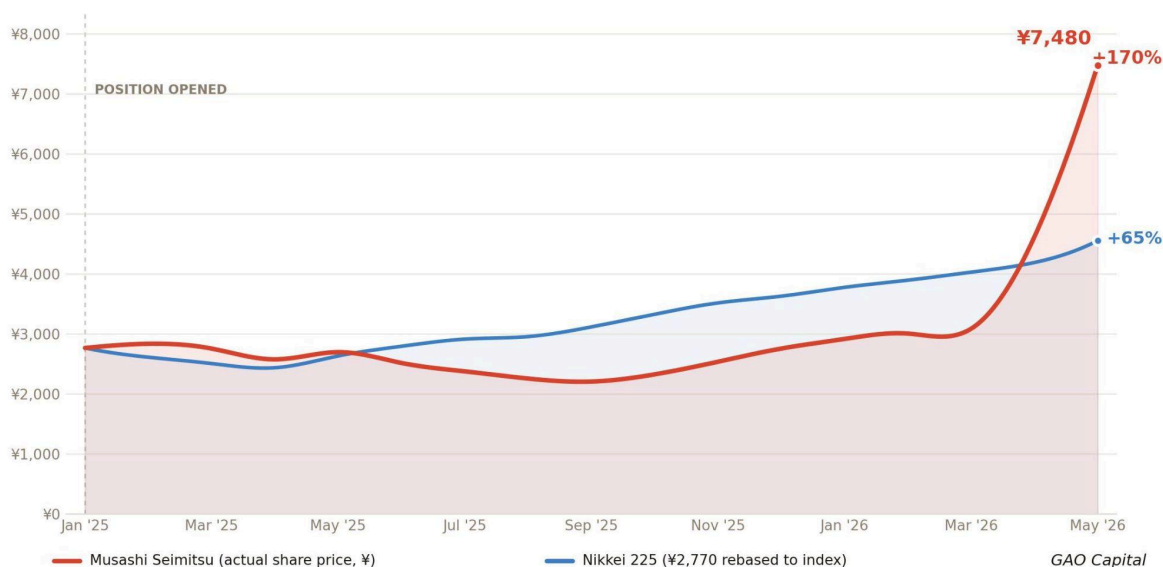


## GAO Capital — Investment Case Study

Musashi Seimitsu Industry (TSE: 7220.T) is a Japanese company that makes the gears and rotating parts which go inside a car's drivetrain. They also have a second newer subsidiary, Musashi Energy Solutions (MES) that makes Hybrid Supercapacitors (HSCs), which are used in data centers. **GAO Capital reaped a 170% return on our investment in Musashi Seimitsu Industry within a year, a massive outperformance over Nikkei 225's 73%.**

### MUSASHI SEIMITSU vs NIKKEI 225

Position opened Jan 2025 at ¥2,770 · both series rebased to the same ¥2,770 base for comparison



### The Story

Per our analysis, the market undervalued Musashi because many of the components that they manufacture are used in internal combustion engines (ICE), which are present in vehicles running on petrol engines but obsolete in electrical vehicles (EVs). Given the expectation for EVs to dominate the automotive market, investors saw minimal growth value in Musashi's products. This narrative was reflected in Musashi's valuation: it was trading at a price below book value, and at lower multiples than its peers..

GAO Capital assesses our Japanese equities through our proprietary process – the Asuka framework. When we ran Musashi through the Asuka framework, four things stood out.

First, Musashi's structural advantage in precision manufacturing carries over into the EV market. Although Musashi produced some components that would become obsolete in the future, such as camshafts and connecting rods, it also manufactures components that are required in EVs, like differential and planetary reduction gears. Musashi's precision gears require manufacturing tolerances that take competitors years to replicate, and switching suppliers would force Honda into an 18-to-24-month re-qualification process. In the market

for EV components, then, Musashi's precision – which differentiated it from its peers in the market for ICE components – advantages it once again.

Second, Musashi's close relationship with Honda put a durable floor under the business in the short to medium term. Honda owns roughly 25% of Musashi and buys around 50% of what it produces. To us, the cross-shareholding and mutual dependence was a structural anchor: Honda could not have easily abandoned a supplier it owns a significant stake in.

Third, the Tokyo Stock Exchange issued a directive in 2023 (known as the Tokyo Stock Exchange Initiative on Cost of Capital and Stock Price Conscious Management, or the PBR reforms) which pressured companies trading below book value to improve how they use capital. This directive targeted Musashi effectively: TSE requested for companies to publish whether and how they were addressing low valuations, before publishing lists tracking who had complied. This was a potent strategy especially in Japan's relationship-driven corporate culture.

Finally, GAO Capital identified a growth opportunity that the market overlooked. Through its subsidiary Musashi Energy Solutions, Musashi launched its hybrid supercapacitors – power-smoothing devices that enable AI centres to manage its enormous electricity demands – in 2025. At our entry price, the market assigned this business little value due to various factors such as but not limited to the misclassification of Musashi as a pure auto-parts company. GAO Capital's deep research, guided by the Asuka framework, uncovered Musashi's capitalization of the AI boom and highly profitable optimizations that they offer to the industry.

At today's price, much of what we identified has been recognised by the wider market. The valuation now embeds the very growth optionality that was free when we entered, and the easy asymmetry is gone. Our framework therefore treats Musashi today very differently from the opportunity we acted on at under ¥3,000 — and that distinction governs how we manage our position in the present.

Musashi Seitmitsu is only one of many successful investments that GAO Capital has made in the past few years. We believe in making investment decisions based on disciplined and extensive research guided by creative and rigorously tested frameworks that enable us to find alpha in markets all across Asia-Pacific.

For more information about investing with GAO Capital, please reach out to us at [info@gao-cap.com](mailto:info@gao-cap.com).