INNOTECH CORPORATION | 9880 (TSE Prime)

Company Report

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Transformation From Electronics Trading Company to Manufacturer. Although Cyclical, Semiconductor Equipment is Growing Mainly in Cutting-Edge Fields. Stable Expansion of System & Service Will Boost Profits

The company was founded in 1987 by Minoru Yoshida and other members, many of whom formerly worked for Tokyo Electron (8035 TSE Prime), as an import trading company for semiconductor manufacturing equipment. In the late 1990's, the business environment worsened due to the weakening of Japanese semiconductor device makers and the company withdrew from this business in 2000. After that, the company changed to become a manufacturer that produces its own semiconductor testers, probe cards, device design, embedded systems, software and other products. This has proved successful and the company's performance has been steadily growing since around 2014.

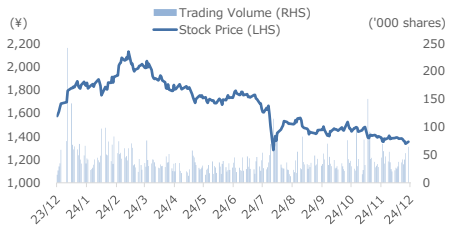
INNOTECH's corporate DNA can be expressed as "technical and sales capabilities that support the design and verification of electronics". Although the business model has changed, the knowledge and accumulated technical capabilities since its founding are still alive today. The equity story is that the company's growth potential will increase as it further delves into businesses that are in line with their DNA and increases its customer and product lineup. The difficulty of imitation is likely due to the trust it has built up with customers over the years and the experience and knowledge it has gained in development and verification.

The mid-term management plan for FY3/2025 to FY3/2027 aims to improve operating margins, optimize the business portfolio & improve business performance stability. The targets are ROE 10% and ROIC 8%, with the company aiming to achieve a record high operating profit of ¥3.33 billion. Under President Nobuyuki Otsuka, measures such as business restructuring & the creation of synergies between businesses are visible and efficiency is expected to improve.

NAND flash memory is required to have higher capacity for AI data centers and demand for cutting-edge products is expected to expand in the medium term. In addition, the adoption of chiplets is expected to increase with the progress of miniaturization, which will create business opportunities for the company's Test Solutions and EDA. Demand for System & Service is also expected to increase for IoT and edge computing, as well as growth in cloud-based payment systems.

PER is based on the forecast for FY3/2025 is 13.5 times and PBR based on FY3/2024 is 0.74 times, both of which are low. The stock market may not have yet its transformation from a trading company to a manufacturer fully recognized. Cyclically, FY3/2025 is seen as the bottom for Test Solutions and earnings are expected to recover from FY3/2026. Once the bottoming out of earnings is confirmed, the company's stock price is expected to begin to recover.

Stock Price & Volumes (1 Year)



Source: Strategy Advisors

Key Indicators

Stock Price (12/23/24)	1,354
52-Week High (3/8/24)	2,129
52-Week Low (8/5/24)	1,282
All-Time High (3/8/24)	2,129
All-Time Low (10/27/08)	182
Shares on Issue (mn)	13.5
Market Capitalization (¥ bn)	18.2
Equity Ratio (3/24, %)	51.6
ROE (3/24 Actual, %)	6.1
PER (3/25 CoE, Times)	13.5
PBR (3/24 Actual, Times)	0.74
Dividend Yield (3/25 CoE, %)	5.2

Source: Strategy Advisors

Japanese GAAP - Consolidated

FY	Sales (¥ mn)	YoY (%)	Operating (¥ mn)	YoY (%)	Ordinary (¥ mn)	YoY (%)	Net Profit (¥ mn)	YoY (%)	EPS (¥)	DPS (¥)
3/2021	32,536	4.4	1,954	17.0	2,460	29.8	1,534	31.3	120.7	50.0
3/2022	37,238	14.5	2,585	32.3	2,984	21.3	2,194	43.0	168.7	65.0
3/2023	38,629	3.7	2,319	-10.3	2,480	-16.9	1,666	-24.1	127.0	70.0
3/2024	41,358	7.1	2,474	6.7	2,880	16.1	1,477	-11.3	110.6	70.0
3/2025 CoE	41,500	0.3	1,800	-27.3	1,800	-37.5	1,350	-8.6	100.3	70.0

Source: Company Data. Compiled by Strategy Advisors

Table of Contents

Executive Summary

The Company Has Changed its Business Model from an Electronics Trading Company to a Manufacturer

The company was established in 1987 by Minoru Yoshida and other members, many of whom formerly worked for Tokyo Electron (8035 TSE Prime), as a trading company that imported and sold semiconductor manufacturing equipment. In the late 1990's, the decline in the status of Japanese semiconductor manufacturers made it difficult to import and sell manufacturing equipment and the company withdrew from the business in 2000. Since then, the company has been transforming itself into a manufacturer that focuses on in-house production (including outsourcing), except for the business of importing and selling EDA semiconductor design software. Currently, the company produces semiconductor testers, reliability test equipment, inspection probe cards, device design, embedded systems, software and much more. Many of the individual businesses are latecomers and have limited market share, but the company is leveraging the knowledge it gained from its trading company days to develop distinctive products that meet customer needs. From around 2014, this business transformation got traction and the company's performance entered a period of stable growth.

Consists Test Solutions, Semiconductor Design-Related Products & System & Service

The company consists of three segments: Test Solutions, Semiconductor Design-related and System & Service. Test Solutions produces testers for major domestic NAND flash memory manufacturers and others. It continues to grow cyclically. Taiwanese subsidiary STAr Technologies (hereinafter STAr) produces semiconductor reliability test equipment and probe cards. Semiconductor Design-related imports and sells design software EDA (Electronic Design Automation) and also owns subsidiary SANEI HYTECHS, which designs semiconductors. System & Service has been contributing more to profits recently, with growth in subsidiary GAIO TECHNOLOGY's software verification tools and engineering services for automobiles and subsidiary IT Access's cloud payment services.

Our Corporate DNA is "Technical and Sales Capabilities to Support Electronics Design & Verification"

INNOTECH's corporate DNA is one of "technical and sales capabilities to support the design and verification of electronics", as the company started out as a trading company that values technological capabilities and has strength in equipment & software for the design and verification of semiconductors and automotive parts. Although the business model has changed, the knowledge and accumulated technological capabilities since the company's founding are still alive today. The equity story is that the company's growth potential is expected to expand as it further delves into businesses that are in line with its DNA and expands its customer and product lineup. The difficulty of imitation is likely due to the trust it has built up with customers over the years and the experience and knowledge it has in development and verification. This is evident in its detailed and comprehensive support system.

Mid-Term Management Plan

The mid-term management plan for the period from FY3/2025 to FY3/2027 sets out the goals of improving the operating profit margin, optimizing the business portfolio and improving the stability of business performance. The targets are ROE 10% and ROIC 8%, with the aim of breaking the all-time high operating profit of ¥3.33 billion (FY3/2008). In optimizing the business portfolio, the company has begun restructuring the probe card business of subsidiary STAr. It is expected that in the future, the company will also work to improve efficiency by restructuring the common technologies and businesses held by each subsidiary. The current ROE of 6.1% is at a low level, and improving profitability will be an essential issue. Under President Nobuyuki Otsuka, measures such as business restructuring and creating synergies between businesses have been implemented and progress is expected in improving efficiency.

Mid to Long-Term Growth Drivers

Higher capacity NAND flash memory is required for AI data centers and demand for cutting-edge products is expected to expand in the medium term. In addition, the adoption of chiplets is expected to increase with the progress of miniaturization, which will create business opportunities for the company's Test Solutions and EDA. The Taiwanese subsidiary's businesses with the foundries will also benefit from the expansion of chiplets. System & Service are also expected to see increased demand for IoT and edge computing, as well as growth in cloud-based payment systems.

Valuations are Low

The PER based on the forecast for FY3/2025 is 13.5 times and the PBR based on FY3/2024 is 0.74 times, both of which are low. It is possible that the stock market has not yet fully recognized the company's transformation from a trading company to a manufacturer. Cyclically, there is a possibility that earnings from Test Solutions will recover from FY3/2026 due to a recovery in NAND capital investment, etc. System & Service will likely continue to grow steadily. Although there is still uncertainty about the semiconductor market, if the outlook for a recovery becomes more visible, the company's stock price is expected to recover as well.

1. Company Profile

Operating Holding Company

INNOTECH CORPORATION, the parent company, operates its own business while also functioning as a holding company that manages many subsidiaries. This is the result of the establishment of subsidiaries and M&A as the company transitioned from an electronics trading company at foundation to a manufacturing concern.

The Parent Company Continues to Develop its Business, Grounded in its Origins

Currently, the company consists of three segments: Test Solutions, Semiconductor Design-related and System & Service. INNOTECH, the parent company, operates across segments, including Testers, which are part of Test Solutions, EDA (Electronic Design Automation), which is part of Semiconductor Design-related and embedded systems, which is a part of System & Service. EDA is the sale of semiconductor design software from Cadence Design Systems Inc. (CDNS NAS) (hereinafter Cadence), which the company has been doing since its founding. Testers are a business developed by utilizing knowledge gained from its time as a semiconductor trading company and embedded systems are a business that has been carried on since the company's early days, utilizing the experience gained from the electronic parts trading business.

Figure 1. INNOTECH's Business Operations

(¥ mn)

	3/22	3/23	3/24	3/25 CoE
Sales				
Test Solutions	**14,447**	**13,938**	**15,885**	**13,830**
Testers	6,768	5,042	3,171	
STAr Technologies	7,679	8,895	12,713	
Semiconductor Design related	**12,429**	**13,287**	**12,884**	**13,150**
EDA and Others	8,291	9,056	8,641	
SANEI HYTECHS	3,8 54	3,941	3,995	
MoDeCH	283	289	246	
System & Service	**10,360**	**11,404**	**12,589**	**14,520**
Embedded Systems	2,040	2,339	2,815	
IT Access	4,256	4,890	5,160	
GAIO TECHNOLOGY	3,232	3,507	4,072	
REGULUS	831	666	540	
Total Sales	**37,238**	**38,629**	**41,358**	**41,500**
Operating Income				
Test Solutions	**1,534**	**957**	**812**	
Semiconductor Design related	**606**	**632**	**575**	
System & Service	**1,114**	**1,333**	**1,616**	
Adjustment	-670	-603	-530	
Total Operating Income	**2,585**	**2,319**	**2,474**	**1,800**

Source: Company Data. Compiled by Strategy Advisors

Test Solutions

In Test Solutions, parent company INNOTECH is involved in the Testers business, primarily supplying major domestic NAND flash memory manufacturers. It has a subsidiary in Taiwan, STAr Technologies. In 2013, the INNOTECH invested in STAr and in 2014, it acquired additional shares and made it a subsidiary. The company's produces semiconductor reliability test equipment and probe cards for semiconductor testing, both in-house.

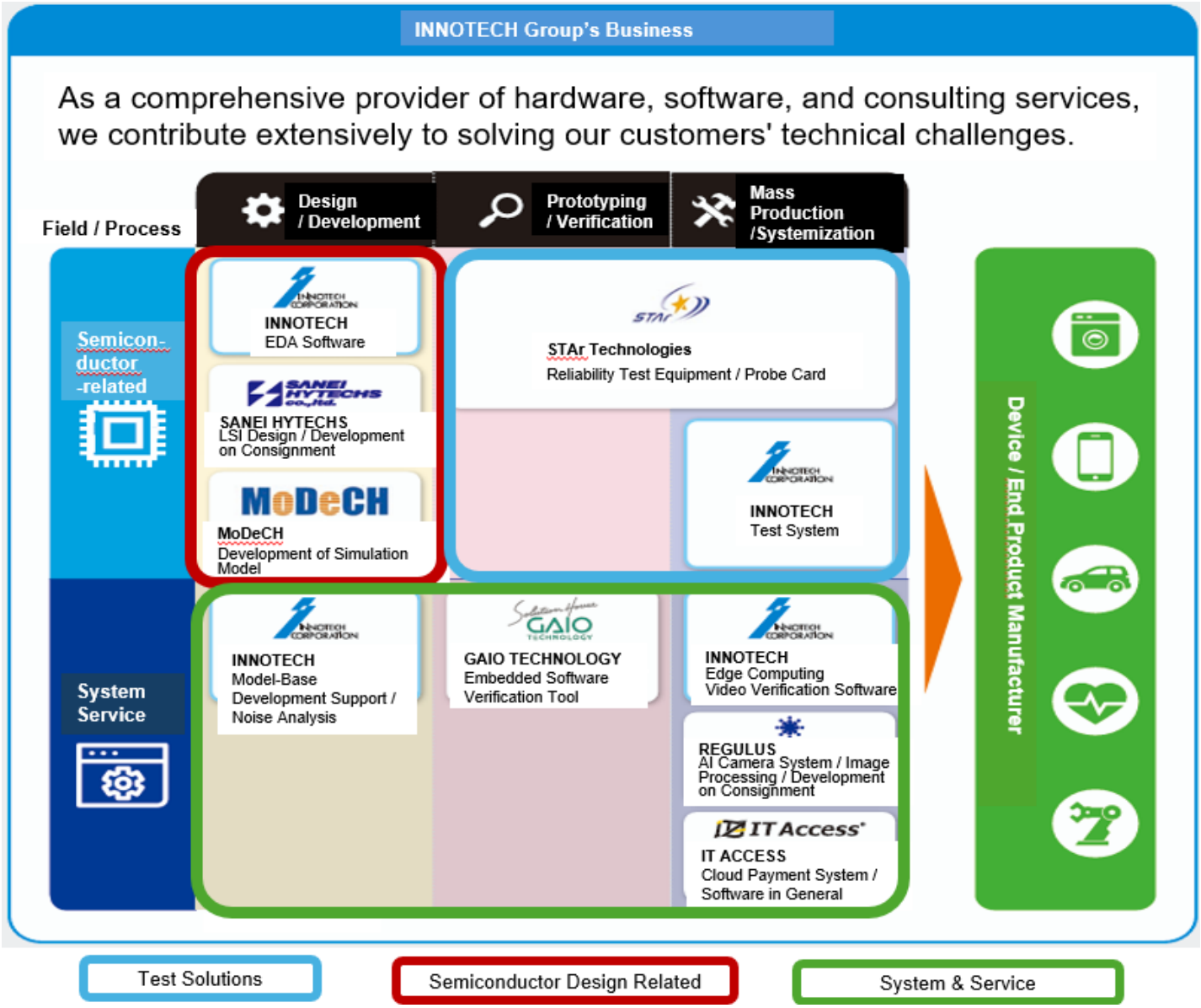
Semiconductor Design Related

In relation to semiconductor design, there is INNOTECH's EDA business. This has been a business since the company was founded and currently its main clients are electronic component manufacturers and semiconductor design companies. The division has two subsidiaries, SANEI HYTECHS and MoDeCH. SANEI HYTECHS was acquired by INNOTECH in 2002 and is currently engaged in LSI design and contract development. MoDeCH was acquired in 2020 and is developing simulation models.

System & Service

INNOTECH's System & Service business involves embedded systems such as industrial PCs and CPU boards. Subsidiaries include IT Access, which was established in 2000 as a joint venture with ACCESS (4813 TSE Prime) and handles cloud payment systems. GAIO TECHNOLOGY is a subsidiary acquired in 2014 that provides embedded software verification tools and contract services. REGULUS, acquired in 2012, develops and sells AI camera systems and image processing systems.

Figure 2. Business Areas of Group Entities



Source: Company Data. Compiled by Strategy Advisors

Although It Is a Latecomer and Small in Scale, It Excels at Producing Distinctive Products That Meet Customer Needs

Except for EDA, which the company still imports and sells, the company's main businesses were mostly late starters and so, few of its products have a high global market share. However, it has developed distinctive products that meet customer needs and has achieved steady growth. Testers and probe cards are late starters and the business scale is smaller than that of major companies; but it has developed products that customers want by utilizing the knowledge it gained from its days as a trading company and has entered niches while building relationships of trust with customers. Semiconductor Design and System & Service, which the company has expanded through M&A, are segmented markets and each has its own strengths. In particular, GAIO TECHNOLOGY's verification tools have become the de facto standard in the field of unit testing, used by 90% of Japanese automakers.

2. History

Founded as an Electronics Import Trading Company

INNOTECH was established in 1987 as an electronics trading company by former employees of Tokyo Electron (8035 TSE Prime), including Minoru Yoshida, who served as president of the company. The company also had a business partnership with Itochu Corporation (8001 TSE Prime), which was a shareholder. Initially, the company's main business was import trading, dealing in probe cards for semiconductor testing, low-pressure CVD equipment and wafer cleaning equipment, etc. It also acted as an agent for domestic manufacturers. Former president Yoshida advocated supporting the business of overseas venture companies in Japan and it seems he believed that INNOTECH could build a win-win relationship with these companies by helping them grow. Therefore, it can be said that the company's purpose and business model at the time of its establishment were those of an import trading company.

In addition to manufacturing equipment, the company partnered with Cadence, which had been developing semiconductor design software, from the beginning to sell EDA to the Japanese market. In the 1990's, the company expanded its trading business to include the import and sale of electronic components such as HDMI devices (High-Definition Multimedia Interfaces) and hard disk drives. For hard disk drives, the company acted as an agent for Hitachi GST at the time.

IPO Three Years After Establishment

In September 1990, the company's shares were listed over the counter, an unusually fast start for a company just three years after its establishment, demonstrating the company's high profitability from the start.

Business Performance Fluctuates Depends on Macroeconomic Conditions & Semiconductor Market Trends

Until the mid-1990's, the company's operations expanded and its performance was stable. However, in the latter half of the 1990's, the business environment for the import and sale of manufacturing equipment changed significantly. This was likely due to a number of reasons, including a lack of growth in demand for manufacturing equipment in Japan due to a decline in the competitiveness of Japanese semiconductor device manufacturers, the growth of Japanese equipment manufacturers such as Tokyo Electron and the spread of the Internet, which led to a trend of direct transactions between equipment manufacturers and semiconductor device manufacturers. This was compounded by the semiconductor recession from 1998 to 1999 and so performance worsened, with the company posting a net loss of ¥3.0 billion in FY3/1999. This led to the company withdrawing from the semiconductor manufacturing equipment trading business in 2000.

Transforming the Business Portfolio

During this time, the company was forced to change its business portfolio in order to get through the crisis. It aimed to develop its own products and have manufacturing capabilities. Specifically, it aimed to expand its manufacturing capabilities by producing hardware such as manufacturing equipment and software such as embedded systems in-house.

However, although it initially pursued the development of ion implantation equipment for semiconductors, it was unsuccessful. In 2000, it established IT Access, a software developer, as a joint venture with ACCESS (4813 TSE Prime). In 2002, it acquired SANEI HYTECHS, which designs and develops semiconductors. In terms of business performance, it was heavily affected by the macro economy and the semiconductor cycle; and even if profits rose at one point, business performance repeatedly deteriorated due to the effects of the collapse of the IT bubble and the financial crisis.

Increasing the Proportion of In-House Products Reduces Profit Fluctuations

In the 2010's, in order to shift to a more muscular profit structure, the company actively acquired companies and expanded their in-house products to include image processing, verification tools, etc. At the same time, it withdrew from the electronic parts and HDD trading business in 2017. This succeeded in reducing the volatility of business performance caused by the semiconductor cycle. Although sales have decreased significantly compared to the time when it was a trading company for semiconductor manufacturing equipment, they have been steadily increasing since then. Profits have also stabilized and have been performing well, with net income reaching an all-time high in FY3/2022 (operating income remains at ¥3.33 billion in FY3/2008).

