COMPANY RESEARCH AND ANALYSIS REPORT

OVAL Corporation

7727

Tokyo Stock Exchange Standard Market

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Contents

Summary

A pioneer in flowmeters and the largest specialized manufacturer of fluid measurement equipment. Making solid progress toward the medium-term management plan targets in 1H FY3/25

OVAL Corporation <7727> (hereafter, 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 1H FY3/25 results

In the Company's consolidated results for 1H FY3/25, net sales gained but profit declined such that net sales increased by 2.2% year on year (YoY) to ¥7,128mn, operating profit decreased 13.6% to ¥689mn, ordinary profit declined 26.8% to ¥624mn, and profit attributable to owners of parent fell 23.2% to ¥422mn. Net sales increased, because sales booked from large projects in the strongly performing systems division more than compensated for the dropout of the lump sum payment for licensing fees from Anton Paar GmbH of Austria, a one-time negative factor versus the previous fiscal year. Operating profit decreased, however because the increase in net sales was not enough to absorb the above one-time factor. That being said, operating profit has been increasing faster than usual versus the full-year forecast, and the operating profit margin in 1H FY3/25 was higher than in 1H FY3/23, although down YoY. We also note that ordinary profit and profit attributable to owners of parent fell sharply in 1H FY3/25, partly because the Company recorded foreign exchange gains in 1H FY3/24 and foreign exchange losses in 1H FY3/25. Breaking down net sales by business division, the core sensor division posted a 4.9% YoY net sales decline. Semiconductor-related sales turned down from strong levels in 1H FY3/24, while in the overseas business, battery-related sales in China and South Korea slowed. Net sales were up 51.6% YoY in the systems division, because the Company recorded sales from large projects in Japan, and also up 6.5% in the service division as a result of steady, detailed maintenance activities and strengthened maintenance and calibration of other manufacturers' products. The equity ratio increased to 65.4%, a high level of safety above the average for the precision instruments industry listed on the Prime, Standard, and Growth Markets. Although the Company posted a profit decline in 1H FY3/25, it plans to pay the same interim dividend as in 1H FY3/24 of ¥7.0 per share with due consideration for shareholder returns.

2. FY3/25 forecasts

For its consolidated full-year forecasts for FY3/25, the Company is holding to its initial earnings forecasts in projecting 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 costs and personnel expenses. Despite forecasting lower sales and profit, it expects to achieve the year-end targets in its medium-term management plan. We at FISCO think that full-year results are likely to exceed the Company's forecast for the following reasons. It should be noted that the initially announced earnings forecasts tend to be very cautious and conservative, and in 1H FY3/25, the progress rates of net sales and operating profit in 1H are higher than average. Further, as a capital investment-related business, net sales tend to increase at the end of the fiscal year. The Company increased its annual dividend by ¥2.0 per share to a record-high ¥16.0 per share, up from the initial forecast. We at FISCO are positive on the Company's management stance of prioritizing shareholder returns.

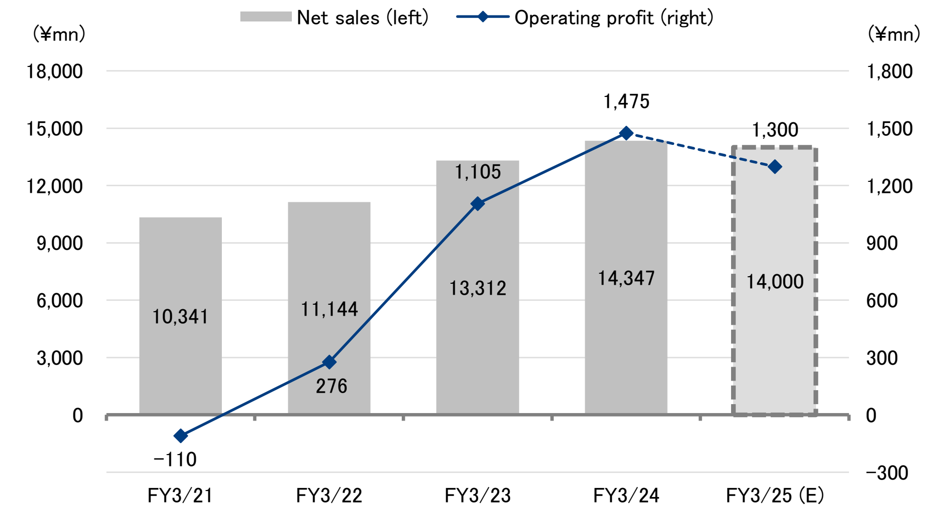
3. Medium- to long-term growth strategy

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 (pp), and an annual dividend of ¥15.0, up ¥6.0. We at FISCO think that whereas these are extremely ambitious forecasts, 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. Given that the Company is steadily accumulating results in accordance with the basic policies and basic strategy of its medium-term management plan, we at FISCO are optimistic regarding achievements with respect to the final year of the plan.

Key Points

- A major dedicated manufacturer of fluid measurement equipment; carries out three businesses, the sensor division, systems division, and service division
- Lower profit on higher net sales in 1H FY3/25. Systems division driver of net sales growth. Profit down due to one-time factor of lump sum payment for licensing fees in 1H FY3/24, but profit margin higher than in 1H FY3/23
- 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 above the initial plan 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	Begins operations at Higashi-Osaki, Shinagawa, Tokyo.
July 1953	OVAL receives 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.
Aug 1983	OVAL ASSISTANCE Corp. is established (currently a consolidated subsidiary).
July 1985	Emerson Japan, Ltd., a subsidiary of Emerson Electric Company (U.S.A.), becomes a major shareholder.
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.
September 1994	Yokohama Operation Center, OVAL’s main production site, is certified according to ISO 9001 in Quality System.
April 1996	Hefei OVAL Instrument Co., Ltd. is established in China.
September 1999	Five subsidiaries merge to form Oval Techno Co., Ltd.
September 2002	Shares of OVAL Corporation are repurchased from Emerson Japan, Ltd., the largest shareholder, and equity relationship between the two companies ends. Establishes Oval Europe B.V. in the Netherlands.
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. is renamed OVAL Engineering Inc.
March 2009	Miyazaki OVAL Corporation is 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, 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 Corporation to make it a wholly owned subsidiary.
April 2022	OVAL Corporation transitions 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 transitions to the Tokyo Stock Exchange Standard Market.

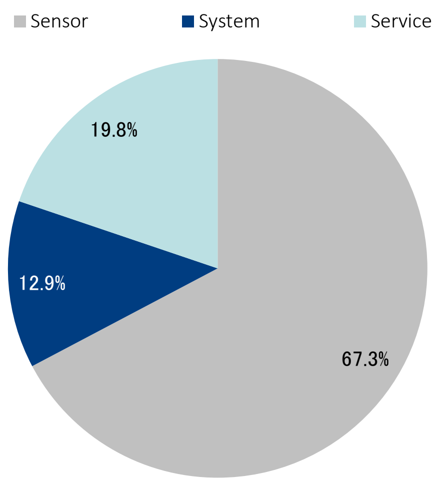
Source: The Company’s website

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 1H FY3/25 were 67.3% for the sensor division, 12.9% for the systems division, and 19.8% 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 FY3/23, 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
(1H FY3/25: ¥7,128mn)



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 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

Lower profit on higher net sales in 1H FY3/25, but profits progressing at a faster pace than usual

1. Overview of 1H FY3/25 results

The outlook for the world economy remained opaque in 1H FY3/25, including the impact of sustained monetary tightening policies on many economies and economic slowdown in China. The Japanese economy showed a gradual recovery, with personal consumption and capital investment continuing strong amid improvements in the employment and income environment and corporate earnings. However, the outlook remained uncertain because of the risk of weak overseas economic performance weighing on the Japanese economy and rising prices.

In these economic conditions, the Company Group continued to push ahead steadily with its Imagination 2025 medium-term management plan. As a result, in the Company's consolidated results for 1H FY3/25, orders received declined 9.5% YoY to ¥7,939mn, net sales increased 2.2% to ¥7,128mn, gross profit was down 1.6% to ¥2,959mn, operating profit decreased 13.6% to ¥689mn, ordinary profit fell 26.8% to ¥624mn, and profit attributable to owners of parent was down 23.2% to ¥422mn.

The dropout of the lump sum payment for licensing fees from Anton Paar of Austria, a one-time negative factor versus the previous fiscal year, had a big impact on net sales and all profit lines. A decline in orders in the sensor division had a large impact on the drop in orders received. Net sales increased, because sales booked from large projects in the strongly performing systems division more than compensated for the dropout of the lump sum payment for licensing fees from Anton Paar. The decrease in gross profit was largely due to higher raw material costs and the negative impact of the dropout of the lump sum payment from Anton Paar on net sales, while the SG&A expense increase was due to higher personnel expenses as a result of wage hikes. For these reasons, operating profit was down YoY and the operating profit margin fell to 9.7%, although this was still higher than 7.7% in 1H FY3/23. We also note that ordinary profit and profit attributable to owners of parent declined sharply in 1H FY3/25, partly because the Company recorded foreign exchange gains in 1H FY3/24 and foreign exchange losses in 1H FY3/25. We at FISCO think the Company is making steady progress toward its full-year targets, because progress versus the full-year Company forecast was 50.9% for net sales and 53.1% for operating profit, both higher than average.

Consolidated results for 1H FY3/25

(¥mn)

	1H FY3/24		1H FY3/25		YoY	
	Result	Sales share	Result	Sales share	Change	% change
Net sales	6,976	100.0%	7,128	100.0%	151	2.2%
Cost of sales	3,968	56.9%	4,168	58.5%	200	5.1%
Gross profit	3,008	43.1%	2,959	41.5%	-49	-1.6%
SG&A expense	2,210	31.7%	2,269	31.8%	59	2.7%
Operating profit	798	11.4%	689	9.7%	-108	-13.6%
Ordinary profit	852	12.2%	624	8.8%	-228	-26.8%
Profit attributable to owners of parent	550	7.9%	422	5.9%	-127	-23.2%

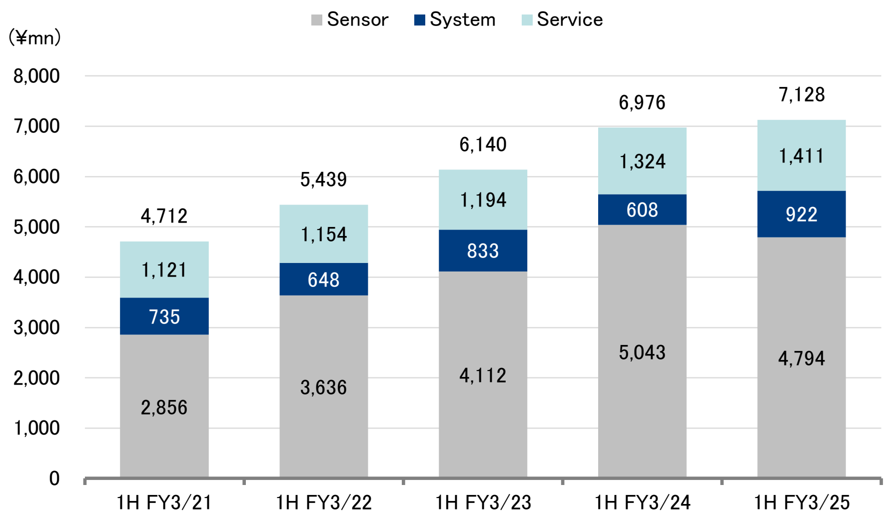
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Looking at results by business division, orders received decreased 27.1% YoY to ¥4,578mn in the core sensor division. Main contributing factors were a downturn in semiconductor-related sales in Japan from strong levels in 1H FY3/24, when the Company recorded some frontloaded orders, while overseas, the booming battery business (for EVs and other applications) in China and South Korea slowed. Semiconductor orders fluctuate depending on inventory levels, which appeared to be too high in 1H FY3/25 as a result of frontloaded orders in FY3/24. Net sales were also down 4.9% YoY to ¥4,794mn. As with orders received, sales to chemical-related industries were strong, but semiconductor-related sales fell short of year-ago levels, although the Company made shipments on orders received in the previous fiscal year. In 1H FY3/24, the Company booked overseas orders received and sales associated with a lump sum payment for licensing fees for intellectual property from Anton Paar of Austria.

In the systems division, orders received increased sharply to ¥1,858mn (up 64.7% YoY). This was attributable to orders received from National Institute of Advanced Industrial Science and Technology (AIST; a public research organization) and orders received for big oil-related industry projects in Japan, although overseas orders were weak. The Company expects the systems division to continue receiving large project orders for some time. Net sales were ¥922mn (up 51.6%). In the overseas business, sales in Southeast Asia bottomed, but recovery was limited. However, sales in Japan were up sharply YoY to drive overall net sales, because the Company booked sales from AIST and large projects for the food industry.

In the service division, orders received were ¥1,501mn (up 10.3% YoY), and net sales were ¥1,411mn (up 6.5%). This was attributable to continuance of steady, detailed maintenance activities, including support services for maintenance plans and continuance of maintenance activities associated with other companies' products in the oil-related industry, a major customer, despite a difficult market environment with industry reshuffling and the energy transition for a decarbonized society. Net sales of the service division declined slightly in FY3/21 because of the novel coronavirus (COVID-19) pandemic, but the impact of the pandemic was limited. Net sales have continued to grow since then, being a business division relatively unaffected by economic cycles.

Net sales by business division



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 1H FY3/25 were ¥23,586mn, up ¥135mn from the end of the previous period. Of these, current assets were ¥12,666mn, up ¥31mn. This was attributable to decreases of ¥86mn in cash and deposits, ¥236mn in electronically recorded monetary claims - operating, and ¥128mn in inventories offset against increases of ¥422mn in notes and accounts receivable - trade and contract assets and ¥54mn in other current assets. Inventories (total of merchandise, finished goods, work in progress, raw materials and supplies) were increased through the end of FY3/24 to maintain delivery deadlines for the Company's products during material supply shortages (difficulty of obtaining electronic components due to the semiconductor shortage). As a result of this initiative, all deliveries were made on time. It is expected that the Company will continue to take a flexible approach according to the semiconductor market situation. In addition, non-current assets were ¥10,920mn, up ¥103mn. This was mainly due to a ¥143mn increase in machinery, equipment and vehicles offset against a ¥39mn decrease in intangible assets.

At the same time, total liabilities were ¥7,688mn, down ¥397mn. Of these, current liabilities were ¥3,910mn, down ¥405mn. This was mainly attributable to short-term borrowings increasing ¥79mn, but notes and accounts payable – trade decreasing ¥98mn, accounts payable – other decreasing ¥312mn and accrued expenses decreasing ¥47mn. Non-current liabilities were ¥3,778mn, up ¥7mn. This was mainly attributable to long-term borrowings increasing ¥7mn. The total of both long-term and short-term borrowing was ¥1,904mn, up ¥86mn. Total net assets were ¥15,897mn, up ¥533mn. This was primarily attributable to increases in retained earnings of ¥265mn, and foreign currency conversion adjustment of ¥257mn.

As a result of the above, the equity ratio increased to a highly commendable 65.4%, a high level of safety above the average of 58.5% for the precision instruments industry listed on the Prime, Standard, and Growth Markets in FY3/24, the most recent year for which data is available. At the same time, with ROA at 6.9% and ROE at 7.7%, indicators of profitability were below the industry average, so we at FISCO contend that strengthening profitability is an issue going forward.

Consolidated balance sheets and management indicators

(¥mn)

	FY3/24	1H FY3/25	Change
Current assets	12,634	12,666	31
Cash and deposits	3,392	3,306	-86
Notes and accounts receivable - trade, and contract assets, electronically recorded monetary claims – operating	5,031	5,217	186
Inventories	3,929	3,801	-128
Non-current assets	10,816	10,920	103
Property, plant and equipment	8,754	8,902	148
Intangible assets	474	435	-39
Investments and other assets	1,587	1,582	-5
Total assets	23,451	23,586	135
Current liabilities	4,315	3,910	-405
Short-term borrowings	1,310	1,390	79
Non-current liabilities	3,771	3,778	7
Long-term borrowings	507	514	7
Total liabilities	8,086	7,688	-397
Total borrowings	1,817	1,904	86
Total net assets	15,364	15,897	533
[Safety]			
Equity ratio	63.6%	65.4%	1.8pp

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 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 is holding to its initial earnings forecasts in projecting 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 costs and personnel expenses. 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. We at FISCO think that full-year results are likely to exceed the Company's forecast, because progress rates of net sales and operating profit in 1H FY3/25 are higher than average, and as a capital investment-related business, net sales tend to increase at the end of the fiscal year.

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

1. Medium- to long-term forecasts

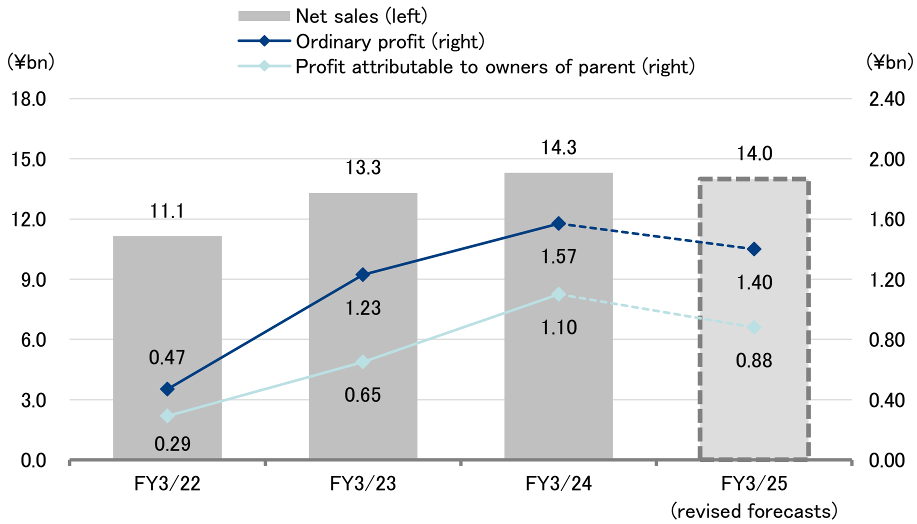
The Company announced its medium-term management plan Imagination 2025 (FY3/23 to FY3/25) in March 2022 and announced a medium- to-long term vision on which it is predicated. Striving long-term to be Asia's No. 1 sensing solutions company, for FY3/32 in 10 years, it is planning to achieve net sales of ¥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 2.7pp). 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 3.5pp. 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. Also with respect to results of 1H FY3/25, the third year of the plan, the Company's progress rate versus the full-year forecast was better than usual. As such, the Company expects to achieve the targets of the final year of the 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. Both the growth strategy and strategy to strengthen the management base appear to be progressing more or less on target through 1H FY3/25.

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. The Company is transforming its traditional stance of passive service to active (proposal-based) service, i.e., being proactive in presenting a maintenance plan.

(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 results of the above growth strategies in 1H FY3/25 are as follows. First, the Company released new product UC-1, a battery-powered, clamp-on type ultrasonic flowmeter for liquids. This flowmeter was developed with the concept of "completely construction-free." It is ideally suited to expanding the measurement range of utility and energy fluids like water and hot water in construction work and commercial facilities, because it allows for easy and convenient flow measurement. UC-1 is expected to contribute toward progress with energy saving and decarbonization by visualizing the flow in every corner of branch pipes, which was previously difficult to implement due to costs and construction periods. The product's main features are as follows. It is compatible with eight pipe diameters, does not require any piping work, tools, or power supply installation work, provides an easy-to-use remote flow measurement system that controls flow remotely, and delivers a solution that fully visualizes various environmental information. Although it was released recently, the Company has already received many inquiries from new groups of customers, which suggests potential for growth and net sales increase. Another positive factor for sales expansion is that the Company won the fiscal 2024 Good Design Award organized by the Japan Institute of Design Promotion.

New product UC-1, a battery-powered, clamp-on type ultrasonic flowmeter for liquids

Eliminates four requirements, reflecting customer feedback

1) **No piping work required**
   As well, one model is capable of measuring pipes of eight different diameters (25–100A)
2) **No wiring work required**
   Wireless output type can send flow measurement data wirelessly
3) **No external power supply required**
4) **No installation tools required**

GOOD DESIGN AWARD 2024年度受賞
Clamp-on type ultrasonic flowmeter for liquids UC-1

Exhibited in trade show (Intermeasure 2024)
September 18–20, 2024

Source: The Company's results briefing materials

Second, the Company has decided to open OVAL H2 Laboratory (tentative name), a hydrogen gas calibration facility for large volume flowmeters used in hydrogen gas measurement, which has been a focus area. The Company had been working on a construction concept of OVAL H2 Laboratory, which is now scheduled to begin operation within FY3/26. The precision of flowmeters depends on a process called calibration whereby the fluid (gas or liquid) to be measured is run through the flowmeter to check for differences between measured values of the device under test and standard, and any measurement inconsistencies. Measurements could be inaccurate unless calibration is performed correctly. The Company is concentrating its resources on the next-generation energy market. It is focused on improving the quality of flowmeters for hydrogen gas measurement to play a role in the supply chain to create a new business opportunity as well as contribute toward a sustainable society through decarbonization and carbon neutrality. After completion, the calibration facility is expected to begin contributing to earnings in FY3/26 onward by performing calibration of the Company's own and other manufacturers' products.

Decision to open hydrogen gas calibration facility

Decision to open OVAL H2 Laboratory (tentative name), a hydrogen gas calibration facility for large volume flowmeters used in hydrogen gas measurement

- Improve quality of flowmeters for hydrogen measurement to achieve decarbonization and carbon neutrality
- To provide calibration of Company's own products as well as other manufacturers' products after completion
- To begin operation in fiscal 2025

Source: The Company's results briefing materials

Third, the Company won by tender a large order for gas flow calibration facility improvement and repair, ultrasonic flowmeters, and AIST Tsukuba North liquid transport experimental facility improvement and repair work. The gas flow calibration facility is used for gas flow calibration requested by flowmeter manufacturers and end-users, characteristics evaluation of flowmeters that contribute toward collaboration between industry, government, and academia, and research and development relating to the characteristics of critical flow nozzles. The improvement and repair work to be performed by the Company includes upgrading large equipment used in the gas flow calibration facility, adjustment of overall system linkage, and repair work. The ultrasonic flowmeter order that the Company won is for Psonic-L4, a multiple path ultrasonic flowmeter for liquids. It is the only product of its kind entirely made in Japan. Its four-path system (four measurement paths) of calibration ensures high accuracy of ±0.15% and provides traceability required in custody transfer applications. Its parallel path system also provides long-term stability and redundancy. Further, the AIST Tsukuba North liquid transport experimental facility (to be improved and repaired by the Company) is a water flowmeter calibration facility, which is a national standard facility in the water flow traceability system. The ultrasonic flowmeter to be supplied by the Company will be installed in the liquid flow measurement standard facility, which is part of this calibration facility. The Company will undertake the improvement and repair of the fluid transportation test facility as part of a project to upgrade the development and supply of measurement standards at AIST and strengthen resilience, including the repair and improvement of machinery (pipes, valves, etc.,) and construction work such as painting and coating. The Company provides a full package of services relating to fluid measurement and control, including design and construction of test equipment and production and shipment equipment. It believes this experience has led to selection as a national standard and winning the order. The Company has mainly received maintenance work orders from AIST in the past couple of years. Sales from these orders are booked using the percentage-of-completion method according to progress.

Won large order from AIST

Won orders from AIST for gas flow calibration facility improvement and repair, ultrasonic flowmeters, and AIST Tsukuba North liquid transport experimental facility improvement and repair work

○ **Gas flow calibration facility improvement and repair**
The improvement and repair work to be performed by the Company includes upgrading large equipment used in the facility, adjustment of overall system linkage, and repair work. The facility is used for gas flowmeter calibration, characteristics evaluation of flowmeters that contribute toward collaboration between industry, government, and academia, and research and development relating to the characteristics of critical flow nozzles

○ **Ultrasonic flowmeters, and AIST Tsukuba North liquid transport experimental facility improvement and repair work**
Repair and improve fluid transportation test facility as part of a project to upgrade the development and supply of measurement standards at AIST and strengthen resilience

Multipath ultrasonic flowmeter for liquids Psonic-L4

○ Excellent reliability, 100% made in Japan
○ Four-path system (four measurement paths) of calibration ensures high accuracy
→Provides traceability required in custody transfer applications
○ Parallel path system also provides long-term stability and redundancy

OVAL contributes towards the maintenance and supply of national measurement standards that underpin energy and industry.

Source: The Company's results briefing materials

Also in 1H FY3/25, the Company planned capital investment in an overseas subsidiary to build a factory with the goal of becoming Asia's No. 1 sensing solution company. Its Chinese subsidiary Hefei OVAL Instrument Co., Ltd. began construction of a third factory, which is scheduled for completion around the end of 2025. As well, its Korean subsidiary OVAL Engineering Inc. built and relocated its new factory and calibration facility.

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.

A notable result in 1H FY3/25 of these strategies to strengthen the management base in the sustainability category is being recognized by the Healthy Company Declaration Tokyo Promotion Office with a Healthy Company Declaration Gold certification. The Company regards employees' health management as a key management priority, because it believes management is essential to companies' growth, since maintaining employees' physical and mental health will help them feel fulfilled in their work. In addressing this theme, it is devoted to preventing overwork and engaging in work style reforms. Based on the guideline of providing a worker-friendly work environment that takes health and safety into consideration, initiatives include targeting 100% attendance of regular health checks, holding workshops on monitoring and awareness of physical and mental health and informing employees about them, organizing daily morning exercises to provide regular physical activity and walking competitions to help ensure employees get enough exercise. We at FISCO think the Company's previous Healthy Company Declaration Silver certification was upgraded to Gold as a result of these diverse and regular initiatives.

Shareholder return policy

For FY3/25, the Company plans to increase the dividend compared to the initial forecast to a record-high level

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.

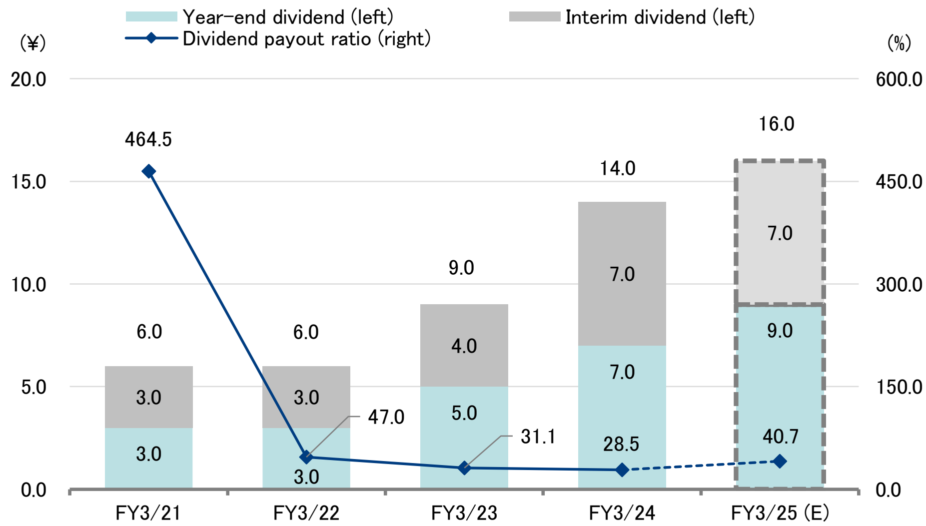
The Company planned to pay record-high dividends in FY3/25 totaling ¥15.0 per share (up ¥1.0 YoY), breaking down into a ¥7.0 interim dividend and ¥8.0 year-end dividend. It announced with 1H results that it planned a year-end dividend of ¥9.0 per share, increasing the annual dividend to ¥16.0 per share. As a result, the dividend payout ratio is forecast to increase from 28.5% to 40.7%, far exceeding the 23.2% average for precision instruments industry companies listed on the Prime, Standard, and Growth Markets, according to the latest data for FY3/24. We at FISCO see this as a reflection of the Company's management stance that prioritizes shareholder returns as well as its confidence in attaining its full-year earnings forecast in FY3/25, the final year of its medium-term management plan.

In August 2024, the Company announced its plans for implementing management with awareness of cost of capital and share price. This is in response to the TSE communication in March 2023 requesting that all listed companies on the Prime and Standard Markets take "action to implement management that is conscious of cost of capital and stock price." The Company's announcement calls for targeting ROE of 10% at and improving PBR to over 1.0 at an early stage in the context of an improving ROE trend, but PBR staying below 1.0. Although many companies have not submitted their plans, the Company intends to announce its action plan as part of its next medium-term management plan.

The Company plans to continue steady promotion of the basic policies and basic strategies of the Company's medium-term management plan. At the same time, it intends to promote initiatives to improve corporate value so that it will be more highly rated by investors and suppliers. We at FISCO will be focusing on the results of these actions.

Shareholder return policy

Dividends and payout ratio



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

FISCO

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