Financial Results for the Fiscal Year Ended March 31, 2024

/ Transformation / Becoming a Pure-play Information Network Solutions Business

May 22, 2024

Tsuzuki Denki Co., Ltd.

DX認定

TSUZUKI

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Highlights

Achieved a record profit driven by substantial growth in the Information Network Solutions business, offsetting the drop in performance following the business divestiture

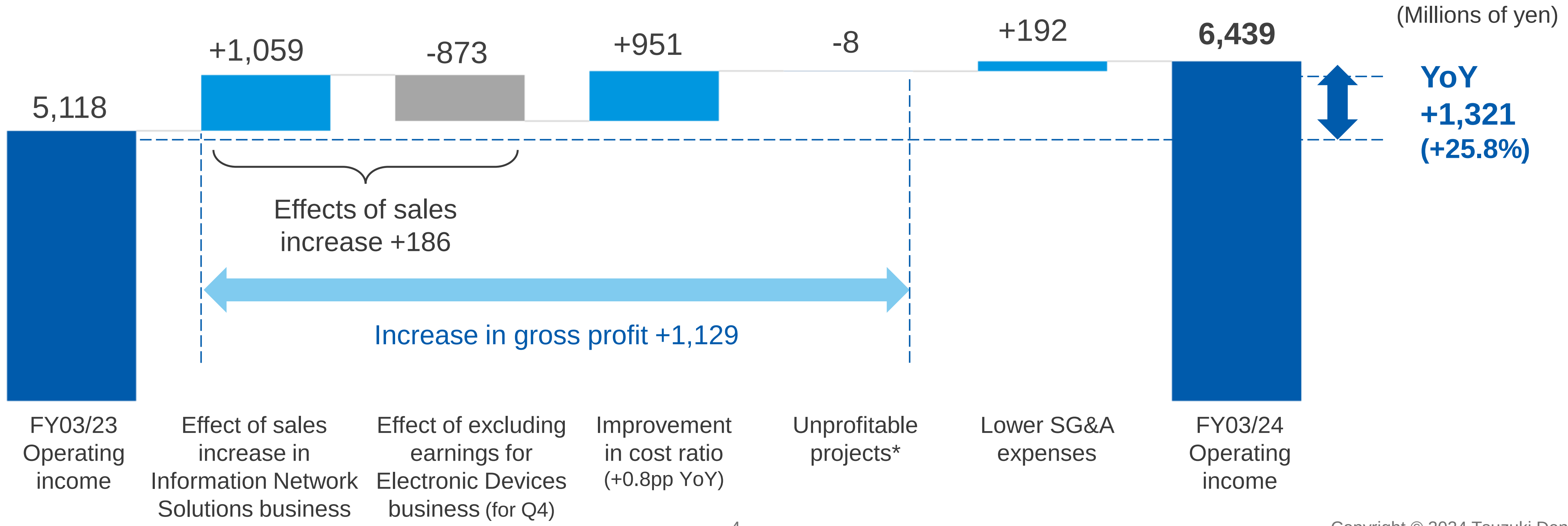
- The medium-term management plan strategy for the Information Network Solutions business, including pricing management and the expansion of six growth areas, proved successful. Profits grew substantially with an improvement in profit margin. This offset the impact of the deconsolidation of the Electronic Devices business (Q4 earnings) and further boosted profits.
- Recorded extraordinary gains from the sale of noncurrent assets, which helped improve the utilization of management resources and asset efficiency. Meanwhile, the impact from the sale of the Electronic Devices business was minimal, resulting in substantial growth in profit attributable to owners of parent.
- Order backlog decreased due to the exclusion of orders for the Electronic Devices business

(Millions of yen)

	FY03/23	FY03/24	Change (amount)	Change (YoY)
Net sales	123,899	**124,856**	957	+0.8%
Gross profit	24,178	**25,308**	1,129	+4.7%
(Cost ratio)	(80.5%)	**(79.7%)**	(-0.8pp)	–
SG&A expenses	19,060	**18,868**	-192	-1.0%
Operating income	5,118	**6,439**	1,321	+25.8%
(Operating margin)	(4.1%)	**(5.2%)**	(+1.1pp)	–
Profit attributable to owners of parent	3,521	**5,477**	1,956	+55.6%
Orders	134,688	**114,035**	-20,652	-15.3%
Order backlog	44,499	**17,895**	-26,604	-59.8%

Factors Affecting Operating Income

■ **Positive:**	Effects of sales increase (+JPY186mn)	: Higher sales in all business models of the Information Network Solutions business (impact of sales increase in the Information Network Solutions business: +JPY1,059mn) **Offset impact of excluding Q4 earnings for the Electronic Devices business (-JPY873mn)**
	Improvement in cost ratio (+JPY951mn)	: Significant improvement in equipment and development & construction businesses
	Lower SG&A expenses (+JPY192mn)	: Decrease in personnel and other expenses due to the deconsolidation of 4 companies following the business divestiture (for Q4)
■ **Negative:**	Unprofitable projects (-JPY8mn)	: 1 project, but with minimal impact *None in FY03/23



Results by Segment

■ **Sales** Sales increased in all business models of the Information Network Solutions business. Equipment business in particular contributed to sales growth

■ **Operating income** Achieved a record profit in the Information Network Solutions business thanks to thorough pricing management and the expansion of six growth areas with high added value

(Millions of yen)

	Net sales				Operating income			
	FY03/23	FY03/24	Change (amount)	Change (YoY)	FY03/23	FY03/24	Change (amount)	Change (YoY)
Information Network Solutions	93,905	**102,523**	8,617	+9.2%	4,155	**5,925**	1,770	**+42.6%**
Electronic Devices	29,993	22,333	-7,660	-25.5%	954	487	-467	-48.9%
Consolidated Total	123,899	124,856	957	+0.8%	5,118	6,439	1,321	+25.8%

Results by Business Model (Information Network Solutions)

■ **Equipment**

Installed PCs, network equipment, etc. for customers in a wide range of industries
Orders and order backlog fell as we received some large orders expected for FY03/24 ahead of schedule in Q4 FY03/23, but the market environment is strong.

