Tsuzuki Denki Co. | 8157 (TSE Prime)

Company Report

November 29, 2024

Strategy Advisors Inc.
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Q2 FY3/25 Results: Recent Orders are Recovering. Pricing Management and Cost Reductions are Successful. PC Replacement Purchases will Start in 2H.

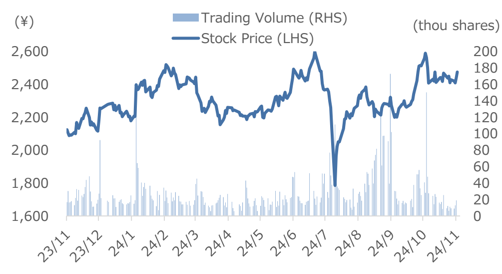
In 1H, FY3/2025, based on the Information Network business excluding the Electronic Device business that was sold in the previous term, sales were down 8.3% YoY and operating income was down 27.8% YoY. This was mainly due to the absence of large-scale projects that were seen in 1H of the previous year. On the other hand, orders received in Q2 (3 months) were up 7.0% YoY, showing signs of recovery. The effects of pricing management and cost reductions are also evident. For this reason, the company has decided to maintain its full-year forecast, stating that it is progressing in line with its initial plan.

Support for Windows 10 will end in October 2025, which is expected to create demand for PC replacement. In addition, the introduction of AI-equipped PCs is expected to increase demand. These factors will also benefit the company's Information Network business. This factor is expected to impact in 2H of FY3/2025 and contribute to a recovery in profits. The favorable environment for PC-related businesses is expected to continue in FY3/2026, the final year of the medium-term plan and the achievement of the medium-term plan's profit target (operating profit of ¥6.5 billion) is within sight.

The six growth areas are generally expanding smoothly, although the strength of each business varies. In particular, Managed Services, which handle the maintenance and operation of equipment and systems and Security, which is seeing increased demand due to the growing risk of ransomware, are growing significantly. The company's mainstay Contact Center System is also recovering at present and it aims to expand through collaboration with CRM, etc.

Valuation is significantly lower than the industry averages of 22.1 and 3.4, with a PER of 10.9 based on FY3/2025 and a PBR of 1.1 based on FY3/2024, respectively. ROE is 10.1%, calculated based on the company's forecast net profit for fiscal year ending March 2025 and the most recent equity capital, so there is room for improvement; but even taking this into account, the current valuation can be said to be low. If the certainty of earnings growth from 2H of this fiscal year onwards increases and growth strategies including M&A and shareholder return measures are realized, the stock price may rise.

Stock Price and Trading Volume



Source: Strategy Advisors

Key Indicators

Stock price (28/11/24)	2,475
52-Week High (17/07/24)	2,599
52-Week Low (05/08/24)	1,785
All-Time High (17/07/24)	2,599
All-Time Low (19/11/02)	157
Shares on Issue (mn)	18.1
Market Capitalization (¥ bn)	44.8
ROE (3/24 Actual, %)	16.3
Equity Ratio (3/24 Actual, %)	49.8
PER (3/25 CoE, Times)	10.9
PBR (3/24 Actual, Times)	1.1
Dividend Yield (3/25 CoE, %)	3.7

Source: Strategy Advisors

Japanese GAAP - Consolidated

FY	Sales (¥ mn)	YoY change (%)	Operating Income (¥ mn)	YoY change (%)	Ordinary Income (¥ mn)	YoY change (%)	Net Income (¥ mn)	YoY change (%)	EPS (¥)	DPS (¥)
3/2024 Q2	32,759	7.6	1,643	34.3	1,688	33.7	2,458	190.2	136.9	-
3/2025 Q2	**23,071**	**-29.6**	**1,393**	**-15.2**	**1,447**	**-14.3**	**1,035**	**-57.9**	**57.3**	**-**
3/2024 1H	60,887	10.6	2,341	129.3	2,361	104.6	2,906	314.8	161.9	38.0
3/2025 1H	**41,842**	**-31.3**	**1,394**	**-40.5**	**1,488**	**-37.0**	**1,036**	**-64.3**	**57.4**	**45.0**
3/2022	119,316	-0.6	4,012	25.3	4,227	25.8	2,798	19.2	158.5	48.0
3/2023	123,899	3.8	5,118	27.6	5,355	26.7	3,521	25.8	197.5	61.0
3/2024	124,856	0.8	6,439	25.8	6,486	21.1	5,477	55.6	304.8	90.0
3/2025 CoE	103,000	-17.5	6,250	-2.9	6,250	-3.7	4,100	-25.1	227.5	91.0

Source: Company Data. Compiled by Strategy Advisors

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1. Summary of Financial Results for 1H FY3/2025

Profits Fell as a Result of the Impact of a Large Project in 1H of the Previous Year. However, the Results Were In-Line With Expectations

In H1 of FY3/2025, sales were down 31.3% YoY and operating income was down 40.5% YoY. Looking at only the Information Network Solutions business, taking into account the impact of the sale of the Electronic Device business in Q4 of FY3/2024, sales were down 8.3% YoY and operating income was down 27.8% YoY. The decrease in sales and income in the Information Network business is thought to be largely due to a backlash from a large system equipment project in the same period of the previous year. Although the progress of sales and income in the first half of the year is slightly delayed, it is thought that the progress towards achieving the full-year forecast is in line with expectations, based on order trends and the outlook for demand in 2H of the year.

Figure 1. Summary of 1H, 3/2025 Financial Results (Information Network Business)

(¥ mn)

	1H 3/24 (A)	Progress (A)/(C)	**1H 3/25 (B)**	Progress (B)/(D)	FY3/24 (C)	FY3/25 CoE (D)
Sales	45,653	44.5%	**41,842**	40.6%	102,523	103,000
YoY	12.7%		**-8.3%**		9.2%	0.5%
Equipment	17,951	40.0%	**14,249**	NA	44,925	NA
Development & Construction	6,500	44.0%	**6,490**	NA	14,786	NA
Services	21,201	49.5%	**21,102**	NA	42,811	NA
Operating Income	1,930	32.6%	**1,394**	22.3%	5,925	6,250
YoY	4.2%		**-27.8%**		42.6%	5.5%

Note: Since the Electronic Device was sold in Q4 of FY3/2024, only the Information Network is shown for comparison purposes.

