

Elematec Corporation

2715

Tokyo Stock Exchange First Section

13-Jul.-2021

FISCO Ltd. Analyst

Noboru Terashima



FISCO Ltd.

<https://www.fisco.co.jp>

Index

| | |
|--|-----------|
| Summary | 01 |
| 1. In FY3/21, earnings were impacted by COVID-19 in 1H, but then recovered in 2H, and full-year net sales increased 2.6% YoY while operating income grew 14.6% | 01 |
| 2. For FY3/22, forecasting a 19.0% increase in operating income and an annual dividend of ¥43 (payout ratio of 40.0%) | 01 |
| 3. Executing the medium-term business plan “elematec NEXT” | 01 |
| Company overview | 03 |
| 1. History and business description | 03 |
| 2. Features and strengths | 05 |
| 3. Five services and functions | 05 |
| 4. Long-term results trends | 07 |
| Business performance | 08 |
| 1. Overview of FY3/21 results | 08 |
| 2. Net sales trends by market | 12 |
| Outlook | 13 |
| ● Forecasts for FY3/22 | 13 |
| The medium- to long-term growth strategy | 14 |
| 1. Overview and key domains of the medium-term business plan “elematec NEXT” | 14 |
| 2. High value-added business: Develop the finished product (ODM) business | 14 |
| 3. Cultivate leading overseas customers | 15 |
| 4. Expand the automotive business | 16 |
| 5. Medium-term earnings forecast | 16 |
| Shareholder return policy | 17 |

■ Summary

Aims to expand its medium- to long-term earnings by pursuing high-value-added businesses and acquiring leading overseas customers

Elematec Corporation <2715> (hereafter, also “the Company”) is an electronics trading company that specializes in electronic materials. It was formed through the merger of Takachiho Electric Co., Ltd. and Ohnishi Denki Co., Ltd. in 2009 and entered the Toyota Tsusho Corporation <8015> Group in 2012.

1. In FY3/21, earnings were impacted by COVID-19 in 1H, but then recovered in 2H, and full-year net sales increased 2.6% YoY while operating income grew 14.6%

The Company announced FY3/21 results with ¥180,218mn in net sales (+2.6% YoY), operating income of ¥5,463mn (+14.6%), ordinary profit of ¥5,179mn (+15.1%) and profit attributable to owners of parent of ¥3,666mn (+12.4%). In 1H, net sales and profit both declined due to the impact of COVID-19, but in 2H the recovery trend strengthened and the Company was able to post an increase in both net sales and profit for the full fiscal year. Sales to the automotive sector declined while sales to the home electronics sector were also sluggish, but sales of equipment materials for semiconductor manufacturing equipment and other machines, as well as drive recorders for the aftermarket were strong, as were sales to the toy and hobby sectors due to stay-at-home demand. By region, sales and profits increased in Japan and China. The gross profit margin declined by 0.1pt due to a change in the product mix, but the gross profit margin increased 1.7% due to the growth in sales. In addition, SG&A expenses declined 3.3% YoY due to the drop in travel costs resulting from the impact of COVID-19, and this led to a large increase in operating income.

2. For FY3/22, forecasting a 19.0% increase in operating income and an annual dividend of ¥43 (payout ratio of 40.0%)

For FY3/22, the Company is forecasting net sales of ¥181,000mn (+6.4% YoY, see note), operating income of ¥6,500mn (+19.0%), ordinary profit of ¥6,200mn (+19.7%), and profit attributable to owners of parent of ¥4,400mn (+20.0%). Looking at the outlook by market segment, net sales in the Digital Electronics segment are expected to increase by ¥1,099mn, centered on the amusement sector, while sales in the Automotive segment are forecast to increase by ¥5,287mn due to the recovery in automobile production. Meanwhile sales in the Broad Market segment are expected to increase by ¥4,545mn, supported by an increase for industrial machinery and home appliances, despite an expected decline in aftermarket sales. (Note: From the beginning of FY3/22, the Company will use the “Accounting Standard for Revenue Recognition.” Therefore, the growth rates have been calculated after applying these standards for FY3/21.)

3. Executing the medium-term business plan “elematec NEXT”

In the spring of 2020, the Company announced its medium-term business plan “elematec NEXT.” The key strategies under “elematec NEXT” are to strengthen high value-added businesses, acquire leading domestic and overseas customers, and focus on the automotive field. The business plan does not state any quantitative targets, but by executing this plan the Company aims to improve in quality, not just simply achieve quantitative growth. Especially in high-value-added businesses, the Company will enhance its high-performance products, eco-related products, and specialty design, along with other competitive products, and will work to acquire major companies in the US and China as customers.

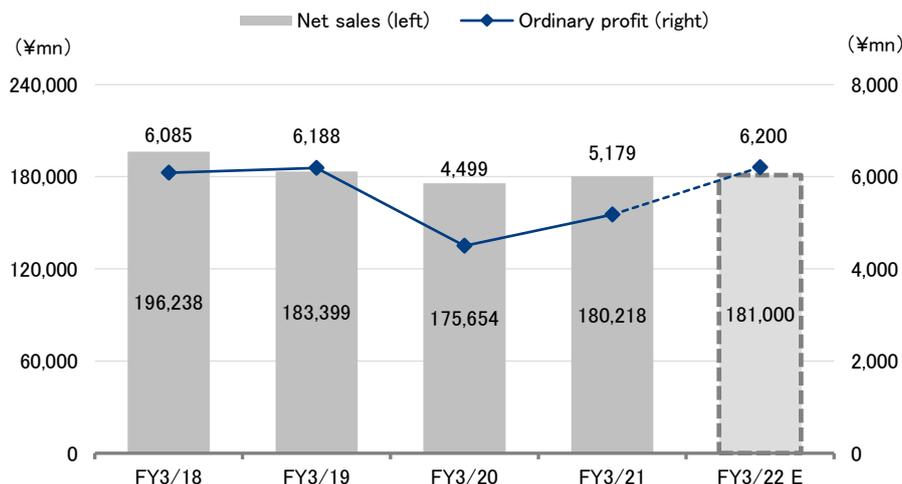
Summary

As medium-term earnings forecasts, at the beginning of each fiscal year the Company announces forecasts for that fiscal year and for two years after than on a rolling basis. At the start of FY3/22, the Company announced its results forecasts for FY3/22, as well as its targets of ¥220,000mn in net sales and ¥9,000mn in ordinary profit in FY3/24 as its medium-term results forecast.

