Helios Techno Holding
6927 Tokyo Stock Exchange First Section

8-Jul.-16

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Sustaining upbeat earnings momentum led by manufacturing equipment business

Helios Techno Holding <6927> (hereinafter, also "the Company") is a holding company formed in 2009 as a result of a business integration and business acquisition, including a renaming, undertaken by the former PHOENIX Electric Co., Ltd. It is now a pure holding company following a corporate split. The Company has four businesses: the lamp business, the manufacturing equipment business, the inspection equipment business, and the human resources service business.

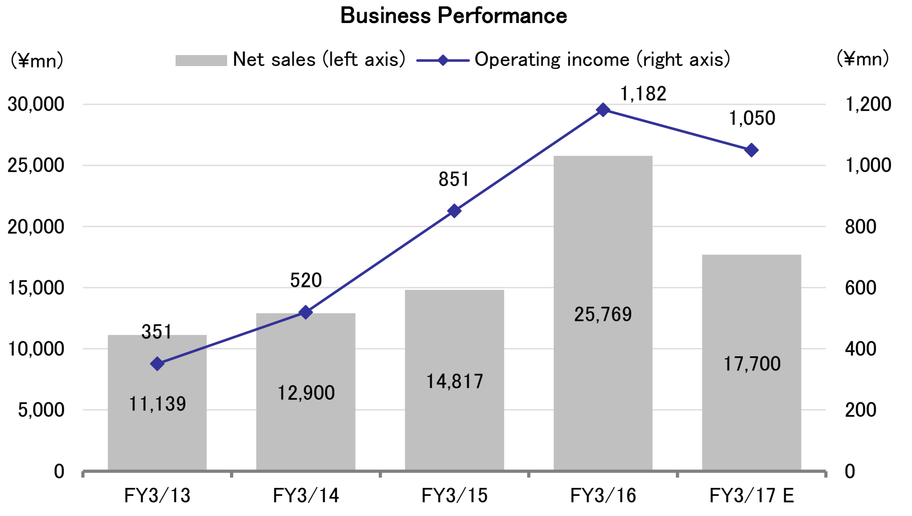
Helios Techno posted sharply higher sales and profits year on year (YoY) in FY3/16. A key driver of the steep 73.9% YoY net sales increase was booking a major plants deal (used equipment transfer) worth ¥11,700mn. Operating income climbed 38.8% thanks to the above-mentioned major plants deal and booking revenue with high profit margin in the manufacturing equipment business.

The Company expects declines in FY3/17 sales and profits due to backlash from booking the large deal and high-margin projects in FY3/16. We do not expect an increase in sales, but think it is possible to post operating income on par with or higher than the previous year. We base our view on benefits from growing sales and improved product mix. Our FY3/17 forecast projects a ¥3,700mn rise in sales on a real basis excluding the large deal impact. Main anticipated drivers are alignment layer manufacturing equipment, multi-lamp systems (MLS) used in photolithography equipment, and maintenance and refurbishing business. All of these businesses involve products and services with higher profit margins than the Company's average, and we expect related contributions to offset the previous fiscal year's special factor.

Alignment layer manufacturing equipment and MLS, which are important income sources for the Company, both are mainly utilized in production of television LCD panels in China, as the final-demand driver, and have been enjoying robust demand recently. However, Helios Techno is working earnestly to develop new products and applications in preparation for a change in the core business owing to the prospect of demand peaking out in 2-3 years from now. The Company's entry into organic EL manufacturing equipment is likely to fuel rising expectations. In the MLS business, the Company aims to leverage its UV technology to acquire opportunities in manufacturing equipment markets for organic EL photomasks and printed circuit boards. We will be closely monitoring these initiatives.

Check Point

- Posted double-digit sales and profit growth rates in FY3/16
- Manufacturing equipment consists of flexo printing machines, plants, new equipment (HRP), and others
- Likely to sustain upbeat momentum in flexo printing machines and MLS during FY3/17



Review of FY3/16 Results

Posted double-digit sales and profit growth rates in FY3/16

Helios Techno posted sharp sales and profit increases in FY3/16 with net sales at ¥25,769mn (up 73.9% YoY), operating income at ¥1,182mn (up 38.8%), ordinary income at ¥1,168mn (up 49.8%), and net income at ¥807mn (up 6.6%). Management updated guidance on 5 February 2016 (at the announcement of 3Q results), and full-year values were roughly on track with the revised view. The smaller increase in net income, compared to operating and ordinary incomes, reflects the addition of corporate taxes from FY3/16.

Review of FY3/16 Results

(unit: ¥mn)

	FY3/15	FY3/16			
	Full year	Full year (E)	Full year	YoY change	Difference vs. estimates
Net sales	14,817	25,950	25,769	73.9%	-0.7%
Operating income	851	1,180	1,182	38.8%	0.2%
(Operating margin)	5.7%	4.5%	4.6%	-	-
Ordinary income	780	1,180	1,168	49.8%	-1.0%
Net income	757	780	807	6.6%	3.5%

Source: Prepared by FISCO from the Company's materials

Helios Techno Holding is a holding company with multiple business entities. Its business segments largely correspond to specific business entities - PHOENIX Electric and subsidiary Lux for the lamp business segment, Nippon Gijutsu Center for the inspection equipment business and human resources service business segments, and Nakan Techno for the manufacturing equipment business segment.

