COMPANY RESEARCH AND ANALYSIS REPORT

Elematec Corporation

2715

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Summary

Trading company aiming to expand services based on five functions (processing, planning and development, overseas network, quality and environmental management, and procurement agent) Aims to accelerate growth by creating and increasing added value

Elematec Corporation <2715> (hereafter, also "the Company") is an electronics trading company that specializes in electronic materials. It was formed through the merger of Takachiho Electric Co., Ltd. and Ohnishi Denki Co., Ltd. in 2009 and entered the Toyota Tsusho Corporation <8015> Group in 2012.

1. Solid results despite sales and profit declines on weaker smartphone demand

The Company announced FY3/19 results with lower sales and profits at ¥183,399mn in net sales (-6.5% YoY) and ¥6,335mn in operating profit (-2.2%). While business conditions were upbeat in 1H, the Chinese economy slowed due to pressure from trade friction with the United States and other factors in 2H. In this context, sales slipped YoY because of the effects of weaker demand in smartphone-related business following widespread adoption. In profits, gross margin climbed on an increase in high added-value business and SG&A expenses fell. Operating profit, despite dropping, hence was only down by a relatively small 2.2%.

2. Growth driver shifting from smartphones to automobiles and automation and labor-saving equipment (robots)

The Company has realized stable growth by effectively leveraging its own attributes and strengths and steadily tapping into growth markets as they emerge. Smartphones were the main growth driver for roughly the past 10 years, and this even led to designation as a "smartphone-related stock." While smartphones have already widely proliferated and slower demand resulted in flattening out of results in recent years, growth markets have clearly shifted to automobiles and automation and labor-saving equipment (manufacturing robots) in recent years. The Company steadfastly cultivated especially in automotive-related business from a longer-term perspective for some time. With this base and utilization of the network at parent Toyota Tsusho, the future growth strategy in this area is increasing in visibility and potential. The Company targets ¥50bn in automotive-related sales in FY3/20, putting this business well above smartphone-related sales.

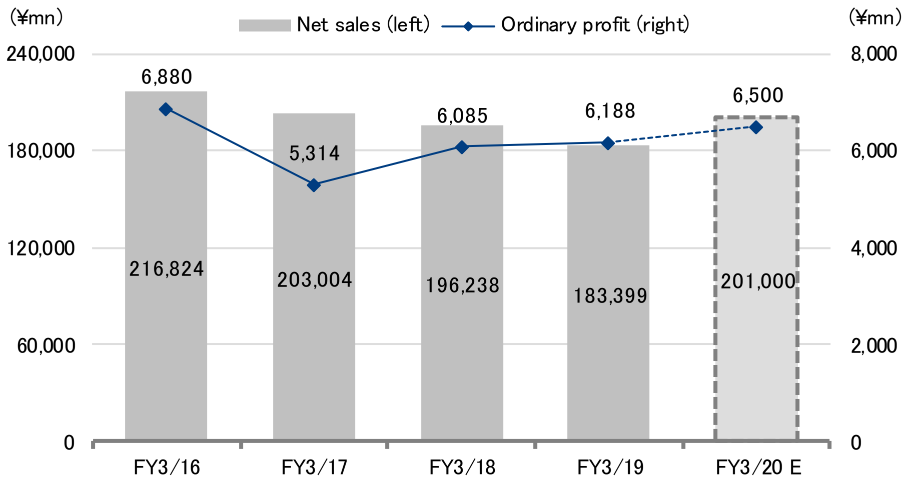
3. Further bolstering the five basic functions (strengths) and targeting faster growth through transition to growth markets

The Company is also focusing on expansion of "high added-value business" as an initiative in its longer-term growth strategy. "High added value" is the Company's business method and refers to a shift in the business format that involves moving beyond the traditional model of procuring and selling goods to planning and proposals, prototype production, and delivery of processed products, modules, and finished products. The Company stands out with its five basic functions (procurement agent service, processing service, planning and development, overseas network, and quality and environmental management). It intends to reinforce these functions and utilize them more extensively and thereby broaden the scope of its activities to something similar to ODM business. It has accumulated experiences and a track record through cooperation with domestic and overseas partner plants and already possesses capabilities. The Company wants to accelerate this activity and leverage it to realize longer-term growth along with changes in the growth market mentioned above (from smartphones to automobiles and robots).

Key Points

- Promoting a growth strategy with a two-pronged approach of growth markets and high added value
- Automotive-related sales headed for roughly ¥50bn in sales, propelling it to a leading position as a growth driver
- Steadily accumulated knowhow for creating and expanding added value in extensive transactions from past years

Results trends



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

Company overview

2 companies with specialties in electronic materials merged in 2009 Operates 61 locations in Japan and overseas and addresses three main markets - Digital Electronics, Automotive, and Broad Market)

1. History and business description

(1) History

The Company's predecessors were Takachiho Electric, established in 1947 in Tokyo, and Ohnishi Denki, founded in 1958 in Kyoto. Both companies began by handling insulation materials, subsequently broadened the scope of their product offerings to electronic materials used in electronic products following technology and development trends, and grew into independent technology trading companies.

These companies merged in 2009 (with Takachiho Electric as the surviving entity) and changed to the name, Elematec Corporation. The Company has steadily grown since the merger, even though both predecessors mainly handled electronic materials, thanks to complementary geographical positions in Tokyo and Kyoto. It became a subsidiary of Toyota Tsusho through a TOB transaction in 2012.

