TSUZUKI DENKI | 8157 (TSE Prime)

Company Report

June 9, 2026

Strategy Advisors Inc.
Kenichi Ito

Expectations for Their Transformation into an Engineering Services Company

Tsuzuki Denki Co., Ltd. reported strong results for FY3/26, with net sales of ¥103.72bn (+5.6% YoY) and operating profit of ¥8.17bn (+26.2% YoY). The results slightly exceeded the upwardly revised guidance announced at the time of the 3Q earnings release (net sales of ¥102.50bn and operating profit of ¥8.00bn). FY3/26 marked the final year of the medium-term management plan called "Transformation 2026". We view the Company's steady execution of its transition toward a higher-profitability business structure through resource reallocation to growth areas identified in the plan positively. In particular, the improvement in the gross profit margin from 19.5% in FY3/23 to 24.1% in FY3/26, driven by measures such as the divestiture of the Electronic Devices business and the expansion of the growth domains, is noteworthy.

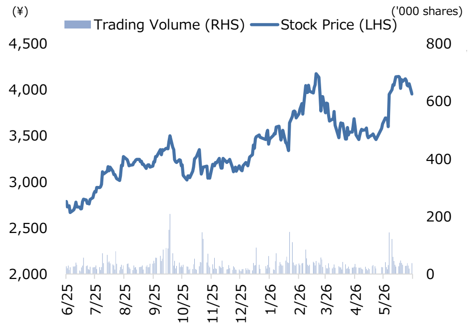
Under its new medium-term management plan, "Trust & Challenge 2029", the Company has set performance targets for FY3/29, the final year of the plan, of net sales of ¥120.0bn, operating profit of ¥12.0bn and ROE of 14.5% or higher and at the same time outlined their strategy to transform itself into a professional services company. Specifically, the Company is expected to pursue: (1) transition to a value creation model premised on AI and (2) evolution from a product-centric business model to a revenue model centered on engineering services.

Following the announcement of the FY3/26 results, the share price has risen further. The Company also announced changes to its shareholder return policy. It revised its dividend payout ratio target from 40% to 60% and its DOE target from 3.5% to 6.0%, while forecasting a dividend of ¥190 per share for FY3/27. A 60% dividend payout ratio is high even compared with peers and the market has responded favorably to both the Company's earnings growth and its enhanced shareholder return policy.

Meanwhile, the Company's PBR remains relatively low at 1.5x. This is attributable to both PER and ROE remaining below those of its peers. In our view, the Company's relatively low valuation reflects its higher exposure to hardware sales, which results in a lower gross profit margin than those of system integrators. In addition is the fact that annual revenue growth has remained below 10% in every year since FY3/23, excluding FY3/25, which was affected by the divestiture of the Electronic Devices business.

Against this backdrop, the Company's investment thesis is its transformation from a product-focused company into an engineering services-oriented company. Successful expansion of engineering services should support further gross margin improvement. In that case, we believe investors may begin to value the Company more in line with system integrators rather than equipment wholesalers, creating scope for multiple expansion and an upward re-rating of the Company's valuation.

Stock Price & Trading Volumes



Source: Strategy Advisors.

Key Indicators

Stock Price (06/08/26)	3,955
52-Week High (02/27/26)	4,175
52-Week Low (06/13/25)	2,667
All-Time High (02/27/26)	4,175
All-Time Low (11/19/02)	157
Number of Shares Issued (mn)	18.2
Market Capitalization (¥bn)	72.0
Equity Ratio (FY3/25, %)	14.0
ROE (FY3/25 Actual, %)	55.1
PER (FY3/26 CoE, Times)	12.5
PBR (FY3/25 Actual, Times)	1.5
Dividend Yield (FY3/26 CoE, %)	4.8

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

Japanese GAAP - Consolidated

FY	Net Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS	DPS
	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥)	(¥)
FY03/22	119,316	-0.6	4,012	25.3	4,227	25.8	2,798	19.2	158.5	48.0
FY03/23	123,899	3.8	5,118	27.6	5,355	26.7	3,521	25.8	197.5	61.0
FY03/24	124,856	0.8	6,439	25.8	6,486	21.1	5,477	55.6	304.8	90.0
FY03/25	98,263	-21.3	6,481	0.6	6,596	1.7	4,764	-13.0	263.3	99.0
FY03/26	103,728	5.6	8,178	26.2	8,320	26.1	6,472	35.9	355.9	126.0
FY03/27 CoE	107,000	3.2	8,700	6.4	8,700	4.6	5,750	-11.2	315.7	190.0

Source: Company Data. Compiled by Strategy Advisors.

1. FY3/26 Results: Strong Earnings Performance Raises Expectations for the Next Medium-Term Management Plan

FY3/26 Full-Year Results: Significant Profit Growth

Tsuzuki Denki reported strong FY3/26 results, with net sales of ¥103.72bn (+5.6% YoY) and operating profit of ¥8.17bn (+26.2% YoY), representing substantial profit growth. The results also slightly exceeded the upwardly revised guidance announced at the time of the 3Q earnings release (net sales of ¥102.50bn and operating profit of ¥8.00bn). FY3/26 marked the final year of the medium-term management plan called "Transformation 2026". We view the Company's steady execution of its transition toward a higher-profitability business structure through resource reallocation to the growth areas identified in the plan positively. In particular, the improvement in the gross profit margin from 19.5% in FY3/23 to 24.1% in FY3/26, driven by measures such as the divestiture of the Electronic Devices business and the expansion of the 6 growth areas, is noteworthy.

Equipment and Development & Construction Drove Performance

By business model, net sales from Equipment increased significantly, supported by strong demand for PCs associated with the end of Windows 10 support, increased adoption of servers and Storage devices by manufacturers and government agencies, and also, large-scale orders from financial institutions. In addition, the highly profitable Development & Construction business recorded revenue growth of 13.6% YoY and remained solid, particularly in the 6 growth areas. In FY3/26, net sales from Security and DX Consulting increased significantly, suggesting a favorable outlook for the new medium-term management plan, "Trust & Challenge 2029".

New Medium-Term Management Plan Targets Profitability Improvement & Business Expansion

Under the new medium-term management plan, the Company aims to scale its growth areas and cultivate new business domains. Compared with its peers, the Company's relatively modest Net Sales growth has been one factor behind the Company's relatively low market valuation. Under the new medium-term management plan, the Company intends to achieve both profitability improvement and business expansion by strengthening recruitment to secure engineers and by further enhancing its partner strategy.

The Company's strengths include a customer base of 20,000 companies and more than 2,000 co-creation partners. Leveraging the trust-based relationships it has built over many years as a competitive advantage, the Company is expected to achieve further scaling.

Revision of Shareholder Return Policy Also Announced

The Company also announced changes to its shareholder return policy, revising its dividend payout ratio target from 40% to 60% and its DOE target from 3.5% to 6.0%. Following the earnings announcement, the share price turned upward. Among system integrators, dividend payout ratios are generally around 50%, making a 60% payout ratio a relatively high level. By pursuing aggressive growth investments in human capital and M&A while also emphasizing capital efficiency through the distribution of residual earnings, the Company is expected to create a virtuous cycle of growth and shareholder returns, supporting sustained enhancement of corporate value.