Division of Group Companies and Business Segments

Company	History	Principle products and services	Business segment allocation
Helios Techno Holding	Changed name in 2009 from the former PHOENIX Electric, established in 1976	Complete holding company	–
PHOENIX Electric	Established in April 2009 through a corporate split of Helios Techno Holding	Lamps for various applications, (projectors, automobiles, illumination, LED lamps, photolithography equipment light source units)	Lamp business
Lux	Established in 1991 as a sales company of PHOENIX Electric	Sale of PHOENIX Electric products and various products of major Japanese lighting manufacturers, maintenance operations	Inspection equipment business, Human resources service business
Nippon Gijutsu Center	Established in 1967. Started with development and manufacture of industrial equipment and developed into human resources dispatch services. Merged with KANSAI GIKEN Co., Ltd. in 2013. Absorbed group-firm Techno Provider on 1 April, 2015.	Industrial equipment (such as inspection equipment and photolithography equipment light-source units) manufacture, design contracting, IT business technician dispatch and human resources service, nursing care business	Manufacturing equipment business
Nakan Techno	Established in 1937 as Nakanishi Tekkojo Co., Ltd. Started from manufacture of printing machinery developed into LCD alignment layer coating equipment. Received the business in 2009.	Manufacture and sales of various printing equipment LCD alignment layer coating equipment, touch-screen panel insulation coating equipment; used manufacturing equipment transactions	Lamp business

Source: Prepared by FISCO from the Company's materials
Note: Techno Provider became a subsidiary of Nippon Gijutsu Center in February 2014.

The manufacturing equipment business stands out in a review of segment sales trends with a 178.3% YoY increase to ¥17,419mn. The large gain came from booking a major deal worth roughly ¥11,700mn in the plants business (transferring used LCD manufacturing equipment to China). While profit margin from the plants deal was low, the contribution to operating income still worked out to about ¥200mn. The Company also booked income for a high-margin deal in alignment layer manufacturing equipment used on LCD panel lines. It delivered four systems with same model format, and the learning effect lifted profitability. Operating income received a boost of about ¥200mn compared to a normal case. These factors helped raise operating income in the manufacturing equipment business by 67.4% YoY to ¥1,111mn.

The lamp business results missed the previous year, despite efforts to expand sales of projector lamps and UV photolithography lamps used in the light-source unit of UV photolithography equipment. General-lighting lamps recorded stronger sales of LED bulbs, but faced setbacks from a decline in halogen bulbs and delayed booking of LED installation sales. This segment hence incurred decreases of 6.9% in net sales and 29.0% in operating income.

The inspection equipment business promoted sales of inspection equipment light-source devices and sought to broaden sales of existing MLS used in UV photolithography equipment. However, UV photolithography equipment light-source unit sales fell 20.6% YoY to ¥966mn, and the segment slipped 15.2% in net sales to ¥1,346mn and 30.4% in operating income to ¥136mn.

The Company continues to achieve stable results for dispatching engineers and outsourced design work in the human resources service business. It is increasing the number of dispatched workers amid stronger corporate earnings and improved employment conditions. The segment posted a gain of 8.3% YoY in net sales to ¥3,463mn against this backdrop. Operating income, however, fell 7.4% to ¥125mn because of a rise in hiring costs and higher expenses related to subsidiary Nippon Gijutsu Center's absorption of Techno Provider, a separate subsidiary handling manufacturing dispatches.

Results Trends by Business Segment

(unit: ¥mn)

		FY3/15	FY3/16	
		Full year	Full year	YoY change
Net sales	Lamp business	3,819	3,556	-6.9%
	Manufacturing equipment business	6,258	17,419	178.4%
	Inspection equipment business	1,587	1,346	-15.2%
	Human resources service business	3,198	3,463	8.3%
	Sub-total	14,864	25,785	73.5%
	Adjustment value	-46	-16	-
	Total	14,817	25,769	73.9%
Operating income	Lamp business	184	130	-29.0%
	Manufacturing equipment business	664	1,111	67.4%
	Inspection equipment business	196	136	-30.4%
	Human resources service business	135	125	-7.2%
	Sub-total	1,180	1,505	27.5%
	Adjustment value	-329	-323	-
	Total	851	1,182	38.9%

Source: Prepared by FISCO from the Company's materials

■ Detailed trends by business segment

Focus on ultraviolet (UV) lamps

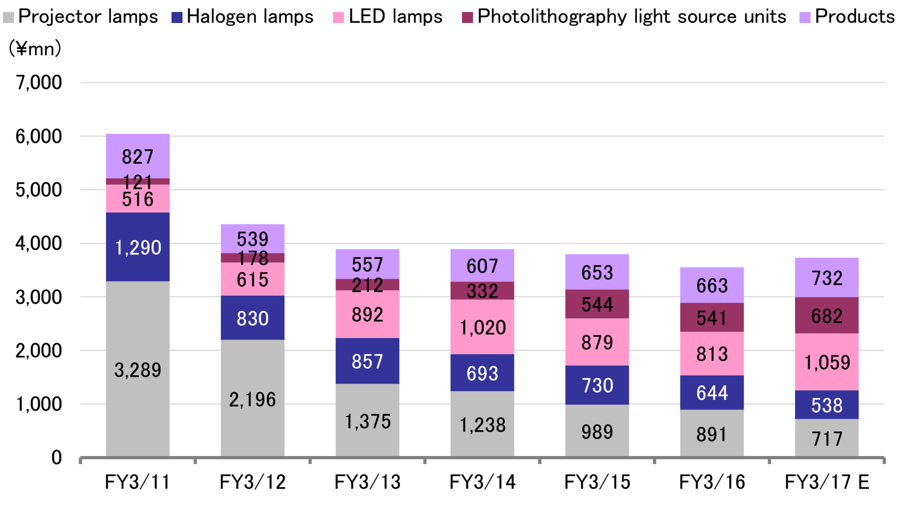
(1) Lamp business

a) Description of the lamp business

The lamp business is divided into five product types – projector lamps, halogen lamps, LED lamps, and light sources for photolithography equipment, and products.

