

November 28th, 2023

SUNCORPORATION

Securities code: 6736

Year Ending March 31st, 2024 – Q2

Financial Results Explanatory Material





SUNCORPORATION's Business

Management Philosophy

MISSION

MISSION

Resolving social issues with
SUNCORPORATION's technologies

Management
philosophy

Making people happy through telecommunication
& entertainment

VALUES

Corporate philosophy

**“Maintaining the spirit of a venture
company”**

Company slogan

Dreams, Challenges and Creations

Guidelines for Action

- View success as the starting point for new success
- Treat improvement and elimination of waste as permanent issues
- Progress stops the moment you say “this is fine”
- Don't be satisfied with yesterday's success
- The moment you succeed is exactly when you should reflect on your actions

Developing the Business in Three Segments Revolving around Technology



Global Data Intelligence (digital intelligence)

- Developing and selling mobile forensic equipment
- Selling mobile data backup solutions for mobile phone shops



Entertainment (amusement machines and games)

Amusement machines

- Planning, developing, and manufacturing amusement machines
- Developing video content for amusement machines

Games

- Developing and selling game content



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Ikki Unite distributed on Steam
©SUNSOFT



New IT-Related (M2M/IoT)

- Developing, manufacturing, and selling industrial communications equipment and IoT solutions
- Developing and selling B2B operational support solutions using SmartGlass



Domestic Business Growth along with Accelerated Global Expansion Since the Early 1990s



1971
Establishment of SUNCORPORATION



1985
Development of family-oriented software
Launch of SUNSOFT series



1985
Development and release of SUNCORPORATION brand modem, My Loopier 300



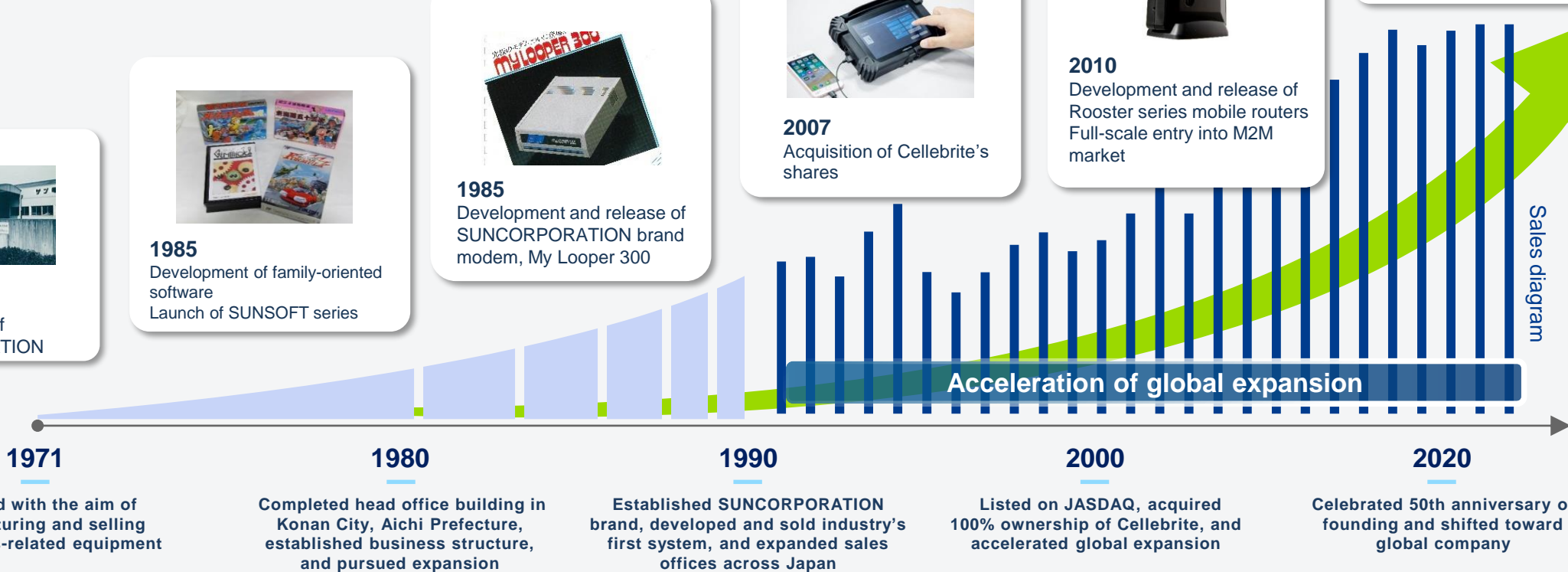
2007
Acquisition of Cellebrite's shares



2010
Development and release of Rooster series mobile routers
Full-scale entry into M2M market



2020
Launch of AceReal for docomo, a remote operation support solution using 5G and AR SmartGlass



SUNCORPORATION's Global Business

Growing through businesses that are not limited to specific areas by combining technologies and expertise developed in domestic businesses with new technologies and talent exchange acquired globally



Financial Highlights for Q2 of the Year Ending March 31st, 2024

While unit sales are recovering due to the resolution of the semiconductor shortage, the impact of increased raw material costs is significant and operating profit is sluggish as a result

POINT 1

Revenue ¥ **4,648** million
from sales
(vs. plan: 43 %)

While sales increased with the resolution of the semiconductor shortage, sales of control boards decreased due to a slump in pachinko machine operation

POINT 2

Operating ¥ **71** million
profit
(vs. plan: 13 %)

The worsening cost price due to increased raw material costs had a significant impact, and increased outsourcing expenses also impacted operating profit

(Unit: million yen)	September 2023 Actual	FY Ending March 2024 Plan Progress Rate	FY Ending March 2024 Plan	FY Ending March 2024 Forecast	FY Ending March 2025 Plan
Sales	4,648	43%	10,800	10,000 to 11,000	13,300
Operating profit	71	13%	560	10 to 100	1,680
Operating profit margin (%)	1.5%	2.88%	5.2%	-	12.6%



