SUN-WA TECHNOS CORPORATION

8137

Tokyo Stock Exchange Prime Market

29-Jan.-2025

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Contents

Summary

Solid progress of growth strategies such as development of high-added-value new products and expansion of overseas business bases

SUN-WA TECHNOS CORPORATION <8137> (hereafter, also “the Company”) is an independent trading company that handles equipment, devices and parts related to industrial electronics and mechatronics. The Company has steadily expanded its businesses by leveraging coverage of three major areas (electrical machinery, electronics equipment, 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. It operates 30 business locations in Japan and 39 overseas (as of November 30, 2024).

1. Decreased sales and profits in 1H FY3/25, but all profit lines ahead of Company forecast

In consolidated results for 1H FY3/25 (April–September 2024), there was a decline in both sales and profits as net sales decreased 21.9% year on year (YoY) to ¥69,426mn and operating profit fell 52.1% to ¥1,650mn. Sales of electronic parts, electronic equipment, and control equipment to the FA industry turned down in Japan and overseas, because facilities investment declined and procurement adjustment continued amid weak market prices. In addition, there was a decline in sales of electrical machinery to the solar power-related industry in Asia, where such sales grew in the same period of the previous fiscal year. That being said, net sales and operating profit exceeded the Company forecast (net sales of ¥67,600mn and operating profit of ¥1,030mn), because the gross profit margin improved 1.0 percentage point (pp) YoY as a result of sales activities that prioritize profit, the yen was weaker than forecast against the dollar with an average exchange rate of ¥152.25 to the U.S. dollar versus the assumed exchange rate for the period of ¥137.90 to the U.S. dollar, and the Company worked on reducing expenses. Orders received continued to trend down, decreasing 15.6% YoY to ¥64,027mn, but turned up versus 2H FY3/24 (up 4.9%) for the first time since 2H FY3/22.

2. Decreases in sales and profits forecast for FY3/25, but orders begin a gradual recovery trend in Japan

For its FY3/25 consolidated results, the Company left its forecast unchanged, with net sales decreasing 6.7% YoY to ¥155,070mn and operating profit falling 50.4% to ¥3,080mn. Progress versus the full-year forecast in 1H was 44.8% for net sales and 53.6% for operating profit, showing strong progress for profit. However, the Company maintained its full-year forecast because of slow recovery of overseas business bases and trends in exchange rate fluctuations and geopolitical risk. Recent order trends show a recovery in Japan, but ongoing weakness overseas. The Company is therefore forecasting a small QoQ net sales decline in 3Q. The yen has been trending weaker than the assumed exchange rate for the period of ¥137.9 to the U.S. dollar. We at FISCO think full-year results for profits are likely to surpass the Company’s forecast if exchange rates remain around current levels *.

* The effects of a change of ¥1.0 to the U.S. dollar on business results translates to ¥421mn in net sales and ¥46mn in operating profit (assuming other currencies move at the same rate as the U.S. dollar).

3. Solid progress of growth strategies such as development of high-added-value new products and overseas strategy

The Company's growth strategies are as follows. 1) Sales strategy (reorganize sales organizations to strengthen customer-centric sales and customer segments strategy), 2) product strategy (take steps toward green transformation [GX] by expanding sales of environmentally-friendly products), 3) technological strategy (develop and expand sales of new high-added-value products), 4) overseas strategy (expand overseas business bases in anticipation of progress of customer segments strategy), and 5) DX strategy (use DX to improve operational efficiency). With regard to technological strategy, inquiries have been brisk for the robotics solution packages developed in partnership with MTEC CO., LTD. and released in 2023. As well, the Company has started development of a solution that utilizes the advanced image processing technologies of Logic & Design Inc., with which it entered into a business and capital alliance in October 2024, with the goal of commercialization in two years' time. The Company expects these high-added-value products to contribute toward profit margin improvement once sales grow to a certain level.

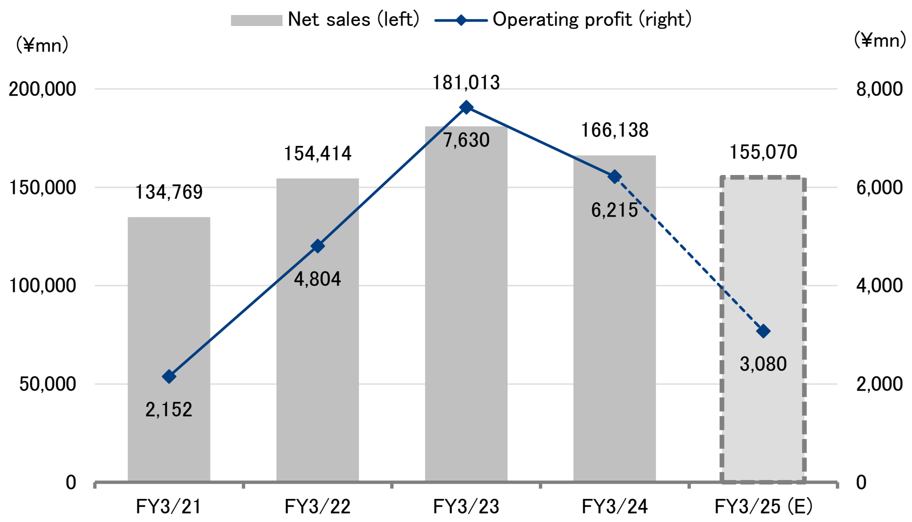
4. Enhancing shareholder return to quickly achieve a PBR of over 1.0x

One of the initiatives being implemented by the Company as part of its strategy to quickly achieve a PBR of over 1.0x is to improve shareholder returns. Its dividend policy previously targeted a consolidated payout ratio of 25–35%, but from FY3/25, the Company's policy is to pay stable and continuous dividends targeting dividend on equity (DOE) of 4.0% or more. In FY3/25, the Company plans a regular dividend of ¥110.0 per share and a 75th anniversary commemorative dividend of ¥10.0 to give a total dividend of ¥120.0, an increase of ¥25.0 from FY3/24. In terms of shareholder benefits, at the end of March each year, shareholders will receive a QUO card. The value of the card will be in accordance with the number of shares and the period for which they have been held (shareholders who have held between 100 and 499 shares for a period of less than 2 years will receive a ¥1,000 card, while shareholders who have held the same number for 2 or more years will receive a ¥2,000 card. Shareholders who have held 500 or more shares for a period of less than 2 years will receive a ¥2,000 card, while shareholders who have held the same number for 2 or more years will receive a ¥3,000 card).

Key Points

- Decreases in sales and profits in 1H FY3/25, but all profit lines exceeded the Company's forecast
- Sales and profit forecast for FY3/25 unchanged in view of exchange rate fluctuations and geopolitical risk, but scope for surpassing forecast at all profit levels
- Expected to enter earnings expansion phase in FY3/26 onward as a result of implementing growth strategies
- To pay dividend targeting DOE of 4.0% or more, investment yield attractive as total of dividend and shareholder benefits

Results trends



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

Results trends

Decreases in sales and profits in 1H FY3/25, but all profit lines ahead of the Company's forecast

1. 1H FY3/25 results overview

In 1H FY3/25, the Company posted lower sales and profits; however, each profit line exceeded its forecast with net sales of ¥69,426mn (down 21.9% YoY), operating profit of ¥1,650mn (down 52.1%), ordinary profit of ¥1,681mn (down 54.6%) and profit attributable to owners of parent of ¥1,271mn (down 58.7%). Factors contributing to the stronger-than-expected performance include the yen trending weaker than forecast against the U.S. dollar, with an average exchange rate of ¥152.25 to the dollar versus the assumed exchange rate for the period of ¥137.90 to dollar, and the effects of gross profit margin improvement and expense reduction.

