COMPANY RESEARCH AND ANALYSIS REPORT

SUN-WA TECHNOS CORPORATION

8137

Tokyo Stock Exchange Prime Market

29-Jul.-2022

FISCO Ltd. Analyst

Yuzuru Sato

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

Announced a medium-term plan that seeks to increase operating profit 1.5-fold from FY3/22 to ¥7.0bn in FY3/25

SUN-WA TECHNOS CORPORATION <8137> (hereinafter, "the Company") is an independent trading company that specializes in technology products. Approximately 40% of its sales are to the factory automation and industrial equipment industries. The Company has steadily expanded its businesses by leveraging coverage of three major areas (electrical machinery, electronics, and general machinery) and two-way trade in which it sells equipment and materials for manufacturers' production lines and then procures the products made by these manufacturers. In terms of the number of business partners, customers amount to around 3,200 companies while suppliers amount to around 2,100 companies on a non-consolidated basis. The Company's main suppliers are YASKAWA Electric Corporation <6506> and OMRON Corporation <6645>.

1. Delivered all-time-high results in FY3/22 for the first time in four years atop growth in orders for products for the semiconductor-related and industrial machinery industries

In its consolidated results for FY3/22, the Company delivered all-time-high results for the first time in four years, with net sales of ¥154,414mn, up 14.6% YoY, and operating profit of ¥4,804mn, up 123.2%. The main reasons were growth in capital investment led by the semiconductor-related and industrial machinery industries, along with accelerated procurement from customers concerned about the impact on production of shortages in the supply of parts. In terms of regional net sales, net sales to Asia, primarily China, rose substantially by 47.4% YoY. Orders received increased 44.9% to ¥199,931mn, and orders backlog expanded 165.1% to ¥73,081mn from the end of FY3/21. The Company switched to use of net value that removes paid-for supplied products from net sales due to a change in accounting standards from FY3/22, and this reduced net sales by ¥17,043mn. Net sales were up by 27.2% in a comparison applying the previous standard.

2. Expecting continued increases in net sales and profits in FY3/23 based on an extensive orders backlog

In its forecasts for FY3/23 consolidated results, the Company expects net sales to increase by 6.7% to ¥164,700mn and operating profit to increase by 4.1% to ¥5,000mn. There is growing uncertainty in the outlook for the external environment, including the impact of the COVID-19 pandemic on production and logistics activities in China and the impact of rising energy prices on general economic conditions. However, capital investment in the manufacturing sector, particularly the semiconductor-related industry, is expected to continue expanding in FY3/23, and the Company has an extensive orders backlog. For these reasons, net sales and profits are both forecast to continue increasing.

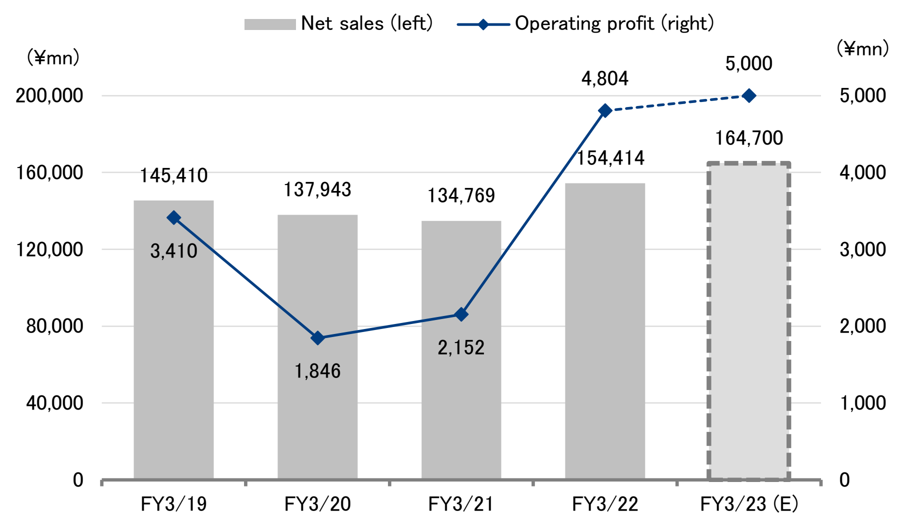
3. Announced the new medium-term management plan, "SNS2024 (Sun-Wa New Stage 2024)"

The Company has announced its new medium-term management plan "SNS2024 (Sun-Wa New Stage 2024)." It will implement the plan's three basic policies: 1) Focus on growth fields that require innovation, 2) Provide even higher value-added products and new solutions, and 3) Help to realize a sustainable society through sustainability management. In FY3/25, the plan's final fiscal year, the Company is targeting net sales of ¥195,000mn and operating profit of ¥7,000mn. The average annual growth rates over three years will be 8.1% for net sales and 13.4% for operating profit. The Company has changed its key goal indicator (KGI) from net sales to operating profit and will pursue profit growth as it strives to increase operating efficiency through digital transformation (DX). Specific measures include mapping the Company's business portfolio to each customer industry and separating it into fields where resources are actively allocated (semiconductor production equipment, robots and mounters, and machine tools), fields where resources are selectively allocated (factory automation equipment, on-board products, and facilities), and other fields. By formulating and implementing strategies for each of those fields, the Company will seek to increase gross profit. In fields where resources are actively and selectively allocated, the Company expects profit growth of at least 10% per year (at least 15% in semiconductor production equipment). Moreover, in April 2022 the Company launched a dedicated sales organization that will provide optimal products and solutions to each customer industry without being tied to a specific region, as part of efforts to develop new customers and deepen transactions with existing customers. In overseas business, the Company will raise the sales ratio from 38% in FY3/22 to 40% in FY3/25. It plans to aim for business expansion not only in China but also in other Asian regions, and it has plans to enter the Indian market for the first time. The Company is projected to achieve consistent growth over the medium and long terms because it carries many products that contribute to energy and labor savings. The Company is expected to capture such demand through this new business strategy, and thereby pave the way for profit growth.

Key Points

- Delivered all-time-high results in FY3/22 for the first time in four years atop growth in orders for products for the semiconductor-related and industrial machinery industries
- Increases in net sales and profit are expected to continue in FY3/23 based on an extensive orders backlog, despite China risk
- Announced the new medium-term management plan, targeting operating profit of ¥7.0bn in FY3/25, a 1.5-fold increase from FY3/22.