The Company is Successfully Transforming from a Trading Company to a Manufacturer

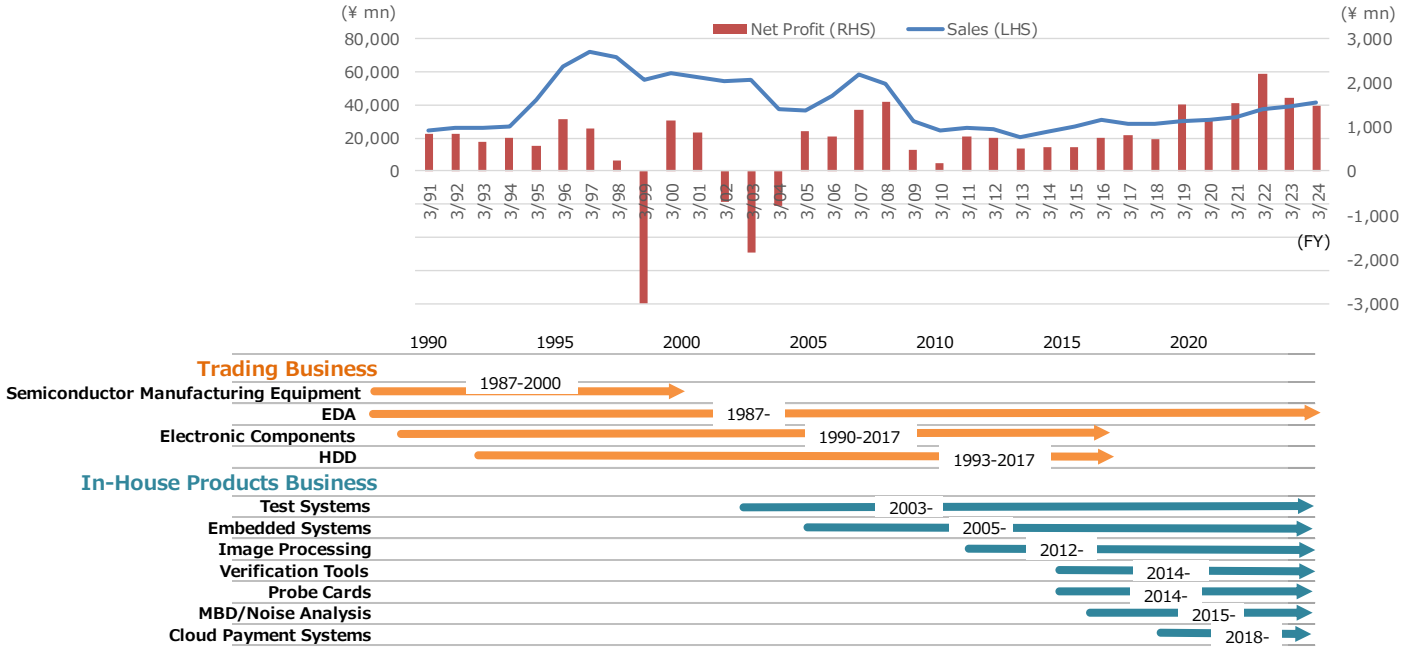
In other words, since 2014, when INNOTECH's in-house products expanded to include test solutions, semiconductor design, embedded systems, image processing and verification tools; it has been on track to transform from a trading company whose profits are prone to fluctuate depending on the semiconductor cycle to a manufacturer whose profits are steadily growing. Since 2017, when INNOTECH withdrew from the import and sale of HDDs, the ratio of in-house products has exceeded 60% and this ratio is increasing. Reflecting these changes, in October 2022, the Tokyo Stock Exchange changed the industry of INNOTECH from 'Wholesale Trade' to 'Electric Appliances'.

Figure 3. History of INNOTECH

Jan. 1987	Company founded
Sep. 1990	Company's shares registered as OTC.
Apr. 2000	Established IT Access (now a consolidated subsidiary) as a joint venture with ACCESS.
Mar. 2002	Acquired all shares of SANEI HYTECHS and made it a subsidiary (now a consolidated subsidiary).
Mar. 2008	Listed in Tokyo Stock Exchange Section2.
Mar. 2011	Listed in Tokyo Stock Exchange Section1.
Jul. 2012	Acquired all shares of REGULUS and made it a subsidiary (now a consolidated subsidiary).
Jan. 2014	Acquired all shares of GAIO TECHNOLOGY and made it a subsidiary (now a consolidated subsidiary)
Oct. 2014	Acquired additional shares in STAr Technologies and made it a subsidiary (now a consolidated subsidiary).
Apr. 2020	Acquired shares of MoDeCH and made it a subsidiary (now a consolidated subsidiary).
Apr. 2022	Move to the Prime Market of the Tokyo Stock Exchange.
Oct. 2022	Change in the sector to which our shares belong (from 'Wholesale Trade' to 'Electric Appliances').

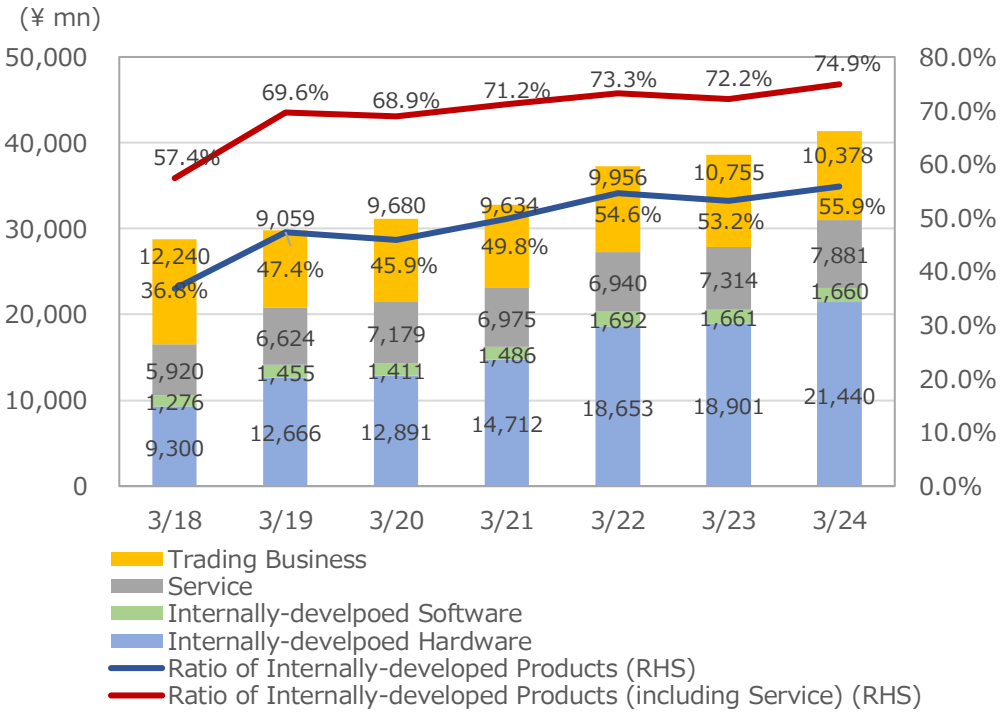
Source: Company Data. Compiled by Strategy Advisors

Figure 4. INNOTECH's Performance and Business Area Trends



Source: Company Data. Compiled by Strategy Advisors

Figure 5. Sales Trends of INNOTECH's Products



Source: Company Data. Compiled by Strategy Advisors

Figure 6. Earnings Trends of Parent Company and Major Subsidiaries

(¥ mn)	3/20	3/21	3/22	3/23	3/24	3/25 CoE
INNOTECH (Test Solutions, Semiconductor Design-related, System & Service)						
Sales	12,863	14,780	17,218	16,537	14,762	14,000
Gross Profit	3,325	3,982	4,650	4,466	4,348	3,410
Operating Income	50	792	1,233	959	716	-165
(Operating Margin)	0.4%	5.4%	7.2%	5.8%	4.9%	-1.2%
Ordinary Income	711	1,752	2,265	1,907	1,832	400
Net Income	624	1,375	1,788	1,578	1,478	450
STAr Technologies (Test Solutions) 92.4 % Owned						
Sales	5,793	5,563	7,730	8,950	12,761	12,300
Gross Profit	2,716	2,345	2,919	3,657	4,446	3,950
Operating Income	555	147	197	-8	240	150
(Operating Margin)	9.6%	2.6%	2.5%	-0.1%	1.9%	1.2%
Ordinary Income	527	325	362	67	84	-80
Net Income	418	273	333	51	33	200
SANEI HYTECHS (Semiconductor Design-related) 100 % Investment						
Sales	3,548	3,550	3,880	3,941	3,995	3,900
Gross Profit	754	1,041	986	1,025	1,029	1,080
Operating Income	95	353	299	320	297	300
(Operating Margin)	2.7%	9.9%	7.7%	8.1%	7.4%	7.7%
Ordinary Income	114	407	287	314	308	310
Net Income	83	248	264	247	241	240
MoDeCH (Semiconductor Design-related) 86.1 % Investment						
Sales		108	349	369	347	350
Gross Profit		48	167	212	180	180
Operating Income		-80	10	35	24	0
(Operating Margin)		-74.1%	2.9%	9.5%	6.9%	0.0%
Ordinary Income		-80	13	38	23	0
Net Income		-80	13	52	23	0
GAIO TECHNOLOGY (System & Service) 100 % Owned						
Sales	3,665	3,421	3,233	3,510	4,075	5,000
Gross Profit	1,460	1,399	1,326	1,446	1,548	1,900
Operating Income	683	533	651	698	759	1,000
(Operating Margin)	18.6%	15.6%	20.1%	19.9%	18.6%	20.0%
Ordinary Income	689	547	657	706	772	1,010
Net Income	474	377	452	484	534	700
IT Access (System & Service) 85.0 % Stake						
Sales	4,518	4,669	4,274	4,899	5,141	5,800
Gross Profit	1,078	1,080	965	1,193	1,386	1,540
Operating Income	407	422	307	411	523	550
(Operating Margin)	9.0%	9.0%	7.2%	8.4%	10.2%	9.5%
Ordinary Income	421	433	324	438	539	540
Net Income	287	309	226	301	379	380
REGULUS (System & Service) 100 % Owned						
Sales	962	648	874	697	601	850
Gross Profit	327	117	213	212	203	270
Operating Income	22	-83	12	3	1	30
(Operating Margin)	2.3%	-12.8%	1.4%	0.4%	0.2%	3.5%
Ordinary Income	22	-77	13	2	0	30
Net Income	12	-48	6	-1	6	20

Source: Company Data. Compiled by Strategy Advisors

3. Profile of President Nobuyuki Otsuka

Involved Since the Dawn of the Personal Computer

President Nobuyuki Otsuka is 61 years old and from Okayama Prefecture. After graduating from a computer technical school, he joined HUMO LABORATRY (unlisted) in 1982, where he worked on developing computers using real-time OS. In 1987, he moved to Marubeni Hytech Corporation (now MARUBENI INFORMATION SYSTEMS), where he worked on defect analysis of circuit boards for NEC98 series PCs. He has been involved since the early days of microcomputers and personal computers, when they were in their infancy.

He has been Interested in Computers since he was a Junior High School Student

Mr. Otsuka had a strong interest in computers when he was in junior high and senior school and wanted to work in a computer-related field in the future. He had initially decided to enter university, but he could not shake his strong desire to work with computers, so he persuaded his parents to let him attend a computer school.

Joined INNOTECH In 1991

He joined INNOTECH in 1991, four years after the company was founded. INNOTECH at the time was very vibrant and growing under the strong leadership of former president Yoshida. Former president Yoshida placed importance on technology and instructed salespeople to understand technology. President Otsuka also wanted to hone his skills in such an environment. He was initially assigned to import and sell Israeli products and was also asked to make business trips to Israel, where the political situation was unstable. When he was in charge of import and sales for a US equipment manufacturer, he had the experience of rushing to the supplier on the West Coast when a problem arose with Japanese users and dealing with the issue with the local engineers.

Developer of Their Own Testers

The project to develop the company's own semiconductor tester, which will be described later, was started by a team of several people. At first, there were voices of opposition from management, who thought it was too risky, but President Otsuka took the lead in winning a NEDO grant by appealing that the tester developed by INNOTECH had excellent power-saving performance. This apparently gained support within the company.

He Joined INNOTECH at a Young Age, Becoming the First President Promoted from Within & with a Proven Track Record

In 2012, he was appointed Director and General Manager of the Test Solutions Division and continued to be in charge of the Test Solutions business. In April 2021, he was appointed President and Representative Director of INNOTECH. President Otsuka is the sixth president of INNOTECH. The first three generations of the company, including founder Minoru Yoshida, who served as president for 14 years, were from Tokyo Electron. The fourth president was Makoto Sumita, a former analyst at Nomura Research Institute, and the fifth president was Toshihiko Ono, a former vice president at Fujitsu. Both of them moved to INNOTECH as executives from the start. Although President Otsuka joined the company mid-career, joining in his 20’s, he can be said to be the first president who was close to being a successful full-time employee and was promoted from within INNOTECH.

Figure 7. INNOTECH's Past Presidents

		Term as President	Joined INNOTECH	Previous Job
1	Minoru Yoshida	January 1987 - June 2001	January 1987	Tokyo Electron, President
2	Ryoichi Kawashima	June 2001 - June 2003	May 1987	Tokyo Electron
3	Takashi Tsumori	June 2003 - April 2007	October 1989	Kyocera (formerly Tokyo Electron)
4	Makoto Sumita	April 2007 - April 2013	June 1996	Nomura Research Institute
5	Toshihiko Ono	April 2013 - April 2021	January 2009	Fujitsu, Vice president
6	Nobuyuki Otsuka	April 2021 ～	April 1991	Marubeni Hytech Corporation

Note: Titles omitted

Source: Compiled by Strategy Advisors from securities reports

Shifting The Vertical Structure

The first thing President Otsuka did after taking office was to change the company's segments. Until then, INNOTECH had a strong sense of vertical division and there was little collaboration or information exchange between business divisions, so he wanted to create a more open organization. Until then, the company had only two segments for disclosure: design and development solutions and product solutions, but each business division existed within a silo and the vertical divisions created weak horizontal connections.

For this reason, the company decided to split its disclosed segments into the current three: Test Solutions, Semiconductor Design-related and System & Service; and to have each of these segments handle its own business in terms of actual management. A new structure was created in which each executive in charge of each segment supervises each segment and also are responsible for exchanging information between segments. Long-standing practices cannot be changed overnight, so the company says it is still in the process of changing, but it is expected that this will lead to changes in the business portfolio and organization, including subsidiaries, which will be described later.

4. Test Solutions Business

The Test Solutions business consists of testers manufactured by INNOTECH itself and probe cards and reliability testing equipment manufactured by STAr, a Taiwanese subsidiary.

Figure 8. Test Solutions Business Earnings Trends

(¥ mn)

FY	3/21	3/22	3/23	3/24	3/25CoE
Sales	**10,640**	**14,447**	**13,938**	**15,885**	**13,830**
Testers	5,123	6,768	5,042	3,171	1,530
STAr	5,563	7,679	8,895	12,713	12,300
Operating Income	**1,014**	**1,534**	**957**	**812**	**NA**
Testers	867	1,337	965	572	NA
STAr	147	197	-8	240	150
Operating Margin	**9.5%**	**10.6%**	**6.9%**	**5.1%**	**NA**
Testers	16.9%	19.8%	19.1%	18.0%	NA
STAr	2.6%	2.6%	-0.1%	1.9%	1.2%

Note: The breakdown of sales for FY3/21 is based on the financial results briefing materials, and from FY3/22 onwards is based on segment information. All operating income is individual Company Data from the briefing materials. Testers operating income is the division operating income minus STAr operating income.

Source: Company Data. Compiled by Strategy Advisors

1) Testers

Mainly Testers for NAND Flash Memory

INNOTECH's flagship tester product is the "RETSET," which is primarily intended for NAND flash memory. It is used for testing during the wafer process. According to the company, its features are low price, space saving and low power consumption. Unlike general-purpose testers, the "RETSET " is believed to achieve the above features by optimizing its functions according to the customer's test requirements for the target semiconductor device. It is believed to be primarily intended for major Japanese NAND flash memory manufacturers. INNOTECH is believed to have a remarkably high market share for NAND wafer testers aimed at these users.

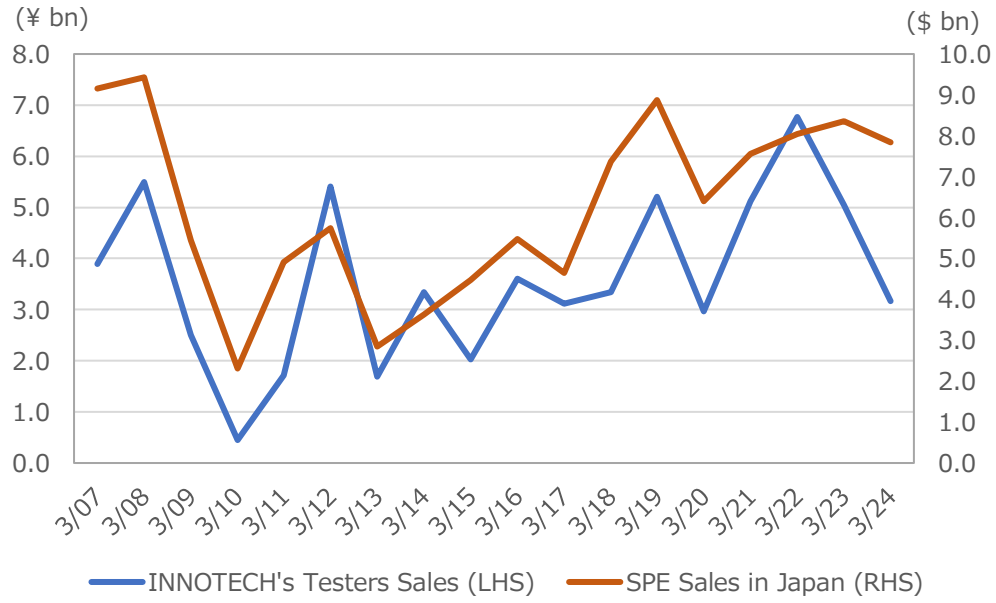
Figure 9. INNOTECH's Tester "RETSET "

Source: Company Data

Dependent on Capital Investment Trends of Major Users

For this reason, it is estimated that demand for INNOTECH's memory testers is heavily influenced by capital investment by major users. Since INNOTECH's testers make up a small proportion of the overall capital investment of these users, it is thought that the trends do not match perfectly, but in FY3/2024, capital investment by these users fell sharply and sales of INNOTECH's testers also fell sharply. A similar trend continued in the first half of FY3/2025. Figure 9 shows semiconductor manufacturing equipment sales in Japan and INNOTECH's tester sales. INNOTECH's major users in Japan are companies with a few mass production factories and since they also make up a large proportion of the demand for Japanese semiconductor manufacturing equipment, INNOTECH's tester sales are closely correlated with this.

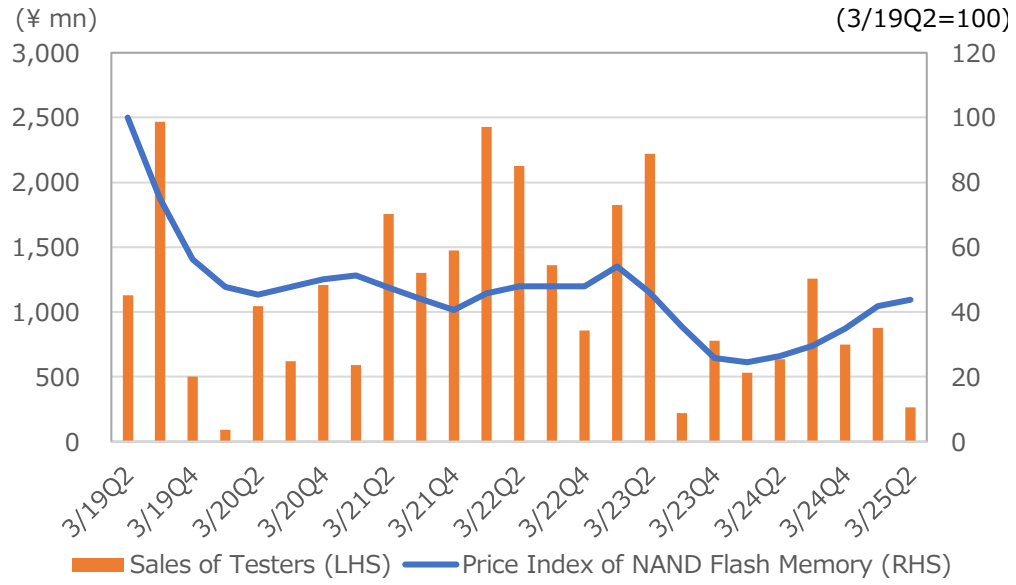
Figure 10. Sales Of Semiconductor Manufacturing Equipment in Japan and INNOTECH's Tester Sales



Source: Company & Japan Semiconductor Equipment Association Data.
Compiled by Strategy Advisors

Figure 10 compares the sales of INNOTECH's testers with the price of NAND flash memory. Although the timing of the semiconductor market and capital investment by semiconductor device manufacturers does not coincide, it can be seen that sales of INNOTECH's testers are somewhat linked to the price of NAND flash memory. The market recovery since spring 2024 has lacked strength and has not been enough to boost capital investment by NAND flash memory manufacturers. As the market has already fallen back, the recovery of capital investment appears to be delayed.