(2) Business description

In light of this history, the Company handles a wide range of electronic materials and parts used in electronic products and facilities. It has 1,149 employees and 61 sites in Japan and other countries in consolidated operations as the business foundation (as of the end of March 2019). The business sites include three operations with processing services (one in Japan and two in China).

While the Company has developed business globally, its overseas activities are mainly in China and Asia because this is where Japanese companies largely operate. Sales breakdown by domestic and overseas categories in FY3/19 was 42.1% in Japan and 57.9% in other countries. Overseas sales breakdown consists of China (including Hong Kong) at 22.9%, the rest of Asia at 30.6%, and others (Europe, US, etc.) at 4.3%.

Grouping is important for management purposes because the Company has many customers on procurement and sales sides and handles a wide range of products. It previously based management on the products handled (procurement source standard), but switched to market grouping with production items at customer companies as the standard (sales destination standard) from FY3/15. It hence currently uses internal management and information disclosure for three segments - Digital Electronics, Automotive, and Broad Market.

Capable of strong performance and stable growth due to rapid response to opportunities in growth markets by leveraging numerous commercial materials and business partners. Plans to “create added value” as its second growth engine going forward

2. Features and strengths

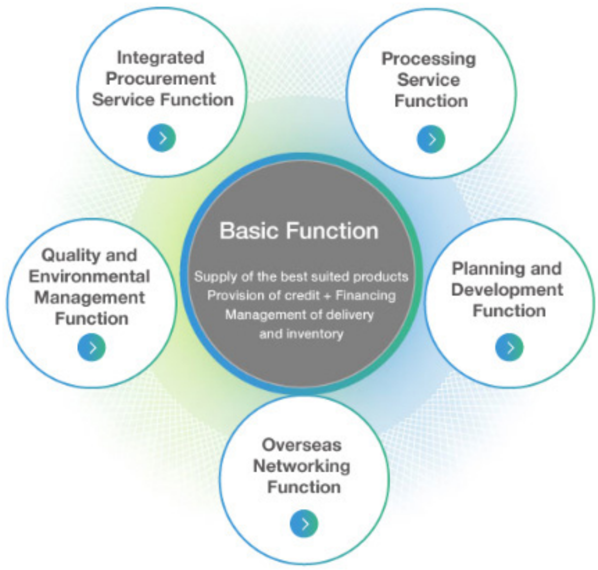
Customer and product diversity is an important feature of Elematec. It operates 61 sites in Japan and overseas and handles a wide range of primarily electronic materials and components among about 7,300 suppliers (manufacturers) and 6,200 sales destinations (users). Another major characteristic is its flexible response to growth markets. We believe that effective interaction of these two traits supports realization of stable earnings growth potential and robust earnings stability.

The Company is currently in a phase of transition by the growth market from smartphones to automobiles and other newer growth areas, as explained in detail below, amid rapid changes in the business environment, such as intensification of trade friction between the United States and China. Continuation of stable income growth, despite facing simultaneous changes in the business environment and growth areas, highlights the Company’s resilience.

The Company goes beyond just the basic services and functions of an electronics trading company of optimal supply of parts and materials, credit provision and financing, and management of delivery timing and inventory. It also supplies processing services, procurement agent service, and other more advanced services and functions that generate higher added value. The Company highlights five services and functions, and we think the presence of these functions is precisely why it can develop diverse products into businesses and deliver results.

The Company aims to bolster efforts to “create added value” by combining its core characteristics and strengths with its functions and knowhow as an independent technology trading company. It also intends to harness the ability to create added value as a primary engine of growth. It previously drove income gains with nimble responsiveness to growth markets, but will focus on creation of added value as another engine. We review detailed initiatives and direction related to creation of added value in the section that discusses longer-term growth strategy. The Company essentially plans to reinforce and further utilize the five basic functions it possesses as a unique strength to accomplish this.

Services and functions the Company provides

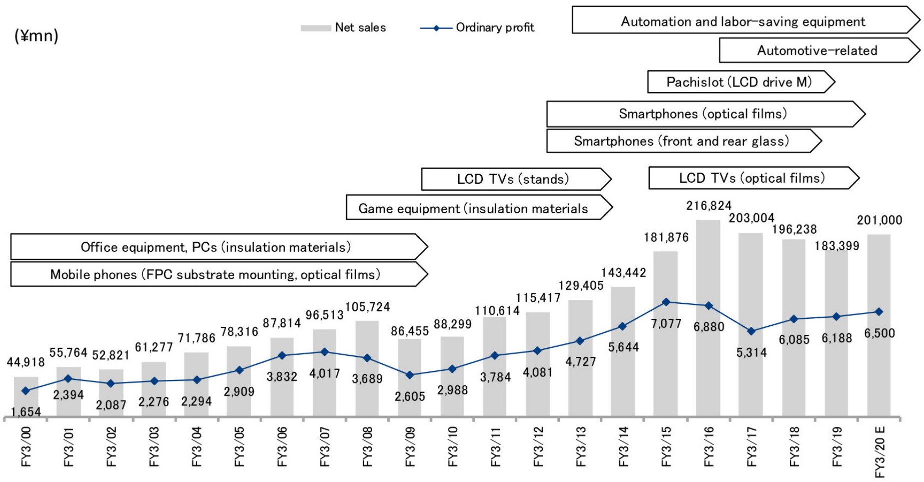


Source: The Company’s website

Effectively leveraged functionality as a trading company to realize income growth during the past long-term stable growth process