Figure 1. Quarterly Sales by Business Model (Unit: ¥mn)

FY	3/25				3/26			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Sales	**18,771**	**23,071**	**23,455**	**32,965**	**18,833**	**24,604**	**23,889**	**36,401**
(YoY)	-33.3%	-29.6%	-27.0%	3.5%	0.3%	6.6%	1.9%	10.4%
Information Network Solutions	**18,771**	**23,071**	**23,455**	**32,965**	**18,833**	**24,604**	**23,889**	**36,401**
(YoY)	-8.2%	-8.5%	-6.3%	3.5%	0.3%	6.6%	1.9%	10.4%
Equipment	**5,455**	**8,794**	**9,668**	**16,403**	**4,923**	**9,873**	**9,234**	**19,348**
(YoY)	-23.9%	-18.4%	-13.3%	3.7%	-9.7%	12.3%	-4.5%	18.0%
Development & Construction	**2,590**	**3,900**	**3,610**	**5,210**	**3,009**	**4,221**	**4,100**	**6,061**
(YoY)	-3.6%	2.3%	-7.8%	19.2%	16.2%	8.2%	13.6%	16.3%
Services	**10,725**	**10,377**	**10,178**	**11,352**	**10,900**	**10,511**	**10,554**	**10,992**
(YoY)	1.3%	-2.3%	2.2%	-2.6%	1.6%	1.3%	3.7%	-3.2%
Gross Profit	4,114	5,413	5,074	8,064	4,354	6,311	5,481	8,819
(Gross Margin)	21.9%	23.5%	21.6%	24.5%	23.1%	25.7%	22.9%	24.2%
SG&A expenses	4,113	4,020	4,068	3,982	4,053	4,122	3,966	4,646
Operating Profit	**1**	**1,393**	**1,005**	**4,081**	**301**	**2,188**	**1,515**	**4,173**
(YoY)	-99.9%	-15.2%	-37.1%	63.2%	-	57.1%	50.7%	2.3%

Source: Company Data. Compiled by Strategy Advisors.

2. Order Backlog Remains at High Levels, Supporting Expectations for a Strong Start to FY3/27

Orders Remained Solid, Led by Equipment

Orders remained strong in FY3/26, supported by the acquisition of large-scale Equipment deployment projects for government agencies and financial institutions. Company-wide order backlog at fiscal year-end reached a high level of ¥26.9bn, +32.9% from the end of the previous fiscal year, suggesting a favorable start to FY3/27. Even after the surge in demand associated with the end of Windows 10 support (October 2025), replacement demand for servers and PCs has remained solid and orders for regular replacement projects continue to be received. In fact, Equipment order backlog at the end of Q4 remained robust at ¥16.9bn, +62.7% YoY.

Order Environment for Development & Construction Continues to Be Favorable

In Development & Construction, net sales remained firm, while orders were somewhat lackluster, resulting in a decline in fiscal year-end order backlog relative to the previous year. According to Strategy Advisors' discussions with the Company, this was due to the recognition of revenue from a large-scale project in Q4. Orders received since April have also been favorable, and we do not believe there is any particular cause for concern. In addition, the profitability of the Company's Development & Construction business is relatively high even compared with its peers. We expect further business expansion through leveraging its customer base of approximately 20,000 companies.

Net Sales in the Growth Areas Also Remained Strong

In Service, order backlog at fiscal year-end remained solid at ¥5.88bn (+8.9% YoY), mainly driven by the expansion of recurring-revenue businesses such as cloud solutions. In addition, net sales from the 6 growth areas exceeded the FY3/26 target of ¥16.3bn, reaching ¥17.7bn (+44.7% YoY). In particular, the Security businesses significantly outperformed its target, achieving ¥3.6bn versus the target of ¥2.0bn. The Company's networking and Security businesses are highly complementary, supporting our expectation for continued growth in the Security businesses from FY3/27 onward. Meanwhile, Managed Services progressed largely in line with plan, with net sales reaching ¥4.0bn. In addition to flow-type projects in Development & Construction, the accumulation of recurring revenue from Managed Services and other recurring businesses should further enhance the stability of the Company's earnings base.

Figure 2. Trends in Sales, Orders, and Order Backlog of Information Network Solutions (Unit: ¥mn)

FY	3/24				3/25				3/26			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	**20,445**	**25,208**	**25,026**	**31,844**	**18,771**	**23,071**	**23,456**	**32,965**	**18,833**	**24,604**	**23,889**	**36,401**
(YoY)	**14.5%**	**11.2%**	**25.5%**	**-4.8%**	**-8.2%**	**-8.5%**	**-6.3%**	**3.5%**	**0.3%**	**6.6%**	**1.8%**	**10.4%**
Equipment	7,172	10,779	11,156	15,818	5,455	8,794	9,668	16,403	4,923	9,873	9,234	19,348
(YoY)	29.5%	17.8%	79.1%	-7.1%	-23.9%	-18.4%	-13.3%	3.7%	-9.7%	12.3%	-4.5%	18.0%
Development & Construction	2,687	3,813	3,915	4,371	2,590	3,900	3,610	5,210	3,009	4,221	4,100	6,061
(YoY)	4.3%	11.2%	41.0%	-13.6%	-3.6%	2.3%	-7.8%	19.2%	16.2%	8.2%	13.6%	16.3%
Service	10,584	10,617	9,955	11,655	10,725	10,377	10,178	11,352	10,900	10,511	10,554	10,992
(YoY)	8.7%	5.3%	-8.9%	2.5%	1.3%	-2.3%	2.2%	-2.6%	1.6%	1.3%	3.7%	-3.2%
Orders	**24,271**	**23,962**	**20,301**	**26,026**	**23,642**	**25,641**	**22,583**	**28,749**	**27,806**	**28,167**	**26,193**	**28,218**
(YoY)	**-8.8%**	**-5.8%**	**-12.4%**	**-4.5%**	**-2.6%**	**7.0%**	**11.2%**	**10.5%**	**17.6%**	**9.9%**	**16.0%**	**-1.8%**
Equipment	8,576	10,300	7,379	11,796	7,880	11,351	9,120	11,792	11,886	13,971	11,905	12,129
(YoY)	-26.3%	-7.5%	-23.1%	-7.2%	-8.1%	10.2%	23.6%	0.0%	50.8%	23.1%	30.5%	2.9%
Development & Construction	3,797	3,767	2,784	3,251	3,785	4,091	3,995	4,406	4,652	4,453	3,504	4,446
(YoY)	31.8%	-6.1%	-18.4%	-12.9%	-0.3%	8.6%	43.5%	35.5%	22.9%	8.8%	-12.3%	0.9%
Service	11,896	9,896	10,139	10,978	11,976	10,199	9,467	12,552	11,267	9,743	10,784	11,643
(YoY)	-1.8%	-3.9%	-0.4%	1.6%	0.7%	3.1%	-6.6%	14.3%	-5.9%	-4.5%	13.9%	-7.2%
Order Backlog	**29,684**	**28,438**	**23,713**	**17,895**	**22,766**	**25,335**	**24,463**	**20,246**	**29,219**	**32,782**	**35,086**	**26,902**
(YoY)	**14.0%**	**-1.3%**	**-26.0%**	**-30.8%**	**-23.3%**	**-10.9%**	**3.2%**	**13.1%**	**28.3%**	**29.4%**	**43.4%**	**32.9%**
Equipment	18,846	18,368	14,590	10,568	12,993	15,550	15,002	10,391	17,354	21,452	24,123	16,904
(YoY)	14.9%	-0.1%	-32.9%	-39.4%	-31.1%	-15.3%	2.8%	-1.7%	33.6%	38.0%	60.8%	62.7%
Development & Construction	5,780	5,734	4,603	3,484	4,679	4,870	5,256	4,451	6,094	6,327	5,730	4,115
(YoY)	21.0%	6.9%	-23.2%	-25.4%	-19.1%	-15.1%	14.2%	27.8%	30.2%	29.9%	9.0%	-7.5%
Service	5,056	4,335	4,519	3,842	5,093	4,915	4,204	5,404	5,771	5,003	5,232	5,883
(YoY)	4.1%	-14.4%	4.8%	2.6%	0.7%	13.4%	-7.0%	40.7%	13.3%	1.8%	24.5%	8.9%

Source: Company Data. Compiled by Strategy Advisors.

