COMPANY RESEARCH AND ANALYSIS REPORT

SUN-WA TECHNOS CORPORATION

8137

Tokyo Stock Exchange Prime Market

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Index

Summary

Heightened demand for energy and labor savings and initial movement toward domestic recovery of production bases providing favorable opportunities for earning expansion

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. 1H FY3/23 results saw double-digit increases in net sales and profits, achieving record highs

In consolidated results for 1H FY3/23 (April to September 2022), net sales increased by 18.8% YoY to ¥84,356mn, while operating profit rose 56.5% to ¥3,299mn, resulting in increases to net sales and profits that exceeded the Company's forecast (for net sales of ¥83,100mn and operating profit of ¥2,600mn) and achieving record highs. In addition to increased sales of control equipment and electronic components against the backdrop of increased capital investment in the semiconductor-related and automobile-related industries, the movement toward accelerated procurement of parts because of heightened supply chain risks was also one of the main factors behind an increase in net sales. Orders received performed better than expected, increasing 6.9% YoY to ¥102,242mn and the order backlog up 74.2% to ¥90,967mn, leading to record high levels.

2. Forecasts double-digit increases to net sales and profits for full-year results through an extensive orders backlog and the result of yen depreciation

For FY3/23 results, the Company forecasts net sales to increase 12.7% YoY to ¥174,000mn and operating profit to increase 35.3% to ¥6,500mn. In light of factors such as the status of results up to 2Q, future market environment trends and the progression of yen depreciation in exchanges, the Company has revised its forecast for FY3/23 full-year results upward from the initial forecast (of net sales of ¥164,700mn and operating profit of ¥5,000mn). Despite causes for concern such as a slump in sales of smartphones and home computers and the worsening conditions of the semiconductor market, the impact from this deceleration of demand is being absorbed to a certain extent through favorable sales of products for solar power-related industries in China, and additionally, in Japan, the status of orders received was better than anticipated as of October 2022, so the Company has not observed any warning signs of things suddenly coming to a halt. Since the orders backlog is extensive, we at FISCO think it is highly likely that the Company can achieve its full-year results forecast. Furthermore, the average assumed exchange rate during the period has been revised* from the initial forecast of ¥115 per U.S. dollar to ¥132 (¥122.8 in 1H).

* Since the accounting period of overseas subsidiaries ends in December, the Company uses an average rate during the period from January to December. The rate at the end of December 2021 was ¥115 per U.S. dollar.

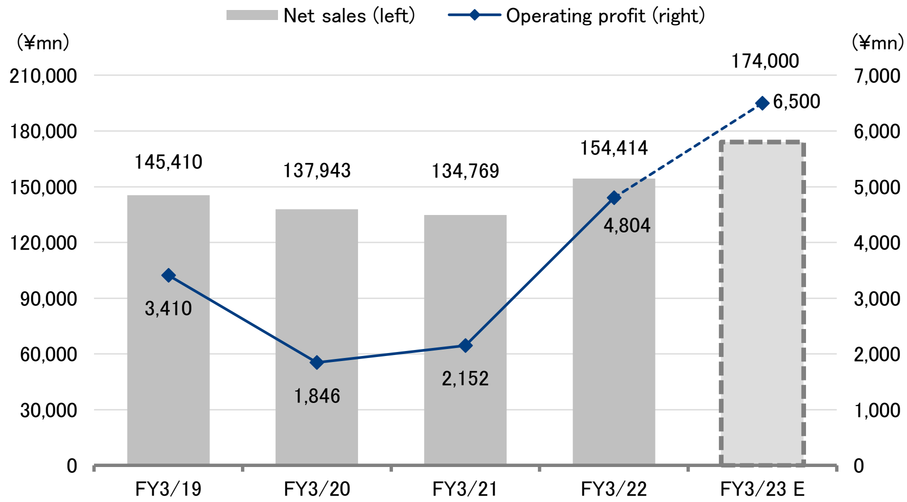
3. Progress of the medium-term management plan, "SNS2024 (Sun-Wa New Stage 2024)"

In the three-year medium-term management plan "SNS2024 (Sun-Wa New Stage 2024)" which began in FY3/23, the Company implemented the following as 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. For FY3/25, the plan's final fiscal year, it set goals of net sales at ¥195.0bn and operating profit at ¥7.0bn (assuming an exchange rate of ¥115 per U.S. dollar). 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. Moreover, in April 2022 the Company launched the "Strategic Segment Team," a dedicated sales organization that will provide optimal products and solutions to each customer industry without being tied to a specific region, and is working to develop new customers and deepen transactions with existing customers. It appears that the results of new customer expansions are already beginning to emerge. In overseas business, the Company will raise the sales ratio from 38% in FY3/22 to 40% in FY3/25. It aims for business expansion not only in China but also in other Asian regions, and has set its sights on to entry into the Indian market, where future market growth is expected. There is a possibility that capital investment may cool down temporarily due to economic deceleration. However, in addition to the certainty of demand for energy and labor savings at factories, initial movement toward domestic recovery of the manufacturing industry has begun to materialize as a result of further yen depreciation, so we at FISCO see this as a favorable opportunity for the Company, which handles a wide array of relevant products, to work toward earning expansion in the next few years.

Key Points

- Due to increased demand for the semiconductor-related and solar power-related industries, 1H FY3/23 results achieved net sales and profits increases that exceeded the Company's forecast
- Recent demand continues to be strong, and the FY3/23 results forecast was upwardly revised despite the result of yen depreciation
- The medium-term management plan aiming for operating profit of ¥7.0bn in FY3/25 is off to a smooth start

Results trends



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

Results trends

Due to increased demand for the semiconductor-related and solar power-related industries, 1H FY3/23 results achieved net sales and profits increases that exceeded the Company's forecast

1. 1H FY3/23 results overview

In 1H FY3/23, the Company achieved consolidated results that exceeded its forecast, having attained double-digit increases in both net sales and profits with net sales of ¥84,356mn (up 18.8% YoY), operating profit of ¥3,299mn (up 56.5%), ordinary profit of ¥3,575mn (up 62.9%) and profit attributable to owners of parent of ¥2,528mn (up 63.0%). The increase in net sales was attributable to factors that include robust sales of relevant products amid brisk capital investment in the semiconductor-related and automobile-related industries, ongoing moves toward accelerated procurement of parts against a background of mounting supply chain risks, and a progressively depreciating yen.

