

Elematec Corporation

2715

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Summary

Aims to increase its medium- to long-term earnings in a three-pronged approach of expanding high-value-added businesses, acquiring leading overseas customers and expanding the automobile business

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. In recent years, the Company has been focusing on increasing sales of module products and original design manufacturing (ODM) products that enlist the Company’s involvement from the planning stage, above and beyond limiting itself to sales of parts and materials.

1. FY3/22: Operating income increased by 52.8% amid recovery from the COVID-19 pandemic

Results for FY3/22 were ¥200,646mn in net sales (+11.3% YoY*), operating income of ¥8,346mn (+52.8%), ordinary profit of ¥7,867mn (+51.9%) and profit attributable to owners of parent of ¥5,374mn (+46.6%). It achieved a high rate of earnings increase YoY in 1H FY3/22 given that the impact of COVID-19 had been most prevalent during 1H of the previous fiscal year, yet operating income was significantly higher than even the same period of the fiscal year before that (FY3/20). Looking at earnings by region, sales increased in all regions. By market, the three business segments all increased sales, but the Broad Market segment grew particularly well, driven by the recovery in the Automotive segment and for dashboard cameras. The worldwide semiconductor shortage was noteworthy but did not substantially affect FY3/22 results.

* Although the Company has applied the “Accounting Standard for Revenue Recognition,” etc. since the beginning of FY3/22, this YoY calculation was made on the basis of figures for the previous year prior to adoption of the accounting standard.

2. For FY3/23, forecasting a 7.2% increase in operating income and an annual dividend of ¥60 (payout ratio of 40.6%)

For FY3/23, the Company is forecasting net sales of ¥225,500mn (+12.4% YoY*), operating income of ¥8,950mn (+7.2%), ordinary profit of ¥8,650mn (+9.9%), and profit attributable to owners of parent of ¥6,050mn (+12.6%). By market segment, net sales in the Digital Electronics segment are expected to increase by ¥8,669mn (+10.1%), centered on such items as LCD, touch panels and semiconductors, while net sales in the Automotive segment are forecast to increase by ¥7.615mn (+27.1%) due to increased production and capture of new projects, and net sales in the Broad Market segment are expected to increase by ¥8,569mn (+9.9%), driven by the aftermarket category centered on dashboard cameras. The gross profit margin is expected to be about the same as the previous fiscal year, but as SG&A expenses are forecast to increase, operating income is forecast to increase by 7.2%. However, these figures are based on the assumption of an exchange rate of ¥115.0 to the USD, so there is the possibility of adding further profits if the current standard continues. The annual dividend is forecast to be ¥60 per share (a forecast dividend payout ratio of 40.6%).

Summary

3. Executing the medium-term business plan “elematec NEXT”

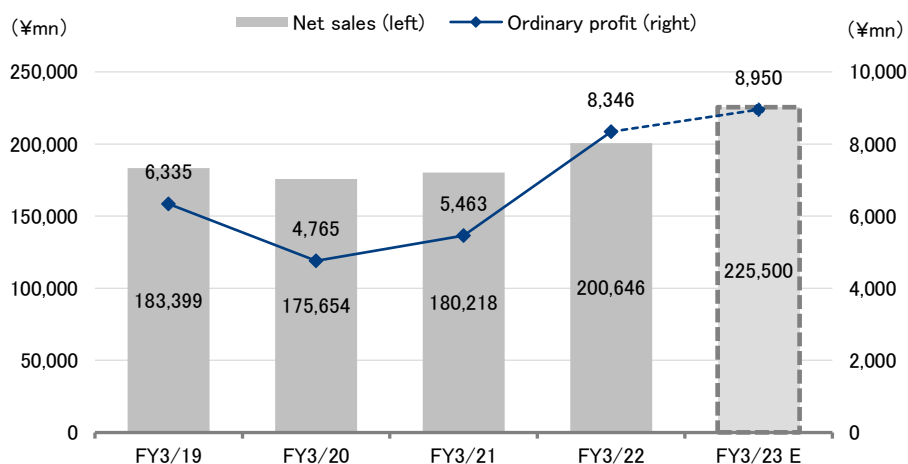
In the spring of 2020, the Company announced its medium-term business plan “elematec NEXT.” The key strategies under “elematec NEXT” are: expanding high-value-added businesses, acquiring leading overseas customers, and expanding the automobile business. By promoting and executing these strategies, the Company aims to achieve qualitative improvements rather than simply attaining quantitative expansion. In its high-value-added businesses, the Company is launching full-scale operations of its business involving original design manufacturing (ODM) finished products. As for its aim of acquiring leading domestic and overseas customers, the Company seeks to win over Chinese and US customers by strengthening its offerings for foldable smartphones. In the automotive sector, the Company plans to generate higher sales by expanding sales of new peripheral products associated with the shift to electric vehicles in addition to the recovery in production.

In addition to its medium-term business plan, the Company announces medium-term earnings forecasts for the current year and two years ahead on a rolling plan basis at the beginning of each fiscal year. At the start of FY3/23, the Company announced its results forecasts for FY3/23, as well as its targets of ¥255,000mn in net sales and ¥10,600mn in ordinary profit in FY3/25 as its medium-term results forecast.

Key Points

- Aiming for earnings growth in a three-pronged approach of expanding high-value-added businesses, acquiring leading overseas customers, and expanding the automobile business
- Forecasting 7.2% increase in operating income in FY3/23
- Executing the medium-term business plan “elematec NEXT,” aiming for ordinary profit of ¥10,600mn in FY3/25

Results trends



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

■ Company overview

Established after two companies with specialties in electronic materials merged in 2009
With 64 bases in Japan and overseas, strengthening planning and proposal capabilities from parts and materials trading companies

1. History and business description

(1) History

The two companies being 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 grew into independent technology trading companies.

These companies merged in 2009 (with Takachiho Electric as the surviving entity) and changed the company name to 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.

