Advanex Inc.

5998 Tokyo Stock Exchange First Section

22-Jul.-15

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FISCO Ltd. Analyst
Ken Segawa

Concentrating on the competitive precision spring business, with increased revenue and earnings expected for this term also

Advanex Inc. is a major precision spring manufacturer that was established in November 1946. In July 2001 it changed the corporate name from KATO SPRING WORKS CO., LTD. to its current name. Also, in March 2004 it changed its listing status from the Second Section to the First Section of the Tokyo Stock Exchange.

From the 1980s to 2000, due to its superior technology and development capabilities, the company successively produced products that captured leading market shares in both domestic and global markets. These included tape pads for audio tapes, leaf springs for video tapes, shutters for 3.5 inch floppy discs, hinges for mobile phones, and center hubs for optical discs. Subsequently, it shifted its target markets from audio visual equipment and communications terminals, where Japanese manufacturers of assembled products had lost their competitiveness, to markets where demand was expected to be more stable. For one of those markets, the medical device field, its coil springs for indwelling needles built into medical equipment used in drawing blood and administering intravenous drips now have a 60% market share in Japan. Also, its LOCKONE spring (formerly called Tamont) which complies with NAS3350 (National Aerospace Standards) produced the best results in testing of locking pieces for railroad bolts and nuts carried out by the Railway Technical Research Institute.

With the financial crisis that occurred in September 2008, triggered by the collapse of Lehman Brothers, Japanese manufacturers for the most part fell into the red. It was an extremely harsh operating environment, suffering under an exchange rate of ¥80 to 1USD in 2011. Advanex, from 2011, decisively undertook structural reforms, including closing factories and selling off subsidiaries, and succeeded in improving results and returning to profitability. At end-March 2015 it transferred the shares in its plastics business, Daiichi Kasei Holdings Co., Ltd., to the Taiwanese ABICO Group. As a result, from FY3/16 the company will focus on its core precision spring business.

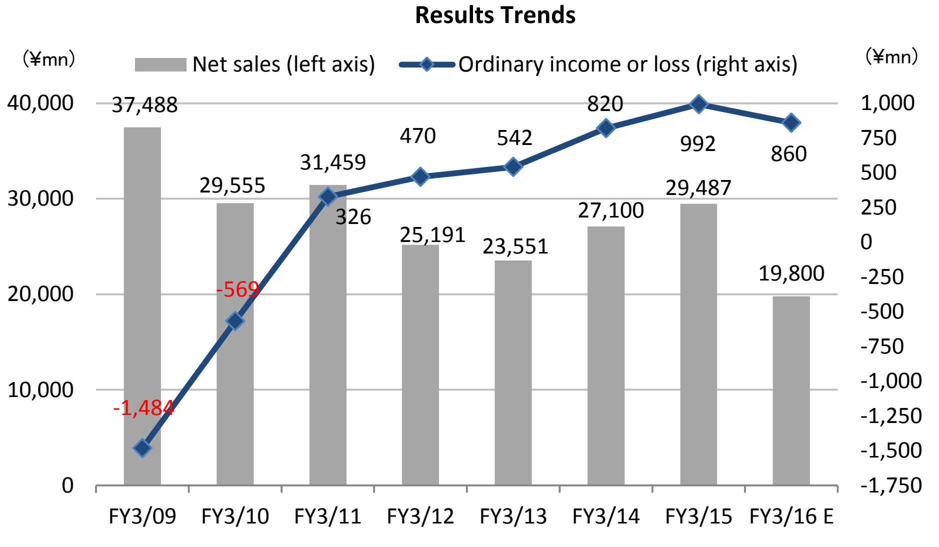
Given the disappearance of the plastics business, FY3/16 results expect lower revenue and earnings, with net sales of ¥19,800mn (down 32.9% y-o-y) and operating income of ¥880mn (down 18.6% y-o-y). However, in a comparison of only the precision spring business that excludes the plastics business, there will be a 12.3% rise in net sales and 14.4% rise in profits.

Despite selling the plastics business, the business that manufactures insert molding components, combining metal stamping and plastic injection molding remained. Also, in April 2014 Advanex acquired and made a subsidiary of Funabashi Electronics Co., Ltd., which possesses the most advanced deep drawing processing technology in Japan in the field of metal stamping fabrication. Subsequently, in April 2015 it merged operations by way of a transfer of that firm's operations. Currently, utilizing the Group's management resources and leveraging that technology, the benefits of that acquisition are being engaged not only domestically but have also spread to overseas.

In the Mid-term Management Plan "Breakthrough to 2020", that covers the period from Fiscal 2015 to Fiscal 2019, the main theme is "Challenge to the Comprehensive Metalworking Manufacturer". It cites numerical targets in its final year FY3/20 of consolidated net sales of ¥35,000mn and operating income of ¥4,000mn. Advanex's core business domains are in the high market growth areas of automotive-, medical-, and infrastructure & housing facilities equipment, where the company is highly competitive. At present, in Honjo City, Saitama Prefecture, a labor-saving, automated Smart Factory specializing in automotive components is under construction, and is expected to be operational from the beginning of next year.

Check Point

- Mid-term Management Plan with ¥35bn net sales, ¥4bn in operating income and 22% ROE
- Automotive precision springs the best fit with management culture
- Increasing dividends, aiming for a 30% payout ratio



Source: Prepared from financial statements.

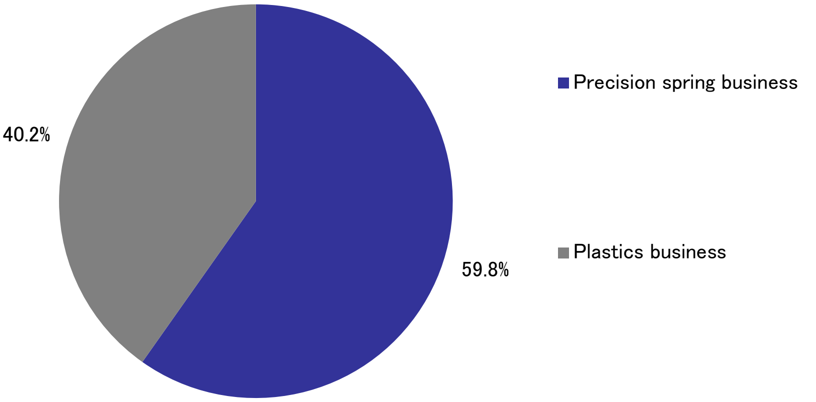
Company Overview

Selling the plastics business to become a precision spring specialist

○ **Scope of operations**

The breakdown of FY3/15's ¥29,487mn in net sales by business for Advanex, which is a major player in precision springs, shows 59.8% from the precision spring business and 40.2% from plastics. However, given that it transferred the shares it held in Daiichi Kasei Holdings Co., Ltd., that engages in the plastics business at the end of the previous term, it will become solely a precision spring business from FY3/16.

Net sales ratios (FY3/15)



Source: Prepared from company materials.

○ **Corporate history & operational milestones**

The company was founded in 1930 when the first President established a specialist spring factory in Tokyo. In 1946 it was reorganized as a kabushiki kaisha (joint-stock company) under the name KATO SPRING WORKS CO., LTD., and changed its name to the current Advanex Inc. in 2001. In 1964 it listed on the Second Section of the Tokyo Stock Exchange, changing its listing status in 2004 to the First Section of the Tokyo Stock Exchange.

In 1976 it established its current key Kashiwazaki Factory (now the Niigata Factory) as a production base. The company subsequently established its Oita Factory in 2008, Aomori Factory in 2009, and Chiba and Miyagi Factories in 2015. Currently, a specialist factory for automotive (products) is under construction in Honjo City, Saitama Prefecture. The Saitama Factory is scheduled to be completed in October 2015, and be operational in January 2016.

Corporate History

Apr. 1930	Inaugural President, founded the specialist spring factory in Edogawa-ku, Tokyo as a privately management enterprise.
Nov. 1946	Incorporated as joint-stock company and renamed KATO SPRING WORKS CO., LTD., it shifted its factory headquarters to Nerima-ku, Tokyo.
Dec. 1963	Moved the factory headquarters to Kita-ku (with 2,224sq.m floor space), moving the equipment from the old factory headquarters.
May 1964	Listed on Second Section of the Tokyo Stock Exchange.
Nov. 1976	Established the Kashiwazaki Factory in Kashiwazaki City, Niigata Prefecture (now the Niigata Factory), and commenced operations.
Mar. 1986	Established the Fukushima Factory in Onomachi, Fukushima Prefecture, and commenced operations. (Closed in 6/2009)
Jul. 2001	Changed the corporate name to Advanex Inc.
Mar. 2004	Listed on First Section of the Tokyo Stock Exchange.
Oct. 2008	Established the Oita Factory in Nakatsu City, Oita Prefecture.
May 2009	Established the Hirosaki Factory (now the Aomori Factory) in Minamitsugaru-gun, Aomori Prefecture.
Mar. 2015	Established the Chiba Factory in Funabashi City, Chiba Prefecture.
Mar. 2015	Established the Miyagi Factory in Higashi-Matsushima City, Miyagi Prefecture.

Source: Prepared from company materials.

From the 1980s the company has continuously produced products that have been hits globally, with leading market shares. These include tape pads for audio tapes (70% domestic market share), leaf springs for video tapes (50% global market share), shutters for 3.5 inch floppy discs (80% global market share), hinges for mobile phones (50% global market share), and center hubs for optical discs (90% domestic market share). Currently, it has captured a 60% domestic market share for springs in indwelling needles for use in medical treatment.

Products with top market shares

1980s
- Tape pads for audio tapes, domestic market share: 70%.
- Leaf springs for video tapes, global market share: 50%.

1990s
- Shutters for 3.5 inch floppy discs, global market share: 80%.

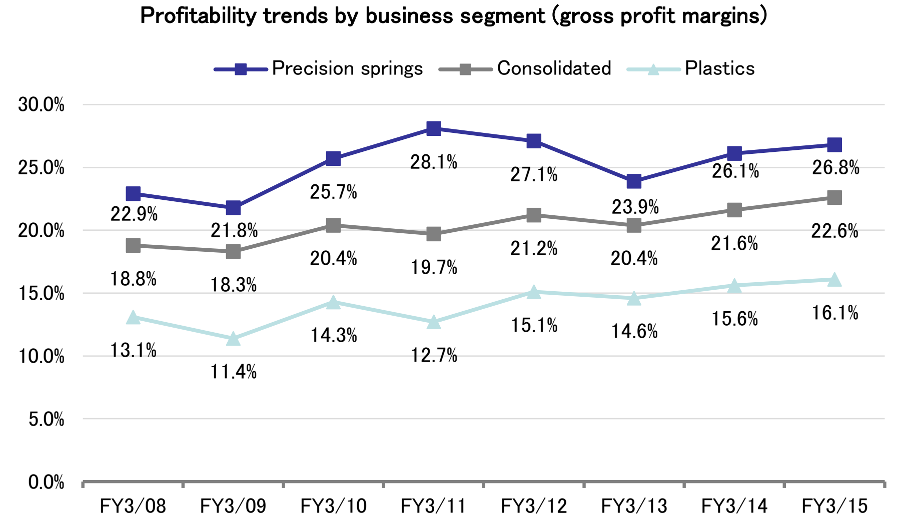
2000s
- Hinges for mobile phones, global market share: 50%.
- Center hubs for optical discs, domestic market share: 90%.

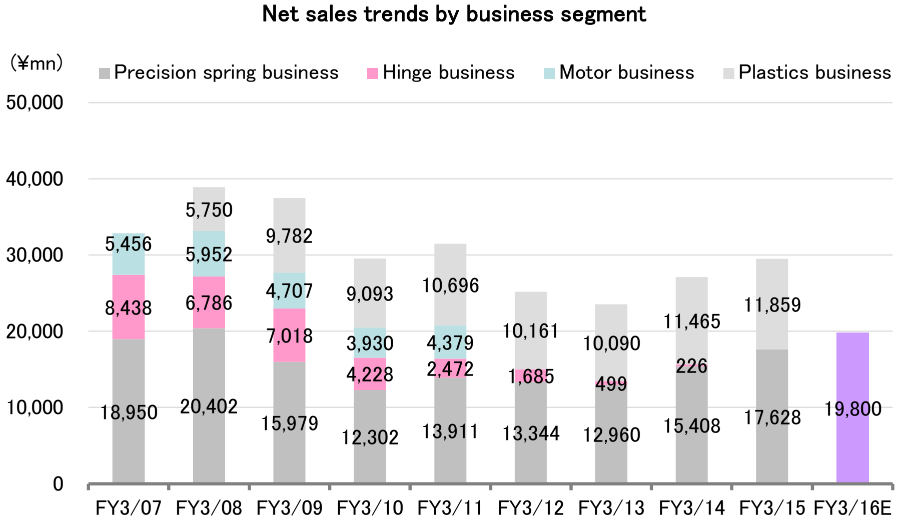
Source: Prepared from company materials.

Overseas expansion was also early, with the company establishing a subsidiary in the US in 1971. Subsequently, subsidiaries have been established in Singapore, the UK, Hong Kong, Thailand, China and Vietnam. The UK subsidiary that was established in 1988 became the European production base for the company's shutters for 3.5 inch floppy discs that boasted an overwhelming global market share. That subsidiary acquired a leading domestic UK spring maker, forming a two factory structure. Its current core products are precision spring products for medical devices and reinforcing components for fasteners for the aerospace industry and automotive market. It has the highest profitability among Group companies.

Strawberry Corporation, which was a business department carved out of that company, listed on the JASDAQ Exchange in 2001 when hinges for mobile phones became a hit. It recorded consolidated net sales of ¥11,000mn and ordinary income of ¥900mn in FY3/05. However, it fell into the red due to the market for clam shell mobile phones shrinking significantly in line with the rise of smartphones, and in FY3/11, with net sales having plunged to ¥2,500mn, ordinary losses of ¥1,000mn and net losses of ¥1,800mn, became insolvent. This subsidiary was delisted in October 2011.

In 1984 the company acquired FUJI MICRO CO., LTD., which is engaged in the manufacture and sale of motors and motor components. Further, in October 2007 it acquired shares in Daiichi Kasei Holdings, which manufactures and sells automotive-related plastic and other components. As a result, in FY3/08 consolidated net sales were ¥38,892mn. The ratio of net sales by business was 52.5% for the precision spring business, 17.4% for the hinge business, 15.3% for the motor business, and 14.8% for the plastics business. Subsequently, as noted above, given that the market was virtually wiped out, the company withdrew from the hinge business. Because adequate synergies were not able to be created in the motor business, it transferred the majority of its shares in 2011, switching it to an equity method affiliate. The acquisition of Daiichi Kasei Holdings enhanced the company's insert molding technology; however, profitability was tight due to domestic and overseas cost competition for its core large scale, stand alone plastic products business. Further, in maintaining competitiveness it was necessary for the company to continue significant capital expenditure. As a result, in July 2014 49% of the shares were transferred to Taiwan's ABICO Group, and in March 2015 the remaining 51% were sold, the company choosing to focus on its core precision spring business. The Taiwanese company has a large operational scale with production bases in 15 countries, sales bases in 20 countries and over 15,000 employees.





Source: Prepared from company materials.

With the global financial crisis that occurred in September 2008, triggered by the collapse of Lehman Brothers, Japanese manufacturers for the most part fell into the red. The company also in FY3/09 recorded a net loss of ¥3,595mn. All businesses, including the precision spring business, the hinge business, the motor business, and the plastics business were mired in operating losses. From the next term FY3/10, despite the precision spring and motor businesses returning to profitability, losses in the hinge business expanded. The plastics business finally recovered profitability in FY3/11.

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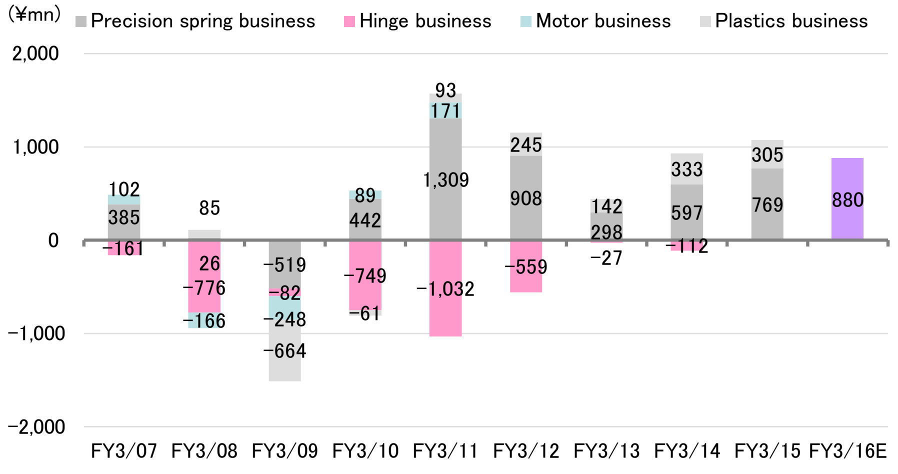
Profit trends by business segment



Source: Prepared from company materials.

The company has withdrawn or sold off operations in the hinge, motor and plastics businesses; however, it is strengthening its core precision spring business. In April 2014 it consolidated Funabashi Electronics as a subsidiary. Funabashi Electronics possesses superior technology in the field of metal stamping fabrication, and this technology will not only be utilized in the newly constructed Saitama Factory, but rolled out to overseas factories, such as those in China and Thailand. Through cross-usage of the metal stamping technology machinery and equipment of the Advanex Group, and utilizing its sales and material procurement capabilities, the company can create Group synergies.

■ Business Strategy

Mid-term Management Plan with ¥35bn net sales, ¥4bn in operating income and 22% ROE

○ Breakthrough to 2020 Mid-term Management Plan

In February, the company announced its Breakthrough to 2020 Mid-term Management Plan, covering Fiscal 2015-2019. The theme of the Mid-term Management Plan is the “Challenge to the Comprehensive Metalworking Manufacturer”, with the key elements being to: (1) invest aggressively for global business expansion, (2) adopt a growth strategy with the automotive-related market as the core target, (3) enhance R&D and increasing sales of the company’s products (standard products), (4) expand technical domain and markets through M&A, and (5) improve financial health and return to shareholders. For the final fiscal period FY3/20, the company has cited numerical targets of ¥35,000mn in net sales, ¥4,000mn in operating income, operating income margin of 11% and an ROE of 22%.

(1) Invest aggressively for global business expansion

In Japan, domestic demand is expected to shrink due to the decreasing birthrate and aging population. Given that automobile manufacturers, which are the company’s major customers, seek to supply globally, it is essential that Advanex also proactively pursues global expansion. In April 2014 the company established a global business unit and will strengthen its Asian strategy. Overseas the company has manufacturing and sales bases in the US, UK, Mexico, Singapore, China (Shanghai, Dalian, Dongguan, and Changzhou), and Vietnam, and is additionally planning some in India. Going forward, it is expected that demand will expand in Vietnam and Indonesia. In Vietnam the company has located a factory and sales base in the north in the vicinity of Hanoi, and has engaged in the production and sales of precision spring products for major Japanese-affiliated office automation and automotive parts manufacturers. In the south, given that there are many clients that have developed factories, the company has established a sales base in Ho Chi Minh City also, and is endeavoring to find new customers, such as automotive parts manufacturers. In Europe the company is planning to expand into Czechoslovakia as a mainland base. Also, In Central and South America it is considering expansion in Mexico (a second factory) and into Brazil. The company also has received requests to enter local markets from automotive-related customers.

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Precision spring Group companies

Location	Date established	Company name	Production	Sales
Japan	Nov. 1946	Advanex (parent)	○	○
Japan	Oct. 1989	Funabashi Electronics Co., Ltd.	○	○
US	Jul. 1966	Advanex Americas, Inc.	○	○
UK	Sep. 1988	Advanex Europe Ltd.	○	○
Singapore	Jan. 1978	Advanex (Singapore) Pte. Ltd.	○	○
Hong Kong, China	Aug. 1994	Advanex (Hong Kong) Ltd.		○
Shanghai, China	Jan. 2001	Advanex (Shanghai) Inc.	○	○
Dongguan, China	Dec. 2002	Advanex (Dongguan) Inc.	○	○
Dalian, China	Jan. 2003	Advanex (Dalian) Inc.	○	○
Changzhou, China	Jan. 2013	Advanex (Changzhou) Inc.	○	○
Thailand	Jan. 1998	Advanex (Thailand) Ltd.	○	○
Vietnam	Jun. 2006	Advanex (Vietnam) Ltd.	○	○

Source: Prepared from company materials.

Looking at the International Organization of Motor Vehicle Manufacturers' automobile production statistics by country for the last 10 years, growth in developing countries is remarkable. The 2014 global number of cars produced was 89.75 million, a rise of 2.6% y-o-y. The number of cars produced in Japan was 9.77 million, up 1.5% y-o-y. The 2014 level is a 15.7% decline from 2007, which was the peak for Japanese automobile production; however, globally there was a rise of 22.5%. Japanese production declined significantly, the turning point being the September 2008 collapse of Lehman Brothers, with yen appreciation and a shift to overseas production slowing any subsequent recovery. While there is a sense that markets in developed countries are mature, production in China and India, where there is remarkable growth in domestic markets, is growing strongly. From 8.6% in 2005, the Chinese share of global production numbers has expanded to 26.4% in 2014, with an automobile production number of 23.72 million clearly distancing itself from the second placed US with 11.66 million.

Global automobile production trends (major manufacturing countries) & exchange rates

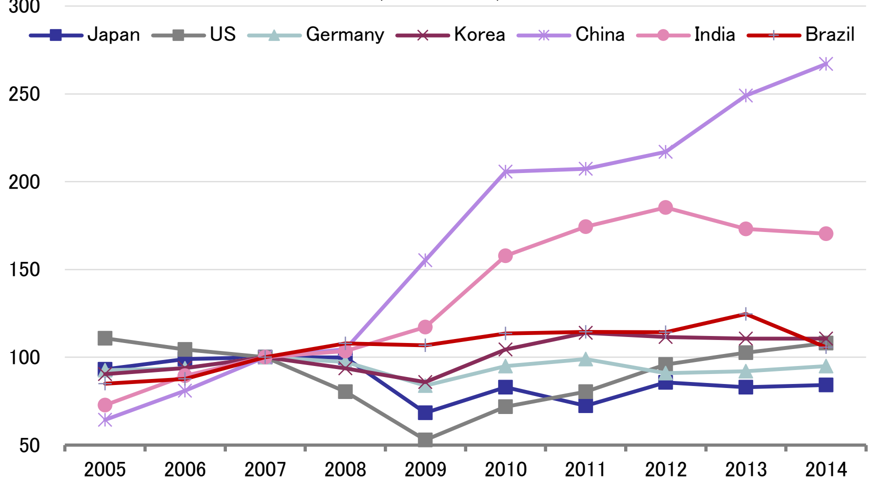
(Unit: thousands of vehicles)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Global total	66,719	69,222	73,266	70,729	61,762	77,583	79,880	84,236	87,507	89,747
Japan	10,799	11,484	11,596	11,575	7,934	9,628	8,398	9,943	9,630	9,774
US	11,946	11,263	10,780	8,672	5,709	7,743	8,661	10,335	11,066	11,660
Germany	5,757	5,819	6,213	6,045	5,209	5,905	6,146	5,649	5,718	5,907
Korea	3,699	3,840	4,086	3,826	3,512	4,271	4,657	4,561	4,521	4,524
China	5,717	7,188	8,882	9,299	13,790	18,264	18,418	19,271	22,116	23,722
India	1,638	2,019	2,253	2,332	2,641	3,557	3,927	4,174	3,898	3,840
Brazil	2,530	2,611	2,977	3,215	3,182	3,381	3,407	3,402	3,712	3,146
Exchange rate (vs ¥)										
USD	110.2	116.3	117.8	103.4	93.6	87.8	79.8	79.8	97.6	105.9
Euro	137.1	146.0	161.2	152.4	130.2	116.4	111.1	102.6	129.6	140.5
Korean Won (Note)	107.600	121.800	96.000	73.6	76	72.1	70.9	89.2	100.6	108.7

Note: For the Korean won the amount is per 1,000KRW.

Source: Prepared based on data from the International Organization of Motor Vehicle Manufacturers and the Bank of Japan, et al.

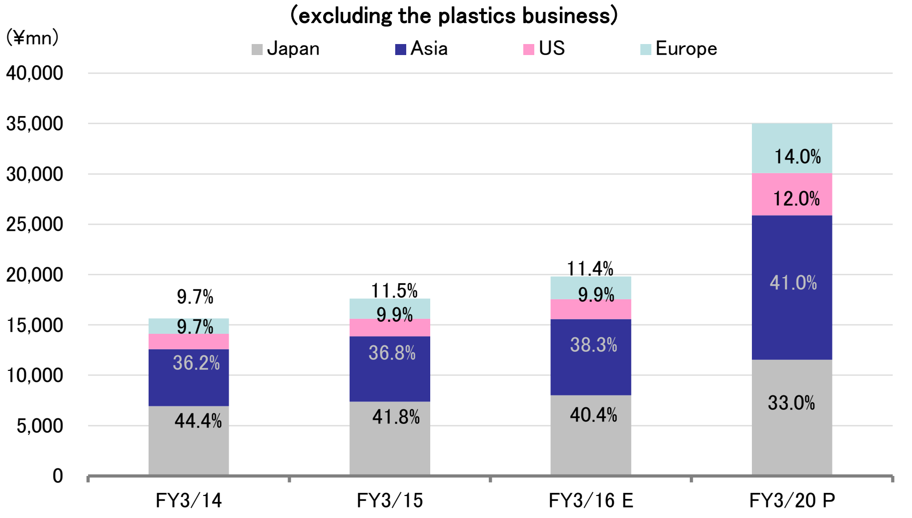
Automobile production trends by major manufacturing country (2007 = 100)



Source: Prepared based on data from the International Organization of Motor Vehicle Manufacturers.

The company's net sales by region (excluding the plastics business) anticipate the ratio represented by Japan declining to 33.0% in FY3/20, after decreasing from 44.4% in FY3/14 to 40.4% in FY3/16. Despite domestic sales being expected to increase, it is planned that overseas sales will expand even more.

Net sales and sales ratio trends by region (excluding the plastics business)



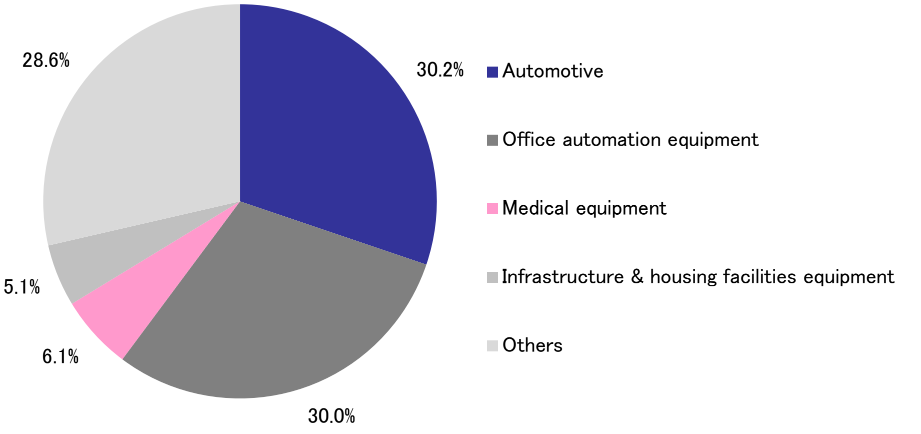
Note: FY3/14 and FY3/15 net sales exclude the plastics business.
Source: Prepared from company materials.

Precision springs for automobiles are the best fit with the company's management culture

(2) Adopt a growth strategy with the automotive-related market as the core target

The company has little direct competition in the field of precision springs, since most major manufacturers of springs for automobiles specialize in large-sized products such as chassis springs. The company's competition is from the 3,000 to 4,000 small- and medium-sized manufacturers. These companies largely do not have the capacity to expand overseas. Once adopted, despite being able to expect stable demand to the extent that production continues, because it also affects human life, rigorous quality control is essential. Further, continual cost cutting is demanded. Taking these special business characteristics into consideration, precision springs for automobiles are arguably the best fit for the company's management culture. Looking at net sales ratio by market (excluding the plastics business) the company is planning to raise it from 30% in FY3/14 to 40% in FY3/20.

Net sales ratio by market (excluding the plastics business)



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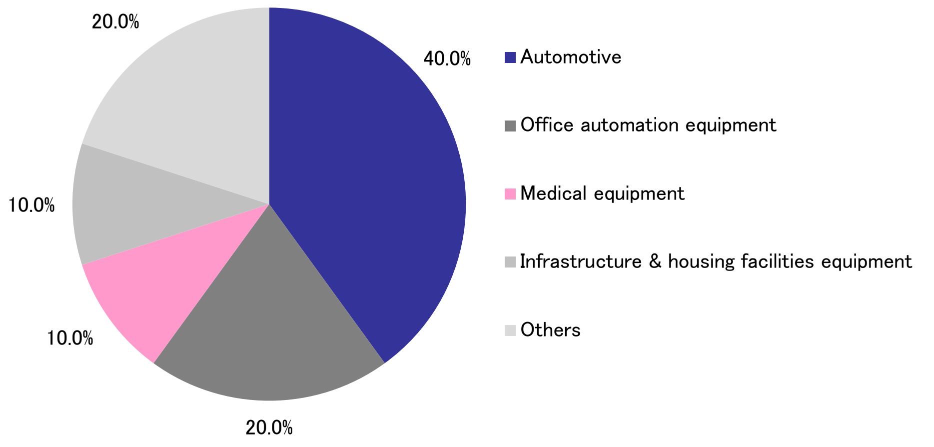
Net sales ratio by market (FY3/20 Plan)



Note: FY3/14 net sales exclude the plastics business.
Source: Prepared from company materials.

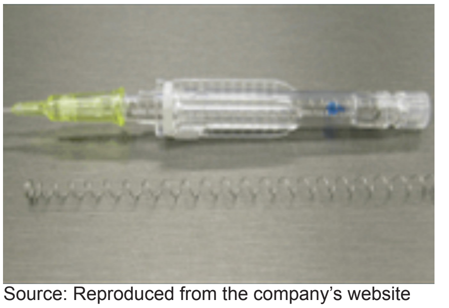
Even though product development and trial parts manufacturing are carried out domestically, there are many calls for mass production overseas. The company's Koriyama Testing Center and Niigata Factory collaborate and are providing mass production support for overseas factories. The Testing Center undertakes development keeping in mind the process of automated manufacturing from the trial stage. Staff from overseas factories experience training at the Niigata Factory, making mutual understanding easy. Given that the Niigata Factory is well acquainted with the facilities and production levels at overseas factories, it is able to examine problem points in advance. Also, the fact that the same machines are installed in Japan and overseas makes it possible to respond worldwide.

In order for the company to expand its automotive business to another level it is constructing a specialist factory in Saitama. One reason it chose Honjo City is the assumption that it may expand dealings with Japanese and German parts makers. It is built to combine an R&D function within the factory. It plans to obtain an automotive industry ISO/TS 16949 quality management system. An outline of the new factory shows that it sits on a 12,000 sq.m. site, with 5,000 sq. m. floor space, an investment of around ¥1,300mn, approximately 30 staff, and estimated production of ¥3,000mn in 2-3 years time. In addition to having some production equipment transferred from existing domestic factories, NC forming machines and other new equipment will also be installed. It will produce products including wire springs, flat springs and deep drawing products. In addition to demand for automotive fastening parts (insert collars) expanding in line with the trend for lightweight vehicles, given that they are manufactured under a technique called the multi-forming process whereby materials may be formed to width, reducing the proportion of scrap and also allowing cuts and folds to be completed in the one process, they realize, amongst other benefits significant cost reductions compared to traditional machining processes, and thus are positioned as strategic products for the company. The company is aiming for a Smart Factory, where the manufacturing process is highly automated, with staff cut to a bare minimum. By developing this specialist factory, the company aims to raise its presence within the automotive industry and expand business.

Looking at changes to the other net sales ratios by market from FY3/14 to FY3/20, office automation equipment will fall from 30% to 20%, medical devices will rise from 6% to 10%, infrastructure and housing facilities equipment will rise from 5% to 10%, with other falling from 29% to 20%. Compared to consumer electronics equipment, automotive demand is stable. Its scale is also large. Conversely, trading partners are companies that are large Tier 1 automotive parts makers, making it hard to pursue high profitability. On the other hand, the flip side to the high levels demanded for medical device and infrastructure and housing facilities equipment products is that if the company can use its technological capabilities and secure a position as a supplier, it may expect long-term demand. Product model changes are also infrequent, and there is room to achieve high earnings.

A good example of this is in the UK subsidiary's precision spring products for medical devices. Representing over 40% of net sales, it contributes to that subsidiary's high earnings. Expanding into the medical device business in 1977, in 1999 it received an order for springs used in anti-asthmatic metered dose inhalers from a major European medical device manufacturer, which provided the opportunity for it to take a major step forward. Other companies' products were unable to clear the basic standards; however, springs developed at the Niigata Factory were passed, and succeeded in securing the order. Manufacturing equipment was transported to the UK and mass production commenced. The company intends to rollout this example of success in the UK to other regions including Japan. Coil springs for indwelling needles, which enjoy a 60% domestic market share, will apparently have no changes to specifications for the next 10 years.

A coil spring for indwelling needles



Source: Reproduced from the company's website

The company's products are also on display in the infrastructure field. The LOCKONE spring (the former product name for which was Tamont), which is a spring that prevents slippage on nut and bolt threads, passed trials using impact vibration testing machines to meet NAS3350 (National Aerospace Standards) standards. In the results of field testing of half to one year by the Railway Technical Research Institute on locking pieces for railroad bolts and nuts, the company's LOCKONE produced the best results. Further, it may be expected to also have applications for anti-slippage for highway shielding and signposts. In places such as highways where there is a lot of vibration, loosening in nuts and bolts occurs readily. An anti-loosening function is embedded in other companies' products; however, it must be changed for each nut. In the company's case, a Tamont may be easily installed from above the nut using a commercially available socket wrench, making for ease of operation, and also being inexpensive. The user may reduce the frequency of inspecting for loosening. In the infrastructure and housing facilities equipment market, it is being used for preventing loosening in nuts used in items such as acrylic plates for balconies in newly constructed apartments. Due to the complexity of the configuration, currently only the company is able to mass produce LOCKONE.

The President & COO, Mr. Tsuneo Shibano, states that if one keeps pursuing good, easy to use products that customers are satisfied with, the results will be that functional beauty will be apparent in the product and it will become a work of beauty; LOCKONE exemplifies that sort of functional beauty.

Precision spring LOCKONE (a spring that prevents loosening and slippage in nuts and bolts)

Source: Reproduced from the company's website

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(3) Enhance R&D and increase sales of the company's products (standard products)

The company is strengthening sales of standardized products via trading companies and online sales. The product line-up has grown to more than 3,000. The LOCKONE product noted above is also being sold. The company is also undertaking an overseas rollout. In B2C retail sales the company wants to raise recognition for it and its products, and is planning develop B2B, including overseas, and link this to orders for custom-made products.

Promote M&A aimed at acquiring technology, and expanding sales channels and areas

(4) Expand technical domain and markets through M&A

The company's M&As are aimed at acquiring technology, and expanding sales channels and areas.

Technologically, while the shares in Daiichi Kasei Holdings, which carries out the plastics business, were transferred, the company has retained its insert molding business and the production equipment required for it.

Insert molding provides integrated forming of differing materials such as plastics and metals. Advanex possesses complete metal plate stamping and plastic injection technology, undertaking integrated production. Everything from the molds for stamping and injection molding to automation equipment is designed and fabricated within the company. As a result, product designs may be proposed to clients that take into consideration assembly time reduction, miniaturization, making products thinner, and precision enhancement. Production equipment for insert molding products is planned to be shifted to the Saitama Factory upon completion.

Funabashi Electronics also, which was acquired in April 2014, will utilize and roll-out that technology within the Group. Funabashi Electronics possesses superior technology in the field of deep drawing fabrication. Drawing fabrication usually involves a length of 3-4 times a pipe's caliber, with even what is termed deep drawing being around 10 times; however, the company's technology allows fabrication of lengths up to 30-40 times.

Deep drawing fabrication products

Source: Reproduced from the company's website

Given that the scale of Funabashi Electronics is less than 40 staff, global development was problematic. Advanex will seek synergies within the Group, rolling out its deep drawing fabrication technology domestically and also overseas in China, Thailand and other locations. In the future also, the company will target companies that possess superior technology, even if they are small in scale, where synergies may be expected with the Group's sales, proposal making or technological capabilities.

Apart from technology, the aim of M&As is to secure sales channels in the medical field, where barriers to new entrants are high. Further, to buy time in overseas markets the company will look for acquisition candidates from both a sales and manufacturing base perspective.

Results Trends

Both precision springs and plastics performed well last term, significant improvement in financial health

(1) FY3/15 results

○ **Income Statement – Precision spring business performs well**
Net sales in FY3/15 were ¥29,487mn (+8.8% y-o-y), with operating income of ¥1,081mn (+31.8% y-o-y), ordinary income ¥992mn (+21.0% y-o-y), and net income of ¥535mn (-21.6% y-o-y). Precision springs net sales were ¥17,628mn, an increase of 12.7% y-o-y, representing 59.8% overall. With double-digit growth, core automotive (products) were overall drivers, and products for medical devices in the UK increased significantly. Operating income from precision springs was ¥769mn, a 58.9% increase y-o-y. The operating income margin rose 1.1 percentage points y-o-y to 4.4%. On the other hand, net sales in the plastics business were confined to a 3.4% y-o-y rise to ¥11,859mn. Operating income from this business was ¥305mn, declining 8.4% y-o-y, with its operating income margin declining 0.3 percentage points y-o-y to 2.6%. Demand for audio visual equipment in Malaysia declined, with profitability also deteriorating.

The reason that the ordinary income growth rate was lower than the rate of increase in operating income was deterioration in results at a 28% held subsidiary. The net loss in equity of affiliates rose ¥163mn y-o-y to ¥239mn, being recorded in non-operating income. Given that the subsidiary has now been valued at zero, from FY3/16 a similar loss should not be incurred. Net income declined. While gains of ¥147mn from the sale of Daiichi Kasei Holdings shares were recorded in extraordinary income, mudslides occurred at the Fukushima Factory site due to localized torrential rains, with the estimated amount for repair work of ¥105mn being reserved under extraordinary losses. Further, because there was a partial sale of Daiichi Kasei Holdings shares, minority interests of ¥159mn arose, which was also a factor increasing the reduction in net income. Given that the remaining shares in Daiichi Kasei Holdings were transferred at term-end, while in FY3/16 net sales and operating income from the plastics business will disappear, in return minority interests will not arise.

FY3/15 Results

(Unit: ¥mn)

	FY3/14		FY3/15				
	Actual results	Vs net sales	Forecast	Actual results	Vs net sales	y-o-y	Vs Forecast
Net sales	27,100	-	28,000	29,487	-	8.8%	5.3%
Precision spring business	15,408	56.9%	16,200	17,628	59.8%	14.4%	8.8%
Plastics business	11,465	42.3%	11,800	11,859	40.2%	3.4%	5.0%
Gross income	5,840	21.5%	-	6,652	22.6%	13.9%	-
Selling, general and administrative expenses	5,020	18.5%	-	5,571	18.9%	11.0%	-
Operating income	820	3.0%	1,000	1,081	3.7%	31.8%	8.1%
Precision spring business	597	2.2%	650	769	2.0%	28.8%	18.3%
Plastics business	333	1.2%	350	305	1.0%	-8.4%	-12.9%
Ordinary income or loss	820	3.0%	980	992	3.4%	21.0%	1.2%
Net income or loss	682	2.5%	760	535	1.8%	-21.6%	-29.6%

Source: Prepared from company materials.

Operating income was ¥261mn. Apart from yen depreciation, the major factors tending to increase earnings included increased revenue from the spring businesses in Asia and the UK (¥1,231mn), and an increase in marginal profit due to a reduction in costs in the spring businesses in China and other countries (¥326mn). On the other hand, in addition to the negative impact of yen depreciation, factors that tended to lower earnings (totaling ¥1,296mn) included increased staff costs domestically and in the UK, and increased fixed costs associated with the acquisition of Funabashi Electronics.

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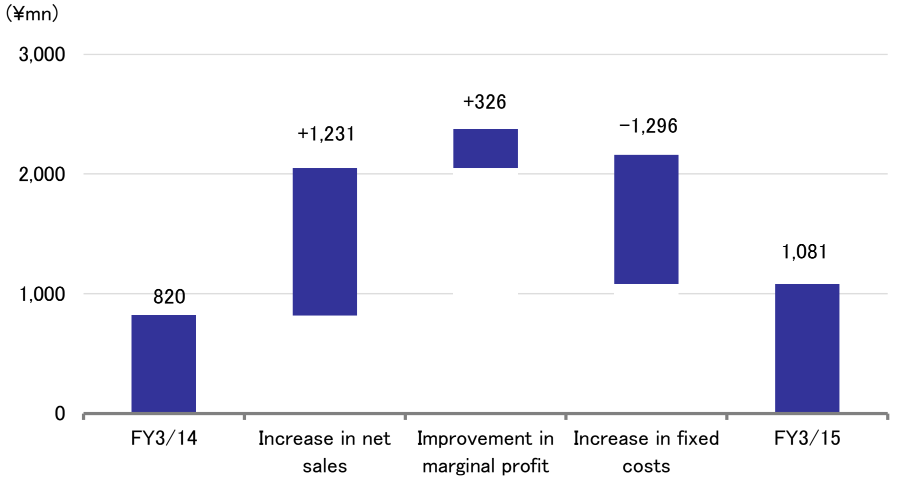
Major factors behind FY3/15 operating income fluctuations



Source: Prepared from company materials.

○ Balance sheet – significant improvement in the shareholders' equity ratio

As a result of the shares in Daiichi Kasei Holdings being transferred at the end of the term, the business activities of the plastics business were reflected in the income statement; however, they are excluded from the term-end balance sheet. In FY3/15 total assets were ¥16,554mn, down ¥3,686mn y-o-y. Given that shareholders' equity rose ¥2,274mn y-o-y to ¥7,002mn, the shareholders' equity ratio rose significantly from 23.4% in the previous term to 42.3%. As interest-bearing liabilities declined ¥3,080mn y-o-y to ¥3,977mn, financial safety improved, with the D/E (interest-bearing liabilities/shareholders' equity) ratio falling below 1x to 0.57x.

ROE, which is one of the main indicators of corporate performance, declined from 15.5% in the previous term to 9.1%. ROE may be divided into profitability (net income margin, net income/net sales), asset utilization efficiency (total asset turnover, net sales/total assets), and borrowed capital usage (the inverse of the shareholders' equity ratio, financial leverage = total assets/shareholders' equity). A decline in net income against revenue means a decline in profitability, and a decline in financial leverage counters any improvement in asset utilization efficiency.

Consolidated Balance Sheet

(Unit: ¥mn)

	FY3/13	FY3/14	FY3/15	Amount change
Current assets	10,292	11,770	10,304	-1,466
Cash and time deposits	2,424	2,808	3,485	677
Trade notes and accounts receivable	4,945	5,784	4,474	-1,310
Inventories	2,527	2,816	2,159	-657
Other current assets	395	361	185	-176
Fixed assets	8,177	8,469	6,249	-2,220
Tangible fixed assets	6,932	7,232	5,148	-2,084
Intangible fixed assets	204	191	238	47
Investments and other assets	1,040	1,045	863	-182
Total assets	18,469	20,240	16,554	-3,686
Current liabilities	10,437	8,892	5,619	-3,273
Trade notes and accounts payable	3,463	3,779	2,514	-1,265
Borrowings	5,712	3,444	1,683	-1,761
Other current liabilities	1,260	1,668	1,422	-246
Long-term liabilities	3,960	6,606	3,902	-2,704
Long-term borrowings	1,556	3,453	2,255	-1,198
Other fixed liabilities	2,403	3,153	1,646	-1,507
Total liabilities	18,469	15,491	9,522	-5,977
Shareholders' equity	4,934	5,571	6,473	902
Total net assets	4,072	4,741	7,032	2,291
Total liabilities and net assets	18,469	20,240	16,554	-3,686
[Safety]				
Current ratio (current assets/current liabilities)	98.6%	132.4%	183.4%	51.0pt
Shareholders' equity ratio: total shareholders' equity / total assets	22.0%	23.4%	42.3%	18.9pt
[Profitability]				
ROA (Ordinary income/total capital employed)	2.9%	4.2%	5.4%	1.2pt
ROE (Net income/shareholders' equity)	14.0%	15.5%	9.1%	-6.4pt

Source: Prepared from company materials.

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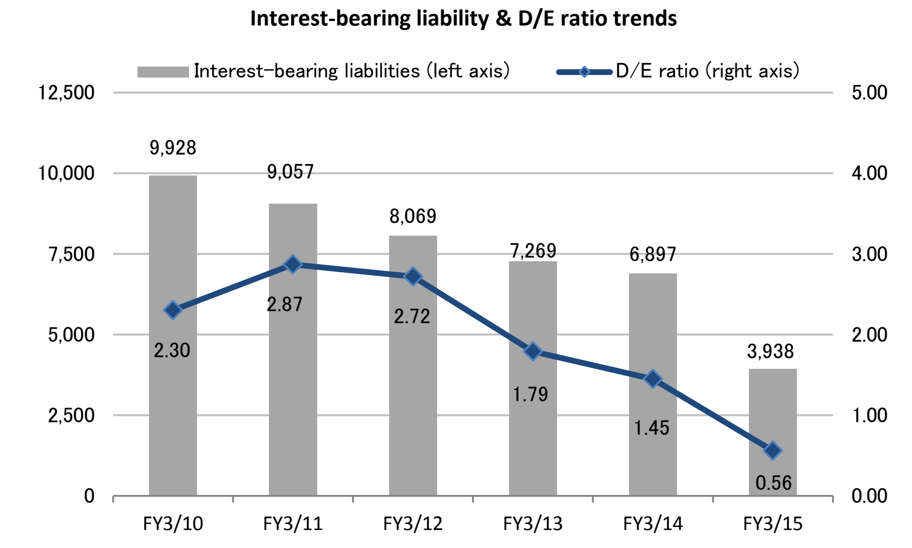
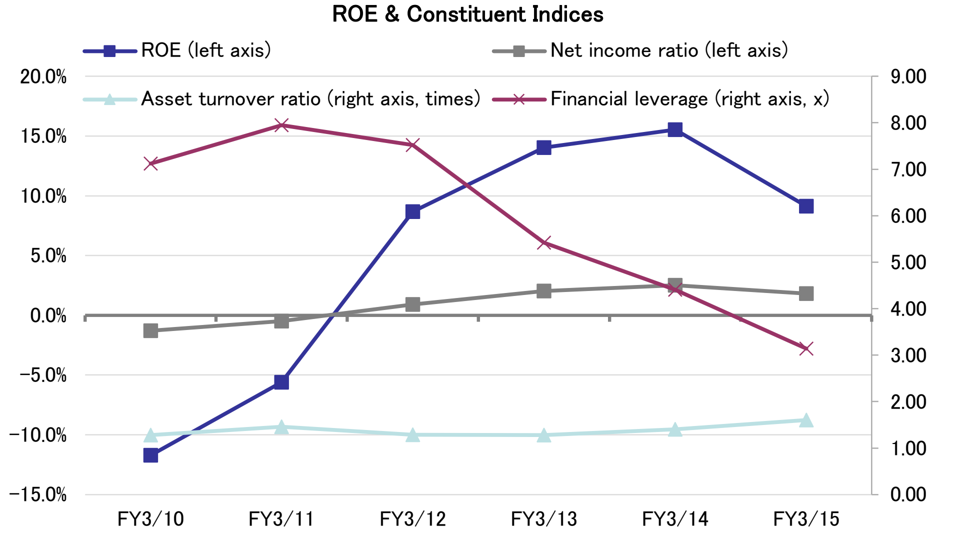


Source: Prepared from company materials.



Source: Prepared from company materials.

○ **Cashflow status**

The balance of cash and cash equivalents at term end in FY3/15 rose by ¥662mn y-o-y to ¥3,407mn. Cashflow from operating activities rose ¥304mn y-o-y to ¥2,139mn as a result of increased profits and increases in depreciation expenses. Cashflow from investment activities was ¥1,179mn, with increases in the amount of capital expenditure at the company and its UK subsidiary, the negative cashflow increasing by ¥134mn. Cashflow from financial activities was ¥794mn due to repayment of interest-bearing liabilities, the negative cashflow increasing by ¥248mn.

Consolidated Cashflow Statement

(Unit: ¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15	Amount change
Cash flows from operating activities	1,435	1,857	1,835	2,139	304
Cash flows from investment activities	-802	-1,275	-1,045	-1,179	-134
Cash flows from financing activities	-248	-1,002	-546	-794	-248
Cash and cash equivalents at year-end	2,534	2,362	2,745	3,407	662

Source: Prepared from company materials.

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Lower revenues and operating income this period, only precision springs performing well

(2) FY3/16 forecast – with only the precision spring business double-digit revenue & earnings growth expected

In FY3/16 revenues of ¥19,800mn (down 32.9% y-o-y) and operating income of ¥880mn (down 18.6% y-o-y) are expected. Lower revenue and earnings will result from the sell-off of the portion of the plastics business. Net sales and profits this term shall be limited to the precision spring business. In that business an increase of 12.3% in revenues and 14.4% in operating income is expected compared to levels in the previous term.

FY3/16 Results Outlook

(Unit: ¥mn)

	FY3/15		FY3/16 E			
	Amount	% net sales	Amount	% net sales	Amount change	% change
Net sales	29,487	-	19,800	-	-9,687	-32.9%
Precision spring business	17,628	59.8%	19,800	100.0%	2,172	12.3%
Plastics business	11,859	40.2%	-	-	-	-
Operating income	1,081	3.7%	880	4.4%	-201	-18.6%
Precision spring business	769	2.0%	880	4.4%	111	14.4%
Plastics business	305	1.0%	-	-	-	-
Ordinary income or loss	992	3.4%	860	4.3%	-132	-13.4%
Net income or loss	535	1.8%	550	2.8%	15	2.8%

Source: Prepared from company materials.

Shareholder Returns

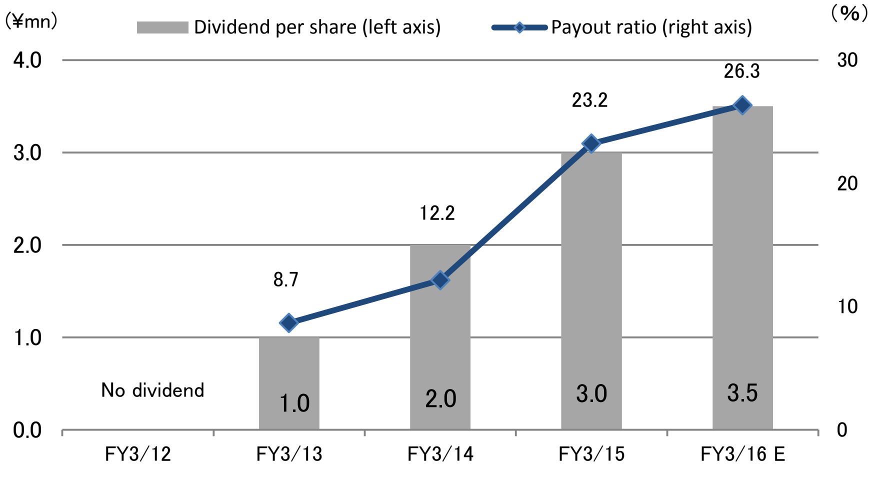
Increasing dividends, aiming for a 30% payout ratio

Due to deterioration in results, dividends were suspended from FY3/08; however, in FY3/13 dividends were resumed. Subsequently, dividends have been repeatedly raised in line with results, with FY3/16 expected to return to the same level as prior to the suspension of dividends.

In FY3/16 it is planned that the dividend per share will be raised ¥0.5 year-on-year to ¥3.5. If the company implements as planned a 10 for 1 reverse stock split of its ordinary shares in October 2015, the EPS shall be ¥132.84 and the full-year dividend per share ¥35. The forecast payout ratio will be an unchanged 26.3%. Under the Mid-term Management Plan currently in force, the target payout ratio is set at 30%.

In May 2015 the company effected a buyback of 500,000 of its own shares (with a total amount of ¥91mn). The total return to shareholders from the combined forecast dividend and share buyback is 43.0%. Further, it will introduce a new shareholder incentive program. It plans to distribute QUO cards, targeting shareholders of record as of end-September 2015.

Dividend per share & Payout ratio



Note: If the reverse stock split proceeds as planned in October 2015, the dividend per share will be ¥35.
Source: Prepared from company materials.

Disclaimer