Results trends



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

Results trends

Delivered all-time-high results in FY3/22 for the first time in four years atop growth in orders for products for the semiconductor-related and industrial machinery industries

1. FY3/22 results overview

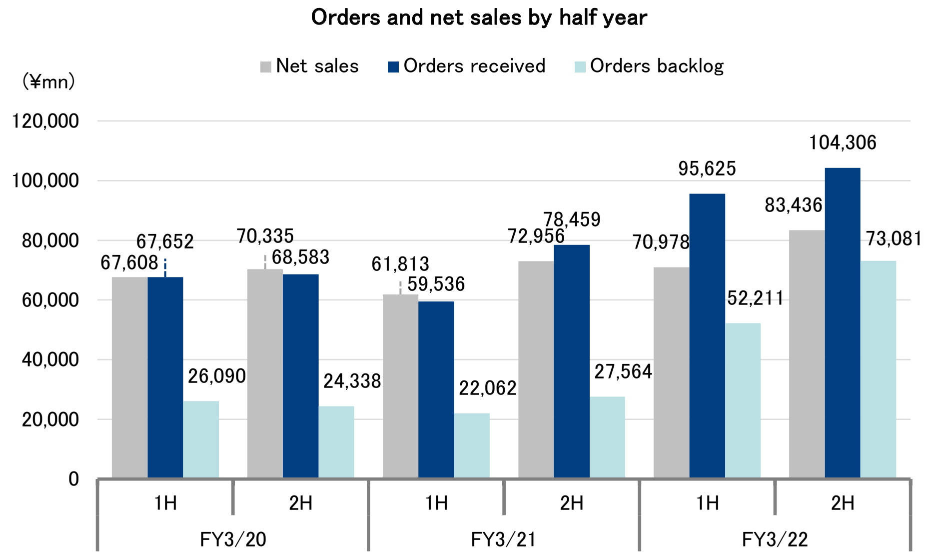
In its consolidated results for FY3/22, the Company delivered all-time-high results for the first time in four years, with net sales of ¥154,414mn (+14.6% YoY), operating profit of ¥4,804mn (+123.2%), ordinary profit of ¥5,195mn (+102.4%) and profit attributable to owners of parent of ¥3,577mn (+100.3%). Although net sales were below forecast, profits surpassed the Company's forecasts at every level. While the COVID-19 pandemic continued in Japan and abroad, growth in capital investment was led by the semiconductor-related and industrial machinery industries, and there were signs of activity to accelerate orders placement by customers who were considering the impact on production of shortages in the supply of parts, such as semiconductors. Orders received rose sharply by 44.9% YoY to ¥199,931mn and orders backlog increased substantially by 165.1% from the previous fiscal year-end to ¥73,081mn.

FY3/22 results (consolidated)

(¥mn)

	FY3/21		FY3/22					
	Result	% of sales	Company's forecast*	Result	% of sales	(Previous standard)	YoY	vs. forecast
Net sales	134,769	-	156,500	154,414	-		14.6%	-1.3%
(Net sales by previous standard)			173,543	171,457			27.2%	-1.2%
Gross profit	14,224	10.6%	-	18,772	12.2%	10.9%	32.0%	-
SG&A expenses	12,071	9.0%	-	13,967	9.0%	8.1%	15.7%	-
Operating profit	2,152	1.6%	4,300	4,804	3.1%	2.8%	123.2%	11.7%
Ordinary profit	2,567	1.9%	4,600	5,195	3.4%	3.0%	102.4%	12.9%
Profit attributable to owners of parent	1,786	1.3%	3,240	3,577	2.3%	2.1%	100.3%	10.4%

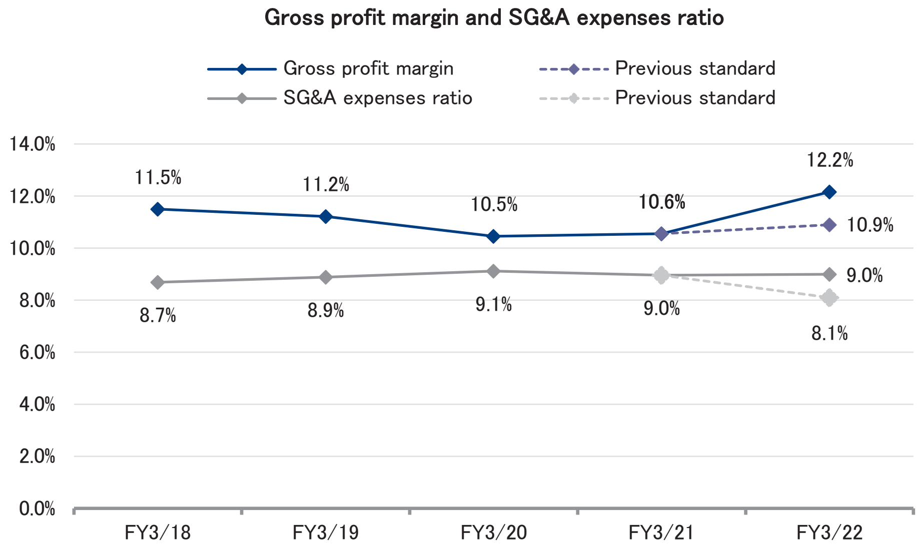
* The Company's forecasts refer to the forecasts announced in January 2022.
Source: Prepared by FISCO from the Company's financial results



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

The Company's change in accounting policy* from FY3/22 reduced net sales and cost of sales by ¥17,043mn compared to the previous standard. On the previous standard, net sales were up 27.2% YoY to ¥171,457mn. Gross profit margin rose from 10.6% in FY3/21 to 12.2% in FY3/22, and it increased slightly to 10.9% when compared based on the previous standard. Gross profit increased by 32.0% to ¥18,772mn owing to increased net sales and the improved gross profit margin. SG&A expenses increased by 15.7% to ¥13,967mn, mainly due to increases in personnel costs and packaging and transportation costs, along with a return to the normal framework for sales activities, including lifting a ban on business trips from 2H FY3/22, and an increase in overseas subsidiaries' share of SG&A expenses due to the yen's continued depreciation. The SG&A expenses ratio decreased from 9.0% in FY3/21 to 8.1% on the previous accounting standard, because of the effect of increased net sales.

* Application of the Accounting Standard for Revenue Recognition changed the method to not recognizing paid-for supplied products, which were previously booked in the same amount in net sales and cost of sales, as income from FY3/22. In the Company's case, this change affects domestic on-board automotive electronic equipment business (Electronics Department).



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

Asian sales climbed sharply mainly driven by China at the regional level, semiconductors-related and industrial equipment achieved significant growth at the industry level

2. Segment and regional trends

The Company discloses net sales after breaking them down into the three business segments of electrical machinery, electronics, and general machinery, according to the products handled. In addition, the Company discloses net sales and operating profit as segment information by region, and discloses the sales composition ratio by industry and trend fluctuations as reference information.