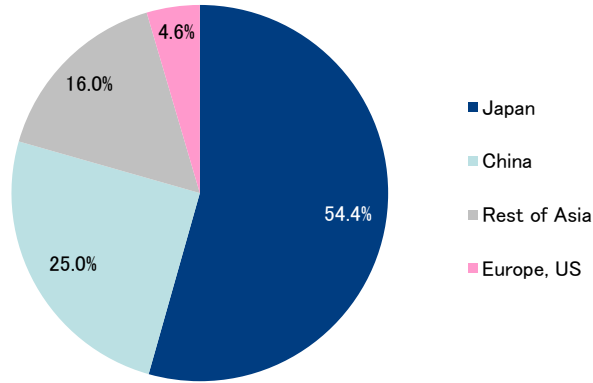
(2) Business description

In light of this history, the Company handles a wide range of electronic materials and parts used in electronic products and facilities. It has 1,165 employees (as of March 31, 2022) and 64 sites (as of April 1, 2022) 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. The sales breakdown by region in FY3/22 was 54.4% in Japan, 25.0% in China (including Hong Kong), 16.0% in other Asian areas, and 4.6% in Europe and the US, according to the Company's financial results.

Company overview

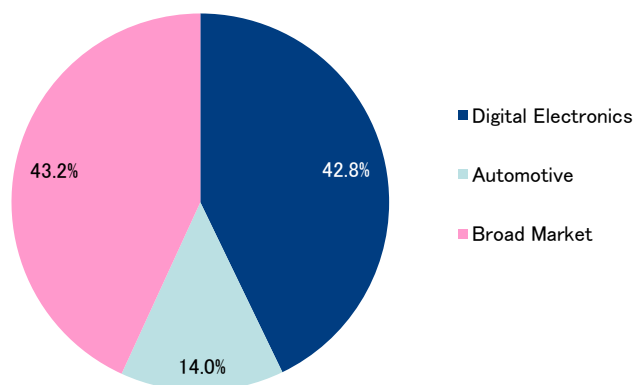
Net sales by region (FY3/22)



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 provides internal management and information disclosure for three segments - Digital Electronics, Automotive, and Broad Market. In FY3/22, Digital Electronics accounts for 42.8% of net sales, Automotive 14.0%, and Broad Market 43.2%.

Net sales trends by market (FY3/22)

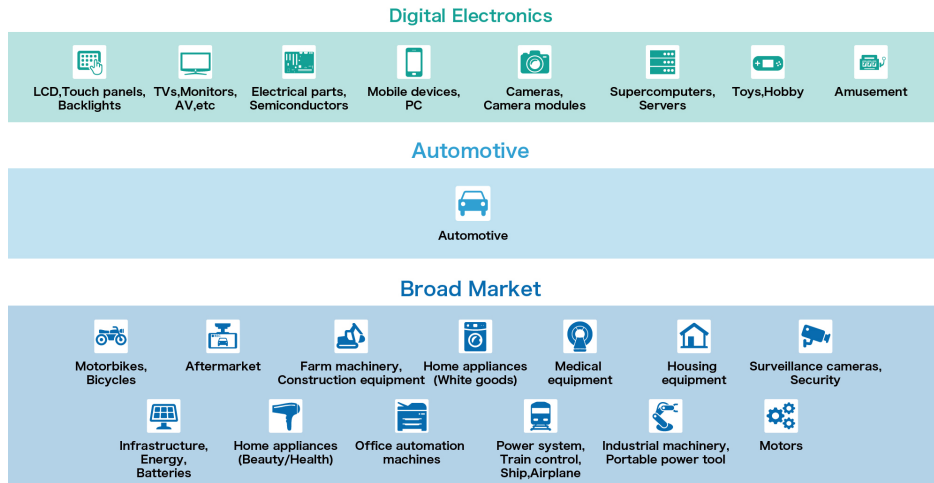


Source: Prepared by FISCO from the Company's results briefing materials

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Company overview

The Company's focal markets



Source: The Company's website

Realized stable growth in business performance leveraging numerous products and business partners. Will focus on advancing high-value added businesses going forward

2. Features and strengths

(1) Rich product lineup and solid customer base

An important feature of the Company is that it has many different business partners and products. It handles a wide range of products, primarily electronic materials and components for about 7,200 suppliers (manufacturers) and 6,200 customers (users). Individual suppliers and customers are not disclosed, but the Company's top 10 main customers account for approximately 45% of net sales (FY3/22). 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, enabling continuous and stable growth.

(2) Proposal capabilities and manufacturing capabilities (bases)

The Company has large numbers of customers, and receives many requests from them. On the other hand, having handled many products over a long time, the Company is familiar with the features and characteristics of many products and has the ability to respond to these customer requests by combining the features of the products it has handled and its expertise from the past. Another of the Company's strengths is its ability to anticipate what those needs will be and make original proposals, rather than merely respond to customers' requests. In short, it does not only engage in passive business development, but also active business development.

Another strength of the Company is that it has manufacturing divisions (one plant in Japan, two plants overseas and numerous manufacturing outsourcers). This means it does not merely sell parts, but is capable of providing module products, customized products and half-finished products. In one sense, some customers may see the Company as "an expedient vendor," but many customers have continued doing business with the Company over a long period of years, which can also be said to be one of its strengths.

Company overview

(3) Three-dimensional earnings structure

In the case of an ordinary electronics component trading company, customers (X-axis) and commercial products (Y-axis) are the important factors for increasing earnings, and the earnings structure can be described as flat. However, in the Company's case, in addition to this, it also has a third axis (Z-axis) that includes planning (proposals), manufacturing and quality control. Putting that another way, it can be said to have a three-dimensional earnings structure.

In recent years, in particular, the Company has strengthened planning and proposal capabilities from just trading company functions, raising the profile (role) of the Z-axis. Just as a building is more likely to be stronger if it is taller, the Company's earnings structure is strong and cannot be said to break easily. This three-dimensional earnings structure is the Company's feature, and a strength.

3. Five main services and functions

The Company goes beyond just the basic services and functions of an electronics trading company, which include supply of optimal 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 the following five services and functions as features, and we think the presence of these functions is why it can be said to develop diverse products into businesses and deliver results.

(1) Planning and development/design

Sales Division, Marketing & Development Division and Design Department collaborate on planning and development and design of new parts and units.