Key Points

- Aiming for earnings growth with the two-pronged approach of pursuing growth markets and high value-added businesses
- Forecasting 6.4% increase in net sales and 19.0% increase in operating income in FY3/22
- Announced the new medium-term business plan “elematec NEXT”
- As medium-term results forecasts, the Company is aiming for net sales of ¥220,000mn and ordinary profit of ¥9,000mn in FY3/24

Results trends



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

■ Company overview

Two companies with specialties in electronic materials merged in 2009 Operates 61 locations in Japan and overseas and addresses three main markets - Digital Electronics, Automotive, and Broad Market

1. History and business description

(1) History

The Company's predecessors were Takachiho Electric, founded in 1947 in Tokyo, and Ohnishi Denki, founded in 1958 in Kyoto. Both companies began by handling insulation materials, subsequently broadened the scope of their product offerings to electronic materials used in electronic products following technology and development trends, and they grew into independent technology trading companies.

These companies merged in 2009 (with Takachiho Electric as the surviving entity) and changed to the name, Elematec Corporation. The Company has steadily grown since the merger, even though both predecessors mainly handled electronic materials, thanks to complementary geographical positions in Tokyo and Kyoto. It became a subsidiary of Toyota Tsusho through a TOB transaction in 2012.

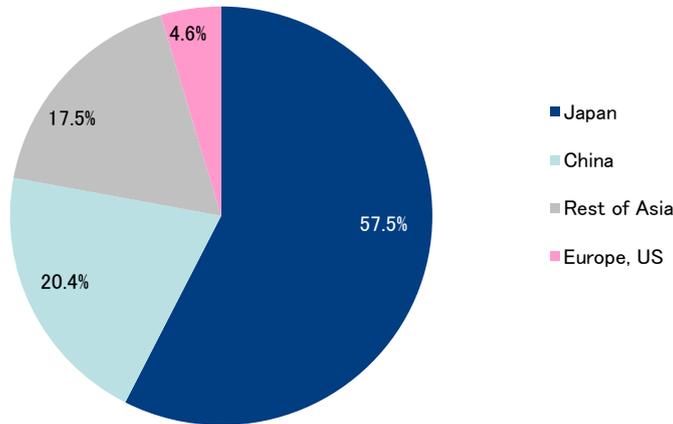
(2) Business description

In light of this history, the Company handles a wide range of electronic materials and parts used in electronic products and facilities. As of March 31, 2021, it has 1,157 employees and 65 sites in Japan and other countries on a consolidated basis as the business foundation. The business sites include three operations with processing services (one in Japan and two in China).

While the Company has developed business globally, its main customers are Japanese companies, and its overseas activities are mainly in China and Asia, reflecting the overseas expansion by Japanese companies. Sales breakdown by domestic and overseas categories in FY3/21 was 57.5% in Japan, 20.4% in China (including HongKong), 17.5% in the rest of Asia, and 4.6% in Europe and the US.

Company overview

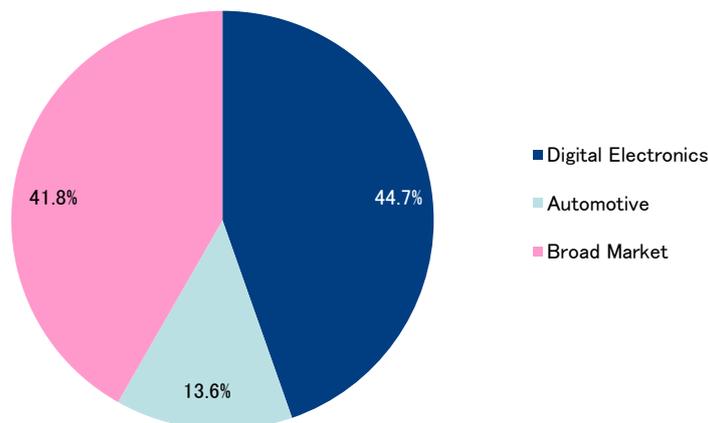
Net sales by region (FY3/21)



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

Grouping is important for management purposes because the Company has many customers on procurement and sales sides and handles a wide range of products. It previously based management on the products handled (procurement source standard), but it switched to market grouping with production items at customer companies as the standard (sales destination standard) from FY3/15. It hence currently uses internal management and information disclosure for three segments - Digital Electronics, Automotive, and Broad Market. In FY3/21, Digital Electronics accounts for 44.7% of sales, Automotive accounts for 13.6% of sales, and Broad Market accounts for 41.8% of sales.

Net sales trends by market (FY3/21)



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

Realized stable growth in business performance leveraging numerous products and business partners. Will focus on “high value-added businesses” going forward

2. Features and strengths

An important feature of the Company is that it has many different business partners and products. It handles a wide range of primarily electronic materials and components among about 6,800 suppliers (manufacturers) and 6,600 customers (users). Individual suppliers and customers are not disclosed, but the Company's top 10 main customers account for approximately 45% of net sales (FY3/21). In this way, because of the diversity in suppliers, customers and products handled, the Company's operating performance is not significantly affected by any particular customer or product, allowing for stable growth to continue.