(1) Trends in net sales by business segment

Main products handled by the electrical machinery segment are servo motors, motion controllers, inverters, programmable controllers, and power conditioners. The Company primarily handles products from YASKAWA Electric Corporation. Net sales expanded by 34.7% YoY to ¥31,198mn due to increases in sales by chip mounters and other electrical machinery and control equipment for the industrial machinery industry, electrical machinery for the semiconductor-related industry, and electrical machinery for the solar power-related industry.

The main products in the electronics segment are wide ranging, including general electronic parts such as capacitors, connectors, relays and switches, as well as fan motors, stepping motors, LEDs, and power supplies. Net sales increased for electronic components, electronic equipment and connectors for the industrial machinery and semiconductor-related industries. Net sales were also higher for electronic components for the office appliance equipment-related industry. In addition, although net sales of electronic components for automotive on-board products achieved a double-digit increase in real terms, these net sales appear to have decreased because paid-for supplied products were excluded from net sales due to the change in accounting standard. The impact of the change in accounting standard amounted to ¥17,043mn. Net sales in the electronics segment rose 28.3% YoY to ¥131,698mn based on the previous accounting standard.

The main products in the general machinery segment include robots from YASKAWA Electric Corporation, as well as conveyors and reduction gears. Net sales decreased 4.4% YoY to ¥8,560mn, despite increase in transport equipment for the semiconductor-related industry and facilities equipment for the consumer goods industry (manufacturing facilities for face masks), because of decline in sales of facilities equipment to the flat panel display (FPD) industry that had recognized revenue for a major deal in FY3/21.

Net sales by business segment

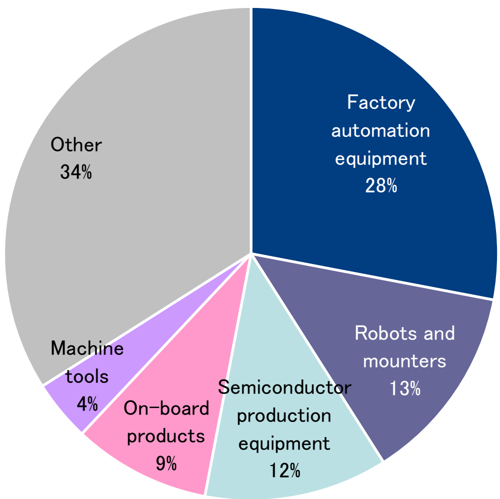
(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	YoY
Electrical machinery	24,569	21,137	23,157	31,198	34.7%
Electronics	109,370	106,400	102,657	114,655	11.7%
(Previous accounting standard)	-	-	-	131,698	28.3%
General machinery	11,470	10,404	8,955	8,560	-4.4%
Total	145,410	137,943	134,769	154,414	14.6%

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

In terms of the sales composition ratio by industry, the composition ratios were 28% for factory automation equipment, 13% for robots and mounters, 12% for semiconductor production equipment, 9% for on-board products (Advanced Driver Assistance Systems-related), 4% for machine tools, and 34% for others (social infrastructure, amusement, medical equipment, food distribution, office equipment, consumer electronic equipment, security, etc.).

Sales composition ratio by industry (FY3/22)



Source: Prepared by FISCO from the Company's results briefing materials and medium-term management plan materials

(2) Trends in sales and profits by segment

Japanese business recorded ¥115,811mn in net sales (+7.0% YoY) and ¥3,049mn in operating profit (+154.8%). While sales increased in electrical machinery, control equipment, and electronic components for the industrial machinery industry, and electrical machinery, electronic equipment, connectors and transport equipment for the semiconductor-related industry, sales of transport equipment to the FPD-related industry declined. Net sales under the previous standard increased 22.7% to ¥132,854mn.

Asian business posted ¥52,216mn in net sales (+47.1%) and ¥1,924mn in operating profit (+109.8%). Sales increased in electronic components for the industrial machinery industry, electrical machinery and electronic components for the semiconductor-related industry, and electrical machinery for the solar power-related industry. Demand in China, which accounts for nearly 80% of net sales in Asia, had recovered at an early stage beginning in 3Q FY3/21, and that momentum continued throughout FY3/22. In addition, project orders for global SCM solutions in Southeast Asia increased, contributing to profit growth.

In Europe and the US, net sales rose 31.9% YoY to ¥6,214mn, increasing for the first time in four years. However, the operating loss increased from ¥1mn in FY3/21 to ¥108mn. Surging transportation costs were principally responsible for the larger loss, despite an increase in sales of electronic components for the industrial machinery industry and facilities equipment for the consumer goods industry.

Net sales and operating profit by segment

(¥mn)

< Net sales>	FY3/19	FY3/20	FY3/21	FY3/22	YoY
Japan	115,993	110,335	108,252	115,811	7.0%
(Previous accounting standard)	-	-	-	132,854	22.7%
Asia	37,188	34,454	35,492	52,216	47.1%
Europe/US	8,084	6,398	4,711	6,214	31.9%
Other	1,733	1,396	931	748	-19.7%
Adjustment	-17,589	-14,641	-14,617	-20,575	-
Total	145,410	137,943	134,769	154,414	14.6%
<Operating profit>	**FY3/19**	**FY3/20**	**FY3/21**	**FY3/22**	**YoY**
Japan	1,939	1,285	1,197	3,049	154.8%
Asia	1,208	592	917	1,924	109.8%
Europe/US	254	-84	-1	-108	-
Other	3	7	16	-16	-
Adjustment	4	46	23	-44	-
Total	3,410	1,846	2,152	4,804	123.2%

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

Increases in net sales and profit are expected to continue in FY3/23 based on an extensive orders backlog, despite China risk

3. Outlook for FY3/23 results

In terms of the outlook for FY3/23 results, the Company expects net sales and profits to continue to increase, albeit at a slower growth rate. It is forecasting net sales of ¥164,700mn (+6.7% YoY), operating profit of ¥5,000mn (+4.1%), ordinary profit of ¥5,200mn (+0.1%), and profit attributable to owners of parent of ¥3,600mn (+0.6%).

FY3/23 consolidated results forecast

(¥mn)

	FY3/22		FY3/23				
	Results	% of sales	1H forecast	YoY	Full-year forecast	% of sales	YoY
Net sales	154,414	-	83,100	17.1%	164,700	-	6.7%
Operating profit	4,804	3.1%	2,600	23.3%	5,000	3.0%	4.1%
Ordinary profit	5,195	3.4%	2,700	23.0%	5,200	3.2%	0.1%
Profit attributable to owners of parent	3,577	2.3%	1,900	22.5%	3,600	2.2%	0.6%
Earnings per share (¥)	228.33		123.03		233.11		

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

The main risk factors include the Ukraine situation, negative impacts on production and logistics activities due to COVID-19 policies in China, rising energy prices, and reduced production plans caused by semiconductor shortages. In practice, net sales to China in April 2022 temporarily decreased due to lockdowns in Shanghai. That said, with orders received setting a record high in April, the orders situation remains strong, and there are no signs of waning investment sentiment. In China, demand rapidly recovered after lockdowns were lifted in 2020, and the Company has an extensive orders backlog, so results are expected to grow firmly over the full fiscal year. The operating profit margin is forecast to decrease 0.1 percentage point YoY. It appears that this decrease mainly reflects the Company's conservative estimates based on expectations of an increase in operating expenses caused by restarting business trips, which had been curtailed for part of FY3/22, and the uncertain external environment at this time.

