

Financial Review

Operating Results

Overview

In the fiscal year ended March 31, 2024, 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 ¥1,283.9 billion, up 4.6%, or ¥56.6 billion, from the previous fiscal year, reflecting, among others, an increase in sales and operating revenue in the area of electronic security services and contributions from Senon, which became a consolidated subsidiary in July 2022, and increases in the fire protection services segment, bolstered by firm orders, and the insurance services segment, owing to a higher gain on other-than-temporary impairment of investment securities. Operating income rose 6.5%, or ¥9.4 billion, to ¥155.0 billion, as the higher gain on other-than-temporary impairment of investment securities in the insurance services segment combined with a decline in losses due to natural disasters to push up operating income in the insurance services segment, while firm orders and systematic price adjustments underpinned results in the fire protection services segment. Net income attributable to SECOM CO., LTD., advanced 12.8%, or ¥14.3 billion, to ¥125.9 billion, thanks to the operating income gain, as well as other factors such as elevated gains on other-than-temporary impairment of investment securities and private equity investments.

Net Sales and Operating Revenue

Net sales and operating revenue for the period under review amounted to ¥1,283.9 billion, up 4.6%, or ¥56.6 billion, reflecting, among others, an increase in sales and operating revenue in the area of electronic security services and contributions from Senon, which became a consolidated subsidiary in July 2022, as well as increases in the fire protection services segment, bolstered by firm orders, and the insurance services segment, owing to a higher gain on other-than-temporary impairment of investment securities. (For further information, please see Segment Information below.)

Costs and Expenses

Total costs and expenses rose 4.4%, or ¥47.2 billion, to ¥1,128.9 billion. Cost of sales, at ¥891.1 billion, was up 3.4%, or ¥29.3 billion, and accounted for 69.4% of net sales and operating revenue, down from 70.2%. This decrease was despite higher personnel expenses, primarily in the security services segment, and was due mainly to a higher gain on other-than-temporary impairment of investment securities in the insurance services segment. Selling, general and administrative (SG&A) expenses rose 5.8%, or ¥12.5 billion, to ¥228.5 billion, and represented 17.8% of net sales and operating revenue, up from 17.6%. Impairment loss on long-lived assets climbed ¥1.8 billion, to ¥4.4 billion. Impairment loss on goodwill advanced ¥2.9 billion, to ¥4.4 billion, a consequence of the recognition of impairment

losses on goodwill in the security services segment overseas and the real estate leasing business in Japan. The Company also posted a ¥496 million loss on sales and disposal of fixed assets, net, compared with a ¥173 million gain in the preceding period.

Operating Income

Operating income rose 6.5%, or ¥9.4 billion, to ¥155.0 billion, as a higher gain on other-than-temporary impairment of investment securities and a decline in losses due to natural disasters pushed up operating income in the insurance services segment, while steady orders and systematic price adjustments underpinned a rise in the fire protection services segment. The operating margin was 12.1%, up from 11.9%. (For further information, please see Segment Information below.)

Other Income and Expenses

Other income rose ¥19.1 billion, to ¥39.1 billion. Other expenses advanced ¥772 million, to ¥3.4 billion. Net other income thus amounted to ¥35.7 billion, up ¥18.3 billion. This was attributable largely to elevated gains on other-than-temporary impairment of investment securities of ¥9.8 billion, up ¥9.3 billion, and on private equity investments of ¥18.2 billion, an increase of ¥6.4 billion, against a backdrop of firm stock market conditions.

Income Taxes

Income taxes amounted to ¥58.2 billion, an increase of ¥8.8 billion. This was equivalent to 30.5% of income from continuing operations before income taxes and equity in net income of affiliated companies, compared with 30.3% in the previous fiscal year.

Equity in Net Income of Affiliated Companies

Equity in net income of affiliated companies rose ¥1.8 billion, to ¥10.0 billion. This chiefly reflected higher equity in net income of such companies overseas.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests, at ¥16.6 billion, was up ¥6.5 billion, owing principally to higher operating income in the fire protection services and insurance services segments, and in the data center services component of the BPO and ICT services segment, as well as to an elevated gain on private equity investments.

Net Income Attributable to SECOM CO., LTD.

Net income attributable to SECOM CO., LTD., advanced 12.8%, or ¥14.3 billion, to ¥125.9 billion, and accounted for 9.8% of net sales and operating revenue, up from 9.1%. Net income attributable to SECOM CO., LTD., per share rose to ¥595.19, from ¥516.68.

The figure of ¥190.00 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 ¥95.00 per share year-end dividend for the fiscal year ended March 31, 2023, approved at the Ordinary General Meeting of Shareholders held on June 27, 2023, and a ¥95.00 per share interim dividend determined by the Board of Directors and paid to shareholders of record as of

September 30, 2023. The year-end cash dividend for the fiscal year ended March 31, 2024, approved at the Ordinary General Meeting of Shareholders held on June 25, 2024, 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, 2024, net sales and operating revenue in this segment rose 4.3%, or ¥26.0 billion, from the preceding period, to ¥626.3 billion. Excluding intersegment transactions, segment net sales and operating revenue totaled ¥623.1 billion, and was equivalent to 48.5% of overall net sales and operating revenue, down from 48.6%.

Net sales and operating revenue in the area of electronic security services totaled ¥366.0 billion, up 2.5%, or ¥9.0 billion. This primarily reflected higher sales of on-line commercial and home security systems in Japan, due in part to the positive impact of the first increase in subscription fees for home security systems, as well as expanded sales by overseas Group companies and the impact of exchange rates on these sales.

Other security services include static guard and armored car services. Static guard services, which depend on human judgment and flexible responsiveness and are provided by highly trained professional guards, generated net sales and operating revenue of ¥100.1 billion, an increase of 12.2%, or ¥10.9 billion, underpinned by the inclusion of a full year of results for Senon, which became a consolidated subsidiary in July 2022. Net sales and operating revenue from armored car services, which involve the safe and reliable transport of cash, securities and other valuables using specially fitted armored cars and security professionals, rose 3.9%, or ¥2.4 billion, to ¥65.4 billion, owing to a higher contract volume and equipment upgrades associated with the printing of new banknotes.

In 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, net sales and operating revenue amounted to ¥91.7 billion, up 4.2% or ¥3.7 billion, buttressed by robust sales of merchandise, notably security camera systems, in Japan.

Operating income in this segment declined 1.7%, or ¥1.9 billion, to ¥107.5 billion. The operating margin slipped to 17.2%, from 18.2%. Principal factors behind these results included higher personnel expenses, attributable to an annual base salary increase implemented in response to socioeconomic change, combined with one-time outlays, including demolition costs associated with the rebuilding of facilities.

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 ¥163.9 billion, an increase of 10.1%, or ¥15.1 billion, a consequence mainly of higher sales of fire alarm systems and fire extinguishing systems. Owing to improved margins on fire alarm systems, among others, operating income advanced 32.2%, or ¥3.7 billion, to ¥15.3 billion. The operating margin was 9.3%, up from 7.8%.

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 other health care-related institutions in Japan, are also accounted for in this segment.

Net sales and operating revenue in this segment slipped 1.8%, or ¥3.6 billion, to ¥192.9 billion. This was despite higher revenue at the Company's general hospital in India and expanded sales in the pharmaceutical dispensing services business, and reflected deteriorating revenue at affiliated hospitals in Japan. Depressed by factors such as declining profits at domestic affiliated hospitals, attributable to falling revenue, as well as by increases in impairment loss on long-lived assets and impairment loss on goodwill, operating income fell 92.6%, or ¥9.7 billion, to ¥782 million. The operating margin fell to 0.4%, from 5.3%.

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 advanced 25.8%, or ¥16.0 billion, to ¥77.9 billion, owing largely to firm sales of MEDCOM and other offerings, as well as to net realized investment gains (including gains and losses on other-than-temporary impairments) of ¥19.1 billion, up 285.8%, or ¥14.2 billion. Operating income soared 274.8%, or ¥19.5 billion, to ¥26.6 billion, chiefly reflecting a decline in losses due to natural disasters and 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 slipped 2.6%, or ¥1.6 billion, to ¥60.7 billion, a consequence principally of reduced revenue from domestic public- and private-sector customers. Despite a decrease in impairment loss on long-lived assets, lower net sales and operating revenue combined with an increase in SG&A expenses, owing to higher personnel expenses, pushed operating income down 12.5%, or ¥727 million, to ¥5.1 billion. The operating margin dipped to 8.4%, from 9.3%.

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 edged up 1.0%, or ¥1.4 billion, to ¥140.3 billion. This was despite a decline in revenue in the BPO services business, owing to the cessation or scaling back of services related to COVID-19, and reflected firm results in the data center services business, as well as higher sales of products to SECOM Group companies. Operating income shrank 2.8%, or ¥364 million, to ¥12.7 billion, notwithstanding an improved cost margin in the data center business, thanks to a decrease in utility costs and a review of contracts, as shrinking revenue pushed down operating income in the BPO services business and impairment losses worsened. The operating margin edged down to 9.1%, from 9.4%.

