COMPANY RESEARCH AND ANALYSIS REPORT

Elematec Corporation

2715

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Index

Summary

The Company added "high value-added businesses" to "pursuing growth markets" as its medium- to long-term strategy and aims to expand its medium- to long-term earnings with this 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 1H FY3/21, net sales decreased 3.3% YoY and operating income declined 7.5%. These results mainly reflected the impact of stagnant production activities in the automotive market due to COVID-19

The Company announced 1H FY3/21 results with ¥85,164mn in net sales (-3.3% YoY), ¥2,152mn in operating income (-7.5%), ¥2,033mn in ordinary profit (-10.1%), and ¥1,409mn in profit attributable to owners of parent (-15.7%). Overall sales declined due to decreased sales to the automotive sector and sluggish sales to the home electronics sector due to the impact of coronavirus disease 2019 (COVID-19), despite steady growth in some fields and products including drive recorders for the aftermarket. The gross profit margin declined slightly due to a change in the product mix. SG&A expenses decreased YoY because of declines in travel and transportation expenses, among other items, due to the impact of COVID-19. However, the lower SG&A expenses were unable to offset the decrease in gross profit due to lower net sales, leading to a decline in operating income. Nevertheless, in terms of quarterly performance trends, business performance decreased sharply in 1Q FY3/21 (April-June fiscal accounting period) due to the impact of COVID-19 but recovered in 2Q FY3/21 (July-September fiscal accounting period) to almost the same level as the corresponding period of the previous fiscal year.

2. Operating income is forecast to decline 7.7% in FY3/21, and the annual dividend is forecast at ¥32

For its FY3/21 full-year forecasts, based on 1H FY3/21 results, the Company is currently forecasting net sales of ¥174,000mn (-0.9% YoY), operating income of ¥4,400mn (-7.7%), ordinary profit of ¥4,200mn (-6.7%), and profit attributable to owners of parent of ¥2,900mn (-11.1%). Looking at the outlook by market segment, net sales in the Broad Market segment are forecast to increase, supported by drive recorders, motors and certain other products, while net sales in the Digital Electronics segment (LCDs, touch panels, mobile devices, etc.) and the Automotive segment are forecast to decrease. SG&A expenses are forecast to continue to decrease. The Company is forecasting a decrease in operating income on a full-year basis, due to the lingering impact of the downturn in 1Q FY3/21. The annual dividend is forecast at ¥32 (comprising an actual interim dividend of ¥13 and a year-end dividend forecast of ¥19), which is on par with the previous fiscal year.

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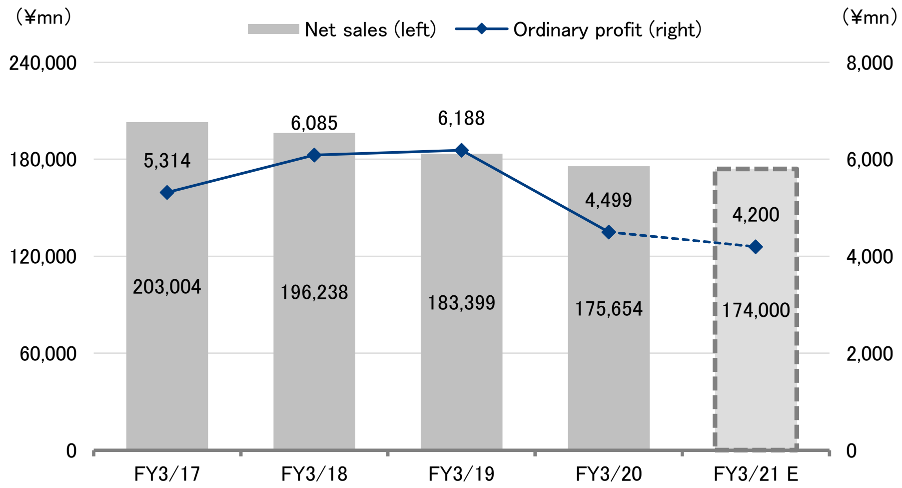
3. Will strengthen three strategies in medium-term business plan "elematec NEXT"

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. Notably, with high value-added businesses, the Company has been making steady progress on upgrading and expanding game console-related products and new products such as personal hygiene-related products.

