Financial Review

Operating Results

Overview

In the fiscal year ended March 31, 2023, SECOM CO., LTD. and its consolidated subsidiaries (collectively, "the Company") sought to provide high-quality services and products that respond to the diverse needs of customers in its core security services segment, as well as in its fire protection services, medical services, insurance services, geospatial information services, BPO and ICT services, and other services segments.

Consolidated net sales and operating revenue for the period under review amounted to ¥1,227.3 billion, up 5.2%, or ¥61.2 billion, from the previous fiscal year, owing to contributions from Senon, which became a consolidated subsidiary in July 2022, and to increases in all segments except fire protection services. Operating income declined 6.9%, or ¥10.9 billion, to ¥145.6 billion, owing to the fact that the security services and fire protection services segments benefited from comparatively profitable projects in the preceding period, as well as to investments in growth, primarily in the security services segment, an increase in losses due to natural disasters in the insurance services segment and an elevated fuel cost adjustment unit price in the BPO and ICT services segment. Net income attributable to SECOM CO., LTD., rose 3.6%, or ¥3.8 billion, to ¥111.6 billion, reflecting factors such as increases in gain on private equity investments and equity in net income of affiliated companies.

Net Sales and Operating Revenue

Consolidated net sales and operating revenue in the period under review amounted to ¥1,227.3 billion, up 5.2%, or ¥61.2 billion, owing to contributions from Senon, which became a consolidated subsidiary in July 2022, and to increases in all segments except fire protection services. (For further information, please see Segment Information below.)

Costs and Expenses

Total costs and expenses advanced 7.1%, or ¥72.1 billion, to ¥1,081.8 billion. Cost of sales, at ¥861.8 billion, rose 7.4%, or ¥59.4 billion. This accounted for 70.2% of net sales and operating revenue, up from 68.8%, boosted by higher cost of sales ratios in the insurance services and the BPO and ICT services segments, attributable to, respectively, increased losses due to natural disasters and rising electric power charges due to an elevated fuel cost adjustment unit price. Selling, general and administrative (SG&A) expenses, rose 5.8%, or ¥11.8 billion, to ¥216.0 billion, and represented 17.6% of net sales and operating revenue, up from 17.5%. Impairment loss on long-lived assets climbed ¥2.5 billion, to ¥2.6 billion, owing to, among others, the recognition of impairment losses on ground systems related to the failure to launch of an advanced optical satellite in the geospatial information services segment. However, because losses related to the satellite's failure to launch are covered by insurance, a related insurance payout will be reported in the fiscal year ending March 31, 2024. Impairment loss on goodwill increased ¥1.2 billion, to ¥1.5 billion. The Company also posted a ¥173 million gain on sales and disposal of fixed assets, net, compared with a ¥2.7 billion loss in the preceding period.

Operating Income

Operating income declined 6.9%, or ¥10.9 billion, to ¥145.6 billion, owing mainly to decreases in the security services, fire protection services, medical services, insurance services, and BPO and ICT services segments. The operating margin fell to 11.9%, down from 13.4%. (For further information, please see Segment Information below.)

Other Income and Expenses

Other income rose ¥10.4 billion, to ¥20.0 billion. In contrast, other expenses decreased ¥1.8 billion, to ¥2.6 billion. Net other income thus amounted to ¥17.4 billion, advancing ¥12.2 billion. This was due largely to an ¥11.8 billion gain on private equity investments, up ¥8.7 billion.

Income Taxes

Income taxes amounted to ¥49.5 billion, an increase of ¥292 million. This was equivalent to 30.3% of income from continuing operations before income taxes and equity in net income of affiliated companies, compared with 30.4% in the preceding period.

Equity in Net Income of Affiliated Companies

Equity in net income of affiliated companies rose ¥1.5 billion, to ¥8.2 billion. This primarily reflected higher equity in net income of such companies overseas.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests slipped ¥1.3 billion, to ¥10.1 billion, hindered mainly by decreases in operating income in the fire protection services and the BPO and ICT services segments, as well as to the fact that Secom Joshinetsu became a wholly owned subsidiary in the preceding period.

Net Income Attributable to SECOM CO., LTD.