1H FY3/23 results (consolidated)

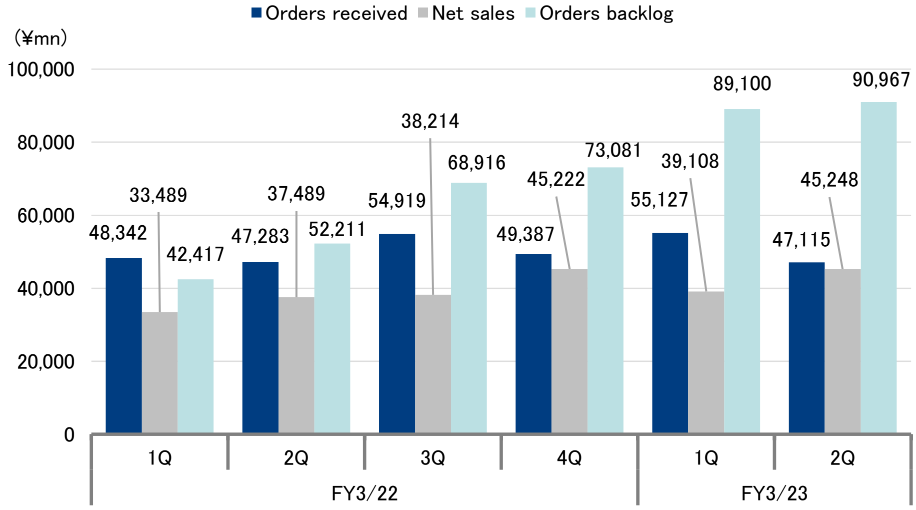
(¥mn)

	1H FY3/22		1H FY3/23				
	Result	% of sales	Company's forecast	Result	% of sales	YoY	vs. forecast
Net sales	70,978	-	83,100	84,356	-	18.8%	1.5%
Gross profit	8,749	12.3%	-	10,733	12.7%	22.7%	-
SG&A expenses	6,640	9.4%	-	7,433	8.8%	11.9%	-
Operating profit	2,108	3.0%	2,600	3,299	3.9%	56.5%	26.9%
Ordinary profit	2,195	3.1%	2,700	3,575	4.2%	62.9%	32.4%
Profit attributable to owners of parent	1,551	2.2%	1,900	2,528	3.0%	63.0%	33.1%
Orders received	95,625	-	-	102,242	-	6.9%	-
Orders backlog	52,211	-	-	90,967	-	74.2%	-

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

Orders remained stronger than the Company's assumptions despite having edged slightly lower in 2Q partially due to the effects of the lockdowns in Shanghai imposed from April 2022 onward amid the Chinese government's zero-COVID policy. Meanwhile, although the Company encountered a downturn in orders from Japanese-affiliated companies operating abroad, this was apparently offset somewhat by growth in orders from manufacturers of solar panel production equipment. As such, orders received in 1H accordingly maintained high levels, having increased by 6.9% YoY to ¥102,242mn, and orders backlog reached record-high levels, having increased by 74.2% to ¥90,967mn as of the end of 1H.

Orders received, net sales, and orders backlog by quarter



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

Primary drivers of gains in ordinary profit included ¥1,649mn due to an increase gross profit amid higher net sales and ¥334mn due to the effects of improvement in the gross profit margin, with such gains offset by a ¥792mn increase in SG&A expenses. The gross profit margin increased by 0.4ppt YoY. The increase is primarily attributable to several factors. For one, the Company has been engaging in profit-conscious operating activities which has involved changing its key goal indicator (KGI) from net sales to operating profit under the medium-term management plan initiated in FY3/23. Also, the effects of pricing adjustments made due to surging raw material costs have begun to take hold, and profit margins of overseas subsidiaries have improved due to depreciation of the yen*. The increase in SG&A expenses was largely attributable to factors such as higher personnel costs and transportation costs and increases in SG&A expenses at overseas subsidiaries in conjunction with depreciation of the yen. Meanwhile, non-operating income increased by ¥189mn YoY, but that was mainly due to improvement in foreign exchange losses (gains) of ¥148mn. This is mainly a result of the higher gross profit margin and recognition of foreign exchange losses (gains), which also applies to factors underpinning increases relative to the Company's forecast.

* In 1H FY3/23, the average exchange rate was ¥122.8 to the U.S. dollar. The yen has accordingly weakened by ¥7.8 to the U.S. dollar since the end of FY3/22 when it stood at ¥115 to the U.S. dollar.

