

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 products (ODM), which entails conducting processes from design to manufacture of other companies’ branded products with the Company’s involvement from the planning stage, above and beyond limiting itself to sales of parts and materials.

1. 1H FY3/23: Sales and profits increased substantially as demand recovered and the yen depreciated

Results for 1H FY3/23 were ¥123,167mn in net sales (up 34.4% year on year [YoY]), operating income of ¥6,628mn (up 90.4%), ordinary profit of ¥6,122mn (up 79.6%) and profit attributable to owners of parent of ¥4,164mn (up 73.7%). Net sales and profits both set records highs in 1H thanks to customers’ production recovering and the contribution of newly acquired projects, as well as the positive impact of yen depreciation. By market, the three business segments all recorded higher revenue. In Digital Electronics, sales increased by 31.9% on firm trends in display-related products, and the Automotive segment increased by 28.5% thanks to a recovery in production by customers. In the Broad Market segment as well, which is primarily powered by dashboard cameras, sales increased by 39.2%. By region, sales increased across the board. The impact of semiconductor supply shortages, which had been a concern, also lessened and was not a particular problem in the first half.

2. For FY3/23, upwardly revised forecast for operating income to a 39.6% increase and plans to pay annual dividend of ¥74 (dividend payout ratio of 40.1%)

Based on its strong performance in the first half, for FY3/23 (full year), the Company is forecasting net sales of ¥243,500mn (up 21.4% YoY), operating income of ¥11,650mn (up 39.6%), ordinary profit of ¥10,950mn (up 39.2%), and profit attributable to owners of parent of ¥7,550mn (up 40.5%), which are substantial upward revisions from initial forecasts (net sales of ¥225,500mn, operating income of ¥8,950mn). By market, net sales are expected to increase in the Digital Electronics segment by 20.1% YoY, in the Automotive segment by 32.3%, and in the Broad Market segment by 19.1%. Performance in the first half was steady, so the 2H growth rate is forecast to be lower than 1H, a forecast on the side of caution. However, demand is expected to continue to be firm, and the assumption for the USD-JPY exchange rate is ¥135.00 (¥112.39 in the previous term), so if current exchange rate levels continue, this could further elevate profit, in FISCO’s view. The Company is planning to raise its annual dividend to ¥74 from its previous plan of ¥60 (for an expected dividend payout ratio of 40.1%).

Summary

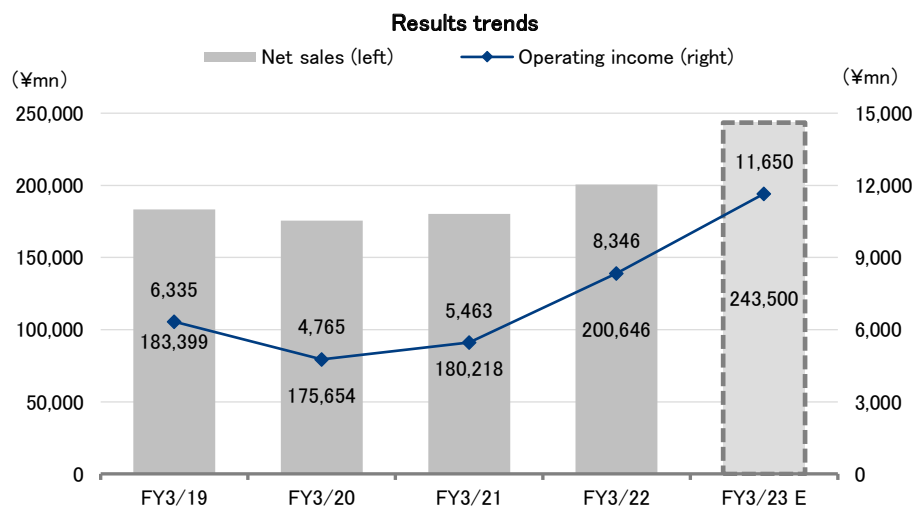
3. Executing the medium-term business plan “elematec NEXT”

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, but there is a high likelihood that this target will be achieved ahead of time in this term (FY3/23). For this reason, FISCO believes there is a strong possibility that the Company sets a new target at the start of the next fiscal year (FY3/24).

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 39.6% increase in operating income in FY3/23; also plans to raise annual dividend to ¥74 (40.1% dividend payout ratio)
- Executing the medium-term business plan “elematec NEXT;” strong likelihood of achieving targets for FY3/25 ahead of schedule



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

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

■ Company overview

Established after two companies with specialties in electronic materials merged in 2009.

With 67 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.