Projector lamps served as the light source for rear-projection projectors that expanded sales mainly in the United States during the boom for large-screen TVs at the start of the 2000s. While rear-projection projectors enjoyed a phase as one of the major formats for large-screen TVs, they have lost their entire market share to LCD panels and other technologies at this stage. The Company factored in growth from replacement and upgrade demand over the past few years, projectors are approaching the end of their lifespan and we expect a steady downturn even if there is still some replacement demand. We think this is the background to management's first-ever projection of a YoY decline by this business in FY3/17.

Lamp Sales by Type



Source: Prepared by FISCO from the Company's materials and interviews

The main use of halogen lamps, products, and LED lamps is lighting for stores and similar locations. Demand is shifting to LED products with energy-saving benefits. The Company purchases LED chips from external suppliers and manufactures LED lighting products and has completed its line-up. We expect LED products to continue rising as a percentage of the Company's sales.

Within the lamp business, light sources for UV photolithography have the most growth potential. These light sources are utilized in photolithography equipment for manufacturing color filters, a key component of LCD panels, which involves photolithography. While specialty firms manufacture photolithography equipment, the Company ships its "light source unit (multi-lamp system: MLS)," which integrates the light source (lamps) and the light-source housing, to photolithography equipment manufacturers. Lamp sales are booked under the lamp business (while the chassis and other non-lamp portions are booked in the inspection equipment business). MLS demand remains very strong, and the Company also guides for a steep rise in MLS-related product sales. We provide details in our review of the inspection equipment business.

The Company has outlined a policy for focusing on UV lamps from FY3/17. It makes UV lamps for use as the light source in photolithography equipment and other applications, and this is a strong area. Management aims to expand markets that utilize the Company's UV lamp technology by pursuing development of UV LED products and other new items and also focusing on new application opportunities, such as combined use with UV hardening plastics.

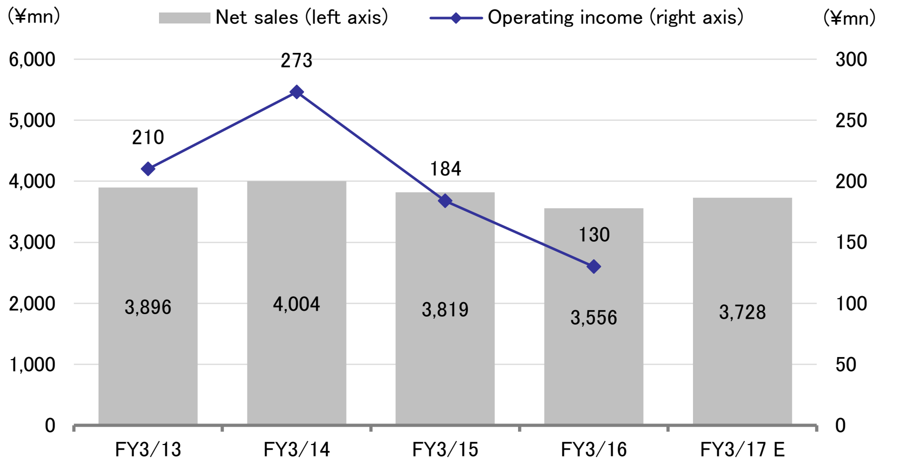
b) Results trend

The lamp business faced sales declines in all five sub-segments in FY3/16, and segment net sales were down 6.9% YoY to ¥3,556mn. Operating income slipped as well with a 29.0% decline to ¥130mn.

We already explained sales trends for projector lamps above. Halogen lamps are continuing to gradually move lower due to replacement by LED products. LED lamps, which offer growth potential, had upbeat lamp sales, but delays in LED lighting installations resulted in a sales decline. Light sources for photolithography equipment were held to roughly flat sales, in part because of the high previous-year level.

Helios Techno guides for a 4.8% YoY rise in net sales to ¥3,728mn in FY3/17. It expects continuation of sales decline trends in projector lamps and halogen lamps, but factors in gains in LED products, photolithography equipment light sources, and products. LED products are headed for a strong sales growth rate due to booking business from delayed projects in the previous fiscal year. We think the outlook for higher sales of photolithography equipment light sources reflects robust demand for photolithography equipment and build-up of confirmed orders, mainly in China.

Results in the Lamp Business



Source: Prepared by FISCO from the Company's materials and others

Peak sales in the lamp business since the Company adopted its current format in 2009 were FY3/11's ¥6,043mn. Existing projector lamps and halogen lamps were still increasing sales in that year, but these two areas are receding now. We think Helios Techno needs to develop new products and applications in order to exceed the past peak. We hence will be closely monitoring the Company's activities in growth areas, such as UV LEDs and other new products and organic EL and other new applications.