Long-term vision and medium-term management plan

Aiming to be the best manufacturing partner by turning "what customers want to accomplish" into "what they can accomplish"

1. Long-term vision

The Group's Corporate Creed is "Develop Talents, Build Business, Contribute to Society." Guided by this Creed, the Group utilizes its global network to provide its customers with the most up-to-date information, needs-oriented solutions, and the most reliable services, along with collaborating with partner companies. Through these efforts, the Group has helped to promote industrial development and to realize a sustainable society. In the past few years, there have been significant changes in global social conditions, and the market environment has been changing drastically. In this environment, to set an even clearer direction for the Group, it formulated Sun-Wa Vision 2030 as its long-term vision for FY3/31. The Group's Mission (Mission and Purpose), Vision (the Group's Ideals), Values (Values for Fulfilling the Mission and Realizing the Vision) are described below.

The Group has defined its Mission as follows: "We connect technologies in the world to create new value and support the development of a prosperous society." Leveraging its global network, the Group intends to contribute to the development of a sustainable society by offering the latest technology proposals and optimal products. Moreover, the Group has embraced the following as its Vision: "We are the best partner in manufacturing to make our customers' wants and needs possible, and connect businesses around the world with relationships of trust."

The Group has identified the following three concepts as its Values: "Customer First" "Spirit of Challenge" and "Teamwork and Communication." With "Customer First" the Group makes every effort to serve as a partner who has the best understanding of the customer – a partner who identifies true customer needs by always considering things from the customer's perspective and sharing values with customers. With "Spirit of Challenge," the Group sets high goals to drive its own growth, enhances its creativity and professionalism by tackling challenges positively without fearing change, and strives to boost the enterprise's energy and vitality. Finally, with "Teamwork and Communication," the Group creates new value by respecting others, understanding differences, and recognizing their value. In addition, the Group attaches importance to partner companies as it aims to improve its collective capabilities.

Achieved the performance targets of NEXT 1800, the former medium-term management plan, on a profit basis

2. Review of the former medium-term management plan

(1) Review of the former medium-term management plan

Looking back at NEXT 1800, the Company's three-year medium-term management plan from FY3/20 to FY3/22, the Company fell below its performance targets both in the plan's first and second years. In the first year, the shortfall was caused by a temporary slowdown in investment due to the impact of U.S.-China trade friction, and in the second year it reflected the impact of the global economic downturn caused by the COVID-19 pandemic. However, in the third year, the Company regained lost ground immediately because of an improving market environment, centered on the Chinese market. It achieved its initial forecast for operating profit of ¥4,800mn and an ordinary profit margin of 3.0%, which was above its target of 2.8%. Net sales were ¥171,457mn based on the previous accounting standard, which was below the Company's target of ¥180,000mn. However, the shortfall in net sales reflected the factors behind the Company's underperformance up to the plan's second year, and the impact of the semiconductor supply shortage in FY3/22. The Company was able to achieve its profit targets even while falling below its net sales forecast mainly because it was able to reduce SG&A expenses more than it had expected as it worked on priorities such as improving operating efficiency using ICT, along with refraining from business trips and curtailing various expenses during the COVID-19 pandemic.

Management goals in the NEXT1800 medium-term plan, results/plan

(¥mn)

	FY3/19 Results	FY3/20		FY3/21		FY3/22		Achievement rate
		Target	Results	Target	Results	Target	Results	
Net sales	145,410	150,000	137,943	165,000	134,769	180,000	171,457*	95.3%
Operating profit	3,410	3,100	1,846	3,800	2,152	4,800	4,804	100.1%
Ordinary profit	3,627	3,300	2,144	4,000	2,567	5,000	5,195	103.9%
(profit margin)	2.5%	2.2%	1.6%	2.4%	1.9%	2.8%	3.0%	

* Net sales based on the previous accounting standard
Source: Prepared by FISCO from the Company's financial results and materials

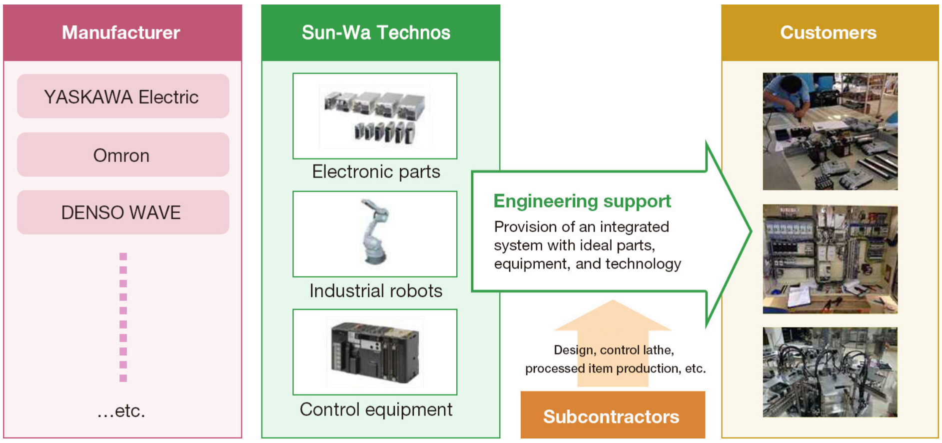
Additionally, the key measures set forth in the former medium-term management plan and their accomplishments are described below. At FISCO, we believe that the Company delivered largely solid accomplishments.

a) "Contribute to customer production activities by strengthening core businesses"

As a means of strengthening core businesses, the Company worked to expand the engineering business, improve the gross profit margin, and drive growth in the global SCM solution business.