Another one of the Company's strengths is that it can flexibly expand into new growth fields because it has a large number of products and customers. The Company is currently in a transition period, transitioning its business footholds from smartphones to automotive and robots. It goes without saying that it has responded to the changing growth potential of each of these markets. The Company's current performance is solid due to the fact that China's economy has quickly recovered from the impacts of COVID-19 and automobile production has rebounded. The Company is working to overcome the tides of change without suffering a large drop in business results by skillfully controlling two variable factors, specifically the business environment and growth markets. It can be said that the Company is showing itself at its best through these efforts.

The Company goes beyond just the basic services and functions of an electronics trading company of optimal supply of parts and materials, credit provision and financing, and management of delivery timing and inventory. The Company also provides even more sophisticated, high value-added services and functions, such as planning and development/design and manufacturing services. The Company highlights five services and functions, and we think the presence of these functions is precisely why it can develop diverse products into businesses and deliver results.

Looking ahead, the Company plans to strengthen activities in high value-added businesses by combining its core characteristics and strengths with its functions and know-how as an independent technology trading company. Until now, the Company drove income gains with nimble responsiveness to growth markets (horizontal development), but going forward it will aim for additional growth based on high value-added businesses (vertical development). The Company mainly plans to focus energy on high-performance products, eco-related products, and specialty design, as it plans to acquire major US customers and major Chinese customers.

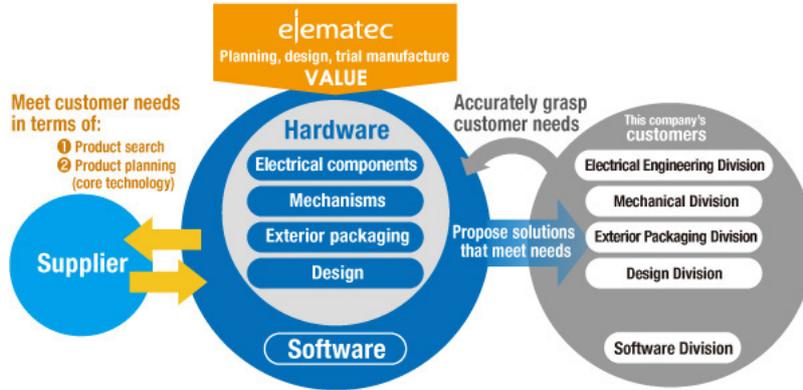
3. Five services and functions

(1) Planning and development/design: Planning and development/design of products that match essential needs

The Company has strong relationships that extend beyond customers' purchasing divisions to include their design and development divisions, allowing the Company to identify customers' essential needs. From limited information, the Company can grasp these needs. The Company's Sales Division, Marketing and Development Division and Design Department work together to plan, develop and design new parts and units. The Company's Design Department has specialists in mechanical design and electrical circuit design, and possesses prototyping equipment such as 3D CAD, 3D printers and numerically controlled (NC) machine tools. In addition to using these resources, the Company leverages its vast operational infrastructure, cutting-edge expertise, and know-how cultivated over many years to provide products matching its customers' needs.

Company overview

Illustration of planning development/design

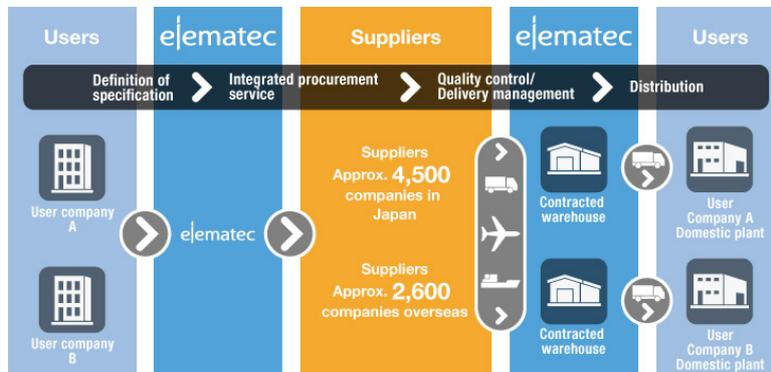


Source: The Company's website

(2) Procurement agency service: Procuring parts and materials that best match customers' requirements in terms of quality, cost, and delivery

The Company provides procurement agency service to manage multiple suppliers, complex order and delivery management on behalf of customers, thereby enhancing operational efficiency and reducing costs. The Company utilizes its know-how and expertise cultivated over many years to procure parts and materials in Japan and overseas, and carry out thorough quality control and delivery management. In addition to handling specified parts, the Company also suggests more suitable suppliers based on a firm grasp of the strengths of many manufacturers around the world. The Company has bases worldwide that can respond quickly to quality issues or other problems.

Illustration of procurement agency service



Source: The Company's website

(3) Manufacturing service: Providing high-quality manufacturing service and individualized customization

The Company has one domestic (Yokohama) and two overseas (Dalian, Wuxi) processing service bases for manufacturing customized products and modules. These items have been planned, developed and designed for specific customers, based on the customer's product development information and on the latest technological information gathered through the Company's worldwide network of bases. In addition to using its own processing service bases, the Company works in cooperation with technologically advanced, cost-competitive contract manufacturers in Japan and overseas to supply customized products and modules, as well as finished goods (ODM). The Company has constructed a global supply chain based on its understanding of "information," "technology," and "manufacturing."

Company overview

(4) Quality and environmental management: Providing high-quality products and establishing a sophisticated quality control system

Elematec offers a variety of services to meet customers' stringent quality demands. In response to customers' audit requests, in addition to conducting tests to ascertain that products and environmental protection measures, such as component analysis, meet standards, the Company confirms whether stable mass production is achievable when shifting from trial production. Led by its Environment Preservation & Quality Assurance Department, the Company provides multifaceted support when defects occur, including promptly identifying and analyzing defects with the customer, formulating and implementing improvement plans, and working to prevent recurrence.

(5) Overseas networking and logistics: Providing smooth global logistical support using worldwide network

With the advance of globalization, there has been an expansion in offshore trade that does not pass through Japan, so-called tri-lateral business. Furthermore, a current trend in global business is the shift from China as the "factory of the world" to manufacturing centered on the ASEAN region. Elematec's worldwide network is able to respond to this trend. The Company ensures close cooperation not only between bases in Japan and overseas bases, but also between overseas bases themselves. Whether in Japan or elsewhere, the Company works closely with its customers to realize faster and smoother communications and logistics, transcending time zones and language barriers.

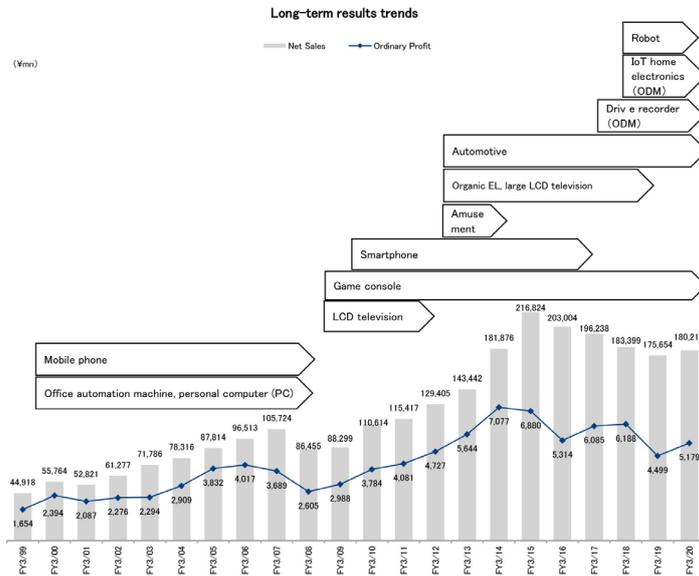
As discussed above, the Company is not simply a parts trading company, but it has various services and functions. In other words, by providing the above five services and functions, added-value is turned on for the simple trading company function, and as a result, the Company has maintained a relatively high gross profit margin. Going forward, the Company's gross profit margin should improve by further utilizing these five services and functions.

Effectively leveraged functionality as a trading company to realize income growth

4. Long-term results trends

Looking back on the Company's long-term results, it can be said that the Company has achieved stable growth by overcoming economic cycles, product cycles, and other waves, while being in the electronics industry, which goes through big ups and downs. In the early 2000s, mobile phone business grew with key products such as printed circuit board (FPC) materials, substrate mounting, and optical films. Around 2010, LCD TV-related products were a major business thanks to the transition to terrestrial digital service and other factors. Smartphones and tablets emerged as fast-growing products from 2010. The Company sold various films, glass products, and other items and achieved a rapid recovery from the 2008 financial crisis and set consecutive all-time high profits. As results have flattened in recent years due to the maturation of the smartphone market, the automotive-related business and overseas manufacturers-related business are becoming the next growth markets for the Company. After this is the next generation (5th generation) mobile communication system called 5G. On transitioning to 5G, everything will be updated, from base stations to terminals, and also the fielding range of "communication" will widen to another level and everything will become networked. We can expect this to lead to a further increase in business opportunities for the Company, which has many business partners both in terms of suppliers and customers, and also a variety of products.

Company overview



Note: ODM is the original design and manufacture of other companies' products. The Company outsources manufacturing.
 Source: Prepared by FISCO from the Corporate Profile.

Business performance

1H results were impacted by COVID-19 but recovered in 2H, with full-year operating income increasing 14.6%

1. Overview of FY3/21 results

(1) Trends in profit and loss

The Company announced FY3/21 business results with net sales of ¥180,218mn (+2.6% YoY), operating income of ¥5,463mn (+14.6%), ordinary profit of ¥5,179mn (+15.1%), and profit attributable to owners of parent of ¥3,666mn (+12.4%).

Net sales declined in 1H due to the impacts from COVID-19, but the recovery trend strengthened in 2H, resulting in a year-on-year increase in sales. Sales to the automotive sector declined and sales to the home electronics sector were sluggish, but sales of equipment materials such as for semiconductor manufacturing equipment, sales of drive recorders for the aftermarket, and toy and hobby items for stay-at-home demand were strong. By region, sales in Europe and other parts of Asia declined, but sales and profits increased in Japan and China.

In profits, the gross profit margin declined from 9.8% in the previous fiscal year to 9.7%, but this was due to a change in the product mix. SG&A expenses declined 3.3% YoY to ¥11,974mn, and with the increase in net sales the SG&A expense ratio dropped from 7.1% in the previous year to 6.6%. The decrease in SG&A expenses (¥412mn) included an ¥82mn increase in personnel costs (+1.2% YoY), but this was mainly due to the increase in salaries. Transportation and packing costs increased ¥236mn (+12.2%) due to the increase in net sales and surging transportation costs, due to constraints on logistics. Other expenses decreased ¥731mn, but the main factors for this was that travel and transportation expenses declined mainly due to a voluntary, temporary refrain from business trips due to the impact of COVID-19.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business performance

The Company is an export-type trading company, so its performance is affected by exchange rates (a strong yen has a negative impact on performance, while a weak yen has a positive impact on performance). According to the Company, a one yen change in the exchange rate has an impact of approximately ¥1,200mn on net sales and ¥50mn on ordinary profit. The FY3/21 ¥/USD average exchange rate was ¥106.10 (versus ¥108.70 in FY3/20).

Business performance was significantly impacted by COVID-19 in 1Q FY3/21, primarily in products for the automotive sector, but then recovered from 2Q. At this time, business performance has recovered to almost the same level as before the COVID-19 pandemic. In 2H alone, both net sales and profits increased YoY.

Summary of FY3/21 results

(¥mn, %)

| | FY3/20 | | FY3/21 | | | |
|---|---------|-------------|---------|-------------|--------|------------|
| | Amount | Composition | Amount | Composition | Change | Change (%) |
| Net sales | 175,654 | 100.0 | 180,218 | 100.0 | 4,564 | 2.6 |
| Gross profit | 17,152 | 9.8 | 17,437 | 9.7 | 285 | 1.7 |
| SG&A expenses | 12,386 | 7.1 | 11,974 | 6.6 | -412 | -3.3 |
| Operating income | 4,765 | 2.7 | 5,463 | 3.0 | 698 | 14.6 |
| Ordinary profit | 4,499 | 2.6 | 5,179 | 2.9 | 680 | 15.1 |
| Profit attributable to owners of parent | 3,263 | 1.9 | 3,666 | 2.0 | 403 | 12.4 |

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

(2) Sales by region

In terms of net sales by region, net sales in Japan were ¥103,634mn (+5.5% YoY), net sales in China were ¥36,776mn (+11.2%), net sales in other areas of Asia were ¥31,457mn (-8.4%), while net sales in Europe and the US were ¥8,350mn (-17.0%). In Japan, net sales increased mainly due to the strong sales of drive recorders and other products for the aftermarket. In China, net sales increased by double digits due to the relatively quick end of the COVID-19 impacts as well as comparatively strong sales of products related to electrical and electronics parts, as well as toy and hobby items. In other areas of Asia, net sales declined as in addition to lackluster sales to the home electronics sector (mainly for TVs) due to customer circumstances, sales in Malaysia and other countries were greatly impacted by COVID-19. In Europe and the US, full-year net sales declined, due to the large drop in sales to the automotive sector in Europe, especially in 1H.

In terms of segment profit by region, segment profit in Japan was ¥2,470mn (+13.9%), segment profit in China was ¥1,424mn (+72.2%), segment profit in other areas of Asia was ¥854mn (-21.4%), and segment profit in Europe and the US was ¥261mn (-26.5%). Segment profit increased significantly in both Japan and China in conjunction with the increase in sales. There was a large percentage decline in profit in other areas of Asia as well as in Europe and the US in conjunction with the declines in sales, but the amount of the decreases were small, and the impact on overall profits was limited.

Elematec Corporation | 13-Jul.-2021
 2715 Tokyo Stock Exchange First Section | <http://www.elematec.com/en/>

Business performance

Situation by region

| | FY3/20 | | FY3/21 | | | |
|-----------------------|---------|-------------|---------|-------------|--------|------------|
| | Amount | Composition | Amount | Composition | Change | Change (%) |
| Net sales | 175,654 | 100.0 | 180,218 | 100.0 | 4,564 | 2.6 |
| Japan | 98,211 | 55.9 | 103,634 | 57.5 | 5,423 | 5.5 |
| China | 33,061 | 18.8 | 36,776 | 20.4 | 3,715 | 11.2 |
| Other Asian countries | 34,323 | 19.5 | 31,457 | 17.5 | -2,866 | -8.4 |
| Europe, US | 10,057 | 5.7 | 8,350 | 4.6 | -1,707 | -17.0 |
| Operating income | 4,765 | - | 5,463 | - | 698 | 14.6 |
| Japan | 2,169 | - | 2,470 | - | 301 | 13.9 |
| China | 827 | - | 1,424 | - | 597 | 72.2 |
| Other Asian countries | 1,087 | - | 854 | - | -233 | -21.4 |
| Europe, US | 355 | - | 261 | - | -94 | -26.5 |
| (Adjustment amount) | 325 | - | 452 | - | - | - |

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

(3) Financial condition

Current assets totaled ¥95,333mn (+¥9,056mn from the end of FY3/20). Key factors were a ¥4,490mn increase in cash and deposits, a ¥4,380mn increase in notes and accounts receivable-trade, and a ¥234mn increase in inventories. Non-current assets were ¥5,984mn (+¥479mn). This was mainly due to an increase in investments and other assets of ¥552mn (including an increase in investment securities of ¥228mn) and an increase in assets related to retirement benefits of ¥210mn. As a result, total assets at the end of FY3/21 were ¥101,317mn (+¥9,536mn).

Meanwhile, total liabilities were ¥46,903mn (+¥6,018mn from the end of FY3/20). The main factors were a ¥4,828mn increase in notes and accounts payable-trade and a ¥138mn increase in short-term loans payable under current liabilities. Net assets were ¥54,413mn (+¥3,517mn) due to factors including a ¥2,521mn increase in retained earnings due to the booking of profit attributable to owners of parent, among other factors. As a result, the equity ratio at the end of FY3/21 was 53.7% (compared to 55.5% at the end of FY3/20).

Consolidated balance sheets

| | End of FY3/20 | End of FY3/21 | Change |
|--------------------------------------|---------------|----------------|--------------|
| Cash and deposits | 23,387 | 27,877 | 4,490 |
| Notes and accounts receivable-trade | 50,298 | 54,678 | 4,380 |
| Inventories | 11,441 | 11,676 | 234 |
| Total current assets | 86,276 | 95,333 | 9,056 |
| Property, plant and equipment | 3,185 | 3,190 | 5 |
| Intangible assets | 472 | 394 | -78 |
| Investments and other assets | 1,846 | 2,398 | 552 |
| Total non-current assets | 5,504 | 5,984 | 479 |
| Total assets | 91,781 | 101,317 | 9,536 |
| Notes and accounts payable-trade | 36,809 | 41,637 | 4,828 |
| Short-term loans, etc. | - | 138 | 138 |
| Total current liabilities | 39,748 | 45,619 | 5,871 |
| Total non-current liabilities | 1,136 | 1,284 | 148 |
| Total liabilities | 40,885 | 46,903 | 6,018 |
| Net assets | 50,896 | 54,413 | 3,517 |

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

Business performance

(4) Status of cash flows

Net cash provided by operating activities was ¥6,104mn. The main inflows included ¥5,179mn in income before income taxes, ¥669mn in depreciation and amortization, and a ¥3,555mn increase in notes and accounts payable-trade. The main outflows included a ¥3,245mn increase in notes and accounts receivable-trade. Cash flows from operating activities appear to have increased substantially compared with the same period of the previous fiscal year. However, this only reflects a temporary decrease in cash flows in the same period of the previous fiscal year, as a result of the end of FY3/19 falling on a bank holiday. Accordingly, it can be said that cash flows from operating activities returned to a normal level.

Net cash used in investing activities was ¥747mn. The main outflows included ¥676mn in purchase of property, plant and equipment. Net cash used in financing activities was ¥1,264mn, and the main outflow was cash dividends paid of ¥1,146mn. As a result, cash and cash equivalents increased ¥4,490mn, and the balance of cash and cash equivalents at the end of FY3/21 was ¥27,877mn.

Statements of Cash Flows

| | (¥mn) | |
|--|--------|--------|
| | FY3/20 | FY3/21 |
| Cash flows from operating activities | 398 | 6,104 |
| Income before income taxes | 4,472 | 5,179 |
| Depreciation and amortization | 528 | 669 |
| Decrease (increase) in notes and accounts receivable-trade | 1,711 | -3,245 |
| Decrease (increase) in inventories | -861 | 101 |
| Increase (decrease) in notes and accounts payable-trade | -3,612 | 3,555 |
| Cash flows from investing activities | -309 | -747 |
| Purchase of property, plant and equipment | -308 | -676 |
| Purchase of intangible assets | -90 | -139 |
| Cash flows from financing activities | -1,747 | -1,264 |
| Net increase (decrease) in short-term loans payable | -81 | 132 |
| Cash dividends paid | -1,432 | -1,146 |
| Net increase (decrease) in cash and cash equivalents | -2,327 | 4,490 |
| Cash and cash equivalents at the end of the period | 23,387 | 27,877 |

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

Business performance

Sales to the automotive sector were sluggish, but sales of equipment materials for semiconductor manufacturing equipment and other machines and sales for drive recorders remained strong

2. Net sales trends by market

Breakdown of net sales trends by market

| | FY3/20 | | FY3/21 | | YoY | Main target markets | Change |
|----------------------------|---------|-------------|---------|-------------|-------|---|--------|
| | Results | Composition | Results | Composition | | | |
| Digital Electronics | 79,688 | 45.4% | 80,484 | 44.7% | 1.0% | Electrical and electronic parts, equipment materials for semiconductor manufacturing equipment and other machines | 2,793 |
| | | | | | | Toy and hobby | 2,529 |
| | | | | | | Cameras and camera modules | -1,266 |
| | | | | | | LCDs, touch panels, and backlight | -812 |
| | | | | | | Amusement | -561 |
| | | | | | | Home electronics | -528 |
| Automotive | 27,187 | 15.5% | 24,484 | 13.6% | -9.9% | Overall automotive | -2,703 |
| Broad Market | 68,778 | 39.2% | 75,249 | 41.8% | 9.4% | Aftermarket | 7,199 |
| | | | | | | Motors | 781 |
| | | | | | | Office equipment | -1,675 |
| Total | 175,654 | 100.0% | 180,218 | 100.0% | 2.6% | | 4,564 |

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

In the Digital Electronics market in FY3/21, net sales were ¥80,484mn (+1.0% YoY). Looking at the breakdown by product and market, sales of cameras and camera modules declined ¥1,266mn, but this was mainly due to the sluggish production of digital cameras by customers due to the impact of COVID-19. In LCDs, touch panels and backlights, sales declined by ¥812mn, and the main reason for this was that the LCD panels produced by the Company's customers in the mobile phone market were pressed by OLED displays. Also, sales in the amusement field to pachinko and pachislot manufacturers fell by ¥561mn, while in TVs and other home electronics, sales declined ¥528mn. On the other hand, electrical and electronic parts and equipment materials for semiconductor manufacturing equipment and other machines saw an increase in sales of ¥2,793mn, partly due to the impact of COVID-19. In toys and hobbies, sales to game machines increased by ¥2,529mn due to stay-at-home demand. In addition to the strong demand for electrical and electronic parts, the large increase in sales was aided by the cultivation of new customers.

In the Automotive market, net sales were ¥24,484mn (-9.9%). Notably, there was a significant impact from stagnation in the whole automotive market due to the impact of COVID-19 in 1Q FY3/21 (April – June). At the beginning of 2Q FY3/21, sales had recovered to almost the same level of the corresponding period of the previous fiscal year, and sales in 2H were up 5.4% versus the second half of the previous fiscal year, but it was not enough to make up for the downturn in 1Q. As a result, FY3/21 sales declined YoY.

In the Broad market (includes all markets other than Digital Electronics and Automotive), net sales increased 9.4% YoY to ¥75,249mn. For the aftermarket in particular, sales grew substantially by ¥7,199mn. In terms of content, this growth was centered on drive recorder-related products. Sales of motors for industrial equipment increased by ¥781mn, while sales of office equipment decreased by ¥1,675mn due to sluggish sales of products for multifunction copiers.

■ Outlook

For FY3/22, forecasting higher sales in all segments, and a 19.0% increase in operating income.

● Forecasts for FY3/22

(1) Trends in profit and loss

For FY3/22, the Company is forecasting net sales of ¥181,000mn (+6.4% YoY, see note), operating income of ¥6,500mn (+19.0%), ordinary profit of ¥6,200mn (+19.7%), and profit attributable to owners of parent of ¥4,400mn (+20.0%).

* From the beginning of FY3/22, the Company will apply the "Accounting Standard for Revenue Recognition." Therefore, the growth rates have been calculated after applying these standards for FY3/21.

Summary of FY3/22 full-year forecasts

| | FY3/21 | | FY3/21 E | | | |
|---|---------|-------------|----------|-------------|--------|------------|
| | Amount | Composition | Amount | Composition | Change | |
| | | | | | Change | Change (%) |
| Net sales | 170,067 | 100.0 | 181,000 | 100.0 | 10,933 | 6.4 |
| Operating income | 5,463 | 3.2 | 6,500 | 3.6 | 1,037 | 19.0 |
| Ordinary profit | 5,179 | 3.0 | 6,200 | 3.4 | 1,021 | 19.7 |
| Profit attributable to owners of parent | 3,666 | 2.2 | 4,400 | 2.4 | 734 | 20.0 |

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

(2) Sales forecasts by market

In the Digital Electronics market, sales are forecast to increase by ¥1,099mn (+1.5%) to ¥75,670mn. In the amusement category, the Company expects sales to increase by ¥1,455mn, but this is due to a business transfer from a customer rather than a market recovery. In the toy and hobby category, sales are forecast to increase by ¥1,152mn based on the expectation that strong sales will continue. Meanwhile, the Company projects a ¥1,651mn decline in sales in the mobile device category due to weak sales.

In the Automotive market, the Company forecasts a ¥5,287mn increase in sales (+21.6%) to ¥29,770 due to the recovery in automobile production.

In the Broad market segment, net sales are forecast to increase ¥4,545mn (+6.4%) to ¥75,559mn. By product, sales of industrial equipment are expected to increase by ¥964mn, and sales of home appliances are forecast to increase by ¥824mn, but sales for the aftermarket are projected to decline by ¥1,511mn. This is due to the fact that the Company is expecting a temporary drop in production of the mainstay drive recorders due to it being the off season for model changes.

Outlook

Sales forecasts by market

| | FY3/21 | | FY3/22 forecast | | YoY | Main target markets | Change |
|---------------------|----------------|---------------|-----------------|---------------|-------------|--|--------------------------|
| | Amount | Composition | Amount | Composition | | | |
| | | | | | | | (¥mn) |
| Digital Electronics | 74,570 | 43.8% | 75,670 | 41.8% | 1.5% | Amusement Toy and hobby Mobile devices | 1,455 1,152 -1,651 |
| Automotive | 24,482 | 14.4% | 29,770 | 16.4% | 21.6% | Overall automotive Industrial machinery | 5,287 964 |
| Broad Market | 71,014 | 41.8% | 75,559 | 41.7% | 6.4% | Large home appliances Aftermarket | 824 -1,511 |
| Total | 170,067 | 100.0% | 181,000 | 100.0% | 6.4% | | 10,933 |

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

The medium- to long-term growth strategy

Implementing new medium-term business plan “elematec NEXT,” and focusing on three fields

The medium-term earnings forecast targets ordinary profit of ¥9,000mn in FY3/24

1. Overview and key domains of the medium-term business plan “elematec NEXT”

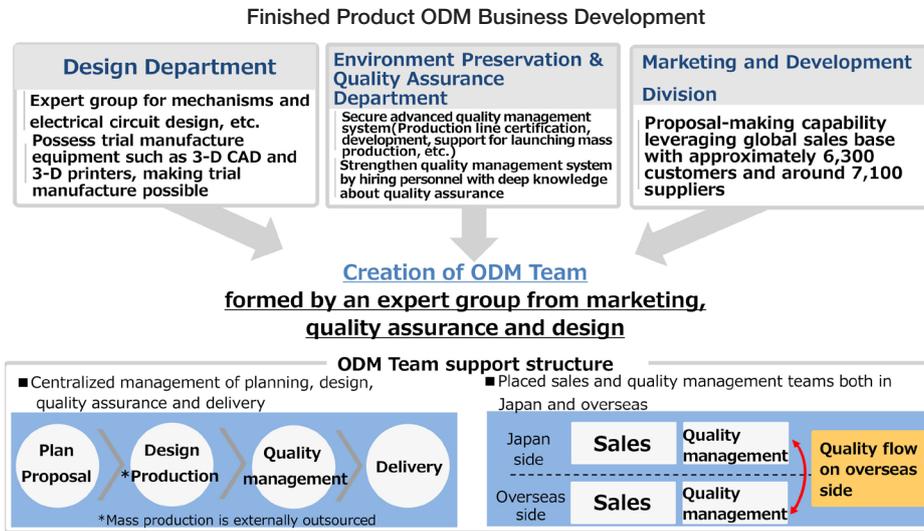
The Company has announced a new medium-term business plan “elematec NEXT.” The three pillars of this medium-term business plan are strengthening high value-added businesses, acquiring leading domestic and overseas customers, and focusing on the automotive field.

2. High value-added business: Develop the finished product (ODM) business

(1) Launch of an ODM team

The Company will form an “ODM Team” comprising a group of specialists (sales, quality assurance, and design) from the Design Department, Environment Preservation & Quality Assurance Department, and Marketing and Development Division, and aggressively develop the finished product ODM business which has high value-added. Furthermore, as a system supporting the ODM Team, in addition to centralizing the management of planning, design, quality assurance and delivery, both the Japan and overseas bases have sales and quality assurance teams that follow up on the quality on the overseas side. The diagram below gives an overview of this system.

The medium- to long-term growth strategy



Note: ODM is short for “Original Design Manufacturing.” It refers to products that the Company develops, designs and manufactures on its own based on requests from a customer. The value-added is higher than for regularly procured products.

Source: From the Company's results briefing materials

(2) Target customers

The Company has the following kinds of strengths.

- Quality management support is possible not only in Japan, but overseas as well
- Robust information network (6,800 suppliers, 6,600 customers)
- High-expertise planning and proposal capabilities of the Design Department and the Environmental Quality Assurance Department
- Able to have centralized management from planning and design to mass production

Going forward, the Company will leverage these strengths, and focus on acquiring the following two types of customers as the target customers of the ODM business

a) Existing customers: Leading domestic and overseas companies

The Company will discover the needs of influential domestic and overseas companies (existing customers), centered on chipset manufacturers, and not stop at sales of existing products but newly cultivate business in the ODM field.

b) New customers: Major mass retailers' PB

The Company will cultivate new customers among mass retailers of furniture, miscellaneous goods and home electronics, etc., as well as telecommunications carriers, that offer private brands (PB).

3. Cultivate leading overseas customers

(1) Bolster proposals of competitive products

The Company is working to increase its competitive products that are highly regarded by leading domestic and overseas customers. Specifically, the Company's lineup includes high-performance products (liquid metal for heat dissipation, materials for foldable smartphones), eco-related products (eco-friendly packing materials, eco-related smartphone materials), and specialty design (items molded from different materials, luminescent ink for smartphones).

The medium- to long-term growth strategy

As a strategy, the Company will cultivate and horizontally develop global leading products including the above products, and properly use the products in line with customers' needs. The main targets are major US and Chinese customers. Already, the Company has opened direct business accounts with leading US and Chinese customers. Also, in FY3/22, the Company plans to begin mass production of products for which specifications were received in FY3/21.

(2) Exhibitions of leading Japanese products

As a strategy to acquire leading overseas customers, in addition to creating a dedicated team, the Company has opened a showroom close to the planning and development bases of these targeted customers (San Jose, US). The actual opening was delayed until February 2021 due to the impacts of COVID-19. At this showroom, the Company will display products, centered on leading Japanese products. In addition, the Company will perform demonstrations to give target customers an opportunity to gain a real sense of the products in a true setting. By utilizing this showroom, the Company is aiming to build connections and capture customers' needs in a timely manner.

4. Expand the automotive business

The Company will focus on the automotive field, which is said to be undergoing a once-in-a-century transformation, and in which the ratio of electrification is expected to increase, and expand its business in this field.

Expand the automotive module business (proposal-based)

(1) Utilize Company factory (meter LCD bonding)

The Company will enter the LCD bonding business for which demand will increase. The Company has received orders for high-value-added products that only a few companies in the Japanese market can handle.

(2) EV-related (battery parts assembly)

The Company will clear customer requirements, including facility design, securing manufacturing bases near customers, and securing workers, and offer PHEV and HEV battery pack parts assembly to several car models.

(3) On-board units (cockpit modules)

The Company received orders for interior plastic trim parts and electrical components together for multiple vehicle models. Going forward, the Company will promote its technological capabilities and aim to receive orders starting from design.

5. Medium-term earnings forecast

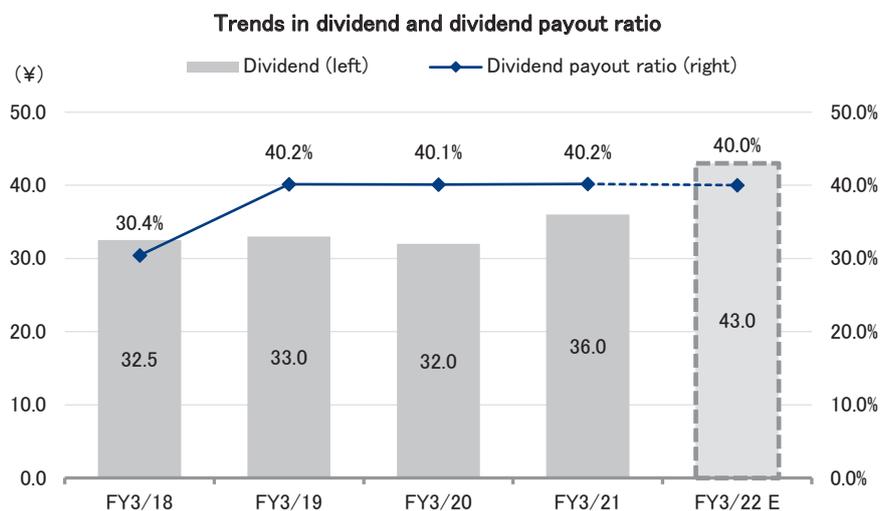
As medium-term earnings forecasts, at the beginning of each fiscal year the Company announces forecasts for that fiscal year and for two years after than on a rolling basis. At the start of FY3/22, the Company announced its results forecasts for FY3/22, as well as its targets of ¥220,000mn in net sales and ¥9,000mn in ordinary profit in FY3/24 as its medium-term results forecast. The Company is aiming to set new record highs for earnings based on the recovery from the impacts of COVID-19 and by strengthening its high-value-added business.

Shareholder return policy

Planning an annual dividend of ¥43 (dividend payout ratio of 40%) for FY3/22

The Company fundamentally utilizes dividends as shareholder return, and has set a target dividend payout ratio of at least 40%. In fact, the Company paid annual dividends of ¥32 in FY3/20 and ¥36 in FY3/21. The dividend payout ratios were 40.1% and 40.2%, respectively.

For FY3/22, which is already underway, the Company has announced an annual dividend of ¥43 in order to maintain a dividend payout ratio of 40%, which is the basic target.



Note: The Company implemented a two-for-one stock split on June 1, 2019.
 Source: Prepared by FISCO from the Company's financial results



Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp