

Itoki (TYO: 7972)

2Q operating profit and ordinary profit in line with company expectations. Good visibility towards consecutive highest profits.

◇ **FY12/2024 2Q financial highlights: operating profit and ordinary profit down slightly but in line with expectations**

Itoki's financial results for 2Q FY12/2024, announced on 5 August 2024, showed a slight YoY decline in operating profit and ordinary profit, although net sales and interim net profit attributable to owner of parent reached an all-time high. On a cumulative basis, sales were 72.51 billion yen (+6% YoY), operating profit was 6.86 billion yen (-2% YoY), ordinary profit was 6.83 billion yen (-3% YoY), and net profit attributable to owners of parent was 5.08 billion yen (+8% YoY). The company states that these are in line with its expectations.

Compared to the extremely strong first quarter, the current results appear weaker. However, there are many positive aspects to evaluate. The company is steadily increasing revenues in response to rising demand from customers for office renovations and relocations; it is expanding strategic expenditure to raise wages, recruit specialist personnel and strengthen its IT infrastructure, and is planting the seeds for future growth; operating profit and recurring profit are only slightly down YoY; the decline in gross profit margin is not due to a fall in profitability in each business, but to a change in the composition of sales. There is no need to regard these results as dampening the growth strategy.

Note that in PL, there was an extraordinary gain from the sale of non-business real estate and an extraordinary loss from the provision for related losses, while in BS, there are many points of interest, such as increasing short-term borrowings to acquire treasury shares and shorten the site for payables, and acquiring shares in a logistics subsidiary.

Another factor compensating for the slight decline in operating profit and ordinary profit is the increase in the dividend. It was announced that the dividend per share will be 55 yen, compared to 42 yen in the previous year and 52 yen in the initial forecast for the current year. The dividend payout ratio will be 38.4% for the current financial year, compared to 32.2% in the previous year, bringing the payout ratio close to the target of 40%. The dividend increase is a favorable decision for the company, which aims to pay a sustainable and stable dividend and shows its growing confidence in its business. The dividend yield is now approximately 4.3%, making the company more appealing to investors looking for a high dividend yield and stable growth.

◇ **Full-year forecasts: company forecasts unchanged, with consecutive record profits.**

The company's full-year forecasts remain unchanged and call for sales of 137.5 billion yen (+3% YoY), operating profit of 10.0 billion yen (+17% YoY), ordinary profit of 10.0 billion yen (+16% YoY) and net profit attributable to owner of parent of 7.0 billion yen (+18% YoY) - in other words, the highest earnings in consecutive years.

Compared with the second half of the previous year, an increase of approximately 300 million yen in sales and 1.6 billion yen in operating profit would be required, but in terms of sales, demand for office renewals has strengthened nationwide, and the amount of business held is 4.8 percentage points higher than initially expected. In terms of profit, in addition to efforts to improve the gross margin, the effect of the price revision implemented in July is also expected, and the build-up of strategic expenditure that began in the second half of the previous year is also likely to run its course. At present, visibility for the full-year forecast is good.

◇ **Additional points of interest presented at the results briefing**

The names of 20 individual companies that have introduced Data Trekking, which embodies Office 3.0, were introduced. Next, it was explained that, as part of the supply chain reform, Itoki Engineering Service was integrated on 1 July, that the creation of a system to create projects from the upstream would progress, and that, concerning this, the company had won its first major project, which was expected to start contributing to earnings in 4Q. Finally, as examples of new market entries, the release of a dispensing picking system and special doors for disaster prevention shelters is scheduled for the next fiscal year.

◇ **Share price trends and future points of interest**

The company's share price has been on an upward trend since President Minato took over but entered an adjustment phase during the year under review.

However, the enthusiasm for investment in human capital due to the shortage of working people in Japan is qualitatively changing the way offices are being used, and the company's efforts to respond to this by providing enhanced customer value remain firm in the company's approach. The share price will likely return to an uptrend as it becomes more confident that the company will meet its forecasts for the current fiscal year and that its growth strategy for the next fiscal year and beyond will take shape.

