

Tsuzuki Denki Co., Ltd Financial Results for the Year Ended March 31, 2022

May 25, 2022

Stock code: 8157

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

Agenda

- 1 FY03/22 Results
- 2 Progress of Medium-term Management Plan
- 3 FY03/23 Forecast
- 4 Shareholder Return
- 5 Activities Targeting Sustainability

1 FY03/22 Results

Highlights

Although net sales were flat YoY, profit rose dramatically thanks to steady growth in the service business and contributions from the Electronic Devices segment

Information Network Solutions

- (+) Growth in service business, network expansion projects, innovation / modernization (digital transformation [DX] business)
- (-) Absence of major projects seen in FY03/21, impact from scheduling delays resulting from semiconductor shortages

Electronic Devices

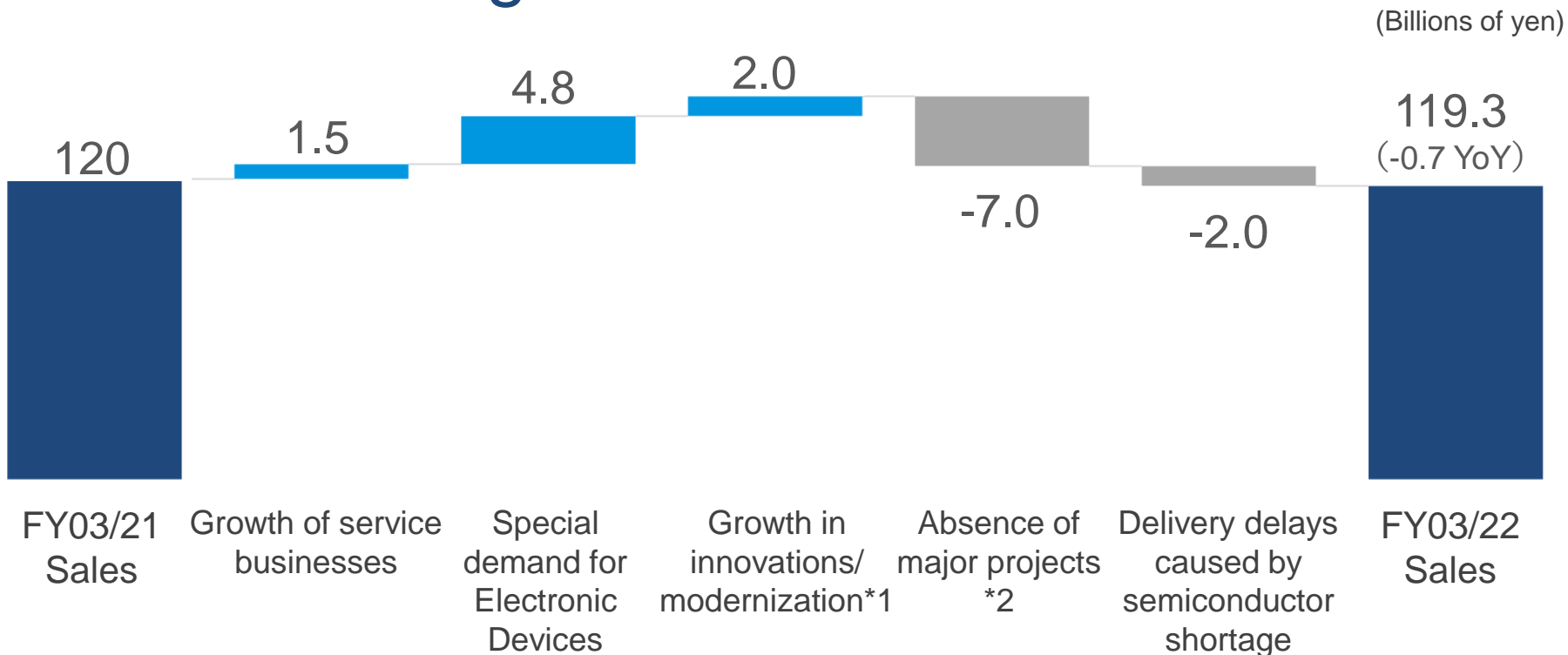
- (+) Special demand arising from global shortage of semiconductors

Statement of Income

(Millions of yen)

	FY03/21	FY03/22	Change (amount)	Change (YoY)
Net sales	120,004	119,316	-688	99.4%
Gross profit	21,465	22,511	1,045	104.9%
(Cost ratio)	(82.1%)	(81.1%)	(-1.0pt)	—
SG&A expenses	18,263	18,498	235	101.3%
Operating income	3,202	4,012	810	125.3%
(Operating margin)	(2.7%)	(3.4%)	(0.7pt)	—
Profit attributable to owners of parent	2,346	2,798	451	119.2%
Orders	121,655	130,559	8,903	107.3%
Order backlog	22,467	33,710	11,243	150.0%

Factors Affecting Sales



*1 Increased activity in cloud services (backbone systems and PBX shifting to the cloud), etc.

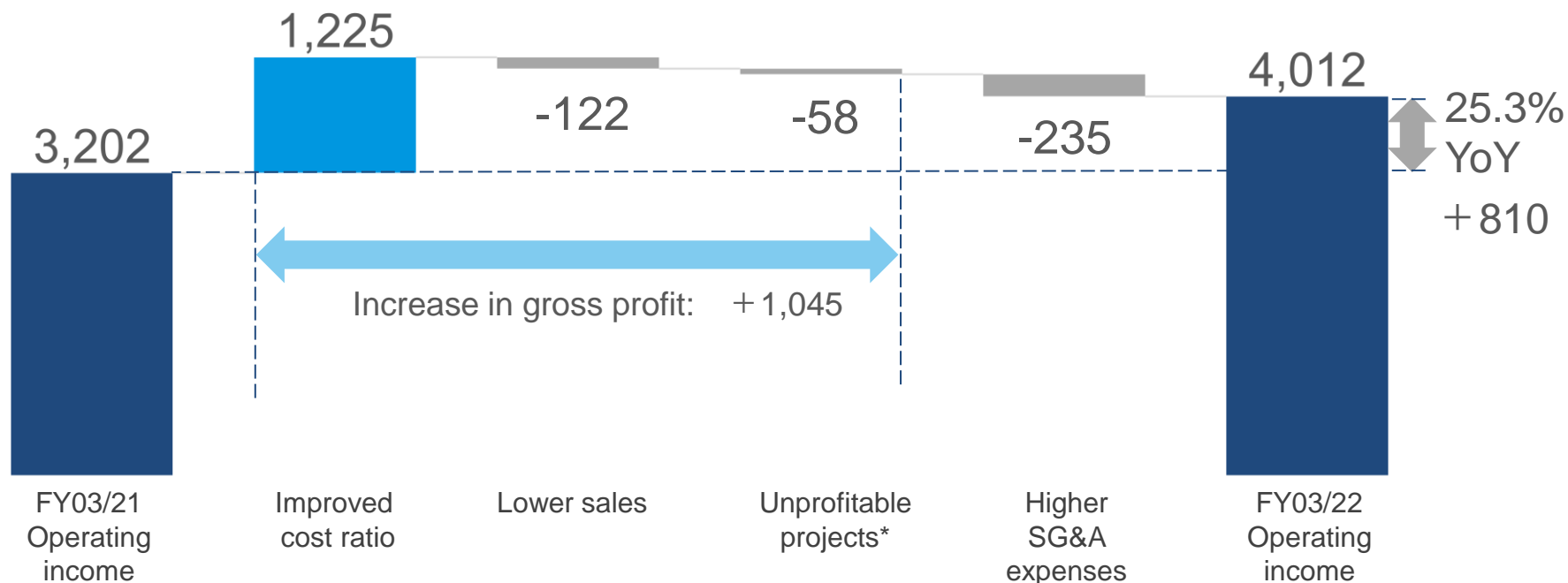
*2 Absence of individual large-scale deals; decrease in PC installation deals owing to remote work support demand running its course,

