

Elematec Corporation

2715

Tokyo Stock Exchange Prime Market

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Summary

Currently promoting the medium-term management strategy “elematec Pro+.” Toyota Tsusho announces a TOB transaction

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 components.

Furthermore, the Company has adopted IFRS as its accounting standards since FY3/25. It has retrospectively adjusted its financial information for FY3/24 to reflect the adoption of this standard. In addition, Toyota Tsusho, the Company’s parent company, announced a tender offer bid for the Company’s shares (with a tender period from October 30, 2024 to December 11, 2024) on October 29, 2024 (hereafter, “the TOB transaction”). The Company has expressed its support for the TOB transaction and recommended that shareholders subscribe to the offer. Moreover, following Toyota Tsusho’s announcement of the successful completion of the TOB transaction on December 12, 2024, the Company’s shares are now scheduled to be delisted through a series of procedures.

1. Lower revenue and profits in FY3/25 1H

Results for FY3/25 1H were ¥98,360mn in revenue (down 3.7% year on year [YoY]), operating profit of ¥4,996mn (down 0.8%), profit before tax of ¥4,433mn (down 4.3%) and profit attributable to owners of the parent of ¥3,068mn (down 7.2%). By market, revenue in the Digital Electronics segment declined 3.5% due to sluggish sales for display-related products and TVs, Monitors, AV, etc., while a recovery was seen in electrical parts, semiconductors. In the Automotive segment, revenue rose 4.8%, supported by factors such as the adoption of new products. In the Broad Market segment, revenue decreased 8.3%, due to weak sales in the aftermarket, particularly in dashboard cameras, as well as lackluster sales for industrial equipment and power tools, although sales for medical devices were strong. By region, revenue declined significantly in Japan, primarily in the aftermarket. Outside Japan, revenue increased, due partly to the impact of exchange rates. Gross profit margin improved by 0.8 percentage points (pp) YoY due to the effect of a weaker yen and changes in the product mix. However, gross profit rose by only 2.4% due to lower revenue. As a result of a 4.5% increase in SG&A expenses, operating profit decreased 0.8%, remaining mostly unchanged YoY.

2. Recovery expected based on an outlook for higher revenue and profits in FY3/25

For FY3/25 results, revenue is expected to be ¥216,500mn (up 11.4% YoY), operating profit, ¥9,350mn (up 3.3%), profit before tax, ¥8,650mn (up 6.6%), and profit attributable to owners of the parent, ¥6,000mn (up 4.7%). Although some products fell short of initial forecasts, other products performed strongly. As a result, the Company has not changed its overall initial results forecasts. The average rate against the dollar is assumed to be ¥145.00 (¥144.59 the previous fiscal year).

Summary

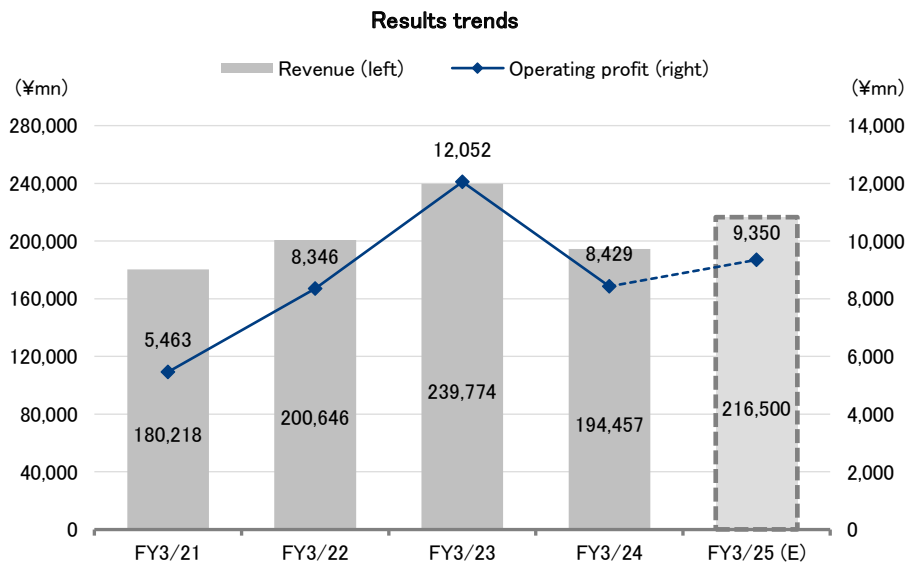
3. Promoting the medium-term management strategy “elematec Pro+”

The Company announced its medium-term management strategy “elematec Pro+” in April 2023. Under this medium-term management strategy, it will continue and further work on expanding high-value-added businesses, acquiring leading domestic customers, and focusing on the automotive business domain, which were main strategies under the previous medium-term plan. At the same time, the Company will additionally work on cultivating potential areas on a full-scale basis, strengthening the functions of the Marketing & Development Division, expanding customer base and business domains through M&A and alliances, and advancing sustainability and human capital efforts as new key measures. It has designated automotive, aftermarket, and medical equipment as key markets. Although the current business performance is stagnant, the Company’s policy remains unchanged to proceed steadily with these key measures. It will also further progress management conscious of capital cost in the future.