Key Points

- Aiming for earnings growth with the two-pronged approach of pursuing growth markets and high value-added businesses
- Operating income decreased 7.5% in 1H FY3/21 due to COVID-19 and is forecast to decline 7.7% for the FY3/21 full year
- 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

Results trends



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

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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, founded 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 they grew into independent technology trading companies.

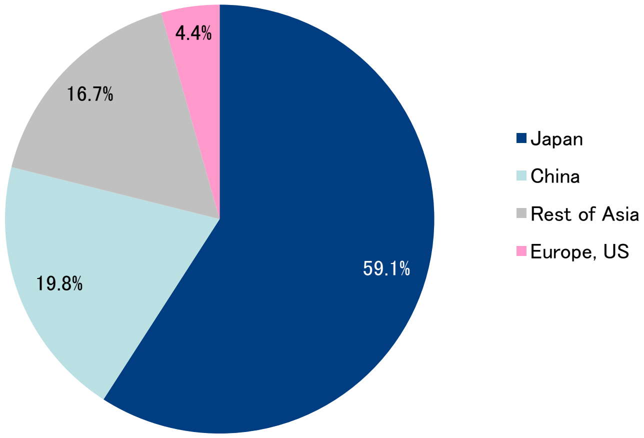
These companies merged in 2009 (with Takachiho Electric as the surviving entity) and changed to the name, Elematec Corporation. The Company has steadily grown since the merger, even though both predecessors mainly handled electronic materials, thanks to complementary geographical positions in Tokyo and 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 September 30, 2020, it has 1,174 employees and 61 sites in Japan and other countries on a consolidated basis as the business foundation. The business sites include three operations with processing services (one in Japan and two in China).

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 1H FY3/20 was 59.1% in Japan, 19.8% in China (including HongKong), 16.7% in the rest of Asia, and 4.4% 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.

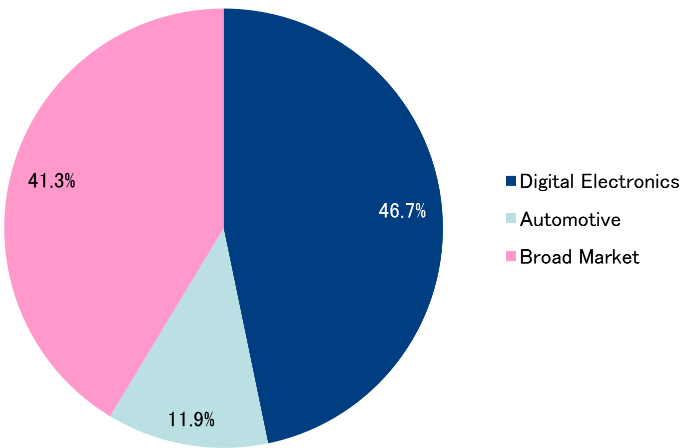
Net sales by region (FY3/21 1H)



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 1H FY3/21, Digital Electronics accounts for 46.7% of sales, Automotive accounts for 11.9% of sales, and Broad Market accounts for 41.3% of sales.

Net sales trends by market (FY3/21 1H)



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

Realized stable growth in business performance leveraging numerous products and business partners. Will focus on “high value-added businesses” 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 6,800 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 44.5% of net sales (1H FY3/21). 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. Currently, the business environment cannot be described as ideal due to U.S.-China trade friction and the impact of COVID-19. The Company is working to overcome the tides of change without suffering a large drop in business results by skillfully controlling two variable factors, specifically the business environment and growth markets. It can be said that the Company is showing itself at its best through these efforts.

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. The Company also provides even more sophisticated, high value-added services and functions, such as planning and development/design and manufacturing services. 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.

Looking ahead, the Company plans to strengthen activities in high value-added businesses by combining its core characteristics and strengths with its functions and know-how as an independent technology trading company. Until now, the Company drove income gains with nimble responsiveness to growth markets (horizontal development), but going forward it will aim for additional growth based on high value-added businesses (vertical development). As evidence of this shift in direction, the Company is currently making steady progress on upgrading and expanding products for game consoles and new products such as personal hygiene-related products. (Details are provided later in the report.)