Other services

The other services segment provides real estate leasing, as well as construction and installation services.. Net sales and operating revenue in this segment rose 12.4%, or ¥5.1 billion, to

¥46.2 billion, underpinned by the inclusion of a full year of results for Senon, which became a consolidated subsidiary in July 2022, and the divestiture of certain real estate for lease. Nonetheless, operating income fell 15.1%, or ¥1.1 billion, to ¥6.4 billion, bolstered by the recognition of impairment loss on goodwill of ¥1.8 billion in the real estate leasing business. The operating margin was 13.8%, down from 18.3%.

Financial Position

Total assets as of March 31, 2024, amounted to ¥2,378.1 billion, an increase of ¥100.7 billion, from the end of the previous fiscal year. Total current assets, at ¥964.3 billion, were down ¥72.2 billion, and represented 40.6% of total assets. The current ratio was 2.2 times, compared with 2.4 times at the end of the preceding period.

Cash and cash equivalents, the principal component of current assets, was ¥435.7 billion, a decline of ¥89.0 billion. (For further information, please see Cash Flows, which follows this section.) Notes and accounts receivable, trade, rose ¥5.3 billion, to ¥178.3 billion, a result of such factors as higher net sales and operating revenue in the fire protection services segment and the progress of major projects 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 and deposits for armored car services rose ¥3.1 billion, to ¥138.6 billion. Cash and deposits for this purpose are funded primarily through bank overdrafts and deposits and their use by the Company is restricted. Inventories, at ¥52.5 billion, were up ¥5.8 billion, owing mainly to the expansion of inventories necessitated by higher sales of merchandise and an increase in net sales and operating revenue in the fire protection services segment.

Investments and long-term receivables, climbed ¥131.0 billion, to ¥514.7 billion, and accounted for 21.6% of total assets. This was due largely to investments in affiliated companies of ¥151.6 billion, up ¥72.0 billion, and investment securities of ¥291.7 billion, up ¥56.7 billion, both reflecting investments in ARTERIA Networks in Japan, and Eagle Eye Networks and Brivo

in the United States, as well as elevated gains on other-than-temporary impairment of investment securities and on private equity investments.

Property, plant and equipment, less accumulated depreciation, rose ¥27.4 billion, to ¥463.5 billion, and represented 19.5% of total assets. This was due chiefly to increases in construction in progress related to the opening of new data centers, and in security equipment and control stations.

Other assets rose ¥14.5 billion, to ¥435.6 billion, equivalent to 18.3% of total assets. This was a consequence primarily of a ¥14.0 billion rise in prepaid pension and severance costs, to ¥69.6 billion, owing to an increase in return on plan assets.

Total liabilities as of March 31, 2024, amounted to ¥862.8 billion, up ¥20.9 billion, accounting for 36.3% of total liabilities and equity. Total current liabilities rose ¥2.1 billion, to ¥436.2 billion, and represented 18.3% of total liabilities and equity. Total long-term liabilities advanced ¥18.7 billion, to ¥426.5 billion, equivalent to 17.9% of total liabilities and equity, owing chiefly to ¥34.4 billion in deferred income taxes, up ¥14.2 billion, owing to elevated gains on other-than-temporary impairment of investment securities and on private equity investments.

Total SECOM CO., LTD. shareholders' equity advanced ¥61.8 billion, to ¥1,329.0 billion, lifting the equity ratio to 55.9%, from 55.6% a year earlier. Retained earnings rose ¥85.2 billion, to ¥1,297.5 billion, with contributing factors including net income attributable to SECOM CO., LTD., and the payment of dividends. Owing to a weaker yen, foreign currency translation adjustments climbed ¥11.3 billion, to ¥30.3 billion, as a consequence of which accumulated other comprehensive income was up ¥18.9 billion, to ¥42.5 billion. Common stock in treasury, at cost, increased ¥40.8 billion, to ¥150.0 billion, owing to the purchase of treasury stock on the open market.

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, 2024, net cash provided by operating activities amounted to ¥179.9 billion. Principal components of this included net income of ¥142.5 billion, and an adjustment for depreciation and amortization, including amortization of deferred charges, of ¥81.0 billion. Key negative adjustments included a gain on other-than-temporary impairment of investment securities of ¥26.6 billion and a gain on private equity investments of ¥18.2 billion. Net cash provided by operating activities was up ¥23.7 billion from the fiscal year ended March 31, 2023, despite a ¥24.0 billion higher gain on other-than-temporary impairment of investment securities, thanks principally to the ¥20.8 billion increase in net income, a ¥7.4 billion increase in deposits received, including cash deposits for armored car services, compared with a ¥99 million decrease in the previous fiscal year, and a ¥3.4 billion increase in accrued income taxes, compared with a ¥4.0 billion decrease in the preceding period.

