

Itoki (TYO: 7972)

**Demand for office furniture remains robust.
Record quarterly operating profit.**

◇ **Summary of 1Q results for FY12/2023: 5% net sales growth backed by strong demand for office furniture, with quarterly operating profit reaching a record high.**

Itoki announced its 1Q results for FY12/2023 on 12 May, showing a 5% increase in net sales and a 20% increase in operating profit, and achieved a record-high operating profit on a quarterly basis. Sales were strong, mainly due to renewal projects and office relocations. Profits exceeded company forecasts thanks to sales increases and an improved profit margin which reflected enhanced customer value.

By segment, the mainstay Workplace business recorded sales of 27.7 billion yen (+3.0% YoY) and an operating profit of 4 billion yen (+14.3%), while Equipment / Public business recorded sales of 8.7 billion yen (+9.6%) and operating profit of 500 million yen (+87.8%). Both segments achieved increases in sales and profit.

The company's sales and profits are biased for 1Q. Still, as of the end of the 1Q of the current fiscal year, the company had achieved 28.4% of its full-year sales estimate, 73.5% of the operating profit target and 89.1% of the forecast net profit attributable to owner of parent.

◇ **Stock price: Up 45.4% since the beginning of the year; further upside expected, driven by the expansion of PBR.**

The company's share price has risen 45.4% YTD. In the same period, those of the peers in the sector rose between 5.5% and 24.1%, illustrating the superior performance of the company's shares. This results from investors' appreciation of the consistently robust demand for office furniture due to renewal projects to accommodate new ways of working and Itoki's improving profitability due to sales activities focusing on increasing the value it provides for customers.

On 12 May, Itoki published a document entitled "Measures to realise management conscious of the cost of capital and share price". The board of directors has decided on specific measures to achieve sustainable growth and increase corporate value over the medium to long term (see below for details). The company has stated that it will improve its PBR by taking these measures. This should raise the valuation of the shares further.

◇ **Results for 1Q FY12/2023: 5% increase in sales and record operating profit on a quarterly basis.**

The company's 1Q results for FY12/2023 show sales of 36,965 million yen (+4.6% YoY), operating profit of 4,777 million yen (+20.5%) and net profit attributable to owner of parent 3,296 million yen (-2.7%). Operating profit reached a record high on a quarterly basis (the top chart on the next page).

In 1Q, the COGS ratio improved by 0.7 percentage points to 60.1% from 60.8% QoQ. The SGAE ratio fell by 1.0 percentage points from 28.0% to 27.0% QoQ, resulting in an operating margin of 12.9%, an improvement of 1.7 percentage points YoY.

1Q results update

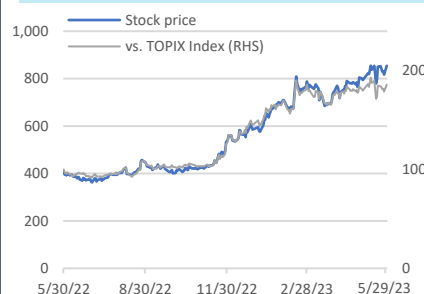
Other Products

As of 30 May, 2023

Share price (5/29) 854 Yen

52weeks high/low	¥879/360
Avg Vol (3 month)	232.3 thou shrs
Market Cap	¥38.99 bn
Enterprise Value	¥36.18 bn
PER (23/12 CE)	10.45 X
PBR (22/12 act)	0.75 X
Dividend Yield (23/12 CE)	2.93 %
ROE (TTM)	10.32 %
Operating margin (TTM)	4.32 %
Beta (5Y Monthly)	0.97
Shares Outstanding	45.664 mn shrs
Listed market	TSE Prime section

Share price performance



% of	1mo.	3mo.	12mo.
Share prices	6.6%	12.2%	108.8%
Relative share price	2.5%	3.6%	85.8%

