TSUZUKI DENKI | 8157 (TSE Prime)

Company Report

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Strategy Advisors Inc.
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FY3/26 H1 Results: Record Profits Fueled by Strong Pricing & Construction Growth

In FY3/26 H1, sales increased to ¥43.43 billion (+3.8% YoY), operating income increased to ¥2.48 billion (+78.6% YoY), ordinary income increased to ¥2.59 billion (+74.3% YoY) and interim net profit attributable to parent company shareholders increased to ¥1.81 billion (+75.3% YoY), showing a significant increase in profits. Sales increased due to strong performance in all areas, particularly development and construction, and profits increased significantly due to progress in pricing management and improved productivity. Operating income and ordinary income reached new interim record highs.

By business model, equipment sales increased 3.8% YoY. Demand for PC upgrades due to Windows 10's End of Support (EOS) remains strong. Development and construction sales increased 11.4%, primarily for network and contact centers, while services increased 1.5% due to an increase in contract values for stock-based businesses. Orders increased 13.6% YoY, with equipment increasing 34.5% and development and construction increasing 15.6%. Equipment increased due to the acquisition of large-scale equipment installation projects for government agencies. Development and construction have received orders for multiple large-scale network construction projects. Order backlog increased to 29.4% YoY, with equipment increasing 38%, development and construction increasing 29.9% and services increasing 1.8%. This suggests that sales from FY3/26 Q3 onward will also be steady.

The sales target for the 6 growth areas for FY3/26 is ¥16.3 billion, a high targeted increase of ¥4 billion or 31%, from the actual results for FY3/25. However, H1 was generally strong, with sales reaching ¥7.3 billion (+28% YoY) and steady progress is being made towards achieving the target.

In terms of profits, operating income increased by ¥1.09 billion YoY to ¥2.48 billion. In addition to the ¥360 million increases in sales, profitability improved by ¥770 million due to the shift of resources to growth areas, expansion of development and construction, cost reductions through pricing management and improved productivity in development and construction. Until FY3/23, the Company had tended to post an operating loss in Q1. However, as a result of the expansion of service business, including increasing focus to 6 growth areas, pricing management, and cost reductions through productivity improvements, which are part of the medium-term management plan implemented from FY3/24; the Company has posted an operating income in Q1 for 3 consecutive years since FY3/24, boosting its performance in H1.

The stock price fell following the announcement of the U.S. tariff policy in early April 2025 but bottomed out by mid-April. On September 26, it reached a record high since listing at ¥3,635, driven by expectations of growth in the AI-related market, due to the Japan-U.S. tariff negotiation agreement and strong performance in Q1. While there was a slight lull in October, the stock price remained around ¥3,200.

Stock Price and Trading Volumes

Source: Strategy Advisors

Key Indicators

Stock Price (12/10/25)	3,130
52-Week High (9/26/25)	3,500
52-Week Low (4/07/25)	1,862
All-Time High (9/26/25)	3,500
All-Time Low (11/19/02)	157
Number of Shares Issued (mn)	18.2
Market Capitalization (¥bn)	57.0
Equity Ratio (FY3/25, %)	11.3
ROE (FY3/25 Actual, %)	55.2
PER (FY3/26 CoE, Times)	12.6
PBR (FY3/25 Actual, Times)	1.3
Dividend Yield (FY3/26 CoE, %)	3.2

Note: High and low stock prices are calculated based on closing prices.
Source: Strategy Advisors

Valuation-wise, the PER based on the forecast for FY3/26 is 12.6x and PBR is based on the actual results for FY3/25 is 1.3x, significantly lower than the averages of 22.8x and 4.1x for SIer (system integrators) and NIer (network engineers), respectively. This is likely because, while profit margins have risen due to advances in pricing management and improved productivity, they have not yet reached those of peers. Also, shareholders and investors have not yet fully come to appreciate the benefits of the Company's decision to divest its electronic device business and become a pure player in ICT. It is possible that expectations for future growth are not fully factored into the stock price.

The key points to watch in looking at the stock price going forward will be how much recognition the Company receives for becoming a pure player in ICT, how well it will get on a growth trajectory from FY3/26 onwards, and whether it will make progress in utilizing its cash and deposits, including through M&A and shareholder returns.

At the financial results briefing held on November 18, 2025, the Company announced the direction of its next medium-term management plan. The Company has set a policy of "Entering a phase of growth driven by sales expansion". Building on the progress it has made in shifting to a highly profitable structure, it will be interesting to see how it will work to expand sales.

Japanese GAAP - Consolidated

FY	Net Sales (¥mn)	YoY (%)	Operating Income (¥mn)	YoY (%)	Ordinary Income (¥mn)	YoY (%)	Net Income (¥mn)	YoY (%)	EPS (¥)	DPS (¥)
FY3/25 H1	41,842	-31.3	1,394	-40.5	1,488	-37.0	1,036	-64.3	57.38	45.0
FY3/26 H1	**43,437**	**3.8**	**2,489**	**78.6**	**2,593**	**74.3**	**1,817**	**75.3**	**100.09**	**50.0**
FY3/22	119,316	-0.6	4,012	25.3	4,227	25.8	2,798	19.2	158.5	48.0
FY3/23	123,899	3.8	5,118	27.6	5,355	26.7	3,521	25.8	197.5	61.0
FY3/24	124,856	0.8	6,439	25.8	6,486	21.1	5,477	55.6	304.8	90.0
FY3/25	98,263	-21.3	6,481	0.6	6,596	1.7	4,764	-13.0	263.3	99.0
FY3/26 CoE	102,500	4.3	6,700	3.4	6,750	2.3	4,500	-5.6	247.5	100.0

Source: Company Data. Compiled by Strategy Advisors.

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1. FY3/26 H1 Financial Summary

Sales Increased 3.8% YoY & All Profits Increased Significantly, with Operating Income and Ordinary Income Reaching Record Highs for the Interim Period

In H1 of FY3/26, sales increased to ¥43.43 billion (+3.8% YoY), operating income increased to ¥2.48 billion (+78.6% YoY), ordinary income increased to ¥2.59 billion (+74.3% YoY) and interim net profit attributable to parent company shareholders increased to ¥1.81 billion (+75.3% YoY), showing a significant increase in profits. Sales increased mainly in development and construction, with profits increasing due to the shift of resources to growth areas, progress in pricing management and improved productivity. Operating income and ordinary income reached new interim record highs (Figure 1).

Figure 1Summary of FY3/26 H1 Financial Results

(¥mn)	FY3/25 H1 Actual (A)	FY3/26 CoE (B)	**FY3/26 H1 Actual (C)**	Progress Rate (C)/(B)
Net Sales	41,842	102,500	**43,437**	42.38%
(YoY)	-31.3%	4.3%	**3.8%**	-
Operating Income	1,394	6,700	**2,489**	37.15%
(YoY)	-40.5%	3.4%	**78.6%**	-
Ordinary Income	1,488	6,750	**2,593**	38.41%
(YoY)	-37.0%	2.3%	**74.3%**	-
Quarterly Net Income	1,036	4,500	**1,817**	40.38%
(YoY)	-64.3%	-5.6%	**75.3%**	-

Source: Company Data. Compiled by Strategy Advisors.

The Main Factors Behind the Increase in Operating Income

The factors behind the increase in operating income in FY3/26 H1 are as shown in Figure 2. In addition to the effect of increased sales of ¥360 million, the shift of resources to growth areas, expansion of development and construction, cost reductions through pricing management and improved productivity in development and construction had an effect of increasing operating income by ¥770 million.