Relationship with Cellebrite (Performance)

Profit or loss on valuation occurring due to the Cellebrite shares we own has an impact on SUNCORPORATION's performance (ordinary profit, current net income)



Relationship with Cellebrite (Business)

Driving domestic forensic products and digital intelligence market Supplying related products, training, and services





- Developing and selling our own related products, such as F-Note, for the Japanese market
- Providing original training for forensic product users to the market

Strengths acquired from selling forensic products on the Japanese market

Experience and expertise in rapid, targeted development of cutting-edge forensic products and technologies for the Japanese market

UFED Ultra
System that facilitates digital investigation agencies' legal access to mobile phones of all kinds and collection of digital evidence

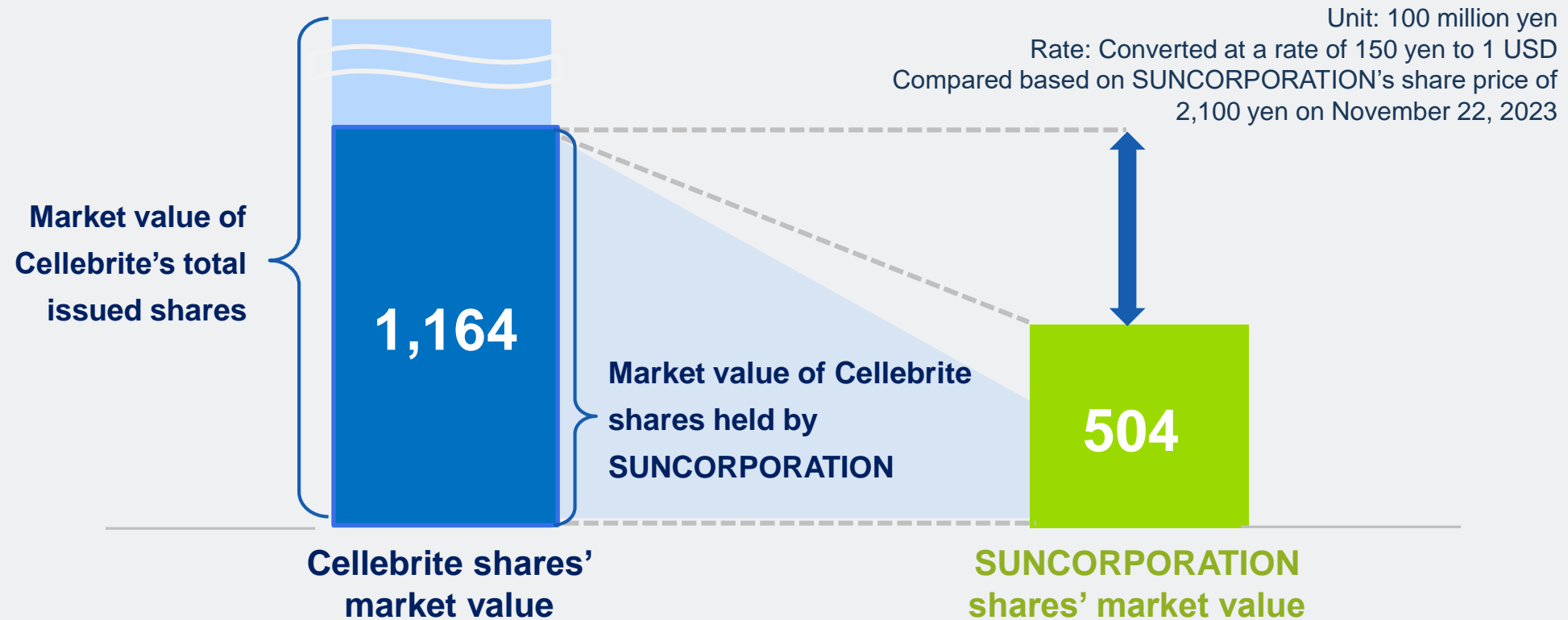
Cellebrite Guardian
SaaS-based integrated system for saving evidence data, administrative sharing, etc.



Granting right to sell products such as UFED in Japan

Reference Materials: Market Value of SUNCORPORATION Group

The market capitalization of SUNCORPORATION's shareholdings in Cellebrite, which is an equity-method affiliate of SUNCORPORATION listed on the NASDAQ market (95,597,718 shares held), is approximately 116.4 billion yen, and SUNCORPORATION'S market capitalization valuation is only around 50.4 billion yen, so undervaluation of the share price is increasing



Acquiring Share of APAC Security Market with Solutions Specializing in Information Collection and Analysis on the Deep Web and Dark Web



SUNCORPORATION



Sixgill

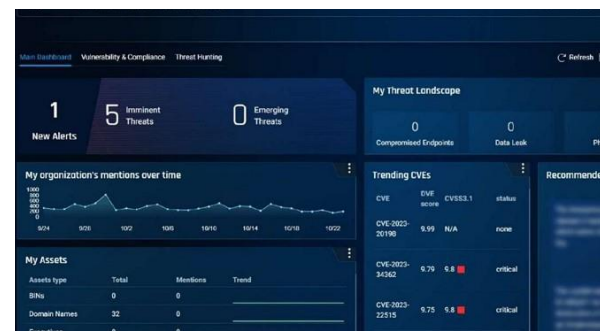
Head office: Tel Aviv, Israel
Year established: 2014
Company name: Sixgill Ltd.
Website: <https://cybersixgill.com/>

Agreement with Israeli Corporation
Sixgill for first domestic distribution
rights to Cybersixgill

Main Target Clients

- Financial services
- Security service providers
- Governments and law enforcement agencies
- Security-sensitive large corporations, publicly listed corporations, etc.