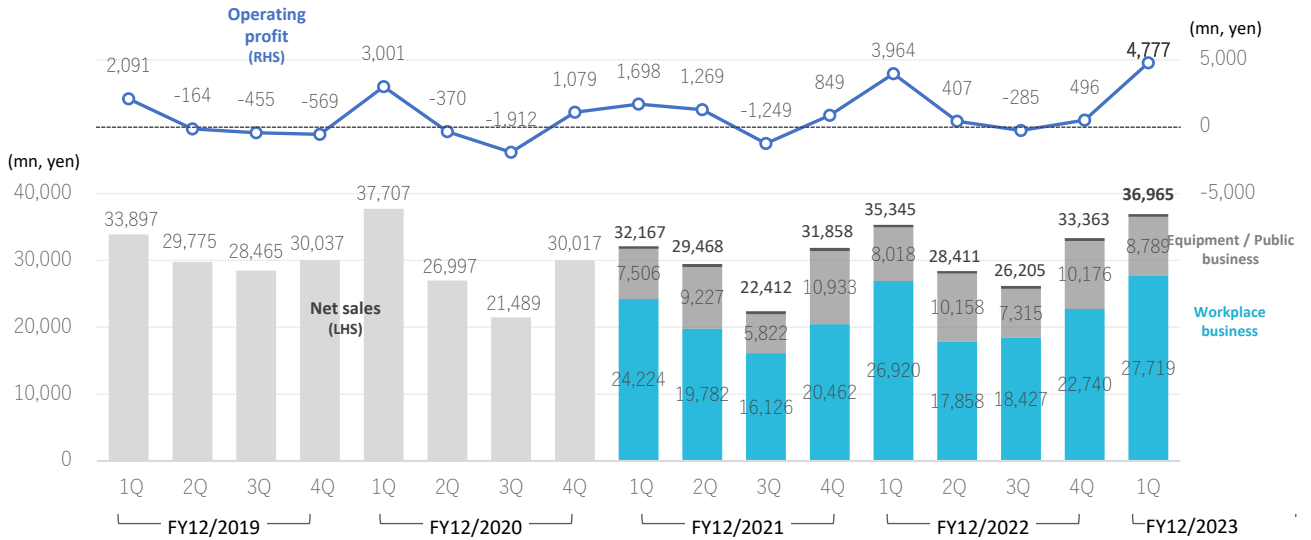
Points of interest

Office furniture manufacturer that designs tomorrow's 'work', with a long history dating back to 1890. In addition to office furniture, Itoki is also involved in construction and interior decoration. The medium-term management plan targets an operating profit of 6.5 billion yen by 2023.

This report (Company note) has been prepared at the request of Itoki Corporation. For details, please refer to the Disclaimer on the last page.

JPY, mn, %	Net sales	YoY %	Oper. profit	YoY %	Ord. profit	YoY %	Profit ATOP	YoY %	EPS (¥)	DPS (¥)
2019/12	122,174	2.9	903	-53.1	945	-60.1	-550	-	-12.08	13.00
2020/12	116,210	-4.9	1,798	99.1	1,881	99.0	-235	-	-5.18	13.00
2021/12	115,839	-0.3	2,536	41.0	2,437	29.5	1,166	-	25.82	15.00
2022/12	123,324	6.4	4,582	79.0	4,177	71.4	5,294	353.9	116.99	37.00
2023/12 (CE)	130,000	5.4	6,500	41.8	6,500	55.6	3,700	-30.1	81.70	25.00
2022/12 1Q	35,345	9.9	3,964	133.4	3,974	139.7	3,388	74.4	74.95	-
2023/12 1Q	36,965	4.6	4,777	20.5	4,824	21.4	3,296	-2.7	72.80	-

Sales/operating profit (Quarterly)



Note: Figures for IT/sharing projects are not shown in the figure as they are small.
Source: Omega Investment from company materials

