

Company Report

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Strategy Advisors Inc.

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FY3/2025 Results Slightly Exceeded Company Forecasts. Earnings Contributions from Overseas Customer Testing to Start in the New Year

For FY3/2025, sales rose 1.5% YoY to ¥41.98 billion, while operating profit fell 23.7% YoY to ¥1.89 billion. In Q4 (Jan–Mar), sales rebounded 32.3% QoQ to ¥12.06 billion, and operating profit recovered to ¥720 million, up 170% YoY. Although the company trimmed its full-year outlook at Q2, second-half results were broadly in line with that revision.

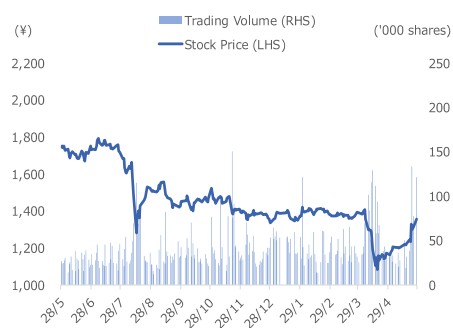
The main reason for the small increase in full-year sales was the Test Solution business, which focuses on testers, was unable to achieve the recovery in the second half of the year that was assumed in the initial plan. Operating profit decreased by ¥590 million from ¥2.47 billion in the previous year. Testers were heavily affected by the decline in capital investment by Japanese semiconductor manufacturers, the company's main customers, due to the sluggish market for NAND flash memory. Meanwhile, System and Service Business performed well, led by GAIO Technology, which deals in verification tools for automobiles, with the segment sales increasing by 11.2% YoY and operating profit also increasing by 11.3% YoY.

Q4 results improved significantly QoQ, but this was due to growth in Test Solutions segment. This was due to the fact that demand for testers bottomed out in Q3 and started to increase in Q4, and that STAR's Q3 shipments were delayed to Q4. Meanwhile, the business environment for Semiconductor Design-related business (EDA, etc.) and System and Service business (IT Access, etc.) did not change significantly QoQ.

The company's forecast for FY3/2026 is for sales to increase 3.6% YoY to ¥43.5 billion and operating profit to increase 37.8% YoY to ¥2.6 billion. Test Solutions business will be the driver of profit growth, but the company believes that increased demand for testers from overseas customers will begin to contribute. Meanwhile, the company is cautious in assuming that Semiconductor Design-related business and System and Service business will only see a small increase in sales and profit due to the uncertainty of the market environment.

The second year of the three-year mid-term plan (final year FY3/2027) has begun. Although the delayed recovery of the semiconductor market has caused demand to be sluggish in Test Solutions business, measures such as expanding the tester product line up and expanding into

Stock Price & Trading Volumes (Past 1-Year)



Source: Strategy Advisors

Key Indicators

Stock Price (5/19)	1,357
52-Week High (6/27/24)	1,792
52-Week Low (4/9/25)	1,085
All-Time High Since Listing	2,129
All-Time Low Since Listing	182
Shares Outstanding (mn)	13.7
Market Capitalization (¥bn)	18.6
Equity Ratio (FY3/25, %)	54.1
ROE (FY3/25, %)	4.8
PER (FY3/26 est., x)	10.5
PBR (FY3/25 Actual, x)	0.70
Dividend Yield (FY3/26)	5.2

Source: Strategy Advisors

overseas customers are progressing smoothly. While solid earnings from Semiconductor Design-related business and System and Service business are supporting the business performance, the stock price has been sluggish, and the PER remains low at 10.5x. If the market and demand for NAND flash memory reverses, this will increase awareness of the upside to the company's forecasts, and the stock price is expected to recover.

Japanese GAAP

FY	Sales (¥mn)	YoY (%)	Operating Profit (¥mn)	YoY (%)	Operating Income (¥mn)	YoY (%)	Net Income (¥mn)	YoY (%)	EPS (¥)	DPS (¥)
3/22	37,238	14.5	2,585	32.3	2,984	21.3	2,194	43.0	168.7	65.0
3/23	38,629	3.7	2,319	-10.3	2,480	-16.9	1,666	-24.1	127.0	70.0
3/24	41,358	7.1	2,474	6.7	2,880	16.1	1,477	-11.3	110.6	70.0
3/25	41,977	1.5	1,887	-23.7	1,755	-39.1	1,200	-18.8	89.5	70.0
3/26 CoE	43,500	3.6	2,600	37.8	2,600	48.1	1,700	41.7	129.1	70.0

Source: Company Data. Compiled by Strategy Advisors

1. FY3/2025 & Q4 Financial Results Summary

Q4 Financial Results Show Strong Recovery QoQ

For FY3/2025, the Company reported sales of ¥41.98 billion, +1.5% YoY, while operating profit was -23.7% YoY to ¥1.89 billion.

In Q4 (Jan-Mar), sales rose 9.3% YoY to ¥12.06 billion and operating profit increased 13.9% YoY to ¥720 million, marking a sequential recovery from Q3, when sales and operating profit grew 32.3% and 170% QoQ, respectively. Non-operating charges in Q4 included a ¥240 million loss on an investment partnership and an ¥80 million valuation loss on investment securities.

Figure 1. Summary of Full-Year Financial Results for FY3/2025

(¥mn)

