TESS Holdings (TSE Code: 5074)

Continued Growth With Multiple Storage Battery EPC Business Orders As Negative Factors Dwindle

GIR View

Unfortunate Downward Revision in the Previous Fiscal Year Results

We have long been closely watching TESS Holdings' storage battery EPC (Engineering, Procurement, and Construction) business, and while we saw positive momentum in the previous term's full-year results, the company was unable to avoid a downward revision due to an investment loss at a UK equity-method affiliate. The downward revision itself is unfortunate, but the UK company where the investment loss occurred was one in which TESS Holdings invested to acquire expertise in the storage battery EPC business. Although the amount was not small, it could also be considered a meaningful loss.

Non-core Business Factors Behind the Downward Revision Appear Largely Exhausted

The land sale contract in Kyoto, which previously contributed to downward revisions in earnings forecasts, is not factored into this fiscal year's earnings forecast. Furthermore, regarding derivative valuation associated with forward exchange contracts in the biomass-related business, the introduction of hedge accounting has eliminated its impact on period profit/loss since the previous interim period. Additionally, for equity method investment gains/losses, the book value of overseas affiliate shares declined significantly due to the recognition of investment losses in the previous period. Moreover, since Japanese domestic affiliates primarily consist of companies engaged in low-risk businesses such as maintenance services, the likelihood of significant losses impacting performance, as seen in the previous period, is considered low.

As described above, factors outside the core business that could significantly impact performance appear largely exhausted. Going forward, attention will focus on the company's performance expansion,

KEY STATISTICS

Key Share Statistics

Recent Price (9/10/2025)	¥364
52-week High/Low	¥249/¥490
Shares Outstanding	70,646,130 shares
Market Cap	¥25,715 million
PER	21.39 times
PSR	0.55 times
Dividend (Dividend Yield)	¥5.80(1.59%)

Sector Overview

Sector	Construction

Financials (FYE 06/2026 forecast)

Net sales	¥47,000 million
Operating profit margin (%)	7.7%
EBITDA margin (%)	17.3%

Management

President	Kazuki Yamamoto
URL	https://www.tess-hd.co.jp/english/

particularly in its storage battery EPC business. GIR maintains its view that TESS Holdings is a promising firm possessing broad technology and expertise in the renewable energy sector.

Full-Year Financial Results for the Previous Fiscal Year Ended June 30, 2025

For the previous fiscal year, net sales increased 19.7% year-on-year to 36.7 billion yen, operating profit rose 7.5% to 2.55 billion yen, ordinary profit recorded a decline of 640 million yen, and profit decreased 82.7% to 200 million yen. The Energy Supply Segment achieved increased revenue and operating profit, driven by steady growth in renewable energy generation, on-site PPA, and biomass fuel sales. Additionally, the Engineering Segment saw strong performance in both energy conservation and renewable energy EPC projects. However, ordinary profit and profit before taxes declined significantly, primarily due to the derivative valuation loss (1.83 billion yen) released in November 2024 and the investment loss (530 million yen) released in August 2025, resulting in a recorded deficit in ordinary profit.

In the Engineering Segment, orders received surged 106.9% year-on-year to 22.57 billion yen, while the order backlog rose 134.4% year-on-year to 22.9 billion yen. Orders were driven by commissioned and development EPC projects for FIT solar power conversion to FIP plus co-location storage batteries, and for grid storage plants. Within the order backlog, approximately 70% was for storage batteries and about 6% for solar power generation facilities. This demonstrates early results from efforts to expand the storage battery EPC business, one of the growth drivers in TESS Holdings' Mid-Term Management Plan.

In the Energy Supply Segment, renewable energy supply via solar power systems for in-house consumption under the on-site PPA model is growing steadily. Additionally, the consolidation of the Fukuoka Miyako Mega Solar Plant, which utilizes the FIT system, contributed to increased earnings. Higher biomass fuel shipment volumes and lower procurement prices also contributed positively.

On the balance sheet, total assets increased by 32.1 billion yen to 151.2 billion yen. This increase was primarily due to the consolidation of the Fukuoka Miyako Mega Solar Plant as a subsidiary, which added to non-current assets, and the construction of the Saga Imari Biomass Power Plant, which increased construction in progress. The increase in long-term borrowings mainly funded these additions. Going forward, as outlined in the company's Mid-Term Management Plan, growth investments and concentration of management resources are expected to drive the transition of its business structure.

Regarding the derivative valuation loss, it relates to long-term contracts for imported fuel used in the biomass power generation business. These contracts will be absorbed as the business progresses. While this accounting treatment is fundamentally correct under current market value accounting rules, investors should consider that this valuation loss has no impact on the business itself. The accounting treatment for long-term forward exchange contracts has been applied to hedge accounting from the interim consolidated accounting period ended June 30, 2025. Consequently, long-term forward exchange contracts will no longer impact fiscal period profit or loss from this fiscal year onward. Furthermore, while we will discuss equity method investment gains/losses later, we believe they will no longer be a significant factor dragging down performance as they were in the previous period.

Full-Year Forecast for the Current Fiscal Year Ending June 30, 2026

The full-year forecast for the current fiscal year projects a 28.1% increase in net sales to 47.0 billion yen, a 41.3% increase in operating profit to 3.6 billion yen, a return to profitability with ordinary profit of 1.8 billion yen, and a 485.8% increase in profit to 1.2 billion yen. Dividends are projected at 5.80 yen per share, targeting a consolidated payout ratio of 30%. While progress is steady in terms of development projects for business sites related to renewable energy power generation within Kyoto Prefecture, obtaining permits and rights is expected to continue requiring time. Therefore, these projects are not included in the performance forecast for the fiscal year ending June 30, 2026.

In the Engineering Segment, net sales are projected to increase by 17.8% to 19.7 billion yen, and operating profit is expected to rise by 93.2% to 1.7 billion yen. This growth is driven by steady expansion in energy conservation and renewable energy, coupled with anticipated revenue recognition from project orders in the storage battery EPC business. In the Energy Supply Segment, net sales are projected to increase by 36.8% to 27.3 billion yen, and operating profit is expected to rise by 13.5% to 3.8 billion yen, driven by expanded power sales revenue from operational renewable energy power plants and growth in the electricity retail business. As the company absorbs increased expenses such as personnel costs associated with business expansion, operating profit is forecast to increase by 41.3%, and ordinary profit is expected to return to profitability.

Consolidated Results

Accounting Period	FYE 06/2022	FYE 06/2023	FYE 06/2024	FYE 06/2025 Q1	Q2	Q3	Q4	Full-year
Net sales	34,945	34,415	30,643	8,308	9,705	8,775	9,896	36,684
YoY	2.0%	-1.5%	-11.0%	33.5%	9.7%	12.6%	27.1%	19.7%
Gross profit	8,455	10,611	6,553	2,103	2,627	1,473	1,250	7,453
YoY	12.1%	25.5%	-38.2%	21.4%	29.1%	14.8%	-16.8%	13.7%
Gross profit margin	24.2%	30.8%	21.4%	25.3%	27.1%	16.8%	12.6%	20.3%
Selling, general, and administrative expenses	3,309	3,746	4,183	1,159	1,162	1,212	1,372	4,905
YoY	5.3%	13.2%	11.7%	13.7%	8.3%	36.8%	13.9%	17.3%
Operating profit	5,146	6,864	2,370	944	1,465	260	(121)	2,548
YoY	17.0%	33.4%	-65.5%	32.2%	52.3%	-34.5%	Decline to Deficit	7.5%
Operating profit margin	14.7%	19.9%	7.7%	11.4%	15.1%	3.0%	-1.2%	6.9%
Ordinary profit	4,654	5,518	7,660	757	(517)	(15)	(866)	(641)
YoY	21.3%	18.6%	38.8%	52.0%	Decline to Deficit	Decline to Deficit	Decline to Deficit	Decline to Deficit
Profit	2,759	3,794	1,326	684	(87)	19	(412)	204
YoY	34.1%	37.5%	-65.1%	141.7%	Decline to Deficit	-98.8%	Decline to Deficit	-82.8%
Profit margin	7.9%	11.0%	4.3%	8.2%	-0.9%	0.2%	-4.2%	0.6%

Source: Prepared by Global IR, Inc. based on the company's annual securities reports and IR materials.
Note: Rounded to the nearest million yen, rounded to one decimal place.

Analysis of Equity-method Affiliates

The primary reason for the downward revision of the previous fiscal year results was an investment loss of 530 million yen at an equity-method affiliate. While the downward revision itself is unfortunate, we at GIR believe this largely exhausts the downward revision factors unrelated to the core business.

TESS Holdings' Equity-method Affiliates

According to the company's annual securities report for the fiscal year ended June 30, 2024, its equity-method affiliates are the following five companies. Among these, the "silent partnership operated by Fukuoka-Miyako Solar Power LLC" was consolidated as a subsidiary in the first quarter of 2025. Therefore, the current number of equity-method affiliates is considered to be four companies. Furthermore, when entering new business areas, the company appears to participate as a minority shareholder, accumulating operational know-how and other expertise before deciding whether to fully enter the business. This suggests the company practices prudent management.

The annual securities report discloses company names, share capital, and voting rights ownership percentages. Therefore, to estimate the book value of holdings, we obtained shareholder equity figures from Japan's Official Gazette's earnings announcements for Japanese domestic affiliates. While the biomass power generation sector warrants attention as many companies struggle to achieve profitability, given the scale of total assets and ownership percentages, it is unlikely that valuation losses impacting performance like those in the previous period will occur going forward. The remaining two Japanese domestic companies also operate relatively low-risk businesses with modest assets, such as system maintenance and management services, and have accumulated retained earnings. Therefore, significant valuation losses are unlikely to be a major concern.

Finally, the share capital of the UK investment company TOLLCUX INVESTMENTS LIMITED, which caused the recognition of a 530 million yen investment loss in the previous fiscal year's results, is 14 million pounds (converted to 2.78 billion yen at the exchange rate of 196 yen/pound as of June 30, 2024). Although the amount of shareholders' equity is unknown, since the book value of shares in affiliated companies totaled 670 million yen at the end of the previous fiscal year (1.22 billion yen as of March 31, 2025), it is estimated that a book value of approximately 500 million yen remains even after recording the 530 million yen investment loss.

The background for investing in TOLLCUX INVESTMENTS LIMITED stems from the company's initial exploration to consider entering the storage battery business around 2019. It participated in a project led by Nippon Koei with the aim of accumulating operational know-how for the grid storage battery business in Europe and the UK, regions where this business was already advanced. This resulted in the accumulation of operational expertise, leading to the successful bid for the Shizuoka Kikugawa Storage Plant in the fiscal 2023 auction of long-term decarbonized power sources. Given that the storage battery EPC business is one of the growth drivers in the current Mid-Term Management Plan, the investment loss, while not insignificant, is considered meaningful. Regarding the investment loss in the previous fiscal year, it was explained as a one-time occurrence due to factors such as delays in the construction schedule and increased project costs resulting from specification changes for grid connection by the UK transmission and distribution companies. While this should be watched closely, we believe that significantly lowering the company's valuation based on this development is unnecessary.

Equity-method Affiliates and Estimated Book Value as of June 30, 2024

Equity-method Affiliate	Share Capital (mn)	Shareholders' Equity (mn)	Percentage of Voting Rights Held (%)	Estimated Book Value (mn)	Principal Business Activities
Intelligent Solar System Co., Ltd.	15	209	40	84	Solar power monitoring system maintenance
Mie Enewood Co, Ltd.	80	80	29	23	Biomass power generation business
VT Utilities Services K.K.	30	98	49	48	Utility management service business in water, waste, and energy sectors
TOLLCUX INVESTMENTS LIMITED	2,772	2,772	20	554	Grid power storage business
Silent partnership operated by Fukuoka-Miyako Solar Power LLC	3,140	3,140	37	1,162	Solar power generation business

Source: Prepared by Global IR, Inc. based on the company's FYE June 30, 2024 annual securities report. Shareholders' equity figures are based on financial results announcements from Intelligent Solar System and VT Utilities Services.
Note: Fukuoka-Miyako Solar Power LLC will become a consolidated subsidiary in Q1 of 2025.

Balance Sheet Changes in Affiliated Company Shares and Affiliated Company Investments (Millions of Yen)

Account Title	June 30, 2024	Sept. 30, 2024	Dec. 31, 2024	March 31, 2025	June 30, 2025
Affiliated Company Shares	1,270	1,200	1,253	1,228	674
Affiliated Company Capital Investment	1,224	19	22	22	22

Source: Prepared by Global IR, Inc. based on financial results summaries.

Share Valuation Comparison with Japanese Competitors

The share prices of renewable energy competitors, starting from June 10 when the company's third quarter earnings follow-up report was prepared, rose by 9-29% in line with the bullish share market, except for TESS Holdings and erex. In erex's case, its share price fell by 9% due to its first-quarter earnings report showing a net loss. Following the third quarter earnings release, TESS Holdings' share price rose to 490 yen at one point, supported by a sense that earnings had bottomed out and confirmation of expanding orders for its storage battery EPC business. However, the downward revision to earnings has largely erased those gains. Nevertheless, GIR maintains its stance that TESS Holdings is a promising firm with wide-ranging technology and expertise in the renewable energy business.
The reasons are the three major aspects listed below.

1. **Confirmed increase in orders and order backlog for the storage battery EPC business**

TESS Holdings positions its Engineering Segment as a profit driver by expanding areas like the storage battery EPC business, while continuing to strengthen the stable earnings of its Energy Supply Segment under its Mid-Term Management Plan. Although the pace of order backlog growth in the fourth quarter slowed slightly compared to the third quarter in the full-year results, considering quarterly fluctuations, the earnings report clearly confirms the expansion of the storage battery EPC business.

2. **Downside revision factors outside core business appear exhausted**

The land sale contract in Kyoto, which was a downward revision factor for earnings forecasts over the past two years, is not factored into this fiscal year's forecast. Furthermore, derivative valuation related to forward exchange contracts in the biomass-related business no longer impacts fiscal period profit/loss since the introduction of hedge accounting after the previous interim period. In addition, regarding equity method investment gains/losses, the book value of shares held in affiliated companies has declined. Since the affiliated companies primarily engage in low-risk businesses like maintenance services, the likelihood of significant losses impacting performance, as seen last fiscal year, is considered low.

3. **No need to leave PBR at 0.6 with reaffirmed storage battery EPC business growth**

Currently, TESS Holdings has just entered the second year of its Mid-Term Management Plan and is advancing its growth strategy toward 2030. It is undeniable that, compared to its peers, it lacks a sense of undervaluation in earnings metrics such as PER and EV/EBITDA. However, if the steady growth of the storage battery EPC business continues to be confirmed in future earnings reports, we believe there is no need to leave PBR at 0.6.

Price/Valuation Comparison (Millions of Yen, Yen, Times)

Code	Company	Share Price June 10, 2024	Share Price Aug. 22, 2025	Change	Market Cap	EV	Dividend Per Share	PER	PBR	EV/ EBITDA
5074	TESS Holdings Co., Ltd.	337	353	105%	24,938	95,997	5.8	20.8	0.6	11.8
9519	RENOVA, Inc.	676	874	129%	79,743	379,387	-	53.2	0.6	14.7
1407	West Holdings Corporation	1,495	1,720	115%	79,167	126,514	65.0	9.9	2.4	8.3
9517	erex Co., Ltd	797	728	91%	56,902	66,628	11.0	16.7	0.8	5.4
3150	gremz, Inc.	2,340	2,539	109%	60,466	48,957	85.0	12.4	3.7	6.7

Source: Prepared by Global IR, Inc. based on the company’s annual securities reports and IR materials.
Note: Rounded to the nearest million yen, rounded to one decimal place. Share prices are closing prices on June 10, 2025, and August 22, 2025.

Management Indicators

Per Share Data

Accounting Period	FYE 06/2021	FYE 06/2022	FYE 06/2023	FYE 06/2024	FYE 06/2025
Total number of shares outstanding (thousand shares)	35,069	35,244	35,346	70,644	70,646
EPS	31.83	38.43	51.05	16.82	2.91
EPS adjusted	31.42	38.18	50.88	16.80	2.90
BPS	324.47	358.41	401.08	588.72	603.51
DPS	20.52	21.00	26.00	16.00	5.12

Source: Prepared by Global IR, Inc. based on the company's annual securities reports and IR materials.
Note: Rounded to the nearest million yen, rounded to one decimal place.

Cash Flows (Millions of Yen)

Accounting Period	FYE 06/2021	FYE 06/2022	FYE 06/2023	FYE 06/2024	FYE 06/2025
Depreciation and amortization	2,492	2,850	3,127	3,231	4,523
Cash flows from operating activities	431	14,646	13,827	(42)	7,806
Cash flows from investing activities	(4,475)	(6,215)	(16,029)	(15,490)	(9,165)
Cash flows from financing activities	17,098	(12,397)	(5,192)	18,436	3,794

Source: Prepared by Global IR, Inc. based on the company's annual securities reports and IR materials.
Note: Rounded to the nearest million yen, rounded to one decimal place.

Financial Data (%)

Accounting Period	FYE 06/2021	FYE 06/2022	FYE 06/2023	FYE 06/2024	FYE 06/2025
Return on assets (ROA)	4.2%	4.8%	5.9%	7.2%	-0.5%
Return on equity (ROE)	13.1%	11.2%	13.4%	3.4%	0.5%
Equity-to-asset ratio	22.6%	26.7%	30.0%	34.9%	28.1%

Source: Prepared by Global IR, Inc. based on the company's annual securities reports and IR materials.
Note: Rounded to the nearest million yen, rounded to one decimal place.

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