

## Company Report

August 25, 2025,

Strategy Advisors Inc.

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## FY3/26 Q1 Results: Significant Increase in Profits. Expansion of Service Business, Including in the 6 Growth Areas, Will Solidify Q1 Operating Profit

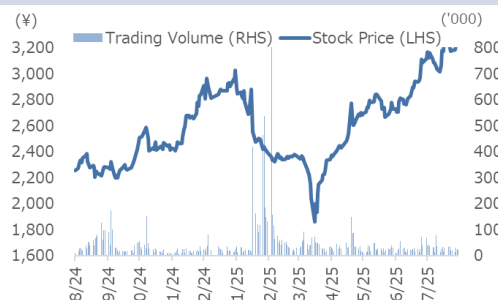
In the first quarter of FY3/26, net sales increased 0.3% YoY to ¥18.83 billion, operating income was ¥300 million compared to ¥1 million in the same period last year, with ordinary income was ¥350 million, +762.4% YoY. Quarterly profit attributable to owners of parent was ¥270 million compared to ¥1 million in the same period last year, showing a significant increase in profits. Net sales increased mainly in Development & Construction and Services, as well as, operating profits increased due to progress in pricing management and improved productivity, leading to a significant increase in quarterly profit attributable to owners of the parent.

By business model, net sales for Equipment decreased 9.7% YoY, but the orders expanded significantly, and the company continues to capture special demand due to the end of support (EOS) for Windows 10. Development & Construction net sales increased 16.2% YoY to local governments, financial institutions, etc., while Services increased 1.6%, primarily in the 6 growth areas. Orders increased 17.6% YoY, driven largely by Equipment orders, which increased 50.8%, and also in Development & Construction orders, which increased 22.9%. Equipment orders were driven by special demand due to the end of support (EOS) for Windows 10, as well as server installations for the manufacturing industry. Development & Construction orders were growing for public institutions and financial institutions. Order backlogs increased YoY for all business models, increasing 28.3% YoY. Net sales from FY3/26Q2 onward have also been favorable.

The net sales target for the 6 growth areas for FY3/26 is ¥16.3 billion, a high target of ¥4.0 billion, or a 31% increase, from FY3/25 results. However, Q1 was strong in all 6 areas, with net sales of ¥3.3 billion (up 23.5% YoY) and steady progress is being made toward achieving the target.

In terms of profits, the gross profit margin improved by ¥220 million due to cost reductions through pricing management, productivity improvements and an improved sales mix. In Development & Construction, proposals that highlight technical capabilities have been successful. In Equipment, profit margins have improved by focusing on highly profitable projects.

### Stock Price and Trading Volumes



Source: Strategy Advisors

### Key Indicators

|                                |       |
|--------------------------------|-------|
| Stock Price (8/22/25)          | 3,245 |
| 52-Week High (8/08/25)         | 3,275 |
| 52-Week Low (4/07/25)          | 1,862 |
| All-Time High (8/08/25)        | 3,275 |
| All-Time Low (11/19/02)        | 157   |
| Number of Shares Issued (mn)   | 18.1  |
| Market Capitalization (¥bn)    | 58.8  |
| Equity Ratio (FY3/25, %)       | 11.3  |
| ROE (FY3/25 Actual, %)         | 55.2  |
| PER (FY3/26 CoE, Times)        | 13.1  |
| PBR (FY3/25 Actual, Times)     | 1.3   |
| Dividend Yield (FY3/26 CoE, %) | 3.1   |

Source: Strategy Advisors

Productivity has been improved by sharing the "Tsuzuki Style" (a manual that describes service processes and necessary technologies) not only within the company but also with group companies and partner companies. The decrease in SG&A expenses was largely due to a decrease in personnel costs due to an increase in retirements. Until FY3/23, the company had tended to post an operating loss in Q1, but due to the expansion of its service business, including in the six growth areas, it has posted an operating profit in Q1 for 3 consecutive years since FY3/24.

Mr. Katsuyuki Yoshida, who took over as the new president/CEO on June 26th said, "We have a solid revenue base through business with our major customers and we also have a sense of stability by working in a variety of industries. I would like everyone to understand that we will continue to accumulate people, knowledge and technology, and continue to grow steadily and with a high degree of certainty".

