COMPANY RESEARCH AND ANALYSIS REPORT

SERENDIP HOLDINGS CO., LTD.

7318

Tokyo Stock Exchange Growth Market

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Contents

Summary

Achieved net sales target under the medium-term management plan ahead of schedule; formulated new medium-term management plan

SERENDIP HOLDINGS CO., LTD. <7318> (hereafter, also “the Company”) continuously executes M&A as a serial acquirer focused on enhancing the corporate value of small- and medium-sized manufacturers through its Manufacturing Business Succession Platform for companies facing business succession challenges. Under its mission of “Growing Japan’s small- and medium-sized manufacturers into world-class 100-year firms,” the Company seeks to enhance corporate value by promoting management reform and modernization through PMI led by professional managers, the improvement of manufacturing sites, and group integration through a roll-up M&A* strategy. It provides total solutions centered on its one-of-a-kind Manufacturing Business Succession Platform, which comprises three core platforms: the M&A Execution Platform, the Business Management Platform, and the Manufacturing Platform. In addition to enhancing the profitability of companies added to the group, the Company achieves both organic growth and inorganic growth through M&A by realizing economies of scale and creating synergies.

* An M&A strategy of acquiring and integrating multiple companies in the same industry or related business categories to elevate management efficiency and expand market share.

1. Results trends

In FY3/26, the Company’s net sales came to ¥51,163mn, up 103.6% year on year (YoY), and operating profit to ¥2,189mn, up 198.1%. In addition to organic growth in existing businesses, the full-year contribution from four companies that became subsidiaries in FY3/25 and the inclusion of 2H results from SURTECKARIYA Co., Ltd., which was newly added to the group, resulted in a significant increase in net sales. Regarding operating profit, although M&A-related expenses were recorded, they were offset by the growth in sales and improved productivity. In terms of actual values excluding M&A-related expenses, profitability improved significantly, with the operating profit margin rising from 3.8% to 4.9%.

For FY3/27, the Company anticipates net sales of ¥64,000mn, up 25.1%, and operating profit of ¥3,500mn, up 59.8%. In addition to an expected improvement in earnings from existing businesses, SURTECKARIYA’s results will contribute to the full year. However, Nikken Sangyo Co., Ltd., which the Company acquired through an M&A in July 2026, is scheduled to be consolidated as of this October. This is one factor that will drive upside in results.

2. New medium-term management plan

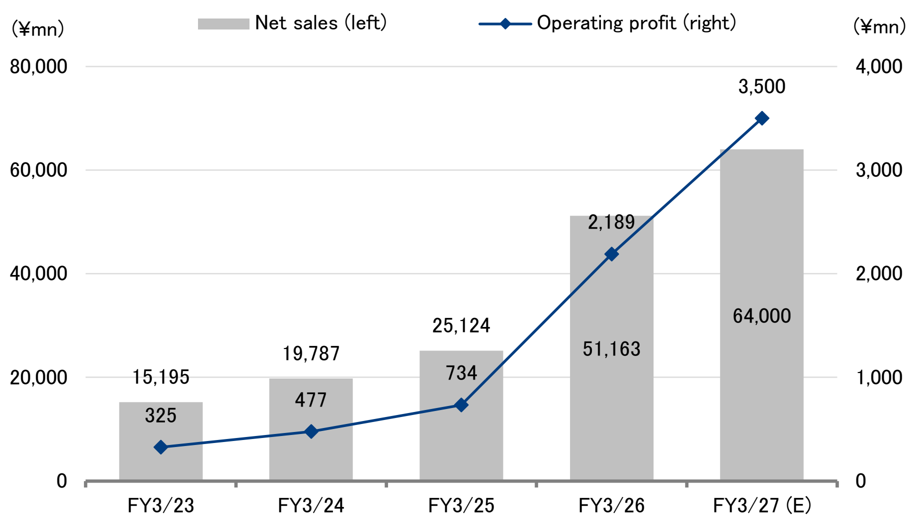
Under its medium-term management plan “Serendip Challenge 500,” whose final year was FY3/27, the Company achieved its net sales target one fiscal year ahead of schedule. As growth strategies going forward, it will continuously promote M&A as well as overseas expansion, new customer acquisition and cross-selling, net sales growth through the creation of new products and services, and stronger profitability through productivity gains via PMI. Furthermore, the Company is entering a phase of working toward the enhancement of its business portfolio and sophistication of its business model by expanding into new domains using its entry into the construction machinery field as a foothold and by deploying a smart factory strategy that includes the implementation of physical AI.

In response to this phase, it formulated a new medium-term management plan, "Serendip Challenge 1000," under which it is targeting net sales of ¥100.0bn and adjusted operating profit of ¥7.0bn in FY3/29. Among the Company's growth strategies, an M&A strategy that shifts investment allocation, a smart factory strategy that also aims to market its expertise externally, and a financial strategy that supports accelerated M&A can be cited as particularly important strategies.

Key Points

- Significant increases in sales and profit in FY3/26 due to the effects of M&A and productivity gains in existing businesses
- Forecasting considerable sales and profit growth again in FY3/27. May also benefit from potential upside resulting from new M&A
- Formulated a new medium-term management plan; targeting net sales of ¥100.0bn in FY3/29

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

Promotes M&A centered on the Manufacturing Business Succession Platform

1. Company profile

While Japan's manufacturing industry is dominated by small- and medium-sized enterprises, against a backdrop of succession difficulties stemming from a declining birthrate and aging population as well as the increasing complexity and sophistication of modern management, many companies are finding it difficult to continue their businesses despite having advanced technical prowess and product power. Additionally, such companies also face challenges that include the insufficient establishment of management control systems and inadequate securing of management resources, leading to low productivity and weak earning power.

Upholding the mission "Growing Japan's small- and medium-sized manufacturers into world-class 100-year firms," the Company provides total business succession solutions to manufacturers in Japan that face challenges with business succession and other areas. The Company centers its business model on its Manufacturing Business Succession Platform, which comprises three core platforms: the M&A Execution Platform, the Business Management Platform, and the Manufacturing Platform. Its key strength lies in its expertise in applying PMI and group integration to enhance the corporate value of companies acquired through roll-up M&A.

2. Business description

As a total solution provider for business succession, the Company leverages its M&A Execution Platform and proprietary sourcing capabilities to deliver integrated solutions encompassing M&A, management transformation, and corporate value enhancement through PMI. The Company's businesses consist of Manufacturing, which underpins a stable earnings base, and Solutions Business, which handles high-growth, high-profitability areas that include DX, robotics, and AI. Through these two businesses, the Company addresses various needs related to business succession while simultaneously supporting its portfolio companies and endeavoring to create inter-company synergy in the capacity of a holding company. Additionally, the Company, in principle, does not hold portfolio companies based on the assumption that it will sell them, and has adopted a basic policy of long-term holding. Note that the Company reviewed its reportable segments in line with the new medium-term management plan that it formulated in June 2026, and shifted from its previous three businesses to business categories centered on Manufacturing and Solutions Business.

(1) Manufacturing

As a business of the Company, Manufacturing generates stable cash flow by converting companies predominately in fields with strong international competitiveness and resilient supply chains into subsidiaries, with its focus on a roll-up strategy centered on automotive parts. At present, the Company has the following automotive suppliers: Serendip Automotive Co., Ltd., which is engaged in the manufacture of automotive interior and exterior components renowned for sound absorption and insulation properties and lightweight design, as well as in the planning and sales of resin-processed products, global purchasing/procurement, and logistics (and has Mitsuiya Industrial Co., Ltd. and EXCELL Group as subsidiaries); UNICREA Co., Ltd., which manufactures precision and metal parts for automobiles; and SURTECKARIYA Co., Ltd., which handles plating and surface treatment for automobiles. Also, in July 2026, the Company acquired Nikken Sangyo Co., Ltd., which manufactures and sells parts and other products for manufacturers of hydraulic excavators and cranes. While many of the Company's customers are manufacturers affiliated with the Toyota Motor <7203> group, its business with manufacturers from other groups is also steadily increasing through expansion into new domains and M&A.

(2) Solutions Business

As a business of the Company, Solutions Business supports the resolution of management and technical challenges faced by manufacturing businesses and small- and medium-sized enterprises through high value-added solutions that include DX, robotics, and AI, as well as through prototyping and design.