Net income attributable to SECOM CO., LTD., advanced 3.6%, or ¥3.8 billion, to ¥111.6 billion, equivalent to 9.1% of net sales and operating revenue, edging down from 9.2%. Net income attributable to SECOM CO., LTD., per share was ¥516.68, up from ¥492.83. The figure of ¥180.00 for cash dividends per share that appears in the consolidated financial statements represents cash dividends approved and paid to shareholders during the period under review, namely, a ¥90.00 per share year-end dividend for the fiscal year ended March 31, 2022, approved at the Ordinary General Meeting of Shareholders held on June 28, 2022, and a ¥90.00 per share interim dividend determined by the Board of Directors and paid to shareholders of record as of September 30, 2022. The year-end cash dividend for the fiscal year ended March 31, 2023, approved at the Ordinary General Meeting of Shareholders held on June 27, 2023, was ¥95.00 per share.

Segment Information

Security Services

Security services include electronic security services, which center on on-line security systems, other security services, and merchandise and other. In the fiscal year ended March 31, 2023, net sales and operating revenue in this segment rose 5.9%, or ¥33.6 billion, from the previous fiscal year, to ¥600.3 billion. Excluding intersegment transactions, segment net sales and operating revenue totaled ¥597.1 billion, representing 48.6% of overall net sales and operating revenue, up from 48.3%.

Electronic security services generated net sales and operating revenue of ¥357.0 billion, up 2.4%, or ¥8.2 billion. This primarily reflected an increase in sales by overseas Group companies and the impact of currency exchange rates on these sales, contributions from newly consolidated subsidiary Senon and firm sales of on-line commercial and home security systems in Japan. Other security services include static guard and armored car services. Sales and operating revenue from static guard services, which are provided by highly trained professional security guards for systems requiring human judgment and flexible responsiveness, rose 18.2%, or ¥13.7 billion, to ¥89.2 billion. This was despite a negative rebound after the Company's provision of security services for competition venues and other facilities for the Olympic and Paralympic Games Tokyo 2020, held in the preceding period, and was thanks to the inclusion of the results of Senon, among others. Net sales and operating revenue from armored car services, which involve the transport of cash, securities and other valuables using specially fitted armored cars and security professionals, edged up 0.7%, or ¥453 million, to ¥62.9 billion. Merchandise and other, which includes security camera systems, access control systems, automated fire extinguishing systems and external monitoring systems that can be freestanding or linked to on-line security systems, generated net sales and operating revenue of ¥88.0 billion, an increase of 14.3%, or ¥11.0 billion, underpinned by robust sales-type leases of large-scale security systems in Japan and rising sales of such systems overseas.

Operating income in the security services segment declined 3.5%, or ¥4.0 billion, to ¥109.4 billion. The operating margin slipped to 18.2%, from 20.0%. Principal factors behind these results included comparatively profitable projects in the preceding period; higher SG&A expenses, attributable to investments in growth; and a ¥1.0 billion increase in impairment loss on goodwill, to ¥1.1 billion.

Fire Protection Services

The fire protection services segment focuses on high-grade, tailored automatic fire alarm systems, fire extinguishing systems and other fire protection systems for a wide range of applications, including office buildings, production facilities, tunnels, cultural properties, ships and homes. In the period under review, the segment's core companies, Nohmi Bosai and Nittan, leaders in Japan's fire protection services market, sought to leverage their respective operating foundations, product development capabilities and other strengths to secure orders.

Segment net sales and operating revenue was ¥148.8 billion, a decline of 2.2%, or ¥3.3 billion, primarily reflecting the absence of major projects that benefited the segment in the preceding period. Owing to the concentration of comparatively profitable projects in the preceding period, among others, segment operating income declined 20.4%, or ¥3.0 billion, to ¥11.6 billion, while the operating margin was 7.8%, down from 9.5%.

Medical Services

Medical services include the provision of home nursing services, pharmaceutical dispensing services, support for affiliated medical institutions in Japan, sales of medical equipment, the operation of a general hospital in India, the operation of residences for seniors and other personal care services, health and preventative care services, and ICT-based medical services, notably electronic medical report systems. The operations of variable interest entities (VIEs) of which the Company is the primary beneficiary, which manage hospitals and health care–related institutions, are also accounted for in this segment.

Net sales and operating revenue in this segment edged up 0.2%, or ¥423 million, to ¥196.5 billion. This was despite deteriorating revenue at affiliated hospitals in Japan and lower sales in the pharmaceutical dispensing services business, the latter due to the revision of drug reimbursement prices under the country's National Health Insurance system, and reflected, among others, an increase in patient numbers at the Company's general hospital in India. Owing to factors such as declining profits at domestic affiliated hospitals, operating income fell 23.0%, or ¥3.1 billion, to ¥10.5 billion. The operating margin was 5.3%, down from 7.0%.

