



Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

Background

Japan Elevator Service Holdings (JES) is the largest independent elevator and escalator maintenance and repair service provider in Japan, with a 10% market share. Typical clients are building owners and real estate maintenance and management companies legally required to have annual inspections on their elevators and escalators. They generally enter contracts that include an annual inspection, monthly checkup, and repairs when necessary. This arrangement provides a recurring and stable revenue stream. There are over 900,000 elevators and escalators under such contracts in Japan, and the number has expanded about 3% annually during the past decade.

When Chairman, CEO, and President Katsushi Ishida founded JES in 1994, the elevator and escalator service market was over 95% dominated by five manufacturers: Toshiba, Mitsubishi, Hitachi, Fujitec, and Japan Otis. The remaining 5% was shared by hundreds of independent service providers; manufacturers competed for new elevator and escalator sales and installation.

However, in this business, once one receives installation orders, the maintenance service contracts naturally accrue to the manufacturer, as it already has full understanding of the models; most importantly, it can easily set aside adequate replacement parts. Moreover, manufacturers have no incentive to take maintenance contracts for competitors' models, just like Toyota dealers will not actively seek maintenance work for Ford automobiles. As a result, the service price is set high enough to recoup the low profit, if any, resulting from the price competition around installment.

Maintenance and repair services, even for a standard model, require thousands of parts. Covering available models of major brands with guaranteed timely service means having an inventory of more than 150,000 parts. The control panel is the most crucial, in that genuine manufacturers' control panels have unparalleled performance and durability compared to generic versions. The inability to secure these often hinders independent service providers from providing high-quality services on par with manufacturers, and is a hurdle in expanding service networks.

Another obstacle is the ability to hire qualified inspectors. In Japan, only inspectors with a national qualification—which requires certain electrical and electronic engineering degrees and years of on-the-job experience—can conduct annual inspections. Independent operators need an appropriate number of such inspectors to sufficiently cover their customer base.



Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

An Owner-Operator's Entrepreneurial Counter-Perspective

At this point in the description of this industry, one might justifiably conclude that this slow-growth sector offers hardly any business opportunity for independent operators, other than competing in a zero-sum game to take small market share.

However, in the early 1990s, Chairman Ishida—a licensed elevator inspector himself—saw a business opportunity in an industry whose high barriers to entry could actually become a competitive benefit upon overcoming them and achieving sufficient scale.

Having worked for a building maintenance company, and for an independent elevator maintenance service provider, Chairman Ishida was convinced a well-run business could generate double-digit operating margins, even at half the price of the leading manufacturers. To seize market share, he was determined to build a company that would provide services at their level or better.

So, in 1994, at age 28, Chairman Ishida founded the company alone—with no funds, no partners, and no employees. Nevertheless, he was determined to provide the highest-quality professional service from day one. When visiting potential customers as a salesperson, he would change into a business suit, then switch back to workwear to do maintenance and inspections. He reviewed inspection reports directly with customers before and after; this was not common among typical industry engineers, who would focus on the inspection work itself and delegate customer communication to a sales department. He often slept at the office to respond to emergency calls.

As the number of contracts grew, he needed to hire and train more employees, and he needed to procure enough parts for timely service. For the first three years, JES was literally a hand-to-mouth operation, and Chairman Ishida had to fund the running cost with short-term loans just to meet immediate cash needs. Within ten years, though, the number of maintenance units reached 5,000. At this point, he managed to hire a full management team to run the business.

In 2007, JES hit a milestone as an independent service provider: matching the service capabilities of the leading manufacturers upon developing a 24-hour remote monitoring and controlling service. This technology enabled the company to monitor elevator and escalator operating status 24 hours a day, seven days a week—and to detect small irregularities, which enabled targeted





Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

preventive repair and parts replacement to reduce the incidence of malfunctions and breakdowns. Until that moment, this type of service had only been provided by the leading manufacturers, as it required access to the control panel, and required resolving their unique data transmission and protocols. Toward this goal, Chairman Ishida had hired system engineers to research and develop a remote monitoring system compatible with various models of elevators and escalators, and even obtained a patent on the technology.

That same year, JES established an original engineer-training program and internal qualification system called “Step 24.” Even before this program, Chairman Ishida undertook a training program that systematized the skills and experience of top engineers, and collected and researched maintenance information and data for various models. Through what became a 24-lecture series and on-the-job training, new employees could acquire the skills and knowledge needed to attain a national inspection license in one year. Moreover, the program trained engineers to individually conduct full maintenance work for several models, enabling the company to provide equivalent quality services to the leading manufacturers.