Regarding dividends, the Company has announced an interim dividend of ¥40 for FY3/25 1H, but it will not pay a year-end dividend due to the TOB transaction by Toyota Tsusho.

Key Points

- A general electronics trading company that handles a wide range of products, including electronic materials and electrical parts and equipment
- Operating profit for FY3/25 1H decreased 0.8% YoY, but is forecast to increase 3.3% for the full year
- Promoting the medium-term management strategy “elematec Pro+.” A TOB transaction by Toyota Tsusho was announced



Note: IFRS applied since FY3/25
 Source: Prepared by FISCO from the Company's financial results

■ Company overview

An electronics trading company specializing in electronic materials with 73 sites in Japan and overseas

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 electronics 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 companies 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. Subsequently, Toyota Tsusho announced a TOB transaction for all shares of the Company on October 29, 2024, and, following its successful completion, the Company's shares are scheduled to be delisted.

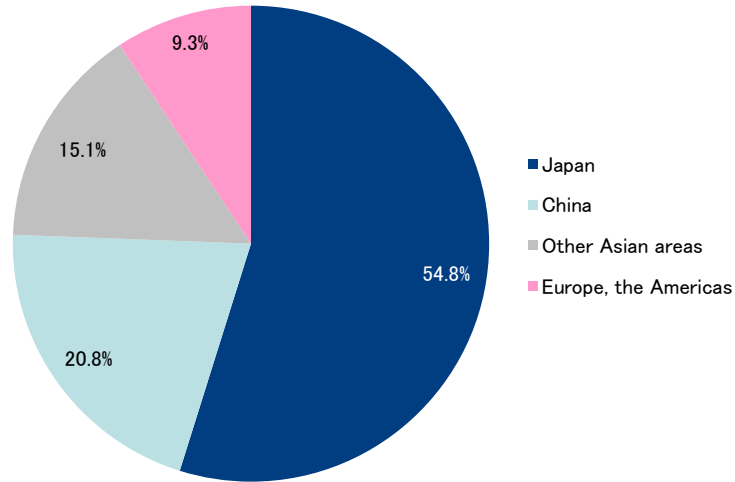
(2) Business description

Currently, the Company handles a wide range of products, including electronic materials for electronics products, electrical parts, and equipment. It has 1,225 employees and 25 sites in Japan and 48 sites overseas on a consolidated basis as the business foundation (as of March 31, 2024). 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 other Asian areas, reflecting the overseas expansion by Japanese companies. The revenue breakdown by region in FY3/24 was 54.8% in Japan, 20.8% in China (including Hong Kong), 15.1% in other Asian areas (South Korea, India, Southeast Asia, etc.), and 9.3% in Europe and the Americas (US, Mexico, Czech Republic), according to the Company's financial results.

Company overview

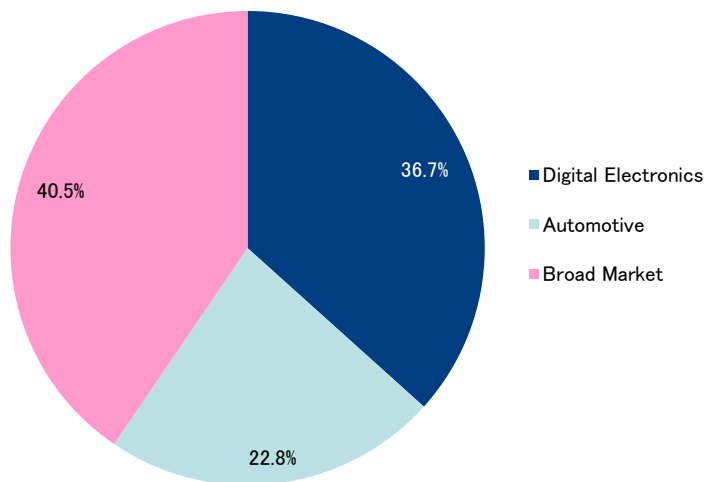
Revenue by region (FY3/24: ¥194,457mn)



Source: Prepared by FISCO from the Company's website

Grouping is important for management purposes because the Company has many customers on procurement and sales sides and handles a wide range of products. Currently, as a market-based classification the Company uses the customer's product item standard (sales destination standard) and divides its internal management and information disclosure into three segments: Digital Electronics, Automotive, and Broad Market. The revenue breakdown in FY3/24 was 36.7% in Digital Electronics, 22.8% in Automotive, and 40.5% in Broad Market.