Insurance Services

The insurance services segment continued to expand sales of an extensive lineup of distinctive non-life insurance policies, including the Security Discount Fire Policy, a commercial fire insurance policy, and SECOM *Anshin* My Home, a comprehensive fire insurance policy for homes (both of which extend discounts on premiums to customers who have installed on-line security systems, recognizing this as a risk-mitigating factor), the MEDCOM unrestricted cancer treatment policy, which covers the entire cost of medical treatment for cancer, and SECOM *Anshin* My Car, a comprehensive automobile insurance policy that offers on-site support services provided by SECOM emergency response personnel should the policyholders be involved in an accident.

Segment net sales and operating revenue rose 12.7%, or ¥7.0 billion, to ¥61.9 billion, owing to firm sales of MEDCOM, as well as to net realized investment gains (including gains on other-than-temporary impairments of investment securities) of ¥5.0 billion, compared with net realized investment losses of ¥1.2 billion in the previous fiscal year. Operating income, at ¥7.1 billion, was down 17.0%, or ¥1.5 billion, owing to an increase in losses due to natural disasters, although this was partially offset by the aforementioned net realized investment gains.

Geospatial Information Services

Geospatial information services center on the collection of geographic data using commercial satellites, aircraft and surveying with proprietary vehicles, among others, which is integrated, processed and analyzed to provide geospatial information services to public-sector entities—including national and local governments—and customers in the private sector in Japan. These services are also offered to government agencies overseas.

Net sales and operating revenue in this segment advanced 10.2%, or ¥5.7 billion, to ¥62.3 billion, primarily reflecting higher revenue from domestic public sector entities and overseas customers. Despite an increase in impairment loss on long-lived assets, operating income climbed 49.9%, or ¥1.9 billion, to ¥5.8 billion, thanks to an improvement in the cost of sales ratio for services provided to domestic public-sector entities. The operating margin rose to 9.3%, from 6.8%.

BPO and ICT Services

BPO and ICT services, which focus on the provision of data center services, also encompass distinctively SECOM BCP support, information security and cloud-based services, and BPO services, which include the operation of contact centers.

Segment net sales and operating revenue rose 11.3%, or ¥14.1 billion, to ¥138.9 billion, as revenue advanced in the BPO services business—underpinned by the expansion of services related to COVID-19, the cultivation of new customers and expanded orders from existing customers—and in the data center services business. Operating income declined 10.0%, or ¥1.5 billion, to ¥13.1 billion, notwithstanding the positive impact of higher net sales and operating revenue, as an elevated fuel cost adjustment unit price pushed up costs in data center services. The operating margin declined to 9.4%, from 11.7%.

Other services

The other services segment provides real estate leasing, as well as construction and installation services. The vehicle fleet operation services business of Senon, which became a consolidated subsidiary in July 2022, is also accounted for in this segment. Net sales and operating revenue in this segment rose 16.1%, or ¥5.7 billion, to ¥41.1 billion, with contributing factors including the consolidation of Senon. Operating income advanced 22.9%, or ¥1.4 billion, to ¥7.5 billion, while the operating margin was 18.3%, up from ¥17.3%.

Financial Position

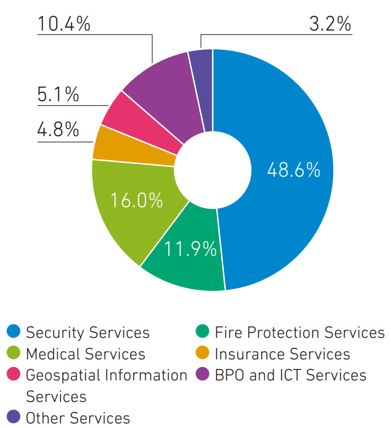
Total assets as of March 31, 2023, amounted to ¥2,277.4 billion, an increase of ¥93.9 billion from the end of the previous fiscal year. Total current assets rose ¥9.8 billion, to ¥1,036.5 billion, and accounted for 45.5% of total assets. The current ratio was 2.4 times, level with the end of the previous fiscal year.

