Hiroshi Capital
2026/4/13

Quarterly Letter to Shareholders on Public Equity

This letter focuses on the performance of our Japanese public equity portfolio only.
It does not represent the overall performance of Hiroshi Capital. Total returns, capital allocation, and non-equity holdings will be covered in separate letters.

Value Investing

Allow me to start with a few words on value investing.

At its core, value investing involves estimating a company's intrinsic value and comparing it to the price offered by the market, as Benjamin Graham explains with the concept of Mr. Market. When the price is sufficiently below value, it becomes worth buying.

Before the internet, this process was quite labor-intensive. Investors relied on printed manuals and physical reports, manually reconstructing balance sheets and earnings power. It was not uncommon to discover companies trading below book value simply because information moved slowly and figuring that out took effort.

With the rise of the Internet, financial data became widely accessible. Screening tools allowed investors to filter and rank thousands of companies instantly by P/E, P/B, growth, and similar metrics. The value of brute-force data processing (reading Moody's manuals and calculating by hand) gradually declined. The edge, we think, shifted toward the interpretation side: future prediction, business moat analysis, or situations where valuation was messy due to accounting complexities.

Now we are entering yet another stage with artificial intelligence. LLMs can analyze financial statements, summarize filings, and produce preliminary investment reasoning with little effort. In a broad sense, the market has been flooded with "analysts." Visit any financial platform - there is some form of AI summary. Search any stock on YouTube - there is likely an AI-generated video. As LLMs are further fine-tuned for security analysis, we believe parts of what human analysts do may also be automated away. At first glance, this seems to narrow the gap between intrinsic value and Mr. Market's offer more quickly than ever.

Then what is our edge?

We think it might be a more extreme version of information filtering. There is now an overwhelming amount of information, so determining which pieces actually matter for the long-term narrative of a business becomes more important. This was already true in the internet

age, though with LLMs, it is further intensified. Since LLMs can gather and process information at a pace far beyond any human, ideas and theses are created almost instantly whenever a new annual report or piece of news appears.

The sheer amount of information creates its own distortions: Recent developments naturally receive more attention, and LLMs amplify this further by drawing from what is most available and most recent. The process becomes self-reinforcing. An AI summary on one platform reads very similarly to the one on another. The “analyst” crowd becomes more synchronized. A story that used to take weeks to get priced in may now take hours. That makes the overshooting sharper, in both directions.

We try to ignore macroeconomics and focus on the company itself. In an environment shaped by information overload and rapid narrative formation, the ability to stand on an unpopular side may become more important. More data does not guarantee more truth. We live in a real world where arguments and truth are separate. From these narrative distortions, we think opportunities occasionally emerge.

Accounting Notes
As this report covers only publicly traded companies, the return shown does not fully reflect Hiroshi Capital’s total performance. Cash and cash equivalents are not included.

We hold cash deliberately. To us, cash is optionality: It gives us the ability to act during fat-tail events. We would rather have the ammunition and not need it than need it and not have it.

Performance

2026 Q1

Portfolio:	+0.94%
Nikkei 225 Net Total Return:	+1.37%

Market Overview
The Japanese market in early 2026 has not sustained the momentum of the prior year. However, this has given us chances to build positions at more comfortable valuations.

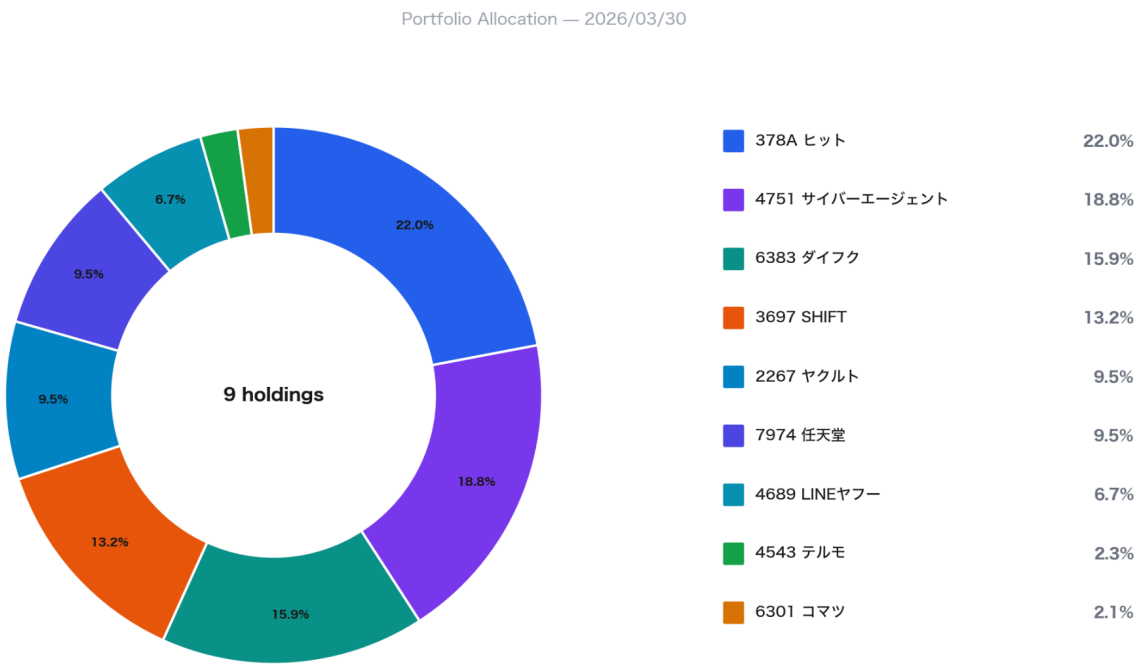
The AI revolution is creating uncertainty, and company moats are being re-examined by the market. The broader software services sector has faced valuation compression amid concerns that generative AI may reduce the need for traditional services. While we broadly agree with this

view, the reality is more nuanced on a company-by-company basis. We are looking for cases where the market has applied the theme too bluntly.

The recent geopolitical tensions have also created significant uncertainty in the market. It increases the dispersion of possible outcomes, which makes survival essential. Still, disruption is not always purely negative. We think of it like an earthquake: smaller shocks release pressure that might otherwise accumulate into something far more destructive. In much the same way, today's geopolitical stress may be forcing a release of tensions that had built up beneath the surface of an over-globalized system. The old arrangement looked efficient, even peaceful, but it also created hidden fragilities, especially in supply chains. Provided this does not escalate into nuclear war or other irreversible damage, the long-term result may be a healthier and more resilient system.

Regardless, we believe the Japanese economy will attract greater attention and stronger capital inflows over time. A significant portion of household financial assets still sits in cash. We believe the NISA policy has helped trigger a broader shift in behavior, making investing more common among ordinary households. In time, this could unlock meaningful inflows into Japanese public markets.

Holdings



We will only select a few investments to write about, as there will be plenty of opportunities to discuss others in future letters. We expect many holdings to remain in the portfolio for a long time.

SHIFT

SHIFT is a QA-led IT services company. It began in software testing outsourcing and has expanded into adjacent services, but testing-related work still accounts for roughly two-thirds of external sales and carries the highest margins. This is not a SaaS business. Management still describes the company through engineer count, pricing, customer count, and spend per customer. At first glance, it looks like exactly the kind of labor-driven services business AI should replace.

The better way to frame the question is not whether AI will increase software creation. It almost certainly will. The real question is what kind of software gets created, and how creation changes as the cost falls. Writing is a useful analogy. For most of history, writing was concentrated in the hands of scribes and elites. Materials were expensive, copying was manual, and the barrier to creation was high. The printing press lowered the cost of reproduction. The typewriter, personal computer, and smartphone lowered the cost of creation itself. Each step lowered the energy barrier to writing, widened participation, and decentralized where creation happened.

Once that barrier falls, smaller and smaller grains of value become worth serving. Even highly niche content can support itself. A guide on how to write posts for one specific platform, like Note.com, can exist because the cost of creating and distributing it has fallen enough. Software is likely to follow the same path: not just more software, but a long-tail of narrower tools, built in more places, for more specific use cases than would previously have been economic.

This leads to a natural question: if AI lowers the cost of building software, why wouldn't it also eliminate QA? We believe generation and verification are different problems. The cost of producing code may fall rapidly, but the cost of ensuring that code behaves correctly does not fall at the same rate. Bugs are rarely just syntax errors. They appear in integrations, edge cases, security failures, and real-world usage. As software creation floods outward, the surface area for failure expands with it.

If that is directionally right, verification may become more valuable relative to creation. The function that appears most replaceable at first glance may remain necessary as the control layer. There is also the question of responsibility. Even if AI-generated code improves materially, someone still needs to sign off on reliability, security, and failure risk. In practice, many companies will prefer to externalize that function rather than own it internally.

There may also be a supply-side benefit. If AI displaces part of the development workforce, it could expand the pool of technically trained labor that SHIFT can hire and retrain toward verification work. Management appears to be moving toward AI-native offerings as well, though AI-related revenue remains small today.

At a higher level, this begins to resemble a division of labor. In semiconductors, not every designer builds a fab. Software testing is not the same business, and the analogy has limits, but the pattern is similar: firms may prefer not to build specialized verification capabilities in-house. SHIFT's advantage is not capital intensity. It is process, recruiting, scale, and potentially the ability to aggregate learning across clients through recurring bug patterns and testing heuristics.

That matters particularly in Japan, where software testing outsourcing remains underpenetrated while IT labor shortages persist. If AI causes software creation to expand faster than QA capacity, the gap widens. And if software creation becomes more decentralized and more long-tail, many smaller systems will not justify dedicated in-house QA. In that part of the market, the economics should tilt toward horizontal testing providers.

SHIFT may look like an AI loser on first inspection. Our view is that it may instead be a beneficiary of an AI-driven flood in software creation.

HIT

HIT's business model is simple, and that simplicity is what first caught our attention. The company rents advertising space from building owners, installs and maintains digital billboards, and then sells that inventory to advertisers. There is no complicated machinery here. The real question is whether a simple business is positioned in front of a favorable long-term trend.

We think it is.

Step back and ask the broader question: over time, will Japan's built environment become more digitized, or less? We find it hard to believe the answer is less. As display technology improves and costs continue to fall, digital signage should become more economical relative to analog alternatives. At some point, the shift stops being aesthetic and becomes arithmetic. Once the economics are favorable enough, more analog surfaces should naturally give way to digital ones. If one wants a cultural shorthand, the long arc still points more toward cyberpunk than away from it: more screens, not fewer.

But even if that is right, why should HIT specifically benefit? Why not assume the value simply accrues to the building owners themselves?

This is where the business becomes more interesting.

Think in terms of mineral rights. A landowner may own the land, but without the driller's equipment, know-how, and distribution, the oil stays underground. The driller, meanwhile, is useless without access to the land. Value is created at the intersection. HIT appears to occupy a similar position. The building owner controls the location, but many owners are not set up to install, operate, maintain, and monetize a digital screen network on their own. HIT supplies that missing layer.

That framing also helps answer the competitive question. A normal building owner can certainly manage signage on its own properties. But that model has a natural ceiling. It scales only as far as the owner's own buildings, and it remains anchored to yesterday's footprint. HIT is different. This is its entire business. Because it is a specialist rather than a side operator, it can move across buildings, owners, and locations. That makes it more asset-light, more scalable, and more versatile if population and attention shift over time.

Then there is the other side of the chain: the traditional advertising specialist. At first glance, one might assume they are better positioned. But here too, the picture is changing. As AI improves, advertisers may increasingly create their own creative in-house. The old intermediary role may become less valuable in some cases. A company may not need as much help making the ad. What it will still need is the screen, the location, the maintenance, and the operating layer that turns a piece of frontage into monetizable inventory. That makes HIT interesting. It sits in the middle of the chain, but in a more durable part of the chain in an AI-driven environment.

It also helps to think from the building owner's perspective. Most owners do not want another operating problem. They do not want to maintain hardware, manage uptime, deal with advertisers, or build a sales capability for a non-core activity. They would rather collect incremental income and let someone else handle the complexity. In a sense, they want the mineral-rights economics without having to learn how to drill. HIT can offer exactly that.

If this framing is even roughly right, then HIT may occupy a favorable toll-booth position. As digital signage penetration rises, and as property owners prefer to outsource the operating burden, the specialist middle layer should become more valuable. That is what keeps drawing us back to the business. The model is simple. The direction of the environment appears favorable. And in businesses like this, simplicity plus the right place in the chain can go a long way.

Final note

This is our first letter, so there is not yet much of a track record to point to. What I can say is that we will be honest here about what we got right, what we got wrong, and what we are still figuring out. That seems more useful than pretending to have it all figured out from day one.

As you can see, the portfolio is quite concentrated. We believe these are good businesses trading at reasonable valuations, with a high likelihood of outperforming the market over time. However, concentration naturally makes for a bumpier ride. Expect greater volatility and a higher beta, though we do not regard that as the same thing as higher risk.

More to come.

Best,
Hiroshi Sakakibara