

Financial Results for the First Half of the Fiscal Year Ending March 31, 2024 and Update on the Medium-Term Management Plan

November 8, 2023

Tsuzuki Denki Co., Ltd.





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Financial Results for 1H FY03/24

- Overview of Consolidated Results
- Sale of Electronic Devices Business
- Consolidated Earnings Forecast
- Shareholder Return

2

Update on Medium-term Management Plan

- Targets of Long-Term Vision and Medium-Term Management Plan
- 1H Progress



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Achieved record 1H profits

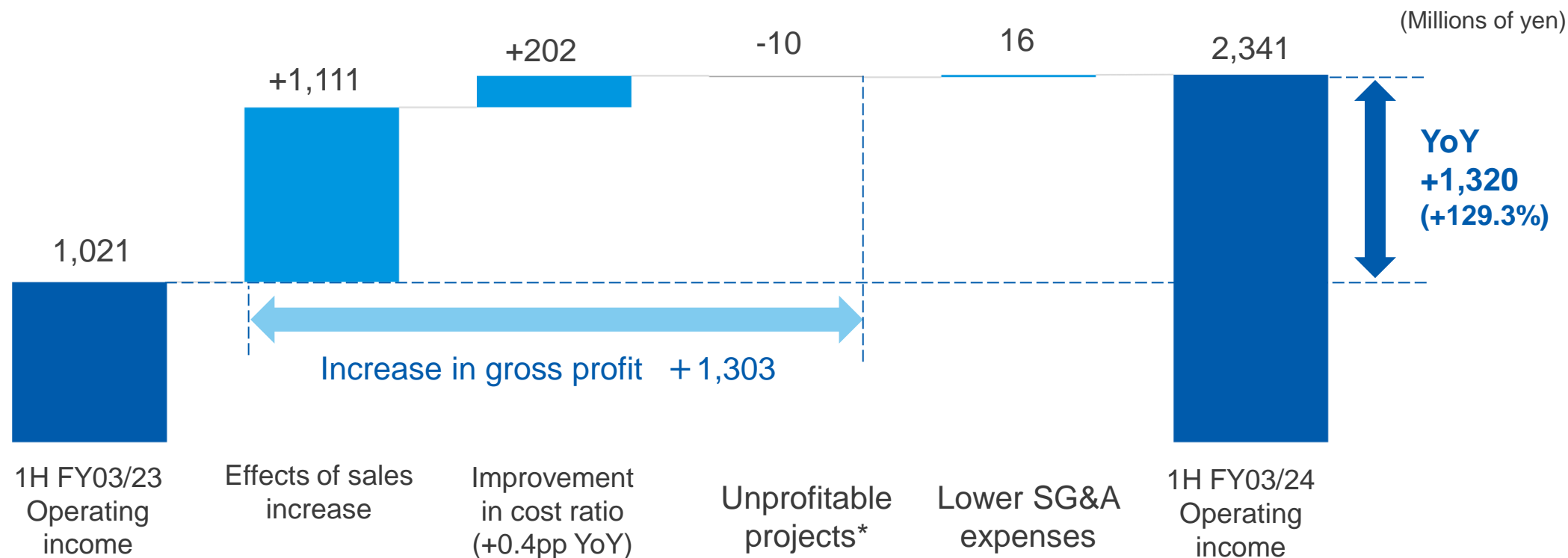
- Recorded steady sales mainly from order backlog. In addition to higher sales, improvement in cost ratio and reduction in SG&A expenses contributed to profit, and operating margin rose substantially
- Profit attributable to owners of parent increased significantly thanks to extraordinary gains from the sale of noncurrent assets, which helped improve management resource utilization and asset efficiency
- Orders fell owing to the absence of large projects in the Information Network Solutions business and a reactionary drop from advanced orders in the Electronic Devices business

(Millions of yen)

	1H FY03/23	1H FY03/24	Change (amount)	Change (YoY)
Net sales	55,046	60,887	5,841	+10.6%
Gross profit	10,478	11,782	1,303	+12.4%
(Cost ratio)	(81.0%)	(80.6%)	(-0.4pp)	—
SG&A expenses	9,457	9,441	-16	-0.2%
Operating income	1,021	2,341	1,320	+129.3%
(Operating margin)	(1.9%)	(3.8%)	(1.9pp)	—
Profit attributable to owners of parent	700	2,906	2,205	+314.8%
Orders	69,213	62,816	-6,397	-9.2%
Order backlog	47,878	46,429	-1,449	-3.0%

Factors Affecting Operating Income

- Positive:**
 - Effects of sales increase (+JPY1,111mn) : Higher sales in all businesses
 - Improvement in cost ratio (+JPY202mn) : Improved substantially in Information Network Solutions business
 - Lower SG&A expenses (+JPY16mn) : Decrease in personnel expenses due to headcount reduction resulting from mandatory retirement (Information Network Solutions)
- Negative:** Unprofitable projects (-JPY10mn) : 1 project *None in FY03/23



■ Information Network Solutions

Sales: Steady sales, especially in the equipment business (1H FY03/23 performance was affected by delivery delays due to semiconductor shortages)

Operating income: In addition to higher sales, gross margin improved owing to pricing management and standardization of development and construction processes

■ Electronic Devices

Sales: Recorded sales mainly from order backlog, because of production by automotive and other customers stabilized thanks to recovery in semiconductor supply

Operating income: Operating income fell owing to an increase in personnel expenses as a result of recruiting personnel through mid-career hiring

(Millions of yen)