The stock price rose in July due to expectations for growth in the AI-related market and the market rally resulting from the Japan-US tariff negotiation agreement, reaching a new record high of ¥3,295 on August 12th. Valuation-wise, the PER based on FY3/26 forecasts is 13.1x and the PBR based on FY3/25 actual results is 1.3x, significantly lower than the industry averages of 21.9x and 4.1x, respectively.

The valuation is low compared to peers and it appears that the company's status as a pure player in the ICT business has not yet been factored into the stock price. Looking ahead, the key points to watch for in the stock price will be the extent to which the company will achieve growth from FY3/26 onwards, whether it will make progress in utilizing its cash, including through M&A and trends in shareholder returns.

## Japanese GAAP - Consolidated

| FY         | Net Sales<br>(¥mn) | YoY<br>(%) | Operating Income<br>(¥mn) | YoY<br>(%) | Ordinary Income<br>(¥mn) | YoY<br>(%) | Net Income<br>(¥mn) | YoY<br>(%) | EPS<br>(¥) | DPS<br>(¥) |
|------------|--------------------|------------|---------------------------|------------|--------------------------|------------|---------------------|------------|------------|------------|
| FY3/25 Q1  | 18,771             | -33.3      | 1                         | -99.9      | 41                       | -93.8      | 1                   | -99.7      | 0.06       | -          |
| FY3/26 Q1  | 18,833             | 0.3        | 301                       | -          | 359                      | 762.4      | 272                 | -          | 15.03      | -          |
| FY3/22     | 119,316            | -0.6       | 4,012                     | 25.3       | 4,227                    | 25.8       | 2,798               | 19.3       | 158.0      | 48.0       |
| FY3/23     | 123,899            | 3.8        | 5,118                     | 27.6       | 5,355                    | 26.7       | 3,521               | 25.8       | 197.0      | 61.0       |
| FY3/24     | 124,856            | 0.8        | 6,439                     | 25.8       | 6,486                    | 21.1       | 5,477               | 55.6       | 304.8      | 90.0       |
| FY3/25     | 98,263             | -21.3      | 6,481                     | 0.6        | 6,596                    | 1.7        | 4,764               | -13.0      | 263.3      | 99.0       |
| FY3/26 CoE | 102,500            | 4.3        | 6,700                     | 3.4        | 6,750                    | 2.3        | 4,500               | -5.6       | 248.3      | 100.0      |

Source: Company Data. Compiled by Strategy Advisors.

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## 1. FY3/26Q1 Financial Results Overview

**Net Sales Increased Slightly. Profit Increased Significantly Compared to the Same Period Last Year**

In the first quarter of FY3/26, net sales increased 0.3% year on year to ¥18.83 billion, operating income was ¥300 million compared to ¥1 million in the same period last year, ordinary income was ¥350 million, up 762.4% year on year, and quarterly profit attributable to owners of parent was ¥270 million compared to ¥1 million in the same period last year, showing a significant increase in profits. Net sales increased mainly in the Development & Construction business and the Service business and operating profits increased due to progress in pricing management and improved productivity, leading to a significant increase in quarterly profit attributable to owners of the parent (Figure 1).