Cybersixgill



Product Features

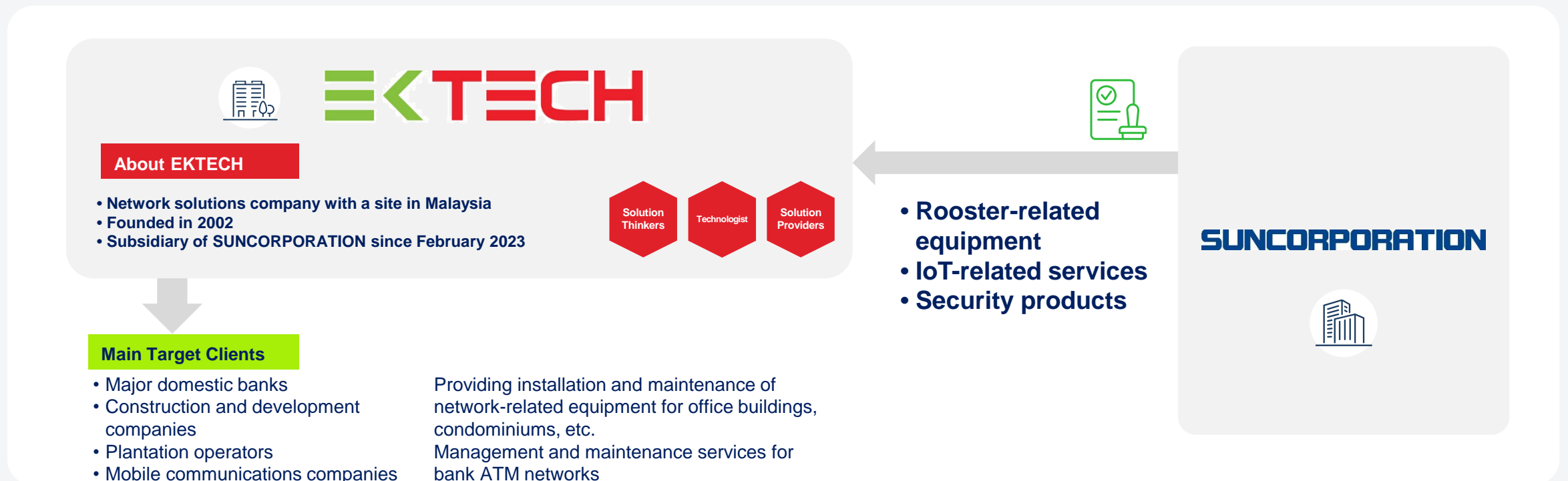
Intelligence solution specializing in information collection and analysis on the deep web and dark web. Since it was launched in 2014, it has been used by government organizations, law enforcement agencies, and private companies in countries around the world for various purposes, including incident response, investigation of cybercrime, narcotics crimes, etc., and handling cyberterrorism at the national level. Compared to rival intelligence solutions, it boasts around 10 times*1 the information collection capacity.

*1 This value was created by SUNCORPORATION based on feedback from existing users.

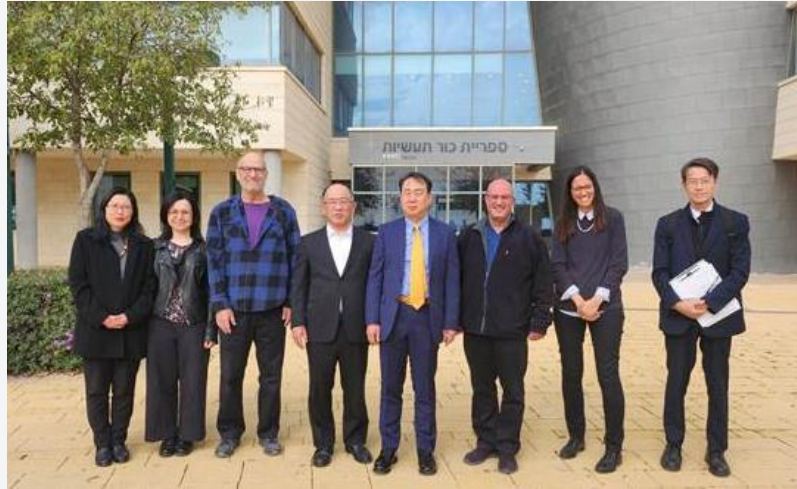
Position of Consolidated Subsidiary EKTECH (Business)

Providing the company's own network-related products/services and security solutions

Aiming to expand business through synergy via proactive technology and talent exchange



Global Talent Exchange



President Utsumi and company staff visiting Tel-Hai College in Israel

Purpose of Implementation

To secure outstanding global IT talent in the AI and information security fields

Regional Characteristics of Israel

Known as the Silicon Valley of the Middle East, this is a region where technology is developing and growing. In particular, **there are many companies with their own specialized technologies in the information security field**

Approach to Global Talent Exchange



■ Background to implementation

SUNCORPORATION aims to create new futures by supplying the market with products and services that have unique features which rival companies do not possess and which are suited to different times and regions. In this regard, we recognize that the shortage of outstanding global IT talent able to master advanced technologies and create new ideas in the current IT market, which is growing dramatically, is a key management issue, and we are devoting effort to attract talent with the aim of resolving it.

■ Global talent exchange in Israel




We are devoting effort to attracting outstanding global IT talent both in Japan and overseas.

In particular, we are actively implementing talent exchange in Israel, where our consolidated subsidiary Cellebrite's head office is located and where we have various connections.