3. Five services and functions

(1) Planning and development/design: Planning and 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.

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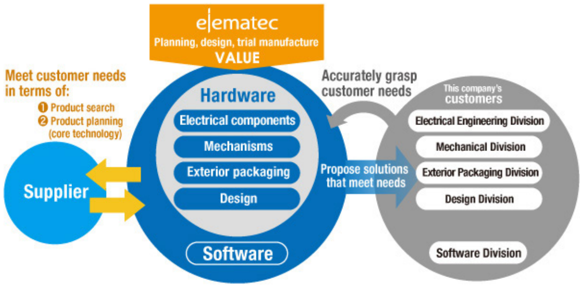
Illustration of planning development/design

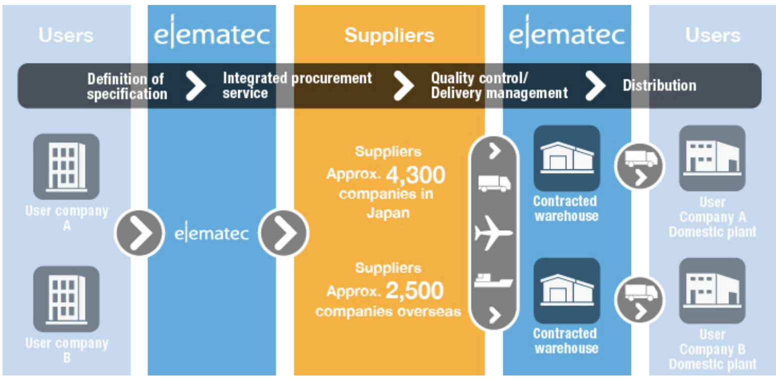


Source: The Company's website

(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.

Illustration of procurement agency service



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."

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(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 2008 financial crisis 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.

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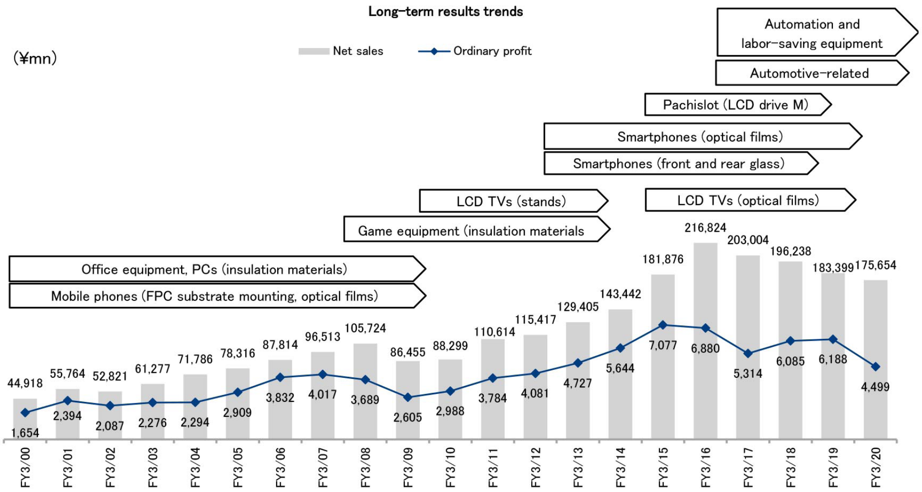
Long-term results trends



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

Business performance

Sales and profits declined, mainly because of decreased sales in the Automotive segment due to the impact of stagnant production activities in the automotive market

1. Overview of 1H FY3/21 results

(1) Trends in profit and loss

The Company announced 1H FY3/21 business results with net sales of ¥85,164mn (-3.3% YoY), operating income of ¥2,152mn (-7.5%), ordinary profit of ¥2,033mn (-10.1%), and profit attributable to owners of parent of ¥1,409mn (-15.7%). Overall sales declined due to decreased sales to the automotive sector and sluggish sales to the home electronics sector due to the impact of COVID-19, despite steady growth in some fields and products including drive recorders for the aftermarket. Nevertheless, in terms of quarterly performance trends, net sales in 1Q FY3/21 (April-June fiscal accounting period) decreased sharply by 6.8% YoY due to the impact of COVID-19 but net sales recovered in 2Q FY3/21 (July-September fiscal accounting period) to almost the same level as the corresponding period of the previous fiscal year.