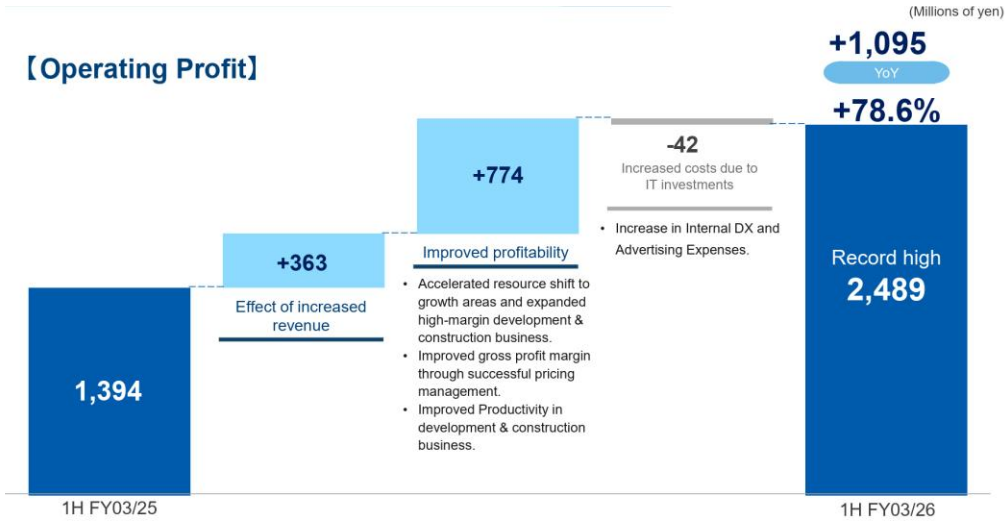
The shift of resources to growth areas has been effective in the security field, where zero-trust security construction and network security measures are growing. And in the DX consulting field, where the number of cases supporting the formulation of DX strategies is increasing.

Pricing management has made a significant contribution to equipment and development / construction. Based on its high technical capabilities and the trust it has built up through long-term business relationships with customers, the Company has been able to revise prices to match the value it provides, thereby successfully increasing sales and profitability.

Development and construction productivity, the "Tsuzuki Style" (a manual outlining service processes and necessary technologies) has been adopted throughout the group, preventing dependency on individuals and standardizing processes, leading to cost reductions.

As a result, despite increases in IT investment and advertising expenses, operating income increased to ¥2.48 billion (+¥1.09 billion YoY), a new record for an interim period.

Figure 2Factors Behind Changes in Operating Income in FY3/26 H1



Source: Company Materials.

Revenues Increased for Equipment, Development/ Construction & Services

Regarding sales for FY3/26 H1, equipment sales increased 3.8% YoY. Demand for PC and server updates due to the end of support (EOS) for Windows 10 remained high. Development and construction sales increased 11.4% YoY, mainly for networks and contact centers, while services increased 1.5% YoY due to an increase in contract amounts for stock-type businesses (Figure 3).

Figure 3. Sales by Business Model

(¥ mn)	FY3/25 H1	**FY3/26 H1**	YoY
Sales	41,842	**43,437**	3.8%
-Device	14,249	**14,796**	3.8%
-Development/ Construction	6,490	**7,230**	11.4%
-Service	21,102	**21,411**	1.5%

Source: Company Data. Compiled by Strategy Advisors.

Operating Income & Ordinary Income Reached Record Highs Due to a Solid Profit in Q1 and Favorable Conditions in Q2

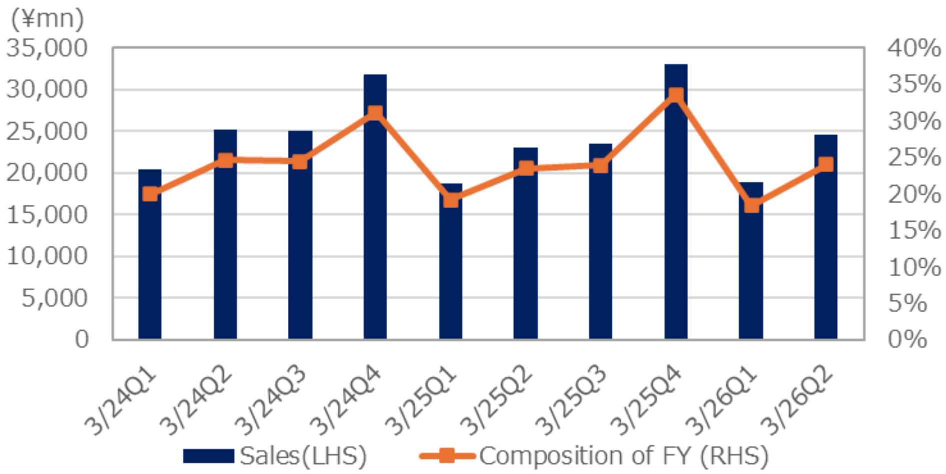
Quarterly financial results are shown in Figure 4. As many of the Company's clients concentrate budget execution and acceptance inspections at the end of the half-year and fiscal year, the Company's sales tend to be slightly higher in Q2 (Figure 5). In Q1, the Company tended to post operating losses until FY3/23, but by FY3/26 the firm posted an operating income for the 3rd consecutive year, indicating that it has become profitable. In FY3/26, Q2 was also strong, particularly in equipment and development/construction and operating income and ordinary income reached record highs for an interim period.