	3/24				3/25				3/24	3/25	3/26CoE
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FY	FY
Sales	8,689	10,782	10,854	11,033	10,218	10,590	9,114	12,055	41,358	41,977	43,500
YoY	-3.8%	0.5%	29.9%	5.0%	17.6%	-1.8%	-16.0%	9.3%	7.1%	1.5%	5.2%
Test Solutions	2,435	4,481	4,421	4,548	3,234	3,819	2,553	5,371	15,885	14,977	15,030
YoY	-24.1%	-1.8%	108.8%	12.3%	32.8%	-14.8%	-42.3%	18.1%	14.0%	-5.7%	-5.4%
Semiconductor Design-Related	3,193	3,171	3,148	3,372	3,361	3,261	3,139	3,231	12,884	12,992	13,530
YoY	-4.5%	-6.9%	-4.8%	4.4%	5.3%	2.8%	-0.3%	-4.2%	-3.0%	0.8%	5.0%
System / Services	3,060	3,129	3,287	3,113	3,622	3,510	3,422	3,451	12,589	14,005	14,940
YoY	23.2%	13.4%	12.1%	-3.6%	18.4%	12.2%	4.1%	10.9%	10.4%	11.2%	18.7%
Gross Profit	2,630	3,367	3,772	3,391	3,111	3,247	2,635	3,656	13,160	12,649	13,340
YoY	-3.5%	-3.6%	40.9%	1.3%	18.3%	-3.6%	-30.1%	7.8%	7.5%	-3.9%	1.4%
Margin over Sales	30.3%	31.2%	34.8%	30.7%	30.4%	30.7%	28.9%	30.3%	31.8%	30.1%	30.7%
Test Solution	980	1,667	1,969	1,558	1,148	1,340	852	1,840	6,174	5,180	5,540
YoY	-22.5%	-10.1%	104.5%	-2.4%	17.1%	-19.6%	-56.7%	18.1%	8.7%	-16.1%	-10.3%
Margin over Sales	40.2%	37.2%	44.5%	34.3%	35.5%	35.1%	33.4%	34.3%	38.9%	34.6%	36.9%
Semiconductor Design-Related	752	747	671	735	791	737	671	711	2,905	2,910	3,040
YoY	2.3%	1.5%	-11.9%	6.7%	5.2%	-1.3%	0.0%	-3.3%	-0.6%	0.2%	4.6%
Margin over Sales	23.6%	23.6%	21.3%	21.8%	23.5%	22.6%	21.4%	22.0%	22.5%	22.4%	22.5%
System and Service	897	955	1,130	1,098	1,171	1,170	1,112	1,105	4,080	4,558	4,760
YoY	24.1%	6.0%	18.7%	3.2%	30.5%	22.5%	-1.6%	0.6%	12.1%	11.7%	16.7%
Margin over Sales	29.3%	30.5%	34.4%	35.3%	32.3%	33.3%	32.5%	32.0%	32.4%	32.5%	31.9%
Operating Income	101	753	986	634	435	464	267	722	2,474	1,887	2,600
YoY	-70.6%	-18.1%	486.9%	-28.8%	329.0%	-38.3%	-72.9%	13.9%	6.7%	-23.7%	5.1%
Margin over Sales	1.2%	7.0%	9.1%	5.7%	4.2%	4.4%	2.9%	6.0%	6.0%	4.5%	6.0%
Test Solution	-314	247	504	375	-212	-198	-244	342	812	-312	-
YoY	-	-58.8%	-	-23.6%	-	-	-	-8.8%	-	-	-
Margin over Sales	-	5.5%	11.4%	8.2%	-	-	-	6.4%	5.1%	-	-
Semiconductor Design-Related	162	146	75	192	169	118	68	102	575	457	-
YoY	-1.2%	-10.4%	-59.0%	57.4%	4.3%	-19.2%	-9.3%	-46.9%	-	-20.5%	-
Margin over Sales	5.1%	4.6%	2.4%	5.7%	5.0%	3.6%	2.2%	3.2%	4.5%	3.5%	-
System and Service	287	381	481	467	522	542	416	319	1,616	1,799	-
YoY	78.3%	-3.8%	28.6%	16.2%	81.9%	42.3%	-13.5%	-31.7%	-	11.3%	-
Margin over Sales	9.4%	12.2%	14.6%	15.0%	14.4%	15.4%	12.2%	9.2%	12.8%	12.8%	-
Adjustment	-34	-20	-76	-401	-44	1	29	-43	-531	-57	-

Note: The allocation of operating profit by segment has changed since Q1 of FY3/2025, and YoY comparisons are not possible.
Source: Company Data. Compiled by Strategy Advisors.

Underperformance in Test Solutions Led to Sluggish Results in FY3/2025

Full-year segment results show a pronounced profit decline in Test Solutions, which is heavily weighted toward tester sales. By contrast, System Services delivered steady profit growth, led by GAIO Technology's automotive verification tools and contract services. Semiconductor Design-related was hampered by the broader industry's delayed recovery, although robust EDA performance underpinned solid earnings in this division.

Results Aligned with the November Company Forecast

Following a downward revision to full-year guidance at the interim results announcement in November, second-half outcomes modestly exceeded forecasts, but were broadly in line with the Company's updated plan.

2. Trends by Sector

1) Test Solution Business

Underperformance of Testers Resulted in an Operating Loss

Test Solutions comprises two principal product lines: Innotech-manufactured NAND-flash-memory testers and STAR's probe cards and reliability-evaluation equipment. In FY3/2025, segment sales declined year-on-year and operating income turned negative.

Quarterly Tester Sales Bottomed-Out in Q3 & Have Since Begun to Recover

Quarterly revenue reached its nadir in Q3 before rebounding in Q4, driven by renewed demand for NAND-flash testers and burn-in boards; nonetheless, full-year sales remained significantly below the FY3/2022 peak of ¥6.77 billion. For FY3/2026, management projects a year-on-year increase in Test Solutions revenue and a return to operating profitability, underpinned by anticipated orders from new overseas customers, even as major Japanese semiconductor clients maintain subdued capital spending.

STAR Improved Profitability by Spinning-Off its Mass-Produced Probe Card Business

STAR's reliability equipment division underperformed in Q3 due to delivery delays but delivered strong results in Q4. A corporate restructuring, spinning off the mass-production probe-card business, reduced SG&A expenses and enhanced margin performance in the quarter. The Company is now concentrating resources on high-margin foundry clients in Taiwan, where probe-card demand remains robust and expects this focus to support sustained profitability.

Looking ahead to Q1 FY4/2025 (Jan-Mar 2025 under the shifted fiscal calendar), shipments are forecast to remain at low levels before recovering in Q2, in line with seasonal ordering patterns. Management has not built potential benefits from recent U.S. tariff measures on reliability equipment into current guidance.

