

Tsuzuki Denki Co., Ltd. Financial Results for the Fiscal Year Ended March 31, 2021

May 27, 2021

Stock code: 8157

URL <https://www.tsuzuki.co.jp/english/>

Agenda

- 1 FY03/21 Results
- 2 Progress of Medium-term Management Plan
- 3 FY03/22 Forecast
- 4 Shareholder Return
- 5 Sustainability Initiatives

1 FY03/21 Results

Highlights

Steady growth in existing businesses even with COVID-19 impact and results exceeded initial forecasts despite lower sales and profits YoY

Information Network Solutions segment

(+) Remote work demand, growth in SaaS contact center services, and GIGA School Concept*¹-related orders

(-) Decline due to absence of special demand which existed in FY03/20*², COVID-19 impact (postponement and work delays for development and construction projects, restrictions on overall sales activities)

*1 GIGA School Concept: An initiative by Ministry of Education, Culture, Sports, Science and Technology to develop an educational ICT environment including high-speed and high-capacity networks and ensuring that every primary and secondary school student has a computer or tablet

*2 Special demand: Replacement demand for PCs following the end of technical support for Windows 7

Electronic Devices segment

(+) 2H recovery in demand for electronic devices in the factory automation equipment and automotive markets

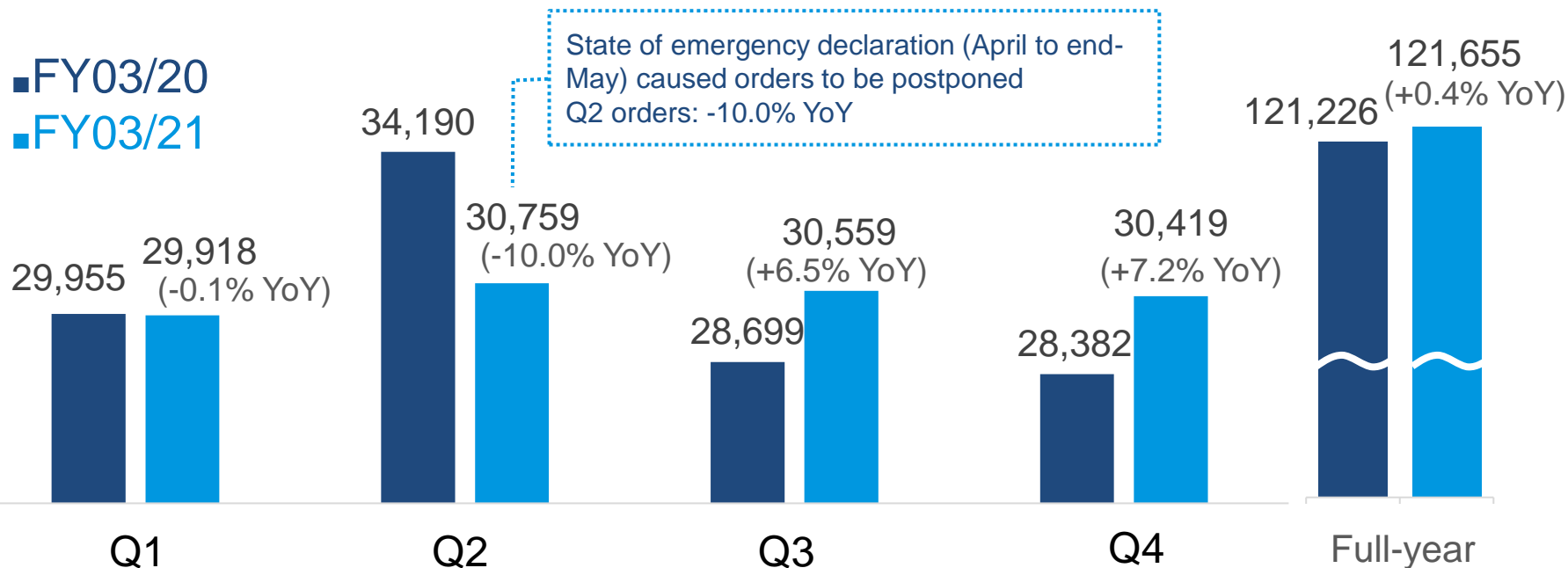
(-) Stagnation in supply chain caused by COVID-19 pandemic

Impact of COVID-19

Orders recovered from Q3 onward

- Previously delayed sales activities resumed
- However, some industries were greatly affected by the pandemic (substantial declines in healthcare, railway, and travel industries)