Decline due to absence of special demand from GIGA School Concept projects*3

*3 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

Factors Affecting Operating Income

(Millions of yen)



Positive factors

- Improved cost ratio: +JPY1.25bn
 - Growth of service businesses
 - Improved cost ratio for development and construction projects

Negative factors

- Lower sales: -JPY122mn
- Unprofitable projects: -JPY58mn
 - *There was a slight decline in unprofitable projects in FY03/22, but we booked a gain of JPY59mn on reversal of allowances in FY03/21, which had a negative YoY impact on operating income
- Higher SG&A expenses: -JPY235mn
 - Increase in consolidated subsidiaries

Results by Segment

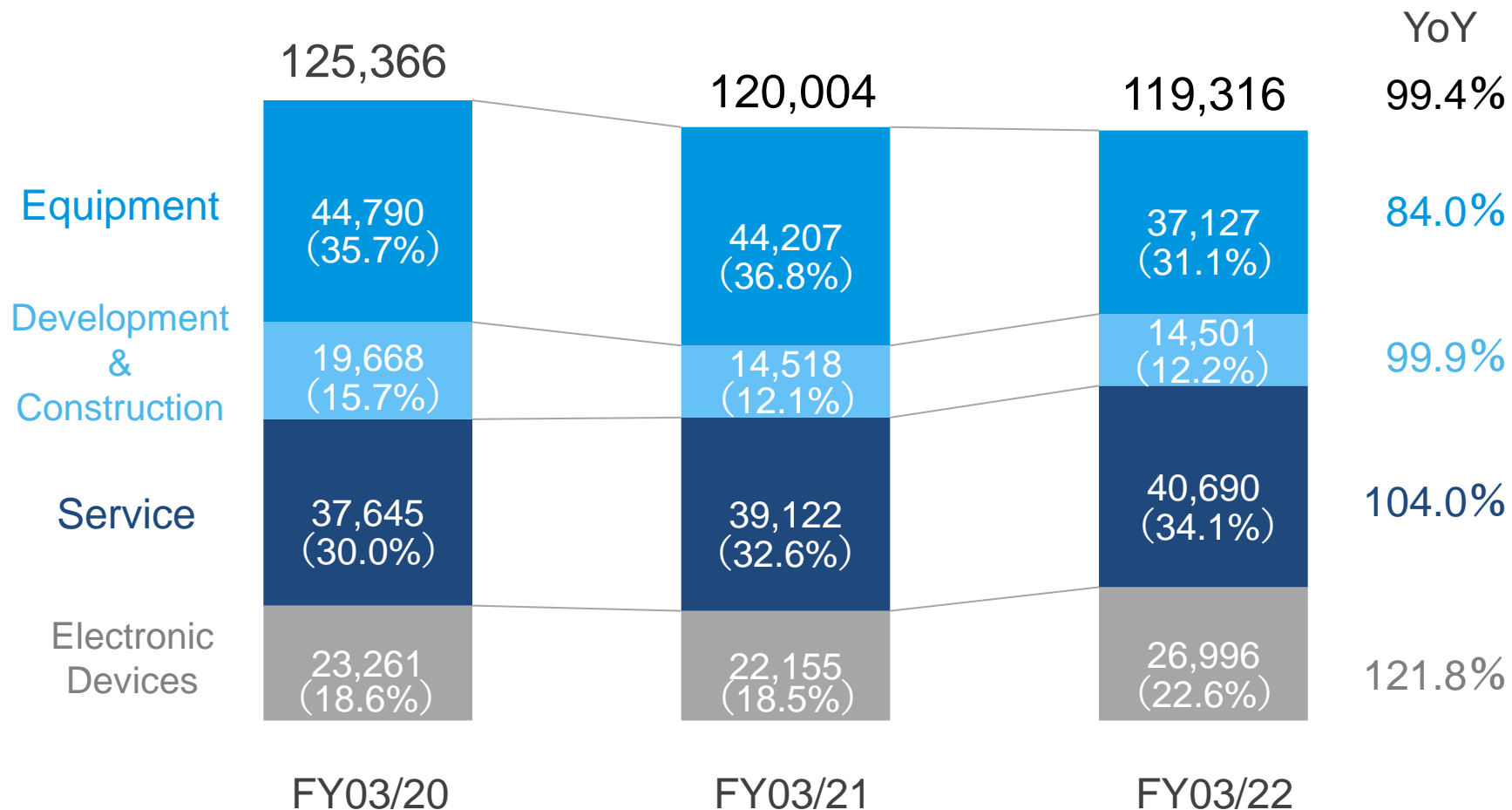
(Millions of yen)

	Net sales				Operating income			
	FY03/21	FY03/22	Change (amount)	Change (YoY)	FY03/21	FY03/22	Change (amount)	Change (YoY)
Information Network Solutions	97,848	92,319	-5,528	94.3%	2,960	3,400	440	114.9%
Electronic Devices	22,155	26,996	4,840	121.8%	242	592	350	244.8%
Consolidated Total	120,004	119,316	-688	99.4%	3,202	4,012	809	125.3%

*Operating income adjustments are excluded.