By region, the Company performed well in Japan and Asia overall amid double-digit gains in net sales across the three business segments of electrical machinery, electronics, and general machinery

2. Segment and regional trends

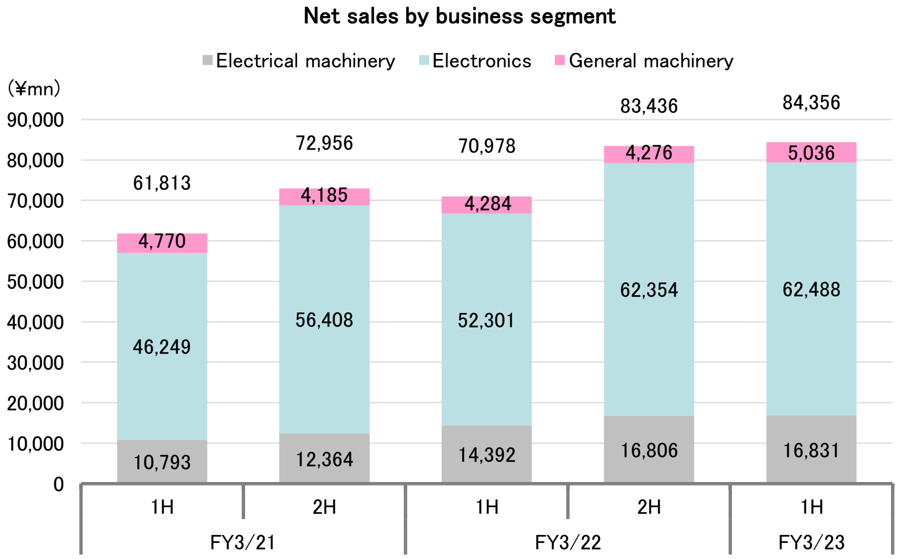
The Company discloses net sales after breaking them down into the three business segments of electrical machinery, electronics, and general machinery, according to the products handled. In addition, the Company discloses net sales and operating profit as segment information by region.

(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 16.9% YoY to ¥16,831mn due to increases in sales by heavy electrical equipment and electrical machinery for the semiconductor-related industry, control equipment and electrical machinery for the solar power-related industry, and control equipment for the industrial machinery 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 climbed 19.5% YoY to ¥62,488mn due to increases in sales of electronic components and electronic equipment for the industrial machinery industry, electronic components for automotive on-board products and those for the home electrical appliance-related and amusement industries, electronic equipment, connectors and electronic components for the semiconductor-related industry, and connectors and electronic components for the office appliance equipment-related industry.

The main products in the general machinery segment include robots from YASKAWA Electric Corporation, as well as conveyors and reduction gears. Net sales increased 17.5% YoY to ¥5,036mn amid gains in sales of facilities equipment for the food-related and automobile-related industries, and conveyors for the FPD-related industry, against a downturn in sales of facilities equipment for the metal container-related, consumer goods, and textile-related industries.



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

(2) Trends in sales and profits by segment

Japanese business recorded ¥64,994mn in net sales (up 19.9% YoY) and ¥2,280mn in operating profit (up 92.1%). Sales increased for heavy electrical equipment, electrical machinery, electronic equipment and connectors for the semiconductor-related industry, control equipment for the solar power-related industry, control equipment and electronic components for the industrial equipment industry, electronic components for the automotive on-board products, connectors for the office appliance equipment-related industry, and facilities equipment for the food-related industry. Meanwhile, sales decreased in facilities equipment for the metal container-related industry. The Company posted all-time high results for both net sales and operating profit against a backdrop of an extensive orders backlog and robust demand for capital investment.

The Company's new initiatives have involved the April 2022 launch of its Strategic Segment Team cross-regional dedicated sales organization for proposing optimal products and solutions to each customer industry, with the aim of developing new customers and deepening business transactions with existing customers. This initiative has been effective in terms of enabling the Company to gain new customers in fields requiring specialized technical knowledge. In addition, the Company's smart sales sites*, which were launched in 2019 to promote locally based sales, are apparently highly regarded by its customers and have helped give rise to a greater range of sales items and more extensive business transactions. In September 2022, the Company opened its Shiga Sales Office (Hikone City, Shiga Prefecture) to serve as its sixth smart sales site in Japan.

* The term "smart sales site" refers to a small-scale sales office employing only about two sales staff members. These sites seek to deepen business transactions by bolstering relationships with preferred customers scattered across small and medium-sized regional cities, while also aiming to attract new customers. Internal operations of these sites enlist the support of remote branch offices, given that administrative staff are not assigned to such sites. Beginning in 2019, the Company opened smart sales sites in Japan that include the Shikoku Sales Office (Ehime Prefecture), the Nagaoka Sales Office (Niigata Prefecture), the Kofu Sales Office (Yamanashi Prefecture), the Kanazawa Sales Office (Ishikawa Prefecture), and the Kitakyushu Sales Office (Fukuoka Prefecture).

Asian business posted ¥28,498mn in net sales (up 24.9%) and ¥1,138mn in operating profit (up 27.5%). Sales increased in electrical machinery for the solar power-related industry, electronic equipment for the industrial machinery and semiconductor-related industries, electronic components for automotive on-board products and for the office appliance equipment-related and home electrical appliance-related industries, and conveyors for the FPD-related industry. In China, which accounts for nearly 80% of net sales in Asia, whereas the Company has been encountering a slowdown in orders for Japanese-affiliated companies operating locally since April 2020 due to the nation's lockdowns, it appears that increased orders from solar panel production equipment manufacturers has made up for most of the decline in orders for Japanese companies. Sales of global SCM solutions services have also increased amid tailwinds provided by escalating supply chain risks in the Southeast Asian market. Meanwhile, the Company has been taking steps to expand business in China's Shandong Province and accordingly opened its Qingdao Office (Shandong Province) in September 2022 to serve as its first smart sales site in China.

In Europe and the U.S., the segment marked double-digit gains in net sales, which increased by 10.1% YoY to ¥3,313mn, but posted an operating loss of ¥40mn (against an operating profit of ¥13mn in 1H FY3/22). Net sales were affected by increases in sales of electronic components for the semiconductor-related and amusement industries, and facilities equipment for the automobile-related industry, against a decrease in sales of facilities equipment for the consumer goods and textile-related industries. The deterioration of earnings is partially attributable to surging transportation costs.