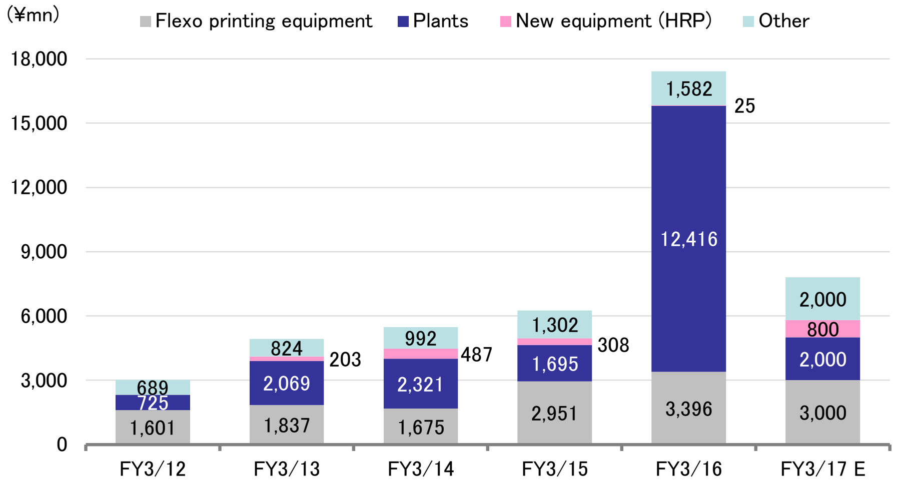
Manufacturing equipment consists of flexo printing machines, plants, new equipment (HRP), and others

(2) Manufacturing equipment business

a) Description of the manufacturing equipment business

The subsidiary Nakan Techno handles the manufacturing equipment business. It manages this business in four sub-segments – flexo printing equipment, plants, new equipment (HRP), and others.

Sales by Sub-segments in the Manufacturing Equipment Business



Source: Prepared by FISCO from the Company's materials and interviews

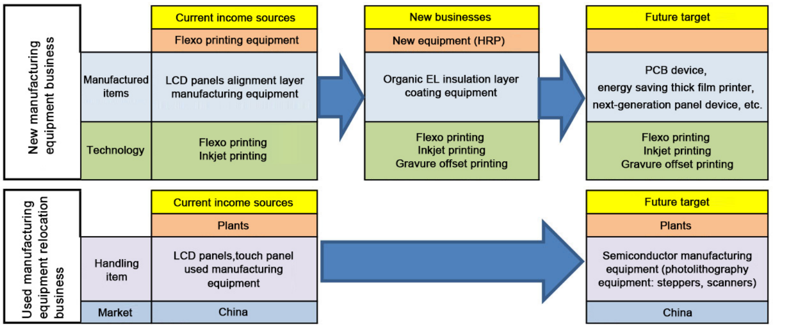
Flexo printing equipment are currently the core product in the manufacturing equipment business with primary use as manufacturing equipment for the alignment layer used in LCD panels. The vast majority of alignment layer manufacturing processes coat polyimide (PI), a polymer compound, on a substrate and apply rubbing treatment to the surface. The Company's manufacturing equipment conducts PI coating with flexo printing, and it is the only firm using the flexo printing method. The rival technology is inkjet printers.

However, flexo printing equipment's applicability only appears to last until the 8.5G mother-glass size for LCD panels. While the Company currently primarily ships equipment for the 8.5G size, LCD panel firms are already advancing to the 10.5G size. We think strong demand remains for the 8.5G size, mainly in China, but expect a decline in 8.5G business at some point. The Company is addressing this point by working on development of PI printing equipment using the inkjet method in order to accommodate the 10.5G size.

New equipment (HRP) refers to high resolution printers utilizing a variety of printing technologies, such as inkjet and gravure methods. Target markets are organic EL panels, printed circuit boards, and semiconductors.

Near-term focus in new equipment is organic EL manufacturing equipment. Curvature is a key feature of organic EL panels. The Company developed an insulation film coating system that utilizes printing technology taking into account the applicability of printing technology to curvature. It has already obtained orders from domestic and overseas organic EL panel firms, and we will closely monitoring the expansion pace of this business.

Business Roadmap for Manufacturing Equipment



Source: Prepared by FISCO from the Company's materials and interviews

We think it is difficult to accommodate semiconductors just with Nakan Techno's technology because of a significant difference in the level of precision they require. This is why management talks about utilizing M&A or an alliance to enter the market.

The plants business arranges transactions and handles transportation, and relocation of used LCD manufacturing equipment and other systems. Its fundamental flow involves the sales of used equipment from Japan and Taiwan to Chinese manufacturers. The Company takes on the entire process of transportation to China and installation at local plants of used manufacturing equipment. This activity comes with substantial risk. It is also generally considered to be a high-risk area because of difficulty collecting funds due to the business practices of Chinese firms. The Company's handling of used manufacturing equipment began with the establishment of Nakan Techno, and the background to this is that Nakan Techno President and Representative Director Mr. Yoshihisa Sato possesses a strong personal network in China. While it depends on him as an individual, the Company manages to lower risk in this high-risk business and also differentiate itself from competitors and build barriers to entry by utilizing Mr. Sato's personal contacts that largely avoid risk.

The plants business booked a large deal worth ¥11,700mn in revenue in FY3/16. Although the business does not have that many deals of this scale, we think success in meeting the deadline and securing profits from the large deal significantly strengthened trust in the Company's plants business from counterparts and investors.

"Others" includes sales of consumables of manufacturing equipment delivered in past years, and work for the maintenance, repairs, and improvement of existing manufacturing equipment. Maintenance and repair work orders have grown rapidly in the past few years because cumulative sales of the Company's manufacturing equipment are well above 50 units. Maintenance and repair work is highly profitable as a business, and the Company expects it to grow to be an important source of earnings.

b) Results trend

Results rose sharply in the manufacturing equipment business for FY3/16 to ¥17,419mn in net sales (up 178.4% YoY) and ¥1,111mn in operating income (up 67.4%). The steep increase in sales came from the large plants deal with a contribution of ¥11,700mn, as explained above. Operating income benefited from the plant deal as well as booking high-margin projects for flexo printing equipment (manufacturing equipment for alignment layers in LCDs).