Quarterly orders

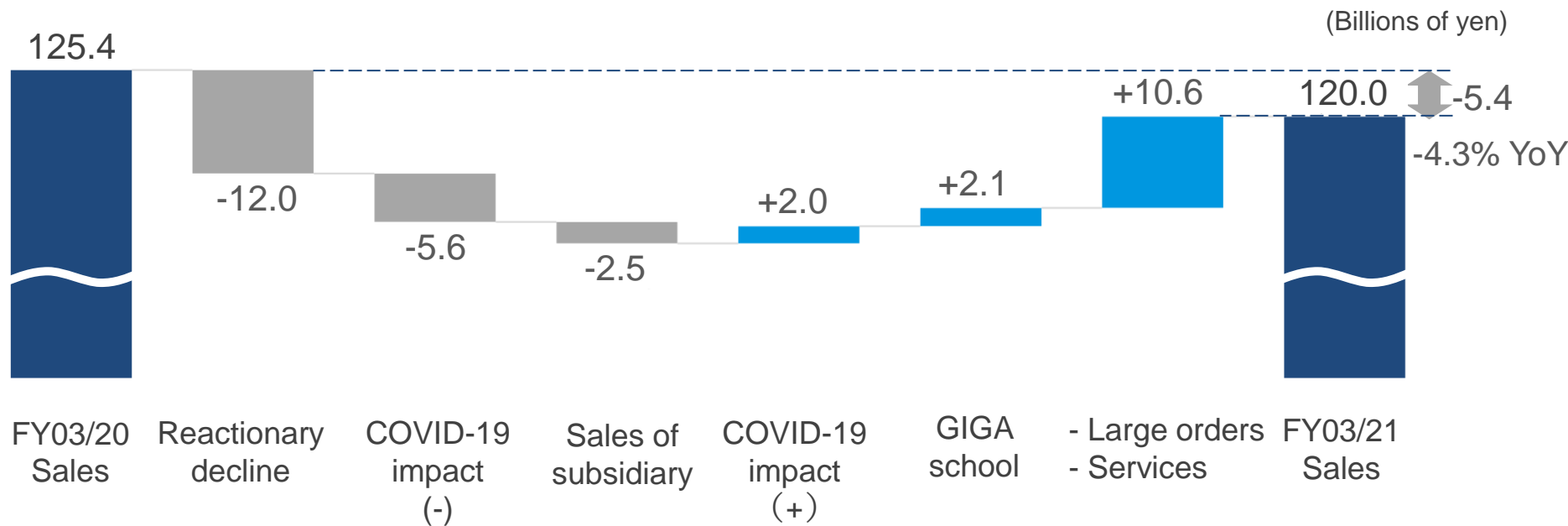


Statement of Income

(Millions of yen)

	FY03/20	(Reference) Initial forecast	FY03/21	Change (amount)	Change (YoY)
Net sales	125,366	112,000	120,004	-5,362	-4.3%
Gross profit	23,075	—	21,465	-1,609	-7.0%
(Cost ratio)	(81.6%)	—	(82.1%)	(0.5pt)	—
SG&A expenses	18,618	—	18,263	-354	-1.9%
Operating income	4,457	2,700	3,202	-1,254	-28.2%
(Operating margin)	(3.6%)	—	(2.7%)	(-0.9pt)	—
Profit attributable to owners of parent	3,155	1,800	2,346	-809	-25.6%
Orders	121,226	—	121,655	429	+0.4%
Order backlog	20,815	—	22,467	1,651	+7.9%

Factors Affecting Sales



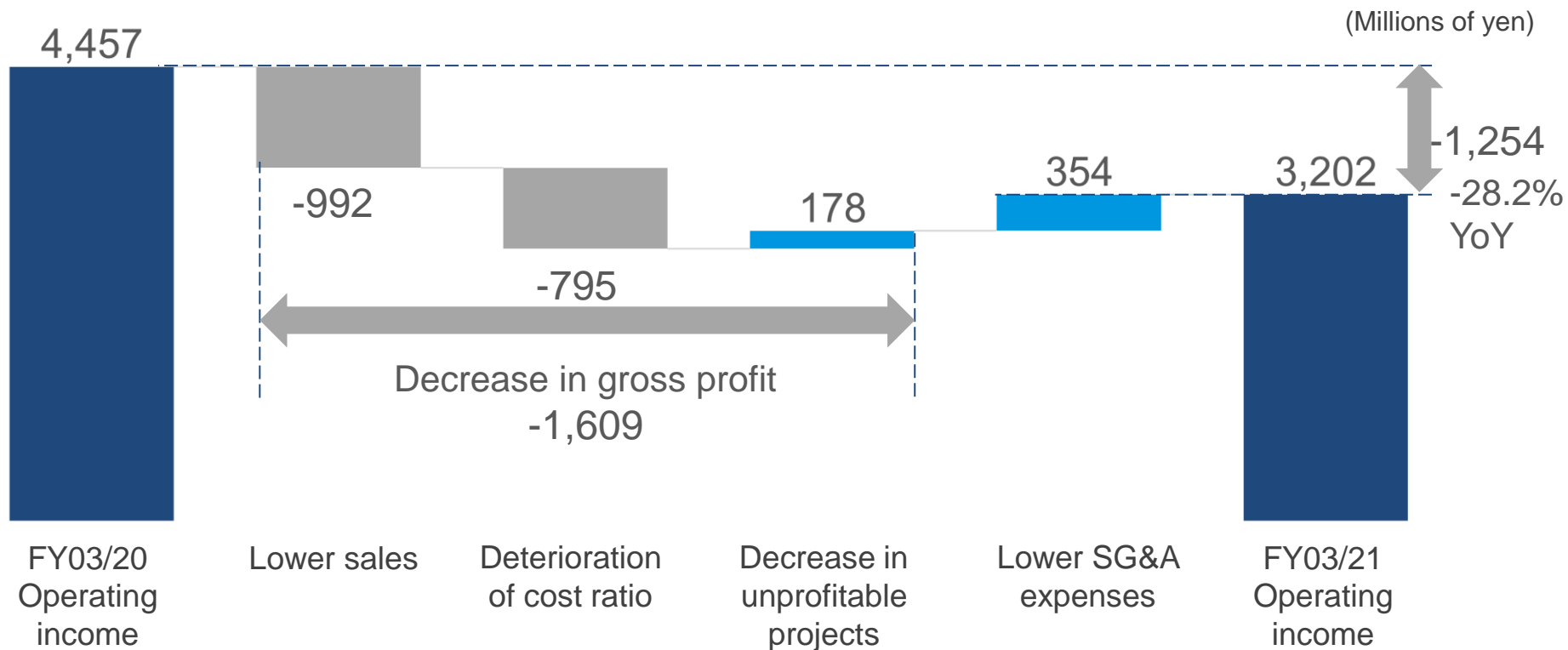
Negative factors

- Reactionary decline caused by special demand in FY03/20: -JPY12.0bn
- COVID-19: -JPY5.6bn
 - Delays of development and construction projects, restrictions on sales activities
 - Sluggish demand for electronic devices in 1H and stagnation in supply chain
- Change due to sale of subsidiary: -JPY2.5bn

Positive factors

- COVID-19: +JPY2.0bn
 - Remote work demand
- GIGA school orders: +JPY2.1bn
- Build-up of large order negotiations, growth in service businesses, and impact of the consolidation of ComDesign Inc.: +JPY10.6bn

Factors Affecting Operating Income



Negative factors

- Lower sales: -JPY992mn
 - Reactionary decline caused by special demand in FY03/20, COVID-19 impact
- Deterioration of cost ratio: -JPY795mn
 - Large equipment installation projects with high cost ratio