**Figure 1. Summary of FY3/26Q1 Financial Results**

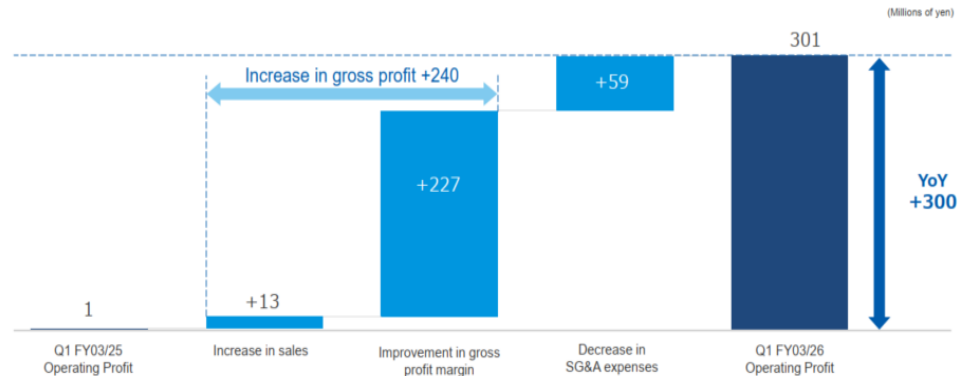
| (¥mn)                | FY3/25Q1<br>Actual (A) | FY3/26<br>CoE (B) | <b>FY3/26Q1<br/>Actual (C)</b> | Progress Rate<br>(C)/(B) |
|----------------------|------------------------|-------------------|--------------------------------|--------------------------|
| Net Sales            | 18,771                 | 102,500           | <b>18,833</b>                  | 18.4%                    |
| (YoY)                | -33.3%                 | 4.3%              | <b>0.3%</b>                    | -                        |
| Operating Income     | 1                      | 6,700             | <b>301</b>                     | 4.5%                     |
| (YoY)                | -99.9%                 | 3.4%              | -                              | -                        |
| Ordinary Income      | 41                     | 6,750             | <b>359</b>                     | 5.3%                     |
| (YoY)                | -93.8%                 | 2.3%              | <b>762.4%</b>                  | -                        |
| Quarterly Net Income | 1                      | 4,500             | <b>272</b>                     | 6.0%                     |
| (YoY)                | -99.7%                 | -5.6%             | -                              | -                        |

Source: Company Data. Compiled by Strategy Advisors.

The factors behind the increase in Operating Income for Q1 FY3/26 are as shown in Figure 2. Gross profit margin improved by ¥220 million due to cost reductions through pricing management, productivity improvements, plus an improved sales mix. Development & Construction made a significant contribution to pricing management. Proposals that emphasized technical capabilities have been successful. In Equipment, profit margins have improved because of focusing on highly profitable projects.

Productivity has improved throughout the supply chain as the "Tsuzuki Style" (a manual that describes service processes and necessary technologies) has been adopted company-wide and is also shared with group companies and partner companies. The decrease in sales, general and administrative expenses was largely due to reduced personnel costs resulting from an increase in retirements. Despite the reduction in personnel, improved productivity has led to a significant increase in profits.

**Figure 2. Factors Behind Changes in Operating Income in FY3/26Q1**



Source: Company Materials.

## FY3/26, Net Sales for Equipment Fell YoY. But Development, Construction & Services Grew

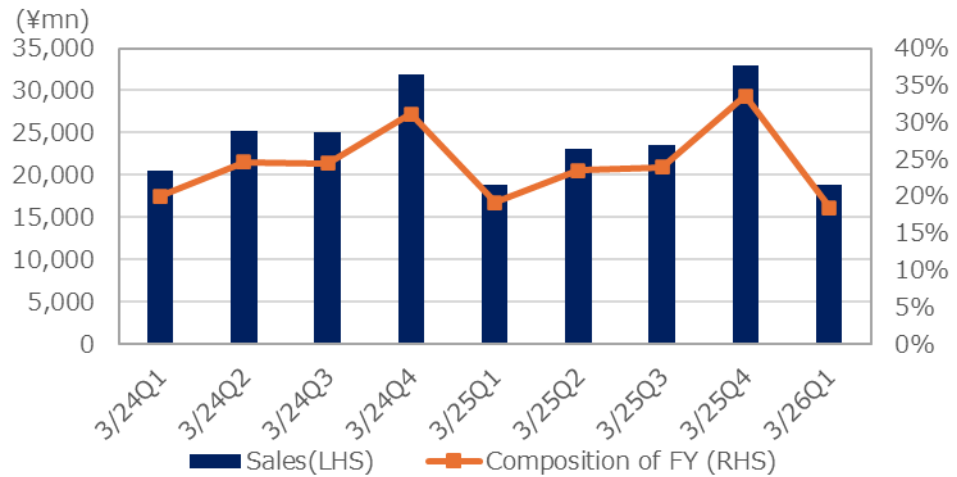
Regarding net sales for FY3/26 Q1, although Equipment orders fell YoY, orders expanded significantly, and the company continues to capture special demand due to the end of support (EOS) for Windows 10. Development & Construction grew for local governments and finance, and Services also grew, mainly in the 6 growth areas. Figure 3 shows the quarterly financial results. As many of the company's corporate clients concentrate budget execution and acceptance inspections at the end of the fiscal year, the company's net sales tend to be low in Q1 (Figure 4). Until FY3/23, the company tended to post an operating loss in Q1, but since then, it has posted an operating profit in Q1 for 3 consecutive years. This is due to the expansion of its high-gross-margin Service business, including in the 6 growth areas. This trend is expected to continue going forward.