Figure 4. Quarterly Performance Trends

FY	3/24				3/25				3/26	
(¥mn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net Sales	**28,128**	**32,759**	**32,126**	**31,843**	**18,771**	**23,071**	**23,456**	**32,965**	**18,833**	**24,604**
(YoY)	14.3%	7.6%	16.8%	-23.0%	-33.3%	-29.6%	-27.0%	3.5%	0.3%	6.6%
Information Network	**20,445**	**25,208**	**25,026**	**31,844**	**18,771**	**23,071**	**23,456**	**32,965**	**18,833**	**24,604**
(YoY)	14.5%	11.2%	25.5%	-4.8%	-8.2%	-8.5%	-6.3%	3.5%	0.3%	6.6%
Equipment	**7,172**	**10,779**	**11,156**	**15,818**	**5,455**	**8,794**	**9,668**	**16,403**	**4,923**	**9,873**
(YoY)	29.5%	17.8%	79.1%	-7.1%	-23.9%	-18.4%	-13.3%	3.7%	-9.7%	12.3%
Development & Construction	**2,687**	**3,813**	**3,915**	**4,371**	**2,590**	**3,900**	**3,610**	**5,210**	**3,009**	**4,221**
(YoY)	4.3%	11.2%	41.0%	-13.6%	-3.6%	2.3%	-7.8%	19.2%	16.2%	8.2%
Services	**10,584**	**10,617**	**9,955**	**11,655**	**10,725**	**10,377**	**10,178**	**11,352**	**10,900**	**10,511**
(YoY)	8.7%	5.3%	-8.9%	2.5%	1.3%	-2.3%	2.2%	-2.6%	1.6%	1.3%
Electronic Devices	**7,683**	**7,550**	**7,100**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(YoY)	13.7%	-2.8%	-6.1%	-	-	-	-	-	-	-
Gross Profit	5,346	6,436	6,527	6,999	4,114	5,413	5,074	8,064	4,354	6,311
(Gross Margin)	19.0%	19.6%	20.3%	22.0%	21.9%	23.5%	21.6%	24.5%	23.1%	25.7%
SG&A	4,648	4,793	4,930	4,498	4,113	4,020	4,068	3,982	4,053	4,122
Operating Income	**698**	**1,643**	**1,597**	**2,501**	**1**	**1,393**	**1,006**	**4,081**	**301**	**2,188**
(YoY)	NM	34.3%	313.7%	-32.6%	-99.9%	-15.2%	-37.0%	63.2%	-	57.1%
(Operating Margin)	2.5%	5.0%	5.0%	7.9%	0.0%	6.0%	4.3%	12.4%	1.6%	8.9%
Information Network	**472**	**1,458**	**1,493**	**2,501**	**1**	**1,393**	**1,006**	**4,081**	**301**	**2,188**
(Operating Margin)	2.3%	5.8%	6.0%	7.9%	0.0%	6.0%	4.3%	12.4%	1.6%	8.9%
Electronic Devices	**216**	**176**	**95**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(Operating Margin)	2.8%	2.3%	1.3%	-	-	-	-	-	-	-
Elimination or Corporate	9	9	9	-	-	-	-	-	-	-
Non-Operating Income/Losses	-25	45	34	-8	41	53	26	-6	59	45
Ordinary Income	**673**	**1,688**	**1,631**	**2,494**	**41**	**1,447**	**1,032**	**4,076**	**359**	**2,234**
(YoY)	NM	33.7%	234.2%	-32.8%	-93.9%	-14.3%	-36.7%	63.4%	762.4%	54.4%
(Ordinary Margin)	2.4%	5.2%	5.1%	7.8%	0.2%	6.3%	4.4%	12.4%	1.9%	9.1%
Extraordinary Income	0	1,816	-7	120	31	-6	0	227	19	33
Pretax Profit	673	3,504	1,624	2,614	72	1,440	1,032	4,304	379	2,266
Income Taxes	172	1,000	305	1,291	39	382	297	1,235	81	683
Profit	501	2,504	1,319	1,323	33	1,058	735	3,069	297	1,583
Profit Attributable to Non-Controlling Interests	52	47	37	34	32	22	35	41	25	38
Profit Attributable to Owners of the Parent	**448**	**2,458**	**1,281**	**1,290**	**1**	**1,035**	**700**	**3,028**	**272**	**1,545**
YoY	NM	190.2%	369.2%	-49.4%	-99.8%	-57.9%	-45.4%	134.7%	-	49.3%

Source: Company Data. Compiled by Strategy Advisors.

Figure 5. Quarterly Trends in Information Network Business Sales



Source: Company Data. Compiled by Strategy Advisors.

Increased YoY Across All Business Models

Figure 6 shows the order intake and backlog by quarter. Order intake for H1 increased 13.6% YoY. Breaking this down, equipment increased 34.5%, development and construction increased 15.6%, but services decreased 5.3%.

Equipment sales increased due to continued demand for upgrades due to the end of Windows 10, as well as the acquisition of large-scale equipment installation projects for government agencies. In development and construction, orders were received for several large-scale network projects. Orders for services decreased, but this was a temporary decrease due to a change in the timing of recording orders, and a recovery is expected for the full fiscal year.

Order backlog increased 29.4% YoY, with equipment up 38% YoY, development and construction up 29.9% YoY and services up 1.8% YoY. This suggests that sales from FY3/26 Q3 onwards will also be strong.

Figure 6. Trends in Orders and Order Backlog (Information Network Business, ¥mn)

FY	3/24					3/25					3/26	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Orders	**24,271**	**23,962**	**20,301**	**26,026**	**94,560**	**23,642**	**25,641**	**22,583**	**28,749**	**100,615**	**27,806**	**28,167**
(YoY)	**-8.8%**	**-5.8%**	**-12.4%**	**-4.5%**	**-7.7%**	**-2.6%**	**7.0%**	**11.2%**	**10.5%**	**6.4%**	**17.6%**	**9.9%**
Equipment	8,576	10,300	7,379	11,796	38,051	7,880	11,351	9,120	11,792	40,143	11,886	13,971
(YoY)	-26.3%	-7.5%	-23.1%	-7.2%	-15.6%	-8.1%	10.2%	23.6%	0.0%	5.5%	50.8%	23.1%
Development & Construction	3,797	3,767	2,784	3,251	13,599	3,785	4,091	3,995	4,406	16,277	4,652	4,453
(YoY)	31.8%	-6.1%	-18.4%	-12.9%	-3.1%	-0.3%	8.6%	43.5%	35.5%	19.7%	22.9%	8.8%
Service	11,896	9,896	10,139	10,978	42,909	11,976	10,199	9,467	12,552	44,194	11,267	9,743
(YoY)	-1.8%	-3.9%	-0.4%	1.6%	-1.1%	0.7%	3.1%	-6.6%	14.3%	3.0%	-5.9%	-4.5%
Order Backlog	**29,684**	**28,438**	**23,713**	**17,895**	**-**	**22,766**	**25,335**	**24,463**	**20,246**	**-**	**29,219**	**32,782**
(YoY)	**14.0%**	**-1.3%**	**-26.0%**	**-30.8%**	**-**	**-23.3%**	**-10.9%**	**3.2%**	**13.1%**	**-**	**28.3%**	**29.4%**
Equipment	18,846	18,368	14,590	10,568	-	12,993	15,550	15,002	10,391	-	17,354	21,452
(YoY)	14.9%	-0.1%	-32.9%	-39.4%	-	-31.1%	-15.3%	2.8%	-1.7%	-	33.6%	38.0%
Development & Construction	5,780	5,734	4,603	3,484	-	4,679	4,870	5,256	4,451	-	6,094	6,327
(YoY)	21.0%	6.9%	-23.2%	-25.4%	-	-19.0%	-15.1%	14.2%	27.8%	-	30.3%	29.9%
Service	5,056	4,335	4,519	3,842	-	5,093	4,915	4,204	5,404	-	5,771	5,003
(YoY)	4.1%	-14.4%	4.8%	2.6%	-	0.7%	13.4%	-7.0%	40.7%	-	13.3%	1.8%

Source: Company Data. Compiled by Strategy Advisors.

The 6 Growth Areas Are Performing Well Overall

One of the basic policies of the 3-year medium-term management plan "Transformation 2026", announced in May 2023, is to strengthen the 6 growth areas (contact center systems, cloud communications, security, DX consulting, managed services and market-specific DX services). The sales target for the 6 growth areas for FY3/26 was ¥16 billion when the current medium-term plan was first formulated, but was revised upward to ¥16.3 billion in May 2025. This is a high target, an increase of ¥4 billion (+31%) from the actual results for FY3/25. However, H1 has been generally strong, with sales of ¥7.3 billion (+28% YoY, a progress rate of 45%) and steady progress is being made toward achieving the target.

The situation by area is as follows:

Contact center systems performed well, with sales of ¥2.7 billion (+17% YoY) due to increased adoption of cloud-based systems such as Genesys Cloud and Ct-e1/SaaS.

In the cloud communications business, sales were somewhat sluggish at ¥600 million (-10% YoY) due to a review of initial implementation costs. However, the Company is making progress in developing new customers and is aiming to increase future profits.

Managed services saw sales of ¥1.9 billion (+6% YoY) due to an increase in PC-LCM services, which handle everything from personal computer (PC) installation to operation.

Security saw zero-trust security construction and network security measures are growing and with the addition of OT (Operational Technology) security (security for OT that operates equipment in factories, etc.), sales have grown significantly to ¥1.5 billion (+150% YoY). Awareness of security risks is growing due to the increase in ransomware attacks, the digitalization of society through DX and IoT, and growing concerns about the vulnerabilities of OT systems. This is an area where market growth is expected to continue.

DX Consulting saw an increase in projects to support the formulation of DX strategies and the Company is steadily winning follow-up business, resulting in sales of ¥420 million (+242% YoY).

Market-specific DX services saw sales of ¥160 million (+305% YoY). Large-scale projects for logistics operations have been acquired and stock business is building up as the number of contract IDs increases. For the produce market, functional enhancements are a priority and the number of business negotiations is increasing. Additionally, the Company plans to release TCloud for Smart Rental, a new rental management system for the real estate industry, in June 2026. This release will utilize the knowledge gained from approximately 30 years of system development for the real estate industry.

2. Topics

1) Next Medium-Term Management Plan

The Next Medium-Term Plan Was Hinted at During the Financial Results Briefing

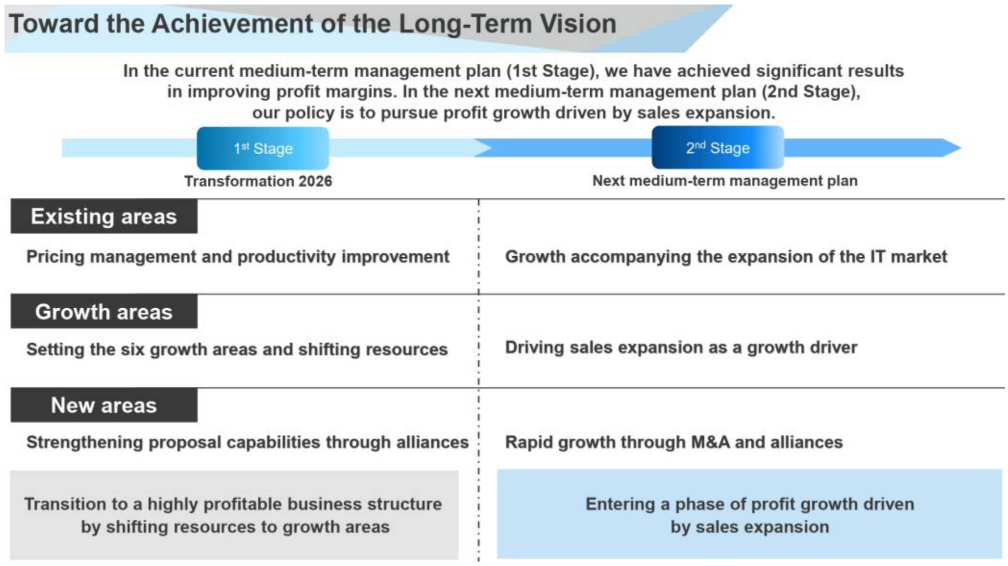
At the financial results briefing held on November 18, 2025, the Company explained its vision for future growth. This hinted at the contents of the next medium-term plan, which will begin next fiscal year. Although target figures were not disclosed, the Company did set out its overall policy and measures.

The Next Medium-Term Plan Aims to Achieve "Profit Growth Through Sales Expansion"

Figure 7 shows the positioning of the next medium-term plan. It is positioned as the second stage of the long-term vision formulated in 2023.

Under the current medium-term plan, profit margins have improved significantly through such measures as making a pure player in ICT, shifting resources to growth areas, promoting pricing management, and improving productivity. The next medium-term plan will focus on "profit growth in line with sales expansion", clearly states that it will "grow through M&A". Whilst the electronic device business was sold under the current medium-term plan, it is believed that the Company is considering some kind of acquisition for the next medium-term plan with the aim of complementing functions and strengthening its management base.

Figure 7. Positioning of the Next Medium-Term Plan



Source: Company Materials.

Market Strategy: The Company Aims to Increase Sales Through Cross-Selling and Expansion into SME's

Measures aimed at increasing sales are as shown in Figure 8.

The Company lists "promotion of cross-selling strategies to existing customers" and "strengthening the small and medium-sized business market" as their focal points in their marketing strategy.

The background to promoting the cross-selling strategy is that the value provided to existing major customers is specialized in SI or NI and there is a lot of room for expansion. This approach makes the most of the Company's high technical capabilities in a wide range of fields, such as providing one-stop services from proposal to development/construction to operation and actively identifying potential issues and providing optimal solutions.

Demand for IT investments is expected to continue to grow among mid-tier and small to medium-sized enterprises, including those promoting digital transformation, migrating to the cloud and strengthening security measures. The Company's strategy is to strengthen its competitive advantage, such as by developing an offering business that packages and provides services that fit the challenges and needs of companies.

Strengthening Efforts in the Growing Security & AI Markets

The Company cited "expansion of security business" and "utilization of generative AI and business development" as their approaches to growing markets.

An increase in ransomware attacks, the digitalization of society through dx and IOT, and growing concerns about the vulnerabilities of OT systems. Leveraging the strengths of being a multi-vendor company with high technical capabilities in both SI and NI, the Company aims to further grow by expanding resources in the security business.

In response to the rapidly growing AI market, the Company will promote the in-house use of generative AI to develop services for use cases that improve business efficiency and further improve productivity, through utilization of generative AI during the development process. There are examples within the Company of using AI to automate administrative tasks such as purchase orders and inspection certificates and the Company will work towards turning this into a service.

Aiming for Dramatic Growth Through Collaborating with Partner Companies, Aggressive Investment in Human Capital & M&A

The Company lists "collaborating with partner companies", "active investing in human capital" and "accelerated growth through M&A as core to their promotion of business expansion initiatives".

In terms of collaborating with partner companies, the Company has already built strong trust relationships with over 2,000 partner companies and will further promote collaboration to strengthen competitiveness and complement functions. By leveraging the strengths of each company, the Company will jointly build products, services and platforms that meet the market and customer needs.

In active investing in human capital, the Company will continue to work on expanding mid-career hiring, improving working conditions and making the work environment more attractive, supporting skills development and reforming their personnel systems, to capture market growth that accompanies the expansion of demand for IT investment.

Regarding M&A, the Company will actively utilize the funds generated under the current medium-term plan to consider acquisitions and alliances that will complement our functions and strengthen our management base, aiming to achieve continuous and dramatic growth.

Details of the next medium-term management plan are expected to be announced when the Company announces its financial results for FY3/26. It will be interesting to see how the Company will specifically tackle these issues.

Figure 8. Measures for the Next Medium-Term Plan

Source: Company Materials.

2) About the Integrated Report

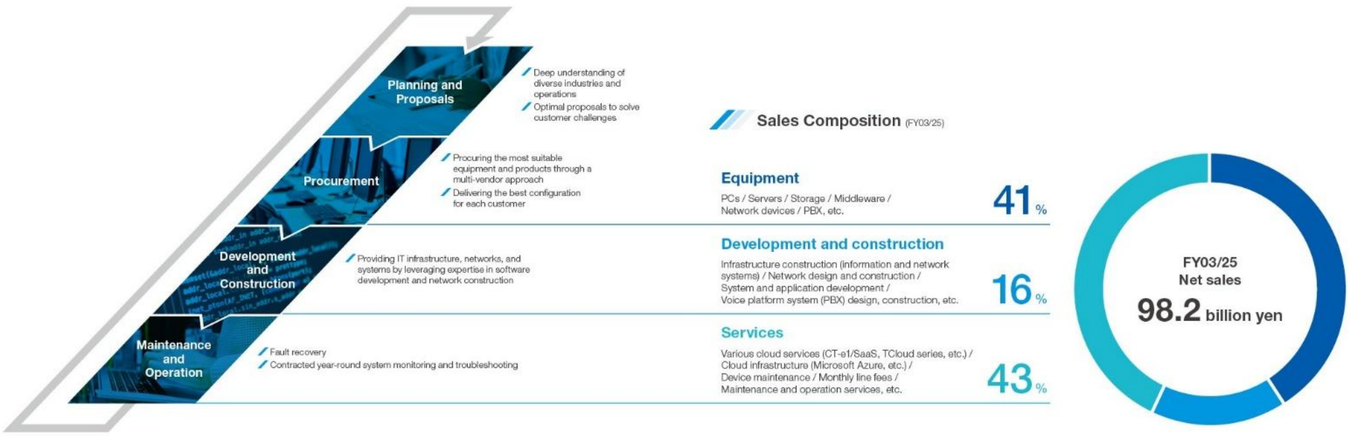
The Third "Integrated Report" Published in November 2025

The Company issued its third integrated report in November 2025 (Japanese version). This section touches on the distinctive features of the 2025 integrated report, including the "business model", "service implementation examples", "direction of the next medium-term plan" and "response to changes in TOPIX constituent stocks".

The Relationship Between the Support Provided & the Sales Mix

The business model is explained using a diagram like the one in Figure 9. The series of support provided to customers is shown as a flow of "Planning and Proposal → Procurement → Development and Construction → Maintenance and Operation". It shows the relationship with the sales composition ratio and also which support content is reflected in which item of the sales composition: "Procurement - Equipment", "Development and Construction - Development and Construction" and "Maintenance and Operation - Service".

Figure 9. Explanation of Business Model in Integrated Report



Source: Integrated Report 2025

The Number of & Explanation of Service Implementation Cases Increased, Clearly Giving Specific Examples of Service Content

The service implementation examples have been expanded to include the "TCloud for SCM Solution", "AI Utilization" and "Co-Creation with Shikano-Cho, Tottori City to Resolve the Vacant House Issue" examples, thereby making the specific service content easier to understand. Additionally, the number of companies listed in the "Testimonials from Customers and Partners" section has increased, showing that the Company is building relationships of trust with its customers and partners through the provision of its services.

Clearly Indicating the Direction of the Next Mid-Term Plan: A Company-Wide Approach to M&A

The direction of the next medium-term plan includes the "market strategy", "approach to growth markets" and "promotion of business expansion measures" as mentioned in the previous section.

Regarding M&A in particular, President Yoshida Katsuyuki made specific references in his "Top Message" to the Company, saying, "We are considering M&A in both cutting-edge fields such as AI and in expanding our existing fields. Our priority is to supplement our weaknesses in existing fields and acquire areas that can be used as a tool for cross-selling to existing customers, rather than cutting-edge fields."

Messages from Executive Vice President Yoda Masayuki, head of the Solutions Business Division and Executive Officer Ishimaru Masahiko, in charge of the Finance and Accounting Department, also touched on the use of M&A strategies and the foundations that support them, demonstrating a company-wide approach to M&A.

Demonstrated Response to TOPIX Constituent Changes by Increasing Free Float Ratio and Corporate Value

In response to the changes in TOPIX constituent stocks, the Company mentioned improving its free float ratio and corporate value. The Company achieved its intended free float ratio through the sale of shares held by financial institutions and the partial cancellation of treasury stock in February 2025. By implementing measures to improve corporate value, the Company is preparing to avoid being subject to a reduction in weighting during the second phase of the review of TOPIX, which will take place in October 2026.

3. Stock Price Trends and Valuations

1) Recent Stock Price Movements

On Sept 26th 2025, the Stock Price Reached ¥3,635. An All-Time High Since Listing

The Company's stock price fell in early April 2025 following the announcement of the US tariff policy and then bottomed out in mid-April. Since then, it has steadily risen due to market factors such as expectations for growth in the AI-related market, rising demand for security and a rise due to the Japan-US tariff negotiation agreement, as well as the Company's strong performance in Q1. On September 26th, it reached a new record high of ¥3,635 since listing. The closing price at the end of September was ¥3,350, up ¥1,087 (+48%), from the end of March 2025. TOPIX rose 18.0% over the same period, so the company outperformed the index by 30%.

The rise in the Company's stock price has slowed since the start of October and has been hovering around ¥3,200 since the announcement of the Company's financial results for H1. TOPIX has been rising due to expectations for proactive fiscal policies by Prime Minister Takaichi and the outperformance of the Company's stock price against TOPIX as of the end of November, compared to the end of March, has narrowed to 16.2%.

2) Valuation Comparison with Other Companies

Valuation is Low Compared to Peers

Valuation is low (Figure 10). The PER based on FY25 forecast is 12.6x and PBR based on FY24 results is 1.3x. The Company's stock price has been steadily rising since April 2025, with both PER and PBR gradually increasing, as shown in Figures 11 and 12. However, compared to its peers, SIer and NIer, it is significantly lower than the industry average of PER of 22.8x and PBR of 4.1x.

The Company's projected ROE, calculated by dividing the Company's forecast net income by its most recent equity capital, is 10%, relatively low within the industry. However, as shown in Figure 13, in the PBR/ROE distribution chart for 11 companies, the Company is located below the regression line. Even when ROE is considered, the current PBR can be said to be low.

Figure 10. Valuation Comparison with Peers

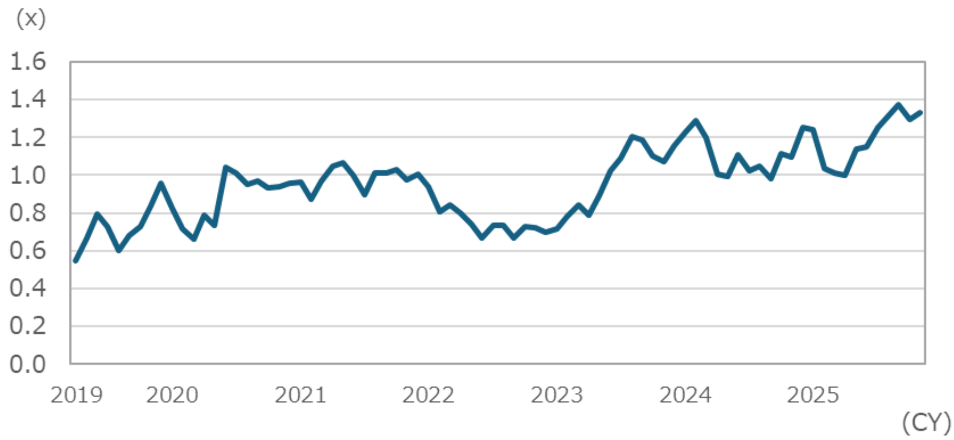
	Code	FY	Price (Dec.10)	Market Cap.	PER CoE	PBR Actual	EV/ EBITDA	Yield CoE	Payout CoE	ROE CoE
			¥	¥bn	x	x	Multiple	%	%	%
TSUZUKI DENKI	**8157**	**3/25**	**3,130**	**57.0**	**12.6**	**1.3**	**3.5**	**3.2**	**40.4**	**10.0**
Nomura Research Institute	4307	3/25	6,160	3,531.6	33.9	8.1	18.2	1.2	40.8	21.8
Otsuka Shokai	4768	12/24	3,231	1,225.2	20.9	3.3	10.6	2.6	54.9	15.8
TIS	3626	3/25	5,191	1,177.2	23.5	3.5	11.6	1.5	34.4	14.9
SCSK	9719	3/25	5,698	1,782.2	28.0	6.1	17.1	0.8	23.1	20.1
BIPROGY	8056	3/25	5,482	534.1	18.4	3.2	8.5	2.2	40.2	16.6
NITTETSU SOLUTIONS	2327	3/25	4,205	769.4	26.4	2.9	14.2	1.9	50.1	11.0
NSD	9759	3/25	3,556	272.0	21.9	4.0	12.0	2.6	56.6	18.7
JBCC HOLDINGS	9889	3/25	1,606	100.4	20.8	4.1	11.7	2.6	54.5	18.4
Dentsu Research Institute	4812	12/24	7,850	510.7	31.5	5.6	16.6	1.5	46.6	17.0
Japan Business Systems	5036	9/25	1,637	74.6	12.8	2.7	10.0	2.7	35.1	21.6
Average					**22.8**	**4.1**	**12.2**	**2.1**	**43.3**	**16.9**

