Tsuzuki Denki | 8157 (TSE Prime)

Company Report

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Strategy Advisors, Inc.
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Strategy Advisors

Two-Way IT Company Aspires to Enhance Shareholder Value

Founded in 1932, Tsuzuki Denki is a long-established ICT (Information & Communication Technology) company with top-class capabilities in both SI (System Integration) and NI (Network Integration) in Japan.

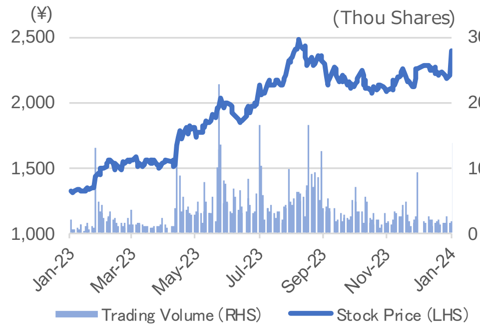
Although the company stagnated in the 2000's, management reforms since the mid-2010's and a favorable environment have helped the firm regain growth momentum. In addition to organic growth through the expansion of the cloud business and the highly profitable service business, the company plans to grow through M&A by leveraging its corporate DNA, "the ability to identify the next generation of ICT".

The past two mid-term plans have both exceeded their targets. The long-term vision is aiming for ROE of 15% in FY03/2033 (currently 10%) and EPS CAGR of 7% for 10 years. In addition to steady earnings growth, the company aims to raise shareholder value by reducing the cost of equity (currently 9%) through engagement with investors.

At the closing price of 2,354 yen on February 9, 2024, Tsuzuki Denki's PBR is 1.1x and its expected PER is 8.8x. Considering that most listed SI and NI companies are trading at P/B ratios of 2x or more and P/E ratios of around 20x, the company is clearly undervalued.

The TSE industry classification for the company was changed from "Wholesale" to "Information and Communications" in 2018. With the sale of its electronic devices business, which accounted for 20% of its sales, the company has transformed itself into a "pure player in ICT" as of 2024. With Tsuzuki Denki's aggressive growth strategy and improving capital efficiency understood by the market, we expect it will be re-evaluated.

Share Price and Volumes



Source: Strategy Advisors

Key Indicators

Stock Price (24/2/9)	2,354
Year-to-Date High (24/2/8)	2,450
Year-to-Date Low (24/1/26)	2,175
10-year High (23/9/7)	2,510
10-year Low (15/8/25)	415
# of Shares on Issue (mn)	18.0
Market Capitalization (¥bn)	42.4
EV (¥bn)	29.1
Capital Adequacy Ratio	47.5
FY3/2024 PER (CoE, Multiple)	8.8
12/2023 PBR (Actual, Multiple)	1.1
FY03/2024 Dividend Yield	3.8

Source: Strategy Advisors

Japanese GAAP – Consolidated

FY End	Sales (¥ mn)	YoY (%)	OP (¥ mn)	YoY (%)	RP (¥ mn)	YoY (%)	NP (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
FY 3/2020	125,366	5.5	4,457	34.3	4,577	31.0	3,155	42.6	182	55
FY 3/2021	120,004	-4.3	3,202	-28.2	3,361	-26.6	2,346	-25.6	134	46
FY 3/2022	119,316	-0.6	4,012	25.3	4,227	25.8	2,798	19.2	158	48
FY 3/2023	123,899	3.8	5,118	27.6	5,355	26.7	3,521	25.8	197	61
FY 3/3024 CoE	124,000	0.1	6,000	17.2	6,000	12.0	4,800	36.3	267	89

Source: Strategy Advisors, based on Company Data.

Table of Contents

Executive Summary

Long-Established ICT Company with Advanced Technologies in Both SI and NI, Enters Growth Phase on the Back of Increasing IT Investments and DX Needs

Tsuzuki Denki is a long-established ICT (Information and Communication Technology) company founded in 1932 and celebrating its 92nd anniversary this year; is making serious efforts to enhance shareholder's value with earnest consideration of the stock market and investors. ICT market environment is favorable for the company, which has advanced technology and a strong customer base in both SI (system integration) and NI (network integration). Since the mid-2010's, the company has been working to improve its operating margins and ROEs, in FY03/2020 it posted its highest profits in 20 years. The company is in the midst of a renewed growth trend on the back of their steadily growing cloud business, including its own solutions and expansion of its high-margin services business.

Value Creation Management Initiatives Have Been in Full Swing Since President Isao Emori Took Office in 2017

The transformation of Tsuzuki Denki began with the appointment of Isao Emori as president in April 2017. Both the company's first medium-term management plan (FY03/2018-FY03/2020) and the second medium-term management plan (FY03/2021-FY03/2023), which were announced externally for the first time, exceeded profit targets; with ROE increasing from 3.4% in FY03/2016 to 10.4% in FY03/2023. The company also worked to improve its stock market valuation by changing its TSE industry classification from "Wholesale" to "Information/ Communications" in 2018 and also moving its listing from the Second to the First Section of the TSE in 2020 and subsequently moving to the Prime Market in 2022. Since President Emori took office, the company's market capitalization has increased more than four-fold and the current share price has recovered to a P/B ratio of 1x. However, the PER remains around 10x, and the company is not yet highly valued by the capital market.

Clear Shift of Management Resources to Higher Growth Businesses, Targeting 7% CAGR of EPS & 15% ROE (currently 10%) by FY03/2033

The current mid-term management plan (FY03/2024-FY03/2026) is positioned as the first stage of the company's "long-term vision" toward its 100th anniversary in FY03/2033, which is the company's goal of 15% ROE and 7% average annual growth rate of EPS over the next 10 years. As a concrete measure to shift management resources to growth areas, which is one of the pillars of the long-term vision, the company sold its electronic devices business, which it had been involved in for many years. While many companies have announced that they are reviewing their business portfolios, the sale of the core business, which accounts for more than 20% of the company's total sales, demonstrates the seriousness with which the management team is implementing the change to value-enhancing management.

Strong Customer Base and Highly Skilled Engineers in Both SI and NI Segments are Difficult for Other ICT Companies to Imitate

Tsuzuki Denki's competitive advantage lies in (1) its customer base of 20,000 companies, mainly large corporations and government agencies, to which it has provided services for 20 to 30 years, (2) its system that allows it to select optimal solutions from global vendors and provide them on a one-stop basis, and (3) the knowledge of its engineers, who make up half of its workforce and finally, its technology. In addition to its own solutions business with a high market share, such as cloud PBX and cloud-based call centers with AI-enhanced functions based on the voice platform technology it has developed since its founding, the company expects to grow with higher profit margins by expanding earnings in expanding markets such as cybersecurity and DX support.

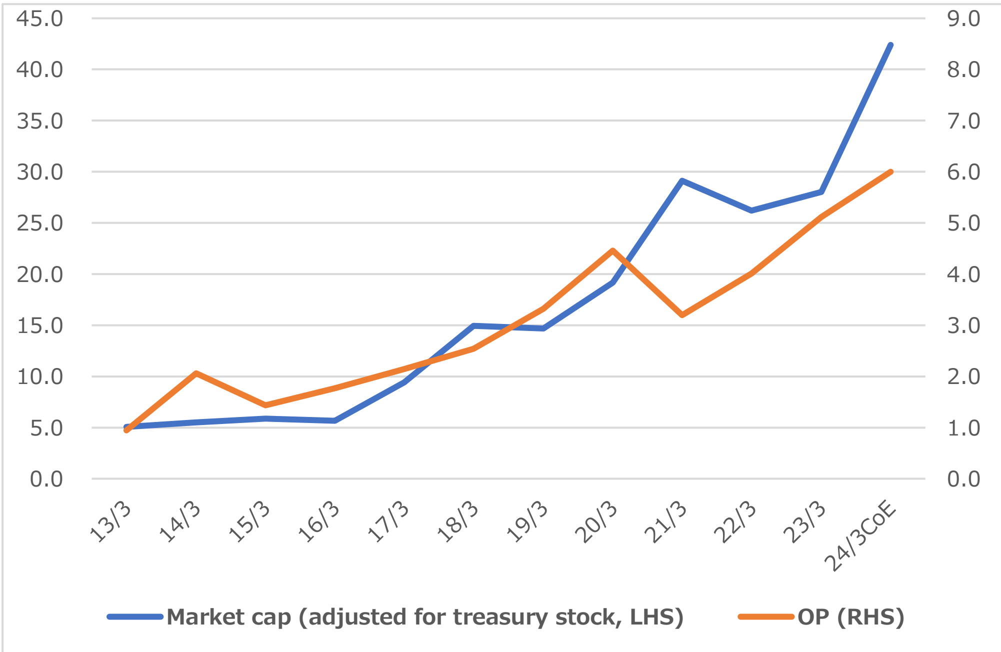
Current PER and PBR are Half of Other Listed SI and NI Companies

At the closing price of 2,354 yen on February 9, 2024, Tsuzuki Denki's P/B ratio is 1.1x and its expected P/E ratio for the current term is 8.8x. Considering that most listed SI and NI companies are trading at P/B ratios of more than 2x and P/E ratios of around 20x, the company sits at a low price. Strategy Advisors believes this is because many investors are drawn by past memories and value Tsuzuki Denki as an electronics trading company. Over the past 10 years, the P/E ratios of the electronics trading group have been around 10x, compared to 15-25x for the SIer group and 15-30x for the NIer group.

Valuations are Expected to Shift Upward as Investors Begin to Understand the Company's Transformation

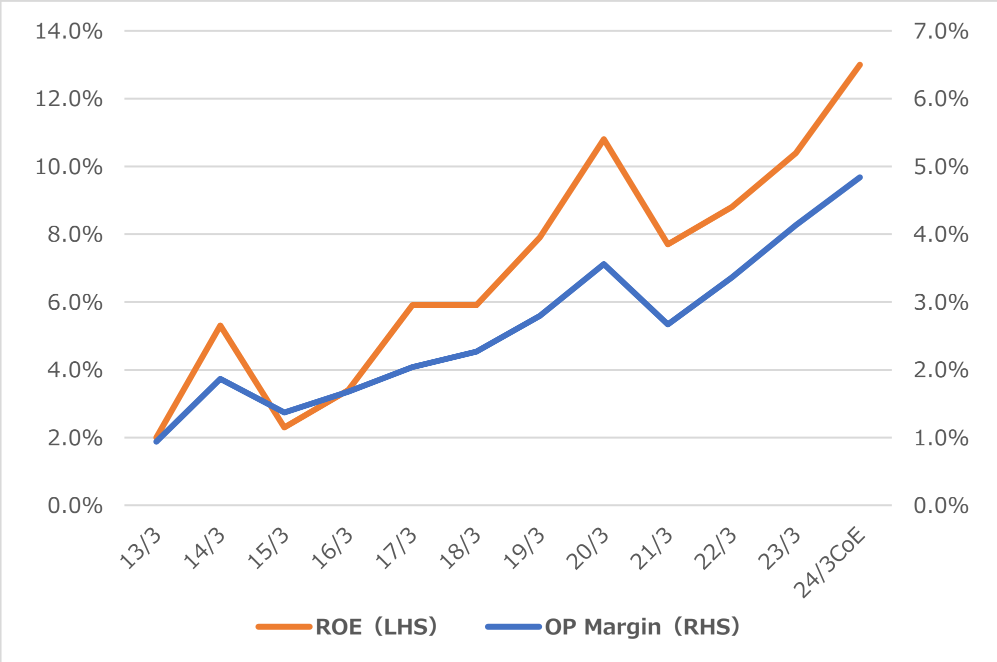
The importance of the sale of the electronic devices business will gradually spread in the capital markets starting during 2024, and that "Tsuzuki Denki has transformed itself into a pure player in the ICT industry" will become more widely understood. Strategy Advisors believes that if Tsuzuki Denki's business strategy of expanding its presence in growth markets and its financial strategy of aiming for both EPS growth and capital efficiency improvement become more than evident, mid to long-term valuation appreciation can be expected.

Figure 1 . Market Capitalization and Operating Profit (¥ bn)



Source: Strategy Advisors

Figure 2: ROE and Operating Margin



Source: Strategy Advisors

1. Transformation to be a Pure ICT Business Player from 2024

Sold Electronic Devices Business for 13 billion yen, Becoming a Company Specializing in Information Network Solutions from 2024

Tsuzuki Denki's net sales for the fiscal year ended March 31, 2023 increased 3.8% y-o-y to 123.9 billion yen, of which 93.9 billion yen (75.8% of total) came from the information network solution segment and 29.9 billion yen (24.2% of total) from the electronic device segment. Operating profit for the same period was 5.118 billion yen (+27.6% y-o-y), consisting of 4.155 billion yen (81.2% of the total) from Information Network Solutions and 954 million yen (18.8% of the total) from Electronic Devices.

On September 29, 2023, the company announced that the electronic device business would be sold to Restar Holdings Corporation (TSE Prime Code 3156), an electronics trading company engaged in the procurement and sale of semiconductors/electronic components. The sale amount of the business was said to be 12.97 billion yen.

The transfer of the electronic device business was executed on January 9, 2024. As a result, from 2024, Tsuzuki Denki has transformed itself, both in name and reality, into a pure player in the ICT business, focusing on SI (system integration), NI (network integration) and their service businesses.

Low Asset Efficiency and Lack of Synergies were the Reasons Behind the Sale of the Electronic Devices Business

The low profitability and asset efficiency of the electronic devices segment has been a longstanding issue for management. The business model of purchasing and selling semiconductors and electronic components makes it difficult to add value; and as the segment data in Figure 3 shows, the operating margin of the electronic devices segment remained around 1% from FY03/2017 to FY03/2021. Likewise, the returns on segment assets remained around 1%, lower than the 6% of the Information Network Solution Services segment. In addition, synergy effects with the Information Network Solution Services remained weak.

The medium-term management plan "Transformation 2026" (FY03/2024-FY03/2026), which started this fiscal year, aims to shift to a business model with a cost of equity exceeding 9% by reviewing the business portfolio and focusing management resources on growth areas, which was implemented in the first year of the plan.

In July 2021, the electronic device business was separated from the company and spun off to clarify management responsibility. The subsequent earnings recovery of the electronic devices business in FY03/2022and FY03/2023 against the backdrop of tighter global semiconductor supply and demand led to the sale, as the company was able to reach an agreement with the buyer, Restar Holdings, on an acquisition price roughly equivalent to the net asset value of the business.

Expand Investment in Growth Areas (Cloud Services, Security, DX

While many companies talk about reviewing their business portfolios, the actual decision to sell its core businesses, which accounts for around 20% of the company's total sales and profits, shows the seriousness of the

Support) Based on the Medium-Term Plan

management team in its efforts to improve profitability and asset efficiency. The company has generated a large amount of cash from the sale of the business and the sale of fixed assets in Q2 FY03/2024, which is expected to be used for investment in focused growth business areas (cloud-based services, security products, and DX products) and for strategic investments including M&A.

Figure 3: Net Sales, Operating Income, Total Assets and Number of Employees by Segment

Fiscal Year	3/2017	3/2018	3/2019	3/2020	3/2021	3/2022	3/2023
Net Sales (Millions of Yen)							
Information Network Solutions	80,802	82,320	93,704	102,104	97,848	92,319	93,905
Electronic Devices	24,347	29,652	25,168	23,261	22,155	26,996	29,993
Consolidated	105,149	111,973	118,872	125,366	120,004	119,316	123,899
Operating Income							
Information Network Solutions	2,093	2,248	3,054	4,289	2,960	3,400	4,155
Electronic Devices	38	276	260	163	242	592	954
Elimination and corporate	10	13	3	4	0	18	8
Consolidated	2,142	2,538	3,318	4,457	3,202	4,012	5,118
Assets (Millions of Yen)							
Information Network Solutions	37,990	41,876	47,998	46,471	45,251	63,868	64,719
Electronic Devices	21,492	23,583	20,415	18,636	19,258	20,920	21,860
Elimination and corporate	11,584	10,710	10,529	12,341	11,691	-5,563	-3,372
Consolidated	71,068	76,169	78,944	77,448	76,200	79,226	83,207
Operating Margin							
Information Network Solutions	2.6%	2.7%	3.3%	4.2%	3.0%	3.7%	4.4%
Electronic Devices	0.2%	0.9%	1.0%	0.7%	1.1%	2.2%	3.2%
Consolidated	2.0%	2.3%	2.8%	3.6%	2.7%	3.4%	4.1%
Return on Assets (Operating Profits/Assets)							
Information Network Solutions	5.6%	5.6%	6.8%	9.1%	6.5%	6.2%	6.5%
Electronic Devices	0.2%	1.2%	1.2%	0.8%	1.3%	2.9%	4.5%
Consolidated	3.1%	3.5%	4.3%	5.7%	4.2%	5.2%	6.3%
Number of Employees at End of Fiscal Year							
Information Network Solutions	1,814	1,775	1,847	1,873	1,933	1,916	1,907
Electronic Devices	157	150	187	183	167	117	164
Corporate and others	305	361	302	303	308	349	257
Consolidated	2,276	2,286	2,336	2,359	2,408	2,382	2,328

Source: Prepared by Strategy Advisors

2. Tsuzuki Denki's Competitive Advantage and its Inimitability

The Source of Competitive Advantage Lies in its 90-Year Business History and Continuous Investment in Human Capital

Tsuzuki Denki's competitive advantages are as follows. All of these have been built on a 90-year history of business development and human capital investment since the company's founding and are difficult for other companies to easily imitate.

① Top-class technical capabilities in the ICT industry held by both SI and NI

② Trusted relationships with global vendors that can provide optimal systems to client companies as a multi-vendor and the internal human resources to provide these systems.

③ A one-stop shop capable of providing all services necessary for corporate clients.

④ A customer base of 20,000 companies, mainly large corporations, built over a long history of business relationships

SI and NI Two-Way Player was Born from Sales and Maintenance of Telephone Equipment Since the Company's Inception and Entry into the Computer Business in the 1950's

In the ICT industry, there are many companies that are either SIer (system integrators) with strength in software development or NIer (network integrators) with strength in network construction, but Tsuzuki Denki is unique in having industry-leading technology in both fields. As mentioned below, the company was founded in the sales, installation, and maintenance of telephone switching equipment, and in the 1950s it expanded its business to computer sales, followed by operational support and software development.

Providing Optimal Products and Services from Global IT Vendors as a Multi-Vendor

Tsuzuki Denki is not bound to any manufacturer, but selects the best hardware, software, and services for its customers from domestic and overseas IT vendors and suppliers. The company's partners include Microsoft Azure for cloud services, Cisco Systems for network equipment and security services, Oracle for databases and VMWare for virtualization. The company has been working with companies that have the world's top share of products in their respective fields. In the area of contact centers, where the company is strong, it offers products from Avaya and Genesys; and in PCs and servers, it sells products from Fujitsu, HP, and Dell, according to the needs of its clients.

One-Stop Service from Upstream Consulting to Systems Development, Maintenance & Operations

The company can also provide a one-stop shop for all ICT services necessary for enterprise clients, from upstream DX consulting to proposals for the development and construction of necessary systems, equipment procurement and implementation, and post-implementation maintenance and operational support. Having installed and maintained Fujitsu's large computers for many years, the company has a particularly strong reputation for system maintenance and operation. Maintenance and operations are available 24 hours a day, 365 days a year, covering the entire country with 78 bases and 8 group companies. They often start with operations and maintenance, which is one of their strengths, to find issues for customers and make proposals thereafter.

More than 500 Engineers in the Parent Company and 600 Engineers in Subsidiaries

These are supported by the human capital held by the group, with over 500 engineers in the parent company and over 600 in subsidiaries. In recent years, the company has been focusing on strengthening its upstream consulting function, and the number of DX Associates certified by the company has increased from 119 at the end of FY03/2022 to 147 at the end of FY03/2023, with plans to further increase the number to 240 by the end of FY03/2026. Its cyber security technology is also highly regarded, and Tsuzuki Denki is often in charge of network construction, operation, and cyber security for important intergovernmental conferences held in Japan.

A Variety of Industries as Customers

Sales of 123.9 billion yen in FY03/2023 consist of 20% from manufacturing, 15% from services industries, 15% from information/communications, 10% from healthcare/public sector, 10% from wholesale/retail/restaurants, 10% from transportation/construction, 10% from finance/insurance and 10% from other industries (real estate, power, gas, water, etc.). There is no bias toward specific industries and a wide range of industries are represented.

Strong Customer Base, Many of Them are Industry Leaders

The company has over 20,000 clients, of which around 400 companies account for 70~80% of total sales. The company's strong relationships built over its long history are its strong point. Many of the 400 companies have been doing business with the company for 20 to 30 years and some for more than 50 years. Because of the long history of business relationships, many of the client companies have built such a strong trust in Tsuzuki that they say, "Tsuzuki's staff understands our operations better than we do.

Since the company was founded in Nagoya, not surprisingly it has a long history of business with the Toyota Group. In addition, the company still has a relationship with the Mitsubishi Group since its founder Takeichi Tsuzuki, worked for Mitsubishi Corporation and established a sales office in Marunouchi, Tokyo in 1958 to expand sales channels to various companies in the Mitsubishi Group. Three major convenience stores in distribution and megabanks are major clients of the company. In addition, the company continues to have a strong relationship with Yamazaki Baking Company started over 50 years ago.

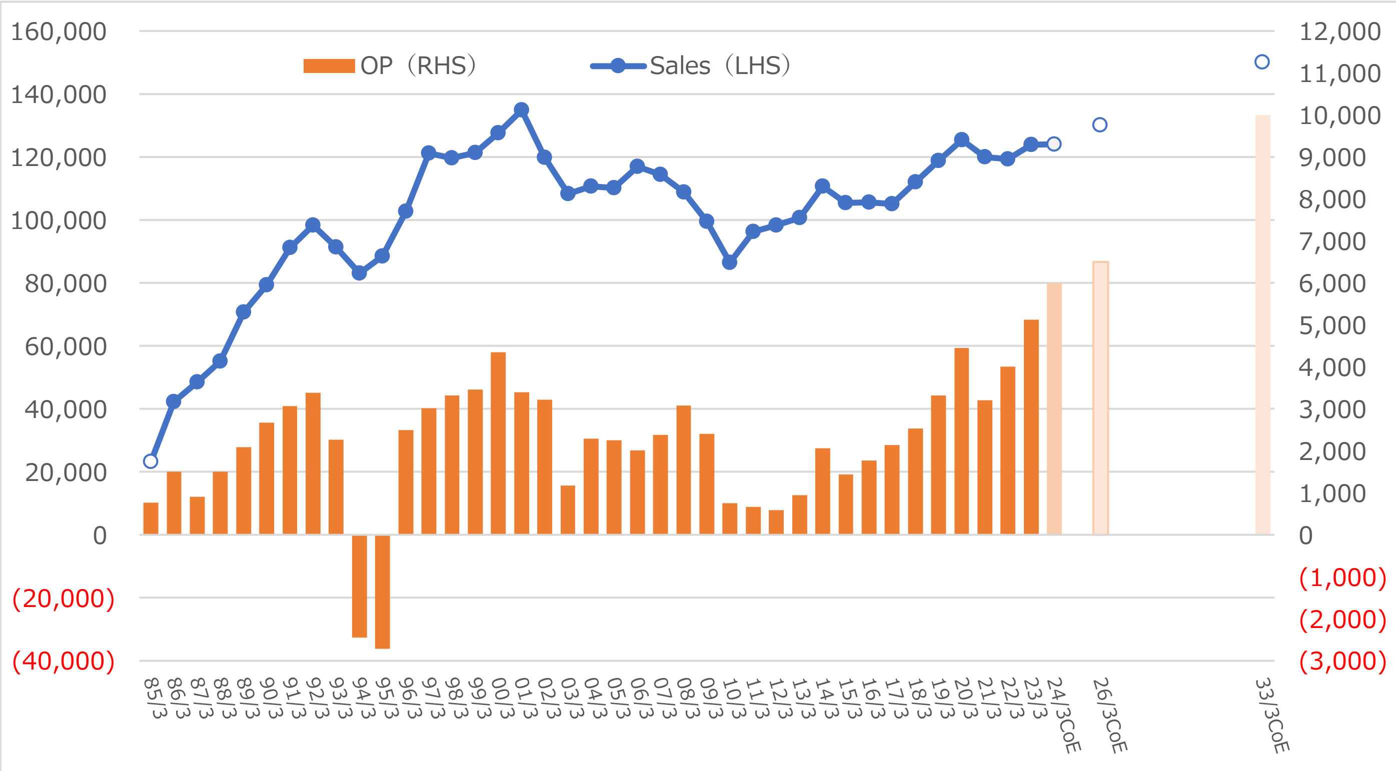
Network Integration Customers are in Railroads, Finance, Electric Power, Gas Etc

Unlike its peers Net One Systems and ITOCHU Techno-Solutions, its network integration clients do not undertake projects related to the construction of facilities for the three major telecommunications companies. Many of Tsuzuki Denki’s clients are railroad companies such as East Japan Railway, finance, electric power, and gas companies. In particular, network equipment for railroads and optical transmission equipment for Shinkansen bullet trains are long-term projects. These are stable businesses, with additional orders coming in when lines are extended and replacements coming in when they become obsolete. System integration also includes PC, server, and smartphone sales, and the company provides these services to a wide range of customers, including distribution, retail, the public sector, and financial institutions.

Tsuzuki Denki's Corporate DNA

Strategy Advisors believes that Tsuzuki Denki's corporate DNA lies in its "ability to identify the next generation of ICT" and its "corporate culture that thoroughly values customers and employees," as described below.

Figure 4. Net Sales and Operating Income (Unit: Million Yen)



Source: Prepared by Strategy Advisors

3. Earnings Trend of Information Network Solution Services Business

IT Consists of 3 Businesses: Equipment, Development/ Construction and Services

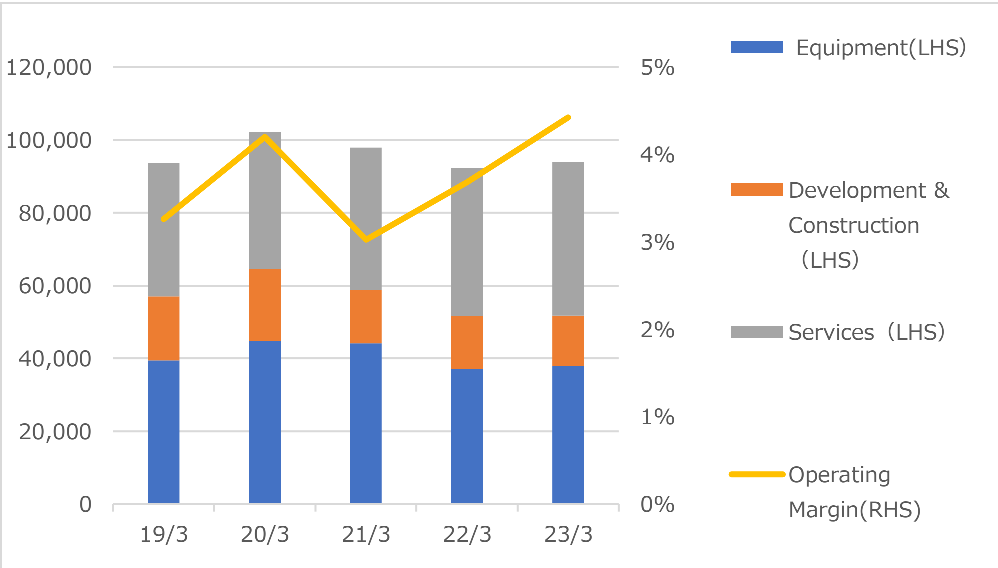
The Information Network Solution Services segment consists of three sub-segments: (1) equipment, (2) development/construction and (3) services; with sales of 93.9 billion yen in FY3/2023, with equipment, development/ construction, and services, comprising 40.4%, 14.7% and 44.9% of respectively.

Since the mid-2010's, the company has been focusing on raising the sales composition ratio of its services, with the sales composition ratio of its information network solution services business as a whole having increased from 36.9% in FY03/2020 to 44.9% in FY03/2023.

Operating Margin Improved 1.4% over the Past Two Years

In addition to the growth in sales of the high-margin services business, a decrease in unprofitable development and construction projects and measures to improve the efficiency of procurement costs for equipment and other items have helped increase the operating profit margin of the information network solution services business to 3.0% in FY03/2021, 3.7% in FY03/2022, and 4.4% in FY03/2023. The operating profit margin in the information network solution services business has increased to 3.0% in FY03/2021, 3.7% in FY03/2022 to 4.4% in FY03/2023.

Figure 5: Sales Breakdown of Information Network Solution Services and Operating Margin of the Segment (Millions of Yen)



Source: Prepared by Strategy Advisors

（1） Service Business (45% of Net Sales)

Provide System Operation and Maintenance as well as Cloud Services including In-House Solutions

The services business includes system operation, maintenance, and support for client companies, as well as monitoring of established communication networks and provision of security services. As described below, the company has seen significant growth in cloud services over the past few years, particularly in contact centers and PBXs, and offers its own solution, the "CT-e1/SaaS" cloud-based contact center, and the "TCloud series" specialized for specific markets such as the logistics and fruit and vegetable market.

Private Branch Exchange (PBX) is a device and system that handles incoming and outgoing calls to and from corporate extensions and external lines, as well as the transfer of these calls. Traditionally, equipment was installed on-premise at companies, but with the support of cloud PBX, sales in the Information Network Solution Services business are shifting from equipment to services.

（2） Development and Construction (15% of Sales)

Design, Development/ Construction of Business Systems and Communication Networks

Development and Construction handles development and implementation services for the design and construction of client companies' business systems, communication networks and other IT infrastructure. First, through business consulting to the user company, the company defines system requirements (clarifying required functions and performance, etc.) and designs the system. Based on the design, it proceeds with the actual development, including the procurement of hardware and the acquisition of software and application licenses. After implementation, in addition to regular maintenance and operational support, the company provides ancillary services such as IT infrastructure management and data processing to be built on a cloud platform, leading to ongoing revenue.

Large Number of Projects in Customizations and Implementation Assistance Tailored to Customer Needs

Most development projects are less than 5 million yen per project, such as customization and implementation support tailored to customer needs. There are also projects worth 100 million yen or more that are developed from scratch, but the company does not work on many of them. In recent years, with the acceleration of the shift to cloud computing, an increasing number of cases are being replaced by service projects. The company also provides development and implementation support for KitFit (industry-specific software for fruit and vegetable markets, movie theaters, etc.), a solution developed in-house and cloud services.

（3） Equipment (40% of Sales)

Sells about 100,000 PC's Per Year to Corporate Customers

The company sells equipment such as PCs, servers, storage, PBXs, network construction equipment (routers and switches) and business cell phones for corporate customers. The company sells about 100,000 PCs per year, valued at about 10 billion yen, mainly to megabanks and other large corporations; and its strength as a multi-vendor means that it also sells many products from companies other than Fujitsu, such as HP and Dell.

Special Demand Occurs Every 4-5 Years Due to the End of Windows OS Support and PC Replacement Cycles

In PCs, there is a replacement cycle for major customers due to the cessation of support for the Windows OS and special demand occurs every few years. Most recently, the end of support for Windows 7 generated special demand in FY03/2020. With support for Windows 10 expected to stop in October 2025, and the replacement cycle expected to coincide with the end of support for Windows 10, we expect this to lead to an increase in PC sales from FY03/2025 to FY03/2026.

4. Comparison of Peer Companies in ICT Industry (SIer's and NIer's)

(1) Competitive Situation between SIer's and NIer's

Numerous Sier's and NIer's in Japan

There are numerous SIer's (System Integrators) and NIer's (Network Integrators) in Japan, but as shown in Figure 6, they are listed companies and have similar business activities to those of Tsuzuki Denki, sometimes competing

Figure 6: Comparison of Sier's and NIer's (Millions of Yen, %)

	Ticker Code	Fiscal Year	Net Sales	Gross Margin	Operating Profits	OP Margin	ROIC Invested Capital	ROIC Business Assets	ROE	Equity Ratio
Tsuzuki Denki	8157	2023/03	123,899	19.5	5,118	4.1	7.1	12.2	10.4	42.0
Nomura Research Institute, Ltd.	4307	2023/03	692,165	34.6	111,832	16.2	12.9	21.9	20.7	47.6
Otsuka Shokai	4768	2022/12	861,022	21.4	54,768	6.4	12.1	36.5	12.9	61.1
ITOCHU Techno-Solutions	NA	2023/03	570,934	24.4	46,473	8.1	9.6	15.8	11.8	56.6
TIS	3626	2023/03	508,400	27.9	62,328	12.3	11.6	19.0	18.8	64.2
SCSK	9719	2023/03	445,912	26.4	51,361	11.5	10.5	16.5	14.4	62.4
BIPROGY	8056	2023/03	339,898	26.3	29,673	8.7	11.4	22.0	15.0	49.9
NEC Networks & System Integration	1973	2023/03	320,802	20.7	22,751	7.1	10.0	16.1	10.0	52.9
NS Solutions	2327	2023/03	291,688	22.6	31,738	10.9	10.1	24.3	11.1	62.7
Net One Systems	7518	2023/03	209,680	24.0	20,635	9.8	13.3	19.3	20.0	42.4
Dentsu Research Institute	4812	2022/12	129,054	36.3	18,590	14.4	18.9	51.8	18.1	60.6
Japan Business Systems	5036	2023/09	112,800	11.6	4,192	3.7	10.5	13.8	16.0	44.8
NSD	9759	2023/03	77,982	22.5	12,525	16.1	15.0	49.7	19.3	80.3
JBCC Holdings	9889	2023/03	58,144	31.0	3,764	6.5	13.2	26.1	14.1	55.3

Source: Prepared by Strategy Advisors

on a project-by-project basis. Other players with solution sales exceeding 2 trillion yen include Fujitsu, NEC, NTT Data and Hitachi, Ltd.

Most of them have SI as their core business, but ITOCHU Techno-Solutions (CTC), Net One Systems, and NEC Networks & System Integration have strength in network construction.

Some of the major integration companies have absolute strengths in specific industries, such as Nomura Research Institute's securities industry and TIS's credit card industry. However, most major players provide technology to a wide range of industries, including manufacturing, services, finance, retail, and public sector. Tsuzuki Denki also has a widely dispersed client base, as shown in its FY 03/2023 sales by industry.

Daily Competition, but Constant Shortage of IT Personnel and Market Growth Ensure Margins for the Industry as a Whole

Competition in the traditional SI business routinely occurs in situations such as competitions to determine which integrator receives order when a company builds a new or updated information system or network. A customer analyzes and judges the proposals submitted by several companies, including the breakdown of system development, maintenance and operation policies, and related costs, selects an ordering party, and signs a contract. In many cases, development and maintenance/operation are ordered from different companies. Although competition is fierce on a day-to-day basis, the constant shortage of IT personnel and the expansion of the market have ensured that the major integrators have been able to maintain stable margins since the mid-2010’s.

（2） Tsuzuki Denki's Low Profitability and Historical Background

Profitability is Not as Good as Other Companies in the Same Industry

Tsuzuki Denki's information network solution services business, excluding its electronic devices business, posted sales of ¥93.9 billion in FY03/2023, less than ¥100 billion, as shown in Chart 3, and not large compared to other listed SIer’s and NIer’s. In addition, the business's operating profit margin in FY03/20233 was 4.4%, which, as noted above, was higher than the 3.0% in FY03/2021, but still low compared to other integration companies. Many of the major players in the industry have an operating profit margin of over 10%. The only company with a lower operating profit margin than Tsuzuki Denki is Japan Business Systems, whose core business is the resale of Microsoft product licenses and related equipment.

The Legacy as an Electronics Trading Company Has Been a Historical Drag

Many SIer’s started out in the information systems divisions of large corporations and have been involved in development and construction since their inception. On the other hand, as will be discussed in the next chapter, Tsuzuki Denki was established as a special distributor of Fujitsu telephone switching equipment and has come a long way as a computer dealer. Historically, Strategy Advisors believes that the company's strong corporate culture as a "trading company" that purchased equipment from vendors and sold it to customers, where low margins were acceptable, is behind its lower profit margins than those of other SIer’s.

In FY03/2023, the operating profit margins of electronics trading companies were 6.0% for Macnica Holdings, 3.0% for Restar Holdings, 5.3% for Kaga Electronics and 2.9% for Tomen Devices. Although the semiconductor business was strong in the previous year, the operating profit to sales ratios of electronics trading companies over the past 10 years have all been in the low single digits, and Tsuzuki Denki's ratio was close to that of its peers.

（3） Exit from the Electronics Trading Company Mentality Will See a Reevaluation of the Stock Price

Higher Operating Margins Will Lead to a Reevaluation of the Stock Price

With the change in TSE industry affiliation from "Wholesale" to "Information and Communications" in 2018 and the sale of the electronic device business, Tsuzuki Denki's business structure and corporate constitution are steadily transforming. Management is well aware of its low profitability compared to other SIer’s and NIer’s and has been working to reduce losses from unprofitable projects since FY03/2017 and to improve productivity and gross profit margin by standardizing development processes. Furthermore, in order to increase its presence in the contact center domain, where it has a strength, the company has also implemented initiatives to increase its competitiveness, such as making ComDesigin, which has the second largest market share in the industry for cloud-based contact centers, a subsidiary.

The current medium-term management plan (FY03/2024-FY03/2026) calls for an operating profit margin of 5.0% in the information network solution services business, a 0.5point increase over three years. As mentioned below, further improvement is expected, if the cloud services and SaaS businesses, which includes in-house solutions with high profit margins and growth capability. Strategy Advisors believes that profit margins approaching those of peer SIer’s and NIer’s will serve as a guidepost for the company to break away from a P/E ratio of around 10x, the same as the current level of listed electronics trading companies.

5. History - High Growth Period (1932-2000) and Stagnation Period (2001 to mid-2010's)

90 years of History Broken Down into 3-Stages

Although Tsuzuki Denki has a history of more than 90 years, Strategy Advisors believes it can be divided into three stages: (1) from its establishment through the high growth era to the IT bubble in 2000, (2) a period of stagnant performance due to delays in responding to structural changes in the domestic ICT market in the 2000s, and (3) a period of re-growth through the full-scale expansion of its cloud computing business and service business from the mid-2010's.

（1） From the Foundation to the IT bubble

Established in 1932 in Nagoya as a Special Distributor of Fuji Electric Telephone Switching Equipment

In 1932, Tsuzuki Shoten was established as the sole distributor of Fuji Electric Manufacturing Co. The founder, Mr. Takeichi Tsuzuki, graduated and after working for Mitsubishi Corporation and other companies, he was commissioned by Fuji Electric's Nagoya branch office in 1931 to handle sales of telecommunications equipment. Communications equipment had an important function that became central to the nervous system of the national economy, and the purpose of the company's founding was to increase its utilization and thereby contribute to society.

In 1935, three years after Tsuzuki Shoten was established, Fujitsu was established, and it has become the largest business partner for the company.

Began Selling Computers as a Fujitsu Dealer in 1958, and Launched Maintenance, Operation and Software Development Businesses around 1970

In 1958, the company began selling computers and related parts under a special distributor agreement with Fujitsu, and in 1963 its shares were registered as over-the-counter shares with the Japan Securities Dealers Association. In 1969, in response to the growing importance of computer maintenance, the company established Tsuzuki CE Center Co. In addition to the sale of stand-alone communication devices, the company began selling systems that combine various types of equipment.

The company expanded its customer base by accumulating a track record of delivering communications equipment to various large corporations, government offices, and universities, including city banks, manufacturers, electric power companies, railroads and distributors. As a Fujitsu computer dealer, the company also developed maintenance services and trained system engineers (SEs) to hone their skills and increase sales.

In 1972 Shogo Tsuzuki Became the Second President

In 1972, when President Takeichi Tsuzuki turned 70 and the company celebrated its 40th anniversary, he himself transitioned to chairman and his eldest son, Shogo Tsuzuki, became president. After graduating from university, Shogo Tsuzuki worked for Fujitsu for seven years before becoming a director of Tsuzuki Denki in 1960.

Steadily Expanding Customers with a Tailwind of OA & Data Communication Market Expansion

The high growth period of the Japanese economy ended in the mid-1970s, but the spread of telephone lines and the development of communications technology led to increased demand for data communications, including the establishment of online banking and office automation (OA). During this period, many large corporations, municipalities, and government agencies renewed their communication facilities and shifted to OA, further expanding Tsuzuki Denki's customer base. This has led to the company's current customer base, which is centered on large corporations.

Owner-Management Ended in 2007

In 1998, Mr. Shogo Tsuzuki retired and his second son, Togo Tsuzuki, became the third president. After completing a graduate school, Mr. Togo worked for Fujitsu as an engineer before becoming a director of Tsuzuki Denki in November 1968. Mr. Togo Tsuzuki continued as president until the age of 73, but in 2007, Mr. Moriichi Torigata, who was not from the Tsuzuki family, became president, ending the owner-management of the company. Since then, an employee from outside the Tsuzuki family has been appointed president.

（2） 2000 to the Mid-2010’s.

Sales on a Declining Trend After Peaking at a Record High in FY03/2001

Although the domestic information and telecommunications market continued to grow with the spread of personal computers, the advent of the Internet age and the expansion of cell phone services, Tsuzuki Denki's sales growth since the 21st century has been unable to surpass its peak in FY03/2001.

Global Financial Crisis (GFC) and Subsequent Great East Japan Earthquake Led to a Decline in IT Investment

The company's consolidated net sales of 134.9 billion yen, which it posted in FY03/2001 due to its response to the Y2K response and the IT bubble, have not been exceeded to this day. Sales fell to less than 100 billion yen from FY 03/2009 to FY03/2012 due to the decline in IT investment because of the Global financial crisis and the Great East Japan Earthquake. Operating profit from FY03/2010 to FY03/2013 was less than 1 billion yen. The company's performance remained challenging until the mid-2010’s, with operating profit exceeding the 4.351 billion yen recorded in FY03/2000 to 4.457 billion yen in FY03/2020, 20 years later.

Figure 7 History of Tsuzuki Denki

1932	Established in Nagoya as Tsuzuki Shoten and began installation and maintenance of telephone switching equipment as a Fuji Electric distributor.
1941	Reorganized as a joint stock company and renamed Tsuzuki Denwa Kogyo Co.
1945	Head office building burned down in air raid.
1958	Begins sales of computers and parts under a special distributor agreement with Fujitsu.
1961	Company name changed to Tsuzuki Denki Kogyo Co.
1963	Shares registered with the Japan Securities Dealers Association (industry: commercial)
1967	Established Toshin Electric (later Tsuzuki Densan Co. Ltd.)
1970	Established Tsuzuki Software Co., Ltd. in response to the growing importance of software in the technological innovation and increasing popularity of computers.
1972	Shogo Tsuzuki appointed president.
1986	Listed on the Second Section of the Tokyo Stock Exchange
1988	Became a system integrator certified by the Minister of International Trade and Industry.
1991	Company name changed to Tsuzuki Denki Co. Ltd.
1991	Agency agreement signed with Lucent Technology (now Avaia).
1998	Togo Tsuzuki appointed president.
1999	Tsuzuki Densan Co., Ltd. listed on the Second Section of the Tokyo Stock Exchange.
2007	Morikazu Torigata appointed president.
2010	Hajime Ando appointed president
	Conducted tender offer (TOB) for listed subsidiary Tsuzuki Densan Co.
2012	Merged with Tsuzuki Densan Co.
	Hideki Hiura appointed president
2016	Announced new management philosophy and logo
2017	Isao Emori appointed president
2018	Changed its industry affiliation on the Tokyo Stock Exchange from "Wholesale" to "Information and Communication".
2020	Listed on the First Section of the Tokyo Stock Exchange
	ComDesign Inc., a company with unique contact center solutions, becomes a subsidiary.
2021	Spun off the electronic device business as a separate company, Tsuzuki Embedded Solutions Co.
2022	Certified as a DX Certified Business by the Ministry of Economy, Trade and Industry
	Shifted to Tokyo Stock Exchange prime issue
	Established Purpose and renewed management philosophy
2023	Sold electronic devices business (transferred shares of four consolidated subsidiaries)

Source: Prepared by Strategy Advisors

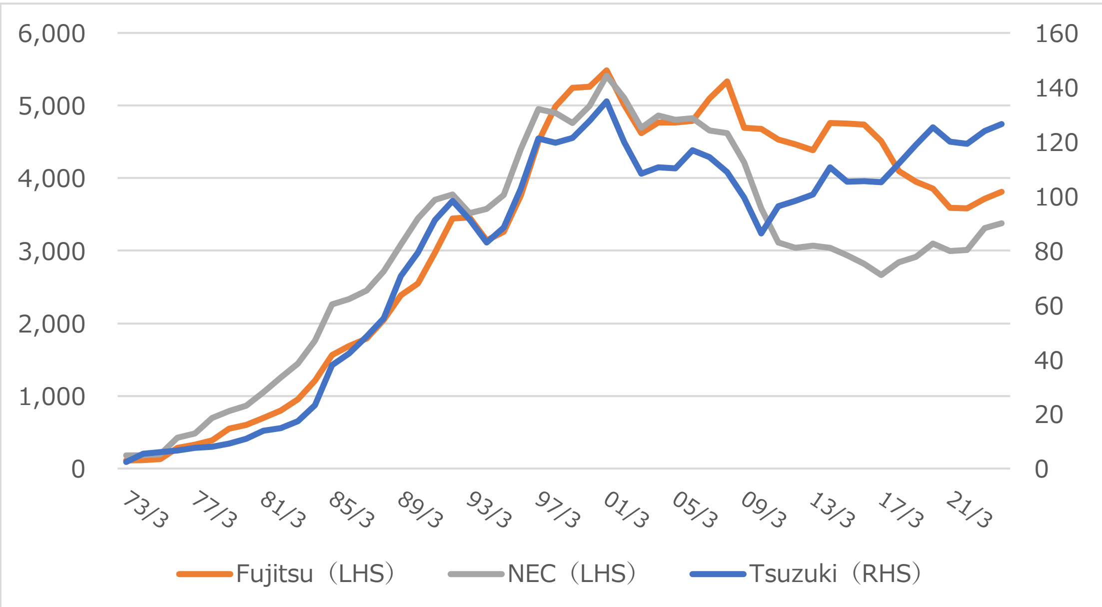
Structural Changes in the IT Industry, Including Deregulation of the Telecommunications Market, Shift to IP and Collapse of the NTT Family

The biggest factor was the loss of competitiveness of Fujitsu, which had been Tsuzuki Denki's largest supplier of telecommunications equipment and computers. 1985 saw the privatization of the Nippon Telegraph and Telephone (NTT) and the introduction of competition policies in the telecommunications market, leading to the collapse of the NTT family of companies: Fujitsu, NEC, Hitachi, and Oki Electric. With the rapid spread of the Internet since the 1990s, the analog/fixed telecommunications equipment market has expanded to include a diverse range of entities, including emerging carriers and ISP carriers. Products also diversified from conventional telephone switching equipment to routers and servers and so on.

At the same time, a structural change in computer systems, known as "Ne・O・Da・Ma," was underway. The term was coined by combining the initial letters of each of the four keywords: "Ne" stands for network, "O" for open system, "Da" for downsizing, and "Ma" for multivendor.

In the networking field, the market environment changed drastically with the emergence of global vendors such as CISCO and ORACLE, etc. While the market environment was changing drastically with Windows 95 as the catalyst, Japanese computer makers, which were mainly engaged in host computers, could not compete and had no choice but to follow suit. The PBX market, which had been dominated by on-premise systems with switching equipment installed in offices, saw the spread of software PBX, followed by cloud PBX, but Fujitsu and other companies were behind the curve because they were not serious about it, such evidenced through their subsidiary companies.

Figure 8: Consolidated Sales of Tsuzuki Denki, Fujitsu, and NEC (Billions of Yen)



Source: Prepared by Strategy Advisors

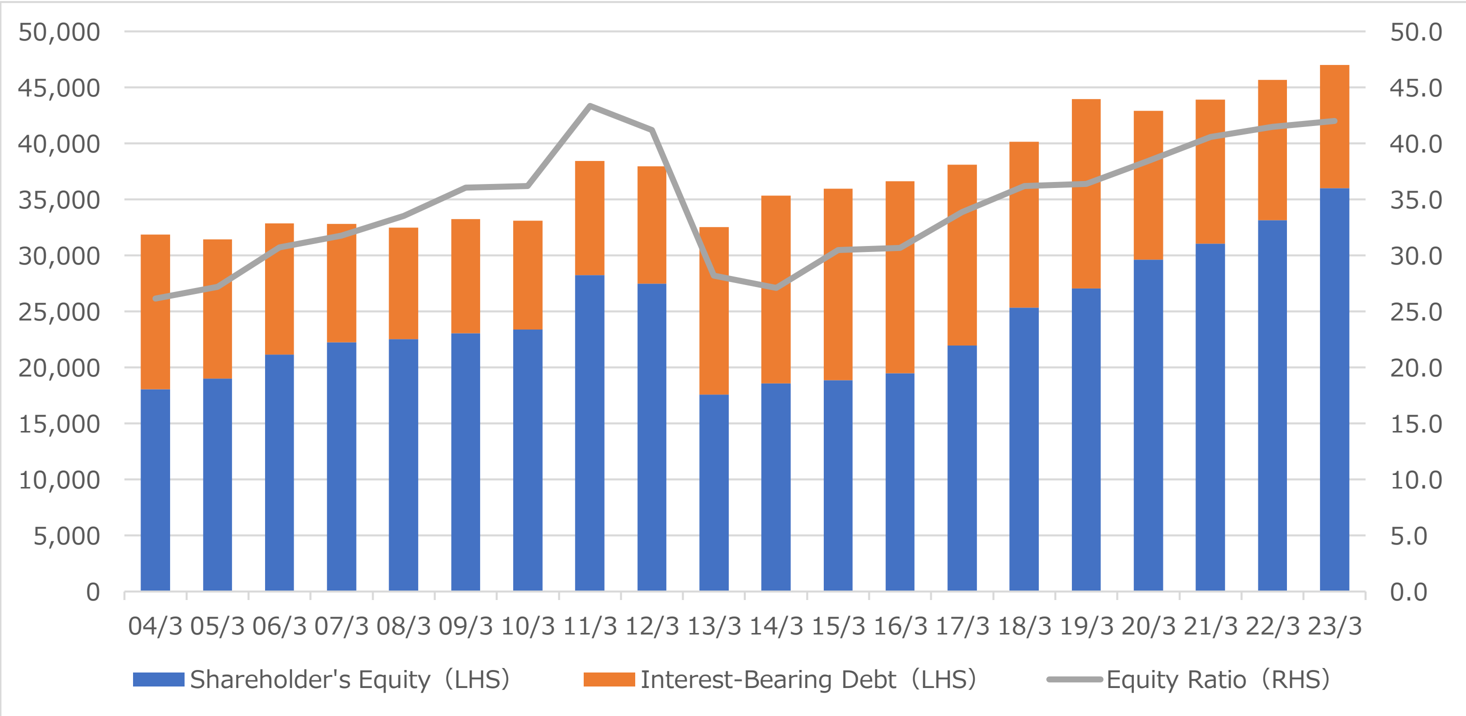
Fujitsu and NEC Lose Competitiveness. Global Vendors such as CISCO & ORACLE Emerge

Major Japanese IT providers were unable to respond to these structural changes and lost the domestic market to global vendors, such as CISCO. As Figure 8 shows, Fujitsu and NEC's sales peaked in FY2000/3. Due in part to the divestures of businesses, Fujitsu's sales declined from 5.484 trillion yen in FY03/2000 to 4.381 trillion yen in FY03/2013, while NEC's sales also declined from 5.410 trillion yen to 3.072 trillion yen.

Financial Position Also Deteriorated Due to TOB of More than 10 billion Yen in Treasury Stock

Tsuzuki Denki was also in a difficult financial situation. Shareholders' equity declined from 27.504 billion yen at the end of FY03/2012 to 17.586 billion yen at the end of FY03/2013 and the equity ratio declined from 41.2% at the end of FY03/2012 to 28.2% at the end of FY03/2011. This was due to the acquisition of 13,393,525 shares (52.16% of the then outstanding shares) through a tender offer from March 26, 2012 to April 20, 2012 for 770 yen per share or 10.313 billion yen in total. The tender offer was made on the premise that Tower Investment Management, which held 46.19% of the outstanding shares at the time, would purchase the shares of Tsuzuki Denki.

Figure 9: Shareholders' Equity, Interest-Bearing Debt and Equity Ratio (Millions of Yen, %)



Source: Prepared by Strategy Advisors

(3) Tsuzuki Denki's Strengths Seen in a Severe Environment

As mentioned above, the business situation from 2000 to the mid-2010' was not good, but we would like to point out two things when considering Tsuzuki Denki's future competitive advantage.

Maintained Employee Size Even During the Post-2000 Downturn

The first is that the number of employees remained stable, even in a situation where sales growth remained sluggish since 2000. The number of employees at Tsuzuki Denki remained at about the same level from 2,542 at the end of 03/2001 to 2,300 from the end of 03/2014 to 03/2018 but has recovered to the 2,300 level in response to the revenue increases. The stability is noticeable compared to Fujitsu and NEC, which have significantly reduced their number of employees.

Employee-Oriented, Communal Management has been the Company's Motto Since its Establishment

Since its establishment, Tsuzuki Denki has upheld the company motto of "Kaitaku Mugai" (meaning that there is unlimited room for business and market expansion) as well as "Wa wo motte Tattoshi to nasu" (meaning "to harmony is of top priority") and has emphasized employee-oriented management. The company rewards its employees with higher salary levels than its peers and maintains a low turnover rate of 1-3%. Needless to say, human capital is the greatest asset in the ICT business, and Strategy Advisors believes that the company's corporate culture and high level of employee loyalty will be a competitive advantage during its future growth phase.

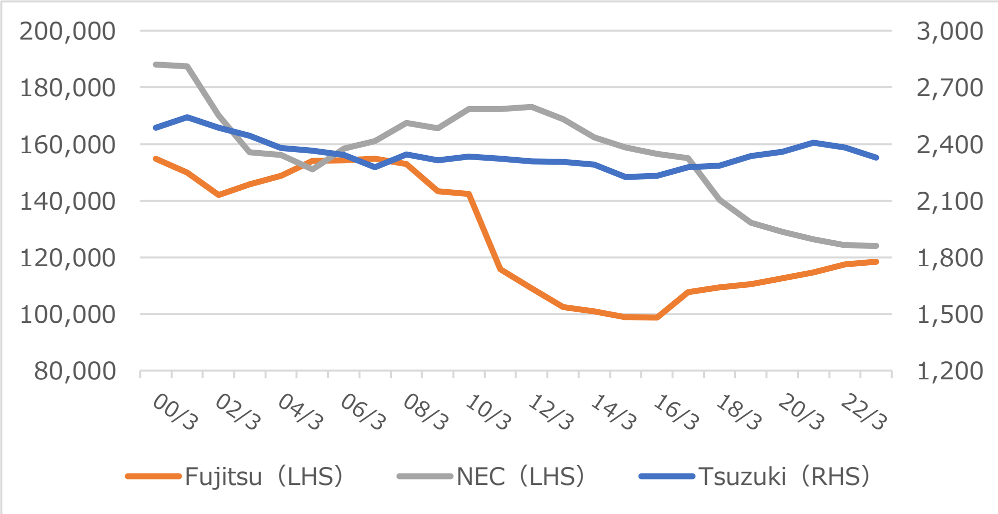
Highly Resilient Operation and Maintenance Business and Strong Customer Base Support Performance

Second, even though sales fell 40% from the peak, the company has remained profitable without reducing personnel expenses, its single largest fixed cost. Strategy Advisors believes that this is due to the company's strength in the resilient but not flashy, operation and maintenance business and the solid client base that supports this business. As discussed below, maintenance and operations are one of the cores of the services business, and if development/ construction or equipment grows, its sales will follow.

Sales Recovery Trend from FY03/2013

The company's sluggish performance was halted in FY03/2013, when Hideki Hiura became the 6th president and sales reached 100.6 billion yen, which was the first time in five years that the company has exceeded more than 100billion yen. IT investments by Japanese companies have been growing again, and the company has responded to customer needs by strengthening its multi-vendor capabilities, while in-house service businesses such as KitFit and cloud integration have begun to emerge.

Figure 10. Number of Employees for Tsuzuki Denki, Fujitsu, and NEC



Source: Prepared by Strategy Advisors

6. First Medium-Term Management Plan (FY03/2018/3 – FY03/2020)

(1) Management Reforms Accelerated after Current President Isao E Mori Took Office as President

First Announced Mid-Term Management Plan Exceeded Sales, Operating Income and ROE

2017 was a major turning point for Tsuzuki Denki. The current president, Isao Emori, became the seventh president in April 2017 and the company's first medium-term management plan was formulated and published in May 2017, and the first financial results briefing for investor analysts was held in June 2018.

The first medium-term management plan, "Make New Value 2020," covers the three-year period from FY03/2018 to FY03/2020, and calls for net sales of 106 billion yen, operating income of 2.8 billion yen and ROE of 8% or higher. The company exceeded all three of its numerical targets.

Significant Decrease in Project Losses from Unprofitable Projects

In terms of improving profitability in the core business, which had been a priority measure, the strengthening of measures to prevent unprofitable projects made a significant contribution. Project losses from unprofitable projects decreased significantly from 1.099 billion yen in FY03/2016 to 477 million yen in FY03/2017, 178 million yen in FY03/2018, 166 million yen in FY03/2019, and 121 million yen in FY03/2020. Although it took about 5 years to improve the quality of such operations, the number of unprofitable projects from FY03/2021 onward was almost zero, contributing significantly to the improvement in profitability.

Stricter Estimation Judgments and a Decrease in Contracting Agreements Contributed to the Decline

As a specific measure, the company started to make decisions on system development, network construction and other projects after careful examination by a "projects review board" and a "profitability review board". In terms of contract types, the number of "work contracts," in which completion of the project is a prerequisite for payment, was reduced, and the number of "quasi-consignment agreements," in which payment is made for work performed without an obligation to complete the project, was increased. In addition, work standardization and manuals were developed and the newly established "Assurance Office" began to manage risks such as process delays during the project period.

(2) Balance Sheet Strengthened by the Disposal of Treasury Stock

4.5 million Shares of Treasury Stock were Allocated to Aso Corp in 2017, Raising ¥3.4 billion

The company's financial position deteriorated as a result of a 10 billion yen share buyback in FY03/2013. In 2017, the company disposed of 2.3 million treasury shares in January and 2.2 million shares in November through a third-party allotment to Aso Corporation. The disposal price was 556 yen in January and 966 yen in November, raising 1.279 billion yen and 2.125 billion yen, respectively.

As a result, Aso Corporation became the largest shareholder and continues to hold the company. Aso was top shareholder at the end of FY09/2023 with 24.19% of voting rights. Aso engages in medical, cement, and real estate businesses, with net assets of 45.017 billion yen at the end of FY09/2023. Hidetoshi Takinaka, Aso's senior managing director and general manager of the Medical Business Division, has been appointed as an outside director of Tsuzuki Denki.

Accumulation of Profits has also Increased Equity Ratio

In addition to the funds raised through the third-party allotment to Aso Corporation, the company's shareholders' equity increased from 19.506 billion yen at the end of FY03/2016to 29.629 billion yen at the end of FY03/2020 due to the accumulation of profits, and the equity ratio recovered from 30.7% to 38.4% at the end of FY03/2020 over the same period.

TSE - Changed its Industry Affiliation from Wholesale to Information/ Communications

Efforts to raise awareness of stock prices have gradually begun, and in 2018, the industry sector to which Tsuzuki Denki belongs on the Tokyo Stock Exchange was changed from "wholesale" to "information and communications".

7. Second Medium-Term Management Plan (FY03/2021 – FY03/2023)

Record Operating Profit and Double-Digit ROE of 10.4% in FY03/2023

The management targets for the FY03/2023 in the second medium-term management plan "Innovation 2023" were net sales of 126 billion yen, operating income of 4.6billion yen, operating margin of 3.7% and ROE of 9%, but the actual results were net sales of 123.8 billion yen, operating income of 5.118 billion yen, operating margin of 4.1% and ROE of 10.4%. ROE was 10.4%. Although net sales fell short of the plan, operating income reached a record high and the operating margin and ROE exceeded the plan.

The record-high profit was contributed to by an increase in the gross profit margin from 18.4% in FY03/2020 to 19.5% in FY03/2023. This was due to (1) expansion of the high-margin service business and (2) cost reductions through optimization of procurement and subcontracting costs, and so on.

Published Framework for Systematizing Solution Services

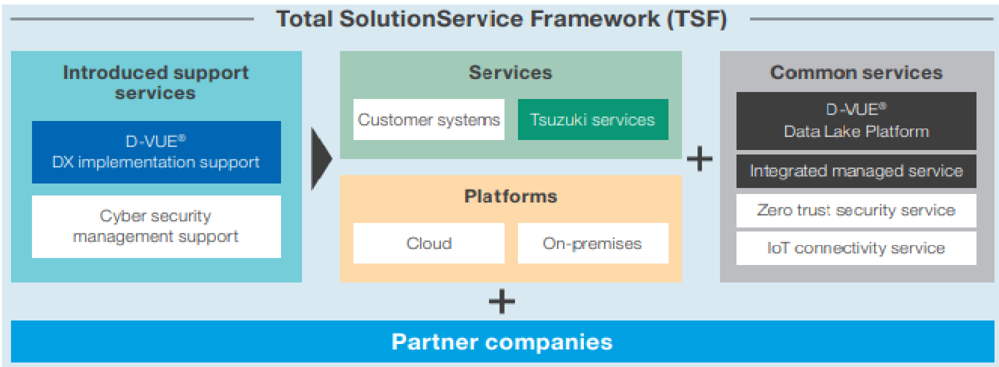
In October 2021, Tsuzuki Denki created 'Total SolutionService Framework (TSF)', which systematizes all the solutions it provides, from upstream consulting to midstream services and downstream maintenance and operations (Figure 11). The TSF is an effective sales tool for eliciting customer needs because it conveys at a glance the variety of services the company can provide and their diversity.

In September 2020, the company acquired a 50% stake in ComDesign Corporation (ComDesign), which has its own cloud-based contact center solution, CT-e1/SaaS and made it a subsidiary. The number of contracted seats increased rapidly, coupled with the growing need for home-based services due to the Covid-19. Tsuzuki Denki has a wealth of experience in on-premise contact centers with 40,000 seats, but has added "CT-e1/SaaS" to its menu, which has strength in small to medium-sized scales of 10 to 200 seats.

Transferred to the TSE 1st Section in 2020 and to the TSE Prime Market in 2022

In June 2020, the company was reassigned from the Second Section to the First Section of the Tokyo Stock Exchange and is currently in the Prime Market following a market reclassification in April 2022.

Figure 11. Menu and Flow of Service Systems Provided by Tsuzuki Denki



Source: Company Data

8. Created "Purpose" in 2022, the 90th Anniversary of the Company's Founding

Established Purpose in 2022, the 90th Anniversary of the Company's Founding

In June 2022, the 90th anniversary of its founding, Tsuzuki Denki developed its management philosophy and established purpose. The management philosophy consists of "Purpose," which verbalizes the company's values and ideal state, and "Values," which defines the values and action guidelines that should be cherished.

The company's purpose is "Bring to society "*yohaku*" filled with possibilities, through people, knowledge, and technology." "People, knowledge, and technology" are non-financial capital that Tsuzuki Denki has accumulated over the years and are the source of value creation. The convenience and efficiency created by technological advance gift provides society with *yohaku*: room for growth, time, and other resources to spare, and peace of mind to relax and enjoy. the company's customers and society as a whole with room to spare and room to play. "Together" means walking forward together with stakeholders.

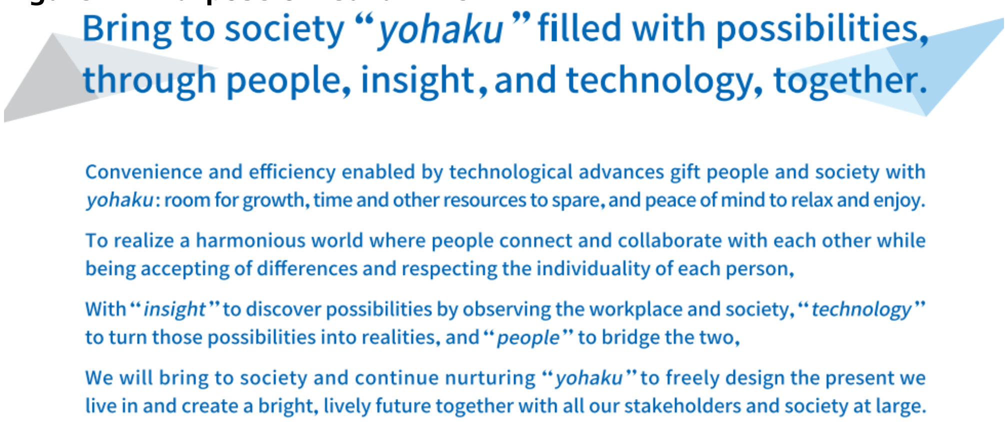
The plan for the 100th anniversary was formulated by holding workshops with representatives of diverse ages, positions, and jobs, after quantitatively and qualitatively capturing the thoughts of employees based on the results of a survey of over 1,000 people.

The Values continue those formulated in 2016 with Facing, Building, Connecting, Challenging, Enjoying, Supporting, and Working Through.

Regularly Measure the Level of Employee Understanding of the Corporate Philosophy for Deeper Penetration

The company does not only create the purpose, but also makes employees aware of it and embodying it in their daily work. Specifically, the company conducts a fixed-point observation of the level of understanding of its corporate philosophy through an annual employee survey. Based on the results of the survey and the vision of the company, the PDCA cycle of planning, implementing, evaluating, and improving measures is used to ensure steady penetration of the philosophy.

Figure 12. Purpose of Tsuzuki Denki



Source: Company Data

9. Long-Term Vision and Mid-Term Management Plan "Transformation 2026

Through the past two three-year medium-term management plans, Tsuzuki Denki's operating profit margin increased from 2.0% in FY03/2017 to 4.1% in FY03/2023, and ROE increased from 5.9% to 10.4%. As a result, market capitalization (adjusted for treasury stock) increased from 9.443 billion yen at the end of FY03/2017 to 28.009 billion yen at the end of FY03/2023 and 43.196 billion yen as of the end of January 2024.

Long-Term Vision and Medium-Term Management Plan Announced in May 2023

On May 12, 2023, the company announced its long-term vision and medium-term management plan, "Transformation 2026. The plan sets targets for the fiscal year ending March 31, 2033, which marks the 100th anniversary of the company's founding: these are, 150 billion yen in net sales, 10 billion yen in operating income, 6.7% operating margin, 15% ROE and 7% average annual growth rate of EPS. The company has stated that it will evolve from its current position of "being close to customers" to "a partner that leads customers" and transform itself into a "Growth Navigator (a group that navigates growth and creates together)" in 10 years-time.

Aiming for 7% CAGR of EPS over the Next 10 Years & 15% ROE in FY2033/3

The 10-year period through FY03/2033 is divided into three stages: 1) shift resource to growth areas (FY03/2024-FY03/2026), 2) scale growth areas and develop new business areas (FY03/2027-FY03/2029) and 3) make growth areas into core business and expand new areas (FY03/2030-FY03/2033). With this the roadmap to achieve the long-term vision has been created. The ongoing medium-term management plan "Transformation 2026" is positioned as the first stage. The business strategy consists of (1) expanding growth areas, (2) improving the profitability of existing businesses and (3) reviewing the business portfolio.

Proceeding Ahead of Schedule, Including the Sale of the Electronic Devices Business this Fiscal Year

As for (1), as described in the next section, the company will set 6 growth areas and actively expand its business. Regarding (2), the company will actively allocate resources through analysis and visualization of sales management data, etc., and aim to substantially raise prices by providing value-added services such as consulting and data science. In addition, the company will promote reform of its sales style through the use of digital marketing and online tools. As for (3), as mentioned in the previous paragraph, the company plans to sell its electronic devices business in FY03/2024, its first year of operations, and will also review its service menu and also its business domains in the Information Network Solution Services business.

CO2 Emission Reduction Targets for the Next 3-Years are also Disclosed

Consolidated financial targets for FY03/2026 are 130 billion yen in net sales, 6.5 billion yen in operating income, and ROE of 10% or more. The new target this time is to reduce non-consolidated CO_2 emissions (sum of Scope 1 and 2) from 613 tons in FY03/2023 to 532 tons in FY03/2026, a 13.2% reduction.

Profit Target for FY03/2026 Unchanged Despite Sale of Electronic Devices Business

In the May 12, 2023 announcement, the company's target in FY03/2026 were sales of 102.2 billion yen (+9% over FY03/2023) and operating profit of 5.5 billion yen (+31% over FY03/2023) for Information Network Solution Services and 27.8 billion yen (-7% over FY03/2023) and 1 billion yen (+5% over FY03/2023) for Electronic Devices.

Although the sale of the electronic devices business will remove the portion of the original plan, the company declared that the financial targets of the long-term vision and the medium-term management plan will remain unchanged when it presented its financial results for the first half of the fiscal year and the follow-up to the medium-term plan on November 8, 2023. The reason is that the growth of the ICT market is accelerating and further improvement in the profitability of existing businesses is expected. Furthermore, the company plans to use the proceeds from the sale of the electronic devices business not only for growth areas, but also for M&A to improve the competitiveness of existing areas (conventional SI, infrastructure construction, and equipment sales) where the company has reaffirmed its potential and to strengthen its earnings base.

Accelerating Growth Rate of Domestic IT Infrastructure Market

According to Tsuzuki Denki, the “Domestic IT Infrastructure Market Forecast” by IDC has been significantly raised from a CAGR of 3.2% (FY03/2023-FY03/2027) in the 2022 forecast to a CAGR of 8.4% (FY03/2024-FY03/2028) in the 2023 forecast. IT investment is recovering due to the cessation of Covid-19 and labor-saving and automation needs have increased due to the severe labor shortage. Furthermore, sales of higher-spec PCs than before are expected to grow as generative AI becomes widely used.

Aiming to Further Increase Value from a P/B Ratio of over 1x

In the Integrated Report 2023, President Isao Emori clearly states, “With an awareness of return on capital, including ROE, as indicators of corporate value enhancement, we will achieve a P/B ratio that is consistently over 1x.” He intends to achieve this through the three pillars of “business growth” (average annual EPS growth rate of 7% over 10 years), (2) improvement of capital efficiency (ROE of 15%) and (3) strengthening of management capital (enhancement of human capital and other non-financial values), as shown in Figure 13. In addition, the company is reviewing its shareholder return policy, improving governance, strengthening investor relations and enhancing tools for engagement with investors. These measures are intended to raise the company’s share price, which should be seen as an indicator of the seriousness of the top management.

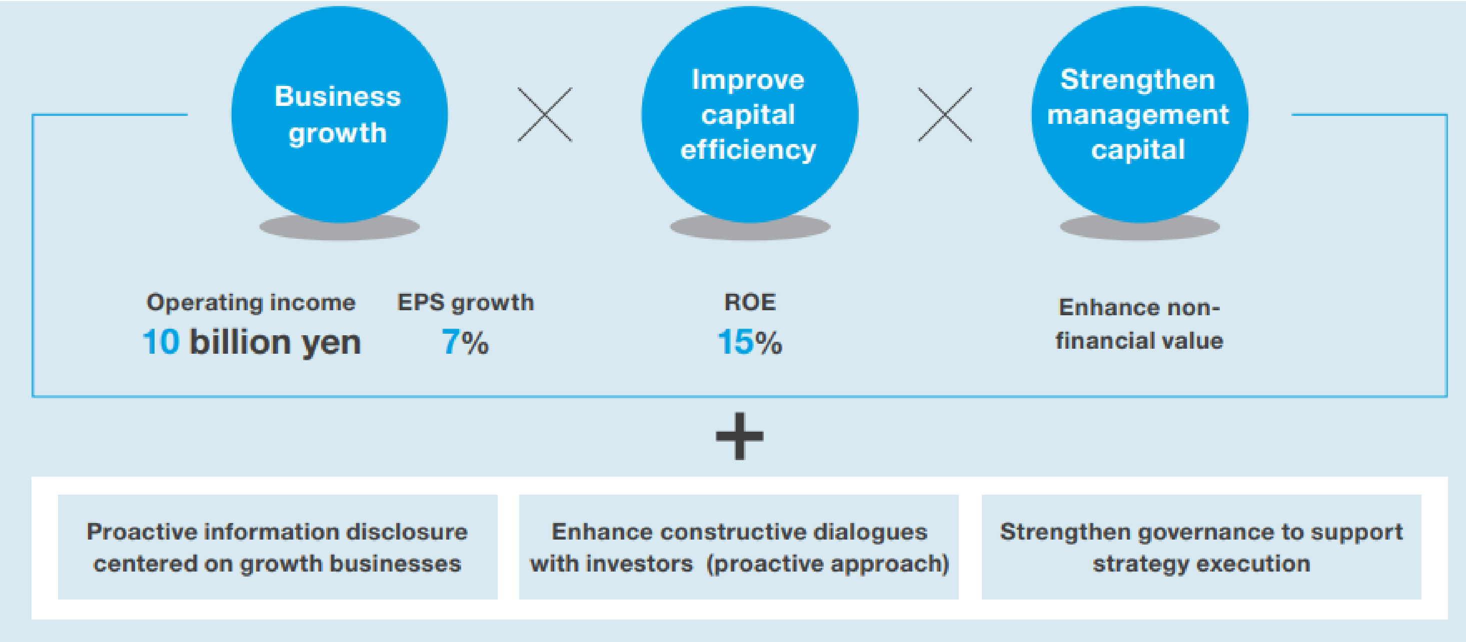
Committed to Stable Dividends with the Introduction of 3.5% DOE

In addition to raising the dividend payout ratio from 30% to 40%, the company has introduced a dividend on equity (DOE) ratio of 3.5%, which is the lower limit of the payout ratio. The company had initially planned to pay a dividend of 76 yen per share for FY03/2024, up from 61 yen per share in FY03/2023, but at the time of the announcement of 3Q results on January 31, 2024, the company announced an upward revision of the earnings and raised the dividend forecast to ¥89 per share.

Increased Equity Percentage in Directors Compensation

In strengthening governance, the ratio of cash to equity in director compensation was changed from 90%:10% to 80%:20%, increasing the ratio of equity. As a communication tool for dialogue with investors, the first integrated report for Tsuzuki Denki was released on September 4, 2023. Furthermore, the company is strengthening its IR activities through the publication of external analyst reports.

Figure 13: Long-Term Vision for Increasing Corporate Value



Source: Company Data

10. Profile of President Isao Emori

Transformation Began with the Appointment of President Emori in April 2017

Since Mr. Isao Emori took over as president in April 2017, Tsuzuki Denki has undergone major changes. In order to change its previously inward-looking corporate structure, the company announced its medium-term management plan for the first time, publicly announcing management target figures, including ROE and expressing its determination to the outside world by demonstrating the commitment of the top management itself. President Emori pursued a variety of actions to achieve a 100% employee health checkup rate and remained focused on numbers and results without giving up. In order to stabilize its financial position and strengthen its business strategy, the company entered into a capital and business alliance with the Aso Group through a third-party allocation of new shares. The first investment in ComDesign, which later became a subsidiary, was made in October 2017.

Clearly Positive Attitude Toward the Stock Market

The company's approach to the stock market has also changed. Until recently, the company did not have a department dedicated to IR and was limited to only the statutory disclosure required of listed companies. However, in June 2018, the company held its first financial results briefing and thereafter began holding regular briefings when full-year and second-quarter financial results are announced. The company also proceeded with procedures to change its industry affiliation on the Tokyo Stock Exchange, changing from "Wholesale" to "Information and Communication" in October 2018. As mentioned above, in September 2023, the company issued its first integrated report, "TSUZUKI REPORT 2023-Transformation," clearly stating its commitment to improving corporate value and stock market valuation through proactive information disclosure and dialogue with investors.

President Emori was born in Yokohama in January 1959. after joining Tsuzuki Denki in 1981, he served as Hokkaido Branch Manager in 2004 and General Manager of East Japan Sales in 2008. During his time as Branch Manager, he contributed to the growth of the municipal business. After becoming Director in 2009 he was in charge of the sales department and in April 2017 he assumed the position of President and Representative Director.

He is a Man Who Takes Pleasure in Being the First to Do What Others Don't Do

Since his youth, he has always been of the disposition to "take pleasure in being the first to do what others are not doing". He was the first to install a LAN (Local Area Network) in Tsuzuki Denki by himself at a time when there were no manuals in Japanese. He was also the first to install an Internet terminal in the company. He wanted to be the first to experience the new things that were coming out in the world, so that customers could see them and build new businesses. Tsuzuki Denki has a culture in which employees are free to do whatever they want and Mr. Emori himself has been challenging himself to do new things because he likes it.

President Emori Embodies Tsuzuki Denki's DNA of "The Ability to Identify the Next Generation of ICT" and "a Company that Thoroughly Values its Customers and Employees

Strategy Advisors believes that the DNA of Tsuzuki Denki is "the ability to identify the next generation of ICT" and "a corporate culture that thoroughly values customers and employees" and President Emori is a leader who truly embodies this. In 2021, the Tokyo office was renovated, with the company creating a working group of about 20 young employees to discuss and work on the project with freedom to infuse their own ideas. The introduction of an advanced and modern work style has allowed employees to experience Tsuzuki Denki's DX initiatives and has led to many customer tours and sales promotions.

The organizational reform has flattened the company and eliminated the concept of branch offices. The Tokyo office (formerly the head office) and the Osaka office (also an Osaka branch) are re named respectively. Since employees can go to work anywhere, the concept of working at home has been eliminated. Neither work nor telework is mandatory and employees are left to their own work style. As a result, employee productivity has increased, leading to higher gross profit margins. Current employee salary levels are listed in top tier among the listed companies, but further increases are being considered.

President Emori's Passion for Change is Growing Even Stronger

Seven years have passed since he became president, and he has achieved results through various reforms, but in an interview with Strategy Advisors, Mr. Emori himself said, "I haven't even achieved half of what I want to do," and "We are still a Showa-style company, so I want to destroy and rebuild the old way of doing things".

11. Strategies and Outlook in Six Growth Areas

Plan for Sales of 16 billion Yen at a 3-Year CAGR of 21% in 6 Areas Where Market Growth is Expected and Tsuzuki Denki has Strengths.

In its current medium-term management plan, Tsuzuki Denki has identified the following six areas of growth: (1) Contact Center Systems, (2) Cloud Communications, (3) Managed Services, (4) Security, (5) Market-specific DX Services, and (6) DX Consulting. All of these areas are expected to see market expansion and are business groups in which the company has technological strengths and has already released existing services and received positive feedback from customers.

The sales targets for the six growth areas are shown in Figure 14 and the company aims to achieve sales of 9 billion yen in FY03/2023 to 16 billion yen in FY03/2026 for the six areas as a whole. Gross profit margins in the five areas, excluding managed services, are around 40%, higher than the 30% of the overall services business and expansion in these areas is expected to contribute to higher profit margins.

Aiming for No.1 Share in Contact Center Systems and Cloud Communications Based on Tsuzuki Denki's Voice Platform Technology

The contact center system area and the cloud communications areas are where the company has established over 80 years with PBX and other products based on "voice platform technology," which is the company's ancestral business. Voice platform technology refers to the basic technologies utilized in the voice and communication market, such as voice "transmission, compression, processing, recognition, and synthesis". Voice has various possibilities as the ultimate interface that does not involve special operations, and the market is expected to expand further with the use of advanced technologies such as generative AI for voice recognition, automatic response, and text mining. Tsuzuki Denki aims to be a leading company in this market and by pursuing synergies with new technologies, it aims to expand its Communication 2 business and achieve the No. 1 market share.

Figure 14: Sales Targets for Six Growth Areas

	FY03/2023	FY03/2026	
(Millions of Yen)	Actual	Targets	CAGR
Contact Center Systems	4,500	6,100	11%.
Cloud Communication	1,100	3,000	41%.
Managed Services	2,800	3,800	11%.
Security	300	1,500	71%
Market-Specific DX Services	100	600	81%
DX Consulting	200	1,000	82 %
Total of 6 Growth Areas	9,000	16,000	21%

Source: Prepared by Strategy Advisors

Contact Centers System

No. 2 Market Share for Cloud-Based Contact Centers, Enhancing Functions Through the use of AI and CRM Integration.

In 2020, Tsuzuki Denki increased its stake in ComDesign to 50% and made it a subsidiary. The company's cloud-based contact center, CT-e1/SaaS, offers the advantages of cloud services, being low cost and with no need for dedicated hardware, as well as a high level of customization. In addition to basic functions, it also offers advanced functions not available from other services, such as AI-based voice recognition and emotion analysis. The cloud contact center market has expanded rapidly due to factors such as the growing demand for home-based services during the Covid-19 pandemic, and the number of CT-e1/SaaS installed seats has increased from 23,000 at the end of March 2021 to over 31,000 at the end of March 2023, with a cumulative customer base of 1,550 companies.

Currently ranked No. 2 in the industry (No. 1 BIZTEL), the company plans to further increase customer satisfaction by strengthening integration with CRM such as Salesforce. According to IDC Japan, the contact center market is expected to continue growing at 5% per year. Tsuzuki Denki targets 4.5 billion yen in FY03/2023 and 6.1 billion yen in FY03/2026.