Source: Company Data. Compiled by Strategy Advisors

Partially Offsetting the Decline in Profits Due to Lower Sales Through Pricing Management & Cost Reductions

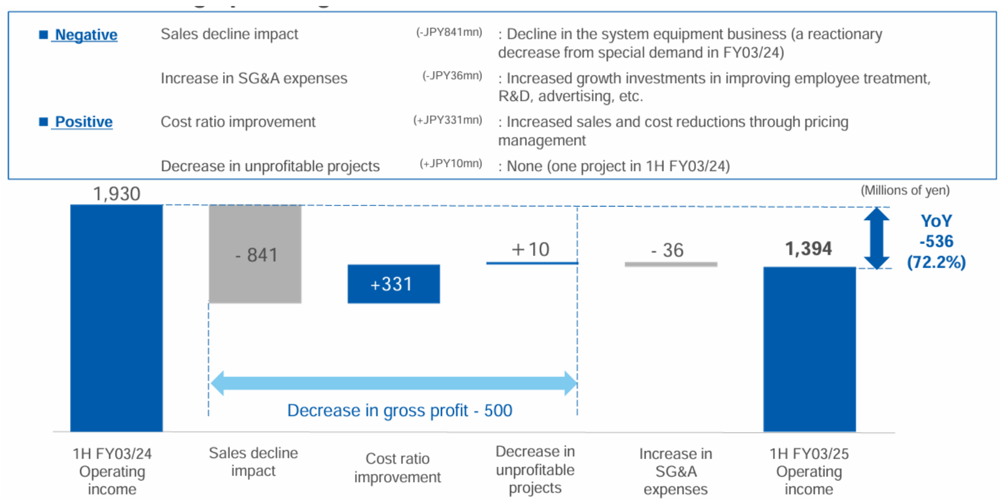
The factors behind the decrease in operating profit in 1H of this fiscal year are as shown in Figure 2. While gross profit fell by ¥840 million due to the loss of large projects, an increase in unit prices through pricing management and cost reductions contributed to an increase in profit of ¥330 million. Furthermore, the absence of unprofitable projects, due to the effect of scrutinizing the profitability of orders, contributed to an increase in profit of ¥10 million. SG&A expenses increased due to improved employee treatment and increased research and development expenses, contributing to a decrease in profit of ¥40 million. Pricing management has been fully implemented in the mid-term management plan starting from FY3/2024.

It appears that the company is expanding its efforts into the service field in addition to equipment and development/construction. Cost reductions are also being promoted through the introduction of AI and other measures to improve the efficiency of software development.

Orders Are on the Road to Recovery

Although sales in the Information Network business for 1H of this fiscal year decreased compared to the same period last year, orders increased slightly by 2.2% compared to the same period last year. In particular, orders in Q2 (3 months) increased by 7.0% compared to the same period last year and orders for equipment in particular increased by 10.2%. In FY3/2024, sales exceeded orders from Q2 to Q4, resulting in a small order backlog at the end of the fiscal year. However, in fiscal year 3/2025, orders have been coming in steadily and have exceeded sales in Q1 and Q2, so the order backlog is recovering as shown in Figure 4. In addition, it appears that orders and sales of PCs and related equipment are expected to increase in 2H of the year due to the impact of the End of Support (EOS) of Windows 10 and the expansion of AI-equipped PCs. For this reason, sales and profits are expected to recover in H2 of FY3/2025 compared to H1.

Figure 2. Factors Behind Changes in Operating Income in 1H of FY3/2025



Source: Company Data

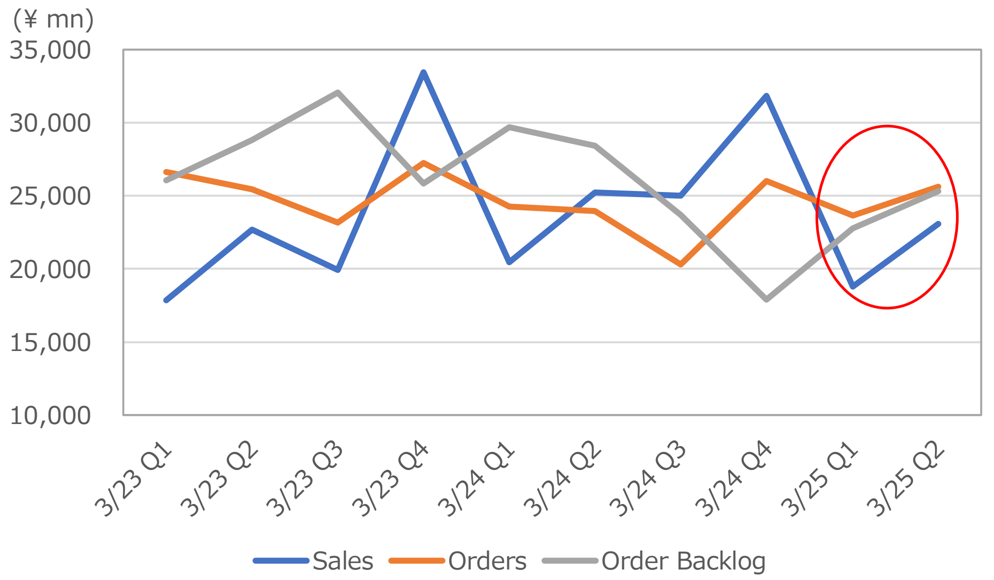
Figure 3. Sales, Orders & Backlogs by Business Model

(¥ mn)