The main point in FY3/17 is how the Company covers the decline in sales from the large plants deal. Management guides for ¥7,625mn in net sales with ¥3,000mn from flexo printing equipment (down 11.7% YoY), ¥2,000mn from plants (down 83.9%), ¥800mn from new equipment (32-fold increase), and ¥2,000mn from others (up 26.4%).

The plan envisions ¥2,000mn in sales for the plants business in FY3/17 due to vibrant inquiries for used equipment from China, and management expects this scale of inquiries to continue from FY3/18 as well. In new equipment, while sales of equipment applied to touch panels did not pick up in FY3/16, potential deals are moving forward for organic EL panel equipment, and management expects to book income in FY3/17. Maintenance, repairs, and improvement orders are headed for a steady rise under others business.

While the Company guides for a strong ¥3,000mn in sales of flexo printing equipment, a key income source, again in FY3/17, it projects a decline from the previous year's level due to backlash from the order for four large high-margin products from a single customer. Yet it forecasts continuation of the same level as last fiscal year in FY3/17 in terms of the actual market environment and demand.

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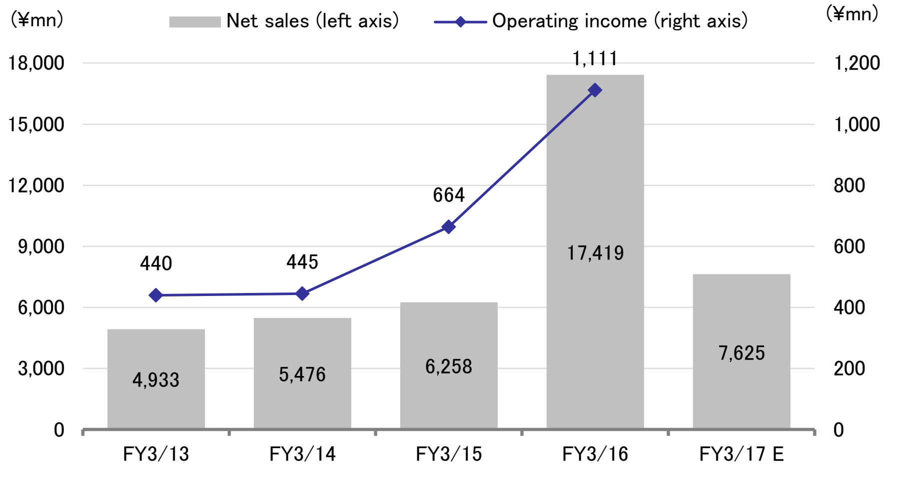
Last year's operating income contained about ¥400mn in one-time profit factors (¥200mn from the large plants deal and ¥200mn from the high-margin alignment layer manufacturing equipment deal). The challenge in FY3/17 is the extent to which this ¥400mn can be offset by revenues at ¥2,000mn in plants business and ¥800mn in new equipment and a roughly ¥400mn rise in sales for others business (maintenance and improvement, consumables). The Company does not disclose segment operating income targets, but we think it factors in a profit decline (YoY) based on the overall operating-income guidance.

We believe others business (maintenance, improvement, etc.) is slightly more profitable than the manufacturing equipment segment's roughly 10% in operating margin and see a reasonable possibility of operating income matching FY3/16's level.

Results in the Manufacturing Equipment Business



Source: FISCO Ltd. based on company materials and others

MLS for photolithography equipment is the mainstay

(3) Inspection equipment business

a) Description of the inspection equipment business
The inspection equipment business is operated by Nippon Gijutsu Center. It primarily handles light-source units (MLS) for photolithography equipment used in manufacturing LCD-panel color filters. MLS largely consist of lamps and housing and related equipment that contain the lamps. Nippon Gijutsu Center assembles the light-source units using light-source lamps made by PHOENIX Electric and delivers them to photolithographic equipment firms. This business uses a structure that separately books lamps income in the lamps business and housing and equipment income in the inspection equipment business.

b) Detailed review of photolithography equipment light-source units (MLS)
Multiple firms manufacture color-filter photolithography equipment (FPD photolithography equipment), and the Company delivers MLS to one of these leading firms. Looking back at past MLS results, MLS sales were less than ¥100mn in FY3/10, but reached about ¥1,500mn in FY3/16 and FY3/17 guidance expects close to ¥2,400mn.

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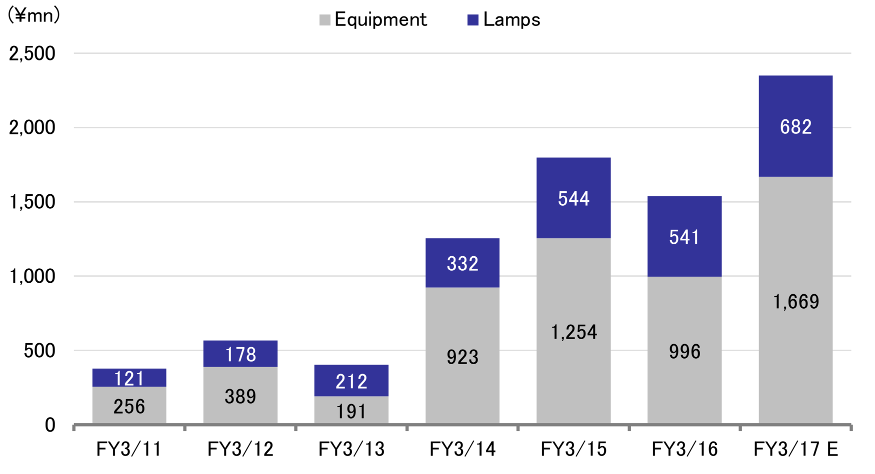
Sales in Photolithography Light Source Units



