Financial Review

Operating Results

Overview

In the fiscal year ended March 31, 2021, 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 real estate and other services segments.

Notwithstanding the negative impact of COVID-19 in certain areas of the security services, fire protection services and medical services segments, consolidated net sales and operating revenue in the period under review edged up 0.2%, or ¥2.7 billion, to ¥1,135.3 billion, and operating income rose 4.8%, or ¥6.2 billion, to ¥135.8 billion. This was due to an increase in the BPO and ICT services segment and to net realized investment gains (including a gain on other-than-temporary impairment of investment securities) in the insurance services segment, compared with net realized investment losses in the previous fiscal year. Despite a loss from discontinued operations, net of tax, net income attributable to SECOM CO., LTD., advanced 3.2%, or ¥2.8 billion, to ¥89.9 billion, underpinned by an increase in operating income, as well as by a gain on other-than-temporary impairment of investment securities, compared with a loss in the preceding period.

Net Sales and Operating Revenue

Consolidated net sales and operating revenue in the period under review edged up 0.2%, or ¥2.7 billion, to ¥1,135.3 billion, notwithstanding the negative impact of the pandemic on certain areas of the fire protection services, security services and medical services segments, and reflected an increase in the BPO and ICT services segment, together with net realized investment gains (including a gain on other-than-temporary impairment of investment securities) in the insurance services segment, compared with net realized investment losses in the previous fiscal year. (For further information, please see Segment Information below.)

Costs and Expenses

Total costs and expenses slipped 0.3%, or ¥3.5 billion, to ¥999.5 billion. Cost of sales was down 0.6%, or ¥5.0 billion, to ¥790.3 billion, and was equivalent to 69.6% of net sales and operating revenue, compared with 70.2% in the preceding period. Contributing factors included net realized investment gains (including a gain on other-than-temporary impairment of investment securities) in the insurance services segment, as well as an increase in net sales and operating revenue and a decrease in the cost of sales ratio—attributable to the presence of profitable projects—in the BPO and ICT services segment.

Selling, general and administrative (SG&A) expenses, at ¥201.7 billion, were down 0.7%, or ¥1.5 billion, and equivalent to 17.8% of net sales and operating revenue, slightly better than the previous fiscal year's 17.9%, reflecting cost-cutting efforts and the voluntary suspension of business travel as a measure to prevent the spread of COVID-19, among others. The Company also reported an impairment loss on goodwill (in the security services business) of ¥5.7 billion, up ¥4.9 billion. In contrast, impairment loss on long-lived assets fell ¥857 million, to ¥95 million, and loss on sales and disposal of fixed assets, net, slipped ¥990 million, to ¥1.8 billion.

Operating Income

Operating income rose 4.8%, or ¥6.2 billion, to ¥135.8 billion, as favorable results in the insurance services, BPO and ICT services, and geospatial information services segments outweighed declines in the security services, fire protection services and medical services segments, while corporate expenses and eliminations decreased. The operating margin improved to 12.0%, from 11.4%. (For further information, please see Segment Information below.)

Other Income and Expenses

Other income increased ¥2.3 billion, to ¥12.1 billion, while other expenses fell ¥3.6 billion, to ¥2.8 billion. Net other income thus amounted to ¥9.3 billion, up ¥5.9 billion. This was primarily attributable to a more encouraging investment environment, as a consequence of which the Company reported a gain on other-than-temporary impairment of investment securities of ¥4.6 billion, compared with a loss on other-than-temporary impairment of investment securities of ¥3.7 billion in the preceding period. The Company had also reported a ¥2.3 billion gain on sales of securities, net, in the previous fiscal year, as the result of the sale of a U.S. subsidiary in the geospatial information services business.

Income Taxes

Income taxes amounted to ¥47.6 billion, up ¥6.8 billion, owing to higher income from continuing operations before income taxes and equity in net income of affiliated companies, as well as to an increase in the income tax expense rate, reflecting the increase in impairment loss on goodwill. This was equivalent to 32.8% of income from continuing operations before income taxes and equity in net income of affiliated companies, compared with 30.7% in the preceding period.

Equity in Net Income of Affiliated Companies

Equity in net income of affiliated companies edged down ¥76 million, to ¥6.6 billion.

Loss from Discontinued Operations, Net of Tax

In December 2020, all issued shares in consolidated subsidiary Secom Home Life Co., Ltd., were transferred to a third party. As a consequence, Secom Home Life and its subsidiary, previously included in the real estate and other, and security services segments, were excluded from the scope of consolidation and their operations classified as discontinued. Accordingly, the operating results of these companies are reported in income (loss) from discontinued operations. Figures for prior periods have been restated. As a consequence of this and other factors, loss from discontinued operations, net of tax, in the period under review was ¥2.6 billion, compared with income from discontinued operations, net of tax, of ¥975 million in the preceding period.

Net Income Attributable to Noncontrolling Interests
Net income attributable to noncontrolling interests declined ¥1.0 billion, to ¥11.6 billion. The principal factor behind this result was a decrease in operating income in the fire protection services segment.

Net Income Attributable to SECOM CO., LTD.
Net income attributable to SECOM CO., LTD., advanced 3.2%, or ¥2.8 billion, to ¥89.9 billion, equivalent to 7.9% of net sales, rising from 7.7% in the preceding period. Net income attributable to SECOM CO., LTD., per share was ¥411.95, up from ¥399.23. The figure of ¥170.00 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, an ¥85.00 per share year-end dividend for the fiscal year ended March 31, 2020, approved at the Ordinary General Meeting of Shareholders held on June 25, 2020, and an ¥85.00 per share interim dividend determined by the Board of Directors and paid to shareholders of record as of September 30, 2020. Cash dividends for the fiscal year ended March 31, 2021, approved at the Ordinary General Meeting of Shareholders held on June 25, 2021, were also ¥85.00 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, 2021, net sales and operating income in this segment declined 1.2%, or ¥7.0 billion, to ¥566.4 billion. Excluding intersegment transactions, segment net sales and operating income were ¥563.3 billion, representing 49.6% of overall net sales and operating revenue, down from 50.3% in the previous fiscal year.

In addition to on-line commercial and home security systems, electronic security services include large-scale proprietary security systems, which focus on surveillance at subscribers' premises. On-line commercial and home security systems use sensors, controllers and other equipment installed at subscribers' premises to detect events, including intrusions, fires and equipment malfunctions. Equipment is linked to a SECOM control center via telecommunications circuits to facilitate around-the-clock monitoring. Should an irregularity be detected, relevant information is relayed to the control center, where staff dispatch emergency response personnel to take appropriate measures. If necessary, control center staff also notify the police, fire department or other emergency services.

The Company employs a rental format, whereby it maintains ownership of security equipment and provides it to subscribers on a rental basis. This minimizes initial costs for subscribers and guarantees the quality and stability of its services. The initial contract period for security services is five years, with contracts renewed automatically each subsequent year. Depreciation for security equipment is computed using the declining balance method principally over five years.

The Company takes full responsibility for all aspects of its on-line commercial and home security systems, from R&D through to equipment manufacturing, security planning, installation, around-the-clock monitoring, emergency response services and equipment maintenance. This integrated approach leverages the Company's half-century-plus of experience and knowhow in providing electronic security services, together with its R&D team's ability to recognize and address false alarms, to ensure highly efficient operations.

Net sales and operating income from electronic security services edged up 0.1%, or ¥198 million, to ¥347.4 billion. In overseas markets, net sales and operating income in this category fell, hindered by the spread of COVID-19 and a weak yen. In contrast, net sales and operating income in this category in Japan rose, underpinned by increased sales of high-value-added on-line security systems such as System Security AZ, which boasts superb expandability, as well as peripheral services, and of SECOM Home Security NEO and other home security services that address growing needs for help in caring for vulnerable members of society.

Other security services include static guard and armored car services. Net sales and operating revenue generated by static guard services, which are provided by highly trained professional security guards for systems requiring human judgment and flexible responsiveness, decreased 1.0%, or ¥684 million, to ¥69.4 billion. Armored car services, which involve the transport of cash, securities and other valuables using specially fitted armored cars and security professionals, generated net sales and operating revenue of ¥62.8 billion, down 1.2%, or ¥761 million, mainly due to changes in the operations of financial institutions.

The merchandise and other category encompasses a wide range of security products, including security camera systems, access control systems, automated fire extinguishing systems and external monitoring systems, which can be freestanding or linked to on-line security systems. Net sales and operating revenue in this category declined 6.1%, or ¥5.4 billion, to ¥83.7 billion, largely owing to the negative impact of the pandemic on merchandise turnover.

Operating income in the security services segment decreased 5.6%, or ¥6.1 billion, to ¥102.6 billion. The operating margin was 18.1%, slipping from 18.9% in the preceding period. These results mainly reflected an impairment loss on goodwill of ¥5.7 billion, up ¥4.9 billion, and lower sales in the merchandise and other category.

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, plants, tunnels, cultural properties, ships and residences. In the period under review, Nohmi Bosai and Nittan, two of Japan's leading domestic fire protection services providers, sought to leverage their respective business foundations and product development capabilities to secure orders.

Net sales and operating revenue in this segment declined 7.7%, or ¥12.0 billion, to ¥143.9 billion. Principal factors behind this result included the impact of COVID-19 and the fact that major projects had pushed up results in the previous fiscal year. Operating income fell 26.5%, or ¥4.7 billion, to ¥13.1 billion, reflecting the absence of the concentrated number of profitable projects that had buoyed results in the preceding period. The operating margin was 9.1%, down from 11.4%.

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 services, which include electronic medical report systems. Additionally, this segment includes the operations of variable interest entities (VIEs) of which the Company is the primary beneficiary, which manage hospitals and health care–related institutions.

Segment net sales and operating revenue, at ¥182.8 billion, was down 2.4%, or ¥4.5 billion. This was primarily due to a decline in the number of patients at affiliated medical institutions, a consequence of the pandemic, which hindered net sales and operating revenue of VIEs, as well as a reduction in revenue reported by a hospital operated by the Company in India. Operating income fell 36.8%, or ¥2.3 billion, to ¥3.9 billion, while the operating margin decreased to 2.2%, from 3.3% in the previous fiscal year.

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—and SECOM *Anshin* My Car, a comprehensive automobile insurance policy that offers onsite support services provided by SECOM emergency response personnel should the policyholders be involved in an accident, and MEDCOM, an unrestricted cancer treatment policy that covers the entire cost of medical treatment for cancer.

Net sales and operating revenue in this segment climbed 30.8%, or ¥14.4 billion, to ¥61.4 billion, bolstered by brisk sales of MEDCOM and automobile insurance policies, as well as by net realized investment gains (including gains on other-than-temporary impairments of investment securities) of ¥7.7 billion, compared with net realized investment losses of ¥4.1 billion in the preceding period. Thanks to net realized investment gains, the segment reported operating income of ¥9.3 billion, compared with an operating loss of ¥4.3 billion.

Geospatial Information Services
The geospatial information services segment centers on the collection of geographic data using commercial satellites, aircraft and surveying using 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. Segment net sales and operating revenue edged up 0.7%, or ¥376 million, to ¥54.1 billion, bolstered by an increase in revenue from domestic public-sector customers, to which the provision of surveying services employing aerial lasers expanded. Operating income climbed 46.6%, or ¥1.4 billion, to ¥4.4 billion, while the operating margin rose to 8.2%, from 5.6%, owing mainly to an improvement in the cost of sales ratio in the area of services for domestic public-sector customers, a result of higher revenue and enhanced production efficiency, as well as to declines in SG&A expenses attributable to the optimization of services for overseas customers and efforts to adapt sales processes to a remote environment.

BPO and ICT Services
BPO and ICT services, which focus on the provision of data center services, also encompass distinctively SECOM BCP support, telework support, information security and cloud-based services, and BPO services, which include the operation of contact centers. Net sales and operating revenue in this segment advanced 7.6%, or ¥8.4 billion, to ¥119.3 billion, thanks principally to special demand associated with COVID-19 and expanded revenue in the area of BPO services, underpinned by efforts to cultivate customers, and in the data center services business. Operating income, at ¥13.6 billion, increased 28.4%, or ¥3.0 billion, while the operating margin rose to 11.4%, from 9.6%, reflecting an improvement in the cost of sales ratio, with contributing factors including higher net sales and operating revenue in the data center business, and a number of profitable BPO services projects.

Real Estate and Other Services
The real estate and other services segment comprises real estate leasing, construction, installation and other services. Segment net sales and operating revenue was down 7.1%, or ¥2.1 billion, to ¥28.1 billion, owing to a decrease in major construction projects and the absence of real estate sales that boosted results in the preceding period, among others. Operating income was up 1.6%, or ¥86 million, to ¥5.4 billion, reflecting an improvement in the cost of sales ratio in the area of maintenance services. The operating margin improved to 19.3%, from 17.6%.

Financial Position

Total assets as of March 31, 2021, amounted to ¥2,137.8 billion, an increase of ¥56.7 billion from the end of the previous fiscal year. Total current assets climbed ¥35.0 billion, to ¥979.4 billion, and accounted for 45.8% of total assets. The current ratio was 2.3 times, compared with 2.2 times a year earlier. Current assets included cash and cash equivalents of ¥502.2 billion, up ¥87.5 billion. (For further information, please see Cash Flows, which follows this section.) Notes and accounts receivable, trade, at ¥153.4 billion, were down ¥13.2 billion, owing to such factors as a decline in net sales and operating revenue in the fire protection services segment. Notes and accounts receivable, trade, are affected by the fact that income in the fire protection services and geospatial information services businesses tends to be concentrated toward the end of the fiscal year. Cash deposits for armored car services decreased ¥2.0 billion, to ¥138.9 billion. These cash deposits are funded primarily through bank overdrafts and deposits and their use by the Company is restricted. Inventories fell ¥24.5 billion, to ¥31.8 billion, a consequence of the exclusion of consolidated real estate development and sales subsidiary Secom Home Life, all issued shares in which were transferred to a third party.