Key Recent Exchange-Related News

2022	Student from Tel-Hai College in northern Israel joined SUNCORPORATION's R&D division
August–September 2023	Two students from Tel-Hai College worked on development of an AI-based solution during a one-month summer internship in SUNCORPORATION's R&D division
September 2023	At the invitation of the Association for the Advancement of Israel-Japan Academic and Cultural Relations, students from Hebrew University participating in a study tour in Japan took a company tour

Initiatives in First Half of Fiscal Year by Segment

Segment	External Environment	Initiatives
Global Data Intelligence 	<p>With law enforcement agencies leading the way, the market is growing significantly, centering on the Asia-Pacific region</p> <p>Cutting-edge digital intelligence tools are now becoming indispensable solutions</p>	<ul style="list-style-type: none"> Secured a competitive edge by supplying training for users while expanding sales for the next-generation solution UFED Ultra
Entertainment 	<p>Pachinko and pachislot machine market</p> <p>Smart game machines were introduced in November 2022 and have performed well, with demand for new machines growing, centered on smart pachislot machines. While supply difficulties caused by the semiconductor shortage are heading toward recovery, future uncertainties exist, such as increasing material costs and the decrease in pachinko parlors</p> <p>Game content market</p> <p>Games, which are a form of entertainment that could be enjoyed at home even during the pandemic, have established a position and are expanding. Game development has entered an era when games can be enjoyed by one person on one computer, and the number of games to be released on various platforms is increasing, leading to more intense competition</p>	<ul style="list-style-type: none"> While the game machine parts business decreased year-on-year, we are steadily creating hit products and increasing visibility on the market We focused efforts on retro games, which are becoming especially popular in the West We developed a Nintendo Switch version of <i>Ikki Unite</i>
New IT-Related 	<p>The IoT's base is expanding further, and demand is growing for monitoring/control systems that can be accessed remotely for industrial equipment, etc. In addition, the movement toward processing more data locally on the network equipment side using edge computing and decreasing cloud dependence/load is starting to gather pace</p> <p>While overall semiconductor supply is recovering, parts continue to increase in cost, which may impact the supply of our products and profits, so at present the situation is uncertain</p>	<ul style="list-style-type: none"> We released the SE220, a compact model that seeks to deliver stable communications and availability to support IoT environments, and the LBX8110 for edge computing, which enables AI image analysis and data processing, and we aim to further expand the business With respect to decreased profits, we are securing profits by revising selling prices and increasing sales of services such as maintenance services and SunDMS

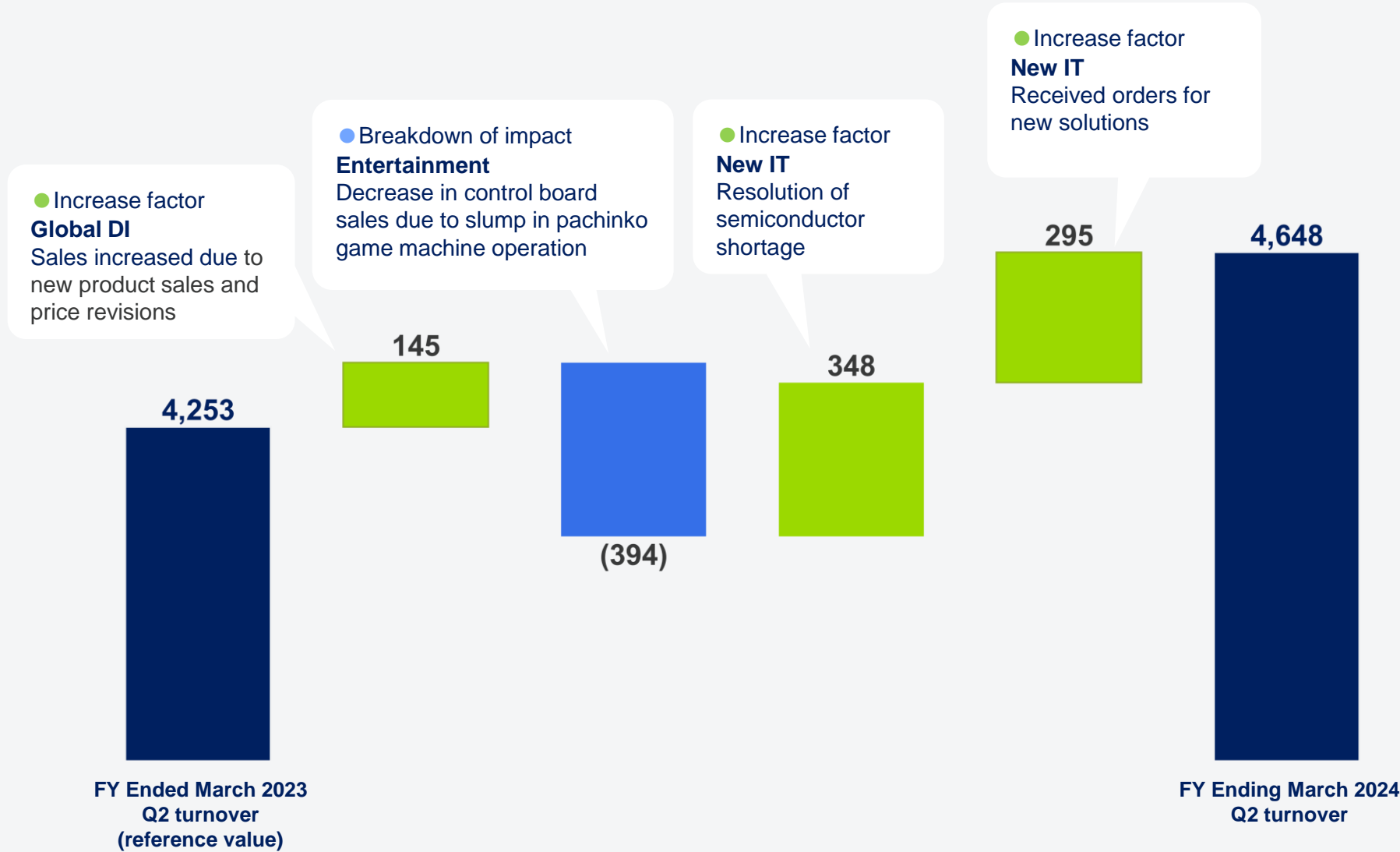
**Financial Results for Q2 of Fiscal Year Ending March 31st, 2024/
Measures for Second Half of Fiscal Year Ending March 31st, 2024**

Summary of Financial Results for Q2 of Fiscal Year Ending March 31st, 2024

Due to Cellebrite becoming an equity-method affiliate, sales decreased by 16,547 million yen. Cellebrite's net profit in Q2 was negative due to a loss on valuation of derivatives, so an equity method loss was recorded, and SUNCORPORATION's net profit was -4,229 million yen.