**Figure 3. Quarterly Performance Trends**

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

Source: Company Data. Compiled by Strategy Advisors.

**Figure 4. Quarterly Trends in Information Network Business Sales**



Source: Company Data. Compiled by Strategy Advisors.

## Order Backlog Increased YoY Across All Business Models

Chart 5 shows orders and order backlog by quarter. Orders for FY3/26Q1 increased 17.6% YoY, driven largely by Equipment, which increased 50.8%, and Development & Construction, which increased 22.9%. Equipment has captured the special demand for Windows 10 EOS, as well as server installations for the manufacturing industry. Development & Construction is growing with public institutions and finance. Order backlog exceeded the previous year for all business models, increasing 28.3% YoY. This suggests that net sales from FY3/26Q2 onwards have also been strong.

**Figure 5. Trends in Orders and Order Backlog (Information Network Business, ¥mn)**

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

Source: Company Data. Compiled by Strategy Advisors.

## Steady Progress in 6 Growth Areas

One of the pillars of the business strategy of the 3-year medium-term management plan "Transformation 2026" is the strengthening of 6 growth areas (Contact Center System, Cloud Communication, Security, DX Consulting, Managed Services, and Market-specific DX Services). The net sales target for the 6 growth areas for FY3/26 is ¥16.3 billion, an ambitious target of ¥4 billion, or a 31% increase, from FY3/25 results. However, Q1 was strong in all 6 areas, with net sales of ¥3.3 billion (up 23.5% YoY) and steady progress is being made toward achieving the target.

In the Contact Center System, services using AI in areas such as voice recognition and emotion analysis are proving successful. In Cloud Communications, collaboration with NTT Docomo Business has differentiated the company, with the company's cloud PBX service, "TCloud for Voice," seeing solid adoption and trial implementations underway. In Managed Services, new services such as AI chatbots have been well-received. Server operation outsourcing is also growing. In Security, demand is strong as awareness of improving the security of systems across the supply chain increases in response to the rise in cyberattacks. In DX Consulting, services related to the introduction of generative AI are progressing. In Market-specific DX Services, results vary by market. In the logistics industry, DX adoption continues to progress considering the 2024 problem, with strong inquiries and horizontal expansion progressing. Meanwhile, in the produce market, functionality is being enhanced.



## 2. Topics - Interview with New President & CEO Mr. Katsuyuki Yoshida

### Mr. Katsuyuki Yoshida Appointed New President/CEO

Following the company's annual general shareholders' meeting on June 26, 2025, and the subsequent board of directors meeting, Mr. Katsuyuki Yoshida, who was Executive Vice President, was appointed President and CEO. Having worked in sales and as head of the company's core Solutions Business Division, Mr. Yoshida's appointment as president is a natural fit. Strategy Advisors interviewed Mr. Yoshida about his thoughts on his appointment as president.

### Mr. Yoshida Has Consistently Worked in Sales.

Mr. Yoshida, a Tokyo native, joined the company in 1984 and has consistently worked in sales ever since. After joining the company, he oversaw mid-sized companies in the Kanto region and after becoming a manager, he oversaw major distribution companies, including listed companies. In 2016, he was transferred to Osaka, where he was responsible for western Japan west of Kyoto. In 2019, he returned to Tokyo and served as General Manager of the Solutions Business Division, a position he holds to this day.

### Successfully Implemented a Transportation and Delivery System for a Major Distribution Company & Expanded it Horizontally

As an example from his sales days, Mr. Yoshida cites the "implementation of a transportation and delivery system for a major retailer". The retail industry requires efficient transportation of products with varying expiration dates and storage conditions, such as daily necessities, groceries, and store supplies, to each store using a limited number of trucks. Mr. Yoshida recalls that installing the necessary truck traffic management equipment "overturned conventional wisdom about system implementation". Some truck drivers were resistant to having their operations managed and installing the equipment was difficult.