Three companies—TENRYUSEIKI CO.,LTD., a FA equipment manufacturer; AXTRIA Co., Ltd., which provides IT and manufacturing consulting and DX support; and SERENDIP RoboX Co., Ltd., which assists with the introduction of collaborative robots—provide unified services in the smart factory domain, from implementation consulting and system development to robot deployment and operations improvement, against a backdrop of rising corporate needs for productivity gains and labor-saving amid rapidly expanding demand for solutions related to DX, RX, and AX*.

* DX: Digital Transformation; RX: Robotics Transformation; AX: AI Transformation.

Note that for the purpose of further strengthening assistance with DX and smart factory initiatives at manufacturing businesses, AXTRIA Co., Ltd. plans to acquire from Accenture Japan Ltd the business of the "Quick Series," a suite of solutions for such assistance, in August 2026.

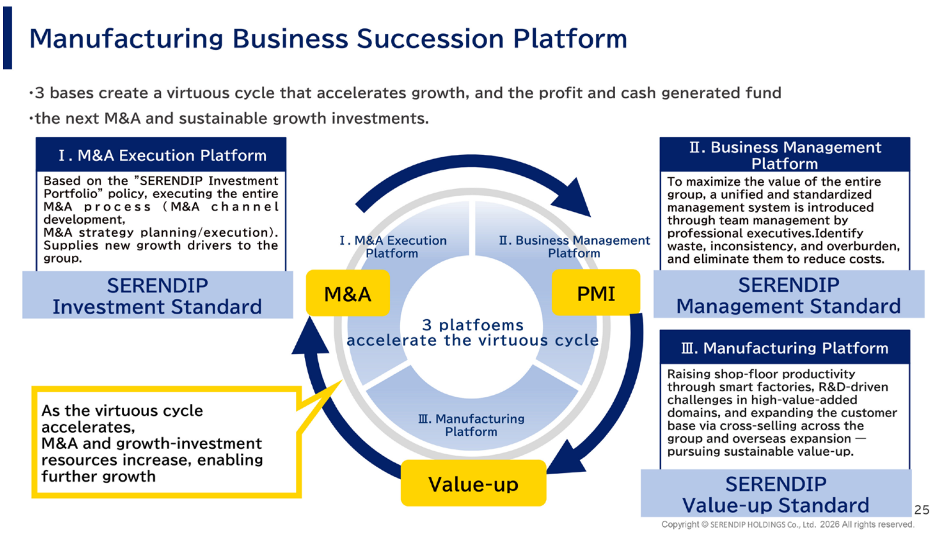
Apex Corporation, which works on prototype development, and LADYBIRD Corporation, a professional-use beauty equipment company, cover the prototyping and design domains. Through their involvement from the customers' merchandise planning and development stages, these companies provide high value-added solutions that go beyond the mass-production stage.

3. Business model

The Company's business model leverages its Manufacturing Business Succession Platform to combine inorganic growth through the M&A Execution Platform with organic growth through PMI and value enhancement, thereby increasing the corporate value of its portfolio companies.

The M&A Execution Platform, which leverages proprietary sourcing capabilities and a broad network, is built on a variety of investment approaches centered on long-term investments, including roll-up M&A tailored to growth strategies and the needs of owner-managers. The Business Management Platform is largely comprised of due diligence that focuses on company-wide transformation rather than strictly financial and legal aspects, management support by a team of professional executives, and back-office support by the Company, with PMI at the core of the platform. In addition to productivity gains through smart factory transformation, the Manufacturing Platform promotes the likes of investment in R&D, cross-selling across the group, and overseas expansion, achieving sustainable value enhancement.

As for the specific business flow under this platform, the approach it employs is to enhance the efficiency of the management of companies acquired through roll-up M&A through phased reforms beginning with PMI (from visualization and the elimination of waste to productivity gains, DX utilization, and ultimately the realization of synergies) as well as advance smart factory initiatives through DX, RX, and AX, then integrate companies within the group to drive their evolution from single-product manufacturers to unit suppliers. Through these efforts, the Company endeavors to maximize corporate value. Among them, intra-group integration in particular is a key strength not found at other companies. The Company is capable of building a cross-group, cross-technology, and cross-border sales, development, and supply structure while avoiding the managerial constraints that roll-up-type M&A companies tend to fall victim to. Also, in addition to generating management talent that supports growth through M&A and PMI, the Company is also able to market more effective solutions externally by promoting proof of concept (PoC) within the group using its Business Management Platform and Manufacturing Platform. Moreover, because it negotiates while taking the owner's wishes into account, backed by its proven track record, the Company has succeeded in realizing high-quality M&A at fair prices.