2Q results update

Other Products

As of 26 August, 2024

Share price (8/26)

1,345 Yen

52weeks high/low	¥1,062/2,200
Avg Vol (3 month)	349 thou shrs
Market Cap	¥71.8 bn
Enterprise Value	¥79.98 bn
PER (24/12 CE)	9.32 X
PBR (23/12 act)	1.41 X
Dividend Yield (24/12 CE)	4.09 %
ROE (23/12 act)	11.28 %
Operating margin (23/12)	6.4 %
Beta (5Y Monthly)	0.67
Shares Outstanding	53.38 mn shrs
Listed market	TSE Prime section

Share price



	1M%	3M%	12M%
Share price	-10.47	-12.93	0.97
Japan TSE TOPIX	-5.05	-1.92	13.45

Points of interest

In the immediate term, how will the achievement of the FY12/2024 full-year forecasts be assured?

In the medium term, progress in the seven key strategies of the RISE TO GROWTH 2026 medium-term management plan (in particular, capturing and deepening demand for increased office productivity, the Office 3.0 area, the specialised facilities area, maximising Group synergies, strengthening human capital and its results, and further evolution of capital cost management).

In the longer term, the focus will be on the changes in the revenue structure brought about by becoming a partner in improving customers' office productivity and how the company's valuation axes will change as it expands into non-office areas and overseas.

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

Company profile

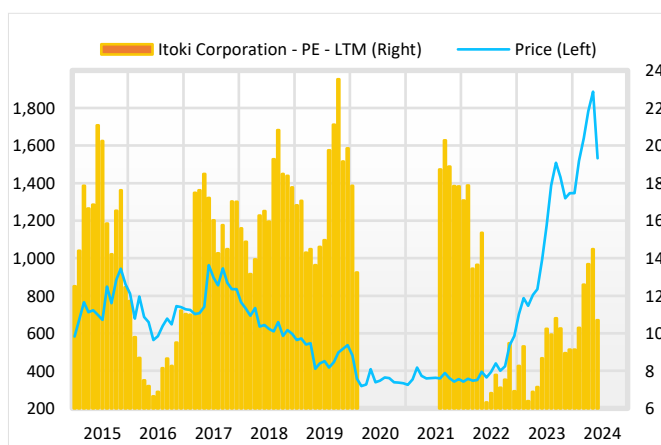
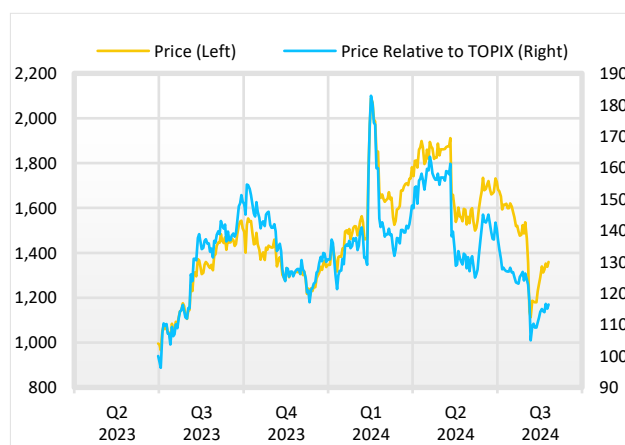
Itoki Corporation (Itoki) is an office furniture manufacturer that designs tomorrow's "workstyles". It was founded in 1890. In addition to office furniture manufacturing, the company is also involved in construction and interior decoration. In 2022, Koji Minato was appointed president, and the company's corporate structure has been transformed under his leadership. The company has advocated Office DX and Office 3.0 and is working to add high value. Under its three-year medium-term management plan, RISE TO GROWTH 2026, which ends in FY2026, the company is promoting the priority strategy '7 Flags' and ESG strategies under the theme of 'enhancing sustainable growth'. The plan aims to achieve sales of 150 billion yen, operating profit of 14 billion yen and ROE of 15% in FY2026.