1H FY3/25 results (consolidated)

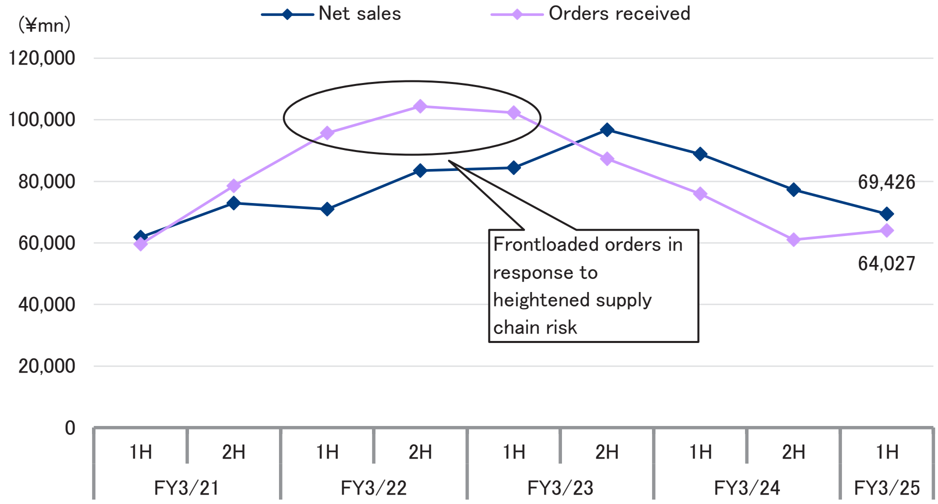
(¥mn)

	1H FY3/24		1H FY3/25				
	Results	% of sales	Company's forecast	Results	% of sales	YoY	vs. forecast
Net sales	88,867	-	67,600	69,426	-	-21.9%	-23.9%
Gross profit	11,179	12.6%	-	9,436	13.6%	-15.6%	-
SG&A expenses	7,736	8.7%	-	7,786	11.2%	0.6%	-
Operating profit	3,442	3.9%	1,030	1,650	2.4%	-52.1%	-70.1%
Ordinary profit	3,700	4.2%	1,230	1,681	2.4%	-54.6%	-66.8%
Extraordinary profit and loss	566	-	-	167	-	-	-
Profit attributable to owners of parent	3,075	3.5%	1,000	1,271	1.8%	-58.7%	-67.5%
Orders received	75,877	-	-	64,027	-	-15.6%	-
Orders backlog	68,618	-	-	46,964	-	-31.6%	-

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

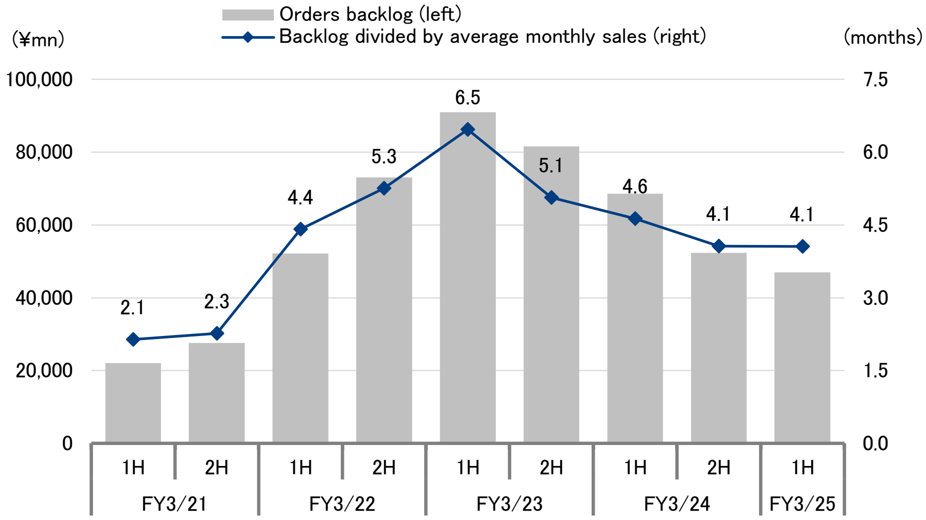
As the industrial electronics and mechatronics industries, which is the Company's business area, experienced a decrease in facilities investment and ongoing procurement adjustment amid weak market prices, sales of control equipment, electrical machinery, electronic parts, and facilities equipment declined. Orders received continued to trend down, decreasing 15.6% YoY to ¥64,027mn, but increased 4.9% versus 2H FY3/24 for the first time in 3 years on a half-yearly basis, which suggests they have bottomed out. The orders backlog at end-September 2024 was ¥46,964mn, down approximately 50% from the peak, but this can still be considered a high level, because it is the equivalent of 4.1 months' net sales versus around 2 months' net sales prior to 2020. The Company is therefore likely to continue clearing its orders backlog in 2H.

Net sales and orders received by half



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

Orders backlog trends



Note: Average monthly sales = Total sales for the six-month period divided by 6
Source: Prepared by FISCO from the Company's supplementary material on financial results

Looking at the reasons behind the increase and decrease factors in operating profit in 1H FY3/25, positive contributions of ¥381mn from an improved gross profit margin (up 1.0pp YoY), ¥76mn from exchange rate fluctuations*, and ¥191mn from a decrease in other expenses were not enough to absorb the ¥2,440mn decline in operating profit due to lower net sales. Factors contributing to the gross profit margin improvement include engaging in sales activities that prioritize profit and the end of a large solar power generation-related project in Asia, which had relatively low profit margins. Non-operating income was -¥227mn YoY, mainly due to a foreign exchange loss (-¥219mn). The Company also recorded extraordinary income of ¥167mn on sale of investment securities versus ¥557mn in the same period of the previous fiscal year. In FY3/24, the Company introduced a policy of incrementally selling its cross-shareholdings portfolio as a measure to practice management that is conscious of capital cost and share price, and this gain is part of these efforts. Funds from these sales will be allocated to growth investments and shareholder return.

* The average exchange rate was ¥152.25 to the U.S. dollar. The yen has accordingly weakened by about ¥17 to the U.S. dollar compared to the previous fiscal year, when it stood at ¥134.85. This has resulted in a ¥30mn increase in profits for the Company's Japanese business companies. Stocking and selling transactions resulted in a ¥3mn increase in profits for the Company's overseas business companies and the difference in the year-end exchange rate resulted in a ¥43mn increase in profits.

Growth in electronic parts and control equipment for electric vehicle (EV) industry. By regional segment, Europe and the U.S. record sales growth

2. Segment and regional trends

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

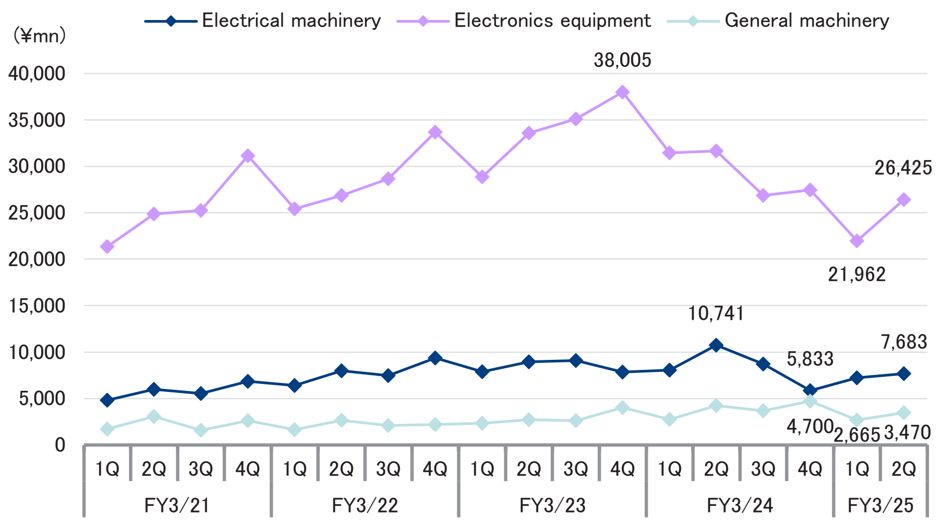
(1) Trends in net sales by business segment

Main products in the electrical machinery segment are servo motors, motion controllers, inverters, machine controllers and power conditioners. The Company primarily handles products from YASKAWA Electric Corporation <6506>. Main customers include SCREEN Holdings Co., Ltd. <7735>, KOKUSAI ELECTRIC CORPORATION <6525>, Panasonic Holdings Corporation <6752>, NIKON CORPORATION <7731>, and Daifuku Co., Ltd. <6383>. Net sales continued a decline that started in 2H FY3/24, down 20.8% YoY to ¥14,903mn. Although sales of control equipment (control panels) to the EV-related industry increased, sales of control equipment (control panels) to the factory automation industry and electrical machinery (servo motors, SCARA robots, etc.) to the solar power-related industry declined. Sales appear to be recovering on a quarterly basis, however, bottoming at ¥5,833mn in 4Q FY3/24 and increasing two quarters in a row to ¥7,220mn in 1Q FY3/25 and ¥7,683mn in 2Q FY3/25.

The main products in the electronics equipment 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 supply equipment. Main customers include DENSO CORPORATION <6902>, YASKAWA Electric, Mitsubishi Electric Corporation <6503>, OMRON Corporation <6645>, and FUJI ELECTRIC CO., LTD. <6504>. Net sales decreased by 23.3% YoY to ¥43,387mn due to a decline in sales of electronic parts (cables, connectors, etc.) and electronic devices (industrial-use PCs) to the factory automation industry, although sales of electronic parts (optical units) to the automotive-related industry increased. Weak demand for facilities investment-related equipment and the continuation of inventory adjustments of parts and materials by customers were negative factors for net sales. We at FISCO think that sales have bottomed for now on a quarterly basis, marking a trough of ¥21,962mn in 1Q FY3/25 and increasing to ¥26,425mn in 2Q FY3/25.

The main products in the general machinery segment include robots from YASKAWA Electric, as well as transfer devices and reduction gears. Main customers include DENSO, Subaru Corporation <7270>, FUJIFILM Holdings Corporation <4901>, AGC Inc. <5201>, and SUMCO CORPORATION <3436>. Net sales decreased 11.8% YoY to ¥6,135mn due to a decrease in sales of facilities equipment (vibration isolation tables) to the semiconductor production equipment industry.

Net sales by business segment (quarterly)



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

(2) Trends in sales and profits by segment

In the Japanese business, net sales decreased 17.3% to ¥50,079mn and operating profit declined 50.7% to ¥1,029mn. Sales and profit decreased despite an increase in sales of control equipment (control panels) to the EV-related industry and electronic parts (optical units) to the automotive-related industry, because declines in sales of control equipment (control panels), electronic devices (industrial-use PCs), and electronic parts (cables, connectors, etc.) to the factory automation industry and sales of facilities equipment (vibration isolation tables) to the semiconductor production equipment industry had a negative impact.

In the Asian business, net sales decreased 31.9% to ¥23,251mn and operating profit decreased 61.0% to ¥509mn. There were declines in sales of electrical machinery (servo motors and SCARA robots) to the solar power-related industry, which significantly contributed to net sales in the same period of the previous fiscal year. In addition, sales also decreased for electronic parts (connectors, terminal blocks, etc.) and electronic machinery (teaching pendants) to the factory automation industry, and electronic devices (industrial-use PCs) to the semiconductor production equipment industry. For sales in Asia, sales to China (accounting for the bulk of the total) and Southeast Asia decreased. The Company entered India in FY3/24. Sales to India (where the Company started selling to Japanese infrastructure companies based there) appear to have made a solid start. The Indian government has announced a policy of fostering its own electronics (including semiconductors) as well as automotive industries. The Company therefore positions India as a focus market where it can capture demand for electrical machinery, electronic parts, and facilities equipment.

Net sales in Europe and the U.S. increased 0.3% YoY to ¥3,349mn and operating profit fell 59.5% to ¥54mn. Sales of electronic parts (fan motors, connectors, etc.) to the factory automation industry decreased, but sales of industrial robots for the automotive-related and household goods industries increased.

Net sales and operating profit by segment

(¥mn)

Net sales	FY3/23		FY3/24		FY3/25	YoY
	1H	2H	1H	2H	1H	
Japan	64,994	68,718	60,577	53,973	50,079	-17.3%
Asia	28,498	35,866	34,136	27,058	23,251	-31.9%
Europe/U.S.	3,313	3,799	3,341	3,629	3,349	0.3%
Other	335	511	273	500	442	62.1%
Adjustment	-12,784	-12,238	-9,460	-7,890	-7,695	-
Total	84,356	96,657	88,867	77,271	69,426	-21.9%

Operating profit	FY3/23		FY3/24		FY3/25	YoY
	1H	2H	1H	2H	1H	
Japan	2,280	3,074	2,087	1,551	1,029	-50.7%
Asia	1,138	1,443	1,305	1,039	509	-61.0%
Europe/U.S.	-40	-8	133	14	54	-59.5%
Other	-10	7	-19	9	11	-
Adjustment	-68	-185	-64	159	45	-
Total	3,299	4,331	3,442	2,773	1,650	-52.1%

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

Sales and profit forecast for FY3/25 unchanged, but scope for surpassing forecast for all profit lines

3. FY3/25 consolidated results forecast

In terms of the outlook for FY3/25 consolidated results, the Company has kept its forecasts unchanged with net sales of ¥155,070mn (down 6.7% YoY), operating profit of ¥3,080mn (down 50.4%), ordinary profit of ¥3,220mn (down 51.4%), and profit attributable to owners of parent of ¥2,410mn (down 51.9%). Although 1H results were ahead of forecast, the Company maintained its full-year forecast because of slow recovery of overseas business bases and uncertainty regarding trends in exchange rate fluctuations and geopolitical risk.