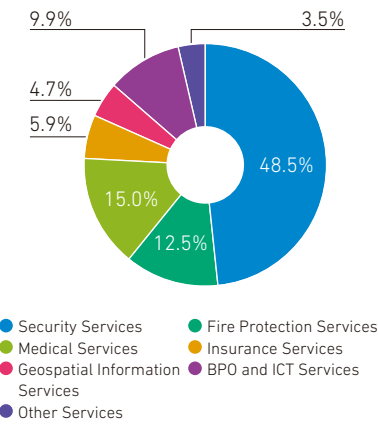
Net cash used in investing activities was ¥169.0 billion. The principal applications of cash included payments for purchases of investment securities of ¥93.9 billion and payments for purchases of property, plant and equipment of ¥85.6 billion, the latter related to the acquisition of security equipment and control stations and of equipment for newly built data centers. Net cash used in investing activities was ¥91.7 billion higher than in the preceding period, bolstered by the ¥45.1 billion surge in payments for purchases of investment securities, reflecting investments in ARTERIA Networks in Japan, and Eagle Eye Networks and Brivo in the United States, and the ¥32.7 billion rise in payments for purchases of property, plant and equipment.

Net cash used in financing activities amounted to ¥102.5 billion. This was due mainly to an increase in treasury stock, net, of ¥44.0 billion, dividends paid to SECOM CO., LTD. shareholders of ¥40.5 billion, and repayments of long-term debt of ¥15.1 billion. Net cash used in financing activities rose ¥15.3 billion from the previous fiscal year, a consequence largely of the ¥14.2 billion increase in treasury stock, net.

Owing to the Company's operating, investing and financing activities in the period under review, cash and cash equivalents at end of year totaled ¥435.7 billion, down ¥89.0 billion from cash equivalents at beginning of year of ¥524.8 billion.

Percentage of Consolidated Net Sales and Operating Revenue\*

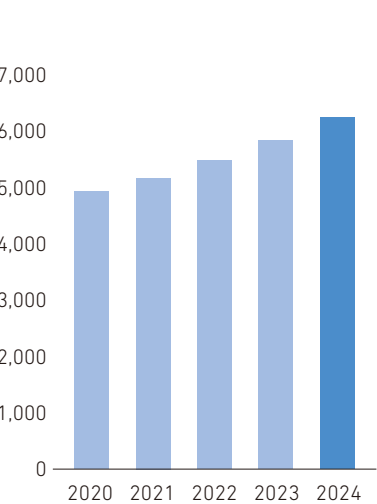
(Year ended March 31, 2024)



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

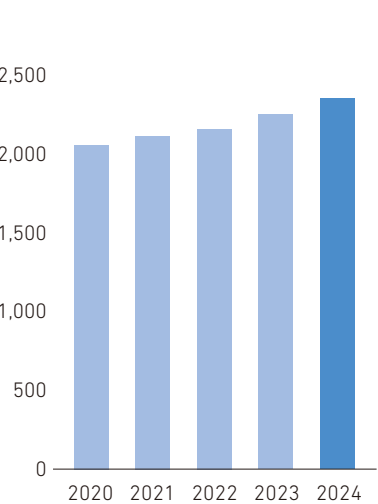
SECOM CO., LTD. Shareholders' Equity per Share

(In yen)



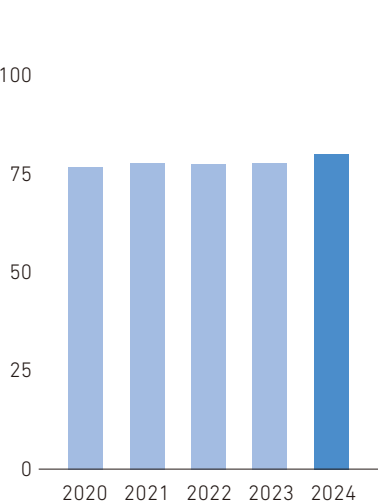
Total Assets

(In billions of yen)



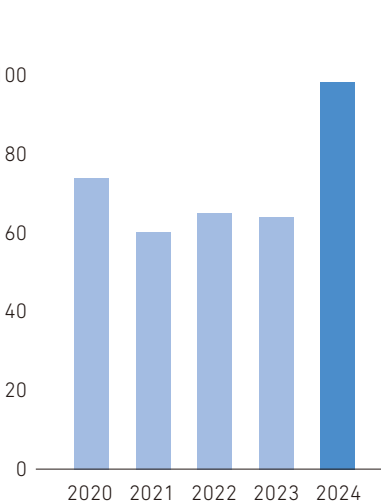
Depreciation and Amortization

(In billions of yen)



Purchases of Property, Plant and Equipment and Intangible Assets

(In billions of yen)



Cash Flows

(In billions of yen)