Source: Prepared by FISCO from the Company's materials and interviews

The Company's MLS sales are likely to continue at a high level through FY3/19 because of steady build-up in deal volume with orders prospects from TV LCD-panel manufacturing equipment firms in China. Current efforts are focusing on developing deals that place orders in FY3/19 and contribute to income from FY3/20. We cannot take an optimistic view of this outlook due to the possibility of a major change in the capital investment sentiment of LCD panel manufacturers due to factors such as the maturation level in China's LCD TV market and technology shifts.

The Company is also promoting development of other MLS applications from a longer-term perspective due to these conditions. Some areas under review include organic EL photomask manufacturing equipment, peripheral seal UV equipment, and printed circuit board solder resist formation equipment. While the Company has not provided details on technology completion levels and market entry timing for any of these products, we will be monitoring these initiatives as a growth field.

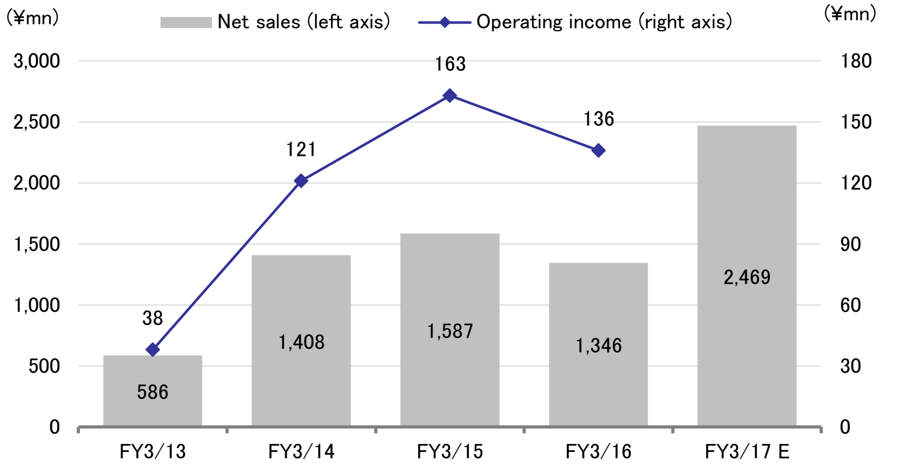
c) Results trend

The inspection equipment business booked ¥1,346mn in net sales (down 15.2% YoY) in FY3/16, and operating income slipped to ¥136mn (down 30.4%), reflecting the sales setback.

Net sales weakened mainly because MLS housing and equipment sales fell 20.6% to ¥966mn. In FY3/17, meanwhile, the Company guides for ¥2,469mn (up 83.4%) with stronger sales of MLS housing and equipment as the driver.

While the Company does not offer guidance on segment profit, we think MLS offer profitability roughly in line with manufacturing equipment business (about 10% operating margin) and expect a large profit contribution from a steep increase in segment sales.

Results in the Inspection Equipment Business



Source: FISCO Ltd. based on company materials and others

Intends to continue pursuing M&A opportunities

(4) Human resources service business

The human resources service business is operated by Nippon Gijutsu Center. Nippon Gijutsu Center made KANSAI GIKEN a subsidiary in May 2013, and absorbed it by merger in November of the same year. Furthermore, in April 2015, Nippon Gijutsu Center absorbed in a merger Techno Provider Co., Ltd., another Helios Techno Group company. We think these initiatives aim to lower management costs and raise business profitability.

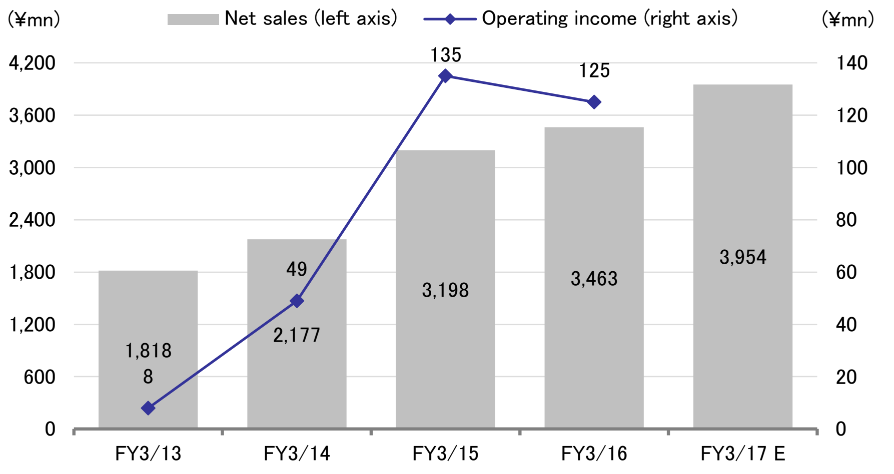
Human resources services include dispatch of manufacturing engineers, dispatch of workers, design subcontracting, and nursing care. We think dispatching services for manufacturing engineers and workers are primary income sources. Management intends to continue pursuing M&A deals in the human resources business. The dispatching industry is struggling to secure human resources, and the Company sees appeal in M&A-led expansion because of opportunities to acquire human resources and a sales base.