Investments and long-term receivables, at ¥347.7 billion, rose ¥22.4 billion, and represented 16.3% of total assets. Investment securities advanced ¥19.3 billion, to ¥214.1 billion. The key factor behind this was the purchase of new corporate bonds and other debt securities following the redemption and sales of the corporate bonds and other debt securities due within one year.

Property, plant and equipment, less accumulated depreciation, amounted to ¥429.1 billion, an increase of ¥3.6 billion. This accounted for 20.1% of total assets.

Other assets decreased ¥4.2 billion, to ¥381.6 billion, and were equivalent to 17.8% of total assets. Owing to an improvement in the investment environment, prepaid pension and severance costs rose ¥7.7 billion, to ¥39.5 billion. In contrast, deferred income taxes fell ¥6.4 billion, to ¥19.3 billion, and long-term deferred charges declined ¥3.1 billion, to ¥13.9 billion.

Until the fiscal year ended March 31, 2020, all costs related to installation services for security equipment used in the provision of on-line security systems were included in deferred charges in other assets. Effective from the fiscal year ended March 31, 2021, the portion of these costs to be amortized within one year was shifted to short-term deferred charges in current assets. (For further information, please see note 2 (13) of Notes to Consolidated Financial Statements.)

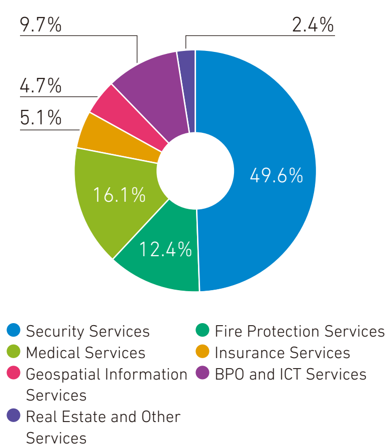
Total liabilities as of March 31, 2021, were ¥846.7 billion, a decrease of ¥7.1 billion from a year earlier, and represented 39.6% of total liabilities and equity. Total current liabilities, at ¥420.0 billion, were down ¥11.2 billion and accounted for 19.6% of total liabilities and equity. This primarily reflected a ¥5.2 billion decline in bank loans, to ¥33.9 billion, due mainly to a reduction in bank loans related to armored car services, and a ¥4.2 billion decrease in notes and accounts payable, trade, to ¥44.3 billion.

Total long-term liabilities rose ¥4.1 billion, to ¥426.7 billion, equivalent to 20.0% of total liabilities and equity. This was due to a ¥9.2 billion increase in long-term debt, to ¥53.5 billion, largely the result of an increase in long-term debt held by VIEs managing hospitals and other healthcare-related institutions.

Until the fiscal year ended March 31, 2020, lump-sum payments for residences for seniors were presented as guarantee deposits in long-term liabilities. Effective from the fiscal year ended March 31, 2021, these payments are included in long-term deferred revenue in long-term liabilities. (For further information, please note 2 (26) of Notes to Consolidated Financial Statements.)

Percentage of Consolidated Net Sales and Operating Revenue*

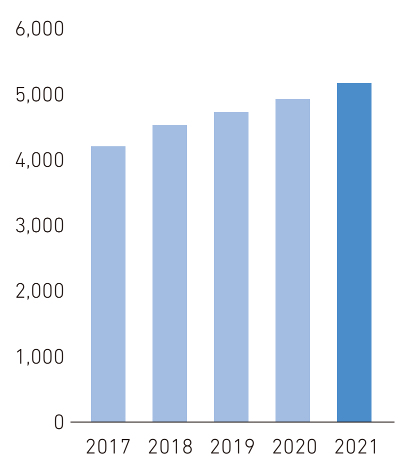
(Year ended March 31, 2021)



