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Japan Technology: IT Services: NC company results read-across (7) (software testing): Digital Hearts, Valtes

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In this report, we consider the implications for our covered companies from visits we made to two Not Covered companies, namely **Digital Hearts (web app testing/game debugging) and Valtes Holdings (enterprise testing)**, both of which focus on software testing as their mainstay business. Please see our earlier report for earnings trends at SHIFT (Not Covered), the largest domestic company specializing in software services. At **Digital Hearts**, demand in the software testing business for enterprise customers is steady, but the company guides for only a slight yoy increase in operating profits in FY3/27 due to factors such as a peak-out in domestic debugging demand for the Switch 2. Although demand for enterprise software testing continues to expand at **Valtes Holdings**, management guides for modest profit growth in FY3/27 due to an increase in AI-related investments, such as for the development of generative AI testing tools.

In terms of read-across, the spread of generative AI is beginning to prompt customers to bring work in-house in some areas of software testing and development businesses, and demand for small-scale system development and simple software testing may shrink across the industry as a whole. Fujitsu (Buy), NEC (Buy), and Nomura Research Institute (Buy) mainly focus on large-scale system development, so they are less susceptible to the impact of the AI disruption mentioned above, while the effects of AI-driven development, such as the automation of development and testing processes, are beginning to materialize; thus, it is likely that they will continue to see strong earnings overall. Below we outline our key takeaways from company commentary (see Exhibit 1/Exhibit 2/Exhibit 3 for earnings tables).

Digital Hearts (3676.T) (software testing for games and web apps)

- (1) **Guidance:** FY3/27 operating profit guidance is ¥2.73 bn (+4% yoy), with the company expecting only a slight increase in profits. Although the full-year contribution of acquired Canadian company HUWIZ (game debugging/quality assurance) is expected to have a positive impact on profits of just over ¥100 mn yoy, Digital Hearts guides for profitability to decline mainly in the DH Group business as demand for highly profitable game debugging for the Switch 2 peaks out, and management assumes a soft earnings performance centered on 1H. While the demand environment for mainstay web app/enterprise software testing (AGEST business) is trending steadily, generative AI is having a negative impact on the development business (discussed below), and Digital Hearts said that signs of AI disruption are beginning to emerge.

- (2) **DH business (game debugging):** FY3/26 sales and operating profits came in at -3% yoy and +16% yoy, respectively. Although sales declined due to the impact of the business transfer of an engineer dispatch subsidiary, operating profits increased as related game debugging expanded due to the launch of the Switch 2 (domestic debugging sales grew +11% yoy). Demand for the Switch 2 was very strong, and utilization rates at domestic testing centers (labs) trended at levels close to 100%. On the other hand, FY3/27 sales and operating profit guidance calls for +10% yoy and +1% yoy, respectively, with profits expected to increase only slightly. While the company guides for a full-year contribution of HUWIZ (game debugging/quality assurance), which was consolidated in 4Q3/26, it expects a large impact from the peak-out in domestic debugging demand for the Switch 2. Considering lab capacity, the company believes it will be difficult to expand debugging sales further, and given the number of titles, it said it is hard to expect debugging demand for the Switch 2 to exceed FY3/26 levels. According to management, the yoy hurdle in 1Q is particularly high.
- (3) **AGEST business (web app/enterprise testing):** FY3/26 sales and operating profits were -1% yoy and -22% yoy, respectively. Digital Hearts secured outsourcing resources in preparation for higher demand in the development business, but demand did not grow as much as expected, leading to a decline in utilization rates; in addition, the company raised the price of its security monitoring service to reflect higher costs, resulting in a large negative impact from reduced demand for this service. Sales of mainstay software testing rose +10% yoy. FY3/27 sales and operating profit guidance call for -2% yoy and +39% yoy, respectively; although a slight decline in sales is expected due to a drop in development demand, the company forecasts a sharp increase in profits driven by expanding demand for high-margin software testing. However, according to management, (1) in the development business provided alongside software testing (small-scale system development), the spread of generative AI is prompting customers to bring work in-house, and this demand is on a downtrend that exceeds company expectations, and (2) in software testing, while not enough to affect overall demand, there are moves to bring work in-house among some customers.