DX Consulting Recorded Significant Net Sales Growth

In DX Consulting, net sales reached ¥1.1bn, representing a significant increase from the previous fiscal year. The Company intends to accelerate its transition toward a service-oriented revenue model centered on AI utilization and engineering services from FY3/27 onward. We view positively the growth achieved in DX Consulting, which represents the upstream segment of the value chain, as an important step toward earnings expansion from FY3/27 onward. By capturing projects at the upstream stage, the Company is expected to drive further expansion of its engineering services business.

AI Partnership Agreement Signed with IBM Japan

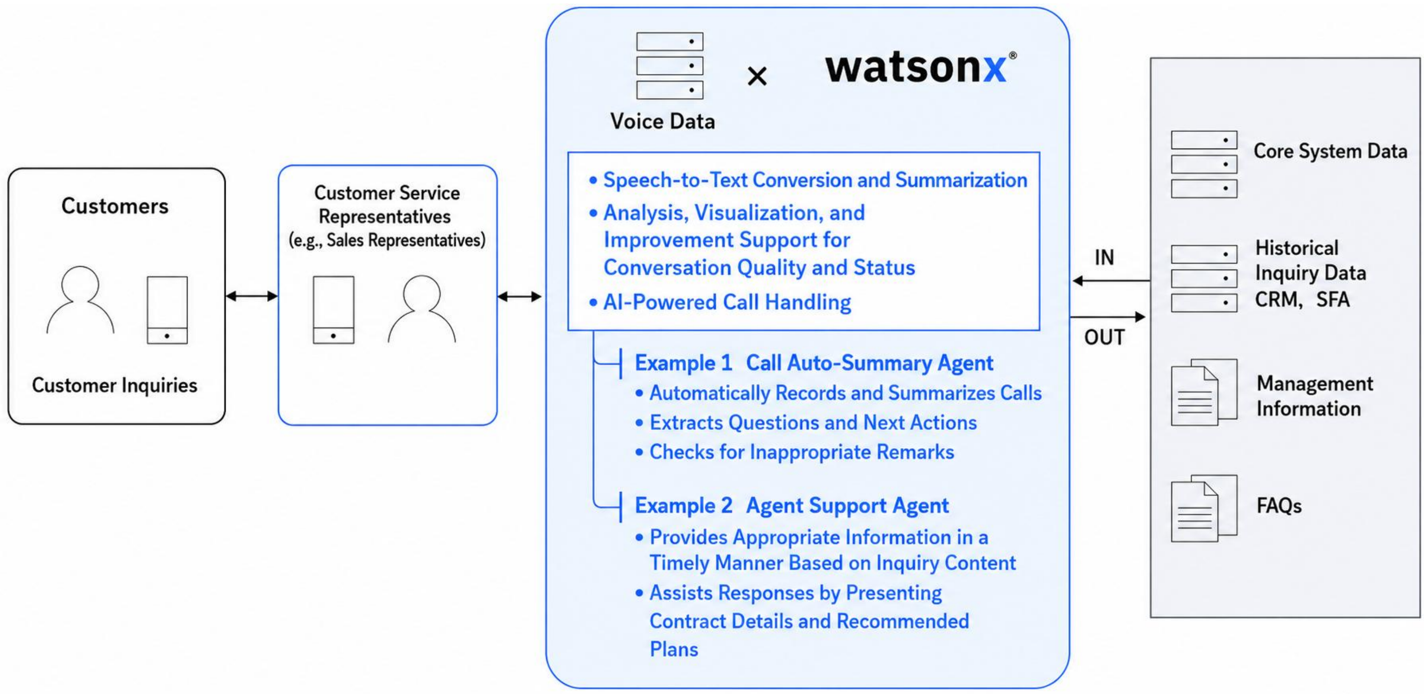
In the Contact Center System area, the Company signed a partnership agreement with IBM Japan on March 12 and plans to launch a new AI-powered voice communication service in July. The service is a voice AI solution that combines Tsuzuki Denki's Voice platform system technology with watsonx Orchestrate, IBM's AI agent product. The Company has already completed the development and verification of an initial product using the residential leasing business as a use case. We expect the Company to continue creating new services through such co-creation initiatives.

Figure 3. Sales Trend in Six Growth Areas (Unit: ¥100 mn)

FY	FY3/23	FY3/24	FY3/25	FY3/26	FY3/27 CoE
Sales in the six growth areas	89	120	123	177	163
Contact Center Systems	45	52	55	67	62
Cloud Communications	11	20	14	15	27
Managed Services	28	35	37	40	41
Security	3	10	12	36	20
DX Consulting	2	2	3	11	10
Market-specific DX Services	1	0.8	1.5	5.1	3.9
For logistics operations	-	0.5	1.3	4.7	2.4
For fruit and vegetable market	-	0.3	0.2	0.4	1.5

Source: Company Data. Compiled by Strategy Advisors.

Figure 4. Overview of AI-Powered Voice Communication Services



Source: Company Press Release.

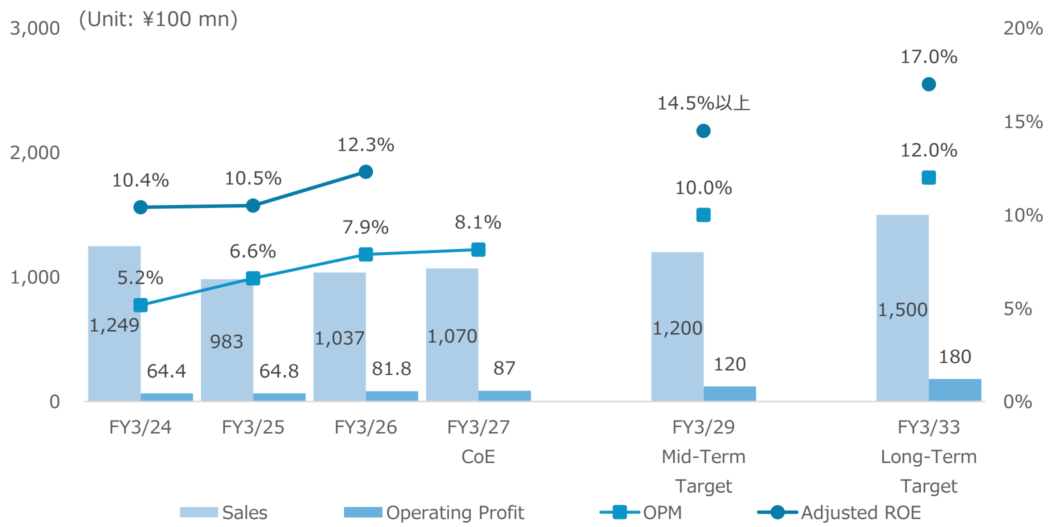
3. New Medium-Term Management Plan Aims to Improve Profitability and Expand Business Scale

New Medium-Term Management Plan Initiates Transformation of the Earnings Structure

Under its new medium-term management plan, “Trust & Challenge 2029” the Company has set performance targets for FY3/29, the final year of the plan, of net sales of ¥120.0bn, operating profit of ¥12.0bn and ROE of 14.5% or higher. This implies an operating profit CAGR of 13.6%, although the Company assumes a higher pace of profit growth in the latter half of the plan period, based on its FY3/27 guidance of net sales of ¥107.0bn and operating profit of ¥8.7bn.