Net sales and operating profit by segment

(¥mn)

<Net sales>	FY3/21		FY3/22		FY3/23	YoY
	1H	2H	1H	2H	1H	
Japan	49,445	58,807	54,222	61,589	64,994	19.9%
Asia	16,788	18,704	22,810	29,406	28,498	24.9%
Europe/U.S.	2,435	2,276	3,010	3,204	3,313	10.1%
Other	480	451	375	373	335	-10.7%
Adjustment	-7,336	-7,281	-9,440	-11,135	-12,784	-
Total	61,813	72,956	70,978	83,436	84,356	18.8%

<Operating profit>	FY3/21		FY3/22		FY3/23	YoY
	1H	2H	1H	2H	1H	
Japan	474	723	1,187	1,862	2,280	92.1%
Asia	377	540	892	1,032	1,138	27.5%
Europe/U.S.	17	-18	13	-121	-40	-
Other	24	-8	9	-25	-10	-
Adjustment	6	17	5	-49	-68	-
Total	900	1,252	2,108	2,696	3,299	56.5%

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

Net sales in 1H FY3/23 (○ = positive YoY change, × = negative YoY change)

	Japan			Asia			Europe/U.S.		
	Electrical machinery	Electronics	General machinery	Electrical machinery	Electronics	General machinery	Electrical machinery	Electronics	General machinery
Semiconductor-related industry	○	○			○			○	
Solar power-related industry	○			○					
Industrial machinery industry	○	○			○				
Automotive-related industry		○			○				○
FPD-related industry						○			
Office appliance equipment-related industry		○			○				
Home electrical appliance-related industry					○				
Food-related industry			○						
Metal container-related industry			×						
Consumer goods and textile-related industries									×
Amusement industry								○	

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

FY3/23 results forecast upwardly revised amid prevailing strong demand and effects of yen depreciation

3. Outlook for FY3/23 results

In terms of the outlook for FY3/23 results, the Company has upwardly revised its initial forecast and now projects net sales of ¥174,000mn (up 12.7% YoY), operating profit of ¥6,500mn (up 35.3%), ordinary profit of ¥6,650mn (up 28.0%), and profit attributable to owners of parent of ¥4,650mn (up 30.0%). The revisions were made taking into account factors that include the Company's actual results through 2Q, market trends going forward, and yen depreciation*.

* The exchange rate assumption for the full fiscal year has been revised to ¥132 to the U.S. dollar from ¥115 to the U.S. dollar, previously. The effect of exchange rate volatility on earnings is such that yen depreciation amounting to ¥1 to the U.S. dollar increases annual profits by approximately ¥50mn.

FY3/23 consolidated results forecast

(¥mn)

	FY3/22		FY3/23					
	Full-year results	% of sales	Initial forecast	Revised forecast	% of sales	YoY	Vs. initial forecast	Progress as of 2Q (%)
Net sales	154,414	-	164,700	174,000	-	12.7%	5.6%	48.5%
Operating profit	4,804	3.1%	5,000	6,500	3.7%	35.3%	30.0%	50.8%
Ordinary profit	5,195	3.4%	5,200	6,650	3.8%	28.0%	27.9%	53.8%
Profit attributable to owners of parent	3,577	2.3%	3,600	4,650	2.7%	30.0%	29.2%	54.4%
Earnings per share (¥)	228.33		233.11	300.72				

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

The Company faces concerns regarding capital investment trends going forward, particularly with respect to lackluster sales of smartphones and personal computers, brought about by factors that include turmoil in Ukraine and sluggish consumer spending due to rising prices. However, the Company recognizes that business is favorable overall in part given circumstances in the Chinese market where it continues to encounter a positive environment in terms of inquiries from the solar power-related industry, and circumstances in the Japanese market where it is encountering emerging signs of production bases returning to Japan amid depreciation of the yen, even though there has been a slowdown in certain fields such as that of chip mounters. Meanwhile, amid a situation where orders received in October 2022 have also exceeded expectations, no situation has emerged in terms of requests for postponing delivery dates and making cancellations as of early November.

That said, inventories have accumulated on the customer side and materials shortages have been resolved, aside from certain exceptions when it comes to semiconductors. This is likely to culminate in a decrease in orders received of around 10% to 15% in 2H FY3/23 relative to 1H FY3/23. Meanwhile, given that customers conventionally scale back inventories to original levels once an inventory adjustment phase sets in, the notion of a decrease in inventories of around 30% would normally not seem unusual. However, the Company contends that customers are unlikely to scale back their inventories to original levels amid persisting supply chain risks. Also, in addition to ongoing investment in the Chinese market and elsewhere going forward under the theme of achieving energy and labor savings at factories, the Company is also likely to encounter moves toward greater dispersion of manufacturing encompassing the trend of production bases returning to Japan. At FISCO, we perceive such developments as favorable opportunities for the Company. The Company's new initiatives starting from 2H involve its opening of two Chinese smart sales site locations (Wuhan and Changzhou) in November 2022.

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 and "SNS2024 (Sun-Wa New Stage 2024)" as its three-year medium-term management plan beginning in FY3/23 (announced in May 2022). 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 to carry out its mission and achieve its Vision: "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.

Medium-term management plan aiming for operating profit of ¥7.0bn in FY3/25 off to a smooth start

2. Medium-term plan, "SNS2024 (Sun-Wa New Stage 2024)"

(1) Management goals

In its medium-term plan 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 once again recognized that in these times, as the market environment changes at an increasingly faster pace and as markets mature, 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 aims to achieve net sales of ¥195.0bn and operating profit of ¥7.0bn in FY3/25 (under an assumed exchange rate of ¥115 to the U.S. dollar). Having raised the operating profit margin from 3.1% to 3.6% in FY3/22, it primarily expects the gross profit margin to increase. Moreover, the overseas sales ratio (net sales of overseas operating companies ÷ consolidated net sales) is to be raised from 38% in FY3/22 to 40% in FY3/25. It appears that the Company has gotten off to a smooth start during FY3/23, the plan's initial year, particularly given that it has upwardly revised its results forecast relative to that of its initial forecast. If the company achieves its FY3/25 performance targets, the next step will be to aim for 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	FY3/23 Forecast	FY3/25 Target	Average annual growth rates	FY3/28 Target
Net sales	154,414	174,000	195,000	8.1%	250,000
Operating profit	4,804	6,500	7,000	13.4%	10,000
(profit margin)	3.1%	3.7%	3.6%		4.0%
<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)	3.1%		3.5%		