Note: EBITDA is the figure calculated by adding the Company's forecast operating income to the most recent actual depreciation expenses. ROE is calculated based on the Company's forecast profit attributable to owners of the parent and the most recent quarterly equity capital
Source: Company Data. Compiled by Strategy Advisors.

Figure 11. Trends in PER (Based on the Current Fiscal Year)

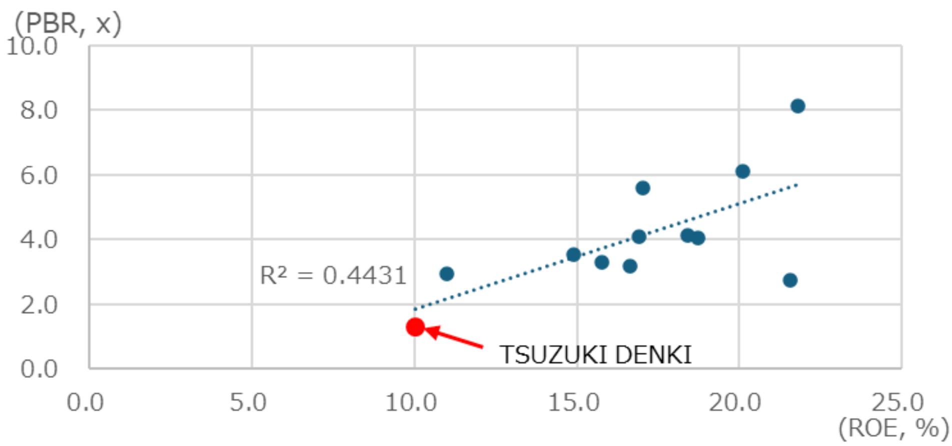
Source: Company Data. Compiled by Strategy Advisors.

Figure 12. Trends in PBR (Actual Base)



Source: Company Data. Compiled by Strategy Advisors.

Figure 13. PBR/ROE Distribution Chart



Source: Company Data. Compiled by Strategy Advisors.

The Stock Price May Not Fully Reflect the Growth Potential of Becoming a "Pure Player in ICT"

Furthermore, the relationship between SIer and NIer's current fiscal year earnings forecasts and PER are shown in Figure 14. There is a high correlation between the expected operating income margin for this fiscal year and PER. Companies with operating income margins of 10% or less (Tsuzuki Denki, Otsuka Shokai, BIPROGY, JBCC Holdings and Japan Business Systems) have PERs below 21x. The Company's operating income margin of 6.5% is 10th among 11 peers and its PER is 11th.

The Company's valuation, as stated in our Initiation Report dated February 21, 2024 (Tsuzuki Denki: Two-Way IT Company Aspires to Enhance Shareholder Value), Strategy Advisors believes that "the key to increasing the Company's valuation will be how well it can move away from the mentality of being an electronics trading company and bring its profit margins closer to those of its peers, SIer and NIer".

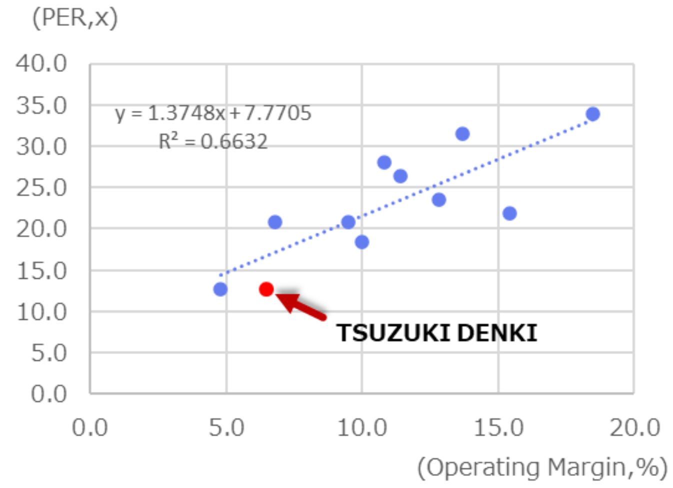
The Company was founded in 1932 as a distributor of Fuji Electric Manufacturing Co.'s telephone exchanges and other equipment. It later expanded into the sale of computers and peripheral devices and in 1963 registered its shares as over-the-counter stock with the Japan Securities Dealers Association. Although the weight of the information network solution services business has since increased, sales from the electronic device business still accounted for 24.2% of sales in FY3/23. Even after the transfer of the electronic device business in January 2024, it is believed that the perception from outside the Company that "Tsuzuki Denki is electronics trading company" has not been completely eradicated.

Through the transfer of its electronic device business, the Company became a "pure player in ICT" from January 2024, concentrating management resources on the information network business and improving capital efficiency. It has also made progress in pricing management and worked to improve productivity and as shown in Figure 15, profit margins have steadily increased.

However, PER and PBR have only risen slowly. This is thought to be because profit margins are still not as high as those of competitors and as a result of shareholders and investors having not yet felt much of the effect of becoming a "pure player in ICT." Expectations for future growth may not be fully factored into the stock price at this point in time.

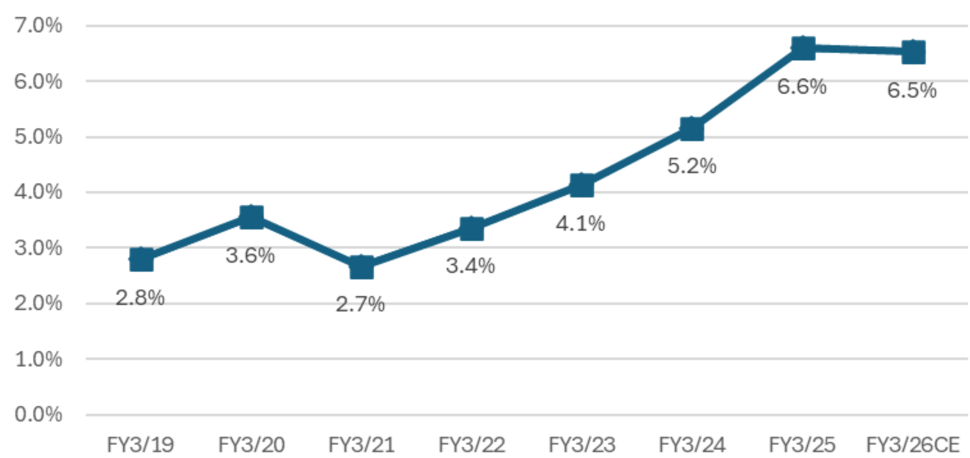
Figure 14. Current Earnings Forecast with Peers

	Code	FY	Operating Margin	PER (CoE)
TSUZUKI DENKI	**8157**	**3/26**	**6.5%**	**12.6**
Nomura Research Institute	4307	3/26	18.5%	33.9
Otsuka Shokai	4768	12/25	6.8%	20.9
TIS	3626	3/26	12.8%	23.5
SCSK	9719	3/26	10.8%	28.0
BIPROGY	8056	3/26	10.0%	18.4
NITTETSU SOLUTIONS	2327	3/26	11.4%	26.4
NSD	9759	3/26	15.4%	21.9
JBCC HOLDINGS	9889	3/26	9.5%	20.8
Dentsu Research Institute	4812	12/25	13.7%	31.5
Japan Business Systems	5036	9/26	4.8%	12.8
Average			**11.1%**	**22.8**



Source: Company Data. Compiled by Strategy Advisors.