The Company also revised upward its FY3/33 operating profit target under its Long-Term Vision from ¥10.0bn to ¥18.0bn. This implies a 1.5x increase in operating profit between FY3/29 and FY3/33. Against this backdrop, Strategy Advisors is focused on the Company’s efforts to transform its earnings structure in preparation for a significant step-up in growth during the next medium-term management plan period.

Figure 5. Long-Term Vision Ambitious Targets & Medium-Term Management Plan Targets



Source: Company Data. Compiled by Strategy Advisors.

Initiates Transformation of the Earnings Structure

Specifically, the Company aims to: 1) transition to a value creation model built on the premise of AI and 2) evolve from a product-centric business model to a revenue model centered on engineering services. The former refers to a policy of redesigning operations, processes and organizational structures themselves on the premise of AI. According to the Company, it will implement measures such as the automation of routine operations, the enhancement of decision-making and the revision of its personnel evaluation system. While the rise of generative AI has raised concerns that the need for human resources may diminish in the SI industry; the Company is expected to leverage its strengths, including expertise in both systems integration (SI) and network integration (NI), the ability to undertake tasks that are difficult to replace with AI, such as telecommunications infrastructure construction and its customer base of approximately 20,000 companies and industry expertise.

The latter involves redefining the previously disclosed 6 growth areas as the Four Core Engineering Domains, with a policy of expanding its business primarily in 4 areas: IT Platforms, Networks & Security, CX Communication Platforms and Business Application.

Engineering Services Net Sales Targeted to Increase by ¥9.5bn by FY3/29

The Company plans to expand engineering services net sales to ¥40.6bn by FY3/29, compared with ¥31.1bn in FY3/26, implying an increase of ¥9.5bn. The breakdown of the projected increase is ¥2.6bn from Network & Security, ¥1.4bn from Business Applications, ¥0.9bn from IT Platform, ¥0.3bn from CX Communication Platform and ¥4.3bn from other services, including PC kitting and transmission network construction.

Network & Security to Drive Growth

Within the 4 Core Engineering Domains, the Company expects Network & Security to be the primary growth driver. We believe the potential for accelerated growth in this area is high, given the Company's ability to provide end-to-end services ranging from the foundations of communications infrastructure; including cabling and facility construction, through operation and maintenance, its unique positioning as an independent company in an industry dominated by major trading house-affiliated and telecommunications carrier-affiliated firms and robust demand for security solutions surrounding network infrastructure.

In Business Applications, the Company intends to use upstream consulting services as a gateway to secure package software and custom application development projects. Strategy Advisors has high expectations for growth in this area, given the sharp increase in consulting services net sales in FY3/26. One of the Company's key strengths is its customer base across a wide range of industries. By engaging from the upstream stages of projects and addressing industry-specific challenges, the company should be able to achieve broad-based growth opportunities.

In addition, we believe there are significant opportunities to expand through partnerships. For example, in TCloud for SCM, a delivery management service provided to the logistics industry, the Company collaborates with Will Smart, which provides in-vehicle IoT devices, to offer delivery management services utilizing IoT equipment.

Business Model Transformation of the IT Platform Business Also Worth Watching

Within the IT Platform, the Company is expected to expand infrastructure-related engineering services in both on-premises and cloud environments associated with Equipment sales of servers, Storage Devices, and Other Products. During the previous medium-term management plan period, Equipment sales remained strong, while there were a number of cases in which the Company was unable to fully capture the associated engineering services opportunities. Going forward, the Company intends to transform its business model from one centered on Equipment sales to one that uses Equipment as a gateway to secure engineering services, thereby transforming its earnings structure. In addition, by winning Managed Services contracts following Infrastructure construction projects, the Company should also be able to accumulate recurring revenue streams.

Figure 6. Medium-Term Management Plan Targets for the 4 Core Engineering Domains (¥100mn)

(¥100mn)	FY3/26	FY3/29 MTP Target	Target CAGR
Four Core Engineering Domains	234	286	+7.0%
IT Platforms	30	39	+8.6%
Networks & security	76	102	+10.3%
CX communication platforms	37	40	+3.3%
of which: Unified Communications	28	28	+0.5%
of which: Contact Centers	9	12	+11.4%
Business Applications	89	103	+4.9%
of which: Standard-compliant app	38	45	+5.9%
of which: Customer-specific app	50	57	+4.2%

Source: Company Data. Compiled by Strategy Advisors.

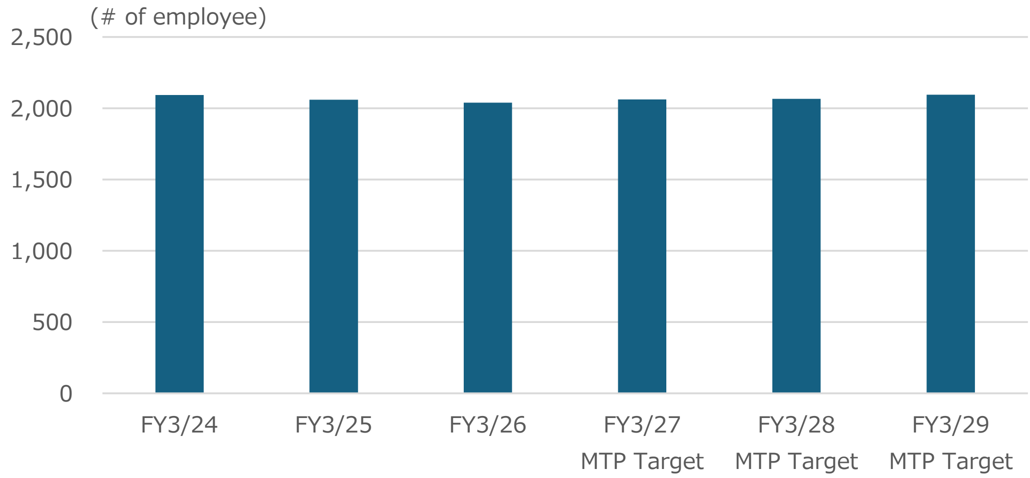
Focus Also on Whether Hiring Targets Can Be Achieved

Strategy Advisors believes that the greatest challenge in achieving the targets of the plan, will be expanding engineering resources through enhanced recruitment. The Company plans to increase its workforce to 2,095 employees by the end of FY3/29, compared with 2,040 employees at the end of FY3/26 and intends to hire approximately 100–150 employees annually, including new graduates.

Looking at past years, although the Company has continued to recruit both new graduates and mid-career hires, the total number of employees has not increased due to the impact of mandatory retirements. Whether the Company can implement more aggressive recruitment activities than in previous years will be a key point to watch.

In addition to strengthening mid-career recruitment, the Company also plans to enhance the skills of younger employees and revitalize its more experienced workforce through reskilling, thereby transforming its talent portfolio. Specifically, the Company will focus on increasing the number of innovation-oriented personnel capable of creating new businesses, as well as professional personnel with deep expertise in specific industries. The qualitative transformation of human capital is essential to the expansion of engineering services and the Company intends to promote skills enhancement and reskilling initiatives alongside its recruitment efforts.