However, it plans to focus on certain operating regions in keeping with a business model of locality-centric dispatching that aims to broaden scope within an area. It emphasizes building operations that expand the customer base in areas nearby existing customers and facilitate concentrated supply of dispatched workers. The primary aim is obviously improving efficiency. The Company therefore plans to seek M&A deals that target companies with a base in regions that can readily obtain synergies with existing customers.

Segment net sales climbed 8.3% YoY to ¥3,463mn in FY3/16, though operating income dropped 7.4% to ¥125mn. We think an upswing in hiring costs and costs related to absorbing Techno Provider caused the profit setback. The Company guides for a 14.2% rise in FY3/17 net sales to ¥3,954mn, and we believe this stance factors in expansion of the sales base and a rise in the dispatching price. We project an increase in operating income, though management does not disclosure profit guidance, on the prospect of benefits from higher sales offsetting larger costs.

■ Detailed trends by business segment

Results in the Human Resources Service Business



Source: Prepared by FISCO from the Company's materials and others

Performance Trends

Expecting higher sales for all segments besides the manufacturing equipment business

(1) FY3/17 forecast

Helios Techno guides for ¥17,700mn in sales (down 31.3% YoY), ¥1,050mn in operating income (down 11.2%), ¥1,040mn in recurring income (down 11.0%), and ¥680mn in net income (down 15.7%) in FY3/17.

Summary of the FY3/17 Forecast

(unit: ¥mn)

	FY3/16			FY3/17 (E)					
	1H	2H	Full year	1H	YoY change	2H	YoY change	Full year	YoY change
Net sales	7,438	18,331	25,769	9,000	21.0%	8,700	-52.5%	17,700	-31.3%
Operating income	830	352	1,182	700	-15.7%	350	-0.6%	1,050	-11.2%
(Operating income margin)	11.2%	1.9%	4.6%	7.8%	-	4.0%	-	5.9%	-
Ordinary income	826	342	1,168	700	-15.3%	340	-0.6%	1,040	-11.0%
(Ordinary income ratio)	11.1%	1.9%	4.5%	7.8%	-	3.9%	-	5.9%	-
Net income	564	243	807	450	-20.2%	230	-5.3%	680	-15.8%
(Net income ratio)	7.6%	1.3%	3.1%	5.0%	-	2.6%	-	3.8%	-

Source: Prepared by FISCO from the Company's materials
Note: YoY change rate and difference with forecast values calculated using million-yen unit values

Trends will differ to some extent in 1H and 2H. The plan expects higher sales and a decline in profits in 1H. It projects a 21.0% rise in sales YoY due to extensive orders backlog in the manufacturing equipment business and growing sales in the lamps business and other areas. However, it forecasts a 15.8% drop in operating income because of the prospect of a decline in profit margin to the normal level on the likely absence of high-margin deals in FY3/17 after concentrated bookings of alignment layer manufacturing equipment with high profitability in the previous year.

In 2H, the Company expects a 52.5% YoY decline in sales owing to backlash after it booked a large deal for a used equipment transfer at the end of FY3/16. However, it still projects profit roughly on par with the previous year's 2H due to an offsetting rise in profit from manufacturing equipment slated for being booked in 2H. The anticipated upshot for full-year operating income thus is an 11.2% YoY decline to ¥1,050mn.

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The Company guides for higher sales in all business segments besides the manufacturing equipment business headed for a 56.2% YoY drop because of backlash from the large deal with ¥11,700mn in revenue in FY3/16. It expects LED products and MLS lamps to drive sales growth in the lamps business, and it anticipates a steep increase in inspection equipment business in a rebound after the FY3/16 decline in MLS sales. In the manufacturing equipment business, the Company projects weaker sales of current mainstay flexo printing equipment used for alignment layer production, but increases in sales of precision printing equipment and maintenance services revenue.

FY3/17 Forecasts by Segment

(unit: ¥mn)

		FY3/16				FY3/17	
		1H	2H	Full year	YoY change	Full year (E)	YoY change
Net sales	Lamp business	1,758	1,798	3,556	-6.9%	3,728	4.8%
	Manufacturing equipment business	3,456	13,963	17,419	178.3%	7,625	-56.2%
	Inspection equipment business	502	844	1,346	-15.2%	2,469	83.4%
	Human resources service business	1,728	1,735	3,463	8.3%	3,954	14.2%
	Sub-total	7,446	18,339	25,785	73.5%	17,776	-31.1%
	Adjustment	-7	-9	-16	-	-76	-
	Total	7,438	18,331	25,769	73.9%	17,700	-31.3%

Source: Prepared by FISCO from the Company's materials

We think the Company outlook takes a conservative stance toward profits. It projects a roughly ¥3,700mn rise in sales of ordinary products and services in FY3/17 based on a comparison that removes last year's large deal (worth ¥11,700mn). Furthermore, the projected sales gains largely involve products with high profitability in the respective business segments. We expect gross margin to settle in a range of 25-28% in FY3/17 based on the gross margin trend over the past few years. We hence believe the Company has a reasonable prospect of posting a profit increase in FY3/17, exceeding guidance, if SG&A expenses increase at the same pace as the past few years.