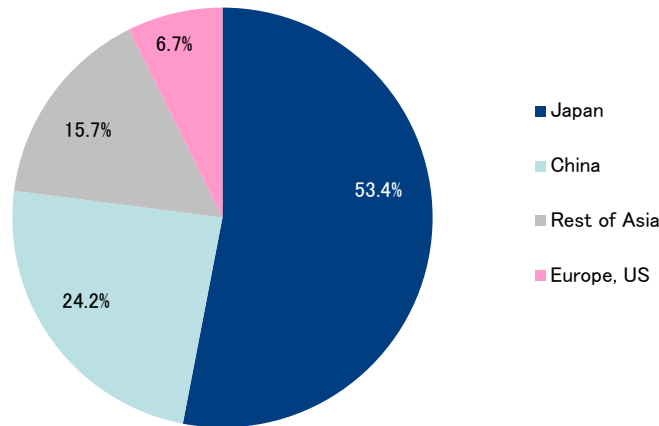
(2) Business description

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 67 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 1H FY3/23 was 53.4% in Japan, 24.2% in China (including Hong Kong), 15.7% in other Asian areas, and 6.7% in Europe and the US, according to the Company's financial results.

Company overview

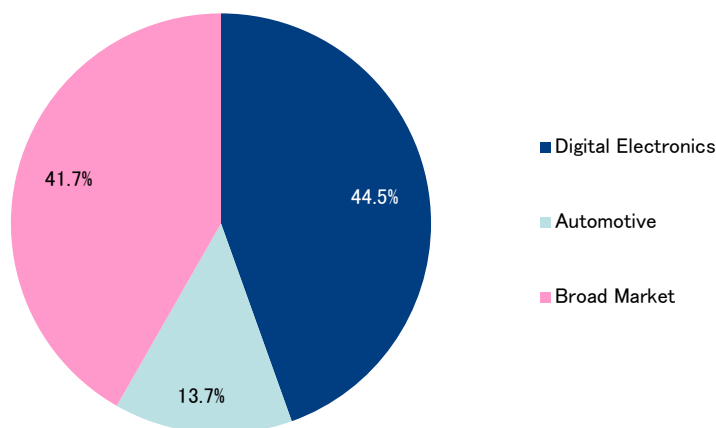
Net sales by region (1H FY3/23)



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 1H FY3/23, Digital Electronics accounts for 44.5% of net sales, Automotive 13.7%, and Broad Market 41.7%.

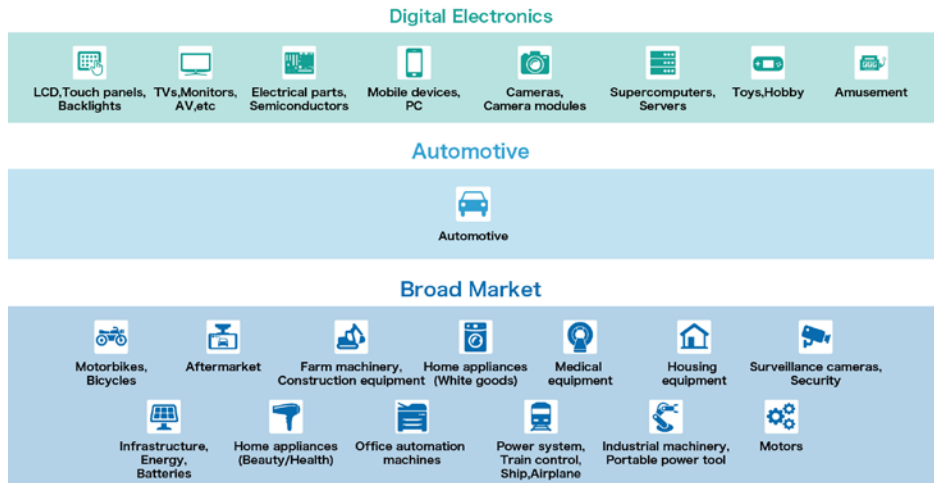
Net sales trends by market (1H FY3/23)



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

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.