(2) Procurement agency service

Procuring parts and materials on behalf of customers to best match their requirements in terms of quality, cost, and delivery timing

(3) Manufacturing service

Providing customized products, module products and original design manufacturing finished products (ODM) by utilizing its own factories and outstanding outsourcing both in Japan and overseas.

(4) Quality and environmental management

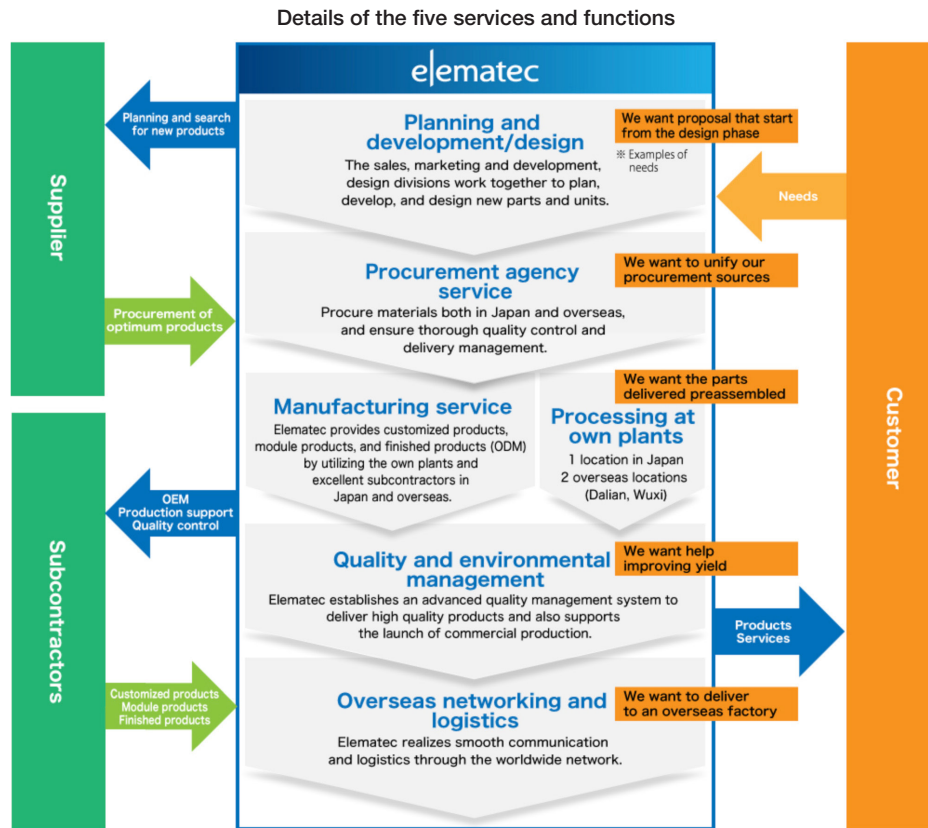
Maintaining a sophisticated quality control system to deliver high quality products.

(5) Overseas networking and logistics

Providing smooth global logistical support utilizing its worldwide network

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, extra value is added to 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.

Company overview



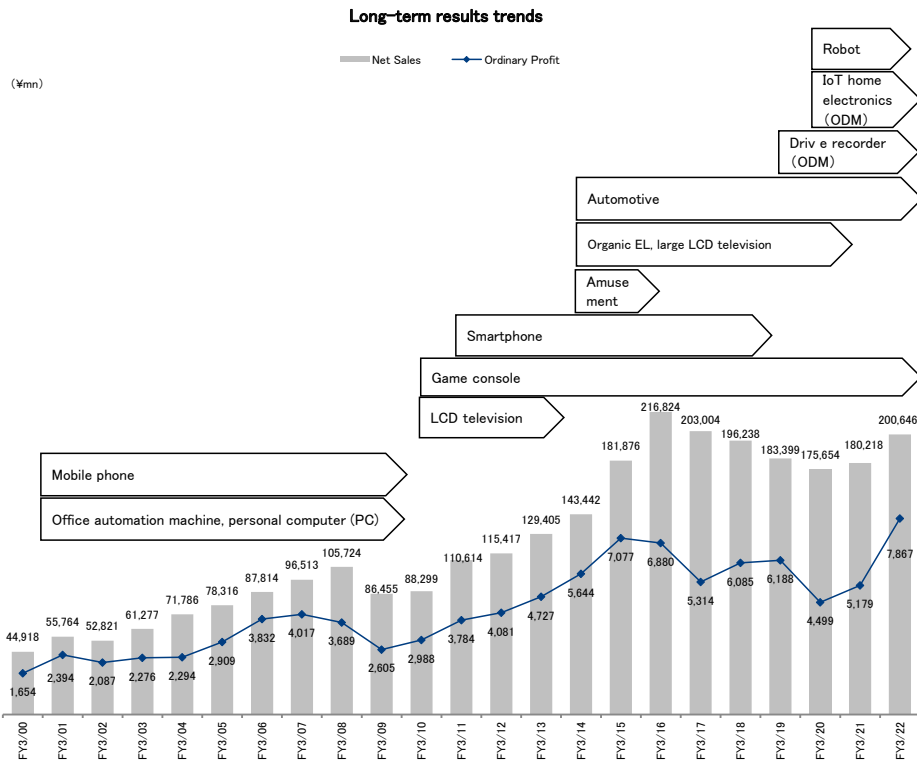
Source: The Company's website

Maintained earnings growth with a strategy of being “agile in seizing opportunities”

4. Long-term results trends

Looking back at long-term results, it can be said that the Company has achieved stable growth in the electronics industry, which goes through big ups and downs, by overcoming waves such as economic cycles and product cycles. In the early 2000s, the Company's mobile phone business grew, but its key products were printed circuit board (FPC) materials, substrate mounting and optical films. Around 2010, LCD TV-related products became a major business due to the move to terrestrial digital broadcasting and other factors. Also, from 2010 onward, smartphones and tablets emerged as fast-growing products, and the Company sold various types of film, glass products, and other items to rapidly recover from the global financial crisis and achieve years of consecutive record growth. In recent years results have flattened due to the maturation of the smartphone market but growth has been maintained through the strengths in planning capabilities and proposal capabilities for items such as dashboard cameras. Furthermore, the automotive-related business and overseas manufacturers-related business are on the verge of transitioning to become the next growth markets for the Company. The Company not only has many business partners and products, but also has planning and proposal capabilities, which raise expectations of a further increase in business opportunities.

Company overview



Note: ODM is the original design and manufacture of other companies' products. The Company outsources manufacturing.
 Source: Prepared by FISCO from the Corporate Profile

Business performance

All three business segments by market increased sales in FY3/22 and operating income rose 52.8% YoY

● Overview of FY3/22 results

(1) Trends in profit and loss

Results for FY3/22 were ¥200,646mn in net sales (+11.3% YoY*), operating income of ¥8,346mn (+52.8%), ordinary profit of ¥7,867mn (+51.9%) and profit attributable to owners of parent of ¥5,374mn (+46.6%). The Company was affected by COVID-19 in 1H FY3/22, yet still had operating income significantly higher than even the same period of the fiscal year before that (FY3/20). As a result, operating income, ordinary profit and profit attributable to owners of parent all marked record highs. By market, all three segments increased sales, but growth was particularly high in Automotive, where production recovered, and Board Market, which centered on the aftermarket category.

Business performance

The gross profit margin improved 1.0pt YoY and even still improved if the effects of a change in accounting standard are excluded. This was mainly due to a higher ratio of highly profitable items such as those for the automobile business or game consoles. As a result, gross profit increased by 23.6% YoY and though SG&A expenses rose 10.4% due to recovery from COVID-19, the rate of increase was below that of gross profit margin, so operating profit grew significantly.

Moreover, the Company is an export-type trading company, so its performance is affected by exchange rates (a strong yen has a negative impact on performance, while a weak yen has a positive impact on performance). According to the Company, one yen change in the exchange rate has an impact of approximately ¥1,200mn on net sales and ¥50mn on ordinary profit. The average ¥/USD exchange rate in FY3/22 was ¥112.39 to the USD (¥106.10 to the USD in the previous fiscal year), which seems to have had a positive effect amounting to approximately ¥300mn on an ordinary profit basis.

The Company stated that COVID-19 had little effect on business performance in FY3/22. Moreover, although the Company appears not to have been directly affected by the global semiconductor shortage thus far, indirectly there was apparently a case where the Company's customers were unable to deliver semiconductors, parts, products and other materials, which led to production delays and delays in orders for the Company's products. However, overall, a significant impact is not yet discernable.

* Changes to the accounting standard decreased net sales results by ¥10,467mn. The rate of net sales growth amounts to 17.1% in the absence of having applied the updated standards.

Summary of FY3/22 results

	FY3/21		FY3/22			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	180,218	100.0%	200,646	100.0%	20,428	11.3%
Gross profit	17,437	9.7%	21,560	10.7%	4,123	23.6%
SG&A expenses	11,974	6.6%	13,214	6.6%	1,240	10.4%
Operating income	5,463	3.0%	8,346	4.2%	2,883	52.8%
Ordinary profit	5,179	2.9%	7,867	3.9%	2,688	51.9%
Profit attributable to owners of parent	3,666	2.0%	5,374	2.7%	1,708	46.6%

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

By market, all three segments increased sales

(2) Sales by market

Digital Electronics net sales were ¥85,961 (up ¥5,477mn or 6.8% YoY*), with the increase mainly due to strong performance by LCD, touch panels and backlights for game consoles, which increased ¥3,777, and electrical and electronic parts, and semiconductors with an increase of ¥2,678mn.

Automotive net sales were ¥28,103mn (up ¥3,618mn or 14.8% YoY*) due to the recovery of automobile production in addition to the increase in newly adopted parts (EV-related parts, etc.).

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Business performance

Broad Market net sales were ¥86,581mn (up ¥11,331mn or 15.1% YoY*), which was mainly due to an increase of ¥4,279mn in the aftermarket category, including the launch of a new type (communication-type) dashboard camera, and an increase of ¥2,067mn in medical devices, which performed strongly due to acquisition of new customers and for ultrasonic diagnostic equipment.

* In the absence of applying changes to the accounting standard, the increases in net sales would have been 13.7% for Digital Electronics, 15.2% for Automotive and 21.4% for Broad Market.

Breakdown of net sales trends by market

	FY3/21		FY3/22		YoY	Main target markets	Change
	Results	Composition	Results	Composition			
Digital Electronics	80,484	44.7%	85,961	42.8%	6.8%	Electrical and electronic parts	2,678
						LCDs, touch panels, and backlights	3,777
Automotive	24,484	13.6%	28,103	14.0%	14.8%	Overall automotive	3,618
Broad Market	75,249	41.8%	86,581	43.2%	15.1%	After market	4,279
						Medical equipment	2,067
Total	180,218	100.0%	200,646	100.0%	11.3%		20,428

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

(3) Sales by region

In terms of net sales by region, net sales in Japan were ¥109,115mn (+5.3% YoY), net sales in China were ¥50,253mn (+36.6%), net sales in other Asian areas were ¥31,136mn (+2.2%), and net sales in Europe and the US were ¥9,141mn (+9.5%). The increases in net sales in Japan was largely attributable to recovery in the automotive sector in conjunction with strong performance in the medical equipment sector. In China, net sales increased substantially amid comparatively strong sales of products related to electrical and electronic parts, as well as products for toy and hobby items. In Europe and the US, net sales increased largely due to recovery in sales to the automotive sector in Europe.

In terms of segment profit by region, segment profit in Japan was ¥4,060mn (+64.4%), segment profit in China was ¥2,034mn (+42.8%), segment profit in other Asian areas was ¥1,534mn (+79.6%), and segment profit in Europe and the US was ¥140mn (-46.4%). Segment profit increased in Japan, China and other Asian areas in conjunction with the increase in sales. In Europe and the US, segment profit decreased due to changes in the product mix, but the overall impact was negligible given that the amount of decrease was small.

Sales by region

	FY3/21		FY3/22		Change	Change (%)
	Amount	Composition	Amount	Composition		
Net sales	180,218	100.0%	200,646	100.0%	20,428	11.3%
Japan	103,634	57.5%	109,115	54.4%	5,481	5.3%
China	36,776	20.4%	50,253	25.0%	13,477	36.6%
Other Asian areas	31,457	17.5%	32,136	16.0%	679	2.2%
Europe, US	8,350	4.6%	9,141	4.6%	791	9.5%
Operating income	5,463	3.0%	8,346	4.2%	2,883	52.8%
Japan	2,470	-	4,060	-	1,590	64.4%
China	1,424	-	2,034	-	610	42.8%
Other Asian areas	854	-	1,534	-	680	79.6%
Europe, US	261	-	140	-	-121	-46.4%
(Adjustment amount)	452	-	576	-	-	-

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

Financial base is sound with ¥30.7bn in cash and deposits on hand

(4) Financial condition

As of the end of FY3/22, current assets totaled ¥108,996mn (+¥13,663mn from the end of FY3/21). Key factors were a ¥2,876mn increase in cash and deposits, a ¥6,546mn increase in notes and accounts receivable-trade, and a ¥4,091mn increase in inventories. Non-current assets were ¥6,336mn (+¥352mn). This was mainly due to an increase in property, plant and equipment of ¥86mn and an increase in investments and other assets of ¥33mn. As a result, total assets at the end of FY3/22 were ¥115,332mn (+¥14,015mn).

Meanwhile, total current liabilities were ¥55,687mn (+¥8,784mn from the end of FY3/21). The main factors were a ¥6,273mn increase in notes and accounts payable-trade, a ¥265mn increase in short-term loans payable, and a ¥1,326mn increase in other under current liabilities. Net assets were ¥59,645mn (+¥5,232mn) due to factors including a ¥3,736mn increase in retained earnings due to the booking of profit attributable to owners of parent, among other factors. As a result, the equity ratio at the end of FY3/22 was 51.7% (compared to 53.7% at the end of FY3/21).

Consolidated balance sheets

	(¥mn)		
	FY3/21	FY3/22	Change
Cash and deposits	27,877	30,753	2,876
Notes and accounts receivable-trade	54,678	61,224	6,546
Inventories	11,676	15,767	4,091
Total current assets	95,333	108,996	13,663
Property, plant and equipment	3,190	3,276	86
Intangible assets	394	323	-71
Investments and other assets	2,398	2,736	338
Total non-current assets	5,984	6,336	352
Total assets	101,317	115,332	14,015
Notes and accounts payable-trade	41,637	47,910	6,273
Short-term loans payable	138	403	265
Others	2,696	4,022	1,326
Total current liabilities	45,619	54,109	8,490
Total non-current liabilities	1,284	1,578	294
Total liabilities	46,903	55,687	8,784
Total net assets	54,413	59,645	5,232
Retained earnings	48,560	52,296	3,736

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

(5) Status of cash flows

Net cash provided by operating activities was ¥4,236mn. The main inflows included ¥7,660mn in income before income taxes, ¥953mn in depreciation and amortization, and a ¥3,686mn increase in notes and accounts payable-trade. The main outflows included a ¥4,305mn increase in notes and accounts receivable-trade, and a ¥3,217mn increase in inventories.

Net cash used in investing activities was ¥599mn. The main outflows included ¥693mn in purchase of property, plant and equipment (mainly molds) and ¥56mn in purchase of intangible assets. Net cash used in financing activities was ¥1,710mn. The main outflows included ¥1,637mn in cash dividends paid and ¥302mn in repayments of lease liabilities, partially offset by ¥230mn in net increase in short-term loans payable. As a result, cash and cash equivalents increased ¥2,875mn and the balance of cash and cash equivalents at the end of FY3/22 was ¥30,753mn. The Company accordingly seems to have ample cash on hand as of yet.

Business performance

Statements of cash flows

	(¥mn)	
	FY3/21	FY3/22
Cash flows from operating activities	6,104	4,236
Income before income taxes	5,179	7,660
Depreciation and amortization	669	953
Decrease (increase) in notes and accounts receivable-trade	-3,245	-4,305
Decrease (increase) in inventories	101	-3,217
Increase (decrease) in notes and accounts payable-trade	3,555	3,686
Cash flows from investing activities	-747	-599
Purchase of property plant and equipment	-676	-693
Purchase of intangible assets	-139	-56
Cash flows from financing activities	-1,264	-1,710
Net increase in short-term loans payable	132	230
Cash dividends paid	-1,146	-1,637
Net increase (decrease) in cash and cash equivalents	4,490	2,875
Cash and cash equivalents at the end of the period	27,877	30,753

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

■ Outlook

In FY3/22, all three business sections by market segment are forecast to increase sales, operating profit expect to grow 7.2%

1. Forecasts for FY3/23

(1) Outlook of profit and loss

For FY3/23, the Company forecasts net sales of ¥225,500mn (+12.4% YoY), operating income of ¥8,950mn (+7.2%), ordinary profit of ¥8,650mn (+9.9%) and profit attributable to owners of parent of ¥6,050mn (+12.6%).

All segments (regions) are forecast to increase sales as there is a global recovery from the COVID-19 pandemic projected. By market, all regions are forecast to increase sales. Moreover, on the assumption of an exchange rate of ¥115 to the USD, there is a possibility of forecasts even being revised upward. On the other hand, the risk also remains of customers' production being halted amid the ongoing shortage of semiconductors and continuing rise in crude oil price. The Company is pledging to revise quarterly results sequentially as they are announced, so going forward we want to focus on this trend.

Summary of FY3/23 full-year forecasts

	FY3/22		FY3/23 E			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	200,646	100.0%	225,500	100.0%	24,854	12.4%
Operating income	8,346	4.2%	8,950	4.0%	604	7.2%
Ordinary profit	7,867	3.9%	8,650	3.8%	783	9.9%
Profit attributable to owners of parent	5,374	2.7%	6,050	2.7%	676	12.6%

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

Outlook

(2) Net sales forecasts by market

By market, net sales in Digital Electronics are forecast to be ¥94,631mn (+¥8,669mn or 10.1% YoY). The Company projects an increase of ¥4,434mn due to strong production of LCDs, touch panels and backlights for films and other parts used in customers' game consoles. An increase of ¥1,626mn is expected for toys and hobbies as well, as deliveries can be made for PS5, while a further increase of ¥3,578mn is forecast from production recovery for customers for electrical and electronic parts.

In Automotive, net sales are forecast to be ¥35,718mn (+¥7,615mn or 27.1% YoY) due to the increase in automobile production in addition to the acquisition of new projects (mainly EV-related).

Broad Market net sales are forecast to be ¥95,150mn (+¥8,569mn or 9.9% YoY). By use, the aftermarket category is expected to increase by ¥8,037mn due to continued strong sales of dashboard cameras, including the introduction of new models. Forecasts are for increases of ¥1,189mn in household appliances centered on air conditioners and ¥1,152mn for various types of industrial machinery due to strong performance by motors.

Net sales forecasts by market

	FY3/22		FY3/23			(¥mn)	
	Amount	Composition	Forecast	Composition	YoY	Main target markets	Change
Digital Electronics	85,961	42.8%	94,631	42.0%	10.1%	LCDs, touch panels, and backlights	4,434
						Toy and hobby items	1,626
						Electrical and electronic parts, semiconductor	3,578
Automotive	28,103	14.0%	35,718	15.8%	27.1%	Overall automotive	7,615
Broad Market	86,581	43.2%	95,150	42.2%	9.9%	Motors	1,152
						Home appliances	1,189
						Aftermarket	8,037
Total	200,646	100.0%	225,500	100.0%	12.4%		24,854

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

2. Moved to listing on the Prime Market

The Company has achieved (and complies with) all of the criteria required by the Tokyo Stock Exchange for maintaining a Prime Market listing, and its shares have been traded on the Prime Market since April 2022.

Medium- to long-term growth strategy

Implementing new medium-term business plan “elematec NEXT,” and focusing on three fields

Medium-term earnings forecast targets ordinary profit of ¥10,600mn in FY3/25

1. Overview of the medium-term business plan “elematec NEXT”

The Company has announced its medium-term business plan “elematec NEXT” in 2020. The three pillars of this medium-term business plan are expanding high-value-added businesses, acquiring leading overseas customers, and expanding the automobile business. Progress thus far achieved under each of the three pillars is as described below.

Medium- to long-term growth strategy

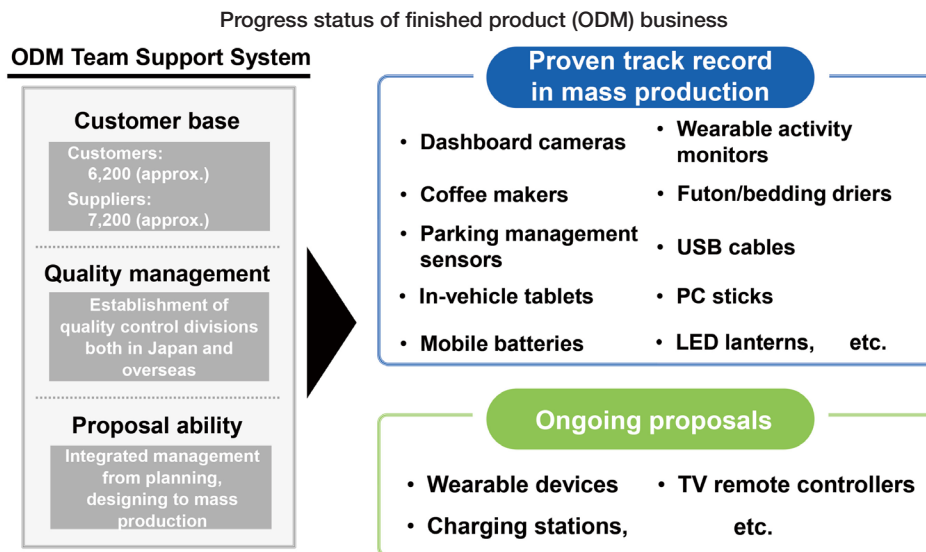
2. Expanding high-value-added businesses

(1) Changing business model

In the Company’s main markets of electronic parts, materials and devices, the role required of the Company is always changing and it is now being required to provide one-stop solutions in the form of: Planning and development>Procure>Processing>Logistics>Delivery. As a result, the Company’s business model is changing (Parts sales>module product sales>Finished products sales>Finished products (including systems) sales). The Company has formed an “ODM Team” comprising a group of specialists (sales, quality assurance, and design) from the Design Department, Environment Preservation & Quality Assurance Department, Sales Division, and Marketing and Development Division to address the role required by the market, and has been proactively developing the ODM business for finished products offering greater added value, and the combined sales ratio of module products and customized products now exceeds 60%. Going forward, this policy will remain unchanged and the Company plans to further strengthen its planning capabilities and proposal capabilities.

(2) Progress status of finished product (ODM) business

The Company has already launched the “ODM Team Support System,” set up quality control divisions both in Japan and overseas, and is controlling quality. It is strengthening proposal capabilities to unify management from planning and design through to mass production. The track record for mass production covers a wide array of products from dashboard cameras, wearable activity monitors, in-vehicle tablets and mobile batteries. It also proposes the mass production of items such as wearable devices, TV remote controls and charging stations.



Source: The Company’s results briefing materials

(3) Expansion in business of environmentally friendly products

One of the market environments encompassing the Company is the awareness of sustainability that is growing globally and rapidly increasing demand for environmentally friendly products. In April 2022 the Act on Promotion of Resource Circulation for Plastics was enacted, and the Company saw this trend as a new opportunity and established an “Environmentally Friendly Product Promotion Team.” As a result, it has already launched the following products onto the market. This will contribute to plastic-free and reduced plastic products by proposing products complying with laws and regulations.

Medium- to long-term growth strategy

- Bioplastic category
 - a) Biomass: Use of renewable organic resources such as plants in raw materials
 - b) Biodegradability: Decomposition into carbon dioxide and water by movement of microorganisms, etc.
 - c) Resin pellets: Paper, etc., mixed PP)
 - d) Films: Decomposable in soil and compost
 - e) Additives: Mixed with resins such as PP and PE to improve biomass content/add biodegradability
- Alternative materials to plastic category
 - f) Molded pulps: Packaging materials with bamboo and sugar cane as raw material
 - g) Molded products from different materials: Products with waste materials such as paper and chaff, and naturally derived materials blended into resin

3. Cultivate leading overseas customers

(1) Strengthening of foldable smartphone business

The Company has been seeking expansion with respect to its competitive products, which are highly regarded by leading domestic and overseas customers. Such items include products for foldable smartphones, which have been drawing attention as promising offerings. The smartphone industry is currently in the midst of a transition from smartphones equipped with LCDs to those equipped with OLEDs, a trend which is poised to be followed by foldable smartphones. Such foldable handsets are now in the transitional phase of development, with full-scale mass production of such devices expected to start going forward. Such trends provide a tailwind for the Company's strategy of "targeting of leading Chinese and U.S. customers," and present it with new business opportunities on two fronts, as follows.

The first of those is the front surface opportunity to promote sales focusing on leading Japanese products. The aim is to expand sales of optical clear adhesive/optical clear resin (OCA/OCR). The second, back surface decoration, proposes collaboration between Japanese and Chinese manufacturers. Specific examples include work on organic EL light emitting modules and special etched glass.

(2) Strengthening of proposal on appealing products

The Company believes it is essential to have "appealing commercial materials" to strengthen proposals to cultivate leading customers from Japan and overseas. Because of this, in addition to its existing global network (24 domestic offices/40 overseas offices), the Company prioritized allocation of development staff near the planning and development bases of clients and set up bases in the following locations:

In China (Shenzhen), the Company is pursuing leading Chinese companies focusing on foldable smartphone products. As a result, it has already acquired accounts from major Chinese companies. In the U.S., it has promoted mainly Japanese products to leading U.S. customers in showrooms. As a result, it has already won orders for deals to incorporate specifications for major U.S. IT platform companies. In Taiwan, the company will allocate development staff in the future to expand sales of dashboard cameras and focus on the development of products popular in San Jose.

Medium- to long-term growth strategy

4. Expanding the automobile business

(1) Expansion of automotive module business

Glass ASSY for smart mirrors will utilize the glass/film lamination process at the Wuxi Plant in China. Finding and proposing glass products from Chinese manufacturers will contribute to reducing costs. For radiant heater ASSY, the Company is progressing on loading a new and safe heating system to prevent a lack of electrical capacity. In collaboration with the Design Department, it will propose automated manufacturing and inspection processes using robots. Regarding fireproof sheet ASSY, amid increasing demand as a countermeasure against battery ignition and fire spread, the Company will deliver to assembling customers at related plants using incombustible materials from Japan and overseas.

(2) Targeting of overseas OEM/Tier 1

The Company proactively participated in European exhibitions. Regarding exhibits in 2021, for use of the company's own plants, there were exhibits of Glass ASSY for smart mirrors (film lamination for smart mirror glasses), meter liquid crystal bonding (clear resin lamination for liquid crystal meters/front panel) and HUD materials (heat countermeasures and weight-saving materials). For leading Japanese commercial materials, decorative parts (light transmitting film), 3D video demo machines and temperature control cup holders were exhibited. As a result, the Company concluded an NDA with European Tier 1 and received a request for quotation. Going forward, it will aim to increase orders from overseas OEM/Tier 1 on mainly HUD materials.

5. Initiatives for Sustainability

(1) Basic policy on sustainability

The Company declares that it “aims to enhance corporate value by contributing to creating a sustainable society through business activities under its mission to provide new value by expanding our good relationships as a global manufacturing partner. As with addressing risks, we consider efforts to expand business and tackle social issues with environmental considerations important business opportunities.”

A Sustainability Committee was established in April 2022 and a working group set up directly under the committee as a promotion structure. The plan is to promote reviewing, formulating and initiating Company-wide measures. The chair of the committee is the Chief Executive Officer and among its members are executive directors, the director of the Corporate Division and development division directors.

(2) Important issues (materiality) and initiative measures

The Company's initiatives for materiality are as follows:

- Realization of a safe and secure society
 The Company strives for the planning and development of dashboard cameras and their parts to realize a society without traffic accidents. It contributes to the improvement of proper medical environments by delivering medical equipment materials.
- Reduction of environmental burdens and realization of a recycling-oriented society
 The Company is delivering packaging materials using plant-derived raw materials in consideration of the environment. For clean energy-related materials, it also delivers materials for PHEV and EV vehicles. For promotion of recycling activities and other matters, it is also implementing quality and environmental management systems.
- Construction of organizations that respect diversity and grow together
 The Company respects human rights, expands training systems, promotes diversity and inclusion (D&I) and strives for workstyle reform.
- Establishment and strengthening of governance structures and compliance systems
 The Company endeavors for the establishment and strengthening of governance structures and compliance systems.

Medium- to long-term growth strategy

Details of initiative measures

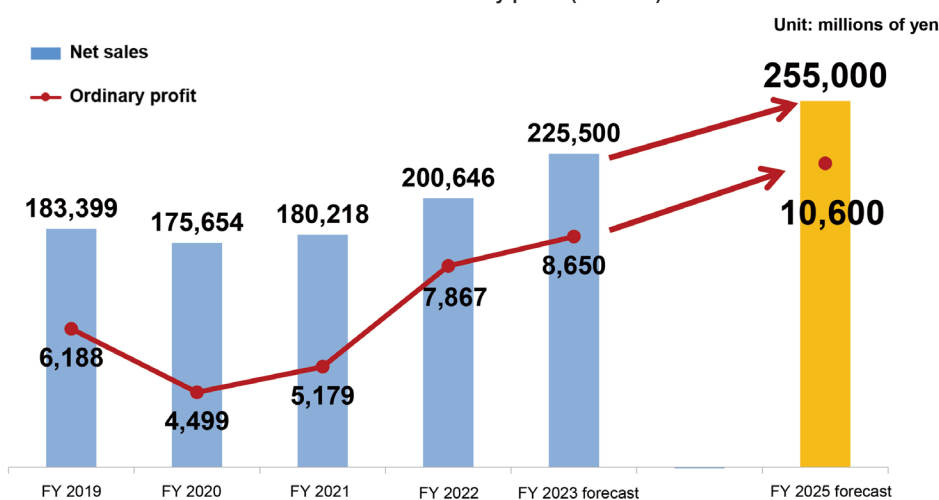
<p>Realization of a safe and secure society</p> <ul style="list-style-type: none"> Realization of a society without traffic accidents Planning and development of dashboard cameras and expansion of sales of materials Improvement of proper medical environment Delivery of medical equipment materials 	
<p>Reduction of environmental burdens and realization of a recycling-oriented society</p> <ul style="list-style-type: none"> Distribution of eco-friendly electronic and other materials Delivery of packaging materials using plant-derived raw materials Promotion of recycling activities Distribution of electronic and other materials related to clean energy Delivery of materials for PHEV and EV vehicles Operation of quality and environmental management systems 	
<p>Construction of organizations that respect diversity and grow together</p> <ul style="list-style-type: none"> Respect for human rights Promotion of D&I (diversity & inclusion) Expansion of training systems Workstyle reform 	
<p>Establishment and strengthening of governance structures and compliance systems</p> <ul style="list-style-type: none"> Establishment and strengthening of governance structures and compliance systems 	

Source: The Company's results briefing materials

6. Medium-term earnings forecast

Regarding medium-term earnings forecasts, the Company announces forecasts for the current year and two years ahead on a rolling plan basis at the beginning of each fiscal year. At the start of FY3/23, the Company announced its results forecasts for FY3/23, as well as its targets of ¥255,000mn in net sales and ¥10,600mn in ordinary profit in FY3/25 as its medium-term results forecast. The Company is aiming to set further record highs for earnings based on the recovery from the impacts of COVID-19 and by strengthening its high-value-added business.

Net sales and ordinary profit (forecast)

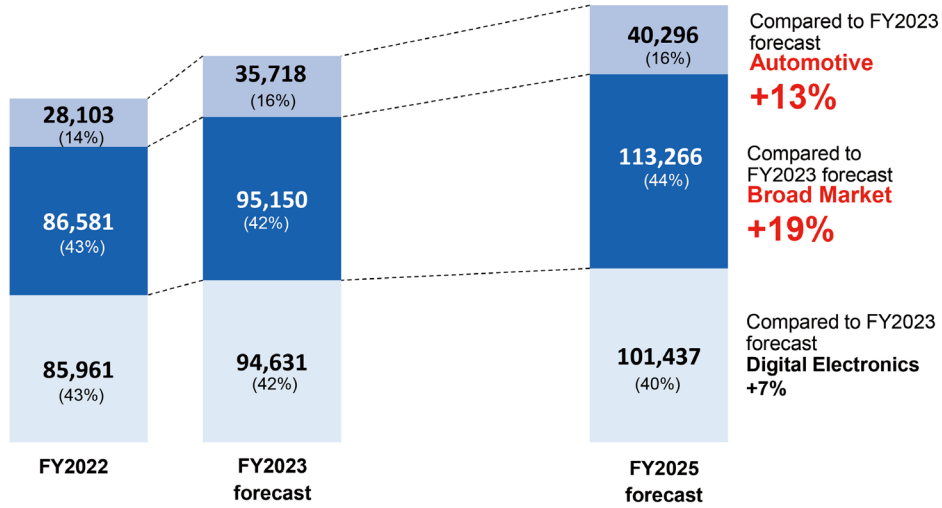


*Revenue recognition standard applied from FY2022

Source: The Company's results briefing materials

Medium- to long-term growth strategy

Consolidated results forecasts (by market)



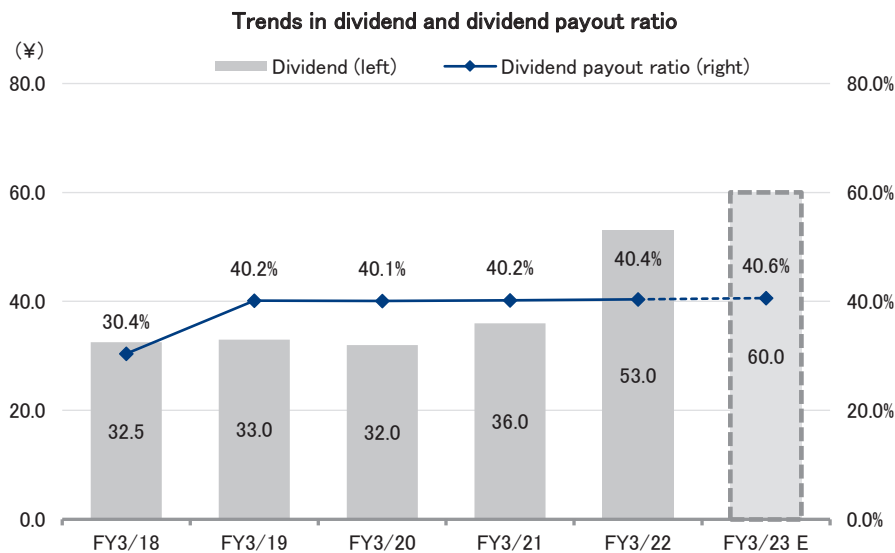
Source: The Company's results briefing materials

Shareholder return policy

Planning an annual dividend of ¥60 (dividend payout ratio of at least 40%) for FY3/23

The Company fundamentally utilizes dividends as shareholder returns, and has set a target dividend payout ratio of at least 40%. In fact, the Company paid annual dividends of ¥32 in FY3/20, ¥36 in FY3/21, and ¥53 in FY3/22. The dividend payout ratios were 40.1%, 40.2%, and 40.4%, respectively.

For FY3/23, which is already underway, the Company has announced an annual dividend of ¥60 to maintain a dividend payout ratio of at least 40%, which is the basic target. Meanwhile, as the exchange rate has seen the yen weaken more than expected, we at FISCO view that the Company could opt to increase its dividend under a situation where it decides to upwardly revise its forecast given its currently strong performance.



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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