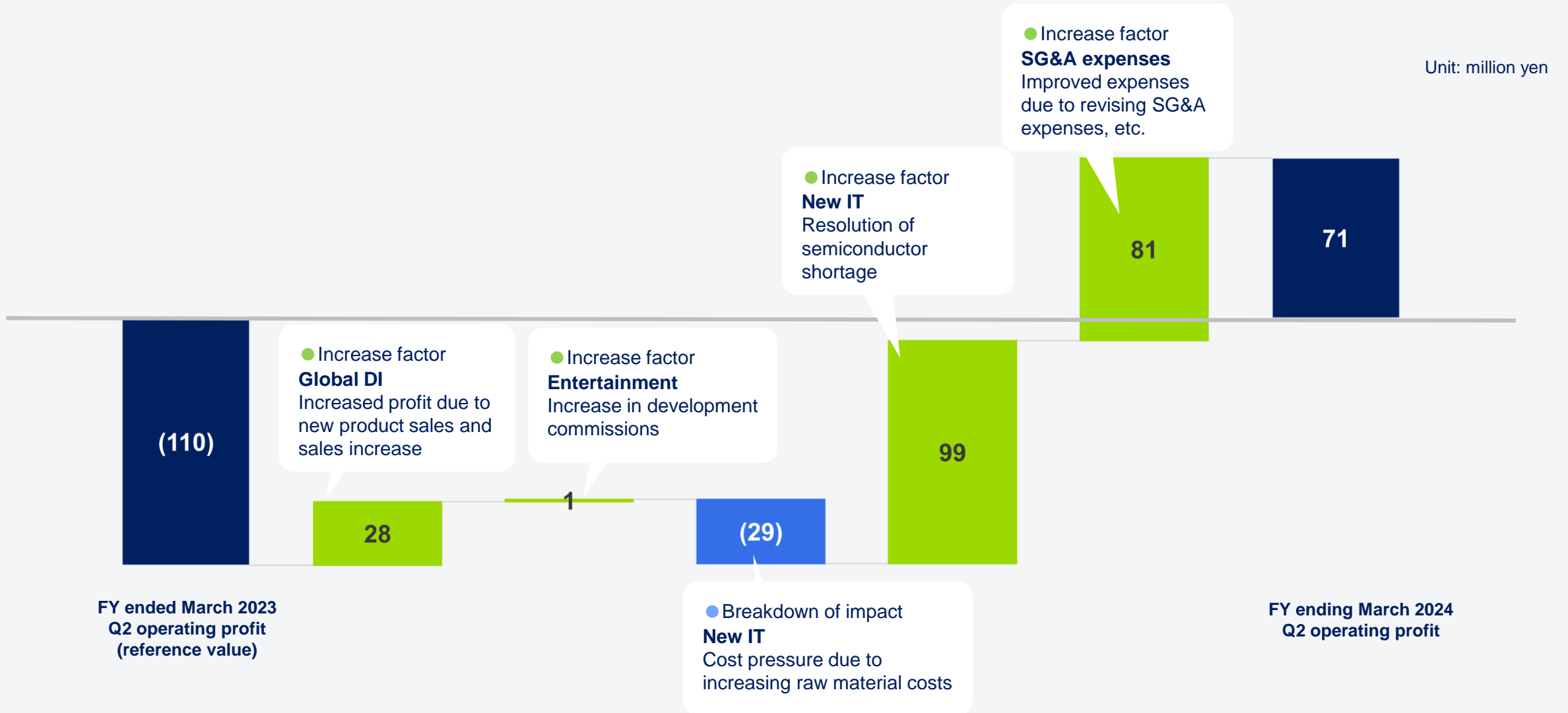
(Unit: million yen)	FY Ended March 2023	FY Ending March 2024		
	Q2	Q2		Full-year
	Actual Results	Actual Results	Year-on-Year Change (%)	Forecast
Turnover	21,195	4,648	(78.1)	10,000 to 11,000
Operating profit	(1,445)	71	-	10 to 100
Ordinary profit	12,788	(4,448)	-	
Net profit for the quarter attributable to owners of parent	6,414	(4,229)	-	

Factors Impacting Changes in Turnover






*Turnover excludes Cellebrite's sales

Factors Impacting Changes in Operating Profit



*Operating profit excludes Cellebrite's operating profit




Turnover and Operating Profit by Segment

Segment		FY Ended March 2023 Q2 Actual Results	FY Ending March 2024 Q2 Actual Results	Year-on Year Change (%)	Topics
Global Data Intelligence 	Turnover	339	484	42.8%	<ul style="list-style-type: none"> • Providing cutting-edge digital intelligence tools, associated training, etc. to address the explosive increase in the amount of digital evidence and criminals (organizations) with technological expertise • Aiming to improve legal access to all kinds of mobile phones and improve digital evidence collection productivity with the next-generation solution UFED Ultra • Aiming to contribute to processing and collection of massive volumes of data by investigation agencies through investing in AI development
	Operating profit	31	59	90.3%	
	Operating profit margin	9%	12.2%	35.6%	
Entertainment 	Turnover	3,135	2,742	(12.5%)	<ul style="list-style-type: none"> • The game machine-related business achieves content development with strong product appeal and high-quality control boards for specific industries and clients • The game content business provides full in-house services, from development to operation, for mobile games using the “Shanghai” brand, an IP with high visibility Aiming to maintain cost-effective revenue over the long term • In the “retro game” genre, which is regaining popularity especially in Western markets, we expect to further expand revenue by making effective use of our many IPs
	Operating profit	340	341	0.3%	
	Operating profit margin	10.8%	12.4%	15.1%	
New IT-Related 	Turnover	822	1,430	74.0%	<ul style="list-style-type: none"> • Promoting product development with 5G and edge AI as key concepts • The industrial network device Rooster is dual SIM compatible, making it possible to duplicate various communication carrier lines. It enables response when faults occur with communication carrier networks. • SunDMS enables alive monitoring and Rooster enables integrated management, making it possible to greatly reduce the operation and management burden and maintenance costs of multiple IoT devices installed in remote locations
	Operating profit	20	104	420.0%	
	Operating profit margin	2.4%	7.3%	-	