	Net sales				Operating income			
	1H FY03/23	1H FY03/24	Change (amount)	Change (YoY)	1H FY03/23	1H FY03/24	Change (amount)	Change (YoY)
Information Network Solutions	40,519	45,653	5,134	+12.7%	521	1,930	1,408	+270.0%
Electronic Devices	14,526	15,233	706	+4.9%	483	392	-90	-18.7%
Consolidated Total	55,046	60,887	5,841	+10.6%	1,021	2,341	1,320	+129.3%

*Operating income adjustments are excluded

Results by Business Model (Information Network Solutions)

■ Equipment

In addition to PC and application licenses, sales of equipment for network construction contributed to sales
However, orders fell owing to the absence of large projects compared to Q1 FY03/23

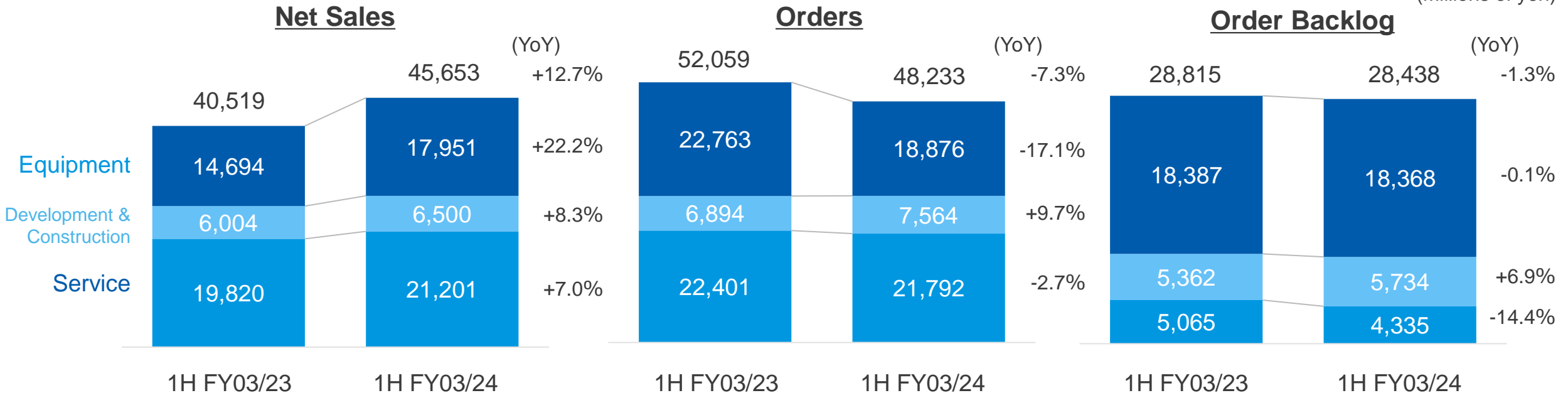
■ Development & Construction

System development and IT infrastructure/network construction projects grew, while on-premise PBX projects fell due to the shift to cloud services

■ Service

Cloud services performed well, and ancillary maintenance services increased in line with growth in equipment business
However, orders and order backlog fell owing to a drop-off in large operation service projects from Q1 FY03/23

(Millions of yen)



Results by Business Model (Electronic Devices)

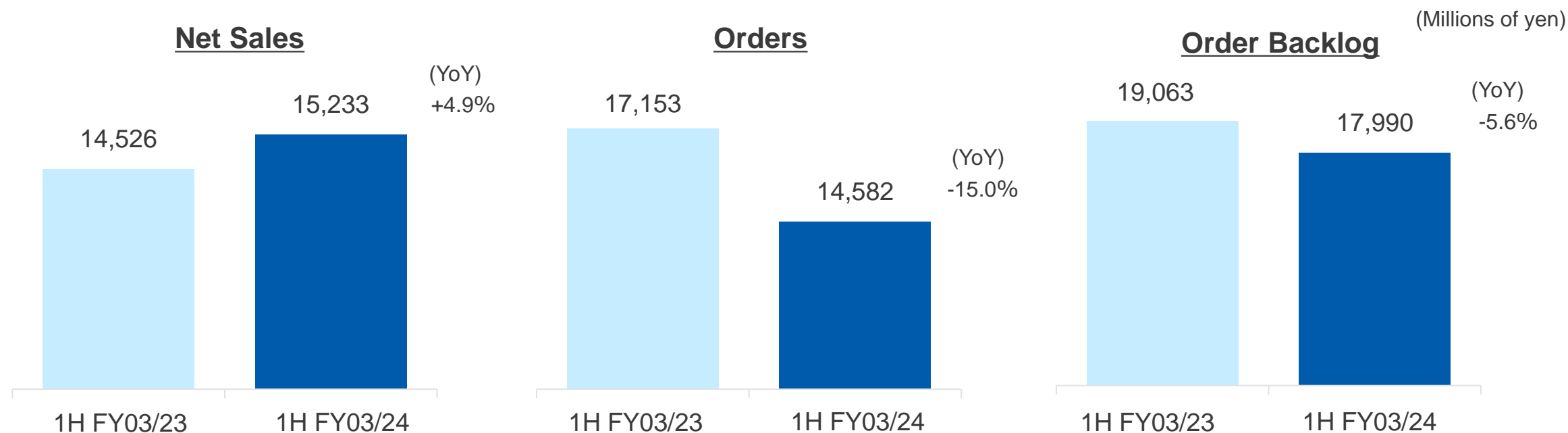
■ Orders, Net Sales

Strong sales of power semiconductors and LCD panels for in-vehicle equipment following the recovery of production in the automobile market