However, building a transportation and delivery system required individual management of all 2,000+ trucks at the time. Mr. Yoshida spent the entire day in the passenger seat of a truck helping with deliveries and cleaning the distribution center, closely observing the movements of the people at the center and in the trucks. This approach helped build relationships of trust, which allowed the system to be successfully implemented. The success of this major company's transportation and delivery system implementation spread throughout the industry, and other retailers began to request it. Mr. Yoshida said, "Because we already had a deep relationship, TSUZUKI DENKI was chosen by a major distribution company when they took on the new challenge of introducing a transportation and delivery system". This is an example of Mr. Yoshida embodying and strengthening the company's customer-oriented DNA, which states, "We face our customers sincerely, without running away from them" and "Even if our customers' requests are tough, we respond to them with a sense of mission, knowing that we are responsible for social infrastructure".



## **Working in Osaka Was a Turning Point for Mr. Yoshida and the Company**

The move to Osaka appears to have been a turning point for Mr. Yoshida and the company. For Mr. Yoshida, who had worked in Tokyo since joining the company, it was an opportunity to reaffirm that the company's attitude of valuing its customers is not tied to the region. The move to Osaka also made him aware of the differences in the company's business areas and work practices between Tokyo and Osaka. Mr. Yoshida expanded the business areas in both regions by bringing the businesses he had been conducting in both Tokyo and Osaka to other locations. He also expanded personnel exchanges, working to raise the overall operational capabilities of the company.

## **As the New President/CEO, He Says "People" Are His Greatest Asset**

Mr. Yoshida says, "TSUZUKI DENKI is a company without assets and its people are its greatest asset". The company's policy for human resource development is to allow employees to gain a variety of experiences. In addition to providing opportunities for deep involvement with customers and partners, the company also provides employees with experience at external companies through programs such as "external study abroad". Furthermore, the company is also considering its personnel system to further boost motivation. Regarding its employees, Mr. Yoshida says, "We have created an atmosphere of mutual support". The company is focused on improving profitability, but because of this foundation of mutual support, employees are interested in and support not only their own organization's profits, but also those of the surrounding organizations, which appear to be contributing to improved profitability across the company.

## **Further Drive Growth Areas Under the New Mid-Term Plan**

Regarding the mid-term management plan, the company believes that customer understanding of pricing management has progressed and that the company's profitability is improving. The company expects to achieve the targets of the current mid-term plan, but intends to shift to further growth areas and drive growth in the new mid-term plan starting from the next fiscal year.

In the new mid-term plan, the company wants to check whether it is truly providing TSUZUKI DENKI's services to the approximately 200 major customers that account for 60-70% of net sales. There is still room for improvement in the services it provides and it believes it can expand its scope. It also wants to identify shortcomings and mismatches in customer needs and allocate resources to address them. The 6 growth areas, particularly for mid-sized companies, which are their main target. It intends to explore this potential in collaboration with partners.

## **TSUZUKI DENKI is a "High-Quality Company Known Only to Those in the Know" and a "Low-Key but Trusted Company"**

Mr. Yoshida has an image of TSUZUKI DENKI as "a high-quality company known only to those in the know" and "a low-key but trusted company." He hopes to grow steadily, step by step, and become a company loved by customers, partners, employees and their families. "The revenue base of our major customers is solid and we have a sense of stability by working in a variety of industries. "I want people to understand that we will continue to grow steadily and reliably by accumulating people, knowledge and technology", he said.

Regarding the market's evaluation, Mr. Yoshida said, "We would like to improve the evaluation by continuing to manage our business with an awareness of capital costs and stock prices".

## 3. Stock Price Trends and Valuations

**On August 12th, the Stock Price Reached a New Record High Since Listing**

The stock price has recovered since December of last year, hitting a record high of ¥3,025 on January 22nd. It then fell temporarily following the announcement of the stock offering on February 6th. It fell further following the announcement of US tariff policy in early April, but has since bottomed out and is on a recovery trend. In July, it rose on expectations of growth in the AI-related market and the rise resulting from the Japan-US tariff negotiation agreement and on August 12th it reached a record high of ¥3,295.

**Valuation is Low Compared to Peers**

Valuation is at a low level (Figure 6). The PER based on FY3/25 forecast is 13.1x, and the PBR based on FY3/24 is 1.3x. Although it is gradually increasing as shown in Figures 7 and 8, compared to its peers, it is still significantly lower than the industry average of PER 21.9x and PBR 4.1x. The expected ROE, calculated by dividing the company's current profit attributable to owners of the parent forecast for FY3/25 by its most recent equity capital, is 10.6%, relatively low within the industry. However, as shown in Figure 9, in the PBR/ROE distribution chart for 11 peer companies, including the company, the company (red circle in the lower left) is located below the regression line of the 11 companies. Even when ROE is considered, the current PBR can be said to be low.