Figure 7. Employee Count Trend

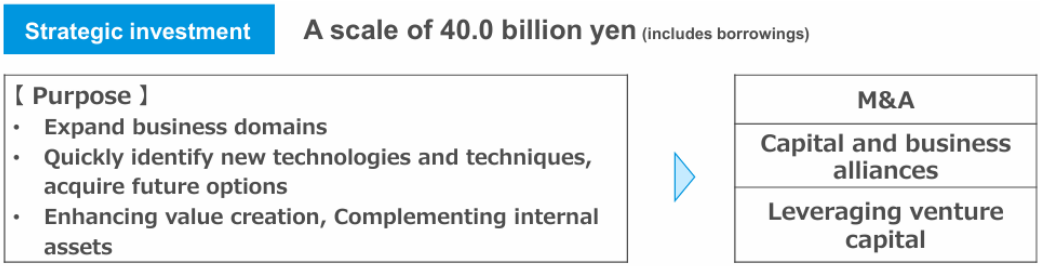


Source: Company Data. Compiled by Strategy Advisors.

¥40bn of Strategic Investment Over 3-Years

The Company plans to allocate ¥40.0bn over the next 3-years to M&A, capital and business alliances and venture capital investments as strategic investments, while also utilizing borrowings. Under the previous medium-term management plan, the Company also identified the acceleration of non-organic growth through M&A as a key initiative. However, no transactions were ultimately completed, leaving room for improvement in execution. Under the new medium-term management plan, the Company intends to capture non-organic growth opportunities by classifying potential targets into four categories: (1) strategic fit, (2) scale expansion (expansion of net sales and profits), (3) cash cow (strengthening recurring revenue) and (4) adjacent-domain and new-market expansion.

Figure 8. Overview of Strategic Investments



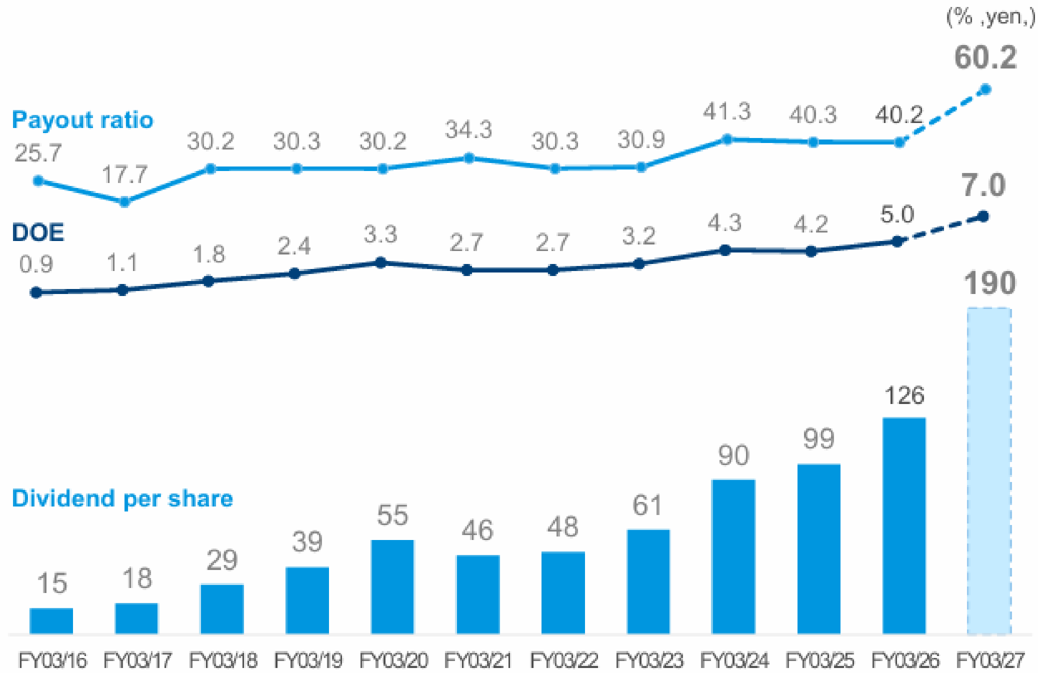
Source: Company Materials.

4. Share Price Poised to Rise Following the Revision of the Shareholder Return Policy

Payout Ratio Under the New Shareholder Return Policy Set at 60%

Following the announcement of its FY3/26 results, the Company's share price has risen further. Its share price performance has also been strong relative to peers, reflecting the tangible results of management's efforts to pursue capital market-oriented management. The Company also announced a revision to its shareholder return policy, increasing its payout ratio target from 40% to 60% and its DOE target from 3.5% to 6.0%, and set its FY3/27 forecast dividend at ¥190 per share. A 60% payout ratio is high even relative to peers, and we believe the capital markets highly value the Company's proactive shareholder return policy in addition to its profit growth. The dividend yield remains at a high level in the upper 4% range, making the stock an attractive investment opportunity. If the Company achieves its operating profit target of ¥12.0bn in the final year of its medium-term management plan, dividends per share are expected to increase to approximately ¥260. In addition to capital gains, investors can therefore expect attractive dividend income.

Figure 9. Trends in Annual Dividend Per Share, Dividend Payout Ratio, & DOE (¥, %)



Source: Company Materials.

PBR, PER & ROE Remain Relatively Low

The Company's PBR remains relatively low at 1.5x. This is attributable to the fact that both its PER and ROE remain below those of its peers. Strategy Advisors believes that the Company's relatively low valuation reflects its high exposure to Equipment sales, which results in a lower gross profit margin than those of SI companies, as well as the fact that its net sales growth has remained below 10% in every fiscal year since FY3/23, excluding FY3/25, when the divestiture of the Electronic Devices business had an impact.

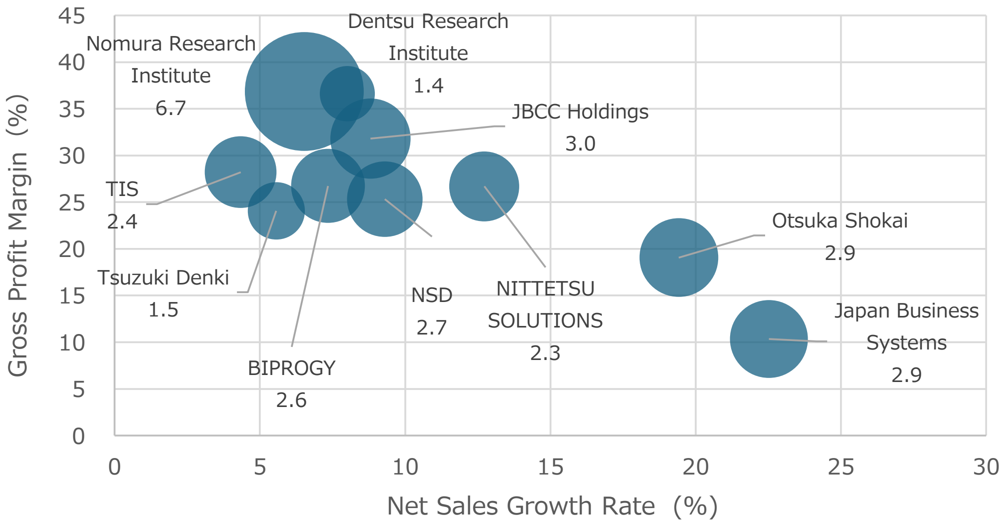
Valuation of SI Companies

Valuations in the SI industry tend to be driven by a combination of net sales growth and gross profit margin. Major SI companies that undertake a large number of upstream projects, including consulting engagements, typically generate gross profit margins of 30%–40% and many trade at PBRs exceeding 3.0x. By contrast, Otsuka Corporation and Japan Business Systems have relatively low gross profit margins of 10%–20%, but their net sales growth rates are around 20%, resulting in PBR valuations of approximately 3.0x.

Equity Story: Transformation into an Engineering Services Company

Against this backdrop, the Company's equity story is its transformation from a product-centric company into an engineering services-oriented company. If the Company can further improve its gross profit margin through the expansion of engineering services as set out in its Medium-Term Management Plan, the Company could be valued based on multiples comparable to those of SI companies rather than on valuations typically applied to equipment wholesalers, resulting in an upward re-rating of its valuation.

Figure 10. Gross Profit Margin × Net Sales Growth Rate × PBR (FY3/26)



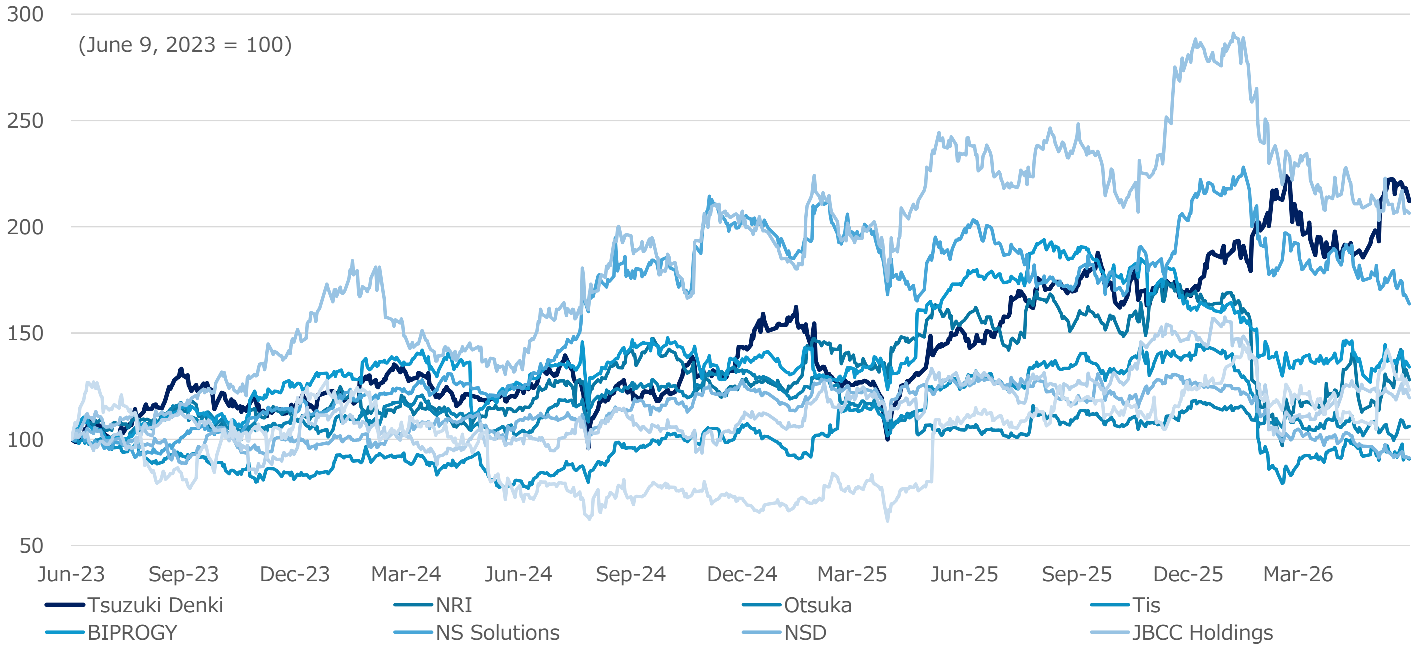
Source: Company Data. Compiled by Strategy Advisors.

Figure 11. Comparative Valuations with Peers

	Code	FY	Price 8-Jun ¥	Market cap ¥bn	EV ¥ bn	EPS CoE ¥	PER CoE x	PBR x	ROE CoE %	DPR CoE %	Stock Price Change 1-Year %	3-Year %
Tsuzuki Denki	**8157**	**Mar-26**	**3,955**	**72.0**	**37.0**	**315.7**	**12.5**	**1.5**	**12.4**	**60.2**	**39.9**	**112.2**
Nomura Research Institute	4307	Mar-26	4,699	2,699.1	2,802.6	207.2	22.7	6.2	27.4	40.5	-17.3	28.0
Otsuka Shokai	4768	Dec-25	2,977	1,128.7	874.6	161.2	18.5	2.9	16.0	58.9	1.5	6.1
TIS	3626	Mar-26	3,349	737.0	677.8	271.7	12.3	2.3	17.1	33.1	-27.1	-9.3
BIPROGY	8056	Mar-26	4,520	436.5	465.1	333.4	13.6	2.4	18.5	42.0	-22.3	34.0
NITTETSU SOLUTIONS	2327	Mar-26	3,339	611.0	527.3	172.7	19.3	2.2	11.7	50.4	-15.9	63.7
NSD	9759	Mar-26	2,537	192.6	157.7	173.8	14.6	2.6	18.6	55.8	-26.5	-8.7
JBCC Holdings	9889	Mar-26	1,186	72.0	55.4	99.6	11.9	2.9	24.6	50.2	-11.8	106.4
Dentsu Research Institute	4812	Dec-25	2,088	407.5	343.2	92.2	22.6	4.1	18.8	48.8	-4.8	19.5
Japan Business Systems	5036	Sep-25	1,612	73.5	89.7	155.4	10.4	2.7	28.1	32.2	14.6	23.1
Average							15.8	3.0	19.3	47.2		

Note: Nomura Research Institute, BIPROGY, and Nippon Steel Solutions apply IFRS; all others apply Japanese GAAP
Source: Speeda Data. Compiled by Strategy Advisors.

Figure 12. Relative Share Price Performance Over the Past 3 Years



Source: Speeda Data. Compiled by Strategy Advisors.

Figure 13. Consolidated Income Statement (Unit: ¥mn)