FY	3/2024				3/2025	
	Q1	Q2	Q3	Q4	Q1	Q2
Sales	**20,445**	**25,208**	**25,026**	**31,844**	**18,771**	**23,071**
YoY	**14.5%**	**11.2%**	**25.5%**	**-4.8%**	**-8.2%**	**-8.5%**
Device	7,172	10,779	11,156	15,818	5,455	8,794
YoY	29.5%	17.8%	79.1%	-7.1%	-23.9%	-18.4%
Development / Construction	2,687	3,813	3,915	4,371	2,590	3,900
YoY	4.3%	11.2%	41.0%	-13.6%	-3.6%	2.3%
Service	10,584	10,617	9,955	11,655	10,725	10,377
YoY	8.7%	5.3%	-8.9%	2.5%	1.3%	-2.3%
Orders	**24,271**	**23,962**	**20,301**	**26,026**	**23,642**	**25,641**
YoY	**-8.8%**	**-5.8%**	**-12.4%**	**-4.5%**	**-2.6%**	**7.0%**
Device	8,576	10,300	7,379	11,796	7,880	11,351
YoY	-26.3%	-7.5%	-23.1%	-7.2%	-8.1%	10.2%
Development / Construction	3,797	3,767	2,784	3,251	3,785	4,091
YoY	31.8%	-6.1%	-18.4%	-12.9%	-0.3%	8.6%
Service	11,896	9,896	10,139	10,978	11,976	10,199
YoY	-1.8%	-3.9%	-0.4%	1.6%	0.7%	3.1%
Order Backlog	**29,684**	**28,438**	**23,713**	**17,895**	**22,766**	**25,335**
YoY	**14.0%**	**-1.3%**	**-26.0%**	**-30.8%**	**-23.3%**	**-10.9%**
Device	18,846	18,368	14,590	10,568	12,993	15,550
YoY	14.9%	-0.1%	-32.9%	-39.4%	-31.1%	-15.3%
Development / Construction	5,780	5,734	4,603	3,484	4,679	4,870
YoY	21.0%	6.9%	-23.2%	-25.4%	-19.0%	-15.1%
Service	5,056	4,335	4,519	3,842	5,093	4,915
YoY	4.1%	-14.4%	4.8%	2.6%	0.7%	13.4%

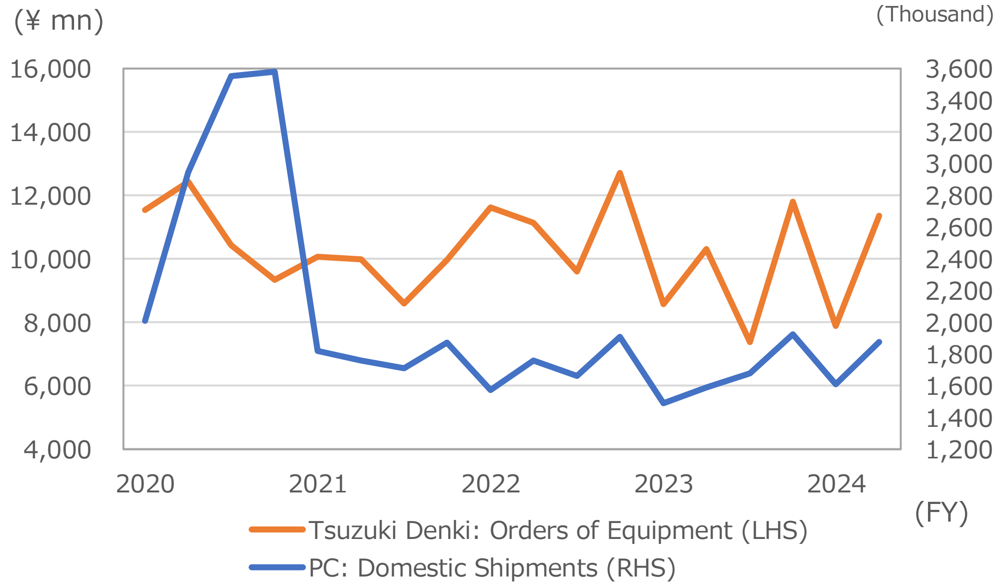
Source: Company Data. Compiled by Strategy Advisors

Figure 4. Information Network Business: Quarterly Trends in Sales, Orders, and Backlog



Source: Prepared by Strategy Advisors based on data from the Japan Electronics and Information Technology Industries Association (JEITA)

Figure 5. Trends in Domestic PC Shipments & Tsuzuki Denki's Equipment Orders



Source: Prepared by Strategy Advisors. Based on Data from the Japan Electronics and Information Technology Industries Association (JEITA)

Domestic PC Sales to Increase from the Second Half of 2024 into 2025

The Japan Electronics and Information Technology Industries Association (JEITA) forecast in February 2024 that domestic PC sales in 2024 are expected to recover gradually, increasing 3.9% YoY to 9.62 million units. In 2025, it is expected to increase 40.4% YoY to 13.51 million units, mainly due to the impact of the EOS of Windows 10. As shown in Figure 5, the number of domestic PC shipments increased significantly in 2020 due to the EOS of Windows 7, and Tsuzuki Denki's equipment orders were also at a good level in FY3/2020 and FY3/2021, so a positive impact is expected this time as well. It is unclear how much demand for AI-equipped PCs will grow, but since the unit price is higher than that of regular PCs, the company expects to increase added value.