Cash and cash equivalents, the principal component of current assets, was ¥524.8 billion, down ¥6.8 billion. (For further information, please see Cash Flows, which follows this section.) Notes and accounts receivable, trade, increased ¥7.5 billion, to ¥172.9 billion, a result of such factors as higher net sales and operating revenue in the geospatial information services segment. Notes and accounts receivable, trade, are affected by the fact that net sales and operating revenue in the fire protection services and geospatial information services segments tends to be concentrated toward the end of the fiscal year. Cash deposits for armored car services declined ¥1.0 billion, to ¥135.5 billion. These cash deposits are funded largely through bank overdrafts and deposits and their use by the Company is restricted. Inventories, at ¥46.8 billion, were up ¥8.6 billion, owing primarily to steps taken to expand inventories of components for fire protection services–related products to circumvent procurement difficulties.

Investments and long-term receivables, at ¥383.7 billion, advanced ¥34.2 billion, and represented 16.8% of total assets. This was due mainly to investment securities of ¥235.0 billion, an increase of ¥20.0 billion, bolstered by a gain on private equity investments, and to investments in affiliated companies of ¥79.6 billion, up ¥8.0 billion, thanks to strong performances by overseas affiliated companies combined with yen depreciation.

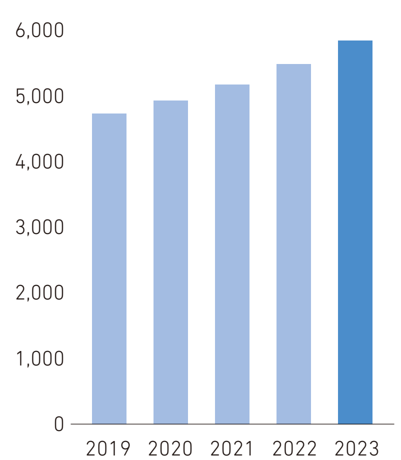
Property, plant and equipment, less accumulated depreciation, rose ¥11.2 billion, to ¥436.0 billion, accounting for 19.1% of total assets. This largely reflected a ¥10.8 billion increase in construction in progress, to ¥20.6 billion, underpinned by investments in the construction of new data centers.

Percentage of Consolidated Net Sales and Operating Revenue*
(Year ended March 31, 2023)

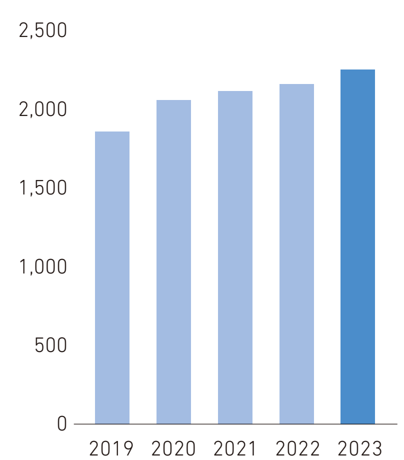


*Pie chart shows percentage of consolidated net sales and operating revenue (excluding intersegment transactions)

SECOM CO., LTD. Shareholders' Equity per Share
(In yen)



Total Assets
(In billions of yen)



Other assets climbed ¥38.7 billion, to ¥421.1 billion, equivalent to 18.5% of total assets, a consequence primarily of the acquisition of Senon, which boosted goodwill ¥32.0 billion, to ¥141.6 billion, and other intangible assets ¥7.1 billion, to ¥65.7 billion.

Total liabilities as of March 31, 2023, amounted to ¥841.9 billion, up ¥3.4 billion, and represented 37.0% of total liabilities and equity. Total current liabilities rose ¥14.9 billion, to ¥434.1 billion, accounting for 19.1% of total liabilities and equity. This was due mainly to an increase in other current liabilities of ¥13.9 billion, to ¥44.5 billion, reflecting higher payables for the purchase of equipment for the construction of new data centers. Total long-term liabilities declined ¥11.6 billion, to ¥407.8 billion, equivalent to 17.9% of total liabilities and equity.

Total SECOM CO., LTD. shareholders' equity advanced ¥57.7 billion, to ¥1,267.2 billion, lifting the equity ratio to 55.6%, from 55.4% a year earlier. Retained earnings rose ¥72.4 billion, to ¥1,212.3 billion, with contributing factors including net income attributable to SECOM CO., LTD., and the payment of dividends. As a result of yen depreciation, foreign currency translation adjustments climbed ¥16.1 billion, to ¥19.0 billion, boosting accumulated other comprehensive income by ¥14.9 billion, to ¥23.6 billion. Common stock in treasury, at cost, was ¥109.2 billion, an increase of ¥29.8 billion, owing to the purchase of treasury stock on the open market. Noncontrolling interests, at ¥168.3 billion, were up ¥32.9 billion, equivalent to 7.4% of total liabilities and equity, a consequence primarily of the acquisition of Senon.