Valtes Holdings (4442.T) (enterprise software testing)

- (1) **Guidance:** FY3/27 operating profits are guided at ¥970 mn (+5% yoy), with the company expecting modest growth as it ramps up AI-related investments (negative impact on profits of c.¥100 mn). However, operating profits excluding AI-related expenses are guided at +14% yoy, a continuation of double-digit (%) yoy profit growth, and the company assumes the demand environment for software testing will remain strong. Valtes plans to allocate AI-related investments (c.¥400 mn) to the development of generative AI testing tools, strengthening marketing, and stepping up the hiring of high-class talent (such as AI engineers). The company plans to make a total of ¥1.2 bn in AI-related investments over the period of its medium-term plan (FY3/26-FY3/28). The generative AI test design tool “TestScape” currently under development has already begun internal operations, and the company added a scenario testing function in May, ultimately aiming to automate all software testing processes.

- (2) **Software testing:** 4Q (Jan-Mar) FY3/26 sales in the software testing business rose +14% yoy, maintaining double-digit (%) yoy growth. Valtes specializes in enterprise testing, and it said demand is currently strong for the verification of embedded in-car systems and for the logistics sector. For full-year FY3/26, sales were +12% yoy, with the number of active engineers up +8% yoy and the average unit price up +5% yoy. Management assumes growth will continue and plans to actively hire personnel, but according to the company, the hiring environment remains highly competitive, and mid-career hiring in FY3/26 missed internal plans.

Exhibit 1: Digital Hearts (3676.T): Earnings by business

(mn yen) Digital Hearts (3676)	24/3	25/3	26/3	CoE 27/3E	26/3 Q1	Q2	Q3	Q4
Sales	**38,790**	**39,749**	**38,929**	**41,080**	**9,380**	**9,732**	**9,975**	**9,841**
yoy	6.2%	2.5%	-2.1%	5.5%	-4.6%	-3.4%	-5.1%	5.4%
Gross Profit	**10,091**	**10,138**	**10,001**		**2,526**	**2,477**	**2,645**	**2,353**
yoy	-5.1%	0.5%	-1.4%		7.7%	-2.0%	-7.5%	-2.1%
% of sales	26.0%	25.5%	25.7%		26.9%	25.5%	26.5%	23.9%
SGA	**8,051**	**7,708**	**7,375**		**1,818**	**1,746**	**1,742**	**2,068**
yoy	5.5%	-4.3%	-4.3%		-11.3%	-12.6%	-5.8%	14.2%
% of sales	20.8%	19.4%	18.9%		19.4%	17.9%	17.5%	21.0%
Operating Profits	**2,040**	**2,430**	**2,626**	**2,730**	**708**	**731**	**903**	**285**
yoy	-32.0%	19.1%	8.1%	4.0%	139.2%	37.9%	-10.8%	-51.9%
% of sales	5.3%	6.1%	6.7%	6.6%	7.5%	7.5%	9.1%	2.9%
<Sales and OP by Segments>								
DH(Digital Hearts) Group segment								
Sales	**23,489**	**23,906**	**23,131**	**25,380**	**5,513**	**5,809**	**6,066**	**5,744**
yoy	-	1.8%	-3.2%	9.7%	-8.6%	-5.4%	-6.7%	9.7%
% of sales	60.6%	60.1%	59.4%	61.8%	58.8%	59.7%	60.8%	58.4%
Domestic debugging	**13,178**	**13,679**	**15,116**		**3,830**	**3,669**	**4,004**	**3,611**
yoy	-	3.8%	10.5%		15.1%	5.6%	13.1%	8.2%
Global service	**3,468**	**4,145**	**4,356**		**846**	**1,129**	**1,054**	**1,327**
yoy	-	19.5%	5.1%		-14.7%	20.6%	-2.9%	17.2%
Others	**6,843**	**6,082**	**3,659**		**835**	**1,011**	**1,008**	**806**
yoy	-	-11.1%	-39.8%		-51.3%	-41.6%	-46.2%	5.1%
Gross Profit	**5,827**	**5,884**	**5,898**		**1,510**	**1,393**	**1,602**	**1,393**
yoy	-	1.0%	0.2%		4.1%	-4.7%	-6.6%	10.9%
% of sales	24.8%	24.6%	25.5%		27.4%	24.0%	26.4%	24.3%
SGA	**4,093**	**3,942**	**3,652**		**869**	**879**	**842**	**1,062**
yoy	-	-3.7%	-7.4%		-17.1%	-14.8%	-14.6%	21.2%
% of sales	17.4%	16.5%	15.8%		15.8%	15.1%	13.9%	18.5%
Operating Profits	**1,734**	**1,941**	**2,246**	**2,270**	**641**	**514**	**760**	**330**
yoy	-	11.9%	15.7%	1.1%	59.3%	19.6%	4.3%	-13.1%
% of sales	7.4%	8.1%	9.7%	8.9%	11.6%	8.9%	12.5%	5.8%
AGEST Group segment								
Sales	**15,976**	**16,159**	**15,995**	**15,700**	**3,917**	**3,988**	**3,930**	**4,160**
yoy	-	1.1%	-1.0%	-1.8%	0.1%	-0.6%	-3.6%	0.1%
% of sales	41.2%	40.7%	41.1%	38.2%	41.8%	41.0%	39.4%	42.3%
QA(Quality Assurance) solution	**13,364**	**13,928**	**14,083**		**3,474**	**3,514**	**3,330**	**3,765**
yoy	-	4.2%	1.1%		3.6%	0.7%	-4.2%	4.3%
IT services and others	**2,610**	**2,230**	**1,910**		**443**	**473**	**436**	**558**
yoy	-	-14.6%	-14.3%		-20.8%	-9.4%	-27.6%	2.0%
Gross Profit	**4,308**	**4,262**	**4,300**		**1,018**	**1,105**	**1,030**	**1,147**
yoy	-	-1.1%	0.9%		13.5%	3.5%	-10.4%	-0.1%
% of sales	27.0%	26.4%	27.0%		26.0%	27.7%	26.2%	27.6%
SGA	**4,004**	**3,773**	**3,919**		**950**	**888**	**887**	**1,194**
yoy	-	-5.8%	3.9%		-5.3%	-8.3%	2.4%	27.6%
% of sales	25.1%	23.3%	24.5%		24.3%	22.3%	22.6%	28.7%
Operating Profits	**305**	**489**	**381**	**530**	**67**	**217**	**143**	**-46**
yoy	-	60.0%	-22.1%	39.3%	N.M.	116.9%	-49.6%	N.M.
% of sales	1.9%	3.0%	2.4%	3.4%	1.7%	5.4%	3.6%	-1.1%

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 2: Valtes Holdings (4442.T): Earnings by business

(mn yen)				CoE	26/3			
Valtes HD (4442)	24/3	25/3	26/3	27/3E	Q1	Q2	Q3	Q4
Sales	**10,362**	**10,795**	**11,940**	**14,160**	**2,749**	**2,892**	**3,065**	**3,234**
yoy	14.4%	4.2%	10.6%	18.6%	12.7%	9.4%	9.7%	10.8%
Gross Profit	**2,994**	**3,211**	**3,661**		**780**	**865**	**981**	**1,035**
yoy	10.7%	7.2%	14.0%		34.2%	6.6%	11.5%	10.4%
% of sales	28.9%	29.7%	30.7%		28.4%	29.9%	32.0%	32.0%
SGA	**2,155**	**2,270**	**2,737**		**680**	**695**	**702**	**660**
yoy	-	5.3%	20.6%		16.6%	38.6%	8.5%	22.6%
% of sales	20.8%	21.0%	22.9%		24.8%	24.0%	22.9%	20.4%
Operating Profits	**839**	**928**	**924**	**970**	**99**	**170**	**279**	**376**
yoy	-	10.6%	-0.4%	5.0%	N.M.	-45.2%	19.7%	-2.8%
% of sales	8.1%	8.6%	7.7%	6.9%	3.6%	5.9%	9.1%	11.6%
AI investment			**279**	**400**				**68**
OP before AI investment			**1,203**	**1,370**				**444**
yoy			29.7%	13.9%				14.9%
% of sales			10.1%	9.7%				13.7%
<Sales and OP by Segments>								
Software testing								
Sales	**9,042**	**9,112**	**10,245**		**2,366**	**2,509**	**2,632**	**2,738**
yoy	-	0.8%	12.4%		11.3%	9.7%	14.3%	14.3%
Operating Profits	**860**	**1,071**	**864**		**137**	**179**	**251**	**297**
yoy	-	24.6%	-19.3%		51.2%	-46.1%	-20.9%	-10.3%
% of sales	9.5%	11.8%	8.4%		5.8%	7.1%	9.5%	10.9%
Development								
Sales	**1,371**	**1,777**	**1,991**		**472**	**474**	**520**	**524**
yoy	-	29.7%	12.0%		32.2%	21.7%	2.1%	0.6%
Operating Profits	**14**	**-63**	**92**		**-10**	**8**	**40**	**54**
yoy	-	N.M.	N.M.		N.M.	N.M.	N.M.	N.M.
% of sales	1.0%	-3.5%	4.6%		-2.1%	1.8%	7.6%	10.3%
Security								
Sales	**220**	**220**	**294**		**55**	**47**	**59**	**133**
yoy	-	0.0%	34.1%		46.0%	51.3%	10.2%	37.0%
Operating Profits	**34**	**12**	**39**		**0**	**-5**	**2**	**42**
yoy	-	-65.5%	230.6%		-94.1%	11.3%	-11.6%	123.7%
% of sales	15.4%	5.3%	13.1%		-0.5%	-9.7%	3.2%	31.2%
Adjustment amount								
Sales	-264	-315	-590		-145	-138	-147	-160
Operating Profits	-68	-80	-71		-28	-12	-14	-17