Key financial data

Unit: million yen	2019/12	2020/12	2021/12	2022/12	2023/12	2024/12 CE
Sales	122,174	116,210	115,905	123,324	132,985	137,500
EBIT (Operating Income)	686	1,585	2,561	4,582	8,524	10,000
Pretax Income	938	1,277	1,523	8,372	8,378	
Net Profit Attributable to Owner of Parent	-550	-235	1,166	5,294	5,905	7,000
Cash & Short-Term Investments	17,030	18,246	17,451	26,976	24,795	
Total assets	108,778	105,096	103,898	115,288	117,437	
Total Debt	17,308	17,308	17,308	17,308	17,308	
Net Debt	-7,487	-7,487	-7,487	-7,487	-7,487	
Total liabilities	62,940	60,901	58,818	65,374	62,434	
Total Shareholders' Equity	54,960	54,960	54,960	54,960	54,960	
Net Operating Cash Flow	3,586	4,561	2,774	5,804	6,321	
Capital Expenditure	3,316	3,316	3,316	3,316	3,316	
Net Investing Cash Flow	-3,221	-1,152	-1,170	4,923	-4,012	
Net Financing Cash Flow	0	-2,267	-2,658	-1,426	-4,148	
Free Cash Flow	3,005	3,005	3,005	3,005	3,005	
ROA (%)	-0.51	-0.22	1.12	4.83	5.08	
ROE (%)	-1.19	-0.53	2.63	11.17	11.27	
EPS (Yen)	-12.1	-5.2	25.8	117.0	130.3	
BPS (Yen)	995.8	970.4	993.9	1,101.3	1,212.0	
Dividend per Share (Yen)	13.00	13.00	15.00	37.00	42.00	
Shares Outstanding (Milion shrs)	45.66	45.66	45.66	45.66	45.66	

Source: Omega Investment from company data, rounded to the nearest whole number.

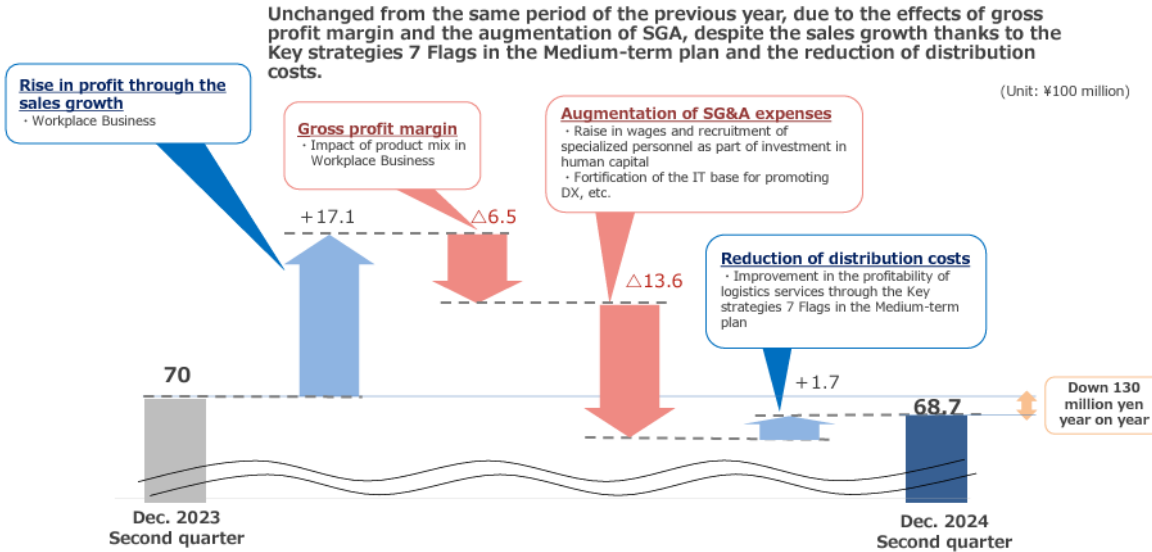
Share price



Quarterly topics

【Analysis of factors contributing to changes in operating profit in the first half of the year】

