

Target market capitalization of 53.3 billion yen remains unchanged according to GCC Management™ analysis.

High growth through DX support combined with physical security measures and digital risk countermeasures is in full swing.

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J. Phoenix Research Corporation ("JPR") that emphasizes three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Corporate value analysis from the perspective of GCC Management™, which emphasizes the three elements of

**High growth is in full swing as a leader in the fight against digital risks**

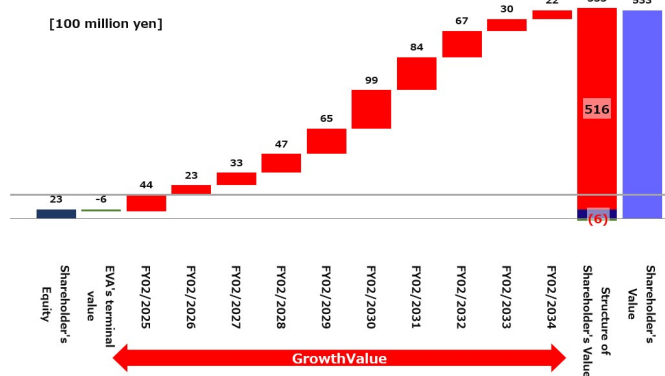
Founded in 2004, Eltes Corporation ("Eltes") has been engaged in the business of protecting society from new "digital risks" arising from the development of technology, such as countermeasures against online flame wars and harmful rumors caused by the development of social networking services. Eltes has developed DX integrated with digital risk response for corporations and local governments. They have also entered the security business through M&A in order to integrate it with physical risk response. High growth is expected to be in full swing with its unique expertise in providing integrated support for the development of technology and response to digital risks that arise at the same time. As a JPR, the assumption is the realization of an internal growth rate of 15% and annual acquisitions of companies with sales size of 10-20% of the previous year's sales from FY02/2024 to FY02/2029.

**To pursue high growth and high profitability in a market area totaling 4-5 trillion yen**

The emphasis as the basis for the premise is the contents of the mid-term plan "The Road To 2024". In this plan, Eltes aims to position itself as a leader in the three business areas of digital risk detection, AI security, and DX promotion, and to achieve high growth in the combined JPY 4-5 trillion market, leveraging M&A as well. Eltes' business model is to provide risk monitoring and consulting services to corporations and local governments, promote DX in the security and safety industry using AI and IoT, and promote a wide range of initiatives in the digital government domain. Eltes is expected to address digital risks by leveraging cutting-edge technologies and creating innovations to achieve high growth and profitability in the digital risk business in earnest. As a result, Eltes will ensure financial sustainability and make a significant contribution to the sustainability of society.

**Potential for 8.8market capitalization upside with scenario realization**

Shareholder value was estimated using the "excess profit method" (see "Reference 2") according to the GCC Management™ framework. As a result, assuming that the concept of the value creation process is implemented and realized, if 10 years of growth value is factored in, shareholder value is JPY 53.3 billion. This is approximately 8.8 times the current market capitalization.



For more information on the "Conceptual Design" and the evaluation system, please refer to Reference 1. For those new to JPR reports at the end of this document.

Performance Trends	Sales (JPY 1 mil.)	YoY %	Operating income (JPY 1 mil.)	YoY %	Ordinary income (JPY 1 mil.)	YoY %	net income (JPY 1 mil.)	YoY %	EPS (JPY)	Stock price	
										High price (JPY)	Low price (JPY)
Results for FY2 2020	1,963	18.6%	186	378.7%	174	431.5%	86	nm	16.77	2,517	1,415
Results for FY2 2021	1,989	1.3%	-333	nm	-357	nm	-529	nm	-102.02	1,987	1,024
Results for FY2 2022	2,682	34.8%	80	nm	94	nm	127	nm	24.46	1,444	717
Results for FY2 2023	4,685	74.7%	202	152.0%	143	52.8%	42	-0.7	7.28	1,175	951
Plans for FY2 2024	6,000	28.1%	300	48.1%	250	73.9%	150	3.0	24.89	-	-

\*Dividend is 0 yen during the period.

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Basic Report	
Written and Edited by J-Phoenix Research Inc. Osamu Miyashita & Yusuke Kashiwao www.j-phoenix.com	
Company Profile	
Location of Head Office	Chiyoda-ku, Tokyo
Representative	Takahiro Sugawara
Date of Establishment	April 28, 2004
Paid-in Capital	JPY 1,217 million
Date of Listing	November 29, 2016
URL	https://eltes.co.jp/
Type of Business	Information & Communication
Key Indicators As of June 27, 2023	
Stock Price	JPY 1,065
52-week high	JPY 1,092
52-Week Low	JPY 750
Number of Shares Outstanding	6,070,880 stocks
Trading Unit	100 stocks
Market Capitalization	JPY 6,465million
Company Projected Dividend	JPY 0
Estimated Net Income Base EPS	JPY 24.89
Forecast PER	42.79 times
Actual BPS (2023, February 28)	JPY 387.51
Actual PBR	2.75 times

## 1. Investment Summary

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## 1. Investment Summary

### Rating changes from the March 17 report

Basically March 17 issue and long-term sales growth outlook largely unchanged

Reflects increase in ratio of invested capital to sales due to M&A

Recalculate WACC

Share price up 10% since last report issued

### Target market capitalization is unchanged.

#### Long-term growth scenario is unchanged

On March 17, 2023, we issued a report on Eltes. Compared to the March 17 report, the major change is that the company has lowered its sales and operating profit forecasts for the fiscal year ending February 28, 2024, in line with the company's plan. The major change compared to the March 17 report is the lowering of the FY02/2024 sales and operating income forecast in line with the company's plan. However, Eltes's long-term growth scenario through acquisitions remains largely unchanged.

#### ROIC slightly lower

In our previous report, we assumed that ROIC would improve to 40%, whereas we made the assumption that it would improve to 32%, reflecting the latest decline in profitability.

#### WACC declined slightly

In the previous report, the WACC was set at 6.7%, but was lowered by 0.2 percentage points to 6.5%, reflecting the increasing contribution of long-term social contributions.

#### Target market capitalization unchanged but upside slightly lower

Since the stock price increase since the last report, the target market capitalization has remained unchanged, but the upside potential has declined slightly.

**Shareholder value analysis**

**Maximum Upside 8.8x in Market Capitalization Estimated**

**Estimation using the excess profit method**

**Maximum upside 8.8x depending on realization of growth scenario**

Based on the future prospects for Eltes' business development, JPR estimated shareholder value using the Excess Profit Method (see Appendix 2) based on the GCC Management™ framework. The following chart visualizes the framework of the qualitative and quantitative stories and the results of the estimation. Assumptions are explained on the following pages.

**Shareholder Value Analysis(Unit: JPY 100 million)**

**Qualitative Story Outline**

**Growth: Fight Against Digital Risks to Expand High-Growth Opportunities in Earnest**

**Connection: Security-integrated DX is in full swing in enterprises and municipalities**

**Confidence: Financial stability and social sustainability contributions are in full swing**

**Quantitative Story Outline**

Market capitalization
60

Value gap  
 Maximum upside to market capitalization = **8.8x**

**Shareholder value reflecting a 10-year growth scenario to the maximum extent possible<sup>1</sup>**

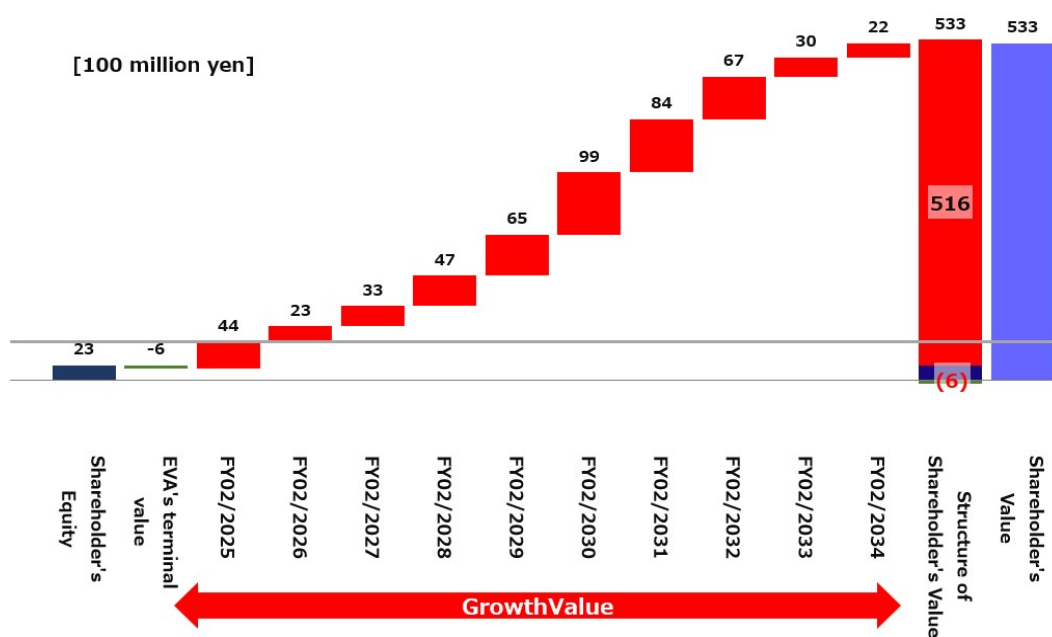
**Shareholders' Equity23+Excess profit-6+Growth value516= 533**

Shareholders' Equity	Excess profit	<b>Growth value</b>
23	-6	516

Source: JPR

1: Fractions do not match due to rounding.

### Excess value valuation of Quantum Solutions.



[Source] JPR

### Shareholder Value Structure and Value Gap Analysis Using the Excess Profit Method (details)

[¥100mn]	Current Year 2024.02	1 year later 2025.02	2 years later 2026.02	3 years later 2027.02	4 years later 2028.02	5 years later 2029.02	6 years later 2030.02	7 years later 2031.02	8 years later 2032.02	9 years later 2033.02	10 years later 2034.02	
Sales	60	78	108	149	205	284	392	487	535	554	563	
Operating income	3	8	13	18	27	37	54	71	80	84	87	
Operating margin	5.0%	10.8%	11.6%	12.2%	13.0%	13.2%	13.8%	14.5%	14.9%	15.1%	15.4%	
Sales growth rate	28.1%	30.0%	38.1%	38.1%	38.1%	38.1%	38.1%	24.2%	10.0%	3.5%	1.6%	
NOPAT margin	3.5%	7.5%	8.0%	8.5%	9.0%	9.1%	9.5%	10.0%	10.3%	10.4%	10.7%	
Invested capital turnover ratio	63.3%	63.3%	61.6%	58.6%	56.8%	49.8%	44.8%	45.9%	38.8%	35.4%	33.4%	
WACC	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	
ROIC = NOPAT margin ÷ invested capital net sales ratio	5.5%	11.9%	13.1%	14.4%	15.8%	18.3%	21.3%	21.9%	26.5%	29.5%	31.9%	
ROIC / WACC (value created with the original hand of 1)	¥0.8	¥1.8	¥2.0	¥2.2	¥2.4	¥2.8	¥3.3	¥3.4	¥4.1	¥4.5	¥4.9	
NOPAT	2.07	5.85	8.66	12.59	18.42	25.80	37.35	48.90	55.11	57.82	60.03	
Invested capital × WACC	2.46	3.20	4.30	5.66	7.56	9.16	11.37	14.48	13.47	12.73	12.20	
EVA	-0.39	2.65	4.3604	6.93	10.86	16.64	25.97	34.42	41.64	45.10	47.83	
EVA = NOPAT - invested capital × WACC	-0.39	2.65	4.36	6.93	10.86	16.64	25.97	34.42	41.64	45.10	47.83	
Value created in each year	-6	47	26	40	61	89	144	130	111	53	42	
Discount Rate	100%	94%	88%	83%	78%	73%	69%	64%	60%	57%	53%	
Present value of EVA		-6.012	44	23	33	47	65	99	84	67	30	22
Invested capital ① Origin	38											
Over profit value (Permanent value of EVA of this term)→		-6										
Growth value (Present value of increase in EVA) ③												
Non-business asset value ④												
Corporate value = ① + ② + ③ + ④												
Interest-bearing debt, etc.												
Shareholder value												

[Source] JPR

### Three qualitative and quantitative information assumptions set for estimating shareholder value\*1 (Unit: JPY 100 million)

#### Growth: Fight Against Digital Risks to Expand High-Growth Opportunities in Earnest

Values and Worldviews	Value provided and Growth Potential	Sales
<p><b>Continue to fight against digital risks**2</b></p> <p>They recognize that dealing with digital risks created by the backlash of technological development is an important social issue. To solve the issues, they will "continue to fight against digital risks" and contribute to the realization of a healthy digital society. They will leverage their strengths as pioneers in digital risk countermeasures to become (1) the No. 1 company in the digital risk domain, (2) a company that transforms the security industry through AI security, and (3) a leading company in government and corporate DX promotion.</p>	<p><b>JPY 4-5 trillion market for high growth</b></p> <p>Targeting a market of JPY 4-5 trillion in total, as a company with (1) to (3), they provide (1) digital risk detection, (2) digital policing, and (3) support for building a smart city/digital company as the value they offer to address digital risks. Eltes aim to achieve an accelerated growth cycle with their mid-term plan, "The Road To 2024," as the first phase, and a 3-year x 3-year mid-term plan for the next 9 years.</p>	<p><b>CAGR 25.0% expected</b></p> <p>2024.2                      2034.2</p> <p><b>60</b> 100 million yen ▶ <b>560</b> 100 million yen</p> <p>Assumes 15% internal growth rate; acquires a company with 10-20% of its sales each year between FY02/2024 and FY02/2029.</p>
		<p><b>Growth Value</b></p> <p><b>516</b> 100 million yen</p>

#### Connection: Security-integrated DX is in full swing in enterprises and municipalities

Strategy	Business Model	ROIC
<p><b>Expand into areas with high growth potential</b></p> <p>Eltes will transform its business structure and establish a pioneering position by moving into the DX promotion area, where they have an advantage in the fight against digital risks. In the digital risk business, Eltes will evolve and diversify their services to establish their No. 1 company positioning, and in the AI security business, they will lead the transformation of the security industry, both digitally and physically. In the DX Promotion Project, Eltes will set up a project to promote DX promotion in government/companies from their unique perspective.</p>	<p><b>Providing diverse services to corporations and municipalities</b></p> <p>(1) provides 24/7 risk monitoring, consulting, and insider threat detection on a monthly basis. (2) will promote DX in the security and guard industry using AI and IoT, and also operate a real security business. (3) will promote a wide range of initiatives in the digital government domain and promote DX for local governments and companies through the digital PFI concept.</p>	<p><b>29 point improvement expected</b></p> <p>2024.2                      2034.2</p> <p><b>5.5 %</b> ▶ <b>32.0 %</b></p> <p>Significant expansion due to scale effects. Assumes acquisitions can be acquired at EBITDA multiples of recent acquisitions. Estimated at 10 years of depreciation.</p>
		<p><b>Excess profit</b></p> <p><b>-6</b> 100 million yen</p>

#### Confidence: Financial stability and social sustainability contributions are in full swing

Financial Sustainability	Contribution to Social Sustainability	WACC
<p><b>Establishing a Stable Foundation in the Digital Risk Area</b></p> <p>Despite the uncertainties caused by the COVID-19 pandemic and the situation in Ukraine, society as a whole is becoming increasingly digitalized, and the Digital Risk business, Eltes' main business, is showing high growth and profitability with an increase in the number of KPI clients and insider threat detection IDs. If the Growth/Connection story is realized, Eltes could become an established leader with a high-profile brand in the digital risk space.</p>	<p><b>Significant contribution in mitigating digital risks</b></p> <p>Eltes, which believes that the only way to continue to fight digital risks is to use cutting-edge technology and continue to generate innovation, contributes to the sustainable development of society by mitigating digital risks. Its contribution has been further enhanced in light of the latest trend hearing, and the WACC has lowered its rating by 0.2 percentage points from the previous one.</p>	<p><b>Maintenance of the status quo</b></p> <p><b>6.5 %</b></p> <p>Down 0.2% from the previous report</p>
		<p><b>Shareholders' Equity</b></p> <p><b>23</b> 100 million yen</p>

\*1Compiled by JPR based on its own projections of post-company plan estimates based on company hearings. \*\*2Defined by Eltes as "a new risk that is created one after another by the repercussions of technological development."

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## 2. Overview

### Company overview

As of the end of March 2022

Company Name	Eltes.Co.,Ltd
Establishment	2004/4/28
Representative	Takahiro Sugawara
Head Office Location	Kasumigaseki Bld. 6F, 3-2-5, Kasumigaseki, Chiyoda-ku, Tokyo
Capital	JPY 1,217 million
Number of Employees	273
Fiscal Year End	February
Business	Provide solutions based on big data analysis specializing in risk detection
Date of Listing	November 29, 2016
Stock Exchange Listing	Tokyo Stock Change Growth Market [Securities code: 3967]

Source: Compiled by JPR based on company data

### Major Consolidated Subsidiaries and Group Companies (Unit: JPY million)

Business system	Company name	Business overview	Capital stock	Investment ratio
Digital Risk Business	FAI INC.	Comprehensive Internet consulting	3	100%
Digital Risk Business	Actor Inc.	Provide total support services for web advertising design, development, and operation	5	100%
Digital Risk Business	Eltes Capital Co., Ltd.	Venture capital business targeting digital risk fields such as security and intelligence	10	100%
AI Security Business	AIK Co.,Ltd.	Development and provision of solutions related to security DX, security services	114	95.0%
AI Security Business	And Security Co.,Ltd.	Provision of security services	10	100%(AIK Co.,Ltd.)
AI Security Business	ISA Co.,Ltd.	Provision of security services	10	100%(AIK Co.,Ltd.)
AI Security Business	SSS Co.,Ltd.	Provision of security services	0.5	100%(AIK Co.,Ltd.)
DX Promotion Business	JAPANDX Inc.	Development and provision of DX-enabled solutions and e-Government related solutions	20	100%
DX Promotion Business	GloLing Co.,Ltd.	System development support and provision of total IT solutions	5	100%
DX Promotion Business	Metown Co., Ltd.	Provision of property management services for residential real estate	1	100%(JAPANDX Inc.)

