

October 2, 2020

## Dear Clients and Colleagues:

The term 5G is not new, however the actual launching of 5G services only started last year in the United States (US), China, South Korea, and a few European countries. This year saw Japan and a lot more countries joining. As the 5G ecosystem grows, the demand for communication testing equipment is also rising rapidly. Frost & Sullivan's research<sup>1</sup> showed that the global 5G testing equipment market is expected to grow at a compound annual growth rate of 11.5% until 2024.

Telecommunication industry standards are enhanced regularly. The latest standardization of 5G, Release 16, was announced in July 2020, setting up higher standards for 5G efficiency and capability. Release 17 is scheduled for September 2021. Each new release spurs high demand for testing.

This week we would like to profile one of our new holdings this year, Anritsu Corp (6754 JP), which plays a very important role in 5G testing worldwide ([www.anritsu.com](http://www.anritsu.com)).

## Business Overview

Founded in 1895 in Japan, Anritsu is a global leader of testing equipment for communication networks. Its main products are radio communication test stations, signaling testers, spectrum analyzers, 5G conformance test systems and carrier acceptance test systems. Anritsu's main customers are global chipset vendors, mobile handset makers and telecom carriers. About 80% of sales are related to R&D, and 20% are from mobile handset production. Overseas sales account for 80% of sales of this segment.

Anritsu also provides product quality assurance equipment to the food industry, such as X-ray inspection systems, metal detectors and weight checkers. Its main customers are Mondelez, Nestle, Kraft Heinz, Nippon Ham Group, Glico Group and Nissui Group, etc. Overseas sales account for 50% of sales of this segment.

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<sup>1</sup> <https://ww2.frost.com/news/demand-for-5g-testing-equipment-on-the-rise-due-to-global-network-expansion/>

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### Management

Hirokazu Hamada is the President and CEO of Anritsu. He joined the company in 2004 and has rich industry experience.

### ESG

Anritsu has very good ESG practices, and is included in several ESG indices, such as MSCI Japan ESG Select Leaders Index, MSCI Japan Empowering Women Index, S&P/JPX Carbon Efficient Index, and SNAM Sustainability Index. Its Sustainability Report is very comprehensive. Among its peer group, Anritsu's carbon emission intensity is much lower. Anritsu has been reducing its carbon footprint over the years and the next target is a reduction of 2% per year from 2020 to 2030. Anritsu has received ISO 14001 certification on most of its manufacturing bases. It was also certified as an Excellent Enterprise of Health and Productivity Management in 2019 by the Ministry of Economy, Trade and Industry of Japan.

Regarding corporate governance, Anritsu has met all the requirements of the Tokyo Stock Exchange. However, at Global Alpha, we apply additional requirements in line with western standards. For example, we encouraged the company to have at least one-third of board directors be independent, separate board Chair and CEO, and at least one female board director.

### Competition

The global market for telecom testing and measurement equipment is fragmented, where Anritsu ranks number three with 10% market share. Other key players are Rohde & Schwarz, Keysight, Spirent, Aeroflex, Teradyne and National Instrument. In the niche market of mobile 5G testing equipment, a duopoly exists with Anritsu and Keysight (a US listed company), each holding 50% of the global market share. In the product quality assurance market, Anritsu has 50% Japanese market share and 10% global market share. Other major players are Ishida, Mettler-Toledo and Marel.

### Competitive Advantages

- High quality products with an excellent track record.
- Wide product range, from wired to wireless network.

### Growth Strategy

- **Product:** Anritsu spends as high as 12% of sales on R&D each year.
- **Distribution:** Asia and the US are the focus regions.

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### Risks

- Delay in the mass adoption of 5G due to the pandemic and global recession.
- Intensifying competition.

Have a great weekend.

The Global Alpha team

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