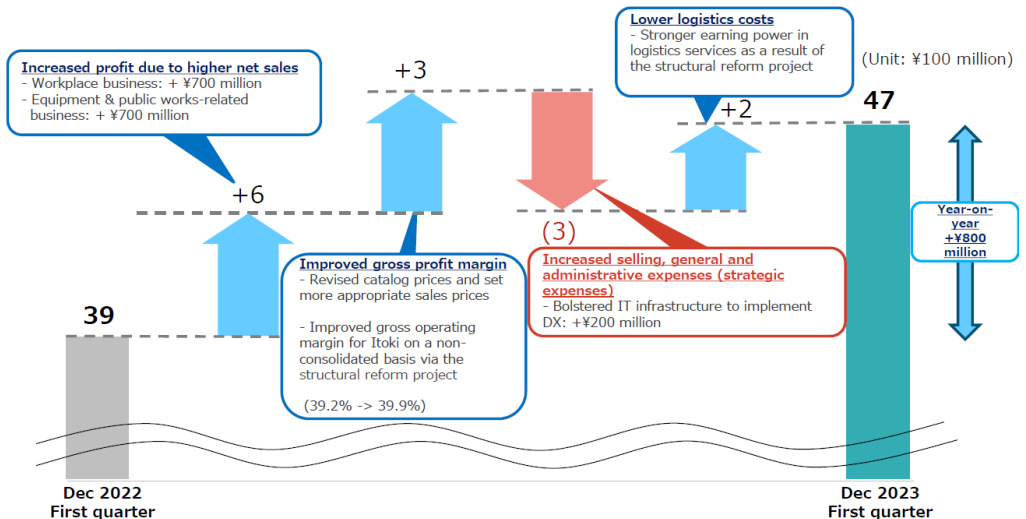
See the chart below for the factors behind the change in operating profit. The increase in profits due to higher sales, improved gross margins thanks to restructuring projects, and lower logistics costs absorbed the increase in strategic expenditure, resulting in a significant profit increase.

◆ Segmental trends

1) Workplace business: Sales: 27,719 million yen, +3.0%; operating profit: 4,059 million, +14.3%.

Renewal projects increased in line with new hybrid ways of working after the outbreak of COVID-19. In addition, office furniture sales were strong, mainly due to office relocations. Meanwhile, the profit margin improved (13.2% in 1Q FY12/2022 → 14.6% in 1Q FY12/2023) as a result of increased sales and a focus on enhancing the value provided while anticipating the impact of rising raw material prices, resulting in a significant increase in profit (see next page, top chart).

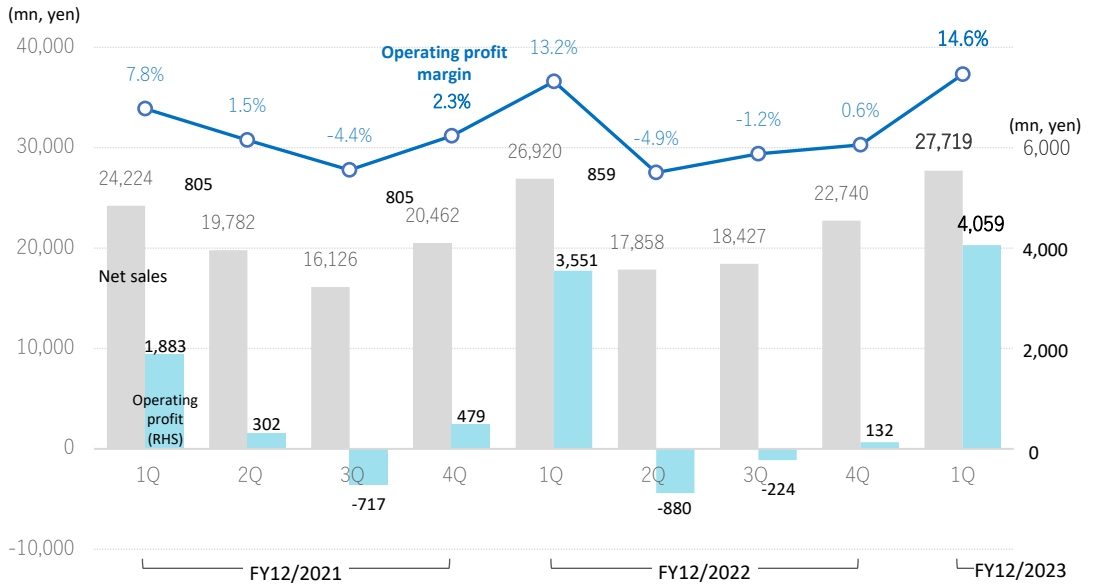
Factor analysis of changes in operating profit



Source: The company materials for the 1Q results for FY12/2023 (published on 12 May, 2023)



Workplace business (quarterly)

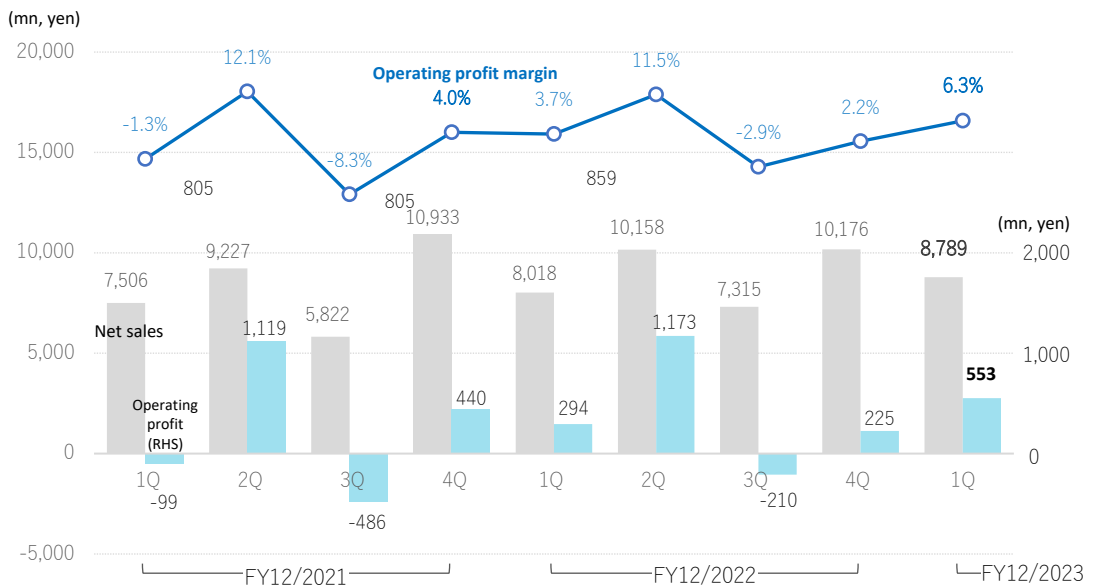


Source: Omega Investment from company materials

2) Equipment / Public business: Sales: 8,789 million yen, +9.6%; operating profit: 553 million yen, +87.8%.

Demand for equipment for public facilities, such as display cases for museums and art galleries and digital signage, was strong, leading to an increase in sales of nearly 10%. Profit margins improved (from 3.7% in 1Q FY12/2022 to 6.3% in 1Q FY12/2023) due to increased sales and higher value provided by equipment for public facilities, resulting in a significant profit increase (see chart below).

Equipment / Public business (quarterly)



Source: Omega Investment from company materials

◇ Full-year forecasts for FY12/2023: No change in the company guidance.

The company forecasts for FY12/2023 include sales of 130 billion yen (+ 5.4% YoY), operating profit of 6.5 billion yen (+41.8%), ordinary profit of 6.5 billion yen (+55.6%) and net profit attributable to owner of parent 3.7 billion yen (-30.1%). The decrease in net profit for the year is due to the absence of an extraordinary gain on the sale of land in FY12/2022. Excluding this, profits will increase in the current financial year.

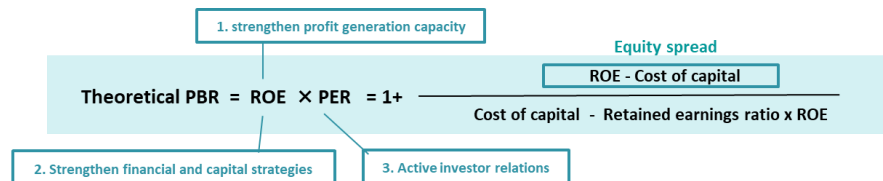
The company's sales and profits tend to be biased for 1Q. As of the end of the last 1Q, the progress ratio against the full-year forecasts was 28.4% for sales, 73.5% for operating profit, 74.2% for ordinary profit and 89.1% for net profit attributable to owner of parent. This is slightly behind the 86.5% operating profit progress ratio registered in 1Q 2022/12. However, the company should be fine achieving its full-year forecasts comfortably as sales of projects for logistics facilities in Equipment / Public business segment are biased for 2H of the year.

◇ **Explicitly states to realise “the management conscious of the cost of capital and share price”.**

With the release of financial results, the company stated its actions to realise the management conscious of the cost of capital and share price. The announcement says that the company is committed to achieving sustainable growth and increasing its corporate value over the medium to long term and that, to this end, it will further strengthen its earnings power, disclose ESG and other information in a timely and appropriate manner, steadily implement measures to improve the cost of capital, including capital policies, and improve the equity spread, thereby improving the PBR.