Positive factors

- Decrease in unprofitable projects: +JPY178mn
- Lower SG&A expenses: +JPY354mn
 - Reduction in sales activity-related expenses due to restrictions on going out

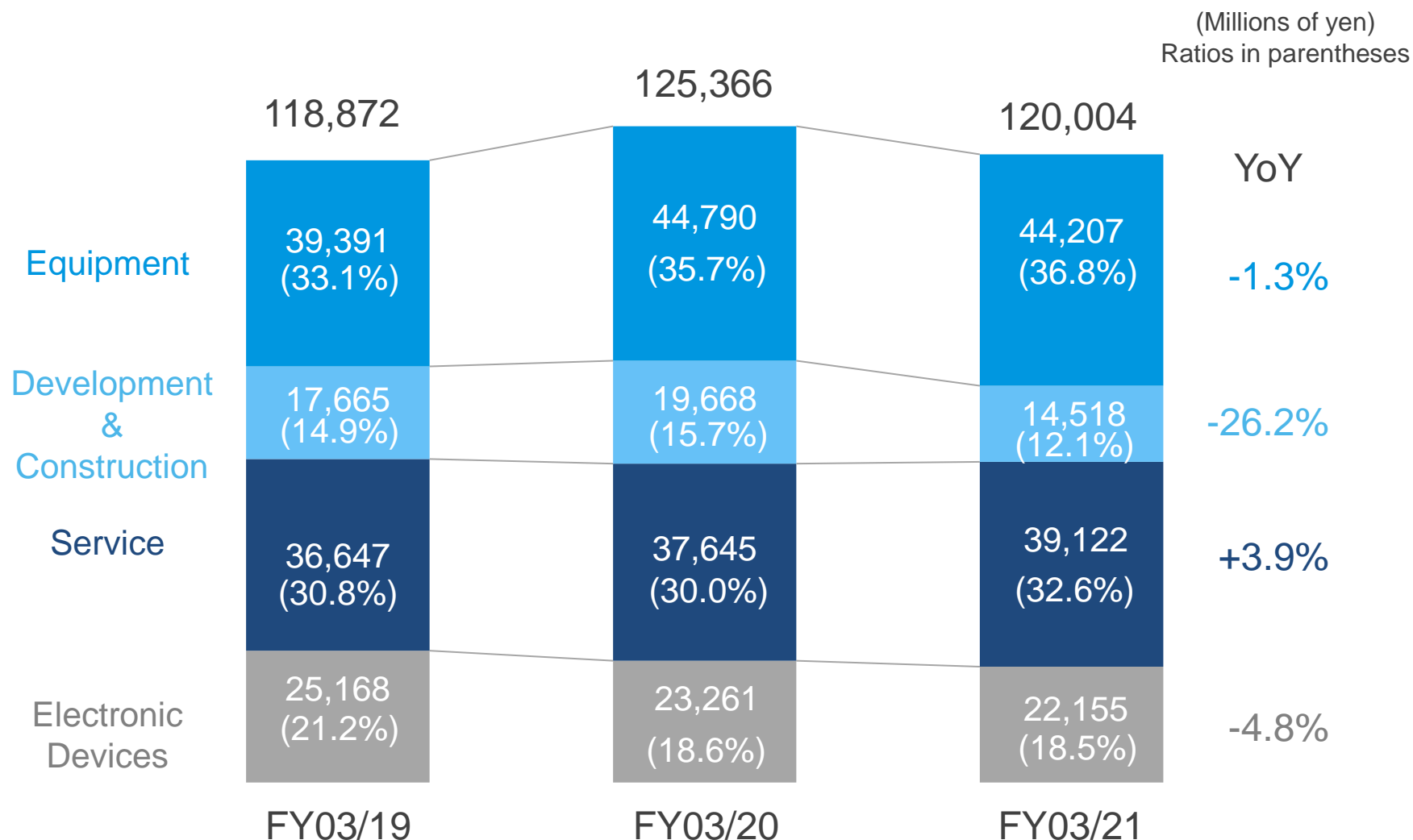
Results by Segment

(Millions of yen)

	Net sales				Operating income			
	FY03/20	FY03/21	Change (amount)	Change (YoY)	FY03/20	FY03/21	Change (amount)	Change (YoY)
Information Network Solutions	102,104	97,848	-4,256	-4.2%	4,289	2,960	-1,329	-31.0%
Electronic Devices	23,261	22,155	-1,105	-4.8%	163	242	78	+48.2%
Consolidated Total	125,366	120,004	-5,362	-4.3%	4,457	3,202	-1,254	-28.2%