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/27 CoE
Net Sales	**118,872**	**125,366**	**120,004**	**119,316**	**123,899**	**124,856**	**98,263**	**103,728**	**107,000**
(YoY)	6.2%	5.5%	-4.3%	-0.6%	3.8%	0.8%	-21.3%	5.6%	3.2%
Information Network Solutions	**93,704**	**102,104**	**97,848**	**92,319**	**93,905**	**102,523**	**98,263**	**103,728**	
(YoY)	13.8%	9.0%	-4.2%	-5.7%	1.7%	9.2%	-4.2%	5.6%	
Equipment	**39,391**	**44,790**	**44,207**	**37,127**	**37,943**	**44,925**	**40,320**	**43,378**	
(YoY)	NA	13.7%	-1.3%	-16.0%	2.2%	18.4%	-10.3%	7.6%	
Development and Construction	**17,665**	**19,668**	**14,518**	**14,501**	**13,840**	**14,786**	**15,310**	**17,391**	
(YoY)	NA	11.3%	-26.2%	-0.1%	-4.6%	6.8%	3.5%	13.6%	
Services	**36,647**	**37,645**	**39,122**	**40,690**	**42,121**	**42,811**	**42,632**	**42,957**	
(YoY)	NA	2.7%	3.9%	4.0%	3.5%	1.6%	-0.4%	0.8%	
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%	-	-	
Engineering Services								**31,100**	**32,300**
(YoY)								-	3.9%
Products								**72,500**	**74,600**
(YoY)								-	2.9%
Gross Profit	**21,496**	**23,075**	**21,465**	**22,511**	**24,178**	**25,308**	**22,665**	**24,965**	
(Gross Margin)	18.1%	18.4%	17.9%	18.9%	19.5%	20.3%	23.1%	24.1%	
SG&A expenses	18,177	18,618	18,263	18,498	19,060	18,868	16,183	16,787	
Operating Profit	**3,318**	**4,457**	**3,202**	**4,012**	**5,118**	**6,439**	**6,481**	**8,178**	**8,700**
(YoY)	30.7%	34.3%	-28.2%	25.3%	27.6%	25.8%	0.7%	26.2%	6.4%
(Operating Margin)	2.8%	3.6%	2.7%	3.4%	4.1%	5.2%	6.6%	7.9%	8.1%
Information Network	3,054	4,289	2,960	3,400	4,155	5,925	6,481	8,178	
Electronic Devices	260	163	242	592	954	487	-	-	
Elimination or Corporate	3	4	0	18	8	27	0	0	
Non-Operating Profit	408	316	312	364	370	203	294	269	
Non-Operating Expenses	232	196	154	150	133	157	180	126	
Ordinary Profit	**3,494**	**4,577**	**3,361**	**4,227**	**5,355**	**6,486**	**6,596**	**8,320**	**8,700**
(YoY)	33.8%	31.0%	-26.6%	25.8%	26.7%	21.1%	1.7%	26.1%	4.6%
(Ordinary Margin)	2.9%	3.7%	2.8%	3.5%	4.3%	5.2%	6.7%	8.0%	8.1%
Extraordinary Profit	175	32	52	219	423	2,443	275	2,419	
Extraordinary Losses	161	293	174	16	198	514	23	1,349	
Income before income taxes and others	3,509	4,317	3,238	4,430	5,579	8,415	6,848	9,391	
(YoY)	42.5%	23.0%	-25.0%	36.8%	25.9%	50.8%	-18.6%	37.1%	
Pre-Tax Profit Margin	3.0%	3.4%	2.7%	3.7%	4.5%	6.7%	7.0%	9.1%	
Income Taxes	1,296	1,161	817	1,453	1,844	2,768	1,953	2,778	
(Effective Tax Rate)	36.9%	26.9%	25.2%	32.8%	33.1%	32.9%	28.5%	29.6%	
Net Profit	**2,212**	**3,155**	**2,419**	**2,976**	**3,734**	**5,647**	**4,895**	**6,612**	
Profit Attributable to Non-controlling Interests			72	178	213	170	130	140	
Profit Attributable to Owners of the Parent	**2,212**	**3,155**	**2,346**	**2,798**	**3,521**	**5,477**	**4,764**	**6,472**	**5,750**
(YoY)	46.0%	42.6%	-25.6%	19.3%	25.8%	55.6%	-13.0%	35.9%	-11.2%

Source: Company Data. Compiled by Strategy Advisors.

Figure 14. Key Financial Indicators

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/27 CoE
EPS (¥)	**128.9**	**182.1**	**134.1**	**158.5**	**197.5**	**304.8**	**263.3**	**355.9**	**315.7**
BPS (¥)	**1,666.9**	**1,706.2**	**1,760.9**	**1,853.7**	**1,950.1**	**2,241.9**	**2,436.1**	**2,652.8**	
Dividend Per Share (¥)	**39.0**	**55.0**	**46.0**	**48.0**	**61.0**	**90.0**	**99.0**	**126.0**	**190.0**
Dividend Payout Ratio	30.3%	30.2%	34.3%	30.3%	30.9%	29.5%	37.6%	35.4%	60.2%
Stock Price (¥)	**851**	**1,100**	**1,657**	**1,480**	**1,563**	**2,336**	**2,263**	**3,465**	
PER (x)	**6.6**	**6.0**	**12.4**	**9.3**	**7.9**	**7.7**	**8.6**	**9.7**	
PBR (x)	**0.5**	**0.6**	**0.9**	**0.8**	**0.8**	**1.0**	**0.9**	**1.3**	
Number of Shares Issued ('000)	24,678	22,178	20,178	20,178	20,178	20,178	18,978	18,978	
Number of Treasury Stock ('000)	7,450	4,740	2,610	2,458	2,258	2,156	852	764	
Number of Shares of Treasury Stock Excluded ('000)	17,228	17,438	17,568	17,720	17,920	18,022	18,126	18,213	
Market Capitalization (¥mn)	**14,661**	**19,182**	**29,110**	**26,226**	**28,009**	**42,098**	**41,019**	**63,109**	
Equity Ratio	36.4%	38.4%	40.6%	41.5%	42.0%	49.8%	55.2%	55.1%	
Interest-Bearing Debt (¥mn)	16,875	13,260	12,847	12,505	10,991	10,189	9,547	8,394	
D/E Ratio	0.59	0.45	0.42	0.38	0.31	0.25	0.22	0.18	
Enterprise Value (¥mn)	16,079	13,969	26,013	19,569	18,123	13,591	11,853	28,036	
EBITDA (¥mn)	5,237	6,704	5,656	6,634	7,333	8,060	7,830	9,429	
EV/EBITDA (Multiple)	3.1	2.1	4.6	2.9	2.5	1.7	1.5	3.0	
ROE	**7.9%**	**10.8%**	**7.7%**	**8.8%**	**10.4%**	**14.5%**	**11.3%**	**14.0%**	
Actual ROE						**10.4%**	**10.5%**	**12.3%**	
ROIC	**8.0%**	**11.5%**	**8.5%**	**9.3%**	**11.8%**	**18.4%**	**26.8%**	**32.5%**	
Number of Employees	**2,336**	**2,359**	**2,408**	**2,382**	**2,328**	**2,094**	**2,061**	**2,040**	

Source: Speeda Data. Compiled by Strategy Advisors.

Figure 15. Consolidated Balance Sheet (Unit: ¥mn)