FY3/25 consolidated results forecast

(¥mn)

	FY3/24		FY3/25			
	Full year results	% of sales	Full year forecast	% of sales	YoY	Progress versus plan
Net sales	166,138	-	155,070	-	-6.7%	44.8%
Operating profit	6,215	3.7%	3,080	2.0%	-50.4%	53.6%
Ordinary profit	6,631	4.0%	3,220	2.1%	-51.4%	52.2%
Profit attributable to owners of parent	5,007	3.0%	2,410	1.6%	-51.9%	52.8%
Earnings per share (¥)	329.87		159.12			
Exchange rate (¥/U.S. dollar)	140.56		137.9			

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

Currently, movement regarding orders varies between regions. Orders are beginning to recover in Japan, but it would seem that they are yet to turn around overseas, due in part to economic weakness. Accordingly, the Company forecasts a slight decrease in net sales YoY in 3Q. Thus, the pace of sales recovery overall in 2H is likely to be slower than initially expected and full-year net sales may fall short of the Company's forecast. However, we at FISCO think that all profit lines are likely to surpass the Company's forecast, because net sales in 2H are usually about the same or higher than in 1H and the yen has been trending weaker than the assumed exchange rate for the period of ¥137.90 to dollar. The effects of a change of ¥1.0 to the U.S. dollar on business results translates to ¥421mn in net sales and ¥46mn in operating profit*.

* Assuming a change of ¥1.0 to the U.S. dollar and other currencies move at the same rate as the U.S. dollar

Regarding the impact of Donald Trump winning the U.S. Presidential Election, we at FISCO think that renewed awareness of supply chain risk associated with concerns of further tariff increases is positive for the Company, which plays a role in stable supply of parts and materials.

Long-term vision and medium-term management plan

Turns "what customers want to accomplish" into "what they can accomplish." Aiming to be the best partner in manufacturing

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 3-year, 11th medium-term management plan beginning in FY3/23 (announced in May 2022). The long-term vision outlines the Group's Mission (Mission and Purpose), Vision (the Group's Ideals), and Values (Values for Fulfilling the Mission and Realizing the Vision), which 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 part of its Vision: "We are the best partner in manufacturing to make our customers' wants and needs possible."

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.

To enter earnings expansion phase in FY3/26 onward as a result of executing business and growth strategies

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

(1) Management goals and progress

In its 3-year medium-term management plan SNS2024, which began in FY3/23, the Company changed its KPI from net sales to operating profit. In FY3/25, the final year of the plan, it is targeting operating profit of ¥7.0bn while also advancing initiatives to enhance corporate value aimed at achieving a PBR of over 1.0x as quickly as possible. However, the forecast for FY3/25 is operating profit of ¥3.08bn, which falls far short of the ¥7.0bn target. While it is inevitable that earnings performance is cyclical for companies in the industrial electronics business, because they are strongly affected by companies' facilities investment trends, the large gap between Company's expected operating profit in FY3/25 and target is due to the cyclical downturn coinciding with adverse external conditions.

In fact, the cumulative total of operating profit for the 3 years since FY3/23 is ¥16.8bn, which is not far removed from the target total of ¥18.0bn. Additionally, it is also 1.9 times higher than the cumulative total of operating profit for the 3 years from FY3/20 to FY3/22, and the operating profit margin has risen from 2.1% to 3.4%. In terms of the medium-term trend, this demonstrates growth in both profit size and profitability, so FISCO has a strong evaluation of the Company as the business and growth strategies the Company has been implementing since FY3/23 are showing a certain degree of effectiveness.

Management goals in the 11th medium-term management plan "SNS2024 (Sun-Wa New Stage 2024)"

(¥bn)

Consolidated operating profit	Initial target	Results	Operating profit ratio	Net sales
FY3/23	5.0	7.6	4.2%	181.0
FY3/24	6.0	6.2	3.7%	166.1
FY3/25 (E)	7.0	3.0	2.0%	155.0
Cumulative 3-year total (reference)	18.0	16.8	3.4%	502.1
FY3/20-FY3/22	-	8.8	2.1%	427.1

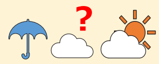
Source: Prepared by FISCO from the Company's financial results and results briefing materials

(2) Strategic policy and progress

In terms of the basic policies that the Company will implement in "SNS2024 (Sun-Wa New Stage 2024)," the Company has set forth 3 basic policies: a) Focus on growth fields that require innovation; b) Provide even higher added-value products and new solutions; and c) Contribute to the realization of a sustainable society through sustainability management. In regard to "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 (semiconductor production equipment, robots and mounters, machine tools), fields where resources are selectively allocated (factory automation equipment, automotive components, and facilities), and other fields. By formulating and executing business strategies tailored to the Company's plans to allocate resources into each customer segment, the Company seeks to increase gross profit and strengthen profitability.

Looking at the composition of gross profit (non-consolidated, domestic business) by field in FY3/24, the factory automation equipment field and automotive components field each accounted for the highest proportion at 24%, followed by the semiconductor production equipment field at 10%, the robots and mounters field at 8%, the facilities field at 5%, and the machine tools field at 3%. The Company is aiming for a 3-year average annual growth rate for gross profit of at least 10% in each of these fields (and at least 15% for semiconductor production equipment) and has been working to achieve these targets. Looking at results up to 1H FY3/25, the machine tools field is on track at 9.8%, but all other fields are underperforming amid the deteriorating market environment. In particular, the robots and mounters field is far behind at -18.1% because of the worsening market environment of the chip mounter industry and associated component inventory adjustments. However, major customers' component inventory levels appear to have returned to normal, and orders will likely turn positive in line with real demand in 2H. Although the business climate overall is still unclear, we expect these industries (mainly the factory automation equipment field) to pick up in 2025 onward.

FY3/25 profit growth rate by customer segment

Customer segment	FY3/21→24 profit growth rate target (3-year average)	FY3/21→24 profit growth rate (3-year average)		Outlook for the Company in the current fiscal year
		3-year average	Progressive evaluation	
Semiconductor production equipment	15% or more	7.1%	▲Delay	
Robots and mounters	10% or more	-18.1%	▲Major delay	
Machine tools	10% or more	9.8%	○As planned	
Factory automation equipment	10% or more	3.7%	▲Delay	
Automotive components	10% or more	3.3%	▲Delay	
Facilities	10% or more	-0.6%	▲Delay	

Source: The Company's results briefing materials

Looking at the achievements of initiatives implemented in each customer segment in 1H FY3/25, in the semiconductor production equipment field, which is one of the fields where resources are actively allocated, the Company acquired a joint development theme with a major Japanese manufacturer and made contact with a major U.S. manufacturer. As well, the Company entered into a business and capital alliance with Logic & Design, which holds advanced image processing technologies, to explore the potential of harnessing these technologies in surface processing and inspection processes of leading-edge semiconductors. The Japanese government is strengthening the development of manufacturing technologies for leading-edge semiconductors as a national strategy. If these technologies were to be selected, it would further enhance the Company's growth potential in the semiconductor production equipment field. In the robots and mounters field, the Company opened sales talks in collaboration with the semiconductor production equipment segment, making progress in talks with a major foreign semiconductor assembly equipment manufacturer concerning parts and materials for new product development. In the machine tools field, the Company managed to open sales talks through proposals for process integration, automation, and energy-saving equipment. It also worked on discovering functional themes that customers are looking for in relation to the AR^2 System, its own package product developed in partnership with MTEC.