*Actual results for Q2 of the fiscal year ended March 2023 exclude Cellebrite's sales

*Operating profit is the operating profit before allocating the head office's management expenses

Measures in Second Half of the Year by Segment

Segment	External Environment	Our Initiatives
<p>Global Data Intelligence</p> 	<p>With law enforcement agencies leading the way, the market is growing, centering on the Asia-Pacific region</p> <p>Cutting-edge digital intelligence tools are now becoming indispensable solutions</p>	<ul style="list-style-type: none"> • Strengthening sales activities in the Asia-Pacific region • In response to growing requests to address diversifying cybercrimes, we will start offering a new supply of relevant products within Japan, based on the global digital intelligence tool information that we possess
<p>Entertainment</p> 	<p>In the pachinko and pachislot machine market, smart game machines were introduced in November 2022 and have performed well, with demand for new machines growing, centered on smart pachislot machines.</p> <p>While supply difficulties caused by the semiconductor shortage are heading toward recovery, future uncertainties exist, such as increasing material costs and the decrease in pachinko parlors</p> <p>In the game content market, games, which are a form of entertainment that could be enjoyed at home even during the pandemic, have established a position and are expanding</p> <p>Game development has entered an era when games can be enjoyed by one person on one computer, and the number of games to be released on various platforms is increasing, leading to more intense competition</p>	<ul style="list-style-type: none"> • We aim to increase the sense of unity with game machine makers and expand our market share by developing models that leverage the style and technical capabilities we have acquired to date • We will strive to ensure profits by pursuing greater efficiency in development and manufacturing • Leveraging our retro game IP, we plan to release: <ul style="list-style-type: none"> <i>Shanghai Legend</i> for the Nintendo Switch™ in December 2023 and <i>Hebereke 2</i> for the Nintendo Switch™ by the end of March 2024
<p>New IT-Related</p> 	<p>With digital transformation essential to resolving the labor shortage and improving productivity, the IoT's base is expanding further, and demand is growing for monitoring/control systems that can be accessed remotely for industrial equipment, etc.</p> <p>Demand for industrial network equipment that enables stable operation over a long time without much cloud dependence/load is increasing</p> <p>While the semiconductor shortage is recovering, parts continue to increase in cost, which may potentially impact the supply of our products and profits</p>	<ul style="list-style-type: none"> • Achieving stable operation with SunDMS, which is invaluable for line redundancy and maintenance/operation, leading to differentiation from other companies and further increasing sales of Rooster • Further expanding Rooster for industrial network equipment • Aiming for increased sales in the new edge computing market • Creating added value through stock business that visualizes and analyzes (BI/AI) huge amounts of data obtained via OKUDAKE sensor solutions and IoT devices • Aiming to increase overseas sales by leveraging EKTech's sales channels

Basic Policy

To strengthen our future business development and operating base, we will distribute profit while taking into account medium- and long-term changes in free cash flow and also considering balancing it with stability and internal reserves

		FY Ended March 2023	FY Ending March 2024
Dividend	(Annual)	20.00 yen	40.00 yen
	(End of period)	20.00 yen	40.00 yen
	(End of Q2)	0 yen	0 yen
Dividend payout ratio (consolidated)		6.8%	-

*The dividend for the year ending March 31st, 2025, has not been determined at this time.