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 3: IT services sector earnings estimates

(mn yen)

Company	Results (FY ended March)	25/3	26/3	GSE 27/3	GSE 28/3	GSE 29/3	CoE 27/3	CY25 1-3	4-6	7-9	10-12	CY26 1-3	4-6E
【Mid-sized System Integrators】													
2327 NS Solutions (NSSOL)	**Sales**	**338,301**	**381,340**	**416,000**	**431,000**	**453,000**	**417,000**	**98,007**	**82,684**	**95,691**	**97,020**	**105,945**	**95,000**
	%y-y	8.9%	12.7%	9.1%	3.6%	5.1%	9.4%	8.3%	7.6%	19.9%	15.9%	8.1%	14.9%
	OP	**38,497**	**44,242**	**47,500**	**50,000**	**54,000**	**47,500**	**8,910**	**8,485**	**9,787**	**12,718**	**13,252**	**8,500**
	%y-y	10.0%	14.9%	7.4%	5.3%	8.0%	7.4%	-23.9%	-3.7%	5.1%	11.0%	48.7%	0.2%
	OP margin	11.4%	11.6%	11.4%	11.6%	11.9%	11.4%	9.1%	10.3%	10.2%	13.1%	12.5%	8.9%
3626 TIS	**Sales**	**571,687**	**596,479**	**622,500**	**642,500**	**658,500**	**620,000**	**155,126**	**140,316**	**148,209**	**147,726**	**160,228**	**146,830**
	%y-y	4.1%	4.3%	4.4%	3.2%	2.5%	3.9%	7.5%	4.7%	4.7%	4.8%	3.3%	4.6%
	OP	**69,047**	**76,229**	**81,500**	**86,000**	**89,300**	**81,000**	**20,163**	**16,353**	**19,200**	**19,250**	**21,426**	**17,200**
	%y-y	6.9%	10.4%	6.9%	5.5%	3.8%	6.3%	18.7%	16.3%	16.7%	4.8%	6.3%	5.2%
	OP margin	12.1%	12.8%	13.1%	13.4%	13.6%	13.1%	13.0%	11.7%	13.0%	13.0%	13.4%	11.7%
4307 Nomura Research Institute (NRI)	**Sales**	**764,813**	**814,708**	**854,200**	**897,200**	**941,400**	**850,000**	**196,567**	**195,770**	**201,295**	**205,268**	**212,374**	**205,900**
	%y-y	3.8%	6.5%	4.8%	5.0%	4.9%	4.3%	5.4%	4.1%	6.7%	7.2%	8.0%	5.2%
	OP	**134,907**	**58,273**	**178,000**	**198,000**	**219,000**	**175,000**	**32,554**	**37,246**	**41,553**	**39,981**	**-60,506**	**41,000**
	%y-y	12.0%	-56.8%	205.5%	11.2%	10.6%	200.3%	11.6%	14.1%	26.0%	8.9%	N.M.	10.1%
	OP margin	17.6%	7.2%	20.8%	22.1%	23.3%	20.6%	16.6%	19.0%	20.6%	19.5%	-28.5%	19.9%
4684 Obic	**Sales**	**121,240**	**135,209**	**149,000**	**161,800**	**174,000**	**148,700**	**31,517**	**32,431**	**33,353**	**34,329**	**35,096**	**35,860**
	%y-y	8.6%	11.5%	10.2%	8.6%	7.5%	10.0%	12.5%	12.7%	9.7%	12.4%	11.4%	10.6%
	OP	**78,378**	**88,823**	**99,300**	**108,800**	**118,000**	**98,000**	**19,812**	**21,479**	**22,176**	**22,610**	**22,558**	**24,100**
	%y-y	10.5%	13.3%	11.8%	9.6%	8.5%	10.3%	13.8%	15.2%	11.0%	13.4%	13.9%	12.2%
	OP margin	64.6%	65.7%	66.6%	67.2%	67.8%	65.9%	62.9%	66.2%	66.5%	65.9%	64.3%	67.2%
4733 Obic Business Consultants (OBC)	**Sales**	**46,984**	**51,401**	**57,650**	**64,300**	**71,670**	**57,500**	**12,220**	**12,151**	**12,781**	**12,946**	**13,524**	**13,370**
	%y-y	12.0%	9.4%	12.2%	11.5%	11.5%	11.9%	6.1%	8.2%	11.0%	7.7%	10.7%	10.0%
	OP	**21,744**	**23,581**	**26,800**	**31,000**	**35,800**	**26,500**	**5,833**	**5,570**	**5,590**	**6,110**	**6,311**	**6,200**
	%y-y	16.0%	8.4%	13.7%	15.7%	15.5%	12.4%	6.3%	7.5%	13.4%	5.3%	8.2%	11.3%
	OP margin	46.3%	45.9%	46.5%	48.2%	50.0%	46.1%	47.7%	45.8%	43.7%	47.2%	46.7%	46.4%
8056 BIPROGY (ex Nihon Unisys)	**Sales**	**404,010**	**433,686**	**484,500**	**516,200**	**546,900**	**470,000**	**124,745**	**96,844**	**108,288**	**101,712**	**126,842**	**107,100**
	%y-y	9.2%	7.3%	11.7%	6.5%	5.9%	8.4%	12.1%	9.6%	10.9%	9.1%	1.7%	10.6%
	OP	**39,066**	**42,604**	**48,400**	**54,600**	**60,800**	**48,400**	**13,900**	**8,569**	**12,781**	**8,998**	**12,256**	**8,800**