3. Long-term results trends

The Company’s success in realizing stable growth, despite being in the electronics industry with harsh volatility and encountering economic and products cycles, is even more pronounced in a review of its long-term results trends. In the early 2000s, mobile phone business grew with key products such as printed circuit board (FPC) materials, substrate mounting, and optical films. Around 2010, LCD TV-related products were a major business thanks to the transition to terrestrial digital service and other factors. Smartphones and tablets emerged as fast-growing products from 2010. The Company sold various films, glass products, and other items and achieved a rapid recovery from the Lehman shock and set consecutive all-time high profits. While results have flattened in recent years due to maturation of the smartphone market, the automotive-related business is steadily growing as the next driver. The Company has clearly shifted to the automotive-related and automation and energy-saving related businesses, which are future growth areas, Long-term results trends



Source: Prepared by FISCO from the Company's financial results, interviews, etc.

The Company has a strong image of being a materials supplier due to its roots as an “electronic materials trading company,” but many customers it supplies are assemblers (assembly plants). From a process perspective, this is the portion close to final products. Deliveries to these customers typically do not just provide materials and instead supply processed or semi-finished products. We expect this experience to be a major factor in the Company’s initiatives to attain higher added value as a focus. The Company needs to fully engage its five functions in order to meet customer requests in the process of fulfilling responsibilities in areas near final products. Over many years of business, it has accumulated knowhow related to the five functions at a high level. We think it should be capable of realizing high value-added business with the five functions in automotive and automation/labor-saving areas deemed to be growth markets.

Business performance

Sales and profits lower on slowdown in smartphone-related demand, though by relatively small percentages

1. Overview of FY3/19 results

The Company posted lower sales and profits in FY3/19 with net sales at ¥183,399mn (-6.5% YoY), operating income at ¥6,335mn (-2.2%), ordinary profit at ¥6,188mn (+1.7%), and profit attributable to owners of parent at ¥3,364mn (-23.1%).

Summary of FY3/19 results

(¥mn)

	FY3/18			FY3/19					
	1H	2H results	Full-year results	1H	2H results	Initial forecast	Full-year results	YoY	vs. forecast
Net sales	104,134	92,104	196,238	89,619	93,780	198,000	183,399	-6.5%	-7.4%
Operating income	3,345	3,135	6,480	3,048	3,287	6,600	6,335	-2.2%	-4.0%
Operating margin	3.2%	3.4%	3.3%	3.4%	3.5%	3.3%	3.5%	-	-
Ordinary profit	3,103	2,982	6,085	2,926	3,262	6,300	6,188	1.7%	-1.8%
Profit attributable to owners of parent	2,175	2,201	4,376	2,125	1,239	4,500	3,364	-23.1%	-25.2%

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

Compared to the period-start outlook, the Company missed targets by 7.4% (¥14,601mn) in sales and 4.0% (¥265mn) in operating profit. It lowered targets in February 2019 against a backdrop of weaker sales of smart-phone-related parts and materials, due to rapid change in the business environment with weakening of the Chinese economy from heightened trade friction between the United States and China, and higher logistics costs. While it ended undershooting in sales and profits, we think profit decline, in particular, was fairly small and the Company posted solid results in light of substantial misses of initial targets at many Japanese companies.

Sales dropped significantly for LCDs, touch panels (TPs), and backlights (BLs) that had been core sales sources previously because of the impact of exhausting smartphone-related demand. The Company attempted to cover this by leveraging its attributes and strengths of handling a wide range of products. In 2H, however, slower momentum in China's economy due to intensification of trade friction with the United States prevented it from countering LCDs, TPs, and BLs setbacks, resulting in sales decline (YoY) it failed to achieve its targets

In profits, gross margin rose 0.4ppt YoY to 10.0% simply due to improvement in product mix. We think steady progress with initiatives to raise added value that the Company had been implementing for some time fueled the gain. Nevertheless, gross profit still fell 2.7% (¥502mn) YoY with decline in sales. SG&A expenses were down by ¥356mn YoY, even with an increase in personnel costs, because of a substantial drop in provisions to the bad credit allowance. This helped curtail decline in operating profit to 2.2% (¥145mn) YoY.

Net profit attributable to parent shareholders fell 23.1% (¥1,012mn) YoY, a much wider decline margin than in ordinary profit. This occurred because of an increase in tax burden due to changing the policy for dividends from consolidated subsidiaries to the Company to full-value payout as a general rule. The change aimed to improve capital efficiency and lower forex risk. Specifically, it booked total tax value anticipated for future receipt of dividends (¥1,084mn) as deferred tax liabilities. This amount squeezed net profit attributable to parent shareholders as corporate tax and other adjustments in FY3/19. Real net profit attributable to parent shareholders, which adds back the amount, worked out to ¥4,448mn, a 1.7% YoY increase.