Figure 11. INNOTECH's Tester Sales and NAND Flash Memory Market Conditions



Note: NAND flash memory prices are based on Kioxia Holdings' financial statements. Based on memory capacity.

Source: Compiled by Strategy Advisors. Based on Company Documents & Various Data

Testing is a Volatile Business

INNOTECH's tester business is fundamentally very volatile, as it is linked to capital investments by specific users. In FY3/2022, when market conditions were favorable, the business's sales were ¥6.77 billion and its operating profit was estimated to have reached around ¥1.3 billion. The operating profit margin was also estimated to be around 20%. However, in FY3/2025, due to factors such as restrained capital investments by users, sales are expected to fall sharply to ¥1.53 billion, 23% of the level in FY3/2022, resulting in a loss. In FY3/2023 and FY3/2024, sales were supported by a significant increase in burn-in boards, which are included in the tester business and are described below, so the rate of decline in NAND flash memory testers is estimated to have been even greater.

Users Step Up Investment in Cutting-Edge Products

INNOTECH's main users have restrained capital investment since 2022, when the NAND flash memory market was sluggish; but in the future, they plan to strengthen NAND products for AI data centers and invest in new manufacturing buildings. The NAND market recovered from 2023 and NAND manufacturers also achieved good results in the first half of 2024. However, the market is currently declining and profits are expected to decrease in the July-September period compared to the previous quarter.

The user plans to start mass production of 218-layer 3D NAND from autumn 2025. Together with its partner companies, the user plans to invest a total of ¥730 billion by 2029. As mentioned above, there is a risk that the NAND flash memory market will stagnate again, but since capital investment in cutting-edge fields is considered necessary to maintain and improve competitiveness, the direction will likely remain the same even if there is a slight shift in timing.

DRAM For AI Grows, But NAND Remains Sluggish

The tester market is largely divided into those for SoC (system on chip) and those for memory. According to materials from Advantest (6857 TSE Prime), the global market for memory testers in 2023 is estimated to be approximately $1.1 billion, based on which INNOTECH's market share for testers is estimated to be around 2%. Advantest and Teradyne (TER NAS) are the major suppliers of both SoC and memory testers, splitting the market share globally. For memory, HBM DRAM used in AI is currently expanding rapidly, but other products appear to be stagnant. So far, NAND flash memory has not fully benefited from the expansion of the AI field.

Diversify Users & Devices

INNOTECH's growth objective for its tester business is to increase the number of users and the variety of semiconductor devices it targets. For NAND flash memory, the company has been seeking sales opportunities to overseas companies in addition to its main domestic users and this appears to be becoming more likely. The company is also working to expand tester functions to target DRAM as well. Testers for DRAM are considered to be technically more difficult than those for NAND, but the company has been developing them and there appears to be ample potential for commercialization. INNOTECH also produces capture boards used in inspection of image sensors. These too are believed to be being developed primarily for domestic users.

The Company also Handles Burn-In Boards Used in the Final Semiconductor Process

The company also manufactures burn-in boards, which are used in burn-in testing, which is the final step in the production of semiconductor devices. These are used in testing to detect initial defects before they occur by applying stress such as voltage and temperature to semiconductors. Sales of burn-in boards have increased over the past two years as semiconductor device manufacturer (the customers), have begun to conduct burn-in testing. The company is currently in a period of transition, but it is expected that demand for burn-in boards will increase when new products are released. Although there may be an impact from product cycles, it can be said that the company is on a growth trajectory in this field.

2) STAr Technologies

Probe Cards & Reliability Test Equipment

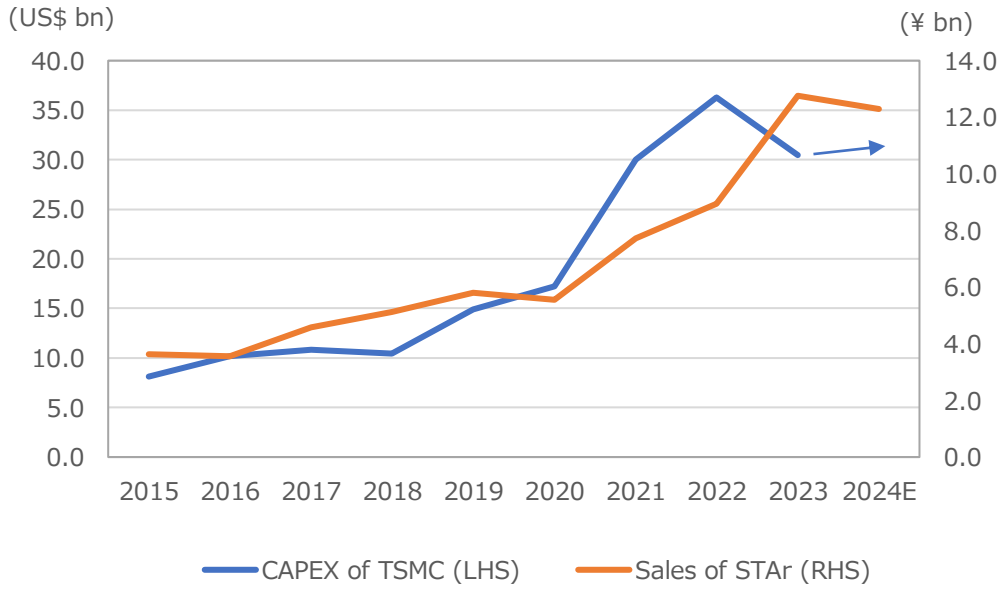
INNOTECH invested in Taiwan's STAr Technologies in 2013 and made it a subsidiary in 2014. It currently holds a 92.38% stake. Its main products are probe cards used in the inspection of semiconductor devices and the reliability test equipment "Scorpio". Although the sales composition varies from year to year, it is estimated that reliability test equipment accounts for a larger proportion of sales than probe cards.

Reliability Test Equipment is Mainly for Foundries in Taiwan

STAr's semiconductor reliability test equipment is capable of both wafer and package level testing and can perform a wide range of inspections on the oxide films of semiconductor devices. For example, the company produces equipment that evaluates symptoms such as hot carrier injection and electromigration that can lead to deterioration of the reliability of semiconductor devices. The main users are thought to be foundries in Taiwan, China, Korea and the United States. In particular, it is estimated that there has been a large increase in demand for products from China recently.

STAr has many users, but major Taiwanese foundries are presumed to be STAr's main customers, so when comparing the capital investment of the largest company, TSMC, with STAr's sales, we can see that they are linked, as shown in Figure 11. TSMC's capital investment is currently on an upward trend. However, since demand for semiconductor devices varies by product type, the recovery in capital investment in the industry as a whole is expected to lack strength.

Figure 12. Trends In TSMC's Capital Investment and STAr's Sales



Source: Company Data. Compiled by Strategy Advisors

Competitors

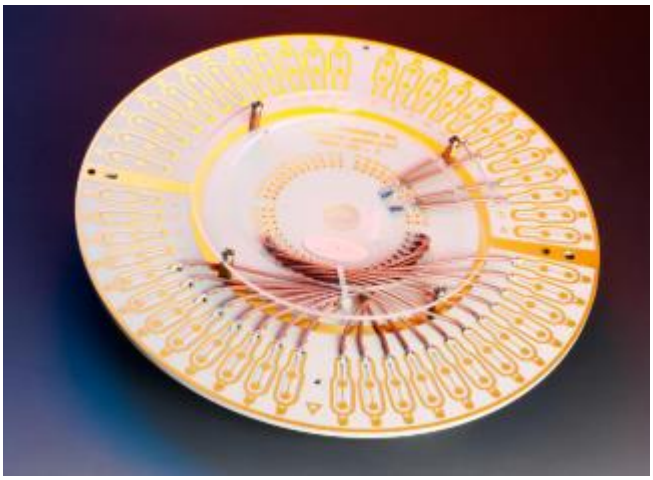
The main competitor for reliability test equipment appears to be Israel's Qualitau (QLTU XTAE).

Probe Card Business Restructuring Implemented

Probe cards are tools used in the inspection process of semiconductor devices, connecting the chips on the wafer to a tester after the circuits have been formed. They are broadly divided into cantilever, vertical and MEMS types. Cantilever types have needles attached directly to the wiring board and are considered to be relatively inexpensive as they are legacy in terms of technology. Vertical types have blocks with terminals fixed vertically attached.

MEMS types use MEMS technology to form minute probe pins directly on the board and are highly precise.

Figure 13. STAr's Parametric Test Probe Card



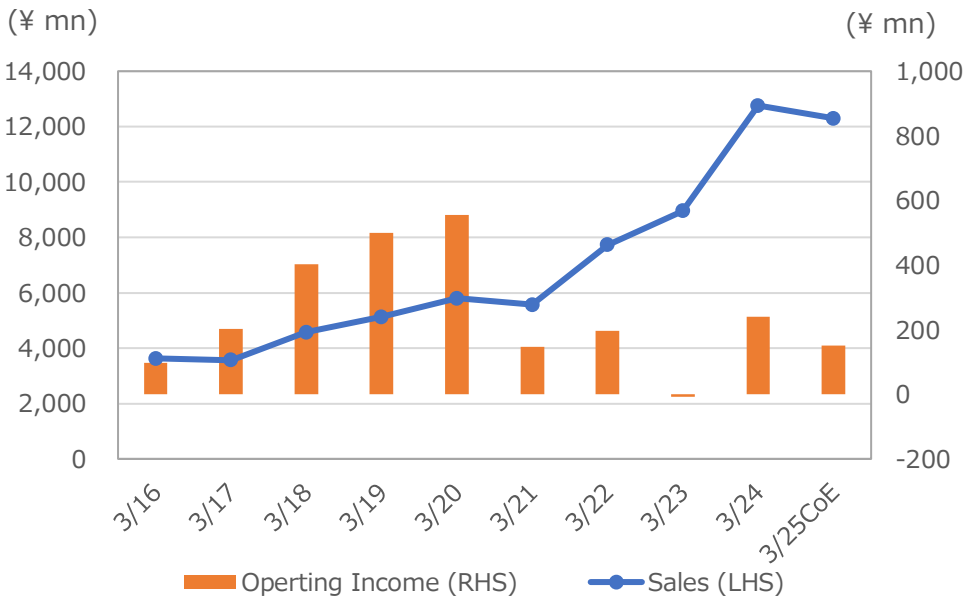
Source: Company Data

The global probe card market is expected to be around $2.3 billion in 2024. Major players include FormFactor (FORM NAS) of the US, Technoprobe of Italy, MICRONICS JAPAN (6871 TSE Prime) and JAPAN ELECTRONIC MATERIALS (6855 TSE Prime). MICRONICS JAPAN's sales for FY12/2023 are ¥36.4 billion and JAPAN ELECTRONIC MATERIALS ' sales for FY3/2024 are ¥17.4 billion. STAr's probe card sales for FY3/2024 are estimated to be in the range of ¥3 billion to ¥4 billion.

STAr'S Profits Stagnate

STAr's performance is shown in Figure 13. Sales are increasing due to the expansion of reliability test equipment for China, but the weak JPY is also a major factor. On the other hand, the company is struggling in terms of profits. The main reasons for this are thought to be that the profit margin of the business for China has been relatively low so far and that resources are being poured into technological development of probe cards, etc.

Figure 14. STAr's Earnings Trends



Source: Company Data. Compiled by Strategy Advisors

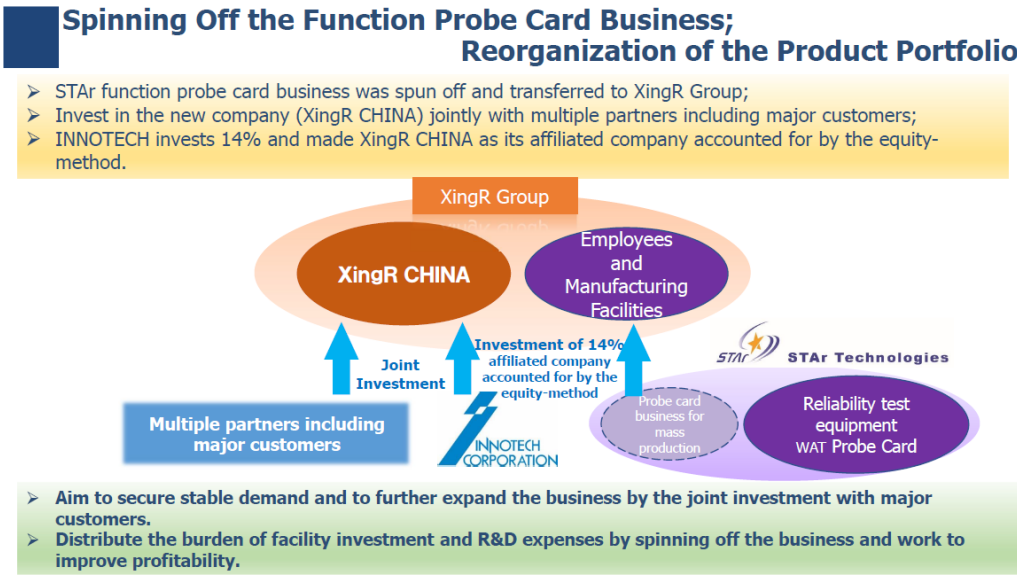
Transfer of Mass-Produced Probe Cards

For this reason, INNOTECH has decided to transfer STAr's mass-produced probe card business to the XingR Group. XingR China will be established through joint investment with several partners, including major customers, and INNOTECH will continue to invest 14% to make it an equity-method affiliate. It is believed that the joint investors include leading companies that are users of the INNOTECH Group and there is a possibility that synergies will be created in businesses other than probe cards. The sales volume of the transferred business is said to be around ¥2 billion. As mentioned above, STAr has made upfront investments up until now, but this has been a heavy burden for STAr. However, mass-produced products are also targeted at leading markets such as CMOS image sensors, so there is a possibility that it will gain financial strength and increase opportunities for growth in the future.

STAr'S Profits Will Recover Due to Business Restructuring & Recovery of Users' Capital Investment

STAr will concentrate its management resources mainly on R&D probe cards and reliability test equipment for foundries. Taiwanese foundries, which are considered to be major users, are currently showing favorable growth, and TSMC, the largest foundry, has indicated it intends to significantly increase capital investment in 2025, after having been somewhat restrained, which should provide a tailwind for STAr's earnings environment. As for STAr's performance, it is expected that this reorganization will improve its profitability, as it has previously had to bear the investment burden of probe cards for mass production.

Figure 15. Restructuring Of the Probe Card Business



Source: Company Data

5. Semiconductor Design-Related Business

The Semiconductor Design-Related business consists of the import and sale of EDA by INNOTECH, and its subsidiaries SANEI HYTECHS and MoDeCH. Although it is affected by the semiconductor cycle, sales and profit trends have been relatively stable.

Figure 16. Semiconductor Design-Related Business Earnings Trends

(¥ mn)

FY	3/21	3/22	3/23	3/24	3/25CoE
Sales	**11,416**	**12,429**	**13,287**	**12,884**	**13,150**
EDA	7,124	8,291	9,056	8,641	8,900
SANEI HYTECHS	3,550	3,854	3,941	3,995	3,900
MoDeCH	108	283	289	246	350
Operating Income	**571**	**606**	**632**	**575**	**NA**
EDA	298	297	277	254	NA
SANEI HYTECHS	353	299	320	297	300
MoDeCH	-80	10	35	24	0
Operating Margin	**5.0%**	**4.9%**	**4.8%**	**4.5%**	**NA**
EDA	4.2%	3.6%	3.1%	2.9%	NA
SANEI HYTECHS	9.9%	7.8%	8.1%	7.4%	7.7%
MoDeCH	-74.1%	3.5%	12.1%	9.8%	0.0%

Note: The breakdown of sales for FY3/21 is based on the financial results briefing materials, and from FY3/22 onwards is based on segment information. All operating income is individual Company Data from the briefing materials. EDA's operating income is the division operating income minus that of SANEI HYTECHS and MoDeCH.
Source: Company Data. Compiled by Strategy Advisors

1) EDA

Import And Sale of Cadence Products

This is the only business that INNOTECH has continued since its founding. It sells EDA from the US company Cadence to Japanese customers. Sales in Japan are also handled by the Japanese subsidiary, Cadence Design Systems Japan (hereinafter referred to as Cadence Japan). In July 2003, INNOTECH transferred its sales business to major semiconductor device manufacturers to Cadence Japan and since then, electronic component manufacturers and semiconductor design companies have become its main customers.

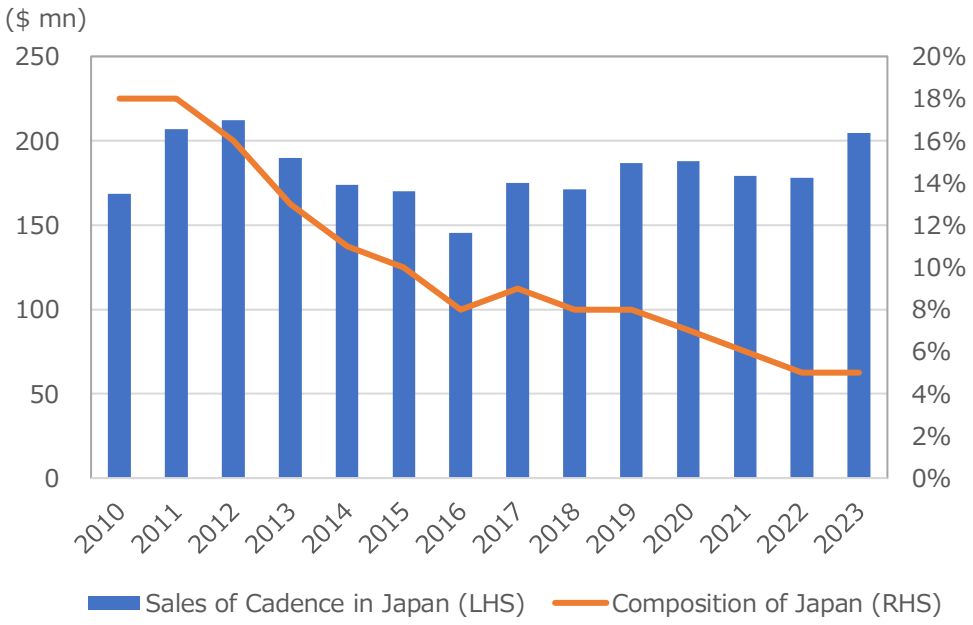
Essential For Circuit Design of Semiconductor Devices

EDA is software used for circuit design of semiconductor devices and printed wiring boards. There are tools to support circuit design and tools to verify the design results. As semiconductor devices become more highly integrated and semiconductor circuits become more complex, EDA is indispensable not only in cutting-edge fields but also in non-cutting-edge devices. In addition, as the degree of integration increases and the difficulty of design increases, different EDA software is required at multiple stages in the design of a single device, and demand is on the rise. The adoption of chiplets is increasing with the miniaturization of semiconductors and EDA is also used for circuit design of interposers. Chiplet is a method to solve the problem of yield reduction caused by the progress of miniaturization in SoC's that integrate functions such as CPU, cache memory and I/O on a large scale into a single chip. In other words, after creating each function as a separate chip, good chips are integrated on a silicon interposer or DRAM and its interposer are mounted on the same package substrate.