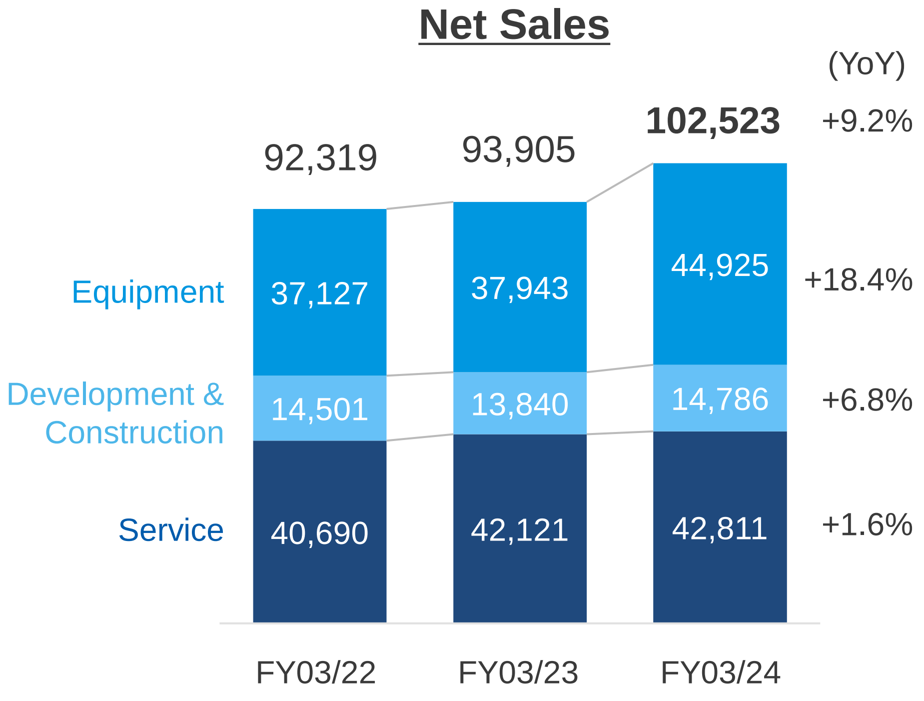
■ **Development & Construction**

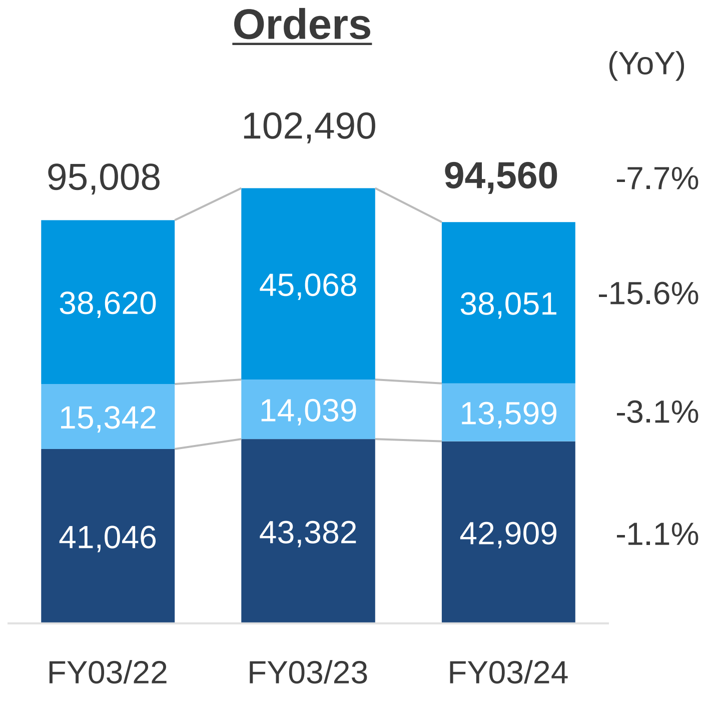
Growth in network and infrastructure construction and small and medium-sized system development

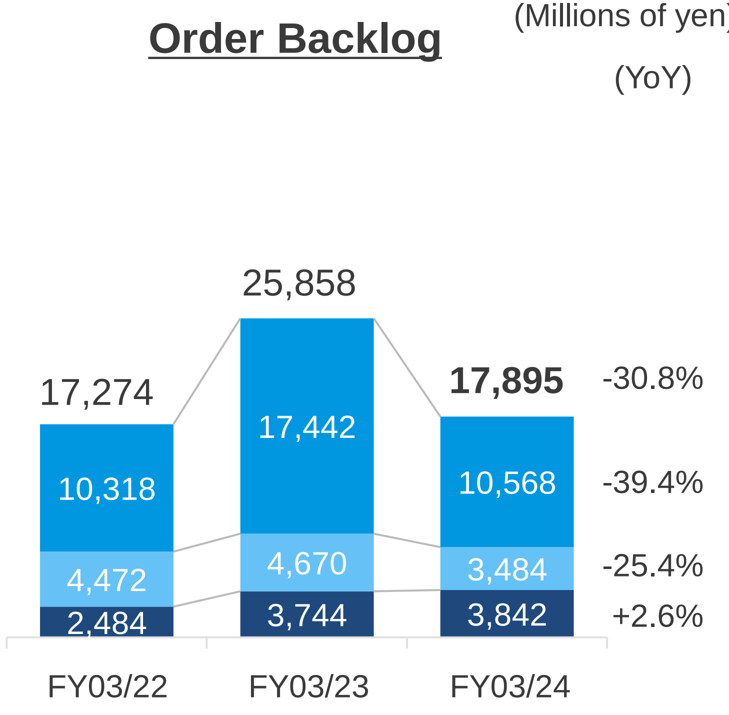
■ **Service**

Cloud-based services in the six growth areas were solid. Monthly subscription services such as ancillary maintenance services and cloud usage fees increased in line with growth in equipment and development & construction businesses. Orders fell slightly owing to the expiration of a major operation service in Q1 FY03/23.