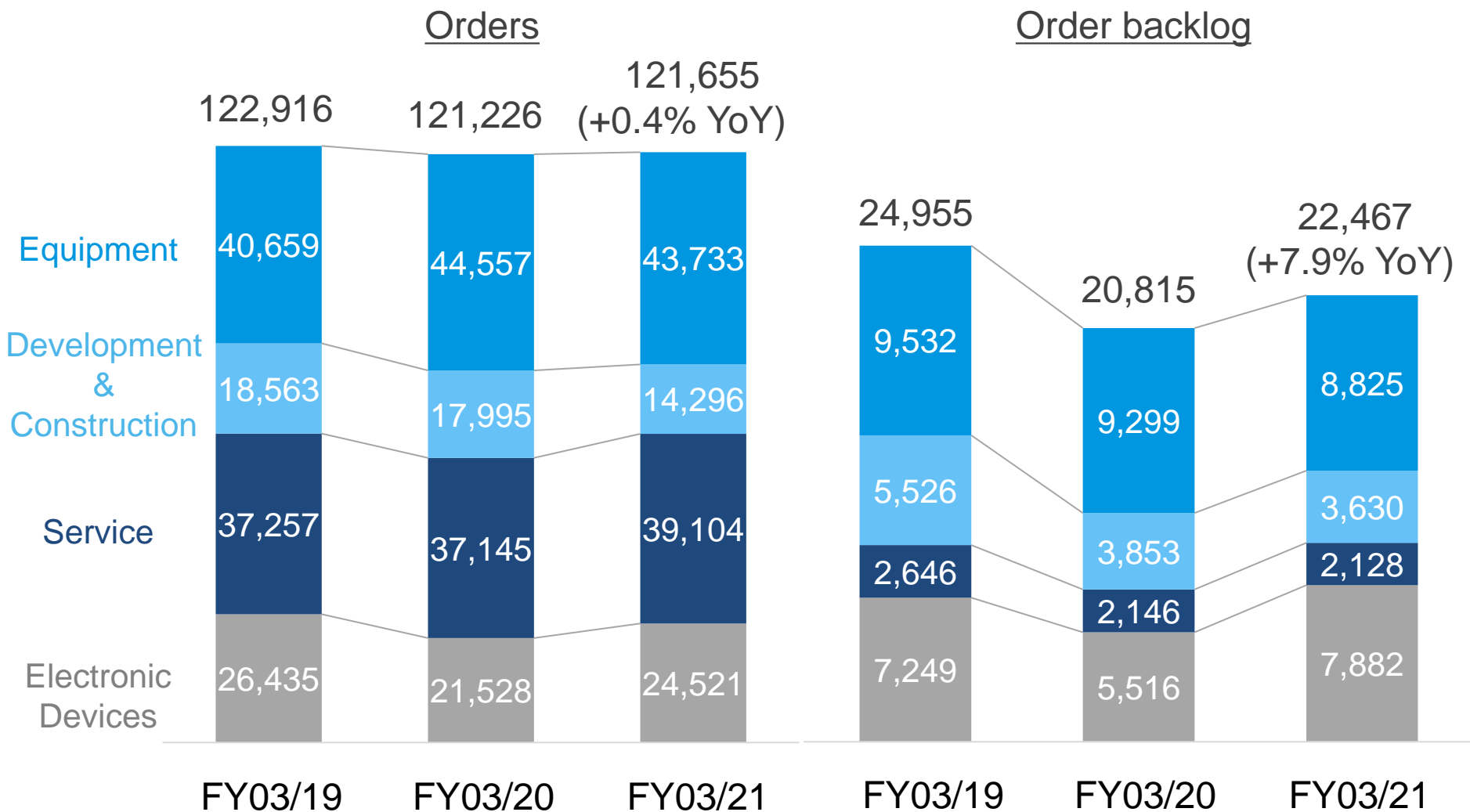
*Operating income adjustments are excluded.

Sales by Business Model



Orders and Backlogs by Business Model

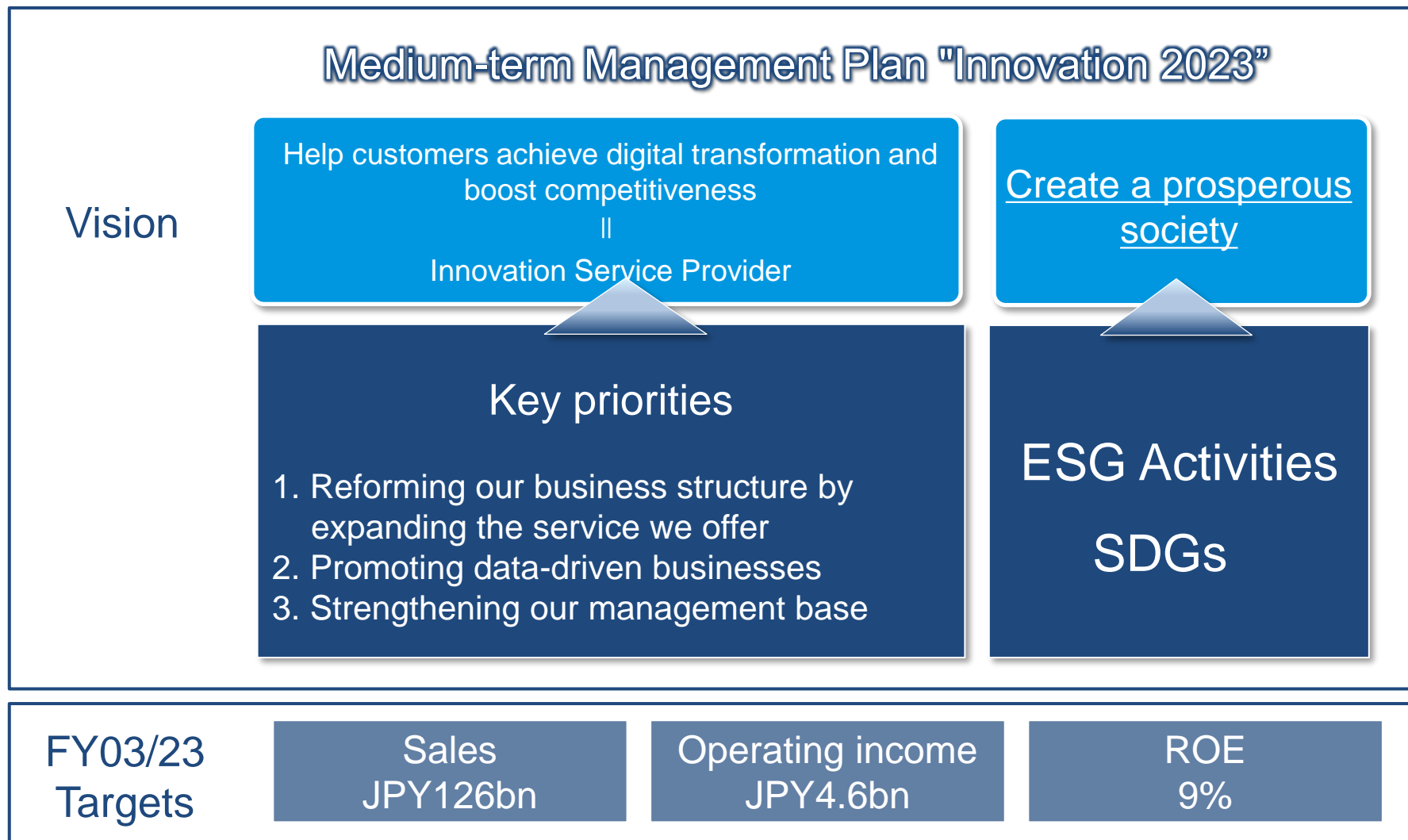
(Millions of yen)