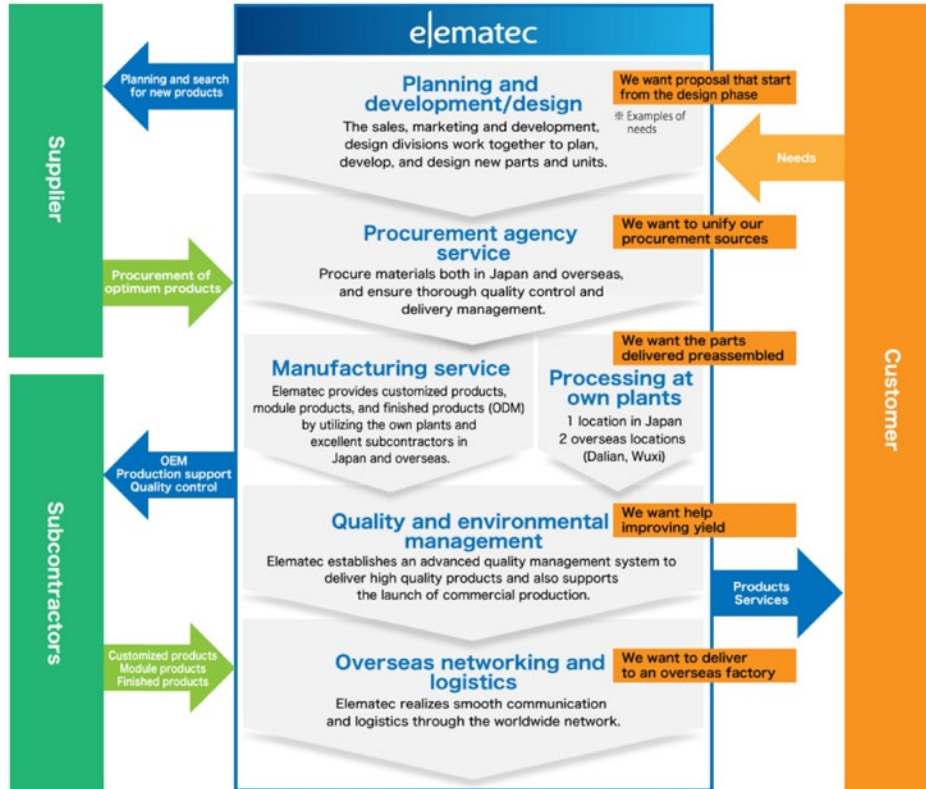
(5) Overseas networking and logistics

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

Details of the five services and functions



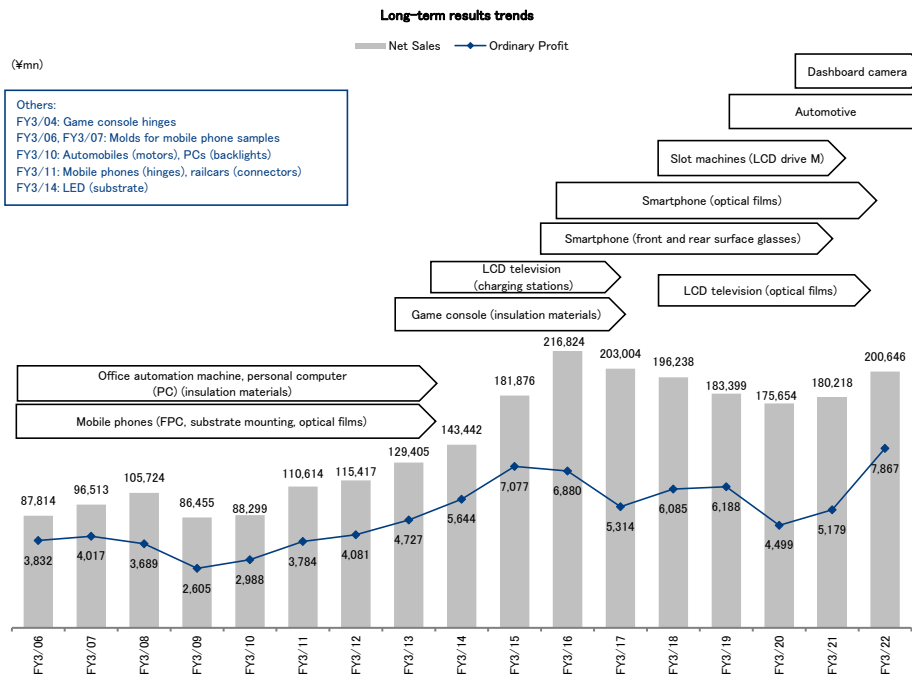
Source: The Company's website

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 1H FY3/23 and operating income rose 90.4% YoY, marking record highs

● Overview of 1H FY3/23 results

(1) Trends in profit and loss

In 1H FY3/23, the Company recorded net sales of ¥123,167mn (up 34.4% YoY), operating income of ¥6,628mn (up 90.4%), ordinary profit of ¥6,122mn (up 79.6%), and profit attributable to owners of parent of ¥4,164mn (up 73.7%). Production by major customers was steady and sales efforts led to acquiring new projects; along with these contributions, yen depreciation also had an effect as the Company set record highs for 1H in both net sales and profits.

The gross profit margin was 11.4%, a YoY improvement of 0.6 percentage points, but along with yen appreciation, the rate of relatively high profitability products went up for both automobile and game console products. As a result, gross profit increased by 40.8%. SG&A expenses increased by 14.0% YoY to ¥7,351mn, but this was primarily due to an increase in personnel expenses of ¥397mn largely from an increase in provision for performance-linked bonuses, an increase of ¥136mn in packing and freight charges associated with the increase in net sales, and an increase of ¥369mn in other expenses (including an increase in travel and transportation expenses from the lifting of restrictions on movement). As a result, the SG&A expense rate was 6.0% (7.0% in the same period of the previous year), and operating income increased substantially.