Factors contributing to changes in operating income (Year-on-year comparison analysis)



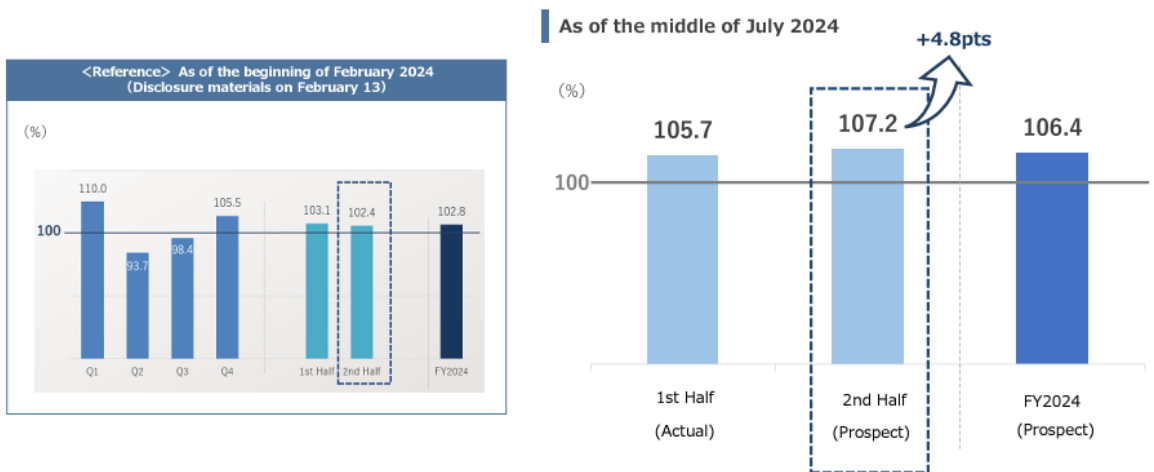
Source: Omega Investment from company materials

【Status of business negotiations in FY2024】

Status of held business negotiations about FY 2024



- Total of workplace business and equipment public business
- ratio of held business negotiations in the current period when the held deal amount for the same period of the previous year is set as 100 : Amount based