Critically, and unlike these competitors providing maintenance only to their brands, this meant JES was now able to leverage its operation as its engineers expanded their capabilities and productivities to include more elevators in a given coverage area. Being an engineer himself, Chairman Ishida respected engineers and always knew they were the cornerstone of the operation (later, in 2019, he set up a “Engineer Meister Program” with five accreditation levels to incentivize engineers with the best skill sets to maintain the service quality).

At the same time, Chairman Ishida sought to publicly list JES to increase its credibility and transparency in furtherance of expansion. It took just over a decade to prepare for the listing; the focus was on human resource development, enhancing technology and capability, and securing genuine parts. JES went public in 2017.

Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

The same year, JES completed construction of an R&D test tower and innovation center with ten elevators to examine control systems and motors. It conducted thousands of tests—allowing further improvement on maintenance and repair offerings and operational efficiency—and developed new services for the market.

In 2018, the company developed its next-generation control system, Quick Renewal, which was compatible with the general models of all the equipment manufacturers. Typically, elevators' stated useful life is 20 to 25 years; in practice they operate 25 to 30 years. At that point, they need a full renewal, which entails replacing the control system, motors and all electric systems—and requires about one full week of downtime. Quick Renewal necessitates just a half-day of down time, and at half the price.

Illustratively, a building operating for 60 years usually requires three full equipment renewals. With Quick Renewal, three controller system replacements are needed, but only two motor replacements, leading to a significant reduction of customers' downtime and maintenance cost. For JES, Quick Renewal was an important offering to induce customers to switch maintenance companies and add to its service contracts portfolio.

The growth in the number of maintenance units accelerated following the company's IPO and introduction of new services. JES's market share reached 10% in 2023; in 2024 it added over 13,000 units, taking another 1.3% of market share.

It is important to recognize this “the only one” position Chairman Ishida has built since founding JES. Its maintenance units' failure rate is as low as 1%, equivalent to that of leading elevator and escalator manufacturers, and one-fifth that of the independent service providers.

The JES offering price remains about 30% to 40% below that of the leading manufacturers. For independent service providers, it is not easy to set a competitive price without operational scale, since they need to hire licensed engineers and procure parts, essentially where JES was in its early years.





Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

As a result, the company is taking market share both from the manufacturers and the smaller independent providers. In the recent inflationary environment, those competitors have been raising their prices, while JES continues to focus on advancing its market share, thereby accumulating more maintenance contracts.

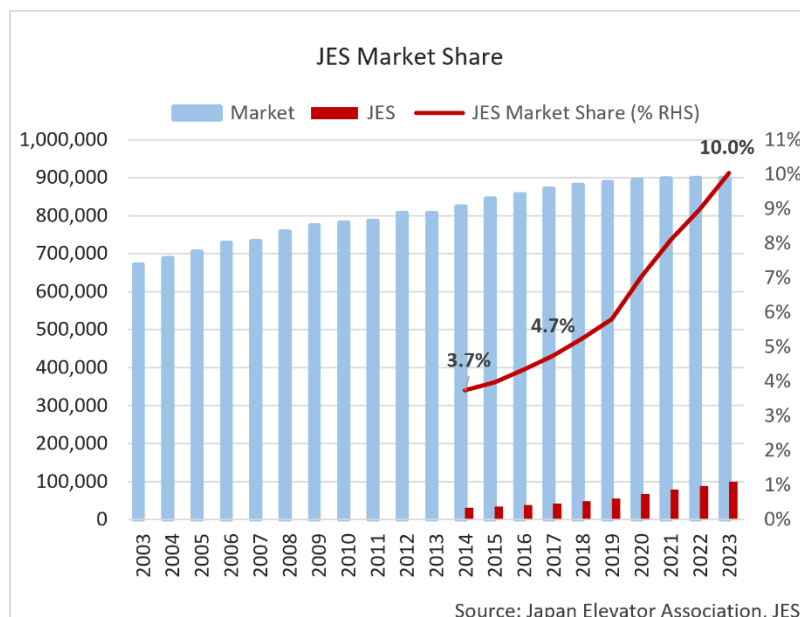
The company is also expanding its coverage area, entering second- and third-tier cities and acquiring smaller inde-

pendent service providers, which usually start from a loss-making position until the branch achieves sufficient scale.

Even with the advancements to date, having improved the operating margin from 12.7% to 17.7% during the last five years, management appears confident about reaching 20% in the coming two years. In the longer term, once the growth investment spending decelerates, management sees a 30% margin as a natural, sustainable profitability level.

Most recently, inquiries from real estate management companies are rising as they try to lower elevator and escalator maintenance costs as part of broader building maintenance cost reductions. JES also established strategic tie-ups with banks that are financing new real estate development or re-development as another avenue to secure new maintenance contracts.

There is an opportunity for even more expansion domestically. In other developed markets outside Japan where major maintenance providers compete, independent service providers typically represent a 50% market share. That should be possible in Japan, too. For the near term, JES is aiming to take at least a 30% market share, approximately three times its current level.





Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

Valuing an Owner-Operator Company: Not Always a Near-Term Metric Ratio

At a glance, the company's stock does not appear undervalued relative to its global peers, with a price-to-earnings ratio of 43 and an enterprise-value-to-EBITDA ratio of 24.8. In fact, this would be significantly overvalued for the global-scope companies, which effectively occupy the same mature industry. For instance, Otis Worldwide and Schindler Holding's average annual revenue growth during the past five years were, respectively, 1.8% and flat.

Ticker	Name	Market cap (\$ million)	Revenue (\$ million)	EBITDA 12M (\$ million)	Net income (\$ million)	EBITDA Margin	Net Margin	Return on Equity	Revenue Growth (5 year)	EPS Growth (5 year)	P/E (FY2027)	EV/EBITDA (FY 2027)	Dividend Yield
6544 JP	Japan Elevator Service Holdings Co Ltd	2,507	324	69	36	21.2%	11.2%	30.3%	18.3%	25.8%	43.0	24.8	0.8%
OTIS US	Otis Worldwide Corp	39,341	14,261	2,355	1,645	16.5%	11.5%	Negative Equity	1.8%	9.5%	22.1	16.2	1.6%
SCHP SW	Schindler Holding AG	38,794	12,762	1,813	1,079	14.2%	8.5%	20.5%	0.0%	1.9%	28.0	15.3	2.1%
6406 JP	Fujitec Co Ltd	3,197	1,584	137	95	8.7%	6.0%	9.5%	6.1%	8.7%	20.8	12.1	2.8%

However, the valuation figures are quite misleading if viewed on a forward-looking, normalized operating basis. For one thing, as discussed further below, JES could raise its revenues 50% if it were simply to match its incumbent competitors' pricing. But it sees greater long-term value, still, in maintaining its growth spending and market share capture strategy.

As the only independent firm of the bunch, Chairman Ishida sees a blue ocean market that is large, substantially untapped, yet—in practical terms—is without significant competitors. Following annualized revenue growth of 18% in the past five years, and annualized per-share earnings growth of about 26%, the company still has only a 10% market share. More importantly, it achieved this with the highest EBITDA margin, 1.3x greater than the next most profitable competitor, and a return on equity that is 1.5x the next-highest among its peers.

During the same growth period, JES continued investing in its operational capacity expansion; the number of employments and the inventory accumulation grew about 10% and 28.5% annually. Upon eventually reaching a mature stage at, say, 30% market share, similar to where leading manufacturers are, the company's intensive expansion spending and investments will no longer be necessary.

JES could shift focus to improving operational efficiency to reach the 30% operating margin goal, in which case it could generate about \$200 million¹ in net income annually. This is based on the revenue reaching \$975 million by simply multiplying its current revenue by three, which would happen upon increasing market share to 30% from the current 10%. JES could achieve this by taking shares both in existing markets and new second- and third-tier cities, and reaching 30%

¹ Currency conversion at Y145/USD including the valuation table. Valuation table is as of July 8th, 2025.



Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

operating margin as nationwide service network branches become profitable and reach scale in matured stage.

What is not included in this assumption is the overall market growth driven by inflation and the 2-3% volume growth observed in the industry during the past decades. Most importantly, this does not include the potential price hike JES can conduct, which is 50% today. But the difference is widening as competitors are raising prices. The JES share price today represents just over 12x this stable net profit stream.

While the industry shares a recurring-revenue-stream business model, JES does not—unlike its peers—manufacture elevators or escalators. It is a pure service company, not constrained operationally as it can target elevators of various brands (installment is mid-single-digit operating margin business). Revenue growth potential is an important factor in determining the future operating cash flow and, hence, the enterprise value with a benefit of compounding. Annual growth of 20% to 25% results in a doubling of the earnings every three to four years.