Special demand (advanced orders) came to an end as the semiconductor shortage subsided

■ Order Backlog

Customer production stabilized thanks to restored semiconductor supply, and the build-up of long-lead items from FY03/23 and earlier steadily contributed to sales



Achieved flexible reorganization of the Group under the Medium-Term Management Plan policy
Going forward, we will concentrate management resources on the Information Network Solutions business to achieve further growth and boost corporate value

Background leading up to the transfer

1

Made restructuring of the business portfolio and Group companies a key strategy in the medium-term management plan

July 2021: Established TSUZUKI EMBEDDED SOLUTIONS (spin-off of the Electronic Devices business)

October 2023: Established TSUZUKI XROSS SUPPORT (merger of Tsuzuki Info-Techno East Japan and West Japan)

2

Recognized difficulties in creating synergies with Information Network and challenges in terms of capital efficiency

Business Scale (FY03/23 Actual)

Group companies to be sold: TSUZUKI EMBEDDED SOLUTIONS Co., Ltd., TSUZUKI DENSAN TRADING (SHANGHAI) CO., LTD., TSUZUKI DENSAN HONG KONG CO., LTD., TSUZUKI DENSAN SINGAPORE PTE.

Sales: JPY29,993mn Operating income: JPY954mn

Employees: Appx. 160

Acquirer



Restar Holdings Corporation

Paid-in capital: JPY4,383mn
Consolidated sales: JPY487,129mn
Employees (consolidated): 2,601

*As of FY03/23

Transformation

Tsuzuki Group will become a pure Information Network Solution service business

Offset the drop in the Electronic Devices business by capturing the expanding market and enhancing earnings power

- Four subsidiaries will be removed from the scope of consolidation from Q4 following the sale of the Electronic Devices business
- Market environment for Information Network is good, and we will secure earnings by executing our medium-term business strategy (shifting to growth areas and streamlining existing areas)

(Millions of yen)

	FY03/23 results	FY03/24 Forecast	Change (amount)	Change (YoY)
Net sales	123,899	126,500	2,601	+2.1%
Operating income	5,118	5,300	182	+3.6%
(Operating margin)	(4.1%)	(4.2%)	(0.1pp)	—
Profit attributable to owners of parent	3,521	4,450	929	+26.4%

Shareholder Return

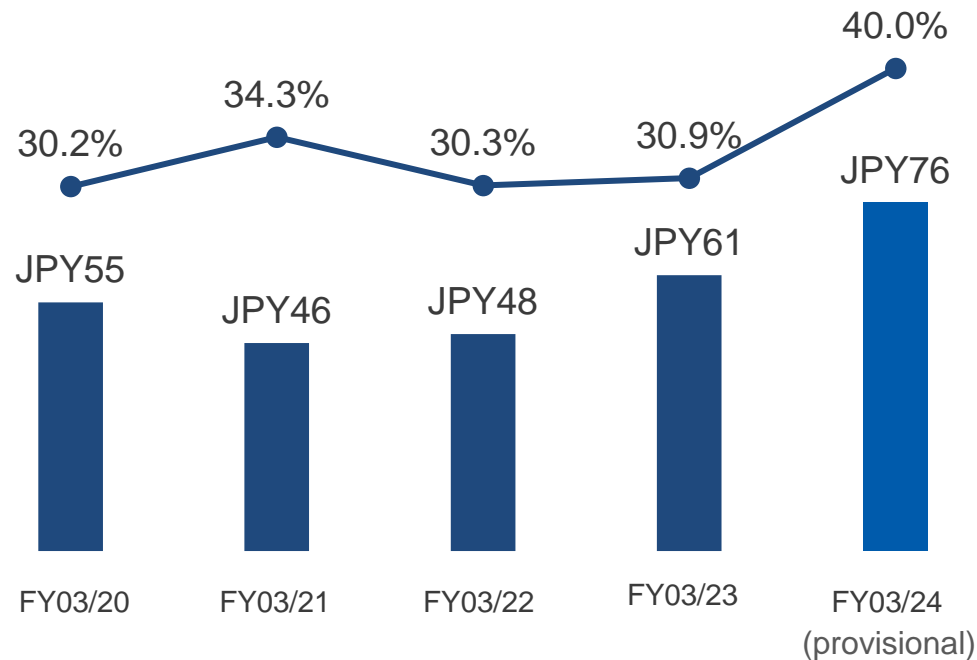
Achieve stable dividends with a target payout ratio of 40%*

(minimum dividend on equity (DOE) ratio of 3.5%)

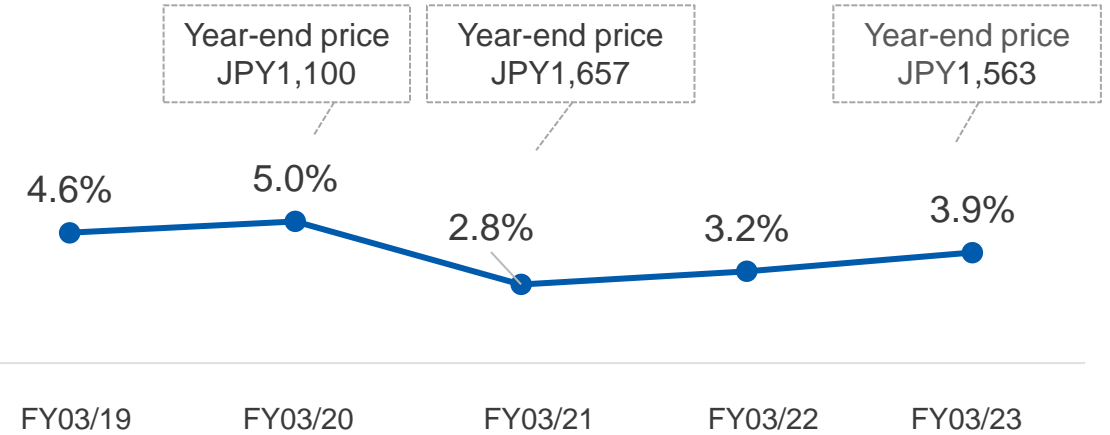
Interim dividend: 38 yen; Year-end dividend: 38 yen (planned)