(Millions of yen)







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FY03/25 Consolidated Earnings Forecast

Projecting a record profit in the Information Network Solutions business, primarily driven by expanding demand for AI PC installations and peripheral infrastructure upgrades, in addition to improved profitability of the overall business resulting from the execution of the medium-term management plan strategy

(Millions of yen)

	FY03/24 results	FY03/25 forecast	Change (amount)	Change (YoY)
Net sales	102,523 (124,856)	**103,000**	476 (-21,856)	**+0.5%** (-17.5%)
Operating income	5,925 (6,439)	**6,250**	324 (-189)	**+5.5%** (-2.9%)
Operating margin	5.8% (5.2%)	**6.1%**	–	**+0.3pp** (+0.9pp)
Profit attributable to owners of parent	5,477	**4,100**	-1,377	**-25.1%**

*The upper figures in each cell are for the Information Network Solutions business only, and the lower figures in parentheses include the Electronic Devices business.

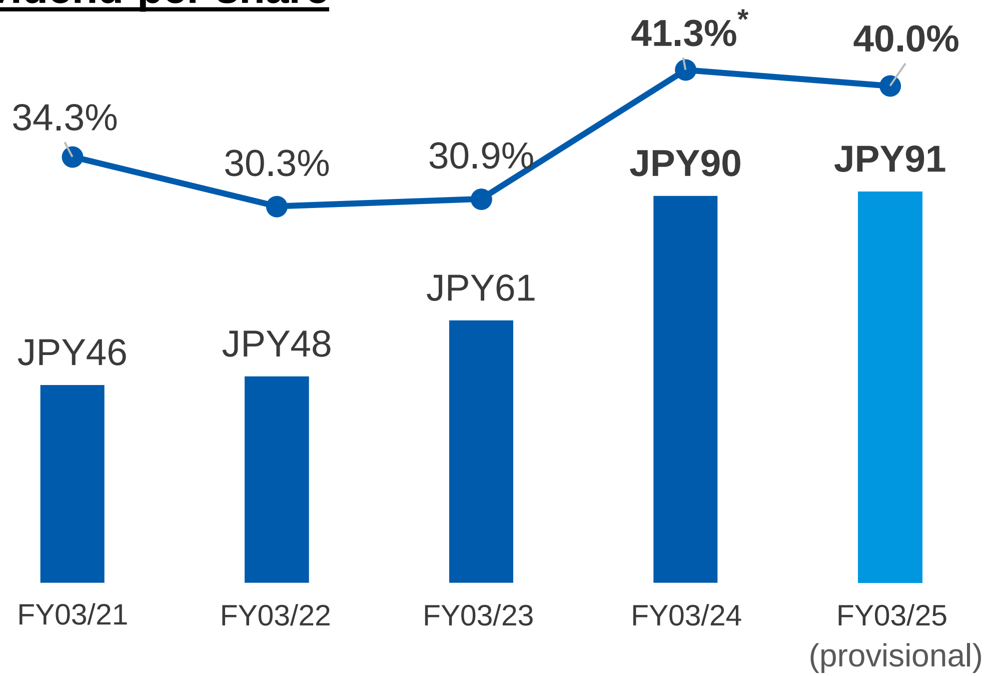
Shareholder Return

Achieved a major dividend increase

Dividend policy: Target dividend payout ratio of 40%, with a minimum DOE of 3.5%
(Profit attributable to owners of parent used for dividend calculation is based on profit from business activities, excluding extraordinary gains/losses, etc.)

Interim dividend: 38 yen; Year-end dividend: 52 yen

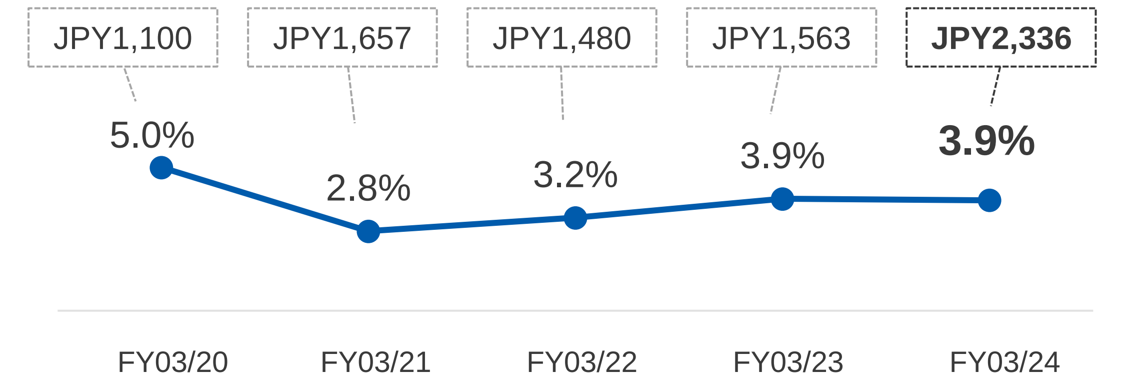
Dividend per share



*Based on profit from business activities. Dividend payout ratio is 29.5% based on reported profit attributable to owners of parent