Sales by Business Model

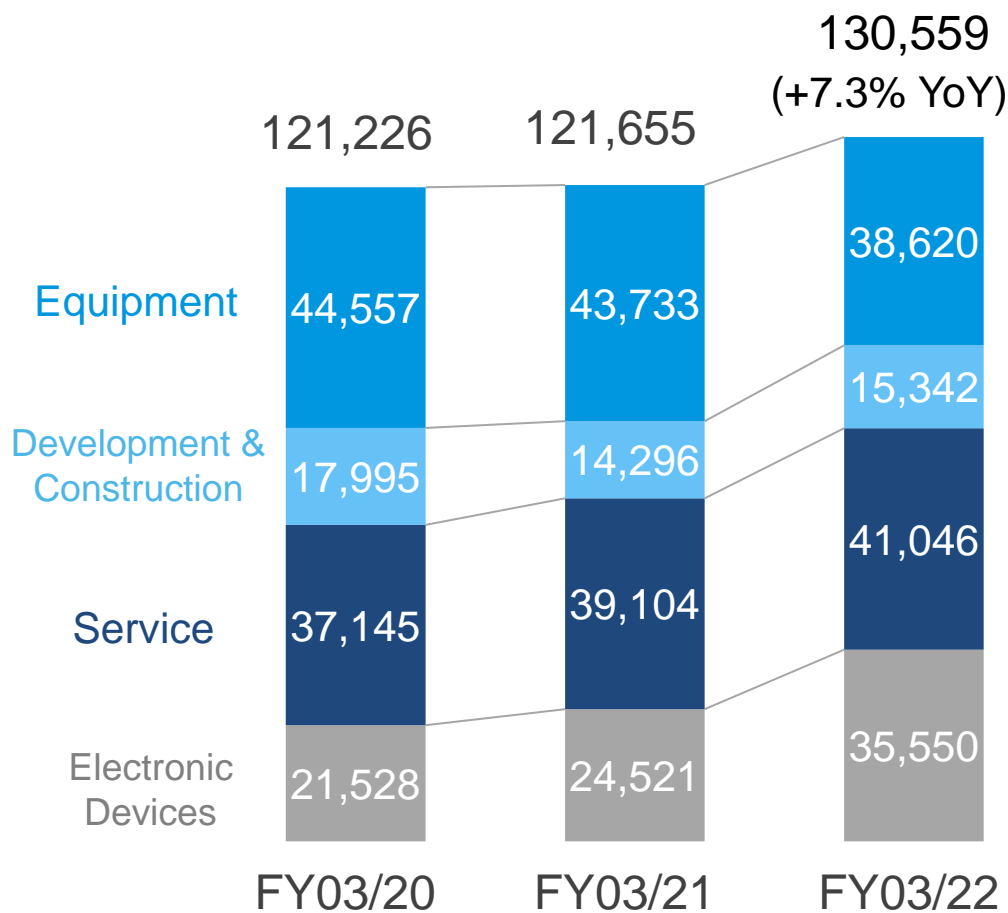
(Millions of yen)
Ratios in parentheses



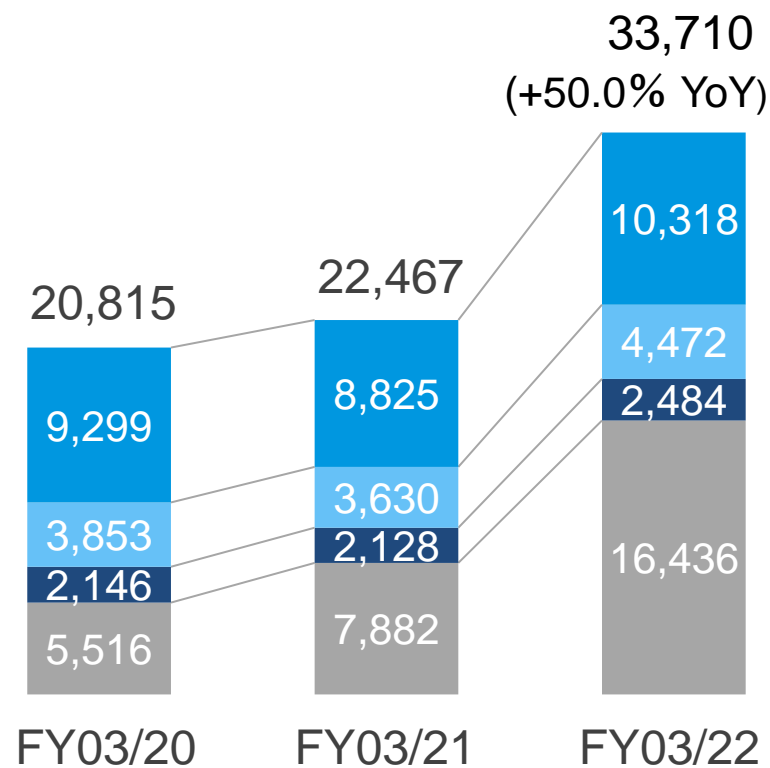
Orders and Backlogs by Business Model

(Millions of yen)

Orders



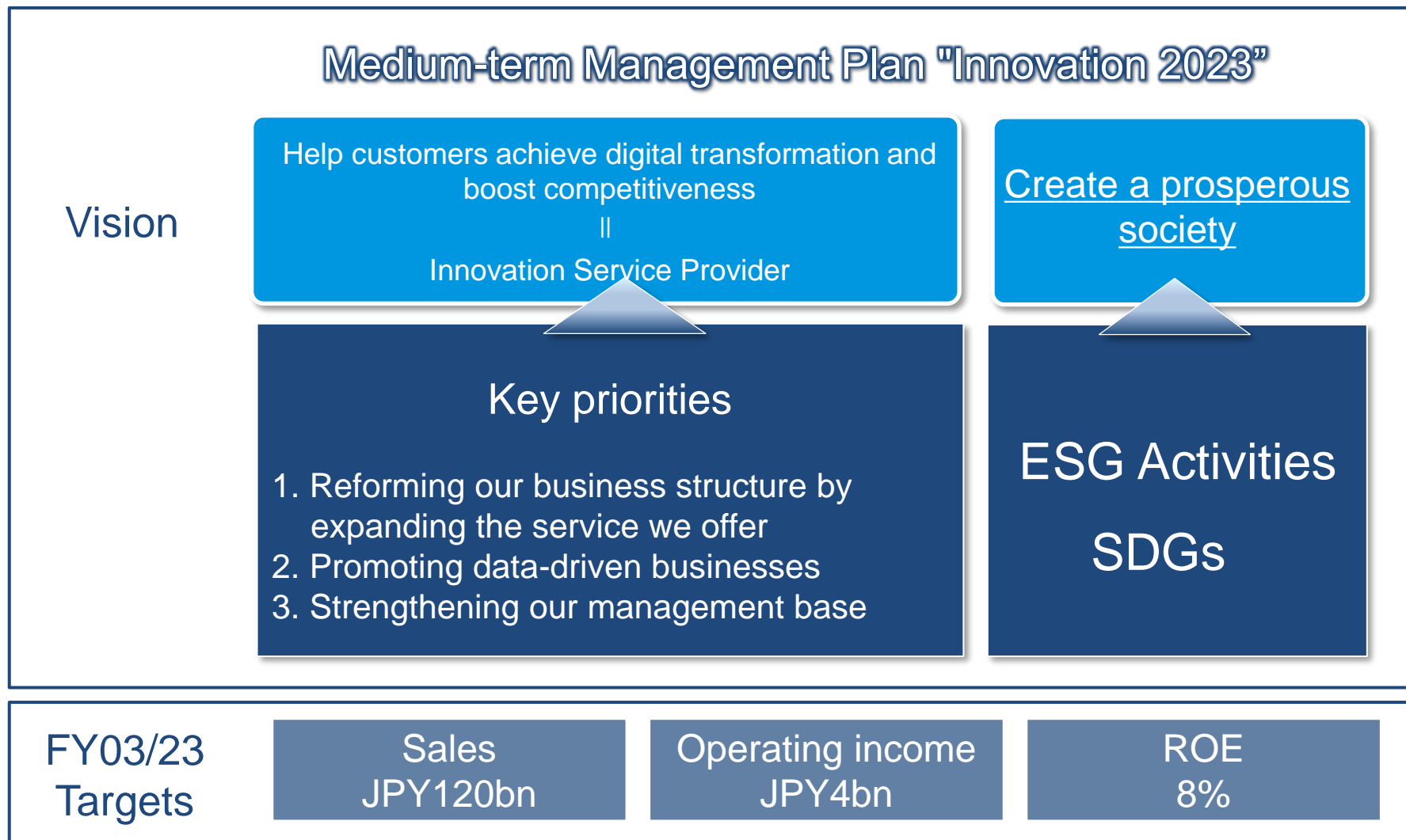
Order backlog





Progress of Medium-term Management Plan

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

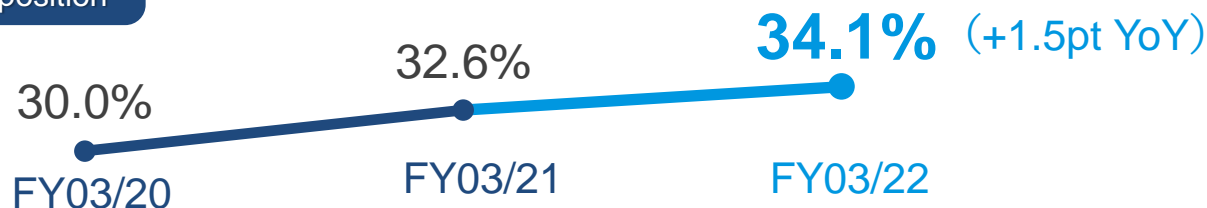


Progress of Key Priorities in the Medium-term Management Plan (Overview)

1. Reforming our business structure by expanding the service we offer

The service ratio increased further as we released new services and steadily strengthened the functions of existing services

Service sales composition



(Ref.) Component ratio of “Services” in Information Network Solutions: FY03/20 37.0%, FY03/21 40.0%, FY03/22 44.1%

2. Promoting data-driven businesses

We focused on business design creation, and the Innovation/Modernization (DX) business steadily increased

✓ Release new services ✓ Co-creation/manpower exchanges with other companies ✓ Verification through PoC

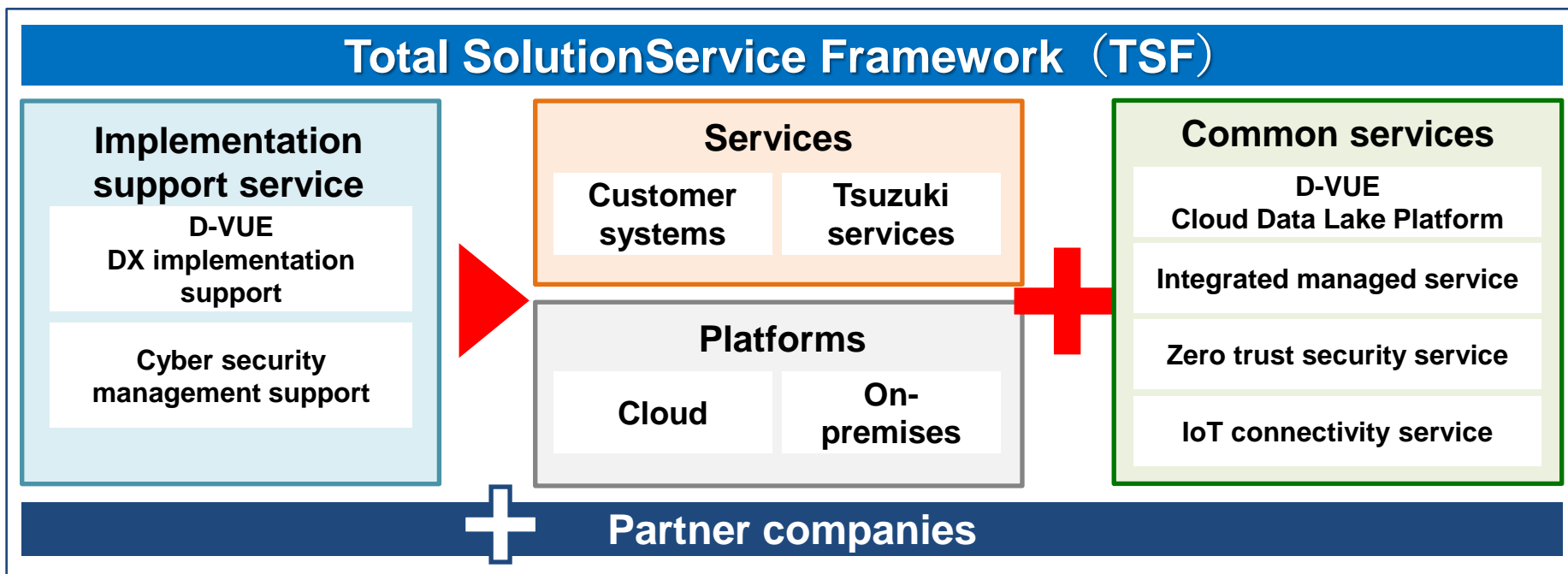
3. Strengthening our management base

We executed various measures to strengthen governance

✓ Secondary offering of shares ✓ Changed the configuration of the Board of Directors and Board of Corporate Auditors
 ✓ Promoted sustainability

Enhance New Service Framework Lineup (Ref: About TSF)

- Oct. 2021: Released “Total SolutionService Framework (TSF)”
- Covers all services provided by our company
Subsequent services developed and added based on TSF



Point

- ✓ Support for a variety of customer environments (cloud-based and on-premises)
- ✓ Optimal combination of in-house services and collaboration with partners

Enhance New Service Framework Lineup

- Strengthen SaaS services on TSF, and respond to customers' diverse cloud-related needs

Addition of functions

CT-e1: Cloud-based contact center services

- Amid a favorable environment with continued special demand related to COVID-19, the addition of various functions served to increase the number of seats for installation
FY03/22 results: 27,214 seats; +20% YoY
- Added "Voice recognition IVR" function (in addition to voice-activated dialing, enables call flow in keeping with the user's speech content)

TCloud for Voice (TVC): Cloud-based Private Branch Exchange (PBX) services

- Strong start since release in October 2021 (FY03/22 results: approx. 3,300 IDs introduced; 61 sales consultations)
- Development of new functions began (release scheduled for 1H FY03/23)

DagreeX: Integrated management service for electronic contracts/vouchers

- Applied for in-house use and at model companies. To expand sales, studies ongoing to strengthen competitiveness by improving functions.

New releases

D-VUE: DX services using AI

- DX implementation support services (Advisory Service, Design Workshops)
- Cloud Data Lake Platform (Leverages AI to provide a "data lake*" in the Cloud to gather, store, analyze, visualize, and utilize data. Uses Microsoft Azure as a platform.)
*A centralized repository that stores large volumes of diverse data in their original format.

Accelerating the Shift to the Cloud to Meet Customer Needs

- Two years from the start of the current Medium-term Management Plan, "Cloud Service" sales in the service business have grown by 2.8x

**“Cloud Service”
sales: 280%
(vs. end of March
2020)**



Start of current Medium-term Management Plan (Apr. 2020~)

Revamped “IntrameriT” (Cloud-based groupware)

Made ComDesign Inc. a subsidiary (Cloud-based contact center service: CT-e1)

New “Total SolutionService Framework” released

TCloud for Voice released (Cloud-based PBX service)

“DagreeX” released (Cloud-based electronic contract service)

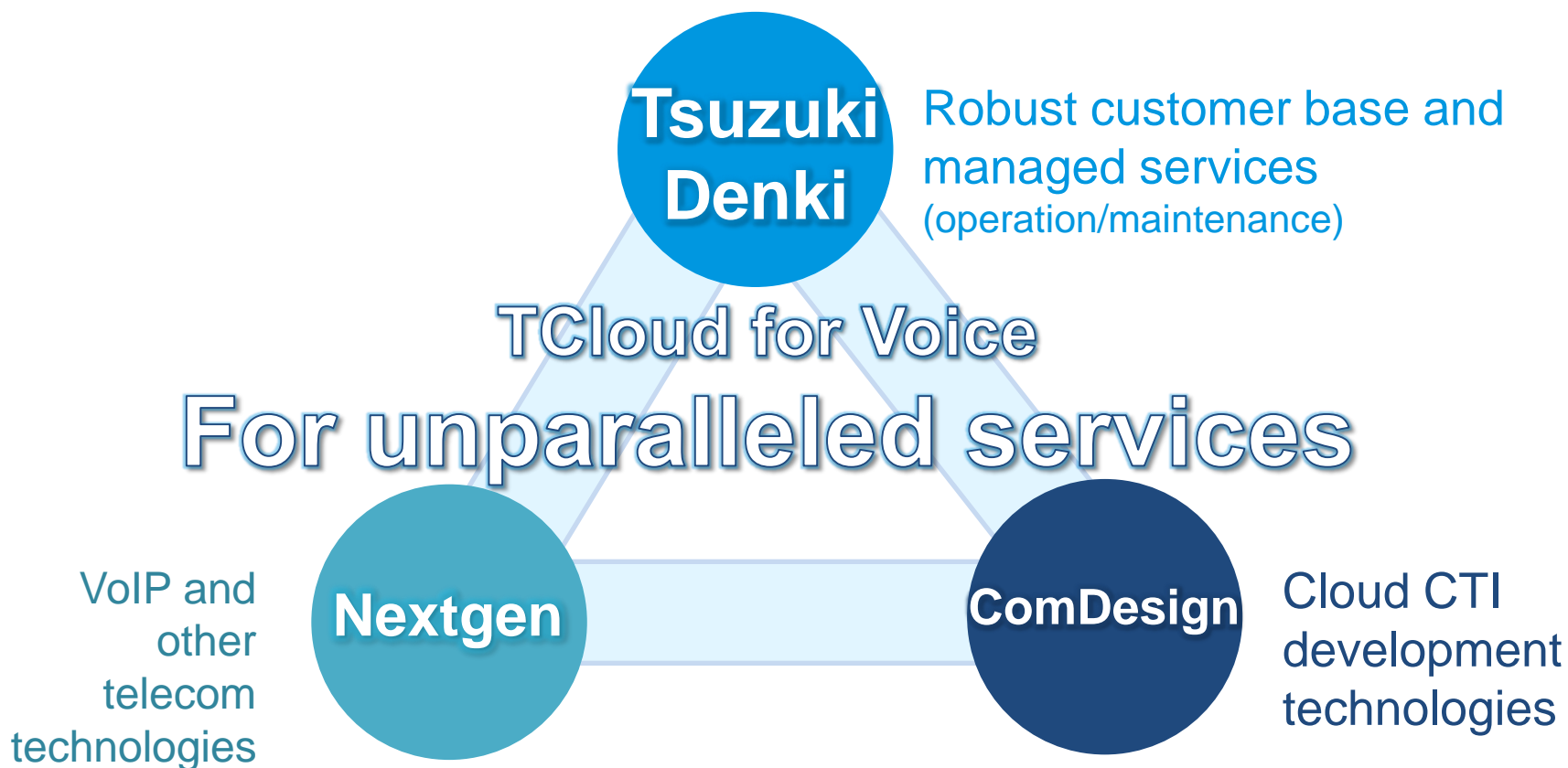
“D-VUE Cloud Data Lake Platform” released (AI-based DX service)

Final year of the Medium-term Management Plan

**Aim to further expand Cloud services based on differentiation
achieved through co-creation**

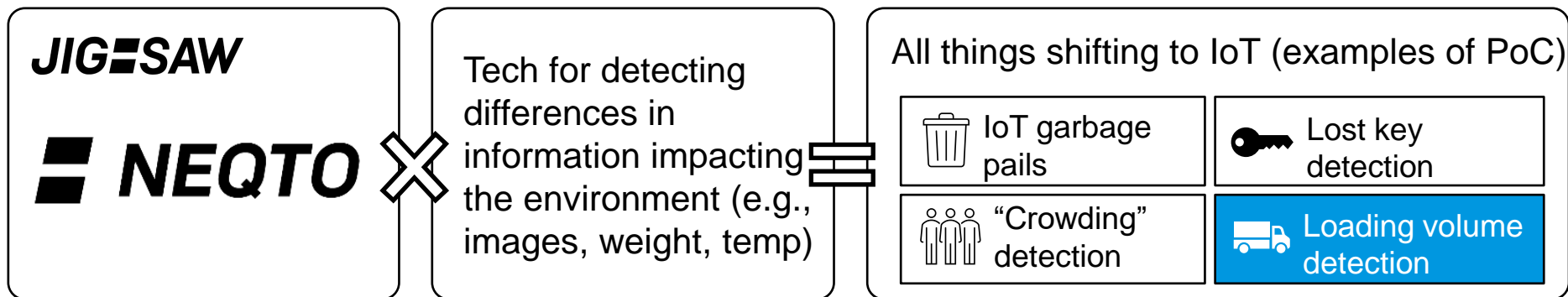
Co-creation for Strengthening Services

- Completed a capital and business tie-up agreement with Nextgen, Inc. (Dec. 2021)
- Along with Nextgen and ComDesign Inc., providing Japan's first Cloud services that combine Unified Communications (UC) and Contact Centers (CC)



Co-creation in the IoT Business

- Since alliance with JIG-SAW (November 2021), jointly executed numerous PoCs; taking concrete steps toward implementation of new services
- Tsuzuki certified as a “Hardware Partner” in the Partnership Program



JIGSAW's technologies are combined to improve new and existing services

Currently preparing for implementation



in supply chain services

Certified as a “Hardware Partner”
Leveraging IoT expertise accumulated through co-creation, with a view toward device development

Rolling out AI Business Targeting Diverse Industries

- As the role of ICT changes (efficiency → data applications), expectations for AI technologies increase even further
 - The scope of customers hoping to use AI expands, and projects become more diverse
- FY03/22: 53 new contracts (72 consultations)

Consultation example: Development of a “dish search” service using AI image recognition

- ✓ The pottery market is shrinking, but the e-commerce market is growing amid the pandemic
- ✓ Business matching with the Tableware Sommelier Association aimed at strengthening web-based sales strategies



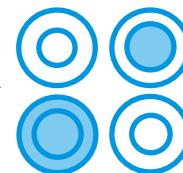
Regular consumers: I go out shopping with an image in my mind, but I can't find what I want
Corporate customers: We want to choose dishes from a tableware professional's perspective



Upload a photo or drawing of a dish close to the desired image (shape, pattern, color)



Tableware sommelier's knowledge of dish selection incorporated into AI



Display dishes (products) similar to the uploaded image, and link to the purchase site

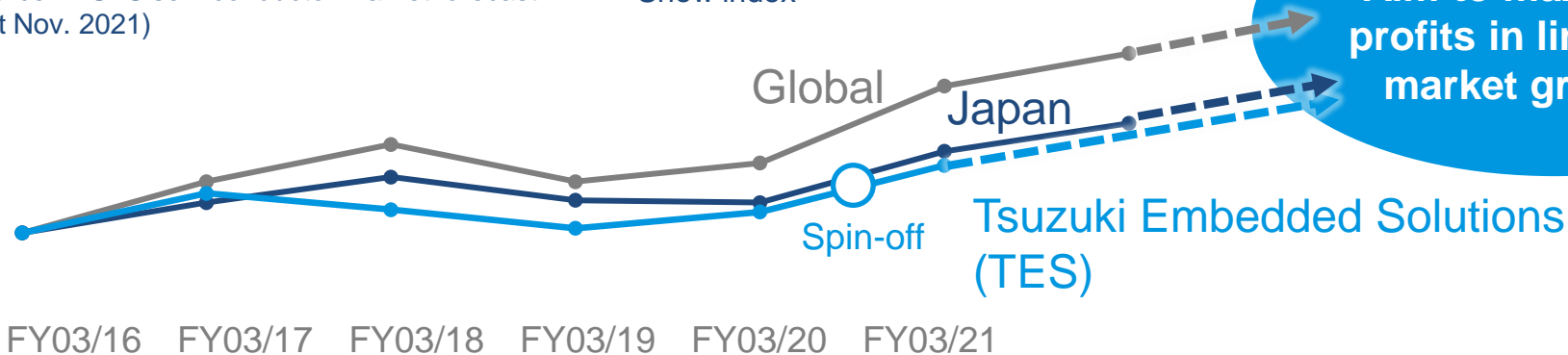
Progress and Future of the Electronic Devices Business

- The semiconductor market is growing rapidly amid the pandemic and a digital revolution
The spin-off has demonstrated impact, in accurately capturing market needs

[Trend in the business environment and the Tsuzuki Group's Electronic Devices segment results]

Source: WSTS semiconductor market forecast (out Nov. 2021)

*Show index



Aim to maximize profits in line with market growth

Tech capabilities HR Products

Organizations/frameworks Employee awareness

Strategies moving forward : Build in TES's strengths

Build a "Rapid cycle" framework

Quickly pick up on market needs and reflect them in products

Evolve from a device trading company into a tech trading company

Progress and Future of the Electronic Device Business

(Co-creation with Other Companies)

- Completed a partnership agreement with NVIDIA, a top global manufacturer of GPUs*
*GPU: Graphics Processing Unit; a high-speed image processor
- Demand is expected to continue growing among manufacturing and data center customers



A semiconductor manufacturer that specializes in the design of GPGPUs*, which expand CPUs in particular, to general-purpose computation applications

*General Purpose GPU

Company name: NVIDIA Corp.

Established: April 1993

Employees: 18,975

Advantages of becoming a partner

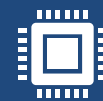
- Enables direct sales
- Obtain the latest technical information from NVIDIA

Business growth

- Expand business in edge computing (IoT) fields



Gather data using edge computing technologies



High-speed processing using GPUs

By leveraging the latest products (GPUs), aim to provide total solutions that range from edge computing to high-speed data processing.

Strengthen structures for both sales and technologies, to break away from the image of a device trading company into a tech trading company.

Activities Aimed at Increasing Share Liquidity

➤ Secondary offering of Tsuzuki Denki shares

(conditions decided Feb. 15, 2022; delivery date: Feb. 22, 2022)

Goal is to expand the shareholder base, improve share distribution, and increase liquidity

[Outline of offering]

No. of shares offered (Offering by way of overallotment)	Tsuzuki Denki common shares	936,000 shares (138,000 shares)
Sellers and number of shares sold	MUFG Bank, Ltd. Mizuho Bank, Ltd. Sumitomo Mitsui Banking Corporation Sumitomo Mitsui Trust Bank, Ltd.	249,000 shares 249,000 shares 249,000 shares 189,000 shares

✓ Increase liquidity (e.g., share distribution ratio [+4%] and volume)

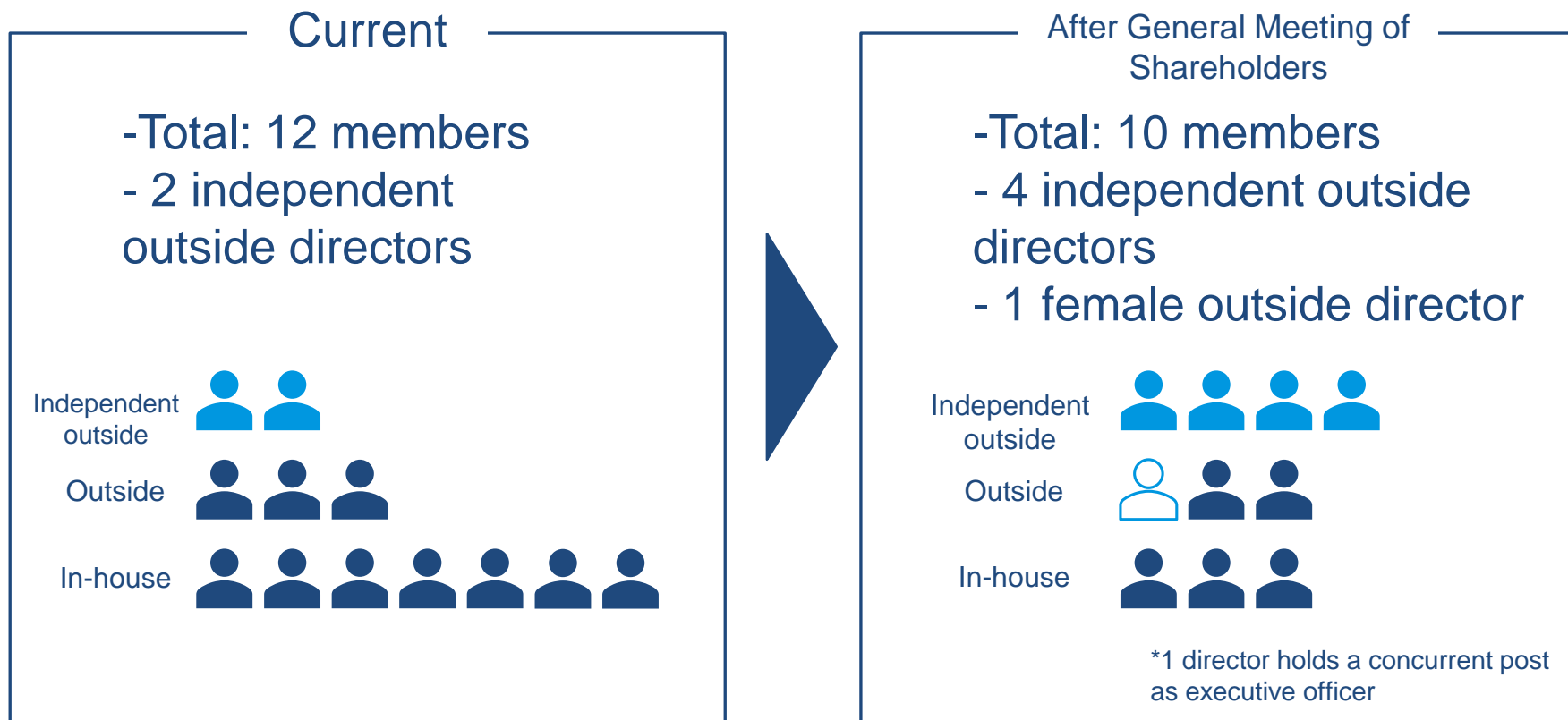
✓ Sold to more than 1,300 individual investors; 10% allocated to institutional investors

➤ Sold off 16 brands of cross-held shares

Strengthening Governance (Corporate Officers)

- Independent outside directors to account for more than 1/3rd of directors
- Board of Directors reorganized into a management structure that concentrates on supervisory functions*

[Makeup of Board of Directors]



3 FY03/23 Forecast

FY03/23 Forecast

Although we expect to see continued strong demand for ICT and electronic devices, which have seen rapid growth due to the trend toward digitalization amid the pandemic, the future remains uncertain (e.g., due to the impact on customers from the deterioration of conditions in Ukraine), so we have set forecasts at levels similar to FY03/22.

(Millions of yen)

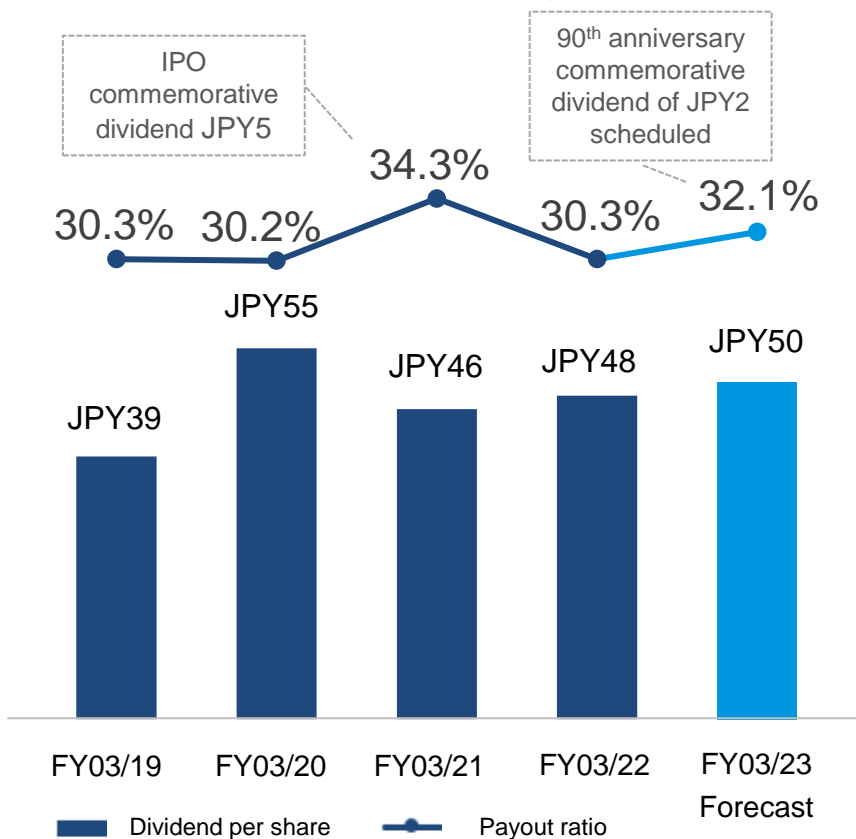
	FY03/22	FY03/23 Forecast	Change (amount)	Change (YoY)
Net sales	119,316	120,000	684	+0.6%
Operating income	4,012	4,000	-12	-0.3%
(Operating margin)	(3.4%)	(3.3%)	(-0.0pt)	—
Profit attributable to owners of parent	2,798	2,760	-38	-1.4%

4 Shareholder Return

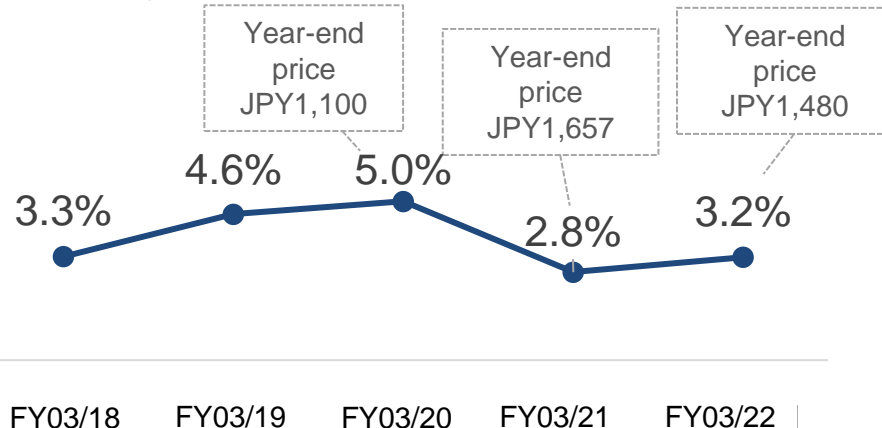
Shareholder Return

FY03/22 dividend at JPY48; Payout ratio at 30.3%
 FY03/23 dividend at JPY50; (JPY2 commemorative dividend scheduled to mark 90th anniversary of establishment)
 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
100 shares to less than 1,000 shares	JPY1,000 worth of food items	JPY1,000
1,000 shares or more	JPY3,000 worth of food items	JPY3,000

5 Activities Targeting Sustainability

The Tsuzuki Group's Sustainability

- Established the Sustainability Management Committee and the Sustainability Promotion Committee to strengthen the structure
- Expressed approval for TCFD recommendations
 [Target (Scope 1+2)]: FY2030 50% reduction in GHG emissions (vs. FY2013)
 : FY2050 Net zero GHG emissions

[Structure]



Three key issues in sustainability (providing value to society)

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

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

Provide reliable and innovative services through information and communication technology

Build a foundation to support our endeavors

Activities supported by diverse individuals

Reduce environmental impact

Promote communication with stakeholders

Provide safe and secure services

Take on the challenge of solving social issues

Activities targeting Tsuzuki Denki's growth

Corporate governance

Risk management

Compliance

Information security

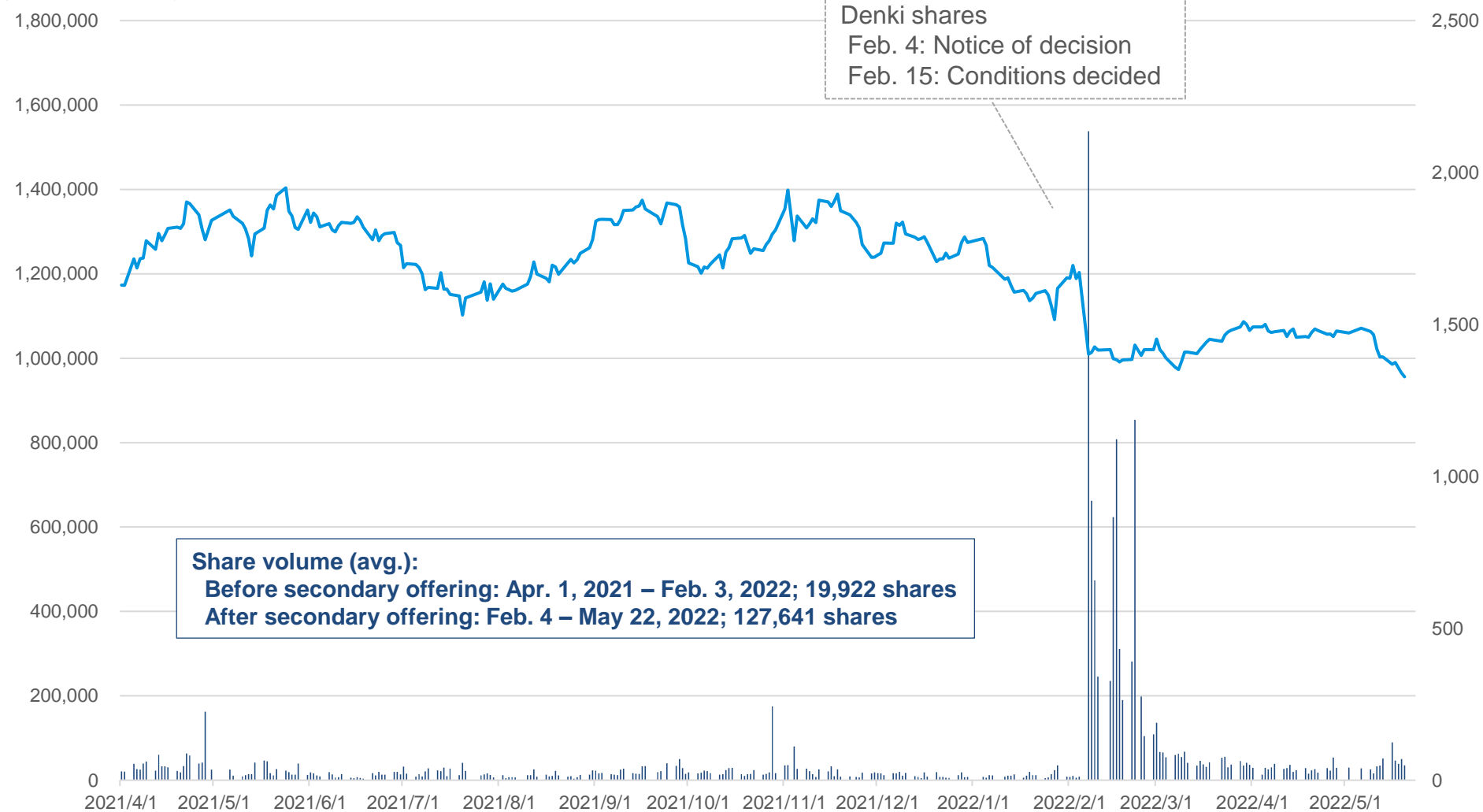
Press Releases

No.	Date	Content
1	2022/05/13	Notice of commemorative dividend celebrating 90th year since Tsuzuki's establishment
2	2022/05/13	Expression of approval for TFCD recommendations, and notice of information disclosure
3	2022/03/10	Recognized as one of the Health and Productivity Corporations (White 500) by Ministry of Economy, Trade and Industry for the fifth consecutive year
4	2022/02/17	Began providing "D-VUE® Cloud Data Lake Platform"
5	2022/02/17	Began providing "D-VUE® DX implementation support" service
6	2022/02/10	Recognized as a Sports Yell Company by Japan Sports Agency and a Tokyo Metropolitan Sports Promotion Company by Tokyo Metropolitan Government for three consecutive years
7	2022/02/08	Recognized as a "certified DX provider" by the Ministry of Economy, Trade and Industry
8	2022/02/04	Notice of secondary offering of Tsuzuki Denki shares
9	2021/12/24	Notice of completion of capital and business tie-up agreement with Nextgen, Inc.
10	2021/12/15	Began providing "Voice recognition IVR," with automated response through "CT-e1/SaaS"
11	2021/12/14	Released "TCLoud for Smart Fruits," a sales management system for fruit wholesalers
12	2021/11/11	Tsuzuki Denki and JIG-SAW completed a tie-up agreement

Stock Price History (as of May 22, 2022)

(Volume: Shares)

(Stock price: Yen)



Share volume (avg.):
Before secondary offering: Apr. 1, 2021 – Feb. 3, 2022; 19,922 shares
After secondary offering: Feb. 4 – May 22, 2022; 127,641 shares

Secondary offering of Tsuzuki Denki shares
 Feb. 4: Notice of decision
 Feb. 15: Conditions decided

Contact

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