

Elematec Corporation

2715

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Summary

The Company added “creating added-value” in addition to “pursuing growth markets” as its medium- to long-term strategy. Aiming to expand earnings with the two-pronged approach.

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. In FY3/20 net sales declined 4.2% and operating profit fell 24.8% due to the sluggishness in sales for mobile devices

The Company announced FY3/20 results with ¥175,654mn in net sales (-4.2% YoY), ¥4,765mn in operating profit (-24.8%), ¥4,499mn in ordinary profit (-27.3%), and ¥3,263mn in profit attributable to owners of parent (-3.0%). Overall sales declined due to the weakness in sales of products for mobile devices and for consumer electronics products, despite the steady growth in some fields and products including automotive and drive recorders for the aftermarket. The profit margin declined slightly due to the change in the product mix, and expenses rose, particularly personnel expenses, leading to a decline in operating profit. The impact of the novel coronavirus (COVID-19) on FY3/20 results was minimal.

2. FY3/21 full-year forecasts not disclosed due to uncertain outlook

The Company has not announced the FY3/21 full year forecasts, due to the uncertain outlook caused by the COVID-19. However, for 1Q FY3/21, the Company is forecasting net sales of ¥41,000mn (-3.7% YoY), and operating profit of ¥900mn (-22.8% YoY). At the current point in time, the Company’s annual dividend forecast is undetermined.

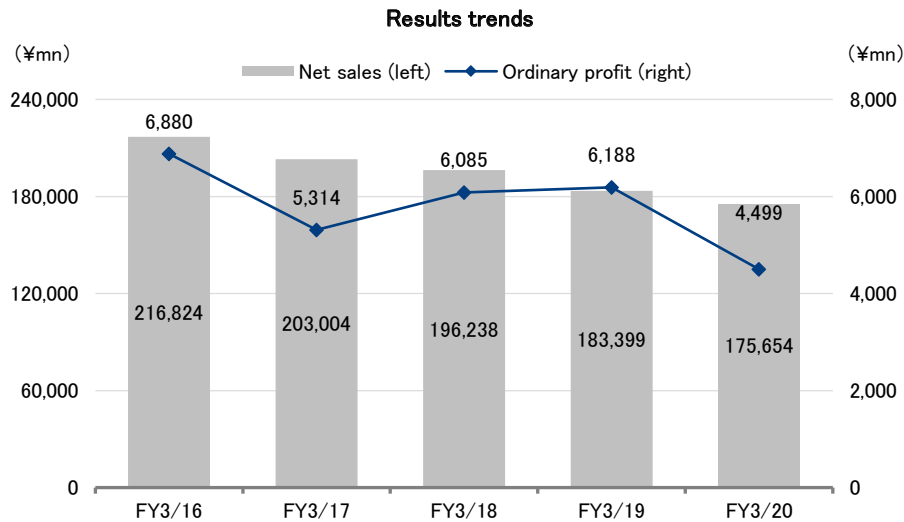
3. Will strengthen three strategies in medium-term business plan “elematec NEXT”

The previous medium-term corporate strategy “elematec x (Cross)” concluded at the end of FY3/20. Based on the outcomes and the challenges of this strategy, the Company announced a new medium-term business plan “elematec NEXT” which will run through the end of FY3/23. The key strategies under “elematec NEXT” will be to strengthen high value-added businesses, acquire major domestic and overseas customers, and focus on the automotive field. The business plan does not state any quantitative targets, but by executing this plan the Company aims to improve in quality, not just simply achieve quantitative growth.

Key Points

- Aiming for earnings growth with the two-pronged approach of pursuing growth markets and creating added-value
- FY3/20 operating profit declined, and FY3/21 forecasts are undetermined
- Announced the new medium-term business plan “elematec NEXT,” which will aim to focus mainly on three fields and pursue both quantitative expansion and qualitative improvement

Summary



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

Company overview

Two 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 it 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.