Source: The Company's medium-term management plan materials

Results trends

Significant increases in sales and profit in FY3/26 driven by M&A effects and productivity improvements in existing businesses

1. Overview of FY3/26 results

In FY3/26, the Company's net sales came to ¥51,163mn, up 103.6% YoY; operating profit to ¥2,189mn, up 198.1%; ordinary profit to ¥2,418mn, up 229.0%; and profit attributable to owners of parent to ¥4,147mn, up 98.6%. For net sales, the Company achieved its target under "Serendip Challenge 500" one fiscal year ahead of schedule. Note that profit attributable to owners of parent has continued to be irregular figures that exceed operating profit and ordinary profit, as the Company records gain on bargain purchase from M&A every fiscal year.

To realize the modernization of management at its manufacturing subsidiaries, the Company dispatched teams of professional executives committed to the execution of management to rigorously promote the visualization of frontline operations, finance, and management, worked on raising back-office productivity and the broad utilization of IT at manufacturing sites to eliminate waste, overburden, and unevenness, and pursued the stronger earning power of existing subsidiaries and PMI at the four companies that became subsidiaries in FY3/25. Also, the Company began consolidating the results of SURTECKARIYA, which was newly added to the group, from 3Q. As a result, the high single-digit organic growth posted by existing businesses, combined with the full-year contribution from the four subsidiaries that the Company acquired through M&A and the inclusion of 2H results from SURTECKARIYA, yielded a significant increase in net sales. Regarding operating profit, although M&A-related expenses were recorded, they were offset by the growth in sales and improved productivity. In terms of actual values, profitability improved significantly, with the margin rising from 3.8% to 4.9%.

By segment, growth in results was driven by Manufacturing, which came in significantly above the full-year forecast.

In Manufacturing, net sales came to ¥49,052mn, up 109.4% YoY, and segment profit to ¥2,093mn, up 198.3%. In the automotive supplier sector, domestic automobile production continued to trend at a high level, as signs of a recovery in automobile exports to the US emerged despite lingering effects of that nation's trade policy. Additionally, the Company saw considerable sales and profit growth despite recording approximately ¥0.3bn in expenses related to the acquisition of SURTECKARIYA's shares. This owed to factors that included the start of transactions with a new automaker through M&A, progress in smart factory initiatives at Mitsuiya Industrial, Tohoku Plant, and the consolidation of the 2H results of SURTECKARIYA, which was newly added to the group. Note that Mitsuiya Industrial, with an eye to medium-term business expansion, established a joint venture with NTF in India, where demand for automotive parts is strong.

Meanwhile, at TENRYUSEIKI, a significant recovery in capital investment by key customers did not materialize, which delayed the finalization of orders received. However, strengthening proposal-based sales to new customers has led to signs of a partial recovery. Apex saw progress in the expansion of its sales channels through inter-group synergy, and began rolling out sales caravans for automakers across those groups. LADYBIRD, which is in the process of shifting its target from major salons experiencing successive bankruptcies and restructurings to individual salons, strengthened its marketing and sales activities.

In Professional Solutions, net sales came to ¥2,772mn, up 28.7%, and segment profit to ¥124mn, up 747.8%. Driven by demand to rebuild core systems, IT consulting grew, and orders received trended steadily for RX as well. In particular, SERENDIP Technologies Co., Ltd. (currently AXTRIA) received a large, highly complex order, and earnings improved as the resulting increase in hiring was offset. Additionally, the receipt of orders expanded rapidly at SERENDIP RoboX as well. While automation is a pressing issue for companies, as the market remains underdeveloped, the Company's advantage of already having commercialized automation, including not only rentals and sales but also consulting, customization, and TENRYUSEIKI's handling of upstream and downstream processes, was effectively demonstrated.

In Investment Business, net sales came to ¥146mn, down 23.7%, and segment loss to ¥28mn (compared with profit of ¥23mn in the previous fiscal year). Although management fees from the Japan Manufacturing Business Succession Fund I Investment Limited Partnership steadily accrued, revenue from FA advisory services was deferred to FY3/27.