Dividend yield

Year-end share price



*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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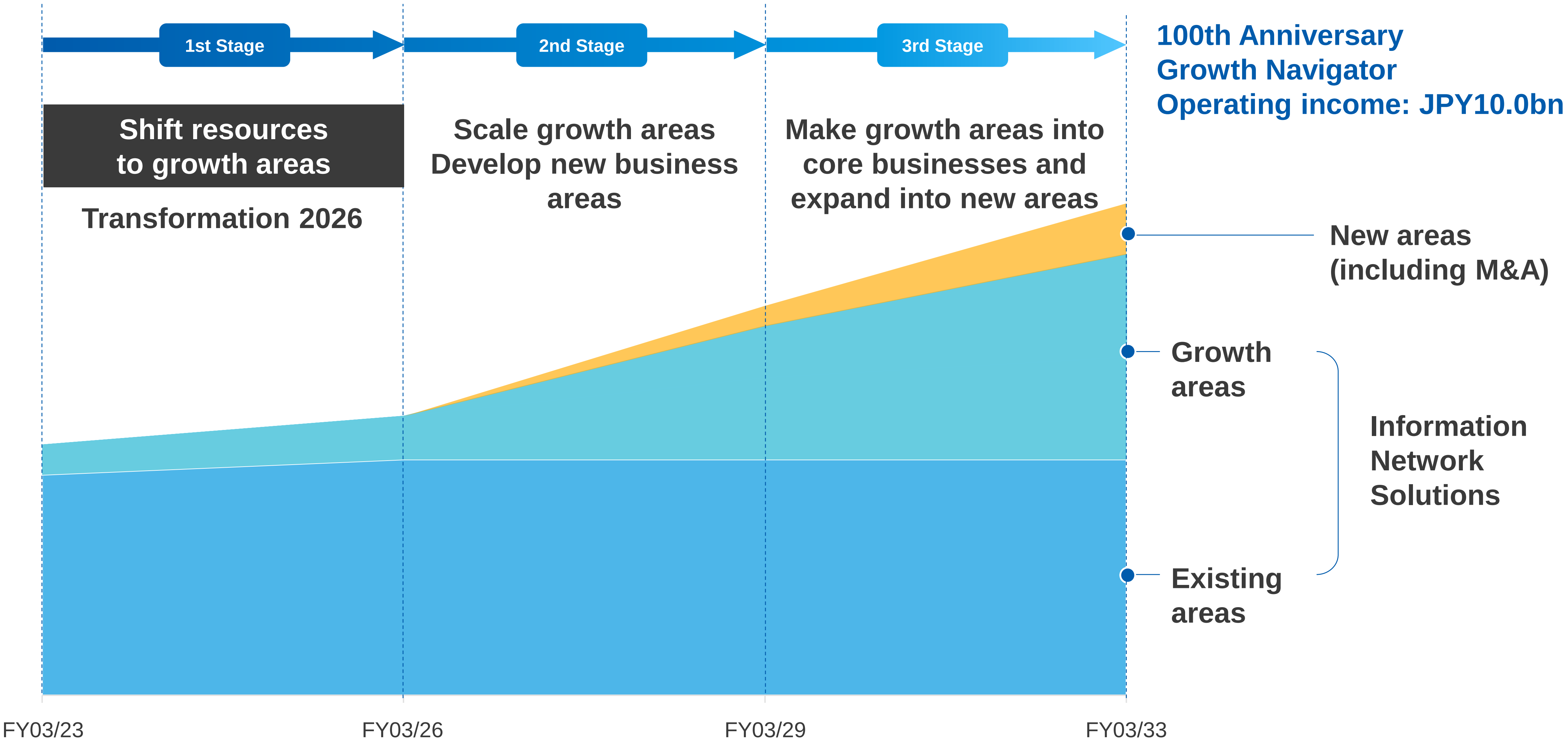
Positioning of the Medium-term Management Plan

First stage: Shift resources and put growing businesses on track to achieve our long-term vision



Overview of the Medium-term Management Plan

Transformation 2026 ～ Shift resources to growth areas

FY03/23 results

Net sales
JPY123.8bn

Operating income
JPY5.1bn

ROE
10.4%

CO_2 emissions
Scope1+2
1,681t-CO_2

1. Business strategies	Expand growth areas Increase profitability of existing businesses Restructure business portfolio and Group companies
2. Financial strategies	Manage finances while being mindful of the cost of capital Create growth funds through balance sheet optimization Optimize capital allocation
3. Management base reinforcement	Proactively invest in human capital (organizational and human resource development) Further enhance governance Strengthen sustainability efforts

FY03/26 targets (vs. FY03/23)

Net sales
JPY130.0bn (+5.0%)

Operating income
JPY6.5bn (+27.5%)

ROE
Over 10%

CO_2 emissions
Scope1+2
1,468t-CO_2
(-12.7%)

[Executive Summary] Progress and Overall Review of the First Year of the Medium-term Management Plan

Steady progress in shifting resources to core businesses by reviewing business portfolio
Achieved record profits close to the final-year target of the medium-term management plan, partly due to successful implementation of various strategies

Company-wide

◎ **✓ Carried out business structure reforms**

- Sold the Electronic Devices business
- Reorganized Group companies
- Issues remain in terms of cost of capital management

Net sales	Operating income	ROE	CO2 emissions
JPY124.9bn (+1% YoY)	JPY6.4bn (+26% YoY)	14.5% (+4.1pp YoY)	1,573t-CO_2 (-6.4% YoY)

Business

◎ **✓ Transitioned to a profitable structure**

- Six growth areas : Enhanced branding, organization, and service functions
  ➡ Sales expanded 36% YoY
  Some delays in planned R&D
  (DX consulting, market-specific DX services)
- Existing areas : Thoroughly implemented pricing management
  ➡ Lowered cost ratio by 0.8pp YoY overall

Finance

○ **✓ Managed finances and generated cash with a focus on cost of capital**

- Established and operated a budget committee
- Reduced non-business assets (sold real estate and cross-shareholdings)
  ➡ Generated growth capital (approx. JPY5.0bn)
- Cash and deposits and net assets increased due to the impact of divestments, with room for improvement in capital and debt structure

Human resources

○ **✓ Initiated human capital enhancement and system reforms**

- Invested in training DX talent (over JPY200mn)
  ➡ 239 certified DX associates (+92 YoY)
- Improved working conditions through system changes and introduced a referral recruitment system
- Female ratio increased slightly, while work engagement score remained flat YoY

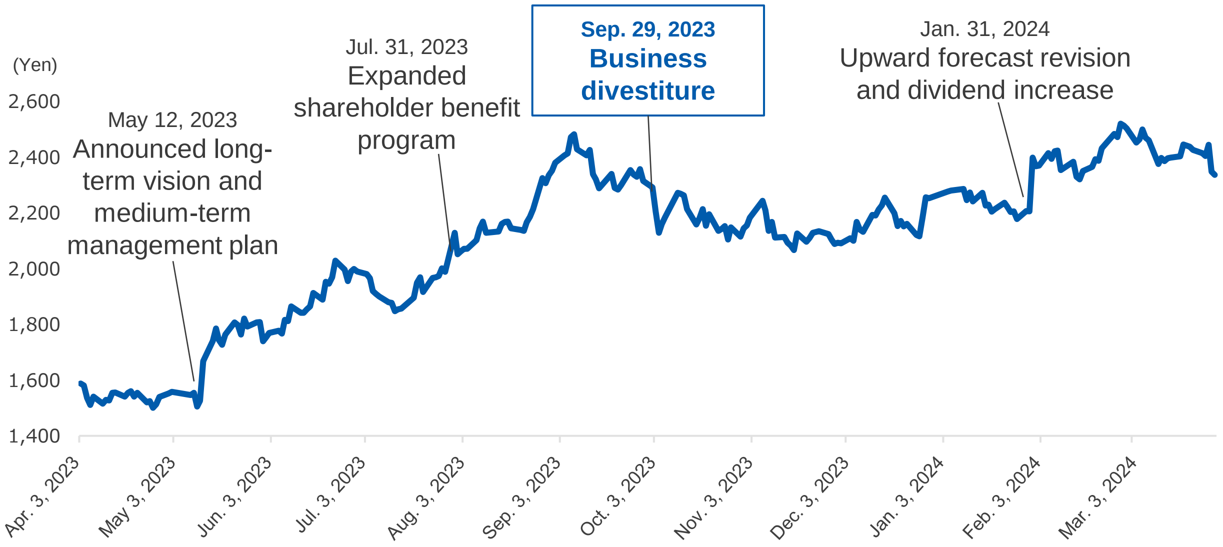
Governance / Sustainability

○ **✓ Implemented measures to increase the effectiveness of the medium-term management plan**

- Held study sessions and opinion exchanges, including with outside directors and outside corporate auditors (7 times)
- Re-identified key issues (materiality)
- Stepped up IR activities; number of dialogues with institutional investors remained flat

Recognition of Challenges from the Perspective of Management Focused on Cost of Capital and Stock Prices

P/B ratio stayed above 1x after announcing the medium-term management plan, but some issues remain



	Tsuzuki	System/network integrator average	IT trading company average
Cost of capital (CAPM/%)	**7.5**	7.1	7.8
ROE (%)	**14.5**	16.3	11.8
P/E ratio (x)	**7.7**	21.4	13.6
P/B ratio (x)	**1.0**	3.4	1.5
Operating margin (%)	**5.2**	11.3	5.3

*Above figures are as of March 31, 2024.
*Cost of capital is calculated under the same conditions (CAPM).
*System/network integrator average consists of 9 companies and IT trading company average consists of 5 companies, with the figures representing simple averages.

- Share price rose and P/B ratio has remained over 1x after announcing the medium-term management plan
- **Market reaction to the sale of the Electronic Devices business has been neutral**

- Our calculated cost of capital is at the same level as system/network integrator average
- **The difference in P/E ratio is larger** than the difference in profitability (ROE and operating margin)

Raise growth expectations by accumulating growth (actual results) with improved profit margins and return on capital while driving transformation as an ICT company (growth scenario)

Business Portfolio Review (Sale of the Electronic Devices Business)

Resolved many issues by transforming into a pure-play ICT business, and aiming for further growth through concentrated resource allocation

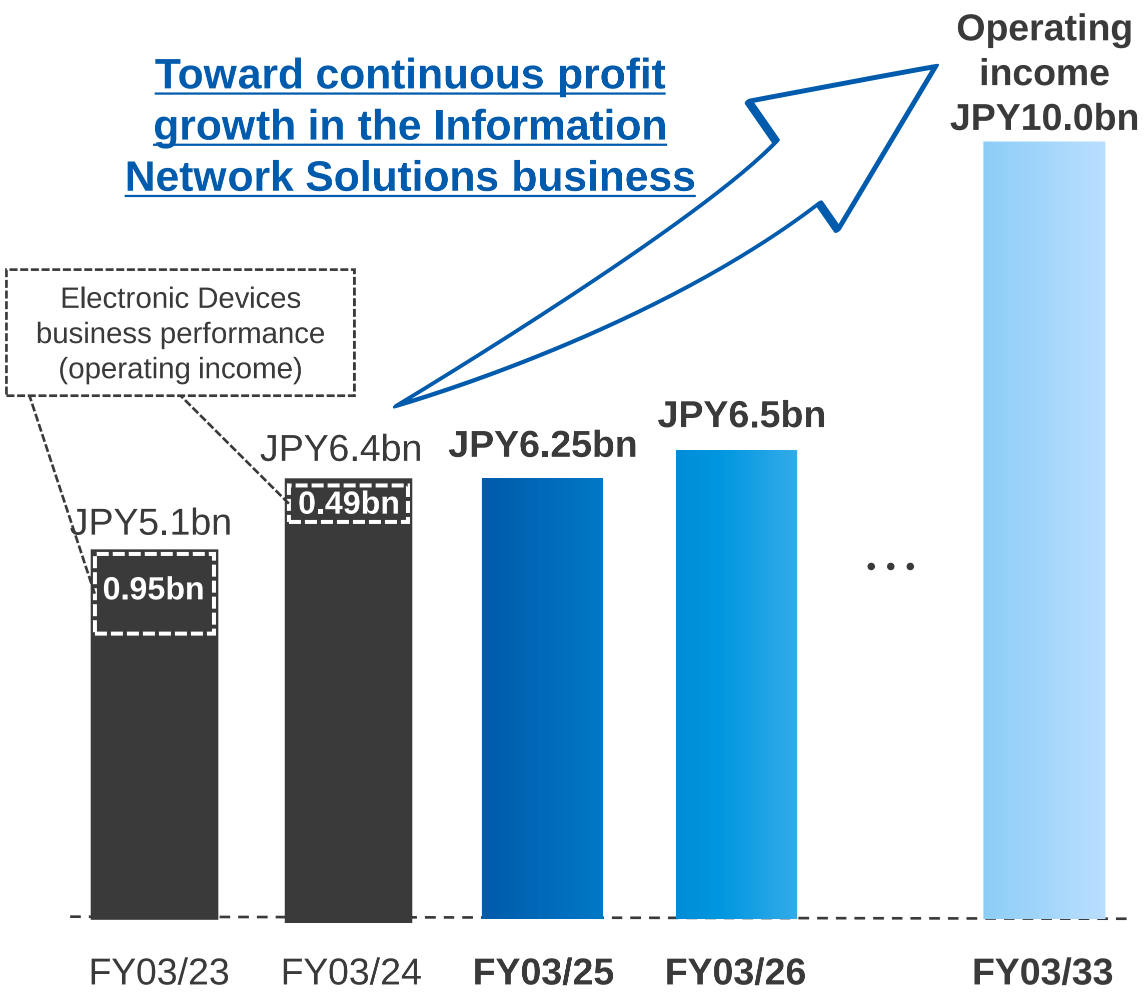
Recognition of challenges

- Difficulty in creating business synergies due to differences in business models
- Low profitability and return on capital
- High working capital requirements

✓ Effects of divestments

		FY03/23 results	FY03/24 results	FY03/25 forecast
Operating margin	Information Network Solutions	4.4%	5.8%	**6.1%**
	Electronic Devices	3.2%	2.2%	–
	Information Network Solutions +Electronic Devices	4.1%	**5.2%**	–
ROA (business profit/total assets)	Information Network Solutions	6.4%	7.3%	**7.7%** *3
	Electronic Devices	4.4%	3.0% *1	–
	Information Network Solutions +Electronic Devices	6.4%	**7.2%** *2	–
Growth funds acquired through divestments		**Approx. JPY8.5bn**		

*1 Business profit is the actual results for April–December 2024 multiplied by 4/3, and business assets are the actual figures for FY03/23.
*2 Business profit is calculated by adding *1 to Information Network Solutions business profit (actual), and business assets are calculated based on estimated total assets excluding the impact of the sale of the Electronic Devices business (if the business had not been sold).
*3 Total assets are the actual figures for FY03/24.



Profitability Enhancement of the Information Network Solutions Business [FY03/24 Progress]

Lifted company-wide profitability by expanding the six growth areas with high added value and optimizing profits in existing areas

Six growth areas

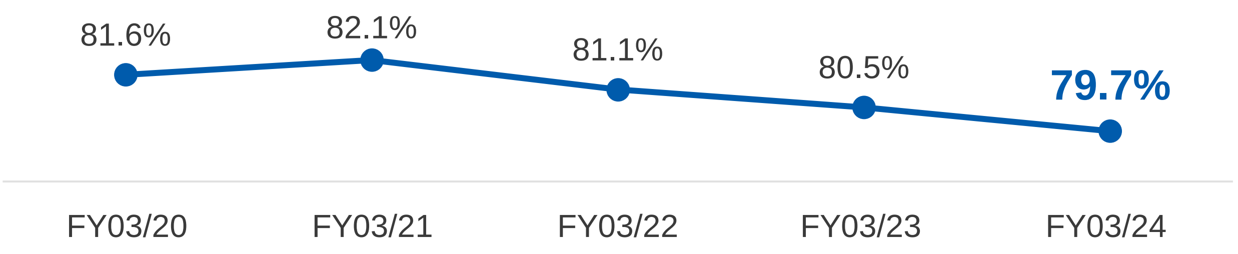
✓ **Achieved solid results by implementing measures to strengthen each area**

		FY03/24 results	YoY	FY03/26 targets
1	Contact center system	JPY5.2bn	+16%	JPY6.1bn
2	Cloud communication	JPY2.0bn	+82%	JPY3.0bn
3	Security	JPY1.0bn	+233%	JPY1.5bn
4	DX consulting	JPY0.2bn	+28%	JPY1.0bn
5	Managed services	JPY3.5bn	+25%	JPY3.8bn
6	Market-specific DX services	JPY0.1bn	(no sales in FY03/23)	JPY0.6bn
	Six growth areas total	JPY12.0bn	+36%	JPY16.0bn

- Enhanced marketing
- Branding
- Expanded service lineup and enhanced functions
- Alliances with partners
- Established specialized organizations and strengthened sales promotion system
- Launched new cloud services

Existing areas

✓ **Reduced cost ratio through rigorous pricing management**



- Tightened business negotiations screening and fostered a profit improvement mindset among frontline divisions
  Sales of low-margin projects decreased by approx. 10%
- Introduced new pricing system for engineers in development & construction businesses
  2–3% profit improvement
- Secured appropriate profits by passing on increases in procurement prices

Profitability Enhancement of the Information Network Solutions Business [FY03/25 Measures]

Aiming to establish a new business and further improve business structure by expanding on one year's initiatives.
Special demand for EOS is in full swing. Planning to expand sales by proactively capturing business opportunities.

Reinforce proposal-based business

✓ **Develop proposal-based services**

- Cover customer needs and customer industry perspectives
- Create service packages that can be implemented with no customization, providing integrated offerings from upstream consulting services to downstream maintenance services
- Develop services for specific industries (contact center, logistics, etc.) and cross-industry services

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✓ **Acquire new customers**

Reach out to new customers + over 10,000 dormant customers

✓ **Explore opportunities for collaboration with external partners**

Further improve profitability and productivity

✓ **Pricing management (expand scope to maintenance business)**

✓ **Update Tsuzuki Style**

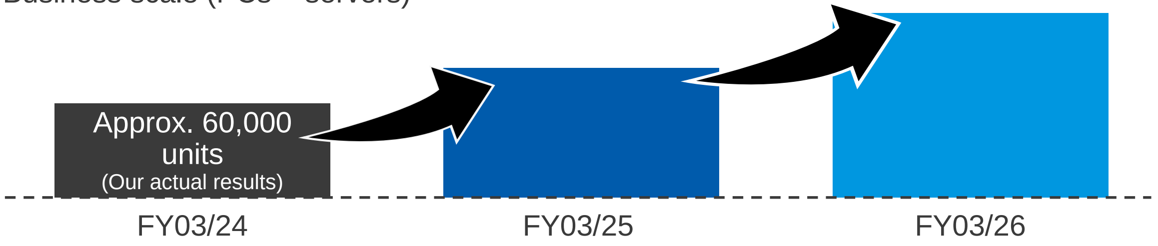
✓ **Update initiatives to visualize sales activities**

Capitalize on special demand for EOS

✓ **Establish internal working group and thoroughly manage projects**

✓ **Expand market**

Business scale (PCs + servers)



Growth Investments

Progress in FY03/24 outpaced the full-year plan, including for investments in business restructuring and personnel. Aiming to further promote strategic investments, including M&A.

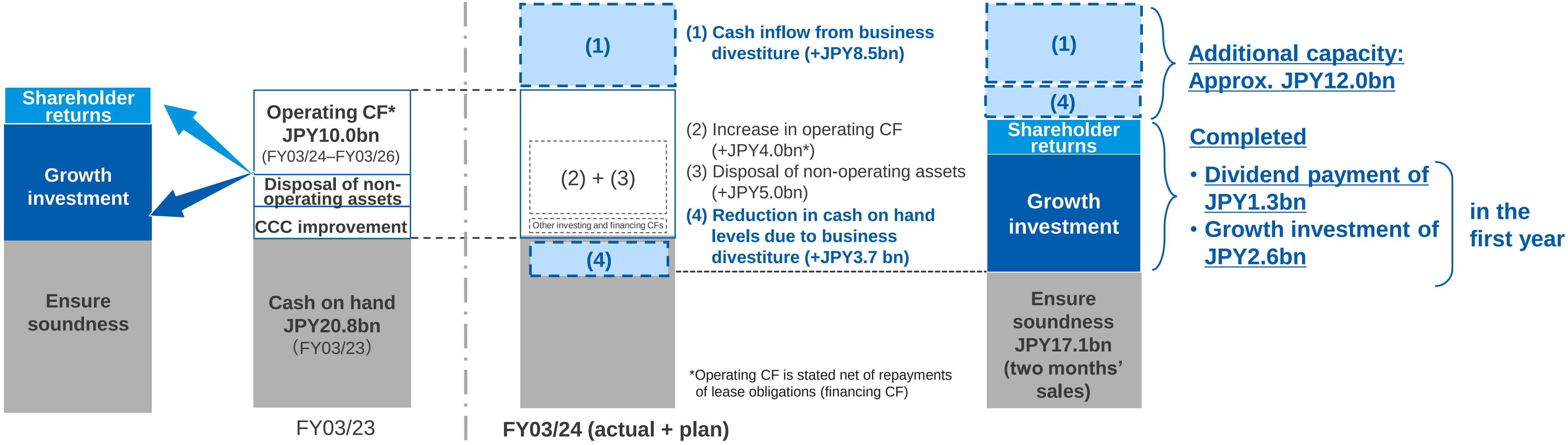
Category	Total amount (plan)	FY03/24 Actual	FY03/24 Progress (vs. total planed amount)	Details (FY03/24)
Technology	JPY8.0bn	JPY2.6bn	33%	• Enhanced market-specific DX service functions • Researched ChatGPT and other AI tools • Tested low-code development tools, etc.
Personnel				• Implemented DX personnel development and reskilling programs • Improved employee working conditions • Introduced a referral recruitment system
Internal DX				• Updated ERP system • Enhanced security
Business restructuring				• Reallocated human resources within the Group • Business restructuring costs
Strategic investments	JPY10.0bn + α	Deals examined: 33 deals		• Narrowed down some target areas based on our business strategy and examined many specific projects

Financial Status (Current Cash Position)

Obtained cash as a result of divestments and financing activities
Plan to invest in growth while maintaining appropriate capital control with an eye toward shareholder returns

[Initial projection] *Three-year projection

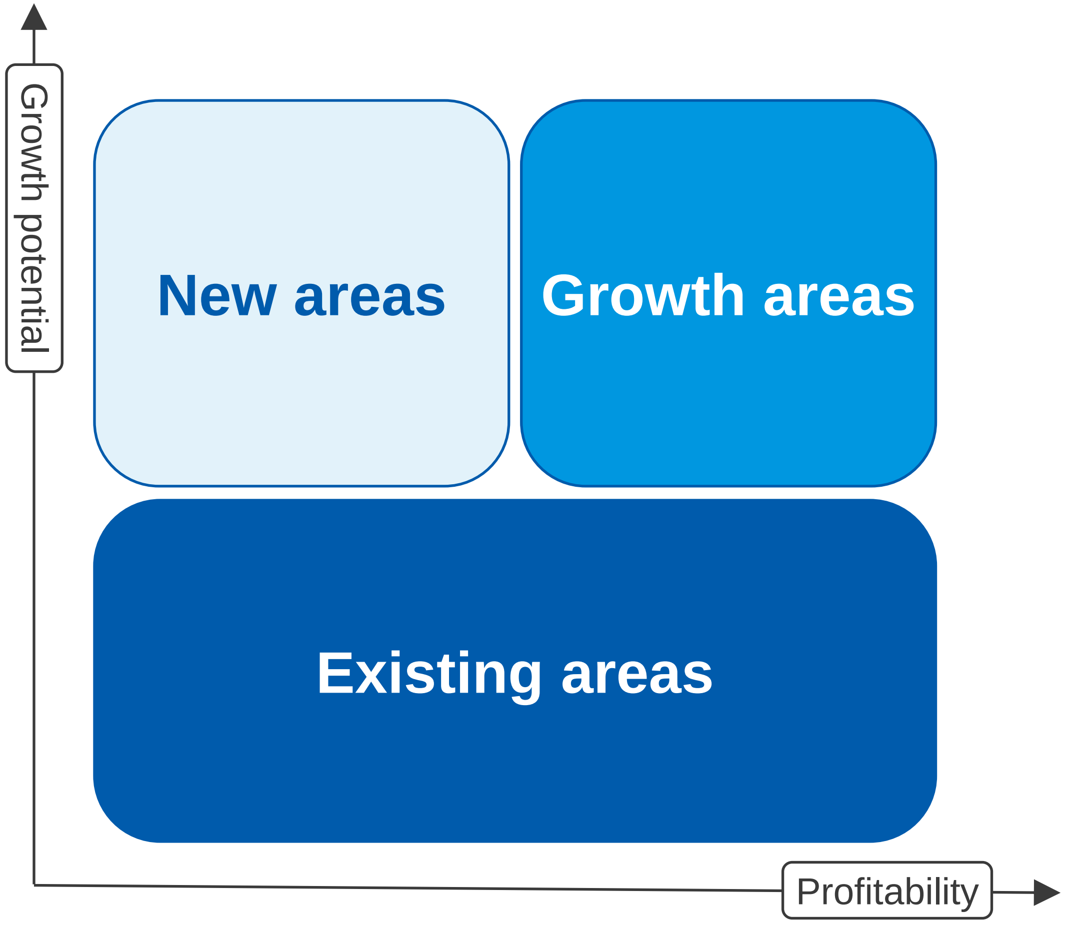
[First year of the medium-term management plan]



Potential uses of additional cash	**Growth investment**	**: Invest funds mainly in M&A with the aim of increasing corporate value over the medium to long term**
	Shareholder returns	**: Further discuss dividend increases, share buybacks, etc.**

Approach to M&A and Collaboration

Approach all business areas with a view to compensating for shortfalls in our value chain



Growth areas

Cloud-based services, security products, DX products, etc.

Complement and acquire technology, products, and solutions

Existing areas

Individual equipment sales, infrastructure construction, conventional SI, etc.

Achieve economies of scale, complement product lines and coverage areas

New areas

Social issues x Industry (customers) x Technology

Acquire cutting-edge technologies and seeds

Dialogue with Shareholders in FY03/24

The content of dialogue has changed in line with the new medium-term management plan, including topics such as cost of capital and valuation. However, challenges remain in terms of investor outreach.

Category	Overview
Main correspondents	President, Managing Executive Officer of Management Planning (IR), and IR Manager
Overview of shareholders	● **Investment style:** Domestic active investors, overseas active investors ● **Respondents:** Fund managers, analysts
Key themes and shareholder interests	● **Key themes** ・Business model (discussion designed to promote understanding of business) and growth drivers ・EOS and other market trends, current performance trends, and full-year forecasts ・Medium-term outlook and initiatives ● **Interests** ・Background, outlook, and use of proceeds from the sale of the Electronic Devices business ・Market evaluation (cost of capital and valuation), execution progress of measures ・Capital policy, M&A and other growth investments, and shareholder returns
Feedback	● **Frequency:** Report on overall IR activities to the Board of Directors three times a year, and on other topics as appropriate ● **Content:** Trends in market capitalization, trading volume, and shareholder composition; opinions received during one-on-one meetings with investors and measures taken in response; capital market trends and specific activities, etc.
Incorporated items	● Business portfolio review (measures to improve profitability), dividend policy and other financial strategies

In Conclusion

We will **pursue growth** by **transforming our business model**

We will **strive to improve return on capital** through **strategic capital control**

We will continue to **invest in our people**, the source of our growth, and **enhance our human capital**

We will strive to **further enhance our corporate value** through **dialogue with our stakeholders**

Contact

Contact	Tsuzuki Denki Co., Ltd. Management Planning Office
Address	6-19-15 Shinbashi, Minato-ku, Tokyo 105-8665, Japan (Tokyo Art Club Building)
	Phone: 050-3684-7780
	ir-tantou@tsuzuki.co.jp
	https://www.tsuzuki.co.jp/

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