Japan's Share of Cadence is Declining

However, the Japanese market's share of Cadence's has been declining. Its share, which was 18% in 2010, fell to 5% by 2023. The main reasons for this are likely the declining global share of Japanese semiconductor device manufacturers and the low presence of Japanese manufacturers, particularly in cutting-edge semiconductors, where new product development is robust. However, despite the declining share, Cadence's sales to Japan, in dollar terms, have remained flat or increased slightly since 2016. In yen terms, it is on an upward trend due to the weak JPY.

Figure 17. Cadence's Sales and Composition in Japan



Source: Strategy Advisors. Based on Cadence Data

Stock Sales

It is estimated that the majority of EDA sales are recurring sales and a certain number of sales are secured for two to three years, so it can be said that it is a stable business once a customer is signed-on. For this reason, EDA has been steadily growing sales without being significantly affected by the semiconductor cycle. INNOTECH's customers are mostly manufacturers and design companies of home appliances and parts, targeting non-advanced semiconductors and printed circuit boards. Cadence Japan is in charge of major advanced semiconductor device manufacturers. Japan's competitiveness remains high in the industries in which INNOTECH's customers are involved and although high growth is not expected, it can be said that there are many fields that will grow steadily.

INNOTECH's Support System is Highly Rated by Customers

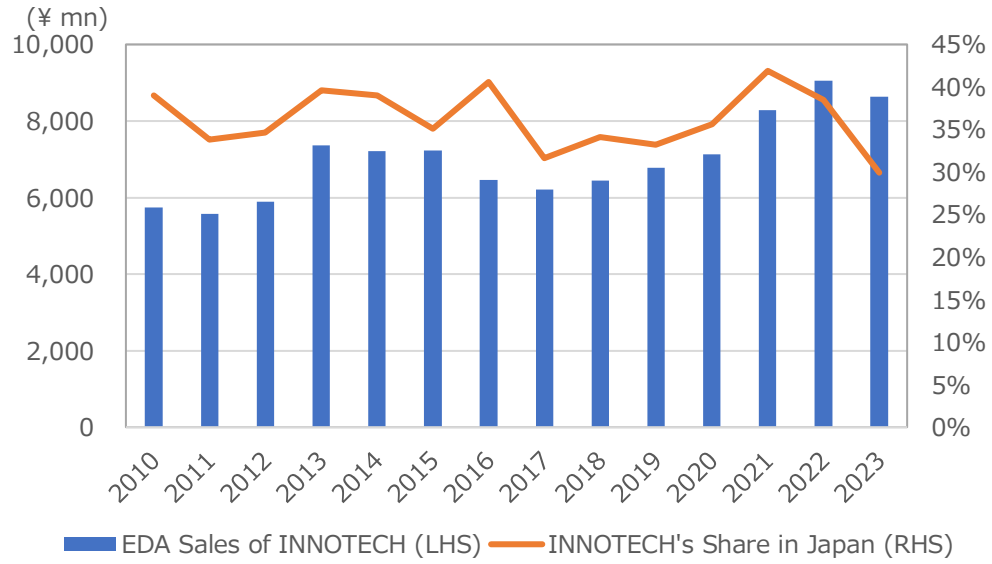
In addition, INNOTECH's experience as an import trading company for semiconductor manufacturing equipment suggests that it excels at providing detailed support to EDA customers. For this reason, it is assumed that the company is highly rated by users. Even if the Cadence Group wanted to increase the proportion of sales through its subsidiary Cadence Japan, it would need to use INNOTECH as an agent in order to maintain its competitiveness in Japan, given INNOTECH's sales competitiveness and customer evaluations. For this reason, as shown in Figure 17, INNOTECH's share of Cadence's sales to Japan has remained stable at around 35-40%, although it fluctuates from year to year.

Cadence Vs Synopsys Competition in Japan

Globally, there are three major EDA companies: Cadence, Synopsys Inc. (SNPS NAS) and Siemens EDA (unlisted), but it appears that Cadence and Synopsys in particular, are in fierce competition. As shown in Figure 18, sales are growing at a similar rate, but Cadence's growth in EBITDA and EBITDA

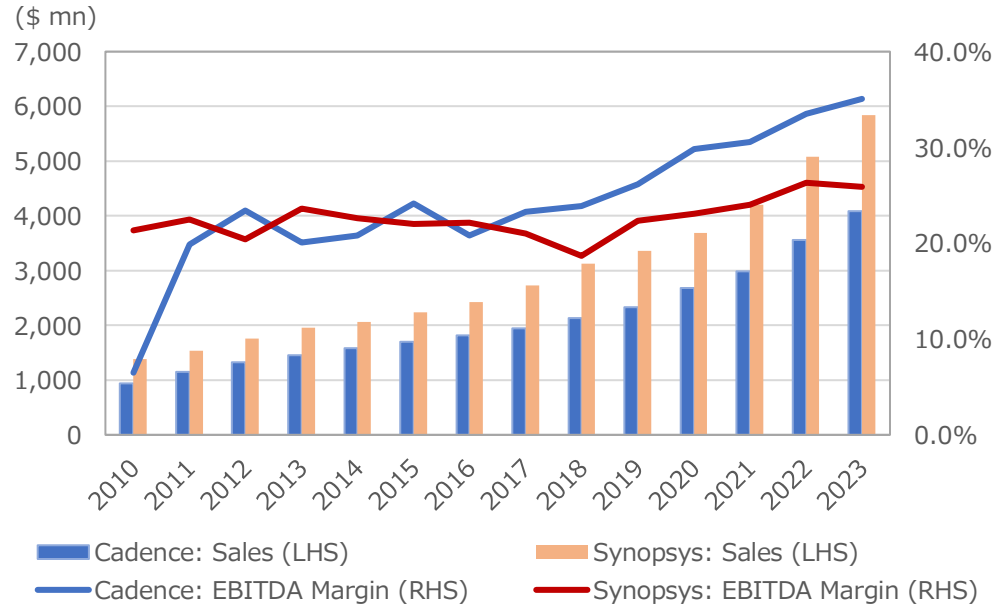
margin has been superior recently. Competition between these two companies is also expected to be fierce in the Japanese market and INNOTECH's presence is considered important for Cadence to maintain its competitive edge over Synopsys. From INNOTECH's perspective, maintaining and improving customer satisfaction will likely be an important factor.

Figure 18. INNOTECH's EDA Sales and Cadence's Share in Japan



Source: Company and Cadence Data. Compiled by Strategy Advisors

Figure 19. Cadence and Synopsys Earnings Trends



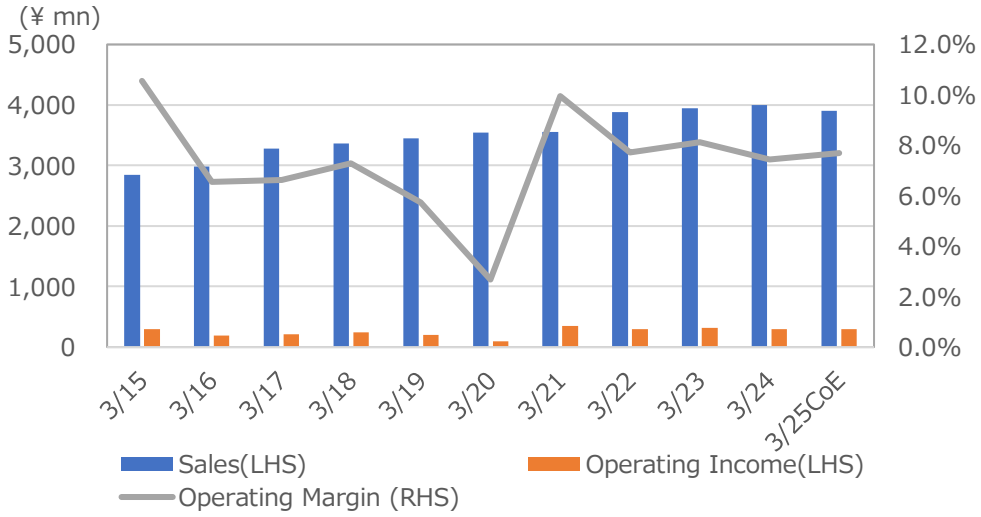
Source: Compiled by Strategy Advisors. Based on Company Data

2) SANEI HYTECHS and MoDeCH

Engaged in Semiconductor Device Design & Software Development

SANEI HYTECHS is a company that INNOTECH acquired shares in, in 2002, when it was expanding its manufacturing functions, making it a wholly owned subsidiary. Its main business is the design of semiconductor devices, particularly analog semiconductors, analog-digital converters and mixed-signal LSI's. It develops devices for automobiles, audio equipment, home appliances, and industry. It also develops software for in-vehicle, audio and communications applications. It also performs annotation for AI (creating training data for deep learning, etc.).

Figure 20. SANEI HYTECHS's Earnings Trends



Source: Company Data. Compiled by Strategy Advisors

Engineer Group

As of April 2024, the company has 352 employees, 91% of whom are engineers. This is the second largest employee size in the INNOTECH Group after STAr. In addition to in-house design, the company also dispatches engineers to client companies to provide design support. According to its website, major clients include YAMAHA CORPORATION(7951 TSE Prime), MinebeaMitsumi (6479 TSE Prime), DENSO (6902 TSE Prime) and Hamamatsu Photonics (6965 TSE Prime) and it is believed to have a wide range of other users.

Vietnam's Annotations Grow

The company has also expanded overseas, with bases in China and Vietnam. In Vietnam, the company is involved in semiconductor device design and software development, as well as annotation business for AI. Areas such as road data for autonomous driving appear to be growing rapidly at the moment.

Business Performance is Stable

SANEI HYTECHS designs semiconductors and develops software that are the basis for automobiles, home appliances, and industrial products, so it is less susceptible to the effects of the cycle of cutting-edge semiconductors and economic fluctuations in specific industries. As a result, its performance has remained stable, except for FY3/2021, which was hit by the COVID-19 pandemic.

MoDeCH Develops Modeling

MoDeCH was acquired by INNOTECH in 2020. INNOTECH's stake is 86.1%. The company's main business is creating models for simulating various semiconductor devices, developing modeling for model-based development (MBD), which is becoming increasingly necessary in the development of embedded systems such as electronics and automobiles, and providing analysis services. MBD is a method of creating models for simulations on a computer without using actual equipment and developing and verifying the technology simultaneously. It is involved in modeling various circuit designs and has a wide range of applications. Currently, the company's revenue scale is small, and its performance has remained flat, but it is attracting attention as an important technology that will contribute to the simulation platform described below.

6. System & Service Business

The System & Service business is aiming for stable growth and has performed well so far. INNOTECH's embedded systems, GAIO TECHNOLOGY, which is expanding its business in the automotive industry and IT Access, which is growing its cashless payment systems for vending machines, are all increasing their contribution to profits.

Figure 21. System & Service Business Revenue Trends

(¥ mn)

FY	3/21	3/22	3/23	3/24	3/25CoE
Sales	**10,478**	**10,360**	**11,404**	**12,589**	**14,520**
INNOTECH:					
Embedded Systems	1,547	2,040	2,339	2,815	2,870
IT Access	4,669	4,274	4,899	5,141	5,800
GAIO TECHNOLOGY	3,421	3,233	3,510	4,075	5,000
REGULUS	648	874	697	601	850
Operating Income	**911**	**1,114**	**1,333**	**1,616**	**NA**
INNOTECH:					
Embedded Systems	39	144	221	333	NA
IT Access	422	307	411	523	550
GAIO TECHNOLOGY	533	651	698	759	1,000
REGULUS	-83	12	3	1	30
Operating Margin	**8.7%**	**10.8%**	**11.7%**	**12.8%**	**NA**
INNOTECH:					
Embedded Systems	2.5%	7.1%	9.4%	11.8%	NA
IT Access	9.0%	7.2%	8.4%	10.2%	9.5%
GAIO TECHNOLOGY	15.6%	20.1%	19.9%	18.6%	20.0%
REGULUS	-12.8%	1.4%	0.4%	0.2%	3.5%

Note: The breakdown of sales for FY3/21 is based on the financial results briefing materials, and from FY3/22 onwards is based on segment information. All operating income is individual Company Data from the briefing materials. INNOTECH's embedded systems operating income is the division operating income minus the operating income of IT Access, GAIO TECHNOLOGY and REGULUS.

Source: Company Data. Compiled by Strategy Advisors

1) INNOTECH's Embedded Systems

CPU Boards & Box-Type PCs

INNOTECH used to deal in CPU boards and industrial PCs as an import trading company for electronic parts, but as it transitioned to a manufacturer, it focused on developing its own engineers and commercialized its own products. These products are used for a wide range of purposes, including consumer equipment, industrial use such as factory automation, infrastructure and edge computing. The company unifies its business under the brand name "INNINGS". The CPU are manufactured by Intel and the company offers products such as "Xeon", "Core" and "Atom". Most of the OS is Windows, but many are also compatible with Linux.

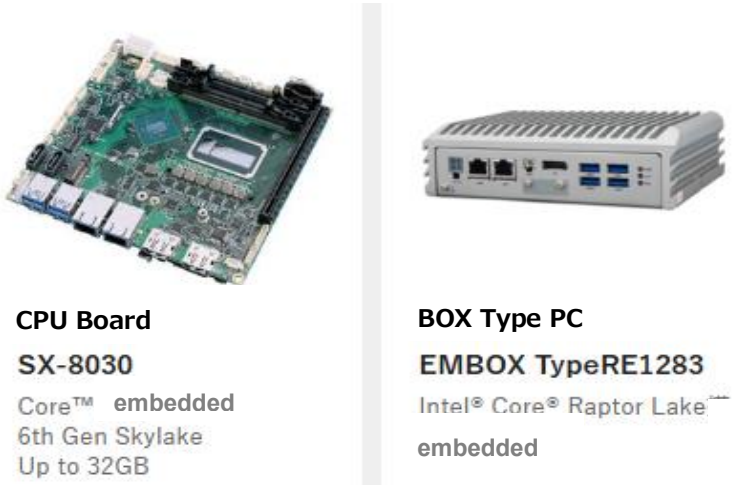
Although the semiconductor devices used in the company's CPU boards and industrial PCs are mostly imported, the designs are done in-house. The boards are manufactured and the PCs are assembled by a Japanese EMS manufacturer, so they are considered to be exceptionally reliable.

Reliability and Support are Important

IoT has created a demand for edge computing, which processes data on the terminal side and with the spread of AI-equipped computers, there is also an increasing demand for terminals to have complementary functions. INNOTECH's small, high-performance products meet these needs and are expected to grow steadily in the future. The keys to this are likely to be reliability, support systems and long life. It is assumed that INNOTECH's products are highly evaluated in these respects.

Sales are small at ¥2.81 billion in FY3/2024, but are growing steadily. The operating profit margin is also on the rise and is estimated to have exceeded 10% in FY3/2024. As the target industries are diverse, the business can be said to be stable overall.

Figure 22. INNOTECH's CPU board and Box Type PC (Example)



Source: Company Data. Compiled by Strategy Advisors

2) GAIO TECHNOLOGY

Sales & Engineering Services for Validation Tools for Automobiles

GAIO TECHNOLOGY is a wholly owned subsidiary whose shares were acquired in 2014. It is engaged in (1) the development, sales and maintenance of embedded software verification tools and (2) engineering services and technician dispatch, mainly for the automotive industry. With regard to (1), the embedded software unit testing tool "CoverageMaster winAMS " is a representative tool product of GAIO TECHNOLOGY that has many users. It appears to have earned a high reputation in the field of automotive control software, which demands high software quality to ensure safety.

With regard to (2), the company provides engineering services such as model development support for users, consulting and unit testing contract services.

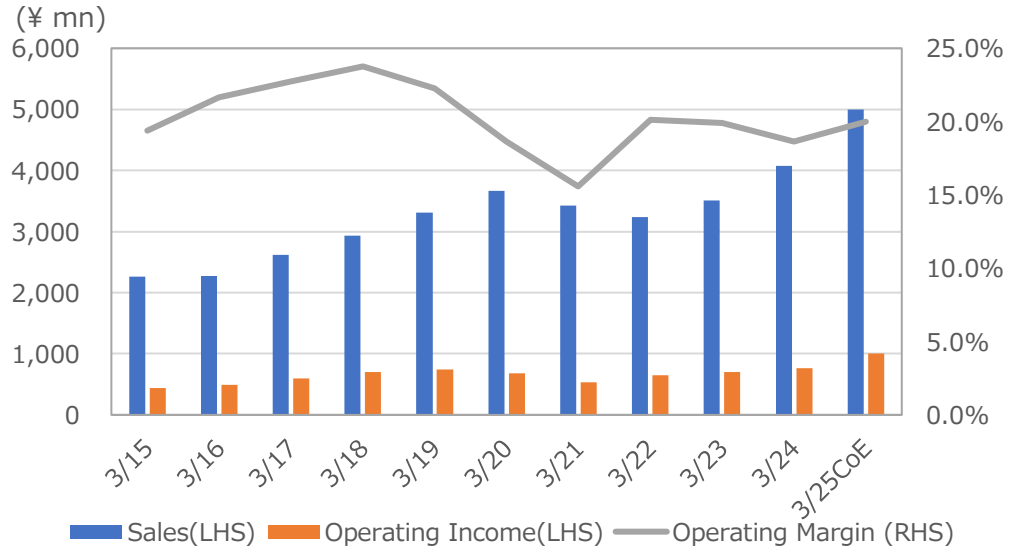
The De Facto Standard for Unit Testing

GAIO TECHNOLOGY's "CoverageMaster winAMS " has been certified as a tool for automotive functional safety (ISO26262) and is the de facto standard for software unit testing verification tools. Unit testing is a process that verifies whether each unit operates according to specifications before testing the entire software and is essential for obtaining certification for automotive functional safety. It is said to be used by more than 90% of Japanese automobile manufacturers and its website lists Toyota Motor (7203 TSE Prime), SUBARU (7270 TSE Prime) and DENSO (6902 TSE Prime) as examples of companies that have adopted it.

Service Sales Increased

At present, sales of engineering services appear to be exceeding sales of tools. While the tools market is already solid, engineering services appear to be in the process of growth. GAIO TECHNOLOGY's strength is that it has two wheels and it is believed that this is leading to positive evaluations from customers.

Figure 23. GAIO TECHNOLOGY's Business Performance **Fi**



Source: Company Data. Compiled by Strategy Advisors **Sou**

3) IT Access

Cloud-Based Payment Systems Grow

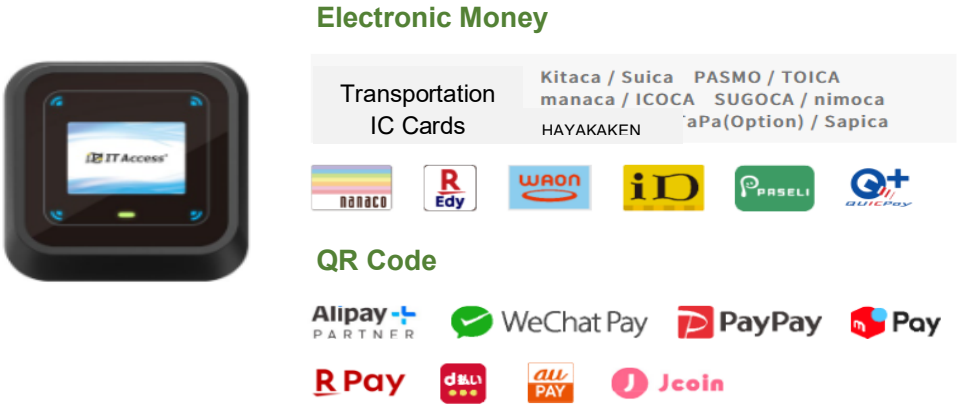
IT Access is a subsidiary established in 2000 as a joint venture between INNOTECH and ACCESS. INNOTECH holds an 85% stake in the company. In addition to developing software for in-vehicle use, cloud-based payment systems are currently growing. It is estimated that this accounts for around 60% of IT Access's sales.