The company's approach to achieving these goals, and the specific measures it intends to implement, are shown in the diagram below. These include 1. strengthening earnings generation capacity, 2. improving ROE by reinforcing financial and capital strategies, and 3. raising PER by practising proactive investor relations and deepening dialogue with them. As a result, the plan is to achieve $PBR \geq 1$ as soon as possible, which is currently one of the major challenges for companies listed on the TSE Prime market.

Actions to realise the management conscious of the cost of capital and share price



1. Strengthen profit generation capacity

1-1 Implementing a sustainable growth strategy through Tech x Design

- Shift and expansion of core business areas to ensure a renewed growth trajectory
- Market expansion through next generation office proposals based on the Smart Office concept.
- Strengthening profitability by expanding sales resources and promoting new sales activities using DX.
- Early development of a second pillar of business.
- Expand business by strengthening promising businesses such as research facilities and the logistics facilities equipment sector.

1-2 Strengthening the structure to evolve into a further highly profitable company

- Cost optimisation through supply chain reform starting from the new manufacturing site (AP Centre).
- The company's business process reforms in line with the revamping of the core system and the promotion of digitalisation to improve management efficiency.

2. Strengthen financial strategy and capital policy

- The company is also working to improve the efficiency and effective use of its assets, including through the sale and other liquidation of non-business assets.
- Reduction of policy shareholdings.
- The company is committed to providing stable dividends and a dividend payout ratio of more than 30%.
- Market, share price conditions, the company's performance and cash position, etc. Consideration of share buybacks and other capital policies, taking into account
- Strengthening investment in human capital, seeing the enhancement of human capital as a source of value creation.

3. Proactive IR practices.

- Eliminate information asymmetries with investors by enhancing and upgrading information disclosure.
- Strengthen communication of the equity story through proactive investor interviews.
- Strengthen communication of human capital investment and sustainability business models through ESG briefings and website disclosures.
- Improved quarterly disclosures and IR materials, including English-language disclosures
- The company's website and investor relations website are updated and translated into English.
- Improvement of external dissemination capacity, including through the use of digital tools
- Closing the investor expectation gap through the internal refluxing of IR activities.

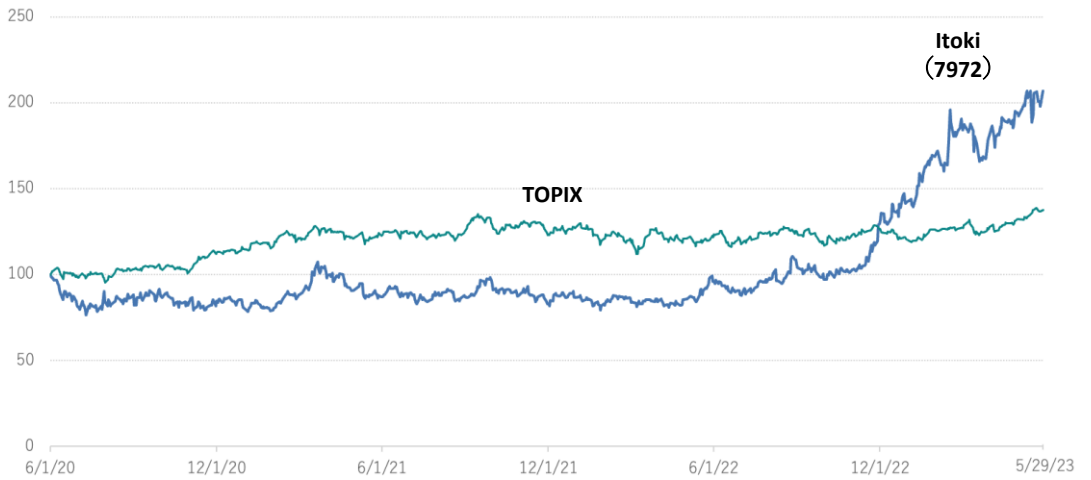
Source: Omega Investment from company materials



7972 : 5-year stock price move



Share price compared to TOPIX (last three years)



Financial data (quarterly basis)

