TSUZUKI DENKI | 8157 (TSE Prime)

Company Report

August 17, 2026

Strategy Advisors Inc.
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Temporary Profit Decline, but Proactive Management Stance Highly Valued

Tsuzuki Denki's Q1 FY3/27 results (April–June) showed net sales of ¥22.01bn (+16.9% YoY) and an operating loss of ¥ 0.12bn (compared to an operating profit of ¥ 0.30bn in Q1 of the previous fiscal year). Although the fiscal year started with a profit decline, this was within the Company's expectations. The company actively made proactive investments leading to future business expansion, such as: 1) a decline in the gross profit margin due to the impact of strategically acquired large-scale product projects, 2) compensation increases for engineers and investments in human resources, and 3) investments in promotions, IT, and AI.

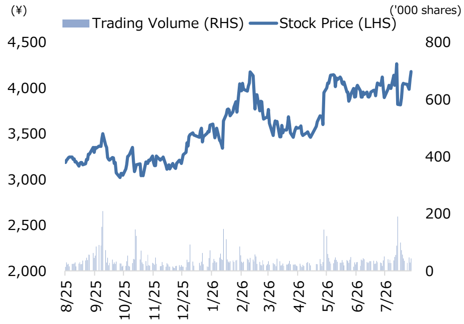
For the current fiscal year, the company is expected to strengthen recruitment and expand orders for Engineering Services with the aim of growing the business of Engineering Services. In Q1, in addition to executing hiring as planned, the value of potential future orders appears to have increased compared to previous fiscal years. Attention will be focused on whether orders for Engineering Services will expand from the second half onward.

Following the earnings announcement, the share price fell temporarily, but it turned upward again and it has been trading near its record high. Having raised the target dividend payout ratio to 60% from the current fiscal year, the dividend yield is high at 4.5%, providing downside support to the share price. Strategy Advisors anticipates an increase in PER as the company undergoes qualitative shift to an Engineering Services-centric company, and significant upside potential for PBR driven by achievement of a high ROE through proactive shareholder returns.

In the new Medium-Term Management Plan "Trust & Challenge 2029," the company has set financial targets for FY3/29, the final fiscal year, of net sales of ¥ 120.0bn, operating profit of ¥ 12.0bn, and ROE of 14.5% or higher. Assuming a CAGR of 13.6% in profit growth, the profit growth rate is projected to rise toward the latter half of the plan. The company intends to shift to a highly profitable business portfolio by promoting: 1) transformation into a value creation model premised on AI, and 2) evolution from a product-centric model to an earnings model centered on Engineering Services.

Based on these developments, the company's equity story is the transformation from a product-oriented company to an Engineering Services-centric company. Toward the latter half of the Medium-Term Management Plan, we look forward to PER expansion in addition to EPS growth. Although the Q1 FY3/27 results showed a temporary decline in profit, it was primarily driven by upfront investments, and it is notable that the company is practicing an even more proactive management style than before since President Katsuyuki Yoshida took the helm.

Stock Price & Trading Volumes



Source: Strategy Advisors.

Key Indicators

Stock Price (08/14/26)	4,180
52-Week High (07/30/26)	4,265
52-Week Low (10/14/25)	3,020
All-Time High (07/30/26)	4,265
All-Time Low (11/19/02)	157
Number of Shares Issued (mn)	18.2
Market Capitalization (¥bn)	76.1
Equity Ratio (FY3/26, %)	14.0
ROE (FY6/26 Actual, %)	57.9
PER (FY3/27 CoE, Times)	13.2
PBR (FY6/26 Actual, Times)	1.6
Dividend Yield (FY3/27 CoE, %)	4.5

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)	(%)	(¥)	(¥)
FY3/26 Q1	18,833	0.3	301	-	359	762.4	272	-	15.03	-
FY3/27 Q1	22,014	16.9	-123	-	-111	-	-111	-	-6.13	-
FY3/24	124,856	0.8	6,439	25.8	6,486	21.1	5,477	55.6	304.75	90.00
FY3/25	98,263	-21.3	6,481	0.6	6,596	1.7	4,764	-13.0	263.32	99.00
FY3/26	103,728	5.6	8,178	26.2	8,320	26.1	6,472	35.9	355.94	126.00
FY3/27 CoE	107,000	3.2	8,700	6.4	8,700	4.6	5,750	-11.2	315.70	190.00

Note: Net Profit Refers to Profit Attributable to Owners of the Parent.

Source: Company Data. Compiled by Strategy Advisors.