Note: Assumed exchange rate: ¥115 per U.S. dollar
Source: Prepared by FISCO from the Company's financial results and results briefing materials

(2) The strategic policy as well as progress and results thereof

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 reach 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 the dual axes of 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 also 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 attracting new prospective customers. By implementing these strategies, the Company aims for growth of at least 15% per year in gross profit. The Company has accordingly undertaken initiatives during 1H FY3/23 that have involved delving into client company needs through meetings with top management of such enterprises, strengthening the Company's ability to offer proposals in conjunction with manufacturers, and advancing engineering business proposals that enable the Company to demonstrate its strengths. It has also been actively engaging in accompanied visits made in conjunction with overseas manufacturers of refractometers and dew point meters to serve as new product solutions. These efforts seem to have helped steadily prompt gross profit growth in line with targets.

The robots and mounters field is a high-growth sector with rapid technological innovation, and is a segment where the Company can easily demonstrate its competitive advantages. The Company's main strategies entail a policy of gathering information and customer needs and placing focus on designing products tailored to specific industries, in addition to promoting efforts that involve increasing product-specific in-house share for each customer and developing new customers for peripheral devices. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit. The Company has accordingly undertaken initiatives during 1H FY3/23 that have involved selecting target customers, tracking in-house share of products equipped with robots and mounters, and making proposals involving products not yet equipped with such features. Moreover, the Company has successfully developed new customers at the top of their industries, which is likely to contribute to sales going forward. Although gross profit fell short of the Company's target rate of growth in 1H FY3/23 amid a slowdown in the chip mounter industry caused by a sluggish smartphone market, the Company seeks implement these strategies with the aim of achieving accelerated growth from FY3/24 onward.

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, offer prospects for growth. The Company pushes ahead with main strategies that include proposing factory automation PCs (FAPCs), which are becoming increasingly important in the development of new customers for peripheral devices and adoption of IoT, and making proposals for the business of global SCM solutions that serve as BCP measures. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit. The Company has accordingly undertaken initiatives during 1H FY3/23 that have involved expanding its range of target customers, proposing automation equipment solutions and components, and proceeding with operating activities upon having formulated sales strategy in conjunction with proposed FAPC manufacturers. It has also prepared planning documents enlisting proposals received from the global SCM solutions business. In 1H, progress achieved in terms of gross profit seems to have been largely in line with the target in this field.

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, and is accordingly the field with the largest gross profit from among the Company's operations. 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. The Company has accordingly undertaken initiatives during 1H FY3/23 that have involved conducting searches with respect to global companies and visiting such entities in seeking to develop and cultivate leading factory automation enterprises as target customers, in addition to expanding sales and making proposals for control equipment and detection equipment. It has also been enlisting means such as direct mail and online sales to supply information. In 1H, the Company achieved steady, double-digit YoY gross profit growth in this field.

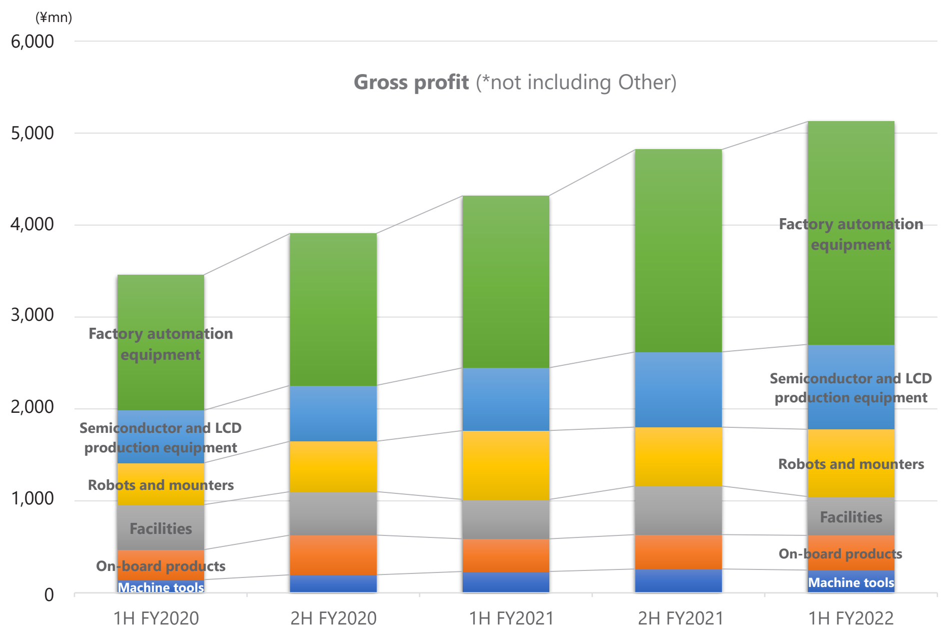
In the on-board products field, the advent of a once-in-a-century period of transformation makes this a segment in which the Company is likely to encounter evolution of automotive electrical systems and market expansion, particularly with respect to CASE* technologies. The Company has three main strategies in this field: develop new customers through cross-field expansion of existing products, develop new strategic products globally, and build an organization geared to developing new customers. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit. The Company has accordingly undertaken initiatives during 1H FY3/23 that have involved promoting sales activities by seeking to bolster the sales workforce with the aim of breaking new ground with leading tier-one manufacturers, and also enhancing ties with manufacturers possessing technologies that allow for differentiation. In 1H, the Company secured single-digit gross profit growth in this field, yet fell short of target as a result of its automotive manufacturing customers having made downward adjustments to production plans.

* 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 in this field include making added-value proposals to customers through unified sales and engineering, expanding projects by collaborating with system integrators in the food industry, and improving profitability through facility packaging and cross-field expansion. By implementing these strategies, the Company aims for growth of at least 10% per year in gross profit. The Company has accordingly undertaken initiatives during 1H FY3/23 that have involved increasing the number of joint customers by sharing information with the Engineering Department, and also collaborating with system integrators in handling retail sales and store locations. It has also been taking steps to formulate packaging concept proposals such as those for positioning systems enlisting barcode recognition and robotic picking systems incorporating 3D cameras. In 1H, gross profit in this field incurred sluggish growth and remained at the same level YoY.

The Company aims to achieve a total increase of ¥4.1bn in gross profit across the aforementioned six fields over the next three years, and is also poised to attain higher levels of gross profit in other fields as well. In 1H, it got off to a smooth start in that regard with its results having been driven by sales in the factory automation equipment and semiconductor production equipment fields.

Growth trends by customer segment



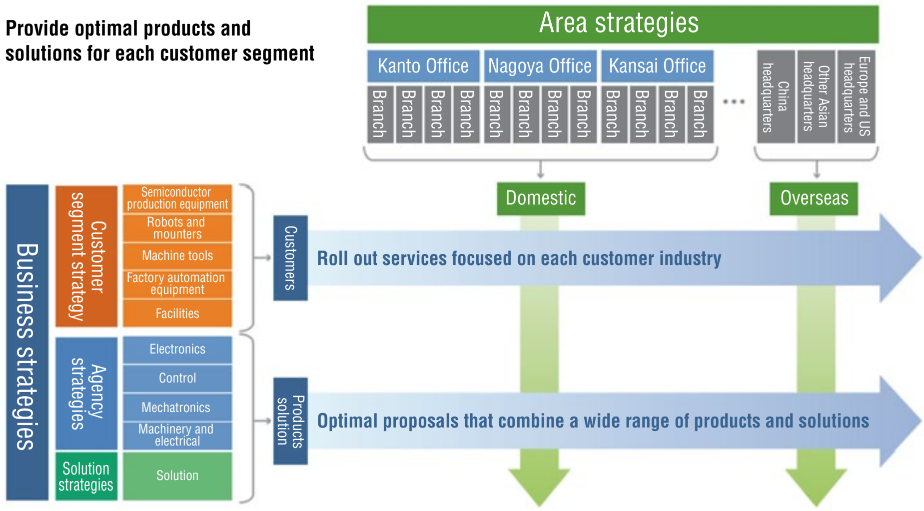
Source: The Company's results briefing material

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 resolves these sorts of issues. As previously mentioned, results already appear to be emerging, such as successfully developing new customers, so this strategy will become critical within the current medium-term management plan as well. The new organization is made up of 31 individuals selected from across Japan (including 4 executive officers). Future developments will be watched closely.

Sales services focused on each customer segment

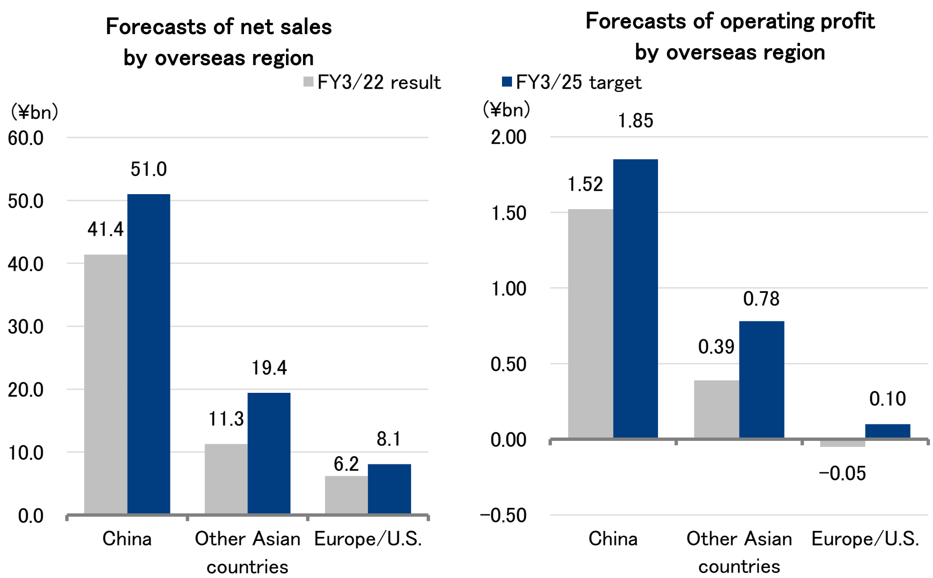


Source: Company's results briefing materials and medium-term management plan materials

The Company is implementing activities to increase operating efficiency through digital transformation (DX) such as making KGI transparent across internal organizations to ensure the effectiveness of various strategies, in addition to improving the efficiency of operations to concentrate on key strategies and employing advanced data utilization to improve customer value. It also intends to improve its corporate value while recruiting and developing the human resources that will be needed to promote these DX strategies.

In the realm of locally based sales, the Company has been making progress with respect to successively opening smart sales sites in both Japan and abroad. Meanwhile, the Company seeks to offer prompt and precise proposals that address challenges faced by its client companies, which is important given its role as a trading company that engages in B-to-B sales. It accordingly believes that the best way to achieve such aims is to engage in locally based sales in a manner that involves maintaining close communications with its customers. Whereas online sales have become more commonplace due to the COVID-19 pandemic, extensive face-to-face meetings remain an imperative in the industrial equipment field given varying requirements from one customer to the next. In that regard, the smart sales sites have gained a positive reputation among the Company's corporate clients. Though it is difficult to quantitatively gauge results of having opened such smart sales sites, some client companies have been purchasing greater quantities of sales items than before. As such, the Company plans to open more smart sales site locations going forward in rural areas where it is unable to sufficiently make on-site visits, regardless of its access to prospective customers.