Source: Omega Investment from company materials

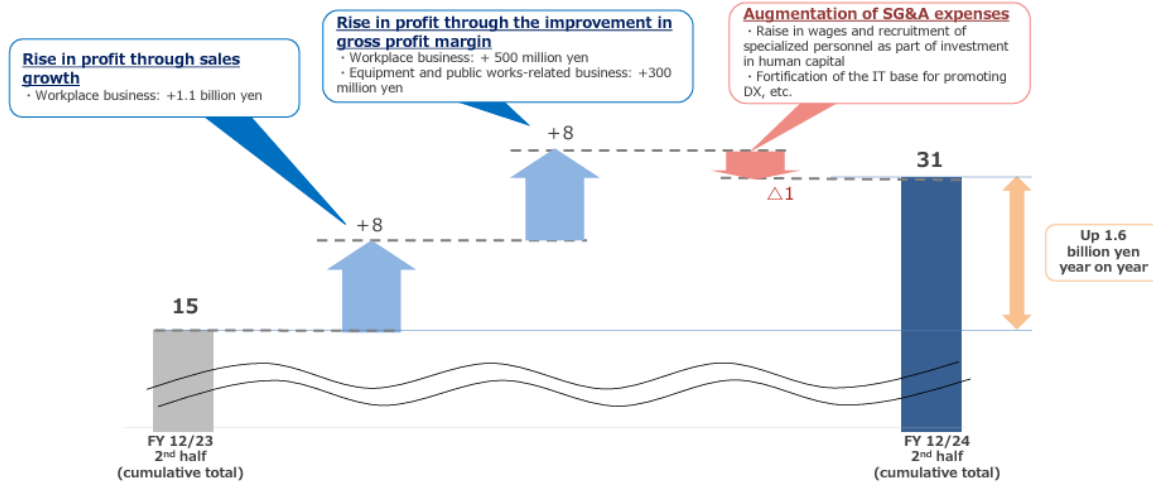
Quarterly topics

【Analysis of factors behind the increase/decrease in operating profit forecast for the second half of the year】

Expected increase/decrease in operating income (from the second half of the previous fiscal year)



[unit: 100 million yen]



Source: Omega Investment from company materials

【Progress of the 7 Flags, the key strategies of the medium-term management plan】

Progress of Key strategies: 7 Flags



7 Flags		First half (one example)	Second half (one example)
01	Office1.0/2.0 domain	<ul style="list-style-type: none"> Exhibition at Orgatec New products 	<ul style="list-style-type: none"> Price revision (July 2024-) Revamping of XORK11F Release of new products (co-working goods, ADDCELL Hexa, etc.) Project for business talks for large-scale projects
02	Office3.0 domain	<ul style="list-style-type: none"> Launch of Data Trekking Cooperation with AKARI Cooperation with RFLocus 	<ul style="list-style-type: none"> Coming Soon !
03	Domain of specialized facilities	<ul style="list-style-type: none"> Strategic strengthening of human resources in the equipment and engineering fields (recruitment of personnel from Hanoi University of Science and Technology) Release of MAGBIT (Dalton) 	<ul style="list-style-type: none"> Coming Soon !
04	Profitability improvement SCM reform Business operation process reform (DX)	<ul style="list-style-type: none"> Start of a project for developing a next-generation production system (restructuring of the production system) Start of a project for reforming the logistics system Start of a project for reforming the engineering system Acquisition of Soua (to strengthen the logistics system) Preparation for IES integration & establishment of the engineering department (streamlining through organizational reform) 	<ul style="list-style-type: none"> Start of ERP (marketing) Coming Soon !
05	Synergy among group companies	<ul style="list-style-type: none"> Start of a project for structural reform of Dalton Acquisition of Soua (the same as *04) (Reduction of cash outflow from the group) Start of discussions on the in-house manufacturing of Dalton products 	<ul style="list-style-type: none"> Start of ERP (marketing) Coming Soon !
06	Human capital	<ul style="list-style-type: none"> Forming a partnership with Hanoi University of Science and Technology Hanoi, acceptance of interns July: conclusion of a memorandum for advanced non-Japanese personnel with Shiga Prefecture Renovation of Kyobashi CLK Renovation of Nagoya Office Update of our website Group-wide meeting with 1,000 participants 	<ul style="list-style-type: none"> Revamping of XORK11F Selectable training (for each organization) Enrichment of the talent management system Strengthening of the talent pool for female managers Appropriate staffing through the transfer among group companies (enhancement of recruitment and utilization of seniors)
07	Financial strategy	<ul style="list-style-type: none"> Sale of assets for non-business purposes Start of provision of shareholder benefits 	<ul style="list-style-type: none"> Securing of various options for fund procurement

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Source: Omega Investment from company materials

Financial data (quarterly basis)