Many vending machines are not cashless payment compatible. Even with cashless payment terminals, most are not capable of immediate processing, as they accumulate data on the terminal for a certain period of time before transmitting.

The advantage of a cloud-based payment system is that the terminal can be made compact by having the functions on the server side. Another advantage is that sales data can be obtained in a timely manner, which can be used for sales strategies. For IT Access, once the terminal is installed, it can obtain stable, stock-based income.

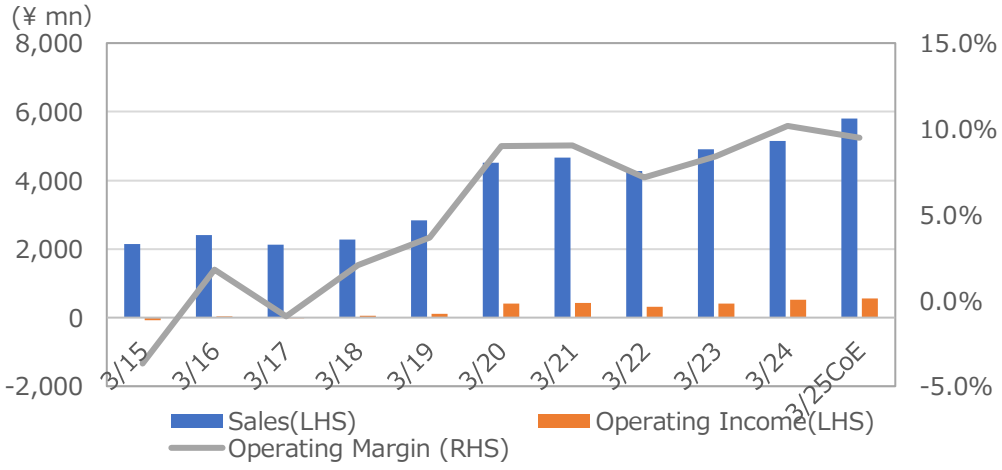
The current ratio of cashless payments at vending machines is estimated to be around 35%, and there is still a lot of room for expansion. IT Access's cloud-based terminals are easy to install and provide sales data in a timely manner, so the number is expected to continue to grow.

Figure 24. IT Access Payment Terminal (VMPU-01L)



Source: Company Data. Compiled by Strategy Advisors

Figure 25. IT Access's Business Performance



Source: Company Data. Compiled by Strategy Advisors

4) REGULUS

Image Processing Technology

REGULUS is a wholly owned subsidiary that INNOTECH acquired in 2012. Its image processing technology was deemed beneficial not only for the growth of INNOTECH's business, but also for the development of testers for CMOS sensors. Currently, the company is seeing growth in systems with safety monitoring and stop control functions for construction machinery and forklifts. Although the company is still small in scale and its contribution to profits is limited, it can be said to be a subsidiary that possesses elemental technologies that are key to the company's business.

7. Corporate DNA & Difficulty of Imitation

1) Positioning Theory

"Focus Strategy"

Michael E. Porter's basic competitive strategies consist of three strategies: 1) cost leadership strategy, 2) differentiation strategy and 3) focus strategy. Of these, the most important strategy adopted by INNOTECH is 3) focus strategy. When the company was founded, it was a trading company that imported and sold various semiconductor manufacturing equipment, but it has since withdrawn from the trading business, with some exceptions, expanded its manufacturing functions. Initially, the company attempted to develop its own front-end process equipment, such as ion implantation equipment, but was unsuccessful. After that, it identified electronics design and verification work as an area in which it could demonstrate its competitiveness and has focused its business on this area.

Even when the Business Environment Changed, INNOTECH Continued to Compete in their Field of Expertise

The business environment at the time of the company's founding, subsequently changed dramatically due to the declining competitiveness of Japanese semiconductor device manufacturers and the rise of Japanese semiconductor equipment manufacturers; and so the company's business model at the time was no longer viable. However, the company has survived by adapting its business model and has been on a growth trajectory, likely because it has continued to operate within its areas of expertise.

2) Corporate DNA

Corporate DNA

As mentioned above, INNOTECH was founded by several executives from Tokyo Electron, including its first president, Minoru Yoshida. While Tokyo Electron was transforming from a trading company for semiconductor manufacturing equipment into a manufacturer, INNOTECH stuck to its business model as an import trading company at the time of its founding and supported overseas manufacturing equipment ventures in establishing a foothold in Japan. Therefore, even though it was a trading company, it was important from the beginning to understand technology well and conduct

sales based on that understanding, rather than simply acting as an intermediary.

"Technical and Sales Capabilities to Support Electronics Design & Verification"

It is believed that this culture of conducting sales based on technical capabilities has remained firmly rooted as a corporate culture, even as the company has changed its business model in response to changes in the environment. This is likely why the company was able to achieve the difficult transition from an import trading company to a manufacturer. Therefore, we believe that INNOTECH's corporate DNA is on of "technical capabilities and sales capabilities that support the design and verification of electronics". Developing business in line with the company's DNA is a winning formula for a company and this also applies to INNOTECH. The industry environment that the management team envisioned at the time of the company's founding has changed significantly and the company has faced strong headwinds up to now; but the company is building a new business model based on its DNA and it is expected to enter a phase of sustainable growth in the future.

3) Difficulty In Imitation

Resource-Based Views

The resource-based view advocated by Jay B. Barney and others focuses on a company's management resources and capabilities. The VRIO framework is a concrete example of this. It states that value, rarity, inimitability and organization should be considered. At Strategy Advisors, we focus, particularly on inimitability.

Trust with Customers

One of the reasons why INNOTECH is difficult to imitate is the relationship of trust that it has built with its customers over the years. INNOTECH, which imports and sells a variety of semiconductor manufacturing equipment and EDA, is considered to be one of the suppliers that many semiconductor device manufacturers must deal with. INNOTECH's strength lies in its maintenance and support after import and sales based on its technical capabilities and it is assumed that this, combined with its strong sales capabilities, has allowed it to build strong relationships of trust with its customers. This can be inferred from the fact that when overseas tester manufacturers were reorganized and it was no longer possible to import and sell testers, customers asked INNOTECH if it could make testers with certain specifications, which was the beginning of the current tester business. In addition, the reason INNOTECH is protecting its own market area for importing and selling EDA against Cadence's Japanese base is probably because customers want to buy from INNOTECH.

Development and Validation Knowledge

It can also be said that the knowledge and technical capabilities related to the design and verification of electronics, including semiconductors, are difficult to imitate. Although the subsidiaries it has acquired, such as SANEI HYTECHS and GAIO TECHNOLOGY, are in niche fields, they each have high technical capabilities and competitiveness in their respective fields related to design and verification. Many of the acquisitions that INNOTECH has made so far have been successful and are contributing to its current consolidated profits, but this can also be attributed to INNOTECH's ability to understand such technical

capabilities. The simulation platform, which will be described later, can also be said to be the result of technical capabilities that support development and verification.

A Corporate Culture that Encourages Employees to Take on New Challenges

Another positive aspect of the company is the free and open corporate culture. There seems to be a culture of watching over and supporting the challenges proposed by employees. When President Otsuka came up with the idea of producing testers in-house, although there were voices of caution, management was supportive. Under President Otsuka, who is impressed by the challenging spirit of employees and the good management that supports it, this culture is likely to continue.

4) Equity Story

Growth can be Achieved by Digging Deep into the Company's DNA

Our equity story is that the company's DNA, "technical and sales capabilities to support electronics design and verification" will be further developed and growth potential will be expected by expanding its customer base and product lineup. Innovations in new technologies such as chiplets and simulation platforms are also expected to contribute to earnings. Testers are expected to see continued growth in demand for NAND flash memory and the number of customers and target devices is expected to expand. Supply to DRAM is also in sight. STAr's main customers are Taiwanese foundries and it is expected to benefit from the expansion of GPU production for AI and the expansion of chiplet adoption. These businesses are likely to follow cyclical growth despite being subject to the semiconductor cycle. EDA and SANEI HYTECHS are stable, while GAIO TECHNOLOGY and IT Access are involved in areas where demand is steadily growing.

Hopes also High for Management Reforms

Another point is that the company still seems to have a lot of room for reform. In particular, the subsidiaries have been independent and their management has been largely left to each company. Since the subsidiaries' performance has been relatively good, there has been no particular need for INNOTECH's management to change the structure. However, more than 10 years have passed since many of the main subsidiaries were brought under their umbrella and it is expected that in the future, the structure will be changed to one that is easier to increase synergy. First of all, the company plans to implement things that have not been done so far, such as sharing customer information held by each subsidiary. In addition, each subsidiary has common platform technology such as model-based development and it is assumed that the synergy effect of applying horizontal linkages will be large. INNOTECH itself also seems to have had problems with openness in the past due to its vertically divided organization, so the key point will be whether it can build a system that can pursue overall optimization as a group.

President Otsuka joined INNOTECH at a young age and has built up a track record as a working professional in the vibrant atmosphere of INNOTECH at the time, shortly after the company was founded. He is from a generation that knows INNOTECH in the good old days. On the other hand, unlike previous management teams, he is not bound by the past and is presumably

in a position to push forward with reforms on issues such as vertical divisions. Three and a half years have passed since he became president and the results of his efforts on organizational reform are beginning to show; but reforms are still in progress and it is expected that they will continue and accelerate in the future.

5) Vision and Mission

The vision of the mid-term management plan for FY3/2025 to FY3/2027 is "INNOTECH Changes the Future" and the mission is to "Connect cutting-edge technologies and people and contribute to achieving more prosperous and comfortable future society", "Resolve customers' challenges together, understanding customers' standpoint" and "Provide unique added values as INNOTECH". Cutting-edge technology and getting close to customers are in line with the company DNA and the difficulty of imitating it and clearly show the company's objectives.

8. Financial Strategy

From a Debt-Free Balance Sheet to One with Moderate Leverage over the 3-Year Period from FY3/19 to FY3/21

The company's finances have been reformed under the leadership of Senior Managing Executive Officer Yoshinori Tanahashi. Looking back at FY3/2018, the company had ¥5.76 billion in cash and deposits, no interest-bearing debt, ¥24.2 billion in equity capital and an equity ratio of 74.3%, showing excessive cash and a financial balance without leverage. In February 2018, the company announced its basic capital policy, which calls for continuous share buybacks to reduce equity capital to around ¥20 billion, keeping the D/E ratio below 0.5 times if interest-bearing debt is used and ensuring that the dividend payout ratio does not fall below 30%, with a target of around 50% unless there is a sudden change in performance.

Actively Buying Back Shares and Increasing Dividends

In February 2018, the company decided to buy back ¥2 billion of its own shares and in November of the same year, it decided to buy back an additional ¥2.5 billion of its own shares. In November 2019, the company bought back another ¥0.5 billion of its own shares. In February 2020, the company then announced that it would buy back the shares it held in INNOTECH through off-exchange share buyback transactions, as the partnership with Hong Kong-based CVP Holdings, which held INNOTECH shares, was dissolved. As a result, the company bought back a total of ¥6.5 billion of its own shares over the three years up to FY3/2020. Dividends were also increased from ¥15 per share in FY3/2017 to ¥30 in FY3/2018 and ¥40 in FY3/2019.

As a result, equity capital fell to less than ¥20 billion in FY3/2020. Even after that, despite fluctuations in net income, dividends per share have increased, and the dividend payout ratio has remained in the range of roughly 40-60%. Most recently, the weakening of the JPY has led to an increase in the foreign exchange adjustment account in comprehensive income and equity capital

increased to ¥24.7 billion at FY3/2024, resulting in a slight buildup of cash. In November 2024, the company announced a small-scale share buyback with a maximum limit of ¥0.5 billion.

Figure 26. Changes In Financial Standing

(¥ mn)

FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24
[Cash Flow]							
Net Income	721	1,493	1,169	1,535	2,195	1,667	1,478
Depreciation	600	768	985	993	1,058	1,197	1,288
Capital Expenditures	-1,294	-1,438	-1,621	-1,119	-1,378	-1,619	-1,203
Share Buybacks	-404	-3,871	-2,203	0	0	0	0
Dividend	-315	-615	-529	-618	-771	-918	-930
[B/S]							
Cash and Deposits	5,763	4,498	6,335	5,626	6,664	6,598	8,876
Interest-Bearing Debt	0	3,885	6,930	8,544	8,602	9,143	11,419
Equity Capital	24,201	21,009	19,416	20,094	22,213	23,605	24,704
[Major Indicators]							
Equity Ratio	74.3%	63.9%	55.5%	53.3%	54.8%	54.1%	51.6%
D/E Ratio	0.0%	18.5%	35.7%	42.5%	38.7%	38.7%	46.2%
Net D/E Ratio	-23.8%	-2.9%	3.1%	14.5%	8.7%	10.8%	10.3%
Dividend Per Share (¥)	30.0	40.0	40.0	50.0	65.0	70.0	70.0
Dividend Payout Ratio	73.1%	42.8%	49.4%	41.4%	38.5%	55.1%	63.3%

Source: Compiled by Strategy Advisors. Based on Company Data

Figure 27. Financial Strategy in the Current Medium-Term Management Plan

Source: Company Data

Financial Balance also Taken into Consideration in Current Mid-Term Management Plan

In the three-year medium-term management plan that began in FY3/2025, the company plans to operate its financial strategy based on the following criteria.

Defining the Appropriate Level of Cash

In addition to the policy announced in February 2018, this time around the form has set a standard of an appropriate cash and deposits level of about two months of monthly sales. As sales forecast for FY3/2025 are ¥41.5 billion, if the monthly sales are two months, the cash and deposits will be calculated as ¥6.9 billion and the ¥5.2 billion at the end of the first half of FY3/2025 is within this range. In addition, they have added items such as reviewing cross-shareholdings, optimizing inventory levels and managing working capital. It appears that they are considering expanding the investment capital framework for growth by promoting the efficiency of their balance sheet in this way.

Consider a Minimum Cost of Equity Capital Of 8%

The company also places importance on capital efficiency. Regarding the cost of shareholders' equity, it has been decided that a minimum of 8% should be set as the expected rate of return for investors, separate from the level calculated by CAPM. According to company documents, the cost of shareholders' equity calculated by CAPM was 5.66% at FY3/2023. If the cost of shareholders' equity of 8% is used as the standard, the only time ROE exceeded it was in FY3/2023, meaning that the profit margin has remained below the cost of shareholders' equity.

9. Business Performance Trends

1) Current Business Outlook

Profits For FY3/2025 are Expected to Decrease Compared YoY. Downward Revisions Made at the Time of the Announcement of Interim Financial Results

Test Solutions are struggling in FY3/2025. In the first half financial results announced on November 8, sales increased 6.9% and operating income increased 5.2% YoY. By business, System & Service saw a large increase in sales and profits, while Test Solutions saw a 2.0% increase in sales YoY, but its operating loss widened. Sales of testers for NAND flash memory appear to be sluggish due to sluggish capital investment by users. In System & Service, GAIO TECHNOLOGY's embedded software verification tools for automobiles and engineering services are doing well. INNOTECH's CPU boards and box-type computers and IT Access's cloud payment services are also expected to be strong.

The company has revised its earnings forecast for the full FY3/2025 downwards, citing the lack of prospects for a recovery in the Test Solutions business in the second half of the year. The operating income forecast has been revised from ¥2.5 billion to ¥1.8 billion. In the gross profit-based forecast published by the company, Test Solutions has been revised downward from the initial forecast of ¥5.75 billion to ¥4.6 billion.

System & Service have been revised upward from ¥4.35 billion to ¥4.6 billion, but this is not enough to cover the decline of Tester Solutions. Tester sales are expected to fall to around ¥1.5 billion, almost half of the previous full year and INNOTECH alone is expected to incur an operating loss.

Figure 28. Short -Term Performance Trends

(¥ mn)

	FY3/24 1H	FY3/25 1H (A)	YoY	Progress Rate (A)/(B)	FY3/25 Full Year New Forecast (B)	YoY	FY3/25 Full Year Previous Forecast
Sales	19,471	20,808	6.9%	50.1%	41,500	0.3%	43,500
Test Solutions	6,916	7,053	2.0%	51.0%	13,830	-12.9%	16,050
Semiconductor Design Related	6,364	6,622	4.1%	50.4%	13,150	2.1%	13,050
System & Service	6,189	7,132	15.2%	49.1%	14,520	15.3%	14,400
Operating Income	854	898	5.2%	49.9%	1,800	-27.2%	2,500
Test Solutions	-67	-410	NM	NA	NA	NA	NA
Semiconductor Design Related	308	287	-6.8%	NA	NA	NA	NA
System & Service	668	1,064	59.3%	NA	NA	NA	NA
Adjustment	-54	- 43	NM	NA	NA	NA	NA
Ordinary Income	1,206	750	-37.8%	41.7%	1,800	-37.5%	2,550
Net Income	833	459	-44.9%	34.0%	1,350	-8.6%	1,700

Source: Company Data. Compiled by Strategy Advisors

Recovery Expected in FY3/2026

The trend of Test Solutions will likely hold the key to the company's performance in FY3/2026. As mentioned above, the main users of the company's testers are expected to increase capital investment. However, there is a certain degree of uncertainty regarding the timing and strength of the recovery, as the market conditions for NAND flash memory are likely to continue to have an impact. If Test Solutions at least stop declining, System & Service are expected to continue to expand steadily, there is a high possibility that overall revenue will also see a clear recovery in FY3/2026.

2) Medium-Term Management Plan

Aiming For 10% ROE & 8% ROIC

FY3/2025 to FY3/2027, announced in March 2024, the company aims to achieve targets of ROE 10% and ROIC 8%. Regardless of the business environment, the company aims to maintain a minimum ROE of 8% and ROIC of 6%. As mentioned above, the company works on a cost of shareholders' equity of 8% and aims to achieve an ROE that always exceeds this. To achieve the target of ROE of 10%, the company says it needs to exceed its peak operating income of ¥3.33 billion in FY3/2008.

To achieve these targets, they will undertake the following three measures:

Improve Operating Profit Margin

First of all, the operating income margin will be improved. The operating income margin for FY3/2024 was 6.0% and the company expects it to fall to 4.3% for FY3/2025. As a company that has transformed from a trading company to a manufacturer, it is not satisfied with the current level. It will work to improve the profitability of each business and improve management efficiency through digital transformation. In terms of business composition, as the proportion of the high-profit System & Service business increases, the overall profit margin is expected to rise. In addition, since the demand for testers is likely to be at the bottom of the cycle, a cyclical recovery can be expected from FY3/2026 to FY3/2027.

Portfolio Optimization

Secondly, it is optimizing its business portfolio by reallocating management resources. As mentioned above, the company has announced a restructuring of STAr's probe card business. The mass-production probe card business will be separated and transferred, and STAr will focus on reliability test equipment and high-added-value probe cards.

The company is also planning to reorganize the group. Most of the subsidiaries it has acquired are operating roughly the same as at the time of acquisition. But going forward, in order to maximize the group's synergies, it appears that cooperative relationships, including the sharing of customer information will be important. We believe that more in-depth measures, such as creating new organizations by extracting businesses common to each subsidiary, will also be necessary. If effective measures are implemented, this will lead to increased sales and reduced costs.

Improved Stability of Business Performance

Thirdly, to improve the stability of business performance. The main measures cited are reducing dependency on specific customers, enhancing the product lineup and expanding stock-based business. In testers, the proportion of NAND flash memory for specific users is remarkably high, which is the cause of volatility. For this reason, the company has already been working to expand to other NAND manufacturers and increase sales to DRAM and CMOS image sensors other than NAND and the results of these efforts may become visible from around FY3/2026. In addition to EDA, stock-based business is mainly in System & Service and the company plans to further expand this.