1. Profit Decline at the Start Is Within Company Expectations; Focus on Expansion of Upfront Investments

FY3/27 1Q Results: Net Sales Increased, but Operating Profit Fell into the Red

Tsuzuki Denki's Q1 FY3/27 results (April–June) showed net sales of ¥ 22.01bn (+16.9% YoY) and an operating loss of ¥ 0.12bn (compared to an operating profit of ¥ 0.30bn in Q1 of the previous fiscal year). Although the fiscal year started with a profit decline, this was within the company’s expectations. The company actively made proactive investments leading to future business expansion, which included: 1) a decline in the gross profit margin due to the impact of strategically acquired large-scale product projects, 2) compensation increases for engineers and investments in human resources, and 3) investments in promotions as well as IT and AI-related areas. In addition, the large-scale product project involved the delivery of smartphones to a major financial institution. Although it was a large-scale project exceeding ¥ 1bn with low profitability, it could become a strategic project to lead to securing future operations and maintenance.

Hiring Progressing as Planned

Under the new Medium-Term Management Plan "Trust & Challenge 2029," the company plans to promote the scaling of growth areas and the pioneering of new areas. In the current fiscal year, the first year of the plan, the company will strengthen the recruitment of engineers and actively reinforce its structure to secure scalability. For the full year, the company plans to hire slightly over 100 employees (nearly 60 mid-career hires and the remainder being new graduates), and it appears that recruitment activities in Q1 were carried out generally in line with the plan. Even when compared to competitors, the company offers competitive compensation, and attention is focused on whether they can continue to secure human resources throughout the year to expand Engineering Services.

Further Strengthening Stock Price Awareness through Shareholder Returns and Performance-Linked Remuneration

Furthermore, Strategy Advisors highly commend the company for its steadfast commitment to management that is mindful of the stock price. Starting from FY3/27, the company is raising its dividend payout ratio from 40% to 60% to improve capital efficiency, while at the Annual General Meeting of Shareholders held in June, the company resolved to continue and partially revise its stock compensation plan utilizing a "Board Incentive Plan (BIP) Trust," transitioning from a fixed calculation method based solely on officer position to a performance-linked system. Going forward, the number of shares delivered will vary depending on the degree of achievement of performance targets and other goals for each fiscal year. Operating profit, work engagement indices, and Total Shareholder Return (TSR) were adopted as the evaluation metrics for this system.

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

FY	3/25				3/26				3/27
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net Sales	**18,771**	**23,071**	**23,455**	**32,965**	**18,833**	**24,604**	**23,889**	**36,401**	**22,014**
(YoY)	-33.3%	-29.6%	-27.0%	3.5%	0.3%	6.6%	1.9%	10.4%	16.9%
Engineering Services					**6,357**				**6,226**
(YoY)					-				-2.1%
SI					4,200				4,000
NI					2,000				2,100
Products					**12,476**				**15,787**
(YoY)					-				26.5%
SI					8,800				10,700
NI					3,600				5,000
Equipment	**5,455**	**8,794**	**9,668**	**16,403**	**4,923**	**9,873**	**9,234**	**19,348**	**8,218**
(YoY)	-23.9%	-18.4%	-13.3%	3.7%	-9.7%	12.3%	-4.5%	18.0%	66.9%
Development & Construction	**2,590**	**3,900**	**3,610**	**5,210**	**3,009**	**4,221**	**4,100**	**6,061**	**3,072**
(YoY)	-3.6%	2.3%	-7.8%	19.2%	16.2%	8.2%	13.6%	16.3%	2.1%
Services	**10,725**	**10,377**	**10,178**	**11,352**	**10,900**	**10,511**	**10,554**	**10,992**	**10,723**
(YoY)	1.3%	-2.3%	2.2%	-2.6%	1.6%	1.3%	3.7%	-3.2%	-1.6%
Gross Profit	4,114	5,413	5,074	8,064	4,354	6,311	5,481	8,819	4,175
(Gross Margin)	21.9%	23.5%	21.6%	24.5%	23.1%	25.7%	22.9%	24.2%	19.0%
SG&A expenses	4,113	4,020	4,068	3,982	4,053	4,122	3,966	4,646	4,299
Operating Profit	**1**	**1,393**	**1,005**	**4,081**	**301**	**2,188**	**1,515**	**4,173**	**-123**
(YoY)	-99.9%	-15.2%	-37.1%	63.2%	-	57.1%	50.7%	2.3%	-

Note: Starting from the current fiscal year, a part of "Equipment" and "Services" has been classified under "Product," while a part of "Development & Construction" and "Services" has been classified under "Engineering Services."
Source: Company Data. Compiled by Strategy Advisors.

2. Engineering Services Orders Set to Expand from the Second Half Onward

Double-Digit Growth in Both Orders and Order Backlog Driven by Large-Scale Orders

Tsuzuki Denki's Q1 FY3/27 orders reached ¥ 31.06bn (+11.7% YoY), showing steady progress, and the order backlog also accumulated to ¥ 35.95bn (+23.0% YoY). The primary factor was a large-scale order in the Product segment in the range of several billion yen. On the other hand, orders in Engineering Services decreased slightly, due to the recording of a large-scale construction project related to an office relocation in the same period of the previous fiscal year. In addition, business inquiries are said to remain robust, and attention will be focused on how much they can accumulate the order backlog from Q2 onward.

Strengthened Participation of Engineers in Sales Activities Expected to Drive Order Growth in the Second Half

Strategy Advisors is focusing on the company’s strong customer base of approximately 20,000 companies, as well as its efforts to strengthen the participation of engineers in sales activities starting from the current fiscal year. Previously, emphasis was placed on the total order amount. However, starting from the current fiscal year, the company designated orders for Engineering Services as a key KPI, and is monitoring and ranking the progress of each project to visualize order-receipt activities. The value of potential projects as of Q1 is said to have increased year-on-year, and growth in Engineering Services orders is expected from the second half onward.

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

FY	3/25 Q1	Q2	Q3	Q4	3/26 Q1	Q2	Q3	Q4	3/27 Q1
Sales	**18,771**	**23,071**	**23,456**	**32,965**	**18,833**	**24,604**	**23,889**	**36,401**	**22,014**
(YoY)	**-8.2%**	**-8.5%**	**-6.3%**	**3.5%**	**0.3%**	**6.6%**	**1.8%**	**10.4%**	**16.9%**
Engineering Services					6,357				6,226
(YoY)					-				-2.1%
Products					12,476				15,787
(YoY)					-				26.5%
Equipment	5,455	8,794	9,668	16,403	4,923	9,873	9,234	19,348	8,218
(YoY)	-23.9%	-18.4%	-13.3%	3.7%	-9.7%	12.3%	-4.5%	18.0%	66.9%
Development & Construction	2,590	3,900	3,610	5,210	3,009	4,221	4,100	6,061	3,072
(YoY)	-3.6%	2.3%	-7.8%	19.2%	16.2%	8.2%	13.6%	16.3%	2.1%
Service	10,725	10,377	10,178	11,352	10,900	10,511	10,554	10,992	10,723
(YoY)	1.3%	-2.3%	2.2%	-2.6%	1.6%	1.3%	3.7%	-3.2%	-1.6%
Orders	**23,642**	**25,641**	**22,583**	**28,749**	**27,806**	**28,167**	**26,193**	**28,218**	**31,065**
(YoY)	**-2.6%**	**7.0%**	**11.2%**	**10.5%**	**17.6%**	**9.9%**	**16.0%**	**-1.8%**	**11.7%**
Engineering Services					8,560				8,279
(YoY)					-				-3.3%
Products					19,245				22,786
(YoY)					-				18.4%
Equipment	7,880	11,351	9,120	11,792	11,886	13,971	11,905	12,129	15,232
(YoY)	-8.1%	10.2%	23.6%	0.0%	50.8%	23.1%	30.5%	2.9%	28.2%
Development & Construction	3,785	4,091	3,995	4,406	4,652	4,453	3,504	4,446	3,899
(YoY)	-0.3%	8.6%	43.5%	35.5%	22.9%	8.8%	-12.3%	0.9%	-16.2%
Service	11,976	10,199	9,467	12,552	11,267	9,743	10,784	11,643	11,933
(YoY)	0.7%	3.1%	-6.6%	14.3%	-5.9%	-4.5%	13.9%	-7.2%	5.9%
Order Backlog	**22,766**	**25,335**	**24,463**	**20,246**	**29,219**	**32,782**	**35,086**	**26,902**	**35,953**
(YoY)	**-23.3%**	**-10.9%**	**3.2%**	**13.1%**	**28.3%**	**29.4%**	**43.4%**	**32.9%**	**23.0%**
Engineering Services					8,361				8,454
(YoY)					-				1.1%
Products					20,857				27,499
(YoY)					-				31.8%
Equipment	12,993	15,550	15,002	10,391	17,354	21,452	24,123	16,904	23,918
(YoY)	-31.1%	-15.3%	2.8%	-1.7%	33.6%	38.0%	60.8%	62.7%	37.8%
Development & Construction	4,679	4,870	5,256	4,451	6,094	6,327	5,730	4,115	4,941
(YoY)	-19.1%	-15.1%	14.2%	27.8%	30.2%	29.9%	9.0%	-7.5%	-18.9%
Service	5,093	4,915	4,204	5,404	5,771	5,003	5,232	5,883	7,093
(YoY)	0.7%	13.4%	-7.0%	40.7%	13.3%	1.8%	24.5%	8.9%	22.9%

Note: Starting from the current fiscal year, a part of "Equipment" and "Services" has been classified under "Product," while a part of "Development & Construction" and "Services" has been classified under "Engineering Services."
Source: Company Data. Compiled by Strategy Advisors.

Growth Driven by Security Demand; Strengthening Competitive Advantage through a Vertical Focus

Furthermore, within Engineering Services, net sales in the Four Engineering Core Domains were ¥ 4.91bn, representing a slight increase of 3.1% YoY. At CX Communication Platform, net sales decreased by ¥ 0.13bn YoY, as a large-scale on-premises project was recorded in the same period of the previous fiscal year. On the other hand, Network & Security trended firmly and drove growth. It appears that Network & Security has many customers in the manufacturing industry, and needs such as Zero Trust projects from companies in the Chubu and Kansai regions have remained firm. In addition, the company is winning projects by actively promoting proposals for security measure packages that can be introduced by SMEs as well as enterprise companies, even with limited budgets.

Strategy Advisors is focusing on the fact that the company can provide vertical support from IT infrastructure to application development. Amidst rising security threats, the company can differentiate itself from competitors by handling end-to-end development—including network and security components—rather than outsourcing the development of individual layers to separate vendors.

IT Platforms: Market Expansion Drives Profitability Improvement

For IT Platforms, infrastructure migration and update projects and others, mainly for large enterprises, appear to be trending firmly. In addition to cloud migration of core business systems, the market in this area is on an expansionary trend, driven by the strengthening of data platforms accompanying the rise of generative AI. Indeed, according to forecasts by private market research firms, the IaaS+PaaS market is projected to continue double-digit growth, and firm performance is expected to continue. Infrastructure projects for enterprise companies have the potential for high unit prices and relatively high margins, and are likely to become a field that drives the improvement of the company's profitability.

Business Applications: Strengthening Co-Creation with Partners, Shifting from Upstream Consulting to Application Development

Business Applications remained at generally the same level as the same period of the previous fiscal year, but applications for logistics continued to trend firmly. With the aim of strengthening its partner strategy, the company held its first large-scale business event, "Tsuzuki Biz-CoCreation," in June, with 175 companies participating. Strategy Advisors expects the company to promote co-creation with various companies and take charge of developing applications that solve industry-specific issues. In FY3/26, upstream consulting projects increased significantly. Moving forward, the company is expected to remain involved in addressing industry-specific challenges from the upstream stages, ultimately leading to the development of applications that resolve frontline issues.

Figure 3. Sales Trend in Four Core Engineering Domains (Unit: ¥100 mn)

	Q1 FY03/26	Q1 FY03/27	YoY change	YoY
(1)Network & Security	1,206	**1,406**	+200	116.6%
(2) IT Platforms	713	**800**	+87	112.2%
(3) Business Applications	1,950	**1,948**	(2)	99.9%
(3)-1 Standard-compliant app	801	**734**	(67)	91.6%
(3)-2 Customer-specific app	1,148	**1,213**	+65	105.7%
(4) CX Communication Platform	900	**764**	(135)	84.9%
(4)-1 Unified Communications	671	**582**	(89)	86.7%
(4)-2 Contact Centers	228	**182**	(46)	79.8%

Source: Company Material.

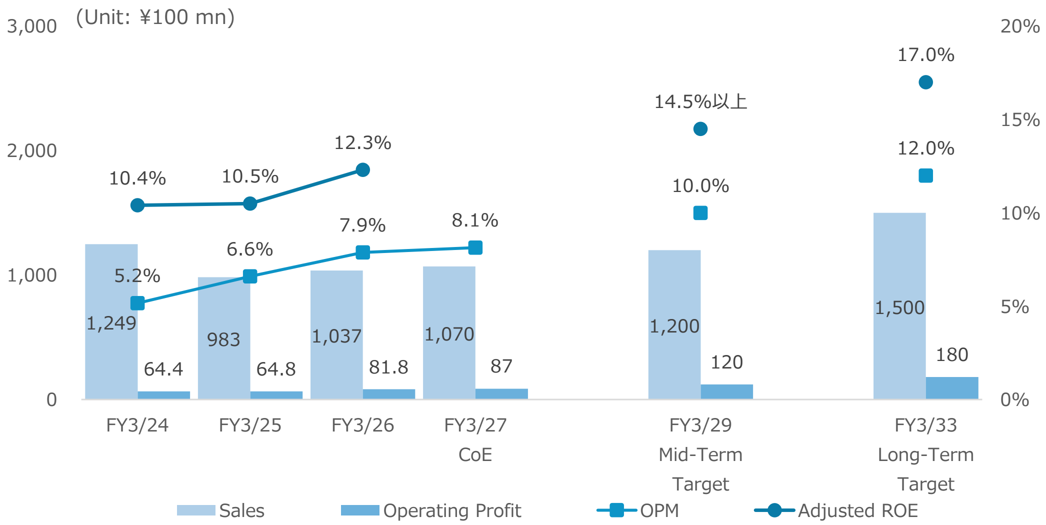
3. New Medium-Term Management Plan Aims to Improve Profitability and Expand Business Scale

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. Based on these assumptions, 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 4. 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) evolution from a product-centric business model to an earnings 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 automation of routine operations, enhancement of decision-making and 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 hook 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 (175A, TSE Mothers) 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 earnings structure by shifting the business model from equipment sales toward a model that uses equipment as a hook to secure engineering service contract. In addition, by winning managed services contracts following infrastructure construction projects, the Company should also be able to accumulate recurring revenue streams.

Figure 5. 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.

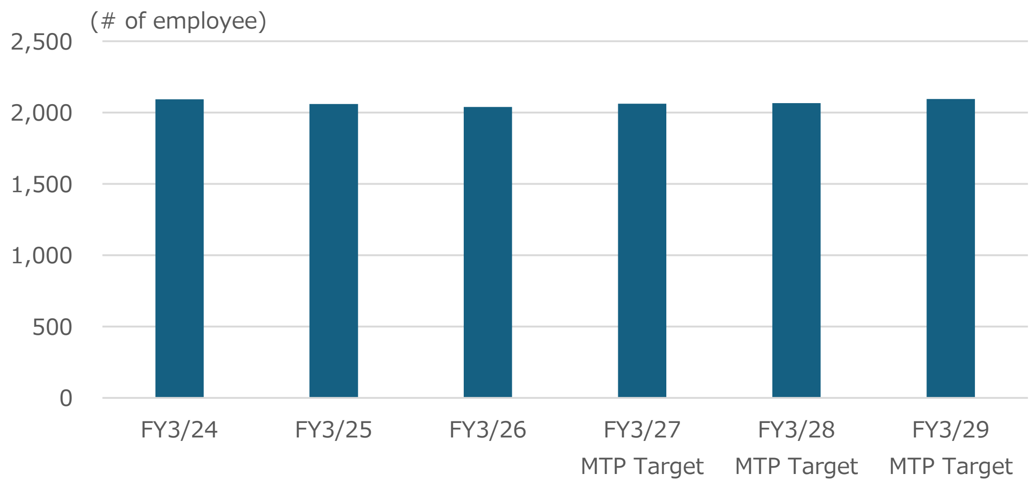
Focus Also on Whether Hiring Targets Can Be Achieved

Strategy Advisors believes that the greatest challenge in achieving the plan is 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 6. 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 7. Overview of Strategic Investments

Strategic investment — **A scale of 40.0 billion yen** (includes borrowings)

【 Purpose 】
- Expand business domains
- Quickly identify new technologies and techniques, acquire future options
- Enhancing value creation, Complementing internal assets

M&A
Capital and business alliances
Leveraging venture capital

Source: Company Materials.

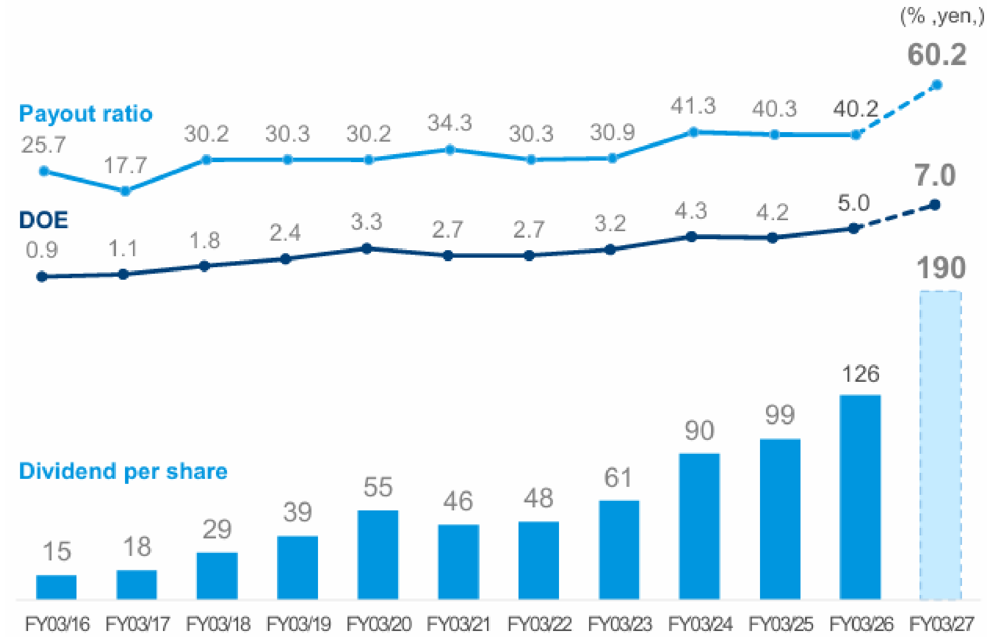
4. Share Price Expected to Remain Near Highs, Supported by Dividend Yield

60% Target Payout Ratio under the New Shareholder Return Policy

Following the announcement of the Q1 FY3/27 results, the share price fell temporarily by slightly over 10%, but has since recovered. For the current fiscal year, the dividend payout ratio is projected to be raised to 60%, with the dividend per share expected to increase to ¥ 190. Despite the temporary decline in profit, the share price has trended firmly, which we believe is because the dividend yield (around 4.5%) has provided downside support to the share price.

If the company achieves the financial targets of the final fiscal year of the Medium-Term Management Plan (operating profit of ¥ 12bn), the dividend per share is expected to increase to around ¥ 260, making it a stock from which both capital gains and income gains can be expected.

Figure 8. Trends in Annual Dividend Per Share, Dividend Payout Ratio, & DOE (¥, %)



Source: Company Materials.

PBR, PER & ROE Remain Relatively Low

Valuation remains at a low level, with PBR relatively undervalued at 1.5x. This is affected by both PER and ROE being low compared to competitors. Strategy Advisors believes that the factors behind the low valuation are the high proportion of the Product segment—resulting in a lower gross profit margin compared to other systems integrators (SIs)—as well as the fact that net sales growth rates since FY3/23 have all been below 10%, excluding FY3/25 which was affected by the sale of the electronic devices business.

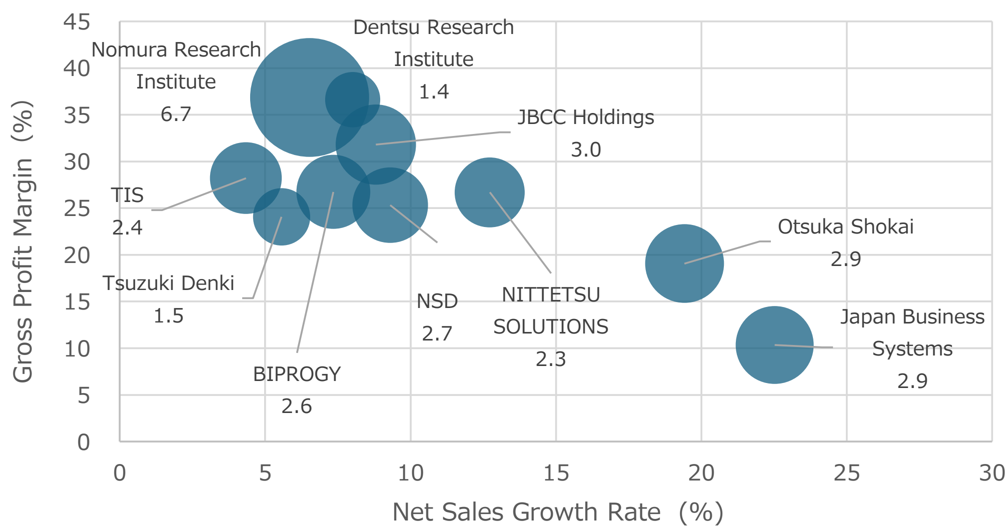
Valuation of SI Companies

Valuations in the SI industry tend to be driven by the product of net sales growth rate and gross profit margin. Major systems integrators (SIs) that handle numerous upstream projects in areas such as consulting have gross profit margins of 30% to 40%, and many of these companies have PBRs exceeding 3x. On the other hand, while Otsuka Shokai (4768, TSE Prime) and Japan Business Systems (5036, TSE Prime) have lower gross profit margins of 10% to 20%, their net sales growth rates are high at around 20%, and they are highly valued with PBRs of around 3x.

Equity Story: Transformation into an Engineering Services Company

Based on these factors, the company's equity story is the transformation from a product-oriented company to an Engineering Services-centric company. Through the expansion of Engineering Services as outlined in the Medium-Term Management Plan, if the company can further improve its gross profit margin, it is expected that the company will be valued based on systems integrator (SI) multiples rather than as an equipment wholesaler, leading to an upward revision in its valuation.

Figure 9. Gross Profit Margin × Net Sales Growth Rate × PBR (FY3/26)



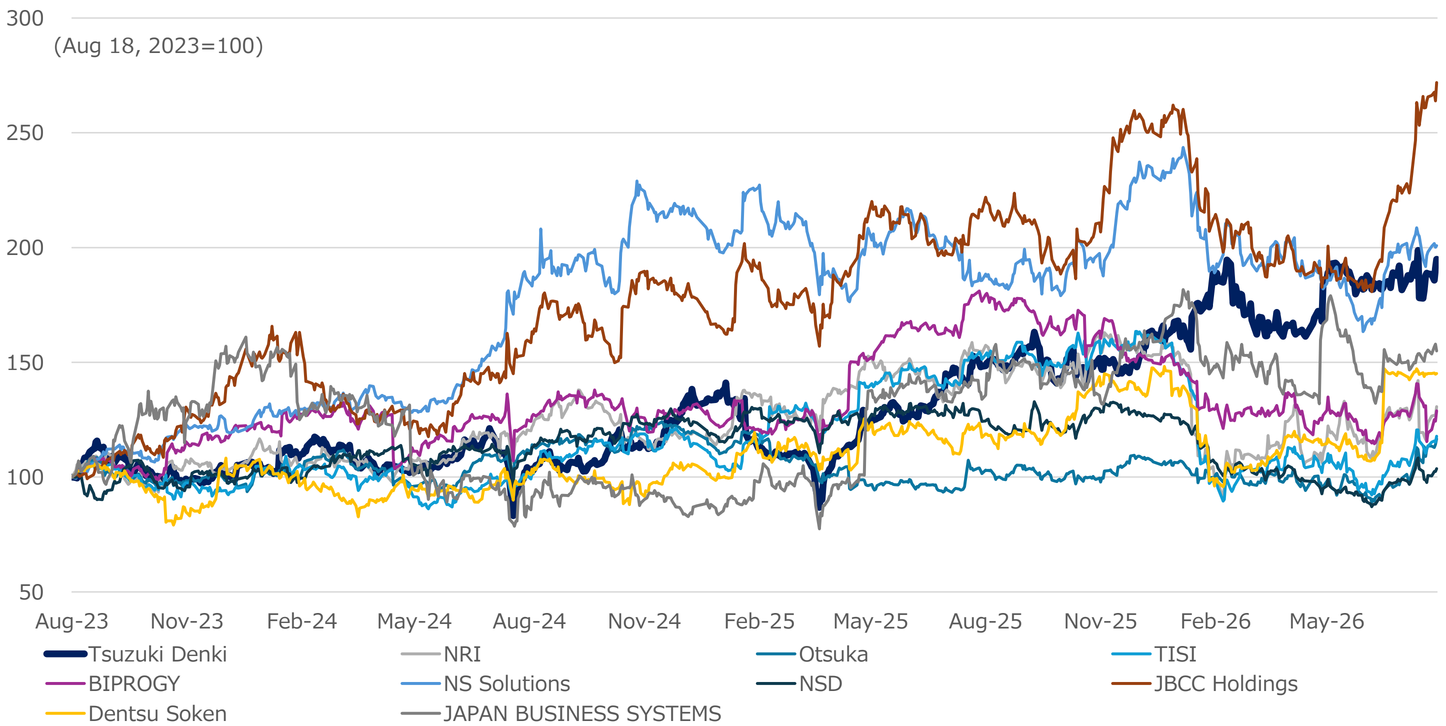
Source: Company Data. Compiled by Strategy Advisors.