Unit: million yen	2022/12			2023/12				2024/12	
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
(Income Statement)									
Sales	28,411	26,205	33,363	36,965	31,225	28,667	36,128	40,918	31,592
Year-on-year	-3.6%	16.9%	4.7%	4.6%	9.9%	9.4%	8.3%	10.7%	1.2%
Cost of Goods Sold (COGS)	18,030	16,679	21,384	22,216	18,955	17,483	22,090	24,545	19,888
Gross Income	10,381	9,526	11,979	14,749	12,270	11,184	14,038	16,373	11,704
Gross Income Margin	36.5%	36.4%	35.9%	39.9%	39.3%	39.0%	38.9%	40.0%	37.0%
SG&A Expense	9,973	9,812	11,484	9,970	10,047	11,006	12,694	10,333	10,878
EBIT (Operating Income)	408	-286	495	4,779	2,223	178	1,344	6,040	826
Year-on-year	-68.0%	-77.0%	-40.3%	20.5%	444.9%	-162.2%	171.5%	26.4%	-62.8%
Operating Income Margin	1.4%	-1.1%	1.5%	12.9%	7.1%	0.6%	3.7%	14.8%	2.6%
EBITDA	1,189	556	1,342	5,522	2,906	910	2,079	6,753	1,582
Pretax Income	516	-211	3,351	4,804	2,275	363	936	6,006	1,328
Consolidated Net Income	269	-190	1,767	3,297	1,411	202	997	4,104	985
Minority Interest	-18	-32	-10	1	0	0	0	2	1
Net Income ATOP	288	-159	1,777	3,296	1,411	202	996	4,101	985
Year-on-year	-17.2%	-89.0%	462.3%	-2.7%	389.9%	-227.0%	-44.0%	24.4%	-30.2%
Net Income Margin	1.0%	-0.6%	5.3%	8.9%	4.5%	0.7%	2.8%	10.0%	3.1%
(Balance Sheet)									
Cash & Short-Term Investments	20,173	17,238	26,976	20,908	24,788	23,292	24,795	24,751	28,513
Total assets	111,492	108,000	115,288	115,841	111,693	111,573	117,437	127,459	120,701
Total Debt	19,150	19,004	19,487	18,387	17,361	17,342	17,308	38,662	41,566
Net Debt	-1,023	1,766	-7,489	-2,521	-7,427	-5,950	-7,487	13,911	13,053
Total liabilities	63,154	59,831	65,374	64,090	58,270	57,730	62,434	81,595	73,584
Total Shareholders' Equity	48,254	48,117	49,871	51,709	53,379	53,800	54,960	45,818	47,068
(Profitability %)									
ROA	2.37	3.66	4.83	4.49	5.67	6.09	5.08	5.52	5.41
ROE	5.48	8.28	11.17	10.45	12.45	13.12	11.27	13.76	12.51
(Per-share) Unit: JPY									
EPS	6.4	-3.5	39.2	72.8	31.1	4.5	22.0	85.7	19.1
BPS	1,067.4	1,062.6	1,101.3	1,141.9	1,177.1	1,186.4	1,212.0	933.1	956.6
Dividend per Share	15.00	15.00	37.00	37.00	37.00	37.00	42.00	42.00	42.00
Shares Outstanding (million shrs)	45.66	45.66	45.66	45.66	45.66	45.66	45.66	53.38	53.38

Source: Omega Investment from company materials

Financial data (full-year basis)