FY (¥mn)	2020/12				2021/12				2022/12				2023/12
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
[Statements of income]													
Net sales	37,707	26,997	21,489	30,017	32,167	29,451	22,396	31,871	35,345	28,411	26,205	33,363	36,965
Year-on-year basis (%)	11.2	-9.3	-24.5	-0.1	-14.7	9.2	4.3	6.1	9.9	-3.6	16.9	11.2	4.7
Cost of sales	23,710	17,765	13,811	19,036	20,101	18,729	14,443	20,872	21,483	18,030	16,678	21,384	22,216
Gross profit	13,997	9,232	7,678	10,981	12,020	10,722	7,953	10,999	13,862	10,381	9,527	11,979	14,748
SG&A expenses	10,996	9,602	9,590	9,901	10,352	9,453	9,203	10,150	9,898	9,973	9,812	11,484	9,970
Operating income	3,001	-370	-1,912	1,079	1,698	1,275	-1,242	829	3,964	407	-285	496	4,777
Year-on-year basis (%)	43.5	-	-	-	-43.4	-	-	-23.2	133.4	-68.7	-	-40.2	20.5
Operating profit ratio (%)	8.0	-1.4	-8.9	3.6	5.3	4.3	-5.5	2.6	11.2	1.4	-1.1	1.5	12.9
Non-operating income	154	162	251	237	240	161	171	122	125	164	171	96	125
Non-operating expenses	273	168	107	172	250	257	101	185	115	130	177	539	79
Ordinary income	2,882	-376	-1,768	1,143	1,657	1,173	-1,179	786	3,974	442	-291	52	4,824
Extraordinary income	0	6	125	980	1,255	78	133	88	786	139	118	6,762	1
Extraordinary expenses	116	42	55	1,503	20	456	518	1,474	44	64	38	3,465	21
Income before income taxes	2,766	-412	-1,697	620	2,893	795	-1,565	-600	4,716	516	-211	3,351	4,804
Total income taxes	1,039	134	-195	654	1,028	490	-132	-796	1,381	246	-21	1,585	1,506
Net income	1,760	-557	-1,491	53	1,942	348	-1,440	316	3,388	288	-159	1,777	3,296
Year-on-year basis (%)	43.6	-	-	-	10.	-	-	496.2	74.4	-17.2	-	462.3	-2.7
Net income ratio (%)	4.7	-2.1	-6.9	0.2	6.0	1.2	-6.4	1.0	9.6	1.0	-0.6	5.3	8.9
[Balance Sheets]													
Current assets	69,811	60,382	52,463	57,183	65,543	62,170	55,249	57,753	69,458	64,096	59,873	71,027	72,230
Cash and deposits	18,186	21,312	18,956	18,246	19,503	22,112	18,213	17,351	19,196	20,073	17,138	26,876	20,898
Notes and accounts receivable - trade	37,611	27,230	20,298	26,599	32,061	26,596	21,385	26,783	-	-	-	-	-
Notes and accounts receivable - trade, and contract assets	-	-	-	-	-	-	-	-	35,205	28,234	24,111	29,316	34,519
Non-current assets	49,872	49,933	50,410	47,912	46,925	46,369	46,046	46,144	46,647	47,395	48,126	44,260	43,611
Property, plant and equipment	27,612	27,350	27,329	26,206	25,184	24,779	24,887	24,417	25,105	26,042	26,932	24,978	24,689