Among these priorities, the gross profit margin of the engineering business rose from 12.2% in FY3/19 to 14.0% in FY3/22. However, it did not reach the 25-30% level that the Company had initially targeted. In the engineering business, the Company seeks to systematically organize products that it had previously sold as standalone products, optimize the products to meet the customer's needs, and then sell the products to customers. This approach aims to enhance profitability by providing added value in the form of engineering to products, while making the size of order value per project larger than before. Initially, the strategy was to enhance profitability by pitching to customers a certain proposed set of products that the Company had systematically organized by itself to a certain extent. In practice, however, many projects ended up requiring the Company to systematically organize products according to the requests of customers. Ultimately, this approach did not lead to a large improvement in profitability. The Company opened the Tokyo Technology Center in 2020 as a venue for carrying out business negotiations. Another factor behind the smaller-than-expected improvement in profitability was that sales activities at the Tokyo Technology Center did not proceed as anticipated amid the continuing COVID-19 pandemic. Net sales in the engineering business were around ¥12.4bn in FY3/19. However, in FY3/22, it seems that net sales were held to a level below ¥10.0bn because of the shift to a policy with greater emphasis on profitability.

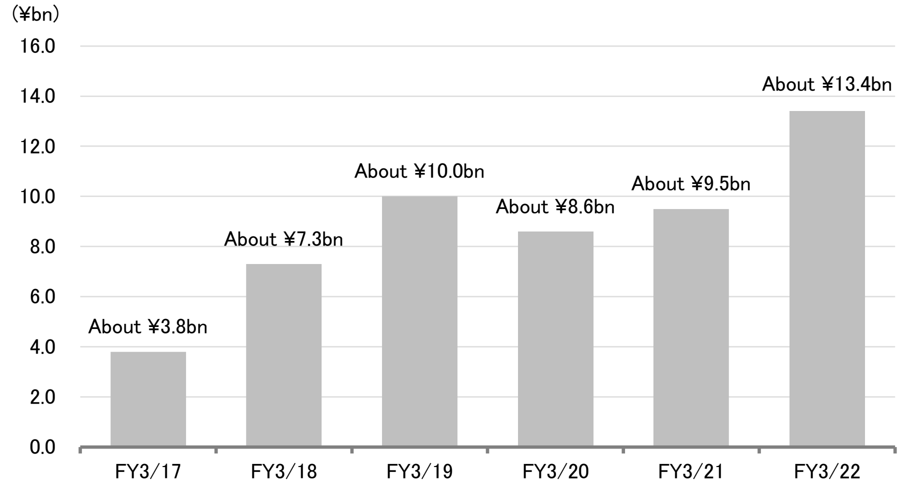
Overview of engineering business



Source: The Company's website

Meanwhile, net sales of the global SCM solution business rose from around ¥10.0bn in FY3/19 to around ¥13.4bn in FY3/22. This business is an outsourcing service in which the Company undertakes, on a one-stop basis, the function of procuring electronic components, facilities equipment and other items from suppliers on behalf of client companies, which had previously conducted these activities independently. Concentrating procurement functions at the Company will enable client companies to benefit from reduced procurement costs, shorter lead times, and lower costs for the relevant departments. A worsening external environment, among other factors, had caused the business to be sluggish until FY3/21. However, from FY3/22, net sales grew substantially, due partly to heightened supply chain risk caused by factors such as semiconductor shortages, and to a further increase in demand for outsourcing services. In addition, the Company began reviewing global logistics infrastructure and conducting improvement activities at the same time as establishing this business division. As part of these efforts, the Company has started to operate a Warehouse Management System (WMS) in earnest. The operation of the WMS has made it possible to visualize logistics costs for each project, leading to sustained improvement in profitability through the enhancement of logistics efficiency. In the global SCM solutions business, the production sites of customers may become more and more spread out because of the COVID-19 pandemic. There are high hopes that these activities will pave the way for not only growth in the size of transactions with existing customers, but also help the Company to obtain new customers.

Trends in net sales in the global SCM solutions business



Source: Prepared by FISCO from the Company's results briefing materials and medium-term management plan materials

b) "Expand global business capabilities to support market demand"

Under the previous medium-term management plan, the Company worked to expand facilities at overseas bases, with the aim of expanding the global business. Efforts have also been made to strengthen sales operations. The Company opened a sales office in Ho Chi Minh City, Vietnam, as its second base in the country, in August 2019. The Company also opened sales offices with local staff in Penang, Malaysia in January 2021 and Xiamen, China in May 2021.

Currently, because the majority of the customers of the Group's overseas local corporations, which operate 28 bases in 13 countries, are Japanese companies, Japanese employees are involved in their management. However, to expand the size of the Company's business further, it is considered important to strengthen the organizational capabilities even more by appointing local staff as managers. Based on this belief, in 2020, the Company initiated the Global Next Leader Training Program, and has regularly provided training to around 10 management candidates. In March 2022, the Company completed training of the program's first class of management candidates, with plans to continue implementing human resources development going forward. If the globalization of management human resources continues, we at FISCO anticipate that the Company will make progress on customer acquisition of foreign companies, which currently provide only around 10% of total sales (around 35% in the Chinese market), and that this will lead to the further growth of overseas sales.

In Japan, meanwhile, the Company has been opening smart sales sites in regional areas since 2019 as new sales offices. A smart sales site refers to a small-scale site with only about two sales members. These sites seek to deepen transactions by bolstering relationships with attractive customers scattered in smaller regional cities and to develop new customers. Internal operations without clerical staff are supported by remote branch offices, which make it possible to reduce the costs associated with sales offices and the labor costs of internal staff. During the COVID-19 pandemic, cases of online sales discussions are increasing, and in the B-to-B market, such as factory automation and industrial equipment, customers' requests are diverse and, in many cases, listening to what they say in direct discussions leads to building relations of trust with them and new sales discussions. In fact, at the Shikoku Sales Office (Niihama, Ehime Prefecture), which opened in 2019, and the Nagaoka Sales Office (Niigata Prefecture) and the Kofu Sales Office (Yamanashi Prefecture), which were opened in FY3/21, the numbers of sales discussions with customers are increasing. More recently, the Company opened the Kanazawa Sales Office (Ishikawa Prefecture) in October 2021 and the Kitakyushu Sales Office (Fukuoka Prefecture) in December 2021. It is considering plans to open the Morioka Sales Office (Iwate Prefecture) in the future. In addition, the Company is looking at plans to open sales offices overseas, specifically in India and in Wuhan and Qingdao in China.

c) "Pursue new business fields to accelerate sustainable growth"

As a new business field, the Company has been working to expand the health-related business. It has implemented specific measures such as introducing and expanding sales of automated external defibrillators (AEDs) and spatial sterilizing and deodorizing devices as a means of preventing infections during the COVID-19 pandemic. Apart from this, the Company also worked to sell LED lighting devices as a decarbonization business. Although each of these businesses had a negligible impact on results, the Company intends to continue these activities as businesses that help to contribute to society.

d) "Conduct initiatives to realize a sustainable society"

Looking at the Company's SDGs activities, the Company has defined important issues and has set up the SDGs promotion committee to promote activities, along with appointing an SDGs ambassador. The Company encourages individual employees to set individual goals related to SDGs to increase their awareness of the SDGs. At the business level, it has strengthened sales activities for businesses with a clean energy theme targeting realization of a decarbonized society, such as solar panels and other renewable energy and electric vehicles and energy-saving business that contributes to lowering CO_2 emissions. The Company has also been promoting workstyle reforms utilizing ICT.