Unit: million yen	2013/12	2014/12	2015/12	2016/12	2017/12	2018/12	2019/12	2020/12	2021/12	2022/12	2023/12
(Income Statement)											
Sales	103,461	102,993	106,516	101,684	108,684	118,700	122,174	116,210	115,905	123,324	132,985
Year-on-year	-1.9%	-0.5%	3.4%	-4.5%	6.9%	9.2%	2.9%	-4.9%	-0.3%	6.4%	7.8%
Cost of Goods Sold	67,182	66,858	68,424	65,071	70,012	77,479	80,712	74,536	74,186	77,575	80,744
Gross Income	36,279	36,135	38,092	36,613	38,672	41,221	41,462	41,674	41,719	45,749	52,241
Gross Income Margin	35.1%	35.1%	35.8%	36.0%	35.6%	34.7%	33.9%	35.9%	36.0%	37.1%	39.3%
SG&A Expense	32,204	33,711	33,949	33,862	35,761	39,336	40,776	40,089	39,158	41,167	43,717
EBIT (Operating Income)	4,075	2,424	4,143	2,751	2,911	1,885	686	1,585	2,561	4,582	8,524
Year-on-year	20.7%	-40.5%	70.9%	-33.6%	5.8%	-35.2%	-63.6%	131.0%	61.6%	78.9%	86.0%
Operating Income Margin	3.9%	2.4%	3.9%	2.7%	2.7%	1.6%	0.6%	1.4%	2.2%	3.7%	6.4%
EBITDA	6,735	5,055	6,551	5,316	5,551	4,615	4,436	5,603	6,148	7,821	11,417
Pretax Income	4,872	3,171	4,246	2,918	3,401	3,083	938	1,277	1,523	8,372	8,378
Consolidated Net Income	3,995	2,355	4,631	1,850	2,442	1,744	-579	-355	933	5,181	5,907
Minority Interest	85	195	101	-56	40	19	-28	-119	-233	-113	1
Net Income ATOP	3,910	2,160	4,530	1,907	2,402	1,725	-550	-235	1,166	5,294	5,905
Year-on-year	44.7%	-44.8%	109.7%	-57.9%	26.0%	-28.2%	-131.9%	-57.3%	-596.2%	354.0%	11.5%
Net Income Margin	3.8%	2.1%	4.3%	1.9%	2.2%	1.5%	-0.5%	-0.2%	1.0%	4.3%	4.4%
(Balance Sheet)											
Cash & Short-Term Investments	19,630	22,132	21,533	19,839	19,977	16,529	17,030	18,246	17,451	26,976	24,795
Total assets	95,261	96,721	98,175	95,681	102,451	108,710	108,778	105,096	103,898	115,288	117,437
Total Debt	19,285	18,916	18,927	19,931	17,892	16,834	22,166	21,742	20,091	19,487	17,308
Net Debt	-345	-3,216	-2,606	92	-2,085	305	5,136	3,496	2,640	-7,489	-7,487
Total liabilities	52,235	53,532	50,864	50,275	54,997	61,200	62,940	60,901	58,818	65,374	62,434
Total Shareholders' Equity	41,079	41,632	45,677	44,949	46,863	46,857	45,370	43,812	44,931	49,871	54,960
(Cash Flow)											
Net Operating Cash Flow	3,162	5,715	4,522	5,073	3,565	1,384	3,586	4,561	2,774	5,804	6,321
Capital Expenditure	2,800	1,400	1,114	1,641	1,333	3,477	3,226	1,729	2,110	4,145	3,316
Net Investing Cash Flow	-1,978	-1,742	-803	-4,044	-2,971	-3,094	-3,221	-1,152	-1,170	4,923	-4,012
Net Financing Cash Flow	51	-2,179	-3,807	-2,571	-706	-2,463	0	-2,267	-2,658	-1,426	-4,148
Free Cash Flow	362	4,315	3,408	3,664	2,342	-1,924	635	2,832	664	1,659	3,005
(Profitability %)											
ROA	4.24	2.25	4.65	1.97	2.42	1.63	-0.51	-0.22	1.12	4.83	5.08
ROE	10.15	5.22	10.38	4.21	5.23	3.68	-1.19	-0.53	2.63	11.17	11.27
(Per-share) Unit: JPY											
EPS	78.2	42.8	91.6	40.1	52.7	37.8	-12.1	-5.2	25.8	117.0	130.3
BPS	814.8	825.8	953.5	986.8	1,028.9	1,027.4	995.8	970.4	993.9	1,101.3	1,212.0
Dividend per Share	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	15.00	37.00	42.00
Shares Outstanding (million shrs)	52.14	52.14	52.14	52.14	52.14	45.61	45.66	45.66	45.66	45.66	45.66

Source: Omega Investment from company materials



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