In profits, the gross profit margin declined from 9.7% in the same period in the previous fiscal year to 9.4% due to the change in the product mix. SG&A expenses decreased 6.0% YoY to ¥5,861mn. The decline in sales caused the SG&A expenses ratio to decrease from 7.1% in 1H FY3/20 to 6.9% in 1H FY3/21. The decrease in SG&A expenses (¥371mn) included a ¥40mn decrease in personnel costs, mainly reflecting decreases in legal welfare expenses, such as a reduction and exemption of social insurance premiums in China. Transportation and packing expenses increased ¥76mn YoY because of surging transportation costs due to constraints on logistics, despite a decrease in quantity due to the impact of COVID-19. Other expenses decreased ¥407mn. The main reason for this decrease was that travel and transportation expenses declined mainly due to a voluntary, temporary suspension of business trips due to the impact of COVID-19. As a result, operating income decreased 7.5% to ¥2,152mn.

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Business performance was significantly impacted by COVID-19 primarily in products for the automotive sector in 1Q FY3/21, but recovered in 2Q FY3/21. At this time, business performance has been restored to almost the same level before the COVID-19 outbreak.

Summary of 1H FY3/21 results

(¥mn, %)

	1H FY3/20		1H FY3/21			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	88,057	100.0	85,164	100.0	-2,893	-3.3
Gross profit	8,559	9.7	8,013	9.4	-546	-6.4
SG&A expenses	6,232	7.1	5,861	6.9	-371	-6.0
Operating income	2,326	2.6	2,152	2.5	-174	-7.5
Ordinary profit	2,262	2.6	2,033	2.4	-229	-10.1
Profit attributable to owners of parent	1,671	1.9	1,409	1.7	-262	-15.7

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 ¥50,374mn (+9.5% YoY), net sales in China were ¥16,884mn (-6.1%), net sales in other areas of Asia were ¥14,195mn (-17.0%), and net sales in other regions (primarily Europe and the US) were ¥3,710mn (-46.6%). Net sales increased in Japan mainly due to favorable sales of drive recorders for the aftermarket. In China, net sales increased, albeit slightly, owing to relatively favorable sales related to electrical and electronic parts, in addition to the fact that the impact of COVID-19 subsided at a relatively early stage. Net sales in other areas of Asia decreased as these sales were heavily impacted by COVID-19, in addition to lackluster sales to the home electronics sector (mainly for TVs) due to circumstances at customers.

In terms of segment profit by region, segment profit in Japan was ¥816mn (-8.1% YoY), segment profit in China was ¥647mn (+14.1%), segment profit in other areas of Asia was ¥372mn (-35.3%) and segment profit in other regions was ¥119mn (-35.3%). Segment profit in Japan decreased despite higher net sales because of a decline in sales of products to the automotive sector, which have relatively high profit margins. Meanwhile, the large increase in segment profit in China was mainly due to a decrease in expenses as a result of a reduction and exemption of social security premiums. Segment profit in other parts of Asia decreased in line with lower net sales. In other regions, there was a large percentage decrease in segment profit, but the amount of the decrease was small.

Situation by region

(¥mn, %)

	1H FY3/20		1H FY3/21			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	88,057	100.0	85,164	100.0	-2,893	-3.3
Japan	46,026	52.3	50,374	59.1	4,348	9.5
China	17,986	20.4	16,884	19.8	-1,102	-6.1
Other Asian countries	17,097	19.4	14,195	16.7	-2,902	-17.0
Europe, US	6,947	7.9	3,710	4.4	-3,237	-46.6
Operating income	2,326	-	2,152	-	-174	-7.5
Japan	888	-	816	-	-72	-8.1
China	567	-	647	-	80	14.1
Other Asian countries	575	-	372	-	-203	-35.3
Europe, US	184	-	119	-	-65	-35.3
(Adjustment amount)	111	-	196	-	-	-

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

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(3) Financial condition

Current assets totaled ¥87,948mn (+¥1,671mn from the end of FY3/20). Key factors were the ¥3,411mn increase in cash and deposits, the ¥1,774mn decline in notes and accounts receivable-trade, and a ¥159mn increase in inventories. Non-current assets were ¥5,626mn (+¥122mn). This increase was mainly due to an increase in investments and other assets of ¥156mn (including an increase in investment securities of ¥88mn). As a result, total assets at the end of 1H FY3/21 were ¥93,575mn (+¥1,794mn).

Meanwhile, total liabilities were ¥41,868mn (+¥983mn from the end of FY20/3). The main contributing factor was an ¥842mn increase in short-term loans payable under current liabilities. The increase in short-term loans payable reflected an increase in borrowings due to a slightly tight funding situation caused by factors such as an increase in dividends at a Chinese subsidiary. Net assets were ¥51,706mn (+¥810mn), due to the ¥795mn 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 1H FY3/21 was 55.3% (compared to 55.5% at the end of FY3/20).

Consolidated balance sheets

(¥mn)

	End of FY3/20	End of 1H FY3/21	Change
Cash and deposits	23,387	26,799	3,411
Notes and accounts receivable-trade	50,298	48,523	-1,774
Inventories	11,441	11,600	159
Total current assets	86,276	87,948	1,671
Property, plant and equipment	3,185	3,213	27
Intangible assets	472	410	-61
Investments and other assets	1,846	2,002	156
Total non-current assets	5,504	5,626	122
Total assets	91,781	93,575	1,793
Notes and accounts payable-trade	36,809	36,899	90
Short-term loans payable	-	842	842
Total current liabilities	39,748	40,727	979
Total non-current liabilities	1,136	1,140	4
Total liabilities	40,885	41,868	983
Net assets	50,896	51,706	810

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 ¥3,918mn. The main inflows included ¥2,033mn in income before income taxes, ¥298mn in depreciation and amortization, and a ¥1,716mn decline in notes and accounts receivable-trade and a ¥167mn increase in notes and accounts payable-trade. The main outflows included an ¥217mn increase in inventories. Cash flows from operating activities appear to have increased substantially compared with the same period of the previous fiscal year. However, this only reflects a temporary decrease in cash flows in the same period of the previous fiscal year, as a result of the end of FY3/19 falling on a bank holiday. Accordingly, it can be said that cash flows from operating activities have returned to a normal level in 1H FY3/21.

Net cash used in investing activities was ¥576mn. The main outflows included ¥518mn in purchase of property, plant and equipment. Net cash provided by financing activities was ¥111mn. The main inflow was a net increase in short-term loans payable of ¥851mn, while the main outflow was cash dividends paid of ¥613mn. As a result, cash and cash equivalents increased ¥3,411mn, and the balance of cash and cash equivalents at the end of 1H FY3/21 was ¥26,799mn.

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Statements of Cash Flows

(¥mn)

	1H FY3/20	1H FY3/21
Cash flows from operating activities	678	3,918
Income before income taxes	2,268	2,033
Depreciation and amortization	234	298
Decrease (increase) in notes and accounts receivable-trade	1,852	1,716
Decrease (increase) in inventories	(-437)	(-217)
Increase (decrease) in notes and accounts payable-trade	(-2,516)	167
Cash flows from investing activities	-96	-576
Purchase of property, plant and equipment	-123	-518
Purchase of intangible assets	-48	-77
Cash flows from financing activities	-817	111
Net increase (decrease) in short-term loans payable	22	851
Cash dividends paid	-736	-613
Net increase (decrease) in cash and cash equivalents	(-893)	3,411
Cash and cash equivalents at the end of the period	24,821	26,799

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

Overall, net sales decreased only slightly as sales for LCDs and drive recorders remained favorable, despite sluggish sales to the automotive and home electronics sectors due to the impact of COVID-19

2. Net sales trends by market

Breakdown of net sales trends by market

(¥mn)

	1H FY3/20		1H FY3/21				
	Results	Composition	Results	Composition	YoY	Main target markets	Change
Digital Electronics	40,655	46.2%	39,812	46.7%	-2.1%	Home electronics	-2,833
						Cameras and camera modules	-984
						Electrical and electronic parts	1,761
						LCDs, touch panels, and backlight	1,589
Automotive	13,609	15.5%	10,174	11.9%	-25.2%	Overall automotive	-3,435
Broad Market	33,792	38.4%	35,178	41.3%	4.1%	Aftermarket	3,309
						Office equipment	-1,687
Total	88,057	100.0%	85,164	100.0%	-3.3%		-2,893

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

In the Digital Electronics market in FY3/21 1H, net sales were ¥39,812mn (-2.1% YoY). Looking at the breakdown by product and market, the largest change was in home electronics, where sales decreased by ¥2,833mn YoY. This decrease was due to circumstances at customers (primarily TVs). The next largest impact was felt in cameras and camera modules, where sales decreased by ¥984mn. This area was impacted by the production of digital cameras by customers. On the other hand, electrical and electronic parts saw an increase in sales of ¥1,761mn. This increase was mainly due to the acquisition of new customers. In addition, sales increased by ¥1,589mn in LCDs, touch panels, and backlight. This increase was mainly due to the start of mass production of automotive LCDs, for which orders were received in the second half of the previous fiscal year.

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In the Automotive market in 1H FY3/21, net sales decreased 25.2% YoY to ¥10,174mn. Notably, there was a significant impact from stagnation in the whole automotive market due to the impact of COVID-19 in 1Q FY3/21 (April-June). At the beginning of 2Q FY3/21, sales had recovered to almost the same level of the corresponding period of the previous fiscal year, but were not sufficient to cover the downturn in 1Q FY3/21. As a result, sales decreased substantially for the 1H FY3/21 period.

In the Broad market, net sales increased 4.1% YoY to ¥35,178mn. This segment includes all markets other than Digital Electronics and Automotive. In this segment, sales for the aftermarket grew substantially by ¥3,309mn. In terms of content, this growth mainly consisted of drive recorder-related products. Meanwhile, sales of office equipment decreased ¥1,687mn due to sluggish sales of products for multifunction copiers.

Outlook

FY3/21 full-year forecasts call for a 7.7% earnings decrease, despite a recovery in 2H FY3/21

● **Forecasts for FY3/21**

(1) Trends in profit and loss

For full-year business results for FY3/21, based on the results for 1H FY3/21, the Company is currently forecasting net sales of ¥174,000mn (-0.9% YoY), operating income of ¥4,400mn (-7.7%), ordinary profit of ¥4,200mn (-6.7%) and profit attributable to owners of parent of ¥2,900mn (-11.1%).

Demand is projected to increase for products such as drive recorders in response to heightened demand for safety measures, and game console-related parts in response to stay-at-home demand due to COVID-19. Demand for automotive products is expected to rebound in 2H FY3/21, but it is not expected to cover the downturn experienced in 1Q FY3/21. Based on this, sales are expected to decrease on a full-year basis.

SG&A expenses are forecast to decrease YoY.

Summary of FY3/21 full-year forecasts

(¥mn, %)

	FY3/20		FY3/21 E			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	175,654	100.0	174,000	100.0	-1,654	-0.9
Operating income	4,765	2.7	4,400	2.5	-365	-7.7
Ordinary profit	4,499	2.6	4,200	2.4	-299	-6.7
Profit attributable to owners of parent	3,263	1.9	2,900	1.7	-363	-11.1

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

(2) Sales forecasts by market

For FY3/21, net sales in Digital Electronics are forecast at ¥75,372mn (-5.4%). By product and market, LCDs, touch panels, and backlight sales are projected to decrease by ¥5,353mn. This decrease is due to a shift in products by customers (from LCDs to OLEDs). Sales for mobile devices are forecast to decrease ¥2,043mn in Japan. Sales for toy and hobby are expected to increase ¥3,439mn due to the launch of a new product (game console) by a major customer.

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Meanwhile, in Automotive, 2H FY3/21 sales alone are set to slightly surpass sales in the corresponding period of the previous fiscal year, but these sales will not be able to cover the downturn experienced in 1H FY3/21 (especially in 1Q FY3/21). Based on this outlook, net sales in Automotive are expected to decrease 15.3% to ¥23,030mn on a full-year basis. In Broad Market, net sales are forecast to increase 9.9% to ¥75,597mn. By product, sales for the aftermarket are forecast to increase ¥6,044mn, centered on drive recorders, and sales of motor-related products are expected to increase by ¥1,012mn, due mainly to firm demand in China. On the other hand, sales of office equipment are expected to decrease by ¥2,426mn because of sluggish demand for multifunction copiers.

Breakdown of sales forecasts by market

(¥mn)

	1H FY3/20		1H FY3/21				
	Results	Composition	Results	Composition	YoY	Main target markets	Change
Digital Electronics	79,688	45.4%	75,372	43.3%	-5.4%	LCDs, touch panels, and backlight	-5,353
						Mobile devices	-2,043
						Toy and hobby	3,439
Automotive	27,187	15.5%	23,030	13.2%	-15.3%	Overall automotive	-4,157
Broad Market	68,778	39.2%	75,597	43.4%	9.9%	Aftermarket	6,044
						Motors	1,012
						Office equipment	-2,426
Total	175,654	100.0%	174,000	100.0%	-0.9%		-1,654

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

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.

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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.

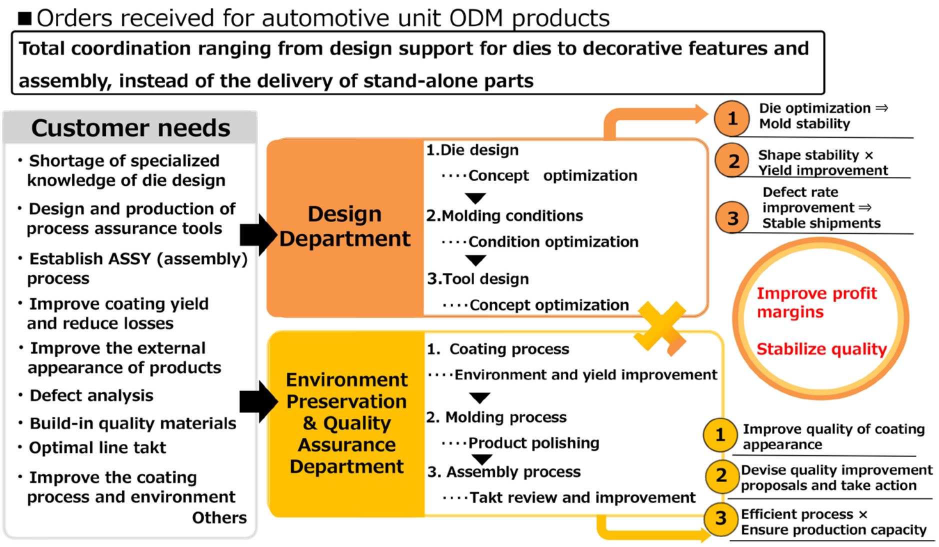
3. Strengthen high value-added businesses

(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).

One specific example is orders received for automotive unit ODM products. These orders involve the delivery of a higher value-added unit featuring total coordination ranging from design support for dies, to decorative features and assembly, instead of the delivery of stand-alone parts, as was done previously. To summarize the process for receiving such an order, first the Sales Division identifies various requests and needs from a customer and feeds this information back to the relevant departments such as the Design Department and the Environment Preservation & Quality Assurance Department. By doing so, the departments work closely to devise optimal solutions, conditions and so forth, ultimately paving the way for improving profit margins and ensuring stable quality.

Strengthen high value-added businesses



Source: From the Company's results briefing materials

(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. The Company is currently making progress on the following specific project examples.

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a) Upgrading and expanding products – 1

Demand for hygiene-related products has been increasing rapidly due to the global COVID-19 pandemic. The Company is upgrading and expanding its COVID-19-related products by leveraging its various materials and production capacity. Specific activities include the sale of PPE products such as disposable masks, the production of face shields and eyeglass shields at the Company's factories in China, and the start of sales of products made with materials containing copper, which have an anti-viral effect (antibacterial masks, and antibacterial handrail covers, etc.)

b) Upgrading and expanding products – 2

Leveraging its overseas network, the Company is working to acquire competitive new suppliers. Sales of game consoles have been increasing rapidly, supported by stay-at-home demand due to the impact of COVID-19. The Company's sales are expected to increase substantially in FY3/21 through the supply of high-performance heat-dissipating materials and environmentally friendly packaging for game consoles.

4. Cultivate leading domestic and overseas customers

(1) Cultivate leading overseas customers

In addition to establishing a dedicated team targeting overseas customers, the Company has set up bases close to the development sites of leading overseas customers. As a result, 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. Additionally, in China, 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.

(2) Cultivate leading domestic customers

In terms of measures to cultivate leading domestic customers, first, the Company will work to set up a cross-organizational dedicated team, share information and personal networks, improve decision-making speed, and enhance organization response capabilities. Through these efforts, the Company aims to increase the number of development projects it captures. Second, the Company will allocate resources to improve sales capabilities, strengthen its approach to key personnel at customers, and dig deeper into customer needs. The Company will promote the appeal of its own factories (manufacturer functions), with the aim of winning orders for prototype projects.

5. Strengthen automobile-related business

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

(1) Overseas Tier-1 offensive

The Company will invest resources to go on the offensive targeting not only Tier-1 Japanese manufacturers, but also overseas Tier-1 manufacturers (particularly in Europe and China) and other such customers. The Company will work to develop businesses not limited to domestic customers. Measures will include horizontal development of the Company's track record in Japan (cockpit modules, IR sensors, etc.) and publicity campaigns for prominent products (such as holding demonstrations of temperature control cup units).

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(2) Enhance EV/HV

The Company will strengthen collaboration with the Toyota Tsusho Group. Specifically, the Company will organize an electrification team for domestic automakers and strive to share information and incorporate new business.

Shareholder return policy

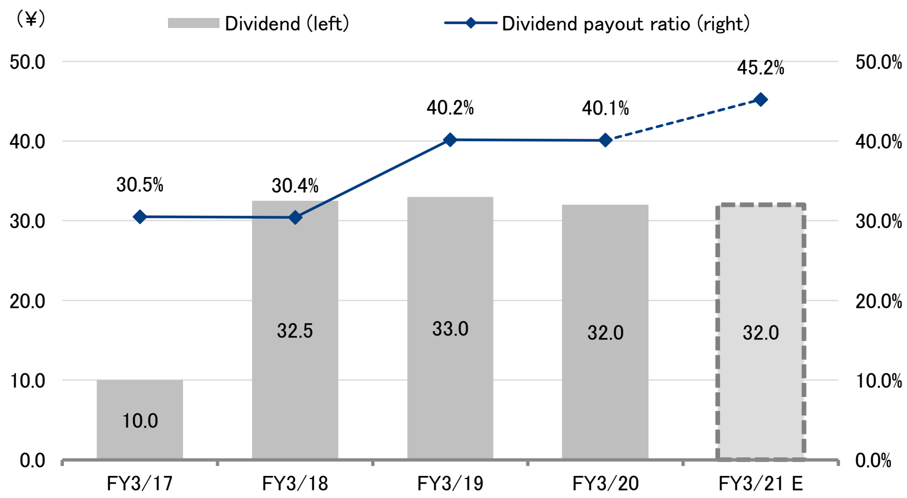
Forecasting an annual dividend of ¥32 for FY3/21
Targeting ROE of 10% over the long term

The Company fundamentally utilizes dividends as shareholder return, and has set a target dividend payout ratio of at least 40%. In fact, the Company paid annual dividends of ¥33 in FY3/19 and ¥32 in FY3/20. The dividend payout ratios were 40.2% and 40.1%, respectively.

In FY3/21, which is currently under way, the Company has already paid an interim dividend of ¥13 for 1H FY3/21 and has announced that it will pay a year-end dividend of ¥19. Accordingly, the Company plans to pay an annual dividend of ¥32 per share, the same as in the previous fiscal year. An annual dividend of no more than ¥30 would be enough to maintain a dividend payout ratio of 40%, the Company's fundamental target. However, the Company has stated that although it faces unique circumstances due to COVID-19, it will pay the same level of dividends as in the previous fiscal year, even if that results in a higher dividend payout ratio than its target, in order to reward shareholders as much as possible.

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.

Trends in dividend and dividend payout ratio



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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