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 will increase its number of business locations to 20 sites from the current number of 14. It will also provide the latest technologies and high-quality services and will adopt personnel systems aligned with the needs of local employees. Through such initiatives, the Company aims to achieve net sales of ¥51.0bn and operating profit of ¥1.85bn in the Chinese market (in contrast with net sales of ¥41.4bn and operating profit of ¥1.52bn in FY3/22). In other Asian regions, the Company will engage in efforts that involve establishing stable management platforms, bolstering sales capabilities as an agent, building organizations that sell a comprehensive range of products and solutions, and entering the Indian market. Through such initiatives, the Company aims to achieve net sales of ¥19.4bn and operating profit of ¥0.78bn in other Asian regions (in contrast with net sales of ¥11.3bn and operating profit of ¥0.39bn in FY3/22). Meanwhile, the Company may be able to increase its sales volume by tapping into demand now emerging given that some Companies have begun to transfer certain manufacturing facilities from China to other countries due to the COVID-19 pandemic. In Europe and the U.S., the Company will identify new products in local markets and will conduct export sales globally, while also seeking to improve its market recognition. Through such initiatives, the Company aims to achieve net sales of ¥8.1bn and operating profit of ¥0.1bn in Europe and the U.S. (in contrast with net sales of ¥6.2bn and operating loss of ¥0.05bn in FY3/22). In terms of new products, the Company has been proposing solutions that entail selling odor sensors from European manufacturers to cosmetics manufacturers and other such entities in Japan. In addition, it is quite likely that sales volume generated by the Company's overseas subsidiaries will ultimately exceed estimates set forth in the medium-term management plan if prevailing exchange rate levels persist, given the assumed exchange rate of ¥115 to the U.S. dollar under the medium-term management plan.

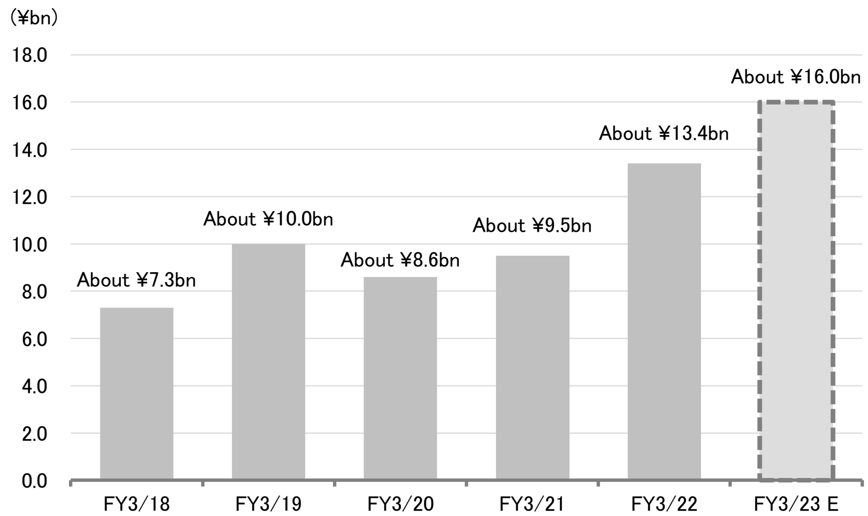


Source: Prepared from the Company's medium-term management plan materials

The global SCM solutions business is poised for sales growth amid an intensifying trend of manufacturers relocating their overseas production bases as well as mounting supply chain risks. In this business, the Company engages in outsourcing services that involve undertaking one-stop services entailing the function of procuring electronic components, facilities equipment and other items from suppliers on behalf of client companies that had previously conducted these activities independently. By having their procurement functions consolidated by the Company, client companies are able to reap benefits consisting of reduced procurement costs, shorter lead times, and lower costs incurred by their relevant departments, while also enabling them to alleviate supply chain risks. Whereas the global SCM solutions business generated net sales of ¥8.6bn in FY3/20, it is likely to achieve even higher sales in the range of ¥16.0bn in FY3/23 amid growing demand partially attributable to escalating supply chain risk prevailing since onset of the COVID-19 pandemic. Despite a profit margin that is somewhat lower than the Company-wide average, the business is likely to set the stage for higher sales volume.

Whereas the Company now operates 31 locations in 13 countries overseas, Japanese companies account for many of its customers that serve as overseas subsidiaries. The Company believes that customer development geared to foreign-affiliated companies is crucial in terms of enabling it to expand the scale of its business going forward, and has accordingly been training foreign nationals to serve as managerial professionals as a means of laying the groundwork toward accomplishing such aims. Specifically, the Company initiated its Global Next Leader Training Program in 2020, and has since been having around 10 management candidates regularly undergo such training, which includes online training sessions. The inaugural class of management candidates completed the training in March 2022. Those who have taken part have been very satisfied with the training, and many managers of overseas operations have expressed their desire for implementation of the program's next round. This suggests potential in terms of the Company achieving globalization of its management human resources. We at FISCO anticipate that the Company will achieve further growth in net sales overseas if it proceeds with its customer development efforts geared to foreign-affiliated companies, which currently account for only around 10% of its total sales (around 35% in the Chinese market).

Trends in net sales in the global SCM solutions business



Source: Prepared by FISCO from the Company's results briefing 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 education and 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 through its business activities.

The Company's recent initiatives associated with the Sustainable Development Goals (SDGs) have involved fully shifting to consumption of renewable energy in the area consisting exclusively of office space at its headquarters, given that the building where its headquarter offices are located started making use of electricity derived from renewable energy sources on September 29, 2022. The Company aims to achieve a 20% reduction in its greenhouse gas emissions by 2030 (compared to 2020) through initiatives taken to mitigate its environmental impact. It furthermore seeks to reduce its greenhouse gas emissions 100-fold or more by 2050 (compared to 2020) through its sales of eco-friendly inverters and other such products that give rise to energy savings. In addition, the Company aims to increase its ratio of female managers to 10% or more by fiscal 2030 as part of its efforts for promoting development and empowerment of diverse human resources.