Figure 2. Test Solutions Business Revenue Trends

(¥mn)

	3/24				3/25				3/24	3/25	3/26
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FY	CoE FY
Sales	2,435	4,481	4,421	4,548	3,234	3,819	2,553	5,371	15,885	14,977	15,030
Testers	529	636	1,256	750	879	263	118	453	3,171	1,713	3,330
STAr Technologies	1,906	3,845	3,164	3,798	2,354	3,556	2,435	4,919	12,713	13,264	11,700
Operating Profit	-314	247	504	375	-212	-198	-244	342	812	-312	NA
Testers	-29	-24	496	129	43	-220	-278	-112	572	-567	NA
STAr Technologies	-285	271	8	246	-255	22	34	454	240	255	410
OP Margin	-12.9%	5.5%	11.4%	8.2%	-6.6%	-5.2%	-9.6%	6.4%	3.9%	-2.1%	NA
Testers	-5.5%	-3.8%	39.5%	17.2%	4.9%	-83.7%	-235.6%	-24.7%	18.3%	-33.1%	NA
STAr Technologies	-15.0%	7.0%	0.3%	6.5%	-10.8%	0.6%	1.4%	9.2%	-0.1%	1.9%	3.5%

Note: Sales breakdown is based on segment information. Operating profit breakdown is based on segment information and briefing materials. Tester operating profit is calculated by subtracting STAr operating profit from division operating profit.

Source: Company Data. Compiled by Strategy Advisors

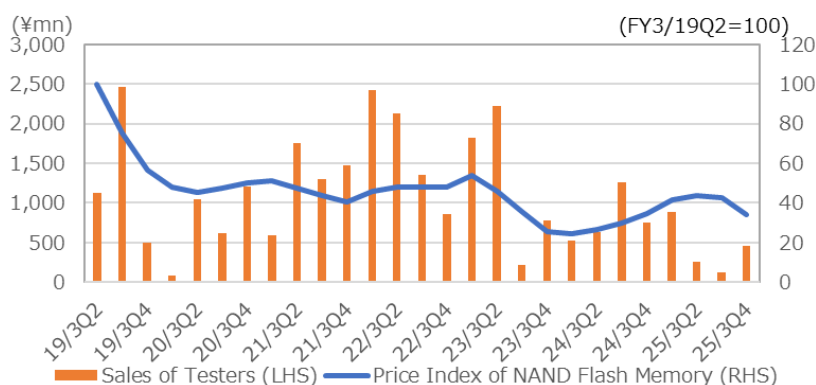
Demand & Market Conditions for NAND Flash Memory Remain Weak as Inventory Adjustments in Smartphones & PCs Continue

Kioxia Holdings (TSE Prime 285A) reported for FY3/2025 that the NAND-flash-memory market remains weak, with average selling prices in Q1 (Jan–Mar 2025) down approximately 20% QoQ. The company has advised of likely Q2 sales of ¥295–325 billion, versus ¥347.1 billion in Q1. The firm note there are early signs that the price decline may be stabilizing.

Recovery in FY3/2026 is Uncertain Given the Potential Impact of U.S. Tariffs on Global Smartphone Demand

End-market demand for smartphones and PCs has softened as inventory adjustments continue, while enterprise data-center requirements remain firm and AI-server deployment accelerates. Kioxia therefore anticipates a broader market recovery in the second half of FY3/2026. However, U.S. President Trump’s announced mutual-tariff policy in April has introduced new uncertainties into the global smartphone ecosystem and could delay the timing of renewed demand.

Figure 3. NAND Flash Memory Market Conditions & Innotech's Tester Sales



Note: Price index created by Strategy Advisors based on Kioxia Holdings' financial results presentation materials.

Source: Company Data. Compiled by Strategy Advisors

2) Semiconductor Design-Related Business

Although Challenged by the Semiconductor Market Downturn, Innotech Remained Resilient

Semiconductor Design-related business encompasses three businesses: Innotech's agency and support for Cadence EDA tools, SANEI HYTECHS semiconductor design and software development and MoDeCH's device-simulation-model services. In FY3/2025, segment sales were flat year-on-year and operating profit dipped slightly, reflecting a muted semiconductor market. Management anticipates similarly stable results in FY3/2026, adopting a cautious stance amid ongoing industry uncertainty.

EDA's Strong Performance is Projected to Continue into FY3/2026

EDA revenue remained resilient throughout FY3/25. Under a subscription-style model, Innotech distributes Cadence-developed tools to Japanese electronics and industrial clients, backed by recurring service contracts; an approach that underpins consistent sales and margin stability. In FY3/2026, limited renewals of multi-year EDA contracts suggest minimal earnings volatility, although a cluster of large contract renewals in FY3/27 could introduce upside or downside swings depending on order timing.

SANEI HYTECHS was Impacted by the Semiconductor Demand Slump, But has Weathered the Worst

SANEI HYTECHS experienced a pronounced slowdown in H2 FY3/2025, with both sales and operating profit under pressure throughout Q3 and Q4. This weakness reflected subdued demand for analog-semiconductor design in the automotive and industrial-machinery sectors.

Although the broader analog and mixed-signal market is expected to remain challenging, management believes that industry conditions will begin to stabilize in H2 FY3/2025 and that utilization rates will gradually recover in FY3/2026. A temporary downturn in Vietnam-based annotation services may, however, continue to weigh on segment profitability.

MoDeCH's Operating Environment Remains Unchanged

MoDeCH's business environment was largely unchanged in H2 FY3/2025, as the company failed to secure any large-scale modeling projects. Management has targeted a rebound in FY3/2026 by pursuing new orders and leveraging its simulation-model expertise. Collectively, these initiatives underscore the segment's cautious yet constructive outlook amid ongoing market uncertainty.