Consolidated Income Statement

(unit: ¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	
					1H (E)	Full year (E)
Net sales	11,139	12,900	14,817	25,769	9,000	17,700
YoY	10.8%	15.8%	14.9%	73.9%	21.0%	-31.3%
Gross profit	2,794	3,327	3,892	4,313	-	-
Gross profit margin	25.1%	25.8%	26.3%	16.7%	-	-
SG&A expenses	2,443	2,807	3,041	3,131	-	-
SG&A margin	21.9%	21.8%	20.5%	12.2%	-	-
Operating income	351	520	851	1,182	700	1,050
YoY	-	48.1%	63.7%	38.9%	-15.7%	-11.2%
Operating income margin	3.2%	4.0%	5.7%	4.6%	7.8%	5.9%
Ordinary income	431	621	780	1,168	700	1,040
YoY	-	44.1%	25.5%	49.7%	-15.3%	-11.0%
Net income	443	889	757	807	450	680
YoY	-	100.7%	-14.8%	6.6%	-20.2%	-15.7%
EPS (¥)	26.82	53.10	43.97	45.25	25.04	37.84
Dividend (¥)	8.00	10.00	12.00	15.00	-	15.00
Net assets per share (¥)	381.81	427.63	450.22	480.79	-	-

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Helios Techno Holding
6927 Tokyo Stock Exchange
First Section

8-Jul.-16

Balance Sheet

(unit: ¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16
Current assets	6,051	6,081	7,967	18,802	11,898
Cash and deposits with banks	1,638	1,632	2,663	1,836	3,158
Notes and accounts receivable	2,808	2,794	3,330	4,213	4,884
Inventory assets	1,373	1,548	1,610	12,144	2,553
Fixed assets	3,195	3,049	2,807	2,726	2,765
Fixed assets	2,680	2,602	2,193	2,093	2,181
Intangible assets	243	150	162	149	109
Investments and other assets	272	296	451	483	474
Total assets	9,246	9,131	10,774	21,528	14,663
Current liabilities	2,567	2,141	2,824	12,629	5,400
Notes and accounts payable	751	910	1,420	1,271	1,417
Short-term borrowings	1,072	439	538	2,969	519
Long-term liabilities	828	649	688	857	617
Long-term borrowings	237	268	457	654	434
Shareholders' equity	5,847	6,291	7,124	7,911	8,532
Common stock	2,133	2,133	2,133	2,133	2,133
Capital surplus	2,563	2,563	2,563	2,563	2,563
Retained earnings	2,718	3,161	3,915	4,459	5,047
Treasury stock	-1,567	-1,567	-1,488	-1,245	-1,211
Accumulated other comprehensive income	3	26	86	117	106
Subscription rights to shares	0	22	50	12	6
Total net assets	5,850	6,340	7,261	8,041	8,645
Net liabilities and assets	9,246	9,131	10,774	21,528	14,663

Cash Flow Statement

(unit: ¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16
Cash flows from operating activities	84	840	747	-3,508	4,503
Cash flows from investing activities	-166	-234	144	91	-317
Cash flows from financing activities	93	-629	79	2,611	-2,863
Adjustments to cash and cash equivalents	0	0	30	1	-1
Net increase (decrease) in cash and cash equivalents	11	-23	1,000	-804	1,322
Cash and cash equivalents at beginning of period	1,597	1,608	1,585	2,585	1780
Cash and cash equivalents at end of period	1,608	1,585	2,585	1,780	3102

■ Shareholder Returns

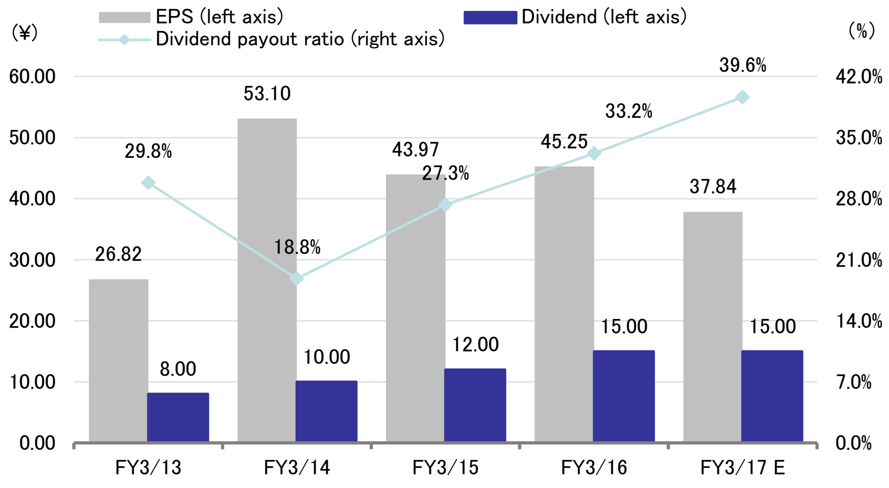
Raised the FY3/16 dividend by ¥3 to ¥15

The Company's basic method of returning profits to shareholders is through dividends. The Company has not announced an official level for dividends. However, looking at past dividends, it is clear that the Company has basically paid a stable dividend, increasing it in line with growth in results.

The Company increased the FY3/16 dividend by ¥3 YoY to ¥15, reflecting steep sales and profit gains. The dividend payout ratio worked out to 33.2% based on ¥45.25 EPS. Management aims to keep the dividend at the same level as the previous year at ¥15, despite the outlook for lower sales and profit in FY3/17. This stance puts the dividend payout ratio at 39.6%, using the FY3/17 EPS estimate.

■ Shareholder Returns

Earnings Per Share, Dividend, and Dividend Payout Ratio



Source: Prepared by FISCO from the Company's financial report summary and others

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