*... Based on earnings per share excluding extraordinary income/loss, etc.

Dividend per share



Dividend yield



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

Shareholder benefits

Number of shares held \ Number of years held	Products (including QUO Cards, 13 types in different price ranges)	
	Less than 3 years	More than 3 years
100 shares to less than 300 shares	JPY1,000 worth	JPY2,000 worth
300 shares to less than 1,000 shares	JPY2,000 worth	JPY4,000 worth
1,000 shares or more	JPY3,000 worth	JPY6,000 worth

*If 1,000 shares or more but less than 3 years (worth 3,000 yen) and 300 shares to less than 1,000 shares for more than 3 years (worth 4,000 yen) both apply, it will be treated as 300 shares to less than 1,000 shares for more than 3 years (worth 4,000 yen).



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We will maintain our Long-Term Vision and Medium-Term Targets and take on the challenge of further growing our Information Network Solutions business

Innovation 2023

Transformation 2026

Long-Term Vision

FY03/23 Results (INS)

Management Targets for FY03/26
(vs. FY03/23)

Stretch Targets for FY03/33
(vs. FY03/23)

Net sales JPY93.9bn

Net sales JPY130.0bn
(+38.4%)

Net sales JPY150.0bn
(+59.7%)

Operating income JPY4.2bn

Operating income JPY6.5bn
(+54.8%)

Operating income JPY10.0bn
(+138.1%)

ROE 10.4% *Consolidated

ROE 10% or higher

ROE 15% or higher

10-year Vision

Scope1+2 CO2 emissions
613t-CO2

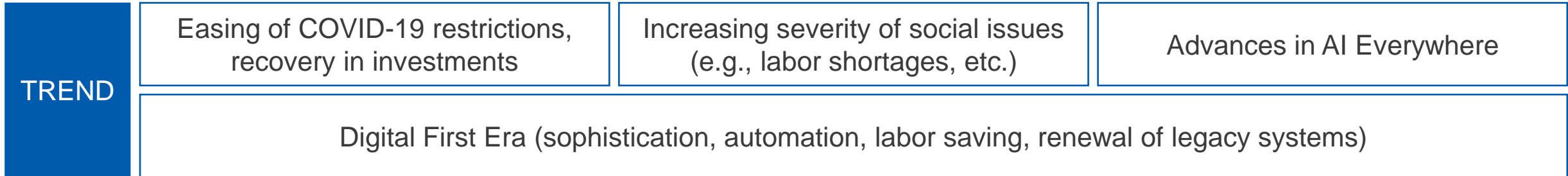
Scope1+2 CO2 emissions
532t-CO2 (-13.2%)

Growth Navigator

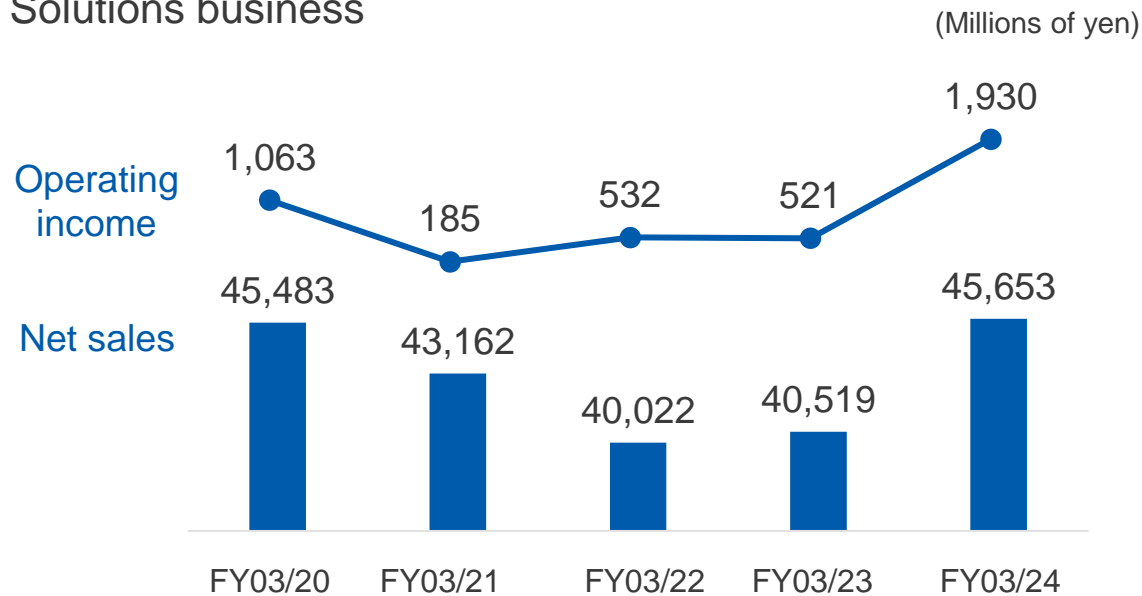
An organization that navigates growth and grows together with stakeholders