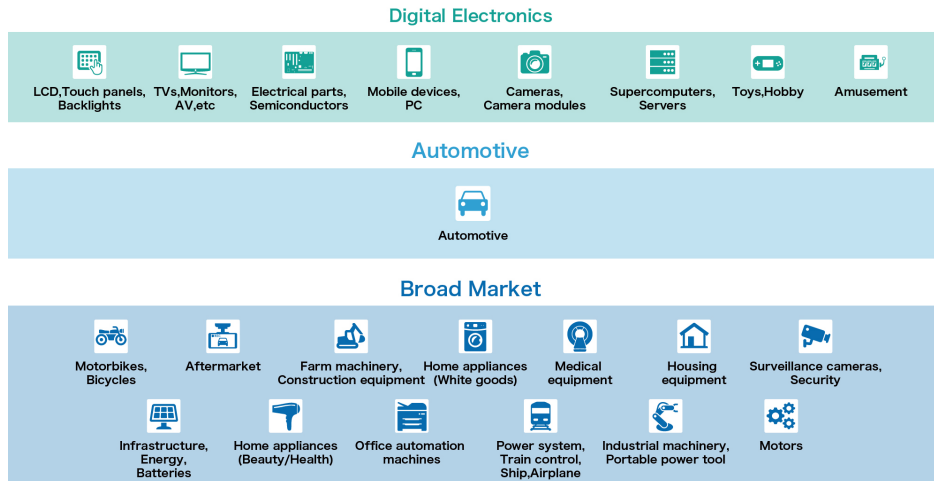
Revenue by market (FY3/24: ¥194,457mn)



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

Company overview

The Company's focal markets



Source: The Company's website

Realizing stable growth in business performance leveraging numerous products and business partners, and advancing high value-added businesses

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 electrical parts from about 7,000 suppliers (manufacturers) for about 6,000 customers (users). Individual suppliers and customers are not disclosed, but the Company's top 10 main customers account for approximately 40% of revenue (FY3/24). 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 (sites)

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 a large number of products, and responds to customer requests by combining the knowledge of these products and its expertise from the past. The Company's ability to anticipate customers' needs and make proposals on its own, in short not only engaging in passive business development but also active business development, is a strength.

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 response to customer requests. In one sense, some customers may see the Company as "an expedient vendor," and many customers have continued doing business with the Company over a long period of time, which may also be one of its strengths.

Company overview

(3) Three-dimensional earnings structure

In the case of an ordinary electronics trading company, customers (X-axis) and products (Y-axis) are the important factors for increasing earnings, and the earnings structure can be described as flat. In addition to this, the Company also has a third axis (Z-axis) that includes planning (proposals), manufacturing, and quality control, which means it has a three-dimensional earnings structure.

Especially in recent years, the Company has strengthened its planning and proposal capabilities in addition to its mere trading company functions, and has become higher (thicker) in the Z-axis direction. In the same way that a taller building is stronger and less likely to collapse, the Company's earnings structure is strong and will not collapse easily. This three-dimensional earnings structure is the Company's feature, and a strength.

3. Main services and functions

The Company goes beyond just the basic services and functions of an electronics trading company, which include supply of optimal components, 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. The Company highlights the following five services and functions as features, and it may be because of these functions that the Company is able to link diverse products to its businesses and incorporate them into its performance.

(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 components 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

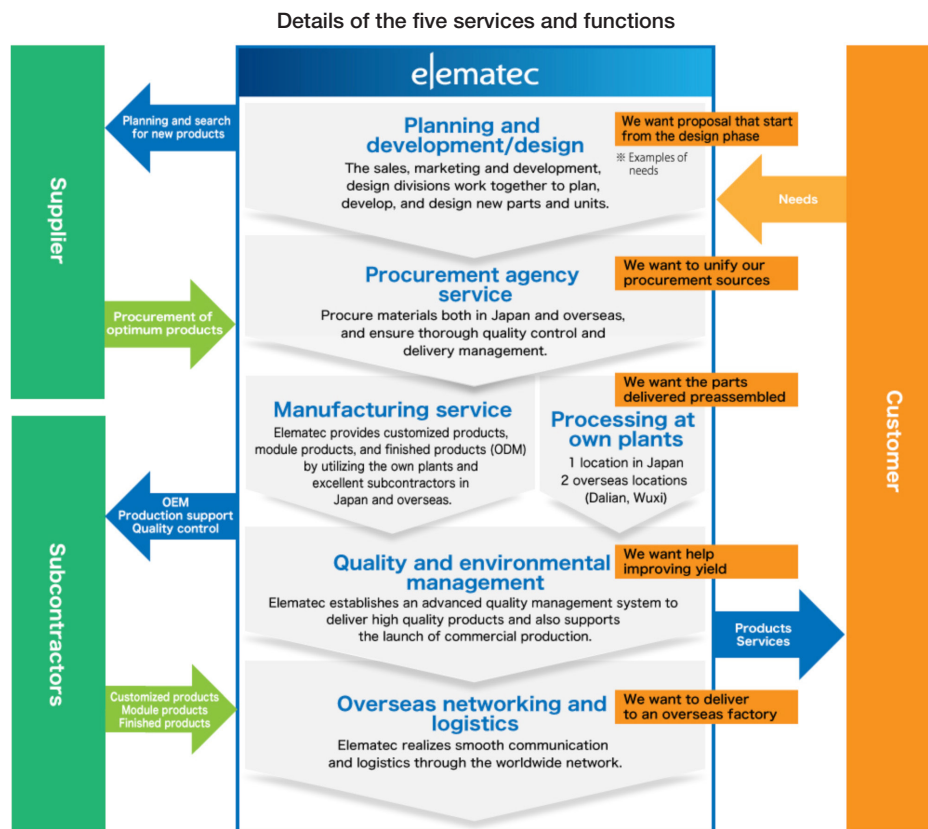
Maintaining a sophisticated quality control system to deliver high quality products.

(5) Overseas networking

Ensuring smooth global logistics utilizing its worldwide network.

The Company maintains a relatively high gross profit margin by adding high-added-value services and functions to basic trading company functions. As the Company continues to make use of its five services and functions, its gross profit margin can be expected to improve even more.

Company overview



Source: The Company's website

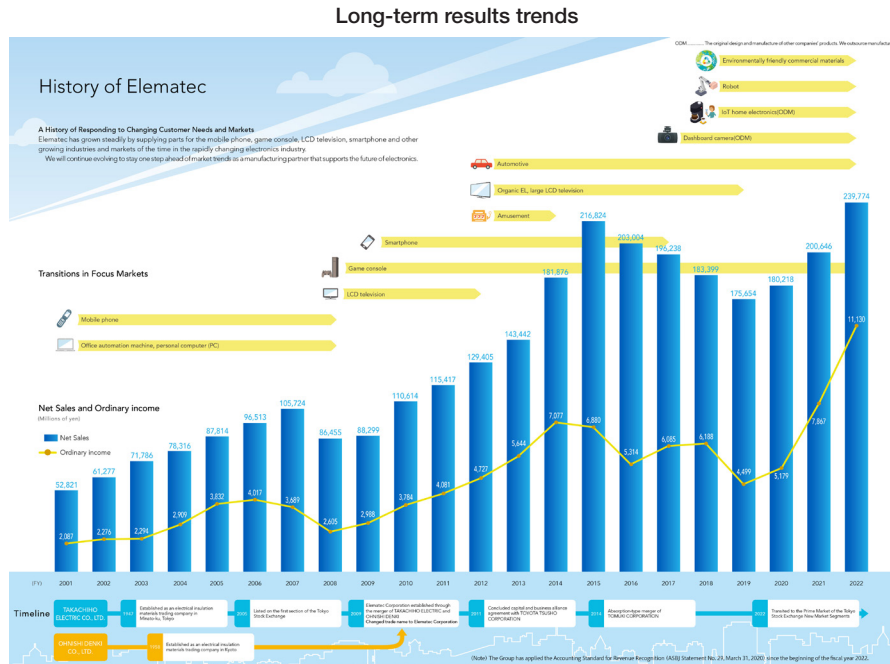
Has maintained earnings growth through a structure that enables it to ride through a growth sector

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. With these products, net sales exceeded ¥100.0bn for the first time in FY3/08. Later, LCD TV-related products became a major business due to the move to terrestrial digital broadcasting and other factors. 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 its highest profit in consecutive years, exceeding ¥200.0bn in net sales in FY3/16 for the first time. In recent years results have leveled off as the smartphone market has matured but growth has been maintained by strengthening its planning and proposal capabilities such as selling dashboard cameras as ODM products, enabling it to achieve record high net sales in FY3/23 (¥239.7bn). Furthermore, the Company's next growth markets are shifting to the automotive-related and overseas manufacturers-related businesses. The Company not only has many business partners and products, but also has proposal and manufacturing capabilities, which raise expectations of a further increase in business opportunities.

Company overview

In this way, the Company has maintained growth by providing appropriate parts and products according to the market and conditions at the time. This can be called a “strategy of being agile in seizing opportunities,” but in reality, we at FISCO believe that the Company’s strength and characteristic are its ability to “get on the bandwagon.” To put it another way, to “get on the bandwagon” means to have a “structure that can ride growth areas” that enable it to sustain growth because it has a broad customer base, a large number of products, and development capabilities that are not possible for any other company.



Note: ODM refers to the design and manufacture of other companies' branded products. The Company outsources manufacturing.
Source: The Company's Corporate Profile

Business performance

Operating profit decreased slightly YoY in FY3/25 1H

1. Overview of FY3/25 1H results

Results for FY3/25 1H were ¥98,360mn in revenue (down 3.7% YoY), operating profit of ¥4,996mn (down 0.8%), profit before tax of ¥4,433mn (down 4.3%) and profit attributable to owners of the parent of ¥3,068mn (down 7.2%). By market, revenue increased in the Automotive segment but decreased in the Digital Electronics and Broad Market segments.

Business performance

Gross profit margin improved 0.8pp to 13.0%. This improvement was mainly due to a weaker yen and changes in the product mix (the share of products for dashboard cameras, which have relatively low profitability, declined). As a result, gross profit increased 2.4%. However, SG&A expenses increased 4.5% to ¥7,828mn, leading to a 0.8% decrease in operating profit. Breaking down the changes in SG&A expenses, personnel expenses rose ¥378mn due to an increase in personnel, while freightage & packing expenses increased ¥137mn due to a rise in transportation expenses. On the other hand, other administrative expenses decreased ¥181mn, due to factors such as a decrease in the reversal of allowance for doubtful accounts.

Summary of FY3/25 1H results

	FY3/24 1H		FY3/25 1H		YoY	
	Results	Vs. revenue	Results	Vs. revenue	Change	Change (%)
Revenue	102,102	100.0%	98,360	100.0%	-3,742	-3.7%
Gross profit	12,482	12.2%	12,783	13.0%	301	2.4%
SG&A expenses	7,494	7.3%	7,828	8.0%	334	4.5%
Other income and other expenses (net)	47	0.0%	42	0.0%	-5	-10.6%
Operating profit	5,034	4.9%	4,996	5.1%	-38	-0.8%
Profit before tax	4,635	4.5%	4,433	4.5%	-202	-4.3%
Profit attributable to owners of the parent	3,305	3.2%	3,068	3.1%	-237	-7.2%

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

The Automotive segment continued to grow due to adoption of new products, but revenue declined in the Digital Electronics and Broad Market segments

2. Revenue by market

In the Digital Electronics segment, revenue was ¥39,419mn (down ¥1,411mn or 3.5% YoY). As for the main breakdown, LCD, touch panels, backlit displays and other display-related applications were impacted by lower production by key customers and fell by ¥3,625mn. TVs, Monitors, AV, etc. were affected by a downturn in TV sales by major customers and so declined by ¥924mn, while electrical parts, semiconductors increased ¥2,178mn as demand returned to a recovery trend.

Revenue in the Automotive segment was solid at ¥22,111mn (up ¥1,020mn or 4.8% YoY), due partly to the adoption of new products, but was slightly lower than initially forecast.

In the Broad Market segment, revenue was ¥36,829mn (down ¥3,351mn or 8.3% YoY). Revenue declined ¥4,781mn in the aftermarket due to a slowdown in the popularity of dashboard cameras, which has run its course, and by ¥723mn in industrial equipment and power tools. Meanwhile, revenue increased by ¥1,110mn in medical devices, driven by factors such as an increase in customers.

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Business performance

Breakdown of revenue trends by market

	FY3/24 1H		FY3/25 1H		Growth rate	Main target markets	Change
	Results	Composition	Results	Composition			
Digital Electronics	40,831	40.0%	39,419	40.1%	-3.5%	LCDs, touch panels, and backlights	-3,625
						TVs, Monitors, AV, etc.	-924
						Electrical parts, semiconductors	2,178
Automotive	21,090	20.7%	22,111	22.5%	4.8%	Overall automotive	1,020
						Aftermarket	-4,781
Broad Market	40,181	39.4%	36,829	37.4%	-8.3%	Industrial equipment and power tools	-723
						Medical devices	1,110
Total	102,102	100.0%	98,360	100.0%	-3.7%		-3,742

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

3. Status by region

In terms of revenue by region, revenue in Japan was ¥46,149mn (down 18.4% YoY), revenue in China was ¥26,475mn (up 20.4%), revenue in other Asian areas was ¥17,333mn (up 22.4%), and revenue in Europe and the Americas was ¥8,402mn (down 11.0%) according to the Company's financial results. The downturn in revenue in Japan was largely attributable to the impact of the aftermarket.

By region, profit was ¥2,558mn (down 14.1% YoY) in Japan, ¥1,498mn (up 5.6%) in China, ¥690mn (up 21.2%) in other Asian areas, and ¥238mn (down 6.6%) in Europe and the Americas.

Status by region

	FY3/24 1H		FY3/25 1H		YoY	
	Results	Vs. revenue	Results	Vs. revenue	Change	Change (%)
Revenue	102,102	100.0%	98,360	100.0%	-3,742	-3.7%
Japan	56,523	55.4%	46,149	46.9%	-10,374	-18.4%
China	21,980	21.5%	26,475	26.9%	4,495	20.4%
Other Asian areas	14,160	13.9%	17,333	17.6%	3,173	22.4%
Europe, Americas	9,438	9.2%	8,402	8.5%	-1,036	-11.0%
Profit	3,305	3.2%	3,068	3.1%	-237	-7.2%
Japan	2,977	5.3%	2,558	5.5%	-419	-14.1%
China	1,418	6.5%	1,498	5.7%	80	5.6%
Other Asian areas	570	4.0%	690	4.0%	120	21.2%
Europe, Americas	254	2.7%	238	2.8%	-16	-6.6%
Adjustment amount	-1,915	-	-1,917	-	-	-

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

Business performance

Cash on hand of ¥34.4bn and an equity ratio attributable to owners of the parent of 61.0% for a stable financial foundation

4. Financial condition

As of the end of FY3/25 1H, current assets totaled ¥105,448mn (down ¥2,571mn from the end of FY3/24). Key factors were a ¥7,719mn decrease in cash and cash equivalents, a ¥4,228mn increase in trade and other receivables, and a ¥605mn increase in inventories. Non-current assets were ¥8,852mn (down ¥341mn). This was mainly due to a ¥158mn decrease in property, plant and equipment, a ¥44mn increase in intangible assets, a ¥135mn increase in other financial assets, and a ¥200mn decrease in right-of-use assets. As a result, total assets at the end of FY3/25 1H were ¥114,301mn (down ¥2,911mn).

Meanwhile, current liabilities were ¥41,554mn (down ¥3,243mn from the end of FY3/24). The main factors were a ¥3,899mn decrease in trade and other payables, a ¥54mn decrease in borrowings, and a ¥341mn decrease in other financial liabilities. Non-current liabilities were ¥2,970mn (down ¥195mn from the end of FY3/24). This was due to a ¥220mn decrease in other financial liabilities. Total equity was ¥69,777mn (up ¥528mn) due to factors including a ¥1,226mn increase in retained earnings resulting from the recording of profit attributable to owners of the parent and a ¥697mn decrease in other components of equity. As a result, the equity ratio attributable to owners of the parent at the end of FY3/25 1H was 61.0% (compared to 59.1% at the end of FY3/24).

Consolidated balance sheets

	End of FY3/24	End of FY3/25 1H	Change
			(¥mn)
Cash and cash equivalents	42,139	34,420	-7,719
Trade and other receivables	48,323	52,551	4,228
Inventories	16,252	16,857	605
Other current assets	1,302	1,618	316
Total current assets	108,019	105,448	-2,571
Property, plant and equipment	3,167	3,009	-158
Intangible assets	247	291	44
Investment property	293	288	-5
Other financial assets	1,582	1,717	135
Right-of-use assets	2,373	2,173	-200
Other non-current assets	1,529	1,372	-157
Total non-current assets	9,193	8,852	-341
Total assets	117,212	114,301	-2,911
Trade and other payables	41,032	37,133	-3,899
Borrowings	296	242	-54
Other financial liabilities	1,660	1,319	-341
Other current liabilities	1,808	2,857	1,049
Total current liabilities	44,797	41,554	-3,243
Other financial liabilities	1,321	1,101	-220
Deferred tax liabilities	1,566	1,558	-8
Total non-current liabilities	3,165	2,970	-195
Total liabilities	47,963	44,524	-3,439
Retained earnings	61,391	62,617	1,226
Other components of equity	3,074	2,377	-697
Total equity	69,249	69,777	528

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

Business performance

5. Status of cash flows

Net cash used in operating activities in FY3/25 1H was ¥4,209mn. The main inflows were ¥4,433mn in profit before tax and ¥994mn in depreciation and amortization. The main outflows included a ¥5,168mn increase in trade and other receivables, a ¥1,016mn increase in inventories and a ¥2,229mn decrease in trade and other payables.

Net cash used in investing activities was ¥589mn. The main outflows included ¥203mn in purchase of property, plant and equipment (mainly molds) and ¥351mn in purchase of investment securities. Net cash used in financing activities was ¥2,511mn. The main outflows were a ¥39mn net decrease in short-term borrowings, ¥629mn in repayment of lease liabilities and ¥1,842mn in cash dividends paid. As a result, cash and cash equivalents during FY3/25 1H decreased ¥7,718mn, and the balance at the end of the quarter was ¥34,420mn.

Consolidated statements of cash flows

	(¥mn)	
	FY3/24 1H	FY3/25 1H
Cash flows from operating activities	11,086	-4,209
Profit before tax	4,635	4,433
Depreciation and amortization	903	994
Decrease (increase) in trade and other receivables	3,305	-5,168
Decrease (increase) in inventories	-477	-1,016
Increase (decrease) in trade and other payables	3,588	-2,229
Cash flows from investing activities	-581	-589
Purchase of property, plant and equipment	-516	-203
Purchase of investment securities	-11	-351
Cash flows from financing activities	-3,176	-2,511
Net increase (decrease) in short-term borrowings	-629	-39
Repayment of lease liabilities	-540	-629
Dividends paid	-2,006	-1,842
Net increase (decrease) in cash and cash equivalents	8,281	-7,718
Cash and cash equivalents at end of period	41,248	34,420

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

■ Outlook

Operating profit is forecast to increase 3.3% YoY in FY3/25

● Forecasts for FY3/25

For FY3/25 results, revenue is expected to be ¥216,500mn (up 11.4% YoY), operating profit, ¥9,350mn (up 3.3%), profit before tax, ¥8,650mn (up 6.6%), and profit attributable to owners of the parent, ¥6,000mn (up 4.7%). By product, some products fell short of initial forecasts while others surpassed them in FY3/25 1H. As a result, the Company has not changed its overall initial forecasts.

Outlook

Forecasts for FY3/25

	FY3/24		FY3/25		YoY	
	Results	Vs. revenue	Forecast	Vs. revenue	Change	Change (%)
Revenue	194,350	100.0%	216,500	100.0%	22,150	11.4%
Operating profit	9,052	4.7%	9,350	4.3%	298	3.3%
Profit before tax	8,116	4.2%	8,650	4.0%	534	6.6%
Profit attributable to owners of the parent	5,729	2.9%	6,000	2.8%	271	4.7%

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

Medium- to long-term growth strategy

Progressing the medium-term management strategy “elematec Pro+,” promoting management conscious of capital cost in addition to deepening key markets

1. Basic policies of the medium-term management strategy “elematec Pro+”

The Company has announced its medium-term management strategy “elematec Pro+” (FY3/24 to FY3/26) to follow on from “elematec NEXT” which was undertaken through FY3/23. Below is an overview of that strategy.

(1) External environment and challenges

The Company cites geopolitical risks and fluctuations in domestic and foreign markets, advancement/diversification of customer needs, growing interest in sustainability challenges and changing ways of working and increasing diversity as trends in the external environment. In light of this external environment, the following challenges have been set forth.

a) Expand operations outside Japan and China from the perspective of growth and risk diversification

- Invest resources in North America and Europe
- Move away from procurement agency in ASEAN

b) Strengthen the functions of the Marketing & Development Division, strengthen cooperation with each department, and aim to acquire external resources

- Strengthen efforts based on business partners and products
- Continue to follow medium- to long-term trends and expand investments and loans

c) Strengthen efforts to protect the global environment and resolve social issues

- Contribute to solving sustainability issues through its core business
- Support for suppliers based on customer's emphasis on environmental considerations

d) Establish a system in which each individual can be fulfilled and self-actualized

- Promote diversity and inclusion
- Create a structure for education, training and assignment to enhance employee engagement

Medium- to long-term growth strategy

(2) Key measures and quantitative targets, and key markets

As a basic policy of the medium-term management strategy, the Company states, “We will continue to evolve the previous measures, and in the new medium-term plan, we will expand and strengthen our management base while tackling challenges in potential fields.” Based on this policy, it intends to promote the following four key measures.

a) Key measures

(Cultivate and deepen potential fields)

- Cultivate potential areas on a full-scale basis
- Strengthen the functions of the Marketing & Development Division

(Expand and strengthen management base)

- Expand customer base and business domains through M&A and alliances
- Sustainability and human capital efforts

b) Quantitative targets and key markets

The Company has set achieving a CAGR of 10% or more for profit* from FY3/23 to FY3/26 as a quantitative target and has established that the three key markets for achieving this goal are automotive, aftermarket, and medical devices.

* Originally ordinary income but changed the target to profit in conjunction with the application of IFRS.

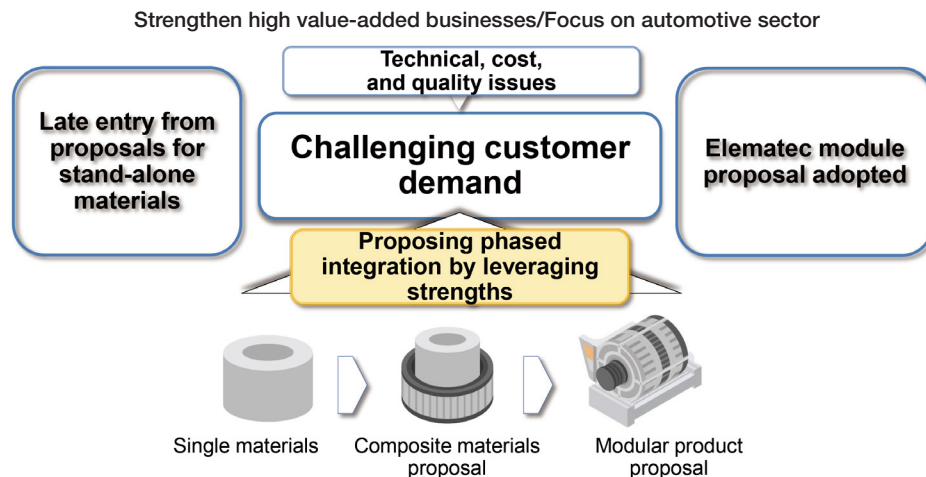
Initiatives progressing steadily

2. Progress with individual plans

(1) Strengthen high value-added businesses/Focus on automotive sector

The Company has been promoting high-value-added projects by proposing modules, rather than offering proposals for stand-alone materials as before. One specific example is an EMC filter* project for a new customer in the automotive sector. Leveraging the Company’s strengths, such as its technological capabilities, highly specialized quality assurance divisions, and global network, the Company proactively proposed modularization, resulting in a larger project and higher added value.

* EMC filter: A filter used in electric vehicles, etc. to suppress electromagnetic interference



Source: The Company’s results briefing materials

Medium- to long-term growth strategy

(2) Expand customer base and business domains through M&A and alliances

The Company has been moving forward with aggressive investments for sustainable growth. It has recently made the following two minority investments.

Esperanto Technologies Inc.

The Company announced an investment in Esperanto Technologies Inc. (hereafter, "Esperanto") on October 2, 2024. Leveraging the Company's strong network, the Company will promote deployment of Esperanto's products in Japan. Esperanto, a Silicon Valley-based startup in the US, provides RISC-V-based processors for AI. It collaborates with Rapidus Corporation, a leading Japanese semiconductor manufacturer, on semiconductor design and development. Esperanto's products have low heat generation and low noise characteristics and are capable of maintaining high performance while keeping power consumption low, enabling low-power operation.

MEDIROM MOTHER Labs

On October 29, 2024, the Company announced a capital and business alliance agreement with MEDIROM MOTHER Labs. Utilizing its global network, the Company will support MEDIROM MOTHER Labs' stable material procurement. MEDIROM MOTHER Labs, a subsidiary of Medirom Group, is engaged primarily in the health tech business. It develops and provides health improvement programs using health care apps and MOTHER Bracelet, a health tracker that works 24/7 without recharging. MEDIROM MOTHER LABS develops various solutions for BtoB fields, such as nursing care, distribution, and developers.

Supporting the TOB transaction by Toyota Tsusho and recommending that shareholders subscribe to the offer

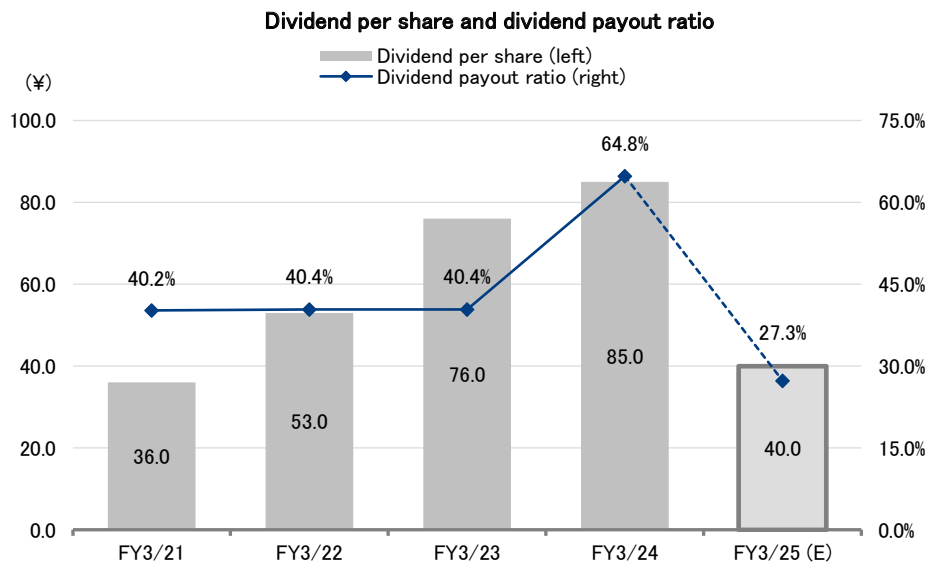
3. TOB transaction by Toyota Tsusho

As stated earlier, Toyota Tsusho, the Company's parent company, announced a TOB transaction for the Company's shares on October 29, 2024. On the same day, the Company made an announcement in which it expressed its support for the TOB transaction, recommending that shareholders subscribe to the offer. Following Toyota Tsusho's announcement of the successful completion of the TOB transaction on December 12, 2024, the Company will become a wholly owned subsidiary of Toyota Tsusho through a series of procedures, and its shares are scheduled to be delisted. Therefore, the Company had already announced that if the TOB were successfully completed, it would not pay a year-end dividend for FY3/25.

Shareholder return policy

No year-end dividend planned for FY3/25 due to the TOB transaction

The Company has paid dividends as part of its shareholder returns each fiscal year. In FY3/25, the current fiscal year, the Company has already announced that it will pay a dividend of ¥40 at the end of the interim (1H) period. However, if the TOB transaction by Toyota Tsusho, the parent company, is successfully completed, the Company has announced that it will not pay a year-end dividend.



Note: IFRS applied since FY3/25
 Source: Prepared by FISCO from the Company's financial results



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