Source: Compiled by JPR based on company data

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## Major M&A

Year	Month	Company	Purpose
2019	9	FAI INC.	By combining FAI's expertise in providing services in the market for small and midsize companies with the risk data and AI-based system infrastructure owned by the Eltes Group, they aim to increase its presence in the digital risk market.
2020	11	Asahi Safety Services, Inc. (currently And Security Co.,Ltd.)	Eltes has established a mutually complementary relationship with traditional security companies sympathetic to the creation of the security industry, and is promoting full-scale entry into the security DX domain.
2022	3	ISA Co.,Ltd and its affiliated company SSS Co.,Ltd	To enhance the quality and quantity of digital security services for the new era
2022	3	GloLing Co.,Ltd.	Aiming for synergy effects by expanding the number of engineers in the group and bringing various solution development in-house.
2022	4	Actor Inc.	Eltes aims to accelerate its entry into the digital marketing domain and actively expand into regional banks by acquiring Actor's know-how in services for financial institutions, as well as to contribute to the revitalization of regional finance and economies in the Smart City project that the group is planning to build.
2022	7	Bunds Guarantee Co.(currently METAWN Co.,Ltd), Property Management Business of Bunds City, Inc.	By incorporating companies with expertise in housing and real estate, they will streamline the activities related to housing and real estate, which are people's living spaces, through DX, and provide comprehensive services, including management of peripheral risks.

Source: Compiled by JPR based on company data.

## Major Business and Capital Alliances

Year	Month	Company	Purpose
2020	12	Strobo Co.,Ltd.	Jointly develop and deploy a platform for security companies to support the launch of low-cost home security businesses utilizing IoT, and promote DX in the home security and security industry.
2021	10	Cacco Inc.	Aim to provide a wide range of security services for online transactions by leveraging the strengths of the SaaS-type algorithm provision business that Kakko has developed.
2022	4	LAC Co., Ltd.	Aim to increase the value it provides to companies by combining LAC's internal fraud monitoring service with Eltes' security monitoring service. In addition, expand the scope of response by combining Eltes' social risk countermeasures with incident response services provided by LAC.
2022	12	NCXX GROUP INC.	Promote the implementation of security services related to the token economy by utilizing NCXX Group's expertise in blockchain technology and token trading.

Source: Compiled by JPR based on company data.



## 1. Investment Summary

### Growth

**Considerable progress in conceptual design**

**Acceleration expected under new management structure**

**Progress of development: 70%**

**Accompanying social change innovation  
Progress in development: 50%**

**Reflection of results in progress: 30%.**

### Concept: Expect future results based on implementation design

#### Conceptual design: Shield against digital risks

Eltes aims to realize an affluent society free of digital risks with the philosophy of "continuing to fight against digital risks" in order to respond to the diverse new risks arising from the accelerated digitalization of society. At the core of this is: (1) Huge amounts of digital risk data: As a pioneer in digital risk countermeasures, Eltes has been collecting and accumulating data on digital risks for many years. (2) Strong analytical and solution capabilities for digital risks: The company is able to generate innovations to counter digital risks on the strength of its expertise in risk analysis.

The market for digital risk services, which is the target of Eltes' core business, has seen an increase in the number of companies and individuals who routinely disseminate information via the Web. Against the backdrop of rising risks and the diversification of services to respond to them, the market is expected to grow to 13.92 billion yen in FY2024.

#### Implementation Design: Social change and accompanying innovation

The Company's core business will be (1) Digital Risk Business, and the other two businesses, (2) AI Security Business and (3) DX Promotion Business, will all grow into new earnings platforms. Under "The Road To 2024," our medium-term management plan for FY02/2022-FY02/2024, they are working to further expand our business structure and take on challenges in new areas, utilizing corporate alliances and other methods based on the three business segments that they have redefined.

With these innovations in business structure, they continue to realize our corporate logo's aspiration "to be a shield that protects against digital risks," and are constantly evolving with new technologies toward an affluent society without digital risks.

#### Achievements: Mainstay Businesses Revealed. Expect to expand DX promotion business in the future.

In their core business, (1) in the digital risk business, we are continuously developing new products by leveraging the know-how of our existing products in order to establish the No. 1 company positioning. Currently, the company has a track record of more than 1,000 installations at companies ranging from small and medium-sized enterprises to major corporations, regardless of industry. In addition, (2) in the AI security business, the number of registered users of its main service, "AIK Order," has surpassed 20,000. The number of cases in which the company has concluded contracts through matching with clients in the construction and retail industries is also increasing. Finally, (3) DX Promotion Business provides support for the digitization of government services for residents and dispatch services for engineers and other DX personnel, and is expected to expand in the future.

## Connection

**Significant progress in conceptual design**

**Progress in development: 80%**

**Expectations for materialization of (2) in particular**

**Progress of development: 50%**

**Reflection of results in progress: 30%.**

### Expectations for system Reforms to achieve "straight through"

#### Conceptual design: No. 1 company in the digital risk domain

To become the No. 1 company in the digital risk domain, the company will (1) develop new products, strengthen alliances, and conduct M&A. (2) Aggressively enter new areas and build a solid position in the industry. The above two points are important.

The influence of digital information is growing, and the influence of digital reputation is expanding and diversifying. Therefore, it is necessary to collaborate with various companies and continuously develop new products to meet diverse needs, such as companies considering IPOs and risk countermeasures for existing content. In addition, the company is expected to advance into new areas where it can leverage cybersecurity and assume a dominant position in the industry.

The company aims to improve profitability by bringing the digital risk business in-house and expanding sales of high-unit-price products, and in the mid- to long-term, aims to achieve 3.5 times sales and 1 billion yen in EBITDA compared to FY2021.2.

#### Implementation Design: Building a foundation by concluding M&A and alliances

(1) To date, they have established a pioneering position in the niche market of SNS flame countermeasures. In the first half of the fiscal year ending February 28, 2023, the company has strengthened its system development and security consulting capabilities through a total of four strategic M&As, most notably by making GloLing a wholly owned subsidiary. Furthermore, by forming a capital and business alliance with LAC in April 2022, the company is building a foundation for "achieving an accelerated growth cycle."

#### Results: Gap in customer base is being filled and system reforms are expected

With regard to "social risk countermeasures," our company has grown with Web risk monitoring, including initial response consulting at the time of risk detection, as our core service. From now on, the Company will focus on internal threat detection services for early detection of trade secrets taken out, which is expected to grow significantly in the future as needs increase widely from large domestic companies to small and medium enterprises under the background of "work style reform" and the spread of teleworking. While operating a physical security business, the company is promoting DX in the security industry by combining AI and IoT to solve its problems. The number of registered corporate security guards for the main service "AIK order" continues to grow, and the PMI Promotion Division is taking the lead in strengthening the sales structure of And Security, ISA, and SSS, which provide security services, and this has resulted in orders for high-margin projects. DX Promotion In September 2022, the company was selected by the town of Shiwa in Iwate Prefecture as the contractor for the renewal of its website, and in November, it signed a comprehensive collaboration agreement with the town of Tawaramoto in Nara Prefecture.

**Confidence****High growth potential and profitability****Initiatives for business expansion  
Realization of a digital society****Solving various digital risks associated with the acceleration of social digitalization  
Realize a society in which technology develops correctly****High contribution to society and expected to stabilize finances****Financial stability: stability assurance phase****Profitability is further enhanced through the realization of the Growth/Connection story**

While the outlook for the future is uncertain due to the COVID19 disaster and the situation in Ukraine, the company's consolidated net sales and operating income have continuously increased, and the number of KPI clients and insider threat detection IDs in its core digital risk business continues to grow, despite the accelerated digitization of all aspects of business and daily life in society as a whole, demonstrating high growth and profitability. The number of KPI clients and insider threat detection IDs in our core digital risk business continue to increase, indicating high growth and profitability.

If the aforementioned growth and connection story is realized, we expect to further strengthen our profitability and achieve the No. 1 position in the digital risk domain.

**Initiatives for Business Expansion**

Toward the realization of a healthy digital society, we have grown our three business segments, which are structured to cover various digital risks through M&A. Mainly, (1) the digital risk business, which realizes the safety of the digital society from all angles. (2) AI Security Business, which realizes safety in the real world and facility DX, along with nationwide expansion of the security business. (3) DX Promotion Business, which realizes and improves the online (digital) society and realizes the offline (real) society.

**Contribution to society: Contribute to various risk countermeasures based on digital risk response capabilities**

The increasing use of digital devices, IT tools, and social networking services in business is creating many benefits, but it is also creating serious risks to corporate credibility. In addition, the promotion of DX has made companies vulnerable to cyber attacks and increased the possibility of information leaks. It can be said that the digital risks brought about by the acceleration of the digital society are also significant.

Against this backdrop, Eltes, which specializes in responding to digital risks, can be said to be contributing to resolving potential corporate risks and solving social issues. Furthermore, if the Growth Connection Story is realized, it will be possible to analyze diversified risk factors, provide services tailored to the needs of customers in various industries, and realize an affluent digital society in which technology develops correctly.

# 1. Investment Summary

## Values and Worldview

Focus on digital risk  
to become a one-  
of-a-kind company

Successfully  
captured changes  
in industrial  
structure

Aiming for strong  
synergy among the  
three businesses  
with the  
digitalization of  
society

The Eltes' Way  
Effort to Growth

<https://eltes.co.jp/ownedmedia/>

## Values

### Values: Background of the formulation of Keep Fighting Digital Risks

When Eltes launched its digital risk business in 2007, digital marketing companies were on the rise, but there were no companies specializing in digital risk. Therefore, President Sugawara believed that by focusing solely on digital risk, he could become a one-of-a-kind company. At the same time, the concept of Web 2.0, in which information transmission via the Internet becomes interactive, was gaining popularity in society at the time. In a society where anyone can transmit information, there are many situations where companies are exposed to risk due to the information transmitted by individuals. Against this backdrop, President Sugawara defined "digital risk" as a new risk that is created one after another as a reaction to the development of technology, and decided that Eltes' mission was to protect its clients as a shield against "digital risk."

### Significance of the values

When Eltes launched its digital risk business, clients were not aware of the importance of digital risk and there was no competition. The perspective of focusing on digital risk, which is a peripheral field and has social significance, rather than daring to follow the current trend of digital marketing, was significant as a source of uniqueness and competitive advantage by appropriately identifying changes in the industrial structure and social issues.

### Key issues for providing long-term value to society

Digital risks	The need to respond to various needs due to diversification of digital risk content (addressing both digital risks and insider threats, economic security)
AI security	The need for a broad-based response to the essential challenges facing the security industry, the shortage of human resources and the relative delay in DX
DX promotion	Rapid shift to DX in local governments (e.g., Digital Garden Cities and Green Transformation)

### Value penetration initiatives

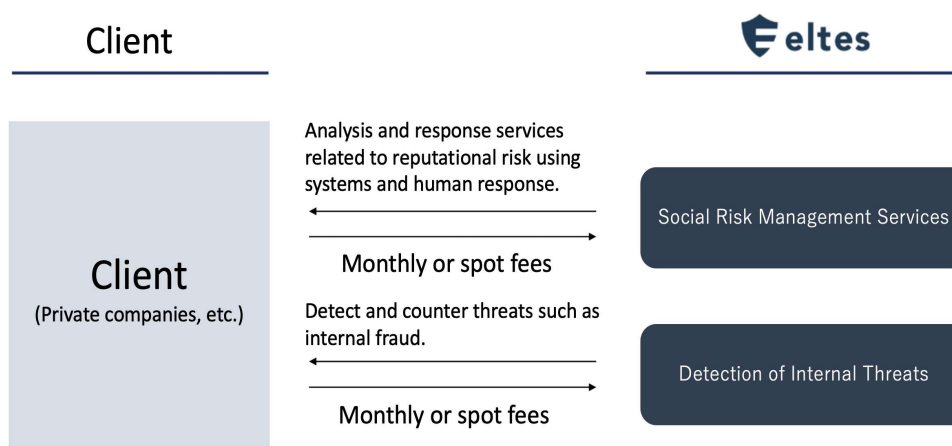
The "Eltes' Way" has been established on the company's website to provide a deeper understanding of how the company is taking on the challenges of new business areas, based on the impression that the company is a "digital risk company". The site introduces Eltes' businesses and services, interviews client companies, and other efforts to penetrate the company.

**Value provided**

**Prevent and mitigate risks on the Internet**



**Value provided****Value provided by the digital risk business**

The Digital Risk business provides prevention and mitigation of risks associated with the Internet. Specifically, the company will provide services to detect and counter the threat of social networking flames, which is a core business, and the threat of internal fraud, such as information leaks, which has become even more of a risk due to remote work by COVID19 Disaster.

**Business model of Digital Risk Services**

Source: Eltes Business Plan and Growth Potential Presentation

**Digital Risk Business Services**

	Web Risk Monitoring	24/7 monitoring of risky postings on SNS and other online sites. Emergency notifications are issued for high-risk postings, and consulting services are provided to help calm the situation.
	SNS Risk Training	Utilizing the know-how cultivated through the provision of web risk monitoring services and flame analysis, they also provide planning and implementation of SNS risk training for employees.
	Search Engine Reputation Countermeasures	Supporting measures to ensure that more accurate information is displayed at the top of search engine results by utilizing SEO technology to counter negative information, such as false information that has no basis in fact, that appears on search engines.
	Internal Risk Intelligence (internal threat detection service)	Analyzes human behavior from log data and detects latent risks within the organization. They provide not only security measures such as information leaks and fraud, but also labor management such as hidden overtime work, and PoC.
	LINE Marketing	Marketing support from opening to operation of official LINE accounts. Support for operations that lead to results by individualizing and automating coupons and menus. Support for all aspects of digital marketing, from operation and optimization of web advertising to LP creation and web video creation, as well as site planning, production, operation, and maintenance.
	Digital Marketing	Support for all aspects of digital marketing, from operation and optimization of web advertising to LP creation and web video creation, as well as site planning, production, operation, and maintenance.

Source: Eltes Business Plan and Growth Potential Presentation

**Provide the best  
solution for  
company's phase  
and characteristics**

### Examples of issues that digital risk solves for businesses

Public Relations & Marketing	Preventing Flames and Minimizing Flame Damage
	Preventing problems caused by official SNS operations
	Preventing SNS spoofing
	Preventing criticism and flames caused by advertisements
	Prevent negative effects on brands such as reputational damage and slander
	Identify and detect risks on the Web surrounding your company
Human Resources & General Affairs	Prevent employees from being exposed to SNS flames
	Prevent social networking flame wars caused by personnel comments and recruiting activities
	Investigate and improve your company's online reputation for recruitment
	Prevent internal risks such as employee turnover and harassment
Corporate Planning & Risk Management	Prevent labor risks from telework and telecommuting
	Investigating and addressing the online reputation of the company and its brands
	Investigating and addressing the online reputation of other companies
	Reinforcement of risk management system
	Risk response and system development for listing and IPO screening
Information Systems	Prevent external leakage of important company information
	Log analysis and investigation
Quality Control and Technology	Countermeasures against information leaks and information removal
	Detection of information on quality defects and adverse events posted on the Internet
	Detection of unauthorized resale and diversion of products
	Prevention of external leakage of technology and know-how

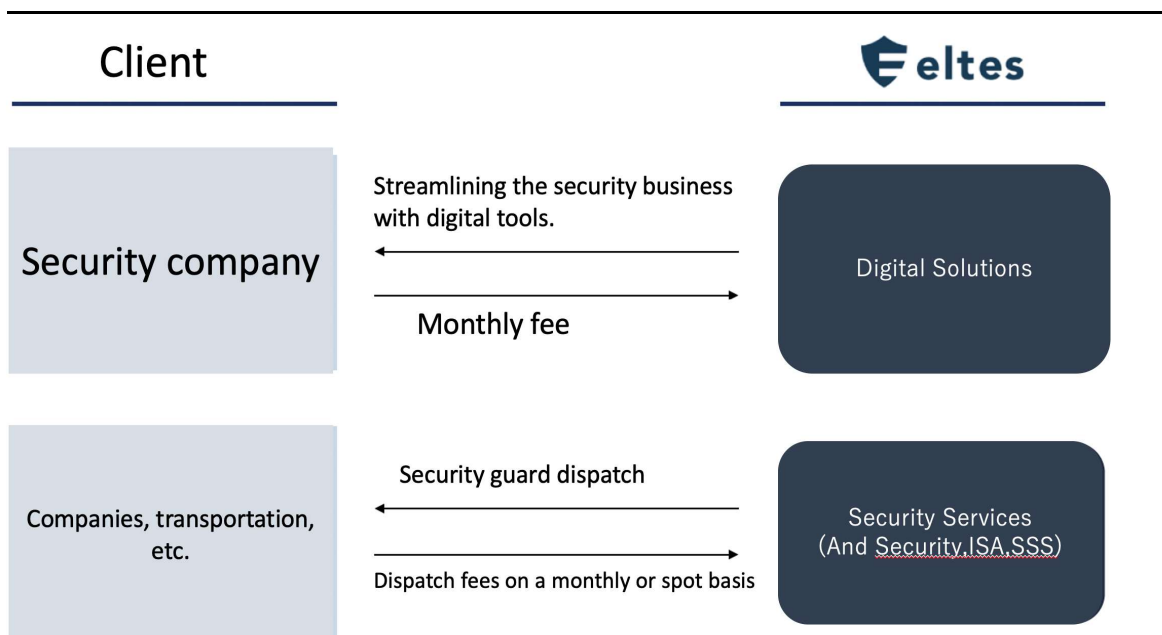
Source: Eltes Business Plan and Growth Potential Presentation

**Prevent and reduce risks in real life**

### Value provided by AI Security Business

The AI Security Business will streamline the security business with digital tools and contribute to providing a "better security experience" by offering security DX solutions to address issues such as worker shortages and aging human resources in the security industry. On the other hand, the company operates its own security business to accelerate security DX solutions, aiming to optimize the integration of digital and physical security.