Key Factor 1: Favorable Market Environment

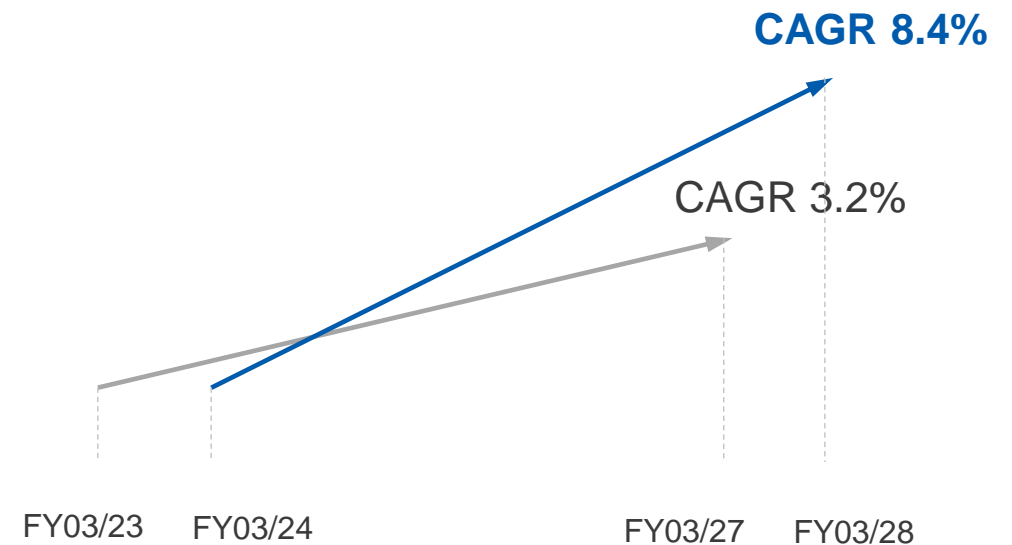
Changes in the external environment also serve as a tailwind and accelerate the growth of the ICT market



▼ Customer investment recovery and expansion trend as seen based on Q2 performance of Information Network Solutions business



▼ Domestic IT Infrastructure Market Forecast by IDC is up significantly from the previous year



Key Factor 2: Steady Improvement in Existing Areas and Opportunity Expansion

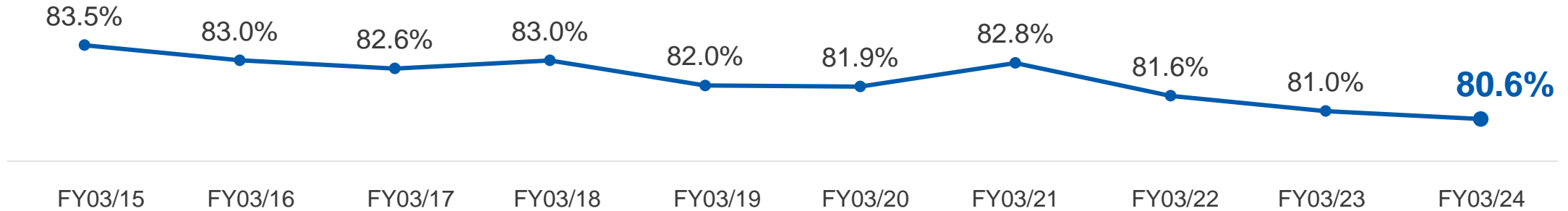


Existing areas, which account for more than 90% of sales, have a major presence and we are already seeing results from executing our strategies

We will continue to thoroughly streamline and optimize our operations to capture business opportunities as they emerge

▼ Cost ratio (Q2/Consolidated)

Achieved record the lowest cost ratio in the past 10 years in this 1H thanks to the success of pricing management in existing areas

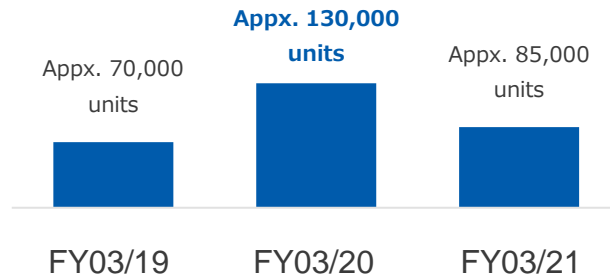


▼ PC sales likely to expand beyond initial expectations

Aiming to maximize earnings by thoroughly implementing pricing management, such as by bundling with high-value-added services

PCs introduced at the time of Win7 EOS (January 2020) special demand are due for replacement

Sales during EOS special demand



Expanding need for high-spec PCs

Adding AI functionality to Win11

Win10 EOS (October 2025)

Key Factor 3: Taking on the Challenge of M&A

Explore opportunities for growth by focusing on both growth and existing areas

Fully leverage funds gained from the sale of the Electronic Devices business to speed up the pace of reform

Growth areas and new areas are the initial main targets

Medium-term: Acquire lacking capabilities and channels in growth areas

Long-term: Enter new areas and markets, expand services

Business Strategy Planning Office takes the lead in launching activities in preparation for M&A deals

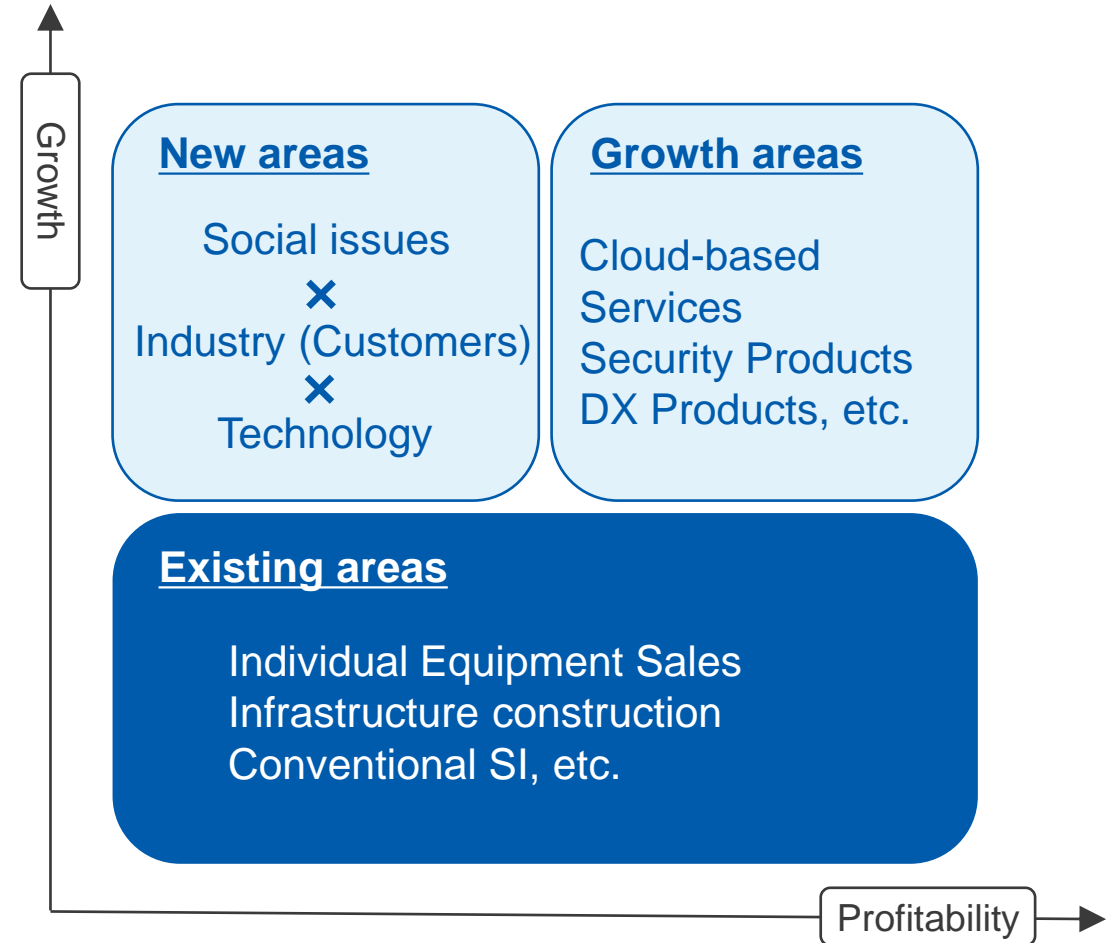
- Partnerships with several M&A advisory firms
- Strengthen contact with startup companies



Enhance connoisseurship through proactive interaction with external parties, and search for companies that can truly generate synergies

Enter into collaborations that will strengthen competitiveness in existing areas

- Reaffirm the importance and potential of existing areas
- Strengthen the overall business base and stabilize earnings



Shareholder Return [No Changes]



Achieve stable dividends and large dividend increases by raising the dividend payout ratio to 40% and introducing a dividend on equity (DOE) metric