Business performance

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 ¥1,100mn on net sales and ¥70mn on ordinary profit. The average ¥/USD exchange rate in 1H FY3/23 was ¥134.03 to the USD (¥109.81 to the USD in the previous fiscal year), which seems to have had a positive effect amounting to approximately ¥789mn on an ordinary profit basis.

In addition, the global semiconductor shortage, which was a concern for a time, continues to improve, and in the first half, there was no significant impact. Rather, the Company explains, "On the contrary, there was a surplus of some components, and this calls for caution."

Summary of 1H FY3/23 results

	1H FY3/22		1H FY3/23			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	91,660	100.0%	123,167	100.0%	31,507	34.4%
Gross profit	9,928	10.8%	13,980	11.4%	4,052	40.8%
SG&A expenses	6,447	7.0%	7,351	6.0%	904	14.0%
Operating income	3,481	3.8%	6,628	5.4%	3,147	90.4%
Ordinary profit	3,408	3.7%	6,122	5.0%	2,714	79.6%
Profit attributable to owners of parent	2,397	2.6%	4,164	3.4%	1,767	73.7%

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

By market, all three segments increased sales

(2) Sales by market

Digital Electronics net sales were ¥54,848mn (up ¥13,273mn or 31.9% YoY), with the increase mainly due to strong performance by LCD, touch panels (TP) and backlights (BL) for in-vehicle use, which increased ¥7,156mn and electrical and electronic parts, and semiconductors with an increase of ¥2,116mn. Sales of products for TV, Monitor, AV, etc, mainly for TVs, also increased to ¥1,596mn.

Automotive net sales were ¥16,912mn (up ¥3,753mn or 28.5% YoY) due to the recovery of automobile production in addition to the contribution of newly adopted parts (EV-related parts, etc.).

In the Broad Market segment, net sales were ¥51,406mn (up ¥14,479mn or 39.2% YoY). This was primarily attributable to an increase of ¥8,748mn in the aftermarket category due to brisk demand for dashboard cameras, an increase of ¥1,561mn in the heavy electric and vehicle control category from the acquisition of spot projects, and an increase of ¥1,064mn in the industrial machinery category from acquiring new products for vending machine applications.

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Business performance

Breakdown of net sales trends by market

	1H FY3/22		1H FY3/23		YoY	Main target markets	Change
	Results	Composition	Results	Composition			
Digital Electronics	41,574	45.4%	54,848	44.5%	31.9%	LCDs, touch panels, and backlights	7,156
						Electrical, electronic parts, and Semiconductors	2,116
						TV, Monitor, AV,etc	1,596
Automotive	13,159	14.4%	16,912	13.7%	28.5%	Overall automotive	3,753
Broad Market	36,926	40.3%	51,406	41.7%	39.2%	Aftermarket	8,748
						Heavy electric, vehicle control	1,561
						Industrial machinery	1,064
Total	91,660	100.0%	123,167	100.0%	34.4%		31,507

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 ¥65,800mn (up 36.3% YoY), net sales in China were ¥29,801mn (up 22.9%), net sales in other Asian areas were ¥19,361mn (up 29.2%), and net sales in Europe and the US were ¥8,204mn (up 98.6%). The increases in net sales in Japan was largely attributable to strong sales in the automotive sector. In China, net sales increased substantially amid comparatively strong sales of products related to electrical and electronic parts, as well as products for Toys, Hobby items. In Europe and the US, net sales increased largely due to recovery in sales to the automotive sector in Europe.

By region, segment profit was ¥3,038mn in Japan (up 72.8% YoY), ¥1,807mn in China (up 114.3%), ¥885mn in other Asian areas (up 17.8%), and ¥236mn in Europe and the US (up 601.2%), as sales and profits rose in all regions.