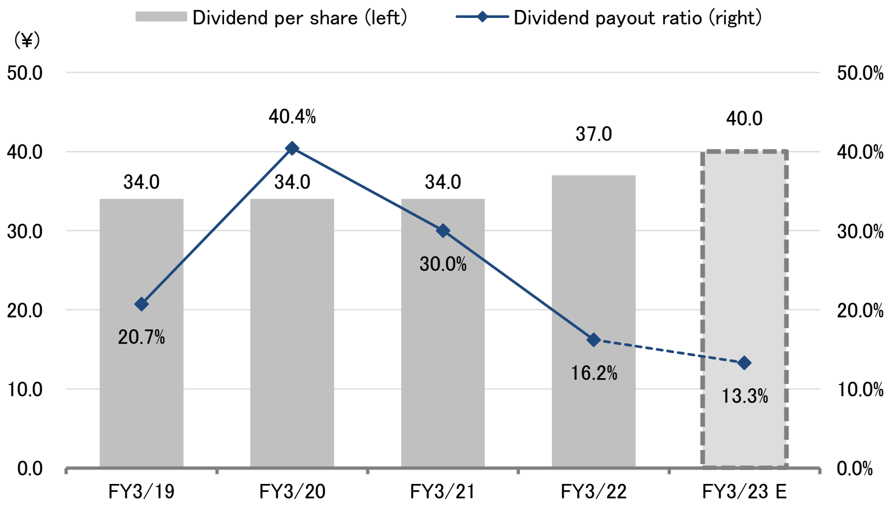
Shareholder return policy

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. The Company plans to maintain stable dividends while returning profits to shareholders according to consolidated results from medium- and long-term perspectives after considering proactive business development for continual growth and improvement of corporate value and the balance between dividends and financial soundness in preparation against various risks. 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 between November and December 2021.

The Company plans to increase its dividends per share for FY3/23 for the second consecutive year, thereby raising dividends by ¥3.0 from the previous year to ¥40.0. The dividend payout ratio is expected to decrease to 13.3%, which would constitute its lowest level in recent years amid the upward revision of the Company's results forecast. As such, we at FISCO believe that the Company may opt to further increase the dividend unless it encounters a deteriorating earnings environment going forward.

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	
					1H	full-year E
Net sales	145,410	137,943	134,769	154,414	84,356	174,000
YoY	-0.9%	-5.1%	-2.3%	14.6%	18.8%	12.7%
Gross profit	16,318	14,421	14,224	18,772	10,733	-
Gross profit margin	11.2%	10.5%	10.6%	12.2%	12.7%	-
SG&A expenses	12,908	12,574	12,071	13,967	7,433	-
SG&A expenses ratio	8.9%	9.1%	9.0%	9.0%	8.8%	-
Operating profit	3,410	1,846	2,152	4,804	3,299	6,500
YoY	-17.5%	-45.8%	16.6%	123.2%	56.5%	35.3%
Operating profit margin	2.3%	1.3%	1.6%	3.1%	3.9%	3.7%
Ordinary profit	3,627	2,144	2,567	5,195	3,575	6,650
YoY	-16.6%	-40.9%	19.7%	102.4%	62.9%	28.0%
Profit attributable to owners of parent	2,628	1,341	1,786	3,577	2,528	4,650
YoY	-14.8%	-49.0%	33.2%	100.3%	63.0%	30.0%
EPS (¥)	164.08	84.11	113.23	228.33	163.5	300.72
Dividend (¥)	34.00	34.00	34.00	37.00	20.00	40.00

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

Simplified balance sheet

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23 2Q	Change amount
Current assets	64,209	62,713	64,430	82,209	88,896	6,687
Cash and deposits	10,005	12,052	13,113	14,049	16,005	1,956
Trade receivables	42,256	39,838	42,453	51,997	54,475	2,478
Non-current assets	9,905	9,024	11,951	10,868	10,354	-514
Total property, plant and equipment	2,861	2,759	2,590	2,230	2,237	7
Intangible assets	143	193	170	226	251	25
Total investments and other assets	6,900	6,072	9,190	8,411	7,865	-546
Total assets	74,114	71,738	76,381	93,078	99,251	6,173
Current liabilities	37,199	35,402	36,372	52,797	55,814	3,017
Payment obligations	31,427	29,108	29,455	40,676	41,555	879
Non-current liabilities	4,970	4,608	4,978	2,257	1,956	-301
Total liabilities	42,169	40,011	41,350	55,054	57,770	2,716
Interest-bearing debt	6,705	6,709	7,048	7,805	10,545	2,740
Shareholders' equity	29,056	29,552	30,802	33,277	35,546	2,269
Accumulated other comprehensive income	2,888	2,174	4,228	4,746	5,934	1,188
Total net assets	31,944	31,726	35,030	38,023	41,480	3,457

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

Status of Cash Flows

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23 2Q
Cash flows from operating activities	1,636	3,238	1,589	792	-897
Cash flows from investing activities	-153	-200	-141	244	-234
Cash flows from financing activities	28	-945	-309	-580	2,137
Cash and cash equivalents at end of period	9,521	11,568	12,629	13,565	15,521

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

Management indicators

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23 2Q
Equity ratio	43.1%	44.2%	45.9%	40.9%	41.8%
Interest-bearing debt ratio	21.0%	21.1%	20.1%	20.5%	25.4%
ROE	8.8%	4.2%	5.4%	9.8%	-
Net cash	3,300	5,343	6,065	6,244	5,460

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

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