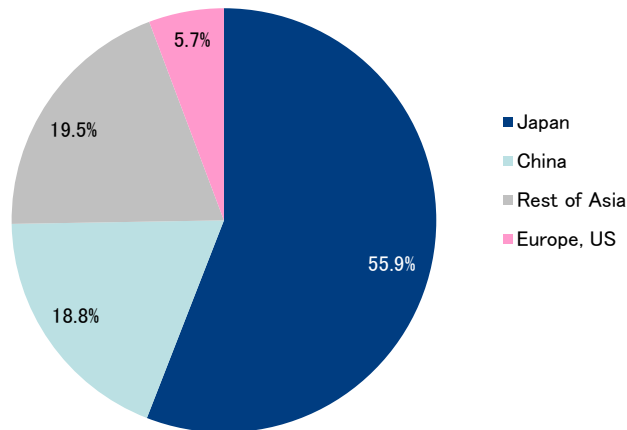
(2) Business description

In light of this history, the Company handles a wide range of electronic materials and parts used in electronic products and facilities. As of March 31, 2020, it has 1,180 employees and 61 sites in Japan and other countries in consolidated operations as the business foundation. The business sites include three operations with processing services (one in Japan and two in China).

Company overview

While the Company has developed business globally, its main customers are Japanese companies, and its overseas activities are mainly in China and Asia, reflecting the overseas expansion by Japanese companies. Sales breakdown by domestic and overseas categories in FY3/20 was 55.9% in Japan, 18.8% in China (including Hong Kong), 19.5% in the rest of Asia, and 5.7% in Europe and the US. The percentage of the Company's sales in China has been declining, reflecting the decline in production in China by key customers in recent years.

Net sales by region (FY3/20)

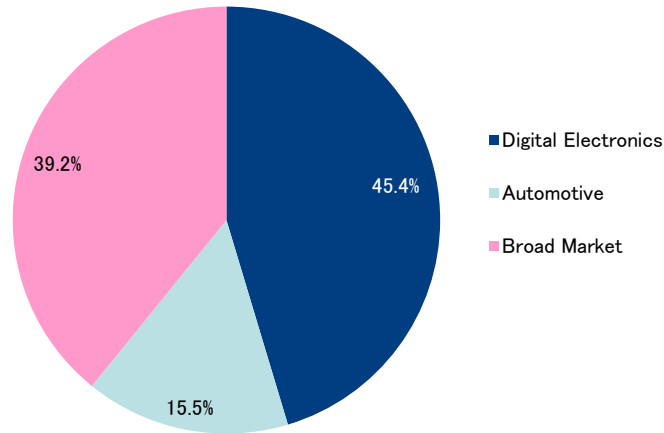


Source: Prepared by FISCO from the Company's financial results

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 it 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. In FY3/20, Digital Electronics accounts for 45.4% of sales, Automotive accounts for 15.5% of sales, and Broad Market accounts for 39.2% of sales.

Company overview

Net sales trends by market (FY3/20)



Source: Prepared by FISCO from the Company's results briefing materials

Realized stable growth in performance leveraging numerous products and business partners. Will focus on “creating added-value” going forward

2. Features and strengths

An important feature of the Company is that it has many different business partners and products. It handles a wide range of primarily electronic materials and components among about 7,100 suppliers (manufacturers) and 6,600 customers (users). Individual suppliers and customers are not disclosed, but the Company's top 10 main customers account for approximately 42.1% of net sales (FY3/20). In this way, because of the diversity in suppliers, customers and products handled, the Company's operating performance is not significantly affected by any particular customer or product, allowing for stable growth to continue.

Another one of the Company's strengths is that it can flexibly expand into new growth fields because it has a large number of products and customers. The Company is currently in a transition period, transitioning its business footholds from smartphones to automotive and robots. It goes without saying that it has responded to the changing growth potential of each of these markets. Presently, due to the intensification of the US-China trade friction, the business environment certainly cannot be said to be ideal. But the Company can be said to be demonstrating its true abilities by skillfully controlling the two change factors, of the business environment and growth markets, so that a large dip is not created in its results and to overcome the wave of change.

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 manufacturing services, procurement agency 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.

We encourage readers to review our complete legal statement on “Disclaimer” page.

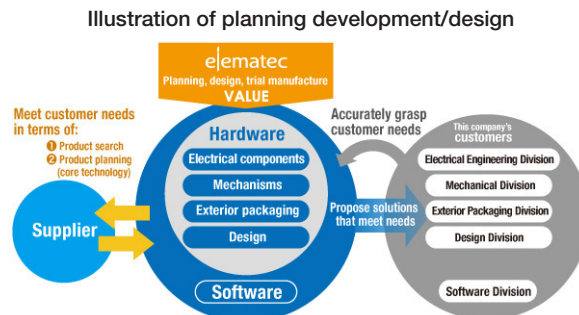
Company overview

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. Going forward, it also intends to harness the ability to create added-value as an engine of growth. It previously drove income gains with nimble responsiveness to growth markets (horizontal development), but from now in it will aim for additional growth based on creating added-value (vertical development).

3. Five services and functions

(1) Planning development/design: Planning development/design of products that match essential needs

The Company has strong relationships that extend beyond customers’ purchasing divisions to include their design and development divisions, allowing the Company to identify customers’ essential needs. From limited information, the Company can grasp these needs. The Company’s Sales Division, Marketing and Development Division and Design Department work together to plan, develop and design new parts and units. The Company’s Design Department has specialists in mechanical design and electrical circuit design, and possesses prototyping equipment such as 3D CAD, 3D printers and numerically controlled (NC) machine tools. In addition to using these resources, the Company leverages its vast operational infrastructure, cutting-edge expertise, and know-how cultivated over many years to provide products matching its customers’ needs.

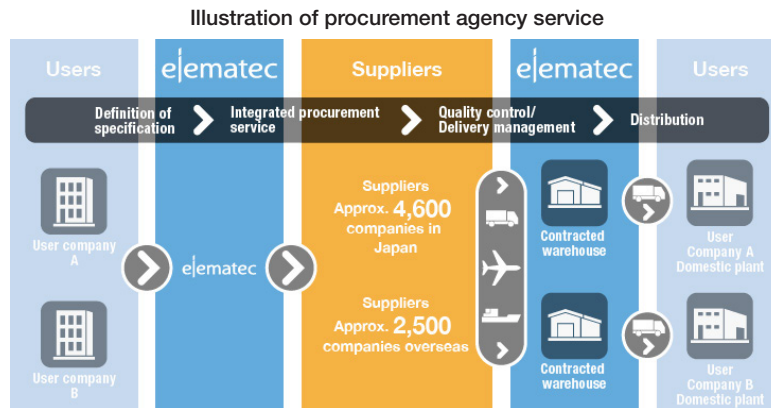


Source: The Company's website

(2) Procurement agency service: Procuring parts and materials that best match customers’ requirements in terms of quality, cost, and delivery

The Company provides procurement agency service to manage multiple suppliers, complex order and delivery management on behalf of customers, thereby enhancing operational efficiency and reducing costs. The Company utilizes its know-how and expertise cultivated over many years to procure parts and materials in Japan and overseas, and carry out thorough quality control and delivery management. In addition to handling specified parts, the Company also suggests more suitable suppliers based on a firm grasp of the strengths of many manufacturers around the world. The Company has bases worldwide that can respond quickly to quality issues or other problems.

Company overview



Source: The Company's website

(3) Manufacturing service: Providing high-quality manufacturing service and individualized customization

The Company has one domestic (Yokohama) and two overseas (Dalian, Wuxi) processing service bases for manufacturing customized products and modules. These items have been planned, developed and designed for specific customers, based on the customer's product development information and on the latest technological information gathered through the Company's worldwide network of bases. In addition to using its own processing service bases, the Company works in cooperation with technologically advanced, cost-competitive contract manufacturers in Japan and overseas to supply customized products and modules, as well as finished goods (ODM). The Company has constructed a global supply chain based on its understanding of "information," "technology," and "manufacturing."

(4) Quality and environmental management: Providing high-quality products and establishing a sophisticated quality control system

Elematec offers a variety of services to meet customers' stringent quality demands. In response to customers' audit requests, in addition to conducting tests to ascertain that products and environmental protection measures, such as component analysis, meet standards, the Company confirms whether stable mass production is achievable when shifting from trial production. Led by its Environment Preservation & Quality Assurance Department, the Company provides multifaceted support when defects occur, including promptly identifying and analyzing defects with the customer, formulating and implementing improvement plans, and working to prevent recurrence.

(5) Overseas networking and logistics : Providing smooth global logistical support using worldwide network

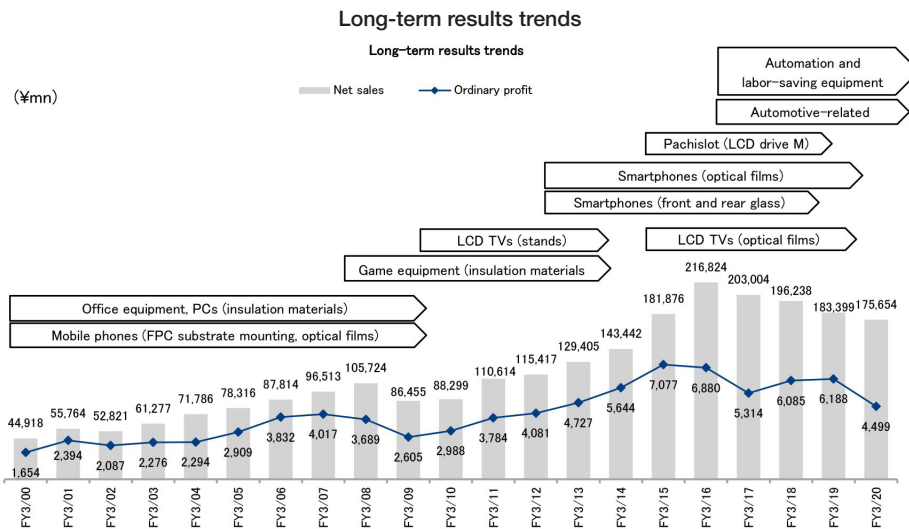
With the advance of globalization, there has been an expansion in offshore trade that does not pass through Japan, so-called tri-lateral business. Furthermore, a current trend in global business is the shift from China as the "factory of the world" to manufacturing centered on the ASEAN region. Elematec's worldwide network is able to respond to this trend. The Company ensures close cooperation not only between bases in Japan and overseas bases, but also between overseas bases themselves. Whether in Japan or elsewhere, the Company works closely with its customers to realize faster and smoother communications and logistics, transcending time zones and language barriers.

As discussed above, the Company is not simply a parts trading company, but it has various services and functions. In other words, by providing the above five services and functions, added-value is turned on for the simple trading company function, and as a result, the Company has maintained a relatively high gross profit margin. Going forward, the Company's gross profit margin should improve by further utilizing these five services and functions.

Effectively leveraged functionality as a trading company to realize income growth

4. Long-term results trends

Looking back on the Company's long-term results, it can be said that the Company has achieved stable growth by overcoming economic cycles, product cycles, and other waves, while being in the electronics industry, which goes through big ups and downs. 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. As results have flattened in recent years due to the maturation of the smartphone market, the automotive-related business and overseas manufacturers-related business are becoming the next growth markets for the Company. After this is the next generation (5th generation) mobile communication system called 5G. On transitioning to 5G, everything will be updated, from base stations to terminals, and also the fielding range of "communication" will widen to another level and everything will become networked. We can expect this to lead to a further increase in business opportunities for the Company, which has many business partners both in terms of suppliers and customers, and also a variety of products.



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

Business performance

Sales and profits declined, mainly due to the significant decline in sales for mobile devices due to circumstances at customers.

1. Overview of FY3/20 results

(1) Trends in profit and loss

The Company posted lower sales and profits in FY3/20 with net sales at ¥175,654mn (-4.2% YoY), operating profit at ¥4,765mn (-24.8%), ordinary profit at ¥4,499mn (-27.3%), and profit attributable to owners of parent at ¥3,263mn (-3.0%). The COVID-19 had a minimal impact on FY3/20 results.

For the FY3/20 business environment, there were concerns about the impact of the intensification of the US-China trade friction, but it seems that the impact of conditions specific to the Company, such as the decline in smart-phone-related parts, were larger. Meanwhile, sales increased for some businesses and products, and as discussed above, it seems that poor performing products and services were offset by the breadth of the Company's products, services, and customers.

In profits, the gross profit margin declined from 10.0% in the same period in the previous fiscal year to 9.8% due to the change in the product mix. SG&A expenses increased 2.8% YoY, but the decline in sales caused the SG&A expenses ratio to increase from 6.6% in FY3/19 to 7.1% in FY3/20. The increase in SG&A expenses (¥337mn) included a ¥268mn increase in personnel costs, impacted by both the increase in personnel and revisions to the salary structure. Transportation and packing expenses declined ¥35mn, but the decline was relatively small considering the decline in sales (decline in quantity), as unit prices increased due to the shortage of manpower. Other expenses increased ¥104mn. The main reason for this was the increase in the amount of provision of allowance for doubtful accounts, following the reversal gain that arose in FY3/19 due to the revision of the provision ratio for doubtful accounts. As a result, operating profit decreased 24.8% to ¥4,765mn.

Summary of FY3/20 results

	FY3/19		FY3/20			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	183,399	100.0	175,654	100.0	-7,745	-4.2
Gross profit	18,384	10.0	17,152	9.8	-1,232	-6.7
SG&A expenses	12,048	6.6	12,386	7.1	337	2.8
Operating profit	6,335	3.5	4,765	2.7	-1,570	-24.8
Ordinary profit	6,188	3.4	4,499	2.6	-1,689	-27.3
Profit attributable to owners of parent	3,364	1.8	3,263	1.9	-101	-3.0

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

(2) Sales by region

In terms of net sales by region, net sales in Japan were ¥98,211mn (+2.2% YoY), net sales in China were ¥33,061mn (-21.4%), net sales in other areas of Asia were ¥34,323mn (+3.3%), and net sales in Europe and the US were ¥10,057mn (-16.0%). In terms of segment profit by region, segment profit in Japan was ¥2,169mn (-26.4% YoY), segment profit in China was ¥827mn (-38.7%), segment profit in other areas of Asia was ¥1,087mn (-8.6%), and segment profit in Europe and the US was ¥355mn (-10.1%).

Business performance

Although the decline in sales to China due to factors such as the impact of the suspension of exports from China to the US had a significant impact on the overall business performance, domestic profits have declined despite higher sales, and it can be said that domestic business has also pulled down profitability. This is also due to changes in the product mix, which had a relatively high profit margin but declined in FY3/20.

Situation by region

	FY3/19		FY3/20				(¥mn, %)
	Amount	Composition	Amount	Composition	Change	Change (%)	
Net sales	183,399	100.0	175,654	100.0	-7,745	-4.2	
Japan	96,136	52.4	98,211	55.9	2,075	2.2	
China	42,046	22.9	33,061	18.8	-8,985	-21.4	
Other Asian countries	33,243	18.1	34,323	19.5	1,080	3.3	
Europe, US	11,973	6.5	10,057	5.7	-1,916	-16.0	
Operating profit	6,335	3.5	4,765	2.7	-1,570	-24.8	
Japan	2,946	-	2,169	-	-777	-26.4	
China	1,351	-	827	-	-524	-38.7	
Other Asian countries	1,190	-	1,087	-	-103	-8.6	
Europe, US	395	-	355	-	-40	-10.1	
(Adjustment amount)	451	-	325	-	-	-	

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

(3) Financial condition

Current assets totaled ¥86,276mn (-¥4,218mn YoY). Key factors were the ¥2,327mn decline in cash and deposits, the ¥2,502mn decline in notes and accounts receivable-trade, and a ¥554mn increase in inventories. The increase in inventories was due to requests from customers to delay shipments at the end of FY3/20 because of COVID-19. Non-current assets were ¥5,504mn (+¥332mn). This was due to a ¥795mn increase in property, plant and equipment, a ¥219mn decrease in intangible assets, and a ¥244mn decline in investments and other assets. As a result, total assets at the end of FY3/20 were ¥91,781mn (- ¥3,886mn).

Meanwhile, total liabilities were ¥40,885mn (-¥4,725mn YoY). The main factors were the ¥4,562mn decrease in notes and accounts payable-trade, the ¥83mn decline in short-term loans payable, and the ¥182mn decline in non-current liabilities. The decline in notes and accounts payable-trade was not the result of special factors such as changes to payment terms with customers, but instead the result of the end of FY3/19 having been a bank holiday, which moved payments back to April, causing a one-off increase in notes and accounts payable-trade at the end of FY3/19, and the reverse effect of this arising at the end of FY3/20. Net assets were ¥50,896mn (+¥839mn), due to the ¥1,830mn increase in retained earnings due to the booking of profit attributable to owners of parent, among other factors. As a result, the equity ratio as of the end of FY3/20 was 55.5% (compared to 52.3% at the end of FY3/19).

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Business performance

Consolidated balance sheet

	FY3/19	FY3/20	Change
			(¥mn)
Cash and deposits	25,714	23,387	-2,327
Notes and accounts receivable-trade	52,801	50,298	-2,502
Inventories	10,886	11,441	554
Total current assets	90,495	86,276	-4,218
Property, plant and equipment	2,390	3,185	795
Intangible fixed assets	691	472	-219
Investments and other assets	2,090	1,846	-244
Total non-current assets	5,172	5,504	332
Total assets	95,667	91,781	-3,886
Notes and accounts payable-trade	41,371	36,809	-4,562
Short-term loans payable	83	-	-83
Total current liabilities	44,291	39,748	-4,543
Total non-current liabilities	1,318	1,136	-182
Total liabilities	45,610	40,885	-4,725
Net assets	50,056	50,896	839

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

(4) Status of cash flows

Net cash provided by operating activities was ¥398mn. The main inflows included ¥4,472mn in income before income taxes, ¥528mn in depreciation and amortization, and ¥1,711mn decline in notes and accounts receivable-trade. The main outflows included an ¥861mn increase in inventories, and a ¥3,612mn decline in notes and accounts payable-trade.

Net cash used in investing activities was ¥309mn. The main outflows included ¥308mn in purchase of property, plant and equipment. Net cash used in financing activities was ¥1,747mn. The main outflows included ¥1,432mn of cash dividends paid. As a result, cash and cash equivalents declined ¥2,327mn, and the balance of cash and cash equivalents at the end of FY3/20 was ¥23,387mn.

In the Automotive and the Broad Market, secured a steady increase in sales even in unfavorable business environments

2. Net sales trends by market

Breakdown of net sales trends by market

	FY3/19		FY3/20		YoY	Main target markets	Change
	Results	Composition	Results	Composition			
Digital Electronics	90,240	49.2%	79,688	45.4%	-11.7%	Mobile	-4,548
						Home electronics	-3,527
						Electrical and electronic parts/semiconductor packages	-2,693
Automotive	26,780	14.6%	27,187	15.5%	1.5%	Overall automotive	407
Broad Market	66,379	36.2%	68,778	39.2%	3.6%	Aftermarket	2,804
						Medical equipment	980
Total	183,399	100.0%	175,654	100.0%	-4.2%		

Source: Prepared by FISCO from the Company's results briefing materials

Business performance

In the Digital Electronics market in FY3/20, net sales were ¥79,688mn (-11.7% YoY). Looking at the details by product and markets, the biggest change was in mobile devices, with sales declining ¥4,548mn YoY. This was not due to the impact of the US-China trade friction, but because of conditions at business partners. The next biggest change was in consumer electronics (mainly for TVs), with sales decreasing ¥3,527mn. Furthermore, given the decline in production activity in China due to the US-China trade friction and other factors, sales of electrical and electronic parts/semiconductor packages used in a variety of fields declined ¥2,693mn.

In the Automotive market in FY3/20, net sales increased 1.5% YoY to ¥27,187mn. The Company has expectations for the automotive-related market and products as a growth field in the future, and it is focusing on this field. Therefore, the impression is that the sales-increase rate of 1.5% is a little low, but this was a pretty good effort considering the low levels of automobile production in Japan and China.

In the Broad market, net sales increased 3.6% YoY to ¥68,778mn. This segment includes all businesses other than the Digital Electronics and Automotive, but among them, in FY3/20, sales grew in the aftermarket (+¥2,804mn YoY) and medical equipment (+¥980mn) businesses. This segment was named aftermarket based on the sales channel, but in terms of content, it is mainly drive recorder-related products. Conversely, medical equipment is mainly ultrasound diagnosis equipment-related products at the present time. Continuing on from the previous fiscal year, these two businesses are driving the growth of the Broad Market.

■ Outlook

FY3/21 full year forecast has not been released due to the impact of the COVID-19

The Company has put off announcing forecasts for full year FY3/21 results, as it is unable to assess the impact of the COVID-19. Going forward, the Company plans to quickly disclose forecasts at such time as it is able to reasonably estimate them. However, judging based on the current situation, for 1Q FY3/21 (April – June 2020), the Company is forecasting net sales of ¥41,000mn (-3.7% YoY), operating profit of ¥900mn (-22.8%), ordinary profit of ¥850mn (-22.3%) and profit attributable to owners of parent of ¥600mn (-26.7%).

■ The medium- to long-term growth strategy

Announcement of new medium-term business plan “elematec NEXT.” Will focus on three fields and pursue quantitative expansion and qualitative improvement

1. Summary of previous medium-term business plan “elematec x (Cross)”

The previous medium-term business plan “elematec x (Cross)” concluded at the end of FY3/20. Achievements and issues from the period of the strategy are as follows.

Achievements include growth in the automotive field through sales of EV and HV-related products, as well as the strengthening of the module/ODM businesses such as drive recorders and medical equipment-related businesses. Also, the Company enhanced the functions of the Design Department in line with the expansion of personnel and facilities, such as strength and flow analysis of machinery and housing design, and acquisition of personnel in charge of software.

Meanwhile, some issues remained. Such issues included the acquisition of growing overseas customers (American and Chinese companies), the discovery of new products that meet customer needs and creation of added value such as modularization, and product planning and proposals incorporating new technologies.

2. Overview and key domains of the new medium-term business plan “elematec NEXT”

With the conclusion of the previous medium-term plan ended in FY3/20, the Company announced its new medium-term business plan “elematec NEXT” which runs from FY3/21 through FY3/23. The three pillars of this medium-term business plan are the expansion of high value-added businesses, the acquisition of major domestic and overseas customers, and the focus on the automotive field.

An overview is provided below, but the key change between the new and previous medium-term business plans is that the Company has shifted its aim from quantitative expansion to qualitative improvement. The goals of the previous “elematec x (Cross)” were automobiles, automation/labor-saving equipment, strengthening the B-to-B-to-C business, and bolstering functions was geared more towards quantitative expansion targeting growth markets. On the other hand, as discussed below, the new medium-term business plan places emphasis on qualitative improvements, such as improving internal systems, appropriate allocation of resources, and diving deeper into key markets. The outcome of this should be an improvement in gross profit margin, rather than an increase in net sales. Unfortunately, due to the influence of the COVID-19, the quantitative targets for this medium-term corporate strategy have not been announced, but close attention should be paid to the future trends in the gross profit margin.

3. Strengthen high value-added businesses

(1) Enhancement of proposal ability to customers by strengthening internal cooperation

The Sales Division, which is on the front lines of business, and the supporting Marketing & Development Division, the Design Department, and the Environment Preservation & Quality Assurance Department will strengthen cooperation with one another, and further improve the ability to make proposals to customers. The Company will enhance unique planning development and design functions, and expand sales of modules and finished products (ODM).

The medium- to long-term growth strategy

(2) Proposal of optimal solutions by using different types of products

By using both high-performance products made in Japan and high-cost-performance products made in emerging countries, the Company will propose the optimal solutions for customers. As an example, general-use products are products made in emerging countries, while specialty products will be products made in Japan.

4. Cultivate leading domestic and overseas customers

As discussed above, the Company has many customers, but most of these customers are Japanese companies and their overseas subsidiaries. As a result, going forward the Company plans to increase sales to major US and Chinese companies, and it will actively invest resources in order to do this. Specifically, in addition to establishing a dedicated team targeting overseas customers, the Company itself will open its own customer development bases. The Company plans to provide competitive products and value-added services by leveraging its technological capabilities and quality control capabilities. Specifically, the Company will establish a showroom in San Jose and perform demonstrations centering on Japanese products to promote them to major US customers. In addition, development staff will be stationed at the local subsidiary in Shenzhen to enable the timely and appropriate development of Japanese products, and to capture leading Chinese customers.

5. Strengthen automobile-related business

The Company will focus on the automotive field, which is undergoing a once-in-a-century transformation, and in which the ratio of electrification will continue to increase. The Company plans to allocate management resources to expand the scope of the automotive field. The Company will focus on the following four fields in particular.

(1) Overseas Tier-1 offensive

The Company will invest resources to go on the offensive targeting overseas Tier-1 manufacturers, etc., not only Tier-1 Japanese manufacturers. The Company will also work to develop businesses not limited to domestic customers.

(2) Strengthen the functions of the Company's factories

The Company will strengthen the functions of its Chinese factories in Wuxi and Dalian. Doing so will improve price competitiveness through increasing the rate of in-house production of automotive-related materials.

(3) Collaboration with Toyota Tsusho

The Company will leverage Toyota Tsusho Group's various functions, know-how and overseas network, and accelerate growth through linkage with its unique functions.

(4) Establishment of dedicated teams

The Company will establish dedicated teams for key customers and products, and increase the size of deals by digging deeper into customers' needs.

The Company will also focus on the following three fields as priority action items

(1) Advanced driving support/autonomous driving systems

The Company will develop core unit-related products that support the systems. Examples of this include growing the camera, Lidar, millimeter wave, and other businesses.

The medium- to long-term growth strategy

(2) Shift to EV

The Company aims to acquire major domestic and overseas customers that develop and produce key units. Specific initiatives include the expansion of heat source products such as heaters and integrated sensors, and the expansion of the motor-related business and broadening the product range.

(3) HMI: Human Machine Interface

The Company will cultivate decoration-related products. Specific initiatives include the expansion of the cockpit module business, and not only plastic products, but the total coordination to electronic and electrical components (heater control, LED ASSY, etc.)

6. Strengthen corporate governance/Development of human resources

This medium-term business plan also includes the goal of appropriately developing and operating infrastructure that keeps a good balance between applying the accelerator (sales support) and applying the brakes (risk avoidance) in order for the Company to achieve healthy growth.

(1) Accelerator: Three key actions

a) Development of global human resources

The Company will hire excellent human resources, conduct systematic education, implement overseas training programs, and have periodic rotations, among other measures.

b) Development of IT infrastructure

The Company will unify the group ERP (accounting system), enhance security, and introduce RPA, among other measures.

c) Lateral support for sales activities

The Company will undertake initiatives such as promoting FS support for investment projects and advancing logistics management on a global basis.

(2) Brake: Strengthening of corporate governance

The Company will strengthen risk management, internal controls, and compliance. Specific efforts will include bolstering governance at overseas subsidiaries, enhancing financial risk management, and strengthening trade control systems.

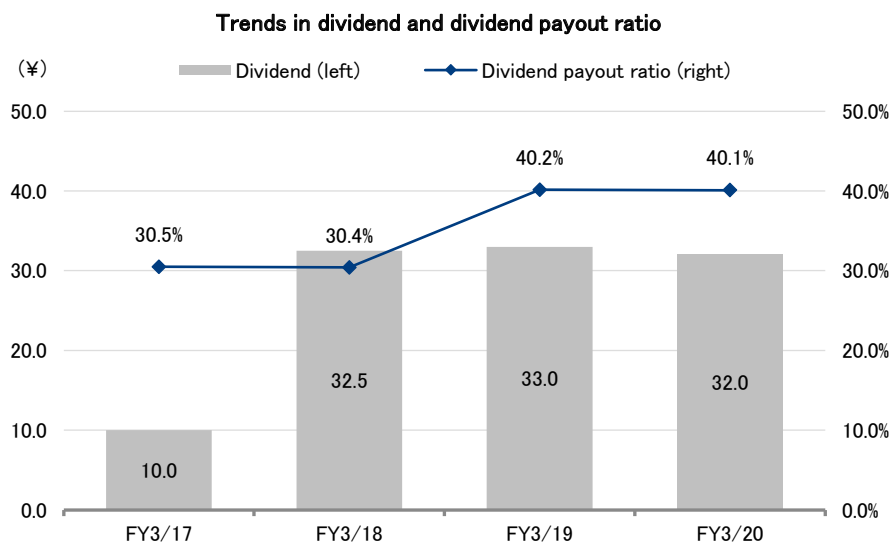
■ Shareholder return policy

The FY3/21 dividend amount is still undetermined, but no changes have been made to the basic dividend policy. Targeting ROE of 10% over the long term

The Company fundamentally utilizes dividends as shareholder return, and has set a target dividend payout ratio of at least 40%. The Company paid annual dividends of ¥33 (after adjustment for the two-for-one stock split executed in June 2019) in FY3/19 and ¥32 in FY3/20. The dividend payout ratios were 40.2% and 40.1%, respectively.

Concerning FY3/21 underway, the Company has not announced the annual dividend amount due to the fact that it has not even announced a profit forecast, but the Company has stated that the amount is still undetermined but it plans to maintain a dividend payout ratio of at least 40%, and that it will announce the annual dividend amount when it announces its profit forecast.

Also, the Company has set ROE of 10% as a long-term goal. In order to achieve this goal, it will be necessary to achieve profit growth while avoiding an excessive increase in equity. This is by no means an easy goal, but we hope the management team will rise to the occasion.



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



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