Figure 15. Changes in Operating Income Margin



Source: Company Data. Compiled by Strategy Advisors.

3） Factors Driving Future Valuation Increases

Factors That Will Lead to a Rise in Valuation Going Forward

Strategy Advisers believe that the 3 factors that will lead to an increase in the Company's stock price valuation in the future: being, "Recognized for becoming a pure player in ICT", "Getting on a growth trajectory from FY3/26 onwards" and "Make greater use of cash and cash equivalents".

The background for citing "being recognized for becoming a pure player in ICT" is that, as mentioned in the previous section, the growth in PER and PBR since the transfer of the electronic device business has been moderate and it is believed that there is room for the Company's valuation to rise compared to its peers. By accelerating the shift of resources to growth areas, improving productivity and further advancing pricing management, the Company can improve its profit margin and approach the levels of its peers (the system integrator and network engineers); thereby being recognized as a pure player in ICT and this will be factored into the valuation.

The background to "getting on a growth trajectory from FY3/26 onwards" is that the forecast for operating income for FY3/26 is only a 3.4% increase compared to FY3/25. The next medium-term plan focuses on "profit growth in line with sales expansion" and indicates its direction in "market strategy", "approach to growth markets" and "promotion of business expansion measures." It is hoped that the Company will make a full-scale shift to sales expansion. It will be interesting to see whether the Company can grow profits while expanding sales from FY3/26 onwards by promoting a cross-selling strategy to existing customers, developing an offering business for medium-sized and small businesses, expanding its security business and utilizing and developing generative AI.

The reason behind the "increased utilization of cash and deposits" is that cash and deposits have been accumulating significantly since the transfer of the electronic device business in January 2024. It will be interesting to see how the Company utilizes these to enhance corporate value, including through M&A and shareholder returns. Figure 16 shows the trends in the Company's performance, shareholders' equity, ROE, and cash and deposit balance.

Operating income and ordinary income are expected to reach new highs for the fourth consecutive year in FY3/26, indicating favorable business performance. Despite the increase in dividends, shareholders' equity has been increasing, limiting ROE growth. Net income is expected to be ¥4.5 billion in FY3/26, and dividends per share are expected to increase only slightly from ¥99 in FY3/25 to ¥100 in FY3/26. This could lead to an increase in shareholders' equity of around ¥2.5 billion, resulting in ROE of around 10%. The Company has proposed a cost of shareholders' equity of 9% and its equity spread is expected to remain positive, but has been somewhat compressed. In the next medium-term plan, a key point will be how much ROE can be increased by increasing earnings through M&A using cash and deposits, or by reducing equity capital through increased shareholder returns.

Figure 16. Trends in Business Performance (Unit: ¥mn)

FY	3/19	3/20	3/21	3/22	3/26	3/24	3/25	3/26 CoE
Net Sales	118,872	125,366	120,004	119,316	123,899	124,856	98,263	102,500
Operating Income	3,318	4,457	3,202	4,012	5,118	6,439	6,481	6,700
Ordinary Income	3,494	4,577	3,361	4,227	5,355	6,486	6,596	6,750
Profit Attributable to Owners of Parent	2,212	3,155	2,346	2,798	3,521	5,477	4,764	4,500
Equity Capital	28,716	29,752	30,935	32,848	34,946	40,401	44,155	-
ROE	7.9%	10.8%	7.7%	8.8%	10.4%	14.5%	11.3%	-
Dividend Payout Ratio	30.3%	30.2%	34.3%	30.3%	30.9%	41.3%	40.3%	40.3%
Total Dividend Amount	709	1,000	853	894	1,137	1,684	1,858	-
Treasury Stock Acquisition	0	0	664	0	5	275	0	-
Cash And Deposits	15,457	18,473	15,944	19,162	20,877	38,696	38,713	-

Note: Dividend payout ratio is based on net income per share (operating income basis) excl., extraordinary gains & losses.

Source: Company Data. Compiled by Strategy Advisors.

Figure 17. Consolidated Income Statement (Unit: ¥mn)

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26CoE
Net Sales	**118,872**	**125,366**	**120,004**	**119,316**	**123,899**	**124,856**	**98,263**	**102,500**
YoY	6.2%	5.5%	-4.3%	-0.6%	3.8%	0.8%	-21.3%	4.3%
Information Network	**93,704**	**102,104**	**97,848**	**92,319**	**93,905**	**102,523**	**98,263**	**102,500**
YoY	13.8%	9.0%	-4.2%	-5.7%	1.7%	9.2%	-4.2%	4.3%
Electronic Devices	**25,168**	**23,261**	**22,155**	**26,996**	**29,993**	**22,333**	**-**	**-**
YoY	-15.1%	-7.6%	-4.8%	21.9%	11.1%	-25.5%	-	-
Gross Profit	**21,496**	**23,075**	**21,465**	**22,511**	**24,178**	**25,308**	**22,665**	**-**
(Gross Margin)	18.1%	18.4%	17.9%	18.9%	19.5%	20.3%	23.1%	-
SG&A	18,177	18,618	18,263	18,498	19,060	18,868	16,183	-
Operating Income	**3,318**	**4,457**	**3,202**	**4,012**	**5,118**	**6,439**	**6,481**	**6,700**
(YoY)	30.7%	34.3%	-28.2%	25.3%	27.6%	25.8%	0.7%	3.4%
(Operating Margin)	2.8%	3.6%	2.7%	3.4%	4.1%	5.2%	6.6%	6.5%
Information Network	3,054	4,289	2,960	3,400	4,155	5,925	6,481	6,700
Electronic Devices	260	163	242	592	954	487	-	-
Elimination or Corporate	3	4	0	18	8	27	-	-
Non-Operating Income/Losses	176	120	158	214	237	46	114	-
Non-Operating Income	408	316	312	364	370	203	294	-
Non-Operating Expenses	232	196	154	150	133	157	180	-
Ordinary Income	**3,494**	**4,577**	**3,361**	**4,227**	**5,355**	**6,486**	**6,596**	**6,750**
(YoY)	33.8%	31.0%	-26.6%	25.8%	26.7%	21.1%	1.7%	2.3%
(Ordinary Margin)	2.9%	3.7%	2.8%	3.5%	4.3%	5.2%	6.7%	6.6%
Extraordinary Income	175	32	52	219	423	2,443	275	-
Extraordinary Losses	161	293	174	16	198	514	23	-
Pretax Profit	3,509	4,317	3,238	4,430	5,579	8,415	6,848	-
(YoY)	42.5%	23.0%	-25.0%	36.8%	25.9%	50.8%	-18.6%	-
Pretax Profit Margin	3.0%	3.4%	2.7%	3.7%	4.5%	6.7%	7.0%	-
Income Taxes	1,296	1,161	817	1,453	1,844	2,768	1,953	-
(Effective Tax Rate)	36.9%	26.9%	25.2%	32.8%	33.1%	32.9%	28.5%	-
Net Income	**2,212**	**3,155**	**2,419**	**2,976**	**3,734**	**5,647**	**4,895**	**-**
Profit Attributable to Non-			72	178	213	170	130	-
Profit Attributable to	**2,212**	**3,155**	**2,346**	**2,798**	**3,521**	**5,477**	**4,764**	**4,500**
(YoY)	46.0%	42.6%	-25.6%	19.3%	25.8%	55.6%	-13.0%	-5.5%

Source: Company Data. Compiled by Strategy Advisors.