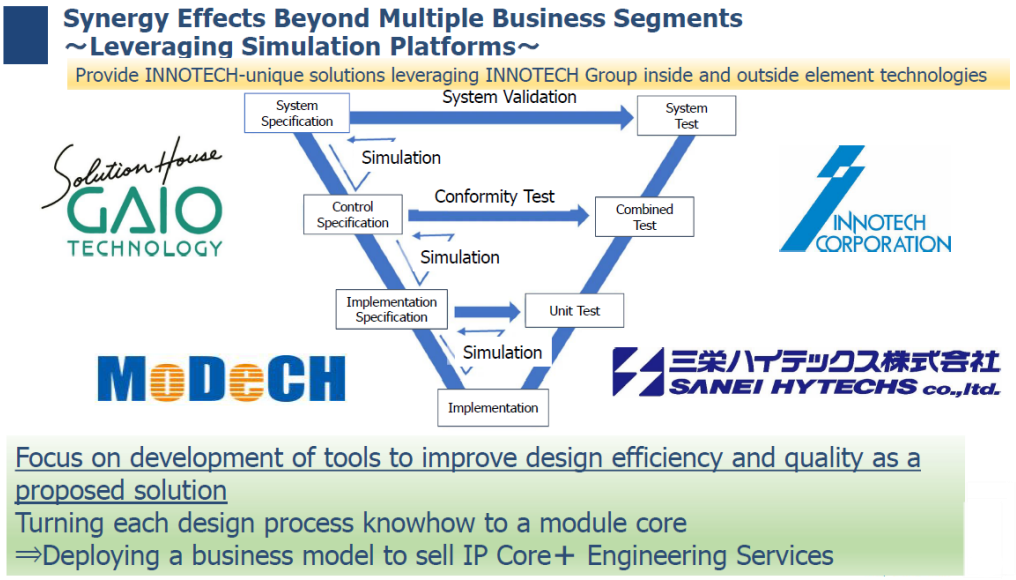
Investing For Growth

In addition, the company has listed M&A, globalization, investment in key areas (such as chiplets and simulation platforms) and digital transformation investment as investments for growth. Chiplets will lead to expanded business opportunities for the company's Test Solutions and EDA. In addition, Taiwanese foundries are increasing chiplet production, which will benefit STAr.

There is a possibility that new added value can be added through collaboration and information sharing between group companies on the simulation platform, which is a group-wide theme. There are several companies in the group that have knowledge of model-based development and verification, and INNOTECH also has a team that supports model-based development and performs noise analysis. It will be possible to provide

comprehensive support in each process, including upstream model-based development.

Figure 29. Simulation Platform

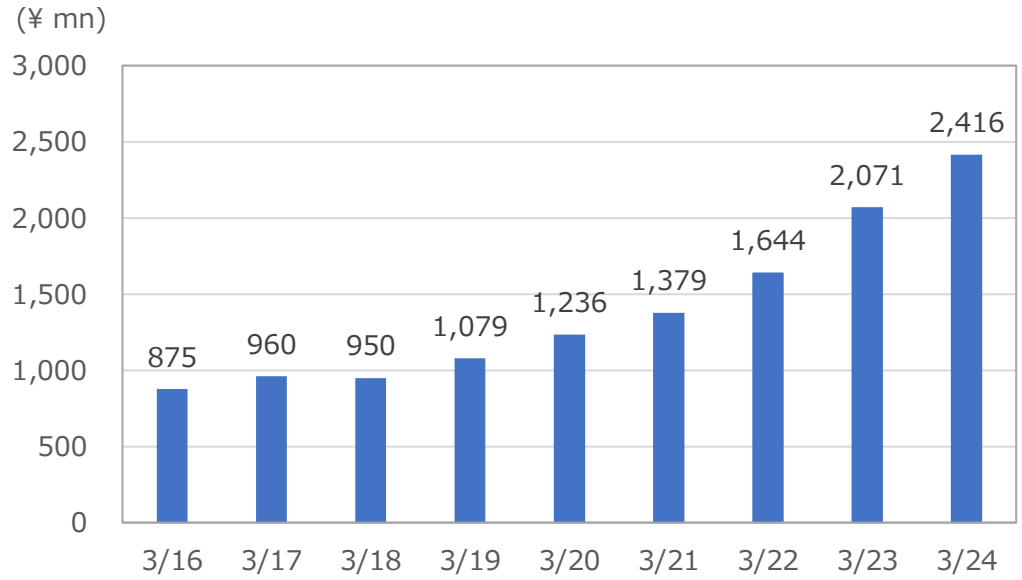


Source: Company Data

Research & Development Costs also Increasing

Research and development expenses are also being increased as investment in development in focus areas. As shown in Figure 29, research and development expenses have been increasing significantly recently. One factor may be that research and development expenses at STAr have increased in yen terms due to the effect of exchange rates, but even taking this into account, the group's research and development expenses have increased. It is expected that the contribution to profits will become apparent.

Figure 30. Research And Development Expenses



Source: Company Data. Compiled by Strategy Advisors

3) Business Environment and Earnings Outlook

Earnings Environment Bottoming Out

In the short term, Semiconductor Design-related Business is stable, and System & Service is growing; but the recovery of Test Solutions is delayed, making the situation somewhat tough. However, it is expected that there will be more favorable factors in the business environment from FY3/2026 to FY3/2027.

Semiconductors Were Sluggish Except for AI-Related Products, but are Expected to Recover Gradually

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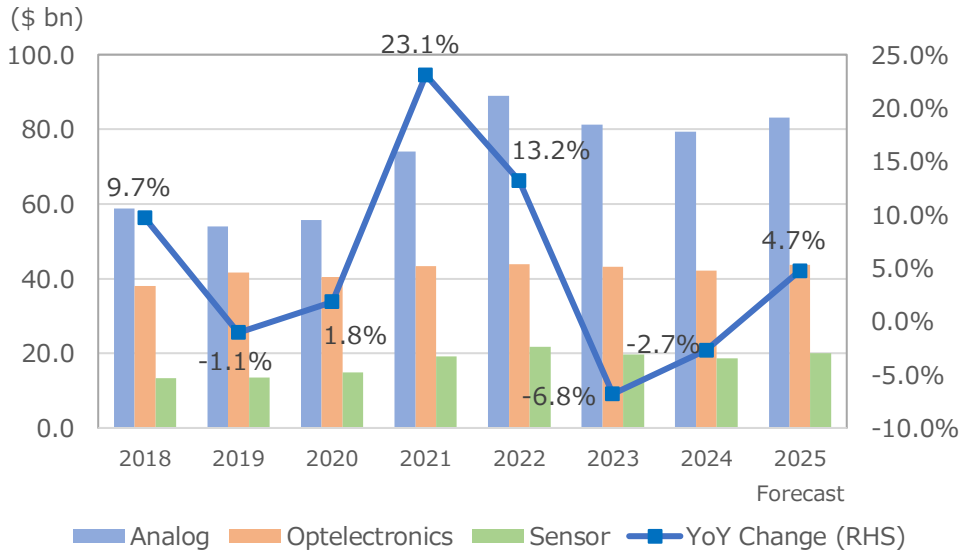
First of all, the semiconductor market as a whole is expected to recover. While AI-related GPUs and DRAMs are currently performing very well, other semiconductor devices are still recovering weakly due to the ongoing adjustment in demand that occurred in 2023. According to WSTS's 2024 autumn semiconductor market forecast data, the logic market is expected to grow 16.9% YoY in 2024 and memory 81.0% YoY; while analog is expected to decrease by 2.2%, optoelectronics by 2.5% and sensors by 5.1%, which are estimated to be negative following 2023. However, in 2025, while AI-related products will continue to perform well, the markets for devices closely related to the company are expected to turn positive, with analog increasing 4.7% YoY, optoelectronics by 3.8% and sensors by 7.0%.

The Japanese Market is also Expected to Recover Moderately

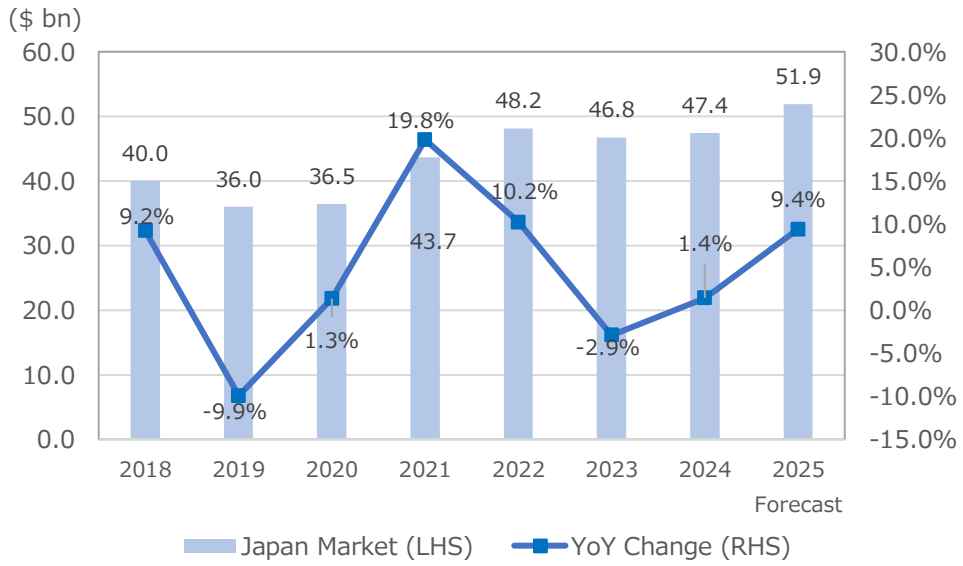
By region, the United States and Asia, which will benefit greatly from AI-related devices, are expected to see a large increase in 2024; while Japan, which will benefit less from AI-related devices, is estimated to see only a small increase of 1.4% in 2024, following a 2.9% decrease in 2023 compared to the previous year, however it is expected to grow by 9.4% in 2025. This cyclical rise in semiconductor devices will likely be linked to the INNOTECH Group's Semiconductor Design-related businesses, including EDA and System & Service, such as embedded systems and verification tools.

Figure 31. Semiconductor Device Market Trends by Product (Excluding Logic and Memory)



Source: Strategy Advisors. Based on WSTS Data

Figure 32. Trends In the Japanese Semiconductor Device Market



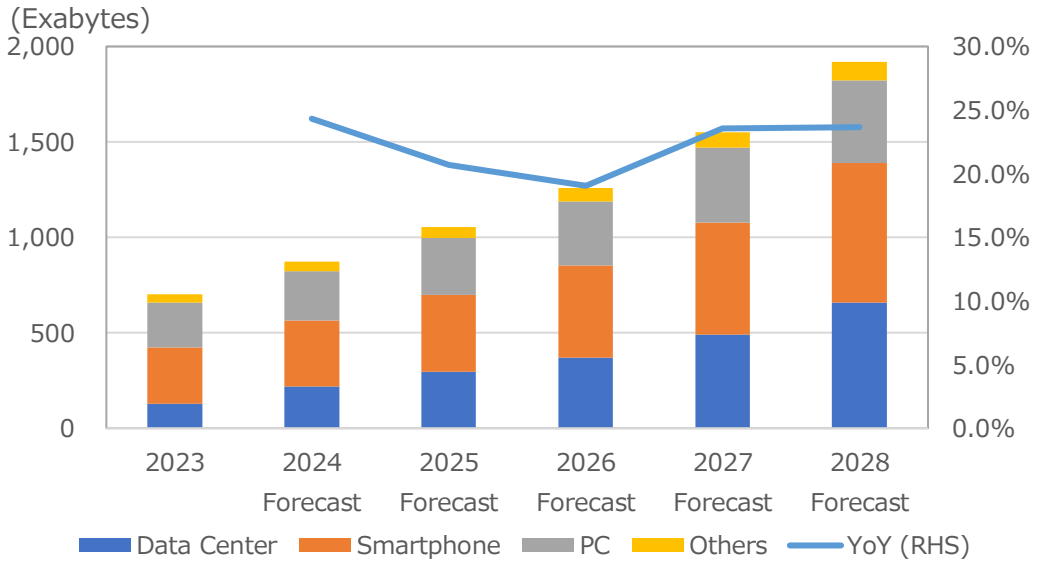
Source: Strategy Advisors. Based on WSTS Data

Capital Investment in Memory by Major Users also Set to Recover

Investments from major tester users are also expected to recover. The construction of new facilities at the new facility is expected to enhance production capacity, particularly for cutting-edge products. As the proportion of smartphones and PCs equipped with AI increases, demand for NAND flash memory is expected to increase, so investments are expected to increase in preparation for this. The company plans to proceed with investments in next-generation flash memory and high-layer products.

According to research firm TechInsights, as shown in Figure 32, demand for NAND flash memory on a byte basis is expected to grow at an annual rate of 22.2% over the next five years. Of this, data centers are expected to lead the growth with an annual growth rate of 38.9%. SSD's for AI data centers are expected to expand particularly rapidly.

Figure 33. NAND Flash Memory Demand Forecast



Source: Strategy Advisors. Based on the Kioxia Holdings Prospectus

Note: Source: TechInsights Inc. "NAND Market Report Q3 2024 "

INNOTECH Group's System & Service are expected to grow steadily, driven by the penetration of individual systems and services rather than by market trends in each industry, and are not expected to be significantly affected by fluctuations in the macro environment.

If the NAND Market Continues to Recover, it will be Possible to Achieve the Target for FY3/27

With the downward revision of the earnings forecast for FY3/2025, it appears that the hurdles for achieving the mid-term plan's targets of a 10% ROE and a record operating profit have been raised somewhat. However, the cause of the current earnings downturn is limited to Test Solutions and it is highly likely that demand for NAND testers will recover in terms of the cycle. STAr has just decided to reorganize and the effects of this are expected to become apparent in the future. Given these factors, there is a good chance that earnings will recover in FY3/2026. If the market for semiconductor devices, including NAND, continues to recover, earnings are expected to continue to increase in FY3/2027 and the achievement of the target figures will come into view.

10. Valuation And Stock Price Outlook

Stock Price Fluctuations Depend on Market Conditions & Performance of Semiconductor Devices Such as NAND Flash Memory

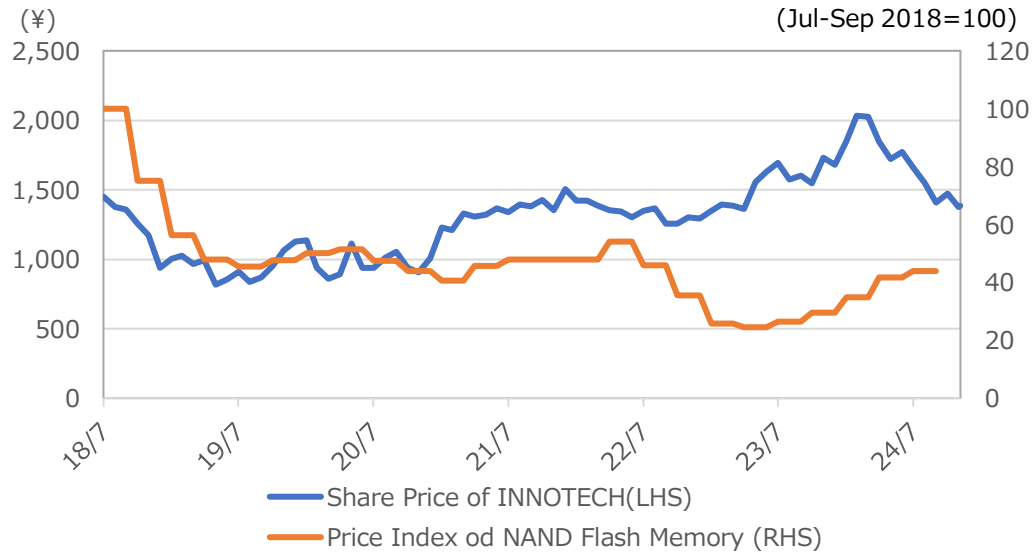
The company's stock price rose significantly in February 2018 when it announced the "Basic Policy on INNOTECH Group's Capital Policy" and set out its financial reforms. After that, it moved within a range, but since spring 2023, the market for semiconductor devices has bottomed out and started to recover and at the same time INNOTECH's stock price started to rise. The medium-term management plan announced in March 2024 raised expectations for future strategies and execution and the stock price of the company rose significantly along with the rise in the overall stock market.

However, since the company's forecast for FY3/2025 announced at the time of the settlement of FY3/2024 was for only a slight increase in profits and the market for semiconductor devices had plateaued, INNOTECH's stock price has been significantly adjusted since spring 2024. Furthermore, the stock price fell further when a downward revision of the company's forecast for the full year of FY3/2025 was released with the announcement of Q2 FY3/2025 results in November.

Despite Being Affected by the NAND Market. The Company is Showing Signs of Strength

As shown in Figure 33, INNOTECH's stock price is linked to the market conditions of NAND flash memory. The tester business's sales composition ratio was about 18% even in FY3/2022 when the business was doing well, but its ratio to operating income is estimated to have reached around 40%. On the other hand, the company is expected to fall into the red in FY3/2025. In other words, the impact on the increase or decrease in operating income is exceptionally large. And for this reason, the impact on stock price fluctuations is also large. However, when the NAND market started to decline from mid-2022, the stock price remained firm as the company-wide profit decrease was limited to a small amount in FY3/2023 thanks to the strong performance of the System & Service Business.

Figure 34. INNOTECH Stock Price and NAND Flash Memory Market



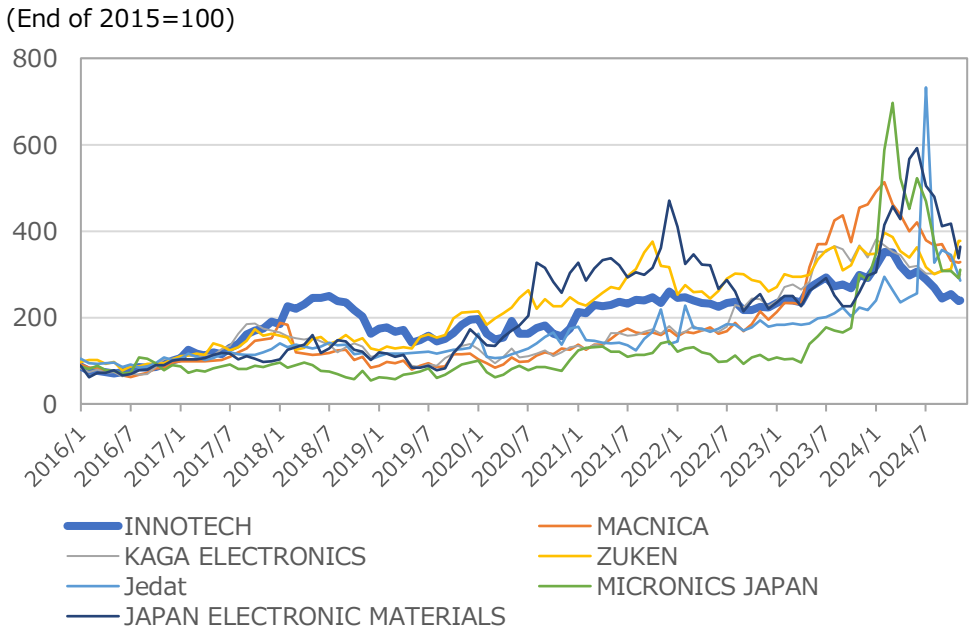
Note: NAND flash memory prices are based on Kioxia Holdings' financial statements. Price Index is on Memory capacity basis.
Source: Strategy Advisors

The Fluctuations in Stock Prices are Relatively Gentle Among Semiconductor-Related Companies

Comparing INNOTECH's stock price with the stock prices of semiconductor-related companies such as semiconductor trading companies, EDA manufacturers and probe card manufacturers, they show similar movements in response to changes in the semiconductor device market. As the market bottomed out from spring 2023, the stock prices of these companies also followed an upward trend but fell from spring to summer 2024 due to the delayed recovery of demand and market conditions for semiconductor devices other than AI.

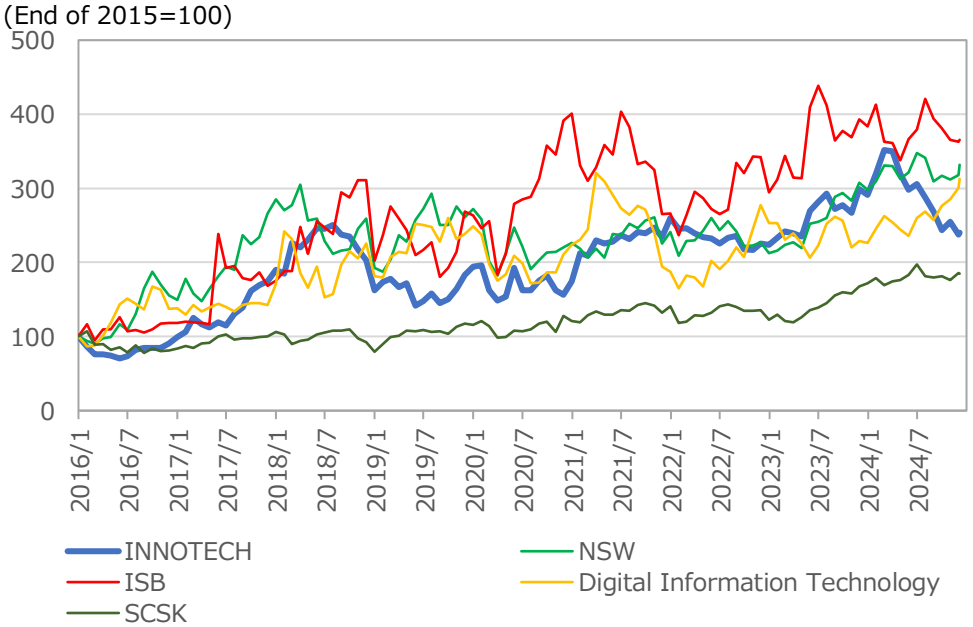
However, INNOTECH's stock price fluctuations can be said to be relatively small due to the contribution of stable profit-generating businesses such as SANEI HYTECHS and EDA in the semiconductor industry, as well as the expanding profit contribution of the System & Service Business.

Figure 35. Comparison Of Stock Prices Between INNOTECH And Semiconductor-Related Companies



Source: Strategy Advisors

Figure 36. Comparison Of Stock Prices Between INNOTECH and Embedded Systems-Related Companies



Source: Strategy Advisors

Valuations are Low

Looking at the historical range of the company's PER, except for a large increase from 2017 to early 2018, it has remained in the range of 8 to 15 times. Until spring 2024, it exceeded 15 times due to expectations of improved performance and a recovery in the semiconductor device market, but it has fallen to 13.5 times at present. Although it depends on the trend of the semiconductor market, since FY3/2025 is likely to be the bottom of earnings, PER will be calculated even lower based on the current stock price if we use FY3/2026 as a standard. Due to sluggish ROE, PBR has remained below this level except for 1 occasion at the beginning of 2024.

Improving ROE & ROIC is a Challenge

Figures 38 and 39 compare the profitability and valuation of the company with that of electronics trading companies, probe card manufacturers, EDA manufacturers and companies related to embedded systems. The most recent ROE and ROIC are the lowest, except for JAPAN ELECTRONIC MATERIALS, whose performance has declined. The company also placed importance in its medium-term management plan on ROE and ROIC as KPI's and has set targets of 10% and 8%, respectively.

The Move Away from Being Judged as Trading Firm, is Not Fully Reflected in Valuations

In terms of valuation, both PER and PBR are higher than those of electronics trading companies MACNICA HOLDINGS and KAGA ELECTRONICS, but its PBR is lower than other companies, with its PER in the middle range. INNOTECH claims to be transforming from a trading company to a manufacturer, but it may still be being held back by its being valued as a trading company. However, the low PBR is also likely due to the company's lowest ROE; so, going forward, attention will be focused on the improvement of ROE along with the expansion of the proportion of manufacturing functions in the business.

To Improve ROE, it is Necessary to Improve the Profitability of the Business and to Use Leverage

There are several possibilities for improving ROE. One is improving business profitability, in other words, improving ROIC. In addition to the expectation of a cyclical recovery in semiconductor devices, possible factors include an expansion of value-added products through new technologies and the expansion of System & Service with high profit margins. In addition, cost reductions and efficiency improvements are expected through the restructuring of businesses and subsidiaries.

Secondly, the use of leverage in financial strategies. The D/E ratio at 1H FY3/2025 was 0.4, below the 0.5 that the company aims to indicate soundness. In addition, although this is partly due to the impact of the weak JPY, equity capital has increased to ¥26.1 billion. Although the company announced a ¥0.5 billion share buyback in November, it still has ample financial room. Investments for growth should be prioritized, but there is also room to improve ROE by increasing shareholder returns.

Stock Prices May Recover as Test Solutions Bottoms Out

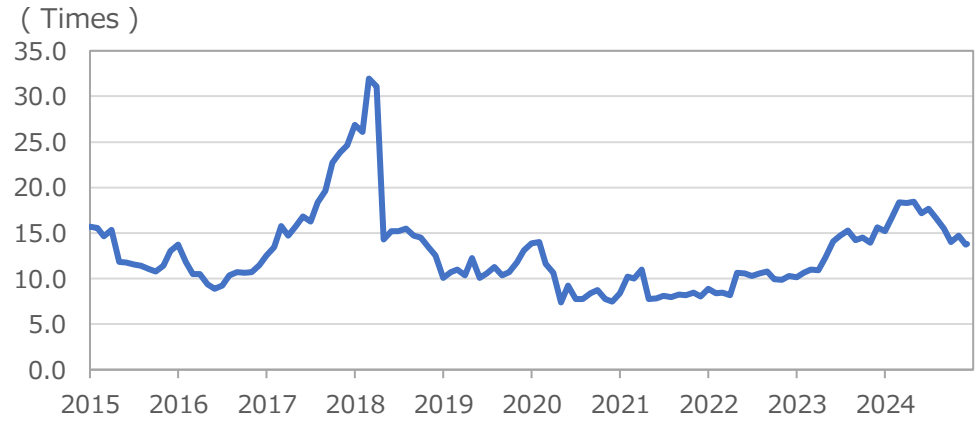
It is expected that the demand for testers will recover in FY3/2026 as capital investment in NAND flash memory is expected to increase. Also, the effects of the company's restructuring of STAr are expected to be seen and the acquisition of new users for Test Solutions is expected to be realized, so a recovery in Test Solutions is expected in FY3/2026. As Semiconductor Design-related and System & Service are expected to remain strong, if the probability

of a recovery in Test Solutions increases, there is a high possibility that INNOTECH's stock price will also start to rise.

Medium-Term Upside Potential

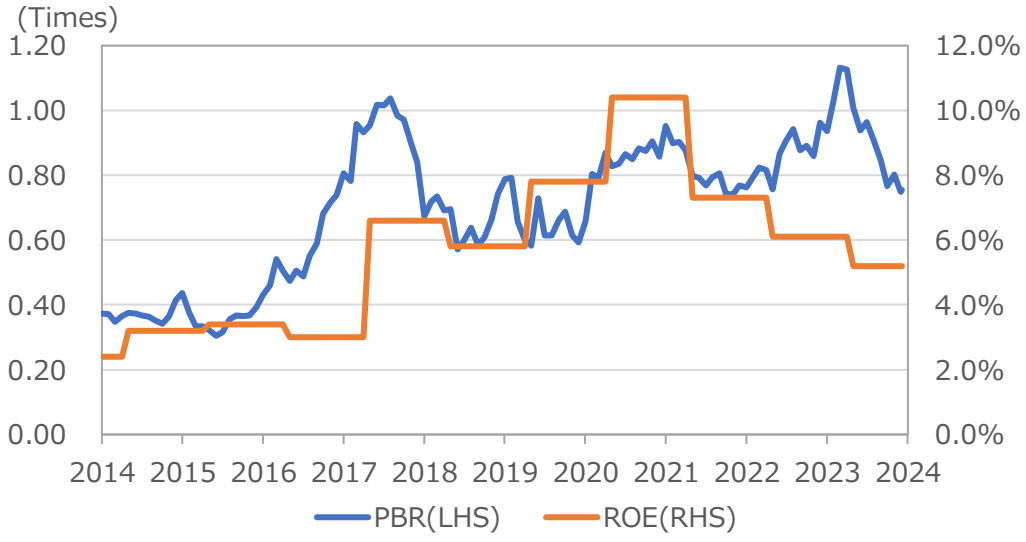
In the medium term, there are possibilities for increased demand for NAND due to the full-scale implementation of AI data centers, contributions from new technologies such as chiplets and simulation platforms, expansion of the customer base for testers and expansion into DRAM. If these factors actually contribute to earnings, the upside of the stock price in the medium term is expected to increase.

Figure 37. INNOTECH's PER Trend



Source: Strategy Advisors

Figure 38. Trends in INNOTECH's ROE and PBR



Source: Strategy Advisors

Figure 39. Profitability Comparison with Other Companies in The Same Industry

(¥ mn)	Code	FY	Sales	Operating Income	Operating Margin	ROE	ROIC	Equity Ratio
INNOTECH	**9880**	**3/24**	**41,358**	**2,474**	**6.0%**	**6.1%**	**6.3%**	**51.6%**
MACNICA HOLDINGS	3132	3/24	1,028,718	63,733	6.2%	21.7%	18.4%	44.2%
KAGA ELECTRONICS	8154	3/24	542,697	25,845	4.8%	14.5%	16.1%	52.6%
ZUKEN	6947	3/24	38,466	4,797	12.5%	9.5%	47.7%	63.3%
Jedat	3841	3/24	2,061	302	14.7%	9.6%	NA	78.3%
MICRONICS JAPAN	6871	12/24	38,292	5,312	13.9%	10.3%	15.0%	73.8%
JAPAN ELECTRONIC MATERIALS	6855	12/23	17,461	870	5.0%	2.5%	3.4%	71.0%
NSW	9739	3/24	50,299	5,862	11.7%	13.6%	23.7%	75.2%
ISB	9702	12/23	32,388	2,734	8.4%	13.1%	31.6%	65.7%
Digital Information Technologies	3916	6/24	18,150	2,040	11.2%	26.0%	52.8%	68.1%
SCSK	9719	3/24	480,307	57,004	11.9%	14.1%	18.1%	65.3%

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: Compiled by Strategy Advisors. Based on Company Data

Figure 40. Comparison of Valuations with Peers

(¥ mn, Times)	Code	FY	Stock Price (12/23)	Market Cap	PER CoE	PBR Actual	EV/ EBITDA	Dividend Yield CoE	ROE CoE
INNOTECH	**9880**	**3/24**	**1,354**	**18,223**	**13.5**	**0.74**	**6.3**	**5.2%**	**5.2%**
MACNICA HOLDINGS	3132	3/24	1,755.5	105,384	10.5	0.43	4.4	8.0%	12.1%
KAGA ELECTRONICS	8154	3/24	2,917	76,653	8.5	0.51	1.5	5.7%	11.3%
ZUKEN	6947	3/24	4,380	97,451	24.4	2.41	10.7	2.3%	9.9%
Jedat	3841	3/24	1,361	5,238	21.8	1.48	5.2	2.9%	6.8%
MICRONICS JAPAN	6871	12/24	3,935	151,852	18.3	3.68	9.8	1.7%	17.8%
JAPAN ELECTRONIC MATERIALS	6855	12/23	2,113	26,689	11.1	1.08	3.9	2.6%	9.1%
NSW	9739	3/24	3,080	45,889	11.0	1.38	4.2	2.8%	12.2%
ISB	9702	12/23	1,370	15,669	9.7	1.32	2.3	3.4%	12.5%
Digital Information Technologies	3916	24/6	2,175	32,347	18.0	4.67	10.3	2.8%	26.4%
SCSK	9719	3/24	3,310	1,034,425	23.2	3.42	11.6	2.1%	14.5%

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 forecast operating profit to its most recent actual depreciation and amortization expenses.

Source: Compiled by Strategy Advisors. Based on Company Data

11. Risk Factors

The following are some of the risks that could affect INNOTECH's performance and stock price trends.

Semiconductor Market Conditions

A short-term risk is the market trend for semiconductor devices such as NAND flash memory. As the company's forecast for FY3/2025 was revised downward, it is difficult to predict the future of the semiconductor market; and the gradual recovery that the company is expecting from FY3/2026 may be further delayed. This could be due to factors such as the sales trends of smartphones and PCs due to the macro economy, especially sales of AI-equipped PCs and smartphones.

Positions For Specific Users

Secondly, there is a possibility that the company's share among certain major users and partners may decline. Currently, memory testers are highly dependent on certain major domestic semiconductor device manufacturers, and if other tester manufacturers were to develop products that are attractive in terms of technology or price, this could affect INNOTECH's sales. In the EDA field, too, if the Japanese base of Cadence, for which INNOTECH is the agent, were to expand its scope of operations, this would also have an impact on INNOTECH's sales share. However, as mentioned above, INNOTECH is focusing on technological development and building relationships of trust with customers to prevent this from happening, this is unlikely to be a major risk at this point.

Geopolitical Risks

We would also like to point out geopolitical risks. Taiwanese subsidiary STAr has been seeing an increase in sales of reliability test equipment to China. With the arrival of the Trump administration in the United States, there is a possibility that regulations on business with China will become stronger. However, INNOTECH is taking steps as a group to avoid such risks and there are no major concerns at this time.

Possible Delay in Business Restructuring

Although not a downside risk, one factor that could hold back growth is the lack of progress in restructuring the business portfolio and group operations. Many subsidiaries are still running their businesses un-changed from when they were acquired and each has its own autonomy, so there is a possibility that restructuring will not proceed as INNOTECH's management envisions. In that case, there is a possibility that the improvement of the current low ROE and ROIC will be delayed.

12. Sustainability Policies and Practices

1) INNOTECH's Corporate Governance Structure

The INNOTECH Group is composed of INNOTECH and 20 subsidiaries and its organizational form is as a company with an audit and supervisory committee. In 2023, the company transitioned from a company with an audit and supervisory board to a company with an audit and supervisory committee. The board of directors consists of five directors (including one woman). Three audit and supervisory committee members (including one woman) have been appointed, all of whom are outside directors.

The Advisory Committee has been established as an advisory body to the Board of Directors. This voluntary advisory committee, the majority of whose members are independent outside directors (three out of four), provides advice and recommendations on the appointment and dismissal of directors and executive officers, as well as compensation details.

Of the five directors, three are outside directors, accounting for 60% of the total. Principle 4-8 of the Corporate Governance Code requires that companies listed on the Prime Market appoint at least one-third of independent outside directors and as such, this standard is met. All three outside directors meet the independence standards and are comprised of experienced individuals with extensive knowledge of the semiconductor business, former employees of government agencies and financial institutions and lawyers. In addition, of the five directors, one is female (female director ratio 20%).

Figure 41. Valuation Comparison with Peer Companies

			Skills that can be particularly utilized among the knowledge and experience that INNOTECH expects						
Name	Position	Gender	Corporate Management	Finance & Accounting	Legal & Compliance	Global Business	Industry Knowledge & Technology	Investments & New Businesses	ESG & Sustainability
Nobuyuki Otsuka	President and Representative Director	Male	●			●	●	●	
Yoshinori Tanahashi	Representative Director	Male	●	●	●			●	●
Ichiro Anjo	Outside Director	Male	●				●	●	
Kimito Nakae	Outside Director	Male	●	●					●
Shino Hirose	Outside Director	Female			●	●			●

Note: Ichiro Anjo, Kimito Nakae and Shino Hirose are Audit & Supervisory Committee Members. Titles omitted

Source: Company Data

2) INNOTECH's Sustainability System

INNOTECH's sustainability policy is based on the five management philosophies of "Contribute to the future society", "Become an indispensable company", "Solve problems", "Become a pioneer" and "Become a company where every employee feels proud of their organization".

- INNOTECH contributes to resolving various social issues through its business activities.
- INNOTECH keeps increasing its corporate values through each employee's growth.
- INNOTECH remains a trusted company through communication with its stakeholders.

As part of the governance structure for sustainability, the Representative Director and President is the CSO (Chief Sustainability Officer), and the Representative Director and Senior Managing Executive Officer is the Director in charge of Sustainability Promotion. The "Sustainability Promotion Council" has been established, organized by the CSO, as a forum for discussing basic policies on sustainability and important matters related to them, and in principle, meets monthly. The contents discussed at the Council are reported to the Board of Directors on a regular basis (at least once a year) and a system is in place to properly monitor and supervise the risk management status.

In its new medium-term management plan announced in March 2024, INNOTECH has identified five material issues: "human capital management", "supply chain management", "solving social issues through electronics technology", "harmonious coexistence with the society and contribution to the sustainable future" and "improvement of management foundation" and has set and disclosed KPI's for each.

Figure 42. INNOTECH's Materiality and KPIs

Materiality	KPI	FY2023 Achievements
Human Capital Management	Ratio of female management: FY2025: 5%, FY2030: 10% (Japan)	Ratio of female management: 4.7% (Japan)
	Hiring ratio of female new-graduates: +30% (Japan)	Hiring ratio of female new-graduates: +32.4% (Japan)
	Childcare leave acquisition rate for male employees: +50% (Japan)	Childcare leave acquisition rate for male employees: +108.3% (Japan)
	Paid leave acquisition rate: +70% (Japan)	Paid leave acquisition rate: +81.9% (Japan)
Supply Chain Management	Obtaining letters of consent for the code of conduct from +80% of suppliers in terms of business amount (Non-consolidated basis)	Obtained letters of consent for the code of conduct from +88.5% of suppliers in terms of business amount (Non-consolidated basis)
	RBA member companies are deemed to have agreed to the code of conduct	RBA member companies are deemed to have agreed to the code of conduct
Solving Social Issues Through Electronics Technology	R&D expense ratio (Consolidated basis): +4%	R&D expense ratio (Consolidated basis): +5.8%
	0 major accident	0 major accident
Harmonious Coexistence with Society & Contribution to the Sustainable Future	Achieving net-zero Scope 1 and Scope 2 GHG emissions by the year 2050.	Refer to our ESG website, “Disclosure based on the TCFD framework”.
Improvement of Management Foundation	ROE: +8%, ROIC: 8~10%	ROE:6.1% ROIC: 4.7%
	0 major security incident	0 major security incident

Note: RBA = Responsible Business Alliance
Source: Company Materials

3) INNOTECH's Response to Climate Change

As its environmental policy, the company states, "INNOTECH is an electronic company which engages in technology development for software, semiconductor test equipment and electronic components. INNOTECH is committed to have all of its employees recognize the impact on environment as the company pursue its business and take active roles in protecting global environment in its business area".

As part of its activities based on the basic environmental policy, it will endeavor to implement an environmental management system that complies with ISO14001 (an international standard for environmental management systems), comply with environmental laws and regulations, promote the sale of products that reduce the environmental impact and raise the awareness of all employees regarding environmental conservation.

In addition, INNOTECH aims to achieve the long-term goal of the Paris Agreement, which is to "keep the global average temperature rise well below 2 degrees Celsius compared to pre-industrial levels and pursue efforts to limit it to 1.5 degrees Celsius". On its website (ESG), the company discloses

information based on the TCFD (Task Force on Climate-related Financial Disclosures) framework.

The company has set the following key materiality themes as "ensuring access to sustainable energy", "environmental contributions through products that reduce environmental impact" and "consideration and contribution to the global environment and climate change". By identifying, assessing and analyzing the business risks and opportunities brought about by climate change and reflecting the results in its management plans and business strategies, the company aims to achieve sustainable growth in the medium to long term.