Announced the new medium-term management plan, targeting operating profit of ¥7.0bn in FY3/25, a 1.5-fold increase from FY3/22

3. New medium-term plan, "SNS2024 (Sun-Wa New Stage 2024)"

(1) Management goals

In its management goals for the three-year period starting in FY3/23, the Company has established operating profit as its KGI. Previously, the Company put emphasis on net sales, believing that if net sales grow, profit would inevitably follow and increase too. However, the Company has recognized that in these times, as the market environment changes at an increasingly faster pace, growth in net sales does not necessarily lead to profit growth. Therefore, it has decided to implement a management strategy that views profits as the starting point.

In terms of specific performance targets, the Company is targeting net sales of ¥195.0bn and operating profit of ¥7.0bn in FY3/25. It will raise the operating profit margin from 3.1% to 3.6%, and primarily expects the gross profit margin to increase. The average annual growth rates over three years will be 8.1% for net sales and 13.4% for operating profit. As noted earlier, the growth rate is expected to slow down in FY3/23, so growth is forecast to accelerate from FY3/24 onward. Moreover, the overseas sales ratio (net sales of overseas operating companies ÷ consolidated net sales) will be raised from 38% in FY3/22 to 40% in FY3/25. The Company plans to drive growth in business primarily in Asia. In addition, if the Company can achieve its performance targets in FY3/25, it appears that the Company, as its next step, is setting its sights on net sales of ¥250.0bn and operating profit of ¥10.0bn in FY3/28.

Management goals in the “SNS2024(Sun-Wa New Stage 2024)”

(¥mn)

	FY3/22 Results	FY3/25 Target	Average annual growth rates
Net sales	154,414	195,000	8.1%
Operating profit	4,804	7,000	13.4%
(profit margin)	3.1%	3.6%	
<Non-consolidated>			
Net sales	115,811	142,700	7.2%
Operating profit	3,046	4,250	11.7%
(profit margin)	2.6%	3.0%	
<Overseas subsidiaries>			
Net sales	58,430	78,600	10.4%
Operating profit	1,816	2,750	14.8%
(profit margin)	3.2%	3.5%	

Note: Assumed exchange rate: ¥115 per U.S. dollar
Source: Prepared by FISCO from the Company’s results briefing materials and medium-term management plan materials

(2) Fundamental policies

In terms of the basic policies that the Company will implement in SNS2024, the Company has set forth three basic policies: a) Focus on growth fields that require innovation, b) Provide even higher value-added products and new solutions, and c) Help to realize a sustainable society through sustainability management. By implementing these policies, the Company intends to achieve its performance targets.

a) Focus on growth fields that require innovation

The Company has classified the customer segments where it will allocate resources based on its strengths and market appeal (market size, growth rate, and profitability). These customer segments are classified into the following three fields: fields where resources are actively allocated, fields where resources are selectively allocated, and other fields. By formulating and executing business strategies tailored to each customer segment, the Company seeks to increase gross profit.

The Company has identified three fields as fields where resources are actively allocated: semiconductor production equipment, robots and mounters, and machine tools. The semiconductor production equipment field is positioned as a crucial segment where the Company can demonstrate its strengths, given that the semiconductor industry is seen as a crucial field as a matter of national government policy and can be expected to grow from the perspective of economic security. The Company has identified its main strategies as developing joint themes with customers that lead to improved performance, advancing proposals for unit assemblies that lead to cost reductions, and developing relationships with new suppliers, which is essential to obtaining new promising customers. By executing these strategies, the Company aims to achieve growth of at least 15% per year in gross profit.

The robots and mounters field is a high-growth sector with rapid technological innovation, and it is a segment where the Company can easily demonstrate its competitive advantages. The Company's main strategies are to work to increase its internal product share for each customer, and to develop new customers for peripheral devices. Moreover, the Company intends to gather information on customer needs and pursue the planning of products focused on industries. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit.

In the machine tools field, machine tools serve as so-called "Mother Machines" that support global manufacturing. The field is positioned as a segment where the development of higher performance Mother Machines, as well as their automation and digitalization, offers prospects for growth. The Company will push ahead with main strategies including proposing factory automation PCs (FAPCs), which will become increasingly important with the development of new customers for peripheral devices and adoption of IoT, and proposing global SCM solutions as BCP measures. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit.

Meanwhile, the Company has identified the following three fields as fields where resources are selectively allocated: factory automation equipment, on-board products, and facilities. Selective allocation of resources refers to the process of growing businesses by collaborating with partner companies through such means as forming capital and business alliances, depending on conditions. The factory automation equipment field has an expansive customer base and a wide range of product models. For this reason, among the Company's fields, the size of gross profit is the largest. The Company has three strategies for the future: focus on the factory automation component industry on a global scale, create strategic products based on mass production applications, and strengthen the supply of information by actively harnessing digital tools. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit.

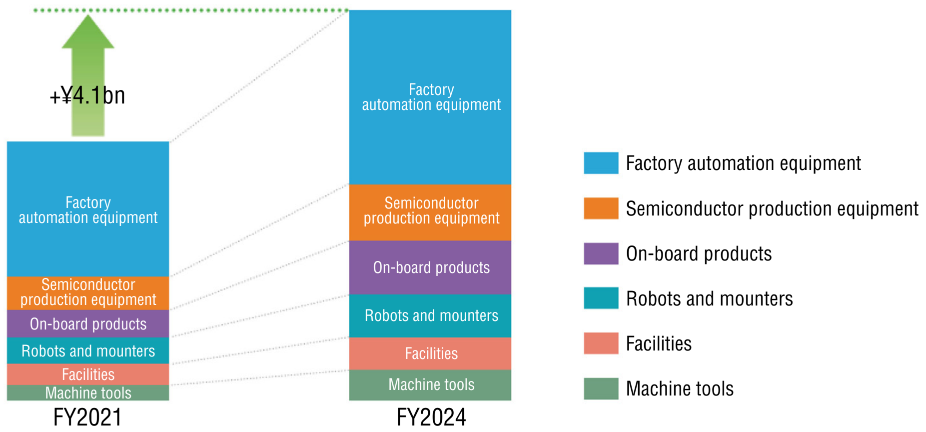
In the on-board products field, a once-in-a-century period of transformation has arrived. This segment can expect to see evolution in on-board automotive systems and market expansion based on the keyword of CASE.* The Company's three main strategies in this field are to develop new customers through cross-field expansion of existing products, develop new strategic products globally, and build an organization to develop new customers. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit.