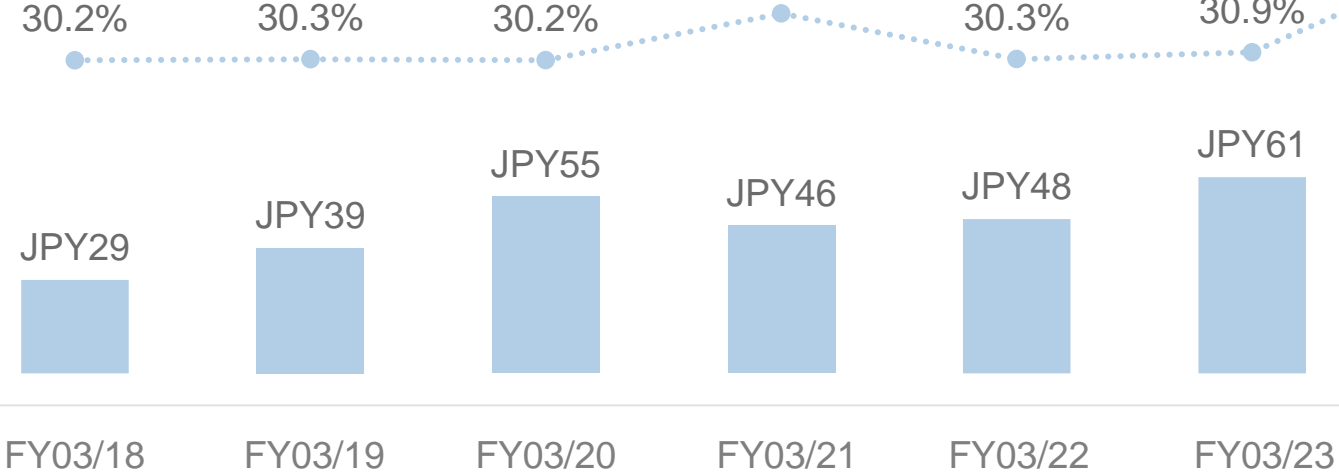
Dividend per share

Until FY03/23

Payout ratio of about 30%

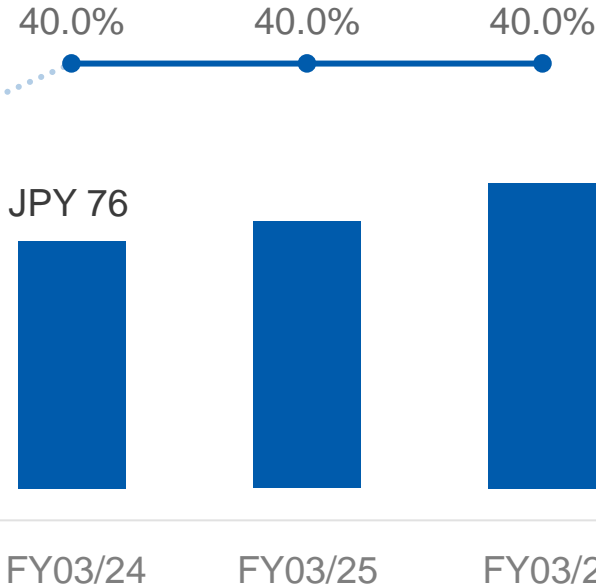
IPO commemorative dividend of JPY5 per share

(Reference)
Dividend
payout ratio



From FY03/24

Raise dividend payout ratio to 40%*
(Minimum dividend payout ratio of 3.5% DOE)



*Based on earnings per share excluding extraordinary gains/losses, etc.



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Made progress in developing service infrastructure and reforming mindset in the field. Planning to accelerate growth through further business investment going forward

Policies	1H initiatives by key priority	Evaluation
Strengthen six growth areas	<ol style="list-style-type: none"> Promote collaboration with other companies by leveraging core technologies Co-created services for a new era with partner companies in the communication domain - CT-e1/SaaS: System integration with LINE AiCall Strengthen technical, marketing, and product development capabilities through human resource development Carried out structural reform of the engineering department to improve the quality of services and products - Organized and established the Tsuzuki Style, an in-house guideline for technical standardization Expand service lineup - Launched TCloud for Smart: Fruits and Vegetables," a sales management system for the fruit and vegetable wholesale industry (Market-specific DX) - Released Azure OpenAI Service Utilization Support, a service proping methods to utilize generative AI tools such as ChatGPT - Began offering free trial of AI Discharge Date Prediction Service (tentative name) 	<div data-bbox="1905 354 2466 465" style="border: 1px solid black; padding: 5px; text-align: center;"> Performance in the Six Growth Areas </div> <div data-bbox="1905 465 2466 715" style="text-align: center; padding: 20px;"> <p>Total sales: Appx. JPY5.0bn</p> </div> <div data-bbox="1905 715 2466 765" style="border: 1px solid black; padding: 5px; text-align: center;"> Investment </div> <div data-bbox="1905 765 2466 1039" style="text-align: center; padding: 40px;">  </div>
Improve profitability in existing areas	<ol style="list-style-type: none"> Strengthen product portfolio management under the concept of TSF / Ensure thorough pricing management Made progress in mindset reform in the field through rapid execution of policies - Introduced and managed sales ROI indicators - Established and operated pricing management flow (review of pricing) - Changed project review operation Reorganize business formation Further strengthened Information Network business base through dynamic reorganization of the Group - Merger of Tsuzuki Info-Techno East Japan and West Japan (established Tsuzuki Xross Support) - Sale of Electronic Devices business (transfer of shares of 4 related subsidiaries) 	<div data-bbox="1905 1039 2466 1089" style="border: 1px solid black; padding: 5px; text-align: center;"> Overall </div> <div data-bbox="1905 1089 2466 1379" style="text-align: center; padding: 40px;">  </div>

Initiatives to Enhance Human Capital

Carried out system expansion and culture reform aimed at strengthening the personnel supporting our business strategy

Key priorities	1H initiatives	Evaluation
Personnel development	<p><u>Three pillars</u></p> <p>1. Develop leadership talent / 2. Develop diverse professional talent 3. Build teams that work autonomously and engage both internally and externally</p> <p>1. Recruitment for growing business</p> <ul style="list-style-type: none"> - Launched referral recruitment system and introduced the My Refer app (currently in the process of selecting candidates for 40% of the planned hiring for FY03/24) <p>2. Develop diverse talent</p> <ul style="list-style-type: none"> - Reorganized personnel development program system into Leader Personnel Development, Professional Personnel Development, and Autonomous Personnel Development - Company-wide development of DX personnel (encourage all employees to take the DX certification test; number of employees that acquired certification increased 80% from FY03/23) - Develop personnel who can create social issue-driven businesses through cross-border programs and interning at other companies 	<p style="text-align: center;">Results</p> <p style="text-align: center;">DX Associate Certified 197 (progress rate 82%)</p> <p style="text-align: center;">External Evaluation Eruboshi certification (acquired for the first time)</p> <p style="text-align: center;">Investment</p> <div style="text-align: center; margin: 20px 0;">○</div>
Prepare internal environment	<p><u>Two pillars</u></p> <p>1. Create a foundation that enables employees to take on challenges on their own 2. Establish an environment that supports the success of diverse talent</p> <p>1. Performance-driven system</p> <ul style="list-style-type: none"> - Launched project for migrating to the new HR system <p>2. Open corporate culture reform</p> <ul style="list-style-type: none"> - Stimulated internal and external exchanges and enhanced autonomy through the use of external exchange programs (37 employees participated) - Launched D&I promotion "Colorful Value" project (35 employees participated) 	<p style="text-align: center;">Overall</p> <div style="text-align: center; margin: 20px 0;">○</div>

Topic: Our Approach to Solving Social Issues

We solve customer and social issues by using our expertise and technology and aim to engage in corporate activities that contribute to the sustainability of society .