Cash Flows

The Company is committed to maintaining sufficient liquidity to allow flexibility in its operations and ensure a solid financial foundation. To the best of its ability, the Company is also firmly committed to financing strategic investments with cash generated by its operating activities.

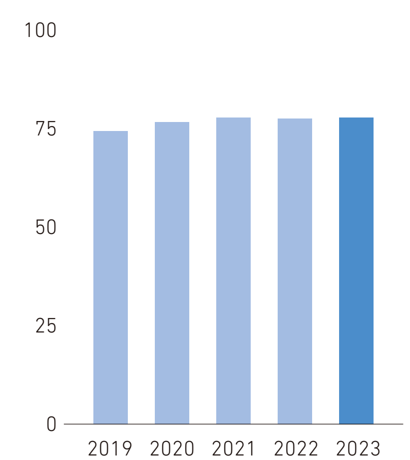
In the fiscal year ended March 31, 2023, net cash provided by operating activities amounted to ¥156.2 billion. Principal components of this included net income of ¥121.7 billion, and depreciation and amortization, including amortization of deferred charges, of ¥78.7 billion. Key negative adjustments included a gain on private equity investments of ¥11.8 billion, equity in net income of affiliated companies of ¥8.2 billion, an increase in inventories of ¥9.0 billion and an increase in deferred charges of ¥8.0 billion. Net cash provided by operating activities was down ¥29.1 billion from the fiscal year ended March 31, 2022, with major causes including a decline in operating income and a ¥4.0 billion decrease in accrued income taxes, compared with a ¥4.0 billion increase in the preceding period.

Net cash used in investing activities was ¥77.3 billion. The main applications of cash included payments for purchases of property, plant and equipment of ¥52.8 billion, used primarily for purchases of equipment necessitated by expanded subscriptions for security services; and acquisitions, net of cash acquired, of ¥18.9 billion, a consequence primarily of the acquisition of Senon. With the principal contributing factor being the aforementioned ¥18.9 billion applied to acquisitions, net of cash acquired, net cash used in investing activities was up ¥17.0 billion from the previous fiscal year, when there were no acquisitions. Investments in the insurance services segment and private equity investments in the United States yielded net proceeds from sales and redemptions of investment securities of ¥1.9 billion, up from ¥1.6 billion.

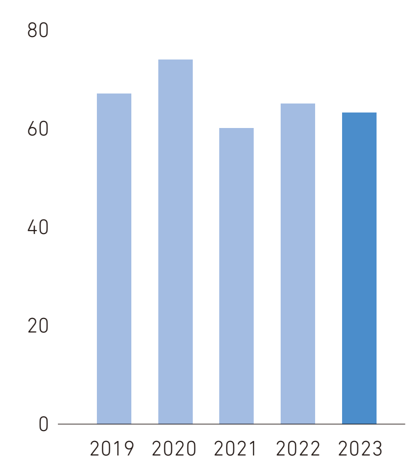
Net cash used in financing activities amounted to ¥87.2 billion. This was due mainly to dividends paid to SECOM CO., LTD. shareholders of ¥39.1 billion, an increase in treasury stock, net, of ¥29.8 billion attributable to the purchase of treasury stock on the open market, and repayments of long-term debt of ¥16.7 billion. Net cash used in financing activities was down ¥10.1 billion from the previous fiscal year, despite the increase in treasury stock, net, largely reflecting the absence of ¥28.6 billion in payments for acquisition of shares of consolidated subsidiaries from noncontrolling interest holders in the preceding period, mainly in relation to the acquisition of the ownership interests of Secom Joshinetsu via a tender offer.

Owing to the Company's operating, investing and financing activities in the period under review, cash and cash equivalents at end of year amounted to ¥524.8 billion, down ¥6.8 billion from cash and cash equivalents at beginning of year of ¥531.6 billion.

Depreciation and Amortization
(In billions of yen)



Purchases of Property, Plant and Equipment and Intangible Assets
(In billions of yen)



Cash Flows
(In billions of yen)