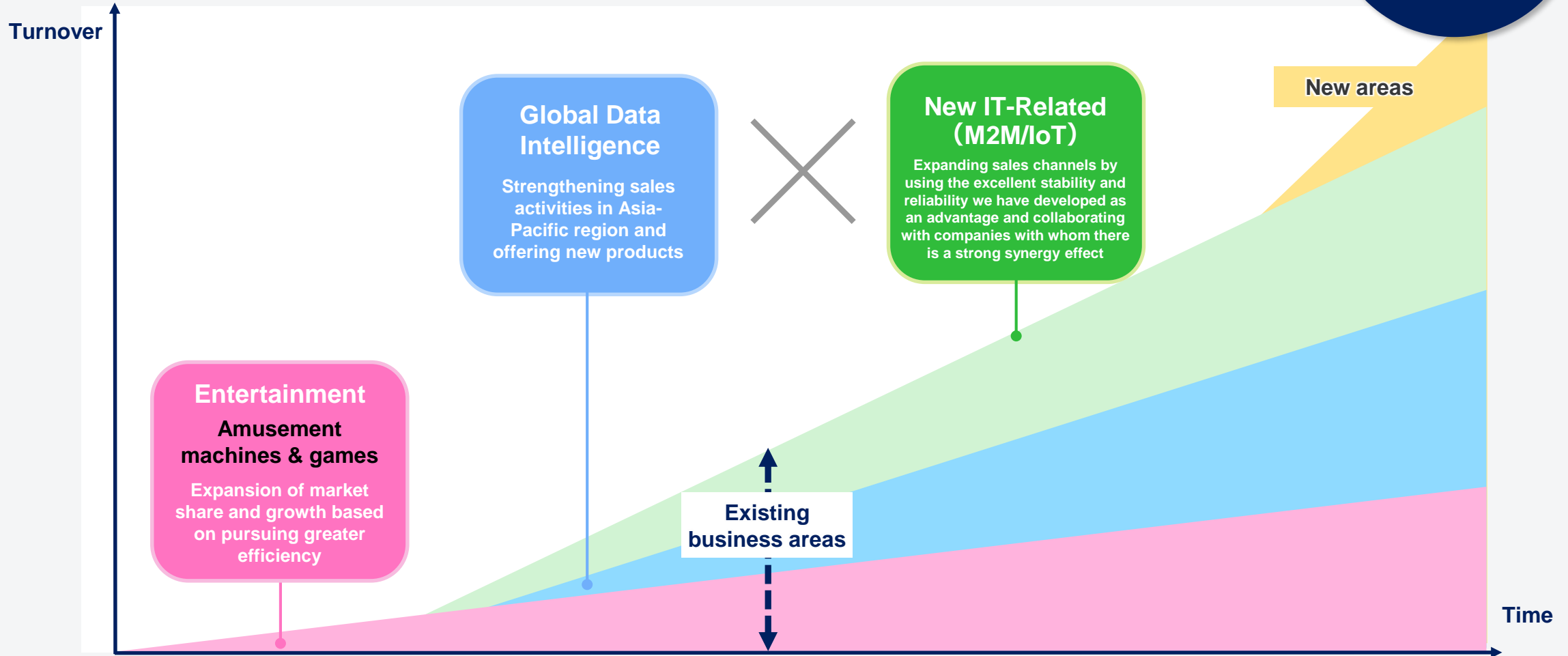


SUNCORPORATION's Growth Strategy

Diagram of Future Growth

SUNCORPORATION
unconsolidated sales
20.0
billion yen

Increasing existing business and exploring new growth areas



Revising the Medium-Term Management Plan

Background to revision



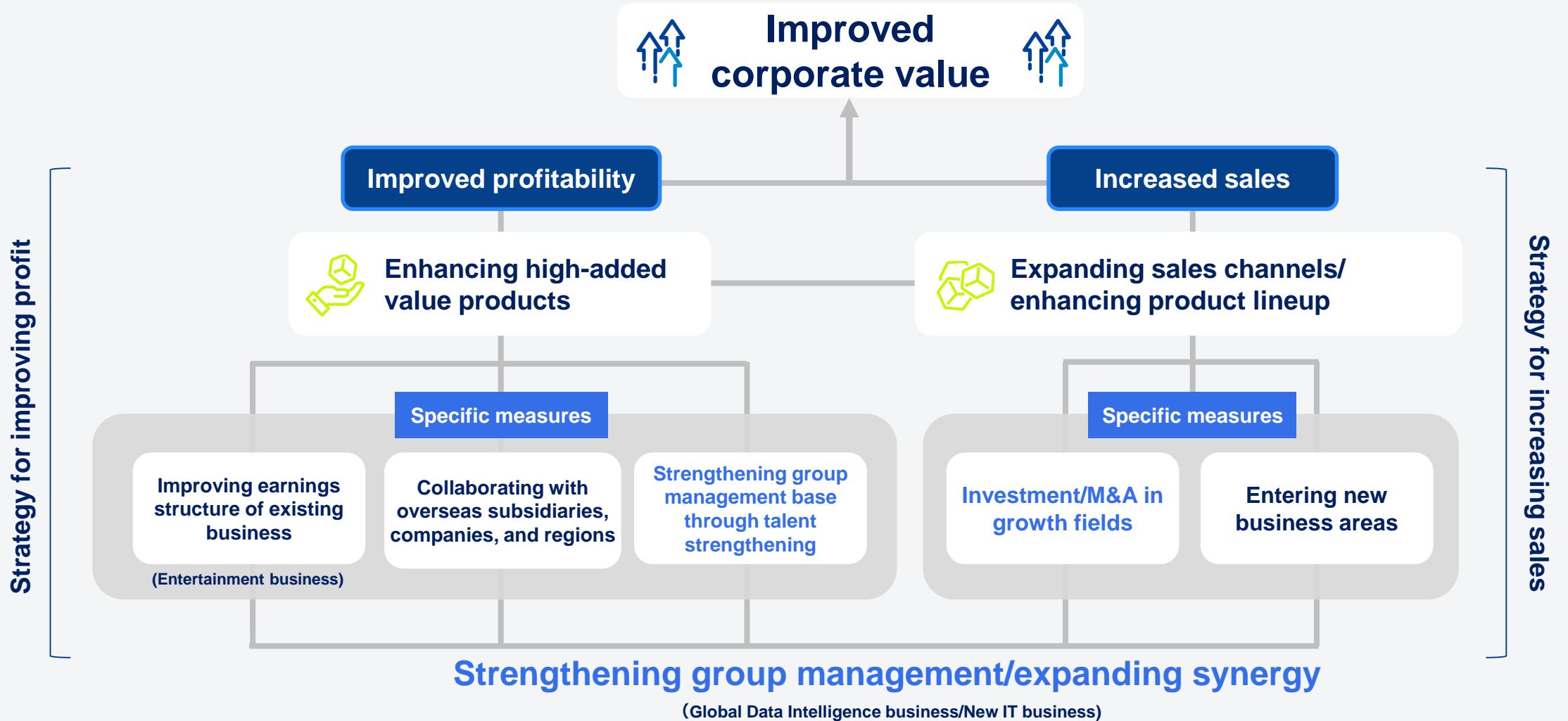
Since our planned activities, including new product release plans as well as plans for investing in personnel, organizational improvements, etc. and M&A measures, are becoming more specific and we continue making preparations aimed at future growth, we will revise our medium-term management plan

Future orientation



We intend to disclose a revised plan and measures, with the fiscal year ending March 2024 as the target

Approach to Growth Strategy



Initiatives Aimed at Improving Corporate Value

Working to improve corporate value by pursuing both growth strategy and financial/investment strategy

Initiatives Aimed at Improving Corporate Value

Drivers of improving corporate value

↑ Spread enhancement

↑ PER improvement

Profit improvement/
growth

Increased capital
efficiency

Shareholder returns

Details of main initiatives

Growth strategy

- Revising medium-term management plan
- Entering new business areas (including M&A in growth fields)