Looking at fields for selective investment of resources, in the factory automation equipment field, the Company opened sales talks by proposing suppliers' early-stage technologies to Japanese global corporations to cultivate these customers further. It also formulated overseas regional strategies to progress activities to open sales talks with quality foreign customers. In the automotive components field, the Company cultivated customers other than its core Tier 1 customers with themes such as advanced driver assistance systems (ADAS) and vehicle electrification, and grew transactions with them. The Company is engaging in many sales talks featuring ADAS, vehicle electrification, and connected vehicles, and thus anticipating stable growth in this field in the future. In the facilities field, sales talks of the AR^2 System, a robotics solution package developed in partnership with MTEC (which sells sets with YASKAWA Electric's robots) increased mainly with the automotive-related industry. The AR^2 System offers the advantage of simplifying the specific settings required for robots when changing the type of product that the robot handles on the manufacturing line. This offers the potential for using robots in low volume multi-product manufacturing lines, which have been traditionally considered difficult for robots. Although other companies offer solutions with a similar concept, the Company's technology has the edge in high precision control.

Strategy in each customer segment and main achievements

Segment	Company's mission and value provided (1–3)	FY3/24 results
Semiconductor production equipment	Support the enhancement of customers' technological capabilities and greater resilience of the supply chain by fulfilling demand for production equipment generated by Japan's national strategy of strengthening the semiconductor industry 1) Provides cutting-edge technology, 2) supplies critical component units, 3) solves customer production issues	Matched customers' needs with the Company's strengths, initiating sales talks with proposals that solve challenges 1) Acquired joint development themes in collaboration with customers' technologies and procurement, 2) made unit (control panel) assembly proposal, 3) coordinated with manufacturers with leading-edge surface processing and measuring technologies, 4) acquired joint development themes with major supplier
Robots and mounters	Amid rising demand for further production automation, match technological needs to early-stage technologies to provide robotics solutions. Support faster speeds and greater precision of the mounter industry, which seeks total solutions for semiconductor back-end processing 1) Aggregate and analyze customer needs, 2) aggregate and provide robotics technologies (early-stage technologies), 3) plan specialized products for the industry	Initiated sales talks by collaborating with semiconductor production equipment segment 1) Aggregated needs and initiated sales talks, 2) began proposal activities for communication robots, 3) aggregated needs and planned specialized products for the industry, 4) collaborated with semiconductor production equipment segment
Machine tools	Contribute to the growth of the machine tools industry by automating, digitalizing, and enhancing the performance of the mother machines that support global manufacturing 1) Proposed solutions and components for process integration, automation, and energy-saving equipment, 2) discover new products for productivity improvement and reducing environmental impact, 3) cultivate new overseas business bases of Japanese companies and foreign machine tool manufacturers	Initiated sales talks through proposals of solutions and components for process integration, automation, and energy-saving equipment, as well as by solving customers' technological problems through activities in collaboration with Innovation Division and area 1) Discovered functional themes sought by customers for own package product AR^2 System, 2) initiated sales talks through proposal activities that address customers' technological problems, 3) conducted survey of customers' global production structures
Factory automation equipment	Factory automation that improves the efficiency of manufacturing processes. Help to improve the speed, reliability, and efficiency of manufacturing processes by combining various components and systems 1) Create and supply high-added-value products through strategic partnerships with global suppliers, 2) propose devices that make smart factories a reality, 3) propose adding value (shift from selling devices to selling modules) to focus customer segments	Initiated sales talks for proposals pertaining to stronger engagement with the strategies of global factory automation device manufacturers and early-stage technologies from suppliers 1) Formulated overseas regional strategies to progress activities to open sales talks with quality foreign companies, 2) aggregated the needs of customers and the industry to create and develop optimal hypothesis proposals, 3) improved efficiency and profitability of sales by strategic inclusion of highly versatile products in inventory and coordinating global information
Automotive components	Adapt to post-pandemic production recovery and sales growth, sophisticated autonomous driving and driver assistance systems, and advances in vehicle electrification systems (BEV, FCEV, etc.) 1) Step up moves relating to interconnection between ADAS×HMI and infrastructure, 2) propose products corresponding to electrification themes, 3) improve customer satisfaction by strengthening contact opportunities with new and existing customers	Grew transactions with customers other than main Tier 1 customers, which supply components directly to automakers 1) Cultivated new customers other than main Tier 1 customers and grew transactions with them, 2) initiated sales talks related to autonomous driving, vehicle electrification, and connected vehicles, 3) collaborated with suppliers to build a quality control structure
Facilities	Connected suppliers' early-stage technologies with customer needs to help create innovation amid heightened needs for improving efficiency by using production line automation, robotics, and AI 1) Provide solutions that create innovation for customers, 2) provide unique technical support to solve customer challenges, 3) help to enhance productivity at customers' factories through the provision of unique packaged products	Made use of planning simulation to solve challenges by combining many elemental technologies needed in factory automation 1) Utilized planning simulation in collaboration with MTEC to combine elemental technologies, and attracted inquiries with full-package proposals, 2) attracted demand for upgrading dilapidated facilities, 3) created product packages that make a point of difference by adding unique value to existing product range

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

Aims to maintain high levels of ROE and quickly achieve a PBR of

over 1.0x

3. Efforts to practice management that is conscious of capital cost and share price

Although the Company's ROE is above 10% at 10.8% for FY3/24, the share price remains below 1.0x PBR at 0.75x. The Company believes this is because investors do not fully understand its business and growth strategies for sustainable growth, and because the Company's shares have little fluidity and its market capitalization is only in the ¥30.0bn range, which is not large, it is difficult for major institutional investors to target the Company's shares. Taking this into account, the Company will work to improve profitability through steady implementation of its medium-term management plan SNS2024, improve shareholder returns, and enhance investor and shareholder relations activities, with the aim of achieving its target of a PBR of over 1.0x as soon as possible.

(1) Strategy for enhancing profitability

a) Sales strategy

In April 2024, the Company reorganized its sales organizations with the aim of further raising profitability. Specifically, in Japan, it shifted from a three-branch structure (Kanto, Nagoya, Kansai) to a five-branch structure (split the Kanto Branch into North Kanto and South Kanto and established a new Kyushu Branch). Overseas, it worked with the three regional control organizations (China region, Asia Pacific region, and Europe and U.S. region) to strengthen customer-centric sales in each region to an even greater degree. Additionally, it is realizing coordination between each branch and customer segment team while strengthening sales based on technology proposals with the aim of maintaining and improving profitability. The goal of the reorganization is leadership awareness reform and greater competitive consciousness among the heads of each branch and regional control organization to revitalize the whole organization.

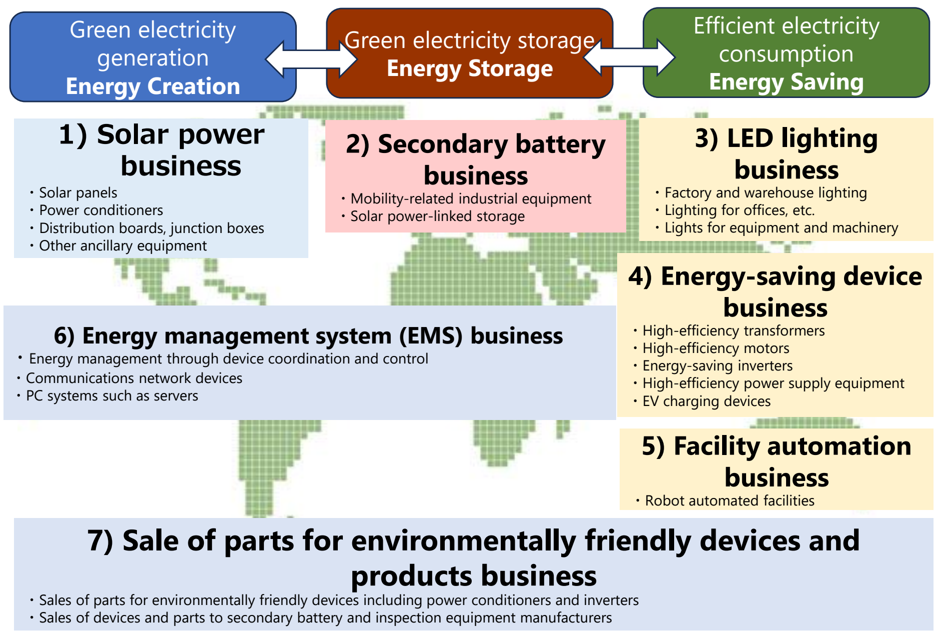
b) Product strategy

As movement toward green transformation (GX) aimed at realizing a decarbonized society gains pace in Japan and overseas, the Company is also promoting GX through efforts to expand sales of environmentally friendly products on a Company-wide basis. Demand related to areas such as solar panels, electricity storage systems, and energy-saving devices is forecast to grow in the medium- to long-term and the Company anticipates it can sustainably grow net sales by expanding domestic and overseas sales of a wide-range of products it handles, including relevant products, electronic parts, and facilities equipment.

The number of new GX-related projects (sales talks) has been on an upward trend every year, accelerating from around 550 in FY3/24 to over 400 in 1H FY3/25. The cumulative number of contracted projects (orders) since FY3/20 is 556 with a total value of ¥8.81bn. The number of ongoing sales talks is 561 with a total value of ¥39.56bn.

The number of current decarbonization business-related projects is 477, breaking down into 55% in the facility automation business (robot automated facilities), which has the majority share, followed by 19% in the energy-saving device business (high-efficiency motors, energy-saving inverters, EV charging devices, etc.), 8% in the secondary battery business (mobility-related industrial equipment, solar power-linked storage), 8% in the sales of parts for environmentally friendly devices and products business (sales of parts for power conditioners and inverters, sales of devices and parts to secondary battery and inspection equipment manufacturers), 5% in the energy management system (EMS) business (energy management through device coordination and control, communications network devices, and PC systems such as servers), and 5% in the LED lighting business (factory and warehouse lighting, lighting for offices, and lights for equipment and machinery). We at FISCO see considerable growth potential in these businesses for the Company, because these markets are likely to continue growing in Japan and overseas.

Promotion of green transformation (GX)



Source: The Company's results briefing materials

c) Technological strategy

As one of the Company's measures to enhance profitability, its Innovation Division works to develop and expand sales of new high-added-value products, which enable differentiation from other companies, through alliances with companies that own proprietary technologies among other methods. Specific products include the 3D Connect Series of robotics solution packages under joint development with MTEC, and in fall 2023, it launched the AR^2 System, as the first product in the series.

The 3D Connect Series is a solutions package that combines modules for various functions, from design through to operation, using Planning Simulator, a process simulator that enables motion controllers for applications such as 3D CAD software and robots to be operated simultaneously in real time. The use of AR markers* corrects any inconsistencies in the coordination between reality and virtual spaces when operating robots, encouraging digital manufacturing. The newly launched AR^2 System has two distinctive features. One is that a camera mounted onto a robot can read AR markers attached to a target and automatically orient itself, enabling the relative positioning of the robot to be corrected with high precision. The other is that operating conditions (recipes for behavior) can be planted in AR markers, enabling operational instructions that let the robot make decisions. Usually, the operation of robots requires teaching data for a specific operation to be created and applied, but adding AR^2 System to this process offers a more efficient solution. Another advantage is that it is relatively easy to introduce and use, even for companies that do not have robot operational know-how.

* AR markers are markers that display information in augmented reality (AR) by showing digital content in a virtual space. Various things, including images, faces, and buildings, can be used as AR markers.

The Company exhibited the AR^2 System at Robot Technology Japan 2024, held in July 2024 in Aichi Prefecture, and International Manufacturing Technology Show (IMTS) 2024, a U.S. machine tool trade show that took place in September. The product was well received as one that lowers the hurdle to the adoption and operation of robots. Sales talks have made a good start, with ongoing talks currently worth an estimated ¥800mn in total, of which over ¥600mn are likely to result in orders. The Company targets sales of ¥5.0bn in 3 years starting in FY3/25. Selling the AR^2 System is more profitable than selling robots only. It is thus expected to help raise profit margins and increase sales of the general machinery segment.

Trade shows by region


Robot Technology Japan 2024 (July 4–6, Aichi Prefecture)

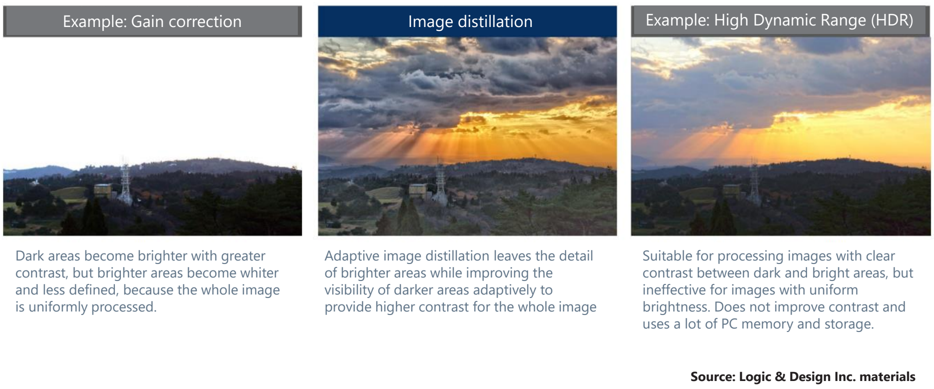
Automation Taipei 2024 (August 21–24, Taipei)

Exhibited with Taiyo Cabletec Corporation at IMTS (September 9–14, U.S.)

Source: The Company's results briefing materials

The Company also announced that it will develop new business models and solutions in partnership with Logic & Design, with which it entered into a business and capital alliance in October 2024. Logic & Design is a startup founded in 2018 that develops its own algorithms for distilling images and videos. It sells image distillation devices and network cameras that use this technology as well as image distillation and resolution restoration software. Features of its technologies are as follows. 1) Enables real-time (delay of 0.004 second) image distillation using its own algorithms. 2) Instead of processing or estimation/correction, the algorithm achieves visibility refinement by capturing minute signal changes in pixels remaining in the image or video (non-AI process). 3) The cameras do not need to switch modes according to changes in the external environment (day/night, rain/fog, etc.). These features differentiate the technology from other image correction technologies such as gain correction and High Dynamic Range (HDR).

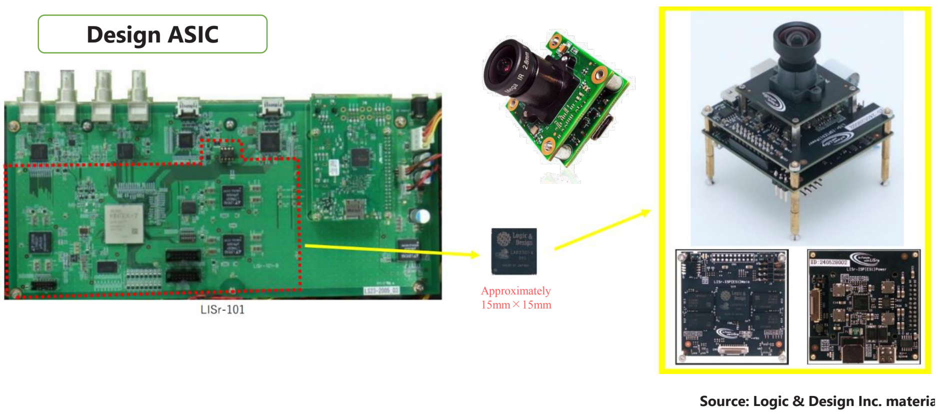
Differences between Logic & Design's technology and conventional image processing



Source: The Company's results briefing materials

Potential markets for this technology include security, healthcare, automotive components, and public infrastructure such as river surveillance, as well as industrial equipment and machinery. To develop the business, the Company is working with Logic & Design to design custom semiconductors (ASIC) for the technology with a view to expanding sales with module products, targeting a release date sometime in 2026. The Company anticipates demand for use in automotive cameras, because the technology can provide real-time image sharpening at night and in wet and foggy conditions, as well as demand for visual inspection of cutting-edge semiconductors. It expects sales growth in Japan and overseas as a high-added-value product in the image solutions business.

Miniaturization (many transistors on small chip)



Source: The Company's results briefing materials

d) Overseas strategy

In its overseas strategy, the Company is establishing a support structure for customers that are moving to minimize the impact of risk associated with China by moving production to India and other Asian countries. It is also expanding smart sales offices that enable customer-centric sales to cultivate foreign companies as new customers based on its customer segments strategy. In FY3/25, the Company established a second sales office in Gurugram, India in May 2024, and U.S. sales offices in San Jose and Ohio in September, and Atlanta in October, as well as Chinese sales offices in Chongqing and Xi'an in November. Each sales office is staffed only by two or three salespeople, while branch offices are responsible for the administrative work. Locating sales offices near customers makes it possible to respond quickly to customer requests, thereby improving customer satisfaction, increasing opportunities for new sales talks, and attracting new customers. We at FISCO think that the Company established sales offices in the U.S. mainly to strengthen sales activities targeting the automotive-related industry and semiconductor production equipment manufacturers. It plans to continue aggressively opening smart sales offices.

The Company revised its FY3/25 overseas sales ratio* forecast in light of recent market conditions. The overseas sales ratio was projected to increase from 34% in FY3/22 to 38% in FY3/25, but the Company lowered its forecast for FY3/25 to 32% to reflect the decrease in sales to China. Looking at approximate regional shares of sales, the share of China is forecast to contract from 24% in FY3/22 to 21% in FY3/25, while Japan's share is forecast to increase from 66% to 68% and the share of the rest of Asia from 6% to 7% over the same period. We expect the share of the rest of Asia to increase in the medium term, due in part to the contribution of India.

* Overseas sales ratio is net sales from overseas business (overseas affiliates) divided by consolidated net sales (before consolidation eliminations)

Sales composition by region

	FY3/22	FY3/23	FY3/24	FY3/25	
				Previous forecast	Revised forecast
Japan	66%	65%	62%	62%	68%
China	24%	24%	27%	25%	21%
Asia	6%	8%	7%	9%	7%
Europe/U.S.	4%	3%	4%	4%	4%

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

e) DX strategy

The Company has established Sun-Wa DX (SDX) as a DX promotion project which aims to use DX to improve operational efficiency and build a framework for enhancing profitability. The five main themes of initiatives are outlined below.

- Enhance customer value by making data usage more sophisticated: Visualize customer segment strategy KPI, make utilization of sales support tools more sophisticated, build a technical information database
- Improve operational efficiency: Digitalize document output from core systems, enhance application and approval workflows, automate operations using RPA, centralize information, standardize and concentrate work processes, introduce warehouse management and export control systems
- Train and recruit DX personnel: Implement training to enhance the IT literacy of all employees, cultivate DX personnel through reskilling, recruit appropriate personnel
- Realize the swift visualization of key management indicators: Realize the efficient aggregation of global data, enhance the management dashboard, review sales support tools
- Renew the Company website: Renew the website based on the concept of "connecting technology around the world" (implemented in November 2024)

(2) Strengthening the shareholder return policy

In order to strengthen its shareholder return policy, in FY3/25, the Company changed from targeting a consolidated payout ratio of 25–35% as its indicator of performance-linked profit distribution to debt on equity (which allows for a progressive dividend policy) of 4.0% or more, with a policy of stable and continuous dividends. It also introduced a shareholder benefits scheme (QUO cards) with the aim of increasing the number of stable individual shareholders, starting at the end of March 2025. As a result of the new scheme, the number of individual shareholders increased sharply from 4,000 at the end of March 2024 to 11,000 at the end of September 2024, which suggests that it was highly effective.

(3) Enhance investor and shareholder relations

In order for its stock price to appropriately reflect its corporate value, the Company believes it is necessary to not only improve its business performance but also further enhance the information it discloses to investors and shareholders. In April 2023, it established the PR/IR Office as a specialist IR organization and is actively conducting IR activities. Specific IR activities include regularly sharing information through events such as company briefings for individual investors (held four times per year), financial results briefings for institutional investors (held twice per year), and radio show appearances (aired four times per year). In addition to this, the opinions shared by investors and shareholders during investor and shareholder relations activities are being shared at Board of Directors meetings and other high-level meetings so that they can be incorporated when reviewing management strategy.

(4) SDGs initiatives

With regard to its approach to a decarbonized society, through sales of environmentally friendly products, the Company intends to create emission reduction effects that are over 100 times more than its greenhouse gas emissions (Scopes 1, 2 and 3) by fiscal 2050 (compared to fiscal 2020) and it is also targeting a 20% reduction in its own greenhouse gas emissions (Scopes 1 and 2) by fiscal 2030 (compared to fiscal 2020) by continuing initiatives to reduce its environmental impact.

With regard to diversity and inclusion, the Company has set a goal of having at least 10% female managers by 2030 (9.8% as of April 2024) and work to increase employee engagement by seeking to foster an awareness within each employee of improving business performance and taking part in management by encouraging their participation in the employee shareholding association.

Shareholder return policy

To pay dividend targeting DOE of 4.0% or more, investment yield attractive as total of dividend and shareholder benefits

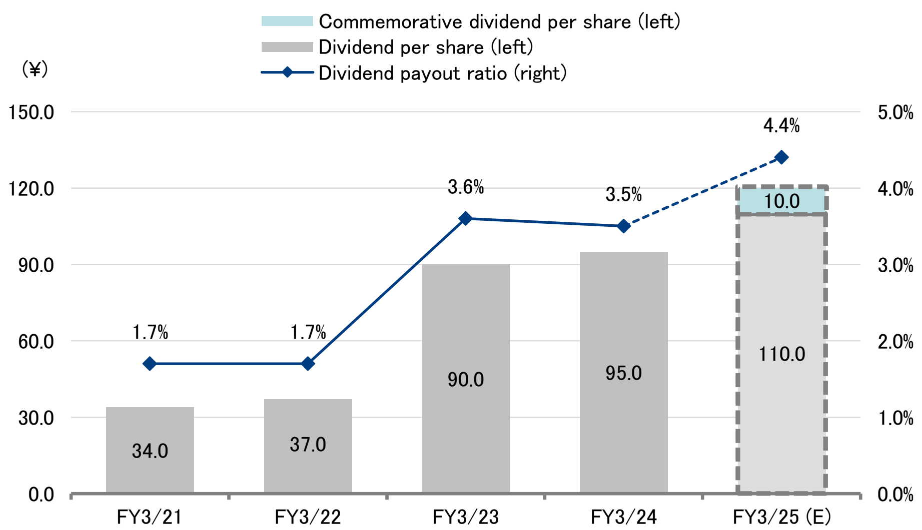
The Company announced an improved shareholder return policy as one of the steps to achieve quickly a PBR of over 1.0x. Starting in FY3/25, its dividend policy will aim to pay stable and continuous dividends based on DOE of 4.0% or more. It also decided to pay a 75th anniversary commemorative dividend of ¥10.0 in FY3/25 as well as a regular dividend of ¥110.0 per share for a total dividend of ¥120.0, an increase of ¥25.0 from FY3/24.

In terms of shareholder benefits, at the end of March each year, shareholders possessing 100 or more shares will receive a QUO card. The value of the card will be in accordance with the number of shares and the period for which they have been held. Shareholders who have held between 100 and 499 shares for a period of less than 2 years will receive a ¥1,000 card, while shareholders who have held the same number for 2 or more years will be given a special long-term holding benefit* (equivalent to ¥1,000) on top of this, receiving a ¥2,000 card. (Shareholders with 500 or more shares will receive a ¥2,000 or ¥3,000 card, respectively). A rough calculation of the investment yield of the dividend and shareholder benefits combined, based on the share price for November 15 (¥2,180) results in about 6% yield for investors holding 100 shares, which could be considered to be an attractive return for investors looking to make income gains.

* On condition that the shareholder has been recorded in the shareholder registry as having held the same numbered shares for at least five consecutive record dates, with the record dates being March 31 and September 30 each year. Shareholders who have held shares consecutively since March 31, 2023, will be the first to earn the right to a special long-term holding benefit.

Although the Company is working to quickly achieve a PBR of over 1.0x, net assets per share at the end of October 2024 were ¥3,267 for a PBR of just 0.66x. PBR at the end of FY3/20 was 0.4x and since then, the Company has gradually raised the level by enhancing ROE and improving shareholder returns. Going forward, we at FISCO expect that if the Company continues to maintain and enhance ROE, actively engage in shareholder return, and carry out investor and shareholder relations activities aimed at raising name recognition, then it can achieve its target of a PBR of over 1.0x.

Dividend per share and dividend payout ratio



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

Simplified income statement and main indicators

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25	
					1H	Full-year (E)
Net sales	134,769	154,414	181,013	166,138	69,426	155,070
YoY	-2.3%	14.6%	17.2%	-8.2%	-21.9%	-6.7%
Gross profit	14,224	18,772	23,039	21,778	9,436	-
Gross profit margin	10.6%	12.2%	12.7%	13.1%	13.6%	-
SG&A expenses	12,071	13,967	15,408	15,562	7,786	-
SG&A expenses ratio	9.0%	9.0%	8.5%	9.4%	11.2%	-
Operating profit	2,152	4,804	7,630	6,215	1,650	3,080
YoY	16.5%	123.2%	58.8%	-18.5%	-52.1%	-50.4%
Operating profit margin	1.6%	3.1%	4.2%	3.7%	2.4%	2.0%
Ordinary profit	2,567	5,195	7,675	6,631	1,681	3,220
YoY	19.7%	102.4%	47.7%	-13.6%	-54.6%	-51.4%
Profit attributable to owners of parent	1,786	3,577	5,493	5,007	1,271	2,410
YoY	33.2%	100.3%	53.6%	-8.9%	-58.7%	-51.9%
EPS (¥)	113.23	228.33	355.08	329.87	83.97	159.12
Dividend (¥)	34.0	37.0	90.0	95.0	50.0	120.0

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

Simplified balance sheet

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24	1H FY3/25	Change amount
Current assets	64,430	82,209	94,263	86,350	84,771	-1,579
Cash and deposits	13,113	14,049	14,145	19,081	23,431	4,350
Trade receivables and contract assets	42,453	51,997	58,922	47,417	43,734	-3,683
Non-current assets	11,951	10,868	12,318	12,356	10,845	-1,511
Total property, plant and equipment	2,590	2,230	2,272	2,256	2,232	-24
Intangible assets	170	226	221	166	153	-13
Total investments and other assets	9,190	8,411	9,824	9,933	8,459	-1,474
Total assets	76,381	93,078	106,581	98,707	95,616	-3,091
Current liabilities	36,372	52,797	59,870	45,124	40,845	-4,279
Payment obligations	29,455	40,676	45,335	32,589	29,580	-3,009
Non-current liabilities	4,978	2,257	2,227	5,615	5,176	-439
Total liabilities	41,350	55,054	62,097	50,740	46,021	-4,719
Interest-bearing debt	7,048	7,805	9,557	12,007	10,683	-1,324
Shareholders' equity	30,802	33,277	38,202	40,620	41,291	671
Accumulated other comprehensive income	4,228	4,746	6,282	7,346	8,304	958
Total net assets	35,030	38,023	44,484	47,966	49,595	1,629

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

Status of Cash Flows

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24	1H FY3/25
Cash flows from operating activities	1,589	792	-545	4,226	5,559
Cash flows from investing activities	-141	244	-731	883	95
Cash flows from financing activities	-309	-580	906	-608	-2,161
Cash and cash equivalents at end of period	12,629	13,565	13,661	18,597	22,929

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

Management indicators

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24	1H FY3/25
Equity ratio	45.9%	40.9%	41.7%	48.6%	51.9%
Interest-bearing debt ratio	20.1%	20.5%	21.5%	25.0%	21.5%
ROE	5.4%	9.8%	13.3%	10.8%	-
Net cash (¥mn)	6,065	6,244	4,588	7,074	12,748

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

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