### AI Security Business Model






Source: Eltes Business Plan and Growth Potential Presentation

**Leveraging strengths to solve problems**

### Reasons for entering the security industry

They thought, "Can't we have true risk management unless we have both digital and physical perspectives? Based on these perspectives, we focused on the security industry, which has a large market size of 3.5 trillion yen, with many analog environments and many small and medium-sized enterprises.

### AI Security Business Services

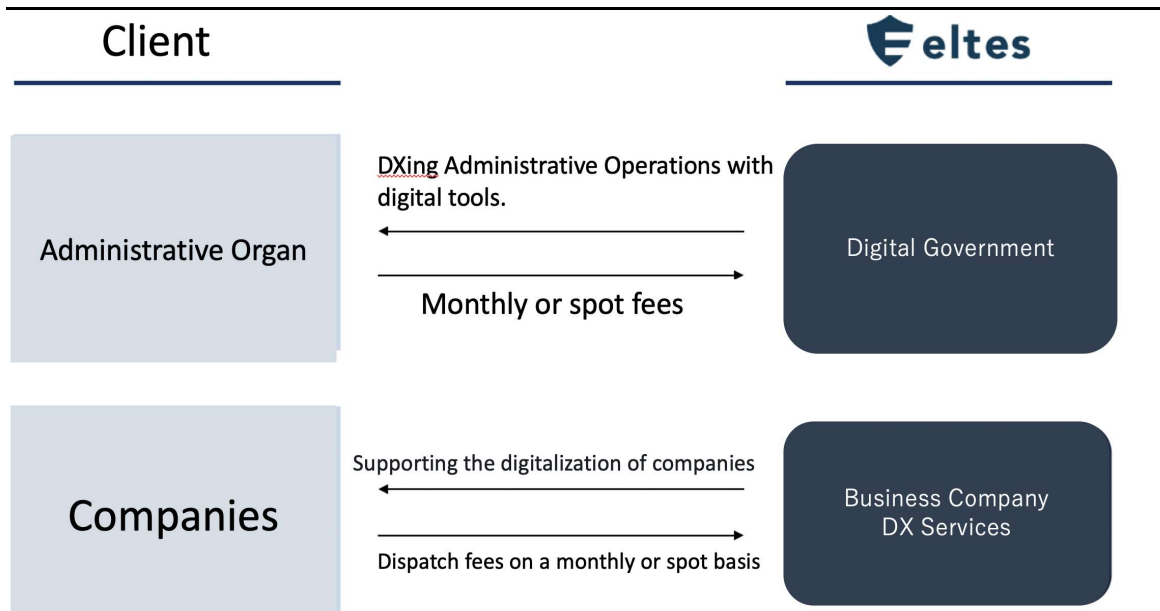
	AIK Series (Security DX Solution Service)	Providing services to support DXing of the security industry, including a security request platform and an e-learning service for security companies
	Metropolitan Area Security Services	Provides train guard services, traffic/traffic guidance services, facility security, and stationed security services in the Tokyo metropolitan area.
	Hokkaido Security Service	Provides traffic guard services, traffic guidance consulting, facility security services, train guard services, and patrol security services in the Hokkaido area.

Source: JPR

### Value provided by the DX Promotion Business




In the DX Promotion Business, they support the digital government of government agencies and the digitalization of enterprises.

### Business model of DX promotion business



Source: Eltes Business Plan and Growth Potential Presentation

### DX Promotion Project Services

	DX Support for Local Governments	Providing support from DX strategy planning to policy implementation through the provision of the "Super App," a comprehensive portal application for residents, and the dispatch of DX personnel
	DX Staffing	Support for corporate system development through the dispatch of engineers and other personnel
	Property Management Services	Providing services that support the creation of towns where people can live comfortably, focusing on real estate sales, brokerage, leasing, and management.

Source: Company website



**TAM/SAM  
/SOM**

**High growth in a  
market with  
growth potential of  
4-5 trillion yen**

**TAM/SAM/SOM****Markets targeted by Eltes****SNS flame and insider threat countermeasures market**

The market is expanding beyond Eltes' expectations as the importance of countermeasures against SNS flaming has become more widespread due to the flaming incident at Kura Sushi, while economic security measures have increased the need for manufacturers to take countermeasures against insider threats regarding the taking out of confidential information.

**Information banking markets**

The concept of information banking was born in Japan, which had been delayed by the Personal Information Protection Law, while GAFA is monetizing information around the world.

**Digital Government and Digital GRD Market**

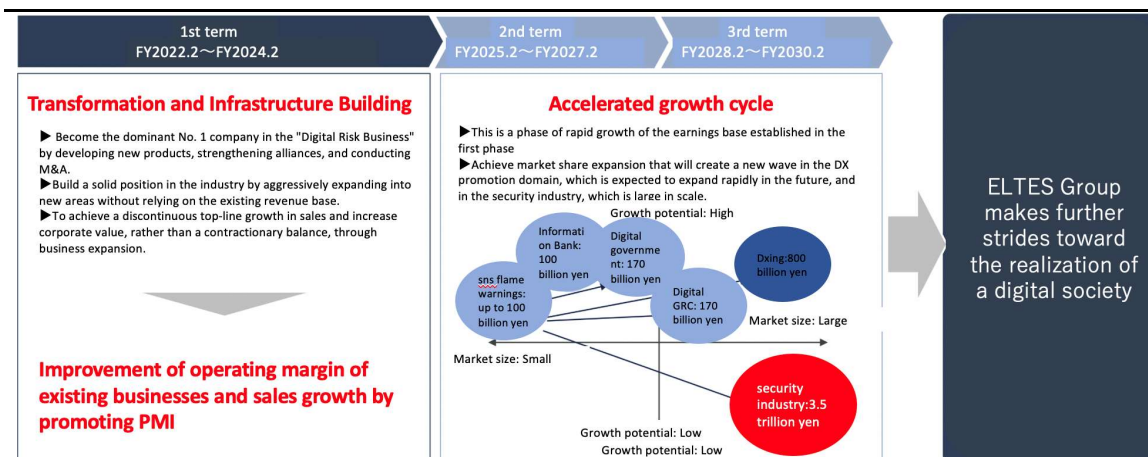
The government's digital-related budget for FY2023 totals 1.22 trillion yen. Of this amount, 120 billion yen is related to the Digital Rural City National Concept plus a request for items (100 billion yen). Previously, digitalization budgets were substantial only for some cities, such as ordinance-designated cities, but the Digital Agency was established on September 1, 2021, and under the Kishida administration, digitalization is active in local governments in general.

**DX Promotion**

According to a study on the municipal solutions market by Yano Keizai (2023), the municipal solutions market is expected to be worth 700.25 billion yen in FY2022.

**Security industry**

According to a 2023/03/20 study by NIKKEI COMPASS, the security and guard market is a 3.45 trillion yen market with expanding demand for households.

**Growth image targeted in the medium-term business plan**

Source: Eltes Business Plan and Growth Potential Presentation Material

## 10-Year Sales Outlook

Building a foundation business

Accelerate growth through M&A in addition to core businesses

## Sales forecast assumptions

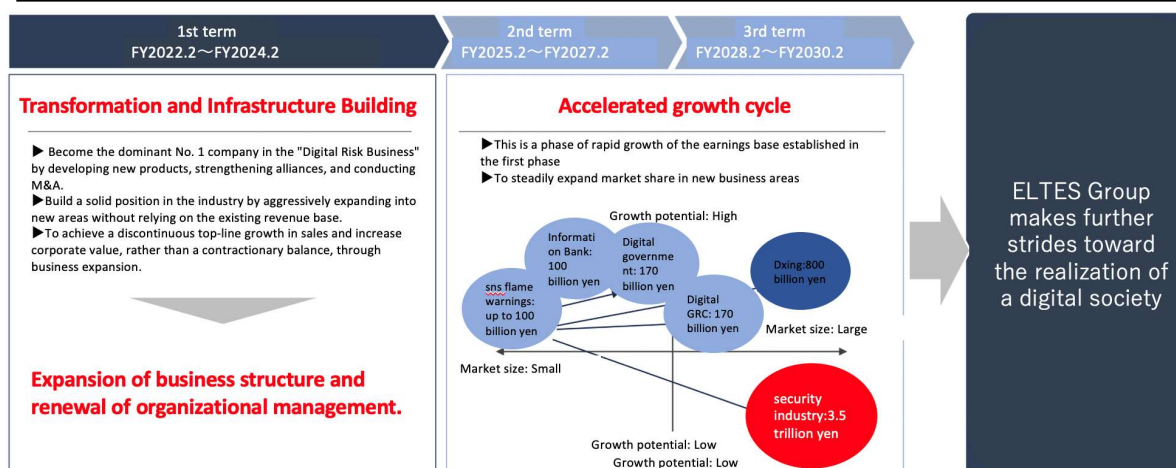
### Assumption 1: Transformation and building a revenue base

Eltes has set targets in its 3-year x 3-year mid-term plan through FY02/2030. In the mid-term plan starting from FY02/2022, which is currently underway, the company is aiming to become the number one company by developing new products and conducting M&A in its core digital risk business under the slogan of "Transformation and Foundation Building. In addition, the company aims to grow both its AI security and DX promotion businesses into new earnings platforms.

### Assumption 2: Accelerated growth cycle.

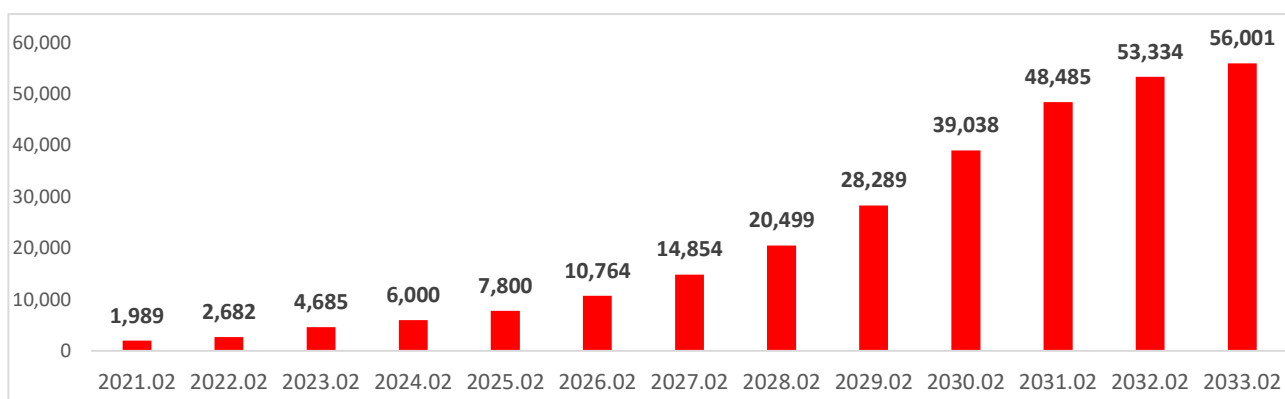
From FY02/2025 onward, the company will grow on the revenue base it has established until then. In addition to organic growth, the company aims to achieve accelerated growth through M&A.

## Sales growth graphs for the past 5 and 10 years forecast (reiterated) (millions of yen)



Source: Eltes Business Plan and Growth Potential Presentation Material

## Sales growth for the past 3 years and 10-year forecast (millions of yen)



Source: JPR

## 5.Connection: Connection story of management resources

### 5-Force Analysis

#### Position in the market power structure

#### ■ An example of a competitor

#### ■ List of certified information banks

### 5-Force Analysis

#### Competitive threats within the industry

##### Digital Risk Market

According to the "Survey on Usage Trends of Digital Risk Services (as of June 2022)" compiled by MM Research Institute, an ICT market consulting firm, the market size of "digital risk services" in FY2021 was 7.74 billion yen, up 15.0% from the previous year. Simply applying this to Eltes, which has sales of 2.3 billion yen, it accounts for about 30% of the market share. The following is an example of a listed company engaged in SNS flame countermeasures.

Company name	Security code	Feature
E-Guardian Inc.	6050	Strengths in video and message board posting monitoring. Also offers gaming customer support and ad screening. Cyber Security Training
adish Co., Ltd.	7093	Main businesses are customer support and Internet monitoring. Internet monitoring and consulting for schools, as well as SNS operation agency services.

Source: JPR

##### Information banking market

The following is a list of companies and services certified as information banks by the Japan Federation of IT Organizations in accordance with the "Guidelines for Certification of Information Trust Functions" established by the "Study Group on the Scheme for Certification of Information Trust Functions" of the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry. The detailed trend of each service is still unknown, and each company seems to be in a state of groping.

Date of certification announcement	Business name	Service name	Certification type
2019/6/26	Sumitomo Mitsui Trust Bank, Limited	"Data Trust" service (tentative name)	P certification
2019/6/26	FeliCa Pocket Marketing Inc.	Watashi Post *Services to begin in February 2021.	P certification
2019/12/25	J.Score CO., LTD.	Information provision service (tentative name) *Information bank service to be launched in the future	P certification
2020/2/17	Chubu Electric Power Company, Incorporated	MINLY *March 2020: Start of service demonstration	P certification
2020/3/12	DataSign Inc.	paspit	Normal certification
2021/1/18	MY DATA INTELLIGENCE INC.	MEY	Normal certification
2021/3/29	MILIZE Inc.	Insurance Data Bank Service (tentative name) *Information bank service to be launched in	P certification

Source: JPR

**Position in the  
market power  
structure  
(Continued from  
previous section)**

**Digital government and Digital GRC market**

Some examples of companies in Japan that are doing digital government and digital GRC business include major electrical equipment manufacturers and consulting firms such as Hitachi, NEC, NTT Data, Fujitsu, Accenture, Deloitte Tohmatsu Consulting, PwC Consulting, and others.

**DX Promotion**

There are many companies that are developing DX promotion as their business, and a number of them, led by major players such as Softbank, IBM Japan, Fujitsu, NEC, etc., are developing their business.

**Security market**

According to the National Police Agency's "Overview of Security Services in 2021," the security industry will generate approximately 3.45 trillion yen in sales in 2021. The six major companies account for the majority of the market share, with SECOM accounting for about 1 trillion yen and ALSOK for about 500 billion yen. On the other hand, the number of contractors in the same year was 10,359, with the rest of the pie crowded with small and medium-sized contractors.

The hurdles for new entrants are low.

However, professional insight is required, such as dealing with digital risks.

Position in the value chain

## Threat of new entrants

### Digital risk market

Although it is easy to enter the market as an IT technology, it is expected that data such as know-how on how to respond to risks will be important. In addition, late entrants may face barriers to entry in a limited market such as SNS flame countermeasures. However, the competitive environment is expected to intensify due to expectations of market expansion.

### Information banking markets

Accreditation is a barrier to new entrants. Another barrier is the difficulty of future prospects in a nascent market. In both cases, digital risk management will be essential for entry and will drive the growth of the risk management market.

### Digital government and Digital GRC market

There are no particular barriers to entry, but major IT firms are the main entrants because they need a sales structure for the many municipalities in Japan and the management strength to handle a project that will take about one year to complete.

### DX Promotion

With the exception of the municipalities mentioned above, DX promotion for enterprises is a red ocean with no barriers to entry. On the other hand, if small and medium-sized enterprises are included, the market potential is enormous, and there is a shortage of engineering manpower to meet this potential, so securing manpower can be a barrier to sales expansion.

### Security market

Over 10,000 companies, mainly small and medium-sized enterprises, have already entered the market due to low barriers to entry. On the other hand, since capital power makes the difference in responding to digitalization, digital power could become a barrier to entry if real-digital fusion security permeates the market.

## Negotiating power of suppliers

Because the software portion of Eltes' business area is its core, there are no procurement companies that have a significant impact on management.

## Buyer's bargaining power

Although competition in Eltes' business domain is intense, we assume that the trust and track record that Eltes has built up to date will give it an advantage, as results are more important than simple cost performance in risk countermeasures.

## Threat of substitution

Eltes' service area is dominated by services that move from manpower to digitalization in general, and while there are many possibilities for IT services, it is difficult to imagine alternatives in the category of risk countermeasures.

## Strategic Business Model

Growth cycle utilizing management resources

Technology, the foundation and future of ELTES

Prevent serious incidents before they occur

Transforming the Security Industry with Technology

### Expand into areas with high growth potential

#### Essential elements to ensure competitive advantage

The first competitive advantage of Eltes is its technological and service capabilities, including its response to digital risks in its core business. Secondly, aiming to expand its business in line with changes in the social environment, the company has expanded its core business to include DX promotion and security services by utilizing M&A and alliances. Furthermore, these services have deepened relationships with client companies and local governments, and in recent years, in particular, the company has steadily built trust and a track record in the digitalization of local governments. The continuation of these cycles is an essential element for Eltes' growth.

#### Intangible assets including management resources and intellectual property as a source of competitive advantage

##### Web risk monitoring

Although Eltes established web risk monitoring as a service in 2011, in response to the rapid digitization of society, it launched a web risk countermeasure service in 2007 and began collecting SNS-related risk data in 2010. The service includes 24/7 monitoring of information posted on Twitter and other social networking services, blogs, and Internet bulletin boards by AI and professional staff for the risk of rumors and information leaks related to the client's brand, products, and services.

##### Internal Risk Intelligence, an internal threat detection service

This service combines various logs in a company to understand and analyze abnormal employee behavior, and alerts are issued when abnormal behavior is detected. This makes it possible to detect signs and possibilities of fraudulent activities such as information leaks, hidden overtime, and non-work measures. It has been adopted by many companies and continues to deepen in order to detect insider threats with greater accuracy.

##### AIK series

AIK is a combination of the initials "AI" and "K," meaning "to provide security services that incorporate AI and digital elements. The series includes "AIK order," which allows customers to complete everything online from finding a security company to contracting and reporting, "AIK sense," a reasonably priced service that will change the conventional wisdom of corporate security, and "AIK prepaid," a "payroll prepayment system" that will help improve employee satisfaction, and new functions and services are currently under consideration.

To local city DX  
platformer

Estonia is a digital  
government state  
with 99% of  
government  
services electronic

Promoting local  
city DX in the  
founder's  
hometown

### Development of the prototype of the Super App "Shiwa Navi"

The comprehensive portal application for residents, "Shiwa Navi," developed in collaboration with the town of Shiwa (see below), was developed with the aim of becoming a "virtual town hall" that navigates the various digital services available to the residents of Shiwa. It is a model case of the "Super App" concept, which allows access to services such as town announcements, disaster prevention information, information on support for town residents, and the "Shiwamaru" rideshare bus service.

### Development of a super application to promote local city DX

Designed with single sign-on, the functions of applications and web services provided by the city as administrative services are centralized on the portal application, API linkage with already implemented applications such as "Nobeoka COIN", "Nobeoka Health Mileage", and "Disaster Prevention Nobeoka", and login to individual applications is no longer necessary once you log in to the super application. In addition, the user interface has been enhanced with a function that allows users to delete unnecessary apps and change the order in which they are displayed, and push notifications are integrated across apps. The result is a truly comprehensive portal application for residents that consolidates the information necessary for each individual.

## Stakeholder relationships that support competitive advantage

### Relations with Estonia, the e-State

In 2016, the Eltes entered into a business partnership with Real Systems regarding "VizKey," a financial crime investigation tool (a big data analysis tool developed by Real Systems, which made a significant contribution to the e-government project in Estonia). In 2018, Eltes began providing solutions for "information banks" in cooperation with Cybernetica, one of the most experienced companies in the development of e-government infrastructure systems in Estonia.

### Partnership with Shiwa Town

2020 signed a comprehensive partnership agreement with the town of Shiwa in Iwate Prefecture for the purpose of "revitalizing the town through the power of digital technology". Shiwa is known for its advanced efforts to address issues such as depopulation and aging population, and the OGAL Project, which promotes the resolution and revitalization of local issues by introducing private-sector funds and capabilities, has attracted much attention as a successful example of PPP (Public Private Partnership), with many local governments from across the country visiting the town to observe the project. Shiwa Town is also the hometown of the founder, which led to the collaboration.

■Comprehensive Collaborative Agreement on Promotion of Digitalization in the Region concluded to date

■Status of selection of operators for the Super City concept

■Results of collaboration with local governments

Educate the public about digital risk prevention and countermeasures

months and years	Local government name
Dec-2020	Shiwa Town, Iwate Prefecture
Mar-2022	Yahin Town, Iwate Prefecture
Aug-2022	Kamaishi City, Iwate Prefecture
Nov-2022	Tawaramoto Town, Nara Prefecture
Jan-2023	Nagasu Town, Kumamoto Prefecture
Mar-2023	Atami City, Shizuoka Prefecture

months and years	Overview
Feb-2021	Selected as a candidate for the main operator of the "Takamatsu City Super City Concept" in Kagawa Prefecture
Feb-2021	Selected as a partner for the "Nanki-Kumano Super City Concept" in Wakayama Prefecture
Mar-2021	Selected as a candidate for the main operator of the "Nobeoka Super City Concept" in Miyazaki Prefecture
Apr-2021	Selected as a candidate for the main operator of the "Yabu Super City Concept" in Hyogo Prefecture
Apr-2021	"Super City Concept" of 12 local governments ■12 local governments (in alphabetical order) Selected as the main operator in "Yakinmachi, Iwate Prefecture; Kawachinagano City, Osaka Prefecture; Takamatsu City, Kagawa Prefecture; Kamakura City, Kanagawa Prefecture; Hitooyoshi City, Kumamoto Prefecture; Maebashi City, Gunma Prefecture; Keihanna Science City, Kyoto Prefecture; Chino City, Nagano Prefecture; Yabu City, Hyogo Prefecture; Nobeoka City, Miyazaki Prefecture; Yamaguchi City, Yamaguchi Prefecture; Susami Town, Wakayama Prefecture"

months and years	Overview
Jun-2021	IWATE1000" Recruitment program for Iwate Prefecture residents launched
Sep-2021	First public-private partnership project with the town of Shiwa, Iwate Prefecture, releases "Shiwa Navi," a comprehensive portal application for residents.
Oct-2021	Released "Yorimichi Shiwa" application for strolling in Shiwa Town, Iwate Prefecture
Nov-2021	Siwa town, Iwate Prefecture, PC Depot, and JAPANDX, a subsidiary of ELTES, signed a comprehensive cooperation agreement on regional digitalization promotion.
Dec-2021	JAPANDX, a subsidiary of Eltes, and LSI digitally link the community-based loyalty card with "Shiwa Navi," a comprehensive portal application for residents in Shiwa town, Iwate prefecture.
Dec-2021	Started "WAKUPO"" new type corona vaccination proof coupons in Shiwa town to stimulate local economic activities.
Mar-2022	Shiwa town, Iwate Prefecture, Uridoki Inc., and ELTES sign comprehensive cooperation agreement.
Jun-2022	Iwate Prefecture's Yakinmachi, Uridoki Inc., and ELTES to Implement Public-Private Partnership Reuse Project
Jul-2022	JAPANDX supermarket application introduced to Nobeoka City, Miyazaki Prefecture
Sep-2022	Shiwa Town, Iwate Prefecture Selects Eltes as Website Renewal Business
Oct-2022	Donation and corporate version of hometown tax payment (temporary staff dispatch type) to Nobeoka City, Miyazaki Prefecture

### Collaboration with the Digital Risk Association

The Digital Risk Association and JAPANDX, a subsidiary of ELTES, signed a collaboration agreement to jointly promote the spread and awareness of "DX solution services for residents to realize a society where no one is left behind" to local governments.



Increased  
platforming will  
increase stock  
income.

## Profit structure and driving factors (drivers)

### Digital risk business

There are two services: a consultative social risk management service and an insider threat detection service, both of which were basically spot fees, but starting in 2021, a SaaS-type monthly service was developed.

### AI security business:

There are two types of physical security guard dispatch services: monthly contracts and spot dispatch fees. Digital Solutions provides the AIK series and other products to security companies and collects a monthly fee.

### DX solutions business:

DX solutions for both municipalities and enterprises are divided into spot fees based on development orders and monthly fees for post-development or already developed services.

## Implementation Design Framework

### Framework 1: Become the No. 1 company in digital risk response

#### Evolution and diversification of services

The social networking flames at Kura Sushi have further increased the need for countermeasures, and economic security measures have also increased the need for insider threat detection. Against this backdrop, the market for digital risk response has expanded beyond what Eltes initially envisioned. Eltes will continue to evolve and diversify its services to meet these needs.

In FY02/2023, the development of applications for social risk products led to an increase in orders for reputational measures for companies considering IPOs and risk monitoring support due to the stricter Premiums and Representation Law.

#### Establish partner sales structure for Insider Threat Intelligence (IRI) services

Established a partnership system for IRI services for early detection of information taken out, such as trade secrets. Currently, there are eight partners listed on the Eltes website. These partners have accelerated the creation of projects and orders.

### Framework 2: Capture the large security market with digital technology.

#### AI Security Business: DX Promotion in the Security Industry

Although the market for digital risk countermeasures is expanding, it is still small, at 100 billion yen in Eltes' estimation. Therefore, Eltes has been looking to enter the next market, the 3.5 trillion yen security market, and aims to promote DX in the security and safety industry through the use of AI and IoT.

months and years	Overview
2017/8/1	Eltes Security Intelligence (now AIK) was established.
2020/12/1	Eltes made Asahi Anzen Gyomusha:a traditional security company a wholly owned subsidiary(now Amd Security).
2022/8/1	Eltes acquired all shares of AIK, ISA, which is highly competitive in the security industry in Hokkaido, and SSS, making them wholly owned subsidiaries.

Source: JPR

#### Physical risk response professionals affiliated with Asahi Anzen Gyomusha

Subsidiary Asahi Anzen Sangyo Kaisha has under its umbrella S&T OUTCOMES, a group company capable of handling a wide range of risks, including personal protection, natural disaster countermeasures, overseas security measures, and counterterrorism measures.S&T OUTCOMES offers general security services as well as specialized services for personal protection, natural disaster countermeasures, overseas security, and counterterrorism. Information gathering and investigation, which is a form of advance preparation, is essential for personal security, and Eltes, a digital risk professional, had an affinity for this business. As an example of the synergy between the two companies, Eltes is involved in natural disaster countermeasures and conducts seminars for local governments and organizations on natural disaster countermeasures.

High need for digital risk

Diversification of sales channels

Make inroads into a huge market

■ AI Security Business Development Flow to Date

Physical risk prevention professionals x Digital risk prevention professionals

Promoting DX for companies and municipalities

Using ICT to improve administrative services and solve local issues

### Framework 3: DX Promotion Project

DX promotion is already underway in both companies and local governments, but it is the efforts with local governments that have been particularly successful. For details, see the section "Management Resources and Intangible Assets Including Intellectual Property as a Source of Competitive Advantage" for the development of super apps, and the section "Relationships with Stakeholders Supporting Competitive Advantage" for an explanation of collaboration with local governments and other activities aimed at further development.

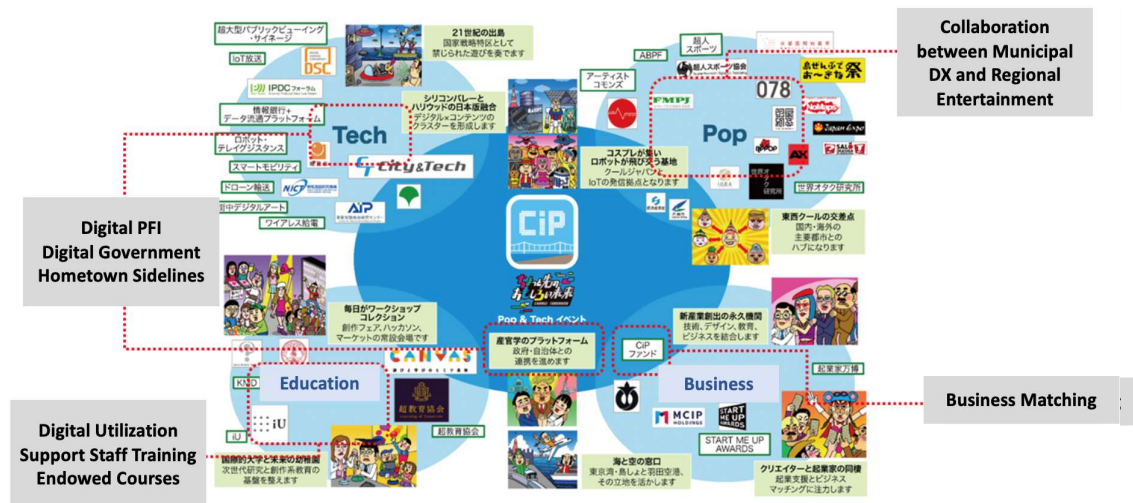
#### Digital PFI initiative

In January 2021, a comprehensive collaboration agreement was signed between JAPANDX, a subsidiary of JAPANDX, and the CiP Council, a general incorporated association that is an activity body for forming a center for the "content x digital" industry. The main contents of the Comprehensive Collaborative Agreement are as follows.

- ◆ Mutual cooperation in promoting the digital PFI concept
- ◆ Mutual cooperation in the promotion of digital government
- ◆ Joint development of educational programs for training digital supporters
- ◆ Promotion of "hometown side business"
- ◆ Cooperation in the promotion of business matching between venture companies and large enterprises

The Digital PFI concept aims to improve the lives of citizens and strongly support the DX of local governments by bringing together the services and technologies of private companies and effectively returning them to local governments. The goal is to promote the introduction of services that solve local problems using ICT, and to promote the agile implementation of such services while mutually benefiting residents, local governments, and the private sector."

### Anticipated full-scale collaboration with CiP Council



Source: Eltes disclosure documents

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Using ICT to improve administrative services and solve local issues

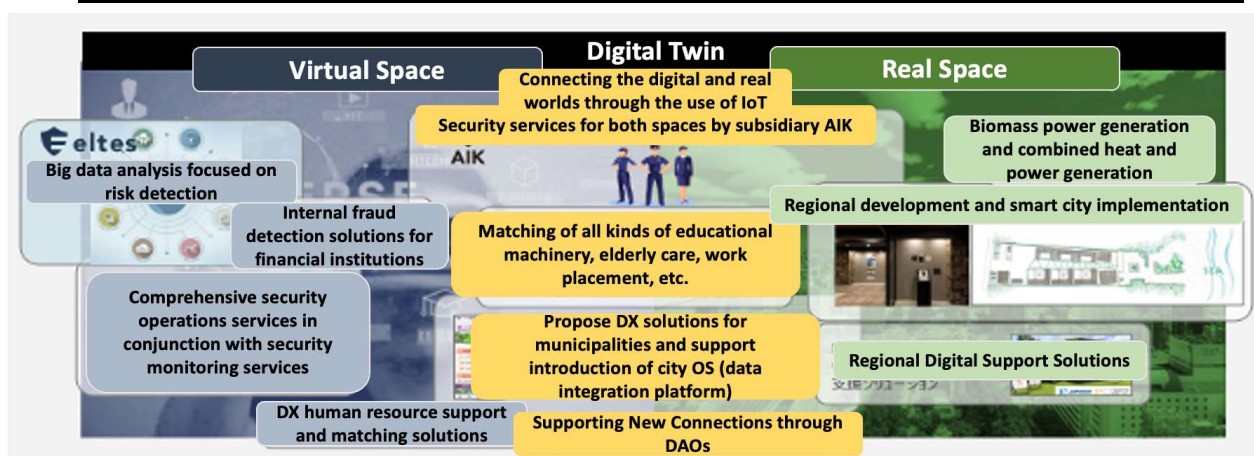
### Metaverse x Smart City Meta-city concept

In May 2022, Eltes announced its mid-term plan initiative, "Toward the Realization of a Healthy Digital Society," starting in the fiscal year ending February 2023. was announced, and at the center of this initiative was the smart city using the Metaverse.

The impetus for Eltes' commercialization of DX promotion for local governments came from an encounter with Estonia. Estonia, the leading e-government nation in Europe, was threatened by Russia. Estonia, the leading e-government nation in Europe, was under threat from Russia, and it was in a hurry to computerize its e-government so that it could always start over if it backed up its e-government data in the event of a territorial crisis. Influenced by these ideas, Eltes has been working to promote DX in rural areas based on the concept of "using smart cities launched in virtual space to help urban development in the real world. Because Eltes believes that this concept is slightly different from the smart city concept that is widely accepted around the world, it is called the "meta-city concept" by combining the terms "metaverse" and "smart city.

The Metacity Concept will conduct demonstration experiments in the areas of "security," "communication," "energy," and "ecology" on a digital twin built on the Metaverse."

### Metaverse x Smart City envisioned by Eltes



Source: Eltes disclosure documents

## ROIC 10-Year Outlook.

**NOPAT Margin to Improve from 3% to 10**

**Diminishing increase in capital employed due to M&A impact**

## NOPAT

### Improvement due to the benefits of scale

We assume that EBITDA margin will increase from 10% in our FY02/2024 forecast to 17% in FY02/2024 due to the benefits of scale expansion. In the long term, however, the company expects the margin to improve to 15%, a divergence of about 2 percentage points, as amortization proceeds. This would bring the NOPAT margin to about 10%. (See graph on next page, same as below)

## Invested capital sales ratio

### Ratio from the 60% level to the 33% level

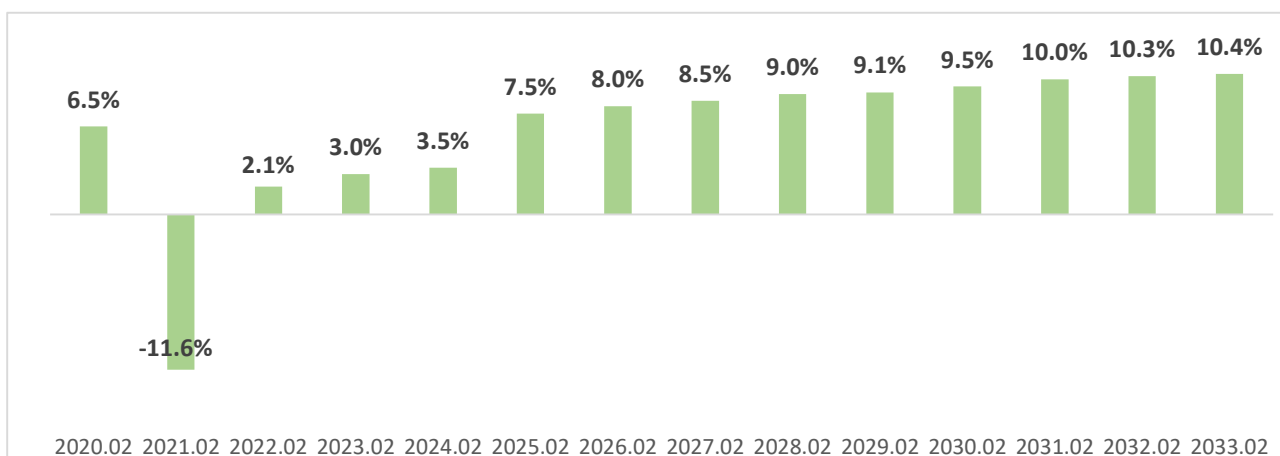
Due to goodwill from M&A, the ratio of invested capital to sales will be over 60% in FY02/2024, which is large for a company in the asset-light IT industry, but in the long term, the ratio will decline to around 33% as amortization proceeds.

## ROIC

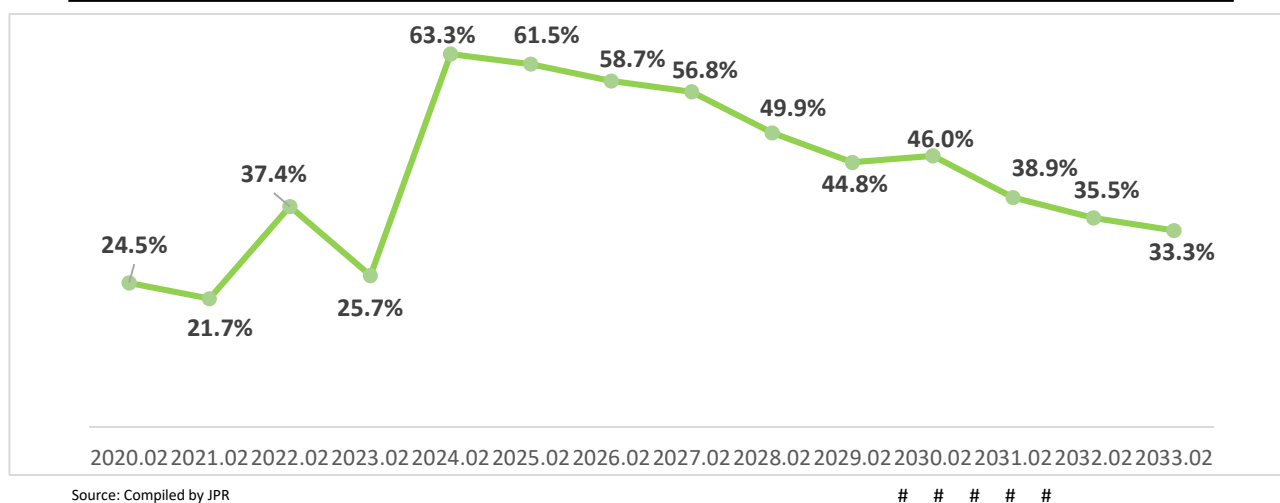
### To improve to 33% in the long term

ROIC, which can be calculated by dividing NOPAT margin by sales of invested capital, is expected to improve to 33% in the long term.

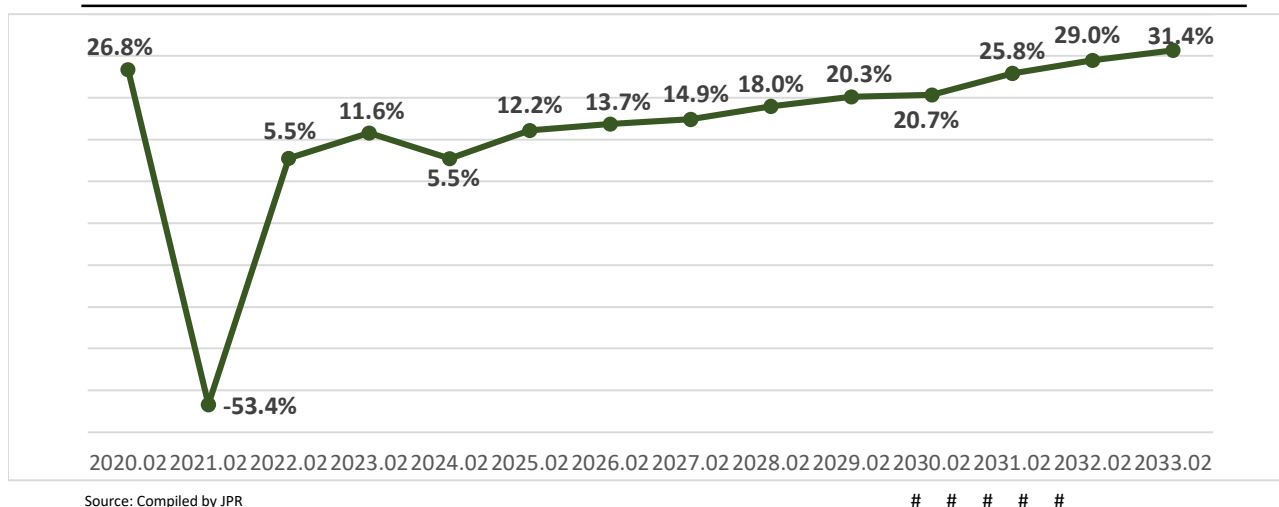
### ■ NOPAT margins for the past 3 years and 10-year forecast



### ■ Ratio of invested capital to sales for the past 3 years and 10-year forecast



### ■ ROIC for the past 3 years and 10-year forecast



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# 1. Investment Summary

## Financial Sustainability

No major problems in the short or long term

Equity used to raise capital

Sales grew significantly. Profit margins also improved.

## Financial Sustainability

### Safety indicators

The current ratio and the current ratio for the fiscal year ending February 2023 were 177.9% and 151.8%, respectively. Both the current ratio and the current ratio are well above 100%, indicating that short-term safety is not a problem at all. The fixed long-term conforming ratio is 74.9%, which is below 100%. The capital adequacy ratio is 37.1%, below 50%, but above the minimum level of 30%, so long-term safety is not considered to be a major issue.

### Fund procurement

The company utilizes M&A as a means of growth, and its financing is mainly through third-party allotments, which maintains financial stability. Going forward, while keeping a close eye on the company's capital balance and current profit/loss, similar fundraising and M&A activities are expected to be carried out for growth.

### Current business performance

For FY02/2023, the company achieved significant growth in sales (+74% YOY), EBITDA (+80% YOY), and operating income (+152% YOY). Sales growth was partly due to M&A of five companies, but also due to steady growth in existing businesses, especially the digital risk business, regardless of M&A. Profitability was also affected by M&A expenses, but grew as a result of the strengthening of the organization through the promotion of PMI and thorough cost reductions.

## Contribution to social sustainability

Contributing to digital risk resolution

Contribute to the digitalization of government

High growth potential to contribute to society

## The Value provide

### Value to the digital society

In addition to digital devices and IT tools, social networking services are increasingly being used in business, creating many advantages, but also posing serious risks to corporate credibility. In addition, the promotion of DX has made companies vulnerable to cyber-attacks and increased the possibility of information leaks. It can be said that the digital risks brought about by the acceleration of the digital society are also significant. Against this backdrop, Eltes, which specializes in responding to digital risks, can be said to be contributing to resolving potential corporate risks and solving social issues.

### Value to digital government

In recent years, Japan has been accelerating its efforts toward digital government, which aims to achieve efficient e-government and e-municipalities through the active use of IT in order to solve social problems such as the declining birthrate, aging population, and sluggish local economies. However, difficulties in data interoperability, distribution, functional expansion, and updating have become barriers and social problems in promoting this digital government. To solve these issues, Eltes is working on technologies that enable interoperability between data held by private companies and data held by local governments, and on the construction of an urban OS that securely and easily connects various government organizations and administrative services. In addition, as digital government advances, digital risks in public administration will also rise. In this case, Eltes, which specializes in handling digital risks, will be able to make a significant contribution.

### Growth potential

In order to continue contributing to the resolution of digital risks and digital government, it is necessary to always look ahead and continue to create innovation by making full use of cutting-edge technology. In this respect, Eltes has stated in its corporate philosophy that it aims to be an indispensable presence in the digital society, constantly evolving with new technologies toward a prosperous society free of digital risks. In fact, the company continues to grow significantly through aggressive M&A activities.



## Risks and Opportunities

## Risks and Opportunities

### PEST Analysis

#### Politics

#### Ministry of Internal Affairs and Communications, "Countermeasures Against Slander on the Internet"

While the damage caused by slander on the Internet was becoming increasingly serious, the death of professional wrestler Hana Kimura in May 2020 triggered discussions by experts on countermeasures against slander on SNS at the Ministry of Internal Affairs and Communications, which decided to have SNS operators voluntarily disclose guidelines for responding to slander and their track record in removing slander. In particular, the Ministry called for a response to the large number of defamatory posts made in a short period of time, such as flame wars, etc. On September 1, 2020, the "Policy Package on Responding to Internet Defamation" was released, promoting the following initiatives

- (1) Educational activities to improve information morality and literacy among users
- (2) Support for efforts by platform operators and improvement of transparency and accountability
- (3) Institutional improvement of sender information disclosure
- (4) Improvement of the system to enhance consultation services

#### The "Super City" concept

A Super City is an initiative to promote data utilization and regulatory and institutional reforms to implement various cutting-edge services in local communities with the aim of realizing a better future society through the use of AI, Big Data, etc. The government is considering publicly soliciting and selecting target areas for Super City-type National Strategic Special Zones in 2020, developing a data collaboration infrastructure, concentrating investment in projects by relevant ministries and agencies, and bold regulatory reforms.

#### Digital Garden Cities and Green Transformation

The government has announced the "Digital Garden Cities and Green Transformation" to realize a "hearty living" and a "sustainable environment, society, and economy" by 2021. The "Digital Garden Cities and Green Transformation" is one of the key pillars of "New Capitalism" and will solve local social issues through the use of digital technology, while making the most of local individuality. Through the basic policy, the national government will present the medium- to long-term direction that the concept should aim for and support the efforts of local regions. Local regions will envision the kind of society they aspire to and voluntarily and proactively promote initiatives to realize the concept, aiming for "a society where everyone can live conveniently and comfortably anywhere in the country.

#### Economic Security Promotion Bill

In October 2021, the Kishida Cabinet appointed a Minister of State for Economic Security, and in his policy speech, Prime Minister Kishida announced the formulation of legislation to promote economic security. After a meeting of experts, the Law for the Promotion of Economic Security was promulgated on May 18, 2022. This law established four systems: (1) ensuring the stable supply of critical goods, (2) ensuring the stable provision of key infrastructure services, (3) supporting the development of cutting-edge critical technologies, and (4) keeping patent applications private. The measures against information leaks and cyber-attacks are included in (2) Securing Infrastructure.

Economy	<p><b>New economic activities developed as a result of the COVID19 disaster</b></p> <p>The COVID19 disaster encouraged telework and telecommuting and accelerated the digitalization of economic activities. On the other hand, it has become difficult to manage labor problems such as long working hours and non-working conditions of employees, and the risk of information leakage and inappropriate postings on social networking services by employees and their families has also increased, and solutions to these issues are required.</p>
Society	<p><b>New lifestyle due to the COVID19 disaster</b></p> <p>The COVID19 disaster has brought about major changes in consumer spending behavior, including non-contact, non-face-to-face activities and online consumption. Online spending has increased across a wide range of age groups, as has the amount of time spent on the Internet as a communication tool for information gathering, video viewing, and social networking. At the same time, consumers are becoming increasingly concerned about security measures against leakage and misuse of personal information and cashless payments.</p> <p><b>Frequent attacks by part-timers and customers</b></p> <p>There are endless cases of inappropriate behavior by part-time employees, customers, and others spreading on social networking services (SNS), resulting in the company's image being tarnished and reputational damage. Training and monitoring, including awareness-raising, are required to prevent such incidents before they occur, and once they occur, speedy countermeasures are needed to deal with them.</p> <p><b>Aging of security guards and chronic shortage of manpower in the security industry</b></p> <p>According to the National Police Agency's "Overview of Security Services in 2021," the percentage of security guards aged 60 and over is 45%, indicating the aging of the workforce. In addition, the working environment, such as open-air and night shifts, and low salaries have resulted in a chronic shortage of manpower. In addition, analog management is still the norm in the security industry, and delays in promoting digitalization are another reason for stagnant productivity.</p>
Technology	<p><b>Super Apps</b></p> <p>Super apps are integrated apps that have a variety of functions within a single smartphone app that serves as a platform and can be used in all aspects of daily life. In October 2022, "My Digital Wallet" (hereinafter referred to as "My Digital Wallet") will be used in "My Digital Wallet," one of the cutting-edge services in the "Free Address City Takamatsu (FACT)," which was adopted as a grant for promoting the "Digital Garden Cities and Green Transformation (TYPE3). The Takamatsu City Premium Digital Gift Certificate Project was launched on October 13, 2022, as the first phase of the project.</p>

## SWOT analysis

## Cross SWOT analysis

		Strength	Weakness
		<ul style="list-style-type: none"> <li>·Pioneer in the field of digital risk</li> <li>·Trusted by clients we have built up</li> </ul>	<ul style="list-style-type: none"> <li>· Constant technological development is necessary with the development of IT.</li> <li>· Human resources are needed for development</li> </ul>
Opportunities	<ul style="list-style-type: none"> <li>·News uproar raises awareness of the need for countermeasures against social networking flame wars.</li> <li>· Enactment of the Economic Security Promotion Act</li> <li>·Increased digitization activities in government and municipalities, including the establishment of the Digital Agency</li> </ul>	<ul style="list-style-type: none"> <li>·Eltes' aims and current trends match, creating an environment in which the two pillars of addressing digital risks and DXing local governments can be promoted.</li> <li>·DXing will require a response to digital risks, and the interaction can accelerate growth.</li> </ul>	<ul style="list-style-type: none"> <li>·Management resources such as manpower are essential for growth. M&amp;A will continue to be essential for accelerated growth, and while PMI has been sufficiently addressed to date, uncertainty remains regarding the future, whether the right opportunities for M&amp;A will present themselves and whether PMI will be successful.</li> </ul>
	Threats	<ul style="list-style-type: none"> <li>·Regulations on big data</li> <li>·Changes in management policies regarding the acquisition of information from SNS</li> </ul>	<ul style="list-style-type: none"> <li>·Digital risk measures are a direction that both the government and the private sector are seeking, and if any regulations arise, they are likely to be consistent with Eltes' business policies.</li> </ul>

Source: JPR

# # # # #

## Governance

Effectiveness is assured.

Reinvestment priority

### Basic policy on corporate governance

#### Compliance with corporate governance code

Eltes implements all of the basic principles.

#### Corporate governance structure

Eltes is a company with a board of auditors, consisting of seven directors (one outside) and three auditors (two outside). The members of the Board of Directors have diverse backgrounds and knowledge that contribute to the implementation of Eltes' growth strategy. The members of the board of corporate auditors are also appropriately qualified to conduct audits.

#### Management committee

The Management Committee has been established with the aim of ensuring efficient management. The Management Committee deliberates and makes decisions on important matters in a prompt and timely manner based on the basic management policies decided by the Board of Directors. The committee consists of directors and executive officers, excluding outside directors, and meets weekly in principle.

#### Internal audit

The Internal audit office (one specialist), an independent and dedicated organization under the direct control of the representative director, prepares internal audit plans based on risk assessments and conducts audits for the purpose of verifying the appropriateness of the business and ensuring the effectiveness and efficiency of operations.

#### Incentive

Eltes has introduced a stock option plan for internal directors and external corporate auditors to provide incentives to increase shareholder value. Stock option grants are calculated within the limit of directors' remuneration, etc., and determined comprehensively by the Board of Directors, taking into consideration the degree of contribution to business performance, etc.

### Profit distribution and reinvestment policy

#### Growth is underway and reinvestment rather than dividends is the priority for the time being.

Eltes is in the process of growth and believes that increasing corporate value over the medium to long term through business and operational expansion will lead to the greatest return of profits to shareholders. For the time being, the company's policy is to increase retained earnings to reinvest in growth. In the future, however, the company will consider returning profits to shareholders while taking into account its operating results and financial position.

## Substantive dialogue

### Appropriate disclosure of business development status

#### Explanation of financial results

A financial results briefing is held every quarter, and appropriate disclosure is made in the financial results briefing materials.

#### Other disclosures

Through news and IR news, the company appropriately discloses the release and development status of new services directly related to business conditions, as well as the status of alliances, M&As, and cooperation with local governments.

#### The Eltes Way

Apart from news, the company maintains a website that provides detailed explanations of its service and business development intentions, as in the subtitle "Initiatives for Growth" in the form of columns centered on interviews. This has deepened the penetration of understanding among internal and external stakeholders.

**WACC**

Estimated using  
industry averages  
for comparable  
companies

## Estimated from industry averages of comparable companies

### Explanation of calculation

JPR calculates WACC based on the daily returns of TOPIX and individual stocks over the past five years, and calculates "β," a value that indicates how much stock price fluctuations are linked to TOPIX. JPR classifies industries into approximately 80 categories. The industry average is calculated as "no-debt β," which has no debt effect. The β of individual stocks (leveraged β) is estimated by multiplying the industry's debt-free β by the individual stock's debt-effect coefficient. Other assumptions are shown in the table below. Based on these calculations, a WACC of 6.5% was estimated. The maximum risk premium is 9%, and the first 5% range is applied to the top 5% to bottom 25% of the market capitalization in 100 million yen increments.

### WACC estimates for Eltes

Industry Comparables	Telecommunications/Internet,Sales support services,Consumer electronics and information equipment dealers,Information processing services and consulting	
Industry average debt-free beta of comparable companies	0.80	[1]
Debt Effect Coefficient	1.34	[2]
Eltes' levered β	1.07	[3]
Market capitalization gradient allocation risk premium	8.7%	[4]
Average yield of 10-year government bonds over the past 5 years	0.05%	[5]
Cost of equity	9.4%	[6]=[3]x[4]+[5]
Estimated after-tax interest rate paid	0.6%	[7]
Market capitalization ÷ (market capitalization + interest-bearing debt outstanding at end of period)	67.0%	[8]
Interest-bearing debt at end of period ÷ (market capitalization + interest-bearing debt at end of period)	33.0%	[9]
WACC	6.5%	[10]=[6]x[8]+[7]x[9]

Source: Compiled by JPR.

## 7. Comparative comparable company analysis

Analysis of 11 companies with high similarity in natural language analysis

Based on the growth expectations of comparable companies, the likelihood of Eltes achieving a 10-year CAGR of 25% is a level that can be evaluated from a shareholder perspective.

### Analyze companies related to risk countermeasures & DX support

4 of the 11 companies are expected to form a 10-year sales CAGR of nearly 20%.

Based on a natural language analysis of the company profiles available on FactSet to calculate a measure of similarity (cosine similarity) and interviews with the companies, a 10-year forecast was made for the 11 companies listed in the table below. The details are given on the next page. 4 companies had a CAGR of approximately 20% in sales over the 10-year period, with an upside of approximately 20% in market capitalization (upside 1 relative to market capitalization, with yellow highlights). JPR's target of a 25% CAGR for sales over the next 20 years seems achievable, given that the company is aggressively pursuing M&A.

### Overview of Eltes and comparable companies

Name of the company	code	Cosine similarity	Company overview
Eltes	3967	1.000	Leader in digital risk management, also offers DX solutions
GRCS	9250	0.292	Provides enterprise risk management solutions, utilized in GRC and security areas
Data Section	3905	0.227	Word-of-mouth analysis tools and consulting, social data utilization, AI business
Members	2130	0.188	Digital marketing support, support for major companies and ventures
Prap Japan	2449	0.166	Public relations support, digital promotion services, domestic and international
Secom	9735	0.164	Japan's largest security contracting service, comprehensive security business
Smart Value	9417	0.163	IT company, digital government and mobility service business development
F-code	9211	0.161	DX business, provision of digital marketing knowledge, with CX data analysis as
L・T・S	6560	0.160	Consulting, process management and digital utilization services
cacco	4166	0.154	SaaS algorithm for fraud detection, payment consulting, data science deployment
E-guardian	6050	0.150	24/7 social media monitoring, game support, ad screening
Adish	7093	0.100	Customer support agency, SNS post monitoring, cyber bullying prevention

Unit: Billions of yen

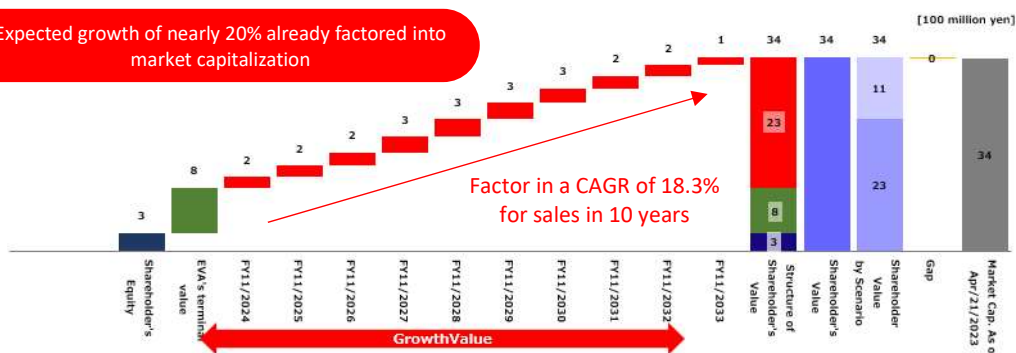
Name of the company	Company Plan			Current estimates				Estimated future		Market value to total value Upside Side
	Target fiscal year	Net sales	Operating Profit	Most recent market capitalizat	Estimated ROIC	ROIC/WACC	WACC	Ten Years Later ROIC	For the next 10-year CAGR	
Eltes	24/2	60	3	55	5.5%	0.84	6.5%	32.1%	25.1%	8.8
GRCS	23/11	33	2	34	21.3%	1.85	11.5%	14.2%	18.3%	1.0
Data Section	23/3	20	-2	39	-4.8%	-0.60	8.0%	8.9%	19.7%	1.0
Members	23/3	173	12	164	23.6%	2.16	10.9%	15.5%	10.7%	1.0
Prap Japan	23/8	65	5	48	15.5%	2.79	5.6%	17.6%	3.8%	2.0
Secom	23/3	10,594	1,340	19,898	11.3%	3.89	2.9%	21.8%	0.8%	0.0
Smart Value	23/6	45	0	45	2.1%	0.25	8.3%	15.1%	7.7%	1.0
F-code	23/12	17	3	85	11.2%	1.47	7.6%	28.6%	19.8%	1.0
L・T・S	23/12	127	10	116	26.1%	3.19	8.2%	25.8%	19.0%	1.0
cacco	23/12	11	2	32	25.1%	3.37	7.4%	25.6%	6.1%	1.0
E-guardian	23/9	129	25	227	49.4%	5.89	8.4%	43.0%	13.0%	2.6
Adish	23/12	39	1	23	6.1%	0.73	8.4%	20.9%	10.7%	2.6

Source: JPR

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## GRCS\_9250

Expected growth of nearly 20% already factored into market capitalization

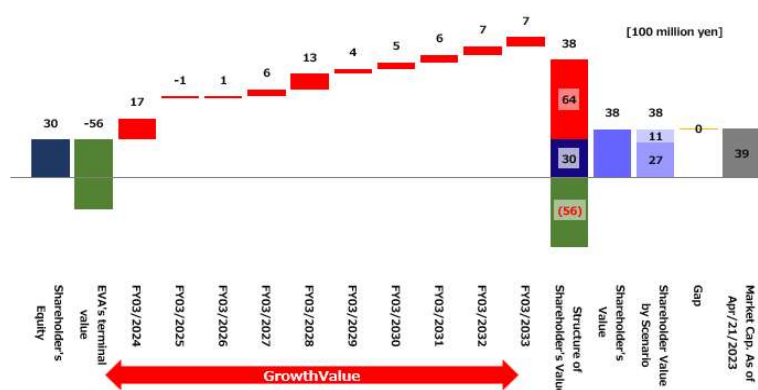


## Actual, Planned and Forecasted Financial Performance

FY	Company plan	JPR forecasts									
	2023.11	2024.11	2025.11	2026.11	2027.11	2028.11	2029.11	2030.11	2031.11	2032.11	2033.11
Sales	32.8	40.6	50.4	62.5	77.5	96.1	114.5	132.1	148.3	162.9	175.7
Growth ratio	36.6%	24.0%	24.0%	24.0%	24.0%	24.0%	19.2%	15.4%	12.3%	9.8%	7.9%
Operation profit	1.9	2.4	3.0	3.7	4.5	5.6	6.7	7.7	8.7	9.5	10.3
Operation profit ration	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
NOPAT margin	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Invested capital/Sales	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%
ROIC	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%
WACC	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%
Excess profit	0.6	0.8	0.9	1.2	1.4	1.8	2.1	2.5	2.8	3.0	3.3
Excess profit value/growth value	8.0	1.8	2.1	2.4	2.7	3.1	1.9	1.6	1.2	-0.2	-0.5

Source: JPR

## Date Section\_3905

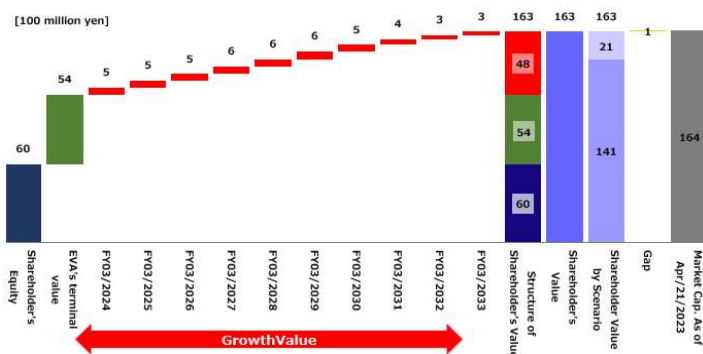


## Actual, Planned and Forecasted Financial Performance

FY	Company plan	JPR forecasts									
	2023.03	2024.03	2025.03	2026.03	2027.03	2028.03	2029.03	2030.03	2031.03	2032.03	2033.03
Sales	20.0	28.0	34.7	43.0	53.3	66.1	78.7	90.8	101.9	111.9	120.7
Growth ratio	18.2%	40.0%	23.9%	23.9%	23.9%	23.9%	19.2%	15.3%	12.3%	9.8%	7.8%
Operation profit	-2.0	1.0	1.6	2.7	4.4	7.1	8.5	9.8	11.0	12.1	13.0
Operation profit ration	-10.0%	3.6%	4.7%	6.2%	8.2%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
NOPAT margin	-6.9%	2.5%	3.3%	4.3%	5.7%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Invested capital/Sales	173.6%	173.6%	163.6%	153.6%	143.6%	133.6%	123.6%	113.6%	103.6%	93.6%	83.6%
ROIC	-4.0%	1.4%	2.0%	2.8%	3.9%	5.6%	6.0%	6.6%	7.2%	8.0%	8.9%
WACC	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Excess profit	-3.7	-2.5	-2.6	-2.5	-2.0	-0.9	-0.5	-0.0	0.7	1.5	2.4
Excess profit value/growth value	-55.7	16.5	-1.3	1.3	5.7	12.6	2.6	4.0	5.1	4.9	5.3



## Members\_2130

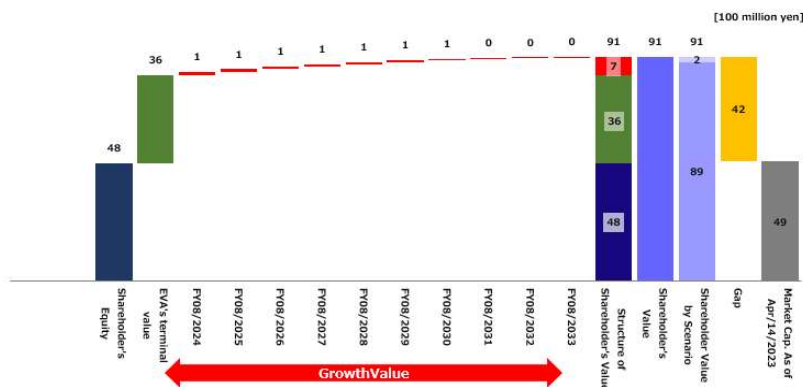


Actual, Planned and Forecasted Financial Performance

FY	Company plan	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts
	2023.03	2024.03	2025.03	2026.03	2027.03	2028.03	2029.03	2030.03	2031.03	2032.03	2033.03	
Sales	173.0	197.2	224.8	256.3	292.2	333.1	370.4	403.6	432.5	457.3	478.3	
Growth ratio	15.8%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	
Operation profit	12.0	13.5	15.1	16.9	19.0	21.3	23.7	25.8	27.7	29.3	30.6	
Operation profit ratio	6.9%	6.8%	6.7%	6.6%	6.5%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	
NOPAT margin	4.8%	4.7%	4.6%	4.6%	4.5%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
Invested capital/Sales	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	
ROIC	16.8%	16.5%	16.3%	16.0%	15.8%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	
WACC	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Excess profit	4.3	4.8	5.3	5.8	6.4	7.1	7.9	8.6	9.2	9.7	10.2	
Excess profit value/growth value	53.8	5.2	5.3	5.4	5.5	5.6	5.2	4.1	3.1	1.3	0.6	

Source: JPR

## PRAP JAPAN\_2449



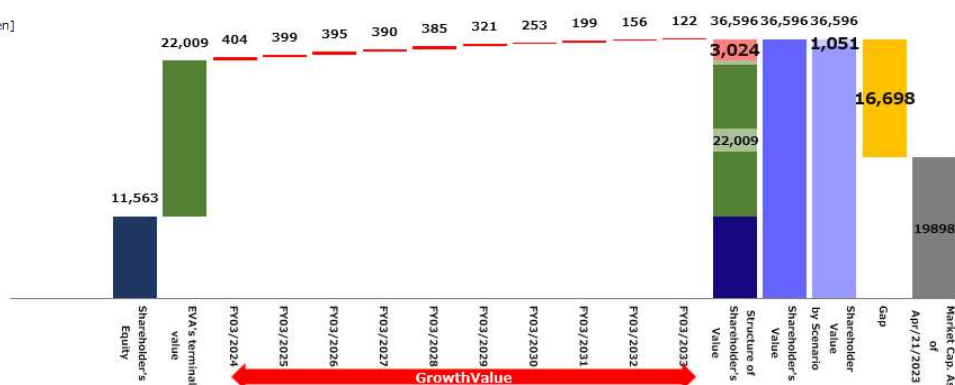
Actual, Planned and Forecasted Financial Performance

FY	Company plan	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts
	2023.08	2024.08	2025.08	2026.08	2027.08	2028.08	2029.08	2030.08	2031.08	2032.08	2033.08	
Sales	65.0	67.5	70.0	72.4	74.7	76.7	78.4	79.8	81.0	81.9	82.6	
Growth ratio	3.6%	3.8%	3.8%	3.4%	3.1%	2.8%	2.2%	1.8%	1.4%	1.1%	0.9%	
Operation profit	5.0	5.2	5.4	5.6	5.7	5.9	6.0	6.1	6.2	6.3	6.4	
Operation profit ratio	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	
NOPAT margin	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	
Invested capital/Sales	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	
ROIC	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	
WACC	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	
Excess profit	2.2	2.3	2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.8	2.8	
Excess profit value/growth value	35.7	1.3	1.2	1.1	1.0	0.8	-0.3	-0.5	-0.6	-1.7	-1.8	

Source: JPR

## Secom\_9735

[100 million yen]

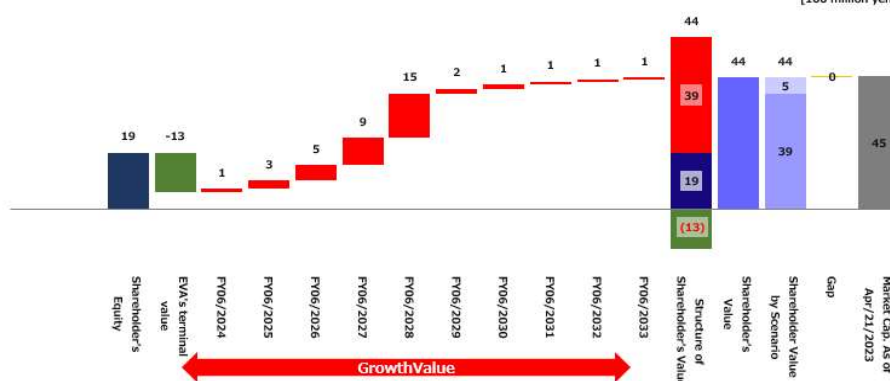


FY	Company plan 2023.03	JPR forecasts 2024.03	JPR forecasts 2025.03	JPR forecasts 2026.03	JPR forecasts 2027.03	JPR forecasts 2028.03	JPR forecasts 2029.03	JPR forecasts 2030.03	JPR forecasts 2031.03	JPR forecasts 2032.03	JPR forecasts 2033.03
Sales	10,594.0	10,805.9	11,022.0	11,242.4	11,467.3	11,696.6	11,883.8	12,035.9	12,159.1	12,258.7	12,339.1
Growth ratio	0.9%	2.0%	2.0%	2.0%	2.0%	2.0%	1.6%	1.3%	1.0%	0.8%	0.7%
Operation profit	1,340.0	1,365.7	1,392.0	1,418.7	1,446.0	1,473.8	1,497.4	1,516.5	1,532.1	1,544.6	1,554.7
Operation profit ration	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%
NOPAT margin	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
Invested capital/Sales	70.4%	70.4%	70.4%	70.4%	70.4%	70.4%	70.4%	70.4%	70.4%	70.4%	70.4%
WACC	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
Excess profit	692.0	705.1	718.5	732.1	745.9	760.1	772.2	782.1	790.1	796.6	801.8
Excess profit value/growth value	22,008.9	404.3	399.4	394.6	389.8	385.0	320.2	252.1	197.8	153.8	119.8

Source: JPR

## Smart Value\_9417

[100 million yen]



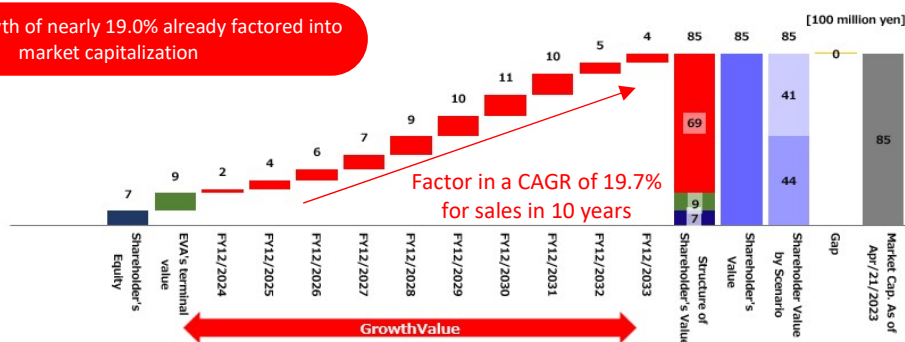
## Actual, Planned and Forecasted Financial Performance

FY	Company plan 2023.06	JPR forecasts 2024.06	JPR forecasts 2025.06	JPR forecasts 2026.06	JPR forecasts 2027.06	JPR forecasts 2028.06	JPR forecasts 2029.06	JPR forecasts 2030.06	JPR forecasts 2031.06	JPR forecasts 2032.06	JPR forecasts 2033.06
Sales	45.4	49.9	54.9	60.4	66.5	73.1	78.9	84.0	88.3	91.9	94.9
Growth ratio	19.3%	10.0%	10.0%	10.0%	10.0%	10.0%	8.0%	6.4%	5.1%	4.1%	3.3%
Operation profit	0.5	0.8	1.3	2.2	3.8	6.3	6.8	7.2	7.6	7.9	8.2
Operation profit ration	1.1%	1.6%	2.4%	3.7%	5.7%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
NOPAT margin	0.7%	1.1%	1.7%	2.6%	3.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
Invested capital/Sales	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%
ROIC	1.9%	2.8%	4.3%	6.5%	9.9%	15.1%	15.1%	15.1%	15.1%	15.1%	15.1%
WACC	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
Excess profit	-1.0	-0.9	-0.6	-0.2	0.7	2.2	2.4	2.6	2.7	2.8	2.9
Excess profit value/growth value	-13.3	1.2	2.7	5.2	9.0	15.0	0.6	0.3	0.0	-1.2	-1.4

Source: JPR

## F-code\_9211

Expected growth of nearly 19.0% already factored into market capitalization

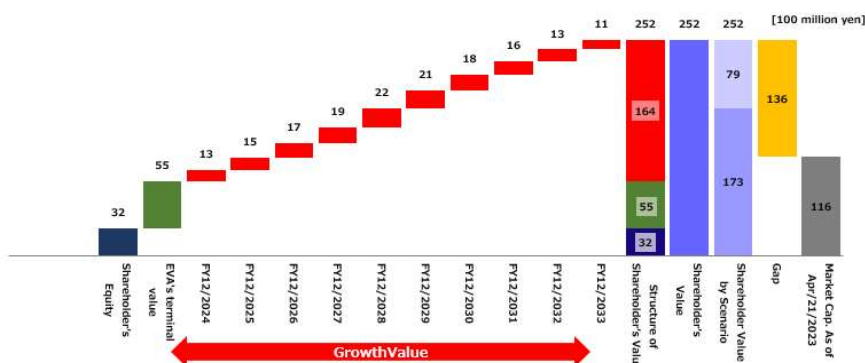


## Actual, Planned and Forecasted Financial Performance

FY	Company plan	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts
	2023.12	2024.12	2025.12	2026.12	2027.12	2028.12	2029.12	2030.12	2031.12	2032.12	2033.12	
Sales	16.5	20.8	26.2	33.0	41.6	52.4	63.3	73.8	83.7	92.6	100.5	
Growth ratio	53.9%	26.0%	26.0%	26.0%	26.0%	26.0%	20.8%	16.6%	13.3%	10.6%	8.5%	
Operation profit	3.0	3.7	4.7	5.8	7.3	9.1	11.0	12.8	14.6	16.1	17.5	
Operation profit ration	18.2%	18.0%	17.9%	17.7%	17.6%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	
NOPAT margin	12.6%	12.5%	12.4%	12.2%	12.1%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	
Invested capital/Sales	112.1%	112.1%	102.1%	92.1%	82.1%	72.1%	62.1%	52.1%	42.1%	42.1%	42.1%	
ROIC	11.2%	11.1%	12.1%	13.3%	14.8%	16.7%	19.4%	23.1%	28.6%	28.6%	28.6%	
WACC	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	
Excess profit	0.7	0.8	1.2	1.7	2.5	3.4	4.6	6.0	7.4	8.2	8.9	
Excess profit value/growth value	8.8	1.9	4.4	5.6	7.1	9.0	9.1	9.5	9.5	3.4	2.4	

Source: JPR

## LTS\_6560

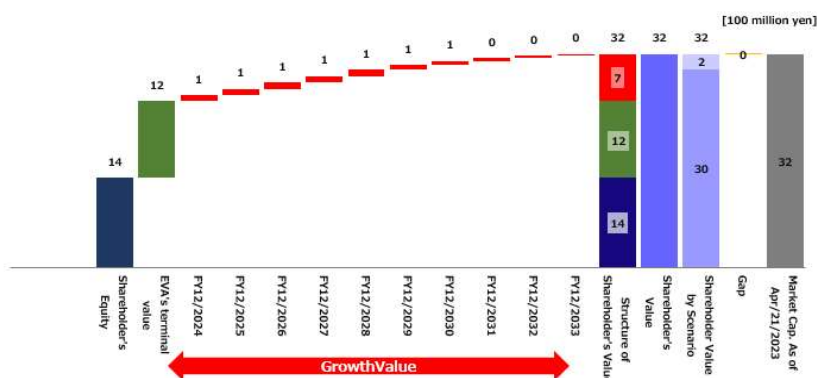


## Actual, Planned and Forecasted Financial Performance

FY	Company plan	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts
	2023.12	2024.12	2025.12	2026.12	2027.12	2028.12	2029.12	2030.12	2031.12	2032.12	2033.12
Sales	127.0	158.8	198.4	248.0	310.1	387.6	465.1	539.5	608.6	670.9	725.8
Growth ratio	31.8%	25.0%	25.0%	25.0%	25.0%	25.0%	20.0%	16.0%	12.8%	10.2%	8.2%
Operation profit	9.5	11.8	14.8	18.4	23.0	28.7	34.4	39.9	45.0	49.6	53.7
Operation profit ration	7.5%	7.5%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%
NOPAT margin	5.2%	5.2%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Invested capital/Sales	19.8%	19.8%	19.8%	19.8%	19.8%	19.8%	19.8%	19.8%	19.8%	19.8%	19.8%
ROIC	26.1%	26.0%	26.0%	25.9%	25.9%	25.8%	25.8%	25.8%	25.8%	25.8%	25.8%
WACC	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
Excess profit	4.5	5.6	7.0	8.7	10.9	13.6	16.3	18.9	21.3	23.5	25.4
Excess profit value/growth value	55.4	12.6	14.5	16.7	19.3	22.2	19.8	17.4	14.8	11.2	8.8

Source: JPR

## cacco\_4166

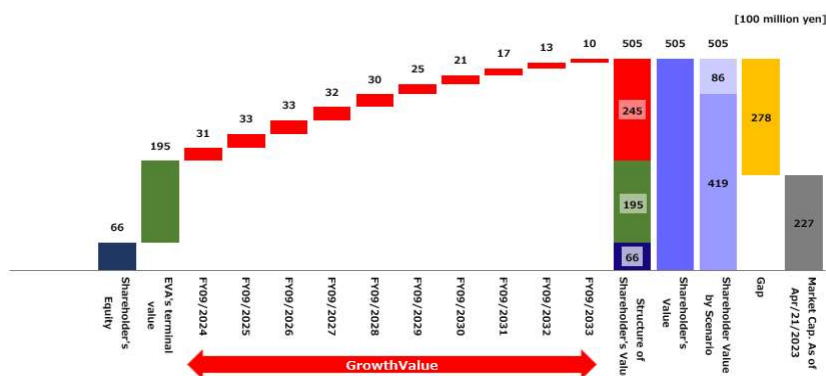


## Actual, Planned and Forecasted Financial Performance

FY	Company plan 2023.12	JPR forecasts 2024.12	JPR forecasts 2025.12	JPR forecasts 2026.12	JPR forecasts 2027.12	JPR forecasts 2028.12	JPR forecasts 2029.12	JPR forecasts 2030.12	JPR forecasts 2031.12	JPR forecasts 2032.12	JPR forecasts 2033.12
Sales	10.8	11.6	12.6	13.6	14.6	15.8	16.8	17.7	18.4	19.0	19.5
Growth ratio	0.0%	8.0%	8.0%	8.0%	8.0%	8.0%	6.4%	5.1%	4.1%	3.3%	2.6%
Operation profit	1.8	1.9	2.1	2.3	2.4	2.7	2.8	3.0	3.1	3.2	3.3
Operation profit ration	16.4%	16.5%	16.6%	16.6%	16.7%	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%
NOPAT margin	11.3%	11.4%	11.5%	11.5%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%
Invested capital/Sales	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%	45.4%
ROIC	25.0%	25.1%	25.2%	25.4%	25.5%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%
WACC	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%
Excess profit	0.9	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.5	1.6	1.6
Excess profit value/growth value	11.6	0.9	1.0	1.0	1.0	1.0	-0.3	-0.4	-0.5	-1.6	-1.7

Source: JPR

## E-Guardian\_6050

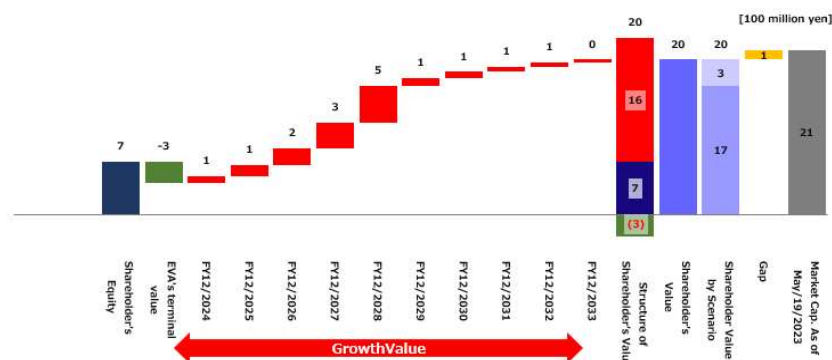


## Actual, Planned and Forecasted Financial Performance

FY	Company plan 2023.09	JPR forecasts 2024.09	JPR forecasts 2025.09	JPR forecasts 2026.09	JPR forecasts 2027.09	JPR forecasts 2028.09	JPR forecasts 2029.09	JPR forecasts 2030.09	JPR forecasts 2031.09	JPR forecasts 2032.09	JPR forecasts 2033.09
Sales	128.7	150.4	175.8	202.5	230.1	258.4	283.9	306.2	325.5	341.9	355.7
Growth ratio	9.5%	16.9%	16.9%	15.2%	13.7%	12.3%	9.8%	7.9%	6.3%	5.0%	4.0%
Operation profit	24.6	28.8	33.6	38.7	44.0	49.4	54.3	58.5	62.2	65.4	68.0
Operation profit ration	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%
NOPAT margin	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%
Invested capital/Sales	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%
ROIC	42.8%	42.8%	42.8%	42.8%	42.8%	42.8%	42.8%	42.8%	42.8%	42.8%	42.8%
WACC	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
Excess profit	14.1	16.5	19.3	22.2	25.3	28.4	31.2	33.6	35.7	37.5	39.0
Excess profit value/growth value	194.6	30.6	33.4	32.7	31.6	30.2	24.3	19.7	15.6	11.2	8.3

Source: JPR

adish\_7093



## Actual, Planned and Forecasted Financial Performance

FY	Company plan	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts	JPR forecasts
	2023.12	2024.12	2025.12	2026.12	2027.12	2028.12	2029.12	2030.12	2031.12	2032.12	2033.12	2033.12
Sales	39.0	44.5	50.7	57.8	65.9	75.1	83.5	91.0	97.5	103.1	107.8	
Growth ratio	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	11.2%	9.0%	7.2%	5.7%	4.6%	
Operation profit	0.5	0.7	1.1	1.6	2.3	3.3	3.7	4.0	4.3	4.5	4.7	
Operation profit ration	1.3%	1.6%	2.1%	2.7%	3.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
NOPAT margin	0.9%	1.1%	1.5%	1.9%	2.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Invested capital/Sales	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	
ROIC	5.0%	6.3%	8.1%	10.4%	13.3%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	
WACC	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	
Excess profit	-0.2	-0.1	-0.0	0.2	0.6	1.2	1.3	1.4	1.5	1.6	1.7	
Excess profit value/growth value	-2.8	0.9	1.5	2.2	3.3	4.8	0.0	-0.2	-0.3	-1.5	-1.6	

Source: JPR

## 8. Summary of Financial Results for the Fiscal Year Ended February 28, 2023

### Profit and loss summary

Largest sales and sales growth in history

Aggressive investment while Secured profit.

Significant growth in sales and operating income

Aiming for more diverse and accurate risk analysis.

### Profit and loss summary

#### Corporate Results

##### Net Sales

Net sales for FY02/2023 totaled 4,685 million yen (+74.7% YOY), the largest sales in the company's history and the largest sales growth rate in its history. It also exceeded the forecast of 4,500 million yen. This was largely due to growth in existing businesses and M&A of five companies.

##### Profit and Loss

EBITDA was 446 million yen (+80.1% YoY), operating profit was 202 million yen (+152.0% YoY), recurring profit was 143 million yen (+52.8% YoY), and net income attributable to parent company shareholders was 37 million yen (-90 million yen YoY). Although operating income was affected by M&A expenses (72 million yen), EBITDA and operating income were the highest in the company's history as a result of strengthening the structure by promoting PMI of group companies and thorough cost reductions. Net income attributable to parent company shareholders was affected by M&A expenses and loss on devaluation of securities.

#### Digital risk business

##### Sales and Profit/Loss

The efforts of the Target Sales Team, which has been strengthened since 1H, were successful, and the team won a number of large PoC projects. In addition, the development of social risk product applications led to an increase in orders for reputation countermeasures for companies considering an IPO and support for risk monitoring due to the stricter Premiums and Representation Law. With regard to insider threat detection services, the Company began operating a partner sales system involving eight companies, including Intec, CTC System Management (a subsidiary of ITOCHU Techno-Solutions), Tecban, and Marubeni Information Systems. As a result of the above, the digital risk business posted sales of 2,374 million yen (+23.4% y-o-y) and segment profit of 883 million yen (+23.0% y-o-y) in FY02/2023.

##### Future initiatives

- Official introduction of PoC projects (contribution to sales in the next fiscal year)
- Addition of natural language processing functionality to the insider threat detection service to detect the risk of trade secrets being brought into the company.
- Surely capture the demand for risk countermeasures for frequent byte terrorism.

Significant sales growth. Sales increased significantly and operating income improved despite the impact of prior investments.

Reinforced sales structure for security services. Further development of AIK order.

Sales increased due to M&A, Operating profit deteriorated.

Initiatives in line with government policies

## AI security business

### Sales and profit/loss

The number of registered users of "AIK order," AIK's main service, grew to about 3% of all security guards in Japan as a result of an increase in registrations from security companies in each area. In addition, the number of cases of project contracts concluded through matching with clients in the construction and retail sectors increased, and And Security, ISA, and SSS, which provide security services, succeeded in receiving orders for high-margin projects by strengthening their sales structures.

As a result of the above, net sales for FY02/2023 were 1,334 million yen (+84.5% YOY) and operating income was -34 million yen (+18 million yen YOY), an improvement from the previous year despite the impact of upfront investment and goodwill amortization in AIK on operating income.

### Future initiatives

Promoting a strong and reproducible sales structure to increase sales of security services.

Strengthen the customer success system for AIK order and promote registration of security companies in all 47 prefectures.

Expand the "AIK order" system horizontally to other industries.

## DX promotion business

### Sales and profit/loss

The company promoted DX support for administrative services, including the selection of Shiwa-machi, Iwate Prefecture, as a contractor for website renewal and the conclusion of a comprehensive collaboration agreement with Tawaramoto-machi, Nara Prefecture. In addition, Methune was made a consolidated subsidiary, posting sales and operating income in line with plans, and GloLing's efforts to strengthen its training system for engineers and to increase recruitment were successful, leading to the acquisition of high-unit-price upstream projects.

As a result of the above, DX promotion business sales increased significantly to 1,037 million yen (+999 million yen y/y) in FY02/2023, but the segment loss was -84 million yen (-19 million yen y/y) due to the M&A of Methune and other expenses."

### Future initiatives

- Acceleration of concrete efforts toward the Metacity concept and implementation of PMI for Methune

- Further enhancement of super-application functionality for linkage with My Number

- Plan to release super apps in Nobeoka City, Miyazaki Prefecture and one municipality in Shikoku in the fourth quarter

## 9. Reference Materials: Details of Financial Model

### Detailed financial model of actual results, company plan, and JPR's 10-year forecast

(Unit:million JPY)	Actual vaku	Eltes plan JPR forcats	JPR forcats	JPR forcats	JPR forcats	JPR forcats	JPR forcats	JPR forcats	JPR forcats	JPR forcats	JPR forcats	JPR forcats
FY	2023.02	2024.02	2025.02	2026.02	2027.02	2028.02	2029.02	2030.02	2031.02	2032.02	2033.02	2034.02
PL												
Net sales	4,686	6,000	7,800	10,772	14,876	20,544	28,371	39,180	48,661	53,528	55,401	56,287
Cost of sales	2,747	3,518	4,574	6,316	8,723	12,046	16,636	22,974	28,534	31,387	32,486	33,005
Selling, general and administrative expenses	1,736	2,182	2,380	3,203	4,333	5,833	8,003	10,804	13,055	14,170	14,552	14,600
EBITDA	446	600	1,287	1,831	2,529	3,492	4,823	6,661	8,272	9,100	9,418	9,569
Total Depreciation and Amortization	299	300	441	578	708	828	1,091	1,259	1,200	1,129	1,055	886
Operating income	203	300	846	1,253	1,820	2,665	3,732	5,401	7,073	7,971	8,363	8,682
Interest expenses	15	36	32	38	48	62	98	122	108	95	87	58
Other non-operating income	▲ 43	0	0	0	0	0	0	0	0	0	0	0
Ordinary income	144	264	814	1,215	1,772	2,603	3,634	5,279	6,965	7,876	8,276	8,625
Extraordinary income/loss	11	0	0	0	0	0	0	0	0	0	0	0
Income taxes	90	81	251	375	548	804	1,123	1,631	2,152	2,434	2,557	2,665
Comprehensive income attributable to owners of the parent	43	182	562	839	1,224	1,799	2,511	3,648	4,813	5,443	5,719	5,960
Number of shares issued at the beginning of the period	5,226	6,051	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006
Number of shares issued	825	955	0	0	0	0	0	0	0	0	0	0
Number of shares issued at end of period (thousand shares)	6,051	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006	7,006
EPS (yen)	7.0	26.0	80.3	119.8	174.8	256.7	358.4	520.7	686.9	776.8	816.2	850.6
Dividends	0	0	0	0	0	540	1,004	2,189	3,369	5,443	5,719	5,960
Retained earnings	43	182	562	839	1,224	1,259	1,507	1,459	1,444	0	0	0
BS												
liquidity on hand	750	975	1,346	1,859	2,568	3,546	4,897	6,083	6,691	6,925	7,036	7,036
Working capital	1,015	860	1,188	1,640	2,265	3,128	4,319	5,365	5,901	6,108	6,205	0
Short-term marketable securities	0	0	0	0	0	0	0	0	0	0	0	0
Property, plant and equipment subject to amortization	40	57	79	109	150	207	286	356	391	405	411	411
Goodwill	2,577	3,220	4,141	5,442	6,081	6,970	10,061	9,054	8,149	7,334	6,601	5,941
Software	52	68	94	129	179	247	341	424	466	482	490	0
Investment securities	511	511	511	511	511	511	511	511	511	511	511	511
Other assets	307	202	280	386	533	736	1,017	1,263	1,389	1,438	1,461	0
Total Assets	6,157	7,322	8,117	10,076	12,287	15,345	21,432	23,055	23,498	23,203	22,715	19,272
Current liabilities other than interest-bearing debt	946	577	810	1,119	1,545	2,133	2,946	3,659	4,025	4,166	4,232	4,232
Short-term debt	555	0	0	811	1,371	2,582	6,350	5,800	4,434	3,997	3,443	0
Long-term debt	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157
Other long-term liabilities	169	169	169	169	169	169	169	169	169	169	169	169
Capital stock, etc.	2,542	4,448	4,448	4,448	4,448	4,448	4,448	4,448	4,448	4,448	4,448	4,448
Retained earnings, etc.	▲ 211	▲ 29	533	1,372	2,597	3,856	5,362	6,822	8,265	8,265	8,265	8,265
Net Assets & Liabilities	6,157	7,322	8,117	10,076	12,287	15,345	21,432	23,055	23,498	23,203	22,715	19,272
CF												
liquidity on hand	▲ 164	▲ 225	▲ 371	▲ 513	▲ 708	▲ 978	▲ 1,351	▲ 1,185	▲ 608	▲ 234	▲ 111	0
Working capital	▲ 498	155	▲ 328	▲ 452	▲ 625	▲ 863	▲ 1,192	▲ 1,045	▲ 536	▲ 207	▲ 98	6,205
Current liabilities other than interest-bearing debt	607	▲ 369	233	309	426	589	813	713	366	141	67	0
Investment in property, plant and equipment	▲ 17	▲ 32	▲ 43	▲ 59	▲ 82	▲ 113	▲ 156	▲ 169	▲ 152	▲ 138	▲ 134	▲ 128
Depreciation of property, plant and equipment	12	15	21	29	40	56	77	100	117	124	127	128
Investment in software	▲ 21	▲ 40	▲ 58	▲ 80	▲ 111	▲ 153	▲ 212	▲ 235	▲ 220	▲ 206	▲ 202	392
Amortization of software	21	24	32	45	62	85	118	153	178	190	194	98
Investment in goodwill	▲ 2,464	▲ 948	▲ 1,308	▲ 1,805	▲ 1,246	▲ 1,576	▲ 3,987	0	0	0	0	0
Amortization of goodwill	118	305	387	504	606	687	896	1,006	905	815	733	660
Short-term marketable securities	0	0	0	0	0	0	0	0	0	0	0	0
Investment securities	▲ 262	0	0	0	0	0	0	0	0	0	0	0
Other assets	▲ 185	104	▲ 77	▲ 107	▲ 147	▲ 203	▲ 281	▲ 246	▲ 126	▲ 49	▲ 23	1,461
Retained earnings, etc.	▲ 5	182	562	839	1,224	1,259	1,507	1,459	1,444	0	0	0
Operating CF	▲ 2,859	▲ 828	▲ 949	▲ 1,291	▲ 560	▲ 1,211	▲ 3,768	550	1,366	436	554	8,816
Short-term debt	462	▲ 555	0	811	560	1,211	3,768	▲ 550	▲ 1,366	▲ 436	▲ 554	▲ 3,443
Long-term debt	1,519	0	0	0	0	0	0	0	0	0	0	0
Other Long-term Liabilities	169	0	0	0	0	0	0	0	0	0	0	0
Equity financing	935	1,907	0	0	0	0	0	0	0	0	0	0
Financing CF	3,085	1,351	0	811	560	1,211	3,768	▲ 550	▲ 1,366	▲ 436	▲ 554	▲ 3,443
Surplus Cash and Deposits	225	523	▲ 949	▲ 480	0	▲ 0	0	▲ 0	0	▲ 0	▲ 0	5,373

source:JPR

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### Detailed financial model of actual results, company plan and JPR forecast 10-year forecast (continued)

FY	(Unit:million JPY)	Actual	Eltes plan	JPR forcasts									
		vakue	JPR forcasts	2023.02	2024.02	2025.02	2026.02	2027.02	2028.02	2029.02	2030.02	2031.02	2032.02
KPI	Ratio of invested capital to sales at the beginning of the period	25.7%	63.3%	61.6%	58.6%	56.8%	49.8%	44.8%	45.9%	38.8%	35.4%	33.4%	33.4%
	Invested capital at the beginning of the period	1,202	3,795	4,805	6,317	8,447	10,231	12,701	17,975	18,885	18,962	18,526	17,972
	Sales Growth Rate	74.7%	28.1%	30.0%	38.1%	38.1%	38.1%	38.1%	38.1%	24.2%	10.0%	3.5%	1.6%
	EBITDA Margin	9.5%	10.0%	16.5%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
	Operating profit margin	4.3%	5.0%	10.8%	11.6%	12.2%	13.0%	13.2%	13.8%	14.5%	14.9%	15.1%	15.4%
	NOPAT	140	207	585	866	1,258	1,841	2,579	3,732	4,887	5,508	5,779	6,000
	NOPAT Margin	3.0%	3.5%	7.5%	8.0%	8.5%	9.0%	9.1%	9.5%	10.0%	10.3%	10.4%	10.7%
	ROIC	11.6%	5.5%	12.2%	13.7%	14.9%	18.0%	20.3%	20.8%	25.9%	29.0%	31.2%	33.4%
	Ratio of working capital to daily sales (days)	40	40	40	40	40	40	40	40	40	40	40	40
	Cost of Sales Ratio	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%
	Current liabilities other than interest-bearing debt daily sales ratio (days)	26	58	27	27	27	27	27	27	27	27	27	27
	Liquidity on hand monthly ratio (months)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
	Short-term debt interest rate	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%
	Long-term debt interest rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
	Effective tax rate	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%	31%
	Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%	40.0%	60.0%	70.0%	100.0%	100.0%	100.0%
	Gross DE ratio	116.4%	48.8%	43.3%	51.0%	50.1%	57.1%	86.7%	70.6%	51.8%	48.4%	44.0%	
	Net DE ratio	45.3%	-5.6%	6.6%	19.1%	13.6%	14.4%	36.8%	16.6%	-0.8%	-6.1%	-11.3%	
	Depreciation of property, plant and equipment	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
	Amortization of goodwill	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
	Software amortization ratio	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
	WACC	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
	ROIC-WACC	5.1%	-1.0%	5.7%	7.2%	8.4%	11.5%	13.8%	14.3%	19.4%	22.6%	24.7%	26.9%
	Excess profit = (ROIC-WACC) x beginning invested capital	62	-39	273	456	709	1,177	1,754	2,565	3,661	4,276	4,576	4,832
	Permanent value of excess profit	953	-603	4,198	7,015	10,922	18,121	27,008	39,497	56,368	65,850	70,457	74,411
	Estimated value of growth value at the end of each year		-1,556	4,801	2,817	3,907	7,198	8,888	12,488	16,872	9,481	4,608	3,953
	Present Value Factor	94%	88%	83%	78%	73%	69%	64%	60%	57%	53%	50%	47%

Estimated market capitalization by year of the incorporated growth value = excess profit value + present value of the growth value at the time of estimation

source:JPR

## Reference 1. For those new to JPR reports

### GCC Management™ Analysis

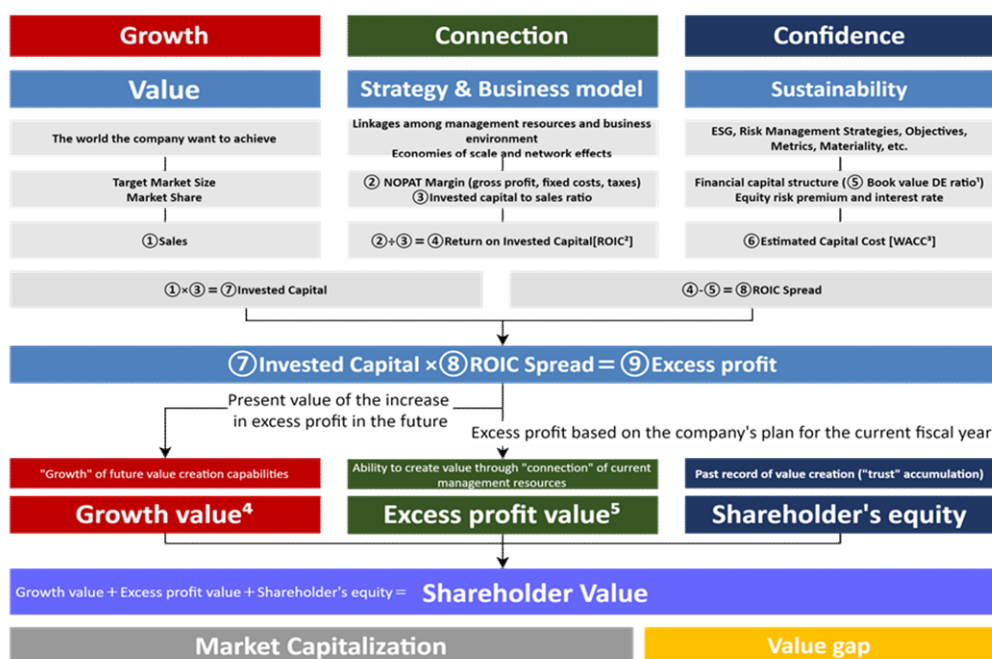
Visualize the value gap between theoretical shareholder value and market capitalization

Analyze by the three elements of Growth, Connection, and Confidence.

A framework for directly linking qualitative stories to shareholder value

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J-Phoenix Research Corporation ("JPR"), emphasizing three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Confidence (improved trust = lower business risk). The following chart shows the overall picture of the GCC Management™ framework. The following diagram shows the overall picture. The qualitative future story is linked to financial indicators, which are finally integrated to estimate shareholder value. Using the excess profit method (see "Appendix 3. Basis of Calculation" at the end of this report), JPR estimates the final theoretical shareholder value and visualize the value gap by comparing it with the market capitalization.

### GCC Management™ Analysis Framework



[Source: JPR] [Notes] 1. Book value DE ratio: Ratio of interest-bearing debt to shareholders' equity. 2. ROIC: Return on Invested Capital, See "Appendix 3." at the end of this document. 3. WACC: Weighted Cost of Capital, see "Appendix 3." at the end of this document. 4. growth value = cumulative present value of the perpetuity value of the excess profit increment through year X. The perpetuity value is calculated as the excess profit increment divided by WACC. The present value of that amount is discounted by the WACC. Cumulative future value up to year X as assumed by the growth scenario. 5. Excess profit value = the perpetual value of excess profit based on the current year's company plan. The excess profit value is estimated by dividing the excess profit calculated from the current year's company plan and the invested capital at the beginning of the period by the WACC.

Source: JPR

## GCC Management ™ Evaluation System

Evaluate the feasibility of the Growth and Connection story of the value creation process from three perspectives

## Evaluation of Growth and Connection

Evaluate the feasibility of qualitative stories from three perspectives

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: conceptual design, implementation design, and actual performance. "Conceptual design" is defined as "conceptualizing the concept of the value creation process" and "implementation design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process. Value creation becomes an "achievement" only when "conceptual design" becomes "implementation design. JPR conducts subjective evaluations of "conceptual design," "implementation design," and "performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

### Conceptual Design, "Implementation Design," and "Performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
"Conceptual design"	Conceptual design is very logically organized	Conceptual design is approximately logically organized	Conceptual design is about halfway organized	Conceptual design is organized to a certain degree	Conceptual design is organized to a certain degree
"Implementation design"	Conceptual design is almost implemented	Conceptual design is almost implemented	Conceptual design is about half implemented	Conceptual design is implemented to a certain degree	Conceptual design has been implemented, albeit marginally.
"Performance"	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results as intended by the conceptual design about half way through	Targeted outcomes are observed as actual results to a certain degree, as intended by the design	Targeted outcomes are observed as achievements, albeit slight, as intended by the conceptual design

Source: JPR

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## Evaluation of Confidence

### Evaluation of financial stability and social contribution

#### Credibility of the value creation process

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: "Conceptual Design", "Implementation Design", and "Actual Performance." "Conceptual Design" is defined as "conceptualizing the concept of the value creation process" and "Implementation Design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process." Value creation becomes an "Actual Performance" only when "Conceptual Design" becomes "Implementation Design." JPR conducts subjective evaluations of "Conceptual Design," "Implementation Design," and "Actual Performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

#### "Conceptual Design," "Implementation Design," and "Actual performance"

% indication	90%	70%	50%	30%	10%
<b>Financial Stability</b> The evaluation is based on a five-point scale from the viewpoint of sufficient experience in the value creation process, differentiated value creation capabilities that are difficult to imitate, low risk of fluctuations such as economic and seasonal fluctuations due to stockholding, and an optimized capital-liability structure.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable
<b>Social Contribution</b> The social issues addressed are generally of great importance to society, the path to their solution is not yet clear, and they are tackling a challenging task that requires both the creation of a new concept and the systematic creation of the optimal governance structure for its implementation.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable

Source: JPR

## Visualization of value gap through 10-year growth scenario analysis

### Comparison of increase in shareholder value and market capitalization by year

The potential increase in shareholder value generated by a 10-year growth scenario based on the future story is visualized for each year and compared to the market capitalization. This allows us to visualize how many years of the future story are reflected in the market capitalization. 10 years of shareholder value is expected to be reflected in the market capitalization as the expectations for the achievability of the 10-year future story increase. The difference between the market capitalization and the estimated shareholder value reflecting up to 10 years of future story is the estimated upside potential. As investors' expectations of the feasibility of the future story are raised by the specific current performance, the likelihood of the realization of that value gap increases.

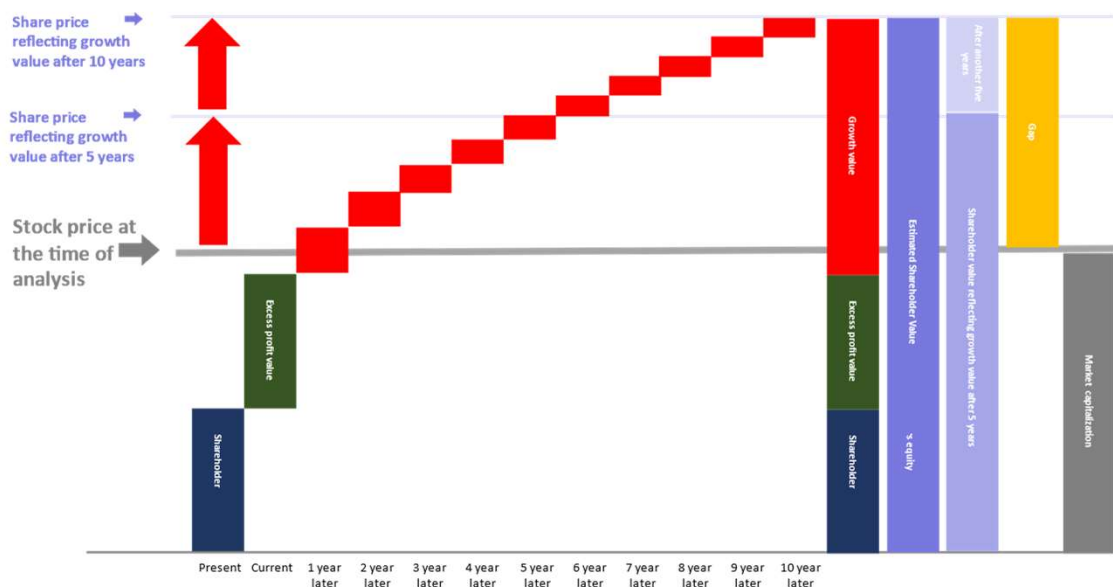
### Conservative Growth Scenarios and Scenarios Reflecting Change in Future Stories

This analysis is useful when the firm's strategy undergoes significant change. As shown in the figure below, it is also possible to visualize separately the growth potential under the conservative scenario and the growth potential under the change. Shareholder value without incorporating change represents a conservative amount.

Visualize how many years of future stories are reflected in the market capitalization

Visualization of various scenario analysis

### Visualizing the Value Gap



Source: JPR

## Reference

Corporate value  
estimated by use of  
ROIC and excess  
return

## Excess return analysis framework

Excess profit or economic value added is globally used as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued or undervalued when its market cap is higher or is lower than its theoretical corporate value, respectively. The contribution of each year's corporate value can be visualized in the following figure, wherein shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated into the stock price.

### Breakdown of corporate value using excess return



[source] JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

- ① Excess return = NOPAT – Invested capital X WACC
- ② Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)
- ③ Invested capital = Total assets – Non-business assets – Current liabilities excluding interest-bearing debt
- ④ Non-business assets = Cash and deposits exceeding 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments
- ⑤ Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X (D/(E+D)) + Cost of shareholders' equity X (E/(D+E))
- ⑥ Cost of shareholders' equity = 0.5% + 5% X β
- ⑦ β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company
- ⑧ E = Market cap at the time of calculation
- ⑨ D = Short-term interest-bearing debt + Long-term liabilities + Minority interests in the latest financial statements at the time of calculation

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