	%y-y	17.4%	9.1%	13.6%	12.8%	11.4%	13.6%	51.9%	30.3%	12.4%	24.6%	-11.8%	2.7%
	OP margin	9.7%	9.8%	10.0%	10.6%	11.1%	10.3%	11.1%	8.8%	11.8%	8.8%	9.7%	8.2%
【Large System Integrators】													
6501 Hitachi Digital Systems & Services (DSS)	**Sales**	**2,832,584**	**2,940,000**	**3,291,900**	**3,579,000**	**3,890,100**	**3,190,000**	**823,300**	**617,400**	**708,800**	**714,900**	**898,912**	**668,650**
	%y-y	9.0%	3.8%	12.0%	8.7%	8.7%	8.5%	6.2%	-2.6%	4.5%	2.6%	9.2%	8.3%
	Adjusted OP	**374,700**	**430,000**	**477,100**	**524,700**	**572,900**	**480,000**	**124,400**	**61,800**	**105,200**	**116,875**	**159,200**	**97,011**
	%y-y	20.6%	14.8%	11.0%	10.0%	9.2%	11.6%	19.2%	-16.1%	22.9%	28.6%	28.0%	57.0%
	OP margin	13.2%	14.6%	14.5%	14.7%	14.7%	15.0%	15.1%	10.0%	14.8%	16.3%	17.7%	14.5%
6701 NEC	**Sales**	**3,423,431**	**3,582,733**	**3,596,000**	**3,755,000**	**3,916,000**	**3,500,000**	**1,101,622**	**715,658**	**854,121**	**858,000**	**1,160,416**	**740,000**
	%y-y	-1.5%	4.7%	0.4%	4.4%	4.3%	-2.3%	1.6%	3.7%	7.3%	2.7%	5.3%	3.4%
	OP	**256,497**	**359,913**	**419,000**	**467,000**	**518,000**		**130,331**	**35,389**	**83,181**	**66,591**	**174,752**	**39,000**
	%y-y	36.4%	40.3%	16.4%	11.5%	10.9%		10.3%	679.5%	107.2%	-18.3%	34.1%	10.2%
	OP margin	7.5%	10.0%	11.7%	12.4%	13.2%		11.8%	4.9%	9.7%	7.8%	15.1%	5.3%
	Non-GAAP OP	**311,301**	**397,234**	**443,000**	**490,000**	**540,000**	**420,000**	**148,966**	**39,995**	**87,494**	**82,382**	**187,363**	**45,000**
	%y-y	36.8%	27.6%	11.5%	10.6%	10.2%	5.7%	16.2%	145.4%	80.2%	-15.5%	25.8%	12.5%
	OP margin	9.1%	11.1%	12.3%	13.0%	13.8%	12.0%	13.5%	5.6%	10.2%	9.6%	16.1%	6.1%
6702 Fujitsu	**Sales**	**3,550,116**	**3,502,971**	**3,484,000**	**3,667,000**	**3,849,000**	**3,510,000**	**1,142,134**	**749,859**	**816,683**	**884,642**	**1,051,787**	**738,000**
	%y-y	2.1%	-1.3%	-0.5%	5.3%	5.0%	0.2%	9.6%	-1.2%	3.0%	3.4%	-7.9%	-1.6%
	OP	**265,089**	**348,329**	**415,000**	**483,000**	**552,000**	**415,000**	**159,200**	**33,486**	**71,859**	**105,656**	**137,328**	**36,500**
	%y-y	77.5%	31.4%	19.1%	16.4%	14.3%	19.1%	37.8%	133.7%	150.7%	68.2%	-13.7%	9.0%
	OP margin	7.5%	9.9%	11.9%	13.2%	14.3%	11.8%	13.9%	4.5%	8.8%	11.9%	13.1%	4.9%
	Adjusted OP	**307,265**	**390,589**	**425,000**	**493,000**	**562,000**	**425,000**	**170,184**	**35,119**	**86,208**	**107,836**	**161,426**	**39,000**
	%y-y	15.8%	27.1%	8.8%	16.0%	14.0%	8.8%	6.9%	111.9%	74.1%	51.9%	-5.1%	11.1%
	OP margin	8.7%	11.2%	12.2%	13.4%	14.6%	12.1%	14.9%	4.7%	10.6%	12.2%	15.3%	5.3%
NTT Data (Global Solution segment in NTT)	**Sales**	**4,638,721**	**5,004,614**	**5,206,000**	**5,451,000**	**5,682,000**	**5,190,000**	**1,230,965**	**1,104,369**	**1,256,098**	**1,283,336**	**1,360,813**	**1,166,000**
	%y-y	6.2%	7.9%	4.0%	4.7%	4.2%	3.7%	3.3%	-0.7%	11.4%	9.9%	10.5%	5.6%
	OP	**323,862**	**488,211**	**470,000**	**530,000**	**590,000**	**470,000**	**87,881**	**57,786**	**211,192**	**115,225**	**104,008**	**60,000**
	%y-y	4.6%	50.7%	-3.7%	12.8%	11.3%	-3.7%	-21.9%	-1.4%	133.7%	32.5%	18.4%	3.8%
	OP margin	7.0%	9.8%	9.0%	9.7%	10.4%	9.1%	7.1%	5.2%	16.8%	9.0%	7.6%	5.1%
	Gain on sales of DC		129,500	70,000	70,000	70,000	70,000			129,500			
	OP (excl. gain on sales of DC)		**358,711**	**400,000**	**460,000**	**520,000**	**400,000**			**81,692**			
	%y-y		10.8%	11.5%	15.0%	13.0%	11.5%			-9.6%			
	OP margin		7.0%	7.6%	8.3%	9.0%	7.5%			6.5%			

Company	Results (FY ended Dec)	24/12	25/12	GSE 26/12	GSE 27/12	GSE 28/12	CoE 26/12	CY25 1-3	4-6	7-9	10-12	CY26 1-3	4-6E
4704 Trend Micro	**Sales**	**272,638**	**275,984**	**300,000**	**312,500**	**325,600**	**301,500**	**67,501**	**66,408**	**68,844**	**73,231**	**73,856**	**72,890**
	%y-y	9.6%	1.2%	8.7%	4.2%	4.2%	9.2%	2.4%	-3.2%	1.1%	4.6%	9.4%	9.8%
	OP	**48,105**	**57,777**	**55,000**	**58,000**	**61,200**	**56,400**	**15,006**	**13,466**	**16,002**	**13,303**	**15,558**	**12,890**
	%y-y	47.6%	20.1%	-4.8%	5.5%	5.5%	-2.4%	23.7%	9.4%	8.1%	50.0%	3.7%	-4.3%
	OP margin	17.6%	20.9%	18.3%	18.6%	18.8%	18.7%	22.2%	20.3%	23.2%	18.2%	21.1%	17.7%
4768 Otsuka	**Sales**	**1,107,668**	**1,322,791**	**1,348,800**	**1,391,200**	**1,451,600**	**1,311,000**	**315,541**	**379,591**	**310,587**	**317,072**	**344,753**	**376,400**
	%y-y	13.3%	19.4%	2.0%	3.1%	4.3%	-0.9%	18.3%	25.3%	23.0%	11.1%	9.3%	-0.8%
	OP	**74,360**	**89,943**	**88,000**	**93,000**	**99,000**	**90,000**	**21,175**	**27,998**	**17,356**	**23,414**	**23,505**	**27,000**
	%y-y	18.1%	21.0%	-2.2%	5.7%	6.5%	0.1%	22.8%	29.6%	30.2%	5.5%	11.0%	-3.6%
	OP margin	6.7%	6.8%	6.5%	6.7%	6.8%	6.9%	6.7%	7.4%	5.6%	7.4%	6.8%	7.2%

Company	Results (FY ended Jun)	24/6	25/6	GSE 26/6	GSE 27/6	GSE 28/6	CoE 26/6	CY25 1-3	4-6	7-9	10-12	CY26 1-3	4-6E
4478 freee	**Sales**	**25,431**	**33,271**	**42,260**	**50,880**	**60,100**	**41,930**	**8,600**	**9,420**	**9,744**	**10,198**	**10,902**	**11,417**
	%y-y	32.3%	30.8%	27.0%	20.4%	18.1%	26.0%	29.3%	34.4%	32.1%	29.5%	26.8%	21.2%
	OP	**-8,387**	**611**	**1,040**	**3,300**	**6,000**		**316**	**-573**	**272**	**260**	**91**	**417**
	%y-y	N.M.	N.M.	70.2%	217.3%	81.8%		N.M.	N.M.	27.2%	-60.3%	-71.1%	N.M.
	OP margin	-33.0%	1.8%	2.5%	6.5%	10.0%		3.7%	-6.1%	2.8%	2.5%	0.8%	3.7%
	Adjusted OP	**-7,562**	**1,885**	**2,540**	**5,100**	**8,100**	**2,520**	**659**	**-230**	**690**	**662**	**445**	**743**
	%y-y	N.M.	N.M.	34.7%	100.8%	58.8%	33.7%	N.M.	N.M.	43.8%	-32.2%	-32.5%	N.M.
	OP margin	-29.7%	5.7%	6.0%	10.0%	13.5%	6.0%	7.7%	-2.4%	7.1%	6.5%	4.1%	6.5%

NEC's non-GAAP operating profits/losses are operating profits + amortization of intangible assets associated with acquisitions, etc. + one-off gains/losses such as structural reform costs, Fujitsu's adjusted operating profits/losses are operating profits + one-off gains/losses such as structural reform costs, and for reference, we have included adjusted operating profits for Hitachi's Digital System & Service business (equivalent to IT services) (covered by Ryo Harada, Japan Industrial Electronics)

Source: Company data, Goldman Sachs Global Investment Research

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