Logistics crisis

Labor shortage

Aging

Tighter management of working hours

CO2 reduction

The looming "2024 Problem"

Comprehensive cloud services for the logistics industry



Optimize and streamline delivery operations

Improving operations through data analysis

Paperless (transition to smartphones)

We have been working with over 500 logistics customers for more than 20 years and have condensed our know-how to realize safe, stable, and secure logistics.

End-FY03/27 target: 12,000 licenses (JPY1,250 per month per license)

Cyber attack

Increasing sophistication and scale of cyber attacks (increasing risk to businesses)

Diversification of working environments
→ Increased complexity of security measures

Proper security measures are an urgent need for companies

Cyber Security Management Support Services

Comprehensive and objective evaluation using assessment tools

Visualize customer status and provide support for effective planning

Specialists provide total security optimization and protect customers from ever-evolving cyber-attacks

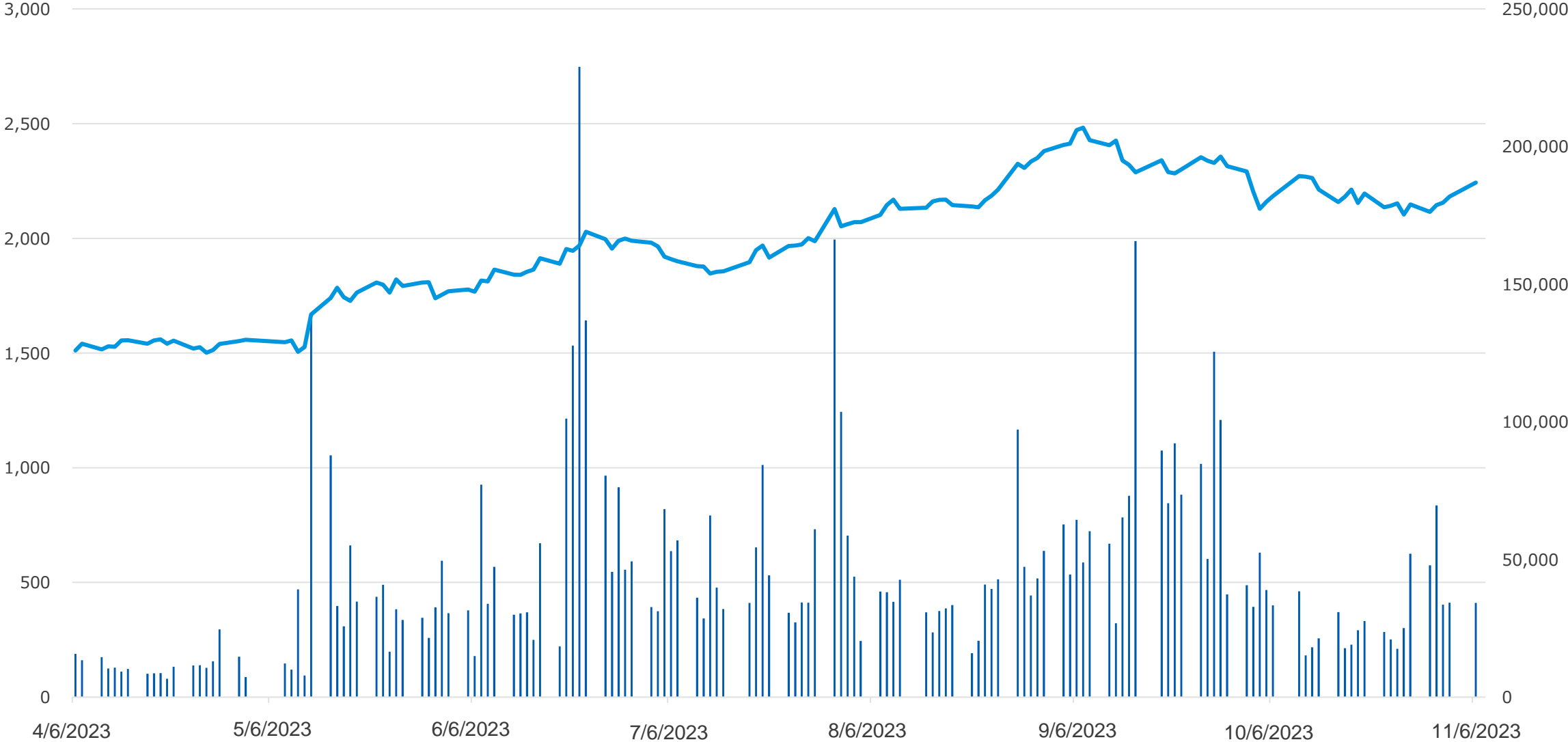
End-FY03/26 Target: Contracts with 200 companies

Reference: Share Price Trends



(Shares: Yen)

(Volume: Number of shares)



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Bring to society “*yohaku*” filled with possibilities,
through people, insight, and technology, together.