One may wonder why Mitsubishi and Hitachi (Toshiba is a private company) are omitted from the valuation table above. As most observers know, they have many other businesses, including HVAC, defense equipment, energy transmission, semiconductor modules, system integration and operation, and factory automation machinery, among others. Review their earning presentations and you will be challenged to find a discussion of elevator maintenance, since it is always part of a larger division.

These are the supposedly daunting competitors beyond the reach of smaller or startup firms, at least according to the economic texts. Yet, over and over in different industries, owner-operators like Chairman Ishida have found not competitive obstructions, but competitive opportunities, when it comes to taking on firms with standard corporate ownership structures and operating methods.

In Japan, where lifetime employment is a norm, there is no expectation at these corporations that managers at any of their small divisions would come up with new strategies—let alone new products and services—that could change industry rules or business standards. Nor is there any incentive to do so. In fact, such employees are advised against taking unnecessary risks that could disturb operations and businesses that have been passed on from their predecessor managers. In this sense, competitors are not even managed professionally, in terms of western corporate culture standards.

More importantly, owner-operators are not professional managers either; they do not build their networks and careers for their own personal benefit, but rather for the benefit of the business that they own and in which their own capital is at risk. Their path to retirement comfort or wealth is



Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

not through their compensation package, but through the company's never-ending advancement and expansion, and through their equity. It is impossible to build what Chairman Ishida has built by seeking solely to reap personal financial returns and professional rewards. It requires extraordinary determination to keep fighting on the same battlefield, in both good times and bad, to build "the only one" position in the industry.

Chairman Ishida owns 21% of JES. As with typical successful owner-operators, this represents more than just a number of shares in financial terms. It is the ownership and responsibilities in operational excellence, safety, building strong corporate culture, and achieving the ultimate goal of surpassing those leading manufacturers. Bringing the shares public is not the goal, but rather a tool to achieve the goal.

Owner-operators have no compromise in achieving such goals. Given that JES undercuts its competitors' service prices by 30-40%, it could easily hike prices by about 50%. In an environment where competitors are raising prices, JES keeps them flat and focuses on taking market share—a decades-long strategy.

Professional management would find it daunting the point of impossibility to replicate that single aspect of Chairman Ishida's multi-dimensional, generation-long strategy-set. Raising prices in the JES circumstance by just a couple of percentage points could lift margins and annual earnings sufficiently to meaningfully benefit an executive's career and stock-based compensation, at least in the short term. This is the essence of the agency problem in linking management incentive systems to performance. The situation is distinctly different for business owners—they're not hired agents, so the agency problem is nonexistent for them.

This is the opportunity—not stocks, per se, but the owner-operators in which the JAPN ETF truly invests. And in this instance, their opportunities often exist solely because of the uniquely Japanese business culture.

Sources: JES corporate website and presentation books. "Shinen no Keiei" (Principled management) Katsushi ISHIDA, Gentosha Media Consulting, 2022.

Horizon Kinetics Japan Owner Operator ETF (JAPN)



日本 オーナーオペレーター ETF

Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

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The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund.

Risks Related to Investing in Japan. Japan's economy has historically lagged that of its Asian neighbors and other major developed economies due in part to economic, political and social conditions. Japan's economic growth is heavily dependent on international trade, government support of the financial services sector and other troubled sectors, as well as governmental policy supporting its export market. However, slowdowns in the economies of key trading partners, such as the U.S. and China, leading to decreased demand from these countries, new trade regulations, and changes in exchange rates may also have an adverse impact on the economy of Japan.

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Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

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Diversification does not assure a profit or protect against a loss in a declining market.

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Definitions:

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) Margin: is a financial metric that measures a company's operating profitability as a percentage of its total revenue.

Net Margin: is a ratio that measures the percentage of net income a company earns from its total revenue and reflects the overall profitability after expenses.

Return on Equity (ROE): is a ratio that measures a company's annual return on its shareholders' equity by dividing net income by shareholder's equity.



Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)

Revenue Growth: measures the rate at which a company's revenue increase or decrease over a specific period.

Earnings Per Share (EPS) Growth: EPS is a measure of a company's profitability per share of stock. EPS growth refers to the increase or decrease in a company's EPS over a specific period.

Price to Earnings (P/E): is a metric that compares a company's stock price relative to its earnings per share.

Enterprise Value to EBITDA (EV/EBITDA): is a ratio that compares a company's value of a business relative to its EBITDA and is useful in comparing companies regardless of different capital structure.

Dividend Yield: is a ratio that measures how much a company pays in dividends each year relative to its stock price.

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