* CASE: A word coined from the initial letters of the words Connected, Autonomous (automated driving), Shared & Services (car sharing and services) and Electric (electric vehicles). It is a keyword that encapsulates next-generation trends in the automobile industry.

The facilities field is positioned as a segment that covers a wide range of industries and one with heightened engineering needs to address automation and sustainability. The Company's main strategies are to strengthen its ability to offer proposals to customers through unified sales and engineering, expand projects through collaboration with system integrators in the food industry, and improve profitability through the packaging and cross-field expansion of facilities. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit.

The Company aims to increase the gross profit of the aforementioned six fields by ¥4.1bn in total over the next 3 years. The six fields account for a combined share of 69.6% of the gross profit of ¥14.2bn for FY3/22. Looking ahead, these fields are expected to continue to drive the Company's results. Gross profit of other fields is also forecast to increase over the next 3 years.

Growth scenario for gross profit



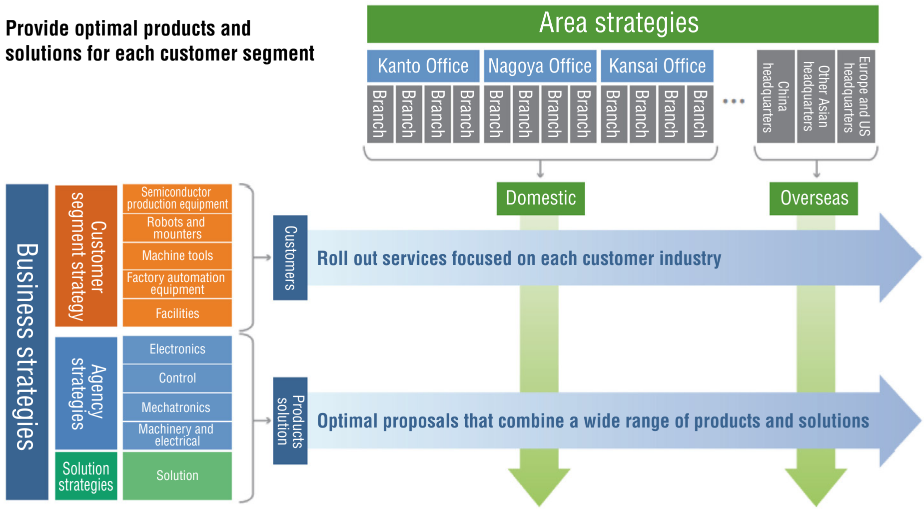
Source: Company's results briefing materials and medium-term management plan materials

b) Provide even higher value-added products and new solutions

To provide even higher value-added products and new solutions, the Company will roll out sales services focused on each customer segment. Apart from this, the Company's strategy is to work to improve operating efficiency and the value it provides through digital transformation (DX) and to expand its overseas share by remaining closely attuned to regions and expanding the global network.

Regarding sales services focused on each customer segment, the Company will organize sales teams that possess specialized knowledge and conduct sales activities that remove regional boundaries in the five customer segments, specifically semiconductor production equipment, robots and mounters, machine tools, factory automation equipment, and facilities. By doing so, the Company aims to develop new customers and deepen transactions with existing customers. Previously, progress was not made on developing new customers and deepening transactions with existing customers because sales staff were assigned at each branch. By organizing specialized sales teams, the Company aims to resolve these sorts of issues. For example, the Company has major customers in the semiconductor production equipment field in the Kansai area, so its sales staff with specialized knowledge were based in the Kansai area. However, given that no such personnel were assigned to the Tohoku area, the Company's sales to semiconductor production equipment manufacturers were sluggish in the Tohoku area. The creation of a specialized organization will enable sales staff with specialized knowledge in the Kansai area to conduct sales activities in the Tohoku area. This change in approach is expected to spur growth in sales. The new organization is made up of 23 individuals selected from across Japan (including 4 executive officers). Future developments will be watched closely.

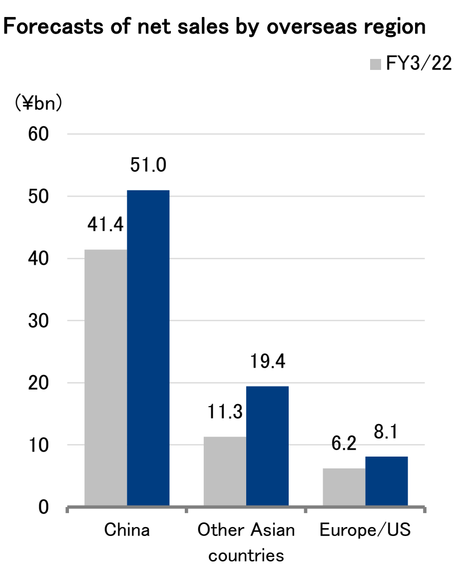
Sales services focused on each customer segment

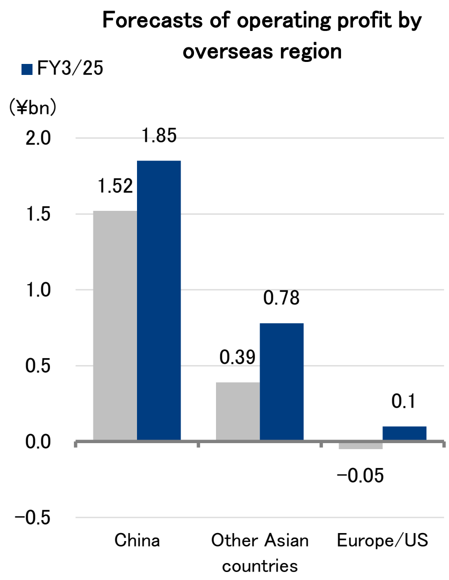


Source: Company's results briefing materials and medium-term management plan materials

The Company is also implementing activities to increase operating efficiency through digital transformation (DX). Specifically, KGI will be made transparent across internal organizations to ensure the effectiveness of various strategies. Other priorities include raising the efficiency of operations to concentrate on key strategies and employing advanced data utilization to improve customer value. The Company will implement these priorities to enhance its corporate value. It will also strive to recruit and develop the human resources that will be needed to promote these DX strategies.