**The Company's Transformation into a "Pure Player in the ICT Business" May Not Have Been Fully Factored into its Stock Price**

As a result of the business transfer, the company has become a "pure player in the ICT business" since January 2024. PER has risen gradually over the same period, but PBR has remained roughly flat. It is possible that the intention behind the business transfer, which is to concentrate management resources on the information network business and improve capital efficiency, has not been fully reflected in the stock price.

**Figure 6. Valuation Comparison with Peers**

|                           | Code        | FY             | Price<br>(Aug. 22) | Market<br>Cap. | PER<br>CoE  | PBR<br>Actual | EV/<br>EBITDA | Yield<br>CoE | Payout<br>CoE | ROE<br>CoE  |
|---------------------------|-------------|----------------|--------------------|----------------|-------------|---------------|---------------|--------------|---------------|-------------|
|                           |             |                | ¥                  | ¥bn            | x           | x             | Multiple      | %            | %             | %           |
| <b>TSUZUKI DENKI</b>      | <b>8157</b> | <b>2025/03</b> | <b>3,245</b>       | <b>58.8</b>    | <b>13.1</b> | <b>1.3</b>    | <b>3.7</b>    | <b>3.1</b>   | <b>40.3</b>   | <b>10.6</b> |
| Nomura Research Institute | 4307        | 2025/03        | 6,039              | 3,457.6        | 33.2        | 8.0           | 17.9          | 1.2          | 40.7          | 23.4        |
| Otsuka Shokai             | 4768        | 2024/12        | 3,123              | 1,184.2        | 20.2        | 6.4           | 10.2          | 2.7          | 54.9          | 15.9        |
| TIS                       | 3626        | 2025/03        | 5,060              | 1,162.3        | 23.3        | 3.4           | 11.7          | 1.5          | 35.0          | 15.5        |
| SCSK                      | 9719        | 2025/03        | 4,551              | 1,423.4        | 22.4        | 4.9           | 14.5          | 2.1          | 46.3          | 21.9        |
| BIPROGY                   | 8056        | 2025/03        | 6,438              | 630.2          | 21.6        | 3.7           | 10.1          | 1.9          | 40.2          | 17.4        |
| NITTETSU SOLUTIONS        | 2327        | 2025/03        | 3,559              | 651.2          | 22.3        | 2.5           | 12.2          | 2.2          | 50.1          | 11.3        |
| NSD                       | 9759        | 2025/03        | 3,349              | 256.1          | 21.3        | 3.8           | 11.5          | 2.7          | 56.7          | 20.4        |
| JBCC HOLDINGS             | 9889        | 2025/03        | 1,375              | 85.6           | 17.8        | 3.5           | 9.9           | 2.5          | 45.3          | 20.4        |
| Dentsu Research Institute | 4812        | 2024/12        | 6,590              | 428.7          | 26.5        | 4.7           | 13.5          | 1.8          | 46.6          | 17.3        |
| Japan Business Systems    | 5036        | 2024/09        | 1,547              | 70.5           | 19.1        | 3.1           | 9.9           | 2.6          | 49.3          | 19.9        |
| <b>Average</b>            |             |                |                    |                | <b>21.9</b> | <b>4.1</b>    | <b>11.4</b>   | <b>2.2</b>   | <b>46.0</b>   | <b>17.6</b> |

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

Source: Company Data. Compiled by Strategy Advisors.

**Figure 7. Trends in PER (Based on the Current Fiscal Year)**



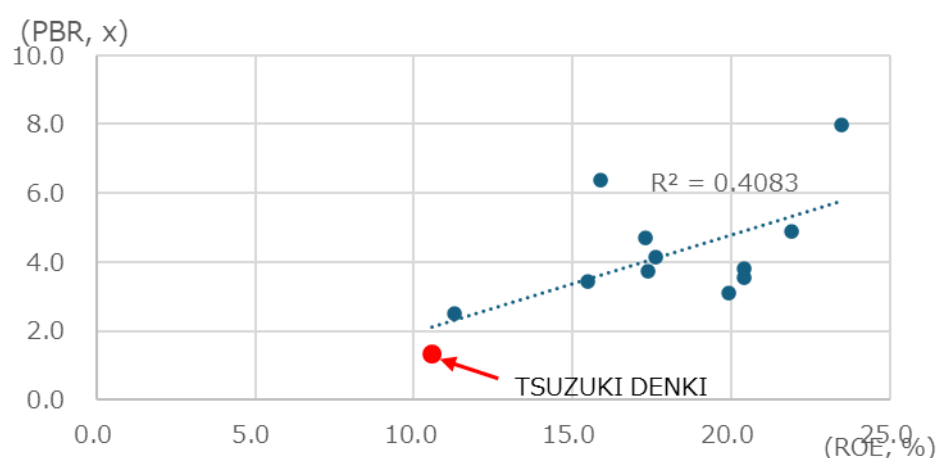
Source: Company Data. Compiled by Strategy Advisors.

**Figure 8. Trends in PBR (Actual Base)**



Source: Company Data. Compiled by Strategy Advisors.

**Figure 9. PBR/ROE Distribution Chart**



Source: Company Data. Compiled by Strategy Advisors.

## Future Points to Watch

The key to future share price trends is the extent to which the company will achieve a growth trajectory beyond FY3/26. Operating income for FY3/26 is expected to exceed the previous target, even after the sale of the electronic devices business, which was not anticipated when the mid-term plan was formulated. However, it is only a 3.4% increase from FY3/25. An upward revision is expected given favorable factors such as the Windows 10 EOS, sales expansion in six growth areas, and progress in pricing management. It will be interesting to see the extent to which the co-plan company will demonstrate a growth trajectory beyond FY3/26 in the next mid-term. Another key point is whether the company will proceed with cash utilization, including through M&A. Currently, the company has accumulated a large amount of cash, and some kind of action is needed. Furthermore, trends in shareholder returns are also important to watch. While the company is currently increasing shareholder returns as set out in the mid-term plan, the key point is whether it will further increase cash utilization.

**Figure 10. Consolidated Income Statement (Unit: ¥mn)**

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

Source: Company Data. Compiled by Strategy Advisors.