Figure 4. Revenue Trends in Semiconductor Design-Related Businesses

(¥mn)

	3/24				3/25				3/24	3/25	3/26CoE
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FY	FY
Sales	3,193	3,171	3,148	3,372	3,361	3,261	3,139	3,231	12,884	12,992	13,530
EDA	2,082	2,117	2,159	2,283	2,316	2,271	2,214	2,288	8,641	9,089	9,280
SANEI	1,038	1,016	951	990	971	951	871	885	3,995	3,678	3,900
HYTECHS											
MoDeCH	73	37	38	98	73	39	53	59	246	224	350
Operating profit	162	146	75	192	169	118	68	102	575	457	NA
EDA	38	35	48	133	64	60	49	91	254	264	NA
SANEI	118	130	33	16	99	65	28	13	297	205	200
HYTECHS											
MoDeCH	6	-19	-6	43	6	-7	-9	-2	24	-12	5
OP Margin	5.1%	4.6%	2.4%	5.7%	5.0%	3.6%	2.2%	3.2%	4.5%	3.5%	NA
EDA	1.8%	1.7%	2.2%	5.8%	2.8%	2.6%	2.2%	4.0%	2.9%	2.9%	NA
SANEI	11.4%	12.8%	3.5%	1.6%	10.2%	6.8%	3.2%	1.5%	7.4%	5.6%	5.1%
HYTECHS											
MoDeCH	8.2%	-51.4%	-15.8%	43.9%	8.2%	-17.9%	-17.0%	-3.4%	9.8%	-5.4%	1.4%

Note: Sales breakdown is based on segment information. Operating profit breakdown is based on segment information and presentation materials. EDA's operating profit is the division operating profit minus that of SANEI HYTECHS and MoDeCH.

Source: Company Data. Compiled by Strategy Advisors

3) System & Service Business

System Revenues Continue to Grow Steadily

System & Service Business comprises four businesses: Innotech's in-house embedded-systems division; GAIO Technology, which sells and supports automotive-verification tools under contract; IT Access, a developer of cashless-payment terminals and vending-machine software; and Regulus, which provides image-processing solutions. In FY3/2025, each unit delivered year-on-year growth in both revenue and operating profit, led by GAIO Technology's strong performance in the automotive segment.

For FY3/2026, management is forecasting a modest increase in both sales and operating profit for the System Services segment. Given ongoing market headwinds and uncertainty, the Company has adopted a conservative planning stance, maintained disciplined cost controls and prioritized high-margin service offerings.

Innotech's Embedded Systems Segment is Positioned to Recover in the Industrial Machinery Market

In a challenging industrial-machinery market, Innotech's in-house embedded-systems delivered robust performance in H2 FY3/2025. Management anticipates year-on-year sales growth in FY3/2026, driven by a recovery in demand for its in-house products "INNINGS" and rising orders from social-infrastructure and defense customers.

GAIO Technology is Posting Strong Current Results. However, its New FY Plan

GAIO Technology sustained its strong momentum in both Q3 and Q4 of FY3/2025, with stable tool-sales and a marked increase in contract-service

Forecasts a Demand Slowdown

revenue. Despite this success, the division faces ongoing recruitment constraints among both direct hires and subcontractors.

Looking to FY3/2026, the Company expects GAIO's tool-sales to remain resilient but foresees a modest downturn in contract-service sales due to tariff-related uncertainty in the global automotive sector. At present, no material weakening in verification-tool demand has been observed and management will monitor market developments closely as it refines its guidance.

IT Access to Strengthen Payment Terminal Sales

IT Access experienced a temporary slowdown in FY3/2025 as demand for payment terminals waned following several key customers' move to in-house production. Nonetheless, its recurring-revenue payment-services platform and automotive software-development business delivered steady growth, resulting in overall segment outperformance.

Looking to FY3/2026, management will bolster payment-terminal sales, launching lower-cost models for vending machines and accelerating expansion of its application ecosystem, while further scaling its automotive and security-related software offerings. On this basis, the Company forecasts year-on-year revenue growth for IT Access, with operating profit to remain roughly flat as investments in new product launches are balanced by higher service-based margins.

Regulus to Boost Forklift Truck Shipments

Although Regulus is still small in scale, sales of its main forklift systems slowed down slightly at FY3/2025. In FY3/2026, the company expects to increase shipments and achieve YoY increases in sales and profits.

Figure 5. Revenue Trends in the Systems and Services Business

(¥mn)

	3/24				3/25				3/24	3/25	3/26CoE
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FY	FY
Sales	3,060	3,129	3,287	3,113	3,622	3,510	3,422	3,451	12,589	14,005	14,940
Innotech	636	766	766	647	735	936	751	653	2,815	3,075	3,240
IT Access	1,396	1,256	1,272	1,236	1,656	1,171	1,274	1,291	5,160	5,392	6,100
GAIO Technology	917	1,028	1,079	1,048	1,127	1,286	1,281	1,309	4,072	5,003	4,900
Regulus	109	80	169	182	102	118	116	199	540	535	700
Operating profit	287	381	481	467	522	542	416	319	1,616	1,799	NA
Innotech	50	100	93	90	74	116	32	24	333	246	NA
IT Access	144	143	126	110	212	122	133	68	523	535	530
GAIO Technology	140	169	241	209	258	301	256	183	759	998	900
Regulus	-47	-31	21	58	-22	3	-5	44	1	20	30
OP Margin	9.4%	12.2%	14.6%	15.0%	14.4%	15.4%	12.2%	9.2%	12.1%	12.8%	NA
Innotech	7.9%	13.1%	12.1%	13.9%	10.1%	12.4%	4.3%	3.7%	11.2%	8.0%	NA
IT Access	10.3%	11.4%	9.9%	8.9%	12.8%	10.4%	10.4%	5.3%	10.5%	9.9%	8.7%
GAIO Technology	15.3%	16.4%	22.3%	19.9%	22.9%	23.4%	20.0%	14.0%	18.2%	19.9%	18.4%
Regulus	-43.1%	-38.8%	12.4%	31.9%	-21.6%	2.5%	-4.3%	22.1%	-15.9%	3.7%	4.3%

Note: Sales breakdown is based on segment information. Operating profit breakdown is based on segment information and briefing materials. Innotech's embedded systems operating profit is calculated by subtracting the operating profits of IT Access, GAIO Technology and Regulus from the division's operating profit.

Source: Company Data. Compiled by Strategy Advisors

3. Future Outlook & Medium-Term Plan Progress

The Company Expects Increased Sales and Profits in FY3/2026

The company's forecast for FY3/2026 is sales of ¥43.5 billion, +3.6% YoY and operating profit of ¥2.6 billion, +37.8% YoY. On a quarterly basis, the company expects a slow start in Q1 (April-June) due to the seasonally low demand for "test solutions", but expects performance to improve from Q2 onwards.