Figure 6. Quarterly Business Performance Trends

FY	3/23				3/24				3/25	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total Sales	**24,609**	**30,437**	**27,499**	**41,354**	**28,128**	**32,759**	**32,126**	**31,843**	**18,771**	**23,071**
(YoY change)	-0.9%	7.6%	-1.2%	7.8%	14.3%	7.6%	16.8%	-23.0%	-33.3%	-29.6%
Information Network	**17,851**	**22,668**	**19,935**	**33,451**	**20,445**	**25,208**	**25,026**	**31,844**	**18,771**	**23,071**
(YoY change)	-2.9%	4.7%	-3.0%	5.4%	14.5%	11.2%	25.5%	-4.8%	-8.2%	-8.5%
Equipment	**5,540**	**9,154**	**6,228**	**17,021**	**7,172**	**10,779**	**11,156**	**15,818**	**5,455**	**8,794**
(YoY change)	-8.1%	16.3%	-15.8%	7.5%	29.5%	17.8%	79.1%	-7.1%	-23.9%	-18.4%
Development & Construction	**2,575**	**3,429**	**2,777**	**5,059**	**2,687**	**3,813**	**3,915**	**4,371**	**2,590**	**3,900**
(YoY change)	4.1%	-8.3%	-23.3%	8.4%	4.3%	11.2%	41.0%	-13.6%	-3.6%	2.3%
Services	**9,734**	**10,086**	**10,930**	**11,371**	**10,584**	**10,617**	**9,955**	**11,655**	**10,725**	**10,377**
(YoY change)	-1.4%	0.5%	14.6%	1.1%	8.7%	5.3%	-8.9%	2.5%	1.3%	-2.3%
Electronic Device	6,758	7,768	7,565	7,902	7,683	7,550	7,100	**-**	**-**	**-**
(YoY change)	4.9%	17.1%	3.8%	19.2%	13.7%	-2.8%	-6.1%	-	-	-
Gross Profit	4,527	5,951	5,132	8,568	5,346	6,436	6,527	6,999	4,114	5,413
(Gross Margin)	18.4%	19.6%	18.7%	20.7%	19.0%	19.6%	20.3%	22.0%	21.9%	23.5%
SG&A	4,730	4,727	4,746	4,857	4,648	4,793	4,930	4,498	4,113	4,020
Operating Income	**-202**	**1,223**	**386**	**3,711**	**698**	**1,643**	**1,597**	**2,501**	**1**	**1,393**
(YoY change)	NM	15.4%	-28.7%	38.8%	NM	34.3%	313.7%	-32.6%	-99.9%	-15.2%
(Operating Margin)	-0.8%	4.0%	1.4%	9.0%	2.5%	5.0%	5.0%	7.9%	0.0%	6.0%
Information Network	-392	913	119	3,515	472	1,458	1,493	2,501	1	1,393
(Operating Margin)	-2.2%	4.0%	0.6%	10.5%	2.3%	5.8%	6.0%	7.9%	0.0%	6.0%
Electronic Device	179	304	257	214	216	176	95	-	-	-
(Operating Margin)	2.6%	3.9%	3.4%	2.7%	2.8%	2.3%	1.3%	-	-	-
Elimination or Corporate	10	5	11	-18	9	9	9	-	-	-
Non-operating Income (Loss)	93	40	102	2	-25	45	34	-8	41	**53**
Ordinary Income	**-109**	**1,263**	**488**	**3,713**	**673**	**1,688**	**1,631**	**2,494**	**41**	**1,447**
(YoY change)	NM	16.4%	-29.3%	38.4%	NM	33.7%	234.2%	-32.8%	-93.9%	-14.3%
(Ordinary Margin)	-0.4%	4.1%	1.8%	9.0%	2.4%	5.2%	5.1%	7.8%	0.2%	6.3%
Extraordinary Income	-1	-3	0	229	0	1,816	-7	120	31	-6
Pretax Profit	-111	1,260	489	3,941	673	3,504	1,624	2,614	72	1,440
Income Taxes	-13	362	157	1,338	172	1,000	305	1,291	39	382
Net income	-97	896	333	2,602	501	2,504	1,319	1,323	33	1,058
Net Income to Minority Interests	49	50	59	55	52	47	37	34	32	22
Net Income to Owners of the Parent	**-147**	**847**	**273**	**2,548**	**448**	**2,458**	**1,281**	**1,290**	**1**	**1,035**

Source: Company Data. Compiled by Strategy Advisors

2. Business Outlook

1) Earnings Forecast

More Than Usual Emphasis on the Second Half

The company's forecast for the full year FY3/2025 is sales of ¥103 billion (up 0.5% YoY) and operating income of ¥6.25 billion (up 5.5% YoY), with progress rates in 1H of the year being 40.6% and 22.3%, respectively. The company's earnings tend to be weighted toward 2H, when users' budgets are executed and inspections progress. 2H, FY2025 is expected to be more biased than the previous term, but the expansion of PC demand due to the change in Window’s EOS is expected to begin in 2H of this year, so we believe that the full-year forecast can be achieved.

It is Possible for the Company to Achieve its Full-Year Forecast for FY3/2025

The company's forecasts appear to include orders that will be received in the second half of the year, so the key point is whether these orders can be received without delay. Considering the PC market environment, the risks to achieving the company's forecasts are likely to be limited. Initiatives such as pricing management and cost reductions are also showing results.

Achieving the profit target of the mid-term plan is within sight

The company has set targets of ¥130 billion in sales, ¥6.5 billion in operating income and 10% or more of ROE in FY3/2026, the final year of its current medium-term management plan, "Transformation 2026." These figures do not factor in the sale of the Electronic Device business carried out in the fiscal year ending March 2024 and it is thought that the sales target will be difficult to achieve without the contribution of future M&A and other measures. On the other hand, the operating profit forecast for FY3/2025 is ¥6.25 billion, and considering the demand for PC replacement as mentioned above, it can be said that there is a high possibility of achieving this target.

Figure 7. Progress of the Medium-Term Management Plan

Source: Company Data

2) Six Growth Areas

The Six Growth Areas are Expanding Overall. Although the Growth Rates Vary

Although the growth rate of each business in the six growth areas varies, the total sales in 1H of this term reached ¥5.7 billion (up 7% from the same period last year), and the sales target for FY3/2026 is ¥16 billion.

Contact Center Systems Hit Bottom

The Contact Center System with the largest sales is a cloud-based contact center system. Tsuzuki offers their own in-house developed "CT-e1/SaaS ", as well as systems from AVAYA and Genesis. They are also strengthening their competitiveness by developing a system that links with Salesforce CRM. After the COVID-19 pandemic caused a rapid expansion in demand, the growth rate has temporarily settled down as the market returns to cruising speed, but the pace of expansion is expected to pick up again.

Managed Services Are Strong

The next largest sales are from Managed Services, which are mainly subscription-based maintenance and operation services. Amid a shortage of IT personnel, more and more companies are outsourcing infrastructure maintenance and operation and demand is steadily increasing. The company offers new services such as AI chatbot services. Sales in the first half of this fiscal year are strong, up 25% from the same period last year.

Security Booms

Among other areas, Security sales in 22 were small at ¥600 million, but grew rapidly by 62% YoY. As the risk of ransomware and other threats increases, the company appears to be strengthening its consulting services and seeing an increase in business negotiations regarding zero trust (taking measures without trusting those who have access to information assets that need to be protected).

Figure 8. Sales Trends in Six Growth Areas

(¥ bn)

Areas	3/24	YoY Change	1H 3/25	YoY Change	3/26 CoE
Contact Center System	5.2	16%	2.4	3%	6.1
Cloud Communication	2.0	82%	0.7	-15%	3.0
Managed Services	3.5	25%	1.8	25%	3.8
Security	1.0	233%	0.6	62%	1.5
DX Consulting	0.2	28%	0.12	79%	1.0
Market-specified DX Services	0.1	NA	0.04	-9%	0.6
Total of 6 Growth Areas	**12.0**	**36%**	**5.7**	**7%**	**16.0**

Source: Company Data. Compiled by Strategy Advisors

3) Financial Strategy and Investment for Growth

Abundant Cash Trends

Cash and deposits at the end of 1H, FY3/2025 were ¥36.33 billion, not much changed from ¥38.70 billion at the end of FY3/2024. Net cash and deposits excluding interest-bearing liabilities were also ample at ¥26.34 billion at the end of 1H. The company gained ¥8.5 billion in cash by selling its Electronic Device business in Q4 of FY3/2024 and the cash required for working capital was reduced by ¥3.7 billion due to a reduction in sales due to the sale of a business, resulting in a total increase in financial reserves of approximately ¥12 billion at the end of FY3/2024. Attention will be focused on how the company will use this for strategic investments.

Considering M&A

The company has set out M&A and business alliances as a medium-to-long-term growth strategy. The main targets of M&A are strengthening growth areas such as cloud-based services, acquiring cutting-edge technology and entering new fields. While no such deals have been realized at this time, there appear to be some cases in which concrete consideration and discussions are underway.

Promoting Collaboration With Other Companies

As for collaborations with other companies, in October this year the firm signed a business collaboration agreement with Daiwabo Information Systems (a subsidiary of Daiwabo Holdings (3107 TSE Prime)). The aim is to expand the growing cloud service business. They hope to leverage the synergies of Tsuzuki Denki's track record of customer proposals and support and Daiwabo Information Systems's ability to procure equipment and services, which is one of the largest in Japan.

Shareholder Returns

In terms of shareholder returns, the company plans to raise its dividend forecast for FY3/2025 to ¥91, an increase of ¥1 from the previous fiscal year, with a dividend payout ratio of 40%. As the company has ample cash reserves, it may be possible to increase dividends and/or buy back treasury stock to return profits to shareholders. For the time being, the company is expected to prioritize investments for growth, such as M&A, but there is likely room to increase shareholder returns.

3. Stock Price Trends and Valuations

1) Valuation is Low Compared to Peers

Stock Prices Remain Within a Range

Tsuzuki Denki's stock price followed an upward trend after the announcement of its long-term vision and medium-term management plan in May 2023 until around September of the same year, rising significantly from around ¥1,500 to the ¥2,400 range. This was likely due to the steady expansion of business performance in FY3/2024 and FY3/2025. Since then, except for the period when the market as a whole suddenly fell, the stock price has fluctuated between ¥2,200 and ¥2,600. The measures outlined in the medium-term plan have been steadily implemented, such as business restructuring as seen in the sale of the Electronic Device business, pricing management and cost reduction. On the other hand, the increase in demand during the COVID-19 pandemic has come to an end and the slowdown in business performance is thought to be the reasons why the stock price has remained within a tight range.

All Valuation Indicators Are Low

As shown in Figure 10, the company's valuation is the lowest among its peers, with a PER of 10.9 based on the forecast for FY3/2025 and a PBR of 1.1 based on the actual results for FY3/2024. The expected dividend yield is also the highest at 3.7%. The expected ROE calculated based on the company's forecast net income for this fiscal year and the equity capital at the end of the most recent quarter is 10.1%, which is the same level as Nippon Steel Solutions and NEC Networks & Systems Integration, but is significantly lower in terms of valuation. Figure 11 compares the ROE and PBR of Tsuzuki Denki and its peers, with Tsuzuki Denki deviating significantly below the approximation line. Considering the aforementioned trends in PC demand, it is highly likely that the company's performance will continue to be favorable in FY3/2026, so the reason for the inferior valuation from a fundamentals perspective is not clear.

Not Being Recognized as a Pure Player in ICT

Figures 12 and 13 show the trends in PER and PBR, respectively. Both have recovered from the most recent bottom in 2022, but have not yet risen above their past historical ranges. This also suggests that the company's reputation as a pure ICT player has not yet been fully recognized.

Figure 9. Comparison of Profitability with Industry Peer Companies (Actual Basis)

	Code	FY	Operating Margin	ROE	ROIC	EBITDA Margin	Equity Ratio
			%	%	%	%	%
Tsuzuki Denki	**8157**	**3/2024**	**5.2**	**14.5**	**18.4**	**6.5**	**49.8**
Nomura Research Institute	4307	3/2024	16.3	19.9	20.1	22.9	43.3
Otsuka Shokai	4768	12/2023	6.4	14.3	37.5	7.3	61.1
TIS	3626	3/2024	11.8	16.0	20.9	15.0	59.5
SCSK	9719	3/2024	11.9	14.1	17.8	16.3	64.1
BIPROGY	8056	3/2024	9.0	16.5	21.1	13.8	53.0
NITTETSU SOLUTIONS	2327	3/2024	11.3	11.1	20.6	15.1	63.2
NSD	9759	3/2024	15.0	17.5	36.3	17.5	72.2
NEC Netz S.I.	1973	3/2024	7.0	10.4	14.7	8.0	53.5
JBCC Holdings	9889	3/2024	6.8	15.5	23.3	7.4	56.9
Dentsu Research Institute	4812	12/2023	14.7	18.7	52.9	17.0	62.2
Japan Business Systems	5036	9/2024	3.3	6.7	7.8	3.9	37.3
Average			9.9	14.6	24.3	12.6	56.3