Steep decline in smartphone-related sales under Digital Electronics, but continued healthy expansion of Automotive and Broad Market sales

2. Trends by market

Breakdown of net sales trends by market

(¥mn)

Segment by market	FY3/18 results	FY3/19				
		Results	YoY	Composition	Main target markets	Change
Digital Electronics	112,123	90,240	-19.5%	49.2%	LCDs, touch panels, and backlights	-23,610
					Home electronics (TVs, monitors, audio, etc.)	-1,919
					Cameras and camera modules	1,228
Automotive	24,966	26,780	7.3%	14.6%	Automotive	1,813
Broad Market	59,148	66,379	12.2%	36.2%	Aftermarket	4,836
					Medical equipment	1,570
Total	196,238	183,399	-6.5%	100.0%		

FY3/19 “outlook” is the “revised outlook” that makes adjustments in light of 1H results
Source: Prepared by FISCO from the Company's results briefing materials

Digital Electronics segment sales were down 19.5% (¥21,883mn) YoY to ¥90,240mn. Looking at the product level, LCDs, TPs, and BLs sales declined by ¥23,610mn, fully explaining the setback in the segment sales. LCDs, TPs, and BLs are leading products in smartphone business, and this outcome shows that a lull in smartphone-related demand was the main cause of the decline in FY3/19 sales. The Company, meanwhile, expects future change in the content of business for these products due to focus on expansion of LCD panels used in automobile instrumentation panels (for the driver’s seat).

Automotive segment sales climbed 7.3% (¥1,813mn) YoY to ¥26,780mn. The segment covers a wide range of items, such as headlight parts and materials, interior parts and materials, sensors, motors, and a variety of electronic parts. It supplies parts that are used directly in automobiles as well as many parts and materials for automotive equipment. Sales rose YoY thanks to the success of supplying this type of diverse line-up of products, but undershot the advance target. We think the latter occurred because of the impact of slowdown in the Chinese economy during 2H on Automotive business.

Broad Market segment sales were up 12.2% (¥7,230mn) YoY to ¥66,379mn. As suggested by its name, the segment contains a variety of products that do not fit in Digital Electronics and Automotive segments. In recent years, aftermarket business and medical equipment have stood out in growth rates and sales absolute value. The “aftermarket” name is not only based on a business area or industry, but also derives from “aftermarket product,” such as car navigation systems sold for later installation by automobile product retailers. When it comes to the actual performance, we think automotive products account for a large percentage of this business. The segment handles a variety of medical equipment products too. Ultrasound diagnosis equipment-related products currently provide a substantial portion. Sales rose in these two areas again in FY3/19 and led sales growth by the Broad Market segment.

Longer-term growth strategy

Promoting a growth strategy with a two-pronged approach of growth markets and high added value

1. Overall vision in the longer-term growth strategy

(1) Overview of the "elematec x (cross)" longer-term business strategy

The Company does not prepare medium-term business plans with a fixed period, but formulates basic policies for initiatives related to a medium- to long-term strategy and proceeds with business on this basis. It updated the slogan in FY3/18, switching from "elematec + (plus)" to "elematec x (cross over)." Compared to the previous "elematec + (plus)" slogan, it emphasizes accelerated pursuit of synergies and timely action.

For performance plans, the Company discloses a forecast at the start of the current fiscal year and for another two years into the future. Its style is essentially like a rolling medium-term management plan. At the start of FY3/20 the Company disclosed a forecast for the fiscal year and a mid-term forecast for FY3/22 of ¥250bn in sales and ¥7.5bn in ordinary profit.

Longer-term strategy "elematec x (cross)"

Source: The Company's results briefing materials

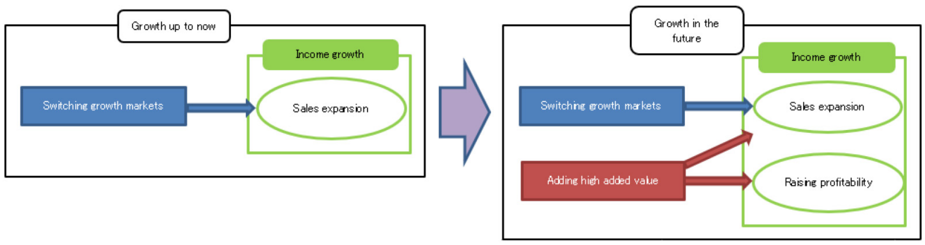
The Company's slogan for the longer-term growth strategy is becoming an "electronic materials trading company that continuously delivers high added-value business globally" with "high added-value business" as the key term. This is essentially the same meaning as "aiming to bolster efforts to "create added value" by combining core attributes and strengths as well as functions and knowhow as an independent technology trading firm" mentioned above in the company overview section.

What does "added value" mean to the Company? There is no simple answer and explaining why tends to be complicated. One example is being a presence close to manufacturers. By shouldering responsibility for planning, design, and assembly and processing itself, the Company obtains added value related to these steps and can raise margin. In this case, it obviously does not own manufacturing facilities and consigns production to external parties. An important point is that this is not a new challenge for the Company and it is already equipped with five basic functions. Initiatives to create added value could be understood as an effort to broaden "opportunities" to utilize the five functions.

Broadening "opportunities" to leverage these functions does not rely just on circumstances at the Company, but also depends on the customer situation. In the previous example, "added value" transfers upstream from the customer. While it could just be passed through, the Company wants to capture this portion. We think the diversity of the Company's products and customers makes a difference in this respect. This enables the Company to handle material selection and selection of process outsourcing parties on its own and secure added value. We believe it has steadily accumulated related experience and technology, as explained in the section on long-term results.

We expect this high added-value strategy to deliver large contributions in longer-term growth. The Company previously achieved growth by doing a good job of switching "growth markets." However, it is now aiming for growth with a two-pronged approach of capturing growth markets and creating high added value. Pursuit of growth markets lifts top-line growth (increase in net sales), while creation of high added value contributes to net sales and profits.

Conceptual impact of a growth strategy with a two-pronged approach of growth markets and added value



Source: Prepared by FISCO

(2) Four priority initiative themes

The final fiscal year of "elematec X," the current longer-term growth strategy, is FY3/20. We expect the Company to begin formulation of a new longer-term growth strategy from FY3/21. Furthermore, the Company's business environment has been rapidly changing since last year. Changes are occurring in areas too numerous to mention, such as weaker demand following widespread inroads by smartphones, tougher competition in the compact panel market between LCDs and OLEDs, and slowdown in China's manufacturing activity due to growing trade friction with the United States.

The Company is addressing four themes as growth strategies in light of this situation – 1) automobiles, 2) automation and labor-saving equipment, 3) strengthening B-to-B-to-C business, and 4) reinforcing functions. We review details for each of these themes below. Automobiles and automation and labor-saving equipment are particularly important as "growth markets" to replace smartphone-related business.

Automotive-related sales headed for roughly ¥50bn in sales and a position as the primary growth driver

2. Initiatives with automobiles

(1) Scope of automotive-related business

We think it is evident that automobiles are viewed as the next "growth market" for the Company, particularly with the use of Automotive as a separate item in the breakdown of sales by market. Renewed focus on automobiles stems from recognition that automotive-related sales have emerged as a pillar for the Company on steady growth in automotive-related sales while smartphone-related sales weakened.

The Company estimates that automotive-related sales should reach about ¥50bn in FY3/20. This takes into account Automotive segment sales (¥30,060mn) and many products for the automotive-related industry in Digital Electronics and Broad Market segments too. In Digital Electronics, LCDs, TPs, and BLs for the automotive-related business are slated to grow substantially in FY3/20. In Broad Market, content of the aftermarket sub-segment mainly consists of drive recorders, truck back-eye cameras, and other items. When added up, the Company expects automotive-related sales to increase to ¥50bn.

We think smartphone-related sales, which fueled the Company's overall growth in the past 10 years, reached ¥80-90bn at the peak, but have recently dropped to around one-third of the peak at about ¥30bn. The main sales driver has been completely replaced.

Expectations have risen for automotive-related business as a growth driver, and current sales consist of products that the Company accumulated over many years. The Company joined the Toyota Tsusho Group in 2012. While this generated hopes of large deliveries to the Toyota Group as a synergy, actual realization still needs more time. We advise against disappointment with a "delay in manifestation of the synergy effect" and instead suggest a favorable view of the Company's ability to harness its strengths (diversity in products and business partners) in the automotive industry too. In other words, we believe in many meanings that the Company's automotive-related business has just arrived at the gateway to a full-fledged expansion phase for broadening products and added value and achieving synergies with Toyota Tsusho Group.

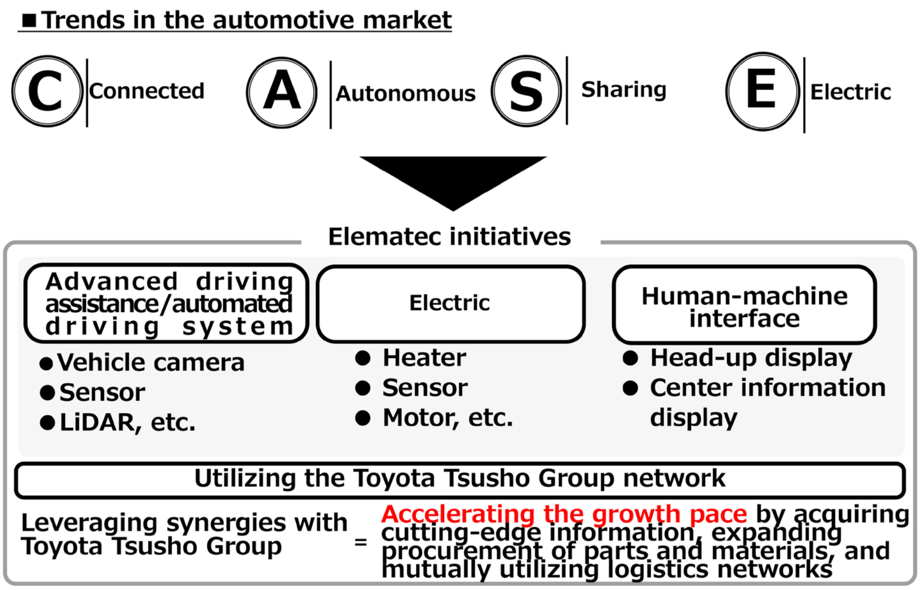
(2) Content of automotive-related business

The Company's expansion strategy for the automotive-related business going forward resembles the overall growth strategy of broadening scope with a two-pronged approach of 1) increasing handled products and volume and 2) promoting high added value.

"CASE" is often mentioned as an important automotive industry trend for expansion of handled products and volume. This acronym uses the first letters of connected, automated driving, sharing, and EV. We think these fields are "home ground" for the Company with its origins as an electronic materials trading firm and many years of business in the electronics industry.

At this point, the Company broadly supplies automotive cameras, sensors, displays, and other products in the fields of automated driving, EV, and HMI. Almost all are fields where the Company built its own commercial flow, as explained earlier, and business expansion from synergies with Toyota Tsusho Group is likely to materialize afterwards.

Automotive industry and Elematec's business activities



Source: The Company's results briefing materials

In creating higher added value, the Company intends to operate the five basic functions at a more advanced level and supply products that are more highly processed and modules to customers, as explained above. The automotive industry tends to be conservative because of safety and other considerations, and some observers worry that this might stand in the way of the Company's ability to expand deliveries of processed products and modules that it pursues. However, the Company mainly delivers products for electrical systems and interior and exterior parts, rather than structural materials and parts and engine-related products. The automotive industry uses the same products as electronic and communications industries for these items. We hence do not see any hurdles to progress by the Company's high added-value strategy.

While customers strictly control information and this limited information disclosure can make things unclear, we believe automotive-related business is advancing at a faster pace than imagined from the outside. We will be closely monitoring the pace of growth it achieves driven by automotive-related business.

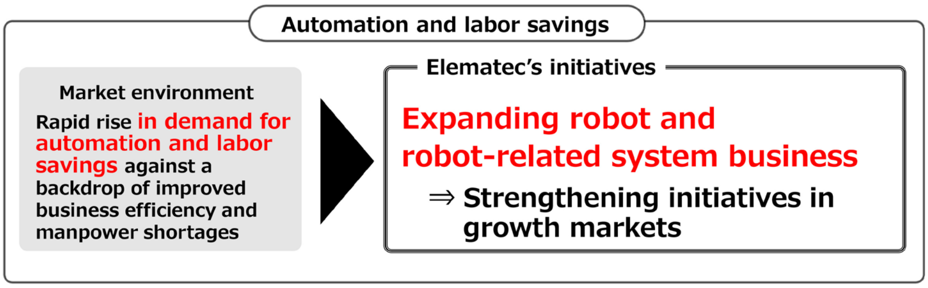
Focus on robot-related sales to address automation and labor-saving needs

3. Initiatives with automation and labor-saving equipment

The Company explained its response will be to automation and labor-saving needs as a growth market. It covers this business in the "industrial machinery" sub-segment under Broad Market.

Specific products for addressing automation and labor-saving are robots and robot-related systems. Industrial robots differ by function, size, and purpose. We think robots handled by the Company are relatively compact and low-priced for lighter tasks. It sells them with added value as a system integrator (SI), rather than on a standalone basis. Light tasks previously relied on manual labor, but these areas have been facing severe manpower shortages and are ramping up efforts to switch to robots. The Company sees this as a structural trend and expects it to continue. It aims to accelerate sales as a "growth market."

Initiatives in the automation and labor-saving -related market



Source: The Company's results briefing materials

Targeting the B-to-B-to-C area as a growth market too

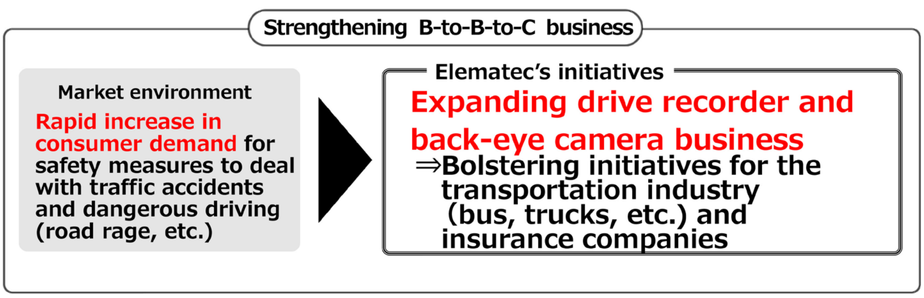
4. Initiatives with B-to-B-to-C

The Company mainly engages in B-to-B transactions as a trading company, but this time it focused on B-to-B-to-C as a growth strategy. It cites drive recorders and back-eye cameras (truck cameras to confirm what is happening behind the vehicle) as specific examples.

This business is booked in the "aftermarket" sub-segment under Broad Market and handles products that the Company delivers as finished products. The Company focuses on expansion of business with high added value by not stopping at procurement and sales of electronic materials and adding ODM business with delivery of finished products.

It is generally known that demand is growing rapidly for drive recorders and back-eye cameras to deal with potential traffic accidents and as a safety measure. Products catering to consumers (C), meanwhile, confront large demand fluctuations and continuity needs to be closely monitored. It is also unclear whether new "C" products following these items can take hold. We believe the Company is sufficiently aware of this aspect as well, but the investor side needs to take a careful approach too.

Initiatives with B-to-B-to-C business



Source: The Company's results briefing materials

Promoting internal operation development to carry out growth strategies

5. Initiatives with "function reinforcement"

The function reinforcement theme aims to bolster companywide operations for the purpose of automotive and automation/labor-saving initiatives at a high level as mentioned above, rather than targeting top-line growth.

Specifically, it focuses on strengthening module proposal capabilities via expansion of development and design functions and cutting losses with improved quality inspection operations. These are necessary measures to ensure full utilization of the Company's five functions.

As concrete actions, the Company upgraded the internal technology group and environmental and quality guarantee office to divisions (technology division and environmental and quality guarantee division) respectively. Through continued pursuit and reinforcement of these activities, it aims to move beyond the traditional trading-company model and differentiate itself from other companies, thereby expanding business and creating added value.

Outlook

Projecting sales increases YoY in all three segments and higher sales and profits

● FY3/20 outlook

The Company forecasts increase both in sales and profits of ¥201,000mn in net sales (+9.6% YoY), ¥6,750mn in operating income (+6.5%), ¥6,500mn in ordinary profit (+5.0%), and ¥4,550mn in profit attributable to owners of parent (+35.2%) in FY3/20.

The stronger growth rate in net profit attributable to parent shareholders occurred because of the special circumstance of booking roughly ¥1.1bn in corporate tax and other adjustments for FY3/19, as mentioned earlier. Without this addition, profit rose 2.3% (from ¥4,448mn to ¥4,550mn).

Overview of FY3/20

(¥mn)

	FY3/19			FY3/20	
	1H	2H	Full year	Full-year forecast	YoY
Net sales	89,619	93,780	183,399	201,000	9.6%
Operating income	3,048	3,287	6,335	6,750	6.5%
Operating margin	3.4%	3.5%	3.5%	3.4%	-
Ordinary profit	2,926	3,262	6,188	6,500	5.0%
Profit attributable to owners of parent	2,125	1,239	3,364	4,550	35.2%

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

In sales, the Company forecasts an increase, but with a change in content to automotive-related business and automation/labor-saving related business as the driver markets. It completely removed smartphone-related business from the position of demand driver for handled products and does not include it as a source of higher sales at all (since smartphone-related sales still have some scale, the possibility of setback in total sales from further contraction cannot be entirely ruled out).

In profits, the Company targets a 6.5% YoY rise in operating profit with a slight decline in operating margin from FY3/19's 3.5% to 3.4%. Despite expectations for improved profitability from focus on a strategy of boosting added value explained in the section on growth strategy, we think this stance stems from the ¥105/$ forex assumption for FY3/20 (vs. FY3/19's ¥110.92 result) and the prospect of higher SG&A expenses due to increases in cargo transportation costs and personnel expenses related to higher sales.

The Company expects higher sales (YoY) in all three market segments. We review details below.

Sales breakdown by market for FY3/20

(¥mn)

By markets	FY3/18 Full-year results	FY3/19 Full-year results	FY3/20 Full year				
			Forecast	YoY	Composition	Main target market	Change
Digital Electronics	112,123	90,240	93,425	3.5%	46.5%	LCDs, touch panels, and backlights	5,343
						Home electronics (TVs, monitors, audio, etc.)	-1,226
						Mobile terminals	-4,290
Automotive	24,966	26,780	30,060	12.3%	15.0%	Automotive	3,280
Broad Market	59,148	66,379	77,514	16.8%	38.6%	Aftermarket	3,905
						Industrial machinery	1,696
Total	196,238	183,399	201,000	9.6%	100.0%		

FY3/19 "outlook" is the "revised outlook" that makes adjustments in light of 1H results
Source: Prepared by FISCO from the Company's results briefing materials

The Company projects a 3.5% (¥3,185mn) YoY rise in Digital Electronics sales to ¥93,425mn. While the first increase in LCDs, TPs, and BLs sales in three years stands out in the breakdown, the destination is automotive, a difference with past business. It appears that smartphone LCDs, TPs, and BLs sales are likely to remain weak. In other smartphone-related business, the Company expects a ¥4,290mn decline in mobile terminal sales. This outlook indicates steady shift from smartphone-related business to automotive-related business as the growth market within the Digital Electronics segment as well.

The Company forecasts a 12.3% (¥3,280mn) increase in Automotive sales to ¥30,060mn. As explained above, it handles a wide range of automotive products, including headlight parts and materials, interior parts and materials, and electronic components for automotive electronic equipment, and expects to steadily expand sales in these areas. In FY3/20, however, the Company only sees limited contributions from EV-related and ICT-related products that it anticipates as growth drivers and still mainly relies on existing commercial-flow products are core sales drivers.

The Company targets a 16.8% (¥11,135mn) increase in Broad Market sales to ¥77,514mn, including additions of ¥3,905mn in aftermarket sales and ¥1,696mn in industrial equipment sales. We think it continues to rely on drive recorders, back-eye cameras, and other existing products as the main sales drivers for aftermarket business. Higher sales of robot-related products that meet automation and labor-saving needs, which the Company emphasizes as a focus area, appear to be the primary source of additional industrial equipment sales. It also expects continued healthy expansion of medical equipment (ultrasound diagnostic equipment parts and materials). These trends support the above-mentioned outlook for sharply higher sales.

Income statement

(¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20 E
Net sales	205,370	203,004	196,238	183,399	201,000
YoY	12.9%	-1.2%	-3.3%	-6.5%	9.6%
Gross profit	17,947	17,127	18,886	18,384	-
Gross margin	8.7%	8.4%	9.6%	10.0%	-
SG&A expenses	11,407	11,720	12,405	12,048	-
SG&A expenses ratio	5.6%	5.8%	6.3%	6.6%	-
Operating income	6,540	5,406	6,480	6,335	6,750
YoY	-11.3%	-17.3%	19.9%	-2.2%	6.5%
Operating margin	3.2%	2.7%	3.3%	3.5%	3.4%
Ordinary profit	6,538	5,314	6,085	6,188	6,500
YoY	-7.6%	-18.7%	14.5%	1.7%	5.0%
Profit attributable to owners of parent	4,794	1,342	4,376	3,364	4,550
YoY	-6.1%	-72.0%	226.0%	-23.1%	35.2%
EPS after adjustment for stock split (¥)	123.29	32.79	106.88	82.17	111.12
Dividend per share after adjustment for stock split (¥)	37.5	10	32.5	33	45
Net assets per share after adjustment (¥)	1,085.37	1,087.90	1,173.40	1,222.50	-

Note: The FY3/16 financial statements consolidated 15 months for 9 overseas subsidiaries due to changes in the fiscal year. This table presents values on a 12-month basis that adjusts results for all fiscal years to 12 months (though EPS values are shown on a reporting basis). The FY3/17 growth rates (YoY) have also been calculated using the 12-month basis.
Note: The Company implemented a 1-for-2 stock split on May 31, 2019.
Source: Prepared by FISCO from the Company's financial results

Balance sheet summary

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Current assets	79,170	74,935	87,662	86,073	90,495
Cash and deposits	10,004	12,551	10,282	25,893	25,714
Notes and accounts receivable	57,575	50,599	66,955	49,673	52,801
Fixed assets	5,021	5,636	5,621	5,761	5,172
Tangible fixed assets	2,627	2,465	2,398	2,363	2,390
Intangible fixed assets	236	1,349	1,115	886	691
Investments, etc.	2,156	1,821	2,107	2,511	2,090
Total assets	84,191	80,572	93,284	91,835	95,667
Current liabilities	40,931	35,892	48,521	43,597	44,291
Notes and accounts payable	36,199	33,419	42,734	40,829	41,371
Short-term loans, etc.	1,598	466	2,884	53	83
Fixed liabilities	349	238	217	191	1,318
Shareholders' equity	39,672	42,980	43,401	47,061	48,992
Capital	2,142	2,142	2,142	2,142	2,142
Capital surplus	3,335	3,335	3,335	3,335	3,335
Retained earnings	34,888	38,196	38,618	42,278	44,209
Treasury shares	-694	-694	-694	-694	-694
Accumulated other comprehensive income	3,238	1,462	1,143	984	1,063
Net assets	42,910	44,442	44,545	48,046	50,056
Total liabilities and net assets	84,191	80,572	93,284	91,835	95,667

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

Cash flow statement

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Cash flow from operating activities	-5,942	7,573	-3,309	19,257	1,009
Cash flow from investing activities	-290	-1,387	-85	-51	74
Cash flow from financing activities	318	-2,837	1,504	-3,547	-1,401
Effect of exchange rate change on cash and cash equivalents	1,109	-875	-305	-46	138
Net increase (decrease) in cash and cash equivalents	-4,805	2,473	-2,195	15,611	-179
Cash and cash equivalents at beginning of period	14,809	10,004	12,477	10,282	25,893
Cash and cash equivalents at end of period	10,004	12,477	10,282	25,893	25,714

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

Shareholder return policy

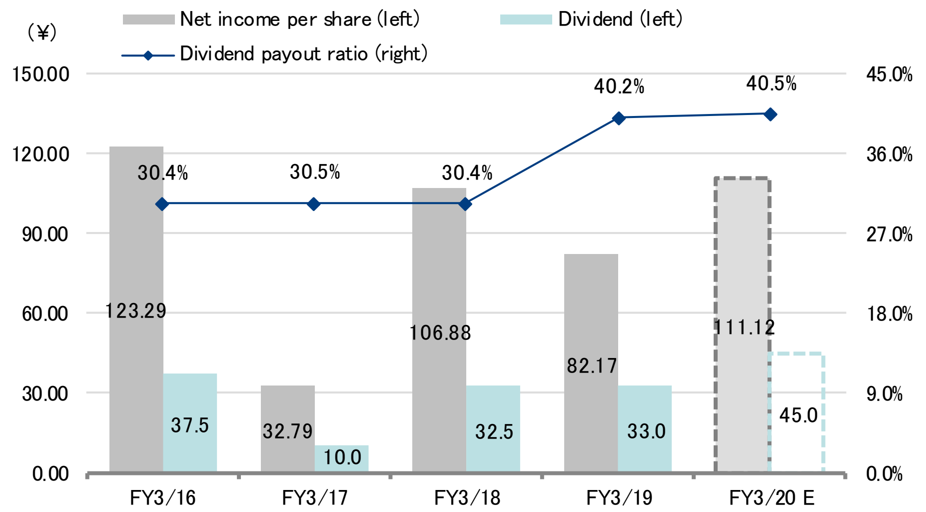
Announced an increase in the dividend payout ratio and a stock split Plans to effectively increase the dividend by ¥12 to ¥45 in FY3/20

The Company fundamentally utilizes dividends as shareholder return. For the dividend amount, it sets a dividend payout ratio in light of the earnings outlook (short term and medium term), growth investments, and cash flow and pays the dividend based on this ratio. It decided this time to raise the dividend ratio target from "sustaining 30%" previously to "at least 40%" and apply the new level from the FY3/20 interim dividend.

The Company also announced a stock split along with the dividend payout ratio increase. It intends to conduct a 1-for-2 stock split effective on June 1, 2019.

The FY3/20 dividend target is ¥45 (¥20 interim, ¥25 period-end). Since the stock split adjusts FY3/19's ¥66 dividend (¥30 interim, ¥36 period-end) to ¥33, this is an effective hike of ¥12 YoY and puts the dividend payout ratio based on estimated EPS at 40.5%.

Trends in net income per share, dividend, and dividend payout ratio



Note: The Company implemented a 1-for-2 stock split on June 1, 2019.
Source: Prepared by FISCO from the Company's financial results

Disclaimer

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