Test Solutions Business is Driving Growth

By business unit, the company expects that the YoY profit increase in "Semiconductor Design-related", which has a high profit stability centered on EDA and "System Services," which performed well in FY3/2025, will be small. On the other hand, the company expects a large YoY profit increase in "Test Solutions," which performed poorly in FY3/2025. However, while the slump in testers from domestic NAND flash memory customers will continue, the company has factored in the start of demand from new overseas customers. As for STAR, the company expects that the reduction in selling and administrative expenses due to the spin-off of the mass production probe card business will contribute to improved profitability. Both of these figures incorporate unique positive factors.

There is a High Probability of Achieving the Plan

In light of the above, we believe that the company's forecast for FY3/2026 is not based on excessive expectations of a recovery in the semiconductor market and that the probability of achieving the forecast is high at this point. If the business environment improves due to an upturn in the semiconductor market (especially NAND flash memory), we can fully expect figures to exceed the company's forecast.

To Achieve the Mid-Term Business Plan, a Recovery in Business Performance is Essential in FY3/2026

The company has set ROE of 10% and ROIC of 8% as targets. In the mid-term management plan (FY3/2025 to FY3/2027), the company aims to achieve an operating profit margin of 7-8% and an operating profit that is the highest ever (FY8/2008 ¥3.33 billion) as the performance target for the final year. The actual results for FY3/2025, the first year, are an operating profit margin of 4.5% (ROE 4.8%) and there is still a large gap between the target and the actual results. Innotech's performance is expected to recover from the bottom in FY3/2025, but a recovery in performance in FY3/2026 will be essential to achieving the mid-term plan. On the other hand, excluding changes in the external environment, it can be seen that the measures of the mid-term plan to improve performance are progressing steadily.

Test Solutions: Promoting Development of Overseas Customers

In the Test Solutions business, in order to move away from a bias toward domestic major NAND customers for testers (products developed in-house by Innotech itself), the company is promoting the development of capture boards for CIS and the development of overseas customers. Development of products compatible with DRAM has also begun as scheduled. By spinning off its mass production probe card business, STAR is concentrating management resources on foundries and profitability is improving.

Semiconductor Design-Related: Providing High-Value-Added Solutions Through Collaboration Within the Group

In the Semiconductor Design-related business, Innotech is working to provide high-added-value solutions through EDA (domestic distributor of Cadence products handled by Innotech itself) in cooperation with group companies SANEI HYTECHS and MoDeCH. In addition to closing its Taiwan base, SANEI HYTECHS is also working to streamline its business by integrating its Hamamatsu functions into its headquarters.

Systems and Services: Strengthen Sales of Embedded Systems & Cloud Payment Terminals

In the Systems & Service business, INNINGS, an embedded system (a product developed in-house by Innotech itself) for industrial machinery, is being deployed for social infrastructure and defense, while the company is also developing new small products that will lead to reduced environmental impact. IT Access is currently introducing cloud payment terminals for beverage vending machines, primarily to highly-utilized vending machines. By introducing a cheaper version of this product, the company is vertically expanding the use of the terminals to low-operational machines, while also attempting to horizontally expand the terminals to non-beverage vending machines, offices, convenience stores and parking lots, etc.

Figure 6. Income Statement (Quarterly)

(\$mn)	3/24				3/25				3/26
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	CoE
Net Sales	8,689	10,782	10,854	11,033	10,218	10,590	9,115	12,054	43,500
(YoY)	-3.8%	0.5%	29.9%	5.0%	17.6%	-1.8%	-16.0%	9.3%	3.6%
Cost of Sales	6,058	7,414	7,082	7,643	7,107	7,343	6,479	8,398	30,160
Gross Profit	2,630	3,367	3,772	3,390	3,112	3,246	2,636	3,656	13,340
(Gross Profit Margin)	30.3%	31.2%	34.8%	30.7%	30.5%	30.7%	28.9%	30.3%	30.7%
SG&A Expenses	2,529	2,615	2,786	2,756	2,677	2,782	2,369	2,934	10,740
Operating Profit	101	753	986	634	435	464	267	722	2,600
(YoY)	-70.6%	-18.1%	486.9%	-28.8%	329.0%	-38.3%	-72.9%	13.9%	37.8%
(Operating Profit Margin)	1.2%	7.0%	9.1%	5.7%	4.3%	4.4%	2.9%	6.0%	6.0%
Non-Operating Income	357	258	94	188	445	-148	416	141	-
Non-Operating Expenses	134	130	104	124	146	298	153	390	-
Ordinary Profit	325	882	976	697	733	18	529	475	2,600
(YoY)	-40.9%	-9.7%	623.0%	-14.8%	125.5%	-98.0%	-45.8%	-31.9%	48.1%
(OP Margin)	3.7%	8.2%	9.0%	6.3%	7.2%	0.2%	5.8%	3.9%	6.0%
Extraordinary Income	0	0	2	0	0	0	318	20	-
Extraordinary Loss	0	0	0	-29	0	0	0	0	-
Profit Before Income Taxes	325	883	415	727	733	19	848	418	-
(YoY)	-40.9%	-9.6%	205.1%	-11.1%	125.5%	-97.8%	104.3%	-42.5%	-
(Pretax Profit Margin)	3.7%	8.2%	3.8%	6.6%	7.2%	0.2%	9.3%	3.5%	-
Income Taxes	165	179	245	227	297	-20	256	181	-
(Effective Tax Rate)	50.8%	20.3%	59.0%	31.2%	40.5%	-105.3%	30.2%	43.3%	-
Profit	159	704	171	498	437	38	592	237	-
Profit Attributable to Non-Controlling Interests	-30	60	9	16	2	14	55	33	-
Profit Attributable to Owners of Parent	189	643	162	483	434	25	537	204	1,700
(YoY)	-28.7%	-2.1%	138.2%	-28.6%	129.6%	-96.1%	231.5%	-57.8%	41.7%
(Net Profit Margin)	2.2%	6.0%	1.5%	4.4%	4.2%	0.2%	5.9%	1.7%	3.9%

Source: Company Data. Compiled by Strategy Advisors

4. Stock Price & Valuation

Share Price Hovering Around ¥1,300

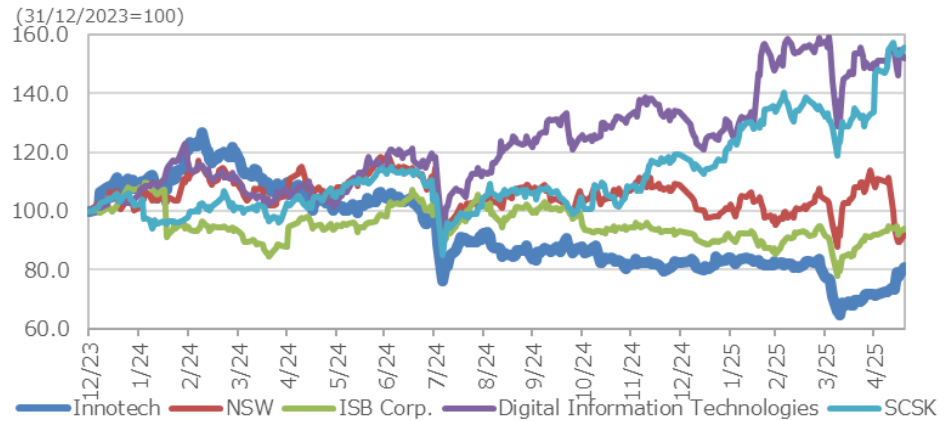
In November 2024, Innotech's stock dipped on a downward revision to its earnings forecast and traded in a ¥1,350–¥1,400 range until April 2, 2025, when President Trump's tariff announcement triggered a sharp sell-off. The share price hit an intraday low of ¥1,070 on April 7, but gradually recovered to around ¥1,200 ahead of the FY3/2025 results release. Strong Q4 results announced on May 13 drove the stock higher still and it now trades near ¥1,300.

Performance Compared Across Semiconductor Trading Firms, EDA Providers & Probe Card Companies

Over the past six months, the broader semiconductor-equipment sector has been under pressure. Probe-card peers Micronics Japan and Japan Electronic Materials rebounded sharply from the post-tariff trough, whereas Innotech's recovery has been more muted, similar to electronics distributors Macnica Holdings and Kaga Electronics. EDA-related names such as Zuken and Jedat

saw relatively subdued reactions to the tariff news, reflecting investors' view that their recurring-revenue models are less exposed to trade-policy headwinds.

Figure 7. Comparison of Stock Prices Between Innotech & Semiconductor-Related Companies

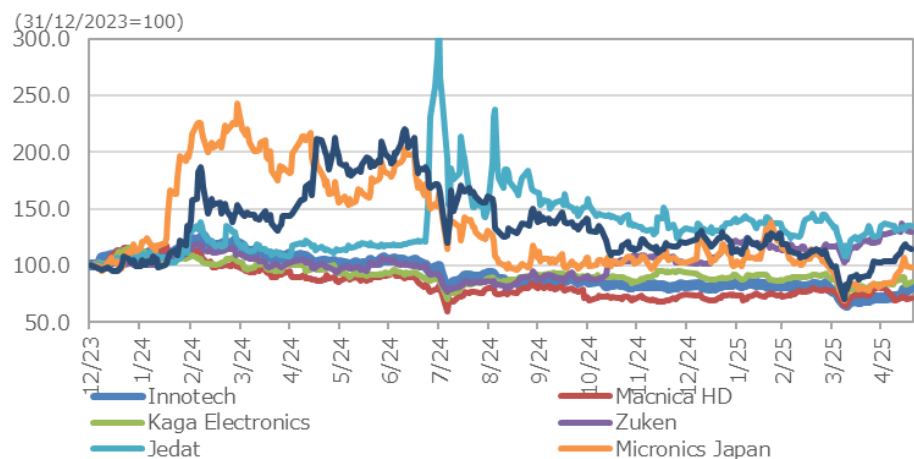


Source: Strategy Advisors

Performance Compared to Systems-Related Companies

Systems-related stocks displayed divergent share-price trajectories in response to the same market events. While most firms exhibited comparable reactions around President Trump's tariff announcement, their year-end performance diverged markedly. For example, NSW's stock declined following its forecast of lower operating profit for FY3/2026, whereas SCSK's shares rose on the back of stronger-than-expected results. Innotech's shares outperformed peers during the FY3/2025 results season, buoyed by its outlook for profit growth underpinned by a recovery in the semiconductor-tester business.

Figure 8. Comparison of Stock Prices between Innotech & Embedded Systems-Related Companies



Source: Strategy Advisors

Figure 9. Profitability Comparison with Other Companies in the Industry

(¥mn)	Code	FY	Sales	Operating Profit	OP Margin	ROE	ROIC	Equity Ratio
Innotech	9880	3/25	41,977	1,887	4.5%	4.8%	4.5%	54.1%
Macnica Holdings	3132	3/25	1,034,180	39,649	3.8%	10.2%	10.1%	45.4%
Kaga Electronics	8154	3/25	547,779	23,601	4.3%	10.8%	14.5%	54.4%
Zuken	6947	3/25	40,736	5,392	13.2%	13.0%	47.6%	63.1%
Jedat	3841	3/25	2,063	257	12.5%	6.0%	NA	84.1%
Micronics Japan	6871	12/24	55,643	12,572	22.6%	19.4%	27.1%	62.1%
Japan Electronic Materials	6855	3/25	23,829	4,585	19.2%	13.1%	17.2%	70.0%
NSW	9739	3/25	50,028	6,116	12.2%	10.7%	23.6%	75.1%
ISB	9702	12/24	33,955	2,800	8.2%	16.0%	32.9%	68.2%
Digital Information Technologies	3916	6/25	19,888	2,425	12.2%	26.0%	52.9%	68.1%
SCSK	9719	3/25	596,065	66,121	11.1%	15.2%	13.3%	32.9%

Note: ROIC is calculated by dividing NOPAT by the average of business assets (fixed assets + net working capital) during the period. Jedat is listed as NA because business assets are negative.