Source: Compiled by Strategy Advisors. Based on Company Data

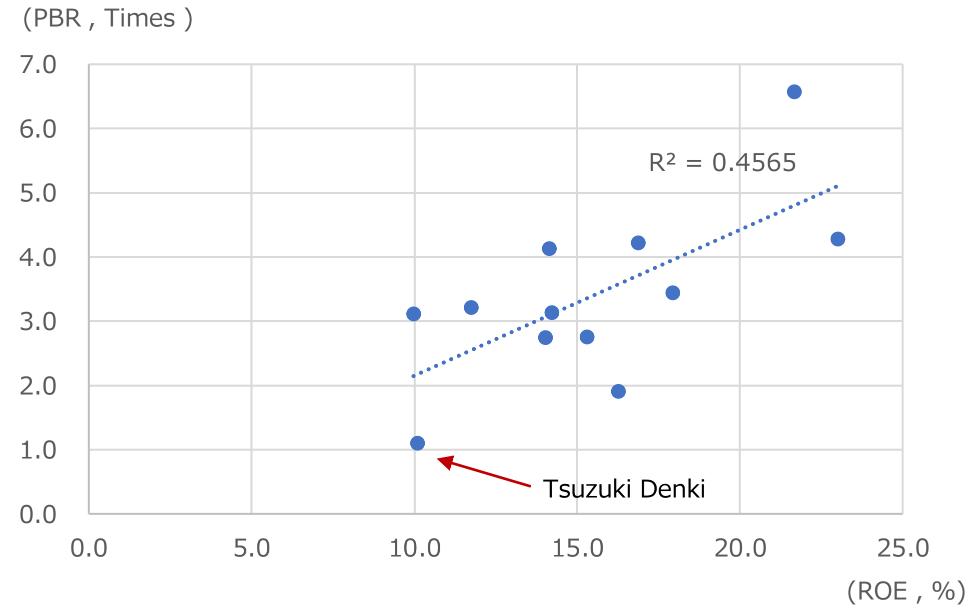
Figure 10. Valuation Comparison with Peer Companies

	Code	FY	Price	Market Cap.	PER	PBR	EV/	Yield	Payout	ROE
			(Nov 28)		CoE	Actual	EBITDA	CoE	CoE	CoE
			¥	¥ bn	Times	Times	Times	%	%	%
Tsuzuki Denki	**8157**	**3/2024**	**2,475**	**44.8**	**10.9**	**1.1**	**2.1**	**3.7**	**40**	**10.1%**
Nomura Research Institute	4307	3/2024	4,559	2,610.3	29.8	6.6	15.2	1.3	38	21.7%
Otsuka Shokai	4768	12/2023	3,736	1,416.7	29.1	4.1	15.4	1.9	55	14.1%
TIS	3626	3/2024	3,665	850.6	19.0	2.7	9.5	1.9	35	14.0%
SCSK	9719	3/2024	3,033.0	947.9	21.3	3.1	10.5	2.2	48	14.2%
BIPROGY	8056	3/2024	4,562	447.8	18.7	2.8	7.9	2.2	41	15.3%
NITTETSU SOLUTIONS	2327	3/2024	4,037	738.7	29.3	3.1	13.6	1.7	49	10.0%
NSD	9759	3/2024	3,423	263.5	25.3	4.2	13.0	2.2	55	16.9%
NEC Netz S.I.	1973	3/2024	3,290	490.1	27.2	3.2	13.0	1.7	46	11.8%
JBCC Holdings	9889	3/2024	4,710	373.8	17.8	3.4	58.8	2.6	47	17.9%
Dentsu Research Institute	4812	12/2023	5,460	355.3	25.4	4.3	12.9	2.0	47	23.0%
Japan Business Systems	5036	9/2024	953	43.4	11.7	1.9	7.6	3.7	50	16.3%
Average					22.1	3.4	15.0	2.2	46	15.4%

Note: EBITDA is the company's forecast operating profit plus the most recent actual depreciation and amortization expenses.
ROE is calculated based on the company's forecast net income and the most recent quarterly equity capital.

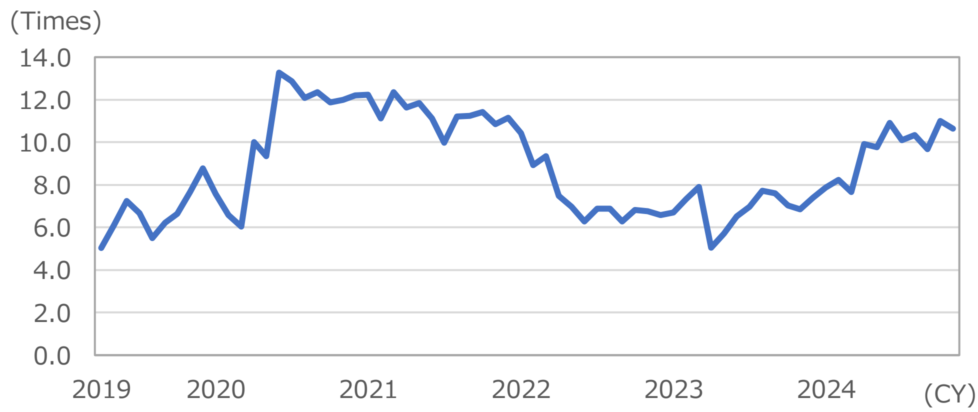
Source: Compiled by Strategy Advisors. Based on Company Data