Cloud Communications

Cloud-Based PBX with Telework Support and Cost Rationalization for Customers

In the cloud communications area, the company will offer TCloud for Voice (TCV), a PBX that can be used in the cloud, from October 2021. TCloud for Voice was jointly developed by Tsuzuki Denki and NextGen and while on-premise PBXs have been the mainstream, cloud-based PBXs eliminate the need for customers to own their own equipment, thereby reducing installation costs.

Another strength is the ability to answer incoming calls to the office with a smartphone or PC while teleworking, as telecommuting is expanding. By strengthening sales channels through partners, the company aims to increase sales in the cloud communication domain from 1.1 billion yen in FY03/2023 to 3 billion yen in FY03/2026.

Managed Services

Growth by Capturing Customers' Needs for Outsourcing of Operations

The market is expected to expand further as the shortage of IT personnel increases the need for help desks and other outsourcing services and the spread of cloud services makes it easier to provide operational services from external environments. Tsuzuki Denki, which has traditionally excelled in operation and maintenance, is developing services centered on ICT operation outsourcing under the brand "TManaged Service" and has supported 320 companies.

IDC Japan estimates the market's CAGR at around 3%, but Tsuzuki Denki plans to increase the sales of managed services from 2.8 billion yen in FY03/2023 to 3.8 billion yen in FY03/2026. IDC Japan is a leading provider of system operation services. Tsuzuki Denki sometimes regards system operation as its starting point. During the process, the company analyzes and discover the customer issues, leading to upstream improvement proposals.

Security

Refining Technology to Meet the Growing Cybersecurity Market and Launching Services for External Customers

As cloud computing and remote working become more common, the concept of "zero trust" is gaining ground as cybersecurity becomes increasingly important. Zero Trust means that no matter which network a PC, smart device, or other device is connected to, it is assumed to be zero-trust when accessing critical information and systems within the company and security measures are put in place.

As part of product evaluation and engineer training centered on Zero Trust Security, Tsuzuki Denki first migrated to a Zero Trust environment on its own and is accumulating practical know-how on environment construction and operation, etc. From September 2022, it will visualize its customers' cybersecurity response status and support effective future plans. The company has launched an external service to help customers visualize the status of their cybersecurity response and make effective plans for the future. In order to deliver optimal security to customers, the company is also collaborating with partners such as NRI Secure Technologies, a company specializing in information security in the Nomura Research Institute Group.

IDC Japan forecasts a CAGR of 6% for the security market. Tsuzuki Denki aims to sign contracts with 200 companies for cyber security management support services by the end of March 2026, targeting ¥1.5 billion in FY03/2026 from ¥300 million in FY03/2023. The company hopes to expand overall network integration revenues through its approach from security measures along with consulting services.

Market-Specific DX Service

Developed SaaS for SCM Using Know-How Accumulated Through 20 Years of Developing Solutions for Major Logistics Companies

Over the years, Tsuzuki Denki has been engaged in industry-specific in-house software development and has accumulated know-how while responding to the different needs and challenges of each industry. In particular, the company has worked with over 500 customers in the logistics industry for more than 20 years. The systems it has developed for three major convenience store chains and Yamazaki Baking to optimize vehicle routes and improve inventory management have shortened delivery times and reduced transportation costs.

Utilizing this know-how, the company released "TCloud for SCM" in December 2022, a comprehensive cloud service for the logistics industry for mid-size transporters that can be used even with smartphones, targeting 12,000 licenses by the end of March 2027 at ¥1,250 per license per month for SaaS. The company aims to sell 12,000 licenses by the end of March 2027. The company aims to help solve social issues faced by the logistics industry as a whole, such as driver shortages and reductions in CO_2 emissions.

Develop DX Business in Specific Markets Where the Company have Strengths, such as Fruit and Vegetable Markets and Amusement

In other industries, the company has a great deal of know-how in the fruit and vegetable market, real estate and amusement (movie theater) industries and develops and provides software for production and sales management as proprietary products. In the fruit and vegetable market, the company has expertise accumulated through 40 years of experience and its market share is the second largest in the industry. By accelerating the shift to cloud computing, the company aims to lower prices and expand its customer base, targeting sales of 100 million yen in FY03/2023 and 600 million yen in FY03/2026.

DX Consulting

Support Client Companies in Developing DX Talents and Provide Solutions

Although corporate awareness of DX is growing, many companies are facing challenges in developing in-house digital talents and formulating DX strategies. D-VUE® DX Implementation Service, the main service in the DX consulting domain, is provided to (1) support client companies in developing DX talents and (2) provide DX professionals from Tsuzuki Denki. IDC Japan forecasts a CAGR of 9% for the DX consulting market, and Tsuzuki Denki is targeting sales of 200 million yen in FY3/2023 and 1 billion yen in FY3/2026.

Through business expansion in these six areas, the company aims to strengthen the entire value chain of the Total SolutionService Framework (TSF). Each of these areas can be categorized into upstream (DX consulting), midstream (contact centers, cloud communications, security, and market-specific DX services), and downstream (managed services). The company intends to enhance the upstream, which is the entry point to business, the midstream, which is a group of services that meet those needs, and the downstream, which is the customer contact point, The company intends to increase TSF's overall profitability by expanding and strengthening the entire value chain.

12. Shift to a Financial Strategy with a Strong Awareness of Capital Markets

The three main components of the financial strategy of the current medium-term management plan are: (1) financial management with an awareness of the cost of capital, (2) creation of funds for growth through balance sheet optimization and (3) optimization of capital allocation.

Although ROE targets have been in place since the first medium-term management plan (FY03/2018-FY03/2020), the current financial strategy, along with the disclosure of the cost of capital, has a strong focus on corporate value. This is also the first time for the company to disclose its capital allocation plans.

Financial Management with Cost of Capital in Mind

Financial Strategy based on 9% Cost of Equity and 6% WACC

In this mid-term management plan, for the first time for Tsuzuki Denki, the cost of equity was released at 9%. The company has chosen ROE as an indicator of shareholders' value creation and has stated that it will promote management with an awareness of how to sustainably increase the equity spread. Since the WACC was set at 6%, the hurdle rate was raised from the previous 5% to 7%. ROE is targeted at 15% in the 10-year long-term vision, and for the current medium-term plan period the target was set at 10% or more above the cost of equity.

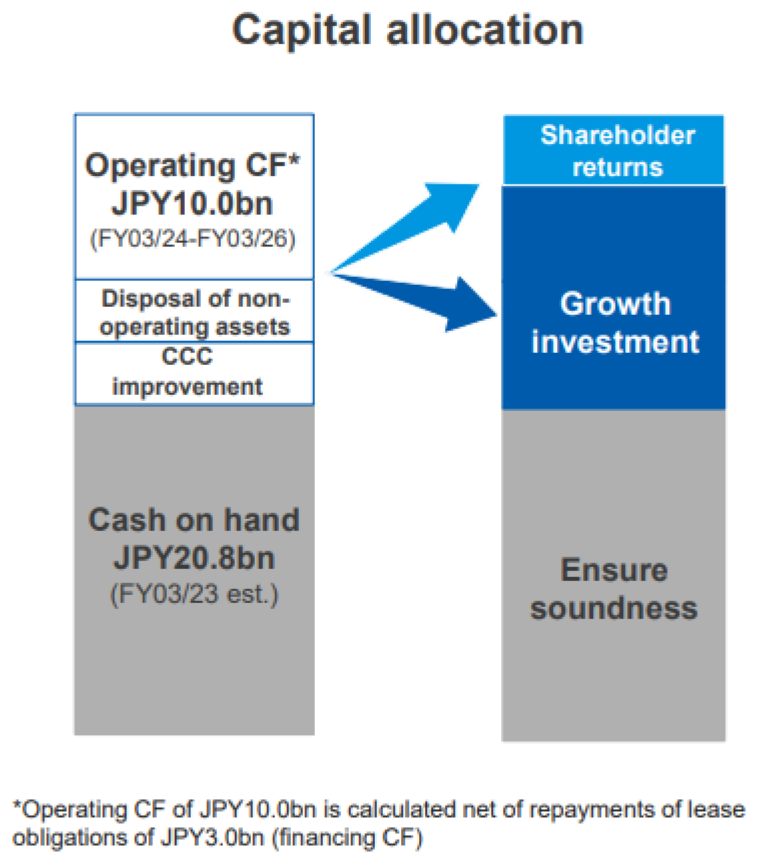
Generate Growth Capital Through Balance Sheet Optimization

Balance Sheet with Equity Ratio of 40-50% and D/E Ratio of 0.4x

For financial safety, the company has set KPIs of an equity ratio of 40-50% and a D/E ratio of less than 0.4x, and as of the end of March 2023, the equity ratio was 42.0% and the D/E ratio was 0.31x, well within the company's range. Given that the upper limit of the equity ratio was set at 50%, it is believed that the company has a policy of not holding excess capital above that level.

The sale of the electronic devices business in FY03/2024 has resulted in the streamlining of more than 20 billion yen, or one-fourth of total assets. The company is also continuing to reduce its cross-shareholdings and is making steady progress in generating capital and improving the efficiency of its balance sheet.

Figure 15: Capital Allocation Plan for the Current Medium-Term Plan



Source: Company Data

Capital Allocation Optimization

3-Year Cash Inflow Forecast is 10 billion Yen from Operating CF and Proceeds from Asset Sales

The plan for capital allocation during the period of the medium-term management plan is shown in Figure 15. As for cash-in, the company expects to earn 10 billion yen as total operating cash flow from FY03/2024 to FY03/2026. This will be supplemented by the disposal of non-operating assets and improvements in the cash conversion cycle (CCC). As mentioned earlier, the sale of the electronic devices business generated a large amount of cash.

M&A Activity of over 10 billion Yen also Planned

The company plans to invest 8 billion yen in growth over three years as a cash outflow. The breakdown of the targeted investments includes: (1) technology (R&D investment, development of new service products, and value-adding to existing services), (2) human resources (training investments to develop ideal talent portfolio, compensation improvement and recruitment of external expert talent) and (3) internal DX (ERP system updates and business process transformation and advancement).

The company plans to aggressively invest in M&A with the aim of achieving inorganic growth. The company will target companies with services and technologies that can create synergies with the company in growth areas and companies that can acquire new capabilities. In existing areas, the company intends to aggressively consider M&A in areas that will strengthen its competitiveness. At the time of the announcement of the medium-term management plan, the company planned to invest 10 billion yen, but since it also acquired funds from the sale of its electronic device business, the amount is likely to be in the 10 to 20 billion yen range.

Although many M&A deals are introduced by financial institutions, the basic principle is to consider deals that come from the internal personals and business synergies with Tsuzuki Denki are a prerequisite for M&A.

Evolution of Shareholder Return Policy

Introduced DOE and Raised Dividend Payout Ratio, Considering Share Buybacks

Kazuhisa Oyama, Director and Senior Managing Executive Officer, stated in the Integrated Report, "Companies have a variety of stakeholders, and it is important for corporate management to maintain a balance between them. However, it is the shareholders who bear the greatest risk, making shareholder returns a critical management issue.”

With steady growth in operating cash flow expected, Strategy Advisors believes that the company is now in a position to provide stable shareholder returns by adopting a policy of not holding excess capital and pursuing strategic growth investment strategy that is cost of capital conscious.

As mentioned above, the company raised its dividend payout ratio from 30% to 40% and introduced a 3.5% dividend on equity (DOE), which is calculated as ROE multiplied by the dividend payout ratio, made possible by the rounding up of the ROE level. The company also indicated that it would consider share buybacks, which would allow it to flexibly return capital to shareholders.

13. ESG Considerations

Endorsement of TCFD in May 2022

In April 2021, Tsuzuki Denki identified three materialities for promoting sustainability. One of them is "to contribute to harmonious coexistence by capturing changes in people, society, and the global environment," and the company is working to reduce its environmental impact. As part of its activities, the company expressed its endorsement of the TCFD in May 2022.

Compared to FY03/2014, Reduced Greenhouse Gas by 35% in FY3/2023, Half in FY03/2031 & Zero in FY03/2051

Greenhouse gas production (Scope 1 and 2) for FY03/2023 was 719 tons, a -35% reduction compared to the benchmark of 1,113 tons in FY03/2014. With the reduction of company cars, office renewal and efficiency improvement, the company plans to achieve 532 tons in FY03/2026, which is the final year of the current mid-term plan. Furthermore, in FY03/2031, the company aims to halve the FY03/2014 levels and to achieve zero emissions in FY03/2051.

Aiming for 5.0% Female Management Ratio in FY03/2026

The ratio of women in management positions at Tsuzuki Denki was 2.2% in FY03/2023, up from 1.5% in FY03/2021 and 1.9% in FY03/2022. Although the company aims to achieve 5.0% in FY03/2026, the final year of the current mid-term plan, the hurdle to achieving the government's target of 30% by 2030 is extremely difficult.

The main reason for this is the late start of hiring women for career-track positions, which began in 2010. First, the company aim to increase the ratio of women in management positions by promoting company-wide D&I (Diversity & Inclusion) and improving the working environment, while raising the ratio of women in regular employees (14.5% in FY3/2023) and career-track positions (10.7% in FY3/2023). In July 2023, the company received a 2-star certification from the Ministry of Health, Labor and Welfare's "Eruboshi" program.

Health and Productivity Management and Human Resource Investment are Actively Implemented

Regarding human capital management, Tsuzuki Denki is actively promoting health and productivity management, because its management philosophy of valuing employees since the founding and human capital is most important for an ICT company. Since President Emori took office in 2017, the company has been selected for the sixth consecutive year as a "Certified Health & Productivity Management Outstanding Organization (White 500)" by the Ministry of Economy, Trade and Industry.

The company is focusing on the development of leaders and professionals to deliver high-quality services and cutting-edge technology to customers. To develop leaders, the company plans to increase the number of participants in the TLF (Tsuzuki Leaders Forum (next-generation management personnel development training)) from 34 at the end of March 2023 to 65 at the end of March 2026. In addition, the company aims to increase the number of certified DX associates from 147 to 240, in order to strengthen professional experts those are capable of providing consulting services.

4 out of 10 Board Members are Independent, External Directors

The Board of Directors for the fiscal year ending March 31, 2024 consists of 10 members, 3 internal (Isao Emori, Kazunori Yoshii, Kazuhisa Oyama) and 7 externals. Four of the outside directors are independent: Kunio Matsui (university professor), Noriyuki Moriyama (chairman of a medical institution), Hideki Wachi (former president of a foreign company's Japan branch), and Sunao Ogasawara (certified public accountant). Non-independent outside directors are Hidetoshi Takinaka (major shareholder: Aso), Tomoko Tsukahara (major shareholder: Fujitsu) and Toshihiro Murashima (legal counsel). With 40% independent outside directors and a 10% female ratio.

The Nomination and Compensation Committee consists of three outside directors and President Emori and is chaired by an independent outside director. No takeover defense measures have been introduced.

14. Earnings Trends

(1) Cumulative Results for the Third Quarter of FY03/2024

Operating Income for the First Nine-Months of this Fiscal Year Increased 2.8x YoY

Tsuzuki Denki announced on January 31, 2024, a double-digit increase in sales and a substantial increase in profit for the first nine months of FY03/2024, with net sales of 93.013 billion yen (+12.7% YoY) and operating income of 3.938 billion yen (2.8 times YoY). The gross profit margin improved by 0.8% from 18.9% to 19.7%, and the operating profit margin improved by 2.5% from 1.7% to 4.2%, due to the impact of increased sales, selective orders, and price increases.

Operating Margin Increased to 4.2% from 1.7% in the Same Period YoY

On a cumulative level in the first 3 quarters of the year, the Information Network Solution Services segment posted sales of 70.679 billion yen (+16.9% YoY) and operating profit of 3.423 billion yen (+5.3 times YoY), a significant increase in profit. Sales in all three businesses were up: equipment sales of 29.107 billion yen (+39.1% YoY), development/construction sales of 10.415 billion yen (+18.6% YoY) and services sales of 31.156 billion yen (+1.3% YoY).

Net income attributable to owners of the parent for the first 3 quarters amounted to 4.187 billion yen (4.3 times that of the same period last year), which included a 1.854 billion yen gain on sales of fixed assets.

(2) Full-Year Company Forecast for FY03/2024

Upwardly Revised Company Forecast for FY03/2024

Based on Q3 results and the sale of electronic devices, the company revised its forecasts for FY03/2024 from 126.5 billion yen (+2.1% YoY) to 124.0 billion yen (+0.1% YoY), operating profit from 5.3 billion yen (+3.6% YoY) to 6.0 billion yen (+17.2% YoY) and net income attributable to owners of the parent from 4.45 billion yen (+26.4% YoY) to 4.8 billion yen (+36.3% YoY). Net income attributable to owners of the parent increased from 4.45 billion yen (+26.4% YoY) to 4.8 billion yen (+36.3% YoY).

The deconsolidation of the electronic devices business from the fourth quarter will have a negative impact of approximately 7 billion yen on net sales, but this is expected to be partially offset by an upturn in information network solution services. On the other hand, profits are expected to exceed the initial forecast as the effect of improved profitability is expected to continue.

Dividend Forecast Raised from ¥76 to ¥89

The upward revision to earnings led to an increase in the dividend forecast from 76 yen at the beginning of the period to 89 yen, a 45% increase from 61 yen in FY03/2023 and the amount of the projected dividend was determined by multiplying the net income from the business segment, which excludes a gain on sales of fixed assets of approximately 1 billion yen after tax, by a dividend payout ratio of 40%.

Expect Further Improvement in Profitability

Tsuzuki Denki's profitability is steadily improving, with the company forecasting an operating profit margin of 4.8% in FY03/2024, up from 4.1% in FY03/2023. The operating profit margin for electronic devices for the cumulative Q3 was low at 2.2%, and if this effect is excluded, the operating profit margin for information network solution services alone is expected to be 5.4%. Nevertheless, as mentioned above, it is still low compared to listed SIer's and NIer's, and further improvement is expected.

Figure 16: Quarterly Results Trends (in Millions of Yen)

Fiscal Year	**3/2022**		**3/2023**				**3/2024**		
Quarter	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Total Sales	**27,841**	**38,375**	**24,609**	**30,437**	**27,499**	**41,354**	**28,128**	**32,759**	**32,126**
(YoY change)	3.7%	-4.4	-0.9%.	7.6%	-1.2%.	7.8	14.3%	7.6%	16.8%
Information Network Solution	**20,552**	**31,745**	**17,851**	**22,668**	**19,935**	**33,451**	**20,445**	**25,208**	**25,026**
(YoY change)	-0.9%.	-6.5%.	-2.9%.	4.7%	-3.0	5.4%	14.5%	11.2%	25.5% (
Equipment	**7,396**	**15,832**	**5,540**	**9,154**	**6,228**	**17,021**	**7,172**	**10,779**	**11,156**
(YoY change)	-8.8	-7.0	-8.1	16.3%	-15.8	7.5%	29.5%	17.8	79.1%
Development/Construction	**3,619**	**4,668**	**2,575**	**3,429**	**2,777**	**5,059**	**2,687**	**3,813**	**3,915**
(YoY change)	21.4	11.5%.	4.1%	-8.3	-23.3	8.4%	4.3%	11.2%	41.0%
Services	**9,538**	**11,244**	**9,734**	**10,086**	**10,930**	**11,371**	**10,584**	**10,617**	**9,955**
(YoY change)	-1.2%.	-3.4	-1.4%.	0.5%	14.6%	1.1%	8.7%	5.3%	-8.9%.
Electronic Devices	7,288	6,630	6,758	7,768	7,565	7,902	7,683	7,550	7,100
(YoY change)	19.3%	6.8	4.9%	17.1%	3.8%	19.2%	13.7	-2.8	-6.1
Gross Profit	5,224	7,498	4,527	5,951	5,132	8,568	5,346	6,436	6,527
(Gross profit margin)	18.8%	19.5%	18.4%	19.6%	18.7%	20.7%	19.0%	19.6%	20.3%
SG&A	4,684	4,824	4,730	4,727	4,746	4,857	4,648	4,793	4,930
Operating Income	**541**	**2,673**	**-202**	**1,223**	**386**	**3,711**	**698**	**1,643**	**1,597**
(YoY Change)	940.4%	-8.7	NM	15.4%	-28.7%	38.8%	NM	34.3%	313.7%
(Operating Profit Margin)	1.9%	7.0%	-0.8	4.0%	1.4%	9.0%	2.5%	5.0%	5.0%
Information Network Solution	335	2,533	-392	913	119	3,515	472	1,458	1,493
Electronic Devices	187	139	179	304	257	214	216	176	95
Elimination or Corporate	18	0	10	5	11	-18	9	9	9
Non-Operating Income (Loss)	149	8	93	40	102	2	-25	45	34
Ordinary Income	**690**	**2,682**	**-109**	**1,263**	**488**	**3,713**	**673**	**1,688**	**1,631**
(YoY Change)	265.1%	-8.8	NM	16.4%	-29.3%	38.4%	NM	33.7%	234.2%
(Ordinary Income Margin)	2.5%	7.0%	-0.4%	4.1%	1.8%	9.0%	2.4%	5.2%	5.1%
Extraordinary Income/Loss	30	171	-1	-3	0	229	0	1,816	-7
Income Before Income Taxes	719	2,854	-111	1,260	489	3,941	673	3,504	1,624
Income Taxes	227	943	-13	362	157	1,338	172	1,000	305
Net Income	**492**	**1,910**	**-97**	**896**	**333**	**2,602**	**501**	**2,504**	**1,319**
Net Income to Minority Interests	43	54	49	50	59	55	52	47	37
Net Income Attributable to Owners of the Parent Company	**449**	**1,857**	**-147**	**847**	**273**	**2,548**	**448**	**2,458**	**1,281**

Source: Prepared by Strategy Advisors

15. Valuation

P/B Ratio of 1.1x & PER of 8.8x Based on the Closing Price on February 9, 2024

Based on Tsuzuki Denki's closing price of 2,354 yen on February 9, 2024, P/B ratio is 1.1x and based on the company's expected EPS of 267.1 yen for the current term, PER is 8.8x. The company's EPS forecast for the current term includes an extraordinary gain from the sale of fixed assets and taking this into account, the PER is 10.6x based on the forecast EPS of 222.5 yen.

As shown in Figure 17, all of the major listed SIer's and NIer's have P/B ratios above 2x, which is undervalued considering that their expected P/E ratios are above 20x. Tsuzuki Denki's forecast EV/EBITDA multiple for the current fiscal year is 3.8 times, which is below 4x, whilst many of its peers are over 10x.

Figure 17: Comparison of Valuations with Peers

	Code	Fiscal year	Market Cap. (¥bn)	Stock Price (¥)	EV (¥bn)	EPS (¥)	PER (X)	BPS (¥)	PBR (X)	EBITDA (¥bn)	EV/ EBITDA (X)
Tsuzuki Denki	8157	2023/03	28.0	1,563	18.1	197.5	7.9	1,950.1	0.8	7.3	2.5
		2024/03	42.4	2,354	29.1	267.1	8.8	2,143.8	1.1	7.7	3.8
Nomura Research Institute	4307	2023/03	1813.5	3,065	1924.9	128.9	23.8	674.3	4.5	156.9	12.3
		2024/03	2372.3	4,121	2529.7	140.5	29.3	646.1	6.4	167.5	15.1
Otsuka Shokai	4768	2022/12	787.8	4,155	593.9	250.3	16.6	1,684.5	2.5	70.9	8.4
		2023/12	1146.1	6,045	924.7	125.7	48.1	1,809.7	3.3	76.4	12.1
TIS	3626	2023/03	844.6	3,490	771.8	227.1	15.4	1,227.4	2.8	78.2	9.9
		2024/03	793.2	3,294	740.1	174.2	18.9	1,313.6	2.5	81.2	9.1
SCSK	9719	2023/03	604.4	1,935	560.9	119.4	16.2	870.6	2.2	72.0	7.8
		2024/03	834.0	2,670	777.9	126.4	21.1	911.8	2.9	77.7	10.0
BIPROGY	8056	2023/03	326.6	3,250	321.0	201.1	16.2	1,391.9	2.3	45.9	7.0
		2024/03	451.6	4,492	431.7	233.9	19.2	1,517.0	3.0	51.5	8.4
NS Solutions	2327	2023/03	323.9	3,540	247.1	240.5	14.7	2,191.6	1.6	44.4	5.6
		2024/03	442.4	4,835	355.2	249.2	19.4	2,442.5	2.0	45.7	7.8
NSD	9759	2023/03	183.3	2,384	145.1	132.3	18.0	711.7	3.3	13.4	10.9
		2024/03	205.9	2,670	182.0	127.3	21.0	755.0	3.5	16.8	10.8
NEC Network & System Integration	1973	2023/03	240.6	1,615	184.3	92.7	17.4	948.2	1.7	27.2	6.8
		2024/03	353.3	2,372	305.1	94.0	25.2	948.6	2.5	28.2	10.8
Net One Systems	7518	2023/03	260.1	3,165	261.2	176.0	18.0	920.1	3.4	22.9	11.4
		2024/03	205.8	2,596	217.5	136.3	19.0	886.4	2.9	18.2	11.9
JBCC Holdings	9889	2023/03	34.2	2,169	23.7	170.6	12.7	1,262.8	1.7	4.2	5.6
		2024/03	62.9	4,040	55.0	205.5	19.7	1,331.9	3.0	4.9	11.2
Dentsu Research Institute	4812	2022/12	255.4	3,925	203.6	193.5	20.3	1,134.8	3.5	21.7	9.4
		2023/12	361.1	5,550	301.8	225.9	24.6	1,216.5	4.6	24.4	12.4
Japan Business Systems	5036	2023/09	54.9	1,204	62.4	74.0	16.3	487.6	2.5	5.0	12.5
		2024/09	68.2	1,497	75.8	75.7	19.8	487.6	3.1	5.9	12.9

Note: Share prices are based on closing price on February 9, 2024

Source: Prepared by Strategy Advisors

Strategy Advisors believes that the main reason for Tsuzuki Denki's low PER is that the company is not yet recognized as a player in the ICT industry. Figures 18, 19, and 20 show the historical P/E ratios of Tsuzuki Denki and electronics trading companies, system integrators, and network integrators, respectively, over the past 10 years.

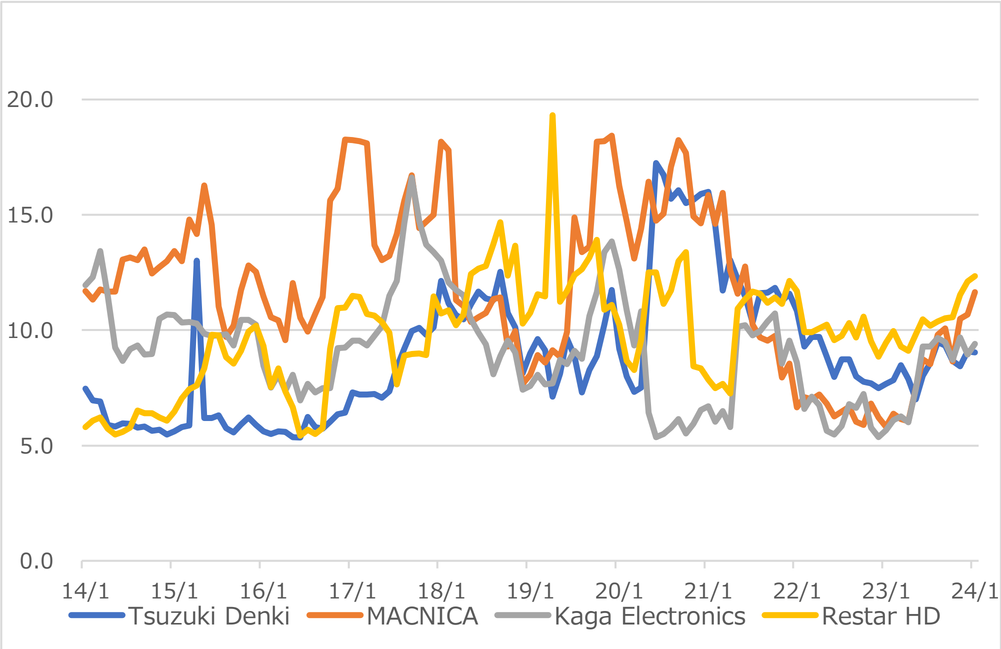
PER Range Over the Past 10 Years for Listed SI Firms is 15-25x, While NI Firms are 15-30x.

The P/E ratios of the three system integrators (TIS, SCSK, and NS Solutions) have ranged from 15x to 25x over the past 10 years, while those of the three network integrators (Net One Systems, NEC networks & system integration, and ITOCHU Techno-Solutions) have ranged from 15 to 30 times. On the other hand, Tsuzuki Denki's PER has been moving in the same range of 5x to 15x as the three electronics trading companies (Macnica, Kaga Electronics, and Restar Holdings) and is still at that level.

PER Levels of Electronics Trading Companies are Expected to Break Away from Trend

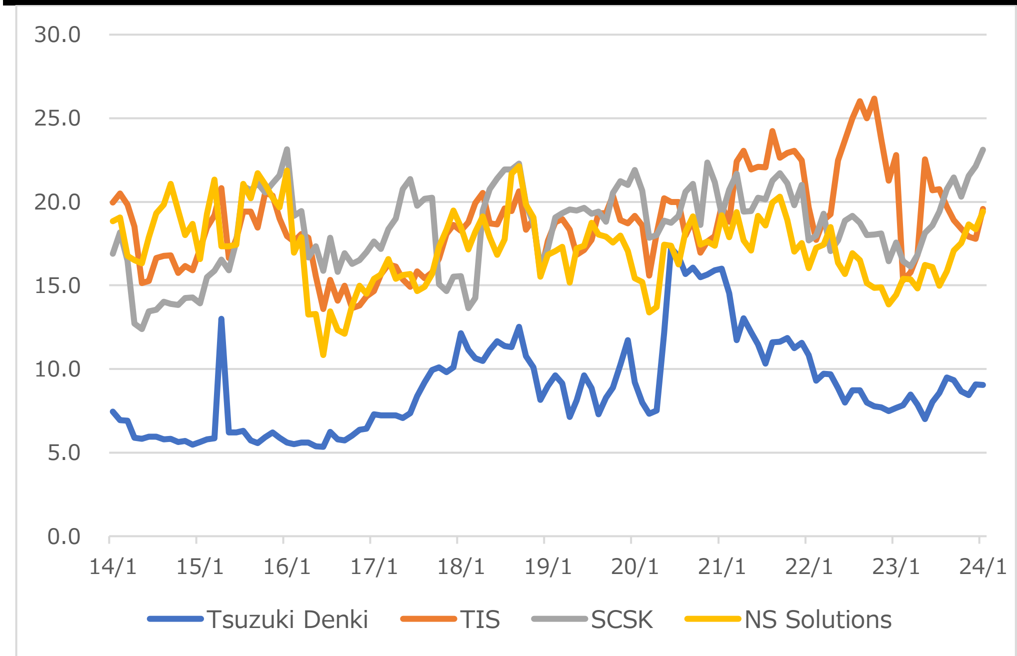
As previously mentioned, the company has been transforming itself into a pure player in the ICT industry since early 2024 with the sale of its electronic devices business, and Strategy Advisors believes that if the company's ongoing transformation to value-enhancing management continues and it successfully incorporates growth areas. As such, Strategy Advisors believes that there is more than enough room for the company to be revalued in the stock market.

Figure 18: Historical PER of Tsuzuki Denki and Electronics Trading Companies



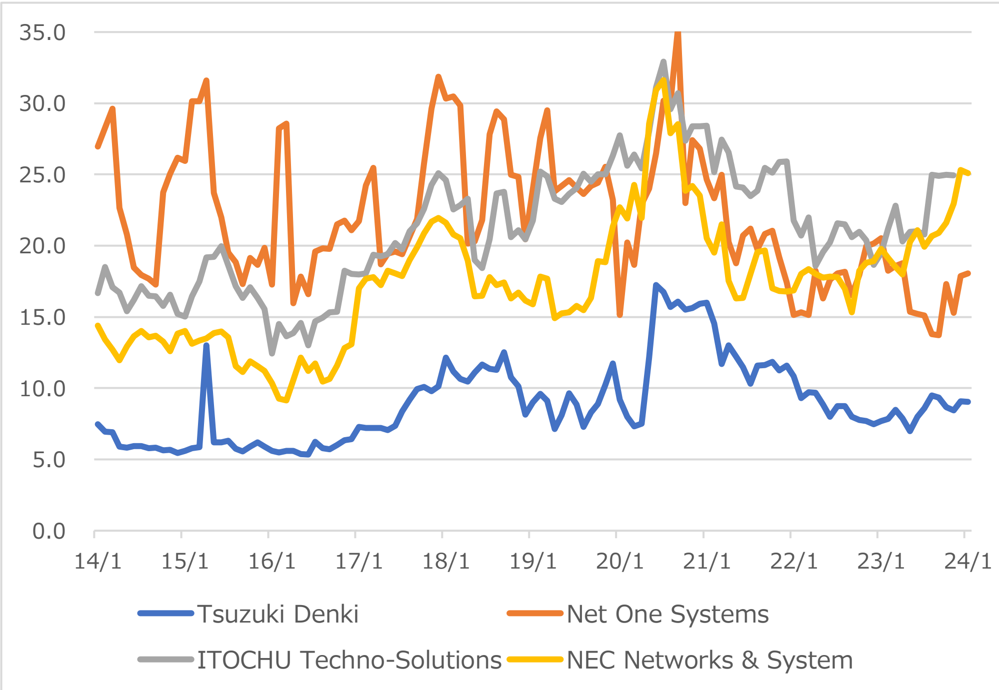
Source: Prepared by Strategy Advisors

Figure 19: Historical PER for Tsuzuki Denki and System Integrators



Source: Prepared by Strategy Advisors

Figure 20: Historical PER Trends for Tsuzuki Denki and Network Integrators



Source: Prepared by Strategy Advisors

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16. Risk Factors

Although there are no major risks to watch at this point, the following three risks can be identified as areas that may prevent the company's performance from growing as much as planned.

(1) During the current mid-term management plan period, the company plans to increase the sales of six growth areas to ¥16 billion in FY03/2026 from ¥9 billion in FY03/2023. All of these areas are expected to grow at a higher rate than the market, and that is the case if the company's assumptions are not met.

(2) The company had assumed that the electronic devices and components business would contribute 27.8 billion yen in net sales and 1 billion yen in operating income in FY03/2026. In the case where the loss of this portion cannot be covered by the addition of the Information Network Solution Services business, it is likely that organic growth will be sufficient to cover the loss in terms of profit, but net sales will need to be added through M&A and other means.

(3) Unexpected events (e.g., earthquakes, geopolitical conflicts, etc.) that may cause a significant drop in IT investment or supply chain disruptions at client companies.

In terms of share price, Fujitsu, the second largest shareholder with a 12.8% stake in the company, is in the process of selling its listed shares and Tsuzuki Denki may become a target in the future. In that case, the company will need to appeal to institutional investors, especially foreign investors, whose shareholding ratio is only 1.3% as of the end of March 2023. The company has 23.7 billion yen in cash and cash equivalents as of the end of December 2023 and it also gained a large amount of cash from the sale of its electronic devices business, so it should be able to respond with a share buyback.

Even if Fujitsu sells its shares, we do not believe there will be any impact off the back of the transaction, as Fujitsu has been a multi-vendor in the past.

Figure 21: List of Major Shareholders as of September 30, 2023

Rank	Major Shareholders	# of Share ('0000 Shares)	Shareholding Ratio (%)
1	Aso Corporation	4,500	24.14
2	Fujitsu Limited	2,402	12.88
3	The Master Trust Bank of Japan (Trust Account)	991	5.32
4	Tsuzuki Denki Employee Shareholding Association	777	4.17
5	Fuso Dentsu Inc.	766	4.11
6	The Bank of Mitsubishi UFJ, Ltd.	296	1.59
7	Sumitomo Mitsui Banking Corporation	296	1.59
8	Mizuho Bank, Ltd.	296	1.59
9	Japan Custody Bank (Trust Account)	256	1.37
10	HT Holdings, Inc.	200	1.07
	Total Amount	10,783	57.83

Source: Prepared by Strategy Advisors

Figure 22. Consolidated Income Statement (Millions of Yen)

Fiscal Year	3/2017	3/2018	3/2019	3/2020	3/2021	3/2022	3/2023	3/2024CoE
Total Sales	**105,149**	**111,973**	**118,872**	**125,366**	**120,004**	**119,316**	**123,899**	**124,000**
(YoY Change)	-0.4	6.5%	6.2%	5.5%	-4.3%	-0.6	3.8%	0.1%
Information Network Solutions	**80,802**	**82,320**	**93,704**	**102,104**	**97,848**	**92,319**	**93,905**	**101,667**
(YoY change)	3.2%	1.9%	13.8	9.0%	-4.2%.	-5.7%	1.7%	8.3%
-Equipment			39,391	44,790	44,207	37,127	37,943	
(YoY change)			NA	13.7	-1.3%.	-16.0	2.2%	
-Development/Construction			17,665	19,668	14,518	14,501	13,840	
(YoY change)			NA	11.3%	-26.2%	-0.1%	-4.6%	
-Services			36,647	37,645	39,122	40,690	42,121	
(YoY change)			NA	2.7%	3.9%	4.0%	3.5%	
Electronic Devices	**24,347**	**29,652**	**25,168**	**23,261**	**22,155**	**26,996**	**29,993**	**22,333**
(YoY change)	-4.8%	21.8%	-15.1%.	-7.6%	-4.8%	21.9%	11.1%	-25.3%
Gross Profit	**18,442**	**19,459**	**21,496**	**23,075**	**21,465**	**22,511**	**24,178**	
(Gross Profit Margin)	17.5%	17.4%	18.1%	18.4%	17.9%	18.9%	19.5%	
SG&A	16,299	16,920	18,177	18,618	18,263	18,498	19,060	
Operating Income	**2,142**	**2,538**	**3,318**	**4,457**	**3,202**	**4,012**	**5,118**	**6,000**
(YoY Change)	20.8%	18.5%	30.7%	34.3%	-28.2%	25.3%	27.6%	17.2%
(Operating Margin)	2.0%	2.3%	2.8%	3.6%	2.7%	3.4%	4.1%	4.8%
Information Network Solutions	2,093	2,248	3,054	,289	2,960	3,400	4,155	5,486
Electronic Devices	38	276	260	163	242	592	954	487
Elimination or Corporate	10	13	3	4	0	18	8	27
Non-operating income /loss	97	74	176	120	158	214	237	
Ordinary Income	**2,240**	**2,612**	**3,494**	**4,577**	**3,361**	**4,227**	**5,355**	**6,000**
(YoY Change)	21.0%	16.6%	33.8	31.0%	-26.6%	25.8%	26.7%	12.0%
(Ordinary Income Margin)	2.1%	2.3%	2.9%	3.7%	2.8%	3.5%	4.3%	4.8%
Extraordinary Income/Loss	-128	-150	14	-261	-122	203	225	
Income Before Income Taxes	2,111	2,463	3,509	4,317	3,238	4,430	5,579	
Income Taxes	790	947	1,296	1,161	817	1,453	1,844	
(Effective Tax Rate)	37.4%	38.4%	36.9%	26.9%	25.2%	32.8%	33.1%	
Net Income	**1,321**	**1,515**	**2,212**	**3,155**	**2,419**	**2,976**	**3,734**	
Minority Interests					72	178	213	
Net Income Attributable to Owners of the Parent	**1,321**	**1,515**	**2,212**	**3,155**	**2,346**	**2,798**	**3,521**	**4,800**
(Y-o-Y Change)	84.2%	14.7%	46.0%	42.6%	-25.6%	19.3%	25.8	36.3%

Source: Prepared by Strategy Advisors

Figure 23. Consolidated Balance Sheet (Millions of Yen)

Fiscal Year	3/2017	3/2018	3/2019	3/2020	3/2021	3/2022	3/2023	12/2023
Cash and Deposits	17,610	16,016	15,457	18,473	15,944	19,162	20,877	23,703
Accounts Receivables	28,029	32,256	33,372	29,927	31,765	32,757	32,248	27,539
Inventories	7,037	6,807	8,087	8,484	7,618	7,483	11,683	13,562
Other Current Assets	2,427	2,538	2,255	1,355	1,413	1,793	2,388	2,346
Current Assets	**55,103**	**57,617**	**59,171**	**58,239**	**56,740**	**61,195**	**67,196**	**67,150**
Property and Equipment	3,779	3,856	3,912	3,974	3,465	3,949	3,926	1,801
Other Tangible Fixed Assets	1,605	3,695	3,398	2,908	2,799	1,479	578	583
Tangible Assets	5,384	7,551	7,310	6,882	6,264	5,428	4,504	2,384
Intangible Assets	1,658	1,833	3,040	3,057	2,967	3,072	2,610	2,828
Investment Securities	4,901	5,279	4,643	3,770	4,766	4,096	3,471	3,909
Other Investment Assets	4,020	3,888	4,779	5,499	5,462	5,432	5,425	5,092
Investments and Other Assets	8,921	9,167	9,422	9,269	10,228	9,528	8,896	9,001
Total Fixed Assets	**15,965**	**18,552**	**19,772**	**19,208**	**19,460**	**18,030**	**16,011**	**14,215**
Total Assets	**71,068**	**76,169**	**78,944**	**77,448**	**76,200**	**79,226**	**83,207**	**81,365**
Accounts Payable	17,683	20,744	18,609	17,863	15,875	15,307	17,144	12,766
Short-Term Debt	6,634	8,686	13,483	6,265	6,483	10,695	5,882	5,439
Provision for Bonuses	2,486	2,323	2,567	2,536	2,415	2,303	2,513	1,243
Other Current Liabilities	4,860	5,015	6,479	6,785	5,264	6,581	7,521	8,870
Current Liabilities	**31,663**	**36,768**	**41,138**	**33,449**	**30,037**	**34,886**	**33,060**	**28,318**
Long-Term Debts	9,507	6,155	3,392	6,995	6,364	1,810	5,109	4,960
Net Defined Benefit Liabilities	5,698	5,520	5,434	6,805	7,959	8,531	8,826	8,183
Other Long-Term Liabilities	140	145	263	445	668	798	825	858
Long-Term Liabilities	**15,345**	**11,820**	**9,089**	**14,245**	**14,991**	**11,139**	**14,760**	**14,001**
Total Liabilities	**47,009**	**48,588**	**50,228**	**47,695**	**45,029**	**46,026**	**47,820**	**42,319**
Capital Stock	9,812	9,812	9,812	9,812	9,812	9,812	9,812	9,812
Capital Surplus	3,274	3,100	3,100	2,581	2,581	2,581	2,581	2,756
Retained Earnings	17,084	18,288	19,973	21,021	21,150	23,018	25,607	28,415
Treasury Stock	-8,223	-5,875	-5,816	-3,785	-2,472	-2,257	-1,979	-2,052
Shareholder's Equity	**21,949**	**25,326**	**27,070**	**29,629**	**31,072**	**33,155**	**36,022**	**38,932**
Other Comprehensive Income	2,109	2,254	1,646	123	-137	-307	-1,076	-315
Noncontrolling Interest					236	352	441	429
Total Net Assets	**24,059**	**27,580**	**28,716**	**29,752**	**31,171**	**33,199**	**35,387**	**39,046**
Total Liabilities & Net Assets	**71,068**	**76,169**	**78,944**	**77,448**	**76,200**	**79,226**	**83,207**	**81,365**

Source: Prepared by Strategy Advisors

Figure 24: Consolidated Statement of Cashflows (Millions of Yen)

Fiscal Year	3/2017	3/2018	3/2019	3/2020	3/2021	3/2022	3/2023
Income before Income Taxes and Others	2,111	2,463	3,509	4,317	3,238	4,430	5,579
Depreciation and Amortization	1,293	1,299	1,919	2,247	2,408	2,531	2,124
Amortization of Goodwill					45	90	90
Decrease (Increase) in Accounts Receivables	1,005	-4,297	-820	2,438	-1,653	-860	587
Increase (Decrease) in Accounts Payable	615	3,084	-2,153	-74	-2,057	-621	1,817
Decrease/(Increase) in Inventories	416	205	-1,265	-447	891	173	-4,188
Other Operating Cashflows	-1,292	-986	-338	-456	-2,123	-183	-1,746
Cash Flows from Operating Activities	**4,148**	**1,768**	**852**	**8,025**	**749**	**5,560**	**4,263**
Purchases of Property, Plant and Equipment	-1,996	-3,103	-1,789	-917	-1,245	-1,061	-283
Proceeds from Sales of Property, Plant and Equipment	1,569	1,400	2,193	1,297	791	908	266
Purchase of Intangible Assets	-156	-688	-1,127	-1,258	-945	-812	-807
Proceeds from Sales of Intangible Assets			451	314	255	290	52
Purchase of Investment Securities	-44	-72	-89	-43	-38	-98	-24
Proceeds from Sales of Investment Securities	104	60	238	413	113	765	741
Others	-31	-67	263	186	-202	4	94
Cash Flows from Investing Activities	**-554**	**-2,470**	**140**	**-8**	**-1,271**	**-4**	**39**
Net Increase (Decrease) in Borrowings	-1,274	-1,825	166	-2,728	464	50	-514
Repayment of Lease Obligations	-914	-956	-1,248	-1,625	-1,590	-1,609	-1,318
Acquisition of Treasury Stock	-1	-757	0	0	-664	0	-5
Proceeds from Disposal of Treasury Stock	1,360	2,970	59	113	854	215	283
Dividends Payments	-225	-311	-527	-709	-1,093	-1,006	-932
Dividends Paid to Non-Controlling Interests						-62	-124
Cash Flows from Financing Activities	**-1,056**	**-880**	**-1,551**	**-4,950**	**-2,029**	**-2,413**	**-2,612**
Free Cash Flow	3,594	-702	992	8,017	-522	5,556	4,302

Source: Prepared by Strategy Advisors

Figure 25. Stock Price Index and ROE

Fiscal Year	3/2017	3/2018	3/2019	3/2020	3/2021	3/2022	3/2023	3/2024CoE
EPS (¥)	**101.7**	**96.1**	**128.9**	**182.1**	**134.1**	**158.5**	**197.5**	**267.1**
BPS (¥)	**1,626**	**1,613**	**1,667**	**1,706**	**1,761**	**1,854**	**1,950**	**2,144**
Dividend Per Share (¥)	**18.0**	**29.0**	**39.0**	**55.0**	**46.0**	**48.0**	**61.0**	**89.0**
Dividend Payout Ratio	17.7	30.2%	30.3%	30.2 %	34.3%	30.3%	30.9%	33.3%
Share Price (¥)	**638**	**874**	**851**	**1,100**	**1,657**	**1,480**	**1,563**	**2,354**
PER (x)	**6.3**	**9.1**	**6.6**	**6.0**	**12.4**	**9.3**	**7.9**	**8.8**
PBR (x)	**0.4**	**0.5**	**0.5**	**0.6**	**0.9**	**0.8**	**0.8**	**1.1**
Number of Shares Issued (1,000)	25,678	24,678	24,678	22,178	20,178	20,178	20,178	20,178
Number of Treasury Stock (1,000)	10,878	7,574	7,450	4,740	2,610	2,458	2,258	2,165
Number of Shares of Treasury Stock Excluded (1,000)	14,800	17,104	17,228	17,438	17,568	17,720	17,920	18,013
Market Capitalization (¥mn)	**9,443**	**14,949**	**14,661**	**19,182**	**29,110**	**26,226**	**28,009**	**42,403**
Equity Ratio	33.9%	36.2%	36.4%	38.4%	40.6%	41.5%	42.0%	47.5%
Interest-Bearing Debt (¥mn)	16,141	14,841	16,875	13,260	12,847	12,505	10,991	10,399
D/E Ratio	0.67	0.54	0.59	0.45	0.42	0.38	0.31	0.27
Enterprise Value (¥mn)	7,974	13,774	16,079	13,969	26,013	19,569	18,123	29,099
EBITDA (¥mn)	3,435	3,838	5,237	6,704	5,656	6,634	7,333	7,700
EV/EBITDA (x)	2.3	3.6	3.1	2.1	4.6	2.9	2.5	3.8
ROE	**5.9%**	**5.9%**	**7.9%**	**10.8%**	**7.7%**	**8.8%**	**10.4%**	
ROIC (Capital Invested)	3.4%	3.9%	4.6%	7.4%	5.5%	5.7%	7.1%	
ROIC (Business Assets)	5.4%	6.7%	7.7%	11.7%	8.5%	9.2%	12.2%	
Number of Employees	**2,276**	**2,286**	**2,336**	**2,359**	**2,408**	**2,382**	**2,328**	

Note: Stock price indices for FY3/2024 are based on February 9 204, and balance sheet items are as of December 31, 2023

Source: Prepared by Strategy Advisors

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