Source: Company Data. Compiled by Strategy Advisors

Figure 10. Valuation Comparison with Peer Companies

(¥mn, x)	Code	FY	Stock Price (5/19)	Market Cap.	PER CoE	PBR Actual	EV/ EBITDA	Dividen d Yield CoE	ROE CoE
INNOTECH	9880	3/25	1,357	17,868	10.5	0.70	5.1	5.2%	6.7%
Macnica Holdings	3132	3/25	1,765.5	314,991	11.7	1.25	7.5	4.0%	10.7%
Kaga Electronics	8154	3/25	2,616	137,488	8.3	0.83	3.2	4.2%	9.9%
Zuken	6947	3/25	5,250	113,749	25.1	2.85	13.2	1.9%	11.1%
Jedat	3841	3/25	1,342	5,166	23.5	1.44	8.1	3.0%	6.1%
Micronics Japan	6871	12/24	3,615	139,504	NA	2.81	41.0	NA	NA
Japan Electronic Materials	6855	3/25	2,081	26,286	10.5	0.94	4.0	2.4%	9.0%
NSW	9739	3/25	2,612	38,917	11.0	1.10	3.4	3.3%	10.0%
ISB	9702	12/24	1,378	15,796	10.0	1.17	2.8	3.9%	11.6%
Digital Information Technologies	3916	6/25	2,465	36,262	18.8	5.30	10.5	2.7%	27.9%
SCSK	9719	3/25	4,349	1,359,153	23.6	4.66	14.3	2.2%	19.8%

Note: ROE (company forecast) is calculated by dividing the company's forecast net income for the current period by the equity capital at the end of the most recent quarterly fiscal period. EBITDA in EV/EBITDA is calculated by adding the company's full-year forecast operating profit to the most recent full-year actual depreciation expense.

Source: Company Data. Compiled by Strategy Advisors

The Valuation has Declined Due to the Prolonged Semiconductor Slump

Innotech's current valuation remains at the lower end of its peer group, with a forecast-based PER of 10.5x and PBR of 0.70 based on FY3/2025 BPS. Despite these low multiples, the Company offers a dividend yield of 5.2%, the highest among comparable semiconductor-equipment and electronic-services firms.

3 Key Factors Constraining the Share Price

Three key factors have constrained the share price. First, weakness in the broader semiconductor cycle outside of artificial-intelligence and data-center applications has put pressure on tester demand. Second, the Company's ROE of 4.8% in FY3/2025 was below industry norms. Third, some investors continue to view Innotech primarily as an electronics-trading rather.

Expects NAND Market Recovery and Innotech's Distinctive Measures

Of these, 1) the semiconductor cycle is affected by the impact of Trump tariffs, but it is expected to show signs of improvement in 2026, and 2) ROE is expected to gradually increase from FY3/2026 onwards, so the stock price is expected to recover from the current level. The biggest catalyst for the rise in stock prices is the recovery of the NAND flash memory market. Innotek's distinctive factors include the expansion of demand from new customers for testers, growth in STAR's foundry business, measures aimed at improving efficiency such as group reorganization, and strengthening shareholder returns.

Performance Stability Improving Steadily as Valuations Recover from Low Levels

Sustained share price appreciation in the future will require EPS growth and overcoming low valuations. In particular, steady implementation of the measures set forth in the medium-term business plan will be effective in overcoming low valuations. In FY3/2025, the first year of the medium-term plan, the company's performance deteriorated less than before despite a large drop in tester shipments, which are strongly affected by semiconductor market conditions (in other words, the company was able to avoid losses with a comfortable margin). This is seen as evidence that the company is making steady progress in improving performance stability, one of the goals of its medium-term business plan.

Figure 11. Income Statement

(¥mn)

	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26 CoE
Net Sales	28,735	29,804	31,161	32,536	37,238	38,629	41,358	41,977	43,500
(YoY)	-0.4%	3.7%	4.6%	4.4%	14.5%	3.7%	7.1%	1.5%	3.6%
Cost of Sales	20,345	20,329	21,566	22,581	26,018	26,387	28,198	29,327	30,160
Gross Profit	8,390	9,475	9,595	9,954	11,219	12,242	13,160	12,650	13,340
(Gross Profit Margin)	29.2%	31.8%	30.8%	30.6%	30.1%	31.7%	31.8%	30.1%	30.7%
SG&A Expenses	7,145	7,519	7,925	8,000	8,634	9,922	10,685	10,762	10,740
Operating Profit	1,244	1,955	1,670	1,954	2,585	2,319	2,474	1,887	2,600
(YoY)	24.5%	57.2%	-14.6%	17.0%	32.3%	-10.3%	6.7%	-23.7%	37.8%
(Operating Profit Margin)	4.3%	6.6%	5.4%	6.0%	6.9%	6.0%	6.0%	4.5%	6.0%
Non-Operating Income	527	892	594	902	908	719	898	854	
Non-Operating Expenses	563	388	369	397	509	558	492	987	
Ordinary Profit	1,208	2,459	1,896	2,460	2,984	2,480	2,880	1,755	2,600
(YoY)	-3.4%	103.6%	-22.9%	29.7%	21.3%	-16.9%	16.1%	-39.1%	48.1%
(OP Margin)	4.2%	8.3%	6.1%	7.6%	8.0%	6.4%	7.0%	4.2%	6.0%
Extraordinary Income	0	1	0	7	72	2	3	339	
Extraordinary Loss	0	203	0	10	81	0	534	76	
Profit Before Income Taxes	1,209	2,256	1,895	2,458	2,976	2,482	2,349	2,018	
(YoY)	-1.5%	86.6%	-16.0%	29.7%	21.1%	-16.6%	-5.4%	-14.1%	
(Pretax Profit Margin)	4.2%	7.6%	6.1%	7.6%	8.0%	6.4%	5.7%	4.8%	
Income Taxes	444	676	600	827	693	767	817	714	
(Effective Tax Rate)	36.7%	30.0%	31.7%	33.6%	23.3%	30.9%	34.8%	35.4%	
Profit	764	1,580	1,294	1,630	2,283	1,714	1,532	1,304	
Profit Attributable to Non-Controlling Interests	43	86	126	95	88	48	54	104	
Profit Attributable to Owners of Parent	721	1,493	1,168	1,534	2,194	1,666	1,477	1,200	1,700
(YoY)	-10.5%	107.1%	-21.8%	31.3%	43.0%	-24.1%	-11.3%	-18.8%	41.7%
(Net Profit Margin)	2.5%	5.0%	3.7%	4.7%	5.9%	4.3%	3.6%	2.9%	3.9%
EPS (¥)	41.0	93.5	81.0	120.7	168.7	127.0	110.6	89.5	129.1

Source: Company Data. Compiled by Strategy Advisors

Figure 12. Balance Sheet

(¥mn)

	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25
Current Assets	17,963	17,400	19,243	20,476	23,189	25,957	30,305	29,712
Cash And Deposits	5,763	4,498	6,335	5,626	6,664	6,598	8,876	6,532
Accounts Receivable	7,119	7,428	7,392	8,550	8,773	9,566	10,034	10,609
Inventory	2,524	3,922	3,874	4,793	6,101	8,105	9,181	9,355
Other Current Assets	2,557	1,552	1,642	1,507	1,651	1,688	2,214	3,215
Fixed Assets	14,598	15,480	15,723	17,203	17,351	17,671	17,528	17,297
Tangible Fixed Assets	10,235	10,370	10,565	10,713	10,842	11,463	11,630	10,593
Intangible Fixed Assets	1,488	1,489	1,372	2,224	2,424	2,236	2,066	1,873
Investments & Other Assets	2,874	3,620	3,785	4,266	4,085	3,971	3,831	4,831
Investment Securities	1,383	1,850	2,013	2,059	1,771	1,734	1,479	2,648
Deferred Tax Assets	65	288	266	388	420	501	498	353
Others	1,426	1,482	1,506	1,819	1,894	1,736	1,854	1,830
Total Assets	32,562	32,880	34,967	37,680	40,541	43,629	47,833	47,008
Current Liabilities	6,862	7,155	10,120	12,183	13,612	17,068	20,260	19,167
Trade Payables	2,024	1,637	2,408	1,947	2,333	3,053	2,778	3,198
Interest-Bearing Debt	0	727	3,339	5,111	5,649	8,070	10,139	8,766
Others	4,838	4,791	4,373	5,125	5,630	5,945	7,343	7,203
Fixed Liabilities	630	3,810	4,427	4,369	3,761	1,970	2,250	1,709
Interest-Bearing Debt	0	3,158	3,591	3,433	2,953	1,073	1,280	850
Deferred Tax Liabilities	0	0	0	0	0	0	0	0
Others	630	652	836	936	808	897	970	859
Net Assets	25,068	21,915	20,418	21,127	23,167	24,589	25,322	26,133
Shareholders' Equity	24,001	21,017	19,454	20,478	22,015	22,805	23,528	23,407
Capital	10,517	10,517	10,517	10,517	10,517	10,517	10,517	10,517
Capital Surplus	7,328	4,506	4,506	4,468	4,228	4,242	4,044	4,069
Retained Earnings	6,784	7,261	5,580	6,606	7,950	8,697	9,242	9,497
Accumulated Others	199	-7	-38	-384	198	799	1,176	2,016
Comprehensive Income	290	278	277	273	128	128	21	22
Stock Acquisition Rights	290	278	277	273	128	128	21	22
Non-Controlling Interests	576	627	724	759	824	855	596	688
Liabilities & Net Assets	32,562	32,880	34,967	37,680	40,541	43,629	47,833	47,008
Equity Capital	24,201	21,009	19,416	20,094	22,213	23,605	24,704	25,423
BPS (¥)	1,396.5	1,430.4	1,528.5	1,578.2	1,694.7	1,796.3	1,835.6	1,930.8

Source: Company Data. Compiled by Strategy Advisors

Figure 13. Key Indicators

	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25
EPS (¥)	41.0	93.5	81.0	120.7	168.7	127.0	110.6	89.5
BPS (¥)	1,396.5	1,430.4	1,528.5	1,578.2	1,694.7	1,796.3	1,835.6	1,930.8
DPS (¥)	30.0	40.0	40.0	50.0	65.0	70.0	70.0	70.0
Dividend Payout Ratio	73.1%	42.8%	49.4%	41.4%	38.5%	55.1%	63.3%	78.2%
# of Shares Issued ('000)	18,219	15,700	13,700	13,700	13,700	13,700	13,700	13,700
Treasury Stock ('000)	888	1,012	997	967	592	559	242	533
# of Shares (excl. Treasury Stock, '000)	17,330	14,688	12,703	12,733	13,108	13,141	13,458	13,167
Average # of Shares (excl. Treasury Stock, '000)	17,579	15,973	14,430	12,712	13,013	13,128	13,366	13,404
Equity Ratio	74.3%	63.9%	55.5%	53.3%	54.8%	54.1%	51.6%	54.1%
Interest-Bearing Debt (¥mn)	0	3,885	6,930	8,544	8,602	9,143	11,420	9,616
Net Interest-Bearing Debt (¥mn)	-5,763	-613	595	2,918	1,938	2,545	2,543	3,084
D/E Ratio	0.00	0.18	0.36	0.43	0.39	0.39	0.46	0.38
Net D/E Ratio	-0.24	-0.03	0.03	0.15	0.09	0.11	0.10	0.12
Operating Profit Margin	4.3%	6.6%	5.4%	6.0%	6.9%	6.0%	6.0%	4.5%
EBITDA (¥mn)	1,844	2,723	2,655	2,947	3,643	3,516	3,763	3,204
EBITDA Margin	6.4%	9.1%	8.5%	9.1%	9.8%	9.1%	9.1%	7.6%
ROE	3.0%	6.6%	5.8%	7.8%	10.4%	7.3%	6.1%	4.8%
ROIC	4.5%	7.4%	6.0%	6.4%	8.8%	6.6%	6.3%	4.5%
Number of Employees	1,174	1,257	1,428	1,539	1,642	1,728	1,775	NA

Note: ROIC is calculated as NOPAT/(average of business assets during the period)

Source: Company Data. Compiled by Strategy Advisors

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