Sales by region

	1H FY3/22		1H FY3/23			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	91,660	100.0%	123,167	100.0%	31,507	34.4%
Japan	48,288	52.7%	65,800	53.4%	17,512	36.3%
China	24,252	26.5%	29,801	24.2%	5,549	22.9%
Other Asian areas	14,988	16.4%	19,361	15.7%	4,373	29.2%
Europe, US	4,131	4.5%	8,204	6.7%	4,073	98.6%
Operating income	3,481	3.8%	6,628	5.4%	3,147	90.4%
Japan	1,758	3.6%	3,038	4.6%	1,280	72.8%
China	843	3.5%	1,807	6.1%	964	114.3%
Other Asian areas	751	5.0%	885	4.6%	134	17.8%
Europe, US	33	0.8%	236	2.9%	203	601.2%
(Adjustment amount)	93	-	660	-	-	-

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

Financial base is sound, with ample cash and deposits of ¥27.5bn on hand

(4) Financial condition

As of the end of 1H FY3/23, current assets totaled ¥116,233mn (up ¥7,237mn from the end of FY3/22). Key factors were a ¥3,190mn decrease in cash and deposits, a ¥7,805mn increase in notes and accounts receivable-trade, and a ¥2,575mn increase in inventories. Non-current assets were ¥6,502mn (up ¥166mn). This was mainly due to an increase in property, plant and equipment of ¥132mn and an increase in investments and other assets of ¥57mn. As a result, total assets at the end of 1H FY3/23 were ¥122,735mn (up ¥7,403mn).

Meanwhile, total current liabilities were ¥57,033mn (up ¥2,924mn from the end of FY3/22). The main factors were a ¥971mn increase in notes and accounts payable-trade, a ¥1,033mn increase in short-term loans payable, and a ¥919mn increase in others under current liabilities. Net assets were ¥63,918mn (up ¥4,273mn) due to factors including a ¥2,690mn 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 1H FY3/23 was 52.1% (compared to 51.7% at the end of FY3/22).

Consolidated balance sheets

	End of FY3/22	End of 1H FY3/23	Change
	(¥mn)		
Cash and deposits	30,753	27,563	-3,190
Notes and accounts receivable-trade	61,224	69,029	7,805
Inventories	15,767	18,342	2,575
Total current assets	108,996	116,233	7,237
Property, plant and equipment	3,276	3,408	132
Intangible assets	323	300	-23
Investments and other assets	2,736	2,793	57
Total non-current assets	6,336	6,502	166
Total assets	115,332	122,735	7,403
Notes and accounts payable-trade	47,910	48,881	971
Short-term loans payable	403	1,436	1,033
Others	5,794	6,713	919
Total current liabilities	54,109	57,033	2,924
Total non-current liabilities	1,578	1,783	205
Total liabilities	55,687	58,817	3,130
Retained earnings	52,296	54,986	2,690
Total net assets	59,645	63,918	4,273

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

(5) Status of cash flows

Net cash used in operating activities in 1H FY3/23 was ¥2,820mn. The main inflows were ¥6,122mn in income before income taxes and ¥559mn in depreciation and amortization, while the main outflows were an increase in notes and accounts receivable-trade of ¥5,240mn, an increase of ¥1,474mn in inventories, and a decrease of ¥1,819mn in notes and accounts payable-trade.

Business performance

Net cash used in investing activities was ¥439mn. The main outflows included ¥443mn in purchase of property, plant and equipment (mainly molds) and ¥20mn in purchase of intangible assets. Net cash used in financing activities was ¥783mn. The main outflows included partially offset by ¥886mn in net increase in short-term loans payable, ¥1,473mn in cash dividends paid, and ¥197mn in repayments of lease liabilities. As a result, cash and cash equivalents decreased ¥3,189mn and the balance of cash and cash equivalents at the end of 1H FY3/23 was ¥27,563mn. The Company accordingly seems to have ample cash on hand as of yet.

Statements of cash flows

	(¥mn)	
	1H FY3/22	1H FY3/23
Cash flows from operating activities	1,685	-2,820
Income before income taxes	3,408	6,122
Depreciation and amortization	427	559
Decrease (increase) in notes and accounts receivable-trade	412	-5,240
Decrease (increase) in inventories	-3,505	-1,474
Increase (decrease) in notes and accounts payable-trade	1,557	-1,819
Cash flows from investing activities	-171	-439
Purchase of property, plant and equipment	-309	-443
Purchase of intangible assets	-27	-20
Cash flows from financing activities	-711	-783
Net increase in short-term loans payable	356	886
Cash dividends paid	-941	-1,473
Net increase (decrease) in cash and cash equivalents	936	-3,189
Cash and cash equivalents at the end of the period	28,813	27,563

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

■ Outlook

In FY3/23, all three business sections by market segment are forecast to increase sales, operating profit expect to grow 39.6%

● Forecasts for FY3/23

(1) Outlook of profit and loss

For FY3/23, the Company is projecting net sales of ¥243,500mn (up 21.4% YoY), operating income of ¥11,650mn (up 39.6%), ordinary profit of ¥10,950mn (up 39.2%), and profit attributable to owners of parent of ¥7,550mn (up 40.5%). In light of its strong performance in the first half, the Company made substantially upward revisions from initial forecasts (net sales of ¥225,500mn, operating income of ¥8,950mn). Sales are also projected to increase in all regions and all market categories. The Company is assuming an average exchange rate of ¥135.00 for the full year (¥112.39 in the previous year).

As indicated, the Company is forecasting a major increase in sales for the full year, but looking only at the second half, it is projecting a 3.2% increase YoY in operating income, which is a rather cautious forecast. That was because 1H results were better than forecast, but as is explained below, FISCO believes there is a strong possibility that full-year results forecasts will be upwardly revised again for reasons that include a large number of products expected to continue to perform well, and, regarding the exchange rate, if current levels continue, effects from yen depreciation can also be expected.

Outlook

Summary of FY3/23 full-year forecasts

	FY3/22		FY3/23 E			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	200,646	100.0%	243,500	100.0%	42,854	21.4%
Operating income	8,346	4.2%	11,650	4.8%	3,304	39.6%
Ordinary profit	7,867	3.9%	10,950	4.5%	3,083	39.2%
Profit attributable to owners of parent	5,374	2.7%	7,550	3.1%	2,176	40.5%

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

(2) Net sales forecasts by market

By market, net sales in Digital Electronics are forecast to be ¥103,204mn (up ¥17,242mn or 20.1% YoY). The Company projects an increase of ¥6,331mn due to expected strong sales of LCDs, touch panels and backlights mainly for in-vehicle use. An increase of ¥5,526mn is projected for Toys, Hobby as well, as an increase in deliveries, mainly for game consoles, can be expected. A further increase of ¥3,278mn is forecast from production recovery by customers for Electrical, electronic parts, and Semiconductors

In Automotive, net sales are forecast to be ¥37,175mn (up ¥9,071mn or 32.3% 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 ¥103,120mn (up ¥16,539mn or 19.1% YoY). By use, the aftermarket category is projected to increase by ¥6,633mn due to expected continuing strong sales of dashboard cameras, and other factors. Forecasts are for increases of ¥2,350mn in heavy electric and vehicle control, and ¥2,263mn in industrial machinery.

Net sales forecasts by market

	FY3/22		FY3/23 E				
	Amount	Composition	Forecast	Composition	YoY	Main target markets	Change
Digital Electronics	85,961	42.8%	103,204	42.4%	20.1%	LCDs, touch panels, and backlights	6,331
						Toys, Hobby	5,526
						Electrical and electronic parts, Semiconductor	3,278
Automotive	28,103	14.0%	37,175	15.3%	32.3%	Overall automotive	9,071
Broad Market	86,581	43.2%	103,120	42.3%	19.1%	Aftermarket	6,633
						Heavy electric, vehicle control	2,350
						Industrial machinery	2,263
Total	200,646	100.0%	243,500	100.0%	21.4%		42,854

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

■ Medium- to long-term growth strategy

Implementing new medium-term business plan “elematec NEXT,” and focusing on three fields. Strong likelihood of achieving medium-term earnings forecast targets ahead of schedule

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.

2. Expanding high-value-added businesses

(1) Changing business model

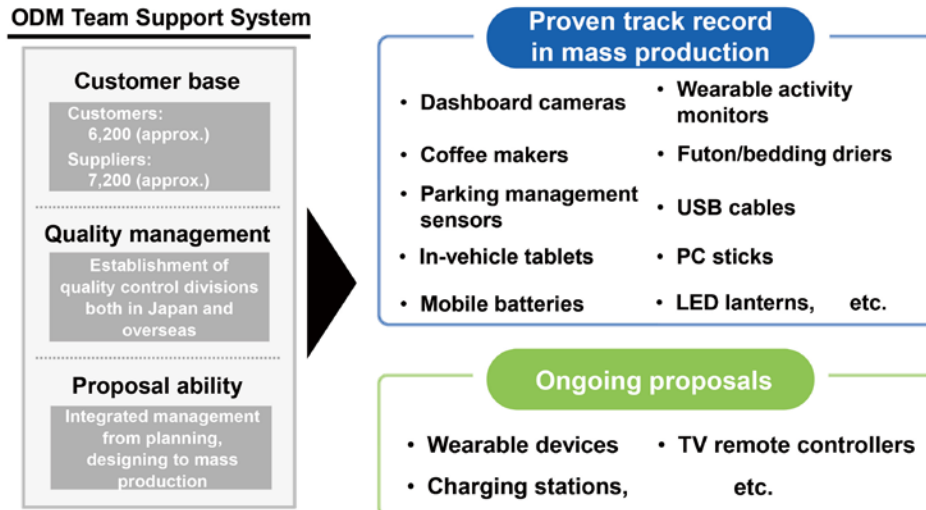
In the Company’s main markets of electronic parts, materials and devices, the role required of the Company is always changing and it is now being required to provide one-stop solutions in the form of: Planning and development>Procure>Processing>Logistics>Delivery. As a result, the Company’s business 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.

Medium- to long-term growth strategy

Progress status of finished product (ODM) business



Source: The Company's results briefing materials

(3) Establishment of dedicated ODM department

The Company established a dedicated ODM department (Head Office Sales Group V) in order to further provide the ODM business, including prototyping and mass production. As a result, the number of projects increased substantially to around 100.

(4) 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.

• 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 (polypropylene)
- d) Films: Decomposable in soil and compost
- e) Additives: Mixed with resins such as PP and PE (polyethylene) to improve biomass content/add biodegradability

• Alternative materials to plastic category

- f) Molded pulps: Packaging materials with bamboo and sugar cane as raw material (track record of use in packing material for a major game console manufacturer)
- g) Molded products from different materials: Products with waste materials such as paper and chaff, and naturally derived materials blended into resin

Medium- to long-term growth strategy

3. Cultivate leading overseas customers

(1) Strengthening of foldable smartphone business

The Company has been seeking expansion with respect to “appealing commercial materials,” which are highly regarded by leading domestic and overseas customer. Such items include materials 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 of increasing sales of optically clear adhesive sheets, optically clear resins, and organic light-emitting diode films (OCA/OCR and OLED) by conducting promotions primarily for leading Japan-made materials.

(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 (25 domestic offices/42 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 and has begun mass production. 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.

Based on the situation outlined above, the Company has acquired trading accounts with almost all the major American and Chinese companies it had targeted. It will further accelerate this going forward.

4. Expanding the automobile business

(1) Expansion of automotive module business

Glass ASSY for smart mirrors (film lamination on glass 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 customers after assembly using incombustible materials from Japan and overseas.

(2) Targeting of overseas OEM/Tier 1

The Company actively exhibited at European exhibition. In 2021 the Company exhibited products that utilize its own plants, including Glass ASSY for smart mirrors, meter liquid crystal bonding (clear resin lamination for liquid crystal meters/front panels), and head-up display (HUD) materials (heat countermeasures and weight-saving materials). The leading Japanese materials it also exhibited included decorative parts (light transmitting film), 3D video demo machines, and temperature control cup holders.

Medium- to long-term growth strategy

As a result, though the Company had already acquired European Tier 1 accounts, going forward it will strengthen sales activities primarily for its HUD and interior-related products. Also, while it has received prototyping orders for electric leak protection materials for electric vehicles, it will also develop out its existing business to include EV makers new to the market.

5. Initiatives for SDGs

(1) Contribute to a sustainable society through business activities

The Company is contributing to a sustainable society through the following business activities.

• **Realization of a society without traffic accidents**

Increasing sales of products that reduce accident factors: The Company will focus on increasing sales of products like HUD and dashboard cameras that help reduce the factors responsible for traffic accidents.

• **Supply of environmentally conscious components**

Start of mass production of carrying cases for game consoles: Launched a carrying case for game controllers using recyclable resin made with recycled plastic bottles, etc.

• **Supply of green energy-related products**

Increasing sales of products for plug-in hybrids (PHEV) and EVs: The Company will focus on increasing sales of PHEV/EV-related products like pyro-fuses

(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.

The Company contributes to developing suitable medical facilities and services through the supply of components for medical devices.

• **Reduction of environmental burdens and realization of a recycling-oriented society**

The Company supplies environmentally conscious packaging materials using plant-based raw materials.

It supplies clean energy-related materials in the form of products for PHEV and EV vehicles.

The Company promote recycling activities.

It implements 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 of governance structures trusted by all stakeholders**

The Company endeavors for the establishment and strengthening of governance structures and compliance systems.

Medium- to long-term growth strategy

Details of initiative measures

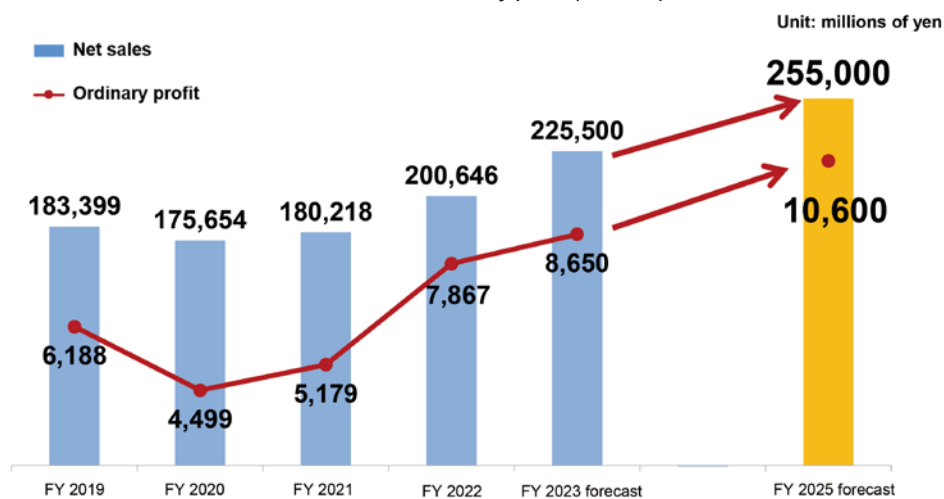
Realization of a safe and secure society	<ul style="list-style-type: none"> • Realization of a society without traffic accidents Planning and development of dashboard cameras and expansion of sales of materials • Improvement of proper medical environment Delivery of medical equipment materials 	
Reduction of environmental burdens and realization of a recycling-oriented society	<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 	
Construction of organizations that respect diversity and grow together	<ul style="list-style-type: none"> • Respect for human rights • Promotion of D&I (diversity & inclusion) • Expansion of training systems • Workstyle reform 	
Establishment and strengthening of governance structures and compliance systems	<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. However, as discussed above, ordinary profit in FY3/23, which is underway, is forecast to be ¥10,900mn, so it is highly possibly that these medium-term results targets are achieved ahead of schedule; as of the present, though, they have not been revised. FISCO thinks there is a high likelihood that new plan targets will be announced around the spring of 2024 when this term's results are announced.

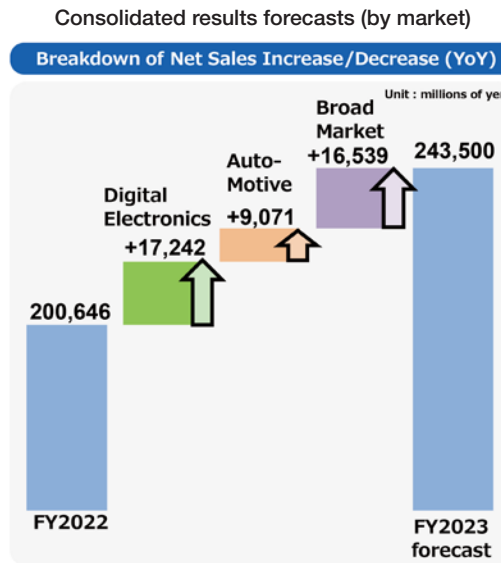
Net sales and ordinary profit (forecast)



*Revenue recognition standard applied from FY2022

Source: The Company's results briefing materials

Medium- to long-term growth strategy



Source: The Company's results briefing materials

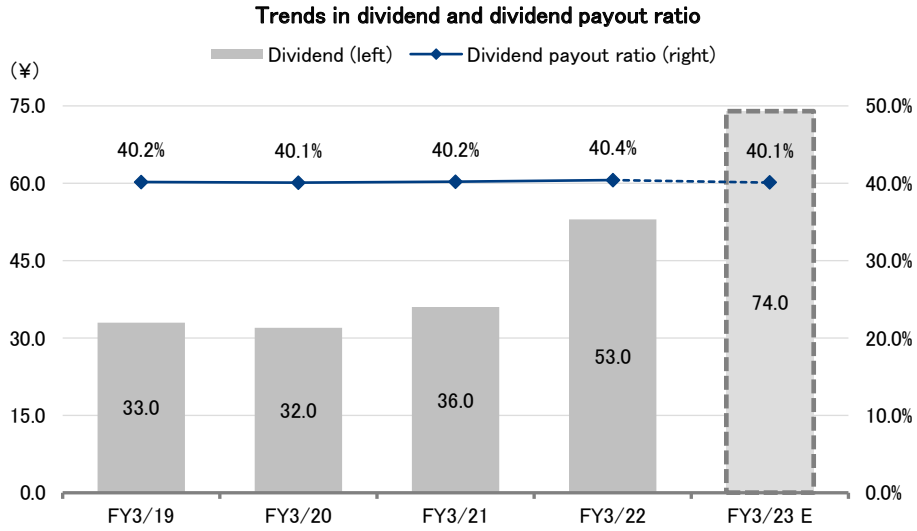
Shareholder return policy

Planning an annual dividend of ¥74 (dividend payout ratio of at 40.1%) 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.

Regarding FY3/23 as well, currently underway, the Company initially announced an annual dividend of ¥60 to maintain a dividend payout ratio of at least 40%, its basic target, but full-term results forecasts were upwardly revised as discussed above, so the Company announced that it is increasing the annual dividend to ¥74 (interim of ¥27, term-end of ¥47).

Shareholder return policy



Note: The Company implemented a two-for-one stock split on June 1, 2019. Figures for FY3/19 have been retrospectively adjusted.

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



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