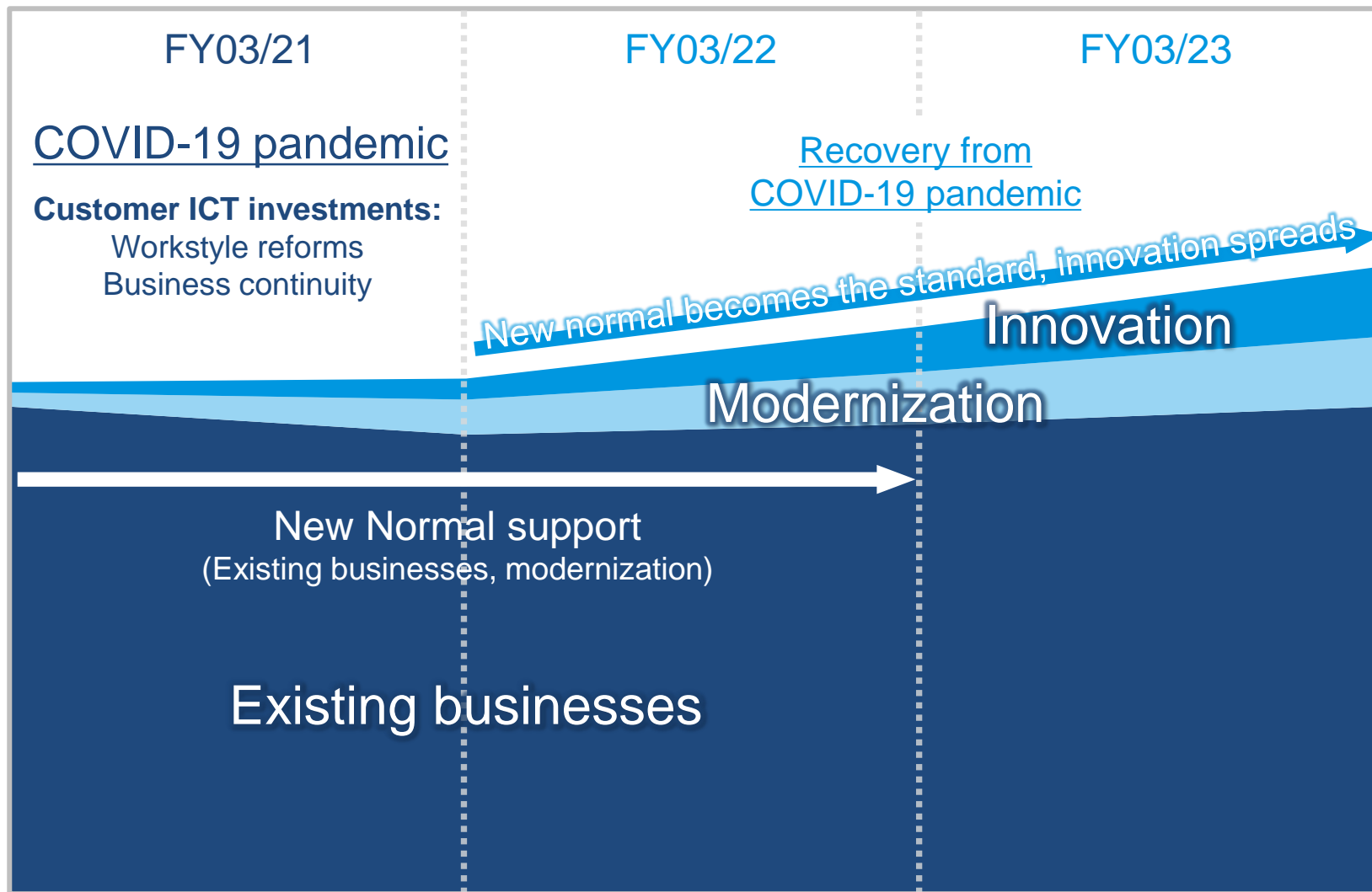
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Progress of Medium-term Management Plan

Overview of Medium-term Management Plan (FY03/21 to FY03/23)



Digital Transformation (DX) Business: Progress and Future

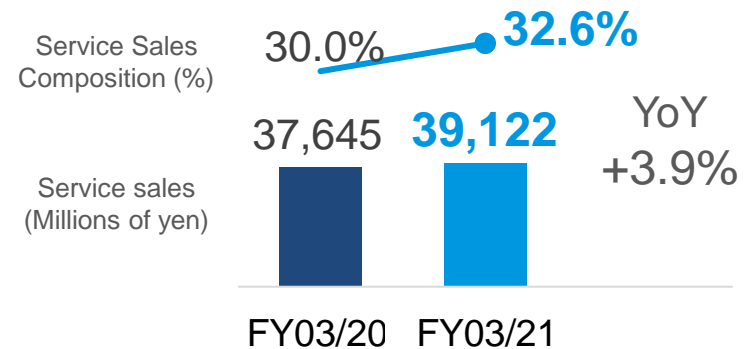


Key priority 1: Reforming our business structure by expanding the service we offer (1)

Service sales grew as a result of steadily capturing demand emerging from the COVID-19 pandemic

Service sales and composition rose

Operations/LCM services and cloud services grew



- Operations/LCM^{*1} services for major customers expanded
 - Newly acquired major restaurant chain operators, food manufacturers, and financial industry customers
 - *1 Life Cycle Management (LCM): A monthly subscription service providing support from hardware setup to disposal
- Strengthened in-house services
 - Made major revisions to KitFit^{*2} Operation Service offering
 - *2 KitFit: In-house developed industry-specific software
- SaaS contact center services grew

Key priority 1: Reforming our business structure by expanding the service we offer (2) Strengthened cloud services by making ComDesign a subsidiary

- CT-e1 offering (SaaS contact center service) of ComDesign grew rapidly amid the COVID-19 pandemic
Capturing work-from-home demand and steadily building a track record

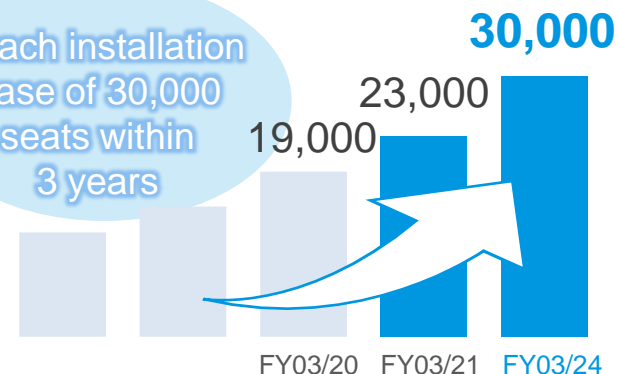
CT-e1

- No dedicated equipment
- Affordable
- Quick installation

FY03/21 installation examples

- Financial institutions (online banks and regional banks)
- Local governments across the country (For COVID-19 vaccination registration desks)

Reach installation base of 30,000 seats within 3 years



Provide unique value by implementing next-generation functions (AI-based voice recognition, voice print recognition, and emotion analysis)

- ✓ Demonstrate group synergy (use subsidiary contact center for demonstration testing)
- ✓ Strengthen marketing (focus on advertising and promotion to raise awareness)

Key priority 2: Promoting data-driven businesses (1)

Focus areas started producing results

D-VUE Service (industry-specific proprietary service using AI) deals closed: 16

- Service mainly introduced to customers in the construction and food manufacturing industries
- Steady progress in developing digital transformation (DX) human resources (data scientists, etc.)

Zero Trust Security negotiations: 17

- Progress in implementation for customers in manufacturing industry
- Strengthened organization from FY03/22 to better respond to customer demand
Establishing the “Tsuzuki zero trust security lab” with an aim to reach a wide range of customers

Key priority 2: Promoting data-driven businesses (2)

Progress in digital transformation (DX) initiatives

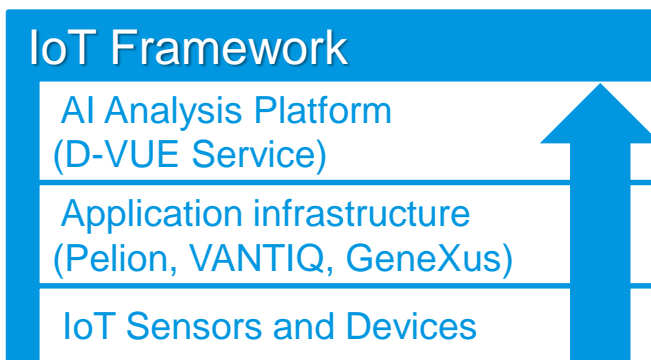
Development of Electronic Contract DX Service

- Scheduled to be adopted by three model companies, making steady progress toward service launch in October
- Established sales structure consisting of sales promotion teams by industry and region

Aiming to capture 10% of domestic electronic contract market share by 2023

IoT business

- Completed a framework that offers one-stop services from sensor design to data analysis



Track
record

Business reform in the logistics industry

- Applied to operations management services
- PoC with food manufacturers and convenience stores (4 companies)
- Aiming to achieve quick profitability through expansion to existing customers in the logistics industry

Future

Key priority 2: Promoting data-driven businesses (3)

Collaboration with JIG-SAW to accelerate IoT business

Started discussions on building a strategic collaborative relationship that leverages each others' strengths



Offer an IoT service business that incorporates **NEQTO**

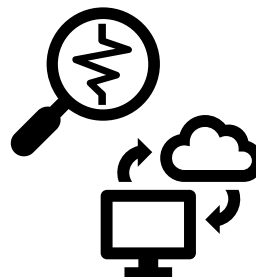


Expansion of operation services through outsourced cloud monitoring and operation collaboration



Examples (vending machine)

- Fault detection
- Stockouts
- Energy-savings support
- Timely collection of sales data



- Cloud system monitoring
- Outsourced operations

Key priority 3: Strengthening our management base (1)

Aiming to strengthen profitability by spinning off the Electronic Devices business

➤ Established Tsuzuki Embedded Solutions on July 1, 2021



Operating
environment

- Decline in competitiveness of Japan's semiconductor and electronic component manufacturing industries
- Rise of large distributors with a global presence



Areas to improve

- Profitability
- Business efficiency
- Self-sustainability of business



Importance
of the
spin-off

By speeding up management decisions and clarifying management responsibility, we will quickly achieve the followings:

- 1) Create a new business model that makes the most of our relationships with customers and suppliers
- 2) Thoroughly pursue efficiency and productivity



Strategy
and goals

Aiming to become a business integrator

- 1) Improve the quality of new negotiations and assess existing ones (avoid deals with low profitability and low capital efficiency)
- 2) Concentrate on selected customers and products
- 3) Accelerate collaboration with existing customers

Key priority 3: Strengthening our management base (2)-1

Building a foundation to support our endeavors

- Head office renewal
Aiming to achieve "decent work" (rewarding work that respects employees)

An office with a clear purpose Autonomous, proactive, and exciting

- ◆ Open seating, completely paperless
- ◆ Designed with a clear concept
More opportunities for creative communication



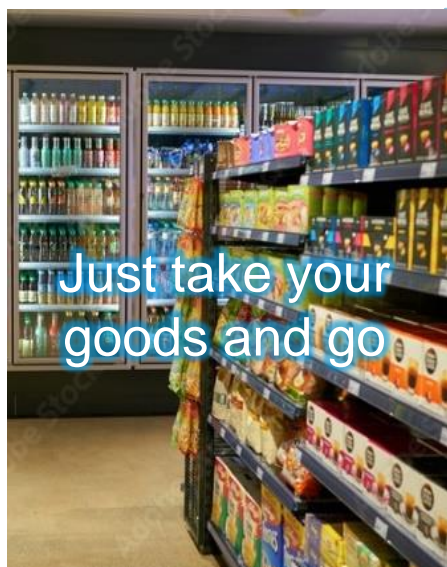
- ✓ Turn head office into a compact office by reducing floor space by 30% in pursuit of efficient company management
- ✓ Implement new workstyles using ICT ourselves
- ✓ Create opportunities for co-creation with customers and digital transformation (DX) experiences to share the excitement and surprise

Key priority 3: Strengthening our management base (2)-2

Started in-house experiments of the latest digital transformation (DX) solutions

- Introduce the next-generation "unmanned store", which is increasingly needed amid the COVID-19 pandemic, within the company

Achieve Contactless + unmanned + new purchasing experience
 Solves social issues Solves labor shortage Brings excitement and surprise



- ✓ Aiming to expand into offices, hospitals, movie theaters, etc. going forward
- ✓ Expand business domains such as by using purchase history data

3 FY03/22 Forecast

FY03/22 Forecast

Sales and profit forecasts based on market conditions and COVID-19 recovery trends

- **Market environment**
 Information Network: COVID-19 pandemic triggered digitization among companies and ICT investment is on the rise
 Electronic Devices: Demand for semiconductors and other electronic devices, which grew rapidly from 2H FY03/21, is expected to continue in FY03/22. Market environment is favorable.
- We will aim to achieve our targets by steadily executing key priorities of our medium-term management plan.
 Address the need for workstyle reforms, focus on shifting to a service-oriented business, and improve profitability of the Electronic Devices business

(Millions of yen)

	FY03/21	FY03/22 Forecast	Change (amount)	Change (YoY)
Net sales	120,004	122,000	1,995	+1.7%
Operating income	3,202	4,000	797	+24.9%
(Operating margin)	(2.7%)	(3.3%)	(0.6pt)	—
Profit attributable to owners of parent	2,346	2,700	353	+15.1%

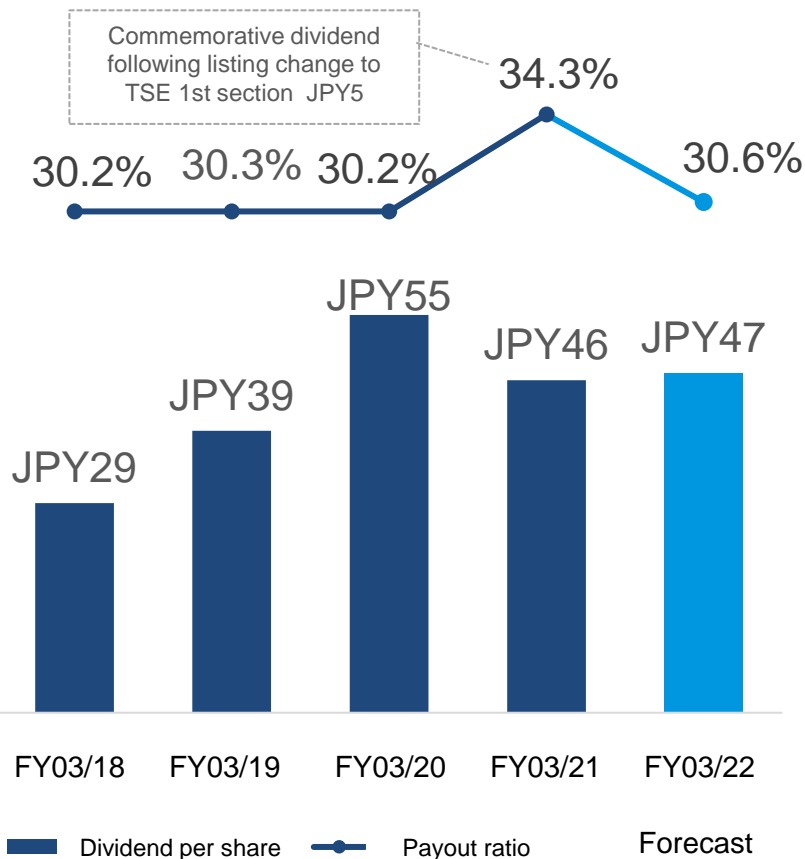
4 Shareholder Return

Shareholder Return

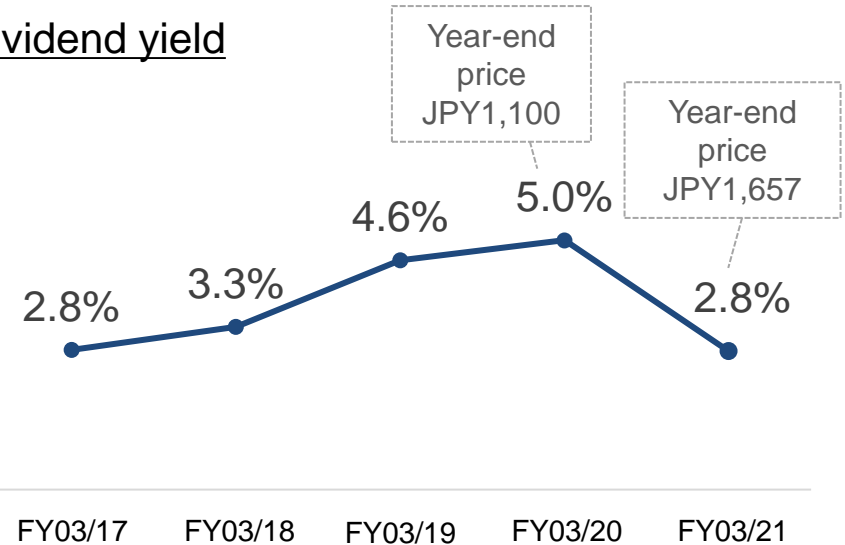
FY03/21 dividend at JPY46, payout ratio at 34.3%

Aiming to maintain stable dividends with a payout ratio of around 30%.