Intangible assets	5,113	5,623	5,853	5,590	5,504	5,419	4,885	4,114	4,128	4,168	4,145	1,819	1,837
Goodwill	2,391	2,207	2,189	2,093	2,018	2,016	1,407	1,317	1,214	1,222	1,200	517	446
Investments and other assets	17,146	16,959	17,227	16,116	16,236	16,170	16,273	17,612	17,413	17,184	17,048	17,462	17,084
Total assets	120,352	110,940	103,453	105,096	112,469	108,540	101,295	103,898	116,105	111,492	108,000	115,288	115,841
Current liabilities	55,449	46,097	40,198	43,646	49,245	45,266	40,307	42,544	51,837	47,138	43,655	49,099	47,854
Short-term borrowings	15,616	13,289	14,239	13,234	13,458	12,061	12,409	12,500	15,014	11,976	11,738	11,239	10,874
Non-current liabilities	18,327	18,220	18,079	17,259	17,506	17,088	16,257	16,277	16,334	16,020	16,178	16,278	16,238
Long-term borrowings	9,475	9,574	9,453	8,508	8,711	8,193	7,435	7,591	7,427	7,174	7,266	7,530	7,453
Total liabilities	73,777	64,318	58,277	60,906	66,751	62,354	56,565	58,822	68,172	63,158	59,833	65,377	64,092
Total net assets	46,575	46,621	45,175	44,189	45,717	46,186	44,730	45,076	47,933	48,333	48,166	49,910	51,748
Shareholders' equity	46,123	46,197	44,768	43,812	45,419	45,872	44,454	44,931	47,837	48,254	48,117	49,871	50,806
Share capital	5,294	5,294	5,294	5,294	5,294	5,294	5,294	5,294	5,294	5,294	5,294	5,294	5,294
Capital surplus	9,201	9,642	9,641	9,628	9,628	9,632	9,632	9,638	9,638	9,638	9,638	9,638	9,638
Retained earnings	31,030	30,461	28,884	28,950	30,306	30,654	29,213	29,530	32,477	32,769	32,610	34,387	36,008
Treasury shares	-46	-6	-33	-182	-182	-161	-161	-161	-161	-134	-134	-134	-314
Share acquisition rights	-	-	45	45	45	45	45	45	45	45	45	45	45
Total liabilities and net assets	120,352	110,940	103,453	105,096	112,469	108,540	101,295	103,898	116,105	111,492	108,000	115,288	115,841
[Statements of cash flows]													
Cash flow from operating activities	-	5,404	-	-843	-	4,577	-	-1,803	-	4,581	-	-	1,223
Cash flow from investing activities	-	-1,442	-	290	-	503	-	-1,673	-	-1,410	-	-	6,333
Cash flow from financing activities	-	293	-	-2,560	-	-1,418	-	-1,240	-	-661	-	-	-765
Free cash flow	-	3,962	-	-553	-	5,080	-	-3,476	-	3,171	-	-	7,556
Net increase in cash and cash equiv.	-	4,240	-	-3,037	-	3,787	-	-4,687	-	2,711	-	-	6,911
Cash and cash equiv. at beginning of period	-	15,494	-	19,735	-	16,697	-	20,485	-	15,797	-	-	18,509
Cash and cash equiv. at end of period	-	19,735	-	16,697	-	20,485	-	15,797	-	18,509	-	-	25,420