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26
Cash and Deposits	15,457	18,473	15,944	19,162	20,877	38,696	38,713	43,467
Accounts Receivables	33,372	29,927	31,765	32,757	32,248	21,579	21,940	24,932
Inventories	8,087	8,484	7,618	7,483	11,683	3,648	2,601	4,259
Other Current Assets	2,255	1,355	1,413	1,793	2,388	2,006	1,809	1,574
Current Assets	**59,171**	**58,239**	**56,740**	**61,195**	**67,196**	**65,929**	**65,063**	**74,232**
Tangible Fixed Assets	7,310	6,882	6,264	5,428	4,504	2,187	1,974	1,814
Property and Equipment	3,031	3,050	2,574	3,016	2,922	1,089	1,053	1,026
Other Tangible Fixed Assets	4,279	3,832	3,690	2,412	1,582	1,098	921	788
Intangible Assets	3,040	3,057	2,967	3,072	2,610	2,286	2,541	2,005
Investments and Other Assets	9,422	9,269	10,228	9,528	8,896	10,663	10,483	9,577
Investment Securities	4,643	3,770	4,766	4,096	3,471	4,092	4,538	2,383
Other Investment Assets	4,779	5,499	5,462	5,432	5,425	6,571	5,945	7,194
Total Fixed Assets	**19,772**	**19,208**	**19,460**	**18,030**	**16,011**	**15,137**	**14,999**	**13,398**
Total Assets	**78,944**	**77,448**	**76,200**	**79,226**	**83,207**	**81,066**	**80,063**	**87,630**
Accounts Payable	18,609	17,863	15,875	15,307	17,144	11,637	11,560	13,840
Short-Term Debt	13,483	6,265	6,483	10,695	5,882	5,359	9,177	3,989
Provision for Bonuses	2,567	2,536	2,415	2,303	2,513	2,416	2,105	2,809
Other Current Liabilities	6,479	6,785	5,264	6,581	7,521	9,050	6,367	8,548
Current Liabilities	**41,138**	**33,449**	**30,037**	**34,886**	**33,060**	**28,462**	**29,209**	**29,186**
Long-Term Debts	3,392	6,995	6,364	1,810	5,109	4,830	370	4,405
Net Defined Benefit Liabilities	5,434	6,805	7,959	8,531	8,826	5,563	4,498	3,859
Other Long-Term Liabilities	263	445	668	798	825	1,346	1,356	1,341
Long-Term Liabilities	**9,089**	**14,245**	**14,991**	**11,139**	**14,760**	**11,739**	**6,224**	**9,605**
Total Liabilities	**50,228**	**47,695**	**45,029**	**46,026**	**47,820**	**40,202**	**35,433**	**38,792**
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	36,421
Treasury Stock	-5,816	-3,785	-2,472	-2,257	-1,979	-2,043	-985	-867
Shareholder's Equity	**27,070**	**29,629**	**31,072**	**33,155**	**36,022**	**40,230**	**43,309**	**47,948**
Other Comprehensive Income	1,646	123	-137	-307	-1,076	171	846	367
Valuation difference on available-for-sale securities	1,036	690	1,485	1,343	1,132	1,944	2,289	1,159
Deferred gains or losses on hedges		-1	-3	-37	2	0	0	0
Foreign currency translation adjustment	36	10	52	145	193	0	0	0
Remeasurements of defined benefit plans	572	-575	-1,672	-1,760	-2,405	-1,773	-1,443	-791
Non-Controlling Interest	-	-	236	352	441	462	473	522
Total Net Assets	**28,716**	**29,752**	**31,171**	**33,199**	**35,387**	**40,864**	**44,629**	**48,837**
Total Liabilities & Net Assets	**78,944**	**77,448**	**76,200**	**79,226**	**83,207**	**81,066**	**80,063**	**87,630**

Source: Company Data. Compiled by Strategy Advisors.

Figure 16. Quarterly Financial Performance by Business (Unit: ¥mn)

FY	3/24				3/25				3/26			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Sales	**28,128**	**32,759**	**32,126**	**31,843**	**18,771**	**23,071**	**23,455**	**32,965**	**18,833**	**24,604**	**23,889**	**36,401**
(YoY)	14.3%	7.6%	16.8%	-23.0%	-33.3%	-29.6%	-27.0%	3.5%	0.3%	6.6%	1.9%	10.4%
Information Network Solutions	**20,445**	**25,208**	**25,026**	**31,843**	**18,771**	**23,071**	**23,455**	**32,965**	**18,833**	**24,604**	**23,889**	**36,401**
(YoY)	14.5%	11.2%	25.5%	-4.8%	-8.2%	-8.5%	-6.3%	3.5%	0.3%	6.6%	1.9%	10.4%
Equipment	**7,172**	**10,779**	**11,156**	**15,818**	**5,455**	**8,794**	**9,668**	**16,403**	**4,923**	**9,873**	**9,234**	**19,348**
(YoY)	29.5%	17.8%	79.1%	-7.1%	-23.9%	-18.4%	-13.3%	3.7%	-9.7%	12.3%	-4.5%	18.0%
Development & Construction	**2,687**	**3,813**	**3,915**	**4,371**	**2,590**	**3,900**	**3,610**	**5,210**	**3,009**	**4,221**	**4,100**	**6,061**
(YoY)	4.3%	11.2%	41.0%	-13.6%	-3.6%	2.3%	-7.8%	19.2%	16.2%	8.2%	13.6%	16.3%
Services	**10,584**	**10,617**	**9,955**	**11,655**	**10,725**	**10,377**	**10,178**	**11,352**	**10,900**	**10,511**	**10,554**	**10,992**
(YoY)	8.7%	5.3%	-8.9%	2.5%	1.3%	-2.3%	2.2%	-2.6%	1.6%	1.3%	3.7%	-3.2%
Gross Profit	5,346	6,436	6,527	6,999	4,114	5,413	5,074	8,064	4,354	6,311	5,481	8,819
(Gross Margin)	19.0%	19.6%	20.3%	22.0%	21.9%	23.5%	21.6%	24.5%	23.1%	25.7%	22.9%	24.2%
SG&A expenses	4,648	4,793	4,930	4,498	4,113	4,020	4,068	3,982	4,053	4,122	3,966	4,646
Operating Profit	**698**	**1,643**	**1,597**	**2,501**	**1**	**1,393**	**1,005**	**4,081**	**301**	**2,188**	**1,515**	**4,173**
(YoY)	NM	34.3%	313.7%	-32.6%	-99.9%	-15.2%	-37.1%	63.2%	-	57.1%	50.7%	2.3%
(Operating Margin)	2.5%	5.0%	5.0%	7.9%	0.0%	6.0%	4.3%	12.4%	1.6%	8.9%	6.3%	11.5%
Information Network Solutions	472	1,458	1,493	2,501	1	1,393	1,006	4,081	301	2,188	1,515	4,173
(Operating Margin)	2.3%	5.8%	6.0%	7.9%	0.0%	6.0%	4.3%	12.4%	1.6%	8.9%	6.3%	11.5%
Electronic Device	216	176	95	-	-	-	-	-	-	-	-	-
(Operating Margin)	2.8%	2.3%	1.3%	-	-	-	-	-	-	-	-	-
Elimination or Corporate	9	9	9	-	-	-	-	-	-	-	-	-
Non-operating Profit (Loss)	-25	45	34	-8	41	53	26	-6	59	45	32	7
Ordinary Profit	**673**	**1,688**	**1,631**	**2,494**	**41**	**1,447**	**1,032**	**4,076**	**359**	**2,234**	**1,548**	**4,179**
(YoY)	NM	33.7%	234.2%	-32.8%	-93.9%	-14.3%	-36.7%	63.4%	762.4%	54.4%	50.0%	2.5%
(Ordinary Margin)	2.4%	5.2%	5.1%	7.8%	0.2%	6.3%	4.4%	12.4%	1.9%	9.1%	6.5%	11.5%
Extraordinary Profit	0	1,816	-7	120	31	-6	0	227	19	33	648	370
Pretax Profit	673	3,504	1,624	2,614	72	1,440	1,032	4,304	379	2,266	2,196	4,550
Income Taxes	172	1,000	305	1,291	39	382	297	1,235	81	683	648	1,366
Net Profit	501	2,504	1,319	1,323	33	1,058	735	3,069	297	1,583	1,549	3,183
Net Profit to Minority Interests	52	47	37	34	32	22	35	41	25	38	38	39
Net Profit to Owners of the Parent	**448**	**2,458**	**1,281**	**1,290**	**1**	**1,035**	**700**	**3,028**	**272**	**1,545**	**1,510**	**3,145**
(YoY)	-404.8%	190.2%	369.2%	-49.4%	-99.7%	-57.9%	-45.4%	134.7%	-	49.3%	115.7%	3.9%

Source: Company Data. Compiled by Strategy Advisors.

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