**Figure 11. Consolidated Balance Sheet (Unit: ¥mn)**

| FY  | 3/19          | 3/20             | 3/21          | 3/22          | 3/23          | 3/24          | 3/25          | 3/26Q1        |
|---|---------------|------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cash and Deposits                         | 15,457        | 18,473           | 15,944        | 19,162        | 20,877        | 38,696        | 38,713        | 41,295        |
| Accounts Receivables                      | 33,372        | 29,927           | 31,765        | 32,757        | 32,248        | 21,579        | 21,940        | 12,638        |
| Inventories                               | 8,087         | 8,484            | 7,618         | 7,483         | 11,683        | 3,649         | 2,601         | 4,422         |
| Other Current Assets                      | 2,255         | 1,355            | 1,413         | 1,793         | 2,388         | 2,005         | 1,809         | 2,011         |
| <b>Current Assets</b>                     | <b>59,171</b> | <b>58,239</b>    | <b>56,740</b> | <b>61,195</b> | <b>67,196</b> | <b>65,929</b> | <b>65,063</b> | <b>60,366</b> |
| Property and Equipment                    | 7,310         | 6,882            | 6,264         | 5,428         | 4,504         | 2,187         | 1,974         | 1,898         |
| Other Tangible Fixed Assets               | 3,031         | 3,050            | 2,574         | 3,016         | 2,922         | 1,089         | 1,053         | 1,032         |
| Tangible Assets                           | 4,279         | 3,832            | 3,690         | 2,412         | 1,582         | 1,098         | 921           | 866           |
| Intangible Assets                         | 3,040         | 3,057            | 2,967         | 3,072         | 2,610         | 2,286         | 2,541         | 2,599         |
| Investment Securities                     | 9,422         | 9,269            | 10,228        | 9,528         | 8,896         | 10,663        | 10,483        | 10,686        |
| Other Investment Assets                   | 4,643         | 3,770            | 4,766         | 4,096         | 3,471         | 4,092         | 4,538         | 4,730         |
| Investments and Other Assets              | 4,779         | 5,499            | 5,462         | 5,432         | 5,425         | 6,571         | 5,945         | 5,956         |
| <b>Total Fixed Assets</b>                 | <b>19,772</b> | <b>19,208</b>    | <b>19,460</b> | <b>18,030</b> | <b>16,011</b> | <b>15,137</b> | <b>14,999</b> | <b>15,183</b> |
| <b>Total Assets</b>                       | <b>78,944</b> | <b>77,448</b>    | <b>76,200</b> | <b>79,226</b> | <b>83,207</b> | <b>81,066</b> | <b>80,063</b> | <b>75,549</b> |
| Accounts Payable                          | 18,609        | 17,863           | 15,875        | 15,307        | 17,144        | 11,637        | 11,560        | 6,794         |
| Short-Term Debt                           | 13,483        | 6,265            | 6,483         | 10,695        | 5,882         | 5,359         | 9,177         | 9,117         |
| Provision for Bonuses                     | 2,567         | 2,536            | 2,415         | 2,303         | 2,513         | 2,416         | 2,105         | 1,046         |
| Other Current Liabilities                 | 6,479         | 6,785            | 5,264         | 6,581         | 7,521         | 9,050         | 5,863         | 8,605         |
| <b>Current Liabilities</b>                | <b>41,138</b> | <b>33,449</b>    | <b>30,037</b> | <b>34,886</b> | <b>33,060</b> | <b>28,462</b> | <b>29,209</b> | <b>25,562</b> |
| Long-Term Debts                           | 3,392         | 6,995            | 6,364         | 1,810         | 5,109         | 4,830         | 370           | 307           |
| Net Defined Benefit Liabilities           | 5,434         | 6,805            | 7,959         | 8,531         | 8,826         | 5,563         | 4,498         | 4,367         |
| Other Long-Term Liabilities               | 263           | 445              | 668           | 798           | 825           | 1,346         | 1,356         | 1,335         |
| <b>Long-Term Liabilities</b>              | <b>9,089</b>  | <b>14,245</b>    | <b>14,991</b> | <b>11,139</b> | <b>14,760</b> | <b>11,739</b> | <b>6,224</b>  | <b>6,009</b>  |
| <b>Total Liabilities</b>                  | <b>50,228</b> | <b>47,695</b>    | <b>45,029</b> | <b>46,026</b> | <b>47,820</b> | <b>40,202</b> | <b>35,433</b> | <b>31,572</b> |
| Capital Stock                             | 9,812         | 9,812            | 9,812         | 9,812         | 9,812         | 9,812         | 9,812         | 9,812         |
| Capital Surplus                           | 3,100         | 2,581            | 2,581         | 2,581         | 2,581         | 2,756         | 2,581         | 2,581         |
| Retained Earnings                         | 19,973        | 21,021           | 21,150        | 23,018        | 25,607        | 29,705        | 31,901        | 31,160        |
| Treasury Stock                            | -5,816        | -3,785           | -2,472        | -2,257        | -1,979        | -2,043        | -985          | -977          |
| <b>Shareholder's Equity</b>               | <b>27,070</b> | <b>29,629</b>    | <b>31,072</b> | <b>33,155</b> | <b>36,022</b> | <b>40,230</b> | <b>43,309</b> | <b>42,576</b> |
| Other Comprehensive Income                | 1,646         | one two<br>three | -137          | -307          | -1,076        | 171           | 846           | 992           |
| Non-Controlling Interest                  | -             | -d               | 236           | 352           | 441           | 462           | 473           | 407           |
| <b>Total Net Assets</b>                   | <b>28,716</b> | <b>29,752</b>    | <b>31,171</b> | <b>33,199</b> | <b>35,387</b> | <b>40,864</b> | <b>44,629</b> | <b>43,977</b> |
| <b>Total Liabilities &amp; Net Assets</b> | <b>78,944</b> | <b>77,448</b>    | <b>76,200</b> | <b>79,226</b> | <b>83,207</b> | <b>81,066</b> | <b>80,063</b> | <b>75,549</b> |

Source: Company Data. Compiled by Strategy Advisors.



**Figure 12. Stock Prices and Capital Efficiency Indicators**

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

Note: The figures for ROIC is calculated as (operating income x (1-income tax rate))/((tangible fixed assets + intangible fixed assets + net working capital)) average for the period.

Source: Company Data. Compiled by Strategy Advisors.

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