

# COMPANY RESEARCH AND ANALYSIS REPORT

## Elematec Corporation

2715

Tokyo Stock Exchange First Section

7-Jan.-2022

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

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## Summary

### Aims to increase its medium- to long-term earnings by expanding high-value-added businesses, acquiring leading overseas customers and strengthening the automobile-related business

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. In recent years, the Company has been focusing on increasing sales of module products and original design manufacturing (ODM) products that enlist the Company’s involvement from the planning stage, above and beyond limiting itself to sales of parts and materials.

#### 1. In 1H FY3/22, net sales increased by 7.6% YoY and operating income gained by 61.7% amid recovery from the COVID-19 pandemic

The Company announced 1H FY3/22 results with ¥91,660mn in net sales (+7.6% YoY\*), operating income of ¥3,481mn (+61.7%), ordinary profit of ¥3,408mn (+67.6%) and profit attributable to owners of parent of ¥2,397mn (+70.1%). It achieved a high rate of earnings increase YoY in 1H FY3/22 given that the impact of COVID-19 was most prevalent during 1H in the previous fiscal year (1H FY3/21), yet operating income was 49.7% higher than the same period of the fiscal year prior to that (1H FY3/20). Looking at earnings by market segment, sales increased in all three business segments, particularly in the Automotive segment where sales increased by 29.3% YoY due to a recovery in production. The worldwide semiconductor shortage was noteworthy but did not substantially affect 1H FY3/22 results. For results by geographic region, net sales decreased only in Japan, but this was due to effects of changes in the Accounting Standard for Revenue Recognition (the “Accounting Standard”), and net sales effectively increased. Whereas the gross profit margin increased by 1.4pt YoY, it achieved gains even when excluding the changes to the Accounting Standard. As a result, operating income increased substantially given a scenario where the gross profit margin climbed by 23.9% and the upturn in SG&A expenses was held to 10.0% partially due to recovery from COVID-19.

\* Although the Company will apply the Accounting Standard for Revenue Recognition from the beginning of 1Q FY3/22, this calculation has been made on the basis of figures for the same period of the previous year prior to adoption of the accounting standard. This applies to 1H financial results and YoY results hereinafter.

#### 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\*), 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 ¥2,067mn, centered on the cameras and camera modules sector, while net sales in the Automotive segment are forecast to increase by ¥3,475mn due to the recovery in automobile production. Meanwhile, net sales in the Broad Market segment are expected to increase by ¥5,389mn, supported by an increase for medical equipment, industrial machinery and motors, despite an expected decline in aftermarket sales.

\* The FY3/22 full-year forecasts and YoY comparisons have been determined using previous year results calculated based on the Accounting Standard for Revenue Recognition.

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## Summary

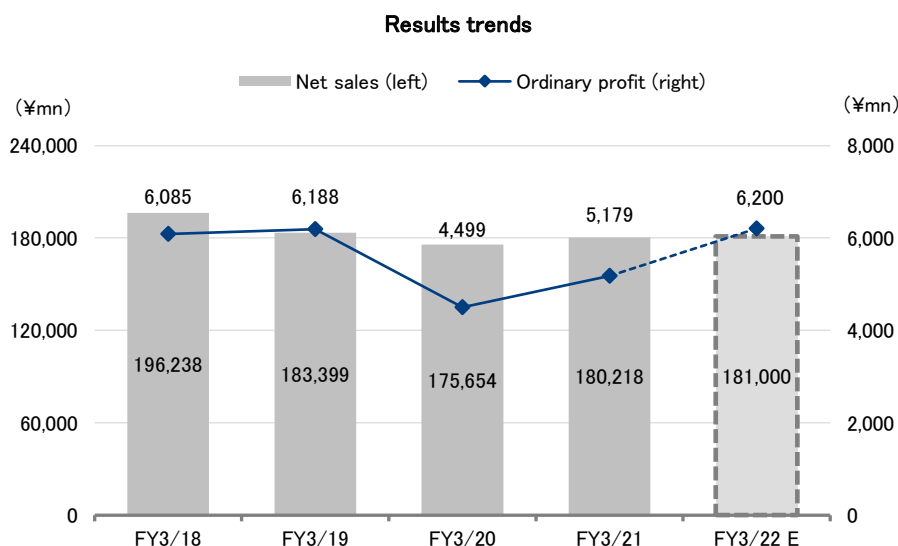
### 3. Executing the medium-term business plan “elematec NEXT”

In the spring of 2020, the Company announced its medium-term business plan “elematec NEXT.” The key strategies under “elematec NEXT” are: expanding high-value-added businesses, acquiring leading domestic and overseas customers, and strengthening the automobile-related business. By promoting and executing these strategies, the Company aims to achieve qualitative improvements over and above simply attaining quantitative expansion. In its high-value-added businesses, the Company is launching full-scale operations of its business involving original design manufacturing (ODM) finished products. As for its aim of acquiring leading domestic and overseas customers, the Company seeks to win over Chinese and US customers by strengthening its offerings for foldable smartphones. In the automotive sector, the Company plans to generate higher sales by expanding sales of new products associated with the shift to electric vehicles in addition to the recovery in production.

Regarding medium-term earnings forecasts, the Company announces forecasts for the current year and two years ahead on a rolling plan basis at the beginning of each fiscal year. 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
- Executing the 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



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

## ■ Company overview

**Established after two companies with specialties in electronic materials merged in 2009**  
**Operates 66 locations in Japan and overseas and addresses three main markets - Digital Electronics, Automotive, and Broad Market**

### 1. History and business description

#### (1) History

The two companies being 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 grew into independent technology trading companies.

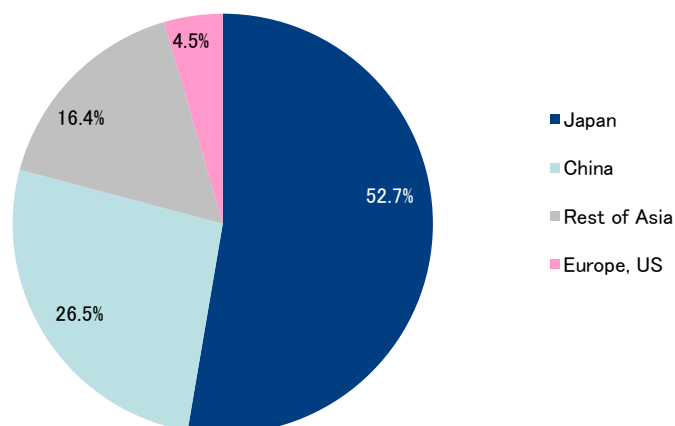
These companies merged in 2009 (with Takachiho Electric as the surviving entity) and changed the company name to Elematec Corporation. The Company has steadily grown since the merger, even though both predecessors mainly handled electronic materials, thanks to complementary geographical positions in 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. It has 1,157 employees (March 31, 2021) and 66 sites (June 1, 2021) 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).

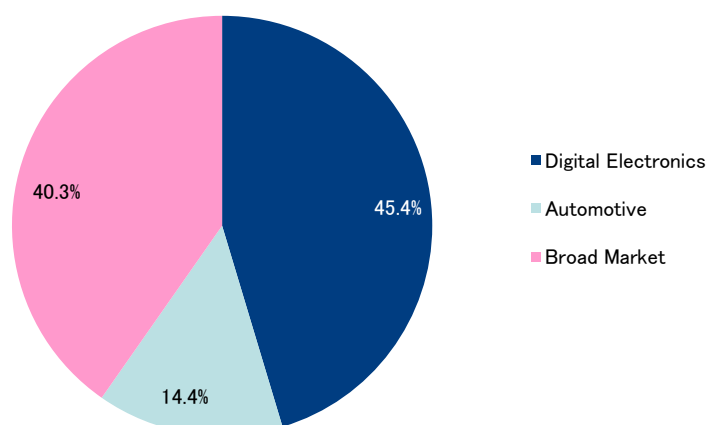
While the Company has developed business globally, its main customers are Japanese entities, and its overseas activities are mainly in China and Asia, reflecting the overseas expansion by Japanese companies. The sales breakdown by region in FY3/21 was 57.5% in Japan, 20.4% in China (including Hong Kong), 17.5% in other Asian areas, and 4.6% in Europe and the US, according to the Company's financial results. Meanwhile, the sales breakdown by region in 1H FY3/22 was 52.7% in Japan, 26.5% in China (including Hong Kong), 16.4% in other Asian areas, and 4.5% in Europe and the US.

## Company overview

**Net sales by region (1H FY3/22)**


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 provides internal management and information disclosure for three segments - Digital Electronics, Automotive, and Broad Market. In FY3/21, Digital Electronics accounted for 44.7% of net sales, Automotive 13.6%, and Broad Market 41.8%. In 1H FY3/22, Digital Electronics accounts for 45.4% of net sales, Automotive 14.4%, and Broad Market 40.3%.

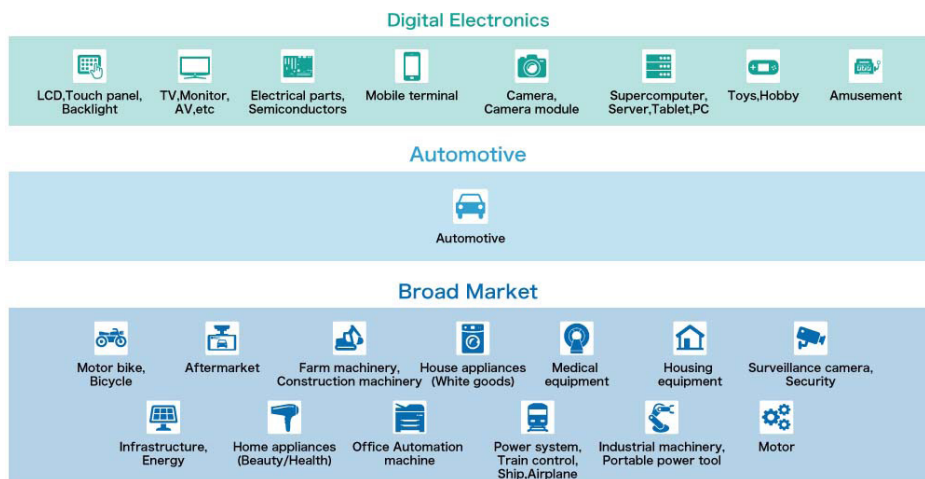
**Net sales trends by market (1H FY3/22)**


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

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## Company overview

### The Company's focal markets



Source: The Company's website

## 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 products, primarily electronic materials and components for 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 fields that include automotive and finished products business. 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 decrease in business results by skillfully controlling two variable factors, specifically the business environment and growth markets. It can be said that these efforts showcase the Company at its best.

The Company goes beyond just the basic services and functions of an electronics trading company, which include supply of optimal 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 why it can develop diverse products into businesses and deliver results.

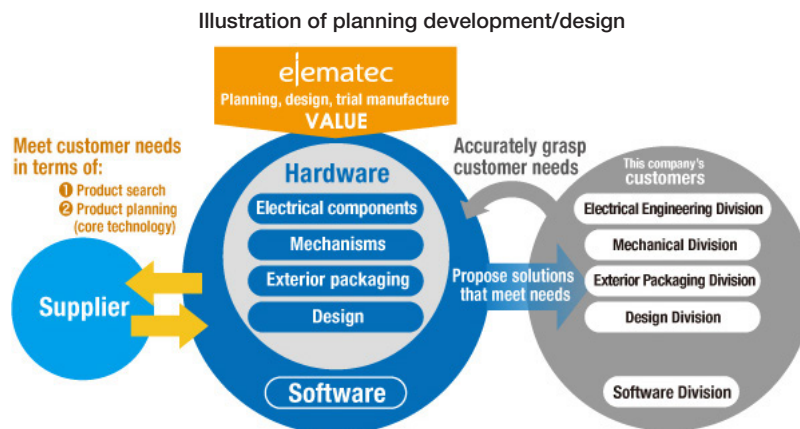
### Company overview

Looking ahead, the Company plans to strengthen activities in high-value-added businesses by combining its 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 also aim for additional growth based on high-value-added businesses (vertical development).

### 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.



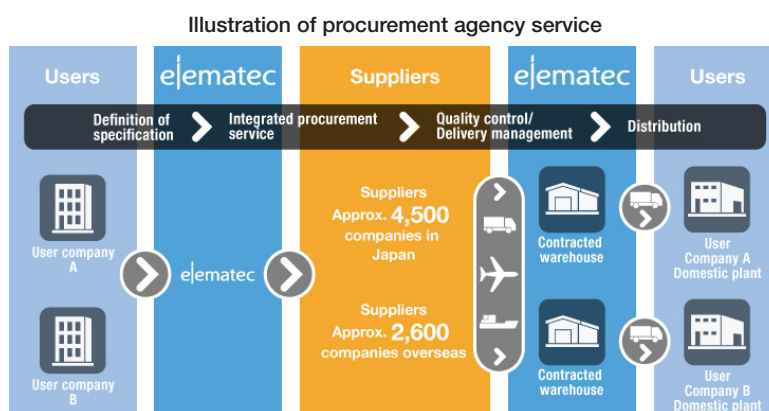
Source: The Company's website

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

The Company provides procurement agency service to manage multiple suppliers, complex orders and delivery schedules 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.



# Company overview



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 their product development information and 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."

## (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 a worldwide network

With the advance of globalization, there has been an expansion in offshore trade that does not pass through Japan, so-called trilateral 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, exceptional value is added to 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.

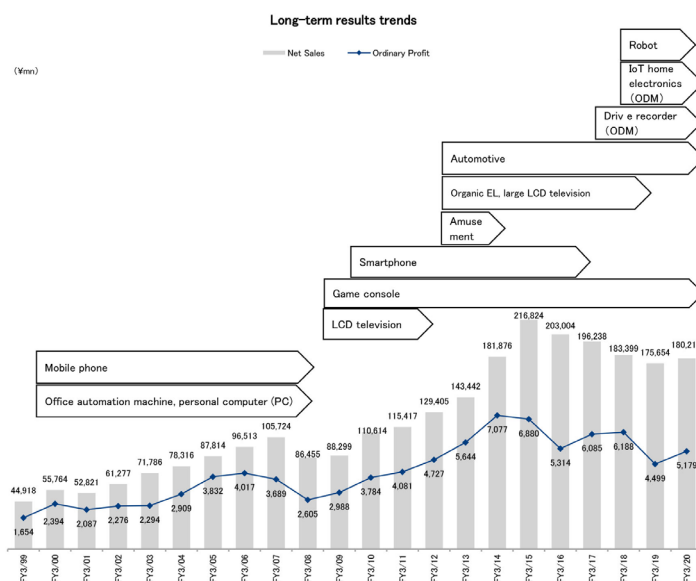
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Company overview

## Effectively leveraged functionality as a trading company to realize income growth

### 4. Long-term results trends

Looking back at 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. 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 procurement and sales, and a variety of products.



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**

### **Higher net sales and profits in 1H FY3/22 and substantially higher operating income up by 61.7% YoY**

#### **1. Overview of 1H FY3/22 results**

##### **(1) Trends in profit and loss**

The Company announced 1H FY3/22 results with ¥91,660mn in net sales (+7.6% YoY\*), operating income of ¥3,481mn (+61.7%), ordinary profit of ¥3,408mn (+67.6%) and profit attributable to owners of parent of ¥2,397mn (+70.1%). The Company achieved a high rate of earnings increase YoY given that the impact of COVID-19 was most prevalent during 1H of the previous fiscal year (1H FY3/21), yet operating income was 49.7% higher than the same period of the fiscal year prior to that (1H FY3/20). This seemingly indicates that there are factors beyond a simple rebound attributable to the increase in earnings.

\* Changes to the Accounting Standard decreased net sales results by ¥5,522mn. The rate of net sales growth amounts to 14.1% in the absence of having applied the updated standards.

By market segment, sales in the Automotive segment increased due to recovery in automobile production, after having been substantially affected by the COVID-19 pandemic in 1H FY3/21. Meanwhile, the Digital Electronics segment achieved firm results in the realm of cameras and camera modules. Due to such factors, the Company generated an increase in net sales. Furthermore, in the Broad Market segment sales increased amid firm results particularly in offerings for medical equipment and motor-related products, and despite a phase of product changeovers having culminated in a lull in sales of products for dashboard cameras, which have been propelling results over the last several years.

The gross profit margin increased by 1.4pt YoY to 10.8%. Although changes to the Accounting Standard had a diminishing effect on net sales, the Company stated that its results are improving, effects of the updated Accounting Standard aside. As such, the Company seems to be making progress in terms of having made essential improvements in shifting more toward high-value-added businesses. On the other hand, SG&A expenses increased by 10.0% due to a higher allowance for performance-linked bonuses and higher transportation and packing costs due to constraints on logistics. Still, the increase in SG&A expenses was lower than that of the increase in gross profit margin, which resulted in a substantial gain in operating income.

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, one yen change in the exchange rate has an impact of approximately ¥1,200mn on net sales and ¥50mn on ordinary profit. The average ¥/USD exchange rate in 1H FY3/22 ended up being about ¥10 weaker than the forecast of ¥100.0 to the USD, which seems to have had a positive effect amounting to approximately ¥500mn on an ordinary profit basis.

The Company stated that COVID-19 had little effect on business performance in 1H FY3/20. Moreover, although the Company appears not to have been directly affected by the global semiconductor shortage thus far, the possibility remains that it could become subject to production interruptions amid a scenario where it finds itself unable to make arrangements with respect to semiconductors and other such components aside from the parts and materials the Company supplies. This situation warrants a guarded outlook in terms of the full-year forecasts.

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## Business performance

## Summary of 1H FY3/22 results

(¥mn)

	1H FY3/21		1H FY3/22			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	85,164	100.0%	91,660	100.0%	6,496	7.6%
Gross profit	8,013	9.4%	9,928	10.8%	1,915	23.9%
SG&A expenses	5,861	6.9%	6,447	7.0%	586	10.0%
Operating income	2,152	2.5%	3,481	3.8%	1,329	61.7%
Ordinary profit	2,033	2.4%	3,408	3.7%	1,375	67.6%
Profit attributable to owners of parent	1,409	1.7%	2,397	2.6%	988	70.1%

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

## (2) Sales by region

In terms of net sales by region, net sales in Japan were ¥48,288mn (-4.1% YoY), net sales in China were ¥24,252mn (+43.6%), net sales in other Asian areas were ¥14,988mn (+5.6%), and net sales in Europe and the US were ¥4,131mn (+11.3%). In Japan, the Company essentially achieved an increase in net sales, given that the decrease is attributable to changes to the Accounting Standard. The net sales results are largely attributable to favorable performance in the medical equipment sector, in conjunction with recovery in the automotive sector. In China, net sales increased substantially amid comparatively strong sales of products related to electrical and electronic parts, as well as products for toy and hobby items, in addition to a relatively swift end to adverse effects of the COVID-19 pandemic. In other Asian areas, the rate of net sales growth remained low due to sluggish sales of LCDs for smartphones due to customer circumstances. In Europe and the US, net sales increased largely due to recovery in sales to the automotive sector in Europe.

In terms of segment profit by region, segment profit in Japan was ¥1,758mn (+115.4%), segment profit in China was ¥843mn (+30.3%), segment profit in other Asian areas was ¥751mn (+101.9%), and segment profit in Europe and the US was ¥33mn (-72.3%). Segment profit increased in Japan, China and other Asian areas in conjunction with the increase in sales. In Europe and the US, segment profit decreased due to changes in the product mix, but the overall impact was negligible given that the amount of decrease was small.

## Sales by region

(¥mn)

	1H FY3/21		1H FY3/22			
	Amount	Composition	Amount	Composition	Change	Change (%)
Net sales	85,164	100.0%	91,660	100.0%	6,496	7.6%
Japan	50,374	59.1%	48,288	52.7%	-2,086	-4.1%
China	16,884	19.8%	24,252	26.5%	7,368	43.6%
Other Asian areas	14,195	16.7%	14,988	16.4%	793	5.6%
Europe, US	3,710	4.4%	4,131	4.5%	421	11.3%
Operating income	2,152	2.5%	3,481	3.8%	1,329	61.7%
Japan	816	-	1,758	-	942	115.4%
China	647	-	843	-	196	30.3%
Other Asian areas	372	-	751	-	379	101.9%
Europe, US	119	-	33	-	-86	-72.3%
(Adjustment amount)	196	-	93	-	-	-

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

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Business performance

### (3) Financial condition

Current assets totaled ¥99,748mn (+¥4,415mn from the end of FY3/21). Key factors were a ¥936mn increase in cash and deposits, a ¥276mn decrease in notes and accounts receivable-trade, and a ¥3,528mn increase in inventories. Non-current assets were ¥6,087mn (+¥103mn). This was mainly due to an increase in property, plant and equipment of ¥61mn and an increase in investments and other assets of ¥49mn. As a result, total assets at the end of 1H FY3/22 were ¥105,836mn (+¥4,519mn).

Meanwhile, total liabilities were ¥49,905mn (+¥3,001mn from the end of FY3/21). The main factors were a ¥1,753mn increase in notes and accounts payable-trade and a ¥365mn increase in short-term loans payable under current liabilities. Net assets were ¥55,930mn (+¥1,517mn) due to factors including a ¥1,455mn 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 1H FY3/22 was 52.8% (compared to 53.7% at the end of FY3/21).

#### Consolidated balance sheets

	End of FY3/21	End of 1H FY3/22	Change
(¥mn)			
Cash and deposits	27,877	28,813	936
Notes and accounts receivable-trade	54,678	54,402	-276
Inventories	11,676	15,204	3,528
Total current assets	95,333	99,748	4,415
Property, plant and equipment	3,190	3,251	61
Intangible assets	394	389	-5
Investments and other assets	2,398	2,447	49
Total non-current assets	5,984	6,087	103
Total assets	101,317	105,836	4,519
Notes and accounts payable-trade	41,637	43,390	1,753
Short-term loans payable	138	503	365
Total current liabilities	45,619	48,546	2,927
Total non-current liabilities	1,284	1,359	75
Total liabilities	46,903	49,905	3,001
Total net assets	54,413	55,930	1,517
Retained earnings	48,560	50,015	1,455

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

### (4) Status of cash flows

Net cash provided by operating activities was ¥1,685mn. The main inflows included ¥3,408mn in income before income taxes, ¥427mn in depreciation and amortization, a ¥412mn decrease in notes and accounts receivable-trade, and a ¥1,557mn increase in notes and accounts payable-trade. The main outflows included a ¥3,505mn increase in inventories.

Net cash used in investing activities was ¥171mn. The main outflows included ¥309mn in purchase of property, plant and equipment and ¥27mn in purchase of intangible assets. Net cash used in financing activities was ¥711mn. The main outflows included ¥356mn in proceeds from an increase in short-term loans payable and ¥941mn in cash dividends paid. As a result, cash and cash equivalents increased ¥936mn and the balance of cash and cash equivalents at the end of 1H FY3/22 was ¥28,813mn. The Company accordingly seems to have ample cash on hand as of yet.

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## Business performance

## Statements of cash flows

	1H FY3/21	1H FY3/22
Cash flows from operating activities	3,918	1,685
Income before income taxes	2,033	3,408
Depreciation and amortization	298	427
Decrease (increase) in notes and accounts receivable-trade	1,716	412
Decrease (increase) in inventories	-217	-3,505
Increase (decrease) in notes and accounts payable-trade	167	1,557
Cash flows from investing activities	-576	-171
Purchase of property plant and equipment	-518	-309
Purchase of intangible assets	-77	-27
Cash flows from financing activities	111	-711
Net increase in short-term loans payable	851	356
Cash dividends paid	-613	-941
Net increase in cash and cash equivalents	3,411	936
Cash and cash equivalents at the end of the period	26,799	28,813

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

## Increased sales across all three business segments amid recovery from the COVID-19 pandemic

### 2. Net sales trends by market

## Breakdown of net sales trends by market

	1H FY3/21		1H FY3/22			Main target markets	Change
	Results	Composition	Results	Composition	YoY		
Digital Electronics	39,812	46.7%	41,574	45.4%	4.4%	Cameras and camera modules	1,587
						Electrical and electronic parts, semiconductor	1,006
Automotive	10,174	11.9%	13,159	14.4%	29.3%	Overall automotive	2,984
Broad Market	35,178	41.3%	36,926	40.3%	5.0%	Motors	1,011
						Medical equipment	820
Total	85,164	100.0%	91,660	100.0%	7.6%		6,496

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

In the Digital Electronics segment in 1H FY3/22, net sales were ¥41,574mn (+4.4% YoY), but effectively increased by 11.6% after adjusting for a ¥2,854mn effect of changes to the Accounting Standard. Looking at the breakdown by product and market, sales of cameras and camera modules increased by ¥1,587mn, but this was mainly due to favorable sales of SLR cameras among the Company's customers. In electrical and electronic parts and semiconductors, net sales also increased, up by ¥1,006mn due to the rebound from the same period of the previous fiscal year, but the increase amounts to ¥2,481mn after adjusting for a ¥1,475mn effect of changes to the Accounting Standard.

In the Automotive segment, the situation was similar in that net sales were ¥13,159mn (+29.3% YoY) amid the rebound in wake of effects of the COVID-19 pandemic in the same period of the previous fiscal year, but the result was subject to effects of changes to the Accounting Standard amounting to ¥28mn. For the most part this is attributable to recovery in unit production of automobiles.

# Business performance

In the Broad Market segment (includes all markets other than Digital Electronics and Automotive), net sales increased by 5.0% YoY to ¥36,926mn, but increased by 12.5% after adjusting for a ¥2,638mn effect of changes to the Accounting Standards. Particularly strong were sales of motor-related products, which increased by ¥1,011mn (¥9mn effect of changes to the Accounting Standard), and sales of ultrasonic diagnostic equipment and other medical equipment, which increased by ¥820mn (¥552mn effect of changes to the Accounting Standard). Net sales to the dashboard camera market, which had been propelling sales growth up through FY3/21, decreased by approximately ¥1,500mn as a result of a phase of product changeovers among customers (transition period), albeit the decrease is within the initially projected range.

## Outlook

**For FY3/22, forecasting a 19.0% increase in operating income amid higher sales in all segments besides other Asian areas; requirements for listing on the Prime Market have been met**

### 1. Forecasts for FY3/22

#### (1) Trends in profit and loss

For FY3/22, the Company's forecasts remain unchanged from its initial projections for net sales of ¥181,000mn (+6.4% YoY\*), 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 1Q FY3/22, the Company has applied the Accounting Standard for Revenue Recognition. Therefore, the growth rates have been calculated after applying these standards for FY3/21.

The Company is poised to generate higher sales across all geographic segments besides other Asian areas segment amid likely recovery from the COVID-19 pandemic particularly in the automotive sector. It seems highly likely that the Company will upwardly revise its forecasts given its exchange rate assumption of ¥100 to the USD combined with its relatively strong 1H results. Nevertheless, the Company has yet to revise its full-year forecasts at this point in time due to factors that include the ongoing nature of the semiconductor shortage and persisting risk of lulls in production at customer sites.

### Summary of FY3/22 full-year forecasts

	FY3/21		FY3/22 E			
	Amount	Composition	Amount	Composition	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

## Outlook

### (2) Net sales forecasts by market

In the Digital Electronics segment, net sales are forecast to increase by ¥2,067mn (+2.8%) to ¥76,637mn. Sales of electrical and electronic parts and semiconductors are expected to increase by ¥3,442mn amid production recovery at customer sites. Sales of cameras and camera modules are expected to increase by ¥1,362mn due to robust sales among the Company's main customers. Meanwhile, the Company projects a ¥1,772mn decrease in sales of LCDs, touch panels, and backlights amid a downturn in smartphone production among the Company's customers as they switch over from LCD to OLED smartphone screens. This decrease, however, is as initially anticipated and falls within the projected range.

In the Automotive segment, the Company forecasts a ¥3,475mn increase in net sales (+14.2%) to ¥27,958 due to the recovery in automobile production. However, the Company has downwardly revised its initial sales forecast of ¥29,770mn given that the worldwide semiconductor shortage has resulted in downward revisions having been made to production plans of automakers served by the Company.

In the Broad Market segment, net sales are forecast to increase by ¥5,389mn (+7.6%) to ¥76,404mn, upon having been revised upward from the initial forecast. By target market, the Company forecasts a ¥1,721mn increase in sales of medical equipment centered around ultrasonic diagnostic equipment, a ¥1,342mn increase in sales of industrial machinery used in a wide range of fields, and a ¥1,063mn increase in sales of motors. Meanwhile, whereas sales in the aftermarket category are likely to head lower, the decrease is attributable to a temporary decline in production of mainstay dashboard camera products due to transition period model changes.

### Net sales forecasts by market

	FY3/21		FY3/22 forecast			Main target markets	Change
	Amount	Composition	Amount	Composition	YoY		
Digital Electronics	74,570	43.8%	76,637	42.3%	2.8%	Electrical and electronic parts, semiconductor	3,442
						Cameras and camera modules	1,362
						LCDs, touch panels, and backlights	-1,772
Automotive	24,482	14.4%	27,958	15.4%	14.2%	Overall automotive	3,475
Broad Market	71,014	41.8%	76,404	42.2%	7.6%	Medical equipment	1,721
						Industrial machinery	1,342
						Motors	1,063
Total	170,067	100.0%	181,000	100.0%	6.4%		10,933

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

## 2. Maintaining a listing on the Prime Market

The Tokyo Stock Exchange is currently undergoing change and revision as previously reported. Meanwhile, the Company has met and is in compliance with the requirements for maintaining a listing on the Prime Market as presented in the table below. Accordingly, it has been decided that the Company maintain a listing on the Prime Market, and as of July 9, 2021, the Tokyo Stock Exchange has informed the Company that it is in compliance with the requirements for maintaining a listing on the Prime Market under its listing procedures. In response, the Company submitted an application to the Tokyo Stock Exchange indicating the Prime Market as its market of choice on September 22, 2021.



## Outlook

### Requirements for maintaining a listing on the Prime Market

	Requirements for maintaining a listing on the Prime Market	Findings of primary assessment (June 30, 2021)	Compliance
Number of shareholders	800	2,769	○
Market capitalization of tradable shares	10 billion yen	18.3 billion yen	○
Tradable share ratio	35.0%	36.6%	○
Trading value	20 million yen	39 million yen	○

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

## Medium- to long-term growth strategy

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

### 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 its new medium-term business plan “elematec NEXT.” The three pillars of this medium-term business plan are expanding high-value-added businesses, acquiring leading domestic and overseas customers, and strengthening the automobile-related business. Progress thus far achieved under each of the three pillars is as described below.

#### 2. Expanding high-value-added businesses

##### (1) Full-scale operation of the finished product ODM Team

The Company has formed an “ODM\* Team” comprising a group of specialists (sales, quality assurance, and design) from the Design Department, Environment Preservation & Quality Assurance Department, Sales Division, and Marketing and Development Division. The ODM Team has been put into full-scale operation amid a scenario where the Company has been aggressively developing its ODM business entailing finished products offering greater added value. In addition, the Company has moved to support the ODM Team by setting up a system of ensuring follow-up regarding quality on the overseas side upon having arranged sales and quality assurance teams both in Japan and overseas, while simultaneously centralizing management of planning, design, quality assurance and delivery.

\* 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 Company deems that the added value with respect to such products is higher than that of regularly procured products.

As a result of such efforts, the business of finished product ODM has achieved a track record of mass production that includes dashboard cameras, coffee makers, parking management sensors, wearable activity monitors, and futon/bedding driers. There are bound to be notable developments going forward with the Company furthermore in the process of making proposals in areas that include in-vehicle tablets, wearable devices, LED lanterns, and stick PCs.

## (2) Expansion in business of eco-friendly products

Surging demand for eco-friendly products serves as one aspect of the business environment in which the Company operates amid increasing awareness regarding sustainability worldwide. The Company has accordingly established the Eco-Friendly Materials Promotion Team with the aim of turning such trends into business opportunities. The Company has already launched the following products as a result.

- a) Eco-friendly packing materials: Raw materials consisting of sugar cane and bamboo; materials used for packaging of game consoles and headsets
- b) Molded products made of different materials: naturally-derived materials used in molded products (helps eliminate use of plastics); reuse of waste materials from housing-related businesses, etc.
- c) Biodegradable resins: Resins biodegradable in a natural environment used in making straws, smartphone cases, etc.

## 3. Cultivate leading overseas customers

The Company has been seeking expansion with respect to its competitive products, which are highly regarded by leading domestic and overseas customers. Such items include products for foldable smartphones, which have been drawing attention as promising offerings. The smartphone industry is currently in the midst of a transition from smartphones equipped with LCDs to those equipped with OLEDs, a trend which is poised to be followed by foldable smartphones. Such foldable handsets are now in the transitional phase of development, with full-scale mass production of such devices poised to start going forward. Such trends present the Company with new business opportunities on two fronts, as follows.

First, this presents opportunities for pinpointing potentially leading products that are made in Japan. The Company intends to identify leading products that draw on extensive information gained by the Company from its 6,300 corporate customers and 7,100 suppliers (a wide range of products encompassing everything from smartphone back-surface design to surface films). Second, this gives rise to opportunities for winning over Chinese and US customers. Now in the transitional phase, foldable handsets present substantial opportunities for new market entry and will enable the Company to actively seek Chinese and US customers. The Company has already opened accounts with major local customers and will intensify its "spec-in" initiatives undertaken to ensure that its products are incorporated into smartphone specifications particularly when it comes to foldable smartphones.

## 4. Strengthening the automobile-related business

### (1) Sales of the Automotive segment

Amid a scenario where the automobile industry is in the midst of a once-in-a-century transformation, the Company has also been expanding its reach in the automotive field that includes projections of an escalating percentage of automobile electrification and a growing shift to electric vehicles (EV). In terms of actual results, the Company anticipates net sales in the Automotive segment of ¥27,958mn in FY3/22. That amount is 191.7% higher than its net sales of ¥14,588mn in FY3/15, which was the initial fiscal year under the Company's first medium-term business plan.

### (2) Enhancement of functions at the Company's processing plant

The Company has been enhancing functions of its plant in Wuxi, China by augmenting the plant's facilities including bonding and cleaning equipment. This has enabled the Company to land new business such as that involving smart mirrors, head-up displays (HUDs), and instrument panels.

### (3) Addressing the shift to EVs

In the automobile industry, the shift to electric vehicles worldwide has served as a tailwind for the Company in terms of new business opportunities. The Company has already launched the following finished products and accordingly plans to enhance solutions it proposes to its leading domestic and overseas customers (Tier 1 and 2) focusing on such high-value-added products.

#### a) Fire-resistant sheet assemblies (finished product)

Because many electric vehicles rely on lithium-ion batteries, addressing the risk of combustion of such batteries stands as a priority. Whereas the Company has been focusing on fire-resistant sheet, which is likely to encounter demand going forward for its use in preventing battery combustion, it is already being adopted for the first time in certain instances. The Company seeks to use this as an opportunity to increase sales of such products.

#### b) Heater unit assemblies for electric vehicles (finished product)

There is a need to extend the driving range of electric vehicles as much as possible, and in achieving such aims the notion of curbing wasteful battery consumption is a priority. Operation of heating during the winter season is of particular concern in this regard. With a gasoline-powered car it is possible to heat the entire vehicle interior drawing on heat from the engine. Meanwhile, EV cars enlist partial heating due to inefficiencies inherent in heating the entire vehicle interior. The Company has already completed development of a heater (finished product) that warms the seating leg area in EV cars, and will focus on expanding sales of such units going forward.

## 5. Medium-term earnings forecast

Regarding medium-term earnings forecasts, the Company announces forecasts for the current year and two years ahead on a rolling plan basis at the beginning of each fiscal year. 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.

## 6. Addressing the SDGs

The Company is primarily taking a twofold approach in actively helping to achieve the SDGs. First, the Company engages in initiatives through its sales activities whereby it identifies products and services connected to each of the Sustainable Development Goals in the respective focal markets of the Group enlisting the perspective of the extent of contribution to society and sustainability. Second, the Company engages in initiatives as a corporate citizen whereby it pinpoints focal CSR and governance activities of the Group to identify actions that facilitate the aims of the SDGs.

The Company's themes of activities, specific initiatives and related SDG categories are described as follows.

### (1) Environment

The Company's activities with respect to the environment center on the themes of improving automotive energy efficiency, making efficient use of electricity, helping to achieve a decarbonized society, seeking widespread use of clean energy, helping to achieve a recycling-oriented society, and reducing environmental loads. A specific initiative being taken by the Company with respect to the environment is that of it seeking to reduce environmental loads by supplying packing materials using plant-derived raw materials. This is relevant to four of the 17 SDGs: 7. Affordable and Clean Energy; 9. Industry, Innovation and Infrastructure; 12. Responsible Consumption and Production, and; 13. Climate Action.

Medium- to long-term growth strategy















## (2) Social

The Company's activities with respect to society center on the themes of eliminating starvation and poverty, helping to achieve a society free of traffic accidents, establishing appropriate medical environments, improving productivity across manufacturing processes, eliminating labor shortages, helping to achieve a recycling-oriented society, promoting human resources development, establishing stable infrastructures, and respecting human rights. A specific initiative being taken by the Company with respect to society is that of it seeking to help achieve an accident-free society by engaging in the planning and development dashboard cameras and sale of components. This is relevant to six of the 17 SDGs: 1. No Poverty; 3. Good Health and Well-being; 8. Decent Work and Economic Growth; 9. Industry, Innovation and Infrastructure; 11. Sustainable Cities and Communities, and; 16. Peace, Justice, and Strong Institutions.

## (3) Governance

The Company's activities with respect to governance center on the themes of respecting human rights and engaging in fair business practices. A specific initiative being taken by the Company with respect to governance is that of establishing corporate governance and compliance frameworks. This is relevant to two of the 17 SDGs: 10. Reduced Inequalities and 16. Peace, Justice, and Strong Institutions.

### Approach to the SDGs

	Themes of Initiatives	Topics	Related SDGs
<b>E</b>	<ul style="list-style-type: none"> <li>Improved energy efficiency of automobiles</li> <li>Efficient use of electricity</li> <li>Realization of a decarbonized society</li> <li>Promotion of clean energy</li> <li>Reduction of environmental burdens</li> <li>Realization of a recycling-oriented society</li> </ul>	 <b>Reduction of environmental burdens</b> Delivery of packaging materials made from plant-derived materials	   
<b>S</b>	<ul style="list-style-type: none"> <li>Elimination of hunger and poverty</li> <li>Realization of a society without traffic accidents</li> <li>Improvement of proper medical environment</li> <li>Improvement of productivity in manufacturing processes</li> <li>Elimination of labor shortage</li> <li>Realization of a recycling-oriented society</li> <li>Promotion of human resource development</li> <li>Development of stable infrastructure</li> <li>Respect for human rights</li> </ul>	 <b>Realization of a society without traffic accidents</b> Planning and development of dashboard cameras and sales expansion of the components	     
<b>G</b>	<ul style="list-style-type: none"> <li>Respect for human rights</li> <li>Practicing fair business activities</li> </ul>	<ul style="list-style-type: none"> <li>Development of corporate governance and compliance systems</li> </ul>	 

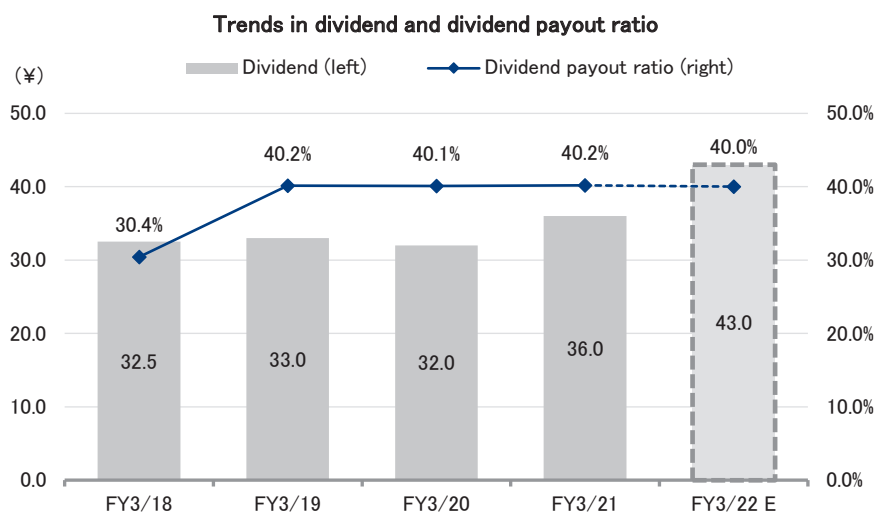
Source: The Company's results briefing materials

## Shareholder return policy

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

The Company fundamentally utilizes dividends as shareholder returns, 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. Meanwhile, the Company could opt to increase its dividend under a situation where it decides to upwardly revise its forecast given its currently strong performance.



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

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