With regard to increasing overseas share, the Company plans to increase the overseas sales ratio from 38% in FY3/22 (actual) to 40% by FY3/25. In the mainstay Chinese market, the Company is targeting net sales of ¥51.0bn and operating profit of ¥1.85bn. These targets will be achieved by providing the latest technologies and high-quality services by working to further enhance business sites, and by introducing personnel systems aligned with the needs of local employees, among other structures. Moreover, in other Asian regions, the Company will work to establish a stable management platform, bolster sales capabilities as an agent, build organizations that sell a comprehensive range of products and solutions, and enter the Indian market. The Company aims to generate net sales of ¥19.4bn and operating profit of ¥0.78bn in other Asian regions. The COVID-19 pandemic has started to lead to the transfer of some production functions from China to other Asian regions. Capturing this demand should make it possible for the Company to increase the size of net sales in these regions. In Europe and the US, the Company will identify new products in the local market and conduct export sales globally, along with improving the Company's market recognition. Through these measures, the Company is targeting net sales of ¥8.1bn and operating profit of ¥0.1bn in Europe and the US. In terms of new products, the Company has started to stock and sell European manufacturers' odor sensors in Japan.





Source: Company's results briefing materials and medium-term management plan materials

c) Help to realize a sustainable society through sustainability management

The Company continues to view measures to realize a sustainable society as one of management's most important issues. Therefore, it will promote these measures through its business activities while working to foster the development of its employees. Notably, the Company carries an extensive range of electrical machinery, electronic parts, and facilities and machinery that can achieve energy and labor savings as measures to combat global warming. We at FISCO believe that the Company has substantial growth opportunities as an enterprise that will contribute to a decarbonized society.

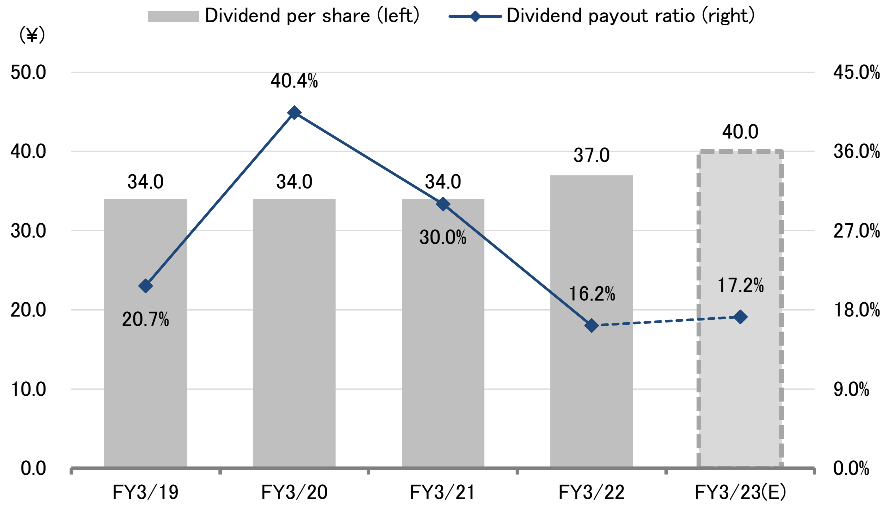
Shareholder return policy

Plans to return profits based on stable dividends according to consolidated results from medium- and long-term perspectives

The Company's basic policy is to provide returns to shareholders in the form of dividends. Regarding the dividend policy, the Company plans to maintain stable dividends while returning profits to shareholders according to consolidated results from medium- and long-term perspectives. In addition, the Company flexibly conducts share buybacks according to the period and its financial condition, to enhance shareholder return and capital efficiency. Recently, the Company bought back 363 thousand shares worth ¥599mn in November–December 2021.

Regarding the dividend per share for FY3/22, the Company increased the dividend for the first time in four years, partly because it posted all-time high results. The dividend per share was increased by ¥3.0 from the previous year to ¥37.0 (16.2% dividend payout ratio and 32.9% total return ratio including share buybacks). In addition, the Company plans to increase dividends for the second consecutive year in FY3/23. It plans to increase the dividend per share by ¥3.0 to ¥40.0 (17.2% dividend payout ratio). If it appears that results will steadily grow and the dividend payout ratio will fall to an even lower level, it seems that there will be further scope to increase dividends.

Dividend per share and dividend payout ratio



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

Simplified income statement and main indicators

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23(E)
Net sales	145,410	137,943	134,769	154,414	164,700
YoY	-0.9%	-5.1%	-2.3%	14.6%	6.7%
Gross profit	16,318	14,421	14,224	18,772	-
Net sales gross profit margin	11.2%	10.5%	10.6%	12.2%	-
SG&A expenses	12,908	12,574	12,071	13,967	-
Net sales SG&A expenses ratio	8.9%	9.1%	9.0%	9.0%	-
Operating profit	3,410	1,846	2,152	4,804	5,000
YoY	-17.5%	-45.8%	16.5%	123.2%	4.1%
Net sales operating profit margin	2.3%	1.3%	1.6%	3.1%	3.0%
Ordinary profit	3,627	2,144	2,567	5,195	5,200
YoY	-16.6%	-40.9%	19.7%	102.4%	0.1%
Profit attributable to owners of parent	2,628	1,341	1,786	3,577	3,600
YoY	-14.8%	-49.0%	33.2%	100.3%	0.6%
EPS (¥)	164.08	84.11	113.23	228.33	233.11
Dividend (¥)	34.00	34.00	34.00	37.00	40.00

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

Simplified balance sheet

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	Change amount
Current assets	64,209	62,713	64,430	82,209	17,779
Cash and deposits	10,005	12,052	13,113	14,049	936
Trade receivables	42,256	39,838	42,453	51,997	9,544
Non-current assets	9,905	9,024	11,951	10,868	-1,083
Total property, plant and equipment	2,861	2,759	2,590	2,230	-360
Intangible assets	143	193	170	226	56
Total investments and other assets	6,900	6,072	9,190	8,411	-779
Total assets	74,114	71,738	76,381	93,078	16,696
Current liabilities	37,199	35,402	36,372	52,797	16,425
Payment obligations	31,427	29,108	29,455	40,676	11,221
Non-current liabilities	4,970	4,608	4,978	2,257	-2,721
Total liabilities	42,169	40,011	41,350	55,054	13,703
Interest-bearing debt	6,705	6,709	7,048	7,805	757
Shareholders' equity	29,056	29,552	30,802	33,277	2,475
Accumulated other comprehensive income	2,888	2,174	4,228	4,746	518
Total net assets	31,944	31,726	35,030	38,023	2,992

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

Status of Cash Flows

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22
Cash flows from operating activities	1,636	3,238	1,589	792
Cash flows from investing activities	-153	-200	-141	244
Cash flows from financing activities	28	-945	-309	-580
Cash and cash equivalents at end of period	9,521	11,568	12,629	13,565

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

Management indicators

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22
Equity ratio	43.1%	44.2%	45.9%	40.9%
Interest-bearing debt ratio	21.0%	21.1%	20.1%	20.5%
ROE	8.8%	4.2%	5.4%	9.8%
Net cash	3,300	5,343	6,065	6,244

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

Disclaimer

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp