TSUBAKIMOTO KOGYO | 8052

TSE Prime

Initiation

Record net sales for second consecutive year

Strengthening non-financial aspects of management foundation in new medium-term management plan

Summary

Corporate summary

Tsubakimoto Kogyo Co., Ltd., (hereafter, the Company) is an industrial equipment–related trading company with a history that goes back more than a century. While primarily handling power transmission products, such as motors and chains, the Company also handles factory automation (FA) equipment, including conveyors for automobiles and liquid crystals. Furthermore, the Company is expanding into other industrial equipment parts, including actuators, such as cylinders, for semiconductor-manufacturing equipment, and conveyor equipment in factories, inspection equipment, and various types of meters. For the Company's earnings structure, increases in costs and SGA expenses are smaller than increases in sales, so increases in sales tend to translate directly into increased profits.

In addition, Tsubakimoto Chain Co. (listed on the Tokyo Stock Exchange's Prime Market [6371]), which the younger brother of Tsubakimoto Kogyo's founder launched through a spin-off in 1917, is an important business partner as it accounts for around 30% of the Company's business in terms of purchasing volume.

The Company is unique in that it employs engineers even though it is a trading company and calls itself an engineering trading company. Leveraging this distinguishing feature, the Company develops and provides its own original products based on needs gleaned from its users and developed jointly with vendors. Because of these original products, the Company's profitability is higher than other companies in the same industry.

Earnings trends

In FY2024/3, the Company posted record net sales for the second consecutive year and operating profit growth for the third consecutive year. The Company forecasts growth in both net sales and profit in FY2025/3, the second year of its medium-term management plan ATOM2025. For some metrics in the plan, the Company achieved the final-year target in the first year of the plan, and focus should be on whether the Company revises those targets.

Share price insights

Having met the TSE's requirement of PBR at least 1x, its shares are still trading at a discount compared to the peers despite its high profitability and attractive dividend yield. Its product lineup includes various items contributing to labor savings and environmental measures, and SIR thinks that the valuation of the Company could be changed if the market were to recognize that its businesses provide solutions to social issues.

JPY mn, %	Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS	DPS
FY2020/3	104,939	(2.3)	5,293	(6.9)	5,629	(6.5)	3,740	(8.9)	199.15	43.3
FY2021/3	89,646	(14.6)	3,283	(38.0)	3,794	32.6	2,736	(26.8)	145.72	40.0
FY2022/3	96,890	8.1	4,396	33.9	4,762	25.5	3,177	16.1	169.19	50.0
FY2023/3	107,963	11.4	5,102	16.1	5,434	14.1	3,667	15.4	195.18	50.0
FY2024/3	113,503	5.1	5,233	2.6	5,577	2.6	4,000	9.1	212.90	60.0
FY2025/3 (CE)	116,000	2.2	5,500	5.1	5,900	5.8	3,900	(2.5)	207.54	60.0

Note 1: Figures were revised since FY2023/3 as a three-for-one stock split was conducted on April 1.

Focus Point

An engineering trading company focusing on power transmission products such as motors and chains. The company also handles FA-related products, including conveyors for automobiles and liquid crystals. It is strengthening the training and hiring of certified engineers, and its strength lies in its business model of identifying customer needs and jointly developing new products with manufacturers.

Key Indicators	
Share price (6/21)	2,180
YH (24/3/26)	2,463
YL (24/4/17)	1,975
10YH (24/3/26)	2,463
10YL (16/6/28)	418
Shrs out. (mn shrs)	19.493
Mkt cap (¥ bn)	42.495
Equity ratio (24/3)	42.36%
FY24/3 P/B (act)	1.02x
FY25/3 P/E (CE)	11.01x
FY24/3 ROE (act)	10.82%
FY25/3 DY (CE)	2.7%

Stock Price Chart 52 Weeks

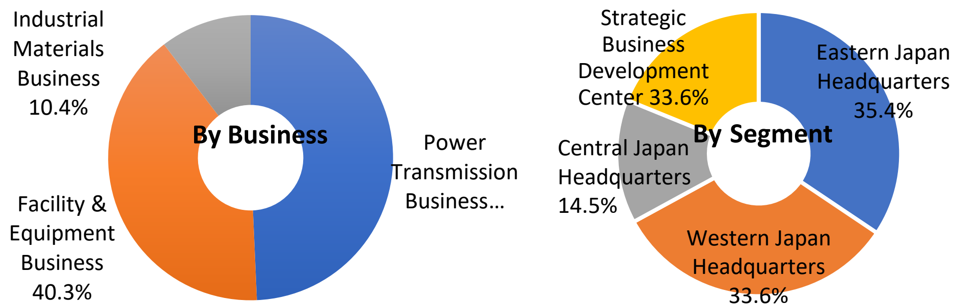
Source: Trading view

Team Coverage
research@sessapartners.co.jp

Business Summary

The Company's reporting segments consist of the "Eastern Japan Headquarters," "Western Japan Headquarters," and "Central Japan Headquarters," one for each sales region in Japan, and the strategic business development segment "Strategic Business Development Center." Each regional business is composed of a power transmission business, facility and equipment business, and industrial materials business.

Breakdown of FY24/3 Consolidated Net Sales (¥113.5 bn)



Source: Complied by SIR from the Company IR materials

■ Power transmission business (49.3% of total net sales)

Distinguishing characteristics

The power transmission business handles not only power transmission parts but also parts and devices to change or reduce power.

This is the business most closely linked to Tsubakimoto Chain, and the cooperative relationship extends from product development to delivery. Business with Tsubakimoto Chain accounts for about 40% of the business's net sales. In the automotive parts field, the Company has established alliances with major car manufacturers and Tsubakimoto Chain over decades and develops chains for engines. In addition, numerous of the Company's products boast top market share.

With main products that include various conveyer parts (reducers/accelerators, conveyer chains, etc.), controllers, various sensors, electronics, and other powered equipment, the business handles a commanding number of products, many of which boast top market share.

Main products handled for power transmission business	
Controllers	Motion controller Sensing, inspection, measurement
Drive parts	Motors and gear motors Servo motors Linear servos Actuators
Mechanical	Chains and belts Coupling Reducer/accelerator and gears Clutch and brakes
Peripheral equipment	Peripheral equipment and maintenance

Source: Complied by SIR from The Company's website

Business model

Business through its sales subsidiaries and dealers account for about 30% of the overall power transmission business. The Company's sales subsidiaries are distinguished by Proposal sales tailored to regional characteristics and the deep-rooted trust of customers won by ascertaining their desires and providing quick service through footwork. The Company has more than 100 sales offices including subsidiaries in Japan.

■ Facility and equipment business (40.3% of total net sales)

Distinguishing characteristics

The facility and equipment business is responsible for material handling systems,[1] FA systems, industrial equipment, and powder conveying equipment. For many years, the Company has worked to provide solutions to labor-saving as well as environmental problems.

*1 Material handling refers to equipment to convey items in logistics centers and achieve labor savings.

In the field of material handling, with Tsubakimoto Chain as its strongest partner, the Company supplies equipment for a range of operations from conveyance to sorting in all industries. As for FA equipment, the Company has honed its engineering capabilities that extend from assembly to rigging and offers its own handling systems. In the field of industrial equipment, the Company offers a wide range of equipment includes coating and drying equipment for films, etc., large machine tools for machine processing, and freezer equipment for the food industry. In terms of environmental measures, the Company plays an active role in the environment field, including, biomass power generation equipment, powder conveyers, and peripheral equipment.

Business model

In collaboration with highly specialized partners, such as Tsubakimoto Chain, the Company is addressing issues faced by manufacturing sites through technology innovation and engineering capabilities. With an Engineering Department and Construction Management Department, the Company possesses a system that makes it possible to not simply propose equipment but also provide total support that extends to installation and after-sales services, which is the source of the Company's competitiveness.

■ Industrial materials business (10.4% of total net sales)

Distinguishing characteristics

Having handled rubber products, a chemical product, since its founding, the Company provides cutting-edge materials for each age. Many of its products are used in general consumer products.

These include car interior materials, non-woven fabrics, such as wet tissues, spray pumps for shampoo and cosmetics containers, and molded products and carbon. In recent years, the Company has broadened its activities to include the delivery of microfibers to auto parts manufacturers and the development of environment friendly biodegradable materials. Furthermore, the Company is searching for new businesses such as inspection and measurement services that employ drones.

Industrial use	General consumer use
Surface plate	Microfiber
Explosion-proof LED	Non-woven wipers
Triangular teabag machine	Construction material
Non-woven fabrics	Spray pumps
Plastic raw materials and moldings	Brushes
Carbon fiber	Environment-friendly packing material
etc.	etc.

Business model

As can be seen by the fact that it quickly developed and introduced biodegradable films and non-woven fabrics in response to environmental problems, the Company has a scheme to ascertain the needs of the times and create high value-added products through joint development.

The Company expects that its overseas business and sensing business will be future growth businesses.

■ Overseas business

The overseas business is primarily focused on Asia. Leveraging the product capabilities and solutions functions it has acquired in Japan, the Company provides Japanese companies with services and solutions of the same quality as those in Japan related to the introduction of equipment when these companies build factories overseas. The Company also imports products discovered and cultivated overseas into Japan. Overseas sales account for 11.6% of net sales now, but the Company aims to raise that to 20%.

■ Sensing business

The sensing business, a derivative of the power transmission business, is distinguished by the strength of its products and diversity of sales channels. One of the Company's strength in this field is that it makes proposals related to the construction of systems to collect and analyze data using IoT and AI technology, thus contributing to controls for the user's production process by making invisible things visible.

The Company's Strengths

In this way, it can be argued that one of the Company's common strengths is its ability to provide solutions. For example. The Company can work with partner companies to provide the best solution because it has possessed an Engineering Department for many years, which is rare for a machinery trading company. As another example, the Company also possesses an Construction Management Department, which makes it possible to provide integrated support that includes the introduction, installation, and operation supervision of equipment, which differentiates the Company from competitors.

The second point is that the Company has built a network with companies in various industries, including advanced technology, materials, automobiles, logistics, and environment, which allows it to procure diverse products from partners in a wide range of industries, and propose those products to customers.

Breakdown of customer by Industry	
Advanced technology and materials	18.3%
Automotive	11.5%
Dealers	7.2%
Environment	5.7%
Logistics	4.3%
Food products	4.0%
Health (Medical)	3.8%

Breakdown by vendor	
FA and material handling equipment	28.6%
General industrial machines	8.8%
General machinery and appliances	7.1%
Power transmission equipment	6.5%
Sales agents	4.2%
Facility installation	2.9%

Source: Complied by SIR from the Company IR materials.

Its network that extends both inside Japan and overseas is one source of its competitiveness, and the Company simultaneously leverages its product capabilities and solution functions acquired in Japan for overseas markets, and provides products that it discovers and cultivates overseas to Japan. The Company is moving forward on various fronts, including making use of IT and DX to reinforce its overseas business foundation.

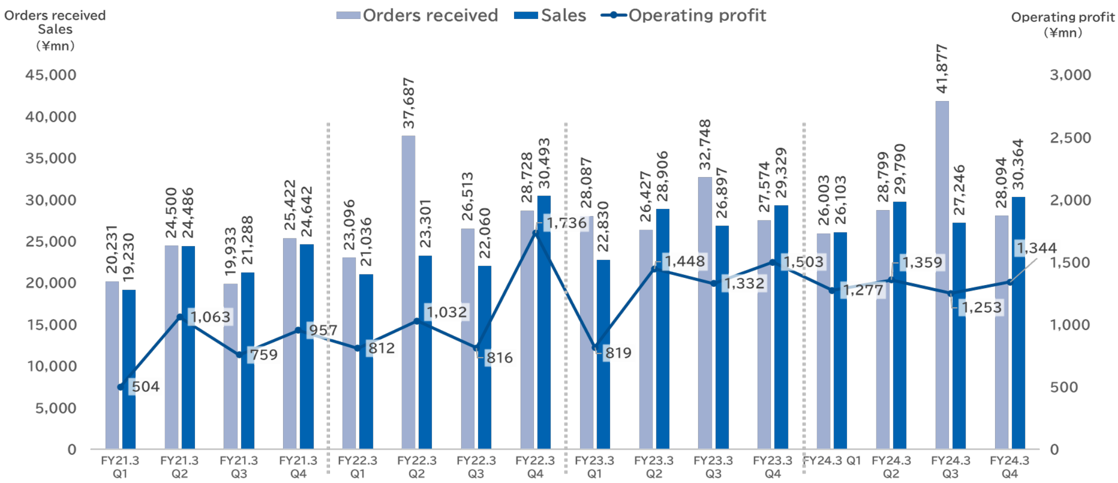
FY2024/3 Full-year Earnings Results

For various reasons, including its transition from a division-based organizational structure to an area-based one, sales rooted in the particular sales companies' region, and collaboration between headquarters, the Company posted net sales of ¥113.5 bn (+5.1% YoY) in FY2024/3, the second consecutive year of record sales. Operating profit totaled ¥5.2 bn (+2.6% YoY). The Company also has a record order backlog of ¥76.1 bn (+17.4% YoY), which exceeds the forecast that was revised upward during the fiscal year.

JPY mn	FY23/3	FY24/3	YoY	Initial target	Percentage	Revised target (published Oct. 27, 2023)	Percentage
Orders received	114,837	124,773	8.7%				
Order backlog	64,875	76,145	17.4%				
Net sales	107,963	113,503	5.1%	100,000	113.5%	107,000	106.1%
Operating Profit	5,102	5,233	2.6%	4,250	123.1%	5,000	104.7%
Operating profit margin	4.7%	4.6%	-	4.3%		4.70%	
Ordinary profit	5,434	5,577	2.6%	4,600	121.2%	5,350	104.2%
Ordinary Profit margin	5.0%	4.9%	-	4.6%		5.00%	
Net Profit	3,667	4,000	9.1%	3,050	131.2%	3,750	106.7%
EPS	¥195.18	¥212.90	9.1%	¥162.33	131.2%	¥199.5	106.7%
ROE	11.4%	10.8%					
ROA	6.7%	6.2%					

Source: Complied by SIR from the Company IR materials

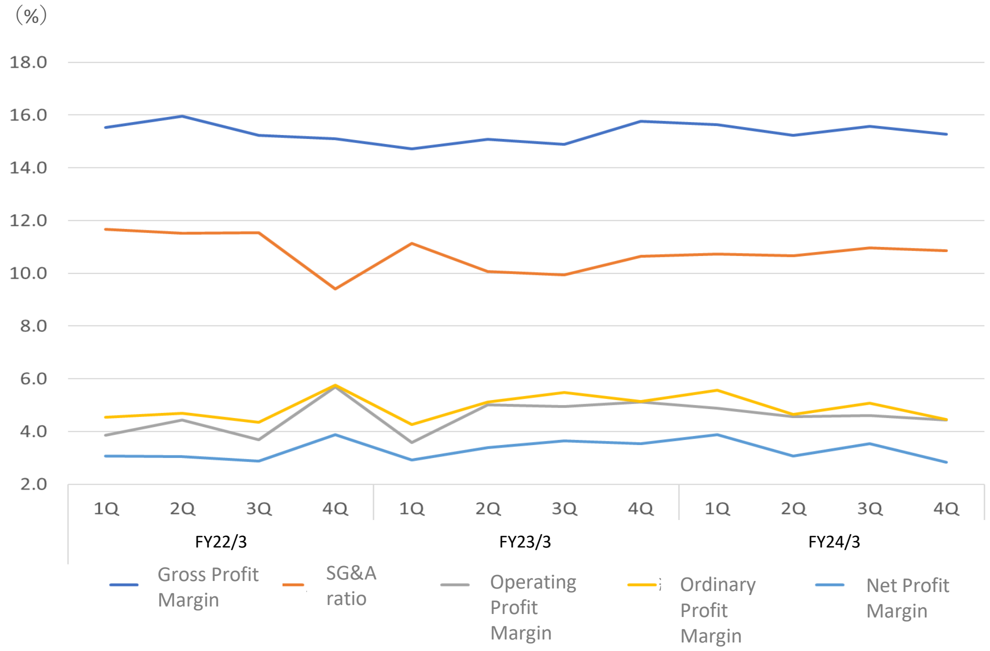
Despite some volatility in orders received due to large projects, FY2024/3 orders totaled ¥124.7 bn (+8.7% YoY). Operating profit has been firm as indicated in the following graph.



Source: Excerpted from the Company IR material.

Because it is difficult to see when looking at absolute amounts, the profit margins are shown on the graph on the following page.

Quarterly trend of Profit Margins



Source: Complied by SIR from the Company IR materials

Despite little change in the gross profit margin, operating profit margin declined as a result of an increase in SG&A expenses. This was primarily because of an increase in personnel expenses and other expenses due to more active sales activities. For FY2024/3, the absolute value of net sales rose, resulting in operating profit increasing 2.6% YoY, ordinary profit growing 2.6% to ¥5.5 bn, and net profit attributable to owners of parents increasing 9.1% YoY to ¥4.0 bn, to which gain on sales of investment securities of ¥300 mn was added.

The Company’s ROE was 10.8%, surpassing its target of 10%.

Segmental Results

As noted above, the Company introduced a system of regional headquarters to conduct meticulous sales that reflect the distinguishing characteristic of the particular region. In FY2024/3, consolidated orders rose 8.7% YoY to ¥124.7 bn, a record high. This was primarily because the Western Japan Headquarters received another order for a large project. The consolidated order backlog rose by ¥11.2 bn to ¥76.1 bn at the end of the previous fiscal year, hitting a historic high.

The **Eastern Japan Headquarters** is responsible for the Hokkaido, Tohoku, Koshinetsu, and Kanto regions and generates about 35.4% of net sales.
The headquarters recorded an increase in both net sales and profit as a result of growth in sales of power transmission parts for general industries and the steel industry, engineering equipment, and automobile conveyance equipment.

The **Western Japan Headquarters** is responsible for the Hokuriku, Kansai, Chugoku, Shikoku, and Kyushu regions and generates 33.6% of net sales, which also includes the liquid crystal-related exports to China (yen denominated).
Despite a steady increase in sales of power transmission parts for general industries and heavy industries, the headquarters posted a decline in both net sales and profit because of a fall-off in facility-related sales following a large project recorded in the previous fiscal year. However, as orders were received again during the same period, the headquarters posted significant increase in both orders received and its order backlog orders.

The **Central Japan Headquarters** is responsible for the Tokai region and accounts for about 14.5% of net sales.
The headquarters recorded a substantial increase in both net sales and profit as a result of strong sales of power transmission parts for heavy industries and the automobile industry, and facility equipment for food products and the automobile industry.

The **Strategic Business Development Center** is responsible for overseas business, the materials business, and new product development and generates about 19.4% of net sales.
The center posted an increase in net sales as a result of an increase in the Company's China subsidiary's sales of equipment to corporate clients and firm industrial materials business and sensing business.

	Net Sales			Segment Profit		
	FY23/3	FY24/3	YoY	FY23/3	FY24/3	YoY
Eastern Japan Headquarters	36,436	40,210	10.4%	1,705	2,213	29.8%
Western Japan Headquarters	41,073	38,127	-7.2%	3,189	2,818	-11.6%
Central Japan Headquarters	13,766	16,424	19.3%	631	930	47.5%
Strategic Business Development Center	19,490	21,971	12.7%	875	798	-8.9%
Adjustments *1	(2,803)	(3,230)		(1,298)	(1,527)	
Total	107,963	113,503	5.1%	5,102	5,233	2.6%

Source: Complied by SIR from the Company IR materials
*1: Net Sales are calculated by "elimination of inter-segment transactions," and Segment profit is calculated by "elimination of inter-segment transactions and corporate expenses."

The state of the above businesses are as given below. For the **power transmission business**, the Company recorded an increase in sales of parts used in general industries and heavy industries, particularly automotive parts and machine tool parts. As for **facility and equipment–related demand**, sales of facility and equipment to the automotive, logistics, and food industries rose steadily. For the **industrial materials business**, growth was flat because of a fall-off in demand for nursing and healthcare products following the Covid-19 pandemic.

	Net Sales (JPY mn)		
	FY23/3	FY24/3	YoY
Power Transmission Business	51,319	55,942	9.0%
Facility & Equipment Business	44,690	45,805	2.5%
Industrial Materials Business	11,953	11,755	-1.7%
Total	107,963	113,503	5.1%

Source: the Company IR materials

FY2025/3 Earnings Forecast

For FY2025/3, the second year of the medium-term management plan, the Company points out that in general the overall economic outlook remains uncertain for several reasons, including international instability due to geopolitical risk and continuing inflation. Even so, the Company forecasts net sales of ¥116.0 bn (+2.2% YoY) and ordinary profit of ¥5.9 bn (+5.8% YoY) for the full fiscal year with consideration its record order backlog and delivery schedules, etc.

These forecasts assume that net sales are proportional to progress in construction of new large-scale projects received in the previous fiscal year, and factor in such expenses as office renovation accompanying DX measures. In order to achieve business forecasts of an increase in both net sales and profit for the full fiscal year, the Company is striving to expand earnings by steadily and reliably delivering orders, while also proactively conducting sales activities in line with regional characteristics and making the best proposals tailored to the characteristics of the industry. The decline in net profit attributable to owners of the parent will be the drop in the gain on the disposal of investment securities recorded in the previous fiscal year.

JPY mn, %	FY24/3 (actual)	FY25/3 (projected)	YoY
Net Sales	113,503	116,000	2.20%
Operating profit	5,233	5,500	5.10%
Operating profit margin	4.60%	4.70%	--
Ordinary profit	5,577	5,900	5.80%
Ordinary profit margin	4.90%	5.10%	--
Profit attributable to owners of parent	4,000	3,900	-2.50%
EPS	¥212.90	¥207.54	-2.50%

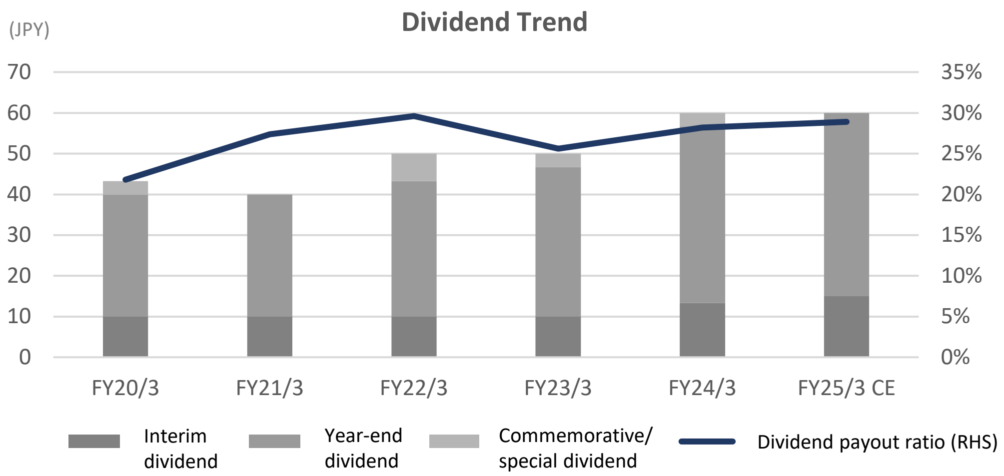
Source: Complied by SIR from the Company IR materials

Shareholder Return Policies and its Results

The Company conducted a stock-split on April 1, 2024. The following figures are based on data that was retroactively revised to reflect the stock split, but FY2024/3 dividend figures are unadjusted.

As for the year-end dividend, the Company raised its normal dividend per share of ¥20 to ¥130. The Company also paid a commemorative dividend of ¥10 to celebrate the 80th anniversary of the adoption of its current trade name. Therefore, when combined with the ¥40 interim dividend, the Company paid an annual dividend per share of ¥180, a year-on-year increase of ¥30.

Following the stock-split, the Company forecasts that it will pay an annual dividend per share of ¥60 (equivalent to a pre-stock-split dividend of ¥180) for FY2025/3, which includes an interim dividend of ¥15 and year-end dividend of ¥45. In light of its demand for funds to implement the business strategy and the target consolidated payout ratio of 30%, the Company will strive to further raise shareholder return, including flexibly conducting share buybacks.

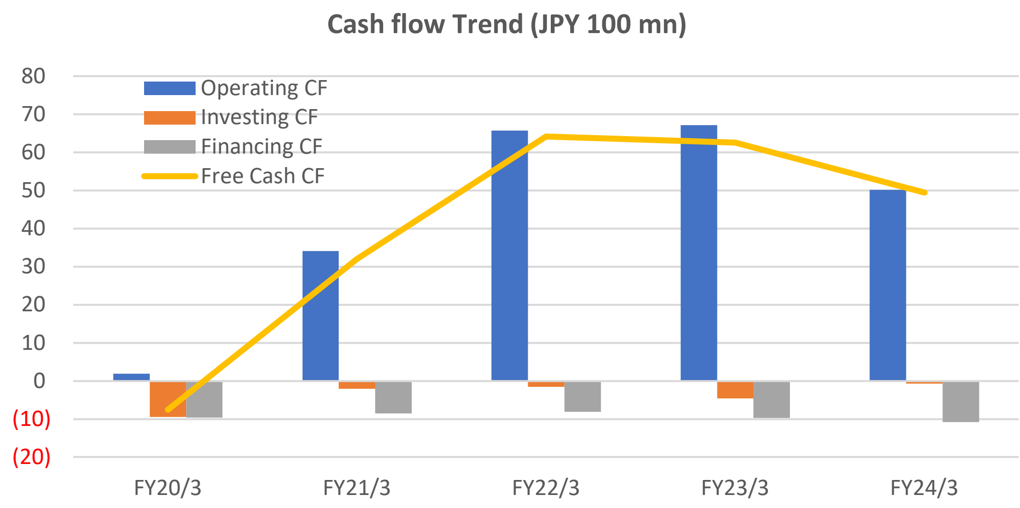


Source: Compiled by SIR from the company IR material
Note: Retroactively revised based on the current number of issued shares. The Company conducted a 1 for 5 consolidation of common stock on October 1, 2017, and then a 3 for 1 stock-split of its common stock on April 1, 2024.

Total assets as of the end of FY2024/3 was ¥94.7 bn, up by ¥10.2 bn YoY. This was primarily thanks to an increase in cash and deposits and operating receivables. Liabilities increased by ¥3.9 bn YoY. Therefore, the Company maintains a high level of financial stability with its equity ratio at 42.4%.

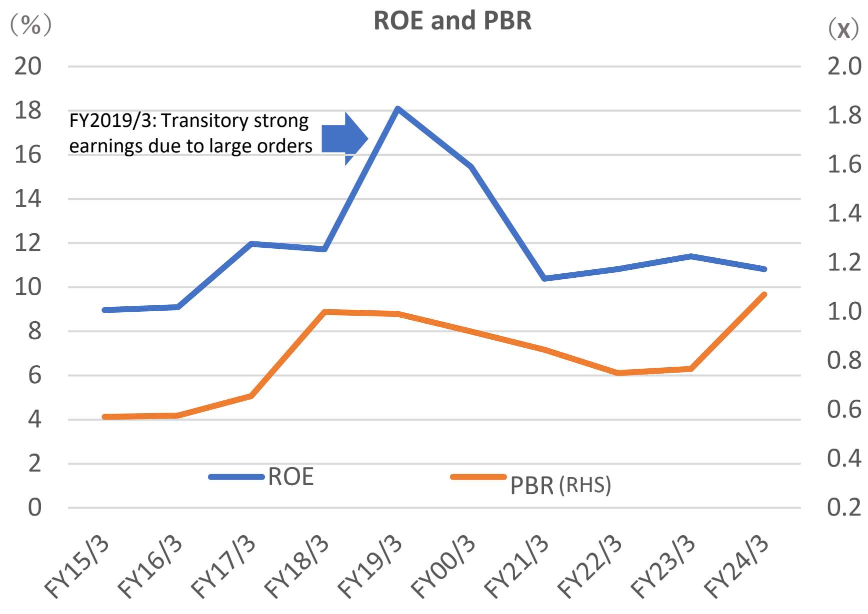
Cash flows

Operating Cash flows was ¥5.0 bn. This was primarily because of profit before income taxes and an increase in trade payables. Investing Cash flows was slightly negative with less than ¥100 mn, mainly due to expenditure of ¥500 mn for the acquisition of fixed assets, partially offset by proceeds from the disposal of investment securities of ¥400 mn. In addition, Financing Cash Flows was ¥1.0 bn primarily due to dividends paid. As a result, cash and cash equivalents at the end of the fiscal year totaled ¥26.8 bn, increased by¥3.9 bn from the end of the previous fiscal year.



Source: Complied by SIR from the Company IR materials

The Company has maintained its target ROE of 10%, which exceeds what the Company considers its cost of equity. At the end of the previous fiscal year, the Company's PBR just exceeded 1x. To further enhance enterprise value, the Company will maintain its ROE at a high level, enhance IR activities, and improve shareholder return as well as capital efficiency.



Source: Complied by SIR from the Company IR materials

Medium-term Management Plan

Progress in implementing medium-term management plan ATOM2025 announced in 2023 and FY2025/3 consolidated earnings forecasts

For its new medium-term management plan, the Company formulated priority measures on light with both conducting business strategy and strengthening management foundation and moved forward with implementing these measures that year. After reviewing them, the Company set priority issues for the current fiscal year.

The most important issue is human capital. Specifically, the Company will promote various measures, including reforming its HR system to enhance its human resources. In addition, the Company will reinforce its product development and sales company infrastructure as well as strengthen the Group management, thereby laying the foundation for sales of ¥120.0 bn.

Business Strategy

• Deeply cultivating key industries

Having set such industries as the logistics, environment, automobile, health, food, and transportation infrastructure industries as priority industries, the Company will develop new products and vendors in those industries. Specifically, business with the logistics, food, and automotive industries has grown dramatically as a result of stronger demand for automation due to the shortage of labor. Furthermore, demand is growing for parts and equipment as well as development projects necessary for investments to preserve the environment and address climate change. The Company is further deepening business in these fields by having implemented a problem solution–based approach for each industry.

• Strengthening development in new fields

With a focus on the semiconductor manufacturing equipment, robotics, and EV fields, which are considered growth fields, the Company is looking to develop business in new fields. Although this has had a limited impact on business in existing fields, the Company recognizes that these are priority issues for FY2025/3 and is accelerating its work to develop business new fields.

• Expanding sales of high value-added products

At a time when it is difficult to procure Japanese controllers and similar products because of the semiconductor shortage, the Company has fulfilled its responsibility to supply such parts by importing substitute parts for particular uses. At the same time, the Company has broadened the products it handles by importing high quality ones from Europe and other regions. It has also been successful in developing and introducing advanced materials and its own brand of high value-added products that meet the demands of society.

• Searching for business opportunities within a decarbonized society

The Company is focusing on expanding products that contribute to SDGs, such as reducing CO_2 emissions. Among those, sales of non-contact devices that use strong magnets have risen due to their use in the most advanced technologies such as in the fields of liquid crystals. There is also growing demand for the EV charging devices (eLINK) that the Company jointly developed, and auto parts for EVs and hybrid vehicles.

Strengthening Management Foundation

• Investing in human capital

The Company attaches great importance to "human value added (labor productivity) = gross profit / personnel expenses)." The Company has also worked to improve employee compensation. In terms of salary, not only was base pay raised but salaries for new-grads were also increased for the second consecutive year. As a result, salaries rose 4.4% company-wide, and union workers' salaries increased 6%. While overtime work is trending upward, the Company is moving forward with examining workstyles and implementing health management in order to eliminate overtime in the future. As for recruiting, the Company is securing the human resources it needs by recruiting new graduates and mid-career workers all year round. In addition, the Company achieved the statutory target of 2.3% of its work force being people with a disability. As for human resource development, the Company uses e-learning to undertake reskilling, including to cultivate DX human resources. The training system that had been used was revised, which included moving away from group training to hybrid training that can be accessed via the web. With an eye on the demands of the time, the Company will continue to update its human resource system to reflect its future vision and promote management that stresses human capital.

• Promoting DX and sustainability management

One part of its efforts to undertake a DX was to eliminate fixed desks at both its Osaka and Tokyo head offices. It is also using digital technology to improve operation efficiency, such as working to go paperless and improve communication. This will also lead to workstyle reforms and the creation of a work environment for a workplace conducive to work. The Company will also strive to further promote DX.

In terms of promoting sustainability management, the Company formulated various policies in line with its basic sustainability policy and set materiality when formulating its medium-term management plan (see next page). At the same time, the Company has set the following six KPIs related to materiality. (1) GHG CO_2 emissions t-CO2, (2) ratio of female employees in career-track positions, (3) ratio of male employees taking childcare leave, (4) ratio of human value added, (5) number of holders of specified certifications, (6) and annual amount of overtime. Targets for KPIs (2)–(5) are included in its medium-term management plan. While steady progress is being made regarding GHG emissions and ratio of human value added, annual number of overtime increased year on year for transitory reasons (assuming 2022 is 100, FY2023/3 was 114, and the target for FY2025/3 is 90.)

TSUBAKIMOTO KOGYO Materiality

ESG	Change in the external environment	Materiality	SDGs
Environment	• **Accelerate transition to decarbonized society** • Transform industrial structure through accelerated introduction of Evs • Greater demand for decarbonized-related products	• **Meet the needs of a decarbonized society** • Reinforce business development in new fields • Search for new business opportunities	
Social	• **Greater ESG investments** • **Demands to promote sustainability management**	• **Reinforce human capital measures (including health, and diversity management** • **Meet the needs of an automated society** • **High value-added strategy** • **Reinforce overseas business** • **Strengthen digital fields** • **Improve productivity through DX investments**	
Governance	• **Greater ESG investments** • **Demands to promote sustainability management**	• **Promote sound business activities that stress sustainability management** • Create social value through business activities • Accelerate SDGs-related activities in the fields of environment and human rights	

Source: Compiled by SIR from the Company IR material

Progress with Achieving Financial and Non-financial Targets

In its medium-term management plan, the Company set the financial targets (numerical figures that exclude transitory and special factors) of ¥5.3 bn in ordinary profit and 10% ROE for the final year of the plan, but achieved both those targets in FY2024/3, the first year of the plan. By steadily implementing its business strategy included in the medium-term management plan and aggressively making investments to strengthen its management foundation, the Company was able to post results that exceeded targets. The Company will maintain the same level of ROE going forward.

One of the non-financial metrics mention above is ratio of human value added, and this improved 6 pt YoY because profit grew greater than personnel expenses. Furthermore, the number of holders of specified qualifications, one of the Company's unique metrics, increased for several reasons, including the recruiting of experienced workers.

Turning to metrics related to human capital, the Company is working to achieve its targets for ratio of female employees in career-track positions and ratio of male employees taking childcare leave by the final year of the medium-term management plan by continuing to diversify recruiting and providing managers with training. Moreover, employees with specific qualifications include 80 Tsubakimoto Kogyo employees with managing engineer qualification. In addition, the Company boasts more than 200 chief engineers.

Trends in financial and non-financial targets & results

	FY23/3 (results)	FY24/3 (results)	FY25/3 (targets)
Financial targets			
Ordinary profit (JPY mn) *1	4,500	5,400	**5,300**
ROE (%)*1 *2	9%	10%	**10%**
Non-financial targets			
Human value-added *3 *4	100	106	**108**
People with special qualifications *3*5*6	100	101	**105**
Percentage of female employees (%)*5	5%	6%	**8%**
Percentage of male employees taking childcare leave (%)*5	82%	71%	**100%**

Source: Compiled by SIR from the Company IR material

Notes: 1. This excludes special factors, such as transitory impacts; 2. Profit attributable to owners of parent / equity; 3. Given as index assuming FY2023/3 is 100; 4. Gross profit / personnel expenses; 5. For Tsubakimoto Kogyo only; 6. The number of employees with managing engineer qualification

Share Prices Insights

For the facility and equipment business, many manufacturers are rivals. Therefore, it is probably appropriate to look at the power transmission business, which accounts for the largest percentage of earnings, for comparable companies in the same industry. For the power transmission business, its peers are Nichiden Corporation (9902), Yamazen Corporation (8051), and Yuasa Trading Co., Ltd. (8074).

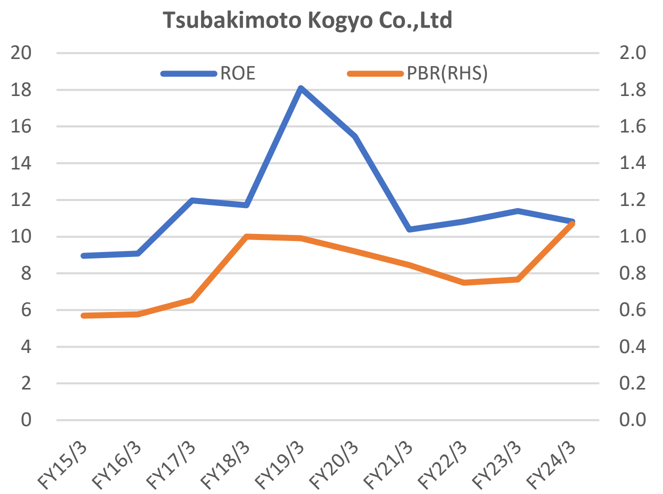
The Company's past average PBR is generally low relative to the peers as its average PBR over the past ten years is 0.81x, compared to 0.79x for Nichiden (this excludes parent company results as the company started to announce consolidated results in FY2016/3), 1.04x for Yamazen, and 0.92x for Yuasa Trading.

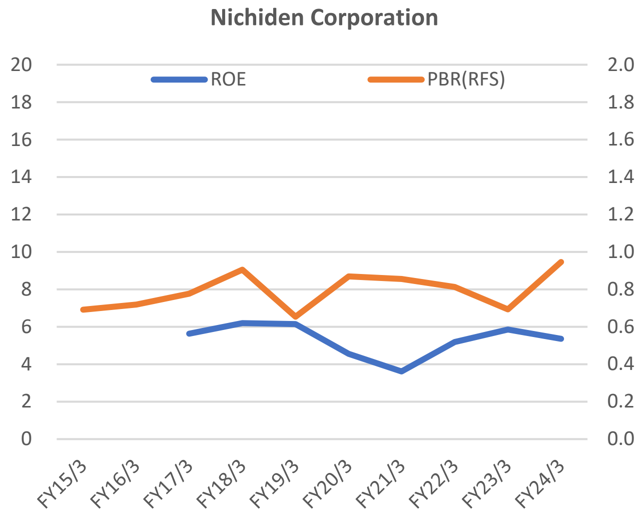
Moreover, the Company's shares have recently been trading at a PBR of 1.05x based on its financial results of FY2024/3, but there is probably room for rerating in considering its dividend yield exceeds the average for Nikkei 225 components of 1.8%.

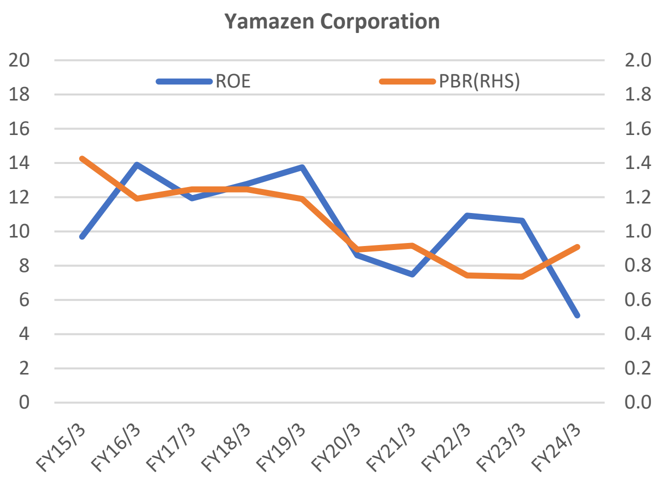
The average ROE over the past ten years for the Company is 11.8%, compared to 5.3% for Nichiden, 10.5% for Yamazen, and 11.6% for Yuasa Trading. The Company not only boasts a higher ROE, but its ROE is also trending rather upward.

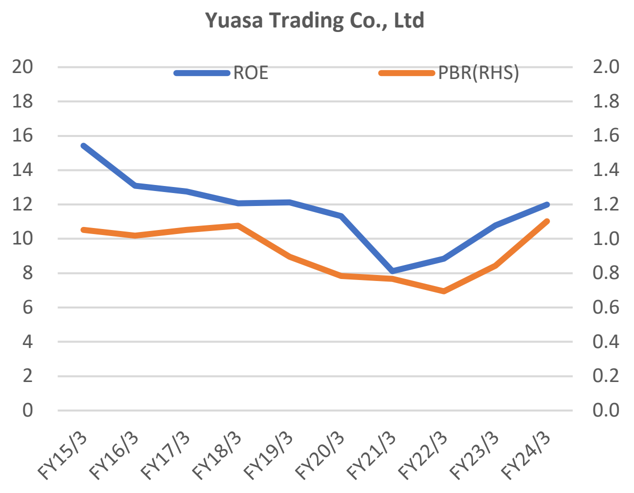
The Company's forecasted PER for FY2025/3 is 10.7x, which is low relative to its peers as well as 16x-17x of the Nikkei 225 component average PER for FY2025/3.

The Company's share price seems to be undervalued by the stock market, and it would be expected for the Company to more actively undertake disclosure in the future.









Source: Complied by SIR from the Company IR materials

Company Valuation Comparison

		PER (x)	PBR (x)	ROE* (%)	ROIC* (%)	OPM* (%)	Market capitalization (JPY mn)
8052	Tsubakimoto Kogyo	10.7	1.07	10.82	9.33	4.6	43,276
9902	Nichiden	22.5	1.19	5.36	3.93	4.6	107,020
8051	Yamazen	19.2	0.95	5.10	4.33	2.0	133,618
8074	Yuasa Trading	9.8	1.14	12.00	9.14	2.8	121,992

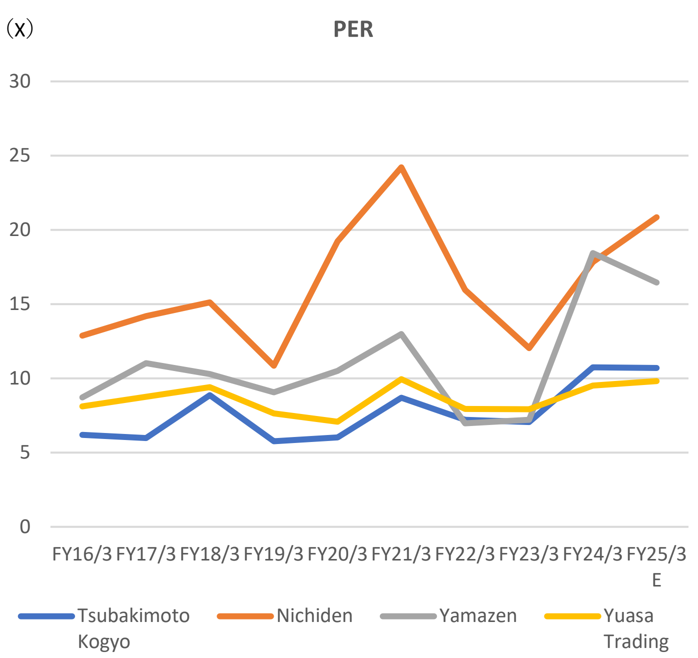
Source: Compiled by SIR from SPEEDA data. * LTM: calculated using total for most recent quarter

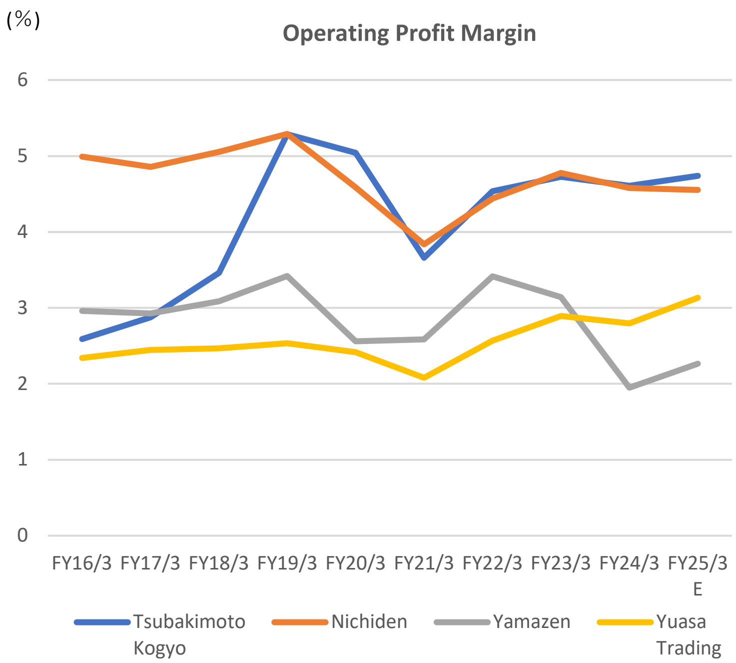
The Company's operating profit margin, which indicates the earnings power of its core business, is high even relative to its peers, and is probably not fully reflected in its share price. Its high profit margin may be the result of its human resource strategy, and as discussed previously, the Company is unique as a trading company because it has certified engineers. By dispatching engineers to customers for several rounds of training and thus learning frontline needs, sharing that information with its vendors, and jointly developing new products, the Company can sell highly profitable original products.

Although the Company contributes to reductions in CO2 emissions when its customers use its products, its disclosures of environmental information in not enough to be convinced by the stock market, in SIR's view. In fact, the Company is involved in the development of solar panel recycling equipment and handles biomass-related and recycled product conveyance equipment, and customers that use this equipment reduce their GHG emissions. SIR believes that once the Company discloses information such as TCFD Scope 3 information, the stock market would fairly appreciate its share price.

Therefore, SIR expects the Company to enhance its disclosure of not only ROE and payout ratio, which are included in its medium-term management plan ATOM2025, but also non-financial information.

Trend of PER and Operating profit margin





Income Statement

Fiscal Periods JPY mn	FY2020/03 Full year	FY2021/03 Full year	FY2022/03 Full year	FY2023/03 Full year	FY2024/03 Full year	FY2025/03 CF
Total Revenue	**104,939**	**89,646**	**96,890**	**107,963**	**113,503**	**116,000**
Total Cost of Sales	88,481	76,240	81,944	91,611	96,008	
Cost of Sales	88,480	76,240	81,943	91,610	96,007	
Gross Profit	16,458	13,406	14,946	16,352	17,495	
Gross Margin, %	15.7	15.0	15.4	15.1	15.4	
Selling, General and Administrative Expenses	11,165	10,122	10,550	11,250	12,262	
Operating Profit	**5,293**	**3,283**	**4,396**	**5,102**	**5,233**	**5,500**
Operating Profit Margin, %	5.0	3.7	4.5	4.7	4.6	4.7
Non-Operating Income	429	639	407	384	417	
Interest and Dividends Income	304	242	259	336	376	
Non-Operating Expenses	92	127	41	52	73	
Interest Expenses	5	5	6	6	8	
Income from Equity Method - Non-Operating	54	(15)	(13)	4	(7)	
Ordinary Profit	**5,629**	**3,794**	**4,762**	**5,434**	**5,577**	**5,900**
Ordinary Profit Margin, %	5.4	4.2	4.9	5.0	4.9	5.1
Extraordinary Gains/Losses	1	210	-14		184	
Extraordinary Gain	53	214			315	
Extraordinary Loss	52	4	14		131	
Pretax Profit	5,630	4,004	4,748	5,434	5,761	
Pretax Profit Margin, %	5.4	4.5	4.9	5.0	5.1	
Income Taxes	1,871	1,273	1,562	1,739	1,749	
Income Taxes - Current	1,859	865	1,607	1,781	1,771	
Income Taxes - Deferred	12	408	(45)	(42)	(22)	
Net Profit Attribute to parent company shareholders	**3,740**	**2,736**	**3,177**	**3,667**	**4,000**	**3,900**

Source: Compiled by SIR from SPEEDA data.

Balance Sheet

FY JPY mn, %	FY2020/03 Full year	FY2021/03 Full year	FY2022/03 Full year	FY2023/03 Full year	FY2024/03 Full year
Total Assets	**65,969**	**64,496**	**76,773**	**84,474**	**94,756**
Current Assets	54,921	51,883	64,317	71,049	76,279
Cash Equivalents And Short-term Investments	16,412	11,935	17,604	22,927	26,855
Cash & Cash Equivalents	16,412	11,935	17,604	22,927	26,855
Accounts Receivables	27,436	25,994	28,608	27,966	30,167
Other Short-Term Financial Assets	6,411	10,475	12,736	12,980	12,952
Inventories	3,219	2,850	3,275	4,143	3,620
Finished Goods and Merchandise	2,599	2,173	2,667	2,952	2,666
Other Inventories	620	677	608	1,191	954
Allowance for Doubtful Accounts - Assets	(168)	(163)	(189)	(173)	(186)
Fixed Assets	11,048	12,612	12,456	13,424	18,477
Property, Plant & Equipment (PPE)	1,785	1,930	1,913	2,055	2,284
Lands	740	842	842	945	945
Construction In Progress			13		67
Intangible Assets	121	99	106	357	421
Investments and Other Assets	9,141	10,582	10,436	11,011	15,771
Investment Securities (inc. Subsidiaries and Affiliates)	7,070	9,380	9,269	9,825	14,633
Investment Securities	7,070	9,380	9,269	9,825	14,633
Long-Term Loans	6	3			
Deferred Tax Assets - Non-Current	880	48	49	53	12
Allowance for Doubtful Accounts - Fixed	(1,511)	(206)	(204)	(203)	(202)
Total Liabilities	**41,231**	**36,119**	**46,010**	**50,434**	**54,379**
Current Liabilities	38,877	33,539	43,435	47,730	50,080
Trade Payables	34,139	30,272	36,748	41,579	42,642
Short-Term Debt	18	11	26	20	
Current Portion of Long-term Debt	18	11	26	20	
Current Portion of Long-term Borrowings	18	11	26	20	
Advances Received	3,077	2,367	4,897	4,217	5,331
Fixed Liabilities	2,353	2,579	2,575	2,704	4,298
Long-Term Debt	27	17	40	20	
Long-Term Borrowings	27	17	40	20	
Deferred Tax Liabilities - Non-Current		278	191	330	1,802
Provision for Retirement Benefits	1,901	1,830	1,836	1,804	1,860
Total Net Assets	**24,738**	**28,377**	**30,762**	**34,039**	**40,377**
Total Shareholders' Equity	24,505	28,177	30,577	33,806	40,134
Shareholders' Equity	23,387	25,306	27,726	30,455	33,439
Capital Stock	2,945	2,945	2,945	2,945	2,945
Capital Surplus	1,805	1,867	1,867	1,867	1,944
Retained Earnings	19,126	21,047	23,465	26,184	29,172
Treasury Stock	(490)	(553)	(553)	(542)	(622)
Valuation and conversion difference	1,117	2,869	2,851	3,350	6,694
Valuation Difference On Available-for-sale Securities	1,260	2,960	2,872	3,231	6,580
Net Unrealized Gains/Loss on Derivatives for Hedges	(2)	(12)	(25)	0	(67)
Foreign Currency Translation Adjustments	41	13	74	142	197
Non-controlling interest	233	200	185	233	243

Source: Compiled by SIR from SPEEDA data.

Statements of Cash Flows

FY JPY mn, %	FY2020/03 Full year	FY2021/03 Full year	FY2022/03 Full year	FY2023/03 Full year	FY2024/03 Full year
Cash Flows from Operating Activities	**190**	**(3,412)**	**6,570**	**6,716**	**5,015**
Depreciation and Amortization - CF	177	173	174	170	242
Depreciation - CF	177	173	174	170	242
Gain/Loss on Sale of Securities and Investment Securities	(50)	(1)			(315)
Gain/Loss on Sale of Securities					(315)
Gain/Loss on Sale of Investment Securities	(50)	(1)			
Gain/Loss on Sale of PPE	(3)	(4)			9
Interest and Dividends Received - Operating CF	349	286	267	341	389
Interest Paid - Operating CF	(1)	(1)	(2)	(2)	(3)
Cash Flows from Investing Activities	**(943)**	**(204)**	**(152)**	**(461)**	**(69)**
Payments for Purchases of Securities and Investment Securities	(276)	(21)	(22)		
Payments for Purchases of Investment Securities	(276)	(21)	(22)		
Proceeds from Sales of Securities and Investment Securities	91	3			461
Proceeds from Sales of Investment Securities	91	3			461
Purchases/Sales of PPE	(570)	(201)	(106)	(365)	(500)
Payments for Purchases of PPE	(574)	(205)	(106)	(365)	(500)
Proceeds from Sales of PPE	4	4			
Cash Flows from Financial Activities	**(960)**	**(849)**	**(808)**	**(971)**	**(1,077)**
Proceeds from Issuance of Stock		0	1	4	141
Redemption/Retirement of Stock	(1)	(1)	(1)	0	(145)
Cash Dividends Paid	(951)	(828)	(781)	(948)	(1,033)
Foreign exchange adjustment	11	(9)	59	40	59
Changes in Cash	(1,702)	(4,476)	5,668	5,323	3,927
Cash & Cash Equivalent - Beginning	18,115	16,412	11,935	17,604	22,927
Cash & Cash Equivalent - Ending	16,412	11,935	17,604	22,927	26,855
Free Cash Flow (FCF)	**(753)**	**(3,616)**	**6,418**	**6,255**	**4,946**

Source: Compiled by SIR from SPEEDA data.

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Sessa Partners Inc.

#5a i-o Azabu, 2-8-14
Azabujyuban, Minato-ku, Tokyo
info@sessapartners.co.jp