Source: Omega Investment from company materials

Financial data (full-year basis)

FY (¥mn)	FY2012/12	FY2013/12	FY2014/12	FY2015/12	FY2016/12	FY2017/12	FY2018/12	FY2019/12	FY2020/12	FY2021/12	FY2022/12
[Statements of income]											
Net sales	105,508	103,461	102,993	106,516	101,684	108,684	118,700	122,174	116,210	115,839	123,324
Year-on-year basis (%)	14.6	-1.9	-0.5	3.4	-4.5	6.9	9.2	2.9	-4.9	-0.3	6.4
Cost of sales	70,027	67,118	66,797	68,374	65,021	69,966	77,436	80,495	74,322	74,145	77,575
Gross profit	35,481	36,343	36,196	38,142	36,663	38,718	41,264	41,679	41,888	41,694	45,749
Gross profit ratio (%)	33.6	35.1	35.1	35.8	36.1	35.6	34.8	34.1	36.0	36.0	37.1
SG&A expenses	32,040	32,203	33,723	33,836	33,862	35,761	39,339	40,776	40,089	39,158	41,167
Operating income	3,441	4,140	2,472	4,306	2,800	2,956	1,925	903	1,798	2,536	4,582
Operating profit ratio (%)	3.3	4.0	2.4	4.0	2.8	2.7	1.6	0.7	1.5	2.2	3.7
Non-operating income	813	813	841	898	771	750	889	677	804	694	556
Non-operating expenses	518	528	495	605	483	412	448	634	720	793	961
Ordinary income	3,735	4,425	2,818	4,599	3,087	3,295	2,365	945	1,881	2,437	4,177
Extraordinary income	269	685	615	171	97	228	919	27	1,111	1,554	7,805
Extraordinary expenses	352	238	262	524	267	121	204	35	1,716	2,468	3,611
Income before income taxes	3,653	4,872	3,171	4,246	2,918	3,401	3,081	938	1,277	1,523	8,372
Total income taxes	689	876	813	-385	1,068	959	1,339	1,517	1,632	590	3,191
Net income	2,702	3,910	2,160	4,530	1,907	2,402	1,722	-550	-235	1,166	5,294
Net income ratio (%)	2.6	3.8	2.1	4.3	1.9	2.2	1.5	-0.5	-0.2	1.0	4.3
[Balance Sheets]											
Current assets	49,294	52,925	55,714	56,342	52,410	58,147	62,143	58,109	57,183	57,753	71,027
Cash and deposits	17,441	19,553	21,211	21,456	19,839	19,977	16,229	17,030	18,246	17,351	26,876
Notes and accounts receivable - trade	24,935	26,243	25,965	26,138	23,241	26,869	33,160	28,244	26,599	26,783	
Notes and accounts receivable - trade, and contract assets											29,316
Non-current assets	39,961	42,335	41,007	41,832	43,271	44,073	46,559	49,955	47,912	46,144	44,260
Property, plant and equipment	27,928	28,193	27,041	26,395	25,322	24,426	26,362	27,781	26,206	24,417	24,978
Intangible assets	705	1,230	1,109	1,313	1,142	3,651	4,437	4,945	5,590	4,114	1,819
Goodwill	6	34	26	240	208	2,793	3,005	2,413	2,093	1,317	517
Investments and other assets	11,327	12,911	12,857	14,123	16,806	15,995	15,760	17,229	16,116	17,612	17,462
Total assets	89,256	95,261	96,721	98,175	95,681	102,221	108,703	108,778	105,096	103,898	115,288
Current liabilities	36,455	35,359	36,677	36,106	35,390	39,683	45,133	47,559	43,646	42,544	49,099
Short-term borrowings	11,222	11,473	11,087	10,940	11,760	12,564	11,721	15,533	13,234	12,500	11,239
Non-current liabilities	14,560	16,874	16,854	14,756	14,888	15,211	16,076	15,385	17,259	16,277	16,278
Long-term borrowings	4,122	5,124	5,089	5,171	5,296	5,328	5,113	6,633	8,508	7,591	7,530
Total liabilities	51,016	52,234	53,532	50,863	50,278	54,894	61,210	62,944	60,906	58,822	65,377
Total net assets	38,240	43,026	43,189	47,311	45,402	47,326	47,492	45,834	44,189	45,076	49,910
Shareholders' equity	35,960	41,079	41,632	45,677	44,949	46,863	46,854	45,370	43,812	44,931	49,871
Share capital	5,277	5,277	5,277	5,277	5,277	5,277	5,277	5,294	5,294	5,294	5,294
Capital surplus	13,020	13,061	13,061	13,222	13,140	12,404	9,786	9,201	9,628	9,638	9,638
Retained earnings	18,520	22,073	23,556	29,223	30,504	32,315	31,104	29,862	28,950	29,530	34,387
Treasury shares	-1,178	-833	-834	-3,000	-4,700	-4,701	0	-46	-182	-161	-134
Share acquisition rights									45	45	45
Total liabilities and net assets	89,256	95,261	96,721	98,175	95,681	102,221	108,703	108,778	105,096	103,898	115,288
[Statements of cash flows]											
Cash flow from operating activities	8,259	3,162	5,715	4,522	5,072	3,565	1,384	3,586	4,561	2,774	5,804
Cash flow from investing activities	-14	-1,978	-1,742	-803	-4,044	-2,971	-3,094	-3,221	-1,152	-1,170	4,923
Cash flow from financing activities	-1,652	51	-2,179	-3,807	-2,571	-706	-2,463	0	-2,267	-2,658	-1,426
Free cash flow	8,245	1,184	3,973	3,719	1,028	594	-1,710	365	3,409	1,604	10,727
Net increase in cash and cash equiv.	6,601	1,944	1,814	184	-1,619	88	-4,031	952	1,203	-900	9,622
Cash and cash equiv. at beginning of period	9,555	16,156	18,102	19,918	20,103	18,483	18,571	14,540	15,494	16,697	15,797
Cash and cash equiv. at end of period	16,156	18,102	19,918	20,103	18,483	18,571	14,540	15,494	16,697	15,797	25,420

Source: Omega Investment from company materials



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