Figure 11. ROE and PBR of Tsuzuki Denki and Its Competitors



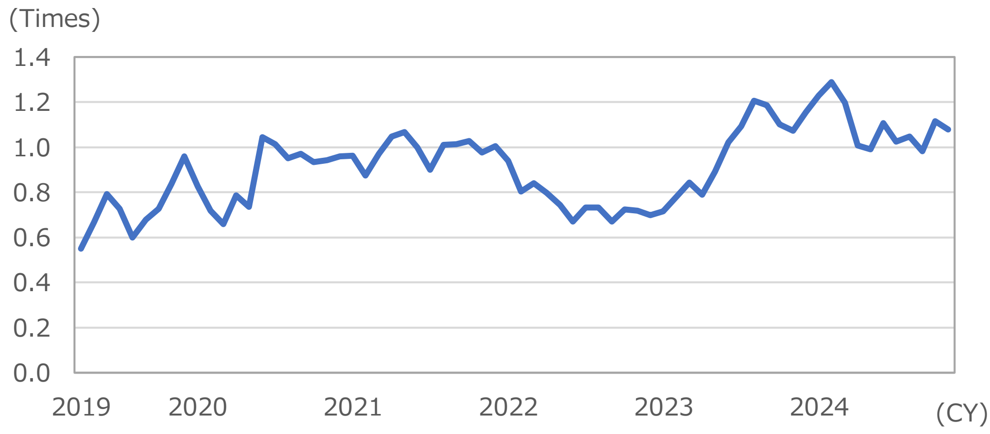
Note: Calculated based on closing price on November 28. ROE is calculated based on the company's projected net income and most recent quarterly equity capital.
Source: Strategy Advisors

Figure 12. Trends in PER (Current Fiscal Year Basis)



Source: Company Data. Compiled by Strategy Advisors

Figure 13. Trends in PBR (Actual)



Source: Company Data. Compiled by Strategy Advisors

2) Points to Watch Going Forward

Will the Company Achieve its Earnings Forecast for This Fiscal Year?

The following points are likely to be important in considering future stock prices. First, business performance trends. Even taking seasonality into account, the progress rate of sales and profits in 1H of this fiscal year were somewhat low. The company is moving in line with expectations and orders are actually increasing, but since some orders are expected to be received in the second half and will result in sales, the stock market may be factoring in a certain amount of risk regarding the company achieving its forecast for FY3/2025. Therefore, if the probability of achieving the business performance for 2H of this fiscal year increases, the stock price may also react positively.

Progress of Growth Strategies

Next is the implementation of the growth strategy in the medium-term plan. The company is pursuing M&A and alliances with other companies, but has yet to realize any M&A. As the company has ample funds, it is expected to attract a lot of attention from the stock market. Depending on the details, if a deal that contributes to the company's growth is decided, it could have a positive effect on the stock price.

Balance Sheet Trends

Balance sheet management will also be important. With the company's current financial strength, it appears possible to increase shareholder returns while investing in growth. As the current dividend payout ratio of 40% is lower than the industry average of 46%, there is likely room to increase dividends. In addition, as optimizing the balance sheet will also lead to improved ROE, future shareholder return policies will be of interest.

Figure 13. Consolidated Statement of Income (¥ mn)

FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25CoE
Total Sales	**111,973**	**118,872**	**125,366**	**120,004**	**119,316**	**123,899**	**124,856**	**103,000**
(YoY change)	6.5%	6.2%	5.5%	-4.3%	-0.6%	3.8%	0.8%	-17.5%
Information Network Solutions	**82,320**	**93,704**	**102,104**	**97,848**	**92,319**	**93,905**	**102,523**	**103,000**
(YoY change)	1.9%	13.8%	9.0%	-4.2%.	-5.7%	1.7%	9.2%	0.5%
Electronic Devices	**29,652**	**25,168**	**23,261**	**22,155**	**26,996**	**29,993**	**22,333**	**0**
(YoY change)	21.8%	-15.1%.	-7.6%	-4.8%	21.9%	11.1%	-25.5%	
Gross Profit	**19,459**	**21,496**	**23,075**	**21,465**	**22,511**	**24,178**	**25,308**	
(Gross Margin)	17.4%	18.1%	18.4%	17.9%	18.9%	19.5%	20.3%	
SG&A	16,920	18,177	18,618	18,263	18,498	19,060	18,868	
Operating Income	**2,538**	**3,318**	**4,457**	**3,202**	**4,012**	**5,118**	**6,439**	**6,250**
(YoY change)	18.5%	30.7%	34.3%	-28.2%	25.3%	27.6%	25.8%	-2.9%.
(Operating Margin)	2.3%	2.8%	3.6%	2.7%	3.4%	4.1%	5.2%	6.1%
Information Network Solutions	2,248	3,054	4,289	2,960	3,400	4,155	5,925	6,250
Electronic Devices	276	260	163	242	592	954	487	
Elimination or Corporate	13	3	4	0	18	8	27	
Non-operating Income (Loss)	74	176	120	158	214	237	46	
Non-operating Income	352	408	316	312	364	370	203	
Non-operating Expenses	278	232	196	154	150	133	157	
Ordinary Income	**2,612**	**3,494**	**4,577**	**3,361**	**4,227**	**5,355**	**6,486**	**6,250**
(YoY change)	16.6%	33.8%	31.0%	-26.6%	25.8%	26.7%	21.1%	-3.6%
(Ordinary Margin)	2.3%	2.9%	3.7%	2.8%	3.5%	4.3%	5.2%	6.1%
Extraordinary Income	45	175	32	52	219	423	2,443	
Extraordinary Loss	195	161	293	174	16	198	514	
Pretax Profit	2,463	3,509	4,317	3,238	4,430	5,579	8,415	
(YoY change)	16.7%	42.5%	23.0%	-25.0%	36.8%	25.9%	50.8%	
Pretax Profit Margin	2.2%	3.0%	3.4%	2.7%	3.7%	4.5%	6.7%	
Income Taxes	947	1,296	1,161	817	1,453	1,844	2,768	
(Effective Tax Rate)	38.4%	36.9%	26.9%	25.2%	32.8%	33.1%	32.9%	
Net income	**1,515**	**2,212**	**3,155**	**2,419**	**2,976**	**3,734**	**5,647**	
Net Income to Minority Interests				72	178	213	170	
Net income to Owners of the parent	**1,515**	**2,212**	**3,155**	**2,346**	**2,798**	**3,521**	**5,477**	**4,100**
(YoY change)	14.7%	46.0%	42.6%	-25.6%	19.3%	25.8%	55.6%	-25.1

Source: Prepared by Strategy Advisors. Based on Company Data.

Figure 14. Consolidated Balance Sheet (¥ mn)

FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24
Cash and Deposits	16,016	15,457	18,473	15,944	19,162	20,877	38,696
Accounts Receivables	32,256	33,372	29,927	31,765	32,757	32,248	21,579
Inventories	6,807	8,087	8,484	7,618	7,483	11,683	3,649
Other Current Assets	2,538	2,255	1,355	1,413	1,793	2,388	2,005
Current Assets	**57,617**	**59,171**	**58,239**	**56,740**	**61,195**	**67,196**	**65,929**
Property and Equipment	3,856	3,912	3,974	3,465	3,949	3,926	1,795
Other Tangible Fixed Assets	3,695	3,398	2,908	2,799	1,479	578	392
Tangible Assets	7,551	7,310	6,882	6,264	5,428	4,504	2,187
Intangible Assets	1,833	3,040	3,057	2,967	3,072	2,610	2,286
Investment Securities	5,279	4,643	3,770	4,766	4,096	3,471	4,092
Other Investment Assets	3,888	4,779	5,499	5,462	5,432	5,425	6,571
Investments and Other Assets	9,167	9,422	9,269	10,228	9,528	8,896	10,663
Total Fixed Assets	**18,552**	**19,772**	**19,208**	**19,460**	**18,030**	**16,011**	**15,137**
Total Assets	**76,169**	**78,944**	**77,448**	**76,200**	**79,226**	**83,207**	**81,066**
Accounts Payable	20,744	18,609	17,863	15,875	15,307	17,144	11,637
Short-Term Debt	8,686	13,483	6,265	6,483	10,695	5,882	5,359
Provision for Bonuses	2,323	2,567	2,536	2,415	2,303	2,513	2,416
Other Current Liabilities	5,015	6,479	6,785	5,264	6,581	7,521	9,050
Current Liabilities	**36,768**	**41,138**	**33,449**	**30,037**	**34,886**	**33,060**	**28,462**
Long-Term Debts	6,155	3,392	6,995	6,364	1,810	5,109	4,830
Net Defined Benefit Liabilities	5,520	5,434	6,805	7,959	8,531	8,826	5,563
Other Long-Term Liabilities	145	263	445	668	798	825	1,346
Long-Term Liabilities	**11,820**	**9,089**	**14,245**	**14,991**	**11,139**	**14,760**	**11,739**
Total Liabilities	**48,588**	**50,228**	**47,695**	**45,029**	**46,026**	**47,820**	**40,202**
Capital Stock	9,812	9,812	9,812	9,812	9,812	9,812	9,812
Capital Surplus	3,100	3,100	2,581	2,581	2,581	2,581	2,756
Retained Earnings	18,288	19,973	21,021	21,150	23,018	25,607	29,705
Treasury Stock	-5,875	-5,816	-3,785	-2,472	-2,257	-1,979	-2,043
Shareholder's Equity	**25,326**	**27,070**	**29,629**	**31,072**	**33,155**	**36,022**	**40,230**
Other Comprehensive Income	2,254	1,646	123	-137	-307	-1,076	171
Non-Controlling Interest				236	352	441	462
Total Net Assets	**27,580**	**28,716**	**29,752**	**31,171**	**33,199**	**35,387**	**40,864**
Total Liabilities & Net Assets	**76,169**	**78,944**	**77,448**	**76,200**	**79,226**	**83,207**	**81,066**

Source: Prepared by Strategy Advisors. Based on Company Data.

Figure 15: Stock Price and Capital Efficiency Indicators

FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24
EPS (¥)	**96.1**	**128.9**	**182.1**	**134.1**	**158.5**	**197.5**	**304.8**
BPS (¥)	**1,613**	**1,667**	**1,706**	**1,761**	**1,854**	**1,950**	**2,242**
Dividend Per Share (¥)	**29.0**	**39.0**	**55.0**	**46.0**	**48.0**	**61.0**	**90.0**
Dividend Payout Ratio	30.2%	30.3%	30.2%	34.3%	30.3%	30.9%	29.5%
Share Price (¥)	**874**	**851**	**1,100**	**1,657**	**1,480**	**1,563**	**2,336**
PER (x)	**9.1**	**6.6**	**6.0**	**12.4**	**9.3**	**7.9**	**7.7**
PBR (x)	**0.5**	**0.5**	**0.6**	**0.9**	**0.8**	**0.8**	**1.0**
Number of Shares Issued ('000)	24,678	24,678	22,178	20,178	20,178	20,178	20,178
Number of Treasury Stock ('000)	7,574	7,450	4,740	2,610	2,458	2,258	2,156
Number of Shares of Treasury Stock Excluded ('000)	17,104	17,228	17,438	17,568	17,720	17,920	18,022
Market Capitalization (¥ mn)	**14,949**	**14,661**	**19,182**	**29,110**	**26,226**	**28,009**	**42,098**
Equity Ratio	36.2%	36.4%	38.4%	40.6%	41.5%	42.0%	49.8%
Interest-Bearing Debt (¥ mn)	14,841	16,875	13,260	12,847	12,505	10,991	10,189
D/E Ratio	0.54	0.59	0.45	0.42	0.38	0.31	0.25
Enterprise Value (¥ mn)	13,774	16,079	13,969	26,013	19,569	18,123	13,591
EBITDA (¥ mn)	3,838	5,237	6,704	5,656	6,634	7,333	8,060
EV/EBITDA (Times)	3.6	3.1	2.1	4.6	2.9	2.5	1.7
ROE	**5.9%**	**7.9%**	**10.8%**	**7.7%**	**8.8%**	**10.4%**	**14.5%**
ROIC	6.6%	8.0%	11.5%	8.5%	9.3%	11.8%	18.4%
Number of Employees	**2,286**	**2,336**	**2,359**	**2,408**	**2,382**	**2 ,328**	**2,094**

Note: 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: Prepared by Strategy Advisors. Based on Company Data.

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