices and monetary tightening globally. In addition, with rising prices for resources and energy due to the protracted Russian and Ukrainian conflict and inflation caused by yen depreciation, the economic outlook is expected to remain 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 that this will come in below the forecast due to an investment pause following the recovery from COVID-19 as surging material and energy costs cut into corporate earnings, as a difficult management environment is expected to continue.

Amid these conditions, the Company Group, in the final year of the Imagination 2025 medium-term management plan, will seek to reliably perform its growth strategy and initiative to strengthen the management base. Regarding its consolidated result forecasts for FY3/25, it expects net sales of ¥14,000mn, down 2.4% YoY, operating profit of ¥1,300mn, down 11.9%, ordinary profit of ¥1,400mn, down 11.0%, and profit attributable to owners of parent of ¥880mn, down 20.2%. Regarding net sales, despite factoring in a lump sum payment for licensing fees from Anton Paar, it expects a slight decline in sales due to factors such as a slowdown in sales to the domestic semiconductor-related industry and to the battery-related industry, including for electric vehicles in China and Korea, which had been strong in FY3/24. Regarding profit, the Company is factoring in a fall in profit margins on higher raw material and fuel costs. In August 2023, the Company hiked the numeral targets for the final year of its medium-term management plan (FY3/25), and achieved the targets in all categories in FY3/24, one year ahead of the plan. Despite forecasting lower sales and profit in FY3/25, it expects to achieve the year-end targets in its medium-term management plan. It should be noted that the initially announced earnings forecasts tend to be very cautious and conservative. In practice, systems business orders from AIST are firm, although this was not included in earnings forecasts.

FY3/25 consolidated result forecasts

(¥mn)

	FY3/24		FY3/25		YoY	
	Result	Sales share	Forecast	Sales share	Change	% change
Net sales	14,347	100.0%	14,000	100.0%	-347	-2.4%
Operating profit	1,475	10.3%	1,300	9.3%	-175	-11.9%
Ordinary profit	1,572	11.0%	1,400	10.0%	-172	-11.0%
Profit attributable to owners of parent	1,102	7.7%	880	6.3%	-222	-20.2%

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

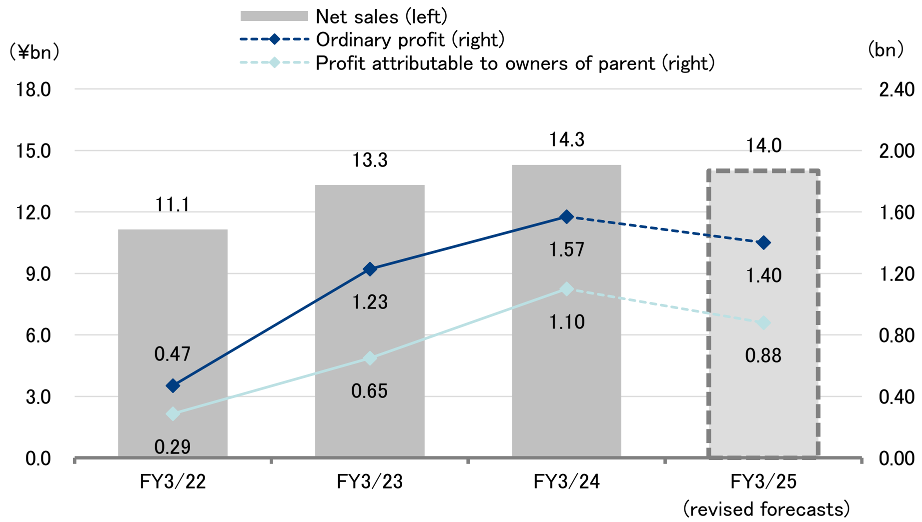
1. Medium- to long-term forecasts

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 at least 10%, 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 division as a priority field and achieve ¥3.0bn in net sales, which would be growth of 150% compared to FY3/22 results. The service division 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 division 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, the first year of the plan, 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. Despite this, due to strong earnings in FY3/24, the second year of the plan, the Company achieved the numerical targets in all categories of the revised plan one year ahead of schedule. Despite forecasting lower sales and profit in FY3/25, it expects to achieve the year-end targets in its medium-term management plan, meaning Phase 1 is proceeding steadily.

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

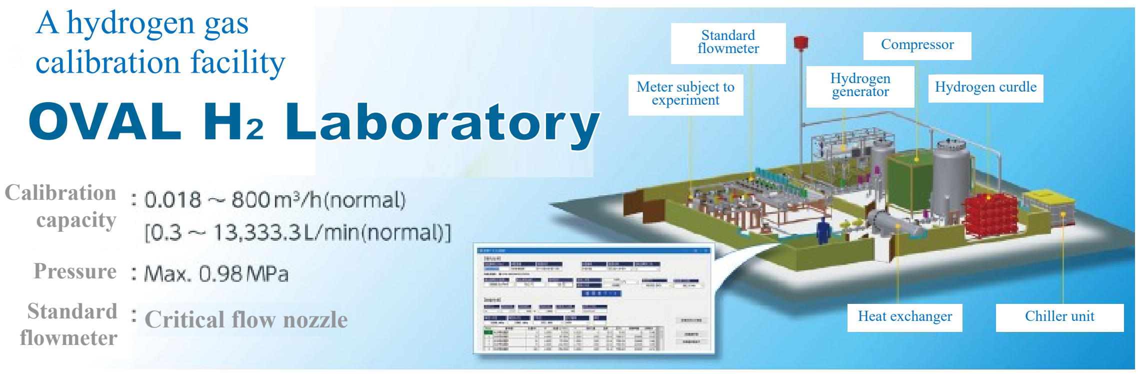
As for M&A alliances, the Company will develop undeveloped markets with good new partners. Also, as far as contributing to a carbon-free society, it will aim to participate in carbon free-related systems (for example, related to the supply of hydrogen and ammonia for fuel) and will contribute to the 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.

The Company is taking on the challenge of next-generation technologies and innovation for decarbonization. As a result of these growth strategies, for hydrogen-related business in particular, the sensor business boasts an ample lineup of products including 120 MPa ultra-high pressure Coriolis flowmeters, ultrasonic flowmeters and thermal mass flowmeters. The Company is aiming to provide one-stop shopping for everything from hydrogen supply chain flowmeters to calibration. For these products, which also contribute to the SDGs, hydrogen-related sales in the sensor business are currently small but growing significantly in FY03/24, increasing 74.4% YoY. As with hydrogen-related business, ammonia-related sales that contribute to decarbonization are also still small, but are expanding steadily, increasing 15.8% YoY. In the service business, as initiatives are needed when hydrogen is manufactured, including its storage and transport, the Company intends to build the OVAL H_2 Laboratory (provisional name), a hydrogen gas calibration facility. A process known as calibration affects the precision of flowmeters. This involves streaming the fluid that actually being measured (gas or liquid) through the flowmeter and checking any discrepancies or variations in the measured value against the verification standard. Without thorough calibration, accurate measurements might not be achieved. The Company believed that to be seriously involved in decarbonization, it was necessary to further improve the quality of its hydrogen measurement flowmeters, and so decided to establish the hydrogen-dedicated calibration facility OVAL H_2 Laboratory (provisional name). The Company plans to pour resources into next-generation energy markets and with the opportunity to be a part of a new supply chain, it will contribute to a sustainable society, including measures addressing climate change.

OVAL H_2 Laboratory, a hydrogen gas calibration facility



Source: The Company's results briefing materials

In FY3/24, the Company entered into a comprehensive agreement in February 2024 for ground shipment control system upgrade work at ENEOS' Sakai Refinery. The ground shipment control system is an extremely important system that helps enable stable supply to the city through its use in the process of accurately measuring fuel such as gasoline and diesel oil and loading it onto tanker lorries. Upgrading the control equipment of the ground shipment system at the Sakai Refinery allows it to act as the single source for basic design through detailed design, procurement, building work and post-delivery maintenance. The Company believes this constitutes recognition of its fuel shipment system technology and track record to date.

As part of its system business growth strategy, the Company received an order from AIST in April 2023 to upgrade, inspect and repair its oil flow standard equipment with world-leading precision. The fair trading of oil requires accurate flow measurement and a measurement standard (national standard) to underpin this. Oil flow standard equipment is large and ultra-precise equipment with world-leading precision, with national standards that sit atop the oil flow measurement traceability system. This order requires the upgrading, inspecting and repairing of multiple equipment that comprise oil flow standard equipment (oil high flow calibration equipment and oil medium flow calibration equipment). As a JCSS (Japan Calibration Service System) provider, the Company plans to continue drawing on its technology and expertise to appropriately maintain and manage flow national standards. The Company also announced additional orders from AIST in May 2024 for gas flow calibration equipment repairs, and in June 2024 for ultrasonic flow measurement and installation work for liquid flow standard equipment, and AIST North Center liquid transport experimental facility repair work, further enhancing its track record.

Received order to upgrade, inspect and repair oil flow standard equipment

Received order to upgrade, inspect and repair world-leading precision oil flow standard equipment for the National Institute of Advanced Industrial Science and Technology
-Maintained calibration accuracy for national standard equipment in the traceability system

The fair trading of oil requires accurate flow measurement and a measurement standard (national standard) to underpin this. Oil flow standard equipment is large and ultra-precise equipment that has achieved world-leading precision (expanded uncertainty of 0.030% for volumetric flow configuration), with national standards that sit atop the oil flow measurement traceability system.
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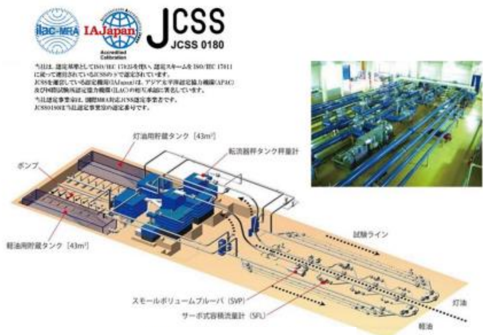


Provided by AIST

Source: The Company's results briefing materials

As a sensor business growth strategy, in FY3/24, the Company expanded new applications such as round gears and meters for paint measurement in the automotive-related market. Overseas, the Company is looking to expand sales centering on Coriolis flowmeters, through establishing a new location in Chengdu in the Szechuan Province of China.

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 Company 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.

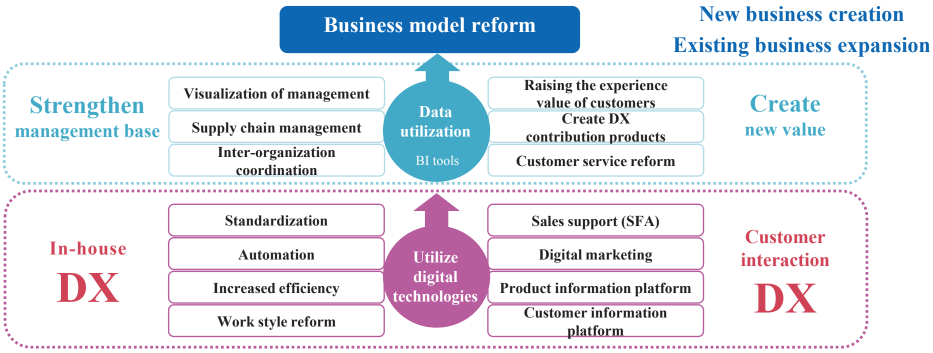
(4) Sustainability promotion strategy

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 measures taken under the manufacturing BCL strategy such as introducing CAM (abbreviation of Computer Aided Manufacturing, which is a tool for preparing a numerical control program necessary for machine tool processing based on diagrams created by CAD) in the Yokohama Office's Machining Center for efficiency purposes in FY3/24, as well as doing administrative inventory, and working to raise capacity utilization by switching some processes in-house that had been outsourced to reduce manufacturing costs.

In addition, as part of its DX promotion strategy, the Company earned certification as a DX-certified operator based on the DX certification program of the Ministry of Economy, Trade and Industry in September 2023. 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 promotion strategy



Source: The Company's results briefing materials

For sustainability, the Company in May 2024 identified five materiality (important issues for management) themes to focus on in order to make the earth and the Company sustainable. These are (1) pursuit of employee wellbeing, (2) putting into practice leadership that creates innovation, (3) development and spread of green technology, (4) complete shift to responsible procurement, and (5) shift to a circular economy. The Company's policy is to consider what it needs to focus on now to become a company relevant to future society in which climate change steadily progresses, and incorporate this in its management strategy. In November 2022, it entered into an affiliation agreement with the cross-country skier Hikari Miyazaki. 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 2022, the balance was US$4.2tn, rising quickly to account for 14.1% of global investing, and it is through there is still plenty of room to grow going forward. In this sense as well, the Company, which is involved in social initiatives, will be watched.

Shareholder return policy

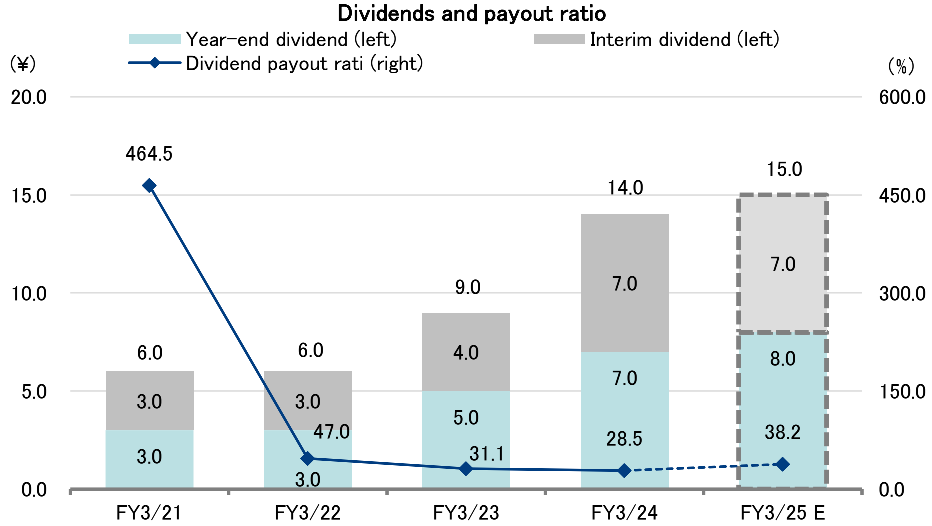
For FY3/25 too, the Company plans to increase the dividend to a record high

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 significantly raised its per-share interim dividend from an initial forecast of ¥4.0 to ¥7.0 and its per-share year-end dividend from ¥5.0 to ¥7.0, which means the annual dividend is being raise from ¥9.0 as initially forecasted to ¥14.0 (an increase of ¥5.0 YoY), a record-high level. For FY3/25 too, it plans to increase the annual dividend to ¥15.0 (up ¥1.0 YoY) comprising a per-share interim dividend of ¥7.0 and a per-share year-end dividend of ¥8.0. The payout ratio is expected to rise from 28.5% to 38.2%, which exceeds the average of 27.0% for the precision instruments industry listed on the TSE Prime Market in FY3/23, the most recent year for which data is available. This not only shows management's stance toward fully considering shareholders, it also reveals its confidence in being able to achieve its 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

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