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

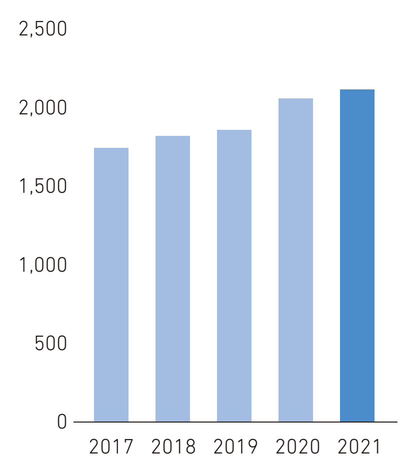
SECOM CO., LTD. Shareholders' Equity per Share

(In yen)



Total Assets

(In billions of yen)



Total SECOM CO., LTD. shareholders' equity advanced ¥53.6 billion, to ¥1,142.3 billion. Retained earnings rose ¥52.8 billion, to ¥1,070.4 billion, owing primarily to net income attributable to SECOM CO., LTD., and the payment of dividends. As a consequence, the equity ratio was 53.4%, up from 52.3% at the previous fiscal year-end.

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, 2021, net cash provided by operating activities amounted to ¥188.7 billion. The principal components of this were net income of ¥101.5 billion and depreciation and amortization, including amortization of deferred charges—a non-cash item—of ¥78.7 billion. Net cash provided by operating activities was ¥4.3 billion higher than in the fiscal year ended March 31, 2020, as a decrease in receivables and due from subscribers, net of allowances, of ¥14.3 billion, compared with an increase of ¥10.6 billion in the preceding period, pushed up cash provided by operating activities, while an increase in inventories of ¥787 million, compared with a decrease of ¥9.3 billion, and decreases in notes and accounts payable and accrued income taxes of ¥4.1 billion and ¥935 million, respectively, compared with increases of ¥2.4 billion and ¥5.1 billion in the previous fiscal year boosted cash used in operating activities.

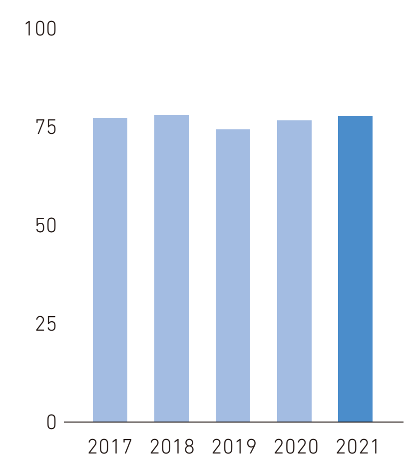
Net cash used in investing activities was ¥52.9 billion. The main applications of cash were payments for purchases of property, plant and equipment of ¥50.1 billion, applied to purchases of equipment necessitated by rising security services subscriptions; payments for purchases of intangible assets of ¥10.7 billion; and acquisitions, net of cash acquired, of ¥7.1 billion. In contrast, cash proceeds from sale of subsidiaries, net of cash and cash equivalents disposed of, provided ¥14.6 billion. Net cash used in investing activities was down ¥13.7 billion from the previous fiscal year, with contributing factors including a ¥13.0 billion decline in payments for purchases of property, plant and equipment, and a ¥12.0 billion increase in proceeds from sale of subsidiaries, net of cash and cash equivalents disposed of. In contrast, cash used for acquisitions, net of cash acquired, was up ¥6.4 billion. Investments in the insurance services segment and private equity investments in the United States yielded an increase in net proceeds from sales and redemptions of investment securities of ¥1.1 billion, down from ¥3.6 billion.

Net cash used in financing activities amounted to ¥47.7 billion, mainly reflecting dividends paid to SECOM CO., LTD. shareholders of ¥37.1 billion. Net cash used in financing activities was ¥5.2 billion less than in the preceding period, due principally to higher net proceeds from long-term debt in the medical services segment.

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 ¥502.2 billion, up ¥87.5 billion from cash equivalents at beginning of year, which were ¥414.7 billion.

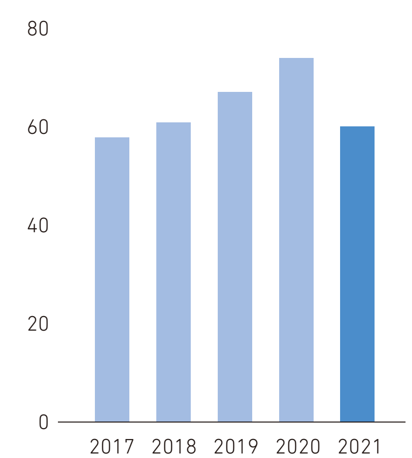
Depreciation and Amortization

(In billions of yen)



Purchases of Property, Plant and Equipment and Intangible Assets

(In billions of yen)



Cash Flows

(In billions of yen)