Figure 10. Comparative Valuations with Peers

	Code	FY	Price 14-Aug ¥	Market cap. ¥bn	EV ¥ bn	EPS CoE ¥	PER CoE x	PBR x	ROE CoE %	DPR CoE %	Stock Price Change 1-Year %	Stock Price Change 3-Year %
Tsuzuki Denki	**8157**	**Mar-26**	**4,180**	**76.1**	**39.1**	**315.6**	**13.2**	**1.6**	**12.4**	**60.2**	**31.7**	**93.4**
Nomura Research Institute	4307	Mar-26	5,131	2,947.3	3,050.1	209.5	24.5	6.8	27.4	40.1	-15.6	28.1
Otsuka Shokai	4768	Dec-25	3,536	1,340.9	1,089.8	171.2	20.7	3.4	17.0	61.3	13.6	16.3
TISI	3626	Mar-26	3,848	846.8	826.6	271.7	14.2	2.6	17.1	33.1	-23.1	16.6
BIPROGY	8056	Mar-26	4,653	449.4	475.3	333.4	14.0	2.5	18.5	42.0	-27.7	30.5
NITTETSU SOLUTIONS	2327	Mar-26	3,837	702.1	611.0	176.5	21.7	2.5	12.0	49.3	8.3	97.0
NSD	9759	Mar-26	2,834	215.2	182.7	173.7	16.3	2.9	18.6	55.9	-18.0	4.1
JBCC Holdings	9889	Mar-26	1,735	105.3	88.9	99.6	17.4	4.2	24.6	60.3	25.9	193.8
Dentsu Research Institute	4812	Dec-25	2,694	175.3	169.2	92.2	29.2	1.7	18.8	48.8	20.1	45.4
Japan Business Systems	5036	Sep-25	1,612	73.5	94.3	155.4	10.4	2.7	28.1	32.2	13.3	44.3
Average							18.2	3.1	19.4	48.3		

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

Figure 11. Relative Share Price Performance Over the Past 3 Years



Source: Strategy Advisors.

Figure 12. 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 & 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 13. 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 14. 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 15. Quarterly Financial Performance by Business (Unit: ¥mn)

FY	3/25 Q1	Q2	Q3	Q4	3/26 Q1	Q2	Q3	Q4	3/27 Q1
Net Sales	**18,771**	**23,071**	**23,455**	**32,965**	**18,833**	**24,604**	**23,889**	**36,401**	**22,014**
(YoY)	-33.3%	-29.6%	-27.0%	3.5%	0.3%	6.6%	1.9%	10.4%	16.9%
Engineering Services					**6,357**				**6,226**
(YoY)					-				-2.1%
SI					4,200				4,000
NI					2,000				2,100
Products					**12,476**				**15,787**
(YoY)					-				26.5%
SI					8,800				10,700
NI					3,600				5,000
Equipment	**5,455**	**8,794**	**9,668**	**16,403**	**4,923**	**9,873**	**9,234**	**19,348**	**8,218**
(YoY)	-23.9%	-18.4%	-13.3%	3.7%	-9.7%	12.3%	-4.5%	18.0%	66.9%
Development & Construction	**2,590**	**3,900**	**3,610**	**5,210**	**3,009**	**4,221**	**4,100**	**6,061**	**3,072**
(YoY)	-3.6%	2.3%	-7.8%	19.2%	16.2%	8.2%	13.6%	16.3%	2.1%
Services	**10,725**	**10,377**	**10,178**	**11,352**	**10,900**	**10,511**	**10,554**	**10,992**	**10,723**
(YoY)	1.3%	-2.3%	2.2%	-2.6%	1.6%	1.3%	3.7%	-3.2%	-1.6%
Gross Profit	4,114	5,413	5,074	8,064	4,354	6,311	5,481	8,819	4,175
(Gross Margin)	21.9%	23.5%	21.6%	24.5%	23.1%	25.7%	22.9%	24.2%	19.0%
SG&A expenses	4,113	4,020	4,068	3,982	4,053	4,122	3,966	4,646	4,299
Operating Profit	**1**	**1,393**	**1,005**	**4,081**	**301**	**2,188**	**1,515**	**4,173**	**-123**
(YoY)	-99.9%	-15.2%	-37.1%	63.2%	-	57.1%	50.7%	2.3%	-
(Operating Margin)	0.0%	6.0%	4.3%	12.4%	1.6%	8.9%	6.3%	11.5%	-
Non-operating Profit (Loss)	41	53	26	-6	59	45	32	7	13
Ordinary Profit	**41**	**1,447**	**1,032**	**4,076**	**359**	**2,234**	**1,548**	**4,179**	**-111**
(YoY)	-93.9%	-14.3%	-36.7%	63.4%	762.4%	54.4%	50.0%	2.5%	-
(Ordinary Margin)	0.2%	6.3%	4.4%	12.4%	1.9%	9.1%	6.5%	11.5%	-
Extraordinary Profit	31	-6	0	227	19	33	648	370	0
Pretax Profit	72	1,440	1,032	4,304	379	2,266	2,196	4,550	-112
Income Taxes	39	382	297	1,235	81	683	648	1,366	-35
Net Profit	33	1,058	735	3,069	297	1,583	1,549	3,183	-76
Net Profit to Minority Interests	32	22	35	41	25	38	38	39	34
Net Profit to Owners of the Parent	**1**	**1,035**	**700**	**3,028**	**272**	**1,545**	**1,510**	**3,145**	**-111**
(YoY)	-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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