FY3/26 results

(¥mn)

	FY3/25		FY3/26		YoY
	Result	Composition ratio / profit margin	Result	Composition ratio / profit margin	
Net sales	25,124	-	51,163	-	103.6%
Manufacturing	23,430	90.9%	49,052	94.4%	109.4%
Professional Solutions	2,154	8.4%	2,772	5.3%	28.7%
Investment	191	0.7%	146	0.3%	-23.7%
Adjustment amount	-651	-	-807	-	-
Operating profit	734	2.9%	2,189	4.3%	198.1%
Manufacturing	702	3.0%	2,093	4.3%	198.3%
Professional Solutions	14	0.7%	124	4.5%	747.9%
Investment	23	12.1%	-28	-	-
Adjustment amount	-5	-	-0	-	-
Ordinary profit	735	2.9%	2,418	4.7%	229.0%
Profit attributable to owners of parent	2,088	8.3%	4,147	8.1%	98.6%

Note: Both segment net sales and segment profit are figures prior to adjustment.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Forecasting considerable sales and profit growth again in FY3/27. May also benefit from potential upside resulting from new M&A

2. FY3/27 forecasts

For FY3/27, the Company anticipates net sales of ¥64,000mn, up 25.1% YoY; operating profit of ¥3,500mn, up 59.8%; ordinary profit of ¥3,300mn, up 36.4%; and profit attributable to owners of parent of ¥2,200mn, down 40.7%. The forecast of negative growth for profit attributable to owners of parent reflects the absence of the gain on bargain purchase from the M&A of SURTECKARIYA that was recognized in the previous fiscal year. Meanwhile, the Company plans to consolidate the results of Nikken Sangyo, which became a subsidiary in July 2026, starting this October. As such, upside factors include approximately ¥5.0bn in net sales for a six-month period and approximately ¥0.1bn in operating profit excluding slightly over ¥0.2bn in M&A expenses. Plus, the Company has successfully entered the construction machinery field adjacent to the automobile industry. This move has been positioned as an important investment project from the standpoint of expanding into new domains.

In addition to enhancing the profitability of companies added to the group, the Company achieves both organic growth and inorganic growth through M&A by realizing economies of scale and creating synergies. In the automotive supplier sector under Manufacturing, the Company assumes domestic automobile production will remain steady. In addition to continuing to develop electric vehicle-related parts, it will benefit from the full-year contribution of SURTECKARIYA's results. In Solutions Business, AXTRIA, by virtue of strong DX demand, and SERENDIP RoboX, due to expanding its service lineup, are both expected to maintain a favorable level of orders received. In addition, progress in management reforms is also anticipated to yield improvements in overall profitability.

FY3/27 forecasts

(¥mn)

	FY3/26		FY3/27		YoY
	Result	% of net sales	Forecast	% of net sales	
Net sales	51,163	-	64,000	-	25.1%
Operating profit	2,189	4.3%	3,500	5.5%	59.8%
Ordinary profit	2,418	4.7%	3,300	5.2%	36.4%
Profit attributable to owners of parent	4,147	8.1%	2,200	3.4%	-40.7%

Source: Prepared by FISCO from the Company's financial results

Medium-term management plan

Formulated a new medium-term management plan; targeting net sales of ¥100.0bn in FY3/29

1. New medium-term management plan "Serendip Challenge 1000"

Under its medium-term management plan "Serendip Challenge 500," whose final year was FY3/27, the Company achieved its net sales target in FY3/26, one fiscal year ahead of schedule, by accelerating M&A of manufacturers. Beyond the numbers, positive outcomes on the internal environment front are considerable as well. For the subsidiaries that increased in number due to the accelerated M&A of manufacturers, the Company promoted greater efficiency at production sites through PMI and the introduction of DX, RX, and AX, and advanced smart factory initiatives centered on Mitsuiya Industrial, Tohoku Plant. Additionally, after advancing groupwide integration of companies acquired through roll-up M&A, the Company put in place a structure that promotes the transition of those companies to unit suppliers by combining their technologies and functions, with Serendip Automotive as the core entity, and realizes sales growth and improved profitability and management efficiency. Furthermore, alongside progress in M&A, the enhancement of overseas bases of operation in the growth areas targeted by the Company advanced, with overseas net sales in FY3/26 surging to ¥11.1bn, 790 times the FY3/24 level. This illustrates how the Company's business model as a total solution company for business succession manifested itself in a way that is readily understandable to external parties as well.

As its growth strategy going forward, the Company has entered a phase of broadening and fortifying its business model by further accelerating M&A, strengthening PMI and corporate integration, and continuing smart factory initiatives, as well as by executing measures that include the securing and development of management talent, expansion into new domains, and the development of its Solutions Business. As such, the Company elected to formulate a new medium-term management plan, "Serendip Challenge 1000," under which it is targeting net sales of ¥100.0bn, adjusted operating profit of ¥7.0bn, adjusted EBITDA of ¥10.0bn, and adjusted ROE of 20.0% in FY3/29*. It plans on increasing net sales by ¥39.0bn–¥40.0bn through M&A, with a further ¥10.0bn from organic growth (overseas strategy, new customers / cross-selling, and new products and services), and adjusted operating profit by ¥3.0bn through M&A in high value-added areas and ¥1.4bn from organic growth (PMI / productivity gains, new customers / cross-selling, and overseas strategy). This will enable the Company to transfer its market listing to the Tokyo Stock Exchange Prime Market, adopt IFRS with the overseas development of its business in mind, and implement other initiatives in FY3/29, and will add momentum to the achievement of its long-term target of net sales of ¥300.0bn as a manufacturing platform provider originating from Japan.

* Adjusted operating profit = Operating profit + goodwill amortization + M&A-related expenses; adjusted EBITDA = Adjusted operating profit + depreciation. Adjusted ROE is calculated based on adjusted net income (net income + goodwill amortization + M&A-related expenses – gain on bargain purchase).

Numerical targets under "Serendip Challenge 1000"

(¥bn)

	FY3/26 Result	FY3/27 Forecast	FY3/28 Target	FY3/29 Target
Net sales	51.1	69.0	90.0	100.0
Adjusted operating profit	2.6	3.5	5.4	7.0
Adjusted EBITDA	4.5	6.3	8.8	10.0
Adjusted ROE	14.0%	-	-	20.0%

Source: Prepared by FISCO from the "Disclosure of Matters Concerning Business Plan and Growth Potential"

2. Growth strategy

Within the Company's growth strategies, the ones that are particularly important are its M&A strategy, its smart factory strategy that includes the utilization of physical AI, and its financial strategy that supports accelerated M&A.

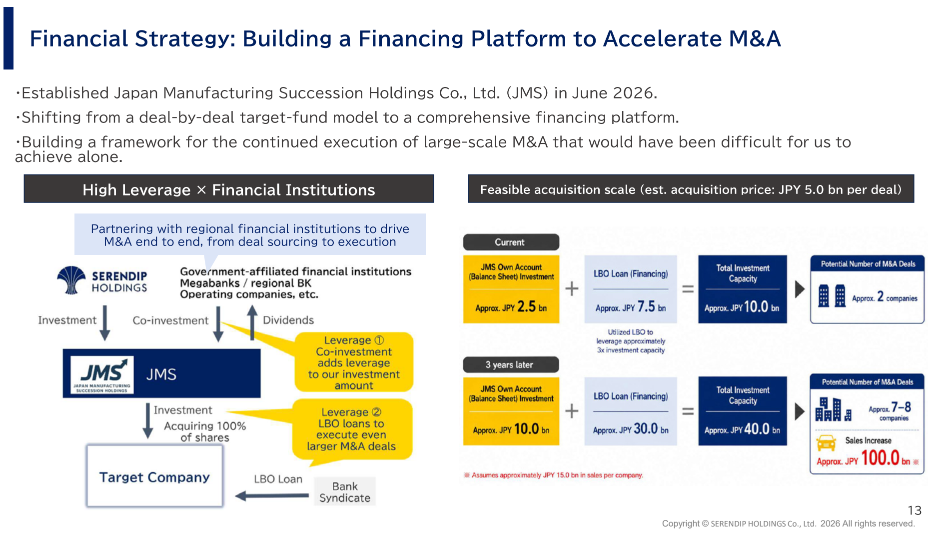
In the Company's M&A strategy, alongside capturing rising demand for automation, the Company shifted its proprietary investment policy, the SERENDIP Investment Portfolio (SIP), toward increasing investment allocation to high-growth, high-profitability domains given that its earnings have stabilized in line with the expansion of its business scale. Through this strategy, the Company intends to more actively invest in growth fields, including new domains that include new industries and overseas markets as well as high value-added domains that include AI, DX, and RX. In new domains, through an M&A, it acquired Nikken Sangyo in the construction machinery sector, which is adjacent to the automotive industry and holds the promise of offering cross-selling opportunities due to commonality in structural parts and materials and processing technologies. Nikken Sangyo's presence in the Kansai region also led to an expansion of the Company's sales area. Additionally, in response to the sharp increase in its overseas net sales, the Company's policy also calls for an increase in transactions with non-Japanese automakers, including those in Europe, the US, and China, with ASEAN, India, and North America to serve as priority markets. It intends to promote growth in Asia, particularly through cross-border M&A based in Thailand.

Under its smart factory strategy, the Company plans on enhancing productivity at its own plants through automation as well as eventually marketing its accumulated expertise externally to cultivate a new pillar of earnings. An advantage of the Company is that it has the ability to deploy PoCs internally due to having both manufacturing and solutions capabilities, as well as the ability to communicate solutions in terms that resonate with frontline manufacturing personnel. In FISCO's view, this positions the Company favorably in the smart factory market. In addition, by applying AI to data consolidated through visualization, the Company will advance the evolution of production sites from "reactive response" to "non-stop, high-efficiency, autonomously improving predictive production." To this end, it intends to partner with numerous robot manufacturers and IT companies going forward. Furthermore, the Company is piloting the introduction of physical AI* at its own plants, promoting the automation and labor-saving of non-routine tasks that conventional arm-type robots and transport robots cannot handle as it aims to achieve net sales of ¥1.1bn in this field in FY3/29. It is looking to realize this by leveraging its key strength of an end-to-end framework that spans PoC, design, implementation, operation, and maintenance.

* An AI system in which robots and other devices physically execute the results of AI judgments based on sensor recognition.

In its financial strategy, the Company will proceed to build the following growth spiral: Leveraged M&A → EBITDA improvement through PMI → Stronger earning power through growth investments → Cash generation → Expansion of equity value through improved ROE → Further enhancement of financing capacity. Key among these are a disciplined leverage strategy and an optimal capital structure. For leverage, the Company has set a target Net Debt/EBITDA multiple of 3.0x, and for its optimal capital structure, it will utilize cash flows from operating activities and intra-group funds, bank borrowings / LBO with a cost of capital of 2%–3%, and mezzanine financing (intermediate financing between subordinated debt and equity) with a cost of capital of 5%–6%, in that order. Meanwhile, it has given lower priority to equity financing with a cost of capital of 8% or higher from the standpoint of limiting dilution.

In June 2026, as a new initiative under this policy, the Company established Japan Manufacturing Succession Holdings Co., Ltd. (hereafter, "JMS") to serve as a financing platform. JMS is jointly capitalized by government-affiliated financial institutions, megabanks, regional banks, and operating companies (funds provided in exchange for dividends). When conducting M&A, it works to enhance the efficiency of acquisition financing by utilizing LBO loans. Before, the Company arranged for financing on a deal-by-deal basis. However, securing investment allocations in advance through JMS enables the agile promotion of M&A while curbing the dilution of shares.



Source: The Company's results briefing materials

It plans on expanding its investable funds from the current ¥10.0bn (approximately equivalent to M&A involving 2 companies) to ¥40.0bn in three years' time (7–8 companies), has already executed an investment in Nikken Sangyo as JMS's first investment deal, and has put a framework in place for the further expansion of investments. As companies under JMS will also be fully consolidated, the accumulation of M&A deals utilizing JMS will also contribute to achieving consolidated net sales of ¥100.0bn in the future.

Shareholder return policy

Also considers shareholder returns through dividends and benefits with a view to transferring to the Tokyo Stock Exchange Prime Market

The Company recognizes shareholder returns as one of its key management priorities. Its policy in that regard is to provide optimal shareholder returns in accordance with its corporate stage. As the Company is currently in a phase of prioritizing growth investments, it bases shareholder returns on share price appreciation driven by profit growth, and has also purchased treasury shares as necessary. Going forward, once initiatives toward achieving "Serendip Challenge 1000," the new medium-term management plan, have progressed, and the likelihood of meeting the targets under that plan has increased, the Company intends to consider implementing shareholder return policies, including dividends. Note that the Company's policy with respect to purchases of treasury shares is to continue to carry them out agilely and strategically while taking into account the share price level and capital efficiency.

FISCO

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