Dividend per share and payout ratio



Dividend yield



*Dividend yield = Dividend per share / Share price at the end of the period (final record date)

Shareholder benefits

Number of shares held	Products	Donation
Over 100 shares, but less than 1,000 shares	JPY1,000 worth of food items	JPY1,000
Over 1,000 shares	JPY3,000 worth of food items	JPY3,000

5 Sustainability Initiatives

Sustainability at the Tsuzuki Group

Materiality

Determined three key issues (providing value to society)

We will continue to work with our customers to create a sustainable society through our business

Three key sustainability issues (delivering value to society)

1

Develop people and teams that are healthy and loved, both physically and mentally

2

Contribute to harmonious coexistence by capturing changes in people, society, and the global environment

3

Provide reliable and innovative services through information and communication technology

Specific initiatives

- Build a foundation to support our endeavors
- Support the advancement of diverse talent



- Reduce environmental impact
- Promote communication with stakeholders.



- Provide safe and secure services
- Take on the challenge of solving social issues



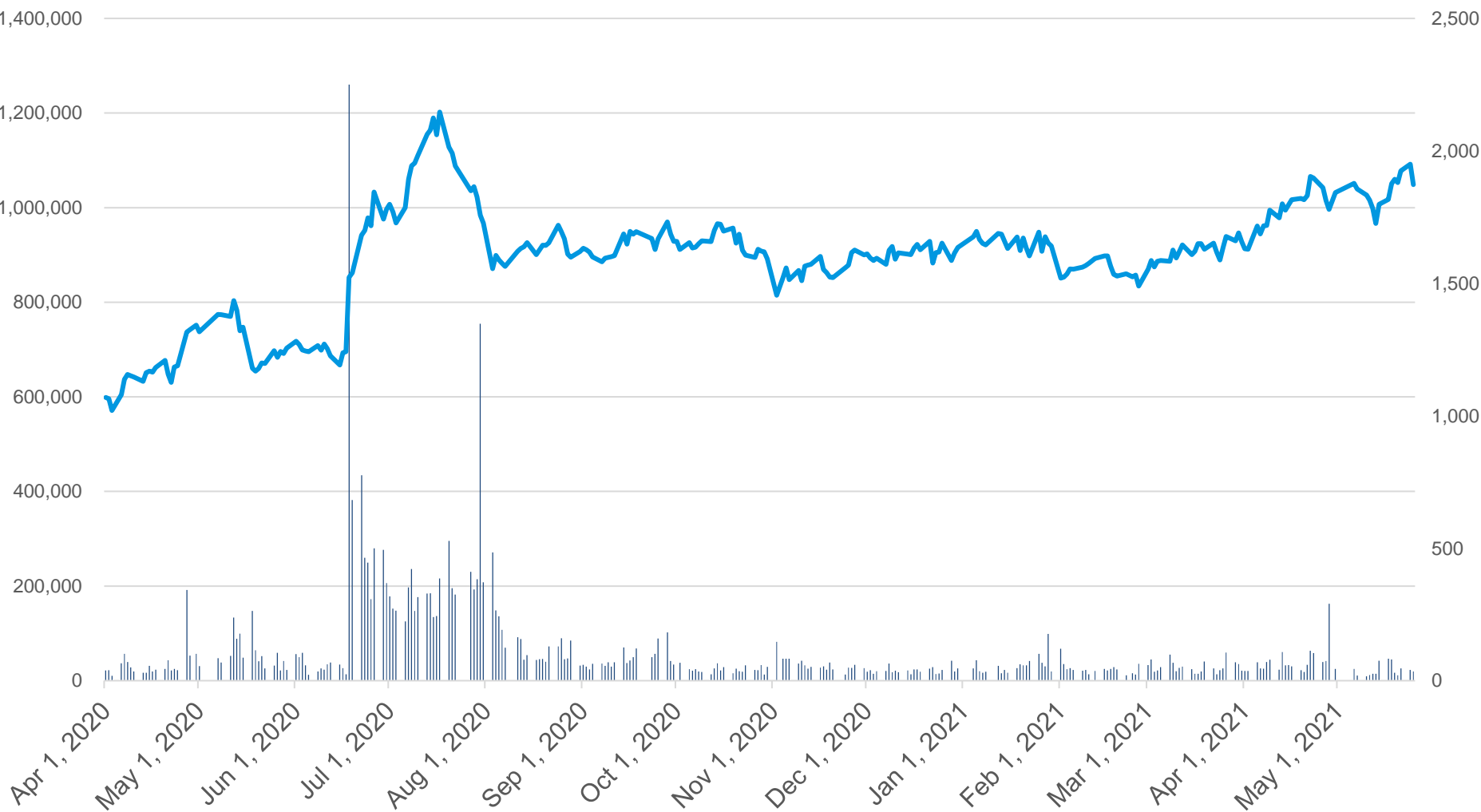
Press Releases

No.	Date	Content
1	2020/10/6	Functional enhancements to IntrameriT, our proprietary groupware
2	2020/11/10	Started in-house demonstration testing of digital transformation (DX) services for the new normal era
3	2020/11/13	Started development of electronic contract DX service
4	2020/12/8	Started offering the new model of cloud-based unit for Toyota Motor Corporation's rehabilitation assist robot
5	2021/01/13	Renewed affiliate agreement with professional golfer Mone Inami
6	2021/02/09	Recognized as a Sports Yell Company by Japan Sports Agency and a Tokyo Metropolitan Sports Promotion Company by Tokyo Metropolitan Government for two consecutive years
7	2021/02/10	Released frailty prevention app, “nationwide squat challenge,” free of charge
8	2021/02/16	Released “health promotion self-care system” free of charge
9	2021/03/05	Recognized as one of the Health and Productivity Corporations (White 500) by Ministry of Economy, Trade and Industry for the fourth consecutive year
10	2021/05/14	Notice of spin-off of the Electronic Devices business (company split)

Stock Price History (as of May 26, 2021)

(Volume: Shares)

(Stock price: Yen)



Contact

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