INNOTECH has established a target "to make its Scope 1 and 2 GHG emissions as net zero by the year 2050" and as part of its ISO activities, is implementing thorough energy-saving measures, such as converting all lighting in its headquarters building to LED and installing solar panels on the roof of the headquarters building. In addition, the company is aiming to achieve carbon neutrality by specifically considering procuring electricity from renewable energy sources. It is currently formulating a specific plan to achieve this goal.

Figure 43. INNOTECH's Important Climate-Related Risks and Opportunities, Their Impacts & Response Policies

Category			Content	Impact	Measures
Risks	Transition Risks	Governmental policies and laws and regulations	Cost increase due to introduction of carbon pricing (carbon taxes) and obligations to use of renewable energy	Medium	・Monitoring of governmental policy trends ・Understanding the impact when new policies are introduced ・Thorough activities to save energy ・Setting up solar panels on the rooftop of the headquarter building ・Passing the cost increase onto customers
		Technology	Losing technical superiority due to shrinking power train area in the automobile industry	Medium	・Development and sales of products in the other areas than power train ・Providing services in the other areas than power train
		Market	Restricted sales of gas-powered cars and worldwide shifting trend to electric vehicles; Decline of shares by the Japanese automobile makers associated with reorganization of the automobile industry	High	・Expansion of business for electric vehicles ・Increase of transactions with emerging automobile makers and overseas automobile makers ・Entering into other areas
	Physical Risks	Acute	Broken supply chain and tight supply of parts and components due to natural disasters, such as heavy rain and flooding	High	・On-going evaluation of replacement parts and components ・Advance procurement of parts and components with longer lead-time ・Parts-sharing among different products (to lower the risk of suspension of production due to parts and component shortage) ・Continual BCP reviews and enhancement of management scheme
		Chronic	Broken supply chain and tight supply of parts and components due to long-term increase of global average temperature, change of global precipitation patterns, and rising sea levels		
Opportunities	Products and Services		Supporting demands for low-power and smaller footprint products	Medium	・Investment on R&D activities
			Enhancement of efficiency of logistics and productivity and manpower reduction as the DX continues to progress	Medium	・Increasing deployment of the cloud settlement systems and factory automation tools
	Market		Increase of opportunities to leverage electronics technologies	Medium	・Providing products and services which contribute to mitigate climate changes

Source: Company Data

4) INNOTECH's Human Capital Strategy

As a human capital strategy, the company aims to create a work environment where each employee is motivated, can demonstrate their diverse individuality and can take on new challenges with their own diverse working styles, while respecting all employees and promoting diversity. In addition, the company is gradually taking measures to review its compensation system and enhance employee benefits in order to increase motivation.

In order to achieve further growth, INNOTECH is promoting business restructuring from the following three perspectives. The first is "From Product Business to Solution Business", the second is "From Domestic Business to Global Business" and the third is "From the Semiconductor Market to the Final Product Market". INNOTECH has set the following seven items as the type of human resources necessary to realize these business transformations and is promoting human resource development and ability development.

- A person who is motivated to make new challenges voluntarily, overcoming a fear of failure, in cultivating new businesses and so on.
- A person with high expertise and ability, who owns a global viewpoint and boldly pursues overseas business deployment.
- A person who is capable of clearly presenting the future outlook and concrete action plans, making necessary decisions and executing such plans.
- A person who has a full awareness of his or her actions, a sense of ownership and responsibilities for his or her duties, and accomplishes things without escape.
- A person with leadership and who is capable of achieving goals, yet works well with others as a team.
- A person who understands other people’s views and standpoints, who is humble, sincere and respectful of others and who is capable of establishing and maintaining good relationships with others.
- A person who is motivated to grow, who has his or her own opinion and will and who is capable of making recommendations and suggestion without hesitation to his or her own supervisors and customers, regardless of the organizational hierarchy and business relationships with them.

The company established a training system that will serve as the foundation for human resource development and in October 2019 launched the "Education Committee" as an organization to oversee its smooth operation and continuous improvement. While honing "professional skills," which are skills specific to the business or task, through daily work; the company has also introduced an education and training program for all employees as a tool to improve "basic skill", which are general-purpose skills as members of society.

The ratio of female managers in the INNOTECH Group is 4.7% within Japan (as of FY2023). This is low compared to 31.1% for overseas group companies and 17.5% for the group as a whole. According to statistics compiled by the Japan Productivity Center, the ratio of managers at companies listed on the Tokyo Stock Exchange Prime for FY3/2024 is 8.5% overall and 6.0% for manufacturing, making INNOTECH's domestic ratio lower than the industry standard. Therefore, the company has set a goal of increasing the ratio of female managers from 4.7% in FY2023 to 5.0 % in FY2025 and 10% in FY2030.

In order to achieve this goal, the following will be the key measures:

- Provide opportunities for female employees to exchange views and opinions with the management team on a regular basis.
- Provide periodic training programs which are targeted to promote diversity.
- Achieve 30% or higher rate of new graduate female employees.
- Promote flexible and efficient work style, such as by enhancing consumption of annual paid leaves and making short-time working system for childcare and hourly based paid leave system and working from home available.

In addition, the gender wage gap, assuming men to be 100%, is 69.2% for all workers and 68.2% for regular employees. The figure for the entire TSE Prime Market is 71.4% and for the manufacturing industry it is 73.6%. This two percentage points higher than the TSE Prime Market and about four percentage points higher than the industry average.

Figure 44. Segment Trends (Quarterly)

(¥ mn)

FY	3/23 Q3	3/23 Q4	3/24 Q1	3/24 Q2	3/24 Q3	3/24 Q4	3/25 Q1	3/25 Q2
Sales								
Test Solutions	**2,117**	**4,050**	**2,435**	**4,481**	**4,421**	**4,548**	**3,234**	**3,819**
(YoY Change)	-40.4%	26.3%	-24.1%	-1.8%	108.8%	12.3%	32.8%	-14.8%
Testers	220	776	529	636	1,256	750	879	263
STAr	1,897	3,274	1,906	3,845	3,164	3,798	2,354	3,556
Semiconductor Design Related	**3,307**	**3,231**	**3,193**	**3,171**	**3,148**	**3,372**	**3,361**	**3,261**
(YoY Change)	9.7%	-4.8%	-4.5%	-6.9%	-4.8%	4.4%	5.3%	2.8%
EDA and others	2,214	2,174	2,082	2,117	2,159	2,283	2,316	2,271
SANEI HYTECHS	1,026	986	1,038	1,016	951	990	971	951
MoDeCH	66	71	73	37	38	98	73	39
System & Service	**2,933**	**3,228**	**3,060**	**3,129**	**3,287**	**3,113**	**3,622**	**3,510**
(YoY Change)	16.2%	20.3%	23.2%	13.4%	12.1%	-3.6%	18.4%	12.2%
Embedded Systems etc.	557	702	636	766	766	647	735	936
IT Access	1,274	1,267	1,396	1,256	1,272	1,236	1,656	1,171
GAIO TECHNOLOGY	929	938	917	1,028	1,079	1,048	1,127	1,286
REGULUS	171	322	109	80	169	182	102	118
Total	**8,358**	**10,508**	**8,689**	**10,782**	**10,854**	**11,033**	**10,218**	**10,590**
(YoY Change)	-8.1%	13.2%	-3.8%	0.5%	29.9%	5.0%	17.6%	-1.8%
Operating Income								
Test Solutions	**-284**	**491**	**-314**	**247**	**701**	**178**	**-212**	**-198**
(Operating Margin)	-13.4%	12.1%	-12.9%	5.5%	15.9%	3.9%	-6.6%	-5.2%
Semiconductor Design Related	**183**	**122**	**162**	**146**	**115**	**152**	**169**	**118**
(Operating Margin)	5.5%	3.8%	5.1%	4.6%	3.7%	4.5%	5.0%	3.6%
System & Service	**374**	**402**	**287**	**381**	**509**	**439**	**522**	**542**
(Operating Margin)	12.8%	12.5%	9.4%	12.2%	15.5%	14.1%	14.4%	15.4%
Adjustment Amount	**-105**	**-125**	**-34**	**-20**	**-341**	**-135**	**-44**	**1**
Total	**168**	**890**	**101**	**753**	**986**	**634**	**434**	**464**
(YoY Change)	-73.4%	226.0%	-70.6%	-18.1%	486.9%	-28.8%	329.7%	-38.4%
(Operating Margin)	2.0%	8.5%	1.2%	7.0%	9.1%	5.7%	4.2%	4.4%

Source: Company Data. Compiled by Strategy Advisors

Figure 45. Income Statement

(¥ mn)

FY	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25CoE
Sales	**28,863**	**28,735**	**29,804**	**31,161**	**32,536**	**37,238**	**38,629**	**41,358**	**41,500**
(YoY Change)	-7.6%	-0.4%	3.7%	4.6%	4.4%	14.5%	3.7%	7.1%	0.3%
Cost Of Sales	20,786	20,345	20,329	21,566	22,581	26,018	26,387	28,198	
Gross Profit	8,076	8,390	9,475	9,595	9,954	11,219	12,242	13,160	
(Gross Margin)	28.0%	29.2%	31.8%	30.8%	30.6%	30.1%	31.7%	31.8%	
SG&A	7,077	7,145	7,519	7,925	8,000	8,634	9,922	10,685	10,400
Operating Income	**999**	**1,244**	**1,955**	**1,670**	**1,954**	**2,585**	**2,319**	**2,474**	**1,800**
(YoY Change)	-1.3%	24.5%	57.2%	-14.6%	17.0%	32.3%	-10.3%	6.7%	-27.2%
(Operating Margin)	3.5%	4.3%	6.6%	5.4%	6.0%	6.9%	6.0%	6.0%	4.3%
Non-Operating Income	591	527	892	594	902	908	719	898	
Non-Operating Expenses	339	563	388	369	397	509	558	492	
Ordinary Income	**1,251**	**1,208**	**2,459**	**1,896**	**2,460**	**2,984**	**2,480**	**2,880**	**1,800**
(YoY Change)	7.7%	-3.4%	103.6%	-22.9%	29.7%	21.3%	-16.9%	16.1%	-37.5%
(Ordinary Profit Margin)	4.3%	4.2%	8.3%	6.1%	7.6%	8.0%	6.4%	7.0%	4.3%
Extraordinary Profit	6	0	1	0	7	72	2	3	
Extraordinary Losses	30	0	203	0	10	81	0	534	
Pretax Profit	1,227	1,209	2,256	1,895	2,458	2,976	2,482	2,349	
(YoY Change)	1.7%	-1.5%	86.6%	-16.0%	29.7%	21.1%	-16.6%	-5.4%	
(Pretax Profit Margin)	4.3%	4.2%	7.6%	6.1%	7.6%	8.0%	6.4%	5.7%	
Income Taxes	398	444	676	600	827	693	767	817	
(Effective Tax Rate)	32.4%	36.7%	30.0%	31.7%	33.6%	23.3%	30.9%	34.8%	
Net Income	829	764	1,580	1,294	1,630	2,283	1,714	1,532	
Net Income to Minority Interests	23	43	86	126	95	88	48	54	
Net Income to Owners of the Parent	**806**	**721**	**1,493**	**1,168**	**1,534**	**2,194**	**1,666**	**1,477**	**1,350**
(YoY Change)	8.9%	-10.5%	107.1%	-21.8%	31.3%	43.0%	-24.1%	-11.3%	-8.6%
(Net Income Margin)	2.8%	2.5%	5.0%	3.7%	4.7%	5.9%	4.3%	3.6%	3.3%
EPS (¥)	**45.9**	**41.0**	**93.5**	**81.0**	**120.7**	**168.7**	**127.0**	**110.6**	**100.3**

Source: Company Data. Compiled by Strategy Advisors

Figure 46. Balance Sheet

(¥ mn)

FY	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24
Current Assets	**16,160**	**17,963**	**17,400**	**19,243**	**20,476**	**23,189**	**25,957**	**30,305**
Cash And Deposits	5,154	5,763	4,498	6,335	5,626	6,664	6,598	8,876
Accounts Receivable	6,628	7,119	7,428	7,392	8,550	8,773	9,566	10,034
Inventory	2,049	2,524	3,922	3,874	4,793	6,101	8,105	9,181
Other Current Assets	2,329	2,557	1,552	1,642	1,507	1,651	1,688	2,214
Fixed Assets	**14,116**	**14,598**	**15,480**	**15,723**	**17,203**	**17,351**	**17,671**	**17,528**
Tangible Fixed Assets	10,080	10,235	10,370	10,565	10,713	10,842	11,463	11,630
Intangible Fixed Assets	1,550	1,488	1,489	1,372	2,224	2,424	2,236	2,066
Investments & Other Assets	2,485	2,874	3,620	3,785	4,266	4,085	3,971	3,831
Investment Securities	1,179	1,383	1,850	2,013	2,059	1,771	1,734	1,479
Deferred Tax Assets	57	65	288	266	388	420	501	498
Others	1,249	1,426	1,482	1,506	1,819	1,894	1,736	1,854
Total Assets	30,277	32,562	32,880	34,967	37,680	40,541	43,629	47,833
Current Liabilities	**5,077**	**6,862**	**7,155**	**10,120**	**12,183**	**13,612**	**17,068**	**20,260**
Trade Payables	1,526	2,024	1,637	2,408	1,947	2,333	3,053	2,778
Interest-Bearing Debt	0	0	727	3,339	5,111	5,649	8,070	10,139
Others	3,551	4,838	4,791	4,373	5,125	5,630	5,945	7,343
Fixed Liabilities	**579**	**630**	**3,810**	**4,427**	**4,369**	**3,761**	**1,970**	**2,250**
Interest-Bearing Debt	0	0	3,158	3,591	3,433	2,953	1,073	1,280
Deferred Tax Liabilities	0	0	0	0	0	0	0	0
Others	579	630	652	836	936	808	897	970
Net Assets	**24,620**	**25,068**	**21,915**	**20,418**	**21,127**	**23,167**	**24,589**	**25,322**
Shareholders' Equity	23,941	24,001	21,017	19,454	20,478	22,015	22,805	23,528
Capital	10,517	10,517	10,517	10,517	10,517	10,517	10,517	10,517
Capital Surplus	7,301	7,328	4,506	4,506	4,468	4,228	4,242	4,044
Retained Earnings	6,379	6,784	7,261	5,580	6,606	7,950	8,697	9,242
Accumulated Other Comprehensive Income	74	199	-7	-38	-384	198	799	1,176
Stock Acquisition Rights	305	290	278	277	273	128	128	21
Non-Controlling Interests	298	576	627	724	759	824	855	596
Liabilities & Net Assets	**30,277**	**32,562**	**32,880**	**34,967**	**37,680**	**40,541**	**43,629**	**47,833**
Equity Capital	**24,016**	**24,201**	**21,009**	**19,416**	**20,094**	**22,213**	**23,605**	**24,704**
BPS (¥)	**1,366.8**	**1,396.5**	**1,430.4**	**1,528.5**	**1,578.2**	**1,694.7**	**1,796.3**	**1,835.6**

Source: Company Data. Compiled by Strategy Advisors

Figure 47. Cash Flow

(¥ mn)

FY	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24
Cash Flows from Operating Activities								
Profit Before Income Taxes	1,227	1,209	2,256	1,865	2,458	2,976	2,482	2,349
Depreciation & Goodwill Amortization	546	600	768	985	993	1,058	1,197	1,288
Increase/Decrease in Accounts Receivable	920	-1,021	-351	85	-1,060	-49	-730	-235
Increase/Decrease in Accounts Payable	275	475	-359	766	-494	285	683	-377
Increase Or Decrease in Inventory	267	-664	-604	240	-856	-949	-1,946	-999
Receipt Of Interest and Dividends	9	9	11	11	13	19	18	38
Interest Payment	0	-2	-7	-13	-28	-32	-51	-88
Corporate Tax Paid	-563	-289	-622	-729	-469	-962	-976	-863
Others	-194	1,696	17	-94	279	125	1,003	1,508
Total	**2,487**	**2,013**	**1,109**	**3,116**	**836**	**2,471**	**1,680**	**2,621**
Cash Flows from Investing Activities								
Purchases of Property, Plant & Equipment	-237	-677	-611	-678	-662	-639	-1,076	-704
Purchase of Intangible Assets	-172	-304	-436	-473	-377	-639	-493	-499
Purchase of Investment Securities	-233	-313	-391	-470	-80	-100	-50	0
Proceeds From Sales of Investment Securities	15	0	0	0	0	41	0	0
Others	-207	403	-137	-92	-1,088	187	-73	-241
Total	**-834**	**-891**	**-1,575**	**-1,713**	**-2,207**	**-1,150**	**-1,692**	**-1,444**
Cash Flows from Financing Activities								
Net Increase/Decrease in Short-Term Borrowings	-9	-50	361	2,409	1,801	454	6	4,055
Net Increase/Decrease in Long-Term Borrowings	0	-23	3,526	634	-509	-521	470	-1,963
Expenditures For Acquisition of Treasury Stock	0	-404	-3,871	-2,203	0	0	0	0
Dividend Payment	-244	-315	-615	-529	-618	-771	-918	-930
Others	-36	259	-50	-23	11	-62	-75	-354
Total	**-289**	**-533**	**-649**	**288**	**685**	**-900**	**-517**	**808**
Effect Of Exchange Rate Changes on Cash & Cash Equivalents	-31	20	-50	-11	-56	356	183	122
Increase In Cash & Cash Equivalents	1,332	608	-1,164	1,680	-741	1,047	-346	2,108
Cash & Cash Equivalents at Beginning of Period	3,512	4,844	5,453	4,288	6,174	5,432	6,480	6,134
Cash & Cash Equivalents at End of Period	4,844	5,453	4,288	6,175	5,432	6,480	6,134	8,243
Free Cash Flow	1,653	1,122	-466	1,403	-1,371	1,321	-12	1,177

Source: Company Data. Compiled by Strategy Advisors

Figure 48. Key Indicators

FY	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24
EPS (¥)	45.9	41.0	93.5	81.0	120.7	168.7	127.0	110.6
BPS (¥)	1,366.8	1,396.5	1,430.4	1,528.5	1,578.2	1,694.7	1,796.3	1,835.6
DPS (¥)	15.0	30.0	40.0	40.0	50.0	65.0	70.0	70.0
Dividend Payout Ratio	32.7%	73.1%	42.8%	49.4%	41.4%	38.5%	55.1%	63.3%
Number of Shares Issued ('000)	18,219	18,219	15,700	13,700	13,700	13,700	13,700	13,700
Treasury Stock ('000)	648	888	1,012	997	967	592	559	242
Number of Shares of Treasury Stock Excluded ('000)	17,571	17,330	14,688	12,703	12,733	13,108	13,141	13,458
Average Number of Shares of Treasury Stock Excluded ('000)	17,566	17,579	15,973	14,430	12,712	13,013	13,128	13,366
Equity Ratio	79.3%	74.3%	63.9%	55.5%	53.3%	54.8%	54.1%	51.6%
Interest-Bearing Debt (¥ mn)	0	0	3,885	6,930	8,544	8,602	9,143	11,419
Net Interest-Bearing Debt (¥ mn)	-5,154	-5,763	-613	595	2,918	1,938	2,545	2,543
D/E Ratio	0.00	0.00	0.18	0.36	0.43	0.39	0.39	0.46
Net D/E Ratio	-0.21	-0.24	-0.03	0.03	0.15	0.09	0.11	0.10
Operating Profit Margin	3.5%	4.3%	6.6%	5.4%	6.0%	6.9%	6.0%	6.0%
EBITDA (¥ mn)	1,545	1,844	2,723	2,655	2,947	3,643	3,516	3,762
EBITDA Margin	5.4%	6.4%	9.1%	8.5%	9.1%	9.8%	9.1%	9.1%
ROE	3.4%	3.0%	6.6%	5.8%	7.8%	10.4%	7.3%	6.1%
ROIC	3.7%	4.5%	7.4%	6.0%	6.4%	8.8%	6.6%	6.3%
Number of Employees	1,117	1,174	1,257	1,428	1,539	1,642	1,728	1,775

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

Source: Company Data. Compiled by Strategy Advisors

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