Figure 18. Consolidated Balance Sheet (Unit: ¥mn)

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26H1
Cash and Deposits	15,457	18,473	15,944	19,162	20,877	38,696	38,713	38,680
Accounts Receivables	33,372	29,927	31,765	32,757	32,248	21,579	21,940	18,104
Inventories	8,087	8,484	7,618	7,483	11,683	3,649	2,601	6,969
Other Current Assets	2,255	1,355	1,413	1,793	2,388	2,005	1,809	1,840
Current Assets	**59,171**	**58,239**	**56,740**	**61,195**	**67,196**	**65,929**	**65,063**	**65,593**
Property and Equipment	7,310	6,882	6,264	5,428	4,504	2,187	1,974	1,910
Other Tangible Fixed Assets	3,031	3,050	2,574	3,016	2,922	1,089	1,053	1,018
Tangible Assets	4,279	3,832	3,690	2,412	1,582	1,098	921	892
Intangible Assets	3,040	3,057	2,967	3,072	2,610	2,286	2,541	2,157
Investment Securities	9,422	9,269	10,228	9,528	8,896	10,663	10,483	10,031
Other Investment Assets	4,643	3,770	4,766	4,096	3,471	4,092	4,538	3,972
Investments and Other Assets	4,779	5,499	5,462	5,432	5,425	6,571	5,945	6,059
Total Fixed Assets	**19,772**	**19,208**	**19,460**	**18,030**	**16,011**	**15,137**	**14,999**	**14,100**
Total Assets	**78,944**	**77,448**	**76,200**	**79,226**	**83,207**	**81,066**	**80,063**	**79,693**
Accounts Payable	18,609	17,863	15,875	15,307	17,144	11,637	11,560	11,863
Short-Term Debt	13,483	6,265	6,483	10,695	5,882	5,359	9,177	5,568
Provision for Bonuses	2,567	2,536	2,415	2,303	2,513	2,416	2,105	2,087
Other Current Liabilities	6,479	6,785	5,264	6,581	7,521	9,050	6,367	6,110
Current Liabilities	**41,138**	**33,449**	**30,037**	**34,886**	**33,060**	**28,462**	**29,209**	**25,628**
Long-Term Debts	3,392	6,995	6,364	1,810	5,109	4,830	370	3,229
Net Defined Benefit Liabilities	5,434	6,805	7,959	8,531	8,826	5,563	4,498	4,244
Other Long-Term Liabilities	263	445	668	798	825	1,346	1,356	1,255
Long-Term Liabilities	**9,089**	**14,245**	**14,991**	**11,139**	**14,760**	**11,739**	**6,224**	**8,728**
Total Liabilities	**50,228**	**47,695**	**45,029**	**46,026**	**47,820**	**40,202**	**35,433**	**34,357**
Capital Stock	9,812	9,812	9,812	9,812	9,812	9,812	9,812	9,812
Capital Surplus	3,100	2,581	2,581	2,581	2,581	2,756	2,581	2,581
Retained Earnings	19,973	21,021	21,150	23,018	25,607	29,705	31,901	32,705
Treasury Stock	-5,816	-3,785	-2,472	-2,257	-1,979	-2,043	-985	-876
Shareholder's Equity	**27,070**	**29,629**	**31,072**	**33,155**	**36,022**	**40,230**	**43,309**	**44,222**
Other Comprehensive Income	1,646	123	-137	-307	-1,076	171	846	669
Non-Controlling Interest	-	-	236	352	441	462	473	444
Total Net Assets	**28,716**	**29,752**	**31,171**	**33,199**	**35,387**	**40,864**	**44,629**	**45,336**
Total Liabilities & Net Assets	**78,944**	**77,448**	**76,200**	**79,226**	**83,207**	**81,066**	**80,063**	**79,693**

Source: Company Data. Compiled by Strategy Advisors.

Figure 19. Stock Prices and Capital Efficiency Indicators

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25
EPS (¥)	**128.9**	**182.1**	**134.1**	**158.5**	**197.5**	**304.8**	**263.3**
BPS (¥)	**1,666.9**	**1,706.2**	**1,760.9**	**1,853.7**	**1,950.1**	**2,241.9**	**2,436.1**
Dividend Per Share (¥)	**39.0**	**55.0**	**46.0**	**48.0**	**61.0**	**90.0**	**99.0**
Dividend Payout Ratio	30.3%	30.2%	34.3%	30.3%	30.9%	41.3%	40.3%
Stock Price (¥)	**851**	**1,100**	**1,657**	**1,480**	**1,563**	**2,336**	**2,263**
PER (x)	**6.6**	**6.0**	**12.4**	**9.3**	**7.9**	**7.7**	**8.6**
PBR (x)	**0.5**	**0.6**	**0.9**	**0.8**	**0.8**	**1.0**	**0.9**
Number of Shares Issued ('000)	24,678	22,178	20,178	20,178	20,178	20,178	18,978
Number of Treasury Stock ('000)	7,450	4,740	2,610	2,458	2,258	2,156	852
Number of Shares of Treasury Stock Excluded ('000)	17,228	17,438	17,568	17,720	17,920	18,022	18,126
Market Capitalization (¥mn)	**14,661**	**19,182**	**29,110**	**26,226**	**28,009**	**42,098**	**41,019**
Equity Ratio	36.4%	38.4%	40.6%	41.5%	42.0%	49.8%	55.2%
Interest-Bearing Debt (¥mn)	16,875	13,260	12,847	12,505	10,991	10,189	9,547
D/E Ratio	0.59	0.45	0.42	0.38	0.31	0.25	0.22
Enterprise Value (¥mn)	16,079	13,969	26,013	19,569	18,123	13,591	11,853
EBITDA (¥mn)	5,237	6,704	5,656	6,634	7,333	8,060	7,830
EV/EBITDA (Multiple)	3.1	2.1	4.6	2.9	2.5	1.7	1.5
ROE	**7.9%**	**10.8%**	**7.7%**	**8.8%**	**10.4%**	**14.5%**	**11.3%**
ROIC	**8.0%**	**11.5%**	**8.5%**	**9.3%**	**11.8%**	**18.4%**	**26.8%**
Number of Employees	**2,336**	**2,359**	**2,408**	**2,382**	**2,328**	**2,094**	**2,061**

Note: Dividend payout ratio is based on net income per share (operating income basis) excluding extraordinary gains and losses. The figures for ROIC is calculated as (operating income x (1-income tax rate))/((tangible fixed assets + intangible fixed assets + net working capital)) average for the period
Source: Company Materials. Compiled by Strategy Advisors.

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