Financial/ investment strategy

- Use of cash and deposits: optimal allocation to growth investment and shareholder returns
- Strengthening relationships for stable growth of subsidiaries
- Enhancing shareholder returns

IR strategy

- Actively holding 1-on-1 meetings with investors
- Revamping corporate website (planned)

Currently formulating cash allocation to maximize corporate value, revolving around revising existing businesses, investing in growth businesses, and exploring new areas



Change in M&A Policy

Shifting from M&A focused on existing businesses to an M&A policy that explores a wide range of possibilities for new growth

	April 2020–March 2021	April 2021–March 2022	April 2022–March 2023
Policy	Considering M&A for the purpose of expanding existing businesses	Considering M&A for the purpose of reducing costs and increasing efficiency of existing businesses	Considering M&A with potential to become new portfolio
Sectors considered	Related product manufacturing, DX services, DX solutions, etc.	Production companies in entertainment business, new IT-related vendors, etc.	Drones and various mobility-related businesses, information security-related businesses, etc.
Region	Domestic	Domestic, Europe, Asia	Seeking possibilities without area restrictions
No. of cases considered	5 companies	11 companies	17 companies

Strengthening Group Management Base through Strengthening Personnel

Strengthening the development of technical talent, enabling advanced technologies to be linked to results



Starting discussion of management issues we are facing
Establishing talent development as a management priority

Personnel strategy orientation

Developing human capital

- Enhancing and revising training and education system
- Using talent management system
- Sharing internal expertise

Establishing a work environment that facilitates work

- Improving employee satisfaction
- Enhancing benefits package
- Diversity measures

Acquiring talent

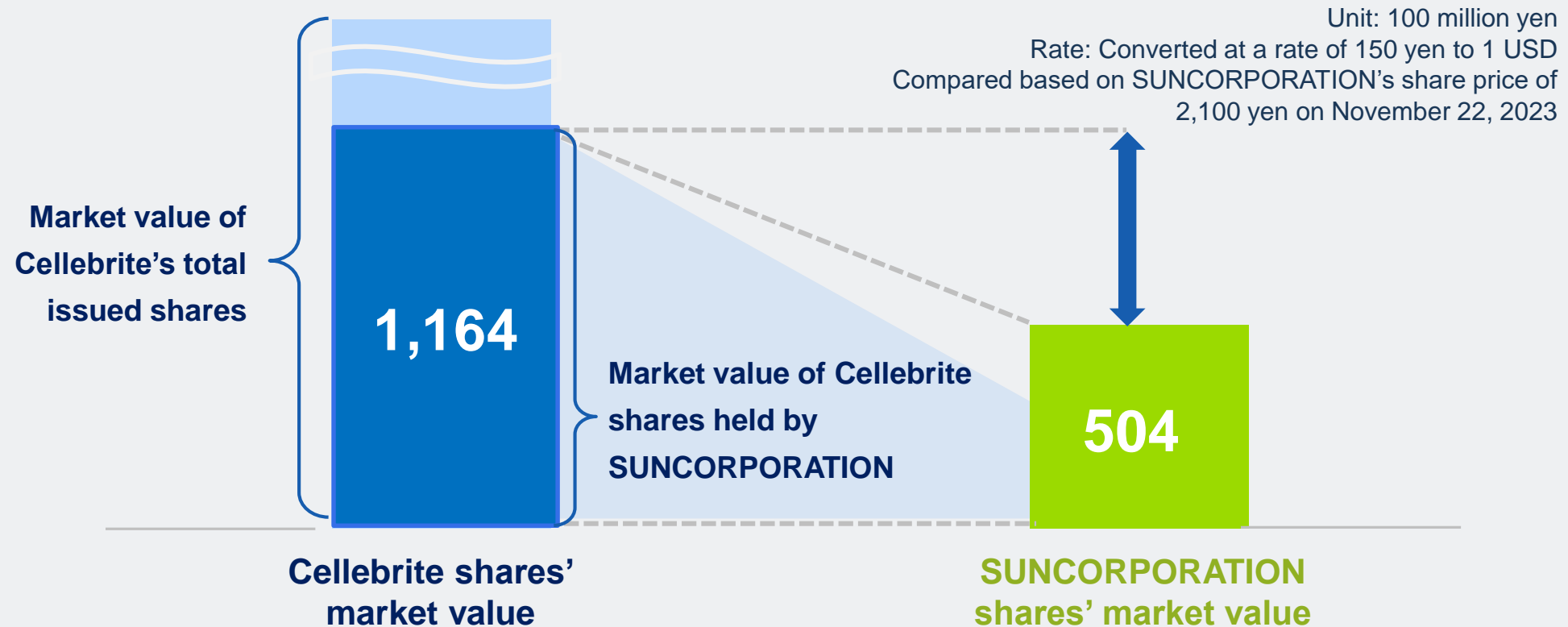
- Using overseas internships
- Strengthening collaboration with educational institutions
- Global recruitment from overseas and abroad

Organization that creates innovation

- Corporate climate that encourages people to take on challenges
- Implementing merit point-based assessment system
- Fostering culture that creates connections between people

Reference Materials: Market Value of SUNCORPORATION Group

The market capitalization of SUNCORPORATION's shareholdings in Cellebrite, which is a holding company of SUNCORPORATION listed on the NASDAQ market (95,597,718 shares held), is approximately 116.4 billion yen, and SUNCORPORATION'S market capitalization valuation is only around 50.4 billion yen, so undervaluation of the share price is increasing



Disclaimer

SUNCORPORATION

The purpose of this document is to provide information about the company's business, management strategy and performance. It is not intended to solicit investment in securities issued by SUNCORPORATION.

Furthermore, this document was created based on financial results and corporate data available as of November 14, 2023.

The opinions and forecasts included in this document are based on the company's judgment at the time the material was prepared. SUNCORPORATION makes no guarantees or promises